

# Inner Mongolia Yili Industrial Group Co., Ltd.'s 2019-1 Medium-term Notes

**Ratings:**
**Long-term credit rating of the issuer:** AAA

**Rating outlook:** Stable

**Credit rating of the medium-term notes (MTN):** AAA

**Issue size of the MTN:** CNY 500 million

**Maturity of this issue:** 3 years

**Debt servicing method:** Annual interest payment, repayment of principal at maturity

**Purpose of the issue:** To supplement the working capital

**Date of rating:** September 30, 2018

**Financial data**

Item	2015	2016	2017	March 2018
Cash assets (CNY 100mn)	132.31	139.38	219.87	197.57
Total assets (CNY 100mn)	396.31	392.62	493.00	489.85
Owners' equity (CNY 100mn)	201.46	232.36	252.40	273.13
Short-term liabilities (CNY 100mn)	61.90	1.50	76.69	59.66
Long-term liabilities (CNY 100mn)	0.00	0.00	0.64	0.93
Total liabilities (CNY 100mn)	61.90	1.50	77.33	60.59
Revenue (CNY 100mn)	603.60	606.09	680.58	197.53
Total profit (CNY 100mn)	55.24	66.32	70.74	25.01
EBITDA (CNY 100mn)	74.74	82.85	87.28	--
Net cash flow from operating activities (CNY 100mn)	95.36	128.17	70.06	16.70
Operating profit margin (%)	36.01	37.55	37.00	38.62
ROE (%)	23.10	24.40	23.78	--
Debt-to-asset ratio (%)	49.17	40.82	48.80	44.24
Total debt capitalization ratio (%)	23.50	0.64	23.45	18.16
Current ratio (%)	108.70	135.45	125.14	133.20
Operating cash flow to current liabilities ratio (%)	52.39	85.98	29.38	--
Total liabilities/EBITDA (x)	0.83	0.02	0.89	--
EBITDA-to-interest cover (x)	44.16	201.45	41.58	--

Note: Financial data for the first quarter of 2018 has not been audited; the Company's notes payable do not generate interest charges and long-term borrowings are government interest-free loans, both of which are not included in interest-bearing debt.

**Analysts**

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**Rationale**

Inner Mongolia Yili Industrial Group Co., Ltd. (hereinafter referred to as "Yili Group" or the "Company") is a leading company in China's dairy industry. China Lianhe Credit Rating Co., Ltd.'s (hereinafter referred to as "Lianhe Ratings") ratings on the Company reflect its overall advantages in brand visibility, market penetration, channel construction, technology research and development and product mix. In recent years, the Company's total operating income and profits have continued to grow. The Company takes up a relatively large market share in liquid dairy products, the largest product scale in its product mix, with a strong and stable overall profitability; the Company has achieved good cash flows from operating activities, with sufficient cash assets, a relatively good asset quality and a light burden of interest-bearing debt. At the same time, Lianhe Ratings also noted the factors which may have adverse effect on the Company's operations and credit standing, for example, the fierce competition from domestic and foreign brands in the dairy market, the Company's milk supply mainly based on external procurement, the impact of supply channels and price stability on its earnings, and the rapid increase in operating expenses during the period.

With advancement of its global industrial deployment in the future, the Company's milk source structure will be further optimized, and its market-leading position and competitiveness will get further enhanced. Lianhe Ratings' rating outlook for the Company is stable.

Guarantee for repayment of this MTN is very high given the Company's strong net cash flow and EBITDA from operating activities. Lianhe Ratings concludes that the risk of a default on this MTN repayment is extremely low, based on a comprehensive assessment of the issuer's long-term credit history and its ability to repay debts associated with this MTN.

**Strengths**

1. The continued increase of China's disposable income per capita will boost dairy consumption, providing a good foundation for the development of China's dairy industry.
2. The Company is a leading company in the dairy sector of China, with significant advantages in brand visibility, market share and penetration rate; its market share in the dairy retail market reached 21% in 2017, ranking first in the country.

3. The Company's income and profits continue to climb, with a strong overall profitability; it has maintained a relatively large net operating cash flow, with abundant cash assets and a small amount of interest-bearing debt. is relatively high.
4. The net cash flow and EBITDA from the Company's operating activities offer a high degree of protection for the repayment of this MTN.

**Concerns**

1. In recent years, as overseas brands continue to enter into the Chinese market, competition in the dairy market has intensified; the impact of food safety incidents on the dairy industry has never diminished.
2. As the Company's milk supply (including raw milk powder) is mainly based on external procurement, and raw milk prices fluctuate periodically, supply channels and price stability have impact on its earnings.
3. The Company's operating expenses during the period took up a relatively higher proportion of its total operating income, and have been increasing each year, which has a certain impact on its profits.
4. The Company's shareholding structure is scattered with no actual controller, and the proportion of pledged shares by the management of the Company