

SECTOR UPDATE

Consumer – China

More Signs Of Reopening; Upbeat On Baijiu Names' Potential Re-rating Ahead

We see more signs of reopening in China given: a) the central government's message that prevention and control of the pandemic is entering a new stage, b) local governments' relaxed policies, and c) media reports of the virus' less perniciousness. Given baijiu's high correlation with the macro economy, we are upbeat on baijiu leaders' potential re-rating ahead thanks to the economic stimulus policies, upcoming peak season in Jan 23 and potential reopening theme. Maintain OVERWEIGHT.

WHAT'S NEW

- **Duty-free (maintain OVERWEIGHT).** Last week, the daily average number of flights in Sanya Phoenix Airport was 117 (-30.7% wow), while that of Haikou Meilan Airport was 175 (-19.4% wow).

On 27 Nov 22, the Department of Commerce of Hainan Province announced that Hainan offshore duty free sales exceeded Rmb10b with average growth of 44.6% yoy since 2011. Oct 22/10M22 Korean duty free sales rose 16.1%/2.2% yoy to KRW1.9t/KRW15t.

- **Sportswear (maintain OVERWEIGHT).** Last week, prices of cotton and polyester filament yarn (PFY) changed -0.7%/+6.2% wow.

Fila's collaboration series with Game for Peace had been released on Dewu App. The series include T-shirts, hats and other core products. The total production volume for Nike and Adidas will be cut by 30-40% starting from 2023 mainly due to the continuous effect of the pandemic and the closure of the Russian segment, according to media reports.

- **Dairy (maintain OVERWEIGHT).** Prices of soybean meal/corn/alfalfa saw changes of -4.1%/+1.7%/+6.9% wow.

According to USDA, China's production volume of fresh milk/whole milk powder/cheese/butter is expected to change +3%/+3%/+10%/-7.7% yoy to 41.7m/1.1m/0.02m/0.01m tonnes in 2023. The consumption volume of fresh milk/whole milk powder/cheese/butter is expected to change +3.3%/+1%/-1.7%/-7.2% to 42.8m/1.8m/0.2m/0.14m, and imported volumes are expected to change +2.3%/0%/-3.2%/-7.1% to 1.1m/0.75m/0.15m/0.13m in 2023. Mengniu completed the purchase of Milkground with a 35.01% stake. The online sales size of maternal and baby related products dropped 2.2% yoy to Rmb134.8b in 9M22, with infant and children food products (includes milk powder, food supplement, nutritional products and snacks) rising 9.3% to Rmb30.5b. The online/offline children milk powder sales in China changed -28%/+18.5% yoy in 9M22.

PEER COMPARISON

Company	Ticker	Rec	Price @ 2 Dec 22 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	PE 2022F (x)	2023F (x)	P/B 2022F (x)	2023F (x)	EV/EBITDA 2022F (x)	2023F (x)	ROE 2022F (%)	Div. yield 2022F (%)
CTGDF	601888 CH	BUY	199.40	223.00	11.8	58,253	51.4	26.8	10.5	7.9	32.2	19.2	27.1	0.6
Li Ning	2331 HK	BUY	61.40	93.00	51.5	20,719	30.2	24.1	5.7	4.8	15.5	12.5	20.7	1.5
Anta Sports	2020 HK	BUY	92.70	107.00	15.4	32,322	28.1	22.0	6.7	5.5	14	11.5	26	1.8
Shenzhou	2313 HK	BUY	72.85	103.00	41.4	14,071	19.7	15.3	2.8	2.6	13.8	10.5	15.5	3.8
Yili	600887 CH	BUY	29.74	39.30	32.1	27,073	20.1	16.3	3.8	3.5	12.5	10.6	19.5	4.1
China Mengniu	2319 HK	BUY	34.80	43.20	24.1	17,686	20.9	18.2	2.9	2.7	16.4	15.3	15.1	1.8
Feihe Dairy	6186 HK	HOLD	6.23	5.70	-8.5	7,272	8.8	7.7	2.1	1.7	3.9	3.5	17.8	5.4
Moutai	600519 CH	BUY	1633.88	2580.00	57.9	292,355	32.6	28.0	9.2	7.8	18.9	16.3	30.3	1.8
Wuliangye	000858 CH	BUY	163.06	217.00	33.1	90,154	23.6	20.1	5.5	4.8	14.4	12.2	25.2	2.5
Fenjiu	600809 CH	BUY	261.99	345.00	31.7	45,530	42.4	31.1	15.5	11.5	29.4	21.9	42.1	1.0
CR Beer	291 HK	BUY	53.75	73.00	35.8	22,407	35.1	28.7	5.7	5.0	21	16.7	17	1.7
Tsingtao Brewery	168 HK	BUY	74.35	85.20	14.6	16,662	27.6	23.7	3.6	3.4	14.3	12.2	13.4	2.2
Bud APAC	1876 HK	BUY	23.75	27.50	15.8	40,419	38.5	32.8	3.4	3.2	13.3	11.5	10.1	1.8
Foshan Haitian	603288 CH	HOLD	75.35	72.30	-4.0	49,722	50.1	41.7	12.8	10.7	37	30.6	28.6	1.0
Jonjee Hi-Tech	600872 CH	BUY	38.32	40.50	5.7	4,287	39.5	33.8	6.8	5.9	25.9	21.7	19.1	1.0
Haidilao	6862 HK	HOLD	20.25	18.20	-10.1	14,506	111.3	39.4	11.4	9.0	26.9	22.7	20.1	0.3
Jiumaojiu	9922 HK	BUY	19.74	22.60	14.5	3,688	97.7	34.3	7.7	6.4	27.9	23.7	21.1	0.2

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
CTGDF	601888 CH	BUY	199.40	223.00
Li Ning	2331 HK	BUY	61.40	93.00
Moutai	600519 CH	BUY	1633.88	2580.00
CR Beer	291 HK	BUY	53.75	73.00

Source: UOB Kay Hian

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- Baijiu (maintain OVERWEIGHT).** Last week, wholesale prices of boxed/unboxed Feitian Moutai averaged Rmb2,899/Rmb2,651 a bottle. Wholesale prices of Wuliangye averaged Rmb950 a bottle, while wholesale prices of Qinghua 20/30 averaged Rmb355/Rmb805 a bottle. Last week, the i-Moutai app released 0.16m of Moutai products (for subscription) and the overall success rate of 38.1m bid entries was 0.42%. As of 3 Dec 22, cumulative sales of products for subscription on the i-Moutai app was Rmb11.0b.

It was announced that Wuliangye has become the most favourable Chinese brand for foreigners in 2022. Wuliangye has also discovered a new bacterial species of bacteroidetes at its 501 brewing workshop. Wuliangye's first culture experimental showroom in Quanzhou was opened on 25 Nov 22.

Some 31/85 third-generation Moutai flagship stores opened in Yunnan and Shandong. On 29 Nov 22, Moutai announced the release of 99,999 Mou Xiaoling (茅小凌) prototypes with exclusive cards and numbers. On 28 Nov 22, Moutai announced it would spend Rmb845m/Rmb2.5b/Rmb106m on warehouses for reserve of ingredients/ construction land/maintenance of international hotel. The eighth round of the Moutai special event (小茅好运) released 53,676 bottles on 29 Nov 22. Moutai announced a Rmb21.91/share special dividend (tax included), and its two shareholders, China Kweichow Moutai Distillery (Group) Co and Kweichow Moutai Distillery (Group) Technology Development Co, announced they would increase their centralised bidding transaction.

- Beer (maintain OVERWEIGHT).** Last week, aluminium prices increased +0.5% wow. In late-Nov 22, corrugated paper/float flat glass had a change of -0.4%/-0.7% compared with mid-Nov 22.

The imported value of Chinese Beer in Korea rose 3.0% yoy to US\$31.2m in 10M22. The value of imported Chinese beer had now ranked first (vs second in 2021), thanks to the hot selling Tsingtao and Harbin beer. Bearky, the Korean franchiser of Tsingtao, announced to release DNF Tsingtao Beer Edition. Export beer volume increased 12.4% yoy to 397m litres in 10M22, accounting for 1.3% of domestic production.

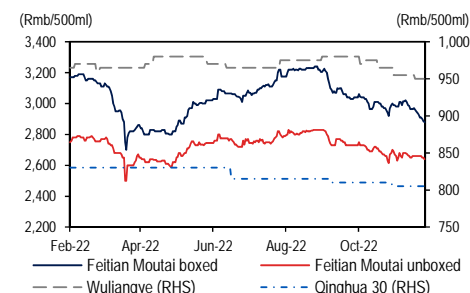
- Condiment (maintain MARKET WEIGHT).** Last week, polyethylene terephthalate (PET) prices were down 1.1% wow. Prices of soybean/sugar declined 0.2%/0.4 % wow.

iiMedia expects the market size of condiments to reach Rmb513.3/Rmb592.3b in 2022/23. The CR10 in Taoxi (淘系) Condiment Sales Ranking is only 13% in the recent 180 days, with Haitian, Lee Kum Kee, Haidilao, Totole, Kewpie ranking top five. The online sales of soy sauce/hotpot seasoning/vinegar/oyster sauce in JD and Tmall changed +40%/-10.4%/+25.1%/+58.7% yoy to Rmb97m/Rmb84m/Rmb26m/Rmb11m in Oct 22, of which the sales value of Haitian/Qianhe/Chubang in soy sauce changed -24.2%/+151.1%/+35.0% to Rmb43m/Rmb71m/Rmb10m. Jonjee had replied at the investor interactive platform that the expansion in the catering market would occur mainly through franchisers. The company entered the catering industry through: a) cooperation with large-scale chain stores, b) sales in the circulated wholesale market for mass catering, c) constructing flagship stores, d) launching special funds, and e) holding events with famous chefs.

- Catering (maintain MARKET WEIGHT).** Last week, wholesale prices of beef/lamb/pork changed +1.0%/+0.1%/-3.3% wow. Average prices of vegetables rose 4.2% wow. Prices of soybean oil/vegetable oil changed +1.1%/-3.3% wow.

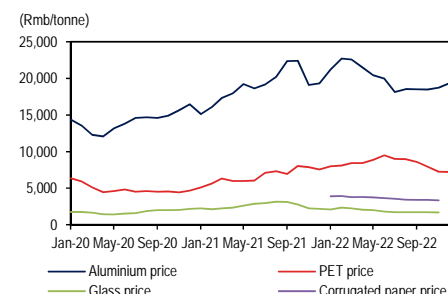
Since 30 Nov 22, many districts in Guangzhou have lifted the temporary lockdowns and resumed dine-in operations in an orderly manner. On 1 Dec 22, it was reported that revenue of some Xiabuxiabu restaurants in Guangzhou doubled compared to usual while Coucou has recovered to pre-pandemic levels. 60% of Haidilao's Guangzhou restaurants resume dine-in operations, mainly in Panyu, Tianhe, Haizhu, and Huadu Districts. Jiumaojiu saw good recovery since the resumption of dine-in services. There were night queues in all stores as the weather cooled down.

BAIJIU WHOLESALE PRICES



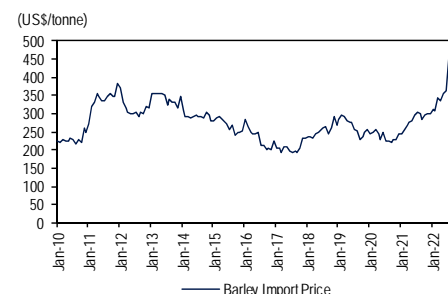
Source: Jinri Jiujiu, UOB Kay Hian

PRICES OF ALUMINIUM, PET, GLASS AND CORRUGATED PAPER



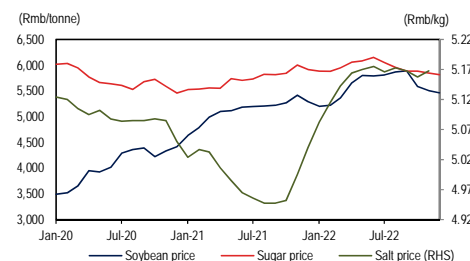
Source: WIND, UOB Kay Hian

PRICES OF IMPORTED BARLEY



Source: WIND, UOB Kay Hian

PRICES OF SOYBEAN, SUGAR AND SALT



Source: WIND, UOB Kay Hian

ESSENTIALS

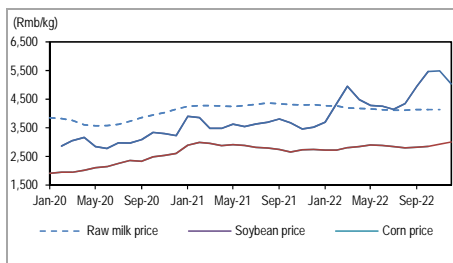
More signs of impending reopening. On 30 Nov 22, the vice Premier pointed out in a conference that the prevention and control of the pandemic in China is entering a new stage given the less perniciousness of the virus, increasing vaccination level, and the accumulation of experience in controlling the spreading pandemic. We also see other signs for a potential reopening ahead, including: a) the policy release of the "Notice On the Work Plan Of Facilitating The Vaccination Of Elder People" on 29 Nov 22, b) the media reports that the domestic research team has verified the less perniciousness of the virus, and no evidence on the after-effects of the pandemic, c) Guangzhou lifting the lockdown of all the temporarily controlled districts in the city, and allowing the use of the green code (no need for the 24/48 hours negative results) to enter most public areas (eg catering, cinema, and bars) that have resumed operations, amid the background of a series of pandemic situations, and d) other cities (eg Zhengzhou, Shenzhen, Xining, and Chongqing) that also announced relaxed policies to resume operations in public areas and lift the relatively comprehensive lockdown. We expect more cities to follow suit. While we remain upbeat on China's consumer segment, we think the potential recovery will not likely be smooth-sailing as: a) there could be a surge in the number of cases that may reduce people's willingness to go out, and b) the cognition of the less perniciousness virus needs to be further increased among people.

VALUATION/RECOMMENDATION

- Limited concerns on declining wholesale prices of Moutai.** Recently, the declining wholesale price of Feitian Moutai raised concerns on the whole baijiu industry's future development as Feitian Moutai's price represents the ceiling of the key products in the baijiu industry. Our thoughts are: a) the declining price would have less impact to Kweichow Moutai's future growth as long as the price will not see a significant collapse, and the normal price fluctuation can be acceptable; b) we are still upbeat on the market size expansion of the segments with price ranges of Rmb300-500/bottle and Rmb600-800/bottle, as the declining Moutai prices would have less impact on these two price ranges; c) Wuliangye would be the most affected in the near term as the wholesale prices of its Puwu and Classic Wuliangye were the closest to Feitian's price; and d) other thousand-yuan products will also be affected in the near-term, such as Guojiao 1573, Qinghua Langjiu, and Junpin Xijiu.

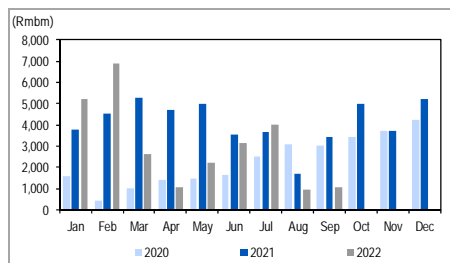
Positively, considering: a) the government is making efforts to stimulate the macro economy, especially the property sector, b) the reopening theme to boost the economic growth, c) the upcoming peak season in Jan 23, and d) baijiu industry's relatively high correlation with macro performance, we think the declining wholesale price of Moutai is temporary, and we expect a potential re-rating for leading baijiu names in 2023.

PRICES OF RAW MILK, SOYBEAN AND CORN



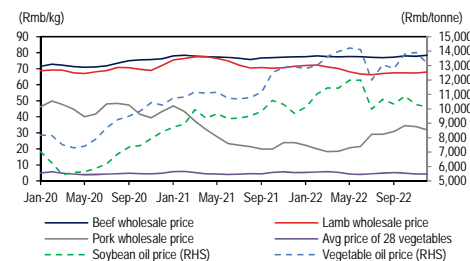
Source: WIND, UOB Kay Hian

OFFSHORE DUTY-FREE SALES IN HAINAN



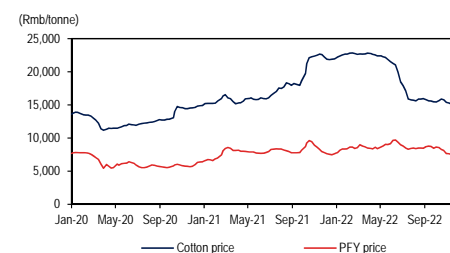
Source: Haikou Custom, UOB Kay Hian

PRICES OF BEEF, LAMB, PORK, VEGETABLES, SOYBEAN OIL AND VEGETABLE OIL



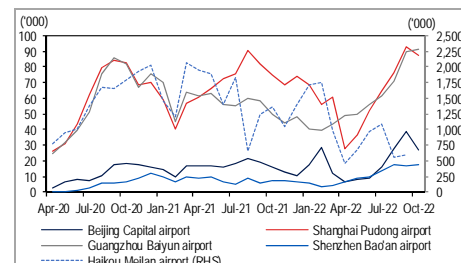
Source: WIND, UOB Kay Hian

PRICES OF COTTON AND PFY



Source: WIND, UOB Kay Hian

KEY AIRPORTS' INTERNATIONAL PASSENGERS; MEILAN AIRPORT'S PASSENGER THROUGHPUT



Source: Haikou Meilan Airport, Respective companies, UOB Kay Hian

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