

Company Report: Shanghai Industrial Holdings (00363 HK)

Jun Zhu 朱俊杰  
(852) 2509 7592

junjie.zhu@gjtjas.com.hk

公司报告: 上实控股 (00363 HK)

22 May 2019

A Defensive Pick with Attractive Valuation, "Buy"

估值吸引且具备防守性的投资标的, “买入”

- **Acquisitions and capacity expansion on existing facilities are set to drive growth of water business.** Total designed capacity in SIHL's water project portfolio exceeded 18.5 mtpd at the end of 2018 and the Company targets to add approximately 1.0 mtpd every year in a bid to further expand its portfolio. We expect SIHL's water business to continue to expand through capacity expansion on existing facilities and M&As. The Company completed the acquisition of 4 new water projects in 2018.
- **High quality property projects launched in 2019 are to sustain growth.** We expect the launch of key property projects in 2019 by SIUD and SID to be the growth drivers of SIHL's real estate business. Combined Sellable property GFA from SIUD and SID amounted to more than 10.4 mn sq m in 2018, while the GFA for investment properties held for rent reached 1.02 mn sq m.
- **Net earnings are expected to rise by 11.2%/ 10.1%/ 5.3% from FY19 to FY21, respectively.** Under estimates of consolidated gross margin of no less than 40% for the period from 2019 to 2021 and an average effective tax rate of 40.1%, earnings estimates are projected to be approximately HK\$3.7 bn/ HK\$4.1 bn/ HK\$4.3 bn from FY19 to FY21, respectively.
- **Attractive low valuation and good defensive pick, "Buy".** The Company is currently trading at a low level with a valuation of 5.0x 2019E or 4.5x 2020E PER. SOTP method with a 35% conglomerate discount was used in valuing the Company. Our TP of HK\$21.10 represents 6.2x/ 5.6x FY19/ FY20 PER, with 24.6% upside. Our rating for SIHL is "Buy".
- **项目收购及对现有产能的扩张将推动公司水业务的增长。**上实控股截止于 2018 年末时的水项目组合的日水处理产能合计超过 18.5 百万吨, 公司计划将每年新增约 1.0 百万吨的日水处理产能以持续扩大其水资源项目组合。我们预计公司的水业务将于未来通过升级扩张现有设施及并购新项目来实现增长。公司于 2018 年完成了对 4 个新水务项目的收购。
- **2019 年新推出的优质房地产项目将维持公司的增长。**我们预计于 2019 年来自上实城开和上实发展的核心地产项目的推出将成为公司地产板块的增长驱动引擎。上实城开和上实发展的累计可销售房屋总建筑面积于 2018 年末时超过了 10.4 百万平方米, 公司同时拥有总面积达 1.02 百万平方米的投资物业。
- **股东净利预计将于 2019 至 2021 年间分别录得 11.2% / 10.1% / 5.3% 的增长。**在 2019 至 2021 年总毛利率预测不低于 40% 以及平均有效税率在 40.1% 的假设下, 公司于 2019 至 2021 年的盈利预测分别约为 37 亿港元 / 41 亿港元 / 43 亿港元。
- **颇具吸引力的低估值且业务具防御性, “买入”。**上实控股目前的估值处于一个低位, 仅为 5.0 倍 2019 年市盈率或 4.5 倍 2020 年市盈率。我们基于分部估值法对公司进行评估, 并对综合型公司采用了 35% 的折让。我们 21.10 港元的目标价相当于 6.2 倍 / 5.6 倍的 2019 / 2020 年市盈率并有 24.6% 的潜在上行空间。我们对上实控股的评级为“买入”。

Rating:

Buy

评级:

买入

6-18m TP 目标价:

HK\$21.10

Share price 股价:

HK\$16.940

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 %	(12.0)	(2.4)	(21.0)
Rel. % to HS Index 相对恒指变动 %	(4.6)	0.3	(10.5)
Avg. Share price(HK\$) 平均股价 (港元)	17.7	18.0	17.4

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\$)	(%)	(%)
2017A	29,520	3,135	2.884	7.9	5.9	38.394	0.4	0.940	5.5	8.0
2018A	30,413	3,333	3.066	6.3	5.5	37.964	0.4	1.000	5.9	8.0
2019F	32,040	3,706	3.409	11.2	5.0	40.343	0.4	1.193	7.0	8.7
2020F	34,606	4,083	3.755	10.1	4.5	42.879	0.4	1.314	7.8	9.0
2021F	36,416	4,300	3.955	5.3	4.3	45.526	0.4	1.384	8.2	8.9
Shares in issue (m) 总股数 (m)				1,087.2		Major shareholder 大股东				SIIC 60.0%
Market cap. (HK\$ m) 市值 (HK\$ m)				18,417.2		Free float (%) 自由流通比率 (%)				40.0%
3 month average vol. 3 个月平均成交股数 ('000)				1,437.4		FY19 Net gearing (%) FY19 净负债/股东资金 (%)				53.9
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				21.450 / 14.940		FY19 EV / EBITDA (x) FY19 企业值/EBITDA (x)				5.7

Source: the Company, Guotai Junan International.

## BUSINESS UPDATES

### Infrastructure Business Segment

**Water business revenue is driving growth of the infrastructure business segment.** Shanghai Industrial Holdings Limited ("the Company" or "SIHL") reported revenues of RMB8,805 mn from its infrastructure business in 2018, up YoY by 14.0% and represents 29.0% of the Company's total sales, mainly due to stable growth from toll road business as well as a surge in sales from water business during the reporting period. Infrastructure business reported net profit of HK\$1,749 mn, representing an increase of 14.0% YoY and accounting for 44.3% of the Company's net profit in 2018.

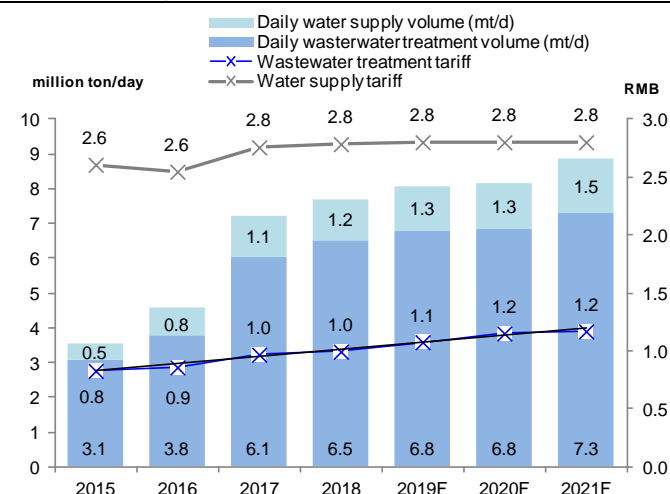
**Toll road business is expected to grow moderately.** For the toll roads business, the Company operates 3 expressways in Shanghai and the Hangzhou Bay Bridge under its toll roads business; 5.1% YoY growth in toll revenue was recorded in 2018. The Company has full ownership to the 3 expressways and a 23.0% equity stake in the Hangzhou Bay Bridge. Toll roads business revenues and net profit contribution in 2018 reached HK\$4,429 mn and HK\$1,196 mn, which went up YoY by 5.1% and 4.3%, respectively. Traffic flow of toll road business during 2018 increased by 1.6% YoY to 174.3 mn vehicles. Considering that travelling by car has become a new fashion trend, an increase in car ownership in China (nationwide passenger vehicle sales volume is about 28 million per year since 2016) and the continued boom in Chinese economy (China is expected to record no less than 6% GDP growth in 2019 according to market consensus forecasts); we believe that toll roads and the Hangzhou Bay Bridge are to continue to experience moderate growth over the next few years.

**Strong water business growth was behind surging infrastructure business sales.** For the water business, the Company prides itself in ranking among the top 5 leading water treatment and water supply service providers in China in 2018. Revenues from SIIC Environment, a subsidiary that SIHL has 46.7% equity interest, jumped 14.5% YoY to RMB5,313 mn in 2018, which was mainly due to the higher amount of operating and maintenance income from service concession arrangements in 2018 (contributed by newly acquired water projects). Earnings of SIIC Environment for the period reached RMB540 mn, representing YoY growth of 0.9%. In 2018, SIIC Environment completed its dual primary listing on SEHK and the acquisition of 100% equity interest in Dalian Ziguang Wastewater Treatment Plant project and the Dalian Wastewater Treatment Plant project. Further quality upgrades are required for both projects SIIC Environment acquired, from grade 1B to grade 1A. Moreover, water treatment capacity expansions are scheduled to take place for both projects. As at the end of 2018, total daily water treatment capacity of SIIC Environment reached approximately 11.7 million tons. Future growth will come from the commission of new projects, the upgrade or expansion of existing projects, the acquisition of new projects, etc. Meanwhile, SIHL also has a 45% stake in General Water of China. In 2018, revenue and net profit from General Water of China reached HK\$2,279 mn and HK\$231 mn, up YoY by 14.8% and 34.1%, respectively. General Water of China owns 30 water supply facilities and 28 sewage treatment plants with a total daily capacity of 6,800,000 tons, among which, the total water production daily capacity is 4,362,000 tons and daily sewage treatment capacity is 2,437,500 tons, and two reservoirs with a gross storage tank volume of 182,320,000 tons and a pipe network of 6,030 kilometers in total as at the end of 2018.

**Capacity addition will mainly come from capacity expansions and acquisitions.** As of the end of 2018, total designed capacity (including projects in operation, O&M projects, projects currently under construction & upgrade, and planned projects that are yet to be constructed) from SIIC Environment amounted to 11.7 million ton per day ("mtpd"). Together with the 6.8 mtpd designed capacity from General Water of China, SIHL's total designed capacity from its water project portfolio already exceeded 18.5 mtpd by the end of 2018. SIHL targets to add approximately 1.0 mtpd to the Company's water project portfolio every year. We expect SIHL's water business to continue to expand through organic growth, capacity expansion and upgrades to existing facilities, and via M&As. In 2018, the Company completed the acquisition of 4 new water projects (i.e. Dalian Ziguang, Ziguang Lingshui, Fangzi Water and Xinglong Town Sewage Treatment) for a total consideration of RMB345 mn. We think that the acquisitions are an effective measure to boost its total designed water supply and processing capacity. We expect the capacity addition to mainly be contributed by SIIC Environment due to its strong fund raising potential and capabilities given its dual listing status in both Hong Kong and Singapore.

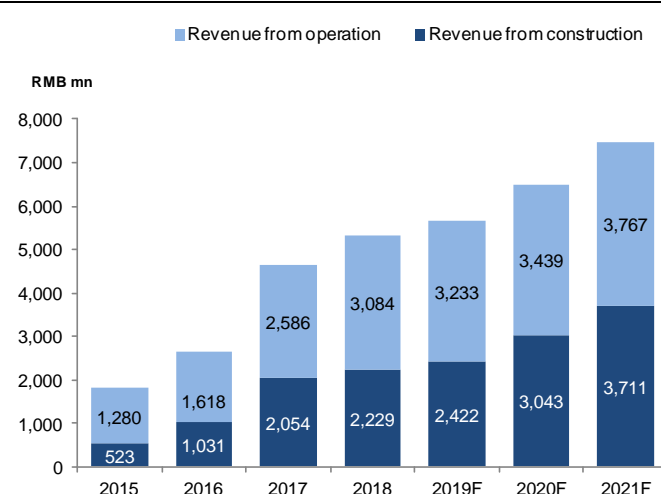
**Revenue from operating and maintenance of water projects should be the main growth driver.** We expect construction revenue growth from the Company's water business to maintain high growth from 2019 to 2021 as key cities in China are striving to fulfill the requirements set in "Action Plan for Prevention and Treatment" ("Action Plan" or "Water 10"). Meanwhile, revenue growth of SIHL's water business during the forecast period is expected to be dominated by O&M income from water projects as a result of more aggressive acquisitions/ capacity expansions from 2019 to 2021. Following the completion of water quality upgrades nationally, water treatment tariffs are also expected to increase from time to time, which would be another key catalyst for revenue increase of the water business in the future. Overall, we expect infrastructure (toll road + water) sales to grow by 1.5%/ 11.8%/ 12.5% from 2019 to 2021, respectively.

**Figure - 1: Daily Water Processing Volume and Tariff Forecasts of Service Concession Arrangement Projects and O&M Projects – SIIC Environment**



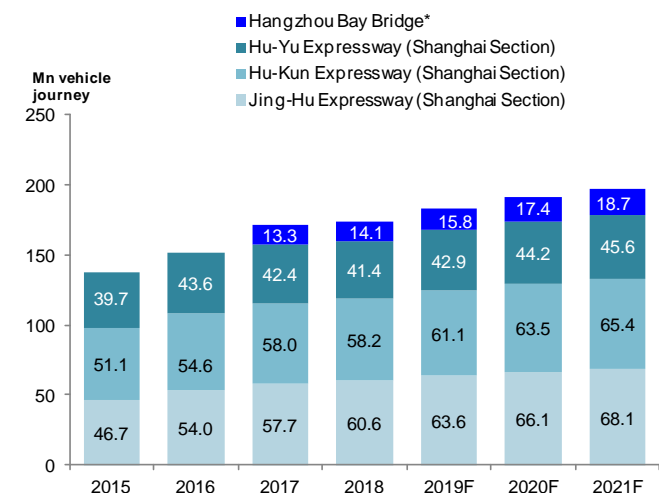
Source: SIIC Environment, Guotai Junan International. \*Note: approximately 2.3 million ton per day of daily production capacity are under construction or pending for construction at the end of 2018.

**Figure - 2: Revenue for SIHL's Water Business by Business Nature – SIIC Environment**



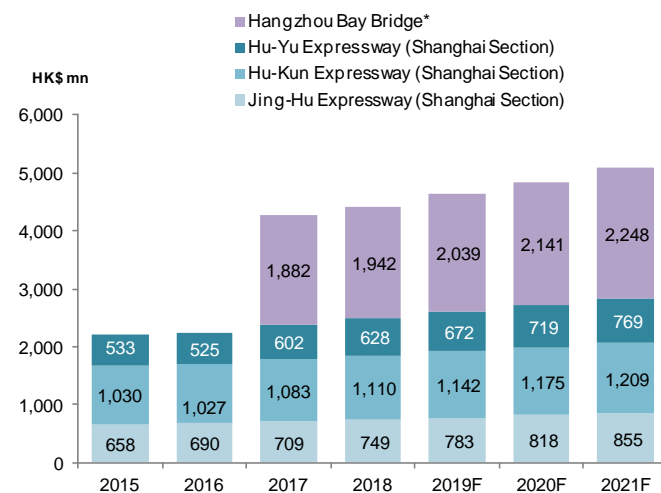
Source: SIIC Environment, Guotai Junan International.

**Figure - 3: Traffic Flow from the Toll Roads of SIHL**



Source: the Company, Guotai Junan International. \*Note: SIHL only holds 23% interest in Hangzhou Bay Bridge, thus its revenue will not be consolidated.

**Figure - 4: Revenue from the Toll Roads of SIHL**



Source: the Company, Guotai Junan International. \*Note: SIHL only holds 23% interest in Hangzhou Bay Bridge, thus its revenue will not be consolidated.

**Real Estate Business Segment**

**Strong land bank reserve provides assurance for future revenue.** SIHL operates its real estate business via Shanghai Industrial Development ("SID") and Shanghai Industrial Urban Development ("SIUD"), and the latter is a majority owned operating subsidiary of SIHL. In 2018, revenue of SIHL's real estate business stayed flat at HK\$17,202 mn, accounting for 56.6% of total sales of the Company, and its profit after tax went up by 27.2% YoY to HK\$1,118 mn. The surge in earnings was partially due to gain on disposal in the amount of RMB155 mn recorded from disposing of the Fuzhou project in 2018. Earnings contribution from real estate business accounted for 28.4% of the Company's total net profit during 2018. As at the end of 2018, combined sellable property GFA from SID and SIUD amounted to more than 10.4 mn sq m and GFA from investment property held for rent reached approximately 1.02 mn sq m. Further, the Company has a land bank reserve of more than 7.7 mn sq m GFA as at the end of June 2018, which is a strong guarantee for future revenue for the real estate business of SIHL.

**Table - 1: SIHL's Real Estate Development Projects Sorted by City**

Project name	City	Project type	Total site area (sqm)	Planned total GFA (sqm)	Total GFA sold (sqm)	Sellable GFA (sqm)
American Rock	Beijing	Residential and commercial	121,499	523,833	454,563	69,270
Youngman Point	Beijing	Residential and commercial	112,700	348,664	258,814	89,850
West Diaoyutai	Beijing	Residential	42,541	250,930	172,069	78,861
Fengsheng Building	Changsha	Residential and commercial	5,468	70,566	21,400	49,166
Forest Sea	Changsha	Residential and commercial	679,620	1,032,534	305,646	726,888
Hi-Shanghai	Chengdu	Residential and commercial	61,506	254,885	185,213	69,672
Hi-Shanghai	Chongqing	Residential and commercial	30,845	74,935	54,133	20,802
Top City	Chongqing	Residential, commercial and office	120,014	786,233	376,095	410,138
Hi-Shanghai(Phase 1)	Hangzhou	Residential and commercial	74,864	230,484	0	230,484
Hi-Shanghai(Phase 2)	Hangzhou	Residential and commercial	59,640	198,203	0	198,203
SIIC Garden Hotel	Huzhou	Hotel and commercial	116,458	47,177	0	47,177
Hurun Commercial Plaza	Huzhou	commercial	13,661	27,322	0	27,322
SIIC Tianlan Bay	Huzhou	Residential and commercial	115,647	193,292	0	193,292
SIIC Yungjing Bay	Huzhou	Residential	68,471	207,906	0	207,906
Yooou.net	Kunshan	Commercial and office	34,223	129,498	63,133	66,365
Royal Vila	Kushan	Residential	205,017	267,701	215,912	51,789
International Beer City	Qingdao	Composite	227,675	807,166	333,798	473,368
Sea Palace	Quanzhou	Residential and commercial	170,133	1,064,099	152,123	911,976
North Bund Project	Shanghai	Office and commercial	23,037	230,568	0	230,568
A New Era in the City	Shanghai	Residential and commercial	58,949	163,351	0	163,351
Essence of Shanghai	Shanghai	Residential and commercial	32,991	75,559	39,473	36,086
Territory Shanghai	Shanghai	Residential	32,512	114,737	76,768	37,969
Flos Granti	Shanghai	Residential	135,144	214,143	191,146	22,997
Belle Rive	Shanghai	Villa	315,073	59,577	18,152	41,425
Shanghai Bay	Shanghai	Residential	808,572	631,199	213,300	417,899
He Villa/Sea Country	Shanghai	Residential	162,708	121,683	84,627	37,056
Shanghai International Art Centre	Shanghai	Composite	194,956	120,363	96,027	24,336
Shangtou Baoxu	Shanghai	Residential	118,880	306,167	0	306,167
Urban Cradle	Shanghai	Residential and commercial	943,000	1,226,298	795,540	430,758
Shanghai Jing City	Shanghai	Residential and commercial	301,908	772,885	560,409	212,476
TODTOWN	Shanghai	Residential, commercial	117,825	605,000	37,659	567,341
Contemporary Art Villas	Shanghai	Residential	116,308	83,622	40,543	43,079
Contemporary Splendour Villas	Shanghai	Residential	120,512	191,636	0	191,636
Shangtou Xinhong	Shanghai	Residential	69,495	212,347	0	212,347
Chenghang Project	Shanghai	Office and commercial	20,572	60,964	0	60,964
Shenzhicheng Project	Shanghai	Rental Housing	47,435	128,075	0	128,075
Chenglong Project	Shanghai	Rental Housing	47,383	118,458	0	118,458
Shanghai Youth City	Shanghai	Office and commercial	57,944	212,130	139,840	72,290
Jingxiang Project	Shanghai	Rental Housing	17,161	48,050	0	48,050
Binjiang U Center	Shanghai	Office and commercial	77,371	525,888	0	525,888
Belle Rive	Shanghai	Villa	315,073	59,577	18,152	41,425
Shanghai Bay	Shanghai	Residential	808,572	631,199	312,300	318,899
He Villa/Sea County	Shanghai	Residential	162,708	121,683	84,627	37,056
Shenyang • U Centre	Shenyang	Commercial and office	22,651	228,768	50,524	178,244
China Phoenix Tower	Shenzhen	Residential, commercial and office	11,038	106,190	78,343	27,847
Sudi Lot 2017-WG-10	Suzhou	Commercial	40,817	127,199	0	127,199
Laochengxiang	Tianjian	Residential, commercial and office	244,252	752,883	578,266	174,617
Urban Development Int'l Center	Wuxi	Commercial, hotel, office	24,041	193,368	42,303	151,065
Originally	Xi'an	Residential, commercial and hotel	2,101,967	3,899,867	2,388,278	1,511,589
<b>Consolidated</b>			<b>9,810,837</b>	<b>18,858,862</b>	<b>8,439,176</b>	<b>10,419,686</b>

Source: the Company, Guotai Junan International.

**Sanguine business outlook for the real estate business as projects in top-tier cities are becoming the key focus.** In April 2018, SIUD disposed of its 26.0% indirect shareholding in the "Sweet Sea" development project in Fuzhou, the provincial capital of Fujian, to another investor for a consideration of RMB177 mn. The projects including residential and commercial properties with a total saleable area of 965,296 sq m. The disposal was in line with SIUD's business strategy of maintaining a controlling stake in property projects it is involved with (the Company may seek to dispose its interest if majority control is not deemed possible) and of focusing on core cities in China for property development. We expect SIUD to further strengthen its

competitiveness in real estate development business in core areas such as Yangtze Delta region as well as other tier-1 and tier-2 cities in China, while SIUD is to continue expanding its real estate business in a more diversified manner along the property business value chain. With reference to real estate project pipeline, we estimate that contracted sales from 2018 to 2020 to grow modestly mainly backed by the launch of several key projects of SIUD in top tier cities in China.

**The acquisition of high quality projects are set to boost growth in the future.** In 4Q2018, a wholly owned subsidiary of SID acquired 49% equity interest in SID Quanzhou for a total consideration of RMB978 mn. The transaction was completed in 2018 and SID Quanzhou became a wholly owned entity of SID following the acquisition. SID Quanzhou is mainly engaged in the development of the Sea Palace project in Quanzhou, Fujian into a large urban integrated community, which is scheduled to be launched to the market in several phases from 2017 to 2021. Sea Palace has an approximate site area of 170,133 sq m and a planned total gross floor area ("GFA") of 1.06 million sq m (0.15 million sq m was already sold at the end of 2018), implying the value of projects exceeding RMB10 bn considering an ASP of RMB10,000 per sq m in Quanzhou area.

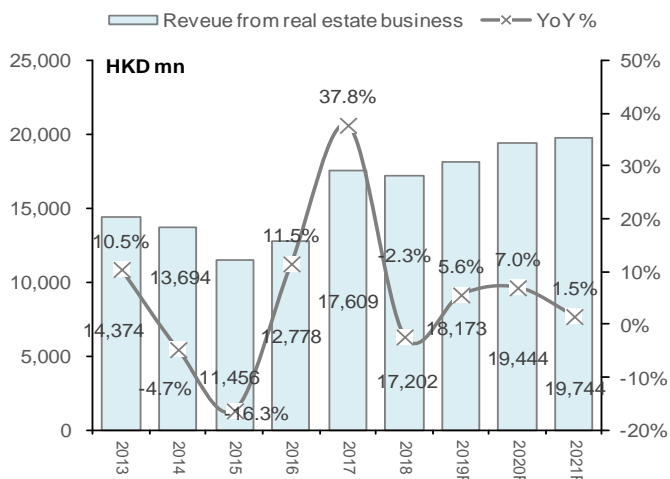
**Table - 2: SIHL's Investment Properties Sorted by City**

Project name	City	Project type	Total GPA of investment properties (sqm)
Youngman Point	Beijing	Commercial	19,768
Orchard Forrest Commercial Building	Chengdu	Commercial	769
Top City	Chongqing	Commercial and parking lot	251,847
Dali Plaza	Qingdao	Commercial	21,495
Shanghai Industrial Investment Centre	Qingdao	Office	24,749
Super Ocean Finance Center	Shanghai	Office	2,321
United 88	Shanghai	Commercial, office	89,483
Gao Yang Commercial Centre	Shanghai	Office	26,668
Gao Yang Hotel	Shanghai	Office	3,847
Golden Bell Plaza	Shanghai	Office	59,481
Huangpu Estate	Shanghai	Commercial	20,918
No. 108 Haichao Road	Shanghai	Commercial	474
Territory Shanghai	Shanghai	Commercial	2,413
No. 1111 Shangchuan Road	Shanghai	Industrial Building	40,208
Huashen Building	Shanghai	Office	344
Shanghai Industrial Investment Building	Shanghai	Office	33,243
Yonglong Building	Shanghai	Office	798
Hi-Shanghai	Shanghai	Commercial	44,027
No. 235 Zhongshan Road North (portion)	Shanghai	Office	1,434
ShanghaiMart	Shanghai	Exhibition, transaction market, office and parking lot	284,651
Shanghai Youth City	Shanghai	Commercial	16,349
Urban Development International Tower	Shanghai	Office	45,239
YOYO Tower	Shanghai	Commercial	13,839
China Phoenix Tower	Shenzhen	Office	1,048
Rhine Town	Tianjin	Commercial	5,961
Others	Tianjin	Commercial, office and parking lot	9,249
<b>Total</b>			<b>1,020,623</b>

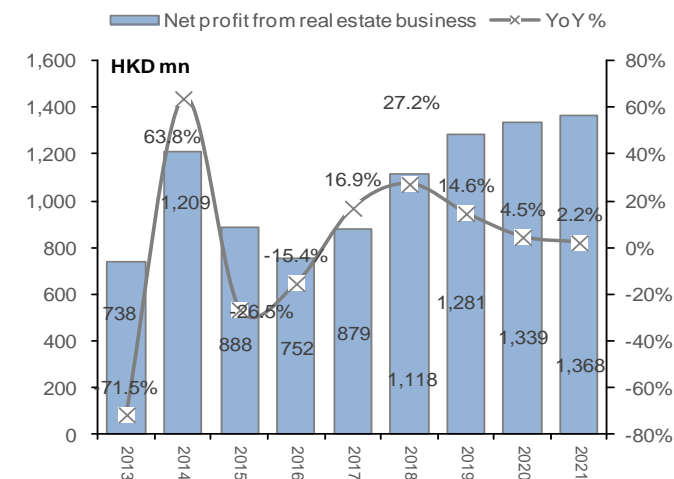
Source: the Company, Guotai Junan International. \*Note: the investment properties of SIHL are mostly commercial real estate that generates stable cash flows.

**Continued acquisition of high quality land resources in Shanghai and top-tier cities in China will strengthen SIUD's profitability in the future.** After acquiring the equity interest in NR investment in February 2018, SIUD became one of the few listed property developers that engage in primary land development in China. SIUD should be capable of obtaining high quality land parcels in Shanghai at relatively low cost due to its strong connection with the municipal government of Shanghai. The acquisition provides a good opportunity for SIUD to expand its investment in the primary and secondary land development business in Shanghai, complementing its principal businesses. We believe such engagement will facilitate SIUD's strategy in focusing property development in the Yangtze Delta region as well as in top-tier cities in China. In July 2018, SIUD entered into a land use right transfer contract to acquire a parcel of land for commercial purposes in Minhang District of Shanghai for a consideration of RMB523 mn and with a site area of 20,572 sq m. Continued acquisition of new land resources for commercial property development is in line with the long-term development strategy of SIUD. We believe by leveraging SIHL's resources in Shanghai, SIUD will evolve to become one of the leading property developers in Shanghai over time. We estimate SIHL's real estate business revenue to grow by 5.6%/ 7.0%/ 1.5% from 2019 to 2021, respectively.

**Figure - 5: Revenue from SIHL's Real Estate Business**



**Figure - 6: Earnings from SIHL's Real Estate Business**



Source: the Company, Guotai Junan International.

Source: the Company, Guotai Junan International.

### New Business Segment

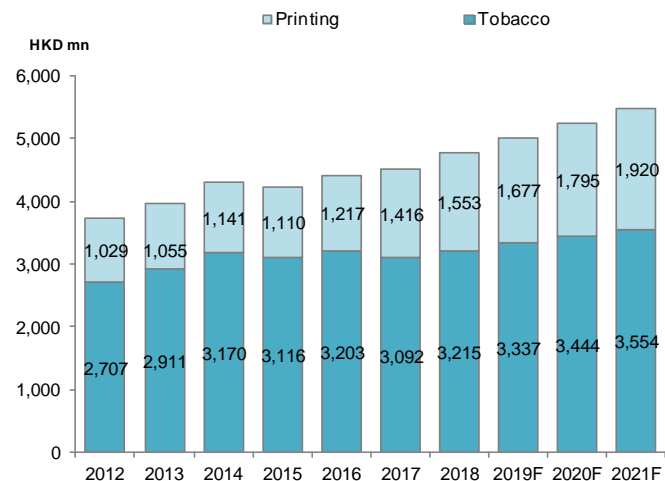
**A new joint venture was established for offshore wind power projects investment.** Total installed solar power capacity of Shanghai Galaxy, a 45% stake owned associate of SIHL, amounted to approximately 580 MW. Total amount of on-grid electricity sold from its 12 solar power stations reached 819 mn kWh in 2018, up YoY by 15.3%. In July 2018, a subsidiary of SIHL established a joint venture with Shangtou Asset and Shanghai Galaxy to invest in offshore wind power projects in China. SIHL owns 40% equity interest in the newly formed joint venture. The new business arena of SIHL aims to focus on renewable energies investment in China; however, its revenue contribution is still insignificant as of this moment.

### Consumer Products Business Segment

**Stable 2018 operations amid increased competition.** In 2018, the consumer products business sales went up YoY by 5.2% to RMB4,406 mn, representing 14.5% of total sales of SIHL. The consumer products business contributed net profit of HK\$1,076 mn, up YoY by 0.6%, and made up 27.3% of SIHL's net earnings in 2018. In which, Nanyang Tobacco recorded sound and stable growth during the period and continued to upgrade its brands as well as launch new products to the market. Revenue from tobacco sales went up 4.0% YoY to RMB3,215 mn and generated HK\$955 mn in profit after tax during the period, which was relatively flat compared to the same period of last year. In 2018, Nanyang Tobacco actively promoted the construction of its versatile production lines. The objective is to set up a flexible processing line that can accommodate the production of a variety of cigarette specifications, multiple packing forms and rapid switching of specifications. Meanwhile, revenue from both the printing and packing business and the high-end exquisite molded fiber packaging business achieved high single-digit percentage growth during the period. Wing Fat Printing had revenue of HK\$1,553 mn in 2018, up YoY by 9.7%, with net profit of HK\$128 mn, which was almost the same compared to that of last year. The printing and packaging business showed a promising development trend while the molded fiber packaging business continued to maintain strong growth momentum.

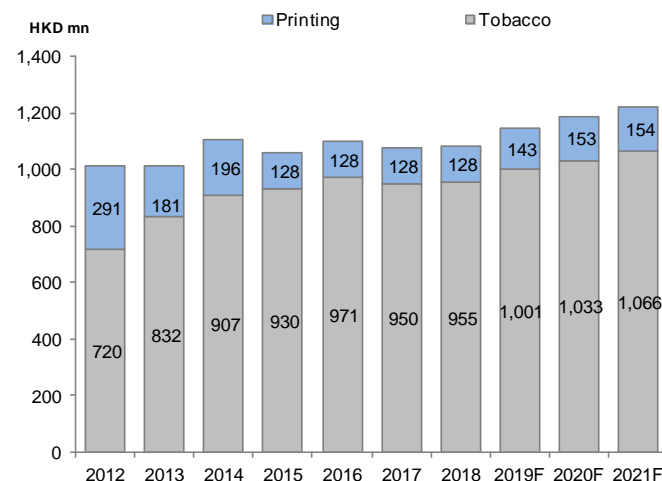
**The consumer products business is expected to experience moderate growth moving forward.** With continued efforts to bring new products to the market and aggressively expanding in offshore markets, we believe that the Company's tobacco business will remain stable and record moderate growth over the next few years. As for the printing and packaging business, the Company is striving to maintain high revenue growth it achieved in 2018 and is expected to improve its operations by cutting costs and boosting efficiency. Further, the new exquisite high-end molded fiber packaging business with a wide customer base is a strategic transformation for the century-old printing business and has set a new growth engine for the business. We expect high growth in the printing and packaging business to be maintained as a result of this transformation. All in all, we estimate consumer product business sales growth to be 5.2%/ 4.5%/4.5% from 2019 to 2021, respectively.

**Figure - 7: Revenue from Tobacco and Printing Business**



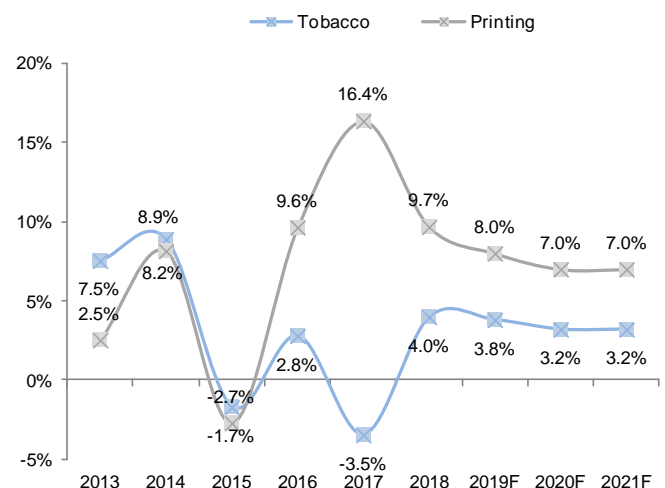
Source: the Company, Guotai Junan International.

**Figure - 8: Earnings from Tobacco and Printing Business**



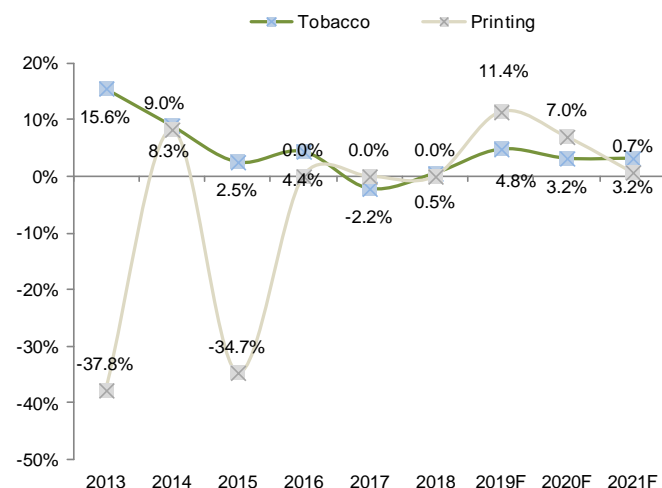
Source: the Company, Guotai Junan International.

**Figure - 9: Revenue Growth of Consumer Product Business**



Source: the Company, Guotai Junan International.

**Figure - 10: Earnings Growth of Consumer Product Business**



Source: the Company, Guotai Junan International.

**KEY ASSUMPTIONS AND FORECASTS**

- 1) **Total revenue of SIHL is forecast to increase by 5.4%/ 8.0%/ 5.2% from FY19 to FY21, respectively.** As the consumer business is expected to stay flat with annual growth of around 5% during the forecast period, expected growth of SIHL is to mainly come from revenue expansion of the water business and the real estate business. SIIC Environment recorded very strong 2018 revenue due to the surge in both its construction revenue as well as O&M revenue from water projects in 2018; we expect that strong growth will likely be maintained in 2019. Meanwhile, real estate revenue is expected to grow by 7.4%/ 7.0%/ 1.5% from 2019 to 2021, respectively. As most of the revenues are denominated in RMB, we have applied the RMB/HKD exchange rate assumption of 0.85 from 2019 to 2021.
- 2) **Consolidated gross margin is estimated to reach 40.2%/ 40.1%/ 40.2% from FY19 to FY21, respectively.** SIHL's 2018 gross margin declined by 1.8 ppt YoY to 38.3% in 2018, which was mainly due to an increase in the proportion of property service income in real estate business and construction revenue in water business, both having recorded lower gross margin during 2018. We expect margins to recover in 2019 with expected higher sales of the high GPM property projects launched to the market in 2019 and lower contribution from low margin water project construction in the 2019. We expect the GPM from consumer product business to remain stable from 2019 to 2021. All in all, we expect the GPM of SIHL to recover and to reach 40.2%/ 40.1%/ 40.2% from FY19/ FY20/ FY21, respectively.
- 3) **Stable finance costs due to expected fall of total debt.** The Company's finance costs rose by approximately 9.5% in 2018, mainly due to the rise in the borrowing rate during the year. With total debt expected to stay at more than HK\$50 bn from 2019 to 2021 with estimated interest rates of 3.9%/ 3.8%/ 3.8% from 2019 to 2021, respectively, we expect the Company to record finance costs of HK\$1.97 bn / HK\$1.94 bn / HK\$1.89 bn from 2019 to 2021, respectively. We expect the net gearing of SIHL to gradually decline after peaking in 2018.
- 4) **Net profit attributable to shareholders is expected to rise by 11.2%/ 10.1%/ 5.3% from FY19 to FY21, respectively.** Under the backdrop of the consolidated gross margin of no less than 40% for the period from 2019 to 2021 and an average effective tax rate of 40.1% during the forecast period (effective tax rate was 40.2% in 2018), earnings estimates are to reach HK\$3.7 bn / HK\$4.1 bn / HK\$4.3 bn from FY19 to FY21, respectively. Net margin of SIHL during the 3-year forecast period is estimated to be 11.6%/ 11.8%/ 11.8%, respectively.
- 5) **High dividend payout is expected to be maintained.** We expect the Company to maintain a stable dividend payout ratio of no less than 35% from 2019 to 2021 with reference to its historical dividend distribution policy (averaging at 33% over the last 5 years). We also expect the Company to keep its high dividend yield status in a bid to compensate shareholders, mainly backed by its stable cash flow and a sanguine growth outlook.

**Table - 3: Revenue Forecasts of SIHL by Business**

	2012	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
<b>Infrastructure - Water Business</b>										
SI Environment (RMB mn)	800	1,214	1,288	1,804	2,648	4,639	5,313	5,655	6,482	7,478
General Water of China (HK\$ mn)	1,597	1,577	1,794	1,789	2,155	1,985	2,279	2,473	2,685	2,833
<b>Infrastructure - Toll Roads (HK\$ mn)</b>										
Jing-Hu Expressway (Shanghai Section)	596	653	637	658	690	709	749	783	818	855
Hu-Kun Expressway (Shanghai Section)	872	940	976	1,030	1,027	1,083	1,110	1,142	1,175	1,209
Hu-Yu Expressway (Shanghai Section)	456	504	531	533	525	602	628	672	719	769
Hangzhou Bay Bridge	0	0	0	0	0	1,882	1,942	2,039	2,141	2,248
<b>Consolidated revenue from infrastructure business</b>	<b>2,848</b>	<b>3,550</b>	<b>3,681</b>	<b>4,349</b>	<b>5,275</b>	<b>7,725</b>	<b>8,805</b>	<b>9,250</b>	<b>10,338</b>	<b>11,631</b>
<b>Real Estate Business</b>										
SI Development (RMB mn)	3,667	3,905	3,803	6,619	6,490	7,234	8,664	8,319	8,779	9,268
SI Urban Development (HK\$ mn)	8,783	9,774	7,774	3,872	5,491	9,373	6,978	8,385	9,116	8,840
<b>Consolidated revenue from real estate business (HK\$ mn)</b>	<b>13,011</b>	<b>14,374</b>	<b>13,694</b>	<b>11,456</b>	<b>12,778</b>	<b>17,609</b>	<b>17,202</b>	<b>18,173</b>	<b>19,444</b>	<b>19,744</b>
<b>Consumer Products Business (HK\$ mn)</b>										
Tobacco	2,707	2,911	3,170	3,116	3,203	3,092	3,215	3,337	3,444	3,554
Printing	1,029	1,055	1,141	1,110	1,217	1,416	1,553	1,677	1,795	1,920
<b>Consolidated revenue from consumer products</b>	<b>3,427</b>	<b>3,643</b>	<b>3,958</b>	<b>3,889</b>	<b>4,079</b>	<b>4,186</b>	<b>4,406</b>	<b>4,617</b>	<b>4,824</b>	<b>5,041</b>
<b>Total revenue</b>	<b>19,287</b>	<b>21,568</b>	<b>21,333</b>	<b>19,694</b>	<b>22,132</b>	<b>29,520</b>	<b>30,413</b>	<b>32,040</b>	<b>34,606</b>	<b>36,416</b>

Source: the Company, Guotai Junan International. \*Note: some companies / assets listed above are not majority owned by SIHL and thus are not consolidated to the total revenue of SIHL.



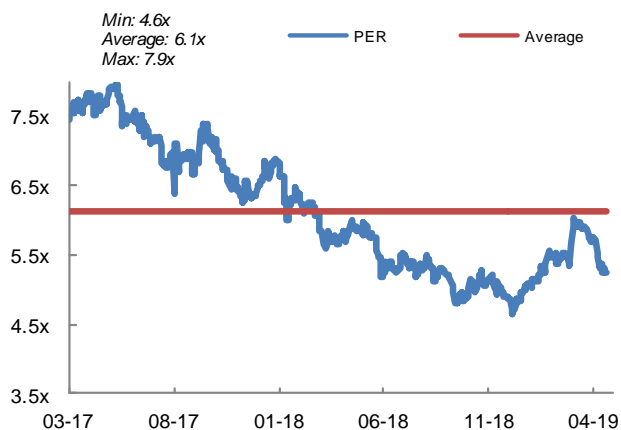
**VALUATION**

**Attractive low valuation with sound fundamentals, "Buy" with a TP of HK\$21.10.** The Company is currently trading at a low level with a valuation of 5.0x 2019 PER or 4.5x 2020 PER based on our earnings forecasts. Based on our calculation, SIHL's current dividend yield will reach 7.0% and 7.8% for FY19 and FY20, respectively. The current valuation of the Company seems undemanding and is attractively low with handsome return. As the Company derived approximately 57% of its revenue in 2018 from real estate business, the market has somehow categorized the Company into the real estate industry rather than the industrial conglomerate industry. We believe, with the potential increase in the dividend payout ratio and the gradual increase in the contribution of the water business over time, the valuation of SIHL should be back on an upward trend. Our TP of HK\$21.10 was derived using the SOTP valuation methodology, wherein we applied a PER for the unlisted businesses of SIHL and adopted the latest market capitalization values of its listed subsidiaries and entities. We also applied a 50% H/A share discount in valuing SI Development (600748 SH) as well as a 35% conglomerate discount for SIHL. Our TP of HK\$21.10 represents 6.2x/ 5.6x/ 5.3x FY19/ FY20/ FY21 PER and has 24.6% upside based on the last closing price of HK\$16.94. We have assigned a "Buy" investment rating for SIHL.

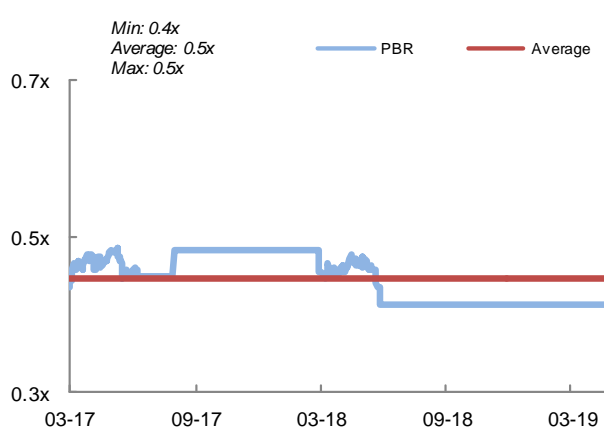
**Table - 4: SOTP Valuation Table**

Business Segment	Valuation methodology	Interest %	FY19 Net Profit (HKD mn)	Valuation (HK\$ mn)	FY19 PER	Attributable NAV (HK\$ mn)
<b>Infrastructure - Water Business</b>						
SIIC Environment	Market Cap	46.7%	665	4,386	6.6	2,047
General Water of China	PER	45.0%	260	1,688	6.5	760
<b>Segment valuation</b>						<b>2,807</b>
<b>Infrastructure - Toll Roads</b>						
Jing-Hu Expressway (Shanghai Section)	PER	100.0%	404	3,430	8.5	3,430
Hu-Kun Expressway (Shanghai Section)	PER	100.0%	469	3,986	8.5	3,986
Hu-Yu Expressway (Shanghai Section)	PER	100.0%	218	1,854	8.5	1,854
Hangzhou Bay Bridge	PER	23.1%	758	7,576	10.0	1,747
<b>Segment valuation</b>						<b>11,018</b>
<b>Real Estate Business</b>						
SI Development	Market Cap	48.6%	1,175	22,562	19.2	5,483
SI Urban Development	Market Cap	70.0%	797	7,457	9.4	5,217
<b>Segment Valuation</b>						<b>10,700</b>
<b>Consumer Products Business</b>						
Tobacco	PER	100.0%	1,001	10,012	10.0	10,012
Printing	PER	94.3%	143	855	6.0	807
<b>Segment Valuation</b>						<b>10,818</b>
<b>Gross NAV</b>						<b>35,342</b>
Conglomerate discount						35.0%
<b>NAV</b>						<b>22,972</b>
Share outstanding						1,087
<b>Target share price (HK\$)</b>						<b>21.1</b>

Source: Guotai Junan International.

**Figure - 11: Forward PER of SIHL**


Source: Bloomberg, Guotai Junan International.

**Figure - 12: Forward PBR of SIHL**


Source: Bloomberg, Guotai Junan International.

**Table - 5: Peers Comparison**

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE (%)	EV / EBITDA (%)	Dividend Yield (%)	Market Cap
				18A	19F	20F	21F	18A	19F	20F	21F				
<b>HK Listed PRC Conglomerates</b>															
Fosun International Ltd	656 HK	HKD	10.42	5.6	5.4	4.8	4.3	0.7	0.6	0.6	0.5	13.2	10.0	3.9	89,059
Guangdong Investment Ltd	270 HK	HKD	14.64	19.1	17.9	16.3	14.7	2.4	2.2	2.1	2.0	12.7	12.1	4.1	95,714
Shanghai Industrial Hldg Ltd	363 HK	HKD	16.94	5.5	5.2	4.9	4.7	0.4	n.a.	n.a.	n.a.	8.1	n.a.	6.2	18,417
Simple Average				10.0	9.5	8.7	7.9	1.2	1.4	1.4	1.3	11.3	11.0	4.7	
Weighted Average				11.9	11.3	10.3	9.3	1.5	1.5	1.4	1.3	12.5	11.1	4.2	
<b>PRC Water Peers</b>															
Beijing Enterprises Water Gr	371 HK	HKD	4.02	8.4	7.5	6.5	5.6	1.5	1.3	1.1	1.0	18.3	11.5	4.9	40,246
Canvest Environmental Protec	1381 HK	HKD	3.58	11.7	9.9	8.5	7.3	1.7	1.4	1.3	1.1	15.3	8.2	1.6	8,789
China Everbright Greentech L	1257 HK	HKD	5.20	8.1	6.4	5.1	4.4	1.2	1.0	0.8	0.7	16.0	6.7	3.1	10,744
China Everbright Intl Ltd	257 HK	HKD	7.13	8.3	8.1	6.8	5.9	1.3	1.1	1.0	0.9	14.7	8.1	3.7	43,799
China Everbright Water Ltd	1857 HK	HKD	2.23	8.7	7.9	7.1	7.4	0.7	0.7	0.6	0.6	8.7	8.7	2.5	6,199
Ct Environmental Group Ltd	1363 HK	HKD	0.34	3.1	3.8	3.1	n.a.	0.4	0.3	0.3	n.a.	10.1	n.a.	6.8	2,148
Dongjiang Environmental-H	895 HK	HKD	7.75	13.9	12.4	10.3	8.8	1.4	1.3	1.2	1.0	12.1	11.5	2.1	9,925
Siic Environment Holdings Lt	SIIC SP	SGD	0.30	7.0	6.1	5.7	5.1	0.5	0.5	0.4	0.4	7.2	10.5	3.7	4,386
Simple Average				8.6	7.8	6.6	6.4	1.1	1.0	0.8	0.8	12.8	9.3	3.5	
Weighted Average				8.9	8.1	6.9	6.1	1.3	1.1	1.0	0.9	15.2	9.5	3.8	
<b>PRC Toll Roads Peers</b>															
Anhui Expressway Co Ltd-H	995 HK	HKD	4.89	6.1	6.2	6.2	7.5	0.7	0.7	0.6	0.6	10.9	4.5	5.9	10,413
Hopewell Highway Infrastruct	737 HK	HKD	3.74	14.6	13.9	12.6	12.1	1.9	2.1	2.1	2.2	14.9	6.6	7.0	11,526
Jiangsu Express Co Ltd-H	177 HK	HKD	10.58	10.3	11.4	11.0	10.6	1.8	1.7	1.6	1.5	15.1	10.0	5.1	56,622
Shenzhen Expressway Co-H	548 HK	HKD	9.27	5.0	9.1	8.3	7.8	1.0	1.0	1.0	0.9	11.7	7.9	5.9	22,787
Shenzhen Intl Holdings	152 HK	HKD	16.06	7.9	8.9	8.9	8.5	1.2	1.1	1.0	1.0	12.7	6.6	5.6	34,123
Sichuan Expressway Co-H	107 HK	HKD	2.45	7.4	7.2	6.7	6.5	0.5	0.4	0.4	0.4	5.9	7.7	5.1	11,839
Yuxiu Transport Infrastruct	1052 HK	HKD	6.31	8.4	8.4	8.0	7.4	0.9	0.8	0.7	0.7	10.8	7.6	6.3	10,558
Zhejiang Expressway Co-H	576 HK	HKD	8.15	8.6	8.3	7.8	7.6	1.4	1.2	1.1	1.1	15.8	6.9	5.6	35,396
Simple Average				8.5	9.2	8.7	8.5	1.2	1.1	1.1	1.0	12.2	7.2	5.8	
Weighted Average				8.7	9.6	9.1	8.8	1.3	1.3	1.2	1.1	13.4	7.8	5.6	
<b>Small &amp; Mid Scale PRC Property Developer Peers</b>															
Beijing Capital Land Ltd-H	2868 HK	HKD	2.49	4.7	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	9.6	7,540
Beijing North Star Co Ltd-H	588 HK	HKD	2.89	5.8	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13,575
C C Land Holdings Ltd	1224 HK	HKD	1.79	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6,949
Central China Real Estate	832 HK	HKD	3.35	6.4	5.2	3.6	3.3	0.9	0.8	0.7	0.7	15.2	1.7	6.4	9,151
China Overseas Grand Oceans	81 HK	HKD	3.53	4.8	4.0	3.3	2.7	0.6	0.5	0.5	0.4	13.0	2.7	5.2	12,084
China Scc Group Holdings Ltd	1966 HK	HKD	3.45	3.3	3.8	2.9	2.7	0.8	0.7	0.6	0.5	19.4	4.2	8.5	14,235
Fantasia Holdings Group Co	1777 HK	HKD	1.18	7.9	4.9	4.0	n.a.	0.5	0.4	0.4	n.a.	6.8	n.a.	6.3	6,804
Gemdale Properties And Inves	535 HK	HKD	0.93	5.5	4.0	2.9	2.6	1.1	0.9	0.7	0.6	22.5	n.a.	n.a.	14,775
Glorious Property Holdings	845 HK	HKD	0.34	4.0	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2,611
Greentown China Holdings	3900 HK	HKD	5.22	n.a.	3.7	3.5	3.1	0.3	0.3	0.3	0.3	7.3	7.5	5.7	11,332
Hopson Development Holdings	754 HK	HKD	7.90	3.0	8.6	7.8	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	3.4	17,582
Modern Land China Co Ltd	1107 HK	HKD	1.16	5.2	3.8	3.4	3.3	0.5	0.4	0.4	0.4	12.5	n.a.	7.0	3,237
Powerlong Real Estate Holdin	1238 HK	HKD	3.40	4.0	3.1	2.4	0.1	0.4	0.4	0.3	0.3	13.1	2.1	10.2	13,591
Ronshine China Holdings Ltd	3301 HK	HKD	9.51	5.8	3.6	2.8	2.2	1.0	0.8	0.6	0.5	26.0	2.7	7.2	16,386
Shanghai Industrial Urban De	563 HK	HKD	1.55	n.a.	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7,457
Shui On Land Ltd	272 HK	HKD	1.76	6.3	6.4	5.6	16.6	0.2	0.3	0.3	0.3	4.2	7.9	6.0	14,190
Top Spring International Hld	3688 HK	HKD	1.97	n.a.	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2,783
Yuzhou Properties Co	1628 HK	HKD	3.67	4.0	3.4	2.8	2.5	0.8	0.7	0.6	0.5	21.4	2.7	10.0	17,617
Zhenro Properties Group Ltd	6158 HK	HKD	4.88	7.9	5.4	3.8	3.1	1.3	1.0	0.8	0.7	17.9	5.3	5.3	20,120
Zhong An Real Estate Ltd	672 HK	HKD	0.25	4.2	n.a.	n.a.	n.a.	0.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,453
Simple Average				5.2	4.6	3.8	3.8	0.6	0.6	0.5	0.5	14.9	4.1	7.0	
Weighted Average				5.2	4.7	3.9	3.8	0.7	0.6	0.5	0.5	16.1	4.2	6.9	
<b>Global Tobacco Peers</b>															
Altria Group	MO US	USD	52.35	14.2	12.5	11.7	11.2	6.6	6.4	6.0	5.4	51.1	11.5	6.3	768,664
British American Tobacco Plc	BATS LN	GBp	2,957.50	11.2	9.5	8.9	8.5	1.0	1.0	1.0	0.9	10.7	9.4	7.0	677,757
Imperial Brands Plc	IMB LN	GBp	2,162.00	15.1	7.9	7.7	7.2	3.6	3.5	3.4	3.4	40.3	8.0	9.6	206,655
Japan Tobacco Inc	2914 JT	JPY	2,548.50	11.8	11.9	11.6	10.8	1.7	1.7	1.6	1.5	14.9	8.0	6.1	363,195
Philip Morris International	PM US	USD	86.81	17.1	16.8	15.5	14.2	n.a.	n.a.	n.a.	n.a.	(67.5)	12.8	5.4	1,059,958
Overall Simple Average				13.9	11.7	11.1	10.4	3.2	3.2	3.0	2.8	9.9	10.0	6.9	
Overall Weighted Average				14.3	13.0	12.1	11.3	3.6	3.4	3.2	3.0	(3.7)	10.9	6.3	

Source: Bloomberg, Guotai Junan International. \*Prices are as of 21 May 2019.

**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (HK\$ m)	2017A	2018A	2019F	2020F	2021F
Total revenue	29,520	30,413	32,040	34,606	36,416
Cost of sales	(17,678)	(18,765)	(19,166)	(20,714)	(21,795)
Gross profit	11,842	11,648	12,874	13,892	14,622
Net investment income	850	531	597	609	634
Other income	1,094	990	1,005	1,020	1,036
Selling and distribution costs	(1,081)	(1,131)	(1,198)	(1,280)	(1,347)
Administrative expenses	(2,386)	(2,255)	(2,482)	(2,623)	(2,791)
Operating profit	10,320	9,783	10,796	11,618	12,152
Share profits of JV	232	196	214	214	208
Share profits of associate	390	245	236	290	257
Finance costs	(1,799)	(1,969)	(1,971)	(1,940)	(1,889)
Other non-operating income	229	268	278	287	297
Profit before tax	9,372	8,523	9,552	10,469	11,026
Income tax	(4,237)	(3,430)	(3,850)	(4,188)	(4,410)
Profit after tax	5,135	5,094	5,702	6,281	6,616
Minority interest	(2,000)	(1,761)	(1,996)	(2,199)	(2,315)
Net profit	3,135	3,333	3,706	4,083	4,300
Basic EPS	2.884	3.066	3.409	3.755	3.955
DPS	0.940	1.000	1.193	1.314	1.384

Cash Flow Statement					
Year end 31 Dec (HK\$ m)	2017A	2018A	2019F	2020F	2021F
Net profit	3,135	3,333	3,706	4,083	4,300
Depreciation & amortization	1,532	1,654	1,810	1,967	2,146
Changes in working capital	(5,269)	(3,844)	(2,710)	(3,086)	(2,048)
Deferred tax liabilities	920	(616)	327	356	375
Share of result of JV	(232)	(196)	(214)	(214)	(208)
Share of result of associates	(390)	(245)	(236)	(290)	(257)
Deferred tax assets	138	(78)	(69)	30	(66)
Other operating activities	1,199	(1,409)	640	190	266
Minority interest expense	2,000	1,761	1,996	2,199	2,315
Cash from Operating Activities	3,032	359	5,250	5,234	6,824
CAPEX	(1,259)	(716)	(801)	(882)	(965)
Disposal of PPE	83	67	83	83	81
Investment properties addition	(180)	(224)	(230)	(236)	(242)
Investment properties disposal	6	0	15	20	23
Dividends from JV	109	130	96	96	94
Dividends from associates	325	157	186	223	189
Acquisition of associate	(1,238)	(405)	(293)	(323)	(170)
Disposal of associates	45	2	10	10	4
Capital injection to a JV	(0)	(837)	(169)	(168)	(196)
Other investing activities	(10)	614	153	184	205
Cash from Investing Activities	(2,120)	(1,213)	(948)	(992)	(978)
Capital contribution by minority	48	297	238	243	324
Other financing activities	(7,059)	(1,988)	(1,105)	(1,166)	(1,196)
Dividend paid to minority	(551)	(565)	(595)	(681)	(704)
Common stock dividends paid	(1,000)	(1,044)	(1,149)	(1,356)	(1,463)
Issue / (repayment) of debt	6,974	(1,674)	(1,191)	772	(1,359)
Cash from Financing Activities	(1,588)	(4,974)	(3,802)	(2,189)	(4,398)
Net Changes in Cash	(676)	(5,827)	500	2,053	1,448
Cash at Beg of Year	31,533	32,138	25,132	25,632	27,685
Forex / adjustments	1,281	(1,178)	0	0	0
Cash at End of Year	32,138	25,132	25,632	27,685	29,133

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (HK\$ m)	2017A	2018A	2019F	2020F	2021F
PPE	5,027	5,542	5,563	5,413	5,094
Investing properties	22,630	19,372	19,587	19,802	20,021
Prepaid land lease payments	254	227	242	241	237
Goodwill and intangibles	8,743	8,534	8,140	7,775	7,426
Interests in JVs	3,861	3,356	3,642	3,928	4,238
Interests in associates	5,077	6,482	6,815	7,196	7,430
Service concessions	15,876	17,874	18,446	19,036	19,646
Others	11,413	10,681	9,791	9,345	8,983
Total Non-current Assets	72,881	72,069	72,225	72,736	73,075
Cash & Cash Equivalents	32,138	25,132	25,632	27,685	29,133
Inventories	52,834	57,826	59,414	64,212	67,563
Trade and other receivables	12,376	8,364	9,612	10,382	10,925
Amounts due from customers	1,292	925	961	1,038	1,092
Investments	483	604	694	799	918
Restricted cash & deposits	1,289	972	1,000	1,087	1,020
Others	1,090	1,527	1,600	1,676	1,756
Total Current Assets	101,501	95,350	98,914	106,879	112,408
Total Assets	174,382	167,419	171,139	179,615	185,483
Trade and other payables	19,289	17,593	17,249	18,642	19,615
Customer deposits from sales	16,579	15,288	16,020	17,303	18,208
Taxation payable	4,307	4,145	4,290	4,440	4,596
ST debt	11,817	12,921	10,231	10,502	8,643
Others	54	180	0	0	0
Total Current Liabilities	52,046	50,128	47,790	50,888	51,062
LT debt	41,305	38,560	40,060	40,560	41,060
Deferred tax liabilities	9,758	9,142	9,469	9,825	10,200
Other liabilities	85	87	92	96	101
Total Non-current Liabilities	51,148	47,789	49,620	50,481	51,361
Total Liabilities	103,194	97,916	97,411	101,369	102,423
Total Shareholders' Equity	41,743	41,275	43,862	46,618	49,496
Minority Interest	29,445	28,228	29,866	31,627	33,564
Total Equity	71,188	69,503	73,728	78,246	83,060
BPS	38.394	37.964	40.343	42.879	45.526

Financial Ratios					
	2017A	2018A	2019F	2020F	2021F
Growth (%):					
Revenue	33.4	3.0	5.4	8.0	5.2
Gross profit	54.4	(1.6)	10.5	7.9	5.2
Operating profit	74.5	(5.2)	10.3	7.6	4.6
Net profit	8.0	6.3	11.2	10.2	5.3
Profitability (%):					
Gross margin	40.1	38.3	40.2	40.1	40.2
EBIT margin	35.0	32.2	33.7	33.6	33.4
PBT margin	31.7	28.0	29.8	30.3	30.3
Net margin	10.6	11.0	11.6	11.8	11.8
ROE	8.0	8.0	8.7	9.0	8.9
ROA	1.9	2.0	2.2	2.3	2.4
Liquidity & Solvency					
Current Ratio (x)	2.0	1.9	2.1	2.1	2.2
Net gearing (%)	47.3	61.5	53.9	47.8	39.5
Interest coverage (x)	5.7	5.0	5.5	6.0	6.4
Dividend payout (%)	32.6	32.6	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), 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