



Company Report: Chow Tai Fook Jewellery (01929 HK)

公司报告: 周大福珠宝 (01929 HK)

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Strong 1HFY19 Results to Weaken in 2HFY19, Maintain "Accumulate"

2019财年上半年业绩强劲, 但会在下半年转弱, 维持“收集”

- Chow Tai Fook's 1HFY19 shareholders' profit increased by 8.8% YoY to HK\$1,936 million.** Total revenue rose 20.0% YoY to HK\$29,703 million. SSS was up 4.9% YoY and 24.4% YoY in mainland China and Hong Kong and Macau, respectively. Adjusted gross margin dropped 0.6 ppts YoY, mainly due to higher proportion of sales of gold products and wholesale, while core operating margin improved by 0.4 ppts YoY thanks to operation leverage. The Company recorded foreign exchange loss of HK\$326 million which thus eroded net profit. The Company proposed interim dividend of HK\$0.15 per share, implying payout ratio of 77.5%.
- Expect weaker 2HFY19 growth but the Company will accelerate in POS expansion in mainland China.** In Oct. and Nov. the Company's SSSG slowed, flat in Hong Kong and Macau and negative single-digit percentage in mainland China. We expect the trend to continue considering the high base and adverse market sentiment in 2HFY19. However, we believe that the Company's expansion plan may partly offset SSSG slowdown and we think the negative impacts have been priced in already.
- Reiterate investment rating as "Accumulate" but revise down TP to HK\$8.52.** The Company's stock price is trading at around 13.9x FY19 PER, a relatively low valuation in our view. We believe that the Company is undervalued and the Company's high dividend payout policy makes the Company a relatively high defensive investment. We lower our earnings forecasts; the new TP is equal to 19.0x FY19 PER and 17.3x FY20 PER. Downside risks include foreign exchange and gold price fluctuation and lower-than-expected sales growth in 2HFY19.
- 周大福 2019 财年上半年股东净利同比上升 8.8%至港币 1,936 百万元。** 总收入同比增长 20.0%至港币 29,703 百万元。同店销售增长在中国大陆市场和港澳市场分别为 4.9%和 24.4%。经调整毛利率同比倒退 0.6 个百分点, 主要由于黄金饰品和批发的占比提升; 核心经营利润率同比则提升 0.4 个百分点, 受益于经营杠杆提升。公司录得了一笔 326 百万港元的汇兑损失, 因而侵蚀了净利润。公司提议派发每股 0.15 港元的中期股息, 派息率 77.5%。
- 预期 2019 财年下半年增长放缓但公司加速在中国大陆的门店布局。** 在 10 月和 11 月, 公司在港澳地区和中国大陆的同店增长分别放缓至持平和单位数倒退。考虑到高基数和负面市场情绪我们预期趋势可能在 2019 财年下半年延续。然而, 我们认为公司的扩张计划可以部分抵消同店增速放缓并且我们认为负面因素已经反映在股价中。
- 重申投资评级为“收集”, 但下调目标价至 8.52 港元。** 目前公司的交易估值在 13.9 倍 2019 财年市盈率左右, 我们认为估值较低。我们认为公司价值受到低估, 公司的高股息政策使公司具有较强防御性。我们下调了盈利预测, 新目标价相当于 19.0 倍 2019 财年市盈率以及 17.3 倍 2020 财年市盈率。下行风险包括汇率和金价波动以及 2019 财年下半年低于预期的销售增长。

Rating: **Accumulate**
Maintained

评级: **收集 (维持)**

6-18m TP 目标价: **HK\$8.52**
Revised from 原目标价: HK\$9.78

Share price 股价: **HK\$6.600**

Stock performance



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 %	(6.8)	(9.5)	(18.9)
Rel. % to HS Index 相对恒指变动 %	(6.9)	(5.1)	(10.1)
Avg. Share price(HK\$) 平均股价 (港元)	7.3	7.3	8.2

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
03/31	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2017A	51,246	3,055	0.306	4.1	21.6	3.250	2.0	0.510	7.7	9.2
2018A	59,156	4,094	0.409	33.7	16.1	3.410	1.9	0.570	8.6	12.6
2019F	64,078	4,485	0.448	9.5	14.7	3.421	1.9	0.469	7.1	13.5
2020F	70,627	4,924	0.492	9.8	13.4	3.521	1.9	0.395	6.0	14.6
2021F	75,864	5,367	0.537	9.1	12.3	3.639	1.8	0.422	6.4	15.4
Shares in issue (m) 总股数 (m)				10,000.0	Major shareholder 大股东			CHOW TAI FOOK HOLDING 89.3%		
Market cap. (HK\$ m) 市值 (HK\$ m)				66,000.0	Free float (%) 自由流通比率 (%)					10.7
3 month average vol. 3 个月平均成交股数 ('000)				5,205.5	FY19 Net gearing (%) FY19 净负债/股东资金 (%)					3.9
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				11.120 / 6.450	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)					9.0

Source: the Company, Guotai Junan International.

Key Takeaways from Analyst Presentation

SSSG is expected to slow down in 2HFY19. According to the management, in October and November, YTD SSSG was relatively flat in Hong Kong and Macau, while SSSG recorded medium to high single-digit decrease in mainland China. The management expects that SSSG will slow down in 2HFY19 considering the high base and adverse market sentiment. However, the management mentioned that they have taken account of the negative factors in making the full-year guidance and have maintained previous guidance unchanged at medium to high single-digit SSSG in Hong Kong and Macau and single-digit SSSG in mainland China.

Profit margin in 2HFY19 is expected to be similar to the first half. In 1HFY19, the Company's adjusted gross margin, excluding gold hedging gain or loss, recorded a drop, mainly due to the higher proportion of gold product sales and wholesales business, while core operating margin improved, benefiting from rental deduction and operating leverage. Looking forward in 2HFY19, gross margin may continue to erode as the Company's strategy to increase franchise stores has led to higher wholesales, as well as more gold sales. However, the second half year is usually the peak season and operating margin may benefit from operating leverage.

Expansion of retail sales channel in mainland China to continue in 2HFY19. In the first half, the Company opened a net 220 shops in mainland China and the management guided that the Company will add 180 more stores in 2HFY19, aiming to penetrate into lower-tier cities through the franchised model. In Hong Kong and Macau, there was no change in the number of POS in 1HFY19 and 1 POS is expected to open in the second half.

The Company is adopting a multi-brand strategy. Along with the classic Chow Tai Fook brand, the Company has launched several new brands to meet different customer demands. Soinlove and Monologue target the young generation, offering mainly gold and jewellery with relatively lower ASP. The Company opened 6 Soinlove POS in 1HFY19 and expects to open around 14 more in 2HFY19. A net 5 Monologue POS were opened in 1HFY19 and 15 more are expected in 2HFY19. In addition, Artrium and Jewelria were introduced with different product offerings. The management does not expect much profit contribution from new brands considering their small scale but aims to build a multi-brand ecosystem.

1HFY19 Interim Results Review

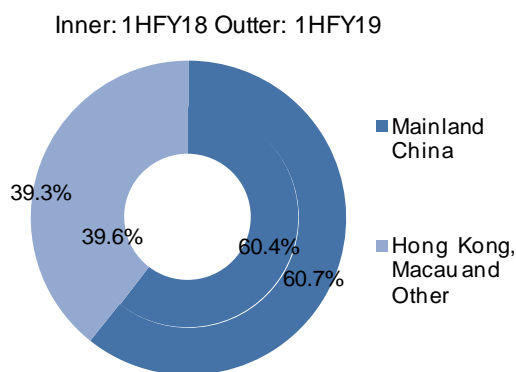
Chow Tai Fook's ("CTF" or the "Company") total revenue reached HK\$29,703 million in 1HFY19, up 20.0% YoY, beating market consensus and our expectation. In mainland China, SSSG was 4.9% and SSSG would be 5.4% including e-commerce business. Revenue increased 20.6% YoY to HK\$18,030 million, accounting for 60.7% of total revenue, mainly contributed from more POS openings during the period, especially franchised POS. E-commerce business reported strong growth of 12.7% YoY in terms of retail sales value. However, ASP was relatively low compared with offline stores, at HK\$1,300. SSSG of gold products reached 11.1% YoY while SSSG of gem-set jewellery was -1.2% YoY. In Hong Kong, Macau and other markets, SSSG reached 24.4%, thanks to the surge in gold product sales and reviving visitor arrivals. Revenue increased 19.1% YoY to HK\$11,673 million accordingly. SSSG of gold products and gem-set jewellery reported 36.1% YoY and 11.1% YoY, respectively, both boosted by sales volume rise.

Shareholders' profit rose 8.8% YoY to HK\$1,936 million, missing market consensus. The main reason was that the Company recorded foreign exchange loss of HK\$326 million, which was a net gain of HK\$115 million in 1HFY18. Overall adjusted gross margin dropped 0.6 ppts YoY to 28.7%, of which adjusted gross margin narrowed by 1.0 ppts YoY to 29.7% in mainland China and was flat YoY in Hong Kong and other markets. During the period, gold products sales outperformed gem-set jewellery. In addition, due to the fast expansion of franchised stores, wholesale business with lower gross margin accounted for a larger proportion and dragged overall gross margin. Nevertheless, core operating profit rose 24.7% YoY to HK\$2,989 million, with core operating margin improving by 0.4 ppts. Thanks to operating leverage with revenue increase, SG&A ratio contracted by 1.1 ppts YoY, with staff costs ratio and rental expenses ratio down 0.3 ppts and 0.7 ppts, respectively. The Company proposed interim dividend of HK\$0.15 per share, representing payout ratio of 77.5%.

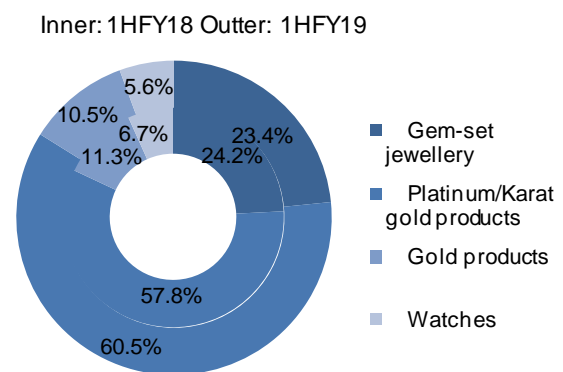
Table-1: Chow Tai Fook's 1HFY19 Results Review

HK\$ million	1HFY18	1HFY19	YoY	FY17	FY18	YoY
Revenue	24,754	29,703	20.0%	51,246	59,156	15.4%
Cost of sales	(17,589)	(21,174)	20.4%	(36,283)	(42,943)	18.4%
Gross profit	7,166	8,529	19.0%	14,963	16,213	8.4%
Other income	186	167	(10.2%)	330	408	23.8%
Other gains	111	(334)	(400.6%)	(286)	342	(219.8%)
Selling and distribution costs	(3,683)	(4,111)	11.6%	(8,011)	(8,239)	2.8%
Administrative expenses	(1,204)	(1,406)	16.8%	(2,296)	(2,682)	16.8%
Operating Profit	2,465	3,179	29.0%	4,985	5,701	14.4%
Finance costs	(92)	(154)	68.0%	(237)	(244)	3.0%
Profit before tax	2,504	2,722	8.7%	4,378	5,832	33.2%
Income tax	(675)	(728)	7.9%	(1,227)	(1,629)	32.7%
Minority	(50)	(58)	14.8%	(96)	(108)	13.2%
Shareholders' Profit	1,779	1,936	8.8%	3,055	4,095	34.0%
EPS (HK\$)	0.178	0.194	8.8%	0.306	0.409	34.0%
DPS (HK\$)	0.120	0.150	25.0%	0.510	0.570	11.8%
Gross margin	28.9%	28.7%	-0.2 pts	29.2%	27.4%	-1.8 pts
Adjusted gross margin	28.7%	28.1%	-0.6 pts	28.5%	27.2%	-1.3 pts
Operating margin	10.0%	10.7%	0.7 pts	9.7%	9.6%	-0.1 pts
Core operating margin	9.7%	10.1%	0.4 pts	9.1%	9.5%	0.4 pts
Net margin	7.2%	6.5%	-0.7 pts	6.0%	6.9%	0.9 pts

Source: the Company, Guotai Junan International.

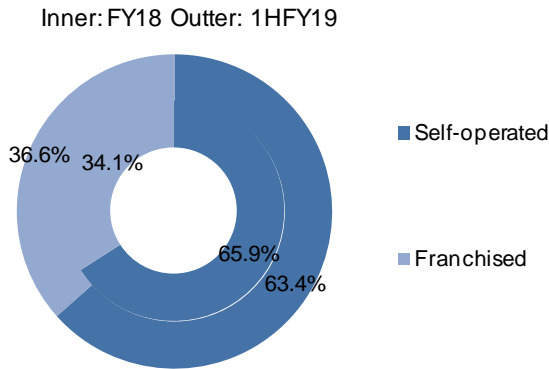
Figure-1: CTF Revenue Breakdown by Region


Source: the Company, Guotai Junan International.

Figure-2: CTF Revenue Breakdown by Product


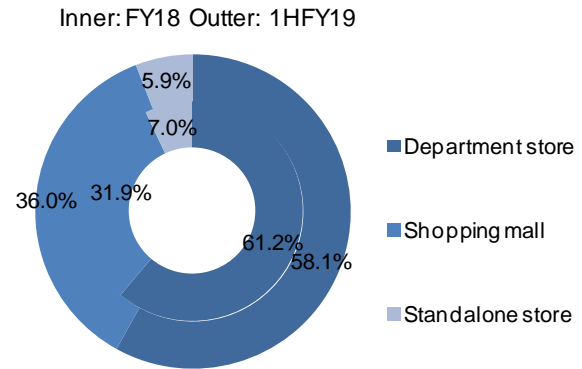
Source: the Company, Guotai Junan International.

Figure-3: CTF Retail Sales Breakdown by Operation Model in Mainland China



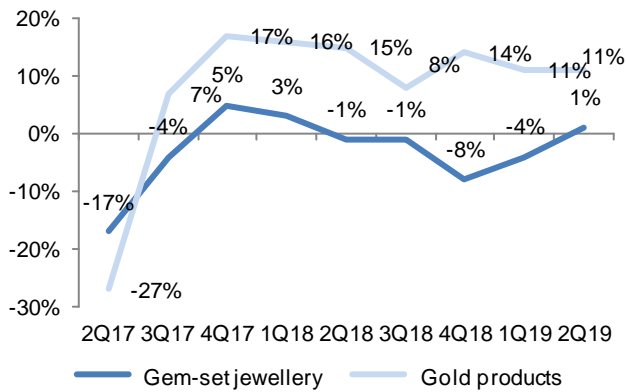
Source: the Company, Guotai Junan International.

Figure-4: Retail Sales Breakdown by Self-operated Model in Mainland China



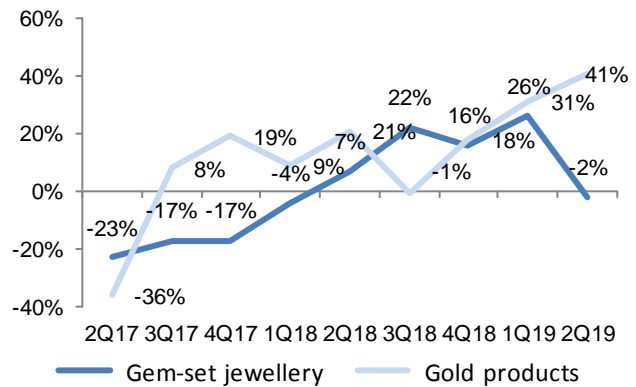
Source: the Company, Guotai Junan International.

Figure-5: CTF Quarterly SSSG in Mainland China



Source: the Company, Guotai Junan International.

Figure-6: CTF Quarterly SSSG in HK and Macau



Source: the Company, Guotai Junan International.

Table-2: CTF Retail Network

	FY18	Addition	Reduction	Net	1HFY19
Mainland China	2,449	286	-53	233	2,682
Hong Kong	80	3	-3	0	80
Macau	19	0	0	0	19
Taiwan	22	0	0	0	22
Korea	7	1	0	1	8
Japan	2	1	0	1	3
Malaysia	2	1	0	1	3
Singapore	1	1	0	1	2
United States	3	0	0	0	3
Total	2,585	293	-56	237	2,822

Source: the Company.

Table-3: CTF Quarterly Products Contribution Breakdown

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
<i>Mainland China</i>								
Gem-set jewellery	24.0%	25.0%	27.0%	25.0%	23%	23%	25%	24%
Platinum/Karat gold products	60.0%	58.0%	54.0%	56.0%	62%	61%	57%	58%
Gold products	11.0%	12.0%	13.0%	13.0%	11%	12%	12%	12%
Watches	5.0%	5.0%	6.0%	6.0%	5%	4%	5%	5%
<i>Hong Kong and Macau</i>								
Gem-set jewellery	26.0%	26.0%	23.0%	24.0%	30%	24%	24%	19%
Platinum/Karat gold products	58.0%	57.0%	61.0%	60.0%	55%	59%	61%	68%
Gold products	10.0%	11.0%	10.0%	9.0%	9%	10%	9%	8%
Watches	6.0%	6.0%	7.0%	7.0%	5%	7%	6%	5%

Source: the Company.

Earnings Forecasts Revisions

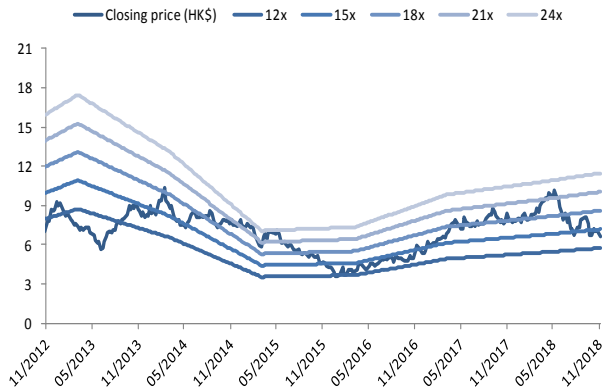
Revise down earnings forecasts in FY19- FY21. We have taken into account the high base and other negative factors in making revenue forecasts before and made relatively conservative estimates. We largely maintain our top-line forecasts, expecting revenue to increase 8.0% YoY in mainland China and 8.9% YoY in Hong Kong, Macau and other regions in FY19. We note that SSSG slowdown in October and November were worse than market expectation and led to a slump in stock price. However, we think that faster expansion in POS in mainland China may partly offset the negative effects. Gross margin eroded in 1HFY19 and we expect gross margin to further narrow in 2HFY19 considering faster sales of gold products and new opening franchised stores. Therefore we revise down gross margin by 1.4 ppts and 1.5 ppts in FY19 and FY20, respectively. On the other hand, lower SG&A expenses ratio benefiting from operating leverage and rental cuts in Hong Kong are expected to partly offset contracted gross margin and support the operating margin. Thus we slightly lower operating margin by 0.4 ppts YoY in FY19. We now forecast shareholders' profit to be HK\$4,485 million in FY19, representing 9.5% YoY growth, and HK\$4,924 million in FY20, representing 9.8% YoY growth.

Table-4: Key Figure Revisions for CTF

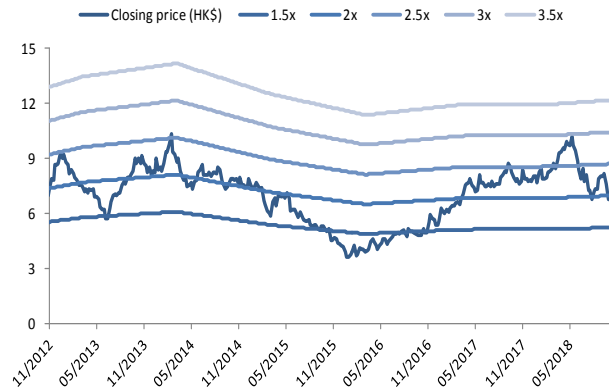
HK\$ million	New			Old			Change		
	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F
Revenue	64,078	70,627	75,864	64,192	70,756	76,004	-0.2%	-0.2%	-0.2%
-Mainland China	39,735	44,705	48,717	39,850	44,834	48,857	-0.3%	-0.3%	-0.3%
-Hong Kong & others	24,342	25,922	27,147	24,342	25,922	27,147	0.0%	0.0%	0.0%
Gross profit	17,777	19,615	21,186	18,727	20,718	22,280	-5.1%	-5.3%	-4.9%
SG&A	(11,517)	(12,982)	(14,055)	(12,178)	(13,393)	(14,307)	-5.4%	-3.1%	-1.8%
Operating profit	6,688	7,082	7,603	6,977	7,775	8,445	-4.1%	-8.9%	-10.0%
Profit before tax	6,138	6,739	7,346	6,694	7,520	8,306	-8.3%	-10.4%	-11.6%
Taxation	(1,535)	(1,685)	(1,836)	(1,674)	(1,880)	(2,077)	-8.3%	-10.4%	-11.6%
Minority	(119)	(130)	(142)	(129)	(145)	(161)	-8.3%	-10.4%	-11.6%
Shareholders' profit	4,485	4,924	5,367	4,891	5,495	6,069	-8.3%	-10.4%	-11.6%
EPS (HK\$)	0.448	0.492	0.537	0.489	0.549	0.607	-8.3%	-10.4%	-11.6%
Gross margin	27.7%	27.8%	27.9%	29.2%	29.3%	29.3%	-1.4 ppts	-1.5 ppts	-1.4 ppts
SG&A ratio	(18.0%)	(18.4%)	(18.5%)	(19.0%)	(18.9%)	(18.8%)	1.0 ppt	0.5 ppts	0.3 ppts
Operating margin	10.4%	10.0%	10.0%	10.9%	11.0%	11.1%	-0.4 ppts	-1.0 ppt	-1.1 ppts
Net margin	7.0%	7.0%	7.1%	7.6%	7.8%	8.0%	-0.6 ppts	-0.8 ppts	-0.9 ppts

Source: Guotai Junan International.

Reiterate investment rating as "Accumulate" but revise down TP to HK\$8.52. The Company's stock price was corrected after the results announcement. The current valuation of the Company is around 13.9x FY19 PER, much lower than its average valuation during the past five years and approaching the low boundary of forward PER. We revise down our earnings forecasts and lower valuation considering low risk preference of investors. New TP represents 19.0x FY19 PER and 17.3x FY20 PER. Downside risks include 1) foreign exchange rate and gold price fluctuation, 2) worse-than-expected slowdown in jewellery consumption growth, and 3) declining margin due to higher gold sales proportion and deleveraging.

Figure-7: Historical Forward PER of CTF


Source: Bloomberg, Guotai Junan International.

Figure-8: Historical Forward PBR of CTF


Source: Bloomberg, Guotai Junan International.

Table-5: Peers Comparison

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	Market Cap	
				16A	17F	18F	19F	16A	17F	18F	19F	18F	18F	HKD mil	
HK Listed															
Chow Tai Fook Jewellery	1929 HK	HKD	6.600	16.1	14.3	12.6	11.5	2.0	2.0	1.9	1.8	13.8	5.4	66,000	
Luk Fook Holdings	590 HK	HKD	22.850	9.8	9.0	8.5	7.8	1.3	1.2	1.1	1.0	14.4	4.9	13,415	
Chow Sang Sang	116 HK	HKD	12.140	9.4	7.9	7.2	6.5	0.8	0.8	0.7	0.7	9.9	5.0	8,224	
Emperor Watch & Jewellery	887 HK	HKD	0.270	11.7	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	1,830	
Hengdeli Holdings	3389 HK	HKD	0.305	n.a.	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	1,422	
Oriental Watch Holdings	398 HK	HKD	2.120	8.7	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	1,209	
Simple Average				11.2	10.4	9.4	8.6	0.9	1.3	1.2	1.2	12.7	5.1		
Weighted Average				14.4	12.8	11.5	10.5	1.7	1.7	1.7	1.6	13.5	5.3		
PRC Listed															
Lao Feng Xiang	600612 CH	CNY	38.000	17.5	15.5	13.7	12.0	3.5	3.1	2.8	2.6	20.7	3.1	18,636	
Tesiro Jewelry	603900 CH	CNY	12.950	14.1	14.3	12.4	10.1	1.9	1.8	1.6	1.4	12.3	1.6	4,957	
Zhejiang Ming Jewelry	002574 CH	CNY	5.060	29.8	22.0	20.2	17.4	0.9	0.8	0.8	0.8	3.7	1.8	3,004	
Fiyta Holding	200026 CH	HKD	5.060	13.7	10.3	8.4	6.9	0.7	0.8	0.7	0.7	6.9	n.a.	3,397	
Simple Average				18.8	15.5	13.7	11.6	1.8	1.6	1.5	1.3	10.9	2.2		
Weighted Average				17.7	15.4	13.5	11.7	2.7	2.4	2.2	2.0	16.0	2.7		
Global Listed															
Cie Financiere Richemont	CFR SW	CHF	64.920	27.9	26.4	16.3	16.6	2.2	2.1	2.1	1.9	8.1	2.3	292,029	
Swatch Group	UHR SW	CHF	297.300	21.5	15.6	13.7	12.0	1.4	1.4	1.3	1.2	8.5	2.8	128,628	
Tiffany & Co	TIF US	USD	91.000	25.5	30.6	19.0	17.2	3.8	3.5	3.4	3.1	11.8	1.8	86,795	
Simple Average				25.0	24.2	16.3	15.3	2.5	2.3	2.2	2.1	9.5	2.3		
Weighted Average				25.9	24.4	16.1	15.5	2.3	2.2	2.1	2.0	8.8	2.4		

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Mar (HK\$ m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Mar (HK\$ m)	2017A	2018A	2019F	2020F	2021F
Total Revenue	51,246	59,156	64,078	70,627	75,864	Property, plant and equipment	4,666	5,341	5,879	6,121	6,219
Cost of sales	(36,283)	(42,943)	(46,301)	(51,012)	(54,678)	Investment properties	250	234	245	257	270
Gross profit	14,963	16,213	17,777	19,615	21,186	Deferred tax assets	313	293	308	323	339
Other income	330	408	428	450	472	Goodwill and other intangible assets	614	564	564	564	564
Selling and distribution costs	(8,011)	(8,239)	(8,755)	(9,944)	(10,926)	Others	1,904	2,391	2,334	2,343	2,353
Administrative expenses	(2,296)	(2,682)	(2,762)	(3,038)	(3,129)	Total Non-current Assets	7,133	8,258	8,767	9,044	9,182
Operating Profit	4,985	5,701	6,688	7,082	7,603	Cash & Cash Equivalents	7,943	7,944	6,568	4,515	3,506
Other gain/loss	(286)	342	(330)	(91)	(26)	Trade and Other Receivables	5,057	6,410	6,408	7,204	7,738
Other expenses	(215)	(48)	(105)	(122)	(92)	Inventories	29,259	34,929	36,524	40,116	42,939
Gain/loss from a JV & associate	(10)	0	2	5	7	Others	9	28	14	17	20
Finance costs, net	(97)	(163)	(117)	(135)	(146)	Total Current Assets	42,269	49,312	49,514	51,852	54,203
Profit Before Tax	4,378	5,832	6,138	6,739	7,346	Total Assets	49,402	57,570	58,280	60,896	63,385
Income Tax	(1,227)	(1,629)	(1,535)	(1,685)	(1,836)	Accounts payable	5,693	8,359	8,330	9,252	10,014
profit After Tax	3,151	4,203	4,604	5,054	5,509	Gold loan	3,216	5,335	6,408	7,063	7,586
Non-controlling Interest	(96)	(108)	(119)	(130)	(142)	Short-term borrowings	6,193	5,823	5,765	5,707	5,650
Shareholders' Profit / Loss	3,055	4,094	4,485	4,924	5,367	Tax payable	596	1,102	710	803	872
Basic EPS	0.306	0.409	0.448	0.492	0.537	Others	90	101	90	90	90
Cash Flow Statement						Total Current Liabilities	15,788	20,719	21,303	22,915	24,212
Year end 31 Mar (HK\$ m)	2017A	2018A	2019F	2020F	2021F	Long-term borrowings	600	2,100	2,100	2,100	2,100
PBT	4,378	5,832	6,138	6,739	7,346	Retirement benefit obligations	227	232	234	231	232
Income tax	(857)	(972)	(1,535)	(1,685)	(1,836)	Deferred tax liabilities	286	421	430	438	447
Adjust for depre.&amort.	868	885	1,008	1,117	1,158	Total Non-current Liabilities	1,112	2,753	2,764	2,769	2,779
Change in WC	1,452	(3,026)	(1,621)	(3,466)	(2,595)	Total Liabilities	16,900	23,472	24,067	25,684	26,991
Others	410	132	299	436	458	Total Shareholders' Equity	31,799	33,423	33,217	34,187	35,334
Cash from Operating Activities	6,252	2,851	4,290	3,141	4,530	Minority Interest	703	674	997	1,026	1,060
Capital expenditure	(862)	(1,084)	(1,500)	(1,300)	(1,200)	Total Equity	32,502	34,098	34,214	35,212	36,394
Others	(285)	(493)	0	0	0	Financial Ratios					
Cash from Investing Activities	(1,147)	(1,577)	(1,500)	(1,300)	(1,200)		2017A	2018A	2019F	2020F	2021F
Net bank borrowings	(4,135)	2,907	1,014	597	467	Gross margin	29.2%	27.4%	27.7%	27.8%	27.9%
Interest paid	(251)	(245)	(275)	(291)	(302)	Net margin	6.0%	6.9%	7.0%	7.0%	7.1%
Dividend paid	(5,148)	(4,260)	(4,691)	(3,954)	(4,220)	ROE	9.2%	12.6%	13.5%	14.6%	15.4%
Others	(238)	(156)	(214)	(246)	(283)	ROA	9.2%	12.6%	13.5%	14.6%	15.4%
Cash from Financing Activities	(9,771)	(1,753)	(4,166)	(3,894)	(4,339)	Net gearing	Net Cash	Net Cash	3.9%	9.6%	12.0%
Net Changes in Cash	(4,667)	(479)	(1,376)	(2,053)	(1,009)						
Foreign Exchange Effect	(392)	480	0	0	0						
Cash at Beg of Year	13,001	7,943	7,944	6,568	4,515						
Cash at End of Year	7,943	7,944	6,568	4,515	3,506						

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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