



Rating  
**Buy**

Asia  
China

Consumer  
Alcohol & Tobacco

Company  
**Kweichow Moutai**

Reuters 600519.SS    Bloomberg 600519 CG    Exchange SHH    Ticker 600519

Date  
16 July 2018

Forecast Change

Price at 16 Jul 2018 (CNY)	754.55
Price target - 12mth (CNY)	820.00
52-week range (CNY)	799.50 - 449.96
Shanghai Composite	2,832

## Strong 2Q18 growth; reiterating Buy

### Sales and profit before tax up 43% and 41%, respectively, in 2Q18

Moutai reported preliminary results with growth of 43% for sales and 41% for PBT in 2Q18 (vs. 32% for sales and 39% for earnings in 1Q18). The 43% sales growth was supported by:

- 18% ASP increase, on the back of the Dec 2017 price hike from Rmb819 to Rmb969 (high end Moutai);
- 12% volume growth of high end Moutai. We estimate Feitian Moutai sales volume was around 6500-7000 tons (vs. 7600 in 1Q18);
- 8% from mid-low end Moutai. We estimate mid-low end Moutai grew 60% yoy in 1H18 to Rmb4bn, accounting for 12% of total sales.

PBT growth was lower than sales growth in 2Q18, even though gross margin rose for high end Moutai after ex-factory price hike, mainly due to a higher sales contribution from mid-low end sales.

### Near-term outlook: Moutai group to achieve over Rmb90bn in 2018

According to the Moutai Group (the controlling shareholder of Kweichow Moutai), it is highly likely that group sales will achieve Rmb90bn in 2018, implying 18% yoy growth. The group will not set any upside limits for sales growth. The group targets to move the company's scale up to a new level. We think this illustrates the group's high confidence in Moutai's 2H18 growth.

### Revising up TP to Rmb820 and reiterating Buy

Moutai's PBT growth at 40% yoy in 1H18 was higher than consensus/DB's 34%/27% earnings growth for 2018. We expect sales growth to remain strong in 3Q and expand further thanks to higher demand for "Feitian Moutai" during peak season. We are revising up our earnings forecasts by 6-8% in 2018-20 to factor in better than expected volume growth. We revise up our target price to Rmb820 based on DCF model (factoring in 9.5% WACC and 2.0% terminal growth rate). We reiterate Buy. Downside risk: earlier-than-expected channel de-stocking.

### Valuation & Risks

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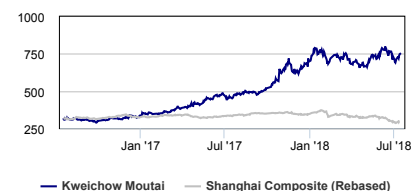
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### Key changes

TP	790.00 to 820.00	↑	3.8%
Sales (FYE)	63,808 to 67,702	↑	6.1%
Op prof margin (FYE)	-	↓	-0.0%
Net profit (FYE)	34,274.0 to 36,261.7	↑	5.8%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.4	10.7	65.3
Shanghai Composite	-6.3	-9.0	-12.1

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	35.3
Net debt/equity (%)	-78.6
Book value/share (CNY)	90.67
Price/book (x)	8.3
Net interest cover (x)	-
Operating profit margin (%)	73.3

Source: Deutsche Bank

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Model updated: 16 July 2018

Running the numbers

Asia

China

Alcohol & Tobacco

Kweichow Moutai

Reuters: 600519.SS Bloomberg: 600519 CG

Buy

Price (16 Jul 18) CNY 754.6

Target Price CNY 820.0

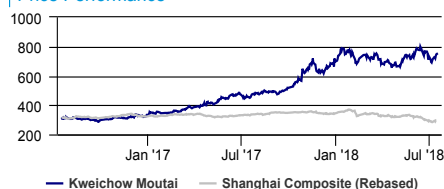
52 Week range CNY 449.96 - 799.50

Market cap (m) CNYm 947,866  
USDm 141,825

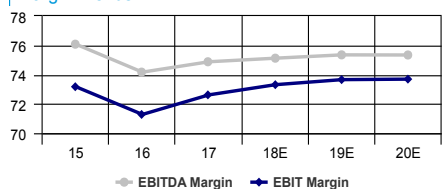
Company Profile

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

Price Performance



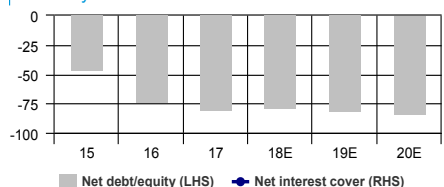
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	12.34	13.31	21.56	28.87	33.93	38.65
Reported EPS (CNY)	12.34	13.31	21.56	28.87	33.93	38.65
DPS (CNY)	6.17	6.79	11.00	15.67	18.42	20.98
BVPS (CNY)	50.9	58.0	72.8	90.7	108.9	129.2
Weighted average shares (m)	1,256	1,256	1,256	1,256	1,256	1,256
Average market cap (CNYm)	256,416	346,172	601,050	947,866	947,866	947,866
Enterprise value (CNYm)	225,583	290,095	523,644	852,933	828,223	801,559

Valuation Metrics

P/E (DB) (x)	16.5	20.7	22.2	26.1	22.2	19.5
P/E (Reported) (x)	16.5	20.7	22.2	26.1	22.2	19.5
P/BV (x)	4.28	5.76	9.57	8.32	6.93	5.84
FCF Yield (%)	6.0	10.5	3.5	3.3	4.7	5.3
Dividend Yield (%)	3.0	2.5	2.3	2.1	2.4	2.8
EV/Sales (x)	7.7	9.0	10.5	12.6	10.5	9.0
EV/EBITDA (x)	10.2	12.1	14.0	16.8	13.9	11.9
EV/EBIT (x)	10.6	12.6	14.5	17.2	14.2	12.1

Income Statement (CNYm)

Sales revenue	29,210	32,353	49,814	67,702	79,022	89,530
Gross profit	26,672	28,943	43,873	60,129	70,237	79,518
EBITDA	22,223	23,997	37,300	50,860	59,544	67,453
Depreciation	848	934	1,126	1,225	1,337	1,476
Amortisation	0	0	0	0	0	0
EBIT	21,375	23,063	36,175	49,635	58,207	65,977
Net interest income/(expense)	780	1,203	2,765	2,046	2,484	3,102
Associates/affiliates	0	0	0	0	0	0
Exceptional/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-153	-308	-200	-246	-240	-218
Profit before tax	22,002	23,958	38,740	51,435	60,452	68,862
Income tax expense	5,547	6,027	9,734	12,859	15,113	17,215
Minorities	952	1,212	1,927	2,315	2,720	3,099
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	15,503	16,718	27,079	36,262	42,618	48,547
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	15,503	16,718	27,079	36,262	42,618	48,547

Cash Flow (CNYm)

Cash flow from operations	17,436	37,451	22,153	34,093	46,770	52,491
Net Capex	-2,053	-1,019	-1,125	-2,749	-2,378	-2,693
Free cash flow	15,384	36,432	21,028	31,344	44,392	49,798
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-5,544	-8,351	-8,905	-13,817	-19,683	-23,134
Net inc/(dec) in borrowings	1,948	4,811	-316	0	0	0
Other investing/financing cash flows	56	5	21	0	0	0
Net cash flow	11,834	32,899	11,828	17,527	24,709	26,664
Change in working capital	471	19,162	-8,318	-5,746	95	-631

Balance Sheet (CNYm)

Cash and other liquid assets	36,801	66,855	87,869	105,396	130,105	156,769
Tangible fixed assets	16,312	17,199	17,261	18,868	19,993	21,294
Goodwill/intangible assets	3,582	3,532	3,459	3,386	3,312	3,239
Associates/investments	29	29	29	29	29	29
Other assets	29,577	25,320	25,956	41,595	47,717	54,355
Total assets	86,301	112,935	134,573	169,274	201,156	235,686
Interest bearing debt	5,967	10,779	10,463	10,463	10,463	10,463
Other liabilities	14,100	26,257	28,128	38,032	44,258	50,276
Total liabilities	20,067	37,036	38,590	48,495	54,721	60,738
Shareholders' equity	63,926	72,894	91,452	113,896	136,832	162,246
Minorities	2,308	3,004	4,568	6,883	9,603	12,702
Total shareholders' equity	66,234	75,899	96,020	120,779	146,435	174,947
Net debt	-30,833	-56,076	-77,406	-94,933	-119,642	-146,306

Key Company Metrics

Sales growth (%)	1.5	10.8	54.0	35.9	16.7	13.3
DB EPS growth (%)	1.0	7.8	62.0	33.9	17.5	13.9
EBITDA Margin (%)	76.1	74.2	74.9	75.1	75.4	75.3
EBIT Margin (%)	73.2	71.3	72.6	73.3	73.7	73.7
Payout ratio (%)	50.0	51.0	51.0	54.3	54.3	54.3
ROE (%)	26.4	24.4	33.0	35.3	34.0	32.5
Capex/sales (%)	7.1	3.2	2.3	4.1	3.0	3.0
Capex/depreciation (x)	2.4	1.1	1.0	2.2	1.8	1.8
Net debt/equity (%)	-46.6	-73.9	-80.6	-78.6	-81.7	-83.6
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Kweichow Moutai	600519.SS	754.55 (CNY) 16 Jul 2018	NA

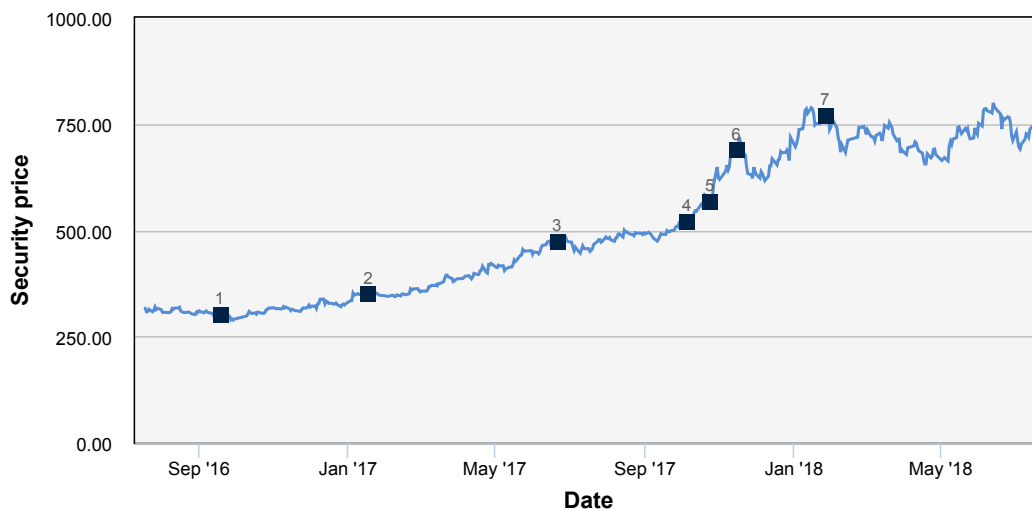
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## Historical recommendations and target price. Kweichow Moutai (600519.SS)

(as of 07/16/2018)



### 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

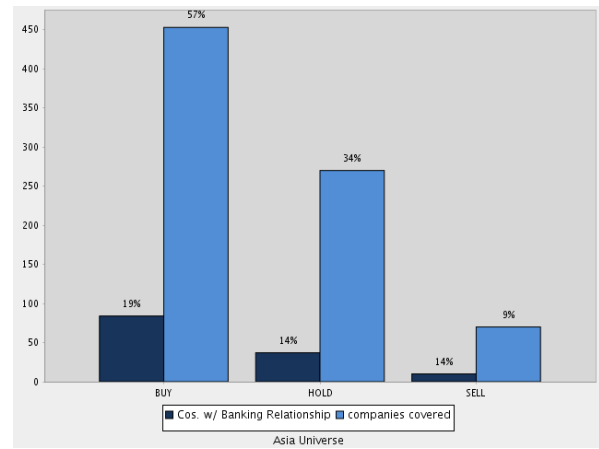
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

**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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