

Sep 27, 2016

Sector Report

Rating: Neutral

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Previous reports

China Dairy Sector (Neutral)
http://sec.abci.com.hk/medias/ABCI_Dairy_Sector_Neutral.pdf
Yili (600887 CH, HOLD, TP: HK\$17.61)
http://sec.abci.com.hk/medias/ABCI_Yili_600887CH_Hold.pdf
Mengniu (2319 HK, HOLD, TP: HK\$14.53)
http://sec.abci.com.hk/medias/ABCI_Mengniu_2319HK_Hold.pdf
Biostime (1112 HK, HOLD, TP: HK\$22.83)
http://sec.abci.com.hk/medias/ABCI_Biostime_1112HK_Hold.pdf

Source(s): ABCI Securities

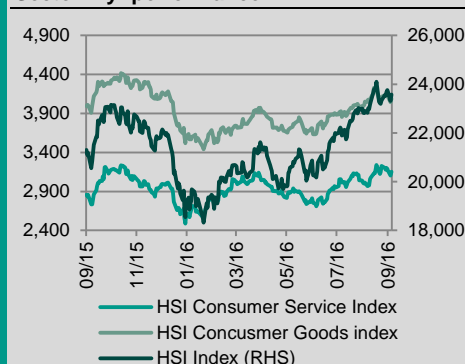
Sector performance (%)

	Absolute	Relative*
Hang Seng Consumer Goods Index		
1-month	1.39	(1.94)
3-month	13.47	(4.33)
6-month	12.49	(6.91)
YTD	(0.14)	(11.52)
Hang Seng Services Index		
1-month	4.97	1.64
3-month	15.61	(2.19)
6-month	8.40	(11.00)
YTD	8.31	(3.07)

* Relative to HSI Index

Source(s): Bloomberg, ABCI Securities

Sector 1-yr performance



Source(s): Bloomberg, ABCI Securities

Sector rating & valuation

Company	Ticker	Rating	Pricing currency	Price	Market cap (mn)	TP	P/E(x)		P/B (x)		ROAA (%)			ROAE (%)		
							FY16E	FY17E	FY16E	FY17E	FY15A	FY16E	FY17E	FY15A	FY16E	FY17E
WH Group	288 HK	BUY	HKD	6.37	93,310	7.68	14.94	13.53	2.38	2.25	5.42	6.54	6.70	14.43	16.37	17.07
Anta	2020 HK	HOLD	HKD	21.10	52,783	23.43	26.53	23.98	6.34	5.85	17.09	16.73	17.11	24.92	24.78	25.38
Yili	600887 CH	HOLD	RMB	16.11	97,704	17.61	21.24	18.01	4.66	4.52	11.71	12.24	13.76	23.77	23.25	23.77
Mengniu	2319 HK	HOLD	HKD	14.60	57,265	14.53	24.13	25.57	2.09	1.98	4.84	3.85	3.43	10.85	8.89	7.93
Biostime	1112 HK	HOLD	HKD	21.15	13,333	22.83	23.53	19.57	2.87	2.41	2.46	3.14	3.86	7.71	11.23	11.48

Source(s): Bloomberg, ABCI Securities estimates

* All pricing data as of end of Sep 27, 2016

China Consumer Sector

New developments, new winners

- There were signs of improvement in the consumer market in China. Accumulated retail sales growth remained at 10.3% YoY while monthly growth climbed to 10.6% YoY in Aug 2016. Online retail sales growth tapered, but high sales growth persisted for non-physical goods
- Varying growth momentum was seen across the retail industry; even the ones considered to benefit from consumption upgrade have seen faltering growth
- We envision three emerging developments would transform the consumer market in China - moderation, function, and aspiration; we believe WH Group (288 HK) and ANTA (2020 HK) would benefit from these emerging developments
- Numerous companies are listed in the HK and A-share markets. Uneven 1H16 results and the wide valuation range reflects the sector's stiffening competition as well as differences in fundamentals among these players

Retail sales growth picked up in Aug. Retail sales growth improved to 10.6% YoY in Aug 2016 from 10.2% YoY in July, but the accumulated retail sales growth remained at 10.3% YoY in Aug 2016 compared to the 10.7% observed in 2015. Nonetheless, a few bright spots exist.

Online retail sales growth slowed, but there are signs of recovery. Growth in total online retail sales and the online retail sales of physical goods declined, yet growth momentum of online sales of services remained strong. We believe consumers may have held back their purchases in anticipation of the major sales over the next few months. Also, service consumption demand is playing an increasingly important role in supporting online retail.

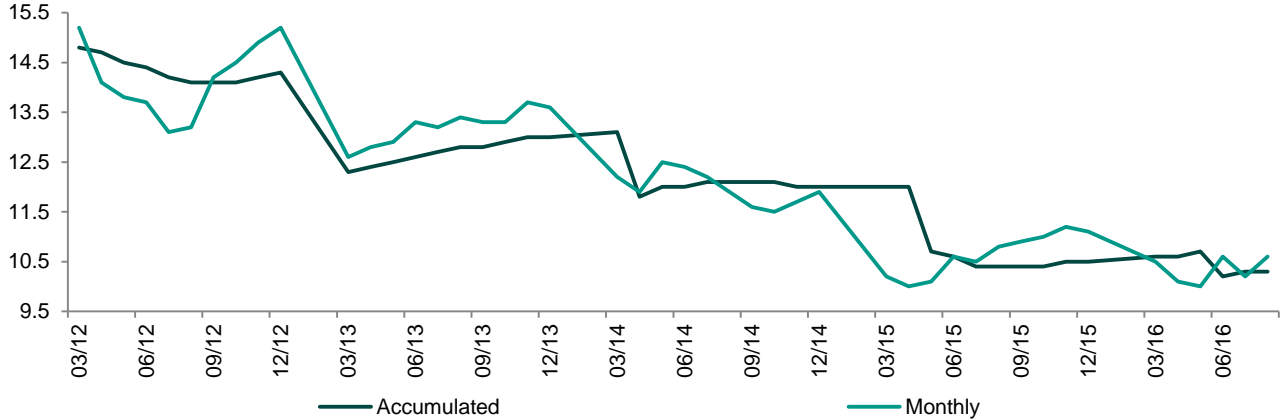
Performance of the consumer sub-sectors varies. Growth in some industries such as "Sports & Recreation" and "Furniture" trended down, reflecting a weakening consumer sentiment. However, a few sub-sectors, such as "Automobile" and "Building & Decoration materials", remained strong.

Three emerging developments. We envision three emerging developments to transform the consumer market in China. 1) the moderation of consumption that go beyond savings - disruptions originated from the industry and consumer levels also play a role; 2) the Chinese consumers are bargain hunting, but more emphasis has been placed on the function or the quality of products; 3) the aspiration for lifestyle upgrade means Chinese consumers are willing to spend more to enhance their quality of life, either materially or psychologically. We believe WH Group (288HK) and Anta (2020 HK) would benefit from these developments.

Valuation of consumer sector reflects the reality. Valuation of the consumer sector reflects a mixed picture. As of Sep 27, 2016, the A-share winners (i.e. positive growth in YTD share price) in the consumer sector have a P/E range of 7.49x – 41.74x, a median of 15.24x and an average of 17.08x; HK-listed winners in the consumer sector has a P/E range of 6.88x – 76.16x, a median of 17.80x, and an average of 20.38x. The Hang Sang Consumer Goods Index and Hang Sang Consumer Services Index also saw relative (against HSI) YTD decline of 11.52% and 3.07% and 6-mth decline of 6.91% and 11.0%. Our sector rating is **Neutral**.

Signs of improvement in China's consumer sector

So far in 2016, retail sales growth has been below 11% YoY and the market is struggling to maintain a double-digit growth. In Aug 2016, the retail sales growth in China was 10.6% YoY, rising from the 10.2% YoY in July 2016. The accumulated retail sales growth stayed at 10.3% YoY in Aug 2016, down from the 10.7% YoY in 2015. Nonetheless, some bright spots still exist in the consumer market.

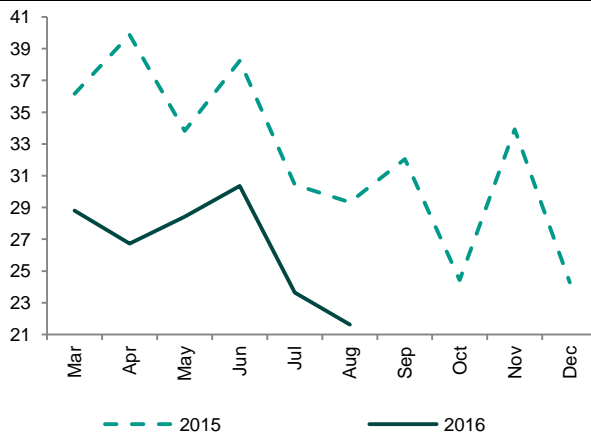
Exhibit 1: China retail sales continue to reach for lower growth (YoY %)


Source(s): Bloomberg, NBS, ABCI Securities

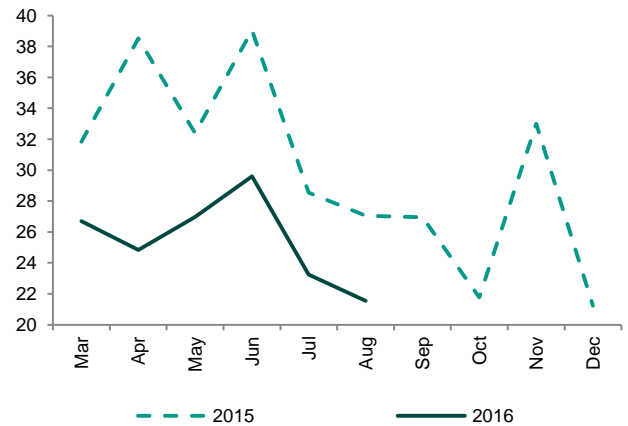
Online retail sales growth tapers, but there are signs of recovery

Since the beginning of 2016, online retail sales have been growing more slowly at ~27% YTD YoY. In Aug 2016, online retail sales was up by 26.70% YTD YoY or 21.62% YoY; among which, physical goods sales expanded by 25.5% YTD YoY or 21.55% YoY and service sales grew by 56.43% YTD YoY or 58.56% YoY. Online retail sales of services have been picking up swiftly, partly offsetting the lower growth in online physical goods sales.

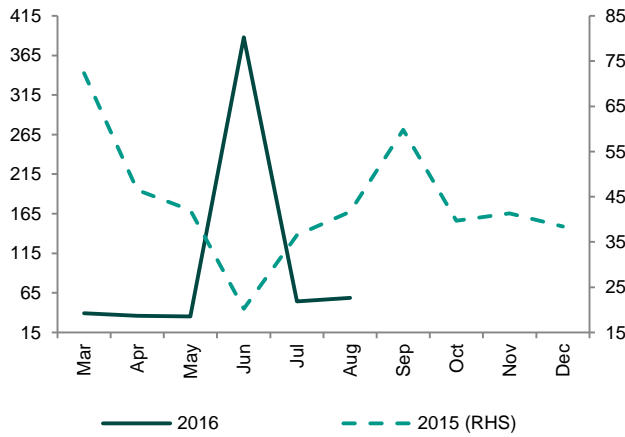
For the online retail sector, a few major sales events will take place in the next few months. It is possible that consumers are simply delaying their purchases as a result. In addition, strong service sales suggest consumer demand is strong. We believe service consumption will offer solid support to online retail in the future.

Exhibit 2: Growth of monthly online retail sales (YoY %)


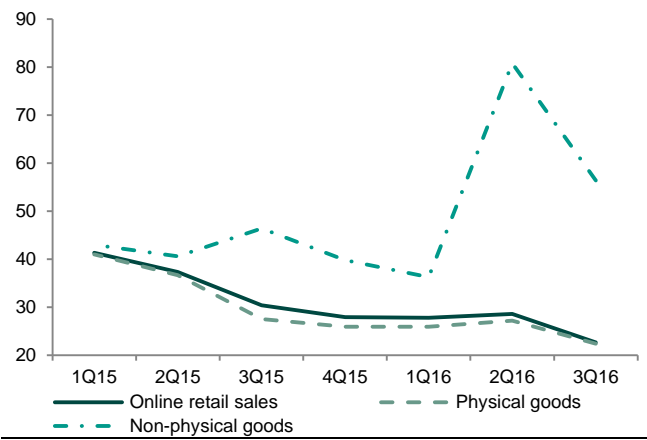
Source(s): NBS, ABCI Securities

Exhibit 3: Growth of monthly online physical goods sales (YoY %)


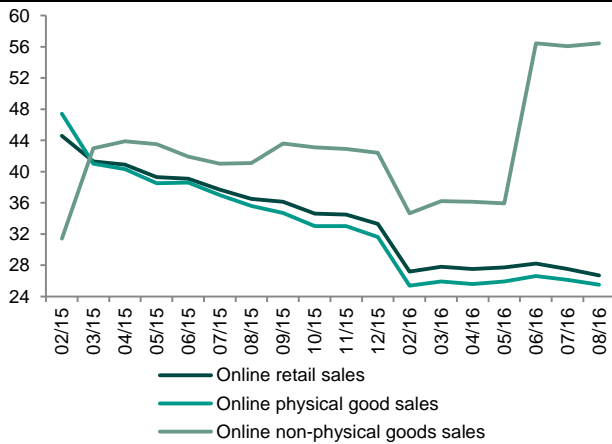
Source(s): NBS, ABCI Securities

Exhibit 4: Growth of monthly online non-physical goods sales (YoY %)


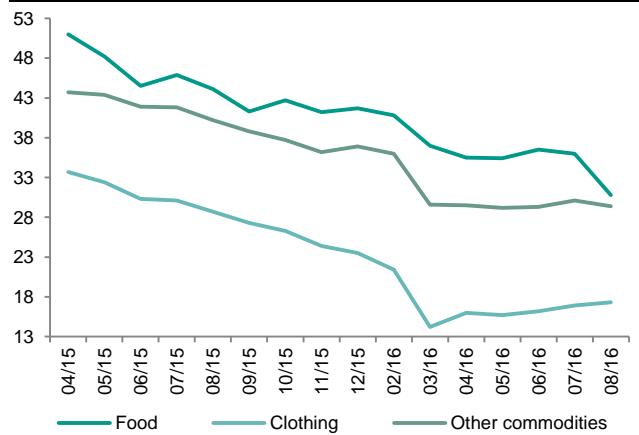
Source(s): NBS, ABCI Securities

Exhibit 5: Quarterly growth of online retail sales (YoY %)


Source(s): NBS, ABCI Securities

Exhibit 6: Growth of online retail sales (YTD YoY %)


Source(s): NBS, ABCI Securities

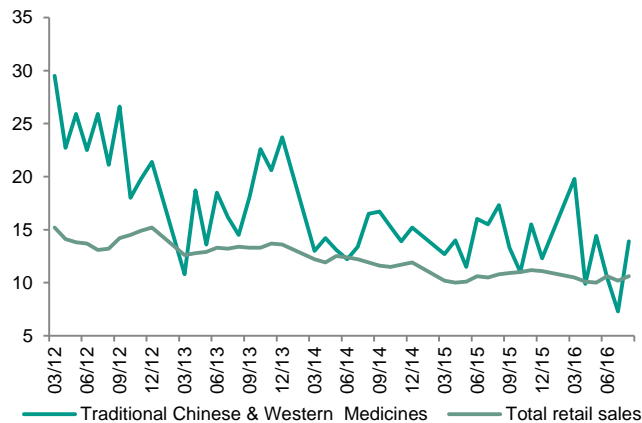
Exhibit 7: Growth of online retail sales by product categories (YTD YoY %)


Source(s): NBS, ABCI Securities

Inconsistent performance of retail industry segments sparks new worries

Consumption pattern of the Chinese consumers have been changing. In 2016, retail sales growth of different product categories varies. Certain industries, such as “Building & Decoration materials” and “Automobile”, maintained strong momentum. But the unstable growth momentum of retail sales of “Furniture”, “Traditional Chinese & Western Medicine”, and “Sports & Recreation” in Aug suggests the impact of consumption upgrade may not be as robust as previously believed.

Exhibit 8: Traditional & Western Medicine retail sales growth (YoY %)



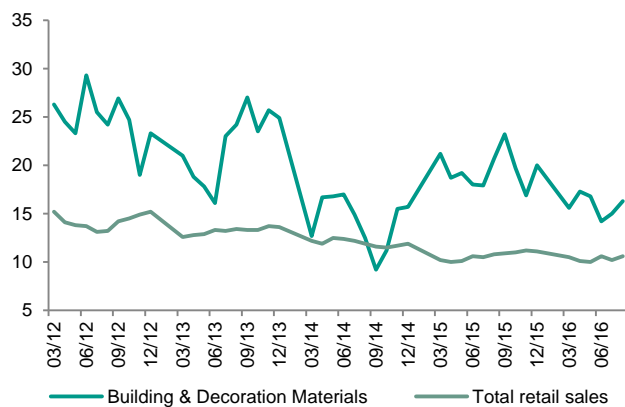
Source(s): Bloomberg, ABCI Securities

Exhibit 9: Sports & Recreation retail sales growth (YoY %)



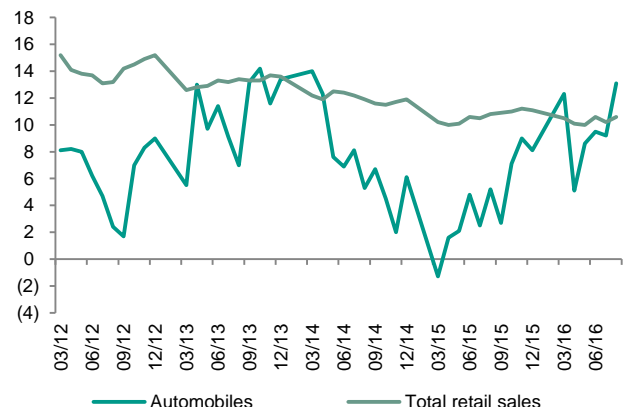
Source(s): Bloomberg, ABCI Securities

Exhibit 10: Building & Decoration Materials retail sales growth (YoY %)



Source(s): Bloomberg, ABCI Securities

Exhibit 11: Automobile retail sales growth (YoY %)



Source(s): Bloomberg, ABCI Securities

The three emerging developments to transform the Chinese consumer market

Although the slowdown in the retail sector of China adds to the complexity of the market dynamics, we have identified three emerging developments that would transform the consumer market in China - moderation, function, and aspiration.

The moderation of consumption – not just a money matter

Consumers in China are tightening their purse string as a result of the economic slowdown. Certain consumer goods related to the consumption upgrades saw unstable growth momentum. In 2016, sales growth of “Household Appliances & AV Equipment” declined from 11.5% YoY in Jul to 7.1% YoY in Aug, and sales growth of “Sports & Recreation” declined from 19.7% YoY in Jun to 5.1% YoY in Aug.



We believe that there is a structural shift in the Chinese consumer market that is masked by the tepid growth at present. The entry of more foreign competitors, ecommerce channels and the disruptions originated from the industry/consumer level are manifestations of such developments.

Bargain hunting with increasing emphasis on function

We believe the low-price strategies that many domestic brands have been adopting are becoming less effective as the Chinese consumers are seeking for quality as well. The expanded options provided by overseas travel and ecommerce channel are enabling the Chinese consumers to gain access to the latest products, comparing prices/product features, and obtain user-generated feedbacks. Hence, instead of purchasing the cheapest products/services, consumers are targeting for quality products/services at the lowest price.

The aspiration for lifestyle upgrade

The Chinese consumers are prudent on certain types of consumption, but they are willing to spend on what they consider necessary for essential lifestyle upgrade, such as automobile and the housing-related items. According to the NBS data, in Aug 2016, "Furniture" sales grew by 11.1% YoY and 14.7% YTD YoY; the sales of "Building & Decoration Materials" grew by 16.3 % YoY and 15.6% YTD YoY; "Automobile" also registered growth of 16.3% YoY and 8.6% YTD YoY in July 2016.

Demand for these products has not faltered despite the economic slowdown. We believe the emerging urban consumer class is providing strong support and these products would continue to experience decent growth over the next few years. In addition, the concept of lifestyle upgrade are continuously changing in this new era, with products traditionally thought of as a status symbol seeing lower demand. E.g. sales of "Gold, Silver & Jewelry" declined by 6.3% YoY and 2.1% YTD YoY in Aug 2016.

Consumer market in China sees higher level of competition

Competition is stiffening in the consumer sector. Slow growth in the general consumer sector is affecting the sub-sectors, resulting in lower growth seen in the relevant listed companies. Performances were uneven across the industry, as seen in 1H16. Some companies showed revenue or net profit growth, others suffered decline. Some were expanding their revenue by sacrificing their net profit, while others were guarding their profit margins at the expense of revenue growth. Even industry leaders are not immune to such chaos.

The industry is undergoing a transition, with many seeing the end of their product cycles. These companies are usually well established, leaders in the market, and have a national presence. It seems that their products are losing appeal to consumers, especially now the latter are better informed and that a wider range of selection is available through multiple channels. The arising latecomers are more aggressive than ever. It is simply unpractical for the industry veterans to rely on the status quo.

Beneficiaries of the three emerging developments

With the three emerging developments in the Chinese consumer market, we believe investors' preference would also change. The moderation of consumption would render the staple product companies, including the WH Group (288 HK), more attractive because their lower sensitivity to changes in the economic cycle. The dairy industry leaders, Yili (600887 CH) and Mengniu (2319 HK), however, would not benefit as much from this development as intensifying competition would affect performance. Moreover, the aspiration for lifestyle upgrade and the changing status symbol is going to benefit the sports apparel industry as consumers are more health conscious. Being the leading player in the industry, Anta (2020 HK) would be able to ride the wave despite some medium-to-short term headwinds in the market.

Sector valuation and recommendation

Valuation and return of the consumer sector reflected the complex business environment. As of Sep 27, 2016, the A-share winners (i.e. positive growth in YTD share price) in the consumer sector have a P/E range of 7.49x – 41.74x, a median of 15.24x and an average of 17.08x; HK-listed winners in the consumer sector have a P/E range of 6.88x – 76.16x, a median of 17.80x and an average of 20.38x. In addition, the Hang Seng Consumer Goods Index and Hang Seng Consumer Services Index saw YTD decline of 11.52% and 3.07% and 6-mth decline of 6.91% and 11.0%.

We initiate coverage of WH Group (288 HK) with **BUY** and a TP of HK\$ 7.68, representing 14.94x/13.53x FY16E/17E P/E and 2.38x/2.25x FY16E/17E P/B. We believe the Group's operating synergies across geographical segments and its control over the licensed slaughterhouses in China would give it significant advantages over competitors.

We also initiate coverage of Anta (2020 HK) with **HOLD** and a TP of HK\$ 23.43, representing FY16E P/E and FY17E P/E of 26.53x and 23.98x, and FY16E P/B and FY17E P/B of 6.34x and 5.85x. We believe that the consumption upgrade and huge market potential would benefit the Group's future development, but some indicators show the Group's growth momentum would be pressured and valuation is expensive at present.

Yili (600887 CH) experienced improving profitability and stalled growth momentum in 1H16. We revise the rating to **HOLD** with a TP to RMB 17.61, which represents 2016E P/E and 2017E P/E of 21.24x and 18.01x, and 2016E P/B and 2017E P/B of 4.66x and 4.52x, to reflect the increased difficulty in reaching the Group's target sales and the challenging condition of the industry.

Mengniu (2319 HK)'s 1H16 performance contrasted with that of Yili. Mengniu's revenue growth could mean that its sales strategy has been working, but the profit contraction, increasing S&D expenses, and the change in working capital management could mean that the Group is improving sales by sacrificing profit and could be extending more favorable terms to its business partners. We maintain **HOLD** but adjust TP to HK\$ 14.53, which represents 24.13x 2016E P/E or 25.57x 2017E P/E, and 2.09x 2016E P/B or 1.98x 2017E P/B.

For Biostime (1112 HK), we project its revenue would grow mildly in the next few years. Bottom-line growth and profitability would improve on diversification of product mix with the addition of adult nutrition products. We change our rating to **HOLD** and change the TP to HK\$ 22.83, representing 2016E P/E of 23.53x or 2017E P/E of 19.57x, and 2016E P/B of 2.87x or 2017E P/B of 2.41x.

For Modern Dairy (1117 HK, SELL) and Shengmu (1432 HK, SELL), we maintain the TP and rating because the lack of major changes in outlook. Increasing market shares of the industry leaders suggest an even more perilous business environment for smaller players. For more details, please refer to our previous report issued on Apr 19, 2016.

Exhibit 12: Sector rating & valuation

Company	Ticker	Rating	Pricing currency	Price	Mkt cap (mn)	TP	P/E(x)		P/B (x)		ROAA (%)			ROAE (%)		
							FY16E	FY17E	FY16E	FY17E	FY15A	FY16E	FY17E	FY15A	FY16E	FY17E
WH Group	288 HK	BUY	HKD	6.37	93,310	7.68	14.94	13.53	2.38	2.25	5.42	6.54	6.70	14.43	16.37	17.07
Anta	2020 HK	HOLD	HKD	21.10	52,783	23.43	26.53	23.98	6.34	5.85	17.09	16.73	17.11	24.92	24.78	25.38
Yili	600887 CH	HOLD	RMB	16.11	97,704	17.61	21.24	18.01	4.66	4.52	11.71	12.24	13.76	23.77	23.25	23.77
Mengniu	2319 HK	HOLD	HKD	14.6	57,265	14.53	24.13	25.57	2.09	1.98	4.84	3.85	3.43	10.85	8.89	7.93
Biostime	1112 HK	HOLD	HKD	21.15	13,333	22.83	23.53	19.57	2.87	2.41	2.46	3.14	3.86	7.71	11.23	11.48
Modern Dairy	1117 HK	SELL	HKD	1.50	7,957	1.24	15.27	12.67	0.66	0.64	2.03	1.92	2.22	4.40	4.32	5.03
Shengmu	1432 HK	SELL	HKD	1.99	12,645	1.47	9.80	12.17	1.45	1.28	10.04	7.78	5.53	16.64	13.36	9.21

Source(s): Companies, ABCI Securities estimates



Exhibit 13: Performance and valuation of winning HK-listed stocks in the consumer sector in 1H16

Industry	Total Mkt Cap	Avg. YTD gain	Avg. 16E P/E	Avg. 17E P/E	Avg. 16E P/B	Avg. 17E P/B	Avg. 16E ROE	Avg. 17E ROE	Avg. 16E Div. Growth	Avg. 17E Div. Growth
	(HKD bn)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
Packaged Foods & Meats	2,714.67	19.08	20.37	19.50	2.48	2.25	13.57	13.25	1.68	5.73
Textiles	95.19	90.45	8.22	7.16	1.75	1.49	23.06	22.42	3.71	14.83
Auto Parts & Equipment	1,071.47	44.12	14.64	12.59	2.81	2.43	21.32	21.14	2.70	16.23
Casinos & Gaming	5,627.05	30.85	24.37	34.09	6.42	5.74	9.12	20.75	2.00	22.20
Automobile Manufacturers	3,676.68	50.06	16.13	13.34	2.10	1.83	15.13	15.72	1.83	21.40
Home Furnishings	214.61	28.17	14.43	12.86	4.00	3.50	29.27	28.58	3.54	12.18
Specialty Stores	776.25	23.00	17.72	15.69	2.39	2.36	12.50	14.17	4.21	12.08
Real Estate Services	56.86	38.57	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Apparel, Accessories & Luxury	1,072.53	25.51	21.35	16.14	2.73	2.38	13.32	15.32	2.84	29.94
Footwear	548.27	32.35	14.78	13.57	1.51	1.43	10.83	11.17	3.73	8.97
Apparel Retail	263.85	25.20	16.98	14.04	2.96	2.58	18.77	19.24	3.27	20.99
Department Stores	335.79	15.51	16.26	13.71	6.62	2.44	15.47	36.83	4.11	19.19
Railroads	2,826.92	14.91	23.23	21.34	1.22	1.26	5.02	5.58	5.11	9.58
Multi-Sector Holdings	240.06	13.83	10.48	10.80	0.90	0.85	7.75	8.33	2.63	(2.90)
Restaurants	185.42	11.98	21.41	19.30	2.65	2.55	12.61	13.49	4.04	10.13
Consumer Electronics	170.14	14.99	7.04	6.57	0.93	0.85	13.55	13.49	4.52	7.18
Movies & Entertainment	62.95	7.07	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hotels, Resorts & Cruise Lines	302.51	10.80	31.13	27.24	0.61	0.60	1.35	2.26	1.10	14.29
Brewers	539.83	13.89	37.14	25.88	2.49	2.39	7.45	9.33	0.58	43.53
Advertising	78.25	4.15	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Airport services	381.55	8.05	17.95	15.88	1.69	1.58	9.92	10.27	2.18	13.03
Trading Companies & Distributor	68.99	34.65	11.20	9.53	2.38	2.01	23.77	23.35	3.33	17.50
Agricultural Products	271.71	6.24	18.80	12.85	1.14	0.99	8.88	10.07	0.19	40.15
Automotive Retail	169.57	70.85	14.52	12.29	1.22	1.11	8.88	9.51	1.32	18.16
Specialty Chemicals	95.37	11.64	7.31	7.31	0.80	0.72	#DIV/0!	#DIV/0!	-	-
Diversified Support Services	81.13	11.62	26.73	23.41	6.59	5.44	26.55	25.45	1.81	14.17
Distributors	23.41	4.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Healthcare provider	111.72	51.17	34.50	29.62	4.90	3.72	13.97	16.21	0.55	16.47
Medical equipment	179.64	32.59	50.02	27.62	9.22	5.72	18.85	21.06	0.39	66.34
Household Appliances	36.95	33.82	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Healthcare product distributors	1,693.31	30.26	17.98	15.94	2.16	1.93	12.24	12.13	1.62	12.66
Multiple chemical	79.75	8.00	10.75	8.84	1.09	0.99	10.53	11.88	2.23	21.67
Medical and healthcare products	239.49	2.70	18.33	14.94	1.73	1.58	9.61	11.27	1.48	22.71

Source(s): Bloomberg, ABCI Securities

Exhibit 14: Performance and valuation of winning stocks in the A-Share consumer sector in 1H16

Industry	Total Mkt Cap	Avg. YTD gain	Avg. 16E P/E	Avg. 17E P/E	Avg. 16E P/B	Avg. 17E P/B	Avg. 16E ROE	Avg. 17E ROE	Avg. 16E Div. Growth	Avg. 17E Div. Growth
	(RMB bn)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
Distillers & Vintners	643.47	20.74	20.29	17.47	3.85	3.37	17.60	19.54	2.57	2.94
Household Appliances	362.82	10.99	11.07	9.73	2.53	2.17	23.84	23.07	4.23	4.55
Cable & Satellite	49.12	47.66	N/A	N/A	N/A	N/A	11.70	11.80	N/A	N/A
Packaged Foods & Meats	177.58	12.97	17.21	15.57	4.57	4.22	25.41	27.78	4.76	4.83
Automobile Manufacturers	238.81	8.56	7.59	7.16	1.26	1.15	17.05	16.68	6.60	7.01
Auto Parts & Equipment	42.17	13.41	14.08	12.46	2.29	2.14	16.87	17.84	4.61	5.03
Construction Machinery & Heavy	49.70	6.81	12.43	11.60	3.54	3.13	29.79	28.47	5.42	5.71
Healthcare product distributors	89.46	7.99	30.35	25.13	2.74	2.53	9.60	10.47	1.11	1.27

Source(s): Bloomberg, ABCI Securities

Sep 27, 2016
Company Report
Rating: BUY
TP: HK\$ 7.68

Share price (RMB) 6.37
Est. share price return 20.57%
Est. dividend yield 2.51%
Est. total return 23.08%

Previous Rating & TP N/A
Previous Report Date N/A

Analyst: Paul Pan
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Key Data

52Wk H/L(RMB)	6.5/3.74
Issued shares (mn)	14,648.42
Market cap (RMB mn)	93,310.44
3-mth avg daily turnover (RMB mn)	227.42
Major shareholder(s) (%):	
Heroic Zone Investment Ltd	23.71
CDH Shine I Ltd	8.18
CDH Shine II Ltd	6.53
Chang Yun Hlds Ltd	4.31

Source(s): Bloomberg, ABCI Securities

Key data

Revenue composition (%)	1H15	1H16
Packaged meat	52.00	51.10
Fresh pork	40.87	43.86
Hog production	5.33	3.04

Source(s): The Group, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	5.81	2.48
3-mth	8.49	(9.32)
6-mth	30.87	11.46

*Relative to HSI Index

Source(s): Bloomberg, ABCI Securities

Stock performance



Source(s): Bloomberg, ABCI Securities

* All pricing data as of closing of Sep 27, 2016

WH Group (288 HK)

A leading integrated player in the pork industry

- 1H16 result showed decent improvement; revenue growth increased from -3.18% YoY in 1H15 to 2.43% YoY in 1H16; OPM increased from 6.52% in 1H15 to 9.49% in 1H16. CCC of the Group decreased from 39.33 days in 1H15 to 36.83 days in 1H16
- Global footprint enables the Group to attain operating synergies. The Group's unique business model skewing toward the end of value chain enables advantages over competitors
- We expect the Group's revenue would grow by 10.61% CAGR from FY15 - FY18; GPM would maintain at above 19% and its NPM would be above 4% in the next three years
- Initiate coverage on the Group with a **BUY** rating and TP of HK\$ 7.68, representing 14.94x FY16E P/E and 2.38x FY16E P/B

1H16 results showed decent improvements. Revenue of the fresh pork segment, the largest growth contributor, expanded by 9.93 % YoY. OPM increased from 6.52% in 1H15 to 9.49% in 1H16. NPM also improved from 3.92% in 1H15 to 6.24% in 1H16. Moreover, overall CCC shortened to 36.83 days in 1H16 from 39.33 days in 1H15.

Unique features of the Group. The Group's operations across the world allow it to realize more operating synergies. In 1H16, it imported the low-cost pork from the U.S. to offset the effect of high pork price in China. In addition, the Group is the top operator of licensed slaughterhouses in China. As the gatekeeper of the Chinese pork market while the authorities are tightening the safety standard and reducing the number of licensed slaughterhouses, the Group would acquire more bargaining power over hog suppliers and influence on the pork price in the country.

The industry environment is supportive of the Group's growth. As pork price has peaked recently in China, we expect a mild decline in 2017. Nonetheless, we believe the Group's synergy among its geographical segments, unique operating model in China, and strong demand of pork in key markets would support growth. The Group's business segments would see consistent volume growth, but ASP growth would be more volatile due to the uncertainty in commodity price. We expect the Group's revenue growth to reach 11.43% YoY in FY18E, while its GPM and NPM would be above 19% and 4% in the next three years. Maintaining an efficient working capital management, CCC would be ~32 days in the next few years.

Initiate with BUY; TP at HK\$ 7.68. We apply the DCF and market multiple methods to derive our TP of HK\$ 7.68, which represents 14.94x/13.53x FY16E/17E P/E, and 2.38x/2.25x FY16E/17E P/B. Initiate with **BUY**.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Substitution effect from alternative protein sources; 4) Biological asset risk; 5) Regulatory risk; 5) Food safety risk, 6) Foreign exchange risk, 7) Interest rate risk.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (US\$ mn)	22,243	21,209	22,877	25,755	28,699
Chg (% YoY)	97.66	(4.65)	7.86	12.58	11.43
Net Profit (US\$ mn)	766	786	971	1,072	1,149
Chg (% YoY)	(391.25)	2.61	23.50	10.43	7.14
Basic EPS (US\$)	0.0644	0.0575	0.0663	0.0732	0.0784
P/E (x)	12.75	14.28	12.39	11.22	10.48
BVPS (US\$)	0.3502	0.3934	0.4162	0.4411	0.4680
P/B (x)	2.35	2.09	1.97	1.86	1.76
DPS (HK\$)	-	0.1250	0.1599	0.1823	0.1905
Yield (%)	0.00	1.96	2.51	2.86	2.99
ROAA (%)	5.31	5.42	6.54	6.70	6.69
ROAE (%)	20.69	14.43	16.37	17.07	17.25

Source(s): The Group, Bloomberg, ABCI Securities estimates

An integrated leader in the pork industry

Spanning over China, U.S. and Europe, WH Group is an integrated meat processing company whose operation covers packaged meat, fresh pork, and hog production. Smithfield, one of the Group's wholly-owned subsidiaries, is an industry leader in the U.S. pork production industry with fresh meat and packaged meats products in both the domestic and international markets. According to the FY15 annual Report, Smithfield is the largest hog producer and pork processor in the world, and is the leader in numerous packaged meats categories. Shuanghui Development (000895 CH), another subsidiary of the Group, is a major player in the pork industry in China with extensive network of sales and production in 17 provinces/autonomous regions/municipalities.

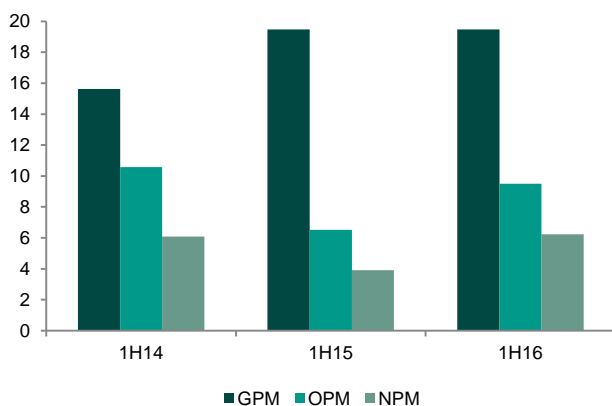
1H16 financial review

The Group's revenue grew by 2.43% YoY in 1H16, as compared to a decline of 3.18% YoY in 1H15, but performance varied across segments and regions. Fresh pork segment was the biggest growth contributor with a revenue growth of 9.93% YoY. Revenue of packaged meat was up by 0.66% YoY and that of hog production was down by 41.54% YoY. By region, its China business saw a revenue growth of 19.38% YoY in 1H16 vs. -4.14% YoY in 1H15. Revenue from the U.S. declined by 6.11% and the collective revenue from other regions stayed flat in 1H16.

In 1H16, revenue growth and effective cost control measures helped boost profitability. GPM was stable, while OPMs in the packaged meat and fresh pork segments improved, raising the overall post-biological adjustment OPM from 6.52% in 1H15 to 9.49% in 1H16. NPM (post-bio-adj.) also rose from 3.92% in 1H15 to 6.24% in 1H16. ROAA and ROAE increased significantly as a result.

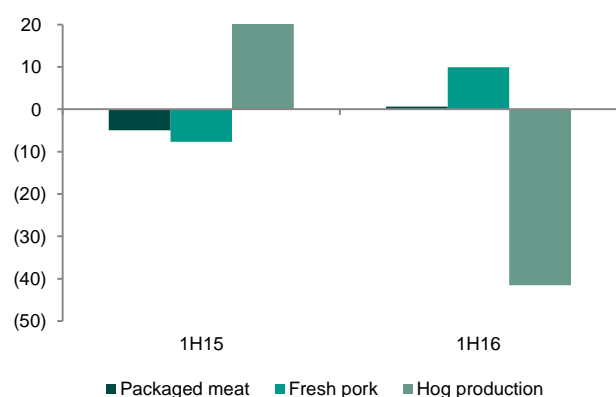
In terms of operating efficiency, receivable turnover days in 1H16 decreased from 14.57 in 1H15 to 13.11, and the inventory turnover days decreased from 41.22 in 1H15 to 37.98. Overall CCC shortened to 36.83 days in 1H16 from 39.33 days in 1H15. All these were positive in our view.

Exhibit 1: WH Group's profitability ratios (%)



Source(s): The Group, ABCI Securities

Exhibit 2: Revenue growth of segments in 1H16 (YoY %)



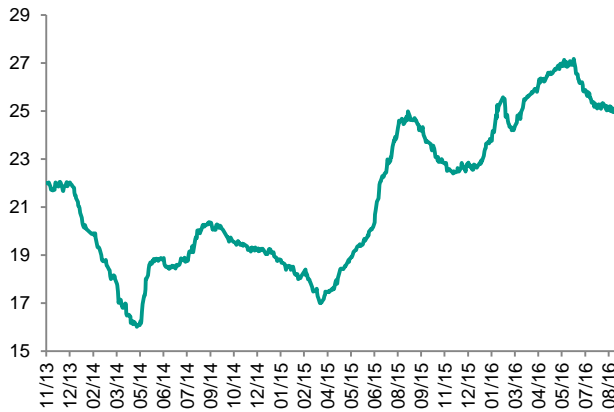
Source(s): The Group, ABCI Securities

Industry overview

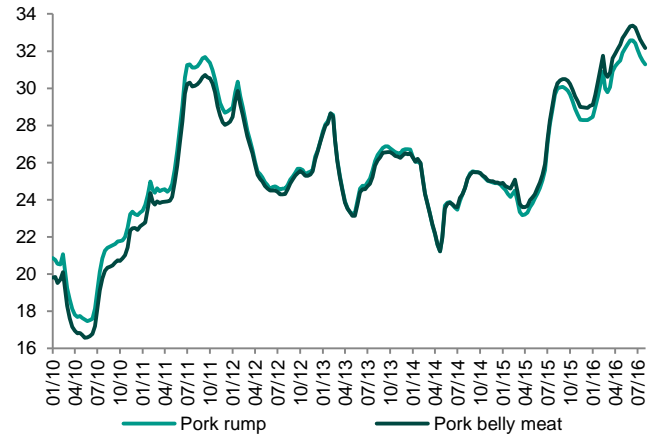
A highly cyclical industry driven by more than supply and demand

In the past few years, the retail and wholesale pork prices have been volatile. Average wholesale price of pork was ~RMB 16/kg in Apr 2014 and bounced back to more than ~RMB 27/kg in Jun 2016. Fluctuations in wholesale price

were also reflected in the retail price. According to the NBS, the price of pork belly meat and pork rump dived to ~RMB 21/kg in Apr 2014 and rebounded to exceed RMB 32/kg in June 2016. For the same period, the retail/wholesale prices of pork fluctuated with a standard deviation at ~ 3.

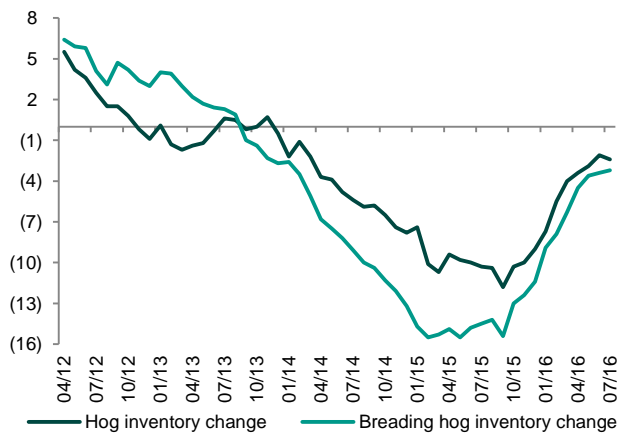
Exhibit 3: Wholesale price of pork in China (RMB/kg)


Source(s): Wind, ABCI Securities

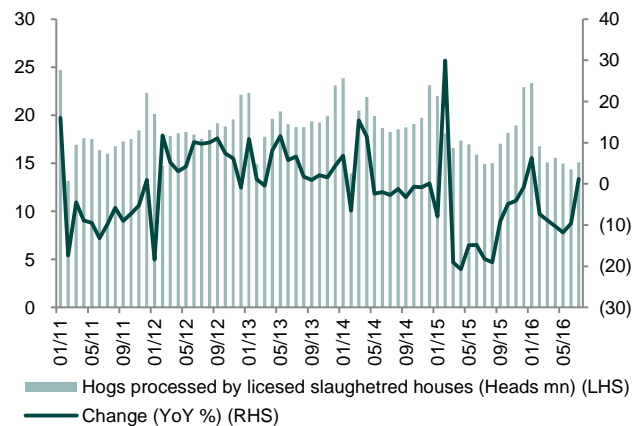
Exhibit 4: 50-city average retail price of pork (RMB/kg)


Source(s): Wind, ABCI Securities

Such price volatility toughens the life of hog farmers. It is easy to assume inventory of live hogs in China would fluctuate with the general pork price. However, NBS data suggest this is not necessarily the case. The inventory of live hogs declined since the start of 2013, coinciding with the pork price decline, meaning that the 2014 pork price decline might be the trigger of exit of farmers. However, after 2Q14, the live hog inventory declined when hog price improved, suggesting that other factors were in play to affect China's pork price.

Exhibit 5: Hog inventory still declining (YoY %)


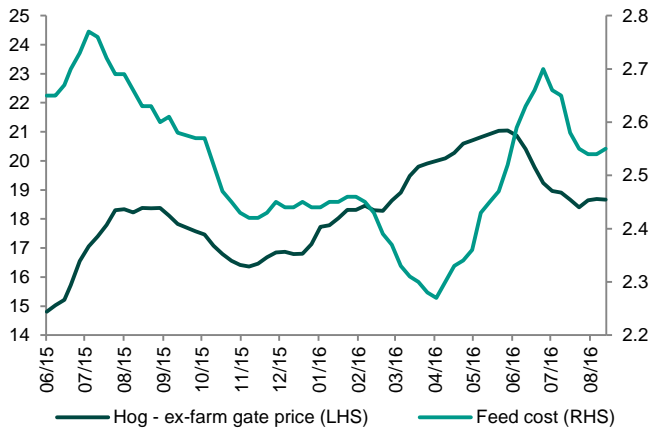
Source(s): Wind, ABCI Securities

Exhibit 6: Hogs processed by licensed slaughterhouses still sees tepid growth


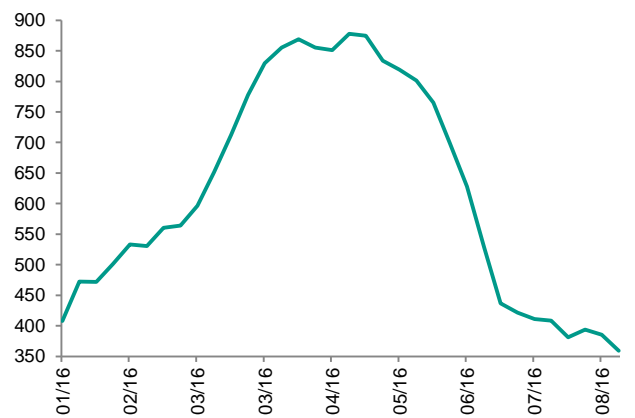
Source(s): Wind, ABCI Securities

Data also suggest the number of hogs processed in registered slaughterhouses have not gone up by much other than the months around Spring Festival, which does not support the theory that demand has been driving up hog price.

Even though pork price has been increasing, the expectation of hog raising profitability has been decreasing. The Hog Raising Profit Expectation index published by the NDRC shows the expected profit from hog raising peaked at around May 2016 and is now under RMB 400/head. As the price of feed has been rising since Apr 2016, the declining profit expectation suggest the limited bargaining power of hog farmers makes them unable to transfer the higher feed costs to their distributors or slaughterhouses. This may have contributed to the low/negative hog inventory growth observed.

Exhibit 7: Hog ex-farm gate price and feed cost (RMB/kg)


Source(s): Wind, ABCI Securities

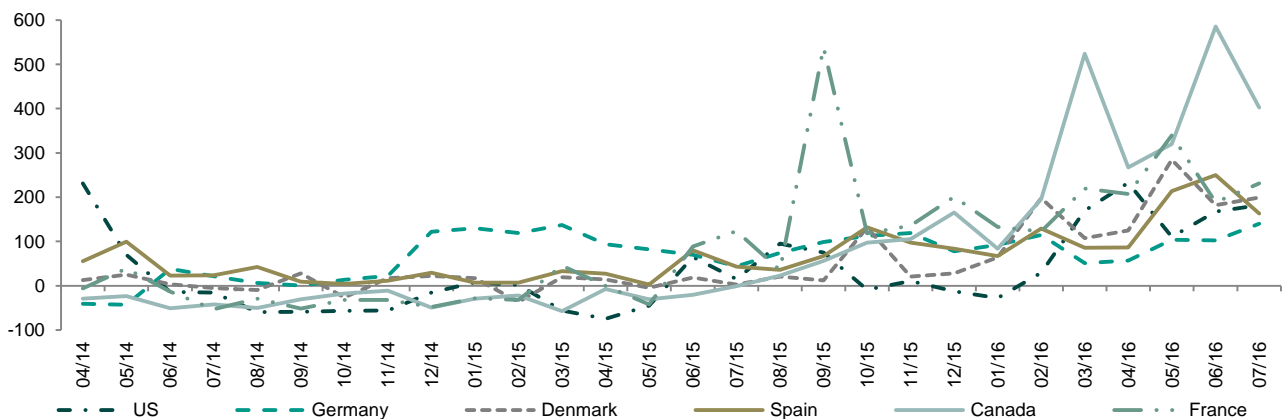
Exhibit 8: Profit expectation of hog raising (RMB/head)


Source(s): Wind, ABCI Securities

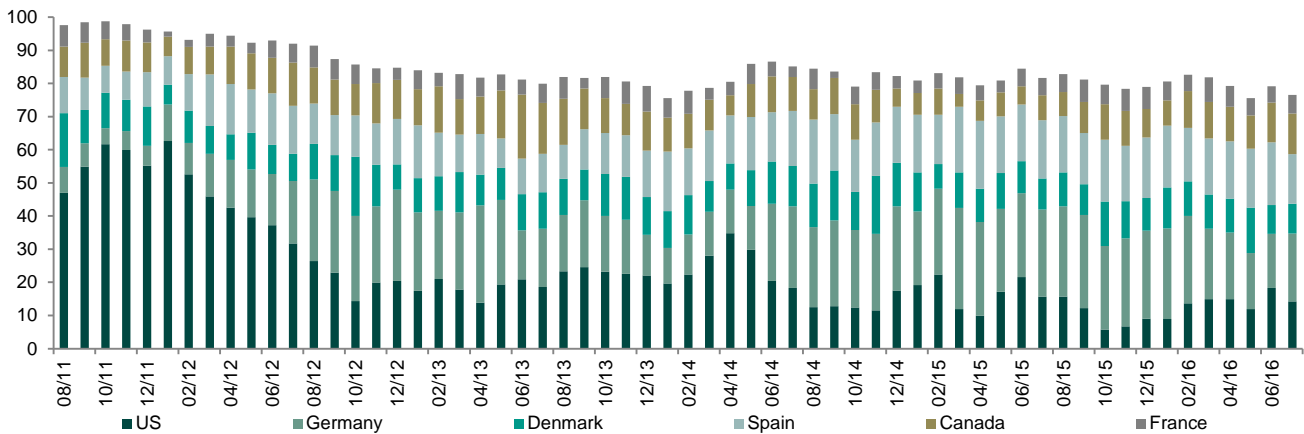
Great demand for pork in China

Since May 2015, China's import pork volume has shown accelerated growth. In June 2016, the imported pork volume reached an all-time high of 194.16mn kg, representing a growth of 214.6% YoY. Imported volume of pork from major production countries including the U.S., Germany, Denmark, Spain, Canada, and France have been increasing at the same time, among which import from Canada showed the largest growth of 585% YoY in June 2016, while other countries also experienced a triple-digit growth in recent months. Overall, demand for pork in China is high.

However, countries exporting pork to China have increased and diversified. The collective contribution from countries exporting pork to China (i.e. the U.S., Germany, Denmark, Spain, Canada, and France) has gone down from almost 100% in Aug 2011 to ~80% in Jul 2016. The U.S., once contributed to more than 60% of China's total import of pork, accounted for only 14.28% of pork import in Jul 2016, while contribution from Germany expanded to 20.41% in Jul 2016. These changes reflect that consumers' tastes are evolving and the competition has increased for those exporting pork to China.

Exhibit 9: Import volume of pork from various countries grew faster (YoY %)


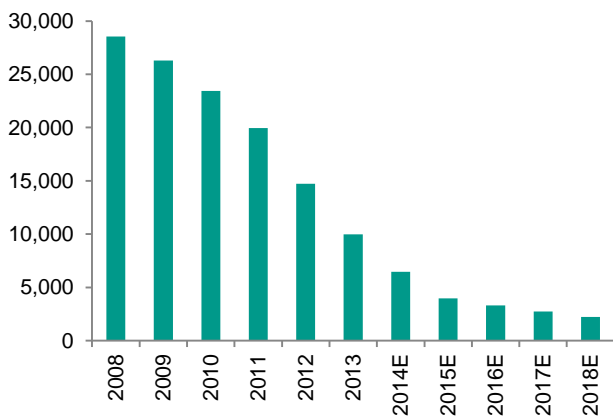
Source(s): Wind, ABCI Securities

Exhibit 10: Pork import volume contribution by major exporting countries (%)


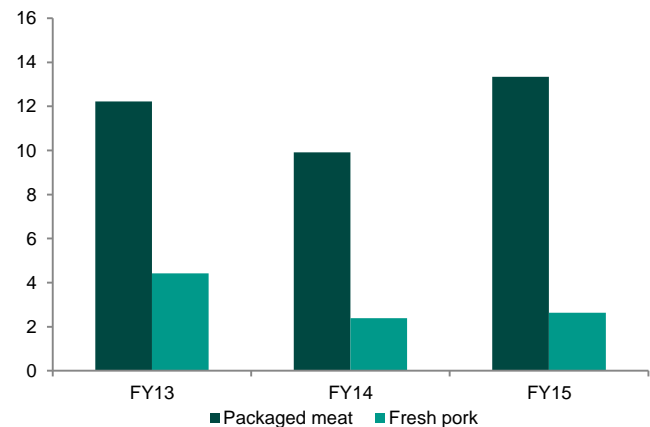
Source(s): Wind, ABCI Securities

Consolidation of the slaughtering industry in China

China is currently increasing the oversight on food safety in order to raise public confidence on the food industry. For the Chinese pork industry, one such measure is to consolidate the hog slaughtering industry. NBS data show the number of registered slaughterhouses declined from 28,560 in 2008 to 9,985 in 2013 and Frost & Sullivan also forecasted that the number of slaughterhouses will continue to decline in the future. As pork consumption continues to grow, this declining trend means the control over slaughtering operations would be invaluable to industry players.

Exhibit 11: Declining number of slaughtering houses in China


Source(s): Prospectus of the Group, ABCI Securities

Exhibit 12: OPM of packaged meat and fresh pork segment of the Group


Source(s): The Group, ABCI Securities

Higher gain towards the end of value chain

The industry has exhibited uneven value distribution along the industry value chain. As the Chinese authorities are increasing their oversight on the food and beverage industry, the entry barrier of the pork industry would increase. As a result, the licensed slaughterhouses, which are considered to be the gatekeepers of the fresh pork industry, would be able to exert more price pressure on the hog suppliers. In addition, as the Group's financials show, the GPM of the packaged meat segment was higher than other segments- a sign that the processed meat market may deliver better returns to players in the pork industry.

Competitive edges of the Group

Synergy across geographical and product segments

Synergy among the Group's key markets and product segments has given it the ability to defend against the industry's cyclicity. As pork price in the U.S. decreased while the opposite occurred in China in 1H16, the Group was able to take advantage of the situation and boost its topline growth in China to compensate for the decline in the U.S. During the same period, the Group was also able to adjust its product mix in the fresh pork segment to boost the OP in the U.S. market, offsetting the negative impact resulted from the lower price pass-through rate of fresh pork in the Chinese market. In addition, the global coordination of production enables the Group to manage costs more effectively. In 1H16, the Group was able to use the cheaper imported pork to produce its packaged meats products in China, resulting in the improved OPM of 22.85%.

Leading position in slaughterhouse operation

More importantly, the Group's operating model in China that skews toward the downstream business gives it various advantages. Most notable is the Group's slaughtering operation. As the number of registered slaughterhouses decreases and pork demand grows, the registered slaughterhouses, which are the gatekeepers of the fresh pork market, will acquire more bargaining power. According to the prospectus, the Group has the largest slaughtering operation in China while its hog-raising operation is still small. The percentage of hogs purchased from external suppliers for its fresh pork segment in China was ~98% in 2013 and 2014. Therefore, we believe the Group's slaughtering operation would continue to have immense influence on China's fresh pork market and enable the Group to reduce cost.

Continued diversification of business

The Group has been diversifying its business to reduce risk. Other than diversifying within the pork industry, the Group also expands its business portfolio to the poultry business. As of end-1H16, the Group has 5,468 k heads of poultry that consists of 4,939 k broilers and 529 k breeding stock. We believe that the diversification of business portfolio would help the Group hedge against business risk.

Shareholding change signals investor confidence

Background

On Aug 25, 2016, the Group announced that it had entered into three separate share transactions. In the first transaction, 880mn shares would be sold to independent third parties at HK\$ 5.95 (the placing agent would purchase any outstanding shares that are unsubscribed). In the second transaction, 383mn shares at HK\$ 5.95 were transferred to a group of investors by CHD Shine. In the third transaction, the CDH Shine II would sell 292mn shares at HK\$ 5.95 to Heroic Zone. After these transactions, the CDH Shareholders, the Heroic Zone, and the public shareholders would have the respective stakes of 19.77%, 23.71%, and 44.21%, as compared to 30.39%, 21.72%, and 35.59% before the transactions.

Synopsis of the shareholding changes

The share transaction has effectively reduced the stakes held by CDH Shareholders and increased the ones by Heroic Zone and the public shareholders. Even though the public holding increases, share price has remained stable after the announcement, showing that public shareholders are confident on the Group's prospect.



For the above transactions, shares were priced at HK\$ 5.95, representing a 21.83% premium over the 250-day average closing price of HK\$ 4.88 on Aug 25, and FY16E P/E of 11.57x and FY16E P/B of 1.84x. We believe this is an acceptable floor price to the investors involved, meaning that the Group's share price would find support at this level in the medium-to-short term.

Exhibit 13: Shareholding change before and after the transactions

	Approx. % holding as at the date of announcement	Approx. % holding as after the completion of all transactions
CDH Shareholders		
CDH Shine	11.92	5.57
CDH Shine II	6.61	4.54
CDH Shine III Limited	3.41	2.34
CDH Shine IV Limited	2.28	1.57
CDH V Shine II Limited	2.51	2.10
CDH Shine V Limited	1.89	1.89
CDH V Shine I Limited	1.76	1.76
Rise Grand		
Heroic Zone	21.72	23.71
Chang Yun Holdings limited	4.31	4.31
High Zenith Limited	2.40	2.40
Sure Pass Holdings Limited	3.91	3.91
Rich Matrix Global Limited	1.68	1.68
Directors		
Wan Long	0.01	0.01
Guo Lijun	0.00	0.00
Public Shareholders		
Placees	0.00	6.01
Transferees	0.00	2.61
Other public Shareholders	35.59	35.59

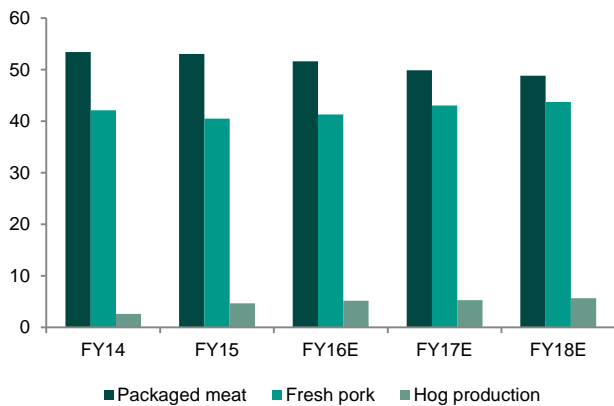
Source(s): The Group, ABCI Securities

Growth prospect

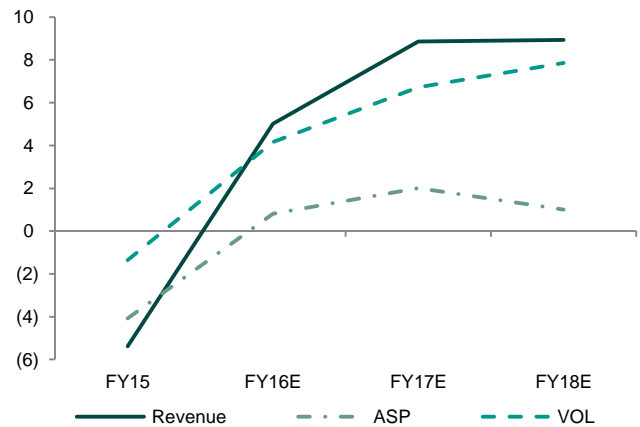
The recent price increase in the industry may have lifted prospect of the pork industry. However, we believe the current price has peaked based on the latest price trend and expect the high price would help stimulate the upstream hog supply in the future, hence bringing down the downstream hog price slightly in 2H16. As a result, we expect the average 50-city pork price (including the pork rump and pork belly meat) to be ~RMB 28/ kg in 2017.

We expect a mild price drop would not pose much challenge to the Group's leadership position, as it has the advantages in cross-regional synergy and controls a large amount of slaughterhouses, which enables a higher bargaining power. We believe that its product mix would continue to be stable, but the revenue contribution from packaged meat would fall from 53% in FY15 to 48.78% in FY18, and that from fresh pork would steadily rise from 40.51% in FY15 to 43.73% in FY18.

For the packaged meat segment, we expect ASP to edge up in the next few years (+2.01% YoY /+1.0% YoY in FY17E/18E), with the U.S. segment growing consistently at above 2% YoY. Volume growth would also rise to 6.72% YoY in FY17E and 7.86% YoY in FY18E as volume growth in China accelerates. This means the segment's revenue growth would be 8.86% YoY and 8.94% YoY in FY17E and FY18E.

Exhibit 14: Revenue contribution of segments (%)


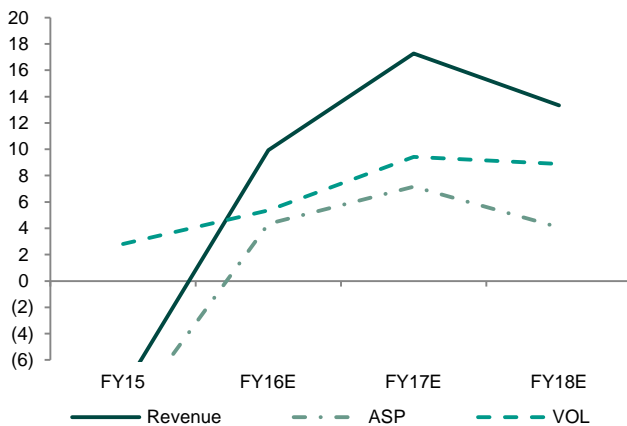
Source(s): The Group, ABCI Securities estimates

Exhibit 15: Revenue, ASP, and volume growth of packaged meat segment (YoY %)


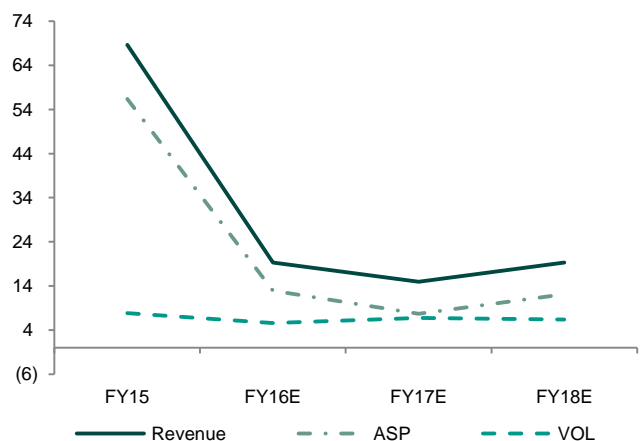
Source(s): The Group, ABCI Securities estimates

For the fresh pork segment, growth in pork price would likely reduce and we expect the segment's ASP to expand by 4.08% YoY in FY18E. Strong demand from China and recovering demand from the U.S. would continue to help boost the volume growth to 9.43% YoY in FY17E and 8.89% YoY in FY18E. This would translate into a revenue growth of 17.27% and 13.33% YoY in FY17E and FY18E.

As for the hog production segment, we believe performance would vary across regions. We project the segment ASP would grow by 7.68% YoY in FY17E and 12.16% YoY in FY18E; volume growth would be 6.73% YoY in FY17E and 6.4% YoY in FY18E. The segment revenue would still maintain a double-digit growth in the next few years. (FY17E: +14.93% YoY, FY18E: +19.34% YoY)

Exhibit 16: Revenue, ASP, and volume growth of fresh pork segment (YoY %)


Source(s): The Group, ABCI Securities estimates

Exhibit 17: Revenue, ASP, and volume growth of hog production segment (YoY %)


Source(s): The Group, ABCI Securities estimates

We project that the Group's GPM would be stable and reach 19.42% and 19.78% in FY17E and FY18E, thanks to the Group's inherent advantage and relatively low commodity costs. Even though we project the higher S&D expenses and the possible loss from biological assets would hurt the Group's profitability, we project its NPM would still sustain at above 4% in the next 3 years. ROAA and ROAE would also improve from 5.42% and 14.43% in FY15 to 6.69% and 17.25% in FY18E.



Valuation

In our view, the Group's global operation and its unique business model in China would allow it to sustain various advantages over its competitors. This would be reflected in the growing profitability and improving returns. In our DCF model, we assume a cost of equity of 10.01%, a cost of debt of 5.1%, a tax rate of 23.58%, and a debt-to-equity ratio of 32.44%. Applying the market multiple approach, we establish the benchmark P/E and P/B ratios by referencing several domestic and international peers. Based on both approaches, we derive a TP of HK\$ 7.68, representing 14.94x/13.53x FY16E/17E P/E and 2.38x/2.25x FY16E/17E P/B. Initiate with **BUY**.

Risk factors

Macroeconomic risk. As the economy continue to grow at a slow pace, the consumer market would inevitably suffer. If the macroeconomic condition deteriorates quicker than expected, even the highly defensive staple food industry would be negatively impacted.

Commodity price risk. The Group's operation substantially involves commodities in both its inputs and outputs. Fluctuation of commodity price would affect the Group's cost and sales. In addition, the fluctuation of hog/pork prices would lead to change in its biological assets, which would lead to biological assets impairment that ultimately affect the Group's bottom line.

Substitution effect from alternative protein sources. As the public becomes more health-conscious, consumers are offered a wider range of protein sources and pork demand may decline as a result. This would affect growth in the pork industry.

Biological asset risk. If the current price cycle of hog or pork reverses drastically, the Group would face the risk of biological asset impairment, which would ultimately reduce its reported profits.

Regulatory risk. The stringent regulation over food safety by the Chinese authorities is getting tighter in recent years. If the regulation continues to tighten, the compliance cost would increase for pork companies. In addition, any unexpected change in the pork industry regulation may disrupt the pork industry and the Group would be forced to change its strategy.

Food safety risk. The pork industry has once been scandalized by reports concerning ractopamine use in the hog raising industry although confidence is now largely restored. However, public trust could be hampered upon outbreak of food safety issues in the industry or the Group

Foreign exchange rate risk. The Group's operation covers China, the U.S., and Europe. The geographical diversification could lead to the use of different currencies for its operations. Therefore, the Group may be affected by the changes in foreign exchange rates.

Interest rate risk. The Group's borrowings carry fixed and floating rates. Changes in monetary policies in countries/regions in which the Group operates may result in higher interest costs for the Group.

Appendix: Financial Statements of the Group

Consolidated income statement (2014A-2018E)

As of Dec 31 (USD mn, except per share data)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Revenue	22,243	21,209	22,877	25,755	28,699	10,205	10,453
- Packaged meat	11,880	11,240	11,803	12,849	13,998	5,307	5,342
- Fresh pork	9,364	8,591	9,444	11,075	12,551	4,171	4,585
- Hog production	587	990	1,181	1,357	1,620	544	318
- Others	412	388	449	474	530	183	208
COGS	(18,828)	(17,129)	(18,448)	(20,753)	(23,023)	(8,217)	(8,417)
Gross profit	3,415	4,080	4,428	5,002	5,676	1,988	2,036
Distribution and selling expenses	(1,662)	(1,783)	(1,991)	(2,274)	(2,546)	(829)	(854)
Admin expenses	(758)	(740)	(862)	(952)	(1,069)	(353)	(339)
Biological adjustment	727	(63)	155	101	(103)	(147)	135
Others	6	13	40	61	83	6	14
Operating profit	1,728	1,507	1,771	1,938	2,041	665	992
- Packaged meat	1,178	1,499	1,549	1,714	1,857	729	769
- Fresh pork	223	226	418	453	466	58	191
- Hog production	412	54	42	72	77	44	(42)
- Others	(199)	(222)	(237)	(300)	(359)	(102)	(80)
Net finance cost	(371)	(219)	(196)	(211)	(224)	(118)	(96)
Share of profits from JV and associates	63	14	32	35	42	7	17
Pretax profit	1,420	1,302	1,607	1,763	1,859	554	913
Tax	(448)	(307)	(376)	(405)	(423)	(154)	(261)
Net profit	972	995	1,230	1,358	1,437	400	652
- Profit attributable to shareholders	766	786	971	1,072	1,149	303	551
- Minority interest	206	209	260	286	303	97	101
EPS							
- Basic (US\$ cent)	6.44	5.75	6.63	7.32	7.84	2.22	4.03
- Diluted (US\$ cent)	6.11	5.50	6.56	7.25	7.77	2.12	3.85
DPS (HK\$ cent)	0	12.5	15.99	18.23	19.05	0.00	5.00

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2018E)

As of Dec 31 (USD mn, except per share data)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Cash and cash equivalent	978	1,137	1,412	1,894	2,268	843	515
Trade and bills receivable	845	725	952	945	1,163	793	791
Inventory	1,900	1,748	1,963	2,264	2,477	1,831	1,750
ST Biological assets	1,014	865	1,069	1,090	1,120	895	1,016
Others	637	738	897	1,035	1,056	608	897
Total current assets	5,374	5,213	6,292	7,229	8,085	4,970	4,969
PP&E	4,582	4,674	4,818	5,053	5,262	4,603	4,644
LT Biological assets	220	200	225	239	246	213	191
Goodwill	1,815	1,801	1,797	1,797	1,797	1,815	1,797
Intangible assets	1,746	1,715	1,684	1,653	1,622	1,739	1,703
Interest in JV and associates	539	185	199	214	231	188	182
Others	444	513	380	440	448	456	387
Total non-current assets	9,346	9,088	9,102	9,396	9,608	9,014	8,904
Total assets	14,720	14,301	15,395	16,625	17,692	13,984	13,873
Trade and bills payable	850	812	1,056	1,080	1,262	577	491
ST borrowings	719	606	1,608	1,732	1,826	902	1,412
Others	1,553	1,441	1,825	1,833	2,291	1,313	1,388
Total current liabilities	3,122	2,859	4,490	4,645	5,379	2,792	3,291
LT Borrowings	3,951	3,308	2,663	2,868	3,024	3,475	2,338
Others	1,597	1,431	1,164	1,637	1,381	1,371	1,351
Total non-current liabilities	5,548	4,739	3,827	4,505	4,405	4,846	3,689
Shareholders' equity	5,130	5,763	6,097	6,461	6,856	5,485	6,086
Minority interest	920	940	981	1,013	1,052	861	807
Total equity	6,050	6,703	7,079	7,475	7,908	6,346	6,893
Total liabilities and equity	14,720	14,301	15,395	16,625	17,692	13,984	13,873

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2018E)

FY ends at Dec 31 (USD mn)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16E
Pretax profit	1,420	1,302	1,607	1,763	1,859	554	913
Depreciation and amortization	359	391	377	474	520	192	190
Change in working capital	227	191	(75)	(279)	97	(243)	(619)
Others	(446)	(271)	(356)	(403)	(425)	(197)	(130)
Cash flow from operating activities	1,560	1,613	1,553	1,554	2,051	306	354
Capex	(952)	(629)	(476)	(276)	(228)	(236)	(208)
Others	231	115	53	(196)	(208)	240	(141)
Cash flow from investing activities	(721)	(514)	(423)	(472)	(435)	4	(349)
Change in borrowings	(2,751)	(744)	(357)	(329)	(251)	(286)	(194)
Others	2,099	(157)	(187)	(231)	(232)	(162)	(456)
Cash flow from financing activities	(652)	(901)	(544)	(560)	(483)	(448)	(650)
Net change in cash	187	198	586	523	1,133	(138)	(645)
Cash at the beginning	799	958	1,125	1,710	2,179	958	1,125
ForEx effect	(28)	(31)	(1)	(54)	(98)	(1)	(15)
Cash at the end of FY	958	1,125	1,710	2,179	3,213	819	465

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2012A-2018E)

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E	1H15A	1H16E
Growth (YoY %)							
Total revenue	97.66	(4.65)	7.86	12.58	11.43	(3.18)	2.43
- Packaged meat	91.24	(5.39)	5.01	8.86	8.94	(4.99)	0.66
- Fresh pork	106.12	(8.26)	9.93	17.27	13.33	(7.68)	9.93
- Hog production	207.33	68.65	19.27	14.93	19.34	120.24	(41.54)
Gross profit	92.61	19.47	8.54	12.95	13.47	20.70	2.41
Operating profit	519.35	(12.79)	17.52	9.44	5.32	(40.31)	49.17
Net profit	(391.25)	2.61	23.50	10.43	7.14	(11.40)	81.85
Profitability ratios (post-bio adj) (%)							
GPM	15.35	19.24	19.36	19.42	19.78	19.48	19.48
OPM	7.77	7.11	7.74	7.53	7.11	6.52	9.49
- Packaged meat	9.92	13.34	13.12	13.34	13.27	13.74	14.40
- Fresh pork	2.38	2.63	4.42	4.09	3.71	1.39	4.17
- Hog production	70.19	5.45	3.55	5.28	4.76	8.09	(13.21)
EBITDA margin	9.70	9.04	7.74	7.53	7.11	10.50	9.12
NPM	3.44	3.71	4.24	4.16	4.00	3.92	6.24
Revenue contribution (%)							
- Packaged meat	53.41	53.00	51.59	49.89	48.78	52.00	51.10
- Fresh pork	42.10	40.51	41.28	43.00	43.73	40.87	43.86
- Hog production	2.64	4.67	5.16	5.27	5.64	5.33	3.04
- Others	1.85	1.83	1.96	1.84	1.85	1.79	1.99
Return ratios (%)							
ROAA	5.31	5.42	6.54	6.70	6.69	2.12	3.96
ROAE	20.69	14.43	16.37	17.07	17.25	5.71	9.30
ROIC	7.49	7.66	9.38	9.91	10.31	2.90	5.22
Liquidity ratio (x)							
Current ratio	1.72	1.82	1.40	1.56	1.50	1.78	1.51
Quick ratio	0.79	0.91	0.73	0.83	0.83	0.80	0.67
Cash ratio	0.32	0.40	0.32	0.41	0.43	0.31	0.16
Cash conversion cycle (days)							
Days of outstanding receivable	13.96	13.43	13.28	13.35	13.32	14.57	13.11
Days of inventory on hand	37.29	39.01	37.00	37.34	37.43	41.22	37.98
Days of outstanding payable	16.41	17.87	18.27	18.52	18.39	16.46	14.26
CCC	34.85	34.58	32.02	32.18	32.36	39.33	36.83
Leverage ratios (%)							
Total debt/Equity	91.03	67.92	60.34	61.54	61.34	79.80	61.62
Total debt/Total assets	31.73	27.37	27.74	27.67	27.42	31.30	27.19

Source(s): Company, ABCI Securities estimates

Sep 27, 2016
Company Report
Rating: HOLD
TP: HK\$ 23.43

Share price (RMB)	21.10
Est. share price return	11.04%
Est. dividend yield	3.94%
Est. total return	14.98%

Previous Rating & TP	N/A
Previous Report Date	N/A

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Key Data

52Wk H/L (RMB)	24.349/14.04
Issued shares (mn)	2,501.56
Market cap (RMB mn)	52,782.96
3-mth avg daily turnover (RMB mn)	144.44
Major shareholder(s) (%):	
Anta Intl Group	54.91
Anda Holdings	6.43
Anda Investments	4.62
Vanguard Group	1.26
Blackrock	1.21

Source(s): Company, Bloomberg, ABCI Securities

Revenue composition

(%)	1H15	1H16
Footwear	46.98	46.67
Apparel	48.37	49.28
Accessories	4.65	4.05

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	8.35	5.02
3-mth	47.74	29.94
6-mth	22.20	2.80

*Relative to HSI Index

Source(s): Bloomberg, ABCI Securities

Stock performance



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of end of Sep 27, 2016

Anta (2020 HK)

An expensive alpha in the pack

- Anta's leadership position remains intact. Its 1H16 margins were stable despite lower growth momentum than 1H15 and its revenue scale continued to exceed competitors
- Anta is a top runner among other listed HK sports apparel companies; it is the only HK listed player with FY15 revenue that exceeded RMB 10bn; it has been able to maintain its revenue growth and NPM while its HK-listed competitors has seen uneven performance
- We project Anta's revenue to expand by 21.07% YoY, 18.44% YoY, and 18.91% YoY in FY16E - FY18E, respectively, with a stable GPM. Average ROAA and ROAE would be 17.52% and 26.05% for FY16E-18E. We believe Anta's highly competitive products is the major factor that differentiates the Group from other sports apparel players and will continue to drive performance
- We initiate coverage with **HOLD** rating and TP of HK\$ 23.43, representing 26.53x/23.98x FY16E/17E P/E, and 6.34x/5.85x FY16E/17E P/B

1H16 growth momentum slowed but leadership position remained intact. In 1H16, Anta's margins remained stable. GPM, OPM, and NPM were 47.88%, 24.23%, and 18.38% in 1H16, vs. 46.62%, 24.79%, and 18.89% in FY15, leading the race against other domestic brands. However, the Group's revenue/profit growth slowed as business environment toughens.

Alpha in the pack. Anta has consistently outperformed its competitors. Its FY15 revenue size exceeded RMB 10bn. Peak (1968 HK) was the only HK listed competitor with revenue size above RMB 5bn. In addition, Anta's revenue growth was above 20% in 2014, 2015 and 1H16, while its HK-listed competitors recorded either decline or mid-double digit growth. Moreover, its NPM has been consistently above 18% despite heavy sales and promotion efforts. All things considered, Anta is the true alpha in the sports apparel industry.

Strong competitiveness to support performance. We expect that despite some short/medium term headwinds, the Group's strong competitiveness would help support future growth and sustain profitability. We project the Group's revenue growth would be 21.07% YoY, 18.44% YoY, and 18.91% YoY in FY16E - FY18E, respectively. In the next three years, the Group's average GPM would be 45.95%; NPM would decline to 15.43% in FY18E due to higher SG&A for marketing and expansion purposes. However, we expect the Group to grow its EPS and deliver strong return. FY16E-18E average ROAA and ROAE would be 17.52% and 26.05%.

Initiate with HOLD rating; TP at HK\$ 23.43. Based on Anta's strong leadership position and the positive outlook for the sports apparel industry, we believe a decent EPS growth and high returns. We set our TP at HK\$ 23.43, representing 26.53x/ 23.98x FY16E/17E P/E and 6.34x /5.85x FY16E/17E P/B. We initiate coverage with a **HOLD** rating due to its expensive valuation.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Rapidly changing consumer tastes in China; 4) Commodity price risk; 5) Business acquisition risk; 6) Product safety risk; 7) Production risk; 8) ForEx risk; 9) Interest rate risk

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	8,923	11,126	13,470	15,954	18,972
Chg (% YoY)	22.54	24.69	21.07	18.44	18.91
Net Profit (RMB mn)	1,700	2,041	2,209	2,445	2,928
Chg (% YoY)	29.32	20.01	8.27	10.65	19.77
Basic EPS (RMB)	0.68	0.82	0.88	0.98	1.17
P/E (x)	26.64	22.22	20.55	18.57	15.50
BVPS (RMB)	3.12	3.43	3.70	4.00	4.36
P/B (x)	5.81	5.29	4.91	4.53	4.16
DPS(HK\$)	0.61	0.68	0.72	0.78	0.94
Yield (%)	3.36	3.75	3.94	4.31	5.20
ROAA (%)	15.82	17.09	16.73	17.11	18.71
ROAE (%)	22.75	24.92	24.78	25.38	27.99

Source(s): The Group, Bloomberg, ABCI Securities estimates

A leader in the sports apparel industry

Anta is one of the leaders in the Chinese sports apparel with an FY15 sales reaching RMB 11.13bn. Peak (1968 HK) was the only H-share competitor with FY15 sales above RMB 5bn. Like many others, Anta's business spans over footwear, apparel, and accessories. However, the Group has been acquiring international brands (Fila and Descente) and expanding its product portfolio to cover all age groups (adult and kids).

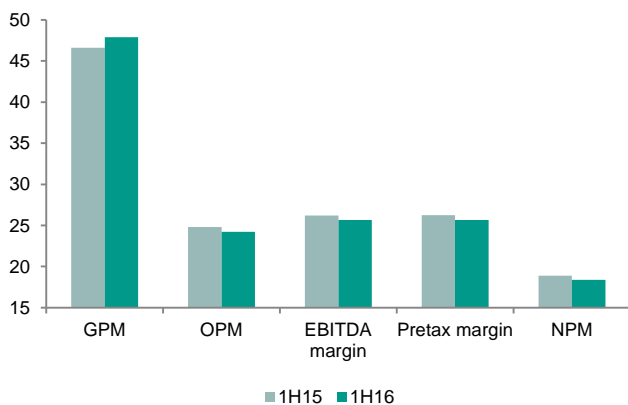
1H16 results review

Anta's 1H16 results outperform its domestic competitors. Its margins remained stable. GPM, OPM, and NPM were 47.88%, 24.23%, and 18.38% in 1H16, vs. 46.62%, 24.79%, and 18.89% in FY15. In addition, debt-to-equity ratio in 1H16 was 10.22%, compared to 12.53% in 1H15 and 13.87% in FY15; cash position was healthy, with net-cash-to-equity ratio reaching 64.08% by end-1H16. Moreover, the Group's revenue size is still the largest among its H-share competitors.

The Group, however, may brace for lower growth going forward. In 1H15, revenue, gross profit, and net profit grew by 23.97% YoY, 28.06% YoY, and 20.24% YoY, respectively, higher than those recorded in 1H16. The Group's revenue growth in the footwear segment was stable at ~19% YoY, but growth of apparel and accessories sales declined from 27.44% YoY and 37.46% YoY in 1H15 to 22.48% YoY and 4.56% YoY. S&D expenses was 20.53% of total revenue vs. 19.38% in 1H15, implying intensifying competition may have rendered sales and marketing efforts less effective.

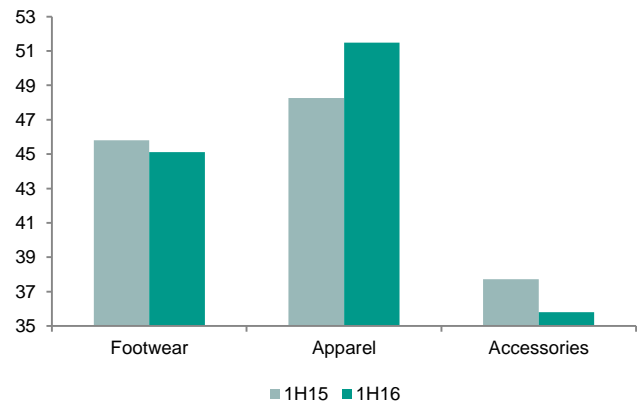
Moreover, the inventory turnover days increased from 57.77 in 1H15 to 64.24 in 1H16. The Group stated in the 1H16 results meeting that the longer turnover days was caused by the newly acquired business that has increased the no. of self-operated stores, whose inventories were booked to the Group's account. Yet we believe investors should be cautious as this can be the first sign of declining working capital efficiency.

Exhibit 1: Margin of the Group (%)



Source(s): Company, ABCI Securities

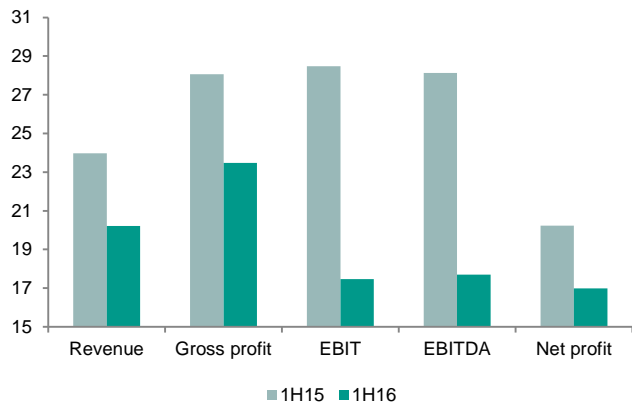
Exhibit 2: GPM of segments (%)



Source(s): Company, ABCI Securities

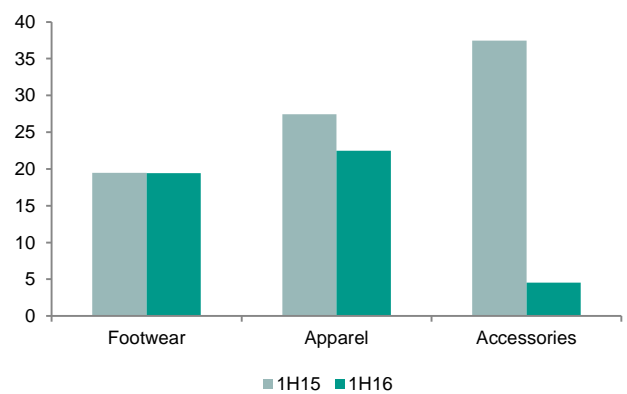


Exhibit 3: Growth of the Group (YoY %)



Source(s): Company, ABCI Securities

Exhibit 4: Revenue growth of segments (YoY %)



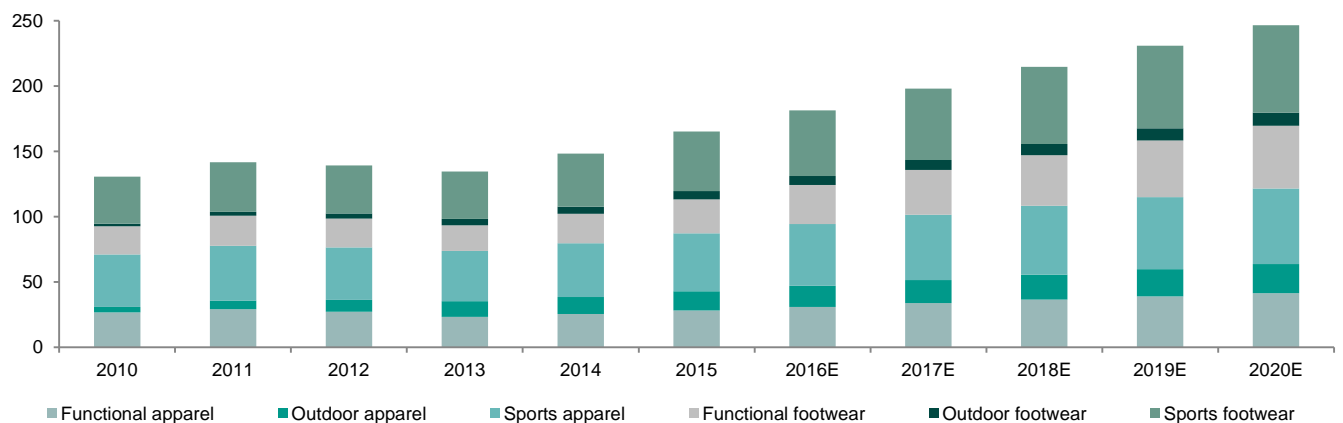
Source(s): Company, ABCI Securities

Industry overview: great growth potential and fierce competition

Huge potential despite a slowing growth

We believe the Chinese sporting goods industry contains huge potential. One reason is that the average consumption of sportswear or sporting goods in China is still very low. In addition, according to Euromonitor International, China's sports apparel market size grew by 2.8% CAGR from 2010 to 2015, and is expected to grow by 8% CAGR from 2016 to 2020. By then, the sports apparel market size would reach RMB 246.7bn. Endorsing a more active lifestyle due to higher awareness of health and fitness, the new generation of Chinese consumers is spending more time and money on sporting activities, which is another driver of the industry.

Exhibit 5: Market size of China's sports apparel market (RMB bn)

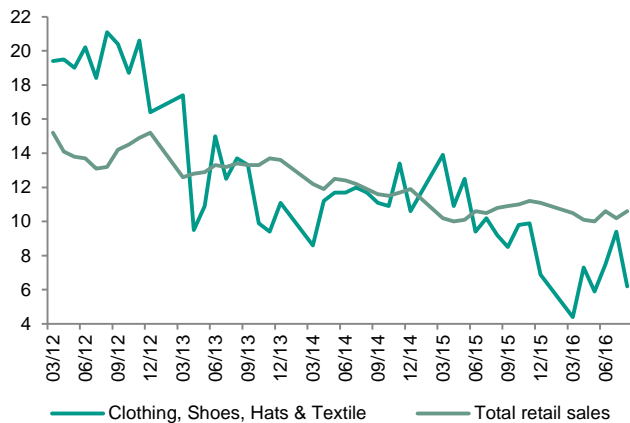


Source(s): Euromonitor International, ABCI Securities

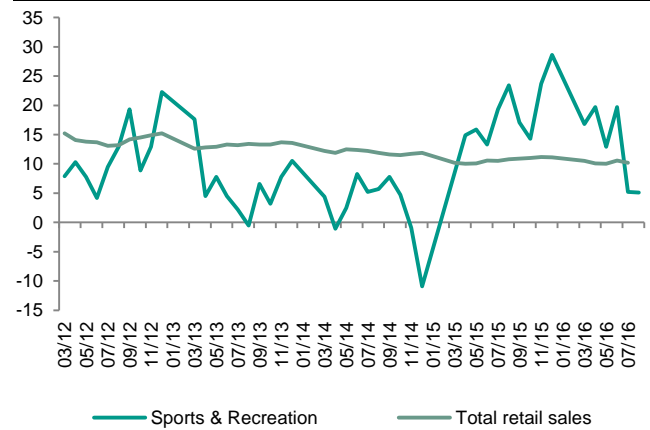
More importantly, the Chinese authorities have recently announced the 13th five-year plan for the sports industry. According to the Plan, by end-2020, the sports industry would generate a total revenue of RMB 3tr, industry contribution to national GDP would reach 1% and average sports-related consumption per person should reach 2.5% of personal income. Supportive policies would propel growth in the sports apparel industry.

The sportswear industry has been growing quickly. According to the NBS, the retail sales of "Sports & Recreation" has been maintaining a double-digit growth in 1H16, reaching 19.7% YoY in Apr and June. At the same time, the

retail sales of “Clothing, Shoes, Hats & Textile” showed a high-single-digit growth, reaching 7.5% YoY in June 2016. However, growth has been trending down. In Aug 2016, retail sales of “Sports & Recreation” only grew by 5.1% YoY growth, the second month the sub-sector showed a single-digit expansion. The Aug clothing retail sales growth also slowed to 6.2% YoY. We believe the sports apparel industry has been impacted by the fluctuating consumer demand in China.

Exhibit 6: Retail sales growth of clothing, shoes, hats, & textile (YoY %)


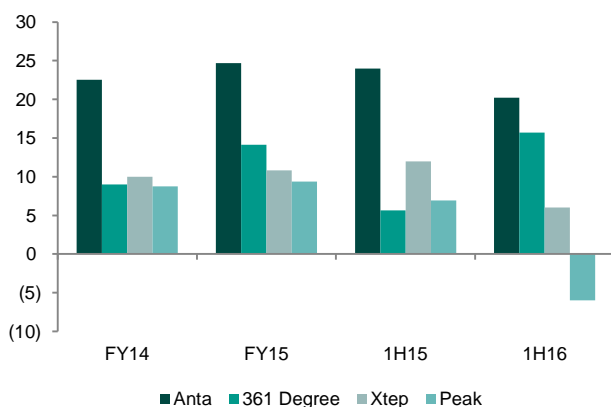
Source(s): Company, ABCI Securities

Exhibit 7: Sports & recreation retail sales growth (YoY %)


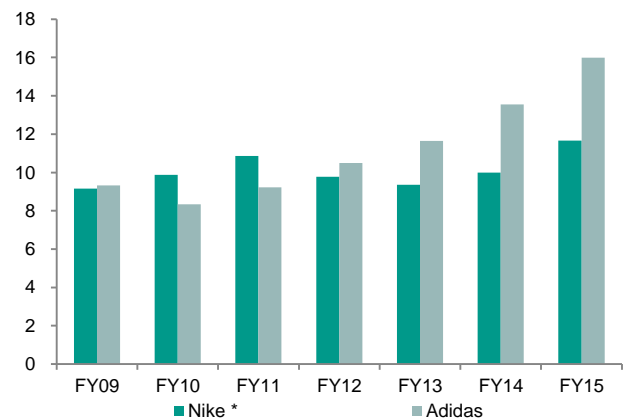
Source(s): Company, ABCI Securities

Home-grown brands are getting stronger

Over the past few years, the domestic brands have been playing an increasingly important role in the Chinese sports apparel industry. Most industry players have been maintaining a double-digit revenue growth. In FY15, Anta led the domestic brands with a revenue growth of 24.69% YoY, while 361 Degree (1361 HK), Xtep (1368 HK), and Peak (1968 HK) recorded revenue growth of 14.14% YoY, 10.83% YoY, and 9.36% YoY. The high growth shows expansion strategies adopted by the domestic players have been effective in fighting against the more established international brands.

Exhibit 8: Revenue growth of domestic sports apparel brands (YoY %)


Source(s): Company, ABCI Securities

Exhibit 9: Revenue growth of the Greater China sales of Nike and Adidas (YoY %)


* Nike's fiscal year ends on May 31, e.g. FY15 means FY15/FY16 for Nike
 Source(s): Company, ABCI Securities

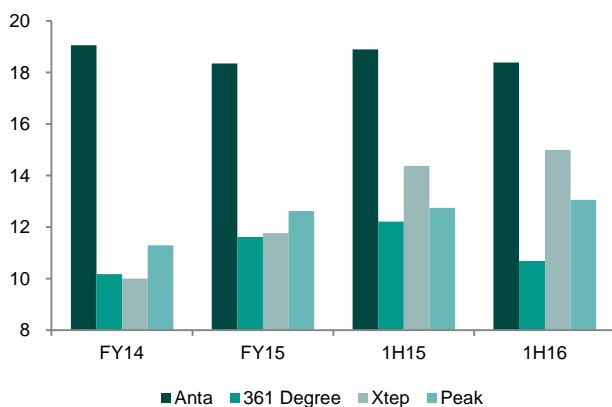
The industry is highly competitive

Chinese consumers are offered a wide variety of domestic and foreign brands. Apart from certain brands, especially the international ones that are able to lead the industry with technological innovations, the rest of the industry players

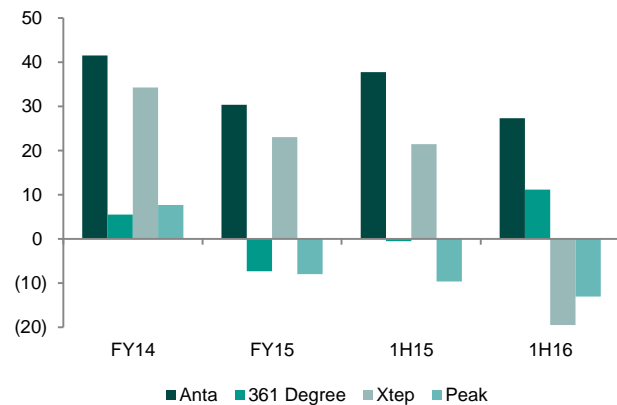
are sharing a high level of product homogeneity; hence heavy marketing and promotion are required for brand differentiation. The market is highly competitive as different brands strive to increase their market shares. Since preferences of Chinese consumers keep evolving changing based on a variety of factors such as varying requirement for personal training, personal income level and educational background, the competitive landscape of the Chinese sporting apparel goods market has been complicated over time.

Recently, emerging players are entering competition. Aside from some newly developed niche brands or new product series launched by existing brands, some brands are developed via the non-traditional path. They are created by internet celebrities or online influencers, who gain their fame with active social media presence. These brands can leverage their huge fan bases and their influences over the new generation of consumers are a force to be reckoned with because they are able to conduct targeted marketing directly to fans.

The heightened level of competition has been reflected in the margin of different domestic players. In FY15, Anta, 361 Degree, Xtep, and Peak recorded NPM of 18.34%, 11.61%, 11.76%, and 12.62%, while their GPMs were at similar levels (> 40%). For S&D expenses, Anta is also leading the market in terms of growth (30.33% YoY in FY15 vs. 41.49% in FY14). To maintain the leadership position in the current market situation, more needs to be invested in sales and marketing.

Exhibit 10: NPM of domestic sports apparel brands (%)


Source(s): Company, ABCI Securities

Exhibit 11: S&D expenses growth of domestic sports apparel brands (%)


Source(s): Company, ABCI Securities

Anta: an industry giant

Anta is also leading the market with an extensive distribution network. By end-1H16, the Group's total number of stores reached 9,197 (Anta brand: 8,510; Fila brand: 687) with focus of in non-tier-one cities. The number of stores for 361 Degree, Xtep, and Peak reached 6,853, 7,400, and 6,001 by end-1H16. We believe that with sales network of such scale, Anta is able to achieve better efficiency, economy of scale, and higher market penetration.

Anta is highly active in seeking international business opportunities. Other than promoting its own brand to overseas markets, it emphasizes heavily on bringing international brands into the Chinese market. It is now the official marketing partner of NBA China and licensee of the NBA, meaning that it can use the NBA logo and the logos of the 30 NBA teams, NBA's legendary team logos, and NBA events logos on its basketball shoes and accessories. It has also acquired Fila and Desente to expand its brand portfolio, hence diversifying its business and elevating its brand image. We believe that even though it is still mainly driven by its Anta brand business, it is well on its way to become a sports apparel goods conglomerate.

Growth outlook

Medium-to-short term headwinds exist. Considering the macroeconomic conditions and its potential impact on consumption over the next few years, we believe growth in Anta may fall slightly. In addition, the recent trading result announcement indicates the Group's 1Q17 trade fair order only recorded a mid-single-digit growth. Therefore, it is possible that the Group may pursue growth inorganically.

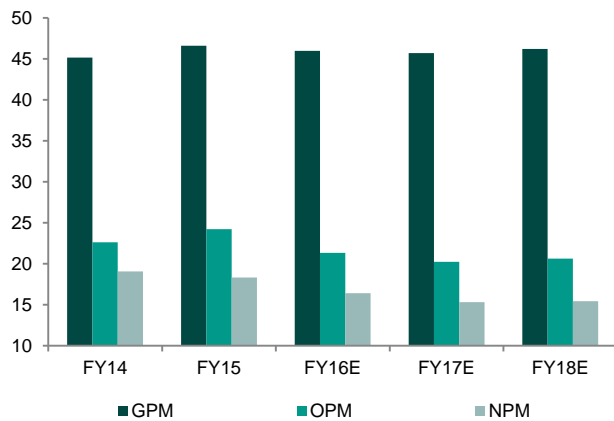
Exhibit 12: Trading fair order growth (%)

1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
high single-digit	high single-digit	high single-digit	low double-digit	low double-digit	low double-digit	low double-digit	low double-digit	low double-digit	low double-digit	high single-digit	low double-digit	mid single-digit

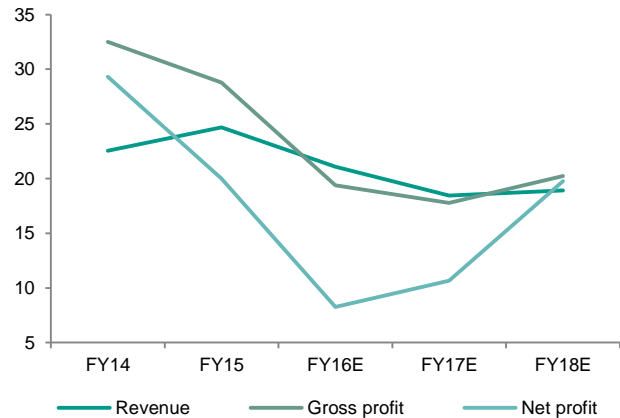
Source(s): Company, ABCI Securities

Overall, we believe Anta will maintain its leadership position in the Chinese sports apparel good market. Its solid business infrastructure, strong execution capability, and high competitiveness would continue to propel business. We project the Group's revenue growth would be 21.07% YoY, 18.44% YoY, and 18.91% YoY in FY16E, FY17E, and FY18E, respectively. In the next three years, the Group's average GPM would be 45.95% with slight improvements due to the low production cost; NPM would be 16.40%, 15.32%, and 15.43% in FY16E- FY18E due to higher SG&A expenses for marketing and expansion purposes. Despite the lower growth momentum and margins, EPS would continue to increase and FY16E-18E average ROAA and ROAE would be 17.52% and 26.05%.

For our projection, we expect current product structure would be maintained. Revenue contribution from the apparel segment would increase from 50.26% in FY15 to 51.14% in FY18E; revenue contribution from the footwear segment would edge down from 45.61% in FY15 to 45.24% in FY18E.

Exhibit 13: Profitability projection for Anta (%)


Source(s): Company, ABCI Securities

Exhibit 14: Growth projection for Anta (YoY %)


Source(s): Company, ABCI Securities

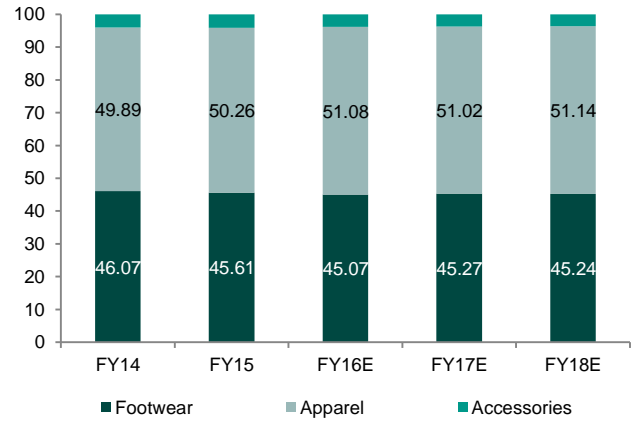


Exhibit 15: Return projection for Anta (%)



Source(s): Company, ABCI Securities

Exhibit 16: Revenue contribution for Anta (YoY %)



Source(s): Company, ABCI Securities

Valuation

We believe Anta’s leadership position in the market, healthy financial position, and the general positive prospect of the sports apparel industry are factors that would enable the Group’s success in the future. The Group’s growth momentum would continue to translate into satisfactory EPS growth and returns.

In our DCF valuation, we assume a cost of equity at 12.70%, a cost of debt at 2.76%, a tax rate at 26.43%, and a debt-to-equity ratio of 2.99%. In addition, we also use the market multiple method that includes both domestic and international peers. Based on these two methods, we derived our TP of HK\$ 23.43, which represents FY16E P/E and FY17E P/E of 26.53x and 23.98x, and FY16E P/B and FY17E P/B of 6.34x and 5.85x. Initiate with **HOLD** due to its current high valuation level.



Risk factors

Macroeconomic risk. Economic slowdown may negatively impact the sports apparel sector, as suggested by the reduced retail sales growth in this specific market. Hence, performance of the industry players would suffer.

Regulatory risk. Going forward, the Chinese authorities may impose additional regulations on the sports apparel to raise the industry standard and enhance product quality. These measures may be favorable or unfavorable to existing industry players.

Rapidly changing consumer taste in China. Taste and preference of the Chinese consumers are evolving quickly. The sports apparel companies that are unable to adapt to such changes may become obsolete eventually.

Commodity price risk. The manufacturing of sports apparel deals with cotton and materials derived from crude oil, including flexible polymers and rubber for footwear products, terylene and nylon for apparel products. Therefore, the Group's cost of production is highly correlated with the price cycle of cotton and crude oil. Unanticipated price fluctuations of these commodities may result in affecting the Group's margins adversely.

Business acquisition risk. The Group has ramped up its acquisition efforts in recent years to enhance its product portfolio. However, these newly acquired businesses could become a burden if synergies are not realized.

Product safety risk. Even though the sports apparel industry is not as closely scrutinized as the F&B one, product safety issues, such as harmful chemicals leaching from product into human body. Such safety issues may tarnish the Group's brand image and reduce the brand's popularity among consumers.

Production risk. Operation capacity of the Group may fall behind sales, while disruption of raw material supplies and production interruption of its contracted manufacturers may also affect the Group's business.

Foreign exchange rate risk. As the Group expands its global footprints, the impact of foreign exchange rate fluctuation would also increase. According to the Group, a 5% increase/decrease in RMB's exchange rate would have decreased/increased the 2015 after-tax and retained profits by RMB 52.35mn; a 5% increase/decrease of HKD's exchange rate would have increased/decreased 2015 after-tax and retained profits by RMB 0.48mn; a 5% increase/decrease in USD's exchange rate would have decreased/increased 2015 after-tax and retained profits by RMB 0.484mn.

Interest rate risk. The Group also faces interest rate risk as the low interest rate environment may change with Fed's rate hike in the future. According to the Group, as of end-2015, a general increase/decrease of 100 bps of interest rate, with all other variables being constant, would have increased/decreased the Group's after-tax and retained profits for the year by RMB 43.98 mn (2014: RMB 34.23 mn).



Appendix: Financial Statements of the Group

Consolidated income statement (2014A-2018E)

As of Dec 31 (RMB mn, except per share data)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Revenue	8,922.69	11,125.94	13,470.44	15,954.12	18,971.82	5,109.82	6,142.69
- Footwear	4,110.47	5,074.11	6,071.06	7,223.18	8,583.12	2,400.48	2,866.88
- Apparel	4,451.23	5,591.70	6,880.80	8,140.03	9,702.89	2,471.56	3,027.20
- Accessories	360.99	460.13	518.57	590.91	685.81	237.78	248.62
COGS	(4,895.88)	(5,940.52)	(7,280.15)	(8,663.11)	(10,205.73)	(2,727.84)	(3,201.49)
Gross profit	4,026.82	5,185.42	6,190.28	7,291.01	8,766.09	2,381.97	2,941.20
- Footwear	1,907.70	2,341.80	2,754.87	3,294.86	3,938.68	1,099.50	1,293.60
- Apparel	1,981.90	2,671.20	3,246.04	3,779.23	4,572.45	1,192.80	1,558.60
- Accessories	137.20	172.40	189.37	216.93	254.95	89.70	89.00
Other net income/(loss)	85.98	227.07	267.69	321.32	379.56	109.17	107.08
Selling and distribution expense	(1,697.10)	(2,211.77)	(2,919.52)	(3,623.17)	(4,348.42)	(990.53)	(1,261.01)
Administrative expenses	(396.83)	(504.03)	(662.22)	(760.40)	(885.03)	(233.73)	(299.00)
Operating profit	2,018.86	2,696.68	2,876.23	3,228.77	3,912.19	1,266.88	1,488.26
Net finance income/(expense)	223.85	132.62	175.42	168.04	145.14	73.94	88.45
Pretax profit	2,242.71	2,829.30	3,051.66	3,396.81	4,057.33	1,340.82	1,576.71
Tax	(510.11)	(741.08)	(802.92)	(903.14)	(1,069.67)	(354.33)	(414.50)
Net profit	1,732.60	2,088.23	2,248.74	2,493.66	2,987.66	986.50	1,162.21
- Profit attributable to shareholders	1,700.31	2,040.57	2,209.39	2,444.66	2,927.94	965.27	1,129.19
- Minority interest	32.29	47.65	39.35	49.00	59.72	21.23	33.02
Dividend	1,208.26	1,423.63	1,539.08	1,680.94	2,031.85	622.30	736.20
EPS (RMB cent)							
- Basic	68.12	81.66	88.32	97.73	117.04	38.65	45.15
- Diluted	67.98	81.48	87.89	97.25	116.47	38.57	45.05
DPS (RMB cent)	61	68	72	78	94	30	34

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn, except per share data)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Cash and cash equivalent	4,933.74	5,165.86	5,369.61	5,374.04	5,785.42	4,453.14	5,463.17
Other ST deposit	1,310.37	1,567.53	1,401.93	1,449.42	1,826.76	1,835.37	1,353.46
Trade and other receivable	1,700.71	2,207.19	2,663.01	2,974.04	3,339.31	1,733.07	2,263.44
Inventory	867.18	1,016.13	1,472.10	1,656.47	1,746.97	859.67	1,244.00
Other current assets	535.00	200.00	0.00	0.00	0.00	350.00	0.00
Total current assets	9,347.00	10,156.70	10,906.65	11,453.98	12,698.47	9,231.24	10,324.07
PP&E	924.99	1,121.19	1,237.81	1,424.59	1,695.71	900.63	1,128.12
Construction in progress	142.85	44.54	92.81	124.36	151.10	190.44	96.68
Intangible assets	489.32	464.14	435.17	403.45	365.43	476.38	489.73
Other non-current assets	479.59	715.38	1,245.34	1,246.65	1,737.09	563.16	944.85
Total non-current assets	2,036.75	2,345.26	3,011.14	3,199.04	3,949.34	2,130.60	2,659.37
Total assets	11,383.75	12,501.96	13,917.79	14,653.02	16,647.80	11,361.84	12,983.44
Trade and other payable	1,654.01	1,989.89	2,728.27	2,586.75	3,287.77	1,716.01	2,553.59
ST debt	1,348.26	1,330.00	1,299.11	1,350.06	1,655.31	1,032.89	937.71
Other current liabilities	182.42	243.37	277.67	301.13	343.26	200.80	225.05
Total current liabilities	3,184.69	3,563.26	4,305.04	4,237.94	5,286.34	2,949.70	3,716.34
Long-term payable to non-controlling interests							
- unsecured and at amortized cost	36.33	38.71	38.79	39.50	40.63	37.70	40.68
Deferred tax assets	158.15	85.75	50.06	38.96	28.41	134.19	52.30
Total non-current liabilities	194.48	124.45	88.85	78.45	69.04	171.89	92.98
Shareholders' equity	7,795.16	8,579.67	9,249.98	10,013.70	10,909.78	8,032.09	8,906.53
Minority interest	209.42	234.58	273.92	322.92	382.64	208.15	267.59
Total equity	8,004.58	8,814.24	9,523.90	10,336.63	11,292.43	8,240.24	9,174.12
Total liabilities and equity	11,383.75	12,501.96	13,917.79	14,653.02	16,647.80	11,361.84	12,983.44

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2014A-2018E)

FY ends at Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Net profit	2,242.71	2,829.30	3,051.66	3,396.81	4,057.33	1,340.82	1,576.71
Depreciation and amortization	159.34	188.27	236.07	319.21	429.11	88.58	106.69
Change of working capital	(68.44)	(414.93)	(172.97)	(636.45)	245.75	38.07	277.11
Others	(647.75)	(699.78)	(741.03)	(864.90)	(1,076.35)	(320.57)	(862.02)
Cash flow from operating activities	1,685.86	1,902.86	2,373.73	2,214.67	3,655.83	1,146.91	1,098.48
CapEx	262.70	460.90	456.93	550.05	774.79	(194.36)	(372.93)
Others	(1,127.41)	(873.94)	(910.94)	(929.42)	(1,534.39)	(344.94)	390.77
Cash flow from investing activities	(864.71)	(413.04)	(454.01)	(379.38)	(759.60)	(539.29)	17.84
Change in bank borrowing	858.04	(18.26)	30.89	(50.96)	(305.25)	(315.37)	(392.29)
Dividend paid	(1,089.76)	(1,356.20)	(1,539.08)	(1,680.94)	(2,031.85)	(711.45)	(801.37)
Others	(6.43)	80.74	88.82	97.70	107.47	(31.52)	377.16
Cash flow from financing activities	(238.16)	(1,293.73)	(1,419.37)	(1,634.20)	(2,229.63)	(1,058.34)	(816.51)
Net change in cash	582.99	196.10	500.34	201.10	666.60	(450.72)	299.80
Cash at the beginning	4,344.26	4,933.74	5,165.86	5,369.61	5,374.04	4,933.74	5,165.86
ForEx effect	6.49	36.02	(296.59)	(196.67)	(255.22)	(29.88)	(2.49)
Cash at the end of FY	4,933.74	5,165.86	5,369.61	5,374.04	5,785.42	4,453.14	5,463.17

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2012A-2018E)

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Growth (YoY %)							
Total revenue	22.54	24.69	21.07	18.44	18.91	23.97	20.21
- Footwear	20.17	23.44	19.65	18.98	18.83	19.45	19.43
- Apparel	24.53	25.62	23.05	18.30	19.20	27.44	22.48
- Accessories	26.18	27.47	12.70	13.95	16.06	37.46	4.56
Gross profit	32.49	28.77	19.38	17.78	20.23	28.06	23.48
Operating profit	28.95	33.57	6.66	12.26	21.17	28.48	17.47
Net profit	29.32	20.01	8.27	10.65	19.77	20.24	16.98
Profitability ratios (%)							
GPM	45.13	46.61	45.95	45.70	46.21	46.62	47.88
- Footwear	46.41	46.15	45.38	45.62	45.89	45.80	45.12
- Apparel	44.52	47.77	47.18	46.43	47.12	48.26	51.49
- Accessories	38.01	37.47	36.52	36.71	37.18	37.72	35.80
OPM	22.63	24.24	21.35	20.24	20.62	24.79	24.23
EBITDA margin	24.41	25.93	21.35	20.24	20.62	26.53	25.96
Pretax margin	25.13	25.43	22.65	21.29	21.39	26.24	25.67
NPM	19.06	18.34	16.40	15.32	15.43	18.89	18.38
Revenue contribution (%)							
Footwear	46.07	45.61	45.07	45.27	45.24	46.98	46.67
Apparel	49.89	50.26	51.08	51.02	51.14	48.37	49.28
Accessories	4.05	4.14	3.85	3.70	3.61	4.65	4.05
Return ratios (%)							
ROAA	15.82	17.09	16.73	17.11	18.71	8.49	8.86
ROAE	22.75	24.92	24.78	25.38	27.99	12.20	12.92
ROIC	24.70	27.85	25.39	24.68	26.42	13.93	14.68
Liquidity ratio (x)							
Current ratio	2.93	2.85	2.53	2.70	2.40	3.13	2.78
Quick ratio	2.66	2.57	2.19	2.31	2.07	2.84	2.44
Cash ratio	1.96	1.89	1.57	1.61	1.44	2.13	1.83
Cash conversion cycle (days)							
Days of outstanding receivable	35.34	33.48	35.19	35.44	34.84	33.43	36.89
Days of inventory on hand	58.02	57.86	62.38	65.91	60.86	57.77	64.42
Days of outstanding payable	52.10	39.93	49.07	49.92	47.25	42.86	42.49
CCC	41.26	51.41	48.49	51.43	48.45	48.34	58.82
Leverage ratios (%)							
Total debt/Equity	16.84	15.09	13.64	13.06	14.66	12.53	10.22
Total debt/Total assets	11.84	10.64	9.33	9.21	9.94	9.09	7.22

Source(s): Company, ABCI Securities estimates

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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

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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