



Mengniu (2319 HK) COVID resurgence to squeeze growth and margins

- FY21 revenue growth supported by stable growth in liquid milk segment, consolidation of acquired businesses, and emerging new product categories, including cheese
- Rising raw milk price weighed on GPM in FY21 while lower SG&A/revenue ratio helped support OPM and NPM improvement
- Maintain **BUY**; we lower TP on COVID resurgence across the nation, which would negatively impact growth and margins; stabilizing raw milk price would alleviate some cost pressure, however. Current TP implies 31.13x/24.53x 22E/23E P/E, or 3.83x/3.45x 22E/23E P/B

Social distancing to impact growth. FY21 revenue growth reached 15.9% YoY. Revenue from ice cream segment grew 61.0% YoY (ex-acquisition impact growth: 18.6% YoY) and "Others" segment was up 126.3% YoY (ex-acquisition impact growth: 87.2% YoY). Bright spots of the emerging product categories include cheese sales, which grew 41% YoY, and fresh milk sales, which jumped 85% YoY. Meanwhile, liquid milk segment revenue increased 12.9% YoY and remained the largest segment with revenue contribution of 86.8%. For FY22E, we expect businesses to be affected by COVID-19 resurgence in China. Growth contribution from other product categories would be limited due to their smaller revenue size. We project revenue growth to be 12.8% YoY for FY22E and FY21-24E revenue CAGR to be 13.4%.

More pressure on S&D expenses. GPM declined by 1ppt in FY21 due to the increase in raw milk price. OPM and NPM (to shareholders of the Company) improved in FY21 as the Group's SG&A/revenue ratio declined by 1.8ppt. For FY22E, we expect raw milk price to stabilize and exert lower cost pressure on the Group, but the current pandemic would drive up S&D expense. We estimate GPM to rise to 37.6% while OPM/NPM (to shareholders of the Company) to stabilize/decline slightly to 5.6%/5.0%.

Maintain BUY; TP at HK\$ 48.1. The Group's leading position remains unchallenged despite the temporary headwinds. Maintain **BUY**. We lower our DCF-derived TP due to the lower profitability in the short term. Current TP represents 31.13x/24.53x 22E/23E P/E, or 3.83x/3.45x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak; 3) Commodity price risk; 4) Regulation risk; 5) Food safety risk; 6) Business acquisition risk; 7) Product concentration risk; 8) Changing consumer taste in China.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	76,035	88,141	99,401	112,857	128,414
Chg (% YoY)	(3.8)	15.9	12.8	13.5	13.8
Net Profit (RMB mn)	3,525	5,026	4,965	6,300	6,922
Chg (% YoY)	(14.1)	42.6	(1.2)	26.9	9.9
Basic EPS (RMB)	0.90	1.27	1.26	1.59	1.75
Chg (% YoY)	(14.5)	42.0	(1.4)	26.9	9.9
P/E (x)	38.38	27.03	27.42	21.61	19.66
BVPS (RMB)	8.38	9.32	10.21	11.34	12.57
P/B (x)	4.11	3.70	3.37	3.04	2.74
DPS (RMB)	0.27	0.38	0.38	0.48	0.53
Yield (%)	0.8	1.1	1.1	1.4	1.5
ROAA (%)	4.4	5.6	5.0	6.0	6.1
ROAE (%)	11.4	14.4	12.9	14.8	14.6

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 4, 2022

Rating: **BUY**

TP: HK\$ 48.1

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Share price (HK\$)	42.35
52Wk H/L (HK\$)	51.3/39.85
Est. share price return	13.5%
Est. dividend yield	1.1%
Est. total return	14.7%
Previous Rating&TP	BUY; HK\$50.0
Previous report date	Apr 16, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.95
Market cap (HK\$ bn)	167.42
3-mth ADT (HK\$ mn)	493.7

Major shareholders

	(%)
COFCO	23.2
FIL Limited	8.9

Source(s): Bloomberg, HKEX, ABCI Securities

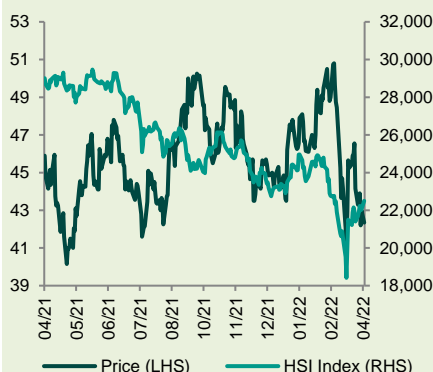
Sector Performance (%)

	Absolute	Relative*
1-mth	(14.7)	(15.4)
3-mth	(4.3)	(0.9)
6-mth	(12.9)	(6.2)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) All pricing and market data as of Apr 4, 2022;
- 2) RMB/HKD: 1.2300.



Exhibit 1: Change in assumptions, projections, and valuations

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FY ends at Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
Assumptions					
D/E (%)	58.3	48.5	51.8	45.3	Adjusted based on FY21 rates
D/A (%)	25.6	22.3	24.3	22.1	
Tax rate (%)	15.5	15.5	23.6	23.8	
Valuations					
TP (HK\$)	48.1		50.0		Change in valuation and TP mainly due to revised growth and profitability forecasts and the roll-over of forecast period
P/E (x)	31.13	24.53	31.90	26.45	
P/B (x)	3.83	3.45	4.10	3.66	

Note: Previous report was published on Apr 16, 2021

Source(s): The Company, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report		Previous report		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue (RMB mn)	99,401	112,857	97,851	112,190	1.6	0.6
Net profit (to shareholders of the Company) (RMB mn)	4,965	6,300	5,206	6,260	(4.6)	0.6
EPS (RMB)	1.26	1.59	1.32	1.59	(4.8)	0.5

Source(s): ABCI Securities estimates



Financial Statements

Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	76,035	88,141	99,401	112,857	128,414
- Liquid milk	67,751	76,514	86,282	98,356	112,319
- Ice cream	2,634	4,240	5,149	4,711	5,659
- Milk formula	4,573	4,949	5,348	7,152	7,495
- Other revenue	1,077	2,438	2,622	2,638	2,940
COGS	(47,406)	(55,752)	(61,994)	(69,920)	(79,398)
Gross profit	28,629	32,390	37,407	42,937	49,015
S&D expenses	(21,541)	(23,488)	(27,219)	(30,617)	(34,728)
Admin expenses	(3,133)	(3,524)	(3,988)	(4,529)	(5,095)
Others	(473)	(516)	(629)	(725)	(825)
EBIT	3,482	4,862	5,571	7,066	8,367
Net other income or gain/ expense or loss	(266)	29	(660)	(743)	(1,451)
Net interest expense/income	512	284	350	447	494
Income from associate/JV	426	693	728	764	803
Profit before tax	4,155	5,868	5,989	7,535	8,212
Tax	(653)	(905)	(929)	(1,165)	(1,271)
Total net profit	3,502	4,964	5,060	6,370	6,941
- Profit to shareholders	3,525	5,026	4,965	6,300	6,922
- Minority interest	(23)	(62)	95	70	19
Dividend	1,058	1,506	1,518	1,910	2,081
EPS (RMB)					
- Basic EPS	0.90	1.27	1.26	1.59	1.75
- Diluted EPS	0.89	1.27	1.21	1.53	1.68
DPS (RMB)	0.27	0.38	0.38	0.48	0.53

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalent	11,397	11,217	15,369	11,985	14,894
Trade and bills receivable	2,988	4,160	4,109	5,324	4,225
Inventory	5,512	6,485	7,256	8,242	8,477
Others	11,609	9,158	10,606	12,533	13,029
Total current assets	31,507	31,020	37,339	38,084	40,625
PP&E and CIP	15,276	19,955	21,987	23,766	26,206
Goodwill	4,883	4,858	4,858	4,858	4,858
Other intangible assets	7,717	7,999	8,399	8,819	9,260
Others	20,763	34,270	31,202	33,532	36,571
Total non-current assets	48,640	67,081	66,446	70,976	76,895
Total assets	80,146	98,101	103,785	109,060	117,520
Trade and bills payable	7,969	8,804	11,793	11,073	14,592
ST borrowings	4,924	4,265	4,291	3,835	3,333
Others	13,251	16,003	16,169	19,727	22,045
Total current liabilities	26,144	29,072	32,253	34,634	39,970
LT Borrowings	14,020	18,786	18,325	16,699	15,011
Convertible bonds	0	3,981	3,981	3,782	3,404
Others	2,734	4,262	3,589	3,778	4,090
Total non-current liabilities	16,754	27,030	25,895	24,259	22,504
Shareholders' equity	32,983	36,826	40,368	44,828	49,688
Minority interest	4,265	5,174	5,269	5,339	5,358
Total equity	37,248	41,999	45,637	50,167	55,045
Total liabilities and equity	80,146	98,101	103,785	109,060	117,520

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Pretax profit	4,155	5,868	5,989	7,535	8,212
Depreciation and amortization	2,137	2,396	1,842	1,940	2,163
Change in working capital	967	1,862	1,507	(11)	5,600
Others	(1,911)	(2,581)	(1,671)	(1,873)	(2,018)
Cash flow from operating activities	5,348	7,545	7,667	7,590	13,957
Change in PP&E and CIP	(4,017)	(7,328)	(5,188)	(7,166)	(7,647)
Others	8,838	(10,139)	174	(89)	(2,507)
Cash flow from investing activities	4,822	(17,467)	(5,013)	(7,255)	(10,154)
Change in borrowings	(3,926)	8,089	(436)	(2,282)	(2,568)
Others	(645)	(78)	760	161	337
Cash flow from financing activities	(4,571)	8,011	324	(2,120)	(2,231)
Net change in cash	5,599	(1,911)	2,977	(1,785)	1,572
Forex effect	(172)	(6)	8	4	2
Cash and cash equivalent - end	9,225	7,308	10,294	8,513	10,086

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (YoY %)					
Revenue	(3.8)	15.9	12.8	13.5	13.8
- Liquid milk	(0.2)	12.9	12.8	14.0	14.2
- Ice cream	2.8	61.0	21.4	(8.5)	20.1
- Milk powder	(41.9)	8.2	8.1	33.7	4.8
- Other products	49.4	126.3	7.6	0.6	11.4
Gross profit	(3.5)	13.1	15.5	14.8	14.2
Operating profit	(19.9)	39.6	14.6	26.8	18.4
Pretax profit	(25.9)	41.2	2.1	25.8	9.0
Net profit (to shareholders of the Company)	(14.1)	42.6	(1.2)	26.9	9.9
Profitability ratios (%)					
GPM	37.7	36.7	37.6	38.0	38.2
OPM	4.6	5.5	5.6	6.3	6.5
Pretax margin	5.5	6.7	6.0	6.7	6.4
NPM (to shareholders of the Company)	4.6	5.7	5.0	5.6	5.4
Return ratios (%)					
ROAA	4.4	5.6	5.0	6.0	6.1
ROAE	11.4	14.4	12.9	14.8	14.6
Liquidity ratio (x)					
Current ratio	1.2	1.1	1.2	1.1	1.0
Quick ratio	2.9	2.5	2.6	2.9	3.4
Cash ratio	1.9	1.7	1.8	1.9	1.9
Cash conversion cycle (days)					
Days of outstanding receivable	16	15	15	15	14
Days of inventory on hand	41	39	40	40	38
Days of outstanding payable	57	55	61	60	59
CCC	(0)	(1)	(5)	(4)	(7)
Leverage ratios (%)					
Total debt/Equity	50.9	64.4	58.3	48.5	39.5
Total debt/Total assets	23.6	27.6	25.6	22.3	18.5
Net debt/Equity	20.3	37.7	24.6	24.6	12.5
Net debt/Assets	9.4	16.1	10.8	11.3	5.8

Source(s): The Group, ABCI Securities estimates



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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($+\sim 10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

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 2009 (For reference: HSI total return index 2009-21 averaged at 9.2%)

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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