



Rating
Buy

Asia
China

Industrials
Manufacturing

Company
JONHON Optronic

Reuters 002179.SZ Bloomberg 002179 CH Exchange SHZ Ticker 002179

Date
13 September 2017

Forecast Change

| | |
|----------------------------|---------------|
| Price at 13 Sep 2017 (CNY) | 34.13 |
| Price target - 12mth (CNY) | 43.00 |
| 52-week range (CNY) | 35.63 - 27.20 |
| Shenzhen Index | 2,078 |

Luoyang HQ visit reaffirms earnings uptrend; raising target price

Order momentum picking up; Buy on multi-year earnings upcycle ahead

We visited Jonhon Optronic's Luoyang headquarters last week and came back with positive takeaways. Despite lagging revenue conversion in 3Q, the strong pick-up in new orders, along with new capacity expansion, should accelerate earnings growth to 26% yoy in 2H17 (vs. 11% in 1H17) and 30%+ starting 2018. With similar drivers ahead, the 2013-15 earnings upcycle - when the stock outperformed its benchmark (SZCOMP) by 100% on strong earnings growth - looks likely to be repeated. We raise our target price by 23% to Rmb43 and maintain Buy.

Strong new order pipeline

Management guided for a back-end loaded 2017 at the beginning of this year and expects growth for defence and NEV to speed up in 2H. Since the beginning of 3Q, the company has indeed been seeing a strong new order pipeline from its customers for both segments though the actual signing of contracts may come a bit later than expected due to military reform (hence organizational reshuffle) and stricter subsidy scheme (hence reevaluation of subsidy eligibility required). Given capacity constraints (for NEV) and defense customers' delivery schedules, we believe deliveries could be very skewed towards 4Q17 with revenue conversion of some orders potentially delayed to 1H18.

Multi-year earnings upcycle in sight, with upside potential

During a 5-year plan (FYP) period, Jonhon's earnings growth tends to pick up from the third year and accelerate sharply into the final two years. With accelerating weapon modernization, next-generation mobile network (5G in this FYP period), vehicle electrification and new capacity expansion, we project a 33% earnings CAGR over 2017-19 (vs. a 29% CAGR over 2012-14). Taking into account the high base, our current projection assumes constant growth acceleration (30%+) towards 2020 but we see upside potential from: 1) successful development of integrated systems for defense applications (high value and high margin); 2) overseas expansion; 3) new products (e.g., high-speed backplane connector, liquid cooling system, etc.); 4) further penetration into Tesla's supply chain. These additional growth drivers, if they materialize, could potentially push 2019-20 earnings growth to a level comparable to that of 2014-15 (+39-67%).

Lowering earnings but lifting target price by 23%; risks

Our earnings estimate cuts of 4-6% for 2017-19 reflect: 1) delayed revenue recognition for NEV and defense business for 2017; 2) lower telecom growth, driven by slower-than-expected Huawei business; and 3) better-than-expected

Valuation & Risks

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Key changes

| | | | |
|----------------------|----------------|---|--------|
| TP | 35.00 to 43.00 | ↑ | 22.9% |
| Sales (FYE) | 7,140 to 6,400 | ↓ | -10.4% |
| Op prof margin (FYE) | 15.7 to 16.7 | ↑ | 6.4% |
| Net profit (FYE) | 923.1 to 865.4 | ↓ | -6.2% |

Source: Deutsche Bank

Price/price relative



| Performance (%) | 1m | 3m | 12m |
|-----------------|-----|------|------|
| Absolute | 4.3 | 12.7 | 11.6 |
| Shenzhen Index | 7.8 | 6.8 | -0.2 |

Source: Deutsche Bank

Key indicators (FY1)

| | |
|-----------------------------|-------|
| ROE (%) | 19.2 |
| Net debt/equity (%) | -11.3 |
| Book value/share (CNY) | 6.19 |
| Price/book (x) | 5.5 |
| Net interest cover (x) | 31.5 |
| Operating profit margin (%) | 16.7 |

Source: Deutsche Bank



margin performance in 1H17, driven by stringent cost control and favorable product mix. Despite the earnings decrease, we raise our target price by 23% to Rmb43 as we roll forward our valuation time frame. We base our target price on a 2018E P/E of 30x, supported by an earnings CAGR of 33% over 2017-19E. Key risks: further delay in military orders and higher-than-expected opex.

| Forecasts and ratios | | | | | |
|----------------------|---------|---------|---------|---------|----------|
| Year End Dec 31 | 2015A | 2016A | 2017E | 2018E | 2019E |
| Sales (CNYm) | 4,725.2 | 5,854.8 | 6,400.2 | 8,270.9 | 10,807.6 |
| EBITDA (CNYm) | 855.1 | 1,041.3 | 1,248.2 | 1,598.6 | 2,091.2 |
| Reported NPAT (CNYm) | 568.4 | 733.8 | 865.4 | 1,142.3 | 1,531.5 |
| DB EPS FD(CNY) | 0.73 | 0.94 | 1.09 | 1.44 | 1.94 |
| OLD DB EPS FD(CNY) | 0.73 | 0.94 | 1.17 | 1.52 | 2.01 |
| % Change | 0.0% | 0.0% | -6.2% | -4.7% | -3.9% |
| DB EPS growth (%) | 67.4 | 29.1 | 16.8 | 32.0 | 34.1 |
| PER (x) | 35.3 | 31.0 | 31.2 | 23.6 | 17.6 |
| EV/EBITDA (x) | 23.6 | 22.1 | 21.5 | 16.8 | 12.8 |

Source: Deutsche Bank estimates, company data



1H17 results review

NP largely in line despite slower-than-expected top-line growth

1H net profit of Rmb442m was up 11% yoy on flattish top-line growth (+1% yoy). 1H NP achieved 48% of our previous full-year estimate, largely in line with the historical average.

The slow top-line growth was mainly due to the high comparison base as 1) some rush military orders placed towards end-2015 were delivered in 1H16 (when sales rose 36% yoy), and 2) strong NEV momentum was sustained into 1H16 before cooling down in 2H16 on subsidy uncertainties.

GP margin expansion of c.3ppt yoy to 36.8% (vs. 2017DBe: 33.8%) is better than expected, driven by stringent cost control and favorable product mix (higher contribution from high-margin products).

For 2Q alone, sales reverted to positive growth (+5% yoy) from a 3% drop in 1Q, with margin further expanded to 38.2% vs. 35.2% in 1Q. NP growth accelerated slightly to 12% as strong margin expansion was partly offset by higher opex (+13% yoy mainly driven by R&D expenses).

Figure 1: Quarterly GP margin reached historical high in 2Q17

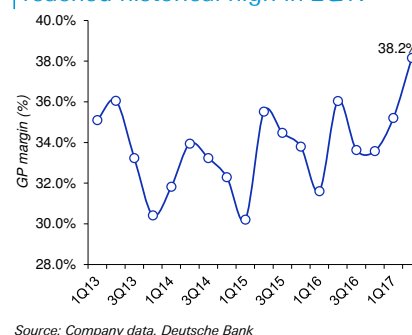


Figure 2: Sales reverted to positive growth in 2Q17

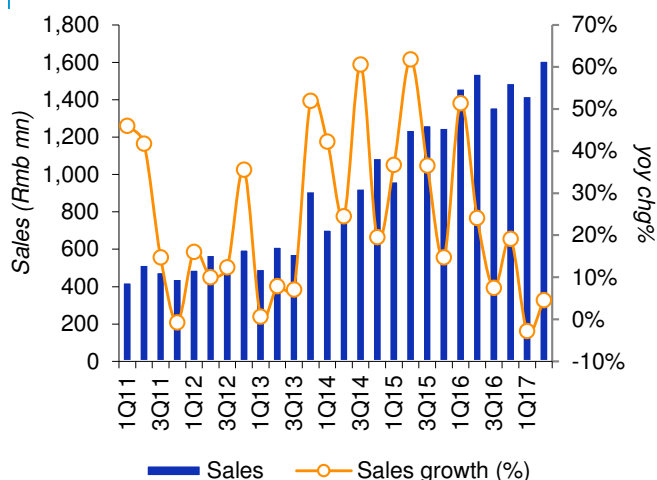
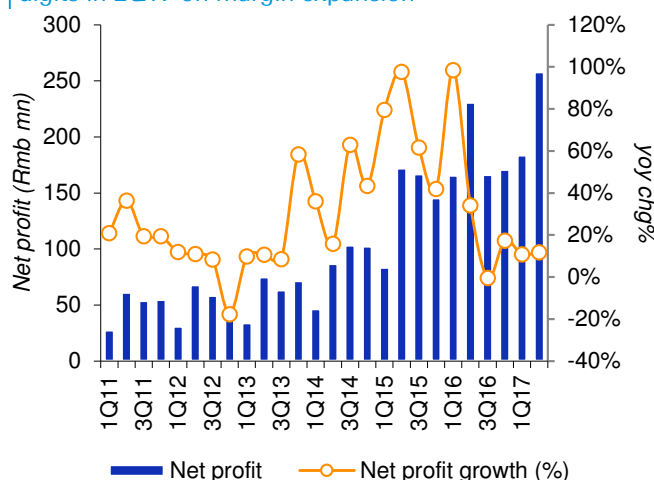


Figure 3: Earnings growth managed to stay at double digits in 2Q17 on margin expansion

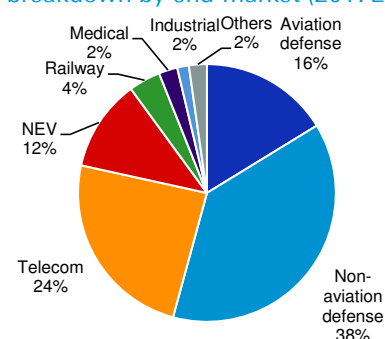


Defense still held up firm; NEV weak as expected while telecom disappointed

While no detailed breakdown by end-market was disclosed, at the investor meeting management mentioned that the defense segment still managed to grow, albeit at a slower pace due to the high base. By end-market, aviation, shipbuilding, and weaponry still saw double-digit growth while electronics and nuclear recorded negative growth.

Sales of NEV segment were down c.50% yoy in 1H, largely in line with the industry trend. On the other hand, the telecom business recorded only single-digit growth with strong export growth (+40% yoy) largely offset by slow domestic business. We note that Huawei's telecom/datacom equipment business (carrier and enterprise network on a combined basis) was up only 5% yoy in 1H, a visible slowdown from 25%+ in 2015-2016. On the other hand, Jonhon has successfully penetrated into the supply chains of foreign telecom equipment players, including

Figure 4: Jonhon Optronics - Revenue breakdown by end-market (2017E)





Samsung and Nokia, which drove a 100% yoy increase in its overseas orders in 1H. The rising contribution of export sales also bodes well for profitability as its GPM is higher at 25-30% (vs. 10-20% for domestic telecom business).

Order momentum picking up in 2H

Since the beginning of 3Q, the company has indeed been seeing a strong new order pipeline from its customers for both defense and NEV segments. While the trend has been well anticipated, the timing of orders was actually a bit later than the company had expected.

- For defense, the delay was mainly due to military reform, which has resulted in an organizational reshuffle within the weapon procurement department.
- For NEV, the delay was mainly because of the additional time it takes for customers to go through the re-evaluation process in order to be eligible for incentives as a stricter subsidy scheme is imposed.

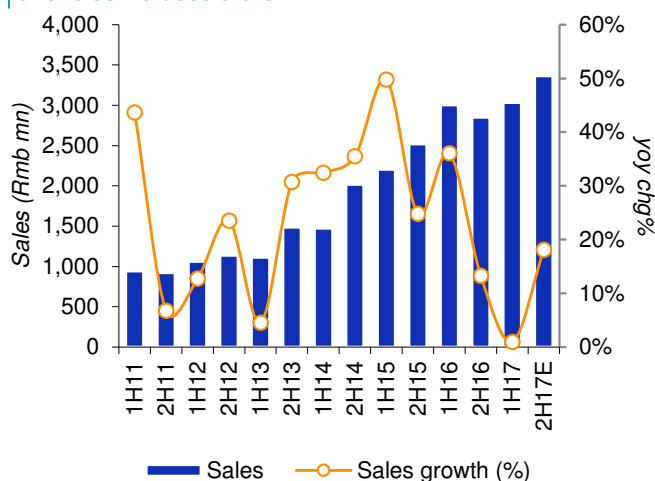
Military reform and stricter NEV subsidy scheme are the two causes for the delay in contract signing.

The outcome is that customers would place orders very close to end-3Q (vs. early-3Q normally in the past). For NEV, its NEV production line is already operating at full utilization now, which means capacity constraints could impact revenue conversion heading into 4Q with deliveries of some orders potentially delayed to 1H18. Similarly, for defense, due to customers' strict delivery schedules, we believe a risk of delayed revenue conversion (into 1H18) also exists.

Given capacity constraints and defense customers' delivery schedules, we believe deliveries could be very skewed towards 4Q17 with revenue conversion of some orders potentially delayed to 1H18.

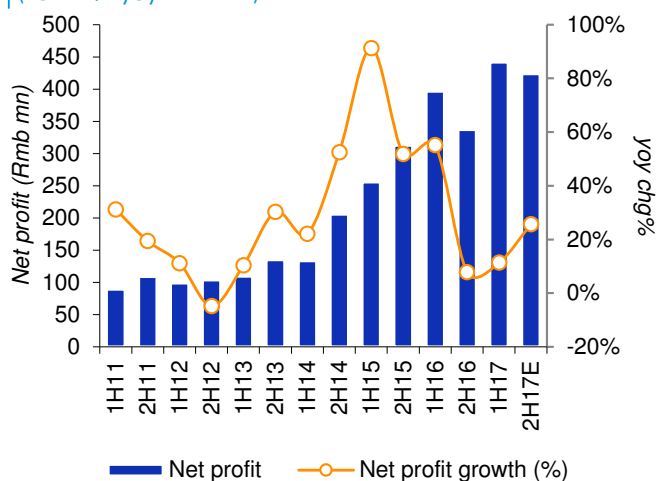
Taking into account the risks above, we are now expecting 26% earnings growth in 2H17, lowered from our previous forecast of 43% growth. In particular, we expect growth to significantly accelerate starting 4Q with strong momentum likely persisting into 2018.

Figure 5: Sales growth reached inflection point in 1H17 and is set to accelerate



Source: Company data, Deutsche Bank estimates

Figure 6: We expect earnings to grow 26% yoy in 2H17 (vs. 11% yoy in 1H17)



Source: Company data, Deutsche Bank estimates



The 2013-15 earnings upcycle will likely be repeated in 2018-20

The defense sector is largely policy driven and heavily planned by the government. As a result, Jonhon's defense business has showed a clear pattern within a five-year-plan period. The first two years are typically slow in terms of growth as new equipment models are mostly at the R&D stage. Growth normally speeds up from the third year towards the final two years (i.e., the fourth and the fifth year) on accelerating new equipment procurement by the military.

Similarly, its telecom business is also subject to the telecom capex cycle although in recent years the company managed to achieve counter-cyclical growth, leveraging on Huawei's successful overseas expansion and through its penetration into foreign telecom equipment players' supply chains. In the previous FYP period, the 4G capex upcycle boosted its telecom business in 2014-2015. In this FYP period, we expect similar story to play out in the final two years, driven by the 5G network build-out.

In short, we believe similar growth drivers could continue to play out in the final three years of this FYP period, including: 1) accelerating weapon modernization; 2) next-generation mobile network build-out; and 3) strong NEV sales. These positive drivers, along with a similar capacity expansion pace (Luoyang Phase II in 2014 vs. Luoyang Phase III in 2019), should drive a multi-year earnings uplift towards 2020.

Taking into account the high base, our current projections assume a constant growth acceleration (30%+) towards 2020 but we see upside potential from: 1) successful development of integrated systems for defense applications (high value and high margin); 2) overseas expansion; 3) new products (e.g., high-speed backplane connector, liquid cooling system, etc.); and 4) further penetration into Tesla's supply chain. These additional growth drivers, if they materialize, could potentially push 2019-20 earnings growth to a level comparable to that of 2014-15 (+39-67%).

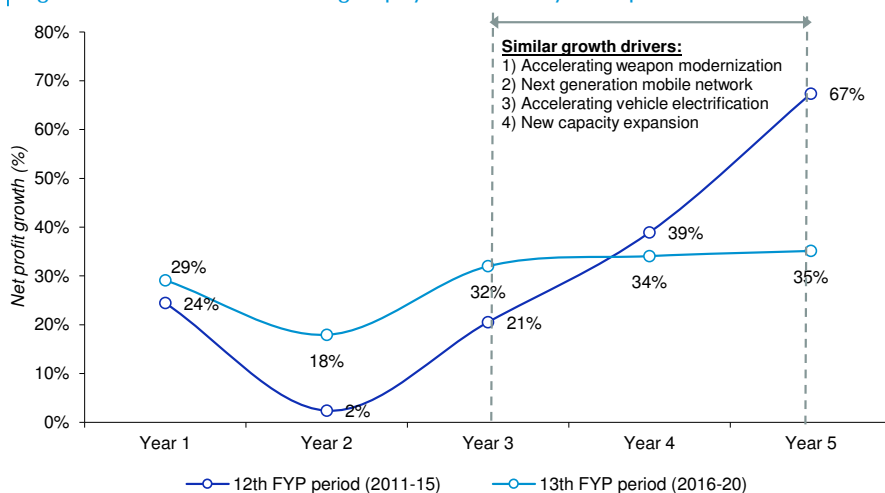
Growth of defense segment is typically back-end loaded within a five-year-plan period.

Telecom capex cycle also has a significant impact on Jonhon's earnings.

We see very similar growth drivers in 2018-20 compared to 2013-15, the earnings upcycle in the previous FYP period

We see upside potential to our current projections if these additional growth drivers materialize.

Figure 7: The 2013-15 earnings upcycle will likely be repeated in 2018-20



Source: Company data, Deutsche Bank estimates

We believe the 2013-15 earnings upcycle will likely be repeated in 2018-20.



Earnings revisions, valuation and risks

Earnings revisions

Our earnings cuts of 4-6% for 2017-19 factor in: 1) delayed revenue recognition for NEV and defense business for 2017; 2) lower growth for telecom business, driven by slower-than-expected Huawei business; and 3) better-than-expected margin performance in 1H17, driven by stringent cost control and favorable product mix.

Figure 8: Summary of earnings revisions

| Rmb mn | 2017E | | | 2018E | | | 2019E | | |
|---------------------------|--------------|--------------|-------------|--------------|--------------|------------|---------------|---------------|------------|
| | New | Old | % chg | New | Old | % chg | New | Old | % chg |
| Revenue | 6,400 | 7,140 | -10% | 8,271 | 8,792 | -6% | 10,808 | 11,072 | -2% |
| yoy chg% | 9% | 22% | -13% | 29% | 23% | 6% | 31% | 26% | 5% |
| Military | 3,472 | 3,863 | -10% | 4,565 | 4,749 | -4% | 6,075 | 6,083 | 0% |
| yoy chg% | 8% | 20% | -12% | 31% | 23% | 9% | 33% | 28% | 5% |
| Aviation defense | 1,040 | 1,130 | -8% | 1,404 | 1,469 | -4% | 1,965 | 1,984 | -1% |
| yoy chg% | 15% | 25% | -10% | 35% | 30% | 5% | 40% | 35% | 5% |
| Non-aviation defense | 2,432 | 2,733 | -11% | 3,161 | 3,279 | -4% | 4,110 | 4,099 | 0% |
| yoy chg% | 5% | 18% | -13% | 30% | 20% | 10% | 30% | 25% | 5% |
| Civil | 2,929 | 3,277 | -11% | 3,706 | 4,044 | -8% | 4,733 | 4,989 | -5% |
| yoy chg% | 11% | 24% | -13% | 27% | 23% | 3% | 28% | 23% | 4% |
| Telcommunication | 1,549 | 1,697 | -9% | 1,859 | 2,036 | -9% | 2,324 | 2,545 | -9% |
| yoy chg% | 5% | 15% | -10% | 20% | 20% | 0% | 25% | 25% | 0% |
| New energy vehicle | 737 | 938 | -21% | 1,106 | 1,266 | -13% | 1,548 | 1,583 | -2% |
| yoy chg% | 10% | 40% | -30% | 50% | 35% | 15% | 40% | 25% | 15% |
| Railway | 255 | 255 | 0% | 281 | 281 | 0% | 314 | 314 | 0% |
| yoy chg% | 50% | 50% | 0% | 10% | 10% | 0% | 12% | 12% | 0% |
| Medical | 150 | 150 | 0% | 195 | 195 | 0% | 244 | 244 | 0% |
| yoy chg% | 40% | 40% | 0% | 30% | 30% | 0% | 25% | 25% | 0% |
| Industrial | 94 | 94 | 0% | 108 | 108 | 0% | 129 | 129 | 0% |
| yoy chg% | 15% | 15% | 0% | 15% | 15% | 0% | 20% | 20% | 0% |
| Others | 144 | 144 | 0% | 158 | 158 | 0% | 174 | 174 | 0% |
| yoy chg% | 10% | 10% | 0% | 10% | 10% | 0% | 10% | 10% | 0% |
| Gross profit | 2,225 | 2,410 | -8% | 2,828 | 2,965 | -5% | 3,707 | 3,741 | -1% |
| GP margin (%) | 34.8% | 33.8% | 1.0% | 34.2% | 33.7% | 0.5% | 34.3% | 33.8% | 0.5% |
| Expense ratio (%) | | | | | | | | | |
| Business taxes | 0.3% | 0.3% | 0.0% | 0.3% | 0.3% | 0.0% | 0.3% | 0.3% | 0.0% |
| Selling expenses | 4.7% | 4.7% | 0.0% | 4.6% | 4.6% | 0.0% | 4.5% | 4.5% | 0.0% |
| Admin expenses | 13.4% | 13.4% | 0.0% | 12.8% | 12.8% | 0.0% | 12.7% | 12.2% | 0.5% |
| R&D expenses | 7.5% | 7.5% | 0.0% | 7.0% | 7.0% | 0.0% | 7.0% | 6.5% | 0.5% |
| Non-R&D admin expenses | 5.9% | 5.9% | 0.0% | 5.8% | 5.8% | 0.0% | 5.7% | 5.7% | 0.0% |
| Impairment loss of assets | 0.5% | 0.5% | 0.0% | 0.5% | 0.5% | 0.0% | 0.5% | 0.5% | 0.0% |
| Non-operating expenses | 0.1% | 0.1% | 0.0% | 0.1% | 0.1% | 0.0% | 0.1% | 0.1% | 0.0% |
| Net profit | 865 | 923 | -6% | 1,142 | 1,199 | -5% | 1,531 | 1,593 | -4% |
| yoy chg% | 18% | 26% | -8% | 32% | 30% | 2% | 34% | 33% | 1% |

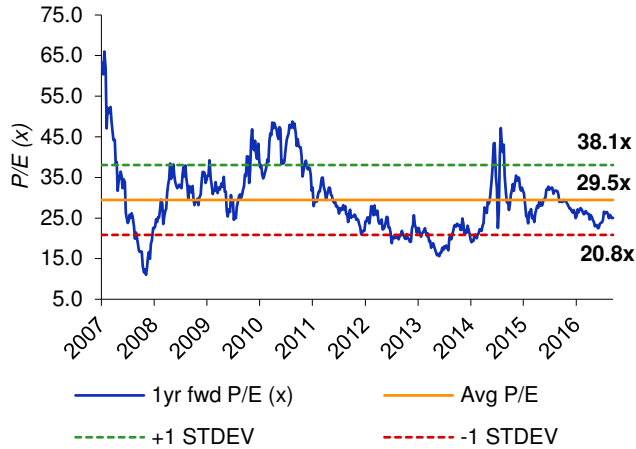
Source: Deutsche Bank estimates

Valuation

Despite the cut to earnings estimates, we raise our target price by 23% to Rmb43 as we roll forward our valuation time frame. We base our target price on a 2018E P/E of 30x, supported by an earnings CAGR of 33% over 2017-19E.

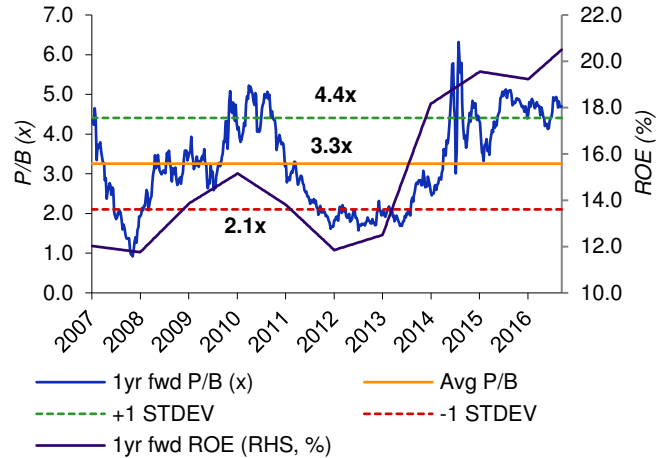


Figure 9: Jonhon Optronics – one-year forward P/E



Source: Company data, Bloomberg Finance LP, Deutsche Bank estimates

Figure 10: Jonhon Optronics – one-year forward P/B vs. ROE



Source: Company data, Bloomberg Finance LP, Deutsche Bank estimates

Risks

Key downside risks include: 1) an unexpected slowdown in China's weapon spending; 2) intensifying competition from electronic component suppliers of other Chinese defense groups or potential new non-SOE entrants as a result of the promotion of military-civil integration; 3) an unexpected increase in raw material costs; and 4) slower-than-expected market share expansion in civil markets.



Model updated: 10 September 2017

Running the numbers

Asia

China

Manufacturing

JONHON Optronic

Reuters: 002179.SZ Bloomberg: 002179 CH

Buy

Price (13 Sep 17) CNY 34.13

Target Price CNY 43.00

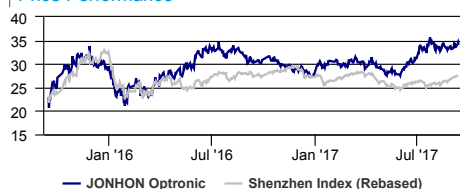
52 Week range CNY 27.20 - 35.63

Market cap (m) CNYm 26,997
USDm 4,132.4

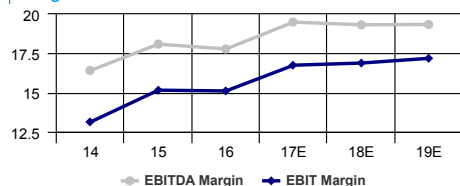
Company Profile

JONHON Optronic, headquartered in Luoyang, Henan Province, is one of the largest professional interconnect solution provider as well as the largest professional designer and manufacturer of optical, electrical and fluid connectors in China. The company's products are widely used in aviation, aerospace, weapons, navy, telecommunications, railway, power supply, electric, urban mass transit, new energy, and other military and civil fields.

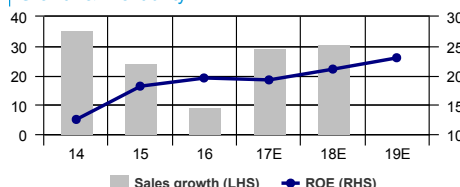
Price Performance



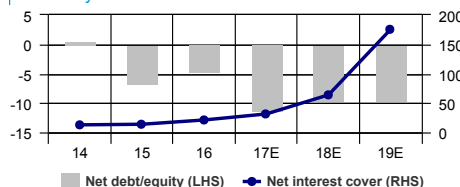
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

| | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E |
|-----------------------------|-------|--------|--------|--------|--------|--------|
| DB EPS (CNY) | 0.43 | 0.73 | 0.94 | 1.09 | 1.44 | 1.94 |
| Reported EPS (CNY) | 0.43 | 0.73 | 0.94 | 1.09 | 1.44 | 1.94 |
| DPS (CNY) | 0.10 | 0.10 | 0.13 | 0.11 | 0.14 | 0.19 |
| BVPS (CNY) | 6.2 | 5.6 | 6.8 | 6.2 | 7.5 | 9.3 |
| Weighted average shares (m) | 783 | 783 | 783 | 791 | 791 | 791 |
| Average market cap (CNYm) | 9,198 | 20,086 | 22,769 | 26,997 | 26,997 | 26,997 |
| Enterprise value (CNYm) | 9,585 | 20,220 | 22,965 | 26,835 | 26,877 | 26,797 |

Valuation Metrics

| | | | | | | |
|--------------------|------|------|------|------|------|------|
| P/E (DB) (x) | 27.1 | 35.3 | 31.0 | 31.2 | 23.6 | 17.6 |
| P/E (Reported) (x) | 27.1 | 35.3 | 31.0 | 31.2 | 23.6 | 17.6 |
| P/BV (x) | 2.24 | 5.15 | 4.08 | 5.52 | 4.54 | 3.66 |
| FCF Yield (%) | nm | 1.9 | nm | 1.9 | 0.4 | 1.0 |
| Dividend Yield (%) | 0.9 | 0.4 | 0.4 | 0.3 | 0.4 | 0.6 |
| EV/Sales (x) | 2.7 | 4.3 | 3.9 | 4.2 | 3.2 | 2.5 |
| EV/EBITDA (x) | 16.7 | 23.6 | 22.1 | 21.5 | 16.8 | 12.8 |
| EV/EBIT (x) | 20.9 | 28.2 | 26.0 | 25.0 | 19.2 | 14.4 |

Income Statement (CNYm)

| | | | | | | |
|-------------------------------------|-------|-------|-------|-------|-------|--------|
| Sales revenue | 3,491 | 4,725 | 5,855 | 6,400 | 8,271 | 10,808 |
| Gross profit | 1,146 | 1,592 | 1,976 | 2,225 | 2,828 | 3,707 |
| EBITDA | 573 | 855 | 1,041 | 1,248 | 1,599 | 2,091 |
| Depreciation | 97 | 109 | 126 | 141 | 164 | 192 |
| Amortisation | 18 | 30 | 30 | 35 | 38 | 41 |
| EBIT | 458 | 716 | 884 | 1,072 | 1,397 | 1,858 |
| Net interest income(expense) | -35 | -51 | -42 | -34 | -22 | -11 |
| Associates/affiliates | 16 | 21 | 28 | 15 | 15 | 16 |
| Exceptionals/extraordinary | 0 | 0 | 0 | 0 | 0 | 0 |
| Other pre-tax income/(expense) | -1 | 9 | 18 | 0 | 0 | 0 |
| Profit before tax | 438 | 695 | 890 | 1,053 | 1,389 | 1,863 |
| Income tax expense | 63 | 91 | 113 | 137 | 181 | 242 |
| Minorities | 35 | 35 | 43 | 50 | 67 | 89 |
| Other post-tax income/(expense) | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | 340 | 568 | 734 | 865 | 1,142 | 1,531 |
| DB adjustments (including dilution) | 0 | 0 | 0 | 0 | 0 | 0 |
| DB Net profit | 340 | 568 | 734 | 865 | 1,142 | 1,531 |

Cash Flow (CNYm)

| | | | | | | |
|--------------------------------------|------|------|------|------|------|--------|
| Cash flow from operations | 153 | 624 | 231 | 898 | 661 | 720 |
| Net Capex | -158 | -243 | -247 | -392 | -542 | -442 |
| Free cash flow | -4 | 380 | -16 | 506 | 119 | 278 |
| Equity raised/(bought back) | 2 | 1 | 16 | 0 | 0 | 0 |
| Dividends paid | -121 | -127 | -139 | -78 | -87 | -114 |
| Net inc/(dec) in borrowings | -52 | -50 | 38 | -302 | -160 | -436 |
| Other investing/financing cash flows | -131 | 31 | 107 | -34 | -22 | -11 |
| Net cash flow | -305 | 235 | 6 | 91 | -150 | -283 |
| Change in working capital | -419 | -182 | -754 | -214 | -757 | -1,129 |

Balance Sheet (CNYm)

| | | | | | | |
|------------------------------|-------|-------|-------|-------|--------|--------|
| Cash and other liquid assets | 1,155 | 1,396 | 1,404 | 1,495 | 1,345 | 1,062 |
| Tangible fixed assets | 1,228 | 1,414 | 1,508 | 1,717 | 2,053 | 2,261 |
| Goodwill/intangible assets | 295 | 280 | 293 | 302 | 308 | 310 |
| Associates/investments | 55 | 70 | 89 | 103 | 118 | 134 |
| Other assets | 3,507 | 4,303 | 5,216 | 5,649 | 7,220 | 9,411 |
| Total assets | 6,240 | 7,464 | 8,510 | 9,267 | 11,044 | 13,177 |
| Interest bearing debt | 1,173 | 1,140 | 1,183 | 881 | 721 | 285 |
| Other liabilities | 1,783 | 2,466 | 2,714 | 2,936 | 3,752 | 4,814 |
| Total liabilities | 2,956 | 3,606 | 3,898 | 3,817 | 4,472 | 5,099 |
| Shareholders' equity | 2,861 | 3,397 | 4,107 | 4,894 | 5,950 | 7,367 |
| Minorities | 423 | 461 | 505 | 556 | 622 | 711 |
| Total shareholders' equity | 3,284 | 3,858 | 4,612 | 5,450 | 6,572 | 8,079 |
| Net debt | 19 | -256 | -221 | -614 | -624 | -778 |

Key Company Metrics

| | | | | | | |
|------------------------|------|------|------|-------|------|-------|
| Sales growth (%) | nm | 35.3 | 23.9 | 9.3 | 29.2 | 30.7 |
| DB EPS growth (%) | na | 67.4 | 29.1 | 16.8 | 32.0 | 34.1 |
| EBITDA Margin (%) | 16.4 | 18.1 | 17.8 | 19.5 | 19.3 | 19.3 |
| EBIT Margin (%) | 13.1 | 15.2 | 15.1 | 16.7 | 16.9 | 17.2 |
| Payout ratio (%) | 23.1 | 13.8 | 13.9 | 10.0 | 10.0 | 10.0 |
| ROE (%) | 12.5 | 18.2 | 19.6 | 19.2 | 21.1 | 23.0 |
| Capex/sales (%) | 4.5 | 5.2 | 4.2 | 6.1 | 6.6 | 4.1 |
| Capex/depreciation (x) | 1.4 | 1.8 | 1.6 | 2.2 | 2.7 | 1.9 |
| Net debt/equity (%) | 0.6 | -6.6 | -4.8 | -11.3 | -9.5 | -9.6 |
| Net interest cover (x) | 12.9 | 14.0 | 21.3 | 31.5 | 64.0 | 175.6 |

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

| Disclosure checklist | | | |
|----------------------|-----------|-------------------------|------------|
| Company | Ticker | Recent price* | Disclosure |
| JONHON Optronic | 002179.SZ | 34.13 (CNY) 13 Sep 2017 | NA |

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Historical recommendations and target price. JONHON Optronic (002179.SZ)

(as of 09/13/2017)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

| | | | | | |
|----|------------|--|----|------------|--|
| 1. | 11/25/2015 | Buy, Target Price Change CNY 50,00 Nick Zheng, CFA | 4. | 03/19/2017 | Buy, Target Price Change CNY 46,00 Nick Zheng, CFA |
| 2. | 04/04/2016 | Buy, Target Price Change CNY 45,50 Nick Zheng, CFA | 5. | 05/15/2017 | Buy, Target Price Change CNY 35,00 Nick Zheng, CFA |
| 3. | 08/09/2016 | Buy, Target Price Change CNY 50,00 Nick Zheng, CFA | | | |



Equity Rating Key

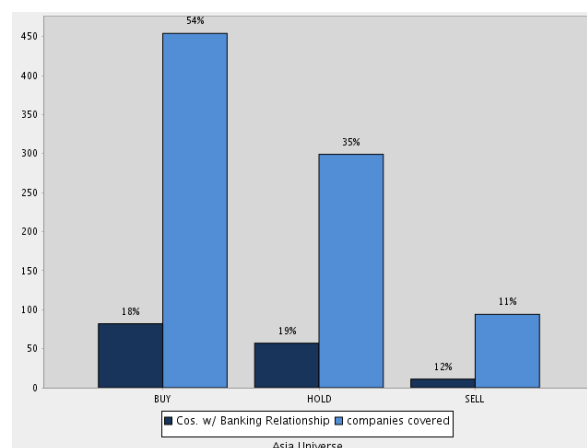
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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