



Yili (600887 CH)

Improving growth and margins in FY23E

- Expect short-term pressure on revenue growth to persist and improvement would ensue assuming COVID restrictions will ease after 2022
- In the short term, margin profile would be afflicted by cost inflation, intensifying market competition and pandemic challenges on operations that create additional expenses, but we expect margin to expand for FY23E
- Maintain **BUY**; current TP represents 23.45x/18.55x 22E/23E P/E, or 4.67x/4.35x 22E/23E P/B

Revenue growth to pick up in FY23E. In 3Q22, revenue grew 6.7% YoY vs. 11.2% YoY in 2Q22; liquid milk segment revenue declined 4.9% YoY while revenue of ice cream and milk formula was up 35.3% YoY and 64.7% YoY. We believe 3Q22 revenue growth was uneven among different product categories due to disruptions in the consumer market brought by the social distancing measures as well as intensifying competition. Since we expect such factors to remain in force, we adjust our projections accordingly and estimate FY22E overall revenue growth to be 11.7% YoY; revenue of liquid milk, ice cream, and milk formula products would grow 2.9% YoY, 31.3% YoY, and 50.5% YoY. Revenue growth would improve to 13.4% YoY for FY23E as consumption gains more traction with COVID policies likely to ease. FY21-24E revenue CAGR would be 12.5%.

Margin expansion in FY23E. 3Q22 GPM and NPM (to shareholders of the Company) were 31.0% and 6.3% vs 32.8% and 8.1% in 2Q22. The slight deterioration of margins was mainly due to higher raw material costs and the higher 3Q22 SG&A/revenue ratio at 24.1% (2Q22: 23.5%). We expect competitive environment, cost inflation, and COVID-induced operational challenges would pressure margins in the short term but optimization of product portfolio and operation should offset some of the negative impacts. GPM and NPM (to shareholders of the Company) would be 32.6% and 7.9% for FY22E and increase to 33.6% and 8.8% in FY23E; we estimate SG&A/revenue ratio to be 22.8%/22.3% for FY22E/23E.

Maintain BUY; TP at RMB 35.8. We revise down the DCF-derived TP due to the lower revenue and profit projections. Basic EPS is currently projected to up by 12.3% YoY in FY22E and 26.4% YoY in FY23E. Maintain **BUY** on improving growth and margins in FY23E. Our DCF-derived TP represents 23.45x/18.55x 22E/23E P/E, or 4.67x/4.35x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak; 3) Rising raw material costs; 4) Regulatory/policy risk; 5) Product quality/safety risk; 6) Risk of changing consumer tastes; 7) Rising level of debt to push up financial expenses.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	96,886	110,595	123,576	140,108	157,289
Chg (% YoY)	7.4	14.2	11.7	13.4	12.3
Net Profit (to owners of the Company) (RMB mn)	7,078	8,705	9,773	12,350	14,381
Chg (% YoY)	2.1	23.0	12.3	26.4	16.4
Basic EPS (RMB)	1.17	1.43	1.53	1.93	2.25
Chg (% YoY)	1.7	22.2	6.8	26.4	16.4
P/E (x)	23.38	19.13	17.92	14.18	12.18
BVPS (RMB)	5.00	7.45	7.66	8.23	8.91
P/B (x)	5.48	3.67	3.57	3.32	3.07
DPS (RMB)	0.82	0.96	1.07	1.36	1.58
Yield (%)	3.0	3.5	3.9	5.0	5.8
ROAA (%)	10.8	10.1	8.3	9.1	10.1
ROAE (%)	25.0	22.3	20.2	24.3	26.2

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Nov 9, 2022

Rating: **BUY**

TP: RMB 35.8

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Share price (RMB)	27.36
52Wk H/L(RMB)	43.92/24.51
Est. share price return	30.8%
Est. dividend yield	3.9%
Est. total return	34.8%
Previous Rating &TP	BUY;RMB 42.3
Previous report date	Sep 2, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	6.4
Market cap (RMB bn)	175.1
3-mth ADT (RMB mn)	1,322.7

Major shareholders

	(%)
HK Securities Clearing Co	18.14
Hohhot Investment Co Ltd	8.42
Pan Gang	4.48

Source(s): Bloomberg, Company

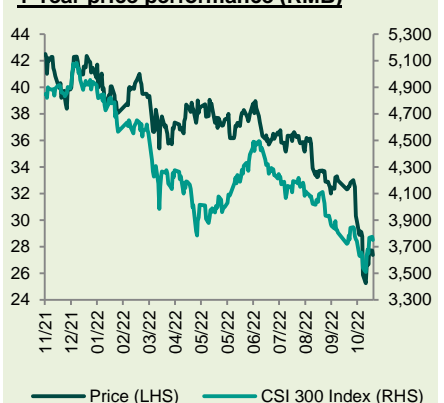
Sector Performance (%)

	Absolute	Relative*
1-mth	(15.29)	(16.06)
3-mth	(24.71)	(15.10)
6-mth	(27.56)	(23.48)

* Relative to CSI 300 Index

Source(s): Bloomberg, ABCI Securities

1-Year price performance (RMB)



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of Nov 8, 2022



Exhibit 1: Changes in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
Assumptions					
D/E (%)	80.1	71.2	68.5	55.5	Adjusted based on 3Q22 data disclosed by the Company
D/A (%)	31.8	29.4	27.2	24.0	
Tax rate (%)	13.6	13.6	13.6	13.6	
Valuations					
TP (RMB)	35.8		42.3		Lower TP is due to lower revenue and profit level forecasts
P/E (x)	23.45	18.55	24.43	20.96	
P/B (x)	4.67	4.35	6.16	5.66	

Note: Previous report was published on Sep 2, 2022

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (RMB mn)	123,576	140,108	157,289	129,020	144,944	159,681	(4.2)	(3.3)	(1.5)
Net profit (to shareholders of the Company) (RMB mn)	9,773	12,350	14,381	11,081	12,916	14,665	(11.8)	(4.4)	(1.9)
Basic EPS (RMB)	1.53	1.93	2.25	1.73	2.02	2.29	(11.8)	(4.4)	(1.9)

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	96,886	110,595	123,576	140,108	157,289
- Core revenue	95,345	108,462	121,608	137,866	154,977
- Liquid milk	76,123	84,911	87,395	97,220	108,673
- Ice cream	6,158	7,161	9,400	10,488	11,884
- Milk formula and milk products	12,885	16,209	24,401	29,911	34,157
- Non-core revenue	1,179	1,681	1,124	1,216	1,305
- Interest income	362	451	844	1,026	1,008
COGS	(67,453)	(76,417)	(83,248)	(92,970)	(103,810)
Gross profit	29,433	34,178	40,327	47,138	53,479
- Core gross profit	28,858	33,342	39,274	45,882	52,226
- Liquid milk	21,256	24,057	25,956	29,718	33,718
- Ice cream	2,517	2,884	3,819	4,366	4,937
- Milk formula and milk products	5,049	6,358	9,397	11,736	13,504
- Non-core gross profit	213	385	210	230	245
- Gross profit on interest income	362	451	844	1,026	1,008
Business tax and levies	(547)	(664)	(766)	(870)	(973)
S&D expenses	(16,884)	(19,315)	(23,054)	(25,589)	(28,520)
Admin expenses	(3,883)	(4,227)	(5,091)	(5,614)	(6,318)
R&D expenses	(487)	(601)	(666)	(758)	(849)
Operating profit	7,633	9,372	10,751	14,307	16,819
Finance costs	(188)	29	302	(300)	(422)
Others	705	711	297	335	304
Pretax profit	8,150	10,112	11,350	14,342	16,701
Tax	(1,051)	(1,380)	(1,547)	(1,953)	(2,276)
Net profit	7,099	8,732	9,803	12,389	14,425
- Profit attributable to shareholders	7,078	8,705	9,773	12,350	14,381
- Minority interest	21	27	30	38	45
Cash dividend	4,988	6,144	6,859	8,710	10,130
EPS (RMB)					
- Basic	1.17	1.43	1.53	1.93	2.25
- Diluted	1.18	1.43	1.53	1.93	2.25
Cash DPS (RMB)	0.82	0.96	1.07	1.36	1.58

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalent	11,695	31,742	46,025	40,292	40,526
Trade and bills receivable	1,759	2,107	3,109	3,377	3,486
Inventory	7,545	8,917	11,127	12,062	13,121
Others	7,381	7,388	7,290	8,855	8,225
Total current assets	28,381	50,155	67,551	64,587	65,358
PP&E	23,343	29,379	33,793	38,601	44,257
Goodwill	362	306	4,444	4,444	4,444
LT Biological assets	0	1,777	2,132	2,559	3,071
Others	19,069	20,345	25,883	27,245	29,449
Total non-current assets	42,774	51,807	66,252	72,849	81,220
Total assets	71,154	101,962	133,803	137,435	146,578
Trade and bills payable	11,636	14,062	14,739	16,925	18,609
ST borrowings	6,957	12,596	28,141	27,578	26,199
Others	16,176	16,638	23,080	22,282	27,192
Total current liabilities	34,768	43,296	65,959	66,786	72,000
LT Borrowings	1,375	5,380	9,148	8,690	8,256
Bonds payable	3,762	3,188	3,111	2,987	2,867
Others	716	1,307	2,494	2,165	2,307
Total non-current liabilities	5,853	9,875	14,753	13,842	13,430
Shareholders' equity	30,384	47,708	49,021	52,700	56,995
Minority interest	149	1,083	4,070	4,108	4,153
Total equity	30,533	48,791	53,091	56,808	61,148
Total liabilities and equity	71,154	101,962	133,803	137,435	146,578

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	7,099	8,732	9,803	12,389	14,425
Depreciation and amortization	2,442	3,421	3,343	4,046	4,657
Change in working capital	(557)	2,089	(2,142)	2,260	1,125
Others	867	1,286	2,437	2,885	2,849
Cash flow from operating activities	9,852	15,528	13,441	21,580	23,057
Change in PP&E, intangible assets, and other non-current assets	(6,500)	(6,644)	(11,713)	(14,294)	(16,629)
Others	(2,543)	(1,153)	(4,863)	(5,804)	(201)
Cash flow from investing activities	(9,043)	(7,797)	(16,576)	(20,098)	(16,830)
Change in borrowings	5,122	4,981	20,853	(2,123)	(1,988)
Cash flow related to dividend payment, interest payment, or profit distribution	(5,310)	(5,693)	(5,250)	(6,708)	(8,206)
Others	142	12,657	1,637	2,051	3,963
Cash flow from financing activities	(47)	11,945	17,240	(6,780)	(6,231)
Net change in cash	762	19,676	14,105	(5,299)	(5)
ForEx effect	(395)	(29)	(7)	(92)	(43)
Cash and cash equivalent - end	11,434	31,080	45,179	39,787	39,740

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios

FY ends at Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (YoY %)					
Revenue	7.4	14.2	11.7	13.4	12.3
Core revenue	6.5	13.8	12.1	13.4	12.4
- Liquid milk	3.2	11.5	2.9	11.2	11.8
- Ice cream	9.3	16.3	31.3	11.6	13.3
- Milk formula and milk products	28.1	25.8	50.5	22.6	14.2
Gross profit	(13.0)	16.1	18.0	16.9	13.5
Core gross profit	(13.7)	15.5	17.8	16.8	13.8
- Liquid milk	(18.1)	13.2	7.9	14.5	13.5
- Ice cream	(3.9)	14.6	32.4	14.3	13.1
- Milk formula and milk products	4.3	25.9	47.8	24.9	15.1
Operating profit	3.1	22.8	14.7	33.1	17.6
Pretax Profit	(0.5)	24.1	12.2	26.4	16.5
Net profit (to owners of the Company)	2.1	23.0	12.3	26.4	16.4
Profitability ratios (%)					
GPM	30.4	30.9	32.6	33.6	34.0
Core-GPM	30.3	30.7	32.3	33.3	33.7
- Liquid milk	27.9	28.3	29.7	30.6	31.0
- Ice cream	40.9	40.3	40.6	41.6	41.5
- Milk formula and milk products	39.2	39.2	38.5	39.2	39.5
OPM	7.9	8.5	8.7	10.2	10.7
Pretax margin	8.4	9.1	9.2	10.2	10.6
NPM (to owners of the Group)	7.3	7.9	7.9	8.8	9.1
Revenue contribution (%)					
Core revenue/ total revenue	98.4	98.1	98.4	98.4	98.5
Core revenue composition					
- Liquid milk	79.8	78.3	71.9	70.5	70.1
- Ice cream	6.5	6.6	7.7	7.6	7.7
- Milk formula and milk products	13.5	14.9	20.1	21.7	22.0
Return ratios (%)					
ROAA	10.8	10.1	8.3	9.1	10.1
ROAE	25.0	22.3	20.2	24.3	26.2
Liquidity ratio (x)					
Current ratio	0.8	1.2	1.0	1.0	0.9
Quick ratio	0.6	1.0	0.9	0.8	0.7
Cash ratio	0.3	0.7	0.7	0.6	0.6
Cash conversion cycle (days)					
Days of outstanding receivable	6	6	7	8	7
Days of inventory on hand	42	40	44	46	45
Days of outstanding payable	60	60	60	60	60
CCC	(12)	(14)	(8)	(6)	(8)
Leverage ratios (%)					
Total debt/Equity	42.0	44.5	80.1	71.2	62.9
Total debt/Total assets	18.0	21.3	31.8	29.4	26.2
Net debt or (cash)/Equity	3.7	(20.6)	(6.6)	0.2	(3.4)
Net debt or (cash)/Total assets	1.6	(9.9)	(2.6)	0.1	(1.4)

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates



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

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 (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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