

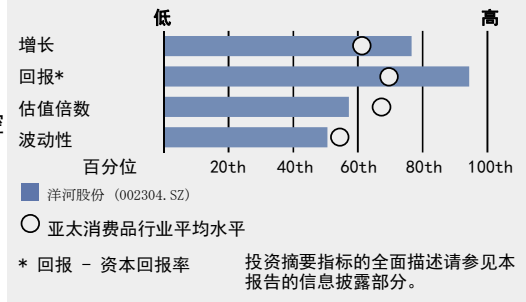


新江苏战略将推动增长；重申买入评级（摘要）

建议理由

我们重申对洋河股份的买入评级，12个月新目标价格为人民币87.64元，存在25%的上行空间。我们的积极看法基于：**1) 公司是消费升级的主要受益者**，拥有较强的中、高端旗舰品牌——天之蓝、海之蓝；我们预计市场份额将持续扩张；**2) “新江苏”市场上品牌认知度上升，实施差异化渠道模式**，保留品牌使用和经营控制；**3) 不断努力打造产品平台并创新产品品类**，跟上互联网使用增加以及关注健康的消费趋势。

投资摘要



推动因素

1) 高端需求反弹将推动收入和利润率：我们预计，2016年来自梦之蓝（价格在人民币400-1000元区间的旗舰品牌）的收入将恢复20%以上的同比增长，而后的几年里将保持十位数低端增长，得益于行业较2013年反腐措施导致的严重低迷时期出现复苏以及公司持续的市场推广得到回报。

2) 在江苏省以外地区稳步扩张：2015年以来公司的“新江苏”市场战略进展一直比较稳健，这些市场的2015年收入贡献达到40%（2014年为35%）。我们预计，公司强大的执行力将继续推动收入增长（2016年增长20%以上）并为进一步全国扩张奠定基础。

估值

我们将2016-20年每股盈利预测小幅上调了0.2%-6.0%，以体现调高的收入增速和利润率假设。据此，我们将12个月目标价格上调6%至人民币87.64元，仍基于18倍的市盈率乘以2020年预期每股盈利（人民币6.80元，原为6.41元），并以8.7%的股权成本贴现回2016年。

主要风险

行业复苏慢于预期；费用高于预期。

*全文翻译将随后提供

所属投资名单

亚太买入名单

行业评级：中性

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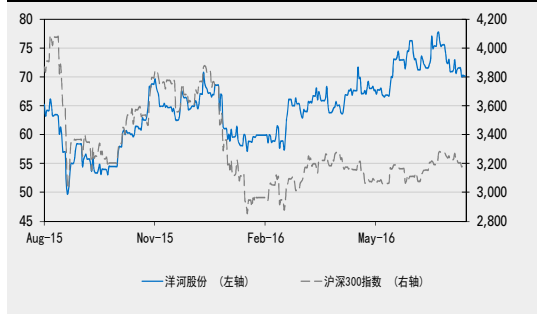
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主要数据

	当前
股价(Rmb)	70.15
12个月目标价格(Rmb)	87.64
市值(Rmb mn / US\$ mn)	105,715.2 / 15,947.1
外资持股比例(%)	--

	12/15	12/16E	12/17E	12/18E
每股盈利(Rmb) 新	3.56	3.97	4.59	5.31
每股盈利调整幅度(%)	0.0	0.2	1.1	3.2
每股盈利增长(%)	(14.8)	11.5	15.6	15.7
每股摊薄盈利(Rmb) 新	3.56	3.97	4.59	5.31
市盈率(X)	17.6	17.7	15.3	13.2
市净率(X)	4.1	4.1	3.6	3.2
EV/EBITDA (X)	12.8	11.9	10.0	8.4
股息收益率(%)	2.9	2.9	3.3	3.8
净资产回报率(%)	25.2	24.5	25.1	25.6
CROCI (%)	23.8	24.7	24.9	25.1

股价走势图



股价表现(%)

	3个月	6个月	12个月
绝对	0.7	17.8	3.5
相对于沪深300指数	0.9	9.9	27.6

资料来源：公司数据、高盛研究预测、FactSet（股价为8/04/2016收盘价）

洋河股份：财务数据概要

损益表(Rmb mn)	12/15	12/16E	12/17E	12/18E	资产负债表(Rmb mn)	12/15	12/16E	12/17E	12/18E
主营业务收入	16,052.4	17,889.6	20,136.3	22,885.0	现金及等价物	4,707.8	7,418.4	9,590.1	12,134.2
主营业务成本	(6,115.1)	(6,676.1)	(7,337.2)	(8,157.5)	应收账款	206.8	230.4	259.4	294.8
销售、一般及管理费用	(3,559.7)	(3,646.7)	(4,044.3)	(4,573.5)	存货	11,122.4	10,974.4	12,061.2	13,409.6
研发费用	(88.2)	(107.3)	(130.9)	(155.6)	其它流动资产	5,418.9	5,418.9	5,418.9	5,418.9
其它营业收入/(支出)	(11.9)	0.0	0.0	0.0	流动资产	21,455.9	24,042.1	27,329.6	31,257.5
EBITDA	6,986.0	8,280.1	9,572.5	11,089.3	固定资产净额	8,495.8	10,024.6	11,718.6	13,625.0
折旧和摊销	(620.2)	(713.4)	(817.8)	(935.3)	无形资产净额	1,947.6	1,852.2	1,756.7	1,661.3
EBIT	6,365.8	7,566.7	8,754.8	10,154.1	长期投资	1,205.1	1,204.9	1,204.6	1,204.4
利息收入	293.2	70.6	111.3	143.9	其它长期资产	756.0	756.0	756.0	756.0
财务费用	(96.8)	0.0	0.0	0.0	资产合计	33,860.3	37,879.7	42,765.5	48,504.1
联营公司	(0.2)	(0.2)	(0.2)	(0.2)	应付账款	9,312.2	10,059.9	11,056.1	12,292.1
其它	603.4	355.0	369.5	384.8	短期贷款	0.0	0.0	0.0	0.0
税前利润	7,165.3	7,992.1	9,235.3	10,682.5	其它流动负债	1,265.5	1,578.5	2,049.1	2,597.0
所得税	(1,800.1)	(2,007.8)	(2,320.1)	(2,683.7)	流动负债	10,577.6	11,638.4	13,105.2	14,889.1
少数股东损益	0.0	0.0	0.0	0.0	长期贷款	0.2	0.2	0.2	0.2
优先股股息前净利润	5,365.2	5,984.3	6,915.1	7,998.8	其它长期负债	341.0	341.0	341.0	341.0
优先股股息	0.0	0.0	0.0	0.0	长期负债	341.2	341.2	341.2	341.2
非经常性项目前净利润	5,365.2	5,984.3	6,915.1	7,998.8	负债合计	10,918.8	11,979.6	13,446.4	15,230.3
税后非经常性损益	0.0	0.0	0.0	0.0	优先股	0.0	0.0	0.0	0.0
净利润	5,365.2	5,984.3	6,915.1	7,998.8	普通股权益	22,937.1	25,895.8	29,314.7	33,269.4
每股基本盈利(非经常性项目前)(Rmb)	3.56	3.97	4.59	5.31	少数股东权益	4.4	4.4	4.4	4.4
每股基本盈利(非经常性项目后)(Rmb)	3.56	3.97	4.59	5.31	负债及股东权益合计	33,860.3	37,879.7	42,765.5	48,504.1
每股摊薄盈利(非经常性项目后)(Rmb)	3.56	3.97	4.59	5.31	每股净资产(Rmb)	15.22	17.18	19.45	22.08
每股股息(Rmb)	1.80	2.01	2.32	2.68					
股息支付率(%)	50.6	50.6	50.6	50.6					
自由现金流收益率(%)	5.4	5.1	4.9	5.7					
增长率和利润率(%)	12/15	12/16E	12/17E	12/18E	比率	12/15	12/16E	12/17E	12/18E
主营业务收入增长率	9.4	11.4	12.6	13.7	CROCI (%)	23.8	24.7	24.9	25.1
EBITDA增长率	11.6	18.5	15.6	15.8	净资产回报率(%)	25.2	24.5	25.1	25.6
EBIT增长率	11.3	18.9	15.7	16.0	总资产回报率(%)	17.1	16.7	17.1	17.5
净利润增长率	19.0	11.5	15.6	15.7	平均运用资本回报率(%)	31.0	32.3	35.8	38.6
每股盈利增长	(14.8)	11.5	15.6	15.7	存货周转天数	633.3	604.0	573.0	569.8
毛利率	61.9	62.7	63.6	64.4	应收账款周转天数	4.7	4.5	4.4	4.4
EBITDA利润率	43.5	46.3	47.5	48.5	应付账款周转天数	511.2	529.6	525.2	522.3
EBIT利润率	39.7	42.3	43.5	44.4	净负债/股东权益(%)	(20.5)	(28.6)	(32.7)	(36.5)
					EBIT利息保障倍数(X)	NM	NM	NM	NM
现金流量表(Rmb mn)	12/15	12/16E	12/17E	12/18E	估值	12/15	12/16E	12/17E	12/18E
优先股股息前净利润	5,365.2	5,984.3	6,915.1	7,998.8	基本市盈率(X)	17.6	17.7	15.3	13.2
折旧及摊销	620.2	713.4	817.8	935.3	市净率(X)	4.1	4.1	3.6	3.2
少数股东权益	0.0	0.0	0.0	0.0	EV/EBITDA(X)	12.8	11.9	10.0	8.4
运营资本增减	409.3	872.0	(119.5)	(147.8)	企业价值/总投资现金(X)	3.5	3.4	2.9	2.5
其它	(558.3)	0.2	0.2	0.2	股息收益率(%)	2.9	2.9	3.3	3.8
经营活动产生的现金流	5,836.4	7,569.9	7,613.6	8,786.5					
资本开支	(719.5)	(2,146.7)	(2,416.4)	(2,746.2)					
收购	0.0	0.0	0.0	0.0					
剥离	4.4	0.0	0.0	0.0					
其它	(2,961.2)	0.0	0.0	0.0					
投资活动产生的现金流	(3,676.3)	(2,146.7)	(2,416.4)	(2,746.2)					
支付股息的现金(普通股和优先股)	(2,152.8)	(2,712.6)	(3,025.6)	(3,496.2)					
借款增减	1,600.0	0.0	0.0	0.0					
普通股发行(回购)	0.0	0.0	0.0	0.0					
其它	(1,245.0)	0.0	0.0	0.0					
筹资活动产生的现金流	(1,797.9)	(2,712.6)	(3,025.6)	(3,496.2)					
总现金流	362.1	2,710.6	2,171.7	2,544.1					

注：最后一个实际年度数据可能包括已公布和预测数据。

资料来源：公司数据、高盛研究预测

对此报告有贡献的人员

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Overview: Cheers to a new strategy; Buy on solid growth outlook

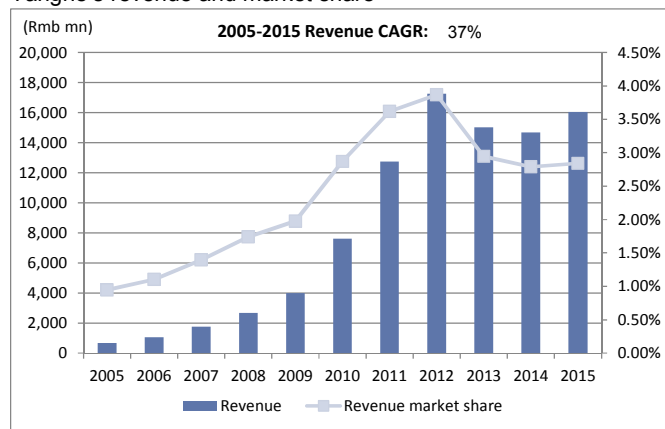
We reiterate our Buy rating on Yanghe with our new 12-month target price of Rmb87.64 implying 25% upside potential. We continue to be bullish on Yanghe as the company further enhances its competitive advantage in the mid- to high-end market.

(1) Consumption upgrade and strong brand awareness: We are positive on the continuous expansion of the mid- to high-end market against the backdrop of consumption upgrade, especially the mid-end market which accounts for more than half of the market share. We believe Yanghe's flagship brands Ocean Blue and Sky Blue have nationwide brand cache and channel advantages in this price range. Currently they have 4%+ market share and we expect the two brands to maintain faster-than-market growth in the next few years.

(2) Long-term strategy in line with industry direction: In the longer term, we think Yanghe's focus on building its platform, and its internet and health-oriented strategy is in line with the development trend of the industry. We expect this to create new sources of income for the company, including new product categories and new channels, to sustain its competitive advantage and growth potential.

Exhibit 1: Revenue CAGR from 2005-2015 is 37%

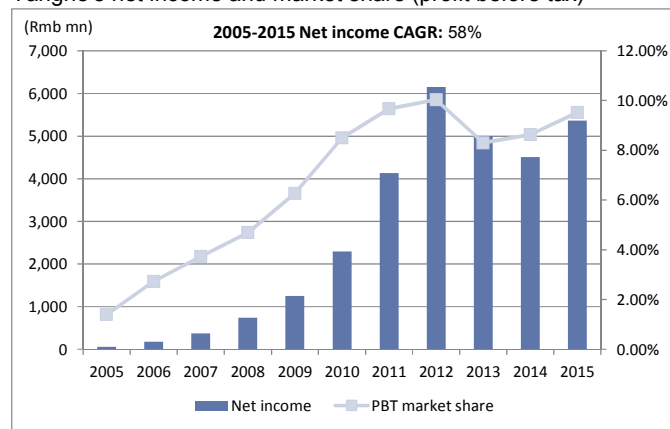
Yanghe's revenue and market share



Source: Company data

Exhibit 2: Net income CAGR from 2005-2015 is 58%

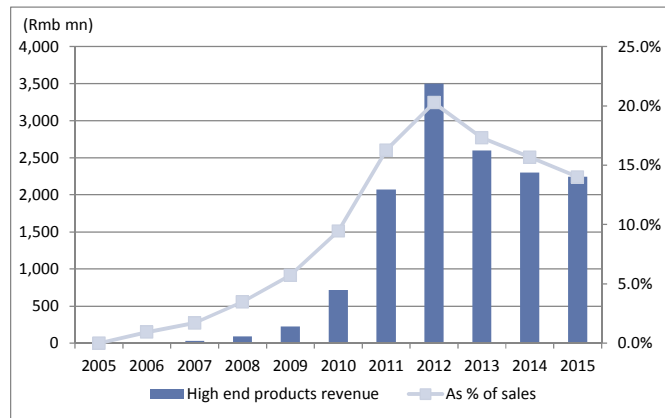
Yanghe's net income and market share (profit before tax)



Source: Company data

Exhibit 3: High-end product revenue as a % of total was about 15% in the past few years

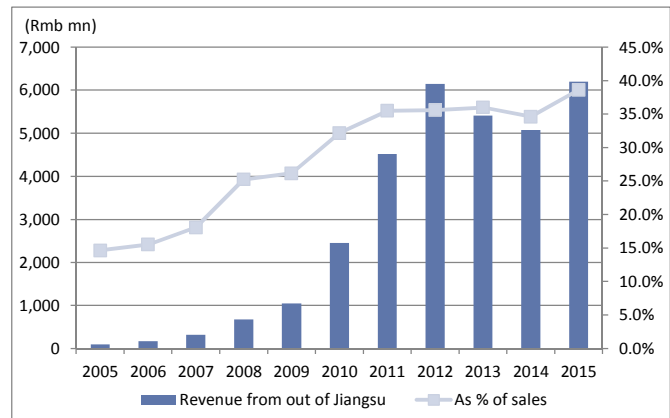
High-end product revenue and % of total revenue



Source: Company data

Exhibit 4: Revenue outside Jiangsu province (focus of the New Jiangsu Market strategy) reached 40% in 2015

Revenue from out of Jiangsu Province and % of total revenue



Source: Company data

Adjustment completed, entering a new round of growth cycle now

A brief review: In the last upcycle of the spirit industry, Yanghe was one of the top performers. In 2005-2012, revenue grew from Rmb684mn to Rmb17.27bn, at a CAGR of 59%, far exceeding the industry average of 29%. Yanghe's market share increased from 0.9% to 3.9% over the same period. We attribute this high growth to two strategies Yanghe launched in 2005 and successfully implemented: **Nationwide expansion and premium brand strategy**. Revenue out of Jiangsu province grew from 15% to 35% of total revenue while high-end product revenue share grew from 1% to 20%.

However, the growth trajectory was disrupted by the abrupt changes in the spirits sector from 2013. Stringent restrictions on government consumption led to a sharp decline in the high-end spirit market. As such, Yanghe's nationwide expansion and premium brand strategy faced significant challenges in the new industry phase, and the company entered a two to three-year adjustment period.

In the past few years, Yanghe was actively working on a strategy shift given the new market environment. Revenue rose 9.4% in 2015, and net income was up 19%, ending two years of negative growth. Hence, **we believe the company's transition of its strategy is nearly complete, and Yanghe will now enter a new cycle of growth. Our positive is based on the following three points:**

(1) Completed a product mix optimization phase after the sharp slowdown in 2012-13:

On one hand, mid-end products (represented by Ocean Blue) have maintained stable growth since 2013 and contributed more to revenue (30% of total revenue in 2013 vs. 36% in 2015). On the other hand, high-end products (represented by Dream Blue) have gradually recovered, driving the rebound in revenue growth. Meanwhile, the company continued its efforts in R&D on new products and product categories, and to optimize its revenue structure (see page 7).

(2) New Jiangsu Market strategy in action: Yanghe has unveiled in 2015 its **New Jiangsu Market strategy** and started a new round of nationwide expansion. As a result, sales growth in markets outside of Jiangsu has rebounded (from 35.3% of total revenue in 2014 to 39.6% in 2015).

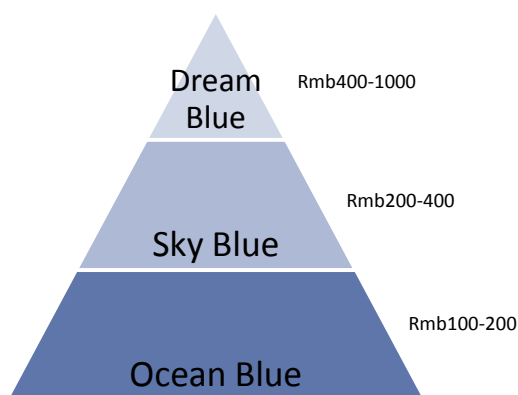
(3) Competitive advantage key to Yanghe's transition to a successful consumer brand. Moreover, we believe Yanghe continues to build on its competitive strengths (see page 13).

Continued product mix optimization to cater for industry transition

Yanghe's products are well known and serialized with different brands like Mianrou Sujiu, Dream Blue, Sky Blue, Shengtai Sujiu, Zhenbaofang, Ocean Blue, Lanci, Yanghe Laozihao, Yanghe Daqu, etc. Yanghe has strict market positioning and pricing for its different brands and product categories. The company offers a full spectrum of high-end, mid-end and low-end products and the product line is rather long. Within each price range, there is a flagship product. We believe this provides the company with multiple growth engines.

Exhibit 5: Yanghe has a three-layer product pyramid

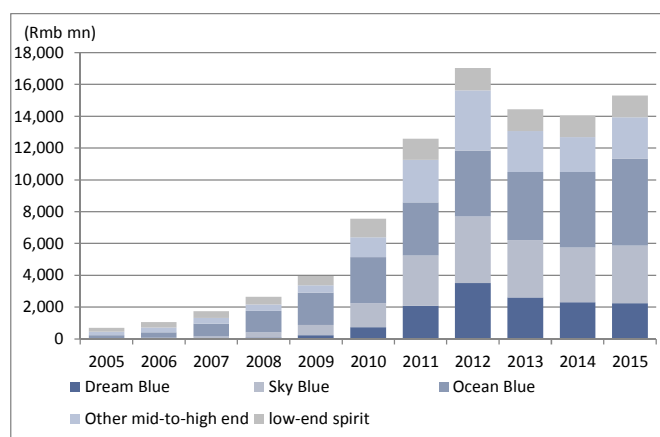
Product pyramid of Yanghe's Blue Classical Series



Source: Company data

Exhibit 6: Ocean Blue still had significant growth in 2012-2015

Historical revenue of Yanghe's major products



Source: Company data

We believe this rather long product line has minimized the impact of the severe industry consolidation in the last three years on Yanghe, and help the company manage to adjust quickly to the industry transition

In the last three years, Yanghe continuously worked on optimizing its product mix. On one hand, mid-end products (represented by Ocean Blue) have maintained stable growth since 2013 and contributed more to revenue (30% of total revenue in 2013 vs. 36%). On the other hand, high-end products (represented by Dream Blue) have gradually recovered in 2014-2015, driving the rebound in revenue growth. Meanwhile, the company continued its efforts in R&D on new products and product categories, and to optimize its revenue structure (see page 13)

Mid-end products maintained stable growth. Mid-end products include Sky Blue, Ocean Blue, Zhenbaofang, Shengtai Sujiu, Yanghe Daqu, and range from Rmb100 to Rmb500 per bottle in pricing. In every price range, there is a key product with material revenue contribution.

- **Ocean Blue** is the representative brand in the Rmb100-200 price range, targeting the mass market. In the last few years, Ocean Blue has maintained growth thanks to continuous consumption upgrade demand and was rather immune from the effects of the anti-corruption campaign. It has gradually emerged as a nationwide super brand¹ (Ocean Blue has over Rmb5bn). We estimate 2016 revenue to exceed Rmb6bn, 13% yoy, implying sales volume of more than 40mn bottles. In provinces like Jiangsu, Henan, Anhui, Shandong and Hebei,

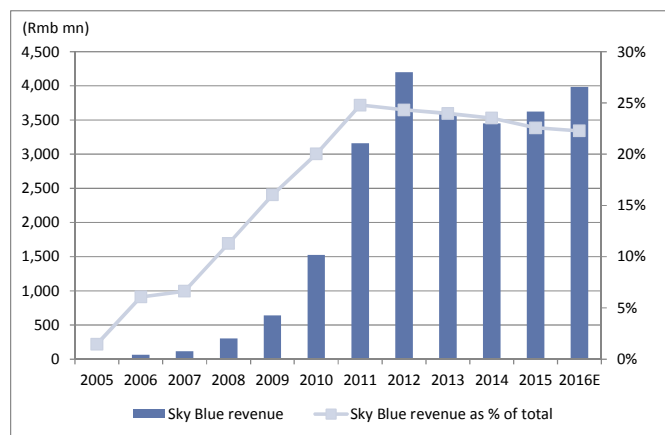
¹ "Super brands" are what the industry refers to as brands with revenue exceeding Rmb1bn.

Ocean Blue now has the largest market share in terms of revenue in the Rmb100-200 range. The high growth of Ocean Blue sales has effectively offset the slowdown in the high-end products and helped the stabilization and recovery of revenue, as well as the nationwide expansion of Yanghe.

- **Sky Blue** is the representative brand of Yanghe in the Rmb200-300 price range, and mainly targets business consumption. This brand was dragged by the overall slowdown of high-end spirits in 2013 (revenue fell 14%), but has started to stabilize after recovering in 2014 (stable growth at about 10% from 2015), becoming another growth engine. We attribute the buoyant sales of Sky Blue to two trends: 1) consumption upgrade in the mass market; and 2) consumption downgrade from high-end spirits following the anti-corruption campaign. We consider Sky Blue as another super brand due to its nationwide brand recognition (over Rmb3bn revenue). We estimate revenue from Sky Blue to exceed Rmb3.9bn in 2016, up c. 10%, with about 16mn bottles in sales volume.

Exhibit 7: Sky Blue maintained revenue growth since 201#

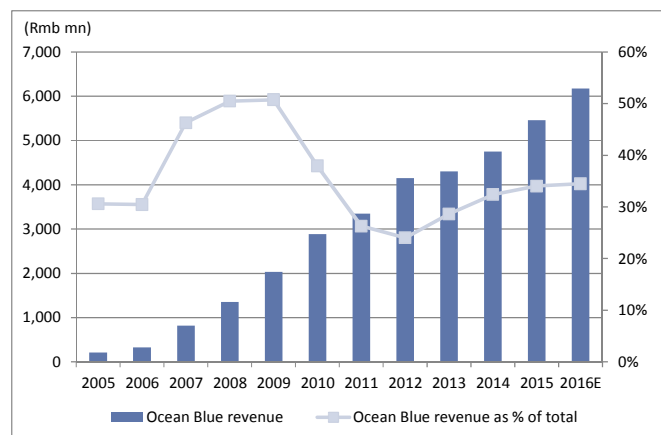
Sky Blue revenue and as a % of total



Source: Company data, Gao Hua Securities Research

Exhibit 8: Ocean Blue had high growth rate in the past

Ocean Blue revenue and as a % of total

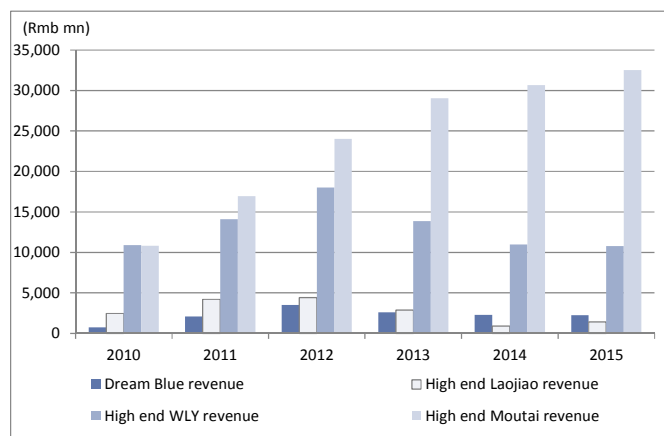


Source: Company data, Gao Hua Securities Research

High-end products stabilized and recovered. Revenue from Dream Blue reached Rmb3.5bn in 2012 and saw a severe decline against the backdrop of the anti-corruption campaign and the continuous shrinking of the high-end spirit market. However, the company persisted on its brand marketing during this period and focused on its transition into the high-end business entertainment market. Signs of stabilization were evident in 2015: The M3 series saw single-digit revenue growth, M6 was stable, and the decline in M9 slowed down significantly. We estimate revenue from the Dream Blue series could reach Rmb2.8bn in 2016 with 2.8k tons of sales volume, and this implies it would rank #3 in the high-end markets in terms of revenue or volume (behind only Moutai and Wuliangye). In the short term, we expect the rebound in high-end product sales (2016-18E CAGR of 17%) to stem the fall in overall gross margin (62% in 2015 to 64% in 2018). In the future, with the gradual recovery of the high-end market, we expect Dream Blue to have a key market share based on its brand image and strong channel penetration capability (see page 14).

Exhibit 9: Dream Blue ranks third in terms of revenue

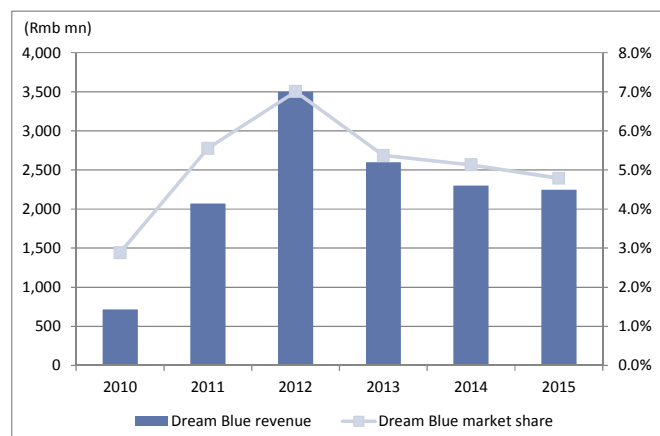
Revenue of leading high-end spirits



Source: Company data

Exhibit 10: The market share of Dream Blue has stabilized

Revenue and market share of Dream Blue



Source: Company data

Actively innovating new strategic products and product categories

Yanghe has been pushing **product innovation** in the midst of industry consolidation. The company launched its new brand “Micro Molecule Spirit” in 2H14. We see this as an important innovation based on the idea of “technological revolution centered on health and experience”. According to Yanghe, the major characteristic of the product is its small size in molecular weight, which would then speed up the metabolism of the alcohol content and aids in minimizing hangovers. Management believes the product can aid recovery from alcohol consumption and help increase the threshold before the consumer feels the effects of the alcohol (i.e., drunkenness). Yanghe stated that “Micro Molecule Spirit” is a strategic product of the company in the price range of Rmb400-600, and is a key product to develop in the future. The company is currently in the midst of building brand awareness and recognition, and focusing on consumers in the group-buying channels². “Micro Molecule Spirit” has completed channel penetration in all 13 cities in the Jiangsu province, and has been introduced into five out-of-Jiangsu markets, mainly in the group-buying channels. Based on Yanghe’s progress so far, the launch speed of its “Micro Molecule Spirit” is faster than its Blue Classics series 10 years ago. Given the selling point of “Micro Molecule Spirit” on health and experience, in line with the industry trend, coupled with Yanghe’s strong branding and channel operation abilities, we believe it could prove to another super brand in the future.

Apart from spirits, Yanghe is also focusing on its product category platform strategy, which is mainly **introducing other alcohol categories** based on the current channel platform. The company is active in entering wine operations, and introduced three products (high-end, mid-end, and low-end) from overseas. In cooperation with local wine chateaus, Yanghe’s wines are imported directly from overseas, transported in constant temperature and humidity conditions, before being sold in China. Revenue from wine reached Rmb329mn in 2014, up 34% yoy, and maintained stable growth in 2015. By leveraging the well established spirit market, the company’s wine business is mainly based on two channels: group-buying and key hotels. In the future, the company plans to gradually expand its sales channels. Apart from current brands continuing with the group buying channel, Yanghe plans to sell relatively lower-end brands in cigarette and alcohol convenient stores, as well as supermarkets. According to management’s plan, the company will develop new product categories suitable for the mass market, and aims to build Yanghe as the largest wine operation platform in China.

² These are mainly corporate clients, removing the need for channel distributors.

We think Yanghe's product category platform strategy is very unique in spirit companies as most peers only focus on baijiu. Given its competitive strength in platform and systematic operation such as strong marketing and channel management, we see the introduction of other alcohol brands apart from spirits as a natural extension of its capabilities. If successful, this will be another new growth engine in the long term.

Exhibit 11: Yanghe has introduced three wine products

Description of Yanghe's wine products

Product	Price range (Rmb)	Target consumer	Country of import	Time of import
King Face	500-600	High-end	France	Jan, 2013
Sidus	160-500	Mid-to-high end	Chile	Jan, 2013
Latin Star	80-160	Mid-to-low end	Chile	Jan, 2014

Source: Company data

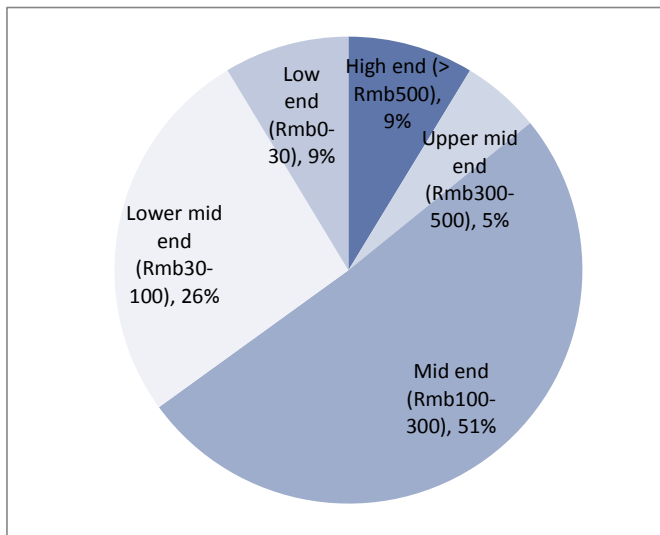
New Jiangsu Market spurs new round of nationwide expansion

As highlighted in our previous industry reports, we think the mid-end market will be the largest in size and fastest in growth rate, benefiting from continuous consumption upgrade(see *Divergence amid a weak recovery: CL-Buy Moutai; Qingkejiu to Sell*).

We estimate that mid-end spirits in the price range of Rmb100-300 had sales volume of about 2mn tons in 2015, accounting for 51% of total spirit volume. Target customers of mid-end spirits are mainly the middle class (annual income of US\$8,000-20,000). According to BCG, the middle class population will grow 40% to 380mn in 2020. We expect consumption upgrade in the mass market to result in the upgrade from mid-to-low end spirit products priced at below Rmb100 to mid-end products in Rmb100-300 range. Assuming 8% of mid-to-low end spirit consumers upgrading to mid-end, this would imply consumption of 3.2mn tons in 2020, with a market size of Rmb500bn, accounting for 58% of total spirits and resulting a CAGR of 11% for mid-end spirits.

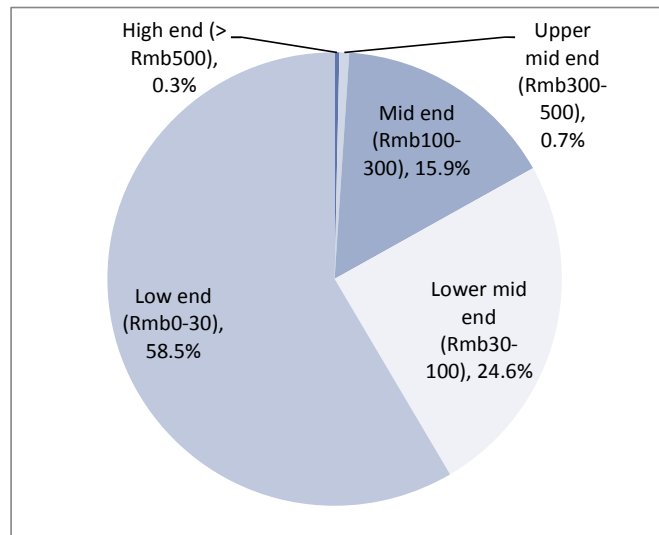
Currently the mid-end spirit market is already huge with hundreds of companies and brands, and thousands of SKUs. This on the one hand would increase the mid-end market size but on the other hand it also intensifies competition. **Which companies will stand out from intense competition in the mid-end market?** We think the first group of candidates will be nationwide spirit companies with a full product line and strong channel capabilities. These companies have well-known high-end brands and strong brand recognition. Their mid-end products are inherently strong. We believe those who can increase their promotional efforts and improve their mid-end products will benefit from the market expansion. The second group of candidates will be a few regionally leading brands with deep channel penetration. While their high-end products are not as competitive, they have been focusing and increasing their efforts on the mid-end market for many years and as such we believe these companies would also achieve high growth due to the high barriers to entry.

Exhibit 12: We estimate mid-end spirits account for 48% 51% of industry revenue...
2015 revenue structure of different price levels of spirits



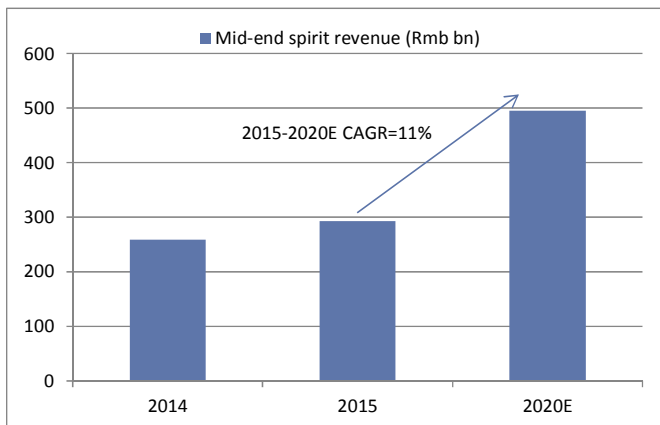
Source: Gao Hua Securities Research

Exhibit 13: ...and 16% of industry volume
2015 volume structure of different price levels of spirits



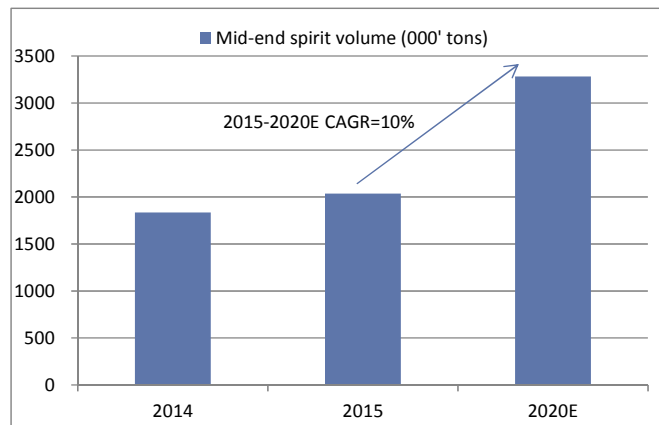
Source: Gao Hua Securities Research

Exhibit 14: We estimate mid-end spirits to have an 11% revenue CAGR from 2015 to 2020...
Mid-end spirits revenue forecast



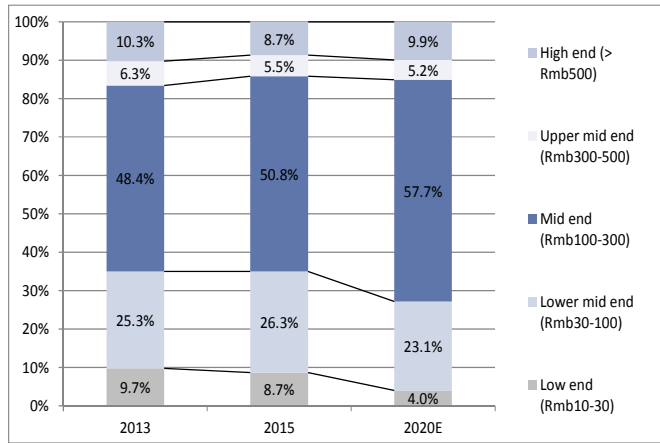
Source: Gao Hua Securities Research

Exhibit 15: ...and a 10% volume CAGR from 2015 to 2020
Mid-end spirits volume forecast



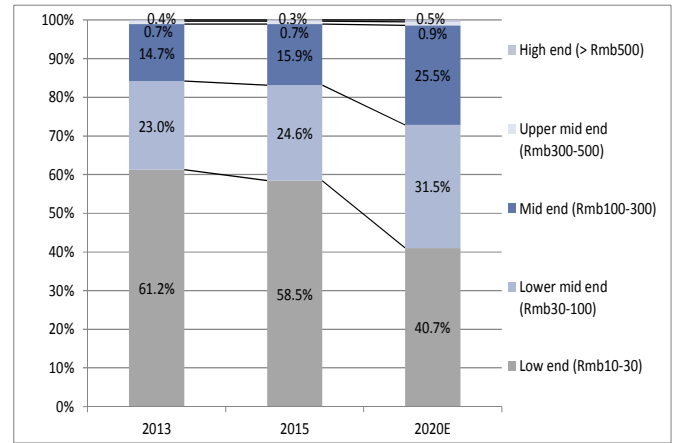
Source: Gao Hua Securities Research

Exhibit 16: We expect mid-end spirits to gain revenue share from consumption upgrade demand...
Market share of different price level spirits, by revenue



Source: Gao Hua Securities Research

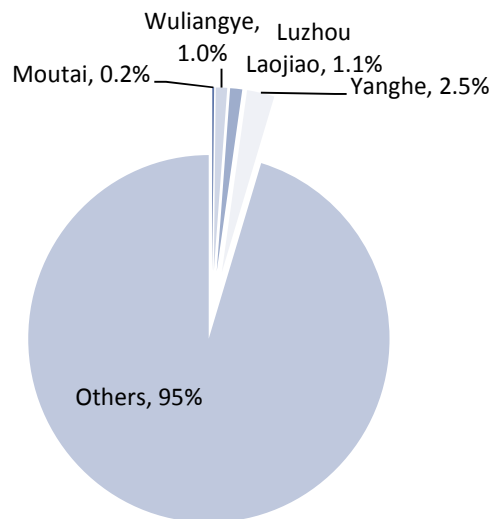
Exhibit 17: ...as well as gain volume share
Market share of different price level spirits, by volume



Source: Gao Hua Securities Research

In this context, we believe Yanghe has a very good product positioning in the mid-end market. Most of its products are currently in the Rmb100-500 mid-end and upper mid-end market. Its mid-end products in the Rmb100-300 price range (represented by Ocean Blue and Sky Blue) account for more than 70% of the company's 2015 revenue. The company has about a 2%-3% share in the country's mid-end spirit market. It already has nationwide brand recognition and channel advantages. Yanghe already has the biggest share in the huge mid-end spirit market among the leading spirits companies in China, albeit still small given the fragmented market.

Exhibit 18: Yanghe has a 2.2% market share in mid-to-low end spirits
Market share in mid-end spirits (price range: Rmb 30-500), 2015



Source: Company data, Gao Hua Securities Research

New Jiangsu Market strategy to drive a new round of nationwide expansion

In 2015, Yanghe launched its strategy of building a “New Jiangsu Market”. According to the plan, the new market layout will focus more on concentrating resources in key regions. The top ranking 200 counties are selected as the New Jiangsu Market (the list is dynamic and subject to changes every year according to sales rank). The company’s New Jiangsu Market is mainly in Henan, Shandong, Anhui, Hubei, Zhejiang, Tianjin and Beijing. We can see that the New Jiangsu Market strategy is being implemented in a focused way. The regions are mainly around the Jiangsu province. By employing a more delicate channel management and local expansion tactics, and leveraging its business model, resource, and brand advantages, Yanghe is able to outperform local spirit companies in growth. In 2015, revenue from within the Jiangsu province rose 2%, while revenue from outside of the province (i.e., the New Jiangsu market) grew 22%. Out-of-province revenue accounts for 40% of total revenue, which affirms the effectiveness of the New Jiangsu Market strategy in our view.

We think the New Jiangsu Market will maintain high growth in the coming few years, and account for nearly half of total revenue in 2020. The reasons are mainly:

(1) With increasing brand awareness of regional consumer groups and further penetration of channels, we believe the initial stage of the new strategy will set the stage for and generate a new round of sales growth. According to our calculation, core provinces of the New Jiangsu Market, namely Hebei, Anhui, Shandong, Zhejiang and Hubei, account for 27% of the total population in China. The corresponding spirit market is Rmb170bn in size and 30% in market share. These are key spirit markets, densely populated and with high per capita spirit consumption. They are all close to the Jiangsu province and within an effective market expansion radius. Yanghe’s revenue in these regions is now Rmb4.5bn, with a 3% market share. These five provinces have many local spirit brands in the Rmb100-300 price range to share the huge Rmb80bn mid-end spirit market, but most of them are not very competitive (compared with Ocean Blue and Sky Blue). We estimate that Yanghe’s total market share in these five provinces in this price range is about 4%-5%, still much lower than its 25% market share in Jiangsu. However, with more brand awareness in the regional consumer groups and further penetration of channels, Yanghe’s market share could further increase. If we assume the company to have a 10% market share in this price range, the corresponding revenue would be Rmb10-15bn, which exceeds the current revenue from Jiangsu, and is equivalent to creating another Jiangsu market.

(2) Replicate the New Jiangsu Market model to more areas. The basis for identifying and focusing on the New Jiangsu Market is that producing and selling spirits require delicate operations with a concentration of resources. At the present the company is focused on cultivating 200+ New Jiangsu Market, which is around the Jiangsu province. Once the model bear fruit, Yanghe plans to replicate it in other provinces and cities. And once these succeed, and the cultivation of its consumer base is complete, we expect the upper high-end and high-end products to quickly follow suit.

Exhibit 19: Yanghe has a 2%-3% market share in the New Jiangsu Market

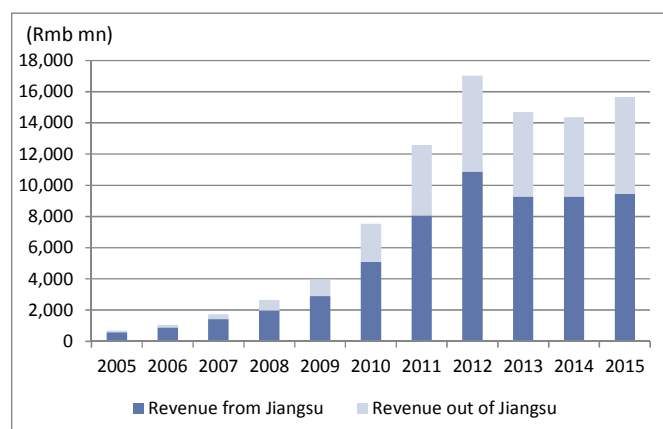
Market description of the five provinces in New Jiangsu Market, 2015

Unit: Rmb	Current sales	Total market size (bn)	Population (mn)	Baijiu expenditure per capita	Market share	Key local competitors and revenue in local
Headquarter-Jiangsu	Rmb10bn	40	80	500	25%	Jinshiyuan(2.5bn)
New Jiangsu Market						
Henan	> 1bn	42	94	450	3-4%	Songhe (2bn), Shedian(0.9bn), Yangshao(0.8bn), Dukang(0.7bn)
Anhui	> 1bn	27	60	450	3-4%	Gujing(4bn), Kouzijiao(2bn), Yingjia(2bn), Jinzhongzi(1.8bn)
Zhejiang	500mn-1bn	28	55	500	2-3%	
Shandong	500mn-1bn	48	96	500	1-2%	Bandaojing(3bn), Jingzhi(1.5bn), Gubeichun(1bn)
Hubei	500mn-1bn	29	58	500	1-2%	Zhijiang(4bn), Daohuaxiang(4bn), Baiyunbian(4bn)
Sub total of the 5 provinces	4-5bn	174	363	479	2.2-3.4%	
National market		570	1368	417	2.70%	

Source: Company data, Gao Hua Securities Research

Exhibit 20: Revenue from out of Jiangsu grew quickly

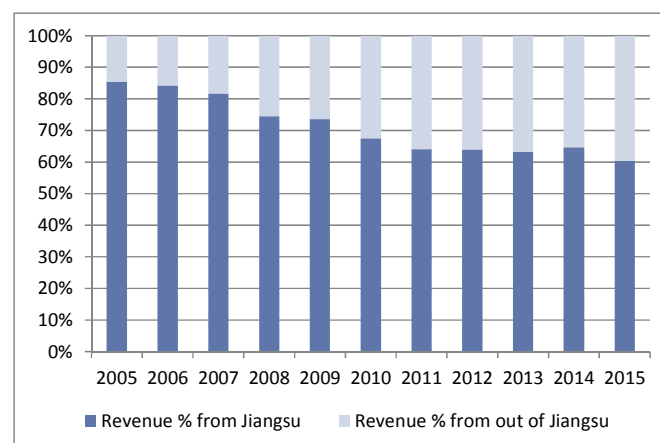
Yanghe's revenue from in and out of Jiangsu



Source: Company data

Exhibit 21: Revenue from out of Jiangsu has gained share

Revenue share from in and out of Jiangsu



Source: Company data

Systematic competitive edge hard to replicate, continuous innovation enhances advantages

In the past 10 years, Yanghe was able to realize more than 20X revenue growth and more than 90X net income growth (vs. 7X revenue growth for the whole industry). We attribute the solid performance to its well-rounded and systematic competitive advantage. Moreover, the company has kept up its innovation to continuously enhance this advantage. We see this systematic competitive advantage mainly due to the following aspects:

Good corporate governance: The company's management incentives aim to align key management's interest with shareholders. Back when the listco was founded in 2002, 14 management personnel were awarded 8.41% shares (5.6% after the IPO). In the reforms in 2006, 126 managing, technology and sales personnel in middle management level and above were given 12.61% and 11.83% stakes of Yanghe through its two holding companies (Blue Sky Commerce and Blue Ocean Commerce; 11.35%/10.65% post IPO, 11.06%/10.38% currently). Management and key employees currently have 27% of the company's shares. Controlling shareholder Jiangsu Yanghe Group (SOE solely owned by the Jiangsu Suqian government) has 34.16%. The remaining 38.84% are public owners. In terms of internal management, the management team uses advanced management models, such as the Amoeba Management model by Inamori Kazuo in which smaller management units are created, and every employee knows clearly his/her contributions and responsibilities. The company also adopted an equity compensation policy to incentivize employees.

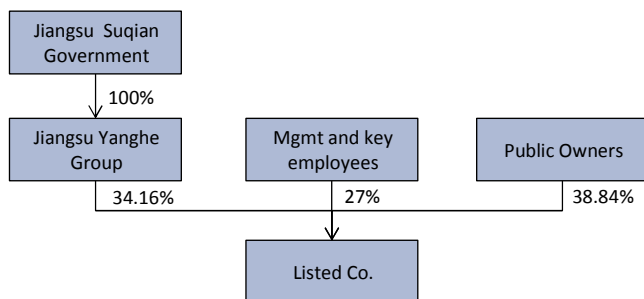
Continuous forward-looking strategies: The company quickly became one of the top three in China with its premium brand strategy and nationwide expansion efforts. In 2013, the spirit industry entered a consolidation phase. Management then proposed two directions of strategic transition: business consumption and mass market consumption. The ability to react to the changing market landscape quickly enables Yanghe to maintain a relatively stable market share in the three years of severe industry consolidation, and avoid a significant decline in revenue (e.g., Yanghe's revenue was down 8% CAGR in 2012-2014 vs. Laojiao down 29% CAGR). Early 2015 the company has successfully completed its management changes. The original board director Mr. Zhang Yubo announced his formal exit from the board, and is appointed board director of Sujiu Group. He is still one of the key leaders of the company as the captain of the strategy and reform committee. New board members are elected, with Mr. Wang Yao as the board director. Against the backdrop of the new industry environment, the new management proposed three strategic explorations apart from maintaining stable growth of its key spirit business: Technology innovation centered on health and experience, business model innovation based on internet, acquisition and consolidation with its capital. As such, the company is has been focusing on new strategic product launches, internet market channel building, cross-province investment, M&A and consolidation.

Strong marketing and channel management capabilities. Value chain relationships in the spirits industry are some of the most complicated among all industries with various channel business models. Apart from the traditional agency model, there is the sales type model, and brand development and operations model, among others. However, in every model, the key focuses are on "the control of the channel" and "the utilization of the brand". Most companies would choose models that enable distributors to control terminal resources of distributors, such as capital investment and staffing, including even the industry leaders Moutai and Wuliangye. Typically, the only aspect the spirit company can control is mainly on the utilization of the brand. However, Yanghe made a series of innovation in its channel operations. The company repositioned value chain relationships and concentrated on brand utilization and channel operation capabilities within itself. Distributors are now just local resource providers (capital, interpersonal networks, channels, and logistics). Yanghe has also started organizational reforms to match this change. First, brand operation units are established for every product series. Second, "Blue Classics" subsidiaries are established in other provinces. These subsidiaries are in

charge of agency offices in their respective province, and the latter are in charge of the direct operation in their local regions. This eventually formed the “1+1” management model between Yanghe’s agency offices and distributors. After this organizational reform, Yanghe has streamlined a replicable regional operation model, from controlling key local resources to engaging key regional consumers. This model enables Yanghe’s basic-level employees to operate in a uniform way. We believe the systematic organization and operational capabilities and replicable regional market operation units support Yanghe’s nationwide expansion. Currently Yanghe has nearly 4000 sales managers and more than 7000 distributors. It has achieved a broad coverage and deep penetration of the markets with a flat management structure and has far more efficient channel management than peers in our view.

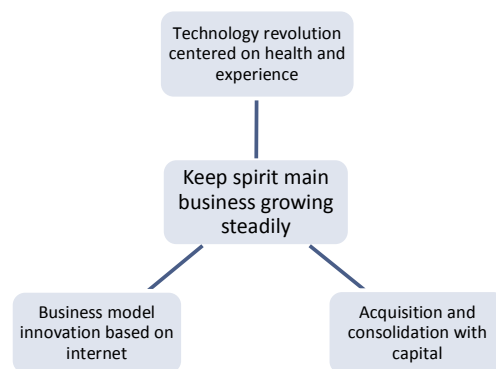
Since 2014, the company has further promoted its business model innovation based on internet, gradually exploring B2B e-commerce channels and building O2O market channels. Currently, “Yanghe Number 1” app has completed its launch in the key markets in the country. It realized full coverage in the Jiangsu province in May 2014 and currently covers provinces (cities) like Zhejiang, Guangdong, Hainan, Hunan, Hubei, Shandong, Henan, Anhui, Jiangxi, Beijing, and Shanghai. Yanghe’s strategy is to have “Yanghe Number 1” cover economically developed provinces and cities first, and then promotes the platform after it is completed. Given its recent inroads into O2O, we are positive on Yanghe’s competitiveness, based on its 7000-8000 distributors across the country. We believe this will lay the foundation for a three-in-one marketing model with “selling the products, gaining popularity, and building the platform”.

Exhibit 22: Yanghe’s management and employees have 27% ownership
Yanghe’s ownership structure



Source: Company data

Exhibit 23: Yanghe has launched three new strategies
Yanghe’s new strategies



Source: Company data

Exhibit 24: Yanghe has more distributors and salespeople than Moutai and Wuliangye
Comparison of offline channels of Yanghe, Moutai and Wuliangye

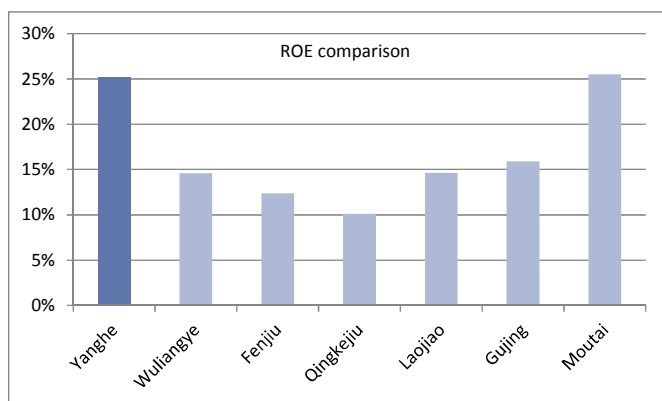
	Number of distributors	Number of salesperson
Moutai	2000+	642
Wuliangye	1000+	488
Yanghe	7000+	4088

Note: as of 2015

Source: Company data

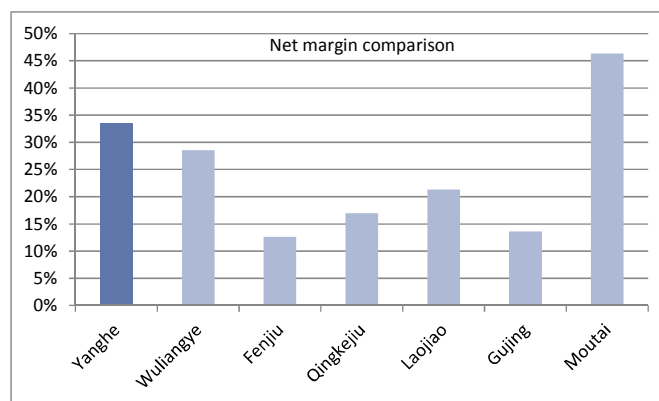
All in we believe Yanghe's solid products, brand power, and channel management have led to leading operational efficiency and return on capital. Its competitiveness in organizational innovation, product innovation, and channel innovation is key in its leading financial performance (Exhibits 25 and 26).

Exhibit 25: Yanghe's ROE is higher than most peers
ROE comparison, 2015



Source: Company data

Exhibit 26: Yanghe's net margin is also higher than most peers
Net margin comparison, 2015



Source: Company data

Estimates and target price revisions

We raise our 2016-20E EPS by 0.2%-6.0% to reflect higher revenue growth and higher margins. As a result, we increase our 12-month target price by 6% to Rmb87.64, still based on 18x applied to 2020E EPS of Rmb6.80 (was 6.41) and discount back to 2016 using an 8.7% COE. Maintain Buy.

The stock has historically traded at 19x NTM P/E on average. Our 12-month target price of Rmb87.64 implies 19x 2017E P/E, in line with historical valuation.

Exhibit 27: Yanghe's income statement

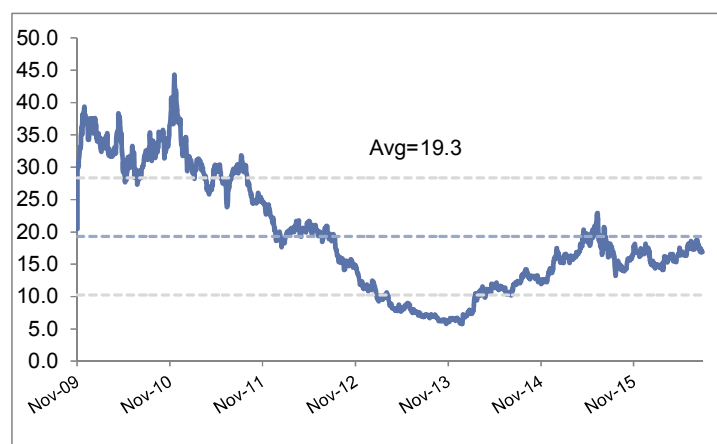
Rmb mn/Rmb

	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Total revenue	15,024	14,672	16,052	17,890	20,136	22,885	25,803	28,838
Mid and high end spirit	13,072	12,683	13,945	15,646	17,714	20,237	22,912	25,708
Low end spirit	1,375	1,356	1,371	1,396	1,422	1,449	1,475	1,503
Others	577	634	737	847	1,000	1,200	1,415	1,628
Sales Volume Growth	1%	-3%	-1%	1%	2%	3%	3%	3%
ASP Growth	-16%	0%	10%	10%	10%	10%	10%	9%
YoY - total revenue	-13%	-2%	9.4%	11%	13%	14%	13%	12%
Mid-to-high end	-16%	-3%	10%	12%	13%	14%	13%	12%
Low end	-2%	-1%	1%	2%	2%	2%	2%	2%
Others	145%	10%	16%	15%	18%	20%	18%	15%
Gross profit	9,078	8,895	9,937	11,213	12,799	14,728	16,681	18,715
Mid-to-high end	8,628	8,497	9,413	10,639	12,134	13,963	15,809	17,738
Low end	41	149	165	168	185	188	192	195
Others	409	248	360	407	480	576	679	781
Gross margin	60%	61%	62%	63%	64%	64%	65%	65%
Mid and high end spirit	66%	67%	68%	68%	69%	69%	69%	69%
Low end spirit	3%	11%	12%	12%	13%	13%	13%	13%
Others	71%	39%	49%	48%	48%	48%	48%	48%
Sales tax and add-on	187	190	229	230	259	294	331	370
as % of revenue	1.2%	1.3%	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%
Sales expense	1,388	1,680	1,882	1,950	2,175	2,449	2,709	2,999
as % of revenue	9.2%	11.4%	11.7%	10.9%	10.8%	10.7%	10.5%	10.4%
Administrative expense	1,037	1,267	1,448	1,467	1,611	1,831	2,064	2,307
as % of revenue	6.9%	8.6%	9.0%	8.2%	8.0%	8.0%	8.0%	8.0%
Net financial expenses	-196	-237	-196	-71	-111	-144	-182	-225
Impairment losses on PP&E	8	38	12	0	0	0	0	0
Net gains/loss of fair value	0	0	0	0	0	0	0	0
Investment gains/loss	51	53	578	300	309	318	328	337
Other non-operating income	19	45	36	55	61	67	73	81
Other non-operating expense	38	24	11	0	0	0	0	0
Pre-tax profit	6,686	6,031	7,165	7,992	9,235	10,682	12,158	13,681
Income taxes	1,684	1,523	1,800	2,008	2,320	2,684	3,054	3,437
Net income	5,002	4,508	5,365	5,984	6,915	7,999	9,104	10,244
Minority interests	0	1	0	0	0	0	0	0
Net income attributable to parent	5,002	4,507	5,365	5,984	6,915	7,999	9,104	10,244
YoY	-19%	-10%	19%	12%	16%	16%	14%	13%
EPS - Basic	4.63	4.18	3.56	3.97	4.59	5.31	6.04	6.80

Source: Company data, Gao Hua Securities Research

Exhibit 28: Current valuation at historical average

Yanghe's rolling NTM PE



Source: Bloomberg

信息披露附录

申明

本人, 廖绪发, CFA, 在此申明, 本报告所表述的所有观点准确反映了本人对上述公司或其证券的个人看法。此外, 本人薪金的任何部分不曾与, 不与, 也将不会与本报告中的具体推荐意见或观点直接或间接相关。

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投资摘要部分通过将一只股票的主要指标与其行业和市场相比较来评价该股的投资环境。所描述的四个主要指标包括增长、回报、估值倍数和波动性。增长、回报和估值倍数都是运用数种方法综合计算而成, 以确定该股在地区研究行业内所处的百分位排名。

每项指标的准确计算方式可能随着财务年度、行业和所属地区的不同而有所变化, 但标准方法如下:

增长是下一年预测与当前年度预测的综合比较, 如每股盈利、EBITDA 和收入等。**回报**是各项资本回报指标一年预测的加总, 如 CROCI、平均运用资本回报率和净资产回报率。**估值倍数**根据一年预期估值比率综合计算, 如市盈率、股息收益率、EV/FCF、EV/EBITDA、EV/DACF、市净率。**波动性**根据 12 个月的历史波动性计算并经股息调整。

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信息披露

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中国传媒业: 奥飞娱乐、光线传媒、歌华有线、华录百纳、蓝色光标、中南传媒、分众传媒、省广股份、华谊兄弟、IMAX 中国、凤凰传媒、乐视网、东方明珠、掌趣科技、万达院线、华策影视。

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以下信息披露了高盛高华证券有限责任公司(“高盛高华”)与北京高华证券有限责任公司(“高华证券”)投资研究部所研究的并在本研究报告中提及的公司之间的关系。

没有对下述公司的具体信息披露: 洋河股份 (Rmb70.15)

公司评级、研究行业及评级和相关定义

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潜在回报: 代表当前股价与一定时间范围内预测目标价格之差。分析师被要求对研究范围内的所有股票给出目标价格。潜在回报、目标价格及相关时间范围在每份加入投资名单或重申维持在投资名单的研究报告中都有注明。

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