

# Shennan Circuits (002916 CH)

## Strong 3Q results; Cost pressure remains

Shennan reported 3Q21 results with revenue of RMB3.9bn (26% YoY) and net profit of RMB4.7mn (25% YoY). GPM was stable at 24.6% in 3Q (vs 24.5% in 2Q), while NPM improved QoQ to 12.0% (vs 10.1% in 2Q). We believe both domestic and overseas communications service providers (CSP) capex contributed to the strong revenue growth. We think 3Q may be the best quarter of the year as 4Q demand could be difficult to keep up. With material price still at their highs, we remain conservative for Shennan. **Maintain HOLD and TP adjusted to RMB110.75.**

- Strong 3Q21 results driven by domestic/overseas 5G investments.** Shennan's 3Q revenue grew 26.3%/22.8% YoY/QoQ, largely driven by its PCB business (majority is from telecom market). China telcos resumed their 3rd batch 5G tender in 3Q. We estimate 5G BTS net-add will reach 692k in 2021 (200k 700MHz 5G BTS to be completed within 2021), compared to 588k in 2020. Overseas CSP investment was another contributor. Gartner estimated global 5G capex will increase 39% YoY this year. Looking forward, we expect China 5G capex plan to maintain a similar level but overseas 5G investment will increase 22% YoY in 2022E. We believe Shennan will be the key beneficiary with revenue growth of 16.6%/15.3% YoY in 2022E/23E.
- Material cost pressure to continue.** Although Shennan managed to sustain its overall GPM at 24.5%, we think the cost pressure will continue. Copper price has slipped slightly from recent new high but remains at US\$9.5k/ton (as of 1/11/2021). With low domestic copper inventory, we believe material cost will remain an overhang. However, Shennan has improved its profitability with better operating efficiency, and NPM increased to 12.0% in 3Q from 8.9%/10.1% in 1Q/2Q.
- Maintain HOLD with new TP of RMB110.75.** We slightly raised our TP to RMB110.75 based on same 30.0x FY22E P/E. We think 3Q could be the best quarter and demand will slightly ease in 4Q. We maintain HOLD given uncertainty in economy growth, elevated material cost and constraints in supply chain. Potential upside risks include faster-than-expected decline of material costs, higher-than-expected 5G infrastructure spending and consumer demand.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Turnover (RMB mn)	10,524	11,600	13,141	15,629	17,668
YoY growth (%)	38.4%	10.2%	13.3%	18.9%	13.0%
Gross margin (%)	26.5%	26.5%	24.2%	25.0%	25.7%
Net profit (RMB mn)	1,234	1,430	1,423	1,818	2,218
EPS (RMB)	3.66	3.00	2.90	3.69	4.50
YoY growth (%)	47.0%	-18.0%	-3.4%	27.4%	22.0%
Consensus EPS (RMB)	NA	NA	2.92	3.70	4.41
PE (x)	26.7	32.6	33.7	26.5	21.7
PB (x)	6.6	6.3	5.7	5.1	4.5
Yield (%)	1.2%	1.0%	1.8%	2.3%	2.8%
ROE (%)	24.7%	19.2%	16.8%	19.3%	20.9%

Source: Company data, Bloomberg, CMBIS estimates

### HOLD (Maintain)

Target Price	RMB 110.75
(Previous TP)	RMB 101.92)
Up/Downside	+13.3%
Current Price	RMB 97.71

### China Technology Sector

**Lily Yang, Ph.D.**  
 (852) 3916 3716  
 lilyyang@cmbi.com.hk

**Alex Ng**  
 (852) 3900 0881  
 alexng@cmbi.com.hk

**Lana Lin**  
 (852) 3761 8912  
 lanalin@cmbi.com.hk

### Stock Data

Mkt. Cap. (RMB mn)	47,811
Avg. 3mths t/o (RMB mn)	294
52W High/Low (RMB)	139.9/74.9
Total Issued Shares (mn)	489.3

Source: Bloomberg

### Shareholding Structure

AVIC International Holdings	67.05%
Hong Kong Securities Clearing	2.60%
China Asset Management Co	0.90%

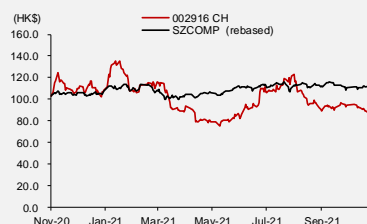
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-6.3%	-6.5%
3-mth	-26.9%	-27.4%
6-mth	11.9%	7.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: BDO

### Recent Reports:

- Positive on capacity expansion plan; Maintain HOLD on fair valuation – 25 Jun 2021 ([Link](#))
- Positive outlook for PCB/CCL sector amid cost pressure – 31 May 2021 ([Link](#))

## 3Q21 Results Review

Figure 1: 3Q21 results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY
Revenue	2,498	3,418	3,067	2,618	2,725	3,156	3,875	22.8%	26.3%
Gross Profit	639	911	848	673	639	772	951	23.2%	12.2%
Operating Profit	336	514	442	332	277	337	509	51.1%	15.1%
Net profit	277	448	374	332	244	317	467	47.0%	24.8%
EPS (RMB)	0.82	0.70	0.78	0.70	0.50	0.64	0.95	48.4%	21.8%
Gross Margin	25.6%	26.7%	27.6%	25.7%	23.4%	24.5%	24.6%	0.1 ppt	-3.1 ppt
Operating Margin	13.5%	15.0%	14.4%	12.7%	10.2%	10.7%	13.1%	2.5 ppt	-1.3 ppt
Net Margin	11.1%	13.1%	12.2%	12.7%	8.9%	10.1%	12.0%	2 ppt	-0.1 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	13,141	15,629	17,668	13,320	15,141	17,338	-1%	3%	2%
Gross Profit	3,186	3,906	4,549	3,280	3,867	4,512	-3%	1%	1%
Operating Profit	1,559	2,028	2,451	1,549	1,908	2,260	1%	6%	8%
Net profit	1,423	1,818	2,218	1,348	1,662	1,970	6%	9%	13%
EPS (RMB)	2.90	3.69	4.50	2.76	3.40	4.03	5%	9%	12%
Gross Margin	24.2%	25.0%	25.7%	24.6%	25.5%	26.0%	-0.4 ppt	-0.5 ppt	-0.3 ppt
Operating Margin	11.9%	13.0%	13.9%	11.6%	12.6%	13.0%	0.2 ppt	0.4 ppt	0.8 ppt
Net Margin	10.8%	11.6%	12.6%	10.1%	11.0%	11.4%	0.7 ppt	0.7 ppt	1.2 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	13,141	15,629	17,668	13,098	15,519	17,984	0%	1%	-2%
Gross Profit	3,186	3,906	4,549	3,260	3,984	4,683	-2%	-2%	-3%
Operating Profit	1,559	2,028	2,451	1,685	2,087	2,487	-7%	-3%	-1%
Net profit	1,423	1,818	2,218	1,413	1,821	2,185	1%	0%	2%
EPS (RMB)	2.90	3.69	4.50	2.92	3.70	4.41	-1%	0%	2%
Gross Margin	24.2%	25.0%	25.7%	24.9%	25.7%	26.0%	-0.6 ppt	-0.7 ppt	-0.3 ppt
Operating Margin	11.9%	13.0%	13.9%	12.9%	13.4%	13.8%	-1 ppt	-0.5 ppt	0 ppt
Net Margin	10.8%	11.6%	12.6%	10.8%	11.7%	12.1%	0 ppt	-0.1 ppt	0.4 ppt

Source: Company data, CMBIS estimates

Figure 4: PCB players revenue growth

RMB mn	Ticker	2020	1H21	2H21E	2021E	2022E	2021E YoY	2022E YoY
Dongshan	002384 CH	28,093	14,005	17,770	31,775	35,461	13.1%	11.6%
Shengnan	002916 CH	11,600	5,881	7,260	13,141	15,629	13.3%	18.9%
WUS	002463 CH	7,460	3,542	4,247	7,790	9,392	4.4%	20.6%
Fastp	002436 CH	4,035	2,371	2,625	4,995	6,077	23.8%	21.7%
Shengyi Electronics	688183 CH	3,634	1,624	2,021	3,646	6,087	0.3%	67.0%
Bomin	603936 CH	2,786	1,646	1,963	3,609	5,263	29.6%	45.8%
<b>Average</b>							<b>13.7%</b>	<b>18.2%</b>

Source: Company data, CMBIS estimates

## Company update

In 1H21, Shennan's PCB business has declined 14% YoY, due to the delay of 5G BTS deployment in China. As soon as 3rd batch 5G tender resumed, Shennan's 3Q revenue grew 26.3%/22.8% YoY/QoQ. Meanwhile, demand from overseas was also strong. Gartner estimated global 5G capex will increase 39% YoY this year. However, we think demand in 4Q is difficult to keep up with strong number delivered in 3Q considering the uncertainty in economy growth, elevated material cost, constraints in supply chain.

Looking forward, we expect 5G Capex plan to maintain at a similar level in 2022E, given the de-spec trend in 5G BTS. For example, lower frequency spectrum equipment accounted for the majority of 5G BTS tender this year (2021: 700MHz/2.1GHz, vs. 2020: 2.6GHz/3.5GHz). PCB growth will be largely driven by oversea 5G investment, which is expected to grow at 22% in 2022 according to Gartner. Substrate business will continue to deliver strong results as its Wuxi factory has entered the mid-to-late stage of ramp-up process.

Shennan's PCB capacity was about 200w sq m per year. The capacity of the Company's PCB production was ~80-85% in 1H21. The recent power shortage has not affected the Company's operation, but its PCB production line will not reach full capacity in 2H21. New PCB capacity includes 1) Phase II plant in Nantong, Jiangsu (58w sq m, currently ramping up in the mid-to-late stage) and 2) Phase III plant in Nantong, Jiangsu (expected to begin production in 4Q22). Substrate capacity was 30w per year. New substrate capacity includes 1) Wuxi, Jiangsu (60w, high-end substrate, currently ramping up in the mid-to-late stage) and 2) Guangzhou, Guangdong (expected to begin production in 2023).

**Figure 5: Capacity Schedule**

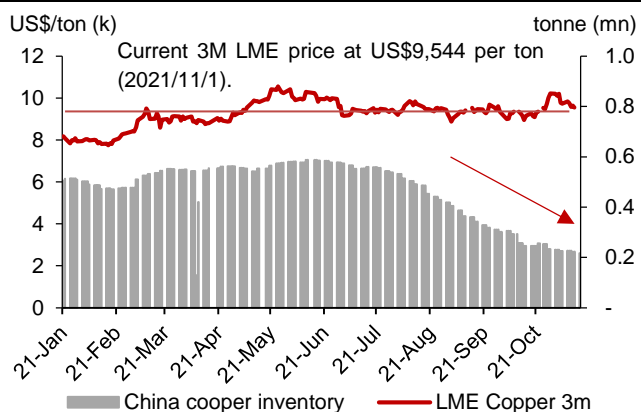
Capacity Schedule	FY20	FY21E	FY22E	FY23E
<b>PCB</b>				
Shenzhen, Guangdong (100w sqm)				
Wuxi, Jiangsu (50w)				
Nantong, Jiangsu (50w, increased from 34w)				
New Nantong, Jiangsu (58w sqm)				
<b>Substrate</b>				
Shenzhen, Guangdong (30w, increased from 23w)				
New Nantong, Jiangsu (60w sqm)				
New Guangzhou, Guangdong				

Source: Company data, CMBIS estimates

Shennan announced to expand substrate capacity in Guangzhou production base, which will add 200mn FC-BGA and 3mn panel RF/FC-CSP substrate capacity. We expect the new project to contribute revenue in 2023/24E. Shennan's existing substrate capacity has been in full production since last year, driven by strong semiconductor demand. We believe strong substrate revenue will continue into 2H21E, driving 22.5% YoY growth in FY21E.

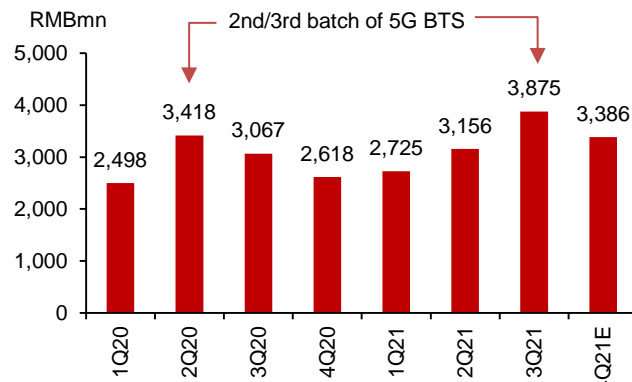
The structural change of product mix will help to improve profitability but will be partially offset by the high material costs. Copper price has slipped slightly from the recent new high but remains at US\$9.5k/ton (as of 1/11/2021). With low domestic copper inventory, we maintain a conservative view.

**Figure 6: Copper: price is high while inventory is low (China)**



Source: Wind, CMBIS estimates

**Figure 7: 2Q20/3Q21 revenue growth largely driven by new tender of 5G BTS**



Source: Shengyi Electronics, CMBIS estimates

**Figure 8: Segment breakdown**

RMB mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
<b>Revenue</b>							
PCB	7,726	8,311	3,707	4,712	8,419	10,260	11,752
...YoY	44%	8%	-14%	18%	1%	22%	15%
PCBA	1,211	1,160	674	660	1,334	1,321	1,307
...YoY	31%	-4%	14%	16%	15%	-1%	-1%
Substrate	1,164	1,544	1,095	1,479	2,574	3,153	3,623
...YoY	23%	33%	46%	86%	67%	23%	15%
Other	423	585	405	410	814	896	985
...YoY	21%	38%	49.6%	30%	39%	121%	141%
<b>Total</b>	<b>10,524</b>	<b>11,600</b>	<b>5,881</b>	<b>7,260</b>	<b>13,141</b>	<b>15,629</b>	<b>17,668</b>
...YoY	<b>38%</b>	<b>10%</b>	<b>-1%</b>	<b>28%</b>	<b>13%</b>	<b>19%</b>	<b>13%</b>
<b>Volume (k sq m)</b>							
PCB	2,016	1,957	916	1,170	2,086	2,595	3,002
Substrate	394	540	315	405	720	900	1,050
<b>ASP (RMB)</b>							
PCB	3,833.0	4,247.5	4,047.3	4,025.5	4,035.1	3,954.4	3,914.8
Substrate	972.0	931.0	1,081.5	1,059.8	1,070.7	1,060.0	1,049.4
<b>Gross margin</b>							
PCB	28.0%	28.4%	25.9%	24.7%	25.3%	25.6%	26.4%
PCBA	19.5%	14.6%	12.1%	14.8%	13.4%	13.9%	13.9%
Substrate	26.2%	28.1%	27.9%	30.0%	29.1%	29.8%	30.2%
Other	20.9%	18.2%	15.6%	16.5%	16.1%	17.0%	17.5%
<b>Total</b>	<b>26.5%</b>	<b>26.5%</b>	<b>24.0%</b>	<b>24.4%</b>	<b>24.2%</b>	<b>25.0%</b>	<b>25.7%</b>

Source: Company data, CMBIS estimates

**Figure 9: P&L forecasts**

RMB mn	FY19	FY20	1Q21	2Q21	3Q21	4Q21E	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>10,524</b>	<b>11,600</b>	<b>2,725</b>	<b>3,156</b>	<b>3,875</b>	<b>3,386</b>	<b>13,141</b>	<b>15,629</b>	<b>17,668</b>
...YoY	38.4%	10.2%	9%	-8%	26%	29%	13.3%	18.9%	13.0%
Cost of sales	7,732	8,530	2,086	2,384	2,923	2,562	9,955	11,723	13,119
<b>Gross profit</b>	<b>2,792</b>	<b>3,071</b>	<b>639</b>	<b>772</b>	<b>951</b>	<b>824</b>	<b>3,186</b>	<b>3,906</b>	<b>4,549</b>
GPM (%)	58.8%	10.0%	0%	-15%	12%	22%	3.7%	22.6%	16.5%
...YoY	26.5%	26.5%	23%	24%	25%	24%	24.2%	25.0%	25.7%
SG&A	719	647	151	198	197	194	740	844	936
...% of rev	6.8%	5.6%	6%	6%	5%	6%	5.6%	5.4%	5.3%
R&D	537	645	169	180	188	197	733	872	986
...% of rev	5.1%	5.6%	6%	6%	5%	6%	5.6%	5.6%	5.6%
<b>Operating profit</b>	<b>1,418</b>	<b>1,625</b>	<b>277</b>	<b>337</b>	<b>509</b>	<b>436</b>	<b>1,559</b>	<b>2,028</b>	<b>2,451</b>
OPM (%)	80.9%	14.6%	-17.6%	-34.5%	15.1%	31.1%	-4.1%	30.2%	20.8%
...YoY	13.5%	14.0%	10%	11%	13%	13%	11.9%	13.0%	13.9%
<b>Net profit</b>	<b>1,234</b>	<b>1,430</b>	<b>244</b>	<b>317</b>	<b>467</b>	<b>395</b>	<b>1,423</b>	<b>1,818</b>	<b>2,218</b>
NPM (%)	76.9%	15.9%	-12.0%	-29.1%	24.8%	18.9%	-0.5%	27.8%	22.0%
...YoY	11.7%	12.3%	8.9%	10.1%	12.0%	11.7%	10.8%	11.6%	12.6%

Source: Company data, CMBIS estimates

## Valuation

### Maintain Hold with new TP at RMB110.75 (13% upside)

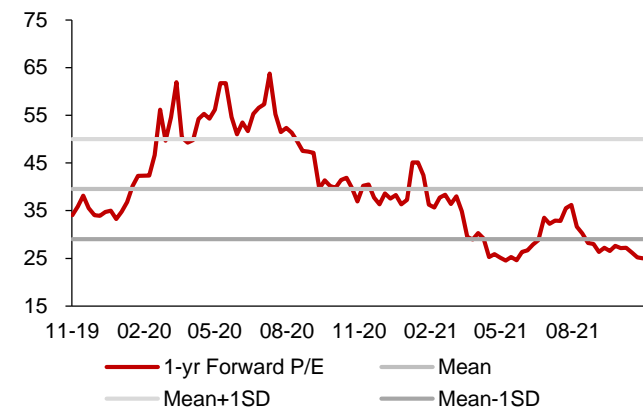
We slightly raised our TP to RMB110.75 based on the same 30.0x FY22E P/E. We think 3Q could be the best quarter and demand will slight ease in 4Q. We maintain HOLD rating given uncertainty in economy growth, elevated material cost and constraints in supply chain. Potential upside risks include faster-than-expected decline of material costs, higher-than-expected 5G infrastructure spending and consumer demand. Potential downside risks include continued price increase in upstream materials and slower-than-expected 5G deployment.

Figure 10: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
Shengyi Tech	600183 CH	Buy	8473	23.47	30.5	30%	17.1	16.6	3.9	3.4	22.6	20.2	
Shennan Circuits	002916 CH	Hold	7472	97.71	110.7	13%	33.7	26.5	5.7	5.1	16.8	19.3	
WUS	002463 CH	NR	3338	11.26	NA	NA	15.8	12.8	3.0	2.6	17.3	18.9	
Kinwon	603228 CH	NR	3788	28.44	NA	NA	22.9	18.8	3.4	3.0	14.7	15.8	
DSBJ	002384 CH	NR	5644	21.12	NA	NA	18.8	15.0	2.4	2.1	13.6	14.9	
Zhen Ding	4958 TT	NR	3180	98.20	NA	NA	10.6	8.9	1.1	1.1	10.1	11.4	
TTM	TTMI US	NR	1427	13.24	NA	NA	10.7	9.3	1.0	0.9	-	-	
UMTC	3037 TT	NR	10209	189.00	NA	NA	25.8	19.4	5.1	4.2	20.2	22.6	
Tripod	3044 TT	NR	2207	117.00	NA	NA	9.8	8.9	1.6	1.5	16.3	16.8	
Comped	2313 TT	NR	1814	42.40	NA	NA	11.1	9.8	1.6	1.5	15.2	15.8	
SEMCO	009150 KS	NR	10049	158500.00	NA	NA	11.2	10.1	1.8	1.5	17.0	16.3	
Average								<b>17.1</b>	<b>14.2</b>	<b>2.8</b>	<b>2.4</b>	<b>12.5</b>	<b>13.3</b>

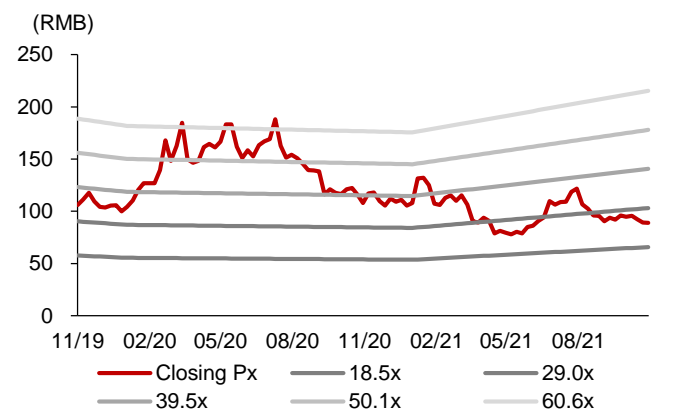
Source: Bloomberg, CMBIS estimates

Figure 11: 12M forward P/E chart



Source: Company data, CMBIS estimates

Figure 12: 12M forward P/E band



Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>10,524</b>	<b>11,600</b>	<b>13,141</b>	<b>15,629</b>	<b>17,668</b>
Cost of sales	(7,732)	(8,530)	(9,955)	(11,723)	(13,119)
<b>Gross profit</b>	<b>2,792</b>	<b>3,071</b>	<b>3,186</b>	<b>3,906</b>	<b>4,549</b>
Selling exp	(218)	(167)	(231)	(250)	(282)
Admin exp (excl. R&D)	(501)	(480)	(508)	(594)	(654)
R&D exp	(537)	(645)	(733)	(872)	(986)
Finance costs	(72)	(152)	(64)	(70)	(61)
Other operating exp.	2,702	2,889	3,164	3,663	4,081
<b>Operating profit</b>	<b>1,418</b>	<b>1,625</b>	<b>1,559</b>	<b>2,028</b>	<b>2,451</b>
Other non-oper exp.	(14)	(19)	(6)	(16)	(13)
<b>Pre-tax profit</b>	<b>1,404</b>	<b>1,606</b>	<b>1,553</b>	<b>2,012</b>	<b>2,438</b>
Income tax expense	(170)	(175)	(129)	(193)	(218)
Minority interests	1	1	1	2	2
<b>Net profit</b>	<b>1,234</b>	<b>1,430</b>	<b>1,423</b>	<b>1,818</b>	<b>2,218</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net profit</b>	1,234	1,431	1,424	1,819	2,220
Depreciation/amortization	448	606	778	1,039	1,324
Change in working capital	(650)	(557)	(185)	(778)	242
Others	232	320	177	51	199
<b>Net cash from operating</b>	<b>1,263</b>	<b>1,800</b>	<b>2,194</b>	<b>2,131</b>	<b>3,986</b>
Capex	(2,183)	(2,486)	(893)	(1,114)	(1,316)
Other	186	(149)	27	173	(3)
<b>Net cash from investing</b>	<b>(1,997)</b>	<b>(2,635)</b>	<b>(866)</b>	<b>(941)</b>	<b>(1,319)</b>
Share issuance	130	0	38	40	40
Dividend paid	(278)	(453)	(465)	(854)	(1,091)
Other	1,664	383	1,145	56	216
<b>Net cash from financing</b>	<b>1,516</b>	<b>(71)</b>	<b>719</b>	<b>(758)</b>	<b>(835)</b>
<b>Net change in cash</b>	<b>791</b>	<b>(937)</b>	<b>2,046</b>	<b>432</b>	<b>1,832</b>
Cash at beginning of the year	650	1,441	504	2,550	2,983
Cash at beginning of the year	467	1,227	2,254	3,941	Exchan
<b>Cash at the end of the year</b>	<b>1,441</b>	<b>504</b>	<b>2,550</b>	<b>2,983</b>	<b>4,815</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>5,977</b>	<b>5,941</b>	<b>8,724</b>	<b>11,247</b>	<b>11,856</b>
Cash & equivalents	1,444	507	2,550	2,983	4,815
Account receivables	2,092	2,053	3,203	3,743	3,324
Inventory	1,504	2,206	1,942	3,268	2,562
Prepayment	3	6	12	11	13
Other current assets	934	1,169	1,016	1,242	1,141
<b>Non-current assets</b>	<b>6,242</b>	<b>8,067</b>	<b>8,416</b>	<b>8,497</b>	<b>8,553</b>
PPE	4,310	6,485	8,400	10,141	11,871
Deferred tax assets	68	72	85	100	102
Other non-current	1,865	1,509	-69	-1,744	-3,420
<b>Total assets</b>	<b>12,219</b>	<b>14,008</b>	<b>17,140</b>	<b>19,743</b>	<b>20,409</b>
<b>Current liabilities</b>	<b>4,670</b>	<b>4,932</b>	<b>6,071</b>	<b>7,683</b>	<b>6,985</b>
ST borrowings	158	232	370	374	393
Account payables	1,555	1,515	2,333	3,119	2,463
Tax payable	46	22	55	47	57
Other current liabilities	2,911	3,163	3,313	4,142	4,072
<b>Non-current liabilities</b>	<b>2,547</b>	<b>1,631</b>	<b>2,596</b>	<b>2,629</b>	<b>2,811</b>
LT borrowings	945	1,059	1,677	1,697	1,783
Deferred tax liability	3	6	7	9	9
Other non-current	1,599	566	912	924	1,020
<b>Total liabilities</b>	<b>7,216</b>	<b>6,563</b>	<b>8,667</b>	<b>10,313</b>	<b>9,797</b>
Share capital	339	489	491	492	494
Reserve	2,231	3,660	3,696	3,734	3,773
Minority interest	2	3	4	6	8
<b>Total equity</b>	<b>5,003</b>	<b>7,444</b>	<b>8,472</b>	<b>9,431</b>	<b>10,612</b>
<b>Total liabilities and</b>	<b>12,219</b>	<b>14,008</b>	<b>17,140</b>	<b>19,743</b>	<b>20,409</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue mix</b>					
PCB	7,726	8,311	8,419	10,260	11,752
PCBA	1,211	1,160	1,334	1,321	1,307
Substrate	1,164	1,544	2,574	3,153	3,623
<b>Growth (%)</b>					
Revenue	38.4%	10.2%	13.3%	18.9%	13.0%
Operating profit	58.8%	10.0%	3.7%	22.6%	16.5%
Net profit	80.9%	14.6%	-4.1%	30.2%	20.8%
	76.9%	15.9%	-0.5%	27.8%	22.0%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin					
Operating margin	26.5%	26.5%	24.2%	25.0%	25.7%
Net profit margin	13.5%	14.0%	11.9%	13.0%	13.9%
	11.7%	12.3%	10.8%	11.6%	12.6%
<b>Balance sheet ratio</b>					
Net debt/total equity (%)	Net cash	10.5%	Net cash	Net cash	Net cash
Current ratio (x)	1.3	1.2	1.4	1.5	1.7
Receivable turnover days	64	65	73	81	73
Inventory turnover days	(67)	(79)	76	81	81
Payable turnover days	(67)	(66)	(71)	(85)	(78)
<b>Profitability (%)</b>					
ROE	24.7%	19.2%	16.8%	19.3%	20.9%
ROA	10.1%	10.2%	8.3%	9.2%	10.9%
<b>Per share data (RMB)</b>					
EPS	3.66	3.00	2.90	3.69	4.50
DPS	1.15	0.95	1.74	2.21	2.70
BPS	14.84	15.61	17.25	19.14	21.54

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.