

Company Report: Xiezhong International (03663 HK)

公司报告: 协众国际 (03663 HK)

Toliver Ma 马守彰

(852) 2509 5317

toliver.ma@gjt.com.hk

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Growth Engine On Track, Maintain "Accumulate"

增长引擎走上正轨，维持“收集”

- **Growth engine on track to boost the Company's bottom line.** Firstly, the Morocco plant will start supply to PSA following the inauguration of PSA's Kenitra plant in Jun. 2019. Opportunities exist with Renault as localization is expected to increase in the next few years. Secondly, Lexus sales in China was up by 36.5% yoy in 1H19, indicating well-above industry performance. Therefore, we continue expect 4S business to be a strong growth driver in 2019.
- **We have increased our net profit forecasts for 2019 to 2021 by 15.0% / 12.9% / 11.0%, respectively.** The increase in net profit is mainly due to the better-than-expected sales from Lexus, indicating stronger 4S revenue contribution. Moreover, we expect margin to increase for 4S business as downstream demand is strong even without discount.
- **We maintain our investment rating as "Accumulate" and revise up TP to HK\$2.10.** Our TP represents 16.7x 2019 PER and 12.5x 2020 PER. Downside risks of the Company include 1) further decline in China auto sales growth, 2) potential failure of the new venture in setting up the factory in Morocco, and 3) worse-than-expected drop in BAIC vehicle sales.
- **增长引擎正在走上正轨，有望提升公司的利润。**首先，在标致雪铁龙集团的摩洛哥盖尼特拉工厂于 2019 年 6 月落成后，公司的摩洛哥工厂将开始对标致雪铁龙集团进行投产供应。雷诺的机会仍然存在，因为本地化预计将在未来几年增加。其次，雷克萨斯 2019 年上半年的在中国的销量同比增长 36.5%，远超行业表现。因此，我们仍预计 4S 业务将在 2019 年成为一个快速增长的动力。
- **我们将 2019 年至 2021 年的净利润率预测分别上调 15.0%/12.9%/11.0%。**净利润增长主要原因是雷克萨斯的销售好于预期，说明 4S 业务的收入贡献强劲。此外，我们预计 4S 业务的利润率将会增加，因为即使没有折扣，下游市场的需求依然强劲。
- **我们维持投资评级为“收集”，并将目标价上调至 2.10 港元。**目标价对应 16.7 倍的 2019 年市盈率和 12.5 倍的 2020 年市盈率。公司将面临的下行风险包括：1) 中国汽车销量增幅将进一步下滑；2) 在摩洛哥建厂的新业务可能失败；以及 3) 北京汽车销量下降幅度超过预期。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$2.10

Revised from 原目标价:

HK\$1.90

Share price 股价:

HK\$1.910

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	3.8	12.4	19.4
Rel. % to HS Index 相对恒指变动 %	(3.5)	16.1	18.3
Avg. Share price(HK\$) 平均股价 (港元)	1.9	1.8	1.6

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2017A	930	(40)	(0.050)	(192.6)	(31.8)	0.990	1.6	0.000	0.0	(5.0)
2018A	924	(9)	(0.012)	n.a.	(139.8)	0.973	1.7	0.000	0.0	(1.1)
2019F	2,194	86	0.107	n.a.	15.7	1.080	1.6	0.030	1.8	10.5
2020F	2,531	114	0.143	33.6	11.8	1.192	1.4	0.183	10.9	12.5
2021F	2,944	153	0.191	33.6	8.8	1.194	1.4	0.245	14.6	16.0
Shares in issue (m) 总股数 (m)				800.0	Major shareholder 大股东				Chen Hao 28.5%	
Market cap. (HK\$ m) 市值 (HK\$ m)				1,528.0	Free float(%) 自由流通比率(%)				71.5	
3 month average vol. 3 个月平均成交股数('000)				2,703.7	FY19 Net gearing (%) FY19 净负债/股东资金 (%)				116.0	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				1.990 / 1.370	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)				2.4	

Source: the Company, Guotai Junan International.

BUSINESS UPDATE

The Morocco plant will start to supply to PSA Group ("PSA") in 2H19. This project, which will bring sizable revenue to Xiezhong International ("Xiezhong" or the "Company"), is going live as the new Kenitra plant for PSA, Xiezhong's key customer of the Morocco plant, was inaugurated on 20 Jun. 2019. The whole project of PSA is basically based on the Common Modular Platform (A global platform developed by PSA and Dongfeng Motors), and more than half of their vehicle parts will be sourced locally. This is similar to Renault's giant Tangier-based car plant. We see potential here, as the PSA Kenitra factory will start production in 2019, and will double its production capacity to reach 200,000 units per year starting 2020. Operating in the same region, Kenitra, Xiezhong has already starting small batch production in 4Q18 and is fully ready to supply to PSA. Profitability is expected to be higher than Company's average, as operating cost such as labour cost is expected to be lower than that in China. Also, as a way to attract investment, foreign investment can enjoy corporate tax exemption for the first five years. On the other hand, we believe Xiezhong to have further opportunity to expand its business to Renault. The possibility to enter into Renault's supply chain is high as Renault is targeting to increase their localization rate and both Renault and Xiezhong have a business relationship with Dongfeng Motors.

Figure-1: The first PSA model to be produced in the Kenitra plant - Peugeot 208



Source: PSA.

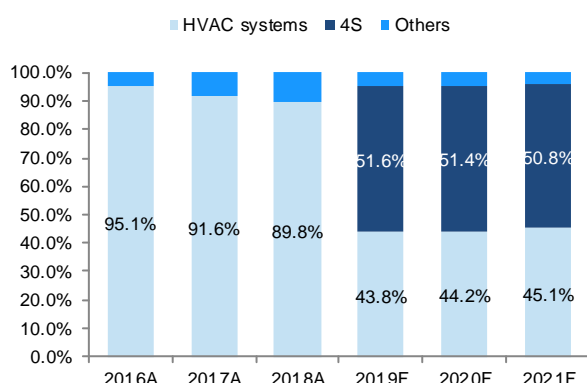
Figure-2: PSA Group Expansion in Morocco



Source: Nikkei Asian Review.

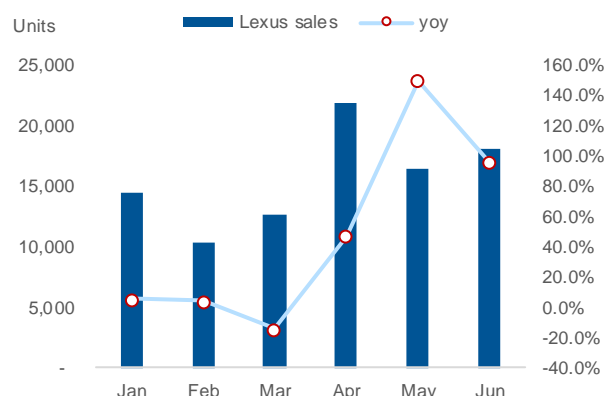
4S business to become a strong arm for Xiezhong. We remain positive on the acquired 4S business as about 60% of the Company's profit is generated from selling Lexus cars. The luxury segment continued to perform better than the mass market, where Lexus was one of the strongest performers in 1H19. Sales of Lexus cars in China was up by 36.5% yoy to 93,823 units in 1H19, with growth in 2Q19 accelerated thanks to models such as LX and ES. Particularly, sales from hybrids increased 43.9% yoy in 1H19. We believe that it is an impressive result considering that branded cars in China are purely from imports. Given strong sales of the Lexus brand in the first half, we believe that Lexus sales in China will exceed 200,000 units this year, representing yoy increase of about 25%. As a result, we have adjusted upwards our forecast on sales in 4S business.

Figure-3: Sales Mix



Source: the Company, Guotai Junan International.

Figure-4: Lexus Sales in China 2019



Source: CAAM, Guotai Junan International.

EARNINGS REVISIONS

We have increased our net profit forecasts for 2019 to 2021 by 15.0%/ 12.9%/ 11.0%, respectively. We forecast net profit to be RMB85.6 million/ RMB114.3 million/ RMB153.1 million in 2019 to 2021, respectively. The increase in net profit is mainly due to better-than-expected sales from Lexus, indicating stronger 4S revenue contribution. Moreover, we expect margin to increase for 4S business as downstream demand is strong, even without discount. In the meantime, we hold our earnings forecast of auto parts business. The Morocco plant is progressing on track with production set to scale up in 2H19.

Table-1: Major Financial Data and Forecast Changes

	New			Old			Changes		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	2,194.3	2,530.7	2,944.4	2,140.0	2,468.3	2,872.5	2.5%	2.5%	2.5%
Gross profit	322.2	380.6	455.5	305.7	361.5	433.4	5.4%	5.3%	5.1%
Operating profit	141.5	173.8	219.5	129.0	159.2	202.5	9.7%	9.2%	8.4%
Shareholders' profit	85.6	114.3	153.1	74.4	101.3	137.9	15.0%	12.9%	11.0%
EPS, basic (RMB)	0.107	0.143	0.191	0.093	0.127	0.172	15.0%	12.5%	11.2%
Gross margin	14.7%	15.0%	15.5%	14.3%	14.6%	15.1%	0.4 ppt	0.4 ppt	0.4 ppt
Operating margin	6.5%	6.9%	7.5%	6.0%	6.5%	7.1%	0.5 ppt	0.4 ppt	0.4 ppt
Net margin	3.9%	4.5%	5.2%	3.5%	4.1%	4.8%	0.4 ppt	0.4 ppt	0.4 ppt

Source: Guotai Junan International.

VALUATION

We maintain our investment rating as "Accumulate" and revise up TP to HK\$2.10. Our TP represents 16.7x 2019 PER and 12.5x 2020 PER. Downside risks of the Company include 1) further decline in China auto sales growth, 2) potential failure of the new venture in setting up the factory in Morocco, and 3) worse-than-expected drop in BAIC vehicle sales.

Table-2: Peers Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)		D/Y(%)		EV/EBITDA	
				18A	19F	20F	21F	18A	19F	20F	21F	19F	19F	19F	19F	19F	19F
Wuling Motors Ho	305 HK	HKD	0.37	8.9	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Minth Group Ltd	425 HK	HKD	22.30	13.0	11.4	9.8	8.7	1.7	1.6	1.4	1.3	14.0	3.5	7.2			
Fdg Evehicles	729 HK	HKD	0.03	n.a.	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xinyi Glass	868 HK	HKD	8.36	7.9	7.6	6.3	6.0	1.8	1.6	1.4	1.3	21.7	6.6	7.0			
Fuyao Glass In-H	3606 HK	HKD	24.80	12.8	14.4	12.7	11.2	2.7	2.5	2.3	2.2	17.9	4.6	9.8			
Zhejiang Shiba-H	1057 HK	HKD	1.13	103.6	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xinchen China Po	1148 HK	HKD	0.36	37.4	n.a.	n.a.	n.a.	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shuanghua Hldgs	1241 HK	HKD	0.24	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nexteer	1316 HK	HKD	10.08	8.6	8.9	8.5	8.0	1.9	1.6	1.4	1.2	19.8	2.2	4.2			
Xin Point Holdin	1571 HK	HKD	1.69	3.7	3.5	3.1	2.8	0.7	0.6	0.5	0.5	17.5	8.0	n.a.			
Xingda Intl	1899 HK	HKD	7.26	6.8	8.0	5.8	3.8	0.4	1.2	1.0	0.8	15.6	2.5	n.a.			
Prinx Chengshan	1809 HK	HKD	2.15	10.2	7.3	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xiezhong Interna	3663 HK	HKD	1.91	n.a.	18.5	12.8	9.8	1.7	1.6	1.4	1.4	9.1	1.8	n.a.			
Huazhong In-V	6830 HK	HKD	1.49	16.0	n.a.	n.a.	n.a.	2.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				20.8	10.0	8.4	7.2	1.1	1.5	1.4	1.2	16.5	4.2	7.1			
Weighted Average				13.3	10.7	9.3	8.4	2.1	1.8	1.6	1.5	17.0	4.1	7.1			
Anhui Zhongdi-A	000887 CH	CNY	7.26	6.8	8.0	5.8	3.8	0.4	1.2	1.0	0.8	15.6	2.5	n.a.			
Jiangnan Mould-A	000700 CH	CNY	10.22	11.1	10.1	8.9	8.0	1.5	1.3	1.1	1.0	12.7	2.9	n.a.			
Songz Automobi-A	002454 CH	CNY	3.81	317.5	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Wanxiang Qian-A	000559 CH	CNY	5.26	18.7	7.0	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Avic Electrome-A	002013 CH	CNY	6.16	23.5	n.a.	n.a.	n.a.	3.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Lingyun Indust-A	600480 CH	CNY	6.99	30.4	25.3	21.6	18.7	2.7	2.5	2.2	2.0	9.6	0.4	14.4			
Ningbo Huaxian-A	002048 CH	CNY	14.35	5.1	5.3	5.0	4.7	0.8	0.7	0.7	0.6	13.7	9.5	8.7			
Wanfeng Auto -A	002085 CH	CNY	11.18	9.6	8.4	7.2	6.0	0.9	0.8	0.7	0.7	9.7	1.3	n.a.			
Zhejiang Yinlu-A	002126 CH	CNY	7.32	16.6	n.a.	n.a.	n.a.	2.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tianrun Crank -A	002283 CH	CNY	7.62	17.3	14.8	12.8	11.3	1.7	1.5	1.4	1.2	10.2	0.7	n.a.			
Zhejiang Asia -A	002284 CH	CNY	3.99	13.3	n.a.	n.a.	n.a.	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Changchun Fawa-A	600742 CH	CNY	7.85	n.a.	7.2	8.9	12.6	2.5	2.3	2.0	2.0	18.8	0.9	n.a.			
Huayu Autom-A	600741 CH	CNY	11.01	10.5	9.5	7.3	6.5	1.2	1.1	1.0	0.9	12.3	n.a.	n.a.	n.a.	n.a.	n.a.
Dongfeng Elect-A	600081 CH	CNY	23.68	9.3	10.2	9.5	8.9	1.6	1.5	1.4	1.3	15.4	4.6	6.1			
Zhejiang Wanli-A	002434 CH	CNY	2.11	85.1	n.a.	n.a.	n.a.	1.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xuchang Yuando-A	002406 CH	CNY	6.77	26.0	11.7	12.0	9.4	1.5	1.5	1.5	1.2	9.1	25.0	n.a.			
Ningbo Shuangl-A	300100 CH	CNY	8.90	53.1	n.a.	n.a.	n.a.	2.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				39.2	10.7	9.9	n.a.	1.6	1.4	1.3	n.a.	12.7	5.3	9.7			
Weighted Average				21.6	8.9	7.9	n.a.	1.8	1.1	1.0	n.a.	9.7	3.6	4.3			
Denso Corp	6902 JP	JPY	4,621.00	11.3	14.2	11.7	10.8	1.0	1.0	0.9	0.9	8.1	3.0	5.1			
Keihin Corp	7251 JP	JPY	1,585.00	6.6	7.5	9.5	8.1	0.6	0.6	0.6	0.5	7.9	2.8	2.3			
Aisin Seiki Co	7259 JP	JPY	3,725.00	7.6	9.1	9.7	8.5	0.8	0.7	0.7	0.7	8.3	4.0	4.0			
Toyota Industrie	6201 JP	JPY	5,910.00	10.9	12.0	11.5	10.8	0.7	0.7	0.7	0.7	5.9	2.6	11.7			
Koito Mfg Co	7276 JP	JPY	5,760.00	11.1	12.7	12.9	11.9	2.3	2.0	1.8	1.6	16.5	1.6	5.3			
Nhk Spring Co	5991 JP	JPY	848.00	9.8	28.3	11.2	10.3	0.7	0.7	0.7	0.7	7.7	2.8	3.5			
Nok	7240 JP	JPY	1,631.00	8.0	82.5	12.2	10.4	0.6	0.6	0.6	0.6	2.2	3.1	3.6			
Stanley Elec Co	6923 JP	JPY	2,725.00	12.5	11.1	11.8	10.8	1.3	1.2	1.1	1.0	11.2	1.8	4.2			
Toyoda Gosei	7282 JP	JPY	2,100.00	12.8	11.7	9.8	8.8	0.8	0.8	0.7	0.7	6.8	2.9	4.3			
Bridgestone Corp	5108 JP	JPY	4,253.00	11.0	10.5	10.1	9.4	1.3	1.3	1.2	1.1	12.3	3.8	5.4			
Sumitomo Rubber	5110 JP	JPY	1,235.00	9.0	9.4	9.0	8.5	0.7	0.7	0.6	0.6	7.4	4.5	4.9			
Toyota Boshoku	3116 JP	JPY	1,335.00	9.2	18.6	11.1	10.4	0.9	0.9	0.8	0.8	7.8	3.3	5.0			
Nsk Ltd	6471 JP	JPY	970.00	7.4	9.0	11.5	10.5	1.0	0.9	0.9	0.8	10.3	4.1	5.1			
Hanon Systems	018880 KS	KRW	11,450.00	22.0	18.3	14.9	13.8	3.0	2.7	2.5	2.3	15.5	2.9	9.3			
Hankook Tire Wor	000240 KS	KRW	16,700.00	7.4	7.6	7.0	6.2	0.5	0.5	0.4	0.4	6.3	1.9	5.5			
Kumho Tire Co In	073240 KS	KRW	3,950.00	n.a.	n.a.	n.a.	n.a.	0.8	0.9	0.9	0.9	(6.3)	0.0	12.7			
Hyundai Mobis	012330 KS	KRW	229,500.00	11.5	9.6	8.5	7.7	0.7	0.7	0.6	0.6	7.4	1.9	5.9			
Mando Corp	204320 KS	KRW	68.40	12.1	6.6	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	12.1	n.a.	n.a.			
Cheng Shin	2105 TT	TWD	40.40	37.1	27.3	20.8	17.9	1.7	1.6	1.6	1.6	6.2	3.0	7.8			
Amer Axle & Mfg	AXL US	USD	11.82	n.a.	4.4	4.2	4.3	0.9	0.8	0.7	0.6	19.4	0.0	3.7			
Meritor Inc	MTOR US	USD	23.48	17.5	6.6	7.0	6.6	6.9	3.9	2.9	2.1	70.2	0.0	5.1			
Borgwarner Inc	BWA US	USD	41.09	9.2	9.8	9.0	8.0	2.0	1.8	1.5	1.5	18.8	1.7	5.8			
Johnson Controls	JCI US	USD	135.15	7.8	7.7	6.9	6.2	2.0	1.8	1.6	1.4	24.0	2.1	4.3			
Superior Inds	SUP US	USD	31.14	16.4	19.5	15.2	13.2	3.1	2.7	2.3	n.a.	15.5	n.a.	n.a.			
Tenneco Inc-A	TEN US	USD	3.58	12.3	n.a.	n.a.	n.a.	0.2	0.2	0.2	n.a.	4.4	10.1	1.5			
Gentex Corp	GNTX US	USD	30.78	20.3	12.5	9.4	n.a.	1.3	1.2	1.1	n.a.	9.2	1.4	4.2			
General Motors C	GM US	USD	24.41	14.9	14.9	13.9	12.5	3.4	3.4	3.1	n.a.	23.1	1.9	9.7			
Valeo Sa	FR FP	EUR	38.34	6.8	5.8	6.2	5.7	1.4	1.2	1.1	0.9	22.6	4.0	3.1			
Brembo Spa	BRE IM	EUR	26.89	11.7	11.1	8.7	7.1	1.4	1.3	1.2	1.1	11.7	4.3	4.2			
Faurecia	EO FP	EUR	10.51	14.4	13.1	12.2	11.4	2.9	2.5	2.2	1.9	20.3	2.3	6.9			
Autoliv Inc	ALV US	USD	39.53	7.7	7.5	6.8	6.2	1.5	1.3	1.2	1.0	18.4	3.3	3.3			
Continental Ag	CON GY	EUR	67.61	30.9	10.2	8.7	7.7	3.1	2.6	2.1	1.7	28.4	3.7	5.9			
Michelin	ML FP	EUR	125.50	8.7	10.3	8.9	8.1	1.4	1.3	1.2	1.1	12.8	3.5	4.8			
Nokian Renkaat	NRE1V FH	EUR	111.75	12.0	9.9	9.1	8.5	1.7	1.5	1.4	1.2	15.9	3.7	5.2			
Simple Average				12.7	14.0	10.3	9.3	1.6	1.4	1.2	1.1	13.8	2.9	5.4			
Weighted Average				10.8	11.1	9.5	8.7	1.4	1.3	1.2	1.0	14.4	3.2	5.2			
Global Simple Average				24.3	11.6	9.5	8.3	1.4	1.4	1.3	1.2	14.3	4.1	7.4			
Global Weighted Average				14.6	13.3	11.4	10.4	1.8	1.6	1.5	1.3	17.3	4.0	6.4			

Source: Bloomberg, Guotai Junan International.

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Xiezhong International 协众国际 (03663 HK)

Company Report

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Total Revenue	930	924	2,194	2,531	2,944
Cost of sales	(784)	(754)	(1,872)	(2,150)	(2,489)
Gross profit	145	170	322	381	455
Other income and gains	4	17	15	15	16
Selling and distribution costs	(49)	(54)	(89)	(103)	(119)
Administrative expenses	(115)	(116)	(106)	(119)	(134)
Other operating expenses	(0)	(0)	(0)	(0)	(0)
Operating Profit	(15)	16	142	174	220
Net finance costs	(33)	(32)	(50)	(50)	(52)
Profit Before Tax	(48)	(16)	92	124	168
Income Tax	5	1	(6)	(9)	(13)
Profit After Tax	(42)	(15)	86	116	155
Non-controlling Interest	2	6	(1)	(1)	(2)
Shareholders' Profit / Loss	(40)	(9)	86	114	153
Basic EPS	(0.050)	(0.012)	0.107	0.143	0.191
Dividend per share (RMB)	0.000	0.000	0.030	0.183	0.245

Cash Flow Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Profit before taxation	(48)	(16)	92	124	168
Depreciation and Amortisation	84	85	154	171	182
Other adjustments	59	35	50	50	53
Change in WC	103	61	10	59	(150)
Finance costs paid	(33)	(32)	(50)	(50)	(52)
Income tax paid	(7)	(4)	(3)	5	(15)
Cash from Operating Activities	159	129	254	360	187
Capital expenditure	(187)	(272)	(252)	(289)	(274)
Decrease/(increase) of pledged	0	0	0	0	0
Others	1	28	2	2	2
Cash from Investing Activities	(186)	(245)	(250)	(287)	(272)
Net change in bank loans and other	(21)	170	154	26	52
Dividend paid	0	0	0	(24)	(152)
Issue of Share	(8)	(2)	0	0	0
Cash from Financing Activities	(28)	168	154	2	(100)
Cash at Beg of Year	76	21	73	231	306
Net Changes in Cash	(56)	52	158	75	(185)
Effect of FX rate changes	1	0	0	0	0
Cash at End of Year	21	73	231	306	120

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Property, plant & equipment	705	987	1,079	1,194	1,281
Intangible assets	81	271	279	284	290
Lease prepayment	61	69	67	65	63
Other non-current assets	184	404	97	100	99
Total Non-current Assets	1,032	1,730	1,522	1,643	1,733
Cash & Cash Equivalents	21	73	231	306	120
Pledged deposits	23	64	74	79	86
Inventories	238	344	635	779	873
Trade and other receivables	651	718	1,391	1,535	1,826
Amount due from related parties	122	183	152	168	160
Total Current Assets	1,055	1,382	2,482	2,866	3,065
Total Assets	2,087	3,111	4,004	4,509	4,798
Trade and other payables	655	824	1,608	1,978	2,214
Amounts due to related parties	31	39	39	39	39
Interest-bearing borrowings	434	893	873	898	943
Income tax payables	0	25	31	35	39
Provision for product warranty	4	4	10	11	13
Total Current Liabilities	1,124	1,786	2,562	2,961	3,248
Interest-bearing borrowings	112	100	317	319	324
Deferred income	29	28	28	28	28
Deferred tax liabilities	0	49	26	37	31
Total Non-current Liabilities	140	524	554	568	567
Total Liabilities	1,265	2,309	3,115	3,529	3,816
Total Shareholders' Equity	792	778	864	954	955
Minority Interest	30	24	25	26	27
Total Equity	822	802	888	980	982
BPS (RMB)	0.990	0.973	1.080	1.192	1.194

Financial Ratios					
	2017A	2018A	2019F	2020F	2021F
Gross margin (%)	15.6	18.4	14.7	15.0	15.5
Operating margin (%)	(1.6)	1.8	6.5	6.9	7.5
Net margin (%)	(4.3)	(1.0)	3.9	4.5	5.2
ROA (%)	(2.0)	(0.4)	2.4	2.7	3.3
ROE (%)	(5.0)	(1.1)	10.5	12.5	16.0
Gearing ratio (%)	66.5	122.7	116.2	101.0	125.5
Current ratio(x)	0.9	0.8	1.0	1.0	0.9
Interest coverage(x)	(0.5)	0.5	2.9	3.5	4.2
Inventory turnover days	106.5	140.9	123.7	132.3	128.0
Trade receivable days	251.2	271.3	231.3	221.3	226.3
Trade payable days	269.2	358.0	313.6	335.8	324.7
Sales volume growth (%)	13.8	(9.5)	13.3	11.8	13.7
Revenue growth (%)	3.7	(0.6)	137.5	15.3	16.3
Operating profit growth (%)	(124.6)	(208.3)	762.8	22.8	26.3
Net profit growth (%)	(193.1)	(77.1)	n.a.	33.6	33.9
EPS Growth (%)	(193.1)	(77.1)	n.a.	33.6	33.9

4 July 2019

Xiezhong International 协众国际 (03663 HK)

Company Report

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk