

买入

## 水井坊 (600779.SS)

优质品牌将重振辉煌，首次覆盖评为买入(摘要)

600779.SS 12个月 目标价格: Rmb57.72 股价: Rmb47.57 上涨空间: 21.3%

我们预计水井坊将受益于消费升级需求，这受到公司将战略重点放在次高端至高端产品、强势品牌及文化传承，且渠道管理改善的推动。我们预计该股2017-19年每股盈利年均复合增长率达57%（vs. 行业均值为28%），尽管过去十年来管理层变动和政府反腐行动的影响导致公司表现落后同业，但随着中国白酒市场的复苏，我们认为水井坊目前正蓄势待发。我们首次覆盖该股评为“买入”，12个月目标价格为人民币57.72元（潜在上行空间21%）。

我们的买入评级基于以下三大推动因素：

1. 关注次高端至高端细分市场的核心品牌：我们预计在消费升级背景下高端和次高端品类增长将最为迅速。
2. 通过广告和促销来树立品牌形象、扩大市场占有率。水井坊已调整销售模式以改善渠道控制，由公司负责品牌推广，各省总代负责物流。
3. 公司治理和激励措施：2016年实施递延奖金计划从而更好地结合管理层利益，Diageo（持有水井坊40%股权）也在信息披露和关联方交易方面推出了更有效的公司治理措施。

水井坊当前股价对应的2018年预期市盈率为37倍（行业均值为28倍），但我们认为由于增长和回报率较高（2018年预期CROCI为32%，行业均值为23%），该股估值合理。我们对消费加速升级的乐观假设比基准预测高出30%。

\*全文翻译随后提供

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## 主要数据

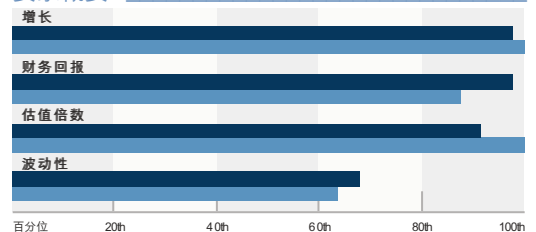
市值: Rmb23.2bn / \$3.6bn  
企业价值: Rmb22.1bn / \$3.4bn  
3个月日均成交量: Rmb366.7mn / \$55.6mn  
中国  
A股食品饮料  
并购概率: 2

## 预测

	12/16	12/17E	12/18 E	12/19 E
主营业务收入 (Rmb mn)	1,176.4	2,005.8	2,653.3	3,495.1
EBITDA (Rmb mn)	287.2	480.6	833.7	1,150.7
每股盈利 (Rmb)	0.46	0.73	1.29	1.79
市盈率 (X)	NM	65.5	37.0	26.6
市净率 (X)	NM	14.7	13.2	11.5
股息收益率 (%)	NM	1.1	1.9	2.6
净负债/EBITDA (X)	(2.5)	(2.3)	(1.8)	(1.7)
CROCI (%)	17.3	20.6	31.9	38.8
自由现金流收益率 (%)	--	2.6	2.7	3.7

	9/17	12/17E	3/18 E	6/18 E
每股盈利 (Rmb)	0.26	0.23	0.27	0.29

## 要素概要



百分位 20th 40th 60th 80th 100th

600779.SS 相对于 亚洲 (不含日本) 覆盖范围

600779.SS 相对于 A股食品饮料

资料来源：公司数据、高盛研究预测

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买入

## 水井坊 (600779.SS)

评级自2018年1月8日

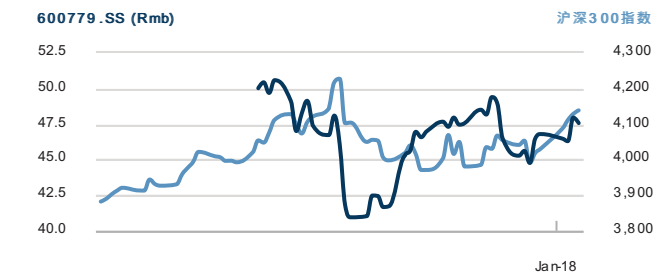
## 比率和估值

	12/16	12/17E	12/18 E	12/19 E
市盈率 (X)	NM	65.5	37.0	26.6
市净率 (X)	NM	14.7	13.2	11.5
自由现金流收益率 (%)	--	2.6	2.7	3.7
EV/EBITDA (X)	78.4	46.1	26.1	18.5
CROCI (%)	17.3	20.6	31.9	38.8
净资产回报率 (%)	16.3	23.3	37.6	46.1
净负债/股东权益 (%)	(49.3)	(69.7)	(83.8)	(93.9)
利息保障倍数 (X)	4.15.8	NM	NM	NM
存货销售天数	235.9	155.6	141.1	136.7
应收账款周转天数	14.5	5.3	5.9	5.9
应付账款周转天数	713.4	674.8	739.4	733.5
杜邦净资产回报率 (%)	15.3	22.5	35.6	43.1
周转率 (X)	0.5	0.7	0.8	0.8
杠杆比率 (X)	1.5	1.7	1.9	2.0

## 增长率和利润率 (%)

	12/16	12/17E	12/18 E	12/19 E
主营业务收入增长率	37.6	70.5	32.3	31.7
EBITDA增长率	102.7	67.3	73.5	38.0
每股盈利增长	155.5	57.8	77.2	39.1
每股股息增速	513.3	10.5	77.2	39.1
EBIT利润率	21.5	22.0	29.9	31.7
EBITDA利润率	24.4	24.0	31.4	32.9
净利润率	19.1	17.7	23.7	25.0

## 股价走势图



	3个月	6个月	12个月
绝对	38.1.5%	38.1.5%	38.1.5%
相对于 沪深300指数	346.3%	325.7%	29.1.8%

资料来源: 公司数据、高盛研究预测、FactSet (股价为2018年1月5日收盘价)

## 损益表 (Rmb mn)

	12/16	12/17E	12/18 E	12/19 E
主营业务收入	1,176.4	2,005.8	2,653.3	3,495.1
主营业务成本	(280.4)	(441.3)	(557.2)	(716.5)
销售、一般及管理费用	(579.3)	(1,012.1)	(1,288.4)	(1,651.7)
研发费用	(6.4)	(10.9)	(14.4)	(19.0)
其它营业收入/(费用)	(57.9)	(100.0)	--	--
<b>EBITDA</b>	<b>287.2</b>	<b>480.6</b>	<b>833.7</b>	<b>1,150.7</b>
折旧和摊销	(34.8)	(39.0)	(40.3)	(42.8)
<b>EBIT</b>	<b>252.4</b>	<b>441.6</b>	<b>793.3</b>	<b>1,107.9</b>
净利息收入/(支出)	6.1	14.5	22.0	29.6
联营公司损益	--	--	--	--
<b>税前利润</b>	<b>268.3</b>	<b>466.8</b>	<b>827.2</b>	<b>1,150.6</b>
税项拨备	(43.5)	(112.0)	(198.5)	(276.1)
少数股东损益	--	--	--	--
优先股息	--	--	--	--
<b>非经常性项目前净利润</b>	<b>224.8</b>	<b>354.8</b>	<b>628.7</b>	<b>874.4</b>
税后非经常性损益	--	--	--	--
<b>非经常性项目后净利润</b>	<b>224.8</b>	<b>354.8</b>	<b>628.7</b>	<b>874.4</b>
<b>EPS (基本, 扣非前) (Rmb)</b>	<b>0.46</b>	<b>0.73</b>	<b>1.29</b>	<b>1.79</b>
<b>EPS (摊薄, 扣非前) (Rmb)</b>	<b>0.46</b>	<b>0.73</b>	<b>1.29</b>	<b>1.79</b>
<b>EPS (基本, 扣非后) (Rmb)</b>	<b>0.46</b>	<b>0.73</b>	<b>1.29</b>	<b>1.79</b>
<b>EPS (摊薄, 扣非后) (Rmb)</b>	<b>0.46</b>	<b>0.73</b>	<b>1.29</b>	<b>1.79</b>
每股股息 (Rmb)	0.46	0.51	0.90	1.25
股息支付率 (%)	100.0	70.0	70.0	70.0

## 资产负债表 (Rmb mn)

	12/16	12/17E	12/18 E	12/19 E
现金及等价物	724.9	1,098.8	1,478.4	1,903.0
应收账款	21.6	36.8	48.7	64.1
存货	803.2	906.7	1,144.9	1,472.2
其它流动资产	45.1	45.1	45.1	45.1
<b>流动资产</b>	<b>1,594.8</b>	<b>2,087.4</b>	<b>2,717.1</b>	<b>3,484.5</b>
固定资产净额	444.3	449.8	467.0	498.6
无形资产净额	60.6	56.2	51.8	47.4
投资总额	15.0	15.0	15.0	15.0
其它长期资产	88.9	88.9	88.9	88.9
<b>资产合计</b>	<b>2,203.5</b>	<b>2,697.3</b>	<b>3,339.7</b>	<b>4,134.2</b>
应付账款	634.0	997.7	1,259.8	1,620.0
短期债务	--	--	--	--
其它流动负债	91.0	114.6	306.3	478.3
<b>流动负债</b>	<b>724.9</b>	<b>1,112.3</b>	<b>1,566.1</b>	<b>2,098.3</b>
长期债务	--	--	--	--
其它长期负债	9.1	9.1	9.1	9.1
<b>长期负债</b>	<b>9.1</b>	<b>9.1</b>	<b>9.1</b>	<b>9.1</b>
<b>负债合计</b>	<b>734.0</b>	<b>1,121.4</b>	<b>1,575.2</b>	<b>2,107.4</b>
优先股	--	--	--	--
普通股权益	1,469.5	1,576.0	1,764.6	2,026.9
少数股东损益	--	--	--	--
<b>负债及股东权益合计</b>	<b>2,203.5</b>	<b>2,697.3</b>	<b>3,339.7</b>	<b>4,134.2</b>
总现金投资, 名义 (剔除现金)	1,854.6	2,000.0	2,229.0	2,534.0
调整后净负债	(724.9)	(1,098.8)	(1,478.4)	(1,903.0)
平均已动资本	830.9	610.9	381.6	205.0
每股净资产 (Rmb)	3.01	3.23	3.61	4.15

## 现金流量表 (Rmb mn)

	12/16	12/17E	12/18 E	12/19 E
净利润	224.8	354.8	628.7	874.4
折旧及摊销加回	34.8	39.0	40.3	42.8
少数股东权益加回	--	--	--	--
运营资本增减净额	8.1.6	245.0	12.0	17.4
其它经营性现金流	40.7	--	--	--
<b>经营活动产生的现金流</b>	<b>381.9</b>	<b>638.8</b>	<b>681.0</b>	<b>934.6</b>
资本开支	(25.6)	(40.1)	(53.1)	(69.9)
收购	--	--	--	--
剥离	41.0	--	--	--
其它	(220.0)	--	--	--
<b>投资活动产生的现金流</b>	<b>(204.6)</b>	<b>(40.1)</b>	<b>(53.1)</b>	<b>(69.9)</b>
支付的股息 (普通股和优先股)	(36.6)	(224.7)	(248.4)	(440.1)
借款增减	--	--	--	--
其它融资性现金流	219.9	0.0	0.0	0.0
<b>筹资活动产生的现金流</b>	<b>183.3</b>	<b>(224.7)</b>	<b>(248.4)</b>	<b>(440.1)</b>
<b>总现金流</b>	<b>360.6</b>	<b>374.0</b>	<b>379.6</b>	<b>424.6</b>
自由现金流	356.3	598.7	627.9	864.7

资料来源: 公司数据、高盛研究预测

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## Executive Summary: Building on its strong cultural heritage

### Company profile

Swellfun is one of China's leading spirit makers in the upper mid end market. Despite successfully launching the brand Jingtai in 2000, priced higher than Moutai and Wuliangye at that time, Swellfun has fallen behind amid management reshuffles and the anti-corruption campaign. 2006-16 revenue CAGR was only 5% vs. 23%/20% for Moutai/overall industry. The company now positions itself mainly in the upper mid-end market (3% current market share), and with strategies introduced in 2015 to focus on its key brands (discontinuing low to mid-end spirits) and revamp its distribution model, we expect the company to gain market share in the attractive upper mid-end segment.

### Our Buy thesis

We forecast 31%/34% 2016-21 revenue CAGR for Jingtai and Zhenniang No.8, its upper mid-end brands, and 54% for Diancang, its high-end brand. Our earnings growth for 2018/19E is 77%/39% yoy, largely in line with Wind consensus.

- (1) Strong branding: Swellfun owns one of the oldest alcohol ferment relic in China, providing its product with a strong cultural heritage.
- (2) Advantageous product positioning: By focusing on upper mid to high-end, we expect Swellfun to see rapid volume growth driven by consumption upgrade.
- (3) Improved channel control: With a nationwide distribution network (focusing on its core 10 provinces) and plans to expand to peripheral markets, we expect to see deeper brand penetration as Swellfun builds on its brand cache.

### Catalysts

- (1) Increase in market penetration: Swellfun only covers 10-15% of alcohol retail terminals in China. We expect signs of increased penetration with its new distribution model to accelerate brand recognition and sales growth, and drive shares higher.
- (2) Pick up in high-end revenue growth: Management targets 10%-15% revenue contribution from its high-end brand Diancang Master Version in the future. We believe it is possible given the company's brand history and marketing efforts. Deeper penetration of the high-end market would add to Swellfun's valuation premium.

### Valuation

We value Swellfun based on 85% fundamental value (23X 2021E EPS, discounted to 2018) and 15% M&A value (30X 2021P/E, discounted back to 2018). Our 12-month target price of Rmb57.72 offers 21% upside.

### Key risks

Slower upper mid to high-end spirits revenue growth, stricter regulation on government-related consumption, stronger competition in the upper mid-end market.

## Company introduction: Key offering in upper mid and high-end spirits

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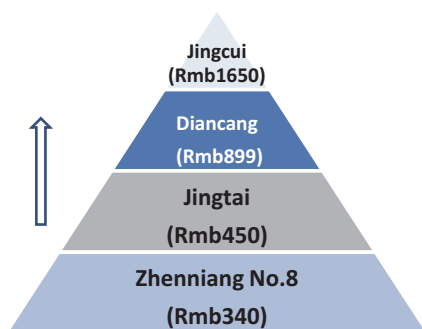
Swellfun is one of China's leading spirit manufacturing companies in the upper mid and high-end markets. The company used to be positioned in high-end white spirits (baijiu) but experienced some changes in management and strategies in the last 10 years, leading to its major product line falling to the upper mid-end segment. The company's current market share in the upper mid end market is only 3%, ranked No.5, while leading players like Yanghe and Jiannanchun has 17%/16% market share.

### Four key brands

The company has four major products:

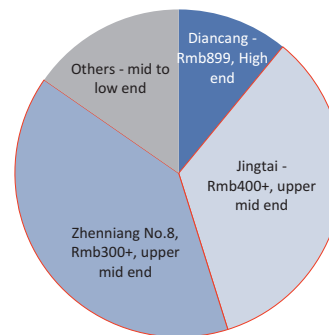
1. **Jingtai**: This is its oldest brand. In 1999, the company unearthed an alcohol ferment relic on "Shui Jing Street" in Chengdu that dated back over 600 years in the Ming Dynasty. This was the earliest well-preserved alcohol ferment site discovered to date, and was awarded by the State Administration of Cultural Heritage as one of the 10 "new archeological findings" in China in 1999. Hence, the Swellfun Jingtai brand was created, echoing the name of the "Shui Jing Street" (meaning "well" in Chinese). Jingtai became the most premium spirit brand in China at that time, even pricier than Moutai and Wuliangye then.
2. **Zhenniang No.8**: The company launched this in 2013 when the spirit sector was experiencing a severe downturn amidst the anti-corruption campaign. Retail prices and revenues fell sharply, especially for upper mid and high-end brands which were more exposed to government consumption, including Swellfun's premium brand Jingtai. Zhenniang No.8 was launched with a lower price point than Jingtai to tap private consumption demand, while keeping the Jingtai brand on the premium end of the range as an anchor for future upgrade demand.
3. **Diancang**: Diancang Master Version was launched in March 2017 at a Rmb899 retail price, higher than Jingtai's, aimed at the rapidly growing high-end market. Management believes it will be able to gain share in the high-end market due to its strong branding and linkage to China's cultural heritage.
4. **Jingcui**: The most high-end brand of the company, Jingcui, was launched in November 2017 at a retail price of Rmb1650. The product is positioned to tap super high-end/luxury demand and elevate the overall brand image of the company.

图表 1: Swellfun has four key products at different price points  
Key products of Swellfun



资料来源: Company data

图表 2: Majority of Swellfun's revenues are in the upper mid-end category  
2017E revenue breakdown



资料来源: Company data, Gao Hua Securities Research

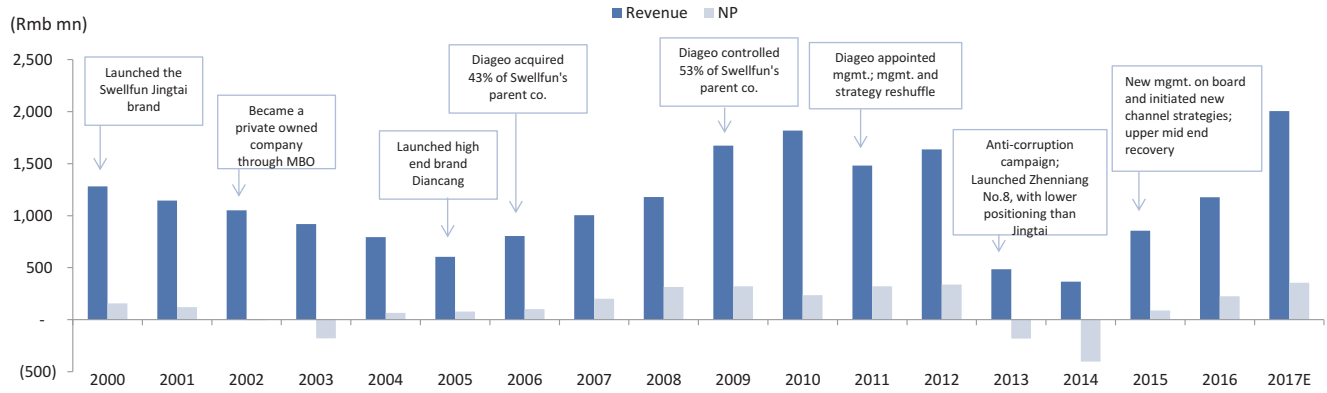
### Company history

Swellfun started off as Sichuan Quanxing Group, a state-owned alcohol manufacturer. The company owned one of the “original 8 spirits brands” in China, Quanxing Daqu. In 1999, Quanxing Group was listed through a back door listing. It then launched the Swellfun Jingtai brand in August 2000 and recorded Rmb55mn revenues in the same year and Rmb185mn in 2001. The company subsequently launched other brands like Tianhaochen and total mid to high-end revenues grew to more than Rmb500mn in 2005.

In 2006, Diageo acquired a 43% stake of Swellfun's parent Quanxing Group, before increasing the stake to 53% in 2009 and 100% in 2013. In 2010, the Quanxing Daqu brand was spun off as it is one of the “original 8 spirits brands” in China and cannot be owned by foreign companies. The company continued to grow mid to high-end revenues to Rmb1.6bn in 2012, thanks to the surging spirit industry, but revenues declined drastically to Rmb360mn in 2014 during the anti-corruption campaign.

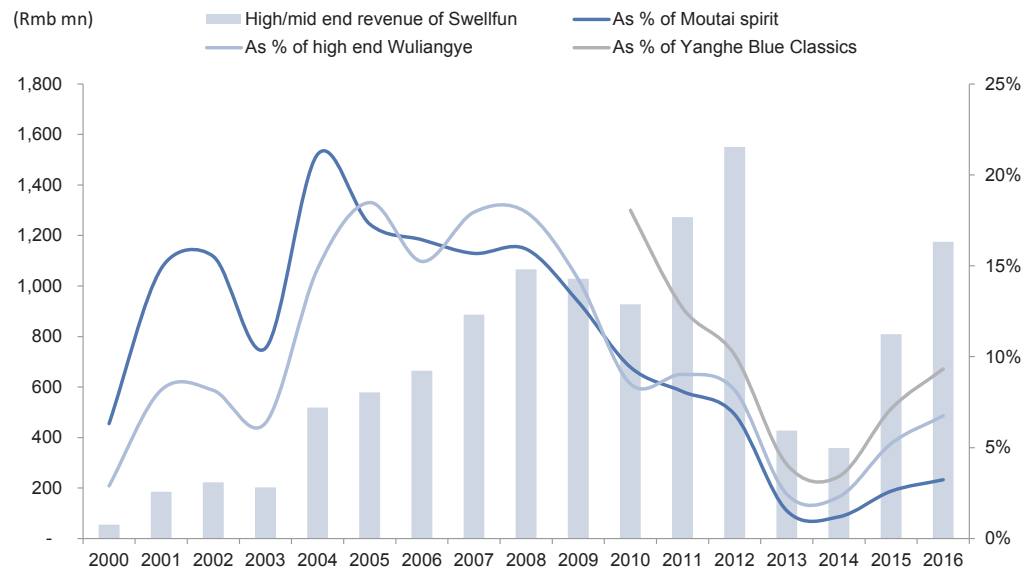
During 2004-2009, Swellfun's mid to high-end revenues was around 15% of Moutai or Wuliangye's high-end spirit revenues. However, this ratio fell to below 5% in 2013-14. Management has implemented new product launches and channel strategies since 2015 and revenues have recovered to 3% and 7% that of Moutai and Wuliangye respectively in 2016 but still below its historical peak.

图表 3: Swellfun's company history



资料来源: Company data, Gao Hua Securities Research

图表 4: In recent years, Swellfun's mid to high-end revenues have lagged Moutai and Wuliangye's revenues  
High/mid-end revenues of Swellfun vs. Moutai and Wuliangye



资料来源: Company data

## Strategies to revive past success

Despite successfully launching its Jingtai brand in 2000, priced higher than Moutai and Wuliangye at that time, Swellfun has fallen behind the tier-1 high-end spirit brands amid management reshuffles and the anti-corruption campaign. 2006-16 revenue CAGR was only 5% vs. 23%/20% for Moutai/the overall industry.

After Mr. Fan Xiangfu was appointed President of Swellfun in 2015 (he was previously President of the Carlsberg subsidiary in the Yunnan province and has 26 years of experience in the beer industry), he introduced three strategies:

1. Focus on core products in the upper mid to high-end market. Management focuses advertising and sales resources on core products, Jingtai (Rmb450 retail price) and Zhenniang No.8 (Rmb340), in the upper mid-end market. The company also launched high-end brands, Diancang Master version (Rmb899) and Jingcui (Rmb1650), to tap the high-end market. Low to mid-end products have been discontinued, and the company recognized Rmb90mn inventory impairment loss in 2017 as a result. We believe the company is better positioned to benefit from the rebound of the upper mid to high-end market in China, and the consumption upgrade trend.
2. Reformed channel strategy. Swellfun previously relied on a mixture of general distribution and direct operation models for different provinces. In the former, one general distributor is responsible for the promotion and distribution of Swellfun's products in a certain province; in the latter, Swellfun's own sales team is responsible for promotion and logistics. There are three shortfalls in the previous distribution network: 1) weak channel control, 2) lack of a large sales team to carry out direct sales throughout the country, 3) concerns by general distributors of being replaced by direct sales. Faced with these shortfalls, management then introduced the new general distributor model: a general distributor is responsible for the distribution and logistics in each province and Swellfun takes care of promotion and allocation of marketing resources. As a result, the company has stronger control over sales terminals, and the flexibility to react quickly to market demand. Moreover, the company has penetrated more than 5,000 key retail stores across the country; these are sales terminals that the company has close contact with and can help with more effective brand penetration (e.g., showcasing Swellfun's products on the shelves and introducing the brand to customers).
3. Regional focus. The company focuses on 10 core regional markets including Sichuan, Jiangsu, Henan, Hunan, and Guangdong, where the company would focus its resources and prioritize market development. These markets accounted for 75% of 1H17 revenues. Management indicated that it would also expand from the core markets to peripheral regions, by leveraging its success in the former.



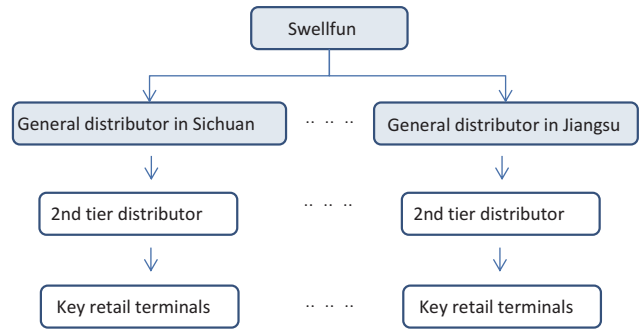
图表 5: Management introduced three new strategies in 2015  
Summary of new strategies

Strategies	
<b>Product</b>	Focus on four key brands in the high end and upper mid end market: apart from <i>Zhenniang No.8</i> (Rmb340) and <i>Jingtai</i> (Rmb450) in the upper mid end category, the company also launched <i>Diancang Master Version</i> (Rmb899) and <i>Jingcui</i> (Rmb1650) to tap the high end category
<b>Channel</b>	Initiated <b>new general distribution model</b> , where the company controls marketing and channel penetration, while general distributors are only responsible for logistics
	<b>Key retail store model</b> : rapidly expanded to 5,000+ key retail stores across the country
<b>Regional focus</b>	Focus on 10 core provinces, which together account for 75%+ of total revenue

资料来源: Company data

图表 6: Swellfun implemented a “new general distribution model”

Product flow in the new general distributor model

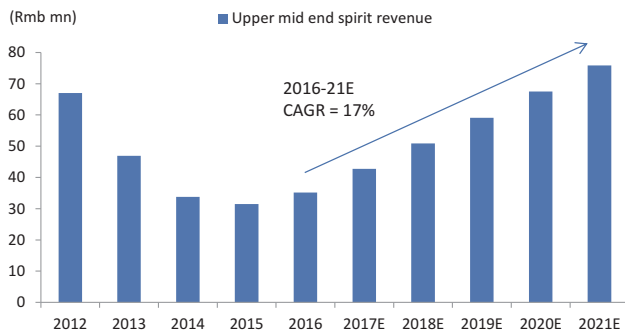


资料来源: Company data

# Market share gain potential in the attractive upper mid-end market

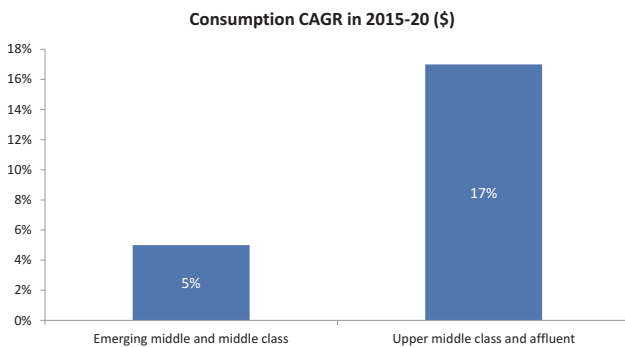
We view the upper mid-end spirit market (more than 80% of Swellfun's 2016 revenues are in this segment) as quite attractive with our 2016-21 revenue CAGR forecast at 17%, the second fastest spirit sub-segment after the high-end market (20% CAGR). We believe the rapid growth will be driven by consumption upgrade - according to BCG, consumption value by the affluent and upper middle class (the major consumer group of upper mid-end spirits) in China will grow at 17% CAGR in 2015-20. Moreover, the pyramid-shape volume structure of the China spirit industry makes the impact of consumption upgrade especially accentuated - we estimate consumption of mid-end spirits (Rmb100-300 per bottle) was 2.3mn tons in 2016, 16x that of upper mid and high-end combined. As a result, only a small fraction of mid-end drinkers upgrading (6% of 2016 volumes in our estimate) is needed to double upper mid/high-end spirit consumption by 2021.

图表 7: We expect upper mid-end spirit industry revenues to grow at 17% CAGR over 2016-21...  
Upper mid-end spirit industry revenues



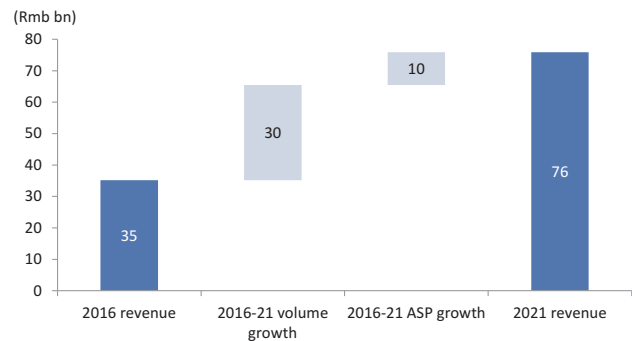
资料来源: Company data, Gao Hua Securities Research

图表 9: Consumption by the affluent and upper middle class is expected to grow at 17% CAGR in 2015-20  
Consumption value growth in 2015-20



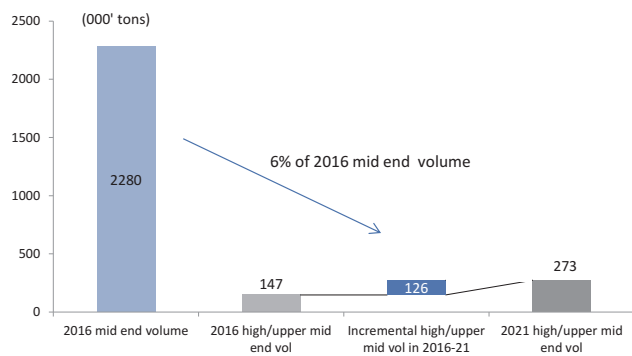
资料来源: BCG

图表 8: ... mainly driven by volume growth  
Revenue growth contribution



资料来源: Company data, Gao Hua Securities Research

图表 10: We estimate only 6% of 2016 mid-end consumption upgrading is needed to double high/upper mid volume by 2021  
Consumption volume and forecasts

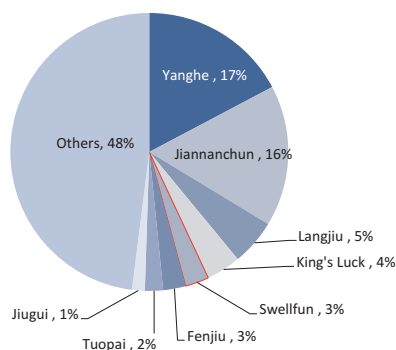


资料来源: Gao Hua Securities Research

Meanwhile, the upper mid end market is moderately consolidated, with the top 10 players accounting for 50%+ market share. Swellfun currently ranks fifth with only 3% market share but we expect Swellfun to gain market share in the upper mid-end market because of its advantages in the three key factors to success:

1. **Branding:** Swellfun owns one of the oldest spirit ferment and distillery relics in China, and the brand’s cultural attachment is very strong in our view. In 2000 when the Swellfun Jingtai brand was launched, it was priced higher (Rmb600) than Moutai (Rmb300+) and Wuliangye (Rmb500+) then. However, due to management and strategy changes in the past decade, especially amid anti-corruption campaign, Swellfun has fallen behind the tier-1 high-end spirit brands, but we believe its branding is still relatively stronger in the upper mid-end market and there is potential to revive the brand. We also believe Swellfun’s brand power is backed by its high product quality, achieved through its traditional and strict alcohol fermenting process. Moreover, management indicated that the company would spend consistently on marketing and promotion, which we view as crucial to building brand image and increasing brand awareness. We thus expect sales expense ratio to remain above 20% in the next five years.
2. **Product positioning:** Swellfun’s product positioning in the upper mid end market is very clear in our view. Zhenniang No.8 (priced at Rmb340) is quite affordable to middle class families and targets individual consumption demand. Jingtai (Rmb450) caters more to business and social entertainment demand but still not excessively pricey.
3. **Channel:** As the upper mid-end market is still relatively small (6% revenue share of the overall spirit market), having a nationwide distribution will expose the brand to a much larger market than its home province (Sichuan). The company has some initial success with its new distribution model and focus on 10 core provinces, with plans for peripheral markets next. Given its stronger control over sales terminals, we believe the company will be able to leverage its channel strategy to achieve effective brand building and deeper brand penetration.

图表 11: Swellfun ranks fifth in terms of market share in the upper mid-end market  
Upper mid-end spirit market share (2016)



资料来源: Company data

图表 12: Branding, product positioning, and channel strategy are key factors to gaining market share  
Key factors to gaining market share

Factor	Key to success
<b>Branding</b>	<ul style="list-style-type: none"> <li>● Long history and strong culture attachment</li> <li>● Effective marketing and promotion</li> <li>● High product quality</li> </ul>
<b>Product positioning</b>	<ul style="list-style-type: none"> <li>● Clear product positioning, focus on a few big brands instead of having many brands</li> <li>● Pure players have higher exposure to market recovery</li> </ul>
<b>Channel</b>	<ul style="list-style-type: none"> <li>● Nationwide channel reach</li> <li>● Strong control on promotion and penetration</li> <li>● Proper incentives to distributors</li> </ul>

资料来源: Gao Hua Securities Research

图表 13: Swellfun' s products compared with other upper mid-end players

Company	Key brand	Retail price range (Rmb)	2016 Revenue (Rmb mn)	Province of origin
Jiannanchun*	Shuijingjian	398	5,778	Sichuan
Yanghe*	Dream Blue M3	520	2,200	Jiangsu
	Sky Blue	350	3,876	Jiangsu
Langjiu*	Honghualang	350	1,880	Sichuan
King's Luck	Guoyuan	360	1,412	Jiangsu
<b>Swellfun *</b>	<b>Jingtai</b>	<b>450</b>	<b>470</b>	<b>Sichuan</b>
	<b>Zhenniang No.8</b>	<b>340</b>	<b>500</b>	
Fen Wine *	Qinghuaci	400	923	Shanxi
Tuopai*	Shede	568	742	Sichuan
Jiugui	Jiugui Series	498	368	Hunan
Laojiao *	Jiaoling 90 yrs	388	100	Sichuan

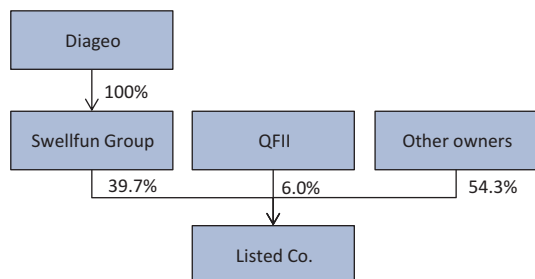
\* Denotes the company owns a well-known spirit brand in China, selected by China Food Association and Ministry of Light Industry

资料来源: Company data, Gao Hua Securities Research, China Food Association, Ministry of Light Industry

## Corporate governance and incentives

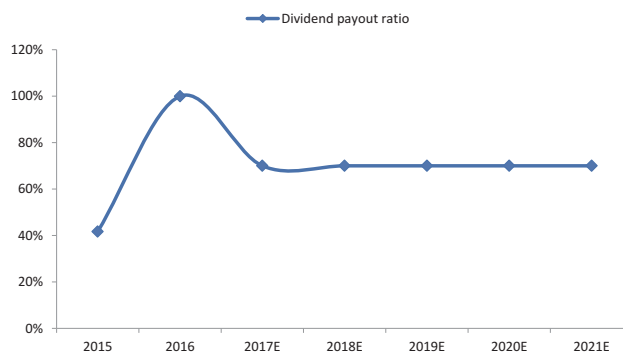
Diageo acquired a 100% stake in Swellfun Group, parent of Swellfun, in 2013 and brought better corporate governance practices to Swellfun, including information disclosures. Dividend payout ratio has also been higher than peers: 2016 dividend payout ratio was 100% (vs. sector average of 54%), due to high dividends and still-low net income; we expect a 70% dividend payout ratio in the next few years.

图表 14: Diageo owns 39.7% of Swellfun, and QFII own 6% Equity ownership of Swellfun as of 3Q17



资料来源: Company data

图表 15: We forecast a 70% dividend payout ratio for Swellfun



资料来源: Company data, Gao Hua Securities Research

In 2016, the company launched a performance-based deferred bonus plan to better align management incentives. In this plan, management receives virtual shares, and will be entitled to a bonus if the company meets certain performance metrics, including revenue growth, net income growth, and cash conversion ratio. When a certain year's performance target is met, the bonus will be paid after three years. We note that the Chairman and President do not own any shares in the company. We do not expect the bonus plan to dilute earnings significantly, as the plan stipulates that the total deferred bonus should not exceed 3% of the company's net income of that year.

图表 16: A performance-based bonus plan was launched in 2016

Deferred bonus plan details

<b>Deferred bonus plan</b>
1. Performance based bonus will be granted three years after a certain year's performance targets are achieved
2. Total deferred bonus should not exceed 3% of the company's net income of the year, or it will be pro rated.
3. If performance targets are met, bonus = virtual shares granted * average stock price in the year * payment ratio

**Number of virtual shares granted:**

Chairman	100,000
President	60,000
Key senior executives	20,000
Directors	15,000

**Payment ratio:**

<b>Comprehensive company performance metric complete ratio</b>	<b>Payment ratio:</b>
<90%	0.0
90%-100%	0.6
100-120%	1.0
>=120%	1.1

**Performance metrics for the company**

	<b>2016</b>	<b>2017</b>	<b>2018</b>
Net revenue	>=15% yoy	>=15% yoy	>=15% yoy
Net income	>=15% yoy	>=15% yoy	>=15% yoy
Cash conversion ratio	>=100%	>=100%	>=100%

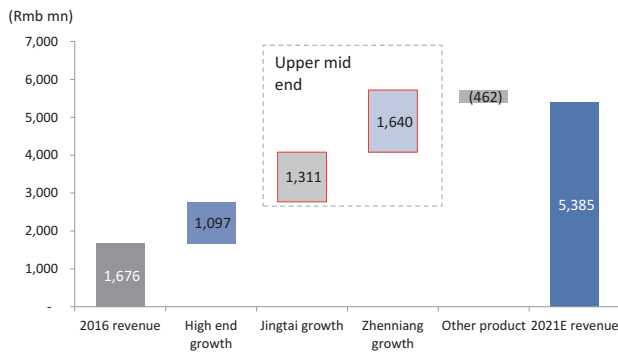
资料来源: Company data

# Financial analysis and estimates

## Revenue forecasts

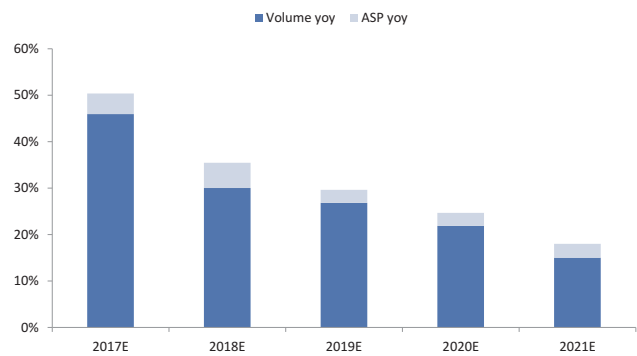
Based on the above analysis, we expect Swellfun's upper mid-end revenues (from Jingtai and Zhennieng No.8) to be the major source of revenue growth. We forecast 26%/29% 2016-21E volume CAGR for Jingtai and Zhennieng No.8, and 3-5% ASP growth p.a. For the high-end products, we forecast revenue CAGR of 54% for Diancang, rising from a low base and supported by Swellfun's strong brand cache. Management also expects Diancang to account for 10%+ of total revenues from 2018. Given Jingtai would be positioned as a strategic super high-end/luxury product, we expect it to have a relatively small revenue scale.

图表 17: We expect Swellfun's upper mid-end brands to be the key revenue driver...  
Revenue growth breakdown



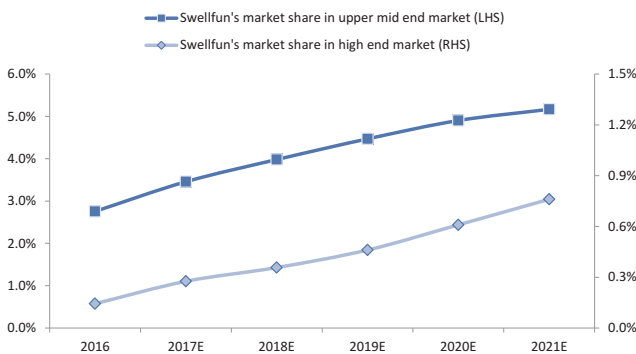
资料来源: Company data, Gao Hua Securities Research

图表 18: ...which is mainly supported by volume growth  
Volume and ASP growth for Swellfun's upper mid-end products



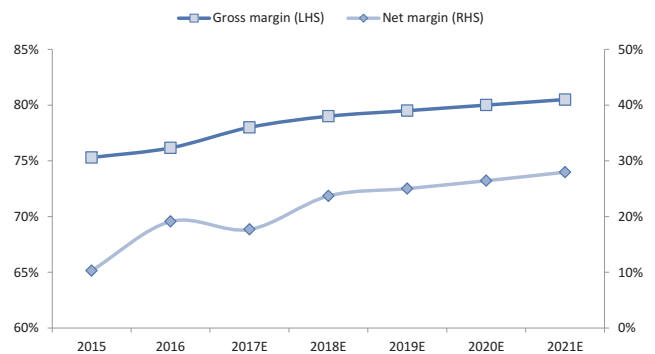
资料来源: Gao Hua Securities Research

图表 19: We expect Swellfun's market share to increase from a low base  
Market share in upper mid and high-end market



资料来源: Company data, Gao Hua Securities Research

图表 20: We expect Swellfun's margin to expand due to ASP growth  
Margin forecasts



资料来源: Company data, Gao Hua Securities Research

图表 21: Volume and ASP forecasts by product  
Revenue forecast breakdown (Rmb mn unless otherwise stated)

Drivers	2016	2017E	2018E	2019E	2020E	2021E	2016-21 CAGR
<b>Revenue</b>							
Jingcui (Rmb1000+)			20	100	200	400	
Diancang (Rmb500+)	90	220	330	475	637	787	54%
Jingtai (Rmb400+)	470	686	945	1,217	1,504	1,781	31%
Zhenniangu No.8 (Rmb300+)	500	792	1,081	1,426	1,806	2,140	34%
Others	616	308	277	277	277	277	
<b>Total Spirits</b>	<b>1,176</b>	<b>2,006</b>	<b>2,653</b>	<b>3,495</b>	<b>4,424</b>	<b>5,385</b>	
<b>YoY growth(%)</b>							
Jingcui				400%	100%	100%	
Diancang		144%	50%	44%	34%	24%	
Jingtai		46%	38%	29%	24%	18%	
Zhenniangu No.8		58%	37%	32%	27%	18%	
Others		-50%	-10%	0%	0%	0%	
<b>Total Spirits</b>	<b>45%</b>	<b>71%</b>	<b>32%</b>	<b>32%</b>	<b>27%</b>	<b>22%</b>	
<b>Sales volume (tons)</b>							
Jingcui			10	46	88	168	
Diancang	129	257	386	540	702	842	46%
Jingtai	955	1,337	1,739	2,173	2,608	2,999	26%
Zhenniangu No.8	1,404	2,107	2,739	3,506	4,312	4,959	29%
Others	2,587	1,294	1,164	1,164	1,164	1,164	
<b>Total Spirits</b>	<b>3,671</b>	<b>4,995</b>	<b>6,037</b>	<b>7,430</b>	<b>8,874</b>	<b>10,133</b>	
<b>YoY growth(%)</b>							
Jingcui							
Diancang		100%	50%	40%	30%	20%	
Jingtai		40%	30%	25%	20%	15%	
Zhenniangu No.8		50%	30%	28%	23%	15%	
Others		-50%	-10%	0%	0%	0%	
<b>Total Spirits</b>	<b>36%</b>	<b>36%</b>	<b>21%</b>	<b>23%</b>	<b>19%</b>	<b>14%</b>	
<b>ASP (Rmb/ton)</b>							
<b>YoY growth(%)</b>							
Jingcui				5%	5%	5%	
Diancang			0%	3%	3%	3%	
Jingtai			6%	3%	3%	3%	
Zhenniangu No.8			5%	3%	3%	3%	
Others			0%	0%	0%	0%	
<b>Total Spirits</b>	<b>7%</b>	<b>25%</b>	<b>9%</b>	<b>7%</b>	<b>6%</b>	<b>7%</b>	

资料来源: Company data, Gao Hua Securities Research

### Income statement

We forecast rising gross margins, due to consumption upgrade demand resulting in a shift in product mix towards the high end. We estimate sales expense ratio to be 25% in 2017, due to extensive investment in brand building, especially for newly launched Diancang Master Version. We expect sales expense ratio to gradually decline, but stay above 20% due to the continuous need to invest in the brand, as the company aims to promote high-end brands and enhance its branding power. Administrative expense ratio would then decrease to 9% in 2021 from 12% in 2017, as revenue scale grows rapidly. As mentioned earlier, the deferred bonus plan for management would be limited to no more than 3% of net income and less than 1% of revenue.

In 2017, the company recognized a Rmb90mn inventory impairment loss due to the decision to discontinue its low to mid-end products. According to management, the impairment has been completed and is a one-off.



Overall, we forecast 44% CAGR for net income over 2017-21, and net margin to increase from 18% in 2017 to 28% in 2021, due to rising gross margins and lower expense. We are largely in line with Wind consensus for 2017-19E EPS.

图表 22: Income statement  
Rmb mn/Rmb

	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
<b>Total revenue</b>	<b>365</b>	<b>855</b>	<b>1,176</b>	<b>2,006</b>	<b>2,653</b>	<b>3,495</b>	<b>4,424</b>	<b>5,385</b>
YoY - total revenue	-25%	134%	38%	71%	32%	32%	27%	22%
Sales Volume Growth	-54%	63%	36%	36%	21%	23%	19%	14%
ASP Growth	64%	38%	7%	25%	9%	7%	6%	7%
<b>Gross profit</b>	<b>248</b>	<b>644</b>	<b>896</b>	<b>1,565</b>	<b>2,096</b>	<b>2,779</b>	<b>3,539</b>	<b>4,335</b>
Gross margin	68%	75%	76%	78%	79%	80%	80%	81%
GP YoY	-27%	159%	39%	75%	34%	33%	27%	22%
Sales tax and add-on	51	124	155	275	364	479	606	738
as % of revenue	14.0%	14.5%	13.2%	13.7%	13.7%	13.7%	13.7%	13.7%
Sales expense	259	188	250	507	655	842	1,040	1,206
as % of revenue	71.0%	22.0%	21.2%	25.3%	24.7%	24.1%	23.5%	22.4%
Administrative expense	185	164	181	241	284	350	407	474
as % of revenue	50.8%	19.2%	15.4%	12.0%	10.7%	10.0%	9.2%	8.8%
Net financial expenses	-2	-3	-6	-14	-22	-30	-38	-49
Impairment losses on PP&E	62	63	58	100	0	0	0	0
Net gains/loss of fair value	0	0	0	0	0	0	0	0
Investment gains/loss	0	0	0	0	0	0	0	0
Other non-operating income	22	7	13	14	16	17	19	21
Other non-operating expense	17	9	3	4	4	4	5	5
Pre-tax profit	-303	106	268	467	827	1,151	1,539	1,982
Income taxes	100	18	44	112	199	276	369	476
Net income	-403	88	225	355	629	874	1,170	1,506
Minority interests	0	0	0	0	0	0	0	0
<b>Net income attributable to parent</b>	<b>-403</b>	<b>88</b>	<b>225</b>	<b>355</b>	<b>629</b>	<b>874</b>	<b>1,170</b>	<b>1,506</b>
YoY	122%	-122%	155.5%	58%	77%	39%	34%	29%
<b>EPS</b>	<b>-0.82</b>	<b>0.18</b>	<b>0.46</b>	<b>0.73</b>	<b>1.29</b>	<b>1.79</b>	<b>2.39</b>	<b>3.08</b>

资料来源: Company data, Gao Hua Securities Research

### Balance sheet

Inventory days decreased in 2017 due to the inventory impairment loss. We forecast a stable 750 inventory days going forward, which also reflects the average time to age its products (its “strong flavor” spirit takes about two years to age, just like other strong flavor spirit companies). Payable days would also be quite stable at 825 days, as they are mainly operation-related. Thanks to stable working capital conditions and growing net income, cash on hand is abundant, supporting a high dividend payout ratio.

### Cash flow statement

We expect cash flow from operations rise in line with net income as working capital change has been quite stable. We forecast limited capex at about 2% of revenue, as we believe production capacity is still sufficient in the near term.

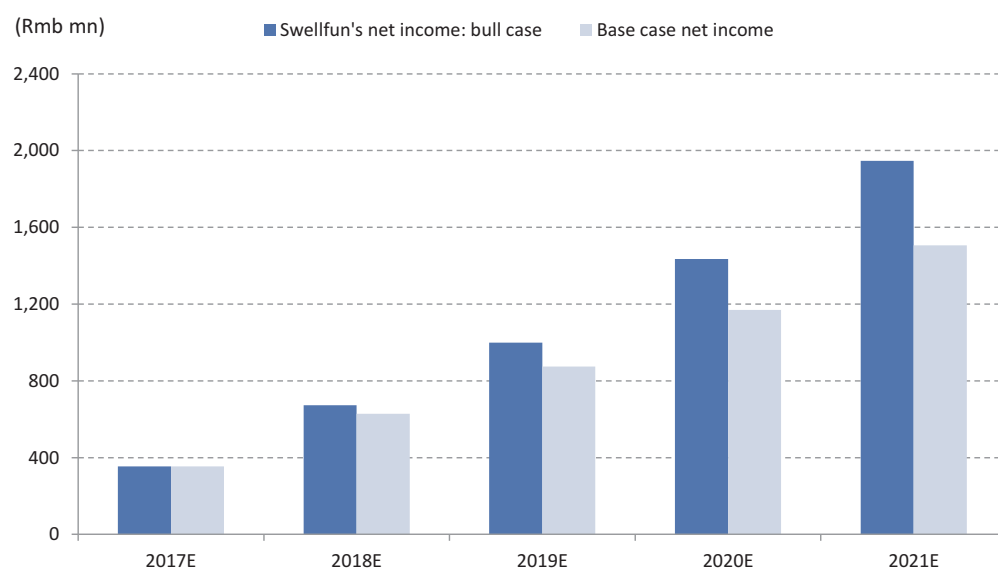
## Bull case scenario: Faster consumption upgrade could imply 30% upside

Under our base case, we assume total consumption of upper mid to high-end spirits to increase from 147k tons in 2016 to 273k tons in 2021. Given mid-end spirit consumption was 2,280k tons in 2016, this implies 5.5% of mid-end consumers upgrading over 2016-21, or 1% per year, all else being equal. We believe this is a rather conservative assumption. Should disposable incomes rise faster and consumption upgrade materializes faster than we expected, it could pose a positive surprise to our base case.

Swellfun is well-positioned to benefit from the consumption upgrade trend with two major brands in the category. Based on its strong brand cache and revamped distribution channel, we see Swellfun as a key beneficiary of faster consumption upgrade. We thus present a bull case scenario as below:

- We assume double the mid-end consumers upgrading per year vs. our base case (2% vs. 1% in the base case), and total high end and upper mid end consumption volume would then be 376k tons in 2021. This implies upper mid-end consumption volume to grow at 24% revenue CAGR in 2016-21 (vs. 17% revenue CAGR in the base case)
- Upper mid-end revenue CAGR for Swellfun at 42% over 2016-21 (vs. 32% base case); Swellfun's market share in the upper mid-end industry remains 5.2% in 2021, same as our base case.
- 2021 net income forecast for Swellfun would be 30% higher than our base case.

图表 23: 2021E net income under our bull case is 30% higher than our base case  
Bull case and base case net income forecasts for Swellfun



资料来源: Gao Hua Securities Research

## M&A framework: Medium probability of being acquired

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high probability (30%-50%) of the company becoming an acquisition target, 2 representing medium probability (15%-30%) and 3 representing low probability (0%-15%). For companies ranked 1 or 2, in line with our standard departmental guidelines, we incorporate an M&A component into our target price. An M&A rank of 3 is considered immaterial and therefore does not factor into our target price, and may or may not be discussed in research.

We evaluate Swellfun on the below metrics under “Can”, “Should” and “Would”, consistent with our regional framework:

### Can

- Size: Companies that have very large market cap are less likely to be M&A targets.
- Ownership: Blocking stakes by MNC parents and family owners are a meaningful barrier against M&A activity for many of our covered companies.
- Regulatory risk: Dominant players, particularly in oligopolistic markets or industries that are more state-controlled, such as tobacco, have higher regulatory risk.

### Should

- Growth potential: Companies with strong EBITDA growth are more attractive targets.
- Industry positioning: Dominant positioning makes a company more attractive as a target, particularly in competitive markets where regulatory risk is relatively low.
- Cost synergies: We rank cost structures based on the potential for improvement, by our assessment, with low representing low opportunity for cost improvement.
- Valuation: We assess EV/EBITDA to evaluate asset attractiveness.

### Would

- Strategic appeal: Some companies own asset e.g., brands, distribution networks that have strategic appeal for acquirers; we rank companies as low (minimal or no strategic appeal), medium (some appeal), or high (high appeal).
- Management stance: We rank companies based on our assessment of willingness, with low representing unwillingness, medium representing open to consideration, and high representing willingness and/or demonstrated selling of stakes in the past.

### How Swellfun scores

Can: Swellfun is 40% owned by Diageo, who may have the ability to further increase its stake to more than 50%. Given low regulatory risk, and the relatively small market cap of Swellfun, there are not much obstacles to further increasing stakes.

Should: Swellfun is a leading player in upper mid-end spirit market and we believe its brand is quite strong. Though valuation is demanding (35X 2018E P/E vs. industry average of 27X), we forecast 57% EPS CAGR in the next two years - we believe this would appear attractive to a potential acquirer.

Would: Diageo has not commented on whether it plans to increase its stake in Swellfun. As Diageo has acquired another 26% of an Indian distillery, United Spirits, in April 2014 after the first acquisition of 27.4% in November 2012, we do not rule out the likelihood that Diageo could be interested in owning a majority stake of a distillery in developing markets.

图表 24: We arrive at an M&A rank of “2” for Swellfun  
M&A scorecard for Swellfun

Company name	Can					Overall Score
	Size Mkt cap \$mn	% Free Float	Ownership Comment	Mgmt. voting power	Regulatory risk	
Sichuan Swellfun Co.	3,582	60%	Diageo owns 40%	0%	Low	2

Company name	Should				Would			Final Score
	Growth NI 17-19E CAGR	Industry positioning	Cost synergies	Valuation 2018E PE	Strategic Appeal	Mgmt Stance	Overall Score	Rank (1-3)
Sichuan Swellfun Co.	57%	Leading player in upper mid end spirit market	Low	37.7	High	Medium	2	2

资料来源: FactSet, Company data, Gao Hua Securities Research

## Valuation: 12-month target price of Rmb57.72 offers 21% upside

Within this context, we have ranked Swellfun a “2” and weight our M&A value by 15% (reflecting the probability implied by this ranking) within our price target methodology. Our 12-month target price is the weighted average of our fundamental and M&A values:

**Fundamental valuation based on P/E:** We apply a target P/E multiple of 23X to 2021E EPS, in line with the other spirit stocks in our coverage, and discount back to 2018E using 8.7% sector COE. Our target multiple is based on average forward P/E of global liquor companies. Based on this, our fundamental valuation is Rmb55.20.

**M&A valuation based on historical transactions:** We apply a 30X P/E multiple to Swellfun’s 2021E EPS and discount back to 2018E using 8.7% COE to derive an M&A value is Rmb72.00. The 30X P/E multiple is based on an average of global consumer transactions over the last 5 years.

Taken together, our 12-month target price is Rmb57.72.

图表 25: Our 12-month target price of Rmb57.72 is 85% based on fundamental value and 15% based on M&A value.

Target price derivation for Swellfun

Method	Multiple	Comment	Weight	Value (Rmb)
P/E based	23X 2021E PE discounted back to 2018E using 8.7% sector COE	23X comes from average of global liquor peers	85%	55.20
M&A based	30X 2021E PE discounted back to 2018E using 8.7% sector COE	30X is derived from average of global consumer transactions	15%	72.00
<b>Weighted average 12-m TP</b>				<b>57.72</b>

资料来源: Gao Hua Securities Research

图表 26: List of deals valued at >US\$1bn in the consumer non-cyclical sector in 2011-16

Deal Type	Announce Date	Completion Date	Target Name	Acquirer Name	Announced Total Value (US\$m)	Percent Sought (%)	Target Country Full Name	Target Industry Subgroup	Acquirer Country Full Name	Price to Earnings
M&A	25-Mar-15	6-Jul-15	Kraft Foods Group Inc	Kraft Heinz Foods Co	55,423	100	United States	Food-Misc/Diversified	United States	45x
M&A	29-Jun-12	4-Jun-13	Grupo Modelo SAB de CV	Anheuser-Busch InBev SA/NV	17,231	65	Mexico	Brewery	Belgium	37x
M&A	13-Jan-14	1-May-14	Beam Suntory Inc	Suntory Holdings Ltd	15,581	100	United States	Beverages-Wine/Spirits	Japan	38x
M&A	12-Apr-13	29-Oct-13	DE Master Blenders 1753 NV	Joh A Benckiser SE	10,075	100	Netherlands	Coffee	Austria	56x
M&A	29-May-14	29-Aug-14	Hillshire Brands Co/The	Tyson Foods Inc	8,397	100	United States	Food-Meat Products	United States	35x
M&A	14-Mar-14	23-May-14	Olam International Ltd	Temasek Holdings Pte Ltd	7,670	34	Singapore	Food-Wholesale/Distrib	Singapore	15x
M&A	9-Jan-11	17-Jun-11	Danisco A/S	El du Pont de Nemours & Co	7,113	100	Denmark	Food-Misc/Diversified	United States	47x
M&A	29-May-13	27-Sep-13	Smithfield Foods Inc	WH Group Ltd	6,955	100	United States	Food-Meat Products	Hong Kong	26x
M&A	27-Nov-12	30-Jan-13	Ralcorp Holdings Inc	ConAgra Foods Inc	6,655	100	United States	Food-Misc/Diversified	United States	68x
INV	11-Feb-14	8-Jul-14	L'Oreal SA	L'Oreal SA	4,641	5	France	Cosmetics&Toiletries	France	26x
M&A	20-Oct-14	17-Apr-15	Nutreco NV	SHV Holdings NV	4,585	100	Netherlands	Food-Misc/Diversified	Netherlands	21x
M&A	20-Jul-12	15-Nov-12	Heineken Asia MTN Pte Ltd	Heineken NV	4,361	40	Singapore	Brewery	Netherlands	38x
INV	30-Apr-13	4-Jul-13	Hindustan Unilever Ltd	Unilever NV	3,576	15	India	Soap&Cleaning Prepar	Britain	34x
M&A	11-Feb-13	27-Mar-13	ICA AB	ICA Gruppen AB	3,128	60	Sweden	Food-Misc/Diversified	Sweden	36x
M&A	9-Jul-13	29-Jan-14	Harris Teeter Supermarkets Inc	Kroger Co/The	2,461	100	United States	Food-Retail	United States	22x
M&A	24-Jan-11	1-Jun-11	Grupo Continental SAB de CV	Arca Continental SAB de CV	2,200	100	Mexico	Beverages-Non-alcoholic	Mexico	19x
INV	14-Aug-14	12-Jun-15	Monster Beverage Corp	Coca-Cola Co/The	2,150	17	United States	Beverages-Non-alcoholic	United States	32x
M&A	20-Jul-12	22-Feb-13	Heineken Asia MTN Pte Ltd	Heineken NV	2,004	18	Singapore	Brewery	Netherlands	38x
M&A	28-Oct-15	1-Mar-16	Diamond Foods Inc	Snyder's-Lance Inc	1,900	100	United States	Food-Misc/Diversified	United States	38x
M&A	31-Aug-13	29-Oct-13	Spaipa S/A Industria Brasileira de Bebidas	Coca-Cola Femsa SAB de CV	1,855	100	Brazil	Beverages-Non-alcoholic	Mexico	25x
M&A	3-Sep-13	3-Oct-13	Yankee Candle Co Inc/The	Jarden Corp	1,800	100	United States	Consumer Products-Misc	United States	12x
M&A	11-Jul-11	23-Dec-11	Hsu Fu Chi International Ltd	Nestle SA	1,519	60	China	Food-Confectionery	Switzerland	27x
M&A	12-Feb-14	27-May-14	Canada Bread Co Ltd	Grupo Bimbo SAB de CV	1,497	100	Canada	Food-Baking	Mexico	12x
M&A	26-Apr-11	8-Jul-11	Parmalat SpA	Groupe Lactalis SA	1,490	54	Italy	Food-Dairy Products	France	16x
INV	5-Feb-14	27-Feb-14	Keurig Green Mountain Inc	Coca-Cola Co/The	1,251	10	United States	Coffee	United States	24x
M&A	3-May-12	5-Nov-12	Weetabix Ltd	Bright Food Group Co Ltd	1,165	60	Britain	Food-Misc/Diversified	China	15x
M&A	8-May-12	1-Oct-12	Calpis Co Ltd	Asahi Group Holdings Ltd	1,153	100	Japan	Beverages-Non-alcoholic	Japan	19x
INV	22-Mar-11	31-Mar-11	Parmalat SpA	Groupe Lactalis SA	1,057	15	Italy	Food-Dairy Products	France	17x
M&A	18-Jun-13	13-Aug-13	Yashili International Holdings Ltd	China Mengniu Dairy Co Ltd	1,022	90	China	Food-Dairy Products	China	21x
Average									30x	

资料来源: Bloomberg

图表 27: A-share spirit sector comp sheet

Ticker	Company	Rating	Market cap US\$ mn	Pricing currency	Price 1/4/2018	12-m TP	Potential +/-	PE(X)			EV/EBITDA			P/B(X)			
								2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	
<b>A-share</b>																	
600519.SS	Kweichow Moutai	Buy*	142,508	CNY	737.07	890.00	21%	36X	26X	21X	22X	16X	12X	10.8X	8.9X	7.4X	
600779.SS	Sichuan Swellfun Co.	Buy	3,606	CNY	47.96	57.72	20%	66X	37X	27X	46X	26X	19X	14.9X	13.3X	11.6X	
000858.SZ	Wuliangye Yibin	Buy	48,487	CNY	82.99	95.02	14%	34X	25X	21X	22X	16X	13X	6.2X	5.6X	5.1X	
000568.SZ	Luzhou Laojiao	Buy	14,838	CNY	68.75	78.01	13%	38X	27X	22X	27X	19X	15X	6.8X	6.3X	5.8X	
002304.SZ	Jiangsu Yanghe	Neutral	28,065	CNY	121.00	128.09	6%	27X	23X	21X	20X	17X	15X	6.3X	5.7X	5.1X	
603369.SS	Jiangsu King's Luck Brewery	Neutral	2,939	CNY	15.22	16.84	11%	21X	20X	17X	15X	14X	12X	3.7X	3.3X	2.9X	
600809.SS	Shanxi Xinghuacun Fen Wine	Neutral	7,851	CNY	58.91	56.63	-4%	45X	32X	26X	27X	20X	16X	10.2X	9.5X	8.8X	
000596.SZ	Anhui Gujing Distillery Co.	Neutral	5,358	CNY	69.12	68.25	-1%	32X	27X	23X	18X	15X	13X	5.5X	4.8X	4.2X	
002646.SZ	Qinghai Huzhu Barley Wine Co.	Sell	1,078	CNY	15.57	12.09	-22%	48X	36X	29X	30X	21X	17X	2.7X	2.5X	2.3X	
<b>A-share avg.</b>								<b>38X</b>	<b>28X</b>	<b>23X</b>	<b>25X</b>	<b>18X</b>	<b>15X</b>	<b>7.4X</b>	<b>6.7X</b>	<b>5.9X</b>	
<b>Global</b>																	
PERP.PA	Pernod Ricard	Buy	42,067	EUR	131.25	138.00	5%	24X	22X	20X	14X	16X	14X	2.0X	2.4X	2.2X	
RCOP.PA	Remy Cointreau	Neutral	6,655	EUR	112.50	107.00	-5%	41X	36X	32X	17X	23X	21X	2.9X	3.9X	3.7X	
DGE.L	Diageo	Neutral	90,084	GBP	2674.00	2460.00	-8%	25X	23X	21X	16X	17X	16X	5.2X	6.5X	6.5X	
CPRI.MI	Davide Campari	Sell	4,390	EUR	6.26	5.50	-12%	31X	29X	25X	20X	19X	17X	1.9X	1.7X	1.6X	
<b>Global avg.</b>								<b>30X</b>	<b>27X</b>	<b>24X</b>	<b>17X</b>	<b>19X</b>	<b>17X</b>	<b>3.0X</b>	<b>3.6X</b>	<b>3.5X</b>	
Ticker	Company	Rating	EPS currency	EPS			17-19E CAGR	ROE			CROCI			Div yield			
				2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	
<b>A-share</b>																	
600519.SS	Kweichow Moutai	Buy*	CNY	20.73	28.06	35.30	30%	33%	37%	39%	33%	36%	37%	1.4%	1.9%	2.4%	
600779.SS	Sichuan Swellfun Co.	Buy	CNY	0.73	1.29	1.79	57%	23%	38%	46%	21%	32%	39%	1.1%	1.9%	2.6%	
000858.SZ	Wuliangye Yibin	Buy	CNY	2.47	3.29	3.99	27%	19%	23%	26%	18%	21%	23%	1.8%	2.4%	2.9%	
000568.SZ	Luzhou Laojiao	Buy	CNY	1.80	2.50	3.15	32%	20%	24%	28%	19%	22%	25%	1.8%	2.5%	3.2%	
002304.SZ	Jiangsu Yanghe	Neutral	CNY	4.49	5.19	5.85	14%	25%	26%	26%	24%	25%	25%	2.2%	2.6%	2.9%	
603369.SS	Jiangsu King's Luck Brewery	Neutral	CNY	0.71	0.78	0.87	11%	18%	18%	18%	19%	18%	18%	1.6%	1.8%	2.0%	
600809.SS	Shanxi Xinghuacun Fen Wine	Neutral	CNY	1.32	1.83	2.30	32%	23%	31%	36%	23%	29%	33%	1.8%	2.4%	3.1%	
000596.SZ	Anhui Gujing Distillery Co.	Neutral	CNY	2.18	2.58	3.01	18%	18%	19%	20%	20%	21%	20%	0.9%	1.3%	1.5%	
002646.SZ	Qinghai Huzhu Barley Wine Co.	Sell	CNY	0.32	0.44	0.53	28%	6%	7%	8%	7%	9%	10%	0.0%	0.0%	0.0%	
<b>A-share avg.</b>								<b>28%</b>	<b>21%</b>	<b>25%</b>	<b>27%</b>	<b>20%</b>	<b>24%</b>	<b>26%</b>	<b>1.4%</b>	<b>1.9%</b>	<b>2.3%</b>
<b>Global</b>																	
PERP.PA	Pernod Ricard	Buy	EUR	5.58	5.98	6.68	9%	11%	11%	12%	7%	8%	8%	1.9%	1.6%	1.8%	
RCOP.PA	Remy Cointreau	Neutral	EUR	2.75	3.10	3.53	13%	11%	11%	12%	10%	9%	10%	2.1%	1.6%	1.8%	
DGE.L	Diageo	Neutral	GBP	107.82	118.68	129.96	10%	29%	29%	32%	12%	13%	14%	2.8%	2.6%	2.8%	
CPRI.MI	Davide Campari	Sell	EUR	0.20	0.22	0.25	12%	12%	11%	12%	11%	10%	10%	0.8%	0.9%	1.1%	
<b>Global avg.</b>								<b>11%</b>	<b>16%</b>	<b>16%</b>	<b>17%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>1.9%</b>	<b>1.7%</b>	<b>1.9%</b>

Note: \* denotes the stock is on our Conviction List.

资料来源: FactSet, Gao Hua Securities Research

## Key risks

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Slower-than-expected upper mid to high-end spirit revenue growth. Our thesis is premised on the fast growth of upper mid to high-end spirit sector driven by consumption upgrade. However, if sector growth falls below our expectations due to slower economy growth and weaker consumption upgrade, it could pose downside risk to our thesis.

Tighter regulation on government-related alcohol consumption. If the government were to impose tougher and more widespread policies on alcohol use by government officials or even SOE employees (on official business), there could be a dampening effect on upper mid to high-end alcohol demand.

Tougher competition in the upper mid-end market. Though the upper mid end market is moderately consolidated, leading players are still competing to get a larger market share. If competition intensifies, Swellfun might need to spend more on marketing and promotion, thus diluting margins.



## 信息披露附录

### 申明

我们，廖绪发，CFA、戴晔，在此申明，本报告所表述的所有观点准确反映了我们对上述公司或其证券的个人看法。此外，我们的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及净资产回报率。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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### Quantum

Quantum是提供具体财务报表数据历史、预测和比率的高盛专有数据库，它可以用于对单一公司的深入分析，或在不同行业和市场公司之间进行比较。

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GS SUSTAIN是一项侧重于通过发现优质行业领先企业而实现长期超额收益的全球投资策略。GS SUSTAIN 50关注名单列出了我们认为凭借出色的资本回报、具有可持续性的竞争优势和对ESG（环境、社会和企业治理）风险的有效管理而有望在长期内相对于全球同业表现出色的行业领军企业。候选企业主要基于对企业在三方面表现的综合量化分析筛选而出。

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A股传媒：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、东方明珠、掌趣科技、万达电影、华策影视。

### 信息披露

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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：水井坊 (Rmb47.57)

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