

China

ADD (no change)

Consensus ratings*: Buy 48 Hold 2 Sell 0

Current price:	Rmb134.0
Target price:	Rmb214.0
Previous target:	Rmb214.0
Up/downside:	59.7%
CGI / Consensus:	2.9%

Reuters:	000858.SZ
Bloomberg:	000858 CH
Market cap:	US\$72,897m
	Rmb520,135m
Average daily turnover:	US\$278.2m
	Rmb2,017m
Current shares o/s:	3,882m
Free float:	36.1%

*Source: Bloomberg

Key changes in this note

No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-13.6	-17.7	-26.6
Relative (%)	-9.5	-11.4	-19.1

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

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Wuliangye Yibin

Key takeaways from annual distributor conference

- Wuliangye held its 27th annual distributor convention in its headquarters in Yibin city on 18 Dec; over 1,000 distributors and 50 investors attended this event.
- Management said it is considering to rise the ex-factory price of the 8th generation Wuliangye product; we think could be a near-term re-rating catalyst.
- We currently forecast Wuliangye's sales and net profit to grow 12.8% each in FY24F, mainly driven by mix upgrade and price hikes for key products.
- Reiterate Add and DCF-based TP of Rmb214 (WACC: 10.2% and TG:3%).

Distribution channel development in 2023

During the conference, general manager Mr Jiang Wenge shared Wuliangye's distribution channel development in 2023. He said the company has so far this year recruited 100 new distributors under the Wuliangye brand, and added 26,000 incremental sales points, with the number of its exclusive Wuliangye stores reaching 1,700, covering over 300 cities nationwide as at Dec 2023. Meanwhile, in the corporate purchase channel, Wuliangye's sales persons had together with its distributors visited 5,000 large corporates in China so far in 2023. Also, during the year, Wuliangye developed exclusive products that would only be sold via the online channel; management said that YTD, over 600m customers had purchased from the online channel Wuliangye's gift package called "Haoshi chenshuang", which sells at a retail price of Rmb2,299 and includes two bottles of 52° Wuliangye products. It also said during the year, further development of its distribution channel led to strong sales of Wuliangye 1618 and 39° Wuliangye.

Wuliangye considering raising prices of key products in FY24F

In their address during the event, Chairman Mr Zeng Congqing and General Manager Mr Jiang Wenge said the company would consider appropriately raising the ex-factory price of 8th generation 52° Wuliangye in FY24F but did not provide a specific date. Mr Jiang Wenge said for 8th generation Wuliangye, 1) the company will further optimise the supply volume allocation in each distribution channel in 2024F and that the overall supply of this product will not increase yoy; 2) the planned supply volume of 8th generation Wuliangye going to the traditional distributor channel will not change in 2024, but the unplanned supply volume might vary to ensure better first-layer wholesale prices; the company's typical proportion of planned and unplanned supply volume to the traditional distributor channel is usually 60:40, based on our estimate; 3) the company will promote more products in the traditional distributor channel, i.e. Wuliangye 1618 and 39° Wuliangye to improve its product mix. Meanwhile, the company plans to further raise the sales contribution from direct sales and corporate purchase channels in 2024F (42% combined sales contribution in 1H23) to improve its profitability.

FY24F sales growth mainly driven by ASP increase, in our view

Post the event and based on our channel checks, we expect Wuliangye's overall average selling price to rise yoy in FY24F. As the demand from the business consumption channel is still recovering, management said it expects steady sales growth in FY24F. We expect Wuliangye to control its volume supplied to the market in FY24F to lift its overall ASP.

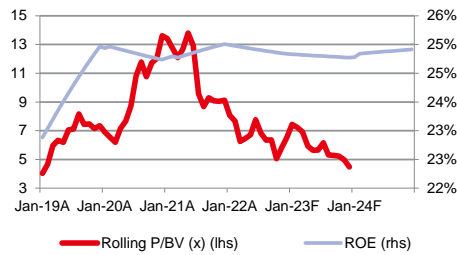
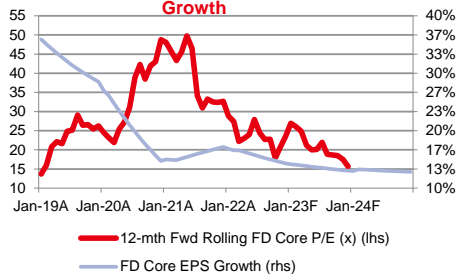
Reiterate Add with unchanged DCF-based TP of Rmb214

We reiterate Add as we believe that as Wuliangye is the second-largest premium baijiu player in China (in terms of sales value in 2022), is well positioned to weather the current macro weakness given its strong brand and distributor loyalty. Downside risks include 1) weak macros, which would negatively impact baijiu demand and Wuliangye's revenue growth, 2) intensifying competition for baijiu products with a retail price of c.Rmb1,000 per bottle (c.60-70% of Wuliangye's sales in this price range), and 3) failure to penetrate new markets. A re-rating catalyst would be stronger-than-expected sales growth in FY24F.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rmbm)	66,209	73,969	82,604	93,200	105,147
Operating EBITDA (Rmbm)	31,296	35,681	40,280	45,717	51,885
Net Profit (Rmbm)	23,377	26,691	30,197	34,077	38,482
Core EPS (Rmb)	6.03	6.89	7.79	8.79	9.93
Core EPS Growth	17.2%	14.3%	13.0%	12.8%	12.9%
FD Core P/E (x)	22.22	19.44	17.20	15.24	13.50
DPS (Rmb)	3.02	3.78	4.28	4.83	5.45
Dividend Yield	2.26%	2.82%	3.19%	3.60%	4.07%
EV/EBITDA (x)	14.06	12.06	10.36	8.85	7.52
P/FCFE (x)	20.58	22.90	16.61	15.77	13.88
Net Gearing	(81.2%)	(79.2%)	(81.3%)	(81.6%)	(82.0%)
P/BV (x)	5.25	4.56	4.07	3.64	3.24
ROE	25.3%	25.1%	25.0%	25.2%	25.4%
CGI/consensus EPS (x)			1.00	0.99	0.98

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-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	66,520	74,251	82,884	93,480	105,427
Gross Profit	40,412	45,324	50,910	57,591	65,148
Operating EBITDA	31,296	35,681	40,280	45,717	51,885
Depreciation And Amortisation	-475	-533	-496	-540	-585
Operating EBIT	30,821	35,148	39,784	45,177	51,301
Financial Income/(Expense)	1,732	2,026	2,195	2,195	2,195
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	-102	-71	0	0	0
Profit Before Tax (pre-EI)	32,498	37,195	42,044	47,438	53,561
Exceptional Items					
Pre-tax Profit	32,450	37,104	41,978	47,372	53,495
Taxation	-7,943	-9,133	-10,333	-11,660	-13,168
Exceptional Income - post-tax					
Profit After Tax	24,507	27,971	31,646	35,712	40,328
Minority Interests	-1,130	-1,280	-1,448	-1,634	-1,845
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,377	26,691	30,197	34,077	38,482
Recurring Net Profit	23,413	26,760	30,247	34,127	38,532
Fully Diluted Recurring Net Profit	23,413	26,760	30,247	34,127	38,532

Cash Flow

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	31,296	35,681	40,280	45,717	51,885
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,547	-4,119	679	-1,778	-1,930
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-6,067	-7,130	-8,138	-9,466	-10,972
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
Cashflow From Operations	26,775	24,431	32,821	34,474	38,984
Capex	-1,539	-1,781	-1,500	-1,500	-1,501
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	42	64	0	0	0
Cash Flow From Investing	-1,497	-1,716	-1,500	-1,500	-1,501
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-10,874	-12,681	-16,609	-18,743	-21,166
Preferred Dividends					
Other Financing Cashflow	-276	-11	0	0	0
Cash Flow From Financing	-11,151	-12,692	-16,609	-18,743	-21,166
Total Cash Generated	14,127	10,022	14,712	14,230	16,317
Free Cashflow To Equity	25,278	22,715	31,321	32,974	37,483
Free Cashflow To Firm	25,278	22,715	31,321	32,974	37,483

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	82,336	92,358	107,070	121,300	137,619
Total Debtors	25,591	29,091	30,532	34,444	38,856
Inventories	14,015	15,981	15,382	15,987	16,516
Total Other Current Assets	196	136	219	245	342
Total Current Assets	122,138	137,566	153,202	171,977	193,334
Fixed Assets	5,610	5,313	6,433	7,459	8,441
Total Investments	1,912	1,988	1,988	1,988	1,988
Intangible Assets	558	520	454	388	323
Total Other Non-Current Assets	5,402	7,328	7,328	7,328	7,328
Total Non-current Assets	13,483	15,149	16,203	17,163	18,079
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	26,375	28,537	30,141	32,907	36,015
Other Current Liabilities	7,241	7,222	7,222	7,222	7,222
Total Current Liabilities	33,616	35,759	37,363	40,129	43,237
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	258	254	254	254	254
Total Non-current Liabilities	258	254	254	254	254
Total Provisions	0	0	0	0	0
Total Liabilities	33,874	36,014	37,618	40,383	43,492
Shareholders' Equity	99,068	114,025	127,663	142,998	160,314
Minority Interests	2,323	2,659	4,107	5,741	7,587
Total Equity	101,392	116,684	131,771	148,739	167,901

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	15.5%	11.7%	11.7%	12.8%	12.8%
Operating EBITDA Growth	16.7%	14.0%	12.9%	13.5%	13.5%
Operating EBITDA Margin	47.3%	48.2%	48.8%	49.1%	49.3%
Net Cash Per Share (Rmb)	21.21	23.79	27.58	31.25	35.45
BVPS (Rmb)	25.52	29.38	32.89	36.84	41.30
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	24.5%	24.6%	24.6%	24.6%	24.6%
Net Dividend Payout Ratio	50.1%	54.8%	54.9%	54.9%	54.9%
Accounts Receivables Days	127.3	134.8	131.6	127.5	127.1
Inventory Days	190.4	189.2	179.0	160.0	147.3
Accounts Payables Days	72.85	90.91	91.61	85.52	85.02
ROIC (%)	172%	198%	176%	197%	200%
ROCE (%)	34.5%	34.2%	33.8%	33.8%	33.8%
Return On Average Assets	18.3%	18.1%	18.3%	18.7%	19.1%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
ASP growth (%)	3.9%	56.5%	2.5%	2.3%	2.2%
Volume growth (%)	13.3%	-30.0%	8.9%	10.0%	10.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Description:	Excellent	Very Good	Good	N/A	N/A

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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%

Spitzer Chart for stock being researched (2 year data)

Wuliangye Yibin (000858 CH)

— Price Close



Recommendation Framework

Stock Ratings

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.

Sector Ratings

Definition:

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

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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