



## Mengniu (2319 HK) Stable growth and margin ahead

- FY23E revenue growth to accelerate to 8.2% YoY on improving consumer market and new growth from its diverse portfolio; revenue of ice cream and other products would extend its high growth
- Margin profile to remain stable in FY23E as improvement in GPM would reduce impact of increased S&D expenses
- Maintain **BUY**; current TP implies 26.73x/23.78x 23E/24E P/E, or 3.49x/3.17x 23E/24E P/B

**Mix growth outlook for product segments.** FY22 revenue growth was 5.1% YoY. Revenue of ice cream segment and other products segment jumped 33.3% and 97.2% while liquid milk segment was up 2.3% YoY; in contrast, milk formula segment declined 22.0% YoY. Product innovation, brand upgrade, and channel development partially offset negative impacts of the pandemic and challenging macroeconomic environment. Specifically, ice cream products benefited from the launch of cross-over products with Moutai, and other products segment gained from the high demand for cheese products. We believe FY23E revenue growth would depend on the degree of recovery in consumer market and overall economy; meanwhile, product portfolio management and channel development would be crucial. We expect FY23E revenue growth to be 8.2%; revenue of product segments would vary— growth in ice cream and other products would be higher at 32.7% YoY and 44.5% YoY. FY22-25E revenue CAGR would be 9.6%.

**More operating cost pressure.** GPM, OPM, and NPM (to shareholders of the Company) were 35.3%, 5.9%, and 5.7% in FY22 vs. 36.7%, 5.5%, and 5.7% in FY21. Higher raw material costs were offset by the 1.7ppt decline in SG&A expenses/revenue ratio, resulting in higher OPM. We believe the Group's efforts to rebalance product portfolio to capture recovery in consumer market would help improve GPM, while S&D expenses would increase in FY23E as marketing and promotional activities normalize after the pandemic. We project GPM, OPM, and NPM (to shareholders of the Company) would reach 35.7%, 5.9%, and 5.7% in FY23E and 37.1%, 6.5%, and 6.3% in FY25E.

**Maintain BUY; TP at HK\$ 44.3.** We expect better growth momentum amid recovery of the consumer market and Mengniu's ability to adjust its product portfolio to capture opportunities. Maintain **BUY**. We lower our DCF-derived TP to reflect the lower revenue and profit forecasts, as the Group's FY22 revenue and profit were lower than our previous forecasts. Current TP represents 26.73x/23.78x 23E/24E P/E, or 3.49x/3.17x 23E/24E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Raw material cost risk; 3) Regulation risk; 4) Food safety risk; 5) Business acquisition risk; 6) Product concentration risk; 7) Uneven growth among product categories; 8) High financial leverage.

### Results and Valuation

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	88,141	92,593	100,158	109,676	121,910
Chg (% YoY)	15.9	5.1	8.2	9.5	11.2
Net Profit (RMB mn)	5,026	5,303	5,749	6,463	7,722
Chg (% YoY)	42.6	5.5	8.4	12.4	19.5
Basic EPS (RMB)	1.27	1.34	1.45	1.64	1.95
Chg (% YoY)	42.0	5.3	8.4	12.4	19.5
P/E (x)	22.30	21.17	19.53	17.38	14.54
BVPS (RMB)	9.32	10.14	11.14	12.25	13.59
P/B (x)	3.05	2.80	2.55	2.32	2.09
DPS (RMB)	0.38	0.40	0.43	0.48	0.57
Yield (%)	1.3	1.4	1.5	1.7	2.0
ROAA (%)	5.6	4.8	4.8	5.4	6.1
ROAE (%)	14.4	13.8	13.7	14.0	15.1

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Apr 4, 2023

Rating: **BUY**

TP: HK\$ 44.3

Analyst: Paul Pan  
Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	32.35
52Wk H/L(HK\$)	43.2/24.7
Est. share price return	36.9%
Est. dividend yield	1.5%
Est. total return	38.4%
Previous Rating&TP	BUY; HK\$49.0
Previous report date	Sep 1, 2022

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

Issued shares (bn)	3.96
Market cap (HK\$ bn)	127.95
3-mth ADT (HK\$ mn)	337.1

### Major shareholders

	(%)
COFCO	24.0
FIL Limited	7.8

Source(s): Bloomberg, HKEX, ABCI Securities

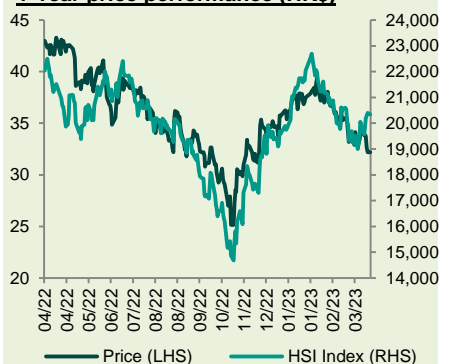
### Sector Performance (%)

	Absolute	Relative*
1-mth	(11.3)	(10.0)
3-mth	(11.5)	(12.5)
6-mth	3.4	(15.8)

\* 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 3, 2023;
- 2) RMB/HKD: 1.1386

**Exhibit 1: Change in assumptions, projections, and valuations**

FY ends at Dec 31	Current report		Previous report		Rationale
	FY23E	FY24E	FY23E	FY24E	
<b>Assumptions</b>					
D/E (%)	59.9	46.4	63.2	50.7	Adjusted based on FY22 rates
D/A (%)	27.6	22.9	27.6	22.9	
Tax rate (%)	17.8	17.9	15.3	15.3	
<b>Valuations</b>					
TP (HK\$)	44.3		49.0		Lower TP due to lower revenue and profit forecasts
P/E (x)	26.73	23.78	24.62	22.46	
P/B (x)	3.49	3.17	3.82	3.42	

Note: Previous report was published on Sep 1, 2022

Source(s): The Company, ABCI Securities estimates

**Exhibit 2: Changes in major forecasts**

As of Dec 31	Current report			Previous report			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue (RMB mn)	100,158	109,676	121,910	110,579	123,254	N/A	(9.4)	(11.0)	N/A
Net profit (to shareholders of the Company) (RMB mn)	5,749	6,463	7,722	6,926	7,614	N/A	(17.0)	(15.1)	N/A
EPS (RMB)	1.45	1.64	1.95	1.75	1.92	N/A	(16.9)	(14.8)	N/A

Source(s): ABCI Securities estimates



## Financial Statements

### Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>88,141</b>	<b>92,593</b>	<b>100,158</b>	<b>109,676</b>	<b>121,910</b>
- Liquid milk	76,514	78,269	81,517	87,166	95,172
- Ice cream	4,240	5,652	7,500	9,593	10,757
- Milk formula	4,949	3,862	4,192	4,548	5,522
- Other revenue	2,438	4,810	6,949	8,368	10,458
COGS	(55,752)	(59,904)	(64,392)	(69,725)	(76,646)
<b>Gross profit</b>	<b>32,390</b>	<b>32,690</b>	<b>35,767</b>	<b>39,951</b>	<b>45,264</b>
S&D expenses	(23,488)	(22,347)	(25,168)	(28,210)	(31,440)
Admin expenses	(3,524)	(4,442)	(4,187)	(4,631)	(5,252)
Other operating expenses	(516)	(477)	(524)	(558)	(629)
<b>EBIT</b>	<b>4,862</b>	<b>5,423</b>	<b>5,888</b>	<b>6,551</b>	<b>7,943</b>
Net interest expense /income	284	260	581	813	831
Other gains/(losses)	693	819	357	304	378
<b>Profit before tax</b>	<b>5,868</b>	<b>6,502</b>	<b>6,826</b>	<b>7,669</b>	<b>9,152</b>
Tax	(905)	(1,318)	(1,218)	(1,373)	(1,636)
<b>Total net profit</b>	<b>4,964</b>	<b>5,185</b>	<b>5,608</b>	<b>6,296</b>	<b>7,517</b>
- Profit to shareholders	5,026	5,303	5,749	6,463	7,722
- Minority interest	(62)	(118)	(141)	(167)	(206)
<b>Dividend</b>	<b>1,506</b>	<b>1,590</b>	<b>1,681</b>	<b>1,887</b>	<b>2,253</b>
<b>EPS (RMB)</b>					
- Basic EPS	1.27	1.34	1.45	1.64	1.95
- Diluted EPS	1.27	1.34	1.35	1.52	1.82
<b>DPS (RMB)</b>	<b>0.38</b>	<b>0.40</b>	<b>0.43</b>	<b>0.48</b>	<b>0.57</b>

Source(s): The Group, ABCI Securities estimates

### Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalent	11,217	12,766	20,795	13,680	18,503
Trade and bills receivable	4,160	3,660	4,850	3,488	4,586
Inventory	6,485	8,073	6,771	8,499	7,447
Others	9,158	12,278	11,962	12,584	9,832
<b>Total current assets</b>	<b>31,020</b>	<b>36,777</b>	<b>44,379</b>	<b>38,250</b>	<b>40,368</b>
PP&E and CIP	19,955	23,764	22,346	24,998	29,039
Goodwill	4,858	8,888	8,888	8,888	8,888
Other intangible assets	7,999	12,374	12,993	13,643	14,325
Others	34,270	36,010	28,462	32,052	35,177
<b>Total non-current assets</b>	<b>67,081</b>	<b>81,036</b>	<b>72,689</b>	<b>79,580</b>	<b>87,428</b>
<b>Total assets</b>	<b>98,101</b>	<b>117,813</b>	<b>117,067</b>	<b>117,831</b>	<b>127,796</b>
Trade and bills payable	8,804	10,201	10,857	11,681	13,672
ST borrowings	4,265	9,095	6,203	4,445	4,287
Others	16,003	13,858	16,914	17,496	21,035
<b>Total current liabilities</b>	<b>29,072</b>	<b>33,153</b>	<b>33,974</b>	<b>33,622</b>	<b>38,994</b>
LT Borrowings	18,786	26,106	22,165	18,611	18,125
Convertible bonds	3,981	3,908	3,908	3,908	3,908
Others	4,262	4,594	3,183	3,611	3,633
<b>Total non-current liabilities</b>	<b>27,030</b>	<b>34,608</b>	<b>29,255</b>	<b>26,130</b>	<b>25,665</b>
Shareholders' equity	36,826	40,099	44,026	48,434	53,697
Minority interest	5,174	9,953	9,813	9,645	9,440
<b>Total equity</b>	<b>41,999</b>	<b>50,052</b>	<b>53,838</b>	<b>58,079</b>	<b>63,137</b>
<b>Total liabilities and equity</b>	<b>98,101</b>	<b>117,813</b>	<b>117,067</b>	<b>117,831</b>	<b>127,796</b>

Source(s): The Group, ABCI Securities estimates



**Consolidated cash flow statement**

FY ends at Dec 31 (RMB mn)	FY21A	FY22E	FY23E	FY24E	FY25E
Pretax profit	5,868	6,502	6,826	7,669	9,152
Depreciation and amortization	2,396	1,927	1,989	2,230	2,713
Change in working capital	1,459	(557)	4,020	1,020	8,295
Others	(2,179)	(2,507)	(2,421)	(2,611)	(3,340)
<b>Cash flow from operating activities</b>	<b>7,545</b>	<b>5,366</b>	<b>10,414</b>	<b>8,307</b>	<b>16,821</b>
Change in PP&E and CIP	(5,992)	(6,898)	(4,763)	(5,930)	(7,700)
Others	(9,448)	(9,543)	8,483	(1,424)	(3,944)
<b>Cash flow from investing activities</b>	<b>(15,440)</b>	<b>(16,441)</b>	<b>3,720</b>	<b>(7,354)</b>	<b>(11,643)</b>
Change in borrowings	8,089	10,302	(5,059)	(5,312)	(644)
Others	(1,316)	1,225	(2,860)	(1,150)	(1,114)
<b>Cash flow from financing activities</b>	<b>6,773</b>	<b>11,526</b>	<b>(7,919)</b>	<b>(6,462)</b>	<b>(1,758)</b>
<b>Net change in cash</b>	<b>(1,123)</b>	<b>451</b>	<b>6,215</b>	<b>(5,509)</b>	<b>3,419</b>
Forex effect	(11)	8	5	2	6
<b>Cash and cash equivalent - end</b>	<b>8,092</b>	<b>8,550</b>	<b>14,770</b>	<b>9,264</b>	<b>12,689</b>

Source(s): The Group, ABCI Securities estimates

**Key operating and financial ratios**

FY ends at Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Growth (YoY %)</b>					
Revenue	15.9	5.1	8.2	9.5	11.2
- Liquid milk	12.9	2.3	4.1	6.9	9.2
- Ice cream	61.0	33.3	32.7	27.9	12.1
- Milk powder	8.2	(22.0)	8.6	8.5	21.4
- Other products	126.3	97.3	44.5	20.4	25.0
Gross profit	13.1	0.9	9.4	11.7	13.3
Operating profit	39.6	11.6	8.6	11.3	21.2
Pretax profit	41.2	10.8	5.0	12.3	19.3
Net profit (to shareholders of the Company)	42.6	5.5	8.4	12.4	19.5
<b>Profitability ratios (%)</b>					
GPM	36.7	35.3	35.7	36.4	37.1
OPM	5.5	5.9	5.9	6.0	6.5
Pretax margin	6.7	7.0	6.8	7.0	7.5
NPM (to shareholders of the Company)	5.7	5.7	5.7	5.9	6.3
<b>Return ratios (%)</b>					
ROAA	5.6	4.8	4.8	5.4	6.1
ROAE	14.4	13.8	13.7	14.0	15.1
<b>Liquidity ratio (x)</b>					
Current ratio	1.1	1.1	1.3	1.1	1.0
Quick ratio	2.5	2.3	2.5	3.0	3.4
Cash ratio	1.7	1.7	1.9	2.0	2.0
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	15	15	16	14	12
Days of inventory on hand	39	44	42	40	38
Days of outstanding payable	55	58	60	59	60
CCC	(1)	2	(2)	(5)	(10)
<b>Leverage ratios (%)</b>					
Total debt/Equity	64.4	74.6	59.9	46.4	41.7
Total debt/Total assets	27.6	31.7	27.6	22.9	20.6
Net debt/Equity	37.7	49.1	21.3	22.9	12.4
Net debt/Assets	16.1	20.9	9.8	11.3	6.1

Source(s): The Group, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Pan Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim +9\%$ )
Hold	- Market return rate ( $\sim -9\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim +9\%$ )
Sell	Stock return $<$ - Market return ( $\sim -9\%$ )

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 2006 (For reference: HSI total return index 2006-22 averaged at 8.4%)

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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2023 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**