

Kweichou Moutai (600519 CH)

2Q Rev/NP +20.4/21.0% as pre-announced

Moutai announced 2Q results that matched with its pre-announcement, and we do not expect the numbers to be eventful to near term share price. While Moutai has been a laggard of the recent baijiu sector rally in response to a [positive market takeaway from the recent politburo meeting](#), the company remains a solid defensive name which shields itself from any malignant price competition through its brand scarcity. Our recent channel check with distributors indicated that prices of sealed/unpacked Feitian Moutai steadied at RMB2,940/2,740 per bottle by end-July, largely unchanged from [that we observed in early June](#), not to mention a healthy 15-day inventory level. Forward-looking into 3Q in which gifting season begins with the Mid-Autumn festival, we see every reason for Moutai to sustain its high-teen growth trajectory. We remain Buyer of Moutai.

Key 2Q results takeaway

- 2Q revenue booked RMB31.6bn, up 20.4%, compared to 18.7% in 1Q and 19.0% in the pre-announcement. This was mainly driven by 21.0% growth in both Moutai and Series liquor sales. Assuming a high single digit volume growth, we attribute the predominant growth driver to ASP uplift. 2Q GPM stood at 91%.
- Production wise, in our view, the growing Series spirit contribution should comprehend Moutai's competitiveness in the entry high-end segment, while alleviating the growth bottleneck of Moutai spirit.
- We believe 2H outlook is positive with relatively more gifting scenarios and increased corporate procurement needs along with further macro recovery.
- Regarding innovative launches, subsequent to the debut of Moutai ice cream, the company migrated into the coffee segment with new attempts in Moutai Americano, Moutai Dirty, Moutai Latte, etc. The CEO mentioned that Moutai shall expand its product coverage with the aim of attracting younger customers.

Earnings change/Valuation. We moderately adjust our forecasts on back of an in-line 2Q results. Our TP is still based on 41.0x end-23E P/E, which represents long-term average since 2019. Our methodology reflects our relative optimism (vis-a-vis other F&B diversified of which target multiples are based on -1sd below long term average) on Moutai that it is [one of the core beneficiaries](#) of China's reopened economy with [high certainty in earnings delivery](#).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	109,464	127,554	150,035	173,305	197,151
YoY growth (%)	11.7	16.5	17.6	15.5	13.8
Net profit (RMB mn)	52,460.1	62,716.2	74,450.6	86,749.6	99,392.3
EPS (Reported) (RMB)	41.76	49.93	59.27	69.06	79.12
YoY growth (%)	12.3	19.6	18.7	16.5	14.6
Consensus EPS (RMB)	na	na	58.55	68.90	79.90
P/E (x)	47.2	36.0	31.7	27.2	23.8
P/B (x)	13.1	11.4	9.9	8.2	6.8
Yield (%)	1.1	1.2	1.4	1.6	1.8
ROE (%)	29.9	32.4	34.1	32.8	31.4
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB2440.00
(Previous TP)	RMB2440.00)
Up/Downside	29.8%
Current Price	RMB1880.00

China Consumer Staples

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Stock Data

Mkt Cap (RMB mn)	2,361,656.0
Avg 3 mths t/o (RMB mn)	3,795.0
52w High/Low (RMB)	1928.00/1350.00
Total Issued Shares (mn)	1256.2

Source: FactSet

Shareholding Structure

China Kweichow Moutai	54.1%
Winery Group	
HKSC	7.3%

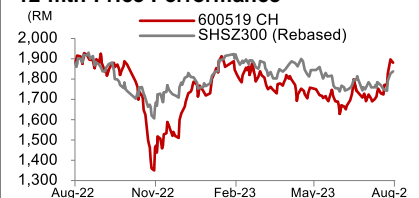
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	11.2%	6.9%
3-mth	6.8%	7.6%
6-mth	2.4%	7.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revisions

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	150,035	173,305	197,151	149,786	172,710	NA	0.2%	0.3%	NA
Gross Profit	138,903	160,972	183,605	139,270	161,021	NA	-0.3%	0.0%	NA
EBIT	102,509	118,933	135,782	104,098	120,466	NA	-1.5%	-1.3%	NA
Net profit	74,451	86,750	99,392	74,579	86,626	NA	-0.2%	0.1%	NA
Gross Margin	92.6%	92.9%	93.1%	93.0%	93.2%	NA	-0.4ppt	-0.3ppt	NA
EBIT Margin	68.3%	68.6%	68.9%	69.5%	69.8%	NA	-1.2ppt	-1.1ppt	NA
Net Margin	49.6%	50.1%	50.4%	49.8%	50.2%	NA	-0.2ppt	-0.1ppt	NA

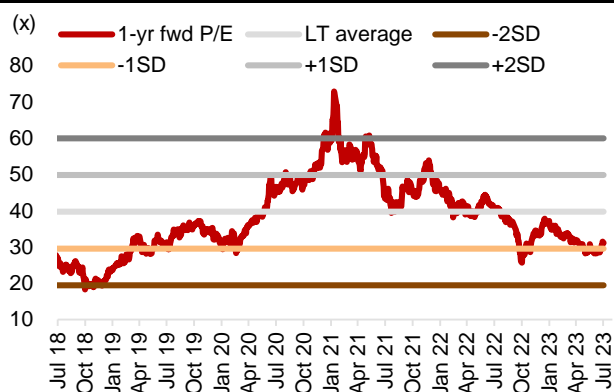
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	150,035	173,305	197,151	148,435	171,777	196,832	1.1%	0.9%	0.2%
Gross Profit	138,903	160,972	183,605	137,302	158,253	181,759	1.2%	1.7%	1.0%
Operating Profit	102,509	118,933	135,782	103,799	121,187	140,314	-1.2%	-1.9%	-3.2%
Net profit	74,451	86,750	99,392	73,863	86,599	100,216	0.8%	0.2%	-0.8%
Gross Margin	92.6%	92.9%	93.1%	92.5%	92.1%	92.3%	0.1ppt	0.8ppt	0.8ppt
Operating Margin	68.3%	68.6%	68.9%	69.9%	70.5%	71.3%	-1.6ppt	-1.9ppt	-2.4ppt
Net Margin	49.6%	50.1%	50.4%	49.8%	50.4%	50.9%	-0.1ppt	-0.4ppt	-0.5ppt

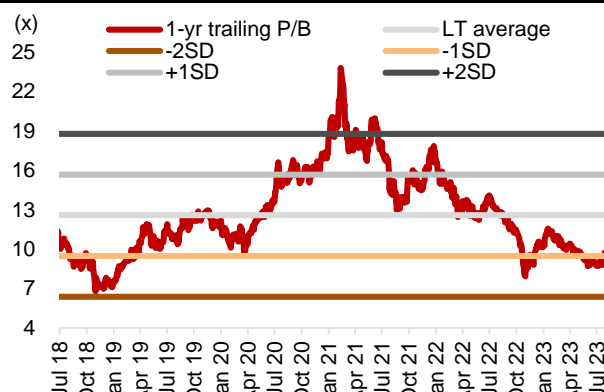
Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 4: 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	97,993	109,464	127,554	150,035	173,305	197,151
Cost of goods sold	(8,265)	(9,157)	(10,199)	(11,132)	(12,333)	(13,546)
Gross profit	89,728	100,307	117,355	138,903	160,972	183,605
Operating expenses	(23,275)	(26,554)	(30,941)	(36,394)	(42,039)	(47,823)
Selling expense	(16,434)	(18,042)	(21,794)	(25,635)	(29,610)	(33,685)
Admin expense	(6,840)	(8,512)	(9,147)	(10,760)	(12,428)	(14,138)
Gain/loss on financial assets at FVTPL	5	(2)	0	0	0	0
Other gains/(losses)	(71)	(13)	(15)	0	0	0
EBITDA	67,704	75,217	88,010	104,130	120,876	138,085
Depreciation	(1,196)	(1,345)	(1,444)	(1,621)	(1,943)	(2,303)
Other amortisation	(121)	(135)	(168)	0	0	0
EBIT	66,387	73,738	86,399	102,509	118,933	135,782
Interest income	279	945	1,475	1,377	1,683	2,038
Interest expense	0	(14)	(12)	0	0	0
Foreign exchange gain/loss	0	0	0	0	0	0
Other income/expense	(425)	(144)	(90)	(154)	(154)	(154)
Others	(44)	3	(72)	(75)	(79)	(83)
Pre-tax profit	66,197	74,528	87,701	103,657	120,383	137,584
Income tax	(16,674)	(18,808)	(22,326)	(26,388)	(30,646)	(35,025)
Minority interest	(2,826)	(3,260)	(2,659)	(2,818)	(2,987)	(3,167)
Net profit	46,697	52,460	62,716	74,451	86,750	99,392
Core net profit	47,015	52,568	62,783	74,565	86,864	99,507
Gross dividends	24,236	27,228	27,227	32,321	37,661	43,149

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	185,652	220,766	216,611	259,028	308,821	365,356
Cash & equivalents	154,291	186,878	174,447	213,125	258,155	309,876
Account receivables	2,466	422	1,056	1,242	1,434	1,632
Inventories	28,869	33,394	38,824	42,376	46,947	51,564
Other current assets	27	72	2,284	2,284	2,284	2,284
Non-current assets	27,744	34,403	37,753	43,405	49,703	56,633
PP&E	18,673	19,794	21,951	26,571	31,838	37,738
Intangibles	4,817	6,208	7,083	8,114	9,145	10,176
Other non-current assets	4,254	8,400	8,719	8,719	8,719	8,719
Total assets	213,396	255,168	254,365	302,432	358,523	421,988
Current liabilities	45,674	57,914	49,066	52,186	56,200	60,256
Short-term borrowings	0	0	0	0	0	0
Account payables	29,822	34,510	34,103	37,223	41,238	45,293
Other current liabilities	15,852	23,404	14,963	14,963	14,963	14,963
Non-current liabilities	1	296	334	334	334	334
Long-term borrowings	1	296	334	334	334	334
Total liabilities	45,675	58,211	49,400	52,520	56,535	60,591
Share capital	1,256	1,256	1,256	1,256	1,256	1,256
Retained earnings	157,769	185,860	193,825	235,954	285,043	341,286
Other reserves	2,297	2,423	2,426	2,426	2,426	2,426
Total shareholders equity	161,323	189,539	197,507	239,636	288,725	344,968
Minority interest	6,398	7,418	7,458	10,276	13,264	16,430
Total equity and liabilities	213,396	255,168	254,365	302,432	358,523	421,988

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	66,197	74,528	87,701	103,657	120,383	137,584
Depreciation & amortization	1,317	1,480	1,611	1,621	1,943	2,303
Tax paid	(16,674)	(18,808)	(22,326)	(26,388)	(30,646)	(35,025)
Change in working capital	857	7,860	(29,127)	(618)	(748)	(759)
Others	(29)	(1,032)	(1,163)	0	0	0
Net cash from operations	51,669	64,029	36,699	78,272	90,931	104,103
Investing						
Capital expenditure	(2,090)	(3,409)	(5,307)	(6,242)	(7,210)	(8,202)
Acquisition of subsidiaries/ investments	0	2	0	0	0	0
Net proceeds from disposal of short-term investments	(20)	(2,150)	(210)	0	0	0
Others	304	(6)	(21)	(1,031)	(1,031)	(1,031)
Net cash from investing	(1,805)	(5,562)	(5,537)	(7,273)	(8,241)	(9,233)
Financing						
Dividend paid	(24,236)	(27,228)	(27,227)	(32,321)	(37,661)	(43,149)
Share repurchases	0	0	0	0	0	0
Others	108	664	(30,197)	0	0	0
Net cash from financing	(24,128)	(26,564)	(57,425)	(32,321)	(37,661)	(43,149)
Net change in cash						
Cash at the beginning of the year	121,004	146,741	178,641	152,379	191,057	236,087
Exchange difference	0	(2)	1	0	0	0
Others	25,737	31,900	(26,262)	38,678	45,030	51,721
Cash at the end of the year	146,741	178,641	152,379	191,057	236,087	287,808
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	10.3%	11.7%	16.5%	17.6%	15.5%	13.8%
Gross profit	10.4%	11.8%	17.0%	18.4%	15.9%	14.1%
EBITDA	12.3%	11.1%	17.0%	18.3%	16.1%	14.2%
EBIT	12.5%	11.1%	17.2%	18.6%	16.0%	14.2%
Net profit	13.3%	12.3%	19.6%	18.7%	16.5%	14.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	91.6%	91.6%	92.0%	92.6%	92.9%	93.1%
EBITDA margin	69.1%	68.7%	69.0%	69.4%	69.7%	70.0%
Return on equity (ROE)	31.4%	29.9%	32.4%	34.1%	32.8%	31.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	4.1	3.8	4.4	5.0	5.5	6.1
Receivable turnover days	9.2	1.4	3.0	3.0	3.0	3.0
Inventory turnover days	1,274.9	1,331.0	1,389.4	1,389.4	1,389.4	1,389.4
Payable turnover days	1,317.0	1,375.5	1,220.4	1,220.4	1,220.4	1,220.4
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	39.6	47.2	36.0	31.7	27.2	23.8
P/E (diluted)	39.6	47.2	36.0	31.7	27.2	23.8
P/B	11.5	13.1	11.4	9.9	8.2	6.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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