



Sep 15, 2015
Company Report
Rating: BUY
TP: HK\$3.13

Share price (HK\$) 2.28
Est. share price return 37.3%
Est. dividend yield 5.4%
Est. total return 42.7%

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Key Data

Price (HK\$)	2.28
52 wk H/L (HK\$)	3.76/1.46
Issued shares (mn)	418.0
Mkt Cap (HK\$m)	953.0
Free-float shares (mn)	114.9
30-day avg daily turnover (HK\$m)	0.36
Major shareholders:	
Guangxi Aluminium	30.0%
Mr. Luo Su	13.6%

Source(s): Company, Bloomberg, ABCI Securities

Business Mix

Sales mix	FY14	1H15
Aluminium profiles:		
construction	80.9%	82.7%
industrial	16.4%	15.8%
Others	2.7%	1.5%
Total sales	100.0%	100.0%

Gross profit mix

Aluminium profiles:	81.6%	84.0%
construction	15.1%	14.3%
industrial	3.3%	1.7%
Others	81.6%	84.0%
Total GP	100.0%	100.0%

Source(s): Company, ABCI Securities

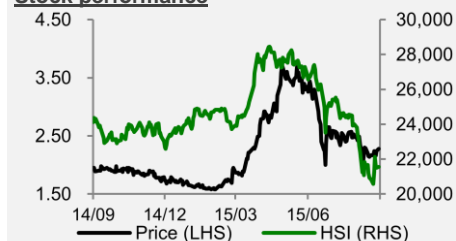
Stock price performance (%)

	Absolute	Relative*
1-mth	(8.43)	1.69
3-mth	(31.94)	(12.21)
6-mth	16.92	26.42

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Stock performance



Source(s): Bloomberg, ABCI Securities

Xingfa Aluminium (98 HK)

Outstanding profit growth in 1H15

- Net profit surged 39% YoY; 1H15 ROAE was 9.32%, up 1.16ppt from 1H14
- Sales volume was up 12.9% YoY, representing 81.5% of end-14 output capacity
- Favorable changes in product mix of construction aluminium profiles and better cost efficiency in new plants boosted unit gross profit to RMB 3,001/tonne, up 15.6% YoY
- High gearing and heavily reliance on short-term loans raise concerns
- Business prospects sensitive to business cycle in domestic property and construction industries; we believe the counter should trade at a discount to its downstream customers

Impressive profit growth. According to NBSC, the revenue and pre-tax profit of non-ferrous metal processing segment were up 2.5%YoY and 18.0%YoY in 1H15. Pre-tax profit margin of the segment was 2.4%. Xingfa posted a 9.6%YoY growth in revenue and 37.7%YoY growth in pre-tax profit, and registered a pre-tax margin of 6.5%. Based on its 1H15 revenue, Xingfa captured 0.1% of total revenue of non-ferrous metal processing industry in China.

Diversification of new production plants has paid off. This strategy has worked well and allowed Xingfa to increase sales volume, optimize product mix, and improve cost and logistic efficiency. Thanks to the 17% increase in output capacity of its new plants in FY15, sales volume of aluminium profiles rose 12.9%YoY in 1H15, representing 70% of designed capacity. Owing to favorable changes in product mix and higher production and logistic efficiency, gross margin enhanced to 17% in 1H15, or 1.4ppt higher than that in FY14. By volume, gross profit per tonne of sales in aluminium profiles grew 15.6% YoY, or flat HoH, to RMB 3,001/tonne in 1H15.

Vulnerable financial position. Net debt/equity was 118% and finance cost was equivalent to 3.5% of total sales. Current ratio stayed below 1x in the last few years. Short-term loans accounted for 84% of total loans, or 49% of total liabilities, while 70.5% of banking facilities were utilized in 1H15. Creditors' turnover days prolonged to 125 days in 1H15 vs. 76 days in 1H14. Insolvency risk is high if banks or trade creditors tighten credit facilities to Xingfa.

Valuation reflects the market's cautiousness toward property and construction industries. Despite the outstanding results in 1H15, the counter currently is trading at a rolling P/E of 3.05x and P/B of 0.62x. Xingfa's downstream customers in the property and construction industries are trading at a rolling P/E of 5.44x and P/B of 0.84x on average. According to NBSC, new construction starts in property development industry were down 16.8% YoY by GFA for 8M15. Our TP at HK\$3.13 translates to 0.77x FY15E P/B and 4.3x FY15E P/E.

Risk factors: (1) Share price risk caused by low share turnover; (2) Vulnerable financial position; (3) Demand risk of products due to lower construction work starts; (4) Deleveraging may dilute earnings and shareholders' return.

Results and Valuation

FY ended Dec 31	2012	2013	2014	1H15	2015F	2016F	2017F
Revenue (RMB mn)	3,546.6	3,907.5	4,843.9	2,199.7	4,981.0	5,821.4	6,029.6
Chg (%YoY)	15.6	10.2	24.0	9.6	2.8	16.9	3.6
Net profit (RMB mn)	86.6	130.6	224.6	114.3	250.2	337.8	349.9
Chg (%YoY)	484.9	50.9	72.0	38.9	11.4	35.0	3.6
FD EPS (RMB/share)	0.207	0.312	0.537	0.273	0.599	0.808	0.837
Chg (%YoY)	484.9	50.9	72.0	38.9	11.4	35.0	3.6
FD PER (x)	-	-	3.49	3.05	3.13	2.32	2.24
NBV (RMB/share)	2.063	2.334	2.832	3.033	3.341	4.048	4.747
P/B (x)	-	-	0.66	0.62	0.56	0.46	0.39
DPS (RMB/share)	0.050	0.040	0.090	-	0.102	0.137	0.142
Yield (%)	-	-	4.80	-	5.43	7.33	7.60
ROAE (%)	10.57	14.21	20.80	9.32	19.39	21.88	19.04
Equity/assets (%)	22.53	22.99	23.50	25.52	26.26	28.03	35.10
Net debt/equity (%)	190.5	207.1	118.2	117.9	95.2	79.6	39.6

Forex: RMB0.82168/HK\$

Source(s): Xingfa, ABCI Securities estimates



Review of 1H15 results

Exhibit 1: 1H15 Results Summary

1H/2H ended Jun 30/Dec 31 (RMBmn)	1H 14	2H14	1H15	Chg (YoY)	Remarks
Revenue breakdown:					
Construction aluminium profiles	1,624.5	2,292.3	1,818.8	12.0%	Boosted by 15.4%YoY growth in sales volume
Industrial aluminium profiles	339.5	455.8	347.1	2.2%	Boosted by 2.8%YoY growth in sales volume
Others	43.1	88.7	33.8	-21.7%	
Total sales	2,007.1	2,836.8	2,199.7	9.6%	
Gross profit breakdown:					
Construction aluminium profiles	241.9	376.1	313.7	29.7%	Thanks to expansion of product margin
Industrial aluminium profiles	39.3	75.3	53.4	35.7%	
Others	7.1	17.9	6.4	-10.4%	
Total gross profit	288.3	469.3	373.5	29.5%	New plants enhanced cost efficiency
Other revenue	17.8	20.7	22.6	27.1%	
Other net loss	(0.1)	(6.5)	(0.1)	-23.7%	
Distribution cost	(36.0)	(66.2)	(48.9)	35.7%	@2.2% of total sales; rising tech services fee
Admin expenses	(90.4)	(168.3)	(126.8)	40.2%	@5.8% of total sales; rising staff costs
Operating profit	179.6	249.0	220.3	22.7%	
Finance costs	(75.8)	(81.8)	(77.5)	2.2%	
Associate	(0.4)	(1.3)	(0.4)	8.8%	
Pre-tax profit	103.4	165.9	142.4	37.7%	
Tax	(21.1)	(23.5)	(28.2)	33.3%	@15% high-tech enterprise tax rate
Net profit	82.3	142.3	114.3	38.9%	
EBITDA & associate	233.8	328.1	301.8	27.1%	
Shares (mn)	418.0	418.0	418.0	0.0%	
EPS (RMB)	0.197	0.341	0.273	38.9%	
Major financial ratios					
Overall gross profit	14.4%	16.5%	17.0%		
Gross profit margin of					
Construction aluminium profiles	14.9%	16.4%	17.2%		Favorable changes in product mix
Industrial aluminium profiles	11.6%	16.5%	15.4%		& lower material costs
EBITDA & associate margin	11.6%	11.6%	13.7%		
Pre-tax profit margin	5.2%	5.8%	6.5%		
Net profit margin	4.1%	5.0%	5.2%		Improving on better product mix and cost control
ROAA (un-annualized)	1.8%	2.9%	2.3%		
ROAE (un-annualized)	8.2%	12.8%	9.3%		
Current ratio	0.74	0.80	0.83		High insolvency risk
Quick ratio	0.56	0.62	0.60		
Avg. trade and bills receivables turn (Days)	102	81	107		
Avg. inventories turn (Days)	54	42	56		
Avg. trade & bills payables turn (Days)	76	89	125		Delaying settlements to trade creditors
Net debt/equity	169.5%	118.2%	117.9%		Still High; limited improvement in 1H15 net gearing
ST loans/total loans	85.9%	86.0%	84.2%		High reliance on short-term bank loans
Finance cost/turnover	3.8%	2.9%	3.5%		Finance costs eroded margin
EBITDA/finance cost	3.08	4.01	3.89		Able to pay interest expenses
EBITDA/ST loans	0.11	0.19	0.13		Relying on banks to renew credit facilities annually

Source(s): Xingfa, ABCI Securities



Sales volume, unit selling prices, cost and gross profit

1H/2H ended Jun 30/Dec 31 (RMBmn)	1H 2014	2H 2014	1H 2015	Chg (YoY)	Remarks
Sales volume ('000 tonnes)					
Construction aluminium profiles	87.1	122.6	100.5	15.4%	Increase in sales for commercial property
Industrial aluminium profiles	21.2	27.6	21.8	2.8%	
Overall	108.3	150.1	122.3	12.9%	
Avg selling price (RMB/tonne)					
Construction aluminium profiles	18,651	18,699	18,097	-3.0%	
Industrial aluminium profiles	16,016	16,543	15,923	-0.6%	
Overall	18,135	18,303	17,710	-2.3%	Aluminium cost reduction passed onto clients
Unit cost (RMB/tonne)					
Construction aluminium profiles	15,874	15,631	14,976	-5.7%	
Industrial aluminium profiles	14,161	13,810	13,476	-4.8%	
Overall	15,539	15,297	14,708	-5.3%	Reduced on lower aluminium ingot cost
Unit gross profit (RMB/tonne)					
Construction aluminium profiles	2,777	3,068	3,122	12.4%	Improve on favorable changes in product mix
Industrial aluminium profiles	1,855	2,732	2,447	31.9%	
Overall	2,596	3,006	3,001	15.6%	

Source(s): Xingfa, ABCI Securities

1H15 sales were up 9.6% YoY to RMB 2,199.7 mn. This can be attributed to the 12.9%YoY growth in sales volume as more construction aluminium profiles were sold. However, total sales were dragged by the 2.3% decline in average selling prices as Xingfa passed the raw material cost saving onto customers. We estimate cost of aluminium ingot declined by 6.3% in 9M15 from 2014.

Gross profit surged 29.5%YoY to RMB 373.5mn in 1H15, boosted by 12.9%YoY growth in sales unit production cost. We estimate the unit gross profit per tonne increased 15.6% YoY in 1H15 to RMB 3,001/tonne, thanks to favorable changes in product mix and better division of labor in the new plants. Gross profit margin improved to 17.0% in 1H15, up 2.6ppt from 1H14.

Sales of construction aluminium profiles contributed to 82.7% of total sales and 84.0% of total gross profit in 1H15. Moreover, 96% of total sales were recorded in domestic market. Hence, the business prospect of the Group is highly sensitive to local construction and property development industries. Its downstream customers include well-known listed property developers such as Evergrande (3333 HK), Country Garden (2007 HK), Logan (3380 HK), China Overseas (688 HK), China Resources Land (1109 HK), Greentown (3900 HK), Vanke, etc.; and construction contractors such as Yuanda (2789 HK), Baoye (2355 HK), etc.

Net profit attributable to shareholders surged 38.9% YoY in 1H15 to RMB 114.3 mn. Reported FD EPS was RMB 0.273/share. No interim dividend was declared. 1H15 ROAA and ROAE were 2.28% and 9.32% in 1H15.

Financial status raises concerns. Net debt-to-equity ratio was 118% at end-June 2015, similar to that at end-Dec 2014. Finance costs eroded 3.5% of total sales. Short-term loans accounted for 84.2% of total loans. The Group relies heavily on short-term bank loans for its operation. Interest payment capability is fair but loan repayment capability raises concerns. EBITDA in 1H15 represented 3.89x of finance cost but accounted for 0.13x of short-term loans. Insolvency risk will be high if banks refuse to renew credit facilities for the Group.

The Group has reported profit growth consistently since FY12. Total banking facilities granted to the Group, however, reduced from RMB 3,455mn at end-Dec 2013 to RMB 3,245mn at end-June 2015, reflecting that banks are highly cautious over increasing banking facilities to the Group. In 1H15, 70.5% (vs 65.8% in FY14) of banking facilities were utilized.



Valuation

It reported an NBV of RMB 3.03/share at end-June 2015. Its 12-mth rolling EPS ended June 2015 was RMB 0.614/share. Based on its closing price of HK\$2.28 (Sep 14, 2015), the stock was trading at 0.962x P/B and rolling P/E of 3.05x.

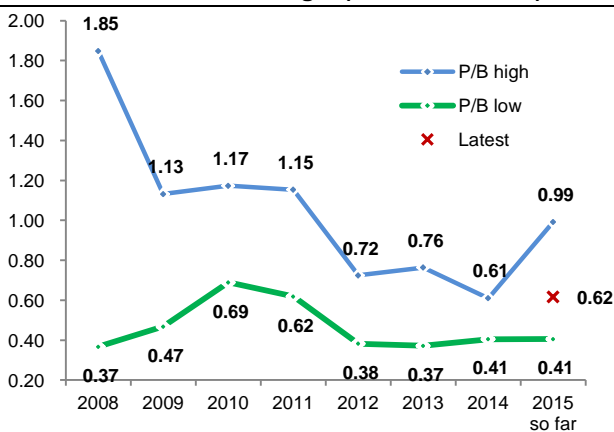
Although ROAE of the group improved from 10.57% in FY12 to 14.21% in FY13, 20.80% in FY14, and 18.6% in 1H15 (annualized), the P/B of the stock was below 1x during 2012-1H15, suggesting the market is skeptical of the fair value of its booked assets on balance sheet.

The Group's net profit grew at 61.1% CAGR in FY12-14 and further advanced to 38.9% YoY in 1H15. Despite its strong profit growth since FY12, its P/E band has been trending down. Sustainability of the Group's profit growth, however, is called into question as its business is highly sensitive to the local construction and property industries.

As business prospects of the Group are sensitive to customers in property and construction industries, we believe the counter's valuation should take reference to those of its listed customers, and we have included eight HK-listed property developers and contractors that are Xingfa's customers in our estimates. On average, these companies were trading at a rolling P/E of 5.44x and FY14 P/B of 0.84x (based on closing price on Sep 14, 2015).

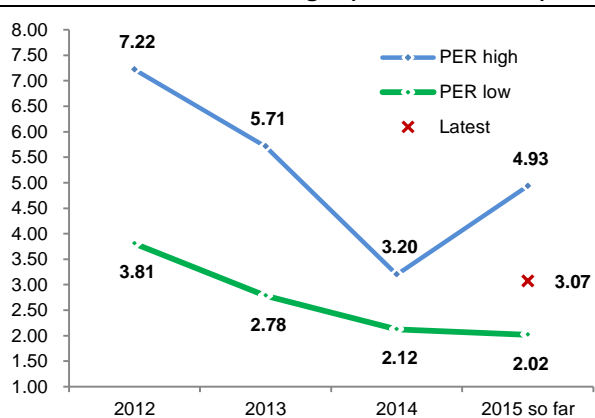
In view of the Group's historical P/E and P/B, financial status, latest financial results and the business environment, we prudently set our TP at HK\$ 3.13 which represents 0.77x/0.64x FY15E/FY16E P/B or 4.30x/3.18x FY15E/FY16E P/E.

Exhibit 2: P/B band of Xingfa (98 HK; HK\$ 2.28)



Source(s): Bloomberg, ABCI Securities

Exhibit 3: P/E band of Xingfa (98 HK; HK\$ 2.28)



Source(s): Bloomberg, ABCI Securities

Exhibit 4: Valuation of Xingfa's listed customers

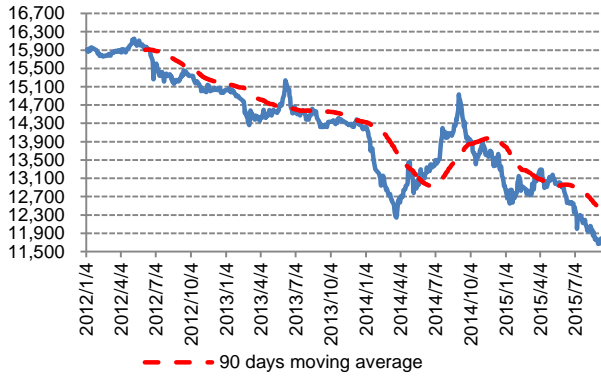
SEHK	14/9/2015	Price (HK\$)	FY14 PER (x)	FY14 P/B (x)	Assets/ equity (x)	ROAA (%)	ROAE (%)
98	XINGFA AL	2.28	3.07	0.66	4.25	4.84	20.80
	Xingfa's customers:						
3333	EVERGRANDE	4.65	3.81	1.03	4.22	4.16	28.70
688	CHINA OVERSEAS	22.75	6.16	1.20	2.57	8.11	20.21
1109	CHINA RES LAND	18.82	7.11	1.15	3.08	4.69	16.20
2007	COUNTRY GARDEN	2.74	4.74	0.80	4.29	3.67	17.30
3900	GREENTOWN CHINA	5.80	5.21	0.43	3.65	1.45	8.55
3380	LOGAN PPT	3.40	6.67	1.18	3.37	5.21	20.89
2355	BAOYE GROUP CO-H	4.70	4.38	0.41	2.85	3.89	11.30
2789	YUANDA CHINA HLD	0.39		0.50	3.81	0.18	0.62
	Average		5.44	0.84	3.48	3.92	15.47

Source(s): Bloomberg, ABCI Securities



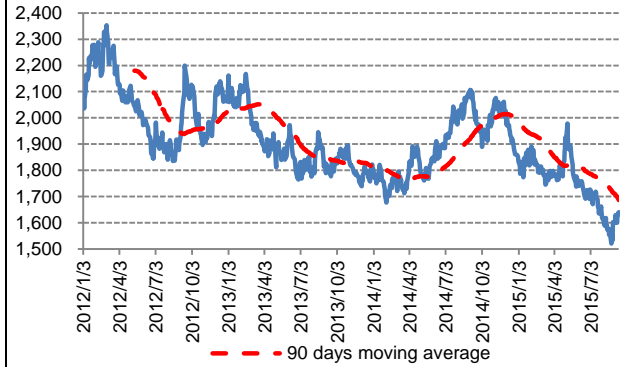
Aluminium cost in China and London Metal Exchange

Exhibit 5: China Guangdong Nanhai Spot Aluminium Ingot Grade AO Price (include 17% VAT) (RMB/mt)



Remarks: Average price fell 6.3% in 8M15 compared with average price in 2014
Source(s): Bloomberg, ABCI Securities

Exhibit 6: LME Aluminium 3-mth forward (US\$/mt)



Remarks: Average price fell 7.7% in 8M15 compared with average price in 2014
Source(s): Bloomberg, ABCI Securities

According to Xingfa's "cost-plus" pricing policy of its major aluminium profiles products, raw material costs are locked up when sales contracts are entered. Unit gross profit (measured by gross profit per tonne) is largely secured. Xingfa passes most of material cost risk to customers. However, gross margin will fluctuate on changes in raw materials and subsequent changes in selling prices. According to Xingfa, such pricing policy is commonly adopted by mid-stream processing manufacturers. However, a lower unit material cost will reduce the working capital requirement.



Financial Projection

Capacity, output and sales volume projections

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015F	2016F	2017F
Capacity, output ('000 tonnes):						
Foshan plant, Guangdong	150.0	160.0	160.0	160.0	160.0	160.0
Chengdu plant, Sichuan	30.0	40.0	50.0	60.0	80.0	80.0
Yichun plant, Jiangxi	30.0	40.0	50.0	70.0	80.0	80.0
Qinyang plant, Henan		20.0	40.0	60.0	80.0	80.0
Total capacity	210.0	260.0	300.0	350.0	400.0	400.0
Output	177.1	207.6	264.0	280.0	328.0	340.0
Sales volume ('000 tonnes)						
Construction aluminium profiles	137.0	162.4	209.7	225.0	263.6	273.2
Industrial aluminium profiles	39.3	39.4	48.8	49.4	57.9	60.0
Total sales volume	176.3	201.9	258.4	274.4	321.4	333.2
Net additional capacity ('000 tonnes)	30	50	40	50	50	0
Group's total capex during the period (RMB mn)	272.4	307.1	294.7	300	300	20
Output/capacity	84.3%	79.8%	88.0%	80.0%	82.0%	85.0%
Sales/capacity	84.0%	77.6%	86.1%	78.4%	80.4%	83.3%
Sales/output	99.5%	97.2%	97.9%	98.0%	98.0%	98.0%

Remarks: We assume Xingfa would expand its production capacities in various plants
Source(s): Xingfa, ABCI Securities estimates

ASP and unit gross profit projections

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015F	2016F	2017F
ASP (RMB/tonne)						
Construction aluminium profiles	20,145	19,615	18,679	18,097	18,097	18,097
Industrial aluminium profiles	18,594	17,086	16,314	15,923	15,923	15,923
ASP change (YoY)						
Construction aluminium profiles		-2.6%	-4.8%	-3.1%	0.0%	0.0%
Industrial aluminium profiles		-8.1%	-4.5%	-2.4%	0.0%	0.0%
Unit gross profit (RMB/tonne)						
Construction aluminium profiles	2,117	2,604	2,947	3,122	3,122	3,122
Industrial aluminium profiles	2,253	1,649	2,351	2,447	2,447	2,447
Unit gross profit change (YoY)						
Construction aluminium profiles		23.0%	13.2%	5.9%	0.0%	0.0%
Industrial aluminium profiles		-26.8%	42.6%	4.1%	0.0%	0.0%

Remark: We assume Xingfa would maintain its "cost-plus" product pricing model which locks up the material cost when sales contracts are entered
Source(s): Xingfa, ABCI Securities estimates

Consolidated income statement projections

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015F	2016F	2017F
Total sales	3,546.6	3,907.5	4,843.9	4,981.0	5,821.4	6,029.6
Total COS	(3,149.5)	(3,397.4)	(4,086.3)	(4,135.7)	(4,835.0)	(5,008.0)
Total gross profit	397.0	510.0	757.6	845.3	986.4	1,021.7
Construction aluminium profiles	289.9	422.9	618.0	702.4	822.8	852.9
Industrial aluminium profiles	88.6	65.0	114.6	120.9	141.6	146.8
Others	18.5	22.1	25.0	22.0	22.0	22.0
Other revenue	44.1	44.6	38.5	34.0	25.0	25.0
Other net loss	(5.9)	(2.7)	(6.6)	(1.6)	(2.0)	(2.0)
Distribution cost	(52.5)	(70.2)	(102.3)	(109.7)	(128.5)	(133.2)
Admin expenses	(149.0)	(181.6)	(258.7)	(295.0)	(309.8)	(325.3)
Operating profit	233.8	300.1	428.6	472.9	571.1	586.2
Finance costs	(124.1)	(131.2)	(157.6)	(159.3)	(150.0)	(150.0)
Associate	0.0	0.0	(1.7)	(1.7)	0.0	0.0
Pre-tax profit	109.7	168.9	269.3	311.9	421.1	436.2
Tax	(23.1)	(38.3)	(44.7)	(61.7)	(83.2)	(86.2)
Net profit	86.6	130.6	224.6	250.2	337.8	349.9
EBITDA & associate	307.5	397.7	562.0	638.0	744.8	768.8
Issued shares (mn)	418.00	418.00	418.00	418.00	418.00	418.00
FD EPS (RMB)	0.207	0.312	0.537	0.599	0.808	0.837
DPS (RMB)	0.05	0.04	0.09	0.10	0.14	0.14

Source(s): Xingfa, ABCI Securities estimates



Combined balance Sheet projection

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015F	2016F	2017F
Cash and cash equivalents	264.8	240.9	305.9	460.9	523.7	785.0
Pledged deposits	107.8	77.0	330.2	380.0	400.0	400.0
Trade and other receivables	1,100.6	1,252.2	1,538.2	1,465.1	1,964.7	1,579.2
Inventories	370.8	445.7	631.6	656.7	675.5	559.3
Trading securities	1.0	0.0	0.0	0.0	0.0	0.0
Current assets	1,845.0	2,015.8	2,805.9	2,962.7	3,563.9	3,323.6
Property, plant and equipment	1,560.8	1,832.9	1,882.7	2,014.4	2,137.7	2,002.1
Lease prepayments	371.6	363.3	308.5	301.5	294.5	287.4
Prepayment for machinery	11.0	0.0	0.0	0.0	0.0	0.0
Interest in an associate	0.0	0.0	0.9	0.0	0.0	0.0
Non-current financial assets	11.9	11.9	0.0	0.0	0.0	0.0
Deferred tax assets	27.7	21.0	39.7	40.0	40.0	40.0
Non-current assets	1,983.1	2,229.1	2,231.9	2,355.9	2,472.1	2,329.5
Total assets	3,828.1	4,244.9	5,037.7	5,318.6	6,036.0	5,653.1
Trade and other payables	830.9	833.6	1,728.3	1,665.0	1,984.2	1,608.7
Loans and borrowings	1,443.8	1,787.0	1,723.8	1,800.0	1,900.0	1,600.0
Obligations under finance leases	0.0	26.0	26.2	20.0	20.0	20.0
Current taxation	30.6	33.0	26.1	27.0	30.0	30.0
Current liabilities	2,305.3	2,679.6	3,504.4	3,512.0	3,934.2	3,258.7
Loans and borrowings	571.9	495.7	279.3	350.0	350.0	350.0
Obligations under finance leases	0.0	30.4	6.3	0.0	0.0	0.0
Deferred tax						
Deferred income	88.6	63.5	63.8	60.0	60.0	60.0
Non-current liabilities	660.5	589.6	349.4	410.0	410.0	410.0
Total liabilities	2,965.8	3,269.2	3,853.8	3,922.0	4,344.2	3,668.7
Share capital	3.7	3.7	3.7	3.7	3.7	3.7
Reserves	858.6	972.0	1,180.2	1,392.8	1,688.1	1,980.6
Total equity	862.4	975.7	1,184.0	1,396.6	1,691.9	1,984.4
Issued shares (mn)	418.00	418.00	418.00	418.00	418.00	418.00
NBV (RMB)	2.06	2.33	2.83	3.34	4.05	4.75
Total debts	2,015.7	2,339.1	2,035.6	2,170.0	2,270.0	1,970.0
Less: Cash	(372.6)	(317.9)	(636.1)	(840.9)	(923.7)	(1,185.0)
Net debt	1,643.1	2,021.2	1,399.5	1,329.1	1,346.3	785.0

Remarks: We assume Xingfa would be able to refinance its credits from financial institutions and suppliers and the business will be a going-concern
Source(s): Xingfa, ABCI Securities estimates

Major cash flow projection items

FY ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015F	2016F	2017F
Net operating cash flow	48.5	69.8	1,094.5	555.6	462.4	808.7
Net investing cash flow	(189.9)	(196.1)	(545.1)	(349.8)	(320.0)	(50.0)
Net financing cash flow	162.1	103.6	(485.2)	(50.8)	(79.5)	(497.4)
Unpledged cash at open of period	244.2	264.8	240.9	305.9	460.9	523.7
Net increase/(decrease) in cash and cash equivalents	20.7	(22.7)	64.2	155.0	62.8	261.3
Effect of foreign exchange rate changes	(0.2)	(1.2)	0.7	0.0	0.0	0.0
Unpledged cash at end of period	264.8	240.9	305.9	460.9	523.7	785.0

Remarks: We assume Xingfa would be able to refinance its credits from financial institutions and suppliers, and the business is a going concern
Source(s): Xingfa, ABCI Securities estimates



Major financial ratio projections

FY	2012A	2013A	2014A	2015F	2016F	2017F
Sales composition						
Construction aluminium profiles	77.8%	81.5%	80.9%	81.8%	81.9%	82.0%
Industrial aluminium profiles	20.6%	17.2%	16.4%	15.8%	15.8%	15.8%
Others	1.6%	1.2%	2.7%	2.5%	2.2%	2.2%
Gross profit composition						
Construction aluminium profiles	73.0%	82.9%	81.6%	83.1%	83.4%	83.5%
Industrial aluminium profiles	22.3%	12.7%	15.1%	14.3%	14.4%	14.4%
Others	4.7%	4.3%	3.3%	2.6%	2.2%	2.2%
Profitability ratio						
Overall gross profit	11.2%	13.1%	15.6%	17.0%	16.9%	16.9%
Gross profit margin of						
Construction aluminium profiles	10.5%	13.3%	15.8%	17.2%	17.2%	17.2%
Industrial aluminium profiles	12.1%	9.6%	14.4%	15.4%	15.4%	15.4%
EBITDA & associate margin	8.7%	10.2%	11.6%	12.8%	12.8%	12.7%
EBIT & associate margin	6.6%	7.7%	8.8%	9.5%	9.8%	9.7%
Pre-tax profit margin	3.1%	4.3%	5.6%	6.3%	7.2%	7.2%
Net profit margin	2.4%	3.3%	4.6%	5.0%	5.8%	5.8%
ROAA	2.24%	3.24%	4.84%	4.83%	5.95%	5.99%
ROAE	10.57%	14.21%	20.80%	19.39%	21.88%	19.04%
Sales/average total assets	0.92	0.97	1.04	0.96	1.03	1.03
Liquidity ratio						
Current ratio	0.80	0.75	0.80	0.84	0.91	1.02
Quick ratio	0.64	0.59	0.62	0.66	0.73	0.85
Avg. trade & bills receivables/turnover (Days)		99	96	100	100	100
Avg. inventories/COGS (Days)	44	44	42	45	45	45
Avg. trade & bills payables/COGS (Days)		65	85	120	120	120
Financial status						
Net debt/equity	190.5%	207.1%	118.2%	95.2%	79.6%	39.6%
ST loans/total loans	71.6%	77.5%	86.0%	83.9%	84.6%	82.2%
Finance cost/turnover	3.5%	3.4%	3.3%	3.2%	2.6%	2.5%
EBITDA/finance cost	2.48	3.03	3.57	4.01	4.97	5.13
EBITDA/ST loans	0.21	0.22	0.32	0.35	0.39	0.47
EBITDA/(finance cost+ST loans)	0.20	0.20	0.29	0.32	0.36	0.43
Payout	24.1%	12.8%	16.7%	17.0%	17.0%	17.0%

Source(s): Xingfa, ABCI Securities estimates

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Definition of equity rating

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

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

Market return: 5-year average market return rate from 2010-2014

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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