



Company Report: Shenzhou International (02313 HK)

公司报告: 申洲国际 (02313 HK)

Terry Hong 洪学宇
(86755) 2397 6722
hongxueyu@gtjas.com
27 March 2019

Expansion of Production Capacity in Progress, "Accumulate"

产能正在逐步扩张, “收集”

- **2018 top line in line but bottom line slightly missed expectations.** Revenue increased by 15.8% YoY to RMB21.0 billion. Overall GPM improved by 0.2 ppt YoY to 31.6%, which was driven by increased overseas production capacity and improved productivity, but was partially offset by higher labor costs and raw material prices. Selling and distribution expenses surged by 50.8% YoY due to air shipping expenses amounting to RMB190 million. Net profit increased by 20.7% YoY to RMB4.54 billion. Final dividend was HK\$90 cents per share, and full-year dividend payout ratio reached 50.7%.
- **Revise down 2019 and 2020 EPS forecasts by 2.3% and 2.6% to RMB3.643 and RMB4.329, respectively.** A new garment factory in Vietnam will commence operation in 2Q19, and a new garment factory in Cambodia with even much larger production capacity will start construction in 1H19 and commence production in mid-2020. We forecast 2019-2021 revenue to grow by 17.0%, 16.9% and 18.2%, respectively, driven by increasing production capacity and strong demand from customers. We forecast 2019-2021 net profit to grow at a CAGR of 18.6%.
- **Maintain TP at HK\$110.00 but downgrade to "Accumulate".** Shenzhou will maintain its leadership in the industry, sustained by its strong R&D ability and good reputation among its customers. We expect strong growth in top line and continuous improvement in profitability over the next few years. Our TP represents 25.7x, 21.6x and 18.6x 2019, 2020 and 2021 PER, respectively, as well as 5.6% upside potential, so we downgrade investment rating from "Buy" to "Accumulate".
- **2018 年收入符合预期但净利润小幅差于预期。** 收入同比增长 15.8%至 210 亿元人民币。整体毛利率同比改善 0.2 个百分点至 31.6%，主要由海外产能扩张及效率改善所带动，但被人工成本和原材料价格的上涨部分抵消。销售及分销费用同比激增 50.8%，主要由于约 1.90 亿元人民币的空运费造成。净利润同比增长 20.7%至 45.4 亿元人民币。末期股息为每股 0.90 港元，全年派息比率为 50.7%。
- **分别下调 2019 和 2020 年每股盈利预测 2.3%及 2.6%至人民币 3.643 元及人民币 4.329 元。** 在越南的一家新成衣工厂将在 2019 年 2 季度开始运营，而在柬埔寨的一家拥有更高产能的成衣工厂将在 2019 年上半年开始建设并于 2020 年中开始生产。我们预测 2019-2021 年收入将分别同比增长 17.0%、16.9%及 18.2%，主要由产能的扩张及客户强劲的需求所带动。我们预测 2019-2021 年净利润将录得 18.6%的复合年化增长率。
- **维持 110.00 港元的目标价但下调至“收集”。** 基于强大的研发能力及在客户中的良好信誉，申洲将维持其行业龙头地位。我们预期接下来几年中公司的收入将维持强劲增长，并且盈利能力持续改善。我们的目标价分别相当于 25.7 倍、21.6 倍和 18.6 倍 2019 年、2020 年和 2021 年市盈率，以及 5.6%的上涨空间，因此我们将评级从“买入”下调至“收集”。

Rating:

Accumulate

Downgraded

评级:

收集 (下调)

6-18m TP 目标价:

HK\$110.00

Revised from 原目标价:

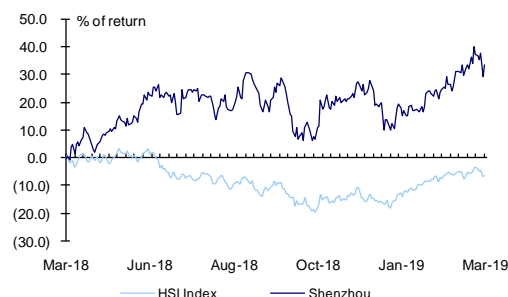
HK\$110.00

Share price 股价:

HK\$104.200

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 %	5.8	11.3	31.4
Rel. % to HS Index 相对恒指变动 %	6.5	(0.0)	37.9
Avg. Share price(HK\$) 平均股价 (港元)	103.6	96.4	93.0

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)	(%)	(%)
2017A	18,085	3,763	2.584	22.6	33.6	13.053	6.6	1.207	1.4	21.7
2018A	20,950	4,540	3.021	16.9	30.3	14.834	6.2	1.536	1.7	21.7
2019F	24,520	5,477	3.643	20.6	24.3	16.739	5.3	1.870	2.1	23.1
2020F	28,655	6,508	4.329	18.8	20.5	19.048	4.6	2.220	2.5	24.2
2021F	33,872	7,572	5.037	16.4	17.6	21.665	4.1	2.600	2.9	24.7

Shares in issue (m) 总股数 (m)	1,503.2	Major shareholder 大股东	Keep Glory Limited 46.6%
Market cap. (HK\$ m) 市值 (HK\$ m)	156,633.4	Free float (%) 自由流通比率(%)	48.1
3 month average vol. 3 个月平均成交股数('000)	2,440.5	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	Net Cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	109.500 / 74.750	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)	132.2

Source: the Company, Guotai Junan International.

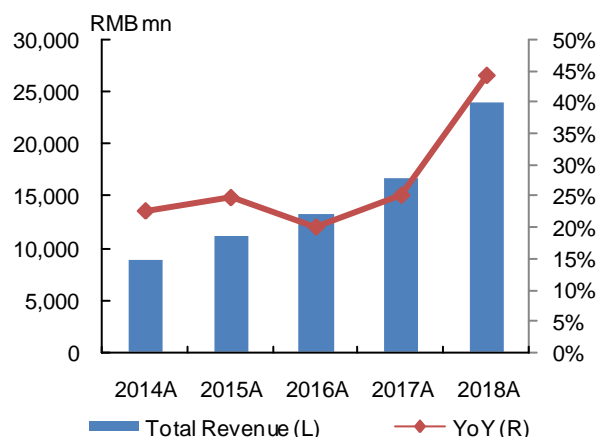
2018 top line in line but bottom line slightly missed expectations. Shenzhou International's ("Shenzhou" or the "Company") 2018 revenue increased by 15.8% YoY to RMB21.0 billion, which was in line with market and our expectations. Revenue growth was mainly driven by 1) growth in order demands of customers, 2) further enhanced productivity of overseas production bases and 3) increased efficiency in each production department. The Company's top four customers (Nike, Adidas, Uniqlo and Puma) combined contributed 77.5% of total revenue in 2018, close to 78.2% in 2017. Revenue from sportswear category recorded strong growth of 18.5% YoY and contributed 68.1% of total revenue. The mainland China market recorded strong revenue growth of 30.3% YoY and was the largest market with revenue contribution reaching 30.1% in 2018, up from 26.8% last year, driven by continuous increase in domestic consumption demand and domestic orders. Revenue from the USA market surged by 39.1% YoY and contributed 15.5% of total revenue, up from 12.9% last year. Overall GPM improved by 0.2 ppt YoY to 31.6% in 2018, mainly due to 1) depreciation of the renminbi in 2H18, 2) the rise in overseas production capacity further reducing the amortization of fixed costs per unit product and 3) further YoY improvement in productivity in mainland China (+6%), Vietnam (+26%) and Cambodia (+19%). However, the increase in GPM was partially offset by the rise in labor costs and price of raw materials in 2018.

Net profit increased by 20.7% YoY to RMB4.54 billion in 2018, which slightly missed Bloomberg consensus and our forecast by 3.5% and 2.4%, respectively. The Company received an excessive amount of orders in 2H18. In order to make timely delivery, part of the products were shipped by air to customers, which caused relevant expenses amounting to approximately RMB190 million in 2018. As a result, selling and distribution expenses surged by 50.8% YoY and accounted for 3.4% of total revenue in 2018, up from 2.6% last year. Staff costs ratio decreased by 1.2 ppt YoY to 26.0% in 2018, mainly due to improvement in production efficiency and increase in the proportion of overseas staff whose salaries are relatively lower. Finance costs plunged by 50.4% YoY, mainly due to interest expense from convertible bonds amounting to RMB42.1 million being included in 2017 financing costs but nil in 2018. Effective tax rate dropped by 0.6 ppt YoY to 11.7% in 2018. As a result, net margin improved by 0.9 ppt to 21.7%. The Company declared final dividend of HK\$90 cents per share, and together with the interim dividend of HK\$85 cents per share; full-year dividend payout ratio reached 50.7%, which was higher than 48.7% in 2017.

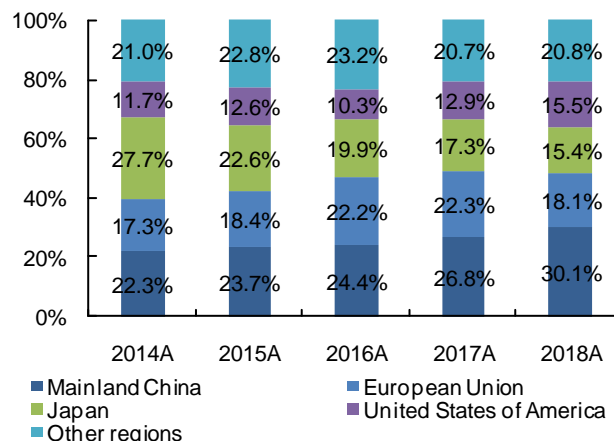
Table-1: Shenzhou's 2018 Results Analysis

RMB mn	2017	2018	YoY
Turnover	18,085	20,950	15.8%
Cost of sales	(12,414)	(14,336)	15.5%
Gross profit	5,671	6,614	16.6%
Other income and gains	572	709	24.1%
Selling and distribution expenses	(470)	(708)	50.8%
Administrative expenses	(1,231)	(1,450)	17.7%
Other expenses	(134)	(19)	(86.0%)
Profit from operations	4,408	5,146	16.8%
Finance costs	(123)	(61)	(50.4%)
Profit of associates & JVs	4	5	39.2%
Profit before taxation	4,288	5,090	18.7%
Income tax	(528)	(598)	13.2%
Profit for the year	3,760	4,493	19.5%
Non-controlling interests	(3)	(48)	1630.8%
Net profit	3,763	4,540	20.7%
Basic EPS (RMB)	2.584	3.021	16.9%
Full-year DPS (HK\$ cents)	1.450	1.750	20.7%
Gross margin	31.4%	31.6%	0.2 ppt
Operating margin	24.4%	24.6%	0.2 ppt
Net margin	20.8%	21.7%	0.9 ppt

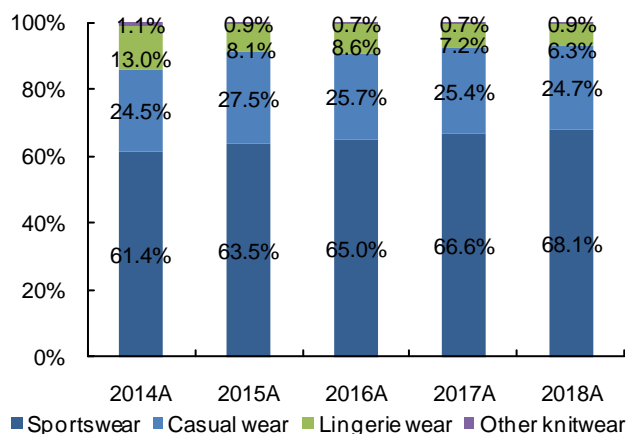
Source: the Company, Guotai Junan International.

Figure-1: Shenzhou's Revenue & YoY Growth


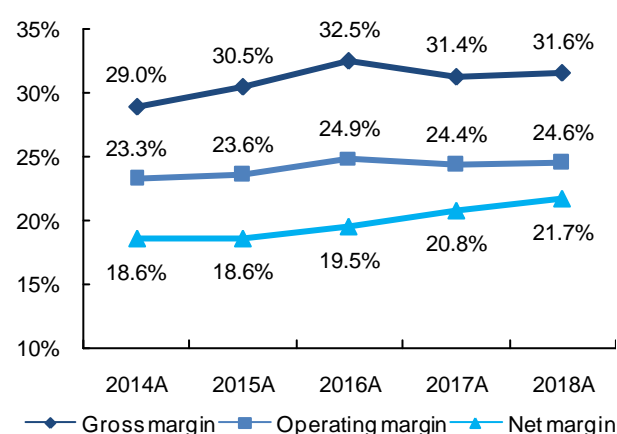
Source: the Company, Guotai Junan International.

Figure-2: Shenzhou's Revenue by Market


Source: the Company, Guotai Junan International.

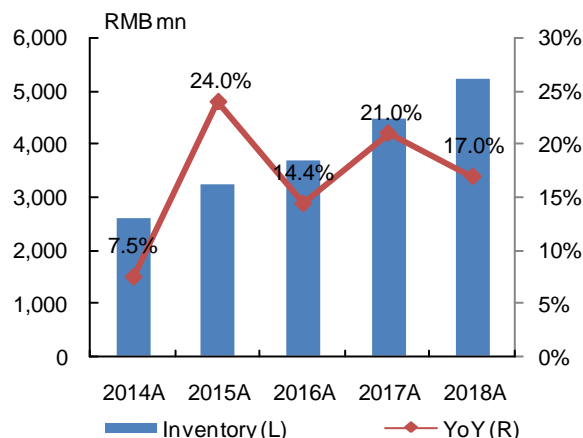
Figure-3: Shenzhou's Revenue by Product Categories


Source: the Company, Guotai Junan International.

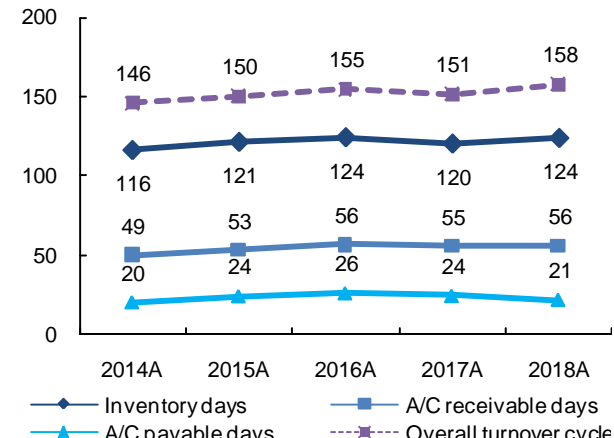
Figure-4: Shenzhou's Profitability


Source: the Company, Guotai Junan International.

Working capital management slightly worsened in 2018. Inventory balance increased by 17.0% YoY to RMB5.24 billion as at 31 December 2018. As a result, inventory turnover days increased by 3 days YoY to 124 days in 2018, but it still improved compared to 142 days in 1H18. Trade receivables balance grew by 26.6% YoY to RMB3.56 billion and the proportion of trade receivables over 3 months increased by 2.5 ppt YoY to 6.3%. Trade receivables turnover days remained stable at around 56 days compared to 2017 and 1H18. Trade payables turnover days decreased by 3 days YoY to 21 days, down from 28 days. As a result, the Company's overall turnover cycle increased by 6 days YoY to 158 days, which was still better than 169 days as at the end of 1H18.

Figure-5: Shenzhou's Inventory & YoY Growth


Source: the Company, Guotai Junan International.

Figure-6: Shenzhou's Working Capital Management


Source: the Company, Guotai Junan International.

Shenzhou will continue to expand its production capacity in both domestic and overseas production bases. The Company's daily average fabric output was estimated to have reached around 550 tons in 2018, including 300 tons for the mainland China production base and 250 tons for the Cambodia production base. We forecast daily average fabric output to continue growing during 2019-2021 and reach around 750 tons in 2021, mainly driven by improvement in production efficiency and more application of automatic equipment. The production capacity of the Cambodia production base is expected to grow faster and account for half of total fabric output by 2021. Total knitwear production capacity of the Company was estimated to have reached approximately 400 million pieces in 2018, around 70% of which was produced in mainland China. The Company has built a new garment factory in Vietnam, which can accommodate 5,000-6,000 employees and will commence operation in 2Q19. There is also a new garment factory in Cambodia, which can accommodate 15,000-17,000 employees and will start construction in 1H19 and commence production in mid-2020. We forecast the Company's knitwear output to record mid-teens percentage growth during 2019-2021, and contribution from overseas production bases is expected to reach around 50% by 2021. The Company believes that sportswear business in the global market, also especially in the mainland China market, is a very promising business segment. Therefore, the Company plans to fully utilize the production capacity in mainland China to develop more Chinese domestic customers including Anta, Lining and Xtep, and the production bases in Vietnam and Cambodia will primarily focus on customers outside of China.

Table-2: Shenzhou's Production Capacity

		2016A	2017A	2018A	2019F	2020F	2021F
Daily average fabric output (tons)		358	430	550	630	690	750
	YoY	15.1%	20.0%	28.0%	14.5%	9.5%	8.7%
- Mainland China		238	240	300	330	350	370
	YoY	-5.2%	0.7%	25.2%	10.0%	6.1%	5.7%
- Cambodia		120	190	250	300	340	380
	YoY	100.0%	58.3%	31.6%	20.0%	13.3%	11.8%
Knitwear output (million pieces)		310	350	400	460	537	639
	YoY	14.8%	12.9%	14.3%	15.1%	16.8%	18.9%
- Mainland China		248	266	285	305	325	346
	YoY	10.2%	7.2%	7.1%	7.0%	6.6%	6.5%
- Cambodia		47	54	61	69	83	124
	YoY	27.0%	15.0%	13.0%	13.0%	20.0%	50.0%
- Vietnam		15	30	54	86	130	168
	YoY	87.5%	100.0%	80.0%	60.0%	50.0%	30.0%

Source: the Company, Guotai Junan International.

Revise down 2019 and 2020 EPS forecasts by 2.3% and 2.6% to RMB3.643 and RMB4.329, respectively. We slightly revise up 2019 and 2020 revenue forecasts by 0.7% and 1.6%, respectively, based on our new assumptions. We forecast 2019-2021 revenue to grow by 17.0%, 16.9% and 18.2%, respectively, driven by increasing production capacity and strong demand from customers. The sportswear segment and mainland China market will be the main growth driver. We expect GPM to continue improving during 2019-2021 due to enhancement in production efficiency and a higher proportion of overseas production capacity. However, GPM may be lower than our previous forecasts, and therefore we revise down 2019 and 2020 GPM forecasts by 0.3 ppt and 0.3 ppt to 32.5% and 33.0%, respectively. Selling and distribution expenses surged by 50.8% YoY in 2018 mainly due to expenses in air shipping. We expect milder growth in 2019 as the Company will take measures to strengthen orders control to avoid such a rush in production. However, we expect higher staff costs in 2019-2021 as the new garment factory in Cambodia is larger than what we previously expected. We forecast effective tax rate to continue decreasing in 2019 and 2020 due to the tax exemption granted to Shenzhou by Vietnam and Cambodia governments, but effective tax rate may be higher in 2021 as the tax exemption in Cambodia will expire by then. We forecast 2019-2021 net profit to grow YoY by 20.6%, 18.8% and 16.4% to RMB5.48 billion, RMB6.51 billion and RMB7.57 billion, respectively, representing a CAGR of 18.6%.

Table-3: Key Assumptions and Adjustments

RMB mn	OLD			NEW			CHANGE		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	24,354	28,215	n.a.	24,520	28,655	33,872	0.7%	1.6%	n.a.
Gross profit	7,978	9,384	n.a.	7,962	9,447	11,337	(0.2%)	0.7%	n.a.
Operating profit	6,308	7,460	n.a.	6,227	7,358	8,844	(1.3%)	(1.4%)	n.a.
Net profit	5,606	6,679	n.a.	5,477	6,508	7,572	(2.3%)	(2.6%)	n.a.
Basic EPS (RMB)	3.729	4.443	n.a.	3.643	4.329	5.037	(2.3%)	(2.6%)	n.a.
Gross margin	32.8%	33.3%	n.a.	32.5%	33.0%	33.5%	(0.3) ppt	(0.3) ppt	n.a.
% SG&A of turnover	9.3%	9.2%	n.a.	9.7%	9.8%	9.7%	0.4 ppt	0.6 ppt	n.a.
Operating margin	25.9%	26.4%	n.a.	25.4%	25.7%	26.1%	(0.5) ppt	(0.8) ppt	n.a.
Net margin	23.0%	23.7%	n.a.	22.3%	22.7%	22.4%	(0.7) ppt	(1.0) ppt	n.a.

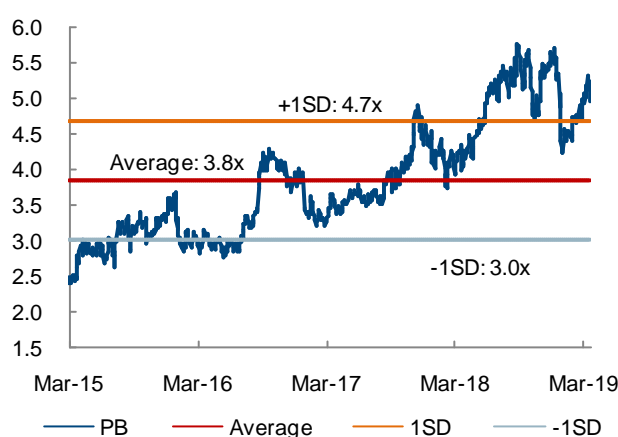
Source: the Company, Guotai Junan International.

Maintain TP at HK\$110.00 but downgrade to "Accumulate". Shenzhou will maintain its leadership position in the industry sustained by its strong R&D ability and good reputation among its customers. The Company enjoys relatively high profitability compared to its peers, which primarily benefits from its vertically integrated business model and efficient cost control measures. We expect gradual increases in the Company's production capacity over the next few years driven by the operation of new production facilities and improving production efficiency. Considering that demand of customers still largely exceeds Shenzhou's production capacity, we believe that Shenzhou will be able maintain strong and stable growth over the next few years. Although capital expenditure and operating expenses will remain high in the near future, we expect stronger growth in top line and continuous improvement in profitability over the next few years. We maintain our TP at HK\$110.00, which represents 25.7x, 21.6x and 18.6x 2019, 2020 and 2021 PER, respectively. Our TP represents 5.6% upside potential, and therefore we downgrade our investment rating from "Buy" to "Accumulate".

Risks: 1) lower growth in global textile & apparel industry, 2) peer competition, 3) changing government policies, 4) increase in raw material prices, 5) unexpected fluctuations in foreign exchange rates and 6) US-Sino trade dispute.

Figure-7: Shenzhou's P/E Ratio (Next Annual)


Source: Bloomberg, Guotai Junan International.

Figure-8: Shenzhou's P/B Ratio (Current Annual)


Source: Bloomberg, Guotai Junan International.

Table-4: Peers Valuation Comparison

Company	Stock Code	Currency	Last price	Market Cap HKD mn	PE(x)				PB(x)				ROE(%) 19F	D/Y(%) 19F	EV/ EBITDA(x) 19F	Gross Margin(%) 19F	Operating Margin(%) 19F
					18A	19F	20F	21F	18A	19F	20F	21F					
Textile & Garment																	
Shenzhou	2313 HK	HKD	104.20	156,636	30.3	24.3	20.5	17.6	6.2	5.3	4.6	4.1	23.1	2.1	17.9	32.5	25.4
Yue Yuen	551 HK	HKD	27.75	44,862	18.8	13.8	12.2	11.5	1.4	1.4	1.3	1.2	10.3	5.4	7.9	26.6	6.2
Texhong Textile	2678 HK	HKD	11.66	10,669	7.7	6.4	5.4	4.7	1.4	1.2	1.0	0.9	20.6	4.8	5.1	16.5	9.7
Pacific Textiles*	1382 HK	HKD	7.25	10,487	14.2	11.1	10.4	9.7	3.1	3.0	2.8	2.7	27.4	7.7	8.4	18.1	14.9
Regina Miracle*	2199 HK	HKD	5.51	6,746	28.1	21.9	14.8	10.5	2.4	2.2	2.0	1.8	10.4	1.5	11.2	22.0	6.7
Stella Int'l	1836 HK	HKD	12.00	9,533	18.4	12.6	10.5	8.9	1.3	1.2	1.2	1.1	9.8	6.4	8.3	19.0	5.6
Texwinca Hldgs*	321 HK	HKD	2.87	3,965	13.0	11.0	9.3	7.6	0.8	0.8	0.8	0.7	6.6	11.1	5.7	30.3	4.6
Nameson Hldgs*	1982 HK	HKD	0.71	1,618	4.6	5.9	4.8	4.3	0.6	0.6	0.6	0.5	9.6	6.6	4.7	17.3	6.8
Best Pacific Int'l	2111 HK	HKD	2.97	3,088	10.9	8.9	8.7	5.9	1.2	1.2	1.1	0.9	13.7	2.9	6.3	25.6	12.8
Simple Average					16.2	12.9	10.7	8.9	2.0	1.9	1.7	1.6	14.6	5.4	8.4	23.1	10.3
Weighted Average					25.3	20.0	16.9	14.7	4.5	3.9	3.5	3.1	19.5	3.4	14.2	29.1	18.9

Source: Bloomberg, Guotai Junan International.

* The financial year end date of Pacific Textiles (1382 HK), Regina Miracle (2199 HK), Texwinca Hldgs (321 HK) and Nameson Hldgs (1982 HK) is not 31st December. For easier comparison with peers, "18A" means "FY19A" and "19F" means "FY20F" and so on for the aforementioned companies.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Total Revenue	18,085	20,950	24,520	28,655	33,872
Cost of Sales	(12,414)	(14,336)	(16,558)	(19,207)	(22,535)
Gross Profit	5,671	6,614	7,962	9,447	11,337
Other Income	572	709	742	826	919
Selling & Distribution Expenses	(470)	(708)	(694)	(819)	(967)
Administrative Expense	(1,231)	(1,450)	(1,689)	(1,993)	(2,332)
Other Expenses	(134)	(19)	(94)	(103)	(114)
Operating Profit	4,408	5,146	6,227	7,358	8,844
Finance Costs	(123)	(61)	(68)	(63)	(60)
Share of Profits of An Associate	4	5	5	5	5
Profit Before Tax	4,288	5,090	6,164	7,300	8,789
Income Tax	(528)	(598)	(687)	(792)	(1,217)
Profit After Tax	3,760	4,493	5,477	6,508	7,572
Non-controlling Interest	3	48	(0)	(0)	(0)
Shareholders' Profit / Loss	3,763	4,540	5,477	6,508	7,572
Basic EPS	2.584	3.021	3.643	4.329	5.037
YoY	22.6%	16.9%	20.6%	18.8%	16.4%

Cash Flow Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Profit Before Taxation	4,288	5,090	6,164	7,300	8,789
D&A	784	881	937	1,064	1,186
Other Adjustments	(39)	(119)	(244)	(260)	(299)
Changes in Working Capital	(730)	(1,338)	(1,393)	(1,564)	(1,829)
Interest Paid	(81)	(61)	(68)	(63)	(60)
Income Tax Paid	(533)	(335)	(679)	(780)	(1,205)
Cash from Operating Activities	3,689	4,119	4,717	5,696	6,582
Purchase of PP&E	(1,172)	(1,622)	(1,962)	(1,863)	(1,795)
Change in Structured Deposits	(1,050)	1,050	(200)	0	0
Change in Available-for-sale Investments	143	1,497	(222)	(170)	(187)
Other Investing Activities	352	(2,459)	(356)	(466)	(593)
Cash from Investing Activities	(1,727)	(1,534)	(2,740)	(2,499)	(2,575)
Dividends Paid	(2,484)	(2,057)	(2,613)	(3,037)	(3,638)
Other Financing Activities	888	567	(206)	(116)	(110)
Cash from Financing Activities	(1,596)	(1,491)	(2,819)	(3,152)	(3,748)
Net Changes in Cash	366	1,095	(842)	45	259
Cash at Beg of Year	2,105	2,471	3,566	2,724	2,770
Foreign Exchange Effect	(0)	0	0	0	0
Cash at End of Year	2,471	3,566	2,724	2,770	3,029

Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Property, Plant and Equipment	7,117	8,003	9,069	9,912	10,568
Intangible Assets	98	100	98	97	97
Long-term Deposits	650	0	0	0	0
Prepaid Land Lease Payments	957	1,201	1,316	1,396	1,494
Other Non-current Assets	65	109	122	161	216
Total Non-current Assets	8,887	9,412	10,604	11,566	12,375
Inventories	4,477	5,237	6,107	7,053	8,147
Trade and Other Receivables	2,815	3,565	4,206	4,964	5,857
Available-for-sale Investments	2,977	1,480	1,702	1,872	2,059
Structured Deposits	1,050	0	200	200	200
Other Current Assets	1,416	4,292	4,806	5,447	6,213
Cash & Cash Equivalents	2,471	3,566	2,724	2,770	3,029
Total Current Assets	15,206	18,140	19,746	22,306	25,505
Total Assets	24,093	27,552	30,350	33,871	37,880
Trade and Other Payables	873	813	926	1,056	1,204
Other Payables and Accruals	945	1,182	1,199	1,223	1,248
Interest Bearing Bank Borrowings	2,130	2,434	2,313	2,197	2,087
Other Current Liabilities	317	491	496	506	516
Total Current Liabilities	4,265	4,920	4,935	4,983	5,055
Interest Bearing Bank & Other Borrowings	0	82	0	0	0
Deferred Tax Liabilities	3	96	97	99	101
Total Non-current Liabilities	3	178	97	99	101
Total Liabilities	4,269	5,098	5,032	5,082	5,157
Share Capital	151	151	151	151	151
Reserves	19,470	22,148	25,011	28,482	32,416
Total Shareholders' Equity	19,621	22,299	25,162	28,633	32,567
Minority Interest	203	156	156	156	156
Total Equity	19,825	22,454	25,318	28,789	32,724

Financial Ratios					
	2017A	2018F	2019F	2020F	2021F
Gross Margin (%)	31.4	31.6	32.5	33.0	33.5
Operating Margin (%)	24.4	24.6	25.4	25.7	26.1
Net Margin (%)	20.8	21.7	22.3	22.7	22.4
ROE (%)	21.7	21.7	23.1	24.2	24.7
ROA (%)	16.4	17.6	18.9	20.3	21.1
ROCE (%)	27.2	28.7	32.6	33.5	35.8
Payout Ratio (%)	48.7	50.7	51.3	51.3	51.6
Inventory Days	120.2	123.7	125.0	125.0	123.1
A/C Receivable Days	55.2	55.6	57.8	58.4	58.3
A/C Payable Days	24.0	21.5	19.2	18.8	18.3
Overall turnover cycle	151.4	157.8	163.7	164.6	163.1
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current Ratio (x)	3.6	3.7	4.0	4.5	5.0

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%; 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), BANK OF GANSU (02139 HK), BINHAI INVESTMENT (02886 HK), VALUE A SHARE (03095 HK), CAM SCSMALLCAP (03157 HK), HAITIANTIAN (08227 HK), CSOP MSCI-R (CNY) (83149 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.

© 2019 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