



Yili (600887 CH) Macro challenges remain

- A slow consumer market and low raw milk price are likely to pressure the Group's revenue growth and margin profile
- Chilled products and milk formula & other product segments could potentially see better growth
- Downgrade to **HOLD**; current TP represents 15.9x/14.9x 24E/25E P/E, or 3.3x/3.0x 24E/25E P/B

Revenue growth to face challenges in FY24E. Recovery was slower than expected as the Group's revenue changes in FY23, 4Q23, and 1Q24 were 2.4% YoY, -1.8% YoY, and -2.6% YoY. The Group indicated slow order flow from distributors after the Spring Festival in 2024 can be attributed to the weak consumer demand. In addition, implied ASP for the liquid milk segment declined by 1.4% YoY and implied ASP for the chilled product segment was flat in FY23 and we expect relatively low raw milk price would keep suppressing the Group's pricing capability. However, rising popularity of the Group's chilled products in Southeast Asian markets would become a new driver for the segment. Milk formula product revenue would receive support from the Year of Dragon effect on the newborn figures in 2024 and the transformation efforts on product positioning and channels. Nonetheless, we revise down our overall growth projections. We expect FY24E total revenue to grow 2.8% YoY, supported by revenue growth of liquid milk, chilled product, and milk formula & other products segments at 0.3% YoY, 14.5% YoY, and 5.3% YoY. FY23-26E revenue CAGR in FY23-26E is projected at 4.1%.

Low raw material costs to benefit margin profile. The Group's gross margin is likely to be supported by the low raw milk price, as indicated by GPM of 36.0% in 1Q24 vs. 34.0% in 1Q23 or 31.7% in 4Q23. Such low raw material costs would provide the Group flexibility in coping with increasing operating expenses or potential asset impairment. The Group emphasized it would boost growth by communicating and reaching out to consumers, which would result in more frequent product promotion and marketing events. In addition, if low raw milk price persists or further declines, the resulting asset impairment could partially offset cost savings in production process and affect net profit level. We project FY24E GPM, OPM, and NPM (to shareholders of the Company) to be 33.0%, 9.5%, and 9.1%.

Downgrade to HOLD; TP at RMB 29.3. Downgrade to **HOLD** mainly on weakened consumer market and the Group's pricing capability limited by low raw milk price. We lower our DCF-derived TP to reflect the reduced revenue and profit projections. FY23-26E basic EPS CAGR is projected at 10.1%. Current TP represents 15.9x/14.9x 24E/25E P/E, or 3.3x/3.0x 24E/25E P/B

Risk factors: 1) Macroeconomic risk; 2) Fluctuation of raw material prices; 3) Regulatory/policy risk; 4) Product quality/safety risk; 5) Risk of changing consumer tastes.

Results and Valuation

FY ended Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	123,171	126,179	129,720	136,175	142,322
Chg (% YoY)	11.4	2.4	2.8	5.0	4.5
Net Profit (to owners of the Company) (RMB mn)	9,431	10,429	11,756	12,556	13,903
Chg (% YoY)	8.3	10.6	12.7	6.8	10.7
Basic EPS (RMB)	1.48	1.64	1.85	1.97	2.18
Chg (% YoY)	3.5	10.7	12.7	6.8	10.7
P/E (x)	18.89	17.06	15.14	14.17	12.80
BVPS (RMB)	7.85	8.41	9.00	9.66	10.44
P/B (x)	3.56	3.32	3.11	2.89	2.68
DPS (RMB)	1.04	1.20	1.31	1.40	1.55
Yield (%)	3.7	4.3	4.7	5.0	5.6
ROAA (%)	8.1	7.4	7.7	8.0	8.8
ROAE (%)	19.3	20.1	21.2	21.1	21.7

Source(s): Bloomberg, ABCI Securities estimates

Company Report May 10, 2024 Rating: HOLD TP: RMB 29.3

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Share price (RMB)	27.95
52Wk H/L(RMB)	31/25.2
Est. share price return	4.8%
Est. dividend yield	4.7%
Est. total return	9.5%
Previous Rating & TP	BUY; RMB 32.0
Previous report date	Nov 16, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	6.4
Market cap (RMB bn)	177.9
3-mth ADT (RMB mn)	1,211.8

Major shareholders (%)

HK Securities Clearing Co	12.47
Hohhot Investment Co Ltd	8.46
Pan Gang	4.50

Source(s): Bloomberg, the Company

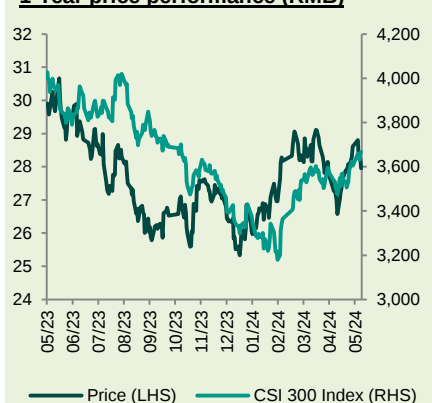
Sector Performance (%)

	Absolute	Relative*
1-mth	2.2	(1.6)
3-mth	(0.8)	(9.8)
6-mth	1.2	(0.3)

* 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 May 10, 2024

Exhibit 1: Changes in assumptions, projections, and valuations

Summary of changes in assumptions, projections, and valuations					
FY ends at Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	88.7	79.0	84.4	74.5	Adjusted based on FY23 & 1Q24 figures
D/A (%)	35.3	32.1	35.1	32.7	
Tax rate (%)	12.7	13.0	13.3	13.3	
Valuations					
TP (RMB)	29.3		32.0		Lower TP is due to reduced revenue and profit level forecasts in FY25E
P/E (x)	15.9	14.9	17.4	15.7	
P/B (x)	3.3	3.0	3.5	3.3	

Note: for previous report publication date please refer to the cover page of this company report

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (RMB mn)	129,720	136,175	142,322	140,146	151,141	N/A	(7.4)	(9.9)	N/A
Net profit (to shareholders of the Company) (RMB mn)	11,756	12,556	13,903	11,734	12,961	N/A	0.2	(3.1)	N/A
Basic EPS (RMB)	1.85	1.97	2.18	1.84	2.04	N/A	0.4	(3.3)	N/A

Source(s): ABCI Securities estimates

Financial Statements

Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	123,171	126,179	129,720	136,175	142,322
- Core revenue	121,149	124,461	127,831	134,028	140,287
- Liquid milk	84,926	85,540	85,814	88,735	92,054
- Ice cream	9,567	10,688	12,238	14,006	15,896
- Milk formula and milk products	26,260	27,598	29,063	30,563	31,579
- Non-core revenue	1,549	1,297	1,302	1,523	1,528
- Interest income	473	421	587	624	507
COGS	(83,119)	(84,789)	(86,873)	(90,667)	(94,923)
Gross profit	40,052	41,391	42,847	45,508	47,399
- Core gross profit	39,275	40,726	42,020	44,603	46,610
- Liquid milk	24,725	25,974	26,098	27,025	28,144
- Ice cream	3,681	4,109	4,749	5,488	6,182
- Milk formula and milk products	10,784	10,526	11,036	11,952	12,140
- Non-core gross profit	304	244	241	282	281
- Gross profit on interest income	473	421	587	624	507
Business tax and levies	(742)	(733)	(766)	(804)	(837)
S&D expenses	(22,908)	(22,572)	(23,495)	(24,779)	(25,953)
Admin expenses	(5,343)	(5,154)	(5,340)	(5,622)	(5,894)
R&D expenses	(822)	(850)	(878)	(929)	(977)
Operating profit	10,238	12,082	12,368	13,375	13,739
Finance costs	255	153	344	324	1,293
Others	137	(514)	573	540	715
Pretax profit	10,630	11,721	13,285	14,238	15,747
Tax	(1,312)	(1,437)	(1,692)	(1,855)	(2,036)
Net profit	9,318	10,284	11,593	12,383	13,710
- Profit attributable to shareholders	9,431	10,429	11,756	12,556	13,903
- Minority interest	(113)	(144)	(163)	(174)	(192)
Cash dividend	6,621	7,639	8,335	8,939	9,886
EPS (RMB)					
- Basic	1.48	1.64	1.85	1.97	2.18
- Diluted	1.48	1.64	1.85	1.97	2.18
Cash DPS (RMB)	1.04	1.20	1.31	1.40	1.55

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)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	33,853	43,372	43,125	40,482	34,894
Trade and bills receivable	3,250	3,305	3,215	3,700	4,028
Inventory	14,836	12,512	14,268	15,534	15,803
Others	9,524	10,167	7,401	10,510	8,051
Total current assets	61,463	69,355	68,011	70,226	62,775
PP&E	33,735	35,242	35,974	37,117	38,353
Goodwill	4,954	5,160	5,167	5,167	5,167
LT Biological assets	1,776	1,659	1,825	2,007	2,208
Others	29,037	40,204	42,154	45,158	47,852
Total non-current assets	69,502	82,265	85,120	89,449	93,580
Total assets	130,965	151,620	153,131	159,675	156,355
Trade and bills payable	16,807	14,840	14,623	19,234	12,470
ST borrowings	26,799	39,755	37,767	35,879	34,085
Others	18,563	22,265	23,170	23,514	24,595
Total current liabilities	62,170	76,860	75,560	78,627	71,150
LT Borrowings	9,298	11,705	11,354	10,787	10,247
Bonds payable	3,482	3,541	3,400	3,264	3,133
Others	1,872	2,193	1,922	2,055	2,111
Total non-current liabilities	14,653	17,440	16,675	16,105	15,491
Shareholders' equity	50,268	53,539	57,291	61,512	66,476
Minority interest	3,875	3,781	3,604	3,430	3,238
Total equity	54,143	57,320	60,895	64,943	69,714
Total liabilities and equity	130,965	151,620	153,131	159,675	156,355

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)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit	9,318	10,284	11,593	12,383	13,710
Depreciation and amortization	4,068	4,431	4,165	4,216	4,553
Change in working capital	(2,234)	(307)	(117)	2,445	(7,112)
Others	2,268	3,881	3,985	1,072	878
Cash flow from operating activities	13,420	18,290	19,627	20,115	12,030
Change in PP&E, intangible assets, and other non-current assets	(5,950)	(6,893)	(14,293)	(13,530)	(14,241)
Others	(13,564)	(9,152)	869	(3,047)	5,938
Cash flow from investing activities	(19,514)	(16,044)	(13,423)	(16,577)	(8,303)
Change in borrowings	16,670	16,486	(3,299)	(2,662)	(2,531)
Cash flow related to dividend payment, interest payment, or profit distribution	(7,500)	(8,416)	(5,987)	(6,600)	(7,775)
Others	(389)	(812)	2,723	3,368	1,205
Cash flow from financing activities	8,781	7,258	(6,564)	(5,895)	(9,101)
Net change in cash	2,688	9,504	(360)	(2,356)	(5,374)
ForEx effect	(580)	119	(163)	(208)	(84)
Cash and cash equivalent - end	33,188	42,812	42,289	39,725	34,267

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	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Revenue	11.4	2.4	2.8	5.0	4.5
Core revenue	11.7	2.7	2.7	4.8	4.7
- Liquid milk	0.0	0.7	0.3	3.4	3.7
- Ice cream	33.6	11.7	14.5	14.4	13.5
- Milk formula and milk products	62.0	5.1	5.3	5.2	3.3
Gross profit	17.2	3.3	3.5	6.2	4.2
Core gross profit	17.8	3.7	3.2	6.1	4.5
- Liquid milk	2.8	5.1	0.5	3.6	4.1
- Ice cream	27.7	11.6	15.6	15.6	12.7
- Milk formula and milk products	69.6	(2.4)	4.8	8.3	1.6
Operating profit	9.2	18.0	2.4	8.1	2.7
Pretax Profit	5.1	10.3	13.3	7.2	10.6
Net profit (to owners of the Company)	8.3	10.6	12.7	6.8	10.7
Profitability ratios (%)					
GPM	32.5	32.8	33.0	33.4	33.3
Core-GPM	32.4	32.7	32.9	33.3	33.2
- Liquid milk	29.1	30.4	30.4	30.5	30.6
- Ice cream	38.5	38.4	38.8	39.2	38.9
- Milk formula and milk products	41.1	38.1	38.0	39.1	38.4
OPM	8.3	9.6	9.5	9.8	9.7
Pretax margin	8.6	9.3	10.2	10.5	11.1
NPM (to owners of the Group)	7.7	8.3	9.1	9.2	9.8
Revenue contribution (%)					
Core revenue/ total revenue	98.4	98.6	98.5	98.4	98.6
Core revenue composition					
- Liquid milk	70.1	68.7	67.1	66.2	65.6
- Ice cream	7.9	8.6	9.6	10.5	11.3
- Milk formula and milk products	21.7	22.2	22.7	22.8	22.5
Return ratios (%)					
ROAA	8.1	7.4	7.7	8.0	8.8
ROAE	19.3	20.1	21.2	21.1	21.7
Liquidity ratio (x)					
Current ratio	1.0	0.9	0.9	0.9	0.9
Quick ratio	0.8	0.7	0.7	0.7	0.7
Cash ratio	0.5	0.6	0.6	0.5	0.5
Cash conversion cycle (days)					
Days of outstanding receivable	7	9	9	9	9
Days of inventory on hand	53	60	57	61	61
Days of outstanding payable	62	67	58	65	58
CCC	(1)	2	8	5	12
Leverage ratios (%)					
Total debt/Equity	74.4	100.0	88.7	79.0	70.0
Total debt/Total assets	30.8	37.8	35.3	32.1	31.2
Net debt or (cash)/Equity	11.9	24.3	17.9	16.7	20.0
Net debt or (cash)/Total assets	4.9	9.2	7.1	6.8	8.9

Note: items may not sum up due to rounding

Source(s): Company, ABCI Securities estimates

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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) $\leq$ Stock return rate $<$ Market return rate ($\sim 7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

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 2005 (HSI total return index 2005-23 averaged at 7.4%)

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.

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