



## Company Report: Samsonite (01910 HK)

公司报告: 新秀丽 (01910 HK)

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# Growth Hit by Weaker Global Economy but Still Undervalued, Maintain "Buy"

增长受到全球经济疲软的冲击但估值仍被低估，维持“买入”

- 3Q18 top line missed but bottom line beat expectations.** Revenue grew by 3.2% YoY to US\$945 million. North America and Asia were weaker than expected due to weak consumer sentiment. Overall GPM was up by 0.3 ppt YoY to 57.4%, while operating margin dropped by 0.2 ppt YoY to 13.0% due to increased operating expenses. Net profit increased by 33.4% YoY to US\$75.5 million mainly due to lower finance costs and lower effective tax rate.
- Revise down 2018-2020 EPS forecasts by 13.6%, 16.7% and 17.1% to US\$0.159, US\$0.220 and US\$0.256, respectively.** We cut 2018-2020 revenue forecasts by 2.0%, 1.9% and 1.7%, respectively, due to continued weaker consumer sentiment in the US and Asia Pacific markets. The Sino-US trade war increased the Company's cost of sourcing, but the Company is actively seeking ways to move part of its sourcing out of China to reduce such impact, which may show certain effect in 2019. Operating expenses are still expected to remain high during 2019 and 2020.
- Cut TP to HK\$31.00 but maintain "Buy".** Although we expect slower growth of the Company due to weaker global economy and consumer sentiment in some regions, the Company will still sustain its leading position in global luggage industry with its multi-brand, multi-category and multi-channel strategy. We cut TP from HK\$37.20 to HK\$31.00 to reflect adjustment in our earnings forecasts. The new TP represents 24.8x, 18.0x and 15.5x 2018, 2019 and 2020 PER, respectively, and reflects upside potential of 31.4%.
- 2018年3季度收入不及预期但净利润超预期。**收入同比增长3.2%至9.45亿美元。由于疲弱的消费者情绪，北美和亚洲市场表现差于预期。整体毛利率同比上升0.3个百分点至57.4%，而由于经营费用增加，经营利润率同比下滑0.2个百分点至13.0%。净利润同比增加33.4%至75.5百万美元，主要由于财务费用和有效税率减少。
- 分别下调2018-2020年每股盈利预测13.6%、16.7%和17.1%至0.159美元、0.220美元和0.256美元。**基于美国和亚太市场更加疲弱的消费者情绪，我们分别下调2018-2020年收入预测2.0%、1.9%和1.7%。中美贸易战增加了公司的采购成本，但公司正在积极寻找方法将采购从中国转移出去减少影响，或将在2019年展现一定效果。预期2019年和2020年经营费用仍将维持较高的水平。
- 下调目标价至31.00港元但维持“买入”评级。**尽管由于全球经济走弱以及部分地区的消费者情绪疲弱，我们预期公司增速放缓，但受其“多品牌、多产品类别、多分销渠道”的战略所带动，公司仍将维持在全球行李箱市场的领先地位。我们将目标价从37.20港元下调至31.00港元以反映我们盈利预测的调整。新目标价分别相当于24.8倍，18.0倍和15.5倍2018年、2019年和2020年市盈率以及31.4%的上升空间。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**HK\$31.00**

Revised from 原目标价:

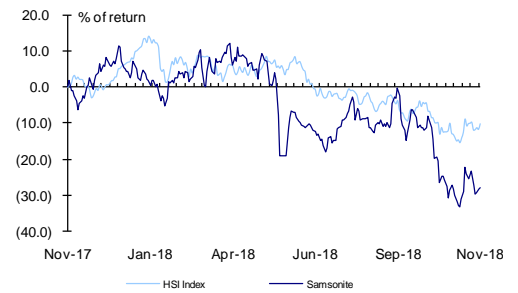
HK\$37.20

Share price 股价:

HK\$23.600

### 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 %                    | (2.3) | (19.0) | (27.7) |
| Rel. % to HS Index 相对恒指变动 %      | (5.1) | (15.7) | (17.9) |
| Avg. Share price(HK\$) 平均股价 (港元) | 23.4  | 27.0   | 31.0   |

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    | (US\$ m) | (US\$ m)   | (US\$) | (Δ %)  | (x)  | (US\$) | (x) | (US\$) | (%)   | (%)    |
| 2016A    | 2,810    | 256        | 0.181  | 29.3   | 16.8 | 1.040  | 2.9 | 0.069  | 2.3   | 18.1   |
| 2017A    | 3,491    | 334        | 0.236  | 30.1   | 12.8 | 1.260  | 2.4 | 0.077  | 2.6   | 20.5   |
| 2018F    | 3,853    | 227        | 0.159  | (32.6) | 18.9 | 1.334  | 2.3 | 0.065  | 2.2   | 12.3   |
| 2019F    | 4,225    | 315        | 0.220  | 38.2   | 13.7 | 1.489  | 2.0 | 0.090  | 3.0   | 15.6   |
| 2020F    | 4,571    | 366        | 0.256  | 16.2   | 11.8 | 1.654  | 1.8 | 0.105  | 3.5   | 16.3   |

|   |                 |  |                         |
|---|-----------------|--|-------------------------|
| Shares in issue (m) 总股数 (m)             | 1,430.7         | Major shareholder 大股东                  | The Capital Group 16.0% |
| Market cap. (HK\$ m) 市值 (HK\$ m)        | 33,764.5        | Free float (%) 自由流通比率 (%)              | 66.9                    |
| 3 month average vol. 3 个月平均成交股数 ('000)  | 4,469.5         | FY18 Net gearing (%) FY18 净负债/股东资金 (%) | 76.6                    |
| 52 Weeks high/low (HK\$) 52 周高/低 (HK\$) | 37.833 / 21.150 | FY18 Est. NAV (HK\$) FY18 每股估值 (港元)    | 36.8                    |

Source: the Company, Guotai Junan International.

**3Q18 top line missed expectations.** Samsonite's (the "Company") 3Q18 revenue grew by 3.2% YoY to US\$945 million, or 5.2% YoY on a constant currency basis. 3Q18 revenue accounted for 24.0% of our full-year forecast, and was weaker than expected. Revenue from North America grew by only 0.2% YoY, mainly due to discontinued sales to trans-shippers as well as lower tourist arrivals. For the same reason, Tumi underperformed with revenue growth slowing down to 9.7% YoY. Revenue growth in Asia significantly slowed down to 5.1% YoY in 3Q18, mainly due to weak consumer sentiment and decreased B2B business in China, as well as challenging business conditions in South Korea. Europe recorded YoY growth of 10.0% in constant-currency revenue, driven by strong growth of the American Tourister brand in Europe and expansion of retail network in Europe. Revenue from the Samsonite brand dropped by 0.4% YoY, mainly due to reduced wholesale net sales to discount retail chains and lower tourist arrivals in the US market. In terms of channels, revenue from direct-to-consumer retail channels increased by 7.9% YoY and accounted for 36.9% of total revenue, up from 35.3% in 3Q17. The Company added 17 net new company-operated retail stores during 3Q18, and the overall SSSG of retail stores increased by 1.5% in 3Q18. Revenue from e-commerce business increased by 9.0% YoY and accounted for 15.5% of total revenue in 3Q18, up from 14.7% the same period last year.

**Net profit increased by 33.4% YoY to US\$75.5 million in 3Q18, which was slightly better than expected due to lower finance costs and lower effective tax rate.** Overall gross margin was up by 0.3 ppt YoY to 57.4%, mainly driven by improvement in GPM of Tumi and a higher proportion of revenue from the direct-to-consumer channels. However, operating margin dropped by 0.2 ppt YoY to 13.0% due to increased distribution expenses (8.1% YoY) and marketing expenses (4.5% YoY). Distribution expenses as a percentage of revenue increased by 1.4 ppt YoY due to higher fixed costs associated with the Company's expansion of bricks-and-mortar retail stores. Net finance costs decreased by 28.6% YoY due to a decrease in foreign exchange losses and a decrease in the change in fair value of put options. Effective tax rate significantly dropped from 34.8% in 3Q17 to 23.0% in 3Q18, was mainly the result of the impact of the 2017 U.S. Tax Reform. As a result, net margin largely improved by 1.8 ppt YoY to 8.0% in 3Q18. Adjusted EBITDA margin dropped by 0.4 ppt YoY to 16.2%.

**Table-1: Samsonite's 3Q18 Results Analysis**

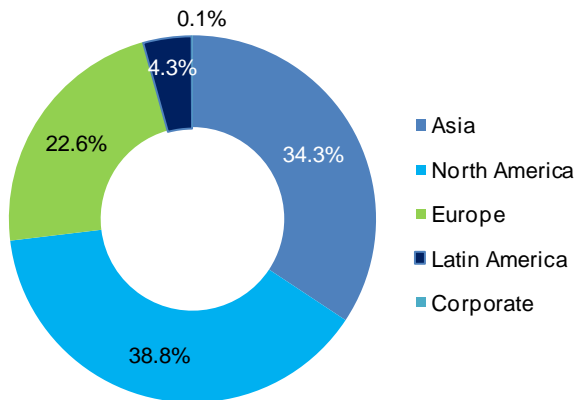
| US\$ mn                   | 3Q17  | 3Q18  | YoY        |
|---------------------------|-------|-------|------------|
| Turnover                  | 916   | 945   | 3.2%       |
| Cost of sales             | (393) | (402) | 2.5%       |
| Gross profit              | 523   | 543   | 3.8%       |
| Distribution expenses     | (283) | (306) | 8.1%       |
| Marketing expenses        | (53)  | (56)  | 4.5%       |
| Administrative expenses   | (62)  | (57)  | (8.4%)     |
| Other expenses            | (4)   | (2)   | (50.9%)    |
| Profit from operations    | 121   | 123   | 1.6%       |
| Finance income (costs)    | (27)  | (19)  | (28.6%)    |
| Profit before taxation    | 94    | 103   | 10.3%      |
| Income tax                | (33)  | (24)  | (27.1%)    |
| Non-controlling interests | 5     | 4     | (9.1%)     |
| Net profit                | 57    | 76    | 33.4%      |
| Adjusted net profit       | 66    | 81    | 23.9%      |
| Adjusted EBITDA           | 160   | 155   | (3.6%)     |
| Basic EPS (US\$)          | 0.040 | 0.053 | 32.1%      |
| Gross margin              | 57.1% | 57.4% | 0.3 ppt    |
| Operating margin          | 13.2% | 13.0% | (0.2) ppt  |
| Net margin                | 6.2%  | 8.0%  | 1.8 ppt    |
| Adjusted EBITDA margin    | 17.5% | 16.4% | (1.2) ppt  |
| Effective tax rate        | 34.8% | 23.0% | (11.8) ppt |

Source: the Company, Guotai Junan International.

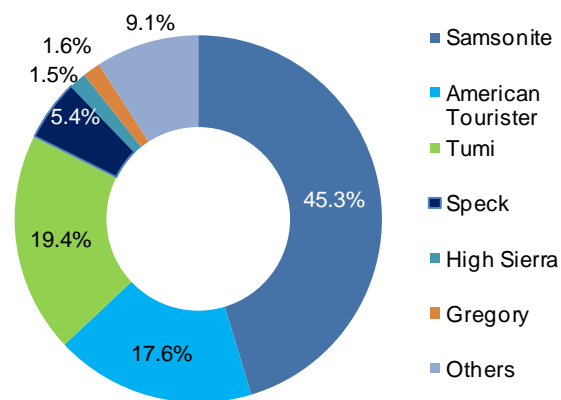
**Table-2: Samsonite's 3Q18 Revenue Analysis**

| US\$ mn              | 3Q17       | 3Q18       | YoY         | Constant-currency YoY |
|----------------------|------------|------------|-------------|-----------------------|
| Asia                 | 308        | 324        | 5.1%        | 7.2%                  |
| North America        | 366        | 367        | 0.2%        | 0.4%                  |
| Europe               | 201        | 213        | 6.3%        | 10.0%                 |
| Latin America        | 38         | 40         | 4.9%        | 13.4%                 |
| Corporate            | 2          | 1          | -68.9%      | -68.2%                |
| <b>Total revenue</b> | <b>916</b> | <b>945</b> | <b>3.2%</b> | <b>5.2%</b>           |

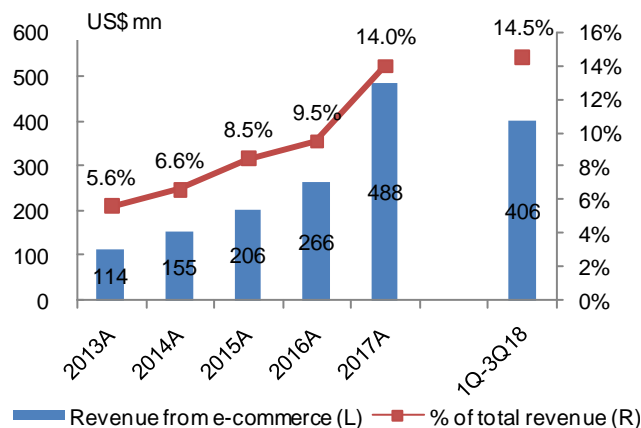
Source: the Company, Guotai Junan International.

**Figure-1: Samsonite's Revenue by Region in 3Q18**


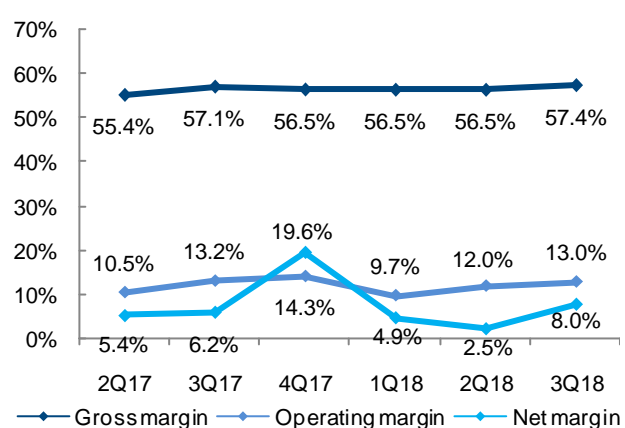
Source: the Company, Guotai Junan International.

**Figure-2: Samsonite's Revenue by Brand in 3Q18**


Source: the Company, Guotai Junan International.

**Figure-3: Samsonite's E-commerce Business**


Source: the Company, Guotai Junan International.

**Figure-4: Samsonite's Profitability**


Source: the Company, Guotai Junan International.

**Revise down 2018-2020 EPS forecasts by 13.6%, 16.7% and 17.1% to US\$0.159, US\$0.220 and US\$0.256, respectively, on lower revenue and higher operating expense forecasts.** We revise down 2018-2020 revenue forecasts by 2.0%, 1.9% and 1.7%, respectively, due to continued weaker consumer sentiments in the US and Asia Pacific markets, which will impact the Samsonite brand and the Tumi brand in the above areas. The increased tariff between the US and China may hurt the Company's GPM as currently most of its sourcing is from China. The Company is actively seeking ways to move part of its sourcing out of China to reduce such impact, which may show certain effect in 2019. We revise down 2018-2020 GPM forecasts by 0.1 ppt, 0.3 ppt and 0.3 ppt to 57.1%, 57.8% and 58.4%, respectively. We expect operating expenses to be higher due to the Company's focus on expanding the DTC distribution channel as well as increased e-commerce business. Due to lower GPM and higher expenses forecasts, we revise down 2018-2020 net margin forecasts by 0.8 ppt, 1.3 ppt and 1.5 ppt to 5.9%, 7.4% and 8.0%, respectively.

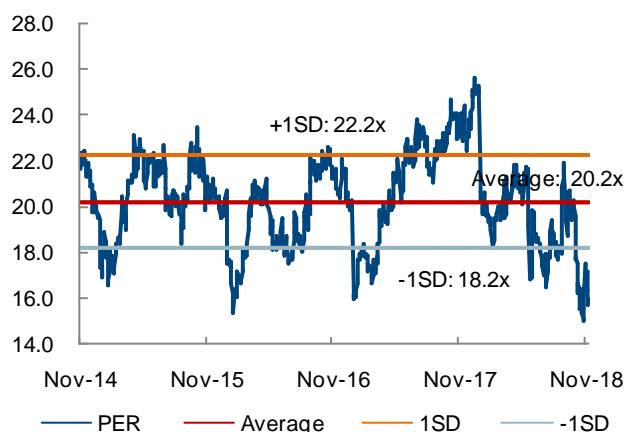
**Table-3: Key Assumptions and Adjustments**

| US\$ mn            | OLD   |       |       | NEW   |       |       | CHANGE    |           |           |
|--------------------|-------|-------|-------|-------|-------|-------|-----------|-----------|-----------|
|                    | 2018F | 2019F | 2020F | 2018F | 2019F | 2020F | 2018F     | 2019F     | 2020F     |
| Revenue            | 3,934 | 4,306 | 4,652 | 3,853 | 4,225 | 4,571 | (2.0%)    | (1.9%)    | (1.7%)    |
| Gross profit       | 2,252 | 2,504 | 2,733 | 2,202 | 2,444 | 2,672 | (2.2%)    | (2.4%)    | (2.2%)    |
| Operating profit   | 528   | 628   | 711   | 470   | 538   | 604   | (11.0%)   | (14.4%)   | (15.1%)   |
| Net profit         | 263   | 378   | 441   | 227   | 315   | 366   | (13.6%)   | (16.7%)   | (17.1%)   |
| EBITDA             | 638   | 748   | 842   | 580   | 657   | 734   | (9.1%)    | (12.2%)   | (12.8%)   |
| Basic EPS (US\$)   | 0.184 | 0.264 | 0.308 | 0.159 | 0.220 | 0.256 | (13.6%)   | (16.7%)   | (17.1%)   |
| Gross margin       | 57.2% | 58.1% | 58.7% | 57.1% | 57.8% | 58.4% | (0.1) ppt | (0.3) ppt | (0.3) ppt |
| % SG&A of turnover | 43.5% | 43.3% | 43.2% | 44.7% | 44.8% | 44.9% | 1.2 ppt   | 1.5 ppt   | 1.7 ppt   |
| Operating margin   | 13.4% | 14.6% | 15.3% | 12.2% | 12.7% | 13.2% | (1.2) ppt | (1.9) ppt | (2.1) ppt |
| Effective tax rate | 27.0% | 26.5% | 26.5% | 26.5% | 26.5% | 26.5% | (0.5) ppt | 0.0 ppt   | 0.0 ppt   |
| Net margin         | 6.7%  | 8.8%  | 9.5%  | 5.9%  | 7.4%  | 8.0%  | (0.8) ppt | (1.3) ppt | (1.5) ppt |
| EBITDA margin      | 16.2% | 17.4% | 18.1% | 15.1% | 15.5% | 16.1% | (1.2) ppt | (1.8) ppt | (2.0) ppt |

Source: the Company, Guotai Junan International.

**Cut TP to HK\$31.00 but maintain "Buy".** The management of the Company expects to see improvement in top line growth in 4Q18 and 1Q19, as the negative impact from discontinued sales to trans-shippers in the US will gradually fade out and strong growth momentum in Europe is expected to continue. However, operating expenses are expected to remain high in 2019, which may lead to a lower bottom line. Although we expect slower growth of the Company due to weaker global economy and consumer sentiment in some regions, the Company will still sustain its leading position in global luggage industry supported by its multi-brand, multi-category and multi-channel strategy. The Company is trading at 13.7x 2019 PER, representing 27.1% discount to industry average, which we believe is undervalued. We cut the Company's TP from HK\$37.20 to HK\$31.00 to reflect adjustment in our earnings forecasts. The new TP represents 24.8x, 18.0x and 15.5x 2018, 2019 and 2020 PER, respectively. However, the new TP still reflects upside potential of 31.4%, and therefore we maintain our investment rating at "Buy".

**Risks:** 1) unexpected appreciation of the US dollar against other currencies, 2) liquidity and solvency risks triggered by heavy debt obligations related to the Tumi acquisition, 3) a decline in the global tourism industry, and 4) potential impact from Sino-US trade friction.

**Figure-5: Samsonite's PE Ratio (Next four Quarters)**


Source: Bloomberg, Guotai Junan International.

**Figure-6: Samsonite's PB Ratio (Current Annual)**


Source: Bloomberg, Guotai Junan International.

**Table-4: Peers Valuation Comparison Table**

| Company                     | Stock Code | Currency | Last price | Market Cap<br>HKD mn | PE(x) |       |      |      | PB(x) |      |      |      | ROE(%)<br>18F | D/Y(%)<br>18F | EV/<br>EBITDA(x)<br>18F | Gross<br>Margin(%)<br>18F | Operating<br>Margin(%)<br>18F |
|-----------------------------|------------|----------|------------|----------------------|-------|-------|------|------|-------|------|------|------|---------------|---------------|-------------------------|---------------------------|-------------------------------|
|                             |            |          |            |                      | 17A   | 18F   | 19F  | 20F  | 17A   | 18F  | 19F  | 20F  |               |               |                         |                           |                               |
| <b>Luggage &amp; Luxury</b> |            |          |            |                      |       |       |      |      |       |      |      |      |               |               |                         |                           |                               |
| SAMSONITE                   | 1910 HK    | HKD      | 23.60      | 33,765               | 12.8  | 18.9  | 13.7 | 11.8 | 2.4   | 2.3  | 2.0  | 1.8  | 12.3          | 2.2           | 10.0                    | 57.1                      | 12.2                          |
| PRADA*                      | 1913 HK    | HKD      | 30.35      | 77,660               | 35.5  | 28.5  | 23.9 | 21.4 | 2.9   | 3.0  | 2.9  | 2.9  | 10.5          | 2.9           | 13.6                    | 73.6                      | 13.0                          |
| LVMH                        | MC FP      | EUR      | 268.30     | 1,205,420            | 26.3  | 21.0  | 19.3 | 17.9 | 4.7   | 4.1  | 3.7  | 3.3  | 20.5          | 2.2           | 11.7                    | 66.6                      | 21.3                          |
| CHRISTIAN DIOR              | CDI FP     | EUR      | 340.40     | 546,554              | 27.3  | 22.4  | 20.3 | 18.6 | 4.8   | 4.3  | 3.8  | 3.4  | 20.2          | 2.0           | 6.8                     | 66.5                      | n.a.                          |
| KERING                      | KER FP     | EUR      | 398.70     | 447,844              | 28.1  | 17.9  | 15.8 | 14.2 | 4.2   | 4.5  | 3.8  | 3.3  | 28.3          | 1.9           | 12.0                    | 75.0                      | 28.5                          |
| MICHAEL KORS*               | KORS US    | USD      | 47.23      | 55,578               | 14.2  | 12.1  | 9.4  | 9.2  | 4.6   | 3.5  | 2.8  | 2.1  | 32.8          | 0.0           | 10.5                    | 60.6                      | 15.9                          |
| BURBERRY                    | BRBY LN    | GBP      | 1,830.50   | 75,639               | 28.0  | 26.6  | 22.2 | 21.0 | 4.7   | 5.4  | 5.3  | 4.8  | 18.9          | 2.4           | 11.5                    | 69.4                      | 15.0                          |
| COACH*                      | COH US     | USD      | 41.01      | 93,090               | 19.4  | 29.5  | 14.7 | 13.2 | 3.9   | 3.6  | 3.2  | 2.9  | 12.7          | 2.9           | 14.8                    | 65.5                      | 11.4                          |
| HUGO BOSS                   | BOSS GY    | EUR      | 62.92      | 39,401               | 18.8  | 17.9  | 15.9 | 14.4 | 4.7   | 4.5  | 4.2  | 3.8  | 25.7          | 4.3           | 9.2                     | 65.6                      | 12.0                          |
| SALVATORE<br>FERRAGAMO      | SFER IM    | EUR      | 21.18      | 31,800               | 30.1  | 32.8  | 27.4 | 23.6 | 4.9   | 4.6  | 4.2  | 3.9  | 14.7          | 1.7           | 15.6                    | 63.8                      | 11.3                          |
| TOD'S                       | TOD IM     | EUR      | 45.42      | 13,370               | 21.1  | 21.5  | 19.4 | 17.7 | 1.4   | 1.4  | 1.3  | 1.3  | 6.4           | 3.0           | 10.1                    | 66.4                      | 11.0                          |
| Simple Average              |            |          |            |                      | 23.8  | 22.7  | 18.4 | 16.6 | 3.9   | 3.7  | 3.4  | 3.0  | 18.4          | 2.3           | 11.4                    | 66.4                      | 15.2                          |
| Weighted Average            |            |          |            |                      | 26.4  | 21.3  | 18.8 | 17.2 | 4.5   | 4.2  | 3.7  | 3.3  | 21.2          | 2.1           | 10.9                    | 68.0                      | 21.2                          |
| <b>Sportswear</b>           |            |          |            |                      |       |       |      |      |       |      |      |      |               |               |                         |                           |                               |
| NIKE*                       | NKE US     | USD      | 74.33      | 924,628              | 29.8  | 63.7  | 28.0 | 23.7 | 9.8   | 12.1 | 13.3 | 11.7 | 17.4          | 1.1           | 21.9                    | 43.8                      | 12.2                          |
| ADIDAS                      | ADS GR     | EUR      | 207.50     | 369,912              | 38.3  | 24.8  | 21.6 | 18.9 | 6.6   | 6.0  | 5.4  | 4.8  | 25.3          | 1.6           | 14.3                    | 51.4                      | 10.8                          |
| UNDER ARMOUR                | UA US      | USD      | 22.39      | 75,792               | n.a.  | 103.7 | 67.6 | 46.3 | 4.9   | 5.1  | 4.7  | 4.4  | 4.1           | 0.0           | 29.8                    | 45.3                      | 2.9                           |
| Simple Average              |            |          |            |                      | 34.0  | 64.1  | 39.1 | 29.6 | 7.1   | 7.7  | 7.8  | 7.0  | 15.6          | 0.9           | 22.0                    | 46.9                      | 8.6                           |
| Weighted Average            |            |          |            |                      | 32.2  | 55.5  | 28.5 | 23.7 | 8.7   | 10.1 | 10.7 | 9.5  | 18.8          | 1.2           | 20.3                    | 46.0                      | 11.3                          |

Source: Bloomberg, Guotai Junan International.

\* Note: The financial year end date of these companies is not 31st December. For easier comparison with peers, "17A" means "FY18A" and "18F" means FY19F and so on.

**Financial Statements and Ratios**

| Income Statement                  |         |         |         |         |         |
|-----------------------------------|---------|---------|---------|---------|---------|
| Year end 31 Dec (US\$ m)          | 2016A   | 2017A   | 2018F   | 2019F   | 2020F   |
| Total Revenue                     | 2,810   | 3,491   | 3,853   | 4,225   | 4,571   |
| Cost of Sales                     | (1,290) | (1,531) | (1,651) | (1,781) | (1,900) |
| Gross Profit                      | 1,521   | 1,960   | 2,202   | 2,444   | 2,672   |
| Distribution Costs                | (818)   | (1,073) | (1,238) | (1,374) | (1,498) |
| Marketing Expenses                | (144)   | (206)   | (228)   | (249)   | (270)   |
| Administrative & General Expenses | (178)   | (240)   | (257)   | (272)   | (287)   |
| Other Expenses                    | (50)    | (18)    | (10)    | (12)    | (14)    |
| Operating Profit                  | 331     | 424     | 470     | 538     | 604     |
| Net Finance Income (costs)        | (59)    | (93)    | (132)   | (79)    | (74)    |
| Profit Before Tax                 | 273     | 331     | 338     | 459     | 529     |
| Income Tax                        | 2       | 24      | (90)    | (122)   | (140)   |
| Profit After Tax                  | 275     | 355     | 249     | 337     | 389     |
| Non-controlling Interest          | (19)    | (21)    | (22)    | (22)    | (23)    |
| Shareholders' Profit / Loss       | 256     | 334     | 227     | 315     | 366     |
| Basic EPS                         | 0.181   | 0.236   | 0.159   | 0.220   | 0.256   |
| YoY                               | 29.3%   | 30.1%   | (32.6%) | 38.2%   | 16.2%   |

| Cash Flow Statement                    |         |       |       |       |       |
|--|---------|-------|-------|-------|-------|
| Year end 31 Dec (US\$ m)               | 2016A   | 2017A | 2018F | 2019F | 2020F |
| Profit Before Taxation                 | 275     | 355   | 249   | 337   | 389   |
| D&A                                    | 89      | 118   | 110   | 119   | 131   |
| Other Adjustments                      | 44      | 75    | 154   | 184   | 199   |
| Changes in Working Capital             | (37)    | (21)  | (31)  | (2)   | 0     |
| Tax and Interest Paid                  | (111)   | (186) | (166) | (195) | (209) |
| Cash from Operating Activities         | 261     | 341   | 315   | 443   | 509   |
| Capital Expenditure                    | (70)    | (95)  | (96)  | (106) | (114) |
| Acquisition of Businesses              | (1,685) | (170) | (77)  | (84)  | (91)  |
| Others                                 | (5)     | (13)  | 5     | 4     | 3     |
| Cash from Investing Activities         | (1,759) | (277) | (168) | (186) | (203) |
| Dividends Paid                         | (93)    | (97)  | (110) | (93)  | (129) |
| Proceeds from Senior Credit Facilities | 1,925   | 0     | 0     | 0     | 0     |
| Others                                 | (134)   | (16)  | (113) | (77)  | (177) |
| Cash from Financing Activities         | 1,698   | (113) | (223) | (170) | (306) |
| Net Changes in Cash                    | 199     | (49)  | (76)  | 87    | 1     |
| Cash at Beg of Year                    | 181     | 369   | 344   | 268   | 355   |
| Foreign Exchange Effect                | (12)    | 25    | 0     | 0     | 0     |
| Cash at End of Year                    | 369     | 344   | 268   | 355   | 356   |

| Balance Sheet                        |       |       |       |       |       |
|--------------------------------------|-------|-------|-------|-------|-------|
| Year end 31 Dec (US\$ m)             | 2016A | 2017A | 2018F | 2019F | 2020F |
| Property, Plant and Equipment        | 282   | 308   | 323   | 338   | 350   |
| Goodwill                             | 1,239 | 1,343 | 1,382 | 1,424 | 1,470 |
| Other Intangible Assets              | 1,733 | 1,793 | 1,802 | 1,817 | 1,834 |
| Others                               | 105   | 131   | 128   | 125   | 123   |
| Total Non-current Assets             | 3,359 | 3,575 | 3,635 | 3,703 | 3,777 |
| Inventory                            | 421   | 583   | 641   | 693   | 748   |
| Trade and Bill Receivables           | 358   | 411   | 432   | 445   | 459   |
| Prepaid Expenses and Other Assets    | 143   | 156   | 164   | 171   | 178   |
| Cash & Cash Equivalents              | 369   | 344   | 268   | 355   | 356   |
| Total Current Assets                 | 1,290 | 1,495 | 1,506 | 1,664 | 1,741 |
| Total Assets                         | 4,650 | 5,070 | 5,140 | 5,367 | 5,518 |
| Trade and Bill Payables              | 534   | 737   | 792   | 862   | 938   |
| Bank Loans                           | 70    | 153   | 148   | 137   | 126   |
| Current Tax Liabilities              | 94    | 98    | 98    | 98    | 98    |
| Employee Benefits                    | 79    | 95    | 86    | 79    | 71    |
| Total Current Liabilities            | 776   | 1,083 | 1,125 | 1,175 | 1,233 |
| Non-controlling Interest Put Options | 65    | 56    | 56    | 56    | 56    |
| Employee Benefits                    | 29    | 24    | 22    | 20    | 18    |
| Deferred Tax Liabilities & Other     |       |       |       |       |       |
| Liabilities                          | 2,269 | 2,076 | 1,976 | 1,920 | 1,764 |
| Total Non-current Liabilities        | 2,363 | 2,155 | 2,054 | 1,996 | 1,838 |
| Total Liabilities                    | 3,139 | 3,238 | 3,178 | 3,170 | 3,070 |
| Share Capital                        | 14    | 14    | 14    | 14    | 14    |
| Reserves                             | 1,453 | 1,777 | 1,894 | 2,116 | 2,352 |
| Total Shareholders' Equity           | 1,467 | 1,791 | 1,908 | 2,130 | 2,367 |
| Minority Interest                    | 44    | 41    | 54    | 67    | 81    |
| Total Equity                         | 1,511 | 1,832 | 1,962 | 2,197 | 2,447 |

| Financial Ratios      |       |       |       |       |       |
|-----------------------|-------|-------|-------|-------|-------|
|                       | 2016A | 2017A | 2018F | 2019F | 2020F |
| Gross Margin (%)      | 54.1  | 56.1  | 57.1  | 57.8  | 58.4  |
| Operating Margin (%)  | 11.8  | 12.1  | 12.2  | 12.7  | 13.2  |
| Net Margin (%)        | 9.1   | 9.6   | 5.9   | 7.4   | 8.0   |
| ROE (%)               | 18.1  | 20.5  | 12.3  | 15.6  | 16.3  |
| ROA (%)               | 7.4   | 6.9   | 4.4   | 6.0   | 6.7   |
| ROCE (%)              | 6.2   | 5.2   | 3.4   | 4.7   | 5.4   |
| Inventory Days        | 109.0 | 119.7 | 135.3 | 136.7 | 138.4 |
| A/C Receivable Days   | 41.6  | 40.2  | 40.0  | 37.9  | 36.1  |
| A/C Payable Days      | 103.6 | 112.1 | 127.4 | 128.8 | 132.8 |
| Cash Conversion Cycle | 47.1  | 47.8  | 47.9  | 45.8  | 41.7  |
| Payout Ratio (%)      | 37.9  | 32.9  | 41.0  | 41.0  | 41.0  |
| Net Gearing (%)       | 99.6  | 82.8  | 76.6  | 61.7  | 48.7  |
| Current Ratio (x)     | 1.7   | 1.4   | 1.3   | 1.4   | 1.4   |

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%;<br>or the fundamental outlook of the company or sector is favorable.            |
| Accumulate | 收集 | Relative Performance is 5% to 15%;<br>or the fundamental outlook of the company or sector is favorable.     |
| Neutral    | 中性 | Relative Performance is -5% to 5%;<br>or the fundamental outlook of the company or sector is neutral.       |
| Reduce     | 减持 | Relative Performance is -5% to -15%;<br>or the fundamental outlook of the company or sector is unfavorable. |
| Sell       | 卖出 | Relative Performance < -15%;<br>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%;<br>or the fundamental outlook of the sector is favorable.       |
| Neutral      | 中性   | Relative Performance is -5% to 5%;<br>or the fundamental outlook of the sector is neutral. |
| Underperform | 跑输大市 | Relative Performance < -5%;<br>Or the fundamental outlook of the sector is unfavorable.    |

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