

Haidilao (6862 HK)

Reopen and staff costs reform-led turnaround

FY22 result beat again if we consider only its Greater China business. As Haidilao achieved positive SSSG returns in YTD 2023 and notably low breakeven point since 2H22 (thru staff costs refinement and no negative impacts on service quality), we do find its turnaround in FY23E and valuation attractive. Our net profit forecasts are 23%-33% higher than BBG consensus. Maintain BUY.

■ **FY22 result beat if we exclude the spin-off.** Haidilao's sales dropped by 16% YoY but returned to profit of RMB 1.3bn in FY22, both were inline with its positive profit alert. However, if we consider ONLY the Greater China business, its sales had fallen by 21% but its net profit was even higher at RMB 1.6bn, a beat by 20%+. The performance in 2H22 was phenomenal (excluding one-off items like gains from bond repurchase), the adjusted NP margin had improved to ~9% (vs just 0% in 1H22), even under a bigger SSS decline of -13% (vs -11% in 1H22), thanks to: 1) decent GP margin, perhaps aided by lower sourcing costs for soup base and 2) rigid staff costs control, driven by greater use of standardized ingredients, part time staffs, consolidation of duties and roles and implementation of "low base salary but high bonus" structure.

■ **2023 outlook is bright, both on the sales recovery and margin improvement.** According to management, seat turnover in Jan-Mar 2023 is getting better (under pressure at the start of reopen, but rebounded meaningfully during CNY and the trend is good in Mar). We estimate SSSG was close to or slightly positive in YTD 2023, and recovery rate (vs 2019) will be about 80%+, vs 70%+ in 2H22, hence we would not be surprised to see the NP margin to be at least similar, if not better. Supported by: 1) better new products (more offline tasting events and more localization), 2) better store environment (more options for interior designs), 3) more initiatives to embrace younger customers and 4) ongoing staff costs refinement, we are now estimating FY23E seat turnover to reach 3.7x and NP margin to be at ~9.3%.

■ **A fairly conservative new store opening guidance, but we are optimistic.** Management guided a capex of ~RMB 170mn for new stores in FY23E, which is implying roughly 17 to 34 new stores. However, since their policy of "NO new store until group level table turnover reached above 4x" is not a hard and fast rule, plus the 24 new stores opened in FY22 performed very well and operationally broken even in just 3 months, we believe there are upside risks for their new store expansion in FY23E.

■ **Maintain BUY and raised TP to HK\$ 27.97.** We lowered our FY23E/ 24E sales forecast to factor in the drag on sales by pandemic in 4Q22 but raised our FY23E/ 24E net profit forecasts by 41%/ 32% due to: 1) lower sourcing costs, 2) increase in labour productivity and 3) increased mix of part time workers. The stock is trading at only 27x FY23E P/E, attractive vs its 5 years avg. of 42x and peers' avg. of 32x, with a 49% FY22-25E NP CAGR.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	39,097	31,039	39,934	44,354	45,625
YoY growth (%)	36.6	(20.6)	28.7	11.1	2.9
Operating profit (RMB mn)	638	2,123	5,425	6,820	7,528
Net profit (RMB mn)	(3,247.8)	1,637.3	3,712.1	4,818.1	5,448.0
Net profit att. (RMB mn)	-3,249.8	1,638.6	3,697.1	4,798.7	5,426.2
EPS (Reported) (RMB)	(0.58)	0.29	0.66	0.86	0.97
YoY growth (%)	na	na	125.6	29.8	13.1
P/E (x)	(30.3)	60.0	26.6	20.5	18.1
P/B (x)	12.4	10.4	7.5	5.8	4.7
Yield (%)	na	0.0	na	na	na
ROE (%)	(35.8)	18.8	32.8	32.1	28.9
Net gearing	18.6	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$27.97**

(Previous TP) HK\$21.62)

Up/Downside **31.6%**

Current Price **HK\$21.25**

China Consumer Discretionary

Walter WOO

(852) 3761 8776

walterwoo@cmbi.com.hk

Raphael TSE

(852) 3900 0856

raphaeltse@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn) 118,447.5

Avg 3 mths t/o (HK\$ mn) 21.4

52w High/Low (HK\$) 24.35/11.21

Total Issued Shares (mn) 5574.0

Source: FactSet

Shareholding Structure

Mr. Zhang Yong 57.4%

Ms. Shu Ping 7.4%

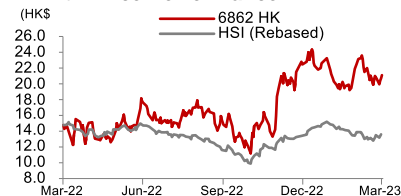
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.1%	-5.0%
3-mth	-5.1%	-8.0%
6-mth	43.5%	21.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	39,934	44,354	45,625	50,871	55,005	n/a	-21.5%	-19.4%	n/a
Gross profit	23,325	25,862	26,604	29,002	31,413	n/a	-19.6%	-17.7%	n/a
EBIT	5,609	7,085	7,872	4,257	5,499	n/a	31.7%	28.8%	n/a
Net profit att.	3,697	4,799	5,426	2,632	3,633	n/a	40.5%	32.1%	n/a
Diluted EPS (RMB)	0.663	0.861	0.973	0.472	0.652	n/a	40.5%	32.1%	n/a
Gross margin	58.4%	58.3%	58.3%	57.0%	57.1%	n/a	1.4ppt	1.2ppt	n/a
EBIT margin	14.0%	16.0%	17.3%	8.4%	10.0%	n/a	5.7ppt	6ppt	n/a
Net profit att. margin	9.3%	10.8%	11.9%	5.2%	6.6%	n/a	4.1ppt	4.2ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	39,934	44,354	45,625	45,748	52,994	56,225	-12.7%	-16.3%	-18.9%
Gross profit	23,325	25,862	26,604	26,386	29,458	32,646	-11.6%	-12.2%	-18.5%
EBIT	5,609	7,085	7,872	3,851	5,178	6,553	45.6%	36.8%	20.1%
Net profit att.	3,697	4,799	5,426	2,774	3,914	4,398	33.3%	22.6%	23.4%
Diluted EPS (RMB)	0.663	0.861	0.973	0.504	0.695	0.838	31.6%	23.9%	16.2%
Gross margin	58.4%	58.3%	58.3%	57.7%	55.6%	58.1%	0.7ppt	2.7ppt	0.2ppt
EBIT margin	14.0%	16.0%	17.3%	8.4%	9.8%	11.7%	5.6ppt	6.2ppt	5.6ppt
Net profit att. margin	9.3%	10.8%	11.9%	6.1%	7.4%	7.8%	3.2ppt	3.4ppt	4.1ppt

Source: Company data, CMBIGM estimates

Results Summary

Figure 3: Results review – half year

Half yearly / Full yearly (RMB mn)	1H21	2H21	1H22	2H22E	1H22 YoY	2H22E YoY
Revenue	20,094	19,002	16,764	14,275	-17%	-25%
COGS	-8,502	-8,741	-7,043	-5,863		
Gross profit	11,592	10,261	9,721	8,412	-16%	-18%
GP margins	57.7%	54.0%	58.0%	58.9%		
Other income & gains	195	163	208	288		
Staff costs	-7,162	-6,788	-5,903	-4,337	-18%	-36%
Staff costs / sales	-35.6%	-35.7%	-35.2%	-30.4%		
Dep. of right-of-use assets expenses	-559	-345	-474	-287	-15%	-17%
Dep. of right-of-use assets expenses / sales	-2.8%	-1.8%	-2.8%	-2.0%		
Other rentals expenses	-199	-98	-206	-68	4%	-30%
Other rentals expenses / sales	-1.0%	-0.5%	-1.2%	-0.5%		
Amort. of other intangible assets	-17	-20	-20	-24	18%	20%
Amort. of other intangible assets / sales	-0.1%	-0.1%	-0.1%	-0.2%		
Depre. of PPE	-1,593	-1,563	-1,420	-1,095	-11%	-30%
Depre. of PPE / sales	-7.9%	-8.2%	-8.5%	-7.7%		
Utilities exp.	-693	-693	-560	-488	-19%	-30%
Utilities exp. / sales	-3.4%	-3.6%	-3.3%	-3.4%		
Travelling & related exp.	-119	-110	-96	-48	-19%	-56%
Travelling & related exp. / sales	-0.6%	-0.6%	-0.6%	-0.3%		
Other opex	-801	-786	-811	-550	1%	-30%
Other exp. / sales	-6.9%	-7.7%	-8.3%	-6.5%		
Operating profit (EBIT)	644	22	437	1,802	-32%	8119%
OP margins	3.2%	0.1%	2.6%	12.6%		
Other items	-85	-3,149	-339	626		
Net finance income	-304	-279	-237	-237		
Net finance income / sales	-1.5%	-1.5%	-1.4%	-1.7%		
Profit after financing costs	255	-3,407	-138	2,190		
Associated coms	40	42	27	39		
Jointly controlled coms	0	0	0	0		
Pre-tax profit	295	-3,365	-111	2,229	-138%	-166%
Tax	-198	21	-156	-324		
Tax / sales	-1.0%	0.1%	-0.9%	-2.3%		
Effective tax rate	-67.3%	-0.6%	140.6%	-14.5%		
Minority interests	2	-0	-1	-0		
Net profit att.	95	-3,344	-266	1,905	-382%	-157%
NP margins	0.5%	-17.6%	-1.6%	13.3%		

Source: Bloomberg, Company data, CMBIGM estimates

Figure 4: Results review – full year

Full yearly (RMB mn)	FY21	FY22	FY23E	FY21 YoY	FY22 YoY
Revenue	39,097	31,039	39,934	37%	-21%
COGS	-17,243	-12,906	-16,609		
Gross profit	21,853	18,132	23,325	34%	-17%
GP margins	55.9%	58.4%	58.4%		
Other income & gains	358	496	463		
Staff costs	-13,950	-10,240	-10,960	44%	-27%
Staff costs / sales	-35.7%	-33.0%	-27.4%		
Dep. of right-of-use assets expenses	-904	-761	-855	2%	-16%
Dep. of right-of-use assets expenses / sales	-2.3%	-2.5%	-2.1%		
Other rentals expenses	-297	-274	-359	26%	-8%
Other rentals expenses / sales	-0.8%	-0.9%	-0.9%		
Amort. of other intangible assets	-37	-44	-31	34%	19%
Amort. of other intangible assets / sales	-0.1%	-0.1%	-0.1%		
Depre. of PPE	-3,156	-2,515	-2,621	49%	-20%
Depre. of PPE / sales	-8.1%	-8.1%	-6.6%		
Utilities exp.	-1,386	-1,048	-1,318	42%	-24%
Utilities exp. / sales	-3.5%	-3.4%	-3.3%		
Travelling & related exp.	-228	-145	-319	23%	-37%
Travelling & related exp. / sales	-0.6%	-0.5%	-0.8%		
Other opex	-1,587	-1,361	-1,717	27%	-14%
Other exp. / sales	-7.3%	-7.5%	-7.4%		
Operating profit (EBIT)	666	2,239	5,609	-51%	236%
OP margins	1.7%	7.2%	14.0%		
Other items	-3,235	287	-108		
Net finance income	-583	-474	-492		
Net finance income / sales	-1.5%	-1.5%	-1.2%		
Profit after financing costs	-3,151	2,052	5,008		
Associated coms	0	0	0		
Jointly controlled coms	81	65	8		
Pre-tax profit	-3,070	2,118	5,016	-518%	-169%
Tax	-178	-480	-1,304		
Tax / sales	-0.5%	-1.5%	-3.3%		
Effective tax rate	5.8%	-22.7%	-26.0%		
Minority interests	2	-1	15		
Net profit att.	-3,250	1,639	3,697	-1151%	-150%
NP margins	-8.3%	5.3%	9.3%		

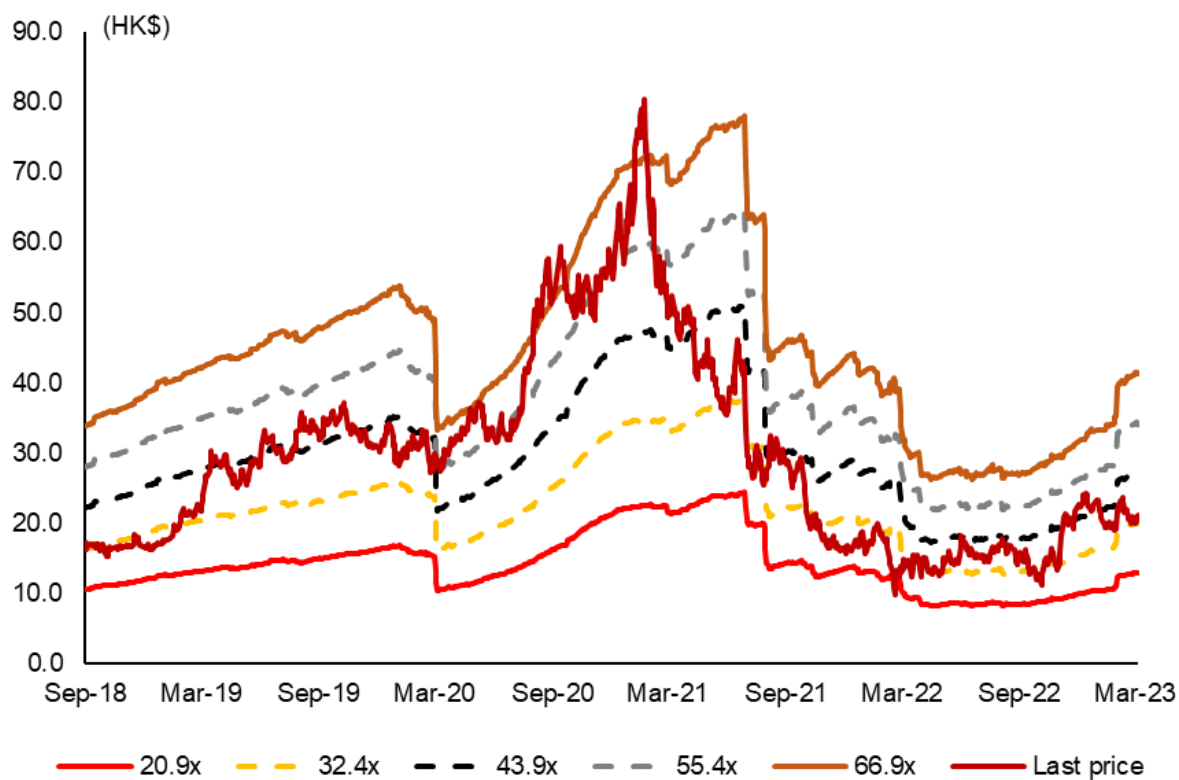
Source: Bloomberg, Company data, CMBIGM estimates

Valuation

Figure 5: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per.(%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY2E	FY1E	FY1E	FY1E
Leading Greater China Catering														
Haidilao	6862 HK	BUY	27.97	21.25	32%	118,448	Dec-22	26.6	20.5	7.5	32.7	0.5	(1.1)	(5.1)
Jiumaojiu	9922 HK	BUY	23.52	18.68	26%	27,170	Dec-22	36.4	23.8	6.2	17.6	0.2	0.5	(10.4)
Cafe De Coral	341 HK	BUY	15.12	10.40	45%	6,091	Mar-22	28.5	15.5	2.1	7.7	0.2	2.4	(30.2)
Xiabuxiabu	520 HK	BUY	11.21	7.16	57%	7,777	Dec-22	22.1	14.1	3.1	15.9	(0.1)	1.4	(19.4)
Helens	9869 HK	NR	n/a	13.40	n/a	16,976	Dec-22	37.3	21.6	5.9	15.6	(0.2)	0.2	(9.6)
Tam Jai	2217 HK	NR	n/a	2.33	n/a	3,124	Mar-22	23.3	12.3	2.1	9.0	1.7	1.3	(11.4)
Yihai	1579 HK	BUY	108.52	23.05	371%	24,131	Dec-22	24.7	20.9	4.0	16.9	1.3	1.2	(16.5)
Yum China	9987 HK	BUY	554.61	493.60	12%	206,431	Dec-22	32.3	26.3	3.7	11.7	0.9	0.9	12.4
Gourmet Master	2723 TT	NR	n/a	145.00	n/a	6,720	Dec-22	24.6	18.5	2.1	8.9	0.5	3.2	(4.3)
Avg.								31.7	19.9	3.9	13.8	0.5	1.0	(8.2)
Med.								27.5	20.7	3.4	13.6	0.3	1.0	(10.0)
International Catering														
Yum! Brands	YUM US	NR	n/a	132.08	n/a	290,420	Dec-22	25.6	22.3	n/a	(16.6)	1.9	1.8	3.1
McDonald's	MCD US	NR	n/a	279.61	n/a	1,605,570	Dec-22	26.5	24.0	n/a	(118.4)	1.8	2.2	6.1
Starbucks	SBUX US	NR	n/a	104.13	n/a	939,449	Oct-22	30.7	25.7	n/a	(37.9)	1.6	2.1	5.0
Rest. Brands	QSR US	NR	n/a	67.14	n/a	238,078	Dec-22	22.5	20.1	8.1	40.1	5.8	3.3	3.8
Chipotle Mexican	WING US	NR	n/a	183.58	n/a	43,136	Dec-22	96.0	78.5	n/a	(15.8)	5.7	0.5	33.4
Darden Rest.	SHAK US	NR	n/a	55.49	n/a	18,365	Dec-22	n/a	n/a	5.6	(0.5)	n/a	n/a	33.6
Domino's	CMG US	NR	n/a	1708.3	n/a	370,406	Dec-22	40.8	33.5	17.3	44.8	1.7	0.0	23.1
Wendy's	DRI US	NR	n/a	155.16	n/a	148,236	May-22	19.6	17.7	8.9	46.0	2.2	3.1	12.2
Shake Shack	DPZ US	NR	n/a	329.87	n/a	91,714	Jan-23	25.4	22.4	n/a	(11.0)	2.8	1.5	(4.8)
Wingstop	WEN US	NR	n/a	21.78	n/a	36,255	Jan-23	22.3	19.4	15.4	48.9	1.4	4.5	(3.8)
Jollibee Foods	JFC PM	NR	n/a	224.00	n/a	36,251	Dec-22	28.7	23.0	3.3	12.9	1.4	1.3	(2.6)
Avg.								33.8	28.7	9.8	(0.7)	2.6	2.0	9.9
Med.								26.0	22.7	8.5	(0.5)	1.9	1.9	5.0
H-shares Consumer Staples														
UPC	220 HK	NR	n/a	7.92	n/a	34,209	Dec-22	17.6	15.8	2.2	12.4	0.8	6.3	1.4
Tingyi	322 HK	NR	n/a	13.08	n/a	73,695	Dec-22	17.7	14.7	4.6	26.6	0.8	7.1	(5.1)
Want Want*	151 HK	NR	n/a	5.05	n/a	60,005	Mar-22	13.7	12.3	3.1	22.6	20.9	6.0	(3.3)
China Mengniu*	2319 HK	NR	n/a	32.20	n/a	127,269	Dec-22	17.1	14.8	2.4	14.5	1.1	1.7	(9.0)
Vitasoy	345 HK	NR	n/a	15.20	n/a	16,278	Mar-22	134.5	57.8	4.8	4.0	(0.6)	0.1	(5.4)
Nongfu Spring*	9633 HK	NR	n/a	45.15	n/a	507,778	Dec-22	47.1	40.2	14.3	34.4	3.0	1.5	2.4
Budweiser*	1876 HK	NR	n/a	23.95	n/a	317,179	Dec-22	35.1	30.2	3.5	10.3	1.9	1.3	(2.4)
Tsingtao*	168 HK	NR	n/a	85.70	n/a	153,810	Dec-22	25.3	22.2	3.7	15.2	2.0	2.0	11.2
CR Beer*	291 HK	NR	n/a	63.00	n/a	204,383	Dec-22	32.9	27.1	6.0	18.3	1.6	1.2	15.5
Dali Foods	3799 HK	NR	n/a	3.28	n/a	44,917	Dec-22	10.8	10.1	1.8	17.3	1.1	4.6	(7.9)
Avg.								35.2	24.5	4.6	17.6	3.3	3.2	(0.3)
Med.								21.5	19.0	3.6	16.2	1.3	1.9	(2.9)

Source: Bloomberg, Company data, CMBIGM estimates, *covered by another analyst – Joseph Wong

Figure 6: Forward 12M P/E valuation band

Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 7: Major assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Number of restaurants					
China T1 cities	248	234	229	224	214
China T2 cities	522	538	548	558	568
China T3 and below	559	577	588	603	618
Outside PRC	20	22	22	22	22
Total	1,349	1,371	1,387	1,407	1,422
Number of restaurants growth (YoY %)					
China T1 cities	-2.7%	-5.6%	-2.1%	-2.2%	-4.5%
China T2 cities	4.6%	3.1%	1.9%	1.8%	1.8%
China T3 and below	23.9%	3.2%	1.9%	2.6%	2.5%
Outside PRC	-78.5%	10.0%	0.0%	0.0%	0.0%
Total	3.9%	1.6%	1.2%	1.4%	1.1%
Sales per restaurants (RMB mn)					
China T1 cities	31	22	27	30	30
China T2 cities	29	21	26	29	29
China T3 and below	25	20	26	29	29
Outside PRC	40	47	56	66	71
Total	28	21	27	29	30
Table turnover rate (times/ day)					
China T1 cities	3.1	3.0	3.6	3.8	3.9
China T2 cities	3.1	3.0	3.6	3.8	3.9
China T3 and below	2.9	2.9	3.7	3.9	4.0
Outside PRC	3.0	3.5	3.9	4.3	4.5
Total	3.0	3.0	3.7	3.9	4.0
Average spending per guest (RMB)					
China T1 cities	111.8	114.2	116.5	118.8	121.2
China T2 cities	101.7	104.3	106.4	108.5	110.7
China T3 and below	95.7	97.9	99.9	101.9	103.9
Outside PRC	202.6	197.4	201.3	205.4	209.5
Overall	102.3	104.9	114.4	116.8	119.2
Average spending per guest growth (YoY %)					
China T1 cities	-3.8%	2.1%	2.0%	2.0%	2.0%
China T2 cities	-3.8%	2.6%	2.0%	2.0%	2.0%
China T3 and below	-4.5%	2.3%	2.0%	2.0%	2.0%
Outside PRC	5.2%	-2.6%	2.0%	2.0%	2.0%
Overall	-7.1%	2.5%	9.1%	2.1%	2.0%
GP margins					
Staff costs/ sales	-35.7%	-33.0%	-27.4%	-27.0%	-26.7%
Rental expenses/ sales	-0.8%	-0.9%	-0.9%	-0.9%	-0.9%
Utilities expenses/ sales	-3.5%	-3.4%	-3.3%	-3.3%	-3.3%
Depreciation and amortization/ sales	-8.2%	-8.2%	-6.6%	-5.5%	-4.7%
Depreciation of right-of-use assets/ sales	-2.3%	-2.5%	-2.1%	-1.9%	-2.0%
Travelling fees/ sales	-0.6%	-0.5%	-0.8%	-0.8%	-0.8%
Other opex/ sales	-4.1%	-4.4%	-4.3%	-4.3%	-4.3%
Effective tax rate	5.8%	-22.7%	-26.0%	-25.5%	-25.0%
NP att. margin	-8.3%	5.3%	9.3%	10.8%	11.9%
NP att. growth (%)	n/a	-150.4%	125.6%	29.8%	13.1%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	28,614	39,097	31,039	39,934	44,354	45,625
Cost of goods sold	(12,261)	(17,243)	(12,906)	(16,609)	(18,491)	(19,021)
Gross profit	16,353	21,853	18,132	23,325	25,862	26,604
Operating expenses	(15,363)	(21,545)	(16,389)	(18,180)	(19,419)	(19,464)
Staff costs	(9,677)	(13,950)	(10,240)	(10,960)	(11,982)	(12,189)
Other rental related expenses	(236)	(297)	(274)	(359)	(399)	(411)
Others	(2,417)	(3,201)	(2,554)	(3,354)	(3,726)	(3,833)
Operating profit	1,310	638	2,123	5,425	6,820	7,528
Other income	320	330	380	280	377	388
Share of (losses)/profits of associates/JV	75	81	65	8	9	9
EBITDA	4,343	4,736	5,445	8,931	10,132	10,560
Depreciation	(2,146)	(3,193)	(2,560)	(2,652)	(2,449)	(2,132)
Depreciation of ROU assets	(888)	(904)	(761)	(855)	(864)	(900)
Interest income	41	28	116	184	265	344
Interest expense	(446)	(583)	(474)	(492)	(507)	(494)
Other income/expense	(245)	(3,235)	287	(108)	(120)	(123)
Pre-tax profit	735	(3,070)	2,118	5,016	6,467	7,264
Income tax	(426)	(178)	(480)	(1,304)	(1,649)	(1,816)
Minority interest	(0)	(2)	1	(15)	(19)	(22)
Net profit	310	(3,248)	1,637	3,712	4,818	5,448

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	6,593	11,406	14,003	21,044	27,260	33,169
Cash & equivalents	2,683	5,767	9,526	15,585	21,309	27,078
Account receivables	275	368	255	328	365	375
Inventories	1,154	1,456	977	1,257	1,400	1,440
Prepayment	1,930	2,768	2,197	2,827	3,140	3,230
ST bank deposits	45	722	722	722	722	722
Other current assets	506	325	325	325	325	325
Non-current assets	20,934	16,616	14,291	11,846	9,850	8,184
PP&E	12,064	9,315	6,961	4,540	2,553	886
Deferred income tax	353	526	526	526	526	526
Investment in JVs & assos	301	351	416	424	433	442
Intangibles	92	132	96	65	47	37
Other non-current assets	8,124	6,291	6,291	6,291	6,291	6,291
Total assets	27,527	28,021	28,294	32,891	37,110	41,353
Current liabilities	9,868	9,886	8,900	9,678	10,068	10,180
Short-term borrowings	3,721	3,560	3,560	3,560	3,560	3,560
Account payables	1,583	1,944	1,320	1,698	1,891	1,945
Tax payable	201	103	103	103	103	103
Other current liabilities	4,363	4,278	3,917	4,316	4,514	4,571
Non-current liabilities	7,425	10,221	9,933	10,056	10,195	10,340
Long-term borrowings	268	221	221	221	221	221
Other non-current liabilities	7,157	10,000	9,712	9,835	9,974	10,119
Total liabilities	17,293	20,107	18,833	19,733	20,263	20,519
Share capital	0	0	0	0	0	0
Retained earnings	0	0	1,546	4,134	7,493	11,291
Other reserves	10,234	7,914	7,914	9,024	9,354	9,542
Total shareholders equity	10,234	7,915	9,460	13,157	16,847	20,834
Minority interest	0	0	0	0	0	0
Total equity and liabilities	10,234	7,915	9,460	13,157	16,847	20,834

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	735	(3,070)	2,118	5,016	6,467	7,264
Depreciation & amortization	2,146	3,193	2,560	2,652	2,449	2,132
Tax paid	(657)	(702)	(480)	(1,304)	(1,649)	(1,816)
Change in working capital	(704)	(328)	177	(206)	(101)	(29)
Others	1,401	4,713	170	592	(1,601)	(2,271)
Net cash from operations	2,921	3,806	4,544	6,751	5,565	5,279
Investing						
Capital expenditure	(6,070)	(4,430)	(404)	(200)	(444)	(456)
Acquisition of subsidiaries/ investments	(24)	82	0	0	0	0
Others	1,402	(605)	0	0	0	0
Net cash from investing	(4,691)	(4,953)	(404)	(200)	(444)	(456)
Financing						
Dividend paid	(703)	(93)	93	0	1,109	1,440
Net borrowings	3,891	(183)	0	0	0	0
Proceeds from share issues	0	1,919	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(848)	2,668	(474)	(492)	(507)	(494)
Net cash from financing	2,340	4,311	(381)	(492)	602	946
Net change in cash						
Cash at the beginning of the year	2,222	2,683	5,767	9,526	15,585	21,309
Exchange difference	(109)	(80)	0	0	0	0
Others	570	3,164	3,760	6,058	5,724	5,769
Cash at the end of the year	2,683	5,767	9,526	15,585	21,309	27,078
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	7.8%	36.6%	(20.6%)	28.7%	11.1%	2.9%
Gross profit	6.8%	33.6%	(17.0%)	28.6%	10.9%	2.9%
Operating profit	(58.8%)	(51.2%)	232.6%	155.5%	25.7%	10.4%
EBITDA	(14.4%)	9.0%	15.0%	64.0%	13.4%	4.2%
Net profit	(86.8%)	na	na	126.7%	29.8%	13.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	57.1%	55.9%	58.4%	58.4%	58.3%	58.3%
Operating margin	4.6%	1.6%	6.8%	13.6%	15.4%	16.5%
EBITDA margin	15.2%	12.1%	17.5%	22.4%	22.8%	23.1%
Return on equity (ROE)	3.0%	(35.8%)	18.8%	32.8%	32.1%	28.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	0.7	1.2	1.6	2.2	2.7	3.3
Receivable turnover days	3.1	3.0	3.0	3.0	3.0	3.0
Inventory turnover days	35.0	27.6	27.6	27.6	27.6	27.6
Payable turnover days	44.5	37.3	37.3	37.3	37.3	37.3
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	306.6	(30.3)	60.0	26.6	20.5	18.1
P/E (diluted)	306.6	(30.3)	60.0	26.6	20.5	18.1
P/B	18.3	23.2	7.9	7.9	6.2	5.0
P/CFPS	64.1	48.2	16.5	15.4	18.6	19.6
Div yield (%)	ns	ns	0.0	ns	ns	ns

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.