



Company Report: Sinopec SEG (02386 HK)

公司报告: 中石化炼化工程 (02386 HK)

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Continued Growth Despite Short-term Risk, "Accumulate"

尽管存在短期风险, 公司的业绩仍将继续增长, “收集”

- Sinopec SEG's overall business continued to recover during 1-3Q2018.**
 The Company's new contract value from the PRC and overseas during the period was RMB38,042 mn and RMB4,117 mn, up 48.3% YoY and 140.4% YoY, respectively. Competition for projects overseas continues to be fierce as domestic new contract value accounted for 90.2% of total new contract value during 1-3Q2018. Sinopec's (00386.HK) 1-3Q2018 capex was RMB48,012 mn, up 65.0% YoY. Capex for Sinopec's refining and chemicals segment was RMB15,993 mn, up 30.5% YoY.
- We have revised our 2018E-2020E shareholders' profit estimates by (12.4%)/ (15.8%)/ (3.6%) to RMB 2,276 mn/ RMB2,540 mn/ RMB3,293 mn.**
 We revise downwards our earnings estimates to reflect our view that the Company will likely suffer from escalation of trade tension and continued weakness in the Company's overseas operations due to reduced economic growth momentum and persistently high competition. However, we still expect the Company to benefit from industry trends of increased demand of downstream petrochemical capacity and refinery upgrading needs.
- We revise downwards our TP to HK\$8.90 but maintain investment rating "Accumulate".** Our TP represents 15.24x/ 13.65x/ 10.53x 2018E-2020E PER and 1.3x/ 1.2x/ 1.1x 2018E-2020E PBR, which is also a 14.6% discount from our DCF valuation. We lower our TP but maintain our investment rating as short-term risks to the Company's share price have escalated, but the long-term prospects for the Company's business growth remains intact.
- 中石化炼化工程的整体业务于 2018 年前三季度继续复苏。** 期内, 公司来自中国及海外的新签合同额分别为人民币 380.42 亿元及人民币 41.17 亿元, 同比增长 48.3% 及 140.4%。由于海外项目竞争仍然激烈, 国内新签合同额占 2018 年前三季度新签合同总额的 90.2%。中石化 (00386.HK) 2018 年前三季度资本开支为人民币 480.12 亿元, 同比增长 65.0%。中石化的炼油和化工板块的资本支出为人民币 159.93 亿元, 同比增长 30.5%。
- 我们下调 2018 年-2020 年股东净利预测 (12.4%)/ (15.8%)/ (3.6%) 至人民币 22.76 亿元/ 人民币 25.40 亿/ 人民币 32.93 亿元。** 我们下调盈利预测是由于我们认为公司将可能受到贸易紧张局势升级以及经济增长动力减弱和竞争持续激烈造成的公司海外业务持续疲弱的负面影响。然而, 我们仍然预计公司将受益于下游石化产能需求增加和炼油厂升级需求的行业趋势。
- 我们下调目标价至 8.90 港元, 但维持投资评级为“收集”。** 我们的目标价相当于 15.24 倍/ 13.65 倍/ 10.53 倍 2018 年-2020 年市盈率及 1.3 倍/ 1.2 倍/ 1.1 倍 2018 年-2020 年市净率, 亦相对于我们的 DCF 估值有 14.6% 的折让。我们下调目标价但维持投资评级, 因为公司股价的短期风险已经升级但公司业务的长期增长前景仍然保持。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$8.90

Revised from 原目标价:

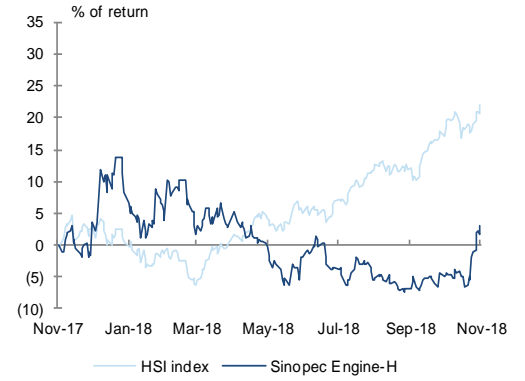
HK\$9.75

Share price 股价:

HK\$7.440

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 %	(16.9)	(7.6)	12.2
Rel. % to HS Index 相对恒指变动 %	(14.5)	(3.1)	19.3
Avg. Share price(HK\$) 平均股价 (港元)	7.9	7.9	7.5

Source: Bloomberg, Guotai Junan International.

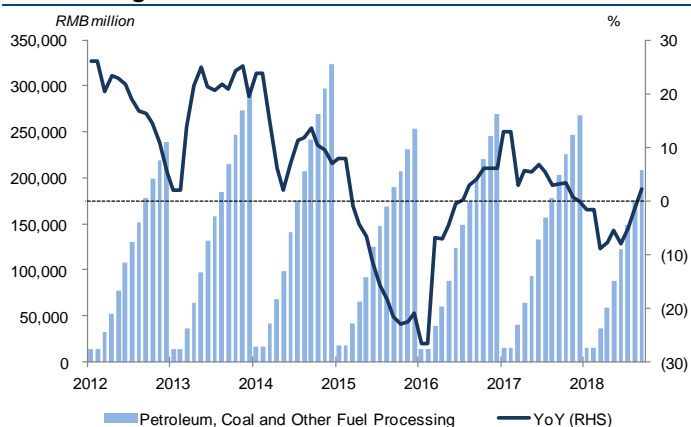
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	39,402	1,671	0.377	(49.7)	17.7	5.706	1.2	0.150	2.3	6.7
2017A	36,209	1,130	0.255	(32.4)	24.3	5.779	1.1	0.200	3.2	4.4
2018F	40,750	2,276	0.514	101.6	12.7	6.049	1.1	0.229	3.5	8.7
2019F	43,241	2,540	0.574	11.7	11.4	6.391	1.0	0.258	3.9	9.2
2020F	48,729	3,293	0.744	29.6	8.8	6.846	1.0	0.335	5.1	11.2
Shares in issue (m) 总股数 (m)			4,428.0		Major shareholder 大股东		China Petrochemical Corporation 67.0%			
Market cap. (HK\$ m) 市值 (HK\$ m)			32,944.3		Free float (%) 自由流通比率 (%)		29.7			
3 month average vol. 3 个月平均成交股数 ('000)			4,055.0		FY18 Net gearing (%) FY18 净负债/股东资金 (%)		Net cash			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			6.100 / 9.180		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)		10.4			

Source: the Company, Guotai Junan International.

The global economic growth outlook has become less favourable since the first half of 2018. The IMF in its World Economic Outlook, October 2018, revised downwards its 2018-2019 GDP growth projections by 0.2 ppts to 3.7% for both years. The IMF's estimates for China's annual GDP growth during 2018-2020 are 6.60%/ 6.18%/ 6.22%, respectively. Escalation of trade tension, tightening financial conditions, increased geopolitical risks, higher oil prices, weakening growth in certain emerging markets, and worse-than-expected performance from certain advanced economies have contributed to a moderation in global economic growth prospects from earlier in the year. Looking forward, escalation of trade tension, political risks in Europe, geopolitical risks in the Middle-East, and deceleration of economic growth in China all contribute to a less optimistic outlook for global economic growth over the next few years.

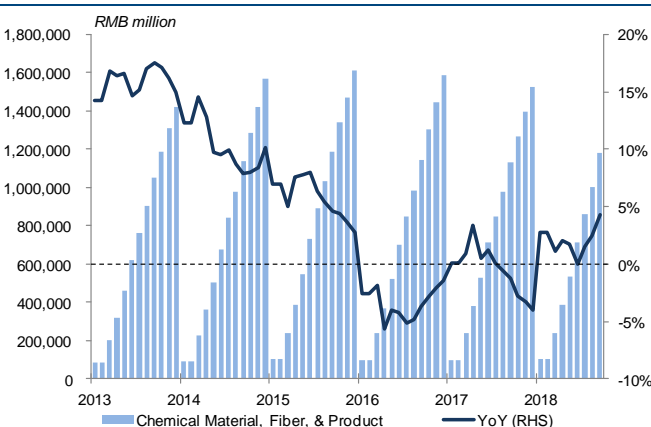
Growth of domestic FAI of petroleum, coal and other fuel processing remains weak; growth in FAI of chemical fiber, and material and product is recovering. FAI of petroleum, coal and other fuel processing during M1-M9 2018 was RMB208.159 bn, up 2.3% YoY and representing the first month of growth after 8 months of decline. Sustained growth is uncertain as China's refining capacity is expected to remain oversupplied but upgrading investment is expected to grow to accommodate growing demand in higher quality oil products. FAI of chemical fiber and material and product during the same period was RMB1,179.750 bn, up 4.3% YoY. FAI of chemical products have declined for two consecutive years (2017: -4.0%; 2016: -1.5%) but appears to be on track to recover to growth in 2018 due to higher oil prices and demand growth for chemical products.

Figure-1: FAI of Petroleum, Coal and Other Fuel Processing



Source: National Bureau of Statistics.

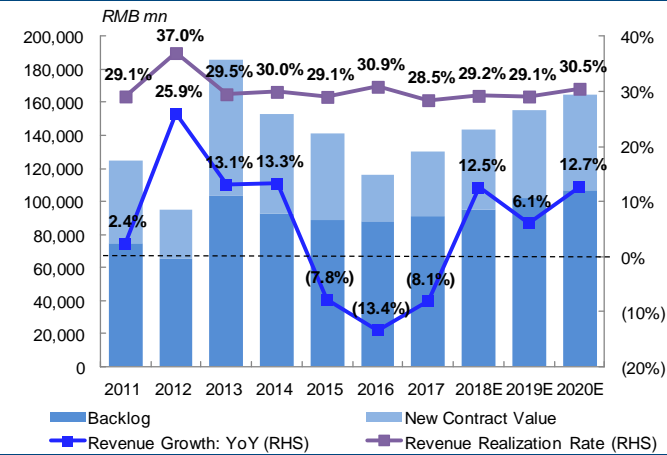
Figure-2: FAI of Chemical Fiber, Material & Product



Source: National Bureau of Statistics.

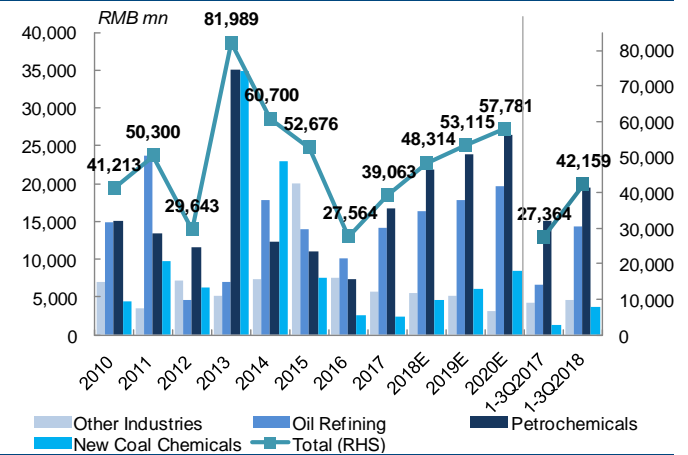
Sinopec SEG's overall business continued to recover during 1-3Q2018. The Company's new contract value from the PRC and overseas during the period was RMB38,042 mn and RMB4,117 mn, up 48.3% YoY and 140.4% YoY, respectively. Competition for projects overseas continues to be fierce as domestic new contract value accounted for 90.2% of total new contract value during 1-3Q2018. Sinopec's (00386.HK) 1-3Q2018 capex was RMB48,012 mn, up 65.0% YoY. Capex for Sinopec's refining and chemicals segment was RMB15,993 mn, up 30.5% YoY. Of the approximate RMB117 bn (YoY: +17.7%) in capex Sinopec Group expects to spend in 2018, RMB46.5 bn (YoY: +5.4%) or 39.7% is expected to be spent towards the refining and chemicals segment of Sinopec's business, in which we expect a substantial amount will be awarded to the Company. Petrochina's (00857.HK) 1-3Q2018 capex was RMB148,080 mn, up 18.9% YoY. CNOOC's (00883.HK) 1-3Q2018 capex was RMB36,250 mn, up 9.2% YoY.

Figure-3: Sinopec SEG's New Contract Value, Backlog, Revenue Growth and Realization Rates, 2011-2020E



Source: the Company, Guotai Junan International.

Figure-4: Sinopec SEG's New Contract Value Breakdown by Industry, 2010-2020E



Source: the Company, Guotai Junan International.

Earnings and Valuation

We revise our 2018E-2020E shareholders' profit estimates by (12.4%)/ (15.8%)/ (3.6%) to RMB 2,276 mn/ RMB2,540 mn/ RMB3,293 mn. We revise downwards our earnings estimates to reflect our view that the Company will likely suffer from escalation of trade tension and continued weakness in the Company's overseas operations due to reduced economic growth momentum and persistently high competition. However, we still expect the Company to benefit from industry trends of increased demand of downstream petrochemical capacity and refinery upgrading needs.

Table-1: Major Assumption Revisions

RMB million	New estimates			Previous estimates			Revision % change		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Revenue	40,750	43,241	48,729	45,301	46,182	48,750	(10.0)%	(6.4)%	(0.04)%
Gross profit	4,808	5,484	6,605	5,400	5,708	6,453	(11.0)%	(3.9)%	2.4%
Operating profit	2,332	2,589	3,586	2,760	3,191	3,718	(15.5)%	(18.9)%	(3.5)%
Shareholders' profit	2,276	2,540	3,293	2,597	3,016	3,418	(12.4)%	(15.8)%	(3.6)%
New contract value	48,314	53,115	57,781	48,314	53,531	58,778	0%	(0.8)%	(1.7)%
Oil Refining	16,681	18,015	19,366	16,284	17,913	19,704	2.4%	0.6%	(1.7)%
Petrochemicals	22,336	25,128	27,390	21,792	23,971	26,368	2.5%	4.8%	3.9%
New Coal Chemicals	4,709	4,945	5,192	4,695	6,104	8,545	0.3%	(19.0)%	(39.2)%
Other Industries	4,588	5,027	5,833	5,543	5,543	4,161	(17.2)%	(9.3)%	40.2%
Backlog	95,359	101,830	107,062	94,041	98,377	101,056	1.4%	3.5%	5.9%

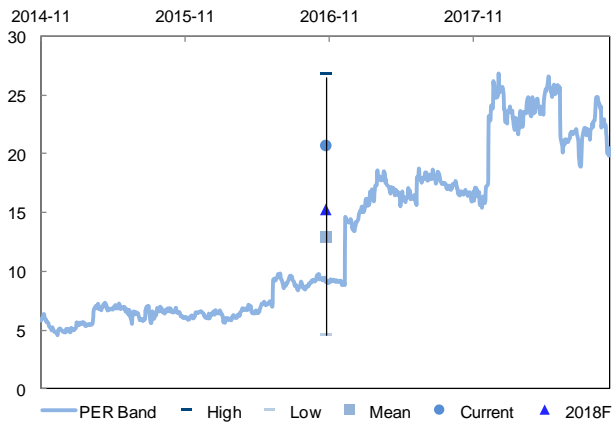
Source: Guotai Junan International.

Table-2: Sinopec SEG's Financial Highlights, 2016-2020E

RMB million	2016	2017	2018E	2019E	2020E
Revenue	39,402	36,209	40,750	43,241	48,729
Gross profit	4,295	4,026	4,808	5,484	6,605
Shareholders' profit	1,671	1,130	2,276	2,540	3,293
EPS (RMB)	0.377	0.255	0.514	0.574	0.744
DPS (RMB)	0.150	0.200	0.229	0.258	0.335
Gross margin	10.9%	11.1%	11.8%	12.7%	13.6%
Net margin	4.2%	3.1%	5.6%	5.9%	6.8%
ROE	6.7%	4.4%	8.7%	9.2%	11.2%

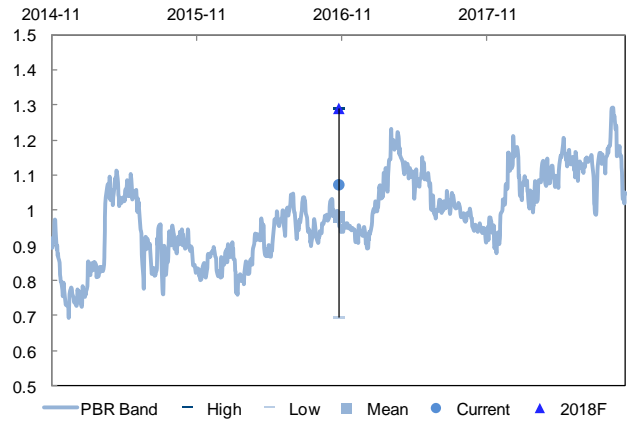
Source: the Company, Guotai Junan International.

Figure-5: Sinopec SEG's Historical PER



Source: Bloomberg, Guotai Junan International.

Figure-6: Sinopec SEG's Historical PBR



Source: Bloomberg, Guotai Junan International.

We revise downwards our TP to HK\$8.90 but maintain investment rating "Accumulate". Our TP represents 15.24x/ 13.65x/ 10.53x 2018E-2020E PER and 1.3x/ 1.2x/ 1.1x 2018E-2020E PBR, which is also a 14.6% discount from our DCF valuation. We lower our TP but maintain our investment rating as short-term risks to the Company's share price have escalated, but the long-term prospects for the Company's growth remains intact.

Table-3: Peers Comparison

Company	Stock			PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	EV/EBITDA
	Code	Currency	Last price	17A	18F	19F	20F	17A	18F	19F	20F	18F	18F	18F
International Peers														
Worleyparsons Ltd	WOR AU	AUD	14.22	112.0	64.4	20.6	15.4	2.0	1.8	1.5	1.4	3.0	1.4	17.1
Snc-Lavalin Group Inc	SNC CN	CAD	45.96	19.6	15.4	13.7	11.4	1.5	n.a.	1.6	n.a.	9.0	2.5	9.9
Maire Tecnimont Spa	MT IM	EUR	3.86	9.6	11.1	10.5	10.2	4.4	3.7	2.9	2.5	38.1	3.3	5.7
Tecnicas Reunidas Sa	TRE SM	EUR	23.75	32.3	26.3	13.5	10.8	3.0	3.0	2.7	2.4	11.0	4.2	11.5
Wood Group (John) Plc	WG/ LN	GBp	697.60	n.a.	16.9	13.1	11.0	1.3	1.3	1.1	1.2	7.3	3.9	10.9
Jgc Corp	1963 JP	JPY	2,127.00	n.a.	32.3	44.7	20.4	1.4	1.4	1.3	1.3	4.3	1.1	15.8
Daelim Industrial Co Ltd	000210 KS	KRW	78,800.00	6.2	4.0	4.8	4.8	0.5	0.5	0.5	0.4	13.9	1.3	4.2
Hyundai Engineering & Const	000720 KS	KRW	49,400.00	27.3	12.1	10.0	9.2	0.9	0.8	0.8	0.7	7.1	1.1	5.6
Sk Engineer & Construct	003340 KF	KRW	30,150.00	22.7	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Samsung Engineering Co Ltd	028050 KS	KRW	18,150.00	n.a.	28.8	14.8	11.2	3.5	3.1	2.6	2.2	11.5	0.0	15.6
Daewoo Engineering & Constr	047040 KS	KRW	4,790.00	7.6	5.4	4.9	4.8	0.9	0.8	0.7	0.6	15.9	0.0	4.2
Fluor Corp	FLR US	USD	44.83	32.7	23.6	13.9	11.1	1.9	2.0	1.7	1.5	8.3	1.9	9.7
Mcdermott Intl Inc	MDR US	USD	8.78	4.5	5.6	5.2	3.2	0.5	0.4	0.4	0.3	6.1	0.0	5.7
Technipfmc Plc	FTI US	USD	26.52	110.5	20.4	18.3	14.5	0.9	0.9	0.9	0.9	4.3	1.9	6.5
Jacobs Engineering Group Inc	JEC US	USD	75.53	30.7	17.1	14.2	13.3	2.1	1.7	1.6	1.4	9.6	0.7	10.9
Kbr Inc	KBR US	USD	19.98	6.5	12.7	12.2	10.9	2.3	1.7	1.5	1.4	19.3	1.6	6.2
Simple Average				32.5	19.8	14.3	10.8	1.7	1.7	1.5	1.3	11.2	1.7	9.3
Weighted Average				47.8	20.9	16.0	12.2	1.6	1.5	1.4	1.2	8.7	1.7	9.7
Hong Kong Listed Peers														
Sinopec Engineering Group-H	2386 HK	HKD	7.44	24.8	11.5	9.4	8.6	1.1	1.1	1.0	1.0	9.6	4.4	4.4
Wilson Engineering Services C	2236 HK	HKD	1.06	27.0	n.a.	n.a.	n.a.	1.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Energy Engineering C-H	3996 HK	HKD	0.81	3.9	3.7	3.4	3.2	0.4	0.4	0.4	0.3	11.2	4.9	n.a.
China Machinery Engineerin-H	1829 HK	HKD	3.73	7.9	5.7	5.5	5.2	0.8	0.8	0.7	0.7	14.0	6.7	n.a.
China Communications Const-H	1800 HK	HKD	7.58	5.1	5.4	4.8	4.2	0.6	0.5	0.5	0.4	11.2	3.7	8.0
China Railway Construction-H	1186 HK	HKD	10.62	7.9	6.9	6.1	5.4	0.8	0.8	0.7	0.6	12.1	2.3	4.8
China Railway Group Ltd-H	390 HK	HKD	7.56	9.3	8.3	7.3	6.5	1.0	0.9	0.8	0.7	11.4	1.9	6.4
China State Construction Int	3311 HK	HKD	5.95	5.0	5.0	4.3	3.7	0.8	0.7	0.6	0.6	15.1	6.0	6.2
Metallurgical Corp Of Chin-H	1618 HK	HKD	1.97	6.6	5.4	4.8	3.0	0.5	0.5	0.4	0.4	8.7	4.4	8.7
Beijing Urban Construction-H	1599 HK	HKD	2.42	5.4	4.4	3.7	3.2	0.7	0.6	0.6	0.5	15.1	6.1	2.9
Simple Average				10.3	6.2	5.5	4.8	0.8	0.7	0.6	0.6	12.0	4.5	5.9
Weighted Average				8.0	6.7	5.9	5.1	0.8	0.7	0.7	0.6	11.4	3.2	6.6
Mainland Listed Peers														
China National Chemical-A	601117 CH	CNY	5.90	18.4	12.3	9.5	7.7	1.0	1.0	0.9	0.8	7.9	2.3	5.0
Enn Ecological Holdings Co-A	600803 CH	CNY	11.57	19.5	9.7	7.8	6.8	2.4	1.8	1.5	1.2	19.1	1.6	n.a.
China Petroleum Engineering	600339 CH	CNY	4.78	39.2	24.8	16.5	12.4	1.2	1.1	1.1	1.0	4.2	n.a.	n.a.
Shandong Sunway Petrochemi-A	002469 CH	CNY	3.89	35.4	n.a.	n.a.	n.a.	1.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zhenhai Petrochemical Engi-A	603637 CH	CNY	14.55	55.6	n.a.	n.a.	n.a.	3.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
East China Engineering Sci-A	002140 CH	CNY	6.03	n.a.	12.8	9.9	7.9	1.4	1.2	1.1	1.0	10.1	n.a.	n.a.
Metallurgical Corp Of Chin-A	601618 CH	CNY	3.20	12.3	9.6	8.6	7.8	1.0	0.8	0.7	0.7	8.8	2.4	n.a.
Huadian Heavy Industries C-A	601226 CH	CNY	3.96	121.5	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sinosteel Engineering & Te-A	000928 CH	CNY	4.18	12.6	4.4	4.2	n.a.	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Zhonghua Geotechnica-A	002542 CH	CNY	4.40	33.8	31.4	29.3	n.a.	2.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Camc Engineering Co -A	002051 CH	CNY	11.36	8.5	7.7	6.8	5.9	1.5	1.3	1.1	1.0	17.0	3.3	4.2
Beijing Sanju Environmenta-A	300072 CH	CNY	12.16	11.1	n.a.	n.a.	n.a.	3.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sinoma International Engin-A	600970 CH	CNY	5.90	10.5	7.5	6.1	5.3	1.4	1.2	1.0	0.9	16.2	3.5	3.3
China Gezhouba Group Co Lt-A	600068 CH	CNY	6.60	6.5	5.8	5.0	4.4	1.2	0.7	0.7	0.6	12.0	5.2	n.a.
China Nuclear Engineering -A	601611 CH	CNY	7.40	23.1	20.0	17.6	n.a.	2.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hunan Baili Engineering Sc-A	603959 CH	CNY	13.12	38.3	n.a.	n.a.	n.a.	4.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				29.8	13.3	11.0	7.3	1.9	1.1	1.0	0.9	11.9	3.1	4.2
Weighted Average				19.5	12.7	10.3	7.5	1.6	1.0	0.9	0.8	10.3	3.0	4.5

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	39,402	36,209	40,750	43,241	48,729
Cost of Goods Sold	(35,107)	(32,183)	(35,941)	(37,757)	(42,124)
Gross Profit	4,295	4,026	4,808	5,484	6,605
G&A Expenses	(1,161)	(1,181)	(1,141)	(1,168)	(1,267)
Sales & Marketing Expenses	(107)	(115)	(120)	(119)	(141)
R&D Expenses	(1,113)	(1,003)	(1,109)	(1,179)	(1,247)
Other gains - net	28	(615)	(107)	(429)	(364)
Operating Profit	1,942	1,112	2,332	2,589	3,586
Income from JV/A	16	12	22	23	24
Interest Income - net	419	510	682	775	781
Profit Before Tax	2,377	1,635	3,035	3,387	4,392
Income Tax	(706)	(505)	(759)	(847)	(1,098)
Profit After Tax	1,671	1,130	2,276	2,540	3,294
Non-controlling Interest	(0)	(0)	(0)	(0)	(0)
Shareholders' Profit / Loss	1,671	1,130	2,276	2,540	3,293
Basic EPS	0.377	0.255	0.514	0.574	0.744

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Profit before tax	2,377	1,635	3,035	3,387	4,392
Depreciation	597	607	584	584	581
Amortization	143	140	141	154	177
Tax Paid	(706)	(505)	(759)	(847)	(1,098)
Income/(loss) from JV/A	(16)	(12)	(22)	(23)	(24)
Change in Working Capital	2,860	172	(2,858)	(1,143)	(462)
Other Operating Cash Flows	(584)	2,204	107	(57)	21
Cash from Operating Activities	4,671	4,241	228	2,056	3,586
Capital Expenditure	(585)	(487)	(548)	(581)	(655)
Repayment of loans - net	(3,000)	(1,400)	1,000	(500)	(100)
Other Investing Cash Flows	85	(1,914)	13	(29)	(41)
Cash from Investing Activities	(3,500)	(3,801)	465	(1,110)	(797)
Dividends Paid	(1,129)	(595)	(1,080)	(1,026)	(1,279)
Exchange Differences	428	(500)	0	0	0
Other Financing Cash Flows	(2)	416	(431)	0	0
Cash from Financing Activities	(703)	(679)	(1,512)	(1,026)	(1,279)
Cash at Beg of Year	11,432	11,900	11,661	10,843	10,762
Net Changes in Cash	468	(239)	(818)	(81)	1,511
Cash at End of Year	11,900	11,661	10,843	10,762	12,273

Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
PPE	4,000	3,856	3,820	3,817	3,892
Investments in JV/A	142	127	138	149	162
Intangibles	272	223	176	124	64
Land use Rights	2,679	2,581	2,521	2,455	2,379
Other LT Assets	778	754	717	722	735
Total Non-current Assets	7,872	7,541	7,372	7,267	7,230
Cash & Cash Equivalents	11,900	11,661	10,843	10,762	12,273
Loans due from ultimate holding company	14,100	15,500	14,500	15,000	15,100
Inventory	1,197	582	1,019	1,297	1,462
Receivables	9,993	9,676	10,890	11,556	13,022
Other Current Assets	13,827	14,445	16,156	17,325	19,407
Total Current Assets	51,017	51,865	53,407	55,940	61,264
Total Assets	58,889	59,406	60,779	63,207	68,494
Short-Term Debt	0	431	0	0	0
Payables	14,224	14,020	13,944	14,399	15,927
Contract Work Payables	10,219	9,494	10,243	10,383	11,163
Other Current Liabilities	6,281	7,070	6,899	7,274	8,218
Total Current Liabilities	30,724	31,015	31,086	32,056	35,308
Other LT Liabilities	262	263	294	282	274
Retirement and other obligations	2,637	2,537	2,612	2,568	2,597
Total Non-current Liabilities	2,899	2,800	2,907	2,850	2,870
Total Liabilities	33,624	33,815	33,992	34,906	38,178
Share capital	4,428	4,428	4,428	4,428	4,428
Reserves	20,833	21,159	22,355	23,868	25,883
Total Shareholders' Equity	25,261	25,587	26,783	28,296	30,311
Minority Interest	4	4	4	5	5
Total Equity	25,265	25,591	26,787	28,301	30,316

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Growth:					
Revenue	(13.4%)	(8.1%)	12.5%	6.1%	12.7%
Gross Profit	(30.2%)	(6.3%)	19.4%	14.0%	20.5%
Operating Profit	(49.5%)	(42.7%)	109.6%	11.0%	38.5%
Net Profit	(49.6%)	(32.4%)	101.4%	11.6%	29.7%
Profitability Margins:					
Gross margin	10.9%	11.1%	11.8%	12.7%	13.6%
EBITDA margin	6.8%	5.1%	7.5%	7.7%	8.9%
Net margin	4.2%	3.1%	5.6%	5.9%	6.8%
ROA	2.8%	1.9%	3.7%	4.0%	4.8%
ROE	6.7%	4.4%	8.7%	9.2%	11.2%
Liquidity:					
Gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.7	1.7	1.7	1.7	1.7
Interest coverage (x)	25.8	12.3	20.0	19.4	24.5

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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