



Rating
Buy

Asia
China

Consumer
Alcohol & Tobacco

Company
Kweichow Moutai

Reuters 600519.SS Bloomberg 600519 CG Exchange SHH Ticker 600519

Date
31 January 2018

Company Update

Price at 30 Jan 2018 (CNY)	742.02
Price target - 12mth (CNY)	790.00
52-week range (CNY)	788.21 - 343.71
Shanghai Composite	3,488

2017 net profit in line

Net profit up 58% yoy in 2017; in line with market expectation

Kweichow Moutai issued a profit alert on 31 Jan 2018 and announced that its net profit increased 58% yoy to Rmb26.4bn in 2017. On quarterly basis, the 4Q17 profit grew 51% yoy to Rmb6.4bn. The net profit growth was driven by: 1) "Feitian Moutai" sales volume, increased 34% yoy to 31,000 tons; 2) 10% ASP increase of Moutai liquor due to increasing sales portion of super premium products; and 3) Lower SG&A/sales ratio due to improved operating efficiency and operating leverage.

The result was in line with its operation update announcement in Dec 2017 of a 58% yoy increase in profit before tax. It is also in line with our forecast at Rmb26.2bn in 2017 and market's consensus (Wind) at Rmb25.4bn.

Long-term growth potential remains intact

We think the strong net profit growth is not a surprise to the market. We maintain Buy on the stock for its strong branding and increasing channel control; yet in the near-term, the potential over supply risk might assert pressure on its retail price and market sentiments. We maintain our target price at Rmb790 based on DCF model (factoring in 9.5% WACC and a 2% terminal growth rate). Downside risks: shorter-than-expected restocking cycle; government policy changes; food safety incidents.

Valuation & Risks

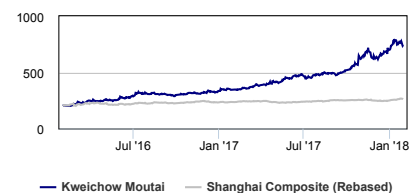
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.5	19.1	115.5
Shanghai Composite	5.4	2.9	10.4

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	32.1
Net debt/equity (%)	-87.6
Book value/share (CNY)	72.16
Price/book (x)	10.3
Net interest cover (x)	-
Operating profit margin (%)	72.5

Source: Deutsche Bank

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Appendix 1

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Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Kweichow Moutai	600519.SS	742.02 (CNY) 30 Jan 2018	NA

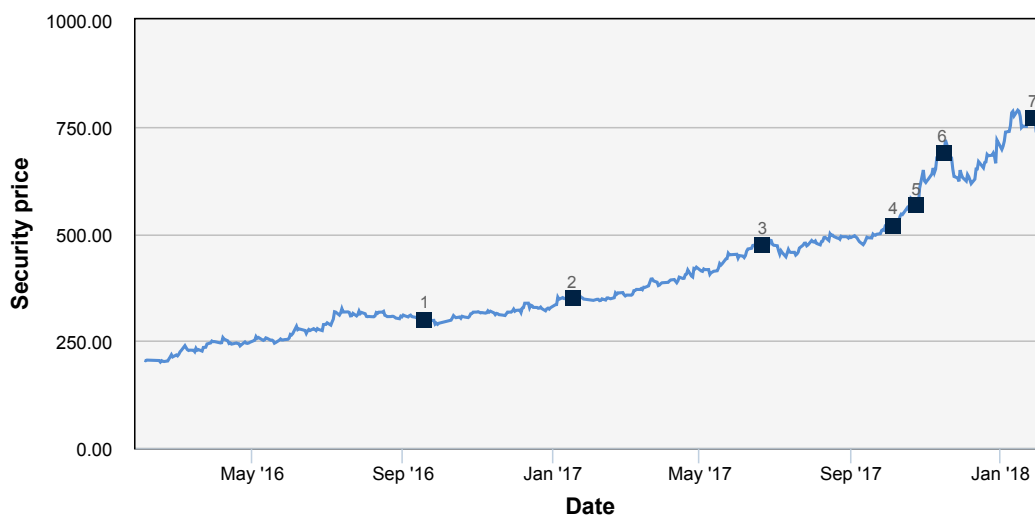
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Historical recommendations and target price. Kweichow Moutai (600519.SS)

(as of 01/30/2018)



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 385,00	Charlie Chen**	5.	10/25/2017	Buy, Target Price Change CNY 650,00	Mark Yuan
2.	01/18/2017	Buy, Target Price Change CNY 410,00	Charlie Chen**	6.	11/16/2017	Buy, Target Price Change CNY 745,00	Mark Yuan
3.	06/22/2017	Buy, Target Price Change CNY 550,00	Mark Yuan	7.	01/28/2018	Buy, Target Price Change CNY 790,00	Mark Yuan
4.	10/06/2017	Buy, Target Price Change CNY 610,00	Mark Yuan				



Equity Rating Key

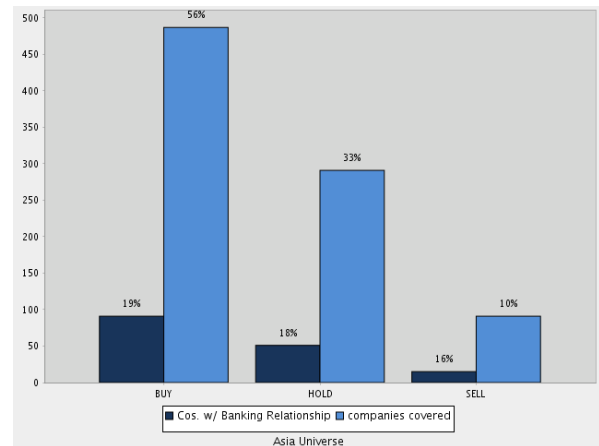
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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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Equity rating dispersion and banking relationships





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