



Rating
Buy

Asia
China

Consumer
Alcohol & Tobacco

Company
Wuliangye Yibin

Reuters 000858.SZ Bloomberg 000858 CH Exchange SHZ Ticker 000858

Date
11 June 2018

Company Update

Price at 8 Jun 2018 (CNY)	80.39
Price target - 12mth (CNY)	92.00
52-week range (CNY)	91.75 - 51.51
Shenzhen Index	1,831

Key takeaways from 2017 AGM

We attended Wuliangye's AGM last Friday and below are our key takeaways

- 2018 growth outlook:** Chairman Li Shuguang reiterated Wuliangye's growth target for 2018, to **increase sales value by Rmb10bn to Rmb40bn this year, implying 33% sales growth**. Key growth drivers are ASP increases and volume growth in mid-range to low-end products and mainstream products. Meanwhile, the chairman indicated that Wuliangye Group (Wuliangye's controlling shareholder) targets Rmb100bn sales for 2019 and 2/3 of group sales will be contributed by the liquor segment by the end of the 13th five-year plan (2020). **This implies a Rmb60bn sales target for Wuliangye, implying a 26% sales CAGR for 2017-2020.**
- Product line: to build up "1+3" product structure.** The "1+3" product line refers to mainstream "Wuliangye" and three product lines of super premium, younger/more fashionable and international. As an example, management indicates that the recently launched super premium product, Swarovski Crystal Wuliangye, received very positive feedback from the market.
- Mid-range/low-end products: to focus on 4+4 SKUs :** It has been streamlining its series product portfolios and reduced the SKU number to 50 from previous 130+. In the end, it will have 4 national SKUs – Wuliangchun-I, Wuliangchun-II, Tou Te Qu, Jianzhuang – and four regional SKUs. **Management targets to increase sales of mid-range/low-end products from Rmb7bn in 2017 to Rmb10bn in 2018.**
- Channels: to strengthen control at the retail end:** On one hand, the company will continue to implement the program themed "hundreds of cities, thousands of countries, and ten-thousands of stores". On the other hand, Wuliangye will enhance its communication with distributors and build up a flatter distribution system.
- Potential M&A:** Management believes that M&A is a key growth driver to achieve Rmb60bn of sales in 2020. Specially, the chairman mentioned potential consolidation between "six gold flowers" in Sichuan. We think he is referring to Wuliangye, Luzhou Laojiao, Lang Jiu, Tuopai, Quanxing and Jiananchun.
- Comments on recent unstable retail liquor price:** Management believes the pricing system is complicated and partly a result of channel

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.7	4.5	56.4
Shenzhen Index	-4.6	-5.7	-5.5

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	21.7
Net debt/equity (%)	-76.3
Book value/share (CNY)	16.07
Price/book (x)	5.0
Net interest cover (x)	-
Operating profit margin (%)	47.5

Source: Deutsche Bank

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management. The company will enhance its control over distributors and expects the retail price to recover in the near term.

Our view: on the right track to transform into an FMCG operator

Wuliangye's management has fully understood its weakness in channels and product operations. Its new measures, if well executed, should help the company regain its leading position in the liquor sector in the long term. Though a 26% sales CAGR for 2017-20 is aggressive, we believe it will be able to deliver this growth rate in the near term as demand remains solid. We maintain Buy on the stock.

Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	22,602.6	26,692.1	34,044.3	42,675.3	51,786.3
EBITDA (CNYm)	9,011.4	12,892.4	16,788.2	21,649.3	27,187.1
Reported NPAT (CNYm)	6,784.5	9,673.7	12,426.7	16,089.1	20,236.4
Reported EPS FD (CNY)	1.79	2.55	3.27	4.24	5.33
DB EPS FD (CNY)	1.79	2.55	3.27	4.24	5.33
DB EPS growth (%)	9.9	42.6	28.5	29.5	25.8
PER (x)	17.4	20.8	24.6	19.0	15.1
EV/EBITDA (x)	9.2	12.5	15.3	11.4	8.7
DPS (net) (CNY)	0.90	1.33	1.74	2.23	2.81
Yield (net) (%)	2.9	2.5	2.2	2.8	3.5

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	80.39 (CNY) 8 Jun 2018	NA

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

(as of 06/08/2018)



Current Recommendations

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

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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	6.	05/02/2018	Buy, Target Price Change CNY 92.00	Mark Yuan



Equity Rating Key

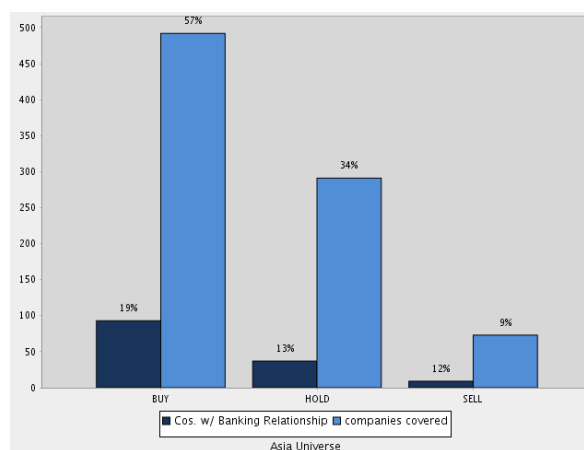
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