



Rating
Buy

Asia
China

Consumer
Food & Beverage

Company
Yanghe

Reuters 002304.SZ Bloomberg 002304 CH Exchange SHZ Ticker 002304

Date
26 October 2018

Company Update

Price at 25 Oct 2018 (CNY)	101.20
Price target - 12mth (CNY)	150.00
52-week range (CNY)	146.83 - 98.71
HANG SENG INDEX	24,994

3Q18 result - solid growth; though not as strong as expected

9M18 sales growth on tracks

Yanghe reported 3Q18 results with 20% yoy sales growth to Rmb6.4bn and 22% earnings growth to Rmb2.0bn. We think 3Q sales growth is at the low end of market expectations (likely 20-25%). In the first nine months, its sales and net profit increased 24% and 26% YoY respectively, largely in line with market consensus' full year forecast at 23%/27%. Specifically:

- Gross margin declined 410bps yoy to 57% in 3Q18 due to higher consumption tax after the policy change on 1 Sep 2017. To recap, liquor companies have needed to pay the consumption tax for consigned processing liquor based on the final sales price since 1 Sep 2017 instead of withholding and paid by the processors.
- SG&A/sales ratio was down 2ppt to 19.5% in 3Q18, helped by 2.4ppt saving on G&A expenses on improving operating leverage and likely stronger cost control.
- EBIT margin was stable at 42%. The recurring earnings (excluding non-operations) increased 17% yoy in 3Q18.

Resilient growth should continue; maintaining Buy

Yanghe's sales growth slowed down from 26% in 1H18 to 20% in 3Q18, mainly due to weaker macro demand, volume impact from a price hike in July 1, and a higher base. Helped by increasing penetration into a new Jiangsu region, product mix upgrade to "Dream Blue" series, and deeper penetration in Jiangsu, Yanghe should be able to maintain a healthy growth at 20% in 2019 in our view. We still believe Yanghe is one of the most defensive stocks among the liquor sector. We maintain Buy.

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-17.0	-24.6	-11.1
HANG SENG INDEX	-9.1	-13.6	-11.7

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	26.6
Net debt/equity (%)	-18.8
Book value/share (CNY)	22.66
Price/book (x)	4.5
Net interest cover (x)	-
Operating profit margin (%)	49.9

Source: Deutsche Bank

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Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	16,873.5	18,766.1	21,300.4	25,422.9	29,802.4
EBITDA (CNYm)	7,896.5	8,832.3	11,403.3	13,805.7	16,446.4
Reported NPAT (CNYm)	5,827.2	6,627.2	8,476.6	10,321.7	12,347.4
Reported EPS FD (CNY)	3.87	4.40	5.62	6.85	8.19
DB EPS FD (CNY)	3.87	4.40	5.62	6.85	8.19
DB EPS growth (%)	8.6	13.7	27.9	21.8	19.6
PER (x)	16.6	20.2	18.0	14.8	12.4
EV/EBITDA (x)	12.0	15.0	12.8	10.1	8.1
DPS (net) (CNY)	2.10	2.55	3.09	3.77	4.51
Yield (net) (%)	3.3	2.9	3.1	3.7	4.5

Source: Deutsche Bank estimates, company data

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Model updated: 25 October 2018

Running the numbers

Asia

China

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Yanghe

Reuters: 002304.SZ Bloomberg: 002304 CH

Buy

Price (25 Oct 18) CNY 101.2

Target Price CNY 150.0

52 Week range CNY 98.71 - 146.83

Market cap (m) CNYm 152,508
USDm 21,949

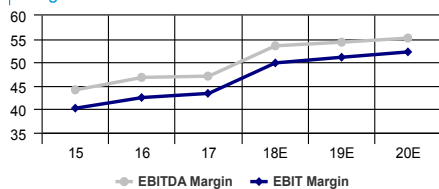
Company Profile

Yanghe Brewery is a national large-scale liquor production enterprise in China with two major liquor brands Yanghe and Shuanggou. Its major products are a series of mellow liquor including Dream Blue, Yanghe Blue Classic, Shuanggou Zhenbaofang, Yanghe Daqu and Shuanggou Daqu.

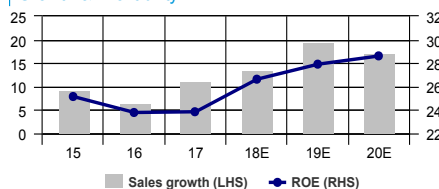
Price Performance



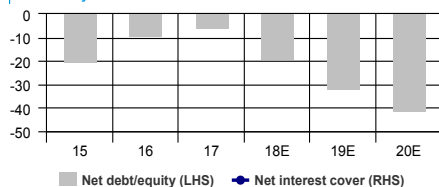
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	3.56	3.87	4.40	5.62	6.85	8.19
Reported EPS (CNY)	3.56	3.87	4.40	5.62	6.85	8.19
DPS (CNY)	1.80	2.10	2.55	3.09	3.77	4.51
BVPS (CNY)	15.2	17.3	19.6	22.7	26.4	30.8
Weighted average shares (m)	1,507	1,507	1,507	1,507	1,507	1,507
Average market cap (CNYm)	87,438	96,873	133,862	152,508	152,508	152,508
Enterprise value (CNYm)	82,730	94,416	132,111	146,089	140,029	133,331

Valuation Metrics

	2015	2016	2017	2018E	2019E	2020E
P/E (DB) (x)	16.3	16.6	20.2	18.0	14.8	12.4
P/E (Reported) (x)	16.3	16.6	20.2	18.0	14.8	12.4
P/BV (x)	4.21	3.91	5.77	4.47	3.83	3.28
FCF Yield (%)	5.9	7.1	4.9	5.8	7.0	8.1
Dividend Yield (%)	3.1	3.3	2.9	3.1	3.7	4.5
EV/Sales (x)	5.2	5.6	7.0	6.9	5.5	4.5
EV/EBITDA (x)	11.8	12.0	15.0	12.8	10.1	8.1
EV/EBIT (x)	13.0	13.2	16.2	13.7	10.8	8.6

Income Statement (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Sales revenue	15,823	16,874	18,766	21,300	25,423	29,802
Gross profit	9,708	10,671	12,085	15,207	18,366	21,776
EBITDA	6,985	7,896	8,832	11,403	13,806	16,446
Depreciation	619	725	690	777	816	879
Amortisation	0	0	0	0	0	0
EBIT	6,366	7,171	8,142	10,626	12,990	15,567
Net interest income/(expense)	196	9	34	32	125	246
Associates/affiliates	0	-4	-1	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	603	585	673	685	696	709
Profit before tax	7,165	7,761	8,848	11,343	13,812	16,522
Income tax expense	1,800	1,956	2,229	2,858	3,480	4,163
Minorities	0	-22	-8	8	10	12
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	5,365	5,827	6,627	8,477	10,322	12,347
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	5,365	5,827	6,627	8,477	10,322	12,347

Cash Flow (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Cash flow from operations	5,836	7,405	6,883	9,752	11,847	13,484
Net Capex	-720	-480	-325	-848	-1,131	-1,117
Free cash flow	5,117	6,925	6,558	8,904	10,716	12,367
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-2,153	-2,714	-3,169	-3,843	-4,662	-5,677
Net inc/(dec) in borrowings	0	-84	0	0	0	0
Other investing/financing cash flows	-2,603	-6,379	-4,095	-393	7	8
Net cash flow	361	-2,251	-707	4,668	6,060	6,698
Change in working capital	409	1,352	236	480	689	235

Balance Sheet (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Cash and other liquid assets	4,708	2,457	1,751	6,419	12,480	19,178
Tangible fixed assets	8,495	8,515	8,484	8,518	8,810	9,045
Goodwill/intangible assets	1,948	1,911	1,930	1,960	1,976	1,971
Associates/investments	1,205	1,479	3,462	3,862	3,862	3,862
Other assets	17,505	24,443	27,631	31,417	31,545	35,863
Total assets	33,860	38,804	43,258	52,176	58,673	69,919
Interest bearing debt	0	0	0	0	0	0
Other liabilities	10,919	12,767	13,763	18,039	18,866	23,429
Total liabilities	10,919	12,767	13,763	18,039	18,866	23,429
Shareholders' equity	22,937	26,037	29,515	34,149	39,808	46,479
Minorities	4	-16	-20	-12	-1	11
Total shareholders' equity	22,941	26,037	29,495	34,137	39,807	46,490
Net debt	-4,708	-2,456	-1,751	-6,419	-12,480	-19,178

Key Company Metrics

	2015	2016	2017	2018E	2019E	2020E
Sales growth (%)	9.3	6.6	11.2	13.5	19.4	17.2
DB EPS growth (%)	19.2	8.6	13.7	27.9	21.8	19.6
EBITDA Margin (%)	44.1	46.8	47.1	53.5	54.3	55.2
EBIT Margin (%)	40.2	42.5	43.4	49.9	51.1	52.2
Payout ratio (%)	50.6	54.3	58.0	55.0	55.0	55.0
ROE (%)	25.2	23.8	23.9	26.6	27.9	28.6
Capex/sales (%)	4.5	2.8	1.7	4.0	4.4	3.7
Capex/depreciation (x)	1.2	0.7	0.5	1.1	1.4	1.3
Net debt/equity (%)	-20.5	-9.4	-5.9	-18.8	-31.4	-41.3
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
Yanghe	002304.SZ	101.20 (CNY) 25 Oct 2018	NA

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Historical recommendations and target price. Yanghe (002304.SZ)

(as of 10/25/2018)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1. 09/13/2018 Buy, Target Price Change CNY 150.00 Mark Yuan

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Equity Rating Key

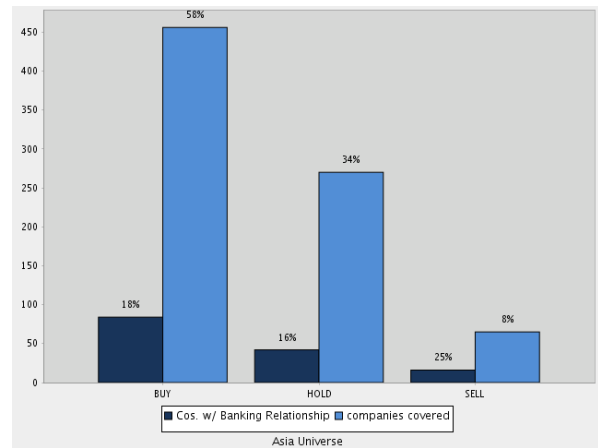
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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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