

China

**ADD** (no change)

Consensus ratings\*: Buy 48 Hold 5 Sell 0

Current price:	Rmb158.0
Target price:	Rmb287.0
Previous target:	Rmb287.0
Up/downside:	81.7%
CGI / Consensus:	23.3%
Reuters:	000858.SZ
Bloomberg:	000858 CH
Market cap:	US\$91,501m
	Rmb613,100m
Average daily turnover:	US\$565.0m
	Rmb3,648m
Current shares o/s:	3,882m
Free float:	36.1%

Key changes in this note

NA



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.1	-17.1	-50.4
Relative (%)	-7.9	-7.8	-37.1

Major shareholders

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

Analysts

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# Wuliangye Yibin

## Completed 50% of its annual sales target in 4M22

- Wuliangye held its 2021 annual shareholders meeting and reiterated its FY22F target of double-digit yoy sales growth, unchanged.
- Management said sales of 8<sup>th</sup> generation of Wuliangye from Jan to Apr had reached c. 50% of its annual sales target, even in the east China market.
- We expect the Company to achieve 12.6% yoy sales growth with net profit up by 14.2% yoy in FY22F.
- Reiterate Add with an unchanged DCF-based TP of Rmb287.

### 8<sup>th</sup> generation Wuliangye maintained steady sales growth in Jan-Apr

Management said that total sales of the Company's core product, 8<sup>th</sup> generation Wuliangye, grew steadily yoy in 4M22, and that it had completed c.50% of its annual sales target. This product contributes c.70% of the Company's baijiu sales. The Company divides China into 11 markets. The east China market was negatively impacted by Omicron since Mar. In the east China market, sales in Jiangsu province maintained positive yoy growth in 4M22, but sales in Shanghai and Zhejiang provinces declined yoy due to Omicron. Based on our channel checks, sales in Jiangsu, Zhejiang and Anhui provinces started to recover in the past two weeks. We expect sales in Shanghai to improve a bit as production resumes and the market reopens in June. Management maintained its previous guidance of double-digit yoy sales growth in FY22F.

### Plans to improve the wholesale price in FY22F

For 8<sup>th</sup> generation Wuliangye, the Company will take a couple of measures to improve its first-layer wholesale price and distributor margin in FY22F: 1) It will adopt digital marketing methods to precisely monitor market supply and provide immediate logistics support through the construction of 15 new warehouses across the country; 2) It has taken a socially responsible position in providing support to distributors and consumers during the pandemic period since Mar. Management believes that Wuliangye's brand image has improved and that the Company can meet consumer demand after the lockdown period; 3) It will put more effort into exploring the e-commerce channel and the high-end group customer channel, as sales in the e-commerce channel are currently growing fast and have not been impacted by Omicron. The Company considers the high-end group customer channel to be quite important for the classic Wuliangye product with a retail price above Rmb2,500 per bottle; and 4) It will give more autonomy and discretionary decision-making power to the front-line sales team, including financial matters and sales person recruitment to encourage sales initiative and respond quickly to the changing channel conditions to gain market share.

### Increasing product investment to improve brand value

Management considers the classic Wuliangye to be not only the Company's second growth driver, but also an important product to improve its brand value. Currently, this product is still in the introduction stage, and the Company will focus on cultivating high-end customers and promoting brand recognition. The Company has 144 distributors for classic Wuliangye products. Each distributor usually has 20-30 packages of classic Wuliangye in stock, and the Company will supply more when these stocks are sold to maintain tight supply in the market. The Company will also arrange more promotion activities for classic Wuliangye in its five key cities – Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu – and some key provincial capitals. The Company will set up high-end cultural experience stores in these Tier 1 cities to introduce the Wuliangye culture and history to customers. The Company will also engage in strategic cooperation with influential activities, such as the Boao Asia Forum, WorldExpo and G20, to improve the brand value.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	57,321	66,209	74,573	85,145	97,785
Operating EBITDA (Rmbm)	26,817	31,296	35,555	40,776	47,038
Net Profit (Rmbm)	19,955	23,377	26,692	30,433	34,924
Core EPS (Rmb)	5.15	6.03	6.89	7.85	9.01
Core EPS Growth	14.7%	17.2%	14.2%	14.0%	14.7%
FD Core P/E (x)	30.68	26.19	22.94	20.12	17.54
DPS (Rmb)	2.58	3.02	3.45	3.94	4.52
Dividend Yield	1.63%	1.91%	2.19%	2.49%	2.86%
EV/EBITDA (x)	20.40	17.03	14.69	12.49	10.52
P/FCFE (x)	47.25	24.25	23.98	20.80	18.07
Net Gearing	(77.7%)	(81.2%)	(81.5%)	(82.0%)	(82.5%)
P/BV (x)	7.15	6.19	5.46	4.81	4.23
ROE	25.0%	25.3%	25.3%	25.4%	25.7%
CGI/consensus EPS (x)			0.97	0.95	0.95

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

# Completed 50% of its annual sales target in 4M22

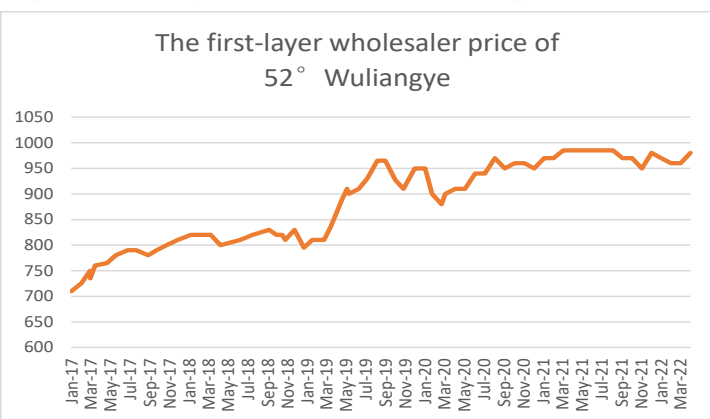
## Channel simplification for Series brands

The Company will start to optimize the channel structure of Series brands in FY22F. Series brands contribute 20% of the Company's baijiu sales, so the Series brands growth driver will change from volume growth to structural growth in the future. The Company will attempt to simplify the distribution channel and provide more support to large distributors. It will focus on building 71 company-level model markets in 47 regional markets and invest in the catering channel for key products under the Series brands. The Company established its own terminal data club system and completed the registration of 600k sales points. In addition, the Company will continue to expand the e-commerce channel and KA channel for its Series brands, and will develop exclusive products for these channels to improve sales volume growth.

## Reiterate Add with an unchanged DCF-based TP of Rmb287

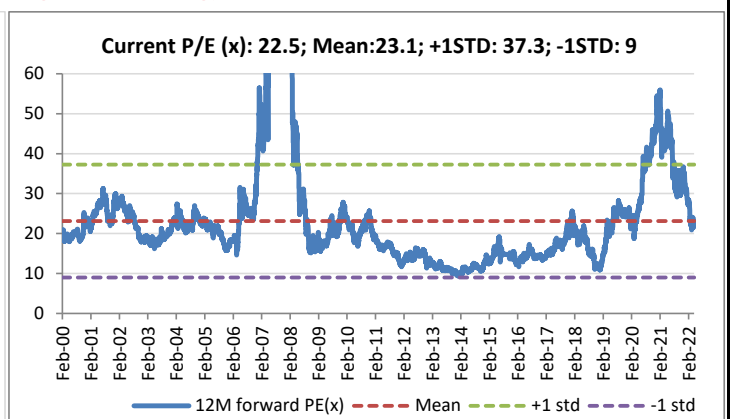
We reiterate our Add rating, since we believe Wuliangye will continue to improve its pricing system and brand image in FY22F. The high-end Wuliangye liquor production ratio is currently 20%, and management aims to improve this ratio in the next 3–5 years. The Company is considering launching a new share option plan to increase employee motivation. Wuliangye is trading at 22.8x FY22F and 20.0x FY23F PE, which looks cheap to us and is lower than that of its super-premium baijiu peers, like Moutai and Luzhou Laojiao.

Figure 3: First-layer wholesale price of Wuliangye



SOURCES: CGIS RESEARCH

Figure 4: Wuliangye 12M forward P/E



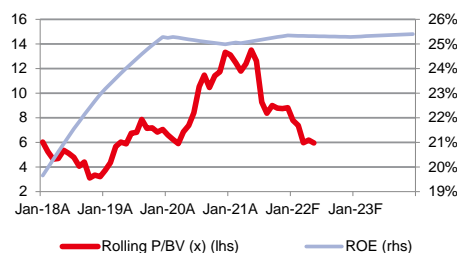
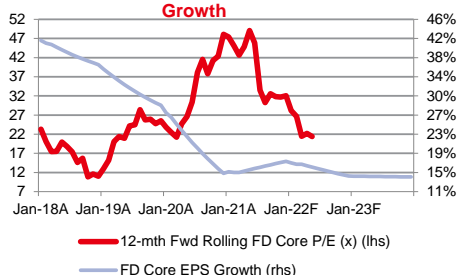
SOURCES: CGIS RESEARCH, WIND

**Figure 5: DCF valuation**

(Rmb, m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
Recur operating income	35,083	40,275	46,508	57,029	69,047	84,272	102,008	122,453	145,768	172,059
Taxes	-9,069	-10,340	-11,866	-13,959	-16,901	-20,627	-24,969	-29,973	-35,680	-42,115
Operating income, tax-affected	26,013	29,934	34,642	43,070	52,147	63,644	77,039	92,480	110,088	129,944
Add: Depreciation & amortisation	473	501	530	584	642	702	749	776	774	733
Add Changes in Working capital	-1,887	-1,926	-2,210	-2,563	-2,990	-3,509	-4,075	-4,678	-5,310	-5,956
Less Capital Expenditure	-1,000	-1,000	-1,000	-1,096	-1,198	-1,303	-1,384	-1,426	-1,414	-1,332
Free Cash Flow to firm	23,599	27,510	31,962	39,996	48,600	59,534	72,330	87,152	104,137	123,389
<b>Key assumptions</b>										
NPV of FY22-26F Cash flow	129,362	Industry average beta		1.08						
NPV of FY27-31F Cash Flow	206,626	Risk free rate		3.4%						
NPV of Terminal Value	689,271	Risk premium		6.3%						
Enterprise Value	1,025,259	Cost of equity		10.2%						
Add Net cash/(Net Debt)	93,601	Cost of Debt		3.7%						
Less Minority	-3,614	Debt %		0.1%						
Equity value of firm	1,115,246	Tax rate		25.0%						
Share outstanding (m)	3,882	WACC		10.2%						
Target price (Rmb)	287	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>57,578</b>	<b>66,520</b>	<b>74,833</b>	<b>85,405</b>	<b>98,045</b>
<b>Gross Profit</b>	<b>34,674</b>	<b>40,412</b>	<b>45,725</b>	<b>52,425</b>	<b>60,463</b>
<b>Operating EBITDA</b>	<b>26,817</b>	<b>31,296</b>	<b>35,555</b>	<b>40,776</b>	<b>47,038</b>
Depreciation And Amortisation	-476	-475	-473	-501	-529
<b>Operating EBIT</b>	<b>26,341</b>	<b>30,821</b>	<b>35,083</b>	<b>40,275</b>	<b>46,509</b>
Financial Income/(Expense)	1,486	1,732	1,970	1,970	1,970
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	-148	-102	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>27,719</b>	<b>32,498</b>	<b>37,100</b>	<b>42,292</b>	<b>48,526</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>27,678</b>	<b>32,450</b>	<b>37,053</b>	<b>42,245</b>	<b>48,479</b>
Taxation	-6,765	-7,943	-9,069	-10,340	-11,866
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>20,913</b>	<b>24,507</b>	<b>27,983</b>	<b>31,904</b>	<b>36,613</b>
Minority Interests	-959	-1,130	-1,291	-1,472	-1,689
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>19,955</b>	<b>23,377</b>	<b>26,692</b>	<b>30,433</b>	<b>34,924</b>
Recurring Net Profit	19,986	23,413	26,728	30,469	34,960
<b>Fully Diluted Recurring Net Profit</b>	<b>19,986</b>	<b>23,413</b>	<b>26,728</b>	<b>30,469</b>	<b>34,960</b>

### Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>26,817</b>	<b>31,296</b>	<b>35,555</b>	<b>40,776</b>	<b>47,038</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	-6,315	1,547	-1,887	-1,926	-2,210
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-5,804	-6,067	-7,099	-8,370	-9,895
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
<b>Cashflow From Operations</b>	<b>14,698</b>	<b>26,775</b>	<b>26,569</b>	<b>30,480</b>	<b>34,933</b>
Capex	-994	-1,539	-1,000	-1,000	-1,000
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	-728	42	0	0	0
<b>Cash Flow From Investing</b>	<b>-1,722</b>	<b>-1,497</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-1,000</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-9,228	-10,874	-13,398	-15,276	-17,530
Preferred Dividends					
Other Financing Cashflow	1,223	-276	0	0	0
<b>Cash Flow From Financing</b>	<b>-8,005</b>	<b>-11,151</b>	<b>-13,398</b>	<b>-15,276</b>	<b>-17,530</b>
Total Cash Generated	4,971	14,127	12,171	14,204	16,403
<b>Free Cashflow To Equity</b>	<b>12,976</b>	<b>25,278</b>	<b>25,569</b>	<b>29,480</b>	<b>33,933</b>
<b>Free Cashflow To Firm</b>	<b>12,976</b>	<b>25,278</b>	<b>25,569</b>	<b>29,480</b>	<b>33,933</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	68,210	82,336	94,507	108,711	125,114
Total Debtors	20,671	25,591	26,044	29,732	34,142
Inventories	13,228	14,015	14,103	14,785	15,501
Total Other Current Assets	247	196	198	223	253
<b>Total Current Assets</b>	<b>102,356</b>	<b>122,138</b>	<b>134,852</b>	<b>153,452</b>	<b>175,011</b>
Fixed Assets	5,867	5,610	6,183	6,729	7,246
Total Investments	1,851	1,912	1,912	1,912	1,912
Intangible Assets	435	558	510	463	415
Total Other Non-Current Assets	3,384	5,402	5,402	5,402	5,402
<b>Total Non-current Assets</b>	<b>11,537</b>	<b>13,483</b>	<b>14,008</b>	<b>14,506</b>	<b>14,977</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	20,337	26,375	25,031	27,502	30,447
Other Current Liabilities	5,542	7,241	7,241	7,241	7,241
<b>Total Current Liabilities</b>	<b>25,879</b>	<b>33,616</b>	<b>32,272</b>	<b>34,742</b>	<b>37,688</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	256	258	258	258	258
<b>Total Non-current Liabilities</b>	<b>256</b>	<b>258</b>	<b>258</b>	<b>258</b>	<b>258</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>26,135</b>	<b>33,874</b>	<b>32,530</b>	<b>35,000</b>	<b>37,946</b>
Shareholders' Equity	85,706	99,068	112,360	127,517	144,912
Minority Interests	2,052	2,323	3,614	5,086	6,774
<b>Total Equity</b>	<b>87,758</b>	<b>101,392</b>	<b>115,974</b>	<b>132,603</b>	<b>151,686</b>

**Key Ratios**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	14.4%	15.5%	12.6%	14.2%	14.8%
Operating EBITDA Growth	15.3%	16.7%	13.6%	14.7%	15.4%
Operating EBITDA Margin	46.8%	47.3%	47.7%	47.9%	48.1%
Net Cash Per Share (Rmb)	17.57	21.21	24.35	28.01	32.23
BVPS (Rmb)	22.08	25.52	28.95	32.85	37.33
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	24.4%	24.5%	24.5%	24.5%	24.5%
Net Dividend Payout Ratio	50.1%	50.1%	50.1%	50.1%	50.1%
Accounts Receivables Days	124.1	127.3	126.2	119.4	119.4
Inventory Days	215.0	190.4	176.3	159.9	147.5
Accounts Payables Days	62.51	72.85	75.55	67.98	67.66
ROIC (%)	218%	172%	198%	200%	206%
ROCE (%)	34.0%	34.5%	34.1%	34.0%	34.1%
Return On Average Assets	17.7%	18.3%	18.3%	18.9%	19.4%

**Key Drivers**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
ASP growth (%)	16.8%	3.9%	4.3%	5.4%	5.9%
Volume growth (%)	-3.0%	13.3%	9.0%	9.2%	9.3%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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632 companies under coverage for quarter ended on 31 Mar 2022		
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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)**

**Wuliangye Yibin (000858 CH)**

— Price Close



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