



Yili (600887 CH) Strong 3Q17 results; likely to hit full-year target

- 3Q17 growth momentum remained strong, lifting growth in 9M17
- Margins were slightly off track due to higher raw material costs and higher S&D expense
- Based on the 9M17 performance, the Group would achieve its revenue and net profit targets of RMB 65bn and RMB 6.2bn with relative ease
- Two major shareholders reduced holdings, signaling potential exit of investment
- Reiterate **BUY**; current TP represents 25.00x/23.04x 18E/19E P/E or 5.73x/5.17x 18E/19E P/B

3Q17 growth momentum remained strong. In 3Q17, total revenue grew 17.98% YoY, while gross profit increased 15.57% YoY; OP was up 41.19% YoY, and NP (to owners of the Company) jumped 33.49% YoY. Strong quarterly results helped YTD growth. In 9M17, total revenue, GP, and NP (to owners of the Company) grew 13.64% YoY, 11.42% YoY, and 12.47% YoY.

Margins performance was slightly off track. GPM, OPM, and NPM (to owners of the Company) were 37.95%, 9.09%, and 8.29 in 3Q17. In 9M17, GPM, OPM, and NPM (to owners of the Company) were 38.33%, 10.34% and 9.41%, slightly lower than those in 1H17. We believe higher raw material costs and growing S&D expenses have contributed to the lower margins in 3Q17.

Likely to meet full-year target. The Group sets the total revenue and total net profit targets for 2017 at RMB 65bn and RMB 6.2bn. To reach these targets, the Group would need to achieve a revenue of RMB 11.7bn and a total net profit of RMB 1.3bn for 4Q17. Judging from its YTD performance, we believe the Group would hit or exceed these targets.

Changes in shareholding may signal exit of investors. By end-9M17, shareholdings of China Securities Finance Corporate Limited (CSF) and One-zero-four Fund of the Social Security Funds of China decreased to 3.65% (from 4.76% in 1H17) and 1.33% (from 1.61% in 1H17). Decreased stakes held by these shareholders may signal intention to exit. Nonetheless, CSF's shareholding dropped to 2.79% by end-2016 and that of One-zero-four Fund of the Social Security Funds of China once dropped to 1.23% by end-2013.

Reiterate BUY with TP at RMB 35.20. Recent rally of Yili's stock price reflects the Group's leading position in the market as well as continuous improvement in the consumer and the dairy sectors. On a YoY basis, improvement in 3Q17 was substantial. We believe the Group is likely to meet its full-year targets. Maintain **BUY** and our DCF-derived TP of RMB 35.20 represents 25.00x/23.04x 18E/19E P/E or 5.73x/5.17x 18E/19E P/B.

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

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	60,360	60,609	66,245	71,615	76,791
Chg (% YoY)	10.88	0.41	9.30	8.11	7.23
Net Profit (RMB mn)	4,632	5,662	7,242	8,561	9,288
Chg (% YoY)	11.76	22.24	27.91	18.21	8.49
Basic EPS (RMB)	0.76	0.93	1.19	1.41	1.53
Chg (% YoY)	11.76	22.37	28.10	18.21	8.49
P/E (x)	41.46	33.88	26.45	22.37	20.62
BVPS (RMB)	3.30	3.80	5.64	6.15	6.81
P/B (x)	9.56	8.30	5.59	5.13	4.63
DPS (RMB)	0.45	0.60	0.75	0.90	0.97
Yield (%)	1.43	1.90	2.39	2.85	3.09
ROAA (%)	11.71	14.35	14.02	12.93	12.93
ROAE (%)	23.99	26.29	25.24	23.89	23.58

Source(s): Bloomberg, ABCI Securities estimates

Company Report Nov 20, 2017 Rating: BUY TP: RMB 35.20

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Share price (RMB)	31.51
52Wk H/L (RMB)	31.54/17.07
Est. share price return	11.71%
Est. dividend yield	2.39%
Est. total return	14.10%
Previous Rating&TP	BUY; RMB 26.4
Previous report date	Sep 12, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

Issued shares (mn)	6,078.49
Market cap (RMB mn)	191,533.30
3-mth ADT (RMB mn)	1,650.84

Major shareholders (%)

Hohhot Investment Co Ltd	9.88
HK Securities Clearing Co	10.44
China Securities Finance Corp	3.65
Pan Gang	3.88
Sunshine Insurance	1.79
Source(s): , Bloomberg, Company	

% of core revenue

	FY17E
Liquid milk	83.82
Chilled product	6.79
Milk formula	9.31

Source(s): ABCI Securities estimates

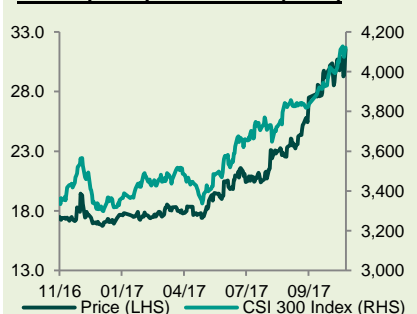
Price Performance (%)

	Absolute	Relative*
1-mth	12.94	7.62
3-mth	37.72	26.76
6-mth	73.13	50.08

* Relative to CSI 300 Index

Source(s): Bloomberg, ABCI Securities

1-Year price performance (RMB)



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of closing of Nov 17, 2017



Exhibit 1: Breakdown of financial performance

	1Q17	2Q17	3Q17	1H17	9M17
Growth (YoY %)					
Total revenue	3.03	19.94	17.98	11.32	13.64
Total gross profit	(7.22)	29.04	15.57	9.23	11.42
Operating profit	13.18	33.07	41.19	21.96	27.48
Pretax profit	11.67	(19.93)	29.97	(4.80)	11.32
Net profit (to owners of the company)	11.58	(24.24)	33.49	4.75	12.47
Margins (%)					
GPM	37.93	39.09	37.95	38.55	38.33
OPM	12.15	10.06	9.09	11.04	10.34
Pretax margin	12.97	9.03	9.79	10.89	11.16
NPM (to owners of the Company)	10.98	9.21	8.29	10.04	9.41

Source(s): Company, ABCI Securities

Exhibit 2: Shareholding structure – top ten shareholders (%)

	9M17	1H17	2016	1H16	2015	2014	2013
Hohhot Investment Co Ltd (呼和浩特投资有限责任公司)	9.88	9.88	9.9	8.79	8.79	9.31	9.31
Hong Kong Securities Clearing Co (香港中央结算有限公司)	10.44	8.44	5.74	6.22	4.22	2.15	N/A
China Securities Finance Corp (中国证券金融股份有限公司)	3.65	4.76	2.79	3.06	3.06	N/A	N/A
Gang Pan (潘刚)	3.88	3.88	3.89	3.89	3.89	3.85	3.08
Sunshine Insurance – Fenhong product (阳光人寿保险股份有限公司—分红保险产品)	1.79	1.79	1.80	1.8	1.8	N/A	N/A
National Social Security Fund – Fund One-zero-Four (全国社保基金—零四组合)	1.33	1.61	1.61	1.65	1.73	1.51	1.23
Chengxia Zhao (赵成霞)	1.38	1.38	1.39	1.39	1.39	1.37	1.09
Chunhai Liu (刘春海)	1.37	1.37	1.37	1.37	1.37	1.36	N/A
Liping Hu (胡利平)	1.31	1.31	1.31	1.37	1.31	1.29	N/A
Sunshine Insurance – Jili product (阳光人寿保险股份有限公司—吉利两全保险产品)	1.17	1.17	N/A	N/A	N/A	N/A	N/A

Source(s): Company, ABCI Securities



Consolidated income statement (2015A-2019E)

FY ends at Dec 31 (RMB mn, except per share data)	2015A	2016A	2017E	2018E	2019E
Revenue	60,360	60,609	66,245	71,615	76,791
- Core revenue	58,764	59,614	64,736	69,498	73,875
- Liquid milk	47,151	49,522	54,259	58,107	61,506
- Chilled product	4,098	4,194	4,394	4,541	4,782
- Milk formula	6,447	5,456	6,025	6,789	7,520
- Others	1,067	441	58	63	66
- Non-core revenue	1,100	698	970	1,273	1,655
- Interest income	496	297	538	843	1,261
COGS	(38,376)	(37,427)	(38,051)	(40,043)	(42,743)
Gross profit	21,984	23,182	28,193	31,572	34,048
- Core gross profit	21,387	22,813	27,561	30,602	32,624
- Liquid milk	16,069	17,808	22,070	24,643	26,211
- Chilled product	1,489	1,806	2,080	1,978	1,869
- Milk formula	3,609	3,065	3,352	3,918	4,478
- Others	221	134	58	63	66
- Non-core gross profit	100	72	94	127	163
- Gross profit on interest income	496	297	538	843	1,261
Business tax and levies	(251)	(420)	(453)	(499)	(531)
S&D expenses	(13,258)	(14,114)	(15,582)	(17,383)	(18,861)
Admin expenses	(3,456)	(3,457)	(4,924)	(5,159)	(5,343)
Operating profit	5,019	5,191	7,234	8,531	9,312
Asset impairment expense	(14)	(46)	(75)	(80)	(88)
Investment income	186	399	435	498	554
Non-operating profit/(loss)	629	1,112	1,168	1,254	1,341
Net finance income/expense	(297)	(24)	(60)	(158)	(172)
Pretax profit	5,524	6,632	8,702	10,045	10,948
Tax	(869)	(963)	(1,451)	(1,473)	(1,648)
Net profit	4,654	5,669	7,251	8,572	9,299
- Profit attributable to shareholders	4,632	5,662	7,242	8,561	9,288
- Minority interest	23	7	9	11	12
Cash dividend	2,729	3,647	4,580	5,460	5,924
EPS (RMB)					
- Basic	0.76	0.93	1.19	1.41	1.53
- Diluted	0.76	0.93	1.19	1.41	1.53
Cash DPS (RMB)	0.45	0.60	0.75	0.90	0.97

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2015A-2019E)

FY ends at Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Cash and cash equivalent	13,084	13,824	34,347	37,722	41,834
Trade and bills receivable	719	686	738	753	902
Inventory	4,663	4,326	4,711	4,880	5,554
Others	1,320	1,357	1,334	1,316	1,721
Total current assets	19,786	20,193	41,130	44,671	50,010
PP&E	14,559	13,137	12,589	11,694	11,027
Biological assets	1,299	0	0	0	0
Goodwill	11	11	11	11	11
AFS investment	985	612	674	741	815
LT equity investment	122	1,631	1,865	2,150	2,497
Others	2,870	3,678	7,814	9,106	10,962
Total non-current assets	19,845	19,070	22,953	23,701	25,312
Total assets	39,631	39,262	64,083	68,372	75,322
Trade and bills payable	6,642	7,091	7,295	7,842	8,541
ST borrowings	6,190	150	11,083	11,878	13,810
Others	5,370	7,667	9,897	9,692	9,777
Total current liabilities	18,202	14,907	28,275	29,412	32,127
LT Borrowings	0	0	283	361	507
Others	1,283	1,119	952	923	944
Total non-current liabilities	1,283	1,119	1,235	1,285	1,451
Shareholders' equity	19,984	23,082	34,296	37,373	41,410
Minority interest	162	154	277	302	335
Total equity	20,146	23,236	34,574	37,676	41,744
Total liabilities and equity	39,631	39,262	64,083	68,372	75,322

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2015A-2019E)

FY ends at Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Net profit	4,654	5,669	7,251	8,572	9,299
Depreciation and amortization	1,794	1,657	1,604	1,649	1,723
Change in working capital	2,898	5,849	340	263	(1,142)
Others	190	(359)	437	(81)	(26)
Cash flow from operating activities	9,536	12,817	9,633	10,404	9,855
Change in PP&E, intangible assets, and other non-current assets	(3,626)	(3,396)	(5,229)	(6,058)	(7,218)
Others	139	153	62	109	63
Cash flow from investing activities	(3,487)	(3,243)	(5,167)	(5,949)	(7,155)
Change in borrowings	(2,586)	(6,038)	11,215	874	2,077
Cash flow related to dividend payment, interest payment, or profit distribution	(2,659)	(2,776)	(5,037)	(3,828)	(5,358)
Proceed from share placement	0	0	9,000	0	0
Others	(1,034)	(0)	(0)	(0)	0
Cash flow from financing activities	(6,279)	(8,815)	15,178	(2,954)	(3,280)
Net change in cash	(229)	760	19,644	1,501	(581)
ForEx effect	(14)	235	54	69	86
Cash and cash equivalent - end	12,217	13,211	32,910	34,479	33,984

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2015A-2019E)

FY ends at Dec 31	2015A	2016A	2017E	2018E	2019E
Growth (YoY %)					
Revenue	10.88	0.41	9.30	8.11	7.23
Core revenue	9.87	1.45	8.59	7.36	6.30
- Liquid milk	11.19	5.03	9.57	7.09	5.85
- Chilled products	(4.34)	2.35	4.76	3.34	5.32
- Milk formula	7.21	(15.38)	10.43	12.68	10.78
- Others	36.21	(58.64)	(86.80)	7.36	6.30
Non-core revenue	132.85	(36.50)	38.92	31.24	29.94
Gross profit	21.89	5.45	21.62	11.98	7.84
Core gross profit	22.65	6.66	20.81	11.03	6.61
- Liquid milk	22.93	10.82	23.93	11.66	6.36
- Chilled products	(0.85)	21.31	15.19	(4.88)	(5.54)
- Milk formula	31.56	(15.07)	9.39	16.87	14.28
- Others	80.95	(39.46)	(56.47)	7.36	6.30
Non-core gross profit	(17.16)	(28.52)	31.17	35.12	28.07
Operating profit	8.79	3.43	39.36	17.93	9.16
EBITDA	11.62	0.04	28.83	15.26	8.39
Pretax Profit	15.41	20.07	31.21	15.43	8.99
Net profit (to owners of the Company)	11.76	22.24	27.91	18.21	8.49
Profitability ratios (%)					
GPM	36.42	38.25	42.56	44.09	44.34
Core-GPM	36.40	38.27	42.57	44.03	44.16
- Liquid milk	34.08	35.96	40.68	42.41	42.62
- Chilled products	36.32	43.05	47.34	43.57	39.08
- Milk formula	55.97	56.17	55.64	57.72	59.54
- Others	20.72	30.32	100.00	100.00	100.00
Non-core GPM	9.13	10.28	9.71	9.99	9.85
OPM	8.31	8.56	10.92	11.91	12.13
EBITDA margin	11.27	11.22	13.23	14.10	14.26
Pretax margin	9.15	10.94	13.14	14.03	14.26
NPM (to owners of the Group)	7.67	9.34	10.93	11.95	12.09
Revenue contribution (%)					
Core revenue/ total revenue	97.36	98.36	97.72	97.04	96.20
Non-core revenue/ total revenue	1.82	1.15	1.46	1.78	2.15
Interest income/ total revenue	0.82	0.49	0.81	1.18	1.64
Core revenue composition					
- Liquid milk	80.24	83.07	83.82	83.61	83.26
- Chilled products	6.97	7.04	6.79	6.53	6.47
- Milk formula	10.97	9.15	9.31	9.77	10.18
- Others	1.82	0.74	0.09	0.09	0.09
Return ratios (%)					
ROAA	11.71	14.35	14.02	12.93	12.93
ROAE	23.99	26.29	25.24	23.89	23.58
Liquidity ratio (x)					
Current ratio	1.09	1.35	1.45	1.52	1.56
Quick ratio	0.83	1.06	1.29	1.35	1.38
Cash ratio	0.72	0.93	1.21	1.28	1.30
Cash conversion cycle (days)					
Days of outstanding receivable	3	3	3	3	3
Days of inventory on hand	47	45	44	45	46
Days of outstanding payable	56	64	66	68	68
CCC	(5)	(16)	(19)	(20)	(19)
Leverage ratios (%)					
Total debt/Equity	30.73	0.65	32.87	32.49	34.30
Total debt/Total assets	15.62	0.38	17.74	17.90	19.01

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

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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