

**HONG KONG**

198 HK Underperform

Price (at 05:50, 20 Feb 2018 GMT) HK\$4.00

Valuation	HK\$	3.00
- DCF		
12-month target	HK\$	3.00
Upside/Downside	%	-25.0
12-month TSR	%	-25.0
Volatility Index		Low
GICS sector		Media
Market cap	HK\$m	10,880
Market cap	US\$m	1,391
30-day avg turnover	US\$m	0.7
Number shares on issue	m	2,720

Investment fundamentals

Year end 31 Dec		2016A	2017E	2018E	2019E
Revenue	m	3,351.2	4,317.3	5,429.6	6,319.4
EBIT	m	922.1	1,305.5	1,663.9	1,729.9
EBIT growth	%	39.5	41.6	27.4	4.0
Reported profit	m	403.7	706.5	857.1	910.0
Adjusted profit	m	403.7	706.5	857.1	910.0
EPS rep	¢	14.4	25.3	28.4	29.6
EPS rep growth	%	-1.8	75.4	12.2	4.1
EPS adj	¢	14.3	25.3	28.4	29.6
EPS adj growth	%	-2.7	76.5	12.6	4.2
PER rep	x	27.7	15.8	14.1	13.5
PER adj	x	28.0	15.8	14.1	13.5
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	8.2	8.7	8.9	8.0
ROE	%	7.5	9.5	8.1	7.2
EV/EBITDA	x	11.0	8.4	6.8	6.7
Net debt/equity	%	92.4	41.7	35.7	27.9
P/BV	x	2.0	1.2	1.0	0.9

198 HK rel HSI performance, & rec history

Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2018
(all figures in HKD unless noted)

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21 February 2018

Macquarie Capital Limited

SMI Holdings Group

Facing two dilemmas

Conclusion

- We are downgrading SMI Holdings to Underperform from Neutral, as the cinema company is facing two dilemmas: 1) undergo further rapid expansion, which would pressure PSA (per screen average revenue), or put itself at risk of losing market share, and 2) raise further funds to finance theatre expansion, albeit with EPS dilution, or risk losing market share. SMI has announced a deal with Success Electronics for an A-share back-door listing of its core theatre asset, Chengdu Runyun, as a potential fund-raising for further expansion, but this could result in earnings dilution of up to 39% for the listing company, on our estimates. Relative to the other cinema companies that have strong financial backing from parentcos, SMI will continue to face the pressure of financing its network expansion. We reduce 2017-19E EPS 15-30% and trim TP to HK\$3.00 from HK\$3.50. We transfer coverage to Marcus Yang.

Impact

- Dilemma 1: rapid expansion (but higher PSA pressure) or lose market share.** This is the dilemma that most cinema companies now face following considerable expansion in the sector. SMI continues to roll out aggressive expansion plans – we expect another 100 theatres a year to 2019 – which, if executed, would put pressure on its PSA and, we estimate, would reduce gross margins to 32.8% in 2019 from 36.6% in 2017. This is despite the company's fast-growing and higher-margin retail business. Slower expansion, however, could reduce market share, which we believe in the worst case would put the company at risk of being marginalised in the long run.
- Dilemma 2: Further fundraising (but with EPS dilution) or lose market share.** Unlike other major cinema companies, such as Wanda Film, SMI lacks group backing. It will continue to face the pressure of raising funds for its aggressive expansion plan lest it risk losing market share. Its gearing ratio reached 97% as of end-2016, hence SMI has turned to capital markets since 2017. Chengdu Runyun is seeking an A-share back-door listing. It completed A Round fundraising in Mar-17, which diluted SMI's stake to 84.37% (from 100%), which we estimate will be further diluted to as low as 50% upon the completion of the A-share backdoor listing. In turn, we estimate this will dilute earnings by 39% given this business contributes 90% of SMI's earnings, all else remaining same. The deal is still in the works and subject to regulatory approvals.

Earnings and target price revision

- We are reducing 2018/19E EPS 15%/30% based on lower PSA and lower margin assumptions. We are lowering our target price to HK\$3.0, based on an 11x 2018E PER (from HK\$3.50, based on a 7x 2017E EV/EBITDA).

Price catalyst

- 12-month price target: HK\$3.00 based on a PER methodology.
- Catalyst: 4Q17 results, box office performance.

Action and recommendation

- Downgrade to Underperform. Despite the already cheaper (than peers) valuation of 14x FY18E PER, we see limited visibility for the company to address the abovementioned dilemmas.

Macquarie Governance and Risk Score (MGRS)

On our proprietary [Governance and Risk Score](#) SMI Holdings Group scores in the fourth quartile of our current universe coverage.

Downgrade to Underperform with a TP of HK\$3.00

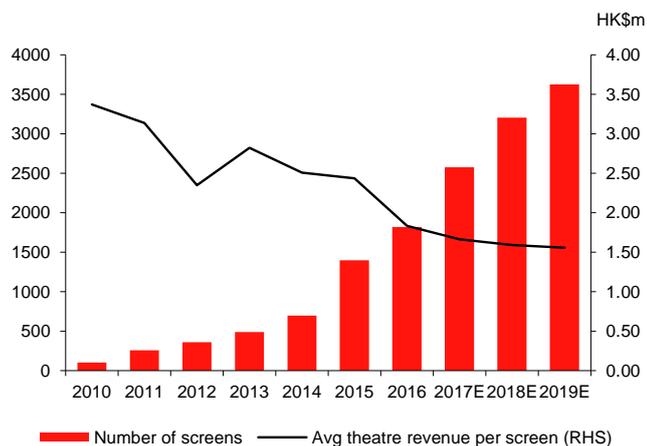
- We are downgrading the shares of SMI to Underperform from Neutral and trimming our TP to HK\$3.00, as we see two long-term dilemmas lingering for the company. The rapid theatre expansion in the PRC market has put sector profitability under pressure, and most players are facing a dilemma as to whether they should aggressively expand further, which would put pressure on PSA, or put itself at risk of losing market share. SMI, the fifth-largest theatre circuit in the PRC market, is also facing the dilemma as to whether raise funds to finance its theatre expansion plan or, again, risk losing market share.
- We are reducing 2017/18/19E earnings 12%/15%/30% based on a lower PSA and lower margin assumptions. We are lowering our target price to HK\$3.00, based on an 11x 2018E PER (from HK\$3.50 based on 7x 2017E EV/EBITDA). We are changing our valuation methodology to PER from EV/EBITDA to align with our media coverage.
- SMI's shares trade at a 14x FY18E PER. We believe a slower earnings CAGR (15% for 2017–19E vs 53% for 2013-16) and limited visibility for the company to address the ongoing dilemmas make the current valuation look lofty compared with the 11x average seen since its IPO.

Fig 1 Earnings estimates revisions

New estimates					
YE 31 Dec (HK\$m)	2H17E	2017E	2018E	2019E	
Revenue	2,058	4,317	5,430	6,319	
OP	746	1,306	1,664	1,730	
Net Profit	401	707	857	910	
Non-GAAP net profit	401	707	857	910	
Adjusted EPS	14.04	25.33	28.42	29.58	
Old estimates					
YE 31 Dec (HK\$m)	2H17E	2017E	2018E	2019E	
Revenue	2,593	4,936	6,008	6,863	
OP	780	1,510	1,839	2,102	
Net Profit	464	803	1,004	1,294	
Non-GAAP net profit	464	803	1,004	1,294	
Adjusted EPS	16.24	29.0	33.29	42.2	
Estimate change					
YE 31 Dec	2H17E	2017E	2018E	2019E	
Revenue	-21%	-13%	-10%	-8%	
OP	-4%	-14%	-9%	-18%	
Net Profit	-14%	-12%	-15%	-30%	
Non-GAAP net profit	-14%	-12%	-15%	-30%	
Adjusted EPS	-14%	-13%	-15%	-30%	

Source: Macquarie Research, February 2018

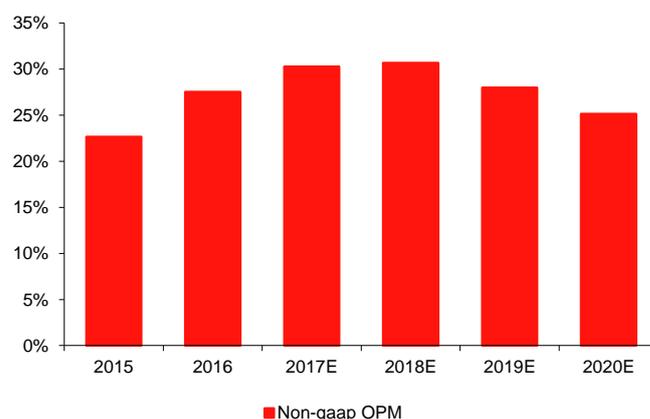
Fig 2 SMI continues to expand theatres rapidly, which will pressure its PSA ...



*PSA includes merchandise sales.

Source: Company data, Macquarie Research, February 2018

Fig 3 ... and margins

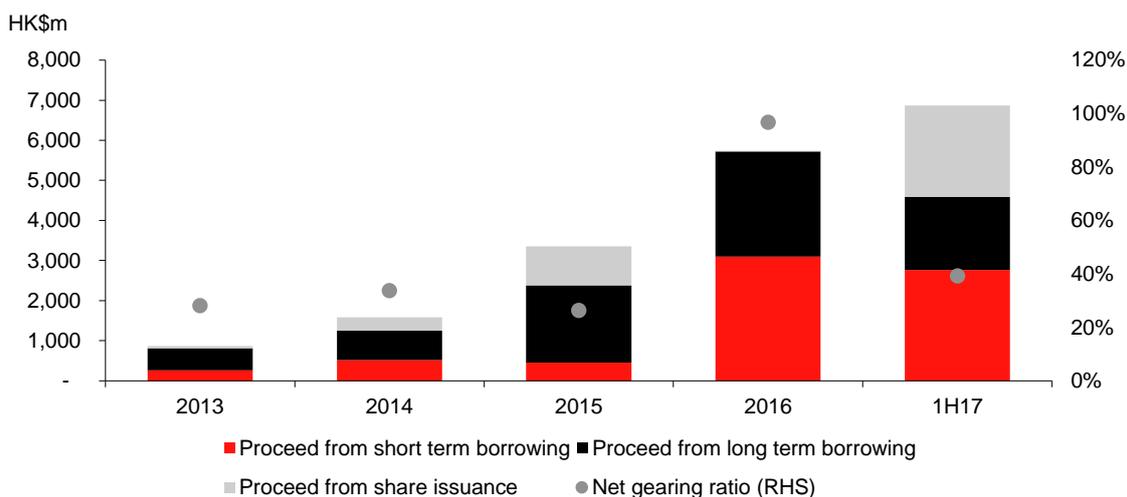


Source: Company data, Macquarie Research, February 2018

Potential A-share listing of theatre asset implies 39% earnings dilution

- On 15 March 2017, Chengdu Runyun, an SMI subsidiary, entered into capital increase agreements with investors, pursuant to which the investors have conditionally agreed to make an aggregate capital contribution of Rmb2.5bn in exchange for 15.63% of the enlarged equity interest of Chengdu Runyun. Chengdu Runyun is principally engaged in operating and managing a movie theatre business. Following completion, the ownership interest of SMI in Chengdu Runyun has been diluted to 84.37% from 100%, according to SMI release.
- Chengdu Runyun is seeking an A-share back-door listing via Success Electronics (002289 CH), an electronics components company, which could further dilute SMI's ownership in Chengdu Runyun to as low as 50% upon the completion of deal, according to SMI. On 11 January, SMI announced that the deal with Success Electronics is still in progress and the relevant work, including due diligence, audit and evaluation, has not yet been completed.
- The theatre operation business, which is primarily under Chengdu Runyun, contributed 95% of SMI's 1H17 earnings (before tax and unallocated income and expense). Assuming further ownership dilution to 50% from the current 84.37%, the disposal of Chengdu Runyun implies a 39% earnings dilution for the SMI listing company, on our estimates. Note that this is based on the assumption of no other benefits (such as special dividend) to SMI's shareholders, which is still under discussion, and as such the whole deal is subject to regulatory approvals.

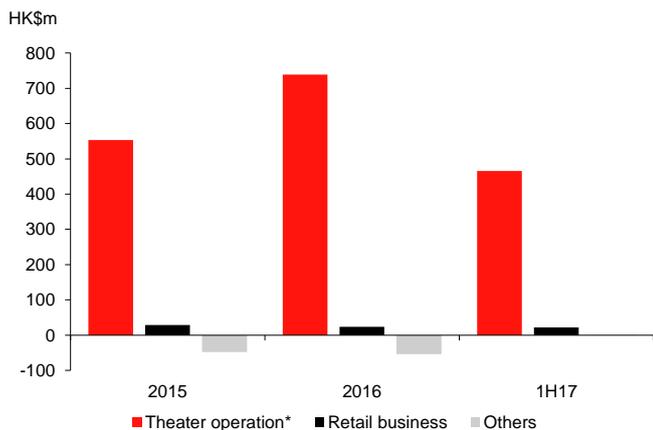
Fig 4 SMI's expansion relies on continuous fundraising/borrowing*



*Including all kinds of borrowing, eg, convertible notes, bonds.

Source: Company data, Macquarie Research, February 2018

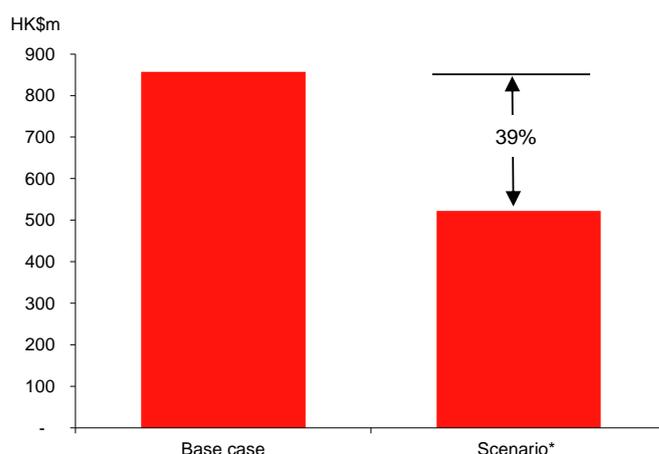
Fig 5 Chengdu Runyun’s earnings contribution to SMI



*Theatre operation business is primarily under Chengdu Runyun; earnings exclude unallocated income and expense.

Source: Company data; Macquarie Research, February 2018

Fig 6 Scenario analysis: earnings impact (2018E) on further disposal of stake in Chengdu Runyun



*Assume SMI’s ownership on Chengdu Runyun to lower to 50% from 84.7% upon the completion of A-share back-door listing (still in process).

Source: Company data; Macquarie Research, February 2018

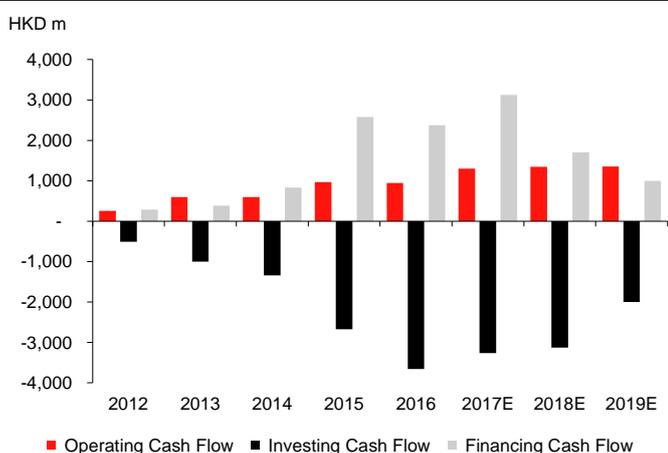
- The above deals of Chengdu Runyun reflects the pressure SMI is under to raise funds. In fact, to finance its aggressive theatre expansion the company has taken on further debt over recent years, with its net gearing ratio reaching 97% as of end-2016. The A Round fundraising has momentarily eased the financing pressure on SMI, but we believe the problem will continue to linger if the next round of fundraising (i.e., the deal for the A-share listing) fails, especially considering the poor market sentiment on the segment. This could put SMI in a precarious situation.

Fig 7 SMI’s major capital raisings

Date	Type	Net proceeds (HK\$m)
Apr-15	Subscription of new shares	39
Apr-15	Convertible bonds	93
Jun-15	Placement of new shares	437
Jul-15	Subscription of new shares	450
Nov-15	Convertible bonds	799
Jun-16	Bond	400
Jun-16	Note	338
Aug-16	ABS	1,700

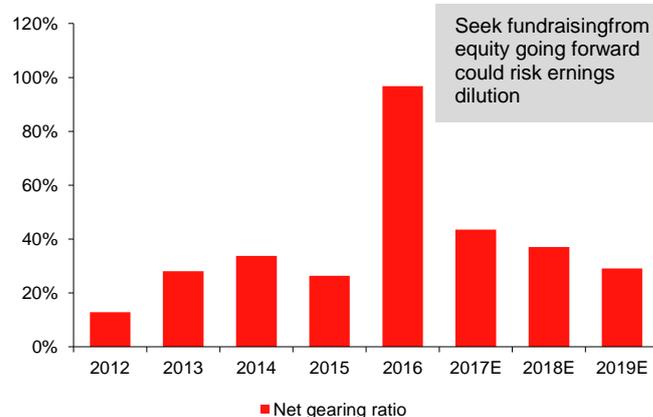
Source: Company data; Macquarie Research, February 2018

Fig 8 Significant financing need for theatre network expansion



Source: Company data; Macquarie Research, February 2018

Fig 9 Net gearing ratio – fundraising from equity could dilute earnings



Source: Company data; Macquarie Research, February 2018

Fig 10 SMI Holdings Group – Ratios

YE 31 December		2014	2015	2016	2017E	2018E	2019E	17-18E	18E-19E	18E-21E
Per Share										
EPS (diluted)	(HK\$)	0.01	0.03	0.03	0.24	0.28	0.29	19%	1%	9%
Non-GAAP EPS (diluted)	(HK\$)	0.01	0.03	0.03	0.24	0.28	0.29	19%	1%	9%
EBITDA	(HK\$)	0.06	0.07	0.10	0.66	0.78	0.80			2%
BVPS	(HK\$)	0.34	0.43	0.39	3.25	3.79	4.32	17%	14%	9%
Basic shares	m	9,434	11,761	13,536	2,790	3,016	3,076	8%	2%	2%
Value										
EV/Revenue	x	9.0 x	5.2 x	4.5 x	3.5 x	2.8 x	2.4 x	--	--	--
EV/EBITDA	x	27.5 x	16.8 x	11.3 x	8.3 x	6.5 x	6.1 x	--	--	--
EV/FCF	x	1889.9 x	17.1 x	-67.7 x	-1330.4 x	22.2 x	10.2 x	--	--	--
Non-GAAP P/E	x	296.0 x	136.0 x	135.6 x	16.9 x	14.2 x	14.1 x	--	--	--
Non-GAAP P/E (ex Cash)	x	290.5 x	139.4 x	148.2 x	22.9 x	19.1 x	18.4 x	--	--	--
Price/ Sales	x	6.7 x	3.8 x	3.4 x	2.6 x	2.1 x	1.8 x	--	--	--
Price/ Book	x	11.7 x	9.4 x	10.4 x	1.2 x	1.1 x	0.9 x	--	--	--
Profit & Loss										
Revenue	(HK\$m)	1,681	2,924	3,351	4,317	5,430	6,319	26%	16%	13%
EBITDA	(HK\$m)	552	904	1,342	1,836	2,349	2,476	28%	5%	4%
Operating Profit	(HK\$m)	406	661	922	1,306	1,664	1,768	27%	6%	6%
Net Income	(HK\$m)	131	360	404	664	857	882	29%	3%	11%
Non-GAAP net income	(HK\$m)	137	361	404	664	857	882	29%	3%	11%
Profitability										
Gross Margin	%	59%	29%	36%	37%	36%	33%	(100 bps)	(282 bps)	(482 bps)
EBITDA Margin	%	33%	31%	40%	43%	43%	39%	74 bps	(408 bps)	(972 bps)
Operating Margin	%	24%	23%	28%	30%	31%	28%	40 bps	(266 bps)	(547 bps)
Net Margin	%	8%	12%	12%	15%	16%	14%	41 bps	(183 bps)	(67 bps)
Cash Flow										
Operating Cash Flow	(HK\$m)	597	969	943	1,298	1,344	1,354	4%	1%	9%
Free Cash Flow :	(HK\$m)	8	888	(224)	(11)	684	1,482	--	117%	57%
Yield										
Dividend Yield	%	1%	1%	2%	0%	0%	0%	--	--	--
FCF Yield	%	0.0%	1.8%	-0.4%	-0.1%	5.6%	12.0%	--	633 bps	1476 bps
Earnings Yield	%	0.4%	0.7%	0.7%	5.9%	7.1%	7.1%	115 bps	6 bps	213 bps
Balance Sheet										
Net debt (Cash)	(HK\$)	1,117	1,377	5,098	3,942	4,226	3,870	107%	92%	92%
Net debt/ equity	%	34%	26%	97%	44%	37%	29%	--	--	--
Shareholder's equity	(HK\$)	3,312	5,231	5,271	9,060	11,417	13,299	26%	16%	11%
Efficiency										
ROE (average)	%	4.3%	8.4%	7.5%	9.0%	8%	7%	(78 bps)	(118 bps)	(36 bps)
ROA (average)	%	2.5%	4.6%	3.6%	4.4%	5%	4%	16 bps	(46 bps)	49 bps
ROIC (average)	%	3.5%	6.3%	5.2%	6.5%	6%	6%	(12 bps)	(77 bps)	67 bps

Source: Company data, Macquarie Research, February 2018

Fig 11 SMI Holdings Group – Financials

YE 31 December (HK\$m)	2014	2015	2016	2017E	2018E	2019E	17–18E	18–19E	18–21E
Consolidated Income Statement									
Total Revenue	1,680.6	2,924.1	3,351.2	4,317.3	5,429.6	6,319.4	26%	16%	13%
Gross Profit	997.5	854.0	1,207.6	1,582.0	1,935.1	2,074.1	22%	7%	8%
GP Margin	59.4%	29.2%	36.0%	36.6%	35.6%	32.8%	(100 bps)	(282 bps)	(482 bps)
SG&A	206.5	101.7	163.6	137.8	170.1	193.7	23%	14%	12%
Operating Profit	406	661	922	1,306	1,664	1,730	27%	4%	6%
OP Margin	24.2%	22.6%	27.5%	30.2%	30.6%	27.4%	40 bps	(327 bps)	(554 bps)
Non-Operating, Net	(197.3)	(214.0)	(429.0)	(471.5)	(591.2)	(591.2)	25%	0%	-13%
Income Taxes (Credit)	83.7	78.5	86.0	126.5	214.5	227.8	70%	6%	22%
Net Income	131.0	360.0	403.7	706.5	857.1	910.0	21%	6%	11%
NP Margin	7.8%	12.3%	12.0%	16.4%	15.8%	14.4%	(58 bps)	(139 bps)	(72 bps)
Non-GAAP net Income	137.4	361.2	403.7	706.5	857.1	910.0	21%	6%	11%
EBITDA	552.1	903.9	1,341.6	1,835.9	2,348.9	2,437.6	28%	4%	4%
EBITDA Margin	32.9%	30.9%	40.0%	42.5%	43.3%	38.6%	74 bps	(469 bps)	(978 bps)
Consolidated Balance Sheet									
Current Assets	1,130.5	2,058.4	2,935.4	4,479.3	5,105.3	6,127.3	14%	20%	11%
Cash	130.2	1,007.6	625.1	1,823.8	1,739.5	2,124.0	-5%	22%	3%
Trade receivables	691.9	544.6	973.8	946.2	1,190.0	1,385.1	26%	16%	13%
Held-for-trading investments	77.6	196.0	304.2	391.9	492.9	573.7			
Inventory	87.8	96.9	360.1	459.4	587.0	713.1	28%	21%	16%
Non-current assets	5,000.6	7,427.2	9,987.2	12,759.4	15,248.3	16,582.6	20%	9%	3%
PPE	1,758.1	2,266.0	3,638.2	5,267.9	6,382.8	6,875.2	21%	8%	3%
Goodwill	1,454.1	3,369.2	5,536.1	6,643.4	7,972.0	8,769.2			
Intangible assets	13.2	56.8	123.3	123.3	123.3	123.3			
Prepayment for construction of Cinema	522.8	376.8	127.8	163.0	208.3	253.1			
Other Fixed Assets	1,252.5	1,358.5	561.8	561.8	561.8	561.8	0%	0%	0%
Total Assets	6,131.1	9,485.6	12,922.6	17,238.7	20,353.6	22,709.9	18%	12%	5%
Current Liabilities	1,963.0	2,152.3	4,667.6	5,120.3	5,641.5	6,058.6	10%	7%	6%
Trade payables	1,322.9	1,506.7	1,047.3	1,349.2	1,696.8	1,974.9	26%	16%	13%
Tax payable	92.0	145.6	357.9	461.0	579.8	674.8			
Other Current Liabilities	29.9	51.7	165.3	213.0	267.8	311.7	26%	16%	13%
LT Liabilities	802.9	2,106.0	2,736.2	2,768.0	3,004.6	3,033.9	9%	1%	-29%
Borrowing	728.8	1,935.9	2,625.9	2,625.9	2,825.9	2,825.9			
Deferred revenue	2.9	100.9	-	-	-	-			
Total Liabilities	2,765.9	4,258.3	7,403.8	7,888.3	8,646.2	9,092.5	10%	5%	-3%
Shareholder's equity	3,365.2	5,227.3	5,518.9	9,350.4	11,707.5	13,617.5	25%	16%	11%
Capital	1,017.6	1,350.7	1,361.1	1,361.1	1,361.1	1,361.1	0%	0%	0%
Capital reserve	2,294.8	3,880.6	3,910.0	7,741.6	10,098.7	12,008.6			
NCI	52.8	(4.0)	247.7	247.7	247.7	247.7	0%	0%	0%
Total Sh. Equity + Liabilities	6,131.1	9,485.6	12,922.6	17,238.7	20,353.7	22,709.9	18%	12%	5%
Consolidated Cash Flow									
Operating Cash Flow	597.3	969.3	943.2	1,341.0	1,344.4	1,381.7	0%	3%	9%
Net Income	137.4	361.2	403.7	706.5	857.1	910.0	21%	6%	11%
Depreciation/Amortization	145.7	243.0	419.5	530.3	685.0	707.7	29%	3%	-1%
Change in Working Capital	(398.2)	301.0	(473.7)	104.1	(197.8)	(235.9)	--	19%	-23%
Investing Cash Flow	(1,345.5)	(2,677.7)	(3,658.0)	(3,267.2)	(3,128.7)	(1,997.2)	-4%	-36%	-50%
Purchase of PPE	(303.8)	(432.8)	(1,252.9)	(2,160.0)	(1,800.0)	(1,200.0)	-17%	-33%	-39%
Prepayment for construction of Cinema	-	-	-	-	-	-			
Acquisition of subsidiary	(993.6)	(1,985.3)	(1,834.6)	(1,107.2)	(1,328.7)	(797.2)	20%	-40%	--
Financing Cash Flow	833.4	2,580.7	2,375.1	3,125.0	1,700.0	1,000.0	-46%	-41%	--
Proceed from bank borrowing	257.8	411.4	38.9	-	200.0	-	--	--	--
Proceed from bonds and CB	754.9	1,342.7	1,245.8	-	-	-	--	--	--
Net Change in Cash	85.3	872.3	(339.7)	1,198.8	(84.3)	384.5	--	--	--
FX impact	3.6	5.1	(42.9)	-	-	-	--	--	--
Cash at beginning of period	41.4	130.2	1,007.6	625.0	1,823.8	1,739.5	192%	-5%	-5%
Cash at end of period	130.2	1,007.6	625.0	1,823.8	1,739.5	2,124.0	-5%	22%	3%

Source: Company data, Macquarie Research, February 2018

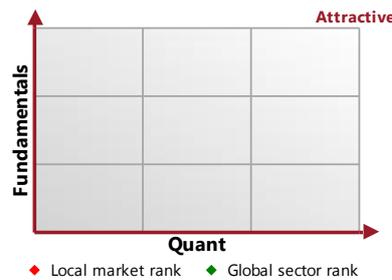
Macquarie Quant View

The quant model currently holds a marginally negative view on SMI Holdings Group. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Quality, indicating this stock is likely to have a weaker and less stable underlying earnings stream.

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Global rank in Media

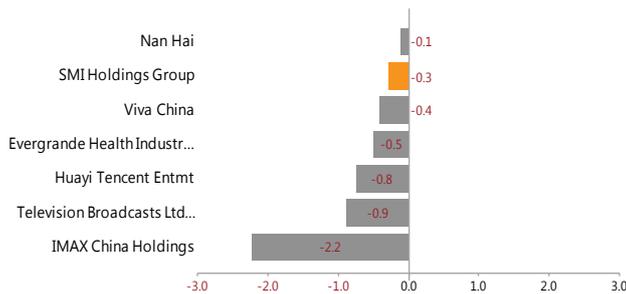
% of BUY recommendations 0% (0/0)
Number of Price Target downgrades 0
Number of Price Target upgrades 0



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.
 Two rankings: Local market (Hong Kong) and Global sector (Media)

Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



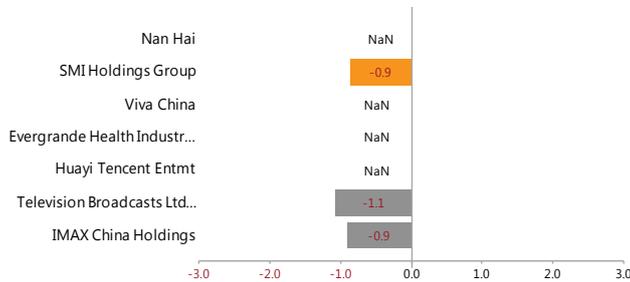
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



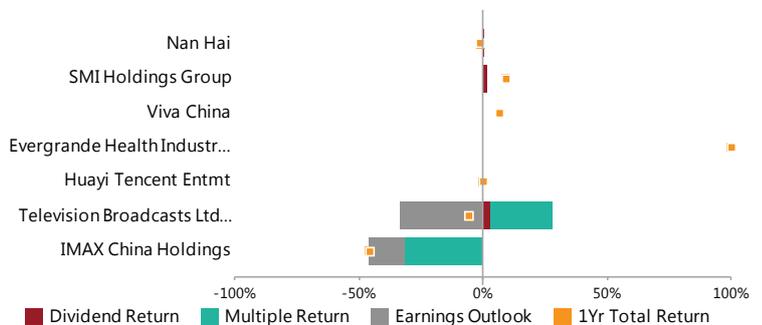
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



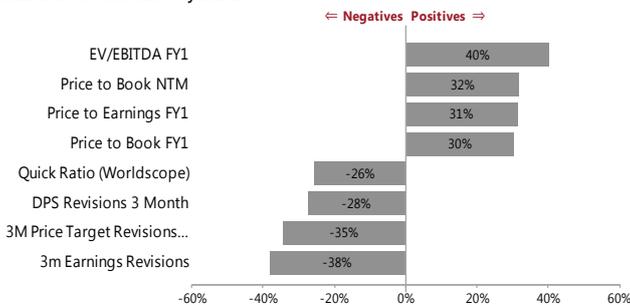
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



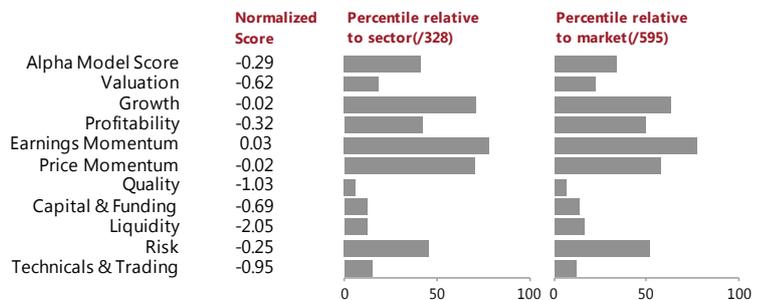
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

SMI Holdings Group (198 HK, Underperform, Target Price: HK\$3.00)

Interim Results					Profit & Loss						
	1H/17A	2H/17E	1H/18E	2H/18E		2016A	2017E	2018E	2019E		
Revenue	m	2,259	2,058	2,932	2,498	Revenue	m	3,351	4,317	5,430	6,319
Gross Profit	m	774	808	1,004	931	Gross Profit	m	1,208	1,582	1,935	2,074
Cost of Goods Sold	m	1,485	1,250	1,927	1,567	Cost of Goods Sold	m	2,144	2,735	3,494	4,245
EBITDA	m	825	1,011	1,170	1,179	EBITDA	m	1,342	1,836	2,349	2,438
Depreciation	m	265	265	343	343	Depreciation	m	419	530	685	708
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	560	746	827	837	EBIT	m	922	1,306	1,664	1,730
Net Interest Income	m	-227	-244	-236	-355	Net Interest Income	m	-429	-471	-591	-591
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	332	502	591	482	Pre-Tax Profit	m	493	834	1,073	1,139
Tax Expense	m	-26	-100	-118	-96	Tax Expense	m	-86	-126	-215	-228
Net Profit	m	306	401	473	386	Net Profit	m	407	708	858	911
Minority Interests	m	-1	0	0	-1	Minority Interests	m	-3	-1	-1	-1
Reported Earnings	m	305	401	473	384	Reported Earnings	m	404	707	857	910
Adjusted Earnings	m	305	401	473	384	Adjusted Earnings	m	404	707	857	910
EPS (rep)	¢	11.2	14.0	15.8	12.7	EPS (rep)	¢	14.4	25.3	28.4	29.6
EPS (adj)	¢	11.2	14.0	15.8	12.7	EPS (adj)	¢	14.3	25.3	28.4	29.6
EPS Growth yoy (adj)	%	17.2	196.4	40.4	-9.7	EPS Growth (adj)	%	-2.7	76.5	12.6	4.2
						PE (rep)	x	27.7	15.8	14.1	13.5
						PE (adj)	x	28.0	15.8	14.1	13.5
EBITDA Margin	%	36.5	49.1	39.9	47.2	Total DPS	¢	0.0	0.0	0.0	0.0
EBIT Margin	%	24.8	36.2	28.2	33.5	Total Div Yield	%	0.0	0.0	0.0	0.0
Earnings Split	%	43.2	56.8	55.1	44.9	Basic Shares Outstanding	m	2,707	2,858	3,031	3,092
Revenue Growth	%	23.2	35.6	29.8	21.4	Diluted Shares Outstanding	m	2,795	2,790	3,016	3,076
EBIT Growth	%	19.1	64.9	47.8	12.2						
Profit and Loss Ratios					Cashflow Analysis						
		2016A	2017E	2018E	2019E		2016A	2017E	2018E	2019E	
Revenue Growth	%	14.6	28.8	25.8	16.4	EBITDA	m	1,342	1,836	2,349	2,438
EBITDA Growth	%	48.4	36.8	27.9	3.8	Tax Paid	m	0	0	0	0
EBIT Growth	%	39.5	41.6	27.4	4.0	Chgs in Working Cap	m	-0	0	-0	-0
Gross Profit Margin	%	36.0	36.6	35.6	32.8	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	40.0	42.5	43.3	38.6	Other	m	-398	-495	-1,004	-1,056
EBIT Margin	%	27.5	30.2	30.6	27.4	Operating Cashflow	m	943	1,341	1,344	1,382
Net Profit Margin	%	12.0	16.4	15.8	14.4	Acquisitions	m	-1,835	-1,107	-1,329	-797
Payout Ratio	%	0.0	0.0	0.0	0.0	Capex	m	-1,253	-2,160	-1,800	-1,200
EV/EBITDA	x	11.0	8.4	6.8	6.7	Asset Sales	m	0	0	0	0
EV/EBIT	x	16.0	11.7	9.6	9.4	Other	m	-570	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-3,658	-3,267	-3,129	-1,997
ROE	%	7.5	9.5	8.1	7.2	Dividend (Ordinary)	m	0	0	0	0
ROA	%	8.2	8.7	8.9	8.0	Equity Raised	m	0	0	0	0
ROIC	%	11.5	10.4	10.0	8.7	Debt Movements	m	0	0	0	0
Net Debt/Equity	%	92.4	41.7	35.7	27.9	Other	m	-2,375	-3,125	-1,700	-1,000
Interest Cover	x	2.1	2.8	2.8	2.9	Financing Cashflow	m	-2,375	-3,125	-1,700	-1,000
Price/Book	x	2.0	1.2	1.0	0.9	Net Chg in Cash/Debt	m	-5,090	-5,051	-3,484	-1,616
Book Value per Share		2.0	3.3	3.9	4.4	Free Cashflow	m	-310	-819	-456	182
						Balance Sheet		2016A	2017E	2018E	2019E
						Cash	m	625	1,824	1,739	2,124
						Receivables	m	1	1	1	1
						Inventories	m	0	0	0	0
						Investments	m	0	0	0	0
						Fixed Assets	m	3,638	5,268	6,383	6,875
						Intangibles	m	0	0	0	0
						Other Assets	m	8,658	10,146	12,230	13,709
						Total Assets	m	12,923	17,239	20,354	22,710
						Payables	m	1,047	1,349	1,697	1,975
						Short Term Debt	m	3,097	3,097	3,097	3,097
						Long Term Debt	m	2,626	2,626	2,826	2,826
						Provisions	m	0	0	0	0
						Other Liabilities	m	633	816	1,026	1,195
						Total Liabilities	m	7,404	7,888	8,646	9,092
						Shareholders' Funds	m	1,361	1,361	1,361	1,361
						Minority Interests	m	0	0	0	0
						Other	m	4,158	7,989	10,346	12,256
						Total S/H Equity	m	5,519	9,350	11,708	13,617
						Total Liab & S/H Funds	m	12,923	17,239	20,354	22,710

All figures in HKD unless noted.

Source: Company data, Macquarie Research, February 2018

Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.82%	55.57%	44.05%	45.06%	60.00%	42.51%	(for global coverage by Macquarie, 4.36% of stocks followed are investment banking clients)
Neutral	35.40%	28.60%	36.90%	47.59%	28.67%	40.42%	(for global coverage by Macquarie, 2.58% of stocks followed are investment banking clients)
Underperform	12.77%	15.83%	19.05%	7.34%	11.33%	17.07%	(for global coverage by Macquarie, 0.69% of stocks followed are investment banking clients)

198 HK vs HSI, & rec history

(all figures in HKD currency unless noted)

002739 CH vs CSI 300, & rec history

(all figures in CNY currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2018

12-month target price methodology

198 HK: HK\$3.00 based on a PER methodology

002739 CH: Rmb53.40 based on a EV/EBITDA methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
13-Jul-2017	198 HK	Neutral	HK\$3.50
11-Apr-2017	198 HK	Neutral	HK\$3.50
04-Feb-2017	198 HK	Neutral	HK\$3.90

Target price risk disclosures:

198 HK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

002739 CH: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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