

China

ADD (no change)

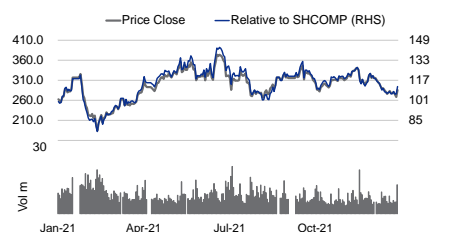
Consensus ratings*: Buy 35 Hold 4 Sell 0

Current price:	Rmb285.6
Target price:	Rmb384.0
Previous target:	Rmb384.0
Up/downside:	34.5%
CGI / Consensus:	7.0%
Reuters:	600809.SS
Bloomberg:	600809.CH
Market cap:	US\$55,051m
	Rmb348,465m
Average daily turnover:	US\$320.1m
	Rmb2,065m
Current shares o/s:	871.5m
Free float:	30.9%

*Source: Bloomberg

Key changes in this note

➤ NA



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-7.1	-10.7	8.8
Relative (%)	-2.6	-6.7	12

Major shareholders	% held
Shanxi State-Owned Capital Investment and Operation	57.8
China Resources Xinrui (Hong Kong)	11.4

Analysts

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Shanxi Xinghuacun Fen Wine

Strong sales growth expected in 1Q22F

- Fen Wine issued a positive profit alert for FY21. Net profit grew by 70%–80% yoy to Rmb5.23bn–5.54bn, largely in line with our expectation, driven mainly by strong sales growth in new markets and product structure optimization.
- Currently, the Omicron threat has affected several provinces in China, but the Company's home market, Shanxi Province, and the new markets in southern and eastern China have been less impacted and the logistics service is working smoothly.
- We expect the Company to deliver strong sales growth of 25%–30% yoy in 1Q22F and 27% yoy in FY22F.
- Reiterate Add with an unchanged DCF-based TP of Rmb384.

Continued product structure upgrade to drive margin improvement

Fen Wine exhibited strong growth momentum, achieving 66% yoy sales growth in 9M21, and reached its sales target for FY21 in advance, mainly due to successful new market exploration. Since the beginning of 4Q21, the Company actively controlled product shipments, reduced channel inventory and supported the market to promote its high-end products. We expect sales growth in 4Q21F to slow down qoq. According to the Company's updated guidance, the net profit in 4Q21 was Rmb355m–663m (-39% yoy to +15% yoy), as a significant portion of marketing expenses were incurred in 4Q as usual. For FY21, we estimate that sales of the Company's two largest products grew strongly: 1) that the high-end Qinghua brand, with retail price above Rmb500 per bottle, grew by 80%–90% yoy in FY21F, and 2) that its low-end brand, Bofen, with a retail price below Rmb100 per bottle, grew by 30%–35% yoy in FY21F, respectively contributing 30%–35% of total sales. We expect the Company's net profit margin to improve to 25.3% in FY21F from 22% in FY20, driven by the continued product structure upgrade.

Strong sales growth likely in 1Q22F

1Q sales are important for baijiu companies, as they usually account for 30%–40% of total annual sales. Currently, the Omicron threat has impacted several provinces in China, particularly large baijiu consumption markets, like Henan (河南) and Shaanxi (陕西) provinces. Fen Wine started shipments for the upcoming Chinese New Year on 1 Jan without any significant logistics disruptions. The Company's key market, its home market, Shanxi Province (40% sales contribution in 9M21), and some new markets in the Yangtze River Delta area, including Jiangsu, Shanghai, and Zhejiang, have been less affected by the Omicron situation. We expect the Company to have strong sales growth of 25%–30% yoy in 1Q22F and 27% yoy in FY22F.

New chairman to continue to carry out the development strategy

On 20 Dec, the company's chairman, Mr LI Qiuxi (李秋喜), retired, and his successor, Mr YUAN Qingmao (袁清茂), with a government background, came on board, and chaired the Company's annual conference for distributors on 26 Dec. In the conference, Mr. Yuan made it clear that he will continue to execute the development strategy of the 14th Five-Year Plan (FY21–25F), and will continue to invest in building the Company's high-end brand image and promoting its product structure optimization. The Company will strengthen its position in its strong markets, Shanxi province and the surrounding provinces, to deepen its market penetration. In new markets, it will concentrate on expanding in the Yangtze River Delta and Pearl River Delta, promoting its high-end Qinghua products, and improving its marketing activity and brand power. As at the end of FY21, the Company had 1m national controllable sales points, up by 18% yoy. The Company aims to achieve Rmb40bn in sales in FY25F, for an 18% yoy CAGR in FY21–25F. We expect the Company's margin to continue to improve, driven by a mix upgrade.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (Rmbm)	11,880	13,990	20,890	26,451	33,415
Operating EBITDA (Rmbm)	2,972	4,359	7,304	9,506	12,273
Net Profit (Rmbm)	1,939	3,079	5,282	6,920	8,965
Core EPS (Rmb)	2.23	3.54	4.34	5.68	7.35
Core EPS Growth	31.3%	58.4%	22.5%	31.0%	29.5%
FD Core P/E (x)	127.8	80.7	56.5	50.3	38.8
DPS (Rmb)	0.90	0.20	1.73	2.27	2.94
Dividend Yield	0.32%	0.07%	0.61%	0.79%	1.03%
EV/EBITDA (x)	82.19	56.11	46.54	35.45	27.14
P/FCFE (x)	79.9	196.0	67.3	67.5	51.4
Net Gearing	(52.0%)	(45.8%)	(58.2%)	(59.2%)	(60.3%)
P/BV (x)	33.42	25.46	23.41	17.70	13.46
ROE	28.4%	35.8%	42.9%	40.1%	39.4%
CGI/consensus EPS (x)			0.94	0.90	0.90

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Strong sale growth expected in 1Q22F

Reiterate Add with an unchanged DCF-based TP of Rmb384

We reiterate our Add rating for Fen Wine, as it has continued to deliver strong sales growth since it completed the SOE reforms in Dec 2019. Management said that in the mid to long term, the Company will continue to focus on improving the sales of its high-end products, Qinghua and Banama, and control sales of its low-end product, Bofen, to consistently enhance the Company's product structure upgrade and improve its margin. To support the Company's current five-year development strategy (FY21–25), it has considered expanding its basic liquor production capacity. We expect this expansion plan to be launched in FY22F.

Figure 1: Fen Wine's 12M forward P/E (x) since all of its liquor-related assets were injected into the listed company in Dec 2019

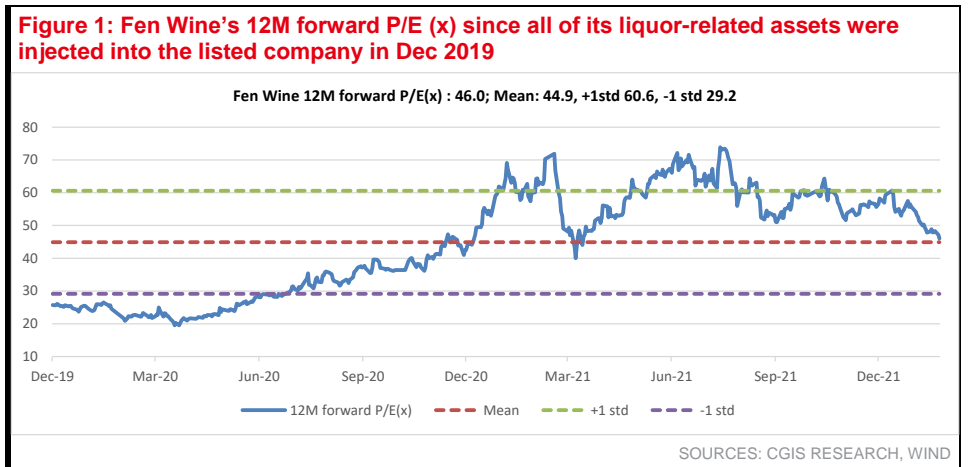


Figure 2: Fen Wine vs. Moutai – 12M forward P/E comparison

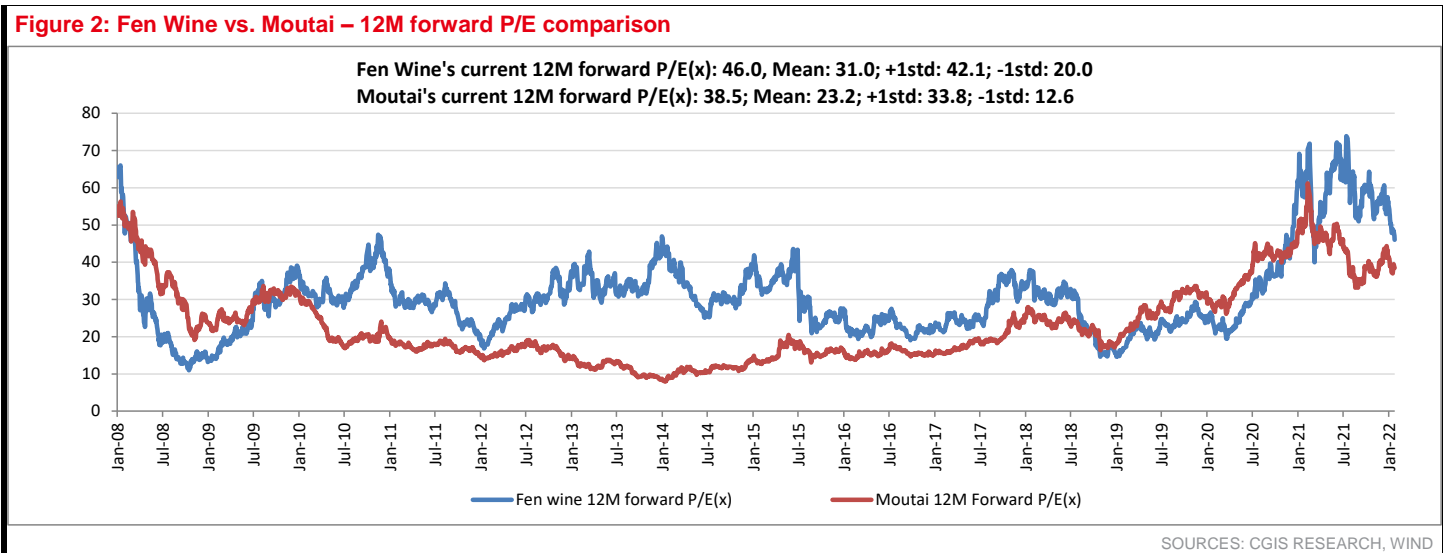
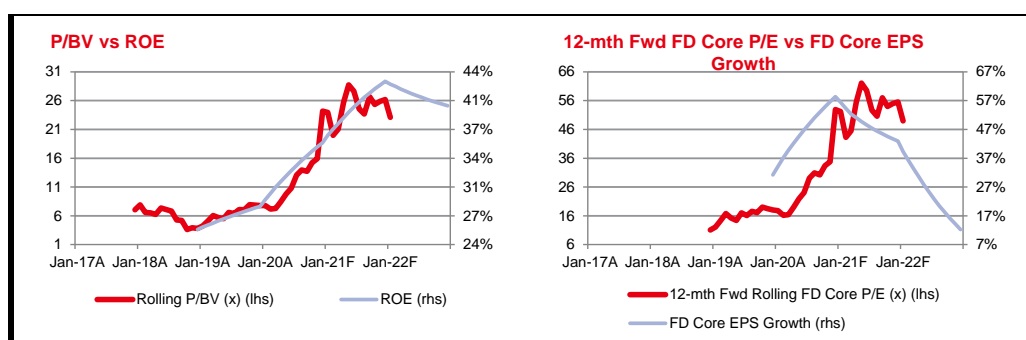


Figure 3: DCF valuation

(Rmb, m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
Operating EBIT	9,334	12,092	16,675	22,646	29,737	38,742	50,072	64,201	81,655	103,013
Taxes	-2,519	-3,263	-4,411	-5,991	-7,867	-10,249	-13,246	-16,984	-21,601	-27,251
EBIT, tax-affected	6,815	8,829	12,264	16,655	21,871	28,493	36,826	47,217	60,054	75,762
Add: Depreciation & amortisation	172	181	190	200	195	182	180	176	173	170
Add Changes in Working capital	-1,813	-2,274	-2,484	-2,694	-2,904	-3,114	-3,324	-3,534	-3,744	-3,954
Less Capital Expenditure	-200	-200	-200	-210	-205	-191	-189	-185	-182	-179
Free Cash Flow to firm	4,974	6,536	9,770	13,951	18,957	25,370	33,493	43,675	56,301	71,799
Key assumptions										
NPV of FY22-26 Cash flow	37,356	Company average beta		1.16						
NPV of FY27-31Cash Flow	96,840	Risk free rate		3.5%						
NPV of Terminal Value	329,766	Risk premium		6.5%						
Enterprise Value	463,961	Cost of equity		11.0%						
Add Net cash/(Net Debt)	4,607	Cost of Debt		4.3%						
Less Minority	-288	Debt %		0.0%						
Equity value of firm	468,280	Tax rate		26.5%						
Share outstanding (m)	1,220	WACC		11.0%						
Target price (Rmb)	384	Terminal growth rate		3.0%						

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	11,880	13,990	20,890	26,451	33,415
Gross Profit	6,291	7,591	11,795	15,199	19,468
Operating EBITDA	2,972	4,359	7,304	9,506	12,273
Depreciation And Amortisation	-140	-150	-162	-172	-181
Operating EBIT	2,832	4,209	7,142	9,334	12,092
Financial Income/(Expense)	103	68	125	187	242
Pretax Income/(Loss) from Assoc.	5	4	0	0	0
Non-Operating Income/(Expense)	-95	-44	0	0	0
Profit Before Tax (pre-EI)	2,849	4,244	7,279	9,533	12,346
Exceptional Items					
Pre-tax Profit	2,845	4,237	7,267	9,521	12,334
Taxation	-792	-1,121	-1,922	-2,519	-3,263
Exceptional Income - post-tax					
Profit After Tax	2,054	3,116	5,344	7,002	9,071
Minority Interests	-115	-37	-63	-82	-107
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,939	3,079	5,282	6,920	8,965
Recurring Net Profit	1,941	3,084	5,290	6,929	8,973
Fully Diluted Recurring Net Profit	1,941	3,084	5,290	6,929	8,973

Cash Flow

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	2,972	4,359	7,304	9,506	12,273
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,175	-1,009	-866	-1,813	-2,274
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-1,071	-1,340	-1,797	-2,331	-3,021
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
Cashflow From Operations	3,077	2,010	4,641	5,361	6,979
Capex	-161	-196	-200	-200	-200
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	189	-544	0	0	0
Cash Flow From Investing	28	-740	-200	-200	-200
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-641	-790	-174	-2,113	-2,768
Preferred Dividends					
Other Financing Cashflow	296	164	0	0	0
Cash Flow From Financing	-345	-626	-174	-2,113	-2,768
Total Cash Generated	2,759	644	4,267	3,049	4,011
Free Cashflow To Equity	3,105	1,270	4,441	5,161	6,779
Free Cashflow To Firm	3,105	1,270	4,441	5,161	6,779

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	3,964	4,607	8,873	11,922	15,932
Total Debtors	2,899	4,539	5,577	7,016	8,817
Inventories	5,258	6,354	8,670	10,977	13,867
Total Other Current Assets	522	308	308	308	308
Total Current Assets	12,642	15,808	23,429	30,223	38,925
Fixed Assets	1,620	1,762	1,810	1,850	1,881
Total Investments	26	68	68	68	68
Intangible Assets	313	339	327	315	303
Total Other Non-Current Assets	1,465	1,801	1,801	1,801	1,801
Total Non-current Assets	3,425	3,971	4,006	4,034	4,053
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	7,562	8,283	10,769	12,702	15,120
Other Current Liabilities	826	1,346	1,346	1,346	1,346
Total Current Liabilities	8,389	9,629	12,116	14,049	16,466
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	55	84	84	84	84
Total Non-current Liabilities	55	84	84	84	84
Total Provisions	0	0	0	0	0
Total Liabilities	8,443	9,714	12,200	14,133	16,550
Shareholders' Equity	7,447	9,777	14,884	19,691	25,888
Minority Interests	178	288	351	433	540
Total Equity	7,625	10,065	15,235	20,124	26,428

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	26.6%	17.8%	49.3%	26.6%	26.3%
Operating EBITDA Growth	23.2%	46.6%	67.6%	30.1%	29.1%
Operating EBITDA Margin	25.0%	31.2%	35.0%	35.9%	36.7%
Net Cash Per Share (Rmb)	4.55	5.29	7.27	9.77	13.06
BVPS (Rmb)	8.54	11.22	12.20	16.14	21.22
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	27.8%	26.5%	26.5%	26.5%	26.5%
Net Dividend Payout Ratio	40.4%	5.6%	39.9%	39.9%	39.9%
Accounts Receivables Days	98.94	91.78	83.42	82.35	82.43
Inventory Days	274.7	332.1	301.4	318.7	325.1
Accounts Payables Days	132.9	144.1	115.9	124.6	122.6
ROIC (%)	55%	114%	131%	147%	147%
ROCE (%)	40.4%	48.0%	57.5%	53.9%	53.0%
Return On Average Assets	14.0%	17.0%	22.2%	22.1%	22.9%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Sales volume growth (%)	73.5%	-3.1%	33.5%	18.9%	18.7%
ASP growth (%)	-27.3%	21.7%	11.8%	6.5%	6.4%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

Shanxi Xinghuacun Fen Wine (600809 CH)

— Price Close



RECOMMENDATION FRAMEWORK

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