

China Consumer

F&B expert call (Central China) takeaways:
CNY holiday season off to a soft start

Industry Overview

Challenging year ahead for baijiu and F&B

We discuss takeaways from our call with Mr. Zeng, a leading baijiu and F&B distributor in Central China. With only 10 days to CNY, pre-holiday sales suggest a relatively soft start to the peak season. The expert forecast mid-end baijiu to see decline in CNY sell-out, and premium/low-end to post slightly positive growth. Liquid milk could grow by mid-single digit, driven by gifting (off an easy base) and UHT milk. Instant noodles would trend down while beverage sales could be supported by sugar-free tea, water, and energy drinks. Most F&B holiday gifting packs (e.g. dairy, snack food, and beverage) see lower pricing, as consumers turn more value-driven. (Kindly note that the discussion is for the expert's region and may not represent nationwide trend).

Baijiu: premium/low-end growth vs. mid-end decline

The expert sees softening business and gifting demand. Premium and low-end baijiu could grow by single-digit, while mid-end might see YoY decline in CNY sell-out. Collection of advance payment is on track for leading brands, but seriously behind schedule for middle-end brands. Moutai remains resilient according to the expert. The expert does not rule out Wuliangye to raise ex-factory prices by RMB50 (+5%) on 5 Feb, to encourage advance payment from distributors ahead of CNY. However, given weak wholesale prices (currently only at RMB920), price hikes could be challenging to implement without significant channel rebate. With some volume control for its Puwu core products and likely small ASP increase in 2024, the expert expects Wuliangye's c.10% growth to be largely driven by non-Puwu products. Laojiao faces higher inventory pressure (1 month higher than Wuliangye), with potential weakness in CNY sell-out. Should Wuliangye take pricing, the expert expects Laojiao not to follow immediately, but take the opportunity to drive volume growth. Fen Wine could maintain stable sell-out, though Qing20's wholesale price edged down (to RMB350+) post recent pre-CNY shipment.

Dairy: promotion intensified but inventory healthy

Dairy faces rising holiday promotion. Yili/Mengniu's liquid milk had low- to mid-single digit growth in the expert's region in 2023, with growth in UHT milk offsetting double-digit decline in ambient yogurt. Both target mid-single digit growth in 2024. In January, sales growth was around HSD, off a relatively easy base. However, price promotions intensified in Central China, with Satine/Milk Deluxe's retail price at the lowest level after the 2020 CNY (around 10% cheaper than the normal CNY pricing in the region). Chanel inventory was largely healthy, with little destocking risks. While premium UHT still outperforms mass-market SKUs, premium growth moderated vs prior years.

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Terms

CNY: Chinese New Year

F&B: food & beverages

UHT: ultra-high temperature

MSD: mid-single digit

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Other F&B: decline in noodle vs growth in sugar-free tea

Instant noodle sales declined in 2023, as COVID stock-up benefit lapsed. Low-end noodles (where Tingyi has larger exposure) outperformed premium products (UPC, Nissin, and Nongshim). Beverages saw nice growth in 2023, led by Nongfu. The strong momentum of Nongfu's sugar-free tea shall continue in 2024. Nongfu targets 15% growth in the expert's region in 2024. Among beverage, Eastroc benefits from promising growth in energy drinks, taking share from Red Bull and Hi-Tiger.

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