

2019年4月29日

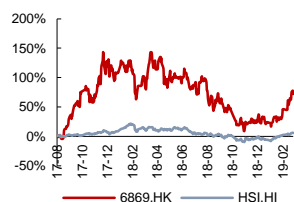
中性
维持评级

行业下行

长飞光纤光缆 (06869:HK)

Market Data: 26 Apr.

Closing Price (HK\$)	20.00
Price Target (HK\$)	21.00
HSCEI	11,511
HSCCI	4,582
52-week High/Low (HK\$)	36.50/18.46
Market Cap (USD Mn)	2,002
Market Cap (HK\$ Mn)	14,274
Shares Outstanding (Mn)	713.69
Exchange Rate (HK\$-US\$)	7.84



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Related Reports

" Yangtze Optical Fibre and Cable Joint Stock (06869:HK)-Past the tender age Feb. 19 2019
" Yangtze Optical Fibre and Cable Joint Stock (06869:HK)-Price pressure Mar. 25 2019

The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

Financial summary and valuation

	2017	2018	2019E	2020E	2021E
Revenue (Rmbm)	10,366	11,360	7,671	7,684	7,684
YoY (%)	27.94%	9.59%	-32.48%	0.17%	0.00%
Net income (Rmbm)	1,268	1,489	588	599	599
YoY (%)	76.87%	17.41%	-60.49%	1.82%	0.00%
EPS (Rmb)	1.86	2.09	0.82	0.84	0.84
Diluted EPS (Rmb)	1.86	2.09	0.82	0.84	0.84
ROE (%)	25.57%	21.49%	6.85%	6.65%	6.34%
Debt/asset (%)	21.30%	16.97%	17.96%	17.34%	16.77%
Dividend yield (%)	0.00%	1.06%	1.06%	1.07%	1.07%
PE (x)	9.35	8.33	21.10	20.73	20.73
PB (x)	2.26	1.48	1.41	1.35	1.29

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

长飞光纤公布其一季度业绩，收入同比下滑 35.2%，为 16 亿人民币，净利润同比下滑约 31.2%，为 2.53 亿人民币，如果除去非经常性损益，净利润同比下滑 58.7%。我们维持 2019 年 EPS 预测为 0.82Rmb（同比下滑 60.8%），20 年 EPS 为 0.84Rmb（同比上升 2.4%），21 年 EPS 为 0.84Rmb（同比持平），我们维持目标价 21 港币不变（对应 1.5x 19E PB），对应 5% 上升空间，我们维持中性评级。

招标价。我们认为长飞业绩主要受到中国移动（00728:HK-未评级）招标影响。整体光缆及光纤招标价格为历史三年新低。我们预计光纤及光缆价格将在 2019 年持续承压。

供需情况。我们认为行业最好的时期已经过去。整体行业将面临供给过剩格局。再过去三年中，整体 4G 网络建设及中国移动固网建设是此行业主要驱动力之一。然而今年较低得资本开支及极为有限 5G 开支使得整体行业面临挑战。如今，对于持续产能增长的光纤公司而言，产能利用率将会是首要考量因素。于此同时，这些拥有更多光棒产能的公司在行业下行周期中会受影响更小。

新增增长点。如今，约 10% 公司收入来自于海外收入。但我们并不认为海外销售将能对冲掉国内光纤价格下滑。

维持中性。我们维持 2019 年 EPS 预测为 0.82Rmb（同比下滑 60.8%），20 年 EPS 为 0.84Rmb（同比上升 2.4%），21 年 EPS 为 0.84Rmb（同比持平）。公司股价对应 21.1x 19E PE 及 1.4x PB。我们维持目标价 21 港币不变（对应 1.5x 19E PB），对应 5% 上升空间，我们维持中性评级。

Yangtze Optical Fibre and Cable released its 1Q19 results, with revenue down 35.2% YoY to Rmb1.6bn and net profit down 31.2% YoY to Rmb253.4m. The firm's recurring net profit declined 58.7% YoY. We maintain our EPS forecasts of Rmb0.82 in 19E (-60.8% YoY), Rmb0.84 in 20E (+2.4% YoY), and Rmb0.84 in 21E (flat YoY). Our target price is unchanged at HK\$21.00 (1.5x 19E PB). With 5% upside, we maintain our Hold rating.

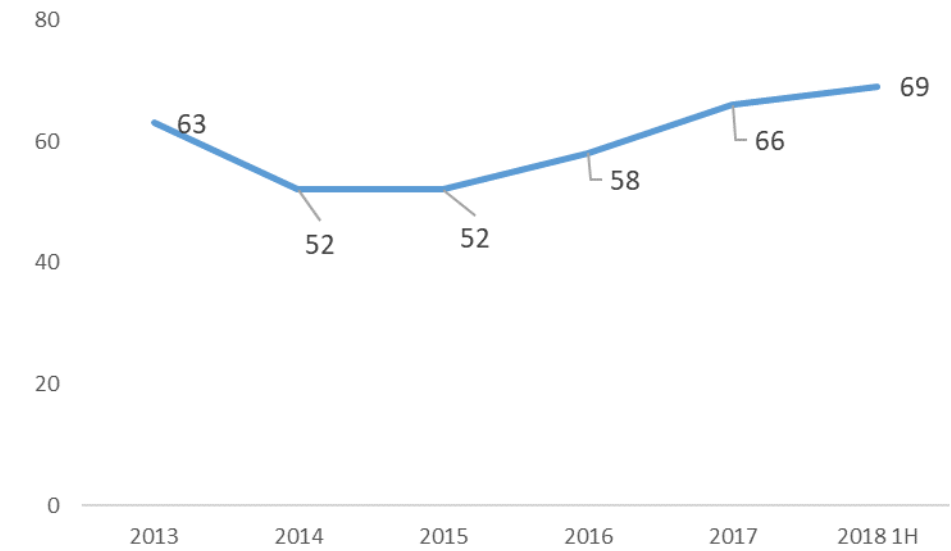
Tender offer. We believe Yangtze Optical's bottom line was largely affected by China Mobile's (00728:HK – Not rated) recent tender offer. Fibre and cable prices have reached historical lows over the past three years. We expect fibre and cable prices will remain low this year.

Supply and demand dynamics. We believe the heyday of the fibre industry has passed. We think the biggest challenge for the industry is oversupply. In the past three years, the urge for wide coverage of 4G networks and China Mobile's fixed-line broadband construction have been the main growth drivers for the fibre industry. However, the industry suffers from limited 5G investment and declining 4G Capex. Given increasing fibre and cable capacity, fibre companies have to cut prices. In the meantime, those with the most performing capacity may suffer less during this downcycle.

Overseas revenue. At present, c.10% of Yangtze Optical's revenue comes from overseas markets. However, we believe overseas sales will not be able to offset the domestic fibre price decline.

Maintain Hold. We maintain our EPS forecasts of Rmb0.82 in 19E (-60.8% YoY), Rmb0.84 in 20E (+2.4% YoY), and Rmb0.84 in 21E (flat YoY). The stock is trading at 21.1x 19E PE and 1.4x 19E PB. Our target price is unchanged at HK\$21.00 (1.5x 19E PB). With 5% upside, we maintain our Hold rating.

Fig 1: China Mobile's fibre tender offer price (Rmb/fkm)



Source: China Mobile, SWS Research

Fig 2: Domestic capacity

(tpa)	Expected capacity
A-share company	1,500
YOFC	4,000
Chinaztt	1,200
Fibrehome	1,000
Conring in Hainan	900
Tongding group	300
Futong	900
Total	9,300

Source: Company data, SWS Research

APPENDIX: Financial statements

Fig 3: Income statement

(Rmb'000)	2017	2018	2019E	2020E	2021E
Revenue	10,366,084	11,359,764	7,670,500	7,683,500	7,683,500
Cost of sales	(7,576,883)	(8,131,340)	(5,885,000)	(5,885,000)	(5,885,000)
Gross profit	2,789,201	3,228,424	1,785,500	1,798,500	1,798,500
Other income	(63,717)	(61,750)	44,500	44,500	44,500
Selling expense	(304,885)	(385,305)	(306,820)	(307,340)	(307,340)
Administrative expenses	(968,067)	(1,163,678)	(843,755)	(845,185)	(845,185)
Profit from operations	1,446,701	1,667,069	679,425	690,475	690,475
Finance income	0	0	9,443	9,443	9,443
Finance cost	0	0	(89,146)	(89,146)	(89,146)
Share of results of associates	0	0	1,000	1,000	1,001
Share of results of joint ventures	0	0	67,943	69,048	69,048
Other income	173	2,456	0	0	0
Profit before tax	1,446,874	1,669,525	668,664	680,819	680,820
Income tax	(212,295)	(181,494)	(80,240)	(81,698)	(81,698)
Tax rate	-14.67%	-10.87%	-12.00%	-12.00%	-12.00%
Profit for the year	1,234,579	1,488,031	588,424	599,121	599,122
Profit for the year attribute to Equity shareholders of the Company	1,268,353	1,489,185	588,424	599,121	599,122

Source: SWS Research

Fig 4: Balance sheet

(Rmb'000)	2017	2018	2019E	2020E	2021E
Current Assets					
Property, plant and equipment	1,921,459	2,016,584	1,924,020	1,846,559	1,782,579
Construction in progress	164,473	1,170,820	1,160,820	1,150,820	1,140,820
Intangible assets	328,050	291,972	287,253	282,534	277,815
Investments in other equity instruments	0	64,829	64,829	64,829	64,829
Interest in associates	123,316	0	0	0	0
Interest in joint ventures	1,241,866	1,626,151	1,626,151	1,626,151	1,626,151
Other non-current assets	104,461	142,799	142,799	142,799	142,799
Deferred tax assets	55,243	84,665	84,665	84,665	84,665
Total non-current assets	3,938,869	5,397,821	5,290,539	5,198,358	5,119,659
Inventories	730,468	995,149	725,817	706,200	706,200
Trade and bills receivables	2,423,204	3,417,463	2,050,530	2,054,005	2,054,005
Deposits, prepayments and other receivables	228,766	358,372	358,372	358,372	358,372
Other financial assets	42,113	32,913	32,913	32,913	32,913
Cash and cash equivalents	1,799,514	2,684,163	3,729,343	4,268,135	4,775,874
Total current assets	5,228,895	7,488,061	6,896,975	7,419,626	7,927,365
Total Asset	9,167,764	12,885,882	12,187,513	12,617,984	13,047,024
Bank loans	495,013	276,646	276,646	276,646	276,646
Trade and bills payable	1,345,760	1,508,113	941,600	941,600	941,600
Accrued expenses and other payables	918,394	1,398,831	843,755	845,185	845,185
Income tax payable	188,456	166,439	166,439	166,439	166,439
Total current liabilities	2,947,623	3,350,029	2,228,440	2,229,870	2,229,870
Bank loans	481,290	817,000	817,563	817,563	817,563
Deferred income	83,223	79,901	79,901	79,901	79,901
Total non-current liabilities	734,312	1,159,524	1,160,086	1,160,086	1,160,086
Share capital	682,115	757,905	757,905	757,905	757,905
Reserves	4,556,204	7,430,129	7,852,787	8,281,828	8,710,868
Non-controlling interests	247,509	188,295	188,295	188,295	188,295
Total equity	5,485,828	8,376,329	8,798,987	9,228,028	9,657,068
Equity+liability	9,167,764	12,885,882	12,187,513	12,617,984	13,047,024

Source: SWS Research

Fig 5: Key performance indicators

	2017	2018	2019E	2020E	2021E
Earnings per share	1.86	2.09	0.82	0.84	0.84
Operating CF per share	1.61	1.38	1.93	1.23	1.19
Dividend per share	0.00	0.25	0.25	0.25	0.25
Book value per share	7.69	11.74	12.33	12.93	13.53
Key Operating Ratios (%)					
ROIC	26.22%	23.24%	8.66%	8.43%	8.08%
ROE	25.57%	21.49%	6.85%	6.65%	6.34%
Gross profit margin	26.91%	28.42%	23.28%	23.41%	23.41%
Ebitda margin	28.81%	30.23%	26.67%	26.64%	26.52%
Ebit margin	13.96%	14.70%	9.76%	9.90%	9.90%
Revenue growth (YoY)	27.94%	9.59%	-32.48%	0.17%	0.00%
Net profit growth (YoY)	76.87%	17.41%	-60.49%	1.82%	0.00%
Debt-to-asset ratio	0.21	0.17	0.18	0.17	0.17
Turnover rate of net assets	1.89	1.36	0.87	0.83	0.80
Turnover rate of total assets	1.13	0.88	0.63	0.61	0.59
Effective tax rate (%)	14.67%	10.87%	12.00%	12.00%	12.00%
Dividend yield (%)	0.00%	1.06%	1.06%	1.07%	1.07%
Valuation Ratios (X)					
PE	9.35	8.33	21.10	20.73	20.73
PB	2.26	1.48	1.41	1.35	1.29
EV/Sales	1.08	0.91	1.21	1.14	1.08
EV/Ebitda	7.05	5.71	9.59	9.05	8.62

Source: SWS Research

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