Inner Mongolia Yili Industrial Group (600887 CH)

3Q26: Revenue Misses But Operating Margin Expansion Continues; Reiterates MSD Revenue Growth Target For 2026

Highlights

- Yili's 3Q26 revenue grew 2% yoy, missing expectations. However, core operating profit increased 7% yoy, with core operating margin expanding 0.5ppt yoy. Net profit declined 6% due to higher impairment losses, lower fair value gains and a higher effective tax rate.
- With distributor inventory improving and a low base, management expects the liquid milk business' growth to accelerate in 4Q26. Management reiterated its full-year target of mid-single-digit revenue growth, with core operating margin improving yoy. Maintain BUY; raise target price by 4% to Rmb33.70.

3Q26 & 9M26 Results

Year to 31 Dec (Rmbm)	3Q26	3Q25	yoy chg (%)	9M26	9M25	yoy chg (%)
Total revenue	29,324	28,631	2.4	93,813	90,564	3.6
Operational revenue	29,251	28,564	2.4	93,582	90,341	3.6
Operational gross profit	10,074	9,643	4.5	33,511	31,911	5.0
Operational gross margin (%)	34.4	33.8	0.7	35.8	35.3	0.5
EBIT	3,277	3,021	8.5	12,107	10,983	10.2
EBIT margin (%)	11.2	10.6	0.6	12.9	12.1	0.8
Core operating profit	3,015	2,817	7.0	11,400	10,460	9.0
Core operating margin (%)	10.4	10.0	0.5	12.3	11.7	0.6
Attributable net profit	3,045	3,226	(5.6)	8,804	10,426	(15.6)
Attributable net margin (%)	10.4	11.3	(0.9)	9.4	11.5	(2.1)

Source: Yili, UOB Kay Hian

Analysis

- **3Q26 revenue missed but operating margin expansion continued; net profit declined 6% on non-operating items and higher income taxes.** Inner Mongolia Yili Industrial Group (Yili) reported its 9M26 results. In 9M26, revenue was Rmb93,813m, up 4% yoy. Operational gross margin was 35.8%, up 0.5ppt yoy. EBIT rose 10% yoy to Rmb12,107m, with EBIT margin increasing 0.8ppt yoy to 12.9%. Core operating profit increased 9% yoy to Rmb11,400m, with core operating margin expanding 0.6ppt yoy to 12.3%. Net profit was Rmb8,804m, down 16% yoy, with net margin dropping 2.1ppt yoy to 9.4%.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	115,780	115,931	121,564	127,770	134,415
EBITDA	17,059	18,252	18,467	19,315	20,243
Operating profit	12,447	13,657	14,693	15,472	16,329
Net profit (rep./act.)	8,453	11,565	10,347	13,258	14,389
Net profit (adj.)	8,825	11,665	11,970	13,258	14,389
EPS (Fen)	138.9	184.6	189.2	209.6	227.5
PE (x)	21.7	16.3	15.9	14.4	13.3
P/B (x)	3.6	3.5	3.4	3.2	2.9
EV/EBITDA (x)	12.3	12.1	11.8	11.0	10.2
Dividend yield (%)	4.0	4.6	4.7	5.2	5.7
Net margin (%)	7.6	10.1	9.8	10.4	10.7
Net debt/(cash) to equity (%)	27.4	46.1	39.4	29.3	19.3
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	16.5	21.6	21.6	22.7	23.0
Consensus net profit	-	-	10,169.2	13,164.3	14,141.6
UOBKH/Consensus (x)	-	-	1.18	1.01	1.02

Source: Yili, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	Rmb30.15
Target Price	Rmb33.70
Upside	+11.8%
Target TP	Rmb32.40

Stock Data

Sector	Consumer Staples
Bloomberg ticker	600887 CH
Shares issued (m)	6,325.4
Market cap (Rmbm)	190,709.6
Market cap (US$m)	28,662.2
3-mth avg daily t'over (US$m)	224.4

Price Performance (%)

52-week high/low				Rmb30.16/Rmb23.76
1mth	3mth	6mth	1yr	YTD
10.7	8.9	13.5	10.9	5.4

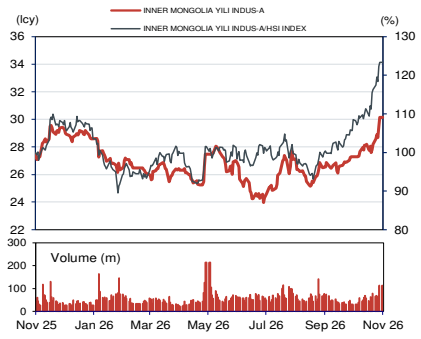
Major Shareholders (%)

Huhe Haote Investment Co. Ltd	8.51

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	8.90
FY26 Net Debt/Share (Rmb)	3.70

Price Chart



Source: Bloomberg

Company Description

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

- This implies 3Q26 revenue of Rmb29,324m, up 2% yoy. Operational gross margin was 34.4%, up 0.7ppt yoy. EBIT increased 8% yoy to Rmb3,277m, with EBIT margin at 11.2%, up 0.6ppt yoy. Core operating profit increased 7% yoy to Rmb3,015m, with core operating margin expanding 0.5ppt yoy to 10.4%. Net profit dropped 6% yoy Rmb3,045m, with net margin at 10.4%, down 0.9ppt yoy, mainly due to higher impairment losses (-0.6ppt yoy), lower fair value gains (-0.4ppt yoy) and a higher effective tax rate of 15.5% (vs 11.7% in 3Q25).
- **Interim dividend payout ratio raised to 46%.** The company declared an interim dividend of Rmb0.42 per share, totalling Rmb2,656m, and implying a dividend payout ratio of 46% of 1H26 net profit (vs 42% in 1H25).
- **Liquid milk poised for accelerated growth in 4Q26.** By product, in 3Q26, liquid milk and milk powder & dairy products revenue rose 2% and 4% yoy, respectively, while frozen dairy declined 13% yoy due to different stocking timing and a high base. Distributor inventory for liquid milk continued to decline yoy in 3Q26. Combined with a low base in 4Q25, this should help support accelerated growth in 4Q26. Looking ahead to 2027, management expects the liquid milk business to outperform the industry in 2027.
- **Targets infant milk formula to grow by mid-to-high single-digit CAGR by 2030.** The slow growth in the milk powder & dairy products was primarily due to lower sales of bulk milk powder. Excluding the impact of bulk powder sales, revenue from milk powder & dairy products would have increased by close to 10% in 3Q26. Within infant formula, Jinlingguan recorded a mid-to-high single-digit growth in 9M26, with market share rising 1.2ppt yoy, Ausnutria has been improving its operations and is expected to make a positive contribution in 2H26. For 2026, management expects infant formula revenue to grow by a mid-to-high single digit. Looking ahead, management targets an overall infant formula market share of 25% by 2030 (18.6% by 9M26), supported by a mid-to-high single-digit CAGR.
- **Full-year targets maintained.** Looking ahead, management is maintaining its 2026 target of mid-single-digit revenue growth, with infant formula expected to grow by a mid-single digit, adult milk powder and cheese to sustain double-digit growth, and growth in frozen dairy expected to be similar to 9M26's level. Meanwhile, core operating margin is expected to improve yoy.

Earnings Revision/Risk

- **Lower our 2026 earnings forecast by 2%, and raise our 2027 earnings forecast by 2%.** We keep our 2026/27 revenue forecasts unchanged. We keep our 2026 gross margin unchanged but lower our 2027 gross margin by 0.2ppt. We cut our 2026/27 selling and marketing expense ratio forecasts for both years by 0.5ppt. Thus, our 2026 earnings forecast is lowered by 2%, while 2027 earnings forecast is raised by 2%.

Valuation/Recommendation

- **Maintain BUY and raise target price by 4% to Rmb33.70.** We roll over our DCF-based target price to 2027 and raise target price by 4% to Rmb33.70. Our target price implies 17.8x 2026F PE and 16.1x 2027F PE. The stock currently trades at 15.9x 2026F PE and 14.4x 2027F PE.

Segmental Results (Quarterly)

Year to 31 Dec (Rmbm)	3Q26	3Q25	yoy chg (%)
Revenue by category	**28,902**	**28,286**	**2.2**
- Liquid milk	19,131	18,814	1.7
- Milk powder and dairy products	7,978	7,683	3.8
- Frozen dairy	1,045	1,199	(12.8)
- Other products	749	590	26.8
Revenue by channel	**28,902**	**28,286**	**2.2**
- Distributors	27,173	27,094	0.3
- Direct	1,730	1,192	45.1

Source: Yili, UOB Kay Hian

Segmental Results

Year to 31 Dec (Rmbm)	9M26	9M25	yoy chg (%)
Revenue by category	**92,677**	**89,605**	**3.4**
- Liquid milk	55,721	54,939	1.4
- Milk powder and dairy products	24,823	24,261	2.3
- Frozen dairy	10,118	9,428	7.3
- Other products	2,015	976	106.4
Revenue by channel	**92,677**	**89,605**	**3.4**
- Distributors	87,956	86,452	1.7
- Direct	4,721	3,153	49.7

Source: Yili, UOB Kay Hian

Profit & loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	**115,931.1**	**121,563.7**	**127,769.5**	**134,415.0**
EBITDA	18,252.1	18,467.3	19,315.0	20,242.8
Deprec. & amort.	4,594.6	3,774.5	3,843.0	3,914.1
EBIT	**13,657.5**	**14,692.8**	**15,472.0**	**16,328.7**
Total other non-operating income	(534.0)	(285.0)	(285.0)	(285.0)
Associate contributions	147.2	350.0	367.5	385.9
Net interest income/(expense)	690.9	728.4	435.1	900.8
Pre-tax profit	**12,993.8**	**12,563.0**	**15,712.9**	**17,053.7**
Tax	(1,479.9)	(2,261.3)	(2,514.1)	(2,728.6)
Minorities	51.3	45.9	58.8	63.8
Net profit	11,565.2	10,347.5	13,257.6	14,388.9
Net profit (adj.)	**11,664.7**	**11,969.7**	**13,257.6**	**14,388.9**

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	35,743.6	33,965.7	32,157.8	30,319.9
Other LT assets	49,985.2	50,005.1	49,986.4	49,920.4
Cash/ST investment	19,494.9	15,671.6	21,422.4	27,283.4
Other current assets	46,874.8	47,526.2	49,566.9	51,739.4
Total assets	**152,098.5**	**147,168.6**	**153,133.5**	**159,263.1**
ST debt	45,630.6	38,047.2	38,102.5	38,152.3
Other current liabilities	45,422.4	45,950.5	47,198.2	48,511.5
LT debt	472.5	1,025.2	1,522.7	1,970.4
Other LT liabilities	2,028.8	2,028.8	2,028.8	2,028.8
Shareholders' equity	54,655.7	56,274.2	60,497.4	64,879.9
Minority interest	3,888.6	3,842.7	3,784.0	3,720.2
Total liabilities & equity	**152,098.5**	**147,168.6**	**153,133.5**	**159,263.1**

Cash flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	**14,343.9**	**12,492.5**	**14,788.6**	**15,926.0**
Pre-tax profit	12,993.8	12,563.0	15,712.9	17,053.7
Tax	(1,479.9)	(2,261.3)	(2,514.1)	(2,728.6)
Deprec. & amort.	4,594.6	3,774.5	3,843.0	3,914.1
Working capital changes	(2,699.1)	1,409.7	896.2	949.6
Other operating cashflows	934.5	(2,993.4)	(3,149.4)	(3,262.8)
Investing	**(7,796.3)**	**(556.2)**	**(556.2)**	**(556.2)**
Capex (growth)	(3,125.0)	(600.0)	(600.0)	(600.0)
Investments	(36,128.5)	0.0	0.0	0.0
Proceeds from sale of assets	30,412.6	43.8	43.8	43.8
Others	1,044.5	0.0	0.0	0.0
Financing	**(13,472.9)**	**(15,759.6)**	**(8,481.6)**	**(9,508.9)**
Dividend payments	(12,024.8)	(8,729.0)	(9,034.4)	(10,006.4)
Proceeds from borrowings	234,590.5	38,600.0	38,600.0	38,600.0
Loan repayment	(235,559.9)	(45,630.6)	(38,047.2)	(38,102.5)
Others/interest paid	(478.6)	0.0	0.0	0.0
Net cash inflow (outflow)	**(6,925.3)**	**(3,823.3)**	**5,750.8**	**5,861.0**
Beginning cash & cash equivalent	**24,546.5**	**19,494.9**	**15,671.6**	**21,422.4**
Changes due to forex impact	56.4	0.0	0.0	0.0
Ending cash & cash equivalent	**17,677.6**	**15,671.6**	**21,422.4**	**27,283.4**

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	15.7	15.2	15.1	15.1
Pre-tax margin	11.2	10.3	12.3	12.7
Net margin	10.1	9.8	10.4	10.7
ROA	7.6	8.0	8.8	9.2
ROE	21.6	21.6	22.7	23.0
Growth				
Turnover	0.1	4.9	5.1	5.2
EBITDA	7.0	1.2	4.6	4.8
Pre-tax profit	28.3	(3.3)	25.1	8.5
Net profit	32.2	2.6	10.8	8.5
Net profit (adj.)	32.2	2.6	10.8	8.5
EPS	32.9	2.5	10.8	8.5
Leverage				
Debt to total capital	47.8	41.2	40.3	38.9
Debt to equity	85.5	70.4	67.9	64.0
Net debt/(cash) to equity	46.1	39.4	29.3	19.3
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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