



Yili (600887 CH)

Improving margins show clout; maintain BUY

- We expect the Group to be able to execute growth initiatives to counter challenges brought by COVID-19 resurgence and sustain revenue growth momentum in FY22E
- Improvement of margin profile in FY22E is also expected as we project the Group would benefit from stabilizing raw milk price, increasing contribution from milk formula segment with higher GPM, and enhancing operating efficiency
- Maintain BUY; current TP represents 24.11x/19.08x 22E/23E P/E, or 4.76x/4.43x 22E/23E P/B

Revise up FY22E revenue growth estimate despite COVID resurgence. In FY21, the Group's revenue grew 14.2% YoY, while revenue of liquid milk products, ice cream products, and milk formula products rose 11.5% YoY, 16.3% YoY, and 25.8% YoY. In 1Q22, revenue went up 13.5% YoY; liquid milk products, ice cream products, and milk formula products grew 7.0% YoY, 35.5% YoY, and 35.3% YoY. 1Q21 performance continues to show the Group's capability to sustain growth. We believe the Group would be able to execute more growth initiatives, such as new product development, channel expansion, and market penetration, to combat challenges brought by the COVID-19 resurgence. We currently project revenue to grow by 17.3% YoY and reach RMB 129.7bn in FY22E; revenue of liquid milk products, ice cream products, and milk formula products to grow by 9.4% YoY, 12.0% YoY, and 62.2% YoY. Our current projected FY21-24E revenue CAGR is 15.7%.

Margins are expected to improve. In FY21, GPM reached 30.9% (FY20:30.4%). NPM (to shareholders of the Company) improved by 0.6ppt to 7.9%, attributable to the higher GPM and the lower admin expense/revenue ratio. In 1Q22, the Group's GPM increased to 34.7% (1Q21: 32.6%), and NPM (to shareholders of the Company) rose to 11.3% (1Q21: 10.3%). We expect margins to improve due to stabilizing raw milk price, increasing contribution from milk formula segment with higher GPM, and enhancing operating efficiency. GPM and NPM (to shareholders of the Company) are expected to reach 32.7% and 9.1% in FY22E and 34.4% and 10.7% in FY24E.

Maintain BUY; TP at RMB 44.6. Based on our current projections, FY21-24E basic EPS CAGR would be 26.0% and FY22E basic EPS would jump 29.4% YoY. The Group's market-leading position and ability to deliver growth remain intact. Maintain **BUY**. We lower our DCF-derived TP due to the revised FY23E profit estimates as a result of higher operating cost projections and projection horizon rollover. Current TP represents 24.11x/19.08x 22E/23E P/E, or 4.76x/4.43x 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.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	96,886	110,595	129,689	149,351	171,284
Chg (% YoY)	7.4	14.2	17.3	15.2	14.7
Net Profit (to owners of the Company) (RMB mn)	7,078	8,705	11,840	14,957	18,311
Chg (% YoY)	2.1	23.0	36.0	26.3	22.4
Basic EPS (RMB)	1.17	1.43	1.85	2.34	2.86
Chg (% YoY)	1.7	22.2	29.4	26.3	22.4
P/E (x)	32.88	26.90	20.79	16.46	13.45
BVPS (RMB)	5.00	7.45	9.38	10.07	10.93
P/B (x)	7.70	5.16	4.10	3.82	3.52
DPS (RMB)	0.82	0.96	1.30	1.65	2.02
Yield (%)	2.1	2.5	3.4	4.3	5.2
ROAA (%)	10.8	10.1	10.0	11.0	12.7
ROAE (%)	25.0	22.3	22.0	24.0	27.2

Source(s): Bloomberg, ABCI Securities estimates

Company Report

May 4, 2022

Rating: BUY

TP: RMB 44.6

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Share price (RMB)	38.47
52Wk H/L(RMB)	44.25/30.9
Est. share price return	15.9%
Est. dividend yield	3.4%
Est. total return	19.3%
Previous Rating & TP	BUY; RMB45.6
Previous report date	May 13, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	6.40
Market cap (RMB bn)	246.21
3-mth ADT (RMB mn)	1,516.69

Major shareholders	(%)
HK Securities Clearing Co	15.74
Hohhot Investment Co Ltd	8.41
Pan Gang	4.48

Source(s): Bloomberg, Company

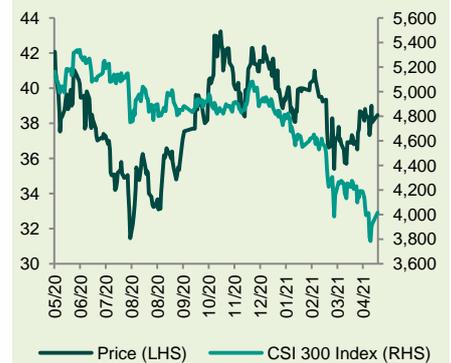
Sector Performance (%)

	Absolute	Relative*
1-mth	3.03	9.03
3-mth	1.05	12.98
6-mth	(10.24)	7.20

* 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 closing of Apr 29, 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 (%)	48.0	40.7	26.6	21.3	Adjusted based on 1Q22 rates
D/A (%)	22.7	20.4	12.1	9.8	
Tax rate (%)	13.6	13.6	13.6	14.0	
Valuations					
TP (RMB)	44.60		45.6		Revision of TP and valuation due to roll-over of DCF forecast period and changes in profit projections in FY23E
P/E (x)	24.11	19.08	24.60	18.10	
P/B (x)	4.76	4.43	7.58	6.76	

Note: Previous report was published on Mar 13, 2021

Source(s): 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)	129,689	149,351	120,114	138,336	8.0	8.0
Net profit (to shareholders of the Company) (RMB mn)	11,840	14,957	11,275	15,356	5.0	(2.6)
Basic EPS (RMB)	1.85	2.34	1.85	2.52	0.0	(7.3)

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	129,689	149,351	171,284
- Core revenue	95,345	108,462	127,449	146,956	168,746
- Liquid milk	76,123	84,911	92,917	104,805	118,157
- Chilled product	6,158	7,161	8,020	9,041	10,209
- Milk formula	12,885	16,209	26,296	32,860	40,093
- Non-core revenue	1,179	1,681	1,178	1,296	1,421
- Interest income	362	451	1,062	1,099	1,117
COGS	(67,453)	(76,417)	(87,255)	(99,279)	(112,360)
Gross profit	29,433	34,178	42,433	50,072	58,924
- Core gross profit	28,858	33,342	41,152	48,728	57,540
- Liquid milk	21,256	24,057	26,623	30,608	35,656
- Chilled product	2,517	2,884	3,268	3,792	4,298
- Milk formula	5,049	6,358	11,218	14,278	17,529
- Non-core gross profit	213	385	220	246	267
- Gross profit on interest income	362	451	1,062	1,099	1,117
Business tax and levies	(547)	(664)	(804)	(928)	(1,060)
S&D expenses	(16,884)	(19,315)	(22,793)	(25,959)	(29,790)
Admin expenses	(3,883)	(4,227)	(4,985)	(5,723)	(6,592)
R&D expenses	(487)	(601)	(678)	(796)	(905)
Operating profit	7,633	9,372	13,173	16,666	20,578
Finance costs	(188)	29	89	117	46
Others	705	711	487	584	638
Pretax profit	8,150	10,112	13,749	17,366	21,263
Tax	(1,051)	(1,380)	(1,873)	(2,365)	(2,897)
Net profit	7,099	8,732	11,875	15,001	18,365
- Profit attributable to shareholders	7,078	8,705	11,840	14,957	18,311
- Minority interest	21	27	35	44	54
Cash dividend	4,988	6,144	8,311	10,549	12,899
EPS (RMB)					
- Basic	1.17	1.43	1.85	2.34	2.86
- Diluted	1.18	1.43	1.85	2.34	2.86
Cash DPS (RMB)	0.82	0.96	1.30	1.65	2.02

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	46,541	40,924	42,969
Trade and bills receivable	1,759	2,107	2,937	2,761	3,431
Inventory	7,545	8,917	12,091	11,110	13,971
Others	7,381	7,388	7,825	9,021	9,227
Total current assets	28,381	50,155	69,394	63,817	69,597
PP&E	23,343	29,379	33,793	38,601	44,257
Goodwill	362	306	4,732	4,732	4,732
LT Biological assets	0	1,777	2,132	2,559	3,071
Others	19,069	20,345	25,383	27,141	30,191
Total non-current assets	42,774	51,807	66,040	73,033	82,250
Total assets	71,154	101,962	135,434	136,849	151,847
Trade and bills payable	11,636	14,062	16,417	16,721	22,324
ST borrowings	6,957	12,596	21,162	19,046	17,141
Others	16,176	16,638	22,239	22,430	28,268
Total current liabilities	34,768	43,296	59,818	58,197	67,734
LT Borrowings	1,375	5,380	6,502	5,916	5,384
Bonds payable	3,762	3,188	3,111	2,987	2,867
Others	716	1,307	1,860	1,109	1,702
Total non-current liabilities	5,853	9,875	11,472	10,012	9,953
Shareholders' equity	30,384	47,708	60,017	64,469	69,936
Minority interest	149	1,083	4,127	4,171	4,225
Total equity	30,533	48,791	64,144	68,640	74,160
Total liabilities and equity	71,154	101,962	135,434	136,849	151,847

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	11,875	15,001	18,365
Depreciation and amortization	2,442	3,421	3,372	4,064	4,722
Change in working capital	(557)	2,089	(880)	2,630	3,226
Others	867	1,286	2,167	2,315	2,252
Cash flow from operating activities	9,852	15,528	16,534	24,011	28,565
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)	5,449	(5,096)	(88)
Cash flow from investing activities	(9,043)	(7,797)	(6,264)	(19,390)	(16,717)
Change in borrowings	5,122	4,981	9,610	(2,826)	(2,557)
Cash flow related to dividend payment, interest payment, or profit distribution	(5,310)	(5,693)	(6,906)	(9,028)	(11,487)
Others	142	12,657	1,637	2,051	3,963
Cash flow from financing activities	(47)	11,945	4,341	(9,803)	(10,081)
Net change in cash	762	19,676	14,611	(5,181)	1,767
ForEx effect	(395)	(29)	(7)	(92)	(43)
Cash and cash equivalent - end	11,434	31,080	45,685	40,411	42,135

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	17.3	15.2	14.7
Core revenue	6.5	13.8	17.5	15.3	14.8
- Liquid milk	3.2	11.5	9.4	12.8	12.7
- Chilled products	9.3	16.3	12.0	12.7	12.9
- Milk formula	28.1	25.8	62.2	25.0	22.0
Gross profit	(13.0)	16.1	24.2	18.0	17.7
Core gross profit	(13.7)	15.5	23.4	18.4	18.1
- Liquid milk	(18.1)	13.2	10.7	15.0	16.5
- Chilled products	(3.9)	14.6	13.3	16.0	13.4
- Milk formula	4.3	25.9	76.5	27.3	22.8
Operating profit	3.1	22.8	40.6	26.5	23.5
Pretax Profit	(0.5)	24.1	36.0	26.3	22.4
Net profit (to owners of the Company)	2.1	23.0	36.0	26.3	22.4
Profitability ratios (%)					
GPM	30.4	30.9	32.7	33.5	34.4
Core-GPM	30.3	30.7	32.3	33.2	34.1
- Liquid milk	27.9	28.3	28.7	29.2	30.2
- Chilled products	40.9	40.3	40.7	41.9	42.1
- Milk formula	39.2	39.2	42.7	43.5	43.7
OPM	7.9	8.5	10.2	11.2	12.0
Pretax margin	8.4	9.1	10.6	11.6	12.4
NPM (to owners of the Group)	7.3	7.9	9.1	10.0	10.7
Revenue contribution (%)					
Core revenue/ total revenue	98.4	98.1	98.3	98.4	98.5
Core revenue composition					
- Liquid milk	79.8	78.3	72.9	71.3	70.0
- Chilled products	6.5	6.6	6.3	6.2	6.1
- Milk formula	13.5	14.9	20.6	22.4	23.8
Return ratios (%)					
ROAA	10.8	10.1	10.0	11.0	12.7
ROAE	25.0	22.3	22.0	24.0	27.2
Liquidity ratio (x)					
Current ratio	0.8	1.2	1.2	1.1	1.0
Quick ratio	0.6	1.0	1.0	0.9	0.8
Cash ratio	0.3	0.7	0.8	0.7	0.6
Cash conversion cycle (days)					
Days of outstanding receivable	6	6	7	6	6
Days of inventory on hand	42	40	44	43	41
Days of outstanding payable	60	60	60	60	60
CCC	(12)	(14)	(9)	(10)	(13)
Leverage ratios (%)					
Total debt/Equity	39.6	43.4	48.0	40.7	34.2
Total debt/Total assets	17.0	20.8	22.7	20.4	16.7
Net debt or (cash)/Equity	1.3	(21.7)	(24.6)	(18.9)	(23.7)
Net debt or (cash)/Total assets	0.6	(10.4)	(11.6)	(9.5)	(11.6)

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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