



Rating  
**Buy**

Asia  
China

Consumer  
Alcohol & Tobacco

Company  
**Wuliangye Yibin**

Reuters 000858.SZ    Bloomberg 000858 CH    Exchange SHZ    Ticker 000858

Date  
28 August 2017

Forecast Change

Price at 25 Aug 2017 (CNY)	54.10
Price target - 12mth (CNY)	62.00
52-week range (CNY)	57.60 - 32.12
Shenzhen Index	1,998

## 2Q17 result beat on strong sales recovery; reiterating Buy

### 2Q17 net profit beat on strong sales growth and expense control

Wuliangye reported 2Q17 results with 23.3% yoy sales increase to RMB5462m and 40.1% net profit yoy increase to RMB1378m. Sales and NPAT was 10%/17% higher than our estimates, mainly due to better than expected sales volume and expenses control. On semi-annual basis, the sales increased 18% yoy and net profit increased 28% yoy in 1H17.

- **Sales** increased 23.3% yoy in 2Q17 (vs 15.1% yoy in 1Q17), helped by increasing demand thanks to Moutai's under-supply and Wuliangye's ex-factory price hike (Wuliangye raised ex-factory price from Rmb659/bottle to Rmb679/bottle in March and to Rmb739 in September 2016)
- **Business tax and surcharges/sales** increased 420bps yoy to 12.2% in 2Q17, mainly due to increasing consumption tax base. According to the new tax regulation No.218 issued by Sichuan tax bureau, the tax base could be increased to 70% of the ex-factory price sold to distributors compared to previously c.50% , based on our estimates.
- If excluding the tax impact, **gross margin** improved 340bps to 73.7% in 2Q17 as a result of ex-factory price hike and better product mix.
- **SG&A/sales ratio** declined 750bps to 28.7%, helped by lower operating leverage and stronger cost control .
- **Advance from customer balance** increase 25% yoy to Rmb5.5bn in 1H17, indicating increasing confidence from consumer demands.

### Earnings growth continue to accelerate in 2H17

We expect Wuliangye's net profit continue to speed up for three reasons. Firstly, Moutai's retail price hike and under-supply will drive the consumers' demand shift to Wuliangye. Secondly, increasing channel re-stocking demand from distributors as the retail price are recovering to over Rmb900/bottle (vs Rmb739's ex-factory price). Thirdly, the margin continue to improve helped by price hike, lower channel rebate and stronger cost control. Considering the impact from increasing consumption tax basis, we expect the net profit growth to speed up from 28% yoy in 1H17 to 33% in 2H17 .

### Revise up target price by 13% to Rmb62; reiterating Buy

We revised up net profit by 5-9% in 2017-19E, which is to factor in a better growth in high-end liquor and stronger expense control, while partly offset by higher

### Valuation & Risks

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### Key changes

TP	55.00 to 62.00	↑	12.7%
Sales (FYE)	25,325 to 26,123	↑	3.1%
Op prof margin (FYE)	42.2 to 43.3	↑	2.6%
Net profit (FYE)	8,380.3 to 8,833.3	↑	5.4%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.3	13.3	55.5
Shenzhen Index	3.3	5.4	-5.4

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	17.7
Net debt/equity (%)	-76.6
Book value/share (CNY)	13.83
Price/book (x)	3.9
Net interest cover (x)	-
Operating profit margin (%)	43.3

Source: Deutsche Bank



consumption tax basis. We revised up target price by 13% to Rmb62, based on 13.8x 2018E EV/EBITDA, slightly higher than our old valuation of 13.4x, mainly due to our more optimistic opinion of the company. We reiterate Buy. Downside risks: 1) macro deterioration ; 2) government's increasing measure on anti high-end liquor consumption.

Figure 1: Forecast change

RMBm	New			Old			Change		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Revenue	29,685	35,227	39,989	27,830	32,382	35,785	7%	9%	12%
Gross profit	18,433	21,714	24,725	17,971	20,933	22,829	3%	4%	8%
EBIT	11,333	13,479	15,371	10,708	12,753	13,949	6%	6%	10%
Net profit	8,833	10,516	12,072	8,380	9,984	11,027	5%	5%	9%
GPM	62.1%	61.6%	61.8%	64.6%	64.6%	63.8%	-2.5%	-3.0%	-2.0%
EBITM	38.2%	38.3%	38.4%	38.5%	39.4%	39.0%	-0.3%	-1.1%	-0.5%
NPM	29.8%	29.9%	30.2%	30.1%	30.8%	30.8%	-0.4%	-1.0%	-0.6%

Source: Deutsche Bank

Figure 2: Valuation comp

Company	Ticker	Recom	Listing Curr	Price	Mkt Cap US\$m	PE (x)			PB (x)			EV/EBITDA			Div Yield (%)		
						Hist	FY1Y	FY2Y	Hist	FY1Y	FY2Y	Hist	FY1Y	FY2Y	Hist	FY1Y	FY2Y
Wuliangye Yibin	000858.SZ	Buy	CNY	54.10	31,834	17.4	23.2	19.5	2.8	3.9	3.5	9.2	13.7	10.8	2.9	2.2	2.6
Kweichow Moutai	600519.SS	Buy	CNY	492.99	93,150	20.7	29.4	22.4	5.8	7.2	6.1	12.1	17.9	13.3	2.5	1.8	2.4
Jiangsu Yanghe	002304.SZ	NR	CNY	89.15	20,654	18.2	20.6	18.0	4.1	4.6	4.1	12.0	15.0	13.0	2.3	2.5	2.9
Luzhou Laojiao	000568.SZ	NR	CNY	53.95	11,692	24.0	31.4	24.6	4.2	6.2	5.6	17.2	21.7	16.6	1.7	1.9	2.5
Shanxi Xinghuacun Fen Wine	600809.SS	NR	CNY	43.26	5,866	35.8	43.1	31.9	4.6	7.3	6.2	19.7	21.6	15.7	1.2	1.3	1.7
Anhui Gujing Distillery	000596.SZ	NR	CNY	51.62	3,563	27.6	26.1	21.7	4.1	4.2	3.6	17.8	13.8	11.9	1.1	1.2	1.5
Anhui Yingjia Distillery	603198.SS	NR	CNY	19.65	2,382	25.4	20.0	16.9	4.4	N/A	N/A	16.6	N/A	N/A	3.0	N/A	N/A
Sichuan Swellfun	600779.SZ	NR	CNY	31.53	2,394	41.5	52.0	32.6	6.4	9.8	8.1	30.4	35.0	22.6	1.4	1.1	1.5
Sichuan Tuopai Shede	600702.SS	NR	CNY	31.59	1,659	95.0	58.4	31.6	3.3	4.5	3.8	29.8	26.1	15.8	0.2	0.4	0.8
Zhejiang Guyuelongshan	600059.SS	NR	CNY	9.55	1,169	68.3	47.3	42.5	2.1	1.9	1.9	34.0	25.2	23.0	1.0	0.7	0.8
Jiugui Liquor	000799.SZ	NR	CNY	25.13	1,262	61.4	49.7	34.8	3.6	4.2	3.8	38.6	29.0	19.6	0.4	0.4	0.6
Xinjiang Yilite	600197.SS	NR	CNY	20.84	1,389	23.1	24.6	20.7	3.3	4.1	3.6	11.9	14.7	12.5	1.2	1.5	1.5
<b>Average</b>						<b>40.1</b>	<b>36.6</b>	<b>27.1</b>	<b>4.2</b>	<b>5.4</b>	<b>4.7</b>	<b>21.8</b>	<b>22.0</b>	<b>16.4</b>	<b>1.5</b>	<b>1.3</b>	<b>1.6</b>

Source: Deutsche Bank, Bloomberg. We use DB forecasts for those companies we covered, and others we use Bloomberg forecasts.

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	19,874.6	22,602.6	26,122.9	30,294.9	34,390.4
EBITDA (CNYm)	8,098.6	9,011.4	11,937.8	14,125.1	16,059.7
Reported NPAT (CNYm)	6,176.1	6,784.5	8,833.3	10,515.7	12,072.1
Reported EPS FD (CNY)	1.63	1.79	2.33	2.77	3.18
DB EPS FD (CNY)	1.63	1.79	2.33	2.77	3.18
OLD DB EPS FD (CNY)	1.63	1.79	2.21	2.62	-
% Change	0.0%	0.0%	5.4%	5.6%	-
DB EPS growth (%)	5.8	9.9	30.2	19.0	14.8
PER (x)	15.5	17.4	23.2	19.5	17.0
EV/EBITDA (x)	8.6	9.2	13.7	10.8	9.0
DPS (net) (CNY)	0.80	0.90	1.17	1.39	1.60
Yield (net) (%)	3.2	2.9	2.2	2.6	3.0

Source: Deutsche Bank estimates, company data



Model updated: 28 August 2017

**Running the numbers**  
Asia  
China  
Alcohol & Tobacco

## Wuliangye Yibin

Reuters: 000858.SZ      Bloomberg: 000858 CH

### Buy

Price (25 Aug 17)                      CNY 54.10  
Target Price                              CNY 62.00  
52 Week range                          CNY 32.12 - 57.60  
Market cap (m)                         CNYm 205,362  
    USDm 30,813

### Company Profile

Wuliangye Yibin is China's leading local spirit brand/producer. Major brands under the company include "Wuliangye", "Wuliang Spring", "Wuliangchun" and "Jianzhuang".

Fiscal year end 31-Dec	2014	2015	2016	2017E	2018E	2019E
<b>Financial Summary</b>						
DB EPS (CNY)	1.54	1.63	1.79	2.33	2.77	3.18
Reported EPS (CNY)	1.54	1.63	1.79	2.33	2.77	3.18
DPS (CNY)	0.60	0.80	0.90	1.17	1.39	1.60
BVPS (CNY)	10.4	11.4	12.4	13.8	15.4	17.2
Weighted average shares (m)	3,796	3,796	3,796	3,796	3,796	3,796
Average market cap (CNYm)	65,945	95,934	117,781	205,362	205,362	205,362
Enterprise value (CNYm)	43,563	69,610	83,115	164,019	153,251	144,164

### Valuation Metrics

P/E (DB) (x)	11.3	15.5	17.4	23.2	19.5	17.0
P/E (Reported) (x)	11.3	15.5	17.4	23.2	19.5	17.0
P/BV (x)	2.07	2.39	2.78	3.91	3.51	3.14
FCF Yield (%)	0.6	6.6	9.7	4.9	7.4	7.0
Dividend Yield (%)	3.5	3.2	2.9	2.2	2.6	3.0
EV/Sales (x)	2.2	3.5	3.7	6.3	5.1	4.2
EV/EBITDA (x)	5.4	8.6	9.2	13.7	10.8	9.0
EV/EBIT (x)	5.9	9.3	9.9	14.5	11.4	9.4

### Income Statement (CNYm)

Sales revenue	19,494	19,875	22,603	26,123	30,295	34,390
Gross profit	13,722	13,203	15,288	18,433	21,714	24,725
EBITDA	8,013	8,099	9,011	11,938	14,125	16,060
Depreciation	653	619	573	617	658	701
Amortisation	0	0	0	0	0	0
EBIT	7,360	7,480	8,438	11,320	13,467	15,359
Net interest income/(expense)	658	732	766	733	877	1,112
Associates/affiliates	14	34	33	33	33	33
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-16	41	100	100	100	100
Profit before tax	8,016	8,287	9,337	12,187	14,478	16,604
Income tax expense	1,958	1,877	2,281	2,986	3,547	4,068
Minorities	223	234	272	368	415	464
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	5,835	6,176	6,785	8,833	10,516	12,072
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	5,835	6,176	6,785	8,833	10,516	12,072

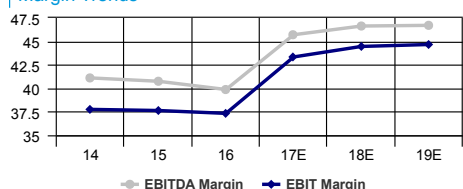
### Price Performance



### Cash Flow (CNYm)

Cash flow from operations	795	6,691	11,697	10,509	15,691	14,913
Net Capex	-381	-394	-302	-416	-474	-531
Free cash flow	414	6,297	11,395	10,093	15,217	14,381
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-2,995	-2,457	-3,212	-3,416	-4,448	-5,295
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-728	59	8	0	0	0
Net cash flow	-3,309	3,898	8,191	6,677	10,769	9,086
Change in working capital	-6,004	-192	4,070	724	4,135	1,709

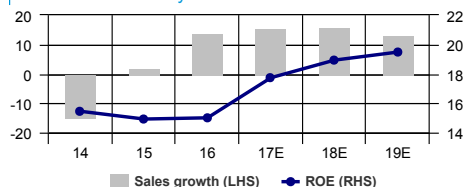
### Margin Trends



### Balance Sheet (CNYm)

Cash and other liquid assets	22,382	26,324	34,666	41,343	52,111	61,198
Tangible fixed assets	6,061	5,902	5,724	5,527	5,350	5,188
Goodwill/intangible assets	423	413	404	393	380	364
Associates/investments	869	903	796	829	863	896
Other assets	16,674	19,004	20,584	21,105	19,020	19,536
Total assets	46,409	52,547	62,174	69,197	77,724	87,182
Interest bearing debt	0	0	0	0	0	0
Other liabilities	6,076	8,201	13,969	15,207	17,250	19,467
Total liabilities	6,076	8,201	13,969	15,207	17,250	19,467
Shareholders' equity	39,430	43,329	47,077	52,494	58,561	65,338
Minorities	903	1,016	1,129	1,497	1,913	2,376
Total shareholders' equity	40,333	44,345	48,206	53,991	60,474	67,715
Net debt	-22,382	-26,324	-34,666	-41,343	-52,111	-61,198

### Growth & Profitability



### Key Company Metrics

Sales growth (%)	-14.8	2.0	13.7	15.6	16.0	13.5
DB EPS growth (%)	-26.9	5.8	9.9	30.2	19.0	14.8
EBITDA Margin (%)	41.1	40.7	39.9	45.7	46.6	46.7
EBIT Margin (%)	37.8	37.6	37.3	43.3	44.5	44.7
Payout ratio (%)	39.0	49.2	50.4	50.4	50.4	50.4
ROE (%)	15.5	14.9	15.0	17.7	18.9	19.5
Capex/sales (%)	2.1	2.0	1.4	1.6	1.6	1.5
Capex/depreciation (x)	0.6	0.6	0.5	0.7	0.7	0.8
Net debt/equity (%)	-55.5	-59.4	-71.9	-76.6	-86.2	-90.4
Net interest cover (x)	nm	nm	nm	nm	nm	nm

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Source: Company data, Deutsche Securities estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Wuliangye Yibin	000858.SZ	54.10 (CNY) 25 Aug 2017	NA

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg, and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqs>. Aside from within this report, important conflict disclosures can also be found at <https://gm/db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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## Historical recommendations and target price. Wuliangye Yibin (000858.SZ)

(as of 08/25/2017)



### Current Recommendations

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

\*\* Analyst is no longer at Deutsche Bank

1.	09/19/2016	Buy, Target Price Change CNY 46,30	Charlie Chen**
2.	05/03/2017	Buy, Target Price Change CNY 55,00	Charlie Chen**



### Equity Rating Key

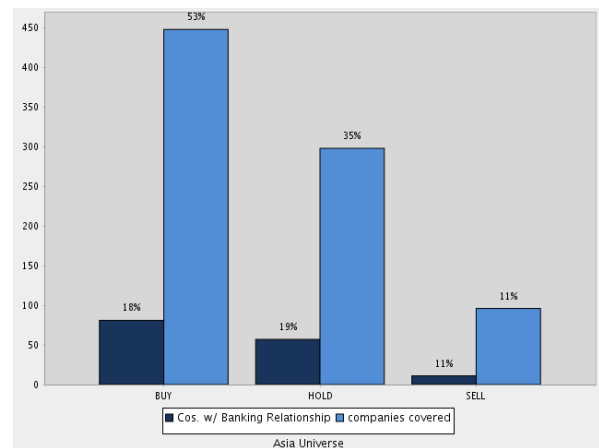
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

**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.

Newly issued research recommendations and target prices supersede previously published research.

### Equity rating dispersion and banking relationships





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