



## Company Report: 361 Degrees International (01361 HK)

公司报告: 361 度 (01361 HK)

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# Significantly Weaker-than-expected 2H18 Business, Downgrade to "Neutral"

2018年下半年业务严重差于预期，下调至“中性”

- 4Q18 channel performance was worse than expected.** Retail sales of 361° core branded products was basically flat YoY, the worst growth rate over the past 4 years. Growth of the Company's core brand slowed down in 3Q18 and was even worse in 4Q18, indicating continued pressure from declining customer traffic in retail channels. Retail sales of 361° Kids branded products recorded low-teens YoY growth, the same as the previous two quarters.
- Revise down 2018-2020 EPS forecasts by 23.5%, 26.6% and 29.6% to RMB0.185, RMB0.199 and RMB0.211, respectively.** According to the management of 361 Degrees, the Company received almost no replenishment orders in 2H18, which was very unexpected and will result in a significant decline in the Company's 2H18 revenue. Besides, there was foreign exchange loss amounting to around RMB70 million in 2018. Therefore, we forecast net profit in 2018 to drop by 16.4% YoY.
- Cut TP to HK\$2.03 and downgrade to "Neutral".** The 361° kids business has become the only growth driver for the Company, while the other business segments, including the core brand, the One Way brand and international business, are becoming less competitive and are unable to maintain stable growth in the weak market environment. We cut our TP from HK\$3.00 to HK\$2.03 to reflect our revision in earnings forecasts as well as increased concern on the Company's business in 2019. Our new TP represents 9.7x, 9.0x and 8.5x 2018, 2019 and 2020 PER, respectively, as well as 12.2% upside potential.
- 2018年4季度渠道表现差于预期。**361°核心品牌产品的零售销售额同比持平，这是过去4年中的最差增速。公司核心品牌的增速从2018年3季度开始放缓，并在4季度变得更差，反映了来自零售渠道客流量减少的压力。361°童装品牌产品的零售销售额录得低双位数同比增长，与前两个季度增速一致。
- 分别下调2018-2020年每股盈利预测23.5%、26.6%和29.6%至人民币0.185元、0.199元和0.211元。**361度管理层表示公司在2018年下半年几乎没有收到补单，这严重出乎意料，并将导致公司2018年下半年收入大幅下滑。此外，2018年产生了约7,000万元人民币的汇兑损失。因此我们预测2018年净利润将同比下滑16.4%。
- 下调目标价至2.03港元并下调评级至“中性”。**361°童装品牌成为了公司目前唯一的成长引擎，而其他业务板块（包括核心品牌、One Way品牌和国际业务）则在目前较弱的市场环境当中变得更加没有竞争力并难以保持稳定增长。我们将目标价从3.00港元下调至2.03港元以反映我们对盈利预测的调整以及对公司2019年业务更多的担忧。我们的目标价分别相当于9.7倍、9.0倍和8.5倍2018年、2019年和2020年市盈率，以及12.2%的上升空间。

Rating:

**Neutral**  
Downgraded

评级:

中性 (下调)

6-18m TP目标价:

**HK\$2.03**

Revised from 原目标价:

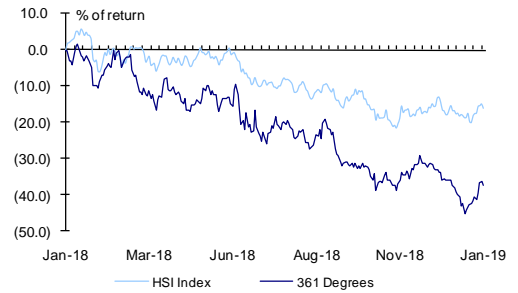
HK\$3.00

Share price 股价:

HK\$1.810

### 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 %                    | 0.0   | (1.6) | (37.4) |
| Rel. % to HS Index 相对恒指变动 %      | (3.1) | (7.3) | (21.7) |
| Avg. Share price(HK\$) 平均股价 (港元) | 1.7   | 1.8   | 2.3    |

Source: Bloomberg, Guotai Junan International.

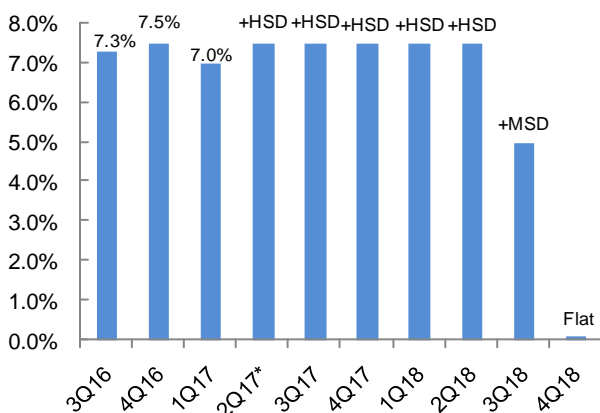
| Year End | Turnover | Net Profit | EPS   | EPS    | PER | BPS   | PBR | DPS   | Yield | ROE    |
|----------|----------|------------|-------|--------|-----|-------|-----|-------|-------|--------|
| 年结       | 收入       | 股东净利       | 每股净利  | 每股净利变动 | 市盈率 | 每股净资产 | 市净率 | 每股股息  | 股息率   | 净资产收益率 |
| 12/31    | (RMB m)  | (RMB m)    | (RMB) | (Δ %)  | (x) | (RMB) | (x) | (RMB) | (%)   | (%)    |
| 2016A    | 5,023    | 403        | 0.195 | (22.2) | 8.3 | 2.620 | 0.6 | 0.110 | 6.8   | 7.6    |
| 2017A    | 5,158    | 457        | 0.221 | 13.4   | 6.8 | 2.820 | 0.5 | 0.091 | 6.0   | 8.3    |
| 2018F    | 5,131    | 382        | 0.185 | (16.4) | 8.6 | 2.916 | 0.5 | 0.076 | 4.8   | 6.6    |
| 2019F    | 5,236    | 412        | 0.199 | 7.9    | 8.0 | 3.056 | 0.5 | 0.082 | 5.1   | 6.8    |
| 2020F    | 5,429    | 437        | 0.211 | 6.2    | 7.5 | 3.185 | 0.5 | 0.088 | 5.5   | 6.9    |

|   |               |  |                     |
|---|---------------|--|---------------------|
| Shares in issue (m) 总股数 (m)             | 2,067.6       | Major shareholder 大股东                  | Ding's Family 47.8% |
| Market cap. (HK\$ m) 市值 (HK\$ m)        | 3,742.4       | Free float (%) 自由流通比率 (%)              | 35.9                |
| 3 month average vol. 3 个月平均成交股数 ('000)  | 1,129.7       | FY19 Net gearing (%) FY19 净负债/股东资金 (%) | Net Cash            |
| 52 Weeks high/low (HK\$) 52 周高/低 (HK\$) | 2.970 / 1.530 | FY19 Est. NAV (HK\$) FY19 每股估值 (港元)    | 2.4                 |

Source: the Company, Guotai Junan International.

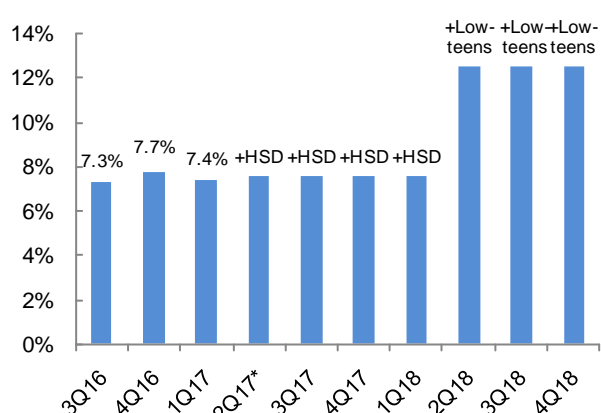
**4Q18 channel performance was worse than expected.** 361 Degrees (the "Company") announced its 4Q18 operational results. Retail sales of 361° core branded products was basically flat YoY, the worst growth rate over the past 4 years (normally high-single-digit growth) and was significantly worse than expected. Growth of the Company's core brand slowed down in 3Q18 and got even worse in 4Q18, indicating continued pressure from declining customer traffic in retail channels. Distributors continued to close low-efficiency stores in 2H18, and the total number of 361° core branded retail stores amounted to around 5,500 by the end of 2018, which was down from 5,604 stores as at 30 June 2018, and lower than what we previously expected. The 361° Kids brand, on the contrary, maintained strong growth. Retail sales of 361° Kids branded products recorded low-teens YoY growth, the same as the previous two quarters. We expect the 361° Kids brand to remain as the Company's main growth driver in 2019, while pressure on its core brand may continue at least into 1H19. The Company didn't reveal retail performance of the One Way brand in 3Q18 and 4Q18, but according to the management of the Company, the One Way brand has not been performing well and is going through a transformation stage. We still don't expect very significant impact to the top line from this brand during 2019 as the One Way brand only contributes less than 1% of total revenue at the current stage.

**Figure-1: SSSG & Retail Sales Growth of The 361° Core Brand**



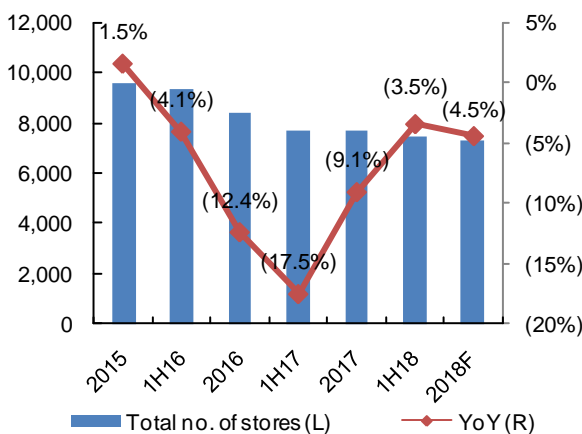
Source: the Company, Guotai Junan International.

**Figure-2: SSSG & Retail Sales Growth of The 361° Kids Brand**



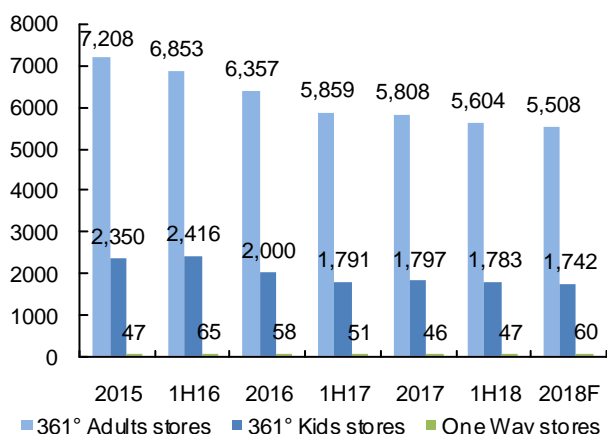
Source: the Company, Guotai Junan International.

**Figure-3: 361 Degrees - Total No. of Stores in China**



Source: the Company, Guotai Junan International.

**Figure-4: 361 Degrees - Stores in China by Brand**



Source: the Company, Guotai Junan International.

**The Company introduced a strategic investor in its children's wear business.** On 9 November 2018, 361 Degrees announced to have entered into an investment agreement with Zhuji Yingshi Chuangjia Equity Investment Limited Partnership (the "Investor"). The Investor agreed to acquire 14.93% of the equity interest in Zhuji 361 Degrees, a wholly owned subsidiary of 361 Degrees. 361 Degrees will transfer all its children's wear business to Zhuji 361 Degrees over time. The total consideration for the acquisition is RMB 500 million, which will be used for the expansion of the Company's children's wear business. The Company's kids segment recorded net profit of RMB121 million in 2017, representing a YoY decrease of 23.7%. The acquisition of 14.93% of total equity for RMB500 million implies a valuation amounting to RMB3.34 billion for the Company's kids business, which represents 27.6x 2017 PER, much higher than the Company's current valuation of around 7x-8x 2017 PER. The acquisition is not expected to have any significant impact to the Company's profit or loss, and neither will it change the capital structure of the Company. The high valuation of the 361° kids business showed strong confidence of both the Company and the

Investor in the future development of 361° kids business. In addition, the Investor may also bring some useful resources to strengthen growth of the Company's kids business over the next few years.

**Revise down 2018-2020 EPS forecasts by 23.5%, 26.6% and 29.6% to RMB0.185, RMB0.199 and RMB0.211, respectively.** The Company's business in 2H18 was much worse than expected. The Company has implemented a more flexible trade fair model, which allows distributors to make replenishment orders after trade fairs. Distributors normally place a very conservative amount of orders during trade fairs, and then make replenishment orders according to the actual performance in retail channels. However, according to the management of 361 Degrees, the Company received almost no replenishment orders in 2H18, which was very unexpected and will result in a significant decline in the Company's 2H18 revenue. The management of 361 Degrees forecasts revenue for the full year of 2018 to record relatively flat YoY growth, which implies that 2H18 revenue may have dropped by around 10% YoY. According to the management of 361 Degrees, there was foreign exchange loss amounting to around RMB70 million in 2018 due to the depreciation of the RMB. Therefore, we forecast net profit in 2018 to drop by 16.4% YoY, which is significantly worse than our previous forecast. Due to lower revenue forecasts, we revise down 2018-2020 net margin forecasts by 1.5 ppt, 1.4 ppt and 1.5 ppt to 7.4%, 7.9% and 8.1%, respectively.

**Table-1: Key Assumptions and Adjustments**

| RMB mn             | OLD   |       |       | NEW   |       |       | CHANGE    |           |           |
|--------------------|-------|-------|-------|-------|-------|-------|-----------|-----------|-----------|
|                    | 2018F | 2019F | 2020F | 2018F | 2019F | 2020F | 2018F     | 2019F     | 2020F     |
| Revenue            | 5,582 | 6,010 | 6,434 | 5,131 | 5,236 | 5,429 | (8.1%)    | (12.9%)   | (15.6%)   |
| Gross profit       | 2,311 | 2,499 | 2,681 | 2,127 | 2,179 | 2,264 | (8.0%)    | (12.8%)   | (15.6%)   |
| Operating profit   | 1,015 | 1,079 | 1,169 | 830   | 852   | 891   | (18.2%)   | (21.0%)   | (23.8%)   |
| Net profit         | 499   | 561   | 621   | 382   | 412   | 437   | (23.5%)   | (26.6%)   | (29.6%)   |
| Basic EPS (RMB)    | 0.241 | 0.271 | 0.300 | 0.185 | 0.199 | 0.211 | (23.5%)   | (26.6%)   | (29.6%)   |
| Gross margin       | 41.4% | 41.6% | 41.7% | 41.5% | 41.6% | 41.7% | 0.1 ppt   | 0.0 ppt   | 0.0 ppt   |
| % A&P of turnover  | 9.6%  | 9.5%  | 9.3%  | 10.4% | 10.4% | 10.2% | 0.7 ppt   | 0.9 ppt   | 0.9 ppt   |
| % SG&A of turnover | 26.7% | 26.3% | 25.9% | 28.0% | 28.4% | 28.4% | 1.3 ppt   | 2.1 ppt   | 2.4 ppt   |
| Operating margin   | 18.2% | 18.0% | 18.2% | 16.2% | 16.3% | 16.4% | (2.0) ppt | (1.7) ppt | (1.8) ppt |
| Effective tax rate | 36.5% | 34.0% | 34.0% | 36.5% | 34.0% | 34.0% | 0.0 ppt   | 0.0 ppt   | 0.0 ppt   |
| Net margin         | 8.9%  | 9.3%  | 9.6%  | 7.4%  | 7.9%  | 8.1%  | (1.5) ppt | (1.4) ppt | (1.5) ppt |

Source: the Company, Guotai Junan International.

**Cut TP to HK\$2.03 and downgrade investment rating to "Neutral".** According to the management's latest guidance, the Company's financial performance in 2H18 is expected to largely miss our previous forecasts. The 361° kids business has become the only growth driver for the Company, while the other business segments, including the core brand, the One Way brand and the international business, are becoming less competitive and unable to maintain stable growth in the weak market environment. The absence of replenishment orders in 2H18 was an important signal indicating distributors' weak confidence in the market, which is likely to result in more conservative trade fair orders in 2019 and may even affect the Company's collection of trade receivables. We cut our TP from HK\$3.00 to HK\$2.03 to reflect our revision in earnings forecasts as well as increased concern on the Company's business in 2019. Our new TP represents 9.7x, 9.0x and 8.5x 2018, 2019 and 2020 PER, respectively. Our TP reflects 12.2% upside potential, and therefore we downgrade our investment rating from "Buy" to "Neutral".

**Risks:** 1) a slowdown in China's sportswear industry growth, 2) fierce competition in the e-commerce business sector, 3) unexpected fluctuations in foreign exchange rates and 4) potential impact from Sino-US trade friction.

Table-2: Peers Valuation Comparison Table

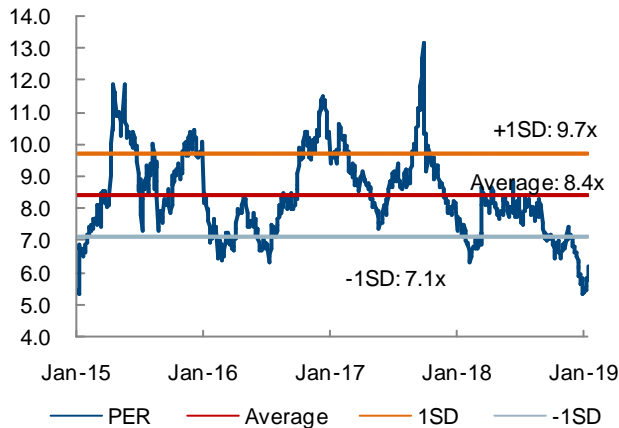
| Company                 | Stock Code | Currency | Last price | Market Cap HKD mn | PE(x) |      |      |      | PB(x) |      |      |      | ROE(%) 18F | D/Y(%) 18F | EV/ EBITDA(x) 18F | Gross Margin(%) 18F | Operating Margin(%) 18F |
|-------------------------|------------|----------|------------|-------------------|-------|------|------|------|-------|------|------|------|------------|------------|-------------------|---------------------|-------------------------|
|                         |            |          |            |                   | 17A   | 18F  | 19F  | 20F  | 17A   | 18F  | 19F  | 20F  |            |            |                   |                     |                         |
| <b>Sportswear</b>       |            |          |            |                   |       |      |      |      |       |      |      |      |            |            |                   |                     |                         |
| 361 Degrees Intl        | 1361 HK    | HKD      | 1.81       | 3,742             | 6.8   | 8.6  | 8.0  | 7.5  | 0.5   | 0.5  | 0.5  | 0.5  | 6.6        | 4.8        | 0.3               | 41.5                | 16.2                    |
| Anta                    | 2020 HK    | HKD      | 35.65      | 95,717            | 26.4  | 20.6 | 16.8 | 14.1 | 5.8   | 5.2  | 4.6  | 4.0  | 27.3       | 3.5        | 12.9              | 52.3                | 23.8                    |
| China Dongxiang         | 3818 HK    | HKD      | 1.16       | 6,828             | 6.9   | 7.8  | 7.8  | 8.1  | 0.6   | 0.6  | 0.6  | 0.6  | 7.8        | 7.9        | 7.5               | 56.6                | 60.0                    |
| Xtep Intl               | 1368 HK    | HKD      | 4.56       | 10,230            | 21.0  | 13.9 | 11.9 | 10.4 | 1.6   | 1.6  | 1.5  | 1.4  | 11.7       | 4.2        | 5.9               | 43.8                | 16.5                    |
| Lining                  | 2331 HK    | HKD      | 9.53       | 20,884            | 38.4  | 28.0 | 21.5 | 17.7 | 3.4   | 3.4  | 3.1  | 2.7  | 12.9       | 0.6        | 12.9              | 48.2                | 7.2                     |
| Simple Average          |            |          |            |                   | 19.9  | 15.8 | 13.2 | 11.6 | 2.4   | 2.3  | 2.1  | 1.8  | 13.3       | 4.2        | 7.9               | 48.5                | 24.7                    |
| Weighted Average        |            |          |            |                   | 26.3  | 20.3 | 16.4 | 13.9 | 4.7   | 4.3  | 3.8  | 3.3  | 22.4       | 3.3        | 11.8              | 50.9                | 22.3                    |
| <b>Ladies' Footwear</b> |            |          |            |                   |       |      |      |      |       |      |      |      |            |            |                   |                     |                         |
| Daphne                  | 210 HK     | HKD      | 0.24       | 401               | n.a.  | n.a. | n.a. | n.a. | 0.1   | n.a. | n.a. | n.a. | n.a.       | n.a.       | n.a.              | n.a.                | n.a.                    |
| Stella Intl             | 1836 HK    | HKD      | 10.10      | 8,023             | 16.6  | 14.2 | 11.7 | 10.2 | 1.1   | 1.0  | 1.0  | 1.0  | 8.8        | 6.0        | 8.6               | 18.5                | 3.6                     |
| Le Saunda**             | 738 HK     | HKD      | 0.88       | 621               | 7.1   | 8.9  | n.a. | n.a. | 0.4   | 0.4  | n.a. | n.a. | 4.7        | 6.2        | 1.1               | 65.8                | 6.9                     |
| C.Banner Intl           | 1028 HK    | HKD      | 0.47       | 976               | 40.7  | n.a. | n.a. | n.a. | 0.4   | n.a. | n.a. | n.a. | n.a.       | n.a.       | n.a.              | n.a.                | n.a.                    |
| Simple Average          |            |          |            |                   | 21.5  | 11.6 | 11.7 | 10.2 | 0.5   | 0.7  | 1.0  | 1.0  | 6.8        | 6.1        | 4.8               | 42.1                | 5.2                     |
| Weighted Average        |            |          |            |                   | 18.4  | 13.9 | 11.7 | 10.2 | 0.9   | 1.0  | 1.0  | 1.0  | 8.5        | 6.0        | 8.0               | 21.9                | 3.8                     |
| <b>Apparel</b>          |            |          |            |                   |       |      |      |      |       |      |      |      |            |            |                   |                     |                         |
| China Lilang            | 1234 HK    | HKD      | 6.49       | 7,772             | 11.1  | 8.7  | 7.4  | 6.5  | 2.1   | 2.0  | 1.8  | 1.6  | 23.5       | 8.3        | 5.4               | 41.0                | 26.5                    |
| Trinity                 | 891 HK     | HKD      | 0.33       | 1,169             | n.a.  | n.a. | n.a. | n.a. | 0.3   | n.a. | n.a. | n.a. | n.a.       | n.a.       | n.a.              | n.a.                | n.a.                    |
| I.T**                   | 999 HK     | HKD      | 4.20       | 5,022             | 16.2  | 11.7 | 8.5  | 7.2  | 1.7   | 1.4  | 1.3  | 1.2  | 13.1       | 5.0        | 3.1               | 63.5                | 8.8                     |
| Giordano Intl           | 709 HK     | HKD      | 3.72       | 5,872             | 11.7  | 11.4 | 10.9 | 10.5 | 2.0   | 2.1  | 2.1  | 2.2  | 18.8       | 8.9        | 6.5               | 59.2                | 11.6                    |
| Esprit*                 | 330 HK     | HKD      | 1.64       | 3,095             | 54.7  | n.a. | n.a. | n.a. | 0.3   | 0.3  | 0.4  | 0.5  | (24.8)     | 0.0        | n.a.              | 51.3                | (14.8)                  |
| Simple Average          |            |          |            |                   | 13.0  | 10.6 | 9.0  | 8.1  | 1.5   | 1.8  | 1.7  | 1.7  | 18.5       | 7.4        | 5.0               | 54.6                | 15.6                    |
| Weighted Average        |            |          |            |                   | 12.6  | 10.4 | 8.8  | 7.9  | 1.8   | 1.9  | 1.8  | 1.7  | 19.2       | 7.6        | 5.1               | 52.8                | 17.1                    |

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.

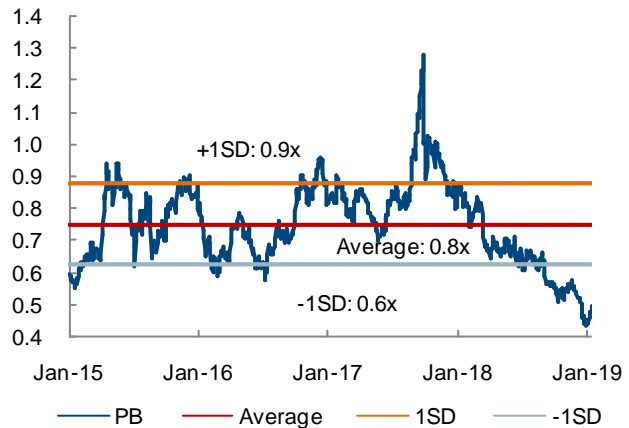
\*\* Note: The financial year end date of Le Saunda (738) and IT (999) is the end of February. For easier comparison with peers, "17A" means "FY18A" and "18F" means FY19F and so on for the two companies.

Figure-5: 361 Degrees - PE Ratio (Next four Quarters)



Source: Bloomberg, Guotai Junan International.

Figure-6: 361 Degrees - PB Ratio (Current Annual)



Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

| Income Statement                     |         |         |         |         |         | Balance Sheet                   |        |        |        |        |        |
|--------------------------------------|---------|---------|---------|---------|---------|---------------------------------|--------|--------|--------|--------|--------|
| Year end 31 Dec (RMB m)              | 2016A   | 2017A   | 2018F   | 2019F   | 2020F   | Year end 31 Dec (RMB m)         | 2016A  | 2017A  | 2018F  | 2019F  | 2020F  |
| Total Revenue                        | 5,023   | 5,158   | 5,131   | 5,236   | 5,429   | Property, Plant and Equipment   | 1,325  | 1,237  | 1,235  | 1,229  | 1,219  |
| Cost of Sales                        | (2,913) | (3,002) | (3,004) | (3,057) | (3,165) | Others                          | 131    | 156    | 158    | 169    | 178    |
| Gross Profit                         | 2,110   | 2,156   | 2,127   | 2,179   | 2,264   | Total Non-current Assets        | 1,456  | 1,393  | 1,393  | 1,398  | 1,398  |
| Other Revenue                        | 113     | 180     | 208     | 158     | 164     | Inventories                     | 541    | 814    | 977    | 1,055  | 1,118  |
| Other Net Income/(Loss)              | (10)    | 46      | (70)    | 5       | 3       | Trade Debtors                   | 2,037  | 1,929  | 2,247  | 2,500  | 2,730  |
| Selling and Distribution Expenses    | (794)   | (892)   | (945)   | (981)   | (1,016) | Bills Receivable                | 184    | 221    | 205    | 209    | 217    |
| Administrative Expenses              | (469)   | (503)   | (491)   | (508)   | (523)   | Deposits, Prepayments and Other |        |        |        |        |        |
| Operating Profit                     | 949     | 988     | 830     | 852     | 891     | Receivables                     | 668    | 728    | 786    | 849    | 916    |
| Fair Value of Derivatives            | 0       | 0       | 0       | 0       | 0       | Pledged Bank Deposits           | 186    | 335    | 285    | 235    | 185    |
| Repurchase of Senior Unsecured Notes | (55)    | 0       | 0       | 0       | 0       | Deposits with Banks             | 2,537  | 3,606  | 3,106  | 3,006  | 2,906  |
| Net Finance Income (costs)           | (187)   | (214)   | (213)   | (213)   | (213)   | Cash & Cash Equivalents         | 2,882  | 2,116  | 2,164  | 2,286  | 2,396  |
| Profit Before Tax                    | 707     | 774     | 618     | 640     | 678     | Total Current Assets            | 9,034  | 9,748  | 9,769  | 10,140 | 10,469 |
| Income Tax                           | (287)   | (307)   | (225)   | (217)   | (231)   | Total Assets                    | 10,490 | 11,141 | 11,163 | 11,537 | 11,866 |
| Profit After Tax                     | 421     | 467     | 392     | 422     | 448     | Trade and Other Payables        | 1,928  | 2,264  | 2,105  | 2,210  | 2,299  |
| Non-controlling Interest             | (18)    | (11)    | (11)    | (11)    | (11)    | Bank Loans                      | 76     | 13     | 15     | 17     | 18     |
| Shareholders' Profit / Loss          | 403     | 457     | 382     | 412     | 437     | Current Taxation                | 339    | 468    | 524    | 577    | 623    |
| Basic EPS                            | 0.195   | 0.221   | 0.185   | 0.199   | 0.211   | Total Current Liabilities       | 2,343  | 2,744  | 2,644  | 2,803  | 2,939  |
| YoY                                  | (22.2%) | 13.4%   | (16.4%) | 7.9%    | 6.2%    | Deferred Tax Liabilities        | 2      | 0      | 1      | 1      | 1      |

| Cash Flow Statement            |         |         |       |       |       |
|--------------------------------|---------|---------|-------|-------|-------|
| Year end 31 Dec (RMB m)        | 2016A   | 2017A   | 2018F | 2019F | 2020F |
| Profit Before Taxation         | 707     | 774     | 618   | 640   | 678   |
| D&A                            | 110     | 121     | 120   | 127   | 134   |
| Other Adjustments              | 189     | 59      | 208   | 139   | 144   |
| Changes in Working Capital     | 321     | 89      | (681) | (293) | (281) |
| Income Tax Paid                | (196)   | (210)   | (163) | (169) | (187) |
| Cash from Operating Activities | 1,132   | 832     | 101   | 444   | 489   |
| Capital Expenditure            | (147)   | (44)    | (118) | (121) | (125) |
| Pledged Bank Deposits          | (64)    | (150)   | 50    | 50    | 50    |
| Deposits with Banks            | (1,037) | (1,069) | 500   | 100   | 100   |
| Others                         | 99      | 85      | 67    | 61    | 59    |
| Cash from Investing Activities | (1,149) | (1,177) | 499   | 91    | 84    |
| Net Borrowings                 | 2,657   | (62)    | (75)  | (73)  | (71)  |
| Interest Paid                  | (198)   | (202)   | (213) | (213) | (213) |
| Dividends Paid                 | (316)   | (147)   | (194) | (132) | (182) |
| Others                         | (1,538) | 0       | 0     | 0     | 0     |
| Cash from Financing Activities | 604     | (411)   | (482) | (418) | (466) |
| Net Changes in Cash            | 587     | (757)   | 118   | 117   | 107   |
| Cash at Beg of Year            | 2,286   | 2,882   | 2,116 | 2,164 | 2,286 |
| Foreign Exchange Effect        | 8       | (9)     | (70)  | 5     | 3     |
| Cash at End of Year            | 2,882   | 2,116   | 2,164 | 2,286 | 2,396 |

| Financial Ratios      |          |          |          |          |          |
|-----------------------|----------|----------|----------|----------|----------|
|                       | 2016A    | 2017A    | 2018F    | 2019F    | 2020F    |
| Gross Margin (%)      | 42.0     | 41.8     | 41.5     | 41.6     | 41.7     |
| Operating Margin (%)  | 18.9     | 19.1     | 16.2     | 16.3     | 16.4     |
| Net Margin (%)        | 8.0      | 8.9      | 7.4      | 7.9      | 8.1      |
| ROE (%)               | 7.6      | 8.3      | 6.6      | 6.8      | 6.9      |
| ROA (%)               | 4.2      | 4.2      | 3.4      | 3.6      | 3.7      |
| ROCE (%)              | 31.4     | 39.3     | 30.8     | 27.2     | 26.4     |
| Payout Ratio (%)      | 56.5     | 41.2     | 41.2     | 41.2     | 41.6     |
| Inventory Days        | 68.5     | 82.3     | 108.8    | 121.3    | 125.3    |
| A/C Receivable Days   | 162.6    | 154.7    | 163.7    | 179.9    | 190.2    |
| A/C Payable Days      | 155.1    | 176.7    | 193.0    | 198.2    | 203.9    |
| Net Gearing (%)       | Net cash | Net cash | Net cash | Net cash | Net cash |
| Current Ratio (x)     | 3.9      | 3.6      | 3.7      | 3.6      | 3.6      |
| Interest coverage (x) | 7.9      | 7.6      | 6.0      | 5.8      | 6.0      |

Source: the Company, Guotai Junan International.

**Company Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

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

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