



Rating
Buy

Asia
China

Consumer
Alcohol & Tobacco

Company
Kweichow Moutai

Reuters 600519.SS Bloomberg 600519 CG Exchange SHH Ticker 600519

Date
16 August 2017

Company Update

Price at 15 Aug 2017 (CNY)	496.02
Price target - 12mth (CNY)	550.00
52-week range (CNY)	499.80 - 288.40
Shanghai Composite	3,252

Increasing ex-factory supply; sales growth to speed up in 3Q17

To increase ex-factory volume from August 15

Kweichow Moutai will supply more than 4500 tons of mainstream "Feitian Moutai" between 15 August to 30 September, according to the media reports from China Securities Daily. This implies 100 tons/day during the peak season. Meanwhile, the company has delivered 150 tons on August 15 according to the news. Through increasing supply, Moutai management aims to ease down the supply shortage in retail end during the peak consumption seasons (Mid-Autumn Festival and National Holidays). It also target to control the retail price below Rmb1299/bottle.

This implies over 40% volume growth in 3Q17

This implies over 40% volume growth in 3Q17 for main stream products, if it delivers more than 100 tons per day from August 15. To recap, Moutai's daily volume was 55 tons in 3Q16, and we estimate the daily volume was 60-70 tons before August 15. In addition, we expect its average selling price for premium Moutai continue to increase driven by increasing portion of super premium customized Moutai. This is higher than 36% yoy sales growth in 1H17 and consensus estimates at 20% yoy sales growth for 2H17.

Channel restocking to continue; maintaining Buy

In next 6 month, Moutai will experience two traditional peak consumption seasons - the mid-Autumn festival & National holiday in October and Chinese New Year in Feb 2018. We expect supply shortage to continue, driven by increasing retail demand and distributor's channel stocking up. Our recent channel check in Shanghai and Beijing also indicates that most retail stores are running out of inventories. (For Moutai's re-stocking and de-stocking cycle history, **please refer to report "The restocking cycle is just beginning; reiterating Buy"**). Within the shortage environment, we expect Moutai to increase its sales volume and report accelerating sales growth. We maintain Buy.

Valuation & Risks

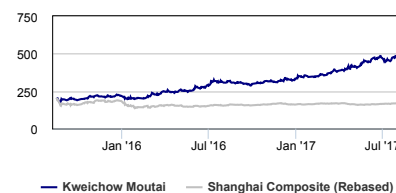
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	8.7	18.2	55.6
Shanghai Composite	0.9	5.2	4.0

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	26.6
Net debt/equity (%)	-84.1
Book value/share (CNY)	68.02
Price/book (x)	7.3
Net interest cover (x)	-
Operating profit margin (%)	72.2

Source: Deutsche Bank



Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	29,210.4	32,353.3	40,433.0	51,850.1	59,643.5
EBITDA (CNYm)	22,222.9	23,996.8	30,412.5	39,295.2	45,352.4
Reported NPAT (CNYm)	15,503.1	16,718.4	21,072.0	27,607.1	32,059.4
Reported EPS FD (CNY)	12.34	13.31	16.77	21.98	25.52
DB EPS FD (CNY)	12.34	13.31	16.77	21.98	25.52
DB EPS growth (%)	1.0	7.8	26.0	31.0	16.1
PER (x)	16.5	20.7	29.6	22.6	19.4
EV/EBITDA (x)	10.2	12.1	18.0	13.4	11.1
DPS (net) (CNY)	6.17	6.79	8.92	11.69	13.57
Yield (net) (%)	3.0	2.5	1.8	2.4	2.7

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Kweichow Moutai	600519.SS	496.02 (CNY) 15 Aug 2017	NA

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Historical recommendations and target price. Kweichow Moutai (600519.SS)

(as of 08/15/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	01/07/2016	Buy, Target Price Change CNY 267,00	Winnie Mak**	3.	01/18/2017	Buy, Target Price Change CNY 410,00	Charlie Chen**
2.	09/19/2016	Buy, Target Price Change CNY 385,00	Charlie Chen**	4.	06/22/2017	Buy, Target Price Change CNY 550,00	Mark Yuan



Equity Rating Key

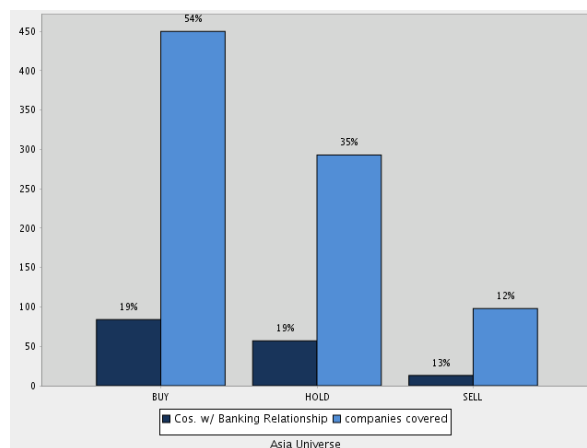
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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