

China Consumer Staples: Expert calls: Ongoing policy impact on spirits sales/catering; Sub-premium segment under more pressure; Solid

On Jun 18, we hosted an investor call with a large-scale Spirits and F&B distributor located in Hunan Province to discuss the ongoing impact of China's anti-extravagance regulations on spirits consumption and beverage channel updates.

Key highlights include: 1) June to date sales saw S-T demand shock amid elevated scrutiny of civil servants' dining/liquor etc. consumption post the recently issued anti-extravagance regulations across regions: The expert noted that the anti-extravagance regulations will likely impact the retail demand for spirits across all price ranges, with sub-premium spirits likely to be impacted the most. The expert estimated the sell-through in the first half of June could decline by c.30%~50% across brands, potentially a larger decline vs. LSD% decline for Moutai and HSD% decline for Wuliangye in Apr-May, though June is a smaller season vs. the Dragon Boat Festival peak season in May (c.10% sell-through declines). The expert also noted the **general negative impact on dining out activity with elevating scrutiny**. Per the expert, selective regions (e.g Anhui/Henan) may see greater demand shock in the short-term. **2) Future policy implementation intensity key to watch:** the elevated scrutiny may continue into the following month while Aug-Sept (largest peak season of the year) will be a key watch point for any update on regulation implementation; **3) Diverging performance by brand:** despite Moutai's wholesale prices trended around Rmb2,000, the expert expects relatively limited pressure from the policy tightening on Moutai's growth target mainly due to its brand power and still largely stable distributors' confidence as well as increased demand mix from gifting than banquets, while Rmb1,800 could be a critical level of wholesale price for most distributors to remain profitable (considering bundle sales with non-standard SKUs); Wuliangye saw sequentially weaker wholesale prices back to the 4Q24 level, and distributors have appeared more hesitant for prepayment recently; Laojiao still faces more pressure with less resilient demand and higher exposure to commercial activities; **4) Spirits prepayment generally lagging except for Moutai:** Moutai/Wuliangye's prepayments are currently tracking at c.56%/50% of the full-year targets in Hunan, with Moutai slightly faster than last year. Laojiao and Fen Wine collected minimal prepayments in 2Q25, with prepayment YTD sitting at c.45%/50%. The distributor observed most brands have relaxed the requirement on prepayments in 2Q25. **5) Beverages remain solid:** For Nongfu, the expert observed c.+33%/up low-teens%/decline yoy in sell-through for Oriental Leaf (before subsidy)/bottled water (red bottle and green

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bottle combined)/Tea Pie in 5M25 in the Hunan region. For Eastroc, he noted high visibility of 20%-25% sales growth for Eastroc Special Drink in 2025 with Bushuila registering strong retail demand.

Key takeaways

Spirits

June sales saw S-T demand shock amid elevated scrutiny of civil servants' dining/liquor etc. consumption post the anti-extravagance regulations issued recently:

The expert noted that the anti-extravagance regulations will likely impact the retail demand for spirits across all price ranges, with sub-premium spirits likely to be impacted the most. The expert estimates that indirect government/ commercial related banquets could account for 30%-40% of sub-premium spirits' demand, while at only 20%-30% for Moutai (as gifting demand accounts for 50%+). With the regional implementation mainly starting from June, the expert estimated the sell-through in the first half of June could decline by c.30% across brands incl. Moutai and Wuliangye, vs. LSD% decline for Moutai and HSD% decline for Wuliangye in Apr-May, though June is a very small season vs. the Dragon Boat Festival peak season in May (c.10% sell-through declines). Per the expert, selective regions (e.g Anhui/Henan) may see a greater shock in the short-term.

Future policy implementation intensity key to watch: Per the expert, the impact on the largest peak season of the year, the Mid-Autumn Festival and National Day holidays, would be critical for the full year depending on whether the regulation implementation starts to normalize from late July/August, otherwise the expert would expect further disruption in retail demand, potentially leading to inventory dumps and greater wholesale price volatility. The expert also noted the **general negative impact on dining out activity with elevating scrutiny likely impacting retail demand across all segments, not just limited to high-end catering.**

Prepayment generally on track for Moutai/Wuliangye but lagging for other brands in YTD June:

The expert noted that prepayment YTD for Moutai/Wuliangye sits at 56%/50%, respectively. Moutai's prepayment YTD is slightly faster than last year, while distributors recently have been more hesitant on prepayment for Wuliangye due to weakened wholesale prices. Prepayments YTD for Laojiao and Fen Wine are at c.45%/50%, with minimal prepayment in 2Q25. The expert observed most brands are being less demanding on prepayment requirements in 2Q25.

By brand:

- **Moutai:** The expert saw limited pressure of the anti-extravagance regulations on Moutai mainly due to its brand power and still largely stable distributors' confidence. Per the expert, Rmb1,800 could be a critical level of wholesale price for most distributors to remain profitable, while the expert sees that Moutai still has supportive toolkits/measures to better position itself to achieve its full year sales target. The supportive measures to stabilize wholesale price (recent pricing control

actions see [our latest tracker within](#)) have helped wholesale price returning to c.Rmb2,000. That said, the duration of the policy implementation remains key to watch into the next peak season, given that Moutai distributors are still refraining from dumping inventories in the current small season despite the policy impact at the wholesale price level.

- **Wuliangye:** The expert noted weakness in Common Wuliangye wholesale price since May (when 618 promotions started), trending lower to Rmb880-890 currently, a level which is last seen in 4Q24.
- **Luzhou Laojiao:** The expert noted Laojiao may face greater pressure amid policy tightening due to its still elevated inventory and the sell-through lag. In Hunan Province, the expert estimated c.50% decline in sell-through for Laojiao, with 2.5-3.5 months of inventory, while the situation is likely better in the Southwest China.
- **Fen Wine:** The expert noted Qinghua 20 has a higher portion of government/commercial-related banquet demand than its competitor products e.g Honghualang 15/Jiannanchun/Swellfun, while the recent sell-through run-rate and wholesale price level of Qinghua 20 remains relatively resilient than peers with a still relatively healthy channel inventory level.

Beverages

- **Nongfu:** The expert observed c.33%/low-teens% yoy in sell-through for Oriental Leaf/bottled water (red bottle and green bottle combined) but decline in Tea Pie in 5M25, respectively. Both Oriental Leaf and bottled water sales accelerated from March vs. yoy declines seen in Jan-Feb lapping a high base, with Oriental Leaf seeing faster growth since Apr following the launch of “Rmb1 for another bottle” campaign in Apr. The expert sees intense competition in RTD Tea segment (both sweetened and sugar-free), while juice segment growth was relatively soft except for NFC juice, per the expert.
- **Eastroc:** The expert sees high visibility of 20%-25% sales growth for Eastroc Special Drink in 2025, and Bushuila continues to gain market shares with positive retail sell-through.

Price Target Risks and Methodology - Eastroc Beverage

We are Buy rated on Eastroc with a 12-month TP of Rmb367, based on a 33X 2026E P/E discounted back to mid-2026E at a CoE of 8.9%, with reference to 2024-to-1H25 average P/E of its global fast-growing beverage peers Monster Beverage, Celsius, and Vita Coco.

Key risks: 1) Lower industry growth in energy drinks, 2) worse competitive landscape, 3) failure/slower ramp-up of Eastroc's new product launches, 4) potential capacity shortage with already high utilization ratio, 5) higher increases in raw material costs, 6) slower geographical expansion of Eastroc, 7) slower POS penetration/ deployment of fridges, and 8) reputational risks.

Price Target Risks and Methodology - Nongfu Spring

We are Buy rated on Nongfu. Our 12-m TP of HK\$43.6 is based on a 30X 2026E P/E in

line with global peers in the last year, discounted back to mid-2026E using an 8.7% CoE.

Key risks: Lower-than-expected tea/water sales momentum; higher-than-expected cost inflation; more intense beverage industry competition.

Price Target Risks and Methodology - Shanxi Xinghuacun Fen Wine

Valuation: Our 12-month P/E-based target price of Rmb234 is based on a 21.8x P/E applied to 2026E EPS and discounted back to 2025YE using a 10.3% COE.

Key downside risks: 1) Potential consumption tax rate hike; 2) Economic slowdown.

Price Target Risks and Methodology - Luzhou Laojiao

Valuation methodology: We are Buy-rated on Luzhou Laojiao with a 12-month TP of Rmb150, derived by applying a 15.6x 2026E P/E discounted back to end-2025E using a 8.4% COE.

Key downside risks: 1) A potential consumption tax rate hike; 2) Potential competitive threat from Moutai-flavor brands; 3) Intensifying competition in high-end spirits.

Price Target Risks and Methodology - Wuliangye Yibin

Valuation methodology: Our 12m TP of Rmb170 is based on a 19.5x 2026E P/E discounted back to end-2025. Our target P/E is benchmarked to the company's full cycle average P/E in 2012-2023. We are Buy-rated.

Key downside risks: 1) A potential consumption tax rate hike; 2) Potential threats from Moutai-flavor brands; 3) Intensifying competition in high-end spirits.

Price Target Risks and Methodology - Kweichow Moutai

Valuation methodology: Our 12m TP is Rmb2,017 based on a 26.5x 2026E P/E, discounted back to 2025 year-end using a 9.5% COE. Our target P/E is benchmarked to the company's full cycle average P/E in 2015-1H24.

Key downside risks: 1) Potential regulation changes such as a consumption tax rate hike; 2) Environmental pollution; 3) A slower-than-expected macroeconomic recovery; 4) Capacity constraints; 5) More volatility in US rate hikes given the negative correlation between Moutai's P/E and the US 10-yr bond yield.

Disclosure Appendix

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The rating(s) for Eastroc Beverage, Kweichow Moutai, Luzhou Laojiao, Nongfu Spring, Shanxi Xinghuacun Fen Wine and Wuliangye Yibin is/are relative to the other companies in its/their coverage universe: Angel Yeast, Anhui Gujing Distillery Co., Budweiser APAC, Chacha Food Co., China Feihe Ltd., China Pet Foods, China Resources Beer, China Resources Beverage, Chongqing Brewery, Eastroc Beverage, Fuling Zhacai, Gambol Pet Group Co., Henan Shuanghui Ltd., Jiangsu Hengshun Vinegar, Jiangsu King's Luck Brewery, Jiangsu Yanghe, Jiugui Liquor, Jonjee Hi-Tech, Kweichow Moutai, Ligao Foods, Luzhou Laojiao, Mengniu Dairy, Nongfu Spring, Petpal Pet Nutrition Technology, Qianhe Condiment and Food, Qianweiyangchu, Sanquan Foods, Shanghai Bairun, Shanxi Xinghuacun Fen Wine, Sichuan Swellfun Co., Sichuan Teway Food Group, Three Squirrels, Tingyi, Tsingtao Brewery (A), Tsingtao Brewery (H), Uni-President China, WH Group, Want Want China, Weizhixiang, Wuliangye Yibin, Yankershop Food, Yihai International Holding, Yili Industrial, ZJLD

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