

Analysis of Kweichow Moutai's Profitability Based on DuPont Analysis

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Abstract:

With the current phenomenon of consumption upgrading in the market and people's deepening love for liquor, the development of leading liquor companies has attracted more and more attention. As a benchmark enterprise in the high-end liquor industry, Kweichow Moutai leads the market by virtue of its brand barriers and product advantages. Optimizing its development path based on its current operating conditions has become the key to consolidating its competitive advantages. This article takes Kweichow Moutai as the research object for analysis. First, representative financial indicators such as operating income and gross profit margin are selected for a preliminary overall analysis. Secondly, relying on the core logic of the DuPont analysis method, the company focuses on key indicators to analyze the company's financial data in the past four years to explore the advantages and the potential problems behind its profitability. Then, analyze its liquidity and solvency, and evaluate its ability to withstand financial risks. Finally, combined with the aforementioned analysis results, relevant suggestions are provided for the future development of Kweichow Moutai.

Keywords: DuPont analysis; Kweichow Moutai; profitability

1. Introduction

After China's liquor industry experienced profound policy adjustments and market changes from 2012 to 2015, opportunities and challenges coexisted, and the industry entered a high-quality development stage of reduced volume and increased prices from a period of rapid industry expansion. Against this background, the revenue growth rate of leading companies such as Kweichow Moutai has continued to grow. Many liquor companies are actively transforming at this stage. Kweichow Moutai, as the well-deserved lead-

ing company in China's liquor industry, has long occupied a leading position in the industry with its unique brand value and scarce brewing resources, showing strong development resilience. Kweichow Moutai Group was established in 1998 and officially listed on the Shanghai Stock Exchange in 2001. The stock code is 600519. It is a large state-owned enterprise controlled by the State-owned Assets Supervision and Administration Commission of Guizhou Province. Focusing on the development of the three main businesses of "liquor industry, wine tourism, health care, and comprehensive finance", the liquor

industry is the core pillar, with Kweichow Moutai as the absolute main force, extending to health wine, Maotai-flavor series wine and other products. Its leading product, Kweichow Moutai is the originator and typical representative of Daqu Maotai-flavor liquor. It is deeply loved by the people and the company has been selected into the BrandZ Global Brand Value Top 500 enterprises many times. It is an important business card for Chinese brands to go global. In terms of brand value, after decades of accumulation, Kweichow Moutai has transcended the product itself and become a symbol of high-end, quality, and status. This brand's premium ability provides solid support for corporate product sales. In the yield of financial research, profitability analysis has always been a core topic. Based on this, this article uses DuPont analysis to analyze Kweichow Moutai's financial data in the past three years to explore its profitability and solvency. DuPont Analysis is a classic method that uses the relationship between several major financial ratios to comprehensively analyze a company's return on equity (ROE). The core idea is to decompose ROE, the core indicator of a company's profitability, into the product of multiple financial ratios layer by layer,

thereby systematically assessing the company's profitability, asset operation efficiency and financial leverage level. This decomposition method can break through the limitations of a single indicator. Its fundamental goal is to explain "why the company's ROE is at its current level", thereby helping managers accurately locate strengths and weaknesses and make effective decisions [1]. By decomposing ROE, it can clearly see whether corporate profits come from an increase in net sales profit margin, an acceleration in asset turnover, or the rational use of financial leverage. This research aims to study the true profit logic of the company and determine the financial health of the company. This will not only help to deeply understand Moutai's competitive advantages but also provide a reference for similar companies to optimize their financial strategies. It will also provide investors with a relevant basis for decision-making, helping them make reasonable investment judgements [2].

2. Companies Status

Table 1. Kweichow Moutai's main financial data in 2023-2024

Index	2024	2023	Increase or decrease in this period compared with the same period last year(%)
Operating income (100 million yuan)	1708.99	1476.93	15.71
Net profit attributable to shareholders of listed companies (100 million yuan)	862.28	747.34	15.38
Net profit attributable to shareholders of listed companies after deducting non-recurring gains and losses(100 million yuan)	862.40	747.52	15.37
Net cash flow from operating activities(100 million yuan)	924.63	665.93	38.85
Basic earnings per share(yuan/share)	68.64	59.49	15.38

2.1 Financial Situation

As shown in Table 1, operating income increased by 15.71%, which shows that Kweichow Moutai's sales in the market are good and its brand influence continues to increase, causing the company's revenue to grow steadily. By comparing the net profit attributable to shareholders of listed companies and the net profit attributable to shareholders of listed companies excluding non-recurring gains and losses, it can know that Kweichow Moutai's profit growth mainly comes from the steady development of its

main business, rather than relying on non-recurring profit and loss items, and the company's core profitability is relatively strong. Observing the net cash flow generated by operating activities, it found that the company's operating activities have strong hematopoietic ability and high profit content. Based on the data in Table 1, all indicators show a stable and significant growth trend, indicating that the company has strong management capabilities and competitive advantages. Its operations are stable and sustainable, and it is expected to maintain a good development trend.

2.2 Comparison with Similar Companies



Fig. 1 Liquor gross profit margin (%) of Kweichow Moutai, Wuliangye, and Shanxi Fenjiu (Picture credit: Original)

It can be observed from Figure 1 that Kweichow Moutai's gross profit margin of alcohol has been at the highest level from 2021 to 2024, and has stabilized at around 90%; Wuliangye's gross profit margin has stabilized at around 80%; and Shanxi Fenjiu's gross profit margin has stabilized at around 75%. Gross profit directly reflects the company's profit margin after deducting direct costs, and its changes can reflect the company's control effect on direct costs (such as raw materials, labor, production losses,

etc.). As a core single product, Moutai's scarcity (base liquor production capacity is 56000 tons) and strong pricing power (ex-factory price 969 yuan /bottle, wholesale price 2150 yuan) directly support high gross profit.

3. Profitability Analysis

3.1 ROE

Table 2. Kweichow Moutai related data from 2021 to 2024

Index	2021	2022	2023	2024
ROE (%)	29.90	32.41	36.18	38.99
Net sales profit margin(%)	49.40	50.54	50.60	50.46
Total asset turnover rate(-times)	0.45	0.49	0.56	0.60
Equity multiplier	1.32	1.24	1.23	1.28

Return on equity is a core financial indicator that measures the profitability of a company's own capital and reflects the profitability of shareholders' capital investment. The higher the value, the more efficient the company is at using the capital invested by shareholders to create profits, and the stronger its profitability. Return on equity=net profit/average net assets*100%

By comparing the return on net assets of Wulingye and Shanxi Fenjiu in recent years, it can be clearly seen that

Kweichow Moutai's ROE is much higher than the ROE values of these two companies [3]. Kweichow Moutai's own growth motivation comes from its strong net profit margin. It can be seen from Table 2 that Kweichow Moutai's return on net assets has shown an increasing trend year by year from 2021 to 2024. The average return on net assets of similar companies in recent years has been around 30%, which shows that Kweichow Moutai has strong profitability. The company's operating income in

2024 will be 170.899 billion yuan, a year-on-year increase of 15.71%. This is closely related to the leading growth of Moutai (revenue of 145.9 billion yuan, sales volume increased by 10.22% year-on-year) and the growth of a series of wines exceeding 20 billion in revenue. Net profit attributable to the parent company was 86.228 billion yuan, a year-on-year increase of 15.38%. The increase in net profit will directly lead to an increase in the return on equity.

3.2 Net Sales Profit Margin

The net sales profit margin reflects how much net profit an enterprise can convert into for each dollar of operating income achieved within a certain period of time. The higher the ratio, the higher the efficiency of the enterprise in obtaining profits through sales [4]. Net sales profit margin = net profit / operating income * 100%

It can be seen from Table 2 that Kweichow Moutai's net sales profit margin in recent years has been rising and then declining slightly. This is related to the company's launch of large-capacity products such as 1L Feitian Moutai through the Moutai platform in 2025. Its self-operated and digital marketing platform channels can reduce some of its dependence on dealers, and its direct-operated channels can reduce some intermediate price increases, allowing the company to obtain higher sales profits. Compared with Wuliangye, its net sales profit margin fluctuates between 35% and 36% from 2021 to 2024. In order to increase its market share and brand influence, the company invested heavily in sales expenses, which reached 10.692 billion yuan in 2024. The higher sales expenses squeezed profit margins, resulting in a gap between its net sales profit margin and Kweichow Moutai.

3.3 Total Asset Turnover Rate

The total assets turnover rate is an indicator that measures the ratio between asset investment scale and sales level, reflecting the company's ability to use all assets to create operating income within a certain period of time. Total asset turnover rate = operating income / average total assets. It can be seen from Table 2 that the total assets turnover rate has increased, indicating that the company's asset

operation efficiency has improved, the company can effectively use all its assets to create income, and the degree of asset utilization has deepened. Kweichow Moutai's total operating income in 2024 will be 174.144 billion yuan, a significant increase compared with previous years. Revenue growth is faster than asset expansion and fixed assets are gradually put into production and fully utilized to release benefits. In the case of relatively slow growth in total assets, the rapid increase in operating income has promoted the increase in the total asset turnover rate.

3.4 Equity Multiplier

The equity multiplier is an important indicator to measure the level of corporate financial leverage, reflecting the degree of corporate debt. The larger the multiplier, the higher the corporate debt ratio, the stronger the financial leverage, and the higher the debt repayment risk. Equity multiplier = total assets / shareholders' equity

It can be seen from Table 2 that the equity multiplier of Kweichow Moutai in recent years has shown a fluctuating trend of first falling and then rising. The slow expansion of the company's assets (such as production capacity construction, asset acquisition, etc.) and the growth of shareholders' equity will reduce the equity multiplier. From 2021 to 2023, the pace of Kweichow Moutai's assets has slowed down, with total assets increasing from 255.2 billion yuan to 272.7 billion yuan. Asset growth mainly comes from monetary funds (from 58.3 billion yuan to 69.1 billion yuan) and inventory (from 38.8 billion yuan to 46.4 billion yuan), while fixed asset investment has not increased significantly due to the slow progress of the "14th Five-Year Plan" technological transformation project. In 2024, total assets will increase by 9.6% year-on-year to 298.9 billion yuan, significantly higher than the 8.1% growth rate of shareholders' equity. In response to adjustments in the liquor industry, the company relaxed its sales policy for a series of liquors, and notes receivable soared from 13.93 million yuan to 1.984 billion yuan, effectively promoting an increase in current assets.

4. Liquidity and Solvency Analysis

Table 3. Data changes in Kweichow Moutai's liquidity and solvency from 2021 to 2024

Index	2021	2022	2023	2024
Current ratio	3.81	4.42	4.62	4.45
Quick ratio	3.23	3.62	3.67	3.49
Asset-liability ratio	22.81	19.42	17.98	19.05

4.1 Current Ratio

Current ratio is a core financial indicator that measures a company's short-term debt solvency, reflecting the company's ability to repay short-term liabilities through current assets. $\text{Current ratio} = \text{current assets} / \text{current liabilities}$

It can be seen from Table 3 that the current ratio gradually increases and then decreases. From 2021 to 2023, Kweichow Moutai's "pau first, then deliver" sales model will bring abundant cash flow. Monetary funds (for example, the net cash flow from operating activities in 2022 will increase by 12.54% year-on-year), and inventory (the base wine will increase in value due to aging, and the inventory will increase by 11.38% year-on-year in 2022). The growth rate of contract liabilities from 2021 to 2023 (for example, the growth rate will be 1.7% in 2022) is much lower than the growth rate of current assets, increasing the ratio. In 2024, on the current liabilities side, dealers' advance payments increased in the ratio. In 2024, on the current liability side, dealers' advance payments increased during the peak sales season, and the contract liability ratio increased by 8.2%. On the current assets side, the inventory turnover rhythm was adjusted (the growth rate of base wine reserves slowed down), and current assets increased by 4.1% year-on-year. The growth rate was weaker than that of current liabilities and fell slightly.

4.2 Quick Ratio

The quick ratio is a "strict version" of the indicator that measures a company's short-term debt repayment ability. It reflects the company's timely debt repayment ability and exposes short-term financial risks more accurately than the current ratio [5]. $\text{Quick ratio} = (\text{current assets} - \text{inventory}) / \text{current liabilities}$. It can be seen from Table 3 that the quick ratio will gradually increase from 2021 to 2023, and then decrease in 2024. Kweichow Moutai's monetary funds have maintained a relatively high scale all year round, and its accounts receivable have been very small (Moutai has strong bargaining power with dealers and can collect payments quickly). The growth of quick assets is faster than the growth of current liabilities, driving the ratio to rise.

4.3 Asset-liability Ratio

The asset-liability ratio is the core indicator for measuring a company's long-term solvency, reflecting the company's overall capital structure and leverage ratio. $\text{Asset-liability ratio} = \text{total liabilities} / \text{total assets}$. It can be seen from Table 3 that the asset-liability ratio shows a trend of first falling and then rising. The total liabilities will increase from 54.383 billion yuan starting in 2021 to 60.231 billion yuan in 2024, showing an overall upward trend. Total assets increased in 2021-2023 and decreased slightly in 2024.

Based on the above three indicators, Kweichow Moutai's

short-term liabilities rely on the cash flow advantage of "pay first and then deliver goods", and its monetary funds have a strong ability to cover current liabilities. Long-term liabilities reflect the stable characteristics of low debt and high equity, and its short-term and long-term solvency are relatively excellent.

5. Conclusion

This article studies the profitability of Kweichow Moutai through the DuPont analysis method. The study finds that Kweichow Moutai has a strong competitive advantage in the same industry, and its profitability and debt repayment ability are relatively outstanding. From the perspective of profitability, Kweichow Moutai has gained outstanding pricing power by virtue of its strong brand premium ability, which enables its products to maintain higher selling prices in the market and lays the foundation for the realization of high net profit margins. At the same time, the company's strategy of compressing channel expenses has effectively reduced operating costs and further improved net profit levels. In terms of solvency, the financial structure with a low equity multiplier demonstrates its high risk resistance. However, this study also has certain limitations. On the one hand, the analysis mainly focused on Kweichow Moutai's own financial data and situation, without conducting an in-depth comparative analysis with different companies in the industry. On the other hand, the research is only based on historical financial data and does not fully consider the possible impact of dynamic factors such as future market environment changes, industry policy adjustments, and company strategic transformation on its profitability and solvency. The prediction of the company's future development trend is not comprehensive and accurate enough.

Based on the above conclusions and limitations, it is recommended that Kweichow Moutai expand into alcoholic beverages and other industries other than Moutai to better cope with market risks and changes in consumer tastes. At the same time, it is recommended that Kweichow Moutai further optimize inventory management, reasonably control inventory levels, optimize production and inventory allocation, and more accurately predict market demand on the premise of ensuring product quality supply, thereby improving the efficiency of capital use and total asset turnover. In the future, with the deepening of digital channels and the development of cultural IP, Kweichow Moutai is expected to achieve better development.

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