

5 September 2018

China

## EQUITIES

AShare  
Research

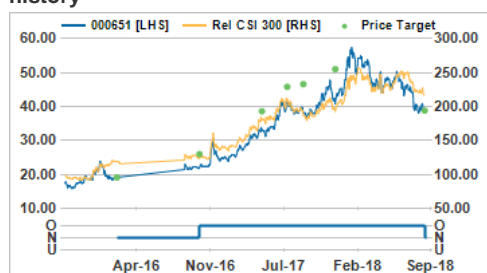
000651 CH Neutral  
Price (at 06:50, 05 Sep 2018 GMT) Rmb38.86

Valuation	Rmb	38.80
- PER		
12-month target	Rmb	38.80
Upside/Downside	%	-0.2
12-month TSR	%	+4.4
Volatility Index		Medium
GICS sector		
Consumer Durables & Apparel		
Market cap	Rmbm	233,771
Market cap	US\$m	34,219
Free float	%	72
30-day avg turnover	US\$m	252.9
Number shares on issue	m	6,016

## Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	bn	150.0	181.2	184.1	193.0
EBIT	bn	26.0	29.8	30.1	31.9
EBIT growth	%	89.3	14.6	1.0	6.1
Reported profit	bn	22.4	26.3	27.2	29.5
Adjusted profit	bn	21.2	26.8	25.9	29.8
EPS rep	Rmb	3.72	4.37	4.52	4.91
EPS rep growth	%	44.9	17.4	3.4	8.6
EPS adj	Rmb	3.52	4.46	4.31	4.96
EPS adj growth	%	35.3	26.8	-3.5	15.2
PER rep	x	10.4	8.9	8.6	7.9
PER adj	x	11.0	8.7	9.0	7.8
Total DPS	Rmb	0.00	1.75	1.81	1.96
Total div yield	%	0.0	4.5	4.7	5.1
ROA	%	13.1	12.4	11.5	11.8
ROE	%	35.4	34.9	26.8	26.1
EV/EBITDA	x	4.7	4.0	4.0	3.7
Net debt/equity	%	-121.1	-113.9	-110.1	-110.4
P/BV	x	3.6	2.6	2.2	1.9

## 000651 CH rel CSI 300 performance, &amp; 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, September 2018  
(all figures in Rmb unless noted, TP in CNY)

## Analysts

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## Gree Electric (A-Share)

### Reported sales belie cooling real demand

## Key points

- ▶ Air-conditioner sales growth to moderate on shortfall in demand growth.
- ▶ Investors likely to focus on end-demand rather than reported revenues.
- ▶ We raise FY18 and FY19 EPS estimates by 11% and 4%, but downgrade the stock to Neutral and cut our PER-based TP by 24% Rmb38.80.

## Conclusion

- We downgrade Gree to Neutral post 1H18 as we are increasingly cautious on the air-conditioner industry in 2H18-1H19, given the high YoY base. We raise our earnings est for FY18 by 11% and for FY19 by 4% in view of the strong reported sales for 1H18 that we believe are due to strong sell-in. However, we cut the target PER from 13.5x FY18E to 9x FY19E. Accordingly, we lower our TP by 24% to RMB38.80/sh, as we expect growth to normalise following strong earnings growth in the past 24 months. Our FY18-19 earnings are 4% & 7% below consensus, respectively. Dividend uncertainty remains a concern.

## Impact

- **Air-conditioner sales growth to normalise from 2H18. Gree's AC shipments in China have risen 16% YoY YTD.** We expect air-conditioner revenue growth to moderate to 8% YoY in 2H18 after last year's unusually high 49% YoY growth, which we believe was partly due to AC demand being met earlier than expected. Our channel checks indicate that weaker-than-expected July retail sales have led to higher channel inventory for the industry, which will take time to digest. This, we believe, will cause shipment growth to moderate, to relieve pressure on channels.
- **Would it matter if management can hit RMB 200bn sales target for FY18?** Even if the company meets its FY18 sales target of RMB200bn, we doubt it will be a share price catalyst, as it will only increase the market's scepticism on whether there is channel stuffing in air-conditioners, given the strong sales revenue growth in the past 24 months. We see end-consumer demand measured by either AC installations or retail sell-through as a much more important catalyst to the share price than Gree's sales to channels.
- **Investment in chipset design at what cost?** A key reason for the cut in dividend is Gree's intention to invest in chipset design. Its inverter air-conditioners use mainly imported chipsets that cost RMB4-5bn annually. As the chipset is the only air-conditioner component that Gree does not only make itself, it is investing in chipset technology R&D to increase its pricing power and control costs. Gree has set up a subsidiary with RMB1bn of share capital.

## Earnings and target price revision

- We raise our reported estimates for FY18 and FY19 by 11% and 4% respectively, but cut our target price by 24% to RMB38.80/sh.

## Price catalyst

- 12-month price target: Rmb38.80 based on a PER methodology.
- Catalyst: 3QFY18 results, 3rd party industry data on AC

## Action and recommendation

- Downgrade to Neutral.

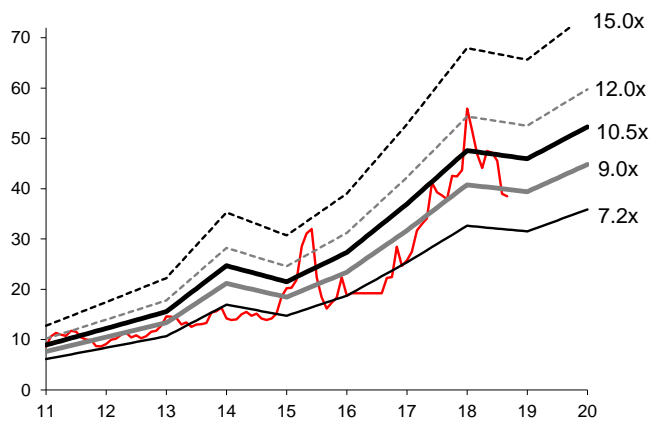
## Investment thesis: Downgrade to Neutral; TP lowered to Rmb38.80/sh

We lower our target price to Rmb 38.80/sh from Rmb 51.00/sh previously as we lower our earnings multiple on FY19E to 9x despite lifting reported EPS by 11% for FY18E and 4% for FY19E. While Gree remains the leader in China's air-conditioner industry by volumes and gains from market consolidation, we worry about the FY19 outlook as we fear the demand for air-conditioners may have been drawn in advance, following strong air-conditioner selling seasons for two consecutive years—2017 and 2018. The AC selling season starts from August and ends in July next year.

- ⇒ **AC industry growth to moderate in 2H18 and 1H19 after two years of solid growth:** According to China Industry Online data, Gree's combined China exports and domestic shipment volumes have risen 15% YoY YTD. With the company commenting distributors still willing to restock, we believe sell-in volume may still grow in 2H18, but growth is likely to moderate going forward, particularly in 1H19, due to a higher base.
- ⇒ **Still seeing ASP increase at retail level:** Based on 1H18 for All View Cloud (AVC) data, Gree saw retail ASP grew ~ 5% YoY for residential ACs, compared to a ~3.4% YoY increase for the industry.
- ⇒ **Dividends:** Gree has paid out 28% of its 1H18 earnings at RMB 60cents per share, which is much lower than the 70% full-year payout in 2015 and 2016. According to its interim report, the company plans to invest in chip design, as it wants to save the over RMB4-5 billion that it currently spends annually on imported chipsets.

Our new target price is based on 9x FY19E PER vs 13.5x FY18E previously. We believe the company's dividend payout has disappointed the market, which remains concerned about the size of investment in chipset design, especially in the context of the broader slowdown in AC sales. We lower our multiple to factor in this uncertainty and will wait on the sidelines for a better entry point.

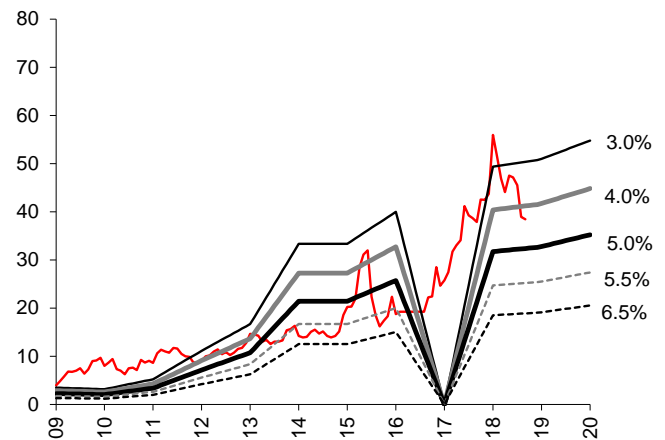
Fig 1 Gree historical PER bands



Source: FactSet, Macquarie Research, September 2018.

\*Note: EPS adjusted for share split.

Fig 2 Gree dividend bands



Source: FactSet, Macquarie Research, September 2018

## Earnings revision

We are raising our reported profit estimates for 2018 and 2019 by 11% and 4% respectively, in view of the stronger than expected results for 1H18. Our FY18 revenue estimate of RMB181bn is below the management's target of RMB200bn.

- ⇒ **Revenue:** We lift FY18E revenues by 16% and FY19E by 9% as we expect the group to further drive its AC sell-in into its regional sales office this year to achieve the revenue target of RMB200bn. For FY19, we have some concern on demand normalising, given the high comparison base in 1H18, which may be reflecting demand spent in advance, in our view.
- ⇒ **Gross margin:** We cut our gross margins assumptions for FY18 and FY19 by 2.0 and 2.2ppts respectively as we believe our previous expectations may be too high. We believe as the company diversifies its revenue stream, it may see lower margins due to negative impact from a revenue mix change. At the same time, we expect gross margin from the export business to get further compressed to only 7.3% in FY18E vs 13.1% in 1H17.
- ⇒ **Operating margin:** We raise our OP margin estimate for FY18 by 10bps but cut it for FY19 by 30bps as we believe Gree's efficiency enhancement, strict control in selling & distribution expense, will be offset by increased spending on chip design investment, which is unlikely to generate near-term returns.
- ⇒ **Dividends:** We lower our payout ratio assumption for 2018 and beyond to 40% on the back of the 28% payout for 1H18. We believe the company is likely holding back cash for future investment but should have more clarity in 2H18.

**Fig 3 Earnings change**

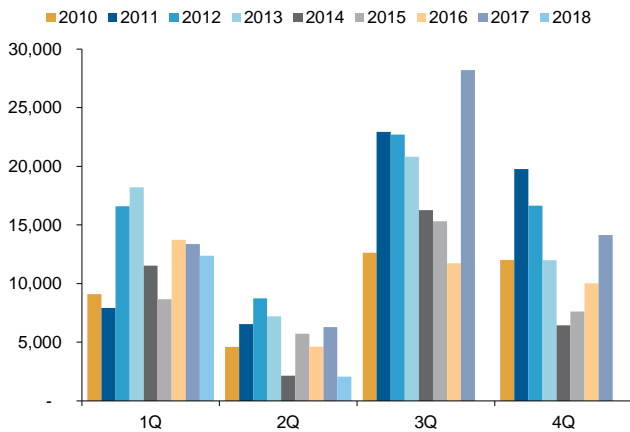
(Rmb mn)	Old FY2018	Old FY2019	New FY2018	New FY2019	% chg. FY2018	% chg. FY2019
Revenue	155,944.6	169,715.2	181,242.4	184,139.6	16.2%	8.5%
Gross Profit	52,643.6	57,546.3	57,488.2	58,343.8	9.2%	1.4%
Operating Profit	25,420.4	28,171.8	29,804.0	30,106.2	17.2%	6.9%
Pre-Tax	28,105.5	30,914.3	31,105.9	32,160.2	10.7%	4.0%
Net Income	23,746.3	26,119.4	26,304.0	27,193.9	10.8%	4.1%
Margin (%)						
Gross Margin	33.8%	33.9%	31.7%	31.7%	-2.0ppt	-2.2ppt
OP Margin	16.3%	16.6%	16.4%	16.3%	0.1ppt	-0.2ppt
Net Margin	15.2%	15.4%	14.5%	14.8%	-0.7ppt	-0.6ppt

Source: Macquarie Research, September 2018

### Advance from customers starting to trend down

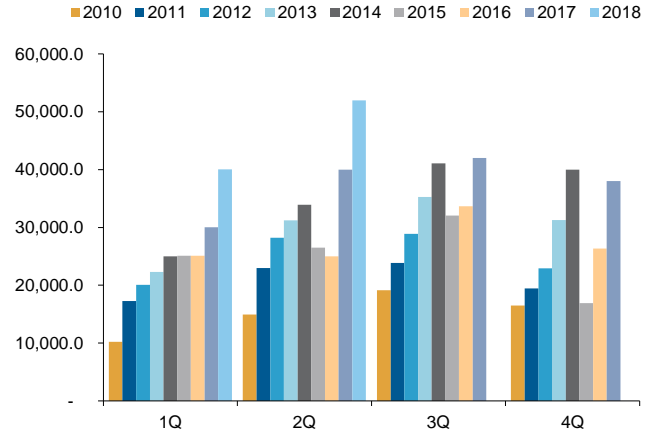
According to the latest 2Q18 balance sheet data, receipts in advance amounted to RMB2.1bn, down 67% YoY. The last time advances from customers reached this level was in 2Q14. According to the company, it still has healthy cash payback from distributors, while the current channel inventory levels does not suggest the company's sell-in has been excessive. We believe this likely meant no incremental end-demand to trigger additional deposits from distributors.

Fig 4 1Q18 advance receipts similar to levels in recent years



Source: Company data, Macquarie Research, September 2018

Fig 5 Quarterly revenue for Gree

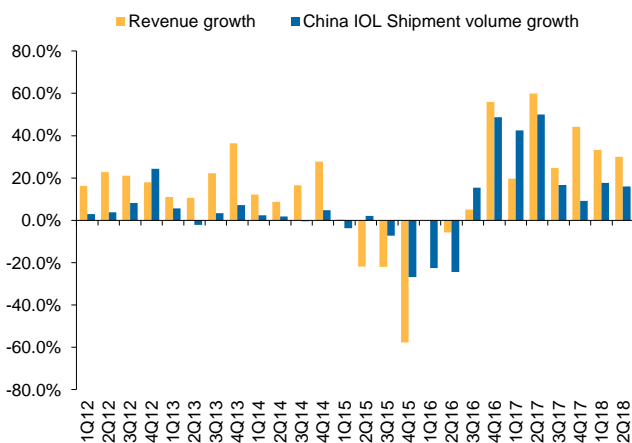


Source: Company data, Macquarie Research, September 2018

### Domestic shipment volumes for 2Q18 up 16% YoY

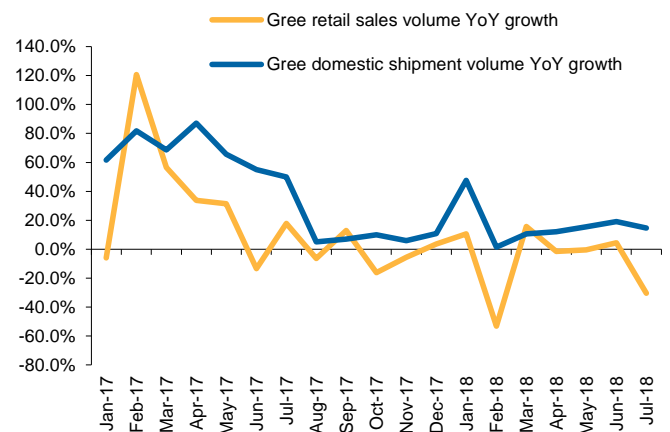
According to China Market Monitor, which collects data from modern channels across Tier 1-4 cities, Gree's residential AC retail sales volume grew 0.5% YoY in 2Q18. This compares to 15.6% YoY growth in domestic shipments. From July data, CMM data showed retail volume down 30% YoY vs domestic shipment volumes up 14.6% YoY.

Fig 6 Gree's revenue growth vs Gree's residential A/C shipment growth



Source: China IOL, Macquarie Research, September 2018

Fig 7 Shipment growth and retail growth likely suggests trend is normalising



Source: China IOL, CMM, Macquarie Research, September 2018

## We believe likely Gree is increasing support to its trading companies

Gree has 27 regional sales companies in China, which serve as intermediaries to distribute ACs to retailers at modern channels and to retailers in lower-tier cities. As ~70% of AC retail sales happen between March and August, generally retailers need to stock up ACs ahead of time before the peak season, since supply during the peak season is generally not enough to meet demand.

We believe part of the discrepancy can be accounted for as inventory at the sales office to be distributed to retailers, as they have more financial resources. In particular, based on company registration search site [qichacha.com](http://qichacha.com), since 2011, Beijing Shengshi Hengxing Geli International Trading Co., Ltd (北京盛世恒兴格力国际贸易有限公司) investing in 31 trading companies focusing air conditioner distribution from 27 regions and 20 companies on lifestyle appliances, would be able to help manage the distribution and pricing architecture within these regions and balance the interests of the smaller distributors.

At the same time, in a recent announcement, the company's financing arm is increasing the cap on the line of credit to Zhejiang Shengxi Yinxing Geli trading Co., Ltd (浙江盛世欣兴格力贸易有限公司) from RMB500m to RMB 1bn due to business environment. This can be shown as Gree increasing its support to the trading companies. As of 1H18, Gree has generated product revenue of RMB2.64bn from the company vs a loan amount of RMB300m.

## Earnings review

1H18 revenue grew 31.4% YoY to RMB 92bn, reaching 51% of full-year consensus or 46% of management's RMB200bn target. Gross margin contracted 1.9ppt to 30.8% but operating profit margin expanded by 70bps to 16.2%, while net profit grew 35.5% to RMB12.8bn, accounting for 47% of full-year consensus earnings.

- ⇒ **Air conditioners:** Revenue grew 38.8% YoY in 1H18. The strength of the first-half results can be supported by the double-digit shipment growth in air-conditioners. Gross margin declined 4.1ppt to 34.4%, which we believe is due to gross margin pressure from the export segment.
- ⇒ **Household appliances:** Revenue grew 56% YoY to RMB1.6bn, with gross margin compressing by 2.4ppt to 17%. We believe the company still lacks scale in household appliances.
- ⇒ **Intelligent equipment:** Revenue declined 63% to RMB356m; however, gross margin expanded by 6.9ppt to 11.7%. We believe the margin improvement may be due to the company starting to deliver orders to better-quality external customers.
- ⇒ **Operating cashflow:** Operating cashflow increased 146% to RMB8.9, due to increase in other cash inflow related to operating activities.
- ⇒ **Sales rebate:** This other current liability amount remains relatively stable, down 1.4% YoY to RMB59.2bn.
- ⇒ **Advance received from customer.** This amount declined by 67% YoY and 85% HoH to RMB2.1bn. The company highlighted this was due to high growth in domestic sales resulting in higher shipments to distributors and leading to lower balance for customer advances.
- ⇒ **Dividend payout at 28% of interim earnings:** The company declared an interim dividend per share of RMB60c, representing 28% of 1H18 earnings and below ~70% payout in 2015 and 2016. We believe this reflects the company's keenness on investing in AC chipsets.
- ⇒ **Quarterly trend.** On a quarterly basis, revenue growth moderated slightly to 30% from 33% in 1Q18 while net profit growth maintained similar momentum at 37.6% vs 1Q18 at 39%.

Fig 8 Earnings review

(RMB mn)	1HFY17 Actual	1HFY18 Actual	YoY growth
Revenue	70,021	92,005	31.4%
Gross Profit	22,911	28,316	23.6%
Operating Profit	10,845	14,931	37.7%
Pre-Tax Profit	11,002	15,158	37.8%
Net Income	9,452	12,806	35.5%
Margin (%)			
Gross Margin	32.7%	30.8%	(1.9ppt)
OP Margin	15.5%	16.2%	0.7ppt
Net Margin	13.5%	13.9%	0.4ppt

Source: Company data, Macquarie Research, September 2018

## Macquarie Quant View

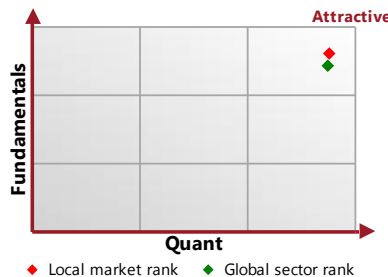
The Quant View page below has been derived from models that are developed and maintained by Sales and Trading personnel at Macquarie. The models are not a product of the Macquarie Research Department.

The quant model currently holds a strong positive view on Gree Electric (A-Share). The strongest style exposure is Profitability, indicating this stock is efficiently converting investments to earnings; proxied by ratios like ROE or ROA. The weakest style exposure is Quality, indicating this stock is likely to have a weaker and less stable underlying earnings stream.

**57/661**

Global rank in Consumer Durables & Apparel

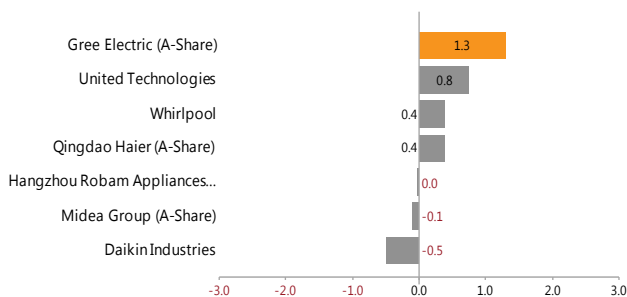
% of BUY recommendations: 65% (11/17)  
 Number of Price Target downgrades: 9  
 Number of Price Target upgrades: 0



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model. Two rankings: Local market (China A) and Global sector (Consumer Durables & Apparel)

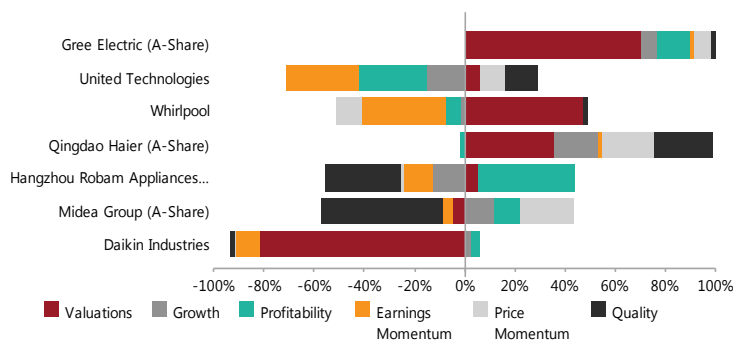
### Macquarie Alpha Model ranking

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



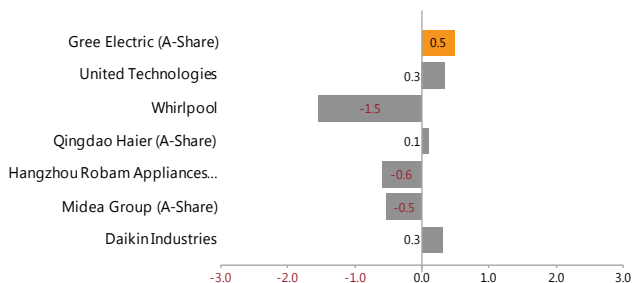
### Factors driving the Alpha Model

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



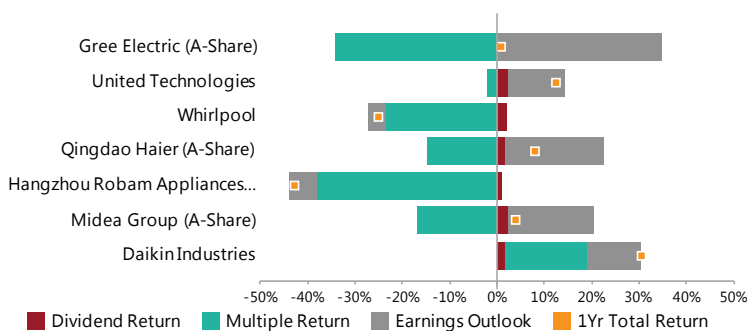
### Macquarie Earnings Sentiment Indicator

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.



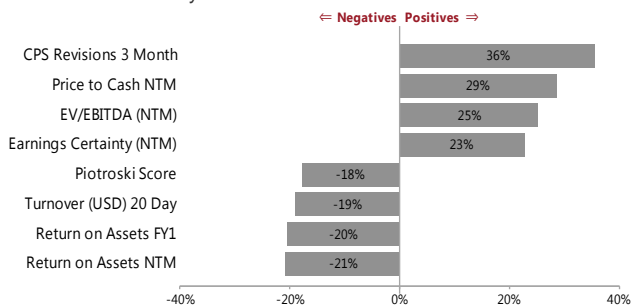
### Drivers of Stock Return

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



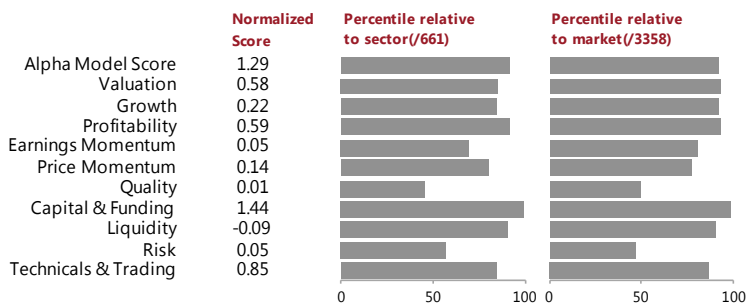
### What drove this Company in the last 5 years

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 Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group ([cpq@macquarie.com](mailto:cpq@macquarie.com))

**Gree Electric (A-Share) (000651 CH, Neutral, Target Price: Rmb38.80)**

Interim Results					Profit & Loss						
	1H/18A	2H/18E	1H/19E	2H/19E		2017A	2018E	2019E	2020E		
Revenue	m	92,005	89,238	92,197	91,942	Revenue	m	150,020	181,242	184,140	192,974
Gross Profit	m	28,316	29,173	27,953	30,391	Gross Profit	m	50,260	57,488	58,344	61,046
Cost of Goods Sold	m	63,689	60,065	64,244	61,551	Cost of Goods Sold	m	99,759	123,754	125,796	131,928
EBITDA	m	16,338	16,280	16,084	17,110	EBITDA	m	28,048	32,617	33,194	35,303
Depreciation	m	1,407	1,407	1,544	1,544	Depreciation	m	2,032	2,813	3,087	3,369
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	14,931	14,873	14,540	15,566	EBIT	m	26,016	29,804	30,106	31,934
Net Interest Income	m	615	691	968	968	Net Interest Income	m	1,386	1,306	1,936	2,862
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	174	-711	690	592	Exceptionals	m	1,231	-537	1,282	-305
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	-416	1,095	-578	-586	Other Pre-Tax Income	m	-2,016	680	-1,164	436
Pre-Tax Profit	m	15,304	15,948	15,620	16,540	Pre-Tax Profit	m	26,617	31,253	32,160	34,927
Tax Expense	m	-2,419	-2,392	-2,343	-2,481	Tax Expense	m	-4,109	-4,811	-4,824	-5,239
Net Profit	m	12,885	13,556	13,277	14,059	Net Profit	m	22,509	26,441	27,336	29,688
Minority Interests	m	-79	-59	-82	-61	Minority Interests	m	-107	-138	-142	-154
Reported Earnings	m	12,806	13,497	13,195	13,998	Reported Earnings	m	22,402	26,304	27,194	29,534
Adjusted Earnings	m	12,632	14,208	12,505	13,406	Adjusted Earnings	m	21,170	26,841	25,912	29,839
EPS (rep)		2.13	2.24	2.19	2.33	EPS (rep)		3.72	4.37	4.52	4.91
EPS (adj)		2.10	2.36	2.08	2.23	EPS (adj)		3.52	4.46	4.31	4.96
EPS Growth yoy (adj)	%	37.5	18.6	-1.0	-5.6	EPS Growth (adj)	%	35.3	26.8	-3.5	15.2
						PE (rep)	x	10.4	8.9	8.6	7.9
						PE (adj)	x	11.0	8.7	9.0	7.8
EBITDA Margin	%	17.8	18.2	17.4	18.6	Total DPS		0.00	1.75	1.81	1.96
EBIT Margin	%	16.2	16.7	15.8	16.9	Total Div Yield	%	0.0	4.5	4.7	5.1
Earnings Split	%	47.1	52.9	48.3	51.7	Basic Shares Outstanding	m	6,016	6,016	6,016	6,016
Revenue Growth	%	31.4	11.5	0.2	3.0	Diluted Shares Outstanding	m	6,016	6,016	6,016	6,016
EBIT Growth	%	37.7	-2.0	-2.6	4.7						
Profit and Loss Ratios					Cashflow Analysis						
	2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E		
Revenue Growth	%	36.2	20.8	1.6	4.8	EBITDA	m	28,048	32,617	33,194	35,303
EBITDA Growth	%	80.3	16.3	1.8	6.4	Tax Paid	m	0	0	0	0
EBIT Growth	%	89.3	14.6	1.0	6.1	Chgs in Working Cap	m	-600	-896	-1,500	2,293
Gross Profit Margin	%	33.5	31.7	31.7	31.6	Net Interest Paid	m	-1,533	-1,722	-1,077	0
EBITDA Margin	%	18.7	18.0	18.0	18.3	Other	m	-9,556	-2,028	-1,693	-2,246
EBIT Margin	%	17.3	16.4	16.3	16.5	Operating Cashflow	m	16,359	27,971	28,924	35,349
Net Profit Margin	%	14.1	14.8	14.1	15.5	Acquisitions	m	0	0	0	0
Payout Ratio	%	0.0	39.2	42.0	39.6	Capex	m	-2,425	-2,719	-2,762	-2,895
EV/EBITDA	x	4.7	4.0	4.0	3.7	Asset Sales	m	0	0	0	0
EV/EBIT	x	5.1	4.4	4.4	4.1	Other	m	-59,829	-500	-500	-500
Investing Cashflow	m	-62,253	-3,219	-3,262	-3,395	Dividend (Ordinary)	m	-11,121	-3,609	-10,521	-10,878
Equity Raised	m	0	0	0	0	Debt Movements	m	8,601	12,498	-31,144	0
Other	m	251	0	0	0	Other	m	251	0	0	0
Financing Cashflow	m	-2,269	8,889	-41,666	-10,878	Net Chg in Cash/Debt	m	-49,962	33,641	-16,004	21,077
Free Cashflow	m	13,934	25,252	26,161	32,455						
Balance Sheet Ratios					Balance Sheet						
	2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E		
ROE	%	35.4	34.9	26.8	26.1	Cash	m	99,610	133,251	117,247	138,324
ROA	%	13.1	12.4	11.5	11.8	Receivables	m	32,256	39,616	43,697	45,100
ROIC	%	-73.4	-178.5	-206.0	-252.5	Inventories	m	16,568	26,841	29,605	30,556
Net Debt/Equity	%	-121.1	-113.9	-110.1	-110.4	Investments	m	0	0	0	0
Interest Cover	x	nmf	nmf	nmf	nmf	Fixed Assets	m	17,467	17,025	16,472	15,768
Price/Book	x	3.6	2.6	2.2	1.9	Intangibles	m	0	0	0	0
Book Value per Share		10.9	14.7	17.4	20.5	Other Assets	m	49,065	49,686	50,990	51,917
						Total Assets	m	214,968	266,419	258,010	281,665
						Payables	m	9,963	12,420	13,844	14,291
						Short Term Debt	m	18,646	31,144	0	0
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	119,524	133,173	137,670	142,067
						Total Liabilities	m	148,133	176,737	151,514	156,358
						Shareholders' Funds	m	65,359	88,054	104,726	123,382
						Minority Interests	m	1,240	1,393	1,535	1,689
						Other	m	236	236	236	236
						Total S/H Equity	m	66,835	89,682	106,497	125,307
						Total Liab & S/H Funds	m	214,968	266,419	258,010	281,665

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, September 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, which is currently around 9%.

## Macquarie – Asia/Europe

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

## Mazi 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 / efpowa\*

**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 30 June 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.87%	61.26%		47.54%	69.86%	46.61%	(for global coverage by Macquarie, 3.51% of stocks followed are investment banking clients)
Neutral	34.10%	27.25%		46.72%	21.92%	43.22%	(for global coverage by Macquarie, 2.10% of stocks followed are investment banking clients)
Underperform	13.03%	11.49%		5.74%	8.22%	10.17%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

## 000651 CH vs CSI 300, &amp; 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, September 2018

## 12-month target price methodology

000651 CH: Rmb38.80 based on a PER methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
02-Sep-2018	000651 CH	Outperform	Rmb45.10
07-Dec-2017	000651 CH	Outperform	Rmb51.00
01-Sep-2017	000651 CH	Outperform	Rmb46.60
14-Jul-2017	000651 CH	Outperform	Rmb45.80
28-Apr-2017	000651 CH	Outperform	Rmb38.60
20-Oct-2016	000651 CH	Outperform	Rmb26.00
12-Feb-2016	000651 CH	Neutral	Rmb19.10

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