



Rating
Buy

Asia
China

Consumer
Alcohol & Tobacco

Company
Wuliangye Yibin

Reuters 000858.SZ Bloomberg 000858 CH Exchange SHZ Ticker 000858

Date
27 October 2017

Forecast Change

Price at 26 Oct 2017 (CNY)	65.06
Price target - 12mth (CNY)	70.00
52-week range (CNY)	65.06 - 33.85
Shenzhen Index	2,118

3Q17: strong earnings growth on lower channel subsidy

3Q17 earnings beat on higher sales growth and lower selling expense

Wuliangye reported 3Q17 results with 43% yoy sales growth to RMB6,356m and 64% yoy net profit growth to RMB1,993m. Net profit in the first nine months grew by 37%, tracking ahead of the market's full-year growth forecast of 26%.

The earning beat is mainly attributable to higher-than-expected sales growth and a lower SG&A expense ratio, which declined 670bps yoy to 19.6% in 9M17, helped by lower channel subsidy and operating leverage. To recap, the company increased channel subsidy during 2014-16, when channel profit was low/negative. As the retail price recovered from 2017, the company began to remove the channel subsidies.

Adjusted sales declined 15% on increasing competition and a high base

If adjusted by advances from customers (sales + changes in advance balance), the adjusted sales declined 15% yoy in 3Q17, which could be lower than the market expectation. This is partly because of the high base in 3Q16. The company raised its ex-factory price in September 2016. Distributors increased their procurement volume before the price hikes, resulting in higher advances and sales in 3Q16. On the other side, Wuliangye revised down the supply volume for distributors in 3Q17 to streamline the pricing system. We think this is also partly due to increasing supply from Moutai from Aug 15 to Sep 30. We expect the adjusted sales to pick up on recovering retail prices.

Needs more brand investment instead of simply controlling volumes

For the near term, we expect Wuliangye's earnings growth to remain strong, helped by alternative demand from Moutai and new management's increasing efforts in channel building. Furthermore, savings in channel subsidy should also drive its margin expansion.

However, we are a bit concerned about management's over-focus on supporting the retail price. Wuliangye indicated that it is reducing supply volume to distributors by 25% to strengthen the retail price. In such a case, whenever Moutai increases its sales volume, Wuliangye's volume and price could be under pressure, as we saw in 3Q. For the long term, a sustainable retail price depends more on branding than the supply and demand situation.

Valuation & Risks

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Key changes

TP	62.00 to 70.00	↑	12.9%
Op prof margin (FYE)	43.3 to 45.1	↑	4.2%
Net profit (FYE)	8,833.3 to 9,174.1	↑	3.9%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	14.4	20.5	86.3
Shenzhen Index	3.1	9.9	-2.1

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	18.4
Net debt/equity (%)	-76.7
Book value/share (CNY)	13.92
Price/book (x)	4.7
Net interest cover (x)	-
Operating profit margin (%)	45.1

Source: Deutsche Bank

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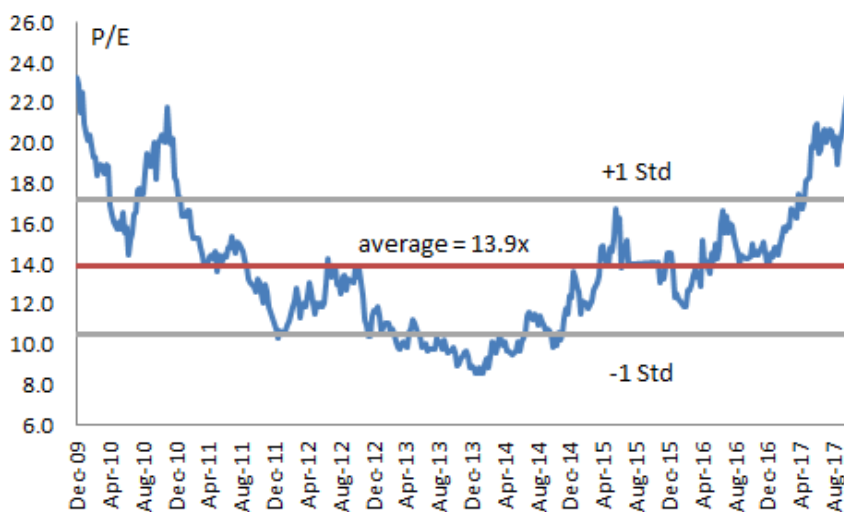
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Maintaining Buy with new target price of Rmb70

We are revising up earnings forecasts by 4% in 2017-19, to factor in the better-than-expected margin expansion. **We have revised our TP to Rmb70. Earlier we used a multiple of 13.8x FY18E EV/EBITDA to value Wuliangye, which was slightly lower than its DM peers' trading 14.3x. Now we are using 14.6x 2018E EV/EBITDA, higher than our old valuation of 13.8x, mainly due to our more optimistic opinion of the company as we see a margin expansion trend.** We reiterate our Buy. Downside risks: 1) macro deterioration; 2) the government's increasing measure on anti high-end liquor consumption; 3) over-focus on supporting the retail price.

Figure 1: One-year forward P/E chart



Source: Deutsche Bank, Bloomberg Finance LP

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	12,408.0	14,731.0	16,747.5
Reported NPAT (CNYm)	6,176.1	6,784.5	9,174.1	10,961.5	12,582.6
Reported EPS FD (CNY)	1.63	1.79	2.42	2.89	3.31
DB EPS FD (CNY)	1.63	1.79	2.42	2.89	3.31
DB EPS growth (%)	5.8	9.9	35.2	19.5	14.8
PER (x)	15.5	17.4	26.9	22.5	19.6
EV/EBITDA (x)	8.6	9.2	16.5	13.2	11.0
DPS (net) (CNY)	0.80	0.90	1.22	1.45	1.67
Yield (net) (%)	3.2	2.9	1.9	2.2	2.6

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
Wuliangye Yibin	000858.SZ	65.06 (CNY) 26 Oct 2017	NA

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

(as of 10/26/2017)



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**	3.	08/28/2017	Buy, Target Price Change CNY 62,00	Mark Yuan
2.	05/03/2017	Buy, Target Price Change CNY 55,00	Charlie Chen**				



Equity Rating Key

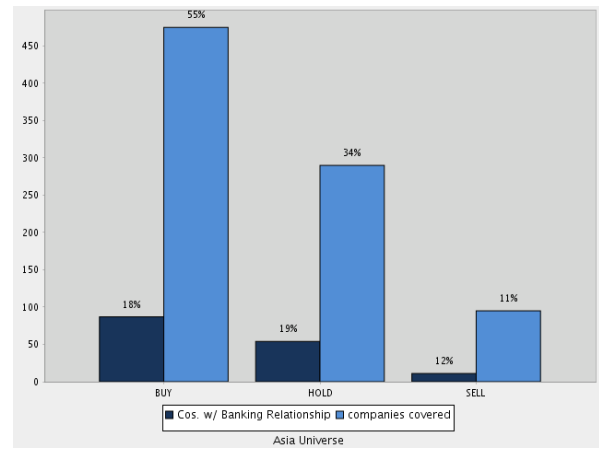
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