DISCOUNTED CASH FLOW VALUATION OF INNER MONGOLIA YILI INDUSTRIAL GROUP CO., LTD.

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ABSTRACT

This thematic paper analyzes the business operating situations of a leading dairy company called Yili Group. Based on the company's historical financial performance and unique strategies, combined with the industry projection, using the Discounted Cash Flow (DCF) model to estimate the share price of Yili Group, helping investors know the company's potential and growth in 5 years. After revealing the problems and risks of Yili Group, providing recommendations for improving their performance. According to the DCF analysis in this paper, it was assumed that Weight Average Cost of Capital of 6.73% and a terminal growth rate of 3.44%. our estimated share value of Yili Group is 34.93 CNY per share, which is a little higher than the latest stock price on May 3rd, 2025, which is 29.76 CNY per share.

This suggests that Yili Group's share price is undervalued a little and has potential to get a higher price than its current market price, but the price trend is relatively stable. In conclusion, the recommendation for the investors is to **"HOLD"**.

KEY WORDS: DISCOUNTED CASH FLOW VALUATION / YILI / DCF

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LIST OF ABBREVIATIONS

CAGR	Compound Growth Rate
CAPEX	Capital Expenditures
CAPM	Capital Asset Pricing Model
COGS	Cost of Goods Sold
CHF	Swiss Franc
CNY	Chinese Yuan
COVID-19	Coronavirus disease starting in 2019
D&A	Depreciation and Amortization
DCF	Discounted Cash Flow
DFA	Dairy Farmers of America
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes,
EPS	Earnings per Share
EPS	Earnings Per Share
ESG	Environmental, Social, and Governance
EV	Enterprise Value
FAO	Food and Agriculture Organization
FCFF	Free Cash Flow to the Firm
MKT	Market
MRP	Market Risk Premium
NOPAT	Net Operating Profit After Taxes
NWC	Net Working Capital
PE	Price to Earnings
PEG	Price / Earnings to Growth Ratio
PS	Price to Sales Ratio
R&D	Research and Development
ROA	Return on Assets
ROE	Return on Equity
SD	Standard Deviation
SG&A	Selling, General, and Administrative
USD	U.S. Dollar
WACC	Weighted Average Cost of Capital

CHAPTER I

YILI GROUP OVERVIEW

In the first chapter, we will give a comprehensive introduction to Yili Group, finding out the performance and strategic advantages of Yili Group as a leading international dairy company in the past five years. The contents will be included in the first chapter as below:

Yili Group's Profile (1.1), Business Operations (1.2), Industry and Market Landscape (1.3), Financial Highlights (1.4), Benchmarking Summary (1.5). Through description and analysis, provide information about the current situation of Yili Group and understand its existing problems.

1.1 Company Profile

In the first chapter, we will introduce the company background and do the business overview mainly based on the general information combined with industry current situations.

1.1.1 Company Introduction

According to TongHuashun Financial Research Center (TongHuashun Financial Research Center, 2024), Yili Group (full name: Inner Mongolia Yili Industrial Group) is the most well-known dairy product manufacturer in mainland China. The company originated from the Hohhot Hui Minority District Cattle Raising Cooperative, which was established in 1956. Founded formally in 1993, it is one of China's largest dairy companies with a variety of product lines. Yili's multiple business units include liquid milk, yogurt, milk powder, cold drinks, etc., and main products include pure milk, milk drinks, ice cream, milk powder, yogurt, cheese, etc. It is the largest and highest-revenue dairy company in China. (Brand Finance, 2021)

Yili Group not only occupies a leading position in the domestic market, but its business has also expanded to many regions around the world. Yili focuses on the development of the dairy industry and insists on the layout of the dairy industry chain.(CCTV, 2023) It is the largest dairy company in Asia and has been ranked first in the Asian dairy industry for many years. According to Sina News, Rabobank's 2023 Global Dairy Top 20 list, Yili ranked among the top 5 in the global dairy industry, and it was the only Chinese dairy industry to enter the top 5. (Sina News, 2025) (Yili firmly holds its position in top 5 global dairy giants). This position reflected Yili's leading position and market effect in the Chinese dairy industry and even in the Asian dairy industry.

The Yili Group has critical strategies for globalization and its R&D (Yili Group, 2023). This organization not only owns the largest high-quality milk source base in China, but also has established dairy bases around the world. Besides these, it has cooperated on innovative platforms, promoted industry innovation, has integrated global high-quality resources as well. The company has put into place a network comprising a global resource system from 2013. Their new goal in 2025 is to enter the top 3 of the global Dairy enterprises. (Brand Finance, 2024)

1.1.2 General Information

Inner Mongolia Yili Industrial Group Co., Ltd. A famous dairy processing company from China, established in June 1993. Listing on Shanghai Stock Exchange (6008870) from 1996. Registered Capital is CNY 6.36 billion. (Yili Group, 2023)

According to Sina Finance and Yili annual report of 2023, Yili Group has no absolute controlling shareholder or actual controller (Sina Finance, 2023), The company's largest shareholder is Hong Kong Securities Clearing Company Limited (Eastmoney,2025) holds a 10.67% stake, and a total of 64.58% shares are held by public investors. Yili Company's own strategy has limitations the shares will not concentrate on the control of a high-level certain manager. In this way, the company's management can manage the company better, more public shareholders can participate in the management.

1.1.3 Business Model & Strategy

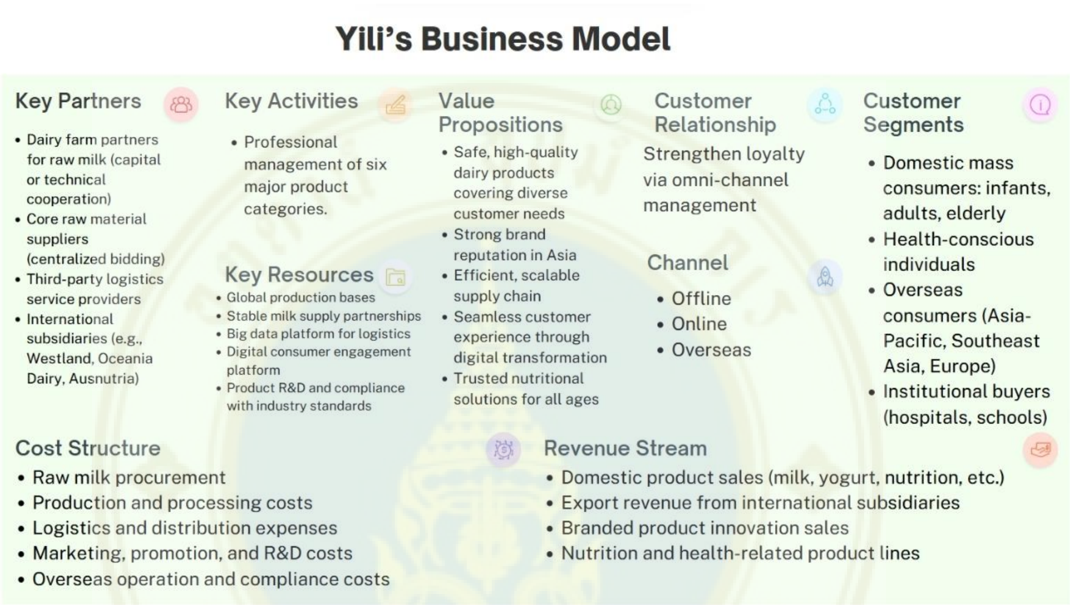

Figure 1.1: Yili's Business Canvas

Source: Yili Group Annual Report 2023, IIDE 2023

In Yili's business strategy, it follows the two main ways of globalization and R&D and wins more consumers' trust with diversified products which are high quality and high-tech content. Yili Group has the slogan of "no innovation, no future". (Yili Group, 2023) By building a "global smart chain", integrating global innovative resources, and focusing on the construction of a green and low-carbon industrial chain, it has achieved an internal growth model driven by high-tech development.

Yili's innovation team envisioned the development of drinkable ambient yogurt, which opened a difficult development path. After the product development project was established, Yili's R&D team made a lot efforts to break the conventional theory of ambient yogurt production technology, established a new product technology theory, obtained 8 invention patents in China, and launched Yili's world-first PET drinkable ambient yogurt and drinkable fruit particle ambient yogurt products, creating a precedent for international dairy innovation and achieving huge market success.(IIDE,2023)

1.2 Business Operations

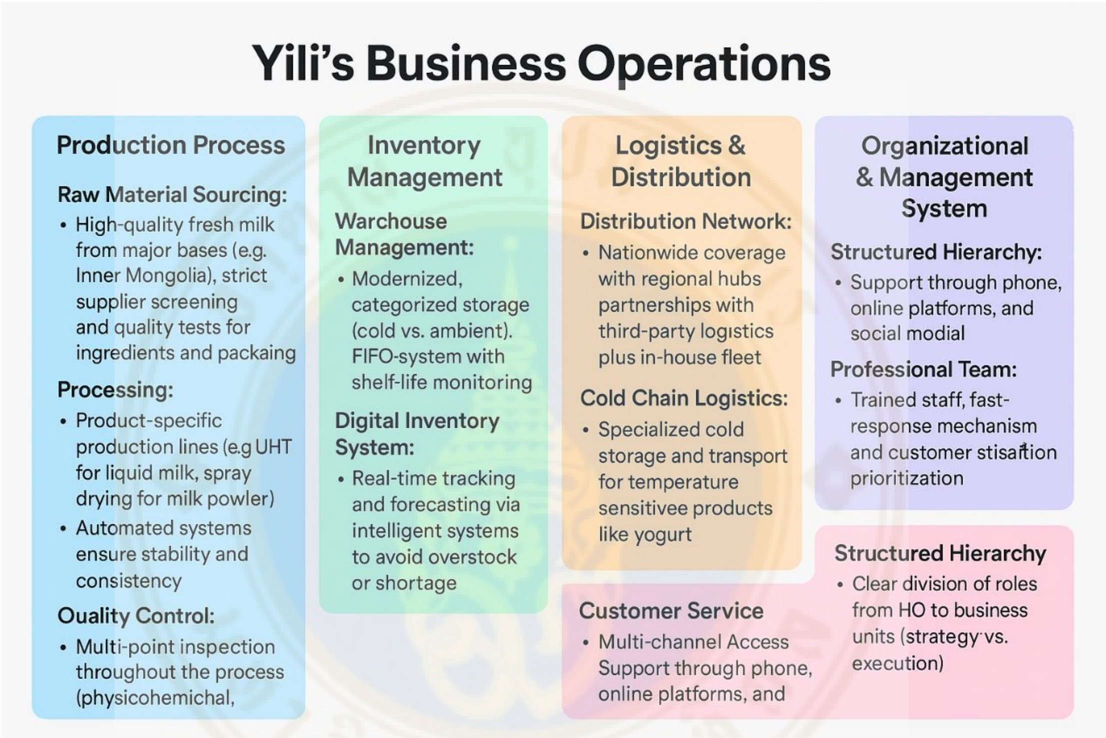

Figure 1.2: Yili's Business Operations

Source: Yili Group Annual Report 2023

1.3 Global Economic Trends and Their Impact

Evidently, the macroeconomy has a significant impact on the dairy industry. The following discussions will explore this in greater depth.

1.3.1 Fast Growth of China's Dairy Industry

China's dairy industry has been growing steadily. In 2023, the market size reached 5738.6 billion CNY, with an annual growth rate of 5.3% from 2016 to 2021

(Du Kaiyu, 2024). By 2029, the market is expected to grow at 4-5% per year, exceeding 1 trillion CNY (Liu, 2021). This growth is mainly due to higher incomes, better health awareness, and faster urbanization. As a leading company, Yili is expanding its products and improving its supply chain to take advantage of this trend.

1.3.1.1 Government Support or Health and Wellness.

The Chinese government promotes healthy food and functional dairy products under the Healthy China 2030 Plan. (People's Bank of China,2023) Policies encourage people to buy low-fat, high-protein, and probiotic dairy products. As a result, products like probiotic yogurt and lactose-free milk are becoming more popular. Yili is following this trend by introducing more health-focused products and strengthening its market position.

1.3.1.2 Focus on Environmental, Social, and Governance.

Consumers and investors are paying more attention to sustainability. Yili is taking steps in renewable energy, carbon emission reduction, and rural development. These actions improve Yili's brand image and follow global sustainability trends (Food and Agriculture Organization: FAO, 2023). According to the Wind (2024), the ESG rating of Yili ranks 13th in China's food industry and has been awarded an A-level badge. (Wind,2023)

1.3.2 The Impact of Global Economic Growth and Consumer Income on China's Dairy Industry

1.3.2.1 Impact of Global Economic Growth

The global dairy industry experienced significant fluctuations during 2020-2023 due to the COVID-19 pandemic and subsequent economic recovery. In 2020, the pandemic disrupted supply chains, reduced consumer spending, and caused a temporary decline in demand for dairy products, particularly in the food service sector. However, as economies began to recover in 2021 and 2022, the dairy industry rebounded strongly. (International Monetary Fund, 2024) Global dairy trade increased by 4.5% in 2022, driven by rising demand from emerging markets such as Southeast Asia and the Middle East (FAO, 2023).

In China, the dairy industry showed resilience during this period. Despite initial challenges, domestic demand for dairy products grew steadily, supported by government policies promoting health and nutrition.(Fortune Business Insights ,2025) For example, the "Healthy China 2030" initiative encouraged higher consumption of dairy products as part of a balanced diet. By 2023, China's dairy market had recovered fully, with annual growth rates returning to pre-pandemic levels of 5-6% (China Dairy Association, 2023).

However, global economic uncertainties, such as rising inflation and geopolitical tensions, have continued to pose challenges for the dairy industry. Fluctuations in currency exchange rates and trade barriers have impacted on the cost of imported dairy products, particularly milk powder and cheese. Despite these challenges, the industry has adapted by focusing on cost efficiency and diversifying supply chains.

1.3.2.2 Influence of Consumer Income on China's Dairy Market.

Consumer income is a critical driver of dairy consumption in China. As disposable incomes have risen, particularly in urban areas, consumers have shifted from basic dairy products to higher-value items such as organic milk, probiotic yogurt, and specialty cheeses. According to the National Bureau of Statistics, China's per capita disposable income increased by 6.3% annually from 2020 to 2023, reaching CNY 36,883 in 2023 (National Bureau of Statistics of China, 2024).

This income growth has led to a significant increase in dairy consumption. For example, the per capita consumption of liquid milk in urban areas rose from 22 kg in 2020 to 25 kg in 2023, while rural areas saw an increase from 10 kg to 12 kg during the same period (China Dairy Association, 2023). Despite this growth, China's per capita dairy consumption remains well below the global average, indicating substantial room for further expansion.

The rising middle class, particularly in tier-2 and tier-3 cities, has become a key target market for dairy companies. These consumers are more willing to pay a premium for high-quality, functional dairy products that offer health benefits.

Companies like Yili have capitalized on this trend by launching innovative products tailored to the preferences of higher-income consumers.

1.3.2.3 Effect of Inflation on Raw Material Costs.

Inflation has had a significant impact on the cost of raw materials in the dairy industry, particularly milk powder and grassland maintenance. From 2020 to 2023, global milk powder prices increased by 20-30%, driven by rising feed costs, labor shortages, and supply chain disruptions (FAO, 2023). In China, the cost of raw milk also rose due to higher demand and limited domestic supply.

Grassland maintenance costs have also increased due to inflation. The price of fertilizers, seeds, and irrigation equipment has risen by 15-20% since 2020, putting additional pressure on dairy farmers (China Dairy Association, 2023). These rising costs have forced dairy companies to either absorb the higher expenses or pass them on to consumers through price increases.

1.4 Financial Highlights

To understand the overall financial situation of Yili Group, we will study the trends of some basic financial indicators over the past five years. Then we will select two domestic and global competitors of Yili Group to conduct a comparative analysis of some key financial indicators to better understand the market position and prospects of this company.

1.4.1 Growth Analysis

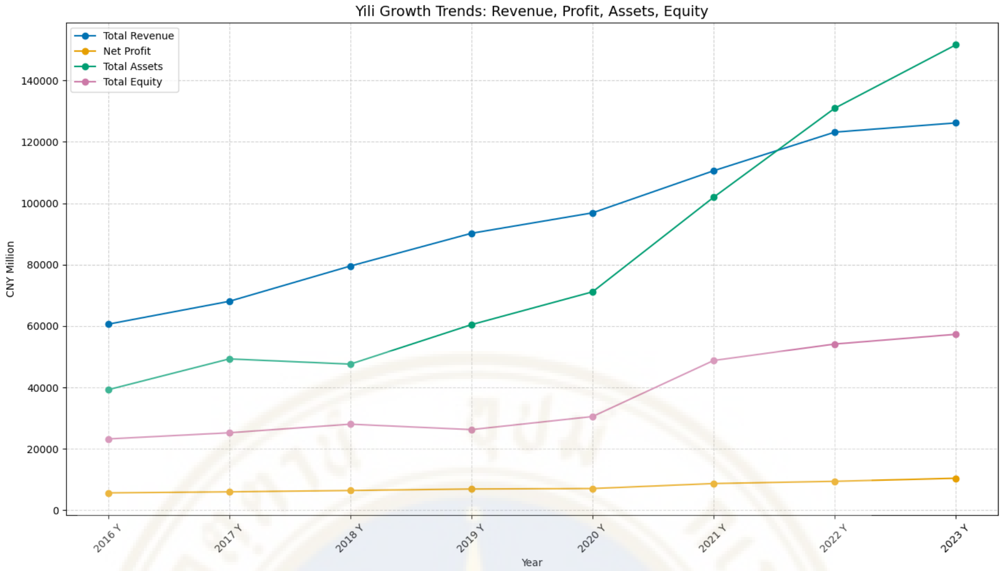

Figure 1.3: Yili's Growth Trends

Source: Yili Group 2023 and Own Calculation

This chart indicates the growth of Yili's business from 2016 to 2023. It includes four key financial items: total revenue, net profit, total assets, and total equity.

From the chart, we can see that total revenue increased steadily every year. This means the company sold more products and earned more money over time. Net profit also grew year by year, especially after 2020. This shows that the company was not only selling more but also making more money after paying all costs. Total assets had a big jump after 2021. This may be because Yili invested in more equipment, buildings, or other businesses. Total equity also went up slowly, showing that shareholders' value became stronger.

1.4.2 Profitability Trend

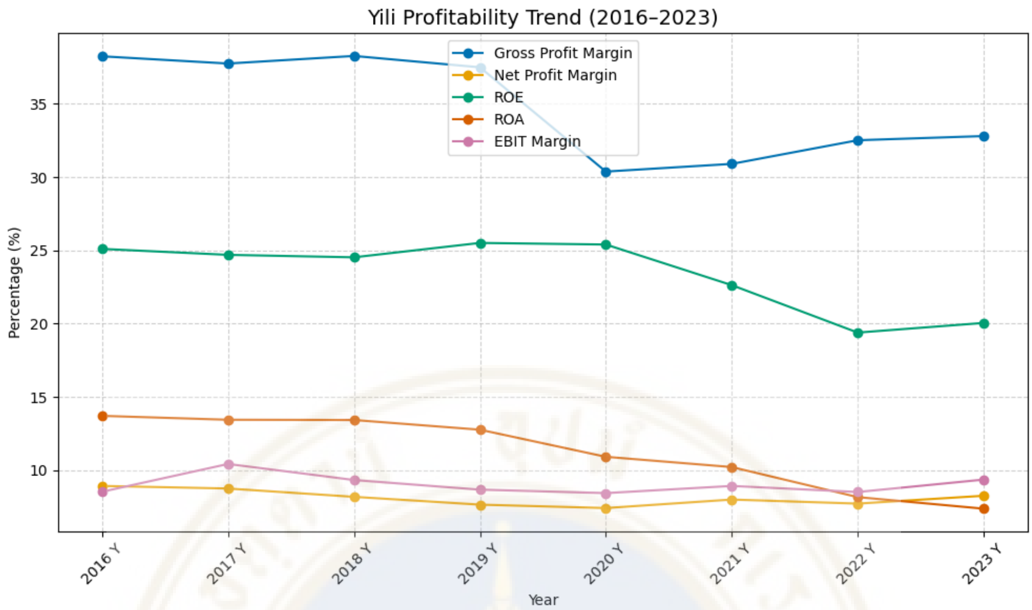

Figure 1.4: Yili's Profitability Trends

Source: Yili Group 2023 and Own Calculation

This chart presents five important profitability ratios of Yili from 2016 to 2023. These include Gross Profit Margin, Net Profit Margin, ROE, ROA, and EBIT Margin. Gross Profit Margin stayed quite stable during the period. This means the company kept good control over its cost of goods. Net Profit Margin had some small changes, but overall, it was also stable. It shows that the company was able to keep a good level of profit after all expenses. ROE was the highest among all the ratios. This means that Yili gave a good return to its shareholders. ROA was lower than ROE, but still at a healthy level. It shows that the company used its assets efficiently. EBIT Margin moved in a similar way as net margin. It shows the company's ability to make profit from its main business.

1.4.3 Capital Structure

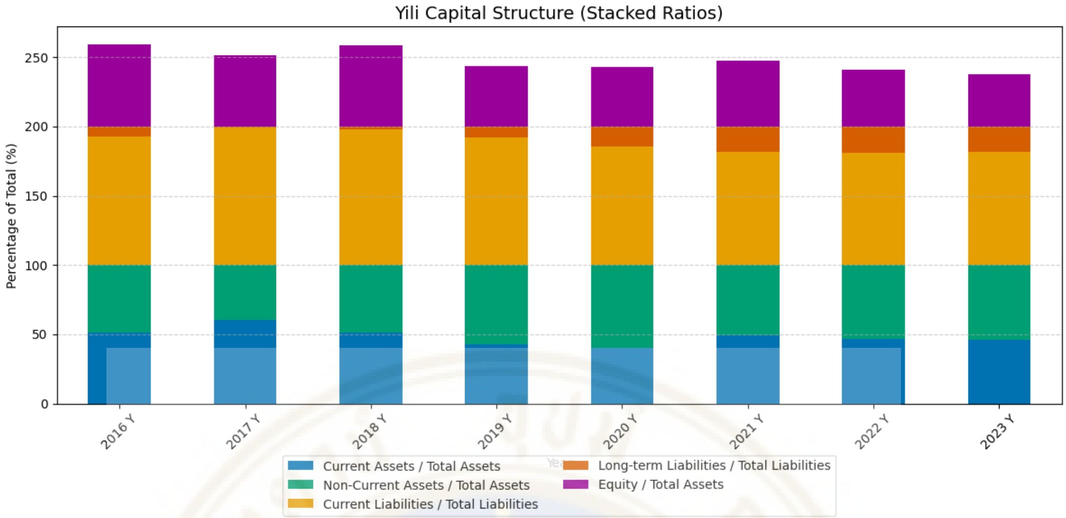

Figure 1.5: Yili's Capital Structure

Source: Yili Group 2023 and Own Calculation

This bar chart displays the structure of Yili's assets, liabilities, and equity from 2016 to 2023. It helps us understand how the company uses its money and how it is financed. We can see that current assets made up a large part of total assets. Non-current assets were also important, but a bit smaller than current assets. For liabilities, current liabilities were bigger than long-term liabilities. This means the company had more short-term payments. Shareholders' equity took up a good part of the structure. It shows that the company was not too dependent on debt, and the owners had strong support in the company.

1.4.4 Operating Efficiency Trend

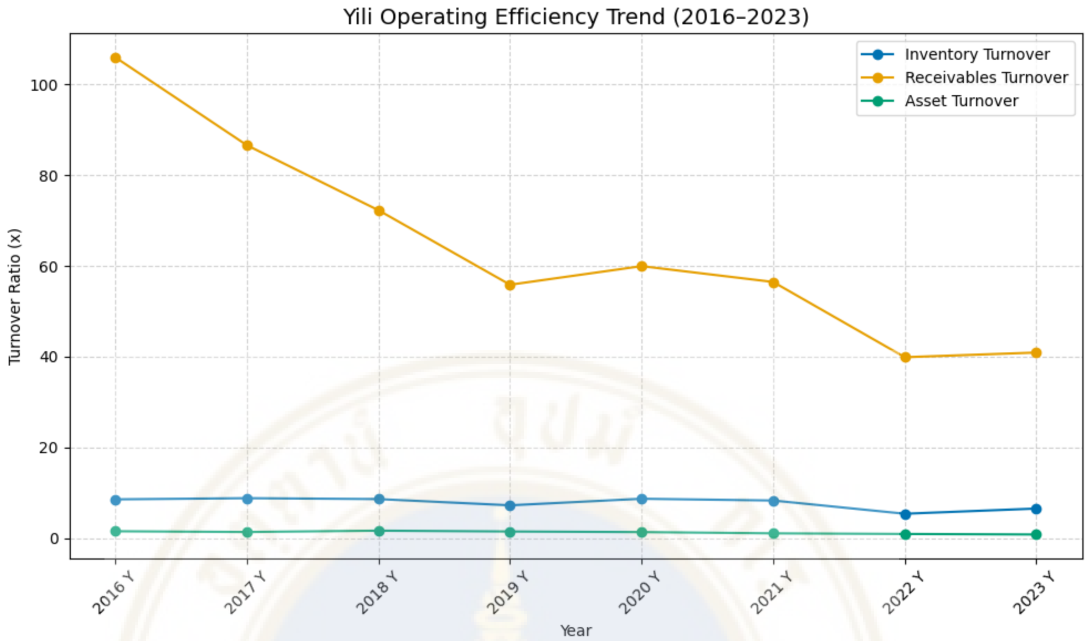

Figure 1.6: Yili's Operating Efficiency Trend

Source: Yili Group 2023 and Own Calculation

This chart suggests three efficiency ratios from 2016 to 2023: Inventory Turnover, Receivables Turnover, and Asset Turnover.

Inventory Turnover went up and down over the years. This means the speed of selling and replacing inventory was not always the same. In some years, the company may have sold products faster, and in other years, slower. Receivables Turnover stayed quite stable. It shows that Yili was good at collecting money from customers after selling products. Asset Turnover was lower than the other two ratios and slowly went down. This means the company used more assets but didn't grow its revenue at the same speed.

1.5 Benchmarking Summary

After knowing the basic situations and issues of the industry and macroeconomic environment, the key criteria for finding Yili Group benchmark companies we select:

Similar age (Yili was founded in 1993, 32 years) and size (market cap of $44.56 billion in 2023) in the same industry, and the geographical range is international. Main direct competitors with almost the same product range, the operating situation and profitability are relatively stable, and revenue of 2023 did not have a huge gap.

Through searching for relevant information in the industry, we select six companies. They are Danone (BN), Mengniu Dairy, Bright Dairy, China Feihe, Meiji Holdings and Nestlé.

1.5.1 Peer Comparison

1.5.1.1 Danone (BN.PA)

Found in 1919, market cap was $35.59 billion in 2023. Danone is a French multinational food-products corporation and a global company with operations in various regions around the world. Its business includes fresh dairy and plant-based products (accounting for about 50% of total revenue), specialty nutrition products (infant milk powder, etc., accounting for about 30%), and drinking water and beverages (about 20%). In 2023, Danone achieved revenue of about 27.6 billion euros, an increase of 7% from 2022 (Danone, 2024). Its Net profit was 953 million Euro. (Danone net income 2023 | Statista), the net interest rate was about 3%. Danone's profitability is in the middle of its global peers, and its ambient yogurts (such as Actimel's Yakult range) and infant milk powder (such as Aptamil) are global market leaders. As a mature market company, Danone has slow revenue growth but steady cash flow([PDF] Strong full-year results Consistently delivering on Renew Danone). As the international comparable company of Yili, Yili is superior in growth but not as internationalized as Danone. Comparison between the two is helpful to evaluate the space for Yili's future growth and valuation.

1.5.1.2 Mengniu Dairy(HK02319)

Found in 1999, also a leading dairy company headquartered in the same place with YILI, is the main direct competitor of Yili Group in China with diversified products range and the strategy of globalization and innovation. Market capitalization was $32.59 billion in 2023. In 2022, Mengniu achieved an operating income of about 92.5 billion CNY (Eastmoney, 2024). It is comparable in size to Yili. Net profit of about 3 billion CNY, net interest rate of about 3%, slightly lower than Yili. Mengniu's P/E was low, at about 13 times earnings (see Figure 1.11). Mengniu's P/E has averaged about 20 times over the past few years, the price-to-book ratio is about 1.5 times (Financial Intelligence Network, 2024). All were lower than Yili's valuation in the same period, reflecting the market's relatively lower profit level for Mengniu.

1.5.1.3 Bright Dairy(600597.SH)

Bright dairy is the top 3 dairy companies in China starting from 1949 and formally founded in 1996 in Shanghai. Before 2003, the company had the top revenue and market cap in China. It also offers liquid milk, modulated milk, and many types of milk products. The company provides a comprehensive logistics and distribution network reaching the UK, Hong Kong, US. The market cap of 2023 was CNY 11.36 billion. The company's volume is significantly smaller than that of Yili, and its operating income in 2023 was about 26.49 billion CNY, down 6.1% year-on-year; Net profit attributable to shareholders of the parent was approximately RMB 970 million, an increase of 168% year-on-year (mainly due to one-time gain on disposal of assets) (21st Century Business Herald, 2024). In fact, the profit base of Bright Dairy was weak, and the net interest rate was hovering around 2% for many years. As a regional company, Bright Dairy is not as diversified as Yili or Mengniu in terms of market scale and product structure, but as a comparable company, it reflects the operating conditions of Chinese traditional dairy enterprises in the regional market.

1.5.1.4 China Feihe(6186.HK)

Feihe is a leading enterprise in the field of infant formula milk powder in China. The company focuses on high-end infant milk powder products, with the highest gross and net profit margin in the industry (net profit rate was above 15% all year round). In 2023, Flying Crane achieved revenue of about 19.53 billion CNY, down 8.3% year-on-year, and net profit of about 3.29 billion CNY (China Feihe: annual revenue 2023 - Statista) (China Feihe net income 2023 | Statista). Although the income has declined due to the declining birth rate in China (National Bureau of Statistics of China, 2024), the profitability of Feihe was still outstanding, and the profit margin was far higher than that of comprehensive dairy enterprises such as Yili.(Marketing 91, 2024) The revenue of Feihe mainly came from the business model of a single category of milk powder, which was different from Yili. However, as it belongs to the dairy industry and has a relatively large scale, we believe that Feihe and Yili are comparable to a certain extent.

1.5.1.5 Meiji Holdings (2269.T)

Meiji is one of the largest dairy and food companies in Japan, specializing in dairy products (milk, yogurt, ice cream, etc.) as well as functional nutrition foods and pharmaceuticals. In 2023, Meiji Holdings achieved revenue of about 1.105 trillion yen (about 55 billion CNY), net profit of about 67.6 billion yen (about 3.3 billion CNY), and net interest rate of about 6% (Meiji Holdings Third Quarter 2025 Earnings: Beats Expectations). Meiji holdings is a leading position in the Japanese market, with a wide range of products such as liquid milk and chocolate. The selection of Meiji as a comparable company can be contrasted with the difference in profitability and valuation between Yili and its peers in mature Asian markets. Yili's growth and scale have surpassed Meiji, so it should have a higher valuation multiple to reflect its stronger growth momentum.

1.5.1.6 Nestlé (NESM.SW)

Found in 1866 and it is one of the largest food and beverage companies in the world. The headquarter of Nestlé is in Switzerland. Nestlé offers a wide range of products, including milk, yogurt, cheese, and infant food in the dairy industry. The company is playing an important role as it is known for its high-quality dairy products. In 2023, its market cap was about $234.85 billion. It’s ranked the top 1 in this industry. Nestlé’s revenue was about CHF 92.298 billion (That is about CNY 757.78 billion) (The Wall Street Journal, 2024), its net profit was CHF 11.2 billion, with a net profit margin of about 12.1% (Nestlé reports full-year results for 2023). We have chosen Nestlé as one of our comparable companies. It is good for us to value the scale and the valuation of Yili Group from a global benchmark perspective. In 2023, Yili’ s revenue was CNY 126.18 billion (Financial Statement), which was approximately 16.65% of Nestlé’s. According to the previous ROE and net profit margin of Yili, Yili's net profit rate was lower than Nestlé's, but Yili's growth rate was faster. Yili's valuation thus falls somewhere between an established giant and an emerging market champion.

1.5.2 Industry Position

Figure 1.8: Peer's ROE

Source: Own Calculation

This is a pie chart showing the ROE of several dairy companies in 2023.

The red part represents Inner Mongolia Yili Industrial Group, with an ROE of 18.49%. This is one of the higher ROE values in the chart, meaning Yili is quite efficient in using its equity to make profits.

Figure 1.9: Peer's PE in 2023

Source: Own Calculation

This is a radar chart showing the P/E ratio of peer dairy companies.

The P/E ratio shows how much investors are willing to pay for 1 dollar of earnings. A higher P/E usually means higher growth expectations.

Inner Mongolia Yili Industrial Group has a P/E ratio higher than the median, meaning investors have positive expectations for Yili's future performance.

CHAPTER II

VALUATION-DISCOUNTED CASH FLOW METHOD

In this chapter, by using discounted cash flow valuation method to estimate the enterprise value and stock price. The contents include Free Cash Flow to Firm Projection (2.1), Discounted Cash Flow Projection (2.2), Sensitivity Analysis (2.3), Valuation Recommendation (2.4).

The discounted cash flow valuation is a method based on a company's free cash flow, which can reflect the enterprise's true value well and consider the time value. Generally, the company's goal is to generate cash flow, so this method can provide a relatively accurate and flexible reflection of enterprise value and not rely on market-comparable companies.

2.1 Free Cash Flow to Firm Projection

To do DCF valuation, the most important part of the model is to predict future cash flow. Therefore, we first need to forecast the free cash flow of Yili Group in the next few years based on historical data and future expectations.

2.1.1 Relevant Data Preparation

Before we make the assumptions about our forecasting data, we first need to determine the period of historical data and the period of reasonable prediction. In order to reflect the company's business model and financial stability, we have selected 5 years of historical data. As a leading dairy company, Yili is a relatively mature enterprise. 5-year data can provide relatively stable and sufficient trend information to avoid abnormal changes caused by short-term fluctuations and reflect the company's main business performance and historical capital expenditure. This can support our valuation assumptions of using growth trends to make reasonable forecasts.

Considering Yili Group is a leading company in the dairy industry, and the company is facing the challenge of market demand changing about different product lines. We need to forecast sales growth rate based on industry trends and product segments. According to China Diary Development Plan (FAO-Publications,2023), dairy annual revenue growth rate is expected at 4% ~ 5% in 2025 to 2030. According to the global industry's annual growth rate of 2.68% is expected from the Statista (CAGR 2025-2029). (Milk-Statista,2025).

We can see the dairy industry facing the challenge of the new substitutes products and different market trends now. Compared with 2020-2022 data the industry growth rate is obviously decaying. In 2020, the impact of covid-19 led to a significant drop in sales. Although dairy consumption has recovered after 2022, the contradiction between supply and demand of raw milk may be further aggravated. According to Nielsen IQ's report, dairy industry sales fell 6.5% in 2022, showing pressure on consumption growth. Consumers' sensitivity to promotion has increased, sales of large packaging products have increased, and the trend of health is obvious. (Nielsen,2023) China's dairy consumption diverged from 2022. Normal white milk, adult milk powder and cheese products grew about 7 to 15% year-on-year, while sales of low-temperature yogurt, milk drinks and infant formulas fell. (Xue Qiu,2023).

To determine the reasonable terminal growth rate, China's real GDP growth rate is 2% (National Bureau of Statistics of China, 2024), inflation is 1.5% (FAO,2024). According to Euromonitor, the CAGR of China's dairy products market from 2023 to 2028 is expected to be 4.2% (Euromonitor,2024), combined with the industry's growth rate of 2.68%, I choose to take the average of 3.44%.

2.1.2 EBIT Projection

We need to do the EBIT (earnings before interest and tax) projection as preparation for calculating FCFF.

Based on the analysis above, we can determine the next 5 years Yili's sales growth rate in segments revenue. It can be seen that after the recovery from the COVID-19, the proportion of Yili's different product categories' contribution to sales has been adjusted, but the general trend can be predicted. By calculating the proportion and forecast the sales growth rate trends in segments, determine the Yili's sales growth rate of 4.69%.

Table 2.1: Segment Revenue and Sales Growth Rate Projection

Category	2023	2024	Sales Growth Rate (2025-2029)	Weight
Liquid Milk(%)	67.79%	**61.79%**	**3%**	**1.85%**
Milk Powder & Milk Products(%)	21.87%	**24.30%**	**4%**	**0.97%**
Ice Cream& drinks(%)	5.67%	**12.27%**	**14.55%**	**1.79%**
Other Products(%)	0.14%	**0.96%**	**0.98%**	**0.01%**
Others(%)	1.69%	**0.68%**	**9.90%**	**0.07%**
		Yili's Sales growth rate		**4.69%**

Source: Yili Group 2023 and Own Calculation

After experiencing a slowdown in sales growth, Yili Group is expected to improve operational efficiency through its digital transformation strategy from 2023 to 2028. The chairman of Yili Group made it clear that in the future, it will increase investment in the field of new consumer trends and realize the consumer orientation of brand building and product innovation. For example, Yili has established a digital system covering the entire supply chain to improve management efficiency and market response speed. (Sina Finance,2024)

In terms of international business, Yili Group actively expands overseas markets. Combined with the macro environment analysis, we think the prospects for the future five years are optimistic. Then we can calculate the Operating Income.

Table 2.2: Historical Operating Income

In Millions of CNY 12 Months Ending	2020	2021	2022	2023	2024
Revenue	96885.64	110595.20	123171.04	126179.46	118808.53
Revenue Growth Rate(%)	7.38%	14.15%	11.37%	2.44%	-5.84%
Cost of Revenue	67452.95	76416.71	83118.55	84788.59	78111.47
Gross Profit	29432.69	34178.50	40052.50	41390.87	40907.82
Gross Margin (%)	30.38%	30.90%	32.52%	32.80%	34.43%
Operating Income(EBIT)	**8179.14**	**10035.60**	**10979.89**	**12814.99**	**12220.97**

Source: Yili Group 2023

Table 2.3: Operating Income Projection

In Millions of CNY 12 Months Ending	2025E	2026E	2027E	2028E	2029E
Revenue	124380.65	130219	136331.48	142730.8	149430.58
Revenue Growth Rate(%)	4.69%	4.69%	4.69%	4.69%	4.69%
Cost of Revenue	81336.92	87897.85	92023.75	96343.32	100865.64
Gross Profit	42916.01	42321.19	44307.73	46387.52	48564.94
Gross Margin (%)	34.50%	32.50%	32.50%	32.50%	32.50%
Operating Income(EBIT)	**13806.35**	**12362.11**	**13606.29**	**14922.36**	**16313.96**

Source: Own Calculation

2.1.3 Calculate NOPAT (Net Operating Profit after tax)

Net Operating Profit After Tax We can minus taxes from EBIT to get NOPAT. The tax rate can generally be estimated using Yili's historical tax rate (Yili Group 2023). Net Operating Profit minus Adjusted Taxes is also part of our calculation of cash flow projection. We need to obtain the company's effective tax rate to calculate this value as a measure of the profitability of the company's operating activities.

Table 2.4: Historical Net Operating Profit After Tax

In Millions of CNY 12 Months Ending	2020	2021	2022	2023	2024
Operating Income(EBIT)	**8179.14**	**10035.60**	**10979.89**	**12814.99**	**12220.97**
Income Tax Expense	1050.91	1380.33	1311.98	1436.88	1494.13
Tax Rate (%)	12.89	13.65	12.34	12.26	12.23
NOPAT	105468.73	136985.12	135514.44	157096.93	149413.33
CAPEX	-6522.20	-6682.73	-6646.11	-6955.60	-5531.32
% of Revenue	-6.73%	-6.04%	-5.40%	-5.51%	-4.66%

Source: Yili Group 2023 and Own Calculation

Table 2.5: Net Operating Profit After Tax Projection

In Millions of CNY 12 Months Ending	2025E	2026E	2027E	2028E	2029E
Operating Income(EBIT)	**13806.35**	**12362.11**	**13606.29**	**14922.36**	**16313.96**
Income Tax Expense	1689.11	1512.42	1664.05	1825.65	1995.90
Tax Rate (%)	12.23	12.23	12.23	12.23	12.23
NOPAT	12117.24	10849.69	11942.24	13096.71	14318.06
CAPEX	-5481.72	-5859.86	-6134.92	-6422.89	-6724.38
% of Revenue	-4.41%	-4.50%	-4.50%	-4.50%	-4.50%

Source: Own Calculation

2.1.4 Depreciation and Amortization and Capital Expenditure (CAPEX) Projection

Forecasting depreciation and amortization is a very important step in our discounted cash flow valuation because it directly affects the company's free cash flow calculation, this part is non-cash expenses that we need to add into our FCFF. Because Yili Group has been carrying out mergers and acquisitions and capital expansion in recent years, and combined with their internationalization strategy (Yili Group,2023), purchased a lot of new equipment and plants, but gradually shifted to product development and clear inventory in 2023, so the amortization amount and capital expenditure forecast should be relatively stable in the next five years. We need to consider capital expenditure as well. Yili Group focuses on maintaining its assets. Since we have capital expenditure, we need to calculate the capital expenditure ratio using opening fixed assets to forecast depreciation and amortization further. (Yili Group,2023)

Capital expenditures are typically used to purchase or upgrade fixed assets. Therefore, there is a direct relationship between Capex and the growth of fixed assets, because an increase in Capex usually leads to an increase in future depreciation.

By calculating the Capex ratio (the ratio of Capex to fixed assets at the beginning of the period), we can more reasonably predict the future depreciation and amortization, better reflect the company's capital expenditure strategy, it will help us better assess the company's future growth potential.

Table 2.6: Historical Capital Expenditure

In Millions of CNY 12 Months Ending	2020	2021	2022	2023	2024
Depreciation & Amortization	2433.45	3313.25	4291.59	4480.08	5252.29
Fixed Asset	23704.97	29684.97	38688.97	40402.27	33945.29
Fixed Asset turnover	4.09	3.73	3.18	3.12	3.50
% depreciation	12.93%	13.98%	14.46%	11.58%	13%
CAPEX	-6522.20	-6682.73	-6646.11	-6955.60	-8486.32
Capex(%)	34.65%	28.19%	22.39%	17.98%	25%

Source: Yili Group 2023 and Own Calculation

Table 2.7: Capital Expenditure Projection

In Millions of CNY 12 Months Ending	2025E	2026E	2027E	2028E	2029E
Depreciation & Amortization	4412.89	4727.78	4969.41	5224.28	5502.37
Fixed Asset	36367.54	38226.23	40186.74	42325.90	44669.11
Fixed Asset turnover	3.50	3.50	3.50	3.50	3.50
% depreciation	13%	13%	13%	13%	13%
CAPEX	-8827.74	-9301.71	-9738.33	-10195.45	-10674.02
Capex(%)	25%	25%	25%	25%	25%

Source: Own Calculation

2.1.5 Changes in Working Capital Projection

Working capital is necessary to predict changes in accounts receivable, inventory, accounts payable. over the next few years, which will affect the cash flow available to the company. Generally, the increase in working capital means that the company needs to invest more funds to carry out efficient operations, which will reduce free cash flow. On the contrary, the decrease in working capital will release cash and increase free cash flow. The main parts reflect the company's operating efficiency, accounts receivable days, inventory turnover, and accounts payable days.

By calculating the cash conversion cycle (CCC), CCC is about -4 to -9 days, indicating that the company can quickly recover cash, which is also the competitive advantage of Yili Group. In 2022, the CCC rose to 14 days, reflecting the decline in operational efficiency or changes in the market environment after the period of epidemic recovery. By forecasting working capital changes, we can identify potential liquidity risks and make our valuation assumptions more reasonable.

We identify trends based on the number of days of Yili Group's working capital and its components (accounts receivable, inventory, accounts payable) during the historical period. Since Yili's working capital management policies such as supply chain management are stable and effective, historical data can reasonably reflect future trends. At the same time, it should be noted that Yili's CCC is relatively short, indicating its high operational efficiency, and the sustainability of this advantage should be considered when forecasting. The market environment forecast for the next few years is relatively stable, so we think it is reasonable to make a slight adjustment to historical trends and maintain stability.

Table 2.8: Cash Conversion Cycle

In Millions of CNY 12 Months Ending	2020	2021	2022	2023	2024
Account Receivable	3375.56	4066.41	6338.52	6389.78	5859.05
Inventory	7545.03	8917.20	14836.16	12511.78	12840.24
Account Payable	11376.47	13659.52	15925.80	13798.87	13910.26
Working Capital	-455.88	-675.92	5248.88	5102.68	4789.03
Change in working Capital	-1122.52	-220.04	5924.80	-146.20	-313.65
Account receivable days	13	13	19	18	18
inventory days	41	43	65	54	60
account payable days	62	65	70	59	65
CCC	-8	-9	14	13	13

Source: Yili Group 2023 and Own Calculation

Table 2.9: Working Capital Projection

In Millions of CNY 12 Months Ending	2025E	2026E	2027E	2028E	2029E
Account Receivable	6277.14	6597.95	6936.34	7305.57	7710.01
Inventory	12924.77	13855.70	14046.09	14245.85	14456.27
Account Payable	14484.66	16082.51	16907.33	17807.32	18793.15
Working Capital	4717.25	4371.14	4075.10	3744.10	3373.13
Change in working Capital	-71.78	-346.11	-296.04	-331.00	-370.97
Account receivable days	18	18	18	18	18
inventory days	58	56	54	52	50
account payable days	65	65	65	65	65
CCC	11	9	7	5	3

Source: Own Calculation

2.1.6 FCFF Projection

According to our projection, we can calculate our free cash flow to firm using the formula of:

FCFF=NOPAT+ Depreciation and Amortization − CAPEX − Changes in Working Capital

Table 2.10: Cash Flow to The Firm

PERIOD	0	1	2	3	4	5
	2024 E	2025 E	2026E	2027E	2028E	2029E
EBIT	12220.97	13806.35	12362.11	13606.29	14922.36	16313.96
TAX	1494.13	1689.11	1512.42	1664.05	1825.65	1995.90
NOPAT	10,727	12,117	10,850	11,942	13,097	14,318
DEPRECIATION	5,252	4,413	4,620	4,837	5,064	5,301
△WORKING CAPITAL	-314	-215	-320	-305	-343	-383
CAPEX	-8486.32	-8827.74	-9301.71	-9738.33	-10195.45	-10674.02
CASHFLOW TO THE FIRM	7806.46	7917.47	6487.37	7345.16	8307.51	9328.83

Source: Own Calculation

2.2 Discounted Cash Flow Projection

2.2.1 WACC （Weighted Average Cost of Capital） calculation

After we searched for the relevant data, the risk-free rate is the 10-years Chinese government bond yield of 1.76% (Trading Economics, 2024), the current beta of Yili Group is 1.032 (Bloomberg), the market risk premium is 6.17% (Damodaran,2025). Then calculate the WACC as the formula of

$WACC = We*Re + Wd*Rd*(1-Tax\ Rate)$

We: Weight of shareholders' equity in the capital structure of the company.

Wd: Debt weight of the company's total capital

We + Wd should equal to 100%, reflect the company’s capital structure.

Rd: Cost of Debt, because the Yili Group credit rating of 2024 is A-, so we can use the spread risk-free rate of 2.19% to add the risk-free rate, get the cost of debt of 3.9%.

Re: Cost of Equity, we can use CAPM approach, the formula is:

$Re = Rf + \beta \times (Rm - Rf) = Risk\ Free\ Rate + Yili's\ beta * Market\ Risk\ Premium$ to get the answer of 7.93%

Table 2.11: Weight Average Cost of Capital Estimation

WACC	6.68%
RISK FREE	1.67%
Spread Risk Free Rate	2.19%
MARKET RISK PREMIUM	6.07%
BETA	1.032
COST OF EQUITY	7.93%
COST OF DEBT	3.9%
Tax Rate	12%
AFTER TAX COST OF DEBT	3.4%

Share price (March 3rd,2025)	**29.75**
# shares (Mn)	6,366
Equity Value (RMBMn)	189,389
Debt (RMBMn)	72,504
DEBT / (Equity + DEBT)	27.68%

Source: Trading Economics 2024, Damodaran 2025 and Own Calculation

2.2.2 Terminal Value Calculation

After calculating the Weighted Average Cost of Capital, we can use it to calculate the terminal value of our predicted free cash flow. In the DCF valuation method, the enterprise value is divided into two parts, the free cash flow (FCF) projection of each prediction period, and the next is to calculate the terminal value assuming that the company in a stable environment and the cash flow continues to grow at a constant growth rate (g). As mentioned in data preparation, we choose the terminal growth rate at 3.44% and WACC is 6.68%. Cash flows at the terminal value stage belong to all investors of the enterprise, so a WACC discount is required. We use the formula of:

Terminal Value=FCFF of the last period× (1+growth rate)/ (WACC−growth rate) **= 298,083CNY**

Table 2.12: Discounted Cash Flow

Terminal Growth Rate(g)=3.44%

PERIOD	0	1	2	3	4	5	Terminal Value
	2024 E	2025 E	2026E	2027E	2028E	2029E	
EBIT	12220.97	13806.35	12362.11	13606.29	14922.36	16313.96	
TAX	1494.13	1689.11	1512.42	1664.05	1825.65	1995.90	
NOPAT	10,727	12,117	10,850	11,942	13,097	14,318	
DEPRECIATION	5,252	4,413	4,620	4,837	5,064	5,301	
△WORKING CAPITAL	-314	-215	-320	-305	-343	-383	
CAPEX	-8486.32	-8827.74	-9301.71	-9738.33	-10195.45	-10674.02	
FCFF	7806.46	7917.47	6487.37	7345.16	8307.51	9328.83	**298,083**
DCF		7,421.89	5,700.65	6,050.42	6,414.80	6,752.55	**215,764**

Source: Own Calculation

2.2.3 Discounted Cash Flow and Enterprise Value

We use the formula of *DCF=FCFF/(1+WACC) ^n* to calculate discounted cash flow every period, and the next step is using our discounted cash flow to get the enterprise price. Following the formula of *EV=∑DCF + Terminal Value(1+WACC) ^n*, we calculate the Enterprise Value is 243,823 CNY and minus company's interest-bearing debt, then divide by the shares outstanding of 6,366 million of 2024. Our estimated share price is 34.93 CNY per share, compared with the price of December 31st 2024 of 30.18 CNY per share, we can see the stock price is undervalued.

Table 2.13: Estimate Share Price

PV OF FIRM VALUE	248,104
NET DEBT	25,726
PV OF EQUITY VALUE	222,378
# OF SHARES (MN)	6,366
EST. SHARE VALUE	34.93
Undervalued	14.83%

Source: Own Calculation

2.3 Sensitivity Analysis

Table 2.14: Sensitivity Analysis

	Sensitivity of WACC and Terminal Growth Rate to Yili's Stock Price					
n	WACC	Stock Price	Change in Value	Terminal Growth	Stock Price	Change in value
30%	8.68%	19.8	-43%	4.47%	51.3	47%
25%	8.35%	21.5	-38%	4.30%	47.6	36%
20%	8.02%	23.4	-33%	4.13%	44.4	27%
15%	7.68%	25.6	-27%	3.96%	41.6	19%
10%	7.35%	28.2	-19%	3.78%	39.1	12%
5%	7.01%	31.2	-11%	3.61%	36.9	6%
0%	6.68%	**34.9**	0%	3.44%	**34.9**	0%
-10%	6.01%	45.2	29%	3.10%	31.6	-10%
-20%	5.34%	62.6	79%	2.75%	28.8	-18%

Source: Own Calculation

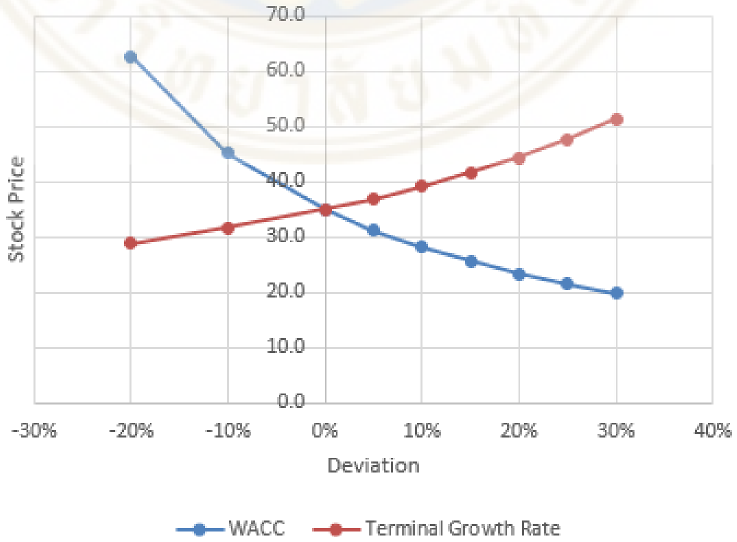

Figure2.1: Sensitivity Analysis

Source: Own Calculation

Because our DCF valuation is based on a series of predicted assumptions, due to the different scenarios of our expectations, these assumptions are uncertain and may lead to fluctuations of the share price. The important indicators we use such as WACC and the terminal growth rate will affect the valuation results. Therefore, we need to conduct sensitivity analysis to help us understand the specific impact of changes in important assumptions on our estimate stock price and identify the sensitive factors in the valuation results to better understand our valuation range under different circumstances.

We conducted a sensitivity analysis of WACC and the terminal growth rate, which increased by 10% from -20% to 0%, and 5% from 0% to 30%. The impact of changes on stock prices and the trend chart are shown. Our calculation results and charts show that WACC has a negative relationship with stock prices. On the contrary, the terminal growth rate has a positive relationship with our stock price. For the sensitivity, we can see that WACC and terminal growth rate both obviously impact on the stock price, WACC has generally stronger influence than the terminal growth rate within -20% to 30% change range.

For example, a 10% change in WACC results in a 19% change in stock price, while in terminal growth rate results in a 12% change in stock price. A negative 20% change in WACC results in a 79% change in stock price, while in terminal growth rate results in an 18% change in stock price. Furthermore, the negative correlation of WACC and stock price indicates that if the market overestimates the cost of capital, Yili's share price may be undervalued.

2.4 Valuation Recommendation

Based on our assumptions and calculations in discounted cash flow valuation, our estimate share price is 34.9 CNY per share, the price of December 31st of 2024 is 30.18 CNY per share, which shows that Yili Group’s stock is undervalued by 18.24% of the market. In addition, the price of May 3rd of 2025 is 29.76 CNY per share. We have also searched for the 50-day simple moving average to 200-day simple moving average in 2024, is about 26.844 CNY to 28.39 CNY per share (Bloomberg). The price of 30.18 is above the moving averages data, indicating that the price may be in an upward trend in the short term. In long term trend, the price around the whole year is relatively stable. So, our recommendation is that the investment outlook of Yili Group is optimistic, investors can HOLD it.

CHAPTER III

CONCLUSION

In this chapter, we want to combine two different valuation methods to understand the estimated stock price while considering risks. Then combined with the risks, we can reflect on the potential and investment prospects of Yili.

Risk Matrix	Acceptable	Moderate	Intolerable
Unlikely	R&D Risk: Investment may not lead to sales growth. Tech edge is hard to sustain.	Consumer Demand Risk: Trends favor plant-based & low-sugar options. Yili may lag behind.	Regulatory Risk: Strict safety regulations. Past incidents hurt brand trust.
Possible	Supply Chain Risk: Short shelf life & high logistics demand. COVID disruptions affect supply.	Market Competition Risk: Mengniu pricing wars; Nestlé global pressure. Margin compression likely.	Macroeconomic Risk: Slow income growth & inflation. Premium product demand weakened.
Probable	Raw Material Risk: Milk/feed/packaging cost volatility. Hard to fully hedge even with own farms.	Equity Control Risk: Dispersed shares risk takeover. Weak internal control hurts governance.	Policy Change Risk: New tax/ad/antitrust laws. Higher cost and strategy disruption.

Figure 3.1: Risk Matrix for Yili

Source: Own Compilation

For the discounted cash flow method, by assuming the terminal growth rate of Yili of about 3.44%, our estimated stock price was 34.93 CNY per share, which is slightly higher than the current market price. The investment prospects are relatively optimistic, but due to the slowdown in revenue growth, fierce competition in the same industry, and the fact that milk is not easy to preserve, risks are also obvious.

For the relative valuation method, we can see that based on P/E and EV/EBITDA valuation, Yili has some upside potential, with a target price reaching 40.11 CNY (+34.81%). The dairy industry remains stable, and Yili benefits from strong branding, market share, and international expansion, making it a good long-term investment.

However, PBV valuation is relatively high (target price only 12.92 CNY), suggesting that the market has priced Yili's assets at a premium, which may bring downside risk. Additionally, increasing competition, rising raw material costs, and macroeconomic changes could impact future profitability.

Overall, Yili is suitable for long-term investment, but its short-term valuation is high. Investors may consider buying when the price falls to a reasonable range.

Our target price is determined by the discounted cash flow method based on historical financial data and growth trends. As a result, our target price is around 34.9 CNY per share. With the price of around 29.75 CNY per share on March 14th, 2025(Bloomberg), the price of December 31st, 2024, of 30.81, and 28.97 CNY per share on April 26th, 2025. Our valuation thinks the current price is still undervalued. This implies an opportunity for an upward trend.

If earnings grow as expected, the stock could exceed 40 CNY, but if the market adjusts its valuation, the price may decline further. Investors should make careful decisions based on their risk tolerance.

To improve competitive advantages and reduce the risks of R&D and market demand, we believe that in the future we can pay attention to Yili's layout in emerging categories (health, low sugar, plant-based and other trends) , forecast and analyze consumer trends, ensure that its technology and product innovation can effectively meet market demand, which can also improve brand differentiation and enhance the competitive advantage of Yili. It is also possible to consider cooperating with other industries or scientific research institutions to develop new technologies and products and increase the success probability of technological innovation success while sharing research and development costs. At the same time, we need to keep an eye on Yili's internationalization strategy and performance in the international market.

So, our recommendation is that if you already have the Yili group stocks, you can HOLD them. And if you are considering their potential and growth situation to decide whether to invest or not, our valuation methods both show an optimistic investment environment, so you can BUY it.

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