



## Company Report: CECEP COSTIN New Materials (02228 HK)

公司报告: 中国节能海东青新材料 (02228 HK)

Noah Hudson  
+86 755 2397 6684  
noah.hudson@gtjas.com

28 April 2016

# Expect Higher Net Profit Margin in 2016, "Accumulate"

预期2016年净利润率较高, “收集”

- **CECEP COSTIN New Materials ('CC' or the 'Company')'s 2H15 EPS decreased 66.9% yoy and was 62.6% below our forecast due to revenue and margin decline.** 2H15 revenue decreased 29.0% YoY, was 42.6% below our expectation and decreased 18.4% HoH, the first time on record when revenue was lower in the second half of the year compared to the first half; from 2009 through 2014, revenue always increased HoH in the second half of the year due to seasonal trends. Making matters worse, 2H15 gross profit margin declined by 7.7 ppt YoY, indicating a significant deterioration of business environment.
- **We revise down 2016 and 2017 EPS forecasts by 23.8% and 22.9%, respectively, on lower revenue, partially offset by higher profit margin.** Administrative expenses in 2H15 included one-off allowances for trade receivables and inventories which we do not expect to repeat in 2016. Excluding such allowances, the percentage of administrative expenses to revenue was 5.8% in 2015, better than we previously expected, and so we increase our operating margin forecasts. We expect net profit margin to increase from 14.6% in 2015 to 18.2% in 2016.
- **Reduce target price from HK\$1.55 to HK\$0.80 and downgrade from 'Buy' to "Accumulate".** Our target price represents 6.3x 2016 PE, 5.8x 2017 PE and 5.3x 2018 PE. Since our new target price represents 14.3% upside potential, we downgrade CC's investment rating to 'Accumulate'.
- **由于收入以及盈利率下跌, 中国节能海东青新材料 (“公司”) 的 2015 年下半年每股净利润同比下滑 66.9%, 低于我们的预期 62.6%。** 2015 年下半年收入同比下降 29.0%, 低于我们预期 42.6%, 也环比下降 18.4%, 是有记录以来公司第一次下半年收入低于上半年; 从 2009 至 2014 年, 因为季节性的原因, 下半年收入都高于上半年。火上加油的是, 2015 年下半年毛利率同比下降 7.7 个百分点, 显示商务环境恶化。
- **因收入预期下调, 但是部分被盈利率预期上调抵消, 我们分别下调 2016 年和 2017 年每股净利润预期 23.8% 和 22.9%。** 2015 年下半年的行政开支包括一次性的贸易账款及存货拨备, 而我们预期在 2016 年不会再发生。排除此拨备, 2015 年行政开支对收入比例为 5.8%, 好于我们上次预期, 所以我们提升经营盈利率预期。2015 年净利润率为 14.6%, 而我们预期在 2016 年提升至 18.2%。
- **下调目标价从 1.55 港元至 0.80 港元并且下调投资评级从 ‘买入’ 至 ‘收集’。** 我们的目标价相当于 6.3 倍 2016 年市盈率、5.8 倍 2017 年市盈率和 5.3 倍 2018 年市盈率。我们的目标价有 14.3% 的上升空间, 所以下调投资评级至 ‘收集’。

Rating:

**Accumulate**

Downgraded

评级:

收集 (下调)

6-18m TP 目标价:

**HK\$0.80**

Revised from 原目标价:

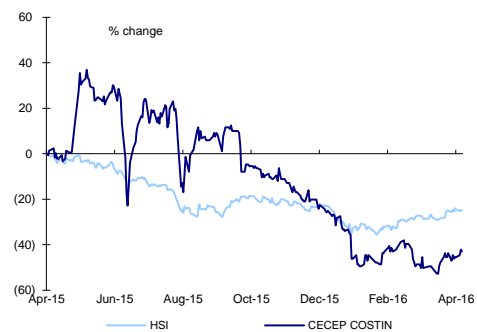
HK\$1.55

Share price 股价:

HK\$0.700

### Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动	16.4	14.5	(42.1)
Rel. % to HS index 相对恒指变动 %	10.1	1.9	(18.2)
Avg. share price(HK\$) 平均股价 (港元)	0.7	0.7	1.1

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ%)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2014A	1,323	266	0.114	9.8	4.9	0.689	0.8	0.080	13.4	17.7
2015A	1,242	181	0.078	(32.0)	7.6	0.737	0.8	0.016	2.7	10.9
2016F	1,384	252	0.108	38.9	5.5	0.805	0.7	0.022	3.7	14.0
2017F	1,484	275	0.118	9.1	5.0	0.893	0.7	0.024	4.0	13.9
2018F	1,617	296	0.127	7.9	4.7	0.990	0.6	0.026	4.3	13.5

Shares in issue (m) 总股数 (m)	2,329.3	Major shareholder 大股东	CECIC Chongqing Industry	42.3%
Market cap. (HK\$ m) 市值 (HK\$ m)	1,630.5	Free float (%) 自由流通比率 (%)		32.0
3 month average vol. 3 个月平均成交股数 ('000)	3,215.5	FY16 Net gearing (%) FY16 净负债/股东资金 (%)		Net Cash
52 Weeks high/low (HK\$) 52 周高/低	1.770 / 0.550	FY16 Est. NAV (HK\$) FY16 每股估值 (港元)		1.0

Source: the Company, Guotai Junan International.

## 2H15 Results

**CECEP COSTIN New Materials ('CC' or the 'Company')'s 2H15 EPS plunged 66.9% yoy and was 62.6% below our expectation on lower revenue and lower margins.** 2H15 revenue declined by 29.0% YoY to RMB558.0 million and was 42.6% below our forecast. 2H15 gross profit decreased by 45.3% YoY to RMB144.7 million. Net profit for the period attributable to owners of the Company decreased by 66.9% YoY to RMB54.132 million. Basic and diluted EPS for 2H15 was RMB0.0546.

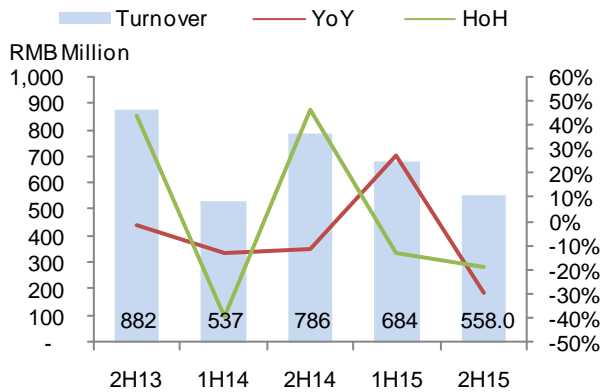
**In 2H15, CC's revenue declined HoH for the first time since records have been available.** CC's 2H15 revenue was much lower than we had expected. Since the Company's earliest records in 2009 through 2014, the Company's revenue has always been higher in the second half of the year due to seasonal trends. From 2009 through 2014, revenue in the second half of the year accounted for 57.5%, 57.1%, 52.6%, 57.3%, 59.0% and 59.4% of total annual revenue, respectively. 2H15 revenue however declined by 18.4% HoH and accounted for just 44.9% of total revenue in 2015. Normally there would have been an increase in revenue in the second half of the year. We think the HoH decline in 2H15 signals a drastic decline in business for the Company.

**2H15 dividend payout ratio was 74.7%, up from 17.6% in 1H15.** CC's total dividend per share in 2013, 2014 and 2015 was very stable at HK\$0.027, HK\$0.026 and HK\$0.027, respectively. We expect the Company to continue to maintain a stable dividend per share amount in 2016.

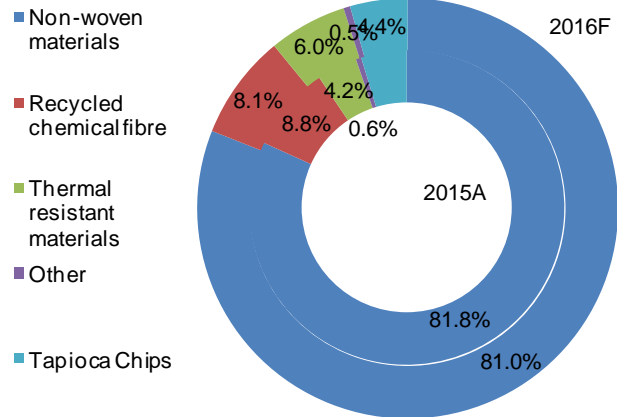
**Table-1: CECEP COSTIN Results Summary**

RMB million	2H14	1H15	2H15	YoY (% or ppts.)	HoH (% or ppts.)
Revenue	786	684	558	(29.0%)	(18.4%)
Cost of sales	(522)	(478)	(413)	(20.8%)	(13.4%)
Gross profit	264	206	144	(45.3%)	(30.0%)
Other income	7	7	16	110.9%	132.9%
% of revenue	0.9%	1.0%	2.8%	1.9 ppt	1.8 ppt
Distribution expenses	(10)	(8)	(8)	(20.8%)	(3.8%)
% of revenue	1.2%	1.2%	1.4%	0.1 ppt	0.2 ppt
Administrative expenses	(47)	(36)	(68)	42.9%	88.6%
% of revenue	6.0%	5.2%	12.1%	6.1 ppt	6.9 ppt
Profit from operations	215	169	85	(60.5%)	(49.9%)
Finance costs	(11)	(9)	(9)	(20.0%)	(3.5%)
Profit before tax	204	161	76	(62.6%)	(52.5%)
Income tax expense	(40)	(33)	(22)	(44.8%)	(33.7%)
effective tax rate	19.7%	20.8%	29.1%	9.4 ppt	8.2 ppt
Net profit	164	127	54	(66.9%)	(57.4%)
EBITDA	240	195	112	(53.6%)	(42.8%)
EPS (RMB)	0.0703	0.0546	0.0232	(66.9%)	(57.4%)
Gross profit margin	33.6%	30.2%	25.9%	(7.7) ppt	(4.3) ppt
Operating profit margin	27.3%	24.8%	15.2%	(12.1) ppt	(9.6) ppt
Net profit margin	20.8%	18.6%	9.7%	(11.1) ppt	(8.9) ppt

Source: the Company, Guotai Junan International.

**Figure-1: CC's Total Revenue & Growth**


Source: the Company.

**Figure-2: CC's Revenue Composition**


Source: the Company, Guotai Junan International.

## 2015 Results

The overall 2015 gross profit margin was 28.3%, representing a decrease of 4.2 ppt YoY. The gross profit margin for non-woven materials segment decreased from 37.4% for 2014 to 32.5% for 2015. As for the recycled chemical fibre segment, its gross profit margin was 18.3% for 2015, representing an increase of approximately 0.3 percentage points YoY. The thermal resistant filtration materials incurred a segment loss of approximately RMB3.1 million during the year (2014: gain of RMB6.5 million). The gross profit margin of tapioca chips was approximately 2.9%. The decrease in gross profit margin of non-woven materials was mainly due to the decrease in market demand for traditional industrial products as a result of a slowdown in the PRC economy and increased market competition.

**Administrative expenses for 2015 increased by 17.9% YoY mainly due to the increase of allowances for trade receivables and inventories by RMB24.1 million to RM31.7 million.** Excluding the allowances for trade receivables and inventories, the percentage of administrative expenses to revenue was approximately 5.8% for 2015 (2014: 6.1%).

**Higher effective tax rate in 2015 due to one off allowances.** As a "High and New Technology Enterprise", the Company enjoys a preferential statutory tax rate of 15%. However, The Company's effective income tax rate increased from 19.9% in 2014 to 23.5% for 2015. As the allowances for trade receivables and inventories made for the year cannot be used immediately to offset the current tax of the Company, the effective income tax rate increased as a result. We expect the effective tax rate to drop back to about 20% in 2016.

**Basic earnings per share for 2015 was RMB7.78 cents (2014: RMB11.44 cents (restated)), representing a decrease of 32.0% YoY.** Profit attributable to owners of the Company for 2015 was RMB181.3 million, down 32.0% YoY. The Company's net profit margin was 14.6%, representing a decrease of 5.5 ppt YoY. No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary shares during the years ending 31 December 2014 and 2015.

### Non-woven materials with 3D engineering structure

**During 2015, the Company increased stitch-bonded non-woven material production capacity by 10 million yards to 113 million yards per year.** In 2015, the Company continued to strengthen its cooperation with Coroplast Fritz Müller GmbH & Co. KG (a German enterprise) in production of non-woven wiring tapes. Due to the excellent performance of this product, the Company established a long-term supply relationship with the German enterprise and expanded its annual production capacity of non-woven wiring tapes from 5 million sq.m. to 15 million sq.m. by December 2015.

**Total non-woven material production capacity increased from 160 to 170 million yards per year in 2015.** As at 31 December 2015, the Company had 23 stitch-bonded non-woven material production lines and 9 needle-punching non-woven material production lines with annual production capacity of approximately 113 million yards and 57 million yards, respectively, bringing the aggregate production capacity to approximately 170 million yards per year, up from 160 million at year end 2014.

**Sales volume of the non-woven materials and recycled chemical fibres of the Company decreased due to decline in the market demand for traditional industrial products as a result of a slowdown of the economic growth in the PRC during the year.** Being affected by the general economic conditions, sales volume and revenue of the nonwoven materials of the Company dropped by approximately 5.8% and 2.2% respectively as compared with 2014, while the gross profit margin of non-woven materials decreased by approximately 4.9 ppt to approximately 32.5% as compared with 2014.

### Recycled chemical fibres

**Recycled chemical fibres capacity unchanged in 2015.** As at 31 December 2015, the Company had 2 recycled chemical fibre production lines with annual production capacity of approximately 42,000 tons, which can process approximately 53,000 tons of waste PET chips per annum.

**2015 recycled chemical fibres revenue decreased by 37.6% YoY, while the gross profit margin increased by 0.3 percentage points to 18.3% YoY.** Affected by the drop in domestic demand for recycled chemical fibres, sales volume of recycled chemical fibres of the Company in 2015 decreased by approximately 30.8% YoY.

### Thermal resistant filtration materials

**2015 thermal resistant filtration materials revenue plunged 48.5% YoY to RMB51.9 million.** The Company has 3 thermal resistant filtration materials production lines with annual production capacity of approximately 21 million sq.m. Due to intensified market competition, sales volume of thermal resistant filtration materials of the Company was approximately 1.9 million sq.m. in 2015, representing a decrease of 24.6% YoY. With increasing application of bag-type filtration material in the steel, non-ferrous metal, chemical, waste-to-energy and medical waste incineration industries in the PRC, and the raising of smoke and dust emission standards for pollutant discharging industries by the PRC government, the Company remains cautiously optimistic about the future development of the thermal resistant filtration material business.

### Tapioca chips trading

**In 2015, revenue from tapioca chips trading of the Company amounted to approximately RMB58.2 million and the sales volume amounted to approximately 40,200 tons.** In order to diversify into the biomass energy and resource recycling-based industry businesses and broaden its income stream, the Company started to import tapioca chips from overseas markets to sell in the PRC since June 2015.

**Table-2: CECEP COSTIN Business Segment Results**

	1H14	2H14	1H15	2H15	YoY (% or ppt)	HoH (% or ppt)
<b>Non-woven materials</b>						
Sales volume (yards mn)	45	58	51	46	(20.7%)	(10.1%)
ASP (RMB/ yard)	9.21	10.70	10.99	9.81	(8.3%)	(10.7%)
Revenue (RMB mn)	416.1	621.7	563.5	451.9	(27.3%)	(19.8%)
Gross profit (RMB mn)	149.6	239.1	195.9	134.1	(43.9%)	(31.6%)
Gross margin	35.9%	38.5%	34.8%	29.7%	(8.8) ppt	(5.1) ppt
<b>Recycled chemical fibre</b>						
Sales volume (tons)	9,300	12,000	7,719	6,981	(41.8%)	(9.6%)
ASP (RMB/ ton)	8,398	8,109	7,598	7,274	(10.3%)	(4.3%)
Revenue (RMB mn)	78.1	97.3	58.7	50.8	(47.8%)	(13.4%)
Gross profit (RMB mn)	15.1	16.5	10.8	9.2	(43.8%)	(14.0%)
Gross margin	19.3%	16.9%	18.3%	18.2%	1.3 ppt	(0.1) ppt
<b>Thermal resistant filtration materials</b>						
Sales volume (sq.m. '000)	847.0	1,653.0	1,081.6	818.4	(50.5%)	(24.3%)
ASP (RMB/ sq.m.)	46.2	37.3	26.3	28.6	(23.3%)	8.7%
Revenue (RMB mn)	39.1	61.7	28.5	23.4	(62.0%)	(17.8%)
Gross profit (RMB mn)	(0.3)	6.8	(2.1)	(1.1)	(115.4%)	(49.0%)
Gross margin	(0.8%)	11.1%	(7.2%)	(4.5%)	(15.5) ppt	2.7 ppt
<b>Tapioca chips</b>						
Sales volume (tons '000)			20.3	19.9	n.a.	(2.0%)
ASP (RMB/ ton)			1,490.5	1,405.0	n.a.	(5.7%)
Revenue (RMB mn)			30.3	28.0	n.a.	(7.6%)
Gross profit (RMB mn)			0.9	0.8	n.a.	(6.9%)
Gross margin			2.9%	2.9%	n.a.	0.0 ppt

Source: the Company, Guotai Junan International.

**Dividend payout ratio fell slightly from 23.1% in 2014 to 20.3% in 2015.** The directors have resolved to recommend the payment of a final dividend of HK\$0.7 cents per ordinary share for 2015. Coupled with the interim dividend of HK\$1.2 cents per ordinary share that was already paid during the year, the total amount of dividends declared for 2015 will amount to HK\$1.9 cents per ordinary share. The dividend payout ratio for 2015 will be 20.3% (2014: 23.1%). The decrease in the amount of dividends in 2015 was due to decrease in profit. We expect the Company to maintain a steady payout ratio of around 20% in 2016.

## Outlook & Forecast Revisions

**The Company intends to put more effort into the upgrade of structure of non-woven material products and increase the proportion of products for industrial use such as in automobiles and construction industries in order to achieve higher returns.** The Company plans to continue to enhance its R&D capabilities, and through continuous development of non-woven wiring tapes for automobiles, expansion of production lines and refinement of product structure, the Company aims to accelerate the transformation and upgrade of products to increase their technology content and added value with an aim to increase the gross profit margin of its products as well as enhance its market competitiveness.

**New supply agreement with German customer to bring incremental growth in 2016.** As previously reported, on 10 June 2015, the Company announced that it entered into a supply agreement with Coroplast Fritz Müller GmbH & Co. KG ("Coroplast"), the Company's long-term German customer, to supply stitch-bonded wiring tapes for use in middle and high-end automobiles of a forecasted quantity of approximately 10 million sq.m. (subject to the actual purchase orders from Coroplast) for the period from 1 July 2015 to 30 June 2016. For this material, the Company had to purchase stitch-bonded wiring tape producing machinery with a capacity of 10 million sq.m. However, that new capacity did not commence production until 28 December 2015. Therefore, the incremental sales from the supply agreement with Coroplast will not be realized until 2016. Moreover, we think it is more likely than not that Coroplast will continue such business with the Company even after the contract term ends in 30 June 2016.

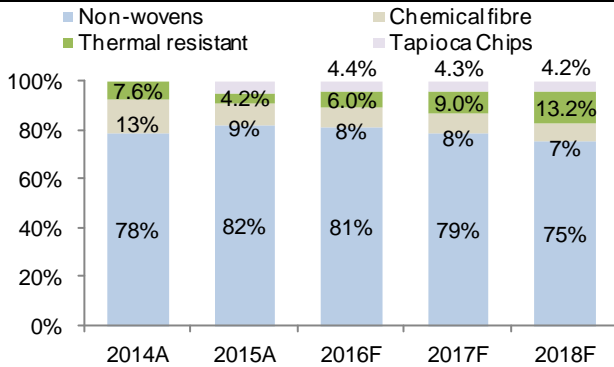
**We revise down 2016 and 2017 EPS forecasts by 23.8% and 22.9%, respectively, on lower revenue, partially offset by higher net profit margin.** CC's 2H15 revenue was 42.6% below our previous forecast, indicating a sharp deterioration in business environment. We decrease 2016 and 2017 revenue forecasts by 26.9% and 26.0%, respectively. Administrative expenses in 2015 included an increase of allowances for trade receivables and inventories of RMB7.6 million, which we do not expect will repeat in 2016. Excluding the allowances for trade receivables and inventories, the percentage of administrative expenses to revenue was approximately 5.8% for 2015, better than we previously expected, and so we increase our operating margin forecasts.

**We forecast 2016-2018 EPS of RMB0.108, RMB0.118 and RMB0.127, respectively, representing growth of 38.9%, 9.1% and 7.9%, or 17.8% CAGR.** We forecast 2016-2018 revenue of RMB1,384 million, RMB1,484 million and RMB1,617 million, respectively, representing growth of 11.4%, 7.3% and 8.9%, or 9.2% CAGR. Despite a lackluster macro environment, we expect a significant increase in CC's 2016 revenue due to CC's aforementioned new supply agreement with its German customer. We expect 2016 EPS growth to be higher than that of revenue due to one-off allowances in 2015 and also due to an effective tax rate of 23.5% in 2015, which we expect to fall back to about 20% in 2016.

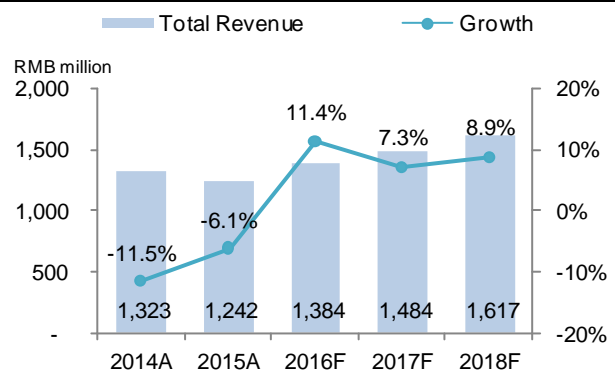
**Table-3: CECEP COSTIN New Materials Forecast Updates**

RMB million	Old			New			Change		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Revenue	1,894	2,007	n.a.	1,384	1,484	1,617	(26.9%)	(26.0%)	n.a.
Gross profit	531	573	n.a.	402	431	462	(24.3%)	(24.8%)	n.a.
Operating profit	429	456	n.a.	328	350	373	(23.6%)	(23.2%)	n.a.
Profit before tax	413	445	n.a.	314	343	370	(23.8%)	(22.9%)	n.a.
Income tax expense	(82)	(88)	n.a.	(63)	(68)	(74)	(23.7%)	(22.8%)	n.a.
Net profit	330	356	n.a.	252	275	296	(23.8%)	(22.9%)	n.a.
EPS (RMB)	0.142	0.153	n.a.	0.108	0.118	0.127	(23.8%)	(22.9%)	n.a.
Gross margin	28.0%	28.6%	n.a.	29.1%	29.0%	28.6%	1.0 ppt	0.5 ppt	n.a.
Operating margin	22.6%	22.7%	n.a.	23.7%	23.6%	23.1%	1.0 ppt	0.9 ppt	n.a.
Effective tax rate	19.9%	19.9%	n.a.	19.9%	19.9%	19.9%	0.0 ppt	0.0 ppt	n.a.
Net profit margin	17.4%	17.7%	n.a.	18.2%	18.5%	18.3%	0.7 ppt	0.8 ppt	n.a.

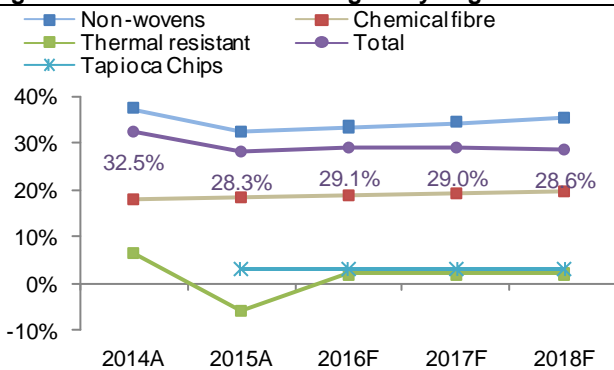
Source: Guotai Junan International.

**Figure-3: CC's Revenue By Product Segment**


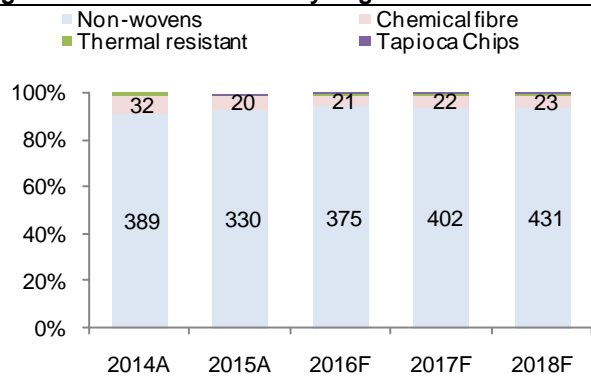
Source: the Company, Guotai Junan International.

**Figure-4: CC's Total Revenue**


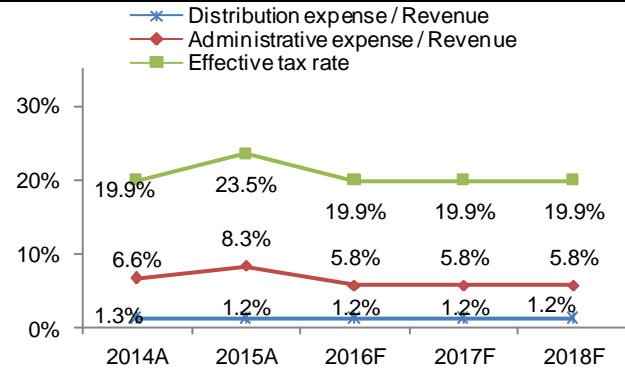
Source: the Company, Guotai Junan International.

**Figure-5: CC's Gross Profit Margins by Segment**


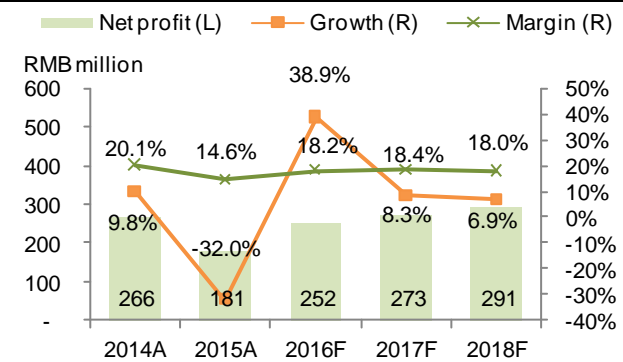
Source: the Company, Guotai Junan International.

**Figure-6: CC's Gross Profit by Segment**


Source: the Company, Guotai Junan International.

**Figure-7: CC's Expense Ratios & Effective Tax Rate**


Source: the Company, Guotai Junan International.

**Figure-8: CC's Net Profit**


Source: the Company, Guotai Junan International.

**We reduce CC's target price from HK\$1.55 to HK\$0.80 and downgrade from 'Buy' to 'Accumulate'.** We expect that CC's new supply agreement with its German customer will bring stable incremental growth for a high gross margin product line. In addition, although we forecast a negligible profit contribution from CC's new tapioca chips trading business, it has surprise upside potential as it is the Company's first step to diversify into the biomass energy and resource recycling-based industry and could lead to other opportunities. Our target price represents 6.3x 2016 PE, 5.8x 2017 PE and 5.3x 2018 PE and is a 15.9% discount to our DCF derived NAV of HK\$0.95. Our target price represents 14.3% upside potential and so we downgrade CC's investment rating to 'Accumulate'.

**Table-4: Peers Comparison**

Company	Stock Code	Currency	Last price	PE			PB			ROE(%)	D/Y(%)
				16F	17F	18F	16F	17F	18F	16F	16F
Cecep Costin New	02228 HK	HKD	0.70	6.7	5.9	5.4	1.2	1.0	0.9	n.a.	n.a.
Shenzhou Intl Gp	02313 HK	HKD	40.70	17.6	15.3	13.6	3.3	2.9	2.5	20.2	3.0
Pacific Textile	01382 HK	HKD	10.18	12.8	12.1	11.3	4.2	4.2	4.2	33.0	7.6
Texwinca Hldg	00321 HK	HKD	7.54	10.4	10.5	9.4	1.7	1.7	1.7	16.6	9.3
Texhong Textile	02678 HK	HKD	8.01	8.0	6.6	5.5	1.3	1.2	1.0	18.5	3.7
Simple Average				11.1	10.1	9.0	2.3	2.2	2.1	22.1	5.9
Weighted Average				15.1	13.4	12.0	3.0	2.8	2.6	21.7	4.5

Source: Bloomberg.

**Table-5: CECEP COSTIN New Materials Target Price Implied Valuation**

	FY15A	FY16F	FY17F	FY18F
PER Multiple for Valuation				
EPS (RMB)				
EPS (HKD)				
Target Price (HKD)	0.80			
EPS (RMB)	0.078	0.108	0.118	0.127
EPS (HKD)	0.092	0.127	0.139	0.150
PER Based on TP	8.7	6.3	5.8	5.3
FY15-18 EPS CAGR				17.8%
PEG (FY15 PE / FY15-18 EPS CAGR)				0.5

Source: Guotai Junan International.

**Table-6: CECEP COSTIN New Materials DCF Valuation**

Risk-free rate	1.58%	Terminal growth rate	3.0%
Market risk premium	10.80%	HKD/RMB	0.850
Beta	1.1		
Cost of equity	13.5%	PV of free cash flow (FY16-FY25)	RMB (mn) 829
		PV of terminal value	RMB (mn) 195
Borrowing rate	4.9%	Net debt/(cash)	RMB (mn) (1,370)
Effective tax rate	19.9%	Equity value	RMB (mn) 2,394
After tax cost of debt	3.9%	Equity value	HKD (mn) 2,817
E/(E+D)	83.4%	Shares outstanding	(mn) 2,961
WACC	11.9%	FY16 NAV per share	HKD 0.95

Source: Bloomberg, Guotai Junan International.



**Financial Statements and Ratios**

Yr end Dec. 31 (RMB, mn)	Income Statement				
	2014A	2015A	2016F	2017F	2018F
Non-woven materials	1,038	1,015	1,121	1,166	1,213
Filtration materials	101	52	83	133	213
Chemical fibre	175	109	112	114	116
Other	9	65	68	71	75
Turnover	1,323	1,242	1,384	1,484	1,617
yoy(%)	(11.5%)	(6.1%)	11.4%	7.3%	8.9%
COGS	(893)	(891)	(981)	(1,053)	(1,154)
Gross profit	429	351	402	431	462
yoy(%)	(11.7%)	(18.3%)	14.6%	7.2%	7.2%
Distribution Expenses	(17)	(15)	(17)	(18)	(20)
Administrative Expenses	(88)	(103)	(80)	(86)	(94)
Other income	29	22	23	24	24
Operating profit	354	254	328	350	373
yoy(%)	(9.4%)	(28.1%)	28.9%	6.9%	6.4%
Finance costs	(21)	(17)	(13)	(7)	(3)
Profit before tax	333	237	314	343	370
yoy(%)	(5.7%)	(28.8%)	32.7%	9.1%	7.9%
Income tax expense	(66)	(56)	(63)	(68)	(74)
Net profit	266	181	252	275	296
yoy(%)	9.8%	(32.0%)	38.9%	9.1%	7.9%
EPS (RMB)	0.114	0.078	0.108	0.118	0.127
yoy(%)	9.8%	(32.0%)	38.9%	9.1%	7.9%
EBITDA	405	307	374	391	409
yoy(%)	(7.4%)	(24.3%)	21.9%	4.6%	4.6%

Source: the Company, Guotai Junan International.

As at Dec. 31 (RMB, mn)	Balance Sheet				
	2014A	2015A	2016F	2017F	2018F
PP&E	391	352	312	277	248
Investment properties	10	9	8	8	7
Prepayments	9	13	17	20	24
Non-current assets	411	374	337	305	279
Inventory	99	90	121	105	141
Trade receivables	349	212	373	400	436
Prepayments & other	9	14	11	12	13
Other	42	21	27	33	39
Bank & cash balance	1,339	1,587	1,544	1,687	1,843
Current assets	1,838	1,923	2,076	2,236	2,471
Total assets	2,249	2,297	2,412	2,542	2,750
Long term borrowings	79	3	0	0	0
Deferred tax liabilities	72	79	110	120	129
Non-current liabilities	151	82	110	120	129
Trade & bills payable	120	113	147	158	173
Accruals & payables	71	42	69	74	81
Current borrowings	287	338	201	100	50
Current tax liabilities	16	7	10	11	12
Current liabilities	493	499	427	343	316
Total liabilities	644	581	537	463	445
Share capital	68	196	196	196	196
Retained earnings	1,536	1,520	1,679	1,883	2,109
Total equity	1,604	1,716	1,876	2,079	2,305
BPS (RMB)	0.689	0.737	0.805	0.893	0.990
yoy(%)	14.6%	7.0%	9.3%	10.9%	10.9%

Source: the Company, Guotai Junan International.

**Cash Flow Statement**

Yr end Dec. 31 (RMB, mn)	2014A	2015A	2016F	2017F	2018F
Profit before tax	333	237	314	343	370
Depreciation	51	52	46	41	36
Other adjustments	4	22	(13)	(7)	(4)
(Increase) in WC	42	82	(131)	3	(50)
Taxes paid	(62)	(57)	(60)	(67)	(73)
<b>CFO</b>	<b>368</b>	<b>336</b>	<b>157</b>	<b>312</b>	<b>280</b>
Capital expenditure	(13)	(24)	(14)	(18)	(19)
Other	(30)	31	4	5	6
<b>CFI</b>	<b>(43)</b>	<b>8</b>	<b>(9)</b>	<b>(13)</b>	<b>(13)</b>
loans and leases	(31)	(37)	(140)	(101)	(50)
Dividends paid	(61)	(63)	(51)	(56)	(60)
Convertible bond	0	0	0	0	0
<b>CFF</b>	<b>(92)</b>	<b>(100)</b>	<b>(191)</b>	<b>(157)</b>	<b>(110)</b>
Cash at Jan. 1	1,105	1,339	1,587	1,544	1,687
Net change in cash	233	244	(43)	142	156
For-X effect	0	5	0	0	0
<b>Cash at Dec. 31</b>	<b>1,339</b>	<b>1,587</b>	<b>1,544</b>	<b>1,687</b>	<b>1,843</b>

Source: the Company, Guotai Junan International.

**Margins & Ratios**

	2014A	2015A	2016F	2017F	2018F
Gross margin (%)	32.5	28.3	29.1	29.0	28.6
Operating margin (%)	26.8	20.5	23.7	23.6	23.1
EBITDA margin (%)	30.6	24.7	27.0	26.4	25.3
Net profit margin (%)	20.1	14.6	18.2	18.5	18.3
ROA (%)	12.3	8.0	10.7	11.1	11.2
ROE (%)	17.7	10.9	14.0	13.9	13.5
Interest coverage (x)	16.8	14.7	24.6	47.4	101.2
Current ratio (x)	3.7	3.9	4.9	6.5	7.8
Net gearing ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Inventory turnover days	49.2	38.7	39.2	39.2	38.9
Trade receivable days	98.4	98.4	98.4	98.4	98.4
Trade payable days	54.7	54.7	54.7	54.7	54.7

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	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	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	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

### DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for SMI Holdings Group Limited (00198 HK), Guangshen Railway Company Limited-H shares (00525 HK), China All Access (Holdings) Limited (00633 HK), Guotai Junan International Holdings Limited (01788 HK), Binhai Investment Company Limited (02886 HK) and Link Holdings Limited (08237 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its Company companies have had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.

### DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its Company companies may do business that relates to companies covered in research reports, including investment banking, investment services and etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan Company of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking Companies of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its Company companies to any registration or licensing requirement within such jurisdiction.

© 2016 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.  
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk