

29 October, 2018

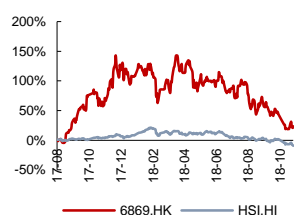
Hold
Downgraded

短期需求疲软

YANGTZE OPTICAL FIBRE AND CABLE JOINT STOCK (6869:HK)

Market Data: 26 Oct.

Closing Price (HK\$)	20.95
Price Target (HK\$)	22.00
HSCEI	10,059
HSCCI	4,055
52-week High/Low (HK\$)	41.30/20.15
Market Cap (USD Mn)	1,958
Market Cap (HK\$ Mn)	15,272
Shares Outstanding (Mn)	757.90
Exchange Rate (HK\$-US\$)	7.80



Analyst

Marcus Li
A0230518010004
BHK128
lixw@swsresearch.com

Related Reports

" Yangtze Optical Fibre and Cable Joint Stock (06869:HK)-Solid demand Mar. 13 2018
" Yangtze Optical Fibre and Cable Joint Stock (06869:HK)-Short-term headwinds Aug. 27 2018

Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	8,102	10,366	12,550	12,187	12,207
YoY (%)	20.37%	27.94%	21.07%	-2.89%	0.16%
Net income (Rmbm)	717	1,268	1,621	1,826	1,932
YoY (%)	25.65%	76.87%	27.79%	12.67%	5.77%
EPS (Rmb)	1.05	1.86	2.14	2.41	2.55
Diluted EPS (Rmb)	1.05	1.86	2.14	2.41	2.55
ROE (%)	17.56%	25.57%	26.96%	25.62%	23.17%
Debt/asset (%)	21.48%	19.16%	15.98%	14.56%	13.22%
Dividend yield (%)	1.03%	0.00%	2.60%	2.93%	3.10%
PE (x)	17.34	9.80	8.52	7.56	7.15
PB (x)	3.11	2.52	2.11	1.79	1.54

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

长飞光纤光缆披露其前三季度收入为 85 亿人民币 (同比增长 15.1%)，归属股东净利润为 12 亿 (同比增长 33.0%)。考虑到短期光纤需求下滑，我们将 18 年 EPS 从 2.41Rmb 下调至 2.14Rmb (同比增长 27.8%)，19 年 EPS 从 2.85Rmb 下调至 2.41Rmb (同比增长 12.7%)，20 年 EPS 从 2.99Rmb 下调至 2.55Rmb (同比增长 5.8%)。我们将目标价从 30 港币下调至 22 港币，对应 8x 19 年 PE，对应 5.0% 上升空间，我们将评级从增持下调至中性。

未知的需求。我们看到公司每季度净利润增速都在下滑且其经营性现金流在三季度为负。我们认为这主要是国内光纤需求低于预期。根据 3 大运营商数据，整体运营商 4G 流量在 2018 上半年有同比三位数增长。在过去两年里，国内光纤需求主要来自中国移动 (941.HK—未评级) 固网建设。中国移动如今的固网用户已居前列。考虑到下行的资本支出周期，我们会对光纤未来 1-2 年需求有所担心。

光纤价格。在中国移动去年下半年招标后，光缆价格维持在 120Rmb 以上。考虑到持续性产能扩张计划，我们对国内光纤需求仍旧大于供给的态势表示怀疑。中国政府也维持光纤反倾销政策，将一直持续到 2022 年。我们如今仍然预计光缆及光纤价格在未来维持稳定。下一个值得注意的是运营商的集采。

其他更新。我们认为运营商资本支出将在 2018 年同比下滑，而 2019 年将会有略微提升。如今仍然看不清是否光纤需求会进一步增长。5G 建设仍言之甚早。某些投资者会对贸易战有所担忧。然而我们看到长飞光纤光缆主要下游客户是国内运营商，中美贸易战并不会对公司产生任何影响。人民币的升值或贬值仅对公司业绩有极小影响。

下调至中性。公司股价对应 8.5x 18E PE 及 2.1x PB。考虑到短期光纤需求下行。我们将 18 年 EPS 从 2.41Rmb 下调至 2.14Rmb (同比增长 27.8%)，19 年 EPS 从 2.85Rmb 下调至 2.41Rmb (同比增长 12.7%)，20 年 EPS 从 2.99Rmb 下调至 2.55Rmb (同比增长 5.8%)。我们将目标价从 30 港币下调至 22 港币，对应 8x 19 年 PE，对应 5.0% 上升空间，我们将评级从增持下调至中性。

The company does not hold any equities or derivatives of the listed company mentioned in this report ("target"), but then we shall provide financial advisory services subject to the relevant laws and regulations. Any affiliates of the company may hold equities of the target, which may exceed 1 percent of issued shares subject to the relevant laws and regulations. The company may also provide investment banking services to the target. The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for relevant disclosure materials or log into www.swsresearch.com under disclosure column for further information. The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

Yangtze Optical Fibre reported 3Q18 revenue of Rmb8.5bn (+15.1% YoY) and net profit of Rmb1.2bn (+33.0% YoY). Given decreasing fibre demand in the short term, we revise down our EPS forecasts from Rmb2.41 to Rmb2.14 in 18E (+27.8% YoY), from Rmb2.85 to Rmb2.41 in 19E (+12.7% YoY), and from Rmb2.99 to Rmb2.55 in 20E (+5.8% YoY). We lower our target price from HK\$30.00 to HK\$22.00, representing 8x 19E PE. With 5.0% upside, we downgrade our rating from Outperform to Hold.

Uncertain demand. We note that the company's quarterly net profits growth continue to decelerate while its operating cash flow was negative in 3Q18. We think this could reflect lower than expected fibre demand in the domestic market. According to data from the country's three telcos, 4G data usage per subscriber ("DOU") witnessed triple-digit growth in 1H18. In the last two years, fibre demand growth was driven by China Mobile's (941:HK – N-R) fixed-line infrastructure construction. Thus we are somewhat concerned over fibre demand in the coming one to two years, given the decreasing capex cycle among telcos.

Fibre prices. Current cable price is more than Rmb120 after China Mobile's 2H17 procurement tender. Considering ongoing capacity expansion, the domestic fibre supply-demand balance may be less favourable. The Chinese government recently extended antidumping duties on overseas fibre to 2022, and, for the next three years, we project stable prices of both cable and fibre products for Yangtze Optical, although we will be monitoring closely operator fibre tenders this year.

Other updates. We think overall telecom operators' capex will decline in 2018 and improve slightly in 2019, although we highlight a high degree of uncertainty as to whether fibre demand will continue to grow in subsequent years. 5G is still at too early a stage of development to be considered. We highlight that roughly all Yangtze Optical's products are sold to the three domestic operators, and thus trade frictions between China and the US have minimal impact; likewise currency fluctuations.

Downgrade to Hold. The stock is trading at 8.5x 18E PE and 2.1x 18E PB. Given decreasing fibre demand in the short term, we revise down our EPS forecasts from Rmb2.41 to Rmb2.14 in 18E (+27.8% YoY), from Rmb2.85 to Rmb2.41 in 19E (+12.7% YoY), and from Rmb2.99 to Rmb2.55 in 20E (+5.8% YoY). We lower our target price from HK\$30.00 to HK\$22.00, representing 8x 19E PE. With 5.0% upside, we downgrade our rating from Outperform to Hold.

Fig 1: Domestic demand

(m flkm)	China Mobile	China Telecom	China Unicom	Other	Total	YoY
2015	95.89	55.75	37.91	35.68	223	-
2016	121.26	56.76	38.7	41.28	258	15.7%
2017E	120	70	30	40	260	0.7%
2018E	210	70	30	40	350	34.6%

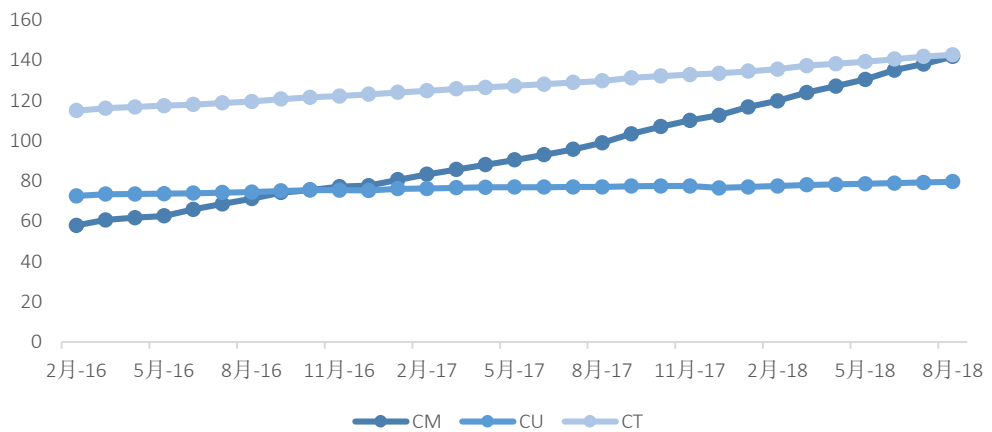
Source: CRU, SWS Research

Fig 2: Domestic preform capacity

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

Source: Company data, SWS Research

Fig 3: Fixed- line broadband users



Source: China Unicom, China Telecom, China Mobile SWS Research

Fig 4: China Unicom Capex

(Rmbbn)	2017A	2018E	YoY
Total Capex	42.1	Less than 50	+18.7%
Of which: spending on mobile networks	16.0	Less than 18.5	+15.6%
spending on fixed-line broadband & data	8.8	Less than 10	+13.6%
spending on Infrastructure, transmission & others	17.3	Less than 21.5	+24.3%

Source: China Unicom, SWS Research

Fig 5: China Telecom Capex

(Rmbbn)	2017	2018E
Total Capex	88.7	75
4G network	37.7	30.5
Broadband Internet	33.6	26.9

Source: China Mobile, SWS Research

Fig 5: Income statement

(Rmb'000)	2016	2017	2018E	2019E	2020E
Revenue	8,102,313	10,366,084	12,549,750	12,186,550	12,206,550
Cost of sales	(6,427,238)	(7,576,883)	(9,494,750)	(8,982,550)	(8,891,550)
Gross profit	1,675,075	2,789,201	3,055,000	3,204,000	3,315,000
Other income	39,572	(63,717)	44,500	44,500	44,500
Selling expense	(199,432)	(304,885)	(308,902)	(299,962)	(300,455)
Administrative expenses	(732,447)	(968,067)	(1,029,080)	(974,924)	(976,524)
Profit from operations	782,768	1,446,701	1,761,518	1,973,614	2,082,521
Finance income	18,182	(78,156)	9,443	9,443	9,443
Finance cost	(130,320)	(92,725)	(106,265)	(106,265)	(106,265)
Share of results of associates	820	0	1,000	1,000	1,000
Share of results of joint ventures	104,221	159,121	176,152	197,361	208,252
Profit before taxation	775,671	1,446,874	1,841,848	2,075,152	2,194,951
Income tax	(96,953)	(212,295)	(221,022)	(249,018)	(263,394)
Tax rate	-12.50%	-14.67%	-12.00%	-12.00%	-12.00%
Profit for the year	678,718	1,234,579	1,620,826	1,826,134	1,931,557
Profit for the year attribute to Equity shareholders of the Company	717,093	1,268,353	1,620,826	1,826,134	1,931,557

Source: SWS Research

Fig 6: Cash flow statement

(Rmb'000)	2016	2017	2018E	2019E	2020E
ProfitBeforeTaxation	775,671	1,446,874	1,841,848	2,075,152	2,194,951
DeprAndAmortisation	159,599	197,548	236,534	246,016	229,302
FinanceCost	77,474	0	96,823	96,823	96,823
LossesFromInvestments	2	3	4	5	6
ChangeInWorkingCapital	501,436	(286,124)	(534,904)	21,566	22,338
Others					
CFFromOperatingActivities	1,303,377	1,146,003	1,241,414	1,992,177	2,070,768
CAPEX	(758,546)	(776,197)	(489,967)	(104,202)	(107,037)
OtherCFFromInvestingActivities	0	0	0	0	0
CFFromInvestingActivities	(1,097,196)	(774,065)	(487,318)	(97,487)	(100,073)
EquityFinancing	0	0	0	0	0
NetChangeInLiabilities	(776,239)	0	0	0	0
DividendAndInterestPaid	(118,688)	0	(486,248)	(547,840)	(579,467)
OtherCFFromFinancingActivities					
CFFromFinancingActivities					
NetCashFlow	(651,636)	371,939	267,848	1,346,850	1,391,228

Source: SWS Research

Fig 7: Balance sheet

(Rmb'000)	2016	2017	2018E	2019E	2020E
CurrentAssets					
Property,plant and equipment	1,321,032	1,921,459	1,877,770	1,743,960	1,629,450
Construction in progress	466,281	164,473	446,281	436,281	426,281
Intangible assets	211,432	328,050	323,331	318,612	313,893
Lease prepayments	231,734	0	231,734	231,734	231,734
Interest in associates	11,088	123,316	123,316	123,316	123,316
Interest in joint ventures	1,041,507	1,241,866	1,041,507	1,041,507	1,041,507
Other non-current assets	203,511	104,461	203,511	203,511	203,511
Deferred tax assets	55,956	55,243	55,956	55,956	55,956
Total non-current assets	3,542,541	3,938,869	4,303,407	4,154,878	4,025,649
Inventories	644,378	730,468	1,139,370	1,107,848	1,066,986
Trade and bills receivables	2,072,305	2,423,204	3,354,884	3,257,791	3,263,137
Deposits, prepayments and other receivables	238,183	0	238,183	238,183	238,183
Other financial assets	248,801	42,113	304,742	304,742	304,742
Cash and cash equivalents	1,427,575	1,799,514	1,648,081	2,994,931	4,386,159
Total current assets	4,636,073	5,228,895	6,690,091	7,908,326	9,264,039

Bank loans	886,870	495,013	886,870	886,870	886,870
Trade and bills payable	880,481	1,051,927	1,519,160	1,437,208	1,422,648
Accrued expenses and other payables	802,574	1,334,844	874,520	849,423	850,806
Income tax payable	65,839	65,839	65,839	65,839	65,839
Total current liabilities	2,635,764	2,947,623	3,346,389	3,239,340	3,226,163
Bank loans	869,579	481,290	869,579	869,579	869,579
Deferred income	237,453	83,223	237,453	237,453	237,453
Total non-current liabilities	1,107,032	734,312	1,107,032	1,107,032	1,107,032
Share capital	682,115	682,115	682,115	682,115	682,115
Reserves	3,494,961	4,556,204	5,610,453	6,787,208	8,026,868
Non-controlling interests	258,742	247,509	247,509	247,509	247,509
Total equity	4,435,818	5,485,828	6,540,077	7,716,832	8,956,493

Source: SWS Research

Fig 8: Key performance indicators

	2016	2017	2018E	2019E	2020E
Earnings per share	1.05	1.86	2.14	2.41	2.55
Operating CF per share	1.72	1.51	1.64	2.63	2.73
Dividend per share	0.26	0.00	0.64	0.17	1.17
Book value per share	5.85	7.24	8.63	10.18	11.82
Key Operating Ratios (%)					
ROIC	16.13%	26.22%	29.42%	27.38%	25.43%
ROE	16.62%	24.89%	26.96%	25.62%	23.17%
Gross profit margin	20.67%	26.91%	24.34%	26.29%	27.16%
Ebitda margin	22.64%	28.81%	26.23%	28.31%	29.04%
Ebit margin	10.96%	13.96%	15.45%	17.82%	18.77%
Revenue growth (YoY)	20.37%	27.94%	21.07%	-2.89%	0.16%
Net profit growth (YoY)	25.65%	76.87%	27.79%	12.67%	5.77%
Debt-to-asset ratio	0.21	0.11	0.16	0.15	0.13
Turnover rate of net assets	1.83	1.89	1.92	1.58	1.36
Turnover rate of total assets	0.99	1.13	1.14	1.01	0.92
Effective tax rate (%)	12.50%	14.67%	12.00%	12.00%	12.00%
Dividend yield (%)	1.03%	0.00%	2.60%	2.93%	3.10%
Valuation Ratios (X)					
PE	17.34	9.80	8.52	7.56	7.15
PB	3.11	2.52	2.11	1.79	1.54
EV/Sales	1.70	1.29	1.08	1.00	0.88
EV/Ebitda	13.50	7.59	6.40	5.20	4.44

Source: SWS Research

Information Disclosure:

The views expressed in this report accurately reflect the personal views of the analyst. The analyst declares that neither he/she nor his/her associate serves as an officer of nor has any financial interests in relation to the listed corporation reviewed by the analyst. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this report to any of the analyst, the Company or the group company(ies). A group company(ies) of the Company confirm that they, whether individually or as a group (i) are not involved in any market making activities for any of the listed corporation reviewed; or (ii) do not have any individual employed by or associated with any group company(ies) of the Company serving as an officer of any of the listed corporation reviewed; or (iii) do not have any financial interest in relation to the listed corporation reviewed or (iv) do not, presently or within the last 12 months, have any investment banking relationship with the listed corporation reviewed.

Undertakings of the Analyst

I (We) am (are) conferred the Professional Quality of Securities Investment Consulting Industry by the Securities Association of China and have registered as the Securities Analyst. I hereby issue this report independently and objectively with due diligence, professional and prudent research methods and only legitimate information is used in this report. I am also responsible for the content and opinions of this report. I have never been, am not, and will not be compensated directly or indirectly in any form for the specific recommendations or opinions herein.

Disclosure with respect to the Company

The company is a subsidiary of Shenwan Hongyuan Securities. The company is a qualified securities investment consulting institute approved by China Securities Regulatory Commission with the code number ZX0065.

Releasing securities research reports is the basic form of the securities investment consulting services. The company may analyze the values or market trends of securities and related products or other relevant affecting factors, provide investment analysis advice on securities valuation/ investment rating, etc. by issuing securities research reports solely to its clients.

The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for the relevant disclosure materials or log into www.swsresearch.com for the analysts' qualifications, the arrangement of the quiet period and the affiliates' shareholdings.

Introduction of Share Investment Rating

Security Investment Rating:

When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight: Industry performs better than that of the whole market;

Equal weight: Industry performs about the same as that of the whole market;

Underweight: Industry performs worse than that of the whole market.

We would like to remind you that different security research institutions adopt different rating terminologies and rating standards. We adopt the relative rating method to recommend the relative weightings of investment. The clients' decisions to buy or sell securities shall be based on their actual situation, such as their portfolio structures and other necessary factors. The clients shall read through the whole report so as to obtain the complete opinions and information and shall not rely solely on the investment ratings to reach a conclusion. The Company employs its own industry classification system. The industry classification is available at our sales personnel if you are interested.

HSCEI is the benchmark employed in this report.

Disclaimer:

This report is to be used solely by the clients of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities, hereinafter referred to as the "Company"). The Company will not deem any other person as its client notwithstanding his receipt of this report.

This report is based on public information, however, the authenticity, accuracy or completeness of such information is not warranted by the Company. The materials, tools, opinions and speculations contained herein are for the clients' reference only, and are not to be regarded or deemed as an invitation for the sale or purchase of any security or other investment instruments.

The clients understand that the text message reminder and telephone recommendation are no more than a brief communication of the research opinions, which are subject to the complete report released on the Company's website (<http://www.swsresearch.com>). The clients may ask for follow-up explanations if they so wish.

The materials, opinions and estimates contained herein only reflect the judgment of the Company on the day this report is released. The prices, values and investment returns of the securities or investment instruments referred to herein may fluctuate. At different periods, the Company may release reports which are inconsistent with the materials, opinions and estimates contained herein.

Save and except as otherwise stipulated in this report, the contactor upon the first page of the report only acts as the liaison who shall not provide any consulting services.

The clients shall consider the Company's possible conflict of interests which may affect the objectivity of this report, and shall not base their investment decisions solely on this report. The clients should make investment decisions independently and solely at your own risk. Please be reminded that in any event, the company will not share gains or losses of any securities investment with the clients. Whether written or oral, any commitment to share gains or losses of securities investment is invalid. The investment and services referred to herein may not be suitable for certain clients and shall not constitute personal advice for individual clients. The Company does not ensure that this report fully takes into consideration of the particular investment objectives, financial situations or needs of individual clients. The Company strongly suggests the clients to consider themselves whether the opinions or suggestions herein are suitable for the clients' particular situations; and to consult an independent investment consultant if necessary.

Under no circumstances shall the information contained herein or the opinions expressed herein forms an investment recommendation to anyone. Under no circumstances shall the Company be held responsible for any loss caused by the use of any contents herein by anyone. Please be particularly cautious to the risks and exposures of the market via investment.

Independent investment consultant should be consulted before any investment decision is rendered based on this report or at any request of explanation for this report where the receiver of this report is not a client of the Company.

The Company possesses all copyrights of this report which shall be treated as non-public information. The Company reserves all rights related to this report. Unless otherwise indicated in writing, all the copyrights of all the materials herein belong to the Company. In the absence of any prior authorization by the

Company in writing, no part of this report shall be copied, photocopied, replicated or redistributed to any other person in any form by any means, or be used in any other ways which will infringe upon the copyrights of the Company. All the trademarks, service marks and marks used herein are trademarks, service marks or marks of the Company, and no one shall have the right to use them at any circumstances without the prior consent of the Company.

This report may be translated into different languages. The Company does not warrant that the translations are free from errors or discrepancies.

This report is for distribution in Hong Kong only to persons who fall within the definition of professional investors whether under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") or the Securities and Futures (Professional Investor) Rules (Chapter 571D of the laws of the Hong Kong under the SFO).

This report is for distribution in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) order 2001 (as amended) (the "Order") or (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc") of the Order (All such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons. Other Persons who are not Relevant Persons must not act or rely upon this document or any of its contents.

Distribution in Singapore

If distributed in Singapore, this report is meant only for Accredited Investors and Institutional Investors as defined under Section 4A of the Securities and Futures Act of Singapore. If you are not an Accredited Investor or an Institutional Investor, you shall ignore the report and its contents. The Singapore recipients of the report are to contact the Singapore office of Shenwan Hongyuan Singapore Private Limited at 65-6323-5208, or 65-6323-5209 in respect of any matters arising from, or in connection with, the report.