

3 May, 2018

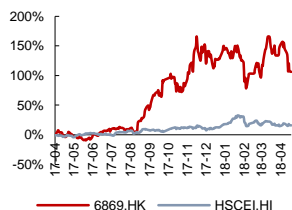
## Outperform Unchanged

## 符合预期

长飞光纤光缆 (6869:HK)

### Market Data: 30 Apr.

Closing Price (HK\$)	33.75
Price Target (HK\$)	40.00
HSCEI	12,331
HSCCI	4,540
52-week High/Low (HK\$)	41.30/14.00
Market Cap (USD Mn)	2,951
Market Cap (HK\$ Mn)	23,021
Shares Outstanding (Mn)	682.11
Exchange Rate (HK\$-US\$)	7.80



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### Related Reports

" Yangtze Optical Fibre and Cable Joint Stock (6869:HK)- Clear visibility Oct. 30 2017  
" Yangtze Optical Fibre and Cable Joint Stock (6869:HK)-Procurement Push Nov. 30 2017  
" Yangtze Optical Fibre and Cable Joint Stock (6869:HK)- Solid demand Mar. 13 2018

### Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	8,102	10,366	12,711	12,398	12,418
YoY (%)	20.37%	27.94%	22.62%	-2.47%	0.16%
Net income (Rmbm)	717	1,268	1,828	2,160	2,265
YoY (%)	25.65%	76.87%	44.14%	18.12%	4.88%
EPS (Rmb)	1.05	1.86	2.68	3.17	3.32
Diluted EPS (Rmb)	1.05	1.86	2.68	3.17	3.32
ROE (%)	17.56%	25.57%	30.10%	29.37%	25.86%
Debt/asset (%)	21.48%	19.16%	15.95%	14.31%	12.82%
Dividend yield (%)	0.64%	0.00%	2.03%	2.39%	2.51%
PE (x)	25.68	14.52	10.07	8.53	8.13
PB (x)	4.15	3.36	2.76	2.29	1.94

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

长飞光纤光缆公布其一季度收入为 25 亿人民币（同比增长 34.6%），净利润为 3.77 亿（同比增长 60%），整体业绩符合我们预期。我们认为尽管国内运营商在今年将下调其资本支出，光纤行业需求仍然将维持增长。我们维持公司 18 年 EPS 预测为 2.68Rmb(同比增长 44%)，19 年 EPS 为 3.17Rmb(同比增长 18.2%)，20 年 EPS 为 3.32Rmb（同比增长 4.88%）。我们将目标价从 44 港币下调至 40 港币，对应约 18.5%上升空间。我们维持增持评级。

**需求高于预期。**尽管 5G 时代仍未到来，我们预计运营商将在 2020 年开始进行 5G 大规模建设。近年来光纤需求维持强劲。我们看到中国政府正在持续性号召国内运营商降低其资费价格。根据工信部数据，电信业务总量在 2017 年同比增长超过 70%。而国内运营商 4G 用户 DOU 出现三位数增长。市场也许会担忧美国贸易战会对光纤行业有所影响。我们看到长飞光纤产品将主要销售给国内三大运营商，因此不会受到贸易战影响。

**光纤价格维持稳定。**在中国移动招标后，如今光缆价格已经超过 120 人民币。尽管国内厂商仍然在扩张其光纤及光棒产能。但现在看来，整体需求仍然将大于供给。我们预计未来光纤及光缆价格在未来 3 年将维持稳定。下一步有待观察的是中国移动光纤招标。如今长飞正在准备 A 股上市，主要考虑在未来持续性扩张其光棒产能来保障国内市场需求。

**运营商资本支出周期。**我们认为运营商 2018 年整体资本支出将会有所下滑而 2019 年将会有略微上升。然而光纤行业在运营商资本支出下行阶段仍然将维持增长。

**估值。**公司如今股价对应 10x 18E PE 及 2.76x PB。我们维持公司 18 年 EPS 预测为 2.68Rmb(同比增长 44%)，19 年 EPS 为 3.17Rmb(同比增长 18.2%)，20 年 EPS 为 3.32Rmb（同比增长 4.88%）。我们将目标价从 44 港币下调至 40 港币（对应约 12x 18PE），对应 18.5%上升空间。我们维持增持评级。

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Yangtze Optical Fibre report 1Q18 revenue of Rmb2.5bn (+34.6% YoY), while net profit hit Rmb377.0m (+60% YoY). The overall result is in line with our expectation. We believe the fibre industry will continue to witness demand expansion regardless of domestic telecom operator Capex cuts in 2018. We maintain our EPS forecasts of Rmb2.68 (+44% YoY) in 18E, Rmb3.17(+18.2% YoY) in 19E and Rmb3.32 (+4.88% YoY) in 20E. We lower our target price from HK\$44 to HK\$40 and with 18.5% upside, maintain Outperform.

**Higher than expected demand.** Although 5G is still too early to mention since operators will invest on 5G network substantially in 2020. Fiber demand seems pretty strong in the recent years. We are seeing that the government now continue to urge telecom operators to lower its data price. While the overall telecommunication business volume increase by more than 70% in 2017, according to MIIT data. We think most of telecommunication business volume comes from data since operators' 4G DOU witness triple digit growth in 2017. Some investor might concern about fiber industry threat from US trade war. We like to highlight that roughly all Yangtze optical's product sell to three operators thus have limited impact on US trade war.

**Fiber price remain solid.** The current cable price reach more than 120Rmb after China Mobile tender offer in 2H 2017. Even though mainland company continue to expand its fiber and perform capacity. At this standpoint, the overall demand is still higher than supply. We project a stable price trend for both cable and fiber product for Yangtze optical in the next 3 years. The next to watch is china mobile tender offer price in middle of this year. The reason why Yangtze optical want to get listed in A share market is to raise more capital to build more perform capacity to fulfill domestic market demand.

**Telecom operators' capex cycle.** We think overall telecom operators capex will decline in 2018 and slightly raise in 2019. While it seems that optical industry will continue to grow regardless of capex drop in recent two years.

**Valuation.** Company now is trading at 10x 18E PE and 2.76x PB. We maintain our 18E EPS Rmb2.68(+44% YoY) 19E Rmb3.17(+18.2% YoY) and 20E EPS of Rmb3.32 (+4.88% YoY). We lower our target price from HK\$44 to HK\$40 (c.12x 18E PE), with 18.5% upside, we maintain Outperform rating.

Fig 1: Domestic demand

(m fkm)	China Mobile	China Telecom	China Unicom	Other	Total	YoY
2015	95.89	55.75	37.91	35.68	223	-
2016	121.26	56.76	38.7	41.28	258	15.7%
2017E	120	70	30	40	260	0.7%
2018E	210	70	30	40	350	34.6%

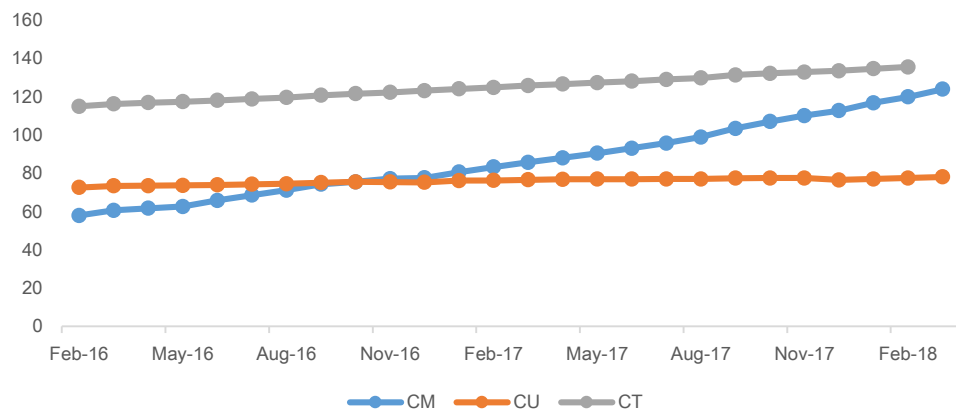
Source: CRU, SWS Research

Fig 2: Domestic preform capacity

(t)	Expected preform capacity
A-share company	1,500
YOFC	4,000
Chinaztt	1,200
fiberhome	1,000
Conring in Hainan	900
Tongding group	300
Futong	900
Total	9,300

Source: Company data, SWS Research

Fig 3: Fixed- line broadband users



Source: China Unicom, China Telecom, China Mobile SWS Research

Fig 4: China Unicom Capex

(Rmbbn)	2017A	2018E	YoY
Total Capex	42.1	Less than 50	+18.7%
Of which: spending on mobile networks	16.0	Less than 18.5	+15.6%
spending on fixed-line broadband & data	8.8	Less than 10	+13.6%
spending on Infrastructure, transmission & others	17.3	Less than 21.5	+24.3%

Source: China Unicom, SWS Research

Fig 5: China Telecom Capex

(Rmbbn)	2017	2018E
Total Capex	88.7	75
4G network	37.7	30.5
Broadband Internet	33.6	26.9

Source: China Mobile, SWS Research

Fig 5: Income statement

(Rmb'000)	2016	2017	2018E	2019E	2020E
Revenue	6,731,114	8,102,313	10,924,561	12,015,226	12,571,036
Cost of sales	(5,426,904)	(6,427,238)	(8,464,308)	(9,224,848)	(9,528,279)
Gross profit	1,304,210	1,675,075	2,460,253	2,790,378	3,042,757
Other income	87,196	39,572	44,500	44,500	44,500
Selling expense	(162,994)	(199,432)	(268,899)	(295,745)	(309,426)
Administrative expenses	(551,452)	(732,447)	(895,814)	(985,249)	(1,005,683)
Profit from operations	676,960	782,768	1,340,040	1,553,884	1,772,148
Finance income	31,475	18,182	12,590	9,443	9,443
Finance cost	(156,371)	(130,320)	(106,265)	(106,265)	(106,265)
Share of results of associates	268	820	1,000	1,000	1,000
Share of results of joint ventures	79,690	104,221	134,004	155,388	177,215
Profit before taxation	632,022	775,671	1,381,369	1,613,450	1,853,540
Income tax	(73,788)	(96,953)	(165,764)	(193,614)	(222,425)
Tax rate	-11.67%	-12.50%	-12.00%	-12.00%	-12.00%
Profit for the year	558,234	678,718	1,215,604	1,419,836	1,631,115

Source: SWS Research

Fig 6: Cash flow statement

(Rmb'000)	2016	2017	2018E	2019E	2020E
ProfitBeforeTaxation	775,671	1,446,874	2,077,575	2,454,004	2,573,803
DeprAndAmortisation	159,599	197,548	236,534	246,016	229,302
FinanceCost	77,474	0	96,823	96,823	96,823
LossesFromInvestments	2	3	4	5	6
ChangeInWorkingCapital	501,436	(286,124)	(466,705)	8,804	21,820
Others					
CFFromOperatingActivities	1,303,377	1,737,869	1,495,623	2,278,364	2,369,198
CAPEX	(758,546)	(618,900)	(489,967)	(104,202)	(107,037)
OtherCFFromInvestingActivities	0	(464,948)	0	0	0
CFFromInvestingActivities	(1,097,196)	(1,083,848)	(487,318)	(97,487)	(100,073)
EquityFinancing	0	0	0	0	0
NetChangeInLiabilities	(776,239)	0	0	0	0
DividendAndInterstPaid	(118,688)	0	(548,480)	(647,857)	(679,484)
OtherCFFromFinancingActivities					
CFFromFinancingActivities	(857,817)	(980,583)	(548,480)	(647,857)	(679,484)
NetCashFlow	(619,550)	371,939	459,826	1,533,020	1,589,642

Source: SWS Research

Fig 7: Balance sheet

(Rmb'000)	2016	2017	2018E	2019E	2020E
CurrentAssets					
Property,plant and equipment	1,321,032	1,921,459	1,877,770	1,743,960	1,629,450
Construction in progress	466,281	164,473	446,281	436,281	426,281
Intangible assets	211,432	328,050	323,331	318,612	313,893
Lease prepayments	231,734	0	231,734	231,734	231,734
Interest in associates	11,088	123,316	76,269	76,269	76,269
Interest in joint ventures	1,041,507	1,241,866	1,041,507	1,041,507	1,041,507
Other non-current assets	203,511	104,461	203,511	203,511	203,511
Deferred tax assets	55,956	55,243	55,956	55,956	55,956
Total non-current assets	3,542,541	3,938,869	4,256,359	4,107,830	3,978,601
Inventories	644,378	730,468	1,130,952	1,088,688	1,048,344
Trade and bills receivables	2,072,305	2,423,204	3,398,017	3,314,237	3,319,583
Deposits, prepayments and other receivables	238,183	228,766	238,183	238,183	238,183
Other financial assets	248,801	42,113	248,801	248,801	248,801
Cash and cash equivalents	1,427,575	1,799,514	1,840,059	3,373,079	4,962,720
Total current assets	4,636,073	5,228,895	6,860,842	8,267,818	9,822,462
Bank loans	886,870	495,013	886,870	886,870	886,870
Trade and bills payable	880,481	1,051,927	1,507,936	1,412,352	1,397,792

Accrued expenses and other payables	802,574	1,334,844	885,669	864,013	865,396
Income tax payable	65,839	65,839	65,839	65,839	65,839
Total current liabilities	2,635,764	2,947,623	3,346,314	3,229,074	3,215,897
Bank loans	869,579	481,290	869,579	869,579	869,579
Deferred income	237,453	83,223	237,453	237,453	237,453
Total non-current liabilities	1,107,032	734,312	1,107,032	1,107,032	1,107,032
Share capital	682,115	682,115	682,115	682,115	682,115
Reserves	3,494,961	4,556,204	5,734,231	7,109,918	8,548,510
Non-controlling interests	258,742	247,509	247,509	247,509	247,509
Total equity	4,435,818	5,485,828	6,663,855	8,039,542	9,478,134

Source: SWS Research

Fig 8: Key performance indicators

	2016	2017	2018E	2019E	2020E
Earnings per share	1.05	1.86	2.68	3.17	3.32
Operating CF per share	1.91	1.17	2.19	3.34	3.47
Dividend per share	0.26	0	0.80	0.17	1.17
Book value per share	6.50	8.04	9.77	11.79	13.90
Key Operating Ratios (%)					
ROIC	16.13%	26.22%	32.73%	31.37%	28.45%
ROE	16.62%	24.89%	30.10%	29.37%	25.86%
Gross profit margin	20.67%	26.91%	25.86%	28.80%	29.65%
Ebitda margin	22.64%	28.81%	27.72%	30.78%	31.49%
Ebit margin	10.96%	13.96%	17.11%	20.58%	21.51%
Revenue growth (YoY)	20.37%	27.94%	22.62%	-2.47%	0.16%
Net profit growth (YoY)	25.65%	76.87%	44.14%	18.12%	4.88%
Debt-to-asset ratio	0.21	0.11	0.16	0.14	0.13
Turnover rate of net assets	1.83	1.89	1.91	1.54	1.31
Turnover rate of total assets	0.99	1.13	1.14	1.00	0.90
Effective tax rate (%)	12.50%	14.67%	12.00%	12.00%	12.00%
Dividend yield (%)	0.57%	1.22%	1.81%	2.14%	2.24%
Valuation Ratios (X)					
PE	30.56	17.28	11.99	10.15	9.68
PB	4.94	4.00	3.29	2.73	2.31
EV/Sales	2.73	2.10	1.71	1.63	1.50
EV/Ebitda	21.24	13.30	9.06	7.26	6.45

Source: SWS Research

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