

Company Report: China Dongxiang (03818 HK)

公司报告: 中国动向 (03818 HK)

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Brighter Outlook on Core Sportswear Business, "Buy"

对核心体育用品业务展望更佳, “买入”

- **2017 results missed expectations.** Revenue dropped 9.9% YoY to RMB1.35 billion, mainly due to worse-than-expected decline in China business. Overall GPM dropped 0.5 pts YoY to 56.2%. Net profit dropped 7.5% YoY to RMB805 million, mainly due to significantly increased advertising and selling expenses and net finance expenses. The Company proposed a final dividend of RMB1.42 cents per share and a special dividend of RMB2.84 cents per share, resulting in a full-year payout ratio of 189.2%.
- **The Company will take several measures to strengthen its channel management.** These measures include adjustments in stores and product mix, introduction of the Amoeba model, repositioning of the Kappa brand, etc. We expect these measures to improve the Company's core sportswear business over the next few years. We revise down 2018 and 2019 net profit forecasts by 10.5% and 10.2%, respectively, on lower forecasts on revenue and GPM and higher forecasts on operating expenses.
- **Cut TP of HK\$1.70 but upgrade to "Buy".** Although 2017 results missed expectations, we have a better outlook on growth of the Company's core sportswear business. We cut TP to HK\$1.70 to reflect adjustments in earnings forecasts. The new TP represents 11.1x, 10.5x and 10.3x 2018, 2019 and 2020 PER, respectively, and an upside potential of 22.3%, so we upgrade to "Buy". **Risks:** 1) a slowdown in China's sportswear industry growth, 2) fierce competition in the e-commerce business sector, and 3) unexpected gains or loss from investment in financial assets may significantly affect bottom line.
- **2017 年业绩差于预期。**收入同比下跌 9.9%至人民币 13.5 亿元, 主要由于中国业务下滑差于预期。整体毛利率同比下降 0.5 个百分点至 56.2%。净利润同比下跌 7.5%至人民币 8.05 亿元, 主要由于大幅增长的广告及销售费用和净财务费用。公司宣派每股 0.0142 元人民币的末期股息和每股 0.0284 元人民币的特别股息, 全年派息比率达到 189.2%。
- **公司将采取一些措施来加强渠道管理。**这些措施包括调整店铺和产品组合、引入阿米巴模式、重新定位 Kappa 品牌等等。我们预期这些措施将在接下来几年中改善公司的核心运动服饰业务。我们分别下调 2018 年和 2019 年净利润预测 10.5%和 10.2%, 基于更低的收入及毛利率预测以及更高的经营费用预测。
- **下调目标价至 1.70 港元但上调评级至“买入”。**尽管 2017 年业绩差于预期, 我们对公司的核心运动服饰业务的增长有更好的展望。我们下调目标价至 1.70 港元以反映盈利预测调整。新目标价分别相当于 11.1 倍、10.5 倍和 10.3 倍 2018 年、2019 年和 2020 年市盈率, 也反映了 22.3%的上升空间, 因此我们上调评级至“买入”。**风险:** 1) 中国体育用品行业增速放缓; 2) 电商业务板块的激烈竞争; 3) 投资金融资产预期外的收益或损失可能会对净利润造成严重影响。

Rating:

Buy

Upgraded

评级:

买入 (上调)

6-18m TP 目标价:

HK\$1.70

Revised from 原目标价:

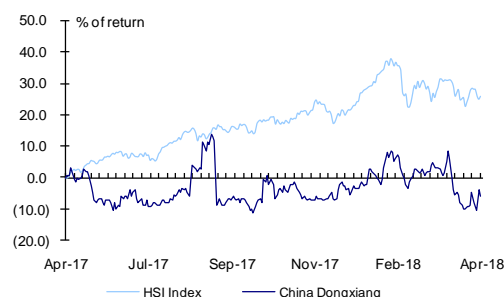
HK\$1.80

Share price 股价:

HK\$1.390

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(12.6)	(6.7)	10.2
Rel. % to HS Index 相对恒指变动 %	(9.0)	(1.0)	(16.3)
Avg. Share price(HK\$) 平均股价 (港元)	1.4	1.5	1.5

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	1,501	870	0.158	8.4	7.9	1.747	0.7	0.094	7.6	9.1
2017A	1,353	805	0.145	(8.1)	7.8	1.691	0.7	0.274	24.3	8.3
2018F	1,443	698	0.124	(14.4)	9.1	1.735	0.6	0.072	6.4	7.2
2019F	1,553	736	0.131	5.5	8.6	1.792	0.6	0.076	6.8	7.4
2020F	1,666	777	0.138	5.5	8.1	1.848	0.6	0.080	7.1	7.5
Shares in issue (m) 总股数 (m)	5,674.8				Major shareholder 大股东				Chen Yihong 42.1%	
Market cap. (HK\$ m) 市值 (HK\$ m)	7,888.0				Free float (%) 自由流通比率(%)				57.9	
3 month average vol. 3 个月平均成交股数('000)	9,200.9				FY18 Net gearing (%) FY18 净负债/股东资金 (%)				Net Cash	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	1.690 / 1.146				FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				2.0	

Source: the Company, Guotai Junan International.

2017 results missed expectations. China Dongxiang's ("the Company") 2017 revenue dropped 9.9% YoY to RMB1.35 billion, which missed Bloomberg consensus and our forecasts by 10.7% and 7.9%, respectively, mainly due to worse-than-expected decline in China business. Revenue from wholesales channels in China decreased by 33.0% YoY while revenue from retail channels increased by 15.1% YoY. The Kappa Kids brand recorded YoY revenue increase of 32.6% and contributed 8.4% to total revenue in 2017, up from 5.7% last year. Revenue from Japan decreased by 15.0% YoY, mainly due to adjustments in product mix and prolonged recession in the retail market in Japan. GPM in the Japan market increased by 1.1 ppts YoY to 35.8%, which was offset by the YoY decrease of 1.5 ppts in the China market, resulting in a YoY decrease of 0.5 ppts in overall GPM to 56.2%. GPM of footwear products remained flat YoY at 56.7% in 2017 while GPM of apparel products dropped YoY by 1.5 ppts to 67.8%.

Operating margin improved by 8.3 ppts YoY to 75.9%, primarily driven by increased gains from the investment segment. Gains from the investment segment amounted to RMB942 million in 2017, representing a YoY increase of 19.5%. Excluding contribution from the investment segment, adjusted operating margin dropped by 8.9 ppts YoY to 6.3%, mainly due to increased selling expenses and staff costs. Advertising and selling expenses surged by 26.5% YoY in 2017 and accounted for 25.9% of total revenue, up from 18.5% last year. Staff costs as a percentage of revenue increased by 1.5 ppts YoY to 11.6% in 2017.

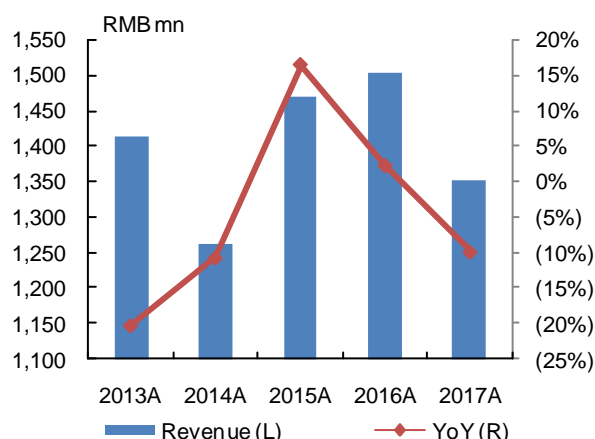
Net profit dropped 7.5% YoY to RMB805 million, which was also weaker than expected. The Company recorded net finance expenses amounting to RMB79.5 million in 2017, compared to net finance income of RMB27.9 million last year, mainly due to large foreign exchange loss. As a result, net margin only increased by 1.5 ppts YoY to 59.5%. The Company proposed a final dividend of RMB1.42 cents per share and a special dividend of RMB2.84 cents per share, resulting in a full-year dividend payout ratio of 189.2%, which was significantly higher than 60% last year.

Table-1: China Dongxiang's 2017 Results Analysis

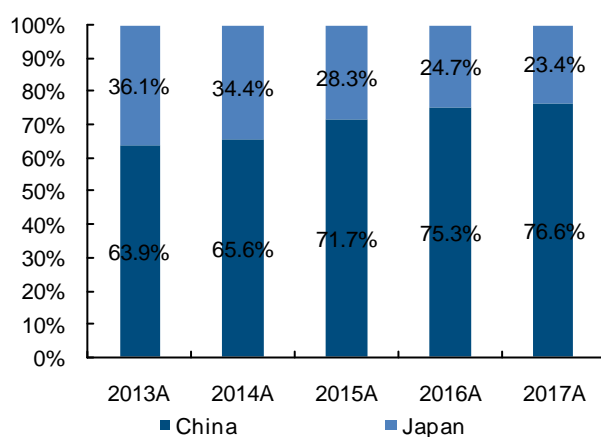
RMB mn	2016	2017	YoY	vs. our forecasts
Turnover	1,501	1,353	(9.9%)	(7.9%)
Cost of sales	(651)	(593)	(8.9%)	(4.6%)
Impairment losses of inventories	3	(6)	n.a.	(14.2%)
Gross profit	854	753	(11.8%)	(10.3%)
Distribution expenses	(488)	(566)	16.0%	19.6%
Administrative expenses	(159)	(120)	(24.5%)	(31.6%)
Other gains - net	809	960	18.7%	(15.6%)
Profit from operations	1,016	1,027	1.1%	(22.7%)
Adjusted operating profit*	228	86	(62.5%)	(58.8%)
Net finance income	28	(79)	n.a.	n.a.
Profit of associates & JVs	4	(17)	n.a.	n.a.
Profit before taxation	1,048	930	(11.3%)	(30.2%)
Income tax	(178)	(129)	(27.6%)	(51.6%)
Profit for the year	870	801	(7.9%)	(24.9%)
Non-controlling interests	(1)	(4)	551.1%	551.1%
Net profit	870	805	(7.5%)	(24.6%)
Basic EPS (RMB)	0.158	0.145	(8.1%)	(25.0%)
Gross margin	56.9%	55.7%	(1.2) ppt	(1.5) ppt
Operating margin	67.6%	75.9%	8.3 ppt	(14.5) ppt
Adjusted operating margin*	15.2%	6.3%	(8.9) ppt	(7.8) ppt
Net margin	58.0%	59.5%	1.5 ppt	(13.2) ppt

Source: the Company, Guotai Junan International.

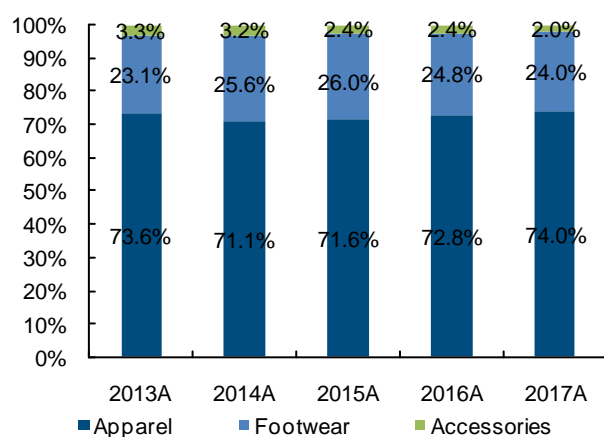
* Adjusted figures exclude gains from investment segment.

Figure-1: China Dongxiang's Revenue & YoY Growth


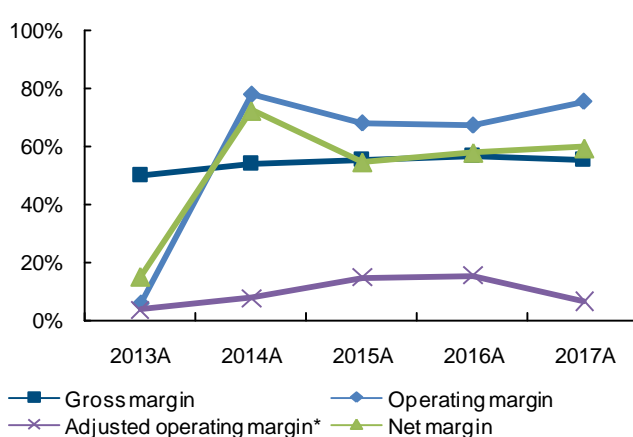
Source: the Company, Guotai Junan International.

Figure-2: China Dongxiang's Revenue by Geography


Source: the Company, Guotai Junan International.

Figure-3: China Dongxiang's Revenue by Channel


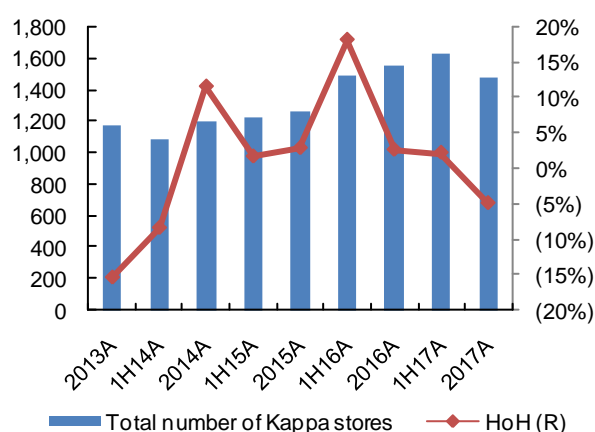
Source: the Company, Guotai Junan International.

Figure-4: China Dongxiang's Profitability


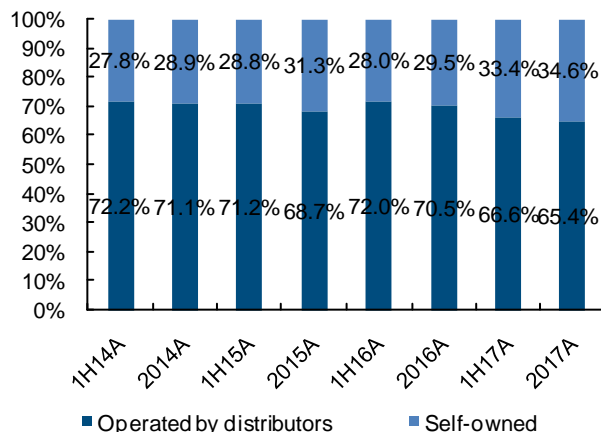
Source: the Company, Guotai Junan International.

* Adjusted figures exclude gains from investment segment.

The Company is more retail focused. As at the 31 December 2017, the Company had a total of 1,487 stores (including 1,137 Kappa stores and 350 Kappa Kids stores), representing a net decrease of 76 stores (comprising of a net decrease of 164 Kappa stores and net increase of 88 Kappa Kids stores) compared to last year. Kappa Kids is experiencing fast growth with strong network expansion, and the proportion of Kappa Kids stores increased from 16.8% in 2016 to 23.5% in 2017. Self-owned retail stores recorded a net increase of 54 stores during 2017, compared with a net decrease of 130 stores operated by distributors. The proportion of self-owned stores also increased from 29.5% in 2016 to 34.6% in 2017. The Company will continue to focus on self-operated retail channels over the next few years, which we believe will benefit the Company's overall GPM.

Figure-5: Total No. of Kappa & Kappa Kids stores


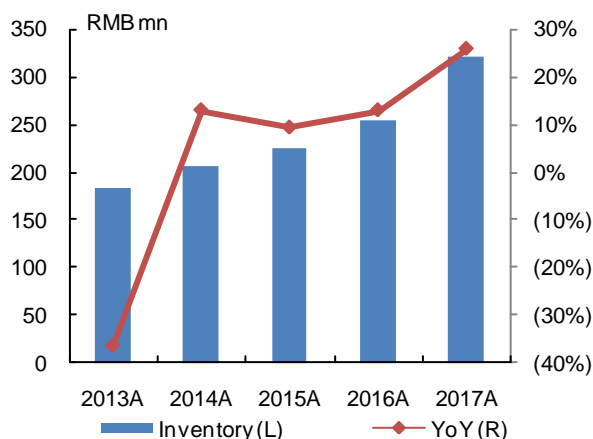
Source: the Company, Guotai Junan International.

Figure-6: Kappa Stores by Operational Type


Source: the Company, Guotai Junan International.

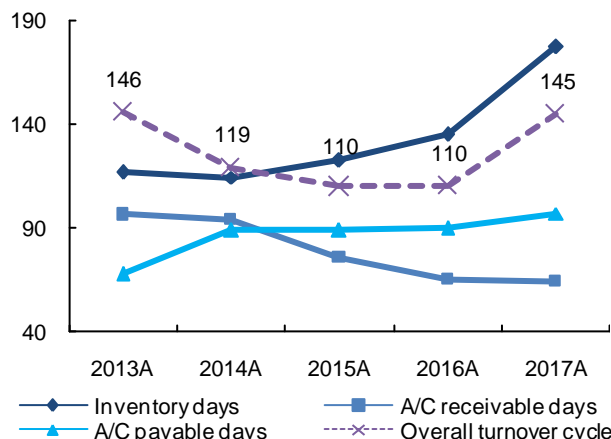
Working capital management significantly worsened during 2017. Inventory surged 25.8% YoY to RMB321 million as at 31 December 2017. As a result, average inventory turnover days increased by 42 days to 177 days. Inventory turnover days was relatively high due to the Company's strategy to focus on self-operated retail channels as well as e-commerce business, and we expect inventory turnover days to remain high over the next few years. Trade receivables decreased by 3.9% YoY to RMB234 million, resulting in a 1-day YoY improvement in trade receivable days to 64 days in 2017. Trade payable turnover days was up by 7 days YoY to 97 days. As a result, the Company's overall turnover cycle worsened by 35 days YoY to 145 days.

Figure-7: China Dongxiang's Inventory and YoY Growth



Source: the Company, Guotai Junan International.

Figure-8: China Dongxiang's Working Capital Turnover Cycle



Source: the Company, Guotai Junan International.

The Company will focus on improving channel management over the next few years. The SSSG of Kappa stores increased YoY in the mid-to-high single-digit percentage range in 1Q18. Retail sales of the offline Kappa stores grew YoY by a high single-digit percentage in 1Q18, which was a recovery compared to 2017. According to the management of China Dongxiang, the Company will take measures to strengthen its channel management, including the following: 1) adjustment in store mix. Currently stores in shopping malls account for 14% of total stores, which will be increased in the future; Outlets only account for 2% of total stores, which is targeted to reach 10% by the end of 2018 and 10-15% by the end of 2019. 2) The introduction of the Amoeba model; the Company has been testing the Amoeba model in part of its retail stores and received very positive feedback. The Amoeba model allows retail stores to gain excessive profit after meeting the basic targets made by the Company, which triggers the motivation of employees to work harder and also helps to increase inventory turnover in retail channels. The Company may adopt the Amoeba model in more retail stores in the future if the test results continue to be positive. 3) Repositioning of the Kappa brand with more sports elements, which will make sales more stable and predictable. 4) Expansion of e-commerce business in Tmall; the Company will gradually reduce cooperation with vip.com due to significantly decreased customer traffic. 5) Finally, the adjustment in product mix; the Company targets to increase the proportion of footwear products from the current level of 16% to 25%-30%, and will enhance women's products and introduce yoga products.

Revise down 2018 and 2019 net profit forecasts by 10.5% and 10.2%, respectively, on lower forecasts on revenue and GPM and higher forecast on operating expenses. We revise down 2018 and 2019 revenue forecasts by 6.7% and 5.7%, respectively, mainly due to lower-than-expected performance of the China market. We still expect GPM to gradually improve during 2018-2020, while the improvement may be weaker than we previously expected due to the hard conditions in China market. Besides, GPM in 2017 was significantly lower than our expectation. Therefore we revise down 2018 and 2019 GPM forecasts by 1.0 ppt and 0.9 ppt to 56.4% and 56.9%, respectively. Advertising and selling expenses are expected to be much higher than our previous forecasts due to the Company's heavy investment in retail channels, and staff costs are also expected to be higher. Therefore we revise down 2018 and 2019 operating margin forecasts by 4.0 ppts and 4.4 ppts to 58.7% and 57.5%, respectively. The Company's investment segment is operated by a separate team and has delivered solid yield so far. We expect gains from the investment segment to remain stable during 2018-2020. Excluding gains from the investment segment, we forecast adjusted operating margin for the Company's core sportswear business during 2018-2020 to increase YoY by 0.4 ppts, 2.5 ppts and 2.3 ppts to 6.7%, 9.2% and 11.5%, respectively.

Table-2: Key Assumptions and Adjustments

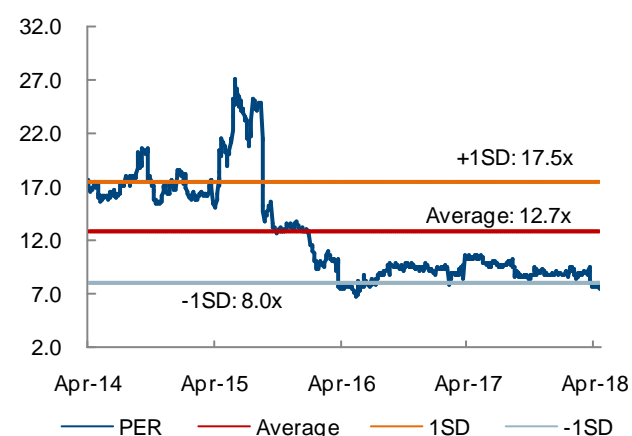
RMB mn	OLD			NEW			CHANGE		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Revenue	1,546	1,647	n.a.	1,443	1,553	1,666	(6.7%)	(5.7%)	n.a.
Gross profit	889	952	n.a.	814	884	955	(8.4%)	(7.2%)	n.a.
Operating profit	970	1,018	n.a.	847	892	942	(12.7%)	(12.4%)	n.a.
Adjusted operating profit*	220	268	n.a.	97	142	192	(56.0%)	(47.0%)	n.a.
Net profit	779	819	n.a.	698	736	777	(10.5%)	(10.2%)	n.a.
Basic EPS (RMB)	0.141	0.149	n.a.	0.124	0.131	0.138	(12.1%)	(11.8%)	n.a.
Gross margin	57.5%	57.8%	n.a.	56.4%	56.9%	57.3%	(1.0) ppt	(0.9) ppt	n.a.
% A&P of turnover	18.7%	17.9%	n.a.	24.6%	23.7%	22.8%	5.9 ppt	5.9 ppt	n.a.
% SG&A of turnover	44.3%	42.6%	n.a.	50.9%	49.0%	46.9%	6.6 ppt	6.4 ppt	n.a.
Operating margin	62.7%	61.8%	n.a.	58.7%	57.5%	56.6%	(4.0) ppt	(4.4) ppt	n.a.
Adjusted operating margin*	14.2%	16.3%	n.a.	6.7%	9.2%	11.5%	(7.5) ppt	(7.1) ppt	n.a.
Net margin	50.4%	49.8%	n.a.	48.4%	47.4%	46.6%	(2.0) ppt	(2.4) ppt	n.a.

Source: the Company, Guotai Junan International.

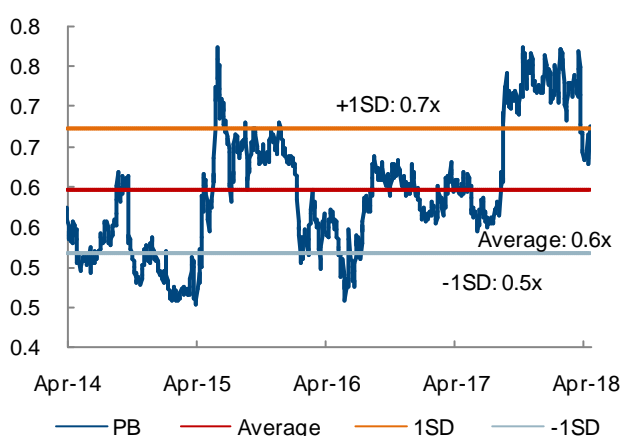
* Adjusted figures exclude gains from investment segment.

Cut TP to HK\$1.70 but upgrade to "Buy". Although 2017 results missed expectations, we have a better outlook on growth of the Company's core sportswear business over the next few years due to the Company's initiatives to improve channel management and to strengthen brand positioning. Currently, most of the Company's profit is generated from its investment segment. The Company's investment operations have been successful so far, which has resulted in very high net margin as well as high dividend payments. We cut our TP from HK\$1.80 to HK\$1.70 to reflect adjustments in our earnings forecasts. The new TP represents 11.1x, 10.5x and 10.3x 2018, 2019 and 2020 PER, respectively. Our new TP reflects upside potential of 22.3%. Therefore we upgrade our investment rating from "Accumulate" to "Buy".

Risks: 1) a slowdown in China's sportswear industry growth, 2) fierce competition in the e-commerce business sector, and 3) unexpected gain or loss from investment in financial assets may significantly affect the Company's bottom line.

Figure-9: China Dongxiang's PE Ratio (Next Annual)


Source: Bloomberg, Guotai Junan International.

Figure-10: China Dongxiang's PB Ratio (Current Annual)


Source: Bloomberg, Guotai Junan International.

Table-3: Peers Valuation Comparison Table

Company	Stock Code	Currency	Last price	Market Cap HKD mn	PE(x)				PB(x)				ROE(%)	D/Y(%)	EV/ EBITDA(x)	Gross Margin(%)	Operating Margin(%)
					16A	17F	18F	19F	16A	17F	18F	19F	17F	17F	17F	17F	17F
Sportswear																	
China Dongxiang	3818 HK	HKD	1.39	7,888	7.8	9.1	8.6	8.1	0.7	0.6	0.6	0.6	7.2	6.4	6.0	56.4	58.7
Anta	2020 HK	HKD	44.55	119,600	31.4	25.6	21.2	17.9	6.9	6.1	5.5	4.8	25.4	2.8	16.8	50.5	23.7
Lining	2331 HK	HKD	8.65	18,873	33.0	23.7	18.2	15.2	3.4	2.8	2.5	2.2	13.2	0.7	11.4	48.1	7.4
361 Degrees	1361 HK	HKD	2.56	5,293	7.2	8.0	7.4	7.2	0.8	0.7	0.7	0.6	8.6	4.8	3.1	41.8	17.8
Xtep Intl	1368 HK	HKD	4.40	9,801	20.1	13.1	11.5	10.6	1.6	1.4	1.4	1.3	11.4	4.4	5.4	44.0	16.7
Simple Average					19.9	15.9	13.4	11.8	2.7	2.4	2.1	1.9	13.2	3.8	8.5	48.2	24.9
Weighted Average					28.9	23.3	19.2	16.3	5.7	5.0	4.5	3.9	21.7	2.9	14.5	49.8	22.9
Ladies' Footwear																	
Daphne	210 HK	HKD	0.41	668	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Stella Intl	1836 HK	HKD	8.70	6,911	10.7	11.6	9.9	8.9	0.9	0.9	0.9	0.9	8.1	7.0	6.7	18.3	5.0
Le Saunda **	738 HK	HKD	1.16	819	6.8	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C.Banner Intl	1028 HK	HKD	2.33	4,839	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					8.8	11.6	9.9	8.9	0.7	0.9	0.9	0.9	8.1	7.0	6.7	18.3	5.0
Weighted Average					10.3	11.6	9.9	8.9	0.8	0.9	0.9	0.9	8.1	7.0	6.7	18.3	5.0
Apparel																	
China Lilang	1234 HK	HKD	10.20	12,209	17.1	12.5	10.9	10.1	3.3	2.9	2.6	2.4	23.1	5.3	9.7	41.3	26.5
Trinity	891 HK	HKD	0.81	2,911	n.a.	n.a.	n.a.	n.a.	0.6	0.6	0.7	n.a.	n.a.	n.a.	n.a.	70.5	(10.8)
I.T**	999 HK	HKD	3.93	4,699	15.4	10.8	9.3	7.7	1.5	1.4	1.3	1.2	13.4	4.3	4.0	62.4	8.5
Giordano Intl	709 HK	HKD	4.61	7,244	14.5	12.8	11.9	11.1	2.6	2.6	2.6	2.7	20.6	7.9	7.2	60.1	13.0
Esprit*	330 HK	HKD	2.35	4,435	34.1	n.a.	35.1	10.0	0.4	0.4	0.4	0.4	(6.3)	0.0	n.a.	51.9	1.4
Simple Average					15.7	12.0	10.7	9.6	2.0	1.9	1.8	2.1	19.0	5.8	7.0	58.6	9.3
Weighted Average					16.0	12.3	10.9	9.9	2.5	2.3	2.2	2.3	20.5	5.9	7.9	53.1	15.7

Source: Bloomberg, Guotai Junan International. All forecasts are based on Bloomberg consensus.

* Note: Esprit (330) as outliers is excluded from the calculation of simple and weighted average.

** Note: The financial year end date of Le Saunda (738) and IT (999) is the end of February. For easier comparison with peers, "17A" means "FY18A" and "18F" means FY19F and so on for the two companies.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	1,501	1,353	1,443	1,553	1,666
Cost of Sales	(651)	(593)	(631)	(672)	(714)
Impairment Losses of Inventories	3	(6)	3	3	3
Gross Profit	854	753	814	884	955
Distribution Expenses	(488)	(566)	(575)	(596)	(612)
Administrative Expenses	(159)	(120)	(159)	(165)	(169)
Other Income and Gains	809	960	767	769	768
Operating Profit	1,016	1,027	847	892	942
Net Finance Income (costs)	28	(79)	5	7	10
Profit of JV	4	(17)	(5)	(6)	(10)
Profit Before Tax	1,048	930	846	893	943
Income Tax	(178)	(129)	(152)	(161)	(170)
Profit After Tax	870	801	694	732	773
Non-controlling Interest	1	4	4	4	4
Shareholders' Profit / Loss	870	805	698	736	777
Basic EPS	0.158	0.145	0.124	0.131	0.138
YoY	8.4%	(8.1%)	(14.4%)	5.5%	5.5%

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Profit Before Taxation	1,048	930	846	893	943
D&A	24	23	26	27	27
Other Adjustments	(839)	(897)	(6)	(10)	(13)
Changes in Working Capital	62	65	9	(31)	(31)
Interest Received	3	20	3	7	10
Income Tax Paid	(193)	(120)	(146)	(154)	(162)
Cash from Operating Activities	106	21	733	733	774
Purchase of PP&E	(4)	(41)	(16)	(16)	(15)
Purchases of Intangible Assets	(2)	(5)	(3)	(4)	(4)
Investments in Available-for-sale					
Financial Assets	(1,923)	(690)	(150)	(154)	(159)
Other Investing Activities	3,169	1,891	2	1	(0)
Cash from Investing Activities	1,241	1,155	(167)	(172)	(179)
Net Borrowings	296	(231)	71	(374)	0
Dividends Paid	(565)	(1,509)	(446)	(409)	(454)
Others	(346)	(14)	0	0	0
Cash from Financing Activities	(615)	(1,754)	(375)	(783)	(454)
Net Changes in Cash	731	(578)	191	(223)	142
Cash at Beg of Year	910	1,713	1,052	1,243	1,020
Foreign Exchange Effect	73	(84)	0	0	0
Cash at End of Year	1,713	1,052	1,243	1,020	1,162

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Property, Plant and Equipment	69	97	100	101	102
Intangible Assets	229	222	213	204	196
Investments Using Equity Method	137	121	109	98	88
Available-for-sale Financial Assets	4,516	4,851	4,996	5,146	5,301
Other Non-current Assets	464	997	1,040	1,085	1,133
Total Non-current Assets	5,415	6,288	6,458	6,635	6,819
Inventories	255	321	299	315	333
Trade Receivables	244	234	255	274	295
Other Receivables	2,403	1,977	1,977	1,977	1,977
Financial Assets	611	535	549	564	578
Cash & Cash Equivalents	1,713	1,052	1,243	1,020	1,162
Others	504	492	492	492	492
Total Current Assets	5,730	4,611	4,815	4,642	4,836
Total Assets	11,145	10,899	11,272	11,277	11,656
Trade Payables	164	152	167	179	192
Other Payables and Accruals	221	288	316	348	383
Current Income Tax Liabilities	78	107	112	118	124
Borrowings - Current	751	229	300	200	200
Other Current Liabilities	139	87	84	82	79
Total Current Liabilities	1,352	862	980	927	978
Borrowings	0	274	274	0	0
Deferred Tax Liabilities	119	163	171	180	189
Total Non-current Liabilities	119	438	446	180	189
Total Liabilities	1,471	1,300	1,426	1,107	1,167
Total Shareholders' Equity	9,658	9,585	9,837	10,164	10,487
Minority Interest	17	13	10	6	2
Total Equity	9,675	9,599	9,846	10,170	10,489

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Gross Margin (%)	56.9	55.7	56.4	56.9	57.3
Operating Margin (%)	67.6	75.9	58.7	57.5	56.6
Net Margin (%)	58.0	59.5	48.4	47.4	46.6
ROE (%)	9.1	8.3	7.2	7.4	7.5
ROA (%)	8.0	7.3	6.3	6.5	6.8
ROCE (%)	10.2	9.6	8.1	8.4	8.7
Payout Ratio (%)	60.0	189.2	58.6	58.6	58.4
Inventory Days	134.9	177.3	179.1	166.7	165.6
A/C Receivable Days	65.4	64.5	61.9	62.2	62.3
A/C Payable Days	90.2	97.1	92.3	94.0	94.7
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current Ratio (x)	4.2	5.3	4.9	5.0	4.9

20 April 2018

China Dongxiang 中国动向 (03818 HK)

Company Report

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	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	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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