



Company Report: Ctrip.com International (CTRP US)

公司报告: 携程旅行网 (CTRP US)

Noah Hudson
(86755) 2397 6684
noah.hudson@gjtj.com

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Double-digit Revenue Growth Could Continue for Years

两位数收入增长或持续数年

- **Ctrip's 4Q18 revenue was RMB7.6 bn, up 22.5% yoy, exceeding the management's 15%-20% growth guidance.** Non-GAAP operating income fell 62.9% yoy to RMB261.0 mn, but still beat Bloomberg consensus forecast of RMB61 mn and was better than the management's previous guidance range of RMB0 to 100 mn. Gross margin stabilized at 78.6% (down 0.1 ppt qoq), falling within the higher end of the guidance range (75%-80%). Operating expense to revenue ratio increased by 3.2 ppt yoy to 81.1%.
- **For 1Q19, Ctrip's management gave guidance for net revenue yoy growth of 18%-23% and non-GAAP operating income of around RMB1 bn to RMB1.1 bn.** We have increased Ctrip's 2019 and 2020 net revenue forecasts by 8.1% and 11.9%, respectively. We forecast Ctrip's 2019-2021 net revenue at RMB37.97 bn, RMB45.62 bn, and RMB54.47 bn, representing 20.7% CAGR. Ctrip's revenue growth will be supported by a young user base, international expansion, growth potential in lower-tier cities, continuous upgrading of Ctrip's apps and back end systems, and expansion of Ctrip's supply network to include new vendors across all product categories.
- **"Accumulate" with target price increased from US\$30.50 to US\$47.00.** We forecast 2019-2021 non-GAAP operating income of RMB6.7 bn, RMB8.9 bn and RMB10.9 bn, respectively, reflecting growth of 17.6%, 19.5% and 20.1%. We forecast 2019-2021 fully diluted earnings per ADR of RMB7.95, RMB6.16 and RMB8.33, respectively, reflecting growth of 305.9%, -22.6% and 35.3%. We forecast 2019 net income to more than triple as Ctrip will have a large gain on fair value changes of equity in 1Q19.
- **携程 2018 年第 4 季度收入为人民币 76 亿元, 同比增长 22.5%, 超过管理层此前指引的增长 15-20%。** 虽然非通用会计准则下运营利润同比下跌 62.9% 至人民币 2.61 亿元, 但仍超过彭博一致预期的人民币 6,100 万元, 且高于管理层此前指引的人民币 0-1 亿元。毛利率企稳在 78.6% (环比降 0.1 个百分点), 落入指引范围的高位 (75-80%)。运营费用占收入比例同比上升 3.2 个百分点至 81.1%。
- **对于 2019 年第 1 季度, 携程管理层指引称净收入将同比增长 18-23%、非通用会计准则下运营利润将达人民币 10-11 亿元。** 我们分别上调携程 2019 年和 2020 年净收入预测 8.1% 和 11.9%。我们预计公司 2019-2021 年净收入分别为人民币 379.7 亿、456.2 亿和 544.7 亿元, 年复合增长率 20.7%。年轻的用户群体、国际扩张、低线城市的增长潜力、携程应用和后台系统的不断升级, 以及在所有产品类别扩大供应商网络将支持携程收入增长。
- **在“收集”的投资评级下, 我们将目标价由 30.50 美元上调至 47.00 美元。** 我们预计 2019-2021 年非通用会计准则下运营利润分别为人民币 67 亿、89 亿和 109 亿元, 分别增长 17.6%、19.5% 和 20.1%。我们预期 2019-2021 年完全稀释后每份 ADR 盈利分别为人民币 7.95 元、6.16 元和 8.33 元, 分别增长 305.9%、-22.6% 和 35.3%。我们预计 2019 年公司净利增长超三倍, 主要由于 2019 年第 1 季度公司将因其权益类投资公允价值变动而获得一大笔收益。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

US\$47.00

Revised from 原目标价:

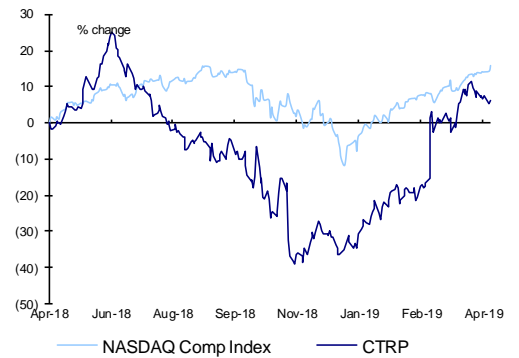
US\$30.50

ADR price ADR 价格:

US\$43.840

Stock performance

股价表现



Change in ADR Price	1 M	3 M	1 Y
ADR 价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	8.9	38.3	5.1
Rel. % to NASDAQ index 相对纳指变动 %	2.6	23.5	(10.8)
Avg. ADR price (USD) 平均 ADR 价 (美元)	44.1	38.8	37.9

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	Earnings/ADR	Earnings/ADR	PER	BV/ADR	PBR	DP ADR	Yield	ROE
年结	收入	股东净利	每份 ADR 净利	每份 ADR 净利变	市盈率	每份 ADR 净资产	市净率	每份 ADR 股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2017A	26,796	2,155	4.063	n.a.	70.2	159.944	1.8	0.000	0.0	2.8
2018A	30,965	1,112	2.032	(50.0)	148.4	158.463	1.9	0.000	0.0	1.3
2019F	37,972	4,887	8.339	310.4	35.1	168.421	1.7	0.000	0.0	5.3
2020F	45,618	3,787	6.232	(25.3)	46.9	175.192	1.7	0.000	0.0	3.7
2021F	54,471	5,063	8.332	33.7	35.1	191.755	1.5	0.000	0.0	4.5

ADR in issue (m) 总 ADR 数 (m)	557.4	Major shareholder 大股东	Baillie Gifford & Co.	8.7%
Market cap. (US\$ m) 市值 (US\$ m)	24,265.4	Free float (%) 自由流通比率 (%)		71.0
3 month average vol. 3 个月平均成交股数 ('000)	5,305.9	FY19 Net gearing (%) FY19 净负债/股东资金 (%)		33.1
52 Weeks high/low (US\$) 52 周高/低 (US\$)	51.910 / 25.000	FY19 Est. NAV (US\$) FY19 每 ADR 估值 (美元)		57.3

Source: the Company, Guotai Junan International.

4Q18 REVIEW

Ctrip's (the "Company") 4Q18 net revenue was RMB7.6 billion, reflecting yoy growth of 22.5%, which exceeded the 15%-20% growth range guided by the Ctrip management previously. The better-than-expected revenue result was largely attributable to the increase in Ctrip's transportation business, which saw exceptional growth in international air ticketing volume. During the quarter, Ctrip's transportation revenue amounted to RMB3.4 billion, up 17% yoy, marking the segment's first double-digit quarterly growth rate since 4Q17, when Ctrip and other China OTA's had to unbundle sales of value-added services. Accommodation reservation revenue totaled RMB2.7 billion, up 21.6% yoy, primarily driven by increased reservation volume. Packaged tour revenue was RMB721 million, up 27% yoy, largely attributable to the exceptional volume growth experienced by Ctrip's offline franchise stores (triple-digit yoy growth). Corporate travel revenue amounted to RMB279 million, up 34.8% yoy, mainly driven by expanded product coverage.

Revenue generated from international business made up 30%-35% of total revenue. Notably, Ctrip's Trip.com delivered triple-digit yoy growth in air ticketing volume for the ninth consecutive quarter, while Skyscanner's direct booking programme delivered over 200% yoy growth in revenue. Excluding Skyscanner, Ctrip's growth in international air and international hotel businesses both tripled the industry growth rate.

We think there are two reasons behind such rapid growth in Ctrip's international business. First, domestic demand for overseas travel remained strong amid macro headwinds in the second half of 2018. According to the Ministry of Culture and Tourism of China, China's outbound travel in 2H18 amounted to 78.41 million person trips, up 14.5% yoy, accelerating from the yoy growth rate of 8.7% in 2H17. Second, Ctrip's global market share is estimated at below 1% according to the Company's management. Therefore, there is ample room for Ctrip to expand its international presence and it is relatively easy to do so at a rapid rate at this early stage.

Non-GAAP operating income plunged 62.9% yoy to RMB261.0 million, but still beat Bloomberg consensus forecast of RMB61 million and was better than the management's previous guidance range of RMB0 to RMB100 million. Ctrip's Non-GAAP operating income excludes share-based compensation expenses. Gross margin stabilized at 78.6% (down 0.1 ppt qq), falling within the higher end of the guidance range (75%-80%). However, operating expense to revenue ratio increased by 3.2 ppt yoy to 81.1% on higher product development and sales & marketing expense ratios.

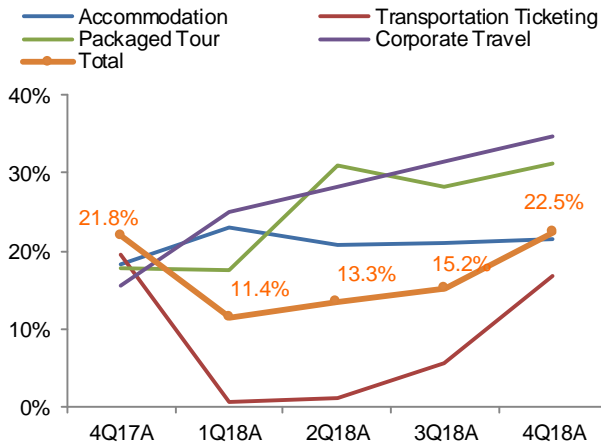
Table-1: Ctrip Results

RMB million	4Q17	1Q18	2Q18	3Q18	4Q18	(% or ppt.)	
						yoy	qoq
Net Revenues	6,173	6,731	7,319	9,355	7,560	22.5%	(19.2%)
Gross Income	5,112	5,487	5,850	7,364	5,940	16.2%	(19.3%)
<i>Gross Profit Margin</i>	82.8%	81.5%	79.9%	78.7%	78.6%	(4.2) ppt	(0.1) ppt
Operating Income	303	590	724	1,480	(189)	n.a.	n.a.
<i>Operating Margin</i>	4.9%	8.8%	9.9%	15.8%	(2.5%)	(7.4) ppt	(18.3) ppt
Share Based Compensation Expense	(400)	(376)	(480)	(401)	(450)	(12.4%)	(12.2%)
Non-GAAP Operating Income	703	966	1,204	1,881	261	(62.9%)	(86.1%)
<i>Non-GAAP Operating Income Margin</i>	11.4%	14.4%	16.5%	20.1%	3.5%	(7.9) ppt	(16.7) ppt
Interest Expense (net)	13	158	(47)	128	152	1,115.0%	18.8%
Other	337	397	2,256	(2,625)	(1,103)	n.a.	58.0%
Income Tax Expense	(238)	(179)	(322)	(257)	(35)	(85.3%)	(86.4%)
<i>Effective Tax Rate</i>	43.0%	14.6%	11.8%	(30.3%)	(2.9%)	(45.9) ppt	27.4 ppt
Income from Affiliates	(98)	78	(213)	169	(66)	32.7%	n.a.
Non-controlling Interest	34	16	(17)	(34)	51	50.0%	n.a.
Net Income	350	1,060	2,381	(1,139)	(1,190)	n.a.	(4.5%)
<i>Net Income Margin</i>	5.7%	15.7%	32.5%	(12.2%)	(15.7%)	(21.4) ppt	(3.6) ppt
<i>Less:</i>							
Gain on F.V. Change of Equity Investments	0	(688)	2,256	(2,625)	(1,103)	n.a.	58.0%
Share Based Compensation Expense	(400)	(376)	(480)	(401)	(450)	(12.4%)	(12.2%)
Non-GAAP Net Income	413	1,039	605	1,887	363	(12.2%)	(80.8%)
Non-GAAP Net Income Margin	6.7%	15.4%	8.3%	20.2%	4.8%	(1.9) ppt	(15.4) ppt
Fully Diluted Earnings per ADS (RMB)	0.88	1.81	3.89	(2.08)	(2.17)	n.a.	(4.3%)
Non-GAAP Fully Diluted Earnings per ADS (RMB)	1.56	3.48	1.90	2.88	0.90	(42.3%)	(68.8%)

Source: the Company, Guotai Junan International.

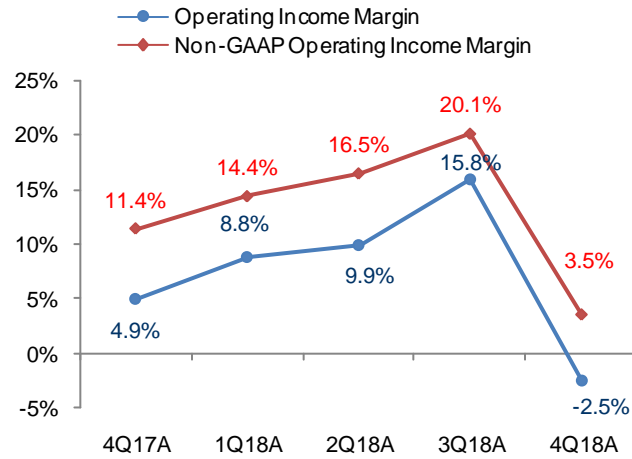
Non-GAAP net income decreased by 12.2% yoy to RMB363 million. Non-GAAP diluted earnings per ADS decreased 42.3% yoy to RMB0.90. The non-GAAP figures exclude fair value changes of equity security investments and share-based compensation charges. In 4Q18, loss from fair value changes in equity security investments amounted to RMB1.1 billion, compared with a gain of RMB337 million in 4Q17. Consequently, Ctrip incurred a net loss of RMB1.2 billion for the quarter, as opposed to net income of RMB350 million in 4Q17.

Figure-1: Ctrip Revenue Growth Breakdown



Source: the Company, Guotai Junan International.

Figure-2: Ctrip Operating Income Margin



Source: the Company, Guotai Junan International.

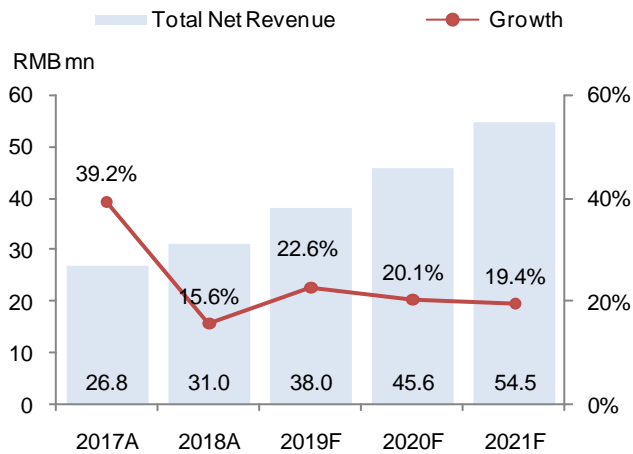
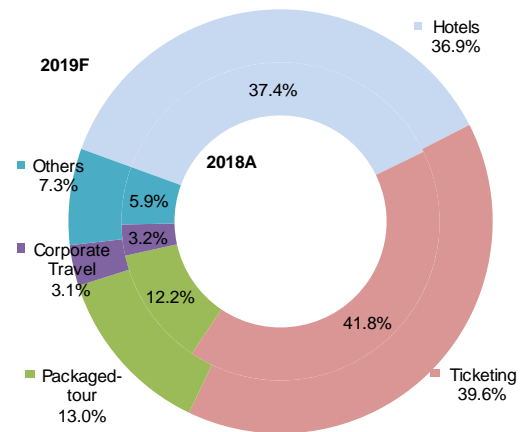
OUTLOOK & FORECAST REVISIONS

According to the Ministry of Culture and Tourism of China, China's domestic tourism revenue was RMB5.13 trillion in 2018, up 12.3%, lower than the 15.1% growth rate achieved in 2017 but better than the Ministry's previous estimate of 11% growth. China's outbound travel growth accelerated from 7% in 2017 to 15% in 2018, reflecting a strong consumption upgrade trend despite macro headwinds. **Looking into 2019, domestic tourism revenue is expected reach RMB5.6 trillion (up 10%) according to the 'China Tourism Consumption Big Data Report 2018' published by the Ministry of Culture and Tourism of China.**

For 1Q19, Ctrip's management guides for net revenue yoy growth of 18%-23% and non-GAAP operating income of around RMB1 billion to RMB1.1 billion. Non-GAAP operating income excludes share-based compensation expense.

We increase Ctrip's 2019 and 2020 net revenue forecasts by 8.1% and 11.9%, respectively. We see a number of demand and supply factors that will support continued growth in Ctrip's revenue. On the demand side, Ctrip's customers under the age of 30 make up about 50% of Ctrip's user base, up significantly from one third in 2013. Ctrip also continues to expand into lower-tier cities with localized products and service offerings, as well as launching targeted marketing initiatives in cities with the greatest growth potential due to rapid urbanization. For example, Ctrip reported that it now has over 7,000 franchised offline stores in over 200 cities in China, the majority of which are located in lower-tier cities. In 2018, Ctrip continued to invest heavily in technologies to improve its back end system, which Ctrip credits for helping to increase the conversion rate and overall cross-sell levels, now with 40% to 50% of customers repurchasing within one year and 70% to 80% repurchasing within two years. On the supply side, Ctrip is expanding its supply network to include new vendors across all product categories, ranging from large global and regional players to smaller businesses and even individual professionals. Ctrip's new mobile app enables small travel vendors to sign up with Ctrip with a combined automatic plus human review process, which we expect will expand Ctrip's local supply network significantly.

We forecast Ctrip's 2019-2021 net revenue at RMB37.97 billion, RMB45.62 billion, and RMB54.47 billion, representing growth of 22.6%, 20.1% and 19.4%. Our revenue forecasts reflect 20.7% CAGR and a slight decline trend in the growth rate.

Figure-3: Ctrip Total Net Revenue

Figure-4: Ctrip Revenue Breakdown


Source: the Company, Guotai Junan International.

Source: the Company, Guotai Junan International.

We increase Ctrip's 2019 and 2020 non-GAAP operating income by 3.6% and 2.2%, respectively. For 1Q19, Ctrip's management guides for non-GAAP operating income in the range of RMB1.0 billion to RMB1.1 billion, implying non-GAAP operating margin at around 12% to 14%. For full year, we forecast 2019-2021 non-GAAP operating income of RMB6.7 bn, RMB8.9 bn and RMB10.9 bn, respectively, reflecting growth of 17.6%, 19.5% and 20.1% and reflecting non-GAAP operating income margin of 17.6%, 19.5% and 20.1%, respectively. We expect Ctrip's margin to increase each year, but at a slower pace than we previously expected since we now expect relatively higher costs as Ctrip continuously spends on maintaining and improving its technology platforms.

We forecast 2019-2021 fully diluted earnings per ADR of RMB7.95, RMB6.16 and RMB8.33, respectively, reflecting growth of 305.9%, -22.6% and 35.3%, respectively. We forecast 2019-2021 net income of RMB4.9 bn, RMB3.8 bn and RMB5.1 bn, respectively, reflecting growth of 339.5%, -22.5% and 33.7%. Our forecast of more than triple net income in 2019 is mostly because in 1Q19, Ctrip's net income will benefit greatly from fair value changes of Ctrip's equity securities investments, whereas in contrast, fair value changes of equity securities investments netted Ctrip a loss of RMB2.661 billion in 2018. Ctrip has equity investments in Huazhu Group (HTHT US), MakeMyTrip (MMYT US) and China Eastern Airlines (600115 CH), all three of which have had significant increases in their share prices in 1Q19, which we estimate will bring Ctrip 1Q19 gains of around RMB2.5 billion, which is equivalent to 52.4% of our 2019 full-year net income forecast.

Table-2: Forecast Updates

(RMB million)	Old			New			Change (% or ppt)		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Net Revenue	35,125	40,784	n.a.	37,972	45,618	54,471	8.1%	11.9%	n.a.
Gross Income	28,100	32,627	n.a.	29,835	35,843	42,798	6.2%	9.9%	n.a.
<i>Gross Income Margin</i>	80.0%	80.0%	n.a.	78.6%	78.6%	78.6%	(1.4) ppt	(1.4) ppt	n.a.
Operating Income	3,273	4,416	n.a.	3,886	4,804	5,743	18.7%	8.8%	n.a.
<i>Operating Margin</i>	9.3%	10.8%	n.a.	10.2%	10.5%	10.5%	0.9 ppt	(0.3) ppt	n.a.
- Share Based Comp.	(3,180)	(4,300)	n.a.	(2,800)	(4,100)	(5,220)	(11.9%)	(4.7%)	n.a.
Non-GAAP Operating Income	6,453	8,716	n.a.	6,686	8,904	10,963	3.6%	2.2%	n.a.
<i>Adj. Non-GAAP Operating Margin</i>	18.4%	21.4%	n.a.	17.6%	19.5%	20.1%	(0.8) ppt	(1.9) ppt	n.a.
Net Income	3,099	5,802	n.a.	4,887	3,787	5,063	57.7%	(34.7%)	n.a.
<i>Net Income Margin</i>	8.8%	14.2%	n.a.	12.9%	8.3%	9.3%	4.1 ppt	(5.9) ppt	n.a.
- Share Based Comp.	(3,180)	(4,300)	n.a.	(2,800)	(4,100)	(5,220)	(11.9%)	(4.7%)	n.a.
- Gain/ (loss) F.V. Change in Equity	0	0	n.a.	2,558	0	0	n.a.	n.a.	n.a.
Non-GAAP Net Income	6,277	10,093	n.a.	5,129	7,887	10,283	(18.3%)	(21.9%)	n.a.
<i>Non-GAAP Net Income Margin</i>	17.9%	24.7%	n.a.	13.5%	17.3%	18.9%	(4.4) ppt	(7.5) ppt	n.a.
Earnings per ADS									
Basic (RMB)	5.05	9.14	n.a.	8.34	6.23	8.33	65.1%	(31.8%)	n.a.
Fully Diluted (RMB)	4.83	9.05	n.a.	7.95	6.16	8.33	64.7%	(31.9%)	n.a.
Non-GAAP Fully Diluted (RMB)	9.77	15.75	n.a.	12.57	12.83	16.92	28.6%	(18.5%)	n.a.

Source: the Company, Guotai Junan International.

We forecast 2019-2021 fully diluted adjusted non-GAAP earnings per ADR of RMB4.72, RMB5.93 and RMB8.07, respectively, reflecting growth of 140.8%, 25.6% and 36.2%, respectively. We forecast 2019-2021 adjusted non-GAAP net income of RMB2.9 billion, RMB3.6 billion and RMB4.9 billion, respectively, reflecting 64.0% CAGR. Adjusted non-GAAP earnings excludes share-based compensation expense and fair value changes of Ctrip's equity securities investments. Fair value change of equity securities investments did not affect Ctrip's 2017 results, contributing net loss of RMB2,661 million in 2018 and is forecast to create net gain of around RMB2.5 billion in 1Q19.

VALUATION

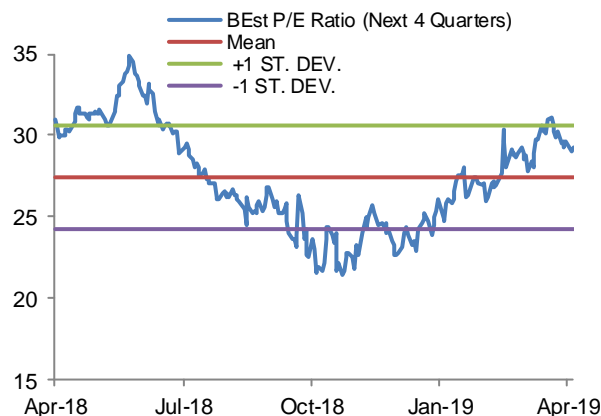
We increase our target price from US\$30.50 to US\$47.00 and maintain our "Accumulate" investment rating. We expect Ctrip's top-line growth and market share to continue to grow rapidly as Ctrip becomes more profitable over the medium to long term. We also expect Ctrip's operating income margin to increase over the next few years. In addition, with a large cash balance, we expect Ctrip to continue to make strategic investments, both in China and internationally, thereby further expanding its business scale. Our US\$47.00 target price is an 18.0% discount to our DCF derived NAV of US\$57.34.

Figure-5: Ctrip 2-Year Forward P/E (non-GAAP)



Source: Bloomberg.
 Note*: "Forward" valuations are based on the next four quarters earnings forecasts.

Figure-6: Ctrip 1-Year Forward P/E (non-GAAP)



Source: Bloomberg.
 Note*: "Forward" valuations are based on the next four quarters earnings forecasts.

Table-3: Peers Comparison

Company	Stock Code	Cncy	Last price	Mkt. Cap US\$ mil	PE (Adjusted)			PE (GAAP)			ROE(%)	PB
					19F	20F	21F	19F	20F	21F	19F	19F
Ctrip.Com-Adr	CTRP US	USD	43.840	24,265	32.2	24.1	18.6	88.9	52.4	35.8	5.3	1.9
Booking Holdings	BKNG US	USD	1,887.73	82,865	18.8	16.8	15.0	21.6	19.0	16.9	50.1	9.1
Tripadvisor Inc	TRIP US	USD	53.610	7,405	27.7	24.5	21.0	62.6	47.5	40.2	14.6	4.4
Makemytrip Ltd	MMYT US	USD	25.960	2,647	n.a.	n.a.	273.3	n.a.	n.a.	n.a.	(10.6)	1.9
Expedia Inc	EXPE US	USD	125.880	18,528	18.2	15.8	13.7	41.3	26.5	21.0	21.0	3.8
Travelzoo Inc	TZOO US	USD	14.080	167	34.3	30.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tuniu Corp-Adr	TOUR US	USD	4.880	633	n.a.	35.1	27.3	n.a.	n.a.	145.9	(6.2)	1.9
Simple Average					26.3	24.4	61.5	53.6	36.4	51.9	12.4	3.8
Weighted Average					21.6	18.5	20.9	38.9	27.8	22.8	34.8	6.7

Source: the Company, Guotai Junan International.

Table-4: DCF Analysis

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV Free Cash Flows to the Firm (RMB mn)	164,879
		PV Terminal Value (RMB mn)	98,939
Risk free rate	1.80%	Enterprise Value (RMB mn)	263,818
Adjusted Beta	1.20	- Debt (RMB mn)	59,549
Market risk premium	10.06%	- Minority Interest	1.4%
Cost of Equity	13.9%	+ Cash & Equivalents (RMB mn)	21,530
		Total NAV (RMB mn)	223,781
Borrowing interest rate	4.0%		
Effective tax rate	26.0%	ADR Outstanding (fully diluted, as at end of 2018, mn)	567
Cost of Debt	3.0%	NAV per ADS (RMB)	394.4
		US\$:RMB	6.88
E/ (D+E)	60.7%	NAV per ADS (US\$)	57.34
D/ (D+E)	30.0%		
WACC	9.3%		

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F	As at 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Total revenue	26,796	30,965	37,972	45,618	54,471	PP&E	5,616	5,872	6,683	7,738	9,038
Cost of revenues	(4,678)	(6,324)	(8,137)	(9,775)	(11,672)	Investments	25,574	26,874	28,174	29,474	30,775
Gross profit	22,118	24,641	29,835	35,843	42,798	Goodwill	56,246	58,026	59,806	61,586	63,366
Product development	(8,259)	(9,620)	(11,515)	(13,894)	(16,792)	Intangible assets	13,750	13,723	13,696	13,668	13,641
SG&A	(10,916)	(12,416)	(14,434)	(17,145)	(20,263)	Others	1,636	1,941	2,855	3,570	4,508
Operating profit	2,943	2,605	3,886	4,804	5,743	Total non-current assets	102,822	106,436	111,214	116,037	121,328
Interest income (expense)	(298)	391	71	91	847	Cash & cash equivalents	19,992	25,774	5,849	17,142	23,152
Other income	879	(1,075)	2,558	0	0	Short-term investments	28,130	36,753	38,647	40,541	42,435
Income from affiliates	(65)	(32)	0	0	0	Accounts receivable, net	4,749	5,668	6,951	8,350	9,971
Profit before tax	3,459	1,889	6,515	4,896	6,590	Prepayments & other	6,547	11,199	20,472	25,733	31,429
Income tax	(1,285)	(793)	(1,629)	(1,224)	(1,648)	Total current assets	59,418	79,394	71,918	91,765	106,987
Profit after tax	2,174	1,096	4,886	3,672	4,943	Total assets	162,239	185,830	183,132	207,802	228,315
Non-controlling interest	(19)	16	1	115	120	Short term borrowings	16,316	35,403	13,246	21,653	21,653
Shareholders' profit / loss	2,155	1,112	4,887	3,787	5,063	Accounts payable	7,459	11,714	14,365	17,257	20,606
Non-GAAP net profit	3,988	6,711	5,129	7,887	10,283	Salary and welfare payable	3,465	3,694	4,530	5,442	6,498
Basic EPADR	4.063	2.032	8.339	6.232	8.332	Advances from customers	7,868	9,472	12,440	16,023	20,603
Diluted EPADR	3.840	1.960	7.954	6.160	8.332	Others	7,054	8,501	10,382	12,371	14,700
						Total current liabilities	42,162	68,784	54,962	72,746	84,061
						Convertible note	29,220	24,146	23,258	22,370	21,482
						Other long-term liabilities	4,243	4,167	4,091	4,015	3,939
						Total non-current liabilities	33,463	28,313	27,349	26,385	25,421
						Total liabilities	75,625	97,097	82,311	99,131	109,482
						Total shareholders' equity	84,835	86,715	98,705	106,458	116,523
						Minority interest	1,779	2,018	2,116	2,213	2,311
						Total equity	86,614	88,733	100,821	108,671	118,834
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
Net profit	2,174	1,096	4,886	3,672	4,943	Gross margin	82.5%	79.6%	78.6%	78.6%	78.6%
Share based compensation	1,833	1,707	2,800	4,100	5,220	Operating margin	11.0%	8.4%	10.2%	10.5%	10.5%
Equity in gain of affiliates	65	32	0	0	0	Net income margin	8.0%	3.6%	12.9%	8.3%	9.3%
D&A	98	69	0	0	0	Non-GAAP net profit margin	14.9%	21.7%	13.5%	17.3%	18.9%
Deferred income tax & other	718	2,088	(629)	(431)	(638)	Asset turnover (x)	0.2	0.2	0.2	0.2	0.3
Change in working capital	2,180	2,123	4,333	5,028	6,293	ROA	1.4%	0.6%	2.6%	1.9%	2.3%
Cash from operating activities	7,069	7,115	11,391	12,369	15,817	Assets/equity (x)	2.0	2.0	2.0	1.9	2.0
Purchases of PP&E	(471)	(673)	(976)	(1,221)	(1,466)	ROE	2.8%	1.3%	5.3%	3.7%	4.5%
Cash paid for investments	(1,541)	(4,387)	(3,080)	(3,080)	(3,080)	Net gearing	34.9%	44.3%	33.1%	26.2%	17.9%
Change in short-term invest.	(13,936)	(8,811)	(1,894)	(1,894)	(1,894)	Current ratio (x)	1.4	1.2	1.3	1.3	1.3
Others	720	(207)	(3,456)	(3,456)	(3,456)	Debt/equity	52.6%	67.1%	36.2%	40.5%	36.3%
Cash from investing activities	(15,228)	(14,078)	(9,406)	(9,651)	(9,895)						
Short term loan proceeds	2,137	11,768	(22,157)	8,407	0						
Issuance of convertibles	0	0	(888)	(888)	(888)						
Others	5,883	158	316	237	158						
Cash from financing activities	8,020	11,926	(22,729)	7,756	(730)						
Cash at beg of year	20,179	19,992	25,774	5,849	17,142						
Net changes in cash	(140)	4,963	(20,745)	10,474	5,192						
Effect of forex	(47)	819	819	819	819						
Cash at end of year	19,992	25,774	5,849	17,142	23,152						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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 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