



HONG KONG

6808 HK Neutral

Price (at 07:59, 02 Mar 2015 GMT) HK\$6.96

Valuation HK\$ 6.60
- PER

12-month target HK\$ 6.60

Upside/Downside % -5.2

12-month TSR % -2.8

Volatility Index Low

GICS sector Food & Staples
Retailing

Market cap HK\$m 66,396

Market cap US\$m 8,561

Free float % 11

30-day avg turnover US\$m 9.3

Number shares on issue m 9,540

Investment fundamentals

Year end 31 Dec		2014A	2015E	2016E	2017E
Revenue	bn	91.9	100.1	108.1	115.2
EBIT	bn	4.2	4.2	4.3	4.5
EBIT growth	%	2.1	0.3	2.3	4.2
Reported profit	bn	2.9	2.9	3.0	3.1
Adjusted profit	bn	2.9	2.9	3.0	3.1
EPS rep	Rmb	0.30	0.30	0.31	0.32
EPS rep growth	%	4.8	-0.2	2.3	4.2
EPS adj	Rmb	0.30	0.30	0.31	0.32
EPS adj growth	%	4.8	-0.2	2.3	4.2
PER rep	x	18.5	18.5	18.1	17.3
PER adj	x	18.5	18.5	18.1	17.3
Total DPS	Rmb	0.13	0.13	0.13	0.14
Total div yield	%	2.3	2.3	2.3	2.4
ROA	%	8.3	7.8	7.4	7.1
ROE	%	15.1	14.1	13.2	12.7
EV/EBITDA	x	7.1	7.1	11.1	10.7
Net debt/equity	%	-26.1	-18.4	-17.3	-17.7
P/BV	x	2.7	2.5	2.3	2.1

6808 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

(all figures in Rmb unless noted, TP in HKD)

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2 March 2015

Macquarie Capital Securities Limited

Sun Art Retail Group

Double whammy

Event

- Post the earnings result briefing, we are lowering our earnings forecast by 10% and 20% for 2015 and 2016 respectively as consumption demand is worse than our expectation while ecommerce loss keeps expanding owing to fast business rollout. We cut our target price to HK\$6.6/sh from HK\$9.2/sh based on our lower earnings forecast. Our new target price is based on 17x 2016E PER vs 20x previously due to slower earnings growth. Maintain Neutral.

Impact

- Weak SSSg momentum continues.** Sun Art recorded -1.6% SSSg in 2014. The results were mainly dragged by very weak 4Q, as the company saw pre-paid cards sales declined by ~20%. As the pre-paid card sales during this CNY still recorded a very weak 19% YoY decline, and SSSg for the first two months declined by 2%, we do not expect Sun Art can defy the trend with positive momentum this year. In 2015, we project -1% SSSg and 50 new store expansion.
- Rental income and GPM to offset operating expense increase.** Management at the briefing noted staff cost and rental expense continue to drive the cost pressure on the operating front. We believe the company will utilise the rental income received and optimisation in product mix to improve gross margin, thereby offsetting the cost pressure. We expect rental income on a same store basis to grow by 9% for 2015 vs 11% in 2014. We are currently forecasting rental income to grow at 21% YoY, while gross margin to grow by 1ppt YoY to 23.9%. The company has opened 60 stores in past 12 months which we believe will contribute rental income going forward.
- Ecommerce expansion is a necessary evil.** Based on the results announcement, Feiniu.com 1st operating loss accounted for 5% of the group profit, and 3.6% of profit attributable to shareholders. As the transaction volume jumped by 10x this January, and the company launched the platform nationwide this March, this could imply strong top line growth and expanding loss. We project Feiniu.com loss will account for 9% of the group profit in 2015.

Earnings and target price revision

- We are lowering Sun Art earnings forecast by 10% and 20% for 2015 & 2016 respectively as consumption demand is worse than our expectation while ecommerce loss keeps expanding owing to a fast business rollout.

Price catalyst

- 12-month price target: HK\$6.60 based on a PER methodology.
- Catalyst: SSSg; earnings announcement; Ecommerce business rollout

Action and recommendation

- We maintain our Neutral rating and believe the share price will consolidate at current level before we see macro momentum pick-up. We maintain our cautious view on the grocery retailing industry given that low inflation in China will not help grocery retailing industry while online shopping keeps cannibalize the offline operation.

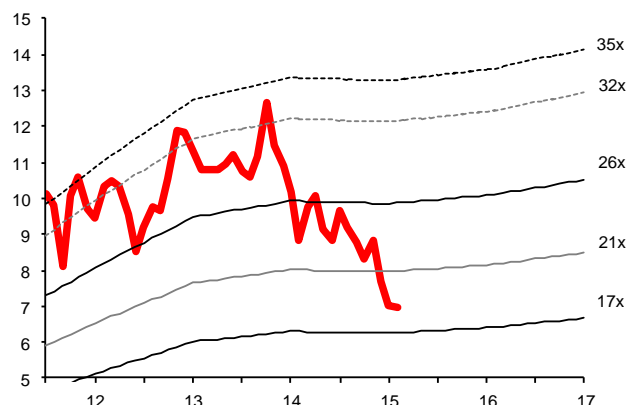
Investment thesis: Maintain Neutral; TP lowered to HK\$ 6.6/sh

We are lowering our 2015E earnings by 10% and 20% for 2016E, and maintain our Neutral rating, after the company’s cautious guidance in its analyst briefing. We believe the company’s best-in-class store productivity should perform relatively better than peers; however, the company’s strong commitment to the e-commerce industry could dilute its offline store profitability.

In our view, e-commerce is a two-edged sword, as we believe it is a correct strategy to engage in the online from long-term perspective, and fulfil the O2O strategy. With the company’s intention to expand the E-commerce scale to nationwide and marketplace launch, we see the loss to expand further. Management guided that the e-commerce loss will be controlled within 10% of net profit, which triggered us to lower our earnings forecast.

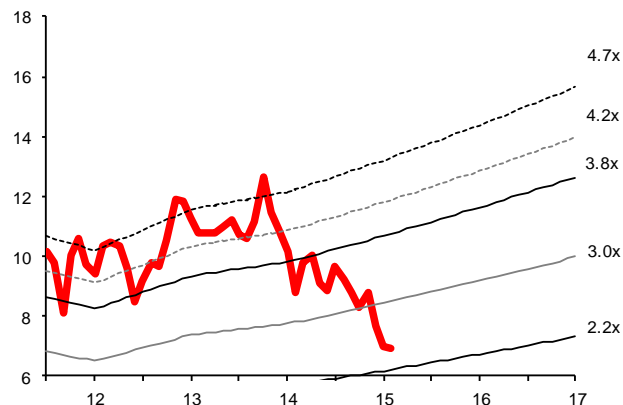
We lower our target price to HK\$ 6.6/sh from HK\$ 9.2/sh previously, based on 17x 2016E PER, vs 20x multiple previously. The multiple is in-line with its international peers which we believe is a more appropriate comparable since Sun Art is the market leader and its execution capability is far ahead of its local peers. As the stock is currently trading at 18.1x 2016E PER, with low-single digit earnings CAGR for 14-17, we might continue to see valuation de-rating. We will turn more positive when we see the consumption inflection point emerge or the Feiniu loss stabilize.

Fig 1 Historical PER band



Source: Bloomberg, Macquarie Research, March 2015

Fig 2 Historical PBR band



Source: Bloomberg, Macquarie Research, March 2015

Fig 3 HK/ China grocery retail peer valuation

Company Name	Code	Price HK\$	Rating	TP HK\$	Upside (%)	Mkt Cap US\$m	P/E (x)		P/B (x)		EPS lcy/sh		BPS lcy/sh		ROE (%)		EPS Growth (%)		PEG
							2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	
Sun Art	6808 HK	6.96	Neutral	6.6	-3%	8,561	18.5	18.1	2.5	2.3	0.38	0.39	2.8	3.0	14.1	13.2	-0.2	2.3	-97.8
Jingkelong	814 HK	1.97	NR	NR	NR	104	14.5	13.3	0.4	0.4	0.14	0.15	5.0	5.0	2.7	3.0	10.0	NA	1.4
Lianhua	980 HK	3.60	UP	3.4	-4%	528	44.7	40.6	1.0	1.0	0.08	0.09	3.7	3.7	2.2	2.4	-28.0	10.3	-1.6
CRE	291 HK	16.18	UP	15.0	-6%	5,158	227.2	44.9	0.6	0.6	0.07	0.36	25.8	26.6	0.3	1.4	-350.4	405.6	-0.6
Wumart	1025 HK	5.64	OP	8.8	62%	945	13.4	12.1	1.5	1.4	0.42	0.47	3.9	4.1	11.1	11.8	2.6	11.1	5.1
Yonghui	601933 CH	9.18	Neutral	8.5	-6%	4,796	37.2	32.7	2.9	2.8	0.31	0.35	3.9	4.1	8.1	8.8	20.5	13.9	1.8
FJ New Hau Du	002264 CH	7.69	NR	NR	NR	677	29.6	20.2	NA	NA	0.26	0.38	NA	NA	NA	NA	18.2	46.2	1.6
Carrefour	CA FP	29.57	OP	31.0	4.9%	24,326	15.7	13.4	2.1	1.9	1.89	2.21	13.8	15.2	14.2	15.2	13.3	17.2	0.8
Tesco	TSCO LN	2.45	OP	2.85	16.1%	12,912	27.7	21.0	1.4	1.4	0.09	0.12	1.7	1.8	5.0	6.7	-72.4	31.7	0.7
Wal-mart	WMT US	83.93	NR	NR	NR	270,522	13.6	13.7	2.6	2.4	6.17	6.12	32.6	34.3	19.9	19.1	-2.2	-0.9	-14.6
Costco	COST US	146.96	NR	NR	NR	64,737	23.0	20.9	4.0	3.6	6.38	7.02	36.8	40.8	18.1	19.0	12.1	10.0	2.1
HK Average							22.8	21.0	1.3	1.3							-3.9	7.9	-23.2
CN Average							33.4	26.5	2.9	2.8							19.3	30.0	1.7
Int'l Average							20.0	17.3	2.5	2.3							-12.3	14.5	-2.8

Source: Bloomberg, Macquarie Research, March 2015. Priced as 27 Feb 2015.

Earnings revision

We lower our earnings forecast by 10% and 20% for 2015 and 2016, respectively. Based on these new earnings forecasts, Sun Art's net profit will decline by 0.2% for 2015 before growing by 2.3% in 2016. In terms of operating profit (including interest income), we expect Sun Art to deliver 0.3% and 2.3% growth, respectively, for 2015 and 2016. Our new earnings assumptions are based on the following:

- ⇒ **SSSg:** We lowered Sun Art's SSSg forecast by 1.5ppt in 2015 and 2.0ppt in 2016 respectively as the year to date SSSg is down 2% while management remains cautious regarding the outlook due to poor prepaid card sales, down 19% YoY. The management noted that prepaid card sales were a leading indicator in terms of store performance.
- ⇒ **Gross Margin:** We raise our gross margin by 1.4ppt for FY15 and FY16 respectively, as we incorporate higher rental income growth, and lower home appliances sales mix since they carry lower gross margin.
- ⇒ **Operating margin:** We lower our operating margin by 0.5ppt and 0.7ppt, respectively, due to the higher operating expense from the increase in e-commerce investment.
- ⇒ **E-commerce:** We expect the company make a loss of ~RMB262m for 2015 in e-commerce due to continued investment into the platform. The company officially will be launching Feiniu nationwide in March and will also launch marketplace platform in around April-May. The management targets to contain the E-commerce loss to within 10% of net profit.

Fig 4 Estimate revision

(RMBmn)	Old 2015	Old 2016	New 2015	New 2016	% chg. 2015	% chg. 2016
New store opening	42	42	50	50	19.0%	19.0%
SSSg	1.0%	2.0%	-0.5%	0.0%	-1.5%	-2.0%
Revenue	101,399	110,772	100,135	108,101	-1.2%	-2.4%
Gross Profit	23,606	26,777	23,920	26,654	1.3%	-0.5%
Operating Profit	4,781	5,516	4,246	4,344	-11.2%	-21.3%
Pre-Tax	4,765	5,500	4,210	4,308	-11.7%	-21.7%
Net Income	3,217	3,713	2,903	2,970	-9.8%	-20.0%
EPS (RMB)	0.34	0.39	0.30	0.31	-9.8%	-20.0%
Margin (%)						
Gross Margin	22.5%	23.3%	23.9%	24.7%	1.4%	1.4%
OP Margin	4.7%	4.7%	4.2%	4.0%	(0.5%)	(0.7%)
Net Margin	3.2%	3.2%	2.9%	2.7%	(0.3%)	(0.4%)

Source: Macquarie Research, March 2015

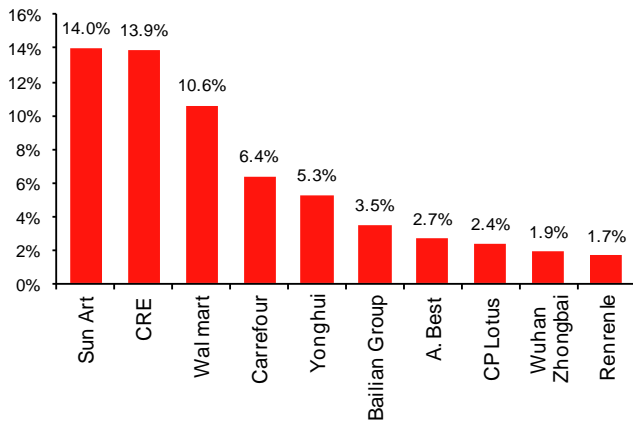
Management guided 50 new store openings in FY15

- ⇒ The company had a net increase of 45 stores in 2H14. Management maintained a full year guidance for 50 stores, year to date they have already opened 13 stores. As a result we expect a larger portion of sales to be contributed from new stores given the company has opened 60 stores over the last 12 months.
- ⇒ The store productivity has declined from RMB291mn/store in 2013 to RMB256.5mn/store in 2014, largely due to higher portion of new stores opened in past few years that have lower store productivity. These new stores were located in lower-tier cities, which have a lower store productivity given a lower purchasing power compared to the higher-tier cities.
- ⇒ Sun Art opened net 45 stores in 2H14 vs 39 stores in 2H13. The company guided on store expansion for 2015 with 50 stores. On a longer-term basis, the company has secured 162 sites in China to open hypermarket complexes, with 116 sites under construction.

In terms of new store formats, the company opened a Sun Art Plaza in Ningbo in 2014 with a total GFA of 170ksqm. The company has almost finished recruiting gallery tenants. Going forward they expect to open 1 shopping plaza/ year or in 2 years, however they are proceeding with caution and is not planning to aggressively expand such format. We note that the capex involved in the Sun Art Plaza is close to Rmb1bn. The rationale behind operating commercial plaza format is to build Sun Art's reputation for its potential tenants and try out a different retail format to enhance customer experience. They expect another upcoming one in Jiaying and another one in Suzhou.

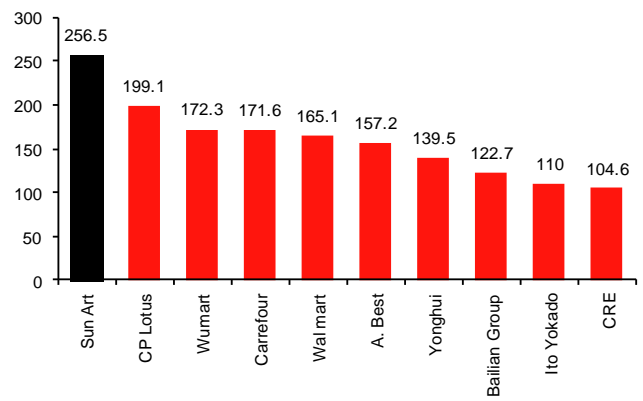
Separately, the company is also going to try out new smaller format at 3k-5k sqm with the first one to be opened in Changzhou and another in Shanghai in 2016. The reason for opening small size format is mainly driven by the need to penetrate urban areas which does not have space large enough for the hypermarket format.

Fig 5 Sun Art is the No. 1 player with 14.0% market share in China in 2014



Source: Euromonitor, Company data, Macquarie Research, March 2015

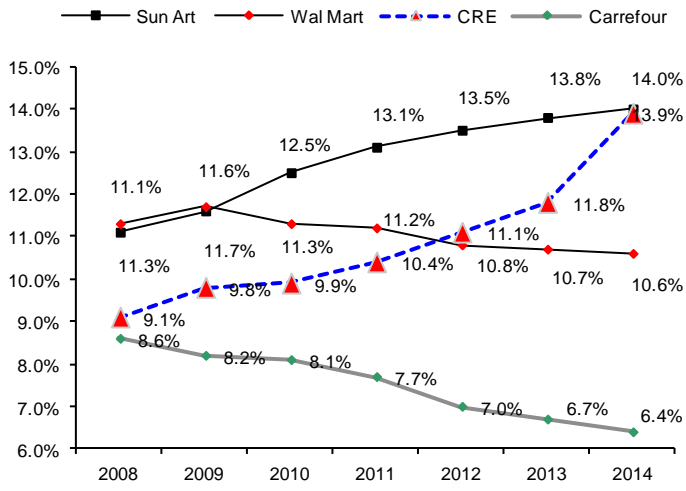
Fig 6 Sun Art still has best sales per store among peers (Rmb m/average no. of stores)



Source: Euromonitor, Company data, Macquarie Research, March 2015

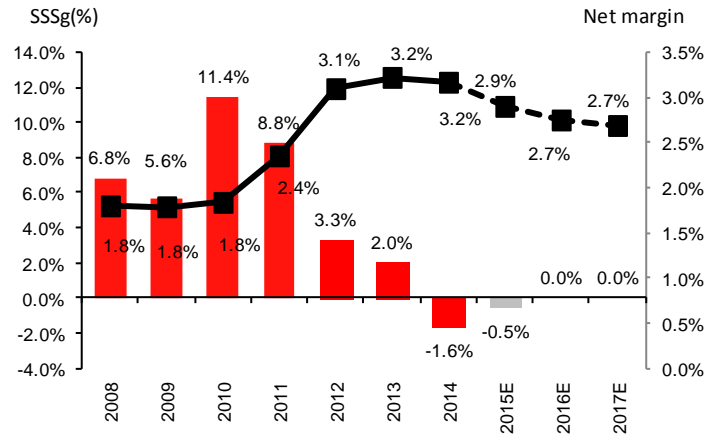
- ⇒ The company did not give SSSg guidance for FY15 but noted it will be challenging to record positive SSSg given the overall weak retail environment and poor prepaid card sales. They noted that 4Q14 SSSg was dragged down by a particularly weak December as prepaid cards for mid autumn festival was down 25% YoY, while the decline for the Chinese New Year period narrowed to 19%. The company does not expect to see its prepaid card sales turn positive in 2015 mid-autumn festival.
- ⇒ Sun Art market share increased by 0.2ppt YoY to 14.0% in 2014, still maintaining the no.1 position in terms of market share and ahead of CRE's 13.9%.

Fig 7 Market share trend for top-4 players



Source: Company data, Macquarie Research, March 2015

Fig 8 Sun Art SSSg and Net margin trend



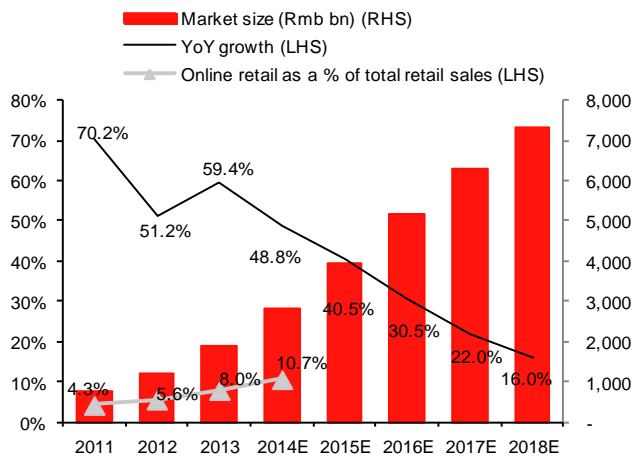
Source: Company data, Macquarie Research, March 2015

Feiniu's loss is expect to further expand as investment increase

Feiniu.com 1st operating loss accounted for 5% of the group profit, and 3.6% of profit attributable to shareholders. As the transaction volume jumped by 10x this January, and the company will launch the platform nationwide this March, this could imply strong top line growth and expanding loss. We project Feiniu.com loss will account for 9% of the group profit in 2015.

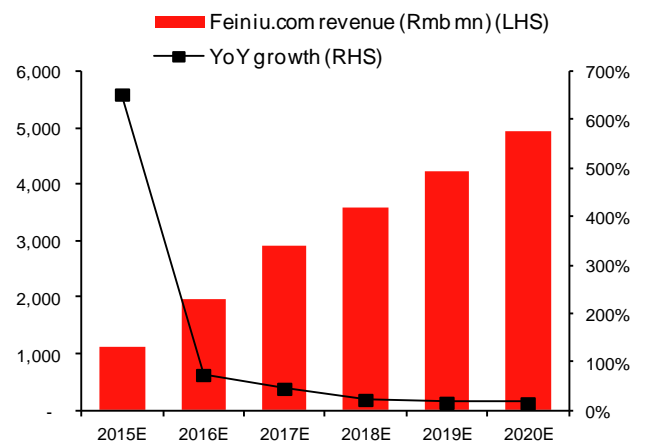
As of now, the company has 1,395k registered members and 408k active members. The online GPM is below offline channel, which is largely due to higher portion of 3C products. In view of the rapid e-commerce growth, Feiniu saw additional capital injection by RMB500m. The company currently employs ~1,000 staff. Starting from March 2015, the company will roll out the coverage to nationwide starting from Southern China. In April to May, the company will launch their own marketplace platform. Revenue for Feiniu.com reached Rmb150mn in 2014.

Fig 9 China's Online shopping market size



Source: Company data, iResearch, Macquarie Research, March 2015

Fig 10 Our projection for Feiniu



Source: Macquarie Research, March 2015

Fig 11 Key grocery online operator comparison

	Yihaodian	Feiniu
Operation Date	14/03/2008	16/01/2014
Shareholder structure (%)	Walmart 51.3%; Ping An Insurance 36.9%; Original management 11.8%	Sun Art 65%; Excellent First 35%
Service Area	Nation-wide	Shanghai, Jiangsu, Zhejiang, Anhui, rolling out to nationwide from Mar-15
Registered members (k)	~90,000	1,395
Active members (k)	6450	408
SKUs (k)	8000+	146
Mobile contribution	>40%	35%-40%
Revenue Trajectory (RMBm)		
1st year	4	150
2nd year	46	1,131
3rd year	805	1,981
4th year	2,720	2,903
5th year	6,800	-
6th year	11,540	-

Source: Company data, Macquarie Research, March 2015
Feiniu revenue based our projection, not official numbers

Earnings review

Sun Art reported 4Q14 results, with net profit down 4.9% YoY to RMB567mn, which is below ours and consensus estimates by 7 and 8.2%.

- ⇒ SSSg for FY14 was -1.6% (Traffic was down 3.7% while ASP was up by 2.1%), implying -3% to -4% SSSg for 4QFY14.
- ⇒ Revenue grew 5.4% to RMB21.6bn, 6.1% and 5.7% below our and consensus estimates.
- ⇒ Gross margin expanded by 120bps YoY to 24.7%.
- ⇒ Operating profit down 13.3% YoY to Rmb845mn as margin decreased by 0.8ppt to 3.9%, driven by higher operating expense such as staff and rental costs.

Fig 12 4Q14 net profit miss our expectations by 7%

Rmb mn	4Q13 Actual	4Q14 Actual	YoY Change	MQ Fcst	% dif. to actual
Revenue	20504	21,615	5.4%	23,018	-6.1%
Gross Profit	4809	5,329	10.8%	5,343	-0.3%
Operating Profit	975	845	-13.3%	996	-15.1%
Net Income	596	567	-4.9%	609	-7.0%
Margin (%)					
Gross Margin	23.5%	24.7%	1.2%	23.2%	6.2%
OP Margin	4.8%	3.9%	-0.8%	4.3%	-9.6%
Net Margin	2.9%	2.6%	-0.3%	2.6%	-0.9%

Source: Company data, Macquarie Research, March 2015

Fig 13 2H14 Earnings review

Earnings Review	2H13 Actual	2H14 Actual	YoY growth	2H14 MQ Fcst	% dif. to actual
Revenue	41,680	43,817	5.1%	45,220	(3.1%)
Gross Profit	9,382	10,475	11.6%	10,489	(0.1%)
Operating Profit	1,849	1,738	-6.0%	1,889	(8.0%)
Pre-Tax	1,843	1,730	-6.1%	1,880	(8.0%)
Profit to shareholder	1,199	1,198	-0.1%	1,240	(3.4%)
EPS (RMB/sh)	0.13	0.13	-0.1%	0.13	(3.4%)
Margin (%)					
Gross Margin	22.5%	23.9%	1.4ppt	23.2%	0.7ppt
OP Margin	4.4%	4.0%	(0.5ppt)	4.2%	(0.2ppt)
Net Margin	2.9%	2.7%	(0.1ppt)	2.7%	(0.0ppt)

Source: Company data, Macquarie Research, March 2015

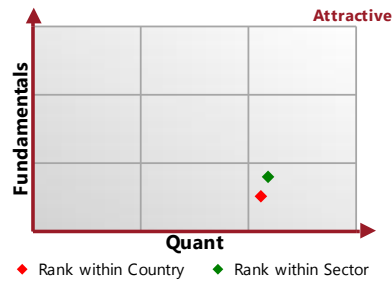
Macquarie Quant View

The quant model currently holds a reasonably positive view on Sun Art Retail Group. The strongest style exposure is Quality, indicating this stock is likely to have a superior and more stable underlying earnings stream. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

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Global Alpha Model
Sector Rank

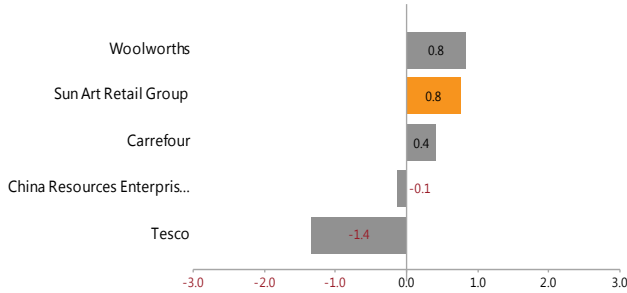
% of BUY recommendations 29% (2/7)
Number of Price Target downgrades 0
Number of Price Target upgrades 1



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model. The rankings are displayed relative to the sector and country.

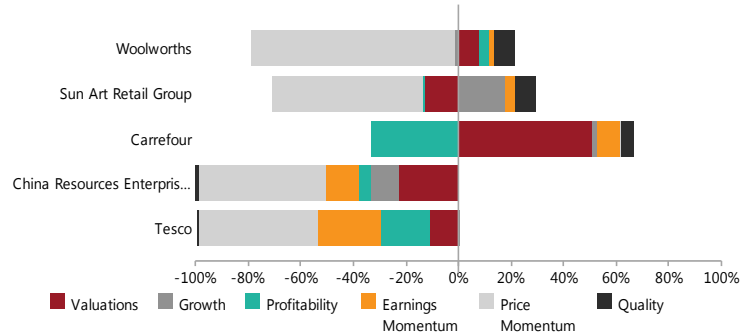
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



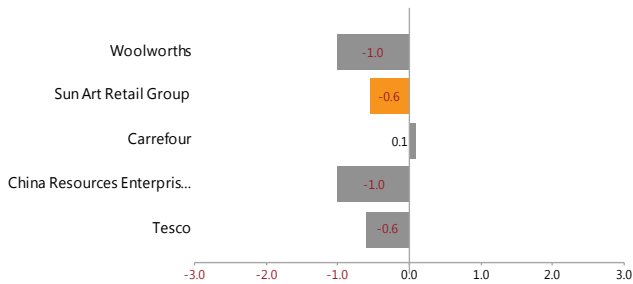
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



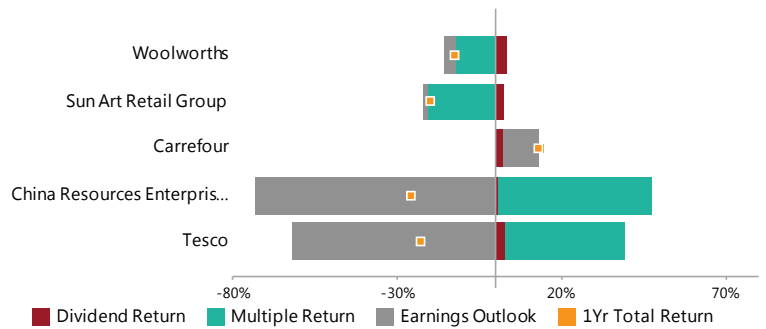
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



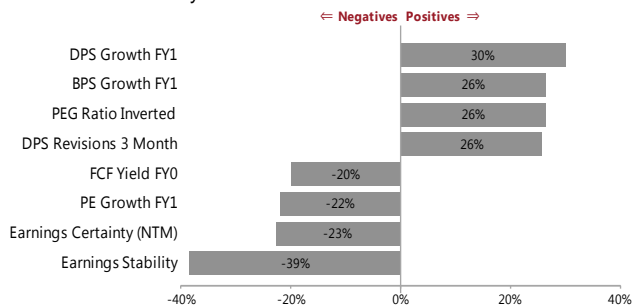
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



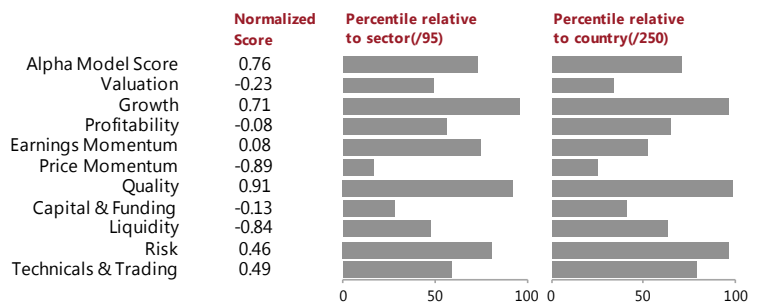
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and country.



For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Sun Art Retail Group (6808 HK, Neutral, Target Price: HK\$6.60)

Interim Results					Profit & Loss						
	2H/14A	1H/15E	2H/15E	1H/16E		2014A	2015E	2016E	2017E		
Revenue	m	43,817	51,447	48,688	55,731	Revenue	m	91,855	100,135	108,101	115,222
Gross Profit	m	10,475	11,804	12,115	13,168	Gross Profit	m	20,998	23,920	26,654	29,188
Cost of Goods Sold	m	33,342	39,643	36,572	42,562	Cost of Goods Sold	m	70,857	76,215	81,447	86,035
EBITDA	m	3,070	3,737	3,033	2,499	EBITDA	m	6,839	6,771	4,344	4,525
Depreciation	m	1,248	1,191	1,191	0	Depreciation	m	2,444	2,382	0	0
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	84	72	72	0	Other Amortisation	m	162	143	0	0
EBIT	m	1,738	2,475	1,771	2,499	EBIT	m	4,233	4,246	4,344	4,525
Net Interest Income	m	0	0	0	0	Net Interest Income	m	0	0	0	0
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	-8	-18	-18	-18	Forex Gains / Losses	m	-15	-36	-36	-36
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	1,730	2,457	1,753	2,481	Pre-Tax Profit	m	4,218	4,210	4,308	4,490
Tax Expense	m	-477	-690	-483	-697	Tax Expense	m	-1,176	-1,174	-1,201	-1,251
Net Profit	m	1,253	1,767	1,270	1,784	Net Profit	m	3,042	3,036	3,107	3,238
Minority Interests	m	-55	-78	-56	-79	Minority Interests	m	-134	-134	-137	-143
Reported Earnings	m	1,198	1,689	1,214	1,705	Reported Earnings	m	2,908	2,903	2,970	3,095
Adjusted Earnings	m	1,198	1,689	1,214	1,705	Adjusted Earnings	m	2,908	2,903	2,970	3,095
EPS (rep)	fen	12.6	17.7	12.7	17.9	EPS (rep)	fen	30.5	30.4	31.1	32.4
EPS (adj)	fen	12.6	17.7	12.7	17.9	EPS (adj)	fen	30.5	30.4	31.1	32.4
EPS Growth yoy (adj)	%	-0.1	-1.3	1.3	1.0	EPS Growth (adj)	%	4.8	-0.2	2.3	4.2
						PE (rep)	x	18.5	18.5	18.1	17.3
						PE (adj)	x	18.5	18.5	18.1	17.3
EBITDA Margin	%	7.0	7.3	6.2	4.5	Total DPS	fen	13.0	12.9	13.2	13.8
EBIT Margin	%	4.0	4.8	3.6	4.5	Total Div Yield	%	2.3	2.3	2.3	2.4
Earnings Split	%	41.2	58.2	41.8	57.4	Basic Shares Outstanding	m	9,540	9,540	9,540	9,540
Revenue Growth	%	5.1	7.1	11.1	8.3	Diluted Shares Outstanding	m	9,540	9,540	9,540	9,540
EBIT Growth	%	-6.0	-0.8	1.9	1.0						
Profit and Loss Ratios					Cashflow Analysis						
	2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E		
Revenue Growth	%	6.6	9.0	8.0	6.6	EBITDA	m	6,839	6,103	4,878	3,752
EBITDA Growth	%	7.4	-1.0	-35.8	4.2	Tax Paid	m	-2,352	-2,347	-2,401	-2,503
EBIT Growth	%	2.1	0.3	2.3	4.2	Chgs in Working Cap	m	429	709	1,579	1,479
Gross Profit Margin	%	22.9	23.9	24.7	25.3	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	7.4	6.8	4.0	3.9	Other	m	706	1,564	3,265	4,933
EBIT Margin	%	4.6	4.2	4.0	3.9	Operating Cashflow	m	5,622	6,029	7,320	7,661
Net Profit Margin	%	3.2	2.9	2.7	2.7	Acquisitions	m	0	0	0	0
Payout Ratio	%	42.6	42.4	42.4	42.4	Capex	m	-5,750	-6,500	-6,500	-6,500
EV/EBITDA	x	7.1	7.1	11.1	10.7	Asset Sales	m	0	0	0	0
EV/EBIT	x	11.4	11.4	11.1	10.7	Other	m	1,594	274	248	264
Balance Sheet Ratios					Investing Cashflow	m	-4,156	-6,226	-6,252	-6,236	
ROE	%	15.1	14.1	13.2	12.7	Dividend (Ordinary)	m	-2,222	-1,291	-1,288	-1,318
ROA	%	8.3	7.8	7.4	7.1	Equity Raised	m	0	0	0	0
ROIC	%	22.6	20.2	17.0	15.9	Debt Movements	m	0	0	0	0
Net Debt/Equity	%	-26.1	-18.4	-17.3	-17.7	Other	m	240	307	355	394
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	m	-1,982	-984	-933	-924
Price/Book	x	2.7	2.5	2.3	2.1	Net Chg in Cash/Debt	m	-516	-1,181	135	501
Book Value per Share		2.1	2.3	2.5	2.7	Free Cashflow	m	-128	-471	820	1,161
					Balance Sheet						
	2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E		
Cash	m	6,249	5,068	5,204	5,705	Cash	m	6,249	5,068	5,204	5,705
Receivables	m	4,396	4,399	4,677	4,936	Receivables	m	4,396	4,399	4,677	4,936
Inventories	m	11,161	11,914	13,021	14,057	Inventories	m	11,161	11,914	13,021	14,057
Investments	m	0	0	0	0	Investments	m	0	0	0	0
Fixed Assets	m	30,062	34,037	37,687	41,012	Fixed Assets	m	30,062	34,037	37,687	41,012
Intangibles	m	133	136	139	142	Intangibles	m	133	136	139	142
Other Assets	m	442	442	442	442	Other Assets	m	442	442	442	442
Total Assets	m	52,443	55,996	61,170	66,294	Total Assets	m	52,443	55,996	61,170	66,294
Payables	m	30,424	31,889	34,853	37,627	Payables	m	30,424	31,889	34,853	37,627
Short Term Debt	m	898	898	898	898	Short Term Debt	m	898	898	898	898
Long Term Debt	m	0	0	0	0	Long Term Debt	m	0	0	0	0
Provisions	m	0	0	0	0	Provisions	m	0	0	0	0
Other Liabilities	m	587	587	587	587	Other Liabilities	m	587	587	587	587
Total Liabilities	m	31,909	33,374	36,338	39,112	Total Liabilities	m	31,909	33,374	36,338	39,112
Shareholders' Funds	m	19,673	21,509	23,438	25,484	Shareholders' Funds	m	19,673	21,509	23,438	25,484
Minority Interests	m	861	1,113	1,394	1,699	Minority Interests	m	861	1,113	1,394	1,699
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	20,534	22,622	24,832	27,182	Total S/H Equity	m	20,534	22,622	24,832	27,182
Total Liab & S/H Funds	m	52,443	55,996	61,170	66,294	Total Liab & S/H Funds	m	52,443	55,996	61,170	66,294

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, March 2015

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Recommendation definitions	Volatility index definition*	Financial definitions
<p>Macquarie - Australia/New Zealand Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell)– return >5% below Russell 3000 index return</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Asia/Australian/NZ/Canada stocks only</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

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Date	Stock Code (BVG code)	Recommendation	Target Price
15-Aug-2014	6808 HK	Neutral	HK\$9.20
04-Mar-2014	6808 HK	Neutral	HK\$10.10
16-Aug-2013	6808 HK	Neutral	HK\$11.00
19-Mar-2013	6808 HK	Neutral	HK\$10.00
29-Aug-2012	6808 HK	Neutral	HK\$10.70
25-May-2012	6808 HK	Neutral	HK\$10.20

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