

Kweichow Moutai (600519 CH)

Proxy of China's consumption-led recovery; buying into any weakness for the next recovery wave

As the proxy of China consumption, we think Moutai is undoubtedly well-positioned to benefit from the current consumption-driven recovery. This will not only be underpinned by reopening of restaurants and resumption of social events, but also company specific catalysts. These include 1) platform extension through i-Moutai (with the launch of 100ml "Flying Fairy" a.k.a "Feitian" SKU) registering RMB15bn 2022 revenue (~16% of total) with 30mn active users, and 2) a more diversified sales mix from Series baijiu with core products such as Moutai 1935, Moutai Prince Classics (茅台王子酒酱香经典), Moutai Prince Gold (茅台金王子), etc. Meanwhile, we are wary of the capacity bottleneck of both Moutai/ Series baijiu, which has been a known drag to growth. That said, without a legit substitute, we view this an ongoing opportunity for Moutai to monetize this excess demand through gradual price hike, until the announced capacity expansion (Moutai/ Series baijiu to 71k/ 56k ton) completes. Compounding with our reopening thesis, this happening expansion improvises a multi-year growth story (in both price and volume) in which we project 16%/ 17% 3-year revenue/ net profits CARG between 2022-25E, respectively, with a steadily improving GPM. We are buy-rated with a refreshed TP at RMB2,440 upon coverage transfer. We think shares could take a breather after the bull-run but we would recommend buying into any weakness for the next recovery wave in which growth is likely to re-accelerate from 2Q onwards.

- **Major earnings assumptions.** 4Q22 revenue/ net profits stood at RMB37/18bn. This adds up 2022 revenue/ net profits to RMB127.2/62.6bn, respectively. Referring to the announcement, we project 2023E revenue to grow at 17.7%, thanks to 16.6% growth in Moutai baijiu and 27.7% in Series baijiu. We further assume 8% YoY volume growth to 41k tons for the former, and 14% YoY growth to 38k tons for the latter.
- **Channel check on Lunar New Year demand dynamics.** Moutai recorded MSD to HSD sales growth, with strong momentum seen in Series SKUs. ASP for sealed "Flying Fairy/ Feitian" was ~RMB2,970 per case, while that for unsealed was RMB2,780, about RMB100 higher than those by end-22.
- **Valuation.** With minor earnings change, our TP of RMB2,440 (from RMB2,447) is based on 41.0x end-23E P/E (from 53.7x mid-21), which represents long-term average since 2019 (since 2017). 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	36.5	30.6	26.4
P/B (x)	na	na	10.2	9.7	8.1
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				

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB2,440
Up/Downside	+34.2%
Current Price	RMB1,818

China Consumer Staples - Food and Beverage

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Stock Data

Mkt Cap (RMB bn)	2,318.9
Avg 3 mths t/o (RMB mn)	5,817.5
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%

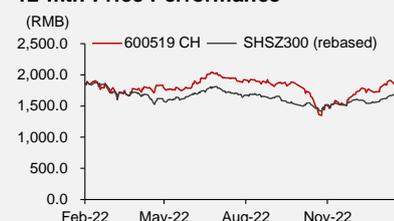
Source: BBG

Share Performance

	Absolute	Relative
1-mth	4.9%	-1.4%
3-mth	23.4%	9.9%
6-mth	-3.8%	-3.9%

Source: BBG

12-mth Price Performance



Source: BBG

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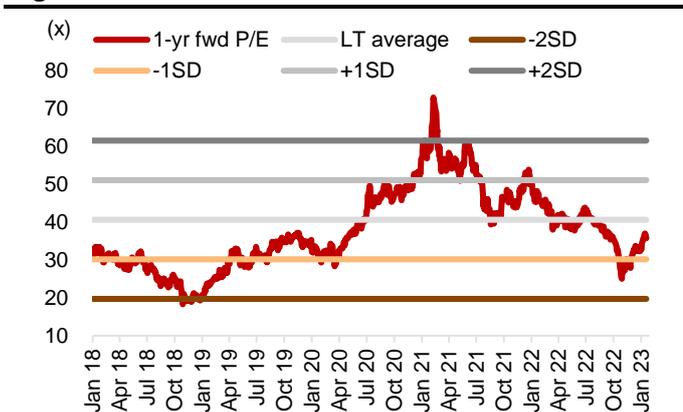
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Figure 1: Major assumptions 2019-24E

	2019	2020	2021	2022E	2023E	2024E
Volume (tons)						
Total	64,645	64,056	66,438	71,269	78,962	87,550
YoY growth(%)	3.9%	-0.9%	3.7%	7.3%	10.8%	10.9%
Total Moutai spirits						
Total Moutai spirits	34,562	34,313	36,261	38,074	41,120	44,410
YoY growth(%)	6.5%	-0.7%	5.7%	5.0%	8.0%	8.0%
Series spirits						
Series spirits	30,083	29,743	30,177	33,195	37,842	43,140
YoY growth(%)	1.0%	-1.1%	1.5%	10.0%	14.0%	14.0%
ASP ex-VAT (Rmb/ton)						
Average	1,374,490	1,529,809	1,647,606	1,785,000	1,896,930	1,972,707
YoY growth(%)	10.8%	11.3%	7.7%	8.3%	6.3%	4.0%
Moutai spirit						
Moutai spirit	2,193,197	2,472,302	2,577,549	2,827,571	3,053,777	3,237,003
YoY growth(%)	8.7%	12.7%	4.3%	9.7%	8.0%	6.0%
Series spirits						
Series spirits	317,191	335,909	417,359	473,285	530,079	567,185
YoY growth(%)	16.9%	5.9%	24.2%	13.4%	12.0%	7.0%
Revenue						
Total	88,854	97,993	109,464	127,215	149,786	172,710
YoY growth(%)	15.1%	10.3%	11.7%	16.2%	17.7%	15.3%
Moutai spirit						
Moutai spirit	75,802	84,831	93,465	107,657	125,571	143,754
YoY growth(%)	15.8%	11.9%	10.2%	15.2%	16.6%	14.5%
Series spirits						
Series spirits	9,542	9,991	12,595	15,711	20,059	24,469
YoY growth(%)	18.1%	4.7%	26.1%	24.7%	27.7%	22.0%
Finance income						
Finance income	3,510	3,171	3,405	3,848	4,155	4,488
YoY growth(%)	-3.4%	-9.7%	7.4%	13.0%	8.0%	8.0%

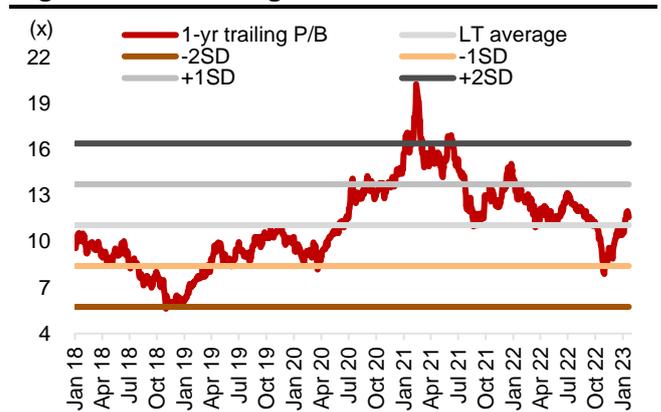
Source: Company data, CMBIGM

Figure 2: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 3: 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

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

Source: Company data, CMBIGM estimates

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	-	-	-	-	-

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				
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

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