

# Biostime (1112 HK)

## Buy

Target price (HKD)	35.40
Share price (HKD)	29.85
Upside/Downside (%)	18.6

Dec	2014 a	2015 e	2016 e
HSBC EPS	1.31	1.58	1.79
HSBC PE	18.2	15.1	13.3
Performance	1M	3M	12M
Absolute (%)	22.1	93.8	-46.3
Relative <sup>A</sup> (%)	23.3	84.5	-52.4

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## Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

## Upgrade to Buy: Milk the profitability

- ▶ **2014 results were 19% ahead of our expectations, mainly driven by lower-than-expected operating expenses**
- ▶ **Infant formula sales likely to have bottomed in 2H14, and we also see margin upside from lower milk prices, better efficiency, and the weakness in Euro vs the RMB**
- ▶ **We raise our 2015-16 earnings estimates by 41-42%; Upgrade to Buy (from Neutral under previous rating system) and set a fair value TP of HKD35.4 (from HKD24.0)**

**What's new?** We are upgrading to Buy (from Neutral under the previous rating system) and setting a fair value target price of HKD35.4 (from HKD24.00), on the back of higher earnings estimates and EPS rollover. We raise our 2015 and 2016 earnings estimates by 41% and 42%, respectively, to mainly reflect higher margin assumptions due to lower raw material costs and SG&A expenses. Biostime's infant formula sales seems to have bottomed in 2H14, and we expect gradual recovery in the coming quarters on market share gains in the online channels from greater marketing efforts and new products introductions. We forecast Biostime to achieve 24% and 14% earnings growth in 2015e and 2016e, respectively, and our new earnings estimates are 42-50% above the Bloomberg consensus forecast.

**Results beat on margin surprise.** Biostime's 2014 net profit was 19% ahead of HSBC's forecast and 23% ahead of consensus, mainly due to lower than operating expenses. The group's EBIT margin recovered strongly from 19.2% in 1H14 to 26.4% in 2H14, mainly lifted by lower SG&A expenses like staff costs and A&P. Staff costs fell by 2ppt to 12% of sales in 2014 due to decline in employee bonuses. A&P spends also dropped significantly from 16% of sales in 1H14 to 10% in 2H14 as Biostime significantly reduced the number of in-store promoters in the supermarket/hypermarket channels, from around 9,000 promoters a year ago to the current of 6,000.

**New O2O initiative could be a long term growth driver.** Biostime is setting up a more comprehensive Mama100 O2O platform by opening up its platform to third-parties for sales and marketing other brand products. In order to expand its product offerings, Biostime plans to leverage on its strong CRM system and distribution management to attract new brands. The company is also seeking to find new investors to fund this new O2O e-commerce business expansion. While this new O2O business is still at a preliminary stage and is difficult to quantify its contribution, we believe it should allow the company to further broaden its revenue base and could be a long term growth driver.

Index <sup>A</sup>	HANG SENG INDEX
Index level	24,528
RIC	1112.HK
Bloomberg	1112 HK

Source: HSBC

Enterprise value (CNYm)	11875
Free float (%)	25
Market cap (USDm)	2,336
Market cap (HKDm)	18,115

Source: HSBC

## Financials & valuation

### Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
<b>Profit &amp; loss summary (CNYm)</b>				
Revenue	4,732	5,215	5,922	6,704
EBITDA	1,142	1,364	1,541	1,682
Depreciation & amortisation	-51	-69	-80	-89
Operating profit/EBIT	1,091	1,295	1,461	1,592
Net interest	26	72	94	118
PBT	1,118	1,367	1,556	1,711
HSBC PBT	1,118	1,367	1,556	1,711
Taxation	-312	-364	-414	-454
Net profit	807	1,003	1,142	1,256
HSBC net profit	807	1,003	1,142	1,256

### Cash flow summary (CNYm)

Cash flow from operations	886	808	1,096	1,201
Capex	-148	-150	-150	-150
Cash flow from investment	-460	8	31	54
Dividends	-493	-321	-401	-457
Change in net debt	-316	-494	-726	-799
FCF equity	859	815	1,127	1,255

### Balance sheet summary (CNYm)

Intangible fixed assets	180	180	180	180
Tangible fixed assets	478	559	628	689
Current assets	4,336	4,998	5,859	6,836
Cash & others	3,347	3,842	4,567	5,366
Total assets	6,631	7,374	8,304	9,342
Operating liabilities	1,268	1,329	1,518	1,757
Gross debt	2,411	2,411	2,411	2,411
Net debt	-2,083	-2,577	-3,303	-4,102
Shareholders funds	2,917	3,599	4,340	5,139
Invested capital	379	567	582	582

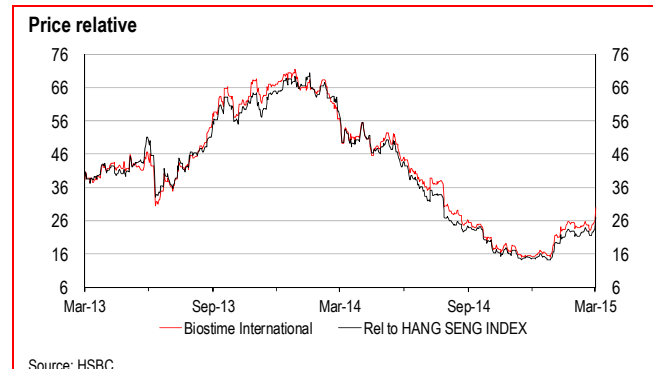
### Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
<b>Y-o-y % change</b>				
Revenue	3.7	10.2	13.6	13.2
EBITDA	-10.4	19.5	13.0	9.1
Operating profit	-12.6	18.7	12.8	9.0
PBT	-3.8	22.2	13.8	10.0
HSBC EPS	-18.1	20.0	13.8	17.4
<b>Ratios (%)</b>				
Revenue/IC (x)	11.8	11.0	10.3	11.5
ROIC	196.8	201.0	186.8	201.0
ROE	29.7	30.8	28.8	26.5
ROA	15.4	15.2	15.4	15.0
EBITDA margin	24.1	26.2	26.0	25.1
Operating profit margin	23.1	24.8	24.7	23.8
EBITDA/net interest (x)				
Net debt/equity	-71.4	-71.6	-76.1	-79.8
Net debt/EBITDA (x)	-1.8	-1.9	-2.1	-2.4
CF from operations/net debt				
<b>Per share data (CNY)</b>				
EPS reported (fully diluted)	1.31	1.58	1.79	1.97
HSBC EPS (fully diluted)	1.31	1.58	1.79	2.11
DPS	0.54	0.67	0.76	0.83
Book value	4.58	5.66	6.82	8.08

### Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	2.6	2.3	1.9	1.5
EV/EBITDA	10.8	8.7	7.2	6.2
EV/IC	32.6	21.0	19.2	17.8
PE*	18.2	15.1	13.3	11.3
P/Book value	5.2	4.2	3.5	3.0
FCF yield (%)	5.9	5.6	7.8	8.7
Dividend yield (%)	2.2	2.8	3.2	3.5

Note: \* = Based on HSBC EPS (fully diluted)



Note: price at close of 25 Mar 2015

# Results highlights

- ▶ Infant formula sales were up 6% yoy in 2014, and this was higher than management previous guidance of 0% growth
- ▶ By brand mix, Biostime brand made up 82% of infant formula sales, while the remaining 18% came from the Adimil brand
- ▶ Infant formula sales volume was up 11.4% in in 2014, including 14.2% volume growth for high-tier and 4.5% in supreme-tier

## Bisotime – Results Summary

Year to 31 Dec (RMBm)	2013	2014	%YoY	1H14	%YoY	2H14	%YoY
<b>Sales</b>	<b>4,561</b>	<b>4,732</b>	<b>4%</b>	<b>2,189</b>	<b>6%</b>	<b>2,543</b>	<b>2%</b>
COGS	(1,586)	(1,805)	14%	(843)	22%	(961)	7%
<b>Gross profit</b>	<b>2,975</b>	<b>2,927</b>	<b>-2%</b>	<b>1,346</b>	<b>-2%</b>	<b>1,581</b>	<b>-2%</b>
Selling and distribution costs	(1,513)	(1,588)	5%	(800)	20%	(787)	-7%
Administrative expenses	(177)	(175)	-1%	(86)	9%	(89)	-9%
Other expenses	(56)	(88)	58%	(39)	57%	(49)	58%
<b>EBIT</b>	<b>1,248</b>	<b>1,091</b>	<b>-13%</b>	<b>420</b>	<b>-30%</b>	<b>671</b>	<b>3%</b>
Exceptional items	(163)	1	nm	(0)	nm	1	nm
Interest income	88	113	29%	54	-13%	60	131%
<b>PBT</b>	<b>1,162</b>	<b>1,118</b>	<b>-4%</b>	<b>433</b>	<b>-12%</b>	<b>685</b>	<b>3%</b>
Tax	(341)	(312)	-9%	(121)	-38%	(190)	31%
<b>Net profit</b>	<b>821</b>	<b>807</b>	<b>-2%</b>	<b>312</b>	<b>5%</b>	<b>495</b>	<b>-5%</b>
<b>Core Net Profit</b>	<b>984</b>	<b>807</b>	<b>-18%</b>	<b>312</b>	<b>-32%</b>	<b>495</b>	<b>-5%</b>
<b>Margins</b>							
Gross Margin	65.2%	61.9%	-3.4ppt	61.5%	-5.0ppt	62.2%	-2.0ppt
EBITDA Margin	27.9%	24.1%	-3.8ppt	20.3%	-9.3ppt	27.4%	+0.9ppt
EBIT Margin	27.4%	23.1%	-4.3ppt	19.2%	-9.8ppt	26.4%	+0.4ppt
Core net margin	21.6%	17.1%	-4.5ppt	14.3%	-8.1ppt	19.5%	-1.5ppt
<b>Key ratios</b>							
Distribution costs as % of sales	33.2%	33.6%	+0.4ppt	36.6%	+4.2ppt	31.0%	-2.9ppt
Adm exp as % of sales	3.9%	3.7%	-0.2ppt	3.9%	+0.1ppt	3.5%	-0.4ppt

Source: Company reports

## Better-than-expected infant formula sales

Total sales were up 3.7% yoy to RMB4.7bn, and this was around 4% higher than our forecast. By product segment, infant formula sales grew 6% yoy in 2014 (1H14: +11%, 2H14: +3%) but probiotic sales were down 7% yoy (1H14: -18%, 2H14: 4%). On a semi-annual basis, Biostime's 2H14 sales were up 1.7% yoy to RMB2.5bn, and this was better than our expectation of a 5% yoy decline, mainly due to higher-than-expected contribution from the new Adimil mass market infant formula. Management indicated that locally made Adimil infant formula was launched in late November 2014, and total sales from this new product amounted to around RMB64m in just over a month. The Adimil brand products were launched in September 2013, and it accounted for 18% of infant formula sales in 2014.

Sales volume for the infant formula business grew 11.4% yoy in 2014, and ASP was down by around 5% in 2014 due to price cuts and more sales contribution from the lower-priced Adimil brand. Supreme-tier segment sales were down 1% yoy in 2014, while high-tier segment sales (including the Adimil) were up 11% yoy in 2014.

Sales of the probiotic supplements business were up 4% yoy in 2H14, but down 7% for the whole year, and contributed to 9% of the company's total sales. The growth picked up in the second half of the year, and we think it was partly due to increased marketing efforts and higher sales productivity driven by the business unit restructuring.

### Biostime – Revenue breakdown by products

Year to 31 Dec (RMBm)	2013	2014	1H14	2H14
Probiotic supplements	458	425	186	239
Infant formula	3,752	3,982	1,859	2,123
Baby care product	152	173	73	100
Dried baby food	199	151	71	81
<b>Total sales</b>	<b>4,561</b>	<b>4,732</b>	<b>2,189</b>	<b>2,543</b>
<b>as % of sales</b>				
Probiotic supplements	10%	9%	9%	9%
Infant formula	82%	84%	85%	83%
Baby care product	3%	4%	3%	3%
Dried baby food	4%	3%	3%	4%
<b>Total sales</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>% yoy</b>				
Probiotic supplements	21%	-7%	-18%	4%
Infant formula	38%	6%	11%	3%
Baby care product	44%	14%	15%	13%
Dried baby food	10%	-24%	-19%	-27%
<b>Total sales</b>	<b>35%</b>	<b>4%</b>	<b>6%</b>	<b>2%</b>

Source: Company data and HSBC

## Gross margin contraction in 2014 but likely to recover strongly in 2015 and 2016

Biostime's gross margin contracted in 2H14 to 62.2% from 64.2% in 2H13, and the company's gross margin was 61.9% in 2014 compared to 65.2% in 2013. The decrease was mainly due to price cuts of the company's infant formula products and change in product mix toward selling lower margin Adimil branded products. However, on a half-on-half basis, the company's gross margin increased by 0.7ppt from 61.5% in 1H14, and the slight improvement was due to the company cancelling its extra reward points program in 2H14. Looking forward to 2015 and 2016, we expect the group's gross margin strongly to around 64.5% mainly driven by lower milk prices and the weakness in Euro vs the RMB. Management expects their procurement cost on milk powder to decline by 5% this year. In addition, Bisotime sources all its infant formula and milk powder products from Europe (80% of COGS) and management indicated that that for every 3-4% decline in the Euro, gross margin would increase by 1ppt.

### Biostime – Gross margin breakdown by products

	2013	2014	yoy%	1H14	yoy%	2H14	yoy%
Probiotic supplements	78.6%	71.4%	-7.2ppt	71.6%	-6.2ppt	71.3%	-8.1ppt
Infant formula	64.5%	62.0%	-2.6ppt	61.7%	-4.0ppt	62.2%	-1.4ppt
Baby care product	54.2%	47.2%	-6.9ppt	46.0%	-9.5ppt	48.2%	-5.1ppt
Dried baby food	55.6%	55.6%	0.0ppt	46.0%	-13.4ppt	51.8%	-0.8ppt
<b>Total gross margin</b>	<b>65.2%</b>	<b>61.9%</b>	<b>-3.4ppt</b>	<b>61.5%</b>	<b>-5.0ppt</b>	<b>62.2%</b>	<b>-2.0ppt</b>

Source: Company data and HSBC estimates

## Stringent operating cost control and more effective cost allocation

The company's operating margin increased significantly by 7.2ppt on a half-on-half basis in 2H14 to 26.4% from 19.2% in 1H14, mainly due to lower A&P and staff expenses. Staff costs fell by 2ppt to 12% of sales in 2014 due to decline in employee bonuses. A&P spends also dropped significantly from 16% of sales in 1H14 to 10% in 2H14 as Biostime significantly reduced the number of in-store promoters in the supermarket/hypermarket channels, from around 9,000 promoters a year ago to the current of 6,000. Management guided for steady SG&A expenses for 2015 but we think this is an aggressive target given that the company is still aiming for higher market share gain this year. In our model, we have assumed that its SG&A to sales ratio to increase by 0.4ppt to 37.7% in 2015 and 37.8% in 2016.

### Biostime – Selling and distribution expense breakdown

Year to 31 Dec (RMBm)	2013e	2014e	2015e	2016e	2017e
<b>Selling and distribution expenses</b>	<b>1,513</b>	<b>1,588</b>	<b>1,773</b>	<b>2,025</b>	<b>2,292</b>
- as % of revenue	33.2%	33.6%	34.0%	34.2%	34.2%
<b>Staff costs and office expenses</b>	<b>734</b>	<b>733</b>	<b>819</b>	<b>936</b>	<b>1,072</b>
- as % of revenue	16.1%	15.5%	15.7%	15.8%	16.0%
<b>A&amp;P expenses</b>	<b>522</b>	<b>597</b>	<b>688</b>	<b>793</b>	<b>898</b>
- as % of revenue	11.4%	12.4%	13.2%	13.4%	13.4%
<b>Others</b>	<b>257</b>	<b>257</b>	<b>266</b>	<b>296</b>	<b>322</b>
- as % of revenue	5.6%	5.4%	5.1%	5.0%	4.8%

Source: Company data and HSBC estimates

## Strong balance sheet and cash flow

Biostime's balance sheet strengthened significantly in 2H14, with net cash increasing to RMB2.1bn at 2014 from RMB1.2bn at 1H14. The improvement was mainly driven by shortened inventory days at 176 days for 2014 compared to 223 days for 1H14. Operating cash flow also improved by 47% yoy to RMB972m in 2014. The company declared a final DPS of HKD0.67, and total dividend payout for 2014 was 40%, compared to 70% in 2013.

### Biostime – Key liquidity ratios

Year to 31 Dec (RMBm)	2013	2014	2015e	2016e	2017e
<b>Liquidity</b>					
Total debt	751	2,411	2,411	2,411	2,411
Cash and cash equivalents	2,518	4,493	4,988	5,713	6,512
<b>Net cash/(debt)</b>	<b>1,767</b>	<b>2,083</b>	<b>2,577</b>	<b>3,303</b>	<b>4,101</b>
<b>Net debt/equity</b>	<b>NC</b>	<b>NC</b>	<b>NC</b>	<b>NC</b>	<b>NC</b>
Current ratio	1.4x	3.4x	3.8x	3.9x	3.9x
Quick ratio	0.9x	2.8x	3.0x	3.1x	3.2x
Inventory days (average)	170	176	174	179	177
Receivable days (average)	1	1	1	1	1
Payable days (average)	71	65	64	66	65
<b>Cash conversion cycle</b>	<b>100</b>	<b>112</b>	<b>111</b>	<b>114</b>	<b>113</b>

Source: Company data and HSBC estimates

## New O2O initiatives

Biostime launched its O2O business on Mama100 APP in September 2013, and opened its WeChat store in March 2014. At the end of 2014, there were over 20,000 membership stores participating in the company's O2O platform, and 4,000 of these stores have been selected by Biostime to become O2O flagship stores. During 2014, Biostime recorded a gross merchandise value of RMB810m on its Mama100 O2O platform, with over 1.1m orders. The combined number of Mama100 mobile APP registered users and Mama100 WeChat followers reached 1.9 million. Biostime's O2O business made up 10% of the company's total accumulated membership points.

The current O2O Mama100 platform only sells Biostime products; however, the company announced in February-2014 that they are planning to further develop its MaMa100 platform into a more comprehensive e-commerce platform by engaging in online sales and distribution of both the company's own-branded products and other selected third party brand products.

In order to expand its product offerings, Biostime plans to leverage on its strong CRM system and distribution management to attract new brands. The company is also seeking to find new investors to fund this new O2O e-commerce business expansion. While this new O2O business is still at a preliminary stage and is difficult to quantify its contribution, we believe it should allow the company to further broaden its revenue base and could be a long term growth driver for the company.

## Valuation and risks

We set a fair value target price of HKD35.40 (from HKD24.00) on higher earnings estimates and EPS rollover. We raise our 2015-16 earnings estimates by 42% to mainly reflect higher margin assumptions due to lower raw material costs and SG&A expenses. We see fair value at 17.4x 2015e PE, which represents the group's historical average since listing in Dec-2010. We think the historical average is fair as it takes into account the strong earnings momentum. Looking on a PEG basis, our target multiple is also justified as we are estimating 16% earnings CAGR over 2015-17e, which is equivalent to a PEG of 0.9x.

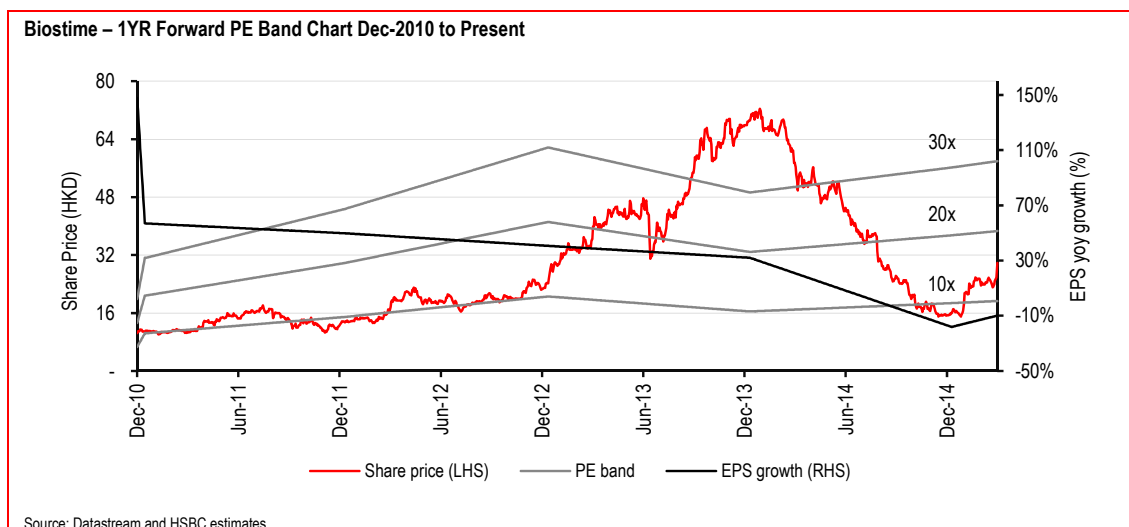
### Key risks

Key downside risks include: 1) More intense price competition with its peers, 2) Weaker than expected sales volume of its new mass market infant formula products, 2) Higher than expected A&P spending and investments for online channel expansion, and 3) Any EPS dilutive M&A.

#### Biostime - Earnings revision, 2015-16e

Year to 31 Dec	2015	2016
Sales	8.8%	7.8%
Gross profit	10.7%	10.0%
EBIT	29.7%	30.5%
Net profit	41.5%	42.4%
Gross margin	1.1%	1.3%
EBIT margin	4.0%	4.3%
Net margin	4.4%	4.7%

Source: HSBC estimates



**Biostime - Income statements, 2013-17e**

<b>Year to 31 Dec (RMBm)</b>	<b>2013</b>	<b>2014</b>	<b>2015e</b>	<b>2016e</b>	<b>2017e</b>
<b>Sales</b>	<b>4,561</b>	<b>4,732</b>	<b>5,215</b>	<b>5,922</b>	<b>6,704</b>
COGS	(1,586)	(1,805)	(1,850)	(2,104)	(2,443)
<b>Gross profit</b>	<b>2,975</b>	<b>2,927</b>	<b>3,365</b>	<b>3,818</b>	<b>4,260</b>
Selling and distribution costs	(1,513)	(1,588)	(1,773)	(2,025)	(2,293)
Administrative expenses	(177)	(175)	(193)	(213)	(241)
Other expenses	(56)	(88)	(104)	(118)	(134)
Others	19	15	-	-	-
<b>EBIT</b>	<b>1,248</b>	<b>1,091</b>	<b>1,295</b>	<b>1,461</b>	<b>1,592</b>
Exceptional items	(163)	-	-	-	-
Profit from associates	-	1	1	1	1
Interest income	88	113	158	181	204
Finance costs	(11)	(87)	(87)	(87)	(87)
FX	-	-	-	-	-
<b>PBT</b>	<b>1,162</b>	<b>1,118</b>	<b>1,367</b>	<b>1,556</b>	<b>1,711</b>
Tax	(341)	(312)	(364)	(414)	(454)
<b>PAT</b>	<b>821</b>	<b>807</b>	<b>1,003</b>	<b>1,142</b>	<b>1,256</b>
<b>Core NI</b>	<b>984</b>	<b>807</b>	<b>1,003</b>	<b>1,142</b>	<b>1,256</b>
<b>Margins</b>					
Gross Margin	65.2%	61.9%	64.5%	64.5%	63.6%
EBITDA Margin	27.9%	24.1%	26.2%	26.0%	25.1%
EBIT Margin	27.4%	23.1%	24.8%	24.7%	23.8%
PBT Margin	25.5%	23.6%	26.2%	26.3%	25.5%
Net Margin	18.0%	17.1%	19.2%	19.3%	18.7%
Core net margin	21.6%	17.1%	19.2%	19.3%	18.7%
<b>Key ratios</b>					
Distribution costs as % of sales	33.2%	33.6%	34.0%	34.2%	34.2%
Adm exp as % of sales	3.9%	3.7%	3.7%	3.6%	3.6%
Total opex	37.1%	37.3%	37.7%	37.8%	37.8%
Total opex including CB interests	38.5%	40.9%	41.4%	41.3%	41.1%

Source: Company data, HSBC estimates



**Biostime - Balance sheet, 2013-17e**

<b>Year to 31 Dec (RMBm)</b>	<b>2013</b>	<b>2014</b>	<b>2015e</b>	<b>2016e</b>	<b>2017e</b>
Inventories	972	797	963	1,095	1,272
Trade & Bills receivables	15	12	14	16	18
Prepayments, deposits and others	117	140	140	140	140
Due from directors	2	-	-	-	-
Restricted cash	70	-	-	-	-
Loans receivable	27	39	39	39	39
Cash and cash equivalent	1,663	3,347	3,842	4,567	5,366
<b>Total current assets</b>	<b>2,866</b>	<b>4,336</b>	<b>4,998</b>	<b>5,859</b>	<b>6,836</b>
Net PPE	326	478	559	628	689
Intangible assets	186	180	180	180	180
HTM investments	21	19	19	19	19
Investments in associates	-	41	41	41	41
Deposits paid for PPE	15	16	16	16	16
Prepaid land lease payment	65	63	63	63	63
Loans receivable	184	224	224	224	224
Time deposits	855	1,146	1,146	1,146	1,146
Deferred tax assets	124	129	129	129	129
<b>Total non-current assets</b>	<b>1,775</b>	<b>2,295</b>	<b>2,376</b>	<b>2,446</b>	<b>2,507</b>
Trade payables	362	295	355	404	469
Other payables and accruals	720	737	756	860	999
Interest-bearing bank loan	751	-	-	-	-
Tax payable	213	236	218	255	290
<b>Total current liabilities</b>	<b>2,045</b>	<b>1,268</b>	<b>1,329</b>	<b>1,518</b>	<b>1,757</b>
CB	-	2,411	2,411	2,411	2,411
Deferred tax liabilities	81	36	36	36	36
<b>Total non-current liabilities</b>	<b>81</b>	<b>2,446</b>	<b>2,446</b>	<b>2,446</b>	<b>2,446</b>
Issued share capital	5	5	5	5	5
Equity component of convertible bonds	-	67	67	67	67
Reserves	2,510	2,845	3,527	4,268	5,067
<b>Total equity</b>	<b>2,516</b>	<b>2,917</b>	<b>3,599</b>	<b>4,340</b>	<b>5,139</b>
	-	-	-	-	-
<b>Liquidity</b>					
Total debt	751	2,411	2,411	2,411	2,411
Cash and cash equivalents	2,518	4,493	4,988	5,714	6,512
<b>Net cash/(debt)</b>	<b>1,767</b>	<b>2,083</b>	<b>2,577</b>	<b>3,303</b>	<b>4,102</b>
Net debt/equity	NC	NC	NC	NC	NC
Total debt to equity	0	1	1	0.56	0.47
Current ratio	1.4x	3.4x	3.8x	3.9x	3.9x
Quick ratio	0.9x	2.8x	3.0x	3.1x	3.2x
Inventory days (average)	172	179	174	179	177
Receivable days (average)	1	1	1	1	1
Payable days (average)	72	66	64	66	65
<b>Cash conversion cycle</b>	<b>101</b>	<b>114</b>	<b>110</b>	<b>114</b>	<b>113</b>

Source: Company data, HSBC estimates

# Disclosure appendix

## Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Christopher Leung, Alice Chan and Erwan Rambourg

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### **From 23rd March 2015 HSBC has assigned ratings on the following basis:**

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

### **Prior to this date, HSBC's rating structure was applied on the following basis:**

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands were classified as Neutral.

\*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

## Rating distribution for long-term investment opportunities

**As of 25 March 2015, the distribution of all ratings published is as follows:**

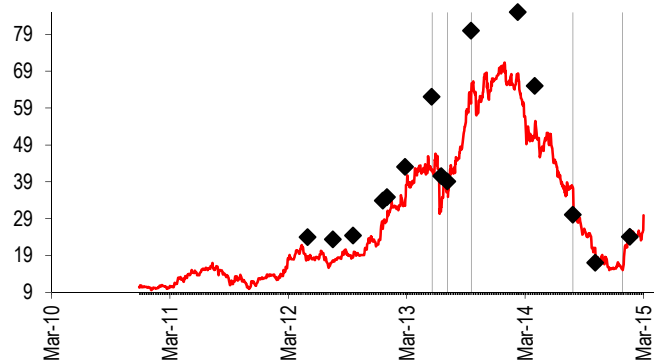
<b>Buy</b>	41%	(30% of these provided with Investment Banking Services)
<b>Hold</b>	39%	(28% of these provided with Investment Banking Services)
<b>Sell</b>	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

## Share price and rating changes for long-term investment opportunities

**Biostrime International (1112.HK) Share Price performance HKD Vs HSBC**

rating history



Source: HSBC

**Recommendation & price target history**

From	To	Date
Overweight (V)	Overweight	10 June 2013
Overweight	Neutral (V)	28 July 2013
Neutral (V)	Overweight (V)	09 October 2013
Overweight (V)	Underweight (V)	19 August 2014
Underweight (V)	Neutral (V)	18 January 2015
Target Price	Value	Date
Price 1	23.90	23 May 2012
Price 2	23.30	09 August 2012
Price 3	24.40	10 October 2012
Price 4	33.80	10 January 2013
Price 5	34.80	22 January 2013
Price 6	43.00	20 March 2013
Price 7	62.00	10 June 2013
Price 8	40.50	09 July 2013
Price 9	39.00	28 July 2013
Price 10	80.00	09 October 2013
Price 11	85.00	02 March 2014
Price 12	65.00	23 April 2014
Price 13	30.00	19 August 2014
Price 14	17.00	27 October 2014
Price 15	24.00	11 February 2015

Source: HSBC

## HSBC & Analyst disclosures

### Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
BIOSTIME INTERNATIONAL	1112.HK	29.85	25-Mar-2015	6, 7

Source: HSBC

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