NUS INVESTMENT SOCIETY

China Mengniu Dairy Co Ltd

Overweight

Fixed Income Department – Consumer Goods | Date: 31st December 2020

Analysts

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Basic Issuer Information

Issuer	China Mengniu Dairy Co Ltd
Equity Ticker	2319.HK
Corporate Ticker	CHMEDA
Credit Rating (Moody's/S&P)	Baa1/BBB+
Country of Risk	China
Sector	Consumer Defensive

Price Since Inception

CHMEDA 4.25% 7 Aug 2023 Price Chart

Source: Bondsupermart

Company Description

Mengniu is the second-largest dairy producer in China, manufacturing and distributing dairy products in China and abroad. Mengniu has business segments in the liquid milk, milk powder, yogurt and others (including cheese).

Key Financials

(Currency)	FY18A	FY19A	FY20E	FY21E
Revenue (bn)	69.0	79.0	87.5	97.1
Gr Rate (%)	14.7	14.6	10.8	10.9
EBITDA	5.6	7.2	6.8	8.4
Margin (%)	8.2	9.1	7.8	8.7
Debt/EBITDA	2.6	3.2	3.6	2.8
EBITDA/Int	10.3	11.2	10.8	13.0
D/E Ratio	0.5	0.7	0.6	0.6

Key Executives

Mr. Chen Lang	Chairman
Mr. Lu Minfang	Chief Executive Officer
Mr. Zhang Ping	Chief Financial Officer

Chinese Milk: A Rebuild Story

Recommendations

We are initiating coverage of China Mengniu Dairy Co. Ltd. We have given an issuer rating of overweight to Mengniu's credit outlook. We will be focusing on two issuances. a) CHMEDA USD500m 4.25% 7 Aug 2023 and b) CHMEDA USD500m 3.00% 18 Jul 2024.

Recent Developments

Mengniu is currently embarking on ambitious overseas expansion plans in hopes of gaining early dominance in the rising Southeast Asian market. The company has also been making acquisitions in attempts to diversify its supply base and develop niche product verticals. It recently acquired Bellamy Australia Ltd and attempted to acquire Lion Dairy & Drinks - the acquisition was finally vetoed by the Australian government due to strains in geopolitical tensions between the two countries. Moody's and S&P have maintained their Baa1 and BBB+ rating respectively with a stable outlook.

Key Credit Considerations

- Dairy Industry in China on the whole will benefit from government assistance, although competition in existing product mix remains stiff. Consumer preferences in China are still nascent and taking shape, suggesting unpredictability.
- Mengniu's position as an industry leader, along with SOE ownership through COFCO suggests low refinancing risks.

Credit Positives

- Defensive business poised to be a long-term beneficiary of the Covid-19 pandemic as authorities promote the health benefits of dairy and demand capacity for premium dairy rises
- Mengniu's strategy of premiumization paves way for margin expansion and diversified revenue in the long-term
- Mengniu will benefit from strategic ownership and partnerships with COFCO, Danone and Arla, receiving expertise and industry know-how from esteemed brands
- Adequate financial position with positive credit metrics and low refinancing risks

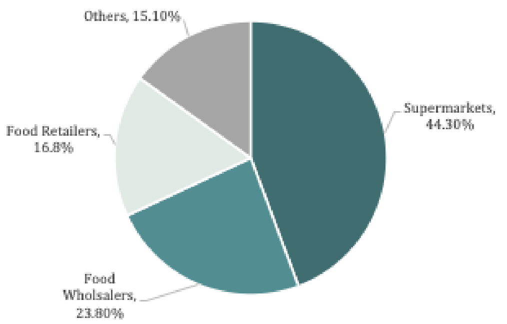
Credit Negatives

- Geopolitical tensions particularly in the region would curtail overseas expansion strategy and disrupt growth
- Tight competition in its existing revenue streams depresses margins and necessitates continuous product diversification, increasing competition risk
- Acquisitions both domestic and overseas creates capital and integration risk due to the complexities of merging supply chains across geographical borders

Figure 1. Mengniu's product mix

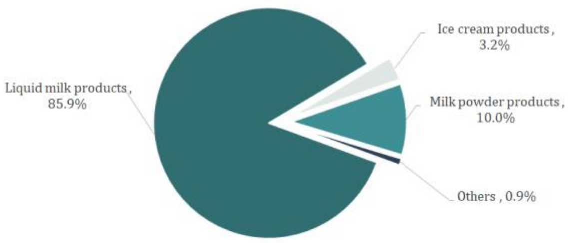
Source: Company disclosures

Figure 2. China milk distribution channels



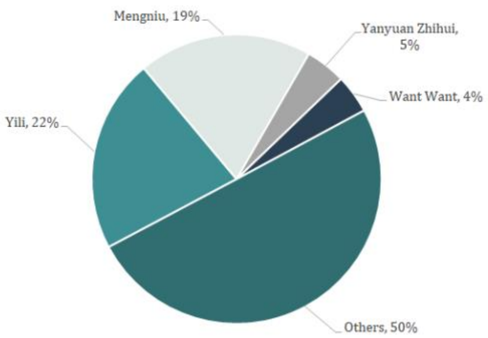
Source: Daxue Consulting

Figure 3. 2019 revenue by product



Source: Company disclosures

Figure 4. Dairy market share distribution



Source: Daxue Consulting

Figure 5. Main competitors

Source: Euromonitor

Company Overview

China Mengniu Dairy Company Limited ("Mengniu") manufactures and distributes dairy products both in China and abroad, with a particular focus on China and the Southeast Asian market. Currently the second largest dairy manufacturer in China, it has a market capitalization of HKD 170 billion as of 19th December 2020. It mainly operates through its liquid milk and milk formula segments which, combined, contribute 96% to its 2019 revenue.

Supermarkets have traditionally been the main distribution channel for dairy, making up 44.3% of demand. E-commerce's strong foothold in China has extended to groceries as well, compounded by Covid-19. During 1Q2020, China's online food sales grew 32.7% year-on-year even as China's e-commerce sales across all categories increased by only 5.9%, according to the National Bureau of Statistics.

E-Commerce and O2O capabilities will occupy a larger part of Mengniu's future. Mengniu has focused on strategic partnerships with e-commerce giants Alibaba and JD.com, with e-commerce now accounting for 6% of liquid milk revenue. Mengniu is also partnering with logistics companies like Meituan and ele.me to develop delivery solutions, and with O2O supermarkets such as Hema and 7Fresh which fulfill online orders through brick-and-mortar stores. GMV of O2O models reached over RMB1 billion in 1H, up by 200% YoY.

Revenue Streams

Mengniu's revenue is divided into 4 main streams, liquid milk, milk powder, ice cream products and others which include cheese. Liquid milk sales take up the bulk portion of revenue at more than 85% of 2019 revenue. Products under liquid milk include a diverse range notably UHT milk, room temperature and chilled yoghurt and chilled milk beverages. This is followed by milk powder products (mainly infant milk formula), ice cream and others with each taking up 10%, 3% and 1% of 2019 total revenue, respectively. Despite efforts to diversify revenue globally, more than 99% of revenue still comes from the Chinese market.

Market Share

Mengniu is the second largest milk manufacturer and distributor in China, just behind Yili, making up 19.4% of the market. Both companies are currently competing to be the first dairy company in China to hit RMB$100bn in sales revenue and are focused on boosting liquid milk sales to achieve this target. Other major players include Yangyuan Zhihui and Want Want.

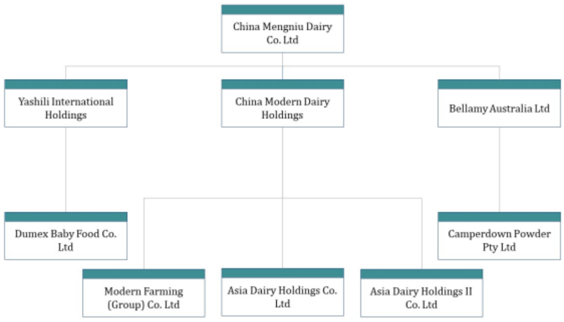
In 2008, milk and infant formula was found to be contaminated with melamine, an industrial compound widely used in plastic and fertilizer production, causing the deaths of 6 babies and poisoning 300,00 more, severely undermining trust in the domestic dairy industry, compelling consumers to look overseas for dairy instead. 22 companies in total were involved in the tainted-milk scandal.

Following that, the government imposed strict regulation, pushing forth greater consolidation within the market which we expect to continue in the long-run. Consumers' perception of domestically produced milk has improved as a result of strict regulations, causing the decline in market share for foreign competitors from 10.1% in 2014 to 7.5% in 2019.

Supplier

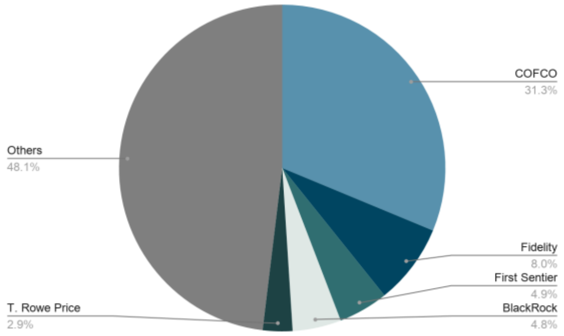
Mengniu has 41 production facilities in China (mainly in the southern and eastern regions), one in Indonesia and one in New Zealand. Prior to the acquisition of China Modern Dairy Holdings, Mengniu mainly sourced their milk from farmers in Europe. As the market and consumer demand continues to evolve, Mengniu is also looking to

Figure 6. Mengniu business structure



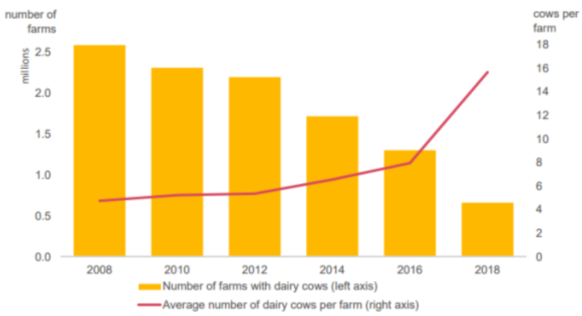
Source: Factset

Figure 7: Mengniu's ownership



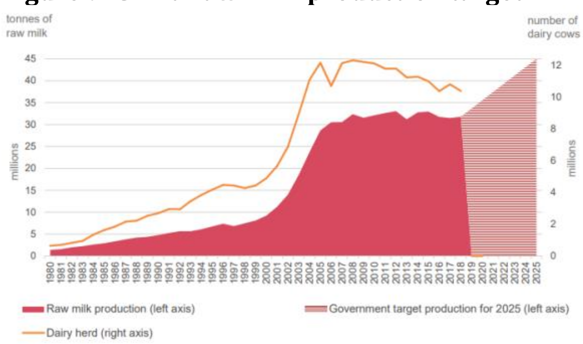
Source: Capital IQ

Figure 8. Number of dairy farms and average number of cows per farm in China



Source: PwC

Figure 9. China raw milk production target



Source: PwC

diversify their supply base and reinforce product verticals across all existing segments.

Recent Earnings Review

For 1H20, Mengniu recorded a revenue of RMB37.5 billion, 5.8% lower than the same period in 2019. Despite the Covid-19 pandemic, the group managed to maintain relatively stable revenue driven by an increase in awareness of health benefits in consuming dairy. Gross profit fell by 5.9% largely attributed by the increase in cost related to adhering to safety measures by the government regarding the pandemic and also donation of cash and products to the community in the fight against the pandemic. The group recorded negative earnings of RMB126.8 million in the first quarter but staged a strong recovery in the second quarter for overall 1H earnings to be RMB1.13 billion. The strong recovery in Q2 was largely attributed to increased marketing efforts (sales, bundle discounts etc.) and the use of e-commerce to replace traditional brick and mortar sales.

Capital expenditure was up 58.9% y-o-y as Mengniu continued its expansion plans within the region. Inventory turnover increased in 1H2020 despite the pandemic as consumers stock-piled and increased dairy consumption.

Ownership & Management

Mengniu's major shareholder is state-owned COFCO Group, China's largest food processor, and also one of the world's largest agribusiness groups. Through a joint venture with Arla foods and Danone, COFCO owns an estimated 31% of the company.

As of 18th December 2020, the top 5 institutional investors of Mengniu are Schroder Investment Ltd, FIL Investment International, First Sentier Investment (Hong Kong) Ltd, FIL Investment Advisors (UK) Ltd and T. Rowe Price international Ltd.

Industry Outlook

China

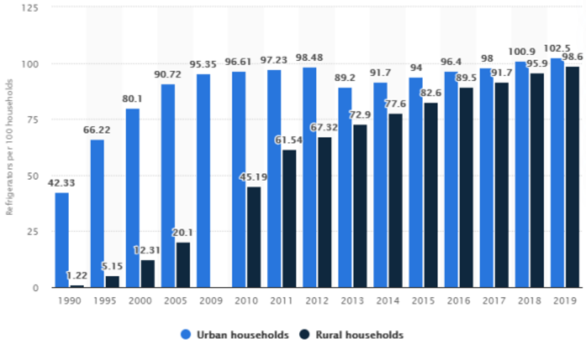
As the pandemic continues to disrupt economies around the globe, China is projected to be one of the few countries to enjoy positive GDP growth this year. China's consumer confidence index has also seen an increase in the second half of 2020 where net intent for spending is 40% higher than February and March this year. As vaccines start being distributed, we remain optimistic of China's growth moving forward as the global economy starts to recover from the health crisis.

In the recent Fifth Plenum, the Chinese government announced a new dual circulation strategy moving forward where they aim to tap into internal consumption patterns to help boost growth as the US takes on a protectionist approach on global trade. While the trade front with the US remains uncertain under a Biden presidency, China has been making efforts to bolster trade relations with its neighbours within Asia - a recent example being the ASEAN-China Free Trade Agreement. We anticipate improved trade dynamics to have a positive trickle down impact on Mengniu's operation and expansion plans.

The Covid-19 pandemic is predicted to accelerate milk consumption in China - GlobalData is projecting an additional $1.6 billion milk sales in 2020. This figure is forecasted to increase gradually to $29 billion in 2023. Historical trends support these estimates as current daily milk consumption has increased by four times from 6.39kg/year to 28kg/year. Estimates say that this number will increase to 41 kg/year by 2030.

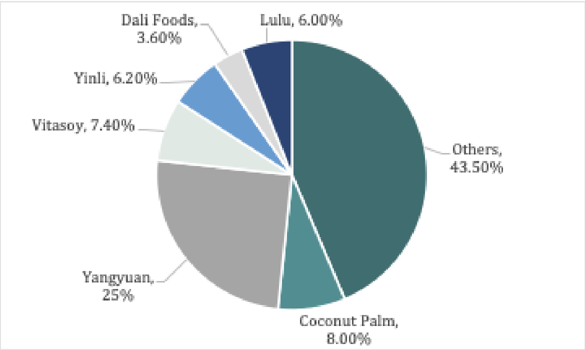
Moreover, the National Health Commision of China issued an advisory to the public to recommend consuming 300g of liquid milk or other dairy products daily for a healthy diet and strong immunity. These initiatives have helped catalyse the growth in dairy demand and

Figure 10: Number of refrigerators in China per 100 households



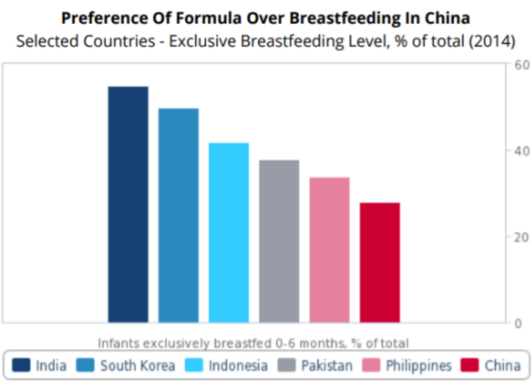
Source: Statista

Figure 11: China plant-based protein beverage market



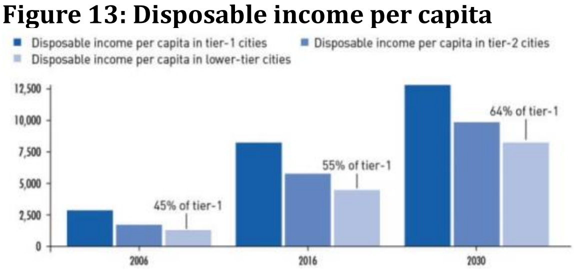
Source: Daxue Consulting

Figure 12: Breastfeeding preference in Asia by country



Source: WHO, Fitch Solutions

Figure 13: Disposable income per capita



Source: CKGSB Knowledge

probiotic products during the pandemic. The government's stance on dairy consumption is expected to continue for the foreseeable future as complete eradication of the infectious virus remains unlikely in the short-term. The government is also aiming to increase raw milk production to 45 million tonnes by 2025 by rolling out incentives for further research and development into genetic alteration to boost milk output per cow.

The government is also encouraging and incentivizing larger-scale farms as the production of milk in China has traditionally been highly fragmented which makes it difficult to ensure safety and quality. Although domestic raw milk production has stagnated since 2012, The *Opinions on Further Advancing Dairy Industry Rejuvenation* has set a production target of 45 million tonnes by 2025, an increase of nearly 50% from 2018. As such, we can expect governmental support and a smaller number (but larger) dairy farms.

<u>Liquid Milk</u>

Ultra-high-temperature (UHT) milk is the most consumed milk in China accounting for more than half of the liquid milk market. UHT remains popular as UHT milk is suitable for storage at room temperature, and refrigerators are not commonplace in lower-tier cities in China.

Fresh milk is considered a premium product compared to UHT milk due to its higher nutritional value, and therefore is highly consumed in tier 1 and 2 cities. As lower-tier cities continue to urbanize and refrigeration capabilities continue to develop, Mengniu will be able to capitalize on the increased demand and achieve greater penetration within the Chinese market with its vertically integrated cold chain distribution capabilities.

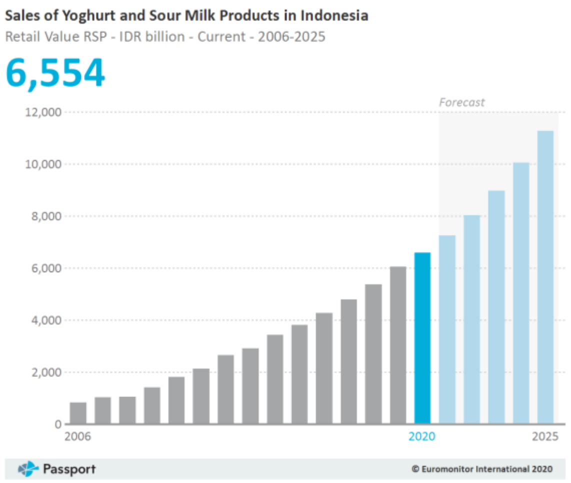
Plant based milk products such as soymilk and almond milk are seeing a rise in consumption as more consumers become aware of the maltreatment of cows in dairy production facilities. Furthermore, plant-based milk has traditionally been accepted in China due to the prevalence of soy in the Chinese diet. The perceived benefits of plant-based dairy are also higher. With more than 85% of the population being lactose intolerant, demand for plant-based milk will increase. Recognizing its growth in popularity, Mengniu attempted to acquire Lion Dairy & Drinks - part of the Australian food and drinks business owned by Japan's Kirin Holdings - in an attempt to diversify its portfolio. However, the attempted acquisition was vetoed by the Australian government - we will elaborate in detail in a later segment.

<u>Infant Milk Formula (IMF)</u>

China has the largest infant milk formula market in the world and is expected to continue its growth with increasing affluence. Despite declining fertility rates, we believe the infant milk formula segment will continue to enjoy long-term secular growth as Chinese consumers continue to place huge emphasis on early child development and nutrition. Based figures by the China Development Research Foundation, only 29.2% of newborn babies are exclusively breastfed in the first 6 months which is considerably lower than the global average of 43%. As Chinese parents are still largely reliant on infant milk formula, we foresee its demand to be stable. Even though the government is looking to ban advertising of milk formulas for newborn children, impact on sales would be limited to stage 1 (0-6 months) infant formulas. It is also forecasted that there will be growth opportunities in lower tier cities largely attributed to the higher population growth and the increase in household income. Disposable income per capita for lower tier cities is expected to grow faster and close the gap with tier 1 and 2 cities.

The IMF market is still largely dominated by foreign brands due to better consumer perception as a result of past milk scandals.

Figure 14: Yoghurt market growth in Indonesia



Source: Euromonitor

Naturally, domestic IMF producers have a higher cost structure as compared to foreign brands as raw materials are mostly imported. However, the Chinese government has unveiled plans to boost local output and reduce reliance on imported infant milk products. China aims to exceed 60% self-sufficiency for infant formula while bolstering consumer confidence following the scandal in 2008. As domestic producers continue to grow and leverage economies of scale, we expect the difference in cost structures to likely narrow, allowing domestic producers to provide consumers with more price incentive to purchase local products.

Southeast Asia

We believe that the relatively untapped dairy market in Southeast Asia presents an immense opportunity for dairy companies. The region has historically shown strong economic performance as one of the fastest growing regions in the world. Moving forward, we believe that the burgeoning middle class and a young and productive work population will be a significant driving force behind the dairy market. For example, yoghurt penetration in Southeast Asia currently stands at 17% as compared to 80% in China and 95% in the US; and is projected to experience a CAGR growth of 11% in the next five years.

Government policies further support the growth of the dairy sector as countries like Thailand and Philippines are promoting the consumption of milk in schools. Moreover, Southeast Asia is a heavy net importer of milk, which makes it an attractive region for dairy firms to expand into. Only 1% of milk consumed in the Philippines is produced domestically, while the majority of Thailand's - the most developed milk market in Southeast Asia - total milk consumption (55%) is imported.

Figure 15: Mengniu table of financial ratios

China Mengniu Dairy Company Ltd – Financial Ratios In millions of CNY 12 Months Ending	FY 2015 12/31/15	FY 2016 12/31/15	FY 2017 12/31/15	FY 2018 12/31/15	FY 2019 12/31/15
Profitability					
Return on Assets	5.0%	NM	3.5%	4.8%	5.5%
Return on Capital	19.3%	NM	17.0%	21.6%	15.6%
Gross Margin	31.4%	32.8%	35.2%	37.4%	37.6%
EBITDA Margin	8.3%	2.1%	7.7%	8.2%	9.1%
EBIT Margin	5.4%	NM	4.9%	5.6%	6.3%
Net Income Margin	5.1%	NM	3.4%	4.6%	5.4%
Activity					
A/R Turnover	30.3x	27.2x	24.1x	24.9x	24.4x
Inventory Turnover	11.3x	14.1x	17.6x	17.7x	16.9x
A/P Turnover	7.2x	7.2x	6.6x	6.5x	7.2x
Liquidity					
Current Ratio	1.4x	1.3x	1.2x	1.2x	1.2x
Cash Ratio	0.5	0.4	0.3	0.3	0.2
Quick Ratio	1.1x	1.1x	1.0x	1.0x	1.0x
Financial Leverage					
Total Debt	11.1 bn	8.6 bn	14.0 bn	14.7 bn	23.5 bn
ST Debt	6.1 bn	3.1 bn	8.0 bn	6.5 bn	13.8 bn
LT Debt	5.0 bn	5.5 bn	6.0 bn	8.2 bn	9.6 bn
Total Debt to Equity	0.4	0.3	0.5	0.5	0.7
Total Debt to Assets	0.2	0.2	0.2	0.2	0.3
Total Debt to TTM EBITDA	2.7	7.5	3.0	2.6	3.2
EBITDA / Interest Expense	12.8	3.9	11.6	10.3	11.2

Source: Company disclosures

Financial Analysis

Overview:

The table on the left shows Mengniu's 5-year historical financial performance including key ratios which indicate their profitability, activity, liquidity and leverage positions. The company has been a beneficiary of a booming dairy market in China, growing revenues at 12.7% CAGR over the past five years. Mengniu has also reaped rewards in terms of margin expansion as a result of brand premiumization and continuous improvements in operational efficiency. Results from FY16 were weighed down by Yashili's underperformance, which led to a one-off spike in operating expenses, resulting in EBITDA and net income losses. However, the company recovered well from its lacklustre FY16 results by focusing on its core business and improving its product mix.

Moving forward, we are expecting a stable ~11% revenue growth y-o-y over the next three years despite the short disruption as a result of lockdowns imposed during the peak of the Covid-19 pandemic. This number might be conservative, considering the likely demand spike for dairy products as the pandemic incentivized people to increase consumption of dairy products due to their proclaimed benefits of a stronger immune system. In addition, we believe that Mengniu's early regional expansion into Indonesia will continue to be a significant growth driver in the short-term.

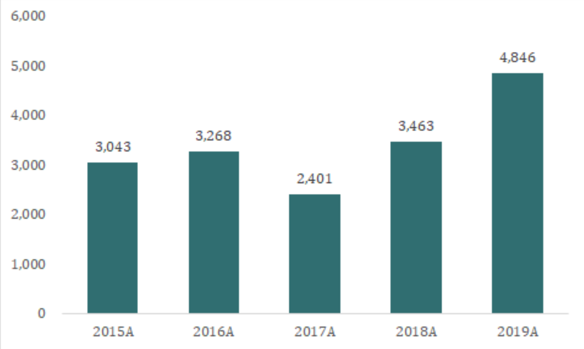
Figure 16. Mengniu Indonesia production facility

Source: ACN Newswire

Stable liquidity position despite pandemic impacts

Despite the rampant effects of the pandemic, Mengniu managed to maintain positive liquidity ratios. Mengniu booked a positive cash balance of CNY 6.5bn in 2019, backed by strong positive cash balances historically. While liquidity ratios might not paint the best picture about short-term liquidity (Figure xx), we do not foresee high liquidity risks due to the fast-moving nature of the business and its current strong market position.

Figure 17: Mengniu's historical capex



Source: Company disclosures

Figure 18: Acquisition of Lion Dairy falls through

Source: Dairy Reporter

Figure 19. College-entrance exam themed packaging

Source: Obor Consulting

Comfortable leverage with strong and stable cash flows

Mengniu is currently operating at ~3.2x debt/EBITDA, as it has done over the past few years. Our estimates project a slight increase in leverage as the company borrows more to cushion the impacts of the pandemic in the first half, as well as to fund their expansion overseas. However, considering its impressive historical track record of generating stable and increasing cash flows, we are of the opinion that Mengniu will face little difficulty with any debt obligations.

State-owned company with low refinancing risks

Considering the fact that Mengniu is largely state-owned (by COFCO), we believe that Megniu will have no problem refinancing their debt to support their ambitious expansion plans. The government has also been working closely with the company and given Mengniu sufficient monetary support to tide through the pandemic in the first half of 2020.

Recent developments

Given its stable financial position and increasing momentum within its home market in China. The company has been actively making acquisitions and investing heavily in capex to develop its product verticals, diversify supply sources and expand regionally to leverage the fast-growing Southeast Asian market.

At the end of 2018, Mengniu opened up its first Southeast Asian production base in Indonesia as it aims to be the top yoghurt brand within the next five years. While yoghurt is not very popular in the huge Indonesian market yet, we believe that the long-term secular tailwinds of rising affluence of the middle class will prove to be a significant driving force for the premium dairy market.

In 2019, Mengniu acquired Bellamy Australia Ltd - the dominant organic infant nutrition company - for $978m. The deal helped Mengniu extend its portfolio into premium products after it acquired control of lower-end maker Yashili in 2013.

However, straining geopolitical tensions between China and other countries have placed downward pressure on Mengniu's overseas development. Despite previously giving the green light to the sale of Lion Dairy, the Australian government is now forbidding the transaction after increasing diplomatic tensions which resulted from dumping accusations, retaliatory tariffs and the criticism of Hong Kong's National Security Law. The fact that Mengniu is largely state-owned exacerbates its exposure to such risks. Moving forward, we believe that strategic acquisitions in Australia will remain unlikely in the short-term. A recent health scandal regarding Bellamy's baby food has also presented some natural risk to Mengniu, especially considering it had been involved in the 2008 melamine scandal which severely diminished consumers' confidence in Chinese dairy.

Regardless, we believe that outlook remains fairly positive for Mengniu as the company continues to make strategic plans to penetrate lower-tier cities in China and expand overseas. While the global pandemic has definitely battered broader demand, we believe the bulk of spending cuts occur within the consumer discretionary space. Moreover, China has been promoting milk consumption on the basis of its health benefits for the past several years. For example, official guidelines on diet recommend people eat triple the amount of dairy foods that they typically consume currently.

In wake of Covid-19, Mengniu has upgraded its brand proposition and attracted customer loyalty in the process, most notable through a +0.5 increase in Brand Power Index in 2020Q2 from 2019Q3. Initiatives such as RMB 740M Donations, cartoonized marketing and college entrance-themed packaging were well-received by the public.

In addition to the global pandemic catalysing the growth in dairy consumption, Southeast Asia presents an attractive opportunity for Mengniu due to its immense emerging market. We believe Mengniu's continued expansion within the region will play a pivotal role in its ability to sustain its high growth rates in the long-term.

Issuer Credit Analysis

Positives

1. Strong ownership & strategic private and public backing

Mengniu's largest shareholder, COFCO, has been found playing a more active role in Mengniu's operations since acquiring a larger stake. COFCO is a food conglomerate across multiple industries, and can offer Mengniu strategic advice and know-how in areas such as quality control - a prudent measure given the sensitive nature of the food industry. This point is especially poignant as Mengniu had been one of the firms caught up in the melamine milk contamination scandal of 2008 which led to extensive loss of trust in domestic chinese milk producers.

In terms of aligned interest, we observe that Mengniu's current Chairman, Chen Lang, is also an Executive Vice President with COFCO. Furthermore, we are of the view that Mengniu, as one of the world's largest dairy producers, is of strategic importance to China's goal of increasing food safety and security while meeting consumption demands; as such, Mengniu will receive strong backing and strategic support given its industry-leading position.

Mengniu has undertaken efforts to integrate its business and maintain improved quality of its dairy, integrating the upstream farming and downstream distribution. The efforts are complementary with the strategic ownership by Danone, a world-leading food company that offers advanced management experience, production techniques and farmer management skills. Simultaneously, Mengniu enhances Danone's ability to establish a major presence in the Chinese market and expand its reach beyond Shanghai and Guangzhou. Collaborations with Arla, the largest dairy producer in Europe, has fostered a professional ranch management system by Mengniu.

2. Extensive distribution capabilities, including cold chain

Mengniu's strength has traditionally been its strong market position and distribution capabilities. According to Nielsen, it had a 28% market share in the liquid milk market in 2018. Together with Yili, it processed 45% of China's raw milk production in 2018.

Figure 20. China Modern Dairy Production Facility

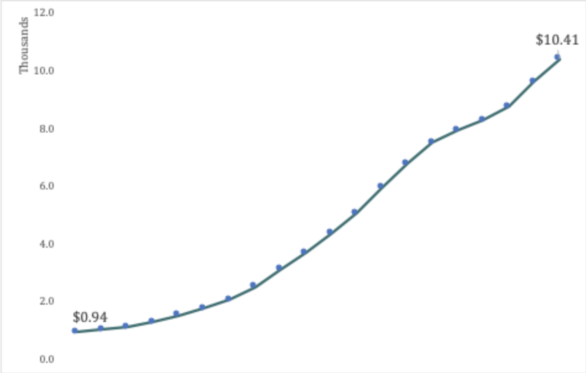
Source: CDH Fund

Mengniu has continued to invest in its distribution network, such as co-investments with key distributors and development of more direct sales points which yields greater penetration through major channels. With extended reach of the internet and pervasiveness of smartphones, distribution has also expanded to online retail to develop interactions with end-consumers and facilitate responsiveness to market trends and preferences.

Strategic investments in China Modern Dairy and Shengmu High-Tech Dairy, which are upstream producers of raw milk and organic milk respectively, ensures greater control over the supply of raw milk which ultimately leads to better quality assurance. We believe that vertical integration will lead to greater food safety and foster greater trust in the domestic dairy industry.

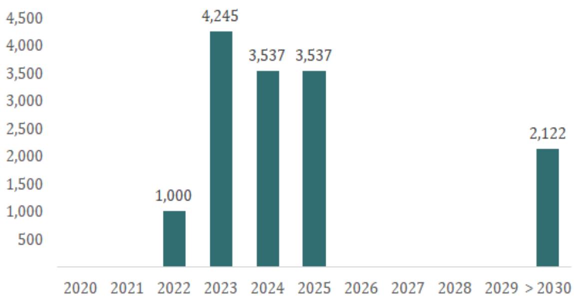
A key area of focus for Mengniu has also been cold chain distribution. Since premium products including fresh milk, yogurt and ice cream would all require cold chain networks, we believe that Mengniu's integrated distribution capabilities will allow it to continue capturing a greater share of the market as they expand into lower-tier cities in China.

Figure 21. China $ GNI per Capita (2000-2019)



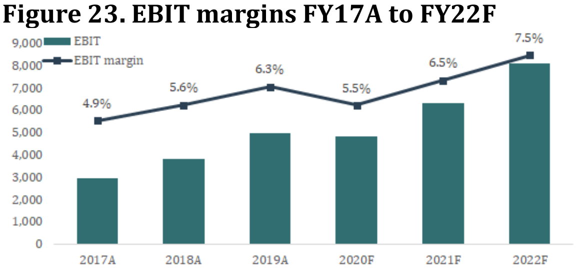
Source: World Bank

Figure 22. Long-term debt maturity schedule



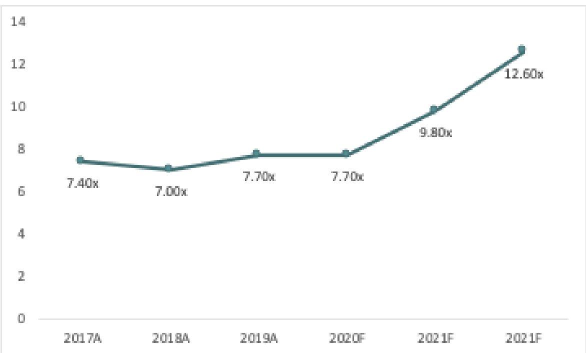
Source: Company disclosures

Figure 23. EBIT margins FY17A to FY22F



Source: Company disclosures, NUS Investment Society estimates

Figure 24. Interest coverage ratio FY17A to FY22F



Source: Company disclosures, NUS Investment Society estimates

3. Premiumization of products

Mengniu's efforts to diversify its product offerings and differentiate itself is congruent to the evolving domestic consumption patterns in China. China's middle class is estimated to reach 550 million by 2022, according to McKinsey. To further highlight the middle class' huge purchasing power and a shift in consumer preferences, as of 2019, its Gross National Income (GNI) per Capita has increased more than 10-fold since 2000.

As such, Mengniu is focusing greatly on higher-end, premium products such as chilled fresh milk, yogurt, cheese, organic milk and goat milk. These premium products tend to produce higher margins than other products, with gross margins estimated to be 30-40% for China's leading dairy companies. Fresh milk, for example, has profit margins twice as high as that of UHT milk.

Therefore, we expect that the focus on premium products will yield greater profitability for Mengniu while the premium dairy segment is nascent and new customer segments are developing.

4. Adequate financial position

Mengniu's financial position demonstrates resilient profitability and ability to meet its debt obligations. EBIT margins have remained consistent around 5-6% from FY17 to FY19 and based on our projections, is expected to increase in the near future to around 7% as China and the world emerges from the pandemic.

Despite stagnating in 1Q20, revenue exhibited double-digit growth in the subsequent quarter. While it may have more to do with China's effective management of the virus and the subsequent rebound in retail demand, it also demonstrates the resilience of Mengniu's products.

From a debt perspective, quick ratio and current ratio has hovered around 1.0x and 1.2x respectively from FY17 to FY19, and we do not expect drastic changes into the near future - only slight improvements as Mengniu eventually repays CHMEDA 2023 4.250% in 2023. Interest Coverage has also improved from 7.0x in FY17 to 7.7x in FY19.

As of 31 December 2019, Mengniu had RMB25.7 billion in cash and short-term invested deposits, which is sufficient to cover the RMB13.8 billion of short-term debt, RMB700 million in dividend payouts and RMB4.7 billion of capital spending in the next 12 months.

Despite making several acquisitions recently, it has retained a prudent financial position and assures us of management's ability to keep credit metrics reasonable and appropriate.

<u>Negatives</u>

1. Geopolitical tensions may affect future acquisitions

Relations between China and Australia have soured, with China calling Australia a 'puppet of the US'. Anti-dumping duties imposed by Australia, criticism of the HK National Security Law and inquiries into the origins of Covid-19 have put a strain on bilateral relations between the 2 nations, so much so that a review of the China-Australia Free Trade Agreement appears unlikely.

Australia is not alone in its heightened global skepticism of China surrounding the origins of Covid-19. The World Health Organization (WHO) has announced that a team will be sent to China in early 2021 to investigate the origins of the virus, originally thought to have come from a city market selling animals.

Prior to the pandemic, Mengniu had expanded its production facilities to Australia and New Zealand, two key markets in the dairy industry, and had expected to continue doing so. However, the Lion Dairy &

Drinks acquisition has already fallen victim to these tensions, being vetoed by the Australian government as mentioned earlier. Further escalation of tensions, be it with Australia or other nations, could materially impact its overseas strategic layout, impacting the long-term strategies of Mengniu.

2. Capital and integration risk

Mengniu has consistently invested in its integrated business model to broaden its distribution network both in China and overseas. Mengniu also opened the first production facility in Indonesia by a Chinese dairy company in November 2018.

Since 2016 it has acquired several companies in Australia, including Burra Foods, a raw milk processor and Bellamy's Organic, a renowned food manufacturer to build a complete overseas supply chain. It has also invested in milk producers like Fuyuan International, Modern Dairy and Shengmu High-Tech. As a result, the complete integration of operational and distribution synergies across geographical borders would take time and pose additional risks.

3. Slowing growth and fickle consumption

Although Mengniu has a leading market position, competition remains stiff as the Chinese dairy market rapidly matures, squeezing margins and pressuring profitability. UHT Milk, which contributes heavily to Mengniu's revenue, is under heavy competition.

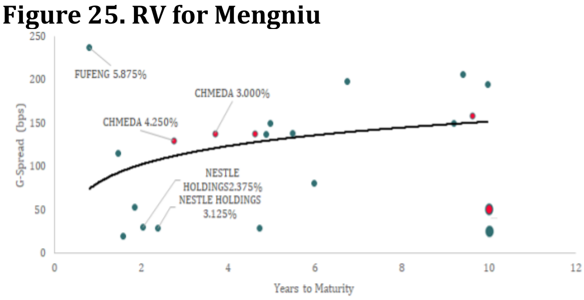
In addition, consumers are becoming even more health conscious and plant-based milk is increasingly popular as previously mentioned. Mengniu would have to contend with new products and continue its efforts to diversify its product mix and remain competitive.

Issuance Analysis – RV

Mengniu's Outstanding Bonds

Description	Coupon	Issue Date	Issue Amount	Maturity Date	YTM	Price
CHMEDA 2023 4.250%	4.250%	07-Aug-18	$500,000,000	07-Aug-23	1.353%	107.368
CHMEDA 2024 3.000%	3.000%	18-Jul-19	$500,000,000	18-Jul-24	1.640%	104.609
CHMEDA 2025 1.875%	1.875%	17-Jun-20	$500,000,000	17-Jun-25	1.670%	100.882
CHMEDA 2030 2.500%	2.500%	17-Jun-20	$300,000,000	17-Jun-30	2.444%	100.470

Figure 25. RV for Mengniu



Source: Factset

Figure 26. Bond comps for Mengniu

Sercurity	Coupon	Amount	Currency	Rating	Years to m
Fufeng Group Limited5.875%28 Aug '21	5.875	255MM	USD	BBB-	1
Want Want China Finance Ltd.2.875%27 Apr '22	2.875	500MM	USD	A-	1
Kraft Foods Group, Inc.3.500%06 Jun '22	3.500	631MM	USD	BB+	2
Conagra Brands, Inc.3.250%15 Sep '22	3.250	250MM	USD	BBB-	2
Nestle Holdings, Inc.2.375%17 Nov '22	2.375	800MM	USD	A+	2
Nestle Holdings, Inc.3.125%22 Mar '23	3.125	600MM	USD	A+	2
China Mengniu Dairy Co., Ltd.4.250%07 Aug '23	4.250	500MM	USD	BBB+	3
China Mengniu Dairy Co., Ltd.3.000%18 Jul '24	3.000	500MM	USD	BBB+	4
China Mengniu Dairy Co., Ltd.1.875%17 Jun '25	1.875	500MM	USD	BBB+	5
Unilever Capital Corp.3.100%30 Jul '25	3.100	500MM	USD	A+	5
Tingyi (Cayman Islands) Holding Corp.1.625%24 Sep '25	1.625	500MM	USD	BBB+	5
Meituan2.125%28 Oct '25	2.125	750MM	USD	BBB-	5
JD.com, Inc.3.875%29 Apr '26	3.875	500MM	USD	BBB	5
Danone SA2.947%02 Nov '26	2.947	2000MM	USD	BBB+	6
Conagra Brands, Inc.6.700%01 Aug '27	6.700	300MM	USD	BBB-	7
JD.com, Inc.3.375%14 Jan '30	3.375	700MM	USD	BBB	9
Kraft Heinz Foods Co.3.750%01 Apr '30	3.750	631MM	USD	BB+	9
China Mengniu Dairy Co., Ltd.2.500%17 Jun '30	2.500	300MM	USD	BBB+	10
Meituan3.050%28 Oct '30	3.050	1250MM	USD	BBB-	10

Source: Factset

All Mengniu's bonds are rated investment grade with a BBB+ rating and stable outlook. They adhere rather closely to a consistent yield curve and spreads are tight.

CHMEDA 4.25 08/07/23 and CHMEDA 3.00 07/18/24 are overweight. Both bonds have a slightly wider G-spread (130.9 bps and 138.3 bps respectively) which might be an indication of the slight overpricing of risk. However, considering our research above, we believe that this might be unjustified considering the company's strong financial and market position.

While the other two traded bonds lie closely about the yield curve as well, they have comparatively tighter spreads as compared to CHMEDA 4.25 and CHMEDA 3.00, at which we favour. However, we are inclined towards an overweight rating as we foresee successful market expansion into Southeast Asian markets, and in particular Indonesia. Therefore, we believe long-term business growth will outweigh short-term credit negatives, resulting in lower credit risks and yields for the company.

We think bonds from comparable companies like Nestle and Kraft Heinz do not provide an attractive opportunity - despite the fact that its bonds are trading far below the yield curve with a ~29 bps and ~20 bps G-spread - given their global, long-standing position in the food and beverages market. They are thus able to enjoy lower credit rates resulting in low G-spreads. Fufeng Group, on the other hand, has shown lacklustre financial performance over the years as it remains highly susceptible to cyclical monosodium glutamate (MSG) prices.

Top and bottom lines have been inconsistent over the past decade, with the core business facing secular headwinds as consumers are becoming increasingly health-conscious. Therefore, we are inclined to avoid any investments in the business despite the seemingly wide G-spread of 238 bps.

Disclaimer

Appendix:

Pro Forma Financial Statements (3FS)

Balance Sheet

BALANCE SHEET	2015A	2016A	2017A	2018A	2019A	2020F	2021F	2022F
Current Assets								
Other financial assets	5,255	4,196	10,691	11,819	19,221	15,320	16,984	18,848
Derivative financial instruments	11	37	6	49	11	44	49	54
Inventories	4,340	3,314	3,510	4,282	5,090	4,961	5,475	5,976
Trade and bills receivables	1,618	2,340	2,647	2,892	3,587	3,414	3,783	4,197
Prepayments, other receivables and other assets	2,159	2,705	2,541	2,778	3,027	3,502	3,882	4,308
Pledged deposits	722	961	466	623	74	875	971	1,077
Cash	7,931	6,070	5,959	7,298	6,476	13,704	22,256	33,739
Assets of disposal group classified as held for sale	384	215	198	0	0	0	0	0
Total current assets	**22,420**	**19,837**	**26,018**	**29,741**	**37,486**	**41,819**	**53,400**	**68,198**
Non-current assets								
PPE	11,638	12,698	12,715	14,734	11,103	11,128	11,400	11,844
Construction in progress	901	1,272	1,363	2,203	2,231	5,027	8,126	11,565
Investment properties	20	67	59	74	74	74	69	65
Right-of-use assets	0	0	0	0	1,698	2,353	3,019	3,704
Land use rights	889	984	1,056	1,121	0	0	0	0
Goodwill	5,851	4,528	4,533	4,681	4,719	4,719	4,719	4,719
Other intangible assets	1,731	2,086	2,194	2,298	7,583	7,498	7,421	7,353
Investments in JV	0	0	0	0	141	141	141	141
Invesments in associates	4,186	4,132	7,194	7,202	7,351	7,351	7,351	7,351
Deferred tax assets	308	529	665	1,042	1,056	1,170	1,297	1,439
Biological assets	290	479	646	1,137	0	525	1,451	3,046
Derivative financial instruments	0	0	55	29	34	44	49	54
Other financial assets	2,328	2,496	1,585	2,131	4,846	3,460	3,836	4,257
Long term prepayments	92	16	55	64	216	239	265	294
Total non-current assets	**28,232**	**29,287**	**32,121**	**36,716**	**41,052**	**43,728**	**49,143**	**55,833**
Total assets	**50,653**	**49,124**	**58,139**	**66,457**	**78,537**	**85,547**	**102,543**	**124,032**
Current Liabilities								
Trade and bills payables	4,644	5,406	6,342	7,022	6,739	7,284	8,039	8,774
Other payables and accruals	4,990	6,511	7,324	10,889	10,808	12,115	13,219	14,433
Interest-bearing bank and other borrowings	6,081	3,045	7,935	6,523	13,838	12,303	2,777	2,777
Other loans	44	53	23	23	0	0	0	0
Derivative financial instruments	3	0	1	10	4	4	4	4
Deferred income	46	135	160	170	50	175	194	215
Income tax payable	153	145	232	472	295	438	485	539
Other financial liabilities	0	0	546	0	0	0	0	0
Liabilities directly associated with assets classified as held for s	16	8	3	0	0	0	0	0
Total current liabilities	**15,976**	**15,303**	**22,566**	**25,109**	**31,734**	**32,320**	**24,718**	**26,742**
Non-current Liabilities								
Interest-bearing bank and other borrowings	4,970	5,542	6,015	8,192	9,635	11,635	11,135	10,635
Long term payables	68	37	11	1	0	88	185	292
Deferred income	303	533	739	856	279	875	971	1,077
Deferred tax liabilities	76	62	70	206	1,942	438	485	539
Derivative financial instruments	0	0	0	17	0	0	0	0
Other financial liabilities	2,644	2,143	1,630	1,611	1,600	2,626	2,912	3,231
Total non-current liabilities	**8,061**	**8,318**	**8,465**	**10,884**	**13,456**	**15,661**	**15,687**	**15,774**
Total liabilities	**24,037**	**23,621**	**31,032**	**35,993**	**45,190**	**47,981**	**40,405**	**42,515**
Equity								
Share capital	357	357	358	358	358	359	360	360
Treasury shares held under share award scheme	(416)	(354)	(263)	(219)	(134)	(205)	(205)	(205)
Other reserves	13,321	12,941	12,716	12,451	12,442	12,442	31,224	42,792
Retained earnings	8,874	7,901	9,793	12,623	16,465	20,755	26,545	34,354
Total Shareholders' Equity	**22,136**	**20,845**	**22,604**	**25,212**	**29,132**	**33,351**	**57,923**	**77,302**
Other non-controlling interests	4,479	4,659	4,503	5,252	4,215	4,215	4,215	4,215
Total equity	**26,615**	**25,504**	**27,107**	**30,464**	**33,347**	**37,566**	**62,138**	**81,517**
Total liabilities and equity	**50,653**	**49,124**	**58,139**	**66,457**	**78,537**	**85,547**	**102,543**	**124,032**

Income Statement

INCOME STATEMENT	2015A	2016A	2017A	2018A	2019A	2020F	2021F	2022F
Revenue	49,027	53,779	60,156	68,977	79,029	87,541	97,054	107,703
COGS	(33,651)	(36,144)	(38,973)	(43,193)	(49,351)	(55,151)	(60,174)	(65,699)
Gross profit	**15,375**	**17,635**	**21,183**	**25,784**	**29,678**	**32,390**	**36,881**	**42,004**
Other income and gains	521	702	338	736	4,101	2,626	2,912	3,231
Selling and distribution expenses	(10,985)	(13,435)	(14,869)	(18,833)	(21,536)	(23,856)	(26,448)	(29,350)
Administrative expenses	(1,871)	(2,471)	(2,497)	(2,915)	(3,319)	(3,677)	(4,077)	(4,524)
Impairment losses on financial and contract assets, net	0	0	(84)	(85)	(248)	0	0	0
Loss on disposal of financial assets measured at amortized cost	0	0	0	0	(14)	0	0	0
Other expenses	(393)	(2,851)	(1,099)	(851)	(3,692)	(2,626)	(2,912)	(3,231)
EBIT	**2,648**	**(420)**	**2,972**	**3,835**	**4,969**	**4,858**	**6,356**	**8,130**
Interest income	563	478	584	868	1,105	875	971	1,077
Finance costs	(319)	(294)	(400)	(551)	(644)	(629)	(646)	(646)
Share of gains (losses) of JV	0	0	0	0	(9)	0	0	0
Share of gains (losses) of associates	138	(225)	(533)	(300)	184	(216)	(216)	(216)
PBT	**3,030**	**(461)**	**2,624**	**3,853**	**5,604**	**4,887**	**6,464**	**8,345**
Income tax expense, net	(510)	(351)	(594)	(649)	(1,310)	(1,222)	(1,616)	(2,086)
Net income	**2,520**	**(813)**	**2,030**	**3,204**	**4,295**	**3,666**	**4,848**	**6,259**

Cash Flow

CASH FLOW	2015A	2016A	2017A	2018A	2019A	2020F	2021F	2022F
Operating activites								
Adjustments:	897	3,941	2,650	1,990	1,608	2,011	1,625	1,688
Interest income	(563)	(478)	(584)	(868)	(1,105)	(875)	(971)	(1,077)
Finance costs	319	294	400	551	644	484	53	53
Depreciation of PPE	1,391	1,536	1,622	1,739	1,946	1,545	1,558	1,596
Depreciation of investment properties	3	2	2	4	4	4	4	4
Depreciation of ROU assets	0	0	0	0	220	220	305	391
Amortization of land use rights	26	25	25	29	0	0	0	0
Amortization of other intangible assets	24	38	55	67	90	152	150	148
Loss/(Gain) on disposal of PPE	(10)	21	28	30	79	0	0	0
Gain on disposal of disposal group classified as held for sale	0	(29)	0	(44)	0	0	0	0
Impairment of financial and contract asset, net	10	64	87	85	248	0	0	0
Write-back of provision for trade receivables and other receivables	(84)	(21)	(3)	0	0	0	0	0
Write-down of inventories to net realizable value	44	130	85	35	74	74	82	90
Impairment of construction in progress	0	2	0	0	2	0	0	0
Impairment of PPE	0	0	7	0	42	0	0	0
Impairment of other intangible assets	0	0	0	5	196	0	0	0
Impairment of goodwill	0	2,254	0	0	2,364	0	0	0
Government grants related to income	(78)	0	0	0	0	0	0	0
Amortization of deferred income for assets other than biological asset	(26)	(33)	(85)	(90)	(104)	(67)	(67)	(67)
Share of losses/(profits) of associates	(138)	225	532	300	(184)	147	147	147
Share of losses/(profits) of JV	0	0	0	0	9	0	0	0
Loss on deemed disposal of partial interests in associates	33	0	125	0	0	0	0	0
Loss on disposal of partial interests in an associate	(60)	0	18	0	0	0	0	0
Loss on disposal of a subsidiary	0	0	12	15	(3,418)	0	0	0
Fair value gain arising from re-measuring the initial equity interest	0	(9)	0	(101)	0	0	0	0
Fair value gain on zero coupon callable bonds due 2022	0	0	(2)	(58)	78	0	0	0
Gain arising from changes in contingent considerations	(95)	0	0	0	0	0	0	0
Gains on bargain purchase	0	(9)	0	0	0	0	0	0
Fair value change of biological assets	19	26	63	153	172	0	0	0
FX losses/(gains), net	54	(134)	202	(14)	(43)	0	0	0
Net fair value loss/(gain) on warrants	0	0	0	0	62	0	0	0
Net fair value loss/(gain) on unlisted companies	0	0	0	0	(40)	0	0	0
Net fair value loss/(gain) on forward currency contracts	12	2	(1)	(2)	(23)	0	0	0
Net fair value gain on a convertible promissory note	0	0	(4)	(0)	(1)	0	0	0
Unrealized fair value loss/(gain) of commodity futures contracts	(6)	(5)	11	0	0	0	0	0
Equity-settled share option arrangements	(69)	0	13	51	167	185	205	227
Share award scheme	92	41	44	105	130	144	159	177
Adjustments in working capital:	(2,018)	1,033	230	520	(906)	(6,243)	399	499
Decrease/(increase) in other financial assets	(78)	(1)	48	123	31	(5,287)	2,041	2,284
Decrease/(increase) in inventories	(98)	1,014	(321)	(720)	(1,809)	129	(514)	(501)
Decrease/(increase) in trade and bills receivables	(392)	(649)	(355)	(96)	(1,180)	173	(369)	(413)
Decrease/(increase) in pledged deposits and other financial assets	(104)	50	(267)	(138)	117	(801)	(95)	(106)
Decrease/(increase) in prepayments, deposits and other receivables	(499)	(571)	42	(53)	(1,034)	(474)	(381)	(426)
Increase/(decrease) in trade and bills payables	(313)	499	975	111	1,240	546	754	735
Increase/(decrease) in accruals and other payables	420	1,555	1,107	2,410	3,235	1,308	1,103	1,214
Interest paid	(295)	(312)	(361)	(454)	(517)	(608)	(484)	(53)
Income taxes paid	(660)	(551)	(638)	(662)	(990)	(1,227)	(1,657)	(2,235)
Net operating cash flow from operations	**1,909**	**4,513**	**5,504**	**6,363**	**6,306**	**677**	**8,651**	**11,126**

CASH FLOW	2015A	2016A	2017A	2018A	2019A	2020F	2021F	2022F
Investing activities								
Proceeds from disposal of PPE	103	100	112	181	70	(110)	(111)	(114)
Proceeds from disposal of investment properties	0	1	0	0	0	0	0	0
Proceeds from disposal of land use rights	6	0	5	4	0	0	0	0
Proceeds from disposal of other intangible assets	8	0	0	0	0	0	0	0
Proceeds from disposal of biological assets	6	8	19	87	164	0	53	145
Proceeds from disposal of disposal group classified as held for sale	0	98	0	253	0	0	0	0
Purchase of PPE	(554)	(1,004)	(617)	(705)	(1,112)	(1,751)	(1,941)	(2,154)
Purchase of construction in progress	(2,312)	(1,976)	(1,417)	(2,392)	(2,968)	2,795	3,099	3,439
Purchase of land use rights	(17)	(46)	(106)	(21)	(179)	875	971	1,077
Purchase of other intangible assets	(8)	(11)	(12)	(32)	(59)	66	73	81
Purchase of biological assets	(152)	(231)	(249)	(314)	(528)	(525)	(582)	(646)
Acquisition of businesses	(3)	0	0	(54)	0	0	0	0
Disposal of businesses	2	0	0	0	0	0	0	0
Capital injection to associates	(1)	0	(4,223)	(18)	(6)	(6)	(6)	(6)
Dividends received from associates	23	19	6	2	3	3	3	3
Disposal of partial interests in an associate	0	0	35	0	0	0	0	0
Capital injection to a jointly controlled entity	0	0	0	0	(100)	0	0	0
Acquisition of subsidiaries	19	(1,157)	(27)	(237)	(6,580)	0	0	0
Receipt of purchase price adjustments	0	72	0	0	0	0	0	0
Disposal of subsidiaries	152	0	21	0	2,885	0	0	0
Payment of contingent considerations	(10)	(10)	0	0	0	0	0	0
Receipt of government grants for property & biological assets	112	292	225	227	106	106	106	106
(Increase)/Decrease of long term time deposits	(416)	(25)	594	0	0	0	0	0
Purchase of time deposits with original maturity of more than 3 months	(15)	(1,657)	(115)	(980)	(2,399)	(1,165)	(1,165)	(1,165)
Purchase of unit trust investments	(170)	0	0	0	0	0	0	0
Disposal of unit trust investments	327	170	0	0	0	0	0	0
Purchase of investment deposits	(9,347)	(4,139)	(9,193)	(9,189)	(16,654)	(11,679)	(11,679)	(11,679)
Withdrawal of investment deposits	12,265	5,049	4,139	9,392	9,282	7,605	7,605	7,605
Increase in other financial assets	0	0	(1,065)	(2,861)	(3,205)	(2,377)	(2,377)	(2,377)
Withdrawal of other financial assets	0	0	0	1,561	2,571	0	0	0
Purchase of convertible promissory note	0	0	(183)	0	0	0	0	0
Interest received	518	442	600	864	1,180	881	881	881
Net cash from/(used in) investing activities	**537**	**(4,005)**	**(11,450)**	**(4,232)**	**(17,530)**	**(5,282)**	**(5,071)**	**(4,804)**

CASH FLOW	2015A	2016A	2017A	2018A	2019A	2020F	2021F	2022F
Financing activities								
Proceeds from interest-bearing bank loans	6,552	11,003	19,294	5,977	14,031	6,702	6,000	6,000
Repayment of interest-bearing bank loans	(5,671)	(13,973)	(14,814)	(6,278)	(7,667)	(608)	(484)	(53)
Proceeds from issuance of bonds	0	0	1,317	3,391	6,427	5,376	0	0
Repayment of bonds	0	0	0	(3,473)	(1,000)	(36)	(53)	(53)
Decrease/(Increase) in pledged deposits for bank loans	(363)	(289)	562	(112)	315	801	95	106
Proceeds from other loans	4	9	0	0	0	0	0	0
Repayment of other loans	0	0	(18)	0	0	0	0	0
Repayment of long term payables	(86)	(77)	(60)	(28)	(70)	88	97	108
Shares purchases for share award scheme	(136)	(17)	0	0	0	0	0	0
Shares issued under equity-settled share option arrangements	65	76	24	5	124	175	194	215
Shares repurchased and cancelled	0	(58)	0	0	0	0	0	0
Acquisition of non-controlling interests	(2,511)	(138)	(159)	(0)	(17)	0	0	0
Principle portion of lease payments	0	0	0	0	(264)	0	0	0
Capital injection from non-controlling interests	20	38	0	144	105	0	0	0
Dividends paid to owners of the Company	(585)	(553)	(345)	(483)	(709)	(607)	(820)	(1,106)
Dividends paid to non-controlling interests	(70)	(58)	(54)	(43)	(665)	(56)	(56)	(56)
Disposal of equity interests in subsidiary without loss of control	3,469	0	2	1	4	0	0	0
Net cash flows from financing activities	**689**	**(4,036)**	**5,748**	**(900)**	**10,614**	**11,834**	**4,973**	**5,161**

Debt Schedule

DEBT SCHEDULE	2017A	2018A	2019A	2020F	2021F	2022F
Borrowing Type:						
Bank Borrowings			12,303	2,777	2,777	2,777
Bonds			1,000	1,800	1,800	1,800
Total			13,303	4,577	4,577	4,577
Maturity						
Less than 1 year			9,526	0	0	500
Between 1-2 years			0	0	500	500
Between 2-5 years			1,000	1,500	1,000	500
Over 5 years			500	3,277	2,777	2,777
Total			11,026	4,777	4,277	4,277
Total Interest Payment ex. Hybrids			608	484	53	53
Average Funding Cost			*5.5%*	*10.1%*	*1.2%*	*1.2%*
FX Contracts			0	0	0	0

LOANS

Loans Maturing:				
Within 1 Year	9,526	0	0	0
Between 1-2 years	0	0	0	0
Between 2-5 years	0	0	0	0
>5	0	2,777	2,777	2,777
Total	9,526	2,777	2,777	2,777
Maturity (yrs)				
1	9,526	0	0	0
2	0	0	0	0
3	0	0	0	0
4	0	0	0	0
5	0	0	0	0
>5	0	2,777	2,777	2,777
Total	9,526	2,777	2,777	2,777
Principal				
Short term bank loans, secured	231	0	0	0
Short term bank loans, unsecured	9,296	0	0	0
Current portion of long term bank loans, secured	0	0	0	0
Current portion of long term bank loans, unsecured	2,777	2,777	2,777	2,777
Super short term commercial papers	0	0	0	0
Total	12,303	2,777	2,777	2,777
check				

Loan type	Currency of issue	Outstanding (CNY mn)	Amount issued (CNY mn)	Coupon rate	Issue date	Maturity date	Revolver size	Rate
ST secured	CNY	231	231	6.000%	1/1/2015	31/12/2020		
ST unsecured	CNY	9,296	9,296	6.000%	1/1/2015	31/12/2020		
Curr. LT secured	CNY	0	0	6.000%	1/1/2015	31/12/2023		
Curr. LT unsecured	CNY	2,777	2,777	6.000%	1/1/2015	31/12/2023		
Commercial paper:	CNY	0	0	6.000%	1/1/2015	31/12/2023		

Coupon				
Short term bank loans, secured	14	10	0	0
Short term bank loans, unsecured	558	420	0	0
Current portion of long term bank loans, secured	0	0	0	0
Current portion of long term bank loans, unsecured	167	167	167	167
Super short term commercial papers	0	0	0	0
Total	572	431	0	0

BONDS

Bonds Maturing:				
Within 1 Year	0	0	0	500
Between 1-2 years	0	0	500	500
Between 2-5 years	1,000	1,500	1,000	500
Over 5 years	500	500	0	0
Total	1,500	2,000	1,500	1,500
Maturity (yrs)				
1	0	0	0	500
2	0	0	500	500
3	0	500	500	500
4	500	500	500	0
5	500	500	0	0
>5	500	500	0	0
Total	1,500	2,000	1,500	1,500
Principal				
CHMEDA USD 4.250 2023	500	500	500	500
CHMEDA USD 3.000 2024	500	500	500	500
CHMEDA USD 1.875 2025	0	500	500	500
CHMEDA USD 2.500 2030	0	300	300	300
Total	1,000	1,800	1,800	1,800

USDCNY 6.72

Currency of issue	Outstanding (USD mn)	Amount issued (USD mn)	Coupon rate	Issue date	Maturity date	Comments
USD	516	500	4.250%	7/8/2018	7/8/2023	
USD	516	500	3.000%	18/7/2019	18/7/2024	
USD	500	500	1.875%	17/6/2020	17/6/2025	
USD	300	300	2.500%	17/6/2020	17/6/2030	

Coupon				
CHMEDA USD 4.250 2023	21	21	21	21
CHMEDA USD 3.000 2024	15	15	15	15
CHMEDA USD 1.875 2025	0	9	9	9
CHMEDA USD 2.500 2030	0	8	8	8
Total	36	53	53	53