

SECTOR UPDATE

Consumer – China

Focusing On Sector Growth Trend And Companies' Competitive Advantages

We reckon that the overall situation of the pandemic has not worsened materially in the last week. We think the pandemic would likely exert a weakening negative impact on investment sentiment in the future months, and thus we suggest focusing more on the sustainable sector growth trend and companies' core competitive advantages. Maintain **OVERWEIGHT** on China's consumer sector.

WHAT'S NEW

- **Duty-free (maintain OVERWEIGHT).** In the last week, Haikou Meilan Airport's estimated passenger throughput per day increased from a low of about 17,500 on 18 July to about 30,000 on 23 July, and further recovered to about 35,000 on 24 July. The average daily number of flights in Sanya Phoenix Airport rose 2.1% w/w. International passenger throughput of Shanghai Pudong Airport rose 43.8% m/m in Jun 22.

According to Haikou Customs, Hainan's offshore duty-free sales rebounded 111% and 41% m/m to Rmb2.2b/Rmb3.2b in May/Jun 22 respectively. Duty-free shopping visits recovered 83.7%/58.3% m/m in May/Jun 22. The yoy decline in offshore duty-free sales narrowed to 11% in Jun 22 from 77.4% in Apr 22, and duty-free shopping visits' yoy drop also narrowed to 27.8% in Jun 22 from 80.3% in Apr 22. In 1H22, offshore duty-free sales/shopping visits dropped 21%/32.8% yoy, and offshore duty-free sales per shopping visit increased 17.7% yoy. Moreover, there were media reports that Hainan's offshore duty-free sales during 25 June to 16 Jul hiked 5.1% yoy, of which offshore duty-free shops in Sanya recorded Rmb2.1b of duty-free sales, representing an 11.4% yoy hike.

In 1H22, China Post (Hainan) delivered a total of 4.8m pieces of duty-free packages, or about 26,000 pieces of packages per day. The media reported that Cambodians will be allowed to buy duty-free goods in the three downtown duty-free shops owned by China Tourism Group Duty-free Corporation in their country starting from 20 Jul 22, with an annual shopping quota of US\$10,000 per person and a floor unit price of US\$50.

On 20 July, Hunan province published "Several Measures On Deeply Promoting The Reforms And Innovations Of Hunan Pilot Free Trade Zone", which mentioned that the government will vigorously encourage domestic and foreign new retail brands to establish their headquarters/regional headquarters in Hunan, and try to establish a downtown duty-free shop in the province.

- **Sportswear (maintain OVERWEIGHT).** In the last week, prices of cotton and polyester filament yarn (PFY) declined 7.2% and 2.2% w/w. 361 Degrees International's retail sales of core brand saw low-teens/mid-teens yoy hike in 2Q22/1H22, and that of kids brand saw 20-25% yoy growth in both 2Q22 and 1H22. Retail sales of e-commerce platform saw 40%/40-45% yoy growths in 2Q22/1H22. Pu Sheng International's sales dipped 14.7% yoy in Jun 22.

PEER COMPARISON

Company	Ticker	Rec	Price @ 18 Jul 22 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	----- PE -----		----- P/B -----		---- EV/EBITDA ----		ROE	Div. yield
							2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2022F (%)
CTGDF	601888 CH	BUY	214.62	278.00	29.5	61,930.5	41.5	28.9	11.4	8.7	23.6	17.8	30.4	0.7
Li Ning	2331 HK	BUY	66.45	96.00	44.5	22,160.6	31.5	25.3	6.3	5.3	19.8	16.3	20.6	0.9
Anta Sports	2020 HK	BUY	91.20	139.00	52.4	31,527.6	25.6	20.0	6.5	5.3	14.3	11.7	27.1	1.4
Shenzhou	2313 HK	BUY	84.30	152.00	80.3	16,143.5	20.4	16.3	3.4	3.0	14.3	11.8	17.6	2.5
Moutai	600519 CH	BUY	1947.00	2430.00	24.8	361,507.8	39.7	34.2	10.9	9.3	25.2	21.8	29.8	1.3
Wuliangye	000858 CH	BUY	185.91	276.00	48.5	106,666.3	26.1	21.8	6.3	5.4	17.7	14.7	25.9	1.9
Fenjiu	600809 CH	BUY	290.80	350.00	20.4	52,446.0	45.9	34.7	17.0	12.7	32.2	24.6	42.9	0.9
CR Beer	291 HK	BUY	53.40	72.00	34.8	22,069.5	35.7	28.8	5.7	5.0	19.1	16.0	16.6	1.1
Tsingtao Brewery	168 HK	HOLD	75.15	79.80	6.2	16,358.6	29.4	24.8	3.7	3.4	18.0	15.1	12.9	1.6
Bud APAC	1876 HK	BUY	22.80	28.80	26.3	38,466.4	33.5	29.6	3.3	3.1	14.7	13.2	10.1	1.3
Foshan Haitian	603288 CH	BUY	84.77	95.10	12.2	58,065.9	54.3	45.9	14.3	12.1	43.1	36.3	28.5	0.9
Jonjee Hi-Tech	600872 CH	HOLD	35.12	28.80	-18.0	4,135.7	38.8	32.4	6.3	5.5	27.4	22.7	17.5	0.8
Haidilao	6862 HK	HOLD	15.86	14.80	-6.7	11,262.0	55.5	30.9	8.5	6.9	27.4	20.8	16.6	0.5
Jiumaojiu	9922 HK	BUY	18.32	20.50	11.9	3,393.1	45.6	28.2	6.7	5.6	19.3	13.3	15.8	0.4

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
CTGDF	601888 CH	BUY	214.62	278.00
Li Ning	2331 HK	BUY	66.45	96.00
Moutai	600519 CH	BUY	1,947.00	2,430.00
CR Beer	291 HK	BUY	53.40	72.00

Source: UOB Kay Hian

ANALYST(S)

Shen Zhifeng

+86 21 5404 7225 ext.811
zhifeng@uobkayhian.com

Ng Jo Yee

+603 2147 1984
joyee@uobkayhian.com

Jiang Xin

+86 21 5404 7225 ext.819
jiangxin@uobkayhian.com

- **Baijiu (maintain OVERWEIGHT).** In the last week, average wholesale prices of boxed/unboxed Feitian Moutai were Rmb3,110/Rmb2,755 per bottle. The average wholesale prices of Wuliangye and Classic Wuliangye were Rmb965 and Rmb1,610 per bottle. The average wholesale prices of Qinghua 20/30 were Rmb360/Rmb815 per bottle. National baijiu price index rose 0.15% in mid-Jul 22 vs in early-Jul 22, of which the price indexes for renowned baijiu/localised baijiu/base liquor changed by +0.08%/-0.13%/+0.81% respectively.

In the last week, i-Moutai app released 0.15m of Moutai products (for subscription) and the overall successful rate of 55m bid entries was 0.27%. As of 23 July, the cumulative sales of the products for subscription in i-Moutai app had reached Rmb5.4b.

According to 2022 Chinese Baijiu consumption trend report, the total number of baijiu companies above designated size had shrunk to 959 as of end-1Q22 from 1,593 at the end of 2015. The six companies (Moutai, Wuliangye, Yanghe, Laojiao, Fenjiu, and Gujinggong) accounted for 55% of the baijiu industry's total profit in 2021, vs 40.8% in 2015. Kweichow Moutai's preliminary revenue/net profit increased 17%/20% yoy in 1H22. It was reported that a buying agent earned Rmb100,000 from Moutai ice cream in less than 20 days. Baijiu production dropped 10% yoy in Jun 22 and rose 0.4% yoy in 1H22.

- **Beer (maintain OVERWEIGHT).** In the last week, aluminium prices increased 0.8% wow. Prices of corrugated paper and glass dropped 0.8%/1.7% in mid-Jul 22 vs that in early-Jul 22. Imported barley price rose 23.2% yoy and 2.4% mom in Jun 22, and recorded a 23.3% yoy increase in 1H22. Budweiser APAC's craft beer factory in Putian, Fujian (the largest craft beer factory in APAC) has reportedly commenced operations on 21 Jul 22.

According to China Alcoholic Drinks Association, revenue and profit of beer companies above the designated size grew 7.9%/38.4% yoy to Rmb158.5b/Rmb18.7b in 2021. In Jun 22, China's export beer volume/value increased 2.2%/17.3% yoy to 41.4m litres/Rmb195m. The imported beer volume/value decreased 31.9%/25% yoy to 38.6m litre/Rmb346m. In 1H22, China's export beer volume/value increased 6.6%/9.3% yoy to 231.2m litres/Rmb1,012m. Imported beer volume/value decreased 14.4%/8.5% yoy to 226.6m litres/Rmb2,041m.

- **Condiment (maintain MARKET WEIGHT).** In the last week, prices of sugar and PET declined 0.1%/1.9% wow, and soybean price was flat wow. According to the China Condiment Association, the number of newly registered manufacturing related condiment enterprises reached a new high of 1,045 (+7.5% yoy) in 2Q22. The planned investment in condiment production capacity reached Rmb10b in 1H22, which would bring more than 2m tonnes of capacity in the future. Chnbrand released the 2022 Chinese customers satisfaction index (C-CSI), where Haitian brand entered the top three in the segments of soy sauce (first), vinegar (third), oyster sauce (third) and sauces (second). Moreover, Chubang brand (Jonjee) ranked third in the oyster sauce segment.

Jonjee Hi-Tech (Jonjee) announced that its second largest shareholder, Zhongshan Torch Group, together with its concerted parties, had increased the total equity interests in Jonjee to 12.3% from 11.2%, while the substantial shareholder, Zhongshan Runtian's equity interests in Jonjee decreased to 17.8% as of 19 Jul 22.

- **Catering (maintain MARKET WEIGHT).** In the last week, the average price of vegetables rose 4.0% wow, and the wholesale prices of beef/lamb/pork recorded -0.3%/-0.6%/-0.6% wow changes. Prices of soybean oil/vegetable oil increased 1.8%/1.8% wow.

Haidilao has reportedly established a new business segment named "community business operation division", which will integrate its internal and external resources to form the "delivery + social group + live stream + online shopping" operating model for each community. In May 22, the community sales business contributed Rmb200m of sales. In Jun 22, the new segment in Beijing/Shanghai saw 481%/582% yoy increases in orders, and 16.1%/23.7% yoy increases in profit.

ESSENTIALS

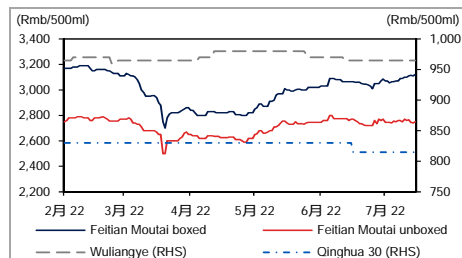
- **Focusing on sector growth trend and companies' competitive advantages.** In the last week, we note that the overall situation of the pandemic has not worsened materially as the number of new COVID-19 cases is under control and containment policies

remained unchanged. We think the pandemic would likely to exert a weakening negative impact on investment sentiment in the future months as the worst has passed. We suggest that investors focus more on the sustainable sector growth trend and companies' core competitive advantages instead of the short-term disruption from the pandemic.

VALUATION/RECOMMENDATION

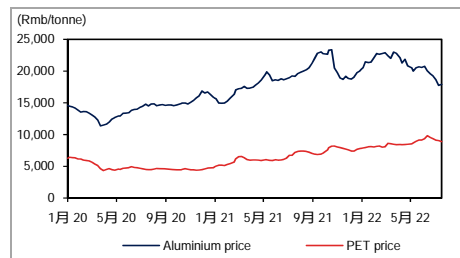
- Kweichow Moutai – The most defensive player with potential high growth.** The company's strong 1H22 preliminary results backed our view that premium baijiu (especially Moutai products) will be less affected by the pandemic. Amid the uncertain external environment, Kweichow Moutai has shown the highest visibility in the solid earnings growth in the future among peers across the whole consumer sector. Unlike duty-free companies which would see a significant improvement in results when the pandemic comes under control, Kweichow Moutai is an excellent investment target that can deliver stable and robust earnings growth in the mid-to-long term.

BAIJIU WHOLESALE PRICES



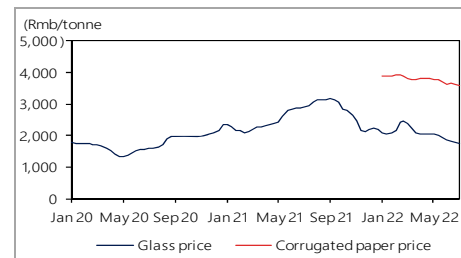
Source: Jinri Jiujia, UOB Kay Hian

PRICES OF ALUMINIUM AND PET



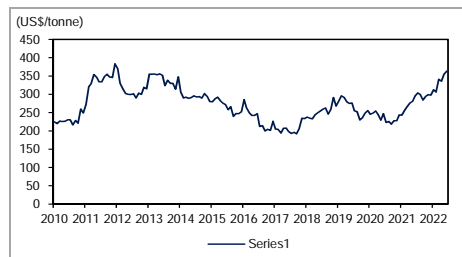
Source: WIND, UOB Kay Hian

PRICES OF GLASS AND CORRUGATED PAPER



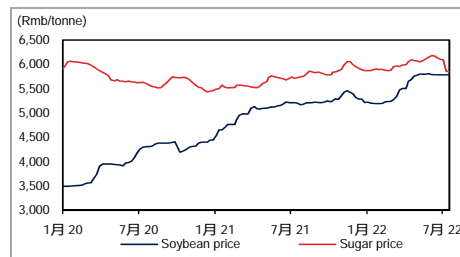
Source: WIND, UOB Kay Hian

PRICE OF IMPORT BARLEY



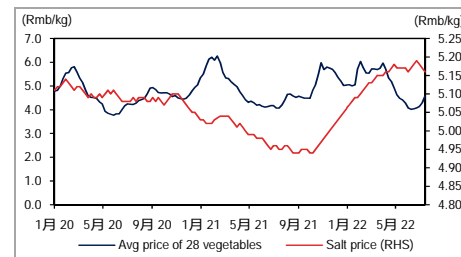
Source: China Custom, WIND, UOB Kay Hian

PRICES OF SOYBEAN AND SUGAR



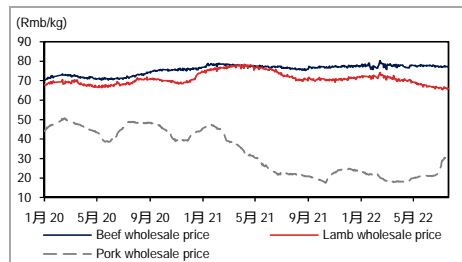
Source: WIND, UOB Kay Hian

PRICES OF SALT AND VEGETABLES



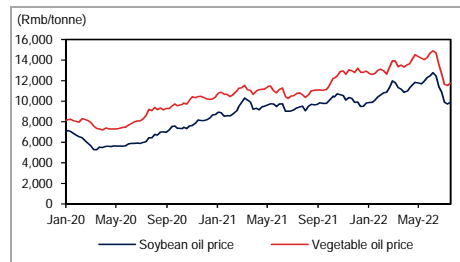
Source: WIND, UOB Kay Hian

PRICES OF BEEF, LAMB, AND PORK



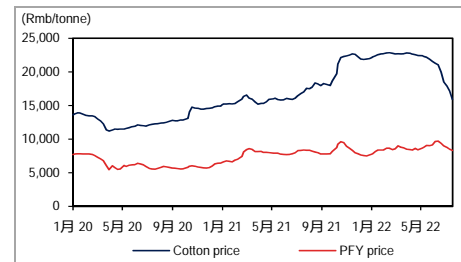
Source: WIND, UOB Kay Hian

PRICES OF SOYBEAN OIL AND VEGETABLE OIL



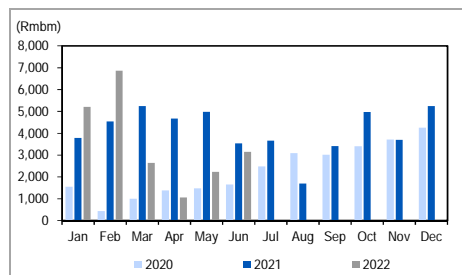
Source: WIND, UOB Kay Hian

PRICES OF COTTON AND PFY



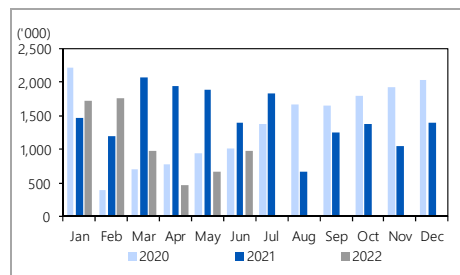
Source: WIND, UOB Kay Hian

OFFSHORE DUTY-FREE SALES IN HAINAN



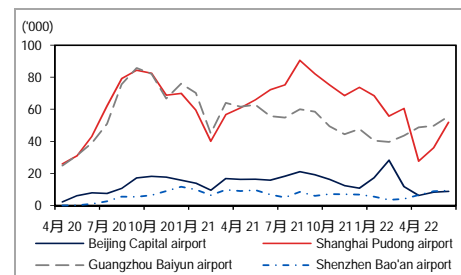
Source: Haikou Custom, UOB Kay Hian

MEILAN AIRPORT'S PASSENGER THROUGHPUT



Source: Haikou Meilan Airport, UOB Kay Hian

KEY AIRPORTS' INTERNATIONAL PASSENGER



Source: Respective companies, UOB Kay Hian

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W