

Nov 9, 2016  
Company Report  
Rating: HOLD  
TP: RMB 19.82

Share price (RMB) 18.02  
Est. share price return 9.99%  
Est. dividend yield 2.67%  
Est. total return 12.67%

Previous Rating HOLD  
Previous TP RMB 17.61

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**Key Data**

52Wk H/L(RMB) 19.5/12.51  
Issued shares (mn) 6,064.80  
Market cap (RMB mn) 109,287.70  
3-mth avg daily turnover (RMB mn) 1,036.16  
Major shareholder(s) (%):  
Hohhot Investment Co Ltd 8.79  
HK Securities Clearing Co. 6.22  
Sunshine Insurance Group 4.17  
Gang Pan 3.89  
China Securities Finance Corp 3.06  
China Asset Management Co Ltd 2.54  
Source(s): Bloomberg, ABCI Securities

**Key data**

Core revenue composition (%)	1H15	1H16
Liquid milk	76.60	79.97
Chilled products	10.21	9.98
Milk formula	11.40	8.62
Mixed feed	1.79	1.39
Guarantee business income	0.00	0.04

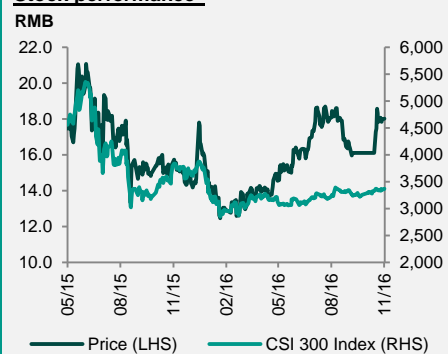
Source(s): Company, ABCI Securities

**Share price performance (%)**

	Absolute	Relative*
1-mth	N/A	N/A
3-mth	(2.28)	(6.04)
6-mth	23.51	11.22

\*Relative to CSI 300 Index  
Source(s): Bloomberg, ABCI Securities

**Stock performance**



Source(s): Bloomberg, ABCI Securities

\* All market data as of closing of Nov 8, 2016

# Yili (600887 CH)

## Turnaround in 3Q16; major actions to sustain growth

- Growth momentum recovered in 3Q16; 9M16 total sales and core sales were up 0.64% YoY and 1.07% YoY vs. -0.21% YoY and 0.36% YoY in 1H16. Operating profit in 3Q16 increased by 17.87% and its YTD growth turned positive to 0.15% from -5.62% YoY in 1H16
- GPM, OPM, and NPM declined in 9M16 from 1H16 on various cost increases. Growth in S&D expense slowed, indicating higher efficiency in sales and promotion
- Working capital continued to be tightly managed in 3Q16; inventory turnover days declined and overall CCC continued to improve
- The Group's share placement, new dividend payout plan, option scheme, and acquisition of Shengmu (1432 HK) spur optimism for future growth
- Maintain HOLD and raise TP to RMB 19.82 based on the Group's strong fundamentals albeit uncertain outcomes of the latest events

**Growth momentum recovered in 3Q16.** Yili's total sales and core sales grew 2.27% YoY and 2.4% YoY in 3Q16, boosting the corresponding 9M16 figures to +0.64% YoY (1H16: -0.21% YoY) and +1.07% YoY (1H16: +0.36% YoY). Operating profit was up 17.87% YoY in 3Q16 and 0.15% YoY in 9M16 (1H16: -5.62% YoY). Net profit growth edged up 3bps to 20.69% YoY in 9M16 (1H16: +20.63% YoY).

**Profitability deteriorated.** GPM fell slightly from 39.28% in 1H16 to 39.09% in 9M16, and OPM declined further from 10% in 1H16 to 9.16% in 9M16. Increased business taxes and levies and reduction in interest income drove down profit, but the 48.3%YoY/28.05% YoY increase in 3Q16/9M16 admin. expense was the main culprit behind the lower OPM. On the contrary, selling and distribution expenses were up slightly by 0.92% YoY in 3Q16 and 11.32% YoY in 9M16, signaling efficient sales and promotion effort in 3Q16. Due to the lower OPM, NPM went down to 9.51% in 9M16 from 10.67% in 1H16.

**Working capital management continued to improve.** Inventory turnover days declined from 42 in 1H16 to 38 in 9M16, showing tight monitoring of sales and production. In addition, payable turnover days increased from 63 in 1H16 to 64 in 9M16, suggesting the Group's strong bargaining power over suppliers. Overall CCC further declined from -18 days in 1H16 to -22 days in 9M16. Excluding the seasonality effect, we believe working capital management turned more efficient in 3Q16.

**Share placement to introduce 5 new shareholders, bringing downside pressure to financial performance in the short term.** Yili's latest share placement plan aims to raise RMB 9bn. Five new shareholders will be introduced. The form of consideration will be cash and the lock-up period is 60-month. Two of these new shareholders have state agencies/organizations as ultimate shareholders and the 2 others have SOEs as their ultimate shareholders. We believe the background of the new shareholders and the extended lock-up period will ensure stability in the shareholding structure. Yet, the share placement would weigh on the Group's financial performance. According to Yili's estimates, if net profit stays flat in FY17, the EPS would decline by 4.11% YoY post-placement. Ten percent or 20% of net profit growth in 2017 would drive up EPS by 4.11% or 13.7% YoY post-placement instead of the 9.59% or 19.18% pre-placement. For the same growth scenarios, the weighted ROA would be 13.83%, 15.11%, and 16.37% post-placement vs 16.10%, 17.57%, and 19.02% pre-placement (Exhibit 1).

**Results and Valuation**

FY ended Dec 31	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Revenue (RMB mn)</b>	<b>54,436.43</b>	<b>60,359.87</b>	<b>61,753.90</b>	<b>65,885.18</b>	<b>71,927.28</b>
Chg (% YoY)	13.93	10.88	2.31	6.69	9.17
<b>Net Profit (RMB mn)</b>	<b>4,144.28</b>	<b>4,631.79</b>	<b>5,353.86</b>	<b>6,864.22</b>	<b>9,795.54</b>
Chg (% YoY)	30.03	11.76	15.59	28.21	42.70
<b>Basic EPS (RMB)</b>	<b>0.68</b>	<b>0.76</b>	<b>0.88</b>	<b>1.03</b>	<b>1.47</b>
Chg (% YoY)	23.64	11.76	16.15	16.89	42.70
P/E (x)	26.50	23.71	20.41	17.46	12.24
BVPS (RMB)	3.06	3.30	3.76	5.50	6.35
P/B (x)	5.89	5.47	4.80	3.28	2.84
DPS(RMB)	0.40	0.45	0.49	0.31	0.59
Yield (%)	2.22	2.50	2.71	1.73	3.29
ROAA (%)	11.45	11.71	13.13	14.43	16.70
ROAE (%)	23.85	23.99	25.04	23.13	24.85

Source(s): The Group, Bloomberg, ABCI Securities estimates

**New dividend policy would increase cash returns for shareholders despite short-term headwinds.**

The Group's new plan for shareholder returns (2016-2018) specifies 3 scenarios for its cash dividend policy. (1) If the Group has no cash outlay and is in a mature stage, cash dividend should be at least 80% of the Group's net profit to shareholders; (2) If the Group is in a mature stage with major cash outlay, the cash dividend should be at least 40% of the Group's net profit to shareholders; (3) If the Group is in a growth stage with major cash outlay, the cash dividend should be at least 20% of the Group's net profit to shareholders. For the last 3 years, the cash dividend payout ratio was above 50% in each year, and the 3-year average cash dividend payout ratio was 56.45%. However, we believe the cash dividend payout may decline in the medium-to-short term as we project the Group would experience accelerating growth in the next few years; the recently announced investment plans also imply major capital need going forward. In the long term when growth normalizes, we believe shareholders would be able to obtain higher cash returns from the Group based on the latter's leading market status and improving profitability. Even though total cash dividend would be higher in absolute terms, the new share issuance would dilute gain on a per share basis (Exhibit 3).

**Stock options to provide incentives.**

Yili announced a new round of option scheme entailing conditional exercise. For options to be exercised in the first exercise period, which is around 24 months after the options being granted, the condition for exercise are: (a) the Group's 2017 net profit growth is no less than 30% YoY; (b) ROE should be no less than 12%. For the second exercise period, which is ~36 months after the option was granted, the conditions for exercise are: (a) net profit growth in 2018 is no less than 45% YoY; (b) ROE should be no less than 12%. We believe the ROE target is within reach because ROAE has been above 23% for the past few years. The net profit growth target is less achievable, considering the growth in net profit and net profit to shareholders have been decreasing and reached only ~11.7% YoY in FY15. To exercise these options, profitability would need to improve substantially in FY17 and FY18.

**Acquisition of Shengmu provides more leverage.**

Part of the funds raised through the placement is used in acquiring a 37% of equity stake in Shengmu (1432 HK). Valuing Shengmu at HK\$ 14,297.4mn, Yili is offering HK\$ 2.25 for each share. In our opinion, if the acquisition goes through, Yili would be able to build a stronger organic milk business and integrate its upstream business into a more holistic platform. Shengmu's FY15 revenue and net profit were 5.14% and 17.29% of those in Yili. We project the amount of profit booked to Yili's income statement would be RMB 388.48mn, RMB 310.59mn, and RMB 328.47mn in FY16E-18E.

**Share placement and acquisition would alter financial position, but solid fundamental ensures swift and strong recovery.**

The share placement and Shengmu acquisition would impact Yili's financial positions. Nonetheless, we believe the Group's strong fundamentals would be able to offset the negatives. In our latest projection, we assume the share placement and acquisition of Shengmu (for a 37% stake) would be completed on schedule by end-2017; we also factor in the performance target outlined in the new option scheme. Our new projections assume the Group would be in a growth stage with major cash outlay (scenario 3), therefore dividend payout ratio would decline to 30%/40% in FY17E/FY18E. However, the solid EPS growth of 44.81% in FY18E would help bring up the DPS to RMB 0.60 in FY18E from RMB 0.48/0.31 in FY16E/FY17E. The share placement would boost the Group's cash position and cash flow in FY17, lifting the liquidity ratios and the Group's cash flow performance. Even though the share placement would increase the amount of equity, we expect the Group's ROAE would improve from 22.93% FY17E to 25.02% in FY18E. Moreover, we project ROAA and ROIC would continue to improve even with additional investment projects post-placement and the altered balance sheet resulted from the Shengmu acquisition.

**Maintain HOLD, raise TP to RMB 19.82.** Back by the strong fundamentals, we raise the Group's TP to RMB 19.82, representing 22.76x/19.36 x FY16E/17E P/E, and 5.27x and 4.26x FY16E/17E P/B. But we maintain **HOLD** on uncertain outcomes of the share placement and acquisition plans.

**Exhibit 1: Share placement targets**

 Issue price: RMB 15.33  
 No disposal of shares within 60 months

Placement target						
#	Organization (name in Chinese)	Organization (name in English)*	Number of shares	Amount (RMB mn)	Consideration	Ultimate beneficiaries
1	呼市城投	Hohhot City Asset Management	195,694,716	3,000	Cash	Hohhot State Assets Supervision and Administration Commission
2	内蒙交投	Inner Mongolia Communications Investment	130,463,144	2,000	Cash	Inner Mongolia Development and Reform Commission
3	金石灏纳	Jinshi Haona	130,463,144	2,000	Cash	Citic Securities
4	平安资产	Pingan Asset Management	65,231,572	1,000	Cash	Pingan Insurance (Insurance products)
5	金梅花投资	Tibet Gold Mei Flower Investment	65,231,572	1,000	Cash	Zhao Zhongxiu, Fu Jun
Total		N/A	587,084,148	9,000	N/A	N/A

\* Translations are not official

Source(s): The Group, ABCI Securities

**Exhibit 2: Use of placement fund**

#	Project	Funding required (RMB mn)	Funding sourced from placement (RMB mn)	% of funding sourced from placement
1	Acquisition of 37% equity stake of Shengmu (1432 HK)	4,606.41	4,606.41	100.00
2	New construction of IMF packaging plant and UHT milk production plant in New Zealand	783.36	538.30	68.72
3	Liquid milk plant expansion	3,290.38	2,484.10	75.50
	Chilled product equipment upgrade	87.73	44.52	50.75
4	Purchase of Operating center in Beijing	1,825.87	1,023.02	56.03
	R&D project	281.17	260.35	92.60
	E-commerce system implementation project	48.64	43.30	89.02
<b>Total</b>	<b>N/A</b>	<b>10,923.55</b>	<b>9,000.00</b>	<b>82.39</b>

Note:

1) 37% equity stake of Shengmu (1432 HK) represents HK\$ 5290.038mn, and the total investment amount and funding sourced from placement is calculated using the exchange rate of 1RMB = 0.87077HKD. The funding required translated is HK\$ 4606.4064mn

2) The total funding required is NZ\$ 161.40032mn, and the funding sourced from placement is NZ\$ 110.9090mn;

\* The exchange rate used is 1NZ\$ = 4.8535RMB ;

\* Translated amount of funding required and funding sourced from placement are RMB783.3565mn and RMB 538.2968mn

Source(s): The Group, ABCI Securities

**Exhibit 3: Impact of share issuance on the Group's financial performance**
**Scenario 1**

The Group's 2017 net profit that belongs to shareholders of the Group (excluding non-recurring items) is the same as that in 2016

	2016	2017	
		Pre issuance	Post issuance
Profit to shareholders of the Group (excluding non-recurring items) (RMB mn)	4,420.21	4,420.21	4,420.21
Total share numbers (mn)	6,064.80	6,064.80	6,651.88
Net assets (RMB mn)	25,240.89	30,335.86	39,335.86
EPS (excluding non-recurring items)			
- Basic	0.73	0.73	0.7
- Diluted	0.73	0.73	0.7
Weighted ROA	19.77%	16.10%	13.83%

**Scenario 2**

The Group's 2017 net profit that belongs to shareholders of the Group (excluding non-recurring items) grows by 10% over that of 2016

	2016	2017	
		Pre issuance	Post issuance
Profit to shareholders of the Group (excluding non-recurring items) (RMB mn)	4,420.21	4,862.23	4,862.23
Total share numbers (mn)	6,064.80	6,064.80	6,651.88
Net assets (RMB mn)	25,240.89	30,845.36	39,845.36
EPS (excluding non-recurring items)			
- Basic	0.73	0.8	0.76
- Diluted	0.73	0.8	0.76
Weighted ROA	19.77%	17.57%	15.11%

**Scenario 3**

The Group's 2017 net profit that belongs to shareholders of the Group (excluding non-recurring items) grows by 20% over that of 2016

	2016	2017	
		Pre issuance	Post issuance
Profit to shareholders of the Group (excluding non-recurring items) (RMB mn)	4,420.21	5,304.25	5,304.25
Total share numbers (mn)	6,064.80	6,064.80	6,651.88
Net assets (RMB mn)	25,240.89	31,354.85	40,354.85
EPS (excluding non-recurring items)			
- Basic	0.73	0.87	0.83
- Diluted	0.73	0.87	0.83
Weighted ROA	19.77%	19.02%	16.37%

**Assumptions**

#	Assumptions
1)	The stock placement is completed by end-Jun-17
2)	The number of new shares issued in the placement is 587,084,148 (subject to the issue price and total amount raised), and the total amount raised is 8,999,999,989, which includes the issuance fees
3)	Macroeconomic environment, policies, and industry development has no change until the time of issuance
4)	In project net assets, the Group does not consider factors other than funding and net profit
5)	In projecting the total number of shares, the Group only considers the total number of shares before the placement and does not factor in impacts from other factors, such as stock dividend and employee stock options.
6)	The Group only considers 3 scenarios for the net profit growth: 0%, 10%, and 20%
7)	The impact of the new funding from placement on the Group's operation and financial condition is not factored in
8)	The final number of shares and the amount raised through the placement is still subject to regulatory approvals

Source(s): The Group, ABCI Securities

**Exhibit 4: Shareholding structure comparison**

Previous shareholding structure (end-1H16)				New shareholding structure (assuming successful placement based on end-1H16 holding structure)				
<b>Total number of shares: 6,064,800,108</b>				<b>Total number of shares: 6,651,884,256</b>				
#	Name of shareholders	Shares held	% shareholding	#	Name of shareholders	Shares held	% shareholding	Δ in % shareholding
1	Hohhot Investment	533,330,826	8.79	1	Hohhot Investment	533,330,826	8.02	(0.78)
2	HK Securities Clearing Company	377,378,336	6.22	2	HK Securities Clearing Company	377,378,336	5.67	(0.55)
3	Sunshine Group	303,240,065	5.00	3	Collective shareholding of 5 new shareholders	587,084,148	8.83	N/A
4	Pan Gang	236,086,628	3.89		- Hohhot City Asset Management	195,694,716	2.94	N/A
5	China Securities Finance Corp. Ltd	185,794,043	3.06		- Inner Mongolia Communications Investment	130,463,144	1.96	N/A
6	China Social Security Fund	100,099,998	1.65		- Jinshi Haona	130,463,144	1.96	N/A
7	Chengxia Zhao	84,090,140	1.39		- Pingan Asset Management	65,231,572	0.98	N/A
8	Chunhai Liu	83,308,288	1.37		- Tibet Gold Mei Flower Investment	65,231,572	0.98	N/A
9	Liping Hu	79,340,536	1.31	4	Sunshine Group	303,240,065	4.56	(0.44)
10	Oppenheimer China Fund	76,363,022	1.26	5	Pan Gang	236,086,628	3.55	(0.34)
				6	China Securities Finance Corp. Ltd	185,794,043	2.79	(0.27)
				7	China Social Security Fund	100,099,998	1.50	(0.15)
				8	Chengxia Zhao	84,090,140	1.26	(0.12)
				9	Chunhai Liu	83,308,288	1.25	(0.12)
				10	Liping Hu	79,340,536	1.19	(0.12)
				11	Oppenheimer China Fund	76,363,022	1.15	(0.11)

Source(s): The Group, ABCI Securities

## Appendix I: Financial Statements of the Group

### Consolidated income statement (FY14A - FY18E)

As of Dec 31 (RMB mn, except per share data)	FY14A	FY15A	FY16E	FY17E	FY18E	9M15A	9M16A
<b>Operating Revenue</b>	<b>54,436.43</b>	<b>60,359.87</b>	<b>61,753.90</b>	<b>65,885.83</b>	<b>72,106.55</b>	<b>45,879.46</b>	<b>46,171.37</b>
<b>Core operating revenue</b>	<b>53,486.91</b>	<b>58,763.51</b>	<b>60,048.01</b>	<b>63,949.78</b>	<b>69,645.88</b>	<b>44,896.64</b>	<b>45,375.01</b>
- Liquid milk	42,406.30	47,151.39	48,944.20	52,017.18	56,254.79	N/A	N/A
- Chilled product	4,283.72	4,097.82	4,091.78	4,299.00	4,932.40	N/A	N/A
- Milk formula	6,013.46	6,447.20	5,793.06	6,002.87	6,334.49	N/A	N/A
- Mixed feed	783.02	1,058.18	1,200.96	1,598.74	2,089.38	N/A	N/A
- Guarantee business	0.40	8.92	18.01	31.97	34.82	N/A	N/A
<b>Non-core operating revenue</b>	<b>472.39</b>	<b>1,099.98</b>	<b>1,090.38</b>	<b>1,356.36</b>	<b>1,853.83</b>	<b>581.95</b>	<b>547.93</b>
<b>Interest income</b>	<b>477.13</b>	<b>496.39</b>	<b>615.52</b>	<b>579.69</b>	<b>606.84</b>	<b>400.87</b>	<b>248.43</b>
<b>COGS</b>	<b>(36,399.99)</b>	<b>(38,375.58)</b>	<b>(37,228.41)</b>	<b>(39,045.84)</b>	<b>(40,868.11)</b>	<b>(29,623.57)</b>	<b>(28,120.75)</b>
<b>Core operating COGS</b>	<b>(36,048.88)</b>	<b>(37,376.06)</b>	<b>(36,294.37)</b>	<b>(37,897.23)</b>	<b>(39,289.16)</b>	<b>N/A</b>	<b>N/A</b>
- Liquid milk	(29,334.83)	(31,082.20)	(30,282.08)	(31,613.71)	(32,889.79)	N/A	N/A
- Chilled product	(2,782.41)	(2,609.31)	(2,277.25)	(2,313.73)	(2,315.21)	N/A	N/A
- Milk formula	(3,270.39)	(2,838.55)	(2,755.22)	(2,755.19)	(2,596.84)	N/A	N/A
- Mixed feed	(661.25)	(846.02)	(979.82)	(1,214.60)	(1,487.31)	N/A	N/A
- Guarantee business	0.00	0.00	1.00	2.00	3.00	N/A	N/A
<b>Non-core operating COGS</b>	<b>(351.11)</b>	<b>(999.51)</b>	<b>(934.04)</b>	<b>(1,148.61)</b>	<b>(1,578.95)</b>	<b>N/A</b>	<b>N/A</b>
<b>Gross profit</b>	<b>18,036.44</b>	<b>21,984.30</b>	<b>24,525.49</b>	<b>26,839.99</b>	<b>31,238.44</b>	<b>16,255.89</b>	<b>18,050.62</b>
<b>Core operating gross profit</b>	<b>17,438.03</b>	<b>21,387.44</b>	<b>23,753.64</b>	<b>26,052.55</b>	<b>30,356.72</b>	<b>N/A</b>	<b>N/A</b>
- Liquid milk	13,071.46	16,069.19	18,662.11	20,403.47	23,365.00	N/A	N/A
- Chilled product	1,501.31	1,488.52	1,814.53	1,985.27	2,617.18	N/A	N/A
- Milk formula	2,743.07	3,608.65	3,037.83	3,247.68	3,737.65	N/A	N/A
- Mixed feed	121.78	212.17	221.14	384.15	602.07	N/A	N/A
- Guarantee business	0.40	8.92	18.01	31.97	34.82	N/A	N/A
<b>Non-core operating gross profit</b>	<b>121.28</b>	<b>100.46</b>	<b>156.34</b>	<b>207.75</b>	<b>274.88</b>	<b>N/A</b>	<b>N/A</b>
<b>Gross profit on interest income</b>	<b>477.13</b>	<b>496.39</b>	<b>615.52</b>	<b>579.69</b>	<b>606.84</b>	<b>N/A</b>	<b>N/A</b>
Sales tax	(185.39)	(251.04)	(283.86)	(288.75)	(296.15)	(181.69)	(263.45)
Selling and distribution expense	(10,074.55)	(13,258.33)	(15,320.51)	(15,612.48)	(16,608.38)	(9,668.70)	(10,763.43)
Administrative expenses	(3,163.23)	(3,456.16)	(3,666.98)	(3,799.17)	(3,649.13)	(2,182.23)	(2,794.30)
<b>EBIT</b>	<b>4,613.27</b>	<b>5,018.76</b>	<b>5,254.14</b>	<b>7,139.59</b>	<b>10,684.77</b>	<b>4,223.26</b>	<b>4,229.44</b>
Asset impairment expense	(176.43)	(13.62)	(72.32)	(90.47)	(113.01)	(23.67)	(46.53)
Investment income	107.74	186.35	143.35	174.38	201.78	145.99	363.14
Non-operating profit/(loss)	396.20	629.21	653.05	634.25	735.16	267.20	707.40
Finance cost	(154.89)	(297.16)	(30.70)	47.75	62.36	(301.56)	(17.26)
Share of profit/(loss) of associates	0.00	0.00	388.48	310.59	328.47		
<b>Pretax profit</b>	<b>4,785.89</b>	<b>5,523.53</b>	<b>6,336.00</b>	<b>8,216.09</b>	<b>11,899.53</b>	<b>4,311.22</b>	<b>5,236.19</b>
Tax	(619.35)	(869.11)	(1,021.51)	(1,369.58)	(1,983.05)	(646.97)	(831.14)
<b>Net profit</b>	<b>4,166.54</b>	<b>4,654.43</b>	<b>5,314.49</b>	<b>6,846.51</b>	<b>9,916.48</b>	<b>3,655.69</b>	<b>4,405.05</b>
- Profit attributable to shareholders	4,144.28	4,631.79	5,280.74	6,810.71	9,862.48	3,637.31	4,389.94
- Minority interest	22.26	22.63	33.75	35.80	54.01	18.38	15.11
Cash dividend	2,451.50	2,729.16	2,922.97	2,053.95	3,966.59	0.00	0.00
<b>EPS (RMB)</b>							
- Basic	0.68	0.76	0.87	1.02	1.48	0.59	0.72
- Diluted	0.68	0.76	0.87	1.02	1.48	0.59	0.72
<b>Cash DPS (RMB)</b>	<b>0.40</b>	<b>0.45</b>	<b>0.48</b>	<b>0.31</b>	<b>0.60</b>	<b>0.00</b>	<b>0.00</b>

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (FY14A - FY18E)**

As of Dec 31 (RMB mn, except per share data)	FY14A	FY15A	FY16E	FY17E	FY18E	9M15A	9M16A
Cash and cash equivalent	14,272.62	13,083.67	15,900.85	18,775.80	27,193.70	14,250.71	14,928.92
Bills receivable	139.40	147.17	217.36	171.56	254.08	146.30	99.52
Trade receivable	513.02	572.18	573.85	558.98	631.86	721.16	704.52
Inventory	5,008.25	4,663.13	4,286.50	4,198.43	4,281.97	3,674.12	3,141.89
Other current assets	1,067.78	1,320.01	1,311.95	1,273.00	1,325.04	1,274.01	1,024.28
<b>Total current assets</b>	<b>21,001.07</b>	<b>19,786.15</b>	<b>22,290.51</b>	<b>24,977.78</b>	<b>33,686.66</b>	<b>20,066.29</b>	<b>19,899.13</b>
PP&E	13,121.34	14,558.60	15,679.11	17,009.98	17,955.76	14,138.70	12,880.03
Construction in progress	939.36	776.27	719.47	664.28	664.15	681.91	878.88
Biological assets	1,289.07	1,298.54	0.00	0.00	0.00	1,285.75	0.00
Goodwill	10.68	10.68	10.68	2,242.74	2,242.74	10.68	10.68
Other intangible assets	930.40	956.43	994.86	1,068.37	1,144.08	960.17	973.69
Other non-current assets	2,202.39	2,244.30	2,218.30	7,289.27	8,458.57	2,235.96	3,504.13
<b>Total non-current assets</b>	<b>18,493.23</b>	<b>19,844.82</b>	<b>19,622.42</b>	<b>28,274.64</b>	<b>30,465.30</b>	<b>19,313.17</b>	<b>18,247.41</b>
<b>Total assets</b>	<b>39,494.30</b>	<b>39,630.97</b>	<b>41,912.94</b>	<b>53,252.42</b>	<b>64,151.95</b>	<b>39,379.47</b>	<b>38,146.54</b>
Bills payable	266.08	563.11	512.49	242.23	443.36	364.63	358.57
Trade payable	5,280.71	6,078.85	5,977.50	5,975.94	6,456.05	6,971.16	6,370.75
ST debt	8,071.98	6,190.00	638.38	975.66	1,070.44	5,182.98	590.00
Other current liabilities	5,137.78	5,370.07	10,338.85	7,447.42	11,760.68	5,411.73	7,901.11
<b>Total current liabilities</b>	<b>18,756.55</b>	<b>18,202.02</b>	<b>17,467.23</b>	<b>14,641.26</b>	<b>19,730.53</b>	<b>17,930.50</b>	<b>15,220.43</b>
LT debt	703.97	0.29	13.79	24.90	32.55	731.84	0.29
Other non-current liabilities	1,212.22	1,282.74	1,436.47	1,686.96	1,808.30	1,248.62	1,133.78
<b>Total non-current liabilities</b>	<b>1,916.20</b>	<b>1,283.03</b>	<b>1,450.26</b>	<b>1,711.87</b>	<b>1,840.85</b>	<b>1,980.45</b>	<b>1,134.07</b>
Shareholders' equity	18,633.92	19,984.40	22,811.08	36,603.46	42,239.18	19,307.66	21,629.83
Minority interest	187.63	161.52	184.36	295.84	341.39	160.85	162.21
<b>Total equity</b>	<b>18,821.55</b>	<b>20,145.92</b>	<b>22,995.45</b>	<b>36,899.30</b>	<b>42,580.57</b>	<b>19,468.52</b>	<b>21,792.04</b>
<b>Total liabilities and equity</b>	<b>39,494.30</b>	<b>39,630.97</b>	<b>41,912.94</b>	<b>53,252.42</b>	<b>64,151.95</b>	<b>39,379.47</b>	<b>38,146.54</b>

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (FY14A - FY18E)**

FY ends at Dec 31 (RMB mn)	FY14A	FY15A	FY16E	FY17E	FY18E	9M15A	9M16A
Net profit	4,166.54	4,654.43	5,314.49	6,846.51	9,916.48	3,655.69	4,405.05
Change of working capital	(3,574.98)	2,897.65	4,568.64	(104.39)	1,012.67	2,988.74	2,369.80
Others	1,844.93	1,984.43	1,884.53	1,984.45	2,174.11	2,779.47	5,524.23
<b>Cash flow from operating activities</b>	<b>2,436.49</b>	<b>9,536.50</b>	<b>11,767.67</b>	<b>8,726.57</b>	<b>13,103.26</b>	<b>9,423.90</b>	<b>12,299.08</b>
Change in investment	(3,931.55)	(3,625.77)	(2,992.33)	(3,782.52)	(3,573.61)	(2,617.70)	(2,411.46)
Acquisition of associates' equity stake	0.00	0.00	0.00	(4,606.41)	0.00		
Others	2,932.90	138.83	1,446.95	(22.91)	(85.95)	103.15	231.67
<b>Cash flow from investing activities</b>	<b>(998.65)</b>	<b>(3,486.94)</b>	<b>(1,545.38)</b>	<b>(8,411.84)</b>	<b>(3,659.55)</b>	<b>(2,514.55)</b>	<b>(2,179.80)</b>
Change in debt	4,689.67	(2,585.67)	(5,538.12)	348.40	102.42	(2,911.69)	(5,600.00)
Cash flow related to dividend payment, interest payment, or profit distribution	(1,807.19)	(2,658.97)	(2,735.72)	(2,297.20)	(2,881.04)	(2,614.67)	(2,773.94)
Proceed from share placement	0.00	0.00	0.00	9,000.00	0.00		
Others	0.00	(1,034.38)	0.00	8,999.70	0.00	(622.60)	(0.30)
<b>Cash flow from financing activities</b>	<b>2,882.48</b>	<b>(6,279.02)</b>	<b>(8,273.84)</b>	<b>7,050.90</b>	<b>(2,778.62)</b>	<b>(6,148.96)</b>	<b>(8,374.24)</b>
<b>Net change in cash</b>	<b>4,320.31</b>	<b>(229.46)</b>	<b>1,948.44</b>	<b>7,365.64</b>	<b>6,665.09</b>	<b>760.38</b>	<b>1,745.05</b>
Cash at the beginning	8,140.46	12,460.64	12,216.72	14,170.05	21,539.35	12,460.64	12,216.72
ForEx effect	(0.13)	(14.46)	4.89	3.66	1.51	(14.26)	37.03
<b>Cash at the end of FY</b>	<b>12,460.64</b>	<b>12,216.72</b>	<b>14,170.05</b>	<b>21,539.35</b>	<b>28,205.95</b>	<b>13,206.77</b>	<b>13,998.80</b>

Source(s): Company, ABCI Securities estimates

**Key operating and financial ratios (FY14A - FY18E)**

FY ended Dec 31	FY14A	FY15A	FY16E	FY17E	FY18E	9M15A	9M16A
<b>Growth (YoY %)</b>							
Total revenue	13.93	10.88	2.31	6.69	9.44	9.06	0.64
Core revenue	12.71	9.87	2.19	6.50	8.91	8.06	1.07
- Liquid milk	14.25	11.19	3.80	6.28	8.15	N/A	N/A
- Chilled products	0.96	(4.34)	(0.15)	5.06	14.73	N/A	N/A
- Milk formula	9.09	7.21	(10.15)	3.62	5.52	N/A	N/A
- Mixed feed	34.27	35.14	13.49	33.12	30.69	N/A	N/A
- Guarantee business	N/A	2104.15	102.00	77.50	8.91	N/A	N/A
Non-core revenue	45.59	132.85	(0.87)	24.39	36.68	205.32	(5.85)
Gross profit	31.69	21.89	11.56	9.44	16.39	16.79	11.04
Core gross profit	28.65	22.65	11.06	9.68	16.52	N/A	N/A
- Liquid milk	34.98	22.93	16.14	9.33	14.51	N/A	N/A
- Chilled products	7.95	(0.85)	21.90	9.41	31.83	N/A	N/A
- Milk formula	13.64	31.56	(15.82)	6.91	15.09	N/A	N/A
- Mixed feed	84.95	74.22	4.23	73.71	56.73	N/A	N/A
Non-core gross profit	(14.33)	(17.16)	55.62	32.88	32.31	N/A	N/A
Operating profit	82.75	8.79	4.69	35.89	49.66	8.02	0.15
EBITDA	66.13	11.62	3.26	29.50	41.28	N/A	N/A
Net profit	30.03	11.76	14.01	28.97	44.81	2.23	20.69
EPS - basic	23.64	11.76	14.57	17.59	44.81	9.26	22.03
<b>Profitability ratios (%)</b>							
GPM	33.13	36.42	39.71	40.74	43.32	35.43	39.09
Core GPM	32.60	36.40	39.56	40.74	43.59	N/A	N/A
- Liquid milk	30.82	34.08	38.13	39.22	41.53	N/A	N/A
- Chilled products	35.05	36.32	44.35	46.18	53.06	N/A	N/A
- Milk formula	45.62	55.97	52.44	54.10	59.00	N/A	N/A
- Mixed feed	15.55	20.05	18.41	24.03	28.82	N/A	N/A
Non-core GPM	25.67	9.13	14.34	15.32	14.83	N/A	N/A
OPM	8.47	8.31	8.51	10.84	14.82	9.21	9.16
EBITDA margin	11.19	11.27	11.37	13.80	17.82	N/A	N/A
Pretax margin	8.79	9.15	10.26	12.47	16.50	10.57	9.51
NPM	7.61	7.67	8.55	10.34	13.68	7.93	10.67
<b>Revenue contribution (%)</b>							
Core revenue to total revenue	98.26	97.36	97.24	97.06	96.59	97.86	98.28
Non-core revenue to total revenue	0.87	1.82	1.77	2.06	2.57	1.27	1.19
Interest income to total revenue	0.88	0.82	1.00	0.88	0.84	0.87	0.54
Core revenue's composition							
- Liquid milk	79.28	80.24	81.51	81.34	80.77	N/A	79.97
- Chilled products	8.01	6.97	6.81	6.72	7.08	N/A	9.98
- Milk formula	11.24	10.97	9.65	9.39	9.10	N/A	8.62
- Mixed feed	1.46	1.80	2.00	2.50	3.00	N/A	1.39
- Guarantee business	0.00	0.02	0.03	0.05	0.05	N/A	0.04
<b>Return ratios (%)</b>							
ROAA	11.45	11.71	12.95	14.31	16.80	9.22	11.29
ROAE	23.85	23.99	24.68	22.93	25.02	19.17	21.10
ROIC	35.59	37.62	54.85	66.49	84.43	32.36	50.53
<b>Liquidity ratio (x)</b>							
Current ratio	1.12	1.09	1.28	1.71	1.71	1.12	1.31
Quick ratio	0.85	0.83	1.03	1.42	1.49	0.91	1.10
Cash ratio	0.76	0.72	0.91	1.28	1.38	0.79	0.98
<b>Cash conversion cycle (days)</b>							
Days of outstanding receivable	2.86	3.28	3.39	3.14	3.01	3.68	3.78
Days of inventory on hand	44.00	47.22	45.00	40.86	39.39	40.12	37.99
Days of outstanding payable	51.14	55.98	61.26	57.70	57.62	59.28	64.06
CCC	(4.28)	(5.48)	(12.87)	(13.70)	(15.22)	(15.48)	(22.29)
<b>Leverage ratios (%)</b>							
Total debt/Equity	46.63	30.73	2.84	2.71	2.59	30.38	2.71
Total debt/Total assets	22.22	15.62	1.56	1.88	1.72	15.02	1.55

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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