

China White Wine Sector

Channel and product mix optimization as well as price hikes drive ASP growth

We continue to prefer high-end white wine sector given its high growth visibility (scarcity + favorable competitive landscape + rigid demand). Channel and product mix optimization as well as price hikes should drive ASP growth. We lifted Moutai and Wuliangye TP to RMB2,153.3 and RMB347.5, implying 3.1x and 2.7x PEG in FY21E, respectively, which is lower than 3.5x/3.4x of white wine peers and int'l wine peers. Maintain Buy.

- **Moutai series wine products raised prices by 10-40%.** News said Kweichow Moutai will also reduce production volumes of Wangziju (“王子酒”) and Yingbinjiu (“迎賓酒”) by 75-80%, and terminate certain products and end marketing fees. We think the volume cut mainly targets low-price low-margin Yingbinjiu and estimate total sales volume of series wine to rise 2% to 30,000 tonnes in FY21E. Series wine segment could achieve growth of revenue and net profit by optimizing product portfolio and reducing promotion expenses. We think this is a positive news but these measures would not have material earnings accretion to the Company given that series wine segment accounted for 10% of revenue in FY20E.
- **Moutai has large room to raise price but timing could be 3Q21E.** According to our channel checks, Moutai distributors will prepay for quota for Feb and Mar 2021 this week. If the Company does not raise ex-factory price of Moutai this week, we think the price hike could postpone until 3Q21. That said, the Company still has ample room to increase its ex-factory price (RMB969) given that wholesale price now trades at around RMB2,900.
- **Wuliangye FY20 results largely in line.** Revenue rose 14% to RMB57.2bn. Net profit also increased 14% to RMB19.9bn. Revenue was 1% below our estimates and in line with consensus. Net profit was 3% lower than our estimates and consensus.
- **Channel and product optimization to continue in FY21E. (1) Moutai:** The Company will optimize its channel mix by increasing sales volume in direct sales, e-commerce and supermarket channels as well as sales of high-price Moutai products like Shengxiaojiu Jingpinpiu. **(2) Wuliangye:** The Company targets to have 60%/40% channel sales mix between distributors/corporate group purchase & e-commerce in long-term. The increase of corporate group purchase and e-commerce sales mix would enhance revenue growth and GPM because of higher selling prices.
- **Maintain Outperform and lifted TP. (1) Moutai:** We trimmed FY20/21/22E net profit by 1%/6%/1% and estimate a 17% EPS CAGR from in FY19-22E (vs 18% previously). Given higher sector valuation benchmark, our TP is raised from RMB2,153.3 to RMB2,313.0, based on 53.7x FY21E P/E, still at 15% premium to other staples segment leaders' average. **(2) Wuliangye:** We trimmed FY20/21/22E net profit by 1-2% and estimate 20% EPS CAGR in FY19-22E. We raised TP from RMB307.8 to RMB347.5, at 54.2x FY21E P/E which is still at 1.01x to our target P/E of Moutai (53.7x).

Valuation Table

Name	Ticker	Rating	Mkt Cap (LC bn)	Price (LC)	TP Upside (LC)	TP (%)	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	ROE (%) FY20E
Moutai	600519 CH	Buy	2,625	2,090.0	2,313.0	11	57.7	48.5	14.7	30.8
Wuliangye	000858 CH	Buy	1,230	317.0	347.5	10	61.7	49.4	12.9	24.9

Source: Company data, CMBIS estimates

OUTPERFORM (Maintain)

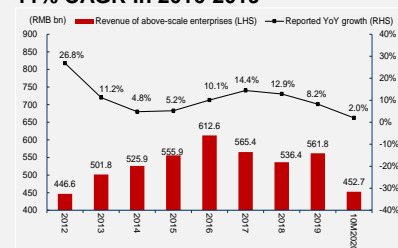
China White Wine Sector

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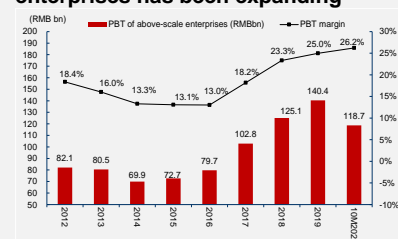
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Above designated size white wine enterprises' revenue in China grew at 11% CAGR in 2016-2019



Source: National Statistics Bureau; CADA

PBT margin of above designated enterprises has been expanding



Source: National Statistics Bureau; CADA

Production volume of above designated size enterprises' fell 10.3% in 11M20



Source: National Statistics Bureau

Related Reports

“China Beer and White Wine Sector: Leaders to benefit from ASP growth and sector consolidation; top picks are Moutai and CR Beer” – 9 Nov 2020

Kweichow Moutai (600519CH, Buy)

Series wine products raised prices by 10-40%

News reported that Moutai Sauce-flavored Liquor Marketing Co (“茅台酱香酒营销公司”) raised ex-factory prices of owned products by 10-40%, reduced production volumes of Wangziju (“王子酒”) and Yingbinjiu (“迎宾酒”) by 75-80% and terminated certain products. In addition, the Company will not offer marketing fees.

According to 茅粉事务所 wechat account, we understand that cut of production volume is mainly from Yingbinjiu and products terminated include Caifujiu (“财富酒”) and Guobojiu (“国博酒”). Total production volume of series wine is maintained at around 30,000 tonnes (+2% YoY) in FY21E. We think the production volume cut mainly targets low-price low-margin products. The Company could achieve growth of revenue and net profit by optimizing product portfolio and reducing promotion expenses. That said, series wine only accounted for 10% of revenue in FY20E. These optimization measures would not have material earnings impact.

Figure 1: Change of ex-factory prices of certain series wine products

Products	Ex-factory price (RMB)		Change (%)
	Old	New	
普迎宾	78	88	13%
普王子	98	118	20%
酱香经典	168	188	12%
珍品王子	170	218	28%
普汉酱	268	288	7%

Source: 茅粉事务所

FY20 results in line

The Company released an update on 2020 production and operation. Production volume of base wine for Moutai and series wine was 50,000 tonnes and 25,000 tonnes, respectively, in 2020. Total revenue grew by 10% to RMB97.7bn in FY20E while revenue of series wine dropped 1% to RMB9.4bn. Net profit increased by 10% to RMB45.5bn in FY20E.

The Company's net profit is 1%/2% below our estimates and consensus, respectively. Total revenue rose 10% to RMB97.7bn, in line with our estimates and consensus, respectively. Given that the Company had not lifted ex-factory price and its Moutai sales volume growth was flat in FY20, we think the revenue growth was mainly driven by higher sales mix in direct sales channel, e-commerce and supermarket channels. The selling prices at such channels are higher than selling price to distributors.

Moutai Group targets to join Global Top 500 Companies by 2025

Assuming to reach not less than RMB200bn revenue in 2025, we estimate parent company to achieve at least 12% revenue CAGR from 2019 to 2025E to join Global Top 500 Companies. In 2019, the Company contributed 89% of total revenue of parent company.

Continue channel optimization in 2021

Looking into 2021, the Company will optimize its channel mix by increasing sales volume in direct sales, e-commerce and supermarket channels and trimming sales volume to distributors will decrease. Moutai supply will be increased at direct sales channel before

2021 CNY holiday. The Company also plans to optimize sales of high-price Moutai products like Shengxiaojiu, Jingpinjiu and old liquor in 2021.

Price hike could delay until 3Q21

Different from the previous announcement of production and operation update, the Company did not mention FY21E total revenue growth target in the announcement of 2020 production and operation update. According to our channel checks, distributors will prepay for Moutai procurement quota for Feb and Mar 2021 this week. If the Company does not raise ex-factory price of Moutai this week, we think the price hike could delay until 3Q21. That said, the Company still has ample room to increase its ex-factory price (RMB969) given that wholesale price now trades at around RMB2,900.

Raise TP to RMB2,313.0

We fine-tuned FY20/21/22E net profit by -1%/-6%/-1% to factor in 2020 results and postponement of Moutai price hike from 1Q21 to 3Q21. We forecast the Company still could deliver 17% EPS CAGR from FY19 to FY22E (vs 18% previously). Given higher valuation benchmark, our TP is raised from RMB2,153.3 to RMB2,313.0, based on 53.7x FY21E P/E, still at 15% premium to other staples segment leaders average. Our TP implies 3.1x FY21E PEG, which is still below 3.5x/3.4x/5.8x of white wine peers/int'l wine peers/int'l luxury goods peers.

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	94,091	110,212	132,367	95,142	116,842	133,183	-1%	-6%	-1%
Gross Profit	86,111	101,419	122,706	86,995	107,749	123,275	-1%	-6%	0%
EBIT	65,174	77,555	95,076	65,986	82,491	95,478	-1%	-6%	0%
Net profit	45,539	54,107	66,472	46,146	57,799	66,861	-1%	-6%	-1%
Gross Margin	91.5%	92.0%	92.7%	91.5%	92.2%	92.6%	flat	-0.2ppt	+0.1ppt
Operating Margin	69.3%	70.4%	71.8%	69.4%	70.6%	71.7%	-0.1ppt	-0.2ppt	+0.1ppt
Net Margin	48.4%	49.1%	50.2%	48.5%	49.5%	50.2%	-0.1ppt	-0.4ppt	flat

Source: CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	94,091	110,212	132,367	98,142	114,771	133,488	-4%	-4%	-1%
Gross Profit	86,111	101,419	122,706	90,094	105,999	123,677	-4%	-4%	-1%
EBIT	65,174	77,555	95,076	64,866	78,553	94,489	0%	-1%	1%
Net profit	45,539	54,107	66,472	45,961	55,139	65,315	-1%	-2%	2%
Gross Margin	91.5%	92.0%	92.7%	91.8%	92.4%	92.7%	-0.3ppt	-0.4ppt	flat
EBIT Margin	69.3%	70.4%	71.8%	66.1%	68.4%	70.8%	+3.2ppt	+2.0ppt	+1.0ppt
Net Margin	48.4%	49.1%	50.2%	46.8%	48.0%	48.9%	+1.6ppt	+1.1ppt	+1.3ppt

Source: Bloomberg estimates, CMBIS estimates

Wuliangye (000858CH, Buy)

FY20 results largely in line

The Company announced unaudited preliminary FY20 operation figures. Revenue rose 14% to RMB57.2bn. Net profit also increased 14% to RMB19.9bn. Revenue was 1% below our estimates and in line with consensus. Net profit was 3% lower than our estimates and consensus.

Develop new channels to drive growth

The Company established a sales team to develop corporate group purchase channel in 2020. It targets to have 60%/40% channel sales mix between traditional distributors/corporate group purchase and e-commerce in long-term. Given that the selling prices at e-commerce (RMB1,399) and group purchase channel (around RMB1,000) are higher than selling price to distributors (RMB889), this channel mix change would enhance revenue growth and GPM.

Enhance brand scarcity.

Two high-end products, 501 Wuliangye and Classic Edition Wuliangye, which are produced from limited mud cellars established in Ming and Qing Dynasty, are used to raise brand equity. Also, the Company would gradually extend its storage period of base wine to three years to enhance product quality (vs Moutai's four years).

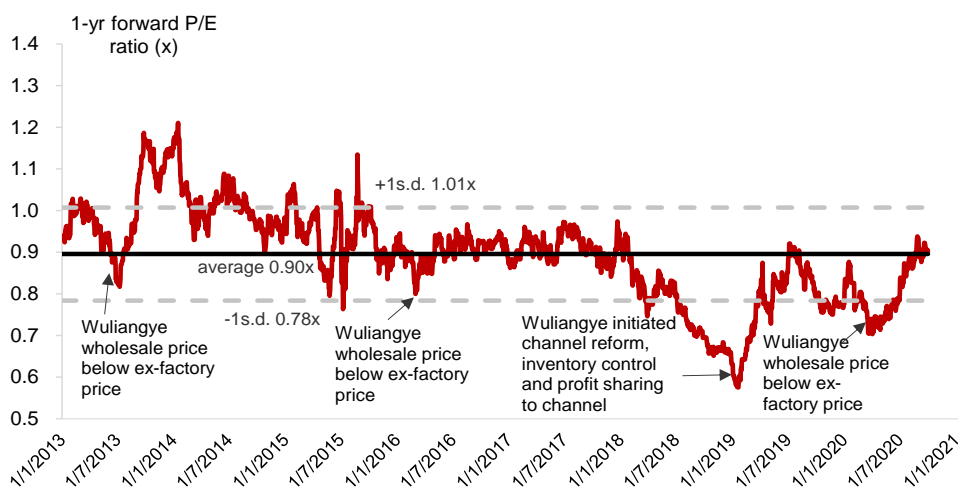
Wuliangye Group targets to join Global Top 500 Companies by 2025

Assuming to reach not less than RMB200bn revenue in 2025, we estimate parent company to achieve at least 11% revenue CAGR from 2019 to 2025E to join Global Top 500 Companies. In 2019, the Company contributed 46% of total revenue of parent company.

Raise TP to RMB347.5

We mildly lower FY20/21/22E net profit by 1-2% to factor in FY20 operation figures. FY19-22E EPS CAGR is kept at 20%. Our TP is raised from RMB307.8 to RMB347.5, at 54.2x FY21E P/E which is still at 1.01x to our target P/E of Moutai (53.7x).

Figure 4: The Company's 1-yr forward P/E traded at greater discount to Moutai's 1-yr forward P/E when its wholesale price was below ex-factory price



Source: Bloomberg, Company data, CMBIS estimates

Figure 5: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	57,246	68,326	78,994	57,714	68,755	79,488	-1%	-1%	-1%
Gross Profit	42,989	52,098	61,215	43,427	52,402	61,559	-1%	-1%	-1%
EBIT	26,052	32,613	39,120	26,714	33,091	39,655	-2%	-1%	-1%
Net profit	19,936	24,888	29,864	20,439	25,257	30,278	-2%	-1%	-1%
Gross Margin	75.1%	76.2%	77.5%	75.2%	76.2%	77.4%	-0.1ppt	flat	+0.1ppt
Operating Margin	45.5%	47.7%	49.5%	46.3%	48.1%	49.9%	-0.8ppt	-0.4ppt	-0.4ppt
Net Margin	34.8%	36.4%	37.8%	35.4%	36.7%	38.1%	-0.6ppt	-0.3ppt	-0.3ppt

Source: CMBIS estimates

Figure 6: CMBIS estimates vs consensus

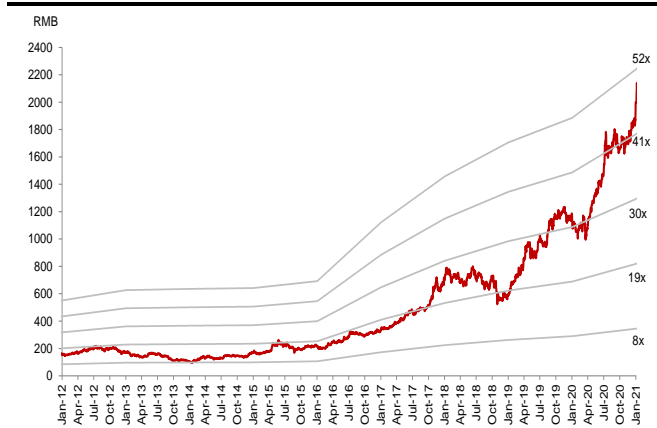
RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	57,246	68,326	78,994	57,359	67,838	78,929	0%	1%	0%
Gross Profit	42,989	52,098	61,215	43,171	51,860	60,940	0%	0%	0%
EBIT	26,052	32,613	39,120	26,528	32,534	39,224	-2%	0%	0%
Net profit	19,936	24,888	29,864	20,292	24,982	29,926	-2%	0%	0%
Gross Margin	75.1%	76.2%	77.5%	75.3%	76.4%	77.2%	-0.2ppt	-0.2ppt	+0.3ppt
EBIT Margin	45.5%	47.7%	49.5%	46.2%	48.0%	49.7%	-0.7ppt	-0.3ppt	-0.2ppt
Net Margin	34.8%	36.4%	37.8%	35.4%	36.8%	37.9%	-0.6ppt	-0.4ppt	-0.1ppt

Source: Bloomberg estimates, CMBIS estimates

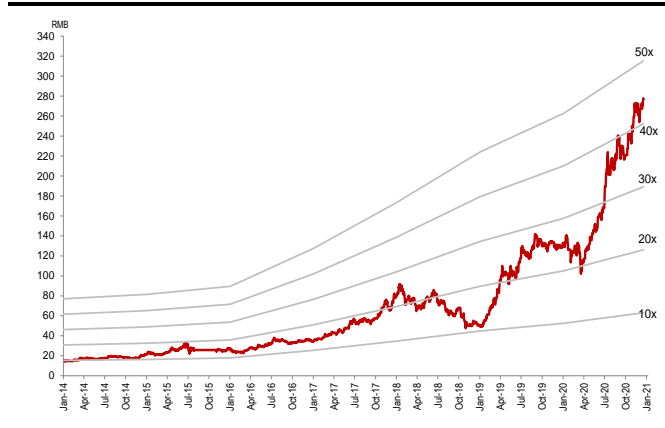
Figure 7: Peers' valuation table

	Stock code	Rating	Price	Mkt cap (RMB/US\$m)	Y/E	P/E (x)			EPS growth (%)			P/B (x)	ROAE (%)	FY0-3 EPS cagr	FY2 PEG
						FY1	FY2	FY3	FY1	FY2	FY3				
Kweichou Moutai	600519 CH	Buy	2090.00	2,625,453	Dec-19	57.7	48.5	39.5	11	19	23	16.4	30.8	17.3	2.8
Haitian Flavouring	603288 CH	NR	214.25	694,265	Dec-19	106.2	89.3	75.3	22	19	19	33.2	33.0	19.9	4.5
Yili	600887 CH	Buy	49.27	299,691	Dec-19	40.5	34.3	29.7	6	18	15	10.5	27.1	13.0	2.6
Tsingtao Brewery	600600 CH	Hold	106.50	124,462	Dec-19	65.1	55.5	48.9	12	17	14	6.2	11.1	14.2	3.9
Yonghui	601933 CH	NR	7.16	68,137	Dec-19	28.8	23.1	18.8	50	24	23	3.2	10.9	31.9	0.7
C&S Paper	002511 CH	NR	24.71	32,400	Dec-19	35.6	29.0	24.3	48	23	19	6.6	19.2	29.3	1.0
Shanghai Jahwa	600315 CH	NR	37.34	25,315	Dec-19	66.0	49.3	35.4	(32)	34	39	3.8	5.7	8.4	5.9
Segment leaders						57.0	46.7	38.7	18	23	21	10.6	17.8	19.5	3.1
Wuliangye	000858 CH	Buy	317.00	1,230,470	Dec-19	61.7	49.4	41.2	15	25	20	14.4	24.9	19.7	2.5
Jiangsu Yanghe	002304 CH	NR	242.47	365,399	Dec-19	48.1	42.2	37.0	3	14	14	9.0	19.2	10.2	4.1
Luzhou Laojiao	000568 CH	NR	255.47	374,200	Dec-19	64.5	52.9	44.0	25	22	20	16.3	26.1	22.3	2.4
Shanxi Fen Wine	600809 CH	NR	411.99	359,061	Dec-19	127.4	98.5	76.8	45	29	28	36.3	30.5	33.9	2.9
Anhui Gujing	000596 CH	NR	271.77	115,931	Dec-19	65.1	50.7	42.2	0	29	20	13.2	19.8	15.6	3.3
Sichuan Swellfun	600779 CH	NR	92.90	45,376	Dec-19	66.3	48.5	39.6	(17)	37	23	20.0	30.1	11.5	4.2
Jiangsu King's Luck	603369 CH	NR	61.90	77,654	Dec-19	50.1	39.8	32.2	6	26	24	9.3	18.6	18.3	2.2
Beijing Shunxin	000860 CH	NR	70.86	52,562	Dec-19	70.4	52.1	40.3	(8)	35	29	6.4	8.3	17.3	3.0
Anhui Kouzi	603589 CH	NR	71.01	42,606	Dec-19	32.0	26.1	22.1	(23)	23	18	5.6	17.7	3.8	6.8
White wine sector						65.1	51.1	41.7	5	27	22	14.5	21.7	17.0	3.5
Diageo	DGE LN	NR	3038.00	96,516	Jun-20	26.8	23.8	21.9	3	13	9	9.4	37.1	8.3	2.9
Remy Cointreau	RCO FP	NR	148.70	9,184	Mar-20	58.3	46.6	40.1	2	25	16	5.0	8.9	14.2	3.3
Pernod Ricard	RI FP	NR	157.95	50,583	Jun-20	28.8	24.8	22.2	3	16	12	2.8	9.1	10.1	2.5
Brown-Forman	BF/B US	NR	78.43	36,717	Apr-20	44.4	41.4	37.2	3	7	11	14.7	37.8	7.0	5.9
Constellation	STZ US	NR	230.21	44,611	Feb-20	23.6	22.2	19.3	7	7	15	3.1	14.6	9.4	2.4
Int'l wine sector						36.4	31.8	28.1	4	14	13	7.0	21.5	9.8	3.4
Int'l wine sector - excluding outliers														9.8	3.4
LVMH	MC FP	NR	525.30	324,251	Dec-19	64.1	36.9	31.8	(42)	74	16	6.8	11.1	5.1	7.2
Hermes	RMS FP	NR	887.40	114,564	Dec-19	82.5	58.6	50.8	(26)	41	15	13.0	16.4	6.3	9.4
Richemont	CFR SW	NR	83.00	53,791	Mar-20	60.5	31.9	26.4	(27)	90	21	2.6	4.0	19.0	1.7
Kering	KER FP	NR	586.30	90,541	Dec-19	37.3	25.7	22.2	(39)	45	15	6.5	18.1	1.0	25.8
Ferrari	RACE IM	NR	180.25	42,308	Dec-19	64.2	44.7	37.7	(24)	44	18	19.2	29.5	8.8	5.1
Prada	1913 HK	Buy	46.90	15,475	Dec-19	na	72.7	47.6	(117)	(500)	53	4.7	(1.2)	1.3	55.3
Int'l luxury goods sector						61.7	45.1	36.1	(46)	(35)	23	8.8	13.0	6.9	17.4
Int'l luxury goods sector - excluding outliers														9.8	5.8

Source: Bloomberg estimates, CMBIS estimates

Figure 8: P/E band of Moutai

Source: Company data, CMBIS estimates, Bloomberg

Figure 9: P/E band of Wuliangye

Source: Company data, CMBIS estimates, Bloomberg

Financial Summary of Moutai

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	73,639	85,430	94,091	110,212	132,367
Liquor	73,565	85,345	93,999	110,113	132,260
Others	74	85	92	99	107
Cost of sales	(6,523)	(7,430)	(7,980)	(8,793)	(9,662)
Gross profit	67,116	78,000	86,111	101,419	122,706
Other income	3,434	3,284	3,500	4,387	5,686
Selling expenses	(2,572)	(3,279)	(2,627)	(3,054)	(3,620)
Admin expenses	(5,326)	(6,168)	(6,780)	(7,637)	(8,658)
R&D expenses	(22)	(49)	(75)	(88)	(106)
Tax & surcharges	(11,289)	(12,733)	(14,949)	(17,467)	(20,927)
Others	(1)	(5)	(5)	(5)	(5)
EBIT	51,339	59,049	65,174	77,555	95,076
Finance costs, net	4	(7)	(7)	(7)	(7)
Non-operating items	(515)	(259)	(259)	(259)	(259)
Profit before tax	50,828	58,783	64,908	77,288	94,810
Income tax	(12,998)	(14,813)	(16,357)	(19,477)	(23,892)
Non-controlling interests	(2,626)	(2,764)	(3,012)	(3,705)	(4,446)
Net profit	35,204	41,206	45,539	54,107	66,472

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit after tax	37,830	43,970	48,551	57,812	70,918
D&A	1,175	1,243	1,304	1,373	1,442
Net finance cost	0	0	7	7	7
Change in working capital	2,377	(23)	(1,619)	(2,020)	(2,432)
Others	3	20	0	0	0
Net cash from operating	41,385	45,211	48,244	57,172	69,935
Capex	(1,607)	(3,149)	(5,575)	(4,225)	(1,825)
Others	(22)	(17)	(306)	21	21
Net cash from investing	(1,629)	(3,166)	(5,881)	(4,204)	(1,804)
Interest paid	(0)	(0)	(28)	(28)	(28)
Dividend paid	(16,441)	(20,117)	(23,240)	(25,488)	(29,935)
Others	0	833	0	0	0
Net cash from financing	(16,441)	(19,284)	(23,268)	(25,516)	(29,963)
Net change in cash	23,315	22,761	19,094	27,452	38,168
Cash at the beginning	74,928	98,243	121,004	140,098	167,550
Exchange difference	0	0	0	0	0
Cash at the end	98,243	121,004	140,098	167,550	205,718

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	21,985	24,018	28,616	31,468	31,850
PPE	17,203	17,663	21,854	24,630	24,941
Intangible assets	3,499	4,728	4,818	4,904	4,986
Loans and advances	36	49	49	49	49
Other non-current assets	1,247	1,578	1,895	1,884	1,874
Current assets	137,862	159,024	180,960	211,776	253,805
Inventories	23,507	25,285	27,813	30,595	33,654
Trade receivables	564	1,463	1,611	1,887	2,267
Others	1,716	1,647	1,812	2,119	2,540
Placement with inst.	103,009	117,378	123,247	129,409	135,879
Cash balance	9,066	13,252	26,477	47,767	79,464
Current liabilities	42,438	41,093	42,316	43,661	45,089
Trade payables	1,178	1,514	1,626	1,791	1,968
Other payables	5,439	6,035	6,459	6,916	7,410
Customer deposits	13,577	13,740	14,427	15,149	15,906
Others	22,244	19,805	19,805	19,805	19,805
Non-current liabilities	0	73	73	73	73
Deferred tax liabilities	0	73	73	73	73
Total net assets	117,408	141,876	167,187	199,511	240,493
Shareholders' equity	112,839	136,010	160,162	190,634	229,025
Minority Interest	4,570	5,866	7,025	8,876	11,469

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Liquor	99.9	99.9	99.9	99.9	99.9
Others	0.1	0.1	0.1	0.1	0.1
Margin & ratios (%)					
Gross margin	91.1	91.3	91.5	92.0	92.7
EBIT margin	69.7	69.1	69.3	70.4	71.8
Net margin	47.8	48.2	48.4	49.1	50.2
Payout ratio	51.9	51.9	51.9	51.9	51.9
Balance sheet ratios					
Current ratio (x)	3.2	3.9	4.3	4.9	5.6
Quick ratio (x)	2.7	3.3	3.6	4.1	4.9
A/C receivables days	4	4	6	6	6
A/C payables days	61	66	72	71	71
Inventory turnover days	1275	1198	1214	1212	1214
Net cash (RMB mn)	100,602	119,581	138,675	166,127	204,295
Returns (%)					
ROAE	34.5	33.1	30.8	30.8	31.7
ROAA	25.7	25.6	24.7	25.5	26.8
Per share					
EPS (RMB)	28.02	32.80	36.25	43.07	52.92
DPS (RMB)	14.54	17.03	18.81	22.35	27.46
BVPS (RMB)	89.83	108.27	127.50	151.75	182.32

Source: Company data, CMBIS estimates

Financial Summary of Wuliangye

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	40,030	50,118	57,246	68,326	78,994
Liquor	37,752	46,302	52,094	61,886	71,588
Others	2,278	3,816	5,152	6,440	7,406
Cost of sales	(10,487)	(12,802)	(14,257)	(16,228)	(17,780)
Gross profit	29,543	37,316	42,989	52,098	61,215
Other income	106	160	160	160	160
Selling expenses	(3,778)	(4,986)	(6,238)	(7,046)	(7,960)
Admin expenses	(2,340)	(2,655)	(2,966)	(3,315)	(3,641)
R&D expenses	(84)	(126)	(46)	(55)	(63)
Tax & surcharges	(5,908)	(6,984)	(7,843)	(9,224)	(10,585)
Others	(11)	(4)	(5)	(5)	(5)
EBIT	17,527	22,720	26,052	32,613	39,120
Finance income, net	1,085	1,431	1,651	1,886	2,185
Others	(106)	(137)	(140)	(140)	(140)
JV & associates	101	93	83	96	105
Profit before tax	18,607	24,106	27,646	34,455	41,270
Income tax	(4,568)	(5,878)	(6,801)	(8,476)	(10,152)
Non-controlling interests	(654)	(826)	(909)	(1,090)	(1,254)
Net profit	13,384	17,402	19,936	24,888	29,864

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit after tax	14,039	18,228	20,845	25,979	31,118
JV & associates	(101)	(93)	(83)	(96)	(105)
D&A	563	490	530	560	598
Change in working capital	(2,176)	4,482	(2,812)	(4,282)	(4,312)
Others	(8)	5	(0)	(0)	1
Net cash from operating	12,317	23,112	18,480	22,161	27,299
Capex	(381)	(1,699)	(1,052)	(1,052)	(1,052)
Others	50	82	160	160	160
Net cash from investing	(332)	(1,616)	(892)	(892)	(892)
Equity raised	1,814	0	0	0	0
Dividend paid	(5,410)	(7,252)	(9,192)	(10,442)	(12,873)
Others	(22)	0	0	0	0
Net cash fr. financing act.	(3,618)	(7,252)	(9,192)	(10,442)	(12,873)
Net change in cash	8,368	14,244	8,395	10,827	13,534
Cash at the beginning of the year	40,592	48,960	63,204	71,599	82,426
Exchange difference	0	0	0	0	0
Cash at the end of the year	48,960	63,204	71,599	82,426	95,960

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	7,984	9,770	10,375	10,963	11,522
PPE	5,614	6,921	7,463	7,975	8,449
Intangible assets	414	412	412	412	412
JV & associates	919	1,022	1,105	1,201	1,306
Other non-current assets	1,036	1,415	1,395	1,375	1,355
Current assets	78,110	96,627	109,193	125,882	145,266
Inventories	11,795	13,680	15,048	16,552	18,208
Trade receivables	13,992	14,778	16,879	20,146	23,292
Other receivables	3,362	4,931	5,632	6,722	7,772
Cash balance	48,960	63,239	71,634	82,461	95,995
Current liabilities	20,708	30,035	31,553	33,293	34,991
Trade payables	3,566	3,677	4,095	4,661	5,107
Other payables	12,061	18,418	19,519	20,693	21,945
Others	5,080	7,939	7,939	7,939	7,939
Non-current liabilities	267	266	266	266	266
Borrowings	0	0	0	0	0
Deferred income	267	266	266	266	266
Total net assets	65,119	76,096	87,748	103,285	121,531
Shareholders' equity	63,487	74,291	85,688	100,787	118,431
Minority Interest	1,632	1,805	2,061	2,499	3,100

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Liquor	94.3	92.4	91.0	90.6	90.6
Others	5.7	7.6	9.0	9.4	9.4
Margin & ratios (%)					
Gross margin	73.8	74.5	75.1	76.2	77.5
EBIT margin	43.8	45.3	45.5	47.7	49.5
Net margin	33.4	34.7	34.8	36.4	37.8
Payout ratio	49.3	49.1	49.1	49.1	49.1
Balance sheet ratios					
Current ratio (x)	3.8	3.2	3.5	3.8	4.2
Quick ratio (x)	3.2	2.8	3.0	3.3	3.6
A/C receivables days	115	105	101	99	100
A/C payables days	128	103	99	98	100
Inventory turnover days	389	363	368	355	357
Net cash (RMB mn)	48,960	63,239	71,634	82,461	95,995
Returns (%)					
ROAE	22.9	25.3	24.9	26.7	27.2
ROAA	17.9	18.9	18.4	20.3	21.2
Per share					
EPS (RMB)	3.45	4.48	5.14	6.41	7.69
DPS (RMB)	1.70	2.20	2.52	3.15	3.78
BVPS (RMB)	16.36	19.14	22.08	25.97	30.51

Source: Company data, CMBIS estimates

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