

Shandong Weigao (1066 HK)

Eyes on Argon as the new driver

Shandong Weigao had completed its acquisition of Argon Medical Devices in US on 24 Jan 2018. In 2018, we see Weigao sales from consumables/ orthopaedic and total revenue growth y-o-y at 11%/13%/36%, expecting Argon to turn net profit in 2020 and having Weigao's EPS CAGR (FY17-20F) at 15.2%. Adding Argon's valuation, our SOTP-TP rises to HKD7.00 (from HKD6.35). Upgrade to BUY.

Argon's acquisition completed, turning to net profit in 2020.

On 24 Jan 2018, Weigao announced it had completed the acquisition of Argon Medical Devices Holdings (US' high-end specialty device maker). The cash consideration was USD844m (RMB5,307m). As in our [27 Sept 2017 report](#), its balance sheet has to be geared up and we now factor in RMB3.4bn of long-term borrowings and RMB889m of short-term debt. This makes up a gearing of 9.0% at end-2018, vs a net cash of RMB3.0bn at end-2017. We expect Argon to stay at net loss in FY18F-19F of -RMB172m and -RMB73m, turning to a net profit in 2020.

Argon's revenue to grow 10% y-o-y in 2018 post consolidation.

We forecast Argon's biopsy and drainage catheters sales taking up 45% of Argon's FY18F revenue, the rest being from vascular clot management and guidewires. This is based on our assumption of biopsy and catheters at USD102m in 2012 vs Argon's total revenue at USD225m in 2016. We project each of these area sales to grow at 10% y-o-y for this and next year (FY17:5%). Post conference call on 27 Mar, 22 of existing Argon products had obtained CFDA approval, ready for China sales soon.

2018: Consumables/ orthopaedic/ total sales at 11%/13%/36% y-o-y.

On the same day, Weigao reported its 2017 net profit at RMB1,256m, the same number as the core profit which was up 2% y-o-y. This was 13% below our and Bloomberg consensus estimate, on (1) smaller Weigo blood purification profit as an associate; and (2) higher operating cost (opex) to sales. Post analyst call, we expect Weigao's consumables and orthopaedic products sales to rise at 11%/13% y-o-y in 2018. Consolidating with Argon's revenue and removing blood purification sales as discontinued operation, our total revenue growth y-o-y will be 36%/9%/10% in this and next two years, with our revenue up 3% each year.

TP rises to HKD7.00 (from HKD6.35). Upgrade to BUY.

On higher opex to sales (1) in 2017 at 41.6% vs our expected 38.7% and (2) post Argon's consolidation in 2018, we cut our earnings to RMB1,236m (from RMB1,624m) in 2018 and to RMB1,409m (from RMB1,771m) in 2019. Our earnings now accelerates from 2% y-o-y decline in 2018 to 32% y-o-y growth in 2020. Adding Argon's valuation, our SOTP-derived TP lifts to HKD7.00 (from HKD6.35). This reflects 21.2x FY18F P/E (from 15.1x), (1) below sector target median at 24.0x; and (2) at par to past 5-year forward P/E mean at 21.0x. We deem the stock to be undervalued at 14.2x FY18 P/E vs sector's 21.0x on being China leading medical consumables suppliers, integrating US high-end specialty device post M&A.

Figure 1: Financial Summary

Year to Dec 31 (RMBm)	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	5,620	6,293	8,563	9,332	10,261
Reported Profit	1,033	1,256	1,236	1,409	1,855
Underlying Profit	1,236	1,256	1,236	1,409	1,855
Underlying EPS (RMB)	0.276	0.278	0.273	0.312	0.410
DPS (RMB)	0.09	0.09	0.09	0.10	0.13
P/E (x)	14.0	13.9	14.2	12.4	9.4
Dividend Yield (%)	2.3	2.3	2.3	2.6	3.4
P/B (x)	1.46	1.31	1.24	1.16	1.04
Net debt/equity (%)	(24.6)	(21.6)	9.0	3.6	6.8
Underlying EPS growth (%)	11.1	0.6	(1.6)	14.0	31.7

Source: Company data, Guosen Securities (HK) Research

China Healthcare
Medical Equipment/Devices

23 April 2018 ▲ BUY

Target price ▲ HKD7.00

Previous Rec/Target Neutral | HKD6.35

Last price (20 Apr 18) HKD4.84

Upside/downside (%) 44.7

HSI 30418.33

Mkt cap (HKDb/Usdb) 21.7/2.8

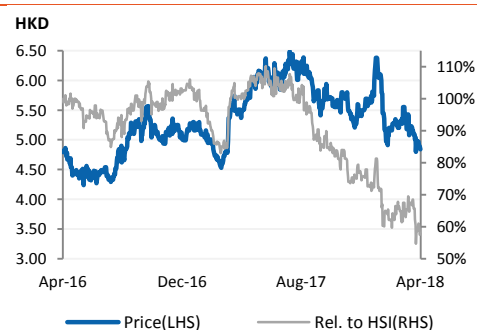
52 week range (HKD) 4.80 - 6.50

Avg trading volume daily (USDm) 3.68

Free float (%) 30%

Source: Bloomberg

Performance



Source: Bloomberg

Performance	1M	3M	12M
Absolute (%)	(11.0)	(24.1)	(12.0)
Absolute (USD, %)	(11.1)	(24.4)	(12.8)
Relative to HSI (%)	(7.4)	(18.4)	(38.4)

Source: Bloomberg

Company background

Shandong Weigao Group Medical Polymer Company Limited, through its subsidiaries, researches and develops, produces, and sells single-use aseptic polymer medical products. Its major shareholders are (including unlisted shares): Weigao Holdings (mother company) (47.8%); JP Morgan Chase & Co., (4.2%); and Blackrock (3.4%).

Source: Bloomberg, Company data, HKEx data, and Guosen Securities (HK) Research

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Figure 2 Valuation of Shandong Weigao

Diluted number of shares (millions)		4,522				
	Valuation basis	Implied FY18F P/E (X)	NAV (HKDm) (100% ownership)	NAV (HKDm) (end-2018)	NAV/ share (HKD) (end-2018)	
Medical Consumables	P/E multiple (FY18F) of 13.0x	13.0	18,423	18,423	4.07	50.5%
Orthopaedic implants	DCF, WACC = 8.9%; g = 3.0%	19.0	5,434	4,347	80.0% owned	0.96 11.9%
Blood purification (dialysis)	DCF, WACC = 8.9%; g = 3.0%	19.7	5,370	2,517	46.9% owned	0.56 6.9%
Argon (in US and China)	DCF, WACC=8.7%, g=3.1%	N/a	12,413	11,172	90.0% owned	2.47 30.6%
subtotal				36,459	8.06	
Net cash (net debt) without trading equities (at end-2018)				(1,273)	(0.28)	
subtotal				35,186	7.78	
Taking 10% discount						
SOTP total		21.2		31,667	7.00	TP

Source: Company data; and Guosen Securities(HK) Research

Figure 3 Change in P&L forecast

Year ended Dec (RMB m)	FY16	Guosen FY17F	Actual FY17	Diff	Old FY18F	New FY18F	Diff	Old FY19F	New FY19F	Diff
Revenue	5,620	7,605	6,293	-17%	8,319	8,563	3%	9,080	9,332	3%
COGS	(2,042)	(3,042)	(2,300)	-24%	(3,378)	(3,511)	4%	(3,741)	(3,901)	4%
Gross profit	3,578	4,563	3,993	-12%	4,942	5,052	2%	5,339	5,431	2%
Other income	106	129	173	34%	141	171	21%	154	187	21%
Distribution costs	(1,553)	(2,106)	(1,922)	-9%	(2,246)	(2,655)	18%	(2,452)	(2,800)	14%
Administrative expenses	(918)	(837)	(693)	-17%	(915)	(1,053)	15%	(962)	(1,083)	12%
Operating profit	1,106	1,620	1,377	-15%	1,780	1,344	-24%	1,925	1,549	-20%
Finance costs	(25)	(32)	(24)	-24%	(30)	(67)	124%	(22)	(125)	474%
JV Nikkiso	3	6	4	-33%	8	8	0%	12	12	0%
JV Terumo	(3)	(1)	(3)	200%	(1)	(1)	0%	2	2	0%
Share of profit associate (Weigao Blood and others)	0	0	0	N/A	0	69	N/A	0	120	N/A
Disposal gain and other fair value changes	0	0	1	N/A	0	0	N/A	0	0	N/A
Profit before Tax	1,187	1,723	1,528	-11%	1,899	1,518	-20%	2,071	1,731	-16%
Tax	(154)	(248)	(224)	-10%	(266)	(273)	3%	(290)	(312)	7%
Minority interest	0	39	47	20%	9	9	0%	10	10	0%
Adjustment	(203)	0	0	N/A	0	0	N/A	0	0	N/A
Net profit (reported)	1,033	1,435	1,256	-12%	1,624	1,236	-24%	1,771	1,409	-20%
Net profit (underlying)	1,236	1,435	1,256	-12.5%	1,624	1,236	-23.9%	1,771	1,409	-20.5%
Underlying EPS (diluted, RMB)	0.276	0.317	0.278	-12%	0.359	0.273	-24%	0.392	0.312	-20%
DPS (RMB)	0.087	0.095	0.089	-7%	0.108	0.088	-19%	0.117	0.100	-15%
Dividend payout ratio	31.8%	30.0%	32.0%		30.0%	32.0%		30.0%	32.0%	
Margin analysis										
Gross margin	63.7%	60.0%	63.5%	3.5%	59.4%	59.0%	-0.4%	58.8%	58.2%	-0.6%
Distribution costs	27.6%	27.7%	30.5%	3%	27.0%	31.0%	4%	27.0%	30.0%	3%
Administrative expenses	16%	11%	11%	0%	11%	12%	1%	11%	12%	1%
Operating margin	20%	21%	22%	1%	21%	16%	-6%	21%	17%	-5%
Net margin (underlying)	22.0%	18.9%	20.0%	1.1%	19.5%	14.4%	-5.1%	19.5%	15.1%	-4.4%
YoY change										
Revenue	-5%	13%	12%	-1%	9%	36%	27%	9%	9%	0%
Gross profit	2%	10%	12%	1%	8%	27%	18%	8%	8%	-1%
Distribution costs	1%	15%	24%	9%	7%	38%	31%	9%	5%	-4%
Administrative costs	34%	-19%	-25%	-5%	9%	52%	43%	5%	3%	-2%
Net profit (underlying)	11%	10%	2%	-8%	13%	-2%	-15%	9%	14%	5%

Source: Company data and Guosen Securities (HK) Research

Figure 4 Yearly sales forecast breakdown for Weigao

Year-ended Dec (RMBm)	FY16	FY17	FY18	FY19	FY20
Infusion sets	1,573	1,669	1,838	1,983	2,148
Syringes	758	860	928	1,029	1,138
Needles	895	1,018	1,136	1,272	1,422
Blood bags	275	307	309	333	365
Blood sampling	90	109	112	123	140
Pre-filled syringes	599	718	861	1,003	1,164
Wound management	172	182	216	244	283
Other consumables	403	493	542	591	644
Total Consumables	4,763	5,356	5,942	6,579	7,305
Orthopaedic products	803	870	984	1,087	1,211
PVC granules	53	66	49	47	45
Argon					
biopsy and drainage catheters	684	694	714	729	765
vascular clot management and guidewires	836	848	873	891	935
Blood purification					
Dialysis consumables	883	N/A	N/A	N/A	N/A
Dialyzers machine	210	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A	N/A
Total revenue	5,620	6,293	8,563	9,332	10,261
Y-o-y change	FY16	FY17	FY18	FY19	FY20
Infusion sets	-2.0%	6.1%	10.2%	7.9%	8.3%
Syringes	9.8%	13.5%	7.9%	10.9%	10.6%
Needles	9.0%	13.7%	11.6%	12.0%	11.8%
Blood bags	-13.0%	11.9%	0.6%	7.9%	9.4%
Blood sampling	20.5%	22.1%	2.0%	10.0%	14.0%
Pre-filled syringes	115.3%	19.9%	20.0%	16.4%	16.1%
Dental & Anesthetic	N/A	N/A	N/A	N/A	N/A
Wound management	66.7%	6.0%	18.7%	13.0%	16.0%
Other consumables	0.7%	22.4%	10.0%	9.0%	9.0%
Total Consumables	11.1%	12.4%	11.0%	10.7%	11.0%
Orthopaedic products	22.2%	8.3%	13.1%	10.4%	11.4%
PVC granules	-4.6%	25.2%	-26.3%	-3.9%	-3.8%
Argon					
biopsy and drainage catheters	N/A	1.4%	3.0%	2.0%	5.0%
vascular clot management and guidewires	N/A	1.4%	3.0%	2.0%	5.0%
Blood purification					
Dialysis consumables	21.1%	N/A	N/A	N/A	N/A
Dialyzers machine	11.1%	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A	N/A
Total revenue	-5%	12%	36%	9%	10%
% total revenue	FY16	FY17	FY18	FY19	FY20
Infusion sets	28.0%	26.5%	21.5%	21.3%	20.9%
Syringes	13.5%	13.7%	10.8%	11.0%	11.1%
Needles	15.9%	16.2%	13.3%	13.6%	13.9%
Blood bags	4.9%	4.9%	3.6%	3.6%	3.6%
Blood sampling	1.6%	1.7%	1.3%	1.3%	1.4%
Pre-filled syringes	10.7%	11.4%	10.1%	10.7%	11.3%
Dental & Anesthetic	0.0%	0.0%	0.0%	0.0%	0.0%
Wound management	3.1%	2.9%	2.5%	2.6%	2.8%
Other consumables	7.2%	7.8%	6.3%	6.3%	6.3%
Total Consumables	84.8%	85.1%	69.4%	70.5%	71.2%
Orthopaedic products	14.3%	13.8%	11.5%	11.6%	11.8%
PVC granules	0.9%	1.1%	0.6%	0.5%	0.4%
Argon					
biopsy and drainage catheters	N/A	N/A	8.3%	7.8%	7.5%
vascular clot management and guidewires	N/A	N/A	10.2%	9.5%	9.1%
Blood purification					
Dialysis consumables	15.7%	N/A	N/A	N/A	N/A
Dialyzers machine	3.7%	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A	N/A
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%

* Yellow highlights are pro-forma data assumption for US' Argon sales ahead of its merger with Weigao

Source: Company data and Guosen Securities (HK) Research

Figure 5 Historical Sales breakdown for Weigao

Revenue breakdown					Guosen	Actual	Guosen	Actual	
Dec-ended (RMB m)	1H16	2H16	FY16	1H17	2H17F	2H17	FY17F	FY17	Diff
Infusion sets	873	700	1,573	806	875	862	1,682	1,669	-1%
Syringes	369	389	758	402	420	458	822	860	5%
Needles	427	468	895	472	531	546	1,003	1,018	1%
Blood bags	133	142	275	141	150	167	291	307	6%
Blood sampling	43	46	90	50	53	60	103	109	6%
Pre-filled syringes	176	422	599	369	394	349	763	718	-6%
Wound management	84	88	172	91	96	91	187	182	-3%
Other consumables	219	183	403	229	237	264	466	493	6%
Total Consumables	2,324	2,439	4,763	2,559	2,757	2,797	5,316	5,356	1%
Orthopaedic products	341	463	803	390	530	481	919	870	-5%
Dialysis consumables	0	240	240	0	596	0	1,068	-	-100%
PVC granules	27	26	53	29	22	37	51	66	30%
Dialyzer machine	0	57	57	0	126	144	250	-	-100%
others	0	0	0	0	0	0	0	0	
Total revenue	2,692	3,225	5,917	2,978	4,030	3,459	7,605	6,293	-17%

YoY growth	1H16	2H16	FY16	1H17	2H17F	2H17	FY17F	FY17	
Infusion sets	14%	-17%	-2%	-8%	25%	23%	7%	6%	-1%
Syringes	10%	9%	10%	9%	8%	18%	9%	13%	5%
Needles	3%	15%	9%	11%	13%	17%	12%	14%	2%
Blood bags	-17%	-9%	-13%	6%	6%	17%	6%	12%	6%
Blood sampling	26%	16%	20%	15%	15%	29%	15%	22%	7%
Pre-filled syringes	6%	276%	115%	109%	-7%	-17%	27%	20%	-7%
Wound management	86%	52%	67%	8%	10%	4%	9%	6%	-3%
Other consumables	22%	-17%	1%	4%	18%	44%	11%	22%	11%
Total Consumables	11%	11%	11%	10%	12%	15%	11%	12%	1%
Orthopaedic products	-4%	53%	22%	14%	14%	4%	14%	8%	-6%
Dialysis consumables	N/A	N/A	N/A	N/A	25%	N/A	21%	N/A	N/A
PVC granules	0%	-9%	-5%	8%	-17%	43%	-4%	25%	29%
Dialyzer machine	N/A	N/A	N/A	N/A	12%	N/A	19%	N/A	N/A
Others	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total revenue	-6%	6%	0%	11%	14%	7%	13%	6%	-7%

% segment to total sales									
Infusion sets	32%	22%	27%	27%	22%	25%	22%	27%	4%
Syringes	14%	12%	13%	13%	10%	13%	11%	14%	3%
Needles	16%	15%	15%	16%	13%	16%	13%	16%	3%
Blood bags	5%	4%	5%	5%	4%	5%	4%	5%	1%
Blood sampling	2%	1%	2%	2%	1%	2%	1%	2%	0%
Pre-filled syringes	7%	13%	10%	12%	10%	10%	10%	11%	1%
Wound management	3%	3%	3%	3%	2%	3%	2%	3%	0%
Other consumables	8%	6%	7%	8%	6%	8%	6%	8%	2%
Total Consumables	86%	76%	80%	86%	68%	81%	70%	85%	15%
Orthopaedic products	13%	14%	14%	13%	13%	14%	12%	14%	2%
Dialysis consumables	0%	7%	4%	0%	15%	0%	14%	0%	-14%
PVC granules	1%	1%	1%	1%	1%	1%	1%	1%	0%
Dialyzer machine	0%	2%	1%	0%	3%	4%	3%	0%	-3%
Others	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total revenue	100%	100%	100%	100%	100%	100%	100%	100%	0%

Source: Company data and Guosen Securities (HK) Research

Figure 6 Historical half-yearly P&L breakdown for Weigao

Year ended Dec	Guosen			Actual			Guosen			Actual		
P&L (RMB m)	1H16	2H16	FY16	1H17	2H17F	2H17	Diff	FY17F	FY17	Diff		
Revenue	2,692	3,225	5,917	3,574	4,030	2,719	-33	7,605	6,293	-17		
COGS	(756)	(1,286)	(2,042)	(1,420)	(1,622)	(880)	-46	(3,042)	(2,300)	-24		
Gross profit	1,936	1,939	3,875	2,154	2,409	1,839	-24	4,563	3,993	-12		
Other income	45	61	106	79	50	94	87	129	173	34		
Distribution costs	(842)	(711)	(1,553)	(1,027)	(1,079)	(895)	-17	(2,106)	(1,922)	-9		
Administrative expenses	(657)	(262)	(918)	(373)	(464)	(320)	-31	(837)	(693)	-17		
Finance costs	(26)	1	(25)	(29)	(3)	5	-260	(32)	(24)	-24		
JV stent & Biosensors	0	-	0	0	0	0	N/A	0	0	N/A		
JV Nikkiso	3	0	3	2	4	(2)	-160	6	0	-100		
JV Terumo	(1)	(2)	-3	(2)	1	2	167	-1	0	-100		
Disposal gain and fair value	(0)	0	0	1	(1)	(0)	N/A	0	1	N/A		
Profit before Tax	456	1,028	1,485	807	916	721	-21	1,723	1,528	-11		
Tax	(90)	(64)	(154)	(118)	(130)	(107)	-18	(248)	(224)	-10		
Tax rate	19.7%	6.2%	10.4%	14.6%	14.2%	14.8%	4	14.4%	14.7%	2		
Minority interest	19	(19)	(0)	(39)	(0)	(8)	9598	(39)	(47)	20		
Adjustment	(203)	-	(203)	0	0	0	N/A	0	0	N/A		
Net profit (reported)	386	945	1,331	650	785	606	-23	1,435	1,256	-12		
Net profit (underlying)	589	945	1,534	650	785	606	-23	1,435	1,256	-12		
EPS (RMB)	0.131	0.211	0.342	0.144	0.174	0.134		0.317	0.278			
DPS (RMB)	0.041	0.046	0.087	0.043	0.052	0.046		0.095	0.089			
Dividend payout ratio	31.2%	21.8%	25.4%	29.9%	30.1%	34.3%		30.0%	32.0%			
P&L YoY growth	1H16	2H16	FY16	1H17	2H17F	2H17		FY17F	FY17			
Revenue	(6)	6	(0)	33	14	(16)	-29.7	13	6	-6.6		
COGS	(35)	3	(15)	88	22	(32)	-53.1	17	13	-4.7		
Gross profit	13	8	10	11	9	(5)	-14.6	10	3	-7.3		
Distribution costs	13	(11)	1	22	8	26	17.6	15	24	9.2		
Administrative expenses	109	(30)	34	(43)	23	22	-0.4	(19)	(25)	-5.4		
Profit before Tax	(35)	63	11	77	7	(30)	-36.6	31	3	-28.2		
Tax	(10)	(27)	(18)	31	50	67	16.8	40	46	5.5		
Net profit (underlying)	0	80	38	10	9	(36)	-44.8	10	(18)	-27.7		
P&L as % of FY sales	1H16	2H16	FY16	1H17	2H17F	2H17		FY17F	FY17			
Revenue	45	55	100	57	53	43	-9.8	100	100	0.0		
Gross profit	50	50	100	54	53	46	-6.7	100	100	0.0		
Other income	42	58	100	46	39	54	15.4	100	100	0.0		
Distribution costs	54	46	100	53	51	47	-4.7	100	100	0.0		
Administrative expenses	72	28	100	54	55	46	-9.2	100	100	0.0		
Net profit (underlying)	38	62	100	52	55	48	-6.5	100	100	0.0		
Margin analysis	1H16	2H16F	FY16	1H17	2H17F	2H17		FY17F	FY17			
Revenue	100	100	100	100	100	100	0.0	100	100	0.0		
Gross profit	71.9	60.1	65.5	60.3	59.8	67.6	7.9	60.0	63.5	3.5		
Distribution costs	31.3	22.0	26.2	28.7	26.8	32.9	6.1	27.7	30.5	2.8		
Administrative expenses	24.4	8	15.5	10.4	11.5	11.8	0.3	11.0	11.0	0.0		
Profit before Tax	17	32	25	23	23	27	3.8	23	24	1.6		
Net profit (underlying)	22	29	26	18	19	22	2.8	19	20	1.1		

Source: Company data and Guosen Securities (HK) Research

Figure 7 Comparison table for HK-listed medical device players

Name	Ticker	Last	3-mth avg			P/E	P/E	P/E	3-yr EPS	Div yld	EV/Ebitda	EV/Ebitda	EV/Ebitda	P/B-	P/B-	Target	Target		
			t/o	Mkt cap	P/E													P/E	EV/Ebitda
Unadj avg			31.5	21.4	16.4	22.6	15.4	1.2	17.2	8.1	7.4	2.7	2.0	1.8	23.3	11.7			
Median			17.5	14.9	12.3	15.6	1.0	1.2	14.6	7.3	6.5	1.5	1.2	1.1	24.0	11.7			
MICROPORT SCIENT	853 HK	8.70	3.6	1,620	84.6	29.2	23.6	52.0	0.56	0.2	19.1	13.3	12.1	4.02	4.11	3.58	9.41	31.6	14.4
BEIJING CHUNLI-H	1858 HK	15.48	0.2	136	12.5	N/A	N/A	N/A	N/A	1.2	6.9	N/A	N/A	1.59	N/A	N/A	N/A	N/A	N/A
PW MEDTECH GROUP	1358 HK	1.41	0.4	282	14.6	6.7	6.0	N/A	N/A	N/A	24.3	3.9	3.6	0.64	0.62	0.56	N/A	N/A	N/A
LIFETECH SCI	1302 HK	2.23	3.9	1,231	47.1	44.7	29.8	N/A	N/A	N/A	34.1	N/A	N/A	7.35	N/A	N/A	N/A	N/A	N/A
AK MEDICAL HOLDI	1789 HK	3.69	7.6	488	21.1	21.1	17.4	14.5	1.46	N/A	28.4	15.6	13.0	N/A	N/A	N/A	4.59	26.3	19.4
SISRAM MEDICAL L	1696 HK	6.20	0.3	349	20.4	14.9	12.3	15.6	0.95	N/A	10.2	N/A	N/A	1.19	N/A	N/A	10.00	24.0	N/A
SHANDONG WEIG-H	1066 HK	4.84	3.7	2,761	10.0	11.4	10.4	0.3	44.76	2.1	8.6	7.3	6.5	1.32	1.24	1.13	6.00	14.2	9.0

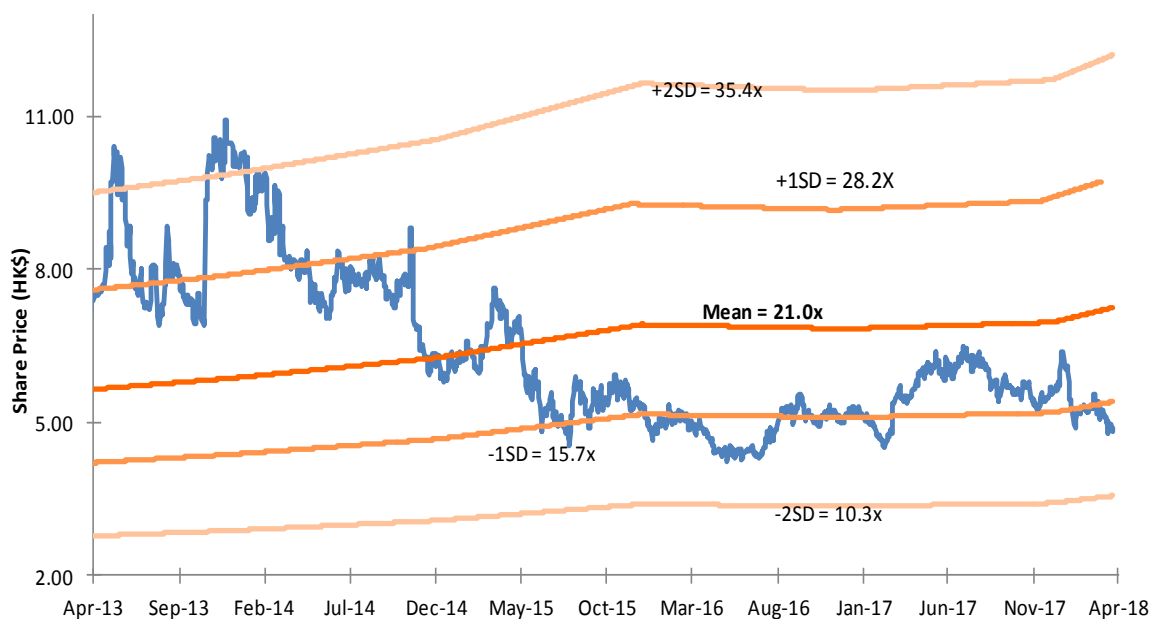
Source: Bloomberg data; and sorted by Guosen Securities(HK) Research

Figure 8 Past 5-year forward P/E curve (Y axis: P/E of Weigao)



Source: Bloomberg data; and sorted by Guosen Securities(HK) Research

Figure 9 Past 5-year forward P/E band (Y axis: Share price of Weigao)



Source: Bloomberg data; and Guosen Securities(HK) Research

Summary financial statements (Year to Dec 31)

Profit & Loss (RMBm)	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	5,620	6,293	8,563	9,332	10,261
Revenue growth (%)	(5.1)	12.0	36.1	9.0	10.0
Cost of sales	(2,042)	(2,300)	(3,511)	(3,901)	(4,187)
Gross profit	3,578	3,993	5,052	5,431	6,075
Other income/(expense)	106	173	171	187	207
Operating expenses	(2,472)	(2,616)	(3,708)	(3,882)	(4,105)
Operating profit	1,212	1,550	1,515	1,736	2,178
Operating profit growth (%)	(12.4)	27.9	(2.2)	14.6	25.4
Other non-operating inc/(exp)	0	0	0	0	0
Finance income	0	0	0	0	0
Finance expenses	(25)	(24)	(67)	(125)	(97)
Associates & JCE	0	1	69	120	169
Profit before taxation	1,187	1,527	1,518	1,731	2,250
Taxation	(154)	(224)	(273)	(312)	(382)
Non-controlling interests	0	(47)	(9)	(10)	(12)
Net profit	1,033	1,256	1,236	1,409	1,855
Other Adjustments on UP	203	0	0	0	0
Underlying Profit	1,236	1,256	1,236	1,409	1,855
Underlying profit growth (%)	11.1	1.6	(1.6)	14.0	31.7
EPS (RMB)	0.231	0.278	0.273	0.312	0.410
Underlying EPS (RMB)	0.276	0.278	0.273	0.312	0.410
Underlying EPS growth (%)	11.1	0.6	(1.6)	14.0	31.7
DPS (RMB)	0.09	0.09	0.09	0.10	0.13
DPS growth (%)	17.3	1.3	(1.7)	14.0	31.7

Source: Company data, Guosen Securities (HK) Research

Balance Sheet (RMBm)	FY16A	FY17A	FY18F	FY19F	FY20F
Fixed assets	5,371	3,912	5,345	6,091	6,912
Associates & JCE	113	938	990	1,079	1,206
Others	1,590	2,877	5,274	5,253	5,252
Non-current assets	7,074	7,727	11,608	12,423	13,370
Inventories	916	805	2,065	1,219	2,463
Debtors & prepayments	3,499	3,687	6,850	4,912	7,330
Bank deposits & cash	4,109	3,881	3,016	2,452	1,642
Others	159	684	40	40	40
Current assets	8,682	9,056	11,971	8,623	11,475
Bank & other borrowings	401	201	889	700	700
Trade & payables	2,167	2,018	4,681	2,438	4,652
Taxation	107	76	87	93	98
Others	9	4	0	0	0
Current liabilities	2,684	2,300	5,658	3,231	5,450
Bank & other borrowings	792	804	3,400	2,300	2,100
Others	75	35	40	45	51
Non-current liabilities	867	839	3,440	2,345	2,151
Net assets	12,205	13,644	14,482	15,470	17,243
Share capital	452	452	452	452	452
Premium & reserves	11,414	12,886	13,715	14,692	16,454
Shareholders' funds	11,867	13,338	14,167	15,145	16,906
Non-controlling interests	339	306	315	325	337
Total equity	12,205	13,644	14,482	15,470	17,243
BVPS (RMB)	2.7	2.9	3.1	3.3	3.7

Source: Company data, Guosen Securities (HK) Research

Financial Ratios	FY16A	FY17A	FY18F	FY19F	FY20F
Gross profit margin (%)	63.7	63.5	59.0	58.2	59.2
Operating profit margin (%)	21.6	24.6	17.7	18.6	21.2
Underlying profit margin (%)	22.0	20.0	14.4	15.1	18.1
Net debt/equity (%)	(24.6)	(21.6)	9.0	3.6	6.8
Net debt/total assets (%)	(18.5)	(17.1)	5.4	2.6	4.7
Current ratio (x)	323	394	212	267	211
Dividend payout (%)	31.8	32.0	32.0	32.0	32.0
Interest cover (x)	48.3	64.9	22.7	13.8	22.5
Dividend cover (x)	3.1	3.1	3.1	3.1	3.1
Acct. receivable turnover days	207.7	208.4	224.6	230.0	217.7
Acct. payable turnover days	334.1	332.1	348.2	333.1	309.1
Inventory turnover days	157.8	136.5	149.2	153.7	160.5
Cash cycle days	31.5	12.8	25.5	50.6	69.1
Dupont Analysis	FY16A	FY17A	FY18F	FY19F	FY20F
Tax burden (%)	87.0	82.3	81.4	81.4	82.5
Interest burden (%)	98.0	98.5	100	99.7	103
Operating profit margin (%)	21.6	24.6	17.7	18.6	21.2
Asset turnover (x)	0.4	0.4	0.4	0.4	0.4
Leverage ratio (x)	1.3	1.3	1.5	1.5	1.4
ROA (%)	8.4	7.7	6.1	6.3	8.1
ROE (%)	11.0	10.0	9.0	9.6	11.6

Source: Company data, Guosen Securities (HK) Research

Cashflow (RMBm)	FY16A	FY17A	FY18F	FY19F	FY20F
EBIT	1,212	1,550	1,515	1,736	2,178
Depreciation & amortization	(352)	(247)	(291)	(342)	(395)
Interest expense	0	0	0	0	0
Change in working capital	(843)	(226)	(1,762)	542	(1,448)
Tax paid	(138)	(259)	(232)	(281)	(336)
Other operating cashflow	1,015	449	604	709	815
Operating activities	894	1,267	(166)	2,365	814
Capex	0	0	0	0	0
Free cash flow	894	1,267	(166)	2,365	814
Disposal of non-current assets	0	0	0	0	0
Associates & JCE (net)	0	0	0	0	0
Interest received	50	40	40	40	40
Dividends received	0	0	0	0	0
Other investing cashflow	(927)	(696)	(4,717)	(748)	(822)
Investing activities	(877)	(656)	(4,677)	(708)	(782)
New loans raised	549	500	4,945	2,200	1,900
Repayment of loans	(421)	(768)	(705)	(3,800)	(2,061)
Dividends paid	(253)	(402)	(396)	(451)	(594)
Other financing cashflow	450	(169)	133	(169)	(87)
Financing activities	325	(840)	3,978	(2,220)	(842)
Inc/(dec) in cash	343	(228)	(865)	(563)	(810)
Cash at beginning of year	3,758	4,109	3,881	3,016	2,452
Foreign exchange effect	8	0	0	0	0
Cash at end of year	4,109	3,881	3,016	2,452	1,642

Source: Company data, Guosen Securities (HK) Research

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Neutral: A return potential ranging from -10% to 10% relative to overall market within 6 – 12 months.

Sell: A negative return of 10% or more relative to overall market within 6 –12 months.

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