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Moutai's New Face: From PLA to PRC

A Toast to Alpha



Outline

■ The Value of Rarity

- How Moutai became the *Guo Jiu* (national liquor)
- What makes Moutai inimitable

■ The Endurance of Rarity

- Why we exited Moutai after 9 years...
- ... and then repurchased the stock

■ The Perennial Demand for Rarity & Prestige

- The inner workings of Chinese culture
- Consumption & urbanization

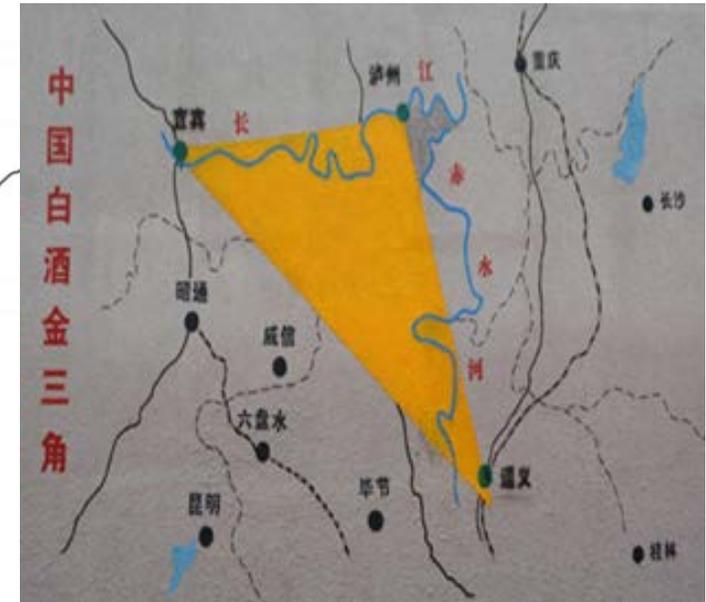
1. The Value of Rarity

- How Moutai became the *Guo Jiu* (national liquor)
- What makes Moutai **inimitable**

The Value of Rarity

How Moutai Became the *Guo Jiu* (national liquor)

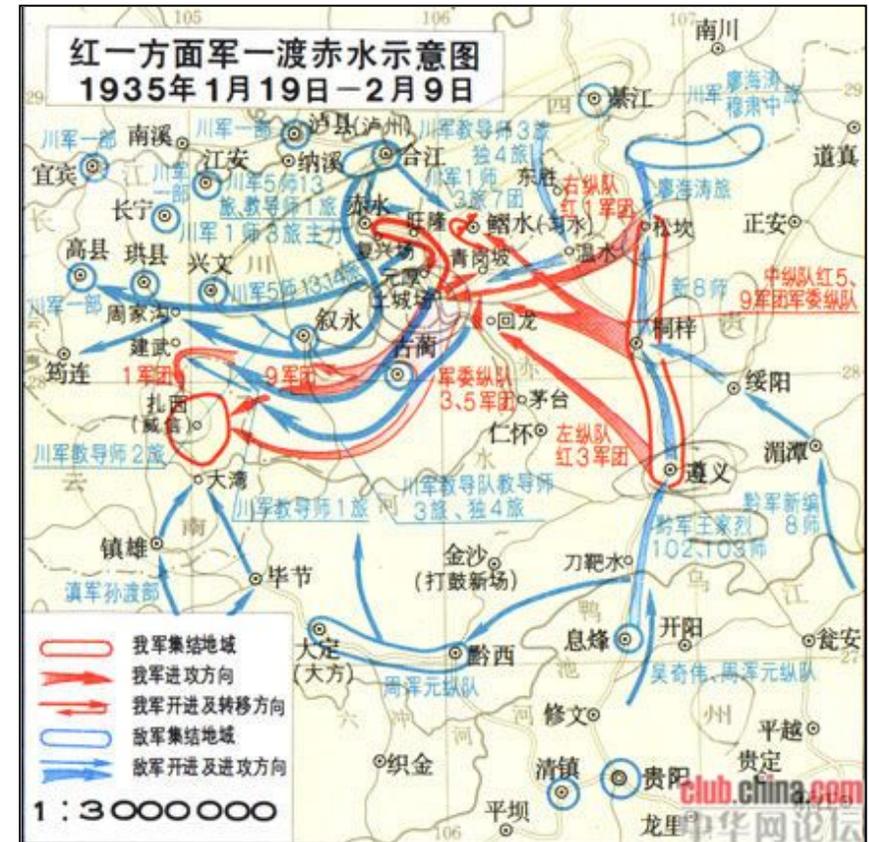
- **Rare, pristine water**
source at Chi Shui He,
upstream from Changjiang
River
- **The top 3 Chinese
distilled liquor brands are
produced in the triangular
area—**
 - Moutai, Wuliangye Yibin
& Lu Zhou Lao Jiao
- **Unpolluted** = Increasingly
rare & precious



The Value of Rarity

How Moutai Became the *Guo Jiu* (national liquor)—cont'd

- **1935:** The Red Army crossed the Chi Shui He 4 times; passed through Moutai Town in the Tsunyi area
- They used the strong liquor to treat the soldiers' wounds
- At the Tsunyi Meeting, Mao Zedong established his authority within the military, enabling the success of the revolution
- Moutai became known as “the Red Army Liquor”
- Moutai was later patronized by & associated with China's founding fathers— Zhou Enlai, Deng Xiaoping



The Value of Rarity

What Makes Moutai Inimitable

- **Counterfeiting is impossible**
 - Unique processing technique
 - Unique conditions due to location
 - Impossible to reproduce Moutai in a different location even if the entire production process is replicated
- **5-year production process**
 - Every bottle resulted from a blend of various batches
 - Stored in separate vats for at least 4 years
- **Urbanization Restricts Capacity Expansion**
 - The small Moutai town is becoming crowded by urbanization
 - Hence, capacity expansion is limited
 - The rarity factor is enhanced

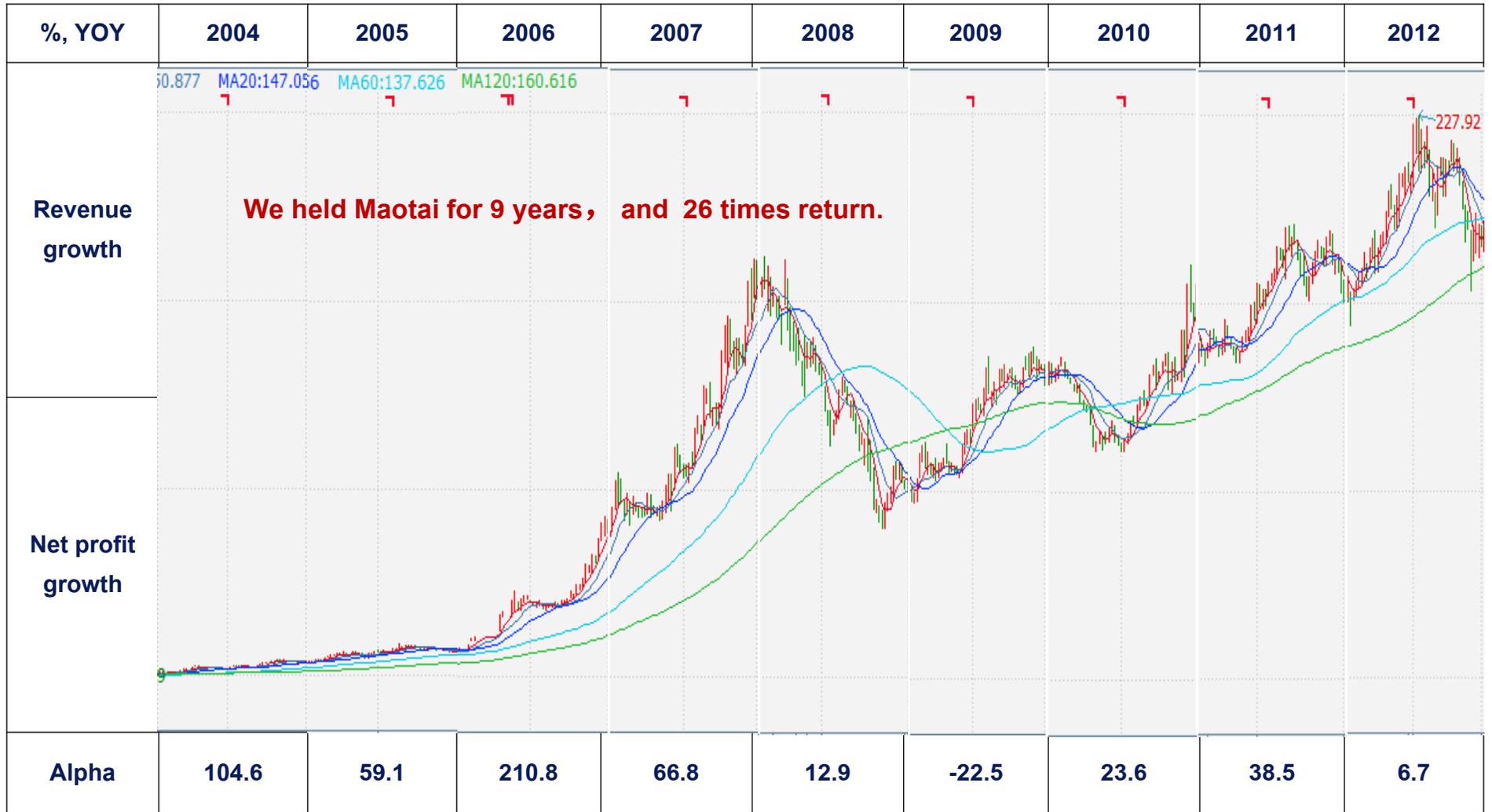


2. The Endurance of Rarity

Why we exited Moutai after 9 years...

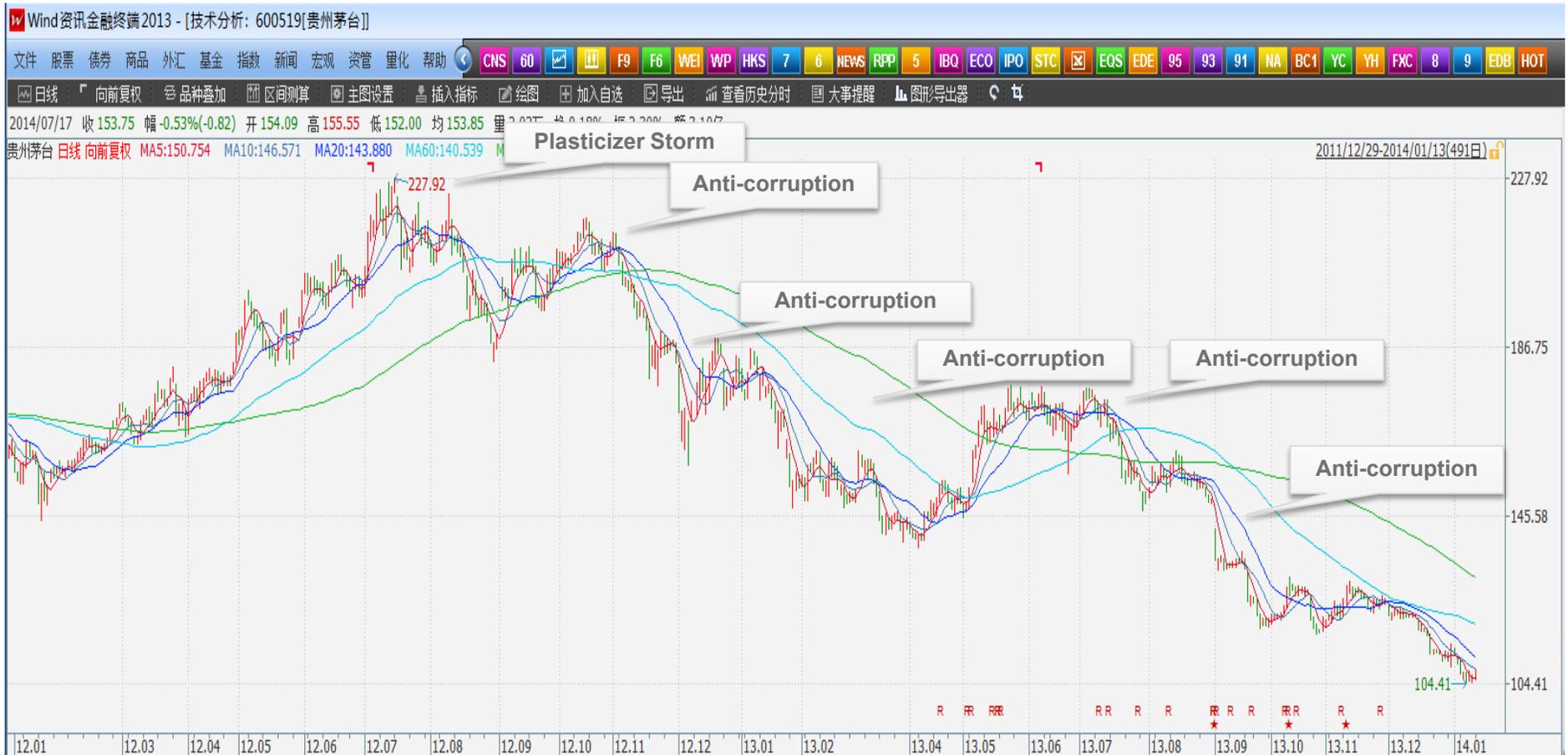
... and then repurchased the stock

The Endurance of Rarity



The Endurance of Rarity

So why did we exit the stock 18 months ago?



Source: Wind

3. The Perennial Demand for Rarity & Prestige

- **The inner workings of Chinese culture**
- **Consumption & urbanization**

The Perennial Demand for Rarity & Prestige

Moutai retains its **magic...**

- Prestigious liquors have a special place in Chinese culture
- No liquor, no banquet
- Increasing need for a **status symbol** as urbanization progresses
- Moutai remains the king among prestigious Chinese liquors

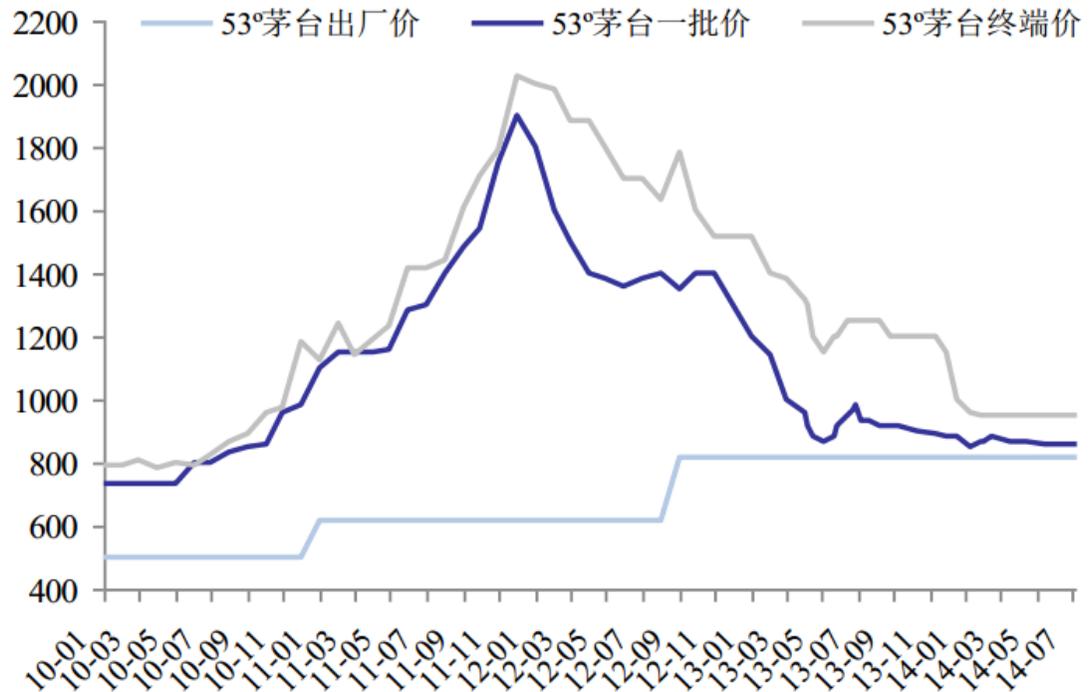


The Perennial Demand for Rarity & Prestige

... and the **magic is spreading**...

53 度飞天茅台批零价格逐步企稳

- End prices declined to accessible levels
- More consumers can afford Maotai
 - RMB830 average income in 2013
 - RMB850 per bottle of Maotai
- Affluence is rising throughout China



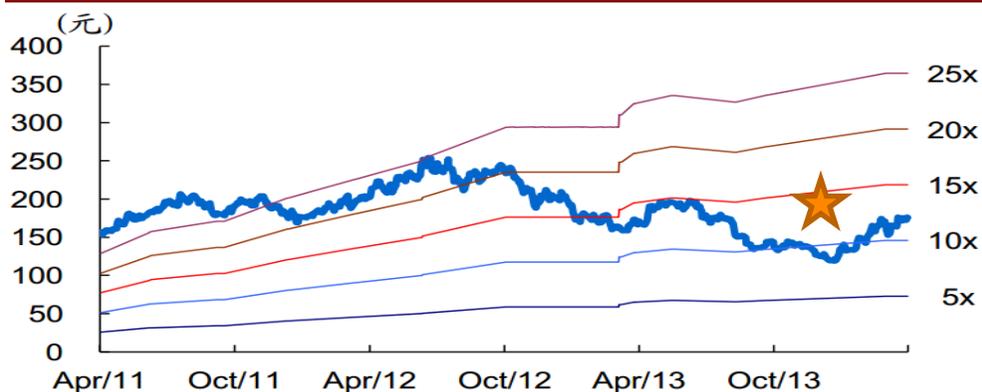
数据来源：Wind，国泰君安证券研究

The Perennial Demand for Rarity & Prestige

... although valuations temporarily declined

Price/Earnings ratio hit historic low.

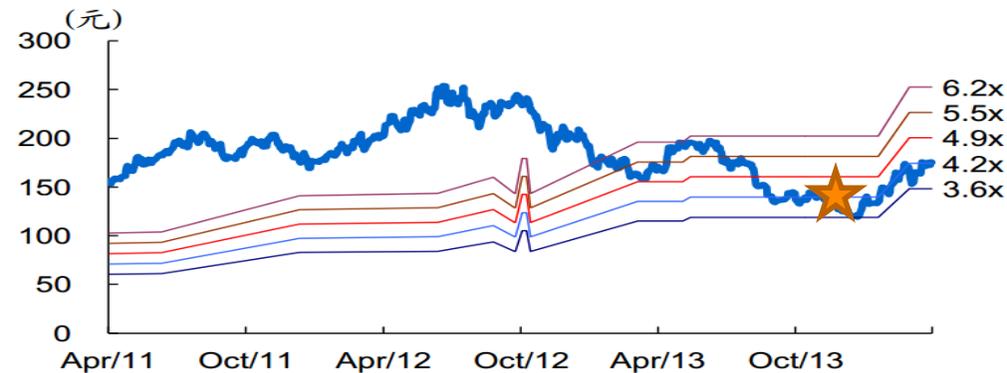
PE Band



资料来源：贝格数据、招商证券

Price/Book-value ratio also fell to historic low.

PB Band



资料来源：贝格数据、招商证券

The Perennial Demand for Rarity & Prestige

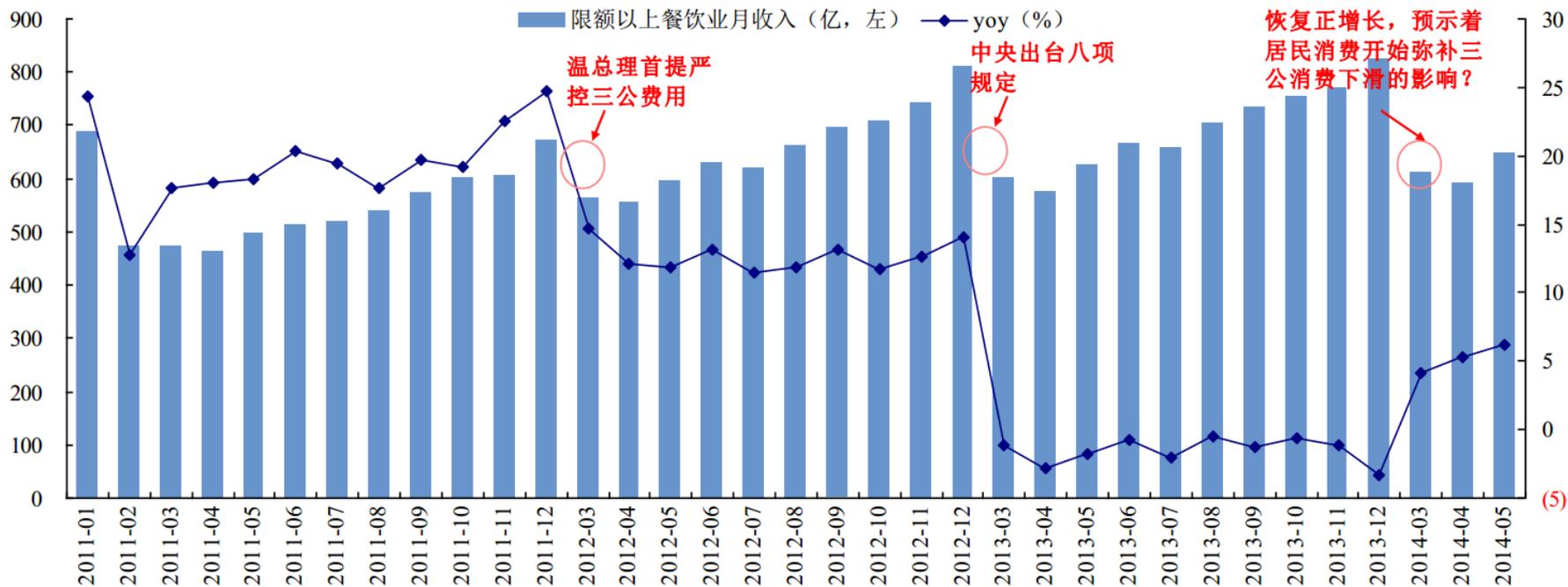
Why we think Moutai can and will **regain its past glory**

- The Chinese banquet and liquor culture has not changed and will not change.
- Increasing affluence will create new and more Moutai customers.
- It will **take market share** from its major competitors.

The Perennial Demand for Rarity & Prestige

Demand is proving resilient

限额以上餐饮行业收入自 2014 年 3 月起恢复正增长



数据来源: Wind, 国泰君安证券研究

Thank You

Your Questions Are Welcome

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