

12 March 2015

**Jiangnan ( 1366 HK )**
**Strong Buy**
**Sector: Industrial**

## Aimed to Involve More EPC Projects

Jiangnan is principally engaged in manufacture of wires and cables for power transmission, distribution systems and electrical equipment in PRC.

### Research Analyst

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### Investment Highlights :

- ✧ **Stable growth despite copper price dropped in FY14.** Jiangnan reported FY14 results with revenue up 26% to RMB\$8,155mn y-o-y mainly contributed by the full year effect of the acquisition of Jiangsu Zhongmei in July 2013 as well as taking up market shares of smaller peers in PRC. GPM maintain stable at 15.6%. Net profit increased by 24% to RMB\$626mn y-o-y, beating our estimates by 2.0%.
- ✧ **Focus more on EPC projects.** We are positive to hear that the company is going to put more resources and efforts onto engineering design, procurement, and construction (EPC) projects. Such mentality change is very important, as we believed that EPC projects require more skillset and is getting closer toward end-customers throughout the value chain. While it is still an early stage of such transformation, we expect Jiangnan will consider acquiring downstream EPC company or energy management system company to enhance its own competitive advantage.
- ✧ **Expansions in overseas markets.** Jiangnan has been making every effort to develop overseas market with current revenue contributed by overseas markets only accounted for 4.4%. We expect Jiangnan will be expanding its foothold to Southeast Asia as well as setting up sales network, with an aim to double its overseas revenue contribution within 3 years.
- ✧ **Maintain Strong Buy rating with target price HK\$2.52.** We revise our FY15E/16E/17E estimates of net profit growth to 20.7%/11.5%/10.2%, representing RMB755mn / RMB843mn / RMB929mn, respectively. Jiangnan trade at 5.64x FY15E P/E. we maintain our target price at HK\$2.52, or 11.3x FY15E PE. We believe any evidences that could prove Jiangnan has the ability to become an EPC player or made a breakthrough in overseas markets could become a strong re-rating catalyst in the future.

- ✧ **Risk Disclosure :** Downturn in PRC economy, copper price drop sharply

### Financial Data

Unit : Million (RMB)	FY2014	FY2015E	FY2016E	FY2017E
Revenue	8,155	9,382	10,614	11,581
YoY (%)	25.9%	15.1%	13.1%	9.1%
Net Profit to com. Shareholder	626	755	843	929
YoY (%)	20.8%	20.7%	11.5%	10.2%
GPM (%)	15.6%	15.6%	15.6%	15.6%
ROE (%)	19.4%	19.9%	19.0%	18.1%
EPS (RMB cent)	0.20	0.24	0.27	0.29
P/E (x)	6.72	5.57	4.99	4.53
P/B (x)	1.30	1.11	0.95	0.82

Source: CIS(HK), Bloomberg, FX rate: RMB1.23=HK\$1.00

**6 - 12m TP : HK\$ 2.52 (+62.6%)**

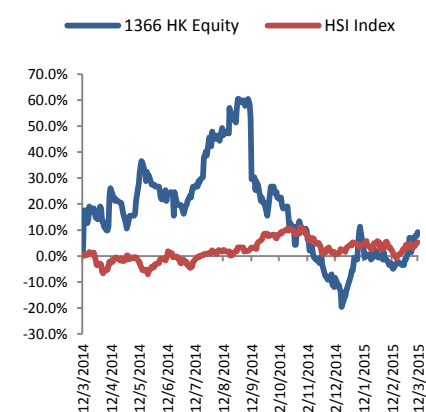
Current Price : HK\$ 1.55

Change of Rating : Unchanged

### Basic Information

Total no. of shares	3,381mn
Free Floats	41.52%
Market Cap	HK\$5,240mn
Trading Volume	8,269,848
Trading Turnover	11,623,063

### Share Price Performance



### Related Research Reports

**<The Fast Growing Cable System Supplier>** Initiation Report on 9Oct14

Figure 1 : Financial Data and Forecast

Income Statement (RMB mn)						Ratio Analysis					
	FY2013	FY2014	FY2015E	FY2016E	FY2017E		FY2013	FY2014	FY2015E	FY2016E	FY2017E
<b>Total Revenue</b>	<b>6,477</b>	<b>8,155</b>	<b>9,382</b>	<b>10,614</b>	<b>11,581</b>	<b>Profitability</b>					
power cables	4,240	5,416	6,235	7,030	7,659	GPM	15.4%	15.6%	15.6%	15.6%	15.6%
wires and cables for electrical eqp	1,514	1,593	1,778	2,027	2,219	OPM	12.4%	12.3%	12.1%	12.1%	12.2%
bare wires	348	464	563	643	704	PBT Margin	9.3%	9.3%	9.7%	9.6%	9.7%
rubber cables	376	682	806	914	999	NPM	7.8%	7.7%	8.1%	7.9%	8.0%
Cost of sales	(5,477)	(6,883)	(7,917)	(8,961)	(9,772)	ROA	6.7%	7.2%	7.5%	7.1%	7.2%
Gross profit	1,000	1,271	1,465	1,653	1,808	ROE	22.0%	19.4%	19.9%	19.0%	18.1%
SG&A expense	(243)	(283)	(331)	(380)	(408)	<b>Liquidity &amp; Solvency</b>					
Finance cost	(195)	(242)	(225)	(265)	(290)	Current Ratio	1.3	1.4	1.5	1.5	1.6
Other items	43	12	4	10	12	Quick Ratio	0.9	1.0	1.1	1.1	1.2
<b>Profit before tax</b>	<b>605</b>	<b>758</b>	<b>913</b>	<b>1,017</b>	<b>1,123</b>	Cash Ratio	0.5	0.5	0.6	0.7	0.7
Associates	-	-	-	-	-	Total debt to equity	2.3	1.7	1.7	1.7	1.5
Income tax expense	(102)	(132)	(157)	(175)	(194)	Net debt to equity	19%	Net Cash	Net Cash	Net Cash	Net Cash
Minority interest	-	-	-	-	-	<b>Performance</b>					
Others	0	0	0	0	0	AR days	117	113	113	113	113
<b>Net Profit</b>	<b>504</b>	<b>626</b>	<b>755</b>	<b>843</b>	<b>929</b>	Inventories days	75	92	100	97	102
<b>Basic EPS (RMB cents)</b>	<b>0.16</b>	<b>0.20</b>	<b>0.24</b>	<b>0.27</b>	<b>0.29</b>	AP days	121	123	123	127	124
No. of shares outstanding (mn)	3,077	3,166	3,166	3,166	3,166	Cash conversion cycle	72	82	90	83	91
<b>Growth y-o-y</b>						ROE	22.0%	19.4%	19.9%	19.0%	18.1%
Revenue	20.9%	25.9%	15.1%	13.1%	9.1%	Net Profit Margin	7.77%	7.68%	8.05%	7.94%	8.02%
Net Profit	33.9%	24.3%	20.7%	11.5%	10.2%	Asset Turnover	0.86	0.94	0.93	0.90	0.89
Basic EPS	25.0%	20.8%	20.7%	11.5%	10.2%	Leverage Ratio	3.31	2.70	2.67	2.67	2.53

Balance Sheet (RMB mn)						Cash Flow (RMB mn)					
	FY2013	FY2014	FY2015E	FY2016E	FY2017E		FY2013	FY2014E	FY2015E	FY2016E	FY2017E
PPE	633	602	624	614	599	Profit before tax	605	758	913	1,017	1,123
Land use rights	208	204	206	202	197	Interest income	(21)	(58)	(54)	(60)	(72)
Others	56	64	65	65	65	Finance cost	195	242	225	265	290
<b>Total Non-Current Assets</b>	<b>896</b>	<b>870</b>	<b>895</b>	<b>880</b>	<b>862</b>	Depreciation of PPE	48	50	58	61	64
Inventories	1,842	2,169	2,170	2,593	2,869	Others	(30)	6	12	10	11
Trade and bills receivables	2,328	2,709	3,101	3,471	3,699	Changes in working capital	(20)	(493)	38	(432)	(521)
Pledged bank deposits	808	1,305	1,367	1,037	1,560	Income tax paid	(78)	(101)	(120)	(133)	(148)
Cash at bank and on hand	1,683	1,666	2,608	3,835	3,973	<b>Net operating cash flows</b>	<b>700</b>	<b>404</b>	<b>1,073</b>	<b>727</b>	<b>747</b>
Others	-	-	-	-	-	Purchase of PPE	(22)	(60)	(40)	(50)	(50)
<b>Total Current Assets</b>	<b>6,661</b>	<b>7,848</b>	<b>9,246</b>	<b>10,937</b>	<b>12,101</b>	Acquisition of subsidiaries	(387)	0	0	0	0
Trade payables	2,223	2,410	2,926	3,310	3,330	Bank deposits pledged - Net	104	(497)	(62)	330	(523)
Bank borrowings	2,922	2,922	3,254	3,890	4,303	Interest received	21	58	54	60	72
Tax payable	54	78	91	112	126	Others	(20)	0	(0)	(0)	0
Others	4	4	0	0	0	<b>Net investing cash flows</b>	<b>(305)</b>	<b>(498)</b>	<b>(48)</b>	<b>340</b>	<b>(501)</b>
<b>Total Current Liabilities</b>	<b>5,203</b>	<b>5,415</b>	<b>6,271</b>	<b>7,312</b>	<b>7,759</b>	Interest paid	(201)	(242)	(225)	(265)	(290)
Long-term bank borrowings	-	-	-	-	-	Dividends paid	(88)	(161)	(189)	(211)	(232)
Deferred tax liabilities	64	62	64	65	66	Bank borrowings - Net	452	0	332	635	413
Others	4	11	9	12	12	Repayment of bills payable	0	0	0	0	0
<b>Total Non-Current Liabilities</b>	<b>68</b>	<b>73</b>	<b>73</b>	<b>77</b>	<b>78</b>	Proceeds on issue of shares	0	481	0	0	0
Share capital	25	27	27	27	27	Others	2	0	0	(0)	0
Total reserve	2,261	3,203	3,769	4,401	5,098	<b>Net financing activities cash flow</b>	<b>166</b>	<b>78</b>	<b>(82)</b>	<b>159</b>	<b>(109)</b>
<b>Total equity</b>	<b>2,286</b>	<b>3,230</b>	<b>3,796</b>	<b>4,429</b>	<b>5,125</b>	Net (decrease) / increase in cash	560	(16)	942	1,227	137
						Exchange gains/(losses)	(16)	0	0	0	0
						Cash at beginning of year	1,138	1,683	1,666	2,608	3,835
						Cash at end of year	1,683	1,666	2,608	3,835	3,973

Source: CIS(HK) estimate

**Disclaimer**

Investment Recommendation System

Company Rating:

Strong Buy: Expecting a relative return of over 20% against Hang Seng Index in coming 6-12months

Buy: Expecting a relative return of 10-20% against Hang Seng Index in coming 6-12months

Hold: Expecting a relative return of  $\pm 10\%$  against Hang Seng Index in coming 6-12months

Avoid: Expecting a relative return of -10% or less against Hang Seng Index in coming 6-12months

Sector Rating

Outperform: Expecting a relative return of over 5% against Hang Seng Index in coming 6-12months

Neutral: Expecting a relative return of over  $\pm 5\%$  against Hang Seng Index in coming 6-12months

Underperform: Expecting a relative return of -5% or less against Hang Seng Index in coming 6-12months

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