



Company Report: MGM China (02282 HK)

公司报告: 美高梅中国 (02282 HK)

Noah Hudson

(86755) 2397 6684

noah.hudson@gtjas.com

4 October 2018

Low Valuation with Upside Potential for MGM Cotai, "Buy"

低估值, 看好美狮美高梅长期前景, 上调投资评级至“买入”

- **MGM China's 2Q18 adjusted EBITDA increased 1.3% YoY to HK\$1,031 million, in line with Bloomberg consensus forecast.** The Company's 2Q18 total net revenue increased 26.1% YoY (decreased 5.6% QoQ) to HK\$4,406 million, 7.7% below Bloomberg consensus forecast due to bad luck with low VIP win rate of 2.3%, which was down 0.7 ppt YoY and down 1.1 ppt QoQ. Adjusted EBITDA margin decreased by 5.7 ppt YoY and 1.7 ppt QoQ to 23.4%.
- **We lower our 2018-2020 adjusted EBITDA forecasts by 27.1%, 16.4% and 17.7%, respectively.** We forecast 2018-2020 adjusted EBITDA of HK\$5.1 billion, HK\$6.8 billion and HK\$7.9 billion, reflecting growth of 10.3%, 35.2% and 15.9%, respectively. The Company's 2Q18 revenue was lower than expected, and the new junket VIP business was not added to MGM Cotai in September as we had expected, but is now expected to be added during 4Q18.
- **We lower our target price from HK\$28.00 to HK\$20.00 but raise our investment rating to "Buy".** Year-to-date, MGM China's share price is down 38.8%, in part due to MGM Cotai's weak 2Q18 performance. Current expectations for MGM China and its new MGM Cotai property are low, which we see as a buying opportunity for investors, especially since new amenities and features are being introduced at MGM Cotai, including the Mansion and President's Club, both of which are expected to open by 4Q18. Our HK\$20.00 target price is equivalent to 14.2x forward (next four quarters) EV/Adjusted EBITDA and 28.9x forward PER, and is a 21.6% discount to our DCF derived NAV per share of HK\$26.26.
- **美高梅中国 2018 年第 2 季度经调整 EBITDA 同比上升 1.3% 至 10.3 亿港元, 与彭博预期一致。** 公司第 2 季度净营业额同比上升 26.1% (环比下降 5.6%) 至 4.4 亿港元, 低于彭博预期 7.7%, 这是由于贵宾赌枱赢率同比下降 0.7 个百分点 (环比下降 1.1 个百分点) 至 2.3% 而导致的。调整后的 EBITDA 利润率同比下降 5.7 个百分点 (环比下降 1.7 个百分点) 至 23.4%。
- **我们将 2018 至 2020 年经调整 EBITDA 预期分别下调 27.1%、16.4% 和 17.7%。** 我们预计 2018 至 2020 年调整后的 EBITDA 为 51 亿、68 亿和 79 亿港元, 分别上升 10.3%、35.2 和 15.9%。公司 18 年第 2 季度营业额低于预期, 美狮美高梅亦没能按预期于今年 9 月开设贵宾博彩业务, 目前该业务预计将于今年第 4 季度展开。
- **我们将目标价格由 28.00 港元下调至 20.00 港元, 但上调投资评级至“买入”。** 今年初至今, 美高梅中国股价下跌 38.8%, 部分归咎于美狮美高梅 2018 年第 2 季度欠佳的表现。目前市场对美高梅中国及其新开张的美狮美高梅物业预期不高, 这也让我们看到了买入的机会, 尤其是考虑到新的娱乐设施和特色, 包括酒店别墅“雍华府”及高级博彩场地“雍华一号”, 将于今年第 4 季度引入美狮美高梅。我们 20.00 港元的目标价格相当于 14.2 倍动态 (未来 4 个季度) 经调整 EV/EBITDA, 以及 28.9 倍动态市盈率。此目标价格对于我们用折现现金流方法得出的每股估值 (26.26 港元) 有 21.6% 的折让。

Rating:

Buy

Upgraded

评级:

买入 (上调)

6-18m TP 目标价:

HK\$20.00

Revised from 原目标价:

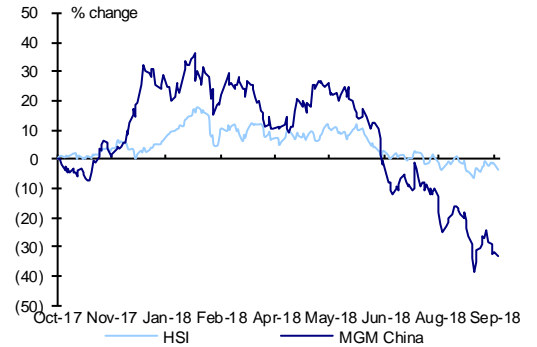
HK\$28.00

Share price 股价:

HK\$12.320

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. %	(13.5)	(24.9)	(31.4)
绝对变动 %			
Rel. % to HS Index	(11.3)	(19.9)	(27.6)
相对恒指变动 %			
Avg. share price (HK\$)	12.9	15.0	19.6
平均股价 (港元)			

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	14,907	3,037	0.799	(46.8)	15.4	1.899	6.5	0.279	2.3	49.3
2017A	15,356	2,320	0.611	(23.5)	20.2	2.240	5.5	0.213	1.7	29.5
2018F	21,112	1,679	0.442	(27.7)	27.9	2.518	4.9	0.177	1.4	18.6
2019F	28,500	3,580	0.942	113.1	13.1	2.995	4.1	0.471	3.8	34.2
2020F	30,826	4,839	1.273	35.1	9.7	3.511	3.5	0.764	6.2	39.1
Shares in issue (m)	总股数 (m)		7,247.6		Major shareholder 大股东		MGM Resorts International 56.0%			
Market cap. (HK\$ m)	市值 (HK\$ m)		88,565.7		Free float (%) 自由流通比率 (%)		0.2			
3 month average vol.	3 个月平均成交股数 ('000)		9,953.3		FY18 Net gearing (%) FY18 净负债/股东资金 (%)		145.2%			
52 Weeks high/low (HK\$)	52 周高/低 (HK\$)		25.500 / 14.880		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)		35.1			

Source: the Company, Guotai Junan International.

2Q18 RESULTS

MGM China (the "Company")'s 2Q18 adjusted EBITDA was HK\$1,031 million, in line with Bloomberg consensus forecast. The Company's 2Q18 net revenue increased 26.1% YoY (decreased 5.6% QoQ) to HK\$4,406 million, 7.7% below Bloomberg consensus forecast. The Company's adjusted EBITDA increased by just 1.3% YoY (decreased 19.2% QoQ) to HK\$1,031 million. Adjusted EBITDA margin decreased by 5.7 ppt YoY and 1.7 ppt QoQ to 23.4%. MGM China's 2Q18 total gaming gross win was HK\$5,086 million, up 24.0% YoY (down 10.5% QoQ), outperforming the 17.2% YoY sector increase but underperforming the 3.7% QoQ sector decrease of Macau's gross gaming revenue ("GGR").

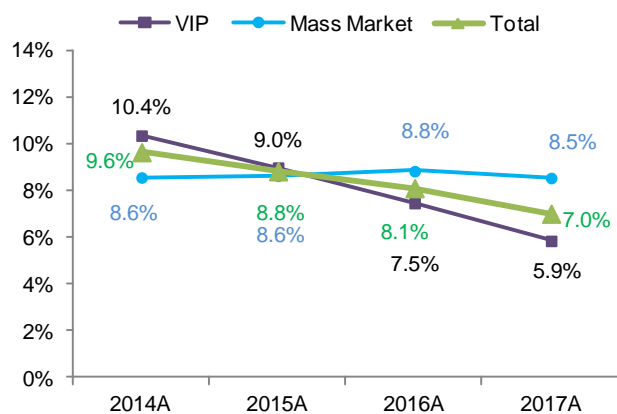
Table-1: MGM China Results Summary

HK\$ million	2Q17	3Q17	4Q17	1Q18	2Q18	QoQ (% or ppt)	YoY (% or ppt)
VIP Turnover	66,810	64,417	76,798	77,514	80,802	4.2%	20.9%
Win Rate (% of Turnover)	2.9%	3.3%	3.1%	3.4%	2.3%	-1.1 ppt	-0.6 ppt
VIP Gross Win	1,963	2,141	2,390	2,616	1,851	-29.3%	-5.7%
Mass Table Drop	9,445	10,089	92,800	13,452	15,152	12.6%	60.4%
Win Rate (% of Drop)	19.3%	18.4%	21.0%	19.2%	17.4%	-1.8 ppt	-1.9 ppt
Mass Tables Gross Win	1,824	1,861	2,296	2,586	2,633	1.8%	44.4%
Slot Machine Handle	7,147	7,750	8,695	11,923	13,926	16.8%	94.9%
Win Rate (% of Handle)	4.41%	4.65%	4.50%	4.02%	4.32%	0.3 ppt	-0.1 ppt
Slot Machine Gross Win	315	361	391	479	602	25.7%	91.0%
Total Casino Gross Win	4,102	4,363	5,077	5,681	5,086	-10.5%	24.0%
Total Net Revenue	3,494	3,679	4,283	4,664	4,406	-5.6%	26.1%
Adjusted EBITDA	1,019	1,049	1,295	1,276	1,031	-19.2%	1.3%
<i>Adjusted EBITDA Margin</i>	29.1%	28.5%	30.2%	27.4%	23.4%	-4.0 ppt	-5.7 ppt

Source: the Company, Guotai Junan International.

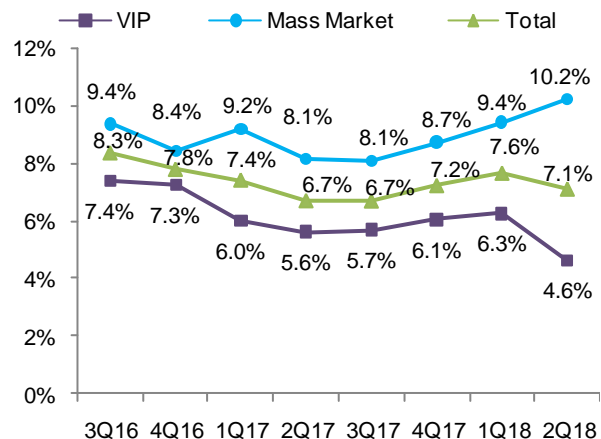
MGM China's VIP total turnover was HK\$80.8 billion, up 20.9 % YoY and 4.2% QoQ, outperforming the Macau sector's 2Q18 VIP GGR of 14.4% YoY growth and 4.5% QoQ decline. Despite strong turnover growth, MGM China's VIP market share for the quarter dropped 1.1 ppt YoY and 1.6 ppt QoQ to 4.6% due to exceptionally poor VIP win rate of 2.3%, which was down 0.7 ppt YoY and down 1.1 ppt QoQ. Accordingly, the Company's VIP gross win decreased by 5.7% YoY and 29.3% QoQ to HK\$1,851 million.

Figure-1: MGM China Market Share, Annual



Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

Figure-2: MGM China Market Share, Quarterly



Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

MGM China's mass segment (tables and slots) outperformed the market in 4Q17 both YoY and QoQ. MGM China's mass market share (tables & slots) increased 0.2 ppt YoY (up 0.7 ppt QoQ) to 10.2%. The Company's 2Q18 mass market gross win (tables & slots) increased 44.4% YoY (increased 1.8% QoQ) to HK\$2,633 million, outperforming the 20.8% YoY increase (2.6% QoQ decrease) of Macau's total mass market GGR. Slot machine handle increased by 94.9% YoY (increased 16.8% QoQ) to HK\$13,926, while slot machine gross win increased 91.0% YoY (increased 25.7% QoQ) to HK\$602 million on 4.3% win rate.

OUTLOOK

Strong start to 3Q18 after weak 2Q18 results. According to the Company's management, July gross gaming revenue at MGM Macau increased nearly 20% YoY and 40% MoM. The management is also calibrating its offerings across the whole property portfolio and implementing new initiatives and strategies to capture more market share, including the opening of new amenities at MGM Cotai over the course of the coming weeks and months.

MGM Cotai's "The Mansion" is expected to open in 4Q18. The Mansion at MGM Cotai, inspired by parent company MGM Resorts International's The Mansion in Las Vegas, aims to offer private and personal attention to high value guests. The Mansion will be a luxury and invitation only villa complex designed to attract and cater to high-end gamers. It is expected to open in October with a number of junket operators to support the VIP business. The Company's management disclosed that they had already signed agreements with junket operators that the Mansion will be opening with, and more junket operators are expected to be added in the weeks or months after the opening which will further expand VIP operations.

"President's Club" will target premium mass players and is expected to open at MGM Cotai in 4Q18. President's Club will be an exclusive gaming area for premium mass customers at MGM Cotai and will be aimed at taking market share from competitors' properties in Cotai. The Company is also planning a number of events to drive traffic and profitability to MGM Cotai, including launching the first resident show called Destiny, which will drive more mass customers and business around the property.

FORECAST REVISIONS

We decrease the Company's 2018-2020 total revenue forecasts by 19.1%, 6.0% and 7.1%, respectively. The Company's 2Q18 revenue was lower than expected, and new junket VIP business was not added at MGM Cotai as early as we had expected (previously expected to be added by August or September, but now expected to be added during 4Q18). We decrease our earnings forecasts accordingly. However, we expect growth for the Company in 2019 as it takes advantage of the strong recovery in the VIP and premium mass segments with the opening of the Mansion and President's Club at MGM Cotai. We forecast 2018-2020 total revenue of HK\$21.1 billion, HK\$28.5 billion and HK\$30.8 billion, reflecting growth of 37.5%, 35.0% and 8.2%, respectively. We expect the Company's net revenue to grow faster than that of the sector in 2019 as the Company gains market share from its newly opened MGM Cotai, which doubled the Company's footprint in Macau. The continued ramp-up of MGM Cotai as well as the 4Q18 opening of the Mansion and President's Club will support continued gain of market share in 2019.

We lower our 2018-2020 adjusted EBITDA forecasts by 27.1%, 16.4% and 17.7%, respectively. We forecast 2018-2020 adjusted EBITDA of HK\$5.1 billion, HK\$6.8 billion and HK\$7.9 billion, reflecting growth of 10.3%, 35.2% and 15.9%, respectively. Our revised EBITDA forecasts reflect lower expected margin since now we expect a slower ramp-up of MGM Cotai on account of: 1) MGM Cotai opened with only 900 of its total 1,400 hotel rooms and suites in operation, and 2) The Mansion did not open in September as early as expected this year, but instead is now expected to open in 4Q18. We expect the Company's overall EBITDA margin to decrease in 2018 as the new MGM Cotai property will incur high costs but not generate full revenue as it ramps up.

Table-2: MGM China Forecast Revisions

HK\$ million (Except EPS & RevPAR)	Old			New			Change (% or ppt)		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total Revenues (net)	26,097	30,329	33,200	21,112	28,500	30,826	(19.1%)	(6.0%)	(7.1%)
Operating Income	3,840	5,269	6,072	2,340	4,260	5,369	(39.1%)	(19.1%)	(11.6%)
<i>Operating Income Margin</i>	14.7%	17.4%	18.3%	11.1%	14.9%	17.4%	(3.6) ppt	(2.4) ppt	(0.9) ppt
Adjusted EBITDA	6,942	8,187	9,628	5,060	6,841	7,926	(27.1%)	(16.4%)	(17.7%)
<i>Adj. EBITDA Margin</i>	26.6%	27.0%	29.0%	24.0%	24.0%	25.7%	(2.6) ppt	(3.0) ppt	(3.3) ppt
Net Income	3,170	4,470	5,251	1,679	3,580	4,839	(47.0%)	(19.9%)	(7.8%)
<i>Net Income Margin</i>	12.1%	14.7%	15.8%	8.0%	12.6%	15.7%	(4.2) ppt	(2.2) ppt	(0.1) ppt
EPS, basic (HK\$)	0.834	1.176	1.381	0.442	0.942	1.273	(47.0%)	(19.9%)	(7.8%)
EPS, diluted (HK\$)	0.833	1.175	1.379	0.441	0.941	1.271	(47.0%)	(19.9%)	(7.8%)

Source: Guotai Junan International.

VALUATION

We lower our target price from HK\$28.00 to HK\$20.00 but raise our investment rating to "Buy". Macau's GGR revenue growth rate has slowed in recent months, causing concern among investors, which has been reflected in the market with significant pullback in share prices in general. Year-to-date through 2 Oct., Macau gaming stocks were down 18.6% on average, while MGM China's share price suffered the most, down 38.8% YTD, in part due to MGM Cotai's weak 2Q18 performance. Current expectations for MGM China and its new MGM Cotai property are low, which we see as a buy opportunity for the Company's shares, especially since the Company is on the verge of adding new amenities and features at MGM Cotai, including the Mansion and the President's Club, both of which are expected to open in 4Q18. While MGM Cotai started out worse than expected, we think that there is more upside potential for the rest of the year and into 2019 as the property ramps up.

Our HK\$20.00 target price is equivalent to 14.2x forward (next four quarters) EV/Adjusted EBITDA and 28.9x forward PER, and is a 21.6% discount to our DCF derived NAV per share of HK\$26.26.

Table-3: Gaming Sector Peers Comparison

Company	Stock Code	Currency	Price	M-Cap Billion (HK\$)	PE				EV/ Adjusted EBITDA				PB 18F	ROE 18F (%)
					Hist Avg.				Hist Avg.					
						Fwd*	Fwd*	18F		19F	Fwd*	Fwd*		
Macau Operators														
Galaxy Entertain	00027 HK	HKD	47.300	204.4	23.3	15.1	15.1	13.7	14.9	11.5	11.5	10.3	3.1	22.5
Melco Reso-Adr	MLCO US	USD	21.380	82.8	28.0	20.3	21.2	15.7	10.8	7.8	8.9	7.4	3.2	16.5
Mgm China	02282 HK	HKD	12.320	46.8	27.1	21.8	27.9	13.1	17.7	9.4	11.9	7.9	4.9	18.6
Sands China Ltd	01928 HK	HKD	34.050	275.1	22.0	16.3	16.3	14.5	16.7	12.9	12.9	11.8	7.6	44.9
Sjm Holdings Ltd	00880 HK	HKD	7.030	39.8	20.8	15.0	15.0	16.7	13.1	10.3	10.3	9.7	1.5	9.8
Wynn Macau Ltd	01128 HK	HKD	17.180	89.3	23.5	13.5	13.5	11.6	13.1	10.6	10.6	9.4	30.1	215.3
Simple Average					24.1	17.0	18.2	14.2	14.4	10.4	11.0	9.4	8.4	54.6
Weighted Average					23.5	16.4	16.8	14.1	15.0	11.5	11.6	10.2	8.1	52.6
USA Operators														
Las Vegas Sands	LVS US	USD	59.750	368.9	20.8	16.9	16.9	16.4	13.0	10.6	10.6	10.0	6.5	45.2
Mgm Resorts Inte	MGM US	USD	26.930	113.5	22.8	24.0	26.6	18.7	11.1	10.1	10.9	9.2	1.9	6.8
Penn Natl Gaming	PENN US	USD	32.750	23.7	19.9	17.9	18.5	16.3	7.1	5.8	9.9	5.9	(44.3)	(28.0)
Pinnacle Enterta	PNK US	USD	33.660	15.5	22.6	27.5	25.3	24.3	7.3	7.8	7.9	7.6	(5.9)	(30.6)
Wynn Resorts Ltd	WYNN US	USD	125.290	106.7	23.4	16.3	17.9	14.6	12.8	10.0	10.6	9.3	6.9	36.3
Simple Average					21.9	20.5	21.0	18.1	10.3	8.9	10.0	8.4	(7.0)	6.0
Weighted Average					20.9	17.4	17.2	16.7	12.7	10.5	10.5	9.9	6.0	42.2

Other Operators

Genting Singapor	GENS SP	SGD	1.040	71.4	20.1	13.3	16.3	15.5	10.9	7.5	7.5	7.1	1.6	10.2
Genting Malaysia	GENM MK	MYR	5.050	54.0	18.4	17.4	17.4	15.1	11.0	10.3	10.3	8.8	1.4	8.2
Bloomberry Res	BLOOM PM	PHP	8.200	13.0	23.7	16.4	12.0	12.3	9.4	7.1	7.1	6.3	2.4	22.8
Belle Corp	BEL PM	PHP	2.440	3.4	15.5	7.6	7.6	6.8	14.7	8.5	8.5	6.6	0.8	11.6
Simple Average					19.4	13.7	13.3	12.4	11.5	8.4	8.4	7.2	1.6	13.2
Weighted Average					23.7	16.4	12.0	12.3	9.4	7.1	7.1	6.3	2.4	22.8

Source: Bloomberg, Guotai Junan International.

Note: "Fwd" valuations are based on the next forward 12 months earnings forecasts, which is compiled by using the most frequent available periodicity, which for Companies under our coverage in this report is the next four quarters; for companies not under our coverage, the Bloomberg forward valuations are based on next four quarters, next two semi-annuals or next fiscal year.

Table-4: MGM China DCF Valuation

Risk Free Rate	2.31%	Sum of PV FCFF (HK\$ mn)	87,098
Market Return	10.94%	+ PV Terminal Value (HK\$ mn)	25,844
Market Risk Premium	13.25%	Enterprise Value (HK\$ mn)	112,943
Adj. Beta	1.1	- Net Debt/(cash) (HK\$ mn)	13,129
Equity Discount Rate	16.89%	Equity Value (HK\$ mn)	99,814
		Shares Outstanding (mn)	3,801
After Tax Cost of Debt	4.4%	NAV per share (HK\$)	26.26
D/(D+E)	40.0%		
E/(D+E)	60.0%		
WACC	11.9%		
Long term growth rate	3.0%		

Source: Bloomberg, the Company, Guotai Junan International.

Table-5: MGM China Valuation and Target Price Based Multiples

	FY17A	Next 4 Quarters	FY18F	FY19F	FY20F
Target Price	HK\$20.00				
Shares Outstanding, Period End, Fully Diluted (mn)	3,809	3,806	3,807	3,806	3,807
TP Based Market Cap (HK\$ mn)	76,180	76,125	76,137	76,114	76,147
+ Period End Minority Interest (HK\$ mn)	0	0	0	0	0
+ Period End Borrowings (HK\$ mn)	17,839	14,070	16,638	11,501	8,714
- Period End Cash & Equivalents (HK\$ mn)	5,283	3,917	3,509	4,324	5,430
Year End Enterprise Value (HK\$ mn)	88,736	86,278	89,266	83,291	79,431
Adjusted EBITDA (HK\$ mn)	4,587	6,067	5,060	6,841	7,926
TP Based EV/Adjusted EBITDA	19.3	14.2	17.6	12.2	10.0
EPS (HK\$), Diluted	0.61	0.69	0.44	0.94	1.27
Target Price Based PER	32.8	28.9	45.3	21.3	15.7

Source: the Company, Guotai Junan International.

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	14,907	15,356	21,112	28,500	30,826	Property And Equipment	3,295	3,027	29,954	27,419	25,680
Gaming Taxes And Premiums	(6,999)	(7,214)	(9,979)	(13,292)	(14,384)	Construction in progress	17,915	26,093	583	2,155	3,013
Inventories consumed	(273)	(303)	(416)	(513)	(432)	Land Use Right Premium	1,260	1,191	1,136	1,136	1,136
Staff Costs	(1,949)	(2,324)	(3,195)	(3,990)	(4,162)	Others	568	484	647	560	473
Operating and administrative and other expenses	(1,816)	(2,092)	(2,533)	(3,391)	(3,637)	Total Non-current Assets	23,038	30,795	32,320	31,270	30,302
Depreciation And Amortization	(772)	(799)	(2,648)	(3,053)	(2,843)	Cash & Cash Equivalents	3,547	5,283	3,509	4,324	5,430
Operating Income	3,099	2,624	2,340	4,260	5,369	Inventories	92	136	187	252	273
Interest Income	6	5	9	8	10	Trade Receivables	225	180	190	256	277
Financing Cost	(53)	(7)	(631)	(619)	(446)	Prepayments And Other Current Assets	108	142	169	228	247
Net Foreign Currency Differences	(1)	17	(6)	0	0	Others	70	70	423	423	423
Profit Before Tax	3,052	2,638	1,712	3,649	4,933	Total Current Assets	4,042	5,811	4,478	5,484	6,650
Income Tax	(15)	(318)	(33)	(69)	(94)	Total Assets	27,080	36,607	36,798	36,754	36,952
profit After Tax	3,037	2,320	1,679	3,580	4,839	Payables & Accruals	4,469	9,319	10,134	13,680	14,797
Non-controlling Interest	0	0	0	0	0	Land Use Right Payable	111	0	0	0	0
Shareholders' Profit / Loss	3,037	2,320	1,679	3,580	4,839	Other ST Liabilities	912	6,376	941	402	306
Basic EPS	0.799	0.611	0.442	0.942	1.273	Total Current Liabilities	5,492	15,696	11,075	14,081	15,103
Diluted EPS	0.799	0.609	0.441	0.941	1.271	Bank Borrowings	14,104	11,794	16,123	11,256	8,469
						Construction Retention Payable	259	267	11	0	0
						Others	8	337	18	28	28
						Total Non-current Liabilities	14,371	12,398	16,152	11,284	8,497
						Total Liabilities	19,864	28,094	27,227	25,365	23,600
						Total Shareholders' Equity	7,217	8,512	9,571	11,389	13,352
						Minority Interest	0	0	0	0	0
						Total Equity	7,217	8,512	9,571	11,389	13,352
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Profit Before Tax	3,052	2,638	1,712	3,649	4,933	Margins					
D&A	772	866	2,648	3,053	2,843	Effective Gaming Tax Rate	47.9%	47.9%	52.9%	52.9%	52.9%
Share-Based Payment Expense	73	80	12	12	12	Operating Margin	20.8%	17.1%	11.1%	14.9%	17.4%
Working Capital Adjustments	(1,117)	4,764	205	3,085	961	Net Income Margin	20.4%	15.1%	8.0%	12.6%	15.7%
Others	(17)	(1,191)	286	550	352	Adj. EBITDA Margin	30.1%	29.9%	24.0%	24.0%	25.7%
Cash from Operating Activities	2,762	7,158	4,863	10,348	9,101	Return Ratios					
Payments for Construction in Progress	(5,837)	(8,178)	25,510	(1,573)	(858)	ROA	12.3%	7.3%	4.6%	9.7%	13.1%
Prepayment for Land Use Right Premium	(228)	69	55	0	0	ROE	49.3%	29.5%	18.6%	34.2%	39.1%
Purchase of P&E	(92)	(472)	(29,498)	(415)	(1,002)	Return on Capital Employed	16.0%	10.9%	8.9%	17.4%	23.9%
Others	(116)	1,807	(204)	(2)	(2)	Return on Invested Capital	13.7%	9.2%	7.6%	12.0%	14.0%
Cash from Investing Activities	(6,273)	(6,773)	(4,136)	(1,990)	(1,862)	Liquidity & Leverage					
Bank Borrowings Raised	2,900	3,131	(1,201)	(5,137)	(2,787)	Leverage (ie., Gearing)	238.6%	226.8%	184.0%	109.7%	70.4%
Dividends Paid	(806)	(809)	(672)	(1,790)	(2,903)	Net Gearing	181.1%	159.7%	145.2%	68.5%	26.5%
Other Financing Activities	(455)	(972)	(631)	(619)	(446)	Interest Coverage Ratio	66.2x	1,178.4x	3.8x	7.0x	12.3x
Cash from Financing Activities	1,639	1,349	(2,504)	(7,546)	(6,136)	Current Ratio	73.6%	37.0%	40.4%	38.9%	44.0%
Cash at Beg of Year	5,421	3,547	5,283	3,509	4,324						
Net Changes in Cash	(1,872)	1,733	(1,777)	812	1,103						
Effect of Foreign Exchanges	(2)	3	3	3	3						
Cash at End of Year	3,547	5,283	3,509	4,324	5,430						

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.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for ALI PICTURES (01060 HK), KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), BINHAI INVESTMENT (02886 HK), VALUE A SHARE (03095 HK), CAM SCSMALLCAP (03157 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2018 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 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