



Rating  
**Buy**

Asia  
China

Consumer  
Alcohol & Tobacco

Company  
**Wuliangye Yibin**

Reuters 000858.SZ    Bloomberg 000858 CH    Exchange SHZ    Ticker 000858

Date  
13 August 2018

## Results

Price at 10 Aug 2018 (CNY)	66.05
Price target - 12mth (CNY)	92.00
52-week range (CNY)	91.75 - 51.85
Shenzhen Index	1,585

## 2Q18 results in line

### Sales and profit before tax up 34% and 37% respectively in 2Q18

Wuliangye reported preliminary results with profit before tax increasing 37% yoy to RMB2.8bn on sales up 34% yoy to RMB7.3bn in 2Q18 (vs. 37% for sales and 39% for PBT in 1Q18). The result is in line with market consensus and our expectation. We estimate the sales growth was driven by 25%-30% volume growth and 4%-7% ASP increase due to limited contribution from ex-quota price.

### Near-term growth might slow down; maintaining buy on long-term outlook

According to our channel check, Wuliangye's tier 1 distributors' selling price slightly picked up by about RMB10/bottle since it started to control its ex-factory volume from late June. To support its retail price, we expect Wuliangye to continue controlling its supply by reducing ex-quota volume. This will drag down its sales growth in near term, but benefit its long term healthy growth. We are still positive on the company's long term growth potential based on its expanding channel penetration and improving operating efficiency, maintaining buy.

Our TP is based on DCF model (factoring in 9.5% WACC and 2.0% terminal growth rate). Downside risks: channel de-stocking in high-end liquor sector; worse than expected retail price decline; worse than expected macro FAI slow down.

### 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	20.2	15.6	12.4
EV/EBITDA (x)	9.2	12.5	12.1	8.9	6.7
DPS (net) (CNY)	0.90	1.33	1.74	2.23	2.81
Yield (net) (%)	2.9	2.5	2.6	3.4	4.2

Source: Deutsche Bank estimates, company data

### Valuation & Risks

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### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-10.0	-15.3	14.7
Shenzhen Index	-4.4	-17.8	-19.1

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	21.7
Net debt/equity (%)	-76.3
Book value/share (CNY)	16.07
Price/book (x)	4.1
Net interest cover (x)	-
Operating profit margin (%)	47.5

Source: Deutsche Bank

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Model updated: 02 May 2018

### Running the numbers

Asia

China

Alcohol & Tobacco

### Wuliangye Yibin

Reuters: 000858.SZ Bloomberg: 000858 CH

### Buy

Price (10 Aug 18) CNY 66.05

Target Price CNY 92.00

52 Week range CNY 51.85 - 91.75

Market cap (m) CNYm 250,724  
USDm 36,573

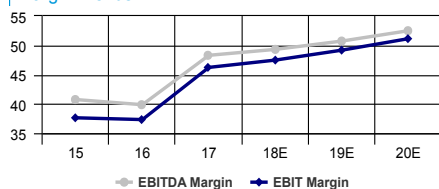
### Company Profile

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

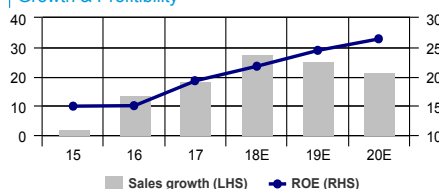
### Price Performance



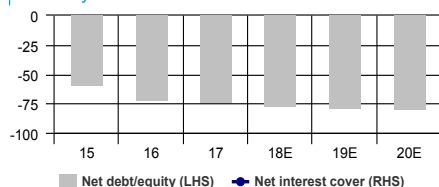
### Margin Trends



### Growth & Profitability



### Solvency



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Fiscal year end 31-Dec

### Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	1.63	1.79	2.55	3.27	4.24	5.33
Reported EPS (CNY)	1.63	1.79	2.55	3.27	4.24	5.33
DPS (CNY)	0.80	0.90	1.33	1.74	2.23	2.81
BVPS (CNY)	11.4	12.4	14.1	16.1	18.6	21.7
Weighted average shares (m)	3,796	3,796	3,796	3,796	3,796	3,796
Average market cap (CNYm)	95,934	117,781	201,230	250,724	250,724	250,724
Enterprise value (CNYm)	69,610	83,115	160,638	202,781	193,209	182,274

### Valuation Metrics

	2015	2016	2017	2018E	2019E	2020E
P/E (DB) (x)	15.5	17.4	20.8	20.2	15.6	12.4
P/E (Reported) (x)	15.5	17.4	20.8	20.2	15.6	12.4
P/BV (x)	2.39	2.78	5.69	4.11	3.55	3.04
FCF Yield (%)	6.6	9.7	4.8	4.9	6.5	7.7
Dividend Yield (%)	3.2	2.9	2.5	2.6	3.4	4.2
EV/Sales (x)	3.5	3.7	6.0	6.0	4.5	3.5
EV/EBITDA (x)	8.6	9.2	12.5	12.1	8.9	6.7
EV/EBIT (x)	9.3	9.9	13.0	12.5	9.2	6.9

### Income Statement (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Sales revenue	19,875	22,603	26,692	34,044	42,675	51,786
Gross profit	13,203	15,288	18,242	23,562	30,126	37,105
EBITDA	8,099	9,011	12,892	16,788	21,649	27,187
Depreciation	619	573	550	623	662	704
Amortisation	0	0	0	0	0	0
EBIT	7,480	8,438	12,342	16,166	20,987	26,483
Net interest income/(expense)	732	766	891	886	1,048	1,259
Associates/affiliates	34	33	68	68	68	68
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	41	100	91	91	91	91
Profit before tax	8,287	9,337	13,392	17,211	22,194	27,901
Income tax expense	1,877	2,281	3,306	4,282	5,480	6,880
Minorities	234	272	412	501	625	784
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,176	6,785	9,674	12,427	16,089	20,236
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	6,176	6,785	9,674	12,427	16,089	20,236

### Cash Flow (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Cash flow from operations	6,691	11,697	9,766	12,904	16,812	20,153
Net Capex	-394	-302	-201	-507	-618	-735
Free cash flow	6,297	11,395	9,565	12,398	16,194	19,418
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-2,457	-3,212	-3,618	-5,046	-6,622	-8,483
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	102	159	-22	0	0	0
Net cash flow	3,942	8,341	5,926	7,352	9,572	10,935
Change in working capital	-192	4,070	-742	-847	-670	-1,685

### Balance Sheet (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Cash and other liquid assets	26,324	34,666	40,592	47,943	57,515	68,450
Tangible fixed assets	5,902	5,724	5,565	5,448	5,405	5,440
Goodwill/intangible assets	413	404	401	395	387	376
Associates/investments	903	796	864	932	1,000	1,069
Other assets	19,004	20,584	23,501	29,226	34,538	41,067
Total assets	52,547	62,174	70,923	83,944	98,846	116,402
Interest bearing debt	0	0	0	0	0	0
Other liabilities	8,201	13,969	16,248	21,119	25,755	30,592
Total liabilities	8,201	13,969	16,248	21,119	25,755	30,592
Shareholders' equity	43,329	47,077	53,334	60,983	70,624	82,558
Minorities	1,016	1,129	1,340	1,842	2,467	3,251
Total shareholders' equity	44,345	48,206	54,674	62,825	73,091	85,809
Net debt	-26,324	-34,666	-40,592	-47,943	-57,515	-68,450

### Key Company Metrics

	2015	2016	2017	2018E	2019E	2020E
Sales growth (%)	2.0	13.7	18.1	27.5	25.4	21.3
DB EPS growth (%)	5.8	9.9	42.6	28.5	29.5	25.8
EBITDA Margin (%)	40.7	39.9	48.3	49.3	50.7	52.5
EBIT Margin (%)	37.6	37.3	46.2	47.5	49.2	51.1
Payout ratio (%)	49.2	50.4	52.2	53.3	52.7	52.6
ROE (%)	14.9	15.0	19.3	21.7	24.5	26.4
Capex/sales (%)	2.0	1.4	0.8	1.5	1.4	1.4
Capex/depreciation (x)	0.6	0.5	0.4	0.8	0.9	1.0
Net debt/equity (%)	-59.4	-71.9	-74.2	-76.3	-78.7	-79.8
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
Wuliangye Yibin	000858.SZ	66.05 (CNY) 10 Aug 2018	NA

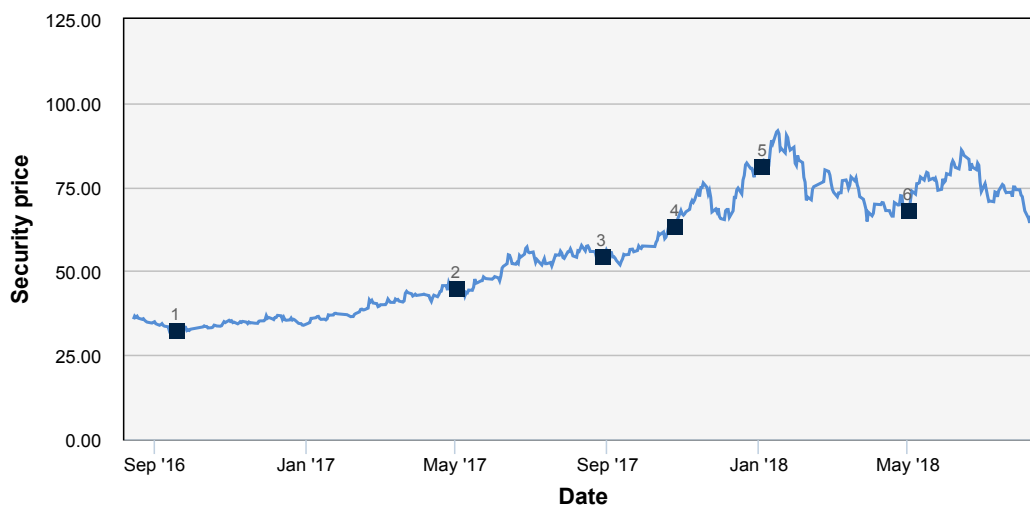
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## Historical recommendations and target price. Wuliangye Yibin (000858.SZ)

(as of 08/10/2018)



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



### Equity Rating Key

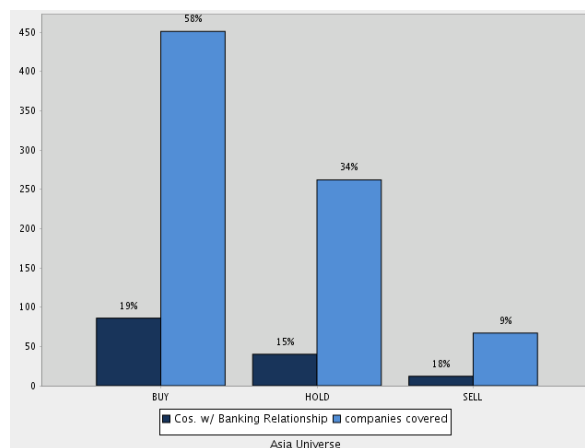
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

**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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