

Company Report: Vinda International (03331 HK)

Barney Wu 吴宇扬
(86755) 2397 6680
wuyuyang@gtjas.com

公司报告: 维达国际 (03331 HK)

20 July 2018

Profitability Improved Greatly; the Worst is Over

盈利能力大幅改善, 最坏时候已经过去

- Vinda's 1H18 results beat expectations.** In 1H18, Vinda's sales rose 16.3% YoY to HK\$7,334 million, while organic growth recorded 8.1% YoY. Price adjustment contributed around 60%-70% of sales growth, and the rest came from volume growth and product mix trade-up. Due to high pulp prices, Vinda's 1H18 gross margin was down 0.8 ppt YoY to 29.7%, but thanks to price adjustments and better product mix, its gross margin rose 2.5 ppt YoY to 31.0% in 2Q18. Due to effective control on expenses, Vinda's 1H18 operating margin was up 0.7 ppt YoY and 2.1 ppt HoH to 8.8%. Vinda's 1H18 net profit surged 30.1% YoY to HK\$417 million.
- Firmly improving profitability and peers followed.** Market competition has become healthy as APP and Hengan have followed Vinda's and C&S's movements in raising prices. The pressure for Vinda's sales volume growth in 2H18 will relatively reduce. As high gross margin products grow strongly, the Company's product mix improved significantly. Vinda maintained its advantage in the online market, but other major players are placing greater emphasis on the online market.
- Vinda has successfully countered rising raw material prices by raising ASP and improving product mix.** Its save in SG&A expenses was surprisingly good, which resulted into strong earnings growth. As pulp prices remain stable, Vinda's profitability in 2018 will be promising. As a result, we have revised up our earnings forecasts greatly. Vinda's strong innovation ability and excellent brand appeal brings long-term competitive strength. **Therefore, we reiterate the Company's rating at "Accumulate" and maintain its TP at HK\$16.50, which represents 22.0x 2018 PER, 19.8x 2019 PER and 17.5x 2020 PER.**
- 维达 2018 年上半年业绩好于预期。** 2018 年上半年, 维达销售同比增长 16.3% 至 73.3 亿港元, 而有机增长录得 8.1% 的增速。价格调整贡献了约 60% 到 70% 的销售增长, 剩下的来自销量增长以及产品结构优化。由于高企的木浆价格, 维达 2018 年上半年毛利率同比下降 0.8 个百分点至 29.7%, 但由于价格调整以及更好的产品结构, 其毛利率在 2018 年第 2 季度同比增长 2.5 个百分点至 31.0%。由于费用方面的有效管控, 维达 2018 年上半年经营利润率同比增长 0.7 个百分点, 较 2017 年下半年增长 2.1 个百分点至 8.8%。维达 2018 年上半年净利润率同比激增 30.1% 至港币 4.17 亿。
- 坚定地提高利润率且竞争对手已经跟随。** 随着金红叶和恒安跟上了维达和中顺洁柔提价的步伐, 市场进入健康的竞争环境。维达在 2018 年下半年销售量增长的压力有所减少。随着高毛利率产品增长强劲, 公司产品结构改善显著。维达维持住了其在线上的优势, 但其他竞争对手也变得更加重视线上市场。
- 维达已经通过提高价格和改善产品结构成功地应对了原材料价格的上涨。** 其销售及管理费用的节省令人吃惊的优秀, 导致盈利强劲增长。随着木浆价格保持稳定, 维达的 2018 年利润率可以期待。因此我们大幅上调了我们的盈利预测。维达强大的创新能力和品牌吸引带来长期竞争优势。因此, 我们重申公司“收集”评级, 维持目标价在 16.50 港币, 相当于 22.0 倍, 19.8 倍和 17.5 倍 2018 年, 2019 年和 2020 年市盈率。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$16.50

Revised from 原目标价:

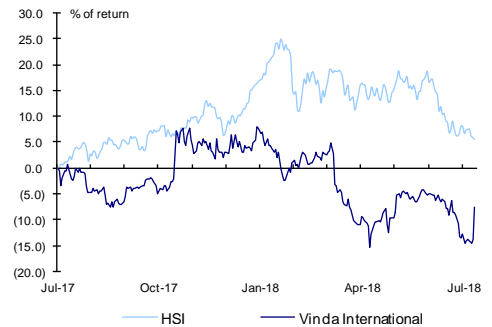
HK\$16.50

Share price 股价:

HK\$13.760

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 %	0.1	4.3	(4.7)
Rel. % to HS Index 相对恒指变动 %	6.5	12.9	(8.6)
Avg. Share price(HK\$) 平均股价 (港元)	13.3	13.7	14.5

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	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2016A	12,057	654	0.598	89.8	23.0	5.961	2.3	0.170	1.2	11.1
2017A	13,486	621	0.526	(12.0)	26.2	7.316	1.9	0.190	1.4	8.0
2018F	15,310	897	0.751	42.8	18.3	8.108	1.7	0.263	1.9	9.7
2019F	16,890	995	0.833	10.9	16.5	8.766	1.6	0.292	2.1	9.9
2020F	18,591	1,129	0.945	13.4	14.6	9.506	1.4	0.331	2.4	10.3

Shares in issue (m) 总股数 (m)	1,194.2	Maior shareholder 大股东	SCA 52.0%
Market cap. (HK\$ m) 市值 (HK\$ m)	16,432.2	Free float (%) 自由流通比率 (%)	26.0
3 month average vol. 3 个月平均成交股数 ('000)	489.4	FY18 Net aearina (%) FY18 净负债/股东资金 (%)	49.5
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	16.320 / 12.600	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)	16.9

Source: the Company, Guotai Junan International.

Vinda's 1H18 Interim Results Review

Vinda's 1H18 results beat market consensus and our estimations. In 1H18, Vinda International's ("Vinda" or the "Company") revenue rose 16.3% YoY to HK\$7,334 million, while organic growth at constant exchange rate recorded 8.1% YoY. To counter price pressure from raw materials, the Company implemented two rounds of price adjustment in 1H18, which contributed around 60%-70% sales growth, and the remaining sales growth came from volume growth and product mix improvement. Viewed separately, tissue sales grew 16.9% YoY (8.9% at constant exchange rate) to HK\$5,928 million, and personal care sales increased 13.9% YoY (5.1% at constant exchange rate) to HK\$1,407 million. Tissue paper still contributed the most sales. E-commerce and B2B channels were still the major driving forces for Vinda's sales growth, up 27.9% YoY and 24.6% YoY, respectively in 1H18. Its sales contribution from e-commerce channels reached 22.0% in 1H18, the highest ratio among major leading tissue paper manufacturers.

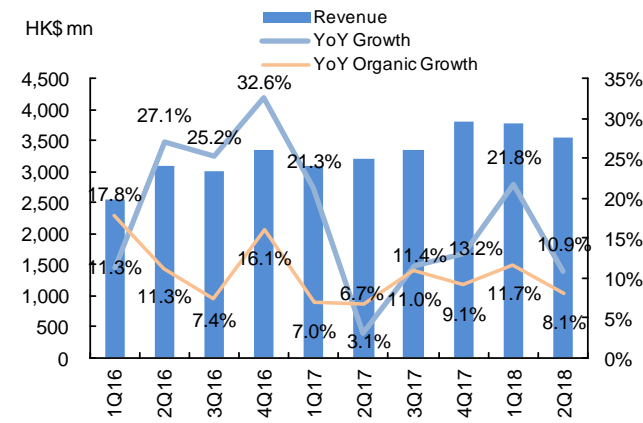
Net profit improved significantly. As wood pulp prices remained high in 1H18, Vinda's gross margin was down 0.8 ppt YoY to 29.7%. But thanks to the Company's price increase initiatives, improvements in product mix and cost-saving program, its quarterly gross margin has been on an upward trend. Vinda's gross margin rose to 31.0% in 2Q18 from 28.5% in 1Q18 and from 27.9% in 4Q17, indicating that the Company's efforts have been paying back. Thanks to less promotion discounts and effective control on expenses, the Company's SG&A expense to sales ratio declined considerably, down 1.8 ppt YoY to 21.0% in 1H18 from 22.8% in 1H17. Vinda's 1H18 operating margin was up 0.7 ppt YoY and 2.1 ppt HoH to 8.8%. In 1H18, Vinda's effective rate stayed at 21.1%, slightly down 0.2 ppt YoY from 1H17. Segment margin of tissues and personal care both expanded, up 0.4 ppt and 2.1 ppt, respectively, in 1H18. Overall, Vinda's 1H18 shareholders' profit surged 30.1% YoY to HK\$417 million, better than market consensus and our estimations. Along with the increase in issued share capital, the Company's 1H18 EPS rose 26.9% YoY to HK\$0.349.

Table-1: Vinda's 1H18 Interim Results Review

	Income Statement					
HK\$ million	1H17	1H18	YoY	2H17	1H18	HoH
Tissue	5,073	5,928	16.9%	5,835	5,928	1.6%
Personal Care	1,235	1,407	13.9%	1,343	1,407	4.7%
Revenue	6,308	7,334	16.3%	7,178	7,334	2.2%
COGS	(4,382)	(5,156)	17.7%	(5,105)	(5,156)	1.0%
Gross profit	1,926	2,178	13.1%	2,074	2,178	5.0%
Other income/gains	17	3	-83.2%	46	3	-94.0%
Selling and marketing costs	(1,089)	(1,164)	6.9%	(1,263)	(1,164)	-7.8%
Administrative expenses	(345)	(373)	8.2%	(382)	(373)	-2.4%
Operating profit	509	643	26.5%	475	643	35.5%
Finance income, net	(90)	(105)		(97)	(105)	
FOEX and Others	(11)	(10)	-12.1%	(16)	(10)	-36.7%
Profit before income tax	408	529	29.8%	362	529	46.1%
Income tax	(87)	(112)	28.6%	(62)	(112)	80.8%
Shareholders' profit	321	417	30.1%	300	417	39.0%
EPS	0.275	0.349	26.9%	0.251	0.349	38.8%
Gross margin	30.5%	29.7%	-0.8 ppt	28.9%	29.7%	0.8 ppt
- Tissue	30.5%	29.4%	-1.1 ppt	28.8%	29.4%	0.6 ppt
- Personal care	30.6%	30.8%	0.2 ppt	29.3%	30.8%	1.5 ppt
Operating margin	8.1%	8.8%	0.7 ppt	6.6%	8.8%	2.2 ppt
- Tissue	9.6%	10.0%	0.4 ppt	7.5%	10.0%	2.5 ppt
- Personal care	6.9%	8.9%	2.1 ppt	5.5%	8.9%	3.5 ppt
Net margin	5.1%	5.7%	0.6 ppt	4.2%	5.7%	1.5 ppt

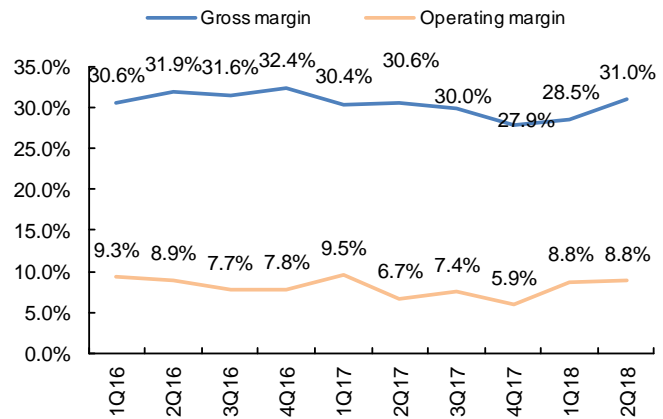
Source: the Company, Guotai Junan International.

Figure-1: Vinda's Quarterly Revenue & Growth



Source: the Company, Guotai Junan International.

Figure-2: Vinda's Quarterly Gross Margin and Operating Margin

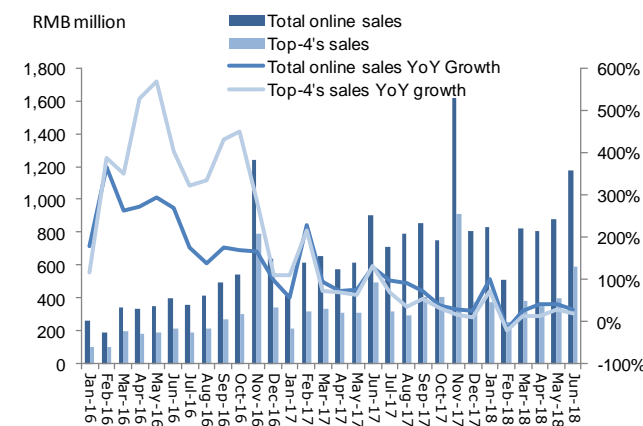


Source: the Company, Guotai Junan International.

The market has entered into healthy competition. In May and June, APP and Hengan followed Vinda's and C&S's movements on raising prices, which will ease market competition and raise industrial profitability. As the first major tissue paper manufacturer started to raise prices in 1H18, Vinda was under huge pressure from APP's and Hengan's strategies of trading profit for market share. Vinda's market share and sales volume growth were inevitably affected. However, high raw material prices finally forced hesitant players to start raising prices. Although price changes of APP and Hengan were less than Vinda and C&S, their promotion discounts were reduced significantly. Looking forward, though competition always exists, healthy market competition driven by innovation and quality improvement will benefit Vinda's sales volume growth and margin expansion. We expect that small tissue manufacturers who lack the premium position of raising prices are being phased out of the market, which indicates higher concentration ratio.

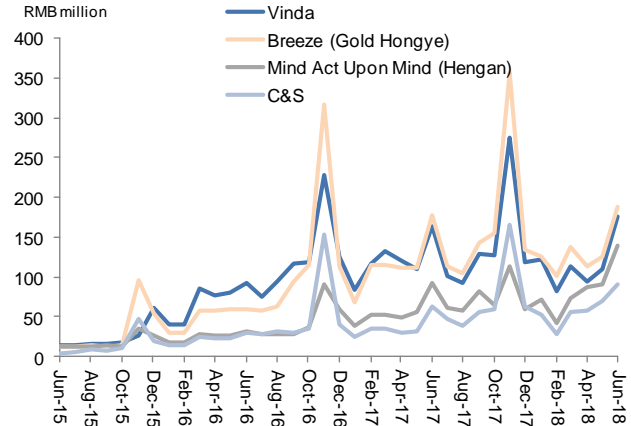
Advantages in the online market has been maintained, but competition has become intense. In 1H18, the Company's online sales maintained strong growth, up 27.9% YoY, accounting for 22% of sales of Vinda. We expect that online channels may contribute around 40% of sales to Vinda in the long term. Based on Majia's data, in 1-6M2018, online sales of tissue paper in Taobao and Tmall maintained robust growth, up 33.0% YoY. During the 618 shopping festival, Vinda maintained its No.1 position in Tmall. The Company sustained its early advantage within the online market, but as other major players are increasingly placing greater emphasis on the online market, market competition has become intense and marginal increase in market share has been costly to achieve. The good news is that price discounts have not been the major weapon for e-commerce platforms to attract traffic, which leaves greater room for profit for tissue paper manufacturers.

Figure-3: Online Sales of Tissue Paper in Taobao and Tmall



Source: Majia.com.

Figure-4: Online Sales of Tissue Paper in Taobao and Tmall



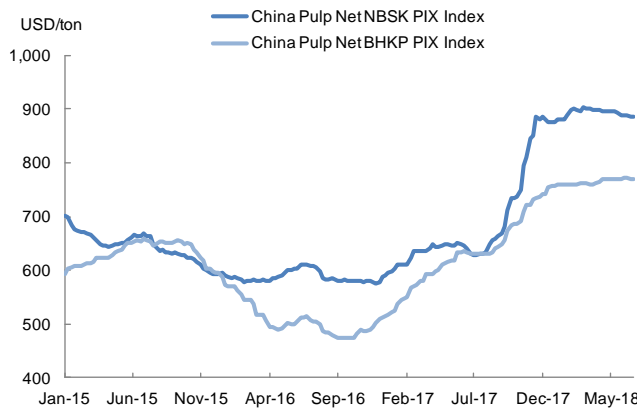
Source: Majia.com.

Portfolio structure improved notably. Due to consumption upgrade and Vinda's product innovation, the Company's new products such as Deluxe 4D-Deco, Tempo Toilet Wipe and Vinda Cotton Care, which bear higher gross margin, contributed most sales growth to the Company. Premium brand Tempo has contributed around 10% of overall sales to the Company.

High-gross-margin products, including softpacks, kitchen towels and wet wipes reported satisfactory growth, accounting for more than 60% of sales. The contribution of low gross margin toilet paper declined from 60% to 40%. The continuous product mix trade-up has improved the Company's profitability.

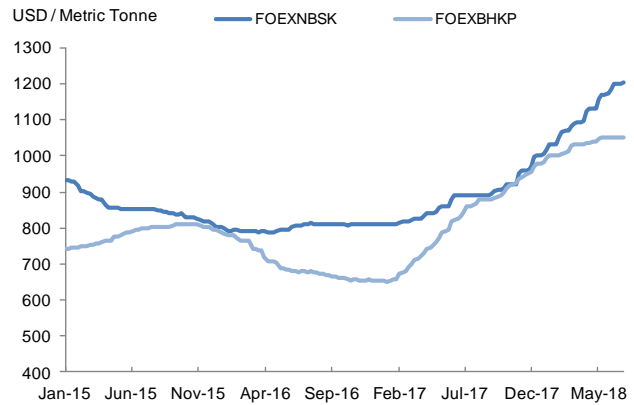
Wood pulp prices remain stable. As at 18 Jul 2017, the YTD domestic long fiber price and YTD domestic short fiber price increased 31.7% YoY and 42.1% YoY, respectively. But domestic wood pulp prices have been experiencing a kind of hangover since the end of 2017. We expect that the rise in pulp prices has less room to grow as the rapid growth in 2H17 has overdrawn potential growth. In addition, manic market sentiment has faded away, reducing speculative activities. On the other hand, the YTD global long fiber price and YTD global short fiber price increased 32.3% YoY and 39.7% YoY, respectively. As capacity release was worse than expected, global pulp prices are still rising. But as the increase in China's demand for pulp slowed down, which accounts for most marginal growth, global pulp prices are close to their highest.

Figure-5: Domestic Pulp Prices



Source: FOEX, Guotai Junan International.

Figure-6: Global Pulp Prices



Source: FOEX, Guotai Junan International.

Major concerns. 1) Rapid RMB depreciation may affect the Company's reported profit in 2H18. 2) Personal care growth was worse than expected. 3) Intense online competition.

Earnings Forecast Assumptions and Revisions

We have revised up our earnings forecasts greatly. As the Company's price adjustments will be fully taken into effect in 2H18 and product mix is continuously improving, we have revised up our forecast revenue in 2018, 2019 and 2020 by 2.8%, 3.5% and 3.9%, respectively, which are partly affected by RMB depreciation in 2H18. Due to stable domestic pulp prices, price adjustments and better product mix, we have revised up 2018, 2019 and 2020 gross margin by 0.5 ppt, 0.3 ppt and 0.1 ppt, respectively. The save in SG&A in 1H18 was hugely better than our previous estimation, as the Company has effectively reduced unnecessary expenses. We expect that its operating margin can be retained at the level in 1H18. Overall, we have revised up our earnings forecasts in 2018, 2019 and 2020 by 29.3%, 17.8 and 9.5%, respectively.

Table-2: Earnings Estimates Revisions

	NEW			OLD			CHANGE		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2019F
Revenue	15,310	16,890	18,591	14,897	16,320	17,890	2.8%	3.5%	3.9%
Gross profit	4,608	5,135	5,689	4,410	4,912	5,457	4.5%	4.5%	4.2%
Operating profit	1,290	1,436	1,598	1,061	1,239	1,466	21.6%	15.9%	9.0%
Net profit	897	995	1,129	694	844	1,031	29.2%	17.8%	9.5%
EPS (HK\$)	0.751	0.833	0.945	0.581	0.707	0.863	29.3%	17.8%	9.5%
Gross margin	30.1%	30.4%	30.6%	29.6%	30.1%	30.5%	0.5 ppt	0.3 ppt	0.1 ppt
Operating margin	8.4%	8.5%	8.6%	7.1%	7.6%	8.2%	1.3 ppt	0.9 ppt	0.4 ppt
Net margin	5.9%	5.9%	6.1%	4.7%	5.2%	5.8%	1.2 ppt	0.7 ppt	0.3 ppt

Source: Guotai Junan International.

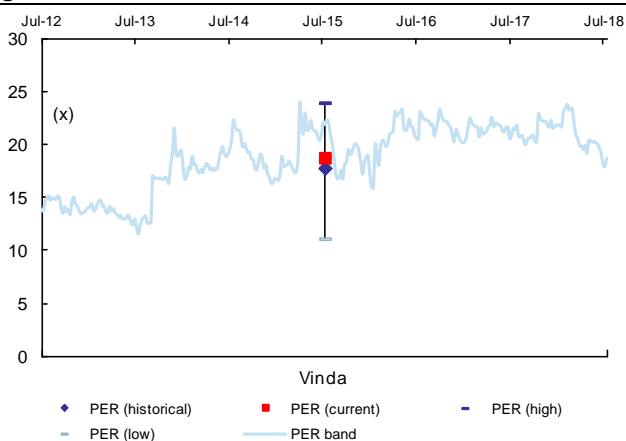
Maintain TP of HK\$16.50 and reiterate "Accumulate". Vinda has successfully countered rising raw material prices by raising ASP and improving product mix. The save in SG&A expenses was surprisingly good, which translated into solid earnings growth. As major tissue paper players followed price adjustments, we expect pressure of sales volume growth for Vinda is releasing. As consumption upgrade continues, Vinda's strong innovation ability and excellent brand appeal will bring it long-term competitive strength. As pulp prices remain stable, profitability in 2018 will be promising. As market consensus for Vinda has risen, the valuation of the Company has become attractive. Therefore, we reiterate the Company's rating at "Accumulate" and maintain its TP at HK\$16.50, which represents 22.0x 2018 PER, 19.8x 5019 PER and 17.5x 2020 PER.

Table-3: Peers Comparison

Company	Ticker	\$	Share Price	Market Cap (HK\$ mn)	PER (x)			PBR (x)	ROE (%)	Yield (%)	Gross Margin (%)	Operating Margin (%)
					FY18F	FY19F	FY20F	FY18F	FY18F	FY18F	FY18F	FY18F
HK Listed Household Products Companies												
Vinda	03331 HK	HKD	13.79	16,468	18.4	16.6	14.6	1.7	9.7	1.9	30.1	8.4
Hengan	01044 HK	HKD	70.15	84,621	18.4	16.8	15.6	4.1	23.3	3.8	46.1	24.8
Simple Average					18.4	16.7	15.1	2.9	16.5	2.9	38.1	16.6
Weighted Average					18.4	16.8	14.6	3.7	21.1	3.5	43.5	22.2
HK Listed Stable Companies												
Dali Foods Group	3799 HK	HKD	6.700	91,751	20.0	17.2	15.5	5.0	27.0	3.3	39.1	21.2
China Resources Beer	291 HK	HKD	36.600	118,737	50.1	40.0	35.1	5.1	11.0	0.7	34.9	9.1
China Mengniu Dairy	2319 HK	HKD	25.000	98,184	26.9	21.0	17.3	3.4	12.9	0.9	35.6	5.8
Tingyi	322 HK	HKD	17.920	100,671	34.1	29.0	25.6	4.2	12.7	1.5	30.5	6.5
Want Want China	151 HK	HKD	6.600	82,165	22.4	20.2	18.6	4.5	21.8	0.0	43.1	20.2
Tsingtao Brewery	168 HK	HKD	43.700	66,390	32.3	27.7	23.9	2.8	9.2	1.5	37.2	6.4
Simple Average					31.0	25.8	22.1	4.2	15.8	1.3	36.7	11.5
Weighted Average					32.0	26.5	22.4	4.3	15.6	1.3	36.4	11.3
Global Listed Household Products Companies												
Johnson & Johnson	JNJ US	USD	125.94	2,651,347	15.5	14.7	13.8	5.2	32.3	3.0	67.7	32.5
Procter & Gamble	PG US	USD	78.73	1,553,921	18.8	17.9	16.8	3.7	20.2	3.8	50.3	22.1
Unilever Plc	ULVR LN	GBp	4,330.50	1,296,457	21.0	19.1	17.3	10.4	53.4	3.4	44.1	18.7
Kimberly-Clark Corp	KMB US	USD	103.55	283,926	15.2	14.6	13.7	122.8	493.3	4.0	34.8	18.2
Kao Corp	4452 JP	JPY	8,182.00	282,800	26.2	24.2	22.4	4.6	18.6	1.6	46.5	14.6
Unicharm Corp	8113 JP	JPY	3,491.00	151,335	33.2	29.8	26.7	4.9	15.7	0.8	39.9	14.5
Simple Average					21.6	20.0	18.5	5.7	28.1	2.8	47.2	20.1
Weighted Average					18.4	17.2	16.0	5.9	33.1	3.2	55.3	25.2

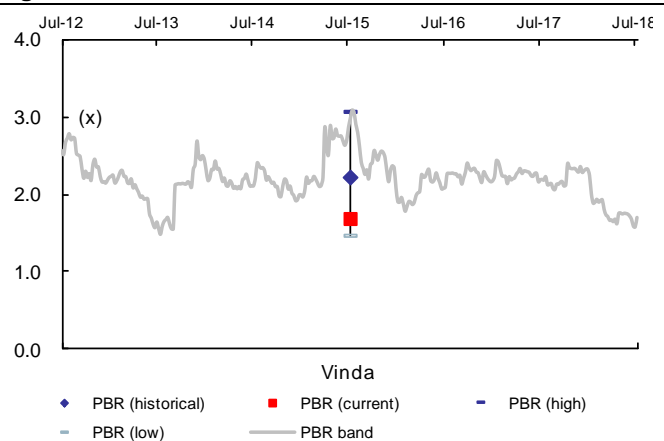
Source: Bloomberg.

Figure-7: PER Band of Vinda



Source: Bloomberg, Guotai Junan International.

Figure-8: PBR Band of Vinda



Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	12,057	13,486	15,310	16,890	18,591
Cost of sales	(8,240)	(9,486)	(10,701)	(11,755)	(12,902)
Gross profit	3,817	4,000	4,608	5,135	5,689
Selling and marketing costs	(2,075)	(2,352)	(2,541)	(2,821)	(3,123)
Administrative expenses	(728)	(727)	(796)	(887)	(976)
Other income and expense	(6)	62	20	9	9
Operating profit	1,008	984	1,290	1,436	1,598
Net finance costs	(179)	(187)	(198)	(193)	(187)
FOREX & others	(20)	(27)	29	0	0
Profit before tax	808	769	1,121	1,243	1,411
Income Tax	(155)	(149)	(224)	(249)	(282)
Profit after tax	654	621	897	995	1,129
Non-controlling Interest	0	0	0	0	0
Shareholders' Profit / Loss	654	621	897	995	1,129
Basic EPS	0.598	0.526	0.751	0.833	0.945

Cash Flow Statement					
Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F
PBT	808	769	1,121	1,243	1,411
DD&A	582	702	661	718	752
Change in working capital	785	(371)	(114)	350	(101)
Others	299	350	274	315	307
Cash generated from operations	2,474	1,450	1,942	2,627	2,369
Income and interest tax paid	(259)	(464)	(399)	(450)	(487)
Cash from Operating Activities	2,215	986	1,543	2,177	1,882
Investing activities					
Capital expenditure	(1,234)	(1,244)	(1,400)	(1,200)	(1,200)
Others	208	(33)	(24)	(28)	(22)
Cash from Investing Activities	(1,026)	(1,277)	(1,424)	(1,228)	(1,222)
Financing activities					
Loans changes	683	(422)	(336)	(84)	(2)
Dividend paid	(111)	(203)	(208)	(208)	(245)
Decrease in amounts due to a related party	(1,503)	0	0	(116)	2
Others	401	324	0	0	0
Cash from Financing Activities	(529)	(300)	(544)	(408)	(245)
Net Changes in Cash	660	(591)	(425)	541	415
Foreign exchange effect	(38)	110	2	0	0
Cash at Beg of Year	393	1,015	535	112	653
Cash at End of Year	1,015	535	112	653	1,067

Balance Sheet					
Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F
Property, plant and equipment	7,282	8,740	9,662	10,144	10,592
Intangible assets	2,796	2,914	2,880	2,793	2,708
Others	705	1,399	1,410	1,439	1,483
Total Non-current Assets	10,783	13,052	13,952	14,375	14,783
Cash & Cash Equivalents	1,015	535	112	653	1,067
Inventories	1,785	3,048	3,109	3,268	3,377
Bills receivable	1,939	2,310	2,325	2,603	2,821
Others	106	29	30	32	34
Total Current Assets	4,845	5,922	5,576	6,556	7,299
Total Assets	15,629	18,974	19,528	20,931	22,082
Short-term debts	1,222	690	632	617	617
Bills payable	3,384	4,494	4,457	5,247	5,474
Accrued expenses and other payables	4	4	4	4	4
Others	114	98	100	109	120
Total Current Liabilities	4,724	5,286	5,193	5,977	6,216
Net current liabilities	122	636	383	579	1,083
Total assets less current liabilities	10,905	13,688	14,335	14,954	15,866
Long-term debts	2,880	3,310	3,032	2,962	2,961
Loan from a related party	915	1,236	1,236	1,120	1,122
Others	1,246	1,642	1,620	1,524	1,554
Total Non-current Liabilities	4,125	4,952	4,652	4,486	4,514
Total Liabilities	8,849	10,237	9,845	10,463	10,730
Share capital	114	119	119	119	119
Reserves	6,666	8,617	9,563	10,349	11,232
Total Shareholders' Equity	6,780	8,736	9,683	10,468	11,351
Minority Interest	0	0	0	0	0
Total Equity	6,780	8,736	9,683	10,468	11,351

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Turnover Growth (%)	24.3	11.9	13.5	10.3	10.1
Gross Profit Growth (%)	29.0	4.8	15.2	11.4	10.8
EBIT Growth (%)	33.9	-2.4	31.2	11.3	11.3
Net Profit Growth (%)	107.8	-5.0	44.4	10.9	13.5
Gross Margin (%)	31.7	29.7	30.1	30.4	30.6
EBIT Margin (%)	8.4	7.3	8.4	8.5	8.6
Net Margin (%)	5.4	4.6	5.9	5.9	6.1
ROE (%)	11.1	8.0	9.7	9.9	10.3
ROA (%)	4.6	3.6	4.7	4.9	5.2
Inventory turnover days	92.0	93.0	105.0	99.0	94.0
Account receivable days	51.5	55.1	55.3	53.3	53.3
Account payable days	130.7	151.6	152.6	150.6	151.6
Cash conversion cycle	12.8	-3.5	7.6	1.6	-4.4
Current ratio (x)	1.0	1.1	1.1	1.1	1.2
Quick ratio (x)	0.6	0.5	0.5	0.6	0.6
Net gearing (%)	59.0	53.8	49.5	38.7	32.0
Net interest cover (x)	5.6	5.3	6.5	7.5	8.5
Payout ratio (%)	28.4	36.1	35.0	35.0	35.0

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.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), BINHAI INVESTMENT (02886 HK), GFI MSCI A I (03156 HK), CAM SCSMALLCAP (03157 HK), ZHENRO PPT (06158 HK), MR CSI300 ETF-R (CNY) (83127 HK), GFI MSCI A I-R (CNY) (83156 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2018 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk