



Rating
Buy

Asia
China

Resources
Metals & Mining

Company
Cangzhou Mingzhu

Reuters 002108.SZ Bloomberg 002108 CH Exchange SHZ Ticker 002108

Date
24 January 2018

Results

Price at 23 Jan 2018 (CNY)	11.37
Price target - 12mth (CNY)	15.20
52-week range (CNY)	28.86 - 11.08
HANG SENG INDEX	32,255

Prelim result implied hiccups in 4Q17 but already in the price; maintain Buy

2017 preliminary result slightly missed DBe due to subpar separator yield
CZMZ announced its 2017 preliminary result with headline numbers on 23 Jan 2018. The company delivered RMB3.5bn revenue and RMB544mn NPAT in 2017, or 27.5% and 11.6% increase on a year-over-year basis. The preliminary NPAT was c.8% below DBe, or c.9% lower than A-share consensus due to subpar yield of wet processed separator capacity expansion commenced in 3Q17, given stable business performance of the company's other 2 business units - traditional plastic pipes and BOPA film. In the mid-term, we believe the wet processed separator production lines with designed capacity of 105mn sqm should be able to ramp up and provide margin support for the company. CZMZ is scheduled to release the final 2017 results on 23 Mar 2018, and we look forward to having more details then. Maintain Buy.

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	2,175.3	2,764.8	3,035.6	3,510.3	3,829.9
EBITDA (CNYm)	394.7	763.6	887.7	991.2	1,077.4
EBIT(CNYm)	321	659	758	851	907
Reported EPS FD(CNY)	0.35	0.76	0.54	0.61	0.65
Reported NPAT (CNYm)	214.6	487.3	587.8	663.5	707.9
DB EPS growth (%)	-24.4	118.9	-29.0	12.9	6.7
DB EPS FD(CNY)	0.35	0.76	0.54	0.61	0.65
PER (x)	41.2	27.7	21.1	18.7	17.5
EV/EBITDA (x)	22.8	17.5	7.8	7.0	6.2
DPS (net) (CNY)	0.16	0.15	0.11	0.24	0.26
Yield (net) (%)	1.1	0.7	0.9	2.1	2.3

Source: Deutsche Bank estimates, company data

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.6	-20.4	-45.2
HANG SENG INDEX	11.3	16.3	43.8

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	19.9
Net debt/equity (%)	-12.0
Book value/share (CNY)	2.92
Price/book (x)	3.9
Net interest cover (x)	55.6
Operating profit margin (%)	25.0

Source: Deutsche Bank

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Implied 4Q17 margin was impacted by separator; BOPA films and PE pipes on track

On a quarterly basis, Implied 4Q17 NPAT of RMB99mn was at the low end of RMB91-164mn net profit range implied by CZMZ's 2017 profit forecast, which was released in 3Q17 result. We calculated the prelim OPM/NPM at 14.8%/11.2% in 4Q17, or dropped by 6.1ppt/4.7ppt on a sequential basis. Even if we factor in the low seasonality for battery component makers towards year-end, the margin performance was impacted by yield issue in wet processed separator capacity expansion, of which lines with 60mn sqm designed capacity has commenced production in 3Q17. The company's other 2 business units were on track in 2017, and we shall see stable BOPA film YoY growth and slightly stronger PE pipes YoY growth in the detailed final result.

Much negatives have been factored in the price

Judging from our conversations with investors recently, we believe the market expectation on CZMZ is already low. The share price overall battery component sector has declined by 20-30% over the past 3 months due to a) investors' conservative sentiments when it was approaching the potential subsidy cut announcement, and b) read-through from other A-share battery maker's profit warning, which implied potential margin pressure for battery component suppliers. We believe that much of the negatives have already factored in CZMZ's share price. given that the company is trading at lower than 20x FY18E EPS with c.20% price correction over the past 3 months. The key thing to watch in the next few quarters will be the ramp up progress of the wet processed separator production line (designed capacity of 105mn sqm), which will determine the top-line and margin recovery speed of the company.



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Cangzhou Mingzhu	002108.SZ	11.37 (CNY) 23 Jan 2018	NA

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Historical recommendations and target price. Cangzhou Mingzhu (002108.SZ)

(as of 01/23/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	06/05/2017	Buy, Target Price Change CNY 26,00	James Kan
2.	06/16/2017	Buy, Target Price Change CNY 15,20	James Kan



Equity Rating Key

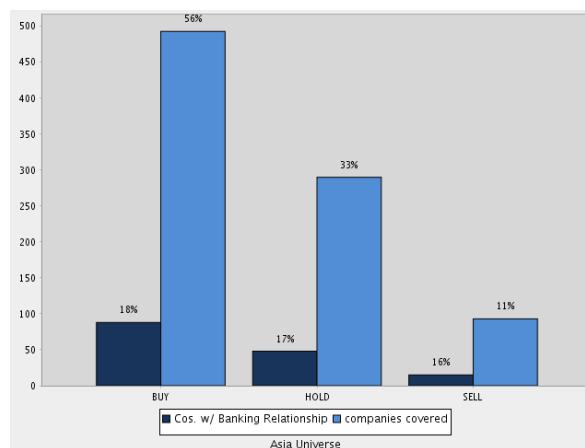
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