



连续七年荣获世界食品品质评鉴大会

— 金奖 —



China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code 股份代號：1117

2020
Annual Results
Announcement



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01

Financial Results

2020 Annual Results Review



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RMB Million	2020	2019	Change
Revenue	6,020	5,514	9%
Cost of Sales	3,561	3,412	4%
Gross Profit Margin (%)	40.8	38.1	+2.7ppt
Cash EBITDA⁽¹⁾	2,265	2,045	11%
Cash EBITDA Margin (%)	37.6	37.1	+0.5ppt
Net Profit	784	350	124%
Including: One-off Gains	72	161	-55%
Core Net Profit	712	189	277%
Earnings /(loss) per share (cents)	12.07	5.54	118%
Free Cash Flow⁽²⁾	1,173	1,023	15%
Including: One-off Items ⁽³⁾	98	380	-74%
Core Free Cash Flow	1,075	643	67%

**Core Net Profit
YoY Growth
277%**

**EPS
YoY Growth
118%**

**Core FCFF
YoY Growth
67%**

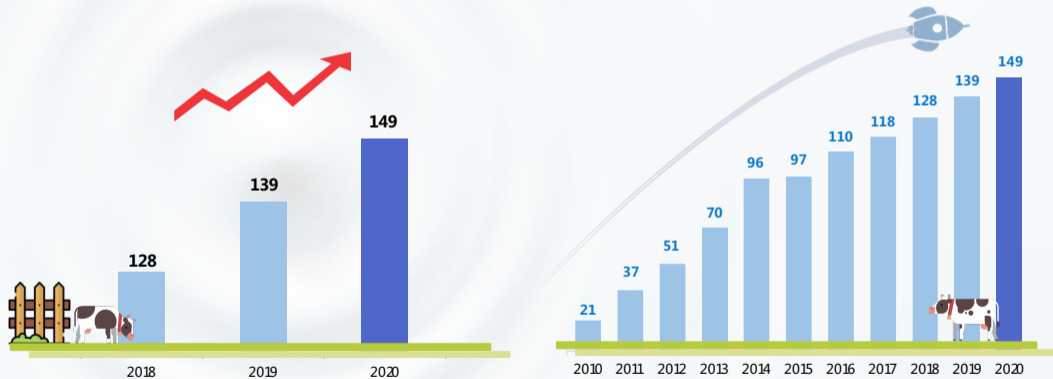
(1) Cash EBITDA is defined as profit/(loss) before finance costs and tax having added back: i) depreciation for property, plant and equipment and right-of-use assets charged to profit or loss, ii) amortization, iii) impairment losses, net of reversal, iv) other gains and losses, net, v) loss arising from changes in fair value less costs to sell of dairy cows.

(2) Free Cash Flow = net cash from operating activities - net cash used in investing activities.

(3) one-off reversal of impairment recognized in respect of trade receivables of approximately RMB380 million for 2019; one-off disposal gain of approximately RMB98 million resulting from the Company's injection of energy-producing assets into a joint venture for 2020

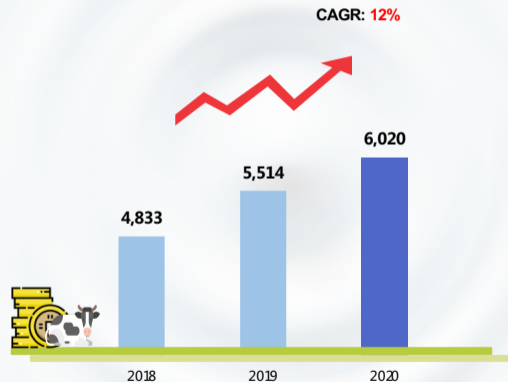
Steady Increase of Production Volume

 **Production Volume (0'000 tons)**

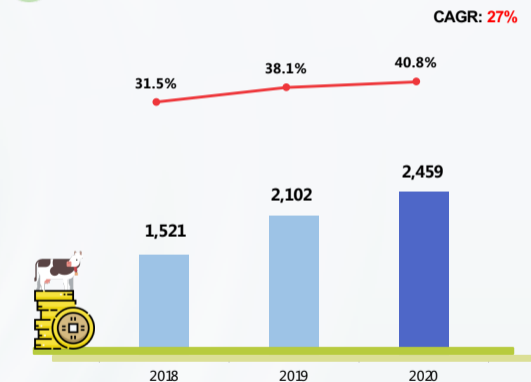


Steady Increase of Sales and Gross Profit

Raw Milk Sales⁽¹⁾ (Million)



Raw Milk GP (Million) & GP Margin⁽²⁾ (%)



Note: (1) Sales includes external sales and sales to the associated companies with Mengniu;
(2) Before raw milk fair value adjustments & elimination of sales and costs of internal supply of raw milk.

ASP & Sales Volume Breakdown



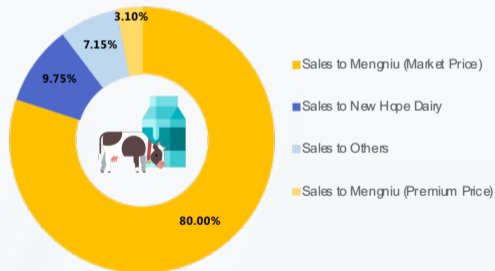
External ASP (yuan/kg)



- ▶ Domestic raw milk price kept rising even though it was affected by the COVID-19 during the Reporting Period.



Sales Volume Breakdown



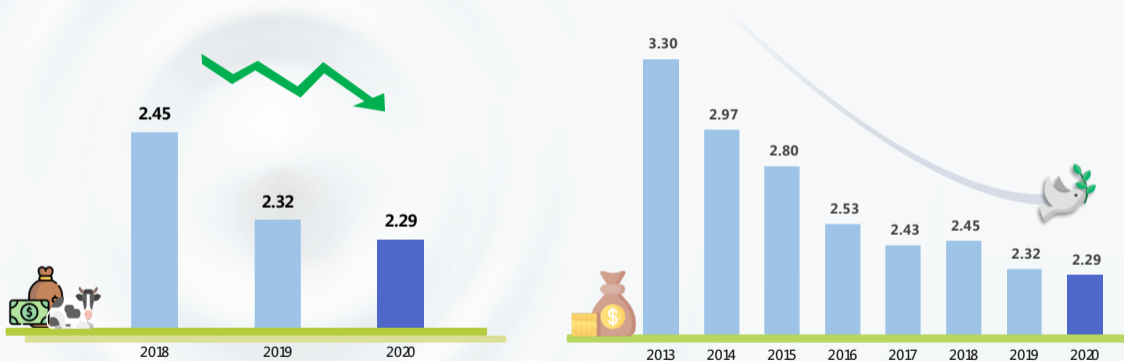
- ▶ Continue to implement long-term sales strategy with Mengniu and New Hope Dairy;
- ▶ Proactively expand third-party sales and establish core customer base.



Continuous Decrease of Cash Cost



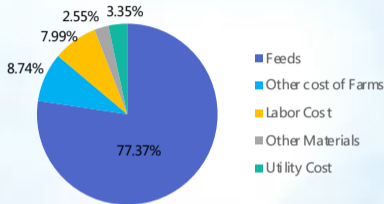
Cash Cost (yuan/kg)



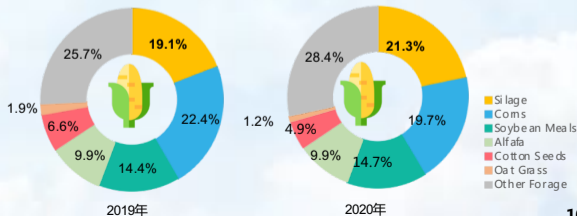
➢ By increasing health level, unit yield and the usage amount of silage, the cash cost of milk fell to **RMB 2.27/kg**, reaching a record low.

Cash Cost Breakdown

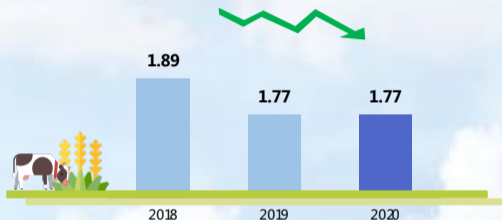
Cash Cost Breakdown



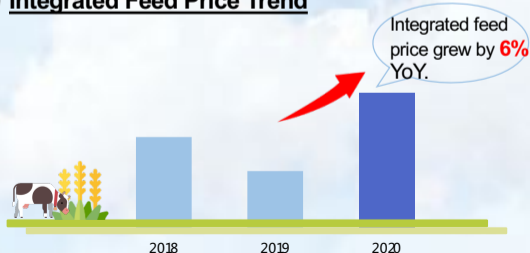
Cost Proportion of Main Forage



Feed Cost (yuan/kg)



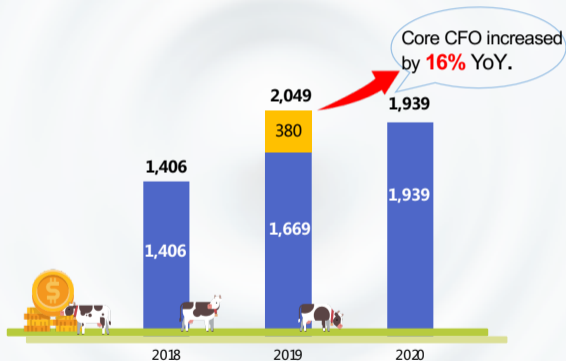
Integrated Feed Price Trend



Continuous Increase of Core Cash Flow



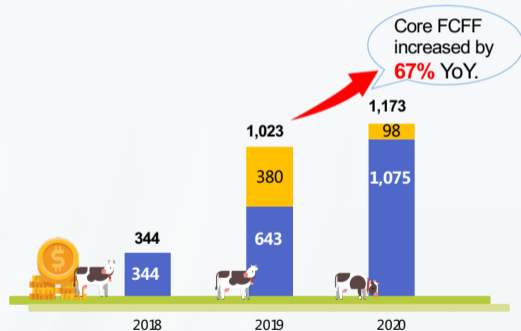
Cash flow from operating activities (Million)



- One-off reversal of impairment recognized in respect of trade receivables of approximately RMB380 million for 2019. Excluding the above abovementioned one-off reversal, core CFO increased by 16% YoY for 2020.



Free Cash Flow (Million)



- One-off reversal of impairment recognized in respect of trade receivables of approximately RMB380 million for 2019; one-off disposal gain of approximately RMB98 million resulting from the Company's injection of energy-producing assets into a joint venture for 2020. Excluding the above abovementioned one-off items, core FCFF increased by 67% YoY for 2020.

Balance Sheet Overview



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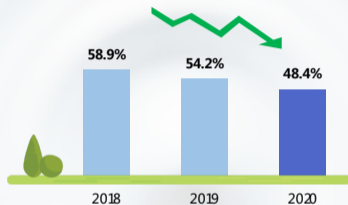
RMB: Million	2020	2019	Change
Biological Assets	7,101	7,459	-4.8%
Fixed Assets	3,318	3,455	-4.0%
Total Assets	15,568	15,724	-1.0%
Total Liabilities	7,530	8,516	-11.6%
Total Equity	8,038	7,208	+11.5%
Net Asset Value per Share ⁽¹⁾ (RMB)	1.22	1.11	+9.9%
Total Interest-bearing Borrowings	5,642	6,590	-14.4%
Interest-bearing Debt Ratio ⁽²⁾ (%)	41.2	47.8	-6.6ppt
Debt-to-asset Ratio⁽³⁾ (%)	48.4	54.2	-5.8ppt

Notes: (1) Net Asset Value per Share = Equity attributable to owners of the Company/ Year-end Number of Shares Outstanding;
(2) Interest-bearing Debt Ratio = Interest-bearing Debts/ (Interest-bearing Debts + Equity)
(3) Debt-to-asset Ratio = Total liabilities/Total Assets.

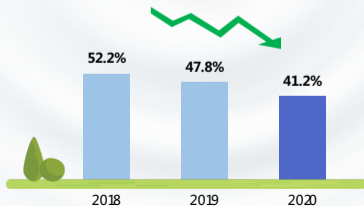


Continuous Decrease in Interest-bearing Debts

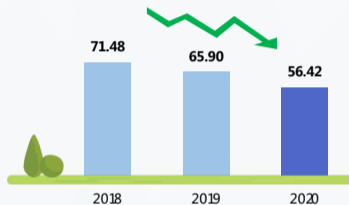
 **Debt-to-asset Ratio (%)**




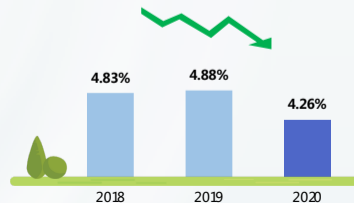
 **Interest-bearing Debt Ratio (%)**



 **Interest-bearing Debts (00 Million)**



 **Finance Rate (%)**

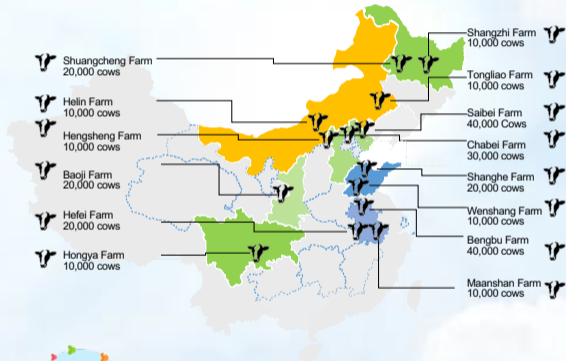




02

Business Updates

Increase in Herd Size & Dairy Cow Number

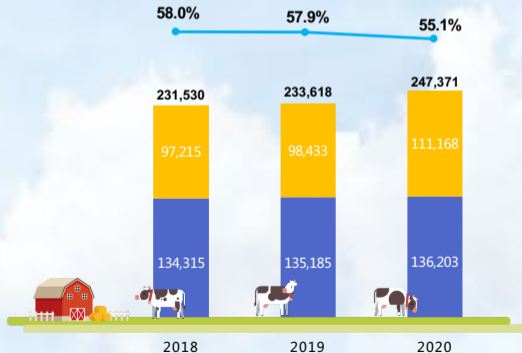


The Company has 26 farms with scale of about 10,000 cows each, located in 7 provinces, evenly distributed in the South and North of China.



Herd Size & Proportion of Milkable Cows

■ Heifers & Calves
 ■ Milkable Cows
 —●— Milkable Cow Proportion



Unit Yield of Milkable Cows Reached a Record High



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Ton/head/year



- ✓ Improve Health
- ✓ Improve Comfort
- ✓ Optimize Cow Genes
- ✓ Alleviate Heat Stress



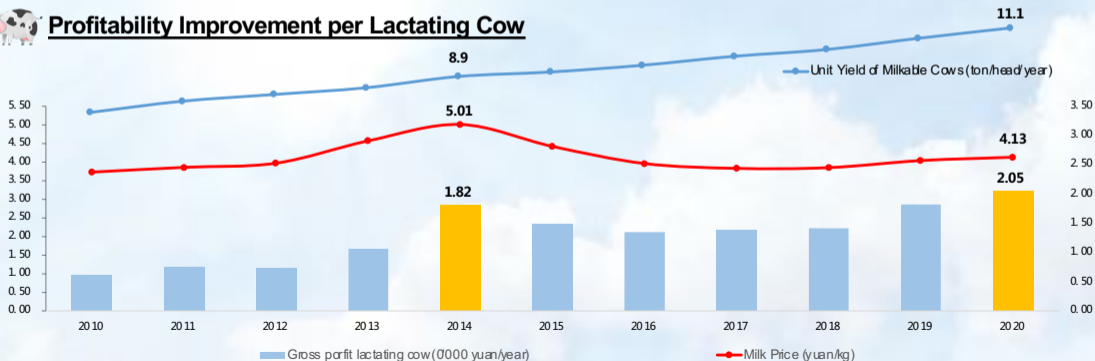
Significant Improvement in Internal Efficiency

Milk price is an important external factor for the profitability, but the Company focuses on improving internal efficiency brought by production increment and cost control. **Internal Efficiency** is the core competitiveness.

- **Gross Profit per Lactating Cow:** the GP/lactating cow for 2020 is 20.5 thousand yuan/year, exceeding that for 2014 when the milk price was high. The profitability of per lactating cow was significantly improved;
- **Unit Yield of Milkable Cows:** It increased from 7.3 tons for 2010 to 11.1 tons for 2020, reaching a record high.



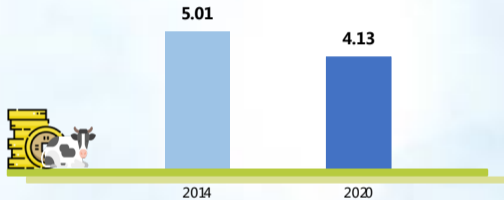
Profitability Improvement per Lactating Cow



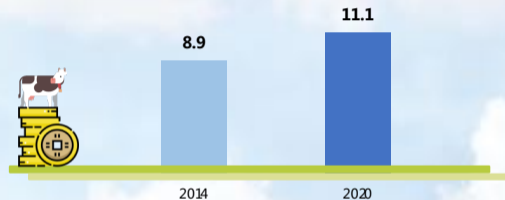
Go Beyond Historical Performance (Compared with 2014)



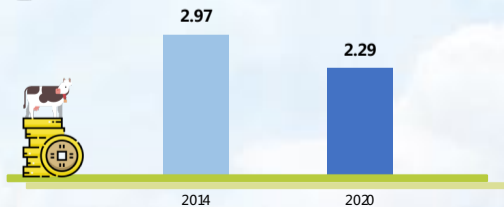
External ASP (yuan/kg)



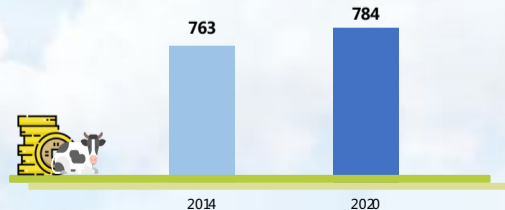
Unit Yield of Milkable Cows (ton/head/year)



Cash Cost (yuan/kg)



Net Profit (million)



Branded Milk: Good Milk from Good Cows



Issued New Brand Positioning: Good Milk from Good Cows

Deploy products using Holstein-Juanshan-A2 as the segment



Brand Positioning: Deploy the entire product line based on the philosophy of “**Good Milk from Good Cows**”.



Performance Growth: Sales of the associates grew by almost **10% YoY to 1.119 billion**.

Full Product Mix Development: sales of the three major products contributed over **70%**; sales of the functional product, high-calcium milk, increased by **43% YoY**; monthly sales of new skimmed milk increased by nearly **10 million**.



Client Cultivation: the number of franchise partners and sales they brought accounted for over **60%**.

Channel Expansion: **236** new branded milk customers; **31,000** new outlets.

Driven Model: Rapid duplication of four major business models, driving fast business growth.



03

Strategic Planning

Strategic Planning: Five-year Leading Plan



In December 2020, the company issued a **Five-year Leading Plan** that the herd size and production volume reach **500,000** heads and **3.6 million tons** respectively, both doubled by 2025.

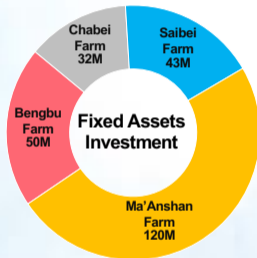
- Make full use of old pasture resources to reach full population;
- Start the new ranch construction project at proper time;
- Obtain fund guarantee through multiple financing methods.

- Formulate long-term breeding plan for the next 5-10 years
- Gradually carry out embryo transfer
- Build an embryo production lab to output high-quality embryos



- Actively seek acquisition opportunity of high-quality pastures;
- Through acquisition, equity participation, cooperative construction and other forms
- Give full play to its leading position to conduct industrial consolidation
- Grasp industrial dividend to explore the huge beef consumption potential
- Enrich resources of high-quality cattle to enjoy the scale benefits
- Rely on the resources of the dairy industry to increase the scale of beef cattle

Existing Farms



- Saibei Farm: Under construction, expected to complete by the end of June
- Chabei Farm: Under construction, expected to complete by the end of September
- Bengbu Farm: Under construction, expected to complete by the end of June
- Ma'Anshan Farm: Pre-construction procedures are underway; expected to start construction by the end of April 2021

New Farms

Two New Farms in Tongliao

- Herd Size: 10,000 heads
- Estimated total investment: RMB543 million
- Milk Output Per Year: 75,000 tons
- Progress: signed the investment agreement with the government; ready for construction by April 2021; expected to start construction in May; expected to introduce cows into the farm for Phase I project by the end of this year.

Baoji Phase II Project

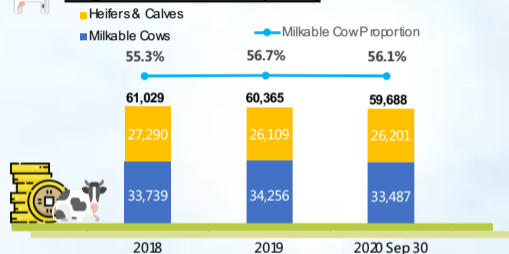
- Herd Size: 5,000 heads
- Estimated total investment: RMB240 million
- Milk Output Per Year: 37,000 tons
- Progress : Under construction, expected to complete by the end of July

Exogenous Growth: Acquisition of Fuyuan

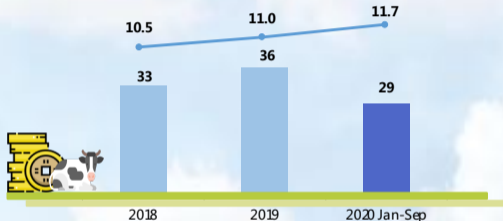
➤ 22 Mar 2021, the Company issued the announcement to acquire the entire equity interests of Fuyuan.



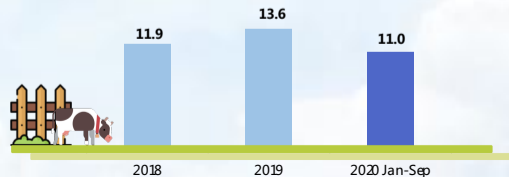
Fuyuan Herd Size (head)



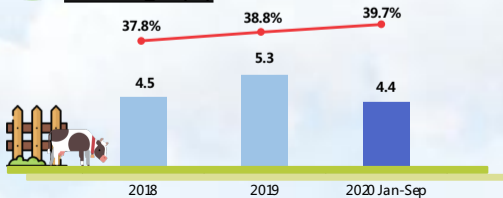
Fuyuan Production Volume (0'000 tons) & Unit Yield of Milkable Cows (ton/head/year)



Fuyuan Raw Milk Sales (00 million)



Fuyuan Raw Milk GP (00 Million) & GP Margin (%)



Exogenous Growth: Improve Layout and Efficiency



Strengthening Industry Leading Position

- The acquisition of Fuyuan International will help further improve the Group's farm layout across the country. Upon the completion of the acquisition, the Group's herd size is expected to exceed **310,000 heads** and the annual milk production is expected to reach **2 million tons**, further strengthening the Group's positioning in dairy farming industry.



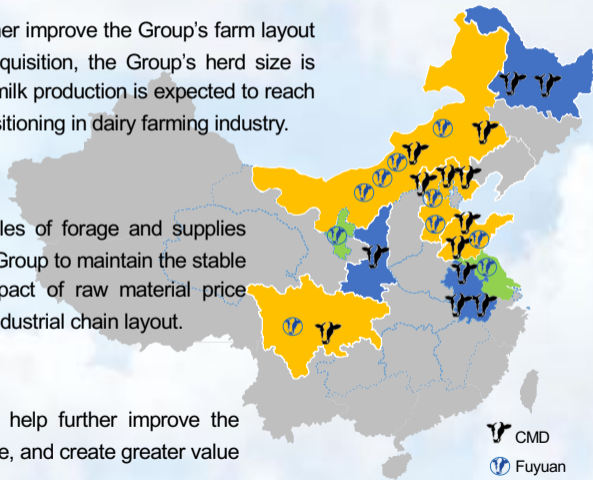
Expand the industrial chain layout

- Fuyuan International manages the planting and sales of forage and supplies high-quality forage. The acquisition is helpful for the Group to maintain the stable supply of the upstream forage, to reduce the impact of raw material price fluctuations on financial results, and to improve the industrial chain layout.



Improve Financial Performance

- The good profitability of Fuyuan International will help further improve the profitability of the Group, increase earnings per share, and create greater value for shareholders.





04

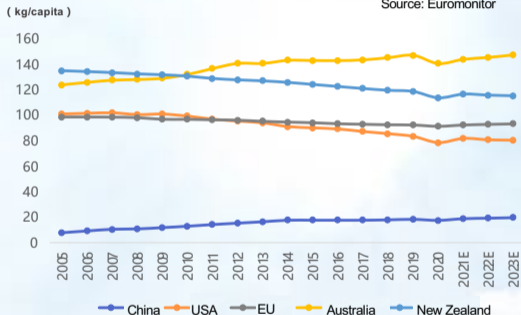
Industry Overview

Analysis of Global and Domestic Dairy Industry



Global Milk Consumption per Capita in Main Producing Areas

Source: Euromonitor

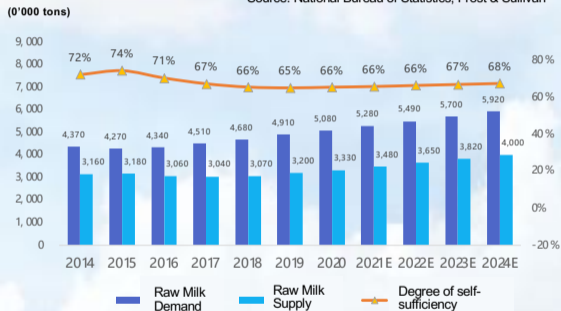


- Although China's milk consumption is increasing year by year, it still lags far behind developed countries.



Raw Milk Supply and Demand

Source: National Bureau of Statistics, Frost & Sullivan



- In 2014-2019, the demand of raw milk in China grew at the CAGR of 2.4%. However, the supply of raw milk in China only grew at the CAGR of 0.3%.
- In 2019-2024, the CAGR for the demand of raw milk in China is estimated to be 3.8%, and its CAGR for the supply of raw milk in China is estimated to be 4.5%.
- The supply deficit of raw milk in China is estimated to be 19.2 million tons in 2024



Analysis of Global and Domestic Dairy Industry



Import Volume of Milk Power & WMP Price

Source: China Customs



Domestic Milk Price

Source: Ministry of Agriculture



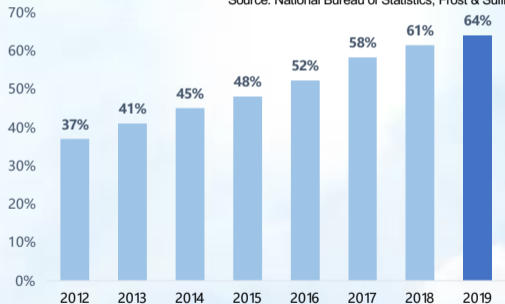
- The 1.12 million tons imported in 2019 basically reached the largest production capacity of foreign milk powder, and the import volume in 2020 remained at about 1 million tons.
- Since importers were more cautious in placing orders after the pandemic, the GDT price had been falling in 2020. However, the demand for raw milk has been strong and less milk has been converted to milk power domestically, so the milk power price has been pushed up since 2021.
- The cyclical upturn of raw milk started in the end of 2018 and the prices of raw milk gradually increased. In 2021, it is expected to exceed the previous all-time-high record from 2014





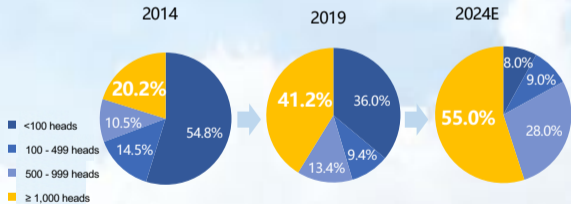
Proportion of Domestic Scaled Farms

Source: National Bureau of Statistics, Frost & Sullivan



The proportion of farms with herd size over 1,000 heads is increasing year by year

Source: National Bureau of Statistics, Frost & Sullivan



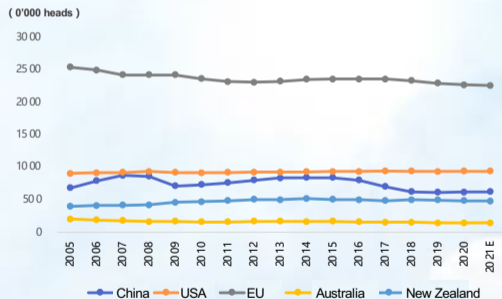
- The proportion of domestic scaled farms (farms with herd size over 100 heads each) improved from 37% in 2012 to 64% in 2019. The proportion of domestic scaled farms with herd size over 1,000 heads each is gradually increasing and is estimated to take up 55% of total herd size in China for 2024.





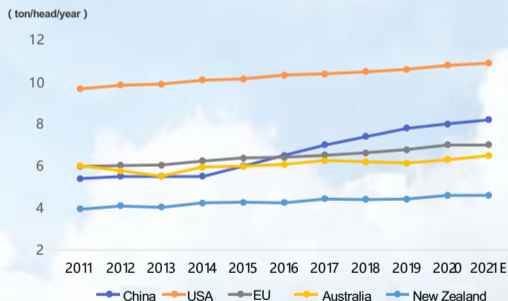
Herd Size in Main Producing Areas

Source: USDA



Unit Yield of Global and Domestic Dairy Cows

Source: USDA & Holstein Magazine



- Herd size in these various countries maintains stable. However, herd size in China has been decreasing since 2015. As the industry enters a cyclical upturn, herd size has been gradually increasing since 2020;
- Although the unit yield of dairy cows in various countries are increasing, the unit yield of dairy cows in China is increasing more significantly in recent years.

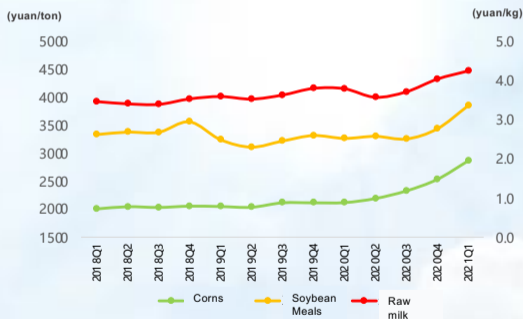


Feed Cost and Market Milk Price Trend

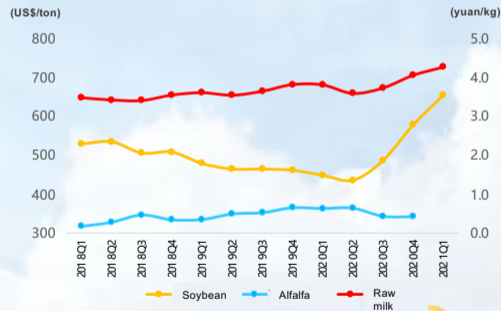


Domestic Corn & Soybean Meal Price

Source: Ministry of Agriculture



Imported Soybean & Alfalfa CIF Price (US\$/ton)



- In 2020, the prices of corn, soybean meal and soybeans all rose year-on-year, and soybeans even reached a record high; the price of alfalfa was relatively stable.
- Since 2021, the prices of corn, soybean meal, and soybean have continued to rise, and that of domestic fresh milk has also been on the rise.





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