

12 December 2017

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维持

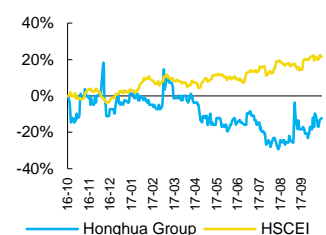
盈利预警

宏华集团(196 HK)

Market Data: 08 December

Closing Price (HK\$)	0.63
Price Target (HK\$)	0.74
HSCEI	11,289
HSCCI	4,220
52-week High/Low (HK\$)	0.60/0.94
Market Cap (US\$m)	432
Market Cap (HK\$m)	3,376
Shares Outstanding (m)	5,355
Exchange Rate (Rmb-HK\$)	1.18

Price Performance Chart:



Source: Bloomberg

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Financial summary and valuation

	2015	2016	2017E	2018E	2019E
Revenue (Rmbm)	4,219	2,344	2,672	4,535	5,679
YoY (%)	-45.99	-44.45	14.01	69.72	25.23
Net income (Rmbm)	-280	-645	-1,155	193	377
YoY (%)	-	-	-	-	95.48
EPS (Rmb)	-0.09	-0.20	-0.28	0.05	0.09
Diluted EPS (Rmb)	-0.09	-0.20	-0.28	0.05	0.09
ROE (%)	-5.74	-14.56	-29.57	4.99	8.93
Debt/asset (%)	63.78	63.76	64.45	65.84	65.55
Dividend Yield (%)	-	-	-	1.33	2.60
PE (x)	-	-	-	11.63	5.94
PB (x)	0.36	0.43	0.60	0.56	0.50
EV/Ebitda (x)	-	-	-	15.38	11.73

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

Last Friday after the market closed, Honghua Group released a profit warning guiding a net loss of c.Rmb1.2bn for 2017 (vs our full-year estimate of -Rmb440m), mainly due to a higher operating loss in the offshore segment and an impairment provision made for assets within the same segment. As such, we lower our diluted EPS from -Rmb0.11 to -Rmb0.28 in 17E, but given the firm's positive growth outlook in 2018-19E, due to the recovery in oil prices and strong potential for gas equipment supply, we maintain our diluted EPS of Rmb0.05 in 18E and Rmb0.09 in 19E (+80% YoY). We revise down our target price from HK\$0.86 to HK\$0.74. With 17% upside, we maintain our Outperform rating.

Disappointing offshore performance. Due to the weak market environment, company indicated that they may generate a lower offshore revenue in 2H17E, comparing Rmb118m in 1H17. As a result, we lower our 17E offshore revenue from Rmb220m to Rmb160m, leading to a gross profit loss of Rmb130m. According to our checks with management, the total impairment provision for offshore segment will be Rmb600-700m in 2H17E, vs total offshore asset of Rmb2.5bn. With limited further downside, we expect the company will highly likely to sell all assets within its offshore segment in December 2017.

Still positive on oil segment recovery. Brent futures stay strong at US\$63/bbl by end-November 2017 as OPEC further extend its production limit plan to end-2018, in line with our expectation. Thus, we maintain our Brent forecast at US\$53/bbl in 17E, US\$56/bbl in 18E, and US\$59/bbl in 19E. With the recovering oil price, we maintain our drilling rigs sales volume forecast of 19/28/33 in 17-19E and expect Honghua's revenue from land drilling rigs to increase to Rmb1.2n in 17E (+3.6% YoY), Rmb2.0bn in 18E (+66.7% YoY), and Rmb2.4bn in 19E (+20% YoY).

Gas shortage opportunities. We believe the ongoing gas shortage, as a result of strong winter heating demand due to coal-to-gas conversions, will lead to a higher gas supply by upstream gas majors till 2020, such as shale gas supply. We expect Honghua's revenue in the domestic shale gas market to grow from Rmb200m in 17E to Rmb900m in 19E, mainly driven by sales of its self-developed 6,000HP electric fracturing pump to large domestic gas companies with lower cost. Company indicated that an additional 2 sets of fracturing pump (total order amount of Rmb240m with GPM over 40%, vs 26% GPM for its components sales in 2016) has been sold during 2H17E.

Maintain Outperform. To reflect the substantial impairment loss within the company's offshore segment in 2H17E, we lower our diluted EPS from -Rmb0.11 to -Rmb0.28 in 17E, but given the firm's positive growth outlook in 2018-19E, due to the recovery in oil prices and strong potential

for gas equipment supply, we maintain our diluted EPS of Rmb0.05 in 18E and Rmb0.09 in 19E (+80% YoY). We revise down our target price from HK\$0.86 to HK\$0.74, representing 13.6x 18E PE. With 17% upside, we maintain our Outperform rating.

上周五，宏华集团公布盈利预警，2017年预计同比增亏100%，相当于超过12亿的亏损（不考虑海工减值，我们此前预计公司全年仅亏损4.4亿），增亏主要因为高于预期的海洋板块经营性亏损，以及对该板块出现了重大减值风险的资产计提了较大金额的减值准备。为反映较大的海洋板块减值拨备，我们将公司17年摊铺EPS由让人民币-0.11元下调至-0.28元。但基于油价复苏及潜在天然气装备需求，我们对于18及19年公司增长仍较为正面，因此我们维持18及19年摊铺EPS预测分别为人民币0.05元及人民币0.09元（同比增长95%）。基于此，我们将公司目标价由港币0.86下调至港币0.74。对应17%的上行空间，我们维持增持评级。

海洋板块令人失望。由于较差的市场环境，公司预计海洋板块17年下半年收入将少于上半年的人民币1.18亿。基于此，我们将公司全年海洋板块收入预测由人民币2.2亿下调至1.6亿，调整后预计去年海洋板块毛利将亏损人民币1.3亿。另外，公司也指出其将在17年下半年计提人民币接近6-7亿的重大资产减值（海洋板块的总资产接近25亿）。基于有限的减值计提下行空间，我们预计公司很有可能将在17年12月前将所有海洋板块资产剥离。

看好公司油头业务持续复苏。由于OPEC如期在11月底宣布冻产至2018年底，国际布伦特油价截止11月底仍维持在63美元/桶。因此，我们维持此前油价预测，并预计2017/2018/2019布伦特油价均价分别为53/56/59美元/桶。随着油价持续回升，我们仍维持陆地钻机销售量未来三年19/28/33台的预测，并预计陆地钻机收入2017/2018/2019年分别为人民币12亿（同比增长3.6%）/20亿（同比增长66.7%）/24亿（同比增长20%）。

天然气供应短缺的潜在受益者。基于2020年前持续推进的“煤改气”政策将会导致冬季供暖用气量持续骤增，我们认为现行较为紧张的气源供应将会促使上游天然气生产商加大天然气产出，例如页岩气的供应。因此，我们预计公司未来三年天然气装备销售收入将从2017年的2亿人民币提升至2019年的9亿人民币，得益于国内上游天然气公司对其自主研发的天然气电驱压裂泵的加速需求。另外，公司指出17年下半年已完成增售两套压裂泵，总计订单额为2.4亿元，毛利率超过40%，远高于公司2016年零部件整体26%的毛利率。

维持增持。为反映潜在较大的17年下半年海洋板块减值拨备，我们将17年摊铺EPS由让人民币-0.11元下调至-0.28元，但我们维持18及19年摊铺EPS预测分别为人民币0.05元及人民币0.09元（同比增长95%）。我们将公司目标价由港币0.86下调至港币0.74，相当于18年13.6倍PE。对应17%的上行空间，我们维持增持评级。

Appendix

Table 1: Consolidated Income Statement

(Rmbm)	2015	2016	2017E	2018E	2019E
Revenues	4,219	2,344	2,672	4,535	5,679
COGS	(3,273)	(2,066)	(2,332)	(3,583)	(4,449)
Gross profit	947	278	340	952	1,231
Other income & gains	68	138	(822)	85	90
Selling and distribution	(473)	(372)	(321)	(340)	(369)
Admin	(584)	(654)	(454)	(422)	(454)
Other operating expenses	0	0	0	0	0
Operating profit	(43)	(610)	(1,257)	275	497
Finance income	83	0	20	60	70
Finance costs	(345)	(130)	(112)	(107)	(113)
P/I of Associate/JV	3	(0)	3	3	3
PBT	(302)	(696)	(1,346)	232	457
Tax	36	69	202	(35)	(69)
PAT	(266)	(627)	(1,144)	197	389
Minority interest	(14)	(18)	(11)	(4)	(12)
Net profit	(280)	(645)	(1,155)	193	377
Basic EPS (HK\$)	(0.09)	(0.20)	(0.28)	0.05	0.09

Source: Company data, SWS Research

Table 2: Consolidated Balance Sheet

(Rmbm)	2015	2016	2017E	2018E	2019E
Current Assets	8,390	6,852	6,172	9,002	9,755
Cash and cash equivalents	1,103	544	1,103	2,806	2,686
Bank deposits	469	560	500	600	700
Trade and other receivables	4,538	3,431	2,405	3,175	3,691
Inventories	2,164	2,116	2,101	2,321	2,554
Other current assets	116	200	63	101	124
Non-Current Assets	4,792	4,416	2,474	3,414	3,865
PP&E	3,139	2,794	192	1,790	2,203
Intangible assets	234	231	10,497	178	168
Other non-current assets	1,419	1,391	4,735	1,446	1,494
Total Assets	13,182	11,268	2,000	12,416	13,620
Current Liabilities	6,002	5,023	2,565	5,374	5,829
Borrowings	2,333	2,213	170	1,800	2,100
Trade and other payables	3,556	2,678	2,162	3,404	3,559
Other current liabilities	113	132	6,765	170	170
Long-term liabilities	2,329	2,407	200	2,030	2,330
Total Liabilities	8,408	7,184	3,732	7,704	8,459
Minority Interests	222	185	377	272	398
Shareholder Equity	4,774	4,083	3,155	4,712	5,161
Share Capital	301	301	3,155	377	377
Reserves	4,251	3,598	10,497	4,064	4,387
Total Liabilities and equity	13,182	11,268	6,172	12,416	13,620

Source: Company data, SWS Research

Table 3: Consolidated Cash Flow Statement

(Rmbm)	2015	2016	2017E	2018E	2019E
Profit before taxation	(302)	(696)	(1,346)	232	457
Plus : Depr. and amortisation	354	295	293	229	187
Finance cost	253	256	112	107	113
Change in working capital	1,524	1,426	0	(842)	(750)
Others	(1,467)	(1,059)	1,042	1,779	21
CF from operating activities	362	222	118	1,504	28
CAPEX	(251)	(135)	219	(218)	(273)
Other CF from investing activities	202	178	(128)	0	10
CF from investing activities	(49)	43	(40)	(218)	(263)
Equity financing	0	0	(168)	0	0
Net change in liabilities	(5,771)	(3,837)	0	(2,172)	(2,072)
Interest paid	(284)	(235)	(2,895)	(107)	(113)
Other CF from financing activities	5,198	3,388	(112)	2,082	2,299
CF from financing activities	(857)	(684)	2,785	(197)	114
Net cash flow	(544)	(419)	(222)	1,089	(120)

Source: Company data, SWS Research

Table 4: Key Financial Ratios

(Rmbm)	2015	2016	2017E	2018E	2019E
Ratios per share (yuan)					
Earnings per share	-0.09	-0.20	-0.28	0.05	0.09
Diluted EPS	-0.09	-0.20	-0.28	0.05	0.09
Operating CF per share	0.11	0.07	0.05	0.37	0.01
Dividend per share	0.00	0.00	0.00	0.01	0.03
Net assets per share	1.50	1.28	0.92	1.16	1.27
Key Operating Ratios (%)					
ROIC	-2.86	-7.24	-14.34	2.23	4.04
ROE	-5.74	-14.56	-29.57	4.21	7.64
EBITDA Margin	7.38	-13.40	-36.07	11.11	12.04
EBIT Margin	-1.01	-26.01	-47.04	6.07	8.75
Gross profit margin	22.43	11.85	12.72	20.99	21.67
Growth rate of Revenue(YoY)	-45.99	-44.45	14.01	66.00	25.23
Growth rate of Profit(YoY)	-41.91	-70.67	22.45	173.56	29.25
Debt-to-asset ratio	63.78	63.76	64.45	62.05	62.11
Turnover rate of net assets	0.88	0.53	0.68	0.99	1.15
Turnover rate of total assets	0.32	0.19	0.25	0.38	0.44
Effective tax rate (%)	11.88	9.90	15.00	15.00	15.00
Dividend yield (%)	-	-	-	1.33	2.60
Valuation Ratios (X)					
P/E	-6.23	-2.70	-1.95	11.63	5.94
P/B	0.36	0.43	0.60	0.56	0.50
EV/Sale	1.49	2.68	2.35	1.38	1.10
EV/EBITDA	20.77	-29.42	-9.47	15.38	11.73

Source: Company data, SWS Research

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