



China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code 股份代號: 1117

现代牧业

2019

Interim Results Announcement





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# Content



## 1 Financial Results



## 2 Business Updates



## 3 Industry Overview





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Financial Results

PART 01





# 2019 Interim Results Review

RMB : Million	1H2019	1H2018	Changes
Revenue	2,570	2,468	4.1%
Cost of Sales	-1,672	-1,733	-3.5%
Gross Profit Margin	34.9%	29.8%	+5.1ppt
Cash EBITDA <sup>(1)</sup>	865	731	18.3%
Cash EBITDA Margin	33.7%	29.6%	+4.1ppt
Net Profit	134	-143	+277
AR provision/reversal	108	-74	+182
Earnings /(loss) per share (cents)	2.05	-2.30	+4.35
Free Cash Flow <sup>(2)</sup>	351	140	150.7%

Revenue  
YoY Growth  
**4.1%**

Cash EBITDA  
YoY Growth  
**18.3%**

Net Profit  
Increased  
**2.77** million

Free Cash Flow  
YoY Growth  
**150.7%**

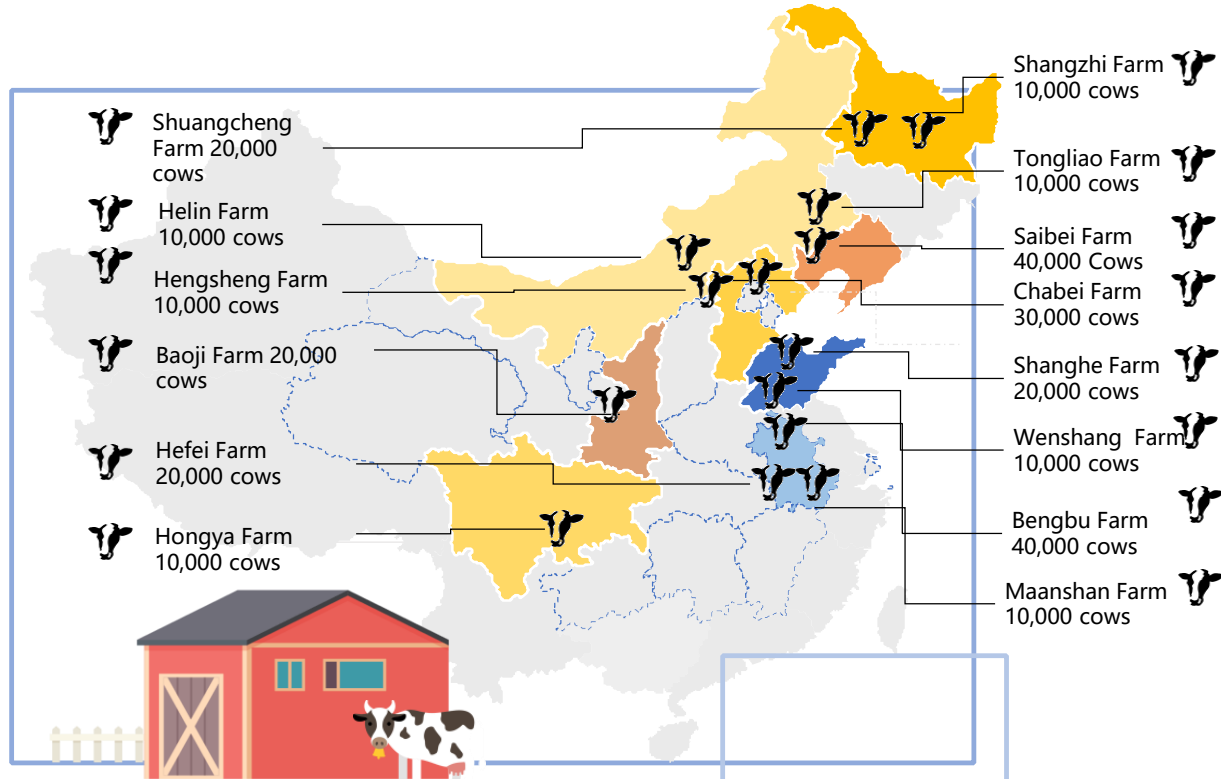
(1) Cash EBITDA is Gains before Finance Costs and Tax after adding back: i) Depreciation; ii) Amortization; iii) Loss Arising from Changes in Fair Value Less Costs to sell of dairy cows; iv) Other Gains and Losses; v) Impairment losses, net of reversal.

(2) Free Cash Flow = Operating Cash Flow – Investing Cash Flow



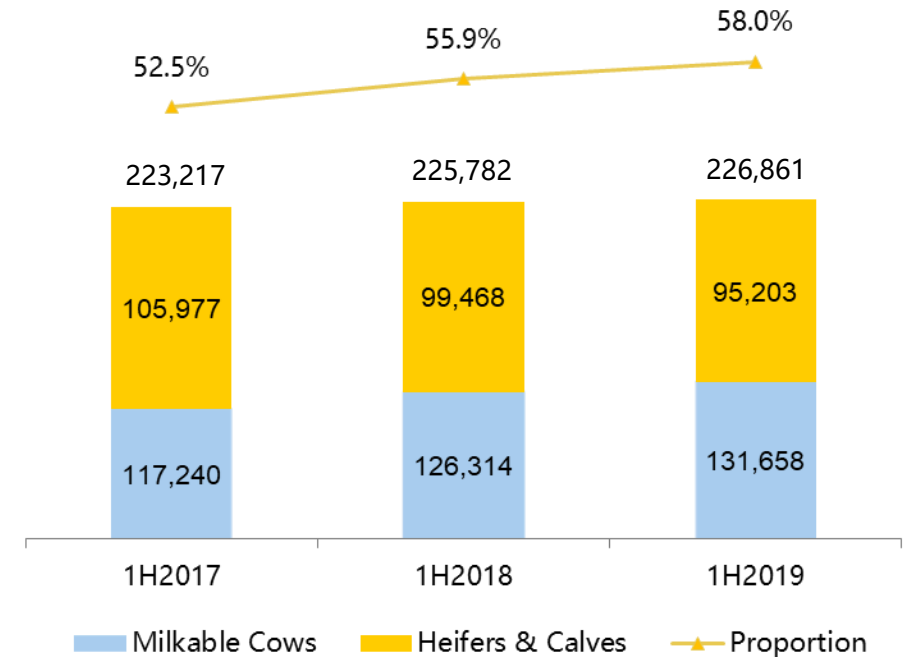


# Ongoing Optimization of Herd Structure



We have 26 farms with scale of 10,000 cows under operation, locating at 7 provinces, evenly in South and North of China.

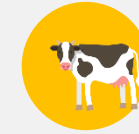
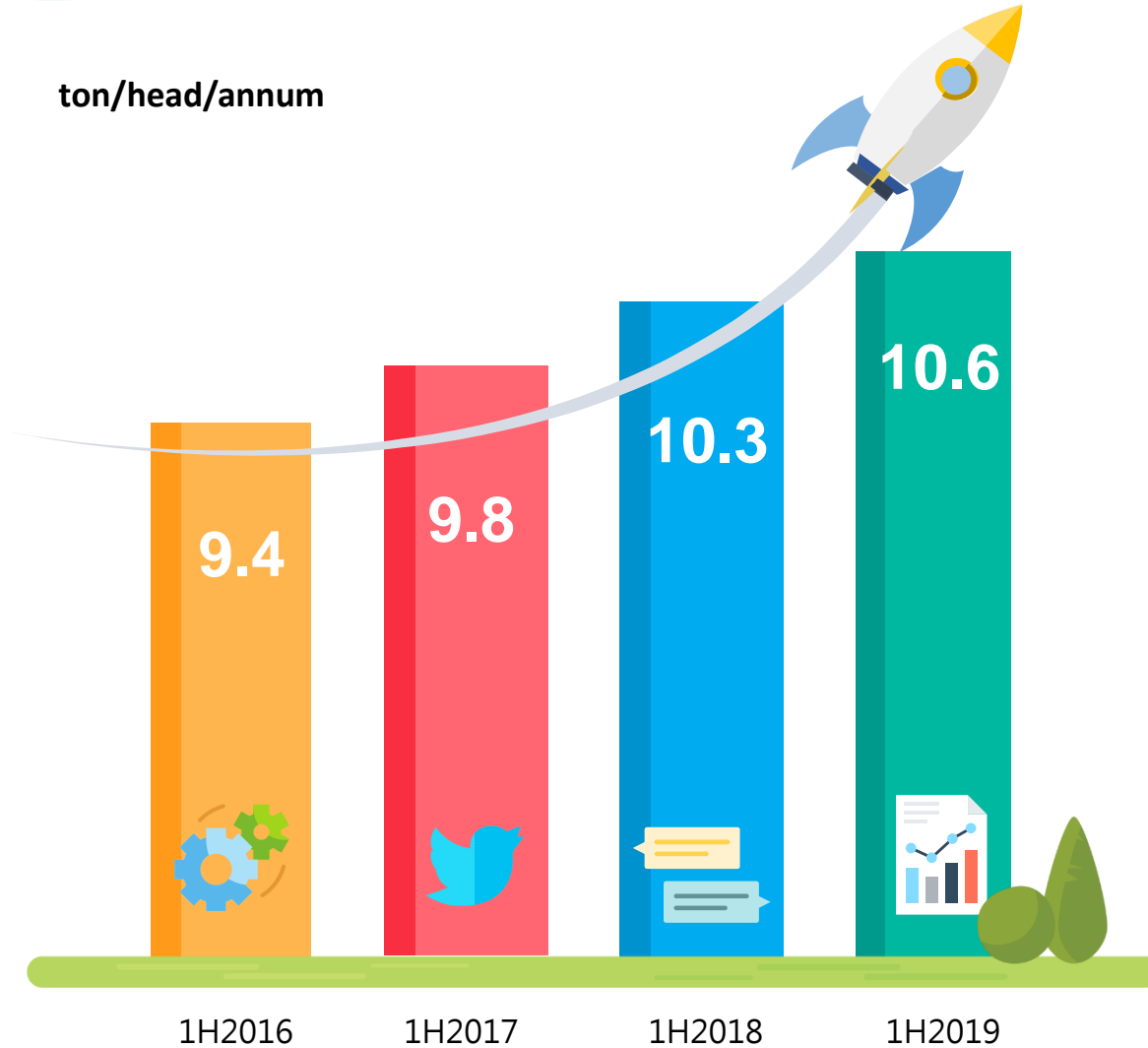
## Herd Size & Proportion of Milkable Cows



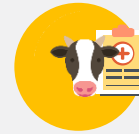


# Stable Increase in Unit Yield for Milkable Cow

ton/head/annum



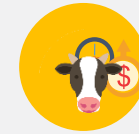
**Improve Health**



**Increase Comfortability**



**Decrease Culling**

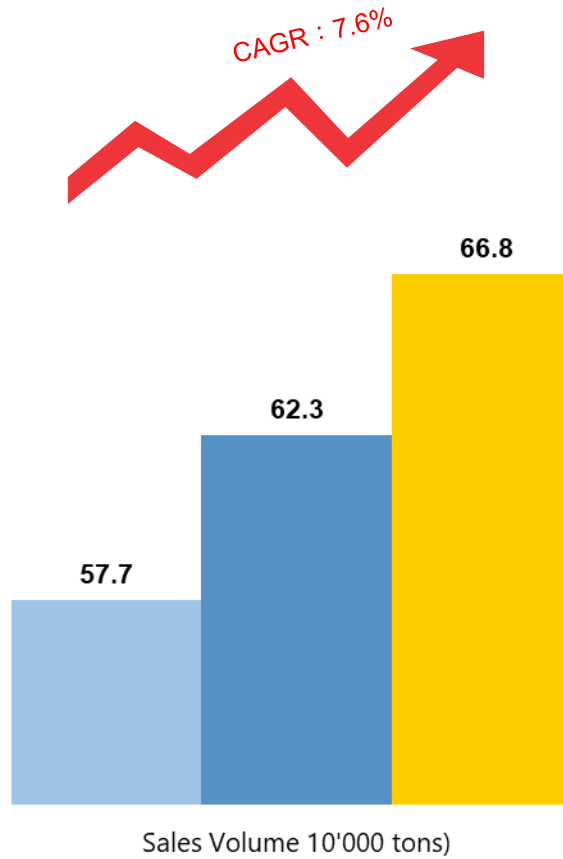
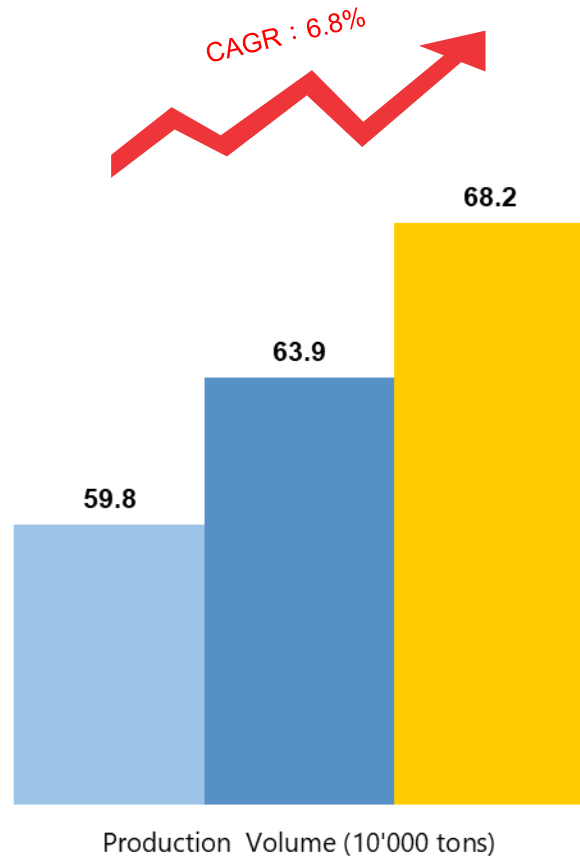


**Enhance Efficiency**





# Steady Increase of Production & Sales Volume



1H2017  
1H2018  
1H2019

Note: Sales volume includes external sales and sales to branded liquid milk.





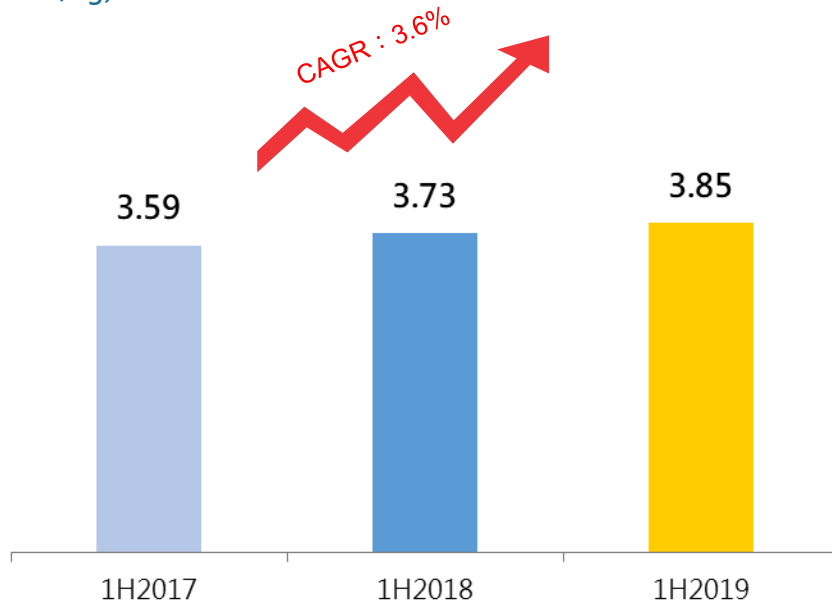


# ASP & Sales Volume Breakdown



## External ASP

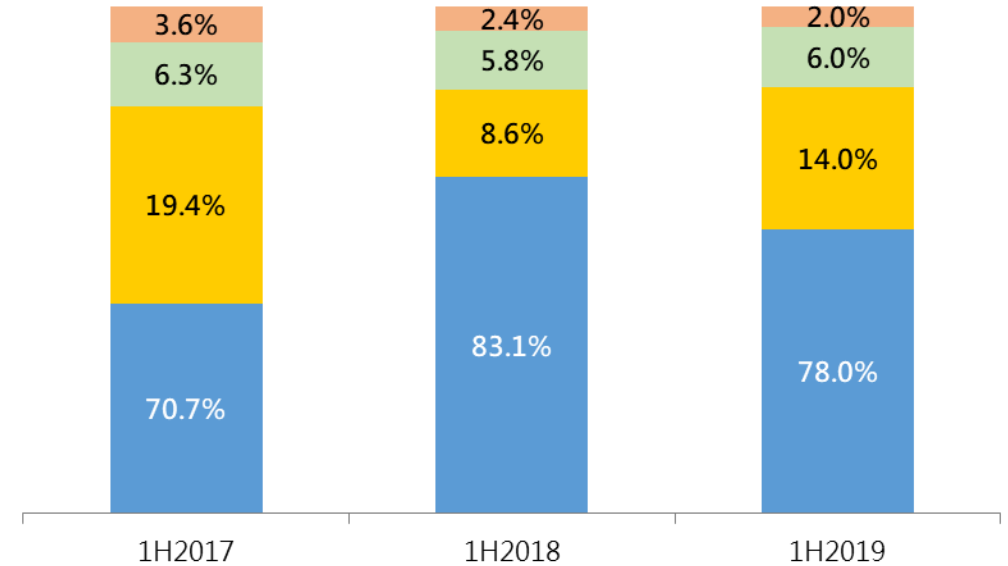
(RMB/kg)



- ▶ Domestic raw milk price kept rising due to the decline in herd size in recent years



## Sales Volume Breakdown



- Sales to MN
- Sales to third-party clients
- Branded Liquid Milk
- Feeding or Others

- ▶ Continue to implement long-term sales strategy with Mengniu
- ▶ Proactively expand third-party sales and establish core customer base



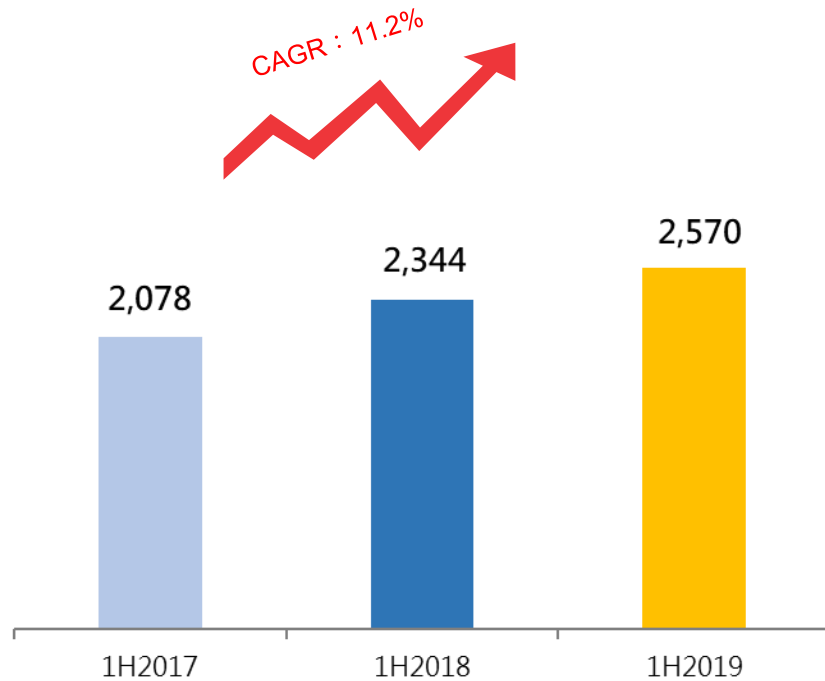


# Stable Increase of Sales & Gross Profit



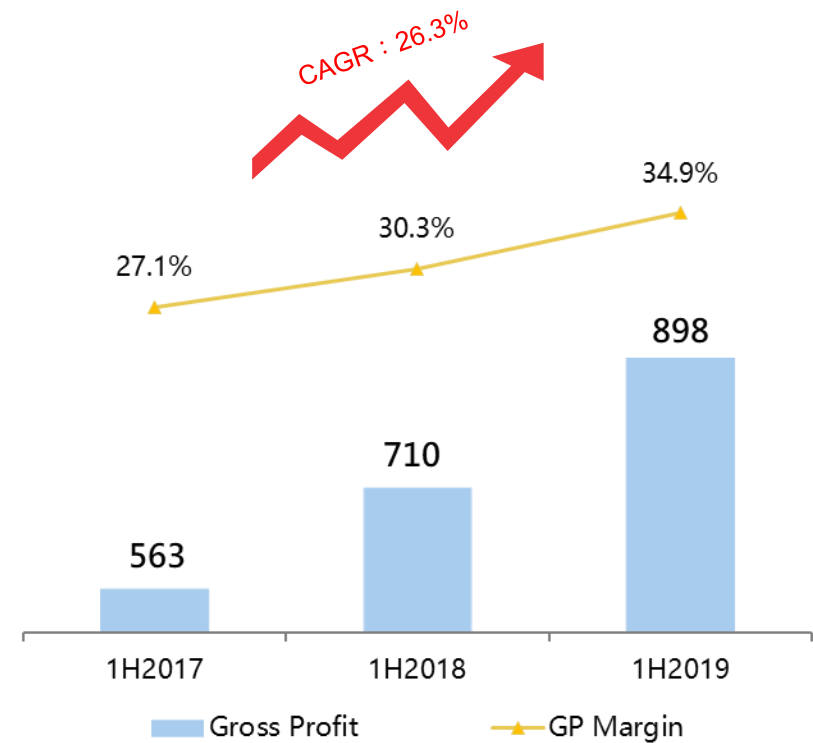
## Raw Milk Sales <sup>(1)</sup>

( RMB Million )



## Raw Milk Gross Profit & GP Margin <sup>(2)</sup>

( RMB Million )



Note: (1) Sales includes external sales and sales to branded liquid milk;  
(2) Before raw milk fair value adjustments & elimination of sales and costs of internal supply of raw milk.



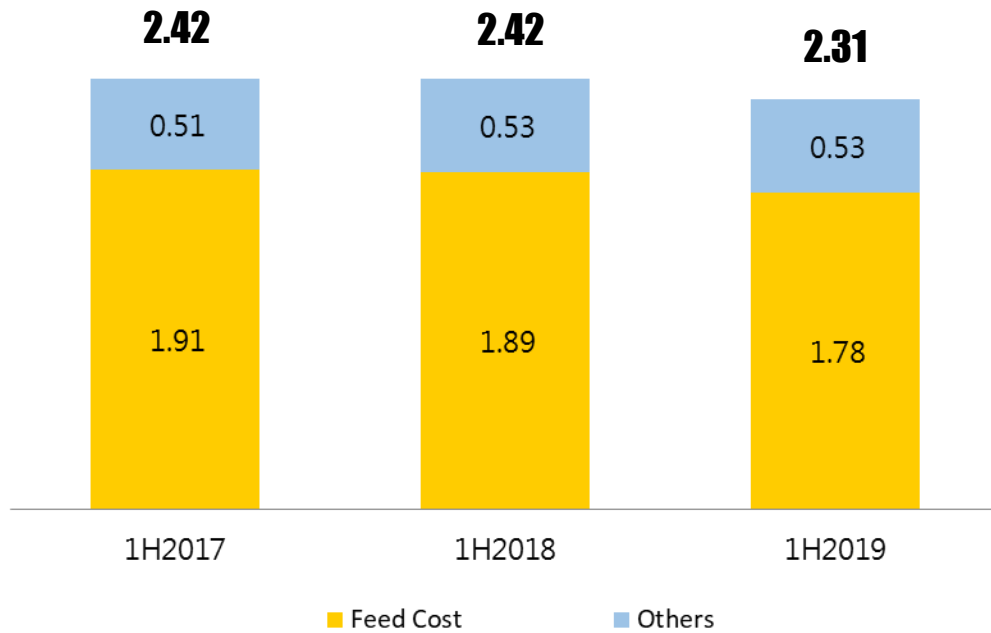


# Efficient Control on Cash Cost

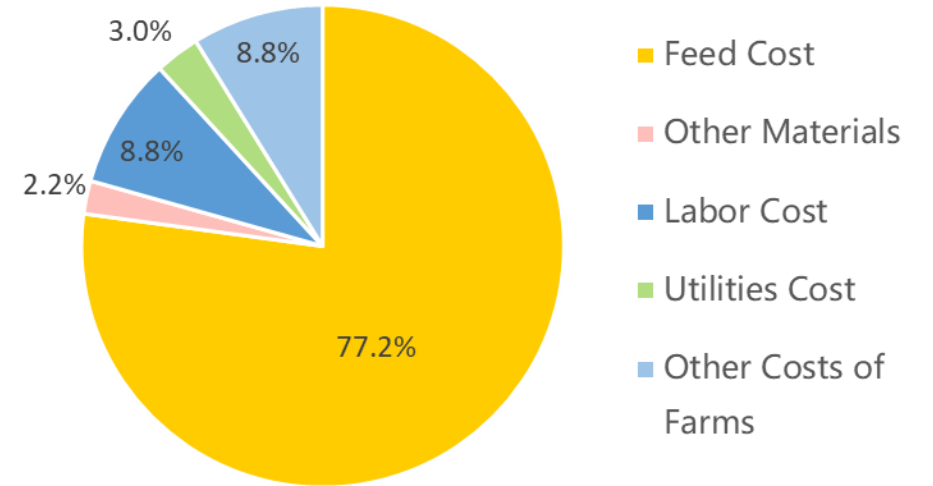


## Cash Cost

(RMB/kg)



## Breakdown of Cost



By improving health, unit yield and use of silage, the cash cost of milk fell to **RMB 2.31/kg**, reaching a record low.





# Balance Sheet Overview

RMB Million	As at 2019 ( 30 June 2019 )	As at 2018 ( 31 Dec 2018 )	Changes
<b>Biological Assets</b>	7,651	7,717	-0.9%
<b>Fixed Assets</b>	3,721	3,921	-5.1%
<b>Total Assets</b>	15,474	15,946	-3.0%
<b>Total Liabilities</b>	8,803	9,391	-6.3%
<b>Total Borrowings</b>	6,920	7,148	-3.2%
<b>Debt Ratio <sup>(1)</sup></b>	51.4%	52.6%	-1.2ppt



The reduction in interest-bearing debts is due to increment in free cash flow.

Note: Debt Ratio = interest-bearing debts / (interest-bearing debts + equity)



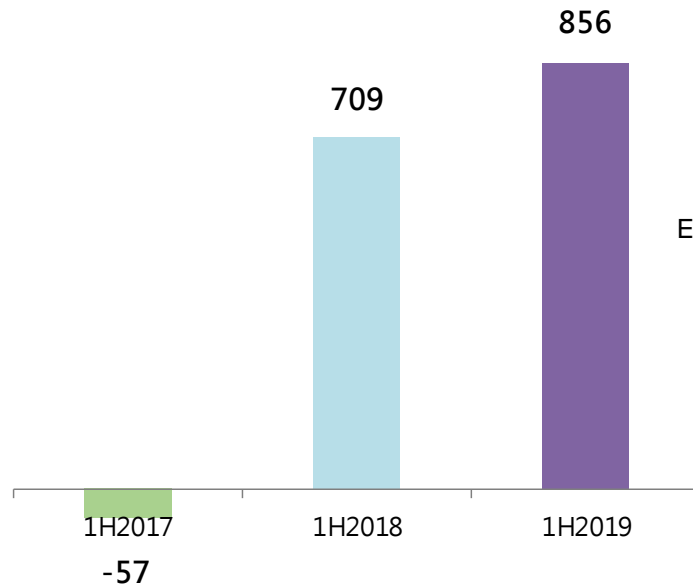


# Improving Cash Flow



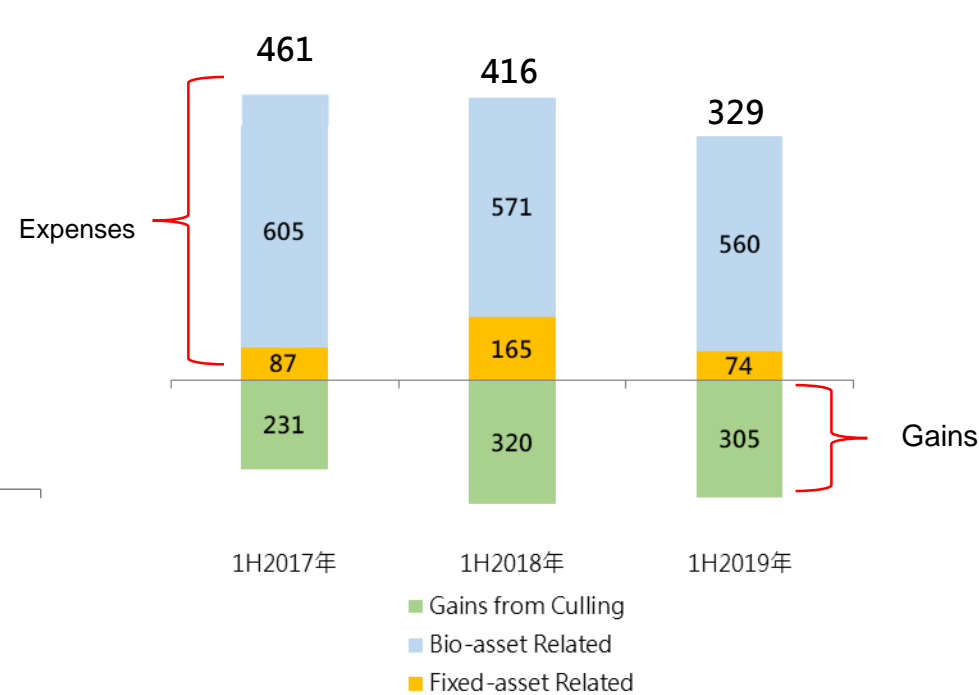
## Net Cash Inflow from Operating Activities

( RMB Million )



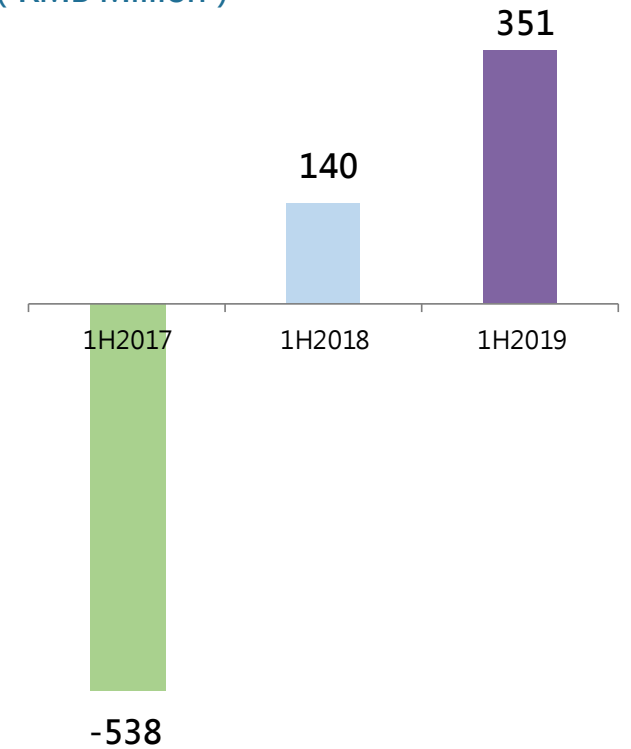
## Capex

( RMB Million )



## Free Cash Flow<sup>(1)</sup>

( RMB Million )



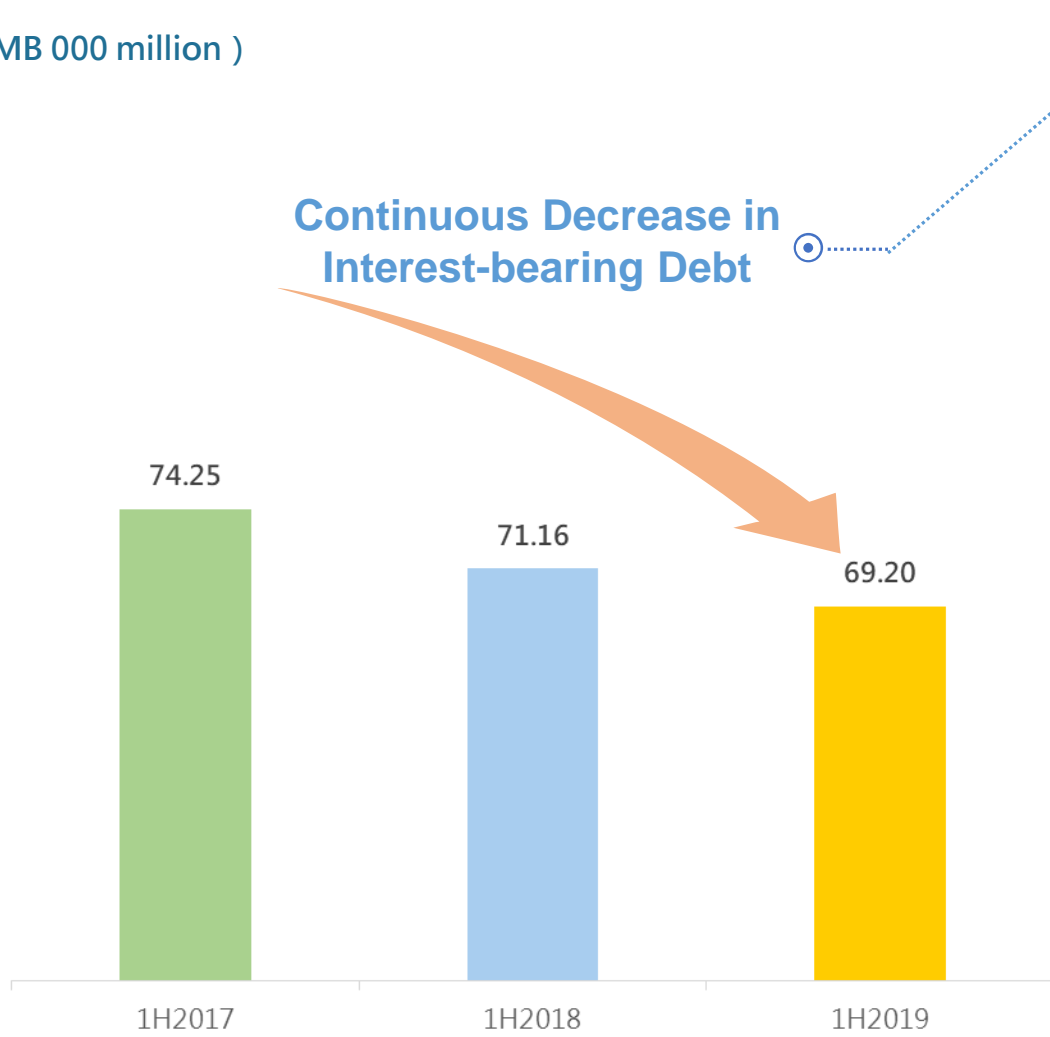
Note: (1) Free Cash Flow = Operating Cash Flow – Investing Cash Flow





# Continuous Decrease in Interest-bearing Debt

( RMB 000 million )



Continuous Decrease in Interest-bearing Debt

## Focus on Dairy Farming and Enhance Operational Efficiency



Increase in ASP



Decrease in Cash Cost



Disposal of Non-core Assets



Sale of Collateral Shares & Placing





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Business Updates

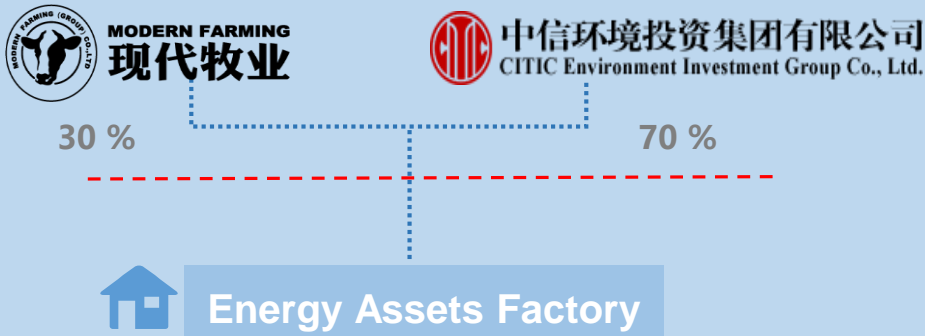
PART 02





# Cooperation with CITIC & New Hope Dairy

## Cooperation with CITIC



- May 5, CITIC Environment initially entered into Hefei and Bengbu Farms;
- July 1, Hefei and Bengbu Farms completed the spin-off of energy assets factory and personnel;
- August 23, JV agreement on Energy Assets Factory were officially concluded.

## Cooperation with New Hope Dairy



 **Shareholding**

New Hope will hold 9.28% of CMD, approximately 595 million shares.

 **Synergy on Raw Milk Supply**

From January 2020, CMD will supply raw milk to New Hope Dairy with percentage similar to its shareholdings.

 **Decrease Financial Leverage**

Further lower financial leverage and obtain cash flow of approximately RMB 709 million yuan.

 **Client Base**

Establish more reliable client base for company's raw milk sales.



# Upgrade on Procurement Strategy

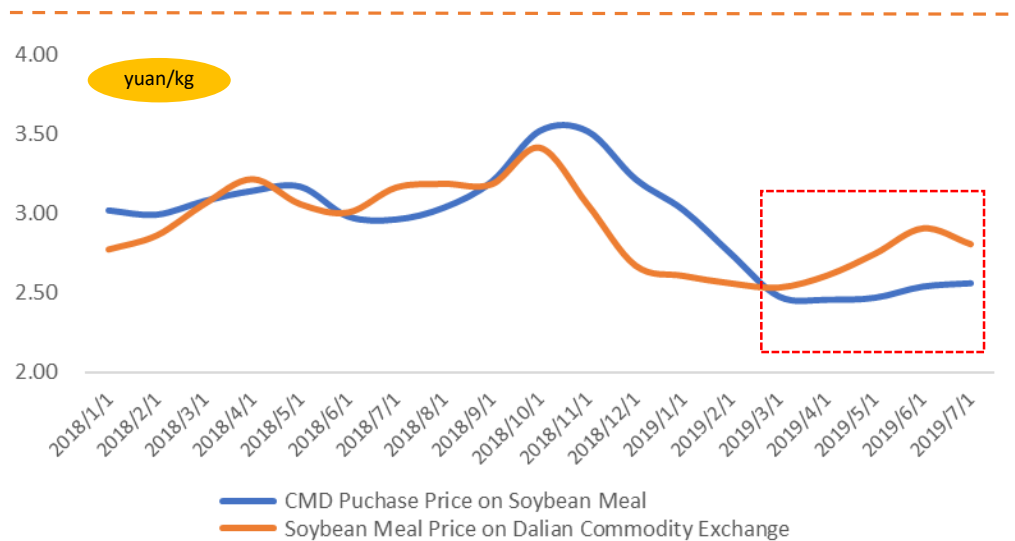
Increase Silage Consumption

**Quantity** Increase the purchase of silage to replace the roughage whose prices continue rising.

**Quality** Improve silage quality standards and implement the “3366018” evaluation system.

**Amount** The usage of silage increased by **4.6 kg** YoY per milkable cow.

Implement new procurement strategy



- ▶ Direct purchase from oil plants, minimizing intermediate parties and procurement costs
- ▶ Price locked to reduce market volatility



## Launch of Aiyangniu Procurement Platform

### July: Negotiation on Frozen Sperm & Hoof Bath

Negotiation on frozen sperm, hoof bath, silage film and oxygen insulation film.

### June: Product Selection

Renew contract if the original product enjoys lowest price;

Online procurement if online purchasing price is lowered;

Update directory after product selection.

### May: Launch

Based on of the negotiation results to launch products on the platform.

Products launched if price declined  $\geq 3\%$ ;

Upgrade negotiations if price decline  $< 3\%$ ;

Products not launched if price not adjusted



### April: Negotiation

Negotiations on procurement of feeds, veterinary drugs, detergent, medical baths and vaccines, etc.



# Information Management System

## Yimu Cloud Farm Production Management System

- Information center of Farm;
- Efficient production data sharing system ;
- Efficient integrated and systematic management system for production departments;
- Launched farms: 7

## Precision Feeding Management System

- Cow's gold medal chef;
- Maximize conversion and utilization rate for feeds;
- Feed ingredients processing → mixing → feeding;
- Launched farms: 13



## Goods Management System

- One truck one code for tracing;
- Timing monitoring from entry to exit;
- Improve efficiency of receiving goods ;
- Launched farms : 8





# Branded Milk: Producing High Quality Pasture Milk for 15 years

Leveraged with Mengniu's marketing and channel advantages, our branded milk was re-launched with the positioning of “15 years of insisting on only producing pasture milk” and new packaging. Now we focus on 3<sup>rd</sup> & 4<sup>th</sup> -tier cities, integrating online and offline sales to build China's No.1 mid-high-end brand. It is expected to become a new growth engine.



## Gold Award - Pure Milk

Self-owned farm and golden quality. High quality milk from high quality farm

## Gold Quality Pasture Milk - High Calcium Milk

Improve health from pasture milk

## Premium - Pure Milk

Building brand competitiveness based on international golden awards and aerospace quality

## Walnut milk

Launched in July 2019





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PART 03



Industry Overview

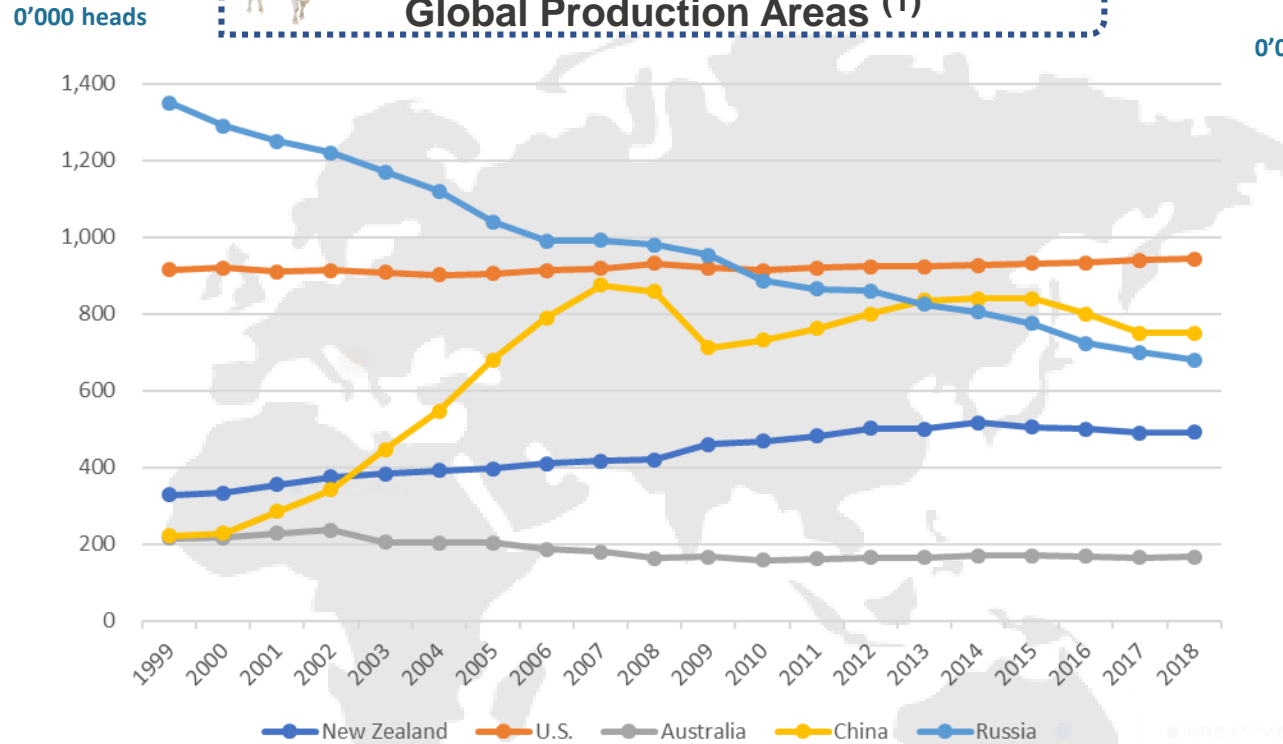




# Global Dairy Data Overview



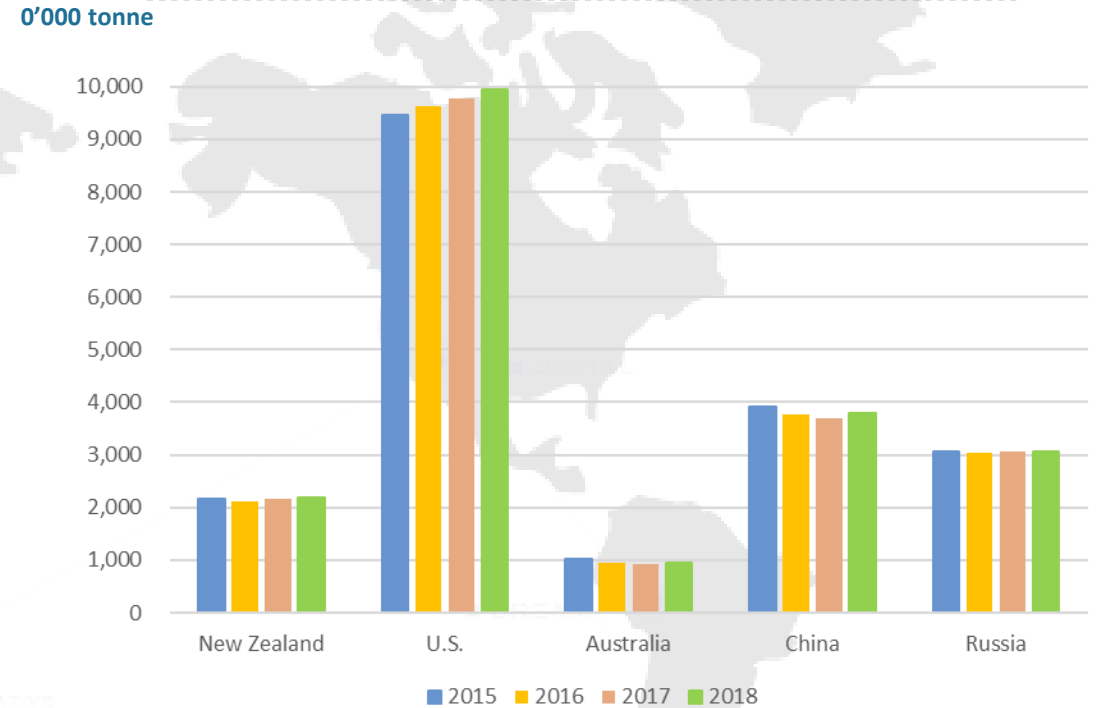
**Number of Dairy Cows in Main Global Production Areas (1)**



□ The herd size in global major production areas is stable, but witnesses a decline in China since 2015.



**Stable Raw Milk Production Volume in Main Areas(2)**

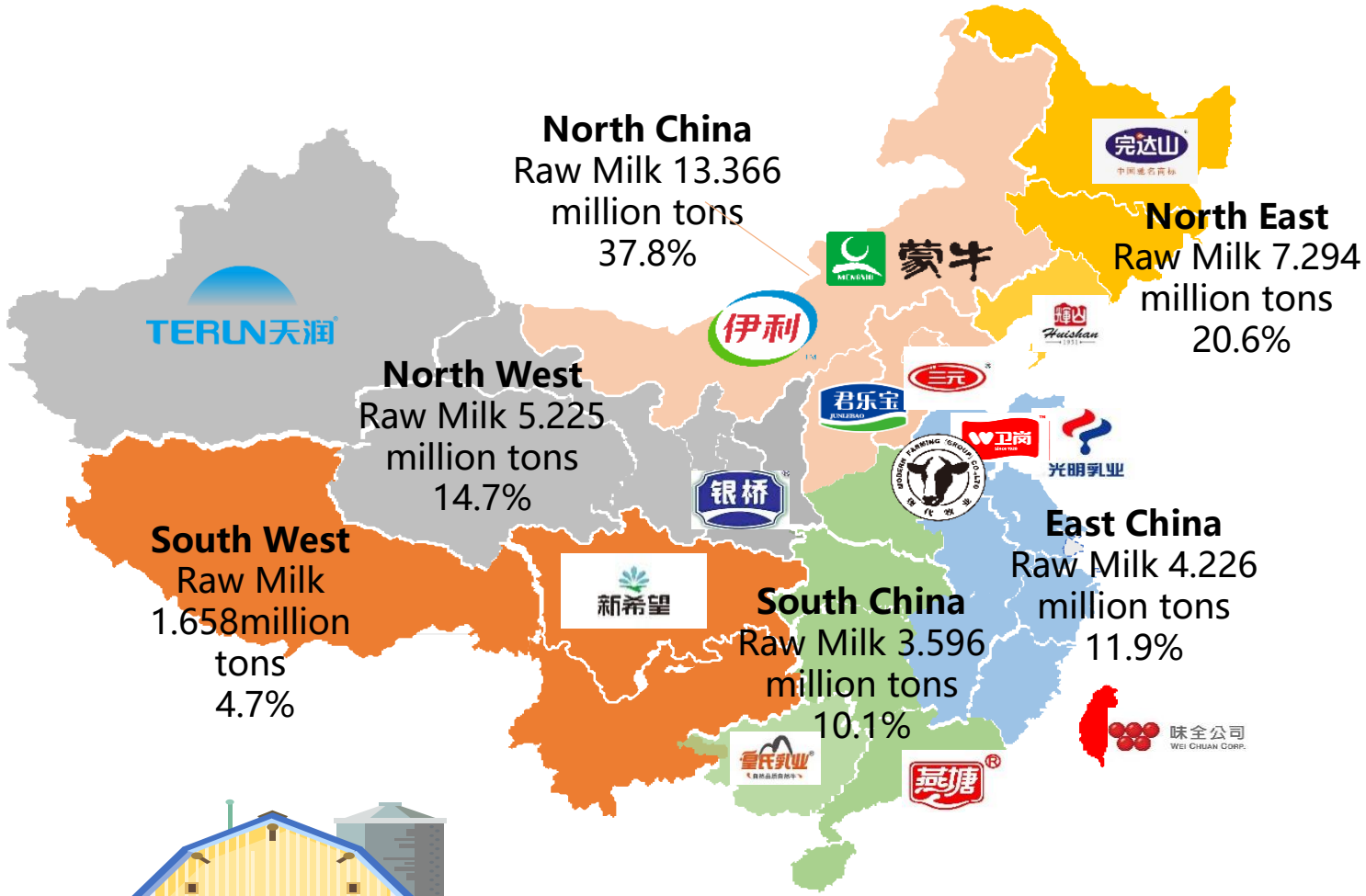


Source : ( 1 ) United States Department of Agriculture ( 2 ) CLAL





# Domestic Dairy Industry Overview



## Significant Imbalance of Raw Milk between North and South

- The northern region accounts for 70% of domestic raw milk production, but 70% of domestic raw milk consumption is in the Southern.
- Our farms locate half in the north and half in the south. The reasonable geographical locations of farms ensures us enjoy the suitable breeding environment in the north and the nearby southern market, providing a stable client base.



**Domestic Raw Milk Production Areas & Layout of Large-scale Downstream Enterprises\***

\*Source: Holstein magazine and public information

This map is for reference only and does not represent the actual territory of China.

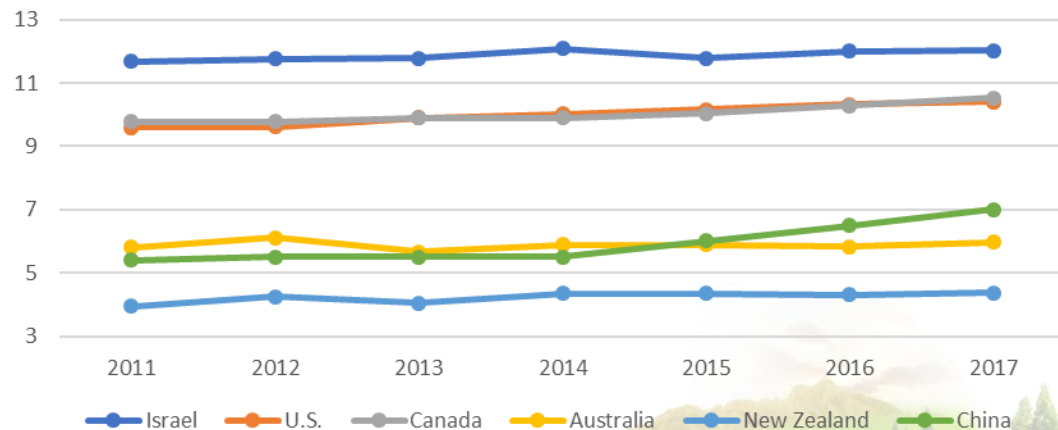




# Domestic Dairy Industry Overview

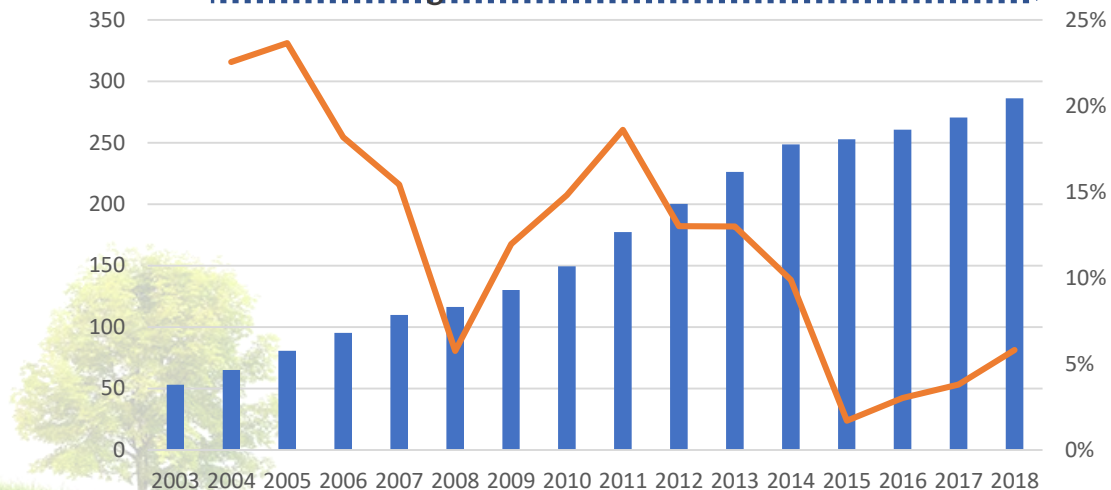
Ton /year

High Potential for Domestic Yield Increase (1)

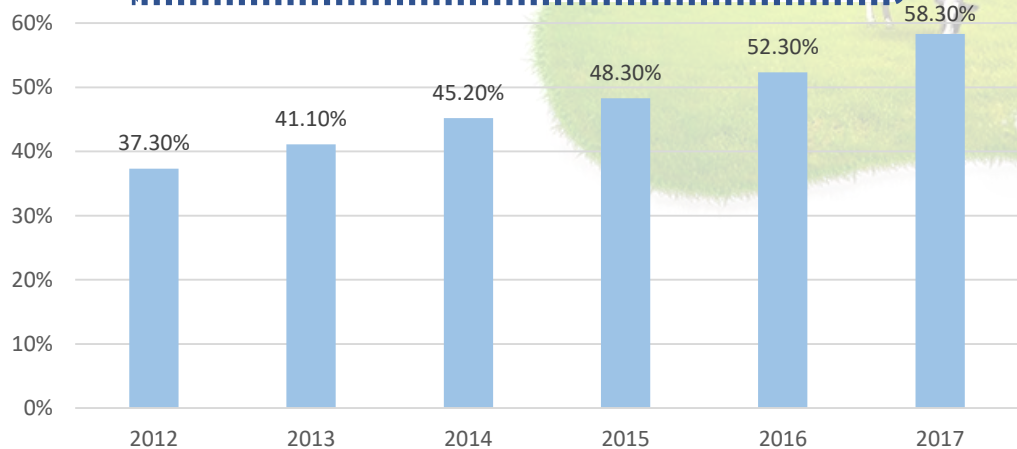


yuan/capita

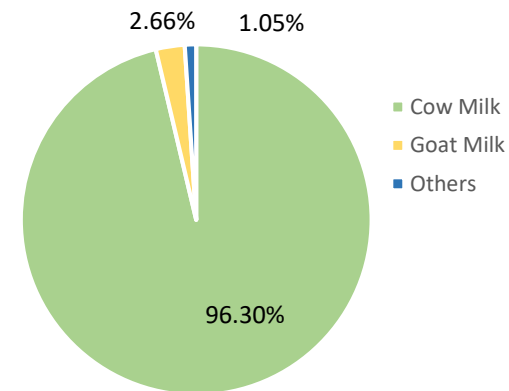
China's dairy products per capita consumption growth rate rebound (2)



Increase Percentage of Scaled Farms (3)



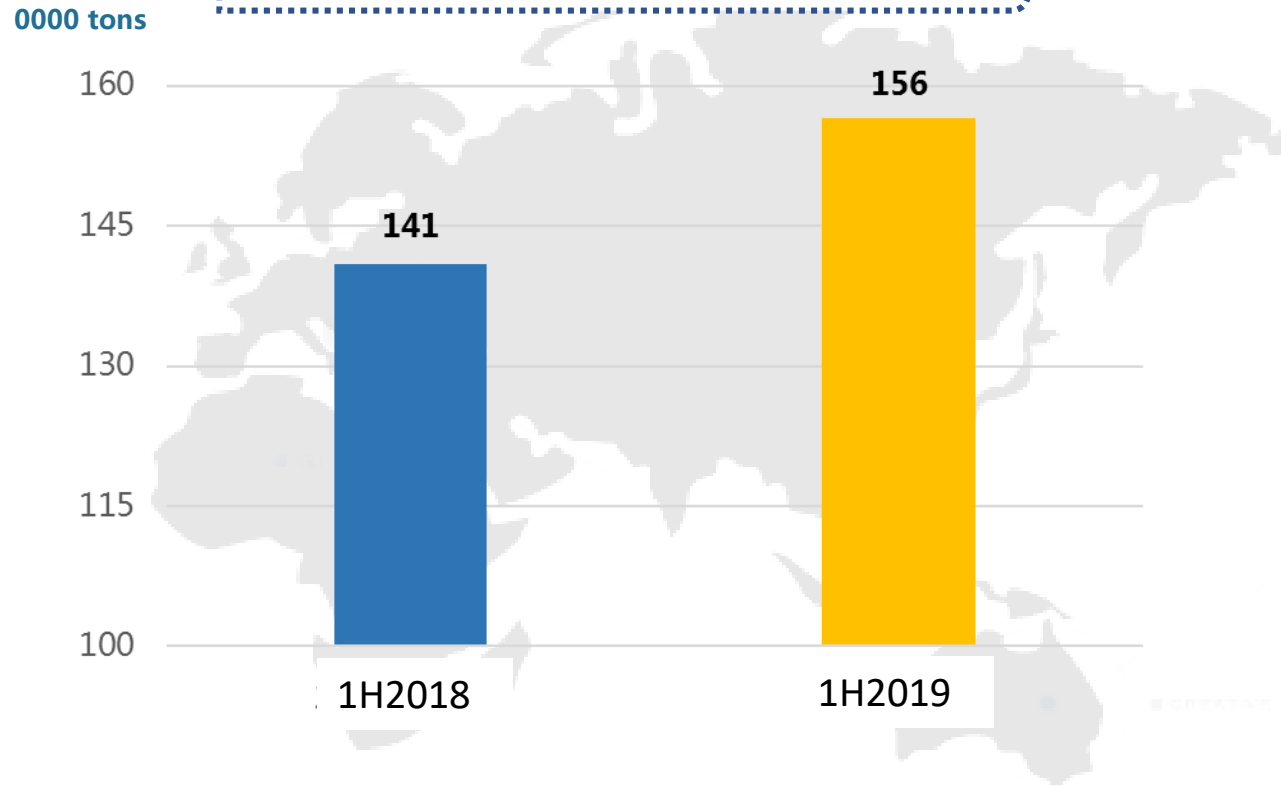
Domestic Raw Milk Structure (1)



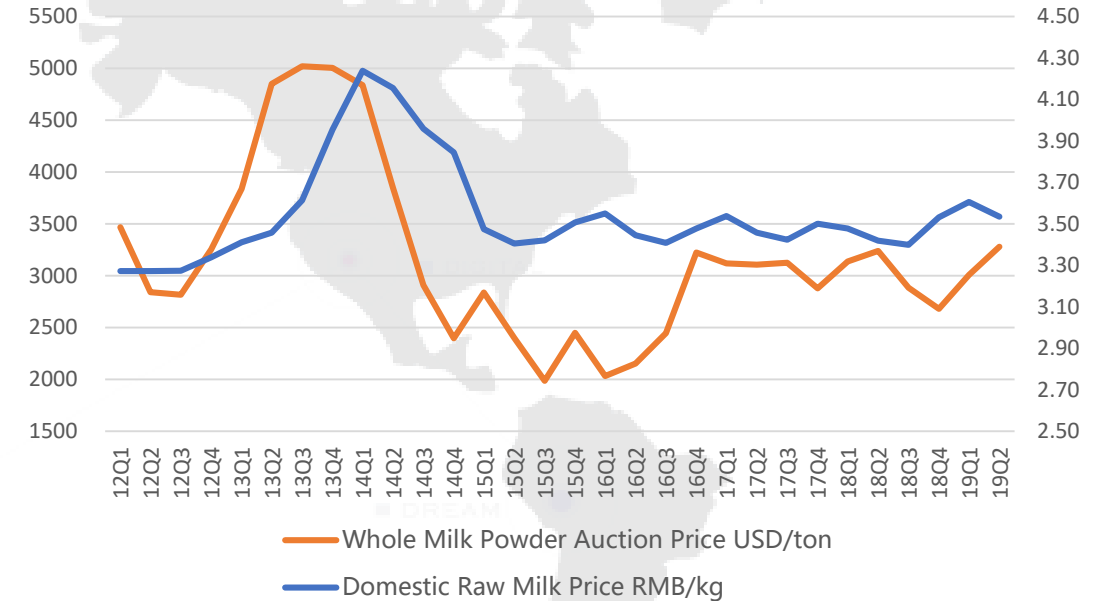


# Domestic & International Raw Milk Price

China's Dairy Imports in 1H 2019



Domestic & International Raw Milk Price <sup>(2)</sup>



Source : ( 1 ) China Custom ( 2 ) CLAL & Department of Agriculture



— Whole Milk Powder Auction Price  
 — Domestic Raw Milk Price



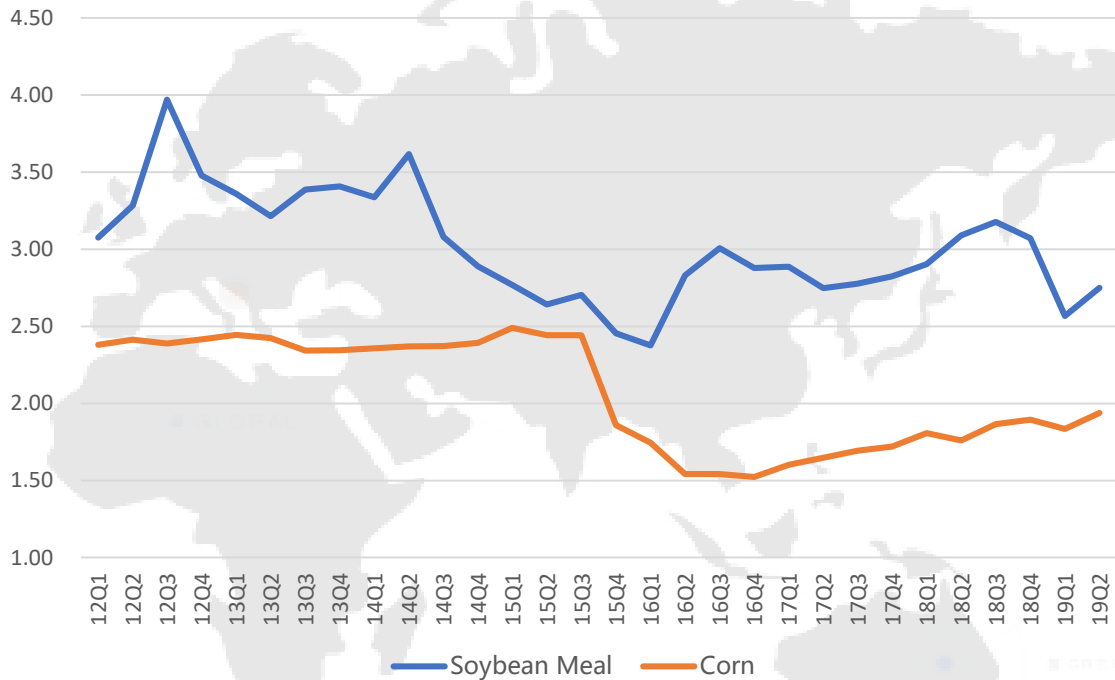




# Feed Cost

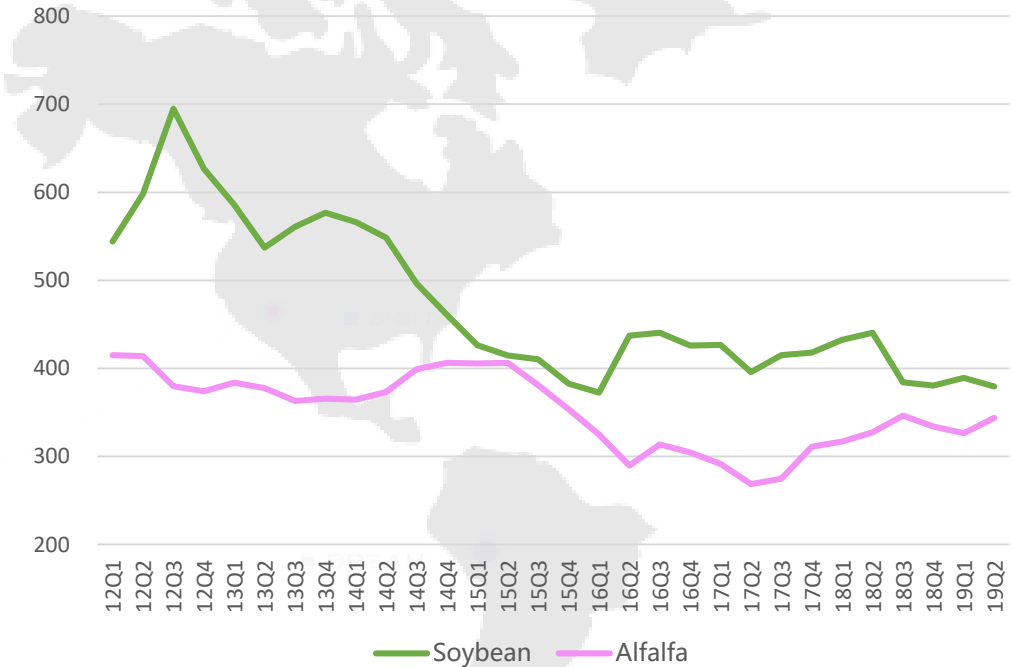
Domestic corn prices stable, soybean meal prices slightly rebound (1)

RMB/kg

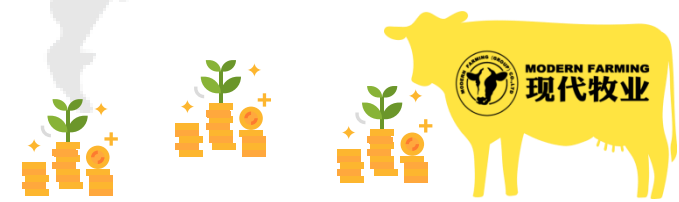


Imported soybean prices fell, and alfalfa prices rose(2)

USD/ton



Source : ( 1 ) Dalian Commodity Exchange ( 2 ) China Custom





# The Revitalization Policies of Dairy Industry

Seven ministries and commissions jointly issued the “Domestic Infant Formula Milk Powder Enhancement Action Plan” to promote the production of domestic infant formula milk powder and improve the self-sufficiency level.

The Ministry of Agriculture and Rural Affairs and the Ministry of Finance promulgated the policy to revitalize agriculture , supporting the construction of high-quality farms and to implement the revitalization of the dairy industry.

The revitalization of dairy industry is listed as one of the 10 key targets in the No. 1 Central document in 2019.

Premier Li Keqiang organized the State Council Executive Meeting to discuss the rejuvenation of dairy industry.

The first draft of the new national standard was released for public comments. It emphasizes on the grading system of raw milk, specification of processing technology, and labeling of dairy products.

2018.2

2018.5

2019.2

2019.4

2019.6



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