



戴瑞咨询
Dairy Consultants



HOW Long Can China Drive Global Dairy Market?

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New Circle

In Global

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01

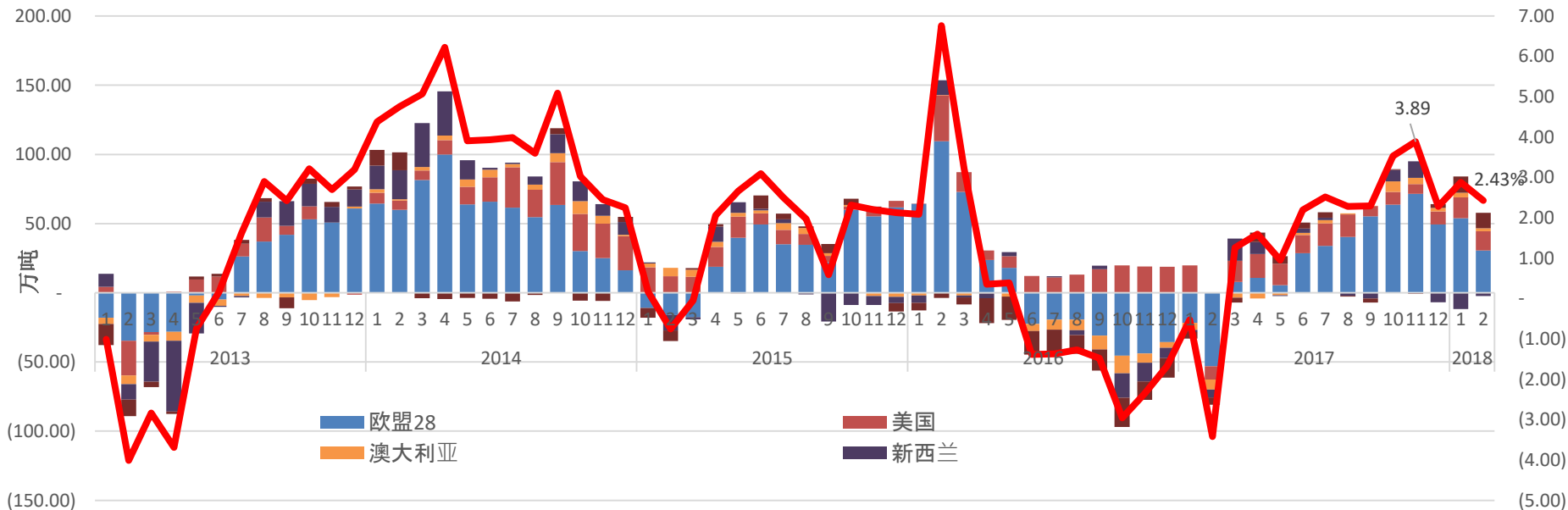
**Global Dairy New
Circle :**
**Into low growth
period**

01 New Circle: Main Exporters Supply

- Main exporters Production start to grow since 2017.03
- Growth rate dropped in 2018
 - 2015 +1.6% , 2016 -0.2% , 2017, +1.6%
 - 2018.01 +2.9% 2018.2 +2.4%
- EU : Avg. 2% Highest 6.25% , 2018.01、 02 +4.3%、 +2.6%
- AU : 2016/17 -7% , 2017/18, 01-02 +3.5%
- AR,CL and UY: 2018.01-02 +10%
- NZ : 2016/17 -1.0% , 2017/18 01-02 -0.1% , wet in spring , draught in summer

01 New Circle: Main Exporters Supply

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- Growth rate dropped in 2018



01 New Circle: Main Exporters Supply

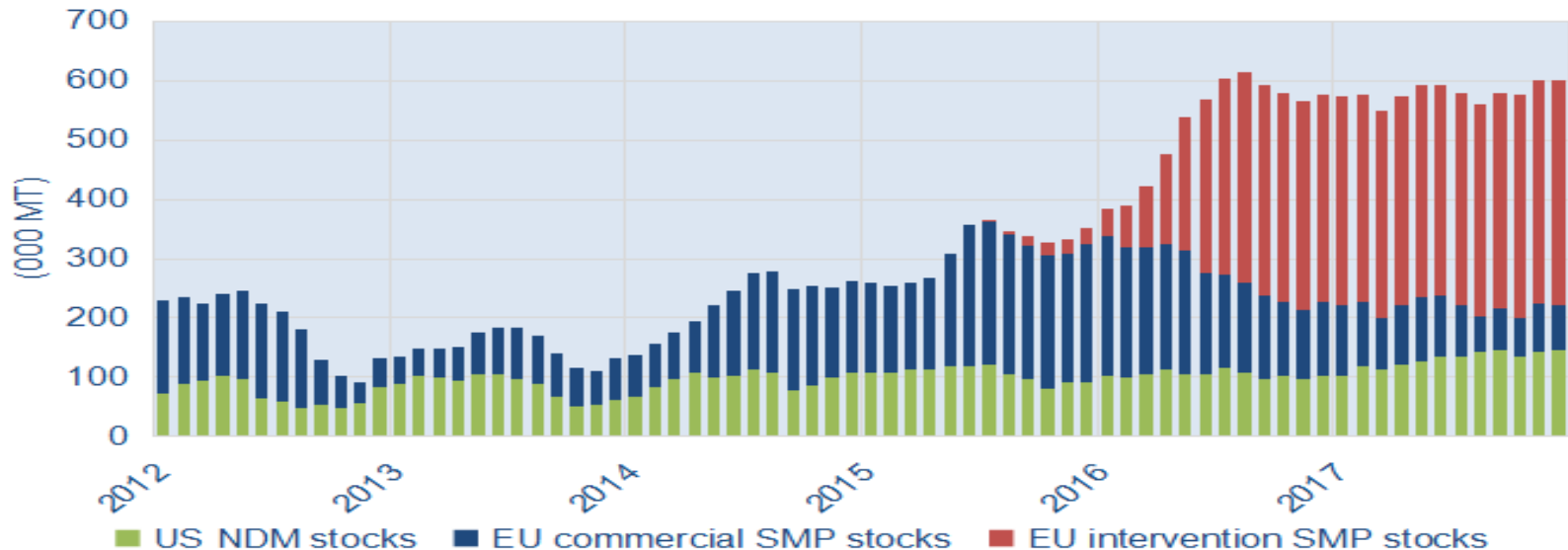
- **Main exporters Production and outlook: million tons**
- **Net growth 11 million tons , 3.3 million tons in main exporters**
- **4.6% of total global trade**

	2016	2017 ES	2018 F	Change
AR	10.2	10.1	10.7	5.9%
AU	9.5	9.3	9.5	2.2%
EU-28	151.0	151.7	152.1	0.3%
NZ	21.2	21.5	21.9	1.9%
US	96.3	97.8	99.5	1.7%
In sum	288.2	290.4	293.7	1.1%

01 New Circle: High Stock of SMP

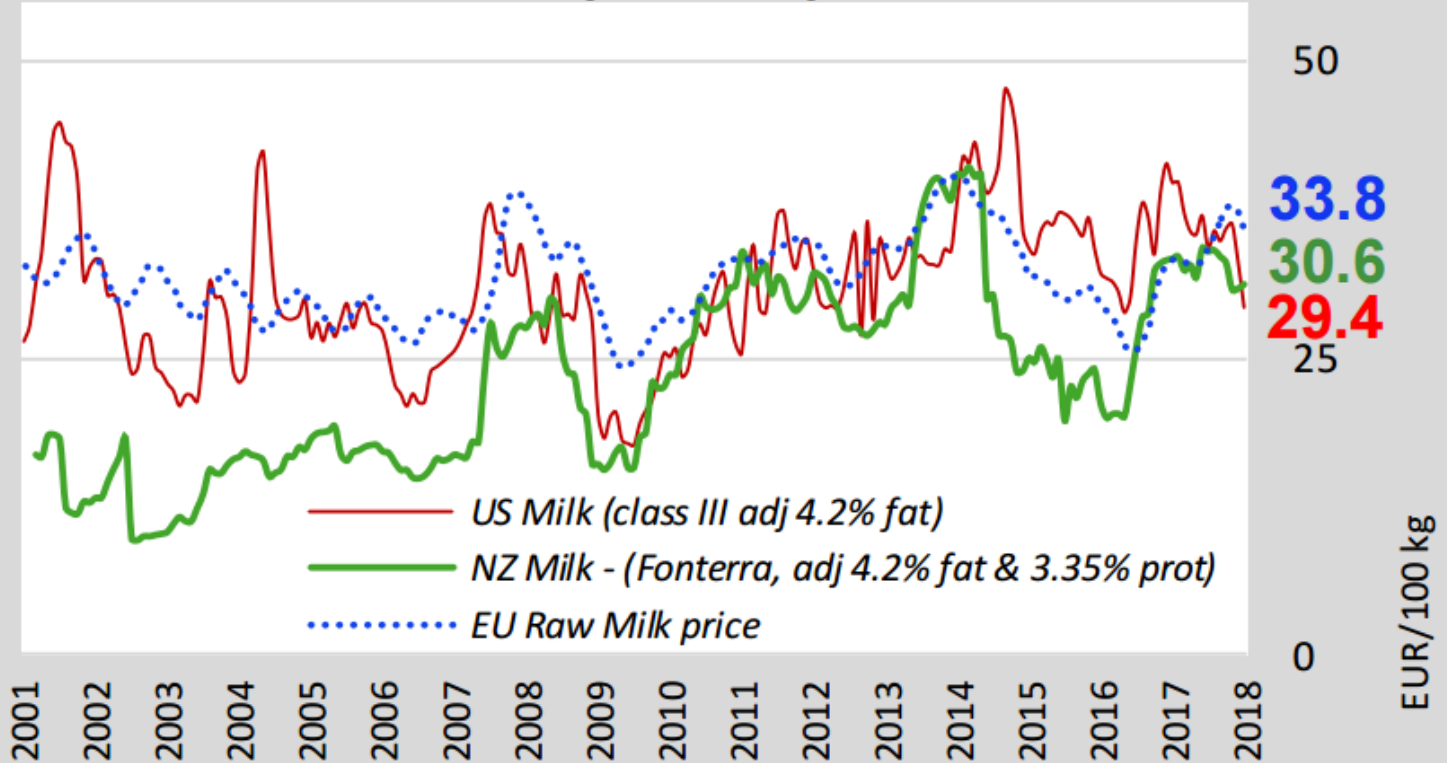
- High milk fat pursuing → high inventory of protein → low SMP price
- EU intervention stocks 378 K tons/ commercial stocks 77 k tons
- US NDM 145 K tons

欧盟和美国SMP/NDM库存量



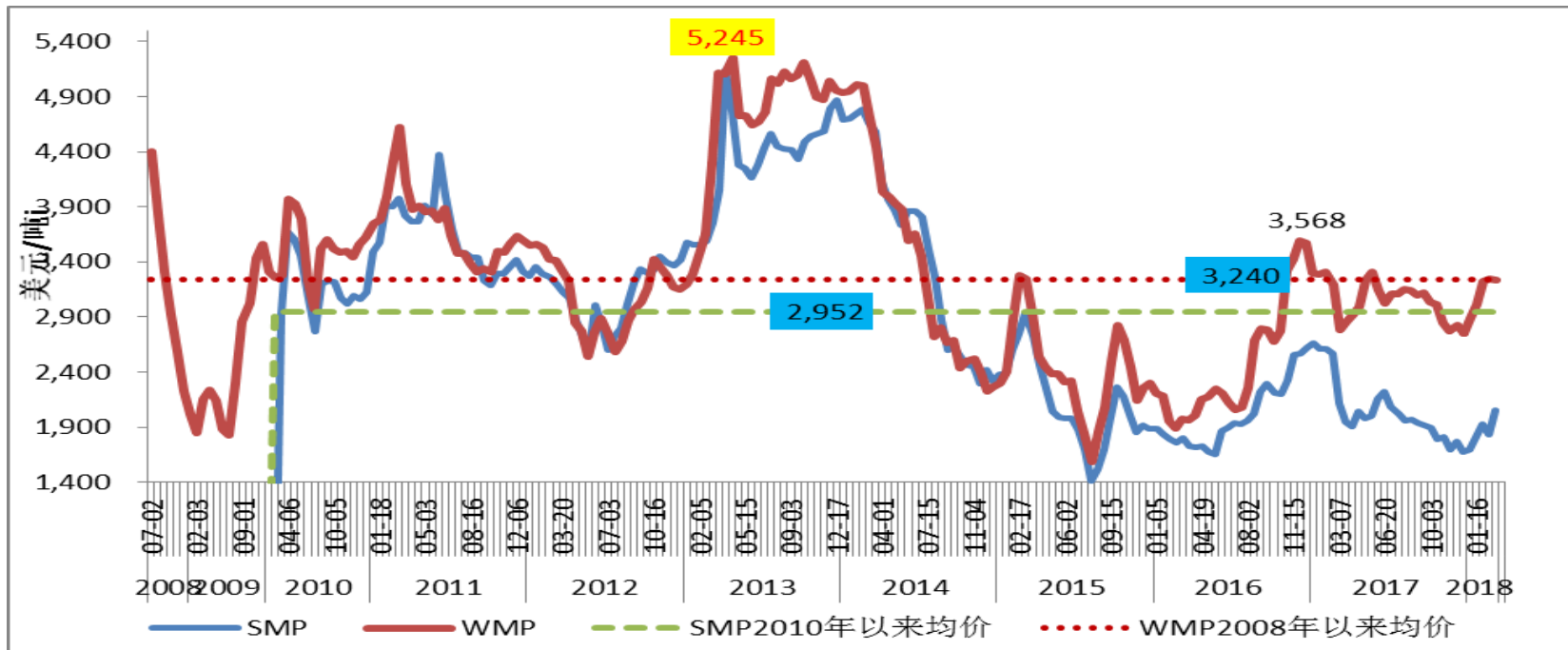
01 New Circle: Price Dropped in 2018

US, NZ and EU milk prices up to March 2018



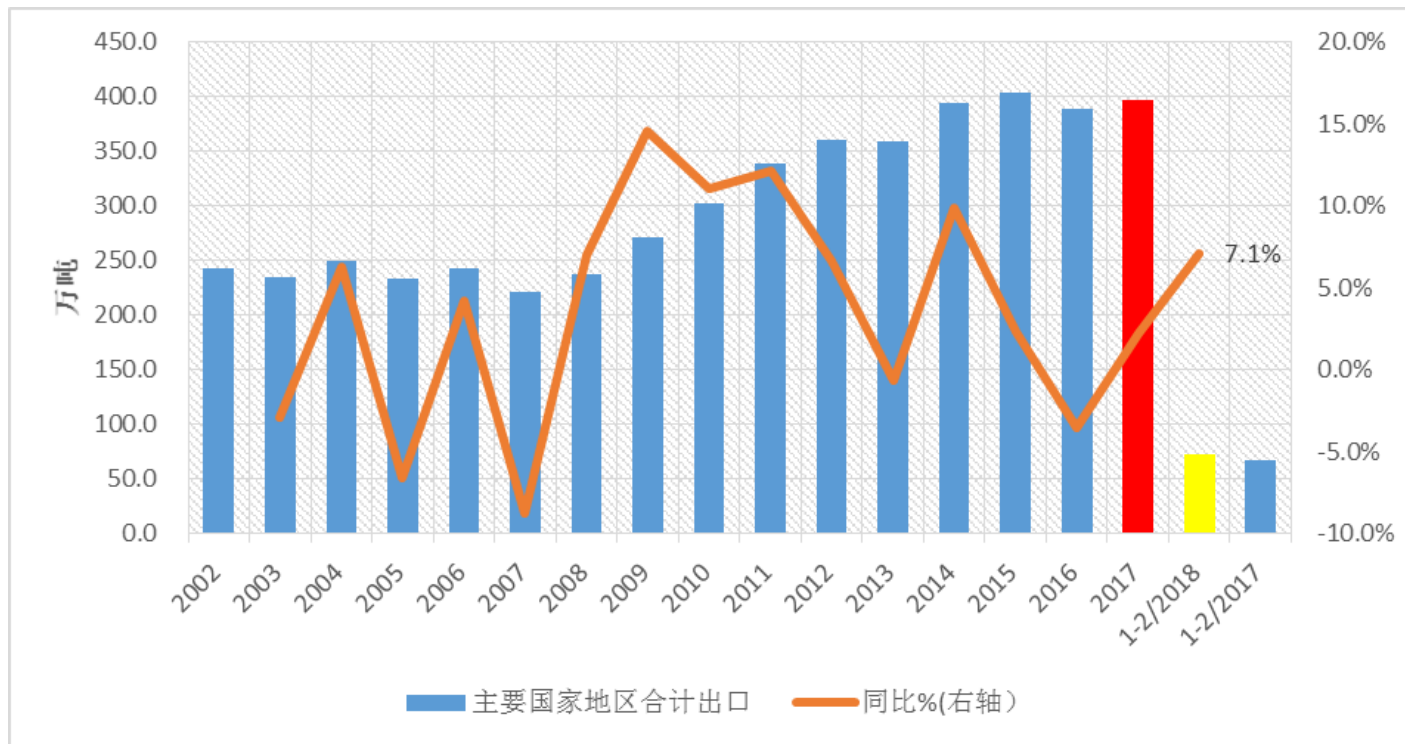
01 New Circle: Milk Powder Price

2018.04 WMP 3311 USD/Ton +16%; SMP 2051 USD/Ton +12%
Price gap between WMP and SMP



01 New Circle: WMP Exporting Volume

2017 +2.2% 2018.01-02 +7.1%





VS



02

**New Features
of Milk
Production:
less milk more
import**

02 New Feature

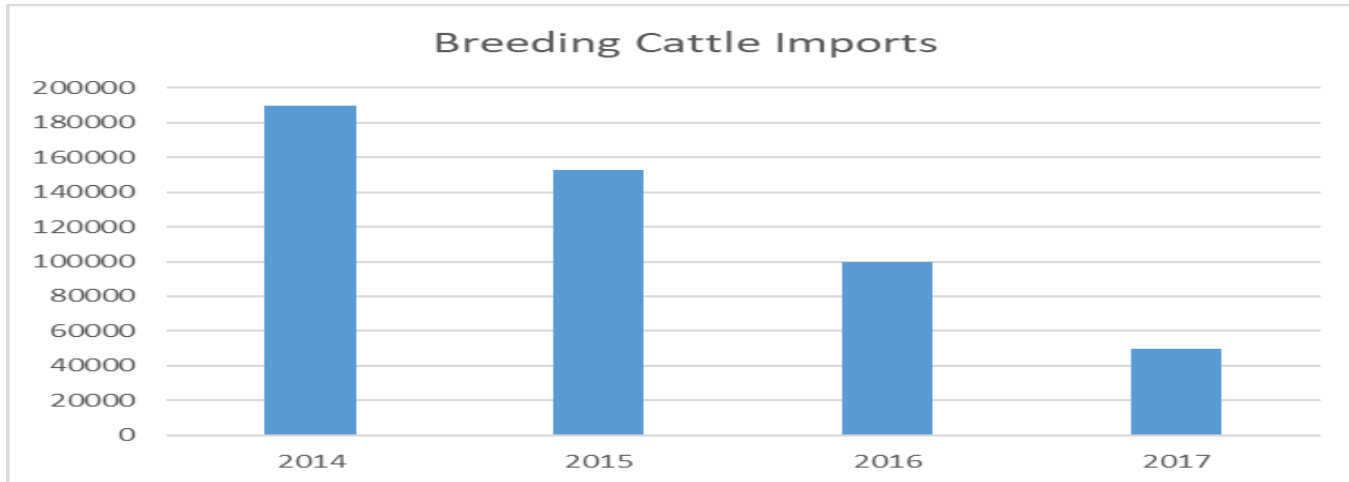
4 Major Features in 2017 and first quarter in 2018

- Less milk \ cows \ farms
 - Milk production -1.6%; farms number -20%; Cow inventory -9%
- More Dairy Imports
 - World: IFCN milk price +31% GDT WMP price +57%
 - China: MoA price +0.2% NDTs Price -2.9%
 - Dry products imports +13.2% liquid milk imports +7.1%
- Oil price surged RMB appreciation
 - Oil price +144% USD:RMB -9%
 - Benefits for dairy imports
- Consumption warmer , raw milk still surplus
 - General consumption of dairy are recovering
 - Raw milk is in surplus both regionally and seasonally
 - North: January-May

02 New Feature

Producers still in dilemma

- Cows inventory continuously dropped in last 4 years
 - Cow -9% according to MoA
 - Livestock restricted areas and bankrupt
 - Breeding heifers imports decrease:



02 New Feature

Producers still in dilemma

- Milk Production -1.6%
 - Inner Mongolia: -5.6%; Heilongjiang: -1.2%; Henan: -5%; Shandong: -0.8%; Hebei: +4%
 - 52 farms shut down in Shanghai area, 30000 head cows decrease in Beijing area
- Small producers in difficult
 - Processors limited milk collection volume
 - Reject milk or low price
 - Environment policy impacts small producers
 - New environment taxes

02 New Feature

Big producers in China

- Farms >100 heads: 50%
- Farms >500 heads: 4000
- Farms >1000 heads: 1500
- Farms >10000 heads: 70

✓ Top 15 producers

10% total cows, 19% of total milk, +10% production in 2017

	top 15 producers	total commercial producers
farms (farmers)	462	8,500
cows	1,470,000	4,850,000
avg. herd size	3182	577
milk production	6,770,000	13,520,000

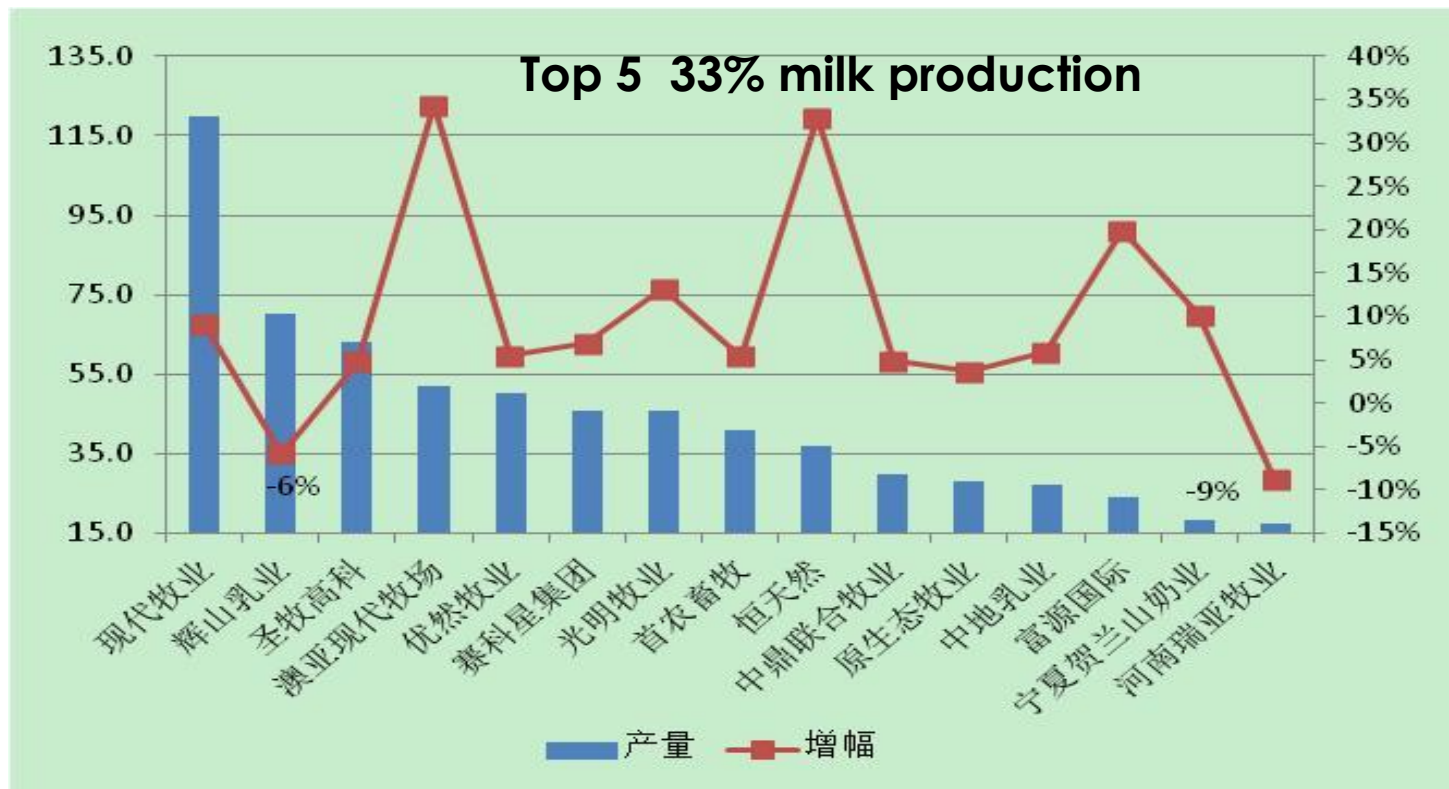
02 New Feature

Top 10 raw milk producers in China

Farming Corp.	Farms	Herd size	Milking cows	Milk prod.	Per cow yield	Public Corp.	Holder
	No	1000 heads	1000 heads	1000 tons	t/y		
Modern Farming	26	229.2	119.3	1100.2	9.50	HK	Mengniu Dairy
Huishan livestock	82	200.9	96.3	743.0	8.00	HK	Huishan Dairy
Shengmu high-tech	34	120.9	65.5	601.4	9.00	HK	DBN Group
Youran livestock	33	95.8	54.3	474.0	10.15	N.A.	Yili Dairy
Sk.Xing Farming	32	126.0	54.0	430.0	7.50	OTC	Sk.Xing Group
Bright Holstein	34	87.2	46.2	403.7	10.07	SH	Bright Dairy
Sunlon Livestock	34	82.0	41.0	398.0	9.98	N.A.	Capital Agriculture
AustAsia Farms	7	74.0	35.0	388.8	11.83	N.A.	JAPFA
Zhongding United	140	90.0	50.0	285.9	7.10	OTC	Zhongding holding
YST Farming	8	55.0	27.0	265.0	10.50	HK	Firmus (Feihe)

02 New Feature

Top 15 raw milk producers: +10% production



02 New Feature

Raw milk supply and Dairy production

- Raw milk supply **-1.6%** VS. Dairy production **increase**
 - 2017 dairy sales in retailers **+10%**
 - 2017 dry milk **+0.4%**, milk powder **+1.0%** ; liquid milk **+4.5%**
 - 2018.1-2 dry milk **+10.2%** , milk powder **+7.6%** ; liquid milk **+7.9%**
- Processors profits **increase**
 - **Growth from imports supply**
 - Main growing products' ingredients are imported :
 - ✓ infant formula: imported whey
 - ✓ Yogurt: imported WMP
 - Main products need raw milk: white milk production decreased

02 New Feature

Dairy products change from 2016-now

		2016	±%	2017	±%	2018. 1-2	±%
		Mil. MT		Mil. MT		Mil. MT	
液态奶	Liquid Milk	27.37	8.5	26.92	4.5	3.99	7.9
干乳	Dry Dairy Products	2.56	-0.6	2.43	0.4	0.31	10.2
奶粉	Milk Powder	1.39	-0.3	1.21	1.0	0.17	7.6

02 New Feature

Processors Revenue and Profit Increase

	Revenue	Growth%	Profits	Growth%	Net Profits	Growth%
Yili	524.71	13.64	58.56	11.84	49.37	12.47
Mengniu	601.56	11.86	26.25		20.48	
Bright	216.72	7.25	10.03	-1.40	6.17	9.60
Sanyuan	46.86	8.23	1.37	-47.03	1.23	-41.21
Ausnutria	39.27	43.29	4.39	47.25	3.08	44.85
Tianrun	12.40	41.71	1.21	20.41	0.99	26.64
Kedi	12.39	53.92	1.53	27.19	1.27	41.56
Yantang	12.39	12.58	1.40	7.80	1.21	13.84

02 New Feature

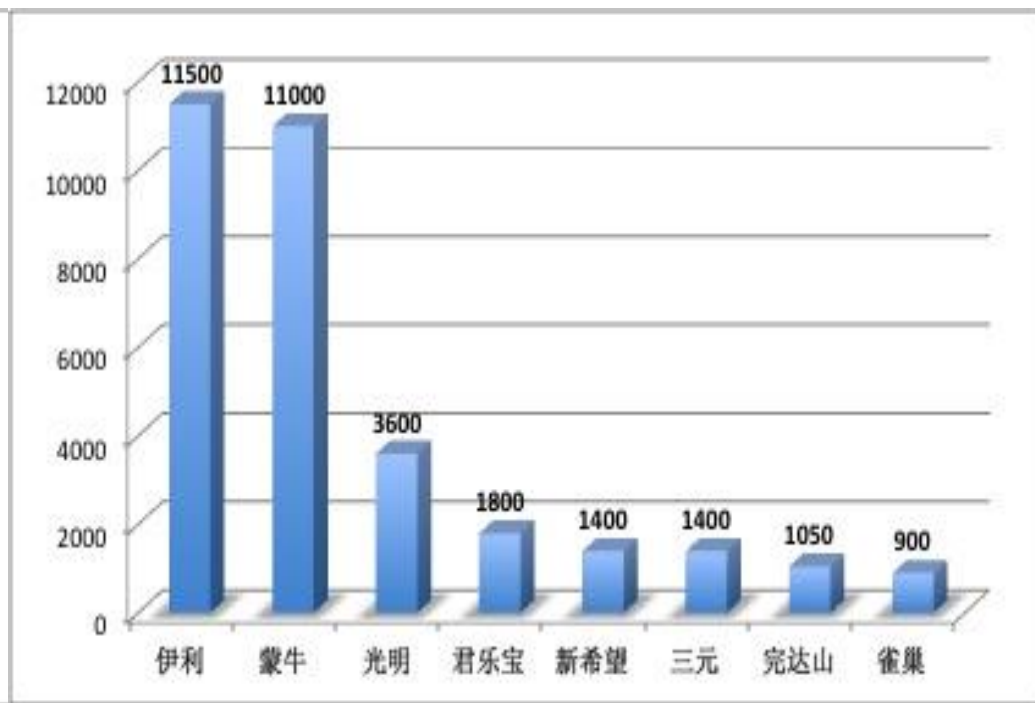
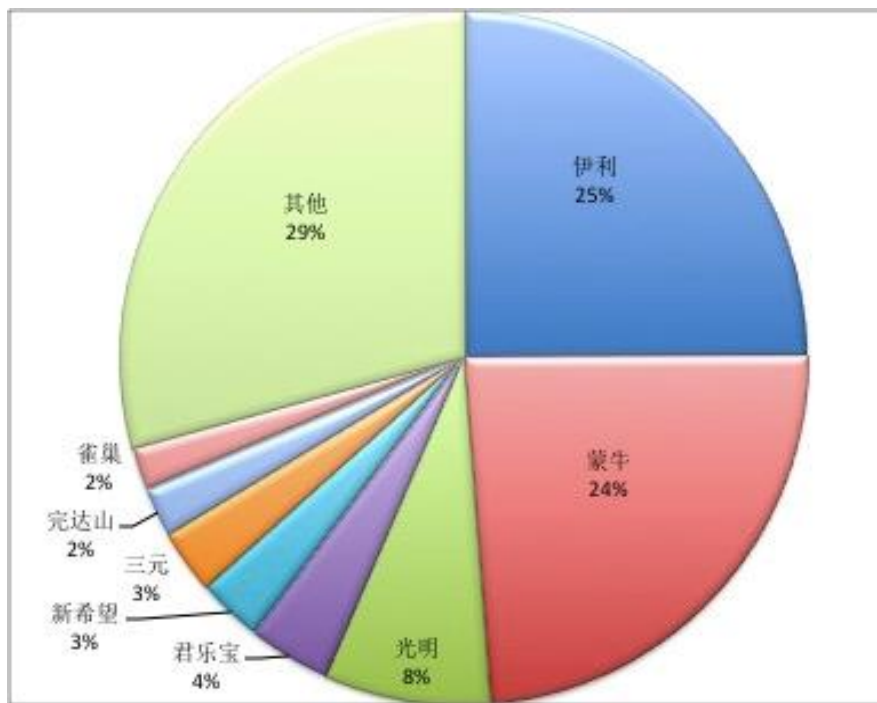
Producers Profit decrease

	Revenue	Change 2016	Net profit	Change 2016	Milk delivery	Change 2016	Raw milk price	Change 2016
	100 million	%	100 million	%	10 thousand tons	%	RMB/Kg	%
Modern Farming	47.84	-1.61	-9.75	亏损增加	114.88	13.76	3.83	-3.01
Shengmu	27.07	-21.92	-9.86	-244.84	58.59	2.62	4.27	-8.43
SK. Xing	17.41	32.20						
Zhongdi	11.34	17.92	0.13	-88.14	27.84	24.24	3.71	-2.88
YST	10.14	-1.47	-0.68	-23.33	26.25	1.50	3.86	-2.92
Zhongding United	9.90	-3.49	0.30	0.73				

02 New Feature

Top 8 processors collect 70% commercial raw milk

Actually, there is buyers' monopoly in the raw milk market





VS



03

New
Change
In Market

03 New Change in Market

Dairy consumption keep growing among FMCG

Market size in value growth rate

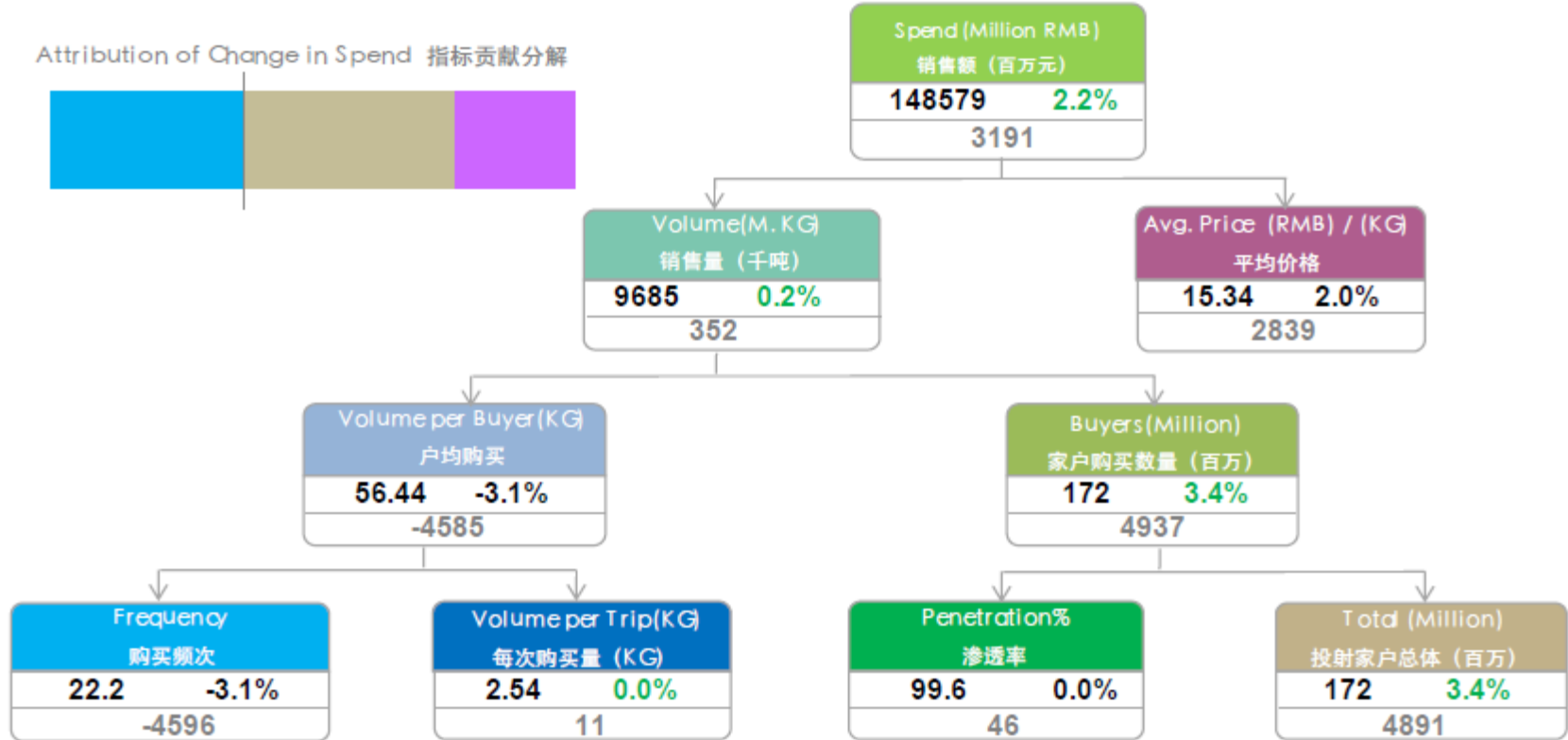
■ 2016 vs. 2015 ■ 2017 vs.2016



03 New Change in Market

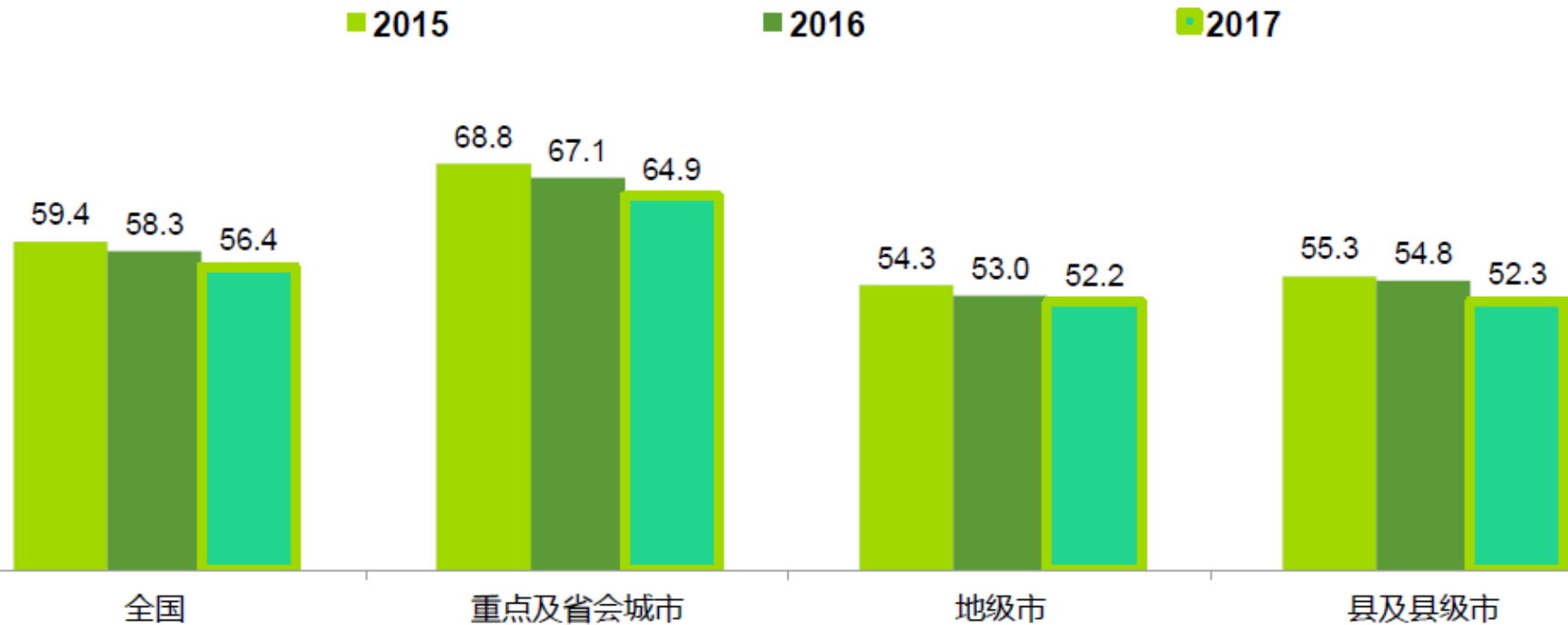
Key drivers in dairy consumption

Attribution of Change in Spend 指标贡献分解



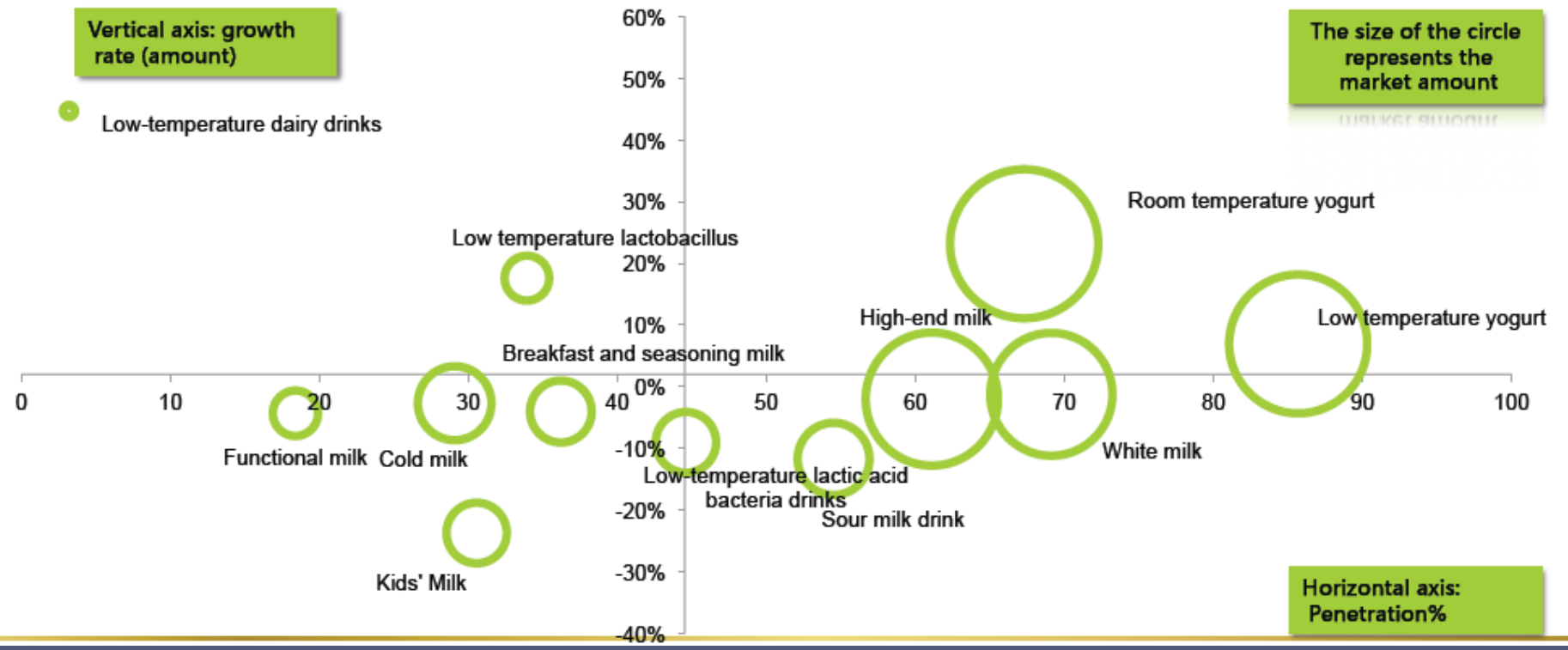
03 New Change in Market

Household dairy purchase stagnant or decline



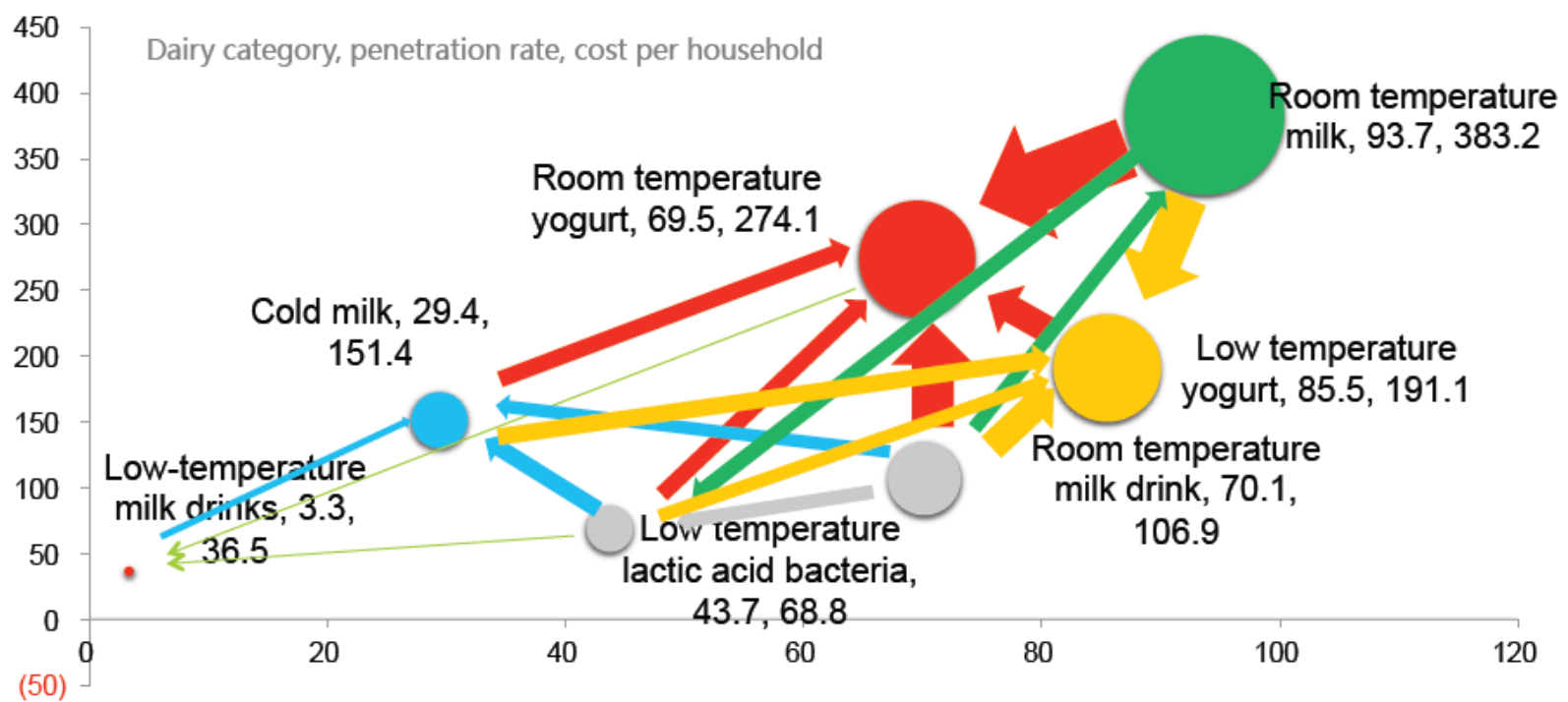
03 New Change in Market

Yogurt drive the growth of China dairy products



03 New Change in Market

dairy products internal evolution



03 New Change in Market

Opportunity

- Innovation for young consumers
- With the pursuit for quality of life of consumers, there is room for the growth in the high-end category of self-drink market
- Basic categories are undergoing product upgrades
- Have the opportunity to upgrade to ultra high end



+



04

**New Trend
In Future:
High cost
High subsidy
High price
High imports**

04 New Trend

Top 3 major contradictions constrain China Agriculture

- • Population and arable land
 - • Small farmers and big market
 - • Urban and rural resource compete
-
- 1978-2016 , agricultural employment rate dropped from 70.5% to 27.7%.
 - The average arable land per labor increased from 5.26 mu in 2001 to 8.39 mu in 2013

04 New Trend

Outlook of dairy production in 10 years

2017-2026 Livestock and Aquatic products Production
(unit: 10 thousand tons)

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Meat	8875	9052	9232	9413	9617	9737	9877	10005	10112	10225
Pork	5560	5648	5730	5830	5920	6005	6100	6180	6250	6325
Beef	732	748	766	785	802	814	827	838	850	861
Mutton	451	467	488	510	525	537	545	554	560	568
Poultry	1875	1905	1933	1968	2002	2032	2066	2097	2124	2153
Egg	3051	3081	3111	3143	3173	3203	3232	3262	3291	3321
Dairy	3976	4080	4158	4200	4266	4315	4368	4420	4500	4574
Aquatic	6917	7014	7100	7180	7253	7321	7384	7443	7498	7566

04 New Trend

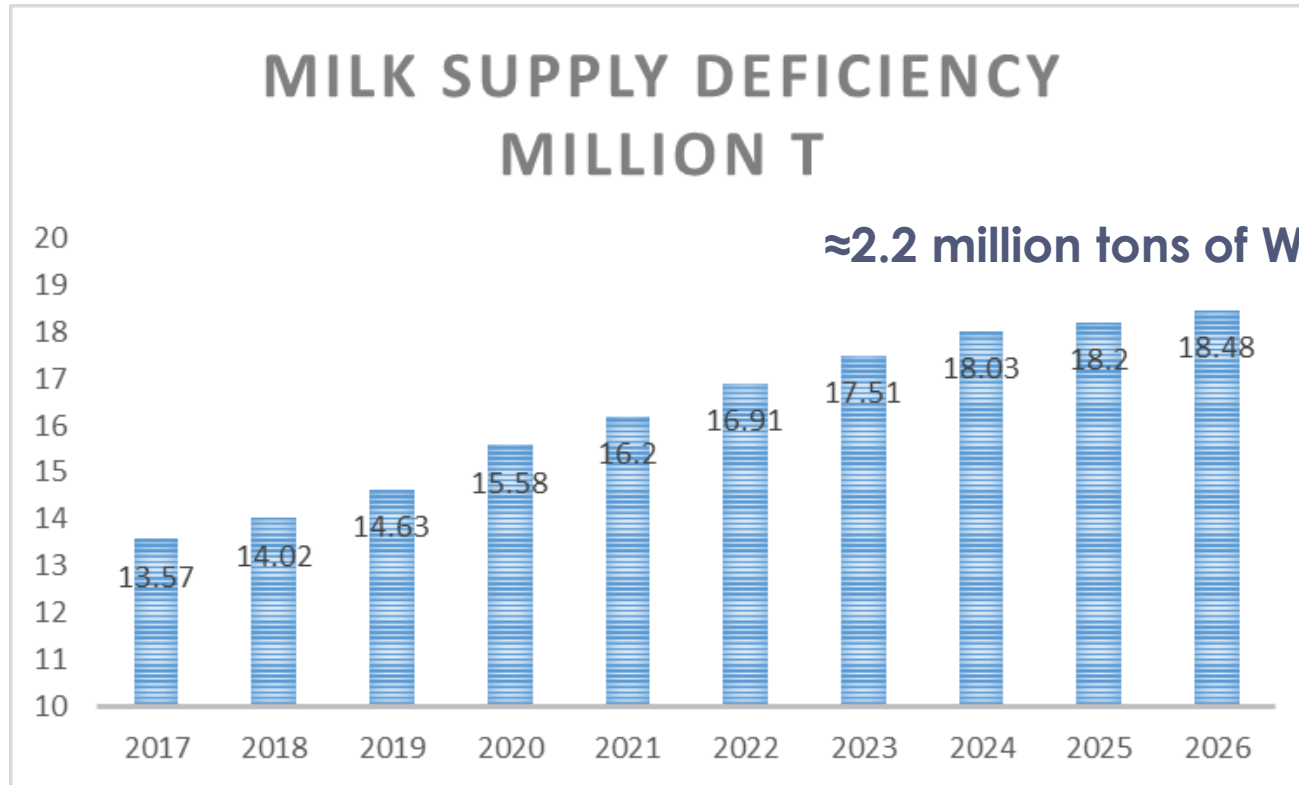
Outlook of dairy consumption in 10 years

- 2017-2026 Livestock and Aquatic products Consumption
 - (unit: 10 thousand tons)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Meat	9129	9288	9461	9676	9882	10026	10180	10325	10443	10577
Pork	5610	5699	5783	5880	5974	6061	6160	6250	6320	6406
Beef	790	812	835	860	882	900	918	935	954	971
Mutton	474	491	513	535	551	564	573	582	590	598
Poultry	1863	1899	1930	1961	1997	2030	2062	2100	2125	2151
Egg	3040	3070	3102	3133	3163	3193	3221	3250	3279	3312
Dairy	5333	5482	5621	5758	5886	6006	6119	6223	6320	6422
Aquatic	6929	7027	7117	7203	7280	7353	7420	7483	7542	7597

04 New Trend

Milk deficiency will long-term existed



04 New Trend

Dairy industry in China actually has competition with other livestock industry

- Swine, poultry , dairy and cattle industry can not meet domestic demand
- Natural resource distribution limited different livestock development
 - **Labor:** 1978-2016 , agricultural employment rate dropped from 70.5% to 27.7%.
 - **Land:** The average arable land per labor increased from 5.26 mu in 2001 to 8.39 mu in 2013.

04 New Trend

China Agriculture is high cost and low competitiveness

- As China gradually integrates into the world's agricultural system, the contradiction between population and land has become one of the main factors that have pushed up the cost and weakened competitiveness.

grain	competitors	land cost	labor cost
soybean	US/BZ	155.5%	1548%
cotton	US/CA/AU	300.5%	511%
corn	US	129.9%	1733%
rice	TL	134.3%	950%
wheat	CA	294.8%	2923%

04 New Trend

China dairy still in safe zone compare with other agricultural industry

section	products	Profit rate	Domestic products market share	Imported products market share
Safe zone	rice	10.60%	97.80%	2.20%
	dairy	20.70%	88.60%	11.40%
	pork	12.30%	97.10%	2.90%
Risk zone	Corn	-39.10%	90.00%	10.00%
	Wheat	-8.80%	96.90%	3.10%
	Sugar	15.40%	78.80%	21.20%
High risk zone	Cotton	-26.90%	61.30%	38.70%
	Soybean	-44.80%	23.50%	76.50%

04 New Trend

China dairy is a high cost and high subsidy

- ◆ High land cost
- ◆ High labor efficiency/cost
- ◆ High unproductive cost
 - Cooks/security guard/environmental tax
 - Rejected milk storage/process
- ◆ High feed cost
 - Corn/soybean meal/cotton seed/alfalfa/oats
- ✓ Central government subsidy
 - No VAT/low interest loan
 - 100 million per year to qualified producers
 - DHI program 7/cattle
 - AI program 15/2 doses
 - Machinery subsidy
 - Free mouth/feet disease vaccine
 - Free water/low price electricity
- ✓ Local subsidy
 - poverty alleviation project: a free cow per poverty family
 - High amount directly subsidy

04 New Trend

China-US trade war possibility and potential influence to dairy

First, not a war just a disagreement

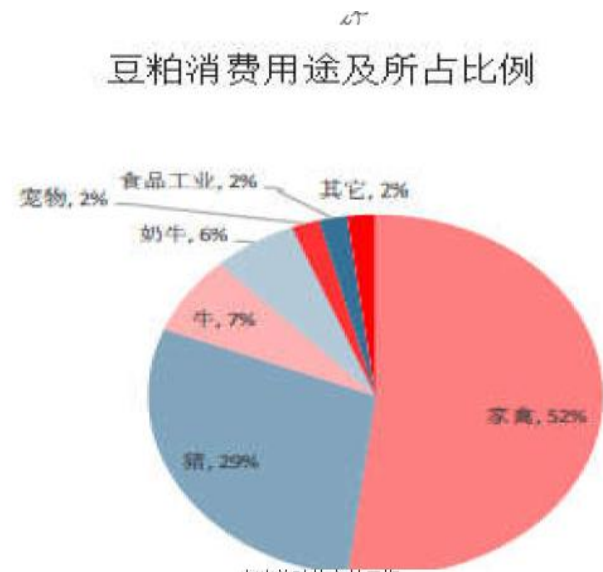
Second, will be cease before mid of June

Three, 3-6 month to apply have time to find substitution

Price of soybean increase 5% 10% 15% 30%,
CPI increase 0.08% , 0.17% , 0.33% , 0.5%

China imported soybean dependency is 85%
41% US, 37% BZ

Dairy need 6% of total consumption



04 New Trend

China-US trade war possibility and potential influence to dairy

Livestock profit bonus from canceling corn support price (70% price dropped)

Soybean substitution: Ukraine? Brazil?

No Soybean meal ration:

Cotton seed meal, canola meal,

Peanuts meal, DDGS

Imports separately from other countries

Use [futures trading](#) to avoid risk





感谢聆听

**THANK YOU
FOR WATCHING**