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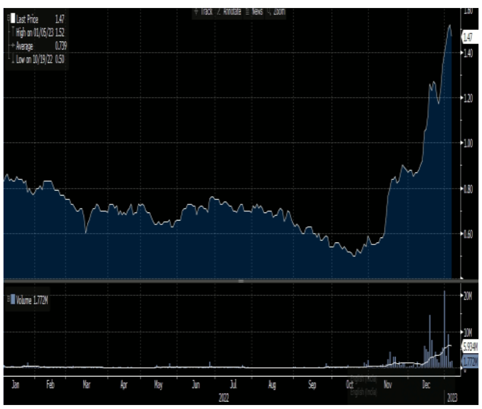
Leoch International Technology Ltd (842_HK)

Business Update Report

Target Price	HK$ 3.00
Current Price	HK$ 1.50
Upside Potential	100%

Market Cap.	HK$ 2 bn US$ 260 mn
Shares Outstanding	1357.9 mn
Free Float (FF %)	348.3 mn / 25.6%
52 Week Range (HK$)	1.56 / 0.48
Avg. Daily Value	HK$ 0.3 mn
HANG SENG Index Level	21,056
Insider Holding %	74.4%



Risk: Above Average

Forecasting and Valuations

(RMB mn except ratio)	FY2021A	FY2022E
Revenue	11,303	14,057
Net Income	136	447
EPS (RMB)	0.10	0.33
EBITDA	860	1304
PE	12.3	3.7
EV/EBITDA	3.9	2.5
P/B	0.64	0.55

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Positive Management Meeting

We had an encouraging meeting with the Senior Management of Leoch at their Hong Kong corporate headquarters recently. **During our discussion with the management, they mentioned that focus for the year 2023 would be primarily on generating higher sales growth along with improvement in the gross, operating and net profit margins. The inherent demand for batteries especially in China is expected to drive revenue growth in the 2nd half of 2022. The year 2023 is expected to witness growth in both overseas and China regions with the momentum expected to continue further.**

Profit Upside for FY2022

- **Expectations: Net Profit Growth of More than +100% as compared to FY2021**
- **Increase Expected due to Increase in Overall Battery Business of the company**
- **Distribution Costs are expected to Fall rapidly as conditions come back to normalcy**
- **Operating and Net Profit Margins are Expected to Improve Significantly on account of drastic Reduction in costs as compared to FY2021**

Positive Profit Alert Announcement in December 2022

The company recently announced that the net profit is expected to more than double for the full financial year 2022. Also, the freight costs are expected to decline in the 2nd half of 2022 for the company as supply chain constraints have eased out paving the way for improvement in the operating and net profit margins of the company. The company had reported solid growth in the 1st half of FY2022 especially in the overseas business segment. In the 2nd half of 2022 the overseas business has witnessed some slowdown in growth as a result of rising interest rates globally. But, we expect growth across both overseas and China business regions in 2023. The net profit is therefore expected to see a sharp increase in the year 2022 as compared to 2021. Also, due to expected increase in revenue along with improvement in the gross, operating and net profit margin in 2023, the net profit would also continue to increase further which will make the stock look cheap on most valuation parameters.

Now with all the negatives behind, revenue growth witnessing momentum and with the focus of the management on improving profitability the business is staring at a multi-year inflection point in the year 2023.

In our view, Leoch is very still early in its corporate life cycle, and operating in some secular growth markets, which suggests a long runway for continued robust growth from a relatively small base.

Revise Long Term PT of HK$4.00; Short Term PT of HK$3.00, 100% Upside

We are extremely bullish on Leoch International Technology stock as our short-term price target of HK$1.50 per share has been reached within a one-year period from our recommendation. At the current levels, the stock is trading at extremely attractive multiples of just 3.8x P/E and 2.5x EV/EBITDA based on our FY2022 estimated EPS and EBITDA, respectively. Also, the stock trades at extremely attractive multiples of just 2.7x P/E and 1.9x EV/EBITDA based on our FY2023 EPS and EBITDA estimates, respectively.

We revise our short-term price target to HK$3.00 per share as we feel the business performance will continue its upward growth momentum in FY2022 and beyond, which would rerate the stock to higher levels. Our revision comes on account of the expected business performance, the net profit, which is expected to more than double for the full financial year 2022, according to the latest announcement of profit alert by the company. The business performance is expected to be stellar despite the economic conditions not being favorable globally. Our HK$3.00 price target implies a P/E multiple of 5.3x on our FY2023 EPS estimate of RMB 46 cents and an EV/EBITDA multiple of 2.9x on our FY2023 EBITDA estimate.

We revise our long-term price target to HK$4.00 per share as we feel the business performance will continue its upward growth momentum in FY2023 and FY2024 as well. Our long-term price target implies a P/E multiple of 7x on our FY2023 EPS estimate of RMB 46 cents and an EV/EBITDA multiple of 3.5x on our FY2023 EBITDA estimate.

We are revising our model estimates on the higher side to reach revenues of RMB17.6 bn in FY2023 and RMB21.2 bn in FY2024. The net profit is expected to reach RMB447 mn in FY2023 and RMB625 mn in FY2024 translating into an EPS of HK33 cents and HK46 cents respectively. This indicates a solid growth of 24% and 25% in revenues and a stellar growth of 40% and 34% in net profit for FY2023 and FY2024 respectively.

With all the negatives factored into the stock price along with secular tailwinds expected in 2023 due to ongoing 5G network launch, increasing vehicle penetration in China and increasing demand for light electric vehicles, etc., we feel that the stock is staring at an inflection point at current levels and becomes a strong case of an 100% upside in the next one year with a price target of HK$3.00. Our long-term price target of HK$4.00 reiterates our conviction in the growth story of the business of Leoch International Technology.

Business Across All Segments had shown Sharp Recovery in 1HFY2022: Momentum to Continue in FY2022 and Beyond

Leoch had 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 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). In the 2nd half of 2022 more growth is expected from China and overseas growth is expected to remain stable. The growth from China helped propel revenues and net profit to more than double in FY2022 as compared to FY2021.

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 operating and net profit margins are now expected to rise sharply in the second half of the FY2022 on account of reduction in distribution costs for the company. The distribution costs include shipping costs for containers and delivery charges, distribution expenses and other supply chain costs and expenses. These costs had increased considerably due to the impact of the COVID-19 pandemic around the world. The costs are drastically reducing, and conditions are gradually resuming to normal in the second half of the year 2022.

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 FY2022 and beyond as it has shown resilient growth in 2021 and 1H2022**.** We had previously mentioned about the rise in selling and distribution expenses being temporary in nature. As supply chain constraints are reducing drastically due to a fall in distribution expenses now, the company is generating higher profitability with an increase in margins as compared to FY2021.

The focus on product innovation is also expected to keep the demand intact amidst an 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 continue to rise in FY2023 and FY2024.

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.

Future Prospects in China Business Region

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 the 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.

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 31st December 2021, the company had over 700 dedicated sales and marketing and related supporting employees.

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 31st 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.

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 (2022-2025)
Revenue	**9,631.4**	**11,303.1**	**14,057.2**	**17,594.4**	**21,169.7**	**23,310.9**	27.3%
y/y	*15.2%*	*17.4%*	*24.4%*	*25.2%*	*20.3%*	*10.1%*	
Cost of Revenue	-8,443.1	-9,793.4	-12,089.2	-14,902.4	-17,888.4	-19,581.2	
Gross Profit	**1,188.3**	**1,509.7**	**1,968.0**	**2,691.9**	**3,281.3**	**3,729.7**	
Gross margin (%)	*12.3%*	*13.4%*	*14.0%*	*15.3%*	*15.5%*	*16.0%*	
Other Operating Revenue	17.4	35.9	107.7	5.4	1.1	1.1	
as a % of sales	*0.2%*	*0.3%*	*0.8%*	*0.0%*	*0.0%*	*0.0%*	
Selling, General & Admin Expense	-920.3	-1,131.7	-1,346.4	-1,616.5	-1,914.3	-2,075.8	
as a % of sales	*9.6%*	*10.0%*	*9.6%*	*9.2%*	*9.0%*	*8.9%*	
Other Operating expenses	*-35.9*	*-102.6*	*-127.6*	*-191.6*	*-230.6*	*-253.9*	
as a % of sales	*0.4%*	*0.9%*	*0.9%*	*1.1%*	*1.1%*	*1.1%*	
Operating Income	**249.6**	**311.3**	**601.7**	**889.2**	**1,137.5**	**1,401.1**	65.1%
y/y	*22.7%*	*24.7%*	*93.3%*	*47.8%*	*27.9%*	*23.2%*	
Operating margin (%)	*2.6%*	*2.8%*	*4.3%*	*5.1%*	*5.4%*	*6.0%*	
Interest Expense	-158.2	-143.9	-142.3	-156.6	-156.6	-156.6	
Interest income	11.3	10.8	12.2	21.0	36.1	46.1	
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	
Pretax Income (reported)	**161.0**	**192.0**	**640.7**	**822.8**	**1,086.3**	**1,359.8**	92.0%
y/y	*1.4%*	*19.3%*	*233.7%*	*28.4%*	*32.0%*	*25.2%*	
Pretax Income (adjusted)	***162.8***	***192.0***	***640.7***	***822.8***	***1086.3***	***1359.8***	92.0%
y/y	*62.4%*	*17.9%*	*233.7%*	*28.4%*	*32.0%*	*25.2%*	
- Income Tax Expense	-23.7	-25.2	-160.2	-164.6	-217.3	-272.0	
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	
Income Before XO Items	**123.1**	**136.2**	**446.9**	**624.6**	**835.3**	**1054.2**	97.8%
y/y	*-7.2%*	*10.7%*	*228.2%*	*39.8%*	*33.7%*	*26.2%*	
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0	0.0	
Net Income (reported)	**123.1**	**136.2**	**446.9**	**624.6**	**835.3**	**1054.2**	97.8%
y/y	*-7.2%*	*10.7%*	*228.2%*	*39.8%*	*33.7%*	*26.2%*	
Exceptional (L)G	0.00	0.00	0.00	0.00	0.00	0.00	
Net Income (adjusted)	**124.9**	**136.2**	**446.9**	**624.6**	**835.3**	**1,054.2**	97.8%
y/y	*68.6%*	*9.0%*	*228.2%*	*39.8%*	*33.7%*	*26.2%*	
Basic EPS (reported)	0.09	0.10	0.33	0.46	0.61	0.78	
Basic EPS (adjusted)	0.09	0.10	0.33	0.46	0.61	0.78	
Basic Weighted Avg Shares	1,358	1,360	1,358	1,359	1,359	1,359	
Diluted EPS (reported)	**0.09**	**0.10**	**0.33**	**0.46**	**0.61**	**0.78**	97.9%
y/y	*-7.2%*	*10.4%*	*228.5%*	*39.8%*	*33.7%*	*26.2%*	
Diluted EPS (adjusted)	**0.09**	**0.10**	**0.33**	**0.46**	**0.61**	**0.78**	97.9%
y/y	*68.6%*	*8.8%*	*228.5%*	*39.8%*	*33.7%*	*26.2%*	
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
Assets						
+ Cash & Near Cash Items	848.5	951.7	1,641.4	2,826.7	3,605.7	4,775.3
+ Short-Term Investments	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receivable	2,419.7	2,725.7	3,081.0	3,856.3	4,639.9	5,109.2
+ Inventories	1,776.9	2,019.3	2,484.1	2,653.9	3,185.6	3,487.1
+ Other Current Assets	549.1	397.6	405.6	413.7	422.0	430.4
Total Current Assets	**5,594.2**	**6,094.3**	**7,612.1**	**9,750.5**	**11,853.2**	**13,802.0**
+ Long-Term Investments	0.0	0.0	0.0	0.0	0.0	0.0
+ Gross Fixed Assets	4,433.5	5,009.7	5,361.2	5,801.0	6,330.3	6,913.0
- Accumulated Depreciation	-2,092.1	-2,628.8	-3,331.6	-4,176.2	-5,151.7	-6,182.9
+ Net Fixed Assets	2,371.7	2,291.8	2,029.5	1,624.8	1,178.6	730.2
+ Other Long-Term Assets	389.2	436.8	454.3	472.4	491.3	511.0
+ Goodwill & other Intangible Assets	717.8	773.2	803.0	847.7	901.5	960.8
Total Long-Term Assets	**3,478.7**	**3,501.8**	**3,286.8**	**2,945.0**	**2,571.5**	**2,202.0**
Total Assets	**9,072.8**	**9,596.1**	**10,898.9**	**12,695.5**	**14,424.7**	**16,003.9**
Liabilities & Shareholders' Equity						
+ Accounts Payable	2,139.4	2,319.3	3,146.5	4,287.0	5,146.0	5,632.9
+ 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
Total Current Liabilities	**4,997.8**	**5,552.5**	**6,439.3**	**7,642.3**	**8,566.9**	**9,122.8**
+ 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
Total Liabilities	**5,672.9**	**6,017.1**	**6,906.5**	**8,112.3**	**9,039.7**	**9,598.5**
+ 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	3,718.6	4,343.1	5,178.5	6,232.7
Total Shareholders' Equity	**3,239.6**	**3,387.9**	**3,834.8**	**4,459.4**	**5,294.7**	**6,348.9**
+ Minority Interest	**160.3**	**191.1**	**157.5**	**123.8**	**90.1**	**56.5**
Total Liabilities & Equity	**9,072.8**	**9,596.1**	**10,898.8**	**12,695.5**	**14,424.6**	**16,003.9**

Ratio Analysis	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Per Share Data (RMB)						
Basic EPS (adjusted)	0.09	0.10	0.33	0.46	0.61	0.78
Diluted EPS (adjusted)	0.09	0.10	0.33	0.46	0.61	0.78
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	2.2	2.7	3.2	4.0
Margins (%)						
Gross Margin	12.3%	13.4%	14.0%	15.3%	15.5%	16.0%
Operating Margin	2.6%	2.8%	4.3%	5.1%	5.4%	6.0%
EBITDA Margin	7.3%	7.5%	9.3%	9.9%	10.0%	10.4%
Pre-Tax Margin (adjusted)	1.7%	1.7%	4.6%	4.7%	5.1%	5.8%
Net Income Margin (adjusted)	1.3%	1.2%	3.2%	3.5%	3.9%	4.5%
Growth (%)						
Sales growth	15.2%	17.4%	24.4%	25.2%	20.3%	10.1%
EBIT growth	22.7%	24.7%	93.3%	47.8%	27.9%	23.2%
Net Income (adjusted) growth	68.6%	9.0%	228.2%	39.8%	33.7%	26.2%
EPS (adjusted) growth	68.6%	8.8%	228.5%	39.8%	33.7%	26.2%

Return Ratios	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Dupont ROE (%)	**3.9%**	**4.0%**	**11.7%**	**14.0%**	**15.8%**	**16.6%**
Margin (%)	1.3%	1.2%	3.2%	3.5%	3.9%	4.5%
Turnover (x)	1.1	1.2	1.3	1.4	1.5	1.5
Leverage (x)	2.8	2.8	2.8	2.8	2.7	2.5
ROA	1.4%	1.4%	4.1%	4.9%	5.8%	6.6%
Return on Capital Employed	6.1%	7.7%	13.5%	17.6%	19.4%	20.4%
Return on Invested Capital	2.3%	2.4%	7.2%	9.1%	10.9%	12.1%
Net cash / equity	-44.9%	-41.9%	-19.1%	10.2%	23.3%	37.9%
FCF Calculation						
Op. cash	763.0	718.7	1,690.9	1,688.0	1,380.9	1,831.3
capex	-644.9	-576.2	-351.4	-439.9	-529.2	-582.8
FCF (RMB million)	118.1	142.5	1,339.4	1,248.2	851.7	1,248.5
FCF margin (%)	1.2%	1.3%	9.5%	7.1%	4.0%	5.4%
FCF per share	0.09	0.10	0.99	0.92	0.63	0.92
Price/FCF per share	14.1	11.7	1.2	1.3	2.0	1.3
Net Cash calculation						
Cash + short term investments	848.5	951.7	1,641.4	2,826.7	3,605.7	4,775.3
Less: long term debt	-2,303.3	-2,372.2	-2,372.2	-2,372.2	-2,372.2	-2,372.2
Net Cash (Debt)	**-1,454.8**	**-1,420.5**	**-730.8**	**454.5**	**1,233.5**	**2,403.1**
Net cash per share	-1.1	-1.0	-0.5	0.3	0.9	1.8

Valuation ratio's	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
P/B	0.66	0.64	0.55	0.46	0.38	0.31
P/E	13.37	12.29	3.74	2.68	2.00	1.59
P/S	0.17	0.15	0.12	0.10	0.08	0.07
EV/sales	0.25	0.21	0.17	0.14	0.11	0.10
EV/EBITDA	4.66	3.87	2.52	1.89	1.55	1.35
EV/EBIT	9.57	7.67	3.97	2.69	2.10	1.70
EV/FCF	20.22	16.76	1.78	1.91	2.80	1.91
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	1.2	1.3	1.4	1.5

Enterprise Value Calculation	FY 2018	FY 2019	Current
Market Cap. [in RMB]	643	671	1,673
+ Minority Interest	197	156	191
+Total Debt (ST & LT Debt)	2,884	2,306	2,372
- Cash & Equivalents	878	745	952
Enterprise Value	**2,847**	**2,389**	**3,285**

DCF model	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E
(in RMB million)												
EBIT	410	269	203	250	311	602	889	1,137	1,401	1,400	1,544	1,672
% growth	*6%*	*-34%*	*-24%*	*23%*	*25%*	*93%*	*48%*	*28%*	*23%*	*0%*	*10%*	*8%*
Taxes @	*12%*	*11%*	*20%*	*15%*	*13%*	*25%*	*20%*	*20%*	*20%*	*15%*	*15%*	*15%*
EBIAT	363	240	163	213	270	451	711	910	1,121	1,190	1,313	1,421
% growth	*13%*	*-34%*	*-32%*	*30%*	*27%*	*67%*	*58%*	*28%*	*23%*	*6%*	*10%*	*8%*
+ D&A	308	289	262	455	537	703	845	976	1,031	1,251	1,353	1,435
- Capital expenditures	-314	-296	-398	-645	-576	-351	-440	-529	-583	-721	-795	-860
- Change in net WC	-844	161	422	-23	-164	572	250	-399	-223	-238	-215	-190
Free Cash Flow to Firm	-488	394	449	0	67	1,375	1,366	957	1,346	1,483	1,656	1,806
FCY y/y growth	*-2325%*	*-181%*	*14%*	*-100%*	*-21184%*	*1963%*	*-1%*	*-30%*	*41%*	*10%*	*12%*	*9%*

Value per Share

	Cost of capital				
Terminal Growth	**11.3%**	**12.3%**	**13.3%**	**14.3%**	**15.3%**
0.5%	7.54	6.55	5.86	5.04	4.45
0.8%	7.68	6.66	5.95	5.11	4.50
1.0%	7.79	6.74	**6.01**	5.15	4.54
1.3%	7.95	6.87	6.11	5.23	4.60
1.5%	8.06	6.95	6.18	5.28	4.64

WACC	***13.3%***
PV of Free Cash Flow	4,791
PV of Terminal Value	4,256
Add: Net Cash	-1,420
Less: Minority Interest	-191
Total Equity Value	7,435
Shares outstanding	1,360
DCF value	**6.01**

All values in RMB except DCF value which is in HKD

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