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Target Price	HK\$ 1.00
Current Price	HK\$ 0.46
Upside Potential	117%

Market Cap.	HK\$ 618 mn US\$ 80 mn
Shares Outstanding	1357.6 mn
Free Float (FF %)	348.1 mn / 26%
52 Week Range (HK\$)	0.65 / 0.42
Avg. Daily Value	HK\$ 0.3 mn
HANG SENG Index Level	25,480
Insider Holding %	74%


**Risk: Above Average**
**Forecasting and Valuations**

(INR mn except ratio)	FY2020E	FY2021E
Revenue	8516	9358
Net Income	97	115
EPS (RMB)	0.07	0.09
EBITDA	476	515
PE	5.2	4.4
EV/EBITDA	4.7	4.4
P/B	0.2	0.2

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# Leoch International Technology Ltd

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Earnings Update Report

**1HFY2020 [ended June 2020] Earnings Update**
**Inflection Point, Green Shoots Visible**

Leoch reported a decline of only 7% in its overall revenues for the 1HFY2020 ended June which was far more resilient as compared to the overall industry performance during the period. The company's revenues declined by 7.1% YoY to RMB3,684 mn. Revenue from the total Battery business segment amounted to RMB3,405 mn, a marginal increase of 0.5% from RMB3,390 mn for the corresponding period in 2019. Despite the global recession and weak overseas market demand, the company still achieved solid performance in its Power Solutions business in the first half of 2020. The overall shipment in tons to PRC customers improved by more than 35% but that of the overseas market decreased by 5% as compared to the corresponding period of last year. The volume of shipments increased by more than 15% in total during the period which was contributed by a stable recovery of the Chinese economy. This positive growth in revenue from its core battery business segment, during uncertain times, signifies a strong competitive market position of the company, signaling more robust growth in the near future when conditions come back to normalcy.

Recycled Lead business amounted to RMB278 mn, a decline of 51% from RMB569 mn for the corresponding period in 2019. This decline in revenues for the recycled lead business segment was on account of a reduction in the average SMM lead price in excess of 13% as compared to the average price of 2019 during the first half of FY2020. This resulted in a growth in volumes for the recycled lead business but a decline in revenues for the first half of 2020 for the company. We expect the recycled lead business to make up for the lost ground in the second half of the year to contribute more quantum of revenue to the overall business as the plant has resumed full operations late in the month of May. It effectively operating only for one month in the first six months of FY2020.

The EPS declined by 67% on a YoY basis to RMB2 cents on account of lower revenues from the recycled lead business, an increase in research and development expenses up 49%, a rise in impairment losses on financial assets to RMB12 mn, and a drastic fall in other income and gains. The fall in other income and gains was on account of large gains seen in the last year same period due to gain on selling of a subsidiary which was one-time in nature. The company continues to witness a reduction in finance costs (down 18% YoY) while selling distribution and

administration expenses continue to remain flat YoY. We believe the rise in research and development expenditure should generate higher growth and increase margins for the company going forward through product innovation. Once the recycled lead business makes up for the lost business in the second half, along with increased revenues from the battery segment due to further recovery, the overall profitability would return to normal levels.

To capture tremendous opportunities arising from the 5G era and meet growing demands for compelling power solutions for the current and future market needs, Leoch has expanded its manufacturing capacity both locally and overseas, with a new lithium-ion plant in China and two new lead-acid plants in Vietnam in 2019. With all the capacity expansion undertaken in FY2019 along with rising gross profit margins (13% from 11.8% YoY in 1HFY2020) declining finance costs (18% lower YoY) and selling and distribution expenses remaining flat, we believe with all the negatives behind, the company is geared up to deliver on growth and is staring at an Inflection Point in 2020 to make the best of its opportunities. With the issuance of 5G licenses for commercial use by China's Ministry of Industry and Information Technology (MIIT) in June 2019, we believe revenue from the Reserve Power (especially in the Telecom and Data Center sub-segment – largest contribution to total revenues) would resume its upward growth momentum in 2HFY2020 and beyond.

**Maintain PT at HK\$1.00; 117% Upside**

We maintain a one year PT on Leoch at HK\$1.00 per share implying an upside of 117% over the current stock price of HK\$0.46. Our price target implies a P/E multiple of 9.6x on our FY2021 EPS estimate of RMB 9 cents and an EV/ EBITDA multiple of 5.5X on our FY2021 EBITDA estimate of RMB515 mn. With all the negatives factored into the stock price along with secular tailwinds provided by the recent 5G network launch, increasing vehicle penetration in China and increasing demand for light electric vehicles, etc., we continue to remain positive on the stock. At the current levels, the stock is trading at extremely attractive multiples of just 4.4x P/E and 4.4x EV/EBITDA based on our FY2021 EPS and EBITDA estimates, respectively.

**Uptick in Gross Profit Margin**

Gross profit slightly increased by 1.5% from RMB470 mn in 1HFY2019 to RMB477 mn for 1HFY2020, mainly due to higher contribution from the battery business of the company resulting in an increase in the overall gross profit margin from 11.8% for 1HFY2019 to 13% for 1HFY2020. Higher gross profit margins were a result of lower production costs for the overall battery business segment.

### **Motive Power Battery Segment - Stellar Growth of 40%**

The Reserve Power batteries sub-segment revenues declined by 6.4% to RMB1,842 mn (1H2019: RMB1,968 mn) and accounted for 50% of total sales during 1HFY2020. The decrease was mainly due to disruptions in shipment for overseas markets in the first quarter followed by weak overseas demand when the pandemic spread all over the world. However, the growth momentum for the Telecom and Data Center business in China continues to recover with good demand traction while the overseas demand remains suppressed resulting in an overall temporary decline in sales during the first half of FY2020.

The SLI battery business sub segment reported 2.5% growth to RMB1,051 mn contributing 29% to the overall revenue of the company. The demand for growth from China was seen to be recovering gradually especially in the aftermarket of Covid-19 disruptions, but was offset by a decrease in demand from other countries resulting in a low single digit overall growth.

The motive power battery sub-segment reported a stellar increase in revenues by 40% to RMB482 mn in the first half of FY2020 as compared to RMB344 mn in the corresponding period last year. The increase was mainly due to high demand from China's market when economic activities were back on track after initial lockdown.

The company's revenue decreased by 6% to RMB658 mn in Europe, Middle East and Africa, 4% in China to RMB2,285 mn, 18% in USA to RMB432 mn and 14% in Asia Pacific (excluding China).

### **Expect Sharp Recovery in Recycled Lead Business in 2HFY2020**

Revenue of recycled lead products declined by 51% to RMB278 mn in 1HFY2020 (1HFY2019: RMB569 mn). Leoch undertook expansion from 100k tons per annum to 200k tons per annum in lead recycling capacity to comply with government policy in the third quarter of 2018. The lead recycling facility has resumed operations in the first half of 2020 and revenues are expected to rise sharply in the 2<sup>nd</sup> half of FY2020 and make up for the lost opportunity.

### **5G: A Big Market Opportunity for Leoch**

We believe that the new 5G investment cycle will drive significant growth in the size of the telecommunications backup power solution market in China and would definitely bring the company new growth opportunities in the near to medium-term. Being a global supplier of power solutions for telecommunications and data center industries, **we believe Leoch will likely be one of the key beneficiaries of the global 5G revolution**, experiencing exponential growth in its backup power solution business for the coming 5-10 years. According to the Global System for Mobile Communications Association (GSMA) it is expected that 52 markets will launch their 5G networks by 2020. China is expected to see total investments on 5G networks reach US\$411 bn in the period from 2020 to 2030, with 4.9 mn 5G base stations and 12 mn small cells being installed in the country by 2030. Technologies such as Internet of Things, big data and artificial intelligence have been developing rapidly, driving the growth of the global data center market. **By 2020, the global and Chinese data center markets are**

**expected to reach revenue of US\$90 bn and US\$30 bn respectively, with a 28% CAGR over the next three years.**

The company's delivery to data center industry customers in China enjoyed solid recovery and growth during the first half of FY2020 and the trend continued in July 2020. It is expected that 5G will help accelerate the development of Internet of Things, big data, artificial intelligence and other technologies, driving the growth of the global data center market at an exponential rate. We believe that the increasing demands for backup power solutions in the data center market will help drive revenue growth for the company in the near future. Although the global economic environment remains challenging in the second half of 2020, the speedy recovery in China provides a strong backup to prevent overall decline in the company's battery business. The shipment in July 2020 in terms of tons in China shows that the growth momentum continues while the overseas demand remains sluggish.

### **Capacity Expansion Completed to Meet Ever Increasing Worldwide Demand**

Leoch expanded its manufacturing capacity both locally and overseas, with a new lithium-ion plant in China and two new lead-acid plants in Vietnam in 2019. It has made an investment of RMB1.2 bn in the construction of a new lithium-ion battery manufacturing facility in Anhui, China and it has commenced commercial production. It is expected that the lithium-ion battery capacity will increase to 1.8GWh in 2020 to 4GWh gradually over the next few years and potentially contribute up to RMB5 bn in annual revenue. The new facility will allow the company to accelerate the development of a series of innovative 5G power solutions to meet the ongoing customer demands, seizing opportunities arising from the fast evolving telecommunications market.

As part of its global growth strategy, the company has completed the construction of two new lead-acid battery manufacturing facilities in Vietnam. The new facilities are set to increase the annual production capacity by 2.4GWh, representing more than double of its current overseas production capacity. The company will leverage on this newly developed production base in Vietnam to fully counter the US tariff effect with respect to US exports. Products for the US market will be produced in Vietnam this year onwards. This will save considerable amount of tariffs while running at a comparatively lower level of production cost and overheads than the domestic plants in China, thereby benefiting in many ways.

### **Secular Demand Growth Provides Strong Tailwinds**

We expect the global and Chinese lead-acid battery industries to continue its robust growth over the next 3 to 5 years. The continued development of technologies such as cloud computing, e-commerce and proliferation of data centers and servers will be an important long-term growth driver in demand for UPS batteries. The development of 5G networks will support the growth of telecom batteries in the medium term. With the increasing penetration of automobiles and growing fleet of ageing vehicles in China, both the OEM and aftermarket demand for SLI batteries in the country should remain strong. Being one of China's largest and most reputed lead-acid battery suppliers, Leoch is well positioned to capture this demand.

## 5 Year Price Chart



## 5 Year China Shanghai Lead Spot Price



Income Statement ( millions RMB )	1H2018	2H2018	1H2019	2H2019	1H2020	2H2020E	1H2021E	2H2021E
<b>Revenue</b>	<b>4,986.5</b>	<b>4,557.9</b>	<b>3,963.9</b>	<b>4,398.8</b>	<b>3,684.2</b>	<b>4,832.4</b>	<b>4,236.8</b>	<b>5,121.3</b>
y/y			-20.5%	-3.5%	-7.1%	9.9%	15.0%	6.0%
Cost of Revenue	-4,423.8	-4,065.6	-3,493.9	-3,853.4	-3,206.8	-4,275.7	-3,719.9	-4,490.6
<b>Gross Profit</b>	<b>562.7</b>	<b>492.3</b>	<b>470.0</b>	<b>545.4</b>	<b>477.4</b>	<b>556.7</b>	<b>516.9</b>	<b>630.7</b>
Gross margin (%)	11.3%	10.8%	11.9%	12.4%	13.0%	11.5%	12.2%	12.3%
Other Operating Revenue	58.2	(19.5)	7.2	7.4	26.0	17.8	12.7	32.0
as a % of sales	1.2%	-0.4%	0.2%	0.2%	0.7%	0.4%	0.3%	0.6%
Selling, General & Admin Expense	-399.5	-389.9	-340.8	-444.1	-362.8	-388.6	-338.9	-488.7
as a % of sales	8.0%	8.6%	8.6%	10.1%	9.8%	8.0%	8.0%	9.5%
Other Operating expenses	-9.3	-26.1	-13.2	-28.6	-38.6	-25.2	-10.6	-73.4
as a % of sales	0.2%	0.6%	0.3%	0.6%	1.0%	0.5%	0.3%	1.4%
<b>Operating Income</b>	<b>212.2</b>	<b>56.9</b>	<b>123.2</b>	<b>80.2</b>	<b>102.0</b>	<b>160.8</b>	<b>180.1</b>	<b>100.5</b>
y/y			-41.9%	40.8%	-17.2%	100.6%	76.5%	-37.5%
Operating margin (%)	4.3%	1.2%	3.1%	1.8%	2.8%	3.3%	4.3%	2.0%
Interest Expense	-100.0	-102.3	-100.7	-97.0	-82.4	-69.8	-76.1	-76.1
Interest income	0.0	12.0	10.9	2.7	6.5	3.0	4.5	4.5
Equity in (losses)income of affiliates	0.0	0.0	2.8	-2.6	0.0	0.0	0.0	0.0
Other recurring (expenses)income	0.0	66.6	11.5	69.3	0.0	0.0	0.0	0.0
Amortization of intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non recurring (expenses) income	0.0	0.9	47.3	11.2	0.0	0.0	0.0	0.0
<b>Pretax Income (reported)</b>	<b>112.1</b>	<b>34.2</b>	<b>95.1</b>	<b>63.7</b>	<b>26.1</b>	<b>94.0</b>	<b>108.5</b>	<b>28.9</b>
y/y			-15.2%	86.4%	-72.5%	47.5%	315.8%	-69.2%
<b>Pretax Income (adjusted)</b>	<b>112.1</b>	<b>33.3</b>	<b>47.8</b>	<b>52.5</b>	<b>26.1</b>	<b>94.0</b>	<b>108.5</b>	<b>28.9</b>
y/y			-57.4%	57.8%	-45.4%	79.0%	315.8%	-69.2%
- Income Tax Expense	-18.3	-2.4	-26.9	-4.3	-12.8	-10.9	-17.4	-9.7
effective tax rate (%)	16.3%	7.1%	16.0%	6.8%	16.0%	11.6%	16.0%	33.4%
- Minority Interests	25.3	-4.6	-7.5	2.4	-11.8	11.3	28.6	-33.6
<b>Income Before XO Items</b>	<b>68.5</b>	<b>36.4</b>	<b>75.6</b>	<b>57.0</b>	<b>25.2</b>	<b>71.8</b>	<b>62.5</b>	<b>52.9</b>
y/y			10.4%	56.7%	-66.7%	26.1%	148.6%	-26.3%
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0	1.0	0.0	2.0
<b>Net Income (reported)</b>	<b>68.5</b>	<b>36.4</b>	<b>75.6</b>	<b>57.0</b>	<b>25.2</b>	<b>72.8</b>	<b>62.5</b>	<b>54.9</b>
y/y			10.4%	56.7%	-66.7%	27.8%	148.6%	-24.6%
Exceptional (L)G	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Net Income (adjusted)</b>	<b>68.5</b>	<b>35.4</b>	<b>28.3</b>	<b>45.8</b>	<b>25.2</b>	<b>71.8</b>	<b>62.5</b>	<b>52.9</b>
y/y			-58.6%	29.1%	-11.2%	56.9%	148.6%	-26.3%
Basic EPS (reported)	0.05	0.03	0.06	0.04	0.02	0.05	0.05	0.04
Basic EPS (adjusted)	0.05	0.03	0.02	0.03	0.02	0.05	0.05	0.04
Basic Weighted Avg Shares	1,357	1,363	1,358	1,358	1,358	1,358	1,358	1,358
<b>Diluted EPS (reported)</b>	<b>0.05</b>	<b>0.03</b>	<b>0.06</b>	<b>0.04</b>	<b>0.02</b>	<b>0.05</b>	<b>0.05</b>	<b>0.04</b>
y/y			10.4%	57.3%	-66.7%	27.8%	148.6%	-24.6%
<b>Diluted EPS (adjusted)</b>	<b>0.05</b>	<b>0.03</b>	<b>0.02</b>	<b>0.03</b>	<b>0.02</b>	<b>0.05</b>	<b>0.05</b>	<b>0.04</b>
y/y			-58.7%	29.6%	-11.2%	56.9%	148.6%	-26.3%
Diluted Weighted Avg Shares (mn)	1,357	1,363	1,358	1,358	1,358	1,358	1,358	1,358

Income Statement ( millions RMB )	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	CAGR (2019-2023)
<b>Revenue</b>	<b>4,248.4</b>	<b>4,330.9</b>	<b>6,262.9</b>	<b>9,465.4</b>	<b>9,544.5</b>	<b>8,362.7</b>	<b>8,516.6</b>	<b>9,358.1</b>	<b>10,257.6</b>	<b>11,183.3</b>	7.5%
y/y	16.5%	1.9%	44.6%	51.1%	0.8%	-12.4%	1.8%	9.9%	9.6%	9.0%	
Cost of Revenue	-3,531.7	-3,561.2	-5,237.3	-8,302.9	-8,489.4	-7,347.3	-7,482.5	-8,210.5	-8,999.7	-9,811.9	
<b>Gross Profit</b>	<b>716.7</b>	<b>769.7</b>	<b>1,025.6</b>	<b>1,162.5</b>	<b>1,055.1</b>	<b>1,015.4</b>	<b>1,034.1</b>	<b>1,147.6</b>	<b>1,257.9</b>	<b>1,371.4</b>	
Gross margin (%)	16.9%	17.8%	16.4%	12.3%	11.1%	12.1%	12.1%	12.3%	12.3%	12.3%	
Other Operating Revenue	11.5	11.1	22.9	25.1	38.8	14.6	43.8	44.7	45.6	46.5	
as a % of sales	0.3%	0.3%	0.4%	0.3%	0.4%	0.2%	0.5%	0.5%	0.4%	0.4%	
Selling, General & Admin Expense	-576.8	-518.1	-623.1	-771.0	-789.4	-784.9	-751.4	-827.7	-873.4	-918.9	
as a % of sales	13.6%	12.0%	9.9%	8.1%	8.3%	9.4%	8.8%	8.8%	8.5%	8.2%	
Other Operating expenses	-14.1	-2.5	-37.4	-6.5	-35.3	-41.7	-63.7	-84.0	-101.3	-121.5	
as a % of sales	0.3%	0.1%	0.6%	0.1%	0.4%	0.5%	0.7%	0.9%	1.0%	1.1%	
<b>Operating Income</b>	<b>137.3</b>	<b>260.2</b>	<b>388.0</b>	<b>410.1</b>	<b>269.1</b>	<b>203.4</b>	<b>262.8</b>	<b>280.6</b>	<b>328.8</b>	<b>377.5</b>	16.7%
y/y	194.4%	89.5%	49.1%	5.7%	-34.4%	-24.4%	29.2%	6.8%	17.2%	14.8%	
Operating margin (%)	3.2%	6.0%	6.2%	4.3%	2.8%	2.4%	3.1%	3.0%	3.2%	3.4%	
Interest Expense	-108.5	-104.7	-108.9	-151.8	-202.4	-197.8	-152.2	-152.2	-152.2	-152.2	
Interest income	14.1	15.9	8.7	13.4	12.0	13.7	9.5	9.0	8.9	9.9	
Equity in (losses)/income of affiliates	-3.9	-7.4	-2.9	0.0	0.0	0.2	0.0	0.0	0.0	0.0	
Other recurring (expenses)/income	-3.7	6.1	15.7	24.1	66.6	80.8	0.0	0.0	0.0	0.0	
Amortization of intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other non recurring (expenses) income	76.6	-35.7	-20.0	10.1	0.9	58.5	0.0	0.0	0.0	0.0	
<b>Pretax Income (reported)</b>	<b>111.9</b>	<b>134.6</b>	<b>280.5</b>	<b>306.0</b>	<b>146.3</b>	<b>158.8</b>	<b>120.1</b>	<b>137.4</b>	<b>185.5</b>	<b>235.2</b>	10.3%
y/y	-192.5%	20.3%	108.5%	9.1%	-52.2%	8.5%	-24.4%	14.4%	35.0%	26.8%	
<b>Pretax Income (adjusted)</b>	<b>35.2</b>	<b>170.2</b>	<b>300.5</b>	<b>295.8</b>	<b>145.4</b>	<b>100.3</b>	<b>120.1</b>	<b>137.4</b>	<b>185.5</b>	<b>235.2</b>	23.8%
y/y	4564.8%	383.3%	76.5%	-1.6%	-50.9%	-31.0%	19.8%	14.4%	35.0%	26.8%	
- Income Tax Expense	-30.1	-28.3	-48.7	-35.4	-15.8	-31.2	-23.6	-27.0	-36.5	-46.3	
effective tax rate (%)	26.9%	21.0%	17.4%	11.6%	10.8%	19.7%	19.7%	19.7%	19.7%	19.7%	
- Minority Interests	0.0	0.3	-10.1	28.6	20.7	-5.1	-0.5	-5.1	-5.6	-6.1	
<b>Income Before XO Items</b>	<b>81.8</b>	<b>106.6</b>	<b>241.9</b>	<b>242.0</b>	<b>109.7</b>	<b>132.6</b>	<b>97.0</b>	<b>115.4</b>	<b>154.5</b>	<b>195.1</b>	10.1%
y/y	-163.3%	30.3%	127.0%	0.0%	-54.7%	20.8%	-26.9%	19.0%	33.9%	26.2%	
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0	4.0	
<b>Net Income (reported)</b>	<b>81.8</b>	<b>106.6</b>	<b>241.9</b>	<b>242.0</b>	<b>109.7</b>	<b>132.6</b>	<b>98.0</b>	<b>117.4</b>	<b>157.5</b>	<b>199.1</b>	10.7%
y/y	-163.3%	30.3%	127.0%	0.0%	-54.7%	20.8%	-26.1%	19.9%	34.2%	26.4%	
Exceptional (L)G	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Net Income (adjusted)</b>	<b>5.1</b>	<b>142.3</b>	<b>261.9</b>	<b>231.9</b>	<b>108.8</b>	<b>74.1</b>	<b>97.0</b>	<b>115.4</b>	<b>154.5</b>	<b>195.1</b>	27.4%
y/y	-167.4%	2664.3%	84.1%	-11.4%	-53.1%	-31.9%	30.9%	19.0%	33.9%	26.2%	
Basic EPS (reported)	0.06	0.08	0.18	0.18	0.08	0.10	0.07	0.09	0.12	0.15	
Basic EPS (adjusted)	0.00	0.11	0.19	0.17	0.08	0.05	0.07	0.09	0.11	0.14	
Basic Weighted Avg Shares	1,345	1,353	1,353	1,356	1,363	1,358	1,358	1,358	1,358	1,358	
<b>Diluted EPS (reported)</b>	<b>0.06</b>	<b>0.08</b>	<b>0.18</b>	<b>0.18</b>	<b>0.08</b>	<b>0.10</b>	<b>0.07</b>	<b>0.09</b>	<b>0.12</b>	<b>0.15</b>	10.7%
y/y	-162.9%	29.5%	126.7%	-0.6%	-54.7%	21.3%	-26.1%	19.9%	34.2%	26.4%	
<b>Diluted EPS (adjusted)</b>	<b>0.00</b>	<b>0.11</b>	<b>0.19</b>	<b>0.17</b>	<b>0.08</b>	<b>0.05</b>	<b>0.07</b>	<b>0.09</b>	<b>0.11</b>	<b>0.14</b>	27.4%
y/y	-166.9%	2647.4%	83.9%	-12.0%	-53.1%	-31.7%	30.9%	19.0%	33.9%	26.2%	
Diluted Weighted Avg Shares (mn)	1,345	1,353	1,354	1,363	1,363	1,358	1,358	1,358	1,358	1,358	



Reference Items	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E
EBITDA	341.4	478.4	644.1	717.9	558.2	465.1	475.7	514.5	585.2	645.9
Dividends per Share	0.018	0.021	0.049	0.002	0.002	0.002	0.000	0.000	0.000	0.000
Dividend payout ratio	470%	20%	25%	1%	3%	4%	0%	0%	0%	0%
Dep & Amor.	204.1	218.2	256.1	307.7	289.1	261.8	212.9	234.0	256.4	268.4
as a % of sales	4.8%	5.0%	4.1%	3.3%	3.0%	3.1%	2.5%	2.5%	2.5%	2.4%
as a % of gross PPE										

Balance Sheet (millions RMB)	FY 2014	FY 2015	FY 2016E	FY 2017	FY 2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E
<b>Assets</b>										
+ Cash & Near Cash Items	761.4	788.0	705.2	941.2	877.5	745.0	707.4	698.0	774.4	889.1
+ Short-Term Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receivable	1,358.3	1,548.9	2,264.4	2,526.6	2,424.7	2,306.9	2,409.3	2,647.3	2,901.8	3,163.7
+ Inventories	796.1	889.0	1,127.1	1,872.3	1,963.0	1,817.0	1,924.7	2,112.0	2,315.0	2,523.9
+ Other Current Assets	134.2	209.4	214.6	235.6	489.6	422.2	430.7	439.3	448.1	457.0
<b>Total Current Assets</b>	<b>3,050.0</b>	<b>3,435.3</b>	<b>4,311.4</b>	<b>5,575.6</b>	<b>5,754.8</b>	<b>5,291.1</b>	<b>5,472.2</b>	<b>5,896.6</b>	<b>6,439.3</b>	<b>7,033.7</b>
+ Long-Term Investments	23.3	54.3	124.0	132.6	0.0	0.0	0.0	0.0	0.0	0.0
+ Gross Fixed Assets	2,472.0	2,591.9	2,780.1	3,094.3	3,390.5	3,788.6	3,958.9	4,099.3	4,201.9	4,313.7
- Accumulated Depreciation	-593.9	-772.866	-902.4	-1,048.1	-1,329.4	-1,637.3	-1,850.3	-2,084.2	-2,340.7	-2,609.1
+ Net Fixed Assets	1,878.1	1,819.0	1,877.7	2,046.2	2,061.1	2,151.3	2,108.7	2,015.1	1,861.2	1,704.7
+ Other Long-Term Assets	212.2	243.6	266.6	378.0	590.1	547.5	569.4	592.2	615.9	640.6
+ Goodwill & other Intangible Assets	97.0	181.4	293.7	492.9	626.1	681.6	701.6	719.6	737.6	755.6
<b>Total Long-Term Assets</b>	<b>2,210.7</b>	<b>2,298.2</b>	<b>2,561.9</b>	<b>3,049.7</b>	<b>3,277.3</b>	<b>3,380.4</b>	<b>3,379.7</b>	<b>3,326.9</b>	<b>3,214.8</b>	<b>3,100.8</b>
<b>Total Assets</b>	<b>5,260.7</b>	<b>5,733.5</b>	<b>6,873.3</b>	<b>8,625.3</b>	<b>9,032.0</b>	<b>8,671.5</b>	<b>8,851.9</b>	<b>9,223.5</b>	<b>9,654.0</b>	<b>10,134.6</b>
<b>Liabilities &amp; Shareholders' Equity</b>										
+ Accounts Payable	1,216.4	1,220.1	1,631.5	1,665.2	2,001.7	2,009.7	2,042.6	2,241.3	2,456.8	2,678.5
+ Short-Term Borrowings	1,139.5	1,471.0	1,275.0	2,904.6	2,171.3	2,270.0	2,270.0	2,270.0	2,270.0	2,270.0
+ Other Short-Term Liabilities	465.8	464.7	645.7	795.9	863.5	945.9	993.2	1,042.8	1,095.0	1,149.7
<b>Total Current Liabilities</b>	<b>2,821.7</b>	<b>3,155.9</b>	<b>3,552.2</b>	<b>5,365.7</b>	<b>5,036.5</b>	<b>5,225.6</b>	<b>5,305.8</b>	<b>5,554.2</b>	<b>5,821.7</b>	<b>6,098.2</b>
+ Long-Term Borrowings	62.2	84.8	488.5	109.3	712.8	36.2	36.2	36.2	36.2	36.2
+ Other Long-Term Liabilities	46.1	47.2	74.7	103.5	108.9	135.6	138.3	141.0	143.9	146.7
<b>Total Liabilities</b>	<b>2,930.0</b>	<b>3,287.9</b>	<b>4,115.4</b>	<b>5,578.6</b>	<b>5,858.2</b>	<b>5,397.3</b>	<b>5,480.3</b>	<b>5,731.4</b>	<b>6,001.8</b>	<b>6,281.1</b>
+ Total Preferred Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	115.7	115.8	115.8	116.2	116.2	116.2	116.2	116.2	116.2	116.2
+ Retained Earnings & Other Equity	2,214.9	2,323.7	2,582.0	2,760.4	2,860.7	3,001.5	3,098.5	3,213.9	3,368.5	3,563.6
<b>Total Shareholders' Equity</b>	<b>2,330.7</b>	<b>2,439.6</b>	<b>2,697.9</b>	<b>2,876.6</b>	<b>2,976.9</b>	<b>3,117.7</b>	<b>3,214.7</b>	<b>3,330.1</b>	<b>3,484.7</b>	<b>3,679.8</b>
+ Minority Interest	0.0	6.0	60.0	170.1	197.0	156.4	156.9	162.0	167.6	173.7
<b>Total Liabilities &amp; Equity</b>	<b>5,260.7</b>	<b>5,733.5</b>	<b>6,873.3</b>	<b>8,625.3</b>	<b>9,032.0</b>	<b>8,671.5</b>	<b>8,851.9</b>	<b>9,223.5</b>	<b>9,654.0</b>	<b>10,134.6</b>

Cash Flow (millions RMB)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E
+ Net Income	81.8	106.6	261.9	231.9	108.8	74.1	97.0	115.4	154.5	195.1
+ Depreciation & Amortization	204.1	218.2	256.1	307.7	289.1	261.8	212.9	234.0	256.4	268.4
+ Other Non-Cash Adjustments	99.4	178.91	37.6	0.2	-15.4	31.7	3.2	7.8	8.4	9.0
+ Changes in Non-Cash Capital	-200.2	-360.9	-366.5	-844.3	161.2	421.6	-138.4	-185.5	-198.7	-203.3
<b>Cash From Operating Activities</b>	<b>185.0</b>	<b>142.8</b>	<b>189.1</b>	<b>-304.5</b>	<b>543.8</b>	<b>789.2</b>	<b>174.7</b>	<b>171.7</b>	<b>220.7</b>	<b>269.2</b>
+ Disposal of Fixed Assets	29.1	9.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Capital Expenditures	-122.7	-311.3	-188.2	-314.2	-296.2	-398.1	-170.3	-140.4	-102.6	-111.8
+ Increase in Investments	-71.0	-63.3	-92.7	-120.0	-79.5	42.5	-21.9	-22.8	-23.7	-24.6
+ Decrease in Investments	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Investing Activities	14.1	16.0	-112.3	-199.2	-133.2	-55.5	-20.0	-18.0	-18.0	-18.0
<b>Cash From Investing Activities</b>	<b>-150.6</b>	<b>-348.1</b>	<b>-393.3</b>	<b>-633.4</b>	<b>-508.9</b>	<b>-411.1</b>	<b>-212.2</b>	<b>-181.1</b>	<b>-144.3</b>	<b>-154.5</b>
+ Dividends Paid	0.0	-24.0	-65.9	-2.7	-2.7	-2.7	0.0	0.0	0.0	0.0
+ Change in Short-Term Borrowings	0.0	0.0	-196.0	1,629.5	-733.3	98.7	0.0	0.0	0.0	0.0
+ Increase in Long-Term Borrowing	1,382.9	2,427.4	403.6	-379.1	603.5	-676.6	0.0	0.0	0.0	0.0
+ Decrease in Long-term Borrowing	-1,404.8	-2,081.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Increase in Capital Stocks	1.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Decrease in Capital Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Financing Activities	-27.3	-56.3	0.0	0.0	0.0	71.1	0.0	0.0	0.0	0.0
<b>Cash from Financing Activities</b>	<b>-47.9</b>	<b>266.4</b>	<b>141.6</b>	<b>1,247.7</b>	<b>-132.5</b>	<b>-509.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Changes in Cash</b>	<b>-13.5</b>	<b>61.1</b>	<b>-62.6</b>	<b>309.8</b>	<b>-97.6</b>	<b>-131.5</b>	<b>-37.6</b>	<b>-9.5</b>	<b>76.4</b>	<b>114.7</b>
Opening cash		761.4	788.0	725.4	941.2	876.5	745.0	707.4	698.0	774.4
Closing cash		788.0	725.4	941.2	876.5	745.0	707.4	698.0	774.4	889.1

<b>Ratio Analysis</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020E</b>	<b>FY 2021E</b>	<b>FY 2022E</b>	<b>FY 2023E</b>
<b>Per Share Data (RMB)</b>										
Basic EPS (adjusted)	0.00	0.11	0.19	0.17	0.08	0.05	0.07	0.09	0.11	0.14
Diluted EPS (adjusted)	0.00	0.11	0.19	0.17	0.08	0.05	0.07	0.09	0.11	0.14
Dividend per share (DPS)	0.018	0.021	0.049	0.002	0.002	0.002	0.000	0.000	0.000	0.000
Book Value per share (BVPS)	1.7	1.7	1.8	1.7	1.7	1.8	1.9	1.9	2.0	2.2
<b>Margins (%)</b>										
Gross Margin	16.9%	17.8%	16.4%	12.3%	11.1%	12.1%	12.1%	12.3%	12.3%	12.3%
Operating Margin	3.2%	6.0%	6.2%	4.3%	2.8%	2.4%	3.1%	3.0%	3.2%	3.4%
EBITDA Margin	8.0%	11.0%	10.3%	7.6%	5.8%	5.6%	5.6%	5.5%	5.7%	5.8%
Pre-Tax Margin (adjusted)	0.8%	3.9%	4.8%	3.1%	1.5%	1.2%	1.4%	1.5%	1.8%	2.1%
Net Income Margin (adjusted)	0.1%	3.3%	4.2%	2.4%	1.1%	0.9%	1.1%	1.2%	1.5%	1.7%
<b>Growth (%)</b>										
Sales growth	16.5%	1.9%	44.6%	51.1%	0.8%	-12.4%	1.8%	9.9%	9.6%	9.0%
EBIT growth	194.4%	89.5%	49.1%	5.7%	-34.4%	-24.4%	29.2%	6.8%	17.2%	14.8%
Net Income (adjusted) growth	-167.4%	2664.3%	84.1%	-11.4%	-53.1%	-31.9%	30.9%	19.0%	33.9%	26.2%
EPS (adjusted) growth	-166.9%	2647.4%	83.9%	-12.0%	-53.1%	-31.7%	30.9%	19.0%	33.9%	26.2%
<b>Return Ratios</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020E</b>	<b>FY 2021E</b>	<b>FY 2022E</b>	<b>FY 2023E</b>
<b>Dupont ROE (%)</b>	<b>0.2%</b>	<b>5.8%</b>	<b>9.7%</b>	<b>8.1%</b>	<b>3.7%</b>	<b>2.4%</b>	<b>3.0%</b>	<b>3.5%</b>	<b>4.4%</b>	<b>5.3%</b>
Margin (%)	0.1%	3.3%	4.2%	2.4%	1.1%	0.9%	1.1%	1.2%	1.5%	1.7%
Turnover (x)	0.8	0.8	0.9	1.1	1.1	1.0	1.0	1.0	1.1	1.1
Leverage (x)	2.3	2.4	2.5	3.0	3.0	2.8	2.8	2.8	2.8	2.8
ROA	0.1%	2.5%	3.8%	2.7%	1.2%	0.9%	1.1%	1.3%	1.6%	1.9%
Return on Capital Employed	5.6%	10.1%	11.7%	12.6%	6.7%	5.9%	7.4%	7.6%	8.6%	9.4%
Return on Invested Capital	0.1%	3.6%	5.9%	3.9%	1.9%	1.4%	1.8%	2.0%	2.7%	3.3%
Net cash / equity	-18.9%	-31.5%	-39.2%	-72.1%	-67.4%	-50.1%	-49.7%	-48.3%	-44.0%	-38.5%
<b>FCF Calculation</b>										
Op. cash	185.0	142.8	189.1	-304.5	543.8	789.2	174.7	171.7	220.7	269.2
capex	-122.7	-311.3	-188.2	-314.2	-296.2	-398.1	-170.3	-140.4	-102.6	-111.8
FCF (RMB million)	62.3	-168.5	0.8	-618.7	247.6	391.1	4.3	31.3	118.1	157.3
FCF margin (%)	1.5%	-3.9%	0.0%	-6.5%	2.6%	4.7%	0.1%	0.3%	1.2%	1.4%
FCF per share	0.05	-0.12	0.00	-0.45	0.18	0.29	0.00	0.02	0.09	0.12
Price/FCF per share	8.1	-3.0	615.8	-0.8	2.1	1.3	118.2	16.4	4.3	3.3
<b>Net Cash calculation</b>										
Cash + short term investments	761.4	788.0	705.2	941.2	877.5	745.0	707.4	698.0	774.4	889.1
Less: long term debt	-1,201.7	-1,555.9	-1,763.5	-3,013.9	-2,884.1	-2,306.2	-2,306.2	-2,306.2	-2,306.2	-2,306.2
<b>Net Cash (Debt)</b>	<b>-440.2</b>	<b>-767.9</b>	<b>-1,058.2</b>	<b>-2,072.7</b>	<b>-2,006.6</b>	<b>-1,561.1</b>	<b>-1,598.7</b>	<b>-1,608.2</b>	<b>-1,531.8</b>	<b>-1,417.1</b>
Net cash per share	-0.3	-0.57	-0.8	-1.5	-1.5	-1.1	-1.2	-1.2	-1.1	-1.0

Valuation ratio's	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E
P/B	0.67	0.35	0.21	0.22	0.22	0.21	0.20	0.20	0.19	0.18
P/E	292.74	5.50	1.95	2.22	4.72	6.91	5.28	4.44	3.31	2.62
P/S	0.35	0.18	0.08	0.05	0.05	0.06	0.06	0.05	0.05	0.05
EV/sales	0.31	0.22	0.15	0.10	0.10	0.11	0.11	0.10	0.09	0.09
EV/EBITDA	3.89	1.99	1.48	3.16	4.06	4.87	4.76	4.40	3.87	3.51
EV/EBIT	9.68	3.66	2.46	2.32	3.54	4.69	3.63	3.40	2.90	2.53
EV/FCF	21.34	-5.66	1149.51	-1.54	3.85	2.44	220.04	30.46	8.07	6.06
Dividend Yield (%)	4.8%	5.5%	12.9%	0.5%	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%
Div payout on FCF	38.9%	-16.7%	7951.0%	-0.4%	1.1%	0.7%	0.0%	0.0%	0.0%	0.0%
Receivable days	105	123	111	92	95	103	103	103	103	103
Inventory days	78	86	70	66	82	94	94	94	94	94
payables days	118	125	99	72	79	100	100	100	100	100
Current ratio	1.1	1.1	1.2	1.0	1.1	1.0	1.0	1.1	1.1	1.2

Enterprise Value Calculation	FY 2014	FY 2015	Current
Market Cap. [in RMB]	889	507	507
+ Minority Interest	0	6	197
+Total Debt (ST & LT Debt)	1,202	1,202	2,306
- Cash & Equivalents	761	761	745
<b>Enterprise Value</b>	<b>1,329</b>	<b>953</b>	<b>2,265</b>

DCF model	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
(in RMB million)																		
EBIT	301	103	47	137	260	388	410	269	203	263	281	329	378	405	428	448	465	478
% growth	-1%	-66%	-55%	194%	90%	49%	6%	-34%	-24%	29%	7%	17%	15%	7%	6%	5%	4%	3%
Taxes @	14%	6%	-7%	27%	21%	17%	12%	11%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
EBIAT	260	96	50	100	206	321	363	240	163	211	225	264	303	324	343	358	372	383
% growth	-1%	-63%	-48%	101%	105%	56%	13%	-34%	-32%	29%	7%	17%	15%	7%	6%	5%	4%	3%
+ D&A	62	103	167	204	218	256	308	289	262	213	234	256	268	282	292	300	305	307
- Capital expenditures	-817	-646	-369	-123	-311	-188	-314	-296	-398	-170	-140	-103	-112	-122	-132	-138	-143	-147
- Change in net WC	-313	484	142	-200	-361	-366	-844	161	422	-138	-186	-199	-203	-167	-143	-121	-102	-84
<b>Free Cash Flow to Firm</b>	<b>-807</b>	<b>37</b>	<b>-11</b>	<b>-19</b>	<b>-248</b>	<b>22</b>	<b>-488</b>	<b>394</b>	<b>449</b>	<b>115</b>	<b>133</b>	<b>219</b>	<b>257</b>	<b>316</b>	<b>359</b>	<b>399</b>	<b>431</b>	<b>458</b>
FCY y/y growth		-105%	-129%	70%	1241%	-109%	-2325%	-181%	14%	-74%	16%	64%	17%	23%	14%	11%	8%	6%

#### Value per Share

Terminal Growth	Cost of capital				
	7.8%	8.8%	9.8%	10.8%	11.8%
1.5%	3.09	2.40	1.67	1.49	1.17
1.8%	3.24	2.50	1.74	1.54	1.21
2.0%	3.35	2.58	1.79	1.58	1.24
2.3%	3.53	2.70	1.88	1.64	1.28
2.5%	3.66	2.78	1.94	1.68	1.31

WACC	9.8%
PV of Free Cash Flow	1,571
PV of Terminal Value	2,360
Add: Net Cash	-1,561
Less: Minority Interest	-156
Total Equity Value	2,214
Shares outstanding	1,358
<b>DCF value</b>	<b>1.79</b>

All values in RMB except DCF value which is in HKD

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