

Company Report: Xiamen Int'l Port (03378 HK)

公司报告: 厦门港务 (03378 HK)

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Marching on Against Adversity, Maintain "Neutral"

逆境前行, 维持“中性”

- **Reduction in fees or affected company income.** Since 2Q18, Xiamen Free Trade Zone has offered "full process of sunny service" with XIPC, and has proactively released a transparent list of prices covering charge items, charge standards and services content. Overall prices of "full process of sunny service" products will be reduced by 30%, which may obviously reduce burden on foreign trade import and export enterprises. According to preliminary estimations, this initiative is expected to save about RMB30 mn/year in import and export costs for XIPC's clients. We estimate the relevant negative impact on revenue of XIPC to be about 4.5%.
- **Transforming to focus on transfer shipments business may help XIPC to offset impact from client loss to regain competitive advantage.** XIPC competes with XOCT (a subsidiary of COSCO SHIPPING Port) within the same region. Due to route re-planning of competitors under Ocean Alliance, XIPC has experienced loss of major shipping customers since 2Q18. We believe that a gradual transform towards transfer container business and feeder line business may create new competitive advantages. By 3Q18, transfer shipments only accounted for 5.8% of XIPC's total volume, with large growth potential.
- **Maintain "Neutral" rating and cut target price to HK\$1.16.** Negative expectations for the performance of the first three quarters of subsidiary company Xiamen Port Development ("XPD", 000905 SZ) from the market have been fully released. Under the background of an ongoing Sino-U.S trade war, XIPC will still face obstacles such as demand decline. We believe that XIPC will gradually step out of the haze in the future by regaining new advantages. Our TP corresponds to 13.6x, 9.5x and 9.0x 2018-2020 PER.
- **降费或影响公司收入。** 2018 年二季度以来, 厦门自由贸易区提出了厦门口岸“全流程阳光服务”产品, 并主动发布了价格透明的涵盖收费项目、收费标准、服务内容等信息的阳光价格清单。“全流程阳光服务”产品(扣除政府性收费)价格整体将降低 30%, 这样可明显为外贸进出口企业减负。根据初步估算, 这一举措的全部实施每年预计可为厦门口岸的企业节约进出口成本约人民币 3000 万元, 我们测算对厦门港务收入端的负面冲击约为 4.5%。
- **客户流失的同时转型发力中转箱业务, 厦门港务有望重拾竞争优势。** 公司在与中远海运港口旗下的厦门远海码头在同区域内竞争, 由于对手方所属的海洋联盟重新规划航线, 厦门港务 2018 年二季度以来出现了主要客户流失的情况。我们认为公司逐步转型发力中转箱业务和支线业务打造新的竞争优势, 截至 2018 年三季度末中转箱仅占公司 5.8% 箱量, 增长潜力较大。
- **维持“中性”评级并下调目标价至 1.16 港元。** 市场上对于子公司厦门港务发展(000905 SZ)前三季度业绩的负面预期已充分释放。中美贸易战大背景下公司仍将面临需求困境, 我们相信厦门港务未来会逐步走出阴霾。我们的目标价对应 13.6 倍、9.5 倍及 9.0 倍的 2018-2020 年市盈率。

Rating:

Neutral

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$1.16

Revised from 原目标价:

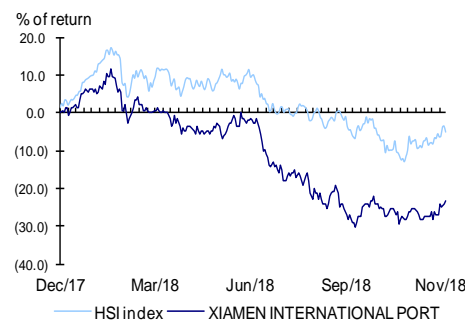
HK\$1.32

Share price 股价:

HK\$1.110

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 %	2.8	4.7	(23.4)
Rel. % to HS Index 相对恒指变动 %	3.1	8.1	(15.5)
Avg. share price (HK\$) 平均股价 (港元)	1.1	1.1	1.3

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	8,484	319	0.117	(25.9)	8.5	1.798	0.6	0.040	4.0	6.4
2017A	12,922	411	0.151	29.1	6.1	1.916	0.5	0.035	3.8	8.1
2018F	14,140	205	0.075	(50.3)	13.0	1.956	0.5	0.019	1.9	3.9
2019F	15,414	294	0.108	44.0	9.0	2.045	0.5	0.027	2.8	5.4
2020F	16,729	310	0.114	5.6	8.6	2.131	0.5	0.028	2.9	5.4
Shares in issue (m) 总股数 (m)				2,726.2	Major shareholder 大股东		Xiamen Port Holdings 63.1%			
Market cap. (HK\$ m) 市值 (HK\$ m)				3,026.1	Free float (%) 自由流通比率 (%)		36.9			
3 month average vol. 3 个月平均成交股数 ('000)				606.3	FY18 Net gearing (%) FY18 净负债/股东资金 (%)		82.3			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				1.620 / 0.980	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)		1.9			

Source: the Company, Guotai Junan International.

Investment theme: Recent fluctuations in port handling fee reduction and export data starting 2Q18 yielded negative impact on the profitability of Xiamen International Port (03378 HK, "XIPC" or the "Company"); this situation is expected to continue until 2019. Under the background of the stalemate between China and U.S trade, we remain cautious on the fundamentals and valuation of XIPC.

Since 2Q18, the average port of Xiamen Port has dropped 30%, which has had negative impact on the Company's profitability. In order to build a world-class business environment such as Shanghai, Hong Kong, Kaohsiung and other regional advanced port benchmarks, and effectively reducing import/export costs to enhance competitiveness of XIPC as a leading state-owned enterprise, Xiamen Municipal Government recently initiated a new cost calculation baseline to fit with the actual situation. The Xiamen Free Trade Zone Committee ("厦门自由贸易实验区委员会") investigated relevant port charges of other domestic ports (e.g Shanghai/ Ningbo/ Shenzhen). The Committee expects to push service innovation and resource integration by using XIPC's network information technology to realize whole processes of logistics information visualization. Specifically, the administration team for the Free Trade Zone proposed a "full process of sunny service" ("全流程阳光服务"), and issued lists covering charge items and related services content. Compared with existing terminals' import/ export handling charges, the overall port related fee from the "full-process sunshine service" (excluding the government's compulsory fees) is expected to decrease by around 30%. This measure obviously reduces the burden on foreign trade import and export enterprises. According to preliminary estimates, the full implementation of this initiative is expected to save about RMB 30 mn in import and export costs for enterprises at Xiamen Port. According to our calculations, the impact on port revenue of Xiamen Port is around -4.5%.

Table-1: XIPC's "full process of sunny service" Charge List

Export bound box fee (RMB)				Export bound box fee (RMB)			
		20 Feet Box	40 Feet Box		20 Feet Box	40 Feet Box	
1	Port construction fee	64	96	Port construction fee	64	96	
2	Cargo port fee+security premium	17	30	Cargo port fee+security premium	26	48	
3	Document operation fee			D/O exchange fee			
4	Freight forwarding fee			Freight forwarding fee			
5	Customs declaration fee			Customs declaration fee			
6	Equipment handover fee	401	436	Inspection agency fee	633	684	
7	Seal charge			Equipment handover fee			
8	Terminal storage fee (within 7 days)			Terminal storage fee (within 7 days)			
9	Online reporting service fee			Tally fee			
10	EDI information transmission fee			EDI information transmission fee			
	Total	482	562	Total	723	828	

Source: The China Ocean Shipping Agency of Xiamen, XIPC, Guotai Junan International.

However, in the short term, XIPC throughput still faces downward volume pressure. The Company and the subsidiary terminal of COSCO SHIPPING Port (01199 HK, "CSP"), Xiamen Oceangate Container Terminal ("XOCT"), constitutes fierce regional competition. CSP is affiliated to COSCO SHIPPING Group as a state-owned enterprise administrated by the central government. Therefore, CSP is not classified under the management of Xiamen's local government. After Ocean Alliance's route reshuffle, four shipping routes of the alliance left XIPC's Haicang terminal since 2Q18, and utilised XOCT instead. According to our calculations, the number of containers brought by these four routes accounted for 7.6% of XIPC's total throughput in 2017. Additionally, since OOCL (00316 HK) officially became a wholly-owned subsidiary of COSCO SHIPPING Holdings (001919 HK/601919 SH, CSP's parent company) in August 2018, it was widely expected that OOCL might switch all of its routes via Xiamen and relocate to XOCT. Based on our calculation, OOCL occupied around 1.3% of XOCT's container throughput in 2017. In the short run, throughput of XIPC might slightly come under pressure.

Table-2: XIPC's Port Operations Breakdown by the End of 3Q18

Time	Berth #	Condition	Ownership/Operation Status
Container	12	Dongdu's #5-#16 berth, Coastline: 2,486m, Water depth max: 14.5m	100% owned by Xiamen Container Terminal Group ("XCT")*
	3	Songyu #1-3, all applicable for 150,000 ton DWT's container vessel	75% owned by XCT, 25% owned by APM Terminal Xiamen
	3	Songyu #4-6, all applicable for 100,000 ton DWT's container vessel	100% owned by parent company XPG
	3	Haicang #1-3, all applicable for 150,000 ton DWT's container vessel	XCT owned 51%, Hutchison Port Group owned 49%
	3	Haicang #4-6, all applicable for 100,000 ton DWT's container vessel	100% owned by XCT
	2	Haicang #18-19, applicable for 100,000 ton DWT's container vessel	XCT owned 66%, Haicang Investment Group owned 34%

Bulk	2	Liuwudian #6-7, applicable for 50,000 ton DWT's container vessel	100% owned by XPG, while XCT operates with lease
	1	Mawei Qingzhou#8, applicable for 30,000 ton DWT's container vessel	XPG owned 100% and entrust XCT to operate
	4	Dongdu Area; applicable for 30,000 ton DWT's container vessel	100% owned by XPD
	3	Dongdu #18-19 & Haicang #7	Operated by Shihushan terminal, now 100% owned by XPD
Investment entities	2	Zhangzhou Gulei port: built for petrochemical products' transportation	51% owned by XPD, 29% owned by Zhangzhou Transportation Group, 20% owned by Gulei Public Group
	1	Reserve as Chaozhou bulk terminal, designed for 10,000 ton vessel	70% owned by XPD, 30% owned by Chaozhou government

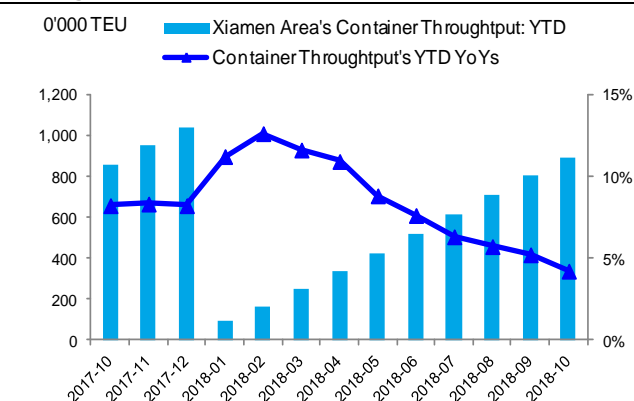
Source: the Company, Guotai Junan International.

*: Xiamen Container Terminal Group ("XCT"): 60% owned by XIPC, 20% owned by New World Port; 10% owned by Xiamen Guomao (600775 SH); 10% owned by Xiangyu Group (600057 SH).

On the other hand, if Xiamen can continually improve the quality of the city's port services in the long run, the case will be beneficial to the sustainable development of XIPC. XIPC, together with the China Ocean Shipping Agency of Xiamen, recently upgraded their port-related enterprise information systems. The two companies cooperated to build up a system called "Xiamen Port International Container Transportation Cooperation Platform" (also known as the "X-Service platform"), also establishing more than 10 electronic operation sub-systems and realized EDI system dockings with all relevant terminals. This electronic platform interlinks with ship-owners, freight forwarding companies, tug firms, logistics companies, banks, insurance and other users (more than 9,000; total transactions of more than 35 million). According to preliminary estimates, this platform can help freight forwarders and tug firms to reduce time of works such as handling, packing and filing for about 1.5 mn personnel, saving manpower and material resources. Xiamen's municipal government estimates that XIPC's X-Service may help Xiamen to save RMB45 mn/year in import/ export cost. From this perspective, Xiamen's import/ export logistics competitiveness will be enhanced, which may drive up the number of shipping routes, thus stimulating Xiamen's container throughput in the long run.

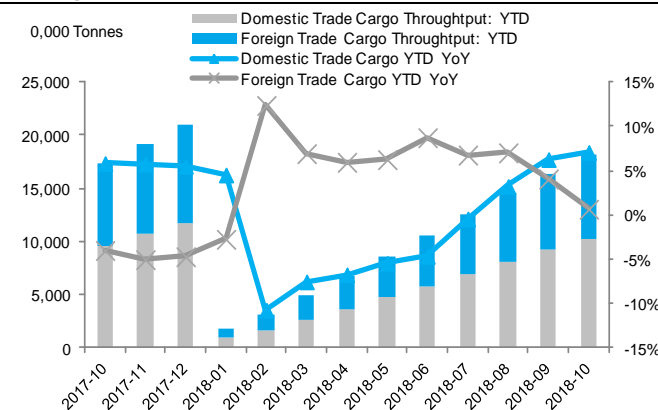
Focus is on transfer shipments business to create new advantages. In recent years, as competition of building up logistics shipping centers continually heats up, domestic and foreign port cities benchmark transfer container volume as an important indicator to measure competitiveness of a port. We expect that the emergence of large-scale vessels and new shipping alliances might enable hub ports to transform more roles to hubs to attract incremental call volume. Xiamen Port is located on China's Southeast coast, as well as in the Taiwan Strait. Relying on policy advantages from the Belt and Road initiative and construction of the Xiamen Free Trade Zone, XIPC has a global container shipping route network with large volume density. Transfer shipments business is likely to be the next development focus for regional port companies like XIPC with limited local economic resources. Additionally, developing feeder shipping line ("支线航线") business is another key point for XIPC. Feeder shipping lines could expand inner-river routes of surrounding ports, and accumulate more cargo resources for XIPC. By 3Q18, transfer shipments accounted for only 5.8% of XIPC's YTD total; we expect the percentage to reach 8.0% by 1H19. In 2017, XIPC invested bulk assets in Chaozhou as a transfer pivot, which may generate incremental bulk throughput in the future.

Figure-1: Xiamen City's Container Throughput and YoY Change

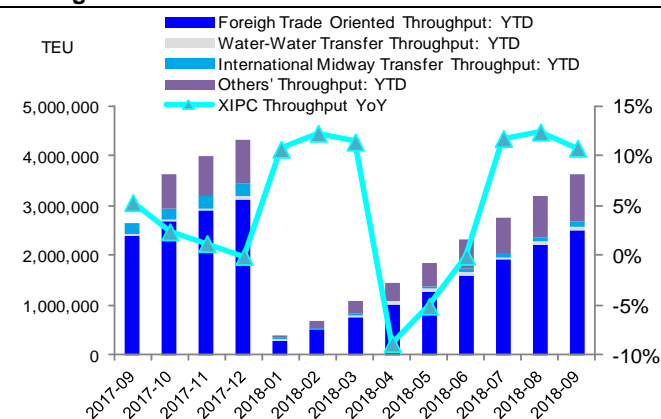


Source: Ministry of Transportation, Guotai Junan International.

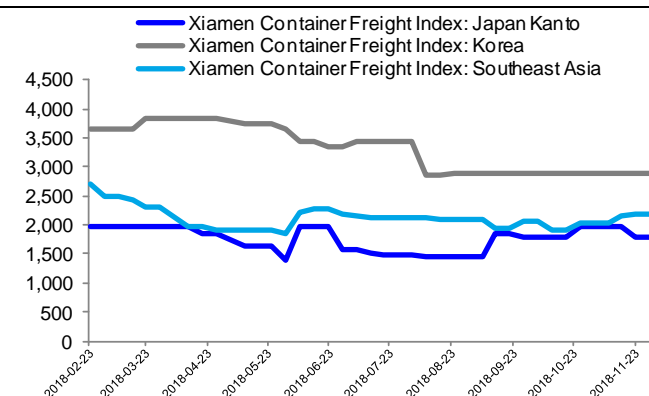
Figure-2: Xiamen Cargo Throughput Breakdown and YoY Change



Source: Ministry of Transportation, Guotai Junan International.

Figure-3: XIPC's Throughput Breakdown and YoY Change


Source: the Company, Guotai Junan International.

Figure-4: Xiamen Container Freight Indexes


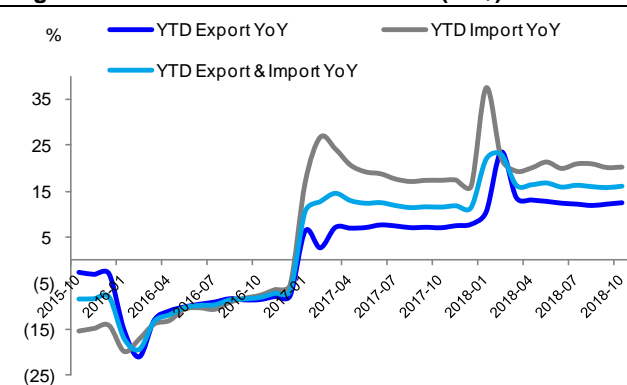
Source: Xiamen Shipping Exchange, Guotai Junan International.

Revise down profit estimates for 2018-2020 amid volume decline mixed with handling fee cut. YTD domestic exports grew 12.6% YoY in October 2018 (US\$), while YTD imports rose 20.6% YoY (US\$), while the cargo rush effect ahead of the second round of Sino-U.S tariffs may gradually diminish in December 2018 and beyond. Therefore, domestic trade fundamentals might turn against China's port industry in the future. Combined with client loss and tariff cuts, we expect XIPC's profitability to fluctuate in 2019. Overall, we adjust the Company's 2018-2020 revenue/ shareholders' profit estimates by -1.1%/ -36.5%, -3.0%/ -32.7 and -5.1%/ -33.6, respectively. Corresponding 2018-2020 EPS estimates are RMB0.075, RMB0.108, and RMB0.114, reflecting YoY changes of -50.2%, 43.4% and 5.5%.

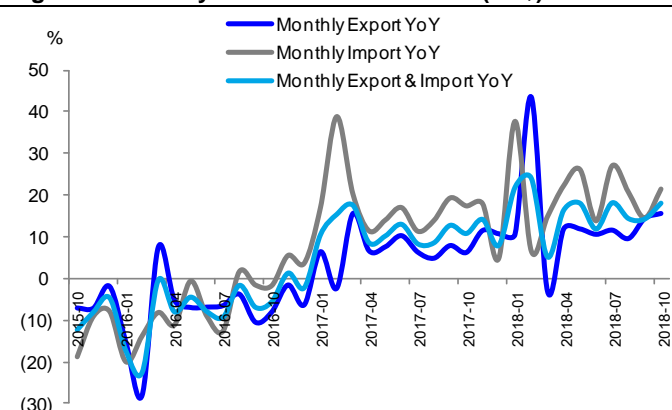
Table-3: Change in XIPC's Earnings Estimates

RMB mn	2018F	2019F	2020F
New Estimates			
Revenue	14,140	15,414	16,463
EBT	604	799	839
Net profit	205	294	310
EPS (RMB)	0.075	0.108	0.114
Old Estimates			
Revenue	14,293	15,888	17,354
EBT	853	1,164	1,263
Net profit	322	436	466
EPS (RMB)	0.118	0.160	0.171
Changes			
Revenue	-1.1%	-3.0%	-5.1%
EBT	-29.2%	-31.4%	-33.6%
Net profit	-36.5%	-32.7%	-33.6%
EPS (RMB)	-36.5%	-32.7%	-33.6%

Source: Guotai Junan International.

Figure-5: YTD Trade Growth in China (US\$)


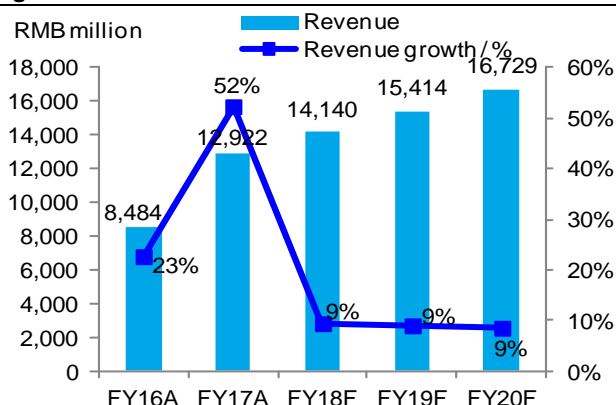
Source: General Administration of Customs, Guotai Junan International.

Figure-6: Monthly Trade Growth in China (US\$)


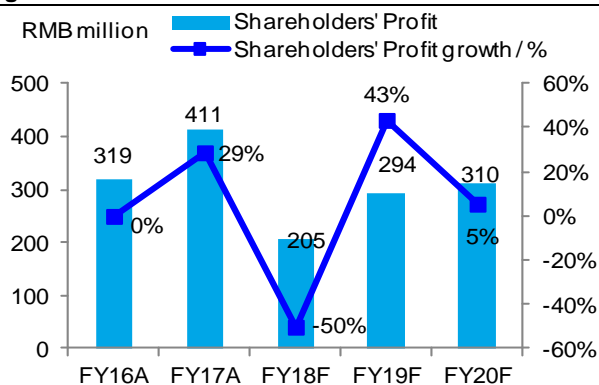
Source: General Administration of Customs, Guotai Junan International.

Maintain "Neutral" rating and adjust TP down to HK\$1.16 to reflect our conservative view on both XIPC and the port industry. Current share price of XIPC has reflected most of the market's negative thoughts given the subsidiary company Xiamen Port Development's (000905 SZ, "XPD"; XIPC has 55.13% stake) lower-than-expected 1-3Q18 results. During 1-3Q18, XPD's revenue/ net profit declined YoY by 0.68%/ 75.66%, respectively. (Net profit YoY decline was mainly due to one-off revaluation gain from acquiring Shihushan terminal in 2017). On the other hand, the port sector valuation may come under pressure amid ongoing uncertainty surrounding the Sino-U.S trade dispute. Our TP represents 13.6x, 9.5x and 9.0x 2018-2020 PER.

Major risks: 1. weak marine trade in 4Q18 and beyond amid escalating Sino-U.S trade dispute, and 2. a new round of nationwide execution of cuts in guidance for terminal handling fees from the National Development and Reform Commission.

Figure-7: XIPC's FY18-FY20 Revenue Estimates


Source: the Company, Guotai Junan International.

Figure-8: XIPC's FY18-FY20 Net Profit Estimates


Source: the Company, Guotai Junan International.

Table-4: Peers Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)	D/Y(%)	EV/EBITDA	ROA(%)
				16A	17F	18F	19F	16A	17F	18F	19F	17F	17F	17F	17F
HK - Listed Companies															
China Merchants Port Holding	144 HK	HKD	14.76	8.0	9.1	7.7	6.0	0.7	0.6	0.6	0.4	5.6	7.6	14.7	3.9
Cosco Shipping Ports Ltd	1199 HK	HKD	7.44	5.6	9.1	7.7	6.0	0.6	0.5	0.5	0.4	5.6	4.0	16.7	3.9
Dalian Port (Pda) Co Ltd-H	2880 HK	HKD	1.05	22.7	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tianjin Port Dvlp Hlds Ltd	3382 HK	HKD	0.87	6.9	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xiamen International Port-H	3378 HK	HKD	1.11	6.1	13.0	9.0	8.6	0.5	0.5	0.5	0.5	3.9	1.9	n.a.	1.8
Qingdao Port International-H	6198 HK	HKD	4.46	6.5	8.3	6.1	5.7	0.5	0.5	0.5	0.4	6.0	2.9	n.a.	2.4
Simple Average				9.3	9.9	7.6	6.6	0.5	0.5	0.5	0.4	5.3	4.1	15.7	3.0
Weighted Average				9.8	9.0	7.3	6.0	0.6	0.6	0.6	0.4	5.7	5.4	15.3	3.4
China - Listed Companies															
Dalian Port Pda Co Ltd-A	601880 CH	CNY	1.96	49.0	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tianjin Port Co Ltd-A	600717 CH	CNY	7.33	15.0	n.a.	n.a.	n.a.	0.8	0.8	0.7	0.7	4.9	1.9	n.a.	2.2
Anhui Wanjiang Logistics-A	600575 CH	CNY	2.48	31.0	n.a.	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Rizhao Port Co Ltd -A	600017 CH	CNY	2.90	24.2	14.5	12.6	8.8	0.8	0.8	n.a.	n.a.	5.5	n.a.	n.a.	n.a.
Tangshan Port Group Co Ltd-A	601000 CH	CNY	2.51	10.2	8.2	7.7	6.1	1.0	0.9	0.9	n.a.	10.2	3.2	n.a.	6.8
Shenzhen Chiwan Wharf Hldg-A	000022 CH	CNY	17.18	22.0	n.a.	n.a.	n.a.	2.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shenzhen Chiwan Wharf Hldg-B	200022 CH	HKD	9.71	10.8	n.a.	n.a.	n.a.	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xiamen Port Development Co-A	000905 CH	CNY	6.63	33.2	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shenzhen Airport Co-A	000089 CH	CNY	7.85	24.3	20.7	17.7	16.0	1.4	1.4	1.3	1.2	6.7	1.4	9.6	5.9
Jinzhou Port Co Ltd-B	900952 CH	USD	0.35	33.1	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yingkou Port Liability Co-A	600317 CH	CNY	2.42	29.3	n.a.	n.a.	n.a.	1.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ningbo Zhoushan Port Co Lt-A	601018 CH	CNY	3.66	18.3	18.3	16.3	n.a.	1.3	1.3	1.2	n.a.	6.9	1.9	n.a.	4.1
Jiangsu Lianyungang Port -A	601008 CH	CNY	3.20	320.0	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Guangzhou Port Co Ltd-A	601228 CH	CNY	4.15	34.6	n.a.	n.a.	n.a.	2.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				46.8	15.4	13.6	10.3	1.3	1.0	1.0	1.0	6.8	2.1	9.6	4.8
Other Area - Listed Companies															
Piraeus Port Authority Sa	PPA GA	EUR	15.52	34.4	18.8	14.5	12.2	2.1	n.a.	n.a.	n.a.	n.a.	1.1	n.a.	n.a.
Dp World Ltd	DPW DU	USD	16.75	11.8	11.8	11.0	10.0	1.3	1.2	1.1	1.0	10.5	2.5	8.7	4.7
Eurokai Kga	EUK2 GR	EUR	37.00	10.1	15.6	16.4	15.2	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	7.8	n.a.
Hamburger Hafen Und Logistik	HHFA GR	EUR	18.72	16.9	13.9	13.9	12.7	2.4	2.3	2.2	2.0	17.6	4.3	5.2	7.3
Simple Average				18.3	15.0	13.9	12.5	1.8	1.8	1.6	1.5	14.1	2.6	7.3	6.0
Weighted Average				12.8	12.3	11.5	10.5	1.4	1.3	1.2	1.1	11.2	2.6	8.4	4.9

Source: Bloomberg.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	8,484	12,922	14,140	15,414	16,729
Container loading/discharging & storage	1,589	1,944	1,932	2,045	2,142
Bulk/General cargo loading/unloading	595	599	531	510	520
Comprehensive port logistics services	753	777	776	792	823
Manufacturing/selling of building materials	330	330	330	333	337
Trading of industrial products	5,217	9,273	10,571	11,733	12,907
Cost of sales	(7,356)	(11,722)	(13,062)	(14,236)	(15,475)
SG&A	(383)	(429)	(437)	(462)	(484)
Other income and gains, net	306	467	193	203	203
Operating Profit	1,051	1,238	834	918	974
Finance costs, net	(66)	(165)	(232)	(127)	(138)
Share of associates	(0)	3	1	3	3
Share of joint ventures	36	(6)	1	5	0
Profit Before Tax	1,021	1,071	604	799	839
Income Tax	(216)	(251)	(151)	(200)	(210)
Profit After Tax	805	820	453	599	629
Non-controlling Interest	(486)	(408)	(248)	(306)	(320)
Shareholders' Profit / Loss	319	411	205	294	310
Basic EPS	0.117	0.151	0.075	0.108	0.114

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Profit before income tax	1,021	1,071	604	799	839
Depreciation and amortization	432	595	827	826	828
Other gain/loss	(135)	(15)	218	52	72
Change in working capital	(197)	(539)	110	(52)	(106)
Interest paid	(103)	(216)	(254)	(242)	(188)
Income tax paid	(214)	(229)	(151)	(200)	(210)
Cash from Operating Activities	804	667	1,353	1,183	1,235
CapEx	(665)	(592)	(725)	(757)	(783)
Interest received	60	26	37	135	70
Dividends received	18	6	2	2	2
Purchase of wealth management products	(300)	(745)	(300)	(400)	(400)
Settlement of wealth management products	130	397	500	310	380
Others	(234)	192	52	49	37
Cash from Investing Activities	(991)	(717)	(434)	(661)	(693)
Proceeds from Borrowings	4,207	4,883	4,799	3,450	3,367
Repayments of Borrowings	(3,486)	(3,943)	(3,683)	(5,223)	(4,275)
Dividends paid	(111)	(109)	(43)	(25)	(36)
Dividends paid to minority shareholders	(158)	(794)	(52)	(26)	(37)
Payment for business combination under common control	0	(502)	0	0	0
Others	11	47	72	16	16
Cash from Financing Activities	464	(417)	1,093	(1,808)	(966)
Cash at Beg of Year	862	1,141	671	2,684	1,398
Net Changes in Cash	276	(468)	2,012	(1,286)	(424)
Cash at End of Year	1,141	671	2,684	1,398	974

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Property, plant and equipment	8,448	11,791	11,779	11,804	11,859
Intangible assets	311	619	605	592	578
Land use rights	2,803	3,687	3,587	3,487	3,388
Investment properties	135	159	153	147	141
Interest in associates	59	50	51	54	57
Interest in joint venture	896	73	74	79	79
Other non-current assets	581	739	767	748	731
Total Non-current Assets	13,232	17,118	17,017	16,911	16,833
Cash & Cash Equivalents	1,141	671	2,684	1,398	974
Accounts and notes receivable	1,153	1,151	1,040	1,140	1,283
Inventories	541	587	638	694	756
Other current assets	1,448	1,381	1,183	1,253	1,254
Total Current Assets	4,283	3,791	5,544	4,486	4,268
Total Assets	17,515	20,909	22,561	21,397	21,100
Short-term bank borrowings	2,217	3,708	4,280	3,124	2,744
Taxes payable	77	119	71	94	99
Payables, accruals and others	3,056	2,219	2,319	2,381	2,456
Total Current Liabilities	5,351	6,046	6,671	5,600	5,299
Long-term bank borrowings	1,324	2,430	2,974	2,357	1,829
Other non-current liabilities	528	590	733	733	733
Total Non-current Liabilities	1,852	3,020	3,707	3,090	2,562
Total Liabilities	7,203	9,065	10,378	8,690	7,861
Share capital	2,726	2,726	2,726	2,726	2,726
Retained earnings	2,068	2,401	2,555	2,775	3,007
Proposed dividend	109	95	51	73	77
Total Shareholders' Equity	4,903	5,222	5,332	5,574	5,811
Minority Interest	5,409	6,621	6,851	7,133	7,429
Total Equity	10,312	11,843	12,183	12,707	13,239

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
EBITDA margin (%)	17.4	14.1	11.7	11.3	10.7
EBIT margin (%)	12.4	9.6	5.9	6.0	5.8
SG&A ratio (%)	4.5	3.3	3.1	3.0	2.9
ROA (%)	2.4	2.9	1.8	2.2	2.1
ROE (%)	6.4	8.1	3.9	5.4	5.4
Fixed asset turnover (x)	1.1	1.3	1.2	1.3	1.4
A/R turnover (x)	7.7	11.2	12.9	14.1	13.8
Inventory turnover (x)	15.9	19.7	20.0	20.1	20.2
Current ratio (x)	0.8	0.6	0.8	0.8	0.8
Quick ratio (x)	0.5	0.4	0.6	0.5	0.5
Net gearing ratio (%)	42.4	97.4	82.3	68.4	56.9
Interest coverage ratio (x)	8.6	6.0	3.1	3.6	4.8

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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