



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Feb 11, 2020

China Consumer Staples Sector

Favor leaders for defensiveness





China Consumer Staples Sector Favor leaders for defensiveness

- Discrepancy between nominal and real income growth per capita is like to stay unchanged or widen
- Inflation to face upward pressure due to the persisting inflation of pork prices
- Coronavirus outbreak will drag down consumption growth in the short term
- Demographic changes pose challenges in the long term
- Overweight sector; prefer industry leaders on robust defensiveness

Growing per capita income may not indicate higher purchasing power. We believe discrepancy between nominal and real growth per capita income for 2020 will likely stay unchanged or widen, mostly because of the persisting inflation amid a negative macro backdrop. Lower purchasing power would have negative impacts on consumer goods industry.

Coronavirus outbreak weakens consumption growth. The coronavirus outbreak will hamper growth in China's consumer market. We believe the extended Spring Festival holiday and the quarantined measures in place would reduce retail sales growth starting in Feb. Loss of income due to the outbreak may further reduce the consumers' ability and willingness to spend.

Demographic changes to pose long-term challenges. We believe effectiveness of the two-child policy has been fading, as indicated by the dwindling number of newborns in 2019 to 14.65mn. Slower population growth, which stood at 0.33% YoY in 2019, could weigh on consumption growth unless per capita consumption accelerates.

Sector recommendations. We recommend **BUY** on **WH Group (288 HK)**, **Mengniu (2319 HK)**, **Anta(2020 HK)**, **Yili (600887 CH)**, and **Shuanghui (000895 CH)**. These industry leaders possess strong defensiveness amid a challenging economic environment. We expect these players to be able to raise product pricing and margins amid ongoing inflation. For **WH Group (288 HK)**, the Phase I Sino-US trade deal would bring growth opportunities.

Risk factors: 1) Macroeconomic risk; 2) inflation risk; 3) Policy/regulatory uncertainty; 4) Risk relating to Sino-US trade dispute; 5) Event risks; 6) Demographic risk.

Sector Top Picks Valuation Summary

Company	Ticker	TP	Price	Upside (%)	P/E(x)		P/B (x)		Yield(%)		ROAE(%)	
					FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
WH Group	288 HK	HK\$ 9.4	HK\$ 7.93	18.54	14.07	11.46	1.74	1.54	2.84	3.49	13.03	14.27
Mengniu	2319 HK	HK\$ 35.0	HK\$ 30.05	15.89	21.28	26.21	3.72	3.40	1.32	1.13	18.54	13.51
Anta	2020 HK	HK\$ 80.3	HK\$ 66.10	21.48	28.84	18.69	8.44	6.70	1.50	2.26	31.93	39.96
Yili	600887 CH	RMB 35.4	RMB 30.17	17.34	24.64	24.93	6.35	5.41	2.59	2.66	26.26	23.44
Shuanghui	000895 CH	RMB 39.5	RMB 33.03	19.59	18.11	14.19	8.03	7.60	4.97	6.34	41.74	50.00

Note: Data as of Feb 10, 2020

Source(s): Bloomberg, ABCI Securities estimates

Sector Report Feb 11, 2020 Overweight

Analyst : Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Key Data

Avg.19E P/E (x)	20.25
Avg.19E P/B (x)	3.90
Avg.19E Dividend Yield (%)	2.31

Source(s): Bloomberg, ABCI Securities

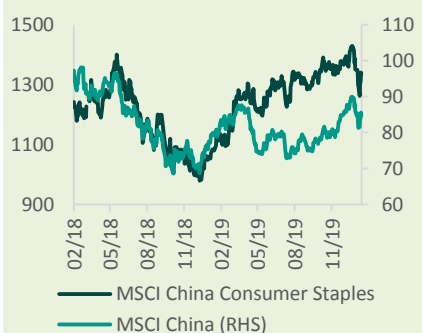
Sector Performance (%)

	Absolute	Relative*
1-mth	(3.32)	(0.76)
3-mth	2.37	(8.27)
6-mth	8.69	(7.73)

*Relative to MSCI China

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities



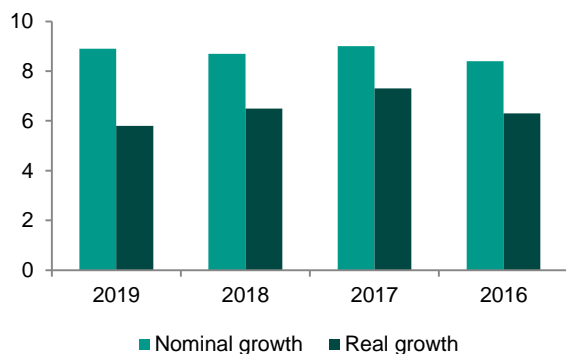
2020 consumer market outlook

Growth in personal disposal income to continue

In 2019, the average per capita income in China grew at a nominal rate of 8.9% YoY while the real growth rate reached only 5.8% YoY, the lowest in four years. The discrepancy between the real and nominal growth of personal disposable income can be attributed to the rising inflation in 2019.

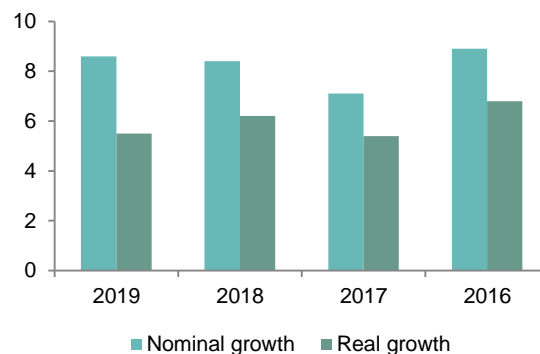
We believe that in 2020, such discrepancy is likely to stay unchanged or widen on persisting inflation amid the weak macro backdrop. In addition, since inflation in 2020 will be mostly driven by rising food prices, personal expenditure on food is likely to take up a higher proportion of total personal expenditure, spending on other non-food goods and services would be reduced.

Exhibit 1: Avg. per capita income (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 2: Avg. per capita expenditure (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 3: Avg. per capita expenditure composition (%)

Year	Food, tobacco & liquor	Clothing	Residence	Household facilities, articles & services	Transportation & telecommunication	Education, culture & recreation	Health care & medical services	Miscellaneous goods & services
2019	28.22	6.21	23.45	5.94	13.28	11.66	8.82	2.43
2018	28.36	6.49	23.41	6.16	13.47	11.21	8.49	2.40
2017	29.33	6.76	22.42	6.12	13.64	11.39	7.92	2.44

Source(s): NBS, ABCI Securities

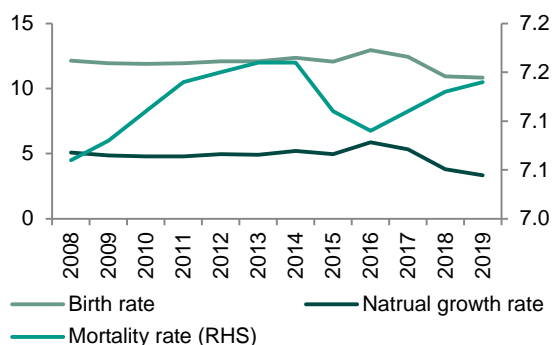
Declining number of newborns is a long-term risk to consumer market

In 2019, the number of newborns and birth rate in China decreased to 14.65mn and 10.84‰, marking the third year of decline. The general population is aging as the percentage of population aged 65 and above increased to 12.6% in 2019.

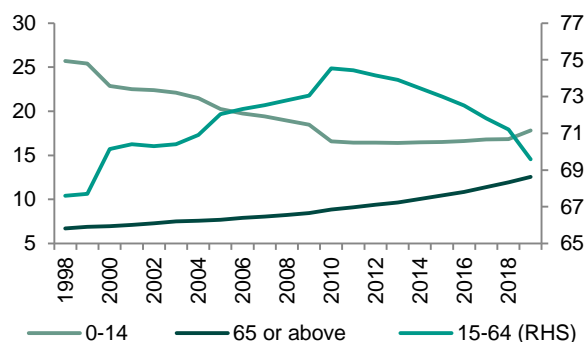
We believe the continuous decline in newborns and the slowing population growth can potentially be detrimental to the consumer market, especially for sub-segments focusing on infant formula and other baby products. Decline in population growth could suppress consumption growth if per capita retail sales fails to increase.

In 2019, the total population expanded by 0.33% YoY. According to our scenario analysis, assuming China's total population continues to grow at the same rate as 2019 annually for the next decade, average retail sales per capita would need to expand at 7.64% CAGR in 2020E-29E so that total retail sales would maintain a

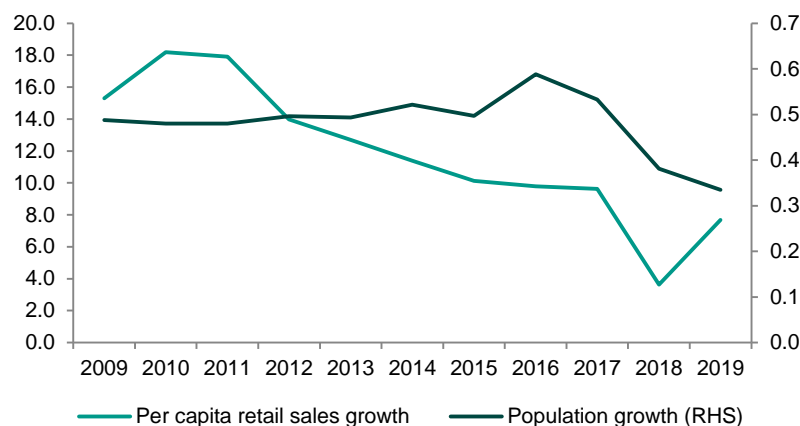
retails sales growth of 8% YoY, which is the retail sales growth in 2019, in the next decade.

Exhibit 4: Birth rate, mortality rate, and population natural growth rate (%)


Source(s): NBS, ABCI Securities

Exhibit 5: Age distribution (%)


Source(s): NBS, ABCI Securities

Exhibit 6: Population growth and per capita retail sales growth (YoY %)


Source(s): NBS, ABCI Securities

Exhibit 7: Scenario analysis of the impact of population growth on per capita retail sales growth

	Retail sales CAGR in next 10 years				
	4%	5%	6%	7%	8%
	<i>Per capita retail sales growth (%)</i>				
Population growth = 0.33%	3.65	4.65	5.65	6.64	7.64
Population growth = 0.20%	3.79	4.79	5.79	6.79	7.78
Population growth = 0.10%	3.90	4.90	5.89	6.98	7.89

Source(s): ABCI Securities estimates

Sino-US Phase I trade deal to bring in an influx of agricultural goods

The Sino-US Phase I trade agreement was signed on Jan 15, 2019. According to the agreement, China will increase agricultural import from the US by US\$ 17.5bn in 2020 and US\$ 24.5bn in 2021. The total amount of agricultural import from the US would increase to US\$ 41.6bn in 2020 and US\$ 48.6bn, representing a 2017-2021 CAGR of 19.2%. The amount of import for the subcategories of agricultural products has not been specified.

We believe the substantial increase in import would create an influx of new supply in the China market, hence changing the supply dynamics of many major consumer goods products. Players with operations both in China and the US would be able to

leverage their operations to benefit from the situation. The agreement may also prompt industry leaders to expand their geographical profile by expanding their businesses to or conducting M&A activities in the US. We believe competition in China's consumer goods market would stiffen, but market leaders in China would be able to maintain the status quo in the domestic market.

Pork price inflation to fuel CPI

Scenario analysis of the impact of pork prices on CPI

Pork price inflation will continue in 2020 due to the low bases in 2018. Pork price only started to reach above RMB 40/kg in Sep 2019, meaning that if pork prices stay flat at Dec 2019 level of RMB 51.09/kg, the YoY growth in 2020 would persist till Aug 2020. Our scenario analysis also shows pork price inflation is likely to remain until July 2020 even if pork price would decrease by 7% MoM throughout 2020.

Exhibit 8: Scenario analysis of pork price inflation (YoY%)

Pork price change (MoM)	(7%)	(5%)	(3%)	0%	3%	5%	7%
Jan-20	105.1	109.5	113.9	120.6	127.2	131.6	136.0
Feb-20	95.9	104.5	113.2	126.6	140.3	149.8	159.4
Mar-20	74.1	85.6	97.5	116.4	136.5	150.5	165.1
Apr-20	55.5	69.3	84.0	107.9	134.0	152.7	172.5
May-20	43.8	60.0	77.5	106.7	139.7	163.9	190.0
Jun-20	29.0	46.6	66.1	99.4	138.1	167.2	199.3
Jul-20	9.6	27.2	47.2	82.2	124.0	156.3	192.5
Aug-20	(15.8)	(0.2)	17.9	50.5	90.6	122.3	158.5
Sep-20	(36.7)	(23.3)	(7.5)	21.6	58.7	88.7	123.6
Oct-20	(51.0)	(39.4)	(25.4)	1.2	36.0	64.8	99.0
Nov-20	(58.1)	(47.1)	(33.4)	(7.0)	28.8	59.1	95.8
Dec-20	(58.1)	(46.0)	(30.6)	0.0	42.6	79.6	125.2

Note: 1) Average wholesale pork price increase by 5.31% MoM and 132.28% YoY in Jan 2020 according to MOA

2) Pork price CPI was 116% YoY in Jan 2020, according to NBS

Source(s): ABCI Securities estimates

High pork price inflation would complicate the effort by the authorities to contain the national CPI. Our scenario analysis shows that pork price's contribution to national CPI is likely to remain high in 1H20.

Exhibit 9: Scenario analysis of the impact of pork price CPI on national CPI (ppt)

Pork price change (MoM)	(7%)	(5%)	(3%)	0%	3%	5%	7%
Jan-20	2.19	2.29	2.39	2.53	2.68	2.78	2.88
Feb-20	1.99	2.18	2.37	2.67	2.98	3.19	3.40
Mar-20	1.50	1.76	2.02	2.44	2.89	3.20	3.53
Apr-20	1.09	1.39	1.72	2.25	2.83	3.25	3.69
May-20	0.83	1.19	1.58	2.23	2.96	3.50	4.08
Jun-20	0.50	0.89	1.32	2.06	2.93	3.57	4.29
Jul-20	0.06	0.46	0.90	1.68	2.61	3.33	4.14
Aug-20	(0.50)	(0.15)	0.25	0.97	1.87	2.57	3.38
Sep-20	(0.97)	(0.67)	(0.32)	0.33	1.16	1.83	2.60
Oct-20	(1.29)	(1.03)	(0.72)	(0.12)	0.65	1.29	2.06
Nov-20	(1.44)	(1.20)	(0.90)	(0.31)	0.49	1.17	1.98
Dec-20	(1.44)	(1.17)	(0.83)	(0.15)	0.80	1.62	2.64

Note: Pork price CPI impact on the national CPI in Jan 2020 was 2.76ppt, according to NBS

Source(s): ABCI Securities estimates

Based on the scenario analysis, we expect the national CPI to remain high in 1H20. For consumer goods companies, the high inflation may drive up raw material cost, but companies can raise product pricing and adjust product portfolio to mitigate the cost increase.

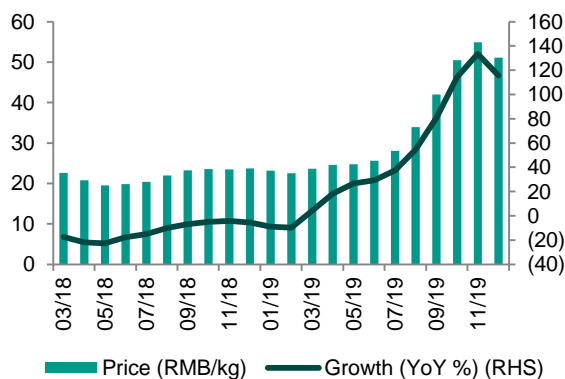


Pork price and CPI has shown no signs of abating so far in 2020

According to MOA, pork prices continued to trend up in January 2020. In the last week of Jan, pork prices reached RMB 57.15/kg, representing a YoY growth 154.45%. As the hog and breeding sow inventory continue to stay low, the upward pressure on pork prices persists. The CPI in Jan reached new high of 5.4% YoY, as pork price inflation contributed to 2.76ppt increase in CPI and pushed the CPI of "Food, tobacco & liquor" to 15.2% YoY.

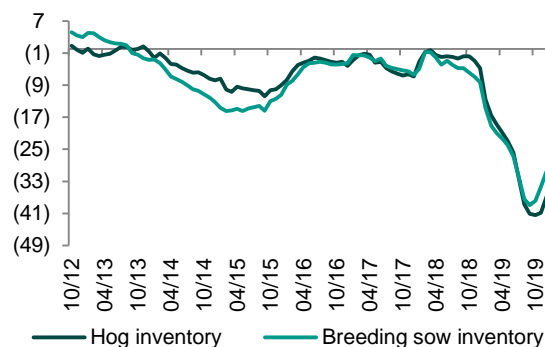
In the latest work meeting in Dec 2019, MOA said it would ensure a steady supply of pork during the Spring Festival and the NPC&CPPCC meetings. We believe measures adopted, such as ramping up domestic hog production, deploying pork reserves, and increasing the pork import would help contain the rise on pork price. However, as the impact of increasing domestic production would only be realized in the medium to long run, increasing import would be more effective in relieving tight supply in the short term.

Exhibit 10: Avg. wholesale pork price (RMB/kg)



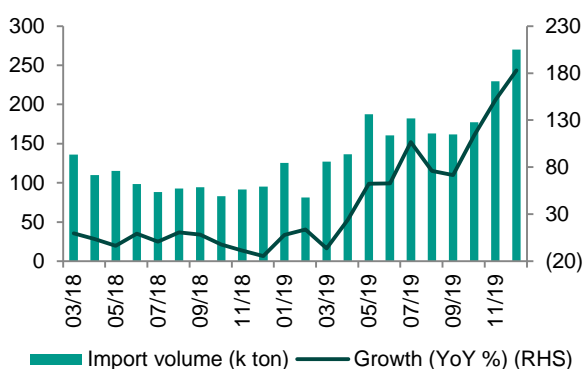
Source(s): MOA, ABCI Securities

Exhibit 11: Hog and sow inventory growth (YoY %)



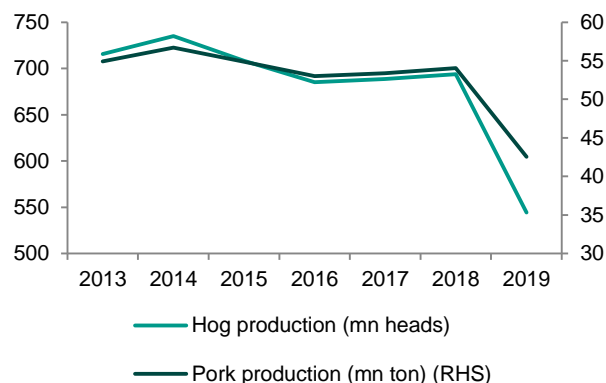
Source(s): MOA, ABCI Securities

Exhibit 12: China frozen pork import



Source(s): China Customs, ABCI Securities

Exhibit 13: Hog and pork production



Source(s): NBS, ABCI Securities

Exhibit 14: China CPI in Jan 2020 (YoY %)

	CPI	Food, tobacco & liquor	Clothing	Residence	Household facilities, articles & services	Transportation & telecommunication	Education, culture & recreation	Health care & medical services	Miscellaneous goods & services
Jan 2020	5.4	15.2	0.6	0.5	0.2	0.9	2.2	2.3	4.8
2019	2.9	7.0	1.6	1.4	0.9	(1.7)	2.2	2.4	3.4

Source(s): NBS, ABCI Securities



As the inflation level is likely to remain high in 2020, consumer goods companies are likely to have greater ability to raise prices. Enhanced pricing ability would be more prominent for companies with pork-related products. Since raw material costs are also rising, margin improvement may vary among companies. We believe the margin profile of industry leaders would improve more than that of the smaller players since the former would have more flexibility in adjusting prices and product mix.

Coronavirus outbreak – a blow to the moderating consumer market

Retail sales growth in China has been trending down in 2019 on slowdown in the Chinese economy. The decline in online retail sales is more pronounced than the national headline figure, showing that the weakness in consumer market is systemic.

The outbreak of the coronavirus, which is believed to be first started in Wuhan, China, has swiftly turned into a global health emergency. The spread of the virus shows no signs of abating as the number of confirmed cases and death continues to climb. The epidemic, if not contained, would pose substantial risk to China's consumer market. The extension of the Spring Festival, severe quarantine measures in certain regions and mandatory self-quarantine are hampering retail sales in Feb; in addition, the epidemic results in income loss for many, reducing the willingness to spend. Consumers are avoiding crowded or public places, thus sales in restaurants and malls are hit hard.

Reduced outdoor consumption, however, would increase the online one since people would shift to online retails to purchase food and other necessities. We believe sales of consumer staples of the leading players would not be heavily impacted since most have developed their online platforms.



Sector recommendation

Despite all the challenges, we maintain our **OVERWEIGHT** rating for the consumer goods sector due to the long-term growth in disposable income and living standard. Among the sector players, we believe the leading players would continue to outperform in 2020 based on their dominant market position, diversified business portfolio, and their ability to adjust pricing amid inflation.

Recent coronavirus outbreak has undoubtedly brought down the valuations of players in the consumer goods sector, which represents a buying opportunity. Our sector top picks were listed in Exhibit 18. For more details on fundamental analysis, please refer to our company reports

Exhibit 15: Sector top picks' valuation comparison

Ticker	Name	Rating	Price	TP	Upside (%)	P/E(x)		P/B (x)		Yield (%)		ROAA (%)		ROAE (%)	
						19E	20E	19E	20E	19E	20E	19E	20E	19E	20E
288 HK	WH Group	BUY	HK\$ 7.93	HK\$ 9.4	18.54	14.07	11.46	1.74	1.54	2.84	3.49	7.90	8.58	13.03	14.27
2319 HK	Mengniu	BUY	HK\$ 30.05	HK\$ 35.0	15.89	21.28	26.21	3.72	3.40	1.32	1.13	6.96	5.04	18.54	13.51
2020 HK	Anta	BUY	HK\$ 66.10	HK\$ 80.3	21.48	28.84	18.69	8.44	6.70	1.50	2.26	18.67	21.01	31.93	39.96
600887 CH	Yili	BUY	RMB 30.17	RMB 35.4	17.34	24.64	24.93	6.35	5.41	2.59	2.66	14.39	12.30	26.26	23.44
000895 CH	Shuanghui	BUY	RMB 33.03	RMB 39.5	19.59	18.11	14.19	8.03	7.60	4.97	6.34	25.52	30.28	41.74	50.00
<u>Average</u>						<u>21.39</u>	<u>19.10</u>	<u>5.66</u>	<u>4.93</u>	<u>2.64</u>	<u>3.18</u>	<u>14.69</u>	<u>15.44</u>	<u>26.30</u>	<u>28.24</u>

Note: Data as of Feb 10, 2019

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

Macroeconomic risk

As China's GDP growth calms further in 2020, growth in the consumer market would be constrained since the growth trajectory of per capita income may reverse.

Inflation risk

We expect pork price inflation to continue in 2020 and push up the national CPI. However, the real risk lies on the pork price inflation may spill over to other food and non-food consumer products, hence eroding the real purchasing power of consumers.

Policy/regulatory uncertainty

Consumer goods markets would continue to face stringent regulatory oversight and chances of further regulatory tightening are high. This may result in higher compliance costs.

Risks relating to Sino-US trade negotiation

Since Phase I of Sino-US deal did not specify the details in terms of the category of agricultural products to be purchased by China, the potential impacts on the consumer goods subsectors remains unknown. As the trade negotiation continues, it is possible other non-agricultural consumer goods could become targets of later phases of trade deals. Moreover, execution of the trade agreement also has uncertainty as the trade negotiation process may be interrupted.

Event risk

The coronavirus outbreak in China is an example of an event risk. Consumer goods industry could be negatively impacts by other major public/social events.

Demographic risk

The number of newborns in 2019 further declined. If birth rate continues to decline, the consumer market would suffer unless the personal income growth and per capita consumption growth accelerate.

WH Group (288 HK)

Beneficiary of current market dynamics

- We expect the market dynamics in 2020 to be favorable to the Group
- Sino-US Phase I trade deal, without specifying amounts for sub-categories, aimed to increase agricultural products exported from the US to China to US\$ 41.6bn in 2020 and US\$ 48.6bn in 2021, presenting additional opportunities for the Group
- 9M19 performance shows improvement in fundamentals, reflecting the Group's capability in capturing market opportunities
- Maintain **BUY**; TP implies 16.68x/13.58x 19E/20E P/E or 2.06x/1.83x 19E/20E P/B

Market dynamics in 2020. Wholesale pork price increased in the first two week of 2020. We believe that 1) even with a stable price trend, pork price inflation would increase on the low-base effect in early 2019; 2) measures to expand upstream production in China would require time and the recovery cycle would be extended due to the unresolved ASF situation; 3) short-term measure of increasing import has been largely deployed, but scale of such a measure has not been sufficient to bring down pork price. We believe market dynamics in 2020 would present multiple opportunities for the Group to further enhance product pricing and leverage its operating capability in the US and China markets.

Sino-US Phase I trade deal to benefit US subsidiary. In the Sino-US Phase I trade deal, the amount of agricultural products exported from the US to China, including pork, would increase to US\$ 41.6bn in 2020 and US\$ 48.6bn in 2021. The agreement has not specified the amount of pork export to China; nonetheless, we believe this would benefit the Group's US subsidiary, which is one of the leading hog producers in the US, by ramping up its pork export business.

Favorable conditions drove up 3Q19 performance. In 3Q19, the Group's revenue, OP, and NP (to shareholders of the Company) grew by 12% YoY, 55.4% YoY, and 79.4% YoY, the highest quarterly growth rates recorded since 2017. The Group's OPM and NPM (to shareholders of the Company) improved to 8.7% and 5.9% in 3Q19. We believe the Group's performance in 3Q19 was due to its ability to capture the increasing hog/pork prices in China to enhance its packaged meat product pricing, the hog price differences between China and the US, its leading positions in the China and the US market, and product portfolio adjustments in response to market preference changes.

FY18-21E revenue CAGR to be 7.9%. We expect FY18-21E revenue CAGRs of packaged meat, fresh pork, and hog production to be 4.0%, 12.2%, and 19.0%, respectively; FY18-21E revenue CAGRs in China, the US, and Europe would be 15.8%, 3.4%, and 6.5%, respectively; GPM and NPM (to owners of the Company) would reach 22.9% and 5.9% in 2021E.

TP at HK\$ 9.4; maintain BUY. We maintain **BUY** as the Group is likely to benefit from the trade negotiation progress between China and the US, and the continued pork price increase in China in 2020. Based on our DCF model, we set TP at HK\$ 9.4, representing 16.68x/13.58x 19E/20E P/E or 2.06x/1.83x 19E/20E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Risk of revenue and profit loss over trade war; 4) Product quality/safety risk; 4) Risk of changing consumer tastes; 5)Commodity price risk; 6) Foreign exchange risk; 7) Interest rate risk

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (US\$ mn)	22,379	22,605	24,081	25,945	28,366
Chg (% YoY)	3.92	1.01	6.53	7.74	9.33
Net Profit (to shareholders of the Company) (US\$ mn)	1,133	922	1,067	1,311	1,683
Chg (% YoY)	9.36	(18.64)	15.80	22.81	28.40
Basic EPS (US\$ cent)	7.54	6.43	7.26	8.91	11.44
Chg (% YoY)	(0.53)	(14.72)	12.85	22.81	28.40
P/E (x)	13.54	15.88	14.07	11.46	8.92
BVPS (US\$ cent)	50.82	52.78	58.71	66.21	75.80
P/B (x)	2.01	1.93	1.74	1.54	1.35
DPS(HK\$)	0.27	0.20	0.23	0.28	0.36
Yield (%)	3.40	2.52	2.84	3.49	4.48
ROAA (%)	9.14	7.55	7.90	8.58	9.66
ROAE (%)	16.47	12.14	13.03	14.27	16.11

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Feb 11, 2020

Rating: BUY

TP: HK\$ 9.4

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Share price (HK\$)	7.93
52Wk H/L(HK\$)	9.95/6
Est. share price return	18.54%
Est. dividend yield	3.28%
Est. total return	21.82%
Previous Rating&TP	BUY; HK\$8.8
Previous report date	Aug 22, 2019

Source(s): Bloomberg, ABCI Securities

Key Data

Issued shares (mn)	14,727.50
Market cap (HK\$ mn)	116,789.07
3-mth ADT (HK\$ mn)	328.32

Major shareholders	(%)
Heroic Zone	23.60
Mondrian Investment Partners	5.03
JP Morgan	4.85
Chang Yun Holdings	4.29
Wan Long	3.90

Source(s): Bloomberg, HKEX

% of total revenue	FY19E
Packaged meat	52.20
Fresh Pork	41.97
Hog production	3.44

Source(s): ABCI Securities estimates

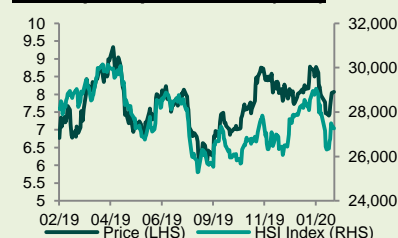
Sector Performance (%)

	Absolute	Relative*
1-mth	(9.16)	(4.32)
3-mth	(9.16)	(7.84)
6-mth	14.86	8.66

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Note: 1) All pricing and market data as of Feb 10, 2020; 2) Gross and operating profits discussed in the report are before biological adjustment, 3) Net profits are after biological adjustment; 4) USD/HKD: 7.7663



Exhibit 1: Quarterly performance of the Group

	1Q18	2Q18	3Q18	1Q19	2Q19	3Q19	1Q18	2Q18	3Q18	1Q19	2Q19	3Q19	1Q18	2Q18	3Q18	1Q19	2Q19	3Q19
	Revenue growth (YoY %)						OP growth ⁽¹⁾ (YoY %)						OP Margins ⁽¹⁾ (%)					
Total	5.7	3.9	(3.7)	(6.0)	5.3	12.0	(9.3)	1.0	(28.7)	(10.0)	(13.1)	55.4	6.7	8.8	6.3	6.5	7.3	8.7
By product																		
Packaged meat	10.2	3.7	(2.0)	(3.8)	3.4	2.2	12.1	17.4	7.8	9.7	(14.6)	3.2	12.1	14.6	12.6	13.9	12.1	12.7
Fresh pork	(1.7)	(0.5)	(8.0)	(7.6)	8.2	17.8	(54.5)	(69.7)	(59.1)	164.3	(221.6)	17.8	2.4	1.6	2.0	7.0	(1.8)	2.0
Hog production	20.5	80.7	21.1	(27.0)	(7.1)	107.8	(200.0)	(2.8)	(210.2)	N/A	251.4	N/A	(6.5)	17.8	(56.5)	(115.1)	67.2	48.1
By Geo																		
China	6.5	4.2	(4.3)	(6.1)	10.6	25.4	34.59	30.12	(0.93)	4.21	(22.38)	18.46	11.4	14.5	12.7	12.6	10.2	12.0
US	2.5	1.6	(4.8)	(6.0)	2.7	1.3	(39.74)	(20.45)	(61.78)	(21.99)	(2.81)	173.55	4.3	5.8	2.5	3.6	5.5	6.7
Others	30.8	21.4	5.8	(5.6)	3.7	27.1	(4.00)	(13.33)	(34.21)	(66.67)	(2.56)	56.00	5.3	7.9	5.3	1.9	7.4	6.5

Notes: 1) Data are measured prior to biological adjustment; 2) 1Q18 & 1Q19 hog production recorded operating loss; 3) 3Q18 hog production recorded operating loss, while 3Q19 hog production recorded operating profit

Source(s): The Group, ABCI Securities

Exhibit 2: 9M performance of the Group

	9M17	9M18	9M19	9M17	9M18	9M19	9M17	9M18	9M19		9M17	9M18	9M19	9M17	9M18	9M19
	Revenue growth (YoY %)			OP growth ⁽¹⁾ (YoY %)			OP Margins ⁽¹⁾ (%)				Revenue (USD mn)			OP ⁽¹⁾ (USD mn)		
Total	3.2	1.8	3.7	7.6	(12.4)	7.2	8.5	7.3	7.5		16,285	16,585	17,193	1,379	1,208	1,295
By product																
Packaged meat	5.5	3.7	0.6	(5.1)	12.5	(1.3)	12.1	13.1	12.9		8,525	8,844	8,893	1,030	1,159	1,144
Fresh pork	3.0	(3.5)	5.9	23.7	(61.1)	13.0	5.0	2.0	2.2		7,041	6,797	7,201	355	138	156
Hog production	(31.6)	38.4	10.9	272.4	(139.8)	N/A	(115.1)	67.2	48.1		370	512	568	108	(43)	70
By Geo																
China	(6.1)	1.9	10.0	(3.99)	18.80	(0.70)	11.0	12.8	11.6		5,458	5,560	6,117	601	714	709
US	7.9	(0.2)	(0.7)	9.12	(39.40)	23.40	7.0	4.2	5.3		9,630	9,609	9,539	670	406	501
Others	15.9	18.3	8.5	157.14	(18.52)	(3.41)	9.0	6.2	5.5		1,197	1,416	1,537	108	88	85

Notes: 1) Data are measured prior to biological adjustment;

Source(s): The Group, ABCI Securities

Exhibit 3: Projection change

	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
	Previous projection (report date: Aug 22, 2019)			Current projection		
Revenue (US\$ mn)	23,711	25,266	27,121	24,081	25,945	28,366
Gross profit (US\$ mn)	4,704	5,286	6,080	4,874	5,481	6,454
Net profit (to shareholders of the Company) (US\$ mn)	955	1,224	1,506	1,067	1,311	1,683
GPM (%)	19.97	20.78	22.62	20.37	21.01	22.93
NPM (to shareholders of the Company) (%)	4.03	4.84	5.55	4.43	5.05	5.93
ROAA (%)	7.26	8.22	8.99	7.90	8.58	9.66
ROAE (%)	11.71	13.47	14.68	13.03	14.27	16.11

Note: The enhanced projection mainly reflect the more favorable trends brought by the continued pork price inflation in China, the expected increase of US agricultural exports in the coming years due to the Phase I trade deal, and the improving performance of the Group in 9M19

Source(s): ABCI Securities estimates



Financial Statements

Consolidated income statement (2017A-2021E)

FY ends at Dec 31 (US\$ mn, except per share data)	2017A	2018A	2019E	2020E	2021E
Revenue	22,379	22,605	24,081	25,945	28,366
- Packaged meat	11,777	12,147	12,571	13,043	13,656
- Fresh pork	9,526	9,136	10,106	11,320	12,897
- Hog production	572	688	827	966	1,159
- Others	504	634	577	616	654
COGS	(18,061)	(17,907)	(19,207)	(20,464)	(21,912)
Gross profit	4,318	4,698	4,874	5,481	6,454
Distribution and selling expenses	(1,930)	(2,139)	(2,287)	(2,484)	(2,732)
Admin expenses	(823)	(732)	(776)	(833)	(907)
Biological adjustment	318	(339)	(31)	31	(52)
Others	(206)	3	12	18	16
Operating profit	1,677	1,491	1,792	2,214	2,779
- Packaged meat	1,435	1,547	1,618	1,725	1,821
- Fresh pork	547	246	305	372	503
- Hog production	56	(113)	90	120	213
- Others	(177)	(30)	(159)	(4)	242
Net finance cost	(198)	(115)	(198)	(238)	(245)
Share of profits from JV and associates	22	35	43	51	59
Pretax profit	1,501	1,411	1,638	2,027	2,593
Tax	(182)	(258)	(321)	(398)	(509)
Net profit	1,319	1,153	1,317	1,629	2,084
- Profit attributable to shareholders	1,133	922	1,067	1,311	1,683
- Minority interest	186	243	277	343	439
EPS					
- Basic (US cent)	7.54	6.43	7.26	8.91	11.44
- Diluted (US cent)	7.76	6.19	7.10	8.72	11.20
DPS (HK cent)	27.00	20.00	22.54	27.68	35.54

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2017A-2021E)

FY ends at Dec 31 (US\$ mn)	2017A	2018A	2019E	2020E	2021E
Cash and cash equivalent	1,371	525	1,915	2,889	4,480
Trade and bills receivable	989	1,135	955	1,132	1,240
Inventory	1,905	2,022	2,943	2,131	3,170
ST Biological assets	990	947	1,592	2,647	2,559
Others	418	838	341	280	549
Total current assets	5,673	5,467	7,745	9,078	11,999
PP&E	5,037	5,300	5,671	6,060	6,457
LT Biological assets	181	147	285	456	432
Goodwill	1,838	1,847	1,847	1,847	1,847
Intangible assets	1,742	1,734	1,592	1,563	1,533
Interest in JV and associates	295	352	377	404	433
Others	492	451	535	497	553
Total non-current assets	9,585	9,831	10,307	10,826	11,254
Total assets	15,258	15,298	18,052	19,904	23,253
Trade and bills payable	1,076	977	1,325	856	1,652
ST borrowings	901	860	1,446	1,630	1,889
Others	1,522	1,491	1,851	1,759	1,794
Total current liabilities	3,499	3,328	4,622	4,246	5,335
LT Borrowings	2,297	2,259	2,670	3,010	3,489
Others	1,240	1,293	1,175	1,615	1,546
Total non-current liabilities	3,537	3,552	3,845	4,625	5,035
Shareholders' equity	7,445	7,746	8,636	9,740	11,151
Minority interest	777	672	949	1,293	1,732
Total equity	8,222	8,418	9,586	11,033	12,883
Total liabilities and equity	15,258	15,298	18,052	19,904	23,253

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2017A-2021E)

FY ends at Dec 31 (US\$ mn)	2017A	2018A	2019E	2020E	2021E
Pretax profit	1,501	1,411	1,638	2,027	2,593
Depreciation and amortization	389	437	485	526	584
Change in working capital	(321)	(570)	(528)	(993)	(486)
Others	(57)	(23)	(273)	(379)	(454)
Cash flow from operating activities	1,512	1,255	1,321	1,181	2,236
Capex	(563)	(811)	(1,047)	(1,111)	(1,206)
Others	(221)	(406)	613	892	436
Cash flow from investing activities	(784)	(1,217)	(434)	(219)	(770)
Change in borrowings	64	4	996	524	739
Others	(655)	(794)	(488)	(544)	(649)
Cash flow from financing activities	(591)	(790)	508	(19)	90
Net change in cash	137	(752)	1,395	942	1,557
ForEx effect	19	(43)	(21)	(11)	(45)
Cash at the end of FY	1,279	484	1,858	2,789	4,301

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2017A-2021E)

FY ends at Dec 31	2017A	2018A	2019E	2020E	2021E
Growth (YoY %)					
Revenue	3.92	1.01	6.53	7.74	9.33
- Packaged meat	6.35	3.14	3.49	3.76	4.70
- Fresh pork	3.79	(4.09)	10.62	12.01	13.93
- Hog production	(32.23)	20.28	20.23	16.73	20.00
Gross profit	3.40	1.90	5.93	6.87	6.67
Operating profit	4.08	(11.34)	12.40	19.35	25.55
Net profit (to owners of the company)	9.36	(18.64)	15.80	22.81	28.40
Profitability ratios (%)					
GPM	20.61	19.92	20.37	21.01	22.93
OPM	8.32	7.30	7.70	8.53	9.80
- Packaged meat	12.18	12.74	12.87	13.23	13.33
- Fresh pork	5.74	2.69	3.02	3.28	3.90
- Hog production	9.79	(16.42)	10.88	12.45	18.42
EBITDA margin	10.49	9.32	9.72	10.32	12.22
NPM (to owners of the company)	5.06	4.08	4.43	5.05	5.93
Revenue contribution (%)					
Packaged meat	52.63	53.74	52.20	50.27	48.14
Fresh pork	42.57	40.42	41.97	43.63	45.47
Hog production	2.56	3.04	3.44	3.72	4.08
Return ratios (%)					
ROAA	9.14	7.55	7.90	8.58	9.66
ROAE	16.47	12.14	13.03	14.27	16.11
Liquidity ratio (x)					
Current ratio	1.62	1.64	1.68	2.14	2.25
Quick ratio	0.79	0.75	0.69	1.01	1.18
Cash ratio	0.41	0.17	0.43	0.70	0.86
Cash conversion cycle (days)					
Days of outstanding receivable	14	17	16	15	15
Days of inventory on hand	37	40	47	45	44
Days of outstanding payable	19	21	21	20	20
CCC	32	36	42	40	39
Leverage ratios (%)					
Total debt/Equity	42.96	40.27	42.93	42.05	41.75
Total debt/Total assets	20.96	20.39	22.80	23.31	23.13

* Excluding measures relating to NP (to owners of the Company), all other measures are pre-bio. adj.

Source(s): Company, ABCI Securities estimates



Mengniu (2319 HK)

Competition to stiffen; maintain BUY

- We expect the Group to maintain its leading position despite challenges in 2020
- The Group disposed Junlebao and acquired Australia-based Bellamy and Lion Dairy in 2019; we believe the two acquisitions would expand the Group's product portfolio and geographical profile
- Expect FY18-21E revenue CAGR to reach 13.0%; more challenges ahead due to the slowdown in macroeconomic environment and increased imports from the US
- Maintain **BUY**; TP implies 24.78x/30.53x 19E/20E P/E, and 4.33x/3.96x 19E/20E P/B

Defensiveness amid reduced momentum in retail. China's retail environment has turned challenging as CPI trended up throughout 2019 amid a slowing economy. The newly signed Sino-US Phase I trade deal would substantially increase agricultural product imports, which we expect would affect the competitive landscape and affect pricing ability of domestic dairy players. Nonetheless, we believe Mengniu would be able to weather these challenges and maintain its dominance in the market.

One disposal and two acquisitions in 2019. The Group announced in June 2019 that it would dispose 51% of the entire registered capital of Junlebao for a total cash consideration of ~RMB 4,011mn. Combined with the special dividend received by the Group, we estimate total cash proceeds received to be ~RMB 4,579.8mn. In late 2019, the Group announced the acquisition of Bellamy, an Australia-based infant milk formula (IMF) manufacturer, and Lion Dairy, an Australia-based diversified dairy product manufacturer. For the Bellamy acquisition, the total consideration (cash) is ~AUD 1.46bn, representing 34.11x/67.28x FY18/FY19 P/E. For the Lion Dairy acquisition, the total consideration (cash) is ~AUD 600mn, representing 12.43x/13.10x FY18/FY19 P/E. We believe the two acquisitions would further diversify the Group product and geographical profile, facilitating its expansion in the overseas market. However, Bellamy is acquired with a high premium and both targets have seen earnings decline in the past two fiscal years. The Group would need to execute turnarounds; otherwise earnings in these targets would suffer from impairment of goodwill.

Expect revenue CAGR of 13.0% in FY18-21E. We believe the acquisitions in 2019 would boost growth. We expect FY20E revenue to increase by 16.9% YoY due to the consolidation effects. The two acquisitions would also help elevate margins in the future; GPM and NPM (to shareholders of the Company) would increase from 37.4% and 4.4% in FY18 to 39.3% and 5.9% in FY21E. However, margins and earnings may fluctuate due to keen competition, acquisition and disposal related costs and gains, and increasing leverage.

Maintain BUY; adjust TP to HK\$ 35.0. We continue to favor the Group based on its leading market position, its expanding product and geographical profile as a result of the recent acquisitions, and strong defensiveness amid the challenging environment. Maintain **BUY**. Based on our DCF model, we set TP at HK\$ 35.0, which represents 24.78x/30.53x 19E/20E P/E, and 4.33x/3.96x 19E/20E P/B.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Food safety risk; 4) M&A risk; 5) Product concentration risk; 6) Product competitiveness risk; 7) Biological asset revaluation risk; 8) Currency exchange risk.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	60,156	68,977	76,602	87,162	99,536
Chg (% YoY)	11.86	14.66	11.05	13.79	14.20
Net Profit (RMB mn)	2,048	3,043	4,995	4,056	5,303
Chg (% YoY)	N/A	48.60	64.15	(18.80)	30.74
Basic EPS (RMB)	0.53	0.78	1.27	1.03	1.35
Chg (% YoY)	N/A	48.10	63.19	(18.84)	30.74
P/E (x)	51.42	34.72	21.28	26.21	20.05
BVPS (RMB)	5.76	6.41	7.27	7.95	8.81
P/B (x)	4.70	4.22	3.72	3.40	3.07
DPS (RMB)	0.12	0.19	0.36	0.31	0.45
Yield (%)	0.44	0.70	1.32	1.13	1.65
ROAA (%)	3.82	4.88	6.96	5.04	5.76
ROAE (%)	9.43	12.73	18.54	13.51	16.04

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Feb 11, 2020

Rating: **BUY**

TP: HK\$ 35.0

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	30.05
52Wk H/L (HK\$)	34.6/23.34
Est. share price return	15.89%
Est. dividend yield	1.32%
Est. total return	17.21%
Previous Rating&TP	BUY; HK\$34.6
Previous report date	Sep 11, 2019

Source(s): Bloomberg, ABCI Securities

Key Data

Issued shares (mn)	3,935.67
Market cap (HK\$ mn)	119,250.73
3-mth ADT (HK\$ mn)	237.11

Major shareholders

	(%)
COFCO	31.37
Schroder	7.04
FIL Limited	6.67

Source(s): Bloomberg, HKEX

Revenue composition	FY19E
Liquid milk	86.58
Ice cream	3.46
Milk formula	8.40

Source(s): ABCI Securities estimates

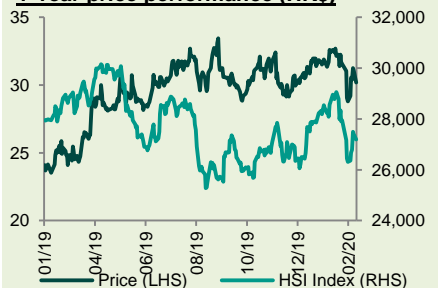
Sector Performance (%)

	Absolute	Relative*
1-mth	(6.48)	(1.63)
3-mth	0.50	1.82
6-mth	(2.10)	(8.30)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) All pricing and market data as of Feb 10, 2020;
- 2) RMB/HKD: 1.111



Exhibit 1: Acquisitions of Bellamy's Organic & Lion Dairy

Lion Dairy

Deal structure

Consideration	AU\$ 600mn (HK\$ 3,186.84mn), paid in cash
Funding source	Internal & Bank financing

Target net profit and P/E represented by the consideration

As of Dec 31	FY17	FY18
Net profit	AUD 48.3mn	AUD 45.8mn
P/E represented by the total consideration	12.42x	13.10x

Additional details

- The consideration payable by the Group upon completion will be the net amount after applying adjustments to the initial consideration of AU\$ 600mn (HK\$ 3,186.84mn) on a cash-free and debt-free basis
- Adjustments are: 1) Cash, debt and working capital completion adjustments, in a manner consistent with transactions of this nature; 2) An adjustment for the variance between specified forecast capital and one time item spending (in a specified period prior to completion) and actual spending; and 3) A downward adjustment in specified instances in which the Target suffers financial loss due to the actions of one of its key customers

Bellamy's Organic

Deal structure

Consideration	Up to AUD1.46 billion (~HK\$7.86 billion).
Funding source	Internal & bank financing

Target net profit and P/E represented by the consideration

As of Jun 30	FY18	FY19
Net profit	AUD 42.8mn	AUD 21.7mn
P/E represented by the total consideration	34.11x	67.28x

Additional details

- Number of shares purchased: 110,119,815 Target's shares in issue (excluding the Target's 3,248,482 shares held by or on behalf of a member of Mengniu) and 5,231,993 target options granted and outstanding
- Share purchase price: AU\$ 12.65 per share covered by the Scheme under the acquisition agreement
- Target is permitted to pay a special dividend of AU\$ 0.6 per Scheme share

Source(s): The Group, ABCI Securities

Exhibit 2: Projection change

	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
	Previous projection (report date: Sep 11, 2019)			Current projection		
Revenue (RMB mn)	77,013	86,242	97,787	76,602	87,162	99,536
Gross profit (RMB mn)	29,813	33,653	38,110	28,996	34,017	39,389
Net profit (to shareholders of the Company) (RMB mn)	3,645	4,798	5,603	4,995	4,056	5,303
GPM (%)	38.71	39.02	38.97	37.85	39.03	39.57
NPM (to shareholders of the Company) (%)	4.73	5.56	5.73	6.52	4.65	5.33
ROAA (%)	5.17	6.06	6.16	6.96	5.04	5.76
ROAE (%)	13.78	16.37	17.13	18.54	13.51	16.04

Note: The jump in net profit projection was mainly due to the disposal of Junlebao in 2019; the drop in profit and margins in 2020 was mainly due to the expenses related to the Bellamy and Lion Dairy acquisition

Source(s): ABCI Securities estimates



Financial Statements

Consolidated income statement (2017A-2021E)

FY ends at Dec 31 (RMB mn, except per share data)	2017A	2018A	2019E	2020E	2021E
Revenue	60,156	68,977	76,602	87,162	99,536
- Liquid milk	53,015	59,389	66,323	74,093	83,575
- Ice cream	2,513	2,723	2,649	2,764	2,883
- Milk formula	4,042	6,017	6,438	8,663	11,272
- Other revenue	585	851	1,193	1,642	1,806
COGS	(38,973)	(43,193)	(47,606)	(53,146)	(60,147)
Gross profit	21,183	25,784	28,996	34,017	39,389
Other income	338	736	2,941	636	712
SG&A	(17,366)	(21,748)	(24,259)	(27,750)	(31,459)
Other expenses	(1,099)	(851)	(1,149)	(1,307)	(1,493)
EBIT	2,972	3,835	6,529	5,595	7,149
Net interest expense(-)/income(+)	184	318	(29)	(151)	(80)
Income from associate/JV	(532)	(300)	(39)	54	61
Profit before tax	2,625	3,853	6,461	5,499	7,130
Tax	(594)	(649)	(1,457)	(1,137)	(1,428)
Total net profit	2,031	3,204	5,003	4,361	5,702
- Profit to shareholders	2,048	3,043	4,995	4,056	5,303
- Minority interest	(17)	161	8	305	399
EPS (RMB)					
- Basic EPS	0.53	0.78	1.27	1.03	1.35
- Diluted EPS	0.53	0.78	1.27	1.03	1.34
DPS	0.12	0.19	0.36	0.31	0.45

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet (2017A-2021E)

FY ends at Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Cash and cash equivalent	5,959	7,298	5,625	6,684	8,578
Trade and bills receivable	2,647	2,892	4,373	3,910	5,568
Inventory	3,510	4,282	5,771	6,213	7,445
Others	13,902	15,269	19,970	21,554	27,884
Total current assets	26,018	29,741	35,738	38,361	49,476
PP&E and CIP	14,079	16,937	17,148	19,156	21,392
Goodwill	4,533	4,681	7,263	7,263	7,263
Other intangible assets	2,194	2,298	2,085	2,252	2,479
Others	11,315	12,799	14,808	16,816	19,773
Total non-current assets	32,121	36,716	41,304	45,487	50,907
Total assets	58,139	66,457	77,042	83,848	100,383
Trade and bills payable	6,342	7,022	7,608	8,608	10,114
ST borrowings	7,935	6,523	6,565	8,635	11,272
Others	8,289	11,565	13,703	13,866	15,912
Total current liabilities	22,566	25,109	27,876	31,109	37,298
LT Borrowings	6,015	8,192	10,058	10,073	10,091
Others	2,450	2,691	5,167	5,880	12,614
Total non-current liabilities	8,465	10,884	15,225	15,953	22,705
Shareholders' equity	22,604	25,212	28,684	31,368	34,747
Minority interest	4,503	5,252	5,256	5,419	5,632
Total equity	27,107	30,464	33,941	36,787	40,380
Total liabilities and equity	58,139	66,457	77,042	83,848	100,383

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement (2017A-2021E)

FY ends at Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Pretax profit	2,625	3,853	6,461	5,499	7,130
Depreciation and amortization	1,704	1,838	2,535	2,977	3,467
Change in working capital	1,229	1,637	1,623	150	3,073
Others	(52)	(965)	(3,858)	(1,222)	(2,261)
Cash flow from operating activities	5,505	6,363	6,761	7,404	11,409
Capex	(66,501)	(6,460)	(6,246)	(8,261)	(10,071)
Others	55,051	2,229	(9,050)	1,391	(2,328)
Cash flow from investing activities	(11,450)	(4,232)	(15,296)	(6,871)	(12,399)
Change in borrowings	4,479	(300)	1,907	2,085	2,655
Dividends paid	(399)	(526)	(818)	(1,405)	(1,347)
Others	1,668	(74)	5,368	78	1,500
Cash flow from financing activities	5,748	(900)	6,458	758	2,808
Net change in cash	(196)	1,231	(2,077)	1,291	1,818
Forex effect	(31)	10	(57)	(45)	(53)
Cash and cash equivalent - end	3,129	4,370	2,236	3,483	5,247

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios (2017A-2021E)

FY ends at Dec 31	2017A	2018A	2019E	2020E	2021E
Growth (YoY %)					
Revenue	11.86	14.66	11.05	13.79	14.20
- Liquid milk	10.21	12.02	11.68	11.71	12.80
- Ice cream	15.28	8.37	(2.74)	4.35	4.32
- Milk powder	28.28	48.87	6.98	34.57	30.11
- Other products	69.40	45.30	40.21	37.65	10.00
Gross profit	20.11	21.72	12.46	17.31	15.79
Operating profit	N/A	29.02	70.24	(14.30)	27.76
Net profit (to shareholders of the Company)	N/A	48.60	64.15	(18.80)	30.74
Profitability ratios (%)					
GPM	35.21	37.38	37.85	39.03	39.57
OPM	4.94	5.56	8.52	6.42	7.18
EBITDA margin	6.89	8.23	11.83	9.84	10.66
NPM (to shareholders of the Company)	3.40	4.41	6.52	4.65	5.33
Return ratios (%)					
ROAA	3.82	4.88	6.96	5.04	5.76
ROAE	9.43	12.73	18.54	13.51	16.04
Liquidity ratio (x)					
Current ratio	1.15	1.18	1.28	1.23	1.33
Quick ratio	1.00	1.01	1.08	1.03	1.13
Cash ratio	0.28	0.32	0.23	0.24	0.25
Cash conversion cycle (days)					
Days of outstanding receivable	15.1	14.7	17.3	17.3	17.4
Days of inventory on hand	32.0	32.9	38.5	41.2	41.4
Days of outstanding payable	54.7	55.5	54.4	55.2	55.7
CCC	(7.7)	(7.9)	1.5	3.3	3.2
Leverage ratios (%)					
Total debt/Equity	51.46	48.30	49.38	51.29	53.36
Total debt/Total assets	23.99	22.14	21.58	22.31	21.28
Net debt/Equity	27.76	22.30	30.38	30.63	29.61
Net debt/Assets	12.94	10.22	13.39	13.44	11.91

Note: The Group recorded operating loss and net loss in FY16

Source(s): The Group, ABCI Securities estimates



Anta Sports (2020 HK) Expanding product portfolio to support growth

- 4Q19 and FY19 operating results show a steady growth momentum
- National policies were launched to boost the sports sector, but challenging retail environment may compromise growth in the sportswear sector
- The Group would be able to maintain its growth momentum and leading position in the industry; we project 2018-21E revenue CAGR to be 42.5% with rising margins in coming years
- Maintain **BUY**; TP implies 35.03x/22.71x 19E/20E P/E or 10.26x/8.14x 19E/20E P/B

Sports apparel market to benefit from favorable policy to sports sector. Various policies have been released in 2019, including the 13th Five -Year Plan for the Sports Industry and the 13th Five -Year Plan for Teenage Sports Development, to encourage a more active lifestyle among citizens as well as boosting the sports industry. We believe such policies would boost demand for sports apparel goods.

Retail environment is challenging. In 2019, the national retail sales and clothing & apparel retail sales growth (enterprises above designated size) reached 8.0% YoY and 2.9% YoY. The downward pressure on retail sales growth has been exacerbated by the rising inflation, slowdown in economic growth, and the uncertainty in external trade environment. We expect the clothing & apparel sales may face more challenges in the future on moderating economic growth.

Latest operating results show resilience. In 4Q19 and FY19, ANTA brand achieved high-teens and mid-teens retail sales growth. FILA brand's 4Q19 retail sales growth reached 50%-55% YoY and FY19 retail sales growth reached 55-60% YoY. The Group's operating results have been above the national retail sales growth and the national retail sales (clothing & apparel) growth. We believe the Group's product strategy and sales network management have been effective.

Issuance of CB may increase leverage. The Group has recently announced the issuance of convertible bonds (CB) of EUR 1,000mn with a zero coupon rate. The strike price is set at HK\$ 105.28. The CB is mainly used to repay loans associated with the Amer Sports acquisition, finance working capital, and for other corporate purposes. We believe the CB would increase the Group's leverage in the future, and expect D/E ratio to increase to 60.5% in 2020E assuming no additional financing activities would take place.

Strong growth momentum to continue. Based on the operating results in 4Q19, we expect that the Group's total revenue would increase by 41.2% YoY in 2019. We forecast revenue would increase at 42.5% CAGR in 2018-21E, and expect GPM and NPM (to shareholders of the Company) to increase from 52.6% and 17.0% in FY18 to 54.2% and 18.9% in FY21E.

Maintain BUY; TP increased to HK\$ 80.3. We continue to favor the Group's leading position and strong brand portfolio. We believe it would continue to maintain its growth performance and further leverage its acquisition of Amer Sports to enhance its product portfolio. Our DCF-derived TP represents 35.03x/22.71x 19E/20E P/E or 10.26x/8.14x 19E/20E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Commodity price risk 4) Changing consumer taste in China, 5) Business acquisition risk.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	16,692	24,100	34,020	48,473	69,730
Chg (% YoY)	25.08	44.38	41.16	42.49	43.85
Net Profit (RMB mn)	3,090	4,103	5,539	8,545	13,197
Chg (% YoY)	29.52	32.79	34.99	54.28	54.44
Basic EPS (RMB cent)	117.01	152.82	206.31	318.29	491.57
Chg (% YoY)	22.70	30.60	35.00	54.28	54.44
P/E (x)	50.85	38.93	28.84	18.69	12.10
BVPS (RMB)	5.11	5.88	7.05	8.88	11.66
P/B (x)	11.65	10.12	8.44	6.70	5.10
DPS(HK cent)	98.00	78.00	99.26	149.64	237.62
Yield (%)	1.48	1.18	1.50	2.26	3.59
ROAA (%)	18.97	19.49	18.67	21.01	25.36
ROAE (%)	26.57	27.83	31.93	39.96	47.86

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Feb 11, 2020

Rating: **BUY**

TP: HK\$ 80.3

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Share price (HK\$)	66.10
52 wk High/Low	79.9/40.25
Est. share price return	21.48%
Est. dividend yield	1.50%
Est. total return	22.98%
Previous Rating and TP	BUY; HK\$74.9
Previous Report Date	Sep 19, 2019

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,701.95
Mkt cap (HK\$mn)	179,679.48
3 mth days ADT (HK\$mn)	454.55
Shareholding (%)	
Anta International	50.84
Anda Holdings	5.95
Anda Investments	4.27

Source(s): Company, Bloomberg, HKEX

% to total revenue	FY19E
Footwear	31.42
Apparel	65.47
Accessories	3.10

Source(s): ABCI Securities estimates

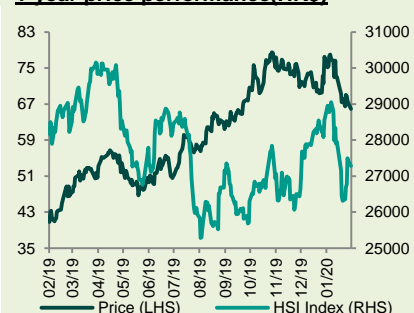
Share performance (%)

	Absolute	Relative*
1-mth	(13.75)	(8.90)
3-mth	(15.18)	(13.85)
6-mth	15.32	9.12

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) All pricing and market data as of Feb 10, 2020
- 2) RMB/HKD: 1.111



Exhibit 1: Retail sales growth performance by brand

	1H19 reported revenue (YoY)	3Q19 retail sales growth (YoY)	4Q19 retail sales growth (YoY)	FY19 retail sales growth (YoY)
ANTA Brand	18.3%	Mid-teens	High-teens	Mid-teens
FILA Brand	79.9%	50%-55%	50%-55%	55-60%
Other brands combined	36.1%	30%-35%	25-30%	30-35%

Source(s): The Group, ABCI Securities

Exhibit 2: Projection change

	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
	Previous projection (report date: Sep 19, 2019)			Current projection		
Revenue (RMB mn)	33,853	48,024	68,118	34,020	48,473	69,730
Gross profit (RMB mn)	17,970	25,777	36,882	18,109	26,101	37,810
Net profit (to shareholders of the Company) (RMB mn)	5,447	8,402	12,894	5,539	8,545	13,197
GPM (%)	53.08	53.68	54.14	53.23	53.85	54.22
NPM (to shareholders of the Company) (%)	16.09	17.50	18.93	16.28	17.63	18.93
ROAA (%)	18.40	21.05	25.44	18.67	21.01	25.36
ROAE (%)	31.45	39.47	47.14	31.93	39.96	47.86

Note: We change our forecast mainly to reflect the Group's expanding product portfolio brought by the Amer Sports acquisition, the quarterly performance in 2019, and Group's ability to command more premium on its products in the future

Source(s): ABCI Securities estimates

Financial Statements

Consolidated income statement (2017A-2021E)

FY ends at Dec 31 (RMB mn, except per share data)	2017A	2018A	2019E	2020E	2021E
Revenue	16,692	24,100	34,020	48,473	69,730
- Footwear	7,049	8,631	10,690	13,508	17,304
- Apparel	9,116	14,709	22,274	33,614	50,671
- Accessories	528	759	1,055	1,351	1,755
COGS	(8,451)	(11,413)	(15,911)	(22,372)	(31,920)
Gross profit	8,241	12,687	18,109	26,101	37,810
- Footwear	3,291	4,226	5,304	6,739	8,643
- Apparel	4,743	8,131	12,337	18,775	28,411
- Accessories	208	330	468	586	756
Other net income/(loss)	458	760	1,003	1,479	2,092
S&D expenses	(3,809)	(6,525)	(9,564)	(14,082)	(20,515)
Admin expenses	(901)	(1,223)	(1,695)	(2,494)	(3,519)
Operating profit	3,989	5,700	7,853	11,004	15,868
Net finance income/(expense)	322	68	460	768	863
Pretax profit	4,311	5,767	7,712	11,910	18,388
Tax	(1,152)	(1,533)	(2,043)	(3,168)	(4,883)
Net profit	3,159	4,234	5,669	8,742	13,505
- Owners of the company	3,090	4,103	5,539	8,545	13,197
- Minority interest	69	131	130	198	308
Dividend	2,178	1,842	2,398	3,616	5,742
EPS (RMB cent)					
- Basic	117	153	206	318	492
- Diluted	117	153	206	318	491
DPS (HK cent)	98	78	101	152	242

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2021E)

FY ends at Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Cash and cash equivalent	6,968	9,284	14,910	20,178	23,268
Other ST deposit	2,586	2,470	5,486	6,797	7,575
Trade and other receivables	3,733	4,638	7,245	7,406	12,033
Inventory	2,155	2,892	3,285	5,432	7,527
Others	0	0	0	0	0
Current assets	15,442	19,284	30,926	39,813	50,404
PP&E	1,203	1,787	1,985	2,318	2,938
Construction in progress	706	749	585	831	1,218
Intangible assets	705	685	677	658	641
Others	1,018	1,868	2,180	3,230	4,443
Non-current assets	3,632	5,090	5,427	7,038	9,240
Total assets	19,074	24,374	36,354	46,850	59,644
Trade and other payables	3,978	5,633	7,514	9,559	12,656
ST borrowings	148	1,244	8,233	11,174	12,440
Others	373	671	626	965	1,522
Current liabilities	4,498	7,548	16,373	21,698	26,618
LT debt	0	70	70	70	70
Deferred tax assets	215	236	121	165	276
Total non-current liabilities	215	306	191	235	346
Shareholders' equity	13,706	15,777	18,917	23,846	31,301
Minority interest	654	743	873	1,070	1,379
Total equity	14,361	16,520	19,790	24,917	32,680
Total liabilities and equity	19,074	24,374	36,354	46,850	59,644

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2017A-2021E)

FY ends at Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Pretax profit	4,311	5,767	7,712	11,910	18,388
Depreciation & amortization	250	342	435	486	596
Change in working capital	(381)	(444)	(1,118)	(261)	(3,625)
Others	(999)	(1,226)	(1,917)	(2,912)	(4,401)
Cash flow from operating activities	3,181	4,440	5,111	9,223	10,958
CapEx	(585)	(678)	(704)	(928)	(1,383)
Others	(994)	(523)	(3,317)	(1,655)	(5,473)
Cash flow from investing activities	(1,579)	(1,201)	(4,020)	(2,584)	(6,857)
Bank borrowing	(827)	1,008	6,990	6,771	4,942
Dividend paid	(1,976)	(2,468)	(2,219)	(3,260)	(5,279)
Others	2,801	324	356	392	431
Cash flow from financing activities	(2)	(1,136)	5,127	3,902	94
Net change in cash	1,601	2,102	6,218	10,541	4,195
ForEx effect	(463)	214	(591)	(827)	(275)
Cash at the end of FY	6,968	9,284	14,910	20,178	23,268

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios (2017A-2021E)

FY ends at Dec 31	2017A	2018A	2019E	2020E	2021E
Growth (YoY %)					
Revenue	25.08	44.38	41.16	42.49	43.85
- Footwear	17.47	22.45	23.85	26.36	28.10
- Apparel	32.39	61.35	51.43	50.91	50.74
- Accessories	14.86	43.95	38.96	28.06	29.89
Gross profit	27.59	53.95	42.73	44.13	44.86
- Footwear	20.84	28.43	25.51	27.06	28.24
- Apparel	35.18	71.45	51.73	52.19	51.32
- Accessories	24.07	58.63	41.69	25.37	28.95
EBIT	24.52	42.90	37.78	40.12	44.20
EBITDA	23.61	42.53	37.18	38.62	43.29
Net profit (to owners of the company)	29.52	32.79	34.99	54.28	54.44
Profitability ratios (%)					
GPM	49.37	52.64	53.23	53.85	54.22
- Footwear	46.70	49.00	49.62	49.89	49.95
- Apparel	52.00	55.30	55.39	55.86	56.07
- Accessories	39.40	43.50	44.32	43.39	43.08
OPM	23.90	23.65	23.08	22.70	22.76
EBITDA margin	25.39	25.07	24.36	23.70	23.61
Pretax	25.82	23.93	22.67	24.57	26.37
NPM (to owners of the company)	18.51	17.02	16.28	17.63	18.93
Revenue contribution (%)					
- Footwear	42.23	35.81	31.42	27.87	24.82
- Apparel	54.61	61.03	65.47	69.34	72.67
- Accessories	3.16	3.15	3.10	2.79	2.52
Return ratios (%)					
ROAA	18.97	19.49	18.67	21.01	25.36
ROAE	26.57	27.83	31.93	39.96	47.86
Liquidity ratio (x)					
Current ratio	3.43	2.55	1.89	1.83	1.89
Quick ratio	2.95	2.17	1.69	1.58	1.61
Cash ratio	2.12	1.56	1.25	1.24	1.16
Cash conversion cycle (days)					
Days of outstanding receivable	41.0	34.8	39.5	40.0	37.6
Days of inventory on hand	74.5	80.7	70.9	71.1	74.1
Days of outstanding payable	46.2	48.7	47.3	46.0	47.0
CCC	69.4	66.9	63.1	65.1	64.6
Leverage ratios (%)					
Total debt/Equity	0.77	7.95	41.60	44.85	38.07
Total debt/Total assets	0.58	5.39	22.84	32.17	33.56
Net cash/Equity	65.76	60.36	58.50	45.49	31.22
Net cash/Total assets	49.51	40.91	31.84	24.19	17.11

Source(s): Company, ABCI Securities estimates



Yili (600887 CH) Defensive play in challenging market

- Declining retail sales growth and increased imports under the Sino-US Phase I trade agreement may present challenges to the Group in 2020
- 3Q19 performance was resilient with revenue growth of 10.4% YoY; FY19 revenue and net profit targets set by the Group may not be reached, in our view
- Expect revenue CAGR of 13.8% in FY18-21E, supported by revenue CAGRs of liquid milk, chilled product, and milk formula segments of 13.0%, 12.6%, and 18.6%; margins may fluctuate on intensifying competition in the retail market
- Maintain **BUY**; current TP represents 28.91x/29.26x 19E/20E P/E or 7.46x/6.35x 19E/20E P/B

Inflationary pressure spills over to the dairy sector. According to the MOA, wholesale price of raw milk has been increasing though a slight drop was seen in Dec 2019. We believe risen raw milk price increase was resulted from the mounting inflationary pressure brought on by the surging pork price. Even though the current raw milk price is still well below the historical peak, we believe raw material costs for the downstream dairy product players would increase. We expect the Group to adjust pricing level and product portfolio to optimize the cost structure and margins.

A challenging retail environment. Downstream dairy players continue to face a weak consumer market amid slowing economic growth. The Sino-US Phase I trade deal will poses challenges to the local dairy players since dairy product imports are likely to increase in coming years. We believe the Group, as a leading player in the domestic dairy product market, would be able to adapt to the changing competitive landscape.

3Q19 performance shows resilience; FY19 revenue and net profit targets may not be reached. Despite GPM declined by 1.1ppt QoQ to 36.1%, OPM, and NPM (to shareholders of the Company) increased to 9.2% and 7.8% in 3Q19, reflecting effective cost cut. Revenue grew by 10.4% YoY in 3Q19, slightly higher than the YoY growth in 2Q19. 9M19 total revenue reached RMB 69bn, meaning total revenue growth in 4Q19 has to be 17.0% YoY or higher in order to reach the annual revenue target (RMB 90bn); the annual NP target of RMB 7.6bn would mean 4Q19 NP growth needs to be 36.5% YoY or higher. Based on its result in the past quarters, the 2019 revenue and net profit targets may not be attained.

Expect revenue CAGR of 13.8% in FY18-21E. We believe the Group would be able to perform steadily amid the challenging environment. We expect total revenue would rise by 11.4% YoY to reach RMB 89.7bn in FY19E and revenue growth in coming years would be ~14% YoY; revenue CAGRs of liquid milk, chilled product, and milk formula segments would be 13.0%, 12.6%, and 18.6% in FY18-21E. Margins, however, may fluctuate on rising raw material costs and marketing expenses; GPM and NPM (to shareholders of the Company) would reach 39.2% and 8.0% in FY21E.

TP at RMB 35.4; maintain BUY. We believe the Group's defensiveness and its leadership position in the dairy product market would enable it to navigate the challenging market environment. Our DCF-derived TP represents 28.91x/29.26x 19E/20E P/E or 7.46x/6.35x 19E/20E P/B.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Food safety risk; 4) M&A risk; 5) Investment risk; 6) Currency exchange risk

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	68,058	79,553	89,721	102,481	117,308
Chg (% YoY)	12.29	16.89	12.78	14.22	14.47
Net Profit (to owners of the Company) (RMB mn)	6,001	6,440	7,467	7,378	9,423
Chg (% YoY)	5.99	7.31	15.95	(1.19)	27.73
Basic EPS (RMB)	0.99	1.06	1.22	1.21	1.55
Chg (% YoY)	6.45	7.07	15.53	(1.19)	27.73
P/E (x)	30.47	28.46	24.64	24.93	19.52
BVPS (RMB)	4.13	4.59	4.75	5.57	6.38
P/B (x)	7.31	6.57	6.35	5.41	4.73
DPS (RMB)	0.62	0.68	0.78	0.80	1.03
Yield (%)	2.07	2.24	2.59	2.66	3.43
ROAA (%)	13.56	13.29	14.39	12.30	15.45
ROAE (%)	24.91	24.29	26.26	23.44	25.86

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Feb 11, 2020

Rating: **BUY**

TP: **RMB 35.4**

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (RMB)	30.17
52Wk H/L(RMB)	34.66/24.3
Est. share price return	17.34%
Est. dividend yield	2.59%
Est. total return	19.92%
Previous Rating&TP	BUY;RMB34.9
Previous report date	Sep 11, 2019

Source(s): Bloomberg, ABCI Securities

Key Data

Issued shares (mn)	6,096.38
Market cap (RMB mn)	183,927.75
3-mth ADT (RMB mn)	1,365.34

Major shareholders	(%)
HK Securities Clearing Co	14.33
Hohhot Investment Co Ltd	8.83
Sunshine Insurance	4.15
Pan Gang	3.87
China Securities Finance Co	2.99

Source(s): , Bloomberg, Company

% of core revenue	FY19E
Liquid milk	98.95
Chilled product	0.48
Milk formula	0.57

Source(s): ABCI Securities estimates

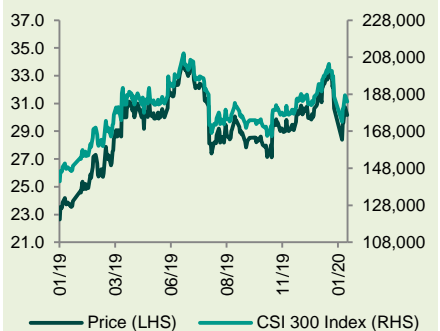
Sector Performance (%)

	Absolute	Relative*
1-mth	(6.94)	(1.00)
3-mth	2.38	3.79
6-mth	10.11	2.09

* Relative to CSI 300 Index

Source(s): Bloomberg, ABCI Securities

1-Year price performance (RMB)



Source(s): Bloomberg, ABCI Securities

Note: All pricing and market data as of Feb 10, 2020



Exhibit 1: Quarterly and 9M financial performance

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	9M18	9M19
Growth (YoY %)									
Total revenue	25.10	14.05	12.68	16.93	17.10	8.67	10.39	16.88	11.98
Total gross profit	29.77	14.01	6.96	26.82	19.28	3.66	10.74	16.35	11.03
Operating profit	24.06	(23.60)	(7.08)	44.54	5.14	(1.66)	29.34	0.27	9.85
Pretax profit	22.10	(4.34)	0.47	31.60	9.08	8.38	15.96	2.60	10.42
Net profit (to shareholders of the company)	21.15	(17.47)	1.83	30.87	8.36	11.83	15.49	2.24	11.55
Margins									
GPM	39.35	39.08	36.02	38.85	40.09	37.28	36.14	38.16	37.83
OPM	12.05	7.05	7.49	7.31	10.82	6.38	8.78	8.87	8.70
Pretax margin	12.66	7.96	8.73	8.79	11.80	7.94	9.17	9.80	9.66
NPM (to shareholders of the company)	10.63	6.66	7.49	7.64	9.84	6.86	7.84	8.23	8.20

Source(s): The Group, ABCI Securities

Exhibit 2: Projection change

	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
	Previous projection (report date: Sep 11, 2019)			Current projection		
Revenue (RMB mn)	90,563	102,567	116,040	89,721	102,481	117,308
Gross profit (RMB mn)	34,786	38,537	44,469	34,834	38,672	46,011
Net profit (to shareholders of the Company) (RMB mn)	6,835	7,218	8,386	7,467	7,378	9,423
GPM (%)	38.41	37.57	38.32	38.83	37.74	39.22
NPM (to shareholders of the Company) (%)	7.55	7.04	7.23	8.32	7.20	8.03
ROAA (%)	13.05	11.95	13.63	14.39	12.30	15.45
ROAE (%)	23.89	22.68	22.63	26.26	23.44	25.86

Note: The enhanced projection mainly reflects the Group's 9M19 performance and its leading position in the market; we continue to maintain that the intensifying competition would lead to higher S&D expenses and fluctuating net profit and net margin

Source(s): ABCI Securities estimates



Financial Statements

Consolidated income statement (2017A-2021E)

FY ends at Dec 31 (RMB mn, except per share data)	2017A	2018A	2019E	2020E	2021E
Revenue	68,058	79,553	89,721	102,481	117,308
- Core revenue	66,801	78,721	88,779	100,663	115,433
- Liquid milk	55,766	65,679	74,108	83,157	94,869
- Chilled product	4,606	4,997	5,603	6,240	7,135
- Milk formula	6,428	8,045	9,069	11,266	13,429
- Non-core revenue	747	256	429	1,080	1,279
- Interest income	511	577	512	738	595
COGS	(42,363)	(49,106)	(54,886)	(63,809)	(71,296)
Gross profit	25,696	30,447	34,834	38,672	46,011
- Core gross profit	25,063	29,785	34,251	37,755	45,204
- Liquid milk	19,611	23,126	27,033	28,829	34,573
- Chilled product	1,984	2,252	2,735	3,028	3,607
- Milk formula	3,468	4,406	4,484	5,898	7,023
- Non-core gross profit	122	86	71	180	212
- Gross profit on interest income	511	577	512	738	595
Business tax and levies	(512)	(531)	(620)	0	0
S&D expenses	(15,522)	(19,773)	(22,366)	(25,955)	(30,377)
Admin expenses	(3,108)	(2,980)	(3,330)	(4,360)	(4,920)
R&D expenses	(209)	(427)	(506)	(501)	(585)
Operating profit	6,345	6,737	8,012	7,856	10,129
Finance costs	(113)	60	12	21	11
Others	842	780	806	821	952
Pretax profit	7,074	7,578	8,830	8,698	11,092
Tax	(1,071)	(1,126)	(1,354)	(1,310)	(1,656)
Net profit	6,003	6,452	7,476	7,387	9,435
- Profit attributable to shareholders	6,001	6,440	7,467	7,378	9,423
- Minority interest	2	12	10	9	12
Cash dividend	3,792	4,110	4,763	4,896	6,301
EPS (RMB)					
- Basic	0.99	1.06	1.22	1.21	1.55
- Diluted	0.99	1.06	1.22	1.21	1.55
Cash DPS (RMB)	0.62	0.68	0.78	0.80	1.03

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2021E)

FY ends at Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Cash and cash equivalent	21,823	11,051	18,223	21,652	8,883
Trade and bills receivable	950	1,282	1,351	1,689	1,998
Inventory	4,640	5,507	7,349	7,259	8,740
Others	2,433	6,615	2,519	2,662	3,312
Total current assets	29,846	24,455	29,442	33,262	22,933
PP&E	13,256	14,688	17,218	18,874	20,069
Goodwill	11	11	11	11	11
AFS investment	652	831	914	1,006	1,106
LT equity investment	1,765	1,909	2,218	2,586	2,922
Others	3,771	5,712	6,332	8,138	11,095
Total non-current assets	19,455	23,151	26,693	30,614	35,203
Total assets	49,300	47,606	56,135	63,876	58,136
Trade and bills payable	7,469	9,116	10,965	566	829
ST borrowings	7,860	1,523	1,941	2,045	1,954
Others	8,521	8,532	12,794	25,324	14,437
Total current liabilities	23,850	19,171	25,700	27,934	17,220
LT Borrowings	0	0	8	8	8
Others	210	398	1,242	1,671	1,694
Total non-current liabilities	211	398	1,250	1,678	1,702
Shareholders' equity	25,103	27,916	28,951	33,989	38,900
Minority interest	136	122	234	275	314
Total equity	25,240	28,037	29,185	34,263	39,214
Total liabilities and equity	49,300	47,606	56,135	63,876	58,136

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2017A-2021E)

FY ends at Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Net profit	6,003	6,452	7,476	7,387	9,435
Depreciation and amortization	1,495	1,684	1,926	2,176	2,432
Change in working capital	(613)	530	1,159	2,479	(688)
Others	121	(42)	134	221	79
Cash flow from operating activities	7,006	8,625	10,696	12,263	11,258
Change in PP&E, intangible assets, and other non-current assets	(3,279)	(5,043)	(7,292)	(9,523)	(13,647)
Others	162	(331)	(90)	(187)	(127)
Cash flow from investing activities	(3,117)	(5,374)	(7,382)	(9,709)	(13,775)
Change in borrowings	7,710	(6,337)	425	104	(90)
Cash flow related to dividend payment, interest payment, or profit distribution	(3,845)	(4,393)	(4,431)	(4,499)	(5,412)
Others	188	(19)	0	(0)	0
Cash flow from financing activities	4,053	(10,749)	(4,006)	(4,395)	(5,503)
Net change in cash	7,942	(7,498)	(692)	(1,841)	(8,019)
ForEx effect	(398)	307	33	44	(3)
Cash and cash equivalent - end	20,756	13,565	12,905	11,109	3,086

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios (2017A-2021E)

FY ends at Dec 31	2017A	2018A	2019E	2020E	2021E
Growth (YoY %)					
Revenue	12.29	16.89	12.78	14.22	14.47
Core revenue	12.06	17.84	12.78	13.39	14.67
- Liquid milk	12.61	17.78	12.83	12.21	14.08
- Chilled products	9.82	8.49	12.12	11.37	14.35
- Milk formula	17.83	25.14	12.74	24.22	19.20
Non-core revenue	6.92	(65.74)	67.65	151.83	18.39
Gross profit	10.84	18.49	14.41	11.02	18.98
Core gross profit	9.87	18.84	15.00	10.23	19.73
- Liquid milk	10.12	17.93	16.89	6.64	19.93
- Chilled products	9.89	13.48	21.44	10.72	19.14
- Milk formula	13.17	27.05	1.75	31.55	19.07
Non-core gross profit	69.56	(29.64)	(17.23)	153.57	17.99
Operating profit	22.24	6.18	18.92	(1.94)	28.93
EBITDA	14.50	7.15	18.01	0.83	25.56
Pretax Profit	6.66	7.12	16.53	(1.50)	27.53
Net profit (to owners of the Company)	5.99	7.31	15.95	(1.19)	27.73
Profitability ratios (%)					
GPM	37.76	38.27	38.83	37.74	39.22
Core-GPM	37.52	37.84	38.58	37.51	39.16
- Liquid milk	35.17	35.21	36.48	34.67	36.44
- Chilled products	43.08	45.06	48.81	48.52	50.56
- Milk formula	53.95	54.78	49.44	52.35	52.30
Non-core GPM	16.30	33.49	16.53	16.65	16.59
OPM	9.32	8.47	8.93	7.67	8.63
EBITDA margin	11.44	10.49	10.98	9.69	10.63
Pretax margin	10.39	9.53	9.84	8.49	9.46
NPM (to owners of the Group)	8.82	8.09	8.32	7.20	8.03
Revenue contribution (%)					
Core revenue/ total revenue	98.15	98.95	98.95	98.23	98.40
Non-core revenue/ total revenue	1.10	0.32	0.48	1.05	1.09
Interest income/ total revenue	0.75	0.73	0.57	0.72	0.51
Core revenue composition					
- Liquid milk	83.48	83.43	83.47	82.61	82.19
- Chilled products	6.90	6.35	6.31	6.20	6.18
- Milk formula	9.62	10.22	10.22	11.19	11.63
Return ratios (%)					
ROAA	13.56	13.29	14.39	12.30	15.45
ROAE	24.91	24.29	26.26	23.44	25.86
Liquidity ratio (x)					
Current ratio	1.25	1.28	1.15	1.19	1.33
Quick ratio	1.06	0.99	0.86	0.93	0.82
Cash ratio	0.92	0.58	0.71	0.78	0.52
Cash conversion cycle (days)					
Days of outstanding receivable	3.6	4.3	4.6	4.6	4.9
Days of inventory on hand	39.2	37.8	43.0	42.4	41.6
Days of outstanding payable	60.8	59.0	61.6	63.3	62.3
CCC	(17.9)	(16.8)	(14.0)	(16.3)	(15.8)
Leverage ratios (%)					
Total debt/Equity	31.14	5.43	6.68	5.99	5.00
Total debt/Total assets	15.94	3.20	3.47	3.21	3.37

Source(s): Company, ABCI Securities estimates



Shuanghui Development (000895 CH)

A leader despite challenging market outlook for 2020

- We believe the Group would be able to navigate persistently high raw material costs brought by the supply-side constraint of pork and the increase in US imports by leveraging its leadership position to adjust product pricing levels and its parent's US operation
- 3Q19 results show a rising pork price is supportive to growth and margins
- Expect in FY18-21E revenue CAGR of 19.0% and margins to improve
- Maintain **BUY**; current TP represents 21.66x/16.96x 19E/20E P/E, or 9.60x/9.09x 19E/20E P/B

Multiple challenges to surface in 2020. Pork price will remain high and inflation pressure will persist in 2020, in our view. Potential increase in pork product imports in light of the the Sino-US Phase I trade agreement would boost market supply but the demand gap stemming from decline in hog and breeding sow inventory would not be completely filled in 2020. Aside from upward cost pressure of raw material, the influx of the US imported pork products in 2020 would stiffen competition. Nonetheless, pricing level adjustment supported by the inflation and product portfolio adjustment would help the Group offset the impact of raw material cost inflation. In addition, compared to its peers, the US operation of its parent enables the Group to embrace the new supply dynamics brought by the increase in US agricultural imports.

3Q19 results supported by favorable macro condition. Revenue, gross profit, and net profit (to shareholders of the Company) increased by 28.1% YoY, 14.0% YoY, and 23.9% YoY. The revenue growth was mainly supported by the 44% YoY increase of the fresh meat segment revenue. GPM, OPM, and NPM (to shareholders of the Company) were 19.14%, 12.0%, and 9.3%, slightly better than 2Q19. 3Q19 results show the increased pork price had been supportive to growth. The margin recovery reflects the Group's ability to raise prices amid risen raw material cost.

Expect FY18-21E revenue CAGR to reach 19.0%. We expect the revenue CAGR of packaged meat products and fresh meat segments in 2018-21E to be 8.6% and 25.2%. Supported by pricing level and product portfolio adjustments, GPM and NPM (to owners of the Company) would increase from 21.6% and 10.0% in FY18 to 23.5% and 11.7% in FY21E.

Maintain BUY, TP at RMB 39.5. We believe that the Group's leadership position would provide defensiveness in the challenging market and it is well-positioned to embrace the challenges brought by the increase of US agricultural product imports. Based on our DCF model, we set our TP at RMB 39.5, which represents 21.66x/16.96x 19E/20E P/E, or 9.60x/9.09x 19E/20E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Product quality/safety risk; 4) Risk of changing consumer tastes; 4) Inflation risk; 5) Commodity price risk.

Results and Valuation

FY ended Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	50,578	48,932	57,724	69,261	82,361
Chg (% YoY)	(2.44)	(3.26)	17.97	19.99	18.91
Net Profit (RMB mn)	4,319	4,915	6,018	7,683	9,601
Chg (% YoY)	(1.95)	13.78	22.45	27.66	24.97
Basic EPS (RMB)	1.31	1.49	1.82	2.33	2.91
Chg (% YoY)	(1.91)	13.78	22.45	27.66	24.97
P/E (x)	25.23	22.18	18.11	14.19	11.35
BVPS (RMB)	4.43	3.93	4.11	4.35	4.64
P/B (x)	7.46	8.40	8.03	7.60	7.12
DPS (RMB)	1.10	1.45	1.64	2.10	2.62
Yield (%)	3.33	4.39	4.97	6.34	7.93
ROAA (%)	19.12	21.63	25.52	30.28	34.29
ROAE (%)	28.29	33.36	41.74	50.00	57.99

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Feb 11, 2020

Rating: BUY

TP: RMB 39.5

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Share price (RMB)	33.03
52Wk H/L(RMB)	35.2/21.17
Est. share price return	19.59%
Est. dividend yield	4.39%
Est. total return	23.98%
Previous rating & TP	BUY; RMB26.4
Previous report date	Aug 22, 2019

Source(s): ABCI Securities

Key Data

Issued shares (mn)	3,319.28
Mkt cap (HK\$ mn)	109,635.89
3-mth ADT (RMBmn)	521.23

Shareholding (%)	
Shuanghui Development	58.92
Rotary Vortex	13.90
HK Securities Clearing Co	3.64
China Securities Finance Corp	1.75

Source(s): Bloomberg, Company

% to total revenue	FY19E
Packaged meat products	43.75
Fresh meat products	62.14
Others	5.07

Source(s): ABCI Securities estimates

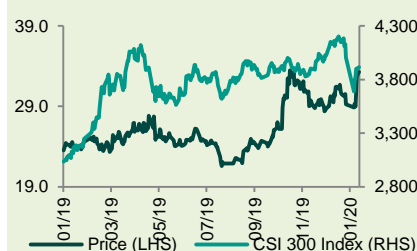
Price Performance (%)

	Absolute	Relative*
1-mth	5.06	10.99
3-mth	(1.31)	0.10
6-mth	51.17	43.14

* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

1-Year price performance(RMB)



Source(s): Bloomberg, ABCI Securities

Note: 1) All pricing and market data as of Feb 10, 2020



Exhibit 1: Quarter figures of the Group

FY ends at Dec 31 (RMB mn, excl. EPS data)	1Q18A	2Q18A	3Q18A	1Q19A	2Q19A	3Q19A
Revenue	12,060	11,672	12,922	11,974	13,481	16,557
Core revenue	11,994	11,627	12,881	11,960	13,473	16,553
Meat product	5,630	5,792	6,250	5,864	6,039	6,816
Fresh meat	7,051	6,902	7,502	7,007	8,032	10,548
Others	696	545	770	616	752	1,037
GP	2,426	2,719	2,780	2,519	2,443	3,170
Core GP	2,365	2,680	2,741	2,511	2,448	3,185
OP	1,349	1,581	1,616	1,522	1,320	1,993
Meat product	1,066	1,268	1,321	969	973	1,466
Fresh meat	231	261	195	536	291	483
Others	47	55	100	14	56	80
NP (to owners of the Company)	1,064	1,321	1,246	1,279	1,102	1,544
EPS – basic (RMB)	0.3224	0.4005	0.3754	0.3877	0.3341	0.4651

Source(s): The Group, ABCI Securities

Exhibit 2: Quarterly financial performance of the Group

FY ends at Dec 31	1Q18A	2Q18A	3Q18A	1Q19A	2Q19A	3Q19A
Growth (YoY %)						
Revenue	(1.38)	(1.23)	(2.80)	(0.71)	15.50	28.13
Core revenue	(1.78)	(1.34)	(2.96)	(0.28)	15.88	28.51
Packaged meat product	7.44	1.78	0.46	4.16	4.26	9.04
Fresh meat	(9.38)	(5.44)	(6.60)	(5.21)	26.90	43.95
Others	21.54	22.57	11.20	(1.25)	21.84	72.53
GP	16.76	11.93	(0.49)	3.86	(10.14)	14.04
Core GP	14.68	11.65	(1.26)	6.18	(8.66)	16.21
OP	21.82	16.71	(2.75)	3.16	(18.08)	17.76
Packaged meat product	11.17	4.92	(5.59)	(9.12)	(23.27)	10.96
Fresh meat	123.74	116.48	(3.03)	131.88	11.52	147.19
Others	34.06	163.76	51.47	(69.22)	1.03	(19.78)
NP (to owners of the Company)	21.09	28.87	(0.06)	19.36	(14.50)	23.86
EPS - basic	21.07	28.86	(0.66)	20.25	(16.58)	23.89

Profitability (%)

GPM	20.11	23.30	21.51	21.04	18.12	19.14
Core GPM	19.72	23.05	21.28	21.00	18.17	19.24
OPM	11.19	13.55	12.51	12.71	9.79	12.04
Packaged meat product	18.94	21.89	21.14	16.52	16.11	21.51
Fresh meat	3.28	3.78	2.60	7.65	3.62	5.36
Others	12.31	14.51	24.06	3.84	12.03	11.19
NPM (to owners of the Company)	8.82	11.32	9.64	10.68	8.18	9.32

Source(s): The Group, ABCI Securities

Exhibit 3: Projection change

	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
	Previous projection (report date: Aug 22, 2019)			Current projection		
Revenue (RMB mn)	52,878	57,226	62,067	57,724	69,261	82,361
Gross profit (RMB mn)	11,176	12,007	13,071	12,699	15,803	19,343
Net profit (to shareholders of the Company) (RMB mn)	5,052	5,458	6,050	6,018	7,683	9,601
GPM (%)	21.14	20.98	21.06	22.00	22.82	23.49
NPM (to shareholders of the Company) (%)	9.55	9.54	9.75	10.43	11.09	11.66
ROAA (%)	21.89	22.74	23.80	25.52	30.28	34.29
ROAE (%)	35.21	36.20	38.12	41.74	50.00	57.99

Note: The enhanced revenue and profit projection mainly reflects the Phase I trade deal, the Group's synergy with its parent, and the continued increase in pork price in China

Source(s): ABCI Securities estimates



Financial statements

Consolidated income statement (FY17A-FY21E)

FY ends at Dec31 (RMB mn, except per share data)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	50,578	48,932	57,724	69,261	82,361
Core revenue	50,447	48,767	57,666	69,192	82,279
- Packaged meat product	22,659	23,211	25,230	27,379	29,761
- Fresh meat	30,407	28,917	35,833	45,302	56,778
- Others	2,316	2,576	2,922	3,334	3,854
- Intersegment elimination	(4,935)	(5,937)	(6,318)	(6,823)	(8,114)
Interest income	131	164	58	69	82
Commission and processing income	0	0	0	0	0
COGS	(40,907)	(38,324)	(45,018)	(53,450)	(63,009)
GP	9,658	10,585	12,699	15,803	19,343
Core GP	9,540	10,444	12,648	15,742	19,270
- Packaged meat product	6,912	7,031	7,617	8,241	8,860
- Fresh meat	2,147	2,878	4,437	6,785	9,579
- Others	476	555	598	723	846
- Intersegment elimination	5	(20)	(5)	(7)	(14)
GP of interest income	119	142	52	62	74
GP of Commission and processing income	(1)	(1)	(1)	(1)	(1)
Business levy and taxes	(346)	(343)	(405)	(486)	(578)
S&D expenses	(2,402)	(2,632)	(3,068)	(3,735)	(4,486)
Admin expenses	(1,070)	(1,129)	(1,334)	(1,606)	(1,931)
Others	(254)	(342)	(609)	(652)	(880)
Operating profit	5,528	6,065	7,283	9,323	11,467
- Packaged meat product	4,695	4,747	5,087	5,526	6,001
- Fresh meat	617	1,049	2,289	2,911	3,685
- Others	211	289	263	303	367
Net finance income/(costs)	(55)	(55)	(58)	(52)	(42)
Others	(45)	(323)	(85)	(87)	(102)
Pretax profit	5,759	6,332	7,750	9,836	12,204
Tax	(1,249)	(1,255)	(1,498)	(1,863)	(2,240)
Net profit	4,511	5,076	6,251	7,974	9,964
- Owners of the company	4,319	4,915	6,018	7,683	9,601
- Minority interest	191	162	233	291	364
Dividend	3,630	4,784	5,416	6,914	8,641
EPS (RMB)					
- Basic	1.3091	1.4894	1.8239	2.3284	2.9097
- Diluted	1.3091	1.4894	1.8239	2.3284	2.9097
DPS (RMB)	1.10	1.45	1.64	2.10	2.62

Source(s): The Group, ABCI Securities estimates



Consolidated balance sheet (FY17A-FY21E)

FY ends at Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash and cash equivalent	6,163	2,618	1,612	4,469	5,347
Trade and bills receivable	161	162	228	233	322
Inventories	2,928	4,228	9,036	7,796	11,588
Others	764	2,753	1,661	1,593	1,438
Current assets	10,017	9,761	12,536	14,091	18,694
PP&E	11,500	11,098	10,742	10,237	9,725
Construction in progress	154	112	101	91	83
Biological assets	69	66	68	67	66
Intangible assets	1,005	942	967	995	1,024
Others	345	369	400	445	477
Non-current assets	13,073	12,587	12,279	11,835	11,375
Total assets	23,089	22,348	24,815	25,926	30,069
Trade and bills payable	1,848	1,928	3,270	2,099	4,662
ST borrowings	1,942	2,323	3,368	3,274	3,431
Others	3,616	3,880	3,139	4,445	4,530
Current liabilities	7,407	8,131	9,777	9,817	12,623
LT borrowings	5	5	17	13	12
Deferred tax liabilities	67	73	92	107	118
Others	142	139	73	72	72
Non-current liabilities	215	218	182	191	202
Shareholders' equity	14,617	12,974	13,576	14,344	15,304
Minority interest	850	1,025	1,258	1,549	1,913
Total equity	15,467	13,999	14,834	15,894	17,217
Total liabilities and equity	23,089	22,348	24,794	25,902	30,043

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (FY17A-FY21E)

FY ends at Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Net profit	4,511	5,076	6,251	7,974	9,964
Depreciation and amortization	957	976	1,008	1,035	1,055
Change in working capital	(83)	(1,409)	(3,548)	109	(1,345)
Others	265	552	448	753	717
Cash flow from operating activities	5,650	5,195	4,160	9,870	10,391
PP&E	(447)	(449)	(756)	(623)	(638)
Investments	49	(1,801)	3,013	4,219	3,192
Others	(3)	0	0	0	0
Cash flow from investing activities	(402)	(2,251)	2,257	3,595	2,554
Bank borrowing	1,727	379	1,058	(99)	156
Others	(4,207)	(6,736)	(5,103)	(5,760)	(7,352)
Cash flow from financing activities	(2,481)	(6,357)	(4,046)	(5,859)	(7,195)
Net change in cash and cash equivalent	2,768	(3,413)	(714)	2,883	898
ForEx effect	(0)	1	4	12	15
Cash and cash equivalent at the end of FY	5,744	2,332	1,622	4,517	5,429

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios (FY17A-FY21E)

FY ends at Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Growth (YoY %)					
Revenue	(2.44)	(3.26)	17.97	19.99	18.91
Core revenue	(2.65)	(3.33)	18.25	19.99	18.91
- Packaged meat products	0.36	2.44	8.70	8.52	8.70
- Fresh meat	(4.11)	(4.90)	23.92	26.43	25.33
- Others	5.25	11.23	13.40	14.10	15.60
Gross profit	2.71	9.60	19.96	24.45	22.40
Core GP	1.68	9.47	21.10	24.46	22.41
- Packaged meat products	(1.92)	1.72	8.35	8.19	7.51
- Fresh meat	23.56	34.07	54.18	52.91	41.18
- Others	(20.58)	16.62	7.75	20.81	16.95
EBIT	3.00	10.82	23.17	26.39	23.78
EBITDA	1.60	8.53	17.71	24.92	20.95
Pretax Profit	(1.75)	9.94	22.40	26.92	24.07
Net profit (to owners of the company)	(1.95)	13.78	22.45	27.66	24.97
Profitability ratios (%)					
GPM	19.10	21.63	22.00	22.82	23.49
Core GPM	18.91	21.42	21.93	22.75	23.42
- Packaged meat products	30.50	30.29	30.19	30.10	29.77
- Fresh meat	7.06	9.95	12.38	14.98	16.87
- Others	20.56	21.56	20.48	21.69	21.94
OPM	10.93	12.40	12.62	13.46	13.92
EBITDA margin	12.79	14.35	14.32	14.90	15.16
Pretax margin	11.39	12.94	13.43	14.20	14.82
NPM (to owners of the company)	8.54	10.04	10.43	11.09	11.66
Core revenue contribution (%)					
Packaged meat product	44.92	47.60	43.75	39.57	36.17
Fresh meat	60.27	59.30	62.14	65.47	69.01
Others	4.59	5.28	5.07	4.82	4.68
Return ratios (%)					
ROAA	19.12	21.63	25.52	30.28	34.29
ROAE	28.29	33.36	41.74	50.00	57.99
Liquidity ratio (x)					
Current ratio	1.35	1.20	1.28	1.44	1.48
Quick ratio	0.96	0.68	0.36	0.64	0.56
Cash ratio	0.83	0.32	0.16	0.46	0.42
Cash conversion cycle (days)					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	27	34	54	57	56
Days of outstanding payable	19	17	19	19	18
CCC	10	18	36	40	39
Leverage ratios (%)					
Total debt/Total equity	12.59	16.63	22.82	20.68	20.00
Total debt/Total assets	8.44	10.42	13.64	12.68	11.45
Net cash (debt) /Total equity	27.25	2.07	11.95	7.44	11.06
Net cash (debt) /Total assets	18.26	1.30	7.14	4.56	6.33

Source(s): Company, ABCI Securities estimates



Disclosures

Analyst Certification

I, Pan Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2019 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183