



Company Report: Great Wall Motor (02333 HK)

公司报告: 长城汽车 (02333 HK)

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Good News Fully Priced-in, Downgrade to "Neutral"

好消息在股价完全反映, 下调评级到“中性”

- **Net profit of Great Wall Motor ("GWM") dropped 2.2% YoY in 2014, in-line.** Vehicle sales of GWM decreased 4.9% YoY while its revenue increased 10.2% YoY in 2014 since the average selling price increased 16.0% YoY due to the change of product mix. Since sedan sales dropped significantly in 2014, economies of scale deteriorated and gross profit margin dropped 0.9 ppt to 27.7%.
- **Vehicle sales of GWM are expected to increase 17.6% YoY, 13.0% YoY and 9.7% YoY, respectively, during 2015-2017.** In 2015, GWM plans to launch 3 new models, H7, H6 Coupe and H8, as well as one new generation model for H5. We expect that the new models which were launched in 2014 and 2015 may contribute nearly 30% of sales growth for GWM in 2015. Therefore, we expect vehicle sales of GWM to exceed its sales target of 850k in 2015 and exceed 1 million sales in 2017.
- **Downgrade to "Neutral" and maintain TP at HKD 52.00.** The current forward PE of GWM is lower than that of its peers while its forward PB is higher. The current valuation of GWM is higher than its historical average which reflected the rapid sales growth in 2015 and 2016. We think that most of the good news has been reflected in the share price. Therefore, we downgrade GWM's rating to "Neutral" and maintain its TP at HKD 52.00 representing 12.5x 2015 PE, 10.2x 2016 PE, 3.4x 2015 PB and 2.6x 2016 PB.
- **2014 年长城汽车净利润同比下滑 2.2%，符合预期。** 公司汽车销售在 2014 年同比下滑 4.9%，但是销售收入同比增长 10.2%，这主要是因为公司的产品结构得到改善，销售均价同比增长 16.0%。然而因为轿车销售大幅下滑，规模效应下降，毛利率同比减少 0.9 个百分点到 27.7%。
- **公司的汽车销售在 2015-2017 年间将分别同比增长 17.6%、13.0%和 9.7%。** 长城汽车在 2015 年将推出 3 款新车，包括 H7、H6 Coupe 和 H8，还有一款换代车型 H5。我们预计公司在 2014 和 2015 年推出的新车将为公司贡献 30% 的销售增长。因此我们相信长城汽车在 2015 年将会超额完成其销售目标 85 万辆，在 2017 年销售超过 100 万辆汽车。
- **下调到“中性”评级，维持 52.00 港元目标价。** 公司当前的前瞻 PE 低于同业，但是前瞻 PB 却高于其同业。公司当前估值高于其历史平均水平，主要是反映公司未来汽车快速增长的预期。我们认为当前股价基本反映了所有的好消息。因此我们下调公司评级到“中性”和维持目标价 52.00 港元，相当于 12.5 倍 2015 年 PE、10.2 倍 2016 年 PE、3.4 倍 2015 年 PB 和 2.6 倍 2016 年 PB。

Rating:

Neutral

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

HK\$52.00

HK\$52.00

Share price 股价:

HK\$51.900

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 %	5.1	21.4	37.5
Rel. % to HS index 相对恒指变动 %	6.5	16.9	25.8
Avg. share price(HK\$) 平均股价 (港元)	48.0	45.6	36.3

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (△%)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2013A	56,784	8,224	2.703	45.5	15.0	9.202	4.4	0.820	2.0	33.2
2014A	62,599	8,042	2.643	(2.2)	15.5	11.017	3.7	0.800	2.0	26.1
2015F	77,676	9,996	3.285	24.3	12.5	12.205	3.4	0.986	2.4	28.3
2016F	93,933	12,233	4.021	22.4	10.2	16.005	2.6	1.206	2.9	28.5
2017F	107,197	14,032	4.612	14.7	8.9	17.652	2.3	1.384	3.4	27.4

Shares in issue (m) 总股数 (m)

3,042.4

Market cap. (HK\$ m) 市值 (HK\$ m)

157,901.8

3 month average vol. 3 个月平均成交股数 ('000)

7,837.2

52 Weeks high/low (HK\$) 52 周高/低

53.400/26.100

Major shareholder 大股东

Wei Jian Jun 34.9%

Free float (%) 自由流通比率 (%)

8.4

15 Net gearing (%) 15 年净负债/股东资金 (%)

Net Cash

15 NAV 15 年 NAV (HKD)

58.0

Source: the Company, Guotai Junan International.

Annual Result Review

Net profit of Great Wall Motor ("GWM") dropped 2.2% YoY in 2014, in-line. Vehicle sales of the Company decreased 4.9% YoY while its revenue increased 10.2% YoY in 2014 since the average selling price increased 16.0% YoY due to the change of product mix. Since sedan sales dropped significantly in 2014, economies of scale deteriorated and gross profit margin dropped 0.9 ppt to 27.7%. Due to delay of the launch of H8, R&D costs increased significantly since the related costs for the development of H8 cannot be depreciated when H8 has not been launched for production. As a result, operating profit margin and net profit margin dropped 2.2 ppt YoY and 1.6 ppt YoY to 14.8% and 12.9%, respectively.

Table-1: Summary of 2013-2014 Financial Result of GWM

	2013	2014	YoY %	1H14	2H14	1H14 YoY	2H14 YoY
Income Statement(RMB mn)							
Turnover	56,784	62,599	10.2%	28,527	34,072	8.0%	12.2%
Including Revenue from Auto Sales	53,796	59,346	10.3%	27,058	32,288	8.1%	12.2%
Operating costs	(40,538)	(45,252)	11.6%	(20,380)	(24,872)	8.6%	14.2%
Gross profit	16,246	17,347	6.8%	8,147	9,200	6.5%	7.0%
Business tax and surcharges	(2,057)	(2,282)	10.9%	(985)	(1,297)	3.1%	17.7%
Selling expenses	(1,895)	(2,085)	10.0%	(906)	(1,179)	5.9%	13.3%
Administrative expenses	(2,747)	(3,822)	39.1%	(1,605)	(2,218)	55.2%	29.4%
Financial expenses/incomes	84	129	54.3%	46	83	51.5%	55.9%
Impairment loss on assets	(14)	(72)	407.3%	(0)	(72)	n.a.	387.2%
Gains/(losses) from changes in fair value	(7)	(4)	-45.1%	(5)	1	n.a.	n.a.
Investment income	59	32	-46.2%	7	25	-77.9%	-13.0%
Operating profit	9,668	9,244	-4.4%	4,699	4,545	-3.6%	-5.2%
Non-operating income	279	441	58.0%	86	355	21.8%	70.2%
Non-operating expenses	(27)	(44)	62.7%	(18)	(26)	54.8%	68.6%
Profit before taxation	9,920	9,640	-2.8%	4,767	4,874	-3.3%	-2.3%
Taxes Expenses	(1,688)	(1,599)	-5.3%	(812)	(787)	-3.3%	-7.2%
Net profits	8,232	8,041	-2.3%	3,954	4,087	-3.4%	-1.3%
Minority Interest	8	(0)	n.a.	(114)	113	n.a.	2642.8%
Net profit attributable to shareholders of the parent company	8,224	8,042	-2.2%	4,068	3,974	-0.5%	-3.9%
Basic EPS (RMB)	2.703	2.643	-2.2%	1.300	1.343	-3.0%	-1.5%
Dividend per share (RMB)	0.820	0.800	-2.4%	NA	0.800		-2.4%
Operating Data							
Sales volume (unit)	770,619	732,989	-4.9%	347,404	385,585	-4.9%	-4.9%
Domestic Sales (unit)	684,445	791,740	15.7%	317,569	474,171	-2.1%	31.6%
Export (unit)	48,544	70,488	45.2%	29,835	40,653	-27.4%	445.8%
Average Selling Price(RMB)	69,809	80,964	16.0%	77,886	83,736	13.7%	17.9%
Depreciation costs of PPE (RMB mn)	1,095	1,606	46.7%	721	885	42.4%	50.3%
Staff costs (RMB mn)	4,563	5,451	19.5%	2,223	3,228	24.1%	16.5%
Margins and ratios (%)							
			ppt			ppt	ppt
Gross profit margin	28.6%	27.7%	-0.9	28.6%	27.0%	-0.4	-1.3
OP Margin	17.0%	14.8%	-2.3	16.5%	13.3%	-2.0	-3.7
Net profit margin	14.5%	12.8%	-1.6	14.3%	11.7%	-1.2	-3.4
Selling costs to revenue	3.3%	3.3%	0.0	3.2%	3.5%	-0.1	0.0
Admin costs to revenue	4.8%	6.1%	1.3	5.6%	6.5%	1.7	0.9
Effective tax rate	17.0%	16.6%	-0.4	17.0%	16.1%	0.0	-0.9

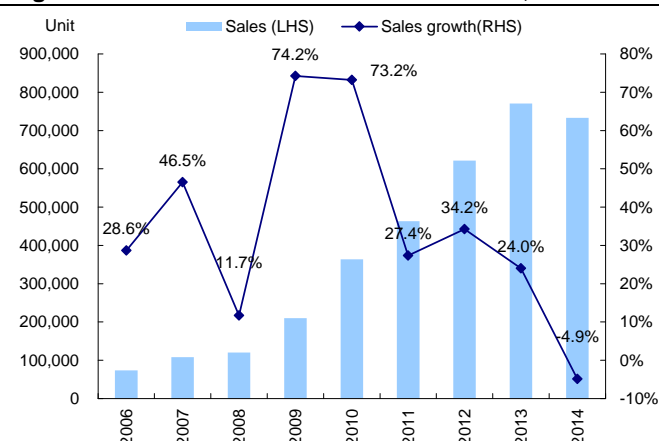
Source: the Company, Guotai Junan International.

Sales and Profit Analysis

2014 sales decreased slightly, down 4.9% YoY, missed its sales target. According to the Company, Great Wall Motor ("GWM", 02333 HK) sold 732,989 units of vehicles in 2014, down 4.9% YoY, missed its sales target by 17.6%. SUV sales increased 24.5% YoY to 523,208 units while pickup and sedan sales decreased 10.7% YoY and 57.4% YoY to 121,602 units and 87,479 units, respectively.

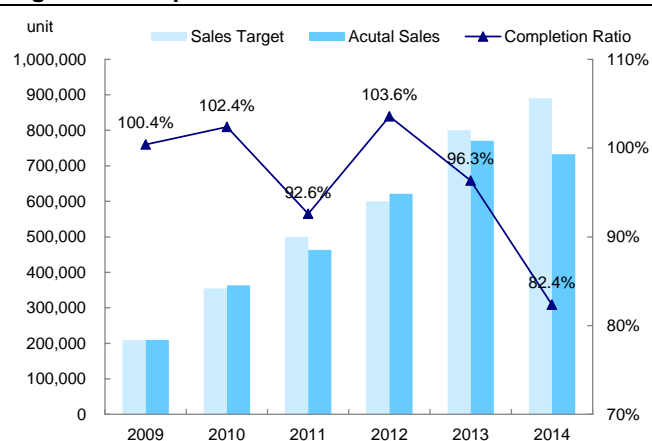
Rapid increase of SUVs contribution boosted average selling price ("ASP"). Sales contribution from SUVs increased rapidly, up 15.9 ppt YoY to 71.4% in 2014, which improved average selling price 16.0%. Increasing sales contribution from SUVs was mainly because that GWM shifted its focus and resource from the development of sedan to SUV and stroke to become the SUV specialist in the market. It also adopted a separated marketing strategies and sales channel for HAVAL brand to sell its SUVs.

Figure-1: Vehicles Sales and Growth of GWM, 2006-2014



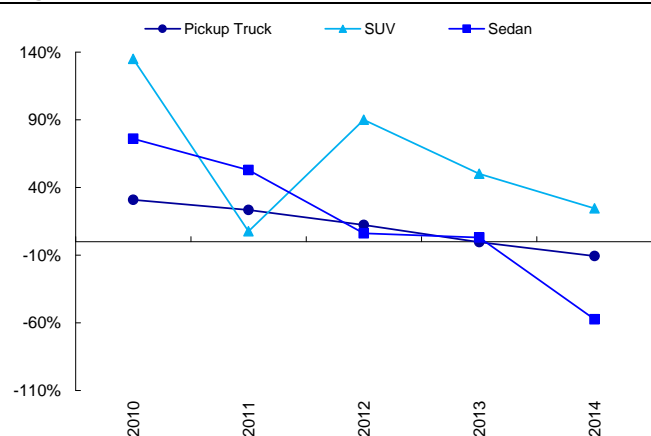
Source: the Company, Guotai Junan International.

Figure-2: Completion Ratio



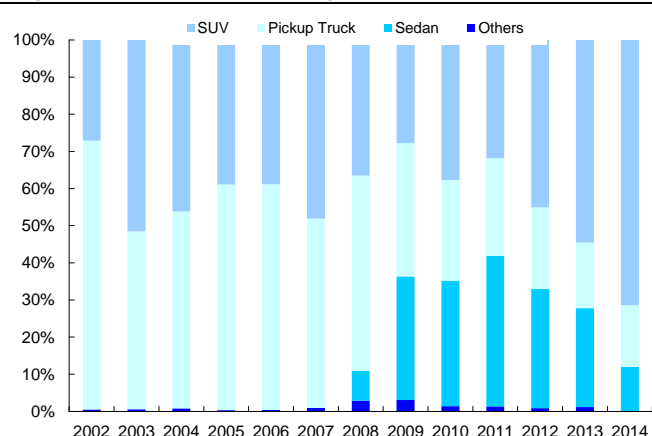
Source: the Company, Guotai Junan International.

Figure-3: Vehicles Sales Growth of Different Models



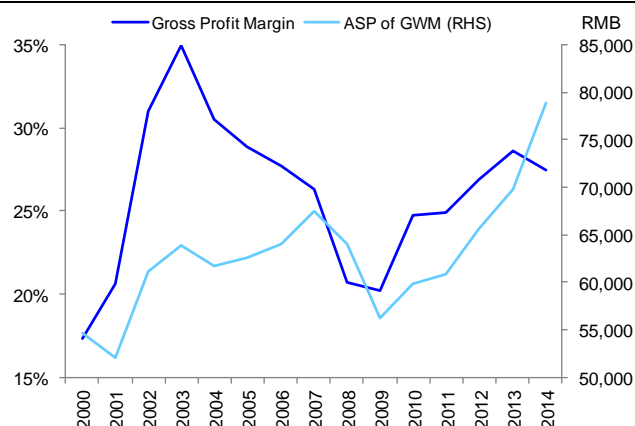
Source: the Company, Guotai Junan International.

Figure-4: Product Mix Change

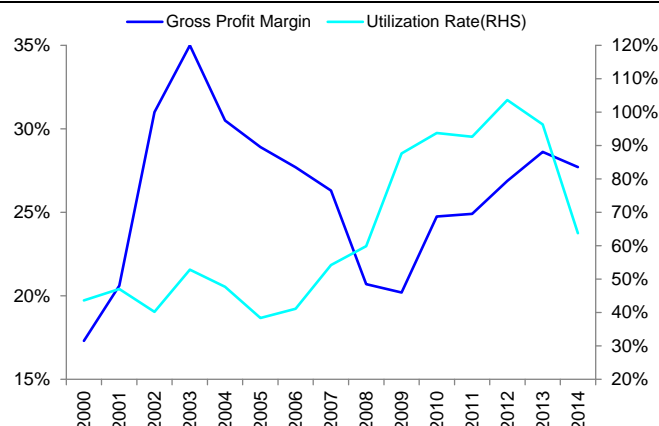


Source: the Company, Guotai Junan International.

Improved ASP can't offset the negative effects of lower utilization on GWM's gross profit margin. Economies of scale of GWM deteriorated in 2014 due to rapid drop of sedan sales. In addition, GWM continued to expand its production capacity by 39% to 1.15 million units per annum. As a result, utilization rate dropped to as low as just 64% in the year end of 2014. Therefore, even though ASP increased rapid, up 16.0% YoY in 2014, due to the improvement of product mix, gross profit margin of GWM still decreased 0.9 ppt to 27.7% in 2014.

Figure-5: Gross Profit Margin and ASP


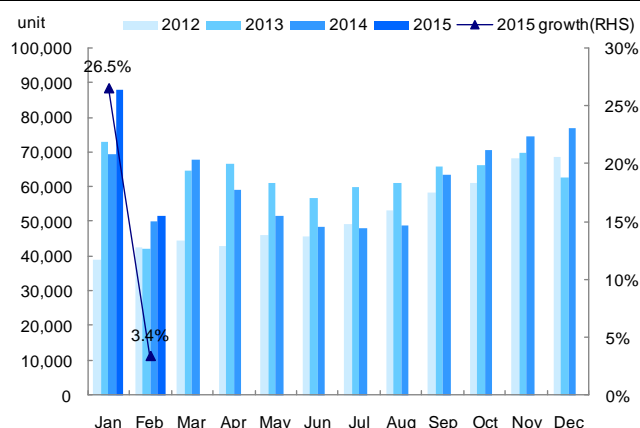
Source: the Company, Guotai Junan International.

Figure-6: Gross Profit Margin and Utilization Rate


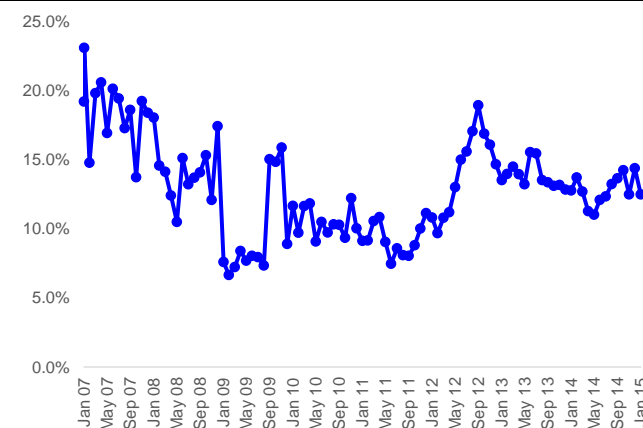
Source: the Company, Guotai Junan International.

Vehicle sales of GWM increased stably in the first 2 months of 2015. According to the Company, vehicle sales of GWM increased 16.8% YoY to 136,980 units in the first two months of 2015. SUV sales increased 55.3% YoY while that of pickup trucks and sedans dropped 14.8% YoY and 59.8% YoY, respectively. As a result, sales contribution of SUV increased 19.1 ppt to 79.6% while that of pickup trucks and sedans dropped 4.6 ppt and 15.1 ppt, respectively.

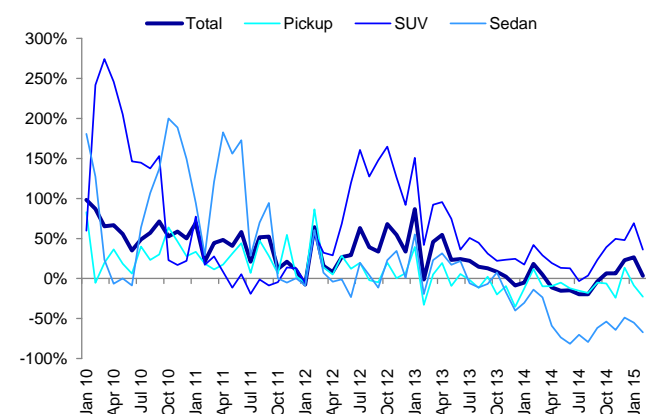
Market share of GWM's SUV recovered in the first 2 months of 2015. In 2014, SUV of GWM increased only 24.5% YoY, much slower than the industry average of 36.5%. As a result, market share of GWM's SUV dropped 1.3 ppt to 12.8% in 2014. This is mainly because the H8 was delayed for a few times which negatively affected the confidence to the car buyers and slowed down the renewal of the new products. However, market share of GWM's SUV sales recovered in the first 2 months of due to the launch of new models, including H1, H2 and H9.

Figure-7: Monthly Vehicles Sales and Growth of GWM


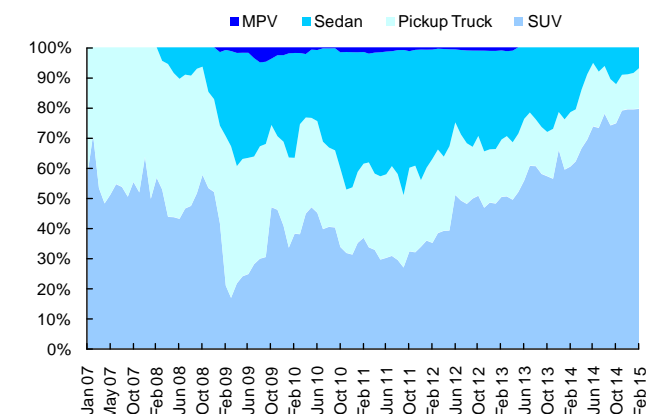
Source: the Company, Guotai Junan International.

Figure-8: Market Share of GWM's SUV Sales


Source: the Company, Guotai Junan International.

Figure-9: Sales Growth of Different Type of Vehicles for GMW


Source: the Company, Guotai Junan International.

Figure-10: Monthly Sales Contribution of Different Vehicle Models for GWM


Source: the Company, Guotai Junan International.

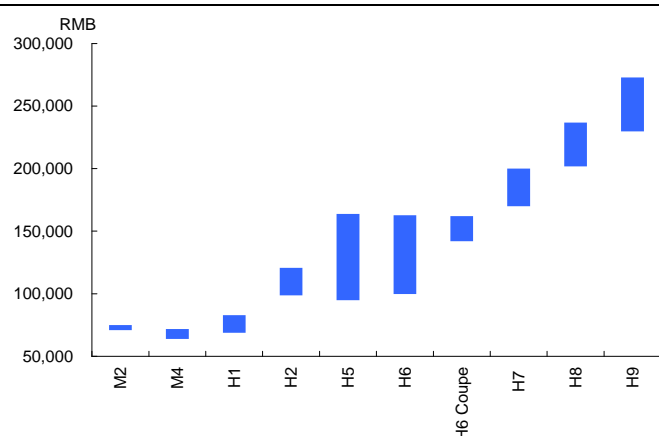
Table-2: Models Plan of 2015-2016

Type of Updates	Model Name	Vehicle Type	Date of Launch
New model	Haval H8	Medium urban SUV	Feb-15
	Haval H7	Compact urban SUV	2015
	Haval H6 Coupe	Compact urban SUV	2015
	Haval H4	Small urban SUV	2016
New generation	Haval H5	Compact SUV	2015
	Haval H3	Small urban SUV	2016
	Haval H2 Automatic	Compact urban SUV	1Q15
Additional model	Haval H8 Automatic	Medium urban SUV	2016
	Crossover	Crossover	Apr-16

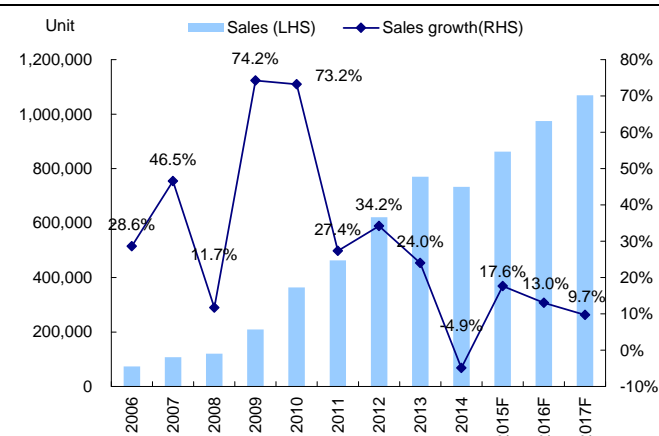
Source: the Company, Guotai Junan International.

Vehicle sales of GWM are expected to increase 17.6% YoY, 13.0% YoY and 9.7% YoY, respectively, during 2015-2017.

In 2015, GWM plans to launch 3 new models, H7, H6 Coupe and H8, as well as one new generation model for H5. We expect that the new models which were launched in 2014 and 2015 may contribute nearly 30% of sales growth for GWM in 2015. Therefore, we expect vehicle sales of GWM to increase 17.6% YoY, 13.0% YoY and 9.7% YoY, respectively, to 862k units, 974k units and 1.069 million units during 2015-2017, respectively. We expect vehicle sales of GWM to exceed its sales target of 850k in 2015 and exceed 1 million sales in 2017.

Figure-11: Price Coverage of GMW's SUV


Source: sohu.com, Guotai Junan International.

Figure-12: Sales Growth of Different Type of Vehicles for GMW


Source: the Company, Guotai Junan International.

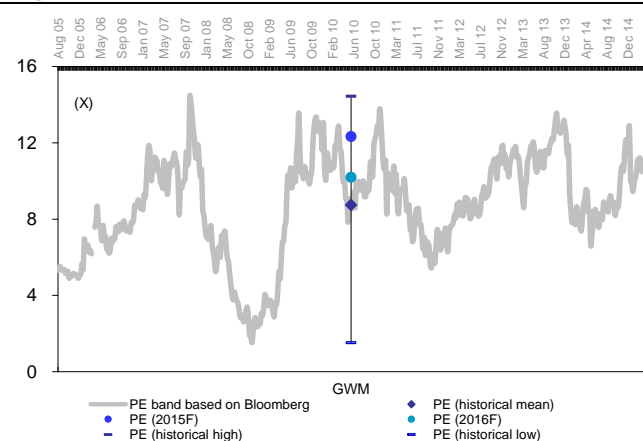
ASP of GWM is expected to improve further due to the change of product mix. Base on our estimates, the sales contribution of SUVs are expected to expand further in 2015-2017. In addition, new models and higher price models, such as H8 and H9, are expected to lift ASP as well. Therefore, we expect the ASP of GWM to increase 5.5% YoY, 7.0% YoY and 4.0% YoY, respectively, during 2015-2017.

Net profit of GWM is expected to increase 24.3% YoY, 22.4% YoY and 14.7% YoY, respectively, during 2015-2017. Since GWM are expanding its production capacity rapidly during the next 3 years, utilization rate is expected to remain low. However, we estimate the gross profit margin to improve gradually due to higher ASP during 2015-2017. Net profit of GWM is expected to increase 24.3% YoY, 22.4% YoY and 14.7% YoY, respectively, during 2015-2017, faster than that of its revenue growth.

Valuation of GWM

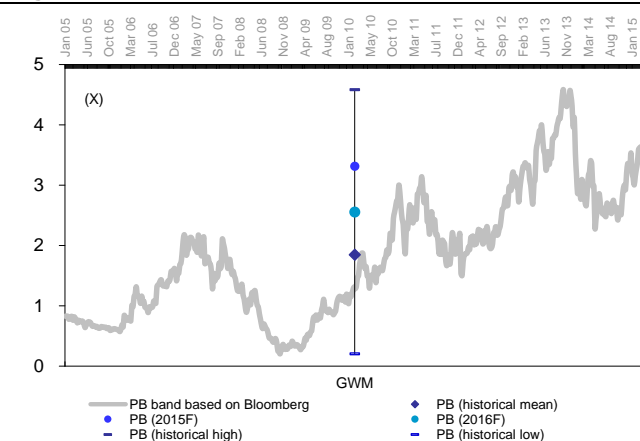
Downgrade to “Neutral” and maintain TP at HKD 52.00. Currently, GWM was trading at 12.5x 2015 PE, 10.2x 2016 PE, 3.4x 2015 PB and 2.6x 2016 PB. The forward PE of GWM is lower than that of its peers while its forward PB is higher. The current valuation of GWM is higher than its historical average which reflected the rapid sales growth in 2015 and 2016. The historical high of GWM's PE and PB reached as much as 14.5x and 4.6x, respectively. We think that most of the good news has been reflected in the share price. Therefore, we downgrade GWM's rating to “Neutral” and maintain its TP at HKD 52.00, representing 12.5x 2015 PE, 10.2x 2016 PE, 3.4x 2015 PB and 2.6x 2016 PB.

Figure-13: PE Band of GWM



Source: the Company, Bloomberg, Guotai Junan International.

Figure-14: PB Band of GWM



Source: the Company, Bloomberg, Guotai Junan International.

Table-3: Peers Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)	D/Y(%)	EV/EBIT DA
				13A	14F	15F	16F	13A	14F	15F	16F	15F	15F	15F
Dongfeng Motor -H	489 HK	HKD	11.86	7.8	6.5	6.2	5.6	1.3	1.1	1.0	0.8	16.8	2.5	26.8
Geely Automobile	175 HK	HKD	3.92	9.2	15.8	10.6	9.1	1.6	1.6	1.4	1.2	13.6	1.2	5.3
Brilliance China	1114 HK	HKD	14.22	14.7	11.2	9.8	8.3	3.8	3.3	2.5	2.0	28.8	1.3	n.a.
Great Wall Motor -H	2333 HK	HKD	51.90	12.4	15.4	11.3	9.4	3.6	3.8	3.0	2.4	29.2	2.7	9.3
Qingling Motors Co Ltd-H	1122 HK	HKD	2.79	12.1	11.8	10.9	10.1	0.6	0.7	0.7	0.7	6.1	7.2	15.9
BYD Co Ltd-H	1211 HK	HKD	37.65	129.0	123.0	37.9	30.7	3.2	2.8	2.5	2.3	7.0	0.2	16.1
Guangzhou Automobile Group-H	2238 HK	HKD	7.07	16.1	10.8	8.4	6.8	1.3	1.0	0.9	0.8	11.1	3.7	59.0
Avichina Industry & Tech-H	2357 HK	HKD	4.82	26.9	27.2	22.4	18.7	1.9	2.0	1.8	1.7	8.3	0.7	9.9
Weichai Power Co Ltd-H	2338 HK	HKD	28.20	13.6	9.3	9.8	8.7	1.8	1.4	1.2	1.1	13.3	1.6	5.7
Sinotruk Hong Kong Ltd	3808 HK	HKD	4.57	34.0	20.8	15.1	12.6	0.5	0.5	0.5	0.5	3.4	2.2	5.5
Simple Average				27.6	25.2	14.2	12.0	2.0	1.8	1.6	1.4	13.7	2.3	17.1
Weighted Average				35.8	34.0	15.6	13.0	2.6	2.4	2.0	1.7	17.7	1.9	16.4
Dongfeng Automobile Co Ltd-A	600006 CH	CNY	7.13	97.0	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Faw Car Company Ltd-A	000800 CH	CNY	18.35	19.2	19.3	17.1	16.1	2.3	3.2	2.8	2.4	12.3	n.a.	9.6
Saic Motor Corporation Ltd-A	600104 CH	CNY	25.51	6.3	10.0	8.7	7.7	1.1	1.8	1.6	1.4	19.0	5.7	7.5
Changchun Faway Automobile-A	600742 CH	CNY	36.26	10.3	15.1	12.4	11.5	1.2	2.2	2.0	1.7	14.3	n.a.	n.a.
Chongqing Changan Automobile-A	000625 CH	CNY	20.29	15.9	12.7	8.9	7.4	3.0	3.8	2.8	2.1	33.2	1.6	20.3
Weichai Power Co Ltd-A	000338 CH	CNY	28.42	13.6	11.5	12.6	11.4	1.8	1.7	1.5	1.4	12.8	1.0	6.3
Beiqi Foton Motor Co Ltd-A	600166 CH	CNY	7.42	18.8	22.8	21.2	13.5	1.0	1.4	1.3	1.2	6.0	n.a.	n.a.
Anhui Jianghuai Auto Co-A	600418 CH	CNY	15.43	12.3	26.8	16.1	11.7	1.6	2.7	2.4	2.1	15.6	1.9	7.3
Cnhc Jinan Truck Co Ltd-A	000951 CH	CNY	19.77	12.6	14.0	11.5	11.2	1.2	1.8	1.7	1.4	11.6	2.1	n.a.
Zhengzhou Yutong Bus Co -A	600066 CH	CNY	28.28	12.3	16.0	13.1	11.2	2.6	3.3	2.9	2.4	22.9	3.0	8.4
Shenyang Jinbei Automotive-A	600609 CH	CNY	5.76	183.1	n.a.	n.a.	n.a.	8.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jiangling Motors Corp Ltd-A	000550 CH	CNY	39.26	11.5	16.4	12.5	8.4	2.1	3.2	2.6	2.0	22.3	2.9	7.2
Yangzhou Yaxing Motor Co-A	600213 CH	CNY	16.53	294.0	n.a.	n.a.	n.a.	6.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zhongtong Bus & Holding Co-A	000957 CH	CNY	17.15	23.2	14.5	21.7	17.3	3.1	n.a.	n.a.	n.a.	15.3	0.5	n.a.
Simple Average				52.1	16.3	14.2	11.6	2.6	2.5	2.2	1.8	16.8	2.3	9.5
Weighted Average				16.2	12.5	10.5	8.9	1.8	2.3	1.9	1.6	19.1	3.3	8.6
Nissan Motor Co Ltd	7201 JP	JPY	1,267.50	11.1	14.2	11.5	10.2	1.0	1.3	1.1	1.0	9.9	2.6	8.4
Toyota Motor Corp	7203 JP	JPY	8,689.00	16.0	14.6	12.6	11.2	1.3	1.9	1.7	1.5	14.1	2.4	12.3
Honda Motor Co Ltd	7267 JP	JPY	4,095.00	17.5	12.7	12.9	10.9	1.3	1.3	1.1	1.1	9.0	2.2	9.0
Daihatsu Motor Co Ltd	7262 JP	JPY	1,827.00	10.2	9.5	13.0	12.7	1.7	1.4	1.3	1.2	10.2	2.9	4.6
Mazda Motor Corp	7261 JP	JPY	2,492.00	24.5	12.4	8.7	8.7	1.7	2.3	1.8	1.5	22.9	0.5	6.1
Mitsubishi Heavy Indust	7011 JT	JPY	677.50	18.4	16.0	19.4	14.9	1.3	1.5	1.4	1.3	7.3	1.5	7.4
Fuji Heavy Industries Ltd	7270 JP	JPY	4,140.50	9.5	15.1	12.2	9.5	1.9	4.1	3.2	2.5	30.5	1.7	6.0
Suzuki Motor Corp	7269 JP	JPY	3,720.00	14.7	18.5	18.4	15.6	1.0	1.6	1.4	1.3	8.2	0.7	5.8
Hino Motors Ltd	7205 JP	JPY	1,796.00	12.1	13.0	13.7	11.5	2.2	3.2	2.6	2.3	20.2	2.1	7.6
Isuzu Motors Ltd	7202 JP	JPY	1,696.50	9.7	12.7	12.7	11.1	1.8	2.3	2.0	1.7	16.5	1.7	6.5
Hyundai Motor Co	005380 KS	KRW	175,000.00	7.5	5.6	5.7	5.5	1.0	0.8	0.7	0.7	12.6	2.0	6.4
Ford Motor Co	F US	USD	16.57	8.1	14.9	10.3	8.8	2.3	2.3	2.0	1.7	24.3	3.4	5.3
Navistar International Corp	NAV US	USD	28.44	n.a.	n.a.	47.1	9.9	n.a.	n.a.	n.a.	n.a.	(2.5)	n.a.	8.4
Paccar Inc	PCAR US	USD	63.75	17.9	16.7	14.6	13.8	3.2	3.1	3.1	2.8	21.5	2.3	7.5
Volkswagen Ag	VOW GR	EUR	233.50	10.6	10.6	9.8	8.7	1.0	1.2	1.1	1.0	12.2	2.4	3.6
BMW	BMW GR	EUR	113.80	10.5	12.7	11.9	11.2	1.6	1.9	1.7	1.6	15.5	2.9	4.0
Daimler	DAI GR	EUR	87.58	9.8	14.5	12.4	11.0	1.6	2.0	1.8	1.7	15.5	3.1	4.5
Man Se	MAN GR	EUR	96.69	n.a.	110.0	77.8	40.1	2.5	3.0	3.1	3.2	2.8	3.2	18.4
Renault Sa	RNO FP	EUR	82.91	27.2	11.2	9.0	7.2	0.8	1.0	0.9	0.8	9.9	2.8	4.7
Volvo Ab-B Shs	VOLVB SS	SEK	102.50	47.8	25.5	17.6	13.4	2.3	2.8	2.5	2.3	14.4	3.1	8.6
Tata Steel Ltd	TATA IN	INR	327.15	34.9	9.3	13.5	8.8	0.9	0.9	0.8	0.7	5.6	2.9	7.2
Simple Average				16.3	18.5	17.4	12.1	1.6	2.0	1.8	1.6	13.6	2.3	7.2
Weighted Average				14.0	15.2	13.1	11.0	1.5	1.9	1.7	1.5	14.4	2.5	7.6
Global Simple Average				32.0	20.0	15.3	11.9	2.1	2.1	1.8	1.6	14.7	2.3	11.3
Global Weighted Average				15.9	16.5	13.1	10.9	1.6	1.9	1.7	1.5	15.1	2.5	8.4

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Year end of 31 Dec	Income Statement				
(RMB mn)	2013A	2014A	2015F	2016F	2017F
Turnover	56,784	62,599	77,676	93,933	107,197
Operating costs	(40,538)	(45,252)	(55,693)	(66,880)	(76,110)
Gross profit	16,246	17,347	21,982	27,053	31,087
Business tax and surcharges	(2,057)	(2,282)	(2,831)	(3,424)	(3,907)
Selling expenses	(1,895)	(2,085)	(2,664)	(3,222)	(3,677)
Administrative expenses	(2,747)	(3,822)	(4,557)	(5,530)	(6,326)
Financial expenses/incomes	84	129	66	64	58
Impairment loss on assets	(14)	(72)	(86)	(104)	(120)
Gains/(losses) from changes in fair value	(7)	(4)	(6)	(5)	(5)
Investment income	59	32	35	39	42
Operating profit	9,668	9,244	11,940	14,870	17,153
Non-operating income	279	441	420	519	627
Non-operating expenses	(27)	(44)	(55)	(66)	(76)
Profit before taxation	9,920	9,640	12,305	15,323	17,704
Taxes Expenses	(1,688)	(1,599)	(2,310)	(3,091)	(3,673)
Net profit	8,232	8,041	9,995	12,232	14,031
Minority Interest	8	(0)	(0)	(1)	(1)
Net profit attributable to shareholders	8,224	8,042	9,996	12,233	14,032
Basic EPS (RMB)	2.703	2.643	3.285	4.021	4.612
Dividend per share(RMB)	0.820	0.800	0.986	1.206	1.384

Year end of 31 Dec	Cash Flow Statement				
(RMB mn)	2013A	2014A	2015F	2016F	2017F
Net profits	8,232	8,041	9,995	12,232	14,031
Depreciation & Amortization	1,110	1,672	2,005	2,386	2,773
Adjustments from other G/L	19	26	(19)	(23)	(26)
Impairment of provision for assets	14	31	38	46	52
Investment losses/(gains)	(59)	(32)	(35)	39	42
Operating Profit before WC changes	9,316	9,739	11,984	14,680	16,873
Change in Inventories	(384)	(1,328)	(780)	(844)	(487)
Change in receivables	(2,785)	(7,042)	(5,628)	(7,358)	(5,239)
Change in payable	2,878	4,841	6,367	3,317	3,169
Change in deferred income tax assets	3	(41)	(115)	(155)	(184)
Cash from Operating activities	9,029	6,170	11,827	9,641	14,132
Finance costs paid	10	(40)	25	30	36
Other adjustment	0	(34)	(74)	(81)	(89)
Net cash generated from operating activities	9,039	6,096	11,778	9,590	14,078
Acquisition of PPE	(7,133)	(7,229)	(7,425)	(7,650)	(8,500)
Proceeds from sale of PPE	76	6	41	23	32
Net change on financial assets	43	13	6	5	4
Others	318	0	159	80	119
Net cash used in investing activities	(6,696)	(7,210)	(7,219)	(7,542)	(8,344)
Increase of bank loans	182	764	917	1,101	1,321
Repayment of liabilities	0	(778)	(917)	(1,101)	(1,321)
Dividends paid	(1,831)	(2,506)	(3,087)	(3,778)	(4,334)
Others	(756)	1,210	227	719	473
Net cash generated from financing activities	(2,405)	(1,309)	(2,860)	(3,060)	(3,861)
Cash at the beginning of the year	5,596	5,523	3,082	4,775	3,761
Net change of cash	(62)	(2,423)	1,699	(1,012)	1,873
Foreign exchange adjustment	(11)	(18)	(5)	(2)	(0)
Cash at the end of the year	5,523	3,082	4,775	3,761	5,634
Restricted cash and bank balance	1,468	313	841	874	676

Year end of 31 Dec	Balance sheet				
(RMB mn)	2013A	2014A	2015F	2016F	2017F
Cash	6,991	3,394	5,615	4,635	6,309
Inventories	2,764	3,470	4,250	5,095	5,582
Trade and other Receivables	20,764	26,979	32,608	39,966	45,205
Prepayments	446	723	1,001	1,278	1,555
Others	62	746	822	904	993
Current assets	31,026	35,314	44,296	51,877	59,644
Fixed assets	14,657	17,273	21,067	24,647	28,514
Construction in progress	3,989	5,274	6,988	8,753	10,715
Intangible assets	2,443	2,813	3,209	3,645	4,122
Deferred tax assets	401	441	557	711	895
Investments	59	80	73	68	64
Other	30	150	102	120	146
Non-current assets	21,579	26,032	31,996	37,945	44,456
Trade payables	17,522	20,010	26,376	29,693	32,863
Advances from customers	2,809	3,180	6,918	3,978	8,456
Tax payables	527	880	855	1,092	1,360
Salaries payables	1,097	1,327	1,646	1,991	2,272
Dividend payable	182	0	0	0	0
Other current liabilities	703	748	673	606	545
Current Liabilities	22,839	26,145	36,469	37,360	45,496
Other non-current liabilities	1,757	1,682	2,691	3,768	4,898
Total non-current Liabilities	1,757	1,682	2,691	3,768	4,898
Net assets	28,008	33,518	37,132	48,693	53,706
Minority Interest	12	67	66	66	65
Share capital	3,042	3,042	3,042	3,042	3,042
Reserves and retains profits	24,953	30,409	34,023	45,585	50,598
Shareholders' Equity	28,008	33,518	37,132	48,693	53,706
BPS (RMB)	9.202	11.017	12.205	16.005	17.652

Year end of 31 Dec	Financial Ratio				
	2013A	2014A	2015F	2016F	2017F
Profitability Analysis					
Gross profit margin (%)	28.6	27.7	28.3	28.8	29.0
EBITDAR (%)	18.9	17.2	17.9	18.3	18.5
OP Margin (%)	17.0	14.8	15.4	15.8	16.0
Net profit margin (%)	14.5	12.8	12.9	13.0	13.1
ROE (%)	33.2	26.1	28.3	28.5	27.4
ROA (%)	17.3	14.1	14.5	14.7	14.5
Growth Analysis					
Revenue growth (%)	31.6	10.2	24.1	20.9	14.1
Operating profit growth (%)	45.1	(4.4)	29.2	24.5	15.3
Net profit growth (%)	44.5	(2.2)	24.3	22.4	14.7
EPS (%)	44.5	(2.2)	24.3	22.4	0.0
BPS (%)	30.1	19.7	10.8	31.1	10.3
Liquidity and solvency					
Gearing ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Cash ratio	0.3	0.1	0.2	0.1	0.1
Quick ratio	1.2	1.2	1.1	1.3	1.2
Efficiency Analysis					
Inventory turnover days	25	25	25	26	26
Receivable turnover days	119	139	140	141	145
Payable turnover days	122	129	129	130	128

Source: the Company, Guotai Junan International.

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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