



Industry Report

China Dairy Industry May 16, 2013

Sector Rating: Overweight

Key Data

Average FY12E PE (x)	20.8
Average FY12E PB (x)	3.78

Source: Bloomberg, ABCI Securities

Results in FY2012

	ROAA(%)	ROAE(%)	D/E(%)
Mengniu	8.7	14.2	Net cash
Modern Dairy	4.8	8.5	54.0
Biotime	22.6	34.8	Net cash
Yashili	9.8	13.5	Net cash

Source: Company

Average share performance (%)

	Absolute	Relative*
1-mth	11.0	6.9
3-mth	15.3	17.1
6-mth	58.5	50.0

*Relative to Hang Seng Index

Source: Bloomberg

1 year share price performance



Source: Bloomberg

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Positive Outlook

We initiate coverage on the China Dairy sector with positive outlook. Our top pick is Mengniu (2319 HK) as we expect the stock to breakthrough in 2013 due to continue upgrade in product mix. We also favor China Modern Dairy (1117 HK) as we expect 2013-2014 will be the harvesting period for the group after heavy initial capital investments since listed in 2010. We give HOLD rating to Yashili (1230 HK) and Biotime (1112 HK) after they have risen by over 60% since the beginning of this year.

Upstream: After a series of food safety issue, the government pushed for modernization and expansion in standardized large-scale dairy farms and consolidation of the upstream dairy industry. Meanwhile, the government set a target for which raw milk production is expected to reach 48mn tons in 2013 with a CAGR of 15% during 2011-2013. We expect raw milk price to trend up moderately in 2013 given slower growth rate in feed costs. We favor large scale upstream raw milk producer due to supportive government measures and strong demand for high quality raw milk driven by increasing purchasing power and food safety awareness.

Downstream (Liquid milk): After the melamine scandal in 2008, the government have raised entry barrier of the industry through raising level of production standards, initial investments and stricter control on product quality. The total number of manufacturers in the domestic industry dropped from 828 in 2010 to 649 in 2012. Liquid milk market in China is dominated by domestic players. We believe with the well-established brand name, economies of scale and higher level of production standards, the market leaders will continue to be the beneficiaries of stricter production standards, and the leading position of Mengniu and Yili are unlikely to be replaced in coming few years.

Downstream (Infant formula): The market is dominated by international producers but domestic players who use imported milk sources and positioned themselves as high-end producers has a niche to compete.

Risk factors: Food safety risks, market competition, management risks

Results and valuation

Company	Code	Rating	Price (HK\$)	Upside (%)	2013F PER (x)	2013F PB (x)	2013F Yield (%)
Mengniu	2319 HK	BUY	24.35	15.5	19.0	2.5	1.2
Modern Dairy	1117 HK	BUY	2.65	10.6	23.0	1.8	0.0
Biotime	1112 HK	HOLD	43.15	1.5	24.0	7.8	2.9
Yashili	1230 HK	HOLD	3.41	5.9	17.2	3.0	4.1

Source: Bloomberg, ABCI Securities estimates



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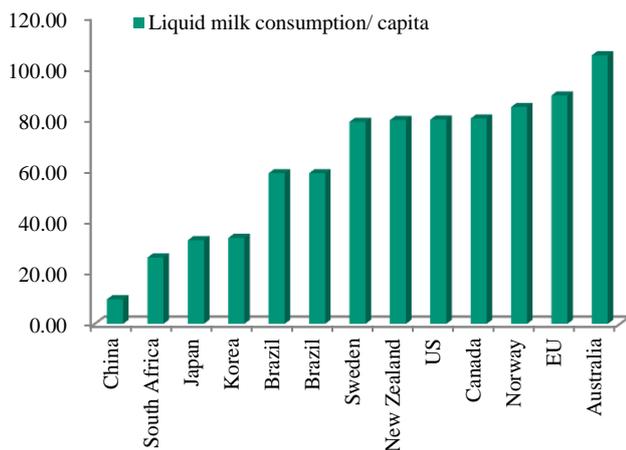
Industry outlook

Growth from purchasing power

Domestic dairy products industry growth is and will continue to be driven by population growth, dairy products consumption per capita growth and ASP growth, all of which are in turn dependent on level of disposable income.

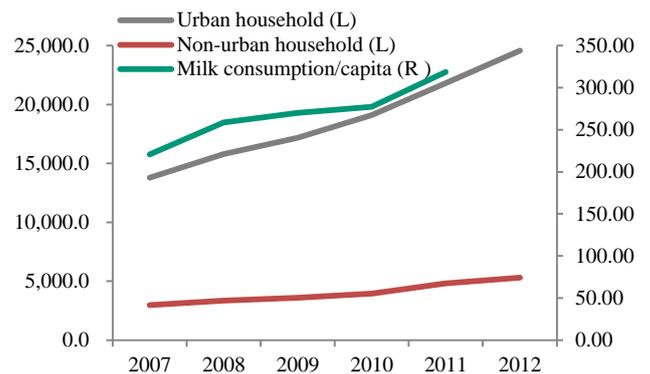
Total dairy consumption in China reached 35.8 million tonnes in 2012, which are similar to the consumption level in Brazil and are 3x of Australia. However, on a per capita basis, China's consumption is low. Liquid milk consumption per capita in China was only 9.0 grams per day, which was only one third of Japan's and Korea's consumption and was only 10% of the US's and EU's consumption. Therefore, there is enormous potential for China's dairy products consumption to grow. In addition, dairy products consumption per capita in rural area was only 3.6g, which was only 23% of the total consumption in urban area in China. As it is expected that urbanization rate will increase to 55% in 2015, the acceleration of urbanization will also lead to an increase in per capita consumption on dairy products.

Exhibit: Liquid milk consumption/capita in 2010



Source: China Dairy Yearbook 2010; NBSC

Exhibit: Income vs Spending on dairy products



In turn, the level of disposable income becomes a key factor in driving domestic consumption on dairy products. Urban disposable income per capita climbed from Rmb15,780 in 2008 to Rmb24,565 in 2012, representing CAGR of 11.7% while rural areas disposable income per capita increased from Rmb3,370 in 2008 to Rmb5,313 in 2012, representing CAGR of 12.1%.

Milk consumption per capita in China increased from Rmb258 in 2008 to Rmb263 in 2012, representing CAGR of 0.5%. The slower growth rate of milk consumption per capita in comparison to the level of disposable income was mainly due to a the melamine scandal in Sep 2008. Milk consumption per capita in China increased by 4.4%/2.6% YoY in 2009/2010 but quickly rebounded to 15.0% in 2011, which was only slightly below 17.1% in 2008. From our point of view, the melamine incident caused a short term demand shock but it raised increasing awareness on products quality, which is a potential cause to increasing spending on dairy products with higher quality, leading to higher milk consumption per capita in terms of value.

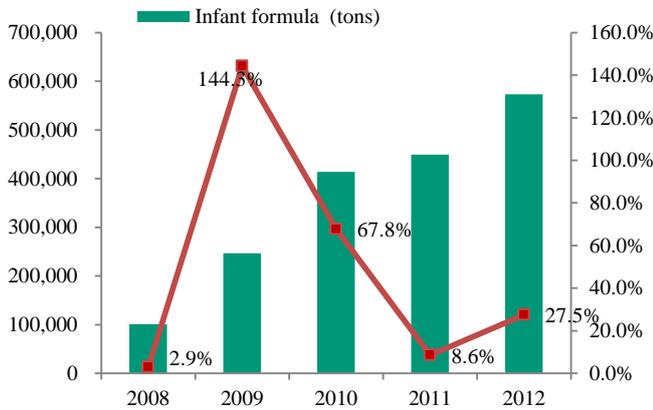


Resuming consumer confidence on domestic products?

In our view, consumers are confident on quality of local milk but are lack of the confidence on corporate governance of infant formula. The confidence in local milk products can be shown in the significantly larger liquid milk market (in comparison to the infant formula milk market) which is dominated by local players. In 2010, China liquid milk production reached 18.3mn tons and only imported 17,119 tons of liquid milk.

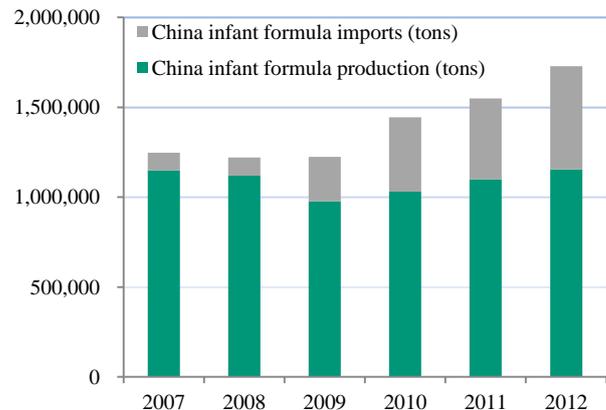
On the other hand, infant formula market is dominated by foreign players. After the melamine scandal in 2008, infant formula imports increased by 144% YoY in 2009 and growth rate ranged from 8.6% to 67.8%, which is relatively strong throughout 2010-2012 in comparison with domestic infant formula production. Infant formula production in China dropped 12.8% YoY in 2009 and posted positive growth of 5.0-6.8% during 2010 to 2012. Due to a slower growth in domestic production and a huge demand in imports, imports of infant formula as a percentage of total domestic infant formula consumption increased from 8.3% in 2008 to 33% in 2012. The figures indicated that food safety risks resulting from inefficient corporate governance have caused Chinese families to turn to foreign brand dairy products which are considered to be of a higher quality, and consumer confidence in infant formula milk markets are yet to be re-built.

Exhibit: China infant formula imports



Source: NBSC, USDA

Exhibit: China infant formula production vs imports



Market leaders in liquid milk market such as Mengniu and Yili have integrated upwards to build large scale ranches and invest in milk farms as minority stakes in order to gain better quality control on raw milk sources and to secure a stable supply of premium milk sources to continue to grow their liquid milk market. In our view, once they have gained more than enough control of premium milk sources for their liquid milk products, the market leaders will expand their high-end product lines more aggressively to obtain higher margin. Therefore, it is likely to see both upward integration and horizontal integration (in the downstream) for the market leaders.

Smaller players, on the other hand, tend to import high quality raw milk sources from overseas to produce high-end products in satisfying the shift in consumer taste into better quality products as a result of increasing level of disposable income and food safety concerns. This business model is a light asset model and can achieve higher ROAA and ROAE than the capital intensive upstream business. Therefore, given that global milk sources supply



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is abundant, it is unlikely that small players will integrate upwards. In our view, the light asset model allow smaller players to achieve higher growth than larger players in the short term but they will be more prone to fluctuation in global raw milk prices and will face increasing competition from both foreign and domestic players who will integrate horizontally to capture the market share of the highly profitable business.



Competitive landscape

In terms of revenue, the largest players in the domestic dairy industry are Yili and Mengniu which accounted for 18.4% and 15.9% of the market share in 1H2012. After the melamine scandal in 2008, the government have raised entry barrier of the industry through raising level of production standards, initial investments and stricter control on product quality. The total number of manufacturers in the domestic industry dropped from 828 in 2010 to 649 in 2012. Total market share of the two players rose from 31.4% in 2007 to 34.3% in 1H2012. Given that the third largest players, Bright Dairy, only had a market share of 1/3 of the market leaders, we believe with the well-established brand name, economies of scale and higher level of production standards, the market leaders will continue to be the beneficiaries of stricter production standards and the leading position of Mengniu and Yili are unlikely to be replaced in coming few years.

Exhibit: Sales of top dairy products producers in China

Revenue (Rmb mn)	FY07	FY08	FY09	FY10	FY11	FY12
Mengniu	21,318	23,865	25,710	30,265	37,388	36,080
Yili	19,360	21,659	24,324	29,665	37,451	41,991
Bright Dairy	8,206	7,359	7,943	9,572	11,789	13,775
Beingmate	1,200	1,938	3,245	4,028	4,727	5,354
Yashili			2,586	2,954	2,958	3,655
Sanyuan	1,102	1,414	2,380	2,572	3,070	3,553
Biostime			559	1,234	2,189	3,382
Others	79,691	95,808	98,562	116,200	141,858	-
Market total	129,677	150,104	158,919	188,275	231,556	-

Market Share

Mengniu	16.4%	15.9%	16.2%	16.1%	16.1%	-
Yili	14.9%	14.4%	15.3%	15.8%	16.2%	-
Bright Dairy	6.3%	4.9%	5.0%	5.1%	5.1%	-
Beingmate	0.9%	1.3%	2.0%	2.1%	2.0%	-
Yashili			1.6%	1.6%	1.3%	-
Sanyuan	0.9%	0.9%	1.5%	1.4%	1.3%	-
Biostime			0.4%	0.7%	0.9%	-
Others	61.5%	63.8%	62.0%	61.7%	61.3%	-
Market total	100.0%	100.0%	100.0%	100.0%	100.0%	-

Revenue growth

Mengniu		11.9%	7.7%	17.7%	23.5%	-3.5%
Yili		11.9%	12.3%	22.0%	26.2%	12.1%
Bright Dairy		-10.3%	7.9%	20.5%	23.2%	16.8%
Beingmate		-	61.5%	67.4%	24.1%	13.3%
Yashili				14.2%	0.1%	23.6%
Sanyuan		28.2%	68.3%	8.1%	19.4%	15.7%
Biostime				120.7%	77.5%	54.5%
Others		20.2%	2.9%	17.9%	22.1%	-
Market total		15.8%	5.9%	18.5%	23.0%	-

Source: Company annual reports, Wind



For Mengniu and Yili, over 70% of their revenues were mainly contributed from the liquid milk segment. Within the liquid milk segment, Mengniu is the largest player in the industry, followed by Yili. In 2011, Mengniu's revenue is 1.44x of Yili's but dropped to 1.00x in 2012 partly due to the M1 Flavacin found in Mengniu's products in the end of 2011. The brand name of Mengniu and Yili have been well-established in China

The liquid milk products remained the major products of the domestic dairy products players due to the nature of the products itself. A shorter shelf life and the need for refrigeration enable the liquid milk producers to face relatively less competition from foreign competitors in comparison to dry dairy products producers. In addition, an imported tax of 15%, sales tax of 17% plus transportation costs and distribution costs, 1 litre of imported UHT milk are priced at over Rmb20.0 in China, which are 3 times higher than domestic UHT milk. Total imports of liquid milk accounted for 0.09% of total liquid milk consumption in China. Having said that, imports of liquid milk is increasing as continue enhancement in technology and raw milk sources allow imported UHT milk to have a shelf life of 9 to 12 months, while the increasing level of disposable income creates an increasing demand in higher-priced milk.

Exhibit: Sales of top dairy products producers in China (Liquid milk segment only)

Revenue (Rmb mn)	FY07	FY08	FY09	FY10	FY11	FY12
Mengniu	21,318	23,865	25,710	30,265	37,388	32,337
Yili	13,255	16,331	17,727	22,507	25,936	32,271
Bright Dairy (All dairy products)	8,206	7,359	7,943	9,572	11,789	9,888
Sanyuan		1,214	2,247	2,600	1,124	3,628
Revenue growth						
Mengniu		11.9%	7.7%	17.7%	23.5%	-13.5%
Yili		23.2%	8.5%	27.0%	15.2%	24.4%
Bright Dairy (All dairy products)		-10.3%	7.9%	20.5%	23.2%	-16.1%
Sanyuan		-	85.1%	15.7%	-56.8%	222.8%

Source: Company annual reports

In contrast, competition in domestic infant formula market in which imports accounted for 33% of total consumption (in terms of volume) in China is more intense. Sales from infant formula contributed to less than 11% of Yili's total sales in 2012 and even less than 2% of Mengniu's total sales for the same period. Major foreign competitors include Mead Johnson, Danone and Abbott, which accounted for over 45% of total market share in 2009 in terms of revenue whereas Yili and Beingmate, the two largest domestic players in the segment, accounted for a total of ~18% of the market share for the same period.

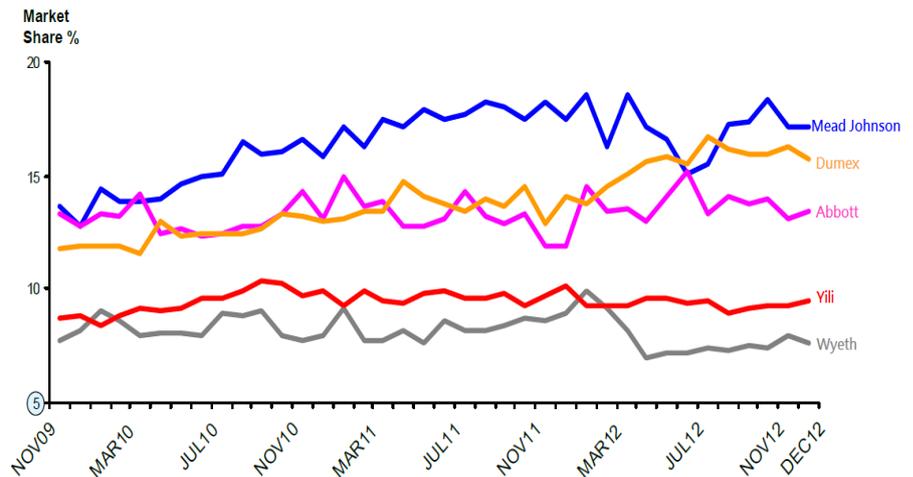
Exhibit: Sales of top dairy products producers in China (Infant formula segment only)

Revenue (Rmb mn)	FY07	FY08	FY09	FY10	FY11	FY12
Yili	2,720	3,233	3,964	4,623	5,642	4,484
Beingmate		1,501	2,730	3,470	4,247	4,974
Yashili	2,328	2,267	2,061	2,440	2,435	3,132
Biostime		41	238	794	1,685	2,715
Mengniu	177	170	289	282	428	572
Revenue growth						
Yili	35.40%	18.9%	22.6%	16.6%	22.0%	-20.5%
Beingmate	-	-	81.9%	27.1%	22.4%	17.1%
Yashili	-	-2.6%	-9.1%	18.4%	-0.2%	28.6%
Biostime	-	-	480.5%	233.6%	112.2%	61.1%

Source: Company annual reports



Exhibit: Market share of China infant formula market



Source: AC Nielsen, ABCI Securities

The relatively lower base and higher margin, however, provides a higher growth potential which attracts niche players to join the infant formula market in China. After the Melamine incident in 2008, Biostime and Yashili have been producing their infant formula with imported raw milk sources. Aiming at high-end customers, they enjoy a GP margin of over 50% in FY12, in comparison to an average of 27% of the liquid milk producers.

Peers: Profitability comparison, FY12

Ticker	Stock name	Latest FY end	GP margin (%)	NP margin (%)	ROAA (%)	ROAE (%)	Net D/E (%)
Dairy products producers listed in HK							
2319 HK	Mengniu	12/2012	25.10	3.48	6.10	10.51	(41.58)
1117 HK	China Modern Dairy	06/2012	31.53	24.28	5.12	8.19	40.38
1112 HK	Biostime	12/2012	65.91	21.97	24.89	34.56	(60.71)
1230 HK	Yashili	12/2012	53.67	12.82	9.17	11.89	(61.83)
	Simple average		44.05	15.64	11.32	16.29	-
	Max		65.91	24.28	24.89	34.56	-
	Min		25.10	3.48	5.12	8.19	-
Dairy product producers in A-share markets							
600887 CH	Inner Mongolia Yili	12/2012	29.31	4.11	8.10	18.63	7.72
600597 CH	Bright Dairy	12/2012	34.81	2.27	3.85	10.00	(15.98)
600429 CH	Beijing Sanyuan	12/2012	22.27	0.93	0.44	0.86	19.84
	Simple average		28.80	2.44	4.13	9.83	-
	Max		34.81	4.11	8.10	18.63	-
	Min		22.27	0.93	0.44	0.86	-
F&B Sector – HK listed companies							
322 HK	Tingyi	12/2012	29.90	4.94	6.85	19.57	18.69
151 HK	Want Want	12/2012	39.54	16.49	16.82	37.86	(30.94)
168 HK	Tsingtao Brewery	12/2012	34.55	7.46	7.57	14.65	(39.30)
220 HK	Uni-president	12/2012	34.58	4.00	5.65	11.82	21.90
606 HK	China Agri Industries	12/2012	6.42	1.34	1.70	5.01	71.14
506 HK	China Foods	12/2012	21.02	1.24	1.98	5.67	13.57
1068 HK	China Yurun	12/2012	1.49	(2.26)	(2.37)	(3.83)	28.70
829 HK	Shenguan	12/2012	58.19	45.39	29.48	35.21	(21.04)
345 HK	Vitasoy	03/2012	47.35	7.56	10.14	21.03	11.41
1115 HK	Tibet 5100	12/2012	81.37	60.22	17.55	20.25	(60.50)
1886 HK	China Huiyuan Juice	12/2012	28.01	0.41	0.15	0.31	61.31
	Simple average		34.77	13.34	8.69	15.23	-
	Max		81.37	60.22	29.48	37.86	-
	Min		1.49	(2.26)	(2.37)	(3.83)	-

Net D/E= Net debt/Total equity

Source: Company annual reports, Bloomberg, ABCI Securities



To avoid direct competition with the international brands, the niche players tend to focus in second and third-tier cities and distribute their products via non-mass channels such as maternity stores. For instance, maternal/mass accounted for 60%/35% of the global brand's revenue in comparison to 24%/69% of Biostime's.

Apart from quality, brand is the most important criteria for infant formula consumers and advertising is one of the most important channels for brand building and communicating with customers. Selling and distribution expenses, of which the advertising expenses are incorporated, accounted for over 30 % of Biostime and Yashili total revenue, in comparison to less than 20% of Mengniu and Yili. In addition to advertising, selling products through maternal channels is also one way in differentiating the products through parents education by trained sales people

Exhibit: Sales breakdown by distribution channel in 2012

Channels	Global brands	Biostime
Maternal channel	35%	69%
Mass channel (Hyper/Supermarket)	60%	24%
Online channel	5%	7%

*Global brands include Mead Johnson, Dumex, Abbott, Wyeth

Source: Company annual reports

Exhibit: Sales breakdown by distribution channel in 2012

Channels	Yashili
First-tier cities(1)	12.1%
Second-tier cities(2)	49.4%
Third-tier cities and others(3)	38.5%

Source: Company annual report

Given the dominate market position in the liquid milk market, Mengniu and Yili have a negative cash conversion cycle which is comparable to Tingyi, the largest HK-listed F&B stock in terms of revenue. We believe the liquid milk segment can provide strong cash flow for Mengniu and Yili to expand its products portfolio, including the highly profitable infant formula business, increasing the competition in the particular market.

Exhibit: Working capital management comparison with other well-known F&B players

			Receivables Turnover days	Inventory Turnover days	Payable turnover days	Cash conversion days
Dairy products producers listed in HK						
2319 HK	Mengniu	FY12	8.3	21.0	49.7	(20.5)
1117 HK	China Modern Dairy	FY12	34.6	43.6	119.2	(119.2)
1112 HK	Biostime	FY12	0.5	129.9	62.9	67.5
1230 HK	Yashili	FY12	4.0	132.6	188.5	(51.9)
Dairy product producers in A-share markets						
600887 CH	Inner Mongolia Yili	FY12	3.7	37.8	62.4	(20.9)
600597 CH	Bright Dairy	FY12	33.2	49.5	56.4	26.3
002570 CH	Beingmate	FY12	19.4	107.5	81.3	45.6
600429 CH	Beijing Sanyuan	FY12	26.3	36.1	40.8	21.5
F&B Sector – HK listed companies						
322 HK	Tingyi	FY12	7.7	22.4	55.7	(25.6)
151 HK	Want Want	FY12	17.8	78.5	38.9	57.3
168 HK	Tsingtao Brewery	FY12	3.7	51.7	48.3	7.1
220 HK	Uni-president	FY12	8.8	33.4	34.4	7.8
606 HK	China Agri Industries	FY12	19.9	82.6	15.0	87.5
506 HK	China Foods	FY12	26.4	80.9	25.8	81.5
1068 HK	China Yurun	FY12	7.5	21.6	12.0	17.1
829 HK	Shenguan	FY12	38.7	103.0	23.9	117.7
345 HK	Vitasoy	FY12	66.4	69.9	71.3	65.0
1115 HK	Tibet 5100	FY12	186.9	52.8	120.7	119.0
1886 HK	China Huiyuan Juice	FY12	64.7	175.9	129.5	111.1

Source: Company annual reports, Bloomberg



Peers comparison

The HK-listed dairy product producers are traded on average at est FY13 PE of 20.9x which is 11% lower than the valuation of the F&B sector. Unlike upstream raw milk producer China Modern Dairy, and downstream infant formula producers Biostime and Yashili, liquid milk producer Mengniu has a much longer listing history. And since there is no direct comparable peer in HK, it would be appropriate to benchmark Mengniu with Yili as well as its own historical PE valuation. At present, Mengniu is trading at 22%/31% discount to its/Yili historical 5-yr average PE (25.3x vs 28.6x of Yili). Given relatively short listing history, we valued China Modern Dairy, Biostime and Yashili using DCF model.

Exhibit: Market value comparison						
Ticker	Stock name	Price* HK\$	FY12 PER (x)	FY13F PER (x)	FY14F PER (x)	Historical P/B (x)
Dairy products producers listed in HK						
2319 HK	Mengniu	24.35	27.40	19.04	16.42	2.45
1117 HK	China Modern Dairy	2.65	25.63	22.97	16.96	1.84
1112 HK	Biostime	43.15	27.84	24.00	19.89	7.81
1230 HK	Yashili	3.41	20.51	17.25	14.32	2.98
	Simple average		25.35	20.82	16.90	3.77
	Max		27.84	24.00	19.89	7.81
	Min		20.51	17.25	14.32	1.84
Dairy product producers in A-share market						
600887 CH	Inner Mongolia Yili	29.31	26.92	22.69	18.27	4.28
600597 CH	Bright Dairy	14.90	51.85	40.38	29.56	4.48
002570 CH	Beingmate	40.00	33.33	25.92	20.94	5.02
600429 CH	Beijing Sanyuan	5.34	307.76	-	-	2.64
	Simple average		104.97	29.66	22.93	4.10
	Max		307.76	40.38	29.56	5.02
	Min		26.92	22.69	18.27	2.64
International product producers						
	Nestle		20.24	19.14	17.58	3.53
	Abbott		8.72	18.37	16.40	2.56
	Danone		21.14	18.61	16.84	2.87
	Heinz		20.32	20.27	19.08	7.66
	Mead Johnson		25.82	24.56	21.88	222.27
	Simple average		19.25	20.19	18.36	47.78
	Max		25.82	24.56	21.88	222.27
	Min		8.72	18.37	16.40	2.56
F&B Sector – HK listed companies						
322 HK	Tingyi	6.63	31.85	28.46	23.54	5.68
151 HK	Want Want	11.90	36.90	30.32	25.77	12.82
168 HK	Tsingtao Brewery	1.36	30.82	27.06	23.44	4.27
220 HK	Uni-president	9.87	29.10	23.07	20.00	3.25
606 HK	China Agri Industries	11.03	14.70	11.01	8.86	0.79
506 HK	China Foods	5.99	33.21	21.21	17.87	1.87
1068 HK	China Yurun	14.60	-	-	10.84	0.65
829 HK	Shenguan	1.95	14.03	12.39	10.75	4.48
345 HK	Vitasoy	0.57	35.57	33.65	29.04	7.13
1115 HK	Tibet 5100	1.74	13.07	11.95	10.45	2.44
1886 HK	China Huiyuan Juice	1.59	241.14	33.16	37.89	0.74
	Simple average		48.04	23.23	19.86	4.01
	Max		241.14	33.65	37.89	12.82
	Min		13.07	11.01	8.86	0.65

*: The share prices were dated on 13 May, 2013

Source: Bloomberg, ABCI Securities estimates



In addition to DCF models, we believe international infant formula producers can be taken as a reference in evaluating Biostime and Yashili. The average FY13 PE of the international dairy products producers (including Nestle, Abbott, Danone, Heinz and Mead Johnson) is 20.0x. Out of the international dairy producers, we believe Mead Johnson will be more comparable to Biostime and Yashili due to a more comparable revenue mix and greater exposure to China. The international players derived less than 20% of revenue from infant formula and less than 20% from China while the particular segment contribute 60% to Mead Johnson's revenue, and revenue from China accounted for 30% of its revenue. Mead Johnson generated US\$1.16bn in HK/China market in 2012 and has been the largest market player in the China infant formula market since 2012 (~17% market share in 2012). Because of the leading position Mead Johnson, we believe the PE valuation of the group will become the upper bound of Biostime's and Yashili's PE valuation. Mead Johnson is trading at 24.6x PE, the highest amongst all the international players.

Exhibit: Revenue breakdown (2012)

Nestle (CHF mn)

Beverages	21.7%	US	31.3%
Milk Products and Ice Cream	20.1%	Asia, Oceania and Africa	20.5%
Prepared dishes and Cooking Aids	15.6%	Europe	16.7%
PetCare	11.7%	Others	31.5%
Nutrition	11.6%	Total	100.0%
Confectionary	11.3%		
Others	7.9%		
Total	100.0%		

Abbott Lab (USD mn)

Pharmaceutical	58.0%	US	42.1%
Nutritionals		Japan	6.1%
Pediatric Nutritionals	8.8%	Netherlands	4.7%
Adult Nutritionals	7.4%	Germany	4.4%
Others Nutritionals	0.0%	Canada	3.1%
Diagnostics	10.8%	France	2.9%
Vascular	7.7%	Italy	2.8%
Diabetes Care & Other	3.3%	UK	2.6%
Others	4.0%	Spain	2.4%
Total	100.0%	India	2.3%
		Others	26.5%
		Total	100.0%

Danone (EUR mn)

Fresh Dairy Products	58.2%	Europe	56.0%
Baby Food	19.0%	Rest of World	29.2%
Bottled Waters	16.7%	Asia	14.8%
Clinical Nutrition	6.1%	Total	100.0%
Total	100.0%		

Heinz (US\$ mn)

Ketchup and Sauces	44.9%	Europe	29.5%
Meals and Snacks	38.5%	North American	27.8%
Infant/Nutrition	10.6%	Asia/Pacific	22.1%
Other Processed Foods	6.0%	US Foodservice	12.2%
Total	100.0%	Others	8.4%
		Total	100.0%

Mead Johnson (US\$ mn)

Infant Formula	58.8%	China	29.7%
Children's Nutrition	38.1%	US	25.4%
Others	3.0%	Mexico	8.1%
Total	100.0%	Others	36.8%
		Total	100.0%

Source: Company annual reports



Company Report

China Mengniu (2319 HK)

May 16, 2013

Rating: Buy
TP: HK\$28.1

Key data

Share price (HK\$)	24.45
Upside potential (%)	15.5
52Wk H/L(HK\$)	24.4 / 19.5
Issued shares (mn)	1,768
Market cap (HK\$mn)	41,199
30-day avg vol (HK\$mn)	146.5
Auditors	Ernst & Young
Major shareholder (%):	
COFCO	28.0
Arla Foods	5.9
Share price (HK\$)	22.0
Upside potential (%)	19.4
52Wk H/L(HK\$)	24.4 / 19.5
Issued shares (mn)	1,768
Market cap (HK\$mn)	41,199
30-day avg vol (HK\$mn)	146.5
Auditors	Ernst & Young
Major shareholder (%):	
COFCO	28.0
Arla Foods	5.9

Source: Company & Bloomberg

Revenue composition in FY12 (%)

Liquid milk products	89.6
Ice cream products	8.8
Other dairy products	1.6

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	6.1	0.2
3-mth	7.5	9.2
6-mth	11.2	3.5

*Relative to Hang Seng Index

Source: Bloomberg

1 year share price performance



Source: Bloomberg

Analyst

Report Date: 16 May 2013

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Breakthrough in FY13

Backed by strong shareholder structure and balance sheets, we are expecting a recovery in 2013 and possible margin expansion will serve as a breakthrough catalyst. We consider recent acquisition of China Modern Dairy's stakes as a valuable buy, which helps the group in securing a stable supply of quality raw milk sources. We raise our TP by 6.8% to HK\$28.1, based on 22.0x FY13 PER. Maintain Buy.

Breakthrough in FY13. The decline in sales volume in FY12 was due to the Flavacin M1 incident happened at the end of 2011, while restructuring in business operations including product streamlining and quality control enhancement since mid 2012 had a negative effect on the group's performance in the initial stage. However, we believe the new policies will start to take positive effect in 2013. We expect the benefits of product mix improvement will outweigh the negative effect of eliminating less profitable SKUs, especially given a lower base in FY12. Proportion of high-end products of the group increased from 25% in FY11 to 27% in FY12. Key brands such as Milk Deluxe and Future Star achieved double-digit growth in 2012. We expect revenue to grow by 12.9% YoY to Rmb40,731mn in FY13. There will be further upside when the group introduces other high-end products including infant formula with imported milk source and cheese in view of continued cooperation with Arla Foods. Moreover, as quality milk sources already accounted for 93% of the total purchases in FY12, we expect raw milk cost growth to slow down and GPM will increase by 1.6ppts to 26.7% in FY13.

Stable supply of quality raw milk: The group shareholdings in China Modern Dairy (1117 HK) increased from 1% to 28% after acquisition of 1.296bn of shares from private equity investors KKR and CDH at HK\$2.45/share. HK\$2.45 represent est 2013 PE of 19.2x, which is 23% lower than its historical average since listed in Nov 2010, therefore we consider the deal as a valuable buy for Mengniu. The stakes acquisition is also in line with Mengniu's management strategy in ensuring the quality and securing the supply of raw milk source.

Valuation. We estimate the acquisition of Modern Dairy will raise group's est 2013/2014 EPS by 5.3%/5.4%. Therefore, we raise our TP by 6.8% to HK\$28.1, based on 22.0x FY13 PE (which is still 15% lower than the historical average). Maintain BUY.

Risks: Food safety risks, market competition, management risks

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (Rmb mn)	30,265	37,388	36,080	40,731	45,765
Chg (%YoY)	17.7%	23.5%	-3.5%	12.9%	12.4%
Net Income (Rmb mn)	1,237	1,589	1,257	1,889	2,191
Chg (%YoY)	10.9%	28.4%	-20.9%	50.3%	16.0%
EPS (Rmb)	0.71	0.91	0.71	1.02	1.19
Chg (%YoY)	4.4%	27.3%	-21.4%	43.9%	15.9%
NBV (Rmb/share)	5.61	6.49	7.04	7.95	8.95
PE (x)	-	21.5	27.4	19.0	16.4
PB (x)	-	3.0	2.8	2.5	2.2
ROAA (%)	7.9%	8.5%	6.1%	8.7%	8.7%
ROAE (%)	13.5%	15.0%	10.5%	14.2%	14.7%
Net D/E (%)	Net cash				

Source: Company annual reports, ABCI Securities estimates



Profit Forecast

FY ended Dec 31 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
Revenue	30,265.4	37,387.8	36,080.4	40,731.1	45,765.5
Cost of sales	(22,479.0)	(27,795.7)	(27,025.8)	(29,872.3)	(33,458.6)
Gross profit	7,786.4	9,592.2	9,054.6	10,858.8	12,306.9
Other income and gains	193.5	296.3	257.1	285.1	274.6
S&D	(5,429.1)	(6,694.7)	(6,425.8)	(7,250.1)	(8,054.7)
Admin expenses	(1,036.0)	(1,110.1)	(1,195.4)	(1,425.6)	(1,601.8)
Other operating expenses	(59.7)	(187.2)	(196.0)	(203.7)	(274.6)
Share of profits and losses of associates	40.4	52.1	13.9	128.0	152.0
EBIT	1,495.4	1,948.5	1,508.2	2,392.6	2,802.3
Interest income	87.9	173.1	218.6	170.1	170.1
Finance costs	(45.2)	(60.9)	(41.8)	(37.3)	(43.0)
EBT	1,538.1	2,060.6	1,685.0	2,525.3	2,929.4
Tax	(182.2)	(276.1)	(245.5)	(378.8)	(439.4)
MI	(118.6)	(195.3)	(182.4)	(257.6)	(298.8)
Net profit attributable to owners	1,237.3	1,589.3	1,257.1	1,888.9	2,191.2
D&A	(718.9)	(851.8)	(1,053.1)	(1,281.3)	(1,456.8)
EBITDA	2,214.3	2,800.3	2,561.3	3,673.9	4,259.1
Dividends	278.1	350.0	282.9	415.6	482.1
No. of issued shares at end of period (mn)	1,738.0	1,767.4	1,768.2	1,768.2	1,768.2
Issuable shares:					
Share options	37.7	51.0	78.3	78.3	79.3
Total issued & issuable shares	1,775.7	1,818.4	1,846.5	1,846.5	1,847.5
Per share value (Rmb)					
FD EPS	0.711	0.905	0.711	1.023	1.186
NBV	5.615	6.490	7.037	7.945	8.950
DPS	0.160	0.198	0.160	0.235	0.273

Source: Company annual reports (for historical figures only), ABCI Securities estimates

Key Financial Ratio

FY ended Dec 31	FY10	FY11	FY12	FY13F	FY14F
Profitability ratio					
Gross profit margin	25.7%	25.7%	25.1%	26.7%	26.9%
EBIT margin	4.9%	5.2%	4.2%	5.9%	6.1%
EBITDA margin	7.3%	7.5%	7.1%	9.0%	9.3%
Net profit margin	4.1%	4.3%	3.5%	4.6%	4.8%
ROAA	7.9%	8.5%	6.1%	8.7%	8.7%
ROAE	13.5%	15.0%	10.5%	14.2%	14.7%
Cost ratio					
S&D/revenue	-17.9%	-17.9%	-17.8%	-17.8%	-17.6%
Admin expenses/revenue	-3.4%	-3.0%	-3.3%	-3.5%	-3.5%
Effective tax rate	-11.8%	-13.4%	-14.6%	-15.0%	-15.0%
Leverage					
Current ratio	1.55	1.44	1.40	1.46	1.52
Quick ratio	1.36	1.20	1.19	1.25	1.32
Net debt/total equity	Net cash				
Working capital cycle					
Receivables turnover days	7.0	6.9	8.3	9.0	9.0
Inventory turnover days	15.4	18.8	21.0	18.0	18.0
Payables turnover days	47.8	47.5	49.7	47.5	47.5

Source: Company annual reports (for historical figures only), ABCI Securities estimates



Balance Sheet Forecast

As of Dec 31 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
PPE	5,380.4	6,806.5	7,891.9	9,230.8	9,993.7
Others	2,261.1	3,008.6	3,337.6	5,800.9	5,781.7
Non-current assets	7,641.5	9,815.2	11,229.5	15,031.7	15,775.3
Available for sale investment	-	-	240.0	240.0	240.0
Inventories	1,176.4	1,685.2	1,419.9	1,526.4	1,773.6
Trades and bills receivable	575.5	835.8	801.5	1,207.2	1,049.7
Prepayments and deposits	942.3	774.9	950.0	686.9	1,146.5
Other receivables	169.9	289.4	359.9	86.5	415.0
Investment deposits	0.0	102.8	160.0	160.0	160.0
Pledged deposits	102.4	175.3	51.6	51.6	51.6
Cash and bank balances	6,697.8	6,523.1	5,778.4	4,104.3	6,409.5
Current assets	9,664.3	10,386.5	9,761.2	8,062.8	11,246.0
Trade and bills payables	3,548.5	3,684.5	3,678.9	4,096.1	4,612.3
Interest-bearing bank loans	550.8	537.5	573.8	573.8	573.8
Others	2,139.0	3,003.7	2,728.0	2,551.0	3,887.2
Current liabilities	6,238.3	7,225.8	6,980.6	7,220.9	9,073.3
Interest-bearing bank loans	150.0	0.0	0.0	0.0	0.0
Others	700.0	927.0	927.0	927.0	927.0
Non-current liabilities	850.0	927.0	938.2	938.2	938.2
Total assets	17,305.8	20,201.7	20,990.7	23,094.6	27,021.4
Net assets	10,217.5	12,048.8	13,071.8	14,935.4	17,009.9
Issued capital	178.7	181.1	181.2	181.2	181.2
Retained earnings	2,050.2	3,074.3	3,745.8	5,351.9	7,127.5
Other reserves	7,529.2	8,215.6	8,516.3	8,516.3	8,516.3
MI	459.4	577.8	628.6	886.1	1,184.9
Total equity	10,217.5	12,048.8	13,071.8	14,935.5	17,009.9
Equity attributable to owners	9,758.1	11,471.1	12,443.3	14,049.3	15,824.9

Source: Company annual reports (for historical figures only), ABCI Securities estimates

Cash Flow Forecast

As of Dec 31 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
EBITDA	2,214.3	2,800.3	2,561.3	3,673.9	4,259.1
Change in working capital	151.7	37.9	(67.6)	264.5	974.5
Others	259.7	(75.3)	(167.9)	132.8	127.0
Cash (used in)/generated from operations	2,625.7	2,762.9	2,325.8	4,071.1	5,360.6
Interest paid	(38.9)	(46.4)	(19.2)	0.0	0.0
Income tax paid	(101.8)	(196.4)	(299.7)	(378.8)	(439.4)
CF from operating activities	2,485.1	2,520.1	2,006.9	3,692.3	4,921.2
CAPEX	(1,426.1)	(2,696.3)	(2,163.2)	(2,600.0)	(2,200.0)
Others	(3,263.5)	(1,468.8)	(3,082.8)	(6,192.3)	(4,921.2)
Cash flows from investing activities	(2,204.5)	(1,645.0)	(3,239.2)	(5,100.0)	(2,200.0)
Net borrowing	(130.1)	(277.0)	146.5	0.0	0.0
Proceeds from issue of shares	13.4	520.6	12.1	0.0	0.0
Dividends paid	(272.7)	(331.2)	(421.4)	(282.9)	(415.6)
Interest paid	(38.9)	(46.4)	(19.2)	0.0	0.0
Others	32.6	(104.2)	100.4	16.5	(0.4)
Cash flows from financing activities	(395.6)	(238.2)	(181.5)	(266.4)	(416.0)
Net (decrease)/increase in cash and cash equivalents	(114.9)	636.9	(1,413.8)	(1,674.1)	2,305.3
Cash and cash equivalents at beginning of year/period	3,986.6	3,775.3	4,359.9	2,943.9	1,269.8
Effect of foreign exchange rates, net	(96.4)	(52.2)	(2.2)	0.0	0.0
Cash and cash equivalents at end of year/period	3,775.3	4,359.9	2,943.9	1,269.8	3,575.0

Source: Company annual reports (for historical figures only), ABCI Securities estimates

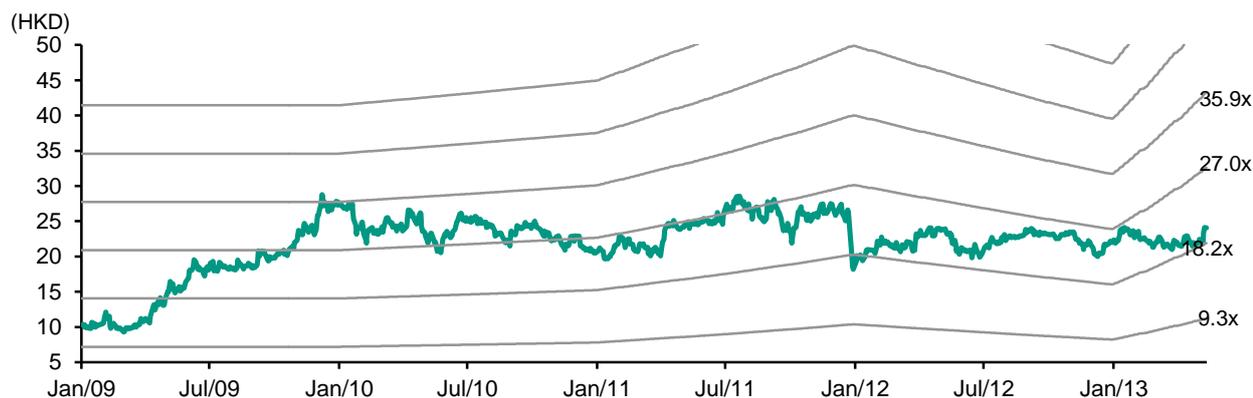


Exhibit: Financial forecasts vs Consensus (Rmb mn)

	Our forecast		Consensus		Difference	
	FY13F	FY14F	FY13F	FY14F	FY13F	FY14F
Revenue	40,731	45,765	41,426	47,439	-1.68%	-3.53%
Gross Profit	10,859	12,307	10,611	12,142	2.34%	1.35%
Net profit	1,889	2,191	1,609	1,968	17.40%	11.34%
FD EPS (Rmb)	1.023	1.186	0.918	1.120	11.44%	5.90%

Source: Bloomberg; ABCI Securities estimates

Exhibit: Historical PE of the group



Source: Bloomberg, ABCI Securities

Exhibit: PE standard deviation of the group



Source: Bloomberg, ABCI Securities



Company Report

China Modern Dairy (1117 HK)

May 16, 2013

Rating: Buy
TP: HK\$2.93

Key data

Share price (HK\$)	2.65
Upside potential (%)	10.6
52Wk H/L(HK\$)	2.9 / 1.7
Issued shares (mn)	4,812
Market cap (HK\$m)	12,416
30-day avg vol (HK\$m)	146.5
Auditors	Deloitte
Major shareholder (%):	
China Mengniu	27.99
Yimu Holdings	15.41
Xinmu Holding	14.81
China Diamond	7.99
Gao Lina	5.22

Source: Company & Bloomberg

Revenue composition in FY12 (%)

Raw milk sales	100
----------------	-----

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	10.9	4.8
3-mth	6.0	7.7
6-mth	35.9	26.4

*Relative to Hang Seng Index

Source: Bloomberg

1 year share price performance



Source: Bloomberg

Analyst

Report Date: 16 May 2013

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Time for harvest

Time for lucrative returns after heavy initial investment since listed. We also see signs of margin improvement as feed costs grow at a slower pace than ASP. Partnership with Mengniu and recent 27% stake acquisitions by Mengniu secured the group's sales for its increased capacity. We therefore initiate our research coverage with a BUY recommendation. Based on our DCF model, we set our TP at HK\$2.93.

Time for harvest for previous investment: The number of farms owned by the group has doubled to 22 since listed (Nov 2010) while number of dairy cows increased by 144% to 176,264. Going forward, the group has no plan to add any farms but will increase the utilization rate of farms and yield rate per cattle. It is expected number of dairy cows to reach 240,000 in FY15 while yield rate of cattle will increase from 8.09ton/yr in FY12 to 9.0ton/yr in FY15. We expect sales volumes to increase by 40.8% YoY to 607,608tons. Since it takes 9-15 months for commercial production after farm completed construction, we believe FY13-FY14 will be the harvest period for the intensive initial capital investment in FY11-FY12 and the group should turn net cash flow positive in FY14 as CMD stops importing cows and hence lower CAPEX.

Better margin ahead: Raw milk price is fixed with Mengniu in beginning of 2013 and management hints raw milk ASP to lie in between Rmb4,200-4250/ton, up 8.0-9.3% YoY, which should outweigh the expected 5% YoY increase in feed costs in FY13.

Strategic partnership with Mengniu: The 10-year off-take agreement signed with Mengniu in 2008 allows the group to sell all raw milk produced daily to Mengniu, and hence secured a long term demand from a high-quality customer. The group's large scale farm business model is aligned with Mengniu's strategy in improving product quality. We believe the group's production growth can be fully consumed by Mengniu as the group's supply only constituted to less than 5% of Mengniu's raw milk supply, which imply ample room for further business expansion with Mengniu.

Valuation: Based on our DCF model with 7.6% WACC, we value the stock at HK\$2.93, which represents est FY13 PE of 25.4x and PB of 2.03x. Our appraised share value provides 10.6% of upside potential and we initiate coverage with BUY rating.

Risk factors: Diseased cow, customer concentration risks, related party transactions, tax policy

Results and valuation

(FY ended Jun 30)	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (Rmb mn)	590	1,113	1,678	2,599	3,454
Chg (%YoY)	76.6	88.8	50.7	54.9	32.9
Net Income (Rmb mn)	53	225	398	452	612
Chg (%YoY)	24.5	322.7	77.4	13.4	35.4
EPS (Rmb)	0.025	0.052	0.082	0.092	0.124
Chg (%YoY)	-	102.8	59.6	11.6	35.4
NBV (Rmb/share)	0.299	0.973	1.056	1.147	1.274
PE (x)	-	-	25.6	23.0	17.0
PB (x)	-	-	2.0	1.8	1.7
ROAA (%)	1.49	4.04	5.12	4.78	5.50
ROAE (%)	2.96	7.36	8.19	8.54	10.51
Net D/E (%)	37.9	10.6	40.4	54.0	47.6

Source: Company annual reports, ABCI Securities estimates



Profit Forecast

FY ended Jun 30 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
Revenue	589.8	1,113.4	1,677.6	2,599.2	3,454.3
Cost of sales	(437.6)	(730.3)	(1,148.7)	(1,771.8)	(2,332.5)
Gross profit	152.2	383.0	528.9	827.4	1,121.8
Gain arising from changes in fair value	60.6	55.5	131.5	52.0	41.5
Other income	65.4	101.9	116.6	100.0	100.0
Employee benefits expense	(66.7)	(89.6)	(128.0)	(194.9)	(245.3)
Depreciation	(44.2)	(67.3)	(94.8)	(111.2)	(122.2)
Share of profit of an associate	0.0	0.0	2.0	-	-
Net foreign exchange loss	(1.2)	(17.4)	(4.3)	-	-
Other gains and losses	0.6	(1.2)	(1.1)	-	-
Other expenses	(29.5)	(61.9)	(72.0)	(109.2)	(145.1)
EBIT	137.2	303.0	478.8	564.1	750.8
Finance costs	(29.8)	(59.1)	(71.3)	(100.5)	(122.9)
EBT	107.4	243.9	407.5	463.6	627.8
Tax	(0.1)	(0.0)	(0.1)	0.0	0.0
MI	(54.2)	(19.3)	(8.8)	(11.6)	(15.7)
Net profit attributable to owners	53.1	224.6	398.5	452.0	612.2
D&A	44.2	67.3	94.8	222.3	244.3
EBITDA	204.5	397.8	701.1	808.4	1,011.6
Dividends	-	-	0.0	0.0	49.0
No. of issued shares at end of period (mn)	4,800.0	4,800.0	4,800.0	4,812.3	4,812.3
Issuable shares:					
Share options	-	87.4	87.4	115.1	115.1
Total issued & issuable shares	4,800.0	4,887.4	4,887.4	4,927.4	4,927.4
Per share value (Rmb)					
FD EPS	0.025	0.052	0.082	0.092	0.124
NBV	0.299	0.973	1.056	1.147	1.274
DPS	-	-	0.000	0.000	0.010

Source: Company annual reports (for historical figures only), ABCI Securities estimates

Key Financial Ratio

FY ended Jun 30	FY10	FY11	FY12	FY13F	FY14F
Profitability ratio					
Gross profit margin	25.8%	34.4%	31.5%	31.8%	32.5%
EBIT margin	23.3%	27.2%	28.5%	21.7%	21.7%
EBITDA margin	34.7%	35.7%	41.8%	31.1%	29.3%
Net profit margin	18.2%	21.9%	24.3%	17.8%	18.2%
ROAA	1.5%	4.0%	5.1%	4.8%	5.5%
ROAE	3.0%	7.4%	8.2%	8.5%	10.5%
Cost ratio					
Effective tax rate	-0.1%	0.0%	0.0%	0.0%	0.0%
Leverage					
Current ratio	0.68	2.10	0.73	0.80	1.13
Quick ratio	0.49	1.83	0.56	0.57	0.92
Net debt/total equity	37.9%	10.6%	40.4%	54.0%	47.6%
Working capital cycle					
Receivables turnover days	48.1	35.0	34.6	35.0	35.0
Inventory turnover days	51.7	51.9	43.6	45.0	45.0
Payables turnover days	125.4	123.0	119.2	120.0	120.0

Source: Company annual reports (for historical figures only), ABCI Securities estimates



Balance Sheet Forecast

As of Jun 30 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
PPE	1,578.4	2,221.3	2,964.6	3,442.3	3,598.0
Others	2,121.1	3,025.9	4,588.2	5,393.3	6,050.0
Non-current assets	3,699.5	5,247.2	7,552.8	8,835.6	9,648.0
Inventories	139.4	212.7	263.9	408.5	430.1
Trade and other receivables	76.8	136.8	181.0	317.4	345.0
Land use rights	1.2	1.4	1.7	1.7	1.7
Pledged bank balances	36.4	287.1	134.2	134.2	134.2
Bank balances and cash	251.0	1,021.7	518.3	568.5	1,427.6
Current assets	504.7	1,659.7	1,099.1	1,430.2	2,338.6
Trade and other payables	351.1	482.8	821.2	971.7	1,264.6
ST loans	384.6	303.8	664.2	790.0	790.3
Others	6.4	4.9	15.7	15.7	15.7
Current liabilities	742.1	791.6	1,501.1	1,777.3	2,070.6
LT loans	840.5	1,219.1	1,926.6	2,800.8	3,600.4
Others	51.9	173.5	91.4	91.4	91.4
Non-current liabilities	892.4	1,392.7	2,018.0	2,892.2	3,691.9
Total assets	4,204.2	6,906.9	8,651.8	10,265.9	11,986.6
Net assets	2,569.7	4,722.7	5,132.7	5,596.3	6,224.1
Share capital	0.3	413.1	413.1	413.1	413.1
Reserves	1,436.5	4,254.9	4,653.4	5,105.4	5,717.6
MI	1,133.0	54.7	66.2	77.8	93.5
Total Equity	2,569.7	4,722.7	5,132.7	5,596.3	6,224.1
Equity attributable to owners	1,436.7	4,668.0	5,066.5	5,518.5	6,130.6

Source: Company annual reports (for historical figures only), ABCI Securities estimates

Cash Flow Forecast

As of Jun 30 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
EBITDA	204.5	397.8	701.1	808.4	1,011.6
Change in working capital	2.6	10.1	121.2	(130.5)	243.6
Others	(88.1)	(97.1)	(279.7)	(22.0)	(16.5)
Cash (used in)/generated from operations	119.1	310.8	542.5	655.9	1,238.7
Interest paid	(1.0)	0.0	1.0	2.0	3.0
Income tax paid	0.9	(0.0)	(1.1)	(2.0)	(3.0)
CF from operating activities	119.0	310.8	542.4	655.9	1,238.7
CAPEX	(1,278.2)	(1,498.4)	(2,251.7)	(1,505.2)	(1,056.7)
Others	(21.6)	(471.7)	(277.6)	(655.9)	(1,238.7)
Cash flows from investing activities	(1,180.8)	(1,659.3)	(1,986.9)	(1,505.2)	(1,056.7)
Net borrowing	632.9	297.8	1,067.9	1,000.0	800.0
Proceeds from issue of shares	0.0	2,810.3	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Interest paid	(55.2)	(85.7)	(128.1)	(100.5)	(122.9)
Others	1.3	(903.1)	1.3	0.0	0.0
Cash flows from financing activities	579.1	2,119.3	941.1	899.5	677.1
Net (decrease)/increase in cash and cash equivalents	(482.8)	770.7	(503.4)	50.2	859.1
Cash and cash equivalents at beginning of year/period	733.7	251.0	1,021.7	518.3	568.5
Cash and cash equivalents at end of year/period	251.0	1,021.7	518.3	568.5	1,427.6

Source: Company annual reports (for historical figures only), ABCI Securities estimates

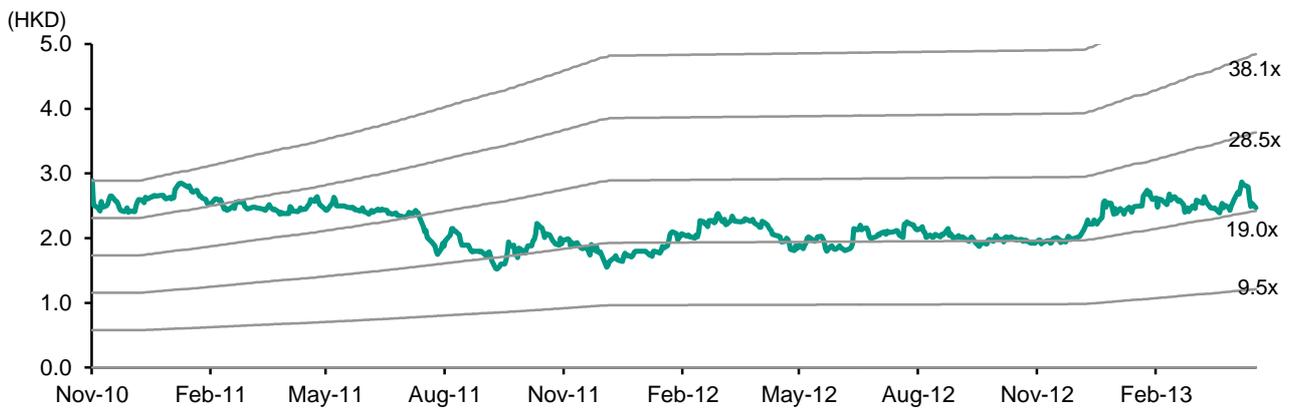


Exhibit: Financial forecasts vs Consensus (Rmb mn)

	Our forecast		Consensus		Difference	
	FY13F	FY14F	FY13F	FY14F	FY13F	FY14F
Revenue	2,599	3,454	2,556	3,480	1.69%	-0.74%
Gross Profit	827	1,122	848	1,175	-2.39%	-4.48%
Net profit	464	628	467	667	-0.76%	-5.83%
FD EPS (Rmb)	0.092	0.124	0.105	0.144	-12.64%	-13.73%

Source: Bloomberg; ABCI Securities estimates

Exhibit: Historical PE of the group



Source: Bloomberg; ABCI Securities

Exhibit: PE standard deviation of the group



Source: Bloomberg; ABCI Securities



Company Report

Biostrime (1112 HK)
May 16, 2013

Rating: Hold
TP: HK\$43.8

Key data

Share price (HK\$)	43.15
Upside potential (%)	1.5
52Wk H/L(HK\$)	46.3 / 16.0
Issued shares (mn)	602
Market cap (HK\$mn)	26,471
30-day avg vol (HK\$mn)	146.5
Auditors	Ernst & Young
Major shareholder (%):	
Biostrime Pharm	74.7
Share price (HK\$)	2.58
Upside potential (%)	19.4
52Wk H/L(HK\$)	2.9 / 1.7
Issued shares (mn)	4,812
Market cap (HK\$mn)	12,416
30-day avg vol (HK\$mn)	146.5
Auditors	Deloitte
Major shareholder (%):	
Yimu Holdings C	15.41
Xinmu Holding	14.81
China Diamond	7.99
Gao Lina	5.22

Source: Company & Bloomberg

Revenue composition in FY12 (%)

Probiotic supplements	11.2%
Infant formulas	80.3%
Dried baby food products	4.0%
Baby care products	3.1%
Nutrition supplements	1.4%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	6.0	0.2
3-mth	28.2	30.3
6-mth	111.5	96.8

*Relative to Hang Seng Index

Source: Bloomberg

1 year share price performance



Source: Bloomberg

Analyst

Report Date: 16 May 2013

Niche player in infant formula market

Biostrime entered the premium formula milk market at the right time and revenue posted CAGR growth of 82.2% during the 2008-2012. The strategy to sell through maternity stores rather than supermarkets successfully helps avoid direct competition with foreign competitors. But shifting from supreme tier to high-tier products with greater market potentials will lower GP margin. We initiate our coverage with a HOLD recommendation with TP set at HK\$43.8.

Niche player in the premium market: Biostrime has positioned itself as a high-end imported infant-formula brand since early 2008 which has successfully capture the rapid growth in demand for premium or foreign brand products especially after the Melamine incident. Supreme tier and High-tier formula milk accounted for 60% and 40% of the group's revenue. Management indicated that high-tier products growth will continue to outpace supreme-tier growth due to larger potential market size and therefore we expect GP margin to fall marginally due to change of product mix.

Baby specialty stores to gain market share: The group planned to increase its POS to 13,000 (up 25% YoY) VIP baby specialty stores, 5,000 (up 20%) supermarkets and 1,500 (up 101%) pharmacies with Mama100 Member Zone by the end of 2013. Revenues from maternal channel and mass market accounted for 70% and 30% of total revenue in FY12 as compared to 35%/60% mix of global brands. In our view, putting more focus in developing maternal channel in comparison to mass market channel (e.g supermarkets) is a smart move as it not only helps avoids direct competition with well-known foreign brands but also provides personalized services which helps differentiates itself from competitors and is a key to gain market share

Cross-selling by Mama 100 membership platform: The integrated database platform enables the group to enhance cross-selling, consumer loyalty and support a series of database marketing activities to achieve higher sales and promotion efficiency. By the end of 2012, the platform has attracted 1.4mn members (up 69.7% YoY), who contributed to 85% of total sales.

Valuation: Based on our DCF model with 11.8% WACC, we value the stock at HK\$43.8, which represents est FY13 PE of 24.4x and PB of 7.9x. We initiate coverage with HOLD rating.

Risk factors: Supply risks and FX risks due to heavy reliance on imports, intense competition from both foreign and domestic competitors

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (Rmb mn)	1,234	2,189	3,382	4,419	5,423
Chg (%YoY)	120.7	77.5	54.5	30.7	22.7
Net Income (Rmb mn)	266	527	743	866	1,045
Chg (%YoY)	145.3	98.5	40.9	16.6	20.7
EPS (Rmb)	0.58	0.88	1.24	1.44	1.74
Chg (%YoY)	-	51.7	40.9	16.0	20.7
NBV (Rmb/share)	2.77	3.28	3.86	4.42	5.15
PE (x)	-	-	28.2	24.3	20.2
PB (x)	-	-	9.1	7.9	6.8
ROAA (%)	24.31	24.30	24.89	22.60	23.61
ROAE (%)	29.03	29.00	34.56	34.76	36.27
Net D/E (%)	Net cash				

Source: Company annual reports, ABCI Securities estimates



Profit Forecast

FY ended Dec 31 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
Revenue	1,233.6	2,189.0	3,381.9	4,419.4	5,423.0
Cost of sales	(356.4)	(732.9)	(1,153.0)	(1,566.7)	(1,949.1)
Gross profit	877.2	1,456.1	2,228.9	2,852.7	3,473.9
Other income and gains	4.4	71.8	56.9	0.0	0.0
S&D	(449.5)	(708.6)	(1,077.7)	(1,414.2)	(1,735.4)
Admin expenses	(87.6)	(82.0)	(116.9)	(154.7)	(189.8)
Other expenses	(10.4)	(23.3)	(38.6)	(48.6)	(59.7)
EBIT	334.1	713.9	1,052.7	1,235.2	1,489.0
Finance costs	0.0	0.0	(2.1)	(6.2)	(6.2)
EBT	334.1	713.9	1,050.6	1,229.0	1,482.8
Tax	(68.4)	(186.6)	(307.5)	(362.6)	(437.4)
Net profit attributable to owners	265.7	527.4	743.1	866.5	1,045.4
D&A	(7.1)	(13.0)	(22.6)	(49.8)	(67.8)
EBITDA	341.1	726.9	1,075.3	1,285.0	1,556.8
Dividends	101.4	372.5	526.6	606.5	731.8
No. of issued shares at end of period (mn)	600	602.3	602.3	602.3	602.3
Issuable shares:					
Share options	11.2	12.7	14.0	13.8	13.8
Total issued & issuable shares	622.3	627.7	630.3	630.0	630.0
Per share value (Rmb)					
FD EPS	0.58	0.86	1.22	1.38	1.66
NBV	2.77	3.28	3.86	4.42	5.15
DPS	0.17	0.62	0.87	1.01	1.21

Source: Company annual reports (for historical figures only), ABCI Securities estimates

Key Financial Ratio

FY ended Dec 31	FY10	FY11	FY12	FY13F	FY14F
Profitability ratio					
Gross profit margin	71.1%	66.5%	65.9%	64.6%	64.1%
EBIT margin	27.1%	32.6%	31.1%	28.0%	27.5%
EBITDA margin	27.7%	33.2%	31.8%	29.1%	28.7%
Net profit margin	21.5%	24.1%	22.0%	19.6%	19.3%
ROAA	24.3%	24.3%	24.9%	22.6%	23.6%
ROAE	29.0%	29.0%	34.6%	34.8%	36.3%
Cost ratio					
S&D/revenue	-36.4%	-32.4%	-31.9%	-32.0%	-32.0%
Admin expenses/revenue	-7.1%	-3.7%	-3.5%	-3.5%	-3.5%
Effective tax rate	-20.5%	-26.1%	-29.3%	-29.5%	-29.5%
Leverage					
Current ratio	7.88	5.18	2.02	2.00	2.17
Quick ratio	7.43	4.46	1.56	1.58	1.65
Net debt/total equity	Net cash				
Working capital cycle					
Receivables turnover days	1.3	1.2	0.5	0.5	0.5
Inventory turnover days	95.8	100.5	129.9	130.0	130.0
Payables turnover days	74.3	49.5	62.9	65.0	65.0

Source: Company annual reports (for historical figures only), ABCI Securities estimates



Balance Sheet Forecast

As of Dec 31 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
PPE	31.3	59.4	77.1	177.3	209.5
Others	8.6	228.3	1,165.3	1,165.3	1,165.3
Non-current assets	39.9	287.7	1,242.4	1,342.6	1,374.8
Inventories	106.1	297.4	523.3	592.7	795.7
Trade and bills receivables	5.2	9.7	0.4	11.7	3.1
Prepayments, deposits and other receivables	22.6	29.2	85.7	83.8	94.5
Loans receivable	0.0	0.0	12.6	12.6	12.6
Cash and bank balances	1,728.2	1,814.1	1,669.1	2,090.0	2,440.2
Current assets	1,862.1	2,150.4	2,291.0	2,790.9	3,346.1
Trade payables	65.8	67.2	263.1	294.9	399.3
Other payables and accruals	142.3	265.1	443.8	672.2	716.3
Interest-bearing bank loan	0.0	0.0	270.5	270.5	270.5
Others	28.2	82.7	155.8	155.8	155.8
Current liabilities	236.3	415.1	1,133.3	1,393.3	1,541.9
Deferred tax liabilities	5.8	45.5	77.5	77.5	77.5
Non-current liabilities	5.8	45.5	77.5	77.5	77.5
Total assets	1,902.0	2,438.1	3,533.4	4,133.5	4,720.9
Net assets	1,659.9	1,977.6	2,322.7	2,662.6	3,101.5
Issued capital	5.1	5.2	5.2	5.2	5.2
Reserves	1,553.4	1,679.0	1,903.5	2,243.4	2,682.3
Others	101.4	293.4	414.0	414.0	414.0
Equity attributable to owners	1,659.9	1,977.6	2,322.7	2,662.6	3,101.5

Source: Company annual reports (for historical figures only), ABCI Securities estimates

Cash Flow Forecast

As of Dec 31 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
EBITDA	341.1	726.9	1,075.3	1,285.0	1,556.8
Change in working capital	74.6	(71.8)	114.6	181.2	(56.5)
Others	9.0	(16.0)	2.0	0.0	0.0
Cash (used in)/generated from operations	424.7	639.2	1,191.8	1,466.2	1,500.4
Interest paid					
Income tax paid	(43.7)	(123.0)	(244.6)	(362.6)	(437.4)
CF from operating activities	381.0	516.2	947.2	1,103.6	1,062.9
CAPEX	(17.4)	(38.8)	(39.3)	(150.0)	(100.0)
Others	8.0	(490.5)	(1,811.2)	0.0	0.0
Cash flows from investing activities	(9.4)	(529.2)	(1,850.5)	(150.0)	(100.0)
Net borrowing	-1	0	1	2	3
Proceeds from issue of shares	1,371.6	11.6	0.0	0.0	0.0
Dividends paid	(146.0)	(180.5)	(404.0)	(526.6)	(606.5)
Interest paid					
Others	6.3	0.0	211.3	(8.2)	(9.2)
Cash flows from financing activities	1,230.9	(168.8)	(191.7)	(532.8)	(612.7)
Net (decrease)/increase in cash and cash equivalents	1,602.6	(181.9)	(1,095.0)	420.9	350.2
Cash and cash equivalents at beginning of year/period	133.8	1,728.2	1,490.5	400.6	821.5
Effect of foreign exchange rates, net	(8.2)	(55.9)	5.1	0.0	0.0
Cash and cash equivalents at end of year/period	1,728.2	1,490.5	400.6	821.5	1,171.7

Source: Company annual reports (for historical figures only), ABCI Securities estimates



Exhibit: Financial forecasts vs Consensus (Rmb mn)

	Our forecast		Consensus		Difference	
	FY13F	FY14F	FY13F	FY14F	FY13F	FY14F
Revenue	4,419	5,423	4,467	5,647	-1.07%	-3.97%
Gross Profit	2,853	3,474	2,691	3,621	6.02%	-4.07%
Net profit	866	1,045	948	1,168	-8.58%	-10.50%
FD EPS (Rmb)	1.375	1.659	1.549	1.924	-11.21%	-13.75%

Source: Bloomberg; ABCI Securities estimates

Exhibit: Historical PE of the group



Source: Bloomberg, ABCI Securities

Exhibit: PE standard deviation of the group



Source: Bloomberg, ABCI Securities



Company Report

Yashili (1230 HK)

May 16, 2013

Rating: Hold TP: HK\$3.61

Key data

Share price (HK\$)	3.41
Upside potential (%)	5.9
52Wk H/L(HK\$)	3.36 / 1.14
Issued shares (mn)	3,539
Market cap (HK\$mn)	11,786
30-day avg vol (HK\$mn)	146.5
Auditors	KPMG
Major shareholder (%):	
Zhang Int' Investment	52.2
Carlyle Asia Partners III	24.4

Source: Company & Bloomberg

Revenue composition in FY12 (%)

Yashili pediatric milk formula products	67.8%
Scient pediatric milk formula products	17.9%
Nutrition products	13.4%
Others	0.9%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	28.7	21.6
3-mth	28.2	30.2
6-mth	84.3	71.5

*Relative to Hang Seng Index

Source: Bloomberg

1 year share price performance



Source: Bloomberg

Analyst

Report Date: 16 May 2013

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Growth driven by new product

We expect growth in 2013 and 2014 will be fuelled by products upgrade and capacity expansion plan in New Zealand. Short term share price will be supported by 14% dividend yield (DPS: Rmb0.396; ex div date: 11 Jun.) We initiate our coverage with a HOLD recommendation with TP set at HK\$3.61.

Growth from products upgrade: Targeting at mid to high end customers, the group positioned itself as a premium producer who procured 100% imported raw milk powder from overseas (primarily from New Zealand). The group's 2013 strategy is to continue to improve its product mix. In Nov 2012, the group launched a new imported high end milk powder product, 'Super α -Golden Stage series', which is expected to contribute to 10% of the segment's revenue in 2013. In order to secure a stable supply of raw material and accelerate the upgrade in product mix, the management indicated CAPEX in New Zealand project will reach Rmb1.1bn in 2013 and 2014, in which production capacity will increase by 60% to over 50k tons and production is expected to commence in 2014.

GP margin expansion: We believe GP margin of the group is not likely to be affected by drought in New Zealand in the beginning of this year as management has already locked in raw milk powder costs in 1H2013. Average purchasing price of whole powder milk and skimmed powder milk for Jul 2012 to Mar 2013 was US\$3,286/ton and US\$3,373/ton respectively. Spot milk powder price is expected to fall in 2H2013 which is the normal rainy season in New Zealand. With new product rolling out and steady costs growth, we estimate GP margin of the group to expand slightly from 53.7% to 54.0%.

Extensive distribution network: The group sells its products through 1,500 regional distributors and 105,000 retail outlets, including 20,000 maternity stores. In 2013, the group will put more focus on increasing single-store sales by strengthening promotions, activities and staffing in major stores.

Valuation: Based on our DCF model with 7.8% WACC, we value the stock at HK\$3.61, which represents est FY13 PE of 18.3x and PB of 3.16x. Our appraised share value provides 5.9% of upside potential and we initiate coverage with HOLD rating.

Risk factors: Supply risks and FX risks due to heavy reliance on imports, intense competition from both foreign and domestic competitors, rely to suppliers, credit to back working capital

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12A	FY13E	FY14E
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
NBV (Rmb/share)	1.066	1.084	1.158	0.915	0.994
PE (x)	-	-	20.0	16.8	14.0
PB (x)	-	-	2.30	2.91	2.68
ROAA (%)	14.99	6.71	9.17	10.74	12.97
ROAE (%)	20.06	8.13	11.89	15.30	19.96
Net D/E (%)	Net cash				

Source: Company, ABCI Securities estimates



Profit Forecast

FY ended Dec 31 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
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	-	0.087	0.133	0.158	0.191
NBV	-	1.084	1.158	0.915	0.994
DPS	-	0.057	0.396	0.111	0.134

Source: Company annual reports (for historical figures only), ABCI Securities estimates

Key Financial Ratio

FY ended Dec 31	FY10	FY11	FY12	FY13F	FY14F
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%	9.8%	10.9%
ROAE	20.1%	8.1%	11.9%	13.5%	15.4%
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				
Working capital cycle					
Receivables turnover days	16.8	15.1	4.0	3.5	4.0
Inventory turnover days	97.9	124.5	132.6	130.0	130.0
Payables turnover days	163.9	156.9	188.5	190.0	190.0

Source: Company annual reports (for historical figures only), ABCI Securities estimates



Balance Sheet Forecast

As of Dec 31 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
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: Company annual reports (for historical figures only), ABCI Securities estimates

Cash Flow Forecast

As of Dec 31 (Rmbmn)	FY10	FY11	FY12	FY13F	FY14F
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: Company annual reports (for historical figures only), ABCI Securities estimates

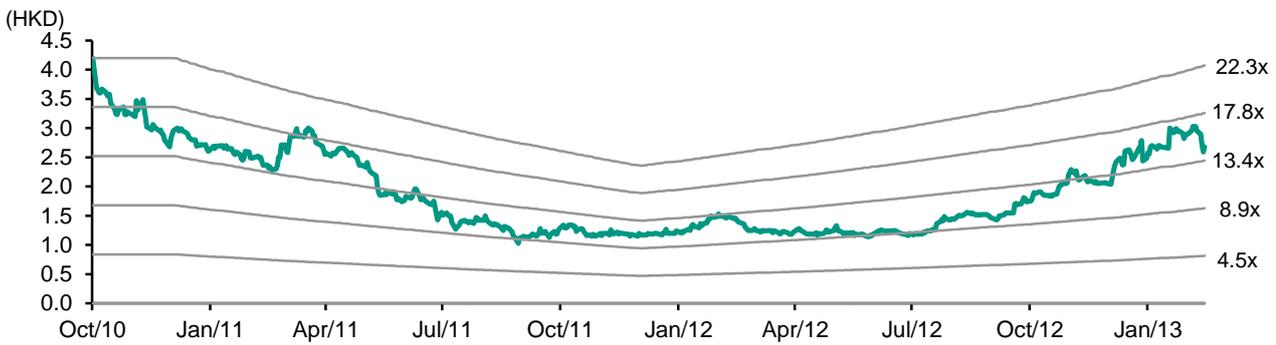


Exhibit: Financial forecasts vs Consensus (Rmb mn)

	Our forecast		Consensus		Difference	
	FY13F	FY14F	FY13F	FY14F	FY13F	FY14F
Revenue	4,419	5,423	4,467	5,647	-1.07%	-3.97%
Gross Profit	2,853	3,474	2,691	3,621	6.02%	-4.07%
Net profit	866	1,045	948	1,168	-8.58%	-10.50%
FD EPS (Rmb)	1.375	1.659	1.549	1.924	-11.21%	-13.75%

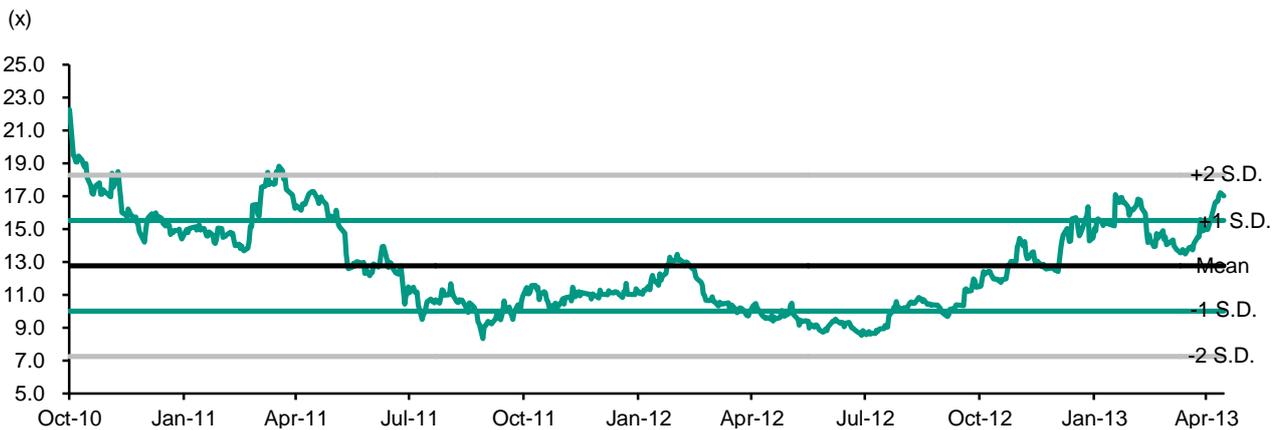
Source: Bloomberg; ABCI Securities estimates

Exhibit: Historical PE of the group



Source: Bloomberg, ABCI Securities

Exhibit: PE standard deviation of the group



Source: Bloomberg, ABCI Securities



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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

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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