



Apr 13, 2015
Company Report
Rating: BUY
TP: HK\$ 3.80

H-Share price (HK\$) 3.24
Est. share price return 17.25%
Est. dividend yield 0.49%
Est. total return 17.74%

Previous Rating & TP N/A
Previous Report Date Resume coverage

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Key data

52Wk H/L(HK\$)	4.19/1.88
Outstanding shares (mn)	4,827.34
Market cap (HK\$ mn)	15,640.58
3-mth avg daily turnover (HK\$ mn)	47.68
Major shareholder(s) (%):	
Zhao Hongyu	27.92
Hongliang Zhao	13.90
Credit Suisse AG	9.25
China Mengniu Dairy	5.12

Source(s): Bloomberg, ABCI Securities

Revenue contribution of business segments

(%)	FY13	FY14
Dairy farming	90.23	83.43
Liquid milk product	9.77	16.57

Source(s): Company, ABCI Securities

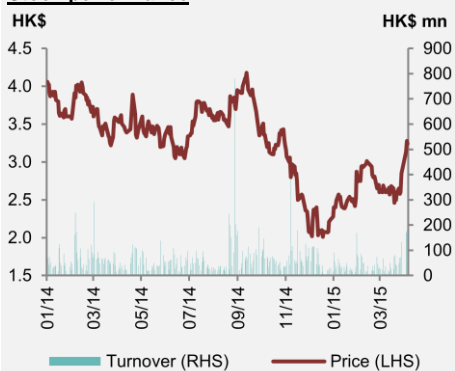
Share price performance (%)

	Absolute	Relative*
1-mth	24.62	10.07
3-mth	28.06	14.90
6-mth	1.25	(17.48)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Stock performance



Source(s): Bloomberg, ABCI Securities

Note: All pricing information is based on closing price on Apr. 10, 2015

Modern Dairy (1117 HK)

Positive earnings outlook despite industry overhang; reinstate with BUY

- FY14 sales, gross profit, and net profit grew by 52.82% YoY, 89.33% YoY, and 52.86% YoY; GPM, OPM, and NPM reached 37.11%, 20.17%, and 14.63%
- Improvement in product diversification led to changes in revenue contribution; revenue contributions of dairy farming business and liquid milk product business were 83.43% and 16.57% in FY14 vs. 90.23% and 9.77% in FY13
- Receivable turnover increased slightly to 39.92 days in FY14, while inventory and payable turnover both declined to 76.88 days and 97.11 days. Overall cash conversion cycle indicates efficient capital management
- The Group's FY14 debt-to-asset and debt-to-equity ratios were relatively stable compared to FY13; ROAA and ROAE improved to 5.51% and 11.75% in FY14.
- We expect the Group would diversify its product portfolio, improving its profitability and return in FY15

Volume growth and product diversification to drive FY15 performance. We expect Modern Dairy to perform in FY15. For the upstream business, We expect ASP of raw milk to decline to RMB 4,338/ ton on market competition, while sales volume would grow by 11.26% YoY to 931,524 tons. For the downstream business, overall liquid milk ASP would reach RMB 10,147/ ton, and the UHT milk ASP would be stable; total sales of liquid milk product would grow by 70.8% YoY to reach RMB 1,422.19mn. Notably, we expect contribution of liquid milk product segment to each 26.03% in FY15.

Herd expansion and improved milk yield. By end-FY14, Modern Dairy has 93,929 heifers and calves and 107,578 milkable cows. Total herd size reached 201,507. Based on the expected raw milk production volume in FY15E, we project the no. of milkable cows would grow by 16.74% YoY and the no. of heifers and calves would remain stable by end-FY15E. For milk production, we expect average annual milk yield to rise to 9.2 tons and total raw milk production would reach ~1mn tons.

Earnings outlook. We believe that the Group would be able to improve its profitability and manage its liquidity. OPM and NPM would continue to improve to 24.91% and 19.43% in FY15E, though GPM would decline to 33.78% in FY15E. ROAA, ROAE, and ROIC would improve to 6.79%, 14.73%, and 9.08% in FY15E. We expect that the cash conversion cycle would be lengthened to 30.5 days.

Reinstate with BUY; TP at HK\$ 3.80. Based on DCF and market multiples, we derive our TP at HK\$ 3.80, which represents an upside of 17.25% from its current price and 13.8x FY15E P/E. We believe Group's upbeat business development, combined with its proven track record of efficient farm and production management would enable it to perform well going forward. Hence, we resume our coverage with a BUY rating.

Risk factors: 1) Food safety risk; 2) Farm management risk; 3) Customer concentration risk; 4) Regulatory risk; 5) Input and output price volatility risk.

Results and Valuation

FY ended Dec 31	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (RMB mn)	3,289.28	5,026.71	5,462.89	7,007.85	9,225.13
Chg (% YoY)	61.67	52.82	8.68	28.28	31.64
Net Income (RMB mn)	506.99	762.89	1,105.25	1,781.60	3,206.86
Chg (% YoY)	17.67	52.86	44.39	60.78	80.58
Basic EPS (RMB cent)	9.99	15.23	21.99	35.36	63.86
P/E (x)	32.91	11.61	11.78	7.33	4.03
BVPS (RMB)	1.13	1.28	1.50	1.86	2.50
P/B (x)	1.44	1.60	1.88	2.32	3.14
DPS(RMB cent)	N/A	1.00	1.60	2.58	4.65
Yield (%)	N/A	0.45	0.49	0.80	1.44
ROAA (%)	4.25	5.51	6.79	9.21	13.48
ROAE (%)	8.60	11.75	14.73	19.73	27.66

Source(s): The Company, ABCI Securities estimates

FY14 results review

Solid performance

Modern Dairy managed to maintain its high growth in FY14. Total revenue grew by 52.82% YoY to RMB 5,026.71mn from RMB 3,289.28mn in FY13, with dairy farming and liquid milk businesses achieving growth of 41.31% YoY and 159.14% YoY. The strong growth in liquid milk business was driven by sales volume that increased by 203.8% YoY, offsetting the liquid milk ASP decline of 14.7% YoY. Although the increase in ASP and volume tapered in FY14 for the dairy farming business, the higher revenue recorded amid a deteriorating industry environment showed strength of the segment.

Profitability remained stable. GPM improved to 37.11% in FY14 (FY13: 29.95%), while OPM and NPM reached 20.17% and 14.63% in FY14 (FY13 OPM/NPM: 21.63%/14.62%): We believe that the Group's OPM was dragged down by non-core gains and losses.

The Group has successfully diversified its business portfolio. Revenue contribution from external raw milk sales and liquid milk products were 83.43% and 16.57% in FY14 as compared to 90.23% and 9.77% in FY13, demonstrating the Group's capability in expanding its downstream business.

Efficient working capital management with a healthy leverage level

Based on our calculation, the Group's receivable turnover, inventory turnover, and payable turnover reached 39.92 days, 76.88 days, and 97.11 days in FY14 as compared to 38.1 days, 89.62 days, and 102.77 days in FY13. As a result, cash conversion cycle decreased to 19.68 days in FY14 from 24.95 days in FY13. We believe the reduced inventory and receivables turnover showed the Group's quality of growth, while the overall cash conversion cycle indicates the Group's skillful management of working capital..

In FY14, Modern Dairy's debt-to-equity ratio and debt-to-asset ratios slightly decreased to 83.03% and 38.89%. The overall leverage position is still healthy and poses no immediate financial stress to the firm.

Herd size expansion phasing into mature stage with an improving milk yield

As of end-FY14, the no. of heifers and calves grew 6.68% YoY to 93,929. The no. of milkable cows grew 8.89% YoY to 107,578. The total herd size, therefore, grew 7.85% YoY to 201,507 by end-FY14. The pace of herd size expansion was slower in FY14 compared to FY13, indicating the expansion has entered the mature phase. Going forward, production volume would be driven by improving average milk yield, which increased by 5.95% YoY to 8.9 tons in FY14.

Company overview

Modern Dairy is an integrated dairy company with 2 major business segments. For the dairy farms business, the Group manages dairy farms and dairy cows to produce and sell raw milk to dairy product manufacturers in China as well as provide raw material for its downstream production. For the liquid milk business, the Group produces, markets, distributes, and sells liquid milk products including UHT milk and pasteurized milk in China.

By end-2014, the Group had 27 dairy farms, including 25 operating farms and 2 farms under construction. The total herd size was 201,507, including 107,578 milkable cows and 93,929 heifers and calves. The Group's dairy farms span across 8 provinces in China to support its raw milk customers and its nationwide product manufacturing and distribution.

For its upstream business, Modern Dairy's customers include major dairy product manufacturers. Mengniu, its largest customer, accounted for 72.7% of the Group's total external raw milk sales volume in FY14. In terms of downstream business, Modern Dairy has its own-branded liquid milk products, which include UHT milk, pasteurized milk, and chilled yogurt products.

Challenging industry condition in FY15

International market contributes to domestic raw milk price decline

International milk powder futures price has been dragging down domestic raw milk price. Whole milk futures contract prices are currently standing at a level substantially lower than their peaks. Recent rebound in international milk price has been short-lived on improving weather conditions and higher production forecasts. As the weather condition continues to improve, production outlook of milk powder in New Zealand should remain stable for the season, thus extending the decline in international whole milk powder price.

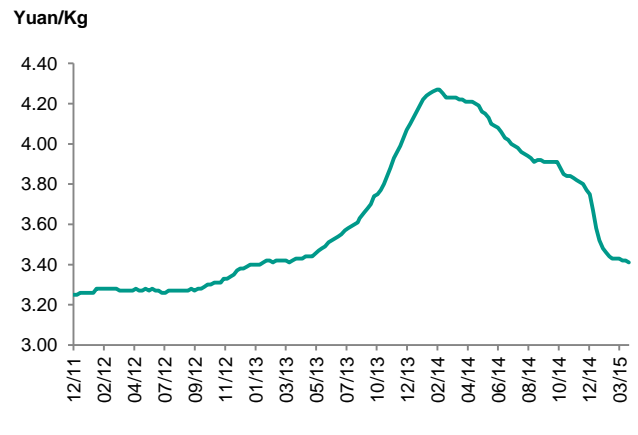
In addition, the EU removed its milk production quota in Apr 2015. For the upstream business, global supply of milk powder is expected to increase, exerting pressure on international milk powder price in the medium-to-long term.

Exhibit 1: New Zealand whole milk powder futures price



Source(s): Bloomberg, ABCI Securities

Exhibit 2: Raw milk price in China continues to decline



Source(s): Wind, ABCI Securities

Raw milk price unlikely to bottom out soon

Raw milk price in China has been declining since mid-Feb 2014, reaching RMB 3.41/ Kg on Apr 1, 2015 and representing a YTD decline of 9.07% and a 20.14% decline from its peak at RMB 4.27/Kg. Even though the decline in raw milk price seems to moderate recently, we expect the international milk powder

price outlook, changes in domestic dairy product manufacturing and the supply-demand situation of dairy products in China would continue to be unfavorable to raw milk price in China.

Based on the recent volatility in international milk powder prices and the domestic raw milk price, we expect the latter would continue to experience a mild decline in Apr before a gradual rebound occurs. Our base case scenario analysis assumes that raw milk price would decline to RMB 3.3/Kg and gradually climb back to RMB 3.6/Kg by end-2015. A more pessimistic projection assumes a steeper decline to RMB 3.1/ Kg, followed by a gradual rebound to RMB 3.5/Kg. We believe an immediate rebound in raw milk price is highly unlikely in the short term, and the price trend for 2015 is likely to follow that of the base case scenario. In our opinion, the average raw milk price in 2015 would reach RMB 3.4/Kg.

Exhibit 3: Scenario analysis of domestic raw milk price for FY15 (RMB/Kg)

Best case scenario	Likelihood: Low
Year-end price target	3.8
Annual average price	3.6
Price trend: Raw milk price would swiftly rebound and increase in the rest of the year	
Base case scenario	Likelihood: High
Year-end price target	3.6
Annual average price	3.4
Price trend: Raw milk price would slightly decrease to RMB 3.3 / Kg and stay flat before gradually rebounding to RMB 3.6 /Kg by end-2015	
Worst case scenario	Likelihood: Medium
Year-end price target	3.5
Annual average price	3.2
Price trend: Raw milk price would decline to RMB 3.1 /Kg and Kg and stay flat before rebounding to RMB 3.5/kg	

Sources: ABCI Securities estimates

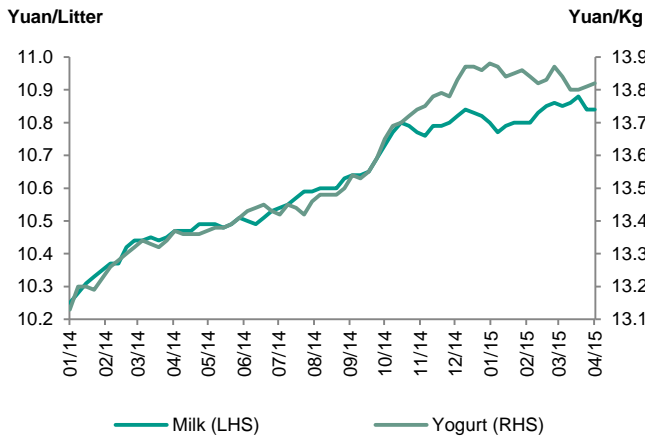
Downstream market is under stress

The downstream market is impacted by the low international milk powder price. Since the international milk powder price started to decline, domestic dairy product manufacturers have switched to imported milk powder for ingredient and increase inventories. As a result, demand for domestic raw milk declines. For milk powder, decline in its price has lengthened the destocking process and the raw milk suppliers and dairy product manufacturers are negatively impacted. Based on the estimated consumption rate and the remaining inventories of milk powder, we expect the destocking process would be completed by end- 3Q15.

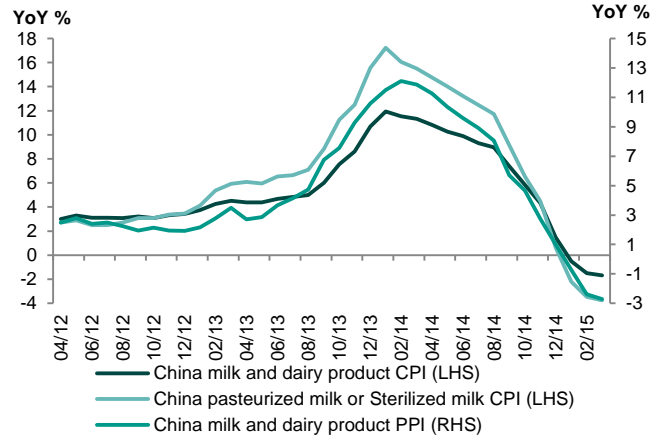
In addition, intensifying competition among China's dairy brands also plays a part in the current situation. Downstream players, to cope with the constant price wars, are adjusting their product mix to increase the use of milk powder, whose cost is lower than that of raw milk. Foreign brands are entering China with highly competitive prices. Due to concerns over quality of domestic dairy products, consumers are more inclined to purchase imported dairy products.

Furthermore, industry production volume indicates a collective reduction of output. Production volume of dairy product and liquid milk decreased by 4.74% YoY and 5.3% YoY in Dec 2014. At the same time, the no. of dairy product manufacturers has remained stable. Therefore, we believe the decline in output volume is a sign that the dairy market size is shrinking.

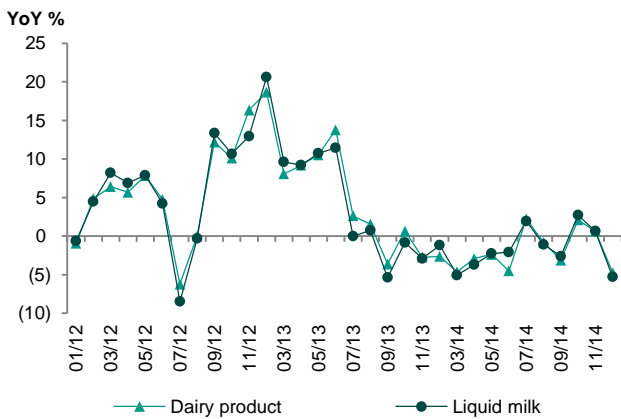
The external and internal impacts have driven down retail prices of dairy products, as indicated by the CPI and PPI of dairy products in negative territory. With the intensifying competition and overall market downturn, we believe outlook for 2015.remained uncertain for the dairy product manufacturers.

Exhibit 4: Retail price of dairy products in China


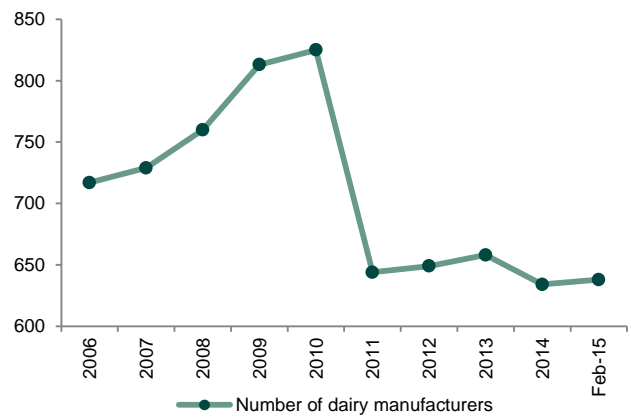
Source(s): Wind, ABCI Securities

Exhibit 5: Milk and dairy product CPI and PPI in China


Source(s): Bloomberg, ABCI Securities

Exhibit 6: Production volume growth in China


Source(s): Wind, ABCI Securities

Exhibit 7: No. of dairy product manufacturers


Source(s): Wind, ABCI Securities

Product portfolio diversification continues

Liquid milk product business to play a more important role

Modern Dairy diversified its product portfolio further in FY14. Revenue contribution from liquid milk business increased to 16.57% in FY14 from 9.77% in FY13. Sales volume of liquid milk products jumped 203.8% YoY while ASP fell 14.7% YoY. We believe it has successfully expanded its downstream business.

In Dec 2014, Modern Dairy launched a new line of pasteurized milk products called "Two Hours" in Beijing. The Group also introduced the chilled yogurt products for a more comprehensive product structure as well as expanding its downstream exposure. The Group has become one of the few national dairy product manufacturers offering a wide range of dairy products. Since these new products are still in their early stage of development, we believe their contribution to growth and margins would not be limited in FY15.

We estimate continuous expansion of sales distribution network and development of new product lines would enable sales volume of liquid milk products to grow by 60.91% YoY to 140,150 tons in FY15E. However, unfavorable raw milk price and competition in downstream environment would continue to suppress overall liquid milk ASP in FY15 to RMB 10,148/ton. ASP of UHT milk products would maintain relatively stable at RMB 9,675 /ton.

Hence, total sales of liquid milk products would grow 70.8% YoY to RMB 1,422.19mn and contribute 26.03% to total sales in FY15E.

Dairy farming business to mature

In the long term, we believe Modern Dairy's large herd size and production scale in the raw milk business would be advantageous amid industry consolidation and regulatory tightening in the industry. However, we believe revenue contribution from dairy farming business would decline as the segment matures and the liquid milk business develops further.

In FY14, external sales of dairy farming business in FY14 continued to deliver a double-digit growth of 41.31% YoY, with a volume growth of 28.79% YoY. Contribution of dairy farming business to the Group's total sales, however, decreased to 83.43% from 90.23% in FY13, indicating the segment is maturing with a slowing volume growth.

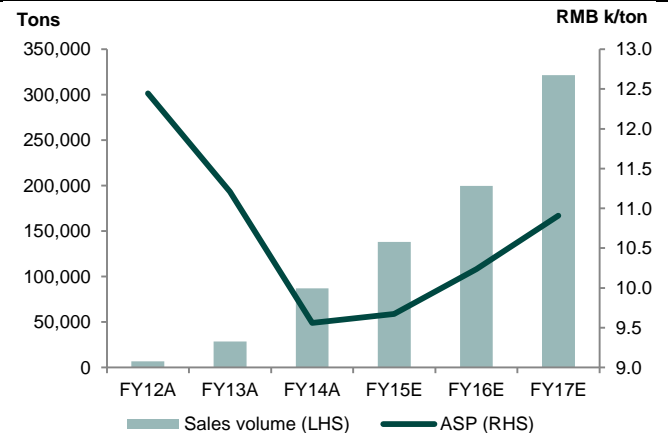
Despite achieving a growth rate of 9.72% YoY, the segment's ASP could be a concern on declining national raw milk price. Hence, we expect external sales of raw milk would be mostly driven by volume growth. In our opinion, the overall ASP of raw milk would decline to RMB 4,338 /ton, while raw milk sales volume would grow by 11.26% YoY to 931,524 ton.

Exhibit 8: External raw milk sales volume and ASP



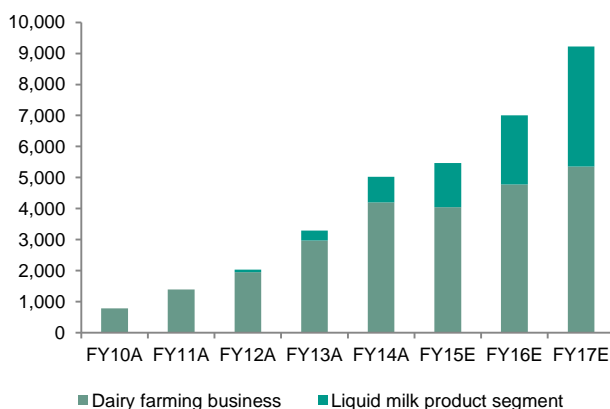
Source(s): Company, ABCI Securities estimates

Exhibit 9: Liquid milk product sales volume and ASP



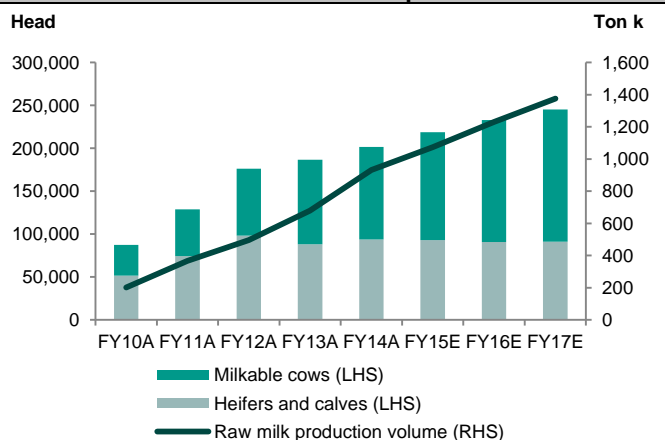
Source(s): Company, ABCI Securities estimates

Exhibit 10: Revenue contribution by business segment



Source(s): Company, ABCI Securities estimates

Exhibit 11: Herd size and raw milk production volume



Source(s): Company, ABCI Securities estimates

Herd expansion to support milk production

As of end-FY14, Modern Dairy has 93,929 heifers and calves as well as 107,578 milkable cows. Its total herd size of 201,507 was the largest among all integrated dairy companies listed in Hong Kong. However, compared to previous years, the growth of its herd size has somewhat slowed down. By end-FY14, total herd size, the no. of milkable cows, and the no. of heifers and calves expanded by 7.85% YoY, 8.89% YoY, and 6.68% YoY, respectively.

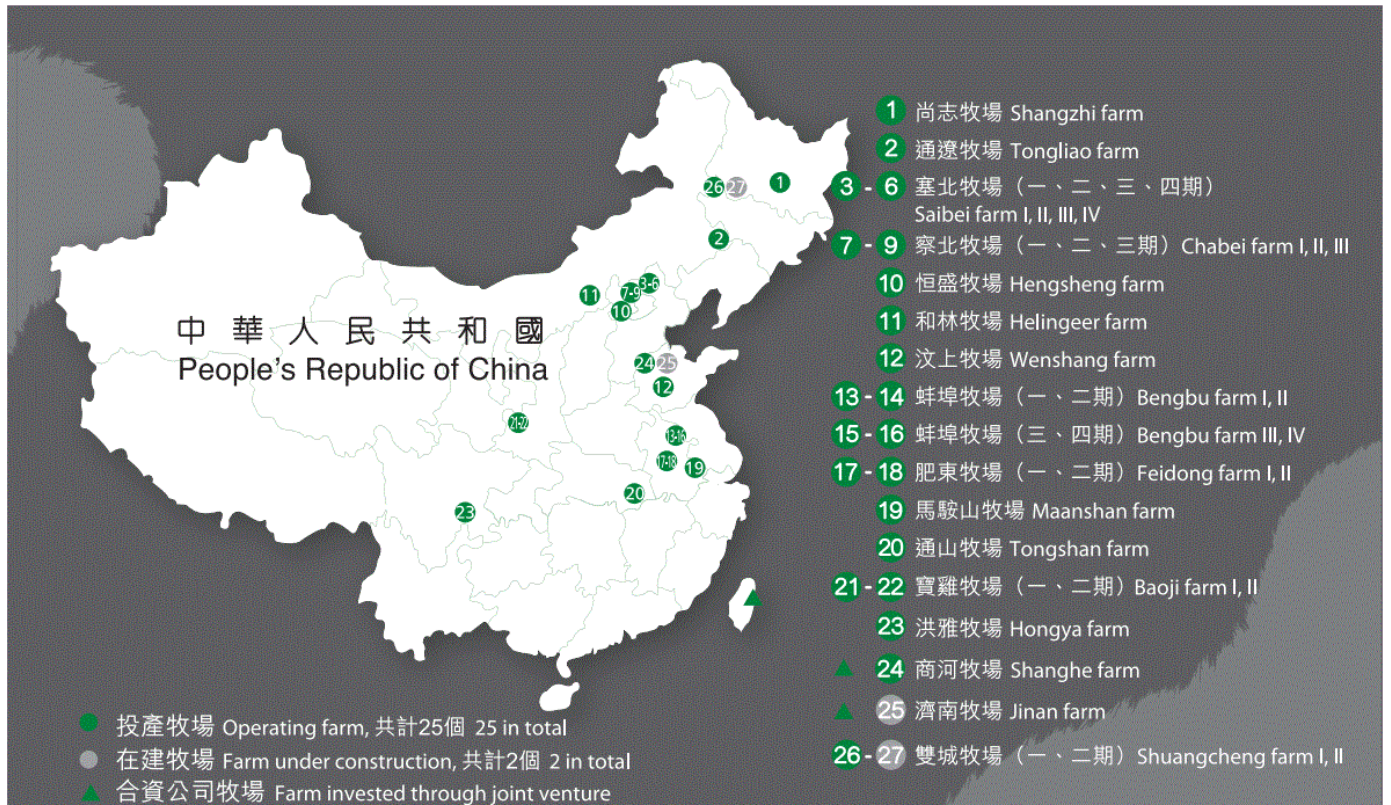
We believe its current herd size should be able to sustain organic growth, reducing the need for external procurement. The Group's herd structure would continue to change into one with a higher proportion of milkable cows while size of calves and heifers would remain stable. We expect the no. of milkable cows would increase by 16.74% YoY and the no. of heifers and calves would remain stable by end-FY15.

Aside from an expanded herd size of milkable cows, the increase in milk yield would be critical for the Group's future expansion. The Group's average annual milk yield of 8.9 tons in FY14 was still lower than those of its peers. For FY15E, we expect the average annual milk yield would reach 9.2 tons and total raw milk production would reach 1.073mn tons.

Geographical diversification

By end-FY14, Modern Dairy had 27 farms spanning from northeastern China to eastern China. Its operating farms increased from 22 in FY13 to 25 in FY14. The expanding geographical coverage of the farms would continue to better serve its two business segments by enhancing the economies of scale.

Exhibit 12: Farm location



Source(s): Company, ABCI Securities

We believe the dispersed farm location would be crucial for the Group's development as a national dairy player. First, it would facilitate raw milk supply for its products, which is a significant advantage over other national dairy product brands. Secondly, it would help to develop a more comprehensive product portfolio, as geographical proximity of dairy farms, production facilities, and the target markets are essential to the development of products such as pasteurized milk and chilled yogurt products. Finally, the dispersion would also reduce concentration risk of dairy farms. Unlike other competitors, Modern Dairy's raw milk product would not be severely disrupted if farms in specific areas have to cease production due to various factors, such as major disease outbreak or natural disasters.

Earnings outlook

We believe Modern Dairy, with its proven track record, continued business development and efficient operation, should be able to withstand the challenges in FY15. The Group's GPM would decline to 33.78% in FY15E from 37.11% in FY14 on lower sales growth; working capital situation would deteriorate as we forecast cash conversion cycle would increase to 30.49 days in FY15 from 19.68 days in FY14, mainly caused by the increase of inventory turnover days to 87.04 days.

Nonetheless, we believe that the Group would improve its OPM and NPM to 24.91% and 19.44% in FY15E from 20.17% and 14.63% in FY14 with its product scale and efficient cost management. As a result, ROAA, ROAE, and ROIC would also improve to 6.79%, 14.73%, and 9.08% in FY15E vs. 5.51%, 11.75%, and 6.88% in FY14.

Reinitiate with BUY with TP of HK\$ 3.80

According to our DCF model, which incorporates a target debt-to-equity ratio of 61.75%, a WACC of 9.56%, and a best/worst case terminal growth of 5%/2%, the target price range for Modern Dairy is between HK\$ 2.53 and HK\$4.47, representing a FY15E P/E range of 9.19x-16.24x. Modern Dairy's comparable peers are currently trading at an average of 13.53x FY15E P/E, and Mengniu is currently trading at a 25.65x FY15E P/E. We set our TP for Modern Dairy at HK\$ 3.80, which represents an upside of 17.25% from its current price and 13.8x FY15E P/E.

We reinitiate our coverage with a **BUY** rating based on Modern Dairy's national development strategy, integrated business model, strong execution capability, and efficient farm and production management.

Risk factors

Food safety risk

Consumers in China are still concerned about the safety and quality of domestic dairy products. Efforts to restore consumer confidence would take time and additional food safety incidents would prolong the process.

Farm management risk

Modern Dairy was involved in a few incidents related to the Group's herd and farm environment management. Potential disease outbreak, procedural errors, omission of quality control, and environmental impacts of dairy farming may lead to disruption of milk production, deterioration of milk quality, product recalls that could be detrimental to the Group's reputation.

Customer concentration risk

Even though the Group has started to diversify its upstream customer base in FY13, Mengniu still accounted for 70%~ of its raw milks sales in FY14. Therefore, any sudden and adverse changes in the industry or Mengniu would affect the Group's business performance.

Regulatory risk

Regulations are expected to tighten as the upstream business consolidates and more downstream product lines emerge in the market. Therefore, compliance costs would increase.

Input and output price volatility risk

International milk powder price and national raw milk price are growing more interrelated as international and domestic dairy markets become increasingly integrated. Recent volatility in the international milk powder price indicates more uncertainty in raw milk and dairy product prices. Also, if costs of feeding, breeding and other related expenses increase, business performance of the Group would be negatively impacted.

Appendix: Financial Statements of the Group

Consolidated income statement (2013A-2017E)

FY 13 ends at Dec 31 (RMB mn, except per share data)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	3,289.28	5,026.71	5,462.89	7,007.85	9,225.13
- Dairy farming business	2,967.96	4,194.02	4,040.69	4,774.79	5,350.74
- Liquid milk business	321.32	832.69	1,422.19	2,233.05	3,874.39
COGS	(2,304.02)	(3,161.35)	(3,617.39)	(4,136.23)	(4,816.09)
Gross profit	985.26	1,865.36	1,845.50	2,871.62	4,409.04
SG&A	(208.67)	(326.47)	(429.57)	(617.31)	(693.21)
Loss from changes in fair value less costs to sell of dairy cows	(82.75)	(329.07)	79.27	25.73	116.57
Other net income/(expense) & gains/(loss)	17.75	(196.17)	(134.61)	(169.67)	(222.61)
Operating profit	711.59	1,013.65	1,360.58	2,110.37	3,609.80
Share of profit from associates	(0.31)	0.21	0.23	0.26	0.28
Net finance costs	(193.71)	(243.50)	(244.87)	(307.42)	(361.23)
Pretax profit	517.57	770.36	1,115.95	1,803.20	3,248.85
Tax	(10.57)	(7.48)	(10.70)	(21.61)	(41.99)
Net profit	506.99	762.89	1,105.25	1,781.60	3,206.86
- Owners of the Company	481.05	735.32	1,061.71	1,707.01	3,082.54
- Minority interest	25.94	27.57	43.54	74.59	124.31
EPS (RMB cents)					
- Basic	9.99	15.23	21.99	35.36	63.86
- Diluted	9.89	15.08	21.25	34.16	61.69
DPS (cents)	0.00	1.00	1.60	2.58	4.65

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	FY13A	FY14A	FY15E	FY16E	FY17E
Cash and bank balances	369.04	556.96	2,061.22	2,644.84	6,704.16
Accounts receivables	544.71	826.77	570.06	1,252.41	1,172.55
Inventories	691.11	640.58	1,084.60	1,078.96	1,058.14
Other current assets	432.20	614.58	311.21	589.19	779.34
Total current assets	2,037.06	2,638.89	4,027.08	5,565.40	9,714.20
PP&E	4,032.64	4,457.97	4,998.01	5,578.44	5,803.56
Biological assets	5,954.36	6,530.81	7,417.70	8,157.67	9,548.08
Land use rights	66.26	64.87	79.54	88.74	92.34
Others	403.49	518.31	554.94	582.24	618.57
Total non-current assets	10,456.76	11,571.96	13,050.19	14,407.10	16,062.54
Total assets	12,493.82	14,210.85	17,077.27	19,972.50	25,776.74
Accounts payables	1,474.25	1,403.00	2,306.23	2,296.80	2,550.54
Short-term debt	2,988.80	2,958.40	2,267.93	2,726.48	3,684.17
Other current liabilities	20.07	14.28	34.25	28.15	55.52
Total current liabilities	4,483.12	4,375.68	4,608.40	5,051.44	6,290.22
Long-term debt	1,959.87	2,829.45	4,053.77	4,964.07	5,934.60
Other non-current liabilities	190.10	349.77	653.89	414.19	802.26
Total non-current liabilities	2,149.96	3,179.22	4,707.66	5,378.26	6,736.86
Total liabilities	6,633.09	7,554.90	9,316.07	10,429.70	13,027.08
Equity attributable to shareholders	5,743.02	6,510.24	7,571.95	9,278.95	12,361.50
Minority interest	117.71	145.71	189.26	263.85	388.16
Total equity	5,860.73	6,655.95	7,761.20	9,542.80	12,749.66
Total liabilities and equity	12,493.82	14,210.85	17,077.27	19,972.50	25,776.74

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2017E)

FY ends at Dec 31 (RMB mn)	FY13A	FY14E	FY15E	FY16E	FY17E
Profit before tax	517.57	770.36	1,115.95	1,803.20	3,248.85
Depreciation	168.86	225.54	230.42	269.34	283.61
Changes in working capital	(363.76)	(138.09)	863.11	(822.62)	593.81
Others	261.50	722.18	306.09	754.79	1,165.94
Cash flow from operating activities	584.16	1,580.00	2,515.57	2,004.72	5,292.21
Interest received	3.42	20.91	32.13	31.49	64.54
Changes in PP&E	(774.08)	(425.33)	(540.04)	(580.43)	(225.12)
Changes in biological assets	(909.12)	(576.45)	(886.89)	(739.97)	(1,390.40)
Others	(244.61)	(181.72)	286.31	(290.71)	(196.68)
Cash flow from investing activities	(1,924.39)	(1,162.59)	(1,108.49)	(1,579.63)	(1,747.65)
Interest paid	(224.64)	(384.93)	(336.19)	(421.52)	(520.76)
Changes in bank borrowing	1,641.26	565.49	786.67	1,358.45	1,908.68
Others	16.00	(410.05)	(305.04)	(701.03)	(748.43)
Cash flow from financing activities	1,432.62	(229.49)	97.17	158.53	514.77
Net changes in cash & cash equivalent	92.39	187.92	1,504.26	583.62	4,059.32
Cash & cash equivalent - beg of FY	276.65	369.04	556.96	2,061.22	2,644.84
Cash & cash equivalent - end of FY	369.04	556.96	2,061.22	2,644.84	6,704.16

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2013A-2017E)

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Segment contribution to sales					
Dairy farming business	90.23	83.43	73.97	68.13	58.00
Liquid milk product business	9.77	16.57	26.03	31.87	42.00
Growth measures (%)					
Sales growth	61.67	52.82	8.68	28.28	31.64
- Raw milk sales growth	52.34	41.31	(3.66)	18.17	12.06
- Liquid milk sales growth	272.49	159.14	70.80	57.02	73.50
Gross profit growth	84.84	89.33	(1.06)	55.60	53.54
Operating profit growth	37.18	42.45	34.23	55.11	71.05
Net profit growth	17.67	52.86	44.39	60.78	80.58
Profitability ratios (%)					
Gross margin	29.95	37.11	33.78	40.98	47.79
- GPM - Raw milk	30.27	41.22	35.42	43.34	54.93
- GPM - Liquid milk	27.00	16.42	29.14	35.92	37.93
Operating margin	21.63	20.17	24.91	30.11	39.13
EBITDA margin	26.77	24.65	29.12	33.96	42.20
Pre-tax margin	15.73	15.33	20.43	25.73	35.22
Total net margin	14.62	14.63	19.43	24.36	33.41
Return ratios (%)					
ROAA	4.25	5.51	6.79	9.21	13.48
ROAE	8.60	11.75	14.73	19.73	27.66
ROIC	5.28	6.88	9.08	13.08	21.01
Dividend yield	N/A	0.45	0.49	0.80	1.44
Liquidity ratio (%)					
Current ratio	45.44	60.31	87.39	110.17	154.43
Quick ratio	30.02	45.67	63.85	88.82	137.61
Cash ratio	17.84	26.74	51.44	63.98	118.93
Cash conversion cycle (days)					
Days of outstanding receivable	38.10	39.92	36.62	38.21	38.25
Days of inventory on hand	89.62	76.88	87.04	95.46	80.98
Days of outstanding payable	102.77	97.11	93.17	111.09	99.60
CCC	24.95	19.68	30.49	22.58	19.63
Leverage ratios (%)					
Total debt/Equity	84.44	83.03	81.45	80.59	75.44
Total debt/Total assets	39.61	38.89	37.02	38.51	37.32

Source(s): Company, ABCI Securities estimates

Disclosures

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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 2010-2014

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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