



高增长/高股息率的特高压的主要受益者;首次覆盖并加入强力买入名单(摘要)

建议理由

平高电气作为中国领先的高压开关设备生产企业,将成为中国未来五年对特高压电线潜在投资 1170 亿美元的主要受益者,得益于其在竞争对手最少的气体绝缘封闭式组合电器(GIS)市场上的领先份额以及特高压开关业务盈利占比较高两方面因素。中长期而言,我们认为非特高压 GIS 市场整合和新产品上市也会推动公司收入/净利润加速增长。由于平高电气股价对应的 12 个月预期市盈率为 13.9 倍,较历史均值低一个标准差以上,我们认为该股估值尚未体现其强劲的增长前景。我们首次覆盖该股并将其加入强力买入名单,12 个月目标价格为人民币 19.5 元,隐含 32% 的上行空间。

推动因素

我们认为推动平高电气盈利/股价的因素如下: **1) 特高压 GIS**, 受 2016-20 年预期特高压投资加速的推动(2016-20 年新增 29 条线路,至 2015 年为 11 条),而且公司 GIS 产品的市场份额领先(该市场上供应商最少、资金/技术壁垒较高); **2) 非特高压 GIS**, 得益于在行业关注重点从价格转向产品质量的形势下,市场份额将持续向领先企业整合; **3) 真空灭弧室和电动汽车充电桩**, 受益于中国 2015-20 年人民币 2 万亿元配电网投资和真空断路器需求增长,以及我们基于中国计划到 2020 年增加 480 万个独立电动汽车充电桩/12,000 个集中电动汽车充电站而预测的 31% 的 2015-20 年电动汽车充电设施投资年均复合增长。

估值

我们基于 2017 年预期 EV/GCI vs. CROCI/WACC 与同业的比较(现金回报倍数 1.04 倍)计算得出 12 个月目标价格为人民币 19.5 元,隐含 32% 的上行空间。我们认为 12 倍的 2017 年预期市盈率和 5% 的 2017 年预期股息收益率具有吸引力,而同业中值分别为 17 倍和 1%。

主要风险

特高压投资低于预期;市场整合慢于预期;新产品推出弱于预期。

*全文翻译将随后提供

所属投资名单

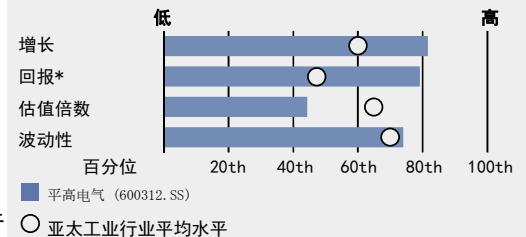
亚太买入名单
亚太强力买入名单

行业评级: 中性

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投资摘要



* 回报 - 资本回报率 投资摘要指标的全面描述请参见本报告的信息披露部分。

主要数据

	当前
股价 (Rmb)	14.72
12个月目标价格 (Rmb)	19.50
市值 (Rmb mn / US\$ mn)	16,743.8 / 2,550.5
外资持股比例 (%)	--

	12/15	12/16E	12/17E	12/18E
每股盈利 (Rmb)	0.73	0.95	1.18	1.44
每股盈利增长 (%)	19.3	31.3	23.8	21.6
每股摊薄盈利 (Rmb)	0.73	0.95	1.18	1.44
每股基本盈利 (Rmb)	0.73	0.95	1.18	1.44
市盈率 (X)	29.1	15.4	12.5	10.2
市净率 (X)	3.9	2.6	2.4	2.2
EV/EBITDA (X)	19.6	10.5	8.6	7.3
股息收益率 (%)	2.4	3.9	4.8	5.9
净资产回报率 (%)	13.8	17.1	19.7	22.0
CROCI (%)	16.1	17.4	17.6	18.9

股价走势图



股价表现 (%)

	3个月	6个月	12个月
绝对	3.3	(20.3)	(46.6)
相对于沪深300指数	1.0	(7.5)	(12.0)

资料来源: 公司数据、高盛研究预测、FactSet (股价为6/07/2016收盘价)

平高电气：财务数据概要

损益表(Rmb mn)	12/15	12/16E	12/17E	12/18E	资产负债表(Rmb mn)	12/15	12/16E	12/17E	12/18E
主营业务收入	5,830.6	7,372.4	8,612.1	10,035.7	现金及等价物	580.5	760.2	796.5	1,030.5
主营业务成本	(4,096.5)	(5,123.8)	(5,948.9)	(6,893.3)	应收账款	6,021.4	7,704.2	9,110.9	10,747.6
销售、一般及管理费用	(544.6)	(663.5)	(689.0)	(752.7)	存货	1,368.6	1,711.8	1,987.5	2,303.0
研发费用	0.0	0.0	0.0	0.0	其它流动资产	315.3	315.3	315.3	315.3
其它营业收入/(支出)	(121.2)	(147.4)	(172.2)	(200.7)	流动资产	8,285.8	10,491.5	12,210.1	14,396.3
EBITDA	1,291.6	1,805.2	2,255.6	2,705.0	固定资产净额	2,499.8	2,699.2	2,901.9	2,906.3
折旧和摊销	(223.3)	(367.6)	(453.6)	(516.1)	无形资产净额	991.2	977.1	966.7	948.1
EBIT	1,068.3	1,437.6	1,802.0	2,189.0	长期投资	0.0	0.0	0.0	0.0
利息收入	9.6	10.2	11.4	11.9	其它长期资产	174.7	30.0	30.0	30.0
财务费用	(71.9)	(137.7)	(186.4)	(218.9)	资产合计	11,951.4	14,197.8	16,108.7	18,280.6
联营公司	0.0	0.0	0.0	0.0	应付账款	3,779.9	4,546.9	5,364.2	6,314.6
其它	8.2	20.0	20.0	20.0	短期贷款	1,069.8	1,569.8	1,819.8	2,069.8
税前利润	1,014.2	1,330.1	1,647.0	2,002.0	其它流动负债	178.1	178.1	178.1	178.1
所得税	(158.7)	(199.5)	(247.0)	(300.3)	流动负债	5,027.8	6,294.8	7,362.1	8,562.6
少数股东损益	(28.8)	(45.2)	(56.0)	(68.1)	长期贷款	548.3	1,048.3	1,298.3	1,548.3
优先股股息前净利润	826.8	1,085.4	1,343.9	1,633.6	其它长期负债	9.4	9.4	9.4	9.4
优先股股息	0.0	0.0	0.0	0.0	长期负债	557.7	1,057.7	1,307.7	1,557.7
非经常性项目前净利润	826.8	1,085.4	1,343.9	1,633.6	负债合计	5,585.5	7,352.5	8,669.9	10,120.3
税后非经常性损益	0.0	0.0	0.0	0.0	优先股	0.0	0.0	0.0	0.0
净利润	826.8	1,085.4	1,343.9	1,633.6	普通股权益	6,126.9	6,561.0	7,098.6	7,752.0
每股基本盈利(非经常性项目前)(Rmb)	0.73	0.95	1.18	1.44	少数股东权益	239.0	284.2	340.2	408.3
每股基本盈利(非经常性项目后)(Rmb)	0.73	0.95	1.18	1.44	负债及股东权益合计	11,951.4	14,197.8	16,108.7	18,280.6
每股摊薄盈利(非经常性项目后)(Rmb)	0.73	0.95	1.18	1.44	每股净资产(Rmb)	5.39	5.77	6.24	6.82
每股股息(Rmb)	0.50	0.57	0.71	0.86					
股息支付率(%)	68.8	60.0	60.0	60.0					
自由现金流收益率(%)	0.1	(0.2)	3.0	5.4					
增长率和利润率(%)	12/15	12/16E	12/17E	12/18E	比率	12/15	12/16E	12/17E	12/18E
主营业务收入增长率	26.6	26.4	16.8	16.5	GROCI(%)	16.1	17.4	17.6	18.9
EBITDA增长率	36.6	39.8	25.0	19.9	净资产回报率(%)	13.8	17.1	19.7	22.0
EBIT增长率	40.4	34.6	25.3	21.5	总资产回报率(%)	7.6	8.3	8.9	9.5
净利润增长率	19.3	31.3	23.8	21.6	平均运用资本回报率(%)	13.4	15.4	16.8	18.3
每股盈利增长	19.3	31.3	23.8	21.6	存货周转天数	119.3	109.7	113.5	113.6
毛利率	29.7	30.5	30.9	31.3	应收账款周转天数	333.5	339.8	356.3	361.1
EBITDA利润率	22.2	24.5	26.2	27.0	应付账款周转天数	295.0	296.6	304.1	309.2
EBIT利润率	18.3	19.5	20.9	21.8	净负债/股东权益(%)	16.3	27.1	31.2	31.7
					EBIT利息保障倍数(X)	17.2	11.3	10.3	10.6
现金流量表(Rmb mn)	12/15	12/16E	12/17E	12/18E	估值	12/15	12/16E	12/17E	12/18E
优先股股息前净利润	826.8	1,085.4	1,343.9	1,633.6	基本市盈率(X)	29.1	15.4	12.5	10.2
折旧及摊销	223.3	367.6	453.6	516.1	市净率(X)	3.9	2.6	2.4	2.2
少数股东权益	28.8	45.2	56.0	68.1	EV/EBITDA(X)	19.6	10.5	8.6	7.3
运营资本增减	(875.6)	(1,259.0)	(865.0)	(1,001.8)	企业价值/总投资现金(X)	3.0	1.8	1.6	1.5
其它	114.5	272.2	175.0	207.0	股息收益率(%)	2.4	3.9	4.8	5.9
经营活动产生的现金流	317.8	511.4	1,163.5	1,422.9					
资本开支	(298.8)	(552.9)	(645.9)	(501.8)					
收购	0.0	0.0	0.0	0.0					
剥离	27.1	0.0	0.0	0.0					
其它	0.0	0.0	0.0	0.0					
投资活动产生的现金流	(271.7)	(552.9)	(645.9)	(501.8)					
支付股息的现金(普通股和优先股)	(647.1)	(651.2)	(806.4)	(980.2)					
借款增减	815.5	1,000.0	500.0	500.0					
普通股发行(回购)	0.0	0.0	0.0	0.0					
其它	9.7	(127.5)	(175.0)	(207.0)					
筹资活动产生的现金流	178.1	221.3	(481.4)	(687.2)					
总现金流	223.8	179.7	36.2	234.0					

注：最后一个实际年度数据可能包括已公布和预测数据。

资料来源：公司数据、高盛研究预测

对此报告有贡献的人员

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All prices in this report are as of June 6, 2016 close, unless otherwise stated.

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Exhibit 1: Global power equipment comps table

China power generation equipment																		
Company	Ticker	Price	Market cap (US\$ mn)	Rating	P/E		P/B		EV/EBITDA		EPS Growth		ROE		CROCI		Div yield	Net debt/equity
					2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2016E
Shanghai Electric Group (A)	601727.SS	Rmb7.8	15,315	Sell	54.8X	60.7X	2.5X	2.5X	25.7X	28.0X	-14%	-10%	5%	4%	8%	7%	1%	9%
Shanghai Electric Group (H)	2727.HK	HK\$3.3	5,449	Sell	19.5X	21.6X	0.9X	0.9X	11.6X	12.5X	-14%	-10%	5%	4%	8%	7%	2%	9%
Dongfang Electric Corp. (A)	600875.SS	Rmb10	3,553	Neutral	98.0X	70.6X	1.0X	1.0X	48.1X	36.3X	-47%	39%	1%	1%	5%	5%	0%	49%
Dongfang Electric Corp. (H)	1072.HK	HK\$5.9	1,781	Neutral	49.1X	35.4X	0.5X	0.5X	32.6X	23.2X	-47%	39%	1%	1%	5%	5%	0%	49%
Harbin Electric Co Ltd	1133.HK	HKD2.9	519	N/C	N/A	19.5X	0.3X	0.3X	N/A	N/A	34%	319%	0%	2%	N/A	N/A	0%	-38%
Median					52.0X	35.4X	0.9X	0.9X	29.2X	25.6X	-14%	39%	1%	2%	6%	6%	0%	9%
China transmission & distribution equipment																		
Company	Ticker	Price	Market cap (US\$ mn)	Rating	P/E		P/B		EV/EBITDA		EPS Growth		ROE		CROCI		Div yield	Net debt/equity
					2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2016E
Henan Pinggao Electric Co	600312.SS	Rmb14.7	2,551	Buy*	15.4X	12.5X	2.6X	2.4X	10.5X	8.6X	31%	24%	17%	20%	17%	18%	4%	27%
XJ Electric Co Ltd	000400.CH	CNY15.1	2,322	N/C	17.2X	12.5X	2.2X	1.9X	11.8X	8.6X	23%	37%	13%	16%	N/A	N/A	1%	-3%
China XD Electric Co Ltd	601179.CH	CNY5.4	4,186	N/C	23.3X	18.2X	1.4X	1.4X	10.9X	8.5X	31%	28%	6%	8%	N/A	N/A	3%	-38%
Guodian Nanjing Automation Co	600268.CH	CNY7.4	713	N/C	52.6X	36.9X	2.2X	2.1X	11.8X	10.5X	180%	43%	4%	6%	N/A	N/A	0%	99%
TBEA Co Ltd	600089.CH	CNY8.5	4,193	N/C	12.3X	10.2X	1.2X	1.1X	9.4X	8.5X	18%	20%	11%	11%	N/A	N/A	2%	51%
Beijing Sifang Automation Co L	601126.CH	CNY9.8	1,213	N/C	19.2X	15.0X	2.1X	1.8X	16.5X	10.0X	22%	28%	11%	12%	N/A	N/A	2%	-5%
NARI Technology Co Ltd	600406.CH	CNY13.5	5,004	N/C	22.1X	19.2X	3.6X	3.2X	17.6X	15.1X	15%	15%	17%	17%	N/A	N/A	1%	-35%
Median					19.2X	15.0X	2.2X	1.9X	11.8X	8.6X	23%	28%	11%	12%	17%	18%	2%	-3%
China power source/storage equipment																		
Company	Ticker	Price	Market cap (US\$ mn)	Rating	P/E		P/B		EV/EBITDA		EPS Growth		ROE		CROCI		Div yield	Net debt/equity
					2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2016E
Hangzhou Zhongheng Electric Co.	002364.SZ	Rmb26.3	2,096	Neutral	68.1X	53.7X	10.4X	9.1X	56.5X	45.8X	41%	27%	16%	18%	18%	17%	0%	18%
Shenzhen Clou Electronics Co Ltd	002121.SZ	Rmb25.5	1,846	Neutral	34.7X	28.4X	4.6X	4.0X	23.3X	17.7X	78%	22%	14%	15%	14%	13%	0%	162%
Sungrow Power Supply Co.	300274.SZ	Rmb23.6	2,373	Buy	20.7X	16.5X	4.4X	3.5X	16.3X	12.1X	77%	25%	24%	24%	31%	28%	1%	12%
Zhejiang Wanma Co Ltd	002276.CH	CNY19.5	2,792	N/C	51.8X	41.8X	5.7X	5.1X	N/A	N/A	30%	24%	11%	13%	N/A	N/A	0%	7%
Shenzhen Auto Electric Power P	002227.CH	CNY31.1	1,039	N/C	138.0X	103.5X	N/A	N/A	N/A	N/A	411%	33%	6%	8%	N/A	N/A	0%	-14%
Guangdong East Power Co Ltd	300376.CH	CNY27.3	2,083	N/C	38.8X	31.1X	5.6X	4.8X	N/A	N/A	27%	25%	20%	19%	N/A	N/A	1%	103%
Qingdao TGOOD Electric Co Ltd	300001.CH	CNY21.1	3,221	N/C	67.2X	53.6X	7.8X	7.0X	N/A	N/A	96%	25%	11%	13%	N/A	N/A	0%	34%
Xiamen Kehua Hengsheng Co Ltd	002335.CH	CNY43.4	1,790	N/C	35.0X	22.3X	4.4X	3.8X	N/A	N/A	88%	58%	16%	21%	N/A	N/A	0%	40%
Median					45.3X	36.4X	5.6X	4.8X	23.3X	17.7X	78%	25%	15%	17%	18%	17%	0%	26%
Global power equipment																		
Company	Ticker	Price	Market cap (US\$ mn)	Rating	P/E		P/B		EV/EBITDA		EPS Growth		ROE		CROCI		Div yield	Net debt/equity
					2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2016E
Hitachi	6501.T	¥495	22,280	Buy	10.0X	8.1X	0.8X	0.8X	6.5X	6.4X	4%	22%	9%	10%	4%	5%	2%	76%
Toshiba	6502.T	¥274.9	10,859	Sell	10.9X	10.2X	1.0X	1.2X	6.9X	6.7X	10%	0%	10%	12%	N/A	N/A	2%	73%
Fuji Electric Co Ltd	6504.JP	JPY436	3,038	N/C	14.2X	10.1X	0.8X	0.7X	5.1X	4.8X	-42%	122%	6%	8%	N/A	N/A	3%	37%
Mitsubishi Heavy Industries Lt	7011.JP	JPY425.1	13,388	N/C	19.4X	17.2X	3.0X	2.8X	11.1X	9.8X	2%	13%	16%	17%	18%	18%	3%	-32%
Delta Electronics	2308.TW	NT\$151.5	12,150	Buy*	47.9X	16.4X	0.9X	0.8X	130.5X	9.7X	290%	193%	2%	5%	-1%	1%	0%	-30%
Bharat Heavy Electricals	BHEL.BO	Rs118.1	4,310	Sell	8.5X	12.1X	0.8X	0.8X	10.5X	9.9X	N/A	-30%	9%	6%	N/A	N/A	5%	127%
Doosan Corp	000150.KS	KRW96800	1,765	N/C	19.8X	17.3X	2.8X	3.1X	13.1X	12.3X	2%	14%	13%	16%	10%	11%	3%	5%
General Electric Co.	GE	\$30.1	282,285	Neutral	13.2X	12.1X	2.1X	1.9X	7.9X	7.1X	10%	10%	16%	16%	11%	11%	4%	-12%
Siemens AG	SIEGn.DE	€95.7	91,719	Buy	15.2X	13.5X	1.6X	1.5X	9.7X	8.8X	-7%	12%	10%	11%	9%	9%	4%	19%
Schneider Electric	SCHN.PA	€56.8	36,532	Neutral	N/A	8.3X	N/A	N/A	37.1X	9.8X	85%	161%	30%	1%	N/A	N/A	0%	N/A
Areva SA	AREVA.FP	EUR4	1,738	N/C	14.5X	15.1X	3.4X	3.2X	9.7X	9.4X	7%	-4%	22%	22%	11%	12%	4%	12%
ABB Ltd	ABBN.S	CHF20.6	48,803	Sell	14.4X	12.2X	1.6X	1.5X	10.1X	9.1X	7%	13%	10%	12%	9%	10%	3%	19%

Price as of 6-Jun-2016 close

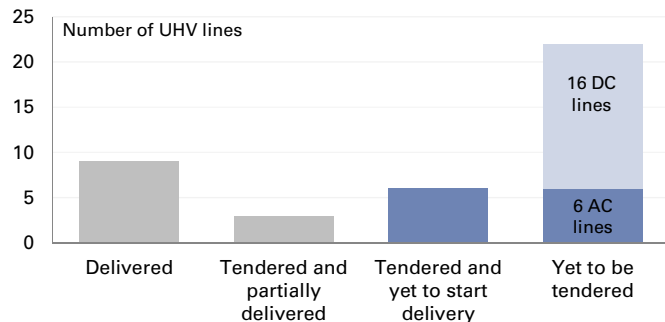
* On our regional conviction list

Note: All financials are financial-year based. Not covered (N/C) companies are using Bloomberg consensus.

Source: Bloomberg, Goldman Sachs Global Investment Research.

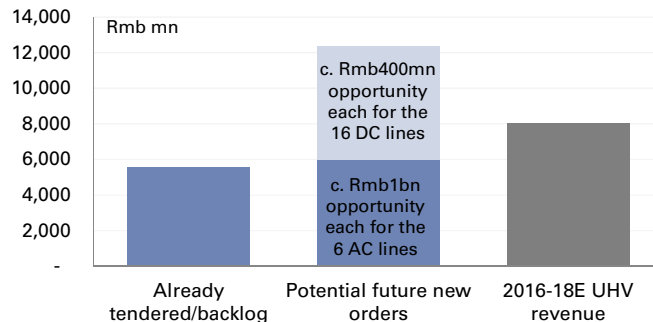
Our thesis in six key charts

Exhibit 1: We estimate 22 lines are yet to start UHV GIS tendering on top of the 6 already tendered as of 2015



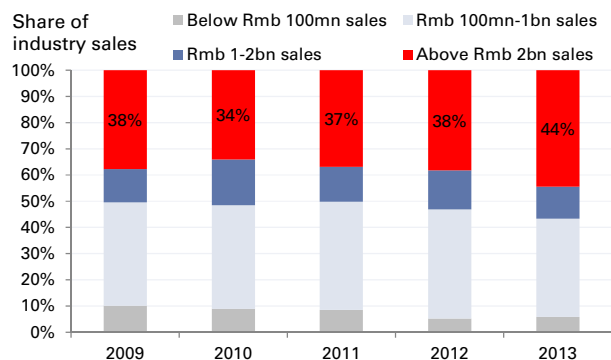
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: Pinggao's potential future orders and existing backlog can cover 2X our 2016-18 UHV revenue estimate



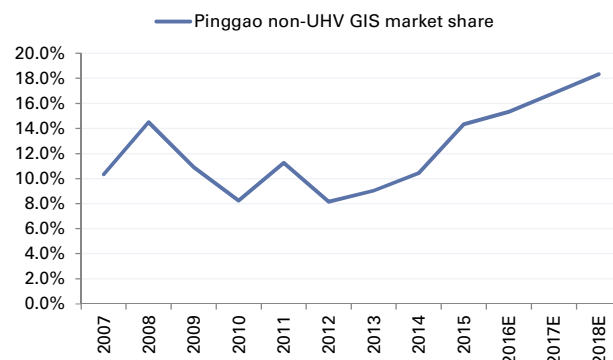
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 3: Largest HV switchgear makers have been consolidating share as clients focus more on quality



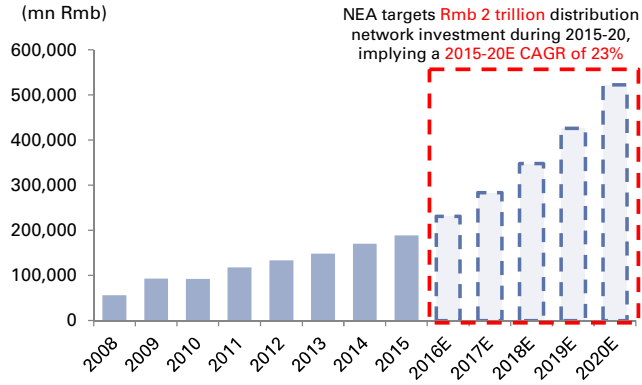
Source: CEEIA.

Exhibit 4: We expect Pinggao's non-UHV GIS share to continue expanding, driving 18% 2015-18E revenue CAGR



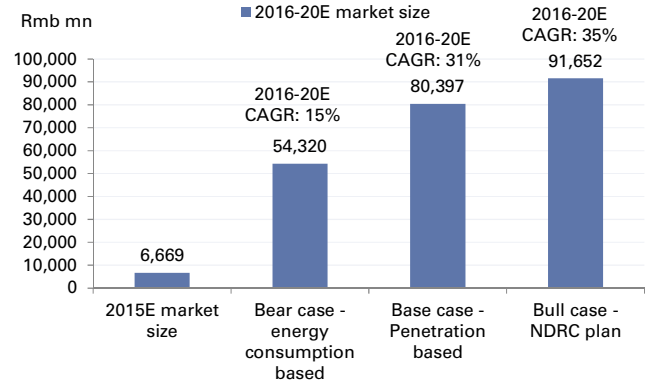
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 5: Vacuum interrupters mainly used in lower voltage distribution network and China has planned Rmb2 trillion distribution investment over 2015-20E...
China distribution network investment, 2008-20E



Source: China Electricity Council, National Energy Administration, Goldman Sachs Global Investment Research.

Exhibit 2: We estimate EV charging pile market in 2016-20 to reach Rmb80bn, implying 31% 2015-20E CAGR
China EV charging pile 2016-20E market size estimate under different scenarios

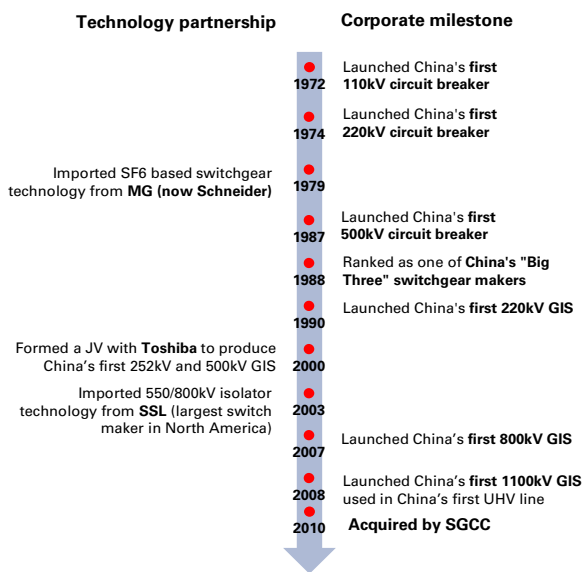


Source: Goldman Sachs Global Investment Research .

Top high voltage switchgear maker; core strengths in GIS

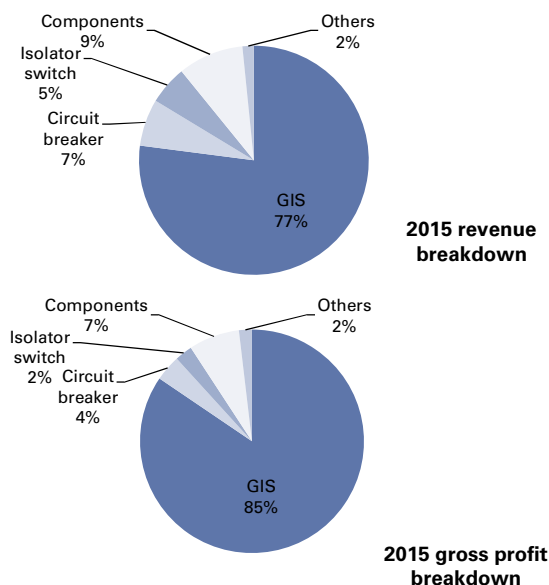
Henan Pinggao Electric (Pinggao) is one of the three largest high voltage (HV) switchgear manufacturers in China (2015 revenue basis), tracing its history back to 1970 when a Shenyang HV switchgear plant contributed part of its assets to set up Pinggao in Pingdingshan, Henan. Since then, Pinggao has led China's switchgear development at every voltage level and has established strong technology partnerships with leading foreign companies such as MG (now part of Schneider) and Toshiba. Its parent company, Pinggao Group, was acquired by State Grid Corporation of China (SGCC) in 2010.

Exhibit 6: Pinggao has led China's switchgear development at every voltage level and has long-standing partnerships with leading foreign companies
Pinggao corporate history



Source: Company data, Sina.

Exhibit 7: Pinggao currently derives most of its revenue from switchgears, including GIS, circuit breakers and isolator switches
Pinggao 2015 revenue/gross profit breakdown by product



Source: Company data.

Switchgears are a type of electricity primary equipment used for removing/reconnecting faulty/fixed power grid equipment. They are critical to grid stability as well as power supply reliability. Pinggao's switchgear product portfolio includes:

- **Gas Insulated Switchgears (GIS; 77%/85% of 2015 revenue/gross profit):** A combination of circuit breaker, isolator switch and other auxiliary equipment in a compact metal encapsulated container. GIS provide a one-stop solution for transmission & distribution (T&D) switchgears with significant space saved. They allow switchgear equipment to be safely operated in a gas-insulated environment.
- **Circuit breakers (7%/4%):** Used for interrupting the current when faulty equipment is detected on the grid by a relay protection system.
- **Isolator switches (5%/2%):** Lacking a circuit breaker's ability to suppress electric arc, isolator switches are only used after a current is interrupted so the equipment is safe for maintenance/repair.
- **Components (9%/7%):** Used for switchgear maintenance/replacement.

Key UHV beneficiary; consolidation/new product driving LT growth

Best positioned in a booming UHV market

Construction of the first two ultra-high voltage (UHV) lines began in 2006, and China has since constructed 11 UHV lines (as of 2015), and has planned/started construction for an additional 29 lines over the 13th Five Year Plan (2016-20). Based on our bottom-up analysis counting each individual line, we estimate that the total length of China's UHV lines will grow five-fold to 68,158km by 2020 and will drive USD117bn (or Rmb765bn) of investment over 2016-20E, implying a 2015-20E CAGR of 20%, vs. 18% over 2012-15 (for details, see our report *China's Internet of Energy: Creating a smarter, cleaner and more efficient power network*, published June 8, 2016.)

We estimate that 44%/56% of this projected US117bn market will be accounted for by AC/DC lines, based on our bottom up analysis through counting each line and categorizing them by AC and DC. Similar to typical AC transmission lines, UHV AC's key equipment comprises 1000kV GIS, reactors and transformers (15%/3%/5% of total UHV investment in an average AC line) while UHV DC's key equipment includes converter valves, converter transformers, and lower voltage 500-750kV GIS (10%/15%/2% of total UHV investment in an average DC line).

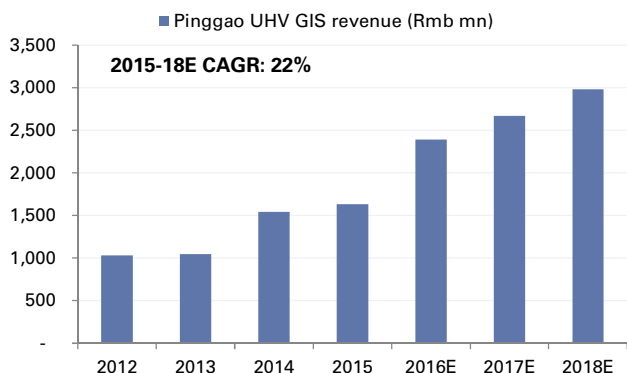
Based on available UHV equipment tendering information as of May 2016, we see all key equipment markets dominated by a handful of suppliers, and believe Pinggao is best positioned due to:

- **Strongest market positioning:** Only 3/7 companies are capable of supplying UHV/500-750kV GIS, vs. 11/10/5 for transformers/reactors/converter valves, and Pinggao has 45%/35% of UHV/500-750kV GIS market share as of May 2016 thanks to its market-leading technology and exclusive focus on switchgears;
- **Most exposed to UHV:** We estimate 2016-2020 revenue from UHV/500-750kV GIS at Rmb27bn for Pinggao, or 4.6x its 2015 revenue. This compares with equivalent multiples of 3.6x/0.7x for China XD/TBEA, China's other two listed UHV equipment suppliers.

As UHV equipment generally requires significant upfront capacity investment and has high technology entry barriers, we expect Pinggao to sustain its market share and UHV GIS sales to rise at a 22% 2016-18E CAGR, versus 17% over 2012-2015 (Exhibit 9).

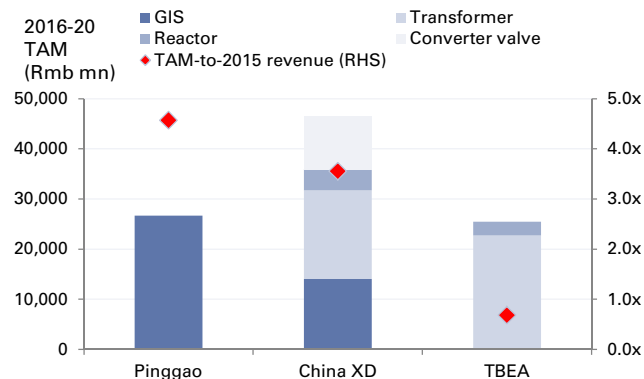
Pinggao has historically won over Rmb1bn in UHV GIS new orders for each UHV AC line and c.Rmb400mn on average for each DC line. Thus the 16 DC and 6 AC lines yet to start tendering imply a new orders opportunity of over Rmb12bn, in addition to the company's close to Rmb6bn order backlog as of end-2015. These figures combined cover more than 2x our total 2016-2018 UHV revenue estimate for Pinggao (Exhibit 12).

Exhibit 8: We forecast Pinggao's UHV GIS revenue to rise at a 22% 2015-18E CAGR



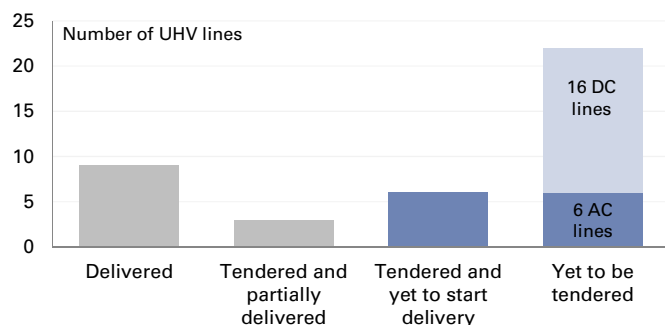
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 9: Pinggao is most exposed to UHV build-out, per our estimate



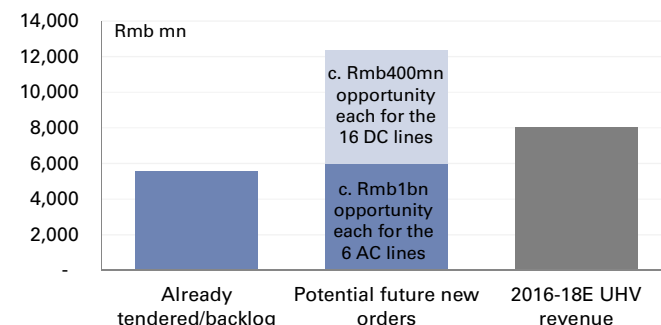
Source: SGCC, company data, Goldman Sachs Global Investment Research.

Exhibit 10: We estimate 22 more lines are yet to start UHV GIS tendering on top of the 6 already tendered



Source: Company data, Goldman Sachs Global Investment Research.

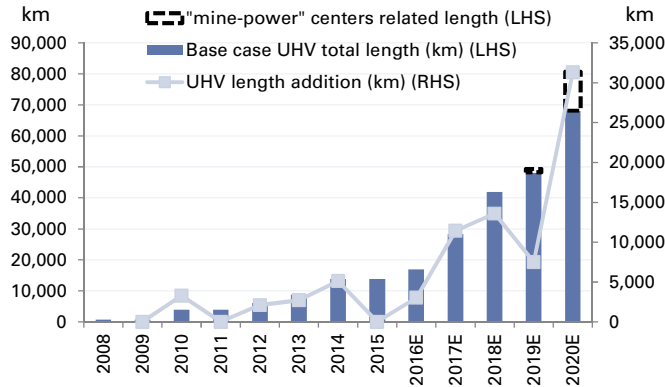
Exhibit 11: We estimate that potential future new orders from the 22 lines to be started and existing order backlog cover 2x our 2016-18 UHV revenue estimate



Source: Company data, Goldman Sachs Global Investment Research.

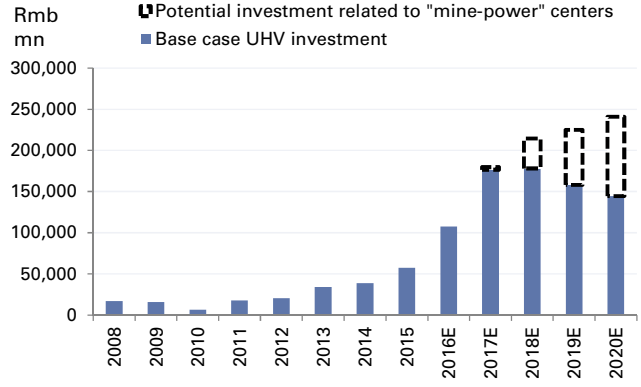
We also see further upside to our base case UHV investment forecast from potential new lines related to concentrated coal mine/power plant centers in Western China. In our blue sky scenario, in which 9 additional UHV lines are built in 2019-20 to accommodate the new “coal-power” centers, we estimate 2016-2020 UHV investment to reach USD148bn (Rmb968bn), implying a 2015-20E CAGR of 33%.

Exhibit 12: In our base case/blue sky scenario, China's total UHV length reaches 68,158/80,680km by 2020E...
China's UHV total length under base case/blue sky scenario, 2008-20E



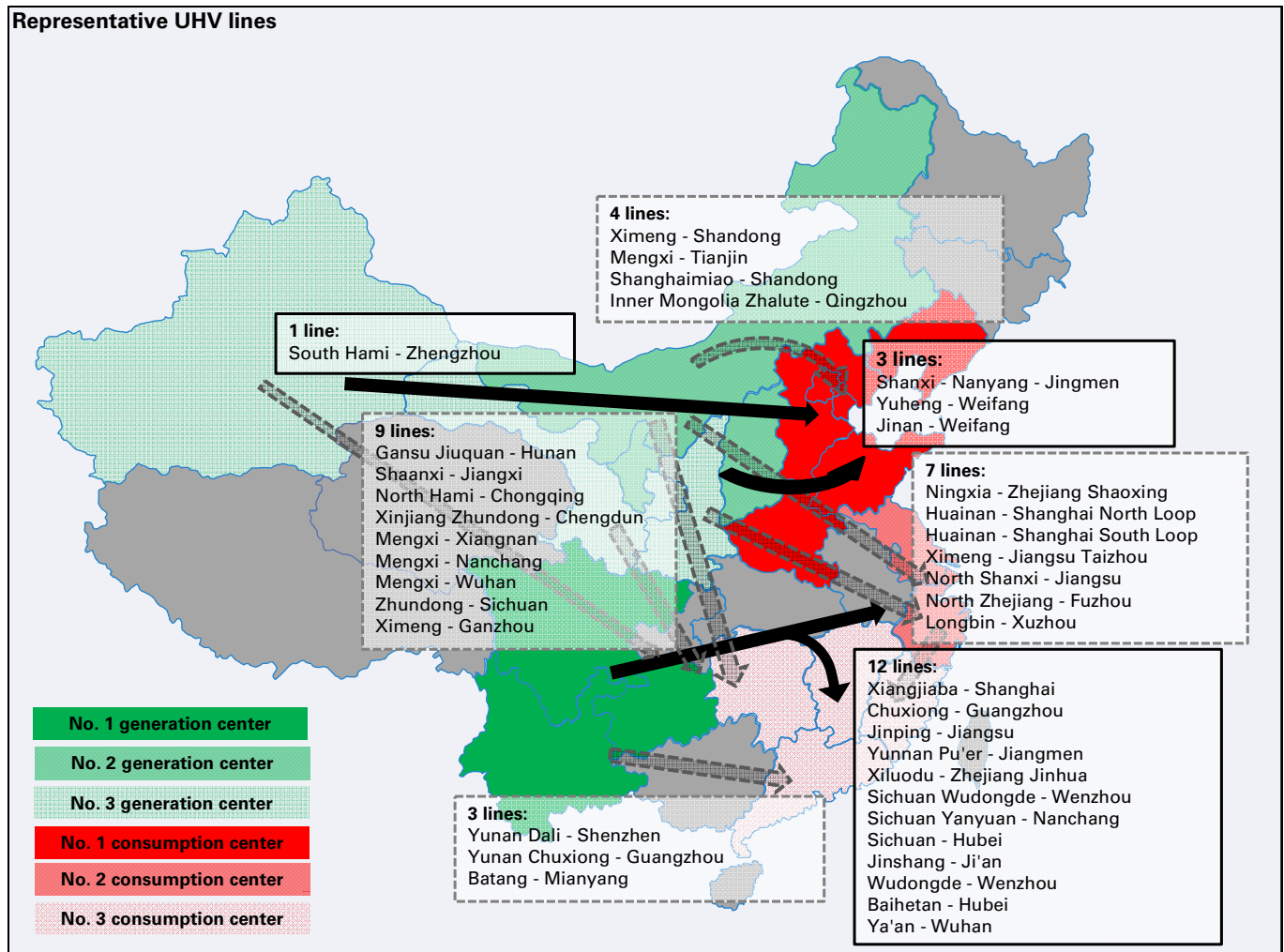
Source: SGCC, China Southern Grid, Goldman Sachs Global Investment Research.

Exhibit 13: ...which implies a total 2016-20E investment of Rmb765/968bn, a 2015-20E CAGR of 20%/33%
China's annual UHV investment, 2008-20E



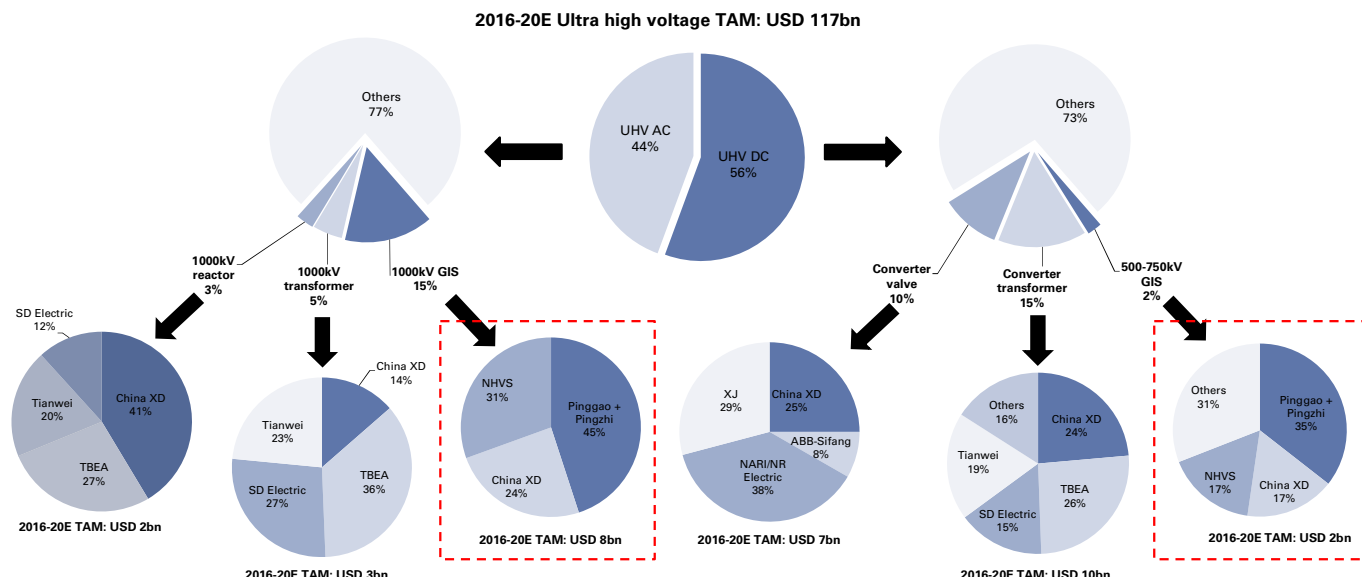
Source: SGCC, CSG, Goldman Sachs Global Investment Research.

Exhibit 14: China has made ambitious plans to connect power generation centers with power consumption centers
Illustration of China's existing/under construction/planned UHV lines



Source: SGCC, CSG, China National Bureau of Statistics, Sina, Goldman Sachs Global Investment Research.

Exhibit 15: Pinggao has a leading 45%/35% share of the UHV/500-750kV GIS markets as of May 2016
UHV key equipment market structure illustration



Source: SGCC, Goldman Sachs Global Investment Research.

Market consolidation driving non-UHV GIS growth

Beyond UHV, we see market consolidation in the overall GIS industry driving Pinggao's long-term growth.

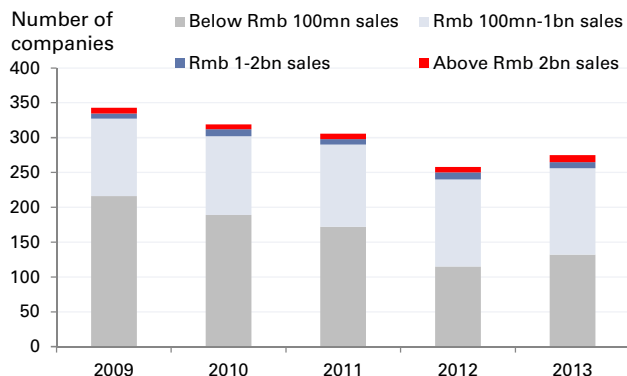
Industry shift to focus on quality over price: China's HV switchgear industry has witnessed an ongoing shift toward quality over pricing the last several years, allowing market leaders with strong technology to take more market share and forcing small suppliers to gradually drop out.

Market consolidation by the stronger: Consequently, the number of industry suppliers with less than Rmb100mn in annual sales dropped significantly in 2012, since which time larger players with more than Rmb2bn in sales have taken an increasing share of the market (Exhibits 17 and 18).

Pinggao consistently gaining market share in non-UHV GIS market: One of the three largest HV switchgear suppliers in China and leader in industry technology development, Pinggao has also seen its market share expand, from 8% in 2012 to 14% in 2015. Going forward, we expect Pinggao to continue consolidating market share as the industry focus shifts further toward quality over price in order to achieve the government's 2020 power reliability target. We accordingly forecast Pinggao's non-UHV GIS revenue to grow at an 18% 2015-18E CAGR.

Exhibit 16: Small suppliers started to drop out of the market from 2012...

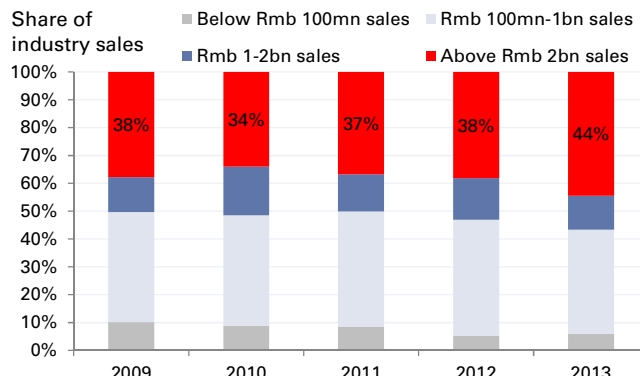
HV switchgear company count by revenue size, 2009-13



Source: China Electrical Equipment Industrial Association (CEEIA).

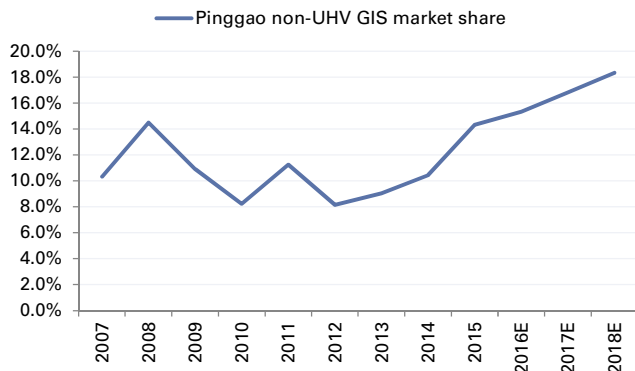
Exhibit 17: ...and leading players with over Rmb2bn sales are taking greater share of the market

HV switchgear sales breakdown by revenue size, 2009-13



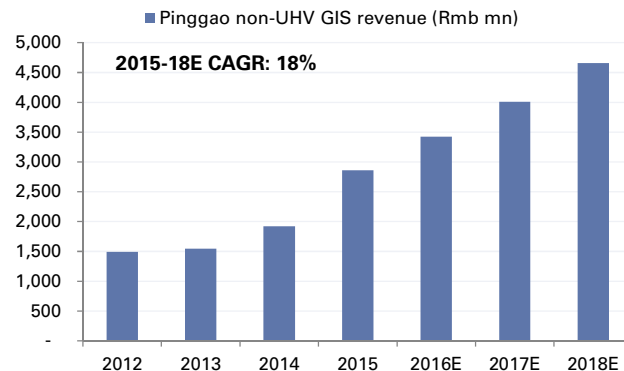
Source: CEEIA.

Exhibit 18: One of the three largest companies in HV switchgears, Pinggao has been steadily gaining share from 2012 and we expect the trend to persist...



Source: CEEIA, company data, Goldman Sachs Global Investment Research.

Exhibit 19: ...driving an 18% 2015-18E CAGR for Pinggao's non-UHV GIS revenue



Source: Company data, Goldman Sachs Global Investment Research.

New products emerging with strong growth potential beyond 2018

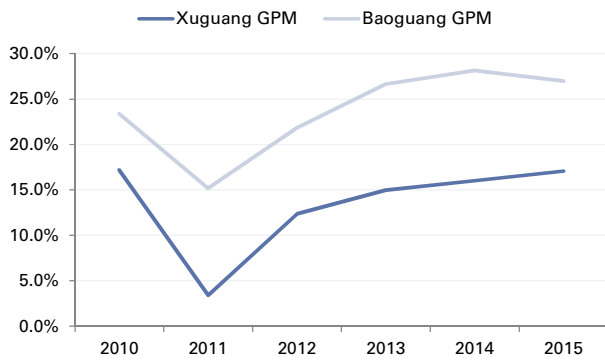
Besides the traditional switchgear product, we see Pinggao's vacuum interrupter and EV charging pile products gradually coming to the fore. We expect 7% of 2018E revenue to be explained by these two businesses that did not exist in 2015, with even greater growth potential beyond 2018, as we explain below.

Vacuum interrupters (4% of 2018E revenue) are a key component of vacuum circuit breakers, suppressing the electric arc created when a circuit is closed. Compared with SF6 circuit breakers, vacuum circuit breakers require less maintenance and are more frequently found in lower voltage distribution networks. Pinggao's vacuum interrupter factory in Tianjin reached 97% completion as of end-2015, with 500,000 units of annual capacity due to come on line in 2016. Assuming 5%/10%/15% market share in 2016/17/18, we expect Pinggao to save Rmb25/35/35mn in costs from internal use of vacuum interrupters and generate Rmb18/45/82mn gross profit from those sold to external parties, together equal to 4%/6%/7% of its 2016/17/18E net income.

Beyond 2018, we see sustained growth potential for vacuum circuit breakers driven by the Rmb2 trillion distribution network upgrade action plan, and we expect Pinggao to add more capacity both to satisfy its own needs and for external sales.

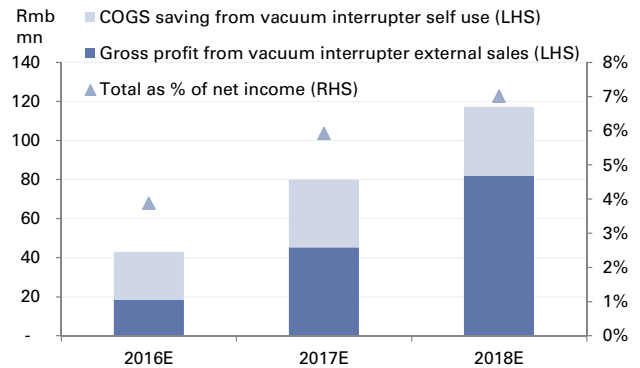
EV charging infrastructure (3% of 2018E revenue): China has set challenging targets to add 4.8 million separate EV charging piles and 12,000 focused EV charging stations by 2020 from an installed base of only 31,000 piles and 780 stations in 2014. We estimate Rmb80bn total investment will be required over 2016-20E, implying a 2015-20E CAGR of 31% (for details, see our report *China's Internet of Energy: Creating a smarter, cleaner and more efficient power network*, published June 8, 2016.). Pinggao has already received certification to provide EV charging piles and is in the process of adding 6,000-8,000/ 20,000 units of DC/AC charging pile capacity. While we are only forecasting Pinggao to take 0%/1%/1% of the 2016/17/18E EV charging pile market due to insufficient capacity, we expect its EV charging pile revenue growth to further accelerate after 2018E as new capacity comes on stream.

Exhibit 3: Baoguang/Xuguang, two of China's largest vacuum interrupter suppliers, are earning 15-25% GPM



Source: Company data.

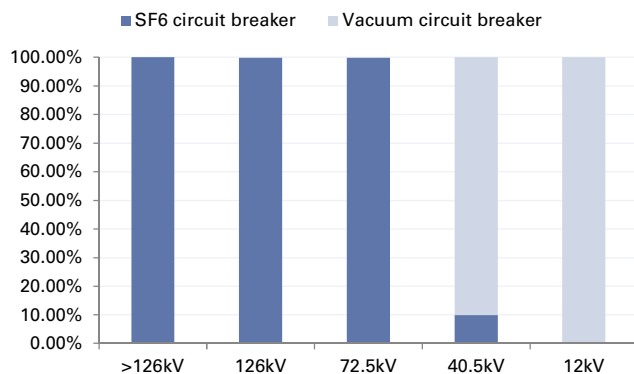
Exhibit 20: We estimate the gross profit and COGS savings from Pinggao's vacuum interrupter products to reach 4%/6%/7% of Pinggao's 2016/17/18E net income



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 21: Vacuum circuit breaker is mainly found in lower voltage distribution network...

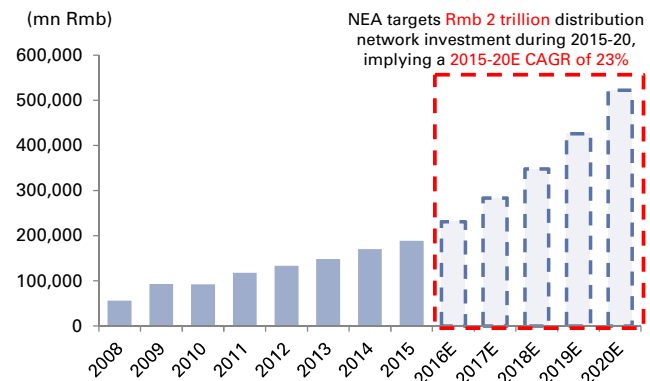
Circuit breaker installed base breakdown by type, 2013



Source: CEEIA.

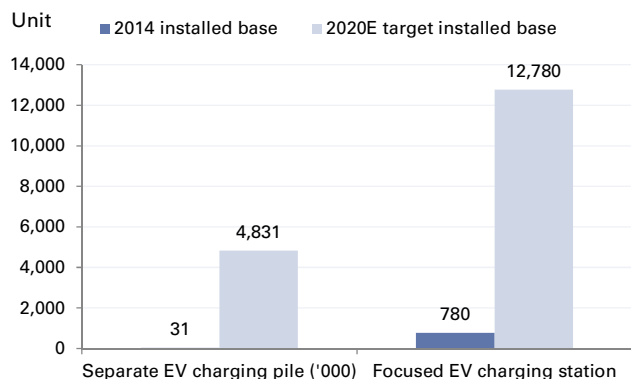
Exhibit 22: ...and we expect strong growth potential after 2018E driven by China's Rmb2 trillion distribution network investment planned during 2015-20E

China distribution network investment, 2008-20E



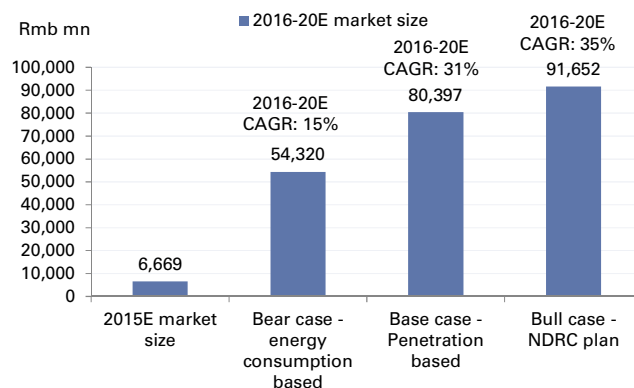
Source: China Electricity Council, National Energy Administration, Goldman Sachs Global Investment Research.

Exhibit 23: NDRC has set an ambitious target for EV charging infrastructure investment over 2016-20E



Source: National Development and Reform Commission, Goldman Sachs Global Investment Research.

Exhibit 24: We estimate EV charging pile market in 2016-20 to reach Rmb80bn, implying 31% 2015-20E CAGR



Source: Goldman Sachs Global Investment Research

Financials: Robust growth and attractive dividend yield

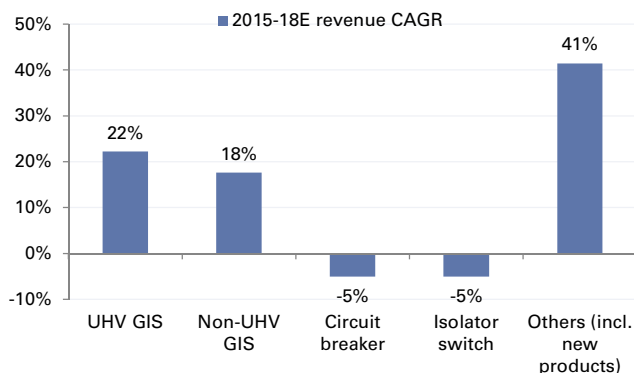
Robust top-line growth

We forecast Pinggao to sustain its revenue CAGR at 20% over 2015-18E, versus 21% during 2012-15. Specifically we expect:

- **UHV GIS at 22% 2015-18E CAGR** on the back of accelerating UHV build out and Pinggao's strong market positioning;
- **Non-UHV GIS at 18% 2015-18E CAGR** on the back of further market consolidation;
- **Circuit breaker/isolator switch at -5% 2015-18E CAGR** on the back of continued replacement of these products by GIS;
- **Other (incl. new products) at 41% 2015-18E CAGR** on the back of lower revenue base and vacuum interrupter/EV charging pile new products rolling out.

Exhibit 25: We see strong growth in Pinggao's GIS and new products...

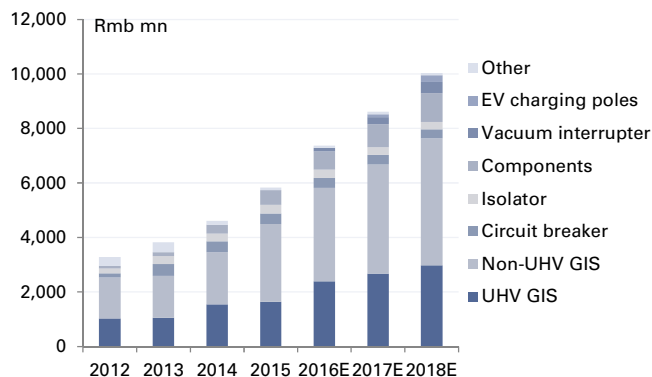
By segment 2015-18E revenue CAGR



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 26: ...with majority of the revenue still contributed by GIS

Company's revenue breakdown by product, 2012-18E



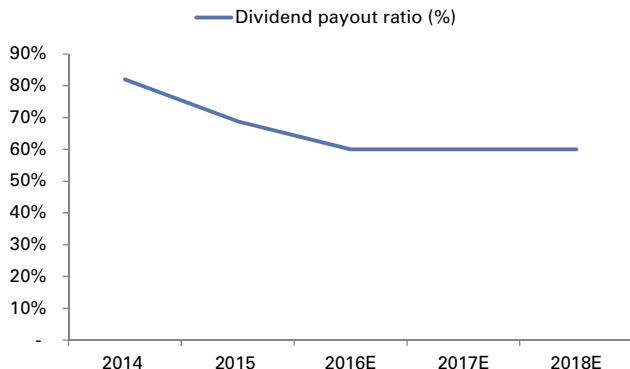
Source: Company data, Goldman Sachs Global Investment Research

Attractive dividend payout likely to be sustained

Pinggao had an attractive dividend payout ratio of 82%/69% in 2014/2015, compared with 17%/14% averages for our other power equipment coverage peers. The company is committed to no less than a 30% dividend payout ratio and expects it to be even higher provided there are no special circumstances such as new capex projects. We forecast Pinggao to maintain a c.60% dividend payout ratio in 2016-18E. Although capex is needed for its foreign factories (particularly in India) and new product related capacity, we expect its capex as a % of sales to moderate from 2013-14 peak investment levels, allowing it more financial resources for dividends. On our 2017 estimates, Pinggao's dividend yield works out to 5%, which we consider an attractive level relative to our power equipment coverage peers' average of 1% and historical average at 2% over 2012-2015.

Exhibit 27: We expect Pinggao's high dividend payout ratio to be sustained at 60% in 2016-18E

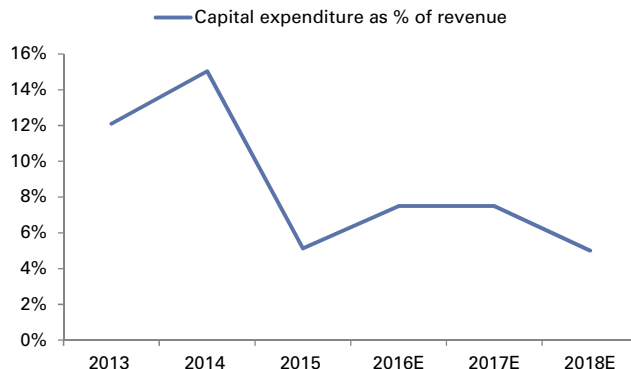
Pinggao's dividend payout ratio, 2014-18E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 28: Company still has outstanding capex needs on Tianjin Pinggao and oversea factory set-up but its % of sales will peak off from 2013/14 levels

Company's capital expenditure as percentage of total revenue, 2013-18E



Source: Company data, Goldman Sachs Global Investment Research.

Gross margin to improve on better mix and key component localization, SG&A savings driving net margin expansion

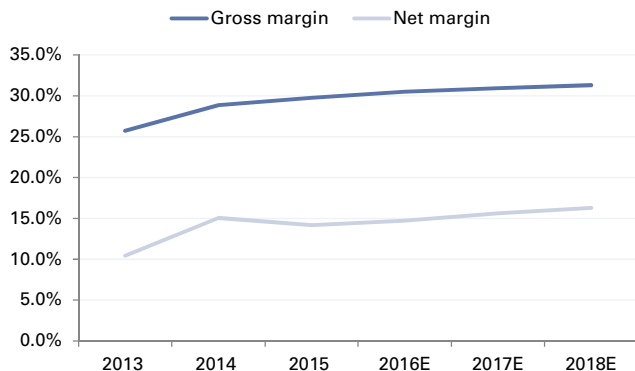
We expect Pinggao's gross margin to improve from 29.7% in 2015 to 31.3% in 2018E, driven by 1) faster revenue growth from UHV GIS, which also has a higher gross margin than Pinggao's overall gross margin; 2) a higher key component self-supply rate as vacuum interrupter capacity comes on stream in 2016.

We expect the company's SG&A ratio to drop gradually during 2016-18E, thanks to 1) slower growth in R&D spending as investment on UHV is largely completed; 2) high client concentration and lower incremental marketing expense needed for additional sales.

As a result, we see the company's net margin expanding from 14.2% as of 2015 to 16.3% in 2018E, an improvement of 2.1ppt.

Exhibit 29: Gross margin and net margin to improve

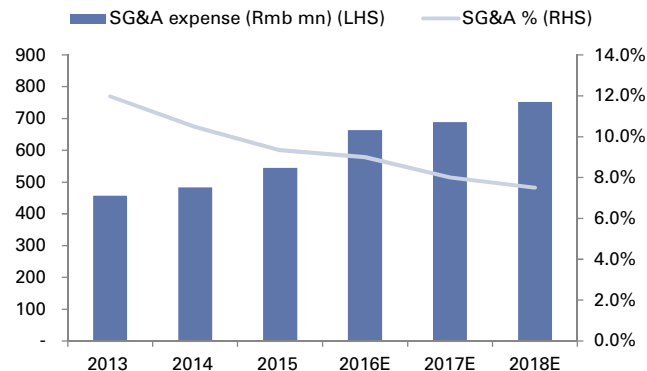
Gross margin/net margin, 2013-18E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 30: SG&A ratio to drop gradually during 2016-18E

due to low R&D and marketing spending requirement SG&A expenses and as % of total revenue, 2013-2018E



Source: Company data, Goldman Sachs Global Investment Research

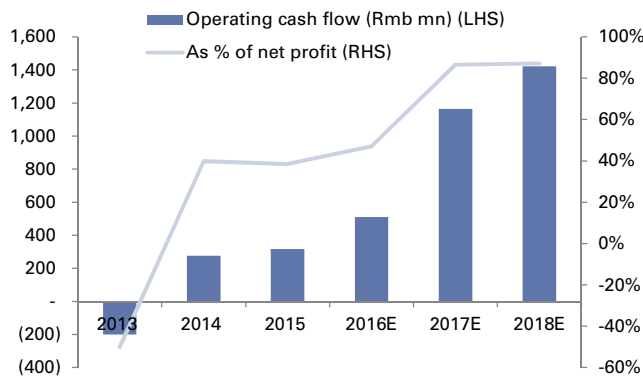
Slim operating cash flow on longer payment terms: expecting better working capital management

Despite Pinggao's solid topline growth, the company's operating cash flow remains slim, mainly due to longer client payment terms. As such, we now forecast receivable days to continue moving upward from 355 days in 2015 to 370 days in 2018E.

However, we forecast stable cash conversion days as we believe the company will also extend its payable days – Pinggao is one of the largest HV switchgear makers in China and with further market consolidation we see increasing bargaining power with suppliers.

Exhibit 31: We expect Pinggao's operating cash flow to improve...

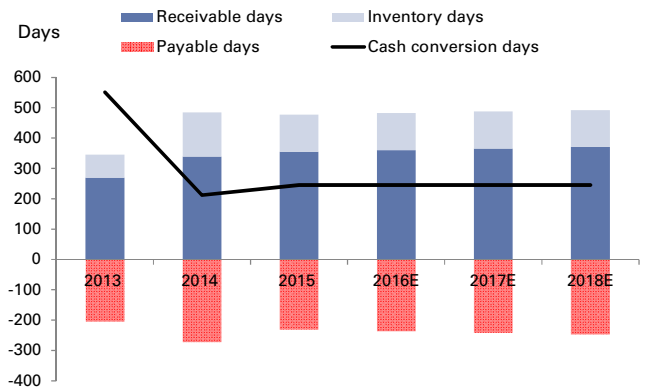
Operating cash flow and its % of net profit, 2013-18E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 32: ...and overall, we see cash conversion days stabilizing in 2016-18E

Cash conversion days breakdown, 2016-18E



Source: Company data, Goldman Sachs Global Investment Research

Valuation: 12-month target price implies 32% upside

We derive Pinggao Electric's 12-month target price of Rmb19.50 using our 2017E EV/GCI vs. CROCI/WACC valuation framework and benchmarking Pinggao Electric to our A-share China machinery & infrastructure construction coverage (Exhibit 36). Pinggao is now trading at a 17% EV/GCI discount to the sector EV/GCI vs. CROCI/WACC line and we expect this discount to close in the next 12 months as the company continues to deliver strong earnings growth on the back of accelerating UHV investment. Further, we rewarded Pinggao with a 10% EV/GCI premium, given our outlook for sustained Q1 CROCI among our coverage over 2016-18E. Our target price implies 32% return potential, among the highest in our coverage.

Despite the strong growth prospects we see, Pinggao currently trades at a 13.9x 12-m rolling forward P/E, more than 1 standard deviation below the historical average, while its 12-m rolling forward P/B now stands at 2.5x, also below the historical average. In addition, the company is now trading at a 2017E P/E of 12x versus T&D equipment peers' median of 17X despite delivering similar earnings growth in 2016/17E at +31%/+24% vs. peers' median at +22%/+28% and a higher 2017E dividend yield at 5% versus a peer median of 1%.

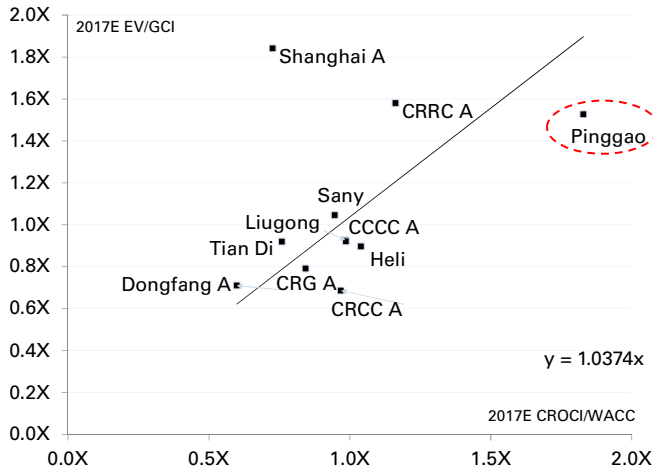
Exhibit 33: We expect Pinggao to generate sustainable Q1 CROCI among our China machinery coverage
CROCI profile for our China machinery coverage, 2011-2018E

Ticker	Company	2011	2012	2013	2014	2015	2016E	2017E	2018E
3969.HK	China Railway Signal & Communication			17.0%	19.9%	28.0%	21.7%	19.6%	16.4%
600312.SS	Henan Pinggao Electric Co	6.2%	11.2%	15.4%	16.1%	16.1%	17.4%	17.6%	18.9%
3898.HK	Zhuzhou CRRC Times Electric Co.	24.2%	19.0%	18.2%	22.2%	22.4%	19.1%	16.9%	15.1%
1829.HK	China Machinery Engineering Corp.		54.0%	14.7%	17.0%	18.7%	17.4%	16.8%	16.1%
002364.SZ	Hangzhou Zhongheng Electric Co.	25.0%	19.5%	17.8%	21.0%	20.0%	18.3%	17.0%	17.1%
3311.HK	China State Construction Intl	21.7%	17.0%	19.0%	13.7%	14.8%	16.3%	16.2%	17.2%
1766.HK	CRRC Corp. (H)	18.2%	15.7%	15.6%	17.1%	16.7%	13.6%	12.8%	12.4%
600761.SS	Heli	17.6%	14.1%	18.4%	17.2%	12.1%	11.3%	11.4%	12.2%
1186.HK	China Railway Construction (H)	23.2%	15.6%	15.2%	12.1%	12.9%	11.5%	11.2%	10.9%
000528.SZ	Guangxi Liugong	19.9%	7.2%	9.5%	9.3%	6.8%	9.6%	10.2%	10.9%
1800.HK	China Communications Construction (H)	13.1%	12.6%	10.6%	9.1%	9.6%	9.4%	9.3%	9.3%
0390.HK	China Railway Group (H)	11.0%	9.0%	9.0%	9.5%	9.6%	9.1%	9.0%	8.8%
3339.HK	Lonking Holdings	21.5%	6.9%	12.9%	10.8%	4.6%	7.8%	8.9%	9.1%
600031.SS	Sany Heavy	44.4%	20.5%	11.6%	6.5%	5.8%	6.9%	8.8%	9.3%
2386.HK	Sinopec Engineering Group	28.9%	26.4%	21.0%	13.0%	8.9%	8.9%	8.4%	8.3%
600582.SS	Tian Di Science & Technology	34.2%	27.1%	22.3%	16.7%	11.2%	8.9%	8.3%	8.1%
2727.HK	Shanghai Electric Group (H)	10.6%	9.6%	9.6%	7.8%	9.1%	7.7%	6.7%	6.2%
1072.HK	Dongfang Electric Corp. (H)	11.1%	9.2%	9.4%	7.3%	6.0%	5.2%	5.4%	5.2%
0631.HK	Sany Heavy Equipment International	19.8%	12.6%	7.5%	4.2%	5.2%	2.9%	3.0%	3.3%
1157.HK	Zoomlion (H)	42.5%	30.5%	14.9%	5.0%	4.2%	2.7%	2.9%	3.1%
000680.SZ	Shantui	13.9%	4.4%	-0.7%	7.5%	-3.9%	-3.3%	-0.3%	0.1%

Q1 CROCI Q2 CROCI
Q3 CROCI Q4 CROCI

Source: Goldman Sachs Global Investment Research

Exhibit 34: We benchmark Pinggao against A-share machinery coverage with a cash return multiple of 1.04x
2017E EV/GCI vs CROCI/WACC, A-share machinery coverage



Source: Goldman Sachs Global Investment Research

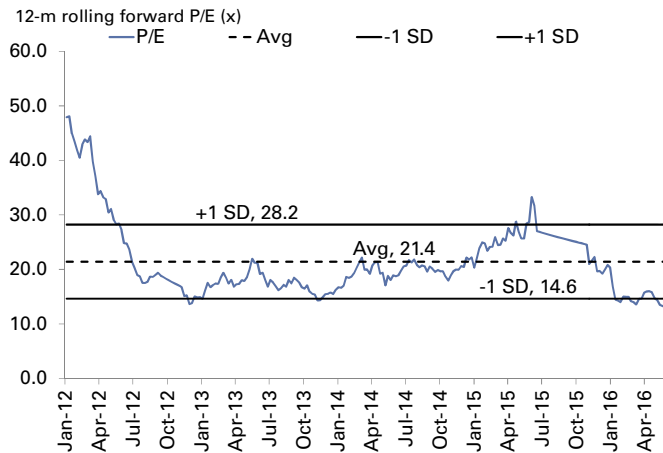
Exhibit 35: We apply a 10% premium to reward Pinggao's Q1 CROCI, and derive its 12-m target price at Rmb19.5
TP derivation table for Pinggao Electric

Henan Pinggao Electric Co	
2017E	600312.SS
Sector EV/GCI vs. CROCI/WACC	1.04x
Historical EV/GCI premium/ (discount)	111%
Current EV/GCI premium/ (discount)	-17%
Premium/ (discount) applied	10%
CROCI/WACC	1.8x
Implied EV/GCI	2.1x
Gross capital invested (RMB mn)	11,907
Implied EV (RMB mn)	24,798
Net debt and minority interest (RMB mn)	2,662
Implied market cap (RMB mn)	22,136
Number of shares (mn)	1,137
Pricing currency	Rmb
Target price	19.5
Current price	14.72
Upside/downside to target price	32%
Rating	Buy*
Implied 2016 P/E	20.4x
Implied 2017 P/E	16.5x
Implied 2018 P/E	13.6x

*On Conviction List

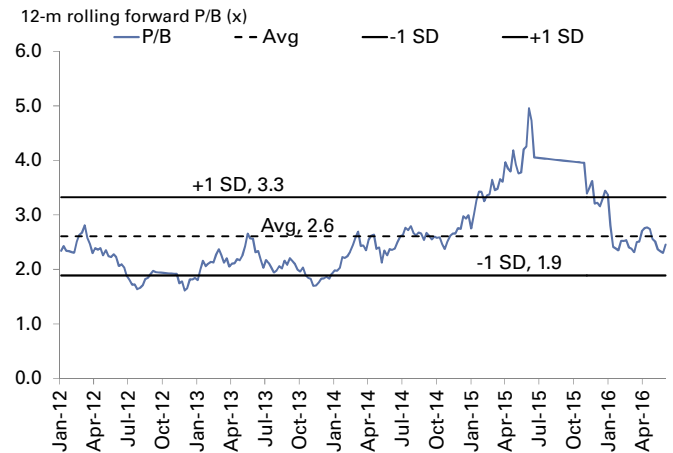
Source: Goldman Sachs Global Investment Research

Exhibit 36: Pinggao currently trades at an attractive 12-m rolling forward P/E of 13.9x vs. average of 21.4X...
12-month rolling forward P/E for Pinggao



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 37: ...and a 12-m rolling forward P/B at 2.5x vs. average of 2.6x
12-month rolling forward P/B for Pinggao



Source: Datastream, Goldman Sachs Global Investment Research

Key risks to our view

Key risks to our investment view include:

➤ **Lower-than-expected UHV investment**

Many planned UHV lines are still subject to final approval by the Chinese government before construction can start. Any delay in approval or decision to cancel certain lines could meaningfully impact UHV's investment as well as Pinggao's product delivery.

Also, if certain UHV projects were to face budget constraints and investment were to slow as a consequence, Pinggao may see slower revenue recognition.

➤ **Slower-than-expected market consolidation**

Although the industry has undergone a shift in focus from price to quality/technology over the past few years and leading suppliers have consistently gained share, we do not rule out the possibility of a shift back to a price focus as a means of saving costs. We believe such a change could dilute major players' market share, as small players are usually willing to offer discounted bidding prices at the expense of product quality. In such a scenario, Pinggao's non-UHV GIS could face significant growth/margin pressures.

➤ **Slower-than-expected new product rollout**

Our forecasts for new products (vacuum interrupters and EV charging piles) reaching 7% of Pinggao's 2018E revenue from zero in 2015 is predicated on the assumption that Pinggao will quickly gain market share, thanks to its technology leadership in HV switchgears, potential for self-use, and strong client relationships. However, if its new products failed to win market share or failed to be applied internally due to insufficient prior experience, Pinggao's long-term growth outlook might become more challenging.

Details of proposed private placement

Pinggao announced in Oct 2015 a Rmb4.9bn private placement (vs. 2015-end shareholders' equity of Rmb6.1bn, excluding minority interests). According to the announcement, the aim is to 1)

purchase and inject capital into a few subsidiaries from its parent company Pinggao Group, as well as into its Tianjin Pinggao industrial park, 2) fund its India factory construction, 3) supplement working capital. Pinggao received regulatory approval on April 29, 2016; the timeframe has yet to be determined. Details follow:

Exhibit 38: Summary of Pinggao's Rmb4.9bn private placement plan

Items		Planned investment (Rmb mn)
Acquisition	90% of Shanghai Tianlin	895
	100% of Pinggao Weihai	227
	100% of Pinggao General	975
	100% of International Engineering	782
	50% of Langfang Toshiba	139
Subtotal		3,017
Capital injection	International Engineering	450
	Pinggao General	200
	Shanghai Tianling	99
	Pinggao Weihai	50
	Tianjin Pinggao	378
Subtotal		1,177
Funding India factory construction		676
Supplementing working capital		31
Total		4,900

Source: Company data.

Exhibit 39: Details of proposed company acquisitions and capital injections

Name	Shanghai Tianlin	Pinggao Weihai	Pinggao General	International Engineering	Langfang Toshiba	Total
Acquisition details						
% of equity to be acquired	90%	100%	100%	100%	50%	
Proposed acquisition price (Rmb mn)	895	227	975	782	139	3,017
Planned capital injection (Rmb mn)	99	50	200	450	0	799
Financials						
2014 total assets	461	262	1,736	619	292	3,370
2014 equity	158	119	744	84	138	1,243
2014 revenue	550	189	907	313	181	2,140
2014 net profit attributable to parent	35	17	43	-2	15	109
1H15 total assets	575	278	1,928	551	322	3,654
1H15 equity	169	129	800	103	151	1,352
1H15 revenue	286	90	332	301	115	1,124
1H15 net profit attributable to parent	17	10	9	15	14	65
Business						
Main products	Distribution used switchgear cabinet and ring main unit	24kV-170 kV GIS; 72.5kV-252kV circuit breaker	Mid-voltage circuit breaker; instrumental transformer; switchgear cabinet	International power EPC; power equipment export	Lightning arrester	
Purpose of capital injection	R&D Capacity addition Working capital	R&D Equipment upgrade Working capital	R&D Working capital	Financing overseas construction projects	N/A	

Source: Company data.

信息披露附录

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每项指标的准确计算方式可能随着财务年度、行业和所属地区的不同而有所变化，但标准方法如下：

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信息披露

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