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Company – Results | Greater China

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Inner Mongolia Yili Industrial Group (600887 CH)

2Q26: Revenue Misses But Operating Margin Expansion Better Than Expected; Reiterates Mid-Single-Digit Revenue Growth Target

Highlights

- Yili's 2Q26 revenue missed forecasts, but operating margin expansion was better than expected. The net profit decline was driven by impairment losses related with Ausnutria. We estimate that excluding the Ausnutria impact, core net profit increased 3% in 1H26 but decreased 15% in 2Q26, due to an income tax adjustment payment.
- Management has reiterated its full-year revenue target of mid-single-digits. Looking beyond, for the liquid milk business, it aims for accelerated growth in the future (earliest by 2027, per our understanding). Ausnutria is expected to turn profitable in 2H26.
- Maintain BUY and keep target price unchanged at Rmb32.40.

2Q26 & 1H26 Results

Year to 31 Dec (Rmbm)	2Q26	2Q25	yoy chg (%)	1H26	1H25	yoy chg (%)
Total revenue	29,665	28,915	2.6	64,490	61,933	4.1
Operational revenue	29,590	28,838	2.6	64,331	61,777	4.1
Operational gross profit	10,105	9,860	2.5	23,437	22,268	5.3
Operational gross margin (%)	34.2	34.2	(0.0)	36.4	36.0	0.4
EBIT	2,908	2,688	8.2	8,830	7,962	10.9
EBIT margin (%)	9.8	9.3	0.5	13.7	12.9	0.8
Attributable net profit	364	2,326	(84.4).	5,759	7,200	(20.0)
Attributable net margin (%)	1.2	8.0	(6.8)	8.9	11.6	(2.7)
Core net profit	1,986	2,326	(14.6)	7,381	7,200	2.5
Core net margin (%)	6.7	8.0	(1.3)	11.4	11.6	(0.2)

Note: core net profit definition excluding Ausnutria-related impairment losses
Source: Yili, UOB Kay Hian

Analysis

- **2Q26 revenue missed; operating margin expansion better than expected; net profit declined due to one-offs.** In 1H26, Inner Mongolia Yili Industrial Group's (Yili) revenue was Rmb64,490m, up 4% yoy but 3% below VA consensus. Operational gross margin was 36.4%, up 0.4ppt yoy. EBIT totalled Rmb8,830m, up 11% yoy, with EBIT margin at 13.7%, up 0.8ppt yoy. Net profit was Rmb5,759m, down 20% yoy. The decline in net profit was primarily attributed to: a) a Rmb1,547m goodwill impairment on Ausnutria (none in 1H25); b) a Rmb908m inventory impairment loss, most of which came from Ausnutria Dairy (vs Rmb316m in 1H25); and c) higher income tax, with the effective income tax rate rising to 24.5% in 1H26 from 12.6% in 1H25, due to an income tax adjustment payment. Net margin was 8.9%, down 2.7ppt yoy. Excluding the impairment losses related with Ausnutria, we estimate that core net profit increased by 3% in 1H26.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	115,780	115,931	121,564	127,787	134,639
EBITDA	17,059	18,252	18,315	19,158	20,116
Operating profit	12,447	13,657	14,530	15,364	16,310
Net profit (rep./act.)	8,453	11,565	10,437	13,369	14,631
Net profit (adj.)	8,825	11,665	12,059	13,369	14,631
EPS (Fen)	138.9	184.6	190.6	211.4	231.3
PE (x)	19.0	14.3	13.9	12.5	11.4
P/B (x)	3.2	3.1	3.0	2.8	2.6
EV/EBITDA (x)	10.9	10.8	10.6	9.8	9.0
Dividend yield (%)	4.6	5.2	5.4	6.0	6.6
Net margin (%)	7.6	10.1	9.9	10.5	10.9
Net debt/(cash) to equity (%)	27.4	46.1	37.3	25.3	13.8
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	16.5	21.6	21.7	22.9	23.3
Consensus net profit	-	-	11,878.4	13,238.6	14,334.7
UOBKH/Consensus (x)	-	-	1.02	1.01	1.02

Source: Yili, Bloomberg, UOB Kay Hian

Analyst(s)

Stella Guo
stella.guo@uobkh.com
+852 2236 6798

Ejann Hiew
hejann@uobkh.com
+603 2147 1995

BUY (Maintained)

Share Price	Rmb26.45
Target Price	Rmb32.40
Upside	+22.5%

Stock Data

Sector	Consumer Staples
Bloomberg ticker	600887 CH
Shares issued (m)	6,325.4
Market cap (Rmbm)	167,305.8
Market cap (US$m)	24,891.1
3-mth avg daily t'over (US$m)	239.3

Price Performance (%)

52-week high/low: Rmb29.78/Rmb23.76

1mth	3mth	6mth	1yr	YTD
1.5	(0.6)	0.3	(6.6)	(7.5)

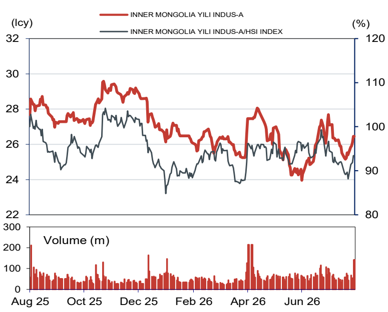
Major Shareholders (%)

Huhe Haote Investment Co. Ltd	8.51

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	8.91
FY26 Net Debt/Share (Rmb)	3.50

Price Chart



Source: Bloomberg

Company Description

Inner Mongolia Yili Industrial Group produces milk, powdered milk, ice cream, and other dairy products.

- **This implies 2Q26 revenue of Rmb29,665m,** up 3% yoy. Operational gross margin was 34.2%, broadly flat yoy. EBIT totalled Rmb2,908m, up 8% yoy, with EBIT margin at 9.8%, up 0.5ppt yoy, driven by SG&A expense savings of 0.4ppt yoy. Net profit was Rmb364m, down 84% yoy, with net margin at 1.2%, down 6.8ppt yoy. Excluding the impairment losses related with Ausnutria, we estimate that core net profit decreased by 15% in 2Q26, due to an income tax adjustment payment.
- **Mid-single-digit revenue growth target reiterated; aims for accelerated growth in liquid milk in the future.** By product, in 2Q26, liquid milk/milk powder and dairy products/frozen dairy recorded yoy revenue changes of flat/-4%/+13% (vs +2%/+6%/+7% in 1Q26), respectively. Management has reiterated its full-year revenue target of mid-single-digits. Looking beyond, for the liquid milk business, with raw milk prices having bottomed out and expected to turn to a positive growth trajectory in 2H26, coupled with a more diversified product portfolio in the premium liquid milk segment, healthier channel inventory and an optimised channel structure, the company expects accelerated growth in the future (earliest by 2027, per our understanding).
- **Expect Ausnutria to turn profitable in 2H26.** Management attributed the decline in the milk powder business to a drag from Ausnutria, due to international supply chain disruptions and inventory adjustments, while Jinlingguan achieved mid-to-high single-digit growth with market share rising 1.2ppt. Looking ahead, management expects Ausnutria to turn profitable in 2H26, following active channel structure optimisation and refined inventory management in 1H26. For other products, the toB business grew at double digits and is expected to sustain double-digit growth for the full year.
- **Share buyback of Rmb1b-2b; reaffirmed dividend payout above 75%.** On shareholder returns, the company announced a Rmb1b-2b buyback, and reaffirmed its 2025-27 dividend commitment to maintain a payout ratio above 75%, with the dividend amount not falling below the 2024 level.

Earnings Revision/Risk

- **We lower our 2026 earnings forecast by 1%, while raising our 2027 earnings forecast by 3%.** We keep our 2026/27 revenue forecasts unchanged. We keep our 2026 gross margin estimate unchanged and trim our 2027 gross margin forecast slightly by 0.1ppt. We cut our 2026/27 selling and marketing expense ratio forecasts both by 0.4ppt. We raise our impairment loss estimate for 2026 to account for Ausnutria's impairment losses. We also raise our effective tax rate estimate to reflect the adjustments. Thus, our 2026 earnings forecast is lowered by 1%, while lifting our 2027 earnings forecast by 3%.

Valuation/Recommendation

- **Maintain BUY and keep target price unchanged at Rmb32.40.** We keep our DCF-based target price unchanged at Rmb32.40. Our target price implies 19.6x 2026F PE and 15.3x 2027F PE. The stock currently trades at 13.9x 2026F PE and 12.5x 2027F PE.

Segmental Results (Quarterly)

Year to 31 Dec (Rmbm)	2Q26	1H25	yoy chg (%)
Revenue by category	29,302	28,576	2.5
- Liquid milk	16,494	16,485	0.1
- Milk powder and dairy products	7,493	7,765	(3.5)
- Frozen dairy	4,676	4,124	13.4
- Other products	639	202	216.5
Revenue by channel	29,302	28,576	2.5
- Distributors	27,724	27,568	0.6
- Direct	1,578	1,008	56.5

Source: Yili, UOB Kay Hian

Segmental Results (Semi-Annually)

Year to 31 Dec (Rmbm)	2Q26	1H25	yoy chg (%)
Revenue by category	63,775	61,318	4.0
- Liquid milk	36,590	36,126	1.3
- Milk powder and dairy products	16,845	16,578	1.6
- Frozen dairy	9,073	8,229	10.3
- Other products	1,266	386	228.2
Revenue by channel	63,775	61,318	4.0
- Distributors	60,783	59,357	2.4
- Direct	2,992	1,961	52.5

Source: Yili, UOB Kay Hian

Profit & loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	115,931.1	121,563.7	127,786.7	134,638.6
EBITDA	18,252.1	18,314.5	19,157.6	20,115.7
Deprec. & amort.	4,594.6	3,784.5	3,794.1	3,806.2
EBIT	13,657.5	14,530.0	15,363.5	16,309.5
Total other non-operating income	(534.0)	(100.0)	(100.0)	(100.0)
Associate contributions	147.2	350.0	367.5	385.9
Net interest income/(expense)	690.9	598.1	473.8	1,005.1
Pre-tax profit	12,993.8	12,671.6	15,844.8	17,340.5
Tax	(1,479.9)	(2,280.9)	(2,535.2)	(2,774.5)
Minorities	51.3	46.3	59.2	64.8
Net profit	11,565.2	10,436.9	13,368.9	14,630.8
Net profit (adj.)	11,664.7	12,059.2	13,368.9	14,630.8

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	35,743.6	32,776.5	29,838.3	26,929.1
Other LT assets	49,985.2	50,005.1	49,986.4	49,920.4
Cash/ST investment	19,494.9	17,149.9	24,267.6	31,495.4
Other current assets	46,874.8	47,526.2	49,573.5	51,825.4
Total assets	152,098.5	147,457.6	153,665.9	160,170.3
ST debt	45,630.6	38,047.2	38,122.5	38,190.3
Other current liabilities	45,422.4	45,950.5	47,198.2	48,549.5
LT debt	472.5	1,225.2	1,902.7	2,512.4
Other LT liabilities	2,028.8	2,028.8	2,028.8	2,028.8
Shareholders' equity	54,655.7	56,363.6	60,630.6	65,171.1
Minority interest	3,888.6	3,842.3	3,783.1	3,718.2
Total liabilities & equity	152,098.5	147,457.6	153,665.9	160,170.3

Cash flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	14,343.9	12,591.6	14,843.8	16,017.7
Pre-tax profit	12,993.8	12,671.6	15,844.8	17,340.5
Tax	(1,479.9)	(2,280.9)	(2,535.2)	(2,774.5)
Deprec. & amort.	4,594.6	3,784.5	3,794.1	3,806.2
Working capital changes	(2,699.1)	1,409.7	894.2	964.5
Other operating cashflows	934.5	(2,993.4)	(3,154.1)	(3,319.0)
Investing	(7,796.3)	623.0	623.0	623.0
Capex (growth)	(3,125.0)	(800.0)	(800.0)	(800.0)
Investments	(36,128.5)	0.0	0.0	0.0
Proceeds from sale of assets	30,412.6	1,423.0	1,423.0	1,423.0
Others	1,044.5	0.0	0.0	0.0
Financing	(13,472.9)	(15,559.6)	(8,349.1)	(9,412.9)
Dividend payments	(12,024.8)	(8,729.0)	(9,101.9)	(10,090.4)
Proceeds from borrowings	234,590.5	38,800.0	38,800.0	38,800.0
Loan repayment	(235,559.9)	(45,630.6)	(38,047.2)	(38,122.5)
Others/interest paid	(478.6)	0.0	0.0	0.0
Net cash inflow (outflow)	(6,925.3)	(2,345.0)	7,117.7	7,227.8
Beginning cash & cash equivalent	24,546.5	19,494.9	17,149.9	24,267.6
Changes due to forex impact	56.4	0.0	0.0	0.0
Ending cash & cash equivalent	17,677.6	17,149.9	24,267.6	31,495.4

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	15.7	15.1	15.0	14.9
Pre-tax margin	11.2	10.4	12.4	12.9
Net margin	10.0	8.6	10.5	10.9
ROA	7.6	7.0	8.9	9.3
ROE	21.4	18.8	22.9	23.3
Growth				
Turnover	0.1	4.9	5.1	5.4
EBITDA	7.0	0.3	4.6	5.0
Pre-tax profit	28.3	(2.5)	25.0	9.4
Net profit	36.8	(9.8)	28.1	9.4
Net profit (adj.)	32.2	3.4	10.9	9.4
EPS	32.9	3.3	10.9	9.4
Leverage				
Debt to total capital	47.7	41.3	40.5	39.2
Debt to equity	85.5	70.7	68.4	64.7
Net debt/(cash) to equity	46.1	37.3	25.3	13.8
Interest cover (x)	n.a.	n.a.	n.a.	n.a.