



Feihe (6186 HK) Steady growth momentum in FY19

- FY19 revenue growth reached 32.0%; revenue of the high-end IMF product segment grew 36.3% YoY, while that of the regular IMF product segment rose 23.0% YoY
- FY19 GPM increased to 70.0% from 67.5% in FY18; GPM of high-end IMF product segment and regular IMF product segment were 75.9% and 62.0% in FY19, similar to FY18; the Group's margin continues to benefit from effective cost management measures and strategy to focus on high-end products
- Extension of payable days helped lengthen the CCC, which was ~-12 days; improvement in working capital management efficiency indicates a healthy cash flow
- Maintain **BUY**; current TP implies 26.22x/20.58x 20E/21E P/E, or 7.27x/5.37x 20E/21E P/B

FY19 revenue grew 32.0% YoY. FY19 revenue growth was mainly supported by the 41.4% YoY revenue increase in the high-end IMF product segment; meanwhile, regular IMF product segment revenue grew 23.0% YoY. Overall revenue growth of IMF products reached 36.3% YoY. We believe that the FY19 revenue growth demonstrates the Group's ability in executing growth strategy and it has been able to further expand its high-end product series.

Margins improved further. FY19 GPM reached 70.0%. FY19 GPM of high-end IMF product segment was 75.9% and that of regular IMF product segment was 62.0%, comparable to FY18. FY19 NPM (to shareholders of the Company) increased to 28.7% vs 21.6% in FY18, as S&D expenses/sales ratio declined from 35.2% in FY18 to 28.0% in FY19.

Higher working capital efficiency. The Group's receivable turnover days and inventory turnover days remained stable at ~11 days and ~60 days in FY19, but payable turnover days increased to ~83 days. FY19 cash conversion cycle further decreased to ~-12 days. We believe the Group's improving working capital efficiency indicates a healthy cash flow situation and strong demand for its products.

Expect FY19-22E revenue CAGR at 21.4%. Revenue growth would be supported by the strong growth of its IMF product revenue, which will reach 22.1% FY19-22E CAGR. Revenue CAGR of high-end IMF and regular IMF product series are expected to be 19.6% and 14.9% in FY19-22E. We also expect the addition of goat milk IMF products in 2021 would help elevate growth. We project GPM and NPM (to owners of the Company) to reach 71.4% and 30.6% in FY22E, mainly supported by efficient cost management and economies of scale.

Maintain BUY; TP adjust to HK\$ 16.0. We believe that the Group would maintain its leading position in China's IMF market and brand recognition would increase, supporting income growth and margins. Maintain BUY. Our DCF-derived TP represents 26.22x/20.58x 20E/21E P/E, or 7.27x/5.37x 20E/21E P/B.

Risk factors: 1) Macroeconomic risk; 2) Demographic risk; 3) Product quality risk; 4) Supplier concentration risk; 5) Raw material cost risk; 6) Interest rate risk; 7) Foreign currency risk; 8) Product development risk.

Results and Valuation

FY ended Dec 31	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	5,887	10,392	13,722	17,521	20,967	24,569
Chg (YoY %)	58.07	76.52	32.04	27.69	19.67	17.18
Net Profit – to owners of the Company (RMB mn)	1,160	2,242	3,935	5,000	6,371	7,528
Chg (YoY %)	178.24	93.26	75.47	27.07	27.42	18.17
Basic EPS (RMB)	0.14	0.28	0.48	0.56	0.71	0.84
Chg (YoY %)	180.00	100.00	71.43	16.60	27.42	18.17
P/E (x)	101.24	50.62	29.53	25.33	19.88	16.82
BVPS (RMB)	0.43	0.72	1.46	2.02	2.73	3.57
P/B (x)	32.77	19.61	9.72	7.02	5.19	3.97
Dividend (HK\$)	N/A	N/A	0.19	0.20	0.25	0.30
Dividend yield (%)	N/A	N/A	1.49	1.54	1.96	2.31
ROAA (%)	19.82	23.76	22.57	21.98	23.87	22.29
ROAE (%)	38.92	47.85	41.82	32.20	30.03	26.73

Source(s): The Group, ABCI Securities estimates

Company Report

Mar 31, 2020
Rating: **BUY**
TP: HK\$ 16.0

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Share price (HK\$)	13.90
52WK H/L (HK\$)	14.42/6.26
Est. share price return	15.21%
Est. dividend yield	1.44%
Est. total returns	16.65%
Previous rating/TP	BUY/HK\$13.74

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued shares (mn)	8,933.34
Mkt cap (HK\$ mn)	124,173.43
ADT since IPO (HK\$mn)	174.98
Shareholding (%)	
Garland Glory Holdings	43.32
North Haven Private Equity Asia	18.59
Dasheng LTD	4.45

Source(s): Bloomberg, the Group

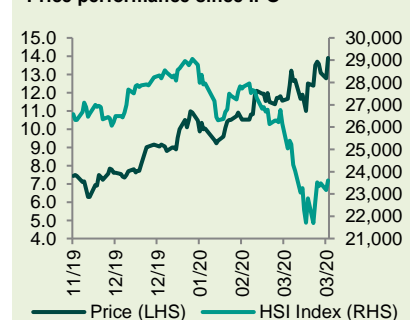
Price performance (%)

	Absolute	Relative*
1-mth	21.08	30.61
3-mth	51.91	67.80
6-mth	N/A	N/A

* Relative to HSI

Source(s): Bloomberg

Price performance since IPO



Source(s): Bloomberg, ABCI Securities

Note: Market data as of Mar 31, 2020

RMB/HKD: 1.0911



Exhibit 1: Change in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY20E	FY21E	FY20E	FY21E	
Assumptions					
GPM (%)	70.5	71.4	70.7	71.0	Adjusted due to potential impact of higher raw material costs and donation related to coronavirus outbreak
Pretax margin (%)	40.5	43.1	42.0	43.8	
NPM (to shareholders of the Company) (%)	28.5	30.4	29.9	31.2	
D/E (%)	0.0	0.0	6.1	4.4	Adjusted due to Company guidance
D/A (%)	0.0	0.0	4.6	3.5	
Tax rate (%)	29.5	29.5	28.8	28.7	Adjusted based on FY19 rate
Revenue growth (YoY %)	27.7	19.7	29.4	21.8	Adjusted due to the potential impact of coronavirus outbreak and slightly higher than expected FY19 growth performance
- High-end product series	31.6	16.4	28.1	10.7	
- Regular product series	20.8	13.5	37.6	22.3	
- Other dairy products	14.2	8.4	16.8	12.2	
- Other	15.0	17.0	15.0	17.0	
Projections					
DRO (days)	12.8	12.8	12.8	12.8	Adjusted based on the performance in FY19
DIH (days)	60.5	60.1	60.5	60.1	
DPO (days)	82.0	82.6	79.3	80.4	
CCC (days)	(8.8)	(9.6)	(6.0)	(7.5)	
ROAA (%)	22.0	23.9	20.8	21.0	Adjusted based on the performance in FY19
ROAE (%)	32.2	30.0	27.9	26.9	
EPS (RMB)	0.56	0.71	0.58	0.74	Adjusted based on FY19 performance and projection of future performance
Valuations					
TP (HK\$)	16.0		13.74		Adjusted due to consistent growth of existing cow milk IMF products and new growth potential brought by the goat milk IMF products
P/E (x)	26.22	20.58	21.20	16.65	
P/B (x)	7.27	5.37	6.86	5.18	

Note: 1) Other products include nutritional supplement and baby & toddler food products; 2) Previous report was published on Mar 3, 2020

Source(s): The Group, ABCI Securities estimates



Financial statement of the Group

Consolidated income statement

FY ends at Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,887	10,392	13,722	17,521	20,967	24,569
- COW Milk - IMF	5,417	9,199	12,538	16,165	18,706	20,860
- High-end IMF product series	3,795	6,658	9,411	12,387	14,418	16,111
- Regular IMF product series	1,621	2,542	3,127	3,778	4,288	4,748
- GOAT Milk - IMF	0	0	0	0	734	1,942
- Other dairy products	471	550	605	691	749	834
- Other products	0	642	578	665	778	934
Cost of sales	(2,097)	(3,373)	(4,112)	(5,168)	(6,000)	(7,017)
Gross profit	3,790	7,019	9,610	12,353	14,967	17,552
- COW Milk - IMF	3,761	6,684	9,081	11,966	14,042	15,777
- High-end IMF product series	2,814	5,091	7,141	9,526	11,246	12,655
- Regular IMF product series	947	1,593	1,940	2,440	2,797	3,122
- GOAT Milk - IMF	0	0	0	0	474	1,234
- Other dairy products	29	104	210	132	150	177
- Other products	0	231	319	256	300	364
Admin expenses	(361)	(580)	(913)	(1,115)	(1,131)	(1,352)
Selling expenses	(2,139)	(3,661)	(3,848)	(4,829)	(5,396)	(6,282)
Net finance costs	(21)	(59)	(73)	(103)	0	0
Others	0	0	1	1	1	1
Pretax profit	1,651	3,189	5,683	7,091	9,040	10,671
Tax	(491)	(946)	(1,748)	(2,092)	(2,669)	(3,143)
Net profit	1,160	2,242	3,935	5,000	6,371	7,528
- Owners	1,160	2,242	3,935	5,000	6,371	7,528
- MI	0	0	0	0	0	0
Dividend	0	0	0	1,500	1,911	2,258
EPS (RMB)						
- Basic	0.14	0.28	0.48	0.56	0.71	0.84
- Diluted	0.14	0.28	0.48	0.55	0.70	0.83
DPS (HK\$)	0.00	0.00	0.19	0.20	0.26	0.30

Note: Other products include nutritional supplement and baby & toddler food products

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Bank balances and cash	2,771	3,641	7,377	9,344	14,889	18,043
Trade and bills receivables	175	513	314	911	564	1,064
Inventory	395	660	686	1,028	948	1,327
Others	1,082	2,481	8,911	4,565	7,516	8,561
Current assets	4,423	7,295	17,289	15,848	23,918	28,995
PP&E	1,431	2,555	3,971	4,556	5,062	5,435
Land use rights	119	306	377	192	164	147
Investment in an associates	143	143	143	143	143	143
Others	899	1,559	1,224	1,760	1,594	1,960
Non-current assets	2,591	4,563	5,715	6,651	6,962	7,684
Total assets	7,014	11,857	23,004	22,499	30,880	36,679
Trade and bills payable	514	833	1,042	1,282	1,433	1,776
ST borrowings	903	1,083	3,094	0	0	0
Others	1,672	2,944	3,303	2,782	3,585	2,494
Current liabilities	3,089	4,860	7,439	4,064	5,017	4,269
LT Borrowing	64	657	1,716	0	0	0
Others	275	552	820	405	1,463	482
Non-current liabilities	339	1,210	2,536	405	1,463	482
Shareholders' capital	3,585	5,787	13,030	18,029	24,400	31,928
MI	0	0	0	0	0	0
Total equity	3,585	5,787	13,030	18,029	24,400	31,928
Total liabilities and equity	7,014	11,857	23,004	22,499	30,880	36,679

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	1,651	3,189	5,683	7,091	9,040	10,671
Depreciation and amortization	98	162	181	168	154	145
Change in working capital	1,174	659	607	(1,771)	1,669	(2,132)
Others	(699)	(888)	(1,290)	(690)	(3,744)	(2,955)
Cash flow from operating activities	2,224	3,121	5,181	4,798	7,119	5,729
PP&E and right-of-use assets	(406)	(1,083)	(1,349)	(539)	(476)	(356)
Structured deposits & time deposits	(1,145)	(1,857)	(4,606)	2,243	(2,096)	(1,245)
Others	(128)	(332)	440	131	(355)	(177)
Cash flow from investing activities	(1,680)	(3,272)	(5,515)	1,835	(2,928)	(1,779)
Change in borrowing	465	752	3,070	(4,810)	0	0
Placement of pledged bank deposits	(243)	(1,200)	(12)	(84)	(88)	(92)
Others	0	(61)	1,065	(145)	(30)	(22)
Cash flow from financing activities	222	(509)	4,123	(5,039)	(118)	(115)
Net change in cash	766	(660)	3,789	1,594	4,073	3,835
Cash and cash equivalent - beg	817	1,566	896	4,659	6,245	10,293
ForEx Impact	1	(9)	(26)	(8)	(25)	51
Cash and cash equivalent - end	1,584	896	4,659	6,245	10,293	14,179

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Growth (YoY %)						
Revenue	58.1	76.5	32.0	27.7	19.7	17.2
Cow - IMF	70.3	69.8	36.3	28.9	15.7	11.5
Goat - IMF	N/A	N/A	N/A	N/A	N/A	164.6
Other dairy products	(13.4)	16.9	10.0	14.2	8.4	11.3
Other products	N/A	N/A	(10.0)	15.0	17.0	20.0
Gross profit	86.4	85.2	36.9	28.5	21.2	17.3
Pretax profit	177.5	93.1	78.2	24.8	27.5	18.0
Net profit (to shareholders of the Company)	178.2	93.3	75.5	27.1	27.4	18.2
Profitability ratios (%)						
GPM	64.4	67.5	70.0	70.5	71.4	71.4
Cow - IMF	69.4	72.7	72.4	74.0	75.1	75.6
Goat - IMF	N/A	N/A	N/A	N/A	64.6	63.5
Other dairy products	6.2	18.9	34.7	19.0	20.1	21.2
Other products	N/A	35.9	55.1	38.5	38.6	39.0
Pretax margin	28.0	30.7	41.4	40.5	43.1	43.4
NPM (to shareholders of the Company)	19.7	21.6	28.7	28.5	30.4	30.6
Return ratios (%)						
ROAA	19.8	23.8	22.6	22.0	23.9	22.3
ROAE	38.9	47.8	41.8	32.2	30.0	26.7
Liquidity ratio (x)						
Current ratio	1.4	1.5	2.3	3.9	4.8	6.8
Quick ratio	1.3	1.4	2.2	3.6	4.6	6.5
Cash ratio	0.9	0.9	1.4	2.5	3.3	4.6
Working capital turnover (days)						
Receivable turnover	8.3	12.1	11.0	12.8	12.8	12.1
Inventory turnover	59.9	57.1	59.7	60.5	60.1	59.2
Payable turnover	76.1	72.9	83.2	82.0	82.6	83.4
Cash conversion cycle	(7.9)	(3.8)	(12.5)	(8.8)	(9.6)	(12.2)
Leverage ratios (%)						
Total debt to Equity	27.0	30.1	36.9	0.0	0.0	0.0
Total debt to Total assets	13.8	14.7	20.9	0.0	0.0	0.0
Net debt to Equity	(68.1)	(65.4)	(77.5)	(68.4)	(85.0)	(77.9)
Net debt to Total assets	(34.8)	(31.9)	(43.9)	(54.8)	(67.2)	(67.8)

Note:1) Other products include nutritional supplement and baby & toddler food products

Source(s): The Group, ABCI Securities estimates

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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.

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