

# Dairy Products China News

## Guaranteed Exclusive Analysis

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Welcome to the October issue of Dairy Products China News.

China's dairy farms and plants continue to expand, despite the difficult market situation this year. But the production tends to take the lead over marketing for many dairy businesses and not just in China. "Our production capacity for this product is going to be increasing enormously over the next decade – how can we find the best places in the world market to sell it?" "As we build our plant we're focused on this specific product line because we're comfortable with the technology and manufacturing challenges – which customers will buy it?" These are the types of questions we commonly help customers to address, bridging that gap between production lines and potential consumers.

The reality is that export marketing is unfortunately still very often driven by domestic manufacturing environments and capabilities, supply/demand balances and commodity prices. These are all important factors without a doubt – you may have a unique product which would sell like the proverbial hot cake overseas, after all. But after several decades of working on such assignments as businesses have internationalised, I can't help thinking, should the tail still be wagging the dog quite as much?

We'd argue there is at least as much to be gained by taking a deeper look at customers, channels and target categories – what's driving them, what's changing, who are the market disruptors – and then evaluating where you may be able to play. And also by looking at wider creative marketing opportunities – for instance, if you're selling consumer dairy products in China, have you assessed what the rise of the Little Red Book and its huge impact on content-rich marketing could mean for your brand? China's dairy industry majors are already building their brands here – what are your competitors are doing in this space?

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## Headlines

- ▶ The China Chain-Store & Franchise Association recently published a report on China's new style tea drink market which is expected to reach USD20.9 billion (RMB149.8 billion) in 2023, with businesses aided by online delivery sales, frequent product launches, seasonal sales campaigns and overseas expansion.
- ▶ 2'-Fucosyllactose (2'-FL) and lacto-N-neotetraose (LNnT), two ingredients of human milk oligosaccharides (HMOs), are now allowed for use in milk formula for infants and children and for special medical purposes in China; domestic manufacturers are focusing on product launches based on this already.
- ▶ In H1 2023, leading plant protein drinks firms faced slower growth in China, their ability to compete with dairy milk brought into question.
- ▶ The revised national (recommended) standard for Chinese Holsteins (GB/T 3157-2023) came into effect on 1 Oct., superseding the one released on 2008.
- ▶ Inner Mongolia Autonomous Region announced a new subsidy scheme recently, to support local forage planting, dairy breeding and farming, as well as dairy processing.
- ▶ Pinlive Foods, the Chinese owner of the imported dairy brand Weidendorf, is building its own local cheese capability after a loss in H1 2023.
- ▶ Milk tea producer Xiangpiaopiao reported revenue in Q1-Q3 has increased by 29.31% YoY, but higher marketing costs have undermined its profitability in Q3.
- ▶ Two buffalo dairy projects were put forward recently by Guangxi-based Nanguo Dairy and Guiniu Dairy, adding capacities for UHT/fresh milk, milk beverages and natural cheese.
- ▶ Two regional dairy firms, Meitian Dairy and Qinghai Hubang, both completed expansion projects in late Sept.
- ▶ China's raw milk price continued to decline in Oct.; meanwhile, major milk producers announced plans to build more farms, despite plunging profitability.

## Major Companies and Sites Mentioned in This Issue



## Market Analysis

### New Style Tea Drink Market Report for 2023

**Summary:** The China Chain-Store & Franchise Association recently published a report on China's new style tea drink market which is expected to reach USD20.9 billion (RMB149.8 billion) in 2023, with businesses aided by online delivery sales, frequent product launches, seasonal sales campaigns and overseas expansion.

On 20 Sept., the China Chain-Store & Franchise Association (CCFA) published the New Style Tea Drink Market Report for 2023, suggesting the market could reach USD20.9 billion (RMB149.8 billion) in 2023 and exceed USD27.9 billion (RMB200 billion) by 2025.

#### Continued Growth

- According to CCFA, national sales by tea drink stores grew from USD7.4 billion (RMB53.4 billion) in 2018 to USD14.0 billion (RMB100.3 billion) in 2021, at a CAGR of 20%+; although sales slowed in 2022, up 3.5% to USD14.5 billion (RMB103.8 billion), they are still expected to reach USD20.9 billion (RMB149.8 billion) this year and cross USD27.9 billion (RMB200 billion) by 2025
- CCFA's incomplete data showed 515,000 physical tea drink stores by 31 Aug 2023, a surge of over 36% vs. 378,000 at the end of 2020 and up 6% vs. 486,000 by the end of 2022. It indicates that this latest store total accounted for 57.7% of all stores selling fresh drinks (tea and coffee stores/cafe, ice cream and yoghurt shops etc.) – a proportion down slightly, by 2.2 percentage points, from that by the end of 2022
- Leading players are accelerating their expansion: the largest chain, Mixue Ice Cream & Tea (also known as MXBC) has 34,000+ operating outlets in China and overseas, followed by Goodme (8,343 outlets) and ChaPanda (7,117 outlets), as of 31 Aug. 2023

#### Delivery Orders on Varied Rise across Cities

Online delivery services have been a key driver for the growing tea drink consumption. In the first half of 2023, 178 million user accounts ordered new style tea drinks on Meituan, the giant Chinese food delivery platform, up by 20.3% YoY. There are few features of these online orders:

- The number of such orders for new style tea drinks soared by around 35% YoY, accounting for 10.6% of the total food orders on the platform
- Penetration rates of the new style tea drink industry in the 1<sup>st</sup> and 2<sup>nd</sup> tier cities are close to 65%
- While new 1<sup>st</sup> tier cities (Chengdu, Chongqing, Hangzhou, etc.) made the most tea drink delivery orders during the period, the established 1<sup>st</sup> tier cities (Beijing, Shanghai, Guangzhou and Shenzhen) saw the fastest order growth of 38%, thanks to their dense and still expanding populations which are skewed towards young generations who have developed consumption habits facilitated by high quality urban delivery services. Meanwhile, intensifying competition pushed businesses to expand further into lower-tier cities: the growth rates in order volumes seen in 4<sup>th</sup> and 5<sup>th</sup> tier cities were 30% and 36%, higher than the 28% rise in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities

#### Key Competitive Tactics

- Product launches: To attract the young customers in this highly competitive market, staying innovative and differentiated is the key for businesses. It is illustrative of just how diverse this sector is, that in March–June, there were 9,200, 9,100, 8,600 and 8,300 new product items launched monthly by tea drink chain brands in China, who sell 39,800 different varieties of tea drink overall!
- Seasonal sales campaign: On 8 Aug., the "Start of Autumn" or "Liqiu" on the Chinese lunar calendar, over 150,000 tea drink outlets launched promotional activities, selling over 40 million cups in a single day; the top 5 consumption cities saw an average 55% jump in their sales volumes
- Overseas expansion: Many Chinese tea drink chains such as Nayuki, MXBC and HEYTEA, have expanded abroad. In 2018, Nayuki's first overseas store opened in Singapore; in June 2022, MXBC's overseas stores surpassed 1,000, spreading across markets including Vietnam, Indonesia, South Korea, Japan and Australia; in June 2023, HEYTEA entered UK, settling up its first location in London

## China Approves Use of 2 HMOs in Milk Formulae

**Summary:** 2'-Fucosyllactose (2'-FL) and lacto-N-neotetraose (LNnT), two ingredients of human milk oligosaccharides (HMOs), are now allowed for use in milk formula for infants and children and for special medical purposes in China; domestic manufacturers are focusing on product launches based on this already.

On 7 Oct., China's National Health Commission confirmed its approval for the use of 2'-Fucosyllactose (2'-FL) and lacto-N-neotetraose (LNnT) in modified formulae for children (=growing up milk powders/GUMPs), formulae and foods for infants, older infants and young children, infant formulae and foods for special medical (FSMP).

Usage and quality requirements for 2'-FL are subject to the draft approval

for 2'-FL as a new food additive issued earlier in Aug. by the China National Center for Food Safety Risk Assessment (CFSA), which confines the producing strains to E. coli K-12 DH1 MDO, E. coli K-12 MG1655, and E. coli BL21(DE3).

Requirements for LNnT are stipulated as below:

- Usage: to be used at an inclusion rate of between 0.2–0.6 g/L; its content should not exceed 64.5g/kg when mixed with 2'-FL, galacto-oligosaccharides (GOS), fructo-oligosaccharide (FOS), polyfructosan or raffinose
- Source of producing strains: E. coli K-12 DH1 MDO (donor cells: Neisseria spp. and Helicobacter spp.)
- Sensory requirement: White to beige powder

## New Battle Field

2'-FL and LNnT have long been of great interest for Chinese formula brands looking for differentiators in the ever-intensifying market competition.

On the approval of the two HMOs, some brands have acted rapidly, launching their HMO-fortified formula products immediately on 7 Oct, aiming to take the lead in the niche market:

- Junlebao launched China's first domestic children's formula with 2'-FL under its Little Ruban Children Formula Series. The new product is co-developed by Junlebao and its HMO supplier DSM-Firmenich, made with A2 milk from Junlebao's own farms, along with lactoferrin, zeaxanthin and dual prebiotics (FOS+GOS)
- China Feihe launched Astrobaby Zhuoru Children's Formula for 3-6 year olds, including both 2'-FL and LNnT. It is the result of its 2 years' R&D on HMOs' application, during which period the company led the formulation of the Association Standard for Determination of HMOs
- Yili launched the Golden Collar Zhenhu Bocui Children's Formula with a patented formulation containing 2'-FL and A2 milk
- Goat milk formula producer Yeeper Dairy launched "Bekari Goat Milk Children Formula" with 2'-FL, LNnT, sialic acid, lutein, vitamin A, etc

More HMO formula products are expected to be seen on shelves after 6–8 months of registration process from now. A new round of competition in HMOs formulation is underway, which the weaker businesses – struggling already and facing secondary/renewal registrations in line with the new national standard for IMF effective as of this Feb. – may not survive.

**TABLE I: Physicochemical Indicators of LNnT**

Item	Range
Lactose-N-neotetraose/LNnT (dry base), w/%	≥92.0
LNnT fructose isomer, w/%	≤1.0
D-Lactose, w/%	≤3.0
Lacto-N-triose II, w/%	≤3.0
Linear para-lacto-N-neohexaose, w/%	≤3.0
Human milk sugars* (dry base), w/%	≥95.0
pH (20 °C, 5% solution)	4.0-7.0
Water, w/%	≤9.0
Ash content, w/%	≤0.4
Methanol, mg/kg	≤100.0
Residual protein content, mg/kg	≤100.0
Endotoxin, EU/mg	≤10.0
Total arsenic content (As), mg/kg	≤0.2
Lead (Pb), mg/kg	≤0.05

Source: National Health Commission

Note: \*Human milk sugars refer to the total content of LNnT, D-lactose, lacto-N-triose II, and linear para-lactose-N-neohexose.

## Plant Protein Drinks Market Losing Momentum in China

**Summary:** In H1 2023, leading plant protein drinks firms faced slower growth in China, their ability to compete with dairy milk brought into question.

Over the past few years, as elsewhere, China's consumers have become more and more interested in healthier, higher-quality and often more targeted products. Plant protein drinks have benefited from this trend, their sales up 9.5% in 2022. However, during 2023 the enthusiasm for the category has tapered off, a trend reflected in the weak results of the key players in H1.

### Slower Growth

China has a relatively diverse plant protein drinks market with highly concentrated segments:

- Walnut milk, dominated by Hebei Yangyuan Zhihui Beverage Co., Ltd. (Yangyuan Beverage, Stock Code: 603156) with an 80%+ market share
- Almond milk, dominated by Hebei Chengde Lolo Co., Ltd. (Chengde Lolo, Stock Code: 000848), also with an 80%+ market share
- Oat milk, dominated by Sweden's Oatly Group AB (OATLY)
- Soy milk, dominated by Vitasoy International Holding Ltd. (Vitasoy), based in Hong Kong

All, though, have reported mediocre performance in H1 2023:

### Yangyuan Beverage:

- Revenue: USD418.2 million (RMB3.0 billion), up 9.18% YoY
- Net profit attributable to equity shareholders of the listed company: USD127.0 million (RMB911.5 million), up 31.41% YoY
- Despite the obvious growth in H1 2023 vs H1 2022, this was achieved against a very poor base period for comparison during which offline sales channels (which made up over 95% of its total sales) were severely constrained by the pandemic control measures in place
- If the comparison is made with the revenue of USD475.2 million (RMB3.4 billion) and net profit of USD161.5 million (RMB1.2 billion) in H1 2021, this year's H1 shows 12.00% and 21.37% declines in these respective measures

### Chengde Lolo:

- Revenue: USD208.1 million (RMB1.5 billion), up 2.16% YoY
- Net profit attributable to equity shareholders of the listed company: USD43.9 million (RMB314.9 million), up 5.77%;
- In H1 2023, Chengde Lolo's main almond milk business made revenue of USD203.0 million (RMB1.5 billion), up 1.52% YoY, an evident slowdown compared with the 35.55% and 7.24% growth figures achieved in H1 2021 and H1 2022 respectively

### OATLY:

- OATLY Asia's revenue of USD70.6 million was up by 2.70% YoY in constant currency in H1 2023 vs. the 42.60% growth in H1 2022. According to the corporate statement, in preparation for Asian markets' reopening, OATLY invested in product innovation, distribution, in-store promotions, sampling and advertising, but the expected demand failed to materialise as expected

### Vitasoy:

- In FY 2022–23 (April 2022–March 2023), Vitasoy's soy milk sales in Chinese mainland were down by 2% on a yearly basis to USD429.6 million (RMB3.1 billion)

### Category vulnerabilities compared with traditional milk

There are some clear factors which seem likely to underlie the recent downturn in demand for such "milks":

### Invalid marketing:

- Though designed for lactose-intolerant consumers, plant protein drinks are not their only choice in the market. Yili, Mengniu, New Hope Dairy and other dairy brands have launched lactose-free cow milk or goat milk in niche categories, becoming strong rivals for plant protein drinks; of course, dairy brands are also marketing milks which are high protein – notably Mengniu Milk Deluxe's M-PLUS high protein milk series and desert organic pure milk series, and Yili Satine's Pro UF milk series and organic A2 Jerseys pure milk series
- The "eco-friendly" label often used in marketing plant protein drinks is not an effective stimulus for Chinese consumers to pick up the product, even though around 70% of them show concerns over the environmental impact of consumer products, according to the consultancy Kantar. It's also the case that many large dairy milk producers are engaging in carbon trading to meet their environmental protection and ESG goals. So in a sense, dairy milk is getting "greener", undermining the eco-friendly significance of plant protein drinks

### Competitive landscape

- In foodservice, plant protein drinks are frequently used to mix with coffee and tea, to bring new tastes to consumers. For example, OATLY entered China in 2018 through cooperation with local coffee chains – mainly with Starbucks, COSTA, Tim Hortons and Manner Coffee – and China accounted for 57% of its total oat milk sales in Asia in H1 2023. But coffee and tea drinks markets have become more competitive and the chains' search for product innovation has given dairy milk businesses opportunities to assert themselves. For example, Royal Group, the well-known buffalo milk producer, started to cooperate with new style tea drink chains this year, a severe hard blow to the position of plant protein drinks in the channel

## Governmental Direction

### China Revises Recommended Standard for Chinese Holsteins

**Summary:** *The revised national (recommended) standard for Chinese Holsteins (GB/T 3157-2023) came into effect on 1 Oct., superseding the one released on 2008.*

#### Drafting background

Chinese Holstein is the dominating breed among Chinese dairy cattle, representing over 85% of the country's dairy cattle stock. In recent years, to improve the genetic level of Chinese Holsteins and their total number, China has imported quality frozen semen and embryos from other countries, enabling drastic improvements in the breed's productivity. The annual milk yield per cow in China increased by 81% from 4,800 kg in 2008 to 8,700kg in 2021; and there were positive changes in the cattle body size and shape. However, the different selective breeding measures across regions as well as different breed imports from Australia, New Zealand, Chile and other countries create wide disparities in various regions' cattle milking performance and cattle genetic predisposition, unfavourable for the country's progress in dairy breeding and cattle management.

As a result, the new standard is designed to measure up to international standards and better fit into China's ambitions for its dairy industry. Recommendations on Chinese Holstein's body weight and shape, milking performance, reproductive performance, origin and appearance, and performance measurement are added or revised for variety identification.

**Major revised contents are as follows:**

#### Variety origin and characters

- The Chinese Holstein is a large dairy cattle breed with stable characteristics and genetic performance and strong adaptability, cultivated through selections and breeding of the crossbreeds of Chinese native yellow cattle and imported purebred Holsteins that are kept locally
- "Chinese Holstein" was the term taken up in 1992, replacing "Chinese Black and White Cow", a term coined in 1985
- Chinese Holsteins adapt to low to medium altitude, cold and dry climate areas, and most are distributed across Hebei, Shanxi, Inner Mongolia, Liaoning, Heilongjiang, Shandong, Henan, Shaanxi, Ningxia, Xinjiang

#### Weight and body shape

- Calf: A newly-born heifer calf weighs at least 36kg and a bull calf at least 38kg, cases of twins/multiple births excluded. A weaned heifer calf weighs at least 86kg
- Cow: The 12-month animal is at least 320kg in weight, 124cm in height and 162cm around the chest; the 13-month animal (mating age) is at least 360kg in weight, 125cm in height and 165cm around the chest; the 18-month animal is at least 465kg in weight, 130cm in height and 175cm around the chest; the 24-month animal is at least 550kg in weight, 140cm in height, and 195cm around the chest; the adult is at least 590kg

- Bull: The 12-month animal is at least 430kg in weight and 135cm in height; the 24-month animal is at least 720kg in weight, 147cm in height; the adult is at least 900kg

#### Milking performance

- Bred heifer: Under normal feeding and management conditions, the milk yield within 305 days is not less than 7,000kg, the milk fat ratio not less than 3.4%, the milk protein ratio not less than 3.0%, and the dry matter content not less than 11.5%
- Mature cow: Under normal feeding and management conditions, the milk yield within 305 days is not less than 8,000kg, the milk fat ratio not less than 3.4%, the milk protein ratio not less than 3.0%, and the dry matter content not less than 11.5%

#### Reproductive performance

- Cow: Cows are sexually mature at 10 – 12 months of age, with an estrous cycle of 18d to 23d, reach first mating age at 13 months to 15 months, with body weight of 380kg or above and a gestation period of 270d to 285d, and first calve at 22 months to 24 months of age
- Bull: Bulls are sexually mature at 10 months to 13 months of age, with normal reproductive ability, and available for semen collection. The quality of the frozen semen quality is subject to Frozen Bovine Semen (GB4143)

#### Periods of use

- Under normal feeding and management conditions and in good health, cows yield milk for more than 5 parities and bulls are available for use for more than 8 years

## Inner Mongolia Launches New Dairy Subsidy Scheme

**Summary:** Inner Mongolia Autonomous Region announced a new subsidy scheme recently, to support local forage planting, dairy breeding and farming, as well as dairy processing.

On 18 Sept., Inner Mongolia Autonomous Region promulgated *Several Policies and Measures for Advancing High-quality Development of the Dairy Industry in Inner Mongolia Autonomous Region* (The Measures), effective from 1 Oct. 2023 to 31 Dec. 2025.

Aiming to reduce production costs, to improve alignment between production and marketing, and to optimise the product mix in the sector, the Measures prioritise 4 key areas:

- forage planting
- dairy breeding and farming
- dairy processing and development and consumption of local dairy brands
- adoption of innovative technologies in dairy processing to secure product quality and safety.

**TABLE 2: Dairy Subsidy Scheme in Inner Mongolia Autonomous Region**

Subsidy target/purpose	Subject	Conditions	Subsidy level	
Build "grass source" bases and reduce feeding costs	Dairy farms and cooperatives	Purchase and storage of silage corn and other forage grass from the same or adjacent areas	USD38.3 (RMB275) per cow in stock; total subsidy will be provided after the cattle stock number is confirmed by the authority	
	Alfalfa producer	Concentrated growing area of alfalfa of above 500 mu (33.33 ha), on purchase contract(s) with dairy farmers/farms	USD139.3 (RMB1,000) per mu of growing area; total subsidy will be distributed over 3 years	
	Alfalfa grass seed breeding base	New construction	USD69.6 (RMB500) per mu of growing area in the first year, and USD41.8 (RMB300) per mu after the whole base reaches designed capacity	
Improve dairy breed cultivation and self-sufficiency	Dairy breeding enterprise	Breeding quality achieving "good" grade (the base level) in evaluation	USD139,297.1 (RMB1 million) per enterprise at base level	
		Breeding quality reaching the above "good" grades in evaluation	Holstein cow ranks among the top 200 internationally or the top 50 domestically	USD139,297.1 (RMB1 million) for each enterprise above the base level, plus USD139,297.1 (RMB1 million) for each top ranking Holstein
			Holstein cow ranks among the top 50–100 internationally (the 50 <sup>th</sup> excluded)	
			Simmental cow ranks among the top 100 domestically	USD139,297.1 (RMB1 million) for each enterprise above the base level, plus USD69,648.6 (RMB500,000) for each top ranking Holstein
	Dairy cattle and goat/sheep core breeding farm	New construction	At National level	USD417,891.3 (RMB3 million), one-off distribution
			At Autonomous region level	USD278,594.2 (RMB2 million), one-off distribution
	Dairy cattle and goat/sheep farm	Applying sexing embryos of dairy cattle		Subsidy tiers of USD208.9 (RMB1,500), USD348.2 (RMB2,500) and USD487.5 (RMB3,500) per embryo, according to the performance index
			Applying frozen sexed semen of dairy cattle	USD16.7 (RMB120) for per cow
			Applying frozen semen of dairy goat/sheep	USD8.4 (RMB60) for per goat/sheep

Subsidy target/purpose	Subject	Conditions		Supporting amount
Stabilise milk supply	Scale dairy cattle farm	Farm construction projects that entered construction stage or had signed investment agreements after 2019 and before the release of this Measures.	Designed herd size of 3,000 dairy cattle or above	USD835,782.6 (RMB6 million) for each such farm; USD139,297.1 (RMB1 million) extra to be paid for each additional 500 head
			Dairy cattle import	USD696.5 (RMB5,000) per imported cow
	Family farm, and farmer cooperative	Stock number amounting to 100–3,000 head of Holsteins or other dairy cow breeds special for milk production		Up to USD55.7 (RMB400) per cow
	Scale dairy goat/sheep farm		Stock of 5,000 head or above	USD278,594.2 (RMB2 million) per 5,000 head
	Camel farm	New construction in 2022 and the year since	Stock of 200 head or above, each producing at least 50 tonnes of milk each year	USD55,718.8 (RMB400,000) for each such farm; for reconstruction and upgrading projects, USD27,859.4 (RMB200,000) for each such farm
	Horse farm		Stock number amounting to 50 head or above, each producing at least 10 tonnes of milk each year	USD13,929.7 (RMB100,000) for each such farm; for reconstruction and upgrading projects, USD6,964.9 (RMB50,000) for each such farm
	Dairy product processor, and small production workshop for locally featured dairy products	Signing of 2-year purchase contract with local Holstein farms free of over-12-month binding contracts		USD13,929.7 (RMB100,000) for each new contract signed for purchasing over 1 tonne of raw milk per day
Dairy animal farm	Obtaining GAP (Good Agricultural Practice) certification		USD6,964.9 (RMB50,000), one-off distribution	
Refine and strengthen dairy product processing	Small production workshop for locally featured dairy products	Upgrading into dairy product processing enterprise		USD69,648.6 (RMB500,000), one-off distribution
		Relocating into food industrial park, subject to unified management and operation standardisation		USD139,297.1 (RMB100,000), one-off distribution
	Dairy product processing enterprise	Relocating into food industrial park, subject to unified management and operation standardisation		USD69,648.6 (RMB500,000), one-off distribution
		Purchase of full contracted amount of raw milk in the low season (every March – May)		USD139.3 (RMB1,000) per tonne of the 10% of milk purchased for spray drying from March to May
		New construction or reconstruction project for natural cheese, whey, and lactoferrin related dairy products		Up to USD7.0 million (RMB50 million) for 10% of the total project investment
	Production of natural cheese using local milk		Up to USD278.6 (RMB2,000) per tonne of the increased raw milk purchase from a year earlier	

Source: People's Government of Inner Mongolia Autonomous Region



## Company Dynamics

### Pinlive Foods to Expand into Cheese Market after Earnings Slump in H1

**Summary:** Pinlive Foods, the Chinese owner of the imported dairy brand Weidendorf, is building its own local cheese capability after a loss in H1 2023.

Pinlive Foods Co., Ltd. (Pinlive Foods, Stock Code: 300892) is one of the main so-called "OEM" dairy brands in China and a major dairy importer, outsourcing supply of Weidendorf dairy products (pure milk, ambient yoghurt and adult formulae) to foreign producers. In 2019–2022, Weidendorf was the no. 1 imported pure milk. However, UHT milk has been a tough category and Pinlive Foods's performance took a downturn in 2022 before the firm made a loss in H1 2023 in the weak dairy market.

#### Pinlive Foods' key financial indicators in H1 2023:

- Revenue: USD80.1 million (RMB575.2 million), down 22.30% YoY
- Net loss attributable to equity shareholders of the listed company: -USD8.1 million (-RMB58.5 million), compared with the positive USD2.2 million (RMB15.5 million) in H1 2022

China's dairy market was greatly affected by the oversupply of raw milk and reduced consumption of dairy products at home, compounded by surging international dairy prices, Pinlive Foods said in the report. Only 1,553,600 tonnes of dairy products were imported into China in H1 2023, down by 12.9% YoY, and worth USD7.016 billion, down by 4.7% YoY, according to China Customs.

The company's low-price sales strategy started to lose traction in a market where massive discount campaigns have popped up over the past year as businesses have been trying to retain customers. Meanwhile, consumers are leaning toward fresh milk with an improved nutritional

profile compared to the abundant UHT milk. (ESL (extended shelflife) milk is being produced locally by brands like Yili, Mengniu, Bright Dairy and Junlebao, but since there is no specific national standard for this type of milk, it is currently categorised under fresh milk).

#### Entering the Cheese Market

In mid-Sept., Pinlive Foods' proposal to set up a production line for cheese was approved by the local Ecology and Environment Bureau.

#### Project details:

- Construction unit: Shanghai Pinlive Internet of Things Technology Co., Ltd., a wholly-owned subsidiary
- Construction nature: Expansion
- Total investment: USD13.9 million (RMB100.0 million), 3% (=USD417,891/RMB3.0 million) of which for environmental protection
- Location: Sheshan Town, Songjiang District, Shanghai
- Construction content: Set up 5,700-m<sup>2</sup> area freed up from the existing plant are for the production, storage and quality inspection of cheese products
- Designed capacity: Processed mozzarella cheese (2,100 t/a) and cheese rounds (2,100 t/a)
- Raw material consumption: Natural cheese (4,230 t/a)
- Working system: 30 new workers (600 staff already in service in the plant)
- Construction duration: 3 months

The company needs areas of growth, but has it missed the boat? China's processed cheese market is slowing down, so there is the possibility that this is the wrong investment, made too late – only time will tell.

**TABLE 3: Dairy Business by Pinlive Foods, H1 2022 vs. H1 2021, USD million**

Dairy business	H1 2022	H1 2023	Change
Revenue	81.2	63.9	-21.37%
Operating cost of main business	60.7	58.3	-3.97%
Gross margin	25.26%	8.73%	down 16.53 percentage points

Source: Pinlive Foods' Report for H1 2023

## Xiangpiaopiao Reports Topline Growth but Shrinking Profit

**Summary:** Milk tea producer Xiangpiaopiao reported revenue in Q1-Q3 has increased by 29.31% YoY, but higher marketing costs have undermined its profitability in Q3.

On 19 Oct., China's leading powdered milk tea brand Xiangpiaopiao Food Co., Ltd. (Xiangpiaopiao, Stock Code: 603711.SH) reported on Q1-Q3 2023 as follows:

### Q1-Q3:

- Revenue: USD275.6 million (RMB2.0 billion), up 29.31% YoY
- Net profit attributable to equity shareholders of the listed company: USD485,297.6 (RMB3.5 million), a return to profit from -USD10.5 million (-RMB75.0 million) in Q1-Q3 in 2022

### Q3:

- Revenue: USD112.6 million (RMB808.1 million), up 20.41% YoY
- Net profit attributable to equity shareholders of the listed company: USD6.6 million (RMB47.5 million), down 12.29% YoY

The company endured declining sales due to poor sales of powdered drinks throughout 2020-2022, but saw some improvements this year. However, its total cost of sales was up 24.46% to USD106.0 million (RMB761.0 million) in Q3 this year vs. USD85.3 million (RMB612.0 million) in Q3 2022. The prime factor was marketing costs, which jumped 101.89% to USD29.1 million (RMB209.0 million) in Q3 vs. USD14.5 million (RMB104.0 million) in Q3 2022. This spend was to reinforce promotion of powdered and

RTD drinks under Xiaopiaopiao's "Dual Drive" strategy, based on separate operations in both of these segments of the powdered tea market.

In Xiaopiaopiao's development plan, the priority is to be placed on its "Boba Cow Milk Tea" powdered range, along with other new products like "CC Lemonade", whilst in the RTD segment the "LAN FONGYUEN" lemon tea series will be highlighted, along with more efforts in bottled milk tea sales and operational optimisation.

On the other hand, however, its R&D spend in Q1-Q3 2023 was just USD3.3 million (RMB23.9 million), far below the outlay on marketing. This has raised the obvious question as to how Xiangpiaopiao can innovate and maintain its growth amid the changing demand of consumers and in competition with other businesses.

**TABLE 4: Xiangpiaopiao's Sales Revenue by Product Category, USD million**

Category	Q1-Q3 2022	Q1-Q3 2023	Change
Powdered beverages	134	168.5	25.74%
Ready-to-drink (RTD) beverages	75.1	103.5	37.68%
<b>Total</b>	<b>209.2</b>	<b>272</b>	<b>30.03%</b>

Source: Xiangpiaopiao's Report for Q3 2023

Note: RTD beverages include liquid milk tea, juice tea and lemon tea.

**TABLE 5: Xiangpiaopiao's Sales Revenue by Distribution Channel, USD million**

Type	Q1-Q3 2022	Q1-Q3 2023	Change
Distributor	184	240	30.43%
E-commerce platform	22.5	23.9	6.19%
Export	1.8	1.9	9.18%
DTC (direct-to-consumer)	0.9	6.2	595.25%
<b>Total</b>	<b>209.2</b>	<b>272</b>	<b>30.03%</b>

Source: Xiangpiaopiao's Report for Q3 2023

## Guangxi-Based Nanguo Dairy and Guiniu Dairy to Build up Buffalo Dairy Capacity

**Summary:** Two buffalo dairy projects were put forward recently by Guangxi-based Nanguo Dairy and Guiniu Dairy, adding capacities for UHT/fresh milk, milk beverages and natural cheese.

In Oct., Guangxi Hepu Nanguo Dairy Co., Ltd. (Nanguo Dairy) gave an update on its project to add 2,500 water buffalo and to build 25,000 t/a capacity for UHT/fresh milk, milk beverages.

Nanguo Dairy was founded in 2001 and has a product range centred on buffalo milk-based pure/fresh milk and yoghurt, as well as goat milk. Its current production plant can process 150 t/d raw milk, and was built with an investment of USD7.0 million (RMB50.0 million).

### Nanguo Dairy Buffalo Farming Project:

- Construction nature: New construction
- Total investment: USD13.9 million (RMB100 million), 5.4% (=USD757,776/RMB5.4 million) of which for environmental protection
- Location: Wujia Town, Hepu County, Beihai City, Guangxi
- Site & floor areas: 91,869 m<sup>2</sup> & 67,564 m<sup>2</sup>
- Construction content: 10 Cattle sheds, automated milking rooms, workshops, storage rooms and other supporting facilities
- Staffing: 80 workers
- Construction duration: 12 months from Oct. 2023

**TABLE 6: Buffalo Dairying Plan in Nanguo Dairy's New Farm**

Project plan	Product	Stock / Capacity
Buffalo herd	Yielding cows	1,200 head/yr
	Dry cows	600 head/yr
	Calving cows	200 head/yr
	Calves	200 head/yr
	Heifers	300 head/yr
Output	Raw buffalo milk	3,750 t/a

Source: Environmental Impact Report of Buffalo Farming Project of Nanguo Dairy

### Nanguo Dairy's Production Expansion Project:

- Construction nature: Expansion
- Total investment: USD5.6 million (RMB40 billion), 2.5% (=USD13,930/RMB100,000) of which for environmental protection
- Location: Hepu Industrial Park, Lianzhou Town, Hepu County, Beihai City, Guangxi
- Area: 1,000 m<sup>2</sup> of floor area freed up from the existing factory buildings
- Construction content: 6 production lines and supporting production facilities
- Raw material consumption: Outsourced raw buffalo milk (15,000 t/a), raw goat milk (2,000 t/a), and WMP (2,000 t/a)
- Staffing: 50 new workers
- Construction duration: 12 months

**TABLE 7: Product Plan for Nanguo Dairy's Expansion Project**

Item	Capacity (before), t/a	Capacity (after), t/a
Fresh milk (buffalo and goat milk)	20,000 t/a	30,000 t/a
Ambient (buffalo) milk	20,000 t/a	30,000 t/a
Milk beverages	10,000 t/a	15,000 t/a
<b>Total</b>	<b>50,000 t/a</b>	<b>75,000 t/a</b>

Source: Environmental Impact Report of Production Expansion Project of Nanguo Dairy

Guangxi Guiniu Buffalo Dairy Co., Ltd. (Guiniu Dairy) was established in 2009. It produces buffalo milk-based pure/fresh milk and cheese sticks, and owns 2,000 buffalo cattle. Its production plant processes 200 t/d raw buffalo milk and produces 80,000 t/a pure buffalo milk and 20,000 t/a UHT modified buffalo milk. In the same month, its project proposal to scale up its cheese capacity was accepted by the local environmental protection authority, details as follows:

- Construction nature: Expansion
- Total investment: USD696,486 (RMB5 million), 6.4% (=USD44,575/RMB320,000) of which for environmental protection
- Location: Chengdong Industrial Park, Bobai County, Yulin City, Guangxi
- Construction content: Add cheese processing line and the supporting facility within the existing factory
- Designed capacity: Natural buffalo Mozzarella (150 t/a)
- Raw material consumption: Outsourced raw buffalo milk (750 t/a)
- Construction duration: 4 months

## Meitian Dairy and Qinghai Hubang Expand Capacity

**Summary:** Two regional dairy firms, Meitian Dairy and Qinghai Hubang, both completed expansion projects in late Sept.

Jiangsu Meitian Dairy Co., Ltd. (Meitian Dairy) and Qinghai Hubang Agricultural Development Co., Ltd. (Qinghai Hubang) are both regional dairy processors, based in Jiangsu and Qinghai Provinces respectively. In late Sept., they announced completion of their expansion projects designed to meet growing demand at local level.

### Meitian Dairy: 37,000 t/a Dairy Expansion Project

- Construction nature: Expansion
- Total investment: USD15.3 million (RMB110 million), 2.73% (=USD0.4 million/RMB3.0 million) of which for environmental protection

- Location: Xuxiake Town, Jiangyin City, Jiangsu Province
- Area: 15,000 m<sup>2</sup>
- Construction content:
  - Add a 9,000m<sup>2</sup> production area, and a 4,000m<sup>2</sup> office structure and other supporting buildings
  - Install milk buffer tank, systems and machine for milk and yoghurt pasteurisation, yoghurt fermentation, and fresh milk and yoghurt storage, and mixing system, aseptic tank system, fully automated cleaning system
  - Expanded capacity: 37,000 t/a in total — 6,000 t/a fresh milk, 6,000 t/a UHT milk, 1,000 t/a yoghurt, 24,000 t/a milk beverages

- Material usage: Raw milk – 14,870 t/a
- Construction period: Feb. 2022 – Dec. 2022
- On-site monitoring: 9 Sept. – 10 Sept. 2023

Meitian Dairy was registered in Oct. 1980 and was previously known as Jiangyin Meitian Dairy Co., Ltd. It is an integrated dairy business active in fresh/UHT milk, modified milk and fermented dairy products. It has a fresh milk brand "PROTOSS" selling in and around Jiangsu, Zhejiang and Shanghai, often used in local premium cafes.

### Qinghai Hubang: 12,300 t/a Dairy Expansion Project

- Construction nature: Expansion

- Total investment: USD7.0 million (RMB50 million), 0.46% (=USD32,038/RMB230,000 million) of which for environmental protection
- Location: Huangzhong District, Xining City, Qinghai Province
- Area: 22,867 m<sup>2</sup>
- Major construction content:
  - Add processing workshop for liquid milk and milk beverages,
  - and fermentation room, yoghurt workshop and end-product storehouse
  - Install 1 set of dairy equipment and 1 set of milk beverage equipment
- Designed capacity: 12,300 t/a in total – 6,000 t/a lactobacillus drink, 3,000 t/a UHT milk, 1,800 t/a fresh milk, 1,500 t/a fresh yoghurt
- Material usage: Raw milk – 11,000 t/a
- Construction period: Aug. 2022 – March 2023
- On-site monitoring: 11 July – 14 July 2023

Qinghai Hubang was founded in June 2007 and is also an integrated dairy business. It has a 13.33 ha highland dairy cattle farm. Its fresh milk brand "Everyday Fresh" and yoghurt brand "Pure Qingzang" have been gaining popularity locally, causing a supply shortfall.

## Raw Milk Price

### China Sees More Dairy Farms Despite the Market Downturn

**Summary:** China's raw milk price continued to decline in Oct.; meanwhile, major milk producers announced plans to build more farms, despite plunging profitability.

In the week ended 11 Oct., China's raw milk price averaged USD519.6 (RMB3,730) per tonne, unchanged from last week but down 9.9% YoY. In Q1-Q3 this year, national farm milk production amounted to 29.04 million tonnes, up by 7.2% YoY, data from the National Bureau of Statistics shows.

#### Feed market:

- The national price of corn averaged USD419.3/t (RMB3,010/t), down 0.7% from the first week and down 0.3% YoY; the average in major production regions (Heilongjiang, Jilin and Liaoning) was down 0.7% to USD383.1/t (RMB2,750/t); and the price in the main demand area (Guangdong) edged down by 0.3% to USD431.8/t (RMB3,100/t) vs. the first week of the month
- The national price of soybean meal averaged USD661.7/t

(RMB4,750/t), down 1.7% vs. the first week of the month and down 9.0% YoY

The surplus milk supply and weak demand has adversely affected many companies, especially the 5 main dairy farming firms – China Youran Dairy Group Ltd (Youran Dairy, Stock Code: 09858.HK), China Modern Dairy Holdings Ltd. (Modern Dairy, Stock Code: 01117. HK), AustAsia Group Ltd. (Stock Code: 02425. HK), China Shengmu Organic Milk Ltd (Stock Code: 01432.HK), and Yuanshengtai Dairy Farm Ltd (Yuanshengtai Dairy, Stock Code: 01431.HK).

**TABLE 8: Financials of Top 5 Dairy Farming Firms in H1 2023**

Company	Revenue		Net profit	
	Amount, USD million	YoY change	Amount, USD million	YoY change
Youran Dairy	1,264.4	4.20%	-138.2	-552.30%
Modern Dairy	924.0	17.80%	29.2	-59.00%
AustAsia	257.1	1.90%	-43.2	-260.92%
China Shengmu	228.9	2.70%	3.2	-89.80%
Yuanshengtai Dairy	150.7	7.20%	-36.8	-601.48%

Source: H1 2023 Financial Reports

However, farm building continues, and by new construction and expansion, or acquisition of

smaller farms, the major ones have kept growing their herd numbers. These top 5 firms had a combined

1,323,475 head as of H1 2023, a 14.40% increase vs. H1 2022.

**TABLE 8: Cattle Numbers at the Top 5 Dairy Farming Firms in H1 2023**

Company	June 2023		Increased number from Jan. to June
	Total stock number	YoY change	
Youran Dairy	539,400	20.60%	39,949
Modern Dairy	418,596	9.40%	13,238
AustAsia	124,269	11.50%	6,319
China Shengmu	139,897	7.00%	3,553
Yuanshengtai Dairy	101,313	19.70%	11,876

Source: H1 2023 Financial Reports

The plans of Youran Dairy and Modern Dairy to continue to expand are clear:

**Youran Dairy:**

- Expansion project in Yinchuan City, Ningxia Hui Autonomous Region, to add 2,800 cattle with an investment of USD15.3 million (RMB110.0 million)
- Expansion project in Ordos City, Inner Mongolia Autonomous Region, to add 2,000 cattle with an investment of USD14.6 million (RMB105.0 million)
- And 3 expansion projects in Daqing City, Heilongjiang which have entered construction

stage: one adding 1,000 head in Sihe Township Farm with USD529,329.0 (RMB3.8 million), one adding 500 head in Hongqi Township Farm with USD627,338.5 (RMB4.5 million), and a 3<sup>rd</sup> adding 500 head in Huayuan Township Farm with USD335,706.0 (RMB2.4 million)—raw milk production is expected to increase by 7,315 t/a in the city upon the completion of the 3 projects next month

**Modern Dairy:**

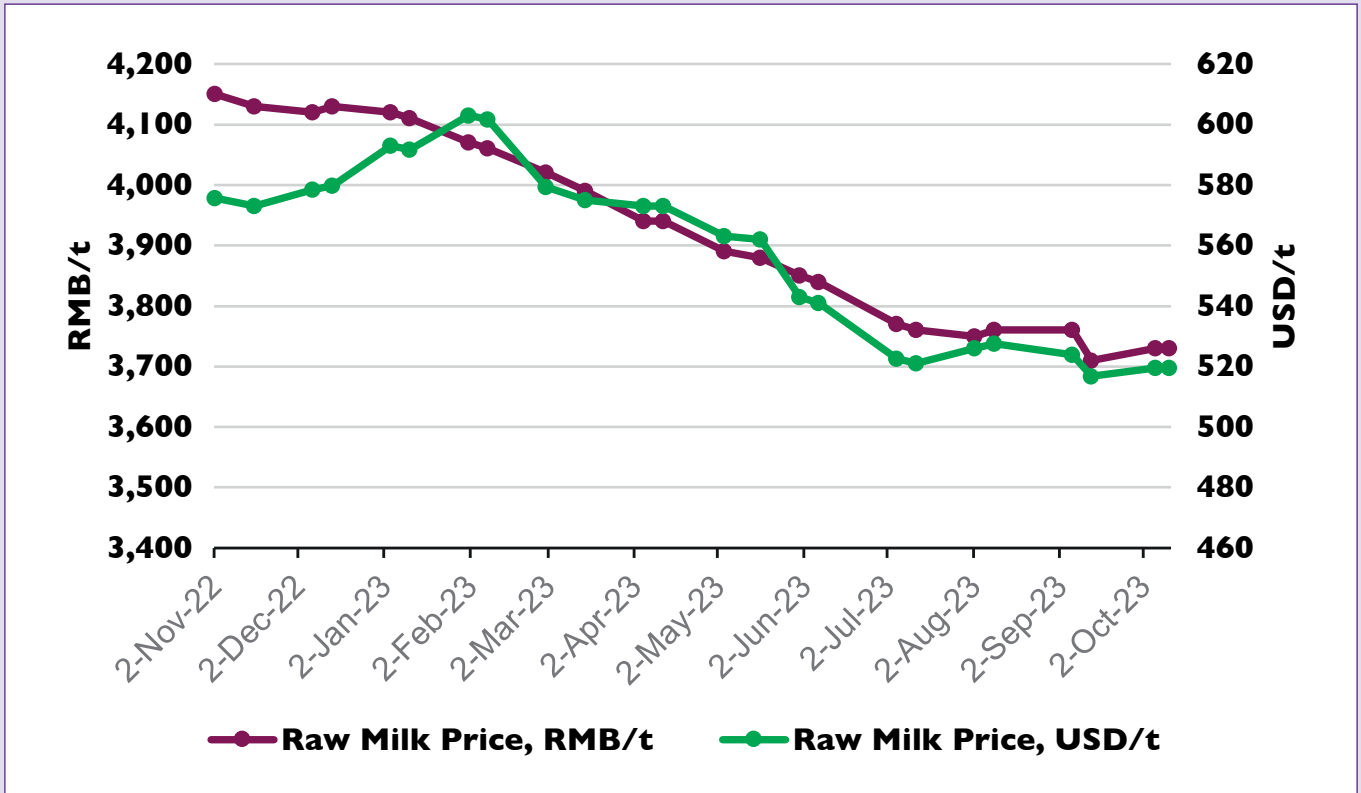
- New construction project in Tangshan City, Hebei, to build a

107-ha farm with 25,000 dairy cattle and raw milk production of 227,500 t/a, with investment of USD73.8 million (RMB530.0 million), due for completion in Feb. 2024

- New construction project in Bayannur City, Inner Mongolia Autonomous Region, to build a 31-ha farm with 3,000 Holsteins, with investment of USD21.0 million (RMB150.5 million), due for completion in Sept. 2025

The shutdown of some lesser farms may offset such growth to some extent. Greater market concentration is, on one level, a good sign for balancing milk supply and demand.

**FIGURE 1: Trends in China's Raw Milk Price, Nov. 2022–Oct. 2023**



Source: Ministry of Agriculture and Rural Affairs (MARA)

## News in Brief

### Dairy Imports in September 2023

As China's milk production has continued to grow whilst demand has remained weaker than hoped for, few products saw import volumes increase in September in YoY terms. The main exceptions were cream, butter, some cheeses, casein, lactose and WPC80/WPI. This is suggestive of the recovery we are seeing in foodservice business in some key cities, but in terms of the main commodities, WMP and SMP and whey were all considerably down.

**TABLE 9: 2023 September Imports, tonnes**

HS code	Product	202209	202308	202309	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	6,942.6	6,290.1	6,295.0	0.1%	-9.3%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	51,015.8	41,391.2	42,187.9	1.9%	-17.3%
04014000	Milk & cream, 6%	0.0	1.8	0.5	-71.7%	/
04015000	Milk & cream, fat >10%, not concentrated or sweetened	20,947.3	19,570.3	26,412.6	35.0%	26.1%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	25,090.9	21,083.0	19,513.9	-7.4%	-22.2%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	30,092.1	28,812.4	18,940.1	-34.3%	-37.1%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	169.4	60.2	40.8	-32.2%	-75.9%
04041000	Whey and modified whey	62,617.3	49,706.0	55,359.3	11.4%	-11.6%
04049000	Products consisting of natural milk constituents, nes	869.6	855.0	901.2	5.4%	3.6%
04051000	Butter	6,245.5	8,598.3	7,098.1	-17.4%	13.7%
04059000	Other fats & oils derived from milk	3,101.0	5,606.4	3,484.6	-37.8%	12.4%
04061000	Fresh cheese, incl. whey cheese, curd	4,981.4	6,573.1	4,440.9	-32.4%	-10.9%
04062000	Grated or powdered cheese	1,924.3	4,313.3	3,141.6	-27.2%	63.3%
04063000	Processed cheese, not grated or powdered	2,030.7	1,924.5	1,374.9	-28.6%	-32.3%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	11.8	8.4	15.3	82.9%	29.8%
04069000	Cheese, nes	1,387.2	4,775.8	2,887.7	-39.5%	108.2%
17021100	Anhydrous lactose, lactose wt. ≥99%	10,188.5	16,572.8	14,029.3	-15.3%	37.7%
17021900	Lactose syrup & other lactose	100.6	4.0	3.0	-25.4%	-97.0%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	22,614.7	14,466.4	12,788.3	-11.6%	-43.5%
35011000	Casein	1,103.4	1,770.8	1,490.6	-15.8%	35.1%
35019000	Caseinates	1,723.2	2,141.7	1,103.9	-48.5%	-35.9%
35022000	WPC80/WPI	3,094.4	3,944.5	3,258.3	-17.4%	5.3%

Source: China Customs



## China's Cattle Imports in Oct.

China imported 6,000+ head of dairy cattle and breeders from Australia and New Zealand in early Oct., as follows:

### Dairy cattle:

- On 3 Oct., 2,000 Australian Holsteins cattle were imported to the farm located in Xiangyun County, Dali Prefecture, Yunnan Province, owned by Dali Lesson Dairy Co., Ltd. (previously known as Yunnan Royal Lesson Dairy Co., Ltd). Lesson Dairy said that it would use US-sourced high quality frozen semen supplied by Hebei Pinyuan Biotechnology Co., Ltd. (a wholly-owned company of Junlebao) to fertilise this batch, which is expected to start calving in Aug. next year and produce 38kg of raw milk per cow per day

### Breeder cattle:

- On 3 Oct., Beijing Zhuoyue Fuming Import & Export Co., Ltd. imported 4,000 breeders from Australia through Tangshan Port, Hebei, including Holsteins, Angus, F1 Wagyu, purebred Wagyu, Limousin, Charolais, Simmental. This batch is to be transferred to farms in Inner Mongolia Autonomous Region, Gansu, Guangdong and Jilin Provinces and Ningxia Hui Autonomous Region, after inspection and quarantine
- On 6 Oct., Ningxia Aomu Imported Breeding Stock Co., Ltd. imported 240 breeders from New Zealand to Yinchuan City, Ningxia Hui Autonomous Region. It is the first import of breeder cattle by the Region and expected to play a role in improving the quality of local beef and dairy. To facilitate the import, Yinchuan customs has set up a special vets team to guide the inspection and quarantine work

## Mengniu Introduces M-ACTION Protein Bars

M-ACTION, the sports nutrition brand of China Mengniu (Mengniu, Stock Code: HK.02319), has launched a new line of protein bars in Sept. The new products feature 4 types of proteins – MPC, whey protein, soy isolate protein, and pea protein. Each bar contains 7.5g of protein and is high in dietary fibre, dual prebiotics (polydextrose + resistant dextrin), low in calories (103-112 kcal) but providing high satiety. There are 3 flavours (strawberry matcha, strawberry yoghurt, and vanilla chocolate), selling at USD6.5 (RMB46.9)/25g\*5.

Before this, M-ACTION was marketed only in liquid protein drinks, each containing 15g of protein per bottle and selling at USD17.8 (RMB128)/300ml\*6, tailored for consumption within 30 minutes of moderate- and high- intensity exercises. With the lower pricing and moderate protein content, these new products can help Mengniu reach a much wider market as it develops its sports nutrition business. More launches in the full sports nutrition category are on the way, according to Mengniu.

**PICTURE 1: Mengniu's M-ACTION Protein Bars**



Source: Mengniu

## Milkground Food's First Exports of Cheese Sticks

On 19 Sept., Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) exported its first batch of cheese stick products from Shanghai to Australia and Southeast Asia, with 3 flavours adjusted (added salt) to match local tastes.

Milkground Food's export is in partnership with Brownes Foods Operations Pty Limited (Brownes), its supplier of Cheddar – which Milkground Food acquired in late 2017 from Australian private-equity firm Archer Capital.

Previously Milkground Food reported revenue down 20.35% YoY to USD287.8 million (RMB2.1 billion) and net profit attributable to equity shareholders of the parent plunging 78.36% YoY to USD4.0 million (RMB28.6 million) in H1 2023. As domestic growth flags, foreign markets that consume less cheese in the form of snacks could be a window for Milkground Food to continue to grow its business.

**PICTURE 2: Exported Cheese Stick Product of Milkground Food**



Source: Milkground Food

## Yantang Dairy Expects 70%–100% Jump in Q3 Net Profit

On 12 Oct., Guangdong Yantang Dairy Co., Ltd. (Yantang Dairy, Stock Code: 002732) published Q1–Q3 earnings forecasts for 2023, expecting net profit attributable to equity shareholders of the listed company up 65%–85% YoY to USD19.3 million–USD21.6 million (RMB138.6 million–RMB155.4 million). For Q3, it anticipates the net profit to be up 70%–100% to USD6.2 million–USD7.3 million (RMB44.6 million–RMB52.5 million).

In Sept., the company brought forward its development plan for 2023–2030, targeting revenue of USD696.5 million (RMB5 billion) by 2030, compared with the USD261.2 million (RMB1.9 billion) in 2022. Several strategic measures were cited highlighting milk supply security, product quality control, market consolidation and expansion, technological innovation, and standardisation of operations and management.

## Nestlé China Sales Decrease 5.7%

On 19 Oct., Nestlé announced nine-month earnings reports for 2023.

### Total Group in 9M-2023:

- Sales were down 0.4% YoY to USD77.0 billion (CHF68.8 billion). Organic growth was 7.8%, with price-driven growth at 8.4%; real internal growth was -0.6%. Foreign exchange had a negative impact of 7.4% on its total sales, following broad-based appreciation of the Swiss Franc
- Growth was broad-based across geographies and categories

### Zone Greater China in 9M-2023:

- Sales were down by 5.7% to USD4.0 billion (CHF3.6 billion) vs. USD4.3 billion (CHF3.8 billion) in 9M-2022. Organic growth was 4.9%, with price-driven growth of 2.6%; real internal growth was 2.3%. Foreign exchange had a negative impact of 10.6% on the sales
- Growth was driven by strong increases in its foodservice and E-commerce businesses and also by its pricing strategies. The pet food and confectionery operations gained higher market shares in the Zone. Infant Nutrition saw low single-digit growth, led by NAN specialty offerings. Coffee also reported low single-digit growth, supported by ready-to-drink offerings

## Sanyuan Foods Taking Full Ownership of Allied Faxi

On 16 Oct., Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429) issued a notification that Beijing Allied Hongda Trading Co., Ltd. (Allied Hongda) is withdrawing from Beijing Allied Faxi Food Co., Ltd. (Allied Faxi), producer of the popular ice cream brand "BAXY", meaning this firm is now fully owned by Sanyuan Foods.

In 2016, Sanyuan Foods purchased a 90% stake in Allied Faxi to scale up its ice cream operation. In 2019, Allied Faxi contributed USD198.2 million (RMB1.4 billion) to Sanyuan Foods' total ice cream sales. In 2020, Sanyuan Foods increased its stake by acquiring a further 5% from Allied Hongda, and signed an agreement that Allied Hongda shall be liable for the difference if Allied Faxi's accumulated net profit after excl. extraordinary gains/losses in 2020–2022 were to fall short of the promised USD58.0 million (RMB416.5 million). The actual accumulated profit was only USD38.3 million (RMB274.9 million), so USD19.7 million (RMB141.6 million) short of what was promised.

To pay out the compensation, Allied Hongda agreed to exit from Allied Faxi, making Sanyuan Foods the full owner. Sanyuan Foods said the deal will allow it to take stronger control over Allied Faxi's management and stabilise its ice cream business.

## Tianrun Dairy to Raise Funds to Expand

On 28 Sept., Xinjiang Tianrun Dairy Co., Ltd. (Tianrun Dairy, Stock Code: 600419) released a revised prospectus issuing corporate bonds to raise up to USD137.9 million for building a new dairy plant and for replenishment of working capital.

The dairy plant project is planned for an area of 75,000 m<sup>2</sup> in Urumqi City, Xinjiang Uyghur Autonomous Region. It will require an investment of USD118.8 million, USD99.2 million of which will be sourced from the resulting net proceeds. The designed capacities in the plant include:

- UHT milk (168,000 t/a in total):
  - PrePak, 180g–50,400 t/a
  - Tetra Pak Pillow, 200g–50,400 t/a
  - TetraBrik, 180g–67,200 t/a
- Ambient yoghurt (a newly-developed product), 100g/cup–16,200 t/a
- Premium fresh milk, 950g–15,840 t/a

The project plan involves 2 years' construction and 3 years ramping up to designed capacity, with production reaching 100,000 t/a by 2025, 140,000 t/a by 2026, and 200,000 t/a by 2027. The construction work and operation are to be under the responsibility of its fully-owned subsidiary Xinjiang Tianrun Biotechnology Co., Ltd.

According to Tianrun Dairy's statement, it currently has 290,300 t/a production capacity for dairy products (fresh/UHT milk, chilled yoghurt, and "Milk Beer"). In H1 2023, the overall capacity usage in Tianrun Dairy had reached 93.42%; 99.67% of its production lines for ambient dairy products – the largest income contributor delivering 56.29% of the company's total sales during the period – were in operation.

## Chevalese Dairy Debuts on BSE

On 11 Oct., Inner Mongolia Chevalese Dairy Group Co., Ltd. (Chevalese Dairy, Stock Code: 832786) went public and issued an initial 60,110,500 shares on the Beijing Stock Exchange (BSE), its market capitalisation valued at USD145.6 million (RMB1.0 billion) upon the listing.

Established in 1992, Chevalese Dairy's range includes organic milk, UHT/fresh cow milk, yoghurt, milk powders for children and adults, although raw organic milk makes up most of its dairy revenue, with Mengniu its main customer. In H1 2023, its revenue rose 33.74% YoY to USD68.9 million (RMB494.8 million). However, its net profit attributable to shareholders of the parent fell 19.19% YoY to USD5.8 million (RMB41.9 million).

**TABLE 10: Chevalese Dairy's Dairy Business Performance in H1 2023**

Category	Revenue		Gross margin	
	Revenue, USD million	YoY Change	Ratio	YoY Change
Raw organic milk	29.5	53.79%	20.72%	down 14.54 percentage points
Chilled yoghurt	11.5	14.95%	26.71%	up 5.88 percentage points
Bulk milk powders	7	108.59%	50.98%	up 5.64 percentage points
Milk formulae (for children and adults)	2.3	0.51%	27.10%	up 21.15 percentage points
Regular raw milk	1.8	/	-9.20%	/
Ambient milk	1.8	48.26%	15.34%	up 5.91 percentage points
Fresh milk	0.7	-18.57%	34.75%	up 3.39 percentage points
Milk beverages	0.4	-20.48%	18.63%	down 10.14 percentage points

Source: Report for H1 2023 of Chevalese Dairy

## DPC Dash Fast Tracking China Expansion

On 9 Oct., DPC Dash Ltd. (DPC Dash, Stock Code: 1405.HK) announced a milestone in its accelerated expansion in China was achieved when it opened the 700<sup>th</sup> Domino's pizza store in Wenzhou last month.

Listed on the Hong Kong Stock Exchange (HKEX) on 28 March 2023, DPC Dash's prospectus showing Domino's store total has grown from 363 in 2020, 468 in 2021 and 588 in 2022, with a CAGR of 27.3%. Its plans are to open 180 and 240 stores in 2023 and 2024 respectively, and 200-300 in both 2025 and 2026. By 20 Oct., DPC Dash had 726 directly-operated Domino's pizza stores across 22 cities in China. This year, it has added 138, 75% of its annual target.

In H1 2023, sales through Domino's pizza stores grew by 123.6% to USD25.9 million (RMB186 million) and operating profit margins were up by 4.3 percentage points to 13.5%; daily sales per store were up by 7.09% YoY to USD1,710 (RMB12,275).

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