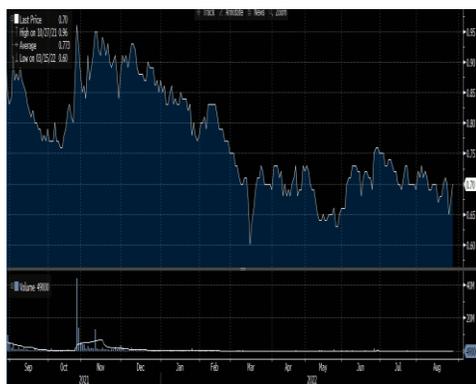


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Target Price	HK\$ 1.50
Current Price	HK\$ 0.70
Upside Potential	114%

Market Cap.	HK\$ 950 mn US\$ 123 mn
Shares Outstanding	1357.9 mn
Free Float (FF %)	348.3 mn / 25.6%
52 Week Range (HK\$)	1.05 / 0.55
Avg. Daily Value	HK\$ 0.3 mn
HANG SENG Index Level	20,170
Insider Holding %	74.4%



Risk: Above Average

**Forecasting and Valuations**

(RMB mn except ratio)	FY2021A	FY2022E
Revenue	11,303	13,099
Net Income	136	169
EPS (RMB)	0.10	0.12
EBITDA	860	885
PE	5.9	4.6
EV/EBITDA	2.8	2.7
P/B	0.31	0.28

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# Leoch International Technology Ltd

(842\_HK)

Earnings Update Report

**Business Across All Segments Sustains Recovery in 1HFY2022**

Leoch reported robust revenue and profit growth with the overall revenues growing by 19.1% to RMB6,168 million for the 1HFY2022 ended June. EPS rose by 200% on a YoY basis in 1HFY2022 to RMB6 cents on account of increase in foreign exchange gains, while the profit amounted to RMB96 mn, representing an increase of 174% compared to the corresponding period in 2021.

The company achieved a solid performance in its Recycled Lead business and Power Solutions business with a revenue growth of 35% and 16%, respectively, as compared to the corresponding period in 2021. The revenue for Recycled Lead business and Power Solutions business was RMB1,257 million and RMB4,911 million respectively. The volume delivered in terms of tonnage grew in low single digit while higher revenue growth was contributed by higher overseas battery sales and selling prices per ton. Gross profit margin was lower as compared to last year due to rise in shipping costs.

The increase in revenue from batteries was mainly contributed by growth in the overseas market business while growth in China was in the single digits. The overseas growth was mainly contributed by the Americas region (+111% Up) along with Asia Pacific region other than China (+64% Up).

**Financial Highlights for 1HFY2022**

- **Robust Growth: Net Profit +117%, Revenue +19%**
- **Power Solutions Segment Revenue Up 16% YoY**
- **Reserve Power Battery Sub-Segment Revenue Up 45% YoY**
- **Recycled Lead Business Segment Revenue Up 35% YoY**
- **USA Region Revenue Increases by 111%**
- **Asia Pacific excluding China Region Revenue Increases by 64%**

Product	Six months ended 30 June				
	2022		Percentage increase/ (decrease)	2021	
	Revenue RMB'000	%		Revenue RMB'000	%
Reserve power batteries	2,945,366	47.7%	45.2%	2,028,065	39.1%
SLI batteries	1,406,872	22.8%	(1.3%)	1,425,901	27.5%
Motive power batteries	534,604	8.7%	(2.4%)	547,855	10.6%
Others	24,346	0.4%	(90.1%)	246,215	4.8%
Sub-total	4,911,188	79.6%	15.6%	4,248,036	82.0%
Recycled lead products	1,257,127	20.4%	34.8%	932,456	18.0%
Total	<u>6,168,315</u>	<u>100%</u>	<u>19.1%</u>	<u>5,180,492</u>	<u>100%</u>

The company witnessed an uptick in finance costs (up 5.6% YoY) and selling and distribution expenses have increased by 22% YoY. Research and development expenses decreased by 29% YoY mainly due to the completion in the part relating to the recycling skill improvement of the Recycled Lead business.

The sustained recovery in revenue from its core battery business and Recycled Lead business segment, during uncertain times, signifies a strong competitive market position of the company. We expect revenues to maintain growth momentum in the second half of 2022 as it has shown resilient growth in 2021 and 1H2022. We believe the rise in finance costs and selling and distribution expenses are temporary in nature and the company is likely to generate higher profitability with an increase in margins as economic conditions return to normalcy. The focus on product innovation is also expected to keep the demand intact amidst uncertain economic environment. As the Recycled Lead business continues to make up for the lost business in the previous year along with the increased revenues from the battery segment, the overall profitability should recover in 2HFY2022 and beyond.

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 already built-up its manufacturing capacity both locally and overseas, with a lithium-ion plant in China and two lead-acid plants in Vietnam in 2019. We believe that under an inflationary environment and tightening global financial conditions, the company would emerge stronger and deliver on growth in FY2022 and beyond to make the best of its opportunities.

### **Maintain Long Term PT of HK\$2.00; Short Term PT HK\$1.50. 114% Upside**

We continue to maintain a short-term price target of HK\$1.50 per share over a one-year period which implies an upside of 114% over the current price of HK\$0.70 per share as we feel the business performance will continue its upward growth momentum in FY2022 and beyond.

We maintain our long-term price target of HK\$2.00 per share as any recovery in the business and economic conditions would rerate the stock to higher levels. Our long-term price target implies a P/E multiple of 13x on our FY2022 EPS estimate of RMB 12 cents and an EV/EBITDA multiple of 4x on our FY2022 EBITDA estimate.

With all the negatives factored into the stock price along with secular tailwinds expected post pandemic and global economic uncertainty by the ongoing 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 4.6x P/E and 2.7x EV/EBITDA based on our FY2022 EPS and EBITDA estimates, respectively. Also, the stock trades at extremely attractive multiples of just 3.8x P/E and 2.2x EV/EBITDA based on our FY2023 EPS and EBITDA estimates, respectively.

### **Future Prospects**

According to the July 2022 report released by the International Monetary Fund (IMF), the baseline forecast is for global growth to slow from around 6% last year to 3.2% in 2022. Global inflation has been revised up due to soaring food and energy prices as well as lingering supply-demand imbalances. The baseline inflation projection is pessimistic and was revised up to 8.3% in 2022, reflecting spillovers from the war in Ukraine and tighter monetary policies.

In late July, China's government revised its 2022 GDP growth target below 5.5% and advocated for stabilizing employment and prices and keeping the economy operating within a reasonable range, but provinces with potential should strive to achieve the expected economic and social development goals.

Infrastructure investment has traditionally been a core driver of China's economic growth, and it appears the government will continue to rely on it to prop up the economy in the coming months. In July 2022, fixed asset investment remained strong with high-tech manufacturing increased by 22.9% year-on-year, slowing down slightly from 23.8% in June. Among the high-tech manufacturing sectors, investment in electronics and communication equipment manufacturing grew by 27.5%. This matches with company's reserve power batteries delivery record in July where China's reserve power batteries shipments in terms of tons grew by more than 30% when compared to the same period in 2021. The company believes reserve power battery business will be one of the key growth drivers in 2022 and China's market will be the major revenue generator in this category due to the unchanged and strong support by the PRC government in the new 5G investment and development.

Overseas market business growth could be hindered by adverse factors like inflation, debt distress and foreseeable energy crisis in some advanced and emerging countries, making company's reserve power battery business growth rate remain in single digits. The PRC government has been ramping up stimulus measures to boost its economy, including urging the country's financial system to support the private sector, implementing preferential tax policies and fee cuts, and increasing government spending and investment to indirectly support the real economy. The stimulus policies have created a positive impact and the first half of 2022 economic indicators show signs of recovery to some extent. The company's SLI and motive power battery business in China has been gradually improving but a negative growth rate continues.

Global production capacity has been interrupted when production cost is ramping up due to high and inadequate energy supply and soaring logistics cost, resulting in supply chain imbalance. The world, including the company's overseas customers, heavily depend on Chinese suppliers' high quality, stable supply and reasonable pricing. Matched with China's more than 13% export growth, the company achieved solid improvement in export quantity and the trend continued in July 2022. The overseas business growth will continue albeit at a slower pace than the first half of 2022.

The operation of the lead recycling facility in China is in full gear, providing a solid growth in the 1H2022. However, due to high logistics cost and scrap battery price, the gross profit contribution reduced significantly in the 1H2022. The company is working hard on adopting suitable measures to improve the performance in the second half of 2022 and making sure the performance of the lead recycling business can outpace that of last year.

#### **Reserve Power Segment Recovers Sharply**

The Reserve Power batteries sub-segment revenues increased by 45% to RMB2,945 mn (1H2021: RMB1,426 mn) and accounted for 47.7% of total sales during 1HFY2022. The increase was mainly due to a recovery in the overseas business. Benefiting from the recovery of the company's brand in the overseas 5G business and the strong ODM export, the high growth rate overcame the sluggish performance in the PRC market, allowing the company's reserve power battery business to grow. Although the PRC reserve power battery business did not make any growth contribution in 1H2022, the huge resources the company deployed in the PRC on marketing and research and development for new 5G product including lithium-ion battery will definitely be able to capture opportunities from the rising 5G life cycle in 2022 and beyond.

The SLI battery business sub segment reported 1.3% decline to RMB1,407 mn contributing 23% to the overall revenue of the company as compared to RMB1,426 mn in 1HFY2021. The company's overseas SLI battery business enjoyed more than 35% growth in product delivery while PRC market was shrunk by more than 25% due to the lockdown since March, pushing the demand peak season backward which used to start in second quarter of each year. Leoch has maintained its market share in the commercial vehicle segment especially for batteries used in supporting air conditioning systems in heavy duty automobiles. Also, it remains one of the core suppliers to reputed manufacturers such as FAW, SAW, Sinotruk, Foton and Shaanxi Heavy Duty Automobile. Leoch is one of the major suppliers to domestic new energy

automobile brands such as BYD, Geely Auto, Nio, GWM, BAIO BJEV, Xpeng, ONE and Weltmeister.

In order to enlarge its market share in the PRC market, more resources shall be deployed to capture the opportunity in the era of autonomous driving of smart cars. Being one of the major suppliers of domestic new energy automobile lead-acid batteries, the company has the confidence to further extend its customer bases and improve its ranking and status in the future. Besides lead-acid battery, the company has deployed a lot of resources in the development of various lithium-based battery models and will continue to expand its product portfolio to increase market share.

The motive power battery sub-segment (which includes, but not limited to, applications in electric vehicles, electric forklifts and other battery-driven products) reported a decrease in revenues by 2.4% to RMB535 mn in 1HFY2022 as compared to RMB548 mn in 1HFY2021. This accounted for 8.7% of the total revenue of the company in the 1HFY2022. The company's motive power battery export volume in terms of tons has doubled when compared to 1HFY2021, reflecting overseas customers continuing to rely on the company's high-quality products, and stable and strong supplying capability. However, China's market suffered a 35% decline since lockdown suppressed demand from equipment manufacturers and aftermarket replacement.

The company's revenue increased by 111% to RMB1,180 mn in USA and by 64% in Asia Pacific to RMB646 mn (excluding China) while China increased by 6% despite slowdown in economic growth. Europe, Middle East and Africa declined by 7% for the company.

Customer location	Six months ended 30 June				
	2022		Percentage increase/ (decrease)	2021	
	Revenue RMB'000	%		Revenue RMB'000	%
Mainland China	3,347,229	54.3%	6.0%	3,157,461	60.9%
EMEA	995,876	16.1%	(7.0%)	1,071,093	20.7%
Americas	1,179,691	19.1%	110.9%	559,353	10.8%
Asia-Pacific (other than Mainland China)	645,519	10.5%	64.4%	392,585	7.6%
Total	<u>6,168,315</u>	<u>100%</u>	<u>19.1%</u>	<u>5,180,492</u>	<u>100%</u>

### **Sharp Recovery in Recycled Lead Business Continues in 1HFY2022**

Revenue from Recycled Lead business rose 35% to RMB1,257 mn in 1HFY2022 (1HFY2021: RMB933 mn). The company's recycled lead business was in full operation and contributed to 20.4% of total sales. However, cost of scrap battery, the material cost of recycling business, increased. This was caused by the adverse factors in China which resulted in lower gross profit margin during the 1H2022 and temporarily affected the profitability of this business segment. It is expected that Recycled Lead business is expected to continue growth in FY2022 and beyond.

### **Focus on Innovation to Generate Higher Revenues and Margins Going Forward**

The company continues to focus on innovation, to work closely with international and domestic battery experts and research institutions so as to research on new technologies and develop new products. The company continued working on new models of lead-acid and lithium-ion batteries and rolling out new products tailor-made for applications in the network power and motive market segments. These products included product series such as AGM VRLA batteries, VRLA-GEL battery, pure lead batteries, UPS high-rate batteries, marine batteries, railway batteries, start-stop batteries, automotive batteries, motorcycle batteries, OPzV, OPzS, PzS, PzV and PzB tubular plate batteries, golf cart batteries, scrubber sweeper batteries and electric vehicle batteries. New models of battery catering for the era of autonomous driving of smart cars are also expected to be launched in the near future.

As on 31<sup>st</sup> December 2021, company's battery R&D team consisted of more than 350 researchers and related development & sampling technicians. Focus on innovation is expected to sustain the growth momentum in revenues and contribute to higher margins for the company going forward.

### **Robust Sales Network in more than 100 Countries and Regions**

The company continues to maintain its product distribution network of more than 100 countries and regions across the world and has established regional sales offices in Beijing, Shenzhen, Zhaoqing, Nanjing, Hong Kong, Singapore, Malaysia, Australia, India, Sri Lanka, USA, the EU and United Kingdom. Together with the domestic sales centers in China, the company has more than 80 sales offices and centers around the world. As on 31<sup>st</sup> December 2021, the company had over 700 dedicated sales and marketing and related supporting employees.

### **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.

In 2022, most important China's growth engines come from infrastructure. The government report emphasizes that a part of infrastructure projects will be used on "new infra", which covers digitalization of factory operations, full 5G coverage of the economy. In 2021, China has more than 1.42 million 5G base stations and government has set a goal to build more than 600,000 in 2022, an increase of 42%. China will ramp up 5G coverage for business areas, industrial parks, high-speed trains, transport hubs, shopping centers, and other crowded spaces. The country will heavily promote the innovative development of 5G applications and further advance the demonstration of '5G + industrial internet' scenarios besides '5G + medical health' and '5G + smart education'. With all these developments planned, China will work to ensure the number of 5G base stations tops 2 million.

To achieve the goal in stepping up industrial digitalization, data centers development is pivoted to be a national priority in 2022. Local governments in China are doubling down on plans to accelerate 5G rollout and more than 20 provincial and municipal governments have emphasized that a lot of effort will be put in construction of "new infrastructure" like 5G and data centers in their 2022 work plans. Cities like Shanghai has pushed forward the in-depth coverage of the superfast wireless network and has ambitions to build super large computing power platforms to meet growing demand.

The Ministry of Industry and Information Technology revealed that 2022 is a critical year for the large-scale development of 5G applications. Improving 5G network coverage, accelerating the in-depth integration of 5G and vertical industries and moderately speeding up the coverage of 5G in counties and rural towns are the goals. Ten ministries, including the Cyberspace Administration of China, recently unveiled a digital rural development action plan for the period from 2022 to 2025, which called for an intensified push to promote digital infrastructure upgrades in rural areas.

As mentioned last year, the global market demand for lithium batteries used for communication base stations is estimated to reach 22.8GWh in 2020. The 5G construction will rapidly push up the demand for lithium batteries used in base stations from 2021 to 2025. It is estimated that the number of communication towers will increase to 13 million by 2025, the global market demand for lithium batteries for communication will reach 60GWh, and the market size will exceed RMB60 billion. We expect the demand for lithium iron phosphate batteries used in communications will continue to expand company's lithium-ion battery plant and provide a solid ground to capture

new opportunity in this area. Since 2020, the “fast forward button” for the new 5G infrastructure development has been pressed.

### **Capacity in Place to Meet Ever Increasing Worldwide Demand**

Leoch has already 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 which has already commenced commercial production. This new facility has allowed 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.

Although there was no aggressive expansion in production capacity for lead-acid batteries in 2021, the company is gradually expanding lithium-ion batteries production capacity according to its strategic plan. It is expected that the lithium-ion battery capacity will increase from 1.8GWh in 2020 to 4GWh gradually over the next few years and potentially contribute up to RMB5 bn in annual revenue. This has begun to provide a fruitful return in 2022.

### **Innovative Business Model of Leoch International Technology**

Leoch International Technology is a global supplier of power solutions for telecommunications and data center industries. It provides highly reliable and innovative backup power solutions to the world’s leading telecommunications operators, infrastructure service providers and equipment manufacturers, as well as major international data center solution providers. Additionally, the company provides customers worldwide with a broad range of power solutions in various applications, including automobile, motorcycles and electric vehicles, renewable energy storage systems, and other consumer and industrial products. Also, the company is engaged in recycled lead business in the PRC. The company serves battery customers in more than 100 countries through its over 80 sales offices and centers around the world, together with its eleven manufacturing facilities in the PRC, Vietnam, Malaysia, India and Sri Lanka.

The company has two primary businesses: Power Solutions and Recycled Lead. The Power Solutions business is classified into three major categories based on applications, defined as follows:

- Reserve power batteries: including Telecom and UPS batteries which are widely used in communication networks and data centers at all levels to provide a key guarantee for the normal operation of communication networks and other reserve power batteries.
- SLI batteries: used for the starting, lightening and ignition of automobiles, motorcycles and ships.
- Motive power batteries: mainly used in electric bicycles, electric tricycles, low-speed electric cars, golf carts and sightseeing carts.

## 5 Year Price Chart



## 5 Year China Shanghai Lead Spot Price



Income Statement ( millions RMB )	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E	CAGR (2021-2025)
<b>Revenue</b>	<b>9,631.4</b>	<b>11,303.1</b>	<b>13,098.6</b>	<b>14,881.5</b>	<b>16,379.9</b>	<b>18,042.8</b>	12.4%
y/y	15.2%	17.4%	15.9%	13.6%	10.1%	10.2%	
Cost of Revenue	-8,443.1	-9,793.4	-11,500.6	-12,798.1	-14,086.7	-15,516.8	
<b>Gross Profit</b>	<b>1,188.3</b>	<b>1,509.7</b>	<b>1,598.0</b>	<b>2,083.4</b>	<b>2,293.2</b>	<b>2,526.0</b>	
Gross margin (%)	12.3%	13.4%	12.2%	14.0%	14.0%	14.0%	
Other Operating Revenue	17.4	35.9	107.7	21.5	4.3	4.4	
as a % of sales	0.2%	0.3%	0.8%	0.1%	0.0%	0.0%	
Selling, General & Admin Expense	-920.3	-1,131.7	-1,356.4	-1,581.4	-1,716.9	-1,866.3	
as a % of sales	9.6%	10.0%	10.4%	10.6%	10.5%	10.3%	
Other Operating expenses	-35.9	-102.6	-118.9	-162.1	-178.4	-196.5	
as a % of sales	0.4%	0.9%	0.9%	1.1%	1.1%	1.1%	
<b>Operating Income</b>	<b>249.6</b>	<b>311.3</b>	<b>230.4</b>	<b>361.5</b>	<b>402.2</b>	<b>467.5</b>	10.7%
y/y	22.7%	24.7%	-26.0%	56.9%	11.3%	16.2%	
Operating margin (%)	2.6%	2.8%	1.8%	2.4%	2.5%	2.6%	
Interest Expense	-158.2	-143.9	-142.3	-156.6	-156.6	-156.6	
Interest income	11.3	10.8	12.2	19.4	30.8	35.5	
Equity in (losses)income of affiliates	0.0	0.0	0.0	0.0	0.0	0.0	
Other recurring (expenses)income	60.2	37.8	169.2	69.2	69.2	69.2	
Amortization of intangibles	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	
Other non recurring (expenses) income	-1.9	-24.0	0.0	0.0	0.0	0.0	
<b>Pretax Income (reported)</b>	<b>161.0</b>	<b>192.0</b>	<b>269.4</b>	<b>293.5</b>	<b>345.7</b>	<b>415.7</b>	21.3%
y/y	1.4%	19.3%	40.3%	8.9%	17.8%	20.3%	
<b>Pretax Income (adjusted)</b>	<b>162.8</b>	<b>192.0</b>	<b>269.4</b>	<b>293.5</b>	<b>345.7</b>	<b>415.7</b>	21.3%
y/y	62.4%	17.9%	40.3%	8.9%	17.8%	20.3%	
- Income Tax Expense	-23.7	-25.2	-67.4	-58.7	-69.1	-83.1	
effective tax rate (%)	14.7%	13.1%	25.0%	20.0%	20.0%	20.0%	
- Minority Interests	14.2	30.6	33.7	33.7	33.7	33.7	
<b>Income Before XO Items</b>	<b>123.1</b>	<b>136.2</b>	<b>168.4</b>	<b>201.1</b>	<b>242.9</b>	<b>298.9</b>	21.7%
y/y	-7.2%	10.7%	23.7%	19.5%	20.7%	23.1%	
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Net Income (reported)</b>	<b>123.1</b>	<b>136.2</b>	<b>168.4</b>	<b>201.1</b>	<b>242.9</b>	<b>298.9</b>	21.7%
y/y	-7.2%	10.7%	23.7%	19.5%	20.7%	23.1%	
Exceptional (L)G	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Net Income (adjusted)</b>	<b>124.9</b>	<b>136.2</b>	<b>168.4</b>	<b>201.1</b>	<b>242.9</b>	<b>298.9</b>	21.7%
y/y	68.6%	9.0%	23.7%	19.5%	20.7%	23.1%	
Basic EPS (reported)	0.09	0.10	0.12	0.15	0.18	0.22	
Basic EPS (adjusted)	0.09	0.10	0.12	0.15	0.18	0.22	
Basic Weighted Avg Shares	1,358	1,360	1,358	1,359	1,359	1,359	
<b>Diluted EPS (reported)</b>	<b>0.09</b>	<b>0.10</b>	<b>0.12</b>	<b>0.15</b>	<b>0.18</b>	<b>0.22</b>	21.7%
y/y	-7.2%	10.4%	23.8%	19.5%	20.7%	23.1%	
<b>Diluted EPS (adjusted)</b>	<b>0.09</b>	<b>0.10</b>	<b>0.12</b>	<b>0.15</b>	<b>0.18</b>	<b>0.22</b>	21.7%
y/y	68.6%	8.8%	23.8%	19.5%	20.7%	23.1%	
Diluted Weighted Avg Shares (mn)	1,358	1,360	1,359	1,359	1,359	1,359	

Balance Sheet (millions RMB)	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
<b>Assets</b>						
+ Cash & Near Cash Items	848.5	951.7	1,518.8	2,411.3	2,778.3	3,180.7
+ Short-Term Investments	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receivable	2,419.7	2,725.7	2,870.9	3,261.7	3,590.1	3,954.6
+ Inventories	1,776.9	2,019.3	2,363.1	2,279.1	2,508.6	2,763.3
+ Other Current Assets	549.1	397.6	405.6	413.7	422.0	430.4
<b>Total Current Assets</b>	<b>5,594.2</b>	<b>6,094.3</b>	<b>7,158.5</b>	<b>8,365.8</b>	<b>9,298.9</b>	<b>10,328.9</b>
+ Long-Term Investments	0.0	0.0	0.0	0.0	0.0	0.0
+ Gross Fixed Assets	4,433.5	5,009.7	5,337.2	5,709.2	6,118.7	6,569.8
- Accumulated Depreciation	-2,092.1	-2,628.8	-3,283.7	-3,998.0	-4,752.8	-5,551.0
+ Net Fixed Assets	2,371.7	2,291.8	2,053.5	1,711.2	1,365.9	1,018.8
+ Other Long-Term Assets	389.2	436.8	454.3	472.4	491.3	511.0
+ Goodwill & other Intangible Assets	717.8	773.2	801.0	838.8	880.4	926.3
<b>Total Long-Term Assets</b>	<b>3,478.7</b>	<b>3,501.8</b>	<b>3,308.7</b>	<b>3,022.4</b>	<b>2,737.7</b>	<b>2,456.1</b>
<b>Total Assets</b>	<b>9,072.8</b>	<b>9,596.1</b>	<b>10,467.2</b>	<b>11,388.3</b>	<b>12,036.6</b>	<b>12,785.0</b>
<b>Liabilities &amp; Shareholders' Equity</b>						
+ Accounts Payable	2,139.4	2,319.3	2,993.3	3,681.7	4,052.3	4,463.7
+ Short-Term Borrowings	1,760.8	2,042.5	2,042.5	2,042.5	2,042.5	2,042.5
+ Other Short-Term Liabilities	1,097.5	1,190.8	1,250.3	1,312.8	1,378.5	1,447.4
<b>Total Current Liabilities</b>	<b>4,997.8</b>	<b>5,552.5</b>	<b>6,286.1</b>	<b>7,037.0</b>	<b>7,473.3</b>	<b>7,953.6</b>
+ Long-Term Borrowings	542.4	329.7	329.7	329.7	329.7	329.7
+ Other Long-Term Liabilities	132.7	134.8	137.5	140.3	143.1	145.9
<b>Total Liabilities</b>	<b>5,672.9</b>	<b>6,017.1</b>	<b>6,753.4</b>	<b>7,507.0</b>	<b>7,946.1</b>	<b>8,429.3</b>
+ Total Preferred Equity	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	116.2	116.2	116.2	116.2	116.2	116.2
+ Retained Earnings & Other Equity	3,123.4	3,271.7	3,440.1	3,641.2	3,884.1	4,183.0
<b>Total Shareholders' Equity</b>	<b>3,239.6</b>	<b>3,387.9</b>	<b>3,556.3</b>	<b>3,757.5</b>	<b>4,000.3</b>	<b>4,299.2</b>
+ Minority Interest	160.3	191.1	157.5	123.8	90.1	56.5
<b>Total Liabilities &amp; Equity</b>	<b>9,072.8</b>	<b>9,596.1</b>	<b>10,467.1</b>	<b>11,388.2</b>	<b>12,036.6</b>	<b>12,785.0</b>

Ratio Analysis	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
<b>Per Share Data (RMB)</b>						
Basic EPS (adjusted)	0.09	0.10	0.12	0.15	0.18	0.22
Diluted EPS (adjusted)	0.09	0.10	0.12	0.15	0.18	0.22
Dividend per share (DPS)	0.000	0.000	0.000	0.000	0.000	0.000
Book Value per share (BVPS)	1.9	1.9	2.0	2.1	2.3	2.5
<b>Margins (%)</b>						
Gross Margin	12.3%	13.4%	12.2%	14.0%	14.0%	14.0%
Operating Margin	2.6%	2.8%	1.8%	2.4%	2.5%	2.6%
EBITDA Margin	7.3%	7.5%	6.8%	7.2%	7.1%	7.0%
Pre-Tax Margin (adjusted)	1.7%	1.7%	2.1%	2.0%	2.1%	2.3%
Net Income Margin (adjusted)	1.3%	1.2%	1.3%	1.4%	1.5%	1.7%
<b>Growth (%)</b>						
Sales growth	15.2%	17.4%	15.9%	13.6%	10.1%	10.2%
EBIT growth	22.7%	24.7%	-26.0%	56.9%	11.3%	16.2%
Net Income (adjusted) growth	68.6%	9.0%	23.7%	19.5%	20.7%	23.1%
EPS (adjusted) growth	68.6%	8.8%	23.8%	19.5%	20.7%	23.1%
<b>Return Ratios</b>						
<b>Dupont ROE (%)</b>	<b>3.9%</b>	<b>4.0%</b>	<b>4.7%</b>	<b>5.4%</b>	<b>6.1%</b>	<b>7.0%</b>
Margin (%)	1.3%	1.2%	1.3%	1.4%	1.5%	1.7%
Turnover (x)	1.1	1.2	1.3	1.3	1.4	1.4
Leverage (x)	2.8	2.8	2.9	3.0	3.0	3.0
<b>ROA</b>						
ROA	1.4%	1.4%	1.6%	1.8%	2.0%	2.3%
Return on Capital Employed	6.1%	7.7%	5.5%	8.3%	8.8%	9.7%
Return on Invested Capital	2.3%	2.4%	2.8%	3.3%	3.8%	4.5%
Net cash / equity	-44.9%	-41.9%	-24.0%	1.0%	10.2%	18.8%
<b>FCF Calculation</b>						
Op. cash	763.0	718.7	1,542.3	1,320.5	837.0	919.0
capex	-644.9	-576.2	-327.5	-372.0	-409.5	-451.1
FCF (RMB million)	118.1	142.5	1,214.8	948.5	427.5	467.9
FCF margin (%)	1.2%	1.3%	9.3%	6.4%	2.6%	2.6%
FCF per share	0.09	0.10	0.89	0.70	0.31	0.34
Price/FCF per share	6.6	5.5	0.6	0.8	1.8	1.7
<b>Net Cash calculation</b>						
Cash + short term investments	848.5	951.7	1,518.8	2,411.3	2,778.3	3,180.7
Less: long term debt	-2,303.3	-2,372.2	-2,372.2	-2,372.2	-2,372.2	-2,372.2
<b>Net Cash (Debt)</b>	<b>-1,454.8</b>	<b>-1,420.5</b>	<b>-853.4</b>	<b>39.1</b>	<b>406.1</b>	<b>808.4</b>
Net cash per share	-1.1	-1.0	-0.6	0.0	0.3	0.6

Valuation ratio's	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
P/B	0.31	0.30	0.28	0.27	0.25	0.23
P/E	6.24	5.73	4.63	3.88	3.21	2.61
P/S	0.08	0.07	0.06	0.05	0.05	0.04
EV/sales	0.25	0.21	0.18	0.16	0.15	0.13
EV/EBITDA	3.40	2.82	2.70	2.22	2.07	1.89
EV/EBIT	9.57	7.67	10.37	6.61	5.94	5.11
EV/FCF	20.22	16.76	1.97	2.52	5.59	5.10
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Div payout on FCF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Receivable days	90	80	80	80	80	80
Inventory days	78	75	75	65	65	65
payables days	90	95	95	105	105	105
Current ratio	1.1	1.1	1.1	1.2	1.2	1.3

Enterprise Value Calculation	FY 2018	FY 2019	Current
Market Cap. [in RMB]	643	671	814
+ Minority Interest	197	156	191
+Total Debt (ST & LT Debt)	2,884	2,306	2,372
- Cash & Equivalents	878	745	952
<b>Enterprise Value</b>	<b>2,847</b>	<b>2,389</b>	<b>2,425</b>

DCF model	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E
(in RMB million)																		
EBIT	301	103	47	137	260	388	410	269	203	250	192	340	430	477	518	554	584	610
% growth	-1%	-66%	-55%	194%	90%	49%	6%	-34%	-24%	23%	-24%	78%	27%	11%	9%	7%	6%	4%
Taxes @	14%	6%	-7%	27%	21%	17%	12%	11%	20%	1%	13%	15%	15%	15%	15%	15%	15%	15%
EBIAT	260	96	50	100	206	321	363	240	163	213	163	290	367	405	440	471	497	519
% growth	-1%	-63%	-48%	101%	105%	56%	13%	-34%	-32%	30%	-24%	78%	27%	10%	9%	7%	6%	4%
+ D&A	62	103	167	204	218	256	308	289	262	240	214	128	139	151	161	169	175	179
- Capital expenditures	-817	-646	-369	-123	-311	-188	-314	-296	-398	-458	-267	-128	-145	-164	-182	-194	-205	-214
- Change in net WC	-313	484	142	-200	-361	-366	-844	161	422	82	262	-17	133	-122	-108	-94	-81	-68
<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>76</b>	<b>371</b>	<b>272</b>	<b>494</b>	<b>270</b>	<b>311</b>	<b>351</b>	<b>385</b>	<b>415</b>
FCY y/y growth		-105%	-129%	70%	1241%	-109%	-2325%	-181%	14%	-83%	388%	-27%	81%	-45%	15%	13%	10%	8%

#### Value per Share

Terminal Growth	Cost of capital				
	7.3%	8.3%	9.3%	10.3%	11.3%
1.5%	3.48	2.74	2.00	1.78	1.45
1.8%	3.65	2.86	2.07	1.84	1.49
2.0%	3.77	2.94	<b>2.13</b>	1.88	1.52
2.3%	3.97	3.07	2.22	1.94	1.57
2.5%	4.12	3.16	2.28	1.99	1.60

WACC	9.3%
PV of Free Cash Flow	1,854
PV of Terminal Value	2,384
Add: Net Cash	-1,455
Less: Minority Interest	-156
Total Equity Value	2,627
Shares outstanding	1,360
<b>DCF value</b>	<b>2.13</b>

All values in RMB except DCF value which is in HKD

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