



Rating
Buy

Asia
China

Consumer
Alcohol & Tobacco

Company
Kweichow Moutai

Reuters 600519.SS Bloomberg 600519 CG Exchange SHH Ticker 600519

Date
25 September 2017

Company Update

Price at 21 Sep 2017 (CNY)	498.66
Price target - 12mth (CNY)	550.00
52-week range (CNY)	499.80 - 288.40
Shanghai Composite	3,358

Channel check feedback: fighting with channel stocking

Key findings from channel checks in Shanghai and Shenzhen

We visited Moutai's distributors in Shenzhen and Shanghai in the last two weeks. Key findings are as below:

- Retail price** declined from Rmb1550/bottle in July to Rmb1330-1350 in the past two weeks in both Shenzhen and Shanghai. This is likely mainly due to increasing supply from Moutai from August 15 and implementation of 30% sales on the e-commerce platform policy. The retail price of other customized Moutai which the company didn't enforce a price control kept rising. For example, the 350ml Moutai's retail price increased from Rmb1000/bottle in January to Rmb2000/bottle currently.
- Sales volume:** The Shanghai distributor indicated that it has used up its full year procurement quota in 2017, and is currently beginning to use the 1Q18 quota. This implies that the distributors' actual sales volume in first nine month has achieved its full year target. To recap, Mr. Wang Chonglin, director of Moutai group sales company, said that the company would sell 5600 tons Feitian Moutai and 600 tons of customized Moutai between 8/15 to 9/30.
- Channel stockings:** The Shanghai distributor believed there are some demands from channel restockings, especially for private owned distributors and wholesalers. However the Shenzhen distributor indicated a different current purchase behavior - with consumers typically buying Moutai in cases, while normally buying Moutai in bottles - we think this also implies consumers are stocking up.
- Impacts from "restricting drinking liquor" policy** from some local governments announced recently. Both Shenzhen and Shanghai distributors feel the impact is limited, because they think 1) this is not a new regulation given there is already a similar regulation from 2012; 2) the public sector's purchase portion is already low, which is less than 30% according to the Shanghai distributor.
- Impacts from Moutai Cloud E-commerce platform (Moutai Yunshang).** The distributors indicate that the real impacts will depend on how strict Moutai will monitor the sales volume on the platform. Though distributors are required to put 30% of volume on the platform to sell at Rmb1299,

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	1.8	5.4	69.6
Shanghai Composite	2.2	6.4	11.0

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



many distributors are able to buy back the liquor and re-distribute at higher price.

Fighting with channel stocking; maintaining Buy on near-term strong growth

We believe channel stocking is the main driver of strong demand for Moutai from 2017, and we think management is also aware of this driver. Moutai's recent measures (suggesting price limit, increasing supply and launching Moutai Yunshang) also show its determination to stabilize the retail price and manage channel stocking. In the near-term, we think these measures will prolong the re-stocking cycle and drive its ex-factory sales volume, while future de-stocking risk would still depend on the execution of management. We maintain Buy with TP of Rmb550. Downside risk is faster than expected channel de-stocking.

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	29.7	22.7	19.5
EV/EBITDA (x)	10.2	12.1	18.1	13.5	11.2
DPS (net) (CNY)	6.17	6.79	8.92	11.69	13.57
Yield (net) (%)	3.0	2.5	1.8	2.3	2.7

Source: Deutsche Bank estimates, company data



Model updated: 22 June 2017

Running the numbers

Asia

China

Alcohol & Tobacco

Kweichow Moutai

Reuters: 600519.SS

Bloomberg: 600519 CG

Buy

Price (21 Sep 17) CNY 498.7

Target Price CNY 550.0

52 Week range CNY 288.40 - 499.80

Market cap (m) CNYm 626,417
USDm 94,956

Company Profile

Kweichow Moutai is China's largest local spirit brand/producer by sales value.

Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	12.22	12.34	13.31	16.77	21.98	25.52
Reported EPS (CNY)	12.22	12.34	13.31	16.77	21.98	25.52
DPS (CNY)	3.98	6.17	6.79	8.92	11.69	13.57
BVPS (CNY)	42.5	50.9	58.0	68.0	81.1	94.9
Weighted average shares (m)	1,256	1,256	1,256	1,256	1,256	1,256
Average market cap (CNYm)	169,335	256,416	346,172	626,417	626,417	626,417
Enterprise value (CNYm)	145,643	225,583	290,095	550,893	529,545	507,495

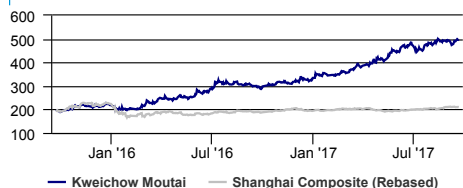
Valuation Metrics

P/E (DB) (x)	11.0	16.5	20.7	29.7	22.7	19.5
P/E (Reported) (x)	11.0	16.5	20.7	29.7	22.7	19.5
P/BV (x)	4.05	4.28	5.76	7.33	6.15	5.25
FCF Yield (%)	4.8	6.0	10.5	4.5	5.2	5.9
Dividend Yield (%)	2.9	3.0	2.5	1.8	2.3	2.7
EV/Sales (x)	5.1	7.7	9.0	13.6	10.2	8.5
EV/EBITDA (x)	6.6	10.2	12.1	18.1	13.5	11.2
EV/EBIT (x)	6.8	10.6	12.6	18.9	14.0	11.6

Income Statement (CNYm)

Sales revenue	28,785	29,210	32,353	40,433	51,850	59,643
Gross profit	26,446	26,672	28,943	35,999	46,696	53,914
EBITDA	22,146	22,223	23,997	30,413	39,295	45,352
Depreciation	753	848	934	1,207	1,363	1,519
Amortisation	0	0	0	0	0	0
EBIT	21,393	21,375	23,063	29,205	37,932	43,833
Net interest income(expense)	707	780	1,203	1,284	1,731	2,222
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-218	-153	-308	-196	-188	-214
Profit before tax	21,882	22,002	23,958	30,293	39,475	45,841
Income tax expense	5,613	5,547	6,027	7,876	10,106	11,735
Minorities	920	952	1,212	1,345	1,762	2,046
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	15,350	15,503	16,718	21,072	27,607	32,059
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	15,350	15,503	16,718	21,072	27,607	32,059

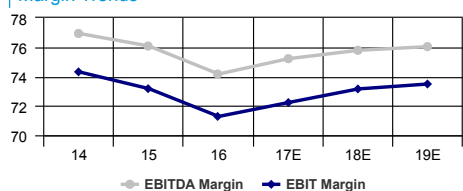
Price Performance



Cash Flow (CNYm)

Cash flow from operations	12,633	17,436	37,451	29,137	33,883	38,255
Net Capex	-4,431	-2,061	-1,019	-1,162	-1,326	-1,521
Free cash flow	8,201	15,375	36,432	27,975	32,557	36,734
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-5,122	-5,554	-8,351	-8,526	-11,209	-14,685
Net inc/(dec) in borrowings	1,246	1,948	4,811	11	11	11
Other investing/financing cash flows	105	65	6	-2	0	0
Net cash flow	4,430	11,834	32,899	19,458	21,359	22,061
Change in working capital	-4,480	471	19,162	4,891	3,150	2,630

Margin Trends



Balance Sheet (CNYm)

Cash and other liquid assets	27,711	36,801	66,855	86,313	107,672	129,733
Tangible fixed assets	13,798	16,312	17,199	17,217	17,241	17,305
Goodwill/intangible assets	3,583	3,582	3,532	3,481	3,430	3,380
Associates/investments	64	29	29	29	29	29
Other assets	20,718	29,577	25,320	25,905	29,807	32,576
Total assets	65,873	86,301	112,935	132,945	158,180	183,022
Interest bearing debt	4,019	5,967	10,779	10,790	10,800	10,811
Other liabilities	6,543	14,100	26,257	32,366	39,429	44,840
Total liabilities	10,562	20,067	37,036	43,156	50,229	55,651
Shareholders' equity	53,430	63,926	72,894	85,440	101,839	119,214
Minorities	1,881	2,308	3,004	4,349	6,112	8,158
Total shareholders' equity	55,312	66,234	75,899	89,790	107,950	127,372
Net debt	-23,692	-30,833	-56,076	-75,524	-96,872	-118,921

Growth & Profitability



Key Company Metrics

Sales growth (%)	2.3	1.5	10.8	25.0	28.2	15.0
DB EPS growth (%)	1.4	1.0	7.8	26.0	31.0	16.1
EBITDA Margin (%)	76.9	76.1	74.2	75.2	75.8	76.0
EBIT Margin (%)	74.3	73.2	71.3	72.2	73.2	73.5
Payout ratio (%)	32.5	50.0	51.0	53.2	53.2	53.2
ROE (%)	32.0	26.4	24.4	26.6	29.5	29.0
Capex/sales (%)	15.4	7.1	3.2	2.9	2.6	2.5
Capex/depreciation (x)	5.9	2.4	1.1	1.0	1.0	1.0
Net debt/equity (%)	-42.8	-46.6	-73.9	-84.1	-89.7	-93.4
Net interest cover (x)	nm	nm	nm	nm	nm	nm

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Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

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Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Kweichow Moutai	600519.SS	499.95 (CNY) 22 Sep 2017	NA

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

(as of 09/21/2017)



Current Recommendations

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

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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

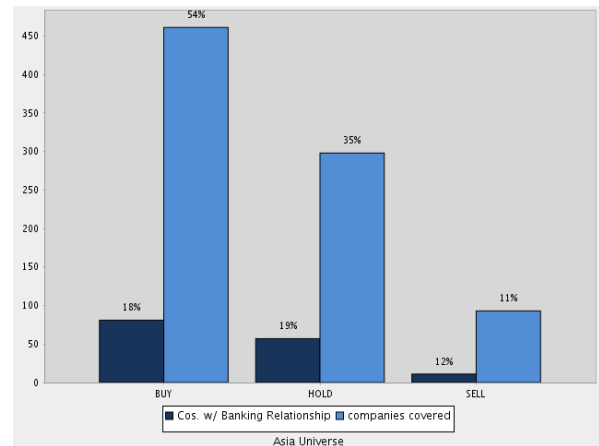
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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