



Company Report: China Foods (00506 HK)

公司报告: 中国食品 (00506 HK)

Sunny Kwok 郭日升
+852 2509 2642
sunny.kwok@gtjas.com.hk

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Stepping Out of the Darkness, Upgrade to “Buy”

走出黑暗，上调评级至“买入”

- **China Foods' net loss in 2H14 and 2014 were reduced significantly on strong gross margin improvement and effective cost control measures implemented.** Revenue grew by 2.0% YoY to HK\$26.7 billion in 2014. Gross margin in 2014 was 23.6%, up 3.4 pts YoY. Operating profit arrived at HK\$198 million in 2014, a turnaround from operating loss of HK\$431 million in 2013. As the majority of the profit was contributed by 65%-owned beverages business, the Company still reported net loss of HK\$225 million in 2014 but such loss was reduced by HK\$665 million YoY.
- **The Company's mid-to-low-end grape wine is still welcomed by mass market and inventory level at distribution channel is healthy.** Kitchen food business was profit-making in 2H14 and profitability improvement is expected to be ongoing in 2015. Beverages business is expected to benefit from low raw materials costs. The Company will consider disposing confectionery business if such business performance does not improve in 2015. To conclude, we expect the Company's EPS to be HK\$0.029, HK\$0.086 and HK\$0.140 in 2015-2017, respectively.
- **We apply 18x, 15x and 8.5x (15%-30% discounts to corresponding peers) PER to value China Foods' beverages, wineries and kitchen food businesses earnings in 2016, respectively.** Our sum-of-the-parts derived TP is HK\$3.50 and we upgrade the Company's rating to “Buy”. The new TP represents 119.9x 2015 PER, 40.7x 2016 PER and 25.0x 2017 PBR.
- **由于毛利率大幅改善及成本控制措施有效果，中国食品 2014 年下半年及 2014 年亏损大幅收窄。** 2014 年收入为 267 亿港元，同比增长 2.0%。毛利率于 2014 按年增长 3.4 个百分点至 23.6%。经营溢利于 2014 年成功扭亏，2013 年亏损达到 431 百万港元，2014 年则录得 198 百万港元溢利。由于绝大部分利润的贡献是来自公司 65% 持有的饮料业务，因此，公司于 2014 年仍然录得 225 百万港元的净亏损，但比 2013 年大幅减少 665 百万港元。
- **公司中低端葡萄酒仍然受到大众消费市场欢迎，经销商库存非常健康。** 厨房食品业务于 2014 年下半年录得经营溢利，我们预期 2015 年该业务的利润率将持续改善。饮料业务预期将受惠于疲弱的原材料价格。如果休闲食品业务于 2015 年没有改善，公司会考虑出售该业务。总而言之，我们预期公司于 2015-2017 年每股净利分别为 0.029 港元、0.086 港元及 0.140 港元。
- **我们分别给予中国食品饮料、葡萄酒及厨房食品业务 2016 年净利 18 倍、15 倍及 8.5 倍的估值，较各自的可比同业有 15%-30% 的折让。** 我们按分类加总估值法得到的目标价为 3.50 港元，投资评级上调至“买入”，新目标价相当于 119.9 倍 2015 年市盈率、40.7 倍 2016 年市盈率及 25.0 倍 2017 年市盈率。

Rating:

Buy

Upgraded

评级:

买入 (上调)

6-18m TP 目标价:

HK\$3.50

Revised from 原目标价:

HK\$2.90

Share price 股价:

HK\$2.990

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	15.0	15.9	12.4
Rel. % to HS index 相对恒指变动 %	(1.0)	5.0	12.9
Avg. share price(HK\$) 平均股价(港元)	2.8	2.7	2.8

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(△%)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
FY13A	26,218	(890)	(0.318)	n.a.	n.a.	2.197	1.4	0.000	0.0	(13.7)
FY14A	26,742	(225)	(0.080)	(74.7)	n.a.	2.105	1.4	0.000	0.0	(3.7)
FY15F	28,869	82	0.029	n.a.	102.3	2.127	1.4	0.000	0.0	1.4
FY16F	31,496	240	0.086	194.2	34.8	2.184	1.4	0.031	1.0	4.0
FY17F	34,613	391	0.140	62.7	21.4	2.276	1.3	0.050	1.7	6.3

Shares in issue (m) 总股数 (m)	2,797.2	Major shareholder 大股东	COFCO 74.1%
Market cap. (HK\$ m) 市值 (HK\$ m)	8,363.7	Free float (%) 自由流通比率 (%)	25.9
3 month average vol. 3 个月平均成交股数 ('000)	3,029.8	FY15 Net gearing (%) 15 年净负债/股东资金 (%)	34.4
52 Weeks high/low (HK\$) 52 周高/低	3.480 / 2.470		

Source: the Company, Guotai Junan International.

Key Takeaways from Analyst Meeting:

Major Strategies to be Implemented in 2015. In order to keep reducing losses and to achieve normalized profit in the near future, China Foods will implement various strategies in 2015. Firstly, POS expansion especially in lower tier cities will help the Company to maintain healthy sales growth momentum. In addition, the Company offers assistance to its distributors to enhance their efficiency such that sales growth is expected to speed up. Secondly, more R&D will be done in order to look for the next star products. Thirdly, higher incentives will be awarded to employees for improved performance. Finally, internal cost control is ongoing and the Company expects further cost savings of less than HK\$100 million in 2015 (cost savings of HK\$200 million in 2014).

Wineries – Healthy Inventory Level at Channels. According to the management, inventory level at distribution channel is quite healthy after the Spring Festival in 2015 at around 2-3 months compared to 5-6 months for the same period last year. Although ASP for wineries business is still expected to be under pressure in 2015 on shift of product mix towards mid-to-low-end products, gross margin could actually improve YoY in 2015 as less discounts are offered to distributors and consumers. The Company expects normalized net margin to be 10% in the long run and imported wine business will enjoy comparable profitability as that of its owned wineries business, though imported business only accounted for less than 5% of the Company's sales from wineries business.

Kitchen Food – Continuous Improvement in Profitability. The Company recorded operating profit in 2014 compared to losses in 2013 and 1H14, thanks to significant gross margin improvement of 3.4 pts YoY. ASP in 2015 is expected to maintain at similar level compared to that in 2H14 and we expect further gross margin improvement to be achieved in 2015 on weakened raw materials prices. Moreover, China Foods' corn oil reported strong growth in 2014 and the Company has high hope in this product in 2015, though such product only accounted for less than 15% of total sales volume of edible oil in 2014. We expect the Company's kitchen food business to achieve at least 1% EBIT margin in 2015.

Beverages – Gross Margin Improvement but Competition will Heat Up in 2015. As PET resin price plunges, every beverages company will benefit. Thus, the Company expects competition will turn fiercer in 2015. We expect gross margin to further improve in 2015 but expenses ratio will go up simultaneously. However, EBIT margin for beverages business should still improve YoY in 2015 as raw materials savings are expected to be huge.

Confectionery – 2015 is a Very Critical Year. Although sales growth of confectionery business in 2H14 was the strongest among other businesses, such business was still loss-making in 2H14 and 2014. The management clearly states that a decision will be made in 2015 whether to dispose or keep running such business. We are glad that the Company has listened to investors' advice by considering disposing such business. In our opinion, we believe disposing such loss-making business helps the Company the most. The only reason why the Company's management considers retaining such business should be reduced net loss in 2015, which also helps the Company either.

Possibility of M&A or Asset Injection. Last year, the management clearly states that the Company will not consider M&A or asset injection from the mother company. With improved results, China Foods says the Company is now open for M&A opportunities or/and able to take good care of assets injected by the mother company. Although this may not happen in 2015, we believe this is a signal that the Company's core businesses' profitability improvements are well on track and they have the ability to manage new businesses.

2014 Annual Results Review:

Reduced Net Loss in 2H14 and 2014 Helped by Gross Margin Improvement. Although sales growth remained weak in 2H14, significant gross margin improvement helps. Moreover, stringent cost controls measures were implemented and administrative expenses decreased by 19.0% YoY in 2H14. Therefore, net loss in 2H14 and 2014 were reduced by 84.7% and 74.7%, respectively.

Table-1: 2014 Annual Results Review

Income Statement									
HK\$ million	2013	2014	YoY	1H13	1H14	YoY	2H13	2H14	YoY
Revenue	26,218	26,742	2.0%	13,921	13,767	-1.1%	12,298	12,975	5.5%
COGS	<u>(20,934)</u>	<u>(20,438)</u>	-2.4%	<u>(11,027)</u>	<u>(10,570)</u>	-4.1%	<u>(9,907)</u>	<u>(9,867)</u>	-0.4%
Gross Profit	5,284	6,305	19.3%	2,893	3,197	10.5%	2,391	3,108	30.0%
Other income/gains	304	393	29.2%	82	115	40.4%	222	278	25.1%
Distribution exp.	(5,079)	(5,664)	11.5%	(2,533)	(2,840)	12.1%	(2,546)	(2,825)	10.9%
Administrative exp.	(885)	(752)	-15.0%	(392)	(353)	-10.1%	(493)	(399)	-19.0%
Other exp.	<u>(56)</u>	<u>(83)</u>	48.8%	<u>(23)</u>	<u>(10)</u>	-55.9%	<u>(33)</u>	<u>(73)</u>	123.6%
Operating Profit	(431)	198	n.a.	27	109	302.2%	(458)	89	n.a.
Finance income, net	(77)	(41)	-46.5%	(36)	(25)	-31.7%	(41)	(17)	-59.4%
Share of associate	<u>114</u>	<u>94</u>	-17.6%	<u>47</u>	<u>70</u>	47.4%	<u>66</u>	<u>24</u>	-64.1%
Profit before tax	(395)	251	n.a.	39	154	301.0%	(433)	96	n.a.
Income tax	<u>(312)</u>	<u>(224)</u>	-28.3%	<u>(229)</u>	<u>(129)</u>	-43.8%	<u>(83)</u>	<u>(95)</u>	14.6%
Profit after tax	(706)	27	n.a.	(190)	26	n.a.	(516)	1	n.a.
Minority interests	<u>(183)</u>	<u>(252)</u>	37.5%	<u>(114)</u>	<u>(161)</u>	41.3%	<u>(69)</u>	<u>(91)</u>	31.5%
Net Profit	(890)	(225)	-74.7%	(304)	(135)	-55.6%	(585)	(90)	-84.7%
Gross Margin	20.2%	23.6%	3.4 ppt	20.8%	23.2%	2.4 ppt	19.4%	24.0%	4.5 ppt
Operating Margin	-1.6%	0.7%	2.4 ppt	0.2%	0.8%	0.6 ppt	-3.7%	0.7%	4.4 ppt
Net Margin	-3.4%	-0.8%	2.6 ppt	-2.2%	-1.0%	1.2 ppt	-4.8%	-0.7%	4.1 ppt

Source: the Company.

Table-2: Segment Results Breakdown

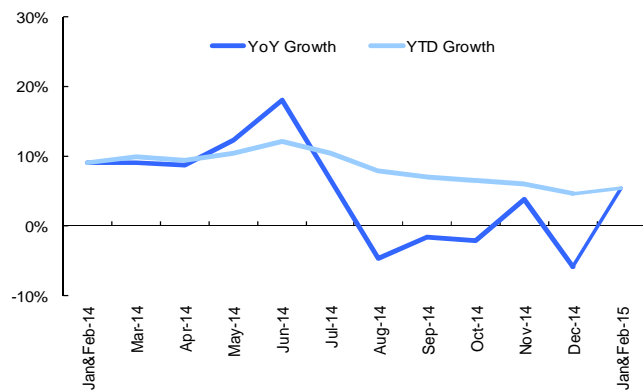
Segment Results									
HK\$ million	2013	2014	YoY	1H13	1H14	YoY	2H13	2H14	YoY
Segment Revenue									
Beverages	11,389	12,486	9.6%	5,995	6,897	15.0%	5,394	5,589	3.6%
Kitchen Food	12,276	11,231	-8.5%	6,411	5,376	-16.1%	5,865	5,855	-0.2%
Wine	1,847	2,152	16.5%	1,131	1,084	-4.2%	716	1,068	49.1%
Confectionery	435	503	15.8%	252	217	-13.7%	183	286	56.4%
Others	<u>271</u>	<u>370</u>	36.6%	<u>132</u>	<u>193</u>	46.5%	<u>139</u>	<u>177</u>	27.2%
Total	26,218	26,742	2.0%	13,921	13,767	-1.1%	12,298	12,975	5.5%
Segment EBIT									
Beverages	496	617	24.3%	326	391	20.1%	170	225	32.3%
Kitchen Food	(152)	29	n.a.	(126)	(61)	-51.4%	(26)	91	n.a.
Wine	(455)	(116)	-74.6%	(86)	(56)	-35.2%	(368)	(60)	-83.8%
Confectionery	(223)	(163)	-26.6%	(71)	(74)	4.9%	(152)	(89)	-41.3%
Corporate & Others	<u>(98)</u>	<u>(169)</u>	72.2%	<u>(16)</u>	<u>(92)</u>	475.9%	<u>(82)</u>	<u>(77)</u>	-6.4%
Total	(431)	198	n.a.	27	108	299.0%	(458)	90	n.a.
Segment EBIT Margin									
Beverages	4.4%	4.9%	0.6 ppt	5.4%	5.7%	0.2 ppt	3.2%	4.0%	0.9 ppt
Kitchen Food	-1.2%	0.3%	1.5 ppt	-2.0%	-1.1%	0.8 ppt	-0.4%	1.5%	2.0 ppt
Wine	-24.6%	-5.4%	19.2 ppt	-7.6%	-5.2%	2.5 ppt	-51.4%	-5.6%	45.9 ppt
Confectionery	-51.2%	-32.4%	18.7 ppt	-28.0%	-34.0%	-6.1 ppt	-83.2%	-31.2%	51.9 ppt
Consolidated	-1.6%	0.7%	2.4 ppt	0.2%	0.8%	0.6 ppt	-3.7%	0.7%	4.4 ppt

Source: the Company.

Earnings Forecast Assumptions and Revisions:

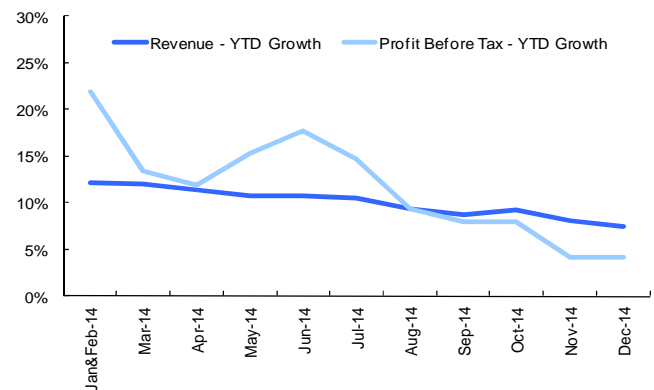
Satisfactory Production Volume Growth and Favourable Raw Materials Prices. According to National Bureau of Statistics of China, production volume growth of grape wine and soft drinks in China during Jan.-Feb. 2015 increased by 18.5% and 5.4% YoY, respectively. Mass market should welcome mid-to-low-end domestic grape wine which China Foods are focusing. Moreover, we still have high hope on both sales growth and earnings improvement of beverages business in 2015 due to low base caused by unfavourable weather in 2014. In addition, favourable raw materials prices should help the Company's profitability to further improve in 2015.

Figure-1: YoY & YTD Production Volume Growth of Soft Drinks in China



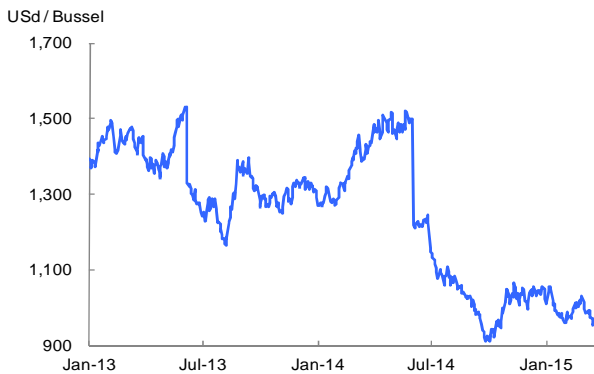
Source: National Bureau of Statistics of China.

Figure-2: YTD Revenue and Profit Before Tax Growth of Soft Drinks Manufacturers in China



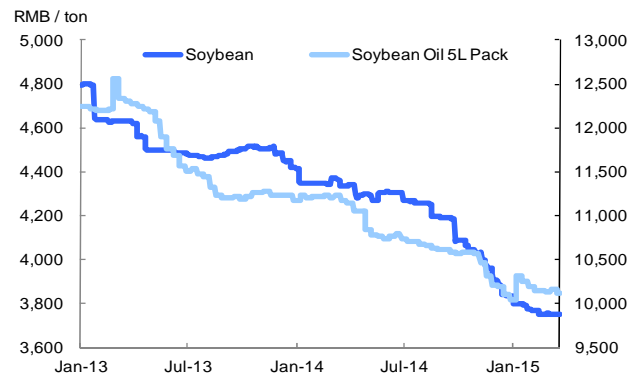
Source: National Bureau of Statistics of China.

Figure-3: Soybean Futures Price



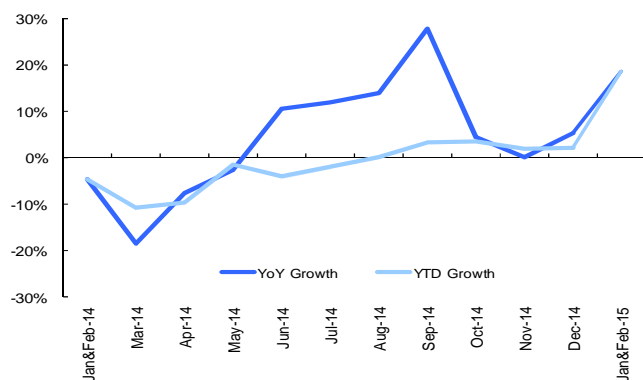
Source: Bloomberg.

Figure-4: Soybean & Soybean Oil Price in China



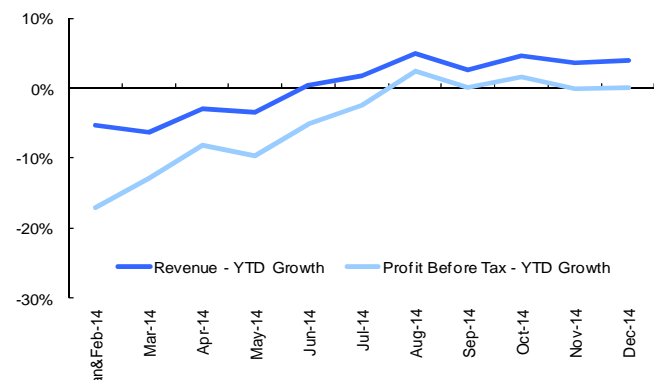
Source: National Bureau of Statistics of China, Ministry of Agriculture of the PRC.

Figure-5: YoY & YTD Production Volume Growth of Grape Wine in China



Source: National Bureau of Statistics of China.

Figure-6: YTD Revenue and Profit Before Tax Growth of Grape Wine Manufacturers in China



Source: National Bureau of Statistics of China.

Profitability to Improve in 2015-2017. With faster sales growth contributed by wineries and oil businesses, gross margin improvement attributable to beverages and oil businesses, and cost savings from headquarters, we revise up our 2015 EPS forecast from HK\$0.002 to HK\$0.029. EPS in 2016 is also revised up by 16.2% to HK\$0.086 and we initiate 2017 EPS at HK\$0.140. Net margin in 2015-2017 is expected to be 0.3%, 0.8% and 1.1%, up 1.1 ppts, 0.5 ppts and 0.4 ppts YoY, respectively.

Table-3: Earnings Estimate Revisions

HK\$ million	NEW			OLD		CHANGE	
	2015F	2016F	2017F	2015F	2016F	2015F	2016F
Revenue	28,869	31,496	34,613	27,601	31,545	4.6%	-0.2%
Gross Profit	7,334	7,655	7,994	5,933	6,738	23.6%	13.6%
EBIT	567	773	957	430	713	32.0%	8.3%
Net Profit	82	240	391	4	207	1806.0%	16.2%
EPS (HK\$)	0.029	0.086	0.140	0.002	0.074	1806.0%	16.2%
Gross Margin	25.4%	24.3%	23.1%	21.5%	21.4%	3.9%	2.9%
EBIT Margin	2.0%	2.5%	2.8%	1.6%	2.3%	0.4%	0.2%
Net Margin	0.3%	0.8%	1.1%	0.0%	0.7%	0.3%	0.1%

Source: Guotai Junan International.

Upgrade to “Buy” and Raise TP to HK\$3.50. Despite reduction in losses of wineries business in 2014, positive contribution from such business is still expected to be minimal in 2015. Moreover, confectionery business is still expected to drag the Company's earnings. However, we do expect wineries business to contribute positively in 2016 and profitability of kitchen food business is expected to keep improving. We value China Foods' beverages, wineries and kitchen food businesses using peers valuation. We believe Uni-President China (00220 HK, UPC) is the closest peer listed in Hong Kong to the Company's beverages business as basically only beverages business of UPC is profit-making. We apply 18x to China Foods' beverages business earnings (including associates contribution) in 2016, which represents roughly 20% discount to UPC's valuation in 2016 as the Company is just a bottler instead of a brand operator. Moreover, we apply 15x and 8.5x to the Company's wineries and kitchen food businesses earnings in 2016, respectively, which represents approximately 30% discount to Changyu (000869 CH) and 15% discount to Wilmar (WIL SP) valuation in 2016 as they are much larger in size. Based on sum-of-the-parts valuation, our derived TP is HK\$3.50 and we upgrade China Foods' investment rating to “Buy” from “Accumulate”. The new TP represents 119.9x 2015 PER, 40.7x 2016 PER, 25.0x 2017 PER and 1.6x 2015 PBR.

Table-4: Peers Valuation Comparison

Company	Ticker	\$	Share Price	Market Cap (HK\$ mn)	PER (x)			PBR (x)	ROE (%)	Gross Margin (%)	Operating Margin (%)
					FY14A	FY15F	FY16F	FY15F	FY15F	FY15F	FY15F
China Foods	00506 HK	HK\$	2.990	8,364	n.a.	83.1	33.2	1.3	2.9	23.8	1.9
Uni-President China	00220 HK	HK\$	5.010	21,640	55.4	26.6	22.6	1.5	5.7	34.5	3.0
Yangtai Changyu	000869 CH	RMB	37.820	27,698	25.6	23.4	21.7	3.4	14.5	68.3	30.8
Wilmar	WIL SP	SGD	3.220	116,753	14.0	11.1	10.1	0.9	8.3	7.8	3.4
Simple Average					31.7	36.1	21.9	1.8	7.8	33.6	9.8
Weighted Average					21.4	18.5	14.6	1.4	8.7	21.5	7.6

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end Dec (HK\$ m)	FY13A	FY14A	FY15F	FY16F	FY17F
Turnover	26,218	26,742	28,869	31,496	34,613
Cost of sales	(20,934)	(20,438)	(21,535)	(23,841)	(26,619)
Gross Profit	5,284	6,305	7,334	7,655	7,994
Other income and gains	304	393	427	457	490
Distribution costs	(5,079)	(5,664)	(6,305)	(6,405)	(6,502)
Admin. & Other expenses	(941)	(835)	(889)	(935)	(1,026)
Operating Profit	(431)	198	567	773	957
Finance costs, net	(77)	(41)	(70)	(69)	(73)
Share of associates	114	94	113	118	124
Profit before tax	(395)	251	610	821	1,007
Income tax	(312)	(224)	(242)	(285)	(305)
Minority interests	(183)	(252)	(286)	(296)	(311)
Net Profit	(890)	(225)	82	240	391
EPS (HK\$)	(0.318)	(0.080)	0.029	0.086	0.140

Segment Results					
Year end Dec (HK\$ m)	FY13A	FY14A	FY15F	FY16F	FY17F
Turnover	26,218	26,742	28,869	31,496	34,613
Wineries	1,847	2,152	2,518	2,907	3,291
Beverages	11,389	12,486	13,224	13,941	15,064
Kitchen Foods	12,276	11,231	12,126	13,522	15,015
Confectionery and others	706	873	1,002	1,126	1,243
Operating Profit	(431)	198	567	773	957
Wineries	(455)	(116)	0	145	247
Beverages	496	617	727	732	753
Kitchen Foods	(152)	29	121	169	225
Confectionery	(223)	(163)	(104)	(82)	(58)
Corporate and others	(98)	(169)	(177)	(191)	(211)

Cash Flow Statement					
Year end Dec (HK\$ m)	FY13A	FY14A	FY15F	FY16F	FY17F
Profit before tax	(395)	251	610	821	1,007
Net finance costs	77	49	70	69	73
Depreciation and amortisation	497	510	542	577	615
Others	(66)	(240)	(340)	(346)	(351)
Working capital change	267	(378)	(395)	(340)	(318)
Tax paid	(205)	(224)	(242)	(285)	(305)
Interest paid, net	(77)	(49)	(70)	(69)	(73)
Operating cash flow	97	(81)	175	427	648
CAPEX	(700)	(471)	(411)	(425)	(425)
Other investments	231	177	164	145	137
Investing cash flow	(469)	(294)	(246)	(281)	(288)
Bank loan change	1,023	(677)	39	0	0
Dividend paid	0	0	0	(87)	(141)
Others	(165)	0	0	0	0
Financing cash flow	858	(677)	39	(87)	(141)
Change in cash and cash equivalents	487	(1,052)	(32)	60	219
Foreign exchange effect	70	(50)	(20)	6	6
Cash balance at year end	2,458	1,356	1,305	1,370	1,596

Source: the Company, Guotai Junan International.

Balance Sheet					
As at 31 Dec (HK\$ m)	FY13A	FY14A	FY15F	FY16F	FY17F
PP&E	4,881	4,700	4,584	4,432	4,243
Prepaid land premium	396	424	466	513	564
Goodwill and other intangible assets	1,787	1,770	1,770	1,770	1,770
Interests in associates	705	759	872	990	1,114
Other investments	654	712	731	767	806
Non-current assets	8,423	8,365	8,422	8,472	8,496
Inventories	5,866	4,301	5,139	5,609	6,059
Accounts receivables	1,695	1,771	1,946	2,184	2,367
Other receivables and prepayment	1,547	1,187	1,186	1,396	1,449
Other investments	850	1,103	655	628	602
Pledged deposits	134	163	150	150	150
Cash and cash equivalents	2,458	1,356	1,305	1,370	1,596
Current assets	12,550	9,882	10,381	11,338	12,224
Accounts payables	1,192	1,372	1,460	1,602	1,753
Other payables and accruals	3,626	3,369	3,711	4,106	4,281
Amounts due to related parties	3,514	1,572	1,296	1,293	1,291
Tax payables	79	97	102	107	112
Bank and other loans	2,538	1,361	1,500	1,500	1,500
Current liabilities	10,950	7,771	8,068	8,607	8,938
Bank and other loans	1,600	2,100	2,000	2,000	2,000
Others	226	253	264	276	288
Non-current liabilities	1,826	2,353	2,264	2,276	2,288
Minority interests	2,052	2,235	2,521	2,817	3,128
Shareholders' equity	6,146	5,888	5,950	6,109	6,366
BPS (HK\$)	2.197	2.105	2.127	2.184	2.276

Key Financial Ratios					
	FY13A	FY14A	FY15F	FY16F	FY17F
Turnover Growth (%)	(15.1)	2.0	8.0	9.1	9.9
Gross Profit Growth (%)	(18.6)	19.3	16.3	4.4	4.4
Operating Profit Growth (%)	n.a.	n.a.	185.9	36.2	23.8
Net Profit Growth (%)	n.a.	(74.7)	n.a.	194.2	62.7
Gross Margin (%)	20.2	23.6	25.4	24.3	23.1
- Wineries	46.7	37.7	35.0	37.5	40.0
- Beverages	28.3	31.7	35.0	32.5	30.0
Operating Margin (%)	(1.6)	0.7	2.0	2.5	2.8
- Wineries	(24.6)	(5.4)	0.0	5.0	7.5
- Beverages	4.4	4.9	5.5	5.3	5.0
Net Margin (%)	(3.4)	(0.8)	0.3	0.8	1.1
ROE (%)	(13.7)	(3.7)	1.4	4.0	6.3
Inventory turnover days	95.4	90.8	80.0	82.5	80.0
Account receivable days	29.3	23.7	23.5	24.0	24.0
Account payable days	26.0	22.9	24.0	23.5	23.0
Cash conversion cycle	98.7	91.6	79.5	83.0	81.0
Current ratio (x)	1.1	1.3	1.3	1.3	1.4
Quick ratio (x)	0.6	0.7	0.6	0.7	0.7
Net gearing (%)	27.3	35.7	34.4	32.4	27.6
Net interest cover (x)	(4.2)	2.8	6.5	8.8	9.9
Payout ratio (%)	0.0	0.0	0.0	36.0	36.0

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk