



Rating
Buy

Asia
China

Consumer
Alcohol & Tobacco

Company
Wuliangye Yibin

Reuters 000858.SZ Bloomberg 000858 CH Exchange SHZ Ticker 000858

Date
11 January 2018

Company Update

Price at 10 Jan 2018 (CNY)	88.90
Price target - 12mth (CNY)	98.00
52-week range (CNY)	88.90 - 35.45
Shenzhen Index	2,031

Access China Conference highlights

Still needs more time before next price hike

Investors' questions focus on whether Wuliangye will raise its ex-factory prices. Management did not rule out the possibility of an increase in time, especially after Moutai's price hike. However, it thinks that more time is needed, given that channel profit has only been stable for one year. The company's priority currently is to maintain channel profit margins and to strengthen the retail price stability.

Target 30% yoy sales growth in 2018

Management is confident it can reach its target. Key sales drivers will be: 1) mainstream Wuliangye to grow by 18% from 17,000 tons in 2017 to 30,000 tons in 2018; 2) price increase through raising the portion of "out of plan" volume from 10% in 2017 to 50% in 2018, implying a 5% price increase; and 3) incremental sales of mass market sub brands to RMB10bn in 2018 – it targets to build up one sub brand with RMB2bn sales, and 2-3 sub brands with RMB1bn sales by the end of 2020.

To increase channel penetration through its "10 thousand project"

Management aims to increase its penetration through a "hundreds of cities, thousands of counties, and ten thousand stores" program. By the end of 2017, it had built up 7,000 core POS and 1,000 Wuliangye specialty stores. It targets to increase to 8,000 core POS and 1,500 specialty stores in 2018. The channel expansion will be a key driver for its 30% growth target. Meanwhile, through installing IT systems at the retail end, the company will have stronger control in channel inventory and better understanding of the market.

Our view: don't leave the party too early

We like Wuliangye for its lower risk in channel de-stocking, especially after Moutai price increase and with the approach of Chinese New Year. We expect the company to enter a secular growth period in 2018-19, and its earnings to register 29% CAGR in 2018-20E, driven by management's strong incentives for growth and expanding the high end liquor market after the increase in Moutai price. We reiterate our Buy rating with TP of RMB98 based on DCF approach. Downside risk: channel de-stocking in the high-end liquor sector; food safety; worse-than-expected macro FAI slow down.

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	30.9	50.2	143.6
Shenzhen Index	2.9	-4.2	-2.2

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	18.4
Net debt/equity (%)	-76.6
Book value/share (CNY)	13.93
Price/book (x)	6.4
Net interest cover (x)	-
Operating profit margin (%)	44.7

Source: Deutsche Bank

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Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	19,874.6	22,602.6	26,475.4	33,979.9	41,767.2
EBITDA (CNYm)	8,098.6	9,011.4	12,461.3	16,627.7	21,143.7
Reported NPAT (CNYm)	6,176.1	6,784.5	9,212.7	12,338.4	15,798.8
Reported EPS FD (CNY)	1.63	1.79	2.43	3.25	4.16
DB EPS FD (CNY)	1.63	1.79	2.43	3.25	4.16
DB EPS growth (%)	5.8	9.9	35.8	33.9	28.0
PER (x)	15.5	17.4	36.6	27.4	21.4
EV/EBITDA (x)	8.6	9.2	23.7	17.0	12.8
DPS (net) (CNY)	0.80	0.90	1.22	1.64	2.10
Yield (net) (%)	3.2	2.9	1.4	1.8	2.4

Source: Deutsche Bank estimates, company data



Model updated: 04 January 2018

Running the numbers

Asia

China

Alcohol & Tobacco

Wuliangye Yibin

Reuters: 000858.SZ Bloomberg: 000858 CH

Buy

Price (10 Jan 18) CNY 88.90

Target Price CNY 98.00

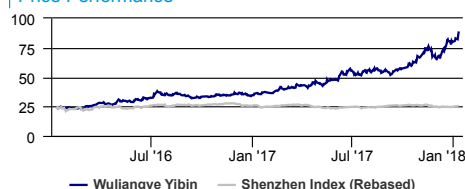
52 Week range CNY 35.45 - 88.90

Market cap (m) CNYm 337,462
USDm 51,714

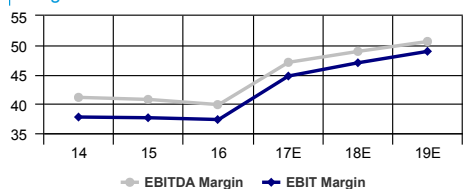
Company Profile

Wuliangye Yibin is China's leading local spirit brand/producer. Major brands under the company include "Wuliangye", "Wuliang Spring", "Wuliangchun" and "Jianzhuang".

Price Performance



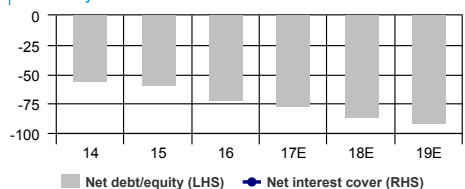
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	1.54	1.63	1.79	2.43	3.25	4.16
Reported EPS (CNY)	1.54	1.63	1.79	2.43	3.25	4.16
DPS (CNY)	0.60	0.80	0.90	1.22	1.64	2.10
BVPS (CNY)	10.4	11.4	12.4	13.9	16.0	18.5
Weighted average shares (m)	3,796	3,796	3,796	3,796	3,796	3,796
Average market cap (CNYm)	65,945	95,934	117,781	337,462	337,462	337,462
Enterprise value (CNYm)	43,563	69,610	83,115	295,804	283,463	271,282

Valuation Metrics

P/E (DB) (x)	11.3	15.5	17.4	36.6	27.4	21.4
P/E (Reported) (x)	11.3	15.5	17.4	36.6	27.4	21.4
P/BV (x)	2.07	2.39	2.78	6.38	5.57	4.81
FCF Yield (%)	0.6	6.6	9.7	3.1	5.0	5.5
Dividend Yield (%)	3.5	3.2	2.9	1.4	1.8	2.4
EV/Sales (x)	2.2	3.5	3.7	11.2	8.3	6.5
EV/EBITDA (x)	5.4	8.6	9.2	23.7	17.0	12.8
EV/EBIT (x)	5.9	9.3	9.9	25.0	17.7	13.3

Income Statement (CNYm)

Sales revenue	19,494	19,875	22,603	26,475	33,980	41,767
Gross profit	13,722	13,203	15,288	18,655	24,538	30,980
EBITDA	8,013	8,099	9,011	12,461	16,628	21,144
Depreciation	653	619	573	617	658	701
Amortisation	0	0	0	0	0	0
EBIT	7,360	7,480	8,438	11,844	15,970	20,443
Net interest income/(expense)	658	732	766	733	884	1,153
Associates/affiliates	14	34	33	33	33	33
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-16	41	100	100	100	100
Profit before tax	8,016	8,287	9,337	12,711	16,988	21,730
Income tax expense	1,958	1,877	2,281	3,114	4,162	5,324
Minorities	223	234	272	384	487	607
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	5,835	6,176	6,785	9,213	12,338	15,799
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	5,835	6,176	6,785	9,213	12,338	15,799

Cash Flow (CNYm)

Cash flow from operations	795	6,691	11,697	10,829	17,502	19,021
Net Capex	-381	-394	-302	-420	-522	-627
Free cash flow	414	6,297	11,395	10,408	16,980	18,394
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-2,995	-2,457	-3,212	-3,416	-4,639	-6,213
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-800	103	159	0	0	0
Net cash flow	-3,381	3,942	8,342	6,992	12,341	12,181
Change in working capital	-6,004	-192	4,070	648	4,051	1,948

Balance Sheet (CNYm)

Cash and other liquid assets	22,382	26,324	34,666	41,658	53,999	66,180
Tangible fixed assets	6,061	5,902	5,724	5,532	5,402	5,336
Goodwill/intangible assets	423	413	404	393	380	364
Associates/investments	869	903	796	829	863	896
Other assets	16,674	19,004	20,584	21,409	21,058	22,610
Total assets	46,409	52,547	62,174	69,821	81,702	95,387
Interest bearing debt	0	0	0	0	0	0
Other liabilities	6,076	8,201	13,969	15,435	19,129	22,621
Total liabilities	6,076	8,201	13,969	15,435	19,129	22,621
Shareholders' equity	39,403	43,329	47,077	52,873	60,572	70,158
Minorities	903	1,016	1,129	1,513	2,000	2,607
Total shareholders' equity	40,333	44,345	48,206	54,386	62,573	72,766
Net debt	-22,382	-26,324	-34,666	-41,658	-53,999	-66,180

Key Company Metrics

Sales growth (%)	-14.8	2.0	13.7	17.1	28.3	22.9
DB EPS growth (%)	-26.9	5.8	9.9	35.8	33.9	28.0
EBITDA Margin (%)	41.1	40.7	39.9	47.1	48.9	50.6
EBIT Margin (%)	37.8	37.6	37.3	44.7	47.0	48.9
Payout ratio (%)	39.0	49.2	50.4	50.4	50.4	50.4
ROE (%)	15.5	14.9	15.0	18.4	21.8	24.2
Capex/sales (%)	2.1	2.0	1.4	1.6	1.5	1.5
Capex/depreciation (x)	0.6	0.6	0.5	0.7	0.8	0.9
Net debt/equity (%)	-55.5	-59.4	-71.9	-76.6	-86.3	-90.9
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Wuliangye Yibin	000858.SZ	87.96 (CNY) 11 Jan 2018	NA

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

(as of 01/10/2018)



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**	4.	10/26/2017	Buy, Target Price Change CNY 70,00	Mark Yuan
2.	05/03/2017	Buy, Target Price Change CNY 55,00	Charlie Chen**	5.	01/04/2018	Buy, Target Price Change CNY 98,00	Mark Yuan
3.	08/28/2017	Buy, Target Price Change CNY 62,00	Mark Yuan				



Equity Rating Key

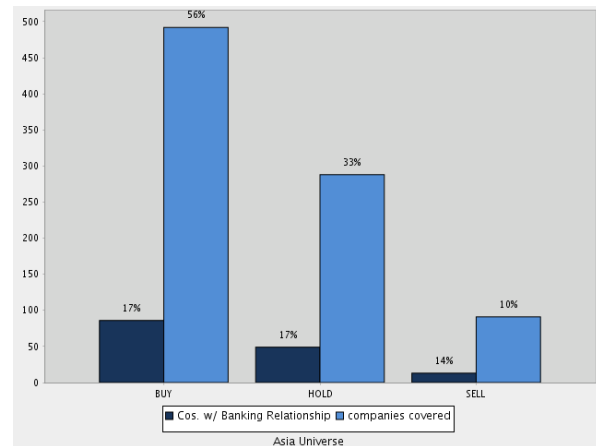
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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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