

**China**
**ADD** (no change)

Consensus ratings\*: Buy 51 Hold 0 Sell 1

Current price:	Rmb1,761
Target price:	Rmb2,218
Previous target:	Rmb2,218
Up/downside:	26.0%
CGI / Consensus:	-2.4%

Reuters:	600519.SS
Bloomberg:	600519 CH
Market cap:	US\$327,986m
	Rmb2,212,164m
Average daily turnover:	US\$938.2m
	Rmb6,024m
Current shares o/s:	1,256m
Free float:	38.0%

\*Source: Bloomberg

**Key changes in this note**

NA



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.7	-7.7	-14.5
Relative (%)	1.7	3.9	-1.9

Major shareholders	% held
Kweichow Moutai Group	62.0

**Analysts**
**Lei Yang**

 T (86) 21 6162 9676  
 E yanglei@chinastock.com.hk

**Sun Feifei**

 T (86) 21 6888 8682  
 E sunfeifei@chinastock.com.hk

# Kweichow Moutai

## Innovative step in channel reforms

- The iMoutai e-commerce platform was officially launched on 19 May. A small bottle of the Company's star product, Feitian (100ml), is formally launched at the same day.
- We expect the small bottle of Feitian, with a retail price of Rmb399/bottle, to increase Moutai's ASP and attract more consumers, and in particular, expand the influence of the Moutai brand among young consumers.
- Reiterate Add with an unchanged DCF-based TP of Rmb2,218.

### Small bottle of Feitian Moutai expected to improve the ASP

The Company launched a small bottle of 53° Feitian (100ml) through its iMoutai online platform on 19 May. 53° Feitian is the Company's star product, with a long history and strong brand power, contributing 75%–80% of the Company's total sales. The regular size of 53° Feitian is a 500ml bottle, which has an ex-factory price of Rmb969 per bottle and a suggested retail price of Rmb1,499 per bottle, but the current market price from distributors is Rmb2,700–2,800 per bottle. The small bottle is 100ml, and its ex-factory price for distributors and the suggested retail price will be Rmb379 and Rmb399 per bottle, respectively. So the introduction of the small bottle of Feitian will be an important innovation for Moutai's channel reforms, because 1) it will increase the ASP; 2) the small bottle is quite suitable for the current baijiu consumption trend of drinking less but better; and 3) the price of the small bottle is affordable for mainstream consumers, particularly to attract the young generation. The small bottle will be distributed in both the Company's self-operated e-commerce platform, iMoutai, and the distributor channels.

### Good results from iMoutai on a 49-day trial operation

As at 18 May, the Company's e-commerce platform, iMoutai, had made over 340m reservations since its launch on 31 Mar, with over 130m people making reservations. Over 1.17m bottles of Moutai's super-premium products were sold on the platform (560.7 tons), resulting in sales of c.Rmb1.8bn, based on our estimate. The Company's chairman, Mr. DING Xiongjun, said that iMoutai had been officially launched on 19 May and that on the iMoutai platform, consumers could find the links to 12 third-party e-commerce platforms to purchase the Company's products. Management also said in the future the Company would continuously adjust its product launch strategy on iMoutai to enrich its product diversification. With a new small bottle of Feitian Moutai joining in, we expect sales on iMoutai to ramp up quickly this year and the Company's brand image to be further strengthened among young consumers.

### Limited impact from the current Omicron situation

On 13 May, Moutai's general manager, LI Jingren, said that market demand for the Company's products is still strong and that it has continued to optimize its product structure. The Company is confident that the impact of Omicron can be minimized and that it will be able to achieve its annual sales growth target of 15% yoy for FY22F. LI Jingren also said that the Company's production was not impacted by the current Omicron situation and that the output and quality of its base liquor remained stable. We expect the Company to improve its direct sales contribution in FY22F. In 1Q22, the direct sales contribution improved to 33%, up from 22.7% in FY21 and 17.5% in 1Q21.

### Reiterate Add with an unchanged DCF-based TP of Rmb2,218

We reiterate our Add rating for Moutai, which is our top pick for the baijiu sector, as it has initiated a couple of measures to accelerate distribution channel reforms and has made effective progress. We believe the Company can achieve its target of 15% yoy sales growth in FY22F, despite the current Omicron situation, given its strong premium brand position.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	94,915	106,190	122,793	141,167	161,342
Operating EBITDA (Rmbm)	64,793	72,223	84,385	98,179	113,406
Net Profit (Rmbm)	46,697	52,460	61,029	70,807	81,581
Core EPS (Rmb)	37.24	41.90	48.72	56.50	65.08
Core EPS Growth	13.4%	12.5%	16.3%	16.0%	15.2%
FD Core P/E (x)	47.29	42.03	36.15	31.17	27.06
DPS (Rmb)	19.29	21.67	25.21	29.25	33.71
Dividend Yield	1.10%	1.23%	1.43%	1.66%	1.91%
EV/EBITDA (x)	32.08	28.45	23.92	20.19	17.11
P/FCFE (x)	46.57	36.08	32.86	30.70	26.55
Net Gearing	(83.5%)	(83.8%)	(87.5%)	(88.3%)	(89.1%)
P/BV (x)	13.71	11.67	9.90	8.43	7.20
ROE	31.5%	30.0%	29.6%	29.2%	28.7%
CGI/consensus EPS (x)			0.97	0.97	0.95

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

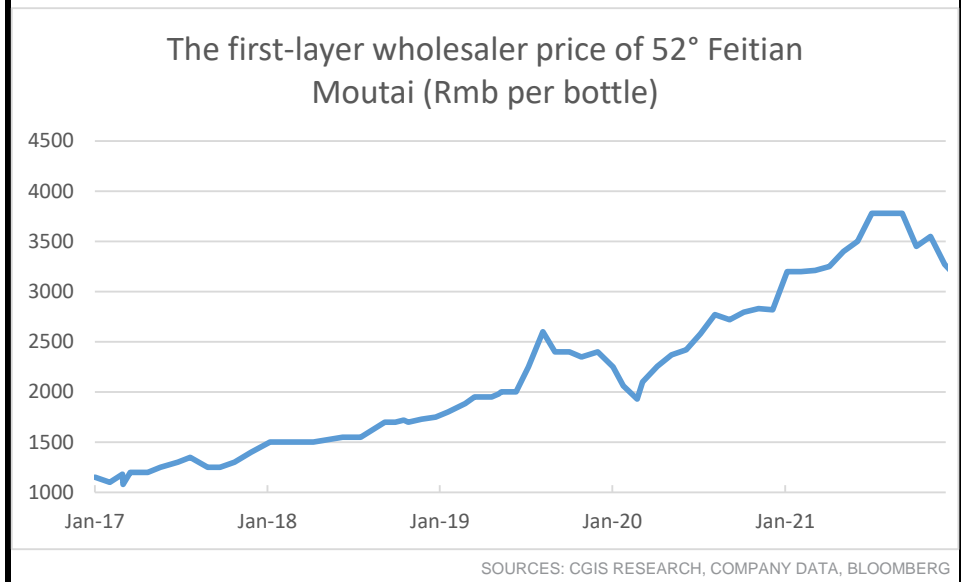
# Innovative step in channel reforms

Figure 1: Key price comparison for the small bottle and regular bottle of 53° Feitian

	Small bottle of 53°Feitian	Regular size of 53°Feitian
Bottle size	100ml	500ml
Ex-factory price for distributors	Rmb379	Rmb969
Guided retail price	Rmb399	Rmb1499
The first-layer wholesaler's price	NA	Rmb2720

SOURCES: CGIS RESEARCH, TANHJIUWEIKAN

Figure 2: First-layer wholesale price of 52° Feitian (500ml bottle)



SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 3: iMoutai WAS officially launched on 19 May



SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 4: iMoutai reservation page



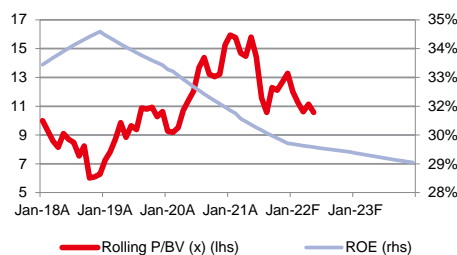
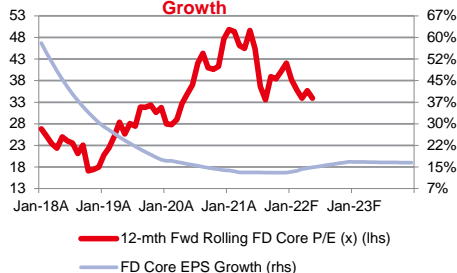
SOURCES: CGIS RESEARCH, COMPANY DATA

**Figure 5: DCF valuation**

(Rmb, m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
EBIT	85,942	99,655	114,802	144,697	174,200	208,849	249,344	296,446	350,962	413,749
Taxes	-21,880	-25,385	-29,248	-36,515	-43,960	-52,704	-62,923	-74,809	-88,567	-104,411
EBIT, tax-affected	64,062	74,270	85,555	108,182	130,240	156,145	186,421	221,636	262,395	309,337
Add: Depreciation & amortisation	1,704	1,784	1,864	2,003	2,178	2,053	2,118	2,121	2,042	2,131
Less Capital Expenditure	-2,500	-2,500	-2,500	-2,610	-2,793	-3,070	-3,398	-3,723	-4,033	-1,008
Working capital changes	3,288	-2,427	-2,708	-3,053	-3,443	-3,848	-4,261	-4,670	-5,059	-5,411
Free Cash Flow to firm	66,554	71,127	82,211	104,521	126,182	151,279	180,879	215,364	255,345	305,049
<b>Key assumptions</b>										
NPV of FY22-26 cash flow	319,057	Industry average beta		1.0						
NPV of FY27-31 cash flow	522,418	Risk free rate		3.5%						
NPV of Terminal Value	1,786,471	Risk premium		6.5%						
Enterprise Value	2,627,946	Cost of equity		10.1%						
Add Net cash/(Net Debt)	165,114	Cost of Debt		4.3%						
Less Minority	-7,418	Debt %		1.0%						
Equity value of firm	2,785,642	Tax rate		25.0%						
Share outstanding (m)	1,256	WACC		10.0%						
Target price (Rmb)	2,218	Terminal growth rate		3.0%						

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-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>94,915</b>	<b>106,190</b>	<b>122,793</b>	<b>141,167</b>	<b>161,342</b>
<b>Gross Profit</b>	<b>72,875</b>	<b>81,902</b>	<b>95,322</b>	<b>110,291</b>	<b>126,860</b>
<b>Operating EBITDA</b>	<b>64,793</b>	<b>72,223</b>	<b>84,385</b>	<b>98,179</b>	<b>113,406</b>
Depreciation And Amortisation	-1,378	-1,583	-1,704	-1,784	-1,864
<b>Operating EBIT</b>	<b>63,416</b>	<b>70,640</b>	<b>82,682</b>	<b>96,395</b>	<b>111,542</b>
Financial Income/(Expense)	3,220	4,111	4,261	4,438	4,597
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	-438	-223	-240	-240	-240
<b>Profit Before Tax (pre-EI)</b>	<b>66,307</b>	<b>74,754</b>	<b>86,929</b>	<b>100,820</b>	<b>116,126</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>66,197</b>	<b>74,528</b>	<b>86,702</b>	<b>100,593</b>	<b>115,899</b>
Taxation	-16,674	-18,808	-21,880	-25,385	-29,248
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>49,523</b>	<b>55,721</b>	<b>64,822</b>	<b>75,208</b>	<b>86,651</b>
Minority Interests	-2,826	-3,260	-3,793	-4,401	-5,070
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>46,697</b>	<b>52,460</b>	<b>61,029</b>	<b>70,807</b>	<b>81,581</b>
Recurring Net Profit	46,780	52,629	61,199	70,977	81,751
<b>Fully Diluted Recurring Net Profit</b>	<b>46,780</b>	<b>52,629</b>	<b>61,199</b>	<b>70,977</b>	<b>81,751</b>

### Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>64,793</b>	<b>72,223</b>	<b>84,385</b>	<b>98,179</b>	<b>113,406</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	857	7,860	3,288	-2,427	-2,708
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-16,057	-15,366	-17,859	-21,187	-24,891
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
<b>Cashflow From Operations</b>	<b>49,593</b>	<b>64,717</b>	<b>69,814</b>	<b>74,565</b>	<b>85,807</b>
Capex	-2,090	-3,409	-2,500	-2,500	-2,500
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>-2,090</b>	<b>-3,409</b>	<b>-2,500</b>	<b>-2,500</b>	<b>-2,500</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-24,091	-26,476	-27,227	-31,674	-36,749
Preferred Dividends					
Other Financing Cashflow	-37	-88	0	0	0
<b>Cash Flow From Financing</b>	<b>-24,128</b>	<b>-26,564</b>	<b>-27,227</b>	<b>-31,674</b>	<b>-36,749</b>
Total Cash Generated	23,376	34,744	40,088	40,391	46,558
<b>Free Cashflow To Equity</b>	<b>47,504</b>	<b>61,308</b>	<b>67,314</b>	<b>72,065</b>	<b>83,307</b>
<b>Free Cashflow To Firm</b>	<b>47,504</b>	<b>61,308</b>	<b>67,314</b>	<b>72,065</b>	<b>83,307</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	154,291	186,878	226,966	267,357	313,915
Total Debtors	2,466	422	1,620	1,807	2,002
Inventories	28,869	33,394	35,999	41,386	47,300
Total Other Current Assets	27	72	72	72	72
<b>Total Current Assets</b>	<b>185,652</b>	<b>220,766</b>	<b>264,657</b>	<b>310,621</b>	<b>363,289</b>
Fixed Assets	16,224	17,471	17,494	17,438	17,301
Total Investments	2,983	3,596	3,596	3,596	3,596
Intangible Assets	4,817	6,208	6,062	5,916	5,770
Total Other Non-Current Assets	3,718	4,699	5,699	6,699	7,699
<b>Total Non-current Assets</b>	<b>27,742</b>	<b>31,973</b>	<b>32,851</b>	<b>33,648</b>	<b>34,366</b>
Short-term Debt	14,242	21,764	21,764	21,764	21,764
Current Portion of Long-Term Debt					
Total Creditors	31,432	34,510	41,601	44,748	48,150
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>45,674</b>	<b>56,274</b>	<b>63,364</b>	<b>66,511</b>	<b>69,913</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1	296	296	296	296
<b>Total Non-current Liabilities</b>	<b>1</b>	<b>296</b>	<b>296</b>	<b>296</b>	<b>296</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>45,675</b>	<b>56,570</b>	<b>63,661</b>	<b>66,808</b>	<b>70,210</b>
Shareholders' Equity	161,323	189,539	223,342	262,475	307,307
Minority Interests	6,398	7,418	11,211	15,612	20,682
<b>Total Equity</b>	<b>167,721</b>	<b>196,958</b>	<b>234,553</b>	<b>278,087</b>	<b>327,989</b>

**Key Ratios**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	11.1%	11.9%	15.6%	15.0%	14.3%
Operating EBITDA Growth	13.7%	11.5%	16.8%	16.3%	15.5%
Operating EBITDA Margin	68.3%	68.0%	68.7%	69.5%	70.3%
Net Cash Per Share (Rmb)	111.5	131.4	163.4	195.5	232.6
BVPS (Rmb)	128.4	150.9	177.8	208.9	244.6
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	25.2%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	51.8%	51.7%	51.7%	51.7%	51.8%
Accounts Receivables Days	5.78	2.63	1.32	2.46	2.48
Inventory Days	449.6	467.9	461.0	457.4	470.7
Accounts Payables Days	23.71	25.19	24.20	20.06	19.14
ROIC (%)	289%	287%	299%	381%	391%
ROCE (%)	38.0%	35.8%	35.2%	35.1%	34.7%
Return On Average Assets	23.4%	22.2%	22.1%	22.1%	22.2%

**Key Drivers**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Moutai brand volume growth (%)	-0.7%	5.7%	9.8%	8.8%	7.7%
Series Brand volume growth (%)	-1.1%	1.5%	2.0%	2.0%	4.0%
Moutai brand ASP growth (%)	12.7%	4.3%	4.5%	4.9%	4.9%
Series Brand ASP growth (%)	5.9%	24.2%	20.0%	18.0%	18.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched ( 2 year data )

Kweichow Moutai (600519 CH)

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