

China Consumer

F&B expert call (North China) takeaways:
not yet a holiday season we wish for

Industry Overview

2023 a challenging year; cautious about 2024

We present takeaways from our call with Mr. Li, a major baijiu and F&B distributor in North China (one of the largest distributors in China) who distributes baijiu, beer, dairy, noodle, snacks, beverage, condiment, etc. 2023 was the worst year for this distributor's business. Only c. 80% of the brands that this distributor distributes hit their 2023 volume targets, and an even lower portion (60%) met sales value targets given higher promotions. Mr. Li saw revenue growth for the company's business down from single-digit growth in prior years to flattish in 2023, with a notable earnings decline. The expert believes that the challenges look likely to linger in 2024. Most consumer brands are lowering their sales targets for the channel, and distributors are bracing for a more tepid CNY holiday season. (We note that the discussion was specific to the expert's region and may not represent nationwide trends.)

Baijiu: Moutai and Fen Wine outgrowing the rest

Moutai remains the most defensive in the category, according to the expert. Feitian's wholesale price held up well in 2023, staying above RMB2700 (by bottle)/RMB2900 (by case), but non-standard premium products saw some price corrections. In his view, price hikes for the direct retail channel (with recommended retail price of RMB1499) look unlikely at the moment, given Mr. Li's expectations of slight declines in wholesale prices in 2024. However, Mr. Li believes that Moutai could still easily manage mid-teens revenue growth in 2024, driven by the previous Feitian ex-factory price hikes and growth in series liquor. **Wuliangye (WLY)** has a much tougher time in the North China region, in Mr. Li's view. Sales in the distributor's region were +10% in 2023 but with inventory built up to >2 months in the year-end low season. Wholesale prices remained depressed, at RMB920-930 (below ex-factory at RMB969), despite market expectations of likely price hikes on 25 January or post CNY. According to the expert, should the price hike come through, it might lead to further channel margin squeeze (thus requiring more channel rebates to distributors). Mr. Li also does not expect WLY to seriously exercise volume control.

Laojiao likely faces similar headwinds, according to Mr. Li, given heightened channel inventory (2-3 months) and the narrowing wholesale price discount to WLY (Guojiao at RMB880 versus RMB920 for WLY, making its products less attractive). **Fen Wine** delivers the most encouraging growth among mid-end baijiu, according to Mr. Li, with 2024 likely continuing with 20% growth. Strong momentum of Qinghua and Bofen likely drove the growth, and inventory remained healthy at the 1-month level, with low channel investment likely needed to boost growth. **2nd-tier sauce-aroma baijiu** went through two years of painful de-stocking and industry restructuring (with channel inventory now around 3-4 months). Most brands saw their sell-in orders shrink by half on average in 2023, with Zhenjiu being the only exception, with healthier set-up and positive growth.

Beer: bright spot for premium growth

While trading up was significantly weaker in most other F&B sectors, beer remains a bright spot for premiumization. Despite growth deceleration in 2H, most beer brands in the region met their 2023 sales targets, with premium growth staying at double digit.

Continues on next page, with more on beer, dairy, noodle, beverage, condiments

09 January 2024

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c.: circa

CNY: Chinese New Year

F&B: food & beverages

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Timestamp: 08 January 2024 03:30PM EST

CRB had low-teens revenue growth in 2023 in the expert's coverage area in North China, with Heineken (owned by China Resources Beer) driving 25%+ growth and accounting for 25-30% of revenue. Mr. Li noted that Heineken looks set to deliver another 20%+ sales growth in 2024, bolstered by channel expansion (from nightlife and KA to restaurant), rising penetration in can beer, and recovering in-home consumption.

Dairy: rebasing to lower growth

Yili and Mengniu had similar sell-in growth in 2023, according to the expert, but inventory levels were higher for Yili than for Mengniu. This was due to Yili's larger exposure to room temperature yogurt, in Mr. Li's view, as the category continued to shrink by double digits. Mr. Li noted that Mengniu benefits from a higher contribution from UHT milk (Milk Deluxe), which still exhibits solid growth, with a largely stable pricing level. In the expert's view, both players also look to optimize their spending on the category to drive better profitability (with less spent on A&P and distribution). However, as premium growth notably decelerates over recent years and dairy's overall demand lacks recovery momentum, Mengniu and Yili look set for slower growth in 2024, according to the expert.

Other categories: more bad news than good

Condiment had a lackluster year in 2023, according to Mr. Li, with most major brands failing to meet their full-year growth targets. Haitian grew only by 5% (versus its 10% target), with inventory staying high at 3 months. Lee Kum Kee, Chubang (Jonjee), Yihai, and Fuling Zhacai were also 5-10% short of their full-year targets. Qianhe (+20%) and Angel Yeast were the only two meeting their sales plans. The expert attributed the weak demand partly to soft restaurant consumption and rising penetration of ready-to-cook meals. **Noodle** sales declined in 2023 (by low single digits to 10% for Tingyi/UPC), partly due to a high base during COVID years, while **beverage** sales grew nicely (by mid-single digits to 10% for Tingyi/UPC and 35%/26% for Nongfu/Eastroc). Similar momentum might continue in 2024, according to the expert. He noted that Nongfu benefits from strong growth in Oriental Leaf, juice, and large-pack water, and Eastroc sees strong momentum in its new categories (such as Bushuile).

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