

## Company Report

### Shanghai Pharma (2607 HK)

#### Cash replenished after buying out a competitor

■ On 2 February, Company completed the US\$557mn Cardinal China acquisition. We highlight the deal's strong strategic merits (buying out a major competitor; doubling DTP pharmacies (now China's No.1); adding BD optionality by enhancing the imported drug agency business), as well as its reasonable valuation (18x 2018E PER vs A-share peers' 19x)

■ Previously, Company raised US\$402mn capital via an equity placement to fund the acquisition

■ We revised down 17/18E EPS by -5%/-10% on the equity placement (5% dilution) and the slowing 3Q17 revenue growth from the two-invoice reform challenge (8% vs 10% in 1H17). SH Pharma now trades at 13x/11x 18/19E PER. Maintain BUY

#### Replenishing cash after buying out a major competitor

After financing the Cardinal China acquisition (the 8<sup>th</sup> largest distributor in China, with c.2% mkt share) with an equity placement, Shanghai Pharma became the second largest distributor domestically. Besides increasing its size, the deal should also complement Shanghai Pharma's geographic footprint in Guizhou, Chongqing and Tianjin, and this should remove competition and unlock synergies in 9 provincial markets including Shanghai, Beijing and Zhejiang.

#### Refocusing strategy on DTP, imported drug agency

While Cardinal China's routing business faces challenges, we think its DTP business (with 30 pharmacies) and the imported drug agency business will be a pivotal platform for SH Pharma to potentially launch more innovative and specialty drugs, which are benefiting from CFDA's quickening reviews. Such assets should also render Shanghai Pharma a significant edge in exploring BD opportunities globally.

#### New TP and earnings estimates

We modelled in some further sales/earnings slowdown in 4Q17/18, which should be partly offset by combining Cardinal China - we think the operational synergy in DTP and other businesses should lift its net margin towards 0.9%-1% in 2018-19E up from the current 0.5%. Our new TP of HK\$23.6 is based on SOTP (14x 2018E NOPAT for distribution, 15x for pharma). Note after the sell-down last week (in line with the sector), Company's H share trades at the lowest quartile of the trading band, with 9%-25% discount to H share peers.

#### Financials

RMB mn	2015	2016	2017E	2018E	2019E
Revenue	105,517	120,765	130,348	168,555	187,611
Growth (%)	18.4%	14.5%	7.9%	29.3%	11.3%
Adjusted Net profit*	2,649	3,064	3,479	3,927	4,634
Growth (%)	27.5%	15.6%	13.6%	12.9%	18.0%
EPS (RMB)	0.99	1.14	1.29	1.39	1.63
DPS (RMB)	0.38	0.43	0.40	0.43	0.51
P/E (x)	15.5	14.1	13.1	12.6	10.7
P/B (x)	1.4	1.4	1.3	1.2	1.1
ROE (%)	8.5%	8.7%	9.0%	8.7%	9.4%

Sources: Company data, CMS (HK) estimates

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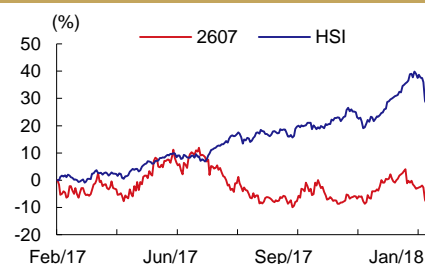
#### WHAT'S NEW

Major event

#### BUY

Previous	BUY
Price	HK\$18.5
12-month Target Price (Potential up/downside)	HK\$23.6 (+28%)
Previous	HK\$26.1

#### Price Performance



Source: Bigdata

%	1m	6m	12m
2607 HK	(11.6)	(13.1)	(10.7)
HSI	(4.8)	6.3	25.4

#### Sector: Pharmaceutical & Healthcare

Hang Seng Index	29507
HSCEI	11902

#### Key Data

52-week range (HK\$)	18.2-23.6
Market cap (HK\$ mn)	17021
Avg. daily volume (mn)	3.5
BVPS (HK\$)	12.7

#### Shareholding Structure

Shanghai SASAC	33.6%
Shanghai Guosheng	1.2%
Shenergy Group	0.9%

Free float	66.4%
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#### Related Research

1. Shanghai Pharma (2607 HK) - Adding buffer, narrowing gap (BUY), 2017/08/30
2. Shanghai Pharma (2607 HK) - Serious consolidation contender with proven track record (BUY), 2016/12/14

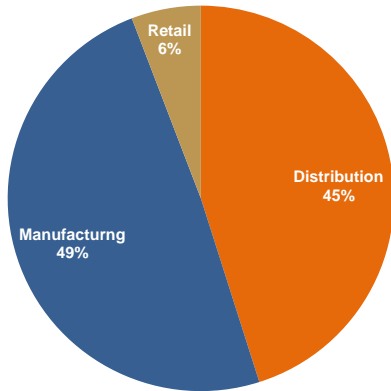
Focus charts

Figure 1: Stock performance



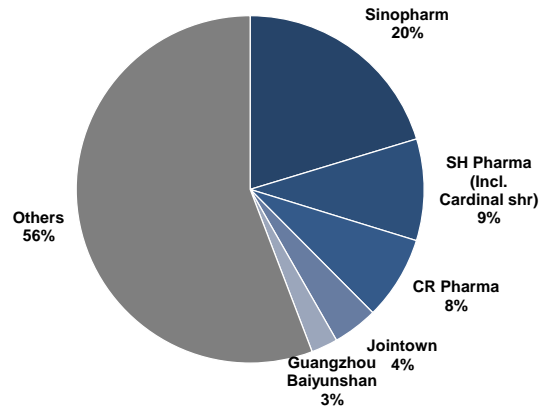
Sources: Company data, CMS (HK)

Figure 2: Total GP breakdown in 2017E



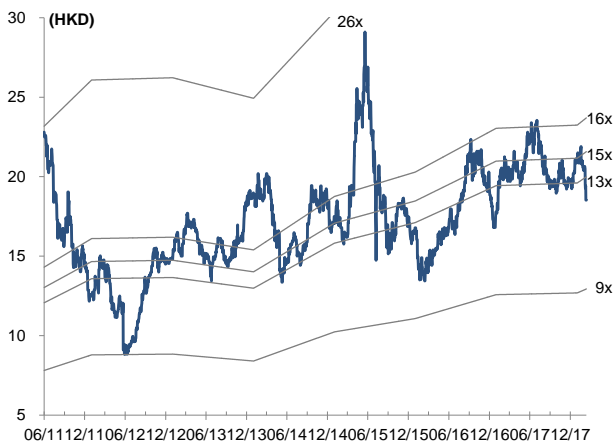
Sources: Company data, CMS (HK)

Figure 3: Chinese distributors' market share in FY16E



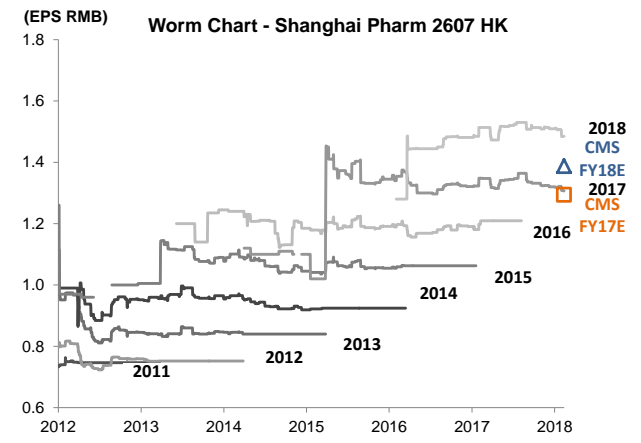
Sources: Frost & Sullivan report, CMS (HK)

Figure 4: PER band



Sources: Bloomberg, CMS (HK)

Figure 5: Consensus worm chart



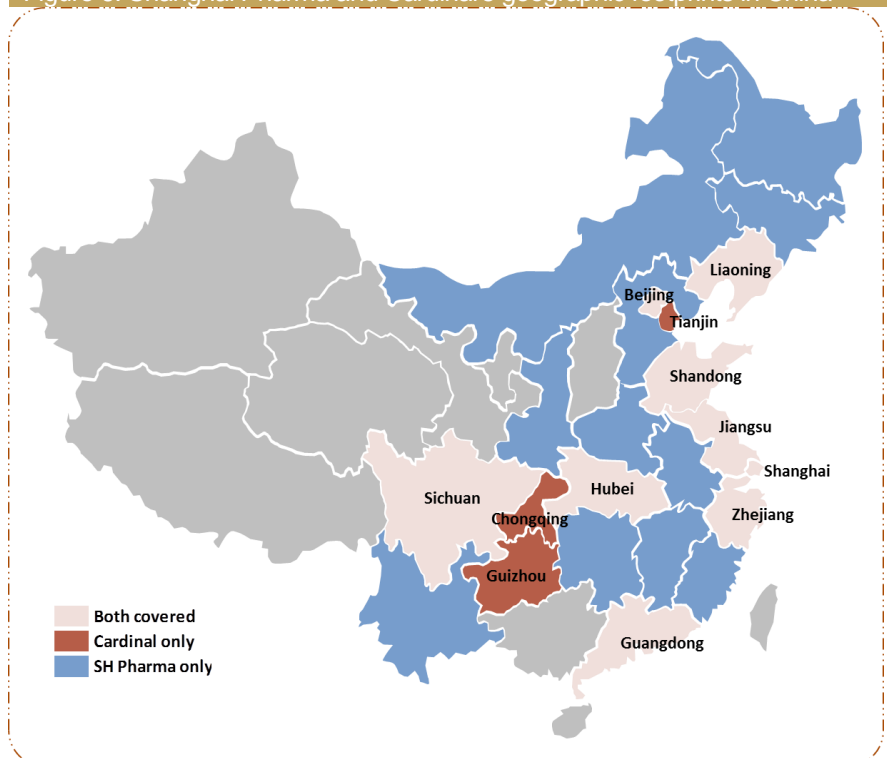
Sources: Bloomberg, CMS (HK)

## Solid strategic rationales

Cardinal is the 8<sup>th</sup> largest pharma distributor with c.2% mkt share in China. We believe its high quality distribution, imported pharma agency and DTP assets will prove to be complementary and synergetic to Shanghai Pharma's current portfolio. In particular, we highlight the following strategic rationales:

1. The acquisition will allow Shanghai Pharma's distribution business to rival that of CR Group in terms of size and geographic coverage. Cardinal should strengthen Shanghai Pharma's competitive position in core markets like Shanghai, Beijing and Zhejiang Province. Meanwhile, it will also allow Shanghai Pharma to expand into three new provinces/municipalities - Tianjin, Chongqing and Guizhou. As such, it now has presence in 24 provinces (see figure 6).
2. Cardinal's imported pharma agency business (largest in China by categories) should allow Shanghai Pharma to become a major portal to introduce MNC's innovative and specialty drugs in the future. In the near-term, this business is relatively immune from the two-invoice reform as MNC's drugs are allowed to have one extra invoice when selling to China. Over mid-term, as the approvals for MNC's innovative drugs should accelerate, Company stands to reap significant profit from this platform.
3. Shanghai Pharma and Cardinal's combined DTP business (now with 70+ pharmacies) can become a platform to allow MNCs and Chinese pharma to launch market innovative and specialty drugs in the future. Note that Shanghai Pharma's number of DTP pharmacies has exceeded CR Pharma (64 DTP pharmacies in 2016).
4. Cardinal is one of the leading third-party providers of logistic services in China. After Shanghai Pharma signed strategic cooperation agreements with DHL, the combination of their logistic capabilities should allow them to reap in significant scale benefit.
5. Shanghai Pharma has also entered into a global strategic alliance with Cardinal U.S. for future business development in global markets, including the US.

Figure 6: Shanghai Pharma and Cardinal's geographic footprints in China



Source: Company

## Sound financial decision

This all-cash deal valued Cardinal China at 12.3x EV/EBITDA, 17.6x PER on FY18E (year-end Dec). We think these multiples compare inexpensively to A share peers (10.2x EV/EBITDA and 19.0x PER on 2018 data).

They may look less attractive compared to H-share peers but there are two important caveats: 1) most H-share peers are SOEs and cannot be acquisition targets; 2) in M&A, we think 30% control premium is well deserved; in this case, the premium is just 20%.

Meanwhile, we estimate that the deal should bring Company's net gearing ratio from 4% in 2016 to 17% in 2017E, which should remain at a similar level in 2018/19E. The increase in financial cost (by c.RMB220mn in 2018) should be roughly offset the increase in net profit (by c.RMB212mn), before the intangibles amortization (c.RMB52mn per year). As such, the earnings reduction / EPS dilution from the deal should be limited to 1-2%.

Figure 7: The transaction multiples

Transaction multiples	2016 (YE Dec)	2017 (YE Dec)	2018 (YE Dec)
PER	26.4	29.3	17.6
EV/EBITDA	15.5	13.9	12.3

A share distribution players	FY2017	FY2018
PER	23.2	19.0
EV/EBITDA	11.7	10.2

H share distribution players	FY2017	FY2018
PER	15.6	13.8
EV/EBITDA	9.8	8.6

Source: Company

Our revised model has now integrated the following P/L assumptions for the legacy Cardinal China business. We think the revenue growth should slow from double-digit in 2016 to 6%/4%/9% in 2017/18/19E, reflecting the negative impact from the two-invoice system on its routing business (we estimate c.30% of revenue). However, we expect much of the profit in the routing business will be channeled to its own or Shanghai Pharma's direct sales businesses. We also expect the operational synergy to materialize in direct-sales, imports agency and DTP. As such, we expect EBITDA to grow 11%/13%/15% in 2017/18/19E from RMB520mn in 2017 to RMB750mn in 2019, and net profit to grow -4%/55%/33% from RMB128mn to RMB318mn.

Figure 8: Legacy Cardinal's pro-rata P/L

RMBm	Reported		Pro rata			
	FY2016 (YE Jun)	FY2017 (YE Jun)	2016 (YE D)	2017 (YE D)	2018 (YE D)	2019 (YE D)
Revenue	22,625	25,518	24,072	25,516	26,536	28,925
EBITDA	487	553	520	577	652	750
PBT	218	212	215	206	318	424
Net profit	152	131	142	128	239	318
Net assets	1,766	1,909	1,838	1,985	2,143	2,315
EBITDA margin	2.2%	2.2%	2.2%	2.2%	2.5%	2.6%
Net profit margin	0.7%	0.5%	0.7%	0.5%	0.9%	1.1%
Tax rate	30.3%	38.2%	30.3%	38.0%	25.0%	25.0%
Revenue growth		12.8%		6.0%	4.0%	9.0%
EBITDA growth		13.6%		11.0%	13.0%	15.0%
PBT growth		-2.8%		-4.3%	54.8%	33.2%
Net profit growth		-13.8%		-9.8%	87.2%	33.2%

Source: Company

## Valuation

Figure 9: SOTP valuation - CMS methodology

(RMB mn)	2017E	2018E
<b>NOPAT</b>		
Pharma manufacturing	2,185	2,476
Pharma distribution & retail	1,569	1,918
<b>Valuation</b>		
Pharma manufacturing	15x NOPAT	37,137
Pharma distribution & retail	14x NOPAT	26,857
Less: Net debt at end 2017		(4,800)
Add: Financial assets		2,364
Less: Minorities valuation		(5,828)
<b>Equity value at end 2017</b>		<b>55,731</b>
# of shares (mn)		2,829
<b>TP (HK\$ per shr)</b>		<b>23.64</b>

Sources: Company, CMS (HK)

Figure 10: Comp table - HK listed peers

Ticker	Name	Last Price	Mkt Cap (USD mn)	Rating	TP	Upside (%)	P/E Ratio			P/B Ratio			Div Yld	ROE			EV/EBITDA Ratio		
							16A	17E	18E	16A	17E	18E	17E	16A	17E	18E	16A	17E	18E
<b>Distribution and promotion</b>																			
1099 HK	SINOPHARM-H	32.1	11,341				17.0	14.2	12.7	2.5	1.9	1.7	1.9	15.0	15.0	14.4	8.8	8.0	7.0
2607 HK	SHANGHAI PHARM-H	18.5	8,651	BUY	23.6	28%	14.1	12.5	11.6	0.7	0.7	0.7	2.6	8.7	9.7	10.0	13.1	10.7	9.5
3320 HK	CHINA RESOURCES	9.8	7,868	BUY	12.0	23%	19.3	18.3	15.4	1.6	1.5	1.4	1.3	9.4	8.9	9.5	7.5	8.0	7.1
867 HK	CHINA MEDICAL SY	15.8	5,013				19.9	18.8	16.0	4.4	4.2	3.5	1.9	23.9	24.2	23.9	17.8	15.5	13.2
1345 HK	PIONEER PHARM	2.2	374				13.9	N.A.	N.A.	3.0	N.A.	N.A.	N.A.	22.5	N.A.	N.A.	9.9	N.A.	N.A.
<b>Distribution and promotion average</b>			<b>2,612</b>				<b>17.4</b>	<b>15.4</b>	<b>13.5</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>		<b>13.4</b>	<b>13.5</b>	<b>13.5</b>	<b>12.1</b>	<b>9.8</b>	<b>8.6</b>

Sources: Bloomberg as of 9 Feb. 2018, CMS (HK)

Figure 11: Comp table - A-share listed peers

Ticker	Name	中文名	Rept curr	List curr	Last Price	Mkt Cap (USD mn)	Next FY end	P/E Ratio			P/B Ratio			Div Yield	ROE			EV/EBITDA Ratio		
								16A	17E	18E	16A	17E	18E	17E	16A	17E	18E	16A	17E	18E
<b>Distribution and promotion</b>																				
601607 CH	SHANG PHARM -A	上海医药	CNY	CNY	21.2	8,651	12/2017	13.4	16.0	14.0	1.4	1.7	1.5	1.9	10.4	10.5	10.9	13.1	10.0	9.0
600998 CH	JOINTOWN PHARM-A	九州通	CNY	CNY	16.5	4,938	12/2017	38.4	22.0	20.3	3.6	2.1	2.0	1.2	9.9	11.1	10.3	24.6	12.8	11.2
600056 CH	CHINA MEHECO C-A	中国医药	CNY	CNY	20.1	3,422	12/2017	20.6	17.7	14.0	3.0	2.8	2.4	1.1	15.4	15.8	17.1	12.1	N.A.	N.A.
000028 CH	CHINA NATIONAL-A	国药一致	CNY	CNY	53.4	3,407	12/2017	12.7	18.5	15.9	1.8	2.0	1.8	0.6	15.0	11.8	12.2	10.1	14.2	13.1
600511 CH	CHINA NATIONAL-A	国药股份	CNY	CNY	27.4	3,343	12/2017	26.3	N.A.	N.A.	4.1	4.5	3.6	0.6	16.7	22.6	20.4	23.6	N.A.	N.A.
002589 CH	REALCAN PHARMA-A	瑞康医药	CNY	CNY	12.8	3,054	12/2017	32.3	19.1	14.1	3.1	2.4	2.0	0.4	11.7	12.4	14.6	21.7	12.2	9.9
603883 CH	LAOBAIXING PHA-A	老百姓	CNY	CNY	54.3	2,463	12/2017	42.0	38.7	30.5	6.7	6.8	5.8	0.7	14.6	17.0	18.4	27.4	N.A.	N.A.
603939 CH	YIFENG PHARMA-A	益丰药房	CNY	CNY	41.4	2,391	12/2017	44.7	50.0	38.9	3.6	4.2	4.0	0.7	10.2	8.9	10.6	36.4	N.A.	N.A.
600090 CH	XIN JIANG READ-A	同济堂	CNY	CNY	7.0	1,607	12/2017	30.9	N.A.	N.A.	3.1	N.A.	N.A.	N.A.	10.6	N.A.	N.A.	20.5	N.A.	N.A.
002727 CH	YUNNAN HONGXIA-A	一心堂	CNY	CNY	20.7	1,873	12/2017	31.2	27.4	23.0	4.4	3.7	3.2	2.7	14.8	14.8	15.7	22.2	N.A.	N.A.
603368 CH	GUANGXI LUZHO-A	柳州医药	CNY	CNY	43.3	1,276	12/2017	34.4	19.5	15.5	3.6	2.2	1.9	1.6	14.2	11.8	13.3	26.0	N.A.	N.A.
603108 CH	SHANGHAI RUNDA-A	润达医疗	CNY	CNY	13.0	1,201	12/2017	74.5	33.8	24.0	4.6	2.6	2.2	0.8	7.7	9.2	11.3	33.2	N.A.	N.A.
002462 CH	CACHET PHARMAC-A	嘉事堂	CNY	CNY	21.2	845	12/2017	N.A.	18.4	14.3	N.A.	2.4	2.1	0.9	13.1	12.2	13.5	N.A.	9.4	7.5
600713 CH	NANJING PHARMA-A	南京医药	CNY	CNY	5.2	866	12/2017	39.6	18.6	13.4	2.7	1.8	1.6	0.6	7.3	9.7	12.1	13.4	N.A.	N.A.
002788 CH	LUYAN PHARMA C-A	鹭燕医药	CNY	CNY	25.7	525	12/2017	62.1	N.A.	N.A.	5.5	N.A.	N.A.	N.A.	11.0	N.A.	N.A.	34.0	N.A.	N.A.
603716 CH	WUHAN THALYS M-A	塞力斯	CNY	CNY	44.4	504	12/2017	73.7	34.8	25.5	7.6	2.8	2.5	N.A.	10.6	9.9	12.0	44.7	N.A.	N.A.
000705 CH	ZHEJIANG ZHEN-A	浙江震元	CNY	CNY	6.8	361	12/2017	93.4	N.A.	N.A.	3.4	N.A.	N.A.	N.A.	3.5	N.A.	N.A.	45.3	N.A.	N.A.
<b>Distribution and promotion average</b>						<b>2,396</b>		<b>30.0</b>	<b>23.2</b>	<b>19.0</b>	<b>3.2</b>	<b>2.8</b>	<b>2.5</b>	<b>1.2</b>	<b>12.2</b>	<b>12.9</b>	<b>13.5</b>	<b>20.7</b>	<b>11.7</b>	<b>10.2</b>

Sources: Bloomberg as of 9 Feb. 2018, CMS (HK)

Figure 12: Shanghai Pharma's P&L - old vs new

RMBmn	2016	2017E			2018E		
	Actual	Before	After	Chg (%)	Before	After	Chg (%)
<b>Sales</b>	<b>120,765</b>	<b>132,967</b>	<b>130,348</b>	<b>-2%</b>	<b>147,281</b>	<b>168,555</b>	<b>14%</b>
Cost of sales	(106,868)	(117,144)	(114,836)	-2%	(129,901)	(149,339)	15%
<b>Gross profit</b>	<b>13,897</b>	<b>15,823</b>	<b>15,511</b>	<b>-2%</b>	<b>17,379</b>	<b>19,215</b>	<b>11%</b>
SG&A expenses	(10,112)	<b>(11,036)</b>	<b>(10,819)</b>	<b>-2%</b>	<b>(11,930)</b>	<b>(13,653)</b>	<b>14%</b>
Distribution & selling expenses	(6,067)	(7,047)	(6,908)	-2%	(7,511)	(8,596)	14%
General and Admin expenses	(4,045)	(3,989)	(3,910)	-2%	(4,418)	(5,057)	14%
<b>EBITDA</b>	<b>4,609</b>	<b>5,685</b>	<b>5,591</b>	<b>-2%</b>	<b>6,465</b>	<b>6,747</b>	<b>4%</b>
Total Depreciation & Amortization	824	<b>898</b>	<b>898</b>	<b>0%</b>	<b>1,015</b>	<b>1,185</b>	<b>17%</b>
<b>Operating income</b>	<b>3,785</b>	<b>4,787</b>	<b>4,693</b>	<b>-2%</b>	<b>5,449</b>	<b>5,562</b>	<b>2%</b>
Finance costs	(525)	(610)	(591)	-3%	(621)	(785)	26%
Interest Income	172	163	182	12%	165	187	13%
Interest Expense	(697)	(774)	(774)	0%	(786)	(971)	24%
Profit from JV & Asso.	953	1,001	916	-8%	1,051	962	-8%
Other income	294	133	130	-2%	147	169	14%
Other gains - net	133	234	115	-51%	260	149	-43%
<b>Profit Before Taxes</b>	<b>4,639</b>	<b>5,545</b>	<b>5,262</b>	<b>-5%</b>	<b>6,287</b>	<b>6,058</b>	<b>-4%</b>
Income Tax	(809)	(1,109)	(1,052)	-5%	(1,257)	(1,272)	1%
20%	20%	20%	20%	0%	20%	21%	5%
Minority interest	(633)	(555)	(616)	11%	(629)	(709)	13%
<b>Net Income</b>	<b>3,196</b>	<b>3,882</b>	<b>3,594</b>	<b>-7%</b>	<b>4,401</b>	<b>4,077</b>	<b>-7%</b>
<b>Adjusted net profit</b>	<b>3,064</b>	<b>3,647</b>	<b>3,479</b>	<b>-5%</b>	<b>4,141</b>	<b>3,927</b>	<b>-5%</b>
<b>Adjusted EPS (RMB per shr)</b>	<b>1.14</b>	<b>1.36</b>	<b>1.29</b>	<b>-5%</b>	<b>1.54</b>	<b>1.39</b>	<b>-10%</b>
<b>YoY Growth (%)</b>							
Consolidated revenue	14%	10%	8%	-2.2 ppt	11%	29%	18.5 ppt
Gross profit	11%	14%	12%	-2.2 ppt	10%	24%	14.0 ppt
Adjusted net profit	16%	19%	14%	-5.5 ppt	14%	13%	-0.7 ppt
<b>Margin (%)</b>							
Gross margin	11.5%	11.9%	11.9%	0.0 ppt	11.8%	11.4%	-0.4 ppt
EBITDA margin	3.8%	4.3%	4.3%	0.0 ppt	4.4%	4.0%	-0.4 ppt
Adjusted net profit margin	2.5%	2.7%	2.7%	-0.1 ppt	2.8%	2.3%	-0.5 ppt

Sources: Company, CMS (HK)

## Financial Summary

### Balance Sheet

RMB million	2015	2016	2017E	2018E	2019E
Cash and ST investments	12,039	11,967	11,364	6,813	3,925
Inventories	15,091	16,416	16,989	22,094	24,592
Other current assets	28,456	31,884	34,287	45,260	49,862
<b>Total Current Assets</b>	<b>55,585</b>	<b>60,267</b>	<b>62,641</b>	<b>74,167</b>	<b>78,380</b>
Property, Plant & Equipment	6,317	7,201	10,320	11,765	13,338
Other assets	5,570	6,590	6,591	6,591	6,591
Intangible assets	6,872	8,685	10,705	10,436	10,165
<b>Total Non-current Asset</b>	<b>18,759</b>	<b>22,476</b>	<b>27,616</b>	<b>28,791</b>	<b>30,093</b>
<b>Total Assets</b>	<b>74,344</b>	<b>82,743</b>	<b>90,257</b>	<b>102,959</b>	<b>108,473</b>
Accounts Payable	28,562	31,065	32,720	42,552	47,818
ST bank loans	10,399	9,641	12,341	8,341	4,341
Income Taxes Payable	398	341	369	477	531
Other Current Liabilities	67	66	66	66	66
<b>Total Current Liabilities</b>	<b>39,427</b>	<b>41,113</b>	<b>45,496</b>	<b>51,435</b>	<b>52,755</b>
Long term debt	93	2,836	2,836	2,836	2,836
Deferred taxes	392	492	492	492	492
Other liabilities	624	1,467	1,467	1,467	1,467
<b>Total Non-current Liabilities</b>	<b>1,110</b>	<b>4,795</b>	<b>4,795</b>	<b>4,795</b>	<b>4,795</b>
<b>Total Liabilities</b>	<b>40,536</b>	<b>45,908</b>	<b>50,291</b>	<b>56,230</b>	<b>57,550</b>
Minority interest	3,878	5,212	5,828	6,536	7,371
Common equity	29,930	31,623	34,139	40,192	43,552
<b>Total Equity</b>	<b>33,808</b>	<b>36,834</b>	<b>39,966</b>	<b>46,729</b>	<b>50,923</b>

### Cash Flow Statement

RMB million	2015	2016	2017E	2018E	2019E
PBT	4,172	4,639	5,262	6,058	7,132
Depreciation and amortization	746	824	898	1,185	1,324
Operating profit before change in WC	4,765	5,270	6,752	8,027	9,067
Funds from other operating activities	-2,704	-2,488	-1,294	-6,138	-1,780
<b>Cash from operating activities</b>	<b>611</b>	<b>1,218</b>	<b>3,632</b>	<b>-355</b>	<b>5,074</b>
Capital expenditure	-1,214	-1,659	-1,825	-2,360	-2,627
Interest received	140	172	182	187	105
<b>Cash from Investing Activities</b>	<b>-1,769</b>	<b>-2,718</b>	<b>-5,856</b>	<b>-2,173</b>	<b>-2,522</b>
Long term borrowings	93	2,836	2,836	2,836	2,836
Common dividends (cash)	-1,030	-1,156	-1,078	-1,223	-1,440
<b>Cash from Financing Activities</b>	<b>1,235</b>	<b>1,204</b>	<b>1,622</b>	<b>-2,023</b>	<b>-5,440</b>
Effect of FX rate changes	11	-3	0	0	0
<b>Net Change in Cash</b>	<b>77</b>	<b>-295</b>	<b>-603</b>	<b>-4,551</b>	<b>-2,888</b>
Net Cash - Beginning Balance	11,190	11,278	10,980	10,377	5,826
<b>Net Cash - Ending Balance</b>	<b>11,278</b>	<b>10,980</b>	<b>10,377</b>	<b>5,826</b>	<b>2,938</b>

Sources: Company data, CMS (HK) estimates

### Profit & Loss Statement

RMB million	2015	2016	2017E	2018E	2019E
<b>Revenue</b>	<b>105,517</b>	<b>120,765</b>	<b>130,348</b>	<b>168,555</b>	<b>187,611</b>
Cost of sales	-92,979	-106,868	-114,836	-149,339	-166,223
Gross profit	12,538	13,897	15,511	19,215	21,388
SG&A expenses	-8,906	-10,112	-10,819	-13,653	-15,009
<b>Operating profit</b>	<b>3,631</b>	<b>3,785</b>	<b>4,693</b>	<b>5,562</b>	<b>6,379</b>
Interest Income	139	172	182	187	105
Interest Expense	-647	-697	-774	-971	-715
PBT	4,172	4,639	5,262	6,058	7,132
Income tax	-807	-809	-1,052	-1,272	-1,498
Minority interest	-487	-633	-616	-709	-834
<b>Net Profit</b>	<b>2,649</b>	<b>3,064</b>	<b>3,479</b>	<b>3,927</b>	<b>4,634</b>
<b>EPS - Diluted (RMB)</b>	<b>0.99</b>	<b>1.14</b>	<b>1.29</b>	<b>1.39</b>	<b>1.63</b>
DPS (RMB)	0.38	0.43	0.40	0.43	0.51
Dividend yield	2.4%	2.6%	2.3%	2.4%	2.8%

### Ratio

	2015	2016	2017E	2018E	2019E
<b>Growth (YoY)</b>					
Revenue	18.4%	14.5%	7.9%	29.3%	11.3%
Gross profit	12.2%	10.8%	11.6%	23.9%	11.3%
Operating profit	18.5%	4.2%	24.0%	18.5%	14.7%
Net profit	27.5%	15.6%	13.6%	12.9%	18.0%
<b>Margin</b>					
Gross Margin	11.9%	11.5%	11.9%	11.4%	11.4%
EBITDA Margin	4.1%	3.8%	4.3%	4.0%	4.1%
Operating Margin	3.4%	3.1%	3.6%	3.3%	3.4%
Adj. Net Profit Margin	2.5%	2.5%	2.7%	2.3%	2.5%
<b>Efficiency</b>					
Inventory Days	55	54	54	54	54
Trade Receivable Days	91	91	96	98	97
Account Payable Days	102	102	104	104	105
<b>Financial Ratios</b>					
Current Ratio (x)	1.4	1.5	1.4	1.4	1.5
Quick Ratio (x)	1.0	1.1	1.0	1.0	1.0
ROA	3.9%	3.9%	4.0%	4.0%	4.4%
ROE	8.5%	8.7%	9.0%	8.7%	9.4%
Net gearing	-2.3%	4.1%	12.0%	11.5%	8.3%

## Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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