

China

ADD (no change)

Consensus ratings*: Buy 36 Hold 4 Sell 1

Current price: Rmb272.0
Target price: ▼ Rmb358.0
Previous target: Rmb384.0
Up/downside: 31.6%
CGI / Consensus: 6.2%

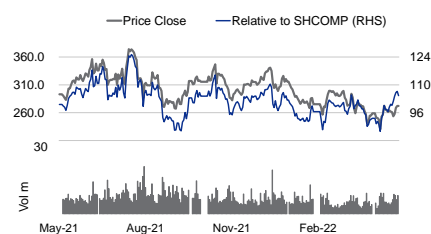
Reuters: 600809.SS
Bloomberg: 600809 CH
Market cap: US\$50,300m
Rmb331,871m

Average daily turnover: US\$207.8m
Rmb1,326m
Current shares o/s: 1,220m
Free float: 30.9%

*Source: Bloomberg

Key changes in this note

- FY22F EPS cut by 3.0%.
- FY23F EPS cut by 2.5%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12	-1.2	-8.5
Relative (%)	16.9	8.2	3.8

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

Continuing the upward trend

- Fen Wine announced that sales in FY21 rose by 43% yoy to Rmb19.97bn and net profit rose by 73% yoy to Rmb5.31bn, in line with our expectations.
- Despite the high base effect of 77% yoy sales growth in 1Q21 and the current Omicron impact, the Company continued to deliver striking sales growth of 44% yoy in 1Q22, with net profit up by 70% yoy.
- Since the Company has a more diversified product portfolio for different consumer groups, we now expect both the Company's sales and net profit to grow by 28% yoy, respectively, in FY22F.
- Reiterate Add with a new DCF-based TP of Rmb358.

Fen wine brand exhibits an obvious structural upgrade trend

The Company's baijiu sales grew by 43% yoy to Rmb19.8bn, with the ASP and sales volume up by 15% and 24% yoy, respectively, in FY21. The core baijiu brand, Fen wine, maintained strong growth momentum, achieving 42% yoy sales growth to Rmb17.9bn in FY21, accounting for 90% of total sales. The Fen wine brand achieved product structure optimization, and the sales contribution from the premium and above products, the Qinghua series, improved by c.10% pts to 40% in FY21, while the mid-end products, Panama and Laobaifen, and the low-end product, Bofen, contributed 30% and 20%, respectively, of total sales in FY21. The gross margin of the Fen wine brand improved by 3.1% pts to 76.6% in FY21. The sub-brand Xinhuaacun grew modestly by 13% yoy, and sales of its blended baijiu brand, Zhuyeqing, rebounded significantly by 91% yoy in FY21, contributing 3% and 7% of total sales, respectively.

Benefiting from baijiu consumption upgrade in its home market

The Company's home market, Shanxi province, is on a baijiu consumption upgrade trend. Sales in Shanxi province grew by 35% yoy in FY21, the ASP increased by 20% yoy, and sales volume rose by 12% yoy, contributing 41% of total sales. The GPM from sales in Shanxi province increased by 3.1% pts to 74.2%. Management said Qinghua20, with a retail price of Rmb488 per bottle, and Panama 20, with a retail price of Rmb398, have become more popular in Shanxi province, and it expects the consumption upgrade trend in its home market to continue. With consistent marketing investment, the Company's sales in new markets also ramped quickly by 49% yoy in FY21, and its GPM in new markets rose by 2.3% pts to 75.5% in FY21, mainly due to the improving sales contribution of Qinghua.

Limited impact from the current Omicron situation

In 1Q22, the Company's Qinghua series continued its strong volume growth. The Company's sales grew by 44% yoy to Rmb9.8bn (41% of our full-year forecast), and net profit rose by 70% yoy to Rmb3.7bn. Management said most of the product shipments were completed in Jan for 1Q22, and the Company started to control channel inventory in Feb and Mar. Now it has relatively low channel inventory, and management said it will make every effort to replenish the distributors' inventory. The first batch of products in Apr has already been delivered. We estimate that sales in the Shanghai, Jiangsu and Zhejiang markets, which are currently impacted by the lockdown policy, account for only 6% of the Company's total sales and that the Omicron impact will be manageable for the Company. Advance payments from distributors rose by 32% yoy in 1Q22, and the number of distributors reached 3,617 as at the end of March, for a net increase of 93 in 1Q22, indicating effective distribution network expansion. We believe the Company's aim of 25% yoy sales growth in FY22F is achievable.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	13,990	19,971	25,559	32,267	40,482
Operating EBITDA (Rmbm)	4,359	7,050	9,238	11,700	14,635
Net Profit (Rmbm)	3,079	5,313	6,801	8,639	10,831
Core EPS (Rmb)	3.54	4.36	5.58	7.09	8.88
Core EPS Growth	58.4%	23.2%	28.0%	27.0%	25.3%
FD Core P/E (x)	76.86	53.47	48.73	38.38	30.62
DPS (Rmb)	0.20	1.80	2.30	2.93	3.67
Dividend Yield	0.07%	0.66%	0.85%	1.08%	1.35%
EV/EBITDA (x)	53.39	45.40	34.42	26.80	21.05
P/FCFE (x)	186.7	101.3	76.4	45.1	35.7
Net Gearing	(45.8%)	(78.1%)	(70.6%)	(71.9%)	(73.1%)
P/BV (x)	24.25	21.80	16.74	12.94	10.08
ROE	35.8%	42.6%	38.9%	38.0%	37.0%
% Change In Core EPS Estimates			(1.71%)	(3.62%)	
CGI/consensus EPS (x)			0.88	0.86	0.84

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Continuing the upward trend

Gross margin continues to expand

The Company's overall GPM improved 2.8% pts to 74.9% in FY21, driven mainly by the sales contribution improvement from Qinghua products under the Fen wine brand. The sales tax rose by 0.8% pt to 18.7%. The selling and distribution expenses ratio and G&A expenses ratio declined by 0.4% pt and 1.9% pts to 15.8% and 6.0%, respectively, in FY21. The net profit margin improved by 4.6% pts to 26.6% in FY21. The Company's product structure has consistently improved, driven by the baijiu consumption upgrade trend in its home market and the enhancement of the Qinghua brand in new markets. The Company's GPM continued to rise by 1.2% pts yoy in 1Q22. The current Omicron situation delayed the Company's marketing investment, and the S&D expenses ratio declined by 6.8% pts in 1Q22. The net profit margin rose by 5.5% pts to 35.2% in 1Q22. The Company will continue to invest in advertising to strengthen the Fen wine brand. We expect its net profit margin to slightly improve yoy to 26.6% in FY22F.

Reiterate Add with a new DCF-based TP of Rmb358

We cut our EPS forecast for FY22F–23F by 3% and 2.5%, respectively, to reflect our concern that 1) the Omicron lockdowns will affect the Company's sales growth; and 2) the weak economy will slow down the pace of the Company's product structure optimization. We reiterate our Add rating for Fen Wine, as the Company has had great success in its product structure upgrade in its home market and its new market exploration since it completed the SOE reforms in 2019. Now the Company's brand name is well-recognized in China, and along with its consistent distribution network expansion, we expect its key products to continue to deliver strong growth.

Figure 1: Fen Wine quarterly financial summary

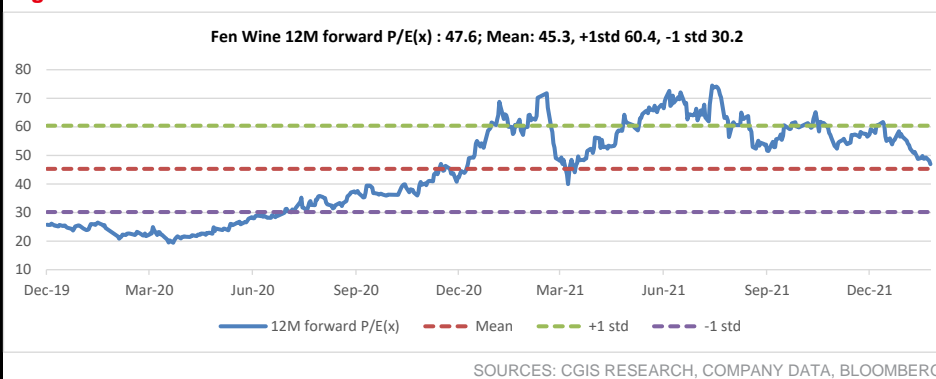
(Rmb m)	1Q20	2Q20	3Q20	1Q21	2Q21	3Q21	4Q21	1Q22	yoy	2020	2021	yoy
Revenue	4,140	2,765	3,476	7,332	4,787	5,138	2,714	10,530	44%	13,990	19,971	43%
YoY (%)	2%	19%	26%	77%	73%	48%	-25%	44%		18%	43%	
Cost of Goods sold	-1,150	-712	-914	-1,940	-1,090	-1,223	-757	-2,659	37%	-3,896	-5,011	29%
Sale tax & additional	-271	-741	-598	-916	-877	-1,023	-914	-1,452	59%	-2,503	-3,730	49%
Gross profit margin (%)	66%	47%	56%	61%	59%	56%	38%	61%	0%	54%	56%	4%
Other operating income	-16	-20	-12	0	-9	0	124	7	na	-46	114	-346%
Sale and distribution expense	-885	-440	-549	-1,316	-713	-756	-375	-1,174	-11%	-2,276	-3,160	39%
General Administrative expense	-229	-229	-226	-238	-242	-298	-411	-277	16%	-1,106	-1,190	8%
Operating profit	1,588	624	1,176	2,922	1,855	1,837	381	4,975	70%	4,163	6,994	68%
Net Profit	1,225	404	871	2,182	1,361	1,336	435	3,710	70%	3,079	5,313	73%
YoY (%)	40%	29%	72%	78%	237%	53%	-25%	70%		59%	73%	
Margins										ppt chg		
GPM excl: sales tax	72.2%	74.3%	73.7%	73.5%	77.2%	76.2%	72.1%	74.8%	1.2%	72.2%	74.9%	2.8%
Sales tax	6.6%	26.8%	17.2%	12.5%	18.3%	19.9%	33.7%	13.8%	1.3%	17.9%	18.7%	0.8%
S&D expense ratio	21.4%	15.9%	15.8%	17.9%	14.9%	14.7%	13.8%	11.2%	-6.8%	16.3%	15.8%	-0.4%
G&A expense ratio	5.5%	8.3%	6.5%	3.2%	5.1%	5.8%	15.1%	2.6%	-0.6%	7.9%	6.0%	-1.9%
Operating profit margin (%)	38.4%	22.6%	33.8%	39.8%	38.8%	35.8%	14.0%	47.2%	7.4%	29.8%	35.0%	5.3%
Net profit margin (%)	29.6%	14.6%	25.1%	29.8%	28.4%	26.0%	16.0%	35.2%	5.5%	22.0%	26.6%	4.6%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: Earnings revision

(Rmb m)	FY22F			FY23F			FY24F
	Old	New	Changes	Old	New	Changes	
Sales	26,451	25,559	-3.4%	33,415	32,267	-3.4%	40,482
Sales growth	26.6%	28.0%	1.4%	26.3%	26.2%	-0.1%	25.5%
GPM	75.4%	75.5%	0.2%	76.2%	75.9%	-0.2%	76.1%
OPM	35.3%	35.4%	0.1%	36.2%	35.6%	-0.6%	35.6%
Reported net profit	6,920	6,801	-1.7%	8,965	8,639	-3.6%	10,831
Net profit growth	31%	28%	-3.0%	30%	27%	-2.5%	25%
NPM	26%	27%	0.4%	27%	27%	-0.1%	27%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

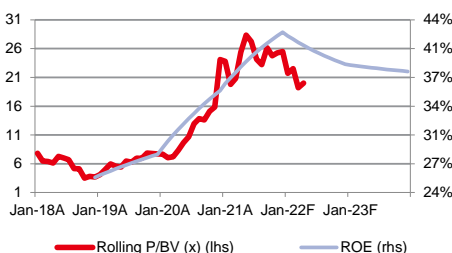
Figure 3: Fen Wine 12M forward P/E since the SOE reforms in 2019

Figure 4: DCF valuation

(Rmb, m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
Operating EBIT	9,036	11,488	15,658	21,012	27,249	35,056	44,737	56,631	71,103	88,540
Taxes	-2,177	-2,765	-3,756	-5,040	-6,537	-8,409	-10,732	-13,585	-17,056	-21,240
EBIT, tax-affected	6,859	8,723	11,902	15,971	20,712	26,646	34,005	43,046	54,046	67,301
Add: Depreciation & amortisation	202	212	190	200	195	182	180	176	173	170
Add Changes in Working capital	-2,559	-1,410	-1,620	-1,830	-2,040	-2,250	-2,460	-2,670	-2,880	-3,090
Less Capital Expenditure	-200	-200	-200	-210	-205	-191	-189	-185	-182	-179
Free Cash Flow to firm	4,301	7,324	10,272	14,131	18,662	24,387	31,536	40,367	51,157	64,202
Key assumptions										
NPV of FY22-26 Cash flow	37,740	Company average beta		1.16						
NPV of FY27-31Cash Flow	91,576	Risk free rate		3.5%						
NPV of Terminal Value	302,801	Risk premium		6.5%						
Enterprise Value	432,116	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	436,435	Tax rate		26.5%						
Share outstanding (m)	1,220	WACC		11.0%						
Target price (Rmb)	358	Terminal growth rate		3.0%						

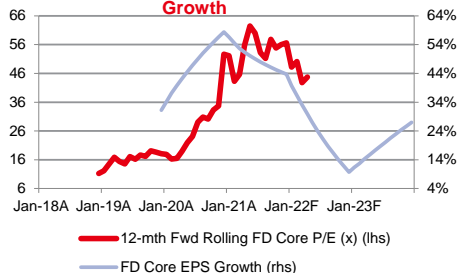
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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
Total Net Revenues	13,990	19,971	25,559	32,267	40,482
Gross Profit	7,591	11,230	14,526	18,468	23,250
Operating EBITDA	4,359	7,050	9,238	11,700	14,635
Depreciation And Amortisation	-150	-169	-202	-212	-222
Operating EBIT	4,209	6,881	9,036	11,488	14,413
Financial Income/(Expense)	68	33	40	40	40
Pretax Income/(Loss) from Assoc.	4	2	0	0	0
Non-Operating Income/(Expense)	-44	175	0	0	0
Profit Before Tax (pre-EI)	4,244	7,099	9,088	11,540	14,465
Exceptional Items					
Pre-tax Profit	4,237	7,090	9,076	11,528	14,453
Taxation	-1,121	-1,701	-2,177	-2,765	-3,467
Exceptional Income - post-tax					
Profit After Tax	3,116	5,389	6,899	8,763	10,986
Minority Interests	-37	-76	-97	-124	-155
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,079	5,313	6,801	8,639	10,831
Recurring Net Profit	3,084	5,320	6,810	8,648	10,840
Fully Diluted Recurring Net Profit	3,084	5,320	6,810	8,648	10,840

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	4,359	7,050	9,238	11,700	14,635
Cash Flow from Invt. & Assoc.					
Change In Working Capital	-1,009	2,368	-2,559	-1,410	-1,706
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-1,340	-1,773	-2,137	-2,725	-3,427
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
Cashflow From Operations	2,010	7,645	4,541	7,564	9,502
Capex	-196	-156	-200	-200	-201
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	-544	-4,680	0	0	0
Cash Flow From Investing	-740	-4,837	-200	-200	-201
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-790	-174	-2,196	-2,811	-3,571
Preferred Dividends					
Other Financing Cashflow	164	-1,095	0	0	0
Cash Flow From Financing	-626	-1,269	-2,196	-2,811	-3,571
Total Cash Generated	644	1,540	2,145	4,553	5,730
Free Cashflow To Equity	1,270	2,809	4,341	7,364	9,301
Free Cashflow To Firm	1,270	2,809	4,341	7,364	9,301

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	4,607	12,176	14,321	18,874	24,604
Total Debtors	4,539	4,678	5,842	7,345	9,186
Inventories	6,354	8,189	9,306	11,748	14,739
Total Other Current Assets	308	242	242	242	242
Total Current Assets	15,808	25,286	29,711	38,209	48,771
Fixed Assets	1,762	2,247	2,256	2,256	2,247
Total Investments	68	105	105	105	105
Intangible Assets	339	363	352	340	328
Total Other Non-Current Assets	1,801	1,954	1,954	1,954	1,954
Total Non-current Assets	3,971	4,669	4,667	4,655	4,634
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	8,283	12,129	11,849	14,384	17,510
Other Current Liabilities	1,346	2,136	2,136	2,136	2,136
Total Current Liabilities	9,629	14,265	13,985	16,520	19,646
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	84	103	103	103	103
Total Non-current Liabilities	84	103	103	103	103
Total Provisions	0	0	0	0	0
Total Liabilities	9,714	14,368	14,088	16,622	19,749
Shareholders' Equity	9,777	15,223	19,829	25,657	32,917
Minority Interests	288	364	461	585	740
Total Equity	10,065	15,587	20,290	26,242	33,657

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	17.8%	42.8%	28.0%	26.2%	25.5%
Operating EBITDA Growth	46.6%	61.7%	31.0%	26.7%	25.1%
Operating EBITDA Margin	31.2%	35.3%	36.1%	36.3%	36.2%
Net Cash Per Share (Rmb)	5.29	9.98	11.74	15.47	20.17
BVPS (Rmb)	11.22	12.48	16.25	21.03	26.98
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	26.5%	24.0%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	5.6%	41.3%	41.3%	41.3%	41.3%
Accounts Receivables Days	91.78	79.45	71.24	71.21	71.60
Inventory Days	332.1	303.6	289.4	278.4	281.3
Accounts Payables Days	144.1	107.0	99.5	94.9	94.7
ROIC (%)	114%	126%	265%	193%	196%
ROCE (%)	48.0%	54.9%	50.7%	49.6%	48.3%
Return On Average Assets	17.0%	21.6%	21.4%	22.6%	22.8%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Sales volume growth (%)	-3.1%	24.2%	18.9%	19.0%	18.3%
ASP growth (%)	21.7%	15.2%	7.7%	6.1%	6.1%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

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Shanxi Xinghuacun Fen Wine (600809 CH)

RECOMMENDATION FRAMEWORK

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