

I China
Hold

Consensus ratings*: Buy 26 Hold 1 Sell 1

Current price:	Rmb47.6
Target price:	Rmb46.0
Previous target:	Rmb42.0
Up/downside:	-3.3%
CGS-CIMB / Consensus:	n/a
Reuters:	
Bloomberg:	000333 CH
Market cap:	US\$46,679m
Average daily turnover:	US\$173.5m
	Rmb1,196m
Current shares o/s:	6,605m
Free float:	41.0%

*Source: Bloomberg



Major shareholders	% held
Midea Holding Co., Ltd.	33.3
HKEX (Northbound Connect)	16.0

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Midea

Challenging 2019; Downgrade to Hold

- Midea's shares have re-rated on foreign buying, news flow on a possible consumption stimulus, and Midea's share buyback announcement. We think the rally presents an opportunity to take profit, and we downgrade to Hold.
- Lackluster January sales data supports our cautious 2019 outlook.
- High inventory levels in the AC category remain a concern for 2019.
- A stimulus could lift appliance demand by RMB700bn, but details remain scarce.
- We value Midea at 13x 2020 PER and upgrade our target price from RMB42 to RMB46 under our base case scenario.

Foreign buying and policy expectations drive share price

Following our target price cut after Midea's 3Q18 results, consensus EPS numbers have continued to drift down. Midea's share price, however, has rebounded and is up ~31% YTD. We believe the rally is grounded in EM inflows, expectations of a consumption stimulus, and Midea's recent announcement of a share buyback. We think the underlying fundamentals are largely unchanged from 3Q18. A cap imposed on foreign buying and the recent price rally provide an opportunity for profit taking.

Limited pick-up in home appliance sales in January

Following Midea's weak 3Q18, CMM data show a limited turnaround in appliance sales in 4Q18 and Jan/Feb. We expect lackluster 1Q19 results, particularly in ACs due to the high base effect and channel inventory overhang. We are more upbeat about potential strengthening in WM, small appliances, and refrigerators over last year's easier comps.

Concern about AC channel inventory

ACs comprise ~40% of Midea's sales. While Midea's AC inventory levels remain healthy, total channel inventory for the sector may be approaching levels last seen in 2014 prior to the previous market downturn in ACs. Considering high channel AC inventory, Midea's flat ASP growth in 3Q18 and a high base effect in 1H19, we think 2019 prospects look weak.

Stimulus could lift appliance demand by RMB700bn in 2019–21

Comments by Ning Jizhe, vice chairman of NDRC, suggest that a new policy may be unrolled to boost appliance consumption in China. News reports suggest the NDRC may be estimating a RMB700bn impact on appliance demand in 2019–2021. We construct a scenario where consumption stimulus benefits Midea's top line by ~RMB20bn annually, beginning in 2H19.

Target price updated to RMB46; downgrade to Hold

We roll our estimates forward to 2020, adjusting Midea's share base to account for the Little Swan acquisition and upcoming share buyback. Our TP increases from RMB42 to RMB46 on account of these changes. Our valuation methodology remains unchanged, at 13x prospective PER. In the near term, a cap on foreign investment may lead to a temporary halt in Midea's re-rating. In a scenario where new consumption policy rolls out nationally, increasing appliance sales by ~RMB700bn in 2019–2021, we think Midea is potentially worth RMB50 per share, or ~5% more than current price level. Our stimulus scenario valuation is based on 13x 2020 PER. We continue to like Midea because of its long-term product upgrade story and exposure to international markets, but feel that the recent market rally has run ahead of slowing fundamentals.

Financial Summary

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (Rmbm)	241,919	263,065	266,368	280,540
Operating EBITDA (Rmbm)	25,219	29,417	29,592	31,968
Net Profit (Rmbm)	17,594	21,294	22,221	24,344
Core EPS (Rmb)	2.65	3.22	3.36	3.68
Core EPS Growth	26.7%	21.3%	4.4%	9.6%
FD Core P/E (x)	17.79	14.79	14.17	12.92
DPS (Rmb)	1.20	1.46	1.49	1.60
Dividend Yield	2.52%	3.06%	3.12%	3.36%
EV/EBITDA (x)	12.53	10.52	10.27	9.24
P/FCFE (x)	5.97	19.65	19.85	16.35
Net Gearing	(6.2%)	(13.4%)	(17.4%)	(22.5%)
P/BV (x)	4.23	3.58	3.13	2.73
ROE	25.8%	26.2%	23.6%	22.6%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Valuation

For our base case scenario and current target price, we omit revenue growth driven by a stimulus. In our base case scenario, we value Midea at RMB46 per share, or a ~3.3% discount from Midea's current share price. The increase in our target price from RMB42 to RMB46 is driven by rolling our EPS estimate forward to 2020 and adjusting Midea's share base for anticipated buybacks and the Little Swan acquisition. Our base case target price is based on a 13x 2020 PER. We believe that a ceiling on foreign ownership may prevent a positive re-rating from continuing, and prefer to benchmark Midea's P/E in line with the recent market valuation. Our forecast EPS is -5% and -10% below 2019/2020 consensus, respectively.

Downgrade to Hold

We think the recent re-rating on Midea's valuation and cap on foreign ownership presents an opportunity to take profit on Midea. We continue to like Midea for its long-term product upgrade potential, KUKA's expansion in China, and export potential, but we think that Midea's current re-rating is detached from business fundamentals. Therefore, we downgrade Midea to HOLD. Risks to our downgrade include a hot summer, improving sentiment on China's real estate market, and an earlier-than-expected announcement on a consumer stimulus.

Figure 1: Comps Table

Ticker	Mkt Cap	Price	PE Ratio			EPS Growth		PEG	PB	EV/EBITDA			Yield	ROE
			USD Bn	(LC)	2017	2018E	2019E			2018E	2019E	2019E		
A share														
Midea *	000333 CH	46.7	47.56		18.1	14.7	14.4	22.8%	2.1%	0.6	4.2	12.3	10.6	10.6
Gree *	000651 CH	41.0	45.74		12.3	10.7	10.7	15.1%	-0.7%	0.7	4.2	6.9	6.2	6.3
Qingdao Haier	600690 CH	15.5	16.70		14.7	13.5	12.3	8.5%	10.3%	1.6	3.2	10.3	9.0	8.0
Supor	002032 CH	7.8	63.60		39.7	31.9	26.5	24.7%	20.1%	1.3	10.0	31.0	25.1	21.1
Little Swan	000418 CH	4.9	55.21		23.2	19.9	17.1	16.4%	16.6%	1.2	5.0	19.5	16.6	14.0
Robam	002508 CH	3.9	27.87		17.6	17.3	15.8	1.4%	9.9%	12.5	4.9	14.3	14.8	13.7
TCL	000100 CH	7.9	3.91		18.0	16.2	14.7	10.7%	10.4%	1.5	1.8	11.4	12.1	11.5
Median					17.9	16.2	14.7	16.4%	10.4%	1.3	4.2	13.4	12.1	11.5
														1.9%
														23.6%
H share														
Haier Electronics	1169 HK	8.6	24.15		17.1	15.1	11.9	12.8%	27.4%	1.2	2.8	9.8	8.7	7.7
International														
Daikin Industries	6367 JT	33.2	12,635		24.0	20.5	19.7	16.7%	4.2%	1.2	3.3	12.6	11.6	10.7
Whirlpool	WHR US	8.8	138.91		29.1	9.5	9.5	206.2%	-0.3%	0.0	2.3	6.8	7.2	7.1
SEB	SK FP	8.4	148.00		19.6	17.7	15.9	10.3%	11.4%	1.7	4.1	11.4	10.8	10.0
Electrolux	ELUXB SS	8.0	241.10		12.1	15.2	14.5	-20.4%	4.5%	-0.7	3.4	6.4	7.2	6.9
Rinnai	5947 JP	3.5	7,580		17.7	17.3	19.3	2.3%	-10.4%	7.5	1.4	6.0	6.0	6.2
De'Longhi	DLG IM	4.0	23.74		19.9	19.9	18.3	0.1%	8.7%	237.2	3.5	11.3	11.0	10.3
Median					19.8	17.5	17.1	6.3%	4.4%	1.5	3.4	9.1	9.0	8.6
														2.2%
														15.6%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG
 NOTE: * MIDEA AND GREE ESTIMATES FROM CGIS FORECAST

The lack of clarity on the scale and timing of the consumer stimulus means we would not incorporate the effect of the stimulus into our forecast. The likely impact of a stimulus scenario would be a 1% and 7% increase in our 2019 and 2020 EPS estimates respectively.

Share price rally detached from fundamentals

According to the WSJ, investors have shifted ~US\$86bn into emerging market equities and bonds year to date. This figure is greater than the last 9 months of 2018 combined. Foreign buying has helped drive a rally in the MSCI Emerging Markets Index, which is up 13% from 2018's lows.

Since the beginning of 2019, monthly net inflows via the Stock Connect have averaged RMB60bn per month. Midea has been a significant beneficiary of this inflow, with northbound investor ownership increasing from 13.5% to 16% since the beginning of 2019. The 16% ownership disclosed by HKEX excludes foreign investors with QFII allocation, so foreign investment in Midea is in reality higher than 16%.

Foreign inflows, Midea's recent share buyback announcement, and expectations of a consumption stimulus in 2019 have driven a recent re-rating of Midea, which currently trades at ~14x consensus 2019 PER. However, as at March 7, 2019, foreign holding in Midea is approaching the 28% ceiling. This means that foreign investment will no longer continue to drive demand for Midea's shares, at least in the near term. Furthermore, some index providers may be required to reduce Midea's weighting in major indices. The change may not be permanent, but could lead to a temporary halt in Midea's recent re-rating. We view this as an opportunity to take profit.

Figure 2: Midea's 12M Fwd PER and EPS Consensus

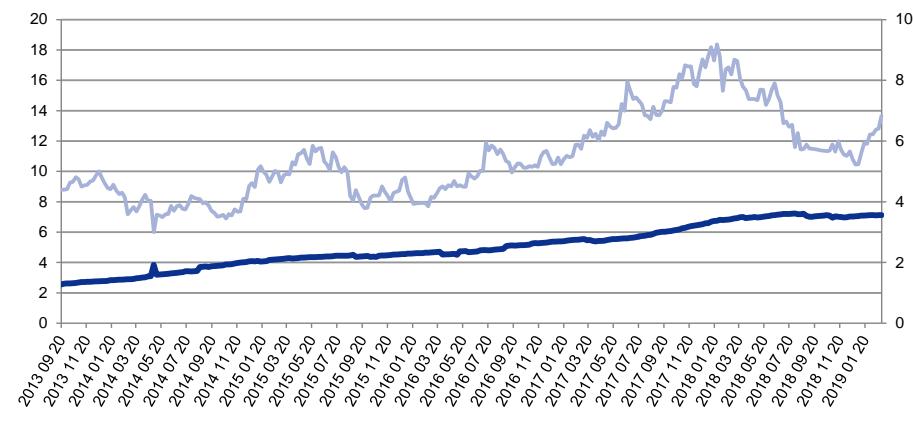
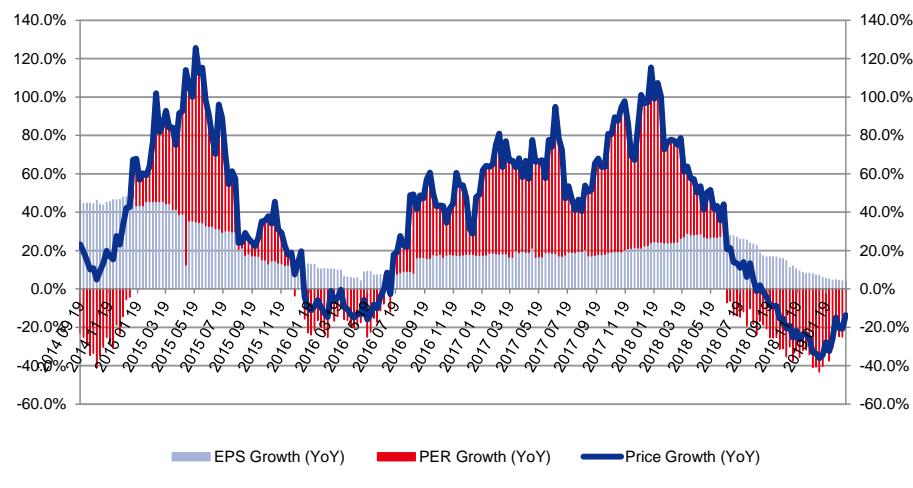


Figure 3: Components of Midea's Price Growth: EPS vs. Multiple Expansion



Appliances sales growth in Jan–Feb 2019 remained lackluster

Midea's share price is up ~31% YTD, but current business fundamentals continue to show limited growth. After posting ~28% AC growth and ~7% consumer appliance growth in 1H18, Midea's aggregate top line grew only 1.4% in 3Q18. KUKA's top line expanded 6.6% in 3Q18, indicating the slowdown was appliance related.

According to CMM, retail sales growth for appliances remained slow in 4Q18 and in early 2019 (February data currently available only for online sales). This data leads us to believe that its 1Q19 results are unlikely to post a turnaround. CMM data is based on online data from major Chinese platforms, as well as a representative set of 10,000 stores across China.

Figure 4: AC Growth (YoY)

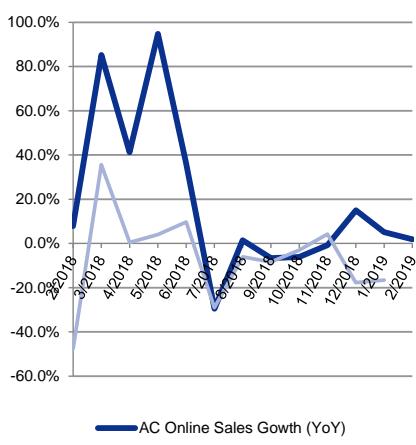


Figure 5: Refrigerator Growth (YoY)

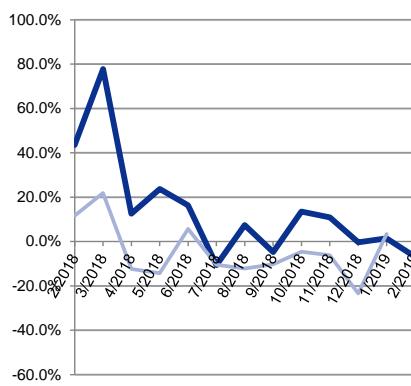
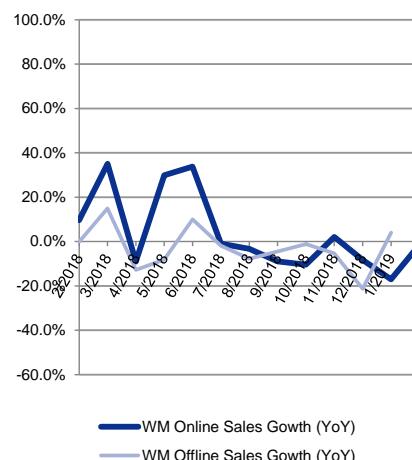


Figure 6: Washing Machine Growth (YoY)



SOURCES: CGIS RESEARCH, CMM

SOURCES: CGS RESEARCH, CMM

SOURCES: CGS RESEARCH, CMM

Midea's AC inventory well-controlled, but channel inventory a concern

AC channel inventory approaching a historical high

Midea estimates its own total inventory is well-controlled at ~5–6m units, in line with its 3Q18 figure. However, news sources indicate that total channel inventory levels (including all AC brands) is reaching historical highs. China IOL, for instance suggests that inventory levels are ~50m units across all brands, a historical high (<http://acc.chinaiol.com/t/0214/29207309.html>).

This data corroborates our recent checks. We understand AC channel inventory is approaching levels last seen in 2014, which preceded a decline in sales and price cutting for some manufacturers in 2015. Midea's AC sales declined 11% in 2015. Should retail air conditioning sales continue to slow, some industry players believe price cutting could ensue.

Improved inventory management system

On a positive note, Midea has invested some RMB800m per year since 2015 to develop an inventory management system to help it better track its inventory. Midea has 100 warehouses in China, which ship AC units direct to retailers. Midea's own inventory levels are well controlled – the issue is with other manufacturers who have been channel stuffing.

High channel inventory levels and a high base effect into 1H19 will make an AC ASP hike difficult for Midea in 2019. Recall that Midea achieved ~10% ASP growth in the AC category in 1H18, while ASP growth fell flat in 3Q18. Harder comps and inventory pressure are likely to limit ASP growth in 2019. Our checks indicate that channel inventory levels for washing machines and refrigerators remain healthy.

Stimulus details to boost home appliance consumption by ~RMB700bn over 3 years

With fundamentals slowing, Midea's share price rebound appears to be based on market expectations of a consumer stimulus and an improving macro picture. Comments by Ning Jizhe, vice chairman of the NDRC, suggest that new policy may be unrolled to boost consumption in China, specifically for appliances and autos.

While official details on the size and timing of a national program have yet to be released, news reports indicate that the NDRC estimates the policy may induce additional spending of ~RMB700bn in 2019–2021 on energy efficient appliances. The program may target up to 15 different high-efficiency products, including TVs, refrigerators, washing machines and air conditioners (<http://jiaju.sina.com.cn/news/20190220/6503921159325942523.shtml>).

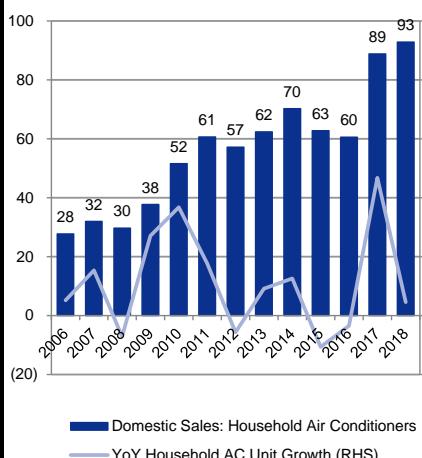
We are skeptical that this round of stimulus will have an impact as significant as the previous subsidies for two reasons:

- 1.) Assuming the RMB700bn figure is correct, this round of stimulus will be approximately half the size of former stimulus rounds, which totaled ~RMB1.4trn (See Figure 7)
- 2.) Penetration of home appliance categories such as washing machines and refrigerators is approaching peak levels. However, a stimulus could pull forward some replacement demand and increase the penetration for some categories, such as ACs, but it is unlikely to prove as impactful as in previous rounds.

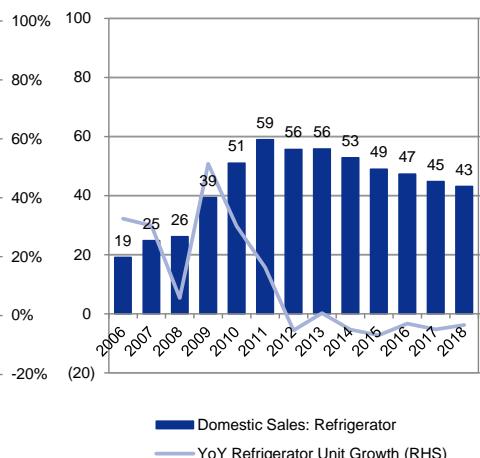
Figure 7: Past stimulus rounds

Period	Sales Value Attributed to Stimulus (RMB)	Program	Products
Dec 2007 - Jan 2013	720bn	Home appliance to rural (家电下乡)	TV, white goods, mobile phone, PC
Jun 2009 - Dec 2011	340bn	Old for new program (以旧换新)	TV, white goods, PC stimulated
June 2009 - May 2011	70bn	Energy saving subsidy (节能减排)	AC, auto, light, motor, etc.
June 2012 - May 2013	250bn	New energy saving subsidy (新节能环保)	TV, white goods, water heater

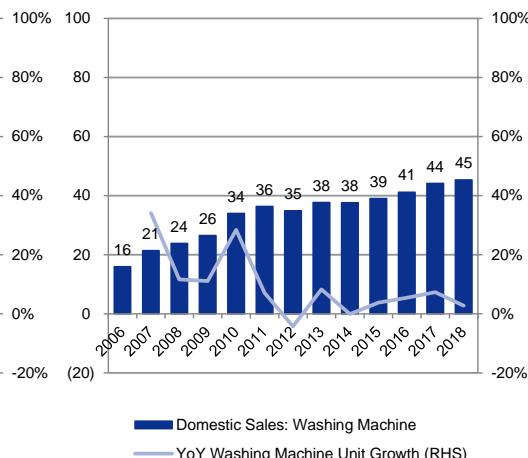
SOURCES: CGIS RESEARCH, COMPANY DATA.

Figure 8: Household AC Units (Mn)


SOURCES: CGIS RESEARCH, WIND

Figure 9: Refrigerator Units (Mn)


SOURCES: CGS-CIMB RESEARCH, WIND

Figure 10: Washing Machine Units (Mn)


SOURCES: CGS-CIMB RESEARCH, WIND

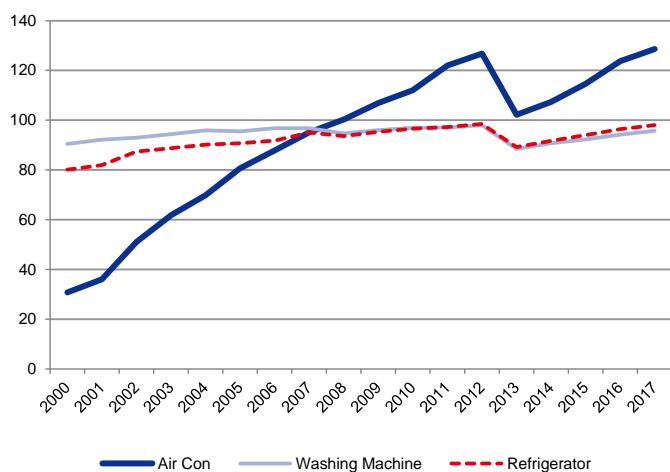
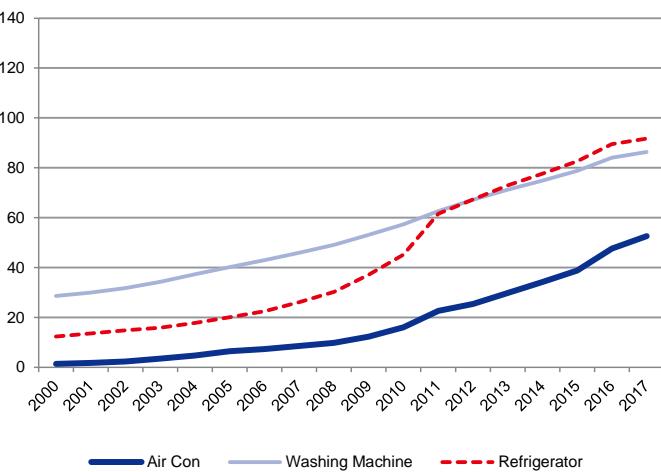
Figure 11: Urban Appliance Penetration per 100 Households*

 NOTE: * Methodology change in 2013
 SOURCES: CGIS RESEARCH, WIND

Figure 12: Rural Appliance Penetration per 100 Households


SOURCES: CGS-CIMB RESEARCH, WIND

Higher penetration levels today make a repeat of the 2009–2012 growth unlikely. Washing machines and refrigerators, for example, are approaching saturation, even in rural areas. A stimulus could pull forward some replacement demand, particularly for refrigerators, for which volume sales peaked in 2010–2012. Even with a stimulus in effect, we think washing machine and refrigerator volumes are likely to grow only in low double-digit range. For air conditioning, we are slightly less bullish on account of the high base for 2018 and current inventory overhang.

- **ACs (~40% of revenue):** Growth peaked at 37% in 2010. Following the stimulus, AC sales tracked the property market cycle – falling in 2015 and spiking in 2H16 and 2017, when AC volumes grew 47%.

The current domestic sales rate of ~90m annual units is probably close to peaking. Assuming China has ~450m households, and assuming long term that each household has 2 ACs on average, this would require an installed base of ~900m residential ACs. (For the sake of comparison, developed markets such as Taiwan, Japan and Hong Kong typically have ~135, ~150 and ~225 ACs per 100 households vs. China's 2017 urban/rural penetration rates of 130/53, respectively). Assuming each unit lasts for 10–15 years, replacement demand would require ~60–90m units per year – below the 90m+ units sold in 2017–2018.

Management indicated AC growth of ~18% YoY in 9M18. Based on reported AC growth of 32% in 1H18, this suggests negative growth for AC in 3Q18. According to management, the ASP increase was flat in 3Q18 vs. ~10% growth in 1H18.

- **Refrigerators (~ 8–10% of revenue):** Heavily impacted by consumption stimulus. Growth peaked in 2009, when refrigerator volume grew ~51%. Demand was driven heavily by the rural market, where penetration data showed improvement in 2009–2011. Refrigerator volumes peaked in 2011 at 59m units, and contracted steadily to ~43m units in 2017.

With 450m households in China, with an average life cycle of ~10 years, and with washing machines nearing 100% penetration, we think production volume of ~45m units per year is a reasonable long-term run rate. This estimate is in line with 2018's 43m units of production.

Midea's refrigerator volume grew 2% in 3Q18 (vs. 8% in 9M18), but average ASPs increased 15% YoY due to consumer upgrading.

- **Washing machines (~8–10% of revenue):** Growth peaked in 2010, when volume increased ~28% YoY to 34m units. Since then, annual domestic sales increased steadily to 45m units as of 2018.

Assuming 450m households in China, a 10-year replacement rate, and near 100% penetration, we think that 45m units is close to China's long-term run rate of washing machine consumption.

Midea's washing machine sales (which consolidate Little Swan) grew 9% in 9M18, but declined 1% in 3Q18. The performance should improve in 4Q18 and into 1Q19 as new high-end models are introduced.

- **Small appliances (~25% revenue):** Midea's small appliances segment includes a diverse array of products: induction cookers, pressure cookers, microwaves, electric fans, etc. According to Midea's 3Q18 investor call, small appliances grew 5% in 9M18, but only 2% in 3Q18. Small appliance inventory was high in 1H18, but inventory levels have normalized since 3Q18.

Stimulus Scenario: Sizing up the Potential Impact

Although the details are unclear, we construct a scenario to estimate the impact of a stimulus. According to Midea's annual report, the total market size of the home appliance industry in 2017 was RMB1,514bn. Assuming Ex-KUKA Midea's domestic sales are ~RMB150bn, Midea's industry market share is ~10%, across all products.

Estimates of the potential stimulus impact are currently ~RMB700bn from 2019 to 2021, or RMB233bn per year. Assuming Midea can capture a ~10% share of this mix, we estimate that Midea could capture ~RMB20bn per year through 2021. We assume that the policy will take effect in 2H19.

Our base case and stimulus assumptions are detailed in Figures 13 and 14.

Figure 13: Volume Growth Assumptions

	2018 H2	2019 H1	2019 H2	2020 H1	2020 H2
Consumer Appliances					
Base Case	1%	0%	0%	3%	3%
Stimulus	1%	0%	8%	8%	8%
HVAC					
Base Case	0%	0%	0%	3%	3%
Stimulus	0%	0%	6%	6%	6%
Robotics					
Base Case	3%	8%	8%	8%	8%
Stimulus	3%	8%	8%	8%	8%

SOURCES: CGIS RESEARCH

Figure 14: ASP Growth Assumptions

	2018 H2	2019 H1	2019 H2	2020 H1	2020 H2
Consumer Appliances					
Base Case	2%	0%	0%	2%	2%
Stimulus	2%	3%	2%	2%	2%
HVAC					
Base Case	0%	0%	0%	2%	2%
Stimulus	0%	0%	2%	2%	2%
Robotics					
Base Case	0%	0%	0%	0%	0%
Stimulus	0%	0%	0%	0%	0%

SOURCES: CGS-CIMB RESEARCH

Appendix

Figure 15: Comparison of the subsidy programs for home appliances

Policy	Home Appliances for Rural Areas (家电下乡)	Old-for-new home appliance replacement program (以旧换新)	The program to promote the use of energy efficient products (节能产品惠民工程)	
		1st phase	2nd phase	
Subsidized products	9 types of products, including air-con, refrigerators and washing machines	5 types of products, including air-con, refrigerators and washing machines	Air conditioners with high energy efficiency	10 types of products, including flat panel display
Basic Content	The policy provides a subsidy of 13% of the selling prices	Consumers can sell their old appliances to recycling companies and receive a certificate which they can give to retailers in exchange for a 10% discount on the purchase of new appliances	For air-con with 1st tier of energy: RMB500- 850 per set; For air-con with 2nd tier of energy: RMB300- 650 per set.	Ex. of flat panel display: LCD TV: RMB100-400/set; PDP TV: RMB0-400/set
Period	Dec 2007 - Jan 2013	Jun 2009 - Dec 2011	Jun 2009 - May 2011	Jun 2012 - May 2013
Financing	Accumulated central finance subsidies: RMB90bn	Accumulated central finance subsidies: RMB30bn		

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 16: Development of the home appliances for rural areas program

Date	Content
22-Dec-07	(1) Launched at 3 experiment sites: Shandong, Henan and Sichuan. (2) Included 3 types of subsidized products: refrigerator, mobile phone, and color TV with ceiling prices of RMB2000, RMB1,000, and RMB1500 respectively. (3) Government would provide farmers at the experiment sites a subsidy of 13% of the selling prices. (4) The local government assumes 20% and the central government assumes 80% of the subsidy.
1-Dec-08	(1) Increased 1 type of subsidized product: washing machine, capped at RMB2,000. (2) Increased 9 experiment sites: Neimenggu, Liaoning, Heilongjiang, Anhui, Hubei, Hunan, Guangxi, Chongqing, and Shaanxi.
1-Feb-09	Furthered the scheme throughout the country to benefit all rural people.
26-Feb-09	(1) Increased 6 types of subsidized products: water heaters, air-cons, microwave oven, induction cooker, motorcycles, computers. (2) Increased subsidy quota: from 1 set of product for each type of products each household, to 2 sets of product for each type of products each household. (3) The central government would assume 100% of the subsidy in Xinjiang, Neimenggu, Ningxia, Xizang, Guangxi and 51 counties hard-hit by the Wenchuan earthquake.
22-Dec-09	(1) Raised the ceiling price of subsidized products. (2) The local governments could add one more type of products in the subsidy scheme based on local farmers' demand. (3) Employee of state-owned agricultural and forest farms would be included in beneficiaries of subsidies.
30-Nov-11	The policy stopped in Shandong, Henan and Sichuan.
30-Nov-12	The policy stopped in Neimenggu, Liaoning, Heilongjiang, Anhui, Hubei, Hunan, Guangxi, Chongqing, Shaanxi.
31-Jan-13	The end of the policy

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 17: Development of the old-for-new home appliance replacement program

Date	Content
1-Jun-09	(1) Launched in 9 experiment sites: Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang, Shandong, Guangdong, Fuzhou and Changsha. (2) Included 5 types of subsidized products: refrigerators, washing machines, air-cons, TVs and computers.
1-Jun-10	(1) The number of test sites was expanded to 28 cities and provinces, and then gradually nationwide. (2) The central government assumed 100% of the subsidy in Xinjiang, Neimenggu, Ningxia, Xizang, Guangxi and 51 counties hard hit by the Wenchuan earthquake, once the policy was started in these places. (3) The quota was increased to 5 units for individuals and 50 units for companies.
31-Dec-11	End of the policy.

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 18: Development of the program to promote the use of energy-efficient products

Date	Content
1-Jun-09	(1) The policy provides subsidies for people buy air-cons with high energy efficiency. (2) To products already took other subsidies would not get this subsidy.
31-May-11	The policy stopped for air-con products.
1-Jun-12	The policy for home appliance restarted and included 5 types of subsidized products: flat panel display, air conditioner, washing machine, refrigerator, water heater.
9-Sep-12	Included 6 types of subsidized products, including two home appliance products: desk computer, and unitary air conditioner.
31-May-13	The policy stopped for home appliance products.

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

Profit & Loss				
(Rmbm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	241,919	263,065	266,368	280,540
Gross Profit	61,458	71,913	72,886	77,071
Operating EBITDA	25,219	29,417	29,592	31,968
Depreciation And Amortisation	(6,696)	(4,674)	(4,797)	(4,910)
Operating EBIT	18,523	24,743	24,795	27,058
Financial Income/(Expense)	(816)	374	133	367
Pretax Income/(Loss) from Assoc.	310	0	0	0
Non-Operating Income/(Expense)	3,921	1,270	1,577	1,577
Profit Before Tax (pre-EI)	21,938	26,387	26,504	29,001
Exceptional Items	227	227	227	227
Pre-tax Profit	22,165	26,614	26,731	29,228
Taxation	(3,244)	(3,992)	(4,010)	(4,384)
Exceptional Income - post-tax				
Profit After Tax	18,921	22,622	22,721	24,844
Minority Interests	(1,328)	(1,328)	(500)	(500)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	17,594	21,294	22,221	24,344
Recurring Net Profit	17,400	21,102	22,029	24,151
Fully Diluted Recurring Net Profit	17,400	21,102	22,029	24,151

Cash Flow				
(Rmbm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	25,219	29,417	29,592	31,968
Cash Flow from Inv. & Assoc.				
Change In Working Capital	2,815	(1,158)	(1,474)	(56)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(3,680)	0	0	0
Other Operating Cashflow	3,155	2,028	1,803	1,803
Net Interest (Paid)/Received	177	(157)	133	367
Tax Paid	(3,244)	(3,992)	(4,010)	(4,384)
Cashflow From Operations	24,443	26,138	26,044	29,698
Capex	(3,218)	(5,261)	(5,327)	(5,611)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	(25,850)	0	0	0
Other Investing Cashflow	(5,671)	(5,000)	(5,000)	(5,000)
Cash Flow From Investing	(34,740)	(10,261)	(10,327)	(10,611)
Debt Raised/(repaid)	62,170	0	0	0
Proceeds From Issue Of Shares	1,668	0	0	0
Shares Repurchased				
Dividends Paid	(7,908)	(7,901)	(9,582)	(10,000)
Preferred Dividends				
Other Financing Cashflow	(36,278)	(5,000)	(5,000)	(5,000)
Cash Flow From Financing	19,652	(12,901)	(14,582)	(15,000)
Total Cash Generated	9,355	2,976	1,135	4,087
Free Cashflow To Equity	51,873	15,877	15,717	19,087
Free Cashflow To Firm	(9,330)	17,482	17,122	20,292

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	48,628	51,604	52,738	56,825
Total Debtors	28,383	29,960	31,816	33,509
Inventories	29,444	23,894	24,185	25,434
Total Other Current Assets	63,356	68,356	73,356	78,356
Total Current Assets	169,811	173,814	182,096	194,124
Fixed Assets	23,480	24,578	25,587	26,739
Total Investments	3,055	3,055	3,055	3,055
Intangible Assets	44,071	43,561	43,081	42,631
Total Other Non-Current Assets	7,691	7,691	7,691	7,691
Total Non-current Assets	78,296	78,883	79,414	80,115
Short-term Debt	2,584	2,584	2,584	2,584
Current Portion of Long-Term Debt	137	137	137	137
Total Creditors	60,353	55,222	55,895	58,780
Other Current Liabilities	56,019	56,019	56,019	56,019
Total Current Liabilities	119,092	113,961	114,634	117,519
Total Long-term Debt	32,986	27,986	22,986	17,986
Hybrid Debt - Debt Component	7,806	7,806	7,806	7,806
Total Other Non-Current Liabilities	994	994	994	994
Total Non-current Liabilities	41,786	36,786	31,786	26,786
Total Provisions	4,304	4,304	4,304	4,304
Total Liabilities	165,182	155,051	150,724	148,609
Shareholders' Equity	73,737	87,131	99,770	114,114
Minority Interests	9,188	10,515	11,015	11,515
Total Equity	82,925	97,646	110,785	125,629

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	51.3%	8.7%	1.3%	5.3%
Operating EBITDA Growth	29.8%	16.6%	0.6%	8.0%
Operating EBITDA Margin	10.4%	11.2%	11.1%	11.4%
Net Cash Per Share (Rmb)	0.78	2.00	2.93	4.32
BVPS (Rmb)	11.24	13.28	15.21	17.39
Gross Interest Cover	19.15	15.42	17.65	22.46
Effective Tax Rate	14.6%	15.0%	15.0%	15.0%
Net Dividend Payout Ratio	45.5%	45.5%	45.5%	45.4%
Accounts Receivables Days	23.37	24.83	25.19	24.77
Inventory Days	45.58	50.92	45.35	44.63
Accounts Payables Days	61.19	63.97	60.47	59.50
ROIC (%)	34.1%	30.9%	28.6%	28.8%
ROCE (%)	18.4%	19.4%	18.3%	18.7%
Return On Average Assets	9.32%	8.79%	8.70%	9.05%

Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	10.0%	10.0%	10.0%	10.0%
Unit sales grth (%, main prod./serv.)	20.0%	10.0%	10.0%	15.0%
Util. rate (%, main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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BUY	:	share price will increase by >20% within 12 months in absolute terms
SELL	:	share price will decrease by >20% within 12 months in absolute terms
HOLD	:	no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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