

China Baijiu Sector

Will destocking of Moutai 'social inventory' lead to a further sector derating?

Equities

China

Distillers & Brewers

Christine Peng, CFA

Analyst

christine-y.peng@ubs.com

+852-2971 7571

Kevin Cheng

Associate Analyst

kevin-za.cheng@ubs.com

+852-2971 7493

Earnings & rating downgrades on oversupply amidst a weak macro backdrop

We believe supply/demand dynamics for the overall baijiu sector will further deteriorate in the next 12 months, due to potential destocking of Moutai liquor 'social inventory' (ie, inventory held by distributors, baijiu market makers, and end consumers), capacity expansion by industry leaders and continued macro headwinds ([property market destocking until H125, potential US tariff increase](#)). We project our baijiu coverage avg EPS CAGR to moderate to 8% in 2023-25E, from 19% during 2020-23. The sector is trading at 17x 12m forward PE, versus historical average of 22x and the trough of 10x since 2010. Our 2024E/25E earnings are 8/17% below consensus on average.

Downside scenario based on our estimates of Moutai social inventory

Wholesale prices of Moutai's Feitian Moutai rose substantially from 2016 to early 2021, encouraging both speculators and end-consumers to accumulate social inventory. We estimate 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory, with an average holding cost of Rmb2,079/bottle, c.10% below current prices. Given leading baijiu companies' limited efforts to control supply (due to their critical role in local governments' fiscal revenues) and aggressive capacity expansion, we expect the pressure on premium baijiu companies' retail prices to intensify in 2024-25. Should industry leaders fail to contain supply despite weak demand, our downside scenario suggests Moutai/Wuliangye's wholesale prices could fall 50%/17% by end-2025 from current prices before stabilising in 2026, while the top five baijiu companies' combined 2026 earnings could be 11% below 2023 levels.

Capacity expansion and demographics to offset premiumisation trend

We expect combined capacity of the top 6 baijiu companies to expand 37% by 2025 from 2023 level. Population decline in the primary baijiu consumer cohort (male aged 30-59) could be a negative driver for sector volume growth, leading to a potential 13% volume decline during 2023-25E. Both factors are structural headwinds to overall baijiu consumption, offsetting the premiumisation trend, in our view.

Moutai/WLY/LZJ/Yanghe downgrade from Buy to Neutral

We cut our 2024E/25E earnings by on average 4/11% for our 7 covered baijiu companies (UBS baijiu coverage) and downgrade Moutai/Wuliangye/Laojiao/Yanghe from Buy to Neutral in view of potential earnings downgrades yet undemanding valuations. We reiterate Sell on Swellfun and Fenjiu due to their demanding valuations. [Gujing is our top pick at Buy](#).

Figure 1: Valuation summary

	Rating		Share price (rmb)	Price target		Market cap (USD mn)	PE		EV/EBITDA		Div Yld		EPS CAGR 23-25E	Earnings revision		vs consensus	
	New	Old		New	Old		2024E	2025E	2024E	2025E	2024E	2025E		2024E	2025E	2024E	2025E
Moutai	Neutral	Buy	1422.19	1399.73	1920.50	246,421	21x	20x	14x	12x	4%	5%	10%	(1%)	(11%)	(1%)	(10%)
Wuliangye	Neutral	Buy	126.20	132.13	174.29	67,567	15x	15x	9x	7x	4%	4%	5%	(4%)	(11%)	(5%)	(13%)
Laojiao	Neutral	Buy	129.83	131.66	236.20	26,230	13x	13x	9x	7x	5%	5%	5%	(7%)	(17%)	(10%)	(22%)
Yanghe	Neutral	Buy	80.86	83.48	121.05	16,808	12x	13x	7x	5x	6%	6%	(1%)	(4%)	(14%)	(8%)	(19%)
Gujing	Buy	Buy	185.42	208.61	310.06	13,519	18x	16x	11x	8x	3%	3%	15%	(8%)	(14%)	(9%)	(16%)
Fenjiu	Sell	Sell	182.35	160.18	213.45	30,688	19x	17x	14x	11x	5%	6%	12%	(2%)	(7%)	(8%)	(15%)
Swellfun	Sell	Sell	35.84	31.27	34.67	2,414	14x	15x	9x	9x	2%	2%	(4%)	(0%)	(5%)	(13%)	(27%)

Source: Company data, UBS estimates. Note: Above data as of 26 July 2024.

UBS Research THESIS MAP

MOST FAVORED

LEAST FAVORED

Gujing

Fenjiu, Swellfun

PIVOTAL QUESTIONS

Q: Will destocking of Moutai social inventory trigger a further sector derating?

Possibly. From 2016 to early 2021, the wholesale price of Moutai's Feitian Moutai rose 358% to a peak of Rmb3,850/bottle, encouraging both speculators and end-consumers to accumulate social inventory. We estimate 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory and the average holding cost (using the weighted average of Moutai's wholesale prices) is Rmb2,079/bottle, c. 10% below the current wholesale price. Given their critical role in local governments' fiscal revenues, we believe leading baijiu companies have made limited effort to control supply, similar to what happened during 2013-15. Coupled with their aggressive capacity expansions since 2021, we expect downward pressure on premium baijiu companies' retail prices to intensify during 2024-25.

[more](#)
Q: Will oversupply and demographic changes offset the premiumisation trend in 2024-25?

Yes, we think the benefits of baijiu premiumisation are likely to be offset by industry oversupply and a declining drinking demographic. We expect combined capacity of the top 6 baijiu makers to expand 37% during 2023-25E. Demographic shifts, particularly a decline in the primary baijiu consumer cohort (male aged 30-59), will be a negative driver for the sector's volume growth, leading to a potential 13% volume decline during 2023-25E, by our estimates. We see both factors as structural headwinds for overall baijiu consumption, offsetting the premiumisation trend.

[more](#)

UBS VIEW

We cut our 2024E/25E earnings estimates for UBS baijiu coverage by 4/11% on average and downgrade Moutai/Wuliangye/Laojiao/Yanghe from Buy to Neutral in view of potential earnings downgrades yet undemanding valuations. We project average EPS CAGR for UBS baijiu coverage will moderate to 8% during 2023-25E from 19% during 2020-23. We rate Swellfun and Fenjiu as Sell due to their demanding valuations. [Gujing is our most preferred stock due to its margin expansion opportunities.](#)

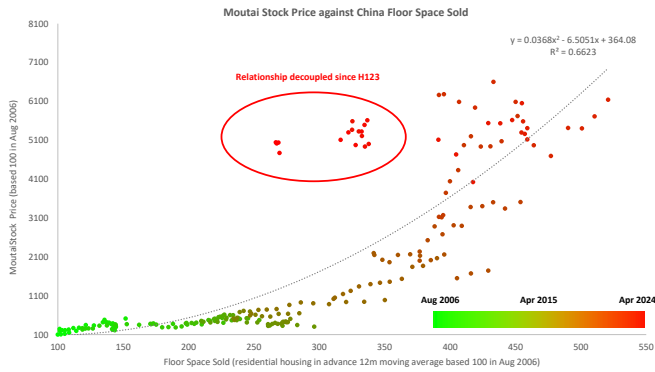
EVIDENCE

1) High correlation between Moutai's stock price and China's residential property sales during 2006-22; 2) UBS Evidence Lab's iMoutai tracker shows declining GMV, indicating Moutai's direct-to-consumer initiatives are slowing; 3) UBS estimates Moutai social inventory (ie, inventory held by distributors, baijiu market makers, and end consumers) at 14-15 months' worth of reported sales; 4) top five baijiu companies' supply expanded during the last industry downcycle, suggesting limited effort to contain supply; and 5) combined capacity of the top five baijiu companies is expected to grow 37% during 2023-25 while demand is likely to contract 13%, by our estimates.

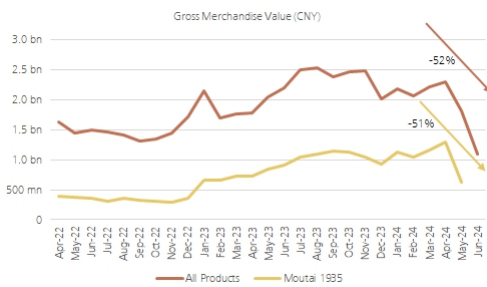
WHAT'S PRICED IN?

China's baijiu sector is now trading at 17x 12m forward PE, versus the historical average of 22x and the trough of 10x since 2010. We believe the current valuation is fair as we expect our baijiu coverage to generate an average EPS CAGR of 8% during 2023-25E versus 19% during 2020-23. Our baijiu coverage 2024/25E earnings estimates are 8/17% below consensus on average.

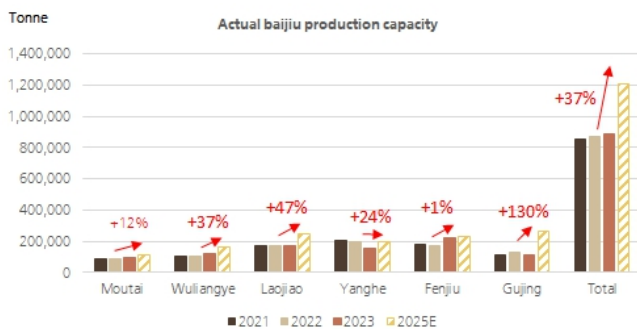
OUR THESIS IN PICTURES



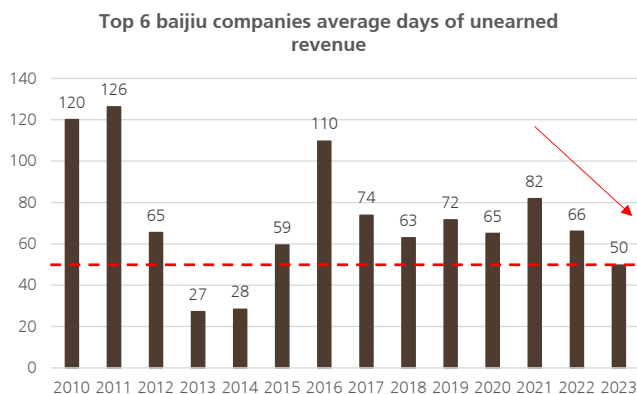
High correlation with 66% R^2 between Moutai's stock price and China floor space sold



Declining GMV on the iMoutai platform indicates Moutai's direct-to-consumer initiatives are slowing



Rising production capacity suggests intensified competition in the baijiu industry



Average days of unearned revenue for top baijiu makers declined to 50 days, reflecting a decreasing willingness among wholesalers to place future orders

Sources for exhibits above: Company data, UBS Research, UBS estimates

PIVOTAL QUESTIONS

Q: Will destocking of Moutai social inventory trigger a further sector derating?

UBS VIEW

Possibly. From 2016 to early 2021, the wholesale price of Moutai's Feitian Moutai rose 358% to a peak of Rmb3,850/bottle, encouraging both speculators and end-consumers to accumulate social inventory. We estimate 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory and the average holding cost (using the weighted average of Moutai's wholesale prices) is Rmb2,079/bottle, c.10% below the current wholesale price. Given their critical role in local governments' fiscal revenues, we believe leading baijiu companies have made limited effort to control supply, similar to what happened during 2013-15. Coupled with their aggressive capacity expansions since 2021, we expect downward pressure on premium baijiu companies' retail prices to intensify during 2024-25.

EVIDENCE

- 1) Moutai's stock price and China's residential property sales highly correlated during 2006-22.
- 2) Moutai direct-to-consumer revenue share declined from 45% in H123 to 42% in Q124.
- 3) UBS Evidence Lab's iMoutai tracker shows a 51% decline in GMV between April to June 2024, indicating a significant deceleration in Moutai's direct-to-consumer initiatives.
- 4) Social inventory of Moutai liquor, calculated by the proxy of China luxury growth rate and property sales, represents 14-15 months' of Moutai reported sales, by our estimates.
- 5) Sub-premium and above segments of leading baijiu companies saw a sales CAGR of 5% during 2013-15 despite a sector downcycle.
- 6) Combined capacity of the five leading baijiu makers is expected to increase 37% during 2023-25E, by our estimates.

WHAT'S PRICED IN?

China's baijiu sector is now trading at 17x 12m forward PE, versus the historical average of 22x and the trough of 10x since 2010. We believe the current valuation is fair as we expect our baijiu coverage to generate an average EPS CAGR of 8% during 2023-25E versus 19% during 2020-23. Our baijiu coverage 2024/25E earnings estimates are 8/17% below consensus on average.

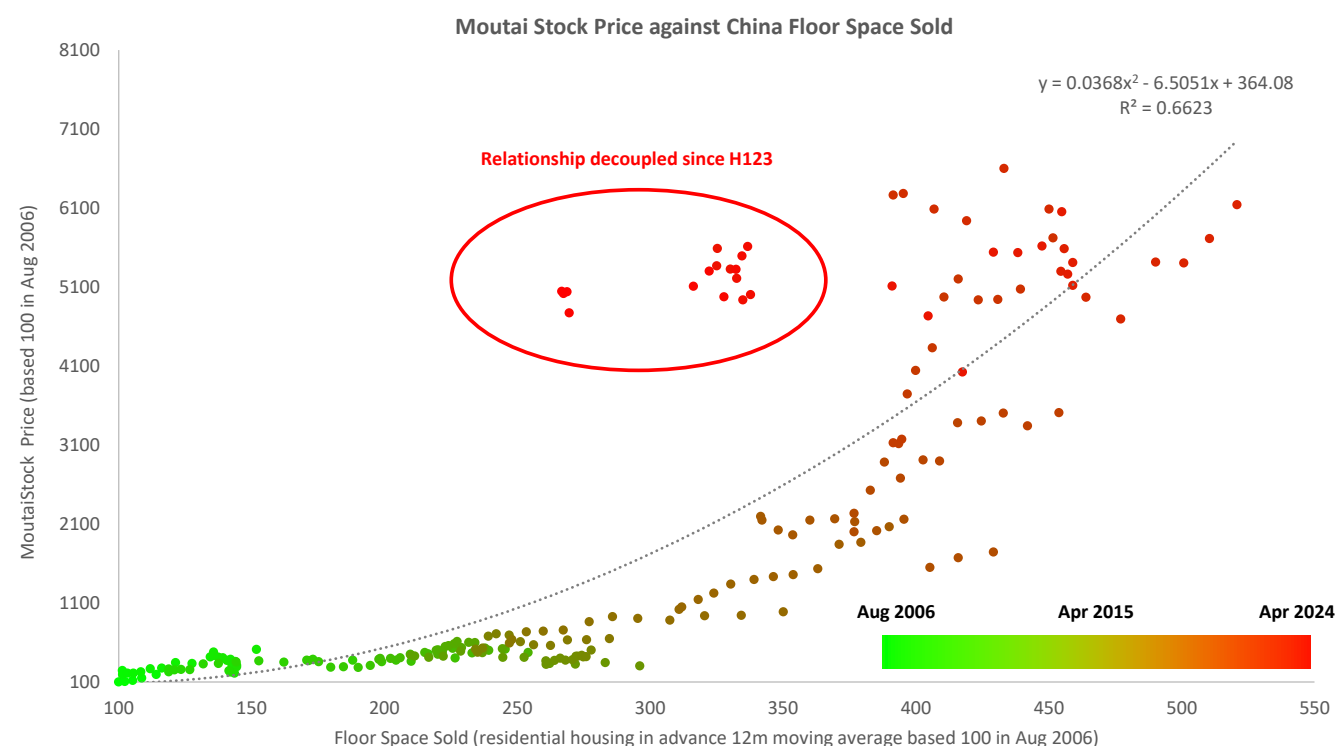
Historical correlation between Moutai's stock price and China residential property sales points to the investment attributes of Moutai liquors.

In assessing the drivers of Moutai's stock price, we analysed its historical relationship with China's residential property sales and found a high correlation between the two during 2006-2022 (Figure 1). We believe this shows the appeal of Moutai liquor as a financial investment, similar with China's residential properties, both of which saw strong price appreciation during this period. However, since H123 the two have decoupled as Moutai's share price performance has been more resilient than property sales. We attribute this to Moutai's strong earnings growth since 2022 as a result of its direct-to-consumer (DTC) initiative and series liquor expansion. The share of revenue from DTC sales surged from 19% in H121 to 46% in H223, allowing Moutai to benefit from higher ex-factory prices through DTC compared with traditional wholesale channels. Consequently, Moutai's overall ex-factory ASP saw a CAGR of 12% from 2021 to 2023. Moreover, Moutai Series Liquor provided solid topline growth with a sales

CAGR of 28% between 2021 to 2023. The combination of the DTC initiative and Series Moutai growth insulated Moutai's stock price from the broader contraction in new residential housing sales, leading to a temporary decoupling of the historical correlation between Moutai's stock price and China floor space sold, in our view. However, we believe both positive factors have started to reverse since the beginning of 2024 (Figures 5&6), leading Moutai shares to underperform YTD.

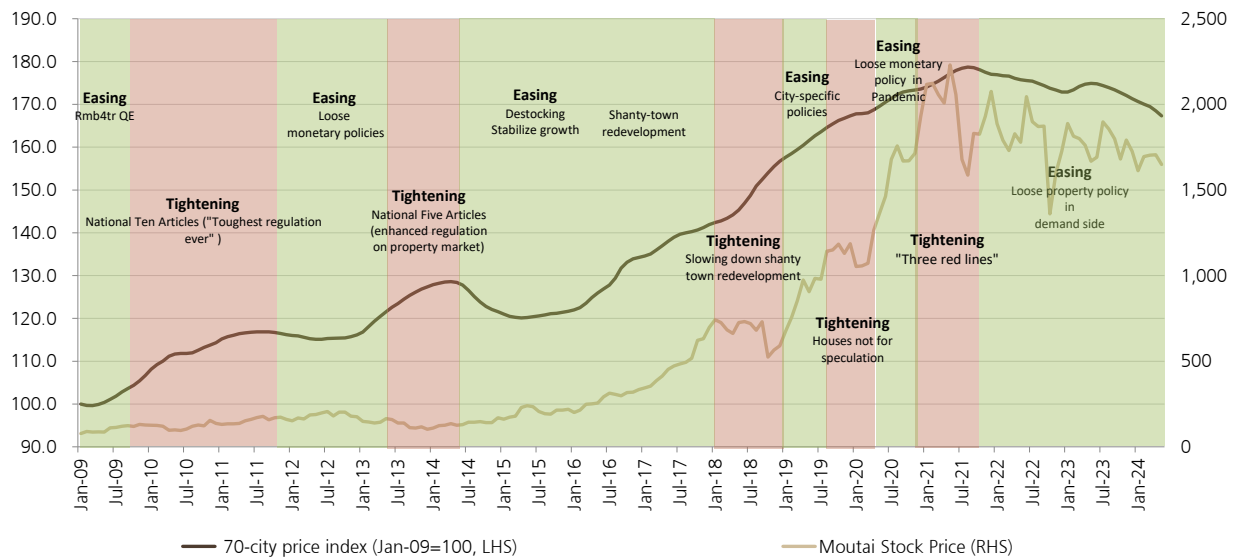
China's residential property price declines, especially in Tier 1 cities, have profound negative implications for the demand for Moutai and the broader premium baijiu segment, in our view. First, housing price declines reduce consumers' perceived wealth and their willingness to spend on big ticket discretionary items. Data from Centaline indicates that secondary housing prices have fallen to near 2016 levels. Specifically, secondary property listing prices in Beijing, Shanghai, Guangzhou and Shenzhen have declined 22%, 25%, 25% and 37%, respectively, while Moutai wholesale prices have declined 33% from the peak as of July this year. The Moutai YTD wholesale price drop of 13% was even greater than the housing price declines in these cities of c.7-9%, based on our channel checks. Comparing baijiu wholesale prices against secondary housing prices, we find only Moutai follows property prices to such an extent, reflecting Moutai liquor's investment attributes, in our view. **Second,** we think the fiscal difficulties facing local governments due to sharp reductions in land sales also negatively impact on government-related spending, which goes beyond direct government spending to include SOE banquets, etc.

Figure 2: Moutai's stock price vs China floor space sold — high correlation until 2023



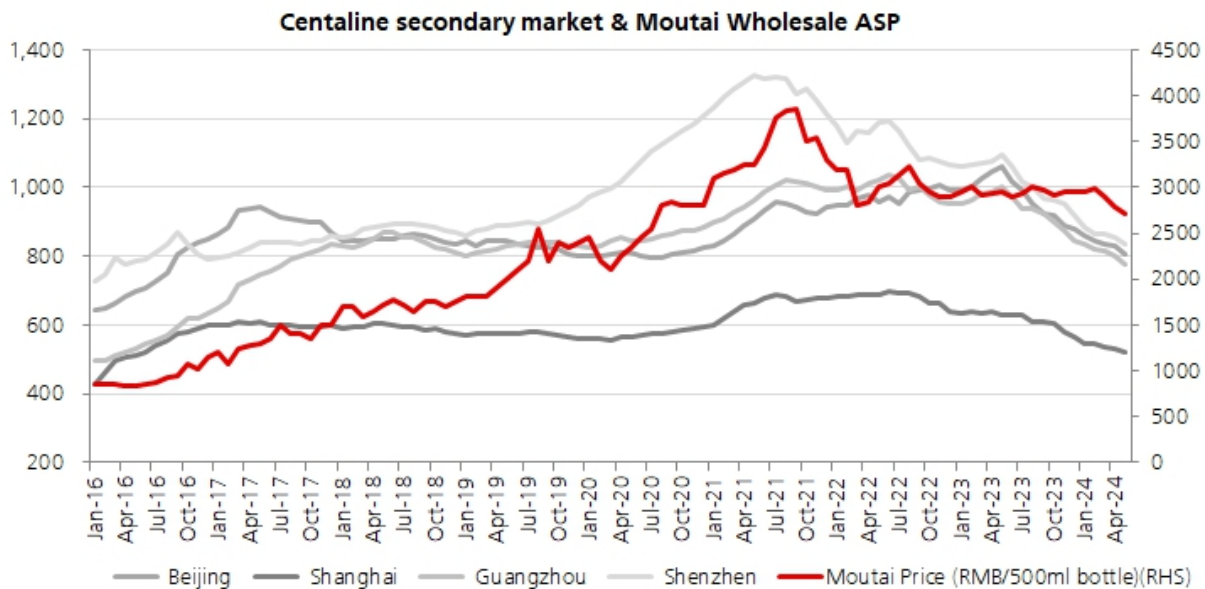
Source: NBS, UBS calculations

Figure 3: Moutai stock price tracks China property cycle



Source: UBS, Moutai stock price indexed to 100 at 2009

Figure 4: Moutai wholesale price moves in tandem with tier 1 city secondary housing prices



Source: Centaline, UBS

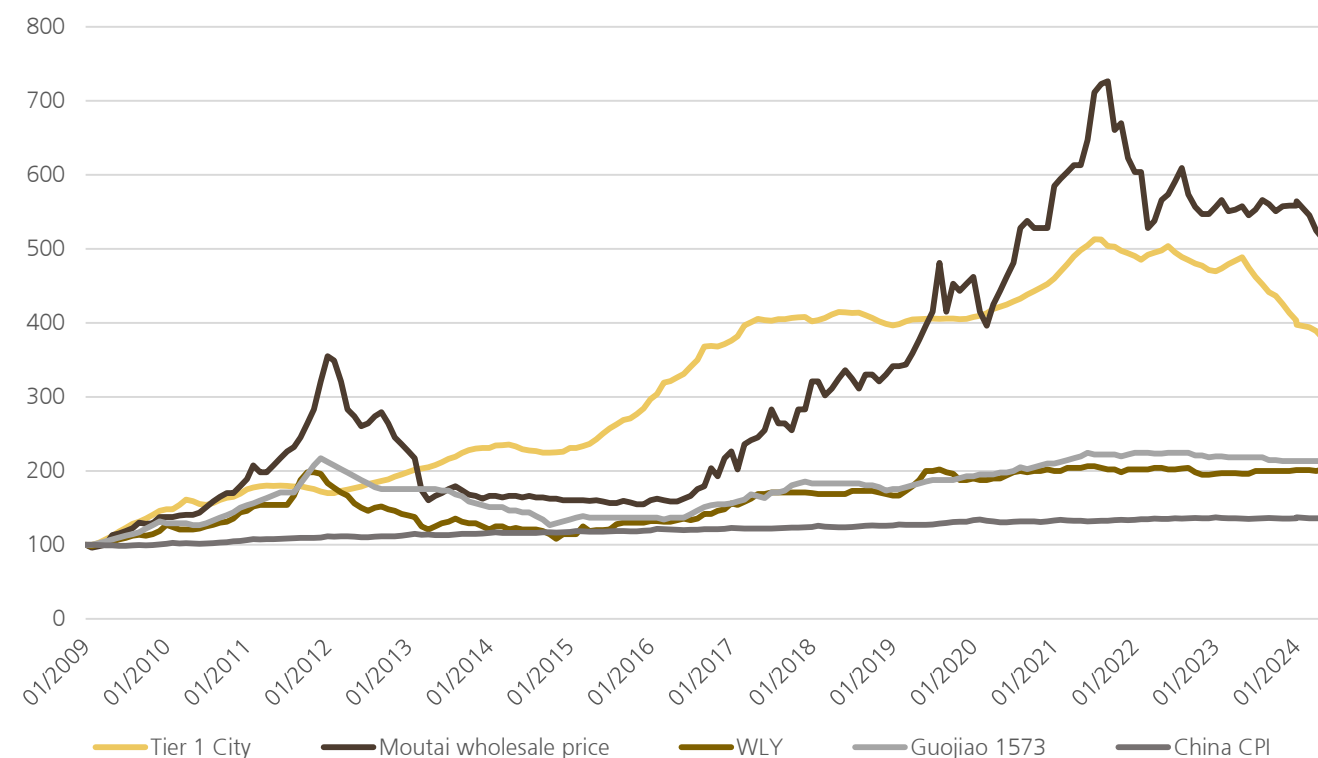
Figure 5: Moutai wholesale prices have declined at a similar pace as property prices

ASP decline	From peak	YTD
Beijing	-21.8%	-10.7%
Shanghai	-26.3%	-8.5%
Guangzhou	-25.8%	-9.0%
Shenzhen	-36.9%	-9.4%
Moutai Wholesale Price	-33.8%	-13.9%

*Calculated from July Prices

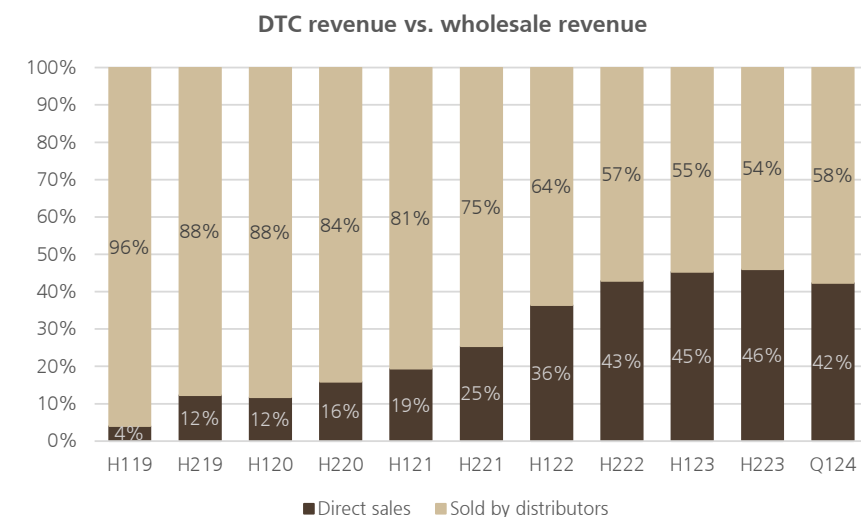
Source: UBS estimates

Figure 6: Moutai wholesale prices more correlated with Tier 1 city housing than its peers



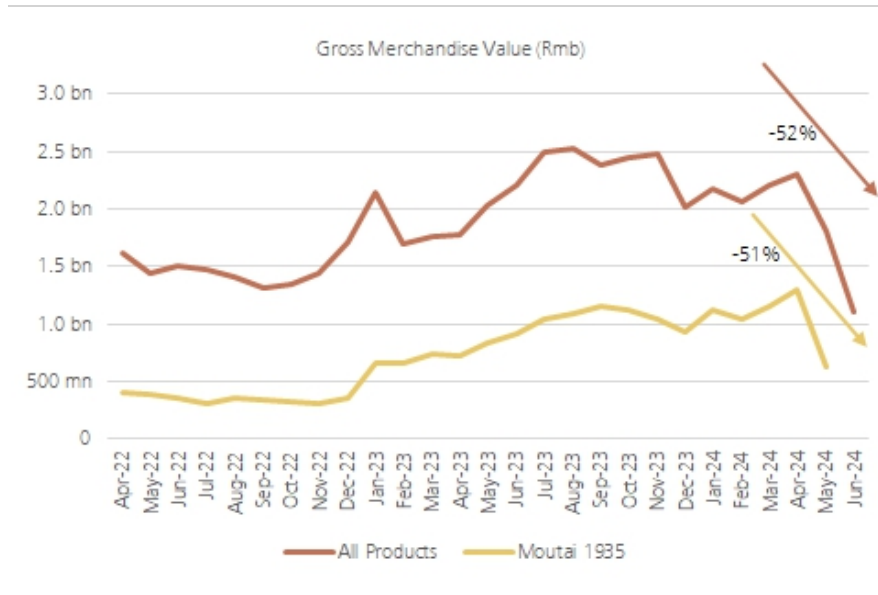
Source: Centaline, NBS, UBS

Figure 7: After four years of expansion, Moutai's DTC revenue share declined in Q124



Source: Company data, UBS

Figure 8: Declining iMoutai product sales GMV suggests weakening demand for Moutai



Source: UBS Evidence Lab

Moutai social inventory could lead to destocking pressure in the premium segment

From 2016 to early 2021, the wholesale price of Moutai's Feitian Moutai rose 358% to a peak of Rmb3,850/bottle, encouraging both speculators and end-consumers to accumulate social inventory. In an attempt to gauge the level of social inventory, we use China luxury goods and residential property sales growth as proxies of actual Moutai consumption, as both have similar attributes with Moutai's targeted consumer group (ie, wealthy individuals and families). As shown in Figure 10, both scenarios suggest 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory and the average holding cost (using the weighted average of Moutai's wholesale prices) is Rmb2,079 per bottle, based on our calculation, c.10% below the current wholesale price.

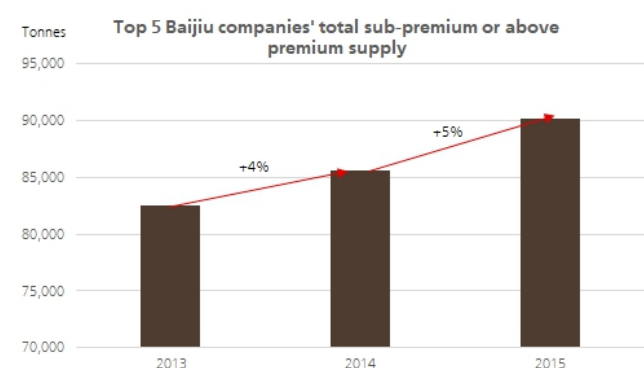
Figure 9: Moutai social inventory estimates under two scenarios

Scenario 1: assuming Moutai demand follows the same trend of luxury goods sales									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Moutai liquor' sales volume (tonnes)	19,281	22,918	30,206	32,464	34,562	34,313	36,261	37,901	42,110
...YoY growth rate		18.9%	31.8%	7.5%	6.5%	-0.7%	5.7%	4.5%	11.1%
China luxury goods growth rate (%)	3.4%	2.0%	10.6%	11.5%	7.6%	-15.0%	34.8%	16.2%	11.0%
Moutai liquor's consumption (tonnes)	19,281	19,669	21,763	24,268	26,106	22,178	29,888	34,726	38,555
Social inventory (tonnes)		3,249	8,442	8,196	8,457	12,135	6,374	3,176	3,554
Accumulated inventory (tonnes)									53,582
number of monthly sales									15
Moutai's wholesale price (RMB per 500ml bottle)	871	839	926	1,342	1,706	2,128	2,533	3,432	3,020
Social inventory's average holding cost (RMB per 500ml bottle)									1,858
Scenario 2: assuming Moutai demand follows the same trend of property sales									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Moutai liquor' sales volume (tonnes)	19,281	22,918	30,206	32,464	34,562	34,313	36,261	37,901	42,110
...YoY growth rate		18.9%	31.8%	7.5%	6.5%	-0.7%	5.7%	4.5%	11.1%
Property sales growth rate (%)	-9.4%	6.2%	22.1%	7.5%	9.8%	5.8%	5.5%	0.7%	-29.6%
Moutai liquor's consumption (tonnes)	19,281	20,473	24,994	26,872	29,518	31,223	32,930	33,175	23,349
Social inventory (tonnes)		2,445	5,211	5,592	5,044	3,089	3,331	4,726	18,761
Accumulated inventory (tonnes)									48,200
number of monthly sales									14
Moutai's wholesale price (RMB per 500ml bottle)	871	839	926	1,342	1,706	2,128	2,533	3,432	3,020
Social inventory's average holding cost (RMB per 500ml bottle)									2,300

Source: UBS estimates

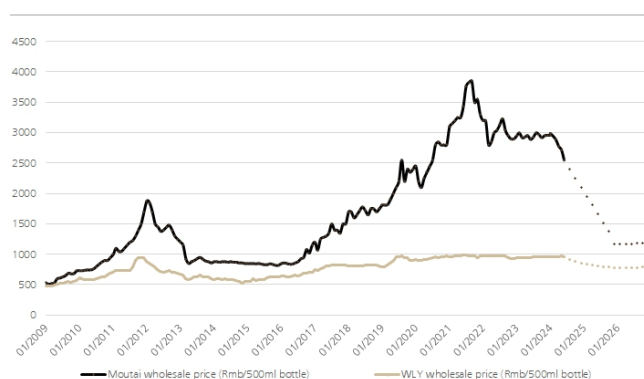
We think a further ~10% decline from the current wholesale price of Rmb2,380/bottle could potentially trigger destocking of Moutai liquor social inventory, as distributors' price expectations for Moutai have turned negative since the beginning of 2024, based on [UBS's 2024 baijiu distributor survey](#). Given their critical role in local governments' fiscal revenues, we believe leading baijiu companies have made limited effort to control supply, similar to what happened during 2013-15. Coupled with their aggressive capacity expansions since 2021, we expect downward pressure on premium baijiu companies' retail prices to intensify during 2024-25. We thus provide a downside scenario analysis for both the premium baijiu product prices and earnings forecasts of the top five baijiu companies. Should the leaders fail to contain supply despite weak demand, our downside scenario suggests Moutai and Wuliangye's wholesale prices could fall by a respective 50% and 17% during 2024-25 before stabilising in 2026, at which point we assume Moutai wholesale price to be at the same level as the current ex-factory price, similar to what happened during the 2014 trough. Our downside scenario also suggests the top five baijiu companies' combined earnings in 2026 could be 11% lower than 2023 levels, or 41% lower than consensus.

Figure 10: Despite a baijiu sector downcycle, premium baijiu supply rose during 2013-15



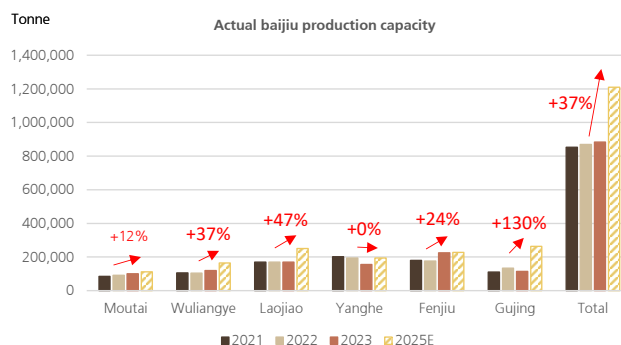
Source: Company data, UBS. Note: Top five baijiu companies refers to Moutai, WLY, LZLJ, Yanghe, Fenjiu.

Figure 12: Our bear case scenario suggests further decline for Moutai and Wuliangye wholesale prices



Source: UBS estimates

Figure 11: Rising production capacity since 2021



Source: Company data, UBS estimates. Note: the percentages measure the capacity changes during 2023-25E by companies.

Figure 13: Our downside scenario suggests social inventory destocking affects the top 5 baijiu companies' earnings the most in 2025E

Bear case:	2024E	2025E	2026E
Top 5 Baijiu companies' aggregate premium sales volume (Tonnes)	155,235	99,251	203,082
Weighted Average Ex-factory price (RMB)	599	536	562
Aggregate Net Profit (mn RMB)	111,638	74,926	132,520
...YoY growth rate	-21%	-33%	77%
...Versus consensus	-32%	-60%	-38%

Source: UBS estimates

PIVOTAL QUESTIONS

Q: Will oversupply and demographic changes offset the premiumisation trend in 2024-25?

UBS VIEW

Yes, we think the benefits of baijiu premiumisation are likely to be offset by industry oversupply and a declining drinking demographic. We expect combined capacity of the top 6 baijiu makers to expand 37% during 2023-25E. Demographic shifts, particularly a decline in the primary baijiu consumer cohort (male aged 30-59), will be a negative driver for the sector's volume growth, leading to a potential 13% volume decline during 2023-25E, by our estimates. We see both factors as structural headwinds for overall baijiu consumption, offsetting the premiumisation trend.

EVIDENCE

1) Total production capacity of the top 6 baijiu makers is expected to increase 37% during 2023-25E.

2) Baijiu drinking population (male aged 30-59) started to decline since 2022 with a CAGR of 0.57%. Total baijiu consumption is expected to decline by 13% during 2023-25, by our estimates.

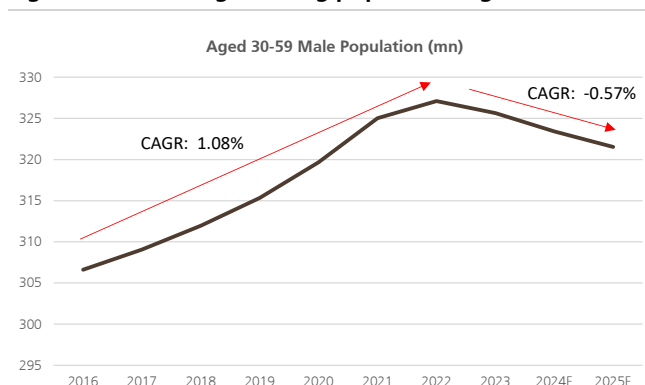
3) Days of unearned revenue declined from 82 days in 2021 to 50 days in 2023, suggesting weak distributor sentiment.

WHAT'S PRICED IN?

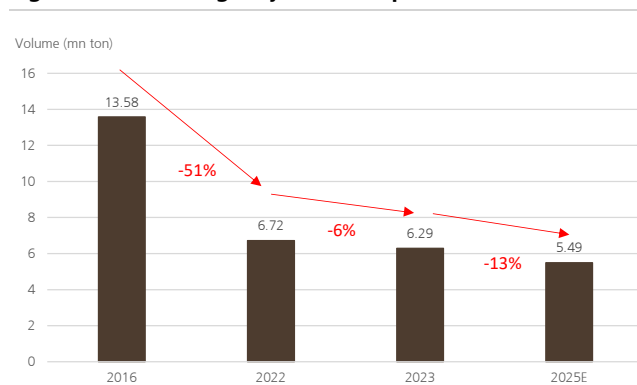
China's baijiu sector is now trading at 17x 12m forward PE, versus the historical average of 22x and the trough of 10x since 2010. We believe the current valuation is fair as we expect our baijiu coverage to generate an average EPS CAGR of 8% during 2023-25E versus 19% during 2020-23. Our baijiu coverage 2024/25E earnings estimates are 8/17% below consensus on average.

Total production capacity of the top 6 baijiu companies is expected to increase 37% by 2025E. The primary drinking demographic (ie, male aged 30-59) is expected to decline at a 0.57% CAGR during 2023-25E. We assume the volume consumed per primary drinking population continues to decline at a CAGR of 6% in 2023-25E (same as 2022-23). This indicates a 13% decline in total baijiu consumption volume between 2023 and 2025E.

Moreover, the declining days of unearned revenue reflects weakening demand from distributors given their depressed profitability, in our view. The top 6 baijiu companies' unearned revenue days has declined from 82 days in 2021 to 50 days in 2023. As a result, Moutai's working capital cash flow has been negatively affected by its increasing inventory and declining unearned revenues.

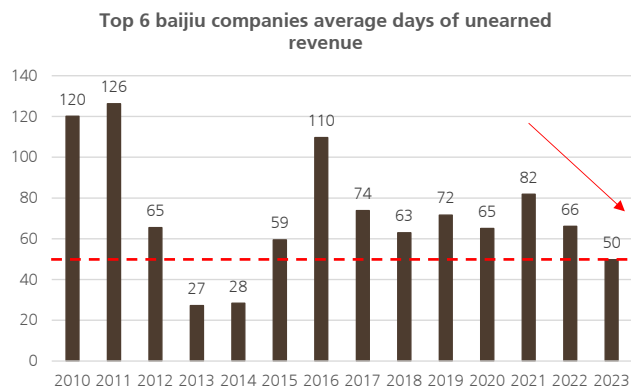
Figure 14: Declining drinking population aged 30-59

Source: UBS estimates

Figure 15: Declining baijiu consumption volume

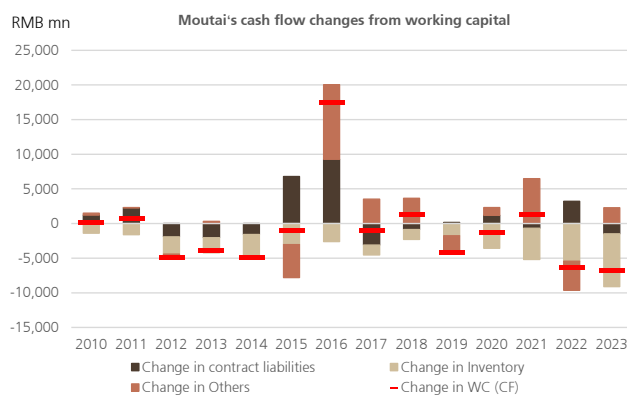
Source: UBS estimates

Figure 16: Declining average days of unearned revenue among the top 6 baijiu companies



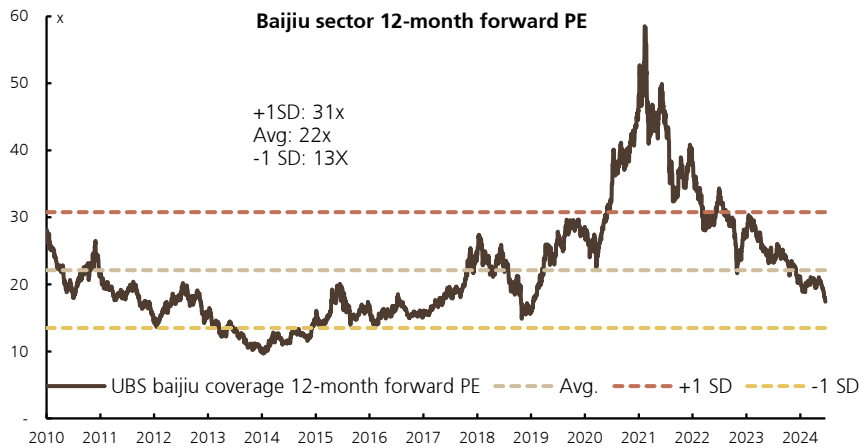
Source: Company data, UBS. Note: top 6 baijiu companies refers to Moutai, WLY, LZLJ, Yanghe, Fenjiu and Gujing.

Figure 17: Moutai's cash flow substantially impacted by changes in unearned revenue and inventory



Source: Company data, UBS

WHAT'S PRICED IN?



Baijiu sector is now trading at 17x 12-month forward PE

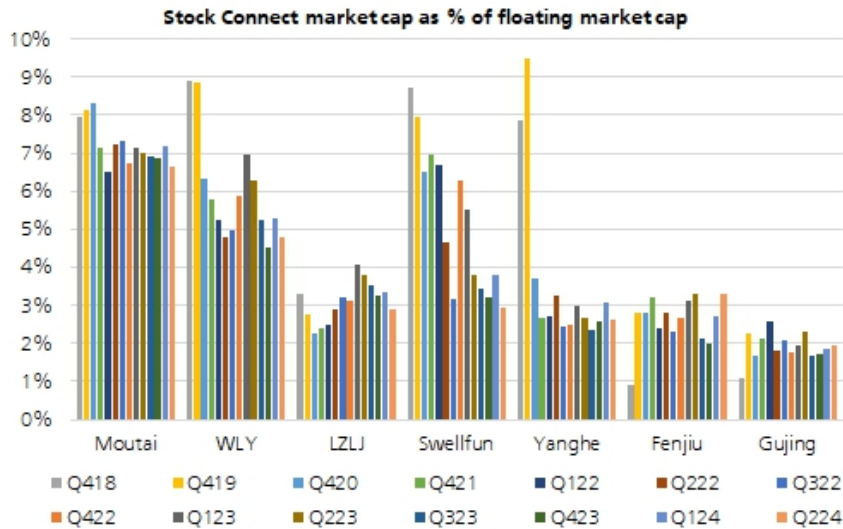
Source: WIND, UBS

Figure 19: Global and domestic comps table

	Mkt cap (US\$ m)	Share price(LC)	CY PE		EPS CAGR	EV/EBITDA		PB		ROE		Div Yld		PEG
			24E	25E	23-25E	24E	25E	24E	25E	24E	25E	24E	25E	23-25E
Greater China														
Kweichow Moutai	246,398	1,422	21x	18x	16%	14x	12x	7x	7x	38%	40%	4%	5%	1.3
Wuliangye	67,560	126	15x	13x	11%	9x	7x	3x	3x	25%	24%	4%	5%	1.3
Jiangsu Yanghe	16,806	81	12x	11x	6%	6x	5x	2x	2x	19%	20%	6%	7%	1.9
Luzhou Laojiao	26,228	130	12x	11x	15%	8x	7x	4x	3x	34%	33%	5%	6%	0.8
Shanxi Fenjiu	30,685	182	18x	16x	16%	13x	11x	6x	5x	39%	36%	5%	6%	1.1
Gujing	13,518	185	17x	14x	25%	10x	8x	4x	3x	25%	26%	3%	4%	0.7
Swellfun	2,414	36	14x	14x	-1%	9x	9x	3x	3x	26%	22%	2%	2%	turn(-)
China Resources Beer	10,265	25	13x	11x	15%	7x	6x	2x	2x	20%	22%	4%	5%	0.8
Tsingtao Brewery-H	8,135	47	12x	11x	11%	6x	5x	2x	2x	15%	15%	5%	6%	1.1
Bud APAC	16,343	10	17x	15x	12%	6x	6x	1x	1x	9%	10%	5%	5%	1.3
Chongqing Brewery	3,974	60	20x	20x	4%	15x	14x	13x	13x	65%	65%	5%	5%	5.6
Yanjing Brewery	3,605	9	30x	20x	43%	14x	10x	2x	2x	6%	9%	2%	3%	0.7
Average (Baijiu)			15x	14x	13%	10x	8x	4x	4x	29%	29%	4%	5%	1.2
Median (Baijiu)			15x	14x	15%	9x	8x	4x	3x	26%	26%	4%	5%	1.2
Average (All)			17x	14x	14%	10x	8x	4x	4x	27%	27%	4%	5%	1.5
Median (All)			16x	14x	14%	9x	8x	3x	3x	25%	23%	4%	5%	1.1
International														
Remy Cointreau	4,064	73	20x	18x	3%	20x	13x	3x	2x	11%	10%	3%	3%	6.2
Constellation Brands	45,435	249	19x	17x	13%	15x	14x	5x	4x	24%	24%	1%	2%	1.5
Diageo	72,634	25	18x	17x	0%	13x	13x	7x	6x	44%	38%	3%	3%	n.m.
Pernod Ricard	34,598	126	16x	15x	-6%	13x	12x	2x	2x	12%	12%	3%	3%	turn(-)
Brown-Forman	21,549	45	23x	23x	-1%	21x	18x	8x	6x	30%	24%	2%	2%	turn(-)
Anheuser-Busch Inbev	108,864	56	17x	15x	14%	10x	9x	1x	1x	8%	9%	2%	2%	1.2
Carlsberg	17,536	849	16x	14x	2%	11x	10x	5x	4x	30%	31%	3%	3%	7.0
Molson Coors	10,810	54	10x	9x	1%	7x	7x	1x	1x	9%	9%	3%	3%	7.3
Heineken	55,990	90	19x	16x	7%	10x	9x	2x	2x	13%	14%	2%	2%	2.6
Asahi	18,548	5,629	14x	13x	17%	10x	10x	1x	1x	8%	9%	2%	3%	0.8
Kirin	12,510	2,106	12x	11x	15%	7x	7x	1x	1x	12%	12%	3%	4%	0.8
Thai Beverage	9,353	0.5	12x	11x	6%	9x	9x	2x	1x	14%	13%	4%	5%	2.1
Average (Spirits)			19x	18x	2%	16x	14x	5x	4x	24%	22%	3%	3%	3.8
Median (Spirits)			19x	17x	0%	15x	13x	5x	4x	24%	24%	3%	3%	3.8
Average (All)			16x	15x	6%	12x	11x	3x	3x	18%	17%	3%	3%	3.3
Median (All)			17x	15x	4%	11x	10x	2x	2x	13%	13%	3%	3%	2.1

Source: Reuters, UBS estimates. Data as of 26 July.

Figure 20: Foreign holdings in leading baijiu companies mostly stable



Source: WIND

Figure 21: Our rating, earnings and price target revisions

Company	Rating		Currency	Price target		Share price	Upside/Downside	PE by new PT		Earnings revision		vs consensus	
	New	Old		New	Old			2024E	2025E	2024E	2025E	2024E	2025E
Moutai	Neutral	Buy	Rmb	1399.73	1920.50	1422	(2%)	20.4x	19.5x	(1%)	(11%)	(1%)	(10%)
Wuliangye	Neutral	Buy	Rmb	132.13	174.29	126	5%	15.9x	15.5x	(4%)	(11%)	(5%)	(13%)
Laojiao	Neutral	Buy	Rmb	131.66	236.20	130	1%	13.4x	13.1x	(7%)	(17%)	(10%)	(22%)
Yanghe	Neutral	Buy	Rmb	83.48	121.06	81	3%	12.6x	12.9x	(4%)	(14%)	(8%)	(19%)
Gujing	Buy	Buy	Rmb	208.61	310.06	185	13%	20.5x	18.0x	(8%)	(14%)	(9%)	(16%)
Fenjiu	Sell	Sell	Rmb	160.18	213.45	182	(12%)	16.4x	14.9x	(2%)	(7%)	(8%)	(15%)
Swellfun	Sell	Sell	Rmb	31.27	34.67	36	(13%)	12.3x	13.0x	(0%)	(5%)	(13%)	(27%)

Source: Visible Alpha, UBS estimates. Note: Above data as of 26 July 2024.

China's baijiu sector is now trading at 17x 12-month forward PE, 0.5SD below the historical average since 2010, due to a moderating earnings outlook. Compared with domestic and global peers, we view the current sector valuation as fair. We expect UBS baijiu coverage's EPS CAGR to moderate to 8% during 2023-25E from 19% during 2020-23 due to lower volume growth and pricing pressure in view of industry headwinds. We note that EPS growth was a -4.8% CAGR between 2013-15 during the multiple trough. That said, we think leading baijiu companies' abundant cash position could lead to potential upside in dividend payouts, providing support to their valuations, despite earnings downside risks.

In terms of investor positioning, foreign shareholdings in leading baijiu companies are quite divergent. The most held name remains Moutai, with 7% of its floating market cap now held by foreign funds, versus the peak level of 8% at end of 2020. We believe foreign investors' relatively steady position in Moutai reflect its resilient earnings performance, which however could moderate in 2025, by our estimates.

Figure 22: Moutai earnings revision

(Rmb m)	2024E			2025E			2026E		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
Sales revenue	169,286	170,662	-1%	176,944	197,804	-11%	188,166	216,110	-11%
Gross profit	131,506	132,679	0%	136,917	153,904	-11%	136,917	167,949	-11%
EBIT	115,155	116,194	0%	120,079	135,074	-11%	120,079	147,683	-11%
Net profit attributable to shareholders	86,357	87,102	1%	90,154	100,753	-10%	90,154	110,474	-10%
Gross margin (after tax)	77.7%	77.7%	0.9%	77.4%	77.8%	0.3%	77.4%	77.7%	0.3%
EBIT margin	68.0%	68.1%	0.4%	67.9%	68.3%	-0.2%	67.9%	68.3%	-0.2%
Net margin	51.0%	51.0%	0.8%	51.0%	50.9%	0.4%	51.0%	51.1%	0.4%

Source: UBS estimates

Figure 23: WLY earnings revision

(Rmb mn)	2024E			2025E			2026E		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
Sales revenue	90,452	93,028	-3%	94,069	101,583	-7%	100,665	110,200	-9%
Gross profit	54,057	56,252	-4%	55,417	61,817	-10%	59,123	67,245	-12%
EBIT	42,156	44,003	-4%	43,218	48,620	-11%	46,252	53,126	-13%
Net profit attributable to shareholders	32,300	33,692	-4%	33,173	37,209	-11%	35,573	40,716	-13%
Gross margin	59.8%	60.5%	-0.7%	58.9%	60.9%	-1.9%	58.7%	61.0%	-2.3%
EBIT margin	46.6%	47.3%	-0.7%	45.9%	47.9%	-1.9%	45.9%	48.2%	-2.3%
Net margin	35.7%	36.2%	-0.5%	35.3%	36.6%	-1.4%	35.3%	36.9%	-1.6%

Source: UBS estimates

Figure 24: LZJ earnings revision

(Rmb mn)	2024E			2025E			2026E		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
Sales revenue	33,169	35,344	-6%	34,174	39,670	-14%	35,939	44,310	-19%
Gross profit	24,343	26,156	-7%	24,901	29,373	-15%	26,098	32,891	-21%
EBIT	18,609	20,122	-8%	18,927	22,742	-17%	19,732	25,621	-23%
Net profit attributable to shareholders	14,379	15,505	-7%	14,719	17,654	-17%	15,464	19,996	-23%
Gross margin	73.4%	74.0%	-0.6%	72.9%	74.0%	-1.2%	72.6%	74.2%	-1.6%
EBIT margin	56.1%	56.9%	-0.8%	55.4%	57.3%	-1.9%	54.9%	57.8%	-2.9%
Net margin	43.4%	43.9%	-0.5%	43.1%	44.5%	-1.4%	43.0%	45.1%	-2.1%

Source: UBS estimates

Figure 25: Yanghe earnings revision

(Rmb mn)	2024E			2025E			2026E		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
Sales revenue	35,259	36,060	-2%	35,655	39,216	-9%	37,728	42,673	-12%
Gross profit	20,149	20,822	-3%	20,028	22,550	-11%	20,945	24,430	-14%
EBIT	12,482	13,022	-4%	12,074	13,985	-14%	12,403	15,013	-17%
PBT	13,332	13,940	-4%	12,976	15,090	-14%	13,312	16,217	-18%
Net profit attributable to shareholders	9,994	10,450	-4%	9,727	11,312	-14%	9,979	12,157	-18%
Gross margin	57.1%	57.7%	-0.6%	56.2%	57.5%	-1.3%	55.5%	57.2%	-1.7%
EBIT margin	35.4%	36.1%	-0.7%	33.9%	35.7%	-1.8%	32.9%	35.2%	-2.3%
Net margin	28.3%	29.0%	-0.6%	27.3%	28.8%	-1.6%	26.4%	28.5%	-2.0%

Source: UBS estimates

Figure 26: Gujing earnings revision

(Rmb mn)	2024E			2025E			2026E		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
Sales revenue	22,839	24,323	-6%	24,977	28,278	-12%	27,064	31,512	-14%
Gross profit	14,699	15,795	-7%	16,125	18,573	-13%	17,520	20,827	-16%
EBIT	7,233	7,839	-8%	8,227	9,621	-14%	9,226	11,157	-17%
Net profit attributable to shareholders	5,380	5,819	-8%	6,121	7,135	-14%	6,877	8,287	-17%
Gross margin	64.4%	64.9%	-0.6%	64.6%	65.7%	-1.1%	64.7%	65.7%	-0.9%
EBIT margin	31.7%	32.2%	-0.6%	32.9%	34.0%	-1.1%	34.1%	34.0%	0.1%
Net margin	23.6%	23.9%	-0.4%	24.5%	25.2%	-0.7%	25.4%	25.2%	0.2%

Source: UBS estimates

Figure 27: Fenjiu earnings revision

(Rmb m)	2024E			2025E			2026E		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
Revenue	36,672	37,115	-1%	41,011	43,217	-5%	45,873	50,418	-9%
Gross profit (after taxes & surcharges)	20,946	21,283	-2%	23,257	24,845	-6%	25,834	29,072	-11%
EBIT	16,210	16,484	-2%	17,841	19,111	-7%	19,602	22,173	-12%
Net profit attributing to parentCo's shareholders	11,901	12,102	-2%	13,101	14,050	-7%	14,396	16,322	-12%
Gross margin (post taxes & surcharges)	57.1%	57.3%	-0.2%	56.7%	57.5%	-0.8%	56.3%	57.7%	-1.3%
EBIT margin	44.2%	44.4%	-0.2%	43.5%	44.2%	-0.7%	42.7%	44.0%	-1.2%
Net profit margin	32.5%	32.7%	-0.2%	32.0%	32.6%	-0.6%	31.4%	32.4%	-1.0%
Net profit margin (ParentCo's shareholders)	32.5%	32.6%	-0.2%	31.9%	32.5%	-0.6%	31.4%	32.4%	-1.0%

Source: UBS estimates

Figure 28: Moutai - UBS estimate vs consensus

(Rmb m)	2024E			2025E			2026E		
	UBS	Consensus	Diff.	UBS	Consensus	Diff.	UBS	Consensus	Diff.
Sales revenue	169,286	174,784	-3%	176,944	198,518	-11%	188,166	223,178	-16%
Gross profit	156,579	161,219	-3%	163,122	183,555	-11%	173,290	206,634	-16%
EBIT	115,155	118,979	-3%	120,079	135,982	-12%	120,079	153,504	-22%
Net profit attributable to shareholders	86,357	87,311	-1%	90,154	99,807	-10%	90,154	112,825	-20%
Gross margin	77.7%	92.2%	-14.6%	77.4%	92.5%	-15.1%	77.4%	92.6%	-15.2%
EBIT margin	68.0%	68.1%	0.0%	67.9%	68.5%	-0.6%	67.9%	68.8%	-0.9%
Net margin	51.0%	50.0%	1.1%	51.0%	50.3%	0.7%	51.0%	50.6%	0.4%

Source: UBS estimates, Visible Alpha

Figure 29: WLY - UBS estimate vs consensus

(Rmb mn)	2024E			2025E			2026E		
	UBS	Consensus	Diff.	UBS	Consensus	Diff.	UBS	Consensus	Diff.
Sales revenue	90,452	92,634	-2%	94,069	102,761	-8%	100,665	113,636	-11%
Gross profit	54,057	56,637	-5%	55,417	63,147	-12%	59,123	70,043	-16%
EBIT	42,156	44,030	-4%	43,218	49,354	-12%	46,252	54,957	-16%
Net profit attributable to shareholders	32,300	33,909	-5%	33,173	37,922	-13%	35,573	42,225	-16%
Gross margin	59.8%	61.1%	-1.4%	58.9%	61.5%	-2.5%	58.7%	61.6%	-2.9%
EBIT margin	46.6%	47.5%	-0.9%	45.9%	48.0%	-2.1%	45.9%	48.4%	-2.4%
Net margin	35.7%	36.6%	-0.9%	35.3%	36.9%	-1.6%	35.3%	37.2%	-1.8%

Source: UBS estimates, Visible Alpha

Figure 30: LZJ - UBS estimate vs consensus

(Rmb mn)	2024E			2025E			2026E		
	UBS	Consensus	Diff.	UBS	Consensus	Diff.	UBS	Consensus	Diff.
Sales revenue	33,169	35,983	-8%	34,174	41,683	-18%	35,939	47,774	-25%
Gross profit	24,343	26,895	-9%	24,901	31,271	-20%	26,098	35,995	-27%
EBIT	18,609	20,747	-10%	18,927	24,327	-22%	19,732	28,186	-30%
Net profit attributable to shareholders	14,379	15,994	-10%	14,719	18,833	-22%	15,464	21,896	-29%
Gross margin	73.4%	74.7%	-1.4%	72.9%	75.0%	-2.2%	72.6%	75.3%	-2.7%
EBIT margin	56.1%	57.7%	-1.6%	55.4%	58.4%	-3.0%	54.9%	59.0%	-4.1%
Net margin	43.4%	44.4%	-1.1%	43.1%	45.2%	-2.1%	43.0%	45.8%	-2.8%

Source: UBS estimates, Visible Alpha

Figure 31: Yanghe - UBS estimate vs consensus

(Rmb mn)	2024E			2025E			2026E		
	UBS	Consensus	Diff.	UBS	Consensus	Diff.	UBS	Consensus	Diff.
Sales revenue	35,259	35,827	-2%	35,655	38,941	-8%	37,728	42,310	-11%
Gross profit	20,149	21,241	-5%	20,028	23,163	-14%	20,945	25,242	-17%
EBIT	12,482	13,352	-7%	12,074	14,649	-18%	12,403	16,079	-23%
Net profit attributable to shareholders	9,994	10,842	-8%	9,727	11,895	-18%	9,979	13,052	-24%
Gross margin	57.1%	59.3%	-2.1%	56.2%	59.5%	-3.3%	55.5%	59.7%	-4.1%
EBIT margin	35.4%	37.3%	-1.9%	33.9%	37.6%	-3.8%	32.9%	38.0%	-5.1%
Net margin	28.3%	30.3%	-1.9%	27.3%	30.5%	-3.3%	26.4%	30.8%	-4.4%

Source: UBS estimates, Visible Alpha

Figure 32: Gujing - UBS estimate vs consensus

(Rmb mn)	2024E			2025E			2026E		
	UBS	Consensus	Diff.	UBS	Consensus	Diff.	UBS	Consensus	Diff.
Sales revenue	22,839	24,589	-7%	24,977	29,048	-14%	27,164	33,718	-19%
Gross profit	18,147	19,690	-8%	19,901	23,512	-15%	21,616	27,522	-21%
EBIT	7,233	7,793	-7%	8,227	9,688	-15%	9,270	11,647	-20%
Net profit attributable to shareholders	5,380	5,893	-9%	6,121	7,316	-16%	6,908	8,794	-21%
Gross margin	64.4%	80.1%	-15.7%	64.6%	80.9%	-16.4%	79.6%	81.6%	-2.0%
EBIT margin	31.7%	31.7%	0.0%	32.9%	33.4%	-0.4%	34.1%	34.5%	-0.4%
Net margin	23.6%	24.0%	-0.4%	24.5%	25.2%	-0.7%	25.4%	26.1%	-0.6%

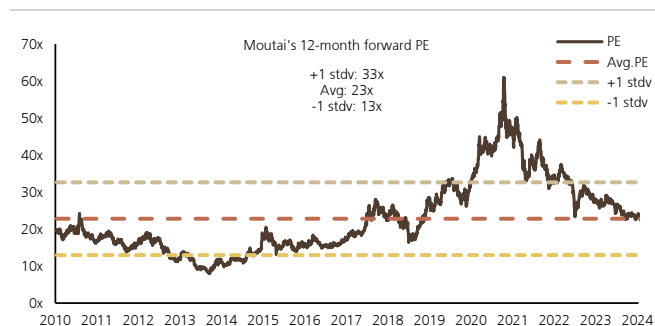
Source: UBS estimates, Visible Alpha

Figure 33: Fenjiu - UBS estimate vs consensus

(Rmb m)	2024E			2025E			2026E		
	UBS	Consensus	Diff.	UBS	Consensus	Diff.	UBS	Consensus	Diff.
Revenue	36,672	38,466	-5%	41,011	45,325	-10%	45,873	53,005	-13%
Gross profit	20,946	22,228	-6%	23,257	26,376	-12%	25,834	31,006	-17%
EBIT	16,210	17,100	-5%	17,841	20,416	-13%	19,602	24,199	-19%
Net profit attributable to shareholders	11,901	12,897	-8%	13,101	15,404	-15%	14,396	18,271	-21%
Gross margin	57.1%	57.8%	-0.7%	56.7%	58.2%	-1.5%	56.3%	58.5%	-2.2%
EBIT margin	44.2%	44.5%	-0.3%	43.5%	45.0%	-1.5%	42.7%	45.7%	-2.9%
Net profit margin	32.5%	33.5%	-1.0%	32.0%	34.0%	-2.0%	31.4%	34.5%	-3.0%

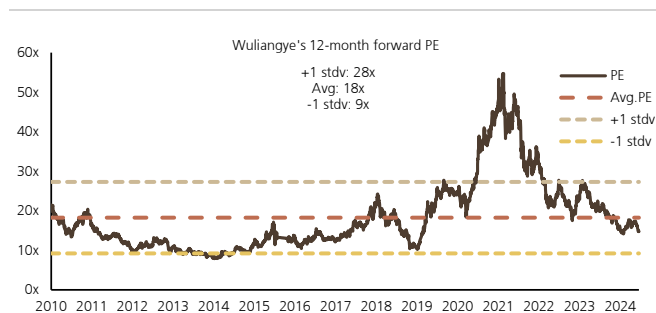
Source: UBS estimates, Visible Alpha

Figure 34: Moutai is trading at 22x 12-month forward PE versus 2010-2024 average PE of 23x



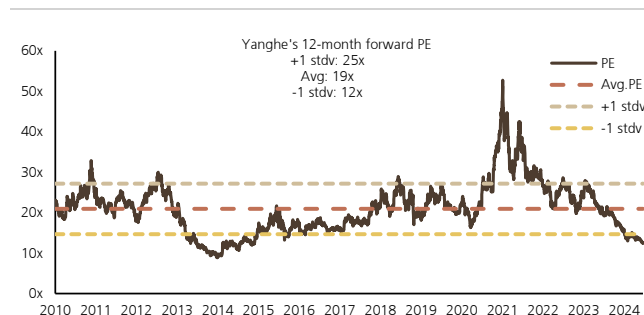
Source: Company data, Reuters, UBS estimates

Figure 35: Wuliangye is trading at 16x 12-month forward PE versus 2010-2024 average PE of 18x



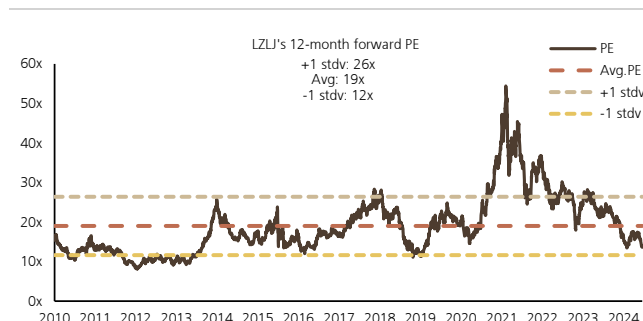
Source: Company data, Reuters, UBS estimates

Figure 36: Yanghe is trading at 13x 12-month forward PE versus 2010-2024 average PE of 19x



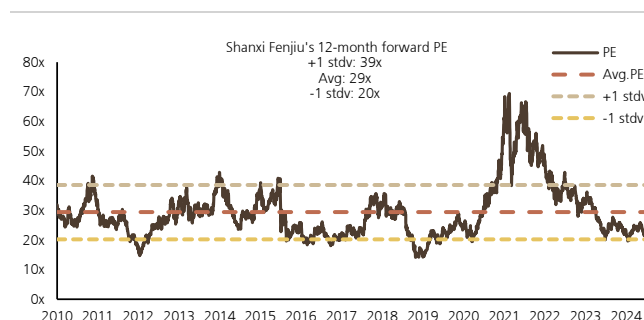
Source: Company data, Reuters, UBS estimates

Figure 37: Laojiao is trading at 15x 12-month forward PE versus 2010-2024 average PE of 19x



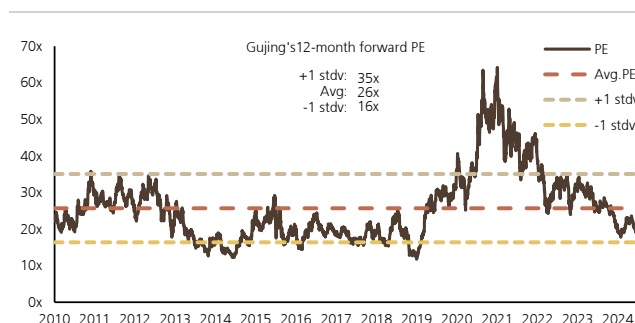
Source: Company data, Reuters, UBS estimates

Figure 38: Fenjiu is trading at 21x 12-month forward PE versus 2010-2024 average PE of 29x



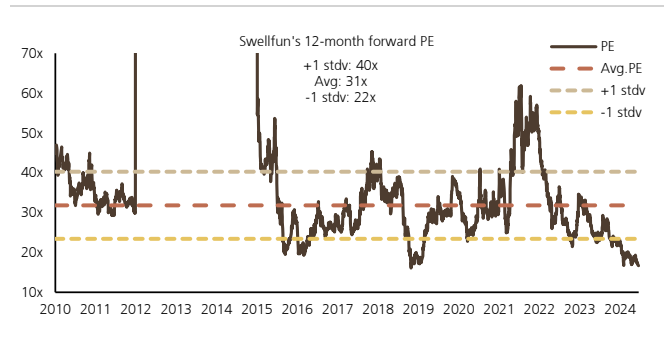
Source: Company data, Reuters, UBS estimates

Figure 39: Gujing is trading at 21x 12-month forward PE versus 2010-2024 average PE of 26x



Source: Company data, Reuters, UBS estimates

Figure 40: Swellfun is trading at 15x 12-month forward PE versus 2010-2024 average PE of 31x



Source: Company data, Reuters, UBS estimates

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Will destocking of Moutai social inventory trigger a further sector derating?**

Possibly. Wholesale prices of Moutai's Feitian Moutai rose substantially from 2016 to early 2021, encouraging both speculators and end-consumers to accumulate social inventory. We estimate 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory. As leading baijiu companies have made limited effort to control supply (given their critical role in local governments' fiscal revenues), while aggressively expanding capacity since 2021, we expect downward pressure on premium baijiu companies' retail prices to intensify in 2024-25.

[more](#)**Q: Will oversupply and demographic changes offset the premiumisation trend in 2024-25?**

Yes, we think the benefits of baijiu premiumisation are likely to be offset by industry oversupply and a declining drinking demographic. We expect combined capacity of the top 6 baijiu makers to expand 37% during 2023-25E. Demographic shifts, particularly a decline in the primary baijiu consumer cohort (male aged 30-59), will be a negative driver for the sector's volume growth, leading to a potential 13% volume decline during 2023-25E, by our estimates. We see both factors as structural headwinds for overall baijiu consumption, offsetting the premiumisation trend.

[more](#)**UBS VIEW**

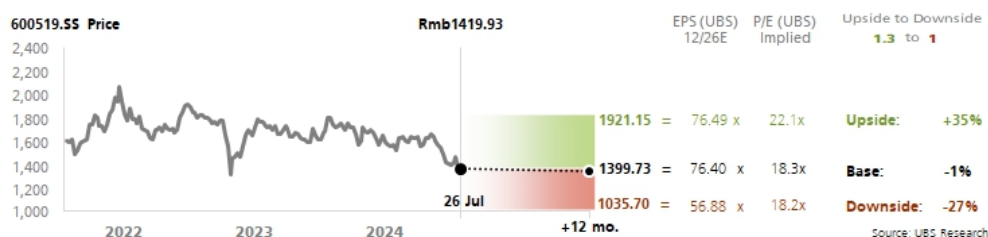
We downgrade Moutai from Buy to Neutral as we lower our 2024E/25E earnings 1%/11%, reflecting our 2023-25E EPS CAGR of 10%. We also lower our mid-term growth rate from 5% to 3.1% to reflect ongoing earnings pressure. Our new price target of Rmb1,399.73 implies 20.4x/19.5x 2024E/25E PE, in line with Moutai's historical average. Our 2024E/25E earnings are 1/10% below consensus. We think Moutai's abundant cash position will lead to potential upside in dividend payouts (2024/25E dividend yield of 4.1%/4.3%), providing support to its valuations despite earnings downside risks, in our view.

EVIDENCE

1) High correlation between Moutai's stock price and China's property sales during 2006-22; 2) UBS Evidence Lab's iMoutai tracker shows declining GMV, indicating Moutai's direct-to-consumer initiatives are slowing; 3) UBS estimates Moutai social inventory at 14-15 months' worth of reported sales; 4) top five baijiu companies' supply expanded during the downcycle, suggesting limited effort to contain supply; and 5) combined capacity of the top five baijiu companies is expected to grow 37% during 2023-25 while demand is likely to contract 13%, by our estimates.

WHAT'S PRICED IN?

Moutai is trading at 22x 12-month forward PE, on par with its historical average while our projection for a 2023-25E EPS CAGR of 9.8% is lower than the 17% EPS CAGR during 2013-23. However, Moutai is trading at a 20% premium to the overall sector average vs a c.10% premium historically. We think Moutai's valuation premium to peers reflects investor expectations for continued Moutai ASP growth from DTC initiatives and stable volume growth compared to peers. However, in view of the potential oversupply risk and softening demand for premium baijiu products, we expect Moutai's earnings growth to moderate to 6% in 2025E from 16% in 2024E.

UPSIDE/DOWNSIDE SPECTRUM

Value drivers	2023-26E Moutai liquor volume CAGR	2023-26E Moutai liquor ASP CAGR	2023-26E NP CAGR	Unearned revenue days
Rmb1,921.15 upside	5.0%	7.3%	13.6%	41
Rmb1,399.73 base	1.7%	6.3%	8.8%	31
Rmb1,035.70 downside	0.0%	-1.1%	-1.3%	27

Source: UBS estimates

COMPANY DESCRIPTION

Kweichow Moutai manufactures and distributes baijiu under the Moutai brand (most famously 53° Feitian Moutai) and six major product series brands. Moutai is China's largest and most well-known baijiu brand, with 2023 revenue of Rmb147.7bn.

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Will destocking of Moutai social inventory trigger a further sector derating?**

Possibly. Wholesale prices of Moutai's Feitian Moutai rose substantially from 2016 to early 2021, encouraging both speculators and end-consumers to accumulate social inventory. We estimate 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory. As leading baijiu companies have made limited effort to control supply (given their critical role in local governments' fiscal revenues), while aggressively expanding capacity since 2021, we expect downward pressure on premium baijiu companies' retail prices to intensify in 2024-25.

[more](#)**Q: Will oversupply and demographic changes offset the premiumisation trend in 2024-25?**

Yes, we think the benefits of baijiu premiumisation are likely to be offset by industry oversupply and a declining drinking demographic. We expect combined capacity of the top 6 baijiu makers to expand 37% during 2023-25E. Demographic shifts, particularly a decline in the primary baijiu consumer cohort (male aged 30-59), will be a negative driver for the sector's volume growth, leading to a potential 13% volume decline during 2023-25E, by our estimates. We see both factors as structural headwinds for overall baijiu consumption, offsetting the premiumisation trend.

[more](#)**UBS VIEW**

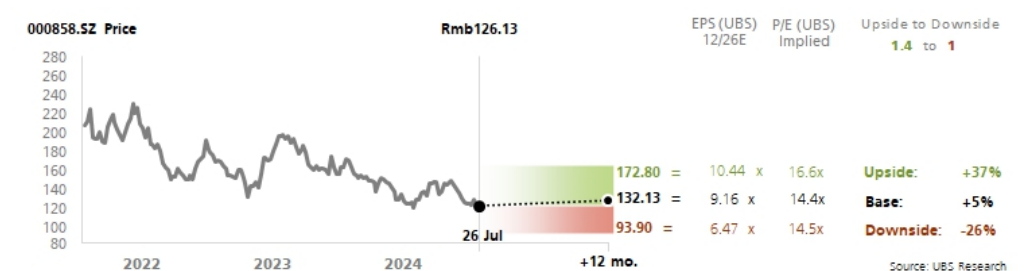
We downgrade Wuliangye from Buy to Neutral as we lower our 2024E/25E earnings 4%/11%. We also lower our mid-term NOPAT growth rate from 4.2% to 2.4% to reflect mid-term earnings pressure. The weak wholesale price of Normal WLY and its recent announcement to cut Normal WLY supply to traditional distribution channels by 20% in 2024 could hint at demand pressure. Our new DCF-based price target of Rmb132.13 implies 15.9x/15.5x 2024E/25E PE on a 5% 2023-25E EPS CAGR. Our 2024E/25E earnings are 5/13% below consensus. We think Wuliangye's abundant cash position will lead to potential upside in dividend payouts (2024/25E div yield of 3.9%/4.0%), providing support to its valuations despite earnings downside risks.

EVIDENCE

1) The ex-factory price of Normal WLY has been higher than the wholesale price since H222; 2) WLY plans to cut supply of Normal WLY to traditional channels by 20% in 2024. On a blended basis, WLY's volume expanded in the low teens in Q124; WLY liquor revenue grew 14% in 2023 with 18% volume growth and 4% ASP decline; 3) UBS estimates Moutai social inventory at 14-15 months' worth of reported sales, suggesting destocking risks and therefore downward pricing pressure for the premium baijiu segment; 4) top five baijiu companies' supply expanded during the downcycle, suggesting limited effort to contain supply; and 5) combined capacity of the top five baijiu companies is expected to grow 37% during 2023-25 while demand is likely to contract 13%, by our estimates.

WHAT'S PRICED IN?

Wuliangye is trading at 16x 12-month forward PE, a slight discount to its historical average of 18x and the industry average of 17x. We believe the valuation discount reflects investor concerns about potential further declines in ASP, which has started to contract since 2023 in view of distributors' depressed profitability.

UPSIDE/DOWNSIDE SPECTRUM

Value drivers	2023-26E WLY liquor volume CAGR	2023-26E WLY liquor ASP CAGR	2023-26E NP CAGR	Unearned revenue days
Rmb172.80 upside	8.0%	0.0%	10.3%	48
Rmb132.13 base	6.7%	-2.5%	5.6%	25
Rmb93.90 downside	0.0%	-6.9%	-6.0%	0

Source: UBS estimates

COMPANY DESCRIPTION

Wuliangye Yibin (WLY) is recognised as China's No. 2 premium baijiu manufacturer which manufactures and distributes baijiu under its premium, mid-range and low-end brands.

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Will destocking of Moutai social inventory trigger a further sector derating?**

Possibly. Wholesale prices of Moutai's Feitian Moutai rose substantially from 2016 to early 2021, encouraging both speculators and end-consumers to accumulate social inventory. We estimate 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory. As leading baijiu companies have made limited effort to control supply (given their critical role in local governments' fiscal revenues), while aggressively expanding capacity since 2021, we expect downward pressure on premium baijiu companies' retail prices to intensify in 2024-25.

[more](#)**Q: Will oversupply and demographic changes offset the premiumisation trend in 2024-25?**

Yes, we think the benefits of baijiu premiumisation are likely to be offset by industry oversupply and a declining drinking demographic. We expect combined capacity of the top 6 baijiu makers to expand 37% during 2023-25E. Demographic shifts, particularly a decline in the primary baijiu consumer cohort (male aged 30-59), will be a negative driver for the sector's volume growth, leading to a potential 13% volume decline during 2023-25E, by our estimates. We see both factors as structural headwinds for overall baijiu consumption, offsetting the premiumisation trend.

[more](#)**UBS VIEW**

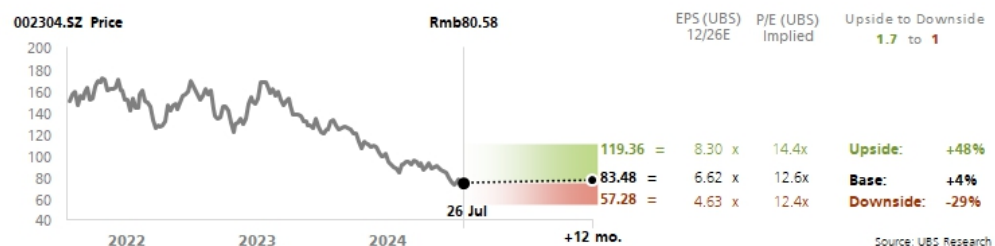
We downgrade Yanghe from Buy to Neutral as we lower our 2024E/25E earnings 4%/14% to reflect intensifying competition in the high-end baijiu segment, especially in Jiangsu province, Yanghe's biggest revenue contributor. We also lower our mid-term NOPAT growth rate from 3.4% to 2.2% to reflect mid-term earnings pressure. Our new DCF-based price target of Rmb83.48 implies 12.6x/12.9x 2024E/25E PE on a -1% 2023-25E EPS CAGR. We think Yanghe's abundant cash position will lead to potential upside in dividend payouts (2024/25E dividend yield of 3.4%/3.5%), providing support to its valuations despite earnings downside risks.

EVIDENCE

1) In H223, Yanghe's liquor revenue from ex-Jiangsu market decreased by 2.7% YoY and accounted for 55% of total revenue, down 1.8ppt YoY, suggesting a setback in its national expansion, in our view; 2) UBS estimates Moutai social inventory at 14-15 months' worth of reported sales, suggesting destocking risks and therefore downward pricing pressure for the premium baijiu segment; 3) top five baijiu companies' supply expanded during the downcycle, suggesting limited effort to contain supply; and 4) combined capacity of the top five baijiu companies is expected to grow 37% during 2023-25 while demand is likely to contract 13%, by our estimates.

WHAT'S PRICED IN?

Yanghe is trading at 13x 12M forward PE, 1SD below its historical average and a 24% discount to the sector average, suggesting investor concerns over intensifying competition in Jiangsu province and setbacks in its national expansion.

UPSIDE/DOWNSIDE SPECTRUM

Value drivers	2023-26E sub-premium and above volume CAGR	2023-26E sub-premium and above ASP CAGR	2023-26E NP CAGR	Unearned revenue days
Rmb119.36 upside	8.9%	1.4%	7.7%	57
Rmb83.48 base	4.9%	-1.0%	0.3%	57
Rmb57.28 downside	-3.5%	-4.9%	-11.3%	53

Source: UBS estimates

COMPANY DESCRIPTION

Jiangsu Yanghe Brewery (Yanghe) manufactures and markets baijiu (a distilled Chinese liquor) under the Yanghe, Shuanggou and Sujiu brands. Yanghe's Blue Classic series baijiu is its flagship product range, accounting for more than 80% of its total revenue in 2022. Leveraging its 6,601 sales staff and 8,789 distributors across China, the company reported revenue of Rmb33.1bn in 2023, of which 56% was generated from outside of Jiangsu.

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Will destocking of Moutai social inventory trigger a further sector derating?**

Possibly. Wholesale prices of Moutai's Feitian Moutai rose substantially from 2016 to early 2021, encouraging both speculators and end-consumers to accumulate social inventory. We estimate 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory. As leading baijiu companies have made limited effort to control supply (given their critical role in local governments' fiscal revenues), while aggressively expanding capacity since 2021, we expect downward pressure on premium baijiu companies' retail prices to intensify in 2024-25.

[more](#)**Q: Will oversupply and demographic changes offset the premiumisation trend in 2024-25?**

Yes, we think the benefits of baijiu premiumisation are likely to be offset by industry oversupply and a declining drinking demographic. We expect combined capacity of the top 6 baijiu makers to expand 37% during 2023-25E. Demographic shifts, particularly a decline in the primary baijiu consumer cohort (male aged 30-59), will be a negative driver for the sector's volume growth, leading to a potential 13% volume decline during 2023-25E, by our estimates. We see both factors as structural headwinds for overall baijiu consumption, offsetting the premiumisation trend.

[more](#)**UBS VIEW**

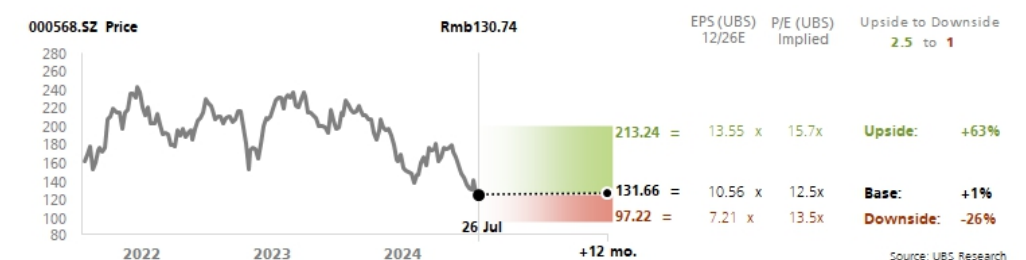
We downgrade Laojiao from Buy to Neutral as we lower 2024E/25E earnings 7%/17%. We also lower mid-term growth rate from 6.7% to 3.6% to reflect earnings pressure. We believe potential destocking of Moutai social inventory and softening demand for premium baijiu could lead to declines in both volume and prices in the premium segment. Our new DCF-based PT of Rmb131.66 implies 13.4x/13.1x 2024E/25E PE on a 5% 2023-25E EPS CAGR. Our 2024E/25E earnings are 10/22% below consensus. Laojiao's abundant cash position may lead to upside in dividend payouts, providing support to its valuations, despite earnings downside risks.

EVIDENCE

1) 2023 Laojiao revenue of mid-to-high-end segment (mainly Guojiao 1573, Tequ and Jiaoling) grew 21% YoY and accounted for 89% of total revenue, primarily driven by higher ASP as volume only increased 1%; 2) Guojiao 1573's ex-factory price was Rmb589 per bottle in 2023, a 27% discount to Wuliangye liquor, by our calculation. We believe this is due to mix shift toward low-degree Laojiao 1573, which has grown strongly in recent years; 3) UBS estimates Moutai social inventory at 14-15 months' worth of reported sales, suggesting destocking risks and downward pricing pressure for the premium baijiu segment; 4) top five baijiu companies' supply expanded during the downcycle, suggesting limited effort to contain supply; and 5) combined capacity of the top five baijiu companies is expected to grow 37% during 2023-25 while demand is likely to contract 13%, by our estimates.

WHAT'S PRICED IN?

Laojiao is trading at 15x 12-month forward PE, 0.5SD below historical average of 19x and a slight discount to the sector average of 17x. We believe the valuation discount reflects concerns about potential market share losses in the premium segment as Wuliangye steps up volume expansion in low alcohol degree products, directly competing with Guojiao 1573. Laojiao's performance during the last downcycle was the weakest among the top three baijiu companies, due to its smaller size and relatively weaker brand equity.

UPSIDE/DOWNSIDE SPECTRUM

Value drivers	2023-26E Guojiao 1573 volume CAGR	2023-26E Guojiao 1573 ASP CAGR	2023-26E NP CAGR	Unearned revenue days
Rmb213.24 upside	11.3%	3.0%	14.4%	36
Rmb131.66 base	4.3%	0.0%	5.3%	15
Rmb97.22 downside	0.0%	-6.9%	-7.3%	0

Source: UBS estimates

COMPANY DESCRIPTION

Luzhou Laojiao produces and sells baijiu under its main Luzhou Laojiao brand. In 2023, Laojiao ranked No. 3 in the premium segment by retail price.

UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS
Q: Will destocking of Moutai social inventory trigger a further sector derating?

Possibly. Wholesale prices of Moutai's Feitian Moutai rose substantially from 2016 to early 2021, encouraging both speculators and end-consumers to accumulate social inventory. We estimate 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory. As leading baijiu companies have made limited effort to control supply (given their critical role in local governments' fiscal revenues), while aggressively expanding capacity since 2021, we expect downward pressure on premium baijiu companies' retail prices to intensify in 2024-25.

[more](#)
Q: Will oversupply and demographic changes offset the premiumisation trend in 2024-25?

Yes, we think the benefits of baijiu premiumisation are likely to be offset by industry oversupply and a declining drinking demographic. We expect combined capacity of the top 6 baijiu makers to expand 37% during 2023-25E. Demographic shifts, particularly a decline in the primary baijiu consumer cohort (male aged 30-59), will be a negative driver for the sector's volume growth, leading to a potential 13% volume decline during 2023-25E, by our estimates. We see both factors as structural headwinds for overall baijiu consumption, offsetting the premiumisation trend.

[more](#)
UBS VIEW

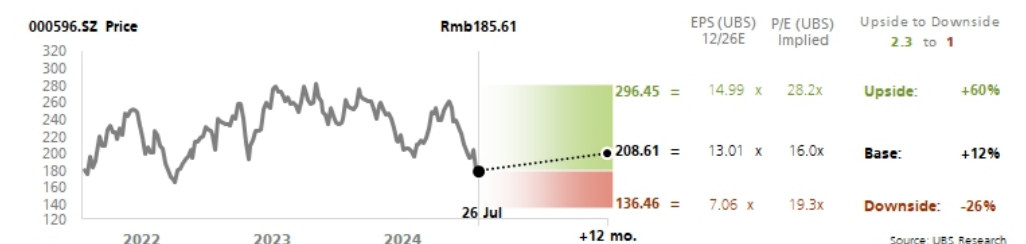
We lower Gujing's 2024E/25E earnings 8%/14% on a potential weakening in demand for Gujing's premium baijiu products. We also lower our mid-term NOPAT growth rate from 5.2% to 3.3% to reflect mid-term earnings pressure. Our new DCF-based price target of Rmb208.61 implies 20.5x/18.0x 2024E/25E PE on a 15% 2023-25E EPS CAGR. We reiterate Buy on Gujing for its product mix upgrades and national expansion.

EVIDENCE

1) Gujing targets 2024 revenue of Rmb24.4bn (+21% YoY) and profit before tax of Rmb8.0bn (+26% YoY), indicating flattish revenue growth (20% YoY in 2023) and slower PBT growth (34% YoY in 2023). If achieved, the growth targets would make Gujing one of the fastest growing baijiu makers; 2) premium products accounted for 76% of Gujing's 2023 revenue with an average ex-factory price of Rmb121 per bottle, lower than peers, suggesting potential upgrades, especially within Anhui province given the resilient economic backdrop, in our view; 3) UBS estimates Moutai social inventory at 14-15 months' worth of reported sales, suggesting destocking risks and therefore downward pricing pressure for the premium baijiu segment; 4) top five baijiu companies' supply expanded during the downcycle, suggesting limited effort to contain supply; and 5) combined capacity of the top five baijiu companies is expected to grow 37% during 2023-25 while demand is likely to contract 13%, by our estimates.

WHAT'S PRICED IN?

Gujing is trading at 21x 12-month forward PE, 0.5SD below its historical average but a 20% premium to the sector average of 17x. We believe the valuation premium reflects investors' appreciation of its resilient earnings growth outlook given its track record.

UPSIDE/DOWNSIDE SPECTRUM


Value drivers	2023-26E sub-premium and above volume CAGR	2023-26E sub-premium and above ASP CAGR	2023-26E NP CAGR	Unearned revenue days
Rmb296.45 upside	10.8%	5.3%	20.0%	46
Rmb208.61 base	8.5%	2.3%	14.4%	46
Rmb136.46 downside	-3.5%	-7.6%	-6.7%	46

Source: UBS estimates

COMPANY DESCRIPTION

Anhui Gujing Distillery (Gujing) is a baijiu manufacturer based in Anhui province. It owns four major baijiu brands, including Gujing Year Puree, Gujing Gong, Huanghelou and Mingguang. Gujing Year Puree contributed around 80% of total revenue in 2023 and covers retail price brands from Rmb80/500ml to Rmb1,000/500ml, with multiple products. Gujing achieved revenue of Rmb20.3bn in 2023, with around 60% from Anhui province.

UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Will destocking of Moutai social inventory trigger a further sector derating?**

Possibly. Wholesale prices of Moutai's Feitian Moutai rose substantially from 2016 to early 2021, encouraging both speculators and end-consumers to accumulate social inventory. We estimate 14-15 months' worth of Moutai liquor sales reported during 2016-23 were accumulated as social inventory. As leading baijiu companies have made limited effort to control supply (given their critical role in local governments' fiscal revenues), while aggressively expanding capacity since 2021, we expect downward pressure on premium baijiu companies' retail prices to intensify in 2024-25.

[more](#)**Q: Will oversupply and demographic changes offset the premiumisation trend in 2024-25?**

Yes, we think the benefits of baijiu premiumisation are likely to be offset by industry oversupply and a declining drinking demographic. We expect combined capacity of the top 6 baijiu makers to expand 37% during 2023-25E. Demographic shifts, particularly a decline in the primary baijiu consumer cohort (male aged 30-59), will be a negative driver for the sector's volume growth, leading to a potential 13% volume decline during 2023-25E, by our estimates. We see both factors as structural headwinds for overall baijiu consumption, offsetting the premiumisation trend.

[more](#)**UBS VIEW**

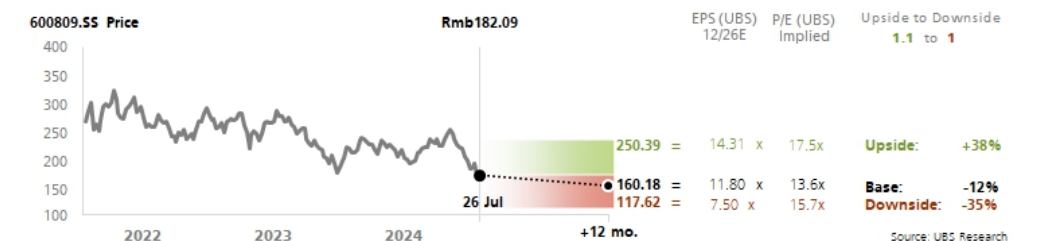
Despite Fenjiu's leading position in the light flavour segment, we believe rising competition and downtrading in the high-end segment pose downside risks to profitability if it intends to accelerate national expansion. We lower our 2024E/25E earnings 2%/7% on a potential weakening in demand for Fenjiu's premium baijiu products. Our 2024-25E earnings are 8-15% below consensus. We expect Fenjiu's profit margin to decline due to higher S&D as Fenjiu expands into markets outside of Shanxi province and competition intensifies. Our new DCF-based PT of Rmb160.18 implies 16.4x/14.9x 2024E/25E PE on a 12% 2023-25E EPS CAGR.

EVIDENCE

1) Fenjiu's Q423 revenue from Shanxi decreased 7% YoY while revenue share dropped from 38% in Q422 to 28%. Q124 revenue from Shanxi rose 11% YoY, a deceleration compared to 30% YoY in Q123, suggesting a slowdown in Shanxi growth, in our view; 2) Fenjiu's premium products accounted for 60% of its 2023 revenue with average ex-factory price of Rmb227 per bottle, a premium against peers, which we attribute to its dominant position in Shanxi; 3) UBS estimates Moutai social inventory at 14-15 months' worth of reported sales, suggesting destocking risks and therefore downward pricing pressure for the premium baijiu segment; 4) top five baijiu companies' supply expanded during the downcycle, suggesting limited effort to contain supply; and 5) combined capacity of the top five baijiu companies is expected to grow 37% during 2023-25 while demand is likely to contract 13%, by our estimates.

WHAT'S PRICED IN?

Fenjiu is trading at 21x 12-month forward PE, 1SD below historical average of 29x due to expectations for earnings deceleration, but a 20% premium to the sector average of 17x. We believe the valuation premium reflects investors' appreciation of its resilient earnings outlook due to its track record. But we think investors could be overlooking earnings downside risks from lower revenue growth in Shanxi province and higher S&D investments outside of Shanxi province.

UPSIDE/DOWNSIDE SPECTRUM

Value drivers	2023-26E sub-premium and above volume CAGR	2023-26E sub-premium and above ASP CAGR	2023-26E NP CAGR	Unearned revenue days
Rmb250.39 upside	17.1%	3.4%	18.7%	85
Rmb160.18 base	7.0%	3.4%	11.3%	40
Rmb117.62 downside	-3.5%	-7.6%	-4.3%	35

Source: UBS estimates

COMPANY DESCRIPTION

Shanxi Xinghuacun Fen Wine Factory (Fenjiu) manufactures and distributes baijiu. Fenjiu Group (a state-owned enterprise)/China Resources held 57%/11% Fenjiu's total shares, respectively in 2023.

Valuation Method and Risk Statement

We derive our price targets for China's baijiu makers using DCF methodology.

We think major sector risks include: 1) an economic downturn (including an acute property slowdown and falling property prices), which could negatively impact demand for premium and high-end baijiu; 2) a COVID resurgence in China; 3) rising competition, which could negatively impact company profitability; 4) possible capacity constraints that could drag sales growth if demand is healthy; 5) the state-owned enterprise structure, which could curb some baijiu companies' growth potential; 6) government regulations or policies that could negatively impact companies' profitability (eg, consumption tax reform); 7) food safety issues that could damage brand image; 8) strategic errors and/or execution risks.

Required Disclosures

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UBS Global Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	52%	25%
Neutral	FSR is between -6% and 6% of the MRA.	40%	22%
Sell	FSR is > 6% below the MRA.	8%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2024.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. In some cases, this yield may be based on accrued dividends. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES: UK and European Investment Fund ratings and definitions are: **Buy:** Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount. **Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS AG Hong Kong Branch: Christine Peng, CFA, Kevin Cheng.

Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
Anhui Gujing Distillery - A ^{7,18}	000596.SZ	Buy	Rmb185.42	26 Jul 2024
Jiangsu Yanghe Brewery	002304.SZ	Buy	Rmb80.86	26 Jul 2024
Kweichow Moutai	600519.SS	Buy	Rmb1,422.19	26 Jul 2024
Luzhou Laojiao	000568.SZ	Buy	Rmb129.83	26 Jul 2024
Shanxi Fenjiu	600809.SS	Sell	Rmb182.35	26 Jul 2024
Sichuan Swellfun	600779.SS	Sell	Rmb35.84	26 Jul 2024
Wuliangye Yibin	000858.SZ	Buy	Rmb126.20	26 Jul 2024

Source: UBS Global Research; LSEG Eikon. All prices as of local market close. Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.

7. Within the past 12 months, UBS has received compensation for products and services other than investment banking services from this company/entity.

18. Market capitalisation is calculated by multiplying the current share price by the sum of A and H shares.

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