

China
ADD (no change)

Consensus ratings*: Buy 33 Hold 5 Sell 2

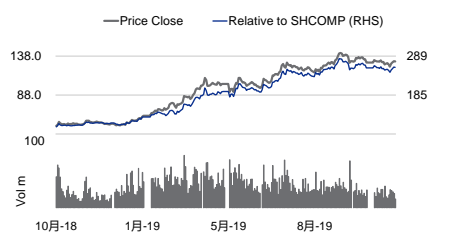
Current price:	Rmb132.1
Target price:	Rmb165.0 ▲
Previous target:	Rmb164.0
Up/downside:	24.9%
CGI / Consensus:	7.1%

Reuters:	000858.SZ
Bloomberg:	000858 CH
Market cap:	US\$72,648m
	Rmb512,683m
Average daily turnover:	US\$464.9m
	Rmb3,312m
Current shares o/s:	3,882m
Free float:	36.1%

*Source: Bloomberg

Key changes in this note

- FY19F EPS increased by 1.7%.
- FY20F EPS increased by 1.7%.
- FY21F EPS increased by 1.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.8	9.4	174.3
Relative (%)	1	9.5	161.8

Major shareholders

Yibin State-owned Asset Operation Co. Ltd	% held
	35.2

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Wuliangye Yibin

Strong execution ability to drive long-term growth

- 3Q19 sales grew 27% yoy, with net profit up 35% yoy, both stronger than we expected, driven mainly by ASP and volume growth from new Wuliangye launches.
- Wuliangye has proven to the market that its brand image and distribution network have consistently improved this year.
- We forecast that Wuliangye will continue to deliver 18% yoy sales growth in FY20F.
- Maintain Add with new DCF-based TP of Rmb165.

Successful launch of new Wuliangye led to strong 3Q19 results

Wuliangye achieved 27% yoy sales growth to Rmb37bn in 9M19 and its net profit was up by 31% yoy to Rmb12bn. Of which, 3Q19 sales grew by 27% yoy to Rmb10bn with net profit up by 35% yoy to Rmb3.2bn, both stronger than market and our estimates. We believe the strong growth was mainly due to successful launch of 8th generation Wuliangye in June 2019 which drove up both ASP and volume growth in 3Q19. We estimate that 20,300t of the high-end Wuliangye brand were sold 20,300t in 9M19, and c.5,000t of the new generation Wuliangye sold in 3Q19, 78% of our estimate for FY19F. As at the end of 3Q19, advance payments from customers had risen 140% yoy and 35% qoq to Rmb 5.9bn, reflecting strong advance stocking demand from distributors to prepare for Chinese New Year. The first-tier wholesaler price of 52° Wuliangye currently remains at Rmb930–940 per bottle, higher than Rmb840-850 per bottle in the beginning of 2019.

Margin improvement through product structure premiumization

The 3Q19 GPM was up by 2.7%pts to 60.4%, mainly because of product structure premiumization. We expect the GPM to improve by 1.5%pts yoy in FY19F. As Wuliangye launched a large marketing campaign for new Wuliangye products in 3Q19, the S&D expenses ratio increased by 2.2%pts, but was partially offset by good control of G&A expenses. Its 3Q19 net profit margin improved by 1.8%pts to 32.2%. We forecast that FY19F net profit will grow by 30% yoy to Rmb17.4bn with net profit margin expansion of 1.4%pts to 34.8%.

Sales growth expected to remain strong in FY20F

Since 2019, Wuliangye has made clear marketing strategy to strengthen Wuliangye brand image and concentrate on its high-end Wuliangye brand, particular on its star product -52° Wuliangye. On the other hand, Wuliangye has been outspoken to stabilize their distribution network and protect its distributors with a reasonable channel profit margin to reinforce distributors' confidence in the Wuliangye brand and the company. Driven by a continuous product mix upgrade and channel reform, we expect Wuliangye will achieve 17.8% and 16.5% yoy sales growth in FY20F and FY21F, respectively.

Maintain Add with a higher DCF-based TP of Rmb165

We revised up FY19F–21F EPS by 1.1%–1.7%, reflecting Wuliangye's stronger-than-expected sales growth and successful product structure premiumization. We maintain our ADD rating for Wuliangye, as the current management team has a clear strategy to further improve the Wuliangye brand image and strong execution ability in reforming its distribution network. Downside risks include 1) a significant fall in Moutai's average retail price, capping Wuliangye's price increase potential; and 2) a macroeconomic slowdown, which would have a heavy negative impact on super-premium baijiu consumption. Positive catalysts include 1) stronger-than-expected volume growth, and 2) better expense ratio control.

Financial Summary

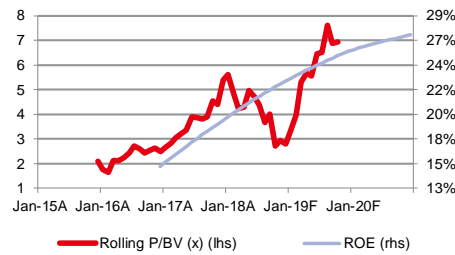
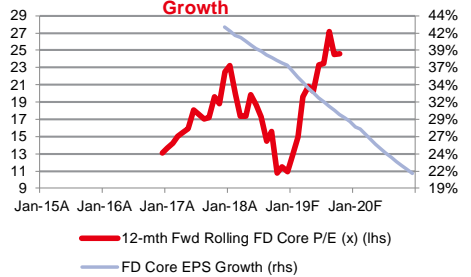
	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (Rmbm)	30,187	40,030	50,073	58,987	68,722
Operating EBITDA (Rmbm)	12,979	18,144	23,615	28,761	34,428
Net Profit (Rmbm)	9,674	13,384	17,432	21,129	25,200
Core EPS (Rmb)	2.55	3.45	4.49	5.45	6.50
Core EPS Growth	42.4%	35.3%	30.1%	21.2%	19.3%
FD Core P/E (x)	51.75	37.83	29.39	24.25	20.33
DPS (Rmb)	1.33	1.70	2.21	2.68	3.20
Dividend Yield	1.01%	1.29%	1.68%	2.03%	2.42%
EV/EBITDA (x)	35.61	25.65	19.50	15.73	12.85
P/FCFE (x)	52.42	42.30	36.00	26.17	21.69
Net Gearing	(74.2%)	(75.2%)	(73.0%)	(73.7%)	(74.6%)
P/BV (x)	9.40	8.08	7.09	6.17	5.35
ROE	19.3%	22.9%	25.7%	27.2%	28.2%
% Change In Core EPS Estimates				1.00	0.98
CGI/consensus EPS (x)					0.98

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 4: Peer comparison

Company Name	Bloomberg Ticker	Recom	Target price	Last price	Quoted currency	Market cap (US\$, m)	P/E (x)		P/BV (x)		EV/EBITDA (x)		ROE (%)		Dividend Yield (%)	
			Local	Local			2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Kweichow Moutai Co Ltd-A	600519 CH	ADD	1328	1180.0	Rmb	210,770	34.4	29.0	10.8	8.9	21.7	18.3	34.5	33.7	1.5	1.8
Jiangsu Yanghe Brewery -A	002304 CH	HOLD	108	100.8	Rmb	21,597	19.1	17.4	4.1	3.7	11.5	10.6	23.6	23.4	3.3	3.6
Wuliangye Yibin Co Ltd-A	000858 CH	ADD	165	132.1	Rmb	72,898	29.4	24.3	7.1	6.2	19.5	15.7	25.7	27.2	1.7	2.0
Luzhou Laojiao Co Ltd-A	000568 CH	ADD	122	87.2	Rmb	18,161	26.7	21.6	6.9	6.2	19.7	15.7	26.5	29.6	2.4	3.0
Chongqing Brewery Co-A	000568 CH	NR	NA	43.3	Rmb	2,980	38.9	37.4	16.1	14.9	26.6	24.0	43.9	42.7	2.0	2.1
Anhui Gujing Distillery Co-A	000596 CH	NR	NA	110.4	Rmb	6,937	25.3	20.3	5.6	4.5	14.9	12.1	23.5	24.0	1.2	1.6
Shanxi Xinghuacun Fen Wine-A	600809 CH	NR	NA	89.0	Rmb	11,029	39.9	32.0	9.8	8.1	25.1	20.7	25.7	26.0	1.1	1.4
Jiugui Liquor Co Ltd-A	000799 CH	NR	NA	33.1	Rmb	1,529	36.9	27.7	4.4	3.9	25.4	20.1	11.7	13.7	0.8	0.9
Beijing Shunxin Agricult-A	000860 CH	NR	NA	45.5	Rmb	4,799	28.6	21.8	4.1	3.6	19.1	15.7	12.8	14.8	1.1	1.5
Xinjiang Yilite Industry-A	600197 CH	NR	NA	15.6	Rmb	976	13.7	11.9	NA	NA	10.7	9.3	16.1	16.8	NA	NA
Hebei Hengshui Laobaigan-A	600559 CH	NR	NA	11.4	Rmb	1,454	17.4	13.8	3.1	2.9	12.2	10.7	12.4	13.6	1.5	1.9
Shede Spirits Co Ltd-A	600702 CH	NR	NA	30.4	Rmb	1,456	23.1	17.7	3.6	3.1	17.5	13.9	14.5	16.1	0.6	0.9
Sichuan Swellfun Co Ltd-A	600779 CH	NR	NA	53.2	Rmb	3,694	33.7	26.9	11.6	9.6	23.7	19.0	35.6	37.8	2.2	2.7
Anhui Yingjia Distillery C-A	603198 CH	NR	NA	21.3	Rmb	2,427	20.3	18.9	NA	NA	NA	NA	16.6	15.1	NA	NA
Jiangsu King'S Luck Brewer-A	603369 CH	NR	NA	31.3	Rmb	5,583	28.0	22.6	5.4	4.5	18.6	14.7	20.0	21.1	1.2	1.5
Average in China domestic baiju market							27.7	22.9	7.1	6.2	19.0	15.8	23.1	23.9	1.6	1.9
Budweiser Brewing Co Apac Lt	2319 HK	NR	NA	28.7	HK\$	48,413	50.1	38.5	3.2	3.1	21.9	19.6	9.0	9.7	1.0	1.3
Tsingtao Brewery Co Ltd-H	168 HK	ADD	61.0	45.6	HK\$	8,458	26.0	23.8	2.9	2.7	11.6	10.5	10.9	11.4	1.0	1.1
China Resources Beer Holding	291 HK	ADD	51.0	40.4	HK\$	16,703	38.0	31.0	5.8	5.3	23.4	18.9	16.1	18.0	0.7	1.0
Average in HK market							38.0	31.1	4.0	3.7	19.0	16.3	12.0	13.0	0.9	1.1
Diageo Plc	DGE LN	NR	NA	3212.0	GBP	97,792	25.4	22.1	9.6	8.9	19.4	18.2	33.9	39.0	2.2	2.3
Anheuser-Busch Inbev Sa/Nv	ABI BB	NR	NA	73.2	EUR	165,034	17.2	17.5	2.2	2.1	12.6	12.1	14.0	12.6	2.4	2.4
Ambev Sa	ABEV3 BZ	NR	NA	17.6	BRL	69,278	23.1	20.8	4.6	4.4	12.3	11.4	20.6	22.0	3.4	4.4
Constellation Brands Inc-A	STZ US	NR	NA	191.5	US\$	36,729	21.0	22.4	3.2	3.0	17.1	17.5	20.2	13.3	1.5	1.6
Carlsberg As-B	CARLB DC	NR	NA	974.2	DKK	22,068	23.5	21.3	3.3	3.2	11.7	11.1	13.9	15.0	2.0	2.2
Molson Coors Brewing Co -B	TAP US	NR	NA	53.0	US\$	11,558	12.3	12.3	0.8	0.8	8.9	9.0	6.9	6.7	3.7	4.3
Heineken Nv	HEIA NA	NR	NA	92.3	EUR	59,427	20.8	19.3	3.4	3.1	12.1	11.6	15.9	15.8	1.8	2.0
Asahi Group Holdings Ltd	2502 JP	NR	NA	5430.0	JPY	24,179	16.5	14.3	2.0	1.8	11.1	10.1	12.8	12.8	2.0	2.2
Kirin Holdings Co Ltd	2503 JP	NR	NA	2305.0	JPY	19,399	27.4	14.6	2.2	2.1	12.7	10.2	8.7	14.4	2.8	3.0
Pernod Ricard Sa	RI FP	NR	NA	165.6	EUR	49,110	25.6	23.1	2.8	2.6	18.0	16.5	10.8	11.0	1.7	2.1
United Spirits Ltd	UNSP IN	NR	NA	621.2	INR	6,371	58.4	48.9	14.1	11.3	33.8	30.3	26.9	25.2	0.1	0.3
Brown-Forman Corp-Class B	BF/B US	NR	NA	64.9	US\$	30,458	37.7	35.8	19.1	16.8	27.6	26.5	56.3	49.3	1.0	1.1
Remy Cointreau	RCO FP	NR	NA	119.9	EUR	6,718	36.5	32.2	4.0	4.0	22.5	20.2	11.3	12.6	1.5	1.5
Davide Campari-Milano Spa	CPR IM	NR	NA	8.3	EUR	10,720	34.5	30.5	4.0	3.7	21.3	19.4	12.1	12.3	0.6	0.7
C&C Group Plc	GCC ID	NR	NA	4.1	EUR	1,409	15.9	13.5	2.2	2.0	13.2	11.6	14.9	14.3	3.7	4.2
Bectle Sab De Cv	CUERVO* MM	NR	NA	33.4	MXN	6,385	31.0	26.4	2.4	2.3	20.7	17.8	8.1	9.2	1.5	1.7
Sapporo Holdings Ltd	2501 JP	NR	NA	2727.0	JPY	1,979	24.8	22.0	1.3	1.2	11.4	10.8	5.3	5.9	1.5	1.6
Vina Concha Y Toro Sa	CONCHA CI	NR	NA	1352.2	CLP	1,353	20.1	16.5	1.7	1.6	12.9	11.0	8.7	9.9	1.9	2.3
Treasury Wine Estates Ltd	TWE AU	NR	NA	17.6	AUD	8,753	28.3	23.9	3.4	3.2	17.4	14.8	12.4	14.0	2.2	2.7
Average in International market							26.3	23.0	4.5	4.1	16.7	15.3	16.5	16.6	2.0	2.2

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	30,329	40,243	50,273	59,187	68,922
Gross Profit	18,384	23,847	30,515	36,502	42,837
Operating EBITDA	12,979	18,144	23,615	28,761	34,428
Depreciation And Amortisation	-495	-511	-508	-515	-522
Operating EBIT	12,484	17,633	23,107	28,246	33,906
Financial Income/(Expense)	891	1,085	1,078	1,077	1,077
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	17	-112	50	50	50
Profit Before Tax (pre-EI)	13,411	18,633	24,250	29,389	35,049
Exceptional Items					
Pre-tax Profit	13,392	18,607	24,234	29,373	35,033
Taxation	-3,306	-4,568	-5,950	-7,211	-8,601
Exceptional Income - post-tax					
Profit After Tax	10,086	14,039	18,285	22,162	26,432
Minority Interests	-412	-654	-852	-1,033	-1,232
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,674	13,384	17,432	21,129	25,200
Recurring Net Profit	9,688	13,404	17,444	21,141	25,212
Fully Diluted Recurring Net Profit	9,688	13,404	17,444	21,141	25,212

Cash Flow

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	12,979	18,144	23,615	28,761	34,428
Cash Flow from Invt. & Assoc.					
Change In Working Capital	-742	-1,984	-4,350	-2,885	-3,117
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-2,471	-3,843	-4,822	-6,085	-7,474
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
Cashflow From Operations	9,766	12,317	14,443	19,791	23,837
Capex	-216	-381	-200	-200	-200
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	15	50	0	0	0
Cash Flow From Investing	-201	-332	-200	-200	-200
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-3,618	-5,410	-8,594	-10,417	-12,424
Preferred Dividends					
Other Financing Cashflow	-22	1,792	0	0	0
Cash Flow From Financing	-3,639	-3,618	-8,594	-10,417	-12,424
Total Cash Generated	5,926	8,368	5,648	9,174	11,213
Free Cashflow To Equity	9,565	11,986	14,243	19,591	23,637
Free Cashflow To Firm	9,565	11,986	14,243	19,591	23,637

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	40,592	48,960	54,608	63,782	74,995
Total Debtors	11,932	17,134	21,598	25,287	29,317
Inventories	10,558	11,795	12,502	13,366	14,370
Total Other Current Assets	198	221	203	191	175
Total Current Assets	63,280	78,110	88,912	102,627	118,856
Fixed Assets	5,293	5,261	4,969	4,670	4,365
Total Investments	864	921	921	921	921
Intangible Assets	401	414	398	382	366
Total Other Non-Current Assets	1,085	1,387	1,387	1,387	1,387
Total Non-current Assets	7,643	7,983	7,675	7,360	7,039
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	13,323	15,628	16,431	18,087	19,986
Other Current Liabilities	2,645	5,080	5,080	5,080	5,080
Total Current Liabilities	15,968	20,708	21,511	23,167	25,067
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	280	267	267	267	267
Total Non-current Liabilities	280	267	267	267	267
Total Provisions	0	0	0	0	0
Total Liabilities	16,248	20,975	21,778	23,434	25,334
Shareholders' Equity	53,334	63,487	72,324	83,036	95,812
Minority Interests	1,340	1,632	2,484	3,518	4,750
Total Equity	54,674	65,119	74,809	86,553	100,561

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	23.0%	32.6%	25.1%	17.8%	16.5%
Operating EBITDA Growth	44.1%	39.8%	30.1%	21.8%	19.7%
Operating EBITDA Margin	43.0%	45.3%	47.2%	48.8%	50.1%
Net Cash Per Share (Rmb)	10.69	12.61	14.07	16.43	19.32
BVPS (Rmb)	14.05	16.36	18.63	21.39	24.68
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	24.7%	24.6%	24.6%	24.6%	24.6%
Net Dividend Payout Ratio	52.1%	49.2%	49.3%	49.3%	49.3%
Accounts Receivables Days	126.9	125.6	134.8	140.0	140.4
Inventory Days	302.7	248.8	224.4	208.7	194.0
Accounts Payables Days	95.74	81.64	71.90	71.55	69.05
ROIC (%)	96%	131%	149%	145%	153%
ROCE (%)	26.0%	31.3%	34.6%	36.4%	37.4%
Return On Average Assets	13.8%	16.5%	18.9%	20.4%	21.5%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
ASP (% chg, main prod./serv.)	14.1%	26.3%	21.3%	13.9%	12.6%
Unit sales grth (% , main prod./serv.)	21.0%	6.4%	4.2%	4.1%	4.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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We are transferring the rating mechanism from “BUY, SELL, HOLD” to “ADD, REDUCE, HOLD”. Please refer to the definitions below.

Explanation on Equity Ratings

ADD : The stock’s total return is expected to exceed 10% over the next 12 months.

REDUCE : The stock’s total return is expected to fall below 0% or more over the next 12 months.

HOLD : The stock’s total return is expected to be between 0% and positive 10% over the next 12 months.

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