国泰君安证券 GUOTAI JUNAN SECURITIES

Company Report: China Energy Engineering (03996 HK)

公司报告：中国能源建设 (03996 HK)

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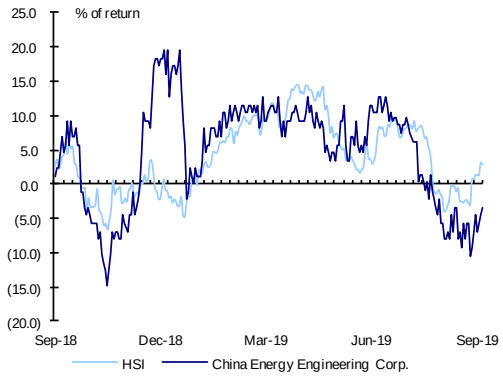
Strong Orders Backlog Ensures Growth, "Accumulate"

强劲的在手订单将保障增长，维持“收集”

- **Earnings in 1H2019 dropped 5.9% YoY to RMB 2.16 bn.** Sales in 1H2019 went up 8.4% YoY while net profit was down by 5.9% YoY. The operating results in 1H2019 missed expectations. A decrease in other net gains and a rise in operating expenses and financing cost are the main causes of the earnings decline in 1H2019. Gross margin in 1H2019 stayed flat at 12.5% but net margin was down YoY by 0.3 ppt to 2.0%.
- **The sizable orders backlog of more than RMB1 trillion ensures continued growth over next few years.** New contracts signed in 1H2019 reached RMB276.189 bn, up YoY by 7.1%. Following experiencing a 4.8% YoY drop in new contracts secured in 1Q2019, new contracts in 2Q2019 went up dramatically by 19.8% YoY and reached RMB149.3 bn. The orders backlog of the Company at the end of June 2019 reached RMB 1,218.2 bn, up 13.6% from the end of 2018.
- **Domestic power engineering investment in 7M2019 went up YoY by 0.7% to RMB124.6 bn.** Nationwide power sector investment in 7M2019 reached RMB326.7 bn, down YoY by 8.9%. Of which, power engineering investment went up YoY by 0.7% to RMB124.6 bn, while power grid investment was down YoY by 13.9% to RMB202.1 bn. Renewable energies investment accounted for 83.1% of total investments in power engineering in 7M2019, up YoY by 8.4 ppt.
- **We maintain the "Accumulate" investment rating but trimmed the TP to HK$1.00.** Our new TP translates to 6.2x/ 5.0x/ 4.6x FY19-FY21 PER or 0.5x/ 0.5x/ 0.5x FY19-FY21 PBR.
- **2019 上半年盈利同比跌 5.9%至人民币 21.6 亿元。**期内销售收入同比升 8.4%但净利则同比跌 5.9%。期内经营业绩差于预期。期内其他收益的下降以及运营成本和融资成本的上升是导致盈利下降的主要因素。2019 上半年毛利率同比持平至 12.5%，而净利率同比跌 0.3 个百分点至 2.0%。
- **超过 1 万亿元人民币的庞大的在手订单确保了未来几年的持续增长。**2019 年上半年新签合同达人民币 2,761.89 亿元，同比增长 7.1%。继 2019 年第 1 季度新签合同额同比下降 4.8%之后，2019 年第 2 季度的新签合同额同比大幅增长 19.8%至 1,493 亿元人民币。截至 2019 年 6 月底，公司的在手订单总额达人民币 12,182 亿元，较 2018 年末时增 13.6%。
- **国内对电力工程于 2019 年前 7 个月的投资同比增长 0.7%至人民币 1,246 亿元。**国内对电力板块的投资在 2019 年前 7 个月为人民币 3,267 亿元，同比下降 8.9%。其中，电力工程投资同比增长 0.7%至人民币 1,246 亿元，而电网投资则同比下降 13.9%至人民币 2,021 亿元。2019 年前 7 个月国内对可再生能源的投资占期内总电力工程投资额的 83.1%，同比升 8.4 个百分点。
- **我们维持“收集”的投资评级但下调目标价至 1.00 港币。**我们的目标价相当于 6.2 倍/ 5.0 倍/ 4.6 倍 2019-2021 年市盈率或 0.5 倍/ 0.5 倍/ 0.5 倍 2019-2021 年市净率。

Rating:	**Accumulate** Maintained
评级：	**收集** (维持)
6-18m TP 目标价:	**HK$1.00**
Revised from 原目标价:	HK$1.20
Share price 股价:	HK$0.810

Stock performance
股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	2.5	(14.7)	(6.9)
Rel. % to HS Index 相对恒指变动 %	(2.4)	(13.9)	(9.7)
Avg. Share price(HK$) 平均股价（港元）	0.78	0.85	0.88

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ %)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2017A	234,370	5,261	0.176	23.4	3.8	1.631	0.4	0.031	4.6	11.3
2018A	224,034	4,571	0.153	(13.1)	4.6	1.687	0.4	0.031	4.4	9.2
2019F	240,949	4,422	0.147	(3.9)	5.0	1.758	0.4	0.029	3.9	8.6
2020F	256,544	5,556	0.185	25.9	4.0	1.869	0.4	0.037	5.0	10.2
2021F	270,850	5,924	0.197	6.5	3.8	1.988	0.4	0.039	5.3	10.2

Shares in issue (m) 总股数 (m)	30,020.4	Major shareholder 大股东	Energy China Group 60.6%
Market cap. (HK$ m) 市值 (HK$ m)	24,316.5	Free float (%) 自由流通比率 (%)	24.1
3 month average vol. 3 个月平均成交股数 ('000)	1,042.6	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	113.4
52 Weeks high/low (HK$) 52 周高/低 (HK$)	1.080 / 0.740	FY19 EV / EBITDA (x) FY19 企业值/EBITDA（x）	6.7

Source: the Company, Guotai Junan International.

The operating results in 1H2019 were below expectations. Sales in 1H2019 went up 8.4% YoY, operating profit was up by 10.4% YoY, while net profit dropped 5.9% YoY. The Company's 1H2019 operating results missed expectations. A decrease in other net gains and a rise in operating expenses and financing cost are the main causes of the earnings decline in 1H2019. During the period, 4 out of 5 business segments experienced sales growth and the decline was only seen in clean energy segment. Domestic sales during the period went up by 10.6% YoY to RMB 92.6 bn, while overseas sales shrank by 1.9% YoY to RMB 17.4 bn. Consolidated gross margin in 1H2019 went up by 0.1 ppt to 12.5%. Segment-wise, the gross margin of survey, design and consulting services segment and investment & other business segment dropped YoY by 2.4 ppts and 1.8 ppt, respectively. Meanwhile, the gross margin of construction and contracting segment and industrial manufacturing segment went up YoY by 0.2 ppt and 2.4 ppt, respectively. Consolidated net margin was down YoY by 0.3ppt to 2.0%. The Company is the biggest beneficiary within the power engineering space under the Belt & Road initiative, we expect the Company to continue to benefit from the Belt & Road national strategy. Moreover, to stimulate economic growth in 2H2019 and onwards, we expect more infrastructure projects to be rolled out in the domestic market over next 6 to 12 months.

Table-1: 1H2019 Operating Results and YoY Comparison

(RMB mn)	1H2019	1H2018	*YoY Δ*	Comments
Revenue	**110,045**	**101,520**	***8.4%***	4 out of 5 business segments experienced sales growth
COGS	(96,337)	(88,966)	*8.3%*	
Gross profit	**13,707**	**12,554**	***9.2%***	
Selling expense	(1,237)	(1,030)	*20.1%*	
General & admin expense	(5,234)	(5,046)	*3.7%*	
R&D expense	(1,267)	(1,070)	*18.4%*	
EBIT	**5,970**	**5,409**	***10.4%***	
Other income and gains	1,050	1,021	*2.9%*	
Non-operating expense / gains	(99)	349	*-128.3%*	Other net gains was substantially reduced while impairment loss increased in 1H2019
Share of affiliate & JV	495	231	*114.5%*	Share of profit of associates grew by more than 5 folds
Finance cost	(1,505)	(1,369)	*9.9%*	
Profit before tax	**5,911**	**5,640**	***4.8%***	
Income tax	(1,584)	(1,460)	*8.4%*	
Holder of perpetual instruments	(413)	(385)	*7.3%*	A RMB 5 bn perpetual instrument (with annual distribution rate of 4.35%) was issued in 1H2019
Minority interest	(1,757)	(1,502)	*17.0%*	
Net income	**2,158**	**2,293**	***-5.9%***	
EPS (Basic)	0.0722	0.0770	*-6.2%*	
Margins (YoY comparison)			***YOY ppt Δ***	
Gross margin	12.5%	12.4%	*+0.1 ppt*	
EBIT margin	5.4%	5.3%	*+0.1 ppt*	
PBT margin	5.4%	5.6%	*-0.2 ppt*	
Net margin	2.0%	2.3%	*-0.3 ppt*	

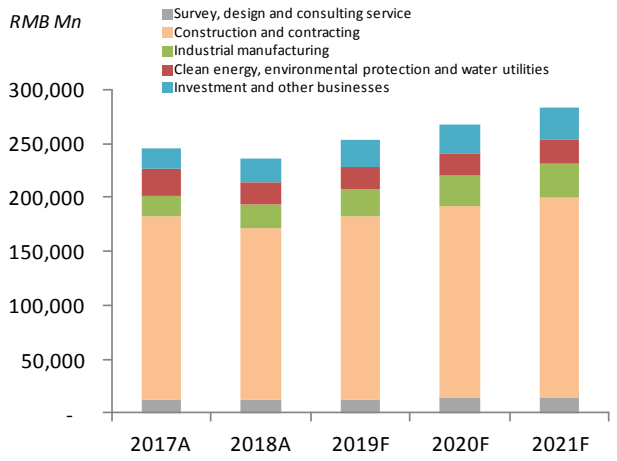
Source: the Company, Guotai Junan International.

New contracts in 1H2019 went up YoY by 7.1% YoY to reach RMB276.2 bn. Newly signed contracts in the first half of 2019 reached RMB276.189 bn, up YoY by 7.1%. Of the total newly signed contracts, value of domestic contracts amounted to RMB171.342 bn, accounting for 62.0% of the total value of newly signed contracts and representing 2.1% YoY growth. Whereas, the value of newly signed overseas contracts reached RMB104.847 bn, accounting for 38.0% of newly signed contracts and representing 16.5% YoY growth. In 1H2019, power engineering business new contracts went up 9.3% YoY and contributed 59.0% of total newly signed contracts, whereas non-power engineering business new contracts increased 4.1% YoY and made up 41.0% of the new contracts signed. Following experiencing a 4.8% YoY drop in the amount of new contracts secured in 1Q2019, quarterly new contracts signed in 2Q2019 went up dramatically by 19.8% YoY and hit RMB149.3 bn. Sharp growth in new contracts in 2Q2019 was the key reason behind the 7.1% YoY growth in new contracts during the first 6 months of 2019. The new contracts from both the domestic market and overseas market reported growth, and growth from the overseas market new orders still outpaced that of the domestic market. The orders backlog of the Company at the end of June 2019 reached RMB 1,218.2 bn, up 13.6% from the end of 2018. The sizable orders backlog of more than RMB1 trillion ensures continued growth of China Energy Engineering over next few years.

Fixed asset investment in China is expected to grow YoY by approximately 6% in 2019. According to the National Bureau of Statistics of China, fixed asset investment ("FAI") in China during 7M2019 reached RMB34.9 trillion, up 5.7% YoY. Investment growth, on a YoY basis, of primary industry, secondary industry and tertiary industry during the first 7 months of the year reached -1.2% / 3.4% 7.0%, respectively. FAI growth rate in China for the month of July reached 5.1%, down 1.2 ppts MoM. Overall infrastructure investment growth in 7M2019 reached 3.8%, down 0.3ppt from 1H2019, lower than expectations. In which, investment on irrigation, environment and public facilities management recorded a YoY growth rate of 2.6% during the period. The time lapse in policy implementation might be the reason for lower-than-expected infrastructure investment growth during the first 7 months of 2019. To stimulate economic growth, we believe government spending on large infrastructure projects will accelerate in 2H2019. Considering the rising risk of domestic growth slowdown, government spending is especially important to keep the economy continue booming. We expect fixed asset investment in the domestic market to dramatically speed up in the second half of 2019 and all the way into 2020. We estimate the FAI in China to increase on a YoY basis by approximately 6.0% in 2019 amid the growing trade tension between China and the United States and the rising risk of growth slowdown in China.

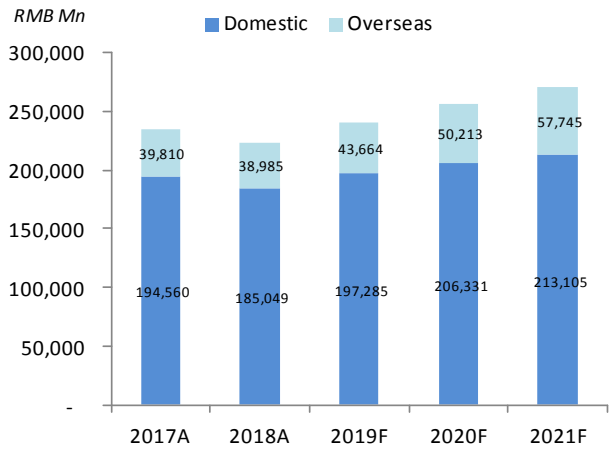
Domestic power engineering spending in 7M2019 went up YoY by 0.7% to RMB124.6 bn. According to CEC, nationwide newly installed power generating capacity in the first 7 months of 2019 reached 47.07 GW, down YoY by 20.33 GW. In which, thermal, hydro, nuclear, wind and solar contributed 18.54 GW, 2.47 GW, 2.34 GW, 10.27 GW and 13.46 GW, respectively, of newly installed capacity in 7M2019. Except for mild growth seen in nuclear and wind power, all other power sources recorded YoY decline in new installations. At the end of July 2019, nationwide cumulative installed power generating capacity reached 1,847 GW, up YoY by 6.0%. Nationwide power sector investment in 7M2019 reached RMB326.7 bn, down YoY by 8.9%. Of which, power engineering investment went up YoY by 0.7% to RMB124.6 bn, while power grid investment was down YoY by 13.9% to RMB202.1 bn. Investment decline in power grid narrowed by 5.4 ppt to 13.9% in 7M2019 from 19.3% seen in 1H2019. Thermal, nuclear and solar investment in 7M2019 went down YoY by 33.2%, 31.1% and 34.3%, while that of hydro and wind power investment jumped YoY by 37.1% and 51.6%. Renewable energies investment accounted for 83.1% of total investments in power engineering in 7M2019, up YoY by 8.4 ppt, and we expect the majority of power engineering investment to be spent on renewable energies going forward. We expect total investment on the power sector in China in 2019 to be approximately RMB700 bn in aggregate, with RMB 250 bn spent on power engineering and RMB 450 bn on power grid investment.

Figure-1: Historical & Projected Revenue Breakdown



Source: the Company, Guotai Junan International.

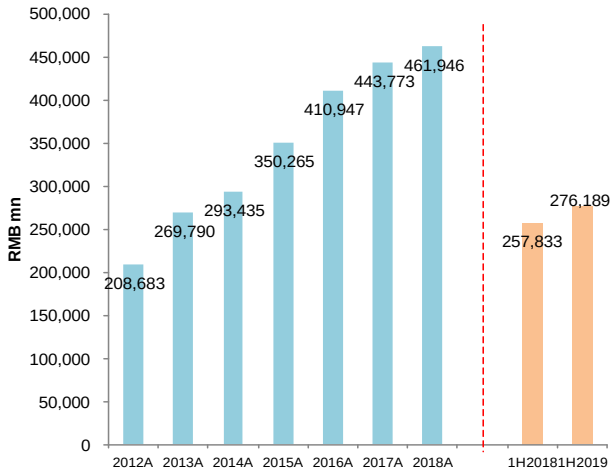
Figure-2: Revenue Breakdown by Geography



Source: the Company, Guotai Junan International.

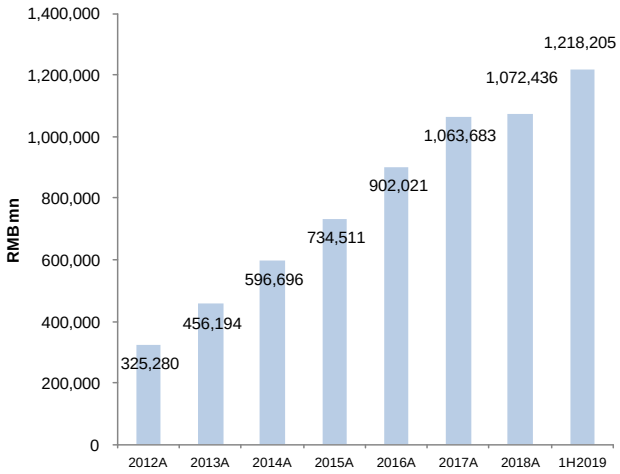
We have adjusted our earnings forecasts following the worse-than-expected operating results in 1H2019. Due to the shift in energy development strategy of China, demand for conventional power engineering services will continue to decline in the domestic market and may further impact the operations of the Company over the next few years. However, with growing overseas demand for energy engineering services and the expected rise in the Company's non-power engineering businesses in the domestic market, we believe earnings growth is likely to be sustained despite an expected decline in domestic power engineering services demand. We expect the CAGR of domestic sales and overseas sales from 2018 to 2021 to be 4.8% and 14.0%, respectively. The contribution of overseas sales, as a percentage of total revenue, is expected to rise to 21.3% in 2021 from 17.4% in 2018. Further, we expect the Company's consolidated gross margin to gradually recover from 13.3% in 2018 to 13.7%/ 14.3%/ 14.5% from 2019 to 2021, respectively. We adjusted our earnings estimates following the unsatisfactory operating result in 1H2019. Our revised EPS estimates from FY19 to FY21 are RMB 0.147, RMB 0.185 and RMB 0.197, respectively.

Figure-3: Historical New Orders



Source: the Company, Guotai Junan International.

Figure-4: Historical Orders Backlog



Source: the Company, Guotai Junan International.

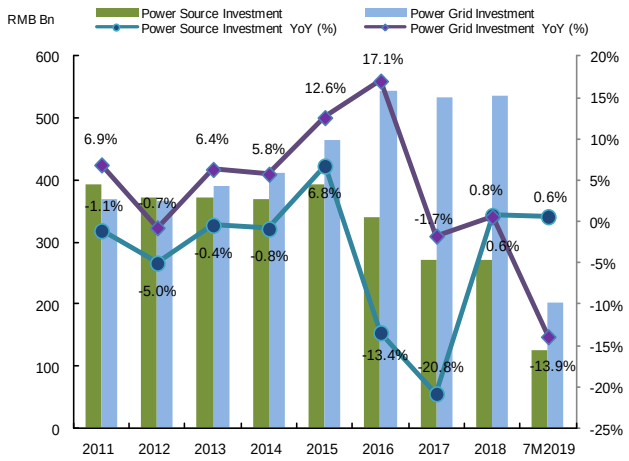
Table-2: Historical New Orders and Orders Backlog Breakdown

(RMB mn)	2012	2013	2014	2015	2016	2017	2018	1H2019
Newly signed orders								
Survey, design and consultancy business	**10,447.2**	**12,249.5**	**13,296.0**	**12,296.0**	**12,127.0**	**10,900.0**	**11,225.0**	**6,008.0**
Fossil-fuel power	3,190.3	3,101.9	4,849.7	4,928.0	3,496.0	2,764.0	2,737.0	1,449.0
Hydro Power	173.6	191.7	118.9	27.0	113.0	638.0	159.0	228.0
Nuclear Power	286.3	501.9	228.5	400.0	461.0	120.0	420.0	97.0
New Energy	1,131.5	851.2	1,012.9	817.0	939.0	1,089.0	1,432.0	637.0
Power Transmission and transformation	4,430.3	5,510.5	5,206.8	5,210.0	5,788.0	5,580.0	5,567.0	2,978.0
Non-power and others	1,235.2	2,092.3	1,879.2	914.0	1,330.0	709.0	910.0	618.0
Construction and contracting business	**188,743.6**	**246,515.8**	**268,345.3**	**322,496.0**	**386,509.0**	**420,739.0**	**439,305.0**	**263,597.0**
Fossil-fuel power	56,701.1	83,807.1	85,689.6	85,306.0	116,465.0	118,914.0	111,420.0	53,161.0
Hydro Power	31,604.4	71,941.6	44,645.7	61,473.0	46,592.0	38,382.0	54,493.0	51,345.0
Nuclear Power	871.4	1,883.9	785.7	5,879.0	3,887.0	3,342.0	624.0	619.0
New Energy	17,042.8	25,435.7	27,349.6	33,901.0	57,088.0	68,667.0	76,397.0	33,856.0
Power Transmission and transformation	12,219.6	8,664.0	16,338.5	10,345.0	12,919.0	14,823.0	13,668.0	12,002.0
Non-power and others	70,304.3	54,783.5	93,536.2	125,592.0	149,558.0	176,611.0	182,703.0	112,615.0
Equipment Manufacturing	**9,492.4**	**11,024.7**	11,793.2	**15,473.0**	**12,311.0**	**12,133.0**	**11,416.0**	**6,584.0**
Total newly signed orders	**208,683.2**	**269,790.0**	**293,434.5**	**350,265.0**	**410,947.0**	**443,772.0**	**461,946.0**	**276,189.0**
Backlog orders								
Survey, design and consultancy	13,821.6	16,085.5	19,146.1	19,221.0	23,521.0	23,815.0	31,161.0	32,153.0
Construction and contracting	305,909.0	434,224.0	570,526.8	704,000.0	868,518.0	1,029,347.0	1,027,161.0	1,171,689.0
Equipment manufacturing	5,549.5	5,884.7	7,023.2	11,290.0	9,982.0	10,521.0	14,114.0	14,363.0
Total backlog orders	**325,280.1**	**456,194.2**	**596,696.1**	**734,511.0**	**902,021.0**	**1,063,683.0**	**1,072,436.0**	**1,218,205.0**

Source: the Company, Guotai Junan International.

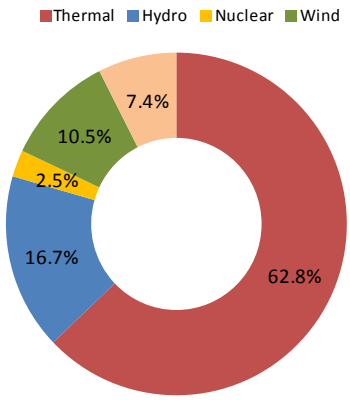
We maintain the "Accumulate" rating but trim the TP to HK$1.00. We believe that the Company will remain as the biggest beneficiary within the power engineering space under the Belt & Road national strategy and continue to leverage its resources and expertise to penetrate into more overseas markets under the support of the central government. Moreover, the Company is also set to benefit from the accelerated investment in renewable energies in China over the next few years, particularly in the field of wind, solar, hydro and nuclear power. Considering the Company's more than RMB1 trillion in orders backlog, we think the fundamentals of the Company remain intact, with continued future growth guaranteed. We believe that the Company will benefit amid growing trade tension between China and the United States, which is set to unlock more infrastructure investment in the domestic market in order to keep domestic economy expanding. We maintain the "Accumulate" investment rating but trim our TP to HK$1.00. Our new TP corresponds to 6.2x/ 5.0x/ 4.6x FY19-FY21 PER or 0.5x/ 0.5x/ 0.5x FY19-FY21 PBR.

Figure-5: Historical Power Sector Investment in China



Source: NEA, CEC, Guotai Junan International.

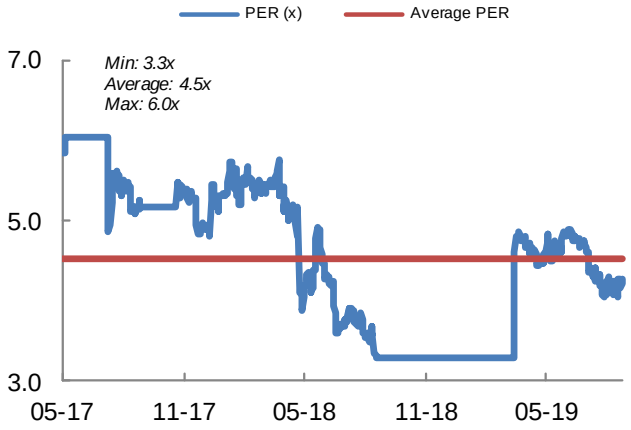
Figure-6: Power Structure of China, July 2019



Note:
Nationwide cumulative installed power capacity (6MW and above) reached 1,847GW as at July 2019.

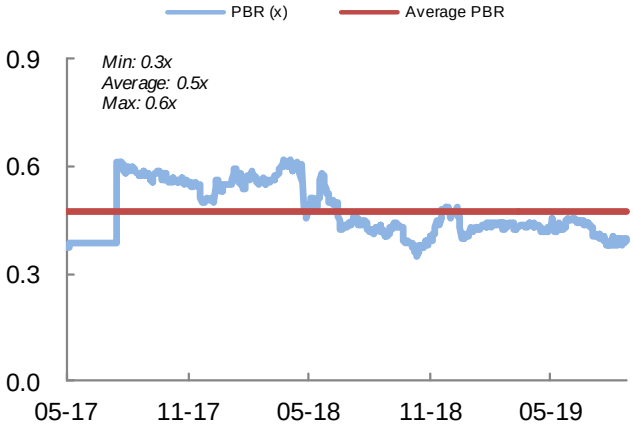
Source: NEA, CEC, Guotai Junan International.

Figure-7: 1-Year Forward PER



Source: Bloomberg, Guotai Junan International.

Figure-8: 1-Year Forward PBR



Source: Bloomberg, Guotai Junan International.

Table-3: Peers Valuation Table

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE (%)	EV / EBITDA (x)	Market Cap
			(in local $)	18A	19F	20F	21F	18A	19F	20F	21F	19F	19F	HKD mn
Chinese Construction & Engineering Peers														
China Communications Const-H	01800.HK	HKD	6.50	4.5	4.5	4.2	3.8	0.5	0.4	0.4	0.4	10.6	8.1	168,902
China Energy Engineering C-H	03996.HK	HKD	0.81	4.5	4.3	4.1	3.6	0.4	0.4	0.4	0.3	10.0	n.a.	24,317
China Machinery Engineerin-H	01829.HK	HKD	3.22	5.2	5.4	5.0	4.5	0.7	0.7	0.6	0.6	13.6	n.a.	13,285
China Railway Construction-H	01186.HK	HKD	9.29	6.2	5.8	5.2	4.6	0.7	0.6	0.6	0.5	11.3	5.0	148,498
China Railway Group Ltd-H	00390.HK	HKD	5.28	5.9	5.9	5.3	4.7	0.7	0.5	0.5	0.5	10.5	5.5	152,924
China Railway Signal & Com-H	03969.HK	HKD	5.10	11.3	10.7	9.3	8.4	1.5	1.2	1.1	1.0	13.1	13.5	102,115
China State Construction Int	03311.HK	HKD	7.67	8.6	6.9	6.0	5.3	1.0	0.9	0.8	0.7	13.3	9.0	38,727
Inner Mongolia Energy Engi-H	01649.HK	HKD	1.19	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3,388
Metallurgical Corp Of Chin-H	01618.HK	HKD	1.86	6.0	4.8	4.2	4.3	0.5	0.4	0.4	0.3	9.5	6.9	64,493
Simple Average				6.5	6.0	5.4	4.9	0.7	0.6	0.6	0.5	11.5	8.0	
Weighted Average				6.5	6.1	5.5	5.0	0.7	0.6	0.6	0.5	11.1	7.6	
Chinese Power Equipment Peers														
China High Speed Transmission	00658 HK	HKD	4.90	32.3	17.8	14.6	16.8	0.7	0.7	0.6	0.6	2.6	n.a.	8,013
Dongfang Electric Corp - H	01072 HK	HKD	4.77	10.9	9.5	8.7	7.8	0.5	0.4	0.4	0.4	5.8	0.7	32,368
Guodian Technology	01296 HK	HKD	0.23	10.5	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	1,413
Harbin Electric	01133 HK	HKD	2.25	47.4	37.5	22.5	15.0	0.2	0.2	0.2	0.2	0.7	n.a.	3,840
Shanghai Electric – H	02727 HK	HKD	2.60	11.0	12.1	11.3	10.8	0.6	0.6	0.6	0.5	5.0	12.5	79,428
Xinjiang Goldwind Sci & Tech	02208 HK	HKD	9.83	9.8	12.2	9.3	8.7	1.3	1.2	1.1	1.0	8.4	13.0	59,906
Simple Average				20.3	17.8	13.3	11.8	0.6	0.6	0.6	0.6	4.5	8.8	
Weighted Average				12.3	12.5	10.6	9.9	0.8	0.8	0.7	0.7	6.0	10.5	
Offshore Power Equipment Peers														
Alstom	ALO FP	EUR	37.56	22.8	12.3	17.8	15.7	2.5	2.1	2.5	2.3	18.2	10.9	72,777
Bharat Heavy Electricals	BHEL IN	INR	51.60	43.4	18.6	13.4	12.9	0.6	0.6	n.a.	n.a.	3.2	9.9	19,721
Doosan Heavy Industries	034020 KS	KRW	6,310.00	n.a.	21.3	10.4	11.3	0.3	0.4	0.4	0.4	4.0	7.7	8,450
General Electric	GE US	USD	9.36	n.a.	15.6	13.5	10.8	2.6	2.7	2.6	1.9	13.8	12.0	639,474
Hyundai Heavy Industries	009540 KS	KRW	122,000.00	n.a.	59.2	34.5	20.5	0.7	0.7	0.7	0.7	1.4	16.4	57,195
Mitsubishi Heavy Industries	7011 JT	JPY	4,376.00	n.a.	14.5	13.5	11.1	1.1	1.0	1.0	0.9	7.2	6.5	107,161
Siemens Ag	SIE GY	EUR	96.97	13.6	14.3	12.9	11.3	1.7	1.7	1.6	1.5	11.5	9.8	711,722
Wartsila Oyj Abp	WRT1V FH	EUR	11.43	17.6	14.5	13.1	12.1	2.8	2.6	2.4	2.3	17.9	9.2	58,375
Simple Average				24.3	21.3	16.2	13.2	1.5	1.5	1.6	1.4	9.7	10.3	
Weighted Average				15.3	16.3	14.1	11.7	2.0	2.0	2.0	1.6	12.1	10.6	

Source: Bloomberg, Guotai Junan International. Prices are as of September 12th 2019.

Financial Statements and Ratios

Income Statement

Year end 31 Dec (RMB)	2017A	2018A	2019F	2020F	2021F
Total Revenue	234,370	224,034	240,949	256,544	270,850
COGS	(206,741)	(194,271)	(207,839)	(219,896)	(231,643)
Gross profit	27,629	29,763	33,110	36,648	39,207
Selling expense	(2,086)	(2,372)	(2,650)	(2,694)	(2,979)
Admin expense	(11,092)	(12,014)	(12,891)	(14,110)	(14,897)
R&D expense	(3,495)	(4,004)	(4,819)	(5,131)	(5,688)
Operating Profit	10,955	11,374	12,750	14,713	15,643
Share of JV / affiliate	512	985	1,083	1,137	1,194
Other income & gains	2,850	2,350	1,752	1,813	1,954
Net finance costs	(2,363)	(3,032)	(3,328)	(3,369)	(3,437)
Profit Before Tax	11,955	11,677	12,257	14,294	15,355
Income Tax	(2,891)	(3,125)	(3,064)	(3,574)	(3,839)
Profit After Tax	9,064	8,552	9,193	10,721	11,516
Non-controlling Interest	(3,803)	(3,981)	(4,771)	(5,165)	(5,592)
Shareholders' Profit / Loss	5,261	4,571	4,422	5,556	5,924
Basic EPS (RMB)	0.176	0.153	0.147	0.185	0.197
DPS (RMB)	0.031	0.031	0.029	0.037	0.039

Balance Sheet

Year end 31 Dec (RMB)	2017A	2018A	2019F	2020F	2021F
PPE	30,781	34,820	34,865	35,078	35,329
Intangibles & goodwill	24,982	36,682	42,384	47,745	53,903
Trade receivables, LT	16,573	23,870	26,504	26,937	28,439
Prepaid lease payments	8,130	9,049	9,509	10,074	10,921
Investment in affiliates	7,567	14,904	15,649	16,901	18,338
Other non-current assets	13,525	12,468	13,086	13,880	14,700
Total Non-current Assets	101,558	131,793	141,997	150,615	161,630
Cash & Cash Equivalents	47,700	47,643	50,847	44,499	46,703
Inventories	11,566	12,457	14,549	15,393	16,215
Trade receivables	89,953	92,147	98,789	105,696	111,590
Prepayments	41,009	43,297	45,780	49,162	51,682
Other current assets	52,102	62,049	63,522	65,256	67,411
Total Current Assets	242,329	257,593	273,487	280,005	293,601
Total Assets	343,887	389,386	415,484	430,621	455,231
ST debt	37,970	51,226	46,245	42,889	49,524
Corporate bond	11,232	4,731	2,037	8,349	8,549
Trade payables	90,140	94,294	99,763	105,550	111,189
Accruals & other payables	55,576	30,311	31,826	33,417	35,088
Others	9,419	45,751	49,034	52,644	55,272
Total Current Liabilities	204,337	226,313	228,905	242,850	259,622
Long-term debts	32,550	40,890	50,890	51,090	51,290
Corporate bond, LT	15,140	15,142	18,335	12,524	12,824
Defined benefits obligation	9,211	9,581	9,868	10,164	10,469
Others	2,794	2,296	2,565	2,871	3,202
Total Non-current Liabilities	59,694	67,909	81,658	76,648	77,785
Total Liabilities	264,031	294,222	310,564	319,498	337,407
Total Shareholders' Equity	57,173	70,033	77,161	80,520	84,088
Minority Interest	22,682	25,131	27,759	30,603	33,736
Total Equity	79,856	95,164	104,920	111,123	117,824
BPS (RMB)	1.631	1.687	1.758	1.869	1.988

Cash Flow Statement

Year end 31 Dec (RMB)	2017A	2018A	2019F	2020F	2021F
Net income	5,261	4,571	4,422	5,556	5,924
D&A	3,048	3,285	3,449	3,622	3,803
Change in working capital	(3,190)	(99)	(2,423)	(1,878)	(1,454)
Minority interest	3,511	3,263	3,770	4,164	4,590
Other operating activities	(2,997)	(5,961)	4,841	6,772	6,031
Cash from Operating Activities	5,633	5,059	14,059	18,235	18,895
Capital expenditure	(4,008)	(6,917)	(3,614)	(3,848)	(4,063)
Addition of intangibles	(6,192)	(12,056)	(6,319)	(6,121)	(6,925)
Proceeds from disposal of PPE	217	235	522	523	526
Other investing activities	(3,270)	(1,621)	(1,063)	(1,046)	(1,352)
Cash from Investing Activities	(13,253)	(20,358)	(10,474)	(10,492)	(11,814)
Debt raised / (repaid)	18,532	15,096	5,519	(2,656)	7,335
Dividends paid (common)	(889)	(919)	(919)	(884)	(1,111)
Dividends paid (minority)	(1,341)	(951)	(1,142)	(1,319)	(1,457)
Proceeds from IPO	(292)	(718)	(1,001)	(1,001)	(1,001)
Issue of perpetual instrument	(1,880)	11,180	5,000	0	0
Other financing activities	(4,633)	(9,406)	(7,838)	(8,230)	(8,642)
Cash from Financing Activities	9,497	14,284	(381)	(14,091)	(4,876)
Net Changes in Cash	1,877	(1,016)	3,204	(6,348)	2,204
Adjustments	(952)	959	0	0	0
Cash at Beg of Year	46,774	47,700	47,643	50,847	44,499
Cash at End of Year	47,700	47,643	50,847	44,499	46,703

Financial Ratios

	2017A	2018A	2019F	2020F	2021F
Gross margin (%)	11.8%	13.3%	13.7%	14.3%	14.5%
EBIT margin (%)	4.7%	5.1%	5.3%	5.7%	5.8%
EBITDA margin (%)	6.0%	6.5%	6.7%	7.1%	7.2%
Net margin (%)	2.2%	2.0%	1.8%	2.2%	2.2%
ROE (%)	11.3%	9.2%	8.6%	10.2%	10.2%
ROA (%)	1.7%	1.2%	1.1%	1.3%	1.3%
EV / EBITDA (x)	6.4	7.1	6.7	6.3	6.4
Net gearing (%)	92.0	113.0	113.4	112.9	114.9
Inventory turnover (day)	18.6	22.6	25.6	25.6	25.6
AR turnover (day)	130.3	148.3	149.7	150.4	150.4
AP turnover (day)	145.2	173.3	175.2	175.2	175.2
Quick ratio (x)	0.7	0.6	0.7	0.6	0.6
Current ratio (x)	1.2	1.1	1.2	1.2	1.1

Source: the Company, Guotai Junan International.

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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