



Rating
Buy

Asia
China

Consumer
Alcohol & Tobacco

Company
Wuliangye Yibin

Reuters 000858.SZ Bloomberg 000858 CH Exchange SHZ Ticker 000858

Date
28 August 2018

Results

| | |
|----------------------------|---------------|
| Price at 27 Aug 2018 (CNY) | 65.31 |
| Price target - 12mth (CNY) | 92.00 |
| 52-week range (CNY) | 91.75 - 51.85 |
| Shenzhen Index | 1,527 |

1H18 - strong earnings, but weak cash flow

Strong volume growth and margin expansion in 1H18

Wuliangye reported 1H18 results with 37% sales growth and 43% earnings growth, slightly better than its preliminary result announced on Aug 13 (34%/37% for sales/PBT). We estimate the sales growth was driven by 27% growth from mainstream Wuliangye (7% ASP and 20% volume) and 10% growth from mid-range Wuliangye (mainly volume). Net margin expanded 140bps yoy to 33.2%, helped mainly by lower SG&A/sales ratio with strong expense control, lower rebate and operating leverage, while partly offset by higher sales tax ratio.

On quarterly basis, Wuliangye's sales grew by 37% in 1Q18 and 38% in 2Q18, but earnings growth accelerated from 38% in 1Q18 to 55% in 2Q18, mainly due to less impact from higher sales tax ratio (the new sales tax policy was implemented May 1, 2017).

Yet operating cash flow declined significantly

Wuliangye's operating cash flow declined 81% yoy to Rmb597mn in 1H18, and in 2Q18, there's a net cash flow out of Rmb1.8bn. This is mainly due to Rmb3bn increase in tax payment and rising note receivable balance, which increased by Rmb5.8bn in 1H18 (vs. Rmb2bn increase in 1H17). Due to low channel margin, Wuliangye accepted increasing amount of bank notes from distributors. We think this implies that retail end demand might not be as strong as Wuliangye's ex-factory sales.

Growth might slow from 2H18

We think Wuliangye's growth might be peaking in 2Q18 due to three reasons. First, super premium liquor is more correlated with macro environment due to its discretionary nature; slowing fixed asset investment might result in lower demand. Second, Wuliangye benefitted from Moutai's out-of-stock situation in 2017, yet Moutai's increasing supply and potential channel de-stocking might result in increasing competition. Third, distributors' procurement interest could be pressured by low channel margins. The weak operating cash flow in 1H18 could be a signal of slowing sales growth.

Maintaining Buy

We revising up our earnings forecast in 2018-20E by 6%-8% to factor in the higher sales growth in 1H18 and margin expansion in near term. While we see potential sales slowdown in near-term, we maintain our Buy rating for its long-term growth. We expect management's new channel strategy and brand building measures to

Valuation & Risks

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Key changes

| | | | |
|----------------------|----------------------|---|------|
| Sales (FYE) | 34,044 to 34,918 | ↑ | 2.6% |
| Op prof margin (FYE) | 47.5 to 49.8 | ↑ | 5.0% |
| Net profit (FYE) | 12,426.7 to 13,400.1 | ↑ | 7.8% |

Source: Deutsche Bank

Price/price relative



| | | | |
|-----------------|-------|-------|-------|
| Performance (%) | 1m | 3m | 12m |
| Absolute | -12.0 | -12.1 | 20.7 |
| Shenzhen Index | -8.7 | -19.4 | -23.6 |

Source: Deutsche Bank

Key indicators (FY1)

| | |
|-----------------------------|-------|
| ROE (%) | 23.3 |
| Net debt/equity (%) | -76.3 |
| Book value/share (CNY) | 16.25 |
| Price/book (x) | 4.0 |
| Net interest cover (x) | - |
| Operating profit margin (%) | 49.8 |

Source: Deutsche Bank

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drive long-term growth. Current valuation at 14.3x 2019E P/E also implies limited downside, compared with its peers' average at 17x.

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Model updated: 27 August 2018

Running the numbers

Asia
China
Alcohol & Tobacco

Wuliangye Yibin

Reuters: 000858.SZ Bloomberg: 000858 CH

Buy

Price (27 Aug 18) CNY 65.31

Target Price CNY 92.00

52 Week range CNY 51.85 - 91.75

Market cap (m) CNYm 247,915
USDm 36,016

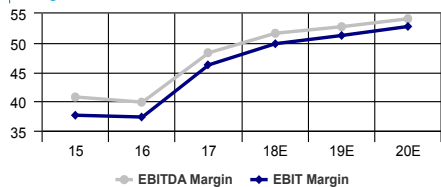
Company Profile

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

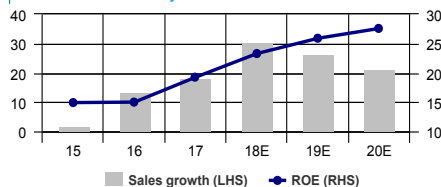
Price Performance



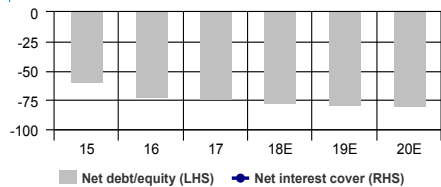
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec 2015 2016 2017 2018E 2019E 2020E

Financial Summary

| | | | | | | |
|-----------------------------|--------|---------|---------|---------|---------|---------|
| DB EPS (CNY) | 1.63 | 1.79 | 2.55 | 3.53 | 4.56 | 5.69 |
| Reported EPS (CNY) | 1.63 | 1.79 | 2.55 | 3.53 | 4.56 | 5.69 |
| DPS (CNY) | 0.80 | 0.90 | 1.33 | 1.84 | 2.38 | 2.97 |
| BVPS (CNY) | 11.4 | 12.4 | 14.1 | 16.3 | 19.0 | 22.3 |
| 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 | 247,915 | 247,915 | 247,915 |
| Enterprise value (CNYm) | 69,610 | 83,115 | 160,638 | 199,441 | 189,188 | 177,648 |

Valuation Metrics

| | | | | | | |
|--------------------|------|------|------|------|------|------|
| P/E (DB) (x) | 15.5 | 17.4 | 20.8 | 18.5 | 14.3 | 11.5 |
| P/E (Reported) (x) | 15.5 | 17.4 | 20.8 | 18.5 | 14.3 | 11.5 |
| P/BV (x) | 2.39 | 2.78 | 5.69 | 4.02 | 3.44 | 2.93 |
| FCF Yield (%) | 6.6 | 9.7 | 4.8 | 5.2 | 7.0 | 8.3 |
| Dividend Yield (%) | 3.2 | 2.9 | 2.5 | 2.8 | 3.6 | 4.5 |
| EV/Sales (x) | 3.5 | 3.7 | 6.0 | 5.7 | 4.3 | 3.3 |
| EV/EBITDA (x) | 8.6 | 9.2 | 12.5 | 11.1 | 8.1 | 6.1 |
| EV/EBIT (x) | 9.3 | 9.9 | 13.0 | 11.5 | 8.4 | 6.3 |

Income Statement (CNYm)

| | | | | | | |
|-------------------------------------|--------|--------|--------|--------|--------|--------|
| Sales revenue | 19,875 | 22,603 | 26,692 | 34,918 | 44,112 | 53,545 |
| Gross profit | 13,203 | 15,288 | 18,242 | 24,188 | 31,525 | 38,821 |
| EBITDA | 8,099 | 9,011 | 12,892 | 18,027 | 23,270 | 28,971 |
| Depreciation | 619 | 573 | 550 | 623 | 662 | 704 |
| Amortisation | 0 | 0 | 0 | 0 | 0 | 0 |
| EBIT | 7,480 | 8,438 | 12,342 | 17,405 | 22,608 | 28,267 |
| Net interest income(expense) | 732 | 766 | 891 | 886 | 1,059 | 1,286 |
| Associates/affiliates | 34 | 33 | 68 | 68 | 68 | 68 |
| Exceptionals/extraordinary | 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 | 18,450 | 23,827 | 29,712 |
| Income tax expense | 1,877 | 2,281 | 3,306 | 4,520 | 5,838 | 7,279 |
| Minorities | 234 | 272 | 412 | 529 | 666 | 830 |
| Other post-tax income/(expense) | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | 6,176 | 6,785 | 9,674 | 13,400 | 17,324 | 21,602 |
| DB adjustments (including dilution) | 0 | 0 | 0 | 0 | 0 | 0 |
| DB Net profit | 6,176 | 6,785 | 9,674 | 13,400 | 17,324 | 21,602 |

Cash Flow (CNYm)

| | | | | | | |
|--------------------------------------|--------|--------|--------|--------|--------|--------|
| Cash flow from operations | 6,691 | 11,697 | 9,766 | 13,445 | 17,879 | 21,333 |
| Net Capex | -394 | -302 | -201 | -517 | -635 | -757 |
| Free cash flow | 6,297 | 11,395 | 9,565 | 12,928 | 17,243 | 20,577 |
| Equity raised/(bought back) | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | -2,457 | -3,212 | -3,618 | -5,046 | -6,990 | -9,036 |
| 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 | 7,882 | 10,254 | 11,540 |
| Change in working capital | -192 | 4,070 | -742 | -1,039 | -704 | -1,735 |

Balance Sheet (CNYm)

| | | | | | | |
|------------------------------|---------|---------|---------|---------|---------|---------|
| Cash and other liquid assets | 26,324 | 34,666 | 40,592 | 48,473 | 58,727 | 70,267 |
| Tangible fixed assets | 5,902 | 5,724 | 5,565 | 5,459 | 5,434 | 5,490 |
| 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 | 29,930 | 35,200 | 41,872 |
| Total assets | 52,547 | 62,174 | 70,923 | 85,189 | 100,748 | 119,074 |
| Interest bearing debt | 0 | 0 | 0 | 0 | 0 | 0 |
| Other liabilities | 8,201 | 13,969 | 16,248 | 21,632 | 26,191 | 31,121 |
| Total liabilities | 8,201 | 13,969 | 16,248 | 21,632 | 26,191 | 31,121 |
| Shareholders' equity | 43,329 | 47,077 | 53,334 | 61,688 | 72,022 | 84,588 |
| Minorities | 1,016 | 1,129 | 1,340 | 1,870 | 2,535 | 3,365 |
| Total shareholders' equity | 44,345 | 48,206 | 54,674 | 63,558 | 74,557 | 87,953 |
| Net debt | -26,324 | -34,666 | -40,592 | -48,473 | -58,727 | -70,267 |

Key Company Metrics

| | | | | | | |
|------------------------|-------|-------|-------|-------|-------|-------|
| Sales growth (%) | 2.0 | 13.7 | 18.1 | 30.8 | 26.3 | 21.4 |
| DB EPS growth (%) | 5.8 | 9.9 | 42.6 | 38.5 | 29.3 | 24.7 |
| EBITDA Margin (%) | 40.7 | 39.9 | 48.3 | 51.6 | 52.8 | 54.1 |
| EBIT Margin (%) | 37.6 | 37.3 | 46.2 | 49.8 | 51.3 | 52.8 |
| Payout ratio (%) | 49.2 | 50.4 | 52.2 | 52.2 | 52.2 | 52.2 |
| ROE (%) | 14.9 | 15.0 | 19.3 | 23.3 | 25.9 | 27.6 |
| 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 | 1.0 | 1.1 |
| Net debt/equity (%) | -59.4 | -71.9 | -74.2 | -76.3 | -78.8 | -79.9 |
| Net interest cover (x) | nm | nm | nm | nm | nm | nm |

Source: Company data, Deutsche Bank estimates

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

| Company | Ticker | Recent price* | Disclosure |
|-----------------|-----------|-------------------------|------------|
| Wuliangye Yibin | 000858.SZ | 65.31 (CNY) 27 Aug 2018 | NA |

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

(as of 08/27/2018)



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 |

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Equity Rating Key

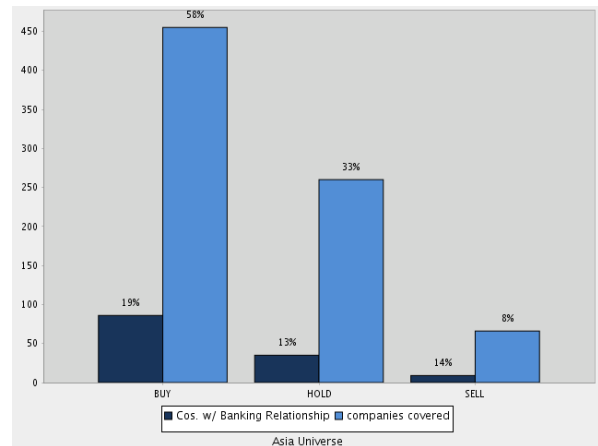
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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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