



Rating  
**Buy**

Asia  
China

Consumer  
Alcohol & Tobacco

Company  
**Kweichow Moutai**

Reuters 600519.SS    Bloomberg 600519 CG    Exchange SHH    Ticker 600519

Date  
6 October 2017

Forecast Change

Price at 29 Sep 2017 (CNY)	517.51
Price target - 12mth (CNY)	610.00
52-week range (CNY)	518.38 - 298.10
Shanghai Composite	3,349

## 3Q preview: strong sales growth with high visibility; reiterating Buy

### High visibility for strong 3Q sales growth

We forecast Moutai's sales to grow by 40% in 3Q17, which is an acceleration from 36% growth in 1H17. We believe the growth visibility is high, given:

- During Moutai's communication meeting with distributors on August 28 (the "828 meeting"), Moutai announced that it will supply 6,200 tons of liquor (including 5,600 tons of "Feitian Moutai" and 600 tons of other SKUs) between August 15 and September 30, to meet the strong demand during National Holiday and Mid-Autumn Festival. Accordingly, we estimate the total supply in 3Q17 to be around 8,700 tons, implying 70% yoy volume growth (on ex-factory delivery) compared to the 5,000 tons supplied in 3Q16.
- This is further evidenced by our recent channel checks in Shanghai and Shenzhen. Distributors indicated that Moutai began to increase supply from Aug 15 and the distributors have used up their 2017 procurement quotas. Some distributors have begun to use 2018 quotas to put in orders.
- We expect Moutai to book 40% sales growth in 3Q and the rest will be booked in "advance from customers", which will be recognized as revenue in other quarters.

### Efficient channel operations to reduce channel de-stocking risk

During the 828 meeting, Moutai's management clearly stated its determination to crack down on channel stocking. Three key measures include:

- The company will increase its supply to stabilize the retail price, as Moutai has done during Aug 15 to Sep 30;
- Management indicated clearly that it will not raise retail prices in peak seasons (Mid-Autumn and Chinese New Year);
- It requires all distributors to put 30% of volume on the Moutai cloud platform with a retail price at Rmb1,299, which will increase supply for individual demand if implemented strictly.

In our view, Moutai's main risk is from channel de-stocking when retail prices rise too much, as happened during 2013 to 2015. We think Moutai's management has learned from the last cycle, and the three measures should help to reduce

### Valuation & Risks

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#### Key changes

TP	550.00 to 610.00	↑	10.9%
Sales (FYE)	40,433 to 44,121	↑	9.1%
Op prof margin (FYE)	72.2 to 71.5	↓	-1.0%
Net profit (FYE)	21,072.0 to 23,054.7	↑	9.4%

Source: Deutsche Bank

#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.7	9.4	77.9
Shanghai Composite	-0.5	5.1	11.7

Source: Deutsche Bank

#### Key indicators (FY1)

ROE (%)	28.8
Net debt/equity (%)	-85.3
Book value/share (CNY)	69.59
Price/book (x)	7.4
Net interest cover (x)	-
Operating profit margin (%)	71.5

Source: Deutsche Bank



distributors' restocking demand, avoid future de-stocking risk, and ultimately transform Moutai into a more stable company and less of a cyclical stock.

#### Market to revise up earnings estimates after 3Q result

We have revised up 2017-19 earnings estimates by 4-9%, which is to factor in its increasing supply from 2H17 and more sustainable growth following its recent channel operations. For 2017, we forecast it to report 34% gross sales growth and 38% earnings growth, which should beat market consensus forecasts at 25%/27% for sales/earnings (based on Wind). For 3Q17, we forecast 40% sales growth and 34% earnings growth, and we expect the market to begin to revise earnings after the results release.

#### Revising up TP to Rmb610; reiterating Buy

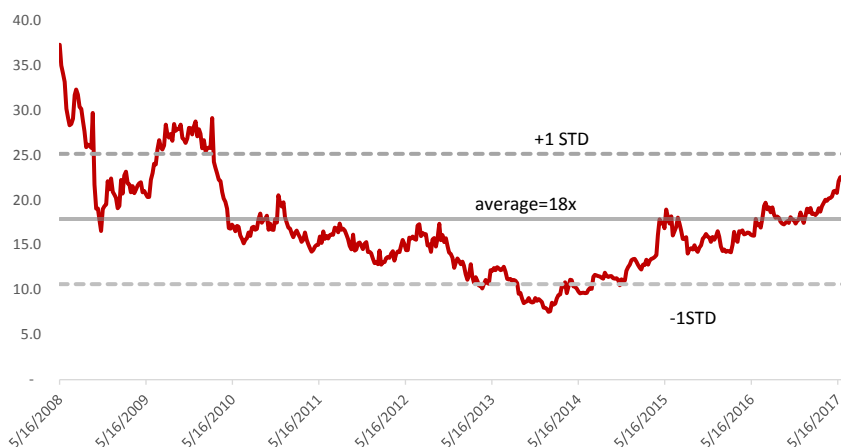
Based on our new earnings forecast, we revise up our TP by 11% to Rmb610, based on a DCF methodology (factoring in 9.5% WACC and a 2% TGR). Moutai's share price has risen 55% YTD in 2017, but based on our new earnings forecast (which has high visibility), it currently trades at 22x 2018 P/E with 25% earnings CAGR in 2016-19E. **We reiterate Buy.** The next catalyst would be strong 3Q sales growth. Main downside risks: shorter-than-expected restocking cycle; government policy changes; food safety incidents.

Figure 1: Forecast changes

RMBm	New			Old			Change		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Gross sales	53,779	65,259	73,410	48,905	61,700	69,740	10.0%	5.8%	5.3%
Net Sales	44,121	53,636	60,963	40,433	51,850	59,643	9.1%	3.4%	2.2%
GP	39,314	47,944	54,424	35,999	45,824	52,475	9.2%	4.6%	3.7%
EBIT	31,540	38,922	44,232	29,205	37,207	42,637	8.0%	4.6%	3.7%
NPAT	23,055	28,341	32,353	21,072	27,102	31,212	9.4%	4.6%	3.7%
GPM	73.1%	73.5%	74.1%	73.6%	74.3%	75.2%	-0.5%	-0.8%	-1.1%
EBITM	58.6%	59.6%	60.3%	59.7%	60.3%	61.1%	-1.1%	-0.7%	-0.9%
NPM	42.9%	43.4%	44.1%	43.1%	43.9%	44.8%	-0.2%	-0.5%	-0.7%

Source: Deutsche bank estimates; company report. Net sales refer to sales after business tax.

Figure 2: Forward P/E



Source: Deutsche bank; Bloomberg Finance LP



Model updated: 04 October 2017

Running the numbers

Asia

China

Alcohol & Tobacco

Kweichow Moutai

Reuters: 600519.SS      Bloomberg: 600519 CG

Buy

Price (29 Sep 17)      CNY 517.5

Target Price      CNY 610.0

52 Week range      CNY 298.10 - 518.38

Market cap (m)      CNYm 650,096  
USDm 97,775

Company Profile

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

Fiscal year end 31-Dec      2014      2015      2016      2017E      2018E      2019E

Financial Summary

DB EPS (CNY)	12.22	12.34	13.31	18.35	22.56	25.75
Reported EPS (CNY)	12.22	12.34	13.31	18.35	22.56	25.75
DPS (CNY)	3.98	6.17	6.79	9.76	12.00	13.70
BVPS (CNY)	42.5	50.9	58.0	69.6	82.4	96.1
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	650,096	650,096	650,096
Enterprise value (CNYm)	145,643	225,583	290,095	571,700	552,040	530,985

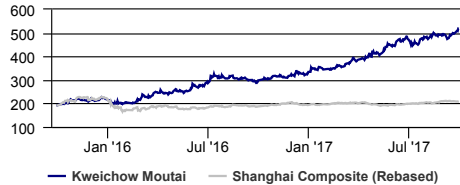
Valuation Metrics

P/E (DB) (x)	11.0	16.5	20.7	28.2	22.9	20.1
P/E (Reported) (x)	11.0	16.5	20.7	28.2	22.9	20.1
P/BV (x)	4.05	4.28	5.76	7.44	6.28	5.38
FCF Yield (%)	4.8	6.0	10.5	4.7	4.9	5.6
Dividend Yield (%)	2.9	3.0	2.5	1.9	2.3	2.6
EV/Sales (x)	5.1	7.7	9.0	13.0	10.3	8.7
EV/EBITDA (x)	6.6	10.2	12.1	17.5	13.7	11.6
EV/EBIT (x)	6.8	10.6	12.6	18.1	14.2	12.0

Income Statement (CNYm)

Sales revenue	28,785	29,210	32,353	44,121	53,636	60,963
Gross profit	26,446	26,672	28,943	39,314	47,944	54,424
EBITDA	22,146	22,223	23,997	32,748	40,285	45,751
Depreciation	753	848	934	1,207	1,363	1,519
Amortisation	0	0	0	0	0	0
EBIT	21,393	21,375	23,063	31,540	38,922	44,232
Net interest income(expense)	707	780	1,203	1,819	1,797	2,249
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-218	-153	-308	-215	-196	-220
Profit before tax	21,882	22,002	23,958	33,144	40,524	46,261
Income tax expense	5,613	5,547	6,027	8,617	10,374	11,843
Minorities	920	952	1,212	1,472	1,809	2,065
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	15,350	15,503	16,718	23,055	28,341	32,353
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	15,350	15,503	16,718	23,055	28,341	32,353

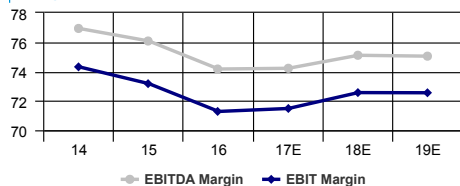
Price Performance



Cash Flow (CNYm)

Cash flow from operations	12,633	17,436	37,451	32,113	33,294	37,683
Net Capex	-4,431	-2,061	-1,019	-1,265	-1,371	-1,554
Free cash flow	8,201	15,375	36,432	30,847	31,924	36,129
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-5,122	-5,554	-8,351	-8,526	-12,263	-15,075
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	22,331	19,671	21,065
Change in working capital	-4,480	471	19,162	5,758	1,781	1,746

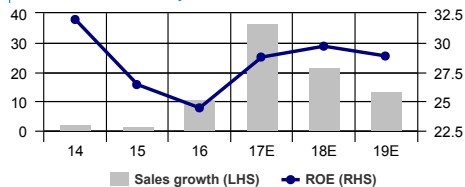
Margin Trends



Balance Sheet (CNYm)

Cash and other liquid assets	27,711	36,801	66,855	89,186	108,857	129,922
Tangible fixed assets	13,798	16,312	17,199	17,320	17,389	17,486
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	27,906	32,584	36,689
Total assets	65,873	86,301	112,935	137,922	162,289	187,505
Interest bearing debt	4,019	5,967	10,779	10,790	10,800	10,811
Other liabilities	6,543	14,100	26,257	35,233	41,703	47,565
Total liabilities	10,562	20,067	37,036	46,023	52,504	58,376
Shareholders' equity	53,430	63,926	72,894	87,423	103,500	120,779
Minorities	1,881	2,308	3,004	4,476	6,285	8,350
Total shareholders' equity	55,312	66,234	75,899	91,899	109,785	129,129
Net debt	-23,692	-30,833	-56,076	-78,396	-98,056	-119,111

Growth & Profitability



Key Company Metrics

Sales growth (%)	2.3	1.5	10.8	36.4	21.6	13.7
DB EPS growth (%)	1.4	1.0	7.8	37.9	22.9	14.2
EBITDA Margin (%)	76.9	76.1	74.2	74.2	75.1	75.0
EBIT Margin (%)	74.3	73.2	71.3	71.5	72.6	72.6
Payout ratio (%)	32.5	50.0	51.0	53.2	53.2	53.2
ROE (%)	32.0	26.4	24.4	28.8	29.7	28.9
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	-85.3	-89.3	-92.2
Net interest cover (x)	nm	nm	nm	nm	nm	nm

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Source: Company data, Deutsche Securities estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Kweichow Moutai	600519.SS	517.51 (CNY) 29 Sep 2017	NA

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg, and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqs>. Aside from within this report, important conflict disclosures can also be found at <https://gm/db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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

(as of 09/29/2017)



#### Current Recommendations

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

\*\* Analyst is no longer at Deutsche Bank

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

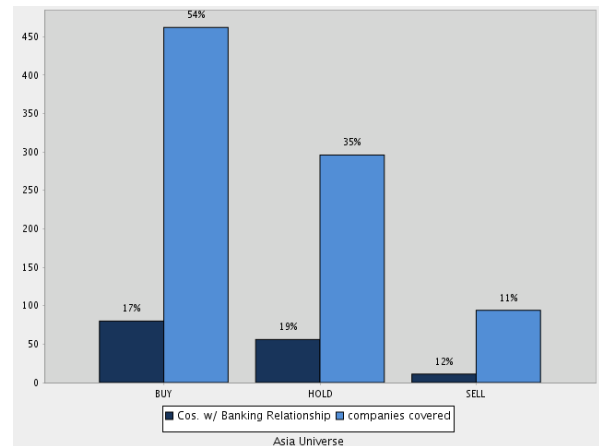
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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