

China

Overweight (no change)

Highlighted companies

Kweichow Moutai

ADD, TP Rmb2,266, Rmb1,765 close

Moutai has built up a successful direct sales channel. We expect it to continue to improve its product mix in the direct sales channel, particularly for its Series brand, and further improve its profitability in FY24F.

Luzhou Laojiao

ADD, TP Rmb290.0, Rmb209.6 close

Laojiao has actively promoted its mid- to high-end products, like Tequ and low-alcohol content products, to match the current baijiu consumption trend. We expect Laojiao's product mix to continue to improve in FY23F.

Anhui Gujing Distillery

ADD, TP Rmb384.0, Rmb261.4 close

We believe Gujing will continue to benefit from the baijiu consumption upgrade trend in Anhui province, after having made significant marketing investment in local distributors in 2020-22. We expect Gujing's GPM will improve yoy in FY23F.

Summary valuation metrics

P/E (x)	Dec-23F	Dec-24F	Dec-25F
Anhui Gujing Distillery	31.73	25.60	21.75
Kweichow Moutai	30.17	25.85	22.51
Luzhou Laojiao	23.79	20.32	17.44
P/BV (x)	Dec-23F	Dec-24F	Dec-25F
Anhui Gujing Distillery	6.68	5.92	5.21
Kweichow Moutai	9.30	7.75	6.52
Luzhou Laojiao	7.83	6.79	5.87
Dividend Yield	Dec-23F	Dec-24F	Dec-25F
Anhui Gujing Distillery	1.59%	1.97%	2.32%
Kweichow Moutai	1.72%	2.01%	2.31%
Luzhou Laojiao	2.52%	2.95%	3.44%

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Food & Beverages

Good baijiu sales growth expected in 1Q24F

- For the seven baijiu companies under our coverage, average 3Q23 sales and net profit growth was 19% and 25% yoy, respectively, driven by rising banquet demand.
- Average advance payment from distributors grew 7% yoy and 19% qoq in 3Q23; this might indicate distributors' confidence in 4Q23F and 1Q24F sales, in our view.
- Moutai raised selling price by 20% for Feitian Moutai from 1 Nov. We believe other players may not raise prices in the near term, but focus on volume growth instead.
- We forecast average sales/net profit growth of 16%/5% yoy in 4Q23F (19%/22% yoy in FY23F) and 18%/19% yoy in FY24F.
- Our top picks for the baijiu sector are Moutai, Luzhou Laojiao and Gujing.

Most baijiu companies' 3Q23 sales growth in line

Baijiu consumption continued to grow in 3Q23, driven by banquet use at personal events, and gradual recovery in demand for business entertainment, in our view. Regional baijiu companies with strong customer awareness in their respective home markets continued to deliver stronger yoy sales growth in 3Q23 – Gujing 23% and King's Luck 28%. Super-premium baijiu companies delivered steady 3Q23 yoy growth, with Moutai seeing 14% growth and Wuliangye 17%, while Laojiao which actively adjusted its market strategy to cope with dynamic baijiu market demand, saw 25% growth. Meanwhile, Fen Wine's yoy sales growth slowed down to 14% in 3Q23 (vs. 24% in 1H23) as it restricted the market supply of its Qinghua brand products to stabilise prices. Yanghe's sales only grew 11% yoy in 3Q23, below our expectation, owing to fierce competition in its home market.

Good advance payment from distributors

Our channel checks at end Oct found that other than Moutai, the first-layer wholesale prices of the baijiu companies under our coverage have declined to slightly vs. prices as at end-Sep, due to 4Q being a low sales season. As there are still three months to Chinese New Year (CNY) in Feb 2024, we believe baijiu companies will raise their marketing expenses e.g. offering direct cash reward to end-consumers to improve the open rate of their bottles and further reduce channel inventory to prepare for a good CNY-related sales. Besides, the average advance payment from distributors rose 7% yoy and 19% qoq in 3Q23; this might indicate distributors' confidence for 4Q23F and 1Q24F sales, in our view. For the seven baijiu companies under our coverage, we forecast average sales and net profit to grow by 16% and 5% yoy in 4Q23F, and by 18% and 19% yoy in FY24F.

Volume growth will drive 2024F sales growth for baijiu companies

Moutai increased its ex-factory price of Feitian Moutai 53° by 20% from Rmb969 per bottle to Rmb1,169 per bottle from 1 Nov 2023. Two weeks later, Moutai's first-layer wholesale price for Feitian Moutai 53° has risen from Rmb2,650 per bottle to Rmb2,710 per bottle. The wholesale channel accounted for 55% of Moutai's total sales in 9M23. We do not expect this price increase will have a large impact on Moutai's first layer wholesale price and believe the first-layer wholesale price for Feitian Moutai 53° will stabilise at Rmb2,600-2,700 per bottle in FY24F, as we expect Moutai will increase the volume it supplies to the wholesale channel in FY24F. We expect Moutai's sales and net profit to grow by 16% and 17% yoy, respectively, in FY24F. As for the other baijiu companies, we project that given the current slow recovery of business entertainment demand, they will not hike prices significantly in 2024F, but instead pay more attention on driving volume growth.

Our top picks are Moutai, Laojiao and Gujing

We maintain our Overweight rating for the baijiu sector due to good revenue growth driven by demand from individuals and gradual recovery in business entertainment demand. Our top sector picks are Moutai and Laojiao among premium players, and Gujing among regional players, as we expect them to deliver good sales results in FY24F, owing to their dynamic market strategy. The Shenwan Liquor Index trades at 26x 12M forward P/E, 1 s.d. below its average of 35.6x since 2019; this makes the sector attractive, in our view.

Figure 1: 12M forward P/E valuation based on Wind consensus

Company Name	Ticker	Today (14 Nov 23)	2015-23 Mean	Std deviation	No. of std deviation above/(below) mean
Kweichow Moutai	600519 CH	25.7	30.3	7.7	-0.6
Wuliangye Yibin	000858 CH	17.9	25.2	8.2	-0.9
Luzhou Laojiao	000568 CH	19.4	26.7	8.4	-0.9
Jiangsu Yanghe Brewery	002304 CH	14.6	21.3	5.7	-1.2
Shanxi Xinghuacun Fen Wine	600809 CH	23.1	38.1	17.1	-0.9
Anhui Gujing Distillery	000596 CH	24.9	29.9	9.1	-0.5
Jiangsu King's Luck Brewery	603369 CH	17.7	22.4	5.6	-0.8
Average		20.5	27.7	8.8	-0.8

SOURCES: CGIS RESEARCH, WIND ESTIMATES

Good baijiu sales growth expected in 1Q24F

Figure 2: 3Q23 actual results vs. our original forecasts for baijiu companies under our coverage

Company Name	3Q23 results vs our expectation		Target price
	Sales	Net profit	
Moutai	In line	In line	Maintain
Wuliangye	Slightly above	Slightly above	Raise
Luzhou Laojiao	In line	Above	Raise
Yanghe	Below	Below	Cut
Fen Wine	Below	Above	Raise
Gujing	In line	Above	Raise
King's Luck	In line	In line	Maintain

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 3: YoY sales growth of baijiu companies under our coverage

Company Name	Sales yoy growth (%)						
	1Q23	2Q23	3Q23	4Q23F	FY22	FY23F	FY24F
Moutai	20%	22%	14%	12%	17%	17%	16%
Wuliangye	13%	5%	17%	10%	12%	12%	13%
Luzhou Laojiao	21%	30%	25%	16%	22%	22%	17%
Yanghe	16%	16%	11%	8%	19%	14%	15%
Fen Wine	20%	32%	14%	23%	31%	21%	21%
Gujing	25%	27%	23%	21%	26%	24%	21%
King's Luck	27%	31%	28%	22%	23%	27%	24%
Average	20%	23%	19%	16%	21%	19%	18%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

Figure 4: YoY net profit growth of baijiu companies under our coverage

Company Name	Net profit yoy growth (%)						
	1Q23	2Q23	3Q23	4Q23F	FY22	FY23F	FY24F
Moutai	20%	21%	16%	13%	20%	17%	17%
Wuliangye	16%	5%	19%	10%	14%	13%	13%
Luzhou Laojiao	29%	27%	29%	12%	30%	25%	17%
Yanghe	16%	17%	7%	22%	25%	13%	16%
Fen Wine	30%	50%	27%	-22%	52%	26%	22%
Gujing	43%	48%	47%	0%	37%	39%	24%
King's Luck	25%	29%	26%	3%	23%	23%	23%
Average	26%	28%	25%	5%	29%	22%	19%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

NPM improved in 3Q23 mainly due to controlled marketing expenses

The GPMs of super-premium baijiu companies Moutai, Wuliangye and Laojiao were fairly stable yoy in 3Q23. Owing to the baijiu consumption upgrade trend in their respective home markets and a good mainstream product profile, the GPM of regional baijiu companies Gujing and King's Luck rose 5.7% and 1.1% pts yoy respectively in 3Q23; however, as they also raised their marketing spend in the 3Q peak sales season, their 3Q23 distribution expense ratio increased 1% and 4.5% pts yoy respectively. Moutai increased its product promotion expenses for tailor-made products and Moutai 1935 in 3Q23. In contrast, Wuliangye, Laojiao and Fen Wine controlled their market expenses and their S&D expense ratio declined 0.3%, 0.8% and 5.8% pts yoy respectively in 3Q23. The average NPM of baijiu companies under coverage improved 1.2% pts yoy in 3Q23.

Downside risks

Sector downside risks include: 1) a slower business consumption recovery for baijiu products; 2) consumption downgrade among consumers, which might affect baijiu sales growth and margins; and 3) intensified baijiu market competition in 2024F, resulting in baijiu companies increasing their marketing expenses, which may lead to lower-than-expected net profit margins.

Figure 5: GPM and NPM of baijiu companies under our coverage

GPM(%)	Moutai	Wuliangye	Luzhou Laojiao	Yanghe	Fen Wine	Gujing	King's Luck	Average
1Q23	92.6%	78.4%	88.1%	76.6%	75.6%	79.7%	75.4%	80.9%
2Q23	90.8%	73.3%	88.6%	75.1%	77.8%	77.8%	72.9%	79.5%
3Q23	91.5%	73.4%	88.6%	74.9%	75.0%	79.4%	80.7%	80.5%
3Q23 yoy chg (%)	0.1%	0.1%	0.2%	-1.2%	-2.9%	5.7%	1.1%	0.5%

NPM(%)	Moutai	Wuliangye	Luzhou Laojiao	Yanghe	Fen Wine	Gujing	King's Luck	Average
1Q23	53.7%	40.3%	48.8%	38.3%	38.0%	23.8%	33.0%	39.4%
2Q23	49.3%	31.3%	48.4%	30.7%	30.8%	25.6%	36.7%	36.1%
3Q23	50.1%	34.0%	47.3%	27.8%	34.4%	22.3%	24.5%	34.4%
3Q23 yoy chg (%)	0.7%	0.4%	1.5%	-0.9%	3.7%	3.5%	-0.3%	1.2%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 6: YoY and qoq growth of advance payment from distributors of baijiu companies under coverage

YoY growth (%) of advance payment from distributors	Moutai	Wuliangye	Luzhou Laojiao	Yanghe	Fen Wine	Gujing	King's Luck	Average growth
1Q23	0%	53%	-2%	-29%	8%	1%	1%	5%
2Q23	-24%	94%	-17%	-33%	19%	-12%	11%	6%
3Q23	-4%	33%	56%	-33%	9%	-12%	-4%	7%

QoQ growth (%) of advance payment from distributors	Moutai	Wuliangye	Luzhou Laojiao	Yanghe	Fen Wine	Gujing	King's Luck	Average growth
1Q23	-46%	-55%	-33%	-49%	-40%	474%	-44%	30%
2Q23	-12%	-34%	12%	-24%	38%	-36%	-1%	-8%
3Q23	55%	8%	53%	4%	-10%	10%	16%	19%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 7: Baijiu monthly output yoy (%)

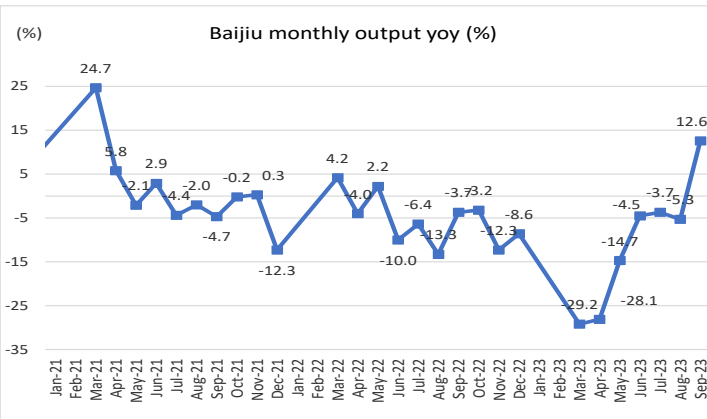


Figure 8: 12M forward P/E of the Shenwan Liquor Index based on Wind estimates

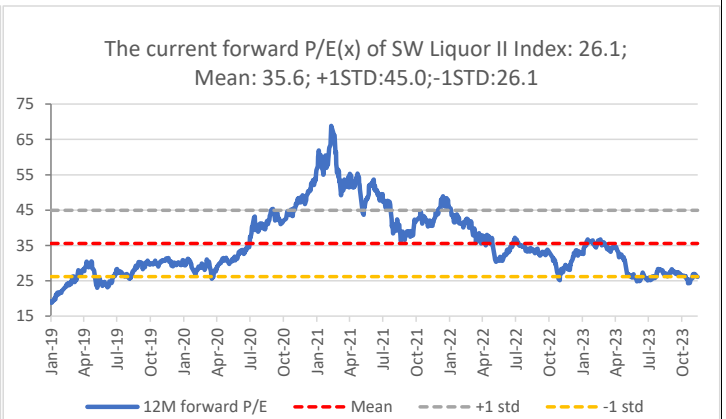


Figure 9: Valuation of baijiu companies under coverage based on our estimates

Baijiu companies under coverage	Ticker	Recom	Target Price (Rmb)	Market Cap (Rmb bn)	Last price (Rmb)	P/E (FD) (x)		P/BV (x)		EV/EBITDA (x)		ROE (%)		Dividend Yield (%)	
						Dec-23F	Dec-24F	Dec-23F	Dec-24F	Dec-23F	Dec-24F	Dec-23F	Dec-24F	Dec-23F	Dec-24F
Kweichow Moutai	600519 CH	ADD	2,266	2,218	1,765	30.17	25.85	9.30	7.75	20.29	16.98	33.8%	32.8%	1.72%	2.01%
Wuliangye Yibin	000858 CH	ADD	214	605	156	20.04	17.76	4.74	4.23	12.47	10.71	25.0%	25.2%	2.74%	3.10%
Luzhou Laojiao	000568 CH	ADD	290	308	210	23.79	20.32	7.83	6.79	16.41	13.69	35.4%	36.0%	2.52%	2.95%
Jiangsu Yanghe Brewery	002304 CH	ADD	184	179	119	16.97	14.62	3.41	3.07	10.13	8.30	21.2%	22.2%	3.54%	4.11%
Shanxi Xinghuaacun Fen Wine	600809 CH	ADD	350	294	241	28.80	23.58	10.70	8.44	20.35	16.27	42.0%	40.1%	1.74%	2.12%
Anhui Gujing Distillery	000596 CH	ADD	384	121	261	31.73	25.60	6.68	5.92	19.87	15.77	22.4%	24.7%	1.59%	1.97%
Jiangsu King's Luck Brewery	603369 CH	ADD	77	68	54	21.86	17.74	5.09	4.23	15.03	11.58	25.5%	26.1%	1.66%	2.05%
Average						24.77	20.78	6.82	5.77	16.36	13.33	29.3%	29.6%	2.22%	2.62%

SOURCES: CGIS RESEARCH ESTIMATES, BLOOMBERG PRICES AS AT 14 Nov 2023

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Distribution of stock ratings and investment banking clients for quarter ended on 30 Sep 2023		
634 companies under coverage for quarter ended on 30 Sep 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Recommendation Framework

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Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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

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