



# Shuanghui Development (000895 CH)

## A leading player in China

- The Group is a leading meat processor in China with a strong commitment to product quality; its packaged meat products had a 39.6% market share in the national supermarket channel in 2016
- The Group has a diversified product portfolio that includes fresh meat and packaged meat products; it also fine-tunes the product portfolio to cater to new consumer tastes
- The Group has a long track record of managing its working capital efficiently and maintaining a low leverage; its cost effectiveness improved in 2016
- We project the Group's revenue to grow at 6.72% CAGR in 2016-19E; net profit (to shareholders of the Company) to grow at 13.24% CAGR in 2016-19E
- Initiate with **BUY**; current TP represents 18.97x/16.44x 17E/18E P/E, or 6.27x/6.04x 17E/18E P/B

**A leading player in China.** The Group has cemented its leading position in China's meat processing industry. Market share of its packaged meat products in the national supermarket channel increased from 37.4% in 2014 to 39.6% in 2016. We believe the Group's commitment to product quality, well-developed business network, integrated operating model, and global sourcing capability will enable it to maintain its market leadership.

**A diversified product portfolio.** The Group offers packaged meat products (low-temperature and high-temperature packaged meat products) and fresh meat products. Packaged meat products have been a major contributor to the Group in terms of sales volume and gross profit. We believe the Group is adjusting its product portfolio to adapt to changing consumer tastes.

**Cost effectiveness improved further in 2016.** The Group was able to reduce its SG&A expenses/sales ratio in 2016 and enhanced its cost effectiveness. S&D expenses-to-sales ratio and admin-expenses-to-sales ratio fell from 5.14% and 3.21% in 2015 to 4.38% and 2.33% in 2016. Consequently, in 2016, OPM only fell 1.16ppt, whereas GPM declined by 2.63ppt.

**Long track record of strong return and low leverage.** The Group has been able to managing its working capital efficiently - its receivable turnover was less than 1 day in 2016. The Group has been able to generate sufficient cash flow from operation, which in turn reduces the need for external leverage.

**Initiate with BUY; TP at RMB 27.90.** Based on our projections, revenue and net profit (to owners of the Company) would grow at 6.72% and 13.24% CAGRs in 2016-19E; GPM and NPM (to owners of the Company) would improve from 18.14% and 8.50% in 2016 to 20.19% and 10.15% in 2019E. We initiate coverage on the Group with **BUY** and our TP represents 18.97x/16.44x 17E/18E P/E, or 6.27x/6.04x 17E/18E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Rapidly changing consumer tastes/demand; 4) Inflation risk; 5) Product quality/safety risk.

### Results and Valuation

FY ended Aug 31	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue (RMB mn)	44,697	51,845	55,320	58,717	63,016
Chg (% YoY)	(2.19)	15.99	6.70	6.14	7.32
Net Profit (RMB mn)	4,256	4,405	4,852	5,599	6,397
Chg (% YoY)	5.34	3.51	10.15	15.39	14.26
Basic EPS (RMB)	1.29	1.33	1.47	1.70	1.94
Chg (% YoY)	5.34	3.52	10.19	15.39	14.26
P/E (x)	17.77	17.17	15.58	13.50	11.82
BVPS (RMB)	5.09	4.30	4.45	4.62	4.82
P/B (x)	4.50	5.32	5.15	4.96	4.76
DPS (RMB)	1.25	2.10	1.32	1.53	1.74
Yield (%)	5.46	9.17	5.78	6.67	7.62
ROAA (%)	18.97	19.92	22.04	24.26	26.12
ROAE (%)	25.00	26.90	31.43	34.51	37.38

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

### Initiation

Jul 13, 2017

Rating: BUY

TP: RMB 27.90

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Share price (RMB)	22.91
Est. share price return	21.78%
Est. dividend yield	5.78%
Est. total return	27.56%

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L (RMB)	25.74/19.55
Issued shares (mn)	3,299.56
Mkt cap (RMB mn)	75,592.88
30 days ADT (RMB mn)	271.85

Shareholding (%) (as of end-2016)	
Shuanghui Development	59.27
Rotary VortexF	13.98
China Securities Finance Corp	2.37
Sunshine Insurance	1.27

Source(s); Bloomberg, Company

% to total revenue	FY17E
Packaged meat products	41.01
Fresh meat	63.41
Others	4.38

Source(s): ABCI Securities estimates

### Sector Performance (%)

	Absolute	Relative*
1-mth	(0.13)	(3.50)
3-mth	7.60	1.94
6-mth	18.02	6.21

\* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

### 1-Year price performance (RMB)



Source(s): Bloomberg, ABCI Securities

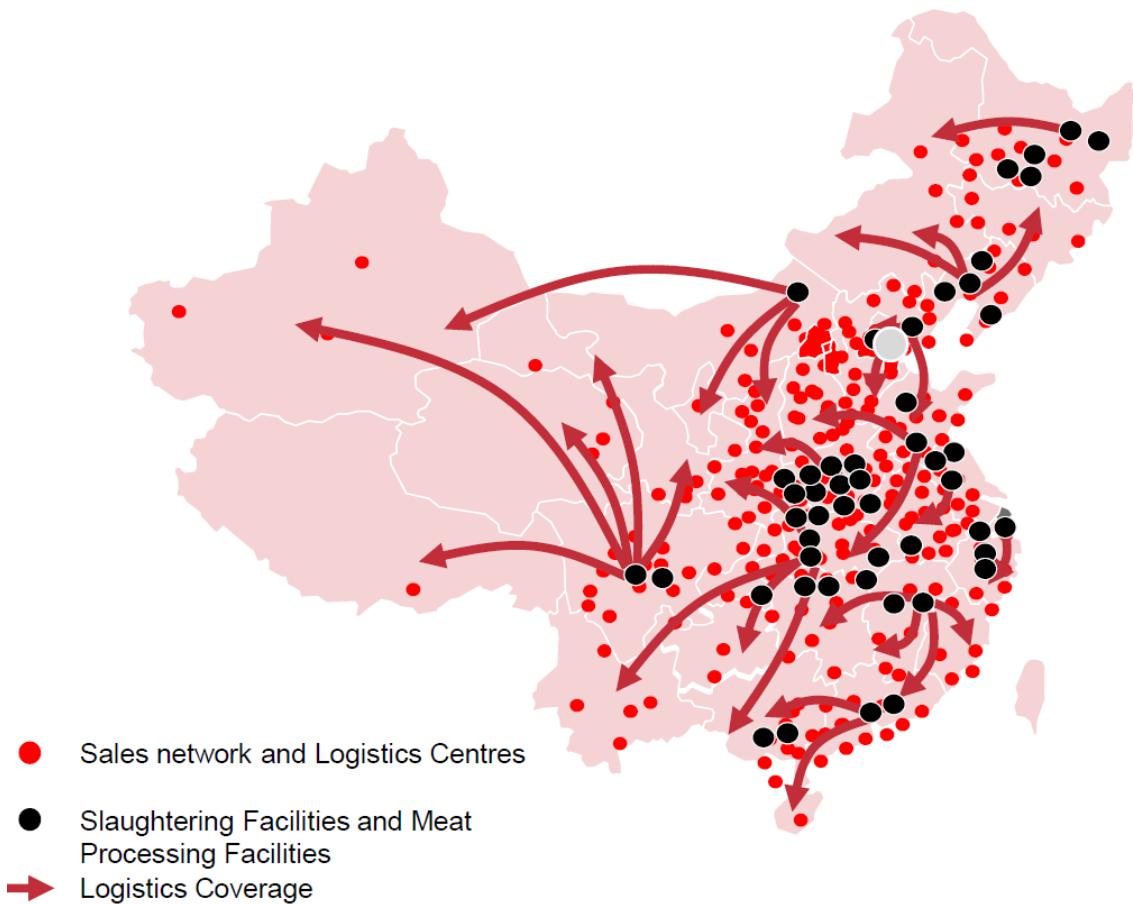
\* All pricing and market data as of closing of Jul 12, 2017



## Shuanghui Development in brief

Shuanghui Development (000895 CH) is the largest meat processing company in China. Headquartered in Luohe Henan, its operational network covers 18 provinces/autonomous municipalities. Its 30 processing facilities are complemented with full industry chain services that include packaging, logistics, and retail distribution. In 2016, the Group processed 12.35mn heads of hogs. The total sales volume of its meat products reached 2967.1k tonnes in 2016.

**Exhibit 1: Shuanghui's sales network, logistic centers, slaughtering facilities and meat-processing facilities**



Source(s): FY16 result presentation of WH Group

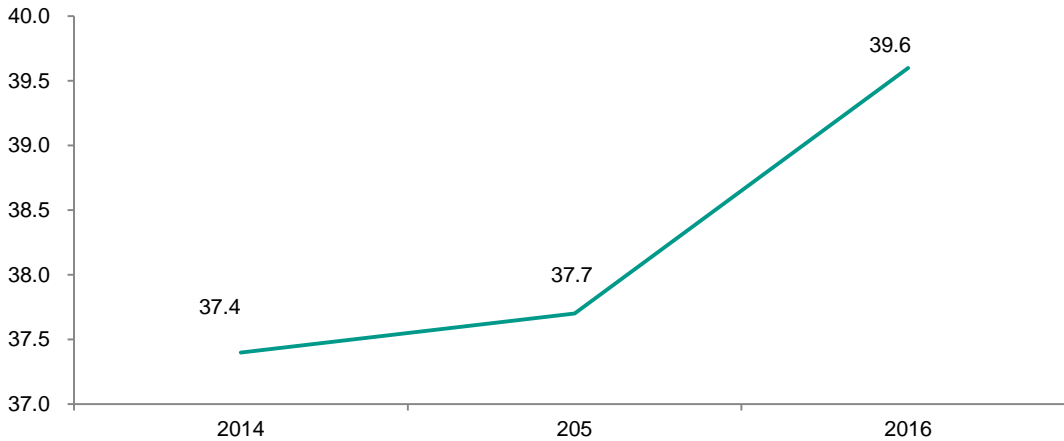
## Investment highlights

### 1. National industry leader with comprehensive national business network and global sourcing capability

Shuanghui is a leading player in China's packaged meat industry. According to data provided by WH Group (288 HK), market share of Shuanghui's packaged meat products in the supermarket channel increased from 37.4% in 2014 to 39.6% in 2016. Market share in 2016 was 1.9ppts higher than that of 2015.



**Exhibit 2: Packaged meat products of Shuanghui – market share in national supermarket channel (%)**



Source(s): FY16 result presentation of WH Group, ABCI Securities

Throughout years of development, the Group has developed a comprehensive business network that includes 30 processing facilities, covering 18 provinces/autonomous municipalities, and an integrated operation that covers sourcing, processing, packaging, logistics, and retail distribution.

The Group is able to conduct global sourcing via its parent company WH Group, whose business spans across the U.S. and Europe. Such capability enabled the Group to take advantage of the different between domestic and international hog/pork prices.

**2. Commitment to product quality**

The Group’s production, processing and distribution facilities have been accredited according to ISO9001, HACCP, and ISO14001 certification standards. Each hog is screened for compliance with standards before being processed.

In addition, the Group has a dedicated subsidiary in charge of the logistics. According to the Group’s website, the logistic subsidiary was established in 2003. It has a total logistics capacity over 15k tonnes, 1500/150 refrigerated/normal transport vehicles, 7 dedicated railway lines, and cold-storage warehouse with a storing capability of 200k tonnes.

**3. Product portfolio**

The Group’s product portfolio includes low-temperature and high-temperature packaged meat products and fresh meat. Packaged meat product has been a major product category for the Group, contributing to more than 50% of total sales volume and more than 70% of gross profit in the past three years.

The Group has been revising its business strategy to capture the increasing popularity of low-temperature packaged meat products and chilled/frozen fresh meat among consumers. We believe the Group’s would continue to adjust its product portfolio to accommodate this trend so as to stay competitive in the market.



#### 4. Improving cost effectiveness

The Group's margins declined in 2016. GPM declined by 2.63ppt, but OPM declined only by 1.16ppt, mainly due to the fact that S&D-expense-to-sales ratio declined from 5.14% in 2015 to 4.38% in 2016, while admin-expenses-to-sales ratio declined from 3.21% in 2015 to 2.33% in 2016.

We believe the lower SG&A/sales ratio was mainly a result of the reduction in headcounts, which declined from 51,227 by end-FY15 to 50,431 by end-FY16. Although the overall SG&A/sales ratio declined, the Group increased its spending on advertising and promotion by 21% YoY to RMB 283.5mn in FY16 (FY15: RMB 235.3mn).

The cost control measure in 2016 reflects the Group's ability in enhancing cost efficiency. In the future, we expect more cost savings would be enabled by streamlining the production process with more advanced equipment and automation, global sourcing via its parent company, and maintaining a lean workforce.

#### 5. Efficient management of working capital and low leverage

In the past few years, the Group has been able to maintain its receivable turnover days at ~ 1, the inventory turnover days at ~28, and the overall CCC below 10 days. The short receivable turnover indicates strong demand for the Group's products in the consumer market and substantial bargaining power over its distributors.

Efficient use of working capital has enabled the Group to generate sufficient cash flow through its operation and maintain a low leverage level. The total debt/equity ratio and total debt/assets ratio were 7% and 5% by end-FY16, and the Group has been maintaining a net cash position in the past few years. In addition, net cash flow from operating activities in 2015/2016 was higher than the reported net profits in the corresponding periods.



## Growth and profitability outlook

We expect the Group's revenue growth to increase from 6.70% YoY in 2017E to 7.32% YoY in 2019E, implying 6.72% CAGR in 2016-19E. The topline projections are based on the assumptions that ASP for the packaged meat segment and the fresh meat segment would expand at 0.78% and 5.01% CAGRs in 2016-19E; sales volume of the packaged meat segment and the fresh meat segment would increase at 1.50% and 4.11% CAGRs for the same period.

We believe the continued downtrend in pork price, the Group's global sourcing capability and its cost-saving initiatives would support a faster profit growth. We expect gross profit and net profit to expand at 10.61% and 13.24% CAGRs in 2016-19E.

We also expect the fresh meat segment would outperform the packaged meat segment in terms of topline growth. Revenue of the fresh meat segment would increase at 9.33% CAGR in 2016-19E while that of the packaged meat segment would grow at 2.28% CAGR for the same period.

### Exhibit 3: ASP and sales volume growth projections

Growth (YoY %)	2015A	2016A	2017E	2018E	2019E
ASP					
Packaged meat products	(1.98)	(1.69)	(0.76)	1.32	1.78
Fresh meat	7.44	11.73	5.45	4.49	5.10
Vol.					
Packaged meat products	(8.33)	1.44	1.20	1.85	1.44
Fresh meat	(2.41)	16.11	4.86	3.14	4.34

Source(s): The Group, ABCI Securities estimates

With the profit growth outpacing the topline growth in our projection, we believe the Group's margins would continue to improve over the next few years. In 2016-19E, GPM would increase from 18.14% to 20.19%, and NPM (to owners of the Company) would grow from 8.50% to 10.15%. The packaged meat segment would see its GPM increasing from 31.21% in 2016 to 33.38% in 2019E, while GPM of the fresh meat segment would increase from 5.48% in 2016 to 9.67% in 2019E.

## Valuation

For our DCF analysis, we have the following assumptions:

- 1) a risk free rate of 3.6%;
- 2) a beta of 0.73;
- 3) an expected market return of 10.85%;
- 4) a target debt-to-asset ratio of 5%;
- 5) an after-tax cost of debt at 2.3%;
- 6) a terminal growth rate of 2%.

The valuation level of the Group arrives at RMB 101.86bn, which is equivalent to RMB 30.87 per share. We set our TP at RMB 27.90, which represents 18.97x/16.44x 17E/18E P/E, or 6.27x/6.04x 17E/18E P/B.

Currently, most of the Group's peers are listed in the A-share market and their valuations vary considerably from one another. We believe that the disparate valuations reflect the differences in 1) revenue composition and sensitivity to changes in commodity prices are different; 2) varying margin performance and growth momentum; 3) different track records of companies.

**Exhibit 4: Bloomberg consensus valuation of companies in the meat-processing sector**

Ticker	English name	Chinese name	FY end	Price	Ytd	Mkt Cap	P/E (x)		P/B (x)		Yield (%)		ROAA (%)		ROAE (%)	
				(RMB)	change (%)		(RMB mn)	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E
<b>000895 CH</b>	<b>Shuanghui Development</b>	双汇发展	<b>Dec-31</b>	<b>22.91</b>	<b>9.46</b>	<b>75,592.88</b>	<b>18.77</b>	<b>16.27</b>	<b>6.20</b>	<b>5.97</b>	<b>5.78</b>	<b>6.67</b>	<b>22.04</b>	<b>24.26</b>	<b>31.43</b>	<b>34.51</b>
300498 CH	Guangdong Wens	温氏股份	Dec-31	23.42	(20.20)	122,260.74	10.88	11.92	3.32	2.79	2.03	1.62	20.73	16.53	26.66	20.96
000876 CH	New Hope Liuhe	新希望	Dec-31	8.32	3.35	35,077.24	11.05	11.83	1.66	1.54	1.26	1.14	6.95	6.65	12.05	10.85
002299 CH	Fujian Sunner	圣农发展	Dec-31	15.29	(27.95)	16,985.66	17.72	15.46	2.49	2.19	2.77	2.05	5.10	6.50	16.21	15.69
002477 CH	Chuying Agro-Pastora	雏鹰农牧	Dec-31	4.48	(10.76)	14,045.52	8.65	12.44	N/A	N/A	1.56	1.56	6.60	7.50	22.05	20.20
002567 CH	Tangrenshen	唐人神	Dec-31	9.7	15.11	7,778.28	16.81	13.25	2.75	2.50	1.60	1.75	8.40	8.75	12.02	13.82
1610 HK	COFCO Meat*	中粮肉食*	Dec-31	1.65	8.55	6,438.30	6.10	5.35	1.01	0.83	N/A	N/A	10.44	10.05	18.11	17.02
<u>Average</u>							<u>12.85</u>	<u>12.36</u>	<u>2.91</u>	<u>2.64</u>	<u>2.50</u>	<u>2.47</u>	<u>11.46</u>	<u>11.46</u>	<u>19.79</u>	<u>19.01</u>

\* Share price and market cap are in HK\$

\*\* As of end-July 12, 2017

Source(s): Bloomberg, ABCI Securities estimates

Given that our projected yield, ROAA and ROAE for the Group are much higher than the sector average, we believe the Group deserves a premium valuation. Compared to its peers, our target 17E/18E P/Bs are ~2x of the peers' average, while its 17E/18E P/Es registered a premium between 30%-50% over the peers' average.



## Risk factors

**Macroeconomic risk.** Moderating growth of the Chinese economy would inevitably affect the consumer market. If the economic growth of China falls unexpectedly, consumption of pork and related products can be adversely affected.

**Regulatory risk.** The tightening regulation on food products in China would lead to rising compliance costs for industry players. In addition, changes in regulation may result in industry disruption. E.g., the recent change in regulation that allows beef import from the U.S. may lead to changes in protein consumption among the Chinese consumers.

**Rapidly changing consumer tastes/demand.** The Chinese consumers are offered significantly more choices these days. Companies would need to develop new products to retain customers. Failure to do so may lead to fluctuations in growth and margins and ultimately elimination from the market.

**Inflation risk.** The rising CPI and PPI in China indicate manufacturers are facing rising production costs. If the Group is unable to raise its product prices to compensate for the rising costs, margins may suffer.

**Product quality/safety risks.** If the Group's is unable to maintain its product quality or incidents of product contamination occur, its brand image would be tarnished.



Consolidated income statement (FY15A-FY19E)

FY ends at Dec 31 (RMB mn, except per share data)	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Revenue</b>	<b>44,697</b>	<b>51,845</b>	<b>55,320</b>	<b>58,717</b>	<b>63,016</b>
<b>Core revenue</b>	<b>44,697</b>	<b>51,822</b>	<b>55,292</b>	<b>58,688</b>	<b>62,984</b>
- Packaged meat product	22,639	22,577	22,675	23,400	24,159
- Fresh meat	24,444	31,710	35,062	37,789	41,438
- Others	1,776	2,201	2,421	2,663	2,929
- Intersegment elimination	(4,162)	(4,666)	(4,866)	(5,165)	(5,543)
<b>Interest income</b>	<b>-</b>	<b>23</b>	<b>28</b>	<b>29</b>	<b>31</b>
<b>Commission and processing income</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
COGS	(35,413)	(42,440)	(45,138)	(47,352)	(50,288)
<b>Gross profit</b>	<b>9,283</b>	<b>9,404</b>	<b>10,179</b>	<b>11,363</b>	<b>12,726</b>
<b>Core GP</b>	<b>9,283</b>	<b>9,383</b>	<b>10,153</b>	<b>11,335</b>	<b>12,696</b>
- Packaged meat product	7,101	7,047	7,024	7,510	8,064
- Fresh meat	1,788	1,737	2,621	3,236	4,009
- Others	382	600	509	589	623
- Intersegment elimination	12	(1)	-	-	-
<b>GP of Interest income</b>	<b>-</b>	<b>21</b>	<b>26</b>	<b>27</b>	<b>29</b>
<b>GP of Commission and processing income</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Business levy and taxes	(190)	(312)	(333)	(354)	(380)
S&D expenses	(2,299)	(2,272)	(2,412)	(2,538)	(2,709)
Admin expenses	(1,435)	(1,207)	(1,275)	(1,348)	(1,441)
<b>Operating profit</b>	<b>5,359</b>	<b>5,613</b>	<b>6,159</b>	<b>7,123</b>	<b>8,196</b>
Net finance income/(cost)	4	18	2	5	8
Others	312	231	364	387	394
<b>Pretax profit</b>	<b>5,675</b>	<b>5,862</b>	<b>6,524</b>	<b>7,516</b>	<b>8,598</b>
Tax	(1,259)	(1,300)	(1,421)	(1,641)	(1,893)
<b>Net profit</b>	<b>4,416</b>	<b>4,562</b>	<b>5,103</b>	<b>5,875</b>	<b>6,705</b>
- Owners of the Company	4,256	4,405	4,852	5,599	6,397
- Minority interest	161	156	251	276	308
Dividend	4,124	6,929	4,367	5,039	5,757
EPS (RMB)					
- Basic	1.2893	1.3346	1.4705	1.6968	1.9387
- Diluted	1.2893	1.3346	1.4705	1.6968	1.9387
DPS (RMB)	1.25	2.10	1.32	1.53	1.74

Source(s): Company, ABCI Securities estimates





Consolidated balance sheet (FY15A-FY19E)

FY ends at Dec 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Cash and cash equivalent	2,427	3,304	2,633	3,745	4,374
Trade and bills receivable	166	161	232	199	240
Inventories	3,385	3,220	4,002	3,621	4,467
Others	2,938	357	1,446	1,592	2,067
<b>Current assets</b>	<b>8,916</b>	<b>7,041</b>	<b>8,313</b>	<b>9,157</b>	<b>11,148</b>
LT equity investment	162	177	194	214	235
PP&E	11,776	11,574	11,458	11,261	11,097
Construction in progress	715	533	553	567	559
Biological assets	53	71	81	112	166
Intangible assets	1,074	1,043	1,072	1,103	1,136
Others	189	914	1,005	1,059	1,175
<b>Non-current assets</b>	<b>13,969</b>	<b>14,311</b>	<b>14,363</b>	<b>14,316</b>	<b>14,367</b>
<b>Total assets</b>	<b>22,884</b>	<b>21,352</b>	<b>22,676</b>	<b>23,473</b>	<b>25,516</b>
Trade and bills payable	2,318	2,309	2,936	2,367	3,306
ST borrowings	600	1,055	1,087	1,127	1,195
Others	2,201	2,812	2,803	3,234	3,369
<b>Current liabilities</b>	<b>5,119</b>	<b>6,176</b>	<b>6,825</b>	<b>6,728</b>	<b>7,870</b>
LT borrowings	6	6	18	14	13
Deferred tax liabilities	16	49	18	33	29
Others	57	52	11	57	14
<b>Non-current liabilities</b>	<b>79</b>	<b>107</b>	<b>46</b>	<b>105</b>	<b>57</b>
Shareholders' equity	16,792	14,203	14,688	15,248	15,888
Minority interest	894	866	1,117	1,392	1,701
<b>Total equity</b>	<b>17,687</b>	<b>15,069</b>	<b>15,805</b>	<b>16,640</b>	<b>17,588</b>
<b>Total liabilities and equity</b>	<b>22,884</b>	<b>21,352</b>	<b>22,676</b>	<b>23,473</b>	<b>25,516</b>

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (FY15A-FY19E)

FY ends at Dec 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Net profit	4,416	4,562	5,103	5,875	6,705
Depreciation and amortization	880	946	1,076	1,225	1,415
Change in working capital	311	(172)	(311)	(79)	(18)
Others	159	210	140	146	210
<b>Cash flow from operating activities</b>	<b>5,766</b>	<b>5,546</b>	<b>6,007</b>	<b>7,167</b>	<b>8,313</b>
PP&E	(2,233)	(881)	(749)	(741)	(786)
Investment	(1,056)	2,645	2,294	2,504	2,301
Others	0	0	0	0	0
<b>Cash flow from investing activities</b>	<b>(3,289)</b>	<b>1,764</b>	<b>1,545</b>	<b>1,763</b>	<b>1,514</b>
Bank borrowing	271	426	43	37	67
Others	(3,241)	(7,168)	(7,941)	(7,862)	(9,261)
<b>Cash flow from financing activities</b>	<b>(2,970)</b>	<b>(6,741)</b>	<b>(7,898)</b>	<b>(7,825)</b>	<b>(9,195)</b>
<b>Net change in cash and cash equivalent</b>	<b>(493)</b>	<b>569</b>	<b>(346)</b>	<b>1,106</b>	<b>633</b>
ForEx impact	10	12	9	10	12
<b>Cash and cash equivalent at the end of FY</b>	<b>2,395</b>	<b>2,976</b>	<b>2,639</b>	<b>3,755</b>	<b>4,400</b>

Source(s): Company, ABCI Securities estimates

**Key operating and financial ratios (FY15A-FY19E)**

FY ends at Dec 31	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Growth (YoY %)</b>					
Revenue	(2.19)	15.99	6.70	6.14	7.32
Core revenue	(2.19)	15.94	6.69	6.14	7.32
- Packaged meat product	(10.14)	(0.27)	0.43	3.20	3.25
- Fresh meat	4.85	29.73	10.57	7.78	9.66
- Others	32.70	23.93	10.00	10.00	10.00
Gross profit	1.94	1.30	8.24	11.63	11.99
Core gross profit	1.94	1.07	8.21	11.64	12.01
- Packaged meat product	9.07	(0.76)	(0.33)	6.93	7.38
- Fresh meat	(19.84)	(2.83)	50.87	23.47	23.88
- Others	12.13	56.84	(15.20)	15.79	5.81
EBIT	8.75	4.74	9.72	15.66	15.05
EBITDA	11.27	5.34	10.39	15.46	15.17
Pretax Profit	5.63	3.29	11.29	15.20	14.40
Net profit (to owners of the Company)	5.34	3.51	10.15	15.39	14.26
EPS - basic	5.34	3.52	10.19	15.39	14.26
<b>Profitability ratios (%)</b>					
GPM	20.77	18.14	18.40	19.35	20.19
Core GPM	20.77	18.11	18.36	19.31	20.16
- Packaged meat product	31.37	31.21	30.98	32.10	33.38
- Fresh meat	7.31	5.48	7.48	8.56	9.67
- Others	21.53	27.25	21.01	22.11	21.27
OPM	11.99	10.83	11.13	12.13	13.01
EBITDA margin	13.89	12.61	13.05	14.19	15.23
Pretax margin	12.70	11.31	11.79	12.80	13.64
NPM (to owners of the Company)	9.52	8.50	8.77	9.54	10.15
<b>Core revenue contribution (%)</b>					
Packaged meat product	50.65	43.57	41.01	39.87	38.36
Fresh meat	54.69	61.19	63.41	64.39	65.79
Others	3.97	4.25	4.38	4.54	4.65
<b>Return ratios (%)</b>					
ROAA	18.97	19.92	22.04	24.26	26.12
ROAE	25.00	26.90	31.43	34.51	37.38
ROIC	29.37	32.11	38.90	43.13	49.37
<b>Liquidity ratio (x)</b>					
Current ratio	1.74	1.14	1.22	1.36	1.42
Quick ratio	1.08	0.62	0.63	0.82	0.85
Cash ratio	0.47	0.53	0.39	0.56	0.56
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	1.1	0.8	1.0	1.0	1.0
Days of inventory on hand	36.6	28.4	29.2	29.4	29.4
Days of outstanding payable	29.5	20.0	20.8	20.6	20.2
CCC	8.1	9.3	9.4	9.8	10.1
<b>Leverage ratios (%)</b>					
Total debt/Equity	3.43	7.04	6.99	6.86	6.87
Total debt/Total assets	2.65	4.97	4.87	4.86	4.74
Net cash/equity	10.29	14.88	9.67	15.65	18.00
Net cash/total assets	7.96	10.50	6.74	11.09	12.41

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

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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