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China Securities International

CHINA SECURITIES(INT'L)RESEARCH

Equity Research l China l Steel

9 October 2017

China Steel Sector

Stay optimistic on margins amid the winter production plan

	Ticker	Rec	Mkt cap (US$b)	Ccy	Price	PT	Up/ dn (%)	PBR (x) 2017E	PBR (x) 2018E	EV/EBITDA (x) 2017E	EV/EBITDA (x) 2018E	ROE (%) 2017E	ND/E (%) 2017E
Angang	347 HK	Buy	7.1	HKD	7.10	8.0	12.7	0.9	0.9	6.9	6.3	8.6	38.1
Magang	323 HK	Buy	5.0	HKD	3.88	4.5	16.0	1.0	0.9	5.5	4.7	13.5	24.1

**closing price dated as of October 6, 2017*

Source: Bloomberg, CSCI Research estimates

- **In spite of the 6-7% correction in the past few weeks (triggered by a rebound in inventory), steel prices are still 6-11% higher than a year ago and the correction should have not changed the industry's improving earnings outlook, in our view.**
- **2017 is the first year for China to include steel in its winter production plans. Based on production plans announced in nine cities, we expect to see a 10% reduction in nationwide daily steel production. Once becoming effective in mid-Nov, the winter production plans may lead to a downtrend in steel inventory.**
- **We maintain positive for both Magang and Angang, with good growth prospects for the coming two years, supporting to trade at above mid-cycle valuations, thus maintain Buy on both though prefer Magang.**

Reaffirming our investment logic amid the latest China steel supply policies. After experiencing a meaningful recovery, we reiterate our view that China's steel sector will continue to undergo structural changes in its demand/supply dynamics, as well as benefit from the accelerating industry consolidation. The capacity closure and clearance of the ground steel strips targets for this year have basically been achieved. Based on industry data, over 85% of the domestic steel plants are profit making at the current steel prices, which is a substantial improvement compared to only 3% of the plants being profitable during mid-2015. Meanwhile, as the major steel producing provinces, such as Hebei, Shandong and Jiangsu, are still behind their de-capacity schedule, with new electric arc furnace capacity projects facing tighter scrutiny, suggests slower new supply this year, we believe the on-going de-capacity policy would drive earnings recovery and balance sheet improvement of industry players.

Hebei province – from cement, paper to steel – strictest ever winter production policy. For the first time this year China has implemented the winter production policy for the domestic steel industry throughout the four winter months. For cement, off-peak production scheme has been implemented in 15 northern provinces, including Hebei; and whereas for paper manufacturing, non-gas based mills in Hebei have been asked to half or suspend production until the end of the year. For steel, nine out of the "2+26" cities have pre-announced detail production plans, which should see the national daily crude steel production reduced by at least 13% when the policy is expected to be in full swing in mid-Nov. In spite of potential risks would emerge as a result of an increase in supply from non-restricted provinces and restricted plants resuming production after the expiry of the policy in mid-March, the overall supply discipline should be under control as production control is expected to remain intact amid the government's determination to improve the air quality. Meanwhile, as we believe the recent rebound in production and inventory was a front-running of the supply reduction policies, we foresee that if the trend reverses course it would lend support for the steel price going forward.

Maintain Buy for Angang and Magang. We prefer Magang over Angang as we foresee more share price catalysts to emerge from Magang's asset optimisation going forward. PT for Magang raised to HKD4.5 (from HKD4.0), and PT for Angang maintained unchanged at HKD8.0.

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More cities revealing winter production plans

We estimate a 13% reduction in national daily crude steel production based on the announced cut by nine cities

For the first time this year China has implemented the winter production policy throughout the four winter months. In the previous years, Shandong and Shanxi had suspended production depending on the weather conditions and air quality conditions at the time. The government has set a clear target to cut average concentrations of PM2.5 in the Beijing-Tianjin-Hebei region by 15% from the level of last year and reduce the annual number of heavy pollution days by 15%. In order to monitor the actual progress of the policy, the provincial governments would release a monthly air quality report on the 5th of each month. Based on the announced winter production plans of nine cities, namely Tianjin, Shijiazhuang, Tangshan, Handan, Changzhi, Jincheng, Zibo, Anyang and Jiaozuo, we estimate the potential daily crude steel production will increase by 13% from the Nov/Dec-16 level.

Figure 1: Potential impact from the China steel industry winter production plan (based on 2016 data)

Province	City	Steel products (mn tons)	Crude equivalent daily (adjusted)	Restricting to 50%	Potential impact on daily output (Nov/Dec-16)
Beijing		1.6			
Tianjin		86.7			
Hebei	Shijiazhuang	14.4			
	Tangshan	118.4			
	Handan	55.3			
	Others	37			
Shanxi	Changzhi	5.0			
	Jincheng	3.5			
	Others	10.488			
Shandong	Zibo	3.8			
	Others	33.365			
Henan	Anyang	18.9			
	Jiaozuo	0.3			
	Others	5.965			
9 cities total		**306.2**	**0.57**	**0.28**	**-13.1%**
"2+26" cities total		394.9	0.73	0.37	-16.8%
National total		1,138.0	2.23		

Source: CSCI Research

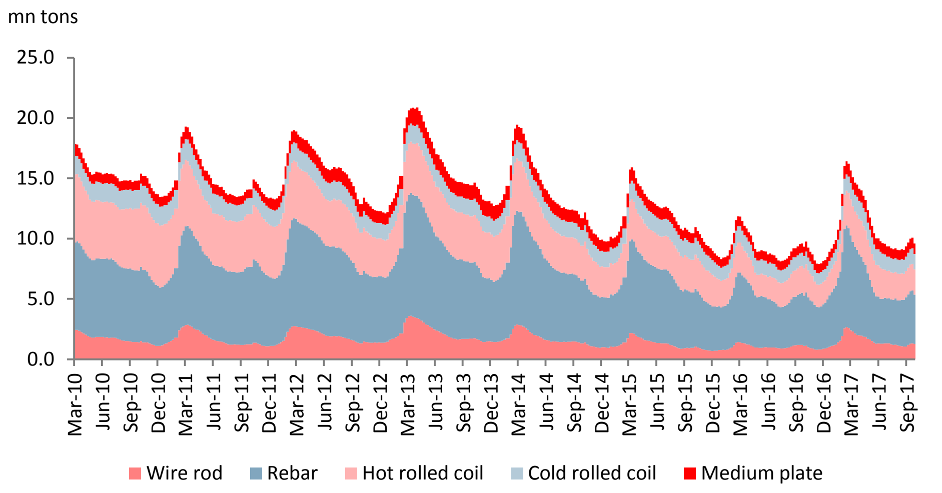
The potential downside and the inherent risks

According to our estimation, under the existing capacity swap program, we estimate there are still about 20mn tons of new capacity pending to be launched by the end of 2020 though the amount may be deemed relatively small. In spite of potential risks would emerge as a result of an increase in supply from non-restricted provinces and restricted plants resuming production after the expiry of the policy in mid-March, the overall supply discipline should be under control as production control is expected to remain intact amid the government's determination to improve the air quality. Meanwhile, as we believe the recent rebound in production and inventory was a front-running of the supply reduction policies, we foresee that if the trend reverses course it would lend support for the steel price going forward.

The industry margin uptrend is likely to continue

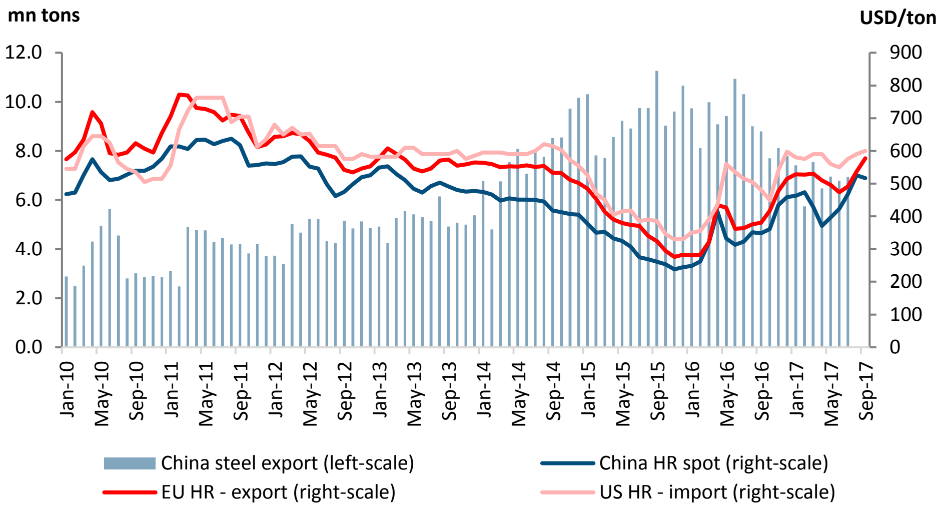
According to the China Iron and Steel Association, in mid-Sep (Sep11-20) this year the average aggregate daily crude steel output of large and medium-sized steel enterprises in China totalled 1.8504mn tons, which was down 0.9% compared to early Sep (Sep.1-10) but it was up 0.1% versus that of late-Aug (Aug.21-31). Port inventory stood at 133.2mn tons at the end of Sep, not far below the 140.3mn tons reached in June and it was also the highest since 2004. According to China's Customs, China's steel net exports were 45.7mn tons in the first eight months of 2017, down 32.6% from the same period of last year. If this pace is maintained for the rest of the year, steel exports will reach around only 65mn tons, well below the 96mn tons recorded in 2016. Looking forward into 2018, on a near-term perspective, there is the potential for the steel product prices to trend up further during the upcoming seasonal strength on restocking.

Figure 2: China steel products inventory remain at historical relatively low level



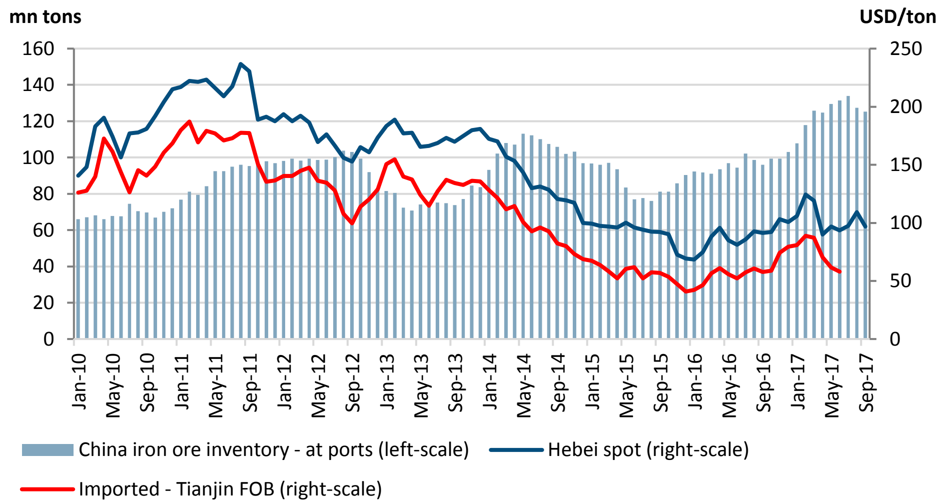
Source: Bloomberg

Figure 3: China steel export and prices



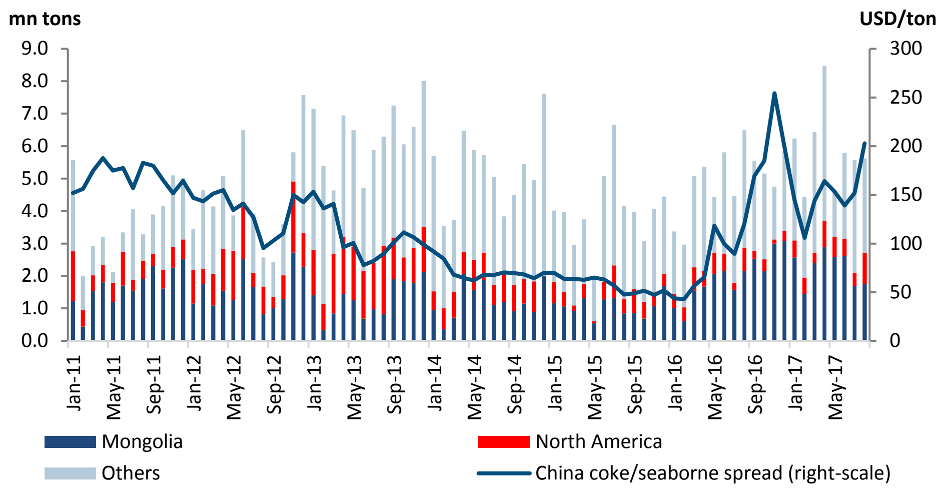
Source: Bloomberg

Figure 4: China iron ore inventory remains at historical relatively high level



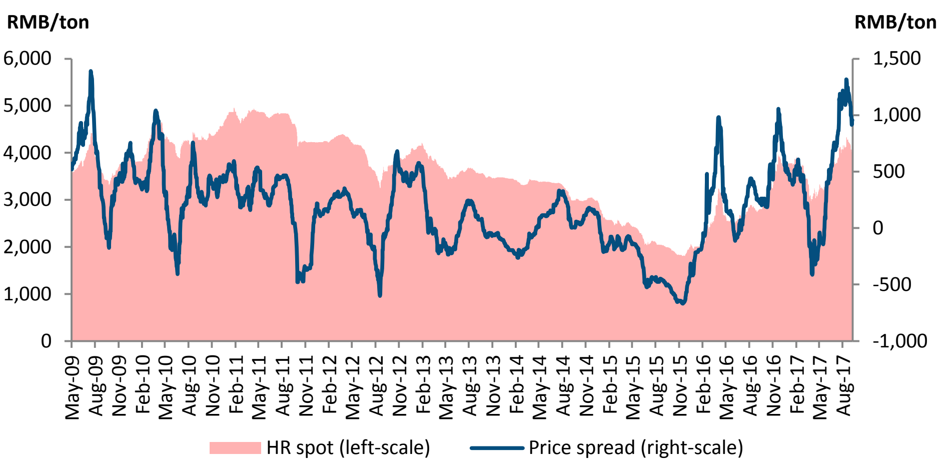
Source: Bloomberg

Figure 5: China coking coal import and price



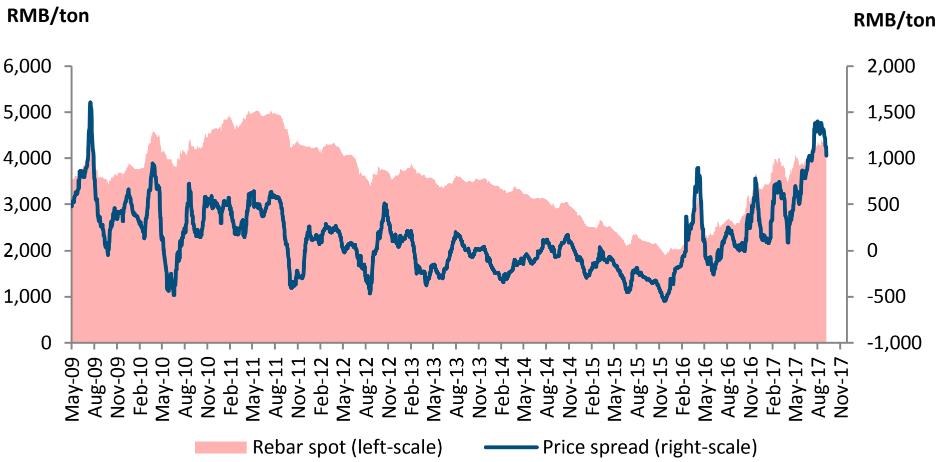
Source: Bloomberg

Figure 6: China HR steel price and spread*



**calculated based on spot prices for the steel product and major materials input*
Source: Bloomberg, CSCI Research

Figure 7: China rebar price and spread*

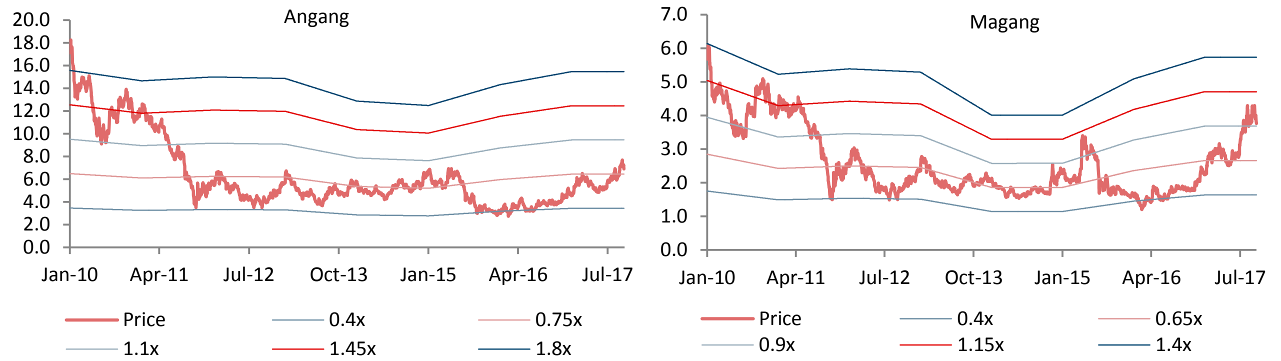


**calculated based on spot prices for the steel product and major materials input*
Source: Bloomberg, CSCI Research

Valuation

We believe the sector players' earnings would remain stable from 2018 onwards, in particularly Magang (323 HK) and Angang (347 HK) are likely to ride on the upcycle. As we view their current valuations to be attractive, we will maintain our Buy rating. Our target prices of HKD4.5 (prior HKD4.0) for Magang and HKD8.0 for Angang are based on 1.2x FY17E PBR and FY1.0 FY17E PBR to our estimated BVPS at RMB3.3 and RMB6.7 respectively, which represent an above mid-cycle range since 2010. We justify our premium valuation for Magang over Angang, as we foresee more share price catalysts to emerge from Magang's asset optimisation going forward, though we prefer Magang over Angang.

Figure 8: 12M forward PBR



Source: Bloomberg, CSCI Research estimates *Source: Bloomberg, CSCI Research estimates*

Figure 9: Peer valuation

			Close	Mkt cap	PER (x)		EPS Growth (%)		PBR (x)		ROE (%)		EV/EBITDA (x)		Yield (%)	Net debt / Equity (%)
Company	Ticker	Ccy	(Local$)	(US$b)	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2017E
Hong Kong																
ANGANG STEEL-H	347 HK	HKD	7.1	7.1	28.4	10.3	165.2	(1.9)	1.0	0.9	8.5	8.0	7.8	7.7	2.0	39.8
MAANSHAN IRON-H	323 HK	HKD	3.9	5.0	22.6	7.5	189.4	(2.5)	1.3	1.1	14.8	13.1	6.3	6.2	1.3	54.7
Average					25.5	8.9	177.3	(2.2)	1.2	1.0	11.6	10.6	7.0	6.9	1.7	47.2
China																
BAOSHAN IRON &-A	600019 CH	CNY	7.4	24.6	15.9	11.6	33.0	11.6	1.1	1.1	9.7	9.8	6.7	6.2	3.9	37.6
ANGANG STEEL-A	000898 CH	CNY	6.6	7.1	31.8	11.6	166.8	-	1.1	1.0	8.5	7.9	8.0	7.8	2.3	41.9
MAANSHAN IRON-A	600808 CH	CNY	4.6	5.0	33.0	11.0	190.3	2.9	1.9	1.5	14.9	13.1	6.2	6.2	1.0	59.0
Average					26.9	11.4	130.0	4.8	1.4	1.2	11.0	10.3	7.0	6.7	2.4	46.2
Global																
ARCELORMITTAL	MT NA	EUR	23.0	27.4	30.2	8.2	268.7	(11.9)	0.9	0.8	9.6	7.9	5.2	5.3	0.9	28.2
NSSMC	5401 JP	JPY	2,654.5	22.3	16.1	25.4	(36.6)	125.3	0.8	0.8	3.4	7.1	11.7	8.2	1.0	69.7
NUCOR CORP	NUE US	USD	56.7	18.1	26.4	15.2	73.9	15.7	2.3	2.1	15.5	15.4	7.4	7.0	2.7	20.1
POSCO	005490 KS	KRW	317,000	24.2	17.6	10.0	72.5	5.1	0.7	0.6	6.2	6.3	5.6	5.6	2.6	33.7
THYSSENKRUPP AG	TKA GR	EUR	23.9	17.4	31.8	23.1	24.3	65.6	5.5	5.4	12.1	31.7	7.9	7.0	0.8	136.0
CHINA STEEL CORP	2002 TT	TWD	24.6	12.7	23.8	22.5	5.8	12.1	1.3	1.2	5.7	6.3	10.4	9.8	3.6	79.3
Average					24.3	17.4	68.1	35.3	1.9	1.8	8.8	12.4	8.0	7.2	1.9	61.2
Grand average					25.2	14.2	104.8	20.2	1.6	1.5	9.9	11.5	7.6	7.0	2.0	54.6

Source: Bloomberg

Equity Research l China l Metals

Beneficiary of supply reform policy and asset optimisation

- **We foresee long term benefit for Magang's energy asset to spinoff listing on HKEx.**
- **We expect winter capacity closure would benefit market supply reduction, offsetting the negative impact from the decelerating investment growth in China. Meanwhile, Magang has continued to diversify its product mix to meet the growing demand for flat products, we believe Magang is capable to tag along with the industry recovery.**
- **Based on the latest steel and materials spot market prices, we have revised up our FY17E/18E net profit estimates by 36.0%/32.8% and raised our PT to HKD4.5 (from HKD4.0) based on 1.2x FY17E PBR. Maintain Buy.**

Unlock value from the listing of Jinma's asset. According to the listing document of Henan Jinma Energy, Maanshan Steel would still have 27% interest in the enlarged issued share capital, given that over the past decade coke coal suppliers have been the single largest customer of Jinma, which is one of the three coke/gas related energy subsidiaries of Magang. We believe the move would drive long-term development.

Beneficiary of the deepening industry-wide steel production reform. For the first time this year China has implemented the winter production policy throughout the four winter months starting in mid-Nov. Nine out of the "2+26" cities have pre-announced detailed production plans, which should see the national daily crude steel production reduced by at least 10% when the policy is in full swing, according to our estimate. In spite of potential risks would emerge as a result of an increase in supply from non-restricted provinces and restricted plants resuming production after the expiry of the policy in mid-March, the overall supply dynamics should remain fundamentally unchanged amid the government's determination to improve the air quality. Meanwhile, as we believe the recent rebound in production volume and inventory levels was a front-running of the supply reduction policies, we foresee that if the trend reverses course it would lend support for the steel price.

Product upgrade and asset optimization boosted long-term outlook. Magang has a solid track record in the development of new products, including gooseneck hot rolled H-beam for special vehicles, galvanised plates for vehicles, undersea pipeline steel and enamel sheet, with total product sales volume reaching 200kt as of 1H17. We believe the company will be able to adjust its product mix towards higher value added products in response to the diversified market dynamics. Meanwhile, we estimate the net gearing ratio would decline to 24.1% by end-2017, below its historical average of 95.3% during 2007 and 2016.

We have raised our PT to HKD4.5 with 1.2x FY17E PBR. In view of Magang's margins heading on an upward trajectory, we have revised up our FY17E/18E net profit estimates by 36.0%/32.8% and raised our price target to HKD4.50, representing 16.0% upside potential. Maintain Buy.

Maanshan Iron & Steel (323 HK)

Buy
(unchanged)

Price Target	**HK$4.5**
(Revision)	(+12.5%)
(upside)	(16.0%)
EPS revision	2017E (+36.0%) 2018E (+32.8%)
Close price	HKD3.88
Market cap.	HKD39,040 mn
Free float	22.5%
52-week range	HKD1.73 – 4.43
3-mth ave. T/O	HKD151.5 mn

Price as of 6 October 2017

Stock rel HSI performance (%)

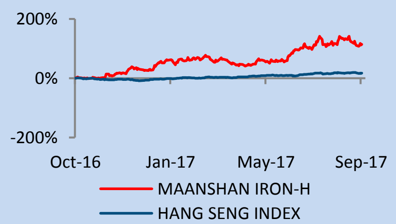


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Figure 10: Magang

Income statement (RMB mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Revenue	45,109	48,275	65,623	66,247	66,247
COGS	(45,690)	(42,990)	(56,394)	(56,406)	(56,406)
Gross profit	**(581)**	**5,286**	**9,228**	**9,841**	**9,841**
Selling expenses	(636)	(695)	(944)	(953)	(953)
General and administrative	(1,539)	(1,780)	(2,420)	(2,443)	(2,443)
Other opex	(1,619)	(881)	(1,198)	(1,209)	(1,209)
Operating profit	**(4,375)**	**1,929**	**4,666**	**5,236**	**5,236**
Net interest expense	(813)	(794)	(762)	(631)	(519)
JVs and associates	461	233	316	319	319
Pretax profit	**(4,727)**	**1,369**	**4,221**	**4,924**	**5,036**
Taxation	(378)	(112)	(1,055)	(1,231)	(1,259)
Minority interests	300	(28)	(70)	(82)	(84)
Net profit	**(4,804)**	**1,229**	**3,096**	**3,611**	**3,693**
Net profit (adjusted)	(4,804)	1,229	3,096	3,611	3,693
EBIT	**(3,613)**	**2,134**	**4,912**	**5,473**	**5,472**
Depreciation & Amortization	(3,380)	(3,326)	(3,711)	(3,642)	(3,581)
EBITDA	**(233)**	**5,461**	**8,623**	**9,116**	**9,052**
Basic EPS (RMB)	(0.62)	0.16	0.40	0.47	0.48
Diluted EPS (RMB)	(0.62)	0.16	0.40	0.47	0.48
DPS (RMB)	-	-	-	-	-

Cash flow statement (RMB mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
EBIT	**(3,613)**	**2,134**	**4,912**	**5,473**	**5,472**
Depreciation & amortisation	3,380	3,326	3,711	3,642	3,581
Net interest	813	794	762	631	519
Taxes paid	(378)	(112)	(1,055)	(1,231)	(1,259)
Changes in working capital	5,325	(1,634)	1,391	(64)	-
Others	338	(310)	(1,453)	(1,180)	(955)
Cash flow from operations	**5,865**	**4,198**	**8,267**	**7,272**	**7,357**
Capex	(2,773)	(2,131)	(3,000)	(3,000)	(3,000)
Acquisitions	(5,478)	(532)	-	-	-
Disposals	4,324	480	-	-	-
Others	306	245	-	-	-
Cash flow from investing	**(3,621)**	**(1,938)**	**(3,000)**	**(3,000)**	**(3,000)**
Dividends	(1,081)	(963)	-	-	-
Issue of shares	-	-	-	-	-
Change in debt	(4,455)	(1,128)	(4,000)	(2,000)	(3,000)
Others	3,981	-	-	-	-
Cash flow from financing	**(1,555)**	**(2,091)**	**(4,000)**	**(2,000)**	**(3,000)**
Change in cash	**689**	**169**	**1,267**	**2,272**	**1,357**
Free cash flow	3,093	2,067	5,267	4,272	4,357

Balance sheet (RMB mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Cash	5,143	5,312	6,579	8,851	10,208
Short term investments	-	-	-	-	-
Accounts receivables	4,689	3,608	5,640	5,693	5,693
Inventory	6,018	10,548	10,862	10,863	10,863
Other current assets	4,310	4,950	5,216	5,227	5,227
Total current assets	**20,160**	**24,418**	**28,297**	**30,634**	**31,992**
PP&E	34,605	35,523	34,812	34,169	33,589
Intangible Assets	1,891	1,822	1,822	1,822	1,822
Total investments	1,159	1,818	1,818	1,818	1,818
Other long term assets	4,639	2,665	2,665	2,665	2,665
Total long term assets	**42,294**	**41,827**	**41,116**	**40,474**	**39,893**
TOTAL ASSETS	**62,454**	**66,246**	**69,413**	**71,108**	**71,885**
Short term debt	6,791	6,943	4,839	3,787	2,209
Accounts payables	6,145	6,669	8,401	8,402	8,402
Other current liabilities	16,795	19,939	22,208	22,209	22,209
Total current liabilities	**29,731**	**33,550**	**35,449**	**34,398**	**32,820**
Long term debt	6,655	5,163	3,267	2,319	897
Deferred tax	1,347	1,464	1,464	1,464	1,464
Bonds payable	3,980	3,988	3,988	3,988	3,988
Other long term liabilities	-	-	-	-	-
Total long term liabilities	**11,982**	**10,615**	**8,719**	**7,770**	**6,348**
TOTAL LIABILITIES	**41,713**	**44,165**	**44,167**	**42,169**	**39,169**
Shareholders' funds	18,456	19,764	22,860	26,471	30,165
Minority Interests	2,286	2,316	2,386	2,468	2,552
TOTAL LIAB AND EQUITY	**62,454**	**66,246**	**69,413**	**71,108**	**71,885**
Net cash / (debt)	(12,283)	(10,782)	(5,514)	(1,243)	3,115

Key ratios

Year end: Dec	2015	2016	2017E	2018E	2019E
Operating ratios					
Gross margin	(1.3)	10.9	14.1	14.9	14.9
EBITDA margin (%)	(0.5)	11.3	13.1	13.8	13.7
Effective tax rate (%)	(8.0)	8.2	25.0	25.0	25.0
Revenue growth (%)	-	7.0	35.9	1.0	-
Net income growth (%)	-	(125.6)	151.9	16.7	2.3
EPS growth adj (%)	-	(125.6)	151.9	16.7	2.3
DPS growth (%)	-	-	-	-	-
Efficency ratios					
ROE (%)	(26.0)	6.2	13.5	13.6	12.2
ROCE (%)	(13.4)	5.9	13.7	14.3	13.4
Asset turnover (x)	0.7	0.7	0.9	0.9	0.9
Op cash / EBIT (x)	(1.3)	2.2	1.8	1.4	1.4
Depreciation / CAPEX (x)	1.2	1.6	1.2	1.2	1.2
Accounts receivable days	60.0	37.6	31.2	37.5	37.6
Accounts payable days	92.2	93.2	80.1	93.2	93.2
Leverage ratios					
Net gearing (%)	66.6	54.6	24.1	4.7	(10.3)
Net debt / EBITDA (x)	(52.7)	2.0	0.6	0.1	(0.3)
Interest cover (x)	(5.4)	2.4	6.1	8.3	10.1
Current ratio (x)	0.7	0.7	0.8	0.9	1.0
Valuation					
PER (x)	(5.3)	20.7	8.2	7.1	6.9
EV/EBITDA (x)	(109.7)	9.6	5.5	4.7	4.3
PBR (x)	1.2	1.2	1.0	0.9	0.8
Dividend yield (%)	-	-	-	-	-

Source: Company, Bloomberg, CSCI Research estimates

Equity Research l China l Metals

A laggard with steadily improving earnings outlook

- **We foresee strong 2H17 results for Angang based on the product price rise for the quarter.**
- **We expect the winter capacity closure would benefit market supply reduction, offsetting the negative impact from the decelerating investment growth in China.**
- **We maintain Buy rating with the price target maintained at HKD8.0, based on 1.0x FY17E PBR, representing 12.7% upside potential.**

Solid 2H17 earnings outlook amid sustained rally in flat steel prices. On the back of the flat product price rebound since mid-Jun, we believe Angang will enjoy a significant recovery in its margins, leading to robust net profit growth. According to Angang's monthly price schedule, key products are set to see cumulative price increases of RMB400-600/ton for 3Q17, specifically cold-rolled≥1.0mm and wire rods which are expected to go up by RMB460/ton and RMB760/ton respectively. Flat steel spot price growth has also gathered pace going into 3Q17, with HR steel sheet, CR steel sheet and steel plate prices having increased by RMB750/ton, RMB730/ton and RMB530/ton respectively, compared to the average of 2Q17.

Beneficiary of the deepening industry-wide steel production reform. For the first time this year China has implemented the winter production policy throughout the four winter months starting in mid-Nov. Nine out of the "2+26" cities have pre-announced detailed production plans, which should see the national daily crude steel production reduced by at least 10% when the policy is in full swing, according to our estimate. In spite of potential risks would emerge as a result of an increase in supply from non-restricted provinces and restricted plants resuming production after the expiry of the policy in mid-March, the overall supply dynamics should remain fundamentally unchanged amid the government's determination to improve the air quality. Meanwhile, as we believe the recent rebound in production volume and inventory levels was a front-running of the supply reduction policies, we foresee that if the trend reverses course it would lend support for the steel price.

Angang has taken a series of measure in cost-cutting and product upgrade, including raising the proportion of scrap steel, implementing coal enhancement and coke reduction measures, and reducing inventories of bulk raw materials. Meanwhile, the potential expansion in market share in the high-end market of steel for nuclear power, A588GR.B steel plates and nuclear grade ultra-wide 4,000mm duplex stainless steel plate would also further enhance product mix. Meanwhile, we estimate the net gearing ratio would slip to 38.1% by end-2017, from 49.6% at end-2016.

Maintain Buy with price target maintain at HKD8.0 unchanged. We see re-rating potential for Angang, considering its improving earnings outlook and given that it is a laggard play. We maintain our price target at HKD8.0, based on 1.0x FY17E PBR, representing 12.7% upside potential, and thus maintain Buy.

Angang Steel (347 HK)

Buy
(unchanged)

Price Target	**HK$8.00**	
(Revision)	(N/A)	
(upside)	(12.7%)	
EPS revision	2017E (N/A)	2018E (N/A)
Close price	HKD7.10	
Market cap.	HKD55,100 mn	
Free float	15.0%	
52-week range	HKD3.75 – 7.71	
3-mth ave. T/O	HKD122.9 mn	

Price as of 6 October 2017

Stock rel HSI performance (%)

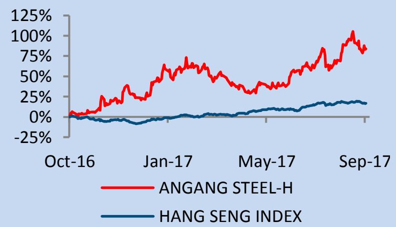

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Figure 11: Angang

Income statement (RMB mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Revenue	52,759	57,882	68,293	68,750	68,750
COGS	(49,693)	(50,457)	(56,036)	(56,038)	(56,038)
Gross profit	**3,066**	**7,425**	**12,258**	**12,712**	**12,712**
Selling expenses	(2,311)	(1,928)	(2,275)	(2,290)	(2,290)
General and administrative	(1,808)	(1,626)	(1,918)	(1,931)	(1,931)
Other opex	(1,704)	(1,300)	(1,534)	(1,544)	(1,544)
Operating profit	**(2,757)**	**2,571**	**6,530**	**6,946**	**6,946**
Net interest expense	(1,346)	(1,286)	(1,090)	(813)	(665)
JVs and associates	340	335	395	398	398
Pretax profit	**(3,763)**	**1,620**	**5,836**	**6,531**	**6,679**
Taxation	(837)	(5)	(1,751)	(1,959)	(2,004)
Minority interests	7	1	3	3	3
Net profit	**(4,593)**	**1,616**	**4,088**	**4,575**	**4,679**
Net profit (adjusted)	(4,593)	1,616	4,088	4,575	4,679
EBIT	**(2,410)**	**2,907**	**6,928**	**7,347**	**7,347**
Depreciation & Amortization	(3,925)	(3,451)	(3,682)	(3,523)	(3,375)
EBITDA	**1,515**	**6,358**	**10,610**	**10,870**	**10,722**
Basic EPS (RMB)	(0.63)	0.22	0.56	0.63	0.65
Diluted EPS (RMB)	(0.63)	0.22	0.56	0.63	0.65
DPS (RMB)	-	0.07	0.17	0.19	0.19

Cash flow statement (RMB mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
EBIT	**(2,410)**	**2,907**	**6,928**	**7,347**	**7,347**
Depreciation & amortisation	3,925	3,451	3,682	3,523	3,375
Net interest	1,346	1,286	1,090	813	665
Taxes paid	(837)	(5)	(1,751)	(1,959)	(2,004)
Changes in working capital	4,407	(1,605)	(958)	(78)	-
Others	(1,294)	(1,704)	(2,182)	(1,628)	(1,332)
Cash flow from operations	**5,137**	**4,330**	**6,809**	**8,017**	**8,051**
Capex	(3,807)	(1,393)	(1,500)	(1,500)	(1,500)
Acquisitions	(70)	(70)	-	-	-
Disposals	4	148	-	-	-
Others	1,145	765	-	-	-
Cash flow from investing	**(2,728)**	**(550)**	**(1,500)**	**(1,500)**	**(1,500)**
Dividends	(1,782)	(1,303)	(1,227)	(1,373)	(1,404)
Issue of shares	-	-	-	-	-
Change in debt	1,262	(4,107)	2,000	(3,000)	(3,000)
Others	4	(3)	-	-	-
Cash flow from financing	**(516)**	**(5,413)**	**773**	**(4,373)**	**(4,404)**
Change in cash	**1,893**	**(1,633)**	**6,082**	**2,144**	**2,147**
Free cash flow	1,330	2,937	5,309	6,517	6,551

Balance sheet (RMB mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Cash	3,601	1,968	8,050	10,194	12,341
Short term investments	-	-	-	-	-
Accounts receivables	8,311	8,352	9,830	9,896	9,896
Inventory	8,008	10,466	10,255	10,255	10,255
Other current assets	3,675	4,890	4,756	4,768	4,768
Total current assets	**23,595**	**25,676**	**32,891**	**35,113**	**37,260**
PP&E	51,014	49,065	46,883	44,861	42,985
Intangible Assets	6,086	5,755	5,755	5,755	5,755
Total investments	3,522	3,807	3,807	3,807	3,807
Other long term assets	4,379	3,766	3,766	3,766	3,766
Total long term assets	**65,001**	**62,393**	**60,211**	**58,189**	**56,313**
TOTAL ASSETS	**88,596**	**88,069**	**93,102**	**93,301**	**93,573**
Short term debt	16,319	18,995	20,565	18,210	15,854
Accounts payables	5,799	10,055	8,800	8,800	8,800
Other current liabilities	20,886	7,739	9,169	9,169	9,169
Total current liabilities	**43,004**	**36,789**	**38,535**	**36,179**	**33,823**
Long term debt	962	1,296	1,726	1,081	437
Deferred tax	949	752	752	752	752
Bonds payable	-	3,944	3,944	3,944	3,944
Other long term liabilities	-	-	-	-	-
Total long term liabilities	**1,911**	**5,992**	**6,422**	**5,777**	**5,133**
TOTAL LIABILITIES	**44,915**	**42,781**	**44,956**	**41,956**	**38,956**
Shareholders' funds	43,274	44,882	47,743	50,945	54,219
Minority Interests	407	406	403	401	398
TOTAL LIAB AND EQUITY	**88,596**	**88,069**	**93,102**	**93,301**	**93,573**
Net cash / (debt)	(13,680)	(22,267)	(18,185)	(13,041)	(7,894)

Key ratios

Year end: Dec	2015	2016	2017E	2018E	2019E
Operating ratios					
Gross margin	5.8	12.8	17.9	18.5	18.5
EBITDA margin (%)	2.9	11.0	15.5	15.8	15.6
Effective tax rate (%)	(22.2)	0.3	30.0	30.0	30.0
Revenue growth (%)	-	9.7	18.0	0.7	-
Net income growth (%)	-	-	152.9	11.9	2.3
EPS growth adj (%)	-	-	152.9	11.9	2.3
DPS growth (%)	-	-	152.9	11.9	2.3
Efficency ratios					
ROE (%)	(10.6)	3.6	8.6	9.0	8.6
ROCE (%)	(6.0)	5.0	12.0	12.2	11.6
Asset turnover (x)	0.6	0.7	0.7	0.7	0.7
Op cash / EBIT (x)	(1.9)	17	1.0	12	12
Depreciation / CAPEX (x)	1.0	2.5	2.5	2.3	2.3
Accounts receivable days	68.8	62.2	58.6	62.0	62.2
Accounts payable days	68.0	78.6	78.0	78.6	78.6
Leverage ratios					
Net gearing (%)	31.6	49.6	38.1	25.6	14.6
Net debt / EBITDA (x)	9.0	3.5	17	12	0.7
Interest cover (x)	(2.0)	2.0	6.0	8.5	10.5
Current ratio (x)	0.5	0.7	0.9	1.0	11
Valuation					
PER (x)	-	27.1	10.7	9.6	9.4
EV/EBITDA (x)	48.6	12.2	6.9	6.3	5.9
PBR (x)	1.0	1.0	0.9	0.9	0.8
Dividend yield (%)	-	11	2.8	3.1	3.2

Source: Company, Bloomberg, CSCI Research estimates

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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: >=10%
Hold	12-month absolute total return: >-10% but <10%
Sell	12-month absolute total return: <=-10%

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