



## Company Report: Haier Electronics Group (01169 HK)

公司报告：海尔电器 (01169 HK)

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# Sales Trend Remains Strong, Maintain “Buy”

销售势头保持强劲，维持“买入”

- The home appliances market continued its decent performance in May.**  
Home appliances sales in terms of total retail sales of consumer goods increased by 13.6% YoY. According to China Market Monitor (“CMM”), the total home appliances market in China, including 3C products, rose by 7.7% in May. Broken down by product, air conditioner sales were still strong and increased by 29.2% YoY, however, sales of washing machines and refrigerators experienced a slight setback, down 3.0% YoY and 1.5% YoY, respectively.
- Haier products outperformed the market.** According to CMM, in May, retail sales value of Haier branded air conditioners, washing machines and refrigerators increased by 36.2% YoY, 3.7% YoY and 5.9% YoY, respectively. Despite this, the growth rate was slower than that in April, market share of the three categories improved by 0.6 ppt YoY, 2.0 ppts YoY and 2.1 ppts YoY, respectively, showing the Company’s improving competitiveness.
- Reiterate investment rating as “Buy” and revise up TP to HK\$21.84.**  
We believe that the premiumisation strategy, as well as the Company’s sales channel reform, will help increase ASP and improve profitability. In addition, stabilization of raw material prices is expected to ease pressure on costs. New TP represents 16.0x/14.5x/12.9x 2017/2018/2019 PER, respectively.
- 家电市场销售5月延续靓丽表现。**社会消费品零售总额口径下，家电销售同比上升13.6%。根据中怡康数据，5月中国包括3C产品的家电市场总额同比上升7.7%。分品类，空调销售仍然强劲，同比增长29.2%。洗衣机和冰箱则稍有回落，同比分别小幅下降3.0%和1.5%。
- 海尔产品跑赢市场。**根据中怡康数据，5月海尔品牌空调、洗衣机和冰箱销售额分别同比上升36.2%、3.7%和5.9%。尽管销售增速不如4月，但三大品类的市场份额分别同比提升了0.6、2.0和2.1个百分点，显示公司竞争力增强。
- 重申投资评级为“买入”，提高目标价至21.84港元。**我们相信公司高端化策略以及销售渠道改革会帮助提升销售价格并改善利润率。此外，原材料价格的企稳也能缓解成本压力。新目标价相当于16.0倍/14.5倍/12.9倍2017年/2018年/2019年市盈率。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**HK\$21.84**

Revised from 原目标价:

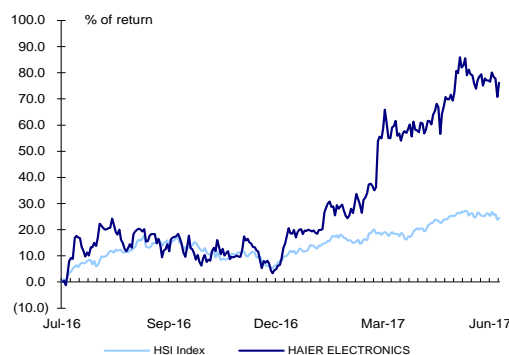
HK\$19.20

Share price 股价:

HK\$20.300

### 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 %	(2.0)	11.6	78.3
Rel. % to HS index 相对恒指变动 %	0.0	6.7	54.1
Avg. share price(HK\$) 平均股价 (港元)	20.3	19.3	14.9

Source: the Company, 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 (%)
2015A	62,826	2,703	0.981	6.4	17.5	5.388	3.2	0.102	0.6	19.7
2016A	63,855	2,786	1.002	2.1	18.3	6.308	2.9	0.153	0.8	16.5
2017F	74,265	3,314	1.192	19.0	15.0	7.370	2.4	0.238	1.3	17.0
2018F	84,232	3,657	1.315	10.3	13.6	8.323	2.2	0.329	1.8	16.3
2019F	94,935	4,104	1.476	12.2	12.1	9.319	1.9	0.443	2.4	16.2

Shares in issue (m) 总股数 (m)	2,793.0	Major shareholder 大股东	Haier Group Corp. 55.9%
Market cap. (HK\$ m) 市值 (HK\$ m)	56,697.9	Free float (%) 自由流通比率 (%)	43.8
3 month average vol. 3 个月平均成交量 ('000)	4,817.6	FY17 Net gearing (%) 17 年净负债/股东资金 (%)	Net cash
52 Weeks high/low (HK\$) 52 周高/低	21.269 / 11.204	FY17 Est. NAV (HK\$) 17 年每股估值 (港元)	22.0

Source: the Company, Guotai Junan International.

**Home appliances retail sales were still strong in May.** In terms of total retail sales of consumer goods, home appliances and AV equipment sales increased by 13.6% YoY, the highest growth rate since Nov. 2016. According to China Market Monitor ("CMM"), the total home appliances market in China, including 3C products, rose by 7.7% in May. Broken down by product, air conditioner sales continued to outperform washing machines and refrigerators. Total retail sales volume and sales value in the China market grew by 20.6% YoY and 29.2% YoY. However, sales of washing machines and refrigerators experienced a little setback, down 3.0% YoY and 1.5% YoY. In terms of the Haier brand, retail sales value of air conditioners, washing machines and refrigerators increased by 36.2% YoY, 3.7% YoY and 5.9% YoY, respectively, outpacing the market and increasing its market share by 0.6 ppt YoY, 2.0 ppts YoY and 2.1 ppts YoY, respectively.

**The Company recorded better-than-expected 1Q17 results.** Sales figures of washing machines, water heaters, channel services and logistics increased YoY by 22.2%, 13.7%, 21.8% and 25.2%, respectively. Total revenue grew by 21.9% and net profit reached HK\$683 million, up 20.5%. Bottom-line growth exceeded our forecasts and we believe that the strong growth momentum will continue in 2Q16.

**Table-1: Haier Electronics' Quarterly Segment Breakdown**

RMB mn	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Washing machine	2,846	4,543	4,183	3,458	2,843	4,635	4,984	4,225
YoY	4.1%	1.5%	-6.7%	2.3%	-0.1%	2.0%	19.2%	22.2%
QoQ	-15.8%	59.6%	-7.9%	-17.3%	-17.8%	63.0%	7.5%	-15.2%
Water heater	1,059	1,212	1,207	1,222	1,124	1,317	1,695	1,390
YoY	1.1%	-1.6%	-0.4%	8.2%	6.1%	8.7%	40.4%	13.7%
QoQ	-6.2%	14.4%	-0.4%	1.2%	-8.1%	17.3%	28.7%	-18.0%
Channel services	13,912	14,583	14,148	11,758	13,338	15,557	16,905	14,321
YoY	-12.5%	-13.4%	-2.3%	-23.1%	-4.1%	6.7%	19.5%	21.8%
QoQ	-9.0%	4.8%	-3.0%	-16.9%	0.7%	16.6%	8.7%	-15.3%
Logistics				1,549				1,940
YoY								21.8%
QoQ								
Total	17,817	20,338	19,539	17,927	17,305	21,509	23,585	21,876
YoY	-9.5%	-9.8%	-3.1%	-9.4%	-2.9%	5.8%	20.7%	33.1%
QoQ	-10.0%	14.1%	-3.9%	-8.3%	-3.5%	24.3%	9.6%	-7.2%
Sales to external customers	14,936	16,186	15,308	14,545	14,248	17,060	18,002	17,730
YoY	-11.8%	-12.3%	-2.8%	-11.3%	-4.6%	5.4%	17.6%	21.9%
QoQ	-8.9%	8.4%	-5.4%	-5.0%	-2.0%	19.7%	5.5%	-1.5%

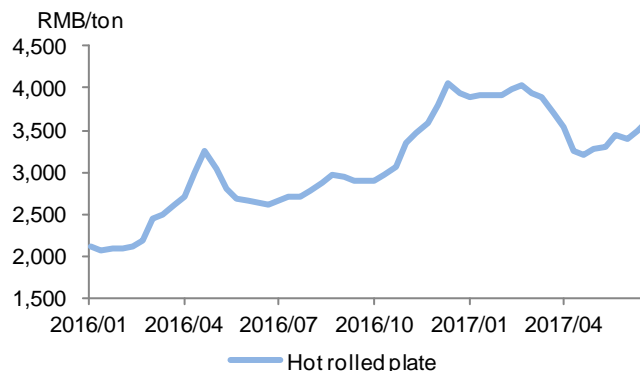
Source: the Company, Guotai Junan International.

**Product mix upgrades in washing machines will support sales value.** According to CMM, total domestic washing machine sales value was flat YTD, however, product performance was mixed, alongside different ASPs. Breakdown by ASP, sales volume of products with ASP below RMB3,300 all recorded YoY decline in Jan.-May. 2017, but those with ASP over RMB3,300 all achieved positive growth, of which ASP between RMB3,800 and RMB5,300 were the most popular models with YoY growth between 14.6% and 22.1%. However, total market share of washing machines with ASP over RMB3,300 was only around 38% in terms of sales volume during the period, showing large potential for consumption upgrade. On the other hand, Haier is doing well in its product upgrades, leveraging on the brand of Haier and Casarte. During Jan.-May. 2017, approximately 41% of sales volume and 67% of sales value were contributed from products with ASP over RMB3,300. In addition, at the top level where ASP reaches RMB6,300 and above, Haier captures around 40% of total market share, way ahead of all the other players. We expect the Company to continue launching high-end models and support further growth.

**Sales channel reform is expected to improve efficiency.** Previously, sales channels of Haier products were co-managed by Qingdao Haier (600690 SH) and Hair Electronic, which both belong to Haier Group; however, the operating efficiency was not high and the Company was slow in responding to the market due to overlapping duties and unclear division of responsibility. The problem was solved in 2016 and Haier Electronics has integrated its different sales channels, abandoning some low-profit business lines. We expect that the Company will benefit from the sales system reform and gain higher market share.

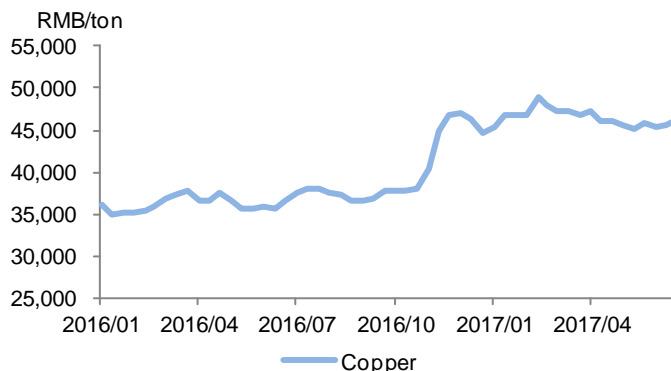
**Raw material prices stabilized in 2Q17.** Raw material prices, including steel, cooper and alumimium, since 2H16 has consistently recorded a sharp rising trend. The prices reached a peak in 1Q17, which put pressure on home appliances manufacturers and eroded gross profit. However, we have seen that raw material prices started to stabilize in 2Q17 and the growth trend has not been that strong since that point. Considering higher APS products were launched this year, we believe that a rise in negative impact of raw material prices will be limited.

**Figure-1: Market Price of Hot Rolled Plate**



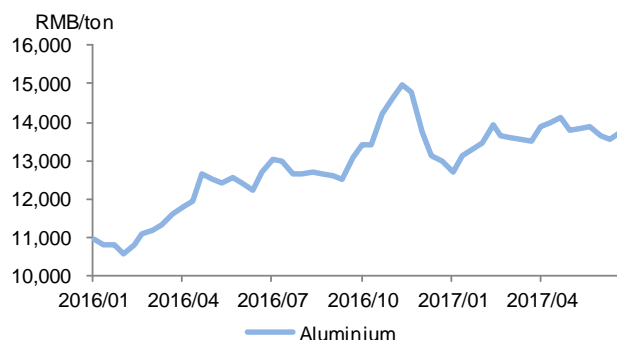
Source: National Bureau of Statistics of China.

**Figure-2: Market Price of Copper**



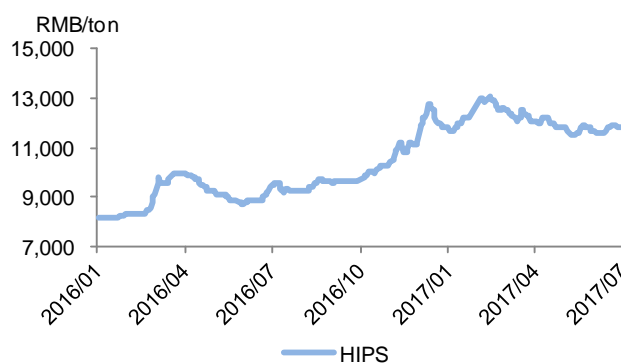
Source: National Bureau of Statistics of China.

**Figure-3: Market Price of Aluminum**



Source: National Bureau of Statistics of China.

**Figure-4: Market Price of HIPS**



Source: Wind.

**Revise up 2017-2018 shareholders' profit forecasts by 6.6% and 11.5% in 2017 and 2018, respectively.** Based on strong growth and product mix upgrades, we revise up our 2017 washing machine forecasts by 3.6%. Also, overall strong home appliances consumption and Haier brand product sales, especially air conditioner sales, have been better than our previous expectations and thus we raise segment sales forecast by 2.2% in 2017. We believe gross margin can be supported by the premiumisation strategy and stabilized raw material costs.

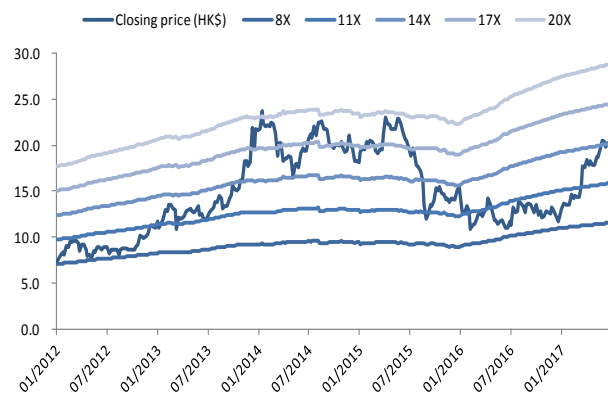
**Table-2: Haier Electronics' Earnings Estimate Revisions**

RMB million	New			Old			Change		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Total revenue	74,265	84,232	94,935	72,796	82,646	93,240	2.0%	1.9%	1.8%
-Washing machine	18,309	19,773	20,960	17,672	19,085	20,231	3.6%	3.6%	3.6%
-Water heater	6,001	6,601	7,129	6,001	6,601	7,129	0.0%	0.0%	0.0%
-Channel services	58,975	66,266	74,403	57,708	64,899	72,940	2.2%	2.1%	2.0%
- Logistics	9,982	12,477	14,973	9,982	12,477	14,973	0.0%	0.0%	0.0%
-Intersegment sales	(19,001)	(20,886)	(22,531)	(18,567)	(20,417)	(22,033)	2.3%	2.3%	2.3%
Gross profit	13,096	14,816	16,590	12,700	14,378	16,110	3.1%	3.0%	3.0%
Operating profit	4,090	4,512	5,060	3,773	4,272	4,790	8.4%	5.6%	5.6%
Shareholders' profit	3,314	3,657	4,104	3,065	3,465	3,887	8.1%	5.5%	5.6%
EPS (RMB)	1.192	1.315	1.476	1.102	1.246	1.398	8.2%	5.6%	5.6%
Gross margin	17.6%	17.6%	17.5%	17.4%	17.4%	17.3%	0.2 ppt	0.2 ppt	0.2 ppt
Operating margin	5.5%	5.4%	5.3%	5.2%	5.2%	5.1%	0.3 ppt	0.2 ppt	0.2 ppt
Net margin	4.5%	4.3%	4.3%	4.2%	4.2%	4.2%	0.3 ppt	0.1 ppt	0.1 ppt

Source: Guotai Junan International.

## Valuation

We reiterate Haier Electronics' investment rating as "Buy" and raise target price to HK\$21.84. New TP represents 16.0x/14.5x/12.9x 2017/2018/2019 PER, respectively. We are optimistic about the Company based on the competitiveness of its strong products in the China market and benefits brought by sales channel reform. The main risks are slower-than-expected home appliances sales growth in 2H17 and higher raw material prices.

**Figure-5: Historical Forward PE Band of the Company**


Source: Bloomberg, Guotai Junan International.

**Figure-6: Historical Forward PB Band of the Company**


Source: Bloomberg, Guotai Junan International.

**Table-3: Peers Comparison**

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	Market Cap
				16A	17F	18F	19F	16A	17F	18F	19F			
HK - Listed household appliances company														
Haier Electronics Group Co	1169 HK	HKD	20.30	17.3	15.6	13.7	12.1	2.9	2.4	2.1	1.9	16.0	1.6	56,698
Skyworth Digital Hldgs Ltd	751 HK	HKD	4.60	10.3	7.5	6.5	6.5	0.9	0.8	0.7	0.7	11.4	5.0	13,996
Hisense Kelon Elec Hld-H	921 HK	HKD	12.06	12.9	9.2	8.9	7.9	3.0	2.4	2.1	2.0	23.9	4.8	22,379
Tcl Multimedia Technology	1070 HK	HKD	3.95	33.5	17.8	14.6	11.5	1.1	1.0	1.0	0.9	6.8	1.0	6,886
Simple Average				18.5	12.5	10.9	9.5	2.0	1.6	1.5	1.4	14.5	3.1	
Weighted Average				16.5	13.2	11.7	10.4	2.5	2.1	1.8	1.7	16.5	2.8	
HK - Listed logistics company														
Sinotrans Limited-H	598 HK	HKD	4.04	9.9	10.0	9.5	8.8	1.0	0.9	0.9	0.8	9.6	3.2	18,610
Kerry Logistics Network Ltd	636 HK	HKD	11.18	10.1	14.4	13.5	13.1	1.1	1.1	1.1	1.0	8.2	1.9	18,959
Shenzhen Intl Holdings	152 HK	HKD	13.80	12.5	12.1	11.2	10.8	1.4	1.3	1.2	1.1	11.6	3.8	27,853
Guangdong Yueyun Transport-H	3399 HK	HKD	5.28	10.3	9.1	7.6	6.5	1.8	n.a.	n.a.	n.a.	18.9	4.1	4,223
Simple Average				10.7	11.4	10.5	9.8	1.4	1.1	1.0	1.0	12.1	3.3	
Weighted Average				11.0	12.0	11.2	10.6	1.3	1.1	1.1	1.0	10.6	3.1	
PRC - Listed household appliances company														
Midea Group Co Ltd-A	000333 CH	CNY	42.60	18.6	16.4	14.1	12.5	4.5	3.8	3.2	2.8	24.0	3.1	317,347
Gree Electric Appliances I-A	000651 CH	CNY	39.20	15.3	13.1	11.8	10.7	4.4	3.9	3.4	2.9	29.7	5.4	270,695
Qingdao Haier Co Ltd-A	600690 CH	CNY	14.22	17.2	13.9	12.2	10.4	3.3	2.8	2.3	2.0	20.5	2.4	99,533
Tcl Corp-A	000100 CH	CNY	3.43	26.1	13.2	12.0	n.a.	1.8	1.5	1.4	n.a.	12.0	2.3	48,089
Sichuan Changhong Electric-A	600839 CH	CNY	3.65	30.4	40.6	36.5	n.a.	1.3	1.3	1.3	n.a.	3.6	0.8	19,341
Hisense Electric Co Ltd-A	600060 CH	CNY	14.85	11.0	10.4	9.1	8.1	1.5	1.3	1.2	1.0	12.8	2.9	22,305
Hangzhou Robam Appliances-A	002508 CH	CNY	41.65	32.4	24.1	18.7	14.6	9.6	7.2	5.6	4.5	31.6	1.6	45,374
Hang Zhou Great Star Indus-A	002444 CH	CNY	15.82	27.3	24.0	20.2	18.5	3.0	2.5	2.3	2.1	12.1	1.0	19,526
Shenzhen Mtc Co Ltd -A	002429 CH	CNY	3.10	33.7	27.7	23.8	21.1	1.8	1.7	1.6	1.5	7.2	1.1	16,109
Joyoung Co Ltd -A	002242 CH	CNY	18.93	20.8	18.4	15.8	13.2	4.2	3.7	3.4	3.0	22.9	4.2	16,678
Wuxi Little Swan Co-A	000418 CH	CNY	45.41	24.4	19.9	16.4	14.1	4.8	4.0	3.4	2.8	21.1	2.5	29,506
Whirlpool China Co Ltd-A	600983 CH	CNY	10.71	21.9	17.9	15.1	10.9	1.9	1.8	1.6	n.a.	10.4	0.8	9,423
Hisense Kelon Electrical-A	000921 CH	CNY	16.24	20.3	12.1	13.6	11.7	4.5	3.6	3.1	2.7	23.4	2.9	22,379
Simple Average				23.0	19.4	16.9	13.3	3.6	3.0	2.6	2.5	17.8	2.4	
Weighted Average				19.4	16.2	14.1	12.0	4.2	3.6	3.0	2.7	23.5	3.4	
Japan - Listed household appliances company														
Sony Corp	6758 JP	JPY	4,259.00	35.7	73.3	18.6	16.7	2.2	2.2	1.9	1.8	10.8	0.8	371,117
Panasonic Corp	6752 JP	JPY	1,504.50	21.1	23.4	19.0	15.0	2.4	2.2	2.0	1.8	10.9	1.7	254,421
Casio Computer Co Ltd	6952 JP	JPY	1,711.00	14.3	23.5	17.0	15.1	2.2	2.1	2.0	1.9	12.1	2.4	30,552
Nikon Corp	7731 JP	JPY	1,849.00	24.5	184.7	21.4	17.0	1.4	1.4	1.3	1.2	6.2	1.4	51,098
Rinnai Corp	5947 JP	JPY	10,160.00	23.3	23.7	22.0	20.5	2.1	1.9	1.8	1.7	8.6	0.9	36,572
Sharp Corp	6753 JP	JPY	407.00	n.a.	n.a.	48.0	45.7	(2.6)	29.3	7.5	6.4	13.4	0.0	139,815
Fujitsu General Ltd	6755 JP	JPY	2,623.00	15.7	27.4	16.4	14.6	3.2	3.0	2.6	2.3	16.6	1.0	19,760
Alpine Electronics Inc	6816 JP	JPY	1,723.00	11.1	15.3	59.6	20.9	0.8	0.8	0.8	0.8	1.6	1.7	8,289
Pioneer Corp	6773 JP	JPY	216.00	108.5	n.a.	24.3	15.6	0.9	1.0	0.9	0.9	3.7	0.4	5,543
Simple Average				31.8	53.0	27.4	20.1	1.4	4.9	2.3	2.1	9.3	1.1	
Weighted Average				28.5	58.1	23.8	20.8	1.5	6.3	2.8	2.5	10.9	1.0	
Other Regions - Listed household appliances company														
Whirlpool Corp	WHR US	USD	193.21	16.6	12.8	11.1	10.0	3.0	2.9	2.6	n.a.	23.9	2.3	111,608
Electrolux Ab-Ser B	ELUXB SS	SEK	279.00	17.8	16.0	14.8	13.7	4.5	4.0	3.4	3.0	25.4	3.0	79,511
Lg Electronics Inc	066570 KS	KRW	77,100.00	182.7	7.8	8.3	7.9	1.1	1.0	0.9	0.8	11.3	0.6	85,067
Seb Sa	SK FP	EUR	156.10	30.0	20.1	17.8	15.6	4.7	4.0	3.4	2.8	20.4	1.6	69,431
De'Longhi Spa	DLG IM	EUR	26.46	23.6	22.3	20.2	18.4	3.9	3.7	3.3	3.0	17.1	2.2	35,071
Arcelik As	ARCLK TI	TRY	25.40	13.2	14.9	12.8	11.4	2.9	2.6	2.2	1.9	19.7	3.2	37,047
Helen Of Troy Ltd	HELE US	USD	91.70	25.6	17.9	13.8	12.9	2.7	2.4	n.a.	n.a.	n.a.	n.a.	19,496
Metall Zug Ag-Shs B-Reg	METN SW	CHF	4,204.00	22.0	20.4	19.2	19.1	2.1	2.0	1.9	1.8	10.0	1.9	15,072
Irobot Corp	IRBT US	USD	82.18	54.4	44.4	30.6	n.a.	5.8	5.2	4.6	n.a.	13.2	n.a.	17,595
Simple Average				42.9	19.6	16.5	13.6	3.4	3.1	2.8	2.2	17.6	2.1	
Weighted Average				51.1	16.0	14.1	12.3	3.3	3.0	2.6	2.2	19.5	2.1	

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement					
Yr end 31 Dec (RMB m)	2015A	2016A	2017F	2018F	2019F
Turnover	62,826	63,855	74,265	84,232	94,935
Cost of sales	(52,833)	(52,783)	(61,169)	(69,416)	(78,345)
Gross Profit	9,993	11,072	13,096	14,816	16,590
Other income & gains	539	493	325	347	371
Selling & distribution expenses	(5,348)	(6,091)	(6,966)	(7,935)	(8,895)
Administrative expenses	(1,973)	(2,032)	(2,302)	(2,653)	(2,943)
Other expenses & losses	(72)	(63)	(63)	(63)	(63)
Profit of JVs	12	(27)	10	11	12
Finance income	263	186	199	215	240
Finance costs	(71)	(43)	(42)	(42)	(42)
PBT	3,344	3,494	4,257	4,697	5,270
Tax	(609)	(684)	(833)	(919)	(1,031)
Profit after tax	2,734	2,811	3,424	3,778	4,239
Non-controlling shareholders	(32)	(24)	(110)	(121)	(136)
Shareholders' profit	2,703	2,786	3,314	3,657	4,104
Core net profit	2,481	2,786	3,314	3,657	4,104
Basic EPS	0.981	1.002	1.192	1.315	1.476

Balance Sheet					
Yr end 31 Dec (RMB m)	2015A	2016A	2017F	2018F	2019F
PPE & other tangible assets	4,168	4,677	6,027	6,899	7,632
Intangible assets & Goodwill	531	524	514	505	496
Available-for-sale investments	1,291	1,401	1,401	1,401	1,401
Deferred tax assets	621	712	764	822	888
Others	397	337	344	396	455
Non-Current assets	7,010	7,652	9,050	10,023	10,873
Inventories	4,399	5,183	5,367	6,486	6,223
Receivables	8,335	10,186	10,277	12,665	13,063
Pledged deposits	32	71	78	86	95
Cash & cash equivalents	10,244	12,596	13,443	14,561	16,257
Others	277	460	0	0	0
Current assets	23,288	28,497	29,166	33,798	35,637
Total assets	30,297	36,149	38,216	43,821	46,510
Payables & Accruals	12,307	15,430	15,173	17,925	17,627
Interest-bearing borrowings	86	73	73	73	73
Provisions & other liabilities	608	589	580	602	626
CEB	0	1,223	0	0	0
Current liabilities	13,002	17,316	15,826	18,599	18,326
Deferred income	72	89	89	89	89
Deferred tax liabilities	21	54	54	54	54
Provisions & other liabilities	312	313	352	364	379
Non-current liabilities	1,573	463	591	603	619
Total liabilities	14,575	17,779	16,417	19,202	18,945
Total Equity	15,722	18,370	21,799	24,619	27,565
Shareholders' equity	14,843	17,539	20,491	23,142	25,911
MI's equity	879	831	1,308	1,477	1,654
BPS (RMB)	5.388	6.308	7.370	8.323	9.319

Source: the Company, Guotai Junan International.

Cash Flow Statement					
Yr end 31 Dec (RMB m)	2015A	2016A	2017F	2018F	2019F
PBT	3,344	3,494	4,257	4,697	5,270
Finance costs, net	(193)	(143)	(157)	(173)	(199)
Depreciation & amortisation	247	157	321	390	434
Change in WC	(380)	480	(636)	(799)	(495)
Income tax paid	(582)	(690)	(751)	(900)	(996)
Others	94	297	297	313	338
Operating Cash Flow	2,530	3,594	3,332	3,527	4,353
PPE	(1,007)	(653)	(1,800)	(1,454)	(1,411)
Additions to other assets	(290)	(213)	(213)	(213)	(213)
Change in deposits	543	(39)	(7)	(8)	(9)
Others	(1,619)	(21)	26	26	26
Investing Cash Flow	(2,373)	(926)	(1,994)	(1,648)	(1,607)
Issuance	(76)	0	0	0	0
Net bank loans	(59)	(13)	0	0	0
Net capital contribution	(239)	(334)	(486)	(758)	(1,045)
Others	(28)	(47)	(5)	(5)	(5)
Financing Cash Flow	(402)	(394)	(491)	(762)	(1,049)
Cash at beginning year	10,464	10,244	12,596	13,443	14,561
Net cash increase / (decrease )	4,712	(245)	1,276	1,655	1,873
Effect of FX rate changes	26	78	0	0	0
Cash at end of period	10,244	12,596	13,443	14,561	16,257
Time deposits	0	0	0	0	0
Cash balance for Balance Sheet	10,244	12,596	13,443	14,561	16,257

Key Financial Ratios					
Yr end 31 Dec (RMB m)	2015A	2016A	2017F	2018F	2019F
Growth (%):					
Turnover Growth	(6.4)	1.6	16.3	13.4	12.7
Gross Profit Growth	1.5	10.8	18.3	13.1	12.0
PBT Growth	5.6	4.5	21.8	10.3	12.2
Net Profit Growth	10.5	3.1	19.0	10.3	12.2
EPS growth	6.4	2.1	19.0	10.3	12.2
Profitability:					
Gross margin (%)	15.9	17.3	17.6	17.6	17.5
PBT margin (%)	5.3	5.5	5.7	5.6	5.6
Net profit margin (%)	4.3	4.4	4.5	4.3	4.3
ROE (%)	19.7	16.5	17.0	16.3	16.2
ROA (%)	9.5	8.5	9.2	9.2	9.4
Operating (days):					
Inventory days	27.9	33.1	31.5	31.2	29.6
A/C receivable days	34.3	30.5	29.0	28.4	28.3
A/C payable days	24.9	30.0	28.5	27.1	25.7
Cash conversion cycle	37.3	33.6	32.0	32.5	32.1
Liquidity & Solvency:					
Current ratio (x)	1.8	1.6	1.8	1.8	1.9
Interest cover (x)	47.4	81.2	100.8	112.3	126.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Pay-out ratio (x)	10.4%	15.3%	20.0%	25.0%	30.0%



**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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