



August 7, 2013
Equity Focus
Rating: HOLD
TP: HK\$ 3.61

H-Share price (HK\$) 3.52
Est. share price return 2.56%
Est. dividend yield 4.00%
Est. total return 6.56%

Previous Rating & TP Hold; HK\$ 3.61
Previous Report Date May 16, 2013

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Key Data

52Wk H/L(HK\$)	3.70/1.05
Issued shares (mn)	3,539
Market cap	12,599
3-mth avg daily turnover (HK\$ mn)	49.6
Major shareholder(s) (%):	
Mengniu	65.4
Zhang Int' Investment	9.9

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Yashili pediatric milk formula products	70.6
Scient pediatric milk formula products	17.1
Nutrition products	12.0
Others	0.2

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	2.6	(2.4)
3-mth	7.3	13.7
6-mth	34.1	41.6

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Yashili (1230 HK)
Better product mix to drive growth

- Yashili's 1H13 results were in line with expectation - net profit was up 34.1%YoY to RMB 293.6mn
- Key takeaways from analyst briefing: 1) Supply chain is not affected by Fonterra incident; 2) Sales will continue be driven by volume growth and better product mix
- Yashili's shareholders might reject Mengniu's offer, hence Yashili might maintain its listing status.
- Maintain HOLD with TP HK\$3.61, which represents 18.3x FY13E P/E and 3.16x FY13E P/B

Results. Yashili reported sales for 1H13 increased by 27.5%YoY to RMB 2,152.9mn. Net profit for 1H13 increased by 34.1%YoY to RMB 293.6mn, which is in line with expectation. The increase in net profit was mainly contributed by a slight expansion in GP margin. Yashili launched new high-end products including Golden Ambery and Super α -Golden since mid-2012. As a result of better product mix and a decrease in average cost of raw milk powder, Yashili's GP margin increased to 55.4% in 1H13 from 54.3% in 1H12 or 53.1% in 2H12.

Minimal impact caused by Fonterra incident. Management affirmed that China has not banned dairy products imports from New Zealand. We believe the Group can sustain its production for at least five to six months even if China is to restrict imports from New Zealand given the Group's healthy inventory balance. As at 1H13, Yashili's inventory increased by 26.9% to RMB 828.4mn, representing inventory turnover days of 155 days.

Mengniu acquisition. Mengniu offers to buy the remaining 25% of Yashili's stakes, giving shareholders the option to sell at (1) HK\$3.50/share in cash, or (2) HK\$ 2.82/share in cash plus 0.681 share of the private company holding Yashili's shares. We notice that Yashili's share price has been trading above Mengniu's offering price of HK\$3.50 since Aug 1. Yashili's shareholders might reject Mengniu's offer, hence Yashili might maintain its listing status. Latest time and date for acceptance of the share offer and the option offer will be at 4pm on Aug 13, while the share offer can become or be declared unconditional as to acceptances by 7pm on Sep 19 the latest.

Maintain HOLD. We expect Mengniu's offering price will be a strong support level of Yashili's share price in the short term. Based on our DCF model with 7.8% WACC, we value the stock at HK\$ 3.61, which represents 18.3x FY13E P/E and 3.16x FY13 P/B. Maintain HOLD.

Risk factors: Food Safety; inventory risks; supply risks; uncertain listing status in near future; current share price positively biased by takeover bid.

Results and Valuation

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (RMB mn)	2,954	2,958	3,655	4,335	5,081
Chg (% YoY)	14.2	0.1	23.6	18.6	17.2
Net Income (RMB mn)	502	306	468	560	674
Chg (% YoY)	24.1	(39.0)	53.0	19.5	20.5
EPS (RMB)	0.144	0.087	0.133	0.158	0.191
Chg (% YoY)	-	(39.2)	52.4	18.9	20.5
BVPS (RMB)	1.066	1.084	1.158	0.915	0.994
P/E (x)	-	-	21.2	17.9	14.8
P/B (x)	-	-	2.4	3.1	2.8
ROE (%)	20.06	8.13	11.89	15.30	19.96
ROA (%)	14.99	6.71	9.17	10.74	12.97
DPS(RMB)	-	0.057	0.396	0.111	0.134
Yield (%)	-	-	14.0	4.0	4.8
Net gearing* (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates



Exhibit 1: Yashili's 1H13 results

P&L	1H13	1H12	2H12	HoH Chg	YoY Chg	Remarks
	RMB mn	RMB mn	RMB mn	(%)	(%)	
Turnover	2,153	1,966	1,689	9.5	27.5	- About 20% of the positive change can be attributed to higher sales volume and 7% growth f to better product mix
Cost of Sales	(961)	(921)	(772)	4.3	24.4	
Gross Profit	1,192	1,045	917	14.1	30.0	
Gross Margin (%)	55	53	54	2.2ppt	1.1ppt	- Improve due to lower milk powder cost and better product mix
Other revenue	11	19	19	(44.4)	(42.9)	
Other net loss	(0)	(0)	(0)	71.3	57.8	
Selling and distribution costs	(712)	(657)	(566)	8.4	25.9	
Administrative expense	(114)	(104)	(98)	9.9	16.1	
Other expenses	(3)	(2)	(13)	57.7	(72.4)	
EBIT	373	301	259	23.9	44.0	
EBIT Margin (%)	17	15	15	2.0ppt	2.0ppt	
Finance income	42	42	48	(1.5)	(12.7)	
Finance costs	(4)	(2)	(1)	73.7	432.2	
Net finance income/(costs)	38	40	47	(5.5)	(19.2)	
Profit before tax	410	341	306	20.5	34.3	
Tax	(115)	(90)	(86)	28.2	33.9	
Profit after tax	295	251	220	17.7	34.5	
Minority Interest	(2)	(1)	(1)	27.2	166.4	
Net profit	294	250	219	17.6	34.1	
Net profit margin (%)	14	13	13	0.9ppt	0.7ppt	
Formula milk sales breakdown						
First-tier cities						
Second-tier cities	190	193	187	(1.4)	1.9	
Third-tier cities	843	811	735	3.8	14.7	- Third-tier cities are Yashili's major targeted regions
Total	857	678	528	26.3	62.2	
	1,889.50	1,682.50	1,449.20	12.3	30.4	
First-tier cities (%)	10.1	11.5	12.9	1.4	1.4	
Second-tier cities (%)	44.6	48.2	50.7	3.6	2.5	
Third-tier cities (%)	45.3	40.3	36.4	(5.0)	(3.9)	
Total	100.0	100.0	100.0	0.0	0.0	
Cash position						
	Jun-13	Dec-12	Jun-12	HoH Chg	YoY Chg	Remarks
	RMB mn	RMB mn	RMB mn	(%)	(%)	
Gross debt	62	331	82	(81.2)	(24.1)	
Cash	1,935	2,073	1,625	(6.7)	19.0	
Net debt	(1,873)	(1,742)	(1,544)	7.5	21.3	- Maintain a net cash position
Key indicators						
Current ratio	1.5	2.8	3.5			
Inventory turnover days	155	141	135			
Trade receivable turnover days	2	3	2			
Trade payable turnover days	177	189	175			

Source(S): Company, ABCI Securities



Consolidated income statement (2010A-2014E)

FY Ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Revenue	2,954.4	2,957.8	3,655.1	4,335.1	5,080.7
Cost of sales	(1,272.6)	(1,419.5)	(1,693.5)	(2,059.2)	(2,387.9)
Gross profit	1,681.7	1,538.3	1,961.7	2,341.0	2,769.0
Other revenue	61.2	28.7	37.6	50.0	50.0
Other net loss	(0.6)	(0.3)	(0.4)	0.0	0.0
S&D	(957.5)	(1,061.9)	(1,222.7)	(1,430.6)	(1,651.2)
Admin expenses	(182.8)	(185.5)	(202.1)	(238.4)	(279.4)
Other expenses	(11.5)	(6.5)	(14.7)	(26.0)	(30.5)
EBIT	590.6	313.0	559.4	695.9	857.8
Finance income	11.9	65.1	89.7	104.0	104.0
Finance costs	(13.0)	(2.7)	(2.8)	(28.0)	(31.9)
EBT	589.5	375.4	646.3	772.0	930.0
Tax	(86.3)	(67.0)	(175.9)	(210.0)	(253.0)
MI	(0.8)	(2.2)	(2.0)	(2.2)	(2.7)
Net profit attributable to owners	502.4	306.3	468.5	559.7	674.3
D&A	75.4	79.2	81.8	118.9	153.9
EBITDA	666.0	392.2	641.2	814.9	1,011.8
Dividends	234.7	200.1	1400.3	393.4	473.9
No. of issued shares at end of period (mn)	3,500.0	3,508.9	3,522.9	3,539.2	3,539.2
Issuable shares:					
Share options	0.0	0.0	0.0	20.0	20.0
Total issued & issuable shares	3,500.0	3,508.9	3,522.9	3,559.2	3,559.2
Per share value (RMB)					
FD EPS	0.144	0.087	0.133	0.158	0.191
NBV	1.066	1.084	1.158	0.915	0.994
DPS	-	0.057	0.396	0.111	0.134

Source(s): Company, ABCI Securities estimates

Key Ratio (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Profitability ratio (%)					
Gross profit margin	56.9	52.0	53.7	54.0	54.5
EBIT margin	20.0	10.6	15.3	16.1	16.9
EBITDA margin	22.5	13.3	17.5	18.8	19.9
Net profit margin	17.0	10.4	12.8	12.9	13.3
ROAA	15.0	6.7	9.2	10.7	13.0
ROAE	20.1	8.1	11.9	15.3	20.0
Cost ratio (%)					
S&D/revenue	(32.4)	(35.9)	(33.5)	(33.0)	(32.5)
Admin expenses/revenue	(6.2)	(6.3)	(5.5)	(5.5)	(5.5)
Effective tax rate	(14.6)	(17.8)	(27.2)	(27.2)	(27.2)
Leverage					
Current ratio	5.01	4.47	2.76	2.42	2.09
Quick ratio	4.45	3.75	2.31	1.93	1.65
Net debt/total equity	Net cash	Net cash	Net cash	Net cash	Net cash
Working capital cycle					
Receivables turnover days	16.8	15.1	3.0	3.5	4.0
Inventory turnover days	97.9	124.5	141.2	130.0	130.0
Payables turnover days	163.9	156.9	188.5	190.0	190.0

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2010A-2014E)

As of Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
PPE	706.6	729.5	743.9	1,228.2	1,574.3
Others	286.0	310.0	825.0	825.0	825.0
Non-current assets	992.5	1,039.5	1,568.8	2,053.2	2,399.2
Inventories	390.8	577.7	652.9	767.6	879.1
Trades and bills receivable	192.3	52.3	26.8	56.4	55.0
Prepayments and deposits	102.0	138.1	135.7	196.9	192.9
Others	43.8	254.3	500.5	500.5	500.5
Cash and bank balances	2,759.3	2,581.6	2,073.2	664.0	907.1
Short-term bank deposits	0.0	0.0	612.0	612.0	612.0
Current assets	3,488.2	3,604.1	4,001.0	2,797.3	3,146.6
Trade and other payables	499.9	720.1	1,028.6	1,047.5	1,359.2
ST loans	158.4	31.4	330.9	430.9	530.9
Others	37.8	54.8	91.4	91.4	91.4
Current liabilities	696.2	806.3	1,450.9	1,569.8	1,981.5
Deferred income	42.9	30.7	18.6	18.6	18.6
Deferred tax liabilities	11.7	2.6	18.0	18.0	18.0
Non-current liabilities	54.6	33.3	36.6	36.6	36.6
Total assets	4,480.7	4,643.6	5,569.9	4,850.5	5,545.8
Net assets	3,729.9	3,804.0	4,082.3	3,244.0	3,527.7
Issued capital	300.7	301.5	302.6	302.6	302.6
Reserves	3,430.1	3,501.2	3,776.5	2,935.9	3,216.9
MI	(0.9)	1.3	3.3	5.5	8.2
Total equity	3,729.9	3,804.0	4,082.3	3,244.0	3,527.7
Equity attributable to owners	3,730.8	3,802.7	4,079.1	3,238.5	3,519.5

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
EBITDA	666.0	392.2	641.2	814.9	1,011.8
Change in working capital	(340.8)	144.6	253.1	(186.5)	205.5
Others	18.2	3.9	5.0	0.0	0.0
Cash (used in)/generated from operations	343.5	540.7	899.3	628.4	1,217.2
Income tax paid	(30.5)	(82.4)	(127.3)	(210.0)	(253.0)
CF from operating activities	313.0	458.3	772.0	418.4	964.3
CAPEX	(52.7)	(106.5)	(208.2)	(600.0)	(500.0)
Others	1.7	(122.9)	(936.7)	104.0	104.0
Cash flows from investing activities	(51.0)	(229.4)	(1,144.9)	(496.0)	(396.0)
Net borrowing	173.1	36.2	361.3	100.0	100.0
Proceeds from issue of shares	1,965.8	0.0	0.0	0.0	0.0
Dividends paid	0.0	(234.7)	(200.1)	(1,400.3)	(393.4)
Interest paid	(12.9)	(2.6)	(2.7)	(28.0)	(31.9)
Others	(285.7)	(202.6)	(288.9)	(3.2)	0.0
Cash flows from financing activities	1,840.4	(403.7)	(130.4)	(1,331.5)	(325.2)
Net (decrease)/increase in cash and cash equivalents	2,102.4	(174.8)	(503.3)	(1,409.1)	243.1
Cash and cash equivalents at beginning of year/period	660.6	2,759.3	2,581.6	2,073.2	664.0
Effect of foreign exchange rates, net	(3.8)	(2.9)	(5.1)	0.0	0.0
Cash and cash equivalents at end of year/period	2,759.3	2,581.6	2,073.2	664.0	907.1

Source(s): Company, ABCI Securities estimates



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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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