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SWS RESEARCH

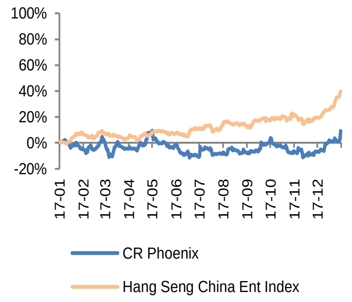
29 January 2018

BUY
Unchanged

Market Data: January, 26

Closing Price (HK$)	11.86
Price Target (HK$)	16.80
HSCEI	13,724
HSCCI	4,892
52-week High/Low (HK$)	12.40/8.88
Market Cap (US$m)	1,967
Market Cap (HK$m)	15,379
Shares Outstanding (m)	1,297
Exchange Rate (Rmb-HK$)	1.24

Price Performance Chart:



Source: Bloomberg

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Related Reports
"A bed of roses–CHINA RESOURCES PHOENIX HEALTHCARE (1515:HK)"
December 7, 2017

"Management change–CHINA RESOURCES PHOENIX HEALTHCARE (1515:HK)"
October 18, 2017

靴子落地

CHINA RESOURCES PHOENIX HEALTHCARE (1515:HK)

Financial summary and valuation

	2015	2016	2017E	2018E	2019E
Revenue (Rmbm)	1,372.27	1,532.83	1,826.29	2,081.79	2,340.62
YoY (%)	13.76	11.70	19.15	13.99	12.43
Net income (Rmbm)	167.05	(1,506.96)	476.46	502.09	613.48
YoY (%)	(27.39)	-	-	5.38	22.18
EPS (Rmb)	0.20	(1.67)	0.37	0.39	0.47
Diluted EPS (Rmb)	0.20	(1.67)	0.37	0.39	0.47
ROE (%)	9.90	(43.14)	8.70	8.49	9.64
Debt/asset (%)	17.41	16.92	17.60	17.06	16.39
Dividend Yield (%)	0.96	0.38	0.00	0.53	0.65
PE (x)	47.08	-	26.14	24.81	20.30
PB (x)	4.60	4.22	1.62	2.13	1.99
EV/Ebitda (x)	42.35	33.89	20.81	18.11	15.79

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

靴子落地。华润凤凰医疗的创始人及第二大股东，徐捷女士，于 1 月 24 日至 25 日期间出售了共计 1.56 亿股份，其持股比例从约 12%降至零。华润健康集团仍然为公司的第一大股东，持股比例为 36%。我们认为此次股权结构变动有助于华润集团加强对于公司的控制力。2017 年 10 月，公司完成了核心管理团队的重大调整。韩跃伟先生出任执行董事、CEO，任远女士出任执行董事、CFO。由于核心管理团队的调整已经完成，并且主要股东徐捷女士已经完全退出公司，我们认为华润集团与公司的整合工作已经基本完成，未来公司将充分发挥与华润集团的协同效应，加快医院网络的扩张步伐。

医院网络有望快速扩张。华润凤凰医疗享有华润集团的背书，并且具备优秀的医院管理战绩，这些都将有助于公司有望实现医院网络的快速扩张。公司管理层目标于 2020 年之前，实现总运营床位数翻番，从目前的约 1.2 万张扩张至 2.4 万张。我们注意到华润集团正在积极进行医院并购。华润凤凰医疗的母公司华润健康集团，已经获得了大理州人民医院以及临淄区人民医院的 IOT 权利。此外，华润健康集团与四川省第二中医医院、海口市第三人民医院、海口市第四人民医院签订了谅解备忘录，未来有望获得这些医院的 IOT 权利。17 年 10 月，华润资本（华润凤凰医疗的兄弟公司）达成收购协议晋城大医院的谅解备忘录。我们认为，华润凤凰医疗作为华润集团旗下唯一的上市医疗管理服务平台，未来很有可能为华润集团旗下的所有医院提供托管服务。

维持买入评级。我们估计，由于公司所持有的联合医务（722:HK – N/R）股价于 17 年下半年出现下跌，将导致约 6500 万元公允价值损失，因此，我们将 17 年的稀释每股收益从 0.41 元下调至 0.37 元，维持 18 年的稀释每股收益为 0.39 元（同比增长 5%），以及 19 年的稀释每股收益为 0.47 元（同比增长 22%）。我们维持核心净利润预期不变，预计核心净利润于 17 年增长 60%，18 年增长 25%，19 年增长 22%。我们认为公司有望充分发挥与华润集团的资源协同，实现医院网络的快速扩张。并且，由于主要股东徐捷的退出，华润集团对公司的控制力将进一步增强，有利于提升公司的运营效率。我们将目标价从 13.0 港币上调至 16.8 港币，对应 35 倍 18 年市盈率，与 4 年历史平均估值水平相当。目标价对应 42%的上涨空间，维持买入评级。

Investment Highlights:

Xu Jie, the second largest shareholder and founder of China Resources Phoenix Healthcare Group sold her entire 12.0% stake (155.6m shares) in the company on 24-25 January. CR Healthcare remains the firm’s largest shareholder, with a 36% holding, but we see Xu’s exit as a major shareholder as concentrating the firm’s control over the company, and see potential for operating efficiency improvements. Considering a fair value loss on the firm’s investment in UMP Healthcare Holdings (722:HK – N-R), we revise down our diluted EPS forecasts from Rmb0.41 to Rmb0.37 in 17E, and maintain our forecasts at Rmb0.39 in 18E (+5% YoY), and Rmb0.47 in 19E (+22% YoY). However, as the company expands its hospital network we see potential for the firm’s valuation to improve, and we lift our target price from HK$13.00 to HK$16.80 (35x 18E PE). Maintain BUY rating.

Overhang removed. We believe the latest capital structure change further strengthened China Resources Group’s control over CR Phoenix. In October 2017, CR Phoenix completed a significant adjustment of its senior management team. Han Yuewei has been appointed as executive director and CEO of the company and Ren Yuan has been appointed as executive director and CFO. We believe the adjustment of the senior management team and Xu’s exit as a substantial shareholder marks the completion of integration between China Resources Group and CR Phoenix. We expect the closer ties to China Resources Group will help CR Phoenix accelerate its pace of hospital network expansion.

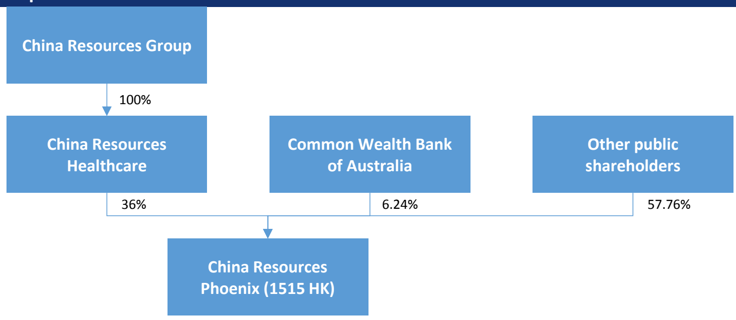
Fast network expansion. With support from central state-owned enterprise China Resources Group and its proven record of hospital management, we expect CR Phoenix to be able to quickly expand its hospital network nationwide. Management targets a doubling of its total number of operating beds from c.12,000 to c.24,000 by 2020E. We note that China Resources Group has been aggressively expanding its hospital network. The company’s parent, CR Healthcare Group, has obtained invest-operate-transfer (IOT) rights to the Dali Bai Autonomous Prefecture People’s Hospital and Linzi District People’s Hospital, and signed memoranda of understanding (MOU) with Sichuan Second TCM Hospital, The Third People's Hospital of Haikou and The Fourth People's Hospital of Haikou, among others. In October 2017, CR Capital signed an MOU regarding the acquisition of Jincheng General Hospital from Jinmei Group. As CR Phoenix is the only listed medical services platform for China Resources Group, we believe CR Phoenix is highly likely to provide management services for hospitals under China Resources Group.

Maintain BUY. Considering the fair value loss from the firm’s holding of UMP, we revise down our diluted EPS forecasts from Rmb0.41 to Rmb0.37 in 17E, and maintain our forecasts at Rmb0.39 in 18E (+5% YoY), and Rmb0.47 in 19E (+22% YoY). We expect core earnings to grow 60% YoY in 17E, 25% YoY in 18E, and 22% YoY in 19E. We lift our target price from HK$13.00 to HK$16.80, representing 35x 18E PE, in line with the company’s four-year average valuation. With 41.7% upside, we maintain our BUY rating.

Overhang removed

Xu Jie, the second largest shareholder and founder of China Resources Phoenix Healthcare Group sold her entire 12.0% stake (155.6m shares) in the company on 24-25 January. CR Healthcare remains the firm's largest shareholder, with a 36% holding, but we see Xu's exit as a major shareholder as concentrating the firm's control over the company, and see potential for operating efficiency improvements.

Fig 1: Current capital structure of CR Phoenix



Source: Bloomberg, Company data, SWS Research

Xu Jie did not participate in the operation of CR Phoenix, being a purely financial investor. We believe the latest capital structure change further strengthened China Resources Group's control over CR Phoenix.

In October 2017, CR Phoenix has completed a significant adjustment in its senior management team. Han Yuewei has been appointed as executive director and CEO of the company. He worked for China Resources Land (1109:HK – O-PF) between 2010 and 2017. Ren Yuan has been appointed as executive director and CFO of the company. She worked as the consultancy director and deputy general director of the information management department of China Resources Holdings between 2010 and 2017.

We believe the adjustment of the senior management team and Xu's exit as a substantial shareholder marks the completion of integration between China Resources Group and CR Phoenix. We expect the closer ties to China Resources Group will help CR Phoenix accelerate its pace of hospital network expansion.

At the same time, the company disclosed that Cheng Libing, vice chairman of CR Phoenix, and Xu Zechang, executive general manager of CR Phoenix, are no longer council members of Yan Hua Hospital as of 25th January. The company has the IOT rights to Yan Hua Hospital until July 2055. We see uncertainties in the execution of the IOT agreement because Yan Hua Hospital is owned by Xu Jie. According to the IOT agreement, the company is able to seek damages from Yan Hua Hospital if the hospital does not pay management fees on time. We estimate that Yan Hua Hospital contributes approximately Rmb60m in net profit per annum (including both management fee income and supply chain income) for CR Phoenix, which is c.12% of the company's total core profit in 18E.

Management incentives

The company has adopted a share award scheme since July 2014. A total of 12.2m award shares were granted to managements till June 2017. As of June 2017, 18.1m shares are held by the trustee and not yet granted.

As the company has adjusted its senior management team, we think the company will carry out a new round of stock incentives for the new management team. At the moment, most senior management members hold shares in the company. We think the new stock incentives will further align the interests of management with those of shareholders.

Fig 2: Shareholding of CR Phoenix's management team

Senior management	Position	Number of shares held	% of shareholding as of October 2017
Cheng Libing	Executive director, vice chairman	1,262,123	0.097
Han Yuewei	Executive director, CEO	156,000	0.012
Ren Yuan	Executive director, CFO	0	0
Fu Yanjun	Executive director, deputy general manager	295,218	0.023
Xu Zechang	Executive general manager and director of health care at CR Phoenix	3,269,087	0.252

Source: Company data, SWS Research

Accelerating network expansion

In August 2017, the State Council released *Guidelines on Reforming Educational and Medical Institutions Operated by SOEs*, according to which educational and medical institutions need to be separated by end-2018. Authorities encourage state-owned enterprises (SOEs) that conduct health care related business and private capital to participate in the reforms, giving CR Phoenix great opportunities to expand its network. Nonetheless, we expect the company to be very selective and focus on the acquisition of quality assets.

Given the support from China Resources Group, a central state-owned enterprise, and its proven record of hospital management, we believe CR Phoenix will be able to quickly expand its hospital network nationwide. Management targets to double its total number of operating beds to c.24,000 by 2020E.

On 26 September 2017, CR Phoenix entered into a binding agreement with Binzhou Central Hospital and local authorities to invest Rmb500m for the facility upgrade of Binzhou Central Hospital as well as the construction of a new hospital, People's Hospital of Binzhou Economic and Technological Zone, in exchange for 30-year operation rights for the two hospitals. We expect the deal to be closed by 1Q18E. We expect Binzhou Central Hospital to contribute net profit of Rmb40m in 18E.

In September 2017, CR Phoenix signed a non-binding agreement with Laibin government to establish a JV to invest in several public hospitals in Laibin (Guangxi Province). Potential acquisition targets include Laibin City People's Hospital (a Class-3 hospital with 1,095 beds), Xingbin District Bayi Hospital (a Class-2 hospital with 165 beds), and Qianjiang Town Centre Hospital (a Class-1 hospital with 98 beds). We expect the company to sign a binding contract with Laibin government by 1Q18E.

Moreover, we notice that China Resources Group has been aggressively expanding its hospital network. CR Healthcare Group, the parent company of CR Phoenix, has obtained the Invest-Operate-Transfer (IOT) rights of Dali Bai Autonomous Prefecture People's Hospital and Linzi District People's Hospital, and signed Memorandum of Understanding (MOU) with Sichuan Second TCM Hospital, The Third People's Hospital of Haikou, The Fourth People's Hospital of Haikou, etc.

Moreover, in October 2017, CR Capital signed an MOU about the acquisition of Jincheng General Hospital from Jinmei Group. It is a Class-3A hospital with 1,500 beds, located in Jincheng (Shanxi Province).

As CR Phoenix is the only listed medical services platform for China Resources Group, we believe CR Phoenix is highly likely to provide management services for hospitals under China Resources Group.

Fig 3: Hospitals could be acquired or managed by CR Phoenix

Hospital	Location	Acquirer	Hospital type	Number of beds	Comments
Laibin City People's Hospital, etc.	Laibin City, Guangxi Province	CR Phoenix	Class 3 (Laibin city People's Hospital), Class 2 (Xingbin District Bayi Hospital), Class 1 (Qianjiang Town Centre Hospital)	1,358	Expect CR Phoenix to sign binding agreement by 1Q18E
Linzi District People's Hospital, etc.	Zibo City, Shandong Province	China Resources Healthcare Group (The parent company)	Class 3B (Linzi District People's Hospital) Target to become Class 3A (new hospital)	2,700	Expect CR Phoenix to receive IOT rights
Dali Bai Autonomous Prefecture People's Hospital, etc	Dali City, Yunnan Province	China Resources Healthcare Group (The parent company)	Class 3A (Dali Bai Autonomous Prefecture People's Hospital) Class 2B (Dali Bai Autonomous Prefecture Maternal and Child Care Hospital)	1,763	Expect CR Phoenix to receive IOT rights
Jincheng General Hospital	Jincheng City, Shanxi Province	China Resources Capital (Sister company)	Class 3A	1,500	MOU signed; Expect CR Phoenix to receive IOT rights
Sichuan Second TCM Hospital	Chengdu City, Sichuan Province	China Resources Healthcare Group (The parent company)	Class 3A	800	MOU signed; Expect CR Phoenix to receive IOT rights
The Third People's Hospital of Haikou, The Fourth People's Hospital of Haikou	Haikou City, Hainan Province	China Resources Healthcare Group (The parent company)	Class 2A, Class 2A	894	MOU signed; Expect CR Phoenix to receive IOT rights
Total				**9,015**	

Source: Public information, Company data, SWS Research

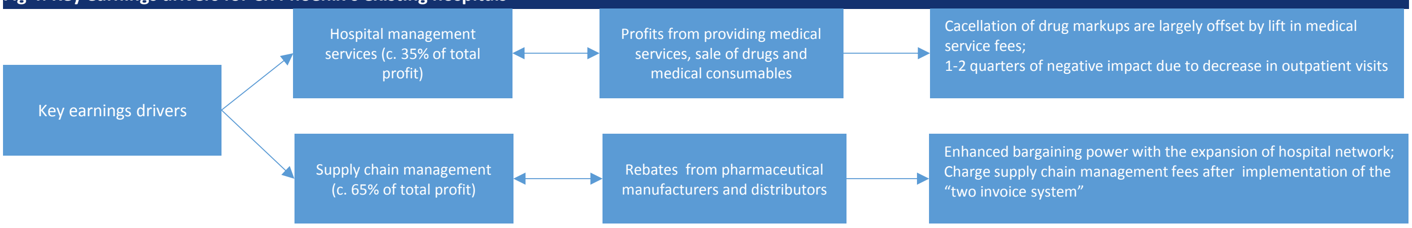
Solid earnings outlook

The government aims to maintain the annual growth rate of public hospitals' medical expenses below 10%, in order to keep the government-run basic medical insurance fund's expenditure under control.

We believe existing hospitals managed by CR Phoenix will experience 5-10% income growth, while the number of beds may increase at a 20% Cagr, becoming a key driver for the company's bottom line.

We estimate that for CR Phoenix's IOT hospitals, approximately 35% of profit comes from hospital management fees while the remaining c.65% of profit is from supply chain management. For the supply chain management income, the company may charge consulting fees, i.e. supply chain management fees, from pharmaceutical manufacturers and distributors, in order to be compliant with the "two invoice scheme".

Fig 4: Key earnings drivers for CR Phoenix's existing hospitals



Source: Company data, SWS Research

For hospital management fees, it is impacted by the "zero markup" policy. Nevertheless, we notice that the authorities also lift medical service fees by a significant amount in order to compensate public hospitals for the loss from cancelling drug markups. For instance, for public hospitals in Beijing, outpatient registration fee for common doctors in class 3 hospitals was lifted from Rmb5 to Rmb50 (+900%), ordinary bed fee rose from Rmb28 per day to Rmb50 per day (+79%), and operation fee for appendectomy increased from Rmb234 to Rmb560 (+139%).

Fig 5: Change in medical service fees for public hospitals in Beijing

Medical service fee (Rmb per item)	Price before the "zero markup" policy	Price after the "zero markup" policy	% change
Registration fee （挂号费）			
Out-patient registration fee for common doctors in Class 3 hospitals （三级医院普通门诊挂号费）	5	50	900%
Out-patient registration fee for well-known experts in Class 3 hospitals （三级医院知名专家门诊挂号费）	14	100	614%
Bed fee （床位费）			
Ordinary bed fee （普通床位费）	28	50	79%
Nursing fee （护理费）			
Secondary nursing fee （二级护理）	7	26	271%
Acupuncture fee （针灸）	4	26	550%
Operation fee （手术费）			
Appendectomy fee （阑尾切除术）	234	560	139%
Medical examination fee （检查费）			
Head CT （头部 CT）	180	135	-25%
Magnatic Resonance Imaging （磁核共振检查费）	850	400-600	-30-50%
PET / CT （PET/CT 检查费）	10,000	7,000	-30%

Source: Public information, Company data, SWS Research

We roughly calculated the impact from the "zero markup" policy for class 3 hospitals. Our model includes 2,036 class 3 hospitals in China. Assuming mark ups for both drugs and medical consumables are cancelled, medical examination fees are cut by 30% and medical service fees are lifted by c.50%, we estimate that the average income for class 3 hospitals will increase 1% after the roll out of the "zero markup" policy.

Fig 6: Modelling impact from "zero markup" policy

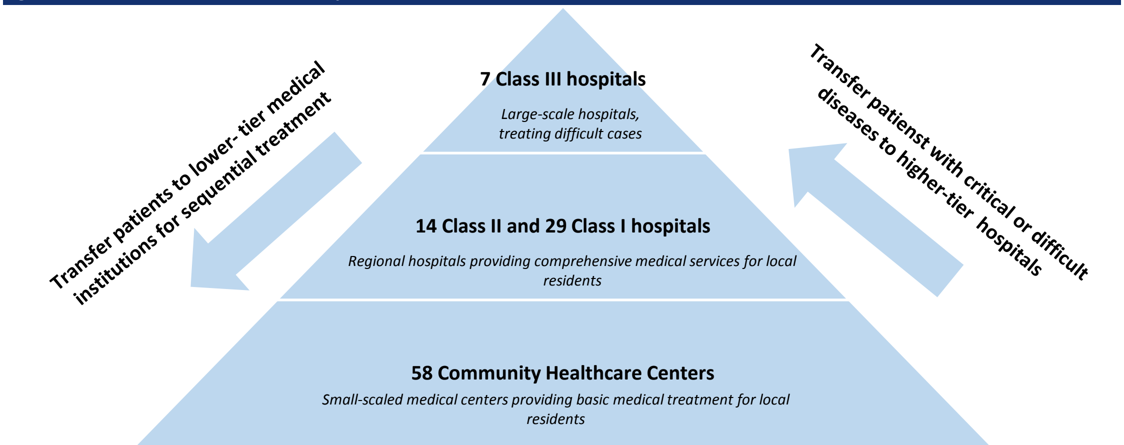
Average income per Class 3 hospital (Rmbm)	Class 3 hospital income (before the "zero markup" policy)	% of change	Class 3 hospital income (after the "zero markup" policy)
	Sample hospitals include all the 2,036 Class 3 hospital in China (as of 2016)		
Total average income per hospital	**773**	**1%**	**779**
Out-patient revenue	**230**	**-5%**	**218**
Registration income	2	200%	6
Medical examination income	42	-30%	29
Treatment income	23	50%	34
Medical surgery income	5	50%	7
Medical material income	8	-7%	7
Drug income	109	-15%	93
Other out-patient income	41	0%	41
In-patient revenue	**469**	**4%**	**486**
Bed income	16	50%	24
Medical examination income	41	-30%	29
Treatment income	57	50%	86
Medical surgery income	29	50%	43
Nursing income	9	100%	19
Medical material income	93	-7%	87
Drug income	163	-15%	138
Other In-patient income	61	0%	61
Government subsidy	**55**	**0%**	**55**
Science and education project income	**4**	**0%**	**4**
Other income	**16**	**0%**	**16**
Percentage of income from drugs	***35%***		***30%***
Percentage of income from medical consumables	***13%***		***12%***

Source: National Health and Family Planning Commission, Company data, SWS Research

Nevertheless, due to lift in outpatient registration fees, the number of outpatient visits will decrease after the policy implementation. For instance, Beijing rolled out the "zero markup" policy on 8 April 2017. Six months later, by 12 October, outpatient visits to the city's Class-3 hospitals declined by 11.5% YoY (-3.9% for Class-2 hospitals), while Class-1 hospitals and community clinics saw a 14.7% YoY increase in outpatient visits. We estimate that CR Phoenix's hospitals in Beijing has recovered to positive outpatient visit growth in 4Q17E. Hence, we think the policy will impose 1-2 quarters of negative impact to the company's earnings.

Furthermore, CR Phoenix is well positioned within the multi-level medical system. The company currently owns approximately 11,700 beds in 108 medical institutions, including 7 Class-3 hospitals, 14 Class-2 hospitals, 29 Class-I hospitals, and 58 community health care centres. This enables CR Phoenix to efficiently direct patients and allocate medical resources among its hospitals and offset the negative impact from the "zero markup" policy to a large extent.

Fig 7: CR Phoenix's multi-level medical system



Source: Company data, SWS Research

We forecast core earnings to reach Rmb401m in 17E (+60% YoY), Rmb502m in 18E (+25% YoY), and Rmb613m in 19E (+22% YoY).

As of June 2017, the company currently holds 109m shares of UMP (722:HK – N-R), which is classified as financial asset for sale. We estimate that the company disposed c.12m shares of UMP in 2H17. As the share price of UMP has declined from HK$2.6 in June 2017 to HK$1.8 in end-17, we estimate c.Rmb65m fair value loss from the UMP shares in 2H17E. Hence, we revise down our diluted EPS forecasts from Rmb0.41 to Rmb0.37 in 17E, and maintain our forecasts at Rmb0.39 in 18E (+5% YoY), and Rmb0.47 in 19E (+22% YoY).

CR Phoenix is trading at 24.7x 18E PE, while its Hong Kong-listed peers are trading at an average of 19x 18E PE, while A-share peers trade at 48x 18E PE, ASEAN listed peers at 41x 18E PE, and US listed peers at 16x 18E PE. We believe CR Phoenix deserves a valuation premium to its Chinese competitors on the back of its leading position in China's healthcare services industry and promising long-term growth outlook.

Fig 8: Comparable peers

Company	Ticker	Market cap (US$m)	17E PE	18E PE	17E PB	18E PB	18E ROE	18E Dividend yield	18E EV/EBTIDA
CR Phoenix	**1515 HK**	**1,967**	**26.1**	**24.7**	**1.6**	**2.1**	**8.5**	**0.5**	**18.1**
HK listed peers									
GUANGDONG KANGHUA HEALTHCARE	3689 HK	547	19.8	17.3	2.6	2.3	14.4	1.4	NA
WENZHOU KANGNING HOSPITAL	2120 HK	387	29.9	22.5	2.3	2.1	8.8	0.7	NA
HARMONICARE MEDICAL HOLDINGS	1509 HK	290	22.2	16.7	1.2	1.1	7.3	2.1	5.2
HK peers average			**24.0**	**18.8**	**2.1**	**1.9**	**10.2**	**1.4**	**5.2**
A-share listed peers									
AIER EYE HOSPITAL GROUP	300015 CH	9,000	72.9	55.7	14.2	10.6	22.5	NA	35.0
HENGKANG MEDICAL GROUP	002219 CH	3,449	45.9	38.4	4.8	4.3	11.1	NA	NA
TOPCHOICE MEDICAL INVESTMENT	600763 CH	1,994	63.4	50.8	12.6	10.2	20.9	NA	31.0
A-share peers average			**60.7**	**48.3**	**10.5**	**8.3**	**18.2**	**NA**	**33.0**
ASEAN listed peers									
IHH HEALTHCARE BHD	IHH MK	12,688	71.1	49.8	2.1	2.1	4.4	NA	19.1
BANGKOK DUSIT MED SERVICE	BDMS TB	10,377	40.2	35.7	5.3	4.9	14.4	NA	22.0
BUMRUNGRAD HOSPITAL PCL	BH TB	4,486	38.3	34.2	8.5	7.5	24.0	NA	20.8
APOLLO HOSPITALS ENTERPRISE	APHS IN	2,485	53.2	72.3	4.3	4.1	5.9	0.5	23.3
RAFFLES MEDICAL GROUP	RFMD SP	1,518	28.0	32.0	2.8	2.7	8.8	NA	21.7
BANGKOK CHAIN HOSPITAL	BCH TB	1,249	43.5	37.3	7.5	6.5	18.2	NA	18.8
KPJ HEALTHCARE BERHAD	KPJ MK	1,067	28.5	24.9	2.5	2.4	10.0	2.0	12.3
ASEAN peers average			**43.2**	**40.9**	**4.7**	**4.3**	**12.2**	**1.3**	**19.7**
US listed peers									
HCA HEALTHCARE INC	HCA US	32,867	14.2	10.8	NA	NA	(46.7)	0.0	8.0
DAVITA INC	DVA US	14,473	22.9	19.7	3.0	4.9	14.3	0.0	9.3

UNIVERSAL HEALTH SERVICES-B	UHS US	11,307	16.2	13.1	2.4	2.1	14.4	0.3	8.4
MEDNAX INC	MD US	5,074	16.3	14.7	1.7	1.6	10.1	0.0	11.1
TENET HEALTHCARE	THC US	1,861	27.5	19.8	1.8	1.1	NA	0.0	7.4
US peers average			**19.4**	**15.6**	**2.2**	**2.4**	**(2.0)**	**0.1**	**8.8**

Source: Bloomberg, SWS Research

Note: We use Bloomberg consensus for non-rated stocks

We expect the stock to re-rate as the company may fast expand its hospital network by leveraging the resources of China Resources Group. In addition, as Ms. Xu Jie has exit the company, China Resources Group will further strengthen its control over the company which will help to improve the operating efficiency of the company. We lift our target price from HK$13.00 to HK$16.80, implying 35x 18E PE which is inline with its 4-year average valuation. With 42% upside, we maintain our BUY rating.

Risks

Downside risks mainly lie in the discontinuation of IOT agreement with Yan Hua Hospital, larger-than-expected negative impacts from the zero markup policy and slower-than-expected hospital network expansion.

Appendix

Consolidated Income Statement

Rmbm	2015	2016	2017E	2018E	2019E
Revenue	**1,372**	**1,533**	**1,826**	**2,082**	**2,341**
Cost of Sales	**(1,043)**	**(1,126)**	**(1,155)**	**(1,282)**	**(1,381)**
Gross Profit	**330**	**407**	**671**	**800**	**960**
Other Income	**99**	**93**	**48**	**50**	**50**
Selling/General/Admi. Expenses	(150)	(172)	(208)	(227)	(250)
Ebitda	273	336	527	638	775
Ebit	228	285	463	573	710
Finance Costs	(27)	(0)	(2)	(7)	(7)
Profit before tax	**248**	**(1,452)**	**584**	**616**	**753**
Income tax expense	(76)	(47)	(98)	(105)	(128)
Minority interests	(5)	(7)	(9)	(9)	(12)
Profit for the year	**167**	**(1,507)**	**476**	**502**	**613**

Source: Company data, SWS Research

Consolidated Cash Flow Statement

Rmbm	2015	2016	2017E	2018E	2019E
Profit before taxation	**248**	**(1,452)**	**584**	**616**	**753**
Plus：Depr. and amortisation	45	51	64	65	66
Finance cost	27	0	2	7	7
Losses from investments	(44)	(36)	(46)	(46)	(46)
Change in working capital	(6)	(36)	51	(0)	1
Others	(38)	1,696	(120)	(105)	(128)
CF from operating activities	**232**	**224**	**535**	**537**	**652**
Capex	(32)	(42)	(50)	(50)	(50)
Other CF from investing activities	62	163	(54)	(954)	(1,154)
CF from investing activities	**30**	**120**	**(104)**	**(1,004)**	**(1,204)**
Equity financing	0	0	0	0	0
Net change in liabilities	0	0	130	0	0
Dividend and interest paid	(33)	(83)	(2)	(107)	(129)
Other CF from financing activities	(16)	(15)	0	0	0
CF from financing activities	**(49)**	**(99)**	**128**	**(107)**	**(129)**
Net cash flow	**212**	**246**	**558**	**(574)**	**(681)**
FCFF	159	211	430	483	598
FCFE	132	210	558	476	592

Source: Company data, SWS Research

Consolidated Balance Sheet

Rmbm	2015	2016	2017E	2018E	2019E
Current Assets	1,294	1,654	1,689	1,553	1,509
Bank balances and cash	822	1,069	1,128	953	872
Trade and other receivables	181	299	279	312	345
Inventories	42	50	47	53	57
Other current assets	249	235	235	235	235
Long-term investment	155	677	699	699	699
PP&E	145	264	271	278	283
Intangible and other assets	661	3,853	4,432	5,011	5,590
Total Assets	**2,255**	**6,448**	**7,091**	**7,540**	**8,081**
Current Liabilities	390	752	910	948	986
Borrowings	0	0	130	130	130
Trade and other payables	269	363	391	429	467
Other current liabilities	121	389	389	389	389
Long-term liabilities	3	338	338	338	338
Total Liabilities	**393**	**1,091**	**1,248**	**1,286**	**1,324**
Minority Interests	115	119	128	138	149
Shareholder Equity	1,748	5,238	5,715	6,117	6,607
Share Capital	0	0	0	0	0
Reserves	365	(1,128)	(651)	(250)	241
Total Equity	1,863	5,358	5,843	6,254	6,756
Total Liabilities and equity	**2,255**	**6,448**	**7,091**	**7,540**	**8,081**

Source: Company data, SWS Research

Key Financial Ratios

	2015	2016	2017E	2018E	2019E
Ratios per share (Rmb)					
Earnings per share	0.20	(1.67)	0.37	0.39	0.47
Diluted EPS	0.20	(1.67)	0.37	0.39	0.47
Operating CF per share	0.28	0.25	0.41	0.41	0.50
Dividend per share	0.14	0.06	0.00	0.08	0.09
Net assets per share	2.28	5.94	4.51	4.82	5.21
Key Operating Ratios (%)					
ROIC	10.42	4.52	6.59	7.63	8.76
ROE	9.90	(43.14)	8.70	8.49	9.64
Gross profit margin	24.02	26.53	36.75	38.41	41.01
Ebitda Margin	19.89	21.92	28.86	30.63	33.12
Ebit Margin	16.64	18.59	25.37	27.51	30.31
Growth rate of Revenue(YoY)	13.76	11.70	19.15	13.99	12.43
Growth rate of Profit(YoY)	(27.39)	-	-	5.38	22.18
Debt-to-asset ratio	17.41	16.92	17.60	17.06	16.39
Turnover rate of net assets	0.74	0.29	0.31	0.33	0.35
Turnover rate of total assets	0.61	0.24	0.26	0.28	0.29
Effective tax rate (%)	30.47	(3.26)	16.82	17.00	17.00
Dividend yield (%)	0.96	0.38	0.00	0.53	0.65
Valuation Ratios (x)					
PE	47.08	-	26.14	24.81	20.30
PB	4.60	4.22	1.62	2.13	1.99
EV/Sale	8.42	7.43	6.01	5.55	5.23

Source: Company data, SWS Research

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