

Company Report: Beijing Enterprises Water (00371 HK)

Gary Wong 黄家玮  
(852) 2509 2616

公司报告: 北控水务 (00371 HK)

gary.wong@gtjas.com.hk

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Trying to Achieve Slower but Healthier Growth, Maintain "Buy"

试图实现较慢但更健康的增长, 维持“买入”

- Beijing Enterprises Water's (00371 HK, "BEWG" or the "Company") 1H18 revenue increased 9.7% YoY to HKD10.009 billion. Net profit increased 23.6% YoY to HKD2.366 billion. Results were in line with expectation. Gross margin increased 4.8 pts YoY to 38.3%. Daily design capacity increased by 2,647,598 tons/day in 1H18. As at 30 June 2018, total designed capacity was at 34,035,418 tons/day.
- We expect capacity of sewage and reclaimed water daily designed treatment and capacity of water distribution to increase annually by 1,500,000 tons/day and 1,000,000 tons/day, respectively, in 2018-2020. As requested by the government to better reflect market costs, we assume that the average sewage treatment tariff will increase 2.5% annually in 2019 and 2020. As for construction of BOT projects, we expect construction scale to be kept at HKD7.1 billion in 2018-2020 due to the Company's intention to keep down its gearing ratio. We think that technical services and machinery sales for water environmental renovation business has benefited from the boom in market consolidation and treatment of quality upgrades, and the segment can maintain fast growth over the 13th Five-Year Plan period.
- Our EPS estimates are HKD0.502, HKD0.550 and HKD0.607 for 2018/ 2019/ 2020, respectively. We think the Company has passed its high-growth period and is trying to achieve slower and sustainable growth, while the valuation shift can take more than 5 years given its current growth pace. **Lower the TP to HKD5.20, or 10.4x/ 9.4x/ 8.5x 2018/ 2019/ 2020 PER. Maintain "Buy".**
- 北控水务(00371 HK) (“公司”)2018年上半年营业收入同比增9.7%至100.09亿元(港元,下同)。净利润同比增23.6%至23.66亿元。业绩与预期一致。毛利率同比上升4.8个百分点至38.3%。2018年上半年内,总设计处理能力净增2,647,598吨/日。截至2018年6月30日,总每日设计处理能力达34,035,418吨/日。
- 我们预计2018-2020年间污水和再生水以及供水的日设计处理能力每年将分别提升1,500,000吨/日和1,000,000吨/日。由于政府要求更好地反映市场成本,我们认为2019和2020年的平均污水处理费将每年上涨2.5%。对于BOT项目的建造服务,我们认为2018至2020年的建造规模将维持在71亿元,因公司有意压低其杠杆率。我们认为水环境治理技术服务和机械销售受惠于市场整合的繁荣以及处理质量的升级,预计将在十三五规划期间保持快速增长。
- 我们对2018、2019和2020年的每股盈利预测分别为0.502港元、0.550港元及0.607港元。我们认为公司已经走过了其高速增长期,并试图实现较慢且可持续的增长,而鉴于其目前的增长步伐,估值提升或将需要五年以上的时间。**我们将目标价下调至5.20港元,对应10.4/9.4/8.5倍的2018/2019/2020年市盈率。维持“买入”评级。**

Rating: Buy  
Maintained

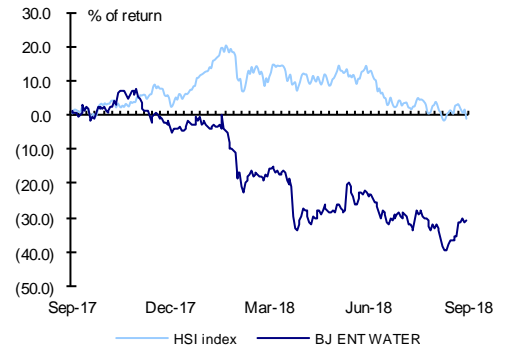
评级: 买入 (维持)

6-18m TP 目标价: HK\$5.20  
Revised from 原目标价: HK\$6.72

Share price 股价: HK\$4.060

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 %	(2.4)	(14.7)	(33.9)
Rel. % to HS Index 相对恒指变动 %	2.1	(0.3)	(31.9)
Avg. Share price(HK\$) 平均股价(港元)	4.9	5.3	5.9

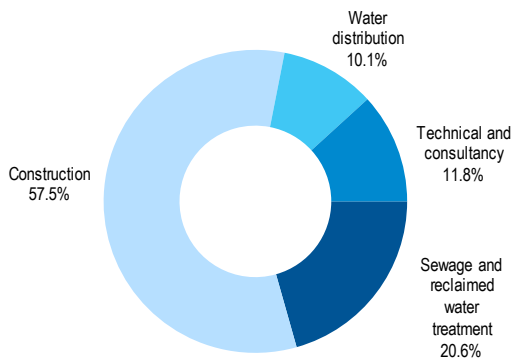
Source: Bloomberg, Guotai Junan International.

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	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ%)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2016A	17,355	3,227	0.370	31.2	11.0	1.888	2.2	0.119	2.9	19.7
2017A	21,192	3,717	0.424	14.6	9.6	2.364	1.7	0.155	3.8	19.9
2018F	23,271	4,636	0.502	18.4	8.1	2.624	1.5	0.176	4.3	20.4
2019F	25,968	5,181	0.550	9.6	7.4	3.086	1.3	0.193	4.8	19.3
2020F	28,925	5,709	0.607	10.4	6.7	3.598	1.1	0.212	5.2	18.1
Shares in issue (m) 总股数 (m)				9,412.6		Major shareholder 大股东				BEHL 42.4%
Market cap. (HK\$ m) 市值 (HK\$ m)				38,215.2		Free float (%) 自由流通比率 (%)				57.6
3 month average vol. 3 个月平均成交股数 ('000)				19,398.8		FY18 Net gearing (%) FY18 净负债/股东资金 (%)				91.5
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				6.645 / 3.610		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				5.2

Source: the Company, Guotai Junan International.

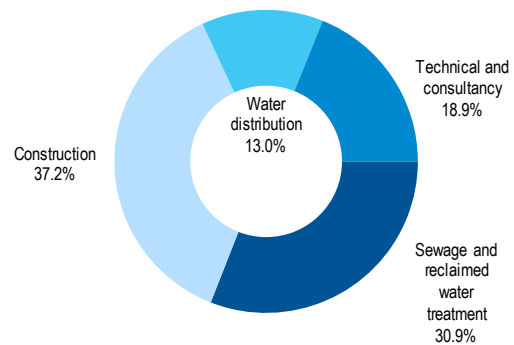
**1H18 shareholders' profit increased 23.6% YoY to HKD2.366 billion. Results were in line with expectation.** BEWG's (00371 HK) 1H18 revenue increased 9.7% YoY HKD10.009 billion. Shareholders' profit increased 23.6% YoY to HKD2.366 billion. Results were in line with our expectation but slightly higher than market consensus. The double-digit growth in shareholders' profit was mainly attributable to 1) 66.9% YoY increase in other income and gains, and 2) 4.8 ppts YoY increase in overall gross margin to 38.3%. Administrative expense ratio increased 0.5 ppts YoY to 8.8% and finance cost ratio increased 0.8 ppts YoY to 8.4%. In addition, contribution from joint ventures decreased 63.4% YoY, mainly due the Company's increase in stake in some joint ventures and those ventures becoming subsidiaries of the Company, while shared profit no longer counted as joint ventures. Associated companies contribution increased significantly, up 25% YoY to HKD263 million, mainly due to increase in shared profit from BECE (01250 HK). During the period, daily design capacity increased by 2,647,598 tons/day, more or less the same as the last period. As at 30<sup>th</sup> June, total designed capacity was at 34,035,418 tons/day.

**Figure 1: BEWG's Revenue Composition in 1H18**



Source: the Company.

**Figure 2: BEWG's Gross Profit Composition in 1H18**



Source: the Company.

**We expect sewage and reclaimed water treatment services revenue to increase at a CAGR of 12.7% in 2017-2020.** In 1H18, sewage and reclaimed water treatment services revenue increased 4.5% YoY to HKD2,064 million. During the period, daily designed treatment capacity (including not in operation) for sewage treatment and reclaimed water treatment increased 908,748 tons and 268,750 tons, respectively. As at 30<sup>th</sup> June, 2018, daily treatment capacity not yet in operation/not transferred was 7,145,326 tons/day, approximately 38.4% of total designed capacity in operation. Actual processing rate remained steady, in China, actual daily processing rate remained at 87%, the same as in full year 2017. According to the current pipeline and the Company's investment pace, we expect daily designed treatment capacity in operation to increase by 1,500,000 tons/day annually in 2018-2020. In addition, due to expected gradual increase in sewage treatment tariff as requested by the Government to better reflect market costs, we assume that average tariff will increase 2.5% annually in 2019 and 2020. Overall, we expect sewage and reclaimed water treatment services revenue to increase at a CAGR of 12.7% in 2017-2020.

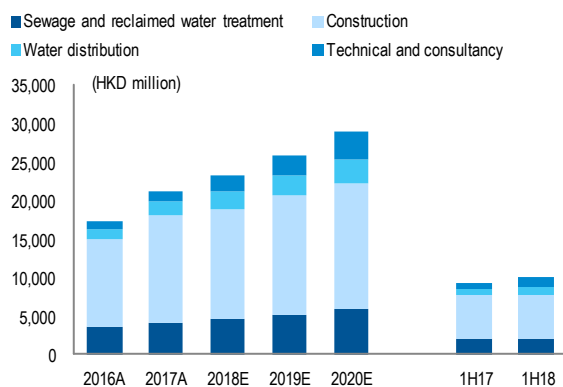
**We expect water distribution revenue to increase at a CAGR of 18.3% in 2017-2020.** In 1H18, water distribution services revenue increased 20.9% YoY to HKD1,015 million. During the period, daily designed distribution capacity increased 1,170,100 tons to 13,028,794 tons, mainly due to new operations of water supplies plants in Australia, while daily designed distribution capacity in mainland China stayed almost flat at 11,821,694 tons. As at 30<sup>th</sup> June, 2018, daily designed distribution capacity not yet in operation/not transferred was 5,277,994 tons/day, approximately 40.5% of total designed capacity in operation. Actual capacity utilization rate in China remained steady and actual utilization rate remained at 58%, the same as full year 2017. According to the current pipeline and the Company's investment pace, we expect daily water distribution capacity to increase 1,000,000 tons annually in 2019 and 2020. Due to expected gradual increase in water tariff as requested by the government to better reflect market costs, we assume that the average treatment tariff will increase 1.5% annually in 2019 and 2020. Overall, we expect water distribution revenue to increase at a CAGR of 18.3% in 2017-2020.

**Table 1: Capacity of Water Projects of BEWG in 1H18**

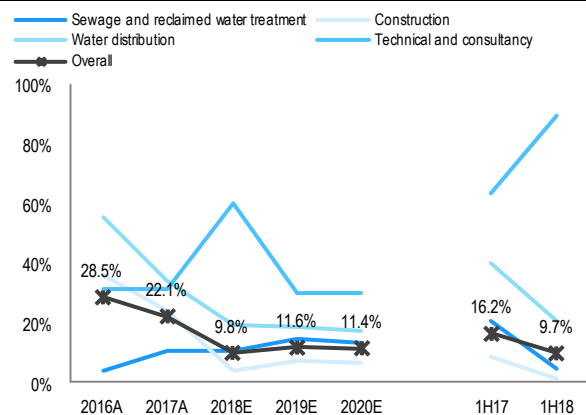
Tons/day	Sewage Treatment	Reclaimed Water Treatment	Water Distribution	Seawater Desalination	Total
China – In Operation	11,242,350	707,200	6,543,700	-	18,493,250
YoY Change	+9.2%	+22.5%	+11.1%	n.a.	+10.3%
China – Not Yet in Operation	7,145,326	959,000	5,277,994	50,000	13,432,320
YoY Change	+12.4%	+72.9%	-3.4%	-	+8.1%
China – Total	18,387,676	1,666,200	11,821,694	50,000	31,925,570
YoY Change	+10.4%	+47.2%	+4.1%	-	+9.4%
Overseas – In Operation	225,998	376,750	1,207,100	300,000	2,109,848
YoY Change	+13.5%	+65.2%	+3,253.1%	n.a.	+355.5%

Source: the Company, Guotai Junan International.

**We expect construction services revenue to increase at a CAGR of 5.6% in 2017-2020.** Construction services consists of two segments: 1) construction services for comprehensive renovation projects ("renovation projects") and 2) construction of BOT water projects ("construction of BOT"). During 1H18, renovation projects revenue and construction of BOT revenue changed -14.7%/ +17.4% to HKD2,463 million and HKD3,289 million, respectively. The decrease in revenue in renovation projects was mainly due to decrease in contribution from Inner Mongolia. Gross profits for renovation projects and construction of BOT changed +47.8%/ +22.3% to HKD640 million and HKD822 million, respectively, thanks to gross margin expansion in renovation projects, which was up 11 pts to 26% during the period, mainly due to higher gross margin of major projects completed during the period and the Company's direct involvement in procurement of equipments and construction materials which reduced costs. Despite being a "trillion dollar" market, water comprehensive treatment and renovation markets faced a lot of problems after several years of exponential growth, including inability to receive enough loans from banks, much reduced IRR after years of competition, and inability of local governments (project owners) to pay the contract sum after project completion, etc. We think enterprises are much more cautious about these projects now and expect only an 8.4% CAGR for renovation projects revenue in 2017-2020. As for construction of BOT projects, we expect the Company to keep its construction scale at HKD7.1 billion in 2018-2020, due to its intention to keep down its gearing ratio. Overall, we expect construction services revenue to increase at a CAGR of 5.6% in 2017-2020.

**Figure 3: BEWG's Revenue by Segment**


Source: the Company.

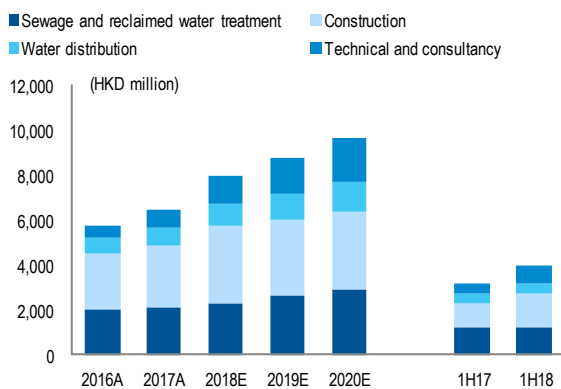
**Figure 4: BEWG's Revenue Growth by Segment**


Source: the Company.

**We expect technical services and sales of machineries for water environmental renovation revenue to increase at a CAGR of 39.3% in 2017-2020.** During 1H18, technical services and sales of machineries revenue increased 89.5% YoY to HKD1,179 million in 2017, the fastest growing segment among others. As an integrated water system solutions provider, the Company has acquired extensive experience in full operation cycles of sewage treatment projects, and marketed treatment technology and experience in construction services for other operators and constructors. We think that the Company's technical services and machinery sales for water environmental renovation business has benefited from the boom in market consolidation and treatment of quality upgrades in the sewage treatment market, alongside increasing investment in renovation projects due to implementation and reinforcement of the "Water Ten" policy. We think that the segment can maintain fast growth over the 13<sup>th</sup> Five-Year Plan period. We expect technical services and machinery sales for water environmental renovation revenue to increase at a CAGR of 39.3% in 2017-2020.

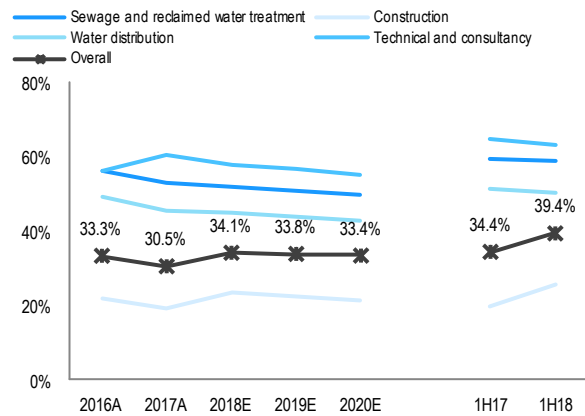
**Gross margin will improve in 2018, but pressure remains in 2019 and 2020.** Gross margin increased substantially from 33.5% in 1H17 to 38.3% in 1H18, up 4.8 ppts YoY. The improvement was mainly due to gross margin expansion in renovation projects, which was up 11 ppts to 26% during the period, as the Company completed major projects with higher gross margin and its direct involvement in procurement of equipments and construction materials reduced costs. However, gross margins of sewage and reclaimed water treatment services (58% in 1H18, down 1 ppts YoY), construction of BOT projects (25% in 1H18, up 1 ppts YoY), water distribution services (50% in 1H18, down 2 ppts YoY), and technical services and sales of machineries (63% in 1H18, down 2 ppts YoY) declined in general. We think the increase in gross margin of renovation projects was unsustainable as comprehensive renovation projects usually have gross margin of 15%-30%; we think it is not likely that the Company can further improve gross margin to 30% due to costs and competition. As for water treatment services, we expect that the latest (newer) projects will have lower gross margin in general due to lower project qualities (lower IRR), while technical services and equipments sales will face increasing competition alongside gross margin facing strong pressure. Despite that we expect the Company to have better product mix going forward (higher proportion of revenue from higher gross margin water treatment services), this is not enough to offset the gross margin pressure in different segments. Overall, we expect overall gross margin to increase to 34.1% in 2018 and decline to 33.8% in 2019 and decline 33.4% in 2020.

**Figure 5: BEWG's Gross Profit by Segment**



Source: the Company.

**Figure 6: BEWG's Gross Margin by Segment**



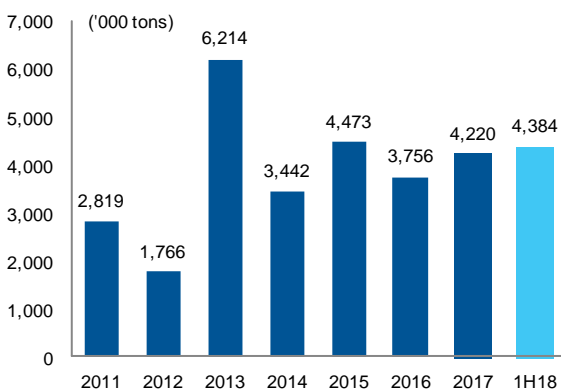
Source: the Company.

**Table 2: BEWG's Segment Performance Summary in 1H18**

HKD million	Revenue	YoY	Gross Margin	YoY
Construction	5,752	+1.1%	25.5%	-0.55 ppts
Sewage and Reclaimed Water Treatment	2,064	+4.5%	59.1%	+5.64 ppts
Water Distribution	1,015	+20.9%	50.3%	-1.15 ppts
Technical and Consultancy	1,179	+89.5%	63.2%	-1.28 ppts
Total	10,009	+9.7%	39.4%	+4.97 ppts

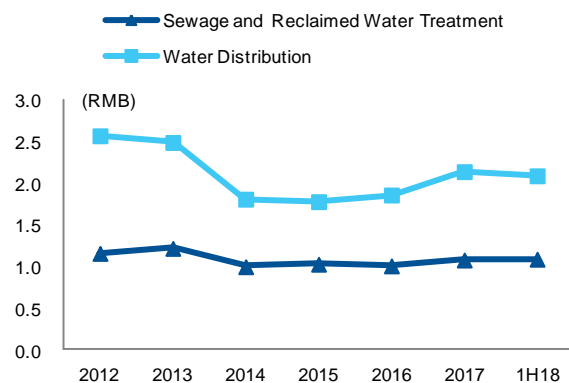
Source: the Company.

**Figure 7: BEWG's Additional Capacity**



Source: the Company.

**Figure 8: BEWG's Average Contracted Tariff Prices in China**



Source: the Company.

**Table 3: BEWG's Projects Pipeline Summary**

Tons/day	Sewage Treatment	Reclaimed Water Treatment	Water Supply Services	Seawater Desalination	Total
2008 projects	1,480,000	-	50,000	-	1,530,000
2009 projects	1,662,500	212,000	100,000	-	1,974,500
2010 projects	1,230,000	-	1,125,000	-	2,355,000
2011 projects	1,405,250	175,000	1,239,200	50,000	2,869,450
2012 projects	813,000	112,500	840,000	-	1,765,500
2013 projects	3,591,700	101,000	2,521,000	-	6,213,700
2014 projects	1,528,700	328,000	1,585,200	-	3,441,900
2015 projects	855,900	109,200	2,297,100	-	3,262,200
2016 projects	2,120,100	232,000	1,403,694	-	3,755,794
2017 projects	3,017,776	504,500	697,500	-	4,219,776
1H18 projects	908,748	268,750	1,170,100	300,000	2,647,598
<b>Total</b>	<b>18,613,674</b>	<b>2,042,950</b>	<b>13,028,794</b>	<b>350,000</b>	<b>34,035,418</b>

**Analysis:**

Under Operation	11,468,348	1,083,950	7,750,800	300,000	20,603,098
Preparation	7,145,326	959,000	5,277,994	50,000	13,432,320
<b>Total</b>	<b>18,613,674</b>	<b>2,042,950</b>	<b>13,028,794</b>	<b>350,000</b>	<b>34,035,418</b>

Source: the Company.

**Table 4: BEWG's Capacity by Geographical Location**

	Number of plants	Design capacity (Tons/Day)	Actual processing volume during the period (mn Tons)	Revenue (HKD mn)	Profit (HKD mn)
<b>Sewage and Reclaimed Water Treatment</b>					
Southern China	63	3,405,300	535.4	451.3	229.2
Western China	55	1,808,500	263.1	355.8	166.7
Shandong	31	1,502,000	208.6	233.9	115.2
Eastern China	65	3,467,750	515.4	482.5	257.1
Northern China	43	1,766,000	282.0	378.1	189.4
Subtotal	257	11,949,550	1,804.5	1,901.6	957.6
Overseas	41	602,748	68.6	162.0	30.5
<b>Total</b>	<b>298</b>	<b>12,552,298</b>	<b>1,873.1</b>	<b>2,063.6</b>	<b>988.1</b>
<b>Water Distribution</b>					
Mainland China	73	6,543,700	694.1	826.5	265.8
Overseas	34	1,507,100	29.6	188.3	33.0
<b>Total</b>	<b>107</b>	<b>8,050,800</b>	<b>723.7</b>	<b>1,014.8</b>	<b>298.8</b>

Source: the Company.

Note: Excluded entrustment operation contracts.

**Lower the TP to HKD5.20, but maintain "Buy".** Our 2018/ 2019/ 2020 EPS estimates are HKD0.502, HKD0.550 and HKD0.607, respectively. We think that the Company will be more cautious about construction services (renovation or BOTs) due to lower margin and high capital input, and will be more focused in growing its water treatment services businesses. We think that the Company has passed its high-growth period and is trying to achieve slower and sustainable growth. If water treatment services revenue (including sewage and reclaimed water treatment and water distribution services) eventually passes 50% of total revenue (now at 30%), it can be regarded as a utility company and valuation can rise substantially. Before that, we think that its gross margin will still have downward pressure and net gearing is unlikely to decline unless new equity injection is received. We think that the valuation shift (from trading at par compared with peers to trading at premium) can take more than 5 years given its current growing pace. Nevertheless, we do see in terms of operation that the Company is gradually releasing new capacities and keeping utilization rate stable, which is positive. We lower the TP to HKD5.20, representing 10.4x/ 9.4/ 8.5x 2018/ 2019/ 2020 PER on general decline in market valuation. Based on the Company's current attractive valuation, we still maintain a "Buy" rating.

**Table 5: Peers Comparison**

Company	Stock Code	Currency	Last price	Market cap(mn)	PE				PB				ROE(%)		D/Y(%)	
					17A	18F	19F	20F	17A	18F	19F	20F	18F	18F		
Beijing Enterprises Water Gr	00371HK	HKD	4.060	38,215	9.6	8.4	7.2	6.3	1.7	1.4	1.3	1.2	18.3	4.3		
China Everbright Intl Ltd	00257HK	HKD	6.260	38,455	8.2	7.2	6.7	6.1	1.3	1.1	1.0	0.9	15.8	4.0		
New Universe Environmental G	00436HK	HKD	0.470	1,427	16.9	n.a.	n.a.	n.a.	1.6	n.a.	n.a.	n.a.	n.a.	n.a.		
China Water Affairs Group	00855HK	HKD	8.700	13,997	15.3	12.0	10.4	9.0	2.4	2.0	1.9	1.6	17.8	2.9		
China Water Industry Group L	01129HK	HKD	1.430	2,283	n.a.	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.		
Tianjin Capital Environ-H	01065HK	HKD	3.060	11,269	7.4	7.2	6.8	n.a.	0.7	0.7	0.6	n.a.	9.9	2.6		
Guangdong Investment Ltd	00270HK	HKD	13.540	88,522	15.4	17.8	16.7	15.8	2.2	2.1	2.0	2.0	12.0	4.1		
China Environmental Technolo	00646HK	HKD	0.089	325	n.a.	n.a.	n.a.	n.a.	3.8	n.a.	n.a.	n.a.	n.a.	n.a.		
Ct Environmental Group Ltd	01363HK	HKD	0.990	6,254	9.0	8.7	7.5	6.1	1.4	1.2	1.1	0.9	16.0	2.5		
Kangda International Environ	06136HK	HKD	1.030	2,093	4.4	4.2	3.7	3.3	0.4	0.4	0.4	0.3	10.3	2.6		
EI Environmental Holdings L	01395HK	HKD	0.123	137	n.a.	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.		
Yunnan Water Investment -H	06839HK	HKD	2.320	2,768	5.7	4.5	3.9	3.0	0.5	0.4	0.3	0.3	n.a.	7.4		
Luzhou Xinglu Water Group -H	02281HK	HKD	1.300	1,118	7.0	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.		
Kunming Dianchi Water Trea-H	03768HK	HKD	2.280	2,346	6.0	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.		
Simple Average					9.5	8.7	7.9	7.1	1.4	1.2	1.1	1.0	14.3	3.8		
Weighted Average					11.9	12.4	11.4	10.8	1.8	1.6	1.5	1.5	14.4	3.9		

Source: Bloomberg.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	17,355	21,192	23,271	25,968	28,925	Property, Plant and Equipment	2,831	3,842	4,397	5,067	5,954
Cost of Sales	(11,570)	(14,728)	(15,326)	(17,182)	(19,269)	Goodwill	3,312	3,304	3,304	3,304	3,304
Gross Profit	5,785	6,465	7,945	8,786	9,656	Amounts from Contract Customers	16,204	15,060	15,598	16,676	17,753
Interest Income	203	281	301	322	344	Long Term Investments	6,378	11,898	13,097	14,416	15,869
Other Income/Expenses, Net	(311)	(343)	(301)	(318)	(321)	Others Non-current Assets	30,346	42,818	47,988	53,718	59,900
Other Income and Gains, Net	1,122	1,007	1,309	1,439	1,583	Total Non-current Assets	59,072	76,922	84,384	93,180	102,779
Administrative Expenses	(1,538)	(1,753)	(1,978)	(2,155)	(2,343)	Inventories	91	135	156	179	206
Operating Profit	5,260	5,656	7,276	8,074	8,920	Trade and Bills Receivables	3,024	2,853	3,266	3,800	4,429
FV Gain on Derivative Financial Instruments	410	40	0	0	0	Prepayment and Other Receivables	4,415	6,745	6,250	6,567	6,918
Finance Costs	(1,401)	(1,458)	(1,662)	(1,912)	(2,256)	Cash & Cash Equivalents	10,921	9,939	12,581	14,468	16,761
Share of Profits and Losses of JV/Associates	375	1,078	957	1,170	1,432	Other Current Assets	3,524	3,867	4,328	4,883	5,510
Profit Before Tax	4,644	5,315	6,571	7,331	8,096	Total Current Assets	21,975	23,539	26,580	29,897	33,824
Income Tax	(971)	(875)	(1,156)	(1,320)	(1,498)	Total Assets	81,047	100,461	110,965	123,078	136,602
Profit After Tax	3,673	4,441	5,414	6,011	6,598	Trade and Bills Payables	9,843	11,688	12,834	14,321	15,952
Non-controlling Interest	(446)	(723)	(778)	(831)	(889)	Other Payables and Accruals	5,234	6,770	6,273	6,591	6,943
Shareholders' Profit / Loss	3,227	3,717	4,636	5,181	5,709	Interest Bearing Borrowings	4,812	4,689	5,149	5,746	6,400
Basic EPS	0.370	0.424	0.502	0.550	0.607	Other Current Liabilities	725	4,547	5,146	5,350	5,576
DPS	0.119	0.155	0.176	0.193	0.212	Total Current Liabilities	20,615	27,693	29,402	32,008	34,871
						Interest Bearing Borrowings	31,266	35,014	38,230	41,929	46,183
						Other Non-current Liabilities	2,400	4,712	5,592	6,220	6,919
						Total Non-current Liabilities	33,665	39,726	43,823	48,149	53,102
						Total Liabilities	54,280	67,420	73,225	80,158	87,973
						Share Capital	874	879	941	941	941
						Reserves	15,627	19,905	23,764	28,114	32,933
						Total Shareholders' Equity	16,501	20,785	24,706	29,055	33,875
						Minority Interest	10,266	12,257	13,034	13,865	14,754
						Total Equity	26,767	33,041	37,740	42,920	48,629
						Total Equity and Liabilities	81,047	100,461	110,965	123,078	136,602
						BVPS	1.888	2.364	2.624	3.086	3.598

Cash Flow Statement						Financial Ratios					
Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Profit Before Taxation	4,644	5,315	6,571	7,331	8,096	Gross Margin	33.3	30.5	34.1	33.8	33.4
Depreciation and Amortization	403	422	445	574	672	Operating Margin	30.3	26.7	31.3	31.1	30.8
Change in the Working Capitals	(7,879)	(12,279)	(4,527)	(5,367)	(5,691)	Net Margin	18.6	17.5	19.9	19.9	19.7
Other Operating Activities	331	(173)	1,258	545	564	ROA (%)	3.3	3.2	3.8	4.0	4.2
Cash from Operating Activities	(2,500)	(6,714)	3,746	3,083	3,641	ROE (%)	19.7	19.9	20.4	19.3	18.1
Capital Expenditure	(2,600)	(3,760)	(3,141)	(3,476)	(3,884)	Net Gearing Ratio (%)	94.0	101.4	91.5	86.1	81.4
Other Investing Activities	571	3,645	(1,458)	460	420	Interest Coverage (x)	3.8	3.9	4.4	4.2	4.0
Cash from Investing Activities	(2,029)	(115)	(4,599)	(3,016)	(3,463)						
Issuance of Shares	0	0	3,615	0	0						
Issuance / (Repayment) of Debts	5,889	6,688	3,677	4,296	4,908						
Dividends	(958)	(1,227)	(1,358)	(1,623)	(1,813)						
Other Financing Activities	4,538	(1,492)	(2,464)	(859)	(1,002)						
Cash from Financing Activities	9,469	3,968	3,469	1,814	2,093						
Cash at Beg of Year	6,366	10,912	8,596	11,178	12,999						
Net Changes in Cash	4,940	(2,861)	2,617	1,881	2,271						
Forex	(393)	544	(34)	(60)	(52)						
Time Deposit	9	1,343	1,403	1,470	1,543						
Cash at End of Year	10,921	9,939	12,581	14,468	16,761						

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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 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