

# Singapore Company Guide

# Yangzijiang Shipbuilding

Version 18 | Bloomberg: YZJSGD SP | Reuters: YAZG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Aug 2019

## BUY

Last Traded Price ( 6 Aug 2019): S\$1.37 (STI : 3,170.47)

Price Target 12-mth: S\$1.82 (33% upside)

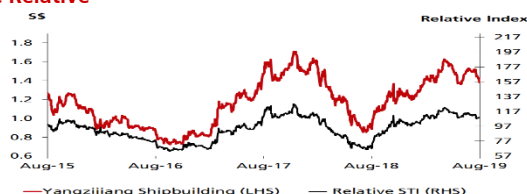
### Analyst

Pei Hwa HO +65 6682 3714 peihwa@db.com

### What's New

- 2Q19 lifted by reversal of provision; 1H19 net profit slightly ahead, making up 53% of our FY19 estimate
- Expect order win momentum to pick up strongly in 2H; maintain US\$1.5-2bn order win target
- Beneficiary of stronger USD; successful venture into LNG carrier market a crucial catalyst
- Reiterate BUY; TP unchanged at S\$1.82

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2017A	2018A	2019F	2020F
Revenue	19,206	23,238	23,597	23,664
EBITDA	3,655	5,046	4,462	4,781
Pre-tax Profit	3,487	4,565	4,321	4,444
Net Profit	2,931	3,614	3,349	3,383
Net Pft (Pre Ex.)	2,642	3,614	3,101	3,383
Net Pft Gth (Pre-ex) (%)	15.7	36.8	(14.2)	9.1
EPS (S cts)	14.8	17.9	16.7	16.8
EPS Pre Ex. (S cts)	13.4	17.9	15.4	16.8
EPS Gth Pre Ex (%)	14	34	(14)	9
Diluted EPS (S cts)	14.8	17.9	16.7	16.8
Net DPS (S cts)	4.37	4.86	4.86	4.86
BV Per Share (S cts)	128	144	156	168
PE (X)	9.2	7.6	8.2	8.1
PE Pre Ex. (X)	10.2	7.6	8.9	8.1
P/Cash Flow (X)	17.1	21.1	12.6	8.5
EV/EBITDA (X)	4.7	2.7	2.9	2.4
Net Div Yield (%)	3.2	3.5	3.5	3.5
P/Book Value (X)	1.1	1.0	0.9	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.1	13.2	11.1	10.4
Earnings Rev (%):			0	0
Consensus EPS (S cts):			15.8	16.1
Other Broker Recs:		B: 5	S: 2	H: 4

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

## Order wins trending up

**Reiterate BUY; TP S\$1.82.** Yangzijiang's valuation appears more compelling after recent pullback alongside broad market weakness. It is now trading at an undemanding 0.9x P/BV, at a c.10% discount to global peers despite its more attractive 11% ROE, 3.6% yield and solid balance sheet with 95 Scts net cash per share. The expected stellar earnings in coming quarters, buoyed by strengthened USD, and robust order flow should catalyse the stock price.

**One of the world's best-managed and profitable shipyards.** Core shipbuilding revenue ahead is backed by its healthy order backlog of US\$3.1bn (~1.5x revenue coverage) as at end-Jun 2019. Better returns from the investment segment provides upside to its recurring income stream. As the largest and most cost-efficient private shipbuilder in China, Yangzijiang is well positioned to ride the sector consolidation and shipbuilding recovery. The company's strategy to move up into the LNG/LPG vessel segment strengthens its longer-term prospects.

**Where we differ:** We believe the critical catalysts are Yangzijiang's successful strategic positioning to expand into the LNG carrier and tanker markets and overall shipping and shipbuilding recovery leading to margin improvements.

### Valuation:

Our target price of S\$1.82 is based on sum-of-parts, pegged to 9x FY19F PE shipbuilding earnings, 1x P/BV for bulk carriers and 1x P/BV for investments. This translates into 1.1x P/BV, which is in line with 0.5SD below its 10-year mean.

### Key Risks to Our View:

**USD depreciation and hike in steel cost.** Revenue is denominated mainly in USD, and only half is naturally hedged. If the net exposure is unhedged, every 1% USD depreciation could lead to a 2% decline in earnings. Every 1% rise in steel costs, which accounts for about 20% of COGS, could result in a 0.8% drop in earnings.

### At A Glance

Issued Capital (m shrs)	3,946
Mkt. Cap (S\$m/US\$m)	5,406 / 3,904
Major Shareholders (%)	
Yangzi International	25.4
Lido Points Investments	10.0
Hongkong Hengyuan Investment Ltd	7.7
Free Float (%)	56.9
3m Avg. Daily Val (US\$m)	21.4

ICB Industry : Industrials / Industrial Engineering

Bloomberg ESG disclosure score (2017) <sup>^</sup>	23.1
- Environmental / Social / Governance	14.0 / 19.3 / 48.2

[^ refer to back page for more information](#)



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## WHAT'S NEW

## 2Q19 lifted by reversal of provision

## Results review

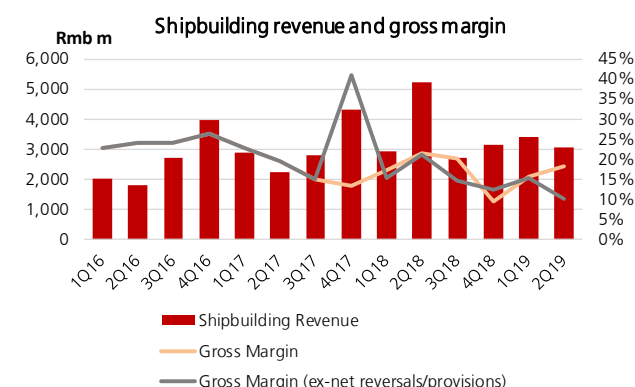
**2Q19 headline profit stronger than expected.** Yangzijiang's headline PATMI grew 14% q-o-q to Rmb936m in 2Q19, ahead of market expectations of ~Rmb800m. This brings 1H19 PATMI to Rmb1,760m, making up ~53% of our full-year estimate, slightly above. We maintain our forecasts for now though there seems to be upside risks to our earnings in view of the strengthening USD and potential reversals of provisions.

**Aided by reversal of provision for expected losses.** The outperformance in 2Q19 came largely from the reversals of provision for expected losses amounting to Rmb254m and forex gains of Rmb91m. In addition, the group also posted subsidy income of Rmb140m. These were partially offset by impairment losses on debt investment of ~Rmb93m, normalised investment return to ~11% (from 13-14% the past two quarters) and moderated shipbuilding margins.

Adjusting for the effect of reversals/provisions for expected losses, **core shipbuilding margin moderated to 10.1%** (adjusted for net reversal of Rmb254m) vs 15.2% in 1Q19 (adjusted for net reversal of Rmb16.8m), and 12.5% in 4Q18 (adjusted for net provision of Rmb100m). We believe this was due to the lack of delivery of high-value vessels during the quarter, which typically recognise higher dollar margins upon delivery.

As of end June-2019, provision for onerous contract had reduced to Rmb829m, from Rmb1,082m a quarter ago, of which ~70% could be written back in 2H19 and the remainder in 1H20. The warranty provisions increased marginally to Rmb346m, from Rmb331m a quarter ago.

## Core shipbuilding revenue and gross margin trend



**Secured two new orders worth c.US\$93m in 2Q19,** comprising two 83.5k dwt. This brought order wins to US\$209m in 1H19, making up only 10-14% of its full-year order win target.

Overall newbuilding enquiries have been slow YTD as shipowners continue to adopt a wait-and-see approach amidst economic uncertainties and ahead of IMO 2020 implementation.

**Order win momentum is picking up strongly.** Management maintains their order win target of US\$1.5-2.0bn. A strong uptick in enquiries has been received and quite a handful of them have progressed to advanced stages of negotiation and could be concluded in 2H19. These include high-value mega vessels such as 13.9k / 23k TEU containerships and 210k dwt / 326k dwt bulk carriers which newbuild prices range from US\$50-150m each. Management has also observed recent trend towards dual-fuel vessels, which cost 15-20% higher than conventional vessels.

We believe the eventual implementation of IMO2020 next year shall kick-start the vessel replacement cycle especially the small- to mid-sized vessels next year.

**Orderbook stood at US\$3.1bn,** declining from US\$3.5bn a quarter ago given the higher orderbook drawdown of ~US\$500m vs contract win of US\$93m during the quarter. Revenue coverage dwindled to c. 1.5 years. Yangzijiang is ranked No.1 in China and No.5 in the world based on outstanding order book.

**Solid balance sheet.** Including debt investments, Yangzijiang is in net cash, equivalent to 95 Scts per share or 62% of its NTA.

## Venture into LNG terminal another strategic move into LNG space

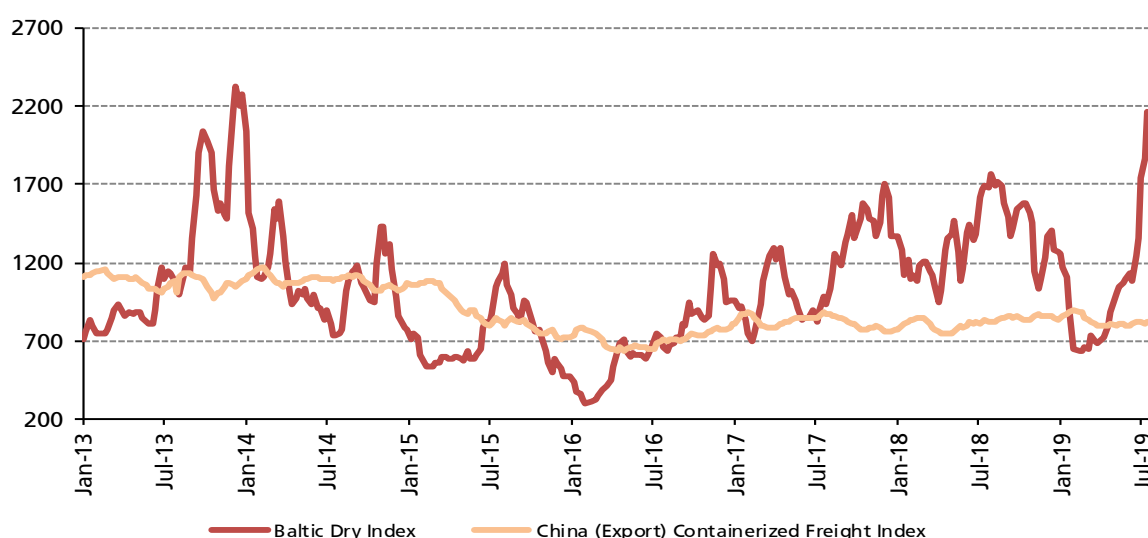
**Acquisition of Odfjell terminal.** On 16 July, Yangzijiang announced the acquisition of a 55% stake in Odfjell Terminal (Jiangyin) (OTJ) from Norwegian tanker shipping company Odfjell for US\$46.2m (~S\$62.9m), funded by internal resources. The remaining 45% stake is held by Jiangsu Garson Gas.

## Yangzijiang Shipbuilding

The acquisition is in line with Yangzijiang's strategy to move into the clean energy space. Capacity for LNG terminal is scarce and demand remains fast growing as China's natural gas consumption is expanding at a double-digit rate. Furthermore, LNG is expected to experience faster growth than piped gas. This will also pave the way for Yangzijiang to establish a network with LNG operators for newbuilding orders for LNG carriers. We understand that Yangzijiang is in the midst of applying for a licence to operate LNG terminals.

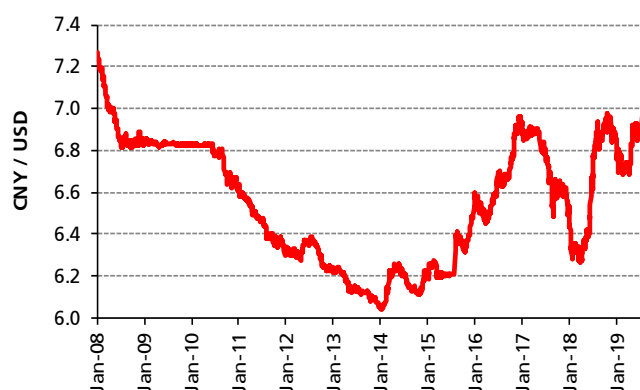
**JV yard with Japanese partner Mitsui has commenced operations.** The JV yard, named Yamic, is currently construction six units of 82k dwt bulk carriers for the Japanese market. Partner Mitsui has transferred nine Japanese yard managers to the JV yard. The main goal of Yamic is to build LNG carriers, to tap the booming LNG demand. Based on the current development, any meaningful orders will only materialise in 1H20, at the earliest.

### Baltic Dry Index has spiked up in recent months

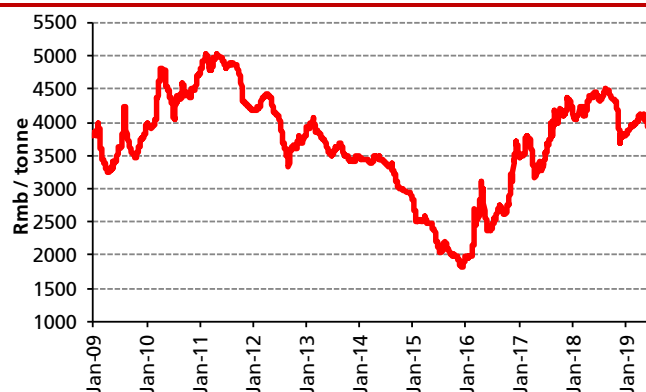


Source of all data: Bloomberg Finance L.P.

### USD has strengthened against CNY which is positive for YZJ



### Steel cost remains at manageable level



Source of all data: Bloomberg Finance L.P.

## Quarterly / Interim Income Statement (RMBm)

FY Dec	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	7,964	6,291	7,033	(11.7)	11.8
Cost of Goods Sold	(6,402)	(5,125)	(5,834)	(8.9)	13.8
<b>Gross Profit</b>	<b>1,562</b>	<b>1,166</b>	<b>1,199</b>	<b>(23.2)</b>	<b>2.8</b>
Other Oper. (Exp)/Inc	(204)	(198)	74.7	(136.5)	(137.8)
<b>Operating Profit</b>	<b>1,357</b>	<b>969</b>	<b>1,273</b>	<b>(6.2)</b>	<b>31.5</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	14.3	73.1	(22.7)	nm	(131.1)
Net Interest (Exp)/Inc	4.92	23.7	23.5	377.3	(0.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Pre-tax Profit</b>	<b>1,377</b>	<b>1,065</b>	<b>1,274</b>	<b>(7.4)</b>	<b>19.6</b>
Tax	(241)	(224)	(298)	23.8	32.9
Minority Interest	(141)	(16.9)	(39.4)	72.0	133.1
<b>Net Profit</b>	<b>995</b>	<b>824</b>	<b>936</b>	<b>(5.9)</b>	<b>13.6</b>
Net profit bef Except.	995	824	936	(5.9)	13.6
EBITDA	1,521	1,186	1,393	(8.4)	17.5
<b>Margins (%)</b>					
Gross Margins	19.6	18.5	17.0		
Opg Profit Margins	17.0	15.4	18.1		
Net Profit Margins	12.5	13.1	13.3		

Source of all data: Company, DBS Bank

## SOTP valuation

Components	% stake	FY19 PATMI (S\$ m)	Est. market value (S\$ m)	Value per share (S\$)	Basis	Remark
Shipbuilding	100%	361	3,252	0.82	9x FY18 PE	0.5SD above 10-year mean (8x)
Shipping & related	100%	15	160	0.04	1x P/Bv	Book value of the 10 vessels marked down by 50%.
Investment	100%	244	3,206	0.81	1.0x P/Bv	25% discount to SG banks' mean of 1.3x
		620	6,618	1.68		
Add: Net Cash			557	0.14		
<b>Target price (S\$)</b>				<b>1.82</b>		
Share capital (m shares)				3,945.8		
Implied FY19 P/B				1.1		Implied 0.5SD below 10-year mean (1.4x)
Implied FY19 PE				10.7		Implied 1SD above 10-year mean (8x)

Source of all data: Company, DBS Bank

## Yangzijiang Shipbuilding

## Peer comparisons

Company	Last Px (LC)	Market cap (US\$m)	P/E FY19F	P/E FY20F	P/B Current	ROE (%) FY19F	ROE (%) FY20F	Net D/E Current	Div Yld (%) Current
<b>Singapore</b>									
Keppel Corp	6.01	7,906	12	10.6	1.0	6.5%	6.6%	0.5	3.8%
Sembcorp Industries	2.29	2,963	10	9.1	0.7	6.0%	6.5%	1.1	1.7%
Sembcorp Marine	1.31	1,981	NM	100.8	1.2	-1.3%	1.5%	1.4	NM
<b>Yangzijiang</b>	1.37	3,913	9	8.5	0.9	10.8%	10.1%	CASH	3.6%
<b>China</b>									
China Shipbuilding Industry (CSIC)	5.7	18,542	106	89.1	1.5	1.2%	1.5%	CASH	0.2%
Shanghai Zhenhua Heavy	3.55	2,356	31	23.7	1.2	3.6%	4.1%	2.0	1.4%
China CSSC	22.98	4,503	62	50.0	2.1	3.5%	4.1%	CASH	0.5%
<b>Korea</b>									
Hyundai Heavy Industries	99,200	5,785	66	34.7	0.6	1.1%	1.7%	CASH	NM
Samsung Heavy Industries	6,680	3,468	NM	54.6	0.6	-4.2%	1.1%	0.2	NM
Daewoo Shipbuilding	25,450	2,248	9	10.4	0.7	7.6%	5.8%	0.7	NM
<b>Average:</b>			28.4	33.6	1.0	3.7%	4.6%	1.0	
<b>Median:</b>			12.1	23.7	0.9	3.6%	4.1%	0.9	

Source of all data: Company, DBS Bank

## CRITICAL DATA POINTS TO WATCH

## Critical Factors

**Healthy order backlog offers revenue visibility.** Orderbook stood at US\$3.1bn as at end-June 2019, implying a healthy book-to-bill ratio of c.2x, providing revenue visibility for the next two years. Yangzijiang is now ranked no.1 in China and no.5 in the world by orderbook. Contract wins declined ~30% to US\$1.5bn in 2018. Management targets to secure new orders of ~US\$1.5-2bn this year to maintain revenue coverage of c.2x, a healthy level for orderbook replenishment and optimisation of operational activities. YTD wins stood at US\$209m.

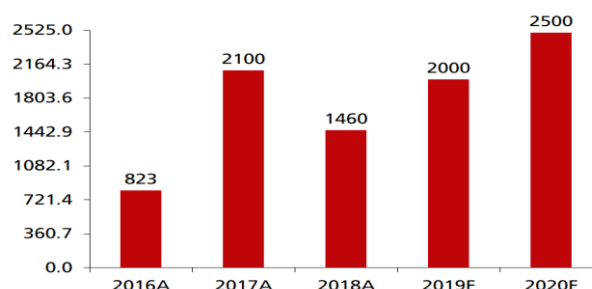
**Shipping recovery.** Global orderbook-to-fleet ratio has dropped to ~10% from the peak of ~55% in 2008, implying new supply in the low- to mid-single-digits in these two years. Newbuild activities are expected to pick up as shipowners who held back ordering pending clarity on implementation of IMO2020 proceed with their order placements as we move closer to 2020.

**Recognition of deferred income cushions downturn.** Post financial crisis, Yangzijiang has adopted more prudent provision and accounting policies. For instance, it extended the warranty provision (2% of sales in 2012-2015; 1% from 2016 onwards) from one year to three. The reversal of the warranty provision will be captured under COGS and would boost margins. We also expect the recognition of the remaining Rmb158m exceptional gains for the old yard's relocation fee in FY19 (in the form of government subsidies, Rmb557m out of total of Rmb715m was recognised in FY15). The remaining ~Rmb300m of forfeited deposits from terminated vessels would also be recognised in 2019-2020. In addition, given improving secondhand prices, Yangzijiang could potentially dispose the 13 terminated newbuild vessels at a gain. It recorded Rmb61m profit for the disposal of two bulk carriers in 3Q17. The reversal of foreseeable losses totalling Rmb826m in 2H19-1H20 would also bolster shipbuilding margins by 4%.

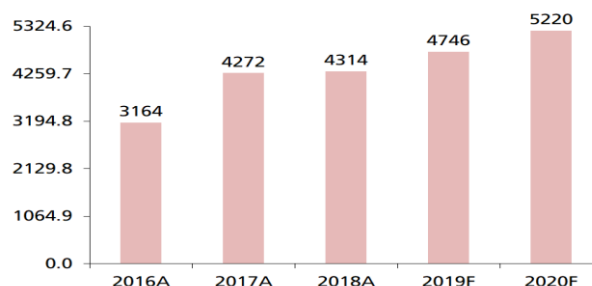
**Exploring M&A opportunities for long-term growth.** The Chinese shipbuilding industry has shrunk from over 3,000 yards to less than 100 currently. Further consolidation is underway, probably ending with 20-30 survivors, and Yangzijiang will surely make the list. It has emerged stronger in the past few cycles with Executive Chairman, Mr Ren Yuanlin at the helm. Mr Ren, ranked 82 in Lloyd's List of Top 100 most influential people in shipping, is highly respected for his great foresight, strategic sense, and cost and cash management.

**Production efficiency and cost control.** Yangzijiang enjoys 5-ppt higher margins vis-à-vis peers. This is achievable through its premium newbuild prices and better payment terms among Chinese yards, as well as production efficiency and cost control.

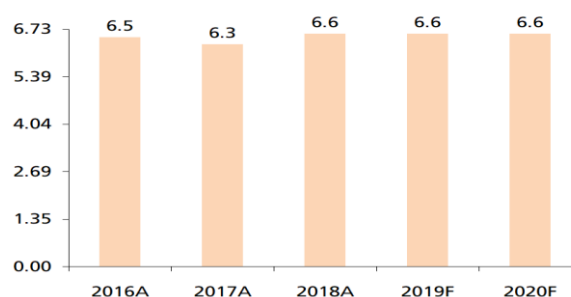
Order wins (US\$ m)



Steel cost (RMB/t)



RMB / USD



Source: Company, DBS Bank

## Yangzijiang Shipbuilding

### Balance Sheet:

**Sound balance sheet.** As at June 2019, including financial assets at amortised cost, Yangzijiang was in net cash, equivalent to 95 Scts per share or ~62% of its NTA. It is expected to churn positive free cash flow in the light of its minimal capex requirements.

### Share Price Drivers:

**Contract win** is traditionally the leading indicator of shipbuilders' share price performance and earnings. In particular, Yangzijiang is gaining a good foothold in the "high-specs" vessel space, which has long been dominated by its Korean peers. The successful penetration into **LNG carrier** space is a key catalyst in our view.

### Key Risks:

**Prolonged industry downturn.** The ongoing US-China trade dispute could affect economic growth and derail recovery of shipping market of bulk carriers and containerships. In addition, yards competition remains keen. The prolonged shipbuilding downturn could affect Yangzijiang's order wins and share price.

**USD depreciation and hike in steel cost.** Revenue is denominated mainly in USD, and only half is naturally hedged. Assuming the net exposure is unhedged, every 1% USD depreciation could lead to a 2% earnings decline. Every 1% rise in steel costs, which account for about 20% of COGS, could result in a 0.8% drop to the bottom line.

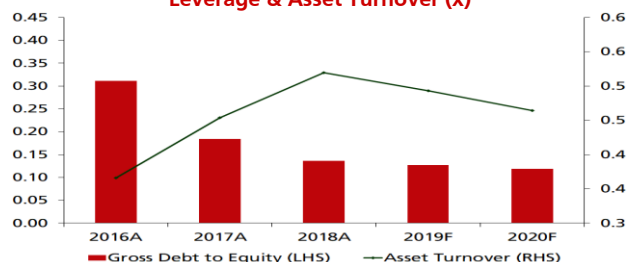
### Environment, Social, Governance:

Yangzijiang's Bloomberg ESG Disclosure Score had improved from 2015-2017. The group has built up R&D capabilities in fuel-efficient and lower-emission green vessels, in support of the cleaner energy trend. Believing in returning to society, over the years, the group and Mr. Ren Yuanlin, the Executive Chairman, have given hundreds of millions of RMB to society for various purposes.

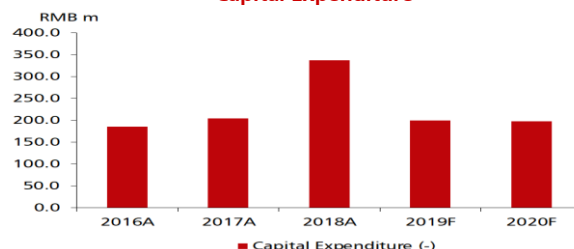
### Company Background

Yangzijiang is one of the largest, most efficient and most profitable shipbuilders in China. It has moved up the value chain to produce mega containerships and very large bulk carriers, as well as LNG vessels.

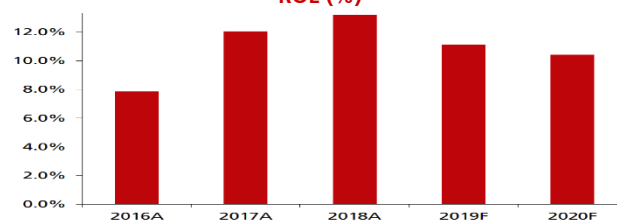
Leverage & Asset Turnover (x)



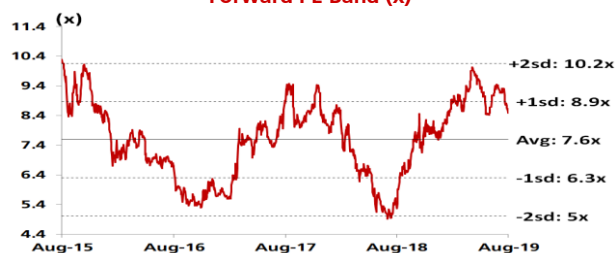
Capital Expenditure



ROE (%)



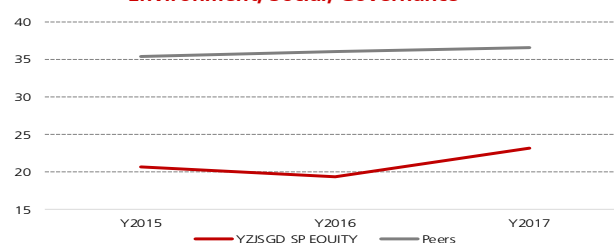
Forward PE Band (x)



PB Band (x)



Environment, Social, Governance



Source: Company, DBS Bank



**Key Assumptions**

FY Dec	2016A	2017A	2018A	2019F	2020F
Order wins (US\$ m)	823	2,100	1,460	2,000	2,500
Steel cost (RMB/t)	3,164	4,272	4,314	4,746	5,220
RMB / USD	6.50	6.30	6.60	6.60	6.60

**Segmental Breakdown**

FY Dec	2016A	2017A	2018A	2019F	2020F
<b>Revenues (RMBm)</b>					
Shipbuilding	10,515	12,301	14,023	14,541	14,613
Investment	1,067	1,111	1,612	1,656	1,651
Others	3,507	5,794	7,603	7,400	7,400
<b>Total</b>	<b>15,089</b>	<b>19,206</b>	<b>23,238</b>	<b>23,597</b>	<b>23,664</b>
<b>Gross profit (RMBm)</b>					
Shipbuilding	2,594	2,100	2,471	2,232	2,281
Investment	1,002	1,056	1,534	1,573	1,568
Others	40.9	156	317	505	505
<b>Total</b>	<b>3,637</b>	<b>3,312</b>	<b>4,323</b>	<b>4,310</b>	<b>4,355</b>
<b>Gross profit Margins (%)</b>					
Shipbuilding	24.7	17.1	17.6	15.3	15.6
Investment	93.9	95.1	95.2	95.0	95.0
Others	1.2	2.7	4.2	6.8	6.8
<b>Total</b>	<b>24.1</b>	<b>17.2</b>	<b>18.6</b>	<b>18.3</b>	<b>18.4</b>

**Income Statement (RMBm)**

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenue	15,089	19,206	23,238	23,597	23,664
Cost of Goods Sold	(11,453)	(15,894)	(18,915)	(19,287)	(19,310)
<b>Gross Profit</b>	<b>3,637</b>	<b>3,312</b>	<b>4,323</b>	<b>4,310</b>	<b>4,355</b>
Other Opng (Exp)/Inc	3.56	(179)	276	(308)	(9.9)
<b>Operating Profit</b>	<b>3,640</b>	<b>3,133</b>	<b>4,599</b>	<b>4,002</b>	<b>4,345</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(59.7)	40.1	(85.8)	0.0	0.0
Net Interest (Exp)/Inc	(276)	25.2	51.7	70.6	98.6
Exceptional Gain/(Loss)	(531)	290	0.0	248	0.0
<b>Pre-tax Profit</b>	<b>2,773</b>	<b>3,487</b>	<b>4,565</b>	<b>4,321</b>	<b>4,444</b>
Tax	(927)	(395)	(941)	(815)	(889)
Minority Interest	(93.5)	(160)	(9.8)	(157)	(171)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>1,752</b>	<b>2,931</b>	<b>3,614</b>	<b>3,349</b>	<b>3,383</b>
Net Profit before Except.	2,284	2,642	3,614	3,101	3,383
EBITDA	4,122	3,655	5,046	4,462	4,781
<b>Growth</b>					
Revenue Gth (%)	(5.8)	27.3	21.0	1.5	0.3
EBITDA Gth (%)	17.6	(11.3)	38.0	(11.6)	7.2
Opg Profit Gth (%)	22.9	(13.9)	46.8	(13.0)	8.6
Net Profit Gth (Pre-ex) (%)	20.0	15.7	36.8	(14.2)	9.1
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	24.1	17.2	18.6	18.3	18.4
Opg Profit Margin (%)	24.1	16.3	19.8	17.0	18.4
Net Profit Margin (%)	11.6	15.3	15.6	14.2	14.3
ROAE (%)	7.9	12.1	13.2	11.1	10.4
ROA (%)	4.2	6.9	8.1	7.0	6.6
ROCE (%)	7.5	8.6	10.9	9.0	9.0
Div Payout Ratio (%)	43.3	30.2	27.0	29.2	28.9
Net Interest Cover (x)	13.2	NM	NM	NM	NM

Source: Company, DBS Bank



## Quarterly / Interim Income Statement (RMBm)

FY Dec	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019
Revenue	7,964	5,367	4,945	6,291	7,033
Cost of Goods Sold	(6,402)	(4,365)	(4,045)	(5,125)	(5,834)
<b>Gross Profit</b>	<b>1,562</b>	<b>1,002</b>	<b>900</b>	<b>1,166</b>	<b>1,199</b>
Other Oper. (Exp)/Inc	(204)	(108)	643	(198)	74.7
<b>Operating Profit</b>	<b>1,357</b>	<b>894</b>	<b>1,543</b>	<b>969</b>	<b>1,273</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	14.3	(1.9)	(92.7)	73.1	(22.7)
Net Interest (Exp)/Inc	4.92	30.1	1.97	23.7	23.5
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>1,377</b>	<b>922</b>	<b>1,453</b>	<b>1,065</b>	<b>1,274</b>
Tax	(241)	(134)	(384)	(224)	(298)
Minority Interest	(141)	(9.8)	177	(16.9)	(39.4)
<b>Net Profit</b>	<b>995</b>	<b>779</b>	<b>1,245</b>	<b>824</b>	<b>936</b>
Net profit bef Except.	995	779	1,245	824	936
EBITDA	1,521	1,049	1,532	1,186	1,393

## Growth

Revenue Gth (%)	60.4	(32.6)	(7.9)	27.2	11.8
EBITDA Gth (%)	61.3	(31.0)	46.0	(22.6)	17.5
Opg Profit Gth (%)	68.7	(34.2)	72.6	(37.2)	31.5
Net Profit Gth (Pre-ex) (%)	67.2	(21.7)	59.9	(33.8)	13.6

## Margins

Gross Margins (%)	19.6	18.7	18.2	18.5	17.0
Opg Profit Margins (%)	17.0	16.7	31.2	15.4	18.1
Net Profit Margins (%)	12.5	14.5	25.2	13.1	13.3

## Balance Sheet (RMBm)

FY Dec	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	5,477	4,821	5,163	4,902	4,664
Invts in Associates & JVs	887	1,395	1,454	1,454	1,454
Other LT Assets	8,668	7,704	7,163	7,571	8,019
Cash & ST Invts	14,856	15,574	18,787	19,423	21,072
Inventory	2,032	2,628	2,606	3,265	3,274
Debtors	5,347	5,290	5,051	6,555	6,761
Other Current Assets	3,966	5,960	5,862	6,448	7,093
<b>Total Assets</b>	<b>41,234</b>	<b>43,373</b>	<b>46,085</b>	<b>49,618</b>	<b>52,337</b>
ST Debt	2,579	2,532	1,149	1,034	931
Creditor	4,906	5,859	4,708	6,210	6,227
Other Current Liab	4,165	5,185	6,686	6,157	6,231
LT Debt	4,645	2,359	2,895	3,040	3,192
Other LT Liabilities	1,739	922	1,068	1,068	1,068
Shareholder's Equity	22,692	25,885	28,880	31,253	33,659
Minority Interests	507	632	701	857	1,029
<b>Total Cap. &amp; Liab.</b>	<b>41,234</b>	<b>43,373</b>	<b>46,085</b>	<b>49,618</b>	<b>52,337</b>
Non-Cash Wkg. Capital	2,274	2,835	2,125	3,901	4,670
Net Cash/(Debt)	7,632	10,684	14,743	15,350	16,950
Debtors Turn (avg days)	139.6	101.1	81.2	89.8	102.7
Creditors Turn (avg days)	166.4	127.5	104.9	105.8	120.3
Inventory Turn (avg days)	61.0	55.2	52.0	56.9	63.2
Asset Turnover (x)	0.4	0.5	0.5	0.5	0.5
Current Ratio (x)	2.2	2.2	2.6	2.7	2.9
Quick Ratio (x)	1.7	1.5	1.9	1.9	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	2.6	(4.2)	8.3	4.9	4.8
Z-Score (X)	2.9	3.0	3.0	2.9	3.0

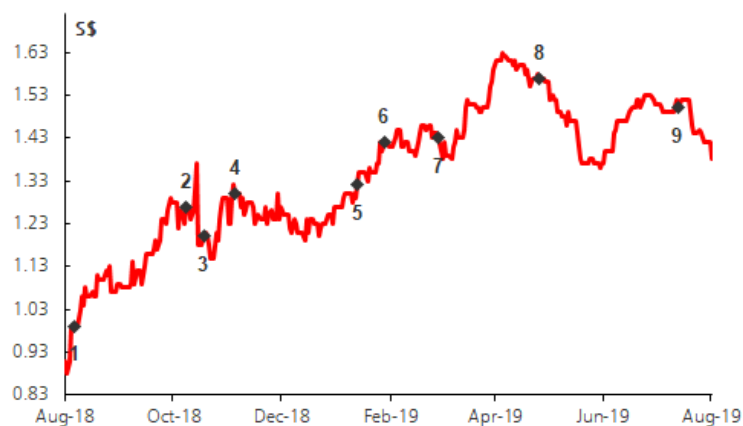
Source: Company, DBS Bank

## Cash Flow Statement (RMBm)

FY Dec	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	2,773	3,487	4,565	4,321	4,444
Dep. & Amort.	542	483	532	459	437
Tax Paid	(670)	(584)	(637)	(1,343)	(815)
Assoc. & JV Inc/(loss)	59.7	(40.1)	85.8	0.0	0.0
Chg in Wkg.Cap.	191	(1,131)	(2,929)	(1,247)	(843)
Other Operating CF	1,181	(633)	(310)	0.0	0.0
<b>Net Operating CF</b>	<b>4,076</b>	<b>1,582</b>	<b>1,307</b>	<b>2,190</b>	<b>3,223</b>
Capital Exp.(net)	(185)	204	(337)	(199)	(198)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	166	(545)	(187)	0.0	0.0
Div from Assoc & JV	341	71.5	184	0.0	0.0
Other Investing CF	(1,428)	(514)	1,185	191	121
<b>Net Investing CF</b>	<b>(1,107)</b>	<b>(783)</b>	<b>845</b>	<b>(7.6)</b>	<b>(77.3)</b>
Div Paid	(818)	(754)	(870)	(977)	(977)
Chg in Gross Debt	(1,058)	(1,943)	(782)	29.8	48.6
Capital Issues	0.0	1,008	0.0	0.0	0.0
Other Financing CF	0.0	0.0	(101)	0.0	0.0
<b>Net Financing CF</b>	<b>(1,876)</b>	<b>(1,690)</b>	<b>(1,753)</b>	<b>(947)</b>	<b>(928)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	1,093	(890)	399	1,236	2,218
Opg CFPS (S cts)	19.9	13.7	21.0	17.1	20.2
Free CFPS (S cts)	19.9	9.05	4.81	9.91	15.1

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	10 Aug 18	0.99	1.82	BUY
2:	12 Oct 18	1.27	1.82	BUY
3:	22 Oct 18	1.20	1.82	BUY
4:	09 Nov 18	1.30	1.82	BUY
5:	17 Jan 19	1.32	1.82	BUY
6:	01 Feb 19	1.42	1.82	BUY
7:	04 Mar 19	1.43	1.82	BUY
8:	30 Apr 19	1.57	1.82	BUY
9:	17 Jul 19	1.50	1.82	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 6 Aug 2019 19:41:19 (SGT)

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**DBS Regional Research Offices**

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**HONG KONG**

**DBS (Hong Kong) Ltd**

Contact: Carol Wu  
13th Floor One Island East,  
18 Westlands Road,  
Quarry Bay, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

**THAILAND**

**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
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**MALAYSIA**

**AllianceDBS Research Sdn Bhd**

Contact: Wong Ming Tek (128540 U)  
19th Floor, Menara Multi-Purpose,  
Capital Square,  
8 Jalan Munshi Abdullah 50100  
Kuala Lumpur, Malaysia.  
Tel.: 603 2604 3333  
Fax: 603 2604 3921  
e-mail: general@alliancedbs.com

**INDONESIA**

**PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: indonesiaresearch@dbs.com

**SINGAPORE**

**DBS Bank Ltd**

Contact: Janice Chua  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
Fax: 65 65353 418  
e-mail: equityresearch@dbs.com  
Company Regn. No. 196800306E