

China
ADD (no change)

Consensus ratings*: Buy 50 Hold 3 Sell 0

Current price:	Rmb170.1
Target price:	Rmb287.0
Previous target:	Rmb287.0
Up/downside:	68.7%
CGI / Consensus:	18.2%

Reuters:	000858.SZ
Bloomberg:	000858 CH
Market cap:	US\$96,228m
	Rmb660,262m
Average daily turnover:	US\$549.3m
	Rmb3,694m
Current shares o/s:	3,882m
Free float:	36.1%

*Source: Bloomberg

Key changes in this note

NA



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-10.9	8.2	-17.9
Relative (%)	-9	5.3	-9.7

Major shareholders

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

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Wuliangye Yibin

Stable sales growth likely in 2H22F

- Wuliangye announced that sales rose by 12% yoy to Rmb41bn in 1H22 and that net profit rose by 14% yoy to Rmb15bn, in line with our expectations.
- For the upcoming Sep-Oct peak season, we expect the company to increase its investment in the group purchase channel to achieve steady sales growth.
- Given Wuliangye's healthy channel inventory of 1.5 months, we now expect the company's sales to grow by 13.2% yoy in 2H22F and 12.6% yoy in FY22F.
- Reiterate Add with an unchanged DCF-based TP of Rmb287.

Steady volume growth for high-end Wuliangye liquor

In 1H22, the company's high-end brand, Wuliangye, maintained steady sales growth of 17% yoy to Rmb31.9bn, accounting for 78% of total sales, driven mainly by 15% yoy volume growth. Given the high base effect of 39% yoy sales growth in 1H21 and the Covid-19 impact, sales of the series brands declined by 6% yoy to Rmb6.5bn, and sales volume dropped significantly by 48% yoy in 1H22, reflecting the mix upgrade trend among the series brands. In 1H22, the company actively optimized the product structure of the series brands and focused on its mid- to high-end products. The average selling price of the series brands improved significantly in 1H22 due to product structure upgrades. The company's GPM improved by 2% pts to 76.9% in 1H22; of this, the GPM of the Wuliangye brand remained fairly stable at 86.4%, and that of the series brands improved by 1.8% pts to 59.8%. In 2Q22, the company's sales grew by 10% yoy to Rmb13.7bn, and net profit was up by 10% yoy to Rmb4.3bn. The company's channel inventory remained at a healthy level of 1.5 months, and the first-layer wholesale price stabilized at Rmb970/bottle.

Adjusting the marketing strategy due to the Covid-19 impact in 2Q22

The company has 2,404 distributors for the Wuliangye brand (a net increase of 81 YTD) and 611 distributors for the series brands. Advances from customers had declined significantly by 70% yoy as at the end of Jun. The company explained that due to Covid-19 volatility in 2Q22, it reduced the prepayment proportion for distributors and optimized the order plan to lower the financial pressure on distributors. In addition, the company decentralized the marketing power in each regional market so that it can respond more efficiently to market changes. The company also increased its investment in group purchase and brand promotion activities. Its distribution expenses ratio rose by 0.5% pt yoy to 10.2% in 1H22 and 1.2% pts yoy to 15.9% in 2Q22. The company's net profit margin remained stable yoy at 31.3% in 2Q22.

We expect a second equity-incentive scheme to be launched soon

The company strengthened the management of its sales team and improved the control of distribution channels in 2Q22. We expect Wuliangye's brand awareness and product quality to help the company achieve steady sales growth in 2H22F. Wuliangye's last employee share incentive plan was implemented in 2015, which helped the company achieve strong growth in the past six years. The new chairman has emphasized the reform of the marketing and management system. We expect the company to launch its second share-incentive plan in the near future.

Reiterate Add with an unchanged DCF based TP of Rmb287

We reiterate our Add rating, as we expect Wuliangye to continue to drive solid sales growth and margin improvement through a product mix upgrade and expanding its group purchase channels. A key catalyst would be stronger-than-expected sales and margin expansion. The main risk is that weak macro might reduce business consumption of premium baijiu products. Our TP is derived from the DCF valuation method with 10.2% WACC and a 3% terminal growth rate (details on page 2).

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)	33.04	28.20	24.70	21.67	18.89
DPS (Rmb)	2.58	3.02	3.45	3.94	4.52
Dividend Yield	1.52%	1.78%	2.03%	2.31%	2.66%
EV/EBITDA (x)	22.15	18.54	16.01	13.65	11.52
P/FCFE (x)	50.88	26.12	25.82	22.40	19.46
Net Gearing	(77.7%)	(81.2%)	(81.5%)	(82.0%)	(82.5%)
P/BV (x)	7.70	6.66	5.88	5.18	4.56
ROE	25.0%	25.3%	25.3%	25.4%	25.7%
CGI/consensus EPS (x)			0.98	0.96	0.95

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Stable sales growth likely in 2H22F

Figure 1: Wuliangye financial summary

(Rmb m)	1Q22	2Q22	yoy	FY21	FY22F	yoy	1H21	1H22	yoy
Revenue	27,548	13,674	10%	66,209	74,573	12.6%	36,752	41,222	12%
YoY (%)	13.3%	10.0%		15.5%	12.6%		19%	12%	
Cost of Goods sold	-5,948	-3,566	3%	-16,319	-18,082	10.8%	-9,204	-9,514	3%
Sale tax & additional	-3,897	-1,887	8%	-9,790	-11,026	12.6%	-5,083	-5,784	14%
Gross Profit incl: sales tax	17,703	8,221	14%	40,101	45,465	13.4%	22,464	25,924	15%
Other operating income	21	83	-28%	311	260	-16.4%	151	104	-31%
Sale and distribution expense	-2,033	-2,180	19%	-6,504	-7,250	11.5%	-3,555	-4,213	19%
General Administrative expense	-980	-652	5%	-3,077	-3,392	10.2%	-1,612	-1,632	1%
Operating profit	14,655	5,425	11%	30,831	35,083	13.8%	17,449	20,081	15%
Net Profit	10,823	4,276	10%	23,377	26,692	14.2%	13,200	15,099	14%
YoY (%)	16.1%	10.3%		17.2%	14.2%		22%	14%	
Margins			ppt chg			ppt chg			ppt chg
GPM excl: sales tax	78.4%	73.9%	1.9%	75.4%	75.8%	0.4%	75.0%	76.9%	2.0%
Sales tax	14.1%	13.8%	-0.2%	14.8%	14.8%	0.0%	13.8%	14.0%	0.2%
S&D expense ratio	7.4%	15.9%	1.2%	9.8%	9.7%	-0.1%	9.7%	10.2%	0.5%
G&A expense ratio	3.6%	4.8%	-0.2%	4.6%	4.5%	-0.1%	4.4%	4.0%	-0.4%
Operating profit margin (%)	53.2%	39.7%	0.4%	46.6%	47.0%	0.5%	47.5%	48.7%	1.2%
Net profit margin (%)	39.3%	31.3%	0.1%	35.3%	35.8%	0.5%	35.9%	36.6%	0.7%

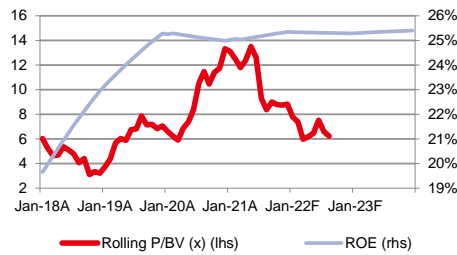
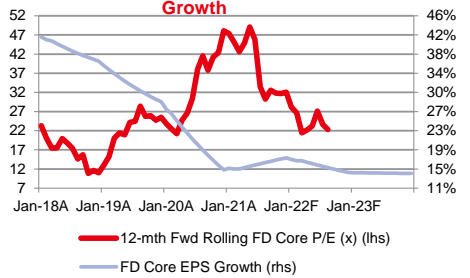
SOURCES: CGIS RESEARCH, COMPANY DATA

We maintain our earnings forecasts for FY22–24F and reiterate our Add rating, as we expect Wuliangye to continue to drive solid sales growth and margin expansion through a mix upgrade and group purchase channel expansion. A key catalyst would be stronger-than-expected sales and margin expansion. The main risks includes 1) the weak macro, which might reduce business consumption of super premium baijiu products, might impact the company's sales, as the company has over 70% sales from the super-premium baijiu products; 2) the market competition may intensify, leading to the company spending more on marketing activities and distribution channels, which might squeeze net profit margins; 3) Wuliangye's distribution network, particularly distributors' loyalty might be negatively affected if the other premium baijiu players provide more market support. Our TP is derived from the DCF valuation method with 10.2% WACC and a 3% terminal growth rate. No component changes in WACC.

Figure 2: 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
NPV of FY22-26F Cash flow	129,362					Key assumptions				
NPV of FY27-31F Cash Flow	206,626					Industry average beta				
NPV of Terminal Value	689,271					1.08				
Enterprise Value	1,025,259					Risk free rate				
Add Net cash/(Net Debt)	93,601					3.4%				
Less Minority	-3,614					Risk premium				
Equity value of firm	1,115,246					6.3%				
Share outstanding (m)	3,882					Cost of equity				
Target price (Rmb)	287					10.2%				
						Cost of Debt				
						3.7%				
						Debt %				
						0.1%				
						Tax rate				
						25.0%				
						WACC				
						10.2%				
						Terminal growth rate				
						3.0%				

SOURCES: CGIS RESEARCH ESTIMATES, 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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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

Wuliangye Yibin (000858 CH)

— Price Close



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