买入

道明光学 (002632.SZ)

反光材料业务前景利好，首次覆盖评为买入 (摘要)

002632.SZ	12个月目标价格: Rmb8.30	股价: Rmb6.42	上涨空间: 29.3%

Initiation

道明光学是国内一家专门销售和生产反光材料的公司。反光材料主要用于道路/公路交通标志标线、汽车号牌和反光安全服。主要受道路/公路建设项目增多的推动，反光材料潜在市场规模稳步增长，但我们看到其中80%以上来自于重复性的更新换代需求。我们预计2018-21年道明光学将实现25%/28%的收入/盈利年均复合增速，受益于公司在高端微棱镜型反光膜和汽车号牌领域逐步提升市场份额，推动因素包括：1) 产品定价具有竞争力（低15-20%）；2) 近期中美贸易关系紧张之际终端客户对国内供应商的兴趣上升；3) 公司采取措施致力于进一步提升品牌认知度和产品表现。该股当前股价对应12倍的2020年预期市盈率，低于上市以来17倍的历史均值。鉴于估值具吸引力、增长前景乐观且股价距我们12个月目标价格8.30元的上涨空间为29%，我们首次覆盖该股评为买入。

过硬的产品质量将推动增长

目前道明光学的业务重心从此前的低端应用向高端反光膜（微棱镜型和玻璃微珠型）倾斜，意味着毛利率将上升。我们认为，道明光学凭借其在开发微棱镜型反光膜领域超过8年的经验以及在赢得国内汽车号牌订单方面取得的显著进展，将在这一业务领域实现市场份额增长。我们预计到2021年公司微棱镜型反光材料市场份额将从目前的8%升至20%。

* 全文翻译随后提供

朱金巧 (分析师)
执业证书编号:S1420518030001
+86(21)2401-8935 | marcus.chu@ghsl.cn
北京高华证券有限责任公司

主要数据

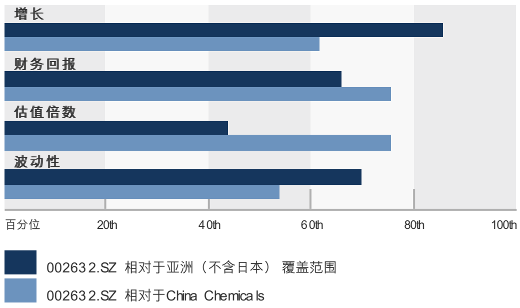
市值: Rmb4.0bn / $582.7mn
企业价值: Rmb4.2bn / $610.5mn
3个月日均成交量: Rmb23.5mn / $3.4mn
中国
China Chemicals
并购概率: 3
租赁是否计入净负债和企业价值: No

预测

	12/18	12/19 E	12/20E	12/21E
主营业务收入 (Rmb mn)	1,197.4	1,579.1	1,939.8	2,361.7
EBITDA (Rmb mn)	321.4	445.2	559.0	676.3
每股盈利 (Rmb)	0.33	0.44	0.54	0.68
市盈率 (X)	24.5	14.6	11.9	9.4
市净率 (X)	2.5	2.0	1.7	1.5
股息收益率 (%)	4.4	0.8	1.6	2.3
净负债/EBITDA (X) (剔除租赁)	(1.1)	0.4	0.1	(0.2)
CROCI (%)	15.3	16.5	17.7	19.2
自由现金流收益率 (%)	0.8	(7.3)	5.5	7.3

	3/19	6/19 E	9/19 E	12/19 E
每股盈利 (Rmb)	0.08	0.11	0.12	0.13

要素概要



资料来源：公司数据、高盛研究预测

买入

道明光学 (002632.SZ)

评级自2019年8月3日

比率和估值

	12/18	12/19 E	12/20E	12/21E
市盈率 (X)	24.5	14.6	11.9	9.4
市净率 (X)	2.5	2.0	1.7	1.5
自由现金流收益率 (%)	0.8	(7.3)	5.5	7.3
EV/EBITDAR (X)	14.6	9.5	7.3	5.8
EV/EBITDA (X) (剔除租赁)	14.6	9.5	7.3	5.8
CROCI (%)	15.3	16.5	17.7	19.2
净资产回报率 (%)	10.7	13.6	15.4	17.1
净负债/股东权益 (%)	(16.8)	9.0	2.1	(4.8)
净负债/权益 (%) (剔除租赁)	(16.8)	9.0	2.1	(4.8)
利息保障倍数 (X)	37.2	23.1	14.5	18.1
存货销售天数	92.5	82.0	78.4	78.1
应收账款周转天数	97.8	92.5	85.7	77.0
应付账款周转天数	81.7	78.2	79.7	79.8
杜邦净资产回报率 (%)	10.2	13.4	14.4	16.0
周转率 (X)	0.5	0.5	0.6	0.6
杠杆比率 (X)	1.1	1.5	1.4	1.4
总现金投资，名义（剔除现金）(Rmb)	2,016.7	2,689.9	2,948.6	3,233.1
平均已动用资本 (Rmb)	1,631.1	1,957.3	2,316.0	2,462.8
每股净资产 (Rmb)	3.19	3.28	3.72	4.25

增长率和利润率 (%)

	12/18	12/19 E	12/20E	12/21E
主营业务收入增长率	48.4	31.9	22.8	21.7
EBITDA增长率	42.9	38.5	25.5	21.0
每股盈利增长	66.0	34.0	22.3	26.5
每股股息增速	600.0	(85.7)	100.0	50.0
EBIT利润率	20.3	22.0	22.5	23.0
EBITDA利润率	26.8	28.2	28.8	28.6
净利润率	17.2	17.4	17.4	18.0

股价走势图

	3个月	6个月	12个月
绝对	(16.8)%	(8.2)%	(11.6)%
相对于沪深300指数	(13.2)%	(20.4)%	(20.5)%

资料来源：公司数据、高盛研究预测、FactSet（股价为2019年8月2日收盘价）

损益表 (Rmb mn)

	12/18	12/19 E	12/20E	12/21E
主营业务收入	1,197.4	1,579.1	1,939.8	2,361.7
主营业务成本	(671.2)	(875.3)	(1,094.9)	(1,363.3)
销售、一般及管理费用	(191.3)	(244.4)	(271.2)	(306.5)
研发费用	–	–	–	–
其它营业收入/(费用)	(13.5)	(14.1)	(14.8)	(15.6)
EBITDA	**321.4**	**445.2**	**559.0**	**676.3**
折旧和摊销	(78.2)	(97.9)	(122.7)	(132.7)
EBIT	**243.2**	**347.3**	**436.2**	**543.6**
净利息收入/（支出）	0.5	(9.5)	(23.3)	(21.1)
联营公司损益	–	–	–	–
税前利润	**252.2**	**337.7**	**412.9**	**522.5**
税项拨备	(46.9)	(62.5)	(76.4)	(96.7)
少数股东损益	0.1	0.1	0.1	0.2
优先股息	–	–	–	–
非经常性项目前净利润	**205.4**	**275.4**	**336.7**	**426.0**
税后非经常性损益	–	–	–	–
非经常性项目后净利润	**205.4**	**275.4**	**336.7**	**426.0**
EPS（基本，扣非前）(Rmb)	**0.33**	**0.44**	**0.54**	**0.68**
EPS（摊薄，扣非前）(Rmb)	**0.33**	**0.44**	**0.54**	**0.68**
EPS（基本，扣非后）(Rmb)	**0.33**	**0.44**	**0.54**	**0.68**
EPS（摊薄，扣非后）(Rmb)	**0.33**	**0.44**	**0.54**	**0.68**
每股股息 (Rmb)	0.35	0.05	0.10	0.15
股息支付率 (%)	106.7	11.4	18.6	22.1

资产负债表 (Rmb mn)

	12/18	12/19 E	12/20E	12/21E
现金及等价物	338.2	415.5	550.5	727.8
应收账款	367.4	432.6	478.3	517.6
存货	326.2	383.7	449.9	560.2
其它流动资产	55.4	55.4	55.4	55.4
流动资产	**1,087.2**	**1,287.3**	**1,534.2**	**1,861.1**
固定资产净额	688.4	1,197.9	1,282.5	1,357.2
无形资产净额	349.7	342.3	335.0	327.6
投资总额	113.2	113.2	113.2	113.2
其它长期资产	52.1	52.1	52.1	52.1
资产合计	**2,290.6**	**2,992.8**	**3,316.9**	**3,711.3**
应付账款	162.9	212.4	265.6	330.8
短期债务	0.5	600.5	600.5	600.5
短期租赁负债	–	–	–	–
其它流动负债	88.4	88.4	88.4	88.4
流动负债	**251.8**	**901.3**	**954.5**	**1,019.7**
长期债务	–	–	–	–
长期租赁负债	–	–	–	–
其它长期负债	33.2	29.9	26.9	24.2
长期负债	**33.2**	**29.9**	**26.9**	**24.2**
负债合计	**285.0**	**931.2**	**981.5**	**1,043.9**
优先股	–	–	–	–
普通股权益	1,998.4	2,054.4	2,328.4	2,660.5
少数股东损益	**7.3**	**7.2**	**7.0**	**6.9**
负债及股东权益合计	**2,290.6**	**2,992.8**	**3,316.9**	**3,711.3**
调整后净负债	(337.7)	185.0	50.0	(127.3)

现金流量表 (Rmb mn)

	12/18	12/19 E	12/20E	12/21E
净利润	205.4	275.4	336.7	426.0
折旧及摊销加回	78.2	97.9	122.7	132.7
少数股东权益加回	(0.1)	(0.1)	(0.1)	(0.2)
运营资本增减净额	(162.6)	(73.2)	(58.7)	(84.5)
其它经营性现金流	16.1	6.2	20.3	18.4
经营活动产生的现金流	**137.0**	**306.2**	**420.9**	**492.4**
资本开支	(97.4)	(600.0)	(200.0)	(200.0)
收购	(3.5)	–	–	–
剥离	62.4	–	–	–
其它	(59.5)	–	–	–
投资活动产生的现金流	**(98.0)**	**(600.0)**	**(200.0)**	**(200.0)**
偿还租赁负债	–	–	–	–
支付的股息（普通股和优先股）	(36.8)	(219.3)	(62.6)	(94.0)
借款增减	(175.1)	600.0	–	–
其它融资性现金流	99.3	(9.5)	(23.3)	(21.1)
筹资活动产生的现金流	**(112.6)**	**371.1**	**(85.9)**	**(115.1)**
总现金流	**(73.5)**	**77.3**	**135.0**	**177.4**
自由现金流	39.6	(293.8)	220.9	292.4

资料来源：公司数据、高盛研究预测

PM Summary: Proven reflective material provider taking share

Daoming Optics & Chemical (Daoming, 002632.SZ) was established in 2007 and listed on the Shenzhen Stock Exchange in 2011. The company specializes in the sales and production of reflective materials in China, which are mainly used in traffic signs on roads/highways, car license plates and reflective clothing for traffic/safety officers. While the initial focus of the company was on glass-bead reflective materials, Daoming is now a fast growing player in the higher margin high-end micro prismatic reflective materials.

Positioned well for the recurring demand from niche high-end applications: Daoming has a significant exposure (c.62% of FY18 revenues) in high-end reflective material applications, including prismatic reflective films and traditional glass-bead reflective films mostly used in car license plates. Both applications have strict quality requirements and the quality is supervised by the local government authorized organisations. Daoming with its relevant licenses and certifications has a proven products track record in both car license plate business and prismatic reflective films in China.

Based on our analysis of the addressable market and the end-market demand (including traffic signs on highways and car license plates), we estimate the market size for reflective material used on roads and highways in China to be about Rmb3bn; with 80% coming from recurring demand. Currently most of these materials are imported and the market is dominated by 3M (covered by Joe Ritchie) with 70% market share. However, the shift in end customer interest to domestic suppliers on account of recent US-China trade tensions and aggressive pricing strategy by Daoming (c.15-20% lower than 3M, based on our channel checks) is working in favour of Daoming. The company also has a location advantage of its manufacturing plants being located in China vs. Singapore for 3M, translating to a faster response rate to clients on their orders. With these favorable fundamentals, we expect Daoming to expand its market share to c.20% in 2021 from c. 9% currently.

High entry barriers limit new competition: While multiple reflective material companies in China appear interested to enter the prismatic reflective material segment, the available data shows no successful examples yet. We believe the key challenges preventing new players in this segment are: 1) a relatively higher level of difficulty to make motherboards to form the complicated prism design of the structure; 2) higher costs associated with replication and manufacturing of the motherboard; 3) choice of base material (different applications could have different material requirements, e.g.weathering properties, or heating properties); and 4) requirement of greater level of precision. These challenges act as high entry barriers limiting new competition in this sector.

Focus on sales & marketing key for penetration: Daoming has been growing its market share and penetration in China after commissioning the prismatic film plant in 4Q2016. However, we believe it will be challenging for Daoming to replace the dominant player 3M in the current market, as it is usually easier to penetrate new order volumes than existing orders which already has stable suppliers. We believe an increased focus on sales and marketing will be key to capture the mindshare of end consumers despite the high quality of products, after-sales servicing and aggressive pricing. Notably, Daoming hosted an industry conference in their headquarters (a large scale forum in March 2019). The event in our view helped in the company’s brand building and was successful in signing multiple new contracts.

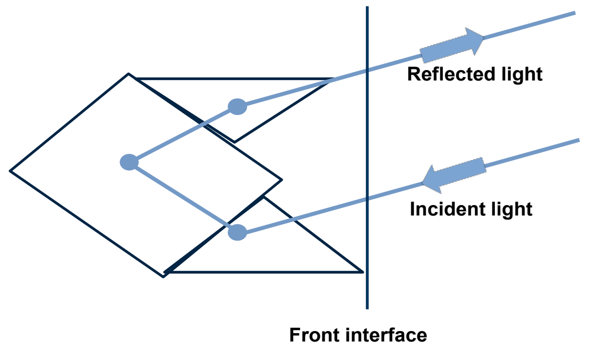
Financials: We see a strong growth in the demand for reflective materials used in multiple purposes on roads and highways and for car license plates. We estimate 25% and 28% CAGR through FY18-21E in revenues and earnings as Daoming increases its market share from current 9% to c. 20% in 2021. However, we expect the gross margins to moderate to 43% in 2021 from current 45% as we factor in the potential competition in pricing with market share expansion.

Valuation: Daoming is trading at 12X, 7.5X, 1.8X on our FY20 estimates, 18%/54%/5% below its historical average P/E, EV/EBITDA and P/B (since listing in 2011). We believe the valuations are attractive given the strong earning outlook for the company. Our 12-month price target of Rmb8.30 is based on 15x P/E (applied to a simple average of 2020E/21E net income), discounted back using a discount rate of 10% (our estimate of Daoming’s weighted average cost of capital). With 29% potential upside to our target price, we initiate on Daoming with a Buy rating.

Key risks: Weaker-than-expected product margins and volume growth; limited pricing disclosure; ineffective sales and marketing initiatives, any challenges for the key shareholder Zhejiang Daoming Investment to secure back its pledged Daoming shares, and potential drag on profitable businesses due to investment in new business lines.

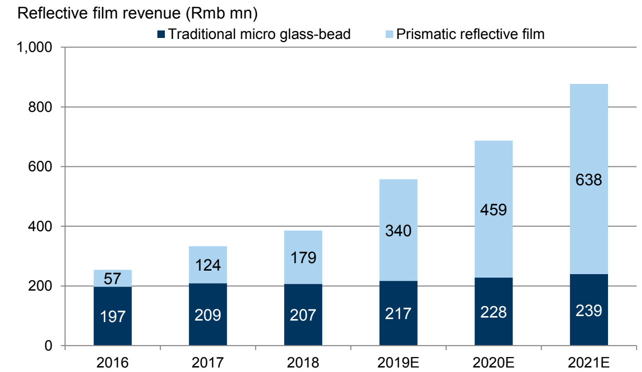
Our thesis in six charts

图表 1: Prismatic reflective film has a better reflective power than traditional glass bead reflective film



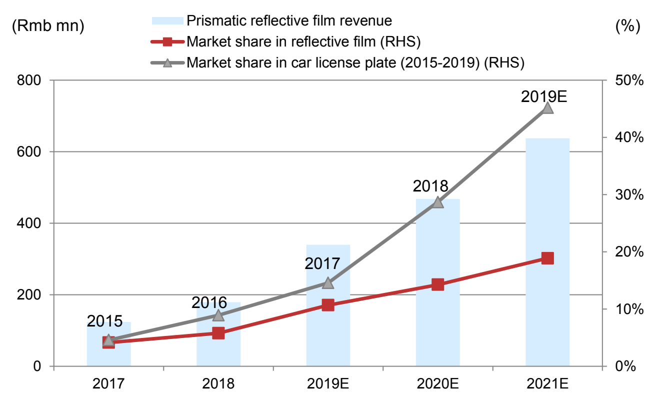
资料来源：公司数据

图表 2: We expect prismatic reflective films to lead the growth in Daoming's reflective films segment...

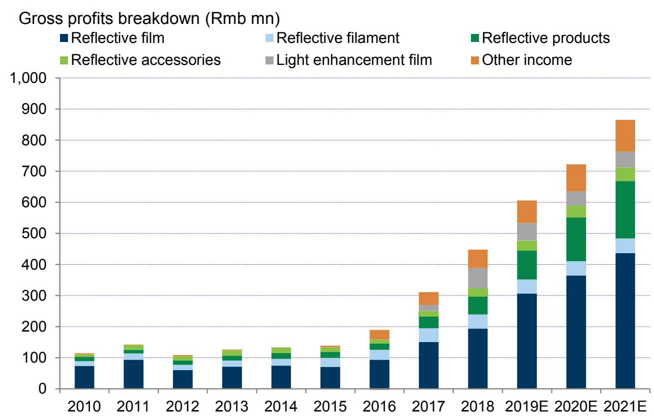


资料来源：公司数据, 高华证券研究

图表 3: ... and drive the revenue growth at a CAGR of growth at a CAGR of 25% through 2021...

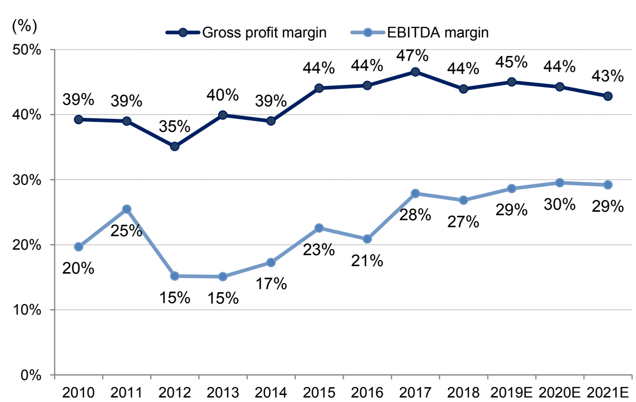


图表 4: We forecast gross profit to grow at 24% 3-year CAGR during 2018-2021E...



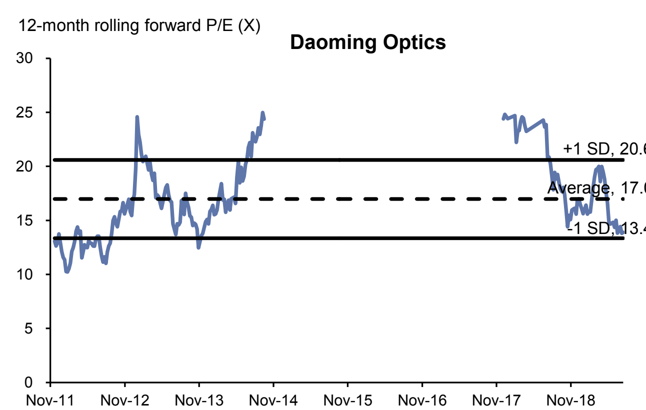
资料来源：公司数据, 高华证券研究

图表 5: ...while we expect gross profit margins to start declining modestly in 2020E/2021E mainly on higher pricing competition



资料来源：公司数据, Gao Hua Securities Research

图表 6: Daoming is trading at valuation of 15X, below its 7-year historical average P/E



资料来源：公司数据, Datastream, Gao Hua Securities Research

Increased focus on high-end applications

Daoming, since its inception in 2007 was focused on production and distribution of glass-bead reflective materials in China. However, the company shifted its strategy to include high-end micro prismatic reflective materials starting 2011, which are mainly used in traffic signs on roads/highways, car license plates and reflective clothing for traffic/safety officers. Daoming now has its key products based out of three hubs: 1) Longyou for the traditional glass-bead reflective films/filaments/accessories; 2) Yongkan for the prismatic reflective films and aluminum plastic films; and 3) Changzhou for optical films including light enhancement films.

Reflective Material (including films and related products, 72% of gross profit as of FY2018) is the key driver of revenues

Daoming has total per year production capacity of 30mn sqm per annum of glass-bead reflective films, and is equipped to produce reflective filaments, accessory products, reflective clothing and semi-completed car license plate. The market for the low end applications such as clothing and filaments is highly competitive in China with many local players. The high-end car license plate applications require a better quality of reflective film to avoid any wear-and-tear during usage, and the quality of the material is supervised by the local government authorized organisations. Daoming is one of the key players in this segment and as noted by the company, the high-end application is a high margin business given the pricing is generally double that of low end ones.

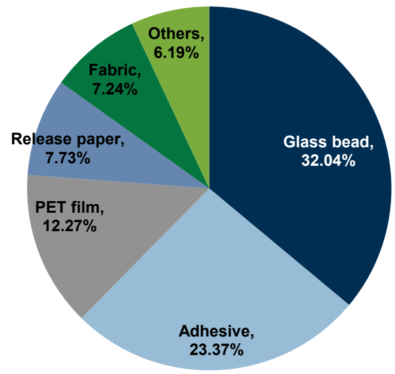
Daoming started expanding to high-end micro prismatic reflective material since 2011. The initial R&D started in 2011, followed by product development and plant completion in 4Q2016 with production capacity of 10 mn sqm per annum. This high-end prismatic reflective material will be used in traffic/warning signs on the highways/roads in the major cities and the reflective tapes on trucks and commercial vehicles. The current material supply is mostly imported and dominated by 3M. However, Daoming has penetrated this market with a sales volume of 2.75mn sqm in 2018 vs. almost zero in 2015, and currently has a market share of 8%. The price range for these reflective materials is much higher than traditional basic glass-bead reflective films (Rmb60-90/m2) given the higher quality requirement, translating to higher margins for the company.

图表 7: Daoming has three main production hubs - Longyou, Yongkan and Changzhou
Capacity summary, 2018

Location	Products	Capacity (mn m2)
Longyou	Glass-bead reflective film	30.0
Longyou	Glass-bead reflective filament	13.2
Longyou	Reflective products	5.0
Yongkan	Prismatic reflective film	15.0
Yongkan	Aulminum plastic film	15.0
Changzhou	Light enhancement film	25.0
Changzhou	Quantum Dots film	3.0

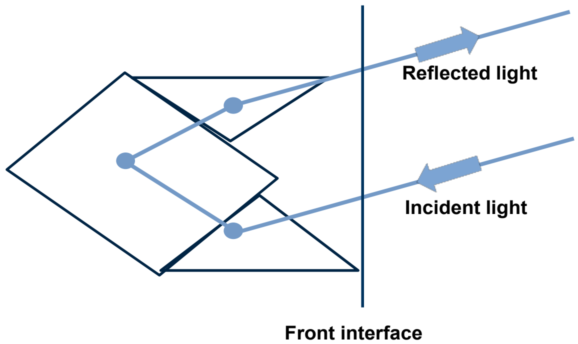
资料来源：公司数据

图表 8: Major material costs are glass beads and adhesives
Glass-bead reflective film cost breakdown, 2018



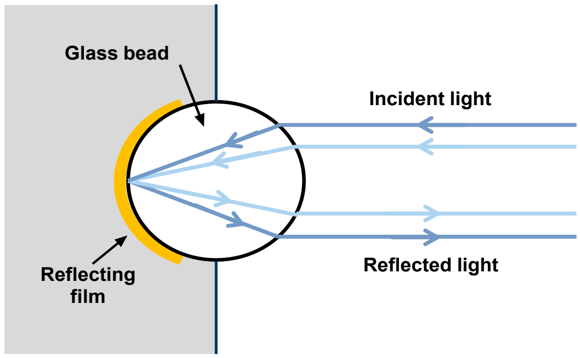
资料来源：公司数据

图表 9: Prismatic reflective film mechanism



资料来源：公司数据

图表 10: Basic glass bead reflective material mechanism



资料来源：公司数据

图表 11: Products category and applications of reflective material

<table>
<tr><th rowspan="2">Classification</th><th rowspan="2" colspan="3">Grade</th><th colspan="2">Features</th><th rowspan="2">Applications</th></tr>
<tr><th>Retroreflection coefficient rank</th><th>Weather resistance rank</th></tr>
<tr><td rowspan="9">Reflective film</td><td rowspan="5">Road traffic signage</td><td colspan="2">Super high grade</td><td>1</td><td>1</td><td rowspan="2">Signage of highway, level II or above road, and well-lit urban road</td></tr>
<tr><td colspan="2">High grade</td><td>2</td><td>1</td></tr>
<tr><td colspan="2">Super engineering grade</td><td>3</td><td>3</td><td rowspan="2">Signage of level III & IV road, county road, and normal urban road</td></tr>
<tr><td colspan="2">Engineering grade</td><td>4</td><td>4</td></tr>
<tr><td colspan="2">Advertising grade</td><td>5</td><td>5</td><td>Advertising and temporary signage</td></tr>
<tr><td rowspan="4">Transportation equipment</td><td colspan="2">License plate reflective film</td><td colspan="2">Retroreflection coefficient similar to road traffic signage Engineering grade, excellent bending, tensile and stamping resistance</td><td>License plate</td></tr>
<tr><td colspan="2">Maritime reflective film</td><td colspan="2">Retroreflection coefficient slightly lower than High grade, excellent weather, mold and seawater resistance</td><td>Widely used for water rescue, such as life jacket and maritime police</td></tr>
<tr><td rowspan="2">Auto body reflective sign</td><td>Grade I</td><td colspan="2">Similar to Super high grade</td><td rowspan="2">Compulsory for cargo motor vehicles, such as trucks and buses</td></tr>
<tr><td>Grade II</td><td colspan="2">Similar to High grade</td></tr>
<tr><td rowspan="4">Reflective fabric</td><td rowspan="3">High visibility</td><td colspan="2">Highly special professional suit</td><td colspan="2">Washing and high temperature resistance, or flame retardant</td><td>Fire & high temperature resistant professional suit</td></tr>
<tr><td colspan="2">Grade II</td><td colspan="2">High reflective brightness, good comprehensive performance</td><td>Protective professional suit</td></tr>
<tr><td colspan="2">Grade I</td><td colspan="2">Low reflective brightness, bad comprehensive performance</td><td></td></tr>
<tr><td colspan="3">General usage</td><td colspan="2">Reflective, and different from normal fabrics</td><td>Apparel & luggage</td></tr>
</table>

资料来源：公司数据

Steady industry demand growth with room for import substitution

Positioned well for the niche recurring high-end applications

Strict quality requirement for high-end applications: The high-end application reflective materials often have strict quality requirements. For example, the production and quality levels/checks for the car license plate material is highly regulated by the government and supervised by the local government authorized car plate manufacturer to make sure it can withstand the normal wear-and-tear. The traffic/warnings signs on highways requires a much better reflection ability because the cars are running at much higher speed than regular roads. This translates to the demand for high performance prismatic reflective films over the basic glass-bead reflective films. Daoming with its relevant licenses and certifications has a proven products track record in both car license plate business and prismatic reflective films and is well-positioned to expand its market share in this segment.

High entry barriers for new players: While multiple reflective material companies in China appear interested to enter the prismatic reflective material segment, the available data shows no successful examples yet. We believe the key challenges preventing new players in this segment are: 1) a relatively higher level of difficulty to make motherboards to form the complicated prism design of the structure; 2) higher cost associated with replication and manufacturing of the motherboard; 3) choice of base material (different applications could have different material requirements, e.g. weathering properties, or heating properties); and 4) requirement of greater level of precision, not allowing poor production flow, bubbles or scratches on the reflective films.

Fragmented reflective material market: The reflective material end-market in China is fragmented. The low-end reflective material application is similar to consumer products with multiple individual customer bases. Daoming currently leverages its relationship with some wholesalers or online platform to expand the target end-customer reach. The high-end applications end-markets are also fragmented, but is dependent on direct sales. For instance, each city/province will have their own authorized car license plate manufacturers to arrange the material bidding and procurement. One highway could often be cut into multiple construction contracts which involve different contractors and material suppliers. The sales to these segments depends on the reflective material company’s salesperson reaching out and connecting to these construction companies / manufacturers. The orders for this segment usually has a tenure for about 1-2 years. The continuity of the business relationship would be dependent on the sales and marketing efforts of the company supplying the reflective materials. Since the commissioning of micro-prism reflective material production plant in 2016, Daoming has secured a total sales of >5mn sqm over these recent 3 years. With c.8% market share as of end 2018, we believe Daoming is still in the growing stage of building its track record and higher products sales to achieve a better penetration in this fragmented market of high-end prismatic film or glass bead film.

Addressable market analysis suggest high recurring demand: We estimate the market size for reflective material used on roads and highways in China to be about Rmb3bn (as shown in exhibit 12) using a bottoms-up approach based on the total demand for road, highway, city area (mainly based on road length and city area size). We note a majority of the demand is from the replacement/recurring demand. The reflective material used in traffic/warnings signs on existing highways and roads are often replaced in a 4-6 years time horizon, mostly due to normal wear-and-tear; or changes to the names of the roads translating to changes in the entire sign board.

Demand from vehicle license plates moderating: For China car vehicle registration (license) plates market, we expect the market growth to slowdown in both 2018 and 2019 to +2% yoy and -1% yoy from +5% in 2015 mainly on account of weakness in new auto car sales, leading to lower number of new license plates (see exhibit 13). Our estimates are based on our China auto analyst forecasts where FY2019 passenger vehicle sales decline by 7% on account of hangover from the front-loaded demand caused by purchase tax breaks in 2015-17 and a variety of other negative factors like weak consumer confidence, trade tensions, falling asset prices, import car/parts tariff uncertainties, etc. We expect the demand to recover to 3% and 6% in 2020/2021E. For more details on China autos forecasts see report 1 and report 2.

图表 12: We forecast a modest increase in reflective material addressable market in 2019-2021E

Nationwide total addressable market							
1) Road and highway							
	2015	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
- Road mileage (km)	4,577,300	4,696,300	4,773,500	4,846,500	4,910,923	4,966,381	5,012,533
- Principal road mileage (km)	451,378	469,984	485,127	500,758	515,891	530,450	544,358
- Highway mileage (km)	123,523	130,973	136,400	142,052	147,654	153,181	158,610
Recurring demand for reflective material ('000 m2)	21,652	22,394	23,101	23,597	24,085	24,537	24,951
New demand for reflective material ('000 m2)	3,705	3,538	2,478	2,441	2,261	2,068	1,864
Demand for reflective material ('000 m2)	**25,358**	**25,932**	**25,579**	**26,038**	**26,346**	**26,605**	**26,814**
Market size (Rmb mn)	**2,536**	**2,593**	**2,558**	**2,604**	**2,635**	**2,661**	**2,681**
2) Streets (inner-city)							
	2015	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Existing city area consumption ('000 m2)	4,669	4,887	5,096	5,274	5,458	5,648	5,788
City expansion demand ('000 m2)	1,093	1,045	888	919	951	702	719
Demand for reflective material ('000 m2)	**5,761**	**5,933**	**5,985**	**6,193**	**6,409**	**6,350**	**6,508**
Market size (Rmb mn)	**576**	**593**	**598**	**619**	**641**	**635**	**651**
Total addressable market (Rmb mn)	**3,112**	**3,186**	**3,156**	**3,223**	**3,275**	**3,296**	**3,332**
yoy change (%)	5%	2%	-1%	2%	2%	1%	1%

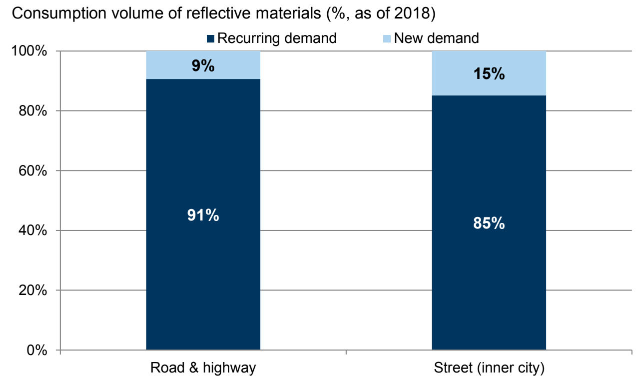
资料来源：公司数据, 万得, 高华证券研究

图表 13: We expect car license plates market to return to growth in 2020E and 2021E

Total addressable market for car plates												
Vehicles (mn units)												
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Passengers vehicles	**10.92**	**11.54**	**12.53**	**15.65**	**17.71**	**19.6**	**23.2**	**23.8**	**22.4**	**20.9**	**21.4**	**22.8**
Commercial vehicles	**4.29**	**4.04**	**3.81**	**4.07**	**3.79**	**3.5**	**3.6**	**4.2**	**4.4**	**4.5**	**4.7**	**4.9**
New Energy vehicles						**0.3**	**0.5**	**0.8**	**1.2**	**1.7**	**2.0**	**2.2**
Second hand vehicles				**8.50**	**9.20**	**9.4**	**10.4**	**12.4**	**13.8**	**14.5**	**15.0**	**15.8**
Total car plates demand (mn units)				**56.42**	**61.40**	**65.6**	**75.5**	**82.3**	**83.6**	**83.0**	**86.3**	**91.4**
yoy%					9%	7%	15%	9%	2%	-1%	4%	6%
Demand for reflective material (mn m2)				**9.40**	**10.23**	**10.9**	**12.6**	**13.7**	**13.9**	**13.8**	**14.4**	**15.2**
Market size (Rmb mn)				**376**	**409**	**437**	**504**	**549**	**558**	**553**	**576**	**609**
yoy change (%)					9%	7%	15%	9%	2%	-1%	4%	6%

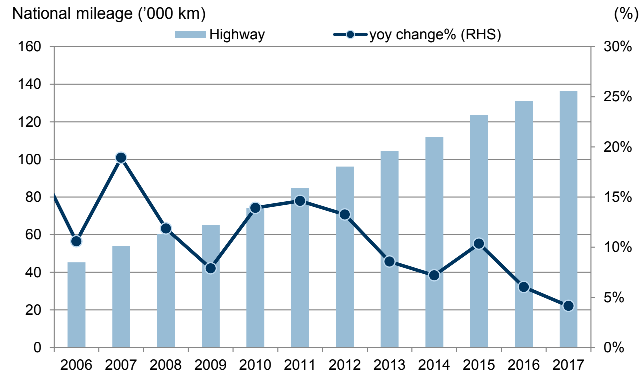
资料来源：公司数据, 万得, 高华证券研究

图表 14: We estimate >80% of the reflective materials demand is recurring



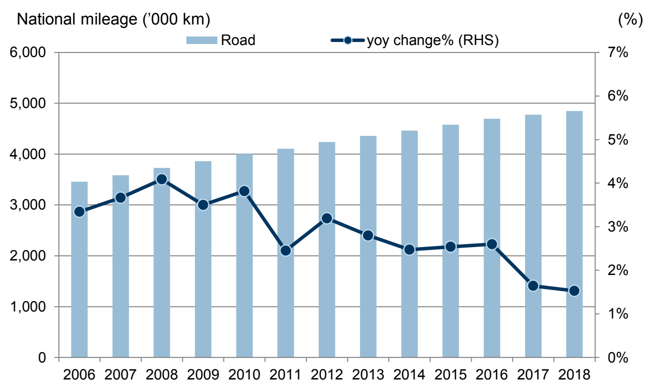
资料来源：万得, 高华证券研究

图表 15: The length of highways in China is still growing steadily...



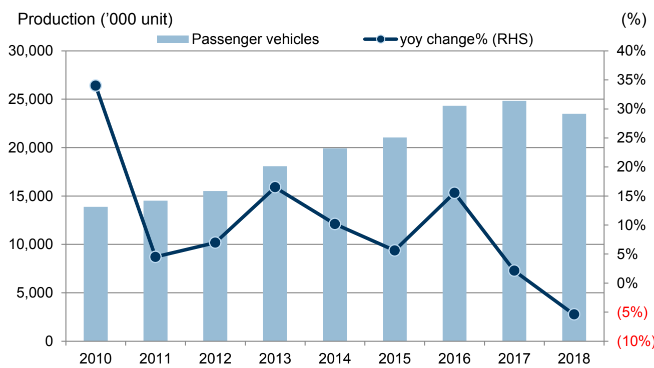
资料来源：国家统计局, 万得

图表 16: ...as well as the total length of roads



资料来源：国家统计局, 万得

图表 17: Passenger vehicles sales were weak in 2018 and early 2019



资料来源：中国汽车工业协会, 万得

Greater focus on sales and marketing can further improve Daoming’s market penetration

Time and effort required to increase penetration: The high-end prismatic reflective film market is dominated by global suppliers (mainly 3M). Daoming has been growing its market share and penetration in China after commissioning the prismatic film plant in 4Q2016. According to Daoming, the company is selling prismatic films at a price of c.15% to 20% lower than 3M. However, we believe it will be challenging for Daoming to replace 3M in the current market, as it is usually easier to penetrate new order volumes than existing orders which already has stable suppliers.

With the recent US-China trade tensions, based on our channel checks with some wholesalers, we note there is a gradual shift in customer interest to use more films from local brands than global brands. The response from global suppliers is mainly to compete on quality of products and value-added services while maintaining competitive pricing.

Sales and marketing initiatives will be the key differentiator vs. peers: We believe Daoming needs to focus more on the sales and marketing initiatives to improve its market penetration in China. Notably, the company has recently shifted its sales strategy more towards brand building and marketing. Daoming hosted an industry conference in their headquarters (a large scale forum in March 2019). The event in our view helped in the company’s brand building exercise and was successful in signing new contracts (e.g. they signed c.Rmb80mn contract in the conference for the prismatic reflective film). Daoming has also showed progress in winning market share in car licenses plates for electric vehicles, which require a different type of coating technique.

Competitive advantage over peers: We believe Daoming can gain more market share with its current competitive products pricing of c.15-20% discount vs. global brands without compromising on gross margins. We believe the company is well positioned for a faster response rate to clients’ request and preference vs. the dominant player 3M as the 3M manufacturing plants are located in Singapore. The recent US-China trade tensions also support a gradual shift in interest to use domestic brands than foreign brands if the product quality and stability are the same. Compared to some local reflective film suppliers, Daoming has a competitive advantage in prismatic reflective films but is slightly weaker in the car license plates (as the company entered the market later than the market leader Huarisheng). However, considering the entire product offerings, Daoming has a larger business scale and has achieved better profit margins in the last two years.

3M currently has c.70-80% market share in China in reflective film market, and we expect Daoming to penetrate this market through its initiatives in sales and marketing and expand its market share from current c.9% to c.20% in 2021

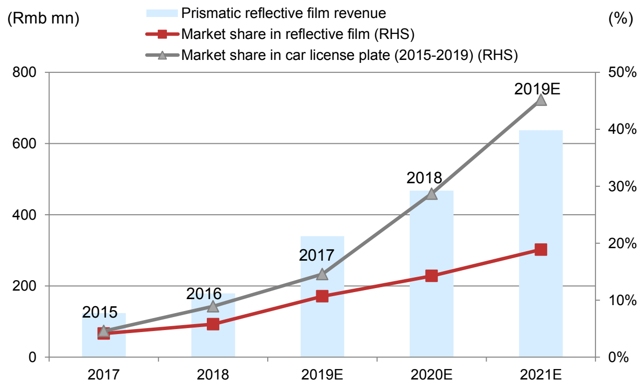
Key challenges vs. global peers: The existing China high-end reflective material market is dominated by the global suppliers. They have built a fairly solid brand image with stable product quality and supply, and have set the industry and products standards at the beginning of the development stage of reflective films in China. Hence, we believe there is no strong incentive for existing customers (if not price sensitive and impacted by the recent trade tensions) to switch the suppliers.

We forecast revenue CAGR of 25%: We expect Daoming to achieve 25% revenue CAGR during 2018-2021E (vs. 41% CAGR in 2015-2018E). The major breakthrough for the company was in 2016 after the commissioning of the prismatic reflective material plant in 4Q2016. Daoming’s sales of prismatic reflective film moved up gradually from zero in 2015 to 2.75mn sqm as of 2018; achieving 2-year CAGR of 109% CAGR. We believe there is still significant room for sales/production expansion for the micro prism reflective films as the current plant utilization is at 28% only. We estimate prismatic reflective film sales growth (2016-2020E CAGR of 71%) to be in line with the trend we saw in license car plates (2016-2019E CAGR of 77%), given both products share similar competitive dynamics where Daoming is accessing the market which already has dominant material supplier. The better and more flexible after-sales services from the company further aids the revenue growth. We also note that Daoming is winning more number of local provincial projects bidding, taking share from the existing players such as 3M.

Potential tailwinds driven by changes in government initiatives: On account of changes initiated by the local and central governments, we see potential demand tailwinds such as 1) renewal of traffic/warnings signs on highway due to changes in road names; 2) renewal of car license plate (the standard/colors/naming); and 3) changes in product procurement (from reflective films to car license plate semi-product or final car license plate for electric vehicles). These tailwinds, in our view, can be supportive to the industry revenue growth particularly for Daoming’s revenue growth. This could create significant opportunities for Daoming to access the new clients which was dominated by the suppliers such as 3M, as the latter may not be able to meet/satisfy the near term demand hike all by themselves.

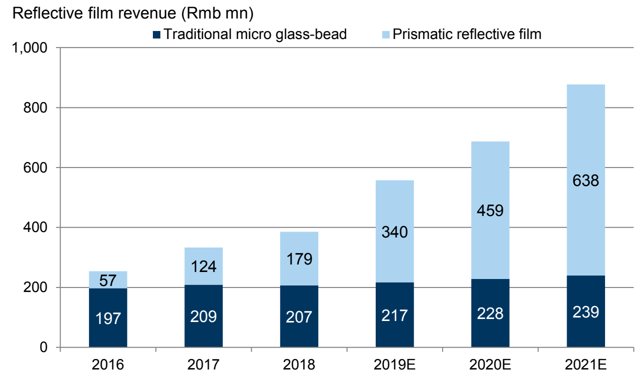
Better scale and margins than domestic peers: Based on the companies’ segment reporting, Daoming has larger revenues and margins than select key domestic reflective material companies such as Huarisheng and Yeshili. Both of them have their own product specialty - i.e. Huarisheng focuses on reflective material used in car license plates and Yeshili on the reflective clothes and their products are export oriented. However, these companies do not cater to the spectrum and scale of products like Daoming, which is evident in the company profitability vs. peers (gross profit of 44% vs. 30% for Huarisheng and 40% for Yeshili).

图表 18: We forecast prismatic reflective films to grow the revenues further



资料来源：公司数据, Gao Hua Securities Research

图表 19: We expect prismatic reflective films to lead the growth in reflective films segment



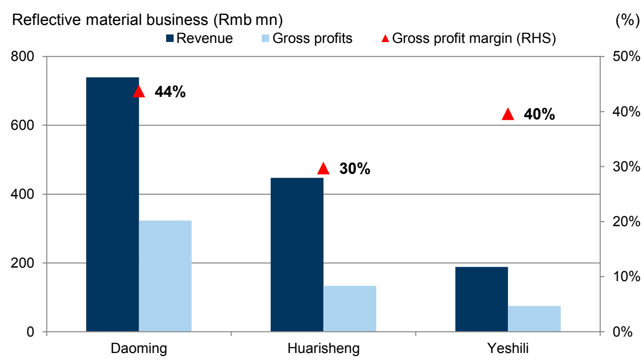
资料来源：公司数据, 高华证券研究

图表 20: Qualification/standards of several key reflective material products of Daoming used in transportation industry

Product type	Product name	Qualification / Standard	
		Domestic	**International**
DM7900	High Intensity Prismatic	New National Standard, Class 5	N.A.
DM7600	High Intensity Prismatic	New National Standard, Class 4	ASTM D4956 type 4 (US), EN12899-1 Class 2
DM1200	High Intensity Grade	New National Standard, Class 3	ASTM D 4956 (US), EN 12899-1 (EU)
DM5600	Engineering Grade Prismatic	New National Standard, Class 2	ASTM D 4956 (US), EN 12899-1 (EU), JIS Z 9117(Japan).

资料来源：公司数据

图表 21: Daoming’s scale and profitability are better than peers
Operating data comparison of domestic reflective material suppliers, 2018



资料来源：公司数据, 高华证券研究

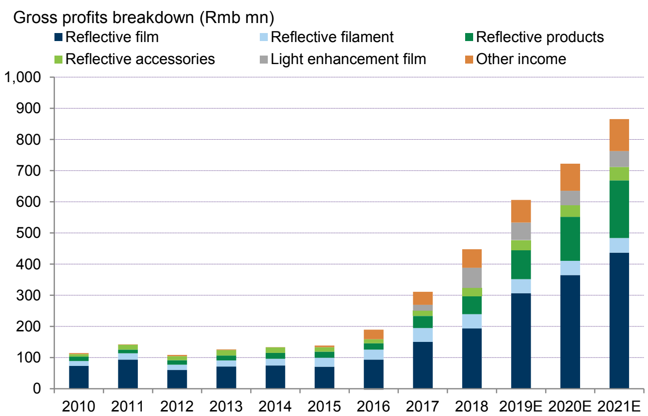
Financials and valuation

Income Statement

Growth: The revenue and earnings growth for Daoming has accelerated significantly since 2016 after the commissioning of the new prismatic reflective film plant. We expect both revenue and gross profit growth to moderate through 2021, partly due to a high base. We forecast revenue growth of 32%/23%/22% in 2019/2020/2021E vs. 41% CAGR in 2015-2018 and we assume gross profit to grow at 34%/20%/18% in 2019/2020/2021E respectively. The incremental business aiding the growth is mainly from the application of car license plates (more sales in the form of semi-car-plate instead of reflective films, which has a higher products ASP and margins).

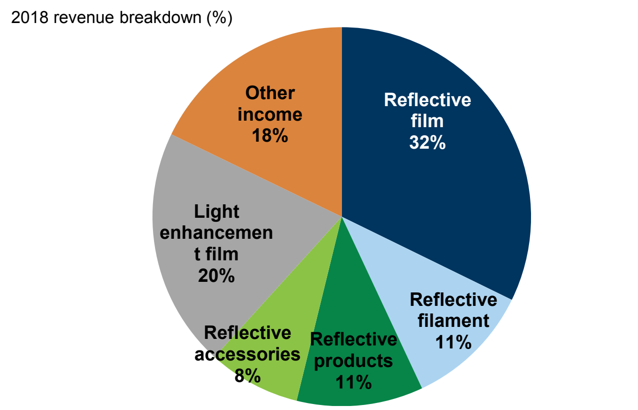
Margins: We expect the gross margins to hold up well in 2019 due to a higher sales portion of high-end reflective materials. We forecast the margins to decline gradually into 2020/2021E to factor in potential price competition when Daoming's market share starts to grow. This is partly offset by the mix changes (i.e. higher contribution from higher margin high-end applications).

图表 22: We forecast gross profit to grow at 24% 3-year CAGR during 2018-2021E



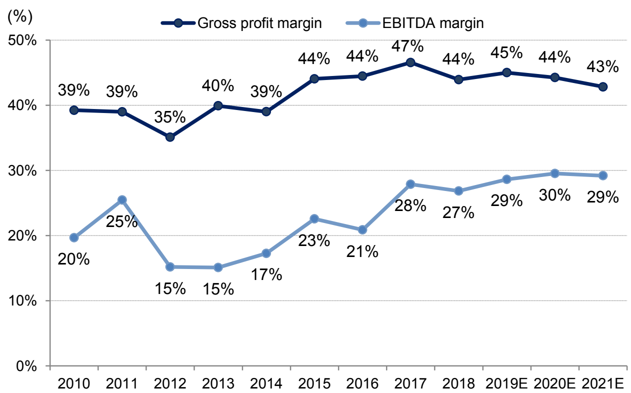
资料来源：公司数据, 高华证券研究

图表 23: 64% of revenues is exposed to the reflective film business
2018 revenue breakdown (%)



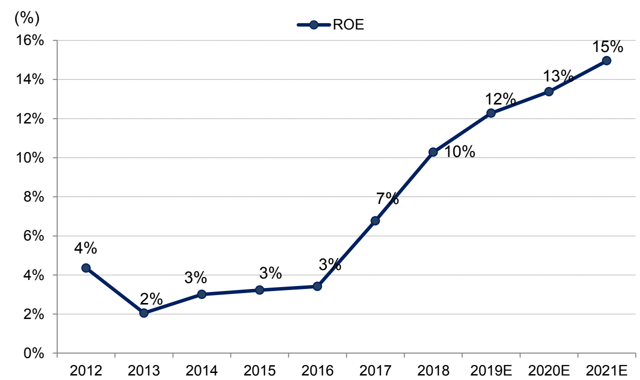
资料来源：公司数据, 高华证券研究

图表 24: We forecast gross profit margin to start declining modestly in 2020E/2021E



资料来源：公司数据, 高华证券研究

图表 25: We expect returns to further improve with better plants utilization



资料来源：公司数据, 高华证券研究

Balance sheet

Gearing: We expect Daoming’s net-debt-to-equity to increase in 2019E as the company plans to take on more debt to fund the new land acquisition and new PC/PMMA plant (to be commissioned by Jan 2020). We note the gearing will decline over time as the operating cash flow improves.

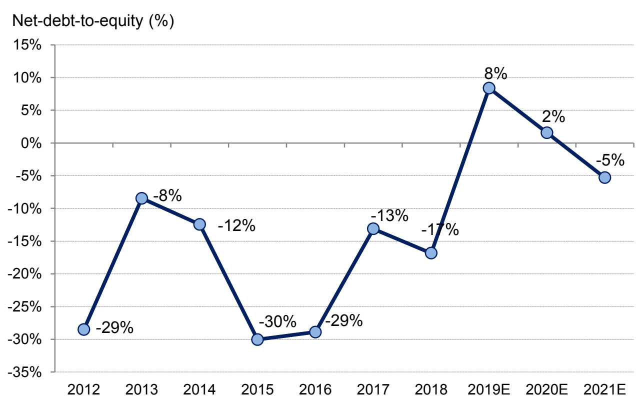
ROE: We forecast the ROE to grow further as the plants utilizations continue to improve.

Cash flow statement

Capex: We forecast a higher capex in 2019E given the new land acquisition for future project expansions, and new PC/PMMA plant (announced in early 2019).

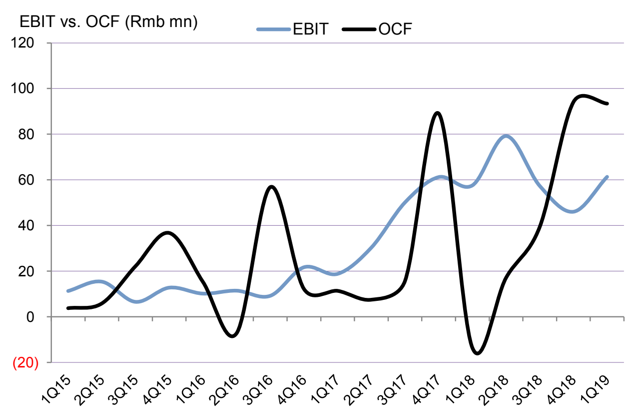
Dividend: We forecast the 2019E dividend to be at Rmb0.05/sh, same as 2017, in line with the company’s guidance. Notably, 2018 dividend was high at Rmb0.35/sh. We don’t expect the company to sustain this payout ratio over the next couple of years given the higher capex needs through 2019 and beyond.

图表 26: Strong net cash position with very low debt



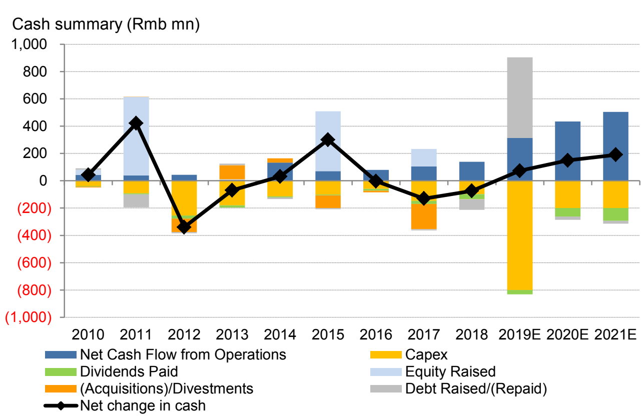
资料来源：公司数据, 高华证券研究

图表 27: Cash flow started to grow since 4Q18



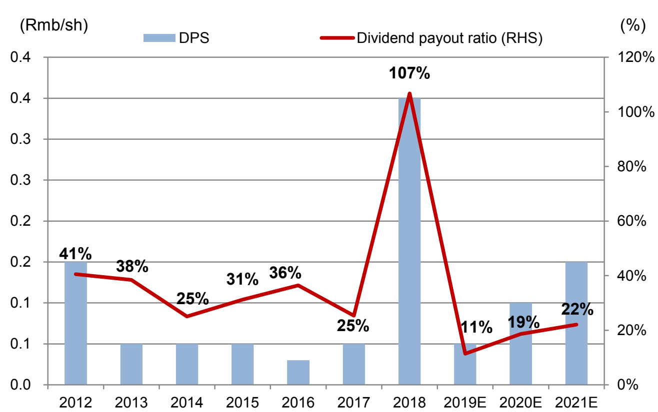
资料来源：公司数据, Gao Hua Securities Research

图表 28: We expect Daoming will likely need to increase its leverage to fund the additional capex



资料来源：公司数据, Gao Hua Securities Research

图表 29: In our view the high 2018 dividend payout is not sustainable given the expansion plans

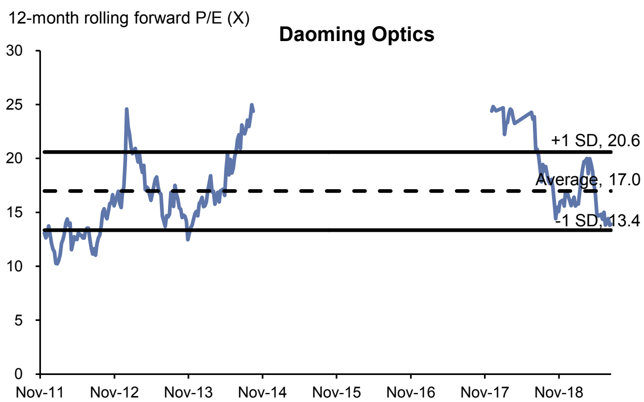


资料来源：公司数据, 高华证券研究

Valuation

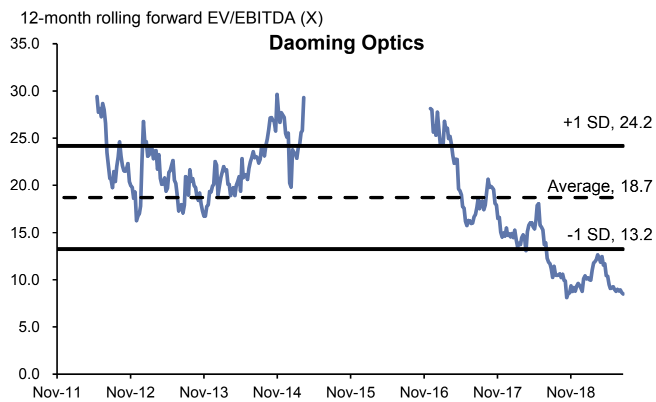
Our 12-month price target of Rmb8.30 is based on 15X P/E (applied to a simple average of 2020E/21E net income), discounted back using a discount rate of 10% (our estimate of Daoming's weighted average cost of capital). Our target multiple of 15X is 0.5s.d. below the Daoming's historical average (since listing in 2011) P/E multiple of 17X to factor in the low visibility of penetration into the high-end reflective material market. This multiple is within the historical trading range (+1 or - 1sd) of 13X to 21X. Daoming is now trading at 18%/54%/5% below its historical average P/E, EV/EBITDA and P/B (since listing in 2011). The core matrix we prefer to look at remains P/E, which is a better representative of the company's earnings generating ability, given the company is still at early stages of growth (vs. the assumed 28% 2018-2021E EPS CAGR). In our view, we believe the implied PEG of only 0.5 is attractive given the earnings growth outlook. Hence, we initiate on Daoming with a Buy rating, implying 29% upside.

图表 30: Daoming is trading below its historical average P/E



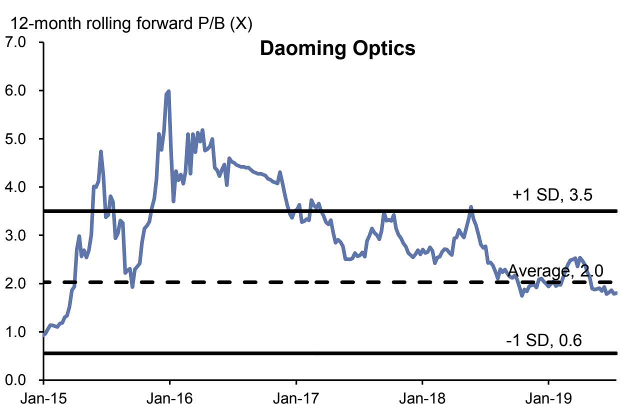
资料来源：公司数据, Datastream, 高华证券研究

图表 31: Daoming is trading below its historical average EV/EBITDA



资料来源：公司数据, Datastream, Gao Hua Securities Research

图表 32: Daoming is trading below historical average P/B



资料来源：公司数据, Datastream, Gao Hua Securities Research

图表 33: Daoming's valuation summary

Valuation

	2019E	2020E	2021E
Earnings (Rmb mn)	275	339	424
Blended 20-21E Earnings		381	
Target P/E multiple (x)		15.0	
Implied market cap (Nominal)		5,718	
Implied market cap (Discounted)		5,198	
Implied P/E multiple	18.9	15.4	12.3
Implied P/B multiple	2.3	2.1	1.8
Implied EV/EBITDA multiple	12.26	9.61	8.03
Equity value (Rmb mn)		5,198	
Number of shares (mn)		626	
Target price (Rmb/sh)		**8.30**	

资料来源：公司数据, 高华证券研究

图表 34: Valuation metrics vs. peers

Company	Ticker	Rating		Price 1-Aug-2019	12-month target price	Market cap (US$ bn)	Avg. daily trading vol (3-m, US$mn)	EPS yoy change (%) 2019E	EPS yoy change (%) 2020E	P/E (X) 2019E	P/E (X) 2020E	P/E (X) 2021E	EV/EBITDA (X) 2019E	EV/EBITDA (X) 2020E	EV/EBITDA (X) 2021E	P/B (X) 2019E	Net-debt-to-equity (%) 2019E	FCF yield (%) 2019E	FCF yield (%) 2020E	FCF yield (%) 2021E	Dividend yield (%) 2019E	Dividend yield (%) 2020E	Dividend yield (%) 2021E
China Chemical																							
Lomon Billions	002601.SZ	Buy	CNY	14.02	19.00	4.1	20	20	28	10	8	7	7.2	5.8	5.0	2.2	27	8.0	11.5	13.7	7.2	9.9	11.6
Daoming Optics & Chemical	002632.SZ	Buy	CNY	6.57	8.30	0.6	4	34	22	15	12	10	9.7	7.5	5.9	2.0	9	(7.1)	5.4	7.1	0.8	1.5	2.3
Weihai Guangwei	300699.SZ	Neutral	CNY	37.83	37.50	2.8	28	38	30	38	29	23	32.4	24.0	18.7	6.3	(5)	(0.5)	0.9	2.3	1.3	1.7	2.2
Yantai Tayho	002254.SZ	Neutral	CNY	10.30	10.25	0.9	8	23	31	33	25	19	16.6	13.7	10.0	2.7	30	(16.7)	(21.3)	(5.8)	0.5	0.6	0.8
Hengli Petrochemical	600346.SS	Buy	CNY	12.27	15.36	12.6	22	131	57	11	7	6	9.0	6.3	4.9	2.6	199	(15.2)	(0.5)	10.4	1.7	2.1	2.6
TongKun Group	601233.SS	Neutral	CNY	13.20	14.80	3.5	39	20	51	9	6	6	5.9	5.1	4.7	1.3	33	3.9	5.8	7.2	1.1	2.4	2.7
Sinopec Shanghai (A)	600688.SS	Neutral	CNY	4.73	4.70	7.4	5	(22)	13	13	11	12	7.3	6.3	6.4	1.6	(32)	5.4	8.5	7.7	4.4	5.0	5.0
Sinopec Shanghai (H)	0338.HK	Neutral	HKD	2.72	3.40	3.8	5	(22)	13	6	6	6	2.8	2.2	2.1	0.8	(32)	10.7	16.7	15.1	8.7	9.9	9.9
Rongsheng Petro Chemical	002493.SZ	Sell	CNY	11.69	10.30	10.7	9	135	82	19	11	8	15.2	6.9	5.9	3.1	196	(33.7)	1.4	2.6	1.3	1.9	2.4
Average (A-share listed)							**17**			**12**	**8**	**7**	**7.9**	**5.5**	**4.9**	**1.9**	**65**	**(3.5)**	**7.2**	**9.4**	**4.1**	**5.2**	**5.7**

资料来源：公司数据, 高华证券研究, Datastream

Given the recurring nature of the reflective material business (>80% is from replacement demand), we used DCF methodology using a terminal growth of 1% and WACC of 8.4% to estimate the valuation implied by company’s 2018 operating cash flow. The implied DCF value is c.Rmb5.8/sh, c.11% below the current share price. This, in our view, helps set a floor value for Daoming. The implied DCF value will be higher if we flex the terminal growth rate beyond 1 % (a 3.5% TGR would result in a our TP of Rmb8.30) and a higher base value (now we are using 2018 EBIT and cash flow as base value).

图表 35: Our DCF scenario analysis is implying a value of Rmb5.8/sh

DCF assumptions

WACC calculation		DCF summary results	
Equity component		**Firm value**	**3,315**
Equity market premium	6.0%	Net debt	(338)
Risk free rate	3.5%	Minority interest	7
Beta	1.00	**Equity valuation**	**3,646**
Cost of equity	9.5%	Shares outstanding (current) (mn)	626
Debt component			
Cost of debt	5.0%		
Tax rate	25.0%		
After-tax cost of debt	3.8%		
Long-run debt-to-capital ratio	20.0%		
WACC	**8.4%**	**DCF Valuation**	**5.82**
Terminal growth rate	1.0%		

DCF calculation (Rmb mn)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	**249**	**256**	**264**	**272**	**280**	**288**	**297**	**306**	**315**	**325**	**334**	**344**
- Tax paid	62	64	66	68	70	72	74	76	79	81	84	86
+ Depreciation and amortization	81	84	87	89	92	95	98	101	103	106	109	112
- Increase/(decrease) in net working capital	6	7	8	8	8	8	9	9	9	9	10	10
Operating cash flow	**262**	**269**	**277**	**285**	**294**	**303**	**312**	**321**	**331**	**340**	**350**	**360**
- Capital expenditure	75	75	75	75	75	75	75	75	75	75	75	75
Free cash flow	**187**	**194**	**202**	**210**	**219**	**228**	**237**	**246**	**256**	**265**	**275**	**285**
FCF (nominal)	187	194	202	210	219	228	237	246	256	265	275	4,201
Terminal value												3,916
Discount factor	0.4	1.4	2.4	3.4	4.4	5.4	6.4	7.4	8.4	9.4	10.4	11.4
Net present value of FCF	181	173	166	160	154	148	142	136	130	125	119	1,682
% of total DCF valuation						**49%**						**51%**

资料来源：公司数据, 高华证券研究

图表 36: Daoming’s summary financials

Profit model (Rmb mn)	12/18	12/19E	12/20E	12/21E
Total revenue	1,197.4	1,579.1	1,939.8	2,361.7
Cost of goods sold	(671.2)	(875.3)	(1,094.9)	(1,363.3)
SG&A	(191.3)	(244.4)	(271.2)	(306.5)
R&D	--	--	--	--
Other operating profit/(expense)	(13.5)	(14.1)	(14.8)	(15.6)
EBITDA	321.4	445.2	559.0	676.3
Depreciation & amortization	(78.2)	(97.9)	(122.7)	(132.7)
EBIT	243.2	347.3	436.2	543.6
Interest income	7.0	5.5	6.7	8.9
Interest expense	(6.5)	(15.0)	(30.0)	(30.0)
Income/(loss) from uncons. subs.	--	--	--	--
Others	8.6	0.0	0.0	0.0
Pretax profits	252.2	337.7	412.9	522.5
Income tax	(46.9)	(62.5)	(76.4)	(96.7)
Minorities	0.1	0.1	0.1	0.2
Net income pre-preferred dividends	205.4	275.4	336.7	426.0
Preferred dividends	--	--	--	--
Net income (pre-exceptionals)	205.4	275.4	336.7	426.0
Post-tax exceptionals	--	--	--	--
Net income	205.4	275.4	336.7	426.0
EPS (basic, pre-except) (Rmb)	0.33	0.44	0.54	0.68
EPS (basic, post-except) (Rmb)	0.33	0.44	0.54	0.68
EPS (diluted, post-except) (Rmb)	0.33	0.44	0.54	0.68
DPS (Rmb)	0.35	0.05	0.10	0.15
Dividend payout ratio (%)	106.7	11.4	18.6	22.1
Free cash flow yield (%)	0.8	(6.9)	5.2	6.9

Growth & margins (%)	12/18	12/19E	12/20E	12/21E
Sales growth	48.4	31.9	22.8	21.7
EBITDA growth	42.9	38.5	25.5	21.0
EBIT growth	51.6	42.8	25.6	24.6
Net income growth	66.0	34.0	22.3	26.5
EPS growth	66.0	34.0	22.3	26.5
Gross margin	43.9	44.6	43.6	42.3
EBITDA margin	26.8	28.2	28.8	28.6
EBIT margin	20.3	22.0	22.5	23.0

Cash flow statement (Rmb mn)	12/18	12/19E	12/20E	12/21E
Net income pre-preferred dividends	205.4	275.4	336.7	426.0
D&A add-back	78.2	97.9	122.7	132.7
Minorities interests add-back	(0.1)	(0.1)	(0.1)	(0.2)
Net (inc)/dec working capital	(162.6)	(73.2)	(58.7)	(84.5)
Other operating cash flow	16.1	6.2	20.3	18.4
Cash flow from operations	137.0	306.2	420.9	492.4
Capital expenditures	(97.4)	(600.0)	(200.0)	(200.0)
Acquisitions	(3.5)	--	--	--
Divestitures	62.4	--	--	--
Others	(59.5)	--	--	--
Cash flow from investments	(98.0)	(600.0)	(200.0)	(200.0)
Dividends paid (common & pref)	(36.8)	(219.3)	(62.6)	(94.0)
Inc/(dec) in debt	(175.1)	600.0	--	--
Common stock issuance (repurchase)	--	--	--	--
Other financing cash flows	99.3	(9.5)	(23.3)	(21.1)
Cash flow from financing	(112.6)	371.1	(85.9)	(115.1)
Total cash flow	(73.5)	77.3	135.0	177.4

Balance sheet (Rmb mn)	12/18	12/19E	12/20E	12/21E
Cash & equivalents	338.2	415.5	550.5	727.8
Accounts receivable	367.4	432.6	478.3	517.6
Inventory	326.2	383.7	449.9	560.2
Other current assets	55.4	55.4	55.4	55.4
Total current assets	1,087.2	1,287.3	1,534.2	1,861.1
Net PP&E	688.4	1,197.9	1,282.5	1,357.2
Net intangibles	349.7	342.3	335.0	327.6
Total investments	113.2	113.2	113.2	113.2
Other long-term assets	52.1	52.1	52.1	52.1
Total assets	2,290.6	2,992.8	3,316.9	3,711.3
Accounts payable	162.9	212.4	265.6	330.8
Short-term debt	0.5	600.5	600.5	600.5
Other current liabilities	88.4	88.4	88.4	88.4
Total current liabilities	251.8	901.3	954.5	1,019.7
Long-term debt	--	--	--	--
Other long-term liabilities	33.2	29.9	26.9	24.2
Total long-term liabilities	33.2	29.9	26.9	24.2
Total liabilities	285.0	931.2	981.5	1,043.9
Preferred shares	--	--	--	--
Total common equity	1,998.4	2,054.4	2,328.4	2,660.5
Minority interest	7.3	7.2	7.0	6.9
Total liabilities & equity	2,290.6	2,992.8	3,316.9	3,711.3
BVPS (Rmb)	3.19	3.28	3.72	4.25

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Key risks

The key risks include:

Product margins (-): Worse-than-expected product margins (particularly reflective material) due to their respective demand/supply dynamics. The historical prices for reflective material remains fairly stable. A price competition initiated by local or global competitors could result in downside risk to our revenue and margin forecasts.

Weaker-than-expected volume growth (-): While we think the company’s product quality is high and is starting to get clients attention and recognition, there is no guarantee on future incremental penetration. Increased penetration is heavily dependent on the company’s sales and marketing effort and pricing strategy and the pace of penetration increase could vary. A weaker-than-expected volume growth will negatively impact the earnings forecast of that period.

Limited pricing disclosure (-): Unlike other commoditized chemical products, it is difficult to track the pricing data of reflective materials. The pricing could differ a lot across clients and applications. The limited pricing data points could make it hard for investors to forecast a trend.

Ineffective sales and marketing effort (-): The sales and marketing strategy varies across companies, products and also clients. Any ineffective sales and marketing initiative could result in both weaker-than-expected volume growth and a higher administrative costs.

Major part of stake held by a key shareholder pledged (-): Zhejiang Daoming Investment, the major shareholder, has pledged 33.16% (out of 39.85%) of the total shares outstanding to banks for financing. While the company announced there are no risks associated with this, Zhejiang Daoming Investment’s inability to pay the banks in time could result in potential offloading of shares by the bank that can negatively impact the share prices.

Investment in new business lines (-): Daoming has expressed interest to enter other optical film and fiber businesses, beyond reflective materials. The company has started to tap into new business lines such as light enhancement films (for electronics) and aluminum plastic films (for battery). The target is to diversify the product lines exposure and grow the company’s scale further. This we believe could potentially be a drag on the profits from reflective material business if the new businesses lines are not performing well.

M&A score

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign an M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Under our M&A framework for the Asia Pacific Energy and Chemical sector we recognize a myriad of factors could influence the probability of a deal, and our regional team see the following as five key common denominators:

- Regulation on ownership that prohibits or discourages acquisitions, including by a foreign entity, on grounds of national security.
- Regulatory risks that discourage potential buyers from an acquisition and complicate realization of planned synergy and restructuring upside.
- Management stance in terms of its openness to a deal (e.g., being target of acquisition, management buyout), especially by government appointees.
- Strategic assets that offer the owners a strong competitive advantage due to a high entry barriers (e.g., monopoly) or a low cost structure.
- Industry attractiveness based on a growing profit pool as a function of asset expansion, revenue growth, or profitability improvement.

Within this context, we have ranked Daoming Optics & Chemical a “3” and weight our M&A value by 0% (reflecting the probability implied by this ranking) within our price target methodology.

图表 37: Summary of M&A score

Company	Ticker	M&A Rank	Regulation on Ownership	Regulatory Risks	Management Stance	Strategic Assets	Industry Attractiveness
Daoming Optics&Chemical	002632.SZ	3	2	3	3	3	2

资料来源：高华证券研究

高华证券感谢高盛分析师Mark Wiseman, CFA和乔雅虹在本报告中的贡献。

信息披露附录

申明

本人，朱金巧，在此申明，本报告所表述的所有观点准确反映了本人对上述公司或其证券的个人看法。此外，本人薪金的任何部分不曾与，不与，也将不会与本报告中的具体推荐意见或观点直接或间接相关。

投资摘要

投资摘要部分通过将一只股票的主要指标与其行业和市场相比较来评价该股的投资环境。所描述的四个主要指标包括增长、回报、估值倍数和波动性。增长、回报和估值倍数都是运用数种方法综合计算而成，以确定该股在地区研究行业内所处的百分位排名。

每项指标的准确计算方式可能随着财务年度、行业和所属地区的不同而有所变化，但标准方法如下：

增长是下一年预测与当前年度预测的综合比较，如每股盈利、EBITDA 和收入等。 回报是各项资本回报指标一年预测的加总，如CROCI、平均运用资本回报率和净资产回报率。 估值倍数根据一年预期估值比率综合计算，如市盈率、股息收益率、EV/FCF、EV/EBITDA、EV/DACF、市净率。 波动性根据12个月的历史波动性计算并经股息调整。

并购评分

在我们的全球覆盖范围中，我们使用并购框架来分析股票，综合考虑定性和定量因素（各行业和地区可能会有所不同）以计入某些公司被收购的可能性。然后我们按照从1到3对公司进行并购评分，其中1分代表公司成为并购标的的概率较高(30%-50%)，2分代表概率为中等(15%-30%)，3分代表概率较低(0%-15%)。对于评分为1或2的公司，我们按照研究部统一标准将并购因素体现在我们的目标价格当中。并购评分为3被认为意义不大，因此不予体现在我们的目标价格当中，分析师在研究报告中可以予以讨论或不予讨论。

Quantum

Quantum是提供具体财务报表数据历史、预测和比率的高盛专有数据库，它可以用于对单一公司的深入分析，或在不同行业和市场的公司之间进行比较。

GS SUSTAIN

GS SUSTAIN是一项侧重于通过发现优质行业领先企业而实现长期超额收益的全球投资策略。GS SUSTAIN 50关注名单列出了我们认为凭借出色的资本回报、具有可持续性的竞争优势和对ESG（环境、社会和企业治理）风险的有效管理而有望在长期内相对于全球同业表现出色的行业领军企业。候选企业主要基于对企业在这三方面表现的综合量化分析筛选而出。

相关的股票研究范围

朱金巧：亚洲化工行业。

亚洲化工行业：Daoming Optics & Chemical、Hengli Petrochemical Co.、Lomon Billions Group、Rongsheng Petrochemical Co.、Sinopec Shanghai Petrochemical (A)、Sinopec Shanghai Petrochemical (H)、Tongkun Group Co.、Wanhua Chemical Group、Weihai Guangwei、Yantai Tayho、Zhejiang Satellite。

信息披露

与公司有关的法定披露

以下信息披露了高盛高华证券有限责任公司（“高盛高华”）与北京高华证券有限责任公司（“高华证券”）投资研究部所研究的并在本研究报告中提及的公司之间的关系。

没有对下述公司的具体信息披露： Daoming Optics & Chemical (Rmb6.37)

公司评级、研究行业和相关定义

买入、中性、卖出：分析师建议将评为买入或卖出的股票纳入地区投资名单。一只股票在投资名单中评为买入或卖出由其相对于所属研究行业的总体潜在回报决定。任何未获得买入或卖出评级且拥有活跃评级（即不属于暂停评级、暂无评级、暂停研究或没有研究的股票）的股票均被视为中性评级。每个地区投资评估委员会管理着地区强力买入或卖出名单，该名单以总体潜在回报规模和/或实现回报的可能性为主要依据确立各自研究范围内的投资建议。将股票加入或移出此类强力买入或卖出名单并不意味着分析师对这些股票的投资评级发生了改变。

总体潜在回报：代表当前股价低于或高于一定时间范围内预测目标价格的幅度，包括所有已付或预期股息。分析师被要求对研究范围内的所有股票给出目标价格。总体潜在回报、目标价格及相关时间范围在每份加入投资名单或重申维持在投资名单的研究报告中都有注明。

研究行业：每个行业研究的所有股票名单可登陆https://www.gs.com/research/hedge.html通过主要分析师、股票和行业进行查询。

暂无评级(NR)：在高盛于涉及该公司的一项合并交易或战略性交易中担任咨询顾问时并在某些其他情况下，投资评级和目标价格已经根据高盛的政策予以除去。 暂停评级(RS)：由于缺乏足够的基础去确定投资评级或价格目标，或在发表报告方面存在法律、监管或政策的限制，我们已经暂停对这种股票给予投资评级和价格目标。此前对这种股票作出的投资评级和价格目标(如有的话)将不再有效，因此投资者不应依赖该等资料。 暂停研究(CS)：我们已经暂停对该公司的研究。 没有研究(NC)：我们没有对该公司进行研究。 不存在或不适用(NA)：此资料不存在或不适用。 无意义(NM)：此资料无意义，因此不包括在报告内。

一般披露

本报告在中国由高华证券分发。高华证券具备证券投资咨询业务资格。

本研究报告仅供我们的客户使用。除了与高盛相关的披露，本研究报告是基于我们认为可靠的目前已公开的信息，但我们不保证该信息的准确性和完整性，客户也不应该依赖该信息是准确和完整的。报告中的信息、观点、估算和预测均截至报告的发表日，且可能在不事先通知的情况下进行调整。我们会适时地更新我们的研究，但各种规定可能会阻止我们这样做。除了一些定期出版的行业报告之外，绝大多数报告是在分析师认为适当的时候不定期地出版。

高盛高华为高华证券的关联机构，从事投资银行业务。高华证券、高盛高华及它们的关联机构与本报告中涉及的大部分公司保持着投资银行业务和其它业务关系。

我们的销售人员、交易员和其它专业人员可能会向我们的客户及自营交易部提供与本研究报告中的观点截然相反的口头或书面市场评论或交易策略。我们的资产管理部门、自营交易部和投资业务部可能会做出与本报告的建议或表达的意见不一致的投资决策。

本报告中署名的分析师可能已经与包括高华证券销售人员和交易员在内的我们的客户讨论，或在本报告中讨论交易策略，其中提及可能会对本报告讨论的证券市场价格产生短期影响的推动因素或事件，该影响在方向上可能与分析师发布的股票目标价格相反。任何此类交易策略都区别于且不影响分析师对于该股的基本评级，此类评级反映了某只股票相对于报告中描述的研究范围内股票的回报潜力。

高华证券及其关联机构、高级职员、董事和雇员，不包括股票分析师和信贷分析师，将不时地根据适用的法律和法规对本研究报告所涉及的证券或衍生工具持有多头或空头头寸，担任上述证券或衍生工具的交易对手，或买卖上述证券或衍生工具。

在高盛组织的会议上的第三方演讲嘉宾（包括高华证券或高盛其它部门人员）的观点不一定反映全球投资研究部的观点，也并非高华证券或高盛的正式观点。

在任何要约出售股票或征求购买股票要约的行为为非法的地区，本报告不构成该等出售要约或征求购买要约。本报告不构成个人投资建议，也没有考虑到个别客户特殊的投资目标、财务状况或需求。客户应考虑本报告中的任何意见或建议是否符合其特定状况，以及(若有必要)寻求专家的意见，包括税务意见。本报告中提及的投资价格和价值以及这些投资带来的收入可能会波动。过去的表现并不代表未来的表现，未来的回报也无法保证，投资者可能会损失本金。

某些交易，包括牵涉期货、期权和其它衍生工具的交易，有很大的风险，因此并不适合所有投资者。外汇汇率波动有可能对某些投资的价值或价格或来自这一投资的收入产生不良影响。

投资者可以向高华销售代表取得或通过https://www.theocc.com/about/publications/character-risks.jsp和https://www.fiadocumentation.org/fia/regulatory-disclosures_1/fia-uniform-futures-and-options-on-futures-risk-disclosures-booklet-pdf-version-2018取得当前期权和期货的披露文件。对于包含多重期权买卖的期权策略结构产品，例如，期权差价结构产品，其交易成本可能较高。与交易相关的文件将根据要求提供。

全球投资研究部提供的不同服务层级：根据您对接收沟通信息的频率和方式的个人偏好、您的风险承受能力、投资重心和视角（例如整体市场、具体行业、长线、短线）、您与高华证券的整体客户关系的规模和范围、以及法律法规限制等各种因素，高华证券全球投资研究部向您提供的服务层级和类型可能与高华证券提供给内部和其他外部客户的服务层级和类型有所不同。例如，某些客户可能要求在关于某个证券的研究报告发表之时收到通知，某些客户可能要求我们将内部客户网上提供的分析师基本面分析背后的某些具体数据通过数据流或其它途径以电子方式发送给他们。分析师基本面研究观点（如股票评级、目标价格或盈利预测大幅调整）的改变，在被纳入研究报告、并通过电子形式发表在内部客户网上或通过其它必要方式向有权接收此类研究报告的所有客户大范围发布之前，不得向任何客户透露。

所有研究报告均以电子出版物的形式刊登在高华客户网上并向所有客户同步提供。高华未授权任何第三方整合者转发其研究报告。有关一个或多个证券、市场或资产类别（包括相关服务）的研究报告、模型或其它数据，请联络您的高华销售代表。