

Kweichow Moutai (600519 CH)

1Q came in slightly higher than we expected

- Moutai released its 1Q preliminary financial data that beat expectation with revenue/ net profits growing by 18/19%, respectively. The data tracked above the 15% management guidance given for the numbers for the full year of 2023. We attribute the strength mainly to the incremental sales growth from iMoutai and a strong premiumization effort.
- We view this positively, and we think this shall help dispel concern on a weak March sales momentum that spread out from the recent Wine Fair (糖酒会). Of note, the news triggered sector share prices to down by c.3% last Monday (10 April).
- Our recent channel check with distributors indicated that wholesales pricing for sealed Feitian Moutai per bottle has recovered to about RMB2,950 (from the low of RMB2,900 in March). Going forward, we see scope for pricing to recover further as channel inventory should ease over a more festive 2Q which clusters with the 5.1 and the Dragon Boat Festival.
- **Earnings change.** We maintain our forecasts for now.
- Moutai is our strong Buy that benefits from China's reopening theme within our F&B coverage universe.
- **Valuation.** Our TP is based on 41.0x end-23E P/E, which represents long-term average since 2019. Our methodology reflects our relative optimism (vis-a-vis other F&B diversified of which target multiples are based on -1sd below long term average) that Moutai is one of the core beneficiaries standing at the forefront of China's reopening with high certainty in earnings support.

Earnings summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	97,993	109,464	127,215	149,786	172,710
YoY growth (%)	10.3	11.7	16.2	17.7	15.3
Net income (RMB mn)	46,697	52,460	62,593	74,579	86,626
EPS (RMB)	37.2	41.8	49.8	59.4	69.0
YoY growth (%)	13.3	12.3	19.3	19.1	16.2
Consensus EPS (RMB)	na	na	50.0	62.0	70.0
P/E (x)	na	na	34.4	28.9	24.7
P/B (x)	na	na	9.6	9.2	7.6
Div Yield (%)	na	na	2.7	1.6	1.9
ROE (%)	29.1	27.7	27.9	31.9	30.7
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (maintain)

Target Price RMB2,440

Up/Downside +42.3%
Current Price RMB1,713

China Consumer Staples -
Food and Beverage

Joseph Wong
(852) 3900 0838
josephwong@cmbi.com.hk

Stock Data

Mkt Cap (RMB bn)	2,152.9
Avg 3 mths t/o (RMB mn)	4,364.5
52w High/Low (RMB)	2,050/1,316
Total Issued Shares (mn)	1,256

Source: Wind

Shareholding Structure

Kweichow Moutai Winery	54.0%
HK Securities Clearing	7.3%
Guizhou State Own Capital	4.5%

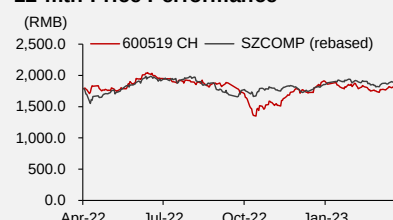
Source: BBG

Share Performance

	Absolute	Relative
1-mth	-1.6%	-5.2%
3-mth	-10.2%	-11.9%
6-mth	-0.3%	-6.8%

Source: BBG

12-mth Price Performance



Source: BBG

Related Reports

1. [China Consumer – Positive takeaway from F&B distributors; but sector's bull-run could take a breather from here](#) – 31 Jan 2023
2. [CR Beer \(291 HK\) – Another positive year for 2023: our preferred pick for China's re-opening](#) – 22 Jan 2023
3. [China Feihe \(6186 HK\) – Looks to be a beta play within 1H23, when birth rate likely starts inflecting post 3Q](#) – 3 Jan 2023

Figure 1: Earnings revisions

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	127,215	149,786	172,710	127,215	149,786	172,710	0.0%	0.0%	0.0%
Gross Profit	117,734	139,270	161,021	117,734	139,270	161,021	0.0%	0.0%	0.0%
EBIT	87,989	104,098	120,466	87,989	104,098	120,466	0.0%	0.0%	0.0%
Net profit	62,593	74,579	86,626	62,593	74,579	86,626	0.0%	0.0%	0.0%
Gross Margin	92.5%	93.0%	93.2%	92.5%	93.0%	93.2%	0.0ppt	0.0ppt	0.0ppt
EBIT Margin	69.2%	69.5%	69.8%	69.2%	69.5%	69.8%	0.0ppt	0.0ppt	0.0ppt
Net Margin	49.2%	49.8%	50.2%	49.2%	49.8%	50.2%	0.0ppt	0.0ppt	0.0ppt

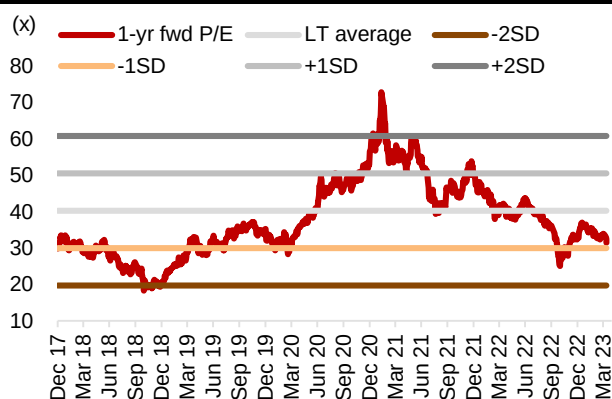
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	127,215	149,786	172,710	127,215	147,570	170,019	0.0%	1.5%	1.6%
Gross Profit	117,734	139,270	161,021	117,734	139,852	161,548	0.0%	-0.4%	-0.3%
Operating Profit	87,989	104,098	120,466	87,989	103,142	119,888	0.0%	0.9%	0.5%
Net profit	62,593	74,579	86,626	62,716	73,635	86,031	-0.2%	1.3%	0.7%
Gross Margin	92.5%	93.0%	93.2%	92.5%	94.8%	95.0%	0ppt	-1.8ppt	-1.8ppt
Operating Margin	69.2%	69.5%	69.8%	69.2%	69.9%	70.5%	0ppt	-0.4ppt	-0.7ppt
Net Margin	49.2%	49.8%	50.2%	49.3%	49.9%	50.6%	-0.1ppt	-0.1ppt	-0.4ppt

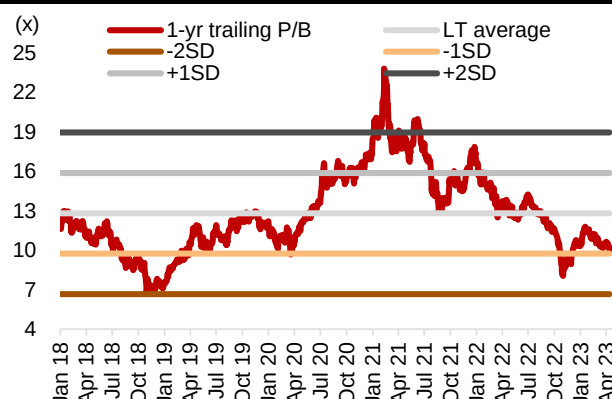
Source: Company data, CMBIGM estimate

Figure 3: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 4: 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	97,993	109,464	127,215	149,786	172,710
Moutai spirit	84,831	93,465	107,657	125,571	143,754
Series spirit	9,991	12,595	15,711	20,059	24,469
Financial and fee income	3,171	3,405	3,848	4,155	4,488
Gross profits	89,728	100,307	117,734	139,270	161,021
Selling expense	(2,548)	(2,737)	(3,053)	(3,745)	(4,318)
Administration expenses	(6,840)	(8,512)	(8,905)	(10,485)	(12,090)
Sales tax and other op exp	(13,887)	(15,304)	(17,786)	(20,942)	(24,147)
EBIT	66,387	73,738	87,989	104,098	120,466
EBITDA	67,704	75,217	89,469	105,757	122,340
Finance costs, net	235	935	1,144	1,379	1,456
Investment gains/loss	(44)	3	-	-	-
Non-operating income/(expense)	(425)	(144)	(210)	(210)	(210)
Pre-tax profit	66,197	74,528	88,923	105,267	121,712
Income tax	(16,674)	(18,808)	(22,440)	(26,565)	(30,715)
Less: Minority interests	(2,826)	(3,260)	(3,890)	(4,124)	(4,371)
Net profit (reported)	46,697	52,460	62,593	74,579	86,626

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	46,697	52,460	62,593	74,579	86,626
D&A	1,317	1,480	1,480	1,659	1,874
Change in working capital	857	7,860	1,753	2,178	2,684
Others	2,798	2,229	3,890	4,124	4,371
Net cash fr. operating act.	51,669	64,029	69,715	82,539	95,555
Capex & investments	(2,090)	(3,409)	(3,962)	(4,664)	(5,378)
Acquisition	0	2	-	-	-
Others	284	(2,156)	(200)	(200)	(200)
Net cash fr. investing act.	(1,805)	(5,562)	(4,162)	(4,864)	(5,578)
Equity raised	-	-	-	-	-
Change of Debts	-	-	-	-	-
Dividend paid	(21,390)	(24,236)	(27,228)	(65,096)	(38,781)
Others	(4,813)	(1,642)	-	-	-
Net cash fr. financing act.	(26,203)	(25,877)	(27,228)	(65,096)	(38,781)
Net change in cash	23,661	32,589	38,326	12,579	51,195
Cash at the beginning of the year	130,630	154,291	186,878	225,203	237,782
Exchange difference	0	(2)	-	-	-
Cash at the end of the year	154,291	186,878	225,203	237,782	288,977
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	27,744	34,403	37,084	40,290	43,995
PP&E/Fixed assets	18,673	19,794	22,411	25,553	29,195
Intangibles	4,817	6,208	6,274	6,337	6,400
Investments	-	5	5	5	5
Other non-current assets	4,254	8,395	8,395	8,395	8,395
Current assets	185,652	220,766	262,515	278,868	334,226
Cash	154,291	186,878	225,203	237,782	288,977
Account receivable	2,466	422	507	608	730
Inventory	28,869	33,394	36,734	40,407	44,448
Other current assets	27	72	72	72	72
Current liabilities	45,674	57,914	63,091	69,044	75,890
Borrowings	-	-	-	-	-
Account payables	29,822	34,510	39,687	45,640	52,486
Other payables	15,852	23,404	23,404	23,404	23,404
Non-current liabilities	1	296	296	296	296
Borrowings	-	-	-	-	-
Other non-current liabilities	1	296	296	296	296
Common stock	1,256	1,256	1,256	1,256	1,256
Retained earnings	157,769	185,860	221,224	230,707	278,552
Minority Interest	6,398	7,418	11,308	15,432	19,803
Total net assets	167,721	196,958	236,212	249,818	302,035
Shareholders' equity	161,323	189,539	224,904	234,386	282,232

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Moutai spirit	86.6	85.4	84.6	83.8	83.2
Series spirit	10.2	11.5	12.3	13.4	14.2
Financial interests and fees	3.2	3.1	3.0	2.8	2.6
P&L ratios (%)					
Gross margin	91.6	91.6	92.5	93.0	93.2
Operating margin	67.7	67.4	69.2	69.5	69.8
Pre-tax margin	67.6	68.1	69.9	70.3	70.5
Net margin	47.7	47.9	49.2	49.8	50.2
Effective tax rate	(25.2)	(25.2)	(25.2)	(25.2)	(25.2)
Balance sheet analysis					
Current ratio (x)	0.8	0.8	0.9	0.9	0.9
Net receivable days	9.2	1.4	1.4	1.4	1.4
Inventory turnover days	1,274	1,331	1,331	1,331	1,331
Net payable days	1,317	1,375	1,375	1,375	1,375
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	29.1	27.7	27.9	31.9	30.7
Dividend yield	na	na	2.7	1.6	1.9
Per share					
EPS - reported (RMB)	37.2	41.8	49.8	59.4	69.0
DPS (RMB)	19.3	21.7	51.8	30.9	35.9
BVPS (RMB)	128.4	150.9	179.0	186.6	224.7

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBIGMG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBIGMG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBIGMG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBIGMG at +65 6350 4400 for matters arising from, or in connection with the report.