

Dairy Products China News

Guaranteed Exclusive Analysis

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Welcome to the May issue of Dairy Products China News.

China's growing milk production continues to challenge the world's leading milk powder exporters such as New Zealand (which exported 32% of its WMP to China in 2022 – the market which accounted for almost half its export volume in 2021) and the US (whose historically modest WMP exports to China dropped off notably last year – whilst the SMP volume flatlined). New Zealand's zero-tariff quota this year is 197,498 tonnes, before a 10% tariff kicks in (its milk powders, as with the other main dairy products, will also become zero-tariff next year). Importers have not needed to buy to the same extent as before, so the first two key months of the year this time saw only 96,000 tonnes imported in round numbers (88,000 tonnes from New Zealand) compared to 300,000 tonnes in the same period in 2022 (284,000 tonnes from New Zealand).

It's not surprising – in Inner Mongolia alone, 2022 saw the establishment of 41 new dairy farms of over 100,000 head, with another 15 now under construction this year. This means problems for China itself, not just for the exporters who have relied on the market. The country's WMP stock levels this spring have fallen considerably to near 200,000 tonnes. But at the same time, spray drying has been subsidised by the governments of the main provinces and regions where milk production occurs. This year, growth in milk production should be at a lower rate: input costs are up and farmgate prices are down, whilst many processors have elected not to renew supply contracts – not conducive to the expansion of smaller and even medium-sized operators.

One key problem is that demand is still under pressure despite some positive economic indicators, something not helped by the ongoing decline in footfall seen for hypermarkets and large supermarkets as consumers stick to their pandemic habits of neighbourhood shopping or buying O2O (delivery or pick up). Frictionless retail is in and covid continues to influence consumers' mindsets and behaviour – and those of the industries that market to them. E-commerce is only becoming more important: online retail sales of physical goods from January to April rose 10.4% YoY and the proportion of online retail sales out of total retail sales rose to 24.8%, marking a 0.6 percentage point increase vs. Q1 2023 alone. This remains a market both in flux and in transition.

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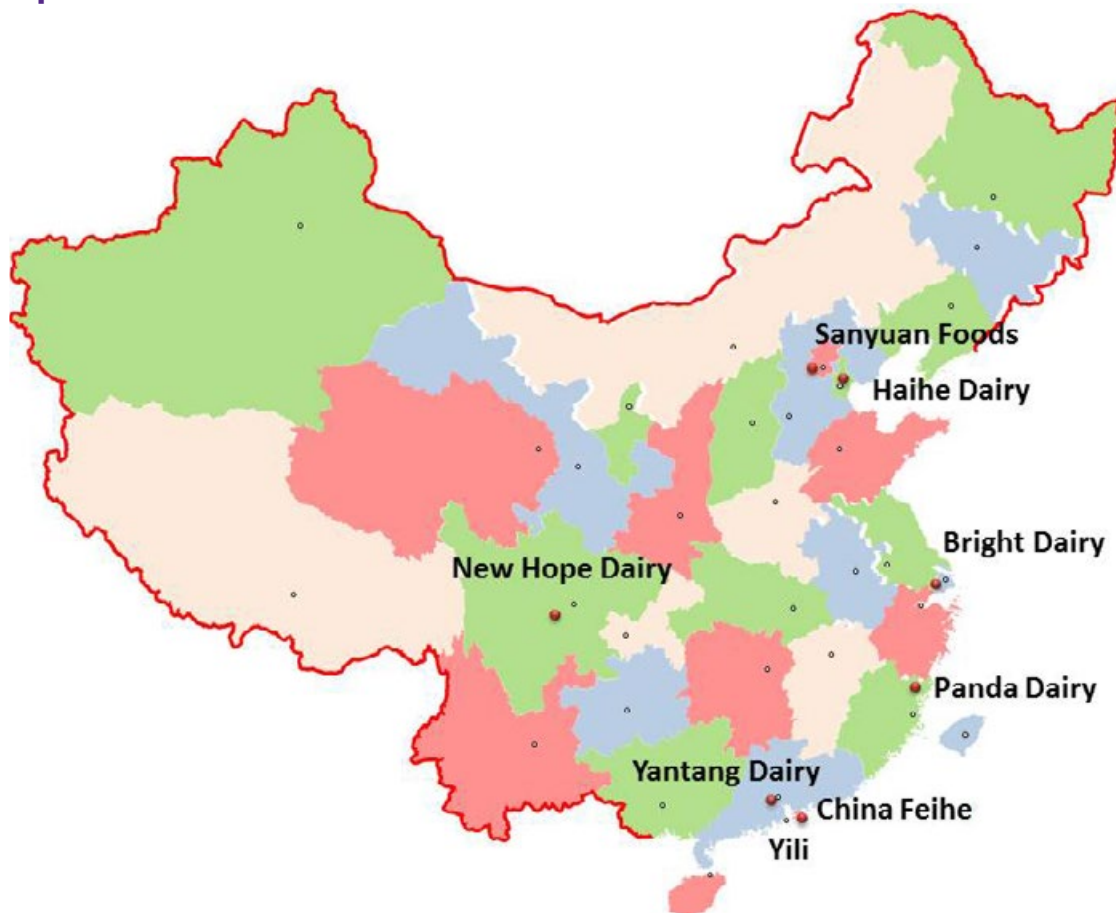
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Headlines

- ▶ *Yili's total revenues for 2022 and Q1 2023 rose by 11.37% and 7.71% respectively, solid growth enabled by China's gradual economic recovery.*
- ▶ *On 27 April, China Feihe issued its annual report for 2022, posting its first revenue and gross margin falls in the last 5 years, despite retaining its leadership in the IMF market.*
- ▶ *China's major dairy farm operators, Youran Dairy, China Shengmu and Yuanshengtai Dairy, all reported profit slumps in 2022.*
- ▶ *On 10 May, the National Food Safety Standards Review Committee issued the draft of the National Food Safety Standard – Milk powder and Modified Milk Powder, to replace the National Food Safety Standard: Milk Powder (GB19644-2010). The comment period ends on 30th June.*
- ▶ *On 26 April, New Hope Dairy announced its revenue had exceeded USD1.5 billion (RMB10 Billion) for the first time in 2022, and promised net profit growth of 40.56% YoY in Q1 2023.*
- ▶ *Last month, Haihe Dairy won China's first National Quality Dairy Engineering Enterprise Certification and Label.*
- ▶ *On 25 April, the capital's main dairy processor, Sanyuan Foods, reported falls in full-year revenue and profits in 2022.*
- ▶ *On 20 April, Panda Dairy announced 2022 net profit down over 30% due to rising costs, despite 4% growth in revenue.*
- ▶ *Last month, the non-dairy cream producer Hi-Road revealed its 2022 results, with net profit down by double digits due to soaring material costs, but the business seeing positive prospects in the bakery industry nevertheless.*
- ▶ *China's raw milk price has continued bottoming out in the year to May.*

Major Companies and Sites Mentioned in This Issue



Market Analysis

Yili Starts 2023 with Solid Growth

Summary: Yili's total revenues for 2022 and Q1 2023 rose by 11.37% and 7.71% respectively, solid growth enabled by China's gradual economic recovery.

On 28 April, Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) released its reports for 2022 and Q1 2023. In 2022, it achieved another record year for revenue and net profit — both of which have been growing over 3 consecutive decades. Growth of 7.71% in Q1 2023 represents a solid start for the current year.

2022:

- Total revenue: USD17.8 billion (RMB123.2 billion), up 11.37%
- Net profit: USD1.4 billion (RMB9.4 billion), up 8.34%

Q1 2023:

- Total revenue: USD4.8 billion (RMB33.4 billion), up 7.71% YoY
- Net profit: USD0.5 billion (RMB3.6 billion), up 2.73% YoY

Competitive edge

In 2022, Yili's revenue surpassed the combined sales of Mengniu at USD13.4 billion (RMB92.6 billion)

and Bright Dairy at USD4.1 billion (RMB28.2 billion). The revenue gap vs. Mengniu widened from USD3.3 billion (RMB22.5 billion) in 2021 to USD4.4 billion (RMB30.6 billion) in 2022.

Yili highlights that it has been proactive in focusing on health and wellness trends in the face of lower footfall in retail outlets, transport disruption and rising imported material costs – this approach has allowed the continued growth in sales and profits. Meanwhile, its consistent efforts in terms of product innovations, channel construction (integrating online and offline operations) and global supply chain collaboration have aided its core competitiveness.

During the reporting year:

- Sales from new products were stable at 12% or above of total sales
- High-growth operations including organic dairy, milk/plant-based nutritional supplements, cheese and mineral water, all of which grew by over 20%
- Overseas sales jumped 52.2%

Portfolio optimisation was accelerated to enable growth in all categories:

- Liquid dairy (UHT/fresh milk, modified milk, chilled and ambient yoghurt, etc.):
 - Sales were up 0.02%, making up 69% of the total
 - Its retail market share was a category-leading 33.4%
 - Jindian Organic (UHT) Milk saw rapid growth and Ambrosial (AMX Ambient Yoghurt)'s retail market share grew by 0.6 percentage points
- Powdered milk products and other products (cheese, cream, etc.):
 - Sales jumped 62.01%, providing the new growth engine for Yili
 - IMF market share was up 5 percentage points to 12.4%, second to China Feihe
 - Adult formula market share was up 1.1 percentage points to 25.3%, topping the segment
 - Cheese market share also rose 3.5 percentage points
- Ice cream and popsicles: It remained top of this category, now for 28 years in a row

TABLE I: Yili's Revenue and Gross Margin by Main Business, 2022

Product category	Revenue, USD million	Change	Gross Margin	Change
Liquid dairy (UHT/fresh milk, modified milk, chilled and ambient yoghurt, etc.)	12,298.50	0.02%	29.11%	up 0.78 percentage points
Powdered milk products and other products (cheese, cream, etc.)	3,802.90	62.01%	41.06%	up 1.84 percentage points
Ice cream/popsicles	1,385.50	33.61%	38.48%	down 1.79 percentage points

Source: Yili's Report for 2022

TABLE 2: Yili's Output and Sales by Main Business, 2022

Main products	Output, tonnes	Sales, tonnes	Inventory, tonnes	Change in output	Change in Sales	Change in Inventory
Liquid dairy (UHT/fresh milk, modified milk, chilled and ambient yoghurt, etc.)	9,527,479	9,494,903	221,716	-1.56%	-1.23%	17.22%
Powdered milk products and other products (cheese, cream, etc.)	364,931	345,661	58,147	46.59%	36.63%	49.56%
Ice cream/popsicles	644,407	597,539	68,324	34.39%	26.30%	218.44%

Source: Yili's Report for 2022

Note: The rises in product output, sales and inventory of powdered milk products and other dairy products were attributed to financial consolidation with Ausnutria. The rises in product output and inventory of ice cream and popsicles were attributed to distributors' stocking up.

Embracing a new wave of growth

According to the latest data from the National Bureau of Statistics, China's Q1 GDP grew by 4.5% YoY, beating the expectation of 4%. This is a post-Covid bounce, but it is nevertheless clear that improving consumption is an important driving force for China's economic growth – with Yili benefiting from this. In Q1 total retail sales of consumer goods increased by 5.8% YOY to USD1,664.2 billion (RMB11,492.2 billion) – in March, the figure soared by 10.6% YoY,

exceeding the expected 7.2%, after China's lifting of Covid restrictions.

On policy, the dairy industry has been guided towards higher quality by key interventions such as the State Council's Opinions on Promoting the Revitalization of the Dairy Industry and Guaranteeing the Quality and Safety of Dairy Products issued in 2018 and the Ministry of Agriculture and Rural Affairs' Action Plan for Improving Dairy Industry Competitiveness during the 14th Five-year Development Plan period (2021-2025). The "strictest ever" new national

standard for infant formula that took effect in Feb. 2023, has accelerated the industry's consolidation, allowing majors like Yili in particular to make the most of their financial and technological resources.

For the full year of 2023, Yili targets total revenue of USD19.6 billion (RMB135.5 billion) and gross profit of USD1.8 billion (RMB12.5 billion). It also reiterated in the report its strategic goals of entering the top 3 in the global dairy industry by 2025 and becoming the No.1 by 2030.

China Feihe Posts First Annual Revenue and Margin Falls in 5 Years

Summary: On 27 April, China Feihe issued its annual report for 2022, posting its first revenue and gross margin falls in the last 5 years, despite retaining its leadership in the IMF market.

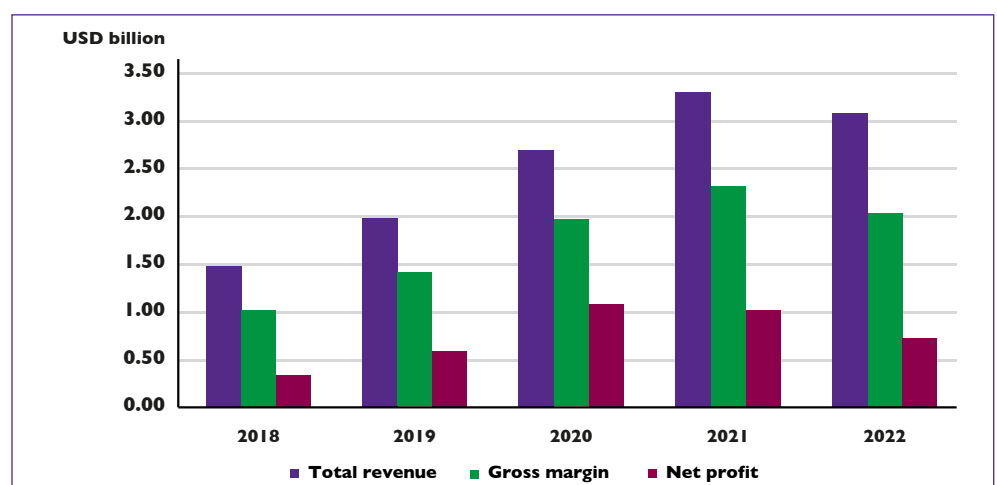
On 27 April, China Feihe's annual report for 2022 provided key data as follows:

- Revenue: USD3.1 billion (RMB21.31 billion), down 6.43%
- Gross margin: USD2.0 billion (RMB13.95 billion), down 12.90%
- Net profit: USD716.5 million (RMB4.95 billion), down 28.40%

China's birth rate dropped from 12.95 per 1,000 people in 2016 to 6.77 per 1,000 in 2022, with just 9.6 million newborns last year. The number of children aged 0-3 years correspondingly shrank from

50.9 million in 2016 to approximately 32 million in 2022, a CAGR over the period of -7.4%. According to China Feihe, its sales suffered due to this trend and the ever-increasing competition in the market, whilst rising costs for raw materials and marketing and promotion hit its margins.

FIGURE 1: China Feihe's Revenue and Net Profit in 2018-2022



Source: China Feihe's Annual Report for 2022

TABLE 3: Main Business Revenue of China Feihe in 2022

Item	Revenue, USD million	YoY change	Gross margin, USD million	YoY change
IMF	2886.5	-7.40%	1985.9	-12.00%
Other dairy products	167	16.40%	20.6	-49.30%
Nutritional supplements	32.6	-16.60%	13.7	-31.40%

Source: China Feihe's Annual Financial Report for 2022

Note: Other dairy products: adult formulae, liquid milk, rice cereal and other dairy supplements
Nutritional supplements (from Vitamin World): vitamin, minerals, herbal and other nutritional supplements

Operations in 2022

- The firm established what it claims to be the world's first Examination Standard for Osteopontin (OPN) Levels in Food and Dairy Products for Infants and Younger Children
- It obtained 45 IMF registrations, the most so far for any single company
- It started up China's first lactoferrin production line
- It continued to work on the construction of a new dairy plant in Qiqihar City, Heilongjiang Province
- China Feihe now has a total of 307,000 t/a of dairy product manufacturing capacity spread across 10 sites
- It has expanded its distribution network across the country to about 94,000 points of sale – by the end of 2022, offline retailers accounted for 83% of China Feihe's total sales
- Vitamin World, the US healthcare retail operation which it acquired in 2018, generated USD32.63 million (RMB225.3 million) of sales in 2022, equal to 1.1% of China Feihe's total sales. This chain has 50-60 stores in the US

To improve the product experience for consumers, China Feihe has implemented its "Fresh Strategy", aiming to lower inventory levels and control distribution more tightly to ensure the freshness of goods on shelves. But these moves came at a cost to profit margins in 2022 when expenses were rising.

Last year's declines in the company's revenue and gross margin were the first over the last 5 years. It believes, however, that retail sales of infant formula should stabilise, based on the following perspectives:

- Domestic consumers are showing increasing confidence in the quality of locally-made IMF products; in particular, the premium IMF sector has seen major growth in China in recent years
- As the country's level of urbanisation continues to increase, where people with higher disposable incomes have a stronger tendency to pursue healthier diets, the nation's demand for premium IMF products is expected to drive the whole IMF industry. According to the National Bureau of Statistics (NBS), China's per capita disposable income reached USD5,340/RMB36,883 in 2022, a CAGR of 7.3% from 2017 to 2022 – this is expected to offer significant growth potential for the rest of 2023

2023 Outlook

To address current market requirements, China Feihe has introduced a new strategy of "Better Natural Active Protein for Chinese Babies", focusing on innovation tailored for latest generation of babies from birth to 1,000 days. At the same time, it emphasises that it will keep targeting growth in 4 key areas – mom and baby, children and adolescents, adult nutrition and healthcare foods (functional products covering all age ranges).

Dairying Under Pressure: Major Operators' Profitability Squeezed in 2022

Summary: China's major dairy farm operators, Youran Dairy, China Shengmu and Yuanshengtai Dairy, all reported profit slumps in 2022.

In April, China Youran Dairy Group Ltd (Youran Dairy, Stock Code: HK.09858), China Shengmu Organic Milk Ltd (China Shengmu, Stock Code: 01432), and Yuanshengtai Dairy Farm Ltd (Yuanshengtai Dairy, Stock Code: 01431) each issued their annual reports for 2022, all showing tumbling net profits, for which overheated investment

in milk capacity against the sluggish demand during the pandemic period was blamed.

Youran Dairy

- Revenue: USD2.6 billion (RMB18.05 billion), up 17.6%
- Raw milk sales: USD1.6 billion (RMB10.85 billion), up 13.8%
- Gross margin: USD611.7 million (RMB4.22 billion), down 10.0%
- Net profit: USD58.8 million

(RMB405.99 million), down 79.9%

- Herd size: 499,451 head, up 20.0%
 - Adult milking cows: 231,70 head, up 13.3%, accounting for 46.4% of the whole herd, which was down 2.7 percentage points
 - Calves & heifers: 267,742 head, up 26.5%

China Shengmu

- Revenue: USD460.0 million (RMB3.78 billion), up 6.4%

- Gross margin: USD146.6 million (RMB1.01 billion), down 4.9%
- Net profit: USD65.2 million (RMB450.1 million), down 11.7%
- Herd size: 13,64 head, up 11.3%
 - Adult milking cows: 64,000 head, up 18.5% (average annual milk yield of 10.5 tonnes per head)
 - Calves & heifers: 64,400 head, up 7.0%
- Raw milk sales volume: 635,200 tonnes, composed of DHA milk (38,000 tonnes), non-organic milk (139,000 tonnes) and organic milk (458,000 tonnes, its share of the total up by 4.5%)

Yuanshengtai Dairy

- Revenue: USD302.7 million (RMB2.09 billion), up 17.7%
- Gross margin: USD75.5 million (RMB521.72 million), up 8.8%
- Net profit: USD3.7 million (RMB22.84 million), down 85.5%
- It has one goat farm and 8 dairy farms in Heilongjiang, Jilin and Shaanxi
- Herd size: 89,437 head
 - Adult milking cows: 40,235 head, up 10.9% (annual milk yield of 11.2 tonnes per head, an increase of 2.7%)
 - Calves & heifers: 49,202 head, up 13.7%
 - Dairy goats: 5,973 head – 4,482 nannies and 1,491 kids
- Raw milk sales volume: 411,438 tonnes, up 10.6%

- Raw cow milk selling price: USD734.8/t (RMB5,074/t), up 6.3%
- Raw goat milk selling price: USD1,012.7/t (RMB6,993/t)

Struggling Sector

Last year, China's national raw milk output rose by 6.8% or 2.5 million tonnes from 2021 to 39.32 million tonnes, and it imported 19.17 million tonnes of dairy products (LME) dropped by 14.9% from 2021. By the year end the national price of raw milk averaged USD598.08/t (RMB4,130/t), down 4.3% YoY.

Higher feed prices were a severe challenge for the sector. The national corn price averaged USD444.58/t (RMB3,070/t), up 0.5% YoY; soybean meal averaged USD754.48/t (RMB5,210/t), up 37.4% YoY. In addition, though China's imports of grass hay were down by 2.6% YoY to 1.94 million tonnes in 2022 – comprising 1.78 million tonnes of alfalfa hay and 152,000 tonnes of oat hay – the import value of grass hay shot by 32.8% YoY to more than USD800 million, averaged to USD504.05/t, up 35% YoY.

In terms of live cattle import, 350,000 head were imported in 2022, mostly from Australia and New Zealand, the number dropping by 3.1% from the year earlier.

Policy Supports

To promote a sustainable development of dairy farming, governments of all levels issued supporting policies:

- *The Action Plan for Improving Dairy Industry Competitiveness during the 14th Five-year Development Plan period (2021-2025)* issued by the Ministry of Agriculture and Rural

Affairs (MARA), stipulates targets for national dairying by 2025: cow milk production to 41 million tonnes and the proportion of largescale dairy farms (100+ cows) to hit 75% of the total dairy farms nationwide.

- *The Opinions on Promoting the Revitalization of the Milk Industry and Ensuring the Quality and Safety of Milk* was issued by the State Council to boost the sector from the construction and monitoring sides.
- Governments of the major milk-producing provinces allocated financial supports to stabilise the sector:
 - Hebei: distributed a USD2.2 million subsidy for spray drying in Jan 2023, ahead of regular schedule; and topped up by USD5.1 million after the Chinese Spring Festival
 - Inner Mongolia: subsidised 10% of milk purchase for spray drying from March to May
 - Ningxia: provided subsidies of USD5.79 million (RMB40 million) for feed purchases and USD8.69 million (RMB60 million) for dairy farming and product manufacturing
 - Hebei and Heilongjiang offered subsidised loan programmes for farms and dairy processors to alleviate financial strains.

China's GDP in 2022 exceeded USD17.52 trillion (RMB121 trillion), up 3.0% overall. By quarter, the growth rates were 4.8% in Q1, 0.4% in Q2, 3.9% in Q3 and 2.9% in Q4, so there is a lot of hope that 2023 may see better results.

Governmental Direction

China Notifies Draft National Food Safety Standards for milk powder

Summary: On 10 May, the National Food Safety Standards Review Committee issued the draft of the National Food Safety Standard – Milk powder and Modified Milk Powder, to replace the National Food Safety Standard: Milk Powder (GB19644-2010). The comment period ends on 30th June.

The new standard is significant as it expands the application range (terms and definitions), adds pathogenic bacteria standards and also some requirements – such as on labelling – which are more in line with China's growing demand for "specialty milk" (from different animal sources). These will pave the way for more innovation in the future. Imports will also be subject to the new standard.

Compared with the 2010 version, some major changes are made as below:

- Identification of raw material: Powdered milk products shall be marked with milk animal varieties if they are not derived from cow milk, such as "goat milk powder" or "powdered goat milk", to avoid adulteration
- Sensory requirements: Requirements on the colour of milk powder are added – the product needs to be milky white – along with a revision to the testing method (the former wording "take an appropriate sample in a 50ml beaker" is replaced by "take an appropriate sample in a dry, clean white dish (porcelain or similar container)")
- Physical and chemical indicators: Requirements on the properties of standard and modified yak, camel, donkey and horse milk powders are added. For all milk powders, the units of protein, fat, and water are revised to "g/100g" from "%", and the testing methods for fat and acidity of reconstituted milk are updated
- Microbial limits: The limits for *Staphylococcus aureus*, *Salmonella* and other pathogenic bacteria shall conform to the national food safety standards for pathogen limits (GB29921) – that is, whilst the previous version of the milk powder standard has microbial limits stipulated, this new version requires compliance with GB29921, which is more detailed and restricted. Yak, camel, donkey and horse milk powders are also subject to GB29921. A new note for total plate count is appended: if live bacteria are added, their number in the product shall be $\geq 10^6$ CFU/g
- Labelling for prepackaged foods: Products shall be marked as "milk powder" or "modified milk powder"; cow milk powder can be identified as "milk powder" or "powdered milk". Milk powder from other milk animal sources shall be marked with the source species.

Company Dynamics

New Hope Dairy's Revenue Breaks RMB10 Billion in 2022

Summary: On 26 April, New Hope Dairy announced its revenue had exceeded USD1.5 billion (RMB10 Billion) for the first time in 2022, and promised net profit growth of 40.56% YoY in Q1 2023.

On 26 April, New Hope Dairy Holdings Co., Ltd. (New Hope Dairy, Stock Code: 002946) issued its annual report for 2022, showing revenue exceeding USD1.5 billion (RMB10 Billion) for the first time and predicting strong growth in Q1 2023.

Full 2022:

- Revenue: USD1.5 billion (RMB10.00 billion), up 11.59%
- Net profit attributable to equity shareholders: USD52.4 million (RMB361.51 million), up 15.77%
- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD42.7 million (RMB294.73 million), up 14.86%

Q1 2023:

- Revenue: USD365.1 million (RMB2.52 billion), up 8.84% YoY
- Net profit attributable to equity shareholders: USD8.8 million (RMB61.08 million), up 40.56% YoY
- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD10.9 million (RMB74.97 million), up 115.57% YoY

Last year, as China's overall economy slowed down, its dairy industry struggled, with national dairy industry output up by a mere 2% YoY to 31.18 million tonnes, and farm milk prices declining in contrast to the growth cycle which started in H2 2018. It is remarkable that New Hope Dairy managed to buck the general trend and attain such growth from its core business – fresh milk products – over the year. Its regionalised growth strategy has proven a real success, enabling 32% sales growth in Eastern China compared with 3% in Southwest China and 0.5% in Northwest China.

Major operations in 2022

- Fresh milk products achieved double-digit growth, with a market share of over 10% in the country's cities. Chilled yoghurt maintained positive growth, and chilled products accounted for 50%+ of its total sales, with new launches in this category making up more than 10%
- Its gross margin overall reached 24.04%, and rose by 1.26 percentage points to 26.08% on liquid dairy and milk powder, raising the company's overall profitability
- The "24-Hours Golden Milk" series was promoted in Eastern China for the first time and overall recorded nearly 50% sales increase
- Sales in key city clusters jumped by more than 20% YoY, with East China and southern Sichuan city clusters both achieving more than 50% and the Greater Bay Area City clusters at 100% growth. Online to offline (O2O) business (online orders for both pick up at the store and home deliveries) grew by almost 100%
- Batch production of self-produced embryos and transplanted embryos has become available since the start-up of the company's Embryo Laboratory in March 2022
- The "Fresh Go 2.0" Project, a part of the Digital Transformation Lighthouse Programme which aims to build the capabilities of its own E-commerce platform, has accumulated over 13 million users
- Its production plants have raised their operational flexibility and automation levels, with annual productivity per head up by 6.8% and labour costs per tonne produced down by 2%
- In farming: In farming: Its average milk yield increased by 0.5 tonne per cow from the previous year. The 1,000 dairy cows it purchased from Australia in March 2022, started milking in April 2023. The expansion of the Diequan Farm in Dali Bai Autonomous Prefecture, Yunnan Province has been completed. The new 8,000 cows farm started construction in Wuzhong City, Ningxia Hui Autonomous Region, due to complete in 2023. By the end of 2022, New Hope Dairy had 48,255 head of dairy cattle and its own farms were providing around 50% of its total raw milk demand.

New Dairy sees 2023 as the start of a new journey after reaching the RMB10 billion sales level, and expects to continue to expand its core business, improve profitability and achieve double-digit growth in both revenue and net profit.

TABLE 4: Main Business Revenue of New Hope Dairy in 2022

Item	Revenue, USD	Proportion	YoY change
Liquid dairy (fresh/UHT milk, modified/fermented milk, yoghurt)	1,270,937,713.8	87.71%	5.72%
Adult formula powder	10,255,147.6	0.71%	-2.93%
Other (raw milk and other dairying products)	167,890,440.9	11.59%	95.58%

Source: New Hope Dairy's Annual Report for 2022

TABLE 5: Dairy Products Output and Sales of New Hope Dairy in 2022

Item	Amount, tonnes	YoY change
Sales volume	1,000,861.51	4.21%
Output	982,556.37	4.73%
Inventory	23,345.58	14.82%

Source: New Hope Dairy's Annual Report for 2022

Haihe Dairy Wins Award

Summary: Last month, Haihe Dairy won China's first National Quality Dairy Engineering Enterprise Certification and Label.

On 22 April, Tianjin Haihe Dairy Co., Ltd. (Haihe Dairy) won the country's first National Quality Dairy Engineering

Enterprise Certification and Label. The "Quality Dairy Engineering" initiative of the Technology Innovation Alliance of the National Dairy Industry has been a priority in the National Health Commission (NHC)'s National Nutrition Plan since 2021. By 2022, 33 dairy-related standards

had been issued in response to the initiative, which covers the full supply chain from 'quality raw milk – green technique – quality evaluation'. So far, 70 dairy firms across the country have committed to the initiative and achieved significant improvements in product quality – for instance,

the level of active substances (such as lactoferrin) in fresh milk has been raised to 41.18 mg/L in 2022 from just 10.4 mg/L in 2017. The initiative is key for Chinese dairy brands to become more competitive against imported ones – fresh milk graded as "high-quality" made up 97% of the country's milk produced in 2022 vs. less than 1% in 2016.

Haihe Dairy is now able to print the special "Quality Dairy Engineering" logo on its product packaging. The company was established in 1957 by Tianjin Food Group, headquartered in the Tianjin Airport Economic Zone, and has been the leading dairy business in the municipality for years. Its business covers 5 main categories (UHT milk, fresh milk, modified milk, fermented milk and milk beverage), with a range of 100+ product items – it also has one adult formula product, 'Anutric High Calcium & Probiotic Formula Milk Powder'.

In Sept. 2022, Haihe Dairy set up a new milk source management

system stressing 'quality rating and categorising', 'exclusive logistics vehicles for exclusive use' and "higher prices for better quality products". For milk at the ultra-premium level, it has raised its payout to contracted external producers by RMB0.05 per kg, representing an additional RMB530,000 income from each 1,000 dairy cows. In addition to external farmers, the company has 40,000+ pure Holsteins on the outskirts of Tianjin at present. This allows the milk fresh from the farm to reach the plant within 2 hours and be processed and delivered to consumers' homes or retailers within 24 hours. It also has a long-term cooperation with Tianjin Jialihe Animal Husbandry Co., Ltd. (Jialihe Animal Husbandry), a state-owned modern dairying group with 15 dairy farms and 52,000 dairy cows producing milk above 3.2% protein on average, higher than the national standards.

In marketing, Haihe Dairy has built a data platform to record and analyse consumer behaviour, improving its

responses to market changes with targeted product R&D and sales strategies, and helping it to improve product and service quality. Its 'Haihe Fresh Order' mini program on WeChat offers online retail and fast home delivery service, allowing consumers to pick up goods at 100+ pick-up points. Currently, Haihe Dairy has developed a vast direct-selling network that connects 130+ residential communities offering 1v1 online consulting and ordering service for 10,000+ consumers.

The company's revenue has soared from USD66.6 million (RMB460 million) in 2019 to USD121.6 million (RMB840 million) in 2022 and its net profit has grown from USD163.640.1 (RMB1.13 million) in 2019 to USD10.3 million (RMB70.82 million) in 2022. In 2022, revenue was up 5.37% and net profit up 16.90%. In Q1 2023, sales were up 11.5% YoY to USD30.0 million (RMB200 million) and net profit was USD1.6 million (RMB11.01 million).

Sanyuan Foods Reports 2022 Earnings Fall

Summary: On 25 April, the capital's main dairy processor, Sanyuan Foods, reported falls in full-year revenue and profits in 2022.

On 25 April, Sanyuan Foods published 2022 results as follows:

- Revenue: USD1.2 billion (RMB8.00 billion), down 9.58%
- Net profit attributable to equity shareholders: USD5.3 million (RMB36.50 million), down 87.77%
- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD4.3 million (RMB29.74 million), down 90.44%
- Dairy products (UHT/fresh milk, ice cream, cheese, etc.): sales of USD1.0 billion (RMB7.08 billion), down 5.47%, with gross margin of 28.36%, down 1.31 percentage points

The company summarised 4 key aspects that affected its results:

- Since May 2022, the financials of HCo Lux S.à.r.l (SPV) and its affiliate companies are no longer incorporated in the group results, lowering its revenue for the year

- Since Jan. 2022, the financials of Beijing Sunlon Livestock Development Co., Ltd. are incorporated, bearing the impact of rising farming costs (soybean meal, corn and alfalfa etc)
- Home delivery service, school milk business, sales to foodservice and investment were all hit by various macro factors, so dairy products sales and profits slipped
- Prices of raw materials and packaging all increased due to changes in market supply and demand, international trading and seasonality, also contributing to the lower profits

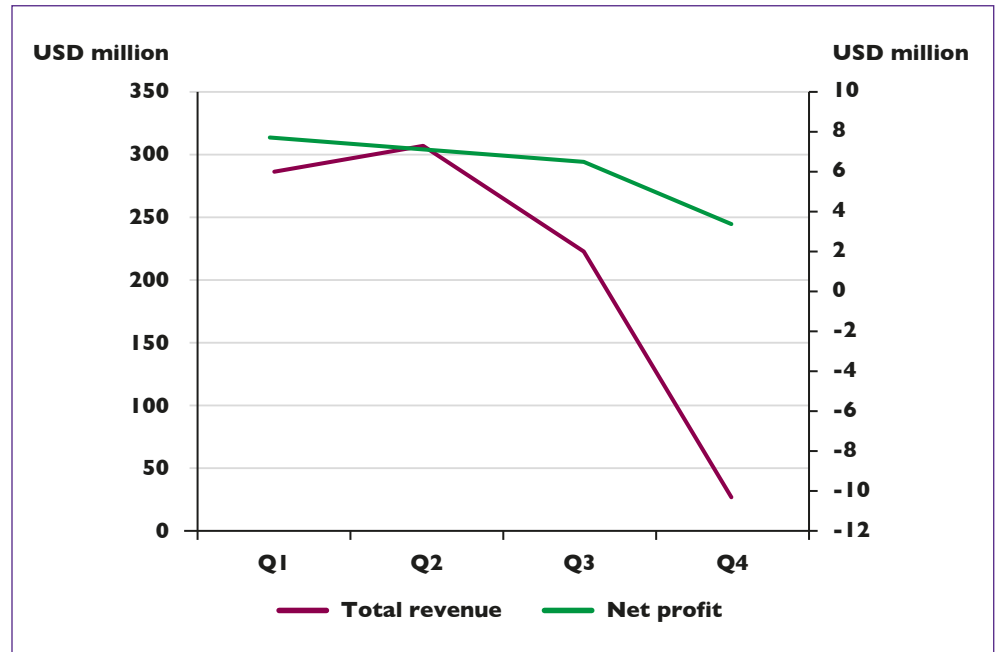
Operations in 2022

- Sanyuan Foods' market share in the liquid dairy category was highest in Beijing, with premium milk lines (72°C Fresh Milk and Sanyuan JIZHI series) and chilled yoghurt seeing substantially increased sales
- By the end of 2022, the company had processing capacity of 650,000 t/a finished products
- E-commerce platforms delivered growing sales of USD151.8 million (RMB1.05 billion), equal to 13.3% of total sales

• New launches to drive sales:

- JIZHI 1+1 (Natural A2 β-casein + β-lactoglobulin) Milk
- Low GI & GL (glycemic index & glycaemic load) Yitangping Fresh Milk (aimed at consumers mindful of their blood sugar level)
- Jianka 0-Sucrose Yoghurt
- Sanyuan Gongting Cheese Flavoured Yoghurt
- New sea salt + coconut and Hokkaido Milk flavours of "thick milk" (i.e. concentrated using low temperature membrane separation techniques and then combined with other milk components, usually used in coffee or ice cream products)
- A BAXY low calorie ice cream series
- Various new processed Cheddar cheese products

FIGURE 2: Sanyuan Foods' Quarterly Revenue and Net Profit in 2022



Source: Sanyuan Foods' Financial Report for 2022

Note: Since May 2022, the financials of HCo Lux S.à.r.l (SPV) and affiliate companies are no longer incorporated in these results

2023 Outlook

- Sanyuan is committed to double-digit growth in both revenue and net profit, and has 2025 targets of sales at USD2.2 billion (RMB1.5 billion and net profit at USD60.8 million (RMB420 million)

• It also aims to

- Strengthen horizontal and vertical, domestic and international collaboration and M&A
- To achieve breakthroughs in product innovation, brand and channel construction, and supply chain
- Increase support to its National Maternal and Infant Dairy Health Engineering Technology Research Centre to push innovation further

TABLE 6: Sanyuan Foods' Sales by Main Business in 2022, USD million

Category	Revenue, USD million	YoY change	Gross Margin	YoY change
Liquid dairy (UHT/fresh milk, modified milk, chilled and ambient yoghurt, etc.)	674.5	-2.46%	26.56%	up 1.27 percentage points
Formula products	107.3	-0.13%	19.94%	down 5.89 percentage points
Ice cream and cheese	208.7	8.30%	35.61%	up 1.73 percentage points
Spreads	35.2	-69.04%	45.47%	down 7.34 percentage points
Dairying products	115	-29.03%	0.80%	down 22.24 percentage points

Source: Sanyuan Foods' Financial Report for 2022

Note: The reduction in liquid dairy mainly relates to the drops in delivery services, school milk business and in demand from certain businesses in which it holds stakes – mainly Beijing McDonald's and Sanyuan Meiyuan Food (wholesale and retail pre-packaged foods). The reduction in spread sales reflects the deduction on HCo Lux S.à.r.l (SPV) and affiliated companies since May 2022.

TABLE 7: Sanyuan Foods' Production and Sales in 2022, tonnes

Category	Output	YoY Change	Sales volume	YoY Change	Inventory	YoY Change
Liquid dairy	621,039.22	-10.74	655,217.06	-9.69	16,572.46	57.81
Formula products	36,577.09	45.27	29,350.53	1.28	9,685.30	721.99
Ice cream and cheese	101,048.86	4.46	94,060.07	-5.82	11,959.30	42.94
Spreads	8,948.00	-69.88	9,007.63	-68.34	-	-100

Panda Dairy's Net Profits Down Over 30%

Summary: On 20 April, Panda Dairy announced 2022 net profit down over 30% due to rising costs, despite 4% growth in revenue.

On 20 April, Panda Dairy published its report for 2022, with key data as follows:

- Revenue: USD129.1 million (RMB891.62 million), up 4.05%
- Net profit attributable to equity shareholders: USD7.7 million (RMB53.41 million), down 30.95%
- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD6.5 million (RMB44.91 million), down 33.53%

The company attributed the profit drop to higher prices of both key raw materials (e.g. milk powders and white granulated sugar) and general operations due to the pandemic affecting its target markets.

Concentrated milk is its core business, where it remains second only to Nestlé in China; this is complemented by cream, cheese and plant protein beverages (coconut cream and coconut drinks). On 16 Oct., 2020, Panda Dairy went public on the ChiNext stock market of the Shenzhen Stock Exchange (SSE). Its products are widely used in catering, tea drinks, cold beverages and bakery, with key clients in food manufacturing including Xiaopiaopiao, Genki Forest (Yuan Qi Sen Lin in Chinese), Mengniu, Danone, Dali Foods, Ligao Foods and Wall's.

It has 3 production sites in Cangnan County (Zhejiang Province), Jiyang County (Shandong Province) and Ding'an County (Hainan Province), with a range including sweetened condensed milk and evaporated milk (both in modified

and full cream versions), as well as natural and processed Mozzarella, cheese sticks, cream cheese and whipping cream. Demand for concentrated milk has benefited from the growth of the tea drink and bakery sectors in particular, whilst cream and cheese have also done well for similar reasons centred on foodservice and bakery.

The company expanded by taking on an additional 105 distributors in 2022 — 51 in East China, 29 in South China and 25 in the other regions— taking its network to a total of 312 nationwide. It also expanded its portfolio with many new products last year, including shelf-stable and fresh whipping creams, natural and/processed Mozzarella, cream cheese, cheese sticks and drinkable cheese products for kids.

Although the "Panda" brand is well recognised by Chinese consumers, it is constrained by its reliance on its iconic concentrated milk products and on its business focus on the Eastern region.

- Over 2019-2022, sales of concentrated dairy products accounted for 72%, 64%, 63% and 67% of its total sales
- By region, sales in East China made up 60% of its total sales in 2020, 55% in 2021 and 56% in 2022

As a result its 2023 plan highlights some key areas:

- Concentrated milk will remain its core business, but cream, cheese and plant-based products are all expected to grow
- It will continue developing more plant-based products
- It will focus on developing its customer base and distribution network, targeting the grow drinks and bakery sectors

TABLE 8: Production and Sales of Concentrated Dairy Products (incl. coconut series) of Panda Dairy in 2022

Item	2022, tonnes	YoY change
Sales volume	42,947.83	8.31%
Output	44,854.74	7.48%
Inventory	2,543.51	28.59%

Source: Panda Dairy's Annual Report for 2022

TABLE 9: Main Business Revenue of Panda Dairy in 2022

Category	Revenue, USD	Proportion	YoY change	Gross Margin	YoY change
Concentrated milk (mainly condensed milk)	86,258,943.10	66.81%	9.99%	24.18%	-6.89%
Coconut cream and coconut drinks	8,988,497.10	6.96%	22.63%	28.34%	4.28%
Traded dairy commodities	31,493,150.80	24.39%	-14.55%	2.98%	-4.24%
Others	2,378,922.20	1.84%	60.57%	–	–

Source: Panda Dairy's Annual Report for 2022

TABLE 10: Production Capacity of Panda Dairy in 2022, t/a

Production Base	Designed Capacity	Actual Capacity	Building Capacity
Cangnan County, Wenzhou City, Zhejiang Province	24,000.00	18,649.42	6,000.00
Jiyang County, Jinan City, Shandong Province	18,000.00	17,572.99	–
Ding'an County, Hainan Province	13,000.00	8,632.33	–

Source: Panda Dairy's Annual Report for 2022

Hi-Road Targets the Bakery Industry

Summary: Last month, the non-dairy cream producer Hi-Road revealed its 2022 results, with net profit down by double digits due to soaring material costs, but the business seeing positive prospects in the bakery industry nevertheless.

On 26 April, Shanghai Hi-Road Food Technology Co., Ltd. (Hi-Road, Stock Code: 300915.SZ) issued its annual report for 2022, with key data as follows:

- Revenue: USD125.7 million (RMB868.16 million), up 16.23%
- Net profit attributable to equity shareholders: USD13.5 million (RMB93.31 million), down 17.01%
- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD9.9 million (RMB68.53 million), down 19.60%

- During the year, oil and fat input costs surged 70.39% and sodium caseinate by 41.03%, affecting the company's profitability to a large extent, despite the increased sales

Key Activities in 2022

- New Launches:
 - Airu 70 Whipping Cream, 70% made of (imported) whipping cream and fresh milk
 - A co-branded line with Bel – Kiri & Hiroad Cream with Cheese
 - New flavours in its jam range – white peach, cherry, mango, and orange – these products are mainly used in the new-style tea drinks which have become so popular
 - Prepared bakery items – cheese paste filling, egg tart liquid, frozen puff pastry shells

- Almond cream and milk, for use in applications such as drinks, coffee, desserts and ice cream
- Distribution: Hi-Road sells through contract distributors and direct to customers. It had 832 distributors at home and abroad (e.g. KCG in Thailand) by the end of 2022, an increase of 12.58% (=188) from a year earlier. In 2022, distributors accounted for 88.78% of its total sales. Additionally, the company set up its first division in Turkey
- The company put considerable effort into developing high-efficiency enzymolysis preparation technology for low-fat flavours – it anticipates this allowing product launches enabling annual sales of USD405,479.8 (RMB2.8 million)

TABLE 11: Hi-Road Revenue Split by Product Line in 2022

Category	Revenue, USD	YoY change	Gross Margin Ratio	YoY change
Cream (dairy and non-dairy cream, whipping cream, nut-based cream, pre-mixes, oils and fats)	115,677,078.80	17.23%	33.81%	-11.38%
Chocolate	4,165,276.50	8.48%	18.03%	-11.28%
Fruit jam	4,324,123.10	4.81%	27.01%	-2.19%
Food flavours & additives	1,183,363.70	19.88%	33.14%	5.25%
Other (plant-based drinks, etc)	372,563.50	-30.72%	13.25%	9.42%

Source: Hi-Road's Annual Report for 2022

Note: The sales of cream and chocolate increased in 2022 but with gross margin decrease, mainly due to the rises in raw material prices; other businesses business came in with improved sales and profits, mainly due to decreases in rental and exhibition services during the reporting period.

TABLE 12: Sales, Production and Inventory of Hi-Road in 2022, tonnes

Category	Sales volume	YoY change	Output	YoY change	Inventory	YoY change
Cream	58,995	5.30%	61,891	5.80%	10,419	38.50%
Chocolate	1,160	3.90%	1,174	4.50%	215	7.00%
Jam	1,608	17.50%	1,643	17.00%	250	16.30%
Food flavours & additives	152	16.00%	151	12.70%	8	-11.10%

Source: Hi-Road's Annual Report for 2022

TABLE 13: Projects in Progress of Hi-Road at end of 2022, USD

Project	Proposed Investment	Invested Amount by 2022	Investment Progress	Expected Commissioning Date
Cream Expansion and Upgrading Project	47,522,229.0	1,185,449.1	2.50%	31 Dec., 2024
Jam Expansion and Upgrading Project	14,364,120.8	25,907.3	0.20%	31 Dec., 2024
Frozen Bakery Factory Construction Project	15,793,437.0	25,907.3	0.20%	31 Dec., 2024
R&D Centre Construction Project	30,019,984.4	26,066.6	0.10%	31 Dec., 2024
Refrigerated Warehouse Construction Project	8,715,686.3	27,688.5	0.30%	31 Dec., 2024

Source: Hi-Road's Annual Report for 2022

Production Facilities

- Hi-Road is building the Future Food Industrial Park in Shanghai, which broke ground in Feb 2023 and will provide significantly higher levels of production scale and automation compared with its other production sites. According to the construction plan, once completed in Dec 2024 the Park will have 80,000 t/a capacity for cream and plant-based protein drinks, over 10,000 t/a capacity for jam and 4,000 t/a capacity for frozen bakery items

- A wholly-owned subsidiary Guangdong Hi-Road Foods Co., Ltd. was founded last year to build a plant with 60,000 t/a production capacity in the South, to grow the company's capabilities and competitiveness in the region
- Work began on Hi-Road's 2nd production line in India to provide 22,000 t/a capacity to meet demand there

Hi-Road expects the next 5-10 years to see exponential growth in China's bakery industry, which expanded at a

CAGR of roughly 7.9% from 2016 to 2021, faster than the global rate. In 2022, the bakery sector was valued at USD41.3 billion (RMB285.3 billion) and is projected to reach USD50.9 billion (RMB351.8 billion) by 2025. In China, the per capita consumption of bakery products averages 7.7kg, way lower than the consumption levels in the developed countries, and even in some Asian countries sharing similar dietary habits, like Japan and Singapore. This points to great growth potential for companies manufacturing base materials and semi-prepared lines for bakery.

Raw Milk Price

Bearish Milk Market Persists

Summary: China's raw milk price continued bottoming out in the year to May.

In the week ended 17 May, China's raw milk price averaged USD563.3/t (RMB3,880/t), down 0.3% MoM and down 6.7% YoY. The trend reflects oversupply and weak demand.

Spray drying has been on the rise as a result. For instance, data from the Liaoning Dairy Association shows that in Feb. dairy manufacturers in Liaoning Province dried 470 tonnes of raw milk per day (17% of their total purchases) – this daily number was 13% higher than in Dec 2022. The rise of this practice has generated massive amounts of SMP which has kept the domestic whipping cream prices low and meant lower imports of cream to China in recent months.

Domestic dairy trade in May:

- SMP was being offered at around USD3,765.2/t (RMB26,000/t) by traders wanting to cash out because sales of ice cream & cold drinks were down on previous years, affected by the unexpected low temperatures in East and South China
- Wholesale prices of WMP hovered around USD4,243.1 /t (RMB29,300/t)
- Prices for WPC, caseinates and proteins also encountered varying degrees of depression
- Lactose, a key ingredient for milk formula, has seen sluggish sales, as some IMF brands' registration progress and so production were pushed back into Q2
- However, more AMF was imported by whipping cream manufacturers

Slower-Than-Expected Growth in China

China's economic data in April showed positive numbers including 18.4% YoY growth in retail sales of consumer goods and 43.8% growth in foodservice sector sales, based on the relatively low base numbers of last year.

However, this has not driven growth in dairy sales as

hoped for. Premium dairy products are priced ever higher in retail, whilst the price war continues in UHT milk, the core category for many firms. Overall sales have fallen as a result, with processors' margins constrained, a situation compounded by heavier stocks of powders and reduced working capital.

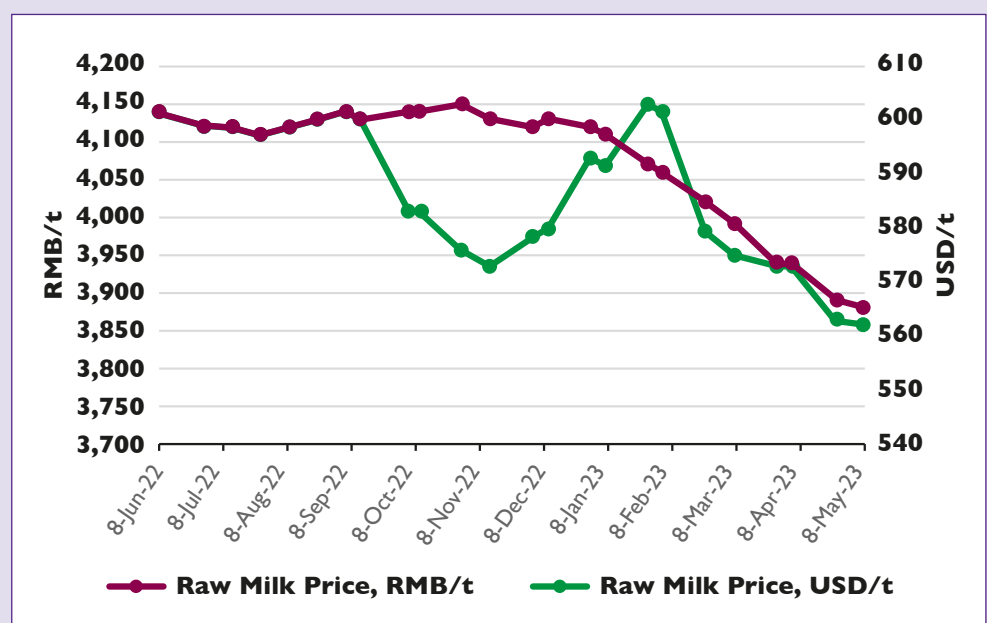
Dairy manufacturers weak milk purchasing has led some large farms to reduced their raw milk prices, leaving small producers little room to survive. At present, only the top 20%-30% dairying businesses are profitable, with the debt-free largescale farms producing at a high cost of around USD550.3/t (RMB3,800/t).

Feeds accounted for 65%-70% of dairying costs in China on average. Even though the prices of corn and soybean meal have fallen back YTD, they remain high:

- As of 17 May, the national prices of corn averaged USD425.8/t (RMB3,940/t), down by 1.1% YoY; in the main growing regions and main demand area, the prices were USD391.0/t (RMB2,700/t) and USD433.0/t (RMB2,990).
- The national prices of soybean meal averaged USD660.4/t (RMB4,560/t), up 2.9% YoY

In this context, some small and middle size farms have dairy cattle to buffer the blows. Whether the milk price and the overall dairy farming sector can overcome such challenges will very much depend on China's economic recovery and how far this reignites demand.

FIGURE 3: Trends in China's Raw Milk Price, June 2022–May 2023



Source: Ministry of Agriculture and Rural Affairs (MARA)

News in Brief

Dairy Imports in April 2023

The April figures show negative YoY trends in import volumes for most products, the exceptions being SMP, whey, some cheese types, lactose, casein and infant nutritionals. Whey is benefiting from pig industry growth: the USDA forecasts China's pork production to rise slightly to 55.5 million tonnes in 2023, as producers are expected respond to stronger consumer demand following the removal of the country's pandemic control measures. WMP was down significantly as the table shows, the victim of high levels of local milk production and spray drying.

TABLE 14: 2023 March Imports, tonnes

HS code	Product	202203	202302	202303	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	9,223.2	5,436.6	4,944.7	-9.0%	-46.4%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	50,287.7	29,163.7	33,085.3	13.4%	-34.2%
04014000	Milk & cream, 6%	5.1	0.0	3.8	/	-26.1%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	25,405.9	15,943.8	27,210.1	70.7%	7.1%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	22,995.9	40,457.6	37,737.4	-6.7%	64.1%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	58,119.6	49,088.9	39,039.3	-20.5%	-32.8%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	195.2	143.5	75.4	-47.5%	-61.4%
04041000	Whey and modified whey	37,758.4	51,560.6	55,640.2	7.9%	47.4%
04049000	Products consisting of natural milk constituents, nes	866.5	665.4	758.4	14.0%	-12.5%
04051000	Butter	12,494.8	6,280.1	11,828.3	88.3%	-5.3%
04059000	Other fats & oils derived from milk	2,827.9	2,107.3	1,136.3	-46.1%	-59.8%
04061000	Fresh cheese, incl. whey cheese, curd	4,838.6	4,157.3	8,099.7	94.8%	67.4%
04062000	Grated or powdered cheese	5,485.7	4,034.2	3,394.0	-15.9%	-38.1%
04063000	Processed cheese, not grated or powdered	2,466.5	1,235.7	1,784.1	44.4%	-27.7%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	17.1	7.3	10.5	44.5%	-38.7%
04069000	Cheese, nes	3,117.8	3,076.7	3,221.4	4.7%	3.3%
17021100	Anhydrous lactose, lactose wt. ≥99%	11,442.3	8,596.5	12,596.3	46.5%	10.1%
17021900	Lactose syrup & other lactose	191.3	5.8	15.7	169.9%	-91.8%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	22,102.5	23,576.1	32,528.1	38.0%	47.2%
35011000	Casein	1,014.9	1,939.1	1,730.4	-10.8%	70.5%
35019000	Caseinates	1,675.7	1,072.6	1,547.4	44.3%	-7.7%
35022000	WPC80/WPI	2,946.9	1,384.7	2,321.7	67.7%	-21.2%

Source: China Customs

Tianrun Dairy Making Strong Profits

In late April, Xinjiang Tianrun Dairy Co., Ltd. (Tianrun Dairy, Stock Code: 2023) released its results for Q1 2023:

- Revenue: USD91.4 million (RMB631.26 million), up 16.26% YoY
 - Sales in its region, XUAR: USD54.2 million (RMB374 million), up 8.06%
 - Sales outside XUAR: USD37.1 million (RMB256 million), up 30.21%
- Net profit attributable to equity shareholders: USD8.0 million (RMB54.98 million), surged 55.58%
- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD7.1 million (RMB48.91 million), up 53.57%

So, its sales growth continued, with improved gross margins thanks to the recent reduction of the raw milk price. From 1 Jan. to 12 April 2023, Tianrun Dairy's purchase price for raw milk averaged USD583.6/t or RMB4.03/kg, down 4.5% YoY.

By category, sales of ambient dairy products were up by 22.67% and chilled dairy products by 4.95%. Its successful expansion to markets outside XUAR helped boost the growth in the ambient products; and the recovering foodservice and festival gift-giving around the Chinese Spring Festival made a notable contribution to the company's "Milk Beer" sales. Heading into the hot summer, Tianrun Dairy's featured product Yoghurt Tub is expected to achieve a standout performance.

Latest Study on the Rapid Development of Goat Milk Formula in China

On 5 May, the Food and Drug Industrial Development and Regulation Research Center of the Chinese Academy of Social Sciences held a conference on the development of the country's goat and sheep milk formula industry.

Its latest study highlights that goat milk formula has grown strongly, due to people's rising incomes and awareness of health and nutrition issues, especially during and after the pandemic period. Many Chinese families pay extra attention to milk origins and nutritional ingredients used to fortify formula products, including goat milk, organic milk and A2 cow milk, to ensure their babies' nutritional intakes are as good as possible.

In 2020, China's sales of goat milk formula (for infants, older children and adults) were around USD14.48 billion (RMB100 billion). This is predicted to double to USD28.96 billion (RMB200 billion) by 2025 and continue growing to USD43.44 billion (RMB300 billion) by 2030. As of the end of 2022, there are 100+ goat milk formula products registered in China.

Meanwhile, the increasing market concentration is evident, as leading brands focus on the category. Kabrita – Ausnutria's goat milk formula brand which uses 45%-50% of the quality goat milk supply in the Netherlands – has accounted for 60%+ of sales of imported goat milk formulae for infants and older children in China for five years in a row (2018-2022). In terms of domestic goat and sheep milk formulae for infants, other well-known local brands present include Hongxing Meiling Dairy, Yeeper Dairy, Yili's Uitstekend Geitenmelk and Junlebao's "Zhenweiai" series (all goat milk formulae) and Blue River Dairy (sheep milk formulae).

The Center estimates that large-scale dairy firms' market share could grow to 85% in the foreseeable future, with 15% from the SMEs.

Wondersun Dairy Completes First-Phase Expansion of Liquid Dairy Production

In May, Tianjin Wondersun Dairy Co., Ltd. announced the completion of the 1st-phase expansion of its liquid dairy plant.

The overall expansion project involves a total investment of USD53.4 million (RMB368.63 million), including adding 6 fresh milk and yoghurt lines. This equates to a daily processing capacity of 300 tonnes milk, and will take the factory to 400 t/d raw milk processing capacity.

Details of the 1st Phase

- Construction nature: Expansion
- Investment: USD43.4 million (RMB300 million), 0.45% (=USD196,976.3/RMB136.02 million) of which for environmental protection
- Location & Site area: China Tianjin Wuqing Development Area, 19221.5 m²
- Main construction content: 4 lines for fresh milk and yoghurt and a bacteria separator
- Key raw materials: Raw milk – 94,900 t/a; white granulated sugar – 1,238 t/a
- Working system: 300 employees working in two 12-hour shifts for 365 days per year
- End of construction: Feb. 2023
- On-site monitoring: 27 March-1 April 2023

Tianjin Wondersun Dairy Co., Ltd. was set up by Beidahuang Wondersun Dairy Co., Ltd. in 2002, with a registered capital of USD6.66 million (RMB46 million).

Yantang Dairy's Q1 Results Impress

In late April, Guangdong Yantang Dairy Co., Ltd. (Yantang Dairy, Stock Code: 002732) published results for Q1 2023, with upbeat growth figures:

- Revenue: USD62.1 million (RMB428.6 million), up 10.8% YOY
- Net profit attributable to equity shareholders: USD4.1 million (RMB28.3 million), up 41.81% YOY
- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD4.2 million (RMB28.9 million), up 37.98% YOY

Such substantial improvements reflected the recovery of demand as well as the company's effective control of marketing expenses and material costs, said Yantang Dairy, which anticipates another quarterly record in the peak season of Q2 and Q3.

Year to date, Yantang Dairy has rolled out a series of new chilled items:

- 0-Sucrose & High-Fibre Yoghurt with Crispy Cereals and Fruits
- Thick Yoghurt with 150mg Natural Calcium and 4.6g Natural Protein per 100g
- Chocolate Milk Pudding with 80%+ Fresh Milk
- Kefir Strain-Fermented Carbonated Yoghurt Drink

Bright Dairy's Q1 Profit Rise

On 28 April, Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597) posted its earnings report for Q1 2023:

- Revenue: USD1.0 billion (RMB7.07 billion), down slightly by 2.42% YoY
- Net profit attributable to equity shareholders: USD27.1 million (RMB187.46 million), up 13.05% YoY

- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD25.3 million (RMB174.73 million), up 25.20% YoY

The company indicated that although sales of feed and raw milk fell in the quarter, depressing revenue, the decreased cost of raw milk, product portfolio optimisation and improved liquid dairy product sales assisted profit growth.

TABLE 15: Bright Dairy's Main Business Sales in Q1 2023

Category	January – March, USD	YoY change
Liquid dairy (fresh and UHT milk, modified milk, fermented milk products, etc.)	589,536,411	1.02%
Other dairy products (cheese, milk powders)	311,735,106	-0.18%
Raw milk and feeds	68,893,226	-31.20%
Others (juice and other frozen drinks, bakery)	48,439,725	14.43%

Source: Bright Dairy's Report for Q1 2023

Fuyang Foods Sets Up Milk Powders Plant

On 9 May, Ningxia Fuyang Foods Co., Ltd. (Fuyang Foods), a firm founded in March 2022 with a registered capital of USD1.45 million (RMB10 million), announced the start-up of its new milk powders plant.

Project Overview:

- Total investment: USD18.8 million (RMB130.0 million), 1.885% (=USD747,965.4/RMB5.2 million) of which for environmental protection
- Location: Hi-Tech Industrial Development Zone of Yinchuan City, Ningxia Hui Autonomous Region
- Site & floor areas: 53,333.33 m² & 36,458.21 m²
- Main construction content: a milk powders plant, boiler room, wastewater treatment station, office building and other supporting facilities
- Inputs: Raw milk – 100,000 t/a; milk powders (outsourced) – 3,700 t/a
- Production capacity: WMP + milk powders for the middle-aged and elderly – 9,000 t/a
- Working system: 70 employees working in three 8-hour shifts for 240 days per year
- Construction period: June 2022 – Jan. 2023
- On-site monitoring: 17-18 March, 2023

Yili Adds Pure Milk Capacity in Wuwei (Gansu Province)

On 18 May, a project proposed by Wuwei Yili Dairy Co., Ltd. (Wuwei Yili) to expand production of pure milk products received official approval. Prior to this expansion, Wuwei Yili had 603 t/d liquid dairy production capacity based on 6 Tetra Prisma Aseptic lines for the Ambrosial (AMX) yoghurt series, 2 high-speed standard lines and 2 high-speed slim pack lines – these were completed in June 2021.

Project details:

- Construction nature: Expansion
- Total investment: USD10.1 million (RMB70 million), 0.66% (=USD66,614.5/RMB460,000) of which for environmental protection
- Location: The 1,500 m² plant area at Wuwei Industrial Park, Gansu Province
- Main construction content: Add two 250ml TetraBrik pure milk lines
- Consumption: Raw milk – 67,529.3 t/a
- Production capacity: Pure milk – 224 t/d or 67,200 t/a
- Working system: 38 employees working in three 8-hour shifts for 300 days per year
- Commencement of construction: Aug. 2022
- Site acceptance test: March 2023

All 12 lines have now been in operation. In Q1, Wuwei Yili has produced 47,100 tonnes of dairy products worth USD47.35 million (RMB327 million) based on 489,000 tonnes of raw milk.

The China Dairy Products Market Outlook Report (2023-2032)

On 27 April, the Market Early Warning Expert Committee of the Ministry of Agriculture and Rural Affairs (MARA) launched the China Dairy Products Market Outlook Report (2023-2032) attached in the China Agricultural Outlook Report (2023-2032). This document reviews China's rising milk production and self-sufficiency and its growing dairy industry output.

The Report also projects that national milk production from all animal sources will rise by 5% to 42.27 million tonnes in 2023 and grow further to 56.02 million tonnes in 2032 at an annual growth rate of 4.0%; it expects dairy imports in LME terms to grow by 1.7% to 18.86 million tonnes in 2023 and to 23.20 million tonnes in 2032, at an annual growth rate of 1.6%.

Given the gradual easing in commodity prices, it expects:

- China's imports of liquid milk to rise and of cream and cheese to increase slightly
- Imports of bulk milk powders fall back to some extent due to growing domestic production and stock levels
- Demand growth to fail to keep pace with the rising local production, meaning over-capacity for the local industry
- Imports of dairy products to grow only gradually and export volumes to decline a little

Dairy farm construction in North China is expected to continue and the farms in the South (the main demand area) to grow in scale and achieve higher general standards. The level of large-scale dairy cattle breeding and production technology and efficiency will be steadily improved.

In the decade from 2023 to 2032, the competitiveness gap between China's dairy industry and other countries' dairy industries is expected to narrow. However, the local supply-demand mismatch remains to be solved, with the market requiring a more diverse product offer from different brands as regular consumption of dairy increases.

Allied Faxi Adds New Ice Cream Capacity

On 17 May, Beijing Allied Faxi Food Company (Allied Faxi), specialized in manufacturing high-quality ice cream, posted the Acceptance Monitoring Report for its new production plant.

Project overview:

- Construction nature: New construction
- Total investment: USD13.1 million (RMB90.46 million), 11.6% (USD1.5 million/RMB10.47 million) of which for environmental protection
- Location: Shunyi District, Beijing
- Major construction content: 23,080 m² ice cream workshop / 5,031 m² refrigerated space
- Production capacity: Ice cream – 30,000 t/a
- Raw material usage:
 - Whipping cream – 3,300 t/a
 - Butter – 1,200 t/a
 - SMP – 1,500 t/a
 - Powdered cheese – 300 t/a
 - Whey powder – 600 t/a
 - Milk – 18,426 t/a
- On-site monitoring: 27 Dec. 2022 – 16 March 2023

Allied Faxi was founded on 7 Sept, 1990 by Beijing Capital Agribusiness Group. It owns a popular ice cream brand "BAXY" with 100+ items and markets the brand Bud's Ice Cream of San Francisco. It sells chiefly through supermarkets (50% of total sales), premium restaurants (20% of total sales) and distributors.

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