

China

ADD (no change)

Consensus ratings*: Buy 48 Hold 5 Sell 0

Current price:	Rmb162.1
Target price:	Rmb287.0
Previous target:	Rmb301.0
Up/downside:	77.0%
CGI / Consensus:	8.8%
Reuters:	000858.SZ
Bloomberg:	000858 CH
Market cap:	US\$95,384m
	Rmb629,325m
Average daily turnover:	US\$573.2m
	Rmb3,654m
Current shares o/s:	3,882m
Free float:	36.1%

*Source: Bloomberg

Key changes in this note

- FY22F EPS cut by 2.3%.
- FY23F EPS cut by 2.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.7	-18.3	-44
Relative (%)	13.6	-8.9	-31.7

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

Analysts

Lei Yang

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

Sun Feifei

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

Wuliangye Yibin

New management to increase the wholesale price

- Wuliangye reported that sales grew 15.5% yoy to Rmb66.2bn in FY21, with net profit up by 17.2% yoy to Rmb23.4bn, in line with our expectations.
- In 1Q22, sales increased by 13.3% yoy to Rmb27.6bn, with net profit up by 16.1% yoy to Rmb10.8bn, reflecting the Company's resilient business during the Covid situation.
- Management guided double-digit yoy sales growth in FY22F. We expect the new senior management team with long-term industry experience to make various efforts to push up the wholesale price of Wuliangye in FY22F.
- Reiterate Add with new DCF-based TP of Rmb287.

Classic Wuliangye to increase the ASP and margins

The Wuliangye brand achieved sales growth of 11.5% yoy to Rmb49.1bn in FY21. Sales volume was up by 3.8% yoy to 29.2k tons and the ASP was up by 7.4% yoy to Rmb1,628k/t. The ASP increase was driven mainly by the strong sales growth of its newly launched high-end product Classic Wuliangye, with a selling price above Rmb2,000/bottle and the sales contribution improvement of group customers. Sales of the series brands grew by 50.7% yoy to Rmb12.6bn in FY21, with ASP up by 30.7% yoy to Rmb83k/t and sales volume up by 20% yoy. After two years of product structure reforms for the series brands, the Company is focusing on the mid- to high-end series brand products to drive up growth. Driven by the ASP improvement, the GPM expanded by 0.5pts yoy to 60.6% in FY21, and the OPM improved by 0.7pts yoy to 46.4%.

New management to raise the wholesale price in FY22F

Although the Company achieved good results in 1Q22, we still expect 2Q22F sales to be partially impacted by the Omicron outbreak in Shanghai and other cities. To support its distributors, management extended the payment period for distributors, which led to the accounts receivable increasing by 93.6% yoy to Rmb28.3bn in 1Q22. In addition, the new senior management team has taken various measures to drive up the wholesale price of the Wuliangye brand liquor. Currently, the first-layer wholesale price is stable at Rmb970/bottle, with around one month's channel inventory. Shipments of Classic Wuliangye have been suspended temporarily so that the Company can restructure its distributor network. We now expect the Company to achieve 12.6% top-line growth with net profit up by 14.2% yoy in FY22F. Management said that when the Covid situation in Shanghai is well controlled, they will launch more stimulus policies for distributors to take advantage of the recovery in demand.

New channel and new products to drive growth

After the channel restructuring for Classic Wuliangye, this new high-end product will focus on large group customers and big e-commerce platforms to drive growth. The Company set up new retail company in 2020, which serves mainly the online channel, and in 2021, Wuliangye set up its own flagship store on TikTok. Management said it is also considering launching Wuliangye's own app to further drive online sales. Wuliangchu is an important mid-end brand under the series brands. In March 2022, the Company launched a new star product, Mingmeng Chun, under the Wuliangchu brand to drive its product mix. In 2022, Mingmeng Chun will be launched in the Jiangsu, Sichuan, Shanghai and Zhejiang markets.

Reiterate Add with new DCF-based TP of Rmb287

We cut our FY22F and FY23F earnings forecasts by 2.3% and 2.4%, respectively, to reflect the Omicron impact. However, 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. The Company is also considering launching a new share option plan to increase motivation.

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)	31.49	26.88	23.55	20.65	18.00
DPS (Rmb)	2.58	3.02	3.45	3.94	4.52
Dividend Yield	1.59%	1.86%	2.13%	2.43%	2.79%
EV/EBITDA (x)	21.00	17.55	15.14	12.89	10.86
P/FCFE (x)	48.50	24.90	24.61	21.35	18.55
Net Gearing	(77.7%)	(81.2%)	(81.5%)	(82.0%)	(82.5%)
P/BV (x)	7.34	6.35	5.60	4.94	4.34
ROE	25.0%	25.3%	25.3%	25.4%	25.7%
% Change In Core EPS Estimates			(2.20%)	(2.37%)	
CGI/consensus EPS (x)			0.96	0.94	0.89

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

New management to increase the wholesale price

Figure 1: Wuliangye quarterly financial summary

(Rmb m)	1Q21	2Q21	3Q21	4Q21	1Q22	yoy	FY20	FY21	yoy
Revenue	24,325	12,427	12,969	16,488	27,548	13%	57,321	66,209	15.5%
YoY (%)	20.2%	18.0%	10.6%	11.2%	13.3%		14.4%	15.5%	
Cost of Goods sold	-5,733	-3,472	-3,097	-4,017	-5,948	4%	-14,812	-16,319	10.2%
Sale tax & additional	-3,341	-1,742	-1,974	-2,733	-3,897	17%	-8,092	-9,790	21.0%
Gross Profit incl: sales tax	15,251	7,213	7,898	9,738	17,703	16%	34,417	40,101	16.5%
Other operating income	35	116	35	125	21	-41%	257	311	21.1%
Sale and distribution expense	-1,724	-1,831	-1,845	-1,104	-2,033	18%	-5,579	-6,504	16.6%
General Administrative expense	-990	-622	-667	-799	-1,035	5%	-2,741	-3,077	12.3%
Operating profit	12,573	4,876	5,421	7,961	14,655	17%	26,354	30,831	17.0%
Net Profit	9,324	3,877	4,127	6,050	10,823	16%	19,955	23,377	17.2%
YoY (%)	21.0%	23.0%	11.8%	11.8%	16.1%		14.7%	17.2%	
Margins						ppt chg			ppt chg
GPM excl: sales tax	76.4%	72.1%	76.1%	75.6%	78.4%	2.0%	74.2%	75.4%	1.2%
Sales tax	13.7%	14.0%	15.2%	16.6%	14.1%	0.4%	14.1%	14.8%	0.7%
S&D expense ratio	7.1%	14.7%	14.2%	6.7%	7.4%	0.3%	9.7%	9.8%	0.1%
G&A expense ratio	4.1%	5.0%	5.1%	4.8%	3.8%	-0.3%	4.8%	4.6%	-0.1%
Operating profit margin (%)	51.7%	39.2%	41.8%	48.3%	53.2%	1.5%	46.0%	46.6%	0.6%
Net profit margin (%)	38.3%	31.2%	31.8%	36.7%	39.3%	1.0%	34.8%	35.3%	0.5%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 2: Earnings revision

(Rmb m)	FY22F			FY23F			FY24F
	Old	New	Change	Old	New	Change	New
Sales	75,842	74,573	-1.7%	86,613	85,145	-1.7%	97,785
Sales growth	14.5%	12.6%	-1.9%	14.2%	14.2%	0.0%	14.8%
GPM	60.8%	61.0%	0.1%	61.1%	61.3%	0.1%	61.6%
OPM	47.9%	47.0%	-0.8%	48.1%	47.3%	-0.8%	47.6%
Net profit	27,314	26,692	-2.3%	31,192	30,433	-2.4%	34,924
Net profit growth	16.1%	14.2%	-1.9%	14.2%	14.0%	-0.2%	14.8%

SOURCES: CGIS RESEARCH

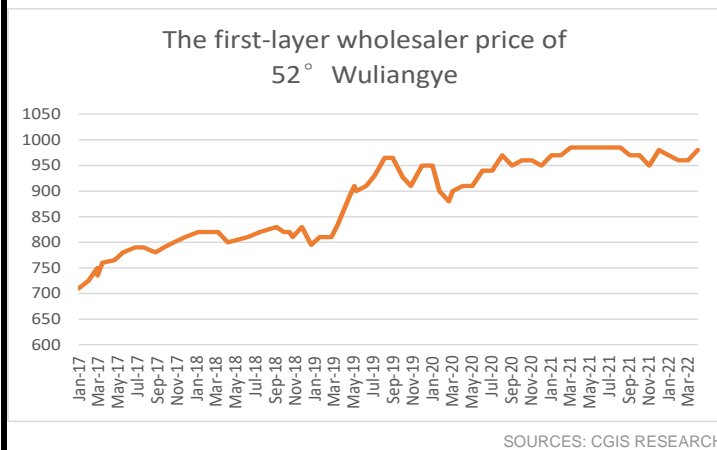
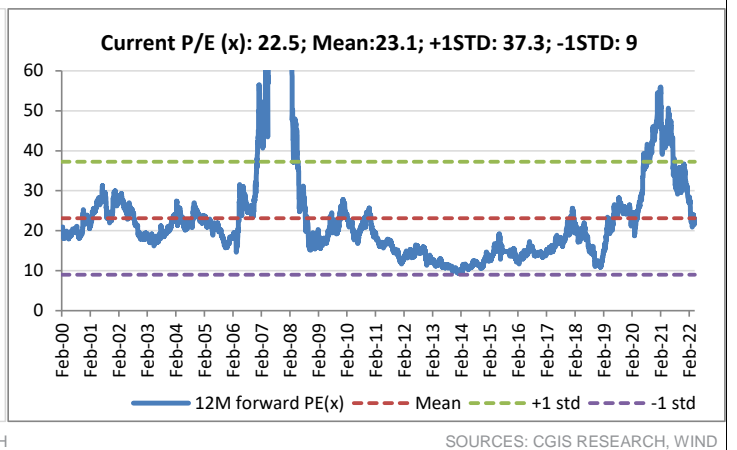
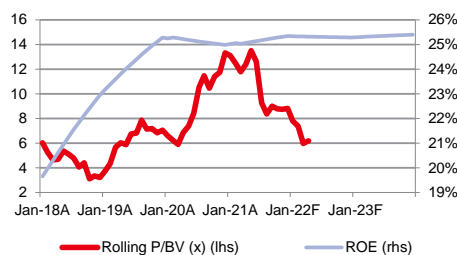
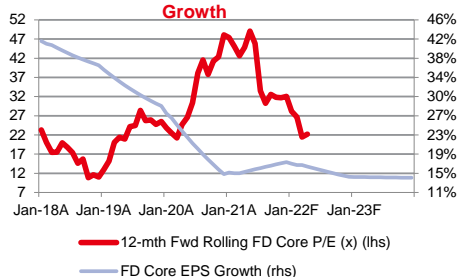
Figure 3: First-layer wholesaler price of Wuliangye

Figure 4: Wuliangye 12M forward P/E


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
Key assumptions										
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
Total Net Revenues	57,578	66,520	74,833	85,405	98,045
Gross Profit	34,674	40,412	45,725	52,425	60,463
Operating EBITDA	26,817	31,296	35,555	40,776	47,038
Depreciation And Amortisation	-476	-475	-473	-501	-529
Operating EBIT	26,341	30,821	35,083	40,275	46,509
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
Profit Before Tax (pre-EI)	27,719	32,498	37,100	42,292	48,526
Exceptional Items					
Pre-tax Profit	27,678	32,450	37,053	42,245	48,479
Taxation	-6,765	-7,943	-9,069	-10,340	-11,866
Exceptional Income - post-tax					
Profit After Tax	20,913	24,507	27,983	31,904	36,613
Minority Interests	-959	-1,130	-1,291	-1,472	-1,689
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	19,955	23,377	26,692	30,433	34,924
Recurring Net Profit	19,986	23,413	26,728	30,469	34,960
Fully Diluted Recurring Net Profit	19,986	23,413	26,728	30,469	34,960

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	26,817	31,296	35,555	40,776	47,038
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					
Cashflow From Operations	14,698	26,775	26,569	30,480	34,933
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
Cash Flow From Investing	-1,722	-1,497	-1,000	-1,000	-1,000
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
Cash Flow From Financing	-8,005	-11,151	-13,398	-15,276	-17,530
Total Cash Generated	4,971	14,127	12,171	14,204	16,403
Free Cashflow To Equity	12,976	25,278	25,569	29,480	33,933
Free Cashflow To Firm	12,976	25,278	25,569	29,480	33,933

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
Total Current Assets	102,356	122,138	134,852	153,452	175,011
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
Total Non-current Assets	11,537	13,483	14,008	14,506	14,977
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
Total Current Liabilities	25,879	33,616	32,272	34,742	37,688
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	256	258	258	258	258
Total Non-current Liabilities	256	258	258	258	258
Total Provisions	0	0	0	0	0
Total Liabilities	26,135	33,874	32,530	35,000	37,946
Shareholders' Equity	85,706	99,068	112,360	127,517	144,912
Minority Interests	2,052	2,323	3,614	5,086	6,774
Total Equity	87,758	101,392	115,974	132,603	151,686

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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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)

Wuliangye Yibin (000858 CH)

RECOMMENDATION FRAMEWORK

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Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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