

ENN Energy (2688 HK)

3Q22 operational data in line; smooth progress towards net-zero target

BUY (Maintain)

ENN Energy (ENN) announced inline 3Q22 operational data. Retail gas sales volume maintained low-single-digit growth and gas dollar margin stabled at RMB0.53/cbm due to increasing cost and shrinking demand during Covid-19 pandemic controls; IE business and value-added segment continued its robust growth. Looking ahead, ENN's mgmt. guided optimistic gas sales volume growth and stabilizing dollar margin in Q4. Meanwhile, they maintain strong faith on IE business and value-added business surge. **Currently, ENN is trading at 10x FY23PE. To factor in ENN's resilient fast-growing IE business and VAS business, our SOTP TP is HK\$132.2/per share, reflecting 18.7x forward PE (around +1SD of 5-year avg. PE). We transfer coverage with BUY rating.**

- In line 3Q22 retailed gas sales growth and dollar margin.** ENN's retail gas sales volume rose by 4.4% YoY to 18.83bcm, which was in line with the previous mgmt.'s guidance and our expectation. As C&I's operations were affected seriously by Covid-19 pandemic controls, C&I's gas sales volume increased only 4.4% YoY. But meanwhile, ENN has an optimistic view on its 4Q gas sales for the upcoming heating season, and maintains full-year retailed gas sales growth target at 5-8% YoY. In terms of 3Q dollar margin, ENN recorded RMB0.53/cbm, thanks to the diversified gas sources and effective price pass-through measures. For 4Q, mgmt. mentioned that they have agreed on reasonable winter gas prices with upstream suppliers and was confident to reach the full-year target of RMB0.5/cbm. Given the improved gas price pass-through measures and stable gas cost outlook, we estimate dollar margin to achieve RMB0.5/0.53/0.58cbm for FY22/23/24E.
- Fast-growing core Integrated Energy (IE) business with a better ESG image.** As the pioneer of energy transformation, ENN has dedicated to help clients with better energy conservation and emission reduction via IE business. As of 3Q22, 189 integrated energy projects have been operated. The cumulative sales volume of integrated energy went up 29.5% YoY to 18,208mn kWh, in which renewable energy accounted for around 21% (~36% as the long-term goal). For 2022, mgmt. guided the revenue of IE segment to surge by 50% YoY. Besides, ENN values ESG development and its ESG ratings has been upgraded by MSCI for four years.
- Value-added service (VAS) achieved significant growth.** Under the consumption upgrading trend, ENN actively promoted low-carbon heating, household products and services, which boosted 8% and 34% YoY increases. Currently, the penetration rate of value-added business in ENN's new customer base is about 33%. We believe VAS will maintain robust growth momentum in 4Q.
- Our TP is HK\$132.2. Maintain BUY rating.** ENN is trading at 10x FY23 PE. As we believe ENN has a better ESG image than peers for its leading IE business, and ENN's mgmt. also guided stable gas dollar margin and increasing gas demand in Q4, our SOTP target price is HK\$132.2/per share, reflecting around 18.7x forward P/E (around+ 1SD of 5-year average PE). We maintain BUY rating on ENN Energy.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	71,617	93,113	113,533	120,655	131,073
YoY growth (%)	2.0	30.0	21.9	6.3	8.6
Net profit (RMB mn)	6,278.0	7,755.0	7,982.1	9,105.7	9,613.9
YoY growth (%)	10.7	23.5	2.9	14.1	5.6
EPS (Reported) (RMB)	5.59	6.87	7.06	7.13	7.50
YoY growth (%)	10.7	23.0	2.7	1.0	5.2
Consensus EPS (RMB)	na	na	6.86	7.68	8.63
P/E (x)	14.4	16.6	10.9	9.8	8.8
P/B (x)	3.0	3.6	2.2	1.9	1.7
ROE (%)	22.3	23.4	20.7	20.5	19.0

Source: Company data, Bloomberg, CMBIGM estimates

Target Price **HK\$132.20**
 Up/Downside **61.51%**
 Current Price **HK\$81.85**

China Energy/China Gas Sector
Megan Xia, CESGA

 (852) 3761 0836
 meganxia@cmbi.com.hk

Jack Bai, CFA

 (852) 3900 0835
 jackbai@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	9,254.0
Avg 3 mths t/o (HK\$ mn)	110.8
52w High/Low (HK\$)	155.50/78.05
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

Xinneng (Hong Kong) Energy Investment	32.7%
The Capital Group	14.0%

Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-25.7%	-12.8%
3-mth	-39.0%	-16.3%
6-mth	-26.3%	5.8%

Source: FactSet

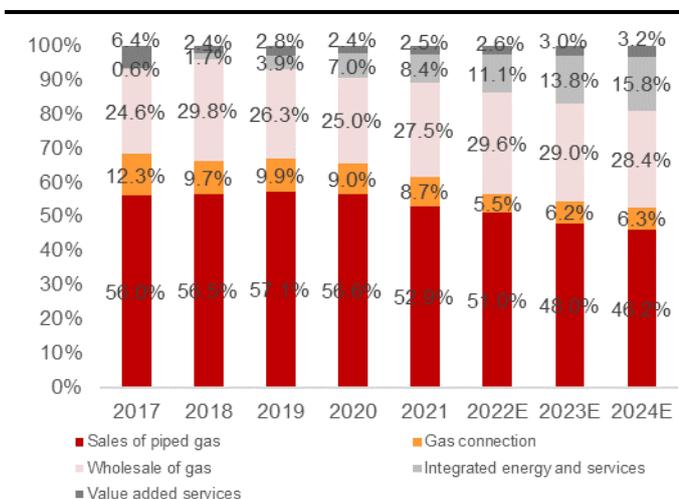
12-mth Price Performance



Source: FactSet

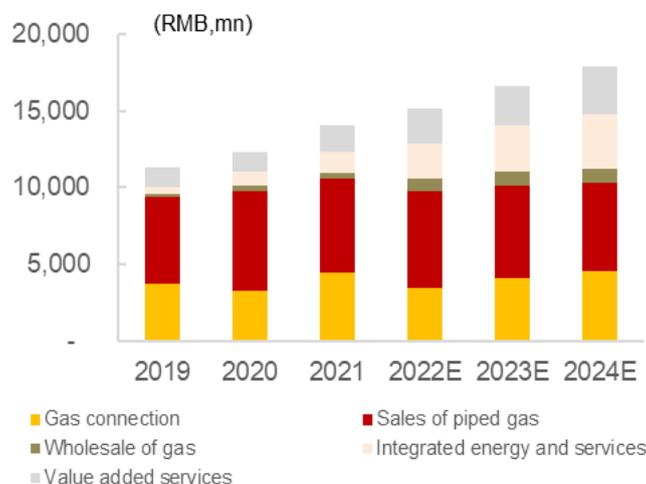
Focus charts

Figure 1: ENN's revenue mix



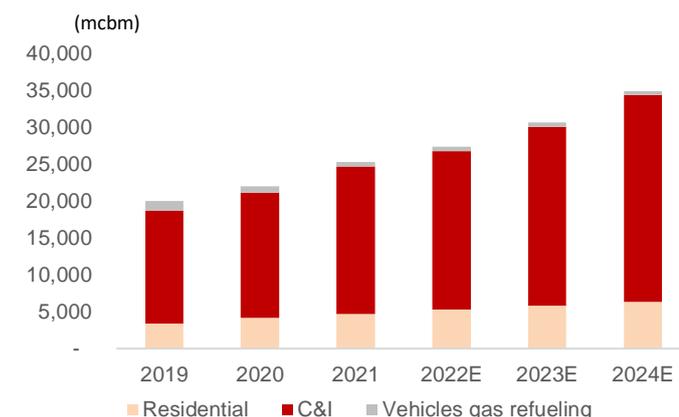
Source: Company data, CMBIGM estimates

Figure 2: ENN's gross profit trend and contribution from each business segment



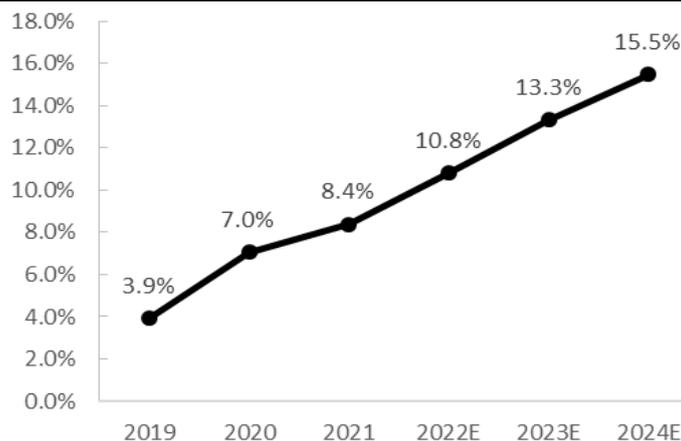
Source: Company data, CMBIGM estimates

Figure 3: ENN's retail gas sale volume mix



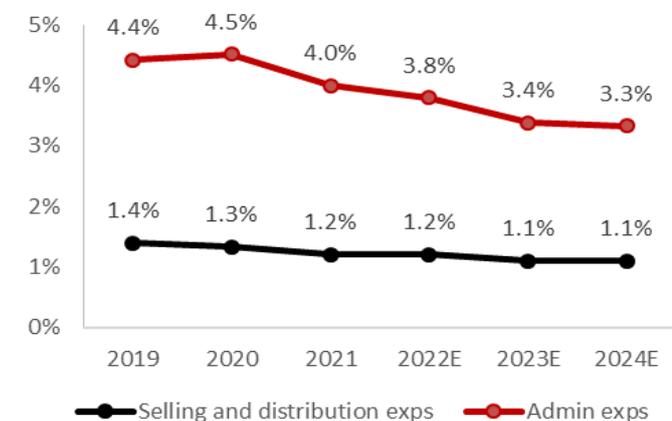
Source: Company data, CMBIGM estimates

Figure 4: ENN's integrated energy in revenue mix



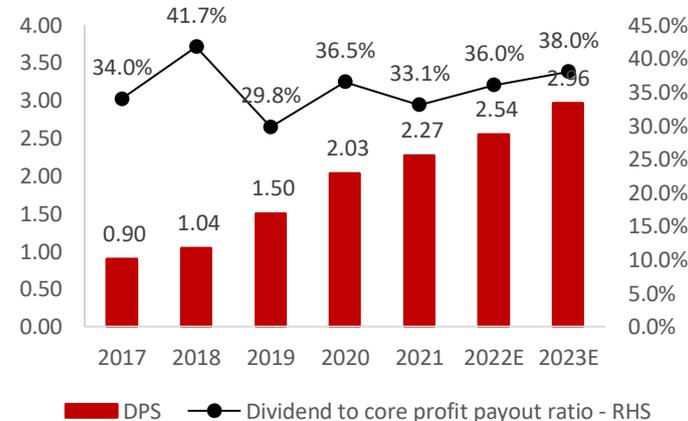
Source: Company data, CMBIGM estimates

Figure 5: ENN's selling and admin expenses



Source: Company data, CMBIGM estimates

Figure 6: ENN's DPS and dividend payout ratio

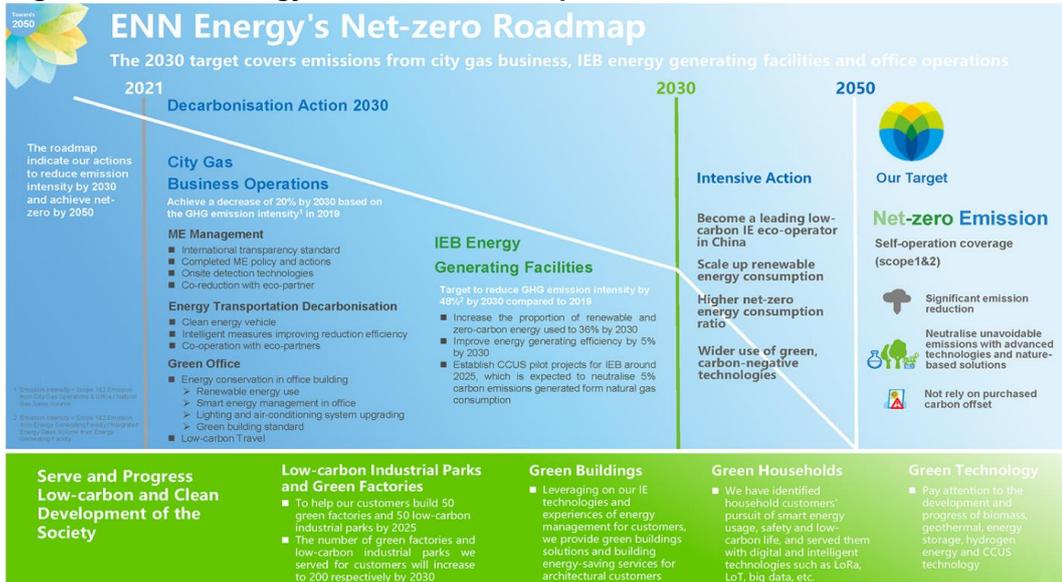


Source: Company data, CMBIGM estimates

3Q22 Operational Data Highlight:

- **IE Segment:** sales volumes of integrated energy surged by 29.5% YoY to 18,208mn kWh., including cooling, heating, electricity and steam
- **Natural Gas Sales Business:**
 - Retailed gas sales volume rose 4.4% YoY to 18.83bcm
 - Gas dollar margin recorded RMB0.53/cbm
- **Value-added services:** the sales of safety and security products went up 64% YoY, and the penetration rate of value added business in the ENN's new customer achieved around 33%
- **ESG Ratings:** ENN's ESG rating has been upgraded by MSCI for four consecutive years, and it is now one of the highest-rated companies in the gas sector in the Greater China.

Figure 7: ENN's Energy's Net-Zero Roadmap



Source: The Company, CMBIGM estimates

Figure 8: Peers Tables

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$m)	EPS				20-22E CAGR	PER			PBR		
				21A	22E	23E	FY0		FY1	FY2	FY0	FY1	FY2	
ENN ENERGY	2688 HK	81.60	92257.00	6.32	6.93	7.68	10.2%	11.95	10.90	9.84	2.40	2.08	1.81	
TIAN LUN GAS HOL	1600 HK	2.92	2949.28	1.04	0.58	0.76	-14.6%	2.61	4.68	3.58	0.49	0.47	0.42	
CHINA GAS HOLDIN	384 HK	7.26	39496.84	2.07	1.53	1.48	-15.5%	3.51	4.76	4.92	0.78	0.60	0.57	
CHINA RES GAS	1193 HK	21.55	49866.98	2.72	2.77	3.03	5.5%	7.91	7.78	7.12	1.23	1.11	1.02	
TOWNGAS SMART EN	1083 HK	2.90	9449.99	0.57	0.44	0.48	-8.2%	5.05	6.64	5.99	0.40	0.38	0.39	
KUNLUN ENERGY	135 HK	5.04	43640.36	0.58	0.72	0.75	13.8%	8.03	6.53	6.20	0.71	0.67	0.63	
Average								5.4	6.1	5.6	0.7	0.6	0.6	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 9: Summary of 1H22 segment performance and operating results

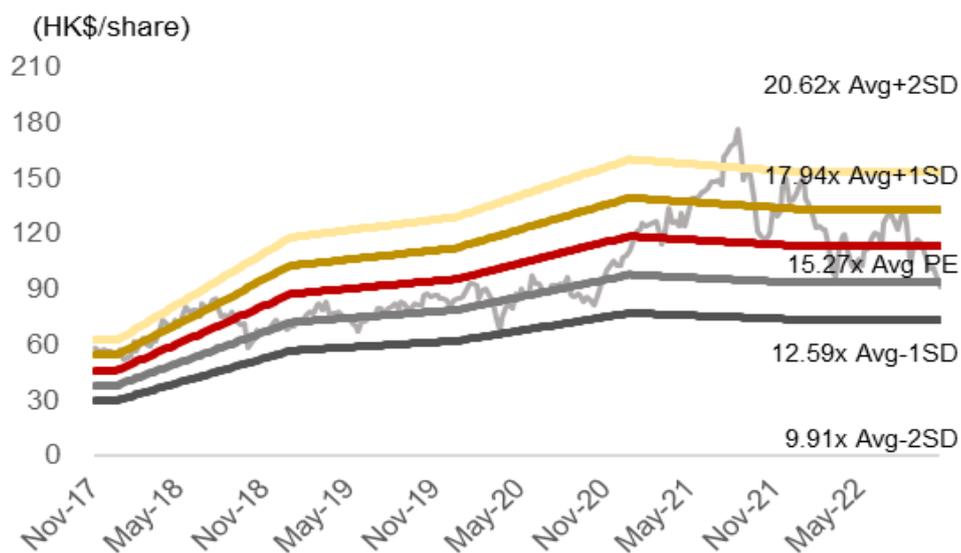
RMB, mn	1H21	2H21	FY21	1H22	FY22E	1H22 YoY
Revenue	41,232	51,881	93,113	58,332	113,403	41.5%
Gas connection	3,827	4,259	8,086	2,790	6,285	-27.1%
Sales of piped gas	23,138	26,109	49,247	30,316	57,882	31.0%
Wholesale gas	9,768	15,866	25,634	18,696	33,613	91.4%
Integrated energy and services	3,662	4,143	7,805	5,365	12,637	46.5%
Value added services	837	1,504	2,341	1,165	2,986	39.2%
Cost of sales	-34,190	-44,867	-79,057	-51,438	-98,300	50.4%
Gross profit	7,042	7,014	14,056	6,894	15,103	-2.1%
Gross profit margin	17.1%	13.5%	15.1%	11.8%	13.3%	-5.3ppt
Other income	552	525	1,077	463	1,259	-16.1%
Other gains and losses	214	770	984	-780	1,042	-464.5%
Distribution and selling exps	-535	-587	-1,122	-569	-1,361	6.4%
Admin exps	-1,655	-2,070	-3,725	-1,907	-4,309	15.2%
Share profit of associates	166	95	261	85	366	-48.8%
Share profit of JVs	301	137	438	-142	504	-147.2%
Finance costs	-304	-272	-576	-320	-574	5.3%
Profit before tax	5,781	5,612	11,393	3,724	12,030	-35.6%
Income tax exps	-1,351	-1,047	-2,398	-1,302	-2,767	-3.6%
Effective tax rate	23.4%	18.7%	21.0%	35.0%	23.0%	11.6ppt
Profit after tax	4,430	4,565	8,995	2,422	9,263	-45.3%
Less: minority interests	665	575	1,240	397	1,376	-40.3%
Net profit	3,765	3,990	7,755	2,025	10,050	-46.2%
Net profit margin	9.1%	7.7%	8.3%	3.5%	7.2%	-5.7ppt
Gross profit summary						
Gross profit	7,042	7,014	14,056	6,894	15,103	-2.1%
Gas connection	2,063	2,383	4,446	1,350	3,457	-34.6%
Sales of piped gas	3,369	2,795	6,164	3,158	6,262	-6.3%
Wholesale of gas	357	1	358	815	840	128.3%
Integrated energy and services	598	767	1,365	698	2,346	16.7%
Value added services	655	1,068	1,723	873	2,198	33.3%
Gross profit margin	17.1%	13.5%	15.1%	11.8%	13.3%	
Gas connection	53.9%	56.0%	55.0%	48.4%	55.0%	
Sales of piped gas	14.6%	10.7%	12.5%	10.4%	10.8%	
Whole sale of gas	3.7%	0.01%	1.4%	4%	3%	
Integrated energy and services	16.3%	18.5%	17.5%	13.0%	18.6%	
Value added services	78.3%	71.0%	73.6%	74.9%	73.6%	

Source: CMBIGM estimates

Figure 10: Key data estimation

	2022E	2023E	2024E
Total gas sales volume (mcbm)	35,751	39,466	44,823
Retail gas sales volume (mcbm)	26,905	29,470	33,528
Residential connection (CTG incl. mm HH)	2.45	2.38	2.58
Revenue (HK\$, mn)	113,403	120,655	131,073
Net Income (HK\$,mn)	7,886	9,105	9,614
EPS (HK\$)	6.97	7.13	7.50

Source: CMBIGM estimates

Figure 11: PE Band

Source: Wind, CMBIGM estimates

Figure 12: SOTP value of ENN**SOTP Valuation**

Traditional business value - RMB	63.87
IE value - RMB	47.14
ENN's Total value	111.02
FX rate HK/RMB	0.84
Target price- HK\$	132.20

Source: CMBIGM estimates

Figure 13: Our DCF valuation for ENN's Pan-Energy Segment

DCF Valuation for IE Segment	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
ENN's IE sales (bn KWh)	33.00	44.12	55.28	61.23	71.95	82.81	93.78	104.85	115.99	126.80
Implied market share	1.08%	1.44%	1.81%	2.00%	2.24%	2.46%	2.65%	2.82%	2.97%	3.10%
ENN's IE revenue (RMB mn)	12,637	16,691	20,763	22,931	26,841	30,801	34,803	38,840	42,905	46,847
Gross profit (RMB mn)	2,346.4	2,975.6	3,566.9	3,985.3	4,718.4	5,476.2	6,257.3	7,060.8	7,885.5	8,703.7
Gross profit margin (%)	18.6%	17.8%	17.2%	17.4%	17.6%	17.8%	18.0%	18.2%	18.4%	18.6%
EBIT (RMB mn)	1,677	2,127	2,556	2,918	3,527	4,175	4,862	5,587	6,350	7,127
EBIT Margin	13.3%	12.7%	12.3%	12.7%	13.1%	13.6%	14.0%	14.4%	14.8%	15.2%
Tax rate(%)	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Depreciation (RMB mn)	627	825	1,022	1,124	1,310	1,497	1,684	1,872	2,059	2,239
Change in working capital	-919	-608	-611	-325	-586	-594	-600	-606	-610	-658
CAPEX (RMB mn)	-2,400	-2,400	-2,000	-2,500	-3,000	-3,000	-3,000	-3,000	-3,000	-2,400
Free cash flow	-1,435	-589	328	487	368	1,034	1,730	2,457	3,212	4,526
Discount year	1	2	3	4	5	6	7	8	9	10
Discount factor	0.93	0.86	0.80	0.74	0.69	0.64	0.59	0.55	0.51	0.47
Discounted free cash flow (RMB mn)	-1,332	-507	262	361	253	660	1,024	1,350	1,637	2,141
Terminal value (RMB mn)	97,625									
Terminal EV/EBITDA (x)	10.42									
Discounted Terminal value (RMB mn)	46,169									
Terminal perpetual growth	3.00%									

WACC Calculations

Cost of debt	4.00%
Tax rate	25.00%
After tax cost of debt	3.00%
Cost of equity	9.82%
Adjusted beta	0.70
Market risk premium	11.51%
Risk free rate	1.76%
% of debt financing	30.00%
WACC	7.8%

Valuations (RMB mn)

Discounted Terminal Value	46,169
Terminal perpetual growth(%)	3%
Terminal EV/EBITDA	10.4
Total discount FCF	7,181
Pan Energy Value	53,350
Discount FCF(% of total)	13.5%
Terminal value (% of total)	86.5%
IE value per share (RMB)	47.14
IE value per share (HK\$)	56.80

Source: CMBIGM estimates

Figure 14: DCF valuation for ENN's traditional gas distribution business

DCF Valuation	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Key operating forecasts										
City gas sales volume (mcbm)	26,905	29,470	32,417	35,659	39,225	42,363	45,752	49,412	53,365	57,634
YoY change (%)	6.5%	9.5%	10.0%	10.0%	10.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Wholesales gas volume (mcbm)	8,846	9,996	10,995	12,095	13,304	14,368	15,518	16,759	18,100	19,548
YoY change (%)	13.0%	13.0%	10.0%	10.0%	10.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Annual residential connection	2.5	2.4	2.3	2.2	2.1	2.0	1.9	1.9	1.8	1.7
YoY change (%)	-6.4%	-3.2%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%
Accumulated residential customer	28.3	30.7	32.9	35.1	37.2	39.3	41.2	43.1	44.8	46.6
Turnover (HK\$ mn)	113,403	120,655	131,073	140,385	147,550	154,344	160,678	166,470	171,637	176,107
Turnover growth (%)	21.8%	6.4%	8.6%	7.1%	5.1%	4.6%	4.1%	3.6%	3.1%	2.6%
EBIT (HK\$ mn)	12,603	14,583	15,474	16,289	16,383	17,446	18,483	19,482	20,430	21,315
EBIT margin	11.1%	12.1%	11.8%	11.6%	11.1%	11.3%	11.5%	11.7%	11.9%	12.1%
Tax rate	23.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
DD&A - HK\$ mn	2,595	2,886	3,174	3,459	3,642	3,816	3,979	4,129	4,264	4,382
CAPEX (HK\$ mn)	-10,342	-9,033	-9,031	-9,035	-9,215	-9,400	-9,588	-9,779	-9,975	-10,174
Invest in working capital	2,376	1,249	1,396	1,574	-437	-414	-386	-353	-315	-273
Free cash flow	4,334	6,186	7,300	8,378	6,440	7,261	8,052	8,803	9,501	10,134
IE FCF	-1,435	-589	328	487	368	1,034	1,730	2,457	3,212	4,526
Non IE FCF	5,769	6,775	6,972	7,892	6,072	6,227	6,322	6,346	6,289	5,608
Years	1	2	3	4	5	6	7	8	9	10
Discount factor	0.93	0.86	0.80	0.74	0.69	0.64	0.59	0.55	0.51	0.47
Discount free cash flow	5,353	5,832	5,569	5,849	4,176	3,973	3,743	3,486	3,205	2,652
Terminal value	104,638									
Terminal perpetual growth		2%								
Terminal EV/EBITDA(excl IE)		6.41								

Valuations (HK\$ mn)		WACC Calculations	
Terminal value	104,638	Cost of debt	4.0%
Terminal perpetual growth	2%	Tax rate	25.0%
Terminal EV/EBITDA	6.41	After tax cost of debt	3.0%
Total discount FCF	43,839	Cost of equity	9.8%
Discount terminal value	49,486	Adjusted beta	0.70
Firm value	93,324	Market risk premium	11.5%
Discount FCF(% of total)	53.0%	Risk free rate	1.8%
Terminal value (% of total)	47.0%	% of debt financing	30.0%
Add: Cash & cash equivalent	8,684	WACC	7.8%
Less: Debt	23,682		
Non-controlling interest	6,373		
Equity Value - (RMB, mn)	71,953		
Number of shares	1,126		
Share fair value (RMB)	63.87		
Share fair value (HK\$)	72.80		
2022E PER	9.16		
2023E PER	7.94		

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	70,183	71,617	93,113	113,403	120,655	131,073
Cost of goods sold	(58,918)	(59,285)	(79,057)	(98,300)	(104,023)	(113,172)
Gross profit	11,265	12,332	14,056	15,103	16,632	17,902
Operating expenses	(4,075)	(4,181)	(4,847)	(5,670)	(5,405)	(5,807)
Selling expense	(976)	(951)	(1,122)	(1,361)	(1,327)	(1,442)
Admin expense	(3,099)	(3,230)	(3,725)	(4,309)	(4,078)	(4,365)
Operating profit	15,340	16,513	18,903	20,773	22,037	23,708
Other income	861	952	1,077	1,259	1,374	1,231
Other gains/(losses)	644	282	984	1,042	1,037	1,120
Share of (losses)/profits of associates/JV	873	782	699	870	946	1,028
EBITDA	11,352	12,248	14,228	15,198	17,470	18,649
Depreciation	1,784	2,081	2,259	2,595	2,886	3,174
EBIT	9,568	10,167	11,969	12,603	14,583	15,474
Interest income	(727)	(609)	(576)	(574)	(593)	(613)
Pre-tax profit	8,841	9,558	11,393	12,030	13,990	14,861
Income tax	(1,980)	(2,227)	(2,398)	(2,767)	(3,358)	(3,567)
After tax profit	6,861	7,331	8,995	9,263	10,633	11,294
Minority interest	1,191	1,053	1,240	1,376	1,528	1,681
Discontinued operations	5,670	6,278	7,755	7,886	9,105	9,614
Net profit	5,670	6,278	7,755	7,886	9,105	9,614
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	19,515	23,568	27,558	34,967	39,147	44,581
Cash & equivalents	7,373	8,630	8,684	13,553	16,409	20,032
Restricted cash	566	116	363	294	304	314
Account receivables	7,492	9,053	10,568	12,205	12,986	14,109
Inventories	1,169	1,285	1,508	2,041	2,172	2,359
Prepayment	0	0	0	0	0	0
Financial assets at FVTPL	361	406	1,737	1,737	1,737	1,737
Other current assets	1,797	3,346	3,923	4,534	4,824	5,241
Contract assets	757	732	775	602	715	789
Non-current assets	61,730	66,475	72,430	81,086	87,476	93,630
PP&E	37,955	41,861	46,793	53,824	59,188	64,214
Right-of-use assets	2,185	2,129	2,119	2,216	2,305	2,387
Deferred income tax	1,292	1,370	1,212	2,155	2,292	2,490
Investment in JVs & assos	7,149	7,760	8,718	9,462	10,285	11,168
Intangibles	4,175	4,446	4,311	4,148	3,973	3,785
Goodwill	2,379	2,511	2,520	2,640	2,760	2,880
Financial assets at FVTPL	5,169	5,052	5,352	5,352	5,352	5,352
Other non-current assets	1,426	1,346	1,405	1,289	1,321	1,353
Total assets	81,245	90,043	99,988	116,053	126,623	138,211
Current liabilities	31,288	33,233	41,579	44,468	47,123	50,576
Short-term borrowings	7,495	4,590	6,150	9,730	10,062	10,394
Account payables	7,635	8,302	10,172	12,771	13,580	14,755
Tax payable	962	971	909	1,322	1,292	1,466
Other current liabilities	2,483	5,039	9,365	4,600	4,756	5,126
Lease liabilities	100	89	75	75	75	75
Contract liabilities	12,613	14,242	14,908	15,969	17,358	18,759
Non-current liabilities	18,937	20,638	16,259	23,525	24,568	25,738
Long-term borrowings	3,302	3,212	2,993	2,967	3,225	3,485
Convertible bonds	0	0	0	0	0	0
Obligations under finance leases	0	0	0	0	0	0
Deferred income	1,820	2,562	2,785	3,402	3,620	3,932
Other non-current liabilities	13,815	14,864	10,481	17,157	17,723	18,320
Total liabilities	50,225	53,871	57,838	67,993	71,691	76,313
Share capital	116	117	117	117	118	118
Other reserves	25,752	30,444	35,660	41,018	47,280	53,573
Total shareholders equity	25,868	30,561	35,777	41,136	47,397	53,691
Minority interest	5,152	5,611	6,373	6,924	7,535	8,207
Total equity and liabilities	81,245	90,043	99,988	116,053	126,623	138,211

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,841	9,558	11,393	12,030	13,990	14,861
Depreciation & amortization	1,784	2,081	2,259	2,595	2,886	3,174
Tax paid	(1,114)	(1,554)	(2,079)	(2,679)	(3,308)	(3,278)
Change in working capital	2,664	(208)	187	2,376	1,249	1,396
Others	(485)	(181)	(3)	(1,311)	(1,429)	(1,572)
Net cash from operations	11,690	9,696	11,756	13,011	13,389	14,581
Investing						
Capital expenditure	(6,882)	(3,906)	(4,932)	(7,031)	(5,364)	(5,026)
Others	86	(2,892)	(2,812)	(4,713)	(3,768)	(4,114)
Net cash from investing	(6,796)	(6,798)	(7,744)	(11,743)	(9,132)	(9,140)
Financing						
Dividend paid	(1,176)	(1,688)	(2,290)	(2,564)	(2,880)	(3,356)
Net borrowings	(111)	388	3,599	830	830	830
Others	(5,336)	(3,061)	(1,777)	(1,977)	(2,232)	(2,648)
Net cash from financing	(5,447)	(2,673)	1,822	(1,147)	(1,402)	(1,818)
Net change in cash						
Cash at the beginning of the year	7,923	7,373	7,598	13,433	13,553	16,409
Others	(8,476)	(7,148)	(1,763)	(13,312)	(10,698)	(12,785)
Cash at the end of the year	(553)	225	5,835	121	2,855	3,624
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	15.6%	2.0%	30.0%	21.8%	6.4%	8.6%
Gross profit	18.5%	9.5%	14.0%	7.4%	10.1%	7.6%
Operating profit	18.2%	7.6%	14.5%	9.9%	6.1%	7.6%
EBITDA	50.0%	7.9%	16.2%	6.8%	14.9%	6.7%
EBIT	53.4%	6.3%	17.7%	5.3%	15.7%	6.1%
Net profit	101.2%	10.7%	23.5%	1.7%	15.4%	5.6%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	16.1%	17.2%	15.1%	13.3%	13.8%	13.7%
Operating margin	21.9%	23.1%	20.3%	18.3%	18.3%	18.1%
EBITDA margin	16.2%	17.1%	15.3%	13.4%	14.5%	14.2%
Return on equity (ROE)	24.0%	22.3%	23.4%	20.5%	20.6%	19.0%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	0.6	0.7	0.7	0.8	0.8	0.9
Receivable turnover days	10.9	10.6	10.9	12.3	13.1	12.7
Inventory turnover days	10.9	10.6	10.9	12.3	13.1	12.7
Payable turnover days	64.2	68.6	72.0	79.8	82.1	79.3
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	13.9	14.4	16.6	11.5	11.3	10.7
P/B	3.1	3.0	3.6	2.2	1.9	1.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.