



Company Report: Sinotrans (00598 HK)

公司报告: 中国外运 (00598 HK)

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Bright Prospects with Mispriced Valuation, Maintain "Buy"

前景光明, 估值错杀, 维持“买入”

- **The main reason for recent declines in share price was declining market risk preference on state-owned transportation enterprises who focus on foreign trade after escalation of Sino-U.S. trade tension.** By re-examining business components, we believe that professional logistics and international express services may become Sinotrans' two core driving forces.
- **Sinotrans is continuously strengthening their professional logistics network.** Segmental profit has grown rapidly over the past five years at CAGR of 9% in 2013-2018. The professional logistics business can be divided into four subsectors, namely contract logistics, project logistics, chemical logistics, and cold chain logistics. Contract logistics provides logistics services to contracted customers, including warehousing, long-distance transportation and delivery. Currently, this subsegment contributes most revenue and profit of all professional logistics services.
- **International express delivery is mainly operated by DHL-Sinotrans, a joint venture.** In 2018, China's international express revenue was RMB58.57 bn, of which foreign express companies accounted for about 56.0%, corresponding to about RMB32.7 bn. Compared with domestic express giants such as SF and YTO, DHL-Sinotrans has the advantage of a strong air route network and deeper customer resources for international-bound distribution business. We have long been optimistic about the growth of this JV. We expect CAGR of DHL-Sinotrans in 2019-2021 to remain above 15%.
- **Current valuation is very attractive.** At present, the Company's A-shares have a premium of about 49% relative to its H-shares. We expect the spread to gradually narrow as Sinotrans' fundamentals remain unchanged. Maintain "Buy" rating but cut target price to HK\$3.50, which corresponds to 8.2x/ 7.2x/ 6.0x 2019-2021 PER.
- **公司股价近期持续下跌的主因是市场在贸易战升温后, 对主营外贸的交运类国企的风险偏好急剧下降所致。**重新审视公司旗下业务板块, 我们认为专业物流和国际快递将成为驱动公司增长的双核心引擎。
- **中国外运不断强化专业物流网络。**该板块过去五年快速增长, 2013-2018 年分部利润复合年增长率达到 9%。专业物流业务可以分为四个子板块, 即合约物流、项目物流、化工物流、冷链物流。合约物流为签约商务客户提供物流服务, 包括仓储、长途运输以及派送。目前, 该业务贡献了专业物流板块大部分收入和利润。
- **国际快递主要由合营公司中外运敦豪运营。**2018 年中国国际快递的业务收入规模为 585.7 亿元人民币, 其中外资快递公司收入占比约为 56.0%, 对应约人民币 327 亿元的收入。中外运敦豪相对顺丰/圆通等国内快递巨头在国际件的配送上具备航空航线网络优势和累积了更深厚的客户资源优势。我们长期看好中外运敦豪的成长性, 我们预测 2019-2021 年中外运敦豪贡献利润的复合增速有望维持在 15%以上。
- **目前估值非常吸引。**目前公司 A 股相对于 H 股溢价约 49%, 我们认为在公司基本面没有变化的情况下, 价差将会逐步缩窄。维持“买入”评级但下调目标价至 3.50 港元, 该目标价对应 8.2 倍/7.2 倍/6.0 倍的 2019-2021 年市盈率。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$3.50

Revised from 原目标价:

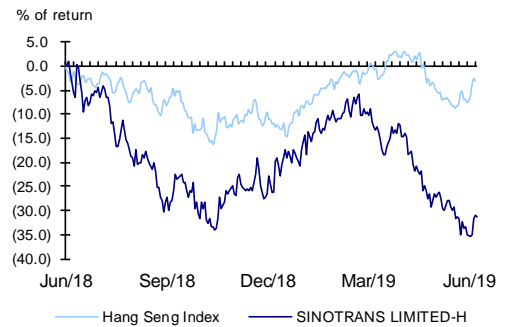
HK\$4.00

Share price 股价:

HK\$2.840

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 % | (6.6) | (20.4) | (31.1) |
| Rel. % to HS Index 相对恒指变动 % | (9.5) | (18.4) | (28.3) |
| Avg. Share price(HK\$) 平均股价 (港元) | 3.0 | 3.3 | 3.9 |

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 | 73,158 | 2,304 | 0.814 | 41.3 | 2.9 | 7.570 | 0.3 | 0.150 | 6.3 | 10.8 |
| 2018A | 77,312 | 2,704 | 0.447 | (45.1) | 5.6 | 3.841 | 0.7 | 0.150 | 6.0 | 11.6 |
| 2019F | 81,023 | 2,785 | 0.376 | (15.9) | 6.7 | 3.457 | 0.7 | 0.059 | 2.4 | 10.9 |
| 2020F | 84,831 | 3,148 | 0.425 | 13.0 | 5.9 | 3.816 | 0.7 | 0.067 | 2.7 | 11.1 |
| 2021F | 88,733 | 3,769 | 0.509 | 19.8 | 4.9 | 4.245 | 0.6 | 0.080 | 3.2 | 12.0 |

| | | | |
|---|---------------|--|-----------------------------|
| Shares in issue (m) 总股数 (m) | 7,044.8 | Major shareholder 大股东 | China Merchants Group 64.5% |
| Market cap. (HK\$ m) 市值 (HK\$ m) | 20,077.7 | Free float (%) 自由流通比率 (%) | 35.5 |
| 3 month average vol. 3 个月平均成交量 ('000) | 7,379.8 | FY19 Net gearing (%) FY19 净负债/股东资金 (%) | net cash |
| 52 Weeks high/low (HK\$) 52 周高/低 (HK\$) | 4.230 / 2.610 | FY19 Est. NAV (HK\$) FY19 每股估值 (港元) | 5.6 |

Source: the Company, Guotai Junan International.

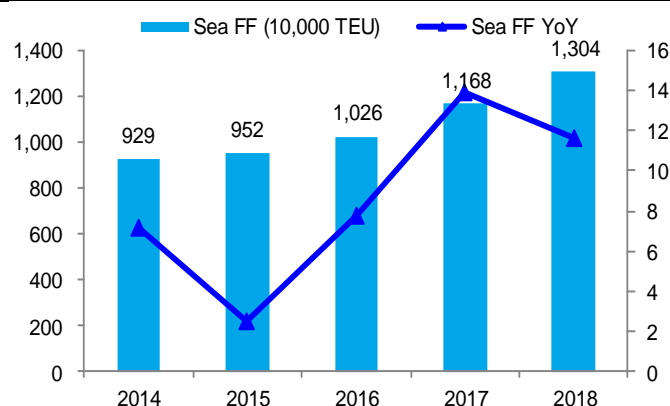
The intensified Sino-U.S trade war will yield a negative impact on the profitability of foreign trade-based transportation companies. In the short term, profitability and valuation of such companies will remain under pressure. However, actual impact on Sinotrans (00598 HK, the "Company") will be limited, while the proportion of Sinotrans' U.S.-bound freight forwarding business has been lowered to less than 10%. Negative impact on the Company's earnings will be limited. The main reason for recent declines in Sinotrans' share price is declining market risk preference on state-owned transportation enterprises after escalation of the Sino-U.S. trade dispute. By re-examining business components of Sinotrans, we believe that professional logistics and international express may become the two core driving forces for the Company's future profit growth.

Professional Logistics:

With the advantage of the traditional freight forwarding business, Sinotrans continues to strengthen the modern logistics supply chain system, and is striving to create a professional logistics sector to become a new engine. The segment has grown rapidly over the past five years, with CAGR of over 10.0% in operating profit from 2013 to 2018. The professional logistics business can be divided into four subsectors, namely, contract logistics, project logistics, chemical logistics, and cold chain logistics.

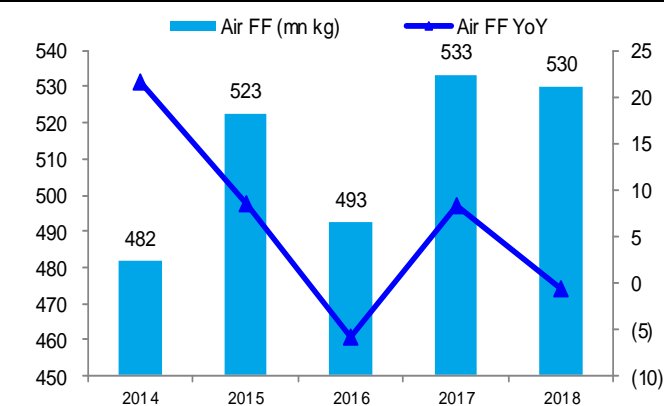
Breaking down the subsegments: Contract Logistics: provides logistics services to contracted business customers, including warehousing, long-distance transportation and delivery. Currently, the sub-segment contributes most revenue and profits of the professional logistics sector. For this sub-segment, the contract period is generally 2 years, while renewal rate is usually high, and customers are loyal. Sinotrans has contracted with leading companies in different industries (such as BMW in the automotive industry) to help improve business stability and profitability. **Project logistics:** mainly transports bulk and heavy equipment or machinery for large infrastructure construction projects. Currently, project logistics is the second largest revenue/ profit contributor of the professional logistics sector. In general, frequency of new project starts is unstable, while procurement needs of individual projects are unevenly distributed throughout the construction period of each individual project. Therefore, YoY revenue growth of this subsegment could fluctuate greatly. For example, in 1H18, benefiting from a wave of new projects, the Company's project logistics volume grew rapidly, yet growth slowed down afterwards. Looking ahead, we expect that Sinotrans will enjoy a stable and favorable policy environment regarding this subsegment. From our research, most of Sinotrans' project logistics business is related to the Belt and Road initiative. It is expected that compound annual growth of project logistics volume will reach 15% for 2019-2021. **Chemical logistics:** provides logistics services to customers in the chemical industry. Currently, this subsegment is the third largest revenue/ profit contributor. Consumer demand and profit margin are more stable than other businesses in the professional logistics segment. **Cold chain logistics:** currently accounts for a small proportion of revenue and profits. The industry is still in the early stages of development, but we are optimistic about cold chain logistics development prospects amid rapidly growing consumer demand for cold storage products.

Figure-1: Sea Freight Forwarding Volume and YoY Growth



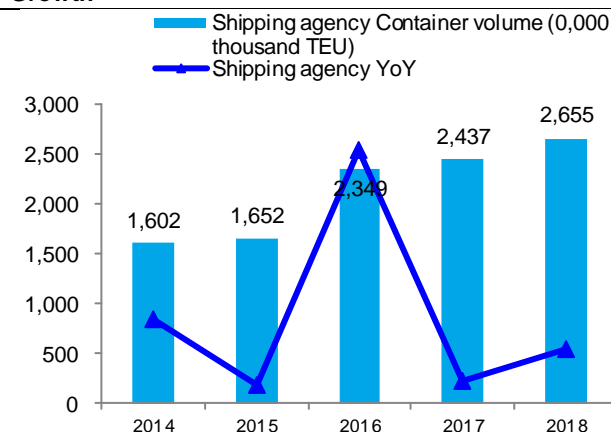
Source: the Company, Guotai Junan International.

Figure-2: Air Freight Forwarding Volume and YoY Growth



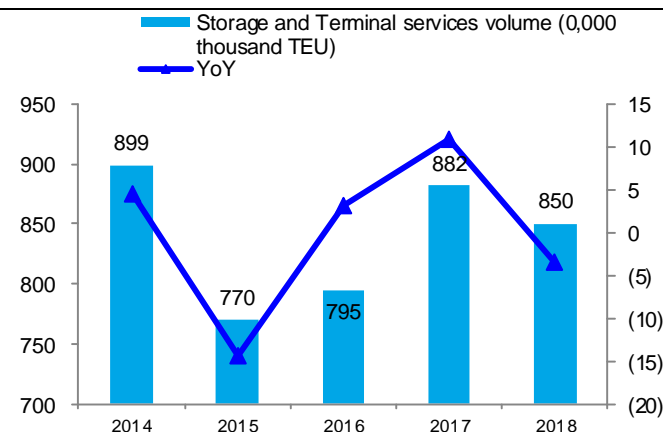
Source: the Company, Guotai Junan International.

Figure-3: Shipping Agency Container Volume and YoY Growth



Source: the Company, Guotai Junan International.

Figure-4: Storage and Terminal Volume and YoY Growth



Source: the Company, Guotai Junan International.

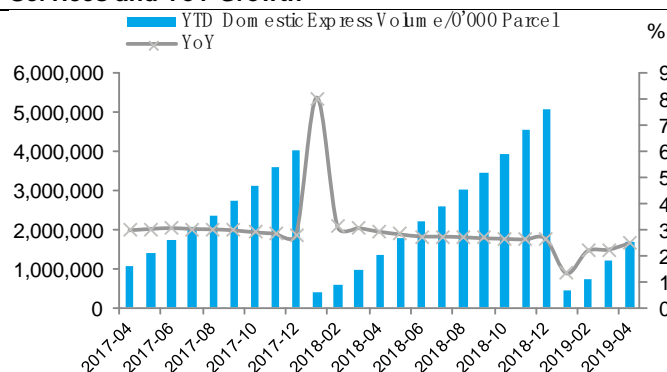
Sinotrans' synergy effect with China Merchants Logistics ("CML"), which was mentioned in our previous Company Report, was not reflected in 2018 results, yet we believe that positive effects of the CML merger will be reflected in 2019.

CML mainly provides modern logistics services such as contract logistics, cold chain logistics and LTL logistics, which can effectively complement and strengthen contract logistics and cold chain logistics segments of Sinotrans. It will take time for staff integration, and we judge that Sinotrans is approaching the completion of this process. We expect the synergy to be reflected from three perspectives: **1. expanding contract logistics customer base while raising the subsegment's revenue.** China Merchants Logistics mainly transports FMCG and liquid/ daily-use chemicals, while Sinotrans mainly transports automobiles, communication equipment, electronic products, tires and pharmaceuticals. Therefore, Sinotrans is likely to expand its coverage of downstream industries while enhancing its marketing capabilities at the same time. **2. Shared facilities cost savings.** Both parties can consolidate their warehouses and other infrastructures in a global network to reduce duplication. Land area of Sinotrans' warehouses was about 9 mn square meters before the merger, while land area of CML's warehouses was more than 3 mn square meters, contributing approx. 35% incremental land size for Sinotrans. **3. More procurement costs will be saved.** Re-planning procurement plans, designing procurement routes, and deploying relevant transportation capacity will increase Sinotrans' scale efficiency and further reduce purchasing costs.

International Express Delivery

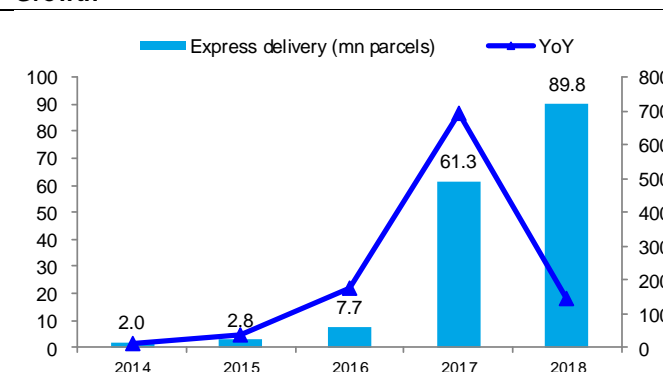
Sinotrans' international express delivery business is mainly operated by DHL-Sinotrans, which is a 50%/50% joint venture company, the world's largest air cargo company. Compound annual growth rate of the JV's net profit in the past five years was around 6.3%. In 2018, investment income from DHL-Sinotrans contributed 28.0% of Sinotrans' 2018 recurring EBIT. We predict that the JV may fully benefit from transportation needs of future international parts.

Figure-5: Domestic Online Sales of Retail Goods Services and YoY Growth



Source: National Bureau of Statistics, Guotai Junan International.

Figure-6: Sinotrans' Express Services Volume and YoY Growth



Source: the Company, Guotai Junan International.

In the context of the Sino-U.S. trade war, the international express competition landscape may be affected by the recent Huawei FedEx incident. In response to the problem that FedEx transportation of Huawei documents from Japan to China were not delivered according to the specified addresses, the National Post Bureau of China ("NBS") had recently stated that such

behavior seriously damaged legitimate rights and interests of users, and also seriously violated the national express delivery regulations, in which an investigation into FedEx was initiated. We believe that FedEx's international business in China will be negatively affected. If China's National Post Bureau imposes sanctions on FedEx's domestic express business, Sinotrans may benefit indirectly. In 2018, China's International bound express revenue was RMB58.57 bn, of which foreign express companies accounted for about 56.0% of revenue, corresponding to about RMB32.7 bn in revenue. Among them, FedEx's market share was about 31.0%-33.0%, corresponding to about RMB10.8 bn in terms of revenue. On the other hand, DHL Sinotrans' 2018 revenue was about RMB12.7 bn. If the National Post Bureau chooses not to sanction FedEx, we believe that subjective factors such as decline in trust may divert FedEx's Chinese international bound volume partially to peers. Assuming that FedEx's domestic international bound revenue in 2019 remained the same as in 2018, and 10% of FedEx's lost market is to be diverted to DHL-Sinotrans, the JV's revenue will grow 8.5% YoY due to FedEx's market loss.

DHL-Sinotrans' has advantages among Chinese express firms regarding international delivery business. At present, the international layout of domestic express delivery companies is in its relatively early stages. Their global product structure needs to be improved. Compared with domestic express delivery giants such as SF Express (002352 SZ) and YTO (600233 SH), DHL-Sinotrans has advantages in terms of aviation express route network, and has established deeper customer resources than its domestic peers. We estimate that CAGR JV contribution profit in 2019-2021 will remain above 15%.

Slightly revise down revenue/ earnings estimates amid minor disruptions brought by the Sino-U.S. trade war. Overall, we revise up Sinotrans' 2019-2020 revenue estimates by 1.8% and 2.1%, respectively. On a positive front, dynamic growth might come from DHL-Sinotrans, which was less affected by China-U.S. trade fluctuations. The NBS guided international business volume of the express delivery industry to maintain YoY growth of over 30.0% for 2019. Overall, the Company's integration is expected to enter a new stage, while Sinotrans has completed most of the integration process with CML. Generating incremental synergies in contract logistics will become Sinotrans' next focus. We expect the Company to accelerate cultivation of overseas logistics customers, especially in Belt and Road countries. On the other hand, rising costs of fuel (mostly truck fuels) have stabilized. As a result, we have adjusted our 2019-2020 net profit estimates by -1.6%/ 2.9%, respectively; 2019-2021 EPS estimates are RMB0.376, RMB0.425, and RMB0.509, representing YoY growth of -15.8%, 13.0% and 19.7%, respectively.

Table-1: Changes in Sinotrans' Earnings Estimates

| RMB mn | FY19F | FY20F | FY21F |
|------------------|--------|--------------------|--------|
| | | New estimates | |
| Revenue | 81,023 | 84,831 | 88,733 |
| Operating profit | 3,200 | 3,700 | 4,529 |
| EBT | 4,347 | 4,892 | 5,781 |
| Net profit | 2,785 | 3,148 | 3,769 |
| EPS (RMB) | 0.376 | 0.425 | 0.509 |
| | | Original estimates | |
| Revenue | 79,594 | 83,081 | n.a. |
| Operating profit | 3,806 | 4,001 | n.a. |
| EBT | 4,659 | 5,008 | n.a. |
| Net profit | 2,831 | 3,059 | n.a. |
| EPS (RMB) | 0.468 | 0.506 | n.a. |
| | | % change | |
| Revenue | 1.8% | 2.1% | n.a. |
| Operating profit | -15.9% | -7.5% | n.a. |
| EBT | -6.7% | -2.3% | n.a. |
| Net profit | -1.6% | 2.9% | n.a. |
| EPS (RMB) | -19.6% | -15.9% | n.a. |

Source: Guotai Junan International.

Maintain "Buy" and revise down TP to HK\$3.50 to reflect reasonable valuation of the Company. The overcast of the tightening trade war between China and the United States will not have significant negative impact on the Company's fundamentals, while market sentiment is yet to improve. Sinotrans' A-shares are currently trading at a 49% price premium to Sinotrans-H, while we believe that this gap will shrink via price fixing of its H-shares, as Sinotrans' fundamentals remain solid, from our analysis. On the domestic front, as a leading enterprise of B2B logistics, Sinotrans will still fully benefit from the high growth rate (the NBS upgraded 2019-2021 CAGR volume to be over 29.0%) of China's logistics industry. Overall, our TP reflects 8.2x/ 7.2x/ 6.0x 2019-2021 PER, respectively.

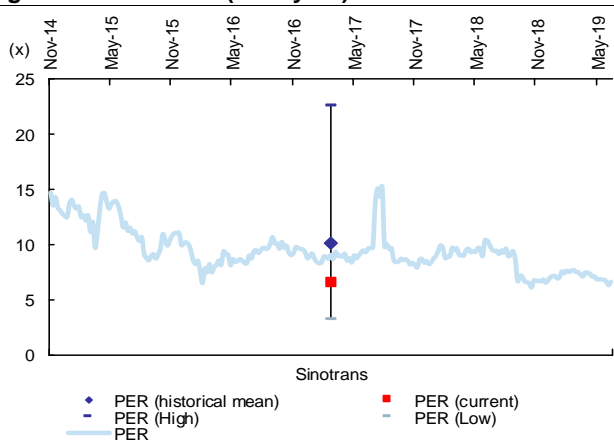
Major risks: 1) a slowdown in Chinese exports in 2H19 and beyond, and 2) escalation of Sino-U.S. trade war confrontation.

Table-2: Peers Comparison

| Company | Stock Code | Currency | Last price | PE | | | | PB | | | | ROE(%) | DY(%) | ROA(%) |
|--|------------|----------|------------|------|------|------|------|------|------|------|------|--------|-------|--------|
| | | | | 17A | 18F | 19F | 20F | 17A | 18F | 19F | 20F | 18F | 18F | 18F |
| HK - Listed Logistics Companies | | | | | | | | | | | | | | |
| Sinotrans Limited-H | 598 HK | HKD | 2.84 | 6.5 | 6.5 | 7.0 | 6.3 | 0.7 | 0.7 | 0.7 | 0.6 | 11.8 | 5.0 | 4.1 |
| Kerry Logistics Network Ltd | 636 HK | HKD | 13.34 | 10.7 | 13.5 | 14.5 | 13.0 | 1.2 | 1.1 | 1.0 | 1.0 | 7.2 | 2.5 | 3.5 |
| Shenzhen Intl Holdings | 152 HK | HKD | 14.72 | 7.7 | 7.4 | 9.2 | 8.2 | 1.2 | 1.2 | 1.0 | 0.9 | 14.1 | 6.2 | 4.1 |
| Guangdong Yueyun Transport-H | 3399 HK | HKD | 2.85 | 4.6 | n.a. | 6.6 | 6.4 | 1.3 | 1.3 | 1.2 | 1.2 | n.a. | n.a. | n.a. |
| Changan Minsheng Apl Logi-H | 1292 HK | HKD | 2.79 | 3.1 | n.a. | n.a. | n.a. | 0.2 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Beijing Sports And Entertain | 1803 HK | HKD | 2.08 | n.a. | n.a. | n.a. | n.a. | 6.0 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Simple Average | | | | 6.5 | 9.1 | 9.3 | 8.5 | 1.8 | 1.1 | 1.0 | 0.9 | 11.1 | 4.6 | 3.9 |
| Weighted Average | | | | 7.8 | 8.6 | 9.6 | 8.6 | 1.2 | 1.0 | 0.9 | 0.8 | 11.5 | 4.8 | 3.9 |
| China - Listed Logistics Companies | | | | | | | | | | | | | | |
| Jiangsu Auksun Co Ltd -A | 002245 CH | CNY | 4.55 | 12.6 | n.a. | 19.8 | 15.7 | 1.8 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Europol Intelligent Networ-A | 002711 CH | CNY | 1.11 | 5.6 | n.a. | n.a. | n.a. | 0.7 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Jiangsu Xinning Modern Log-A | 300013 CH | CNY | 15.89 | 33.1 | n.a. | n.a. | n.a. | 3.4 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Jiangsu Feiliks Internatio-A | 300240 CH | CNY | 7.90 | 39.5 | n.a. | n.a. | n.a. | 2.7 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Hpf Co Ltd-A | 300350 CH | CNY | 6.20 | 56.4 | n.a. | n.a. | n.a. | 1.8 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Xiamen Xiangyu Co Ltd-A | 600057 CH | CNY | 4.53 | 11.5 | 9.2 | 7.8 | 6.5 | 1.1 | n.a. | 0.7 | 0.7 | 9.1 | n.a. | n.a. |
| Yto Express Group Co Ltd-A | 600233 CH | CNY | 12.56 | 24.6 | 20.6 | 16.5 | 14.3 | 3.8 | 3.3 | 2.7 | 2.4 | 16.5 | 1.2 | 11.3 |
| S F Holding Co Ltd-A | 002352 CH | CNY | 31.15 | 27.8 | 29.6 | 26.6 | 22.9 | 4.2 | 3.8 | 10.7 | 9.7 | 12.8 | 0.7 | 7.4 |
| Yunda Holding Co Ltd-A | 002120 CH | CNY | 31.28 | 40.4 | 27.7 | 25.2 | 20.2 | 12.3 | 6.7 | 10.7 | 9.7 | 29.2 | 0.6 | 19.5 |
| Sto Express Co Ltd-A | 002468 CH | CNY | 24.10 | 24.8 | 18.1 | 17.4 | 14.7 | 5.5 | 4.3 | 10.7 | 9.7 | 24.7 | 1.1 | 20.5 |
| Simple Average | | | | 26.4 | 9.2 | 13.8 | 11.1 | 3.7 | 4.5 | 7.1 | 6.4 | 17.9 | 0.9 | 14.3 |
| Weighted Average | | | | 23.6 | 9.2 | 11.6 | 9.4 | 6.0 | 4.5 | 9.4 | 8.5 | 18.6 | 0.8 | 12.6 |
| Other Area - Listed Logistics Companies | | | | | | | | | | | | | | |
| United Parcel Service-CI B | UPS US | USD | 103.40 | 18.4 | 14.4 | 13.9 | 12.8 | 89.4 | 21.9 | 14.2 | 9.1 | 237.2 | 3.5 | 13.2 |
| Zto Express Cayman Inc-Adr | ZTO US | USD | 19.17 | 29.3 | 23.4 | 20.8 | 17.3 | 4.1 | 3.1 | 2.7 | 2.4 | 15.0 | 0.5 | 13.2 |
| FedEx Corp | FDX US | USD | 168.50 | 15.0 | 11.1 | 11.0 | 10.4 | 2.8 | 2.4 | 2.2 | 1.9 | 21.7 | 1.2 | 7.3 |
| Deutsche Post Ag-Reg | DPW GR | EUR | 28.51 | 12.7 | 14.5 | 13.4 | 11.5 | 2.8 | 2.7 | 2.3 | 2.2 | 17.6 | 4.1 | 0.7 |
| Cj Logistics | 000120 KS | KRW | 154,500.00 | 86.5 | 54.9 | 52.7 | 27.5 | 1.1 | 1.2 | 1.1 | 1.1 | 2.4 | 0.0 | 6.9 |
| Seino Holdings Co Ltd | 9076 JP | JPY | 1,421.00 | 15.4 | 14.1 | 13.2 | 9.4 | 0.7 | 0.7 | 0.7 | 0.7 | 5.2 | 2.1 | 1.0 |
| Kamigumi Co Ltd | 9364 JP | JPY | 2,483.00 | 18.9 | 17.5 | 16.6 | 16.0 | 1.0 | 0.9 | 0.9 | 0.9 | 5.5 | 1.4 | 3.3 |
| Mitsubishi Logistics Corp | 9301 JP | JPY | 3,065.00 | 25.2 | 25.2 | 24.3 | 21.8 | 1.0 | 1.0 | 0.9 | 0.9 | 3.9 | 0.9 | 5.7 |
| Sumitomo Warehouse Co Ltd | 9303 JP | JPY | 1,353.00 | 15.5 | 14.5 | 17.2 | 13.2 | 0.7 | 0.7 | 0.6 | 0.6 | 4.8 | 2.4 | 2.7 |
| Simple Average | | | | 26.3 | 21.1 | 20.3 | 15.5 | 11.5 | 3.8 | 2.9 | 2.2 | 34.8 | 1.8 | 6.0 |
| Weighted Average | | | | 32.2 | 22.7 | 21.8 | 15.7 | 41.4 | 10.9 | 7.3 | 4.9 | 113.4 | 2.0 | 10.1 |

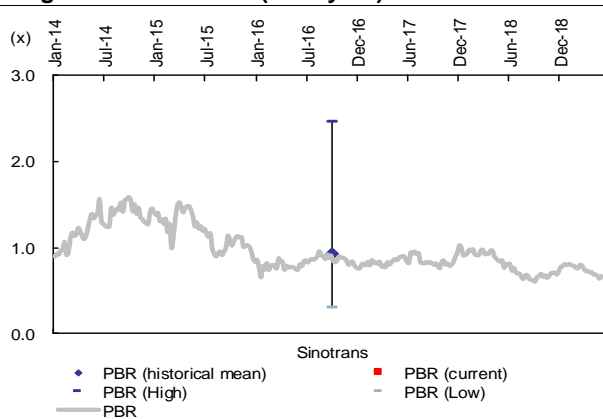
Source: Bloomberg.

Figure-7: PER Curve (Next year) of Sinotrans



Source: Bloomberg.

Figure-8: PBR Curve (Next year) of Sinotrans



Source: Bloomberg.

Financial Statements and Ratios

| Income Statement | | | | | | Balance Sheet | | | | | |
|--------------------------------------|----------|----------|----------|----------|----------|----------------------------------|--------|--------|--------|--------|--------|
| Year end 31 Dec (RMB m) | 2017A | 2018A | 2019F | 2020F | 2021F | Year end 31 Dec (RMB m) | 2017A | 2018A | 2019F | 2020F | 2021F |
| Total Revenue | 73,158 | 77,312 | 81,023 | 84,831 | 88,733 | Property, plant and equipment | 17,238 | 13,939 | 16,956 | 19,733 | 20,412 |
| Cost of sales | (43,772) | (67,608) | (71,767) | (75,189) | (78,622) | Investment in JVs and associates | 4,584 | 6,974 | 6,974 | 6,974 | 6,974 |
| Selling expenses | (837) | (931) | (948) | (1,018) | (1,083) | Intangible assets | 5,411 | 5,228 | 5,019 | 4,810 | 4,601 |
| Depreciation & Amortization | (1,279) | (1,372) | (1,133) | (1,377) | (1,592) | Other non-current assets | 5,022 | 3,984 | 3,984 | 3,984 | 3,984 |
| Other expenses | (23,993) | (4,417) | (3,975) | (3,547) | (2,908) | Total Non-current Assets | 32,254 | 30,125 | 32,933 | 35,501 | 35,970 |
| Operating Profit | 3,277 | 2,983 | 3,200 | 3,700 | 4,529 | Cash & Cash Equivalents | 12,152 | 15,528 | 18,355 | 20,236 | 24,784 |
| Share of profit of associates and JV | 3,767 | 4,108 | 4,347 | 4,892 | 5,781 | Trade and other receivables | 384 | 475 | 428 | 513 | 410 |
| Finance (expenses)/income, net | (434) | (459) | (495) | (498) | (478) | Accounts receivable | 315 | 267 | 306 | 319 | 331 |
| Profit Before Tax | 3,767 | 4,108 | 4,347 | 4,892 | 5,781 | Inventories | 12,742 | 12,320 | 13,319 | 13,945 | 14,586 |
| Income Tax | (786) | (909) | (1,017) | (1,145) | (1,353) | Other current assets | 4,479 | 2,779 | 3,241 | 3,393 | 3,549 |
| Profit After Tax | 2,981 | 3,199 | 3,329 | 3,747 | 4,428 | Total Current Assets | 30,072 | 31,369 | 35,648 | 38,406 | 43,661 |
| Non-controlling Interest | (677) | (495) | (544) | (599) | (659) | Total Assets | 62,326 | 61,494 | 68,581 | 73,907 | 79,631 |
| Shareholders' Profit / Loss | 2,304 | 2,704 | 2,785 | 3,148 | 3,769 | Short-term borrowings | 3,941 | 3,398 | 3,738 | 3,738 | 3,738 |
| Basic EPS (RMB) | 0.814 | 0.447 | 0.376 | 0.425 | 0.509 | Trade and other payables | 9,931 | 9,056 | 10,204 | 10,643 | 11,026 |
| | | | | | | Other current liabilities | 11,035 | 7,742 | 8,974 | 8,947 | 9,454 |
| | | | | | | Total Current Liabilities | 24,907 | 20,196 | 22,916 | 23,328 | 24,218 |
| | | | | | | Long-term borrowings | 6,609 | 8,473 | 10,033 | 11,788 | 12,888 |
| | | | | | | Long-term bonds | 3,496 | 3,497 | 3,497 | 3,497 | 3,497 |
| | | | | | | Other non-current liabilities | 1,479 | 1,475 | 1,475 | 1,475 | 1,475 |
| | | | | | | Total Non-current Liabilities | 11,584 | 13,445 | 15,005 | 16,760 | 17,860 |
| | | | | | | Total Liabilities | 36,491 | 33,641 | 37,921 | 40,088 | 42,078 |
| | | | | | | Share capital | 4,606 | 6,049 | 6,049 | 6,049 | 6,049 |
| | | | | | | Profit/(loss) for the year | 2,304 | 2,704 | 2,785 | 3,148 | 3,769 |
| | | | | | | Retained earnings | 14,519 | 14,483 | 16,750 | 19,041 | 21,598 |
| | | | | | | Total Shareholders' Equity | 21,430 | 23,236 | 25,584 | 28,239 | 31,417 |
| | | | | | | Minority Interest | 4,405 | 4,617 | 5,076 | 5,581 | 6,136 |
| | | | | | | Total Equity | 25,835 | 27,853 | 30,660 | 33,819 | 37,553 |

| Cash Flow Statement | | | | | |
|--------------------------------|----------|---------|---------|---------|---------|
| Year end 31 Dec (RMB m) | 2017A | 2018A | 2019F | 2020F | 2021F |
| Profit before tax | 2,304 | 2,704 | 2,785 | 3,148 | 3,769 |
| Minority interest | 586 | 417 | 459 | 505 | 555 |
| Depreciation and amortization | 1,279 | 1,372 | 1,133 | 1,377 | 1,592 |
| Fair value gain or loss | 151 | (79) | (79) | (79) | (79) |
| Changes in working capital | 2,019 | (948) | 918 | (345) | 99 |
| Cash from Operating Activities | 6,339 | 3,467 | 5,216 | 4,605 | 5,937 |
| CapEx | (10,039) | 1,987 | (3,900) | (3,900) | (2,000) |
| Short-term investment | (384) | (91) | 48 | (86) | 103 |
| Others | (530) | (2,390) | 0 | 0 | 0 |
| Cash from Investing Activities | (10,953) | (494) | (3,852) | (3,986) | (1,897) |
| Issuance of shares | (26) | 57 | 0 | 0 | 0 |
| Change in loans | 5,485 | 1,864 | 1,560 | 1,755 | 1,100 |
| Dividends paid | (311) | (424) | (437) | (494) | (591) |
| Others | 2,942 | (1,093) | 340 | 0 | 0 |
| Cash from Financing Activities | 8,090 | 403 | 1,463 | 1,261 | 509 |
| Cash at Beg of Year | 8,677 | 12,152 | 15,528 | 18,355 | 20,236 |
| Net Changes in Cash | 3,475 | 3,376 | 2,827 | 1,881 | 4,548 |
| Cash at End of Year | 12,152 | 15,528 | 18,355 | 20,236 | 24,784 |

| Financial Ratios | | | | | |
|-----------------------------|----------|----------|----------|----------|----------|
| | 2017A | 2018A | 2019F | 2020F | 2021F |
| Operating margin (%) | 2.7 | 2.1 | 2.6 | 2.7 | 3.3 |
| Net income margin (%) | 3.1 | 3.5 | 3.4 | 3.7 | 4.2 |
| ROA (%) | 3.7 | 4.4 | 4.1 | 4.3 | 4.7 |
| ROE (%) | 10.8 | 11.6 | 10.9 | 11.1 | 12.0 |
| Fixed asset turnover (x) | 5.7 | 4.2 | 5.5 | 4.8 | 4.3 |
| A/R turnover (x) | 5.7 | 6.3 | 6.1 | 6.1 | 6.1 |
| Current ratio (x) | 1.2 | 1.6 | 1.6 | 1.6 | 1.8 |
| Quick ratio (x) | 1.2 | 1.5 | 1.5 | 1.6 | 1.8 |
| A/P turnover (x) | 6.8 | 7.9 | 7.4 | 7.4 | 7.4 |
| Inventory turnover (x) | 214.9 | 269.2 | 245.6 | 246.2 | 246.8 |
| Net gearing ratio (%) | net cash | net cash | net cash | net cash | net cash |
| Interest coverage ratio (x) | 4.6 | 3.5 | 4.2 | 4.7 | 6.1 |

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. |

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