



China

**HOLD** (previously ADD)

Consensus ratings\*: Buy 29 Hold 1 Sell 2

Current price:	Rmb102.3
Target price:	Rmb108.0
Previous target:	Rmb127.0
Up/downside:	5.6%
CGI / Consensus:	-17.4%
Reuters:	002304.SZ
Bloomberg:	002304 CH
Market cap:	US\$21,820m
	Rmb154,165m
Average daily turnover:	US\$106.7m
	Rmb766.6m
Current shares o/s:	1,507m
Free float:	21.5%
*Source: Bloomberg	

**Key changes in this note**

- FY19F/20F/21F EPS was cut by 9.7%/5.9%/0.9%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.6	-14.5	20.6
Relative (%)	-2.8	-14	6.1

Major shareholders	% held
Jiangsu Yanghe Group	34.2
Jiangsu Blue Alliance Co.Ltd	21.4

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# Jiangsu Yanghe Brewery

## Short-term pain for long-term growth

- Yanghe's 3Q19 sales declined 21% yoy to Rmb5bn, and its net profit dropped 23% yoy to Rmb1.6bn, weaker than the market and our expectations.
- Yanghe's distribution network has faced challenges since 2Q19, but we expect the company to overcome these issues and return to normal growth in 2H20F.
- Downgrade to Hold with a DCF-based TP of Rmb108.

### High channel inventory negatively impacted 3Q19 sales

Yanghe reported lackluster 9M19 sales growth of 0.6% yoy to Rmb21bn, with net profit up 2% yoy to Rmb7bn, below our expectations. In 3Q19, sales declined by 21% yoy, and net profit dropped by 23% yoy, mainly because Yanghe partially stopped shipments to distributors to digest high channel inventory in 3Q19. According to Yanghe management, channel inventory gradually fell to about 2.5 months at the end of 3Q19 from a peak of four months in 2Q19. Management expects this to revert to the normal level of 1.5 months by the year end. Advance payment from customers decreased 29% yoy to Rm2bn at the end of 3Q19.

### Still in recovery mode

Yanghe reduced its sales rebate to distributors earlier this year, which made its distributors' profit margins lower than those of its peers, such as King's Luck and Wuliangye, and reduced distributors' motivation. Yanghe took action to overcome the current challenges with its distribution network in 3Q19. It reduced shipments to distributors to clean up channel inventory and improved its relationship with its distributors. Yanghe also started strengthening management of its sales team of over 7,000. In July 2019, Yanghe recruited Mr Liu Hua Xiang to return as Vice President. Mr Liu was in charge of Yanghe's sales and marketing department for many years, so he has plenty of experience dealing with distributors. In 3Q19, the Company's S&D expenses ratio increased by 5.1%pts yoy to 17.6% from 12.6%. We expect Yanghe to make further efforts to increase the retail price of its core brand Blue Dream and forecast that the S&D expenses ratio will expand by 1.6%pts yoy to 12.2% in FY20F from 11.5% in FY19F. We expect Yanghe to overcome the distribution network concerns in 2H20F.

### Share repurchase expected to increase management motivation

Yanghe announced that it would spend Rmb1–Rmb1.5bn on a share buy-back plan during the next 12 months, with a cap repurchase price of Rmb135 per share. Based on this price, Yanghe will buy back 0.7% of the total issued shares in the next 12 months. These shares will be used for a share option program for key employees in the future. The current management team's equity interest was less than 1% of total shares as at the end of 1H19. We expect share option plan for key employees to benefit Yanghe's long-term development.

### Downgrade to Hold with a DCF-based TP of Rmb108

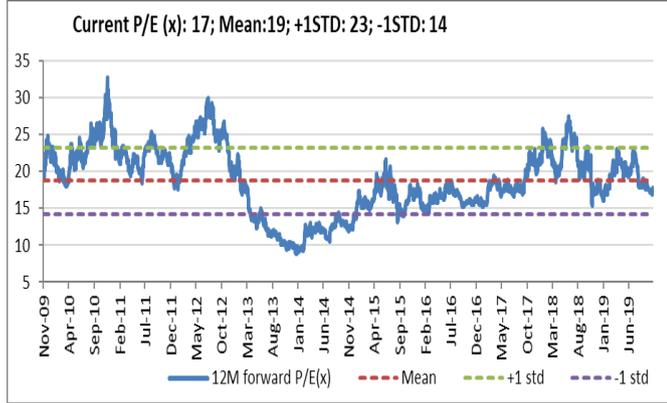
We revised down our FY19F–21F EPS by 10%/6%/1%, reflecting Yanghe's weaker-than-expected sales performance, because if the short-term challenges with its distribution network. In the longer term, we think Yanghe's diversified premium product portfolio and well-built distribution network will help the company back to healthy growth as it regains market confidence in the brand. Downside risks include 1) a longer-than-expected time to improve its relationship with its distributors; and 2) more intense market competition, particular in Yanghe's home market – Jiangsu province. Positive catalysts include 1) stronger growth in the new markets, and 2) a quicker-than-expected solution to distribution problem.

### Financial Summary

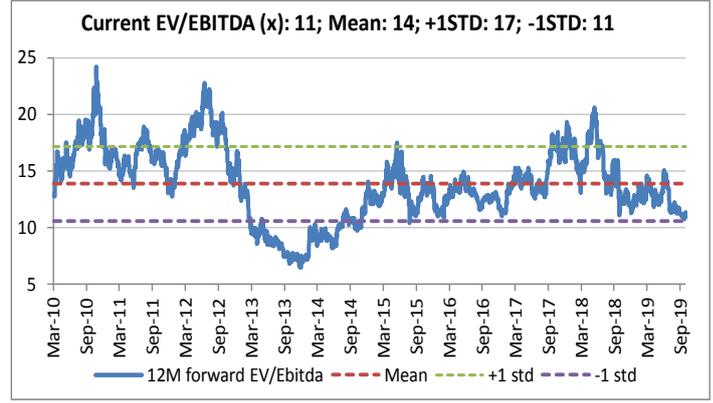
	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (Rmbm)	19,918	24,160	24,655	26,971	29,918
Operating EBITDA (Rmbm)	9,530	11,507	11,720	12,660	13,852
Net Profit (Rmbm)	6,627	8,115	8,312	9,128	10,130
Core EPS (Rmb)	4.43	5.41	5.54	6.08	6.75
Core EPS Growth	12.5%	22.1%	2.4%	9.8%	10.9%
FD Core P/E (x)	23.08	18.91	18.46	16.81	15.16
DPS (Rmb)	2.55	3.20	3.28	3.60	3.99
Dividend Yield	2.49%	3.13%	3.20%	3.52%	3.90%
EV/EBITDA (x)	15.99	13.08	12.45	11.17	9.85
P/FCFE (x)	56.60	27.01	16.36	16.32	14.77
Net Gearing	(5.9%)	(10.8%)	(22.1%)	(30.8%)	(38.5%)
P/BV (x)	5.22	4.58	4.15	3.73	3.35
ROE	24.0%	25.8%	23.6%	23.4%	23.3%
% Change In Core EPS Estimates				0.91	0.88
CGI/consensus EPS (x)					0.86

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG



**Figure 4: Yanghe's 12M forward P/E (x)**


SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

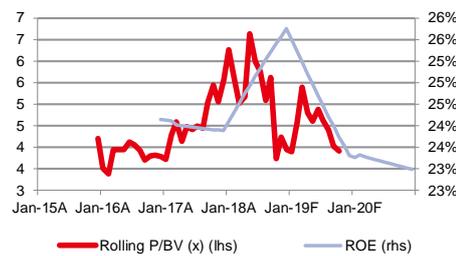
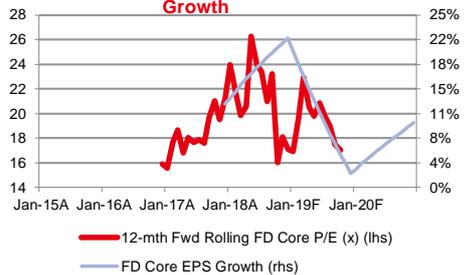
**Figure 5: Yanghe's 12M forward EV/EBITDA (x)**


SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 6: Peer comparison**

Company Name	Bloomberg Ticker	Recom	Target price	Last price	Quoted currency	Market cap	P/E (x)		P/BV (x)		EV/EBITDA (x)		ROE (%)		Dividend Yield (%)	
							2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Kweichow Moutai Co Ltd-A	600519 CH	ADD	1328	1183.8	Rmb	210,770	34.4	29.0	10.8	8.9	21.8	18.4	34.5	33.7	1.5	1.8
Jiangsu Yanghe Brewery -A	002304 CH	HOLD	108	102.3	Rmb	21,850	19.1	17.4	4.3	3.9	12.9	11.6	23.6	23.4	3.1	3.4
Wuliangye Yibin Co Ltd-A	000858 CH	ADD	164	131.0	Rmb	72,043	29.6	24.5	7.0	6.1	19.8	16.3	25.3	26.8	1.7	2.0
Luzhou Laojiao Co Ltd-A	000568 CH	ADD	122	85.8	Rmb	17,812	26.7	21.6	6.8	6.1	19.0	15.2	26.5	29.6	2.4	3.0
Chongqing Brewery Co-A	000568 CH	NR	NA	43.7	Rmb	2,996	38.9	37.4	16.2	15.0	26.9	24.2	43.9	42.7	2.0	2.1
Anhui Gujing Distillery Co-A	000596 CH	NR	NA	111.7	Rmb	6,984	25.3	20.3	5.7	4.6	15.1	12.2	23.5	24.0	1.2	1.5
Shanxi Xinghuacun Fen Wine-A	600809 CH	NR	NA	89.3	Rmb	11,033	39.9	32.0	9.9	8.1	25.2	20.7	25.7	26.0	1.1	1.4
Jiugui Liquor Co Ltd-A	000799 CH	NR	NA	32.8	Rmb	1,510	36.9	27.7	4.4	3.9	25.1	19.9	11.7	13.7	0.8	0.9
Beijing Shunxin Agricult-A	000860 CH	NR	NA	44.3	Rmb	4,653	28.6	21.8	3.9	3.4	17.9	14.4	13.2	15.2	1.1	1.5
Xinjiang Yilite Industry-A	600197 CH	NR	NA	15.7	Rmb	978	13.7	11.9	NA	NA	NA	NA	16.1	16.8	NA	NA
Hebei Hengshui Laobaigan-A	600559 CH	NR	NA	11.5	Rmb	1,463	17.4	13.8	3.2	2.9	12.3	10.8	12.4	13.6	1.5	1.9
Shede Spirits Co Ltd-A	600702 CH	NR	NA	30.7	Rmb	1,469	23.1	17.7	3.6	3.1	17.8	14.0	14.5	16.1	0.6	0.9
Sichuan Swellfun Co Ltd-A	600779 CH	NR	NA	52.8	Rmb	3,656	33.7	26.9	11.5	9.5	23.6	18.9	35.6	37.8	2.3	2.7
Anhui Yingjia Distillery C-A	603198 CH	NR	NA	21.1	Rmb	2,396	20.3	18.9	NA	NA	NA	NA	16.6	15.1	NA	NA
Jiangsu King'S Luck Brewer-A	603369 CH	NR	NA	32.6	Rmb	5,795	28.0	22.6	5.6	4.7	19.5	15.4	20.0	21.1	1.1	1.4
<b>Average in China domestic baijiu market</b>							<b>27.7</b>	<b>22.9</b>	<b>7.1</b>	<b>6.2</b>	<b>19.8</b>	<b>16.4</b>	<b>23.1</b>	<b>23.9</b>	<b>1.6</b>	<b>1.9</b>
Budweiser Brewing Co Apac Lt	2319 HK	NR	NA	28.7	HK\$	48,393	50.1	38.5	3.2	3.1	21.9	19.6	9.0	9.7	1.0	1.3
Tsingtao Brewery Co Ltd-H	168 HK	ADD	61.0	46.1	HK\$	8,556	26.0	23.8	2.9	2.8	11.9	10.7	10.9	11.4	1.0	1.1
China Resources Beer Holding	291 HK	ADD	51.0	41.0	HK\$	16,965	38.0	31.0	5.9	5.4	23.8	19.3	16.1	18.0	0.7	1.0
<b>Average in HK market</b>							<b>38.0</b>	<b>31.1</b>	<b>4.0</b>	<b>3.7</b>	<b>19.2</b>	<b>16.5</b>	<b>12.0</b>	<b>13.0</b>	<b>0.9</b>	<b>1.1</b>
Diageo Plc	DGE LN	NR	NA	3119.0	GBP	94,425	25.4	22.1	9.3	8.7	18.9	17.7	33.9	39.0	2.2	2.3
Anheuser-Busch Inbev Sa/Nv	ABI BB	NR	NA	72.5	EUR	162,866	17.2	17.5	2.2	2.0	12.5	12.1	14.0	12.6	2.4	2.5
Ambev Sa	ABEV3 BZ	NR	NA	17.6	BRL	69,178	23.1	20.8	4.6	4.4	12.3	11.4	20.6	22.0	3.4	4.4
Constellation Brands Inc-A	STZ US	NR	NA	193.0	US\$	37,064	21.0	22.4	3.2	3.0	17.2	17.5	20.2	13.3	1.5	1.5
Carlsberg As-B	CARLB DC	NR	NA	954.6	DKK	21,510	23.5	21.3	3.3	3.2	11.5	10.9	13.9	15.0	2.1	2.3
Molson Coors Brewing Co -B	TAP US	NR	NA	54.7	US\$	11,904	12.3	12.3	0.8	0.8	9.3	9.3	6.9	6.7	3.6	4.2
Heineken Nv	HEIA NA	NR	NA	90.6	EUR	58,051	20.8	19.3	3.3	3.1	11.9	11.4	15.9	15.8	1.9	2.0
Asahi Group Holdings Ltd	2502 JP	NR	NA	5430.0	JPY	24,128	16.5	14.3	2.0	1.8	11.1	10.1	12.8	12.8	2.0	2.2
Kirin Holdings Co Ltd	2503 JP	NR	NA	2324.0	JPY	19,518	27.4	14.6	2.2	2.1	12.8	10.3	8.7	14.4	2.7	2.9
Pernod Ricard Sa	RI FP	NR	NA	161.3	EUR	47,603	25.6	23.1	2.7	2.5	17.6	16.1	10.8	11.0	1.7	2.1
United Spirits Ltd	UNSP IN	NR	NA	612.0	INR	6,267	58.4	48.9	13.9	11.2	33.3	30.0	26.9	25.2	0.1	0.3
Brown-Forman Corp-Class B	BF/B US	NR	NA	64.5	US\$	30,236	37.7	35.8	18.9	16.7	27.4	26.3	56.3	49.3	1.0	1.1
Remy Cointreau	RCO FP	NR	NA	118.4	EUR	6,602	36.5	32.2	4.0	4.0	22.3	19.9	11.3	12.6	1.5	1.5
Davide Campari-Milano Spa	CPR IM	NR	NA	8.2	EUR	10,643	34.5	30.5	4.0	3.7	21.1	19.4	12.1	12.4	0.6	0.7
C&C Group Plc	GCC ID	NR	NA	4.1	EUR	1,402	15.9	13.5	2.2	2.0	13.2	11.6	14.9	14.3	3.7	4.2
Bectle Sab De Cv	CUERVO* MM	NR	NA	34.0	MXN	6,495	31.0	26.4	2.5	2.4	20.6	17.6	8.1	9.2	1.5	1.8
Sapporo Holdings Ltd	2501 JP	NR	NA	2721.0	JPY	1,970	24.8	22.0	1.3	1.2	11.4	10.8	5.3	5.9	1.5	1.6
Vina Concha Y Toro Sa	CONCHA CI	NR	NA	1404.0	CLP	1,438	20.1	16.5	1.7	1.6	13.2	11.3	8.7	9.9	1.8	2.2
Treasury Wine Estates Ltd	TWE AU	NR	NA	17.4	AUD	8,590	28.3	23.9	3.4	3.2	17.2	14.6	12.4	14.0	2.3	2.7
<b>Average in International market</b>							<b>26.3</b>	<b>23.0</b>	<b>4.5</b>	<b>4.1</b>	<b>16.6</b>	<b>15.2</b>	<b>16.5</b>	<b>16.6</b>	<b>2.0</b>	<b>2.2</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS**
**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**

**Profit & Loss**

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>Total Net Revenues</b>	<b>20,578</b>	<b>25,166</b>	<b>25,773</b>	<b>28,090</b>	<b>31,037</b>
<b>Gross Profit</b>	<b>12,745</b>	<b>15,043</b>	<b>15,517</b>	<b>16,978</b>	<b>18,860</b>
<b>Operating EBITDA</b>	<b>9,530</b>	<b>11,507</b>	<b>11,720</b>	<b>12,660</b>	<b>13,852</b>
Depreciation And Amortisation	-727	-758	-778	-810	-842
<b>Operating EBIT</b>	<b>8,803</b>	<b>10,749</b>	<b>10,942</b>	<b>11,850</b>	<b>13,010</b>
Financial Income/(Expense)	34	65	143	324	502
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	11	26	18	18	18
<b>Profit Before Tax (pre-EI)</b>	<b>8,918</b>	<b>10,890</b>	<b>11,157</b>	<b>12,246</b>	<b>13,584</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>8,848</b>	<b>10,839</b>	<b>11,103</b>	<b>12,192</b>	<b>13,530</b>
Taxation	-2,229	-2,724	-2,790	-3,064	-3,400
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>6,619</b>	<b>8,115</b>	<b>8,313</b>	<b>9,128</b>	<b>10,130</b>
Minority Interests	8	-0	-0	-0	-0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>6,627</b>	<b>8,115</b>	<b>8,312</b>	<b>9,128</b>	<b>10,130</b>
Recurring Net Profit	6,680	8,154	8,353	9,169	10,170
<b>Fully Diluted Recurring Net Profit</b>	<b>6,680</b>	<b>8,154</b>	<b>8,353</b>	<b>9,169</b>	<b>10,170</b>

**Cash Flow**

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>EBITDA</b>	<b>9,530</b>	<b>11,507</b>	<b>11,720</b>	<b>12,660</b>	<b>13,852</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	236	1,191	834	6	-36
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-2,881	-3,641	-2,629	-2,721	-2,880
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
<b>Cashflow From Operations</b>	<b>6,885</b>	<b>9,057</b>	<b>9,924</b>	<b>9,944</b>	<b>10,935</b>
Capex	-4,161	-3,349	-500	-500	-500
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>-4,161</b>	<b>-3,349</b>	<b>-500</b>	<b>-500</b>	<b>-500</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-3,169	-3,843	-4,822	-4,940	-5,424
Preferred Dividends					
Other Financing Cashflow	-248	-0	0	0	0
<b>Cash Flow From Financing</b>	<b>-3,417</b>	<b>-3,843</b>	<b>-4,822</b>	<b>-4,940</b>	<b>-5,424</b>
Total Cash Generated	-693	1,865	4,602	4,504	5,011
<b>Free Cashflow To Equity</b>	<b>2,724</b>	<b>5,707</b>	<b>9,424</b>	<b>9,444</b>	<b>10,435</b>
<b>Free Cashflow To Firm</b>	<b>2,724</b>	<b>5,707</b>	<b>9,424</b>	<b>9,444</b>	<b>10,435</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	1,751	3,615	8,217	12,722	17,733
Total Debtors	365	315	341	367	401
Inventories	12,862	13,892	12,834	13,301	13,935
Total Other Current Assets	13,549	18,052	18,052	18,052	18,052
<b>Total Current Assets</b>	<b>28,527</b>	<b>35,875</b>	<b>39,444</b>	<b>44,442</b>	<b>50,121</b>
Fixed Assets	8,250	7,834	7,610	7,354	7,066
Total Investments	2	9	9	9	9
Intangible Assets	1,930	2,058	2,004	1,950	1,896
Total Other Non-Current Assets	4,550	3,788	3,788	3,788	3,788
<b>Total Non-current Assets</b>	<b>14,732</b>	<b>13,689</b>	<b>13,411</b>	<b>13,101</b>	<b>12,760</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	13,439	15,628	15,429	15,929	16,560
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>13,439</b>	<b>15,628</b>	<b>15,429</b>	<b>15,929</b>	<b>16,560</b>
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	324	311	311	311	311
<b>Total Non-current Liabilities</b>	<b>325</b>	<b>311</b>	<b>311</b>	<b>311</b>	<b>311</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>13,763</b>	<b>15,939</b>	<b>15,741</b>	<b>16,240</b>	<b>16,871</b>
Shareholders' Equity	29,515	33,645	37,135	41,323	46,029
Minority Interests	-20	-20	-20	-20	-20
<b>Total Equity</b>	<b>29,495</b>	<b>33,625</b>	<b>37,115</b>	<b>41,303</b>	<b>46,009</b>

**Key Ratios**

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	15.9%	21.3%	2.0%	9.4%	10.9%
Operating EBITDA Growth	11.9%	20.7%	1.9%	8.0%	9.4%
Operating EBITDA Margin	47.8%	47.6%	47.5%	46.9%	46.3%
Net Cash Per Share (Rmb)	1.16	2.40	5.45	8.44	11.77
BVPS (Rmb)	19.59	22.33	24.64	27.42	30.54
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	25.2%	25.1%	25.1%	25.1%	25.1%
Net Dividend Payout Ratio	57.4%	59.1%	59.0%	59.1%	59.1%
Accounts Receivables Days	3.52	3.54	3.61	3.40	3.37
Inventory Days	584.4	482.3	475.5	430.4	408.2
Accounts Payables Days	254.2	199.2	200.4	190.4	190.2
ROIC (%)	37.1%	38.5%	36.3%	40.8%	45.2%
ROCE (%)	32.1%	34.4%	31.5%	31.2%	31.1%
Return On Average Assets	16.2%	17.5%	16.1%	16.0%	16.1%

**Key Drivers**

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
ASP (% chg, main prod./serv.)	6.7%	20.5%	3.5%	7.0%	8.0%
Unit sales grth (% , main prod./serv.)	9.0%	-0.9%	-1.5%	2.5%	3.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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