

October 21, 2013 Company Report Rating: HOLD TP: HK\$ 6.18

H-Share price (HK\$)	5.80
Est. share price return	6.55%
Est. dividend yield	1.25%
Est. total return	7.80%

Previous Rating & TP (Initiation)
 Previous Report Date N/A

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Key Data

52Wk H/L(HK\$)	7.20 / 4.16
Issued shares (mn)	13,803
H-Shares (mn)	2,024
A-Shares (mn)	11,779
Market cap	
H-shares (HK\$ mn)	11,739
A-Shares (RMB mn)	49,354
3-mth avg daily turnover (HK\$ mn)	95.9
Major shareholder(s) (%):	
CSRG	56.46

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Locomotives	17.57
Passenger carriages	5.50
Freight wagons	11.00
MUs	13.85
Rapid transit vehicles	8.32
New Businesses	17.38
Others	26.38

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	0.70	0.12
3-mth	17.72	8.16
6-mth	12.45	6.47

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

CSR (1766 HK)

Shadowed by lukewarm sector outlook; initiate HOLD

With CRC's heavy debt problem, we expect growth in rolling stock orders to slow in 2014-15. Competition from domestic and international players, such as CNR and Bombardier, will increase. CSR's GPM is expected to stay flat at relatively low levels in FY13E-15E compared to FY11-12. The counter is currently trading at 80.99% above book. Our TP at HK\$ 6.18 reflects 1.93x FY13E P/B and a 30% discount to the median of CSR's forward P/B in 2008-10. We initiate with a **HOLD** rating on CSR for the less-than-optimistic industry outlook and its limited upside potential.

Slowdown in major business segments. Although we expect revenue of CSR's railway rolling stock segment to bottom out, the growth in railway rolling stock market will remain sluggish in 2014-15 on declining profitability and high debts in CRC. We expect CSR's revenue in the railway rolling stock manufacturing segments, which contributed to 60.76% of revenue in FY12 (1H13: 47.91%), will be below 10% p.a. in FY14E-15E.

Growth in urban rail rolling stock. Based on the existing construction pipeline of urban rail in major cities, we estimate that the total length of new urban rail line to be completed by 2015 to be 1,678.45km, and the aggregate demand for urban rail rolling stock will be 10,172 units in 2013-15. Segment revenue will grow at 26.13% CAGR in FY13E-15E.

GPM to decline. We expect the GPM of railway rolling stock to decrease with CRC's low profitability and competition from China North Locomotive and Rolling Stock Industry Corporation (CNR), the largest competitor of CSR in China. We estimate the Group's GPM to decrease from 17%-19% in FY10-12 to 16%-17% in FY13E-15E.

Net income growth in 2H13 to turn positive but overall momentum will remain sluggish in FY14-15. As CRC resumes rolling stock tendering, we estimate CSR's net income to turn around from a decline of 23.87% YoY in 1H13 to a growth of 22.20% YoY in 2H13. However, we expect the growth in rolling stock tenders to stay sluggish in 2014-15 with the tight liquidity in CRC. Hence, we estimate the overall net income to grow at 9.81% CAGR in FY13E-15E from 35.09% CAGR in FY08-10.

Lukewarm market affecting profitability. The production volume of locomotive in China is spiraling down. The total production volume in 8M13 was down 52.7% YoY. While the rolling stock market will be recovering mildly going forward, we believe it would take some time for the profit margin to recover. In general, we expect profitability to stay low in 2H13E-1H14E.

Initiate with HOLD recommendation. Our target valuation at 1.93x FY13E P/B is equivalent to a 30% discount to the median of forward P/B in 2008-10. The counter is trading at 1.81x FY13E P/B, 6.22% below our target valuation only. We initiate with a **HOLD** rating on CSR with TP at HK\$6.18 for its limited upside potential.

Risk factors: 1) Increased competition from CNR and international players; 2) Slowdown in rolling stock purchases from CRC due to its heavy debt problem

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	79,517	89,019	94,262	103,412	113,962
Chg (% YoY)	23.99	11.95	5.89	9.71	10.20
Net Income (RMB mn)	3,864	4,009	4,015	4,281	4,841
Chg (% YoY)	52.96	3.75	0.15	6.64	13.07
EPS (RMB)	0.326	0.299	0.291	0.310	0.351
P/E (x)	-	15.57	16.02	15.02	13.28
BVPS (RMB)	1.906	2.444	2.574	2.826	3.115
P/B (x)	-	1.91	1.81	1.65	1.50
DPS (RMB)	0.210	0.093	0.058	0.062	0.070
Yield (%)	-	1.99	1.25	1.33	1.51
ROAE (%)	18.48	14.49	11.76	11.49	11.81
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates

Revenue growth is slowing down

Slowdown in domestic railway rolling stock

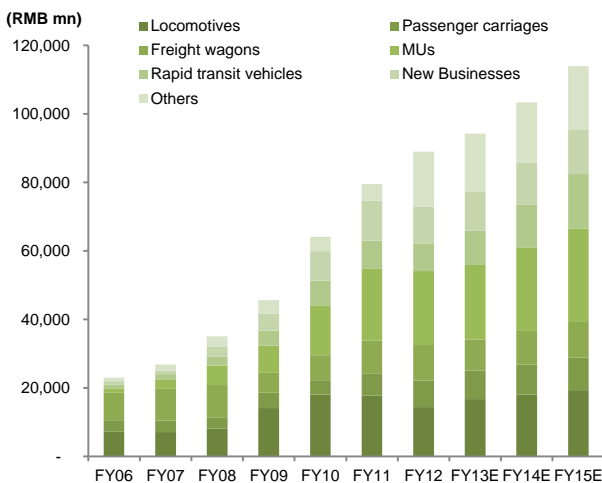
After the Wenzhou train collision and the corruption scandal of the former Ministry of Railway, investment in railway transportation and purchases of the rolling stock declined. FAI in railway transportation from CRC (or former MOR) has been decelerating since 2010. Based on our estimates, total rolling stock investment in China dropped 4.41% YoY from RMB 131bn in 2010 to RMB 125bn in 2011, and further decreased to RMB 112bn in 2012, down 10.18% YoY (1H13: -0.29% YoY). Revenue of CSR, as one of the major rolling stock manufacturers in China with an estimated market share of 48.09% in 2012, suffered.

Growth in total revenue from railway rolling stock segment (including locomotives, passenger carriages, freight wagons and multiple units) decelerated from 36.54% YoY in FY10 to 24.13% YoY in FY11, and declined to -1.35% YoY in FY12 and -39.52% YoY in 1H13. Looking forward, with the railway construction investment increasing from 2012, we expect CSR's segment revenue will bottom out in 2H13-1H14, considering that rolling stock purchases usually lag behind infrastructure construction by a year. However, with CRC's weak profitability and high debts, we believe the growth in railway rolling stock market will be tepid in 2013-15 compared to 2008-10 (the last three years of the 11th Five-Year Plan). We estimate revenue of railway rolling stock segment in CSR to stay below 10% p.a. in FY13E-15E

Growth in urban rail rolling stock

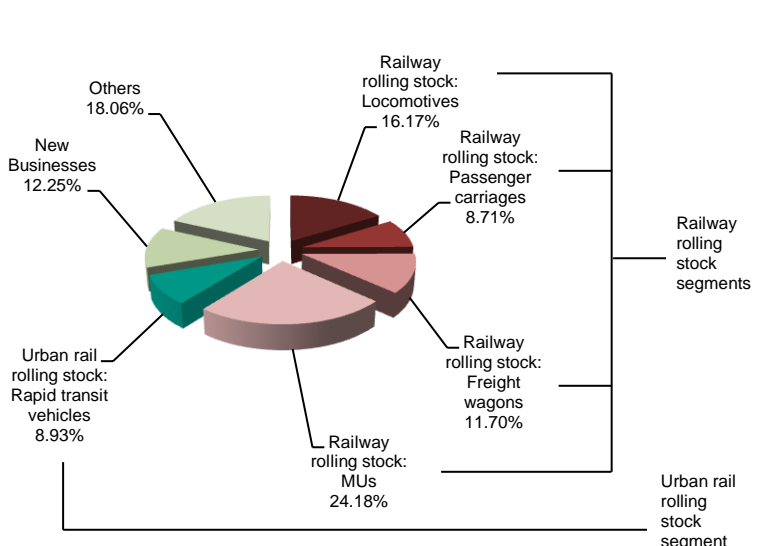
Under the existing construction pipeline of urban rail in major cities, we estimate that the total length of new urban rail line by 2015 will be 1,678.45km. Assuming a rolling stock demand of 6.06 units/km, we estimate the aggregate demand for urban rail rolling stock will be 10,172 units in 2013-15. Thus, CSR's revenue from urban rail segment (i.e. rapid transit vehicles) will grow at 26.13% CAGR over FY13E-15E.

Exhibit 1: Revenue breakdown and projection for CSR in FY06-15E



Source(s): Company, ABCI Securities estimates

Exhibit 2: Revenue breakdown of CSR in FY12 (%)



Source(s): Company, ABCI Securities

Income diversification: A measure for diluting impacts of rolling stock market slowdown

Slowdown expectation of railway rolling stock segments

Railway rolling stocks revenue is strongly correlated with development of railway transportation in China (81.39% in FY07-12). Considering that rolling stock purchases are usually made a year after railway construction commences, we expect the revenue growth in railway rolling stock segment is limited in the coming years given that the slowdown of railway infrastructure development in FY11-13E.

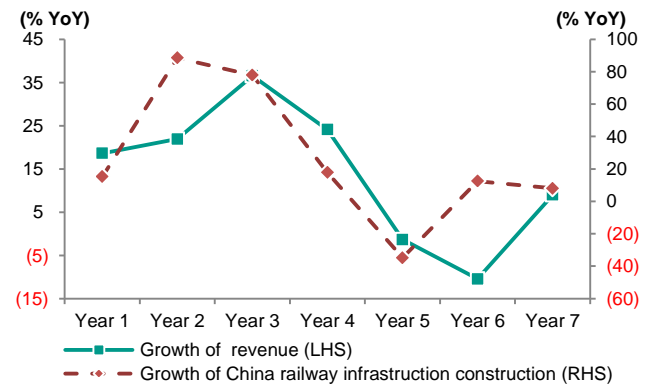
Exhibit 3: Correlation of the growth of railway rolling stock segments revenue and railway infrastructure construction investment in China, FY08-14E

		Segment Revenue (RMB mn)	Growth (% YoY)	Infrastructure Construction (RMB mn)	Growth (% YoY)
Year 1	FY08	26,532	18.62	FY07	178,999
Year 2	FY09	32,351	21.93	FY08	337,554
Year 3	FY10	44,173	36.54	FY09	600,564
Year 4	FY11	54,831	24.13	FY10	707,459
Year 5	FY12	54,092	(1.35)	FY11	461,084
				Correlation(%)¹ 81.39	
Year 6	FY13E	48,451	(10.43)	FY12	518,506
Year 7	FY14E	52,816	9.01	FY13E	560,000

1: The correlation is calculated from "growth of segment revenue from FY08 to FY12" and "growth of railway infrastructure construction investment from FY07 to FY11"

Source(s): Company, CRC, ABCI Securities estimates

Exhibit 4: Growth of railway rolling stock segments revenue and railway infrastructure construction investment in China, FY08-14E

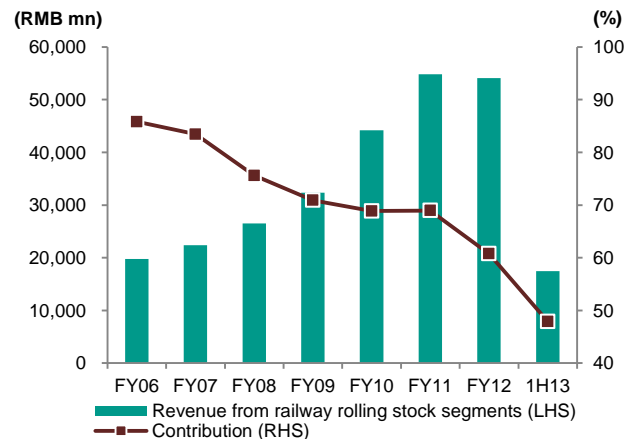


Source: Company, CRC, ABCI Securities estimates

Contribution decreasing of railway rolling stock

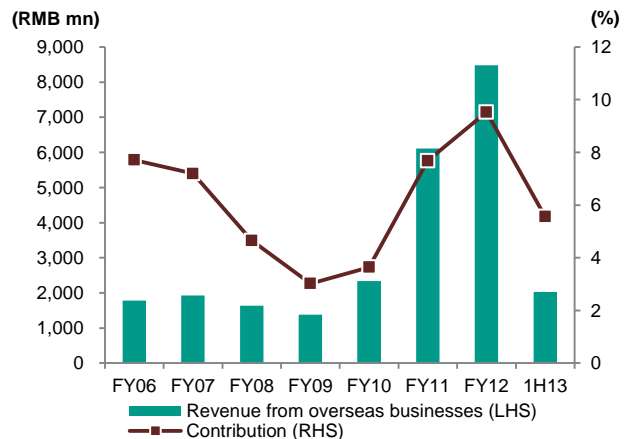
In order to offset impacts of the slowdown in railway rolling stock segments, the Group places more emphasis on its urban rail segment and new businesses (such as new energies, new materials, and new energy automobiles). With the rapid development of urban rail system in China, we expect contribution from CSR's railway rolling stock segment will further reduce in FY13E-15E. Moreover, with its active expansion overseas, contribution from overseas business will be increasing to buffer against the slowdown in domestic market.

Exhibit 5: Revenue from CSR's railway rolling stock segment and contribution as a percentage of total revenue in FY06-1H13



Source(s): Company, ABCI Securities

Exhibit 6: Revenue from CSR's overseas business and contribution as a percentage of total revenue in FY06-1H13



Source(s): Company, ABCI Securities

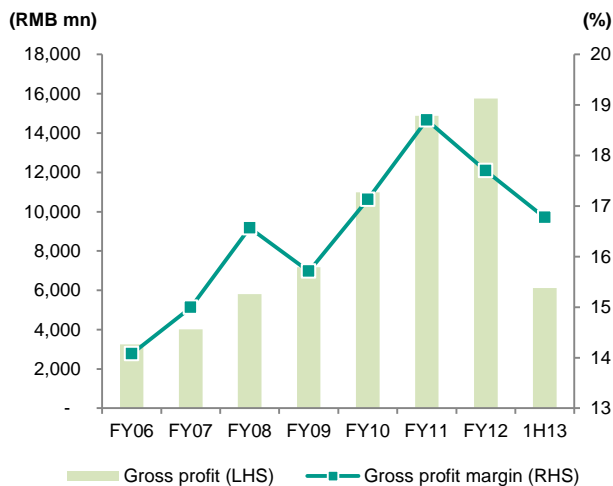
GPM expected to shrink

With the contribution of urban rail and new businesses, CSR's GPM improved from 14.07% in FY06 to 17.70% in FY12 (1H13: 16.77%). We expect profit margins of urban rail to stay flat at 18%-20% in FY13E-15E, while that of railway rolling stock to decrease from 15%-20% in FY13E-15E to 14%-18% in FY13E-15E under the market competition. We estimate the Group's GPM to decrease from 17%-19% in FY10-12 to ~17% in FY13E-15E.

Stable cost ratio

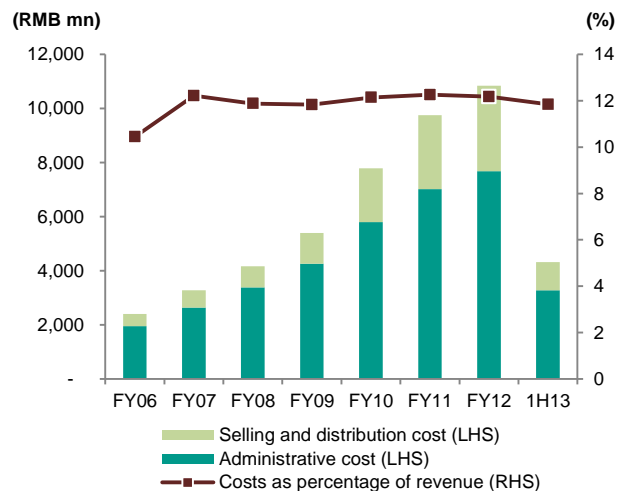
The Group's SG&A, as a percentage of total revenue, has been stable during FY06-1H13, ranging between 10.44%-12.26% and was higher than that of CNR at 8.21%-11.52. We believe the Group could improve its cost structure further in the future.

Exhibit 7: Gross profit and gross profit margin of CSR in FY06-1H13



Source(s): Company, ABCI Securities

Exhibit 8: Selling and distribution cost and administrative cost of CSR and the costs as percentage to revenue in FY06-1H13



Source(s): Company, ABCI Securities

Exhibit 9: Profitability comparison of CSR and CNR, FY06-1H13

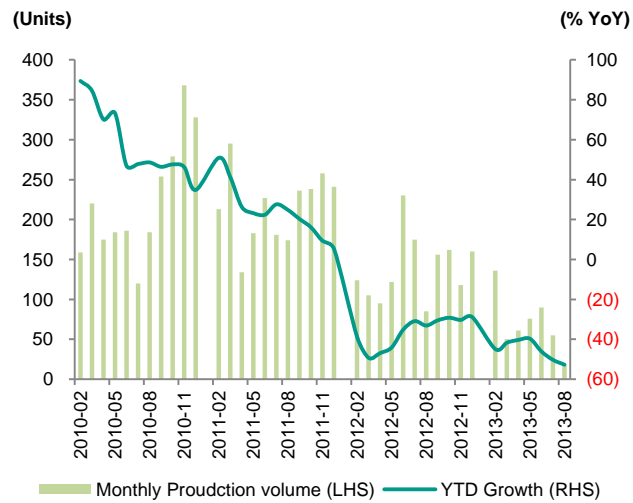
		FY06	FY07	FY08	FY09	FY10	FY11	FY12	1H13
Revenue (RMB mn)	CSR	23,047	26,804	35,093	45,621	64,132	79,517	89,019	36,441
	CNR	20,888	26,279	34,578	40,407	64,142	89,055	91,962	36,672
Gross profit margin (%)	CSR	14.07	14.99	16.57	15.71	17.13	18.70	17.70	16.77
	CNR	15.04	15.93	14.66	12.23	12.88	12.99	14.10	16.78
SG&A-to-revenue (%)	CSR	10.44	12.22	11.88	11.83	12.15	12.26	12.18	11.85
	CNR	11.52	11.02	9.76	9.51	9.15	8.21	9.13	10.00
Net income margin (%)	CSR	2.36	2.29	3.94	3.68	3.94	4.86	4.50	4.01
	CNR	0.63	2.82	3.27	3.26	3.00	3.35	3.68	4.26

Source(s): Companies

1H13 results fell on sluggish market demand

In 1H13, CSR's revenue dropped 12.92% YoY (22.74% HoH) and net income fell 23.87% YoY (30.10% HoH). Domestic demand of locomotive, according to NBS, has been spiraling down. Under the weakening business environment, CSR's profitability therefore weakened in 1H13. GPM dropped 2.13ppt YoY, and net margin dropped 0.58ppt YoY. While the rolling stock market will be recovering mildly going forward, we believe it would take some time for the profit margin to recover. In general, we expect profitability to stay low in 2H13-1H14.

Exhibit 10: Production volume of locomotive and the cumulative YoY growth, 2M10-8M13



Source(s): NBS

Exhibit 11: 1H13 results summary of CSR

	1H11	2H11	1H12	2H12	1H13	Change (% YoY)	Change (% HoH)
Revenue (RMB mn)	39,563	39,954	41,850	47,169	36,441	(12.92)	(22.74)
Locomotives	10,943	6,860	6,209	8,187	6,404	3.14	(21.78)
Passenger carriages	2,644	3,710	3,062	4,691	2,003	(34.59)	(57.30)
Freight wagons	5,033	4,659	5,809	4,610	4,007	(31.02)	(13.08)
MUs	10,012	10,969	13,789	7,735	5,046	(63.41)	(34.76)
Rapid transit vehicles	2,856	5,361	3,090	4,857	3,033	(1.84)	(37.55)
New Businesses	5,764	5,873	5,408	5,494	6,334	17.12	15.29
Others	2,311	2,521	4,483	11,595	9,614	114.45	(17.08)
Gross Profit (RMB mn)	7,085	7,785	7,909	7,846	6,112	(22.72)	(22.10)
GPM (%)	17.91	19.49	18.90	16.63	16.77	(2.13ppt)	0.14ppt
Major cost (RMB mn)							
Selling and distribution cost	1,214	1,521	1,354	1,799	1,044	(22.90)	(41.97)
Administrative cost ¹	2,908	4,109	3,694	3,993	3,273	(11.40)	(18.03)
Cost ratio (%)							
Selling and distribution cost	3.07	3.81	3.24	3.81	2.86	(0.37ppt)	(0.95ppt)
Administrative cost ¹	7.35	10.28	8.83	8.47	8.98	0.15ppt	0.52ppt
Net profit (RMB mn)	2,045	1,819	1,919	2,090	1,461	(23.87)	(30.10)
Net profit margin (%)	5.17	4.55	4.59	4.43	4.01	(0.58ppt)	(0.42ppt)

1: Including research & development expenses

Source(s): Company

Outlook and recommendation

Outlook of CSR

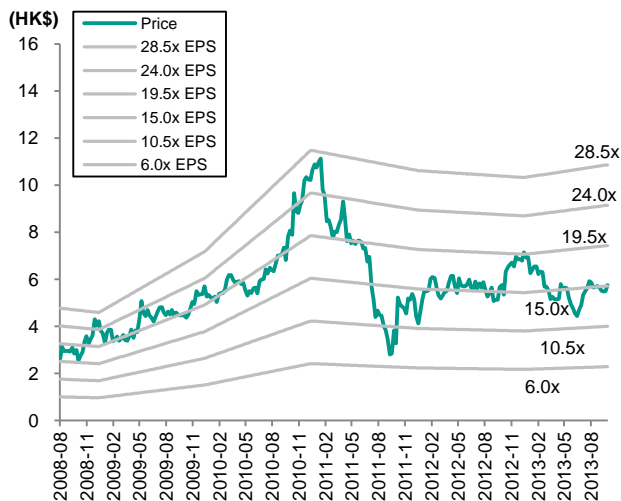
With CRC's internal restructuring coming to completion, tendering for rolling stock resumed in September 2013. Considering CRC's total railway FAI investment of RMB 660bn budgeted for 2013, we expect the total investment in rolling stock will be RMB 105.6bn for the year. We estimate that the first batch of tenders in September amounted to RMB 49.5bn, of which RMB 27.2bn, or 54.89% of the total tender, has been won by CSR. We believe the resumption of tendering signifies a recovering railway rolling stock manufacturing market, which we expect to bottom out in 2H13-1H14. Looking forward, however, growth in rolling stock tendering will be limited in 2014-15 as China's prudent monetary policy and CRC's low profitability persist.

Thanks to increased completion of urban rail by 2015, we expect delivery of urban rail rolling stock to accelerate in 2014-15. We estimate the segment revenue of CSR to grow at a CAGR of 26.13% over FY13E-15E. We estimate net income will grow at a CAGR of 9.81% over FY13E-15E, lower than that in FY08-10.

Initiate HOLD with TP at HK\$6.18

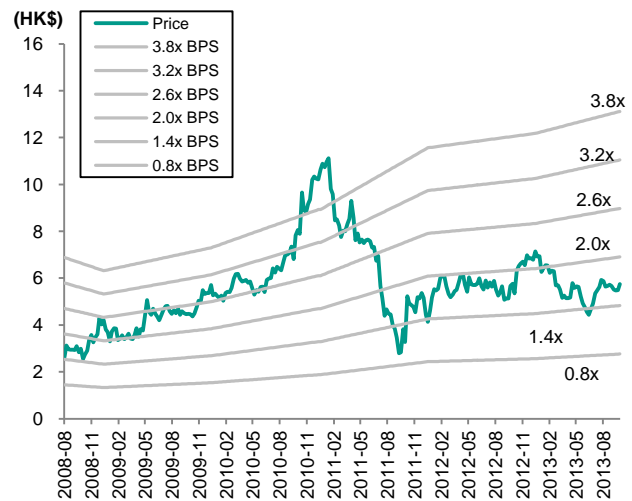
Our target valuation at 1.93x of FY13E P/B, equivalent to a 30% discount to the median of CSR's forward P/B in 2008-10. The discount is justified by our assumption that net income in FY13E-15E (the last three years of China's 12th Five-Year Plan) will grow at 9.81% CAGR, compared to 35.09% CAGR in FY08-10 (the last three years of China's 11th Five-Year Plan). The counter is currently trading at 1.81x of FY13E P/B, 6.22% below our target valuation. We believe the current valuation fully reflects the positive impacts of CRC's resumed tendering. Considering the lukewarm development in the railway rolling stock industry expected in 2014-15, we initiate with a **HOLD** rating on CSR with TP at HK\$6.18.

Exhibit 12: P/E band of CSR-H in 1M08-10M13 (HK\$)



Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 13: P/B band of CSR-H in 1M08-10M13 (HK\$)



Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 14: Peer valuation table for rolling stock manufacturer

Company	Ticker	Mkt cap (HK\$ mn)	As of 20/08/2013		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Domestic Rolling Stock Maker												
CSR-H	1766 HK	11,739	HKD	5.80	16.02	15.02	(2.77)	6.64	1.81	1.65	11.76	11.49
CSR-A	601766 CH	62,785	RMB	4.19	14.40	13.51	(2.77)	6.64	1.63	1.48	11.76	11.49
CSR Times Electric	3898 HK	29,709	HKD	27.40	21.13	18.07	(7.49)	16.92	2.92	2.61	16.28	15.24
CNR	601299 CH	59,735	RMB	4.55	12.36	10.61	8.24	16.58	1.24	1.13	10.48	11.37
Zhuzhou Times	600458 CH	9,318	RMB	11.12	29.03	22.33	23.55	30.03	2.40	2.40	8.82	8.58
Changchun Eurasia Group	600697 CH	4,303	RMB	21.26	13.67	10.98	22.44	24.50	2.49	2.08	22.43	20.64
Jinxi Axle	600495 CH	7,434	RMB	13.93	30.28	21.77	15.00	39.13	1.37	1.85	11.00	7.24
Sector Weighted Average					16.29	14.12	2.65	14.40	1.77	1.64	12.14	11.95
International Rolling Stock Maker												
Alstom	ALO FP	85,312	EUR	26.07	8.74	7.79	12.11	12.27	1.41	1.25	19.78	16.34
Bombardier Inc	BBD/A CN	66,095	CAD	4.99	12.28	9.47	23.44	29.62	4.12	3.06	44.31	35.75
CAF	CAF SM	13,820	EUR	380.10	12.44	10.83	5.31	14.84	1.58	1.44	14.89	13.88
Vossloh A.G.	VOS GR	9,920	EUR	70.19	23.13	16.78	(38.56)	37.86	1.74	1.65	7.70	10.06
Faiveley Transport	LEY FP	8,449	EUR	54.51	12.32	11.34	6.12	8.66	1.33	1.22	13.11	11.26
Nippon Sharyo	7102 JP	6,439	JPY	554.00	11.76	14.15	325.47	(16.88)	1.26	1.16	2.03	8.55
Kinki Sharyo	7122 JP	1,784	JPY	326.00	(14.05)	112.41	(436.72)	(112.50)	0.66	0.66	(4.62)	0.59
Sector Weighted Average					11.02	10.39	18.98	17.46	2.36	1.90	26.14	21.89
Overall Weighted Average					13.60	12.22	10.96	15.96	2.07	1.77	19.27	17.01

1: EPS turns positive in FY14E

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	79,517	89,019	94,262	103,412	113,962
Locomotives	17,803	14,396	16,762	18,019	19,382
Passenger carriages	6,354	7,753	8,291	8,858	9,467
Freight wagons	9,692	10,419	9,084	9,728	10,420
MUs	20,981	21,524	21,806	24,398	27,313
Rapid transit vehicles	8,217	7,947	9,957	12,532	15,839
New Businesses	11,637	10,902	11,482	12,152	12,929
Others	4,832	16,078	16,882	17,726	18,612
COGS	(64,647)	(73,264)	(77,982)	(85,844)	(94,660)
Gross profit	14,870	15,755	16,280	17,569	19,303
SG&A	(9,752)	(10,840)	(11,393)	(12,412)	(13,499)
Other income and gains	324	678	679	791	920
Pre-tax profit	5,442	5,593	5,566	5,948	6,724
Income tax	(699)	(741)	(724)	(773)	(874)
Net profit	4,743	4,852	4,843	5,175	5,850
Profit attributable to:					
Minority interests	879	843	828	894	1,009
Equity shareholders of the Company	3,864	4,009	4,015	4,281	4,841
EPS (RMB)	0.326	0.299	0.291	0.310	0.351
DPS (RMB)	0.210	0.093	0.058	0.062	0.070
EBIT	6,503	6,422	6,358	6,783	7,599
EBITDA	8,062	8,205	8,275	8,796	9,704

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	63,607	72,261	80,256	84,625	89,748
Cash and equivalent	23,730	15,044	17,008	20,590	22,191
Trade and bill receivables	17,891	30,355	34,208	33,789	34,901
Inventories	17,842	18,770	20,542	21,322	23,285
Other current assets	4,144	8,092	8,498	8,924	9,372
Non-current assets	29,179	32,956	35,106	37,137	38,580
Property, plant and equipment	21,390	22,996	24,306	25,531	26,677
Intangible assets	5,003	5,367	5,514	5,589	5,611
Long-term investments	2,340	3,099	3,409	3,750	4,125
Other non-current assets	446	1,494	1,877	2,268	2,168
Total assets	92,786	105,217	115,362	121,762	128,328
Current liabilities	59,185	61,538	64,909	66,437	67,464
Trade and bill payables	27,946	39,663	41,524	40,792	39,604
Receipts in advance	7,409	7,272	8,223	8,776	9,957
Short term borrowings	18,099	8,596	8,554	9,600	9,908
Other current liabilities	5,732	6,007	6,608	7,268	7,995
Non-current liabilities	5,513	4,169	7,508	8,187	8,933
Long-term borrowings	2,325	727	3,722	4,022	4,352
Other non-current liabilities	3,188	3,442	3,786	4,165	4,581
Total liabilities	64,698	65,707	72,417	74,624	76,397
Minority interests	5,526	6,754	7,416	8,131	8,939
Shareholders' equities	22,562	32,756	35,529	39,007	42,992
BVPS (RMB)	1.906	2.444	2.574	2.826	3.115

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	5,442	5,593	5,566	5,948	6,724
Changes in depreciation and amortization	1,559	1,783	1,917	2,013	2,105
Changes in working capital	58	(4,764)	(3,551)	(1,079)	(3,981)
Financial cost	994	764	752	793	831
Income tax paid	(568)	(855)	(722)	(772)	(873)
Others	(544)	(126)	-	-	-
CF Operating	6,941	2,395	3,961	6,903	4,806
Increase in PP&E	(5,611)	(3,165)	(3,000)	(3,000)	(3,000)
Increase in intangible assets	(646)	(581)	(374)	(314)	(273)
Others	(1,286)	(499)	-	-	-
CF Investing	(7,543)	(4,245)	(3,374)	(3,314)	(3,273)
Capital injection	278	9,310	-	-	-
Net debt financing	10,408	(11,101)	2,953	1,346	637
Dividend payout	(719)	(2,782)	(1,242)	(803)	(856)
Interest paid	(931)	(970)	(752)	(793)	(831)
Others	(138)	(129)	418	241	1,117
CF Financing	8,898	(5,672)	1,377	(8)	67
Net change in cash	8,296	(7,522)	1,964	3,581	1,601
Cash at the beginning	14,541	23,730	15,044	17,008	20,590
Adjustment (Time deposit & FX effect)	894	(1,164)	-	-	-
Cash at the end	23,730	15,044	17,008	20,590	22,191

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Locomotives	22.39	16.17	17.78	17.42	17.01
Passenger carriages	7.99	8.71	8.80	8.57	8.31
Freight wagons	12.19	11.70	9.64	9.41	9.14
MUs	26.39	24.18	23.13	23.59	23.97
Rapid transit vehicles	10.33	8.93	10.56	12.12	13.90
New Businesses	14.63	12.25	12.18	11.75	11.34
Others	6.08	18.06	17.91	17.14	16.33
Profit & loss ratios (%)					
Gross margin	18.70	17.70	17.27	16.99	16.94
Net profit margin	4.86	4.50	4.26	4.14	4.25
Effective tax rate	12.84	13.25	13.00	13.00	13.00
Growth (%)					
Revenue	23.99	11.95	5.89	9.71	10.20
Gross profit	35.34	5.95	3.33	7.91	9.87
EBIT	62.10	(1.25)	(1.00)	6.69	12.03
EBITDA	51.55	1.77	0.85	6.30	10.32
Net profit	52.96	3.75	0.15	6.64	13.07
Balance sheet ratios					
Current ratio (x)	1.07	1.17	1.24	1.27	1.33
Quick ratio (x)	0.77	0.68	0.71	0.77	0.81
Cash ratio (x)	0.40	0.24	0.26	0.31	0.33
Trade and bill receivables days	70.67	98.91	125.00	120.00	110.00
Trade and bill payables turnover days	149.38	168.41	190.00	175.00	155.00
Inventory turnover days	100.60	91.20	92.00	89.00	86.00
Total debt / equity ratio (%)	72.72	23.60	28.59	28.90	27.46
Net debt / equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROAE	18.48	14.49	11.76	11.49	11.81
ROAA	4.64	4.05	3.64	3.61	3.87
Payout ratio	64.30	30.98	20.00	20.00	20.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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