

Equities

Hong Kong/China

Company Update

Company Report

YuanShengTai Dairy (1431 HK)

23 March 2015

FY14 Results First Take

YuenShengTai Dairy's (YST Dairy) FY14 results benefited from greater raw-milk production volume and average selling price (ASP), lower financing costs and the absence of listing fees. Total revenue increased 32% YoY to Rmb1,163m and net profit surged 92% to Rmb418.8m. No dividend was declared.

- Strong top line on surging volume and high ASP.** Revenue rose 32% YoY on a 25% YoY increase in raw-milk sales volume from 183,702 tons in FY13 to 230,121 tons in FY14. Raw-milk volume rose on improving milk yields and an expanding herd. Average milk yield per cow was 9.4 tons in 2014 vs. 9.0 tons in 2013; the number of dairy cows expanded to 44,623, up 10% YoY. ASP for raw milk reached Rmb5,053 per ton, a 5% YoY increase from 2013.
- Decline in feed costs led gross margin improvement.** Gross margin improved from 42.6% in FY13 to 45.7% in FY14. Feed cost per ton of milk was down 1.8% YoY in FY14. Selling, distribution and administrative expenses to revenue ratio dropped slightly to 6.47% in FY14 from 6.75% in FY13. Overall, strong revenue growth, lower financing costs and the absence of listing fees resulted in net profit excluding change in biological asset value and other non-recurring items increasing 56% YoY to Rmb469m.
- Maintain target herd size of 100,000 for 2017.** Given downward pressure on domestic raw-milk prices, sales growth will depend on organic growth in herd size. YST Dairy will continue to expand its large dairy farms and plans to build two more farms on the Songnen Plain. It targets a total herd size of 100,000 in 2017.
- Our earnings forecasts, TP and rating are under review pending discussions with management.

China / Food & Beverage / Dairy

BUY

Share Price	Target Price	Upside
HK\$0.92	HK\$1.60	74.0%

(As of 20 March 2015)

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52-week price range (HK\$)	0.68-1.66
Div yield %	0.00

Latest Key Data

FF no of shares (m)	1,033
FF (%)	26.42
FF market cap (HK\$ m)	950
12M daily turnover (HK\$ m)	17.98
12M volatility (%)	52.16
12M Hi/Lo (HK\$)	0.68-1.66
PEG 2014-16E (x)	0.20
RoAE 2014 (%)	9.66
PBR 2014 (x)	0.67
Net debt/equity 2014 (%)	Net cash

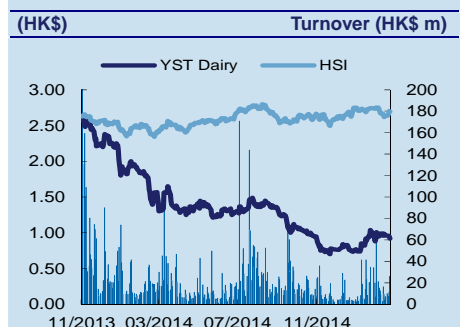
Performance (%)

	1M	YTD	12M
Absolute	(11.5)	21.1	(39.1)
Relative to HSCI	(12.3)	19.6	(71.2)

Major Shareholder (%)

Zhao Hongliang & Zhao Hongyu	34.12
Free float	27.57

Price Chart



Sources: Bloomberg, CER estimates

YST Dairy results highlights

Rmb'000	FY13	FY14	YoY
Revenue	880,760	1,162,890	32%
COS	(505,835)	(631,871)	25%
Gross profit	374,925	531,019	42%
Other income	28,162	38,899	38%
Gain from non-interest-bearing financial arrangement	50,938	4,994	-90%
Listing expenses	(27,629)	0	N/A
Selling and distribution expenses	(19,248)	(20,789)	8%
Administrative expenses	(40,200)	(54,416)	35%
Finance costs	(135,151)	(36,537)	-73%
Changes in fair value less costs to sell of biological assets	(13,678)	(43,020)	215%
PBT	218,119	420,150	93%
Income tax expenses	(385)	(1,360)	253%
PAT	217,734	418,790	92%
EPS - Rmb	0.09	0.11	22%
Adjusted EPS - Rmb	0.12	0.12	-1%
Raw milk sales volume - tons	183,702	230,121	25%
ASP/ton - Rmb	4,795	5,053	5%
Milkable cows	21,544	26,005	21%
Calves and heifers	18,852	18,618	-1%
Total number of dairy cows	40,396	44,623	10%
Yield -tons	9.0	9.4	0.4 ppt
Feed costs/ton milk – Rmb	2,149.5	2,110.3	-2%

Sources: Company and CER

China Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

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