

# China AI surveillance

## 2Q21 preview: eye on gross margin

China public security projects bidding number recovered from COVID-19 and increased at +17% YTD. We expect Hikvision to deliver solid revenue/net profit growth of +18%/+14% YoY in 2Q21. However, we think Dahua could face higher gross margin pressure. Our Dahua GPM forecast is 2.4pct pts lower than consensus to reflect less Hisilicon inventory buffer and has to procure raw materials at higher cost amid chip shortage. **BUY Hikvision, HOLD Dahua.**

- Public security projects bidding +17% YTD.** China public security projects bidding number started to recover since Feb 2021. After a strong rebound in 1Q21 at +37% YoY (vs. -45% YoY in 1Q20), 2Q21 number increased at a slower pace of +10% YoY (vs. +4% YoY in 2Q20). Total number of projects grew at +17% YoY YTD. We believe Hikvision and Dahua continue to recover from COVID-19 when public security projects delayed.
- Hikvision 2Q21 net profit to grow at 14% YoY.** We forecast Hikvision revenue to grow at a milder pace at +18% YoY to RMB17.5bn in 2Q21 (vs. revenue +48% YoY in 1Q21). We estimate Hikvision 2Q21 GPM to decline 3.4 pct pts YoY to 47.8%, reflecting less high-margin infra-red camera being sold than 2Q20. Overall, we expect 2Q21 net profit of RMB3.6bn (+14% YoY). On the inventory side, we think Hikvision has piled up enough Hisilicon inventories that could be enough to survive through 1H22.
- Dahua 2Q21 GPM could see pressure.** We estimate Dahua revenue to be RMB7.7bn in 2Q21 (+21% YoY vs. +46% YoY in 1Q21). However, we are concerned that Dahua may face GPM pressure. We expect Dahua 2Q21 GPM to be down 5.1 pct pts YoY to 42.5% (vs. consensus estimate of -2.7 pct pts YoY to 44.9%). Our estimate is lower than consensus as we think Dahua has less Hisilicon inventory buffer and has to procure at higher price amid chip shortage. In 1Q21, Dahua gross margin was down 8.3 pct pts YoY to 40.9% while that of Hikvision only dropped by 0.5 pct pts YoY to 46.8%. Overall, we forecast 2Q21 net profit to be down 6% YoY to RMB984mn.
- Prefer Hikvision (BUY) over Dahua (HOLD).** We largely maintain Hikvision forecast but cut Dahua FY21-23E net profit by 1-3% on lower gross margin and higher R&D. We keep our BUY rating on Hikvision with new target price of RMB75.31 (prior RMB75.65) on unchanged 36x FY22 P/E. We maintain HOLD rating on Dahua with new target price of RMB23.36 (prior RMB24.11) on unchanged 17x FY22 P/E. We expect valuation gap between Hikvision and Dahua to widen further as supply chain transition will be smoother for Hikvision given stronger R&D.

### Valuation Table

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/down-side (%)	P/E FY21E	P/E FY22E	ROE FY21E	ROE FY22E
Hikvision	002415 CH	BUY	90,434	62.63	75.31	20%	36.3	29.9	27.7	28.9
Dahua	002236 CH	HOLD	9,479	20.46	23.36	14%	17.2	14.9	16.6	16.6
China Transinfo	002373 CH	NR	3,986	16.30	N/A	N/A	20.1	16.1	11.4	12.6
Thunisoft	300271 CH	NR	2,563	19.99	N/A	N/A	25.1	19.6	9.0	10.3
iFlytek	002230 CH	NR	21,259	61.80	N/A	N/A	79.7	59.1	12.4	14.9
Cambricon Tech	688256 CH	NR	7,835	126.61	N/A	N/A	20.1	16.1	11.4	12.6

Source: Company data, Bloomberg, CMBIS estimates

**OUTPERFORM**  
(Maintain)

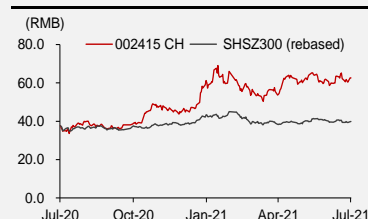
### China software & IT services

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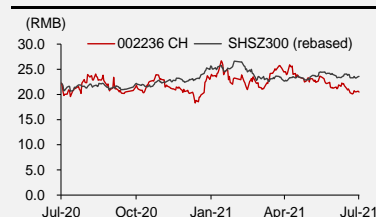
marleyngan@cmbi.com.hk

### Hikvision 12-mth Price Performance



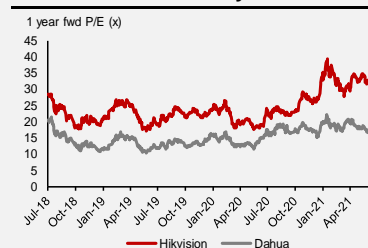
Source: Bloomberg, CMBIS

### Dahua 12-mth Price Performance



Source: Bloomberg, CMBIS

### Hikvision vs. Dahua 1yr fwd P/E



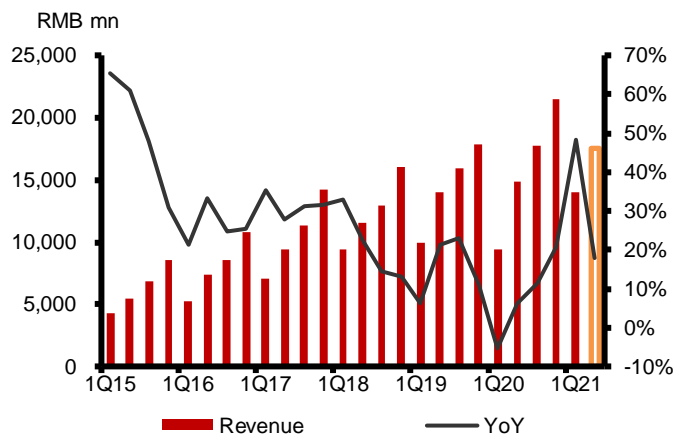
Source: Bloomberg, CMBIS

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<https://euromoney.com/brokers>

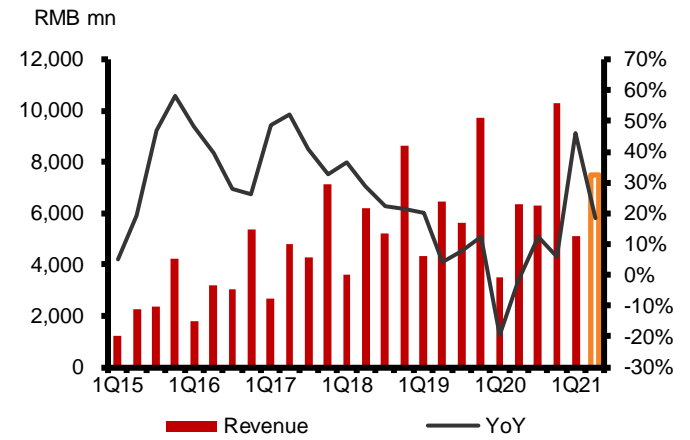
**Focus Charts**

**Figure 1: We expect Hikvision 2Q21 revenue to grow +18% YoY to RMB17.5bn**



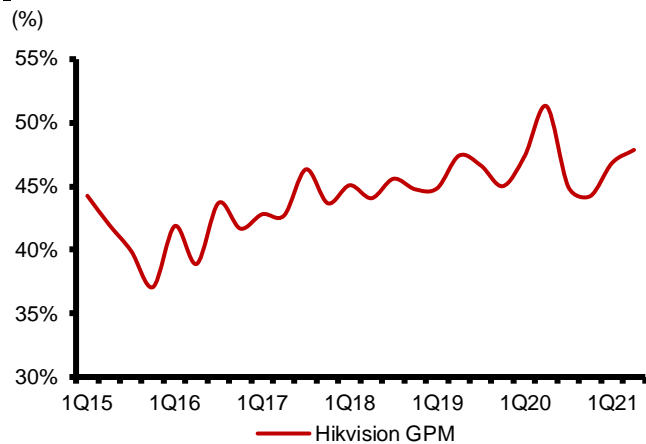
Source: Company data, CMBIS estimates

**Figure 2: We expect Dahua 2Q21 revenue to grow +21% YoY to RMB7.7bn**



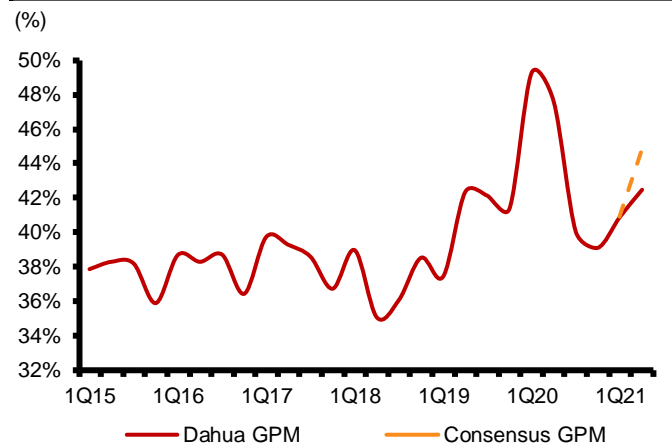
Source: Company data, CMBIS estimates

**Figure 3: Our Hikvision 2Q21 GPM estimate is in-line with consensus (-3.4 pct pts YoY)**



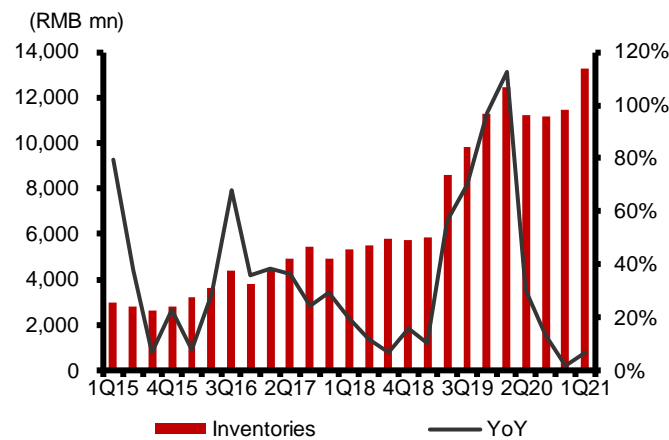
Source: Company data, CMBIS estimates

**Figure 4: We think consensus is overly optimistic on Dahua 2Q21 GPM (down -2.7 pct pts YoY)**



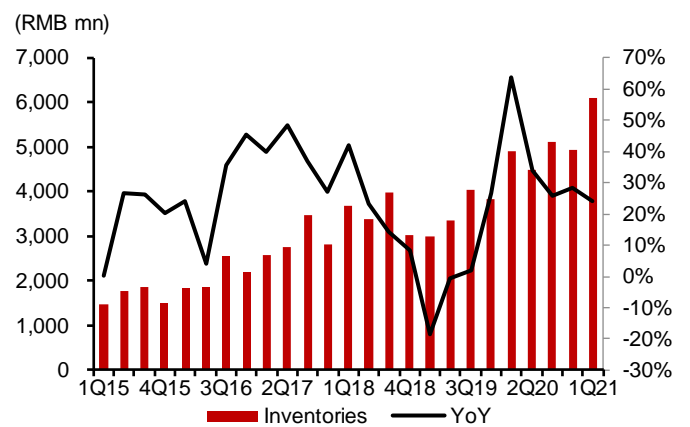
Source: Bloomberg, Company data, CMBIS estimates

**Figure 5: Hikvision inventory**



Source: Company data, CMBIS estimates

**Figure 6: Dahua inventory**



Source: Company data, CMBIS estimates

## YTD surveillance bidding up +17% YoY

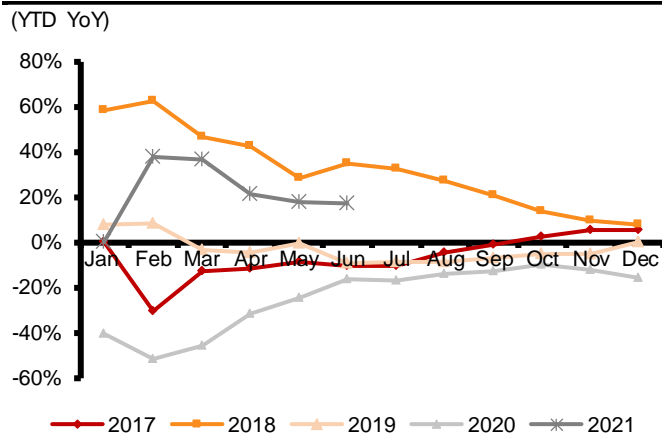
We observed that China public security projects tendering and bidding number started to recover in Feb 2021. After a strong rebound in 1Q21 at +37% YoY (-45% YoY in 1Q20), 2Q21 number increased at a lower pace of +10% YoY (+4% YoY in 2Q20), according to Center of China Government Procurement (CCGP). Total number of projects increased at +17% YoY year-to-date.

Hikvision and Dahua continue to recover from COVID-19 when public security projects delayed. In 1Q21, Hikvision and Dahua total revenue was up by 48% YoY and 46% YoY respectively. In 2Q21E, we expect Hikvision and Dahua to achieve revenue growth of 18% and 21% YoY.

Despite strong demand, we are concerned that Dahua will face more margin pressure with less Hisilicon inventory buffer. Dahua 1Q21 gross margin was down 8.3 pct pts YoY to 40.9% while that of Hikvision only dropped by 0.5 pct pts YoY to 46.8%, considering the fact that 1Q20 gross margin was a high base as more high-margin infrared cameras were being sold.

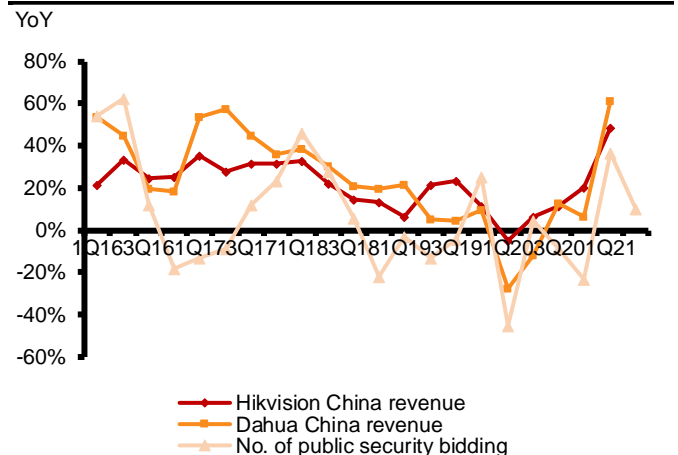
Reference to Ambarella’s CEO comment [\(link\)](#), we think Hikvision has piled up Hisilicon inventory that is enough to survive through 1H22. Meanwhile, we believe Dahua has started to source from other suppliers at higher ASP in 1Q21 given less inventory on hand. We expect Hikvision 2Q21 GPM to decline 3.4 pct pts to 47.8% while Dahua to be down 5.1 pct pts to 42.5%.

**Figure 7: YTD no. of public security projects bidding increased at +17% YoY**



Source: CCGP, CMBIS

**Figure 8: No. of public security project bidding reflects Hikvision and Dahua revenue trend**



Source: CCGP, Company data, CMBIS estimates

## Hikvision 2Q21 preview

Figure 9: Earnings revision

RMB mn	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	76,630	77,684	-1%	88,942	89,592	-1%	100,315	102,261	-2%
Gross profit	35,552	36,391	-2%	41,853	42,300	-1%	47,749	48,816	-2%
OP Profit	16,375	16,801	-3%	19,675	19,768	-0%	22,983	23,264	-1%
PBT	18,499	18,921	-2%	22,006	22,102	-0%	25,572	25,853	-1%
Net profit	16,114	16,493	-2%	19,546	19,634	0%	22,559	22,811	-1%
EPS	1.72	1.77	-2%	2.09	2.10	0%	2.41	2.44	-1%
<b>Margins</b>									
GM	46.4%	46.8%	-45 bps	47.1%	47.2%	-16 bps	47.6%	47.7%	-14 bps
OPM	21.4%	21.6%	-26 bps	22.1%	22.1%	6 bps	22.9%	22.7%	16 bps
PBT margin	24.1%	24.4%	-22 bps	24.7%	24.7%	7 bps	25.5%	25.3%	21 bps
Net margin	21.0%	21.2%	-20 bps	22.0%	21.9%	6 bps	22.5%	22.3%	18 bps

Source: Company data, CMBIS, Bloomberg

Figure 10: Hikvision CMBI estimates vs. consensus

RMB mn	FY2Q21			2021			2022		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	17,507	16,917	3%	76,630	76,935	-0%	88,942	91,264	-3%
Gross profit	8,376	8,087	4%	35,552	35,355	1%	41,853	42,028	-0%
OP Profit	3,446	n/a	n/a	16,375	18,676	-12%	19,675	22,676	-13%
PBT	3,931	3,844	2%	18,499	18,917	-2%	22,006	22,706	-3%
Net profit	3,551	3,637	-2%	16,114	16,669	-3%	19,546	20,077	-3%
EPS	0.38	0.38	-1%	1.72	1.77	-3%	2.09	2.13	-2%
<b>Margins</b>									
GM	47.8%	47.8%	4 bps	46.4%	46.0%	44 bps	47.1%	46.1%	101 bps
OPM	19.7%	n/a	n/a	21.4%	24.3%	-291 bps	22.1%	24.8%	-272 bps
PBT margin	22.5%	22.7%	-27 bps	24.1%	24.6%	-45 bps	24.7%	24.9%	-14 bps
Net margin	20.3%	21.5%	-121 bps	21.0%	21.7%	-64 bps	22.0%	22.0%	-2 bps

Source: Company data, CMBIS, Bloomberg

Figure 11: Hikvision quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E
Revenues	9,429	14,842	17,750	21,482	13,988	17,507	20,532	24,603
Gross Profit	4,466	7,612	7,973	9,495	6,549	8,376	9,541	11,086
Operating profit	1,472	3,088	3,896	5,126	2,569	3,446	4,679	5,682
Net profit (loss)	1,496	3,128	3,815	4,947	2,169	3,551	4,670	5,723
EPS (RMB)	0.16	0.33	0.41	0.53	0.23	0.38	0.50	0.61
<b>Margins</b>								
Gross margin	47.4%	51.3%	44.9%	44.2%	46.8%	47.8%	46.5%	45.1%
Operating margin	15.6%	20.8%	21.9%	23.9%	18.4%	19.7%	22.8%	23.1%
Net margin	15.9%	21.1%	21.5%	23.0%	15.5%	20.3%	22.7%	23.3%
<b>Growth (QoQ)</b>								
Revenues	-47%	57%	20%	21%	-35%	25%	17%	20%
Gross Profit	-44%	70%	5%	19%	-31%	28%	14%	16%
Operating profit	-60%	110%	26%	32%	-50%	34%	36%	21%
Net profit (loss)	-66%	109%	22%	30%	-56%	64%	32%	23%
<b>Growth (YoY)</b>								
Revenues	-5%	6%	12%	21%	48%	18%	16%	15%
Gross Profit	0%	15%	7%	18%	47%	10%	20%	17%
Operating profit	-11%	10%	13%	41%	74%	12%	20%	11%
Net profit (loss)	-3%	17%	0%	13%	45%	14%	22%	16%

Source: Company data, CMBIS

## Dahua 2Q21 preview

Figure 12: Earnings revision

RMB mn	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	31,272	31,272	-	35,412	35,810	-1%	39,520	39,966	-1%
Gross profit	13,092	13,022	1%	14,980	15,068	-1%	16,887	16,989	-1%
OP Profit	3,684	3,752	-2%	4,239	4,378	-3%	5,317	5,430	-2%
PBT	3,941	4,008	-2%	4,577	4,715	-3%	5,650	5,763	-2%
Net profit	3,568	3,648	-2%	4,116	4,248	-3%	5,126	5,238	-2%
EPS	1.19	1.22	-2%	1.37	1.42	-3%	1.71	1.75	-2%
<b>Margins</b>									
GM	41.9%	41.6%	22 bps	42.3%	42.1%	23 bps	42.7%	42.5%	22 bps
OPM	11.8%	12.0%	-22 bps	12.0%	12.2%	-25 bps	13.5%	13.6%	-13 bps
PBT margin	12.6%	12.8%	-21 bps	12.9%	13.2%	-24 bps	14.3%	14.4%	-12 bps
Net margin	11.4%	11.7%	-25 bps	11.6%	11.9%	-24 bps	13.0%	13.1%	-13 bps

Source: Company data, CMBIS, Bloomberg

Figure 13: Dahua CMBI estimates vs. consensus

RMB mn	FY2Q21			2021			2022		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	7,662	7,534	2%	31,272	31,911	-2%	35,412	37,206	-5%
Gross profit	3,254	3,380	-4%	13,092	13,453	-3%	14,980	15,772	-5%
OP Profit	1,080	n/a	n/a	3,684	4,772	-23%	4,239	5,796	-27%
PBT	1,138	1,225	-7%	3,941	4,643	-15%	4,577	5,587	-18%
Net profit	984	1,070	-8%	3,568	4,238	-16%	4,116	5,036	-18%
EPS	0.3	0.4	-16%	1.2	1.4	-17%	1.4	1.7	-21%
<b>Margins</b>									
GM	42.5%	44.9%	-239 bps	41.9%	42.2%	-29 bps	42.3%	42.4%	-9 bps
OPM	14.1%	n/a	n/a	11.8%	15.0%	-317 bps	12.0%	15.6%	-361 bps
PBT margin	14.9%	16.3%	-141 bps	12.6%	14.5%	-195 bps	12.9%	15.0%	-209 bps
Net margin	12.8%	14.2%	-135 bps	11.4%	13.3%	-187 bps	11.6%	13.5%	-191 bps

Source: Company data, CMBIS, Bloomberg

Figure 14: Dahua quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E
Revenues	3,502	6,337	6,328	10,300	5,114	7,662	6,880	11,616
Gross Profit	1,724	3,015	2,534	4,028	2,092	3,254	2,897	4,849
Operating profit	177	1,031	516	1,342	370	1,080	533	1,702
Net profit (loss)	318	1,051	1,456	1,078	348	984	674	1,563
EPS (RMB)	0.35	0.49	0.36	0.12	0.27	0.22	0.52	0.13
<b>Margins</b>								
Gross margin	49.2%	47.6%	40.0%	39.1%	40.9%	42.5%	42.1%	41.7%
Operating margin	5.1%	16.3%	8.1%	13.0%	7.2%	14.1%	7.7%	14.7%
Net margin	9.1%	16.6%	23.0%	10.5%	6.8%	12.8%	9.8%	13.5%
<b>Growth (QoQ)</b>								
Revenues	-64%	81%	0%	63%	-50%	50%	-10%	69%
Gross Profit	-57%	75%	-16%	59%	-48%	56%	-11%	67%
Operating profit	-89%	482%	-50%	160%	-72%	192%	-51%	219%
Net profit (loss)	-76%	231%	39%	-26%	-68%	183%	-32%	132%
<b>Growth (YoY)</b>								
Revenues	-19%	-2%	13%	6%	46%	21%	9%	13%
Gross Profit	6%	10%	7%	0%	21%	8%	14%	20%
Operating profit	-31%	13%	51%	-15%	109%	5%	3%	27%
Net profit (loss)	0%	14%	128%	-18%	10%	-6%	-54%	45%

Source: Company data, CMBIS, Bloomberg

## Valuation

### Hikvision (002145 CH, BUY, TP RMB75.31)

We cut FY21E net profit by 2% on slightly lower margin while maintaining our FY22E forecast. Maintain BUY with new target price of RMB75.31 (prior RMB75.65), on unchanged 36x FY22 P/E, 50% above its 3-year mean. We believe Hikvision deserves re-rating as supply chain risk is mitigated after two years of product re-design, and new growth drivers (AI) in enterprise segment is emerging. Also, Hikvision announced plan to spin-off its smart home business (Ezviz Network) on STAR board. We believe the spin-off could provide new financing channel to support IoT/ AI R&D.

### Dahua (002236 CH, HOLD, TP RMB23.36)

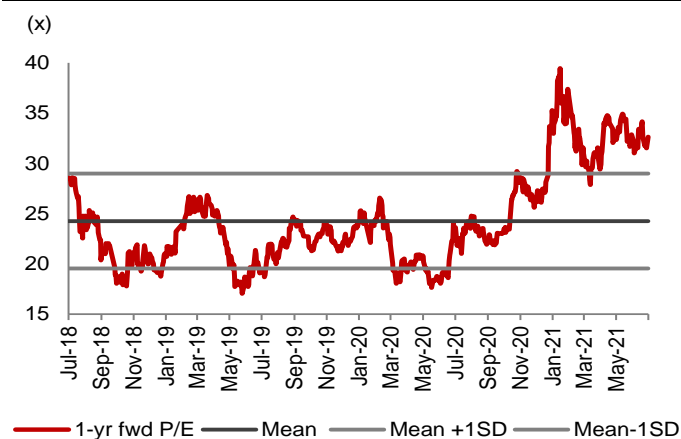
We cut FY21-22E earnings by 1-3% and derived new target price of RMB23.36 (prior RMB24.11), based on unchanged 17x FY22 P/E, in-line with its 3-year mean. We are less positive on Dahua amid chip shortage with less Hisilicon inventory buffer than Hikvision. We expect valuation gap between Hikvision and Dahua to widen.

Figure 15: Peers' valuation

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	P/E		ROE		Sales CAGR		EPS CAGR	
						FY21E	FY22E	FY21E	FY22E	FY20-23E	FY20-23E	FY20-23E	FY20-23E
Hikvision	002415 CH	BUY	90,434	62.63	75.31	36.3	29.9	27.7	28.9	16%	16%	16%	19%
Dahua	002236 CH	HOLD	9,479	20.46	23.36	17.2	14.9	16.6	16.6	14%	14%	14%	10%
China Transinfo	002373 CH	NR	3,986	16.30	N/A	20.1	16.1	11.4	12.6	17%	17%	17%	26%
Thunisoft	300271 CH	NR	2,563	19.99	N/A	25.1	19.6	9.0	10.3	30%	30%	30%	28%
iFlytek	002230 CH	NR	21,259	61.80	N/A	79.7	59.1	12.4	14.9	32%	32%	32%	36%
Cambricon Tech	688256 CH	NR	7,835	126.61	N/A	N/A	N/A	-12.8	-14.4	30%	30%	30%	1%
						<b>Mean</b>	<b>34.9</b>	<b>27.2</b>	<b>11.2</b>	<b>11.8</b>	<b>25%</b>	<b>25%</b>	<b>21%</b>
						<b>Median</b>	<b>24.1</b>	<b>25.1</b>	<b>19.6</b>	<b>11.9</b>	<b>13.7</b>	<b>13.7</b>	<b>24%</b>

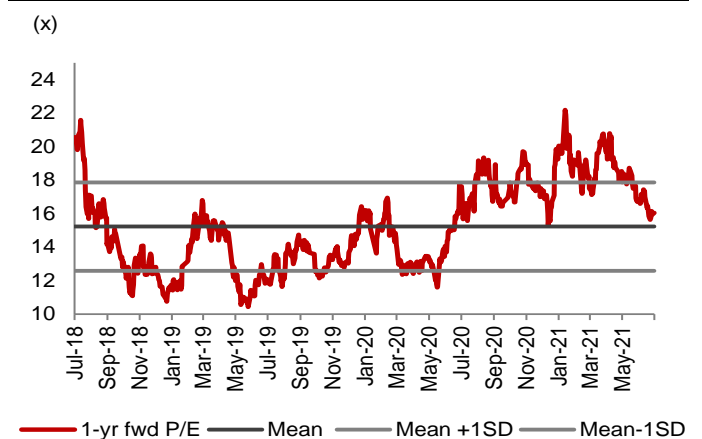
Source: Bloomberg, CMBIS estimates

Figure 16: Hikvision 12M forward P/E chart



Source: Company data, CMBIS, Bloomberg

Figure 17: Dahua 12M forward P/E chart



Source: Company data, CMBIS, Bloomberg

## Financial Summary – Hikvision (002415 CH)

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>57,658</b>	<b>63,503</b>	<b>76,630</b>	<b>88,942</b>	<b>100,315</b>	<b>Net profit</b>	<b>12,415</b>	<b>13,386</b>	<b>16,114</b>	<b>19,546</b>	<b>22,559</b>
Cost of sales	(31,140)	(33,958)	(41,078)	(47,089)	(52,565)	Depreciation/amortization	699	845	1,489	1,614	1,691
<b>Gross profit</b>	<b>26,518</b>	<b>29,546</b>	<b>35,552</b>	<b>41,853</b>	<b>47,749</b>	Change in working capital	(7,153)	597	(12,113)	305	9,615
Selling exp	(7,257)	(7,378)	(8,914)	(10,162)	(11,335)	Others	1,807	1,260	888	369	456
Admin exp	(1,822)	(1,790)	(2,159)	(2,500)	(2,766)	<b>Net cash from operating</b>	<b>7,768</b>	<b>16,088</b>	<b>6,378</b>	<b>21,835</b>	<b>34,321</b>
R&D exp	(5,484)	(6,379)	(7,588)	(8,933)	(10,005)	Capex	(1,927)	(2,004)	(2,199)	(2,045)	(2,094)
Other operating exp.	(417)	(416)	(517)	(584)	(660)	Other	4	(551)	41	0	0
<b>Operating profit</b>	<b>11,538</b>	<b>13,583</b>	<b>16,375</b>	<b>19,675</b>	<b>22,983</b>	<b>Net cash from investing</b>	<b>(1,923)</b>	<b>(2,555)</b>	<b>(2,158)</b>	<b>(2,045)</b>	<b>(2,094)</b>
Finance costs	640	(396)	376	444	768	Net borrowings	187	2,049	1,314	975	(2,664)
Other non-oper exp.	1,578	2,086	1,748	1,887	1,821	Dividend paid	(5,609)	(6,542)	(7,475)	(8,998)	(10,915)
<b>Pre-tax profit</b>	<b>13,755</b>	<b>15,273</b>	<b>18,499</b>	<b>22,006</b>	<b>25,572</b>	Other	(14)	(189)	(527)	(369)	(456)
Income tax expense	(1,290)	(1,595)	(1,957)	(2,091)	(2,557)	<b>Net cash from financing</b>	<b>(5,436)</b>	<b>(4,681)</b>	<b>(6,688)</b>	<b>(8,393)</b>	<b>(14,035)</b>
Minority interests	(51)	(293)	(429)	(369)	(456)	<b>Net change in cash</b>	<b>408</b>	<b>8,852</b>	<b>(2,468)</b>	<b>11,396</b>	<b>18,192</b>
<b>Net profit to S/H</b>	<b>12,415</b>	<b>13,386</b>	<b>16,114</b>	<b>19,546</b>	<b>22,559</b>	Cash at beginning of the year	26,552	27,072	35,460	32,954	44,350
						Exchange difference	111	(464)	(38)	0	0
						<b>Cash at the end of the year</b>	<b>27,072</b>	<b>35,460</b>	<b>32,954</b>	<b>44,350</b>	<b>62,543</b>
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E	YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>64,026</b>	<b>74,763</b>	<b>80,976</b>	<b>99,442</b>	<b>123,542</b>	<b>Revenue mix</b>					
Cash & equivalents	27,072	35,460	32,954	44,350	62,543	Front-end equipment	47%	45%	45%	44%	43%
Account receivables	23,146	24,098	31,816	35,333	39,090	Back-end equipment	13%	11%	11%	11%	10%
Inventory	11,268	11,478	12,133	15,224	16,586	Central control equipment	15%	16%	15%	15%	15%
Other current assets	2,540	3,727	4,073	4,534	5,324	New Stuff	8%	10%	11%	14%	16%
<b>Non-current assets</b>	<b>11,332</b>	<b>13,939</b>	<b>14,745</b>	<b>15,177</b>	<b>15,580</b>	Construction	2%	3%	2%	2%	2%
PPE	6,423	7,301	8,028	8,460	8,864	Others	15%	16%	15%	15%	14%
Intangible assets	1,407	1,634	1,626	1,626	1,626	<b>Growth (%)</b>					
Other non-current assets	3,502	5,003	5,090	5,090	5,090	Revenue	16%	10%	21%	16%	13%
<b>Total assets</b>	<b>75,358</b>	<b>88,702</b>	<b>95,721</b>	<b>114,619</b>	<b>139,122</b>	Operating profit	13%	18%	21%	20%	17%
<b>Current liabilities</b>	<b>23,521</b>	<b>31,225</b>	<b>28,120</b>	<b>35,958</b>	<b>49,567</b>	EPS	8%	8%	20%	21%	15%
ST borrowings	2,726	7,507	7,803	8,265	6,352	<b>Profit &amp; loss ratio (%)</b>					
Account payables	13,940	14,631	9,628	15,757	29,510	Gross margin	46.0%	46.5%	46.4%	47.1%	47.6%
Accrued expense	5,941	6,173	8,089	8,260	9,137	Operating margin	20.0%	21.4%	21.4%	22.1%	22.9%
Other current liabilities	914	2,914	2,600	3,676	4,568	Net profit margin	21.5%	21.1%	21.0%	22.0%	22.5%
<b>Non-current liabilities</b>	<b>6,364</b>	<b>2,997</b>	<b>4,214</b>	<b>4,727</b>	<b>3,976</b>	<b>Balance sheet ratio</b>					
LT borrowings	4,604	1,961	2,961	3,474	2,723	Current ratio (x)	2.72	2.39	2.88	2.77	2.49
Other non-current liabilities	1,760	1,036	1,253	1,253	1,253	Receivable turnover days	137	136	133	138	135
<b>Total liabilities</b>	<b>29,885</b>	<b>34,222</b>	<b>32,334</b>	<b>40,684</b>	<b>53,543</b>	Inventory turnover days	54	65	56	56	58
Share capital	9,345	9,343	9,343	9,343	9,343	Payable turnover days	163	157	86	122	107
Capital surplus	4,127	5,179	5,240	5,240	5,240	Net debt to equity	net cash	net cash	net cash	net cash	net cash
Retained earnings	33,634	40,479	49,118	59,666	71,310	<b>Profitability (%)</b>					
Other reserves	(2,202)	(1,207)	(1,278)	(1,278)	(1,278)	ROE	30.1%	27.1%	27.7%	28.9%	28.6%
<b>Minority interest</b>	<b>569</b>	<b>685</b>	<b>962</b>	<b>962</b>	<b>962</b>	ROIC	45.1%	42.7%	40.7%	41.9%	54.5%
<b>Total equity</b>	<b>44,904</b>	<b>53,794</b>	<b>62,424</b>	<b>72,972</b>	<b>84,616</b>	<b>Per share data (RMB)</b>					
<b>Total liabilities and</b>	<b>74,789</b>	<b>88,016</b>	<b>94,758</b>	<b>113,656</b>	<b>138,160</b>	EPS (RMB)	1.33	1.43	1.72	2.09	2.41
						DPS (RMB)	0.60	0.70	0.80	0.96	1.17
						BVPS (RMB)	4.81	5.76	6.68	7.81	9.06

Source: Company data, CMBIS estimates

## Financial Summary – Dahua (002236 CH)

### Income statement

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>26,149</b>	<b>26,466</b>	<b>31,272</b>	<b>35,412</b>	<b>39,520</b>
Cost of sales	(15,396)	(15,164)	(18,180)	(20,431)	(22,633)
<b>Gross profit</b>	<b>10,753</b>	<b>11,302</b>	<b>13,092</b>	<b>14,980</b>	<b>16,887</b>
Selling exp	(3,953)	(4,291)	(4,800)	(5,463)	(5,906)
Admin exp	(741)	(785)	(899)	(1,027)	(1,132)
R&D exp	(2,794)	(2,998)	(3,459)	(4,004)	(4,263)
Other operating exp.	(183)	(162)	(250)	(247)	(268)
<b>Operating profit</b>	<b>3,083</b>	<b>3,066</b>	<b>3,684</b>	<b>4,239</b>	<b>5,317</b>
Finance costs	33	58	(46)	(23)	(17)
Other non-oper exp.	383	1,125	303	361	350
<b>Pre-tax profit</b>	<b>3,499</b>	<b>4,249</b>	<b>3,941</b>	<b>4,577</b>	<b>5,650</b>
Income tax expense	(338)	(314)	(346)	(412)	(476)
Minority interests	27	(32)	(27)	(49)	(48)
<b>Net profit to S/H</b>	<b>3,188</b>	<b>3,903</b>	<b>3,568</b>	<b>4,116</b>	<b>5,126</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net profit</b>	<b>3,188</b>	<b>3,903</b>	<b>3,568</b>	<b>4,116</b>	<b>5,126</b>
Depreciation/amortization	297	331	662	662	662
Change in working capital	(28)	(186)	(6,641)	(2,610)	(593)
Others	(1,857)	354	242	49	48
<b>Net cash from operating</b>	<b>1,601</b>	<b>4,402</b>	<b>(2,169)</b>	<b>2,217</b>	<b>5,243</b>
Capex	(531)	(642)	(690)	(531)	(593)
Other	(309)	452	(979)	0	0
<b>Net cash from investing</b>	<b>(840)</b>	<b>(190)</b>	<b>(1,669)</b>	<b>(531)</b>	<b>(593)</b>
Net borrowings	(1,462)	715	1,760	173	285
Dividend paid	(300)	(399)	(803)	(734)	(847)
Other	(120)	53	(46)	(49)	(48)
<b>Net cash from financing</b>	<b>(1,882)</b>	<b>369</b>	<b>911</b>	<b>(610)</b>	<b>(609)</b>
<b>Net change in cash</b>	<b>(1,121)</b>	<b>4,580</b>	<b>(2,927)</b>	<b>1,075</b>	<b>4,041</b>
Cash at beginning of the year	4,160	3,084	7,472	4,522	5,597
Exchange difference	45	(193)	(22)	0	0
<b>Cash at the end of the year</b>	<b>3,084</b>	<b>7,472</b>	<b>4,522</b>	<b>5,597</b>	<b>9,638</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>22,975</b>	<b>29,112</b>	<b>32,776</b>	<b>38,308</b>	<b>43,897</b>
Cash & equivalents	3,084	7,472	4,522	5,597	9,638
Account receivables	13,241	13,090	19,095	21,825	23,118
Inventory	3,840	4,928	5,534	7,179	7,375
Other current assets	2,810	3,622	3,625	3,706	3,766
<b>Non-current assets</b>	<b>6,589</b>	<b>7,483</b>	<b>8,891</b>	<b>8,760</b>	<b>8,691</b>
PPE	1,958	2,680	2,937	2,942	3,009
Intangible assets	492	482	570	434	298
Other non-current assets	4,139	4,321	5,384	5,384	5,384
<b>Total assets</b>	<b>29,565</b>	<b>36,595</b>	<b>41,667</b>	<b>47,068</b>	<b>52,588</b>
<b>Current liabilities</b>	<b>12,531</b>	<b>14,662</b>	<b>15,489</b>	<b>17,336</b>	<b>18,291</b>
ST borrowings	427	402	1,461	1,461	1,461
Account payables	8,098	9,703	9,434	10,695	11,647
Accrued expense	3,935	3,676	3,490	4,075	4,079
Other current liabilities	71	881	1,105	1,105	1,105
<b>Non-current liabilities</b>	<b>1,057</b>	<b>1,729</b>	<b>2,587</b>	<b>2,760</b>	<b>3,045</b>
LT borrowings	154	878	1,659	1,832	2,117
Other non-current liabilities	904	851	928	928	928
<b>Total liabilities</b>	<b>13,588</b>	<b>16,391</b>	<b>18,076</b>	<b>20,096</b>	<b>21,336</b>
Share capital	3,004	2,996	2,996	2,996	2,996
Capital surplus	1,883	1,990	2,587	2,587	2,587
Retained earnings	11,802	15,309	18,074	21,455	25,735
Other reserve	(1,045)	(521)	(509)	(509)	(509)
<b>Minority interest</b>	<b>333</b>	<b>431</b>	<b>443</b>	<b>443</b>	<b>443</b>
<b>Total equity</b>	<b>15,643</b>	<b>19,773</b>	<b>23,148</b>	<b>26,529</b>	<b>30,809</b>
<b>Total liabilities and</b>	<b>29,231</b>	<b>36,164</b>	<b>41,224</b>	<b>46,625</b>	<b>52,145</b>

### Key ratios

YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue mix</b>					
Domestic	63%	60%	62%	63%	63%
Overseas	37%	40%	38%	37%	37%
<b>Growth (%)</b>					
Domestic	9%	-3%	22%	13%	13%
Overseas	13%	8%	12%	13%	10%
Revenue	10%	1%	18%	13%	12%
Gross profit	22%	5%	16%	14%	13%
Operating profit	33%	-1%	20%	15%	25%
EPS	26%	23%	-9%	15%	25%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	41%	43%	42%	42%	43%
Operating margin	11.8%	11.6%	11.8%	12.0%	13.5%
Net profit margin	12.2%	14.7%	11.4%	11.6%	13.0%
<b>Balance sheet ratio</b>					
Current ratio (x)	1.83	1.99	2.12	2.21	2.40
Receivable turnover days	180	182	188	211	208
Inventory turnover days	48	60	61	66	67
Payable turnover days	109	123	112	104	103
Net debt to equity	net cash	net cash	net cash	net cash	net cash
<b>Profitability (%)</b>					
ROE	22.6%	22.0%	16.6%	16.6%	17.9%
ROIC	26.3%	24.0%	20.5%	17.8%	21.1%
<b>Per share data (RMB)</b>					
EPS (RMB)	1.06	1.30	1.19	1.37	1.71
DPS (RMB)	0.10	0.13	0.27	0.25	0.28
BVPS (RMB)	5.21	6.60	7.73	8.86	10.28

Source: Company data, CMBIS estimates



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