



Company Report: China High Speed Transmission (00658 HK)

公司报告: 中国高速传动 (00658 HK)

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Earnings Dropped Significantly in 1H2018, Reiterate "Sell"

2018上半年盈利大幅下挫，重申“卖出”

- **1H2018 earnings dropped 69.4% YoY to RMB 179 mn.** Sales, gross profit and net profit in 1H2018 went down YoY by 11.0%, 33.3% and 69.4%, respectively. Except for 14.4% YoY growth in sales seen from industrial equipment, sales of all other products went down in 1H2018. Wind gear sales went down by 14.4% YoY. Further, offshore sales dropped 24.9% YoY due to decline in sales to the US market. Gross margin in 1H2018 was down by 7.7 ppt to 23.1% due to lower product selling price and increased material costs.
- **Newly installed wind capacity in China in 7M2018 reached 9.5 GW, with at least 20 GW of new wind capacity expected to be installed in 2018.** China installed 9.5 GW of new wind power capacity in 7M2017, up 29.6% YoY. Cumulative installed wind capacity in China reached 172.9 GW by the end of July 2018. We expect domestic new wind capacity additions in 2018 to be between 20 GW and 25 GW, implying potential YoY upside of 27.2%.
- **Earnings forecasts have been trimmed to reflect the expected low gross margin.** With expected lower wind equipment ASP onwards and high steel price, gross margin is estimated to remain low at an average of 23.3% from 2018 to 2020. Our revised EPS forecasts from 2018 to 2020 are RMB 0.145, RMB 0.148 and RMB 0.152, respectively.
- **We maintain the "Sell" investment rating and cut the TP to HK\$ 5.00.** We are not optimistic about the outlook of the Company and we further cut the TP to HK\$ 5.00. The new TP corresponds to 29.6x FY18 PER or 0.6x FY18 PBR or 10.2x FY18 EV/ EBITDA.
- **2018上半年净利下滑69.4%至人民币179百万。**公司于2018上半年的收入，毛利及净利分别同比下跌了11.0%/33.3%/69.4%。期内除工业设备录得14.4%的同比增长外，其他产品的收入均在期内出现下滑。风电设备收入同比跌14.4%。另外，海外市场收入亦录得同比24.9%的收入下滑，主要由于对美国市场的销售出现下降。因低产品售价及高原材料成本，2018上半年公司的毛利率同比下降了7.7个百分点至23.1%。
- **2018年前7个月国内的新增风电装机达9.5吉瓦，而2018全年则预计将有不少于20吉瓦的新增风电装机。**中国于2018年1-7月新增了9.5吉瓦的风电装机，同比上升了29.6%。2018年7月底底的全国风电累计装机容量达172.9吉瓦。我们预计2018年的新增风电装机将介于20吉瓦至25吉瓦，意味着潜在27.2%的同比增长。
- **下调盈利预测以反映低毛利率的预期。**在预期的风电设备于未来持续低走的平均售价及高企的钢铁价格之下，我们预测毛利率将在2018年至2020年维持在低位并将平均在23.3%。我们调整后的2018年至2020年的每股盈利预测为人民币0.145，人民币0.148以及人民币0.152。
- **我们维持“卖出”的投资评级并下调目标价至5.00港元。**我们对公司的前景较不乐观并进一步下调目标价至5.00港元。我们的新目标价相当于29.6倍2018年市盈率或0.6倍2018年市净率或10.2倍2018年企业值/EBITDA。

Rating:

Sell

Maintained

评级:

卖出 (维持)

6-18m TP 目标价:

HK\$5.00

Revised from 原目标价:

HK\$7.00

Share price 股价:

HK\$8.640

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 %	(5.3)	(22.2)	8.1
Rel. % to HS Index 相对恒指变动 %	1.9	(7.0)	13.9
Avg. Share price(HK\$) 平均股价 (港元)	9.1	9.9	10.4

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	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	8,966	1,109	0.678	7.3	11.4	6.760	1.1	0.207	2.7	10.7
2017A	8,242	452	0.276	(59.3)	26.1	6.669	1.1	0.142	2.0	4.1
2018F	7,345	238	0.145	(47.5)	51.2	6.665	1.1	0.044	0.6	2.2
2019F	7,199	242	0.148	2.1	50.2	6.817	1.1	0.044	0.6	2.2
2020F	7,098	249	0.152	2.7	48.9	6.873	1.1	0.046	0.6	2.2
Shares in issue (m) 总股数 (m)			1,635.3		Major shareholder 大股东		Fullshare Holdings 74.9%			
Market cap. (HK\$ m) 市值 (HK\$ m)			14,129.0		Free float (%) 自由流通比率 (%)		25.0			
3 month average vol. 3 个月平均成交股数 ('000)			2,040.3		FY18 Net gearing (%) FY18 净负债/股东资金 (%)		46.4			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			13.820 / 7.820		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)		14.5			

Source: the Company, Guotai Junan International.

Earnings in 1H2018 dropped YoY by 69.4%, in line with the profit warning. China High Speed Transmission's (the "Company") net profit during the reporting period was consistent with the profit warning indicating the YoY drop of 70% in earnings. Key reasons of the earnings decline include: 1) sharp decline in gross margin due to decreased product selling price and increased raw materials cost; and 2) dramatic rise in finance expense due to the increase in total borrowings during the period. In 1H2018, sales in the China market dropped 2% YoY to RMB 2,321 mn, while that of overseas markets dropped YoY by 24.9% to RMB 1,146 mn. Sales to the US market dropped sharply by 54.9% during the period and was the primary cause of overseas sales decline. Wind gear sales went down by 14.4% YoY to RMB 2,746 mn, but still contributed 79.2% of overall sales. Gross margin and net margin went down 7.7 ppt and 9.9 ppt to 23.1% and 5.2%, respectively. Segmental details and gross margins were not disclosed in the interim results announcement. However, we believe that the gross margin of wind gear experienced a sharp drop in the first half of 2018 and is expected to remain low going forward.

Meanwhile, the competitive bidding system (风电竞价上网机制) adopted for new wind power projects in China is expected to further drag down the procurement price of wind power equipment, we believe that the outlook of wind power equipment makers will remain challenging and profitability may further decline onwards.

Table-1: 1H2018 Operating Results and YoY Comparison

(RMB mn)	1H2018	1H2017	YoY Δ	Comments
Revenues	3,466.8	3,894.2	-11.0%	Sales of wind gear dropped YoY by 14.4% and caused the fall in revenues
COGS	(2,667.3)	(2,696.4)	-1.1%	
Gross profit	799.5	1,197.8	-33.3%	Gross margin went down by 7.7 ppt
Selling expense	(150.6)	(169.7)	-11.2%	
Admin expense	(303.6)	(339.4)	-10.5%	
R&D expense	(120.0)	(113.4)	5.8%	
EBIT	225.3	575.4	-60.8%	
Other income / (expense)	284.0	253.3	12.1%	
Interest expense	(341.5)	(238.8)	43.0%	Total borrowings increased in 1H2018
Gain from associates & JVs	10.4	29.1	-64.1%	
Profit before tax	178.2	618.9	-71.2%	
Tax expense	(5.4)	(57.7)	-90.6%	
Minority interests	6.6	25.5	-74.1%	
Net income	179.3	586.7	-69.4%	
EPS (Basic)	0.1100	0.3590	-69.4%	
Margins (%)			YOY ppt Δ	
Gross margin	23.1%	30.8%	-7.7 ppt	Due to the falling product selling price and high raw materials cost
EBIT margin	6.5%	14.8%	-8.3 ppt	
PBT margin	5.1%	15.9%	-10.8 ppt	
Net margin	5.2%	15.1%	-9.9 ppt	

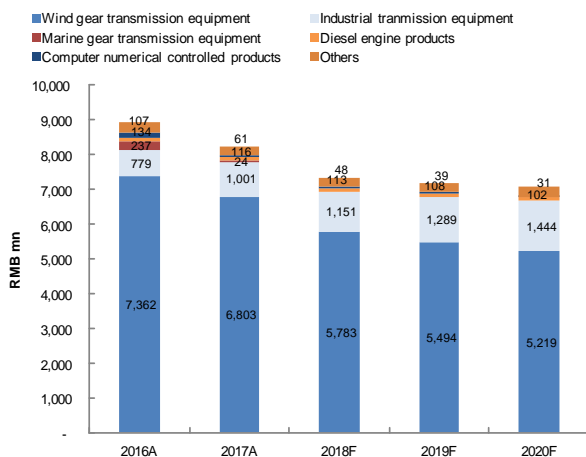
Source: the Company, Guotai Junan International.

Nationwide newly installed wind power capacity reached 9.5 GW in 7M2018, up YoY by 29.6%. According to statistics from CEC, nationwide newly installed power generating capacity for the first 7 months of 2018 reached 66.6 GW, down YoY by 3.2% or a YoY decrement of 2.2 GW. Thermal, hydro, nuclear, wind and solar contributed 18.8 GW, 4.8 GW, 2.2 GW, 9.5 GW and 31.3 GW, respectively, of newly installed capacity in the first 7 months of 2018. Wind and nuclear power new installations went up YoY by 29.6% and 103.5%, respectively, while thermal, hydro and solar new installations went down YoY by 0.2%, 28.4% and 10.5%, respectively. Nationwide power generating infrastructure investment in 7M2018 reached RMB 123.8 bn, down YoY by 1.3%. Thermal, hydro, nuclear and wind power investment in 7M2018 went up YoY by 1.9%, 17.8%, 11.2% and down 4.9%, respectively. Renewable energy power sources contributed 69% of power generating infrastructure investment in China during the period, with the rest contributed by thermal power. We expect investment in renewable power sources to speed up for the period from 2018 to 2020. In 2018, we expect 20 GW to 25 GW of new wind power capacity to be added nationwide based on the amount of new wind power installations in 7M2018 as well as the existing energy development plan. China will continue to strengthen its clean energy portfolio going forward. With 9.5 GW of new wind power capacity added in 7M2018, nationwide cumulative installed wind power capacity stood at 172.9 GW by the end of July 2018. Average wind power utilization hours went up YoY by 174 hours to 1,292 hours in 7M2018, while cumulative wind electricity generated in 7M2018 went up YoY by 27.9% to 217.9 bn kWh. Grid curtailment rate for wind power fell YoY by 4.9 ppt to 8.7% in 1H2018. Looking forward, we expect nationwide newly installed wind capacity to be between 20 GW and 25 GW, implying potential YoY growth of 27.2%.

The competitive bidding system for the wind power industry is expected to drive down wind power equipment prices. On May 24th 2018, the NEA published the Notice Regarding the Requirement of Wind Power Construction and Management in 2018 (i.e. 国家能源局关于 2018 年度风电建设管理有关要求的通知). Based on section 4 of the notice, namely the implementation of the competitive bidding system in allocating new wind power projects, effective immediately, all provinces not having officially announced its annual wind power development plan for 2018 will be switching to and adopting the competitive bidding system in determining owners of all new onshore wind power projects and of offshore (sea-based) wind projects without its investing entity already confirmed. The said bidding system will be used to determine both the owner of the wind project as well as its wind power on-grid tariff. The same competitive bidding system will be applied nationwide to all new wind power projects approved and commissioned in 2019 (both onshore and offshore). Although there are several factors in determining the owner of a new wind project, the on-grid wind tariff is to be treated as the single most important factor. Projects with the lowest tariff subsidy will be prioritized in its construction. Meanwhile, distributed wind power projects are not included in the competitive allocation for new wind power projects (bidding system). We expect that this new policy for the wind power industry will further drive down procurement cost of wind power equipment and, with the expectation of rising steel price in China, will negatively impact the profitability of wind power equipment makers in China.

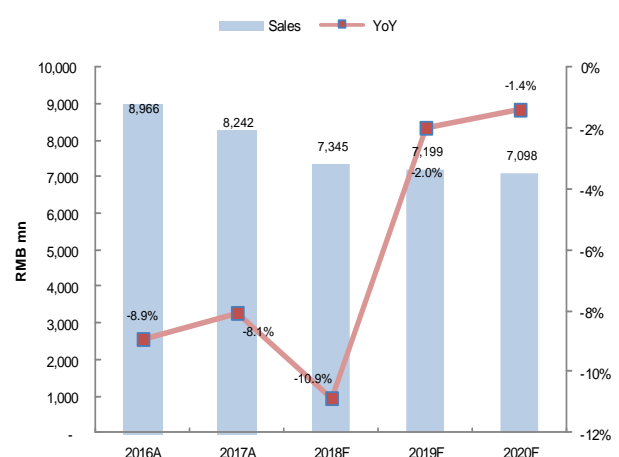
The potential takeover is expected to be cancelled. The Company announced in early July that its controlling shareholder, Fullshare and Five Seasons, had entered into a framework agreement with a potential acquirer on 30th June 2018 in relation to the potential sale and purchase of Five Seasons' direct shareholding in China High Speed Transmission, which represents more than 51%, but not exceeding 73.91%, of the issued shares of the Company at a provisional transfer price range of RMB 9.99 to RMB 11.25 per share (provisional price range) of China High Speed Transmission. The terms and conditions of the potential sale and purchase have not been concluded and are subject to further negotiations and the signing of a formal sale and purchase agreement. Based on the framework agreement, the potential acquirer and the controlling shareholder of the Company are set to enter into a possible sale and purchase agreement by 30th September 2018, and an announcement must be made to inform the market whether or not a formal sale and purchase agreement has been signed. Aside from the MOU, the earnest money agreement and the framework agreement, no commitment or any formal and legally binding agreement has been reached or entered into regarding the terms and conditions of the potential sale and purchase. Following the announcement of worse-than-expected 1H2018 operating results, with a substantial plunge in the Company's net earnings during the period, we expect this potential takeover to be discontinued by the end of September 2018. We think that the valuation for this transaction is too high (valuing at between 37x and 42x 2017 PER) and such an acquisition may not be in the best interest of the acquirer.

Figure-1: Revenue by Product



Source: the Company, Guotai Junan International.

Figure-2: Historical and Forecast Sales

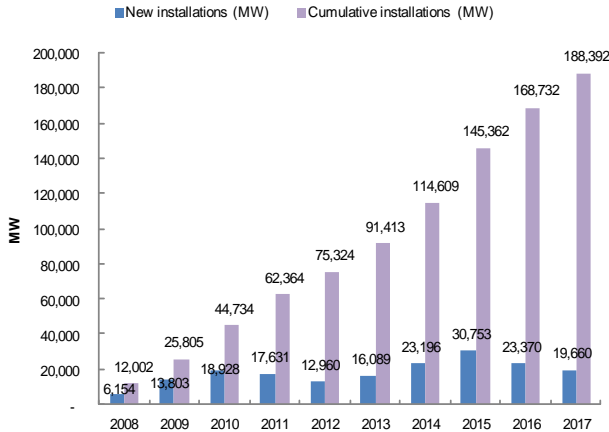


Source: the Company, Guotai Junan International.

We have trimmed down our earnings forecasts from 2018 to 2020 based on new assumptions. Domestic new wind power installation is expected to rebound from 19.66 GW in 2017 to between 20 GW and 25 GW in 2018. However, wind power equipment gross margin is expected to further decline in 2018 and onwards considering the continued fall in wind power equipment ASP (driven by competitive bidding system for the wind power industry) and the expected rise in raw materials price. Supply side structural reform within the steel industry is expected to further drive up the price of steel price over the next 6 to 12 months, especially with unqualified steel production capacities being forced to shut down. Overseas market sales fell by 24.9% in 1H2018 following a 15.1% YoY drop in 2017; we expect overseas sales to continue to drop in 2H2018. The outlook of foreign

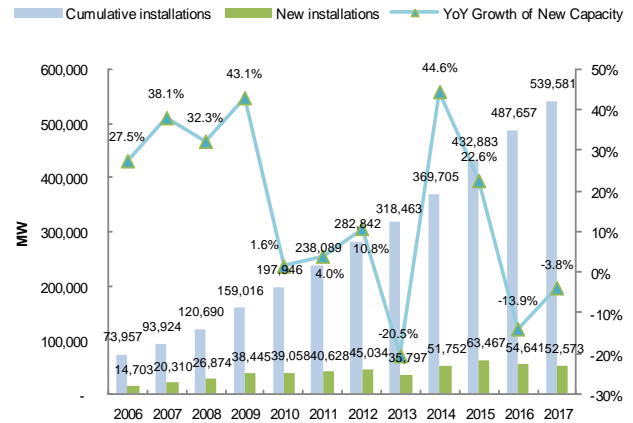
demand remains weak amid US-China trade tension. With product margin decline coupled with falling sales, the outlook of the Company does not look bright. Following 2 years of sales decline in 2016 and 2017, we expect revenues growth to be -10.9%/ -2.0%/ -1.4% from 2018 to 2020, respectively. Meanwhile, the Company's gross margin is expected to average at 23.3% during the 3-year period from 2018 to 2020 or 23.6%/ 23.2%/ 23.1%, respectively. We are not optimistic about the future of the Company and estimate its net profit to be RMB 238 mn/ RMB 242 mn/ RMB 249 mn from 2018 to 2020, respectively. Our revised EPS estimates from FY18 to FY20 are RMB 0.145, RMB 0.148 and RMB 0.152, respectively.

Figure-3: Historical Wind Power Installations in China



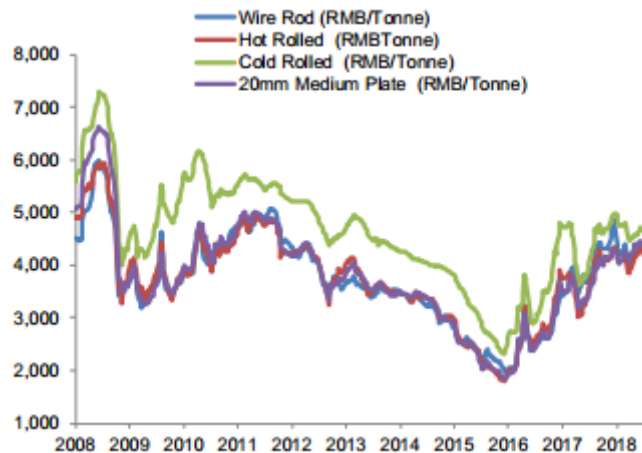
Source: CWEA, GWEC, Guotai Junan International.

Figure-4: Global Historical Wind Power Installations



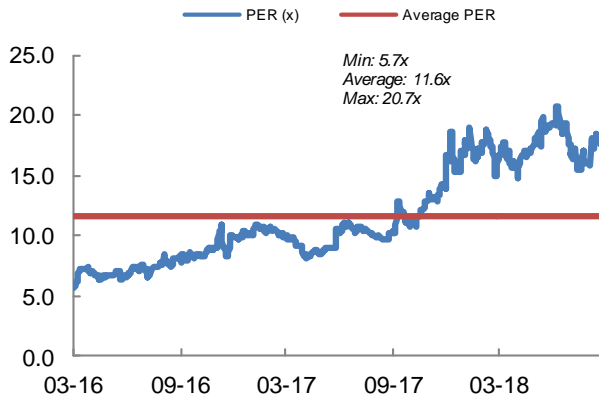
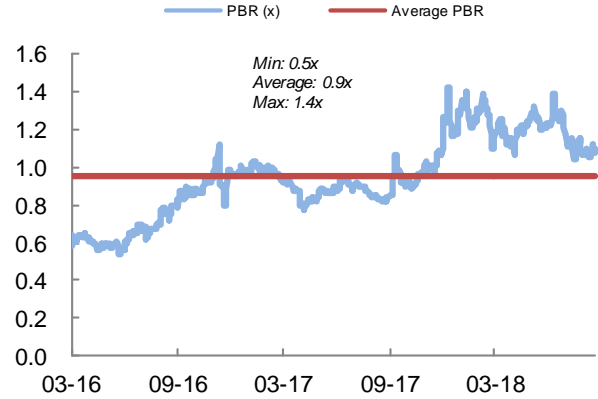
Source: GWEC, Guotai Junan International.

Figure-5: 10-Year Historical Steel Price in China



Source: Bloomberg, Guotai Junan International.

We cut the TP to HK\$ 5.00 and maintain the "Sell" investment rating. We expect wind gear sales to drop 15% YoY in 2018 and wind transmission equipment margin to further decline between 2018 and 2020, mainly due to the expectation of a gradual fall in wind power equipment ASP in China as a result of the competitive bidding system new policy adopted within the wind power industry. The sharp fall in gross margin in 1H2018 may only be the beginning of a low-margin era for power equipment makers in China. Due to a disappointing 2018 interim results and a high valuation for the proposed transaction, we expect that the potential takeover of China High Speed Transmission may not proceed and may be discontinued in late September. All in all, we further cut our TP to HK\$ 5.00 and maintain the "Sell" investment rating. Our new TP corresponds to 29.6x FY18 PER or 0.6x FY18 PBR or 10.2x FY18 EV/ EBITDA.

Figure-6: 1-Year Forward PER Band

Figure-7: 1-Year Forward PBR Band


Source: GWEC, Guotai Junan International.

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Table-2: Peers Comparison

Company	Stock Code	Currency	Last price (in local \$)	PE (fiscal year)				PB (fiscal year)				ROE (%)	EV / EBITDA (x)	Market Cap HKD mn
				17A	18F	19F	20F	17A	18F	19F	20F	18F	18F	
HK - Listed Chinese Peers														
China High Speed Transmission	00658 HK	HKD	8.64	27.1	17.1	15.7	21.2	1.1	1.0	1.0	1.0	7.2	7.6	14,129
Dongfang Electric Corp - H	01072 HK	HKD	4.17	12.5	10.8	10.6	11.7	0.4	0.4	0.4	0.4	3.9	n.a.	25,158
Guodian Technology	01296 HK	HKD	0.34	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	2,062
Harbin Electric	01133 HK	HKD	2.22	13.7	23.6	13.5	13.1	0.2	0.2	0.2	0.2	3.7	n.a.	3,057
Shanghai Electric - H	02727 HK	HKD	2.43	11.2	12.6	12.8	11.8	0.5	0.6	0.5	0.5	4.5	9.0	76,407
Xinjiang Goldwind Sci & Tech	02208 HK	HKD	7.46	7.7	7.0	6.7	6.3	1.0	0.9	0.8	0.8	14.5	9.7	43,084
Simple Average				14.4	14.2	11.9	12.8	0.6	0.6	0.6	0.6	6.8	8.8	
Weighted Average				11.9	11.4	11.1	11.2	0.7	0.7	0.6	0.6	7.3	9.1	
Wind Turbine Peers														
General Electric	GE US	USD	12.33	n.a.	13.2	11.8	10.5	1.7	2.5	2.8	2.7	12.8	13.5	841,118
Nordex SE	NDX1 GY	EUR	9.39	n.a.	n.a.	n.a.	22.2	1.0	1.0	1.0	1.0	(4.1)	8.6	8,288
Senvion	SEN GY	EUR	7.00	n.a.	n.a.	14.8	9.3	2.0	1.9	1.8	1.6	(4.6)	6.6	4,657
Siemens Ag	SIE GY	EUR	109.48	14.7	14.9	14.0	12.4	2.1	2.0	1.8	1.7	13.1	11.1	846,778
Vestas	VWS DC	DKK	429.50	13.6	15.4	14.8	12.9	3.8	3.5	3.1	2.7	23.8	6.0	107,777
Simple Average				14.2	14.5	13.9	13.5	2.1	2.2	2.1	1.9	8.2	9.2	
Weighted Average				14.6	14.2	13.0	11.6	2.0	2.3	2.4	2.2	13.5	11.9	
Offshore Power Equipment Peers														
Alstom	ALO FP	EUR	39.63	30.0	18.4	19.1	18.9	2.4	2.2	2.4	2.3	12.5	16.0	80,185
Bharat Heavy Electricals	BHEL IN	INR	75.05	n.a.	n.a.	22.3	17.7	0.9	0.9	0.8	0.8	1.4	9.5	30,023
Doosan Heavy Industries	034020 KS	KRW	14,700.00	n.a.	24.3	8.9	6.6	0.5	0.5	0.5	0.5	2.6	7.7	11,982
Hyundai Heavy Industries	009540 KS	KRW	127,000.00	2.8	n.a.	65.8	24.1	0.6	0.7	0.7	0.7	(1.8)	52.8	61,118
Mitsubishi Heavy Industries	7011 JT	JPY	3,998.00	15.3	19.1	16.3	12.5	0.8	0.7	0.8	0.7	3.9	6.9	94,991
Wartsila Oyj Abp	WRT1V FH	EUR	16.65	25.6	19.7	16.5	14.8	4.2	3.9	3.5	3.1	20.2	12.9	89,650
Simple Average				18.4	20.4	24.8	15.8	1.5	1.5	1.4	1.3	6.4	17.6	
Weighted Average				19.4	19.3	25.4	16.6	1.9	1.8	1.8	1.6	8.5	18.2	

 Source: Bloomberg, Guotai Junan International. *Prices as at September 12th, 2018.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	8,966	8,242	7,345	7,199	7,098	PPE	5,111	4,410	4,416	4,377	4,295
COGS	(5,979)	(6,073)	(5,614)	(5,531)	(5,456)	Investment in affiliates	1,150	258	426	490	563
Gross profit	2,987	2,169	1,731	1,668	1,642	Intangible & goodwill	142	41	41	41	33
SG&A expense	(983)	(1,005)	(808)	(763)	(745)	Other non-current assets	2,510	4,716	5,561	5,803	6,101
R&D expense	(361)	(295)	(272)	(259)	(241)	Total Non-current Assets	8,914	9,424	10,444	10,709	10,992
Operating Profit	1,644	869	651	646	656	Cash & Cash Equivalents	2,745	4,030	2,571	2,448	2,484
Other income	206	105	215	226	244	Inventories	2,312	2,416	2,807	2,765	2,728
Gain from affiliates & JVs	13	79	40	48	59	Trade receivable	6,965	6,515	4,628	4,679	4,543
Finance income	(496)	(526)	(609)	(618)	(648)	Advanced payment	1,274	516	1,235	1,217	1,200
Profit Before Tax	1,367	527	297	302	311	Other current assets	4,086	4,536	6,346	5,576	6,033
Income Tax	(308)	(174)	(74)	(75)	(78)	Total Current Assets	17,382	18,014	17,587	16,685	16,988
Profit After Tax	1,059	353	223	226	234	Total Assets	26,296	27,438	28,031	27,395	27,980
Non-controlling Interest	50	99	15	15	16	Short-term debts	5,274	5,031	4,922	5,160	5,623
Shareholders' Profit / Loss	1,109	452	238	242	249	Trade payable	6,571	6,637	7,299	6,084	6,002
						Unearned income	419	542	441	360	355
Basic EPS (RMB)	0.678	0.276	0.145	0.148	0.152	Others	1,232	1,231	1,227	1,254	1,223
DPS (RMB)	0.207	0.142	0.044	0.044	0.046	Total Current Liabilities	13,495	13,441	13,888	12,858	13,203
						Long-term debts	1,228	2,756	2,906	3,056	3,206
						Deferred income	94	86	93	101	110
						Others	238	179	188	191	197
						Total Non-current Liabilities	1,560	3,021	3,187	3,348	3,513
						Total Liabilities	15,055	16,462	17,075	16,206	16,716
						Total Shareholders' Equity	11,054	10,905	10,899	11,147	11,239
						Minority Interest	186	71	56	41	26
						Total Equity	11,240	10,976	10,956	11,188	11,264
						Total Liabilities & Equity	26,296	27,438	28,031	27,395	27,980
						BPS (RMB)	6.760	6.669	6.665	6.817	6.873

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Operating activities					
Net income	1,109	452	238	242	249
D&A	623	517	542	569	598
Change in working capital	1,329	849	(477)	(490)	(385)
Others	(169)	385	(646)	(42)	(89)
Cash from Operating Activities	2,891	2,203	(343)	279	373
Investing activities					
Capital expenditure	(346)	(545)	(514)	(504)	(497)
Purchase of intangibles	(20)	(0)	(61)	(52)	(37)
Proceeds from assets disposal	63	60	26	26	26
Others	674	(1,149)	282	251	182
Cash from Investing Activities	371	(1,635)	(267)	(279)	(327)
Financing activities					
Debt raised / (repaid)	(1,223)	1,278	42	388	613
Dividend paid	(320)	(339)	(232)	(71)	(72)
Others	(1,097)	(222)	(659)	(441)	(550)
Cash from Financing Activities	(2,639)	717	(849)	(124)	(9)
Net Changes in Cash	623	1,285	(1,460)	(123)	37
Adjustments	0	0	0	0	0
Cash at Beg of Year	2,122	2,745	4,030	2,571	2,448
Cash at End of Year	2,745	4,030	2,571	2,448	2,484

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Gross margin(%)	33.3%	26.3%	23.6%	23.2%	23.1%
EBIT margin (%)	18.3%	10.5%	8.9%	9.0%	9.2%
EBITDA margin (%)	25.3%	16.8%	16.3%	16.9%	17.7%
Net margin(%)	12.4%	5.5%	3.2%	3.4%	3.5%
ROE(%)	10.7%	4.1%	2.2%	2.2%	2.2%
ROA(%)	4.3%	1.7%	0.9%	0.9%	0.9%
Net gearing(%)	32.2%	33.5%	46.4%	50.0%	54.7%
Inventory turnover (day)	133.9	142.1	182.5	182.5	182.5
AR turnover (day)	283.0	298.5	230.0	237.3	233.6
AP turnover (day)	346.3	396.9	474.5	401.5	401.5
EV/EBITDA(x)	7.0	11.5	14.5	14.6	14.6
Quick ratio (x)	1.1	1.1	0.9	1.0	0.9
Current ratio (x)	1.3	1.3	1.3	1.3	1.3

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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