China Consumer (H/A)

Postcards from Henan: in search of ideas amid a demand downturn

Industry Overview

China Consumer Tour in Henan

We hosted our 3rd China Consumer Tour of 2026 in Henan Province (Zhengzhou, Luohe and Xuchang) during Sept 9-10. The trip featured management meetings and site visits with Muyuan, Shuanghui and Guoquan, together with expert discussions on baijiu, snack food discounters (Busy Ming & Wanchen), freshly made drinks, and Pangdonglai (a high-profile unlisted retailer). In addition, we toured Bairong, China's #1 baijiu and F&B wholesale market, as well as stores operated by Mixue and Pangdonglai.

Henan Province: a microcosm of inland China

As China's 3rd-largest province by population (97mn), Henan is a key agricultural hub, ranking #1 in China's pork production and #2 in grain output. Henan is also the home to leading national consumer companies, such as Muyuan, Shuanghui, Mixue, Weilong and Guoquan. However, Henan remains relatively under-visited by international investors. Our tour provided a valuable firsthand opportunity to examine local consumer demand and value chains, with on-the-ground insights into lower-tier markets and inland China.

Key takeaways: supply, demand, channels and positioning

1) **Supply and cycles**. Amid a demand downturn, we believe a safer strategy is to focus on supply-side reforms and cyclical inflection. Pork, dairy, white goods and select baijiu names fit into the criteria, and our tour reaffirms the opportunity with pork. 2) **Channel** innovation/disruption remain key themes and companies aligning with winning trends are likely to outperform peers. 3) **Demand** is muted overall, but inland China and lower-tier cities are still relatively more resilient. 4) **Positioning**. This was the least attended tour in our history. Investor interest in China consumer appears as subdued as it was in June (a trough in sentiment in our view), and flows are key in the near term.

Company and sector tidbits

1) **Muyuan**. The slower pace of pork market recovery and government intervention may expedite supply-side reforms, paving the way for a more robust price recovery later. Pork price dynamics in early 2027, rather than 2026 P&L, will be a key factor driving its annual dividend decisions. 2) **Shuanghui**. We expect a bumpy EPS trajectory in 2H (likely declines in 3Q but recovery in 4Q, partly due to base effect). With the disappointment of no interim dividends, we believe its final dividend can largely offset the shortfall. Whether 3Q will declare dividends will be key to near-term share prices, in our view. 3) **Baijiu**. Initial datapoints from the Mid-Autumn peak season indicate stable pricing, but sellout remains broadly soft. The next two weeks will be crucial in gauging the strength of end-demand and sellout trends. 4) **Snack food discounters**. Experts estimate only 15-20% expansion upside in well-penetrated regions, though we see meaningful potential in less developed markets. Consolidation remains underway, as industry No. 3-5 players are pressured by Top 2, prompting a shift to CVS or a halt in expansion. Wan Chen is also narrowing the operational gap with Busy Ming. (***Continues on Page 2***)

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Acronyms

ASP: average selling price

CVS: convenience store

DTC: direct-to-consumer

F&B: food and beverage

GMV: gross merchandise value

GPM: gross profit margin

SSSG: same-store sales growth

SG&A: selling, general and administrative expenses

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5) **Freshly-made drinks**. Normalization of delivery subsidies bodes well for store profitability, and SSSG base will also get easier from now on. Product innovations/diversification, digitalization & membership help to deliver steady sales per store. 6) **Pangdonglai**. We attribute its success to the founder's nationwide influence (amplified by social media), differentiated culture, high employee compensation, strong merchandising (incl. private labels), limited supply in lower-tier cities and engagement with local consumers. Many of these attributes are difficult to replicate in China retail industry. 7) **Bairong**. The traditional wholesale model is facing mounting pressure from modern retail formats, brands' DTC initiatives, diminishing info asymmetry, and the removal of logistics bottlenecks. However, given China's vast rural markets and the prevalence of mom-and-pop stores, we believe the model will remain relevant for the foreseeable future. Industry participants are also embracing innovation to adapt and survive.

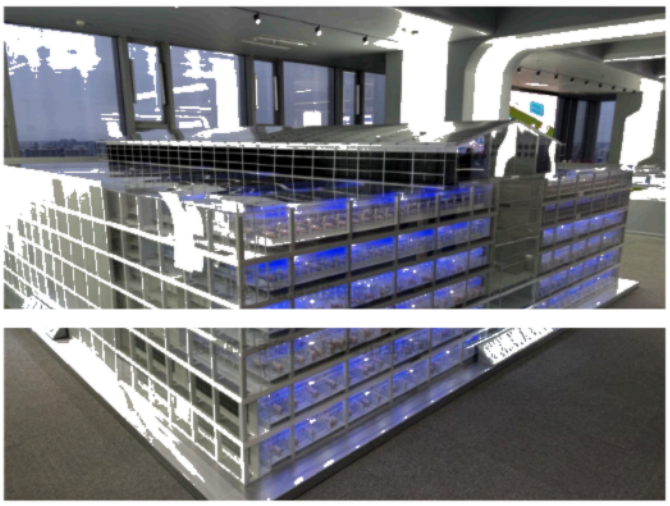
Company takeaways

Muyuan

- The government is targeting a reduction in the sow herd to 37.5mn heads, while 3rd-party data indicates that the current sow herd has already declined to ~ 37mn heads (37.8mn by June 2026 per NDRC).
- Stabilizing pork prices was highlighted as a key policy objective at the Politburo meeting in late April. Since then, industry-wide capacity rationalization has accelerated.
- Muyuan's current breakeven price stands at RMB11.5/kg, compared with the industry average of ~RMB13/kg. The company aims to reduce costs further in the future, assuming stable feed costs.
- Muyuan remains constructive on the industry's capacity rationalization for three reasons. 1) Slower-than-expected pork price recovery is not necessarily negative, as it may accelerate capacity exits and lay the groundwork for a more sustainable and stronger price recovery later on. 2) Increased industry consolidation has enhanced the government's ability to influence leading producers and facilitate faster capacity reductions. 3) El Niño could push feed costs higher, further pressuring smaller producers and accelerating capacity rationalization.
- The company's current PSY (pigs weaned per sow per year) is 28-29, while MSY (marketed pigs per sow per year) is 26. Management's near-term focus is not on further improving these productivity metrics, but rather on enhancing meat quality to achieve better pricing.
- Muyuan reiterates the guide for slaughtering: annual volume to exceed 35mn heads, with unit profitability of approximately RMB10/head in 2026.
- Management will determine its 2026 dividend in April/May 2027. Should pork prices begin to see good recovery by then, the company may still consider declaring dividends despite weak fundamentals in 2026.



Exhibit 1: Muyuan standardized pig-house showcase
Muyuan: company visit



Source: Company, BofA Global Research

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Exhibit 2: Muyuan factory showcase
Muyuan: company visit



Source: Company, BofA Global Research

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Shuanghui

- **Packaged meats**. Shuanghui will control marketing expenses in 2H26, though related spending will stay elevated relative to the historical level. The company maintains its original unit profitability guide of RMB4500/ton in FY26/2H26. Considering a high base of >RMB5100/ton in 3Q25, we expect YoY profitability declines in 3Q26 but some recovery in 4Q26. Shuanghui hopes to achieve steady volume growth in the future. New channels accounted for 24% of sales in 1H26, and are targeted to reach 30% over the long term.

- **Fresh and frozen pork**. Slaughtering volumes were +41% YoY, and are expected to maintain strong growth in 2H26. Shuanghui admits the competition pressure from Muyuan (who overtook Shuanghui as #1 slaughtering player in China last year), but believes competition will become more rational in the future. In terms of frozen pork, given the mild pork price increases, we do not rule out a small profit for frozen pork in 2H26, vs. losses in 1H26.

- **Hog/chicken raising.** Shuanghui's chicken raising business now ranks among the top five in China and continues to deliver industry-leading operating metrics. The hog production business is expected to remain loss-making in 2H26, although losses should narrow versus 1H26.

- **Hog cycle**. Shuanghui expects hog prices to edge up gradually, though it is cautious with the pace of capacity rationalization, and believes that capacity recovery can happen rapidly, if needed.

- **Shareholder returns and others**. Shuanghui reiterates its commitment to a stable dividend policy. Following investor disappointment over the absence of an interim dividend, we believe the final dividend could largely offset the shortfall. Whether 3Q will declare dividends will be key to near-term share prices, in our view. With regard to the delay of 2Q result releases, the company states that it is not aware of any issues that would have a material impact on the business.

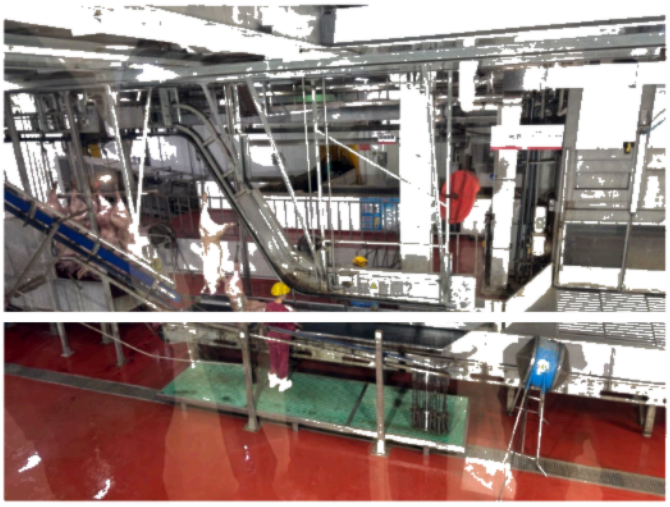
Exhibit 3: Shuanghui packaged meats factory in Luohe
Shuanghui: company visit



Source: Company, BofA Global Research

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Exhibit 4: Shuanghui hog-slaughtering factory in Luohe
Shuanghui: company visit



Source: Company, BofA Global Research

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Expert and site visit takeaways

Snack discounter and freshly-made drinks

- We met Mr Shu, a seasoned multi-brand retail franchisee expert, in Zhengzhou.

- **Snack discounter:** The expert remains constructive on the snack discounter names in the long-term, supported by broad consumer adoption across all age groups. However, he believes the industry has entered a second phase following rapid store expansion, with rising store density and intensifying competition emerging as key concerns. The expert estimates only 15-20% expansion upside in well-penetrated regions, though we see meaningful potential in less developed markets. Consolidation remains underway, as industry No. 3-5 players are pressured by Top 2, prompting a shift to CVS or a halt in expansion. Among top names, he believes Wanchen benefits from higher private-label exposure and has ramped up quickly on local operation ability, while Busy for You and Super Ming continue to gain shares through scale and supply chain advantages. Moreover, the expert is also cautious on the fresh-snack format, which he believes faces a relatively low store-count ceiling (<10k stores) due to high spoilage rates (low-teens%) and weakening repeat purchase trends.

- **Freshly-made drinks:** The expert believes Guming was holding up relatively well, partially supported by its coffee initiatives. Coffee now contributes c.20% of sales in his operating stores, with ASP at RMB11-13 (better than last year reflecting lower promotional intensity). Coffee GPM was c.35%, lower than milk/fruit tea drinks. Delivery contribution in his stores was down to c.40% from 65-70% last year, leading to healthier net GMV. Luckin remains resilient YTD, which the expert attributes to its broader consumer reach, strong membership ecosystem, and higher repeat purchase rates driven by its proprietary app and loyalty program. Compared with Guming's heavier exposure to younger consumers and tea-based occasions, Luckin benefits from a more diversified consumer base.

Exhibit 5: Mixue flagship store in Zhengzhou
Mixue: store visit



Source: Company, BofA Global Research

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Exhibit 6: Mixue Lucky Cup Coffee store in Zhengzhou
Mixue: store visit



Source: Company, BofA Global Research

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Exhibit 7: Mixue brand showcase in flagship store
Mixue: store visit



Source: Company, BofA Global Research

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Exhibit 8: Mixue Lucky Cup Coffee in season menu
Mixue: store visit



Source: Company, BofA Global Research

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Baijiu

- We met Mr Bai, a leading baijiu distributor in Henan Province.
- Henan is one of the largest regional markets for baijiu in general and sauce-flavor baijiu in particular. The expert estimates the baijiu market in Henan declined from RMB80bn in 2021 to RMB45bn as of now (down >40%). Sauce-flavor baijiu declined at a faster pace, with the regional share down from the peak of 48.5% to 38% recently.
- Heading into the mid-Autumn peak season, Moutai and Wuliangye's channel inventory remains healthy now, while other brands still see above-normal inventory. Channel prices of leading brands have stayed relatively resilient, though sellout has

not recovered for most brands during the early stage of the peak season (despite a low base). The next two weeks will be critical in gauging the final sellout trends.

- Among different price segments, <RMB300 and top premium brands (Moutai and Wuliangye) perform better, while RMB300-500 remains under pressure with high competition and weak sellout.

Pangdonglai

- We met Mr Gao, an expert on Pangdonglai, in Xuchang (Pangdonglai's home market).
- Despite operating only in Xuchang and Xinxiang, Pangdonglai enjoys nationwide consumer reach and brand influence. The expert estimates that consumers in Xuchang and Xinxiang contribute only <10% of its sales. The entire Henan Province contributes ~50% of sales, and regions outside Henan contribute the remaining half. As evidence, we saw many tourists during our store visits. There are also many resellers who procure products in Pangdonglai's stores, and resell these products elsewhere.
- Private labels are estimated to be ~1/3 of total sales, vs. almost nil in 2020. The key person driving its private label initiatives was originally from ALDI in Germany.
- Pangdonglai has very strict supplier selection standards, with >200 KPIs covering corporate culture, social responsibility, personnel, working environment, quality control, etc.
- We attribute its success to the founder's nationwide influence (amplified by social media), differentiated culture (Freedom & Love), high employee compensation, strong merchandising (incl. private labels), limited supply in lower-tier cities and engagement with local consumers. Many of these attributes are difficult to replicate in China retail industry, in our view.

Exhibit 9: Pangdonglai angel city store in Xuchang
Pangdonglai: store visit



Source: Company, BofA Global Research

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Exhibit 10: Pangdonglai baked products
Pangdonglai: store visit



Source: Company, BofA Global Research

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Exhibit 11: Pangdonglai beverage counter
Pangdonglai: store visit



Source: Company, BofA Global Research

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Exhibit 12: Pangdonglai snack food counter
Pangdonglai: store visit



Source: Company, BofA Global Research

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Exhibit 13: Pangdonglai sushi counter
Pangdonglai: store visit



Source: Company, BofA Global Research

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Exhibit 14: Pangdonglai cooked-food counter
Pangdonglai: store visit



Source: Company, BofA Global Research

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Bairong

- Bairong is China's largest wholesale market for baijiu and food & beverage products. At its peak, the market generated annual baijiu transaction value of approximately RMB40bn and hosted around 3,000 baijiu merchants. However, the number of merchants has since fallen to just over 1,000, highlighting the significant consolidation and contraction that the industry has undergone.

- The traditional wholesale model is facing mounting pressure from modern retail formats, brands' DTC initiatives, diminishing info asymmetry, and the removal of logistics bottlenecks. However, given China's vast rural markets and the prevalence of mom-and-pop stores, we believe the model will remain relevant for the foreseeable future. Industry participants are also embracing innovation to adapt and survive. For example, whenever leading retailers introduce a popular best-selling food product, wholesalers are typically quick to launch similar offerings in Bairong.

Exhibit 15: Inside of Bairong wholesale market
Bairong: store visit



Source: Company, BofA Global Research

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Exhibit 16: Grocery wholesaler at Bairong
Bairong: store visit



Source: Company, BofA Global Research

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Guoquan

Exhibit 17: Guoquan product assortment
Guoquan: store visit



Source: Company, BofA Global Research

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Exhibit 18: Guoquan camping display
Guoquan: store visit



Source: Company, BofA Global Research

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Exhibit 19: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
XMFXF	2714 HK	Muyuan	HK$ 38.2	C-1-8
XMYFF	002714 CH	Muyuan	CNY 42.59	B-1-8
HSUIF	000895 CH	Shuanghui	CNY 23.46	B-1-8

Source: BofA Global Research

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Price objective basis & risk

Henan Shuanghui Investment & Dev (HSUIF)

Our PO for Shuanghui is RMB28.8/share, based on 13x 2026E EV/EBITDA, which is largely in line with its historical average.

Downside risks: macro weakness, food safety issues, raw material price fluctuation, poor execution of new products and channel expansion, expanded upstream business loss, and key personnel risk.

Muyuan Foods (XMFXF)
We derive our H-share price objective of HKD42 by applying the industry peer average 2027E EV/EBITDA multiple of 7.3x to our average 2027E EBITDA estimate. While Muyuan's position as the largest and most cost-competitive market leader would typically warrant a valuation premium, we adopt the industry average multiple to account for the relatively limited liquidity of its H-shares.

Upside risks:
a) Higher hog prices, driven by 1) government intervention, 2) disease outbreaks which could reduce supply or 3) stronger demand
b) Lower feedstock costs, due to 1) strong crop yields, 2) cheaper oil and fertilizer reduce production costs and 3) easing geopolitical tensions among major grain exporters.

Downside risks:
a) Lower-than-expected hog prices, due to 1) slower demand recovery, 2) government intervention is weaker than expected or delayed
b) Higher-than-expected feedstock costs, with 1) supply disruptions caused by weather shocks, 2) trade restrictions or export bans and 3) higher crude oil or fertilizer costs, amid the Middle East tensions
c) Significant volume declines due to epidemic outbreaks, though these could be somewhat offset by price hikes.

Muyuan Foods (XMYFF)
Our A-share PO of RMB48 is based on our H-share price objective of HKD42 by applying the industry peer average 2027E EV/EBITDA multiple of 7.3x to our average 2027E EBITDA estimate. We further apply an A-H premium of 30% (3-month average). While Muyuan's position as the largest and most cost-competitive market leader would typically warrant a valuation premium, we adopt the industry average multiple to account for the relatively limited liquidity of its H-shares.

Upside risks:
a) Higher hog prices, driven by 1) government intervention, 2) disease outbreaks which could reduce supply or 3) stronger demand
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Analyst Certification

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