



Rating
Hold

Asia
China

Resources

Company
**Lee & Man Paper
Alert**

Reuters 2314.HK	Bloomberg 2314 HK	Exchange HKG	Ticker 2314
ADR Ticker LMPMY	ISIN US5233521021		

Date
9 March 2015

Results

Price at 6 Mar 2015 (HKD)	3.92
Price target - 12mth (HKD)	3.54
52-week range (HKD)	5.00 - 3.86
HANG SENG INDEX	24,164

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FY14 results in line; remaining cautious on weak fundamentals

Bottom line down 2% yoy

LMP reported FY14 results on March 9 with NPAT of HKD1.9bn or EPS of HKD0.41/sh, down 2% yoy, inline with DBE and Cons estimate. Top line for LMP grew by 1% to HKD17.1bn, after a 5% increase in sales volume. The highlights of the results are: 1) NP/t fell by 7% yoy to HKD376/t; 2) Finance cost rose by 44% yoy due to increase in borrowing and decrease in capitalized interest; 3) Effective tax rate rose from 11% in FY13 to 14% in FY14. LMP also declared a final dividend of HKD0.075/sh, consistent with their 35% dividend payout ratio.

Margin contraction in 2H14, NP/t fell to HKD373/t in 2H14

GP/t rose slightly from HKD600/t in FY13 to HKD607/t in FY14, as the 4% yoy drop in ASP was offset by a 5% decline in COGS due likely to lower OCC purchases. However, NP/t fell from HKD405/t in FY13 to HKD376/t in FY14, within the lower range of company's guidance of HKD350-450/t. On a HoH basis, NP/t fell from HKD380/t in 1H14 to HKD373/t in 2H14, despite 2H being generally a peak season. This suggests a deteriorating operating environment in the containerboard sector.

Outlook

Dongguan, the city known as the "world factory" and is also home to largest manufacturing base for both LMP and NDP, was hit by a wave of bankruptcies since 2H14. More than 10 large-scaled shoes' producers went into bankruptcies in Oct 2014. In addition, a lot of world leading manufacturing companies have decided to close their production bases in the PRD region, including Citizen and Nokia. We expect containerboard demand to remain weak in FY15 due to the poor export, lackluster domestic consumption and slowdown in the property sector.

What to do with the stock?

We remain bearish on the sector given deteriorating supply/demand dynamics. LMP will see further margin contraction on poor pricing, limited cost reduction, and higher risk of increasing finance cost due to lower capitalized interest as most of its machines are put into operation. We maintain Hold with TP of HKD3.54/sh.

LMP will host an analyst briefing at 430pm this afternoon in Admiralty Center, we will revisit our earnings post the briefing.

Stock data

Market cap (HKDm)	18,212
Market cap (USDm)	2,348
Shares outstanding (m)	4,645.8
Major shareholders	Lee's family (63%)
Free float (%)	52
Avg daily value traded (USDm)	2.3

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	16,970	17,326	17,698
Net Profit (HKDm)	1,847.4	1,893.2	1,827.5
DB EPS (HKD)	0.39	0.41	0.39
PER (x)	13.3	9.6	10.0
Yield (net) (%)	2.8	3.5	3.5

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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