

Cafe De Coral (341 HK)

1H20 results inline but pressure may sustain

1H20 results inline. We believe store expansion plan may either speed up or at least maintain, as it should be positive on mid-long term growth. However, since the outlook in 2H20E remains doubtful, we suggest investors to stay aside in the meantime. Maintain HOLD and trimmed TP to HK\$ 18.26, based on same 21x FY21E P/E, in-line with 5 years avg..

- 1H20 NP att. fell by 37%, dragged by greater promotion and operating deleverage.** 1H20 sales increased by 2% YoY to HK\$ 4,264mn while net profit fell by 37% to HK\$150mn, which is 7% below our est. but inline with the previous profit warnings. Such weakness, in our view, was due to: 1) lower other income, 2) 0.6 ppt decrease in GP margin as more promotions were carried out to draw traffic and 3) operating deleverage implied by 0%/-1% SSSG for CDC/ Super congee in HK, 4% decrease in fast casual dining revenue and 32% jump in admin costs (overall labour costs up 4%). On the other hand, SSSG for CDC China was healthy at 6% but segment EBIT also dropped by 6% because of RMB depreciation, reduced operating days by more stores renovation and rising raw material costs.
- Outlook for HK could be cloudy.** While the social unrest in HK sustained into Oct-Nov 2019, operating deleverage will continue as we estimate SSSG for CDC/ Super congee/ Fast casual brands to be negative and only moderate cost control measures was imposed (no large scale rental benefits and staff layouts happened). We remain pessimistic for 2H20E and forecast 0% sales growth plus 19% drop in EBIT.
- Outlook for China is much brighter.** Going forward in 2H20E, we believe SSSG could still be resilient at 4% (vs 6% in 1H20) and overall sales growth will improve to 8% (vs 4% in 1H20), thanks to: 1) less CNY depreciation, 2) accelerated store expansion since 2H19, and 3) increase in attractiveness as more stores are upgraded to the 6G format.
- Store expansion plan in FY20E-22E is likely to maintain.** For China, CDC will continue to expand fast into the Greater Bay Area. We expect 11/ 12/ 13 net new stores in FY20E/ 21E/ 22E. For HK, adjustments in rental costs could be an opportunity for the Company and speed up in openings may even be a mid-long term positive. We expect 12/ 9/ 10 net new stores (including CDC and other fast casual brand like Mixian Sense, etc.) in FY20E/ 21E/ 22E.
- Maintain HOLD and cut TP to HK\$ 18.26.** We cut our EPS by 9%/ 4%/ 0% in FY20E/ 21E/ 22E, to factor in: 1) greater discounts and promotions, and 2) significant operating deleverage. We maintain HOLD and cut TP to HK\$ 18.26 based on 21x FY3/21E, due to uncertain business outlook. The counter is trading at 23x FY3/21E with only 4% yield, which is not too attractive.

Earnings Summary

(YE 31 Mar)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	8,427.4	8,493.9	8,605.5	9,122.6	9,728.5
YoY growth (%)	6.7	0.8	1.3	6.0	6.6
Net income (HK\$ mn)	458.1	590.3	440.6	505.8	573.0
EPS (HK\$)	0.788	1.015	0.757	0.869	0.985
YoY growth (%)	(9.4)	28.7	(25.4)	14.8	13.3
P/E (x)	24.9	19.3	25.9	22.5	19.9
P/B (x)	3.2	3.3	3.3	3.2	3.1
Yield (%)	6.0	4.3	3.5	4.0	4.5
ROE (%)	13.0	16.9	12.9	14.6	16.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$18.26
(Previous TP)	HK\$19.05)
Up/Downside	-6.8%
Current Price	HK\$19.60

China Catering Sector

Walter Woo
 (852) 3761 8776
 walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	11,480
Avg 3 mths t/o (HK\$ mn)	20.32
52w High/Low (HK\$)	26.90/18.38
Total Issued Shares (mn)	585.7
Source: Bloomberg	

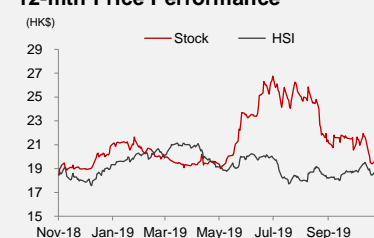
Shareholding Structure

Lo Tak Shing	15.76%
Lo Hoi Chun	11.61%
Lo Hoi Kwong	11.00%
Invesco Hong Kong Ltd.	5.01%
Free float	56.62%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-4.6%	-5.5%
3-mth	-21.9%	-25.5%
6-mth	0.7%	2.4%
12-mth	7.3%	5.2%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

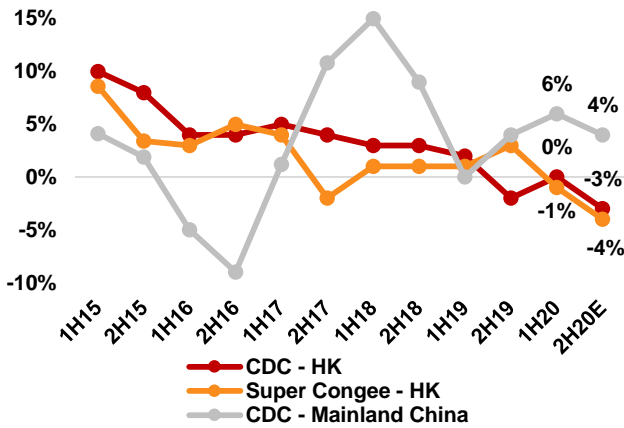
Auditor: PricewaterhouseCoopers

Related Reports

- Café de Coral (341 HK) - No immunity and limited visibility - 27 Nov 2019
- Café de Coral (341 HK) - Ready for store expansion - 17 Jun 2019
- Café de Coral (341 HK) - Fast food business has proven resilient - 15 May 2019

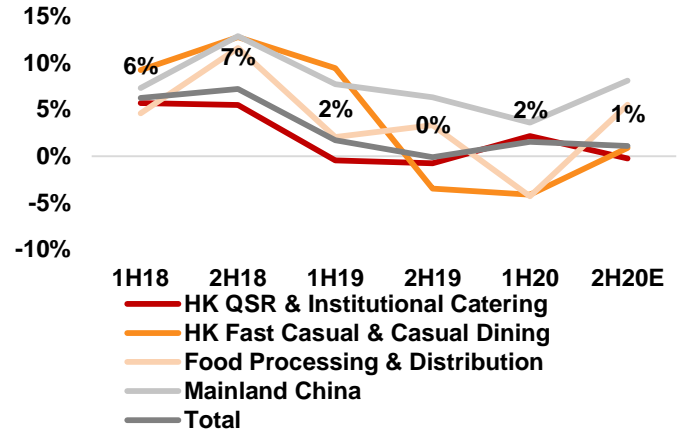
Focus Charts

Figure 1: SSSG, by brand and region



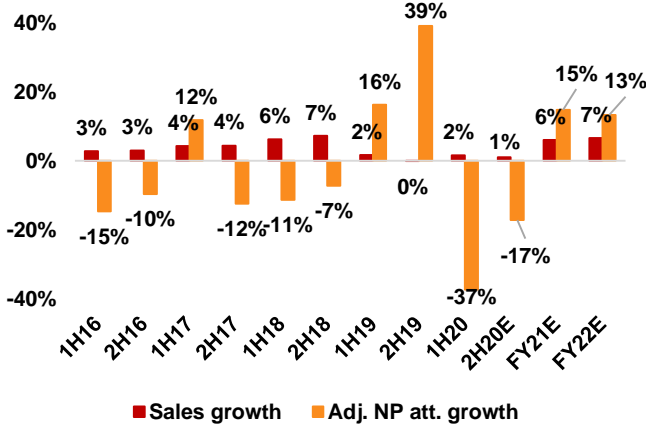
Source: Company data, CMBIS estimates

Figure 2: Sales growth, by segment and region



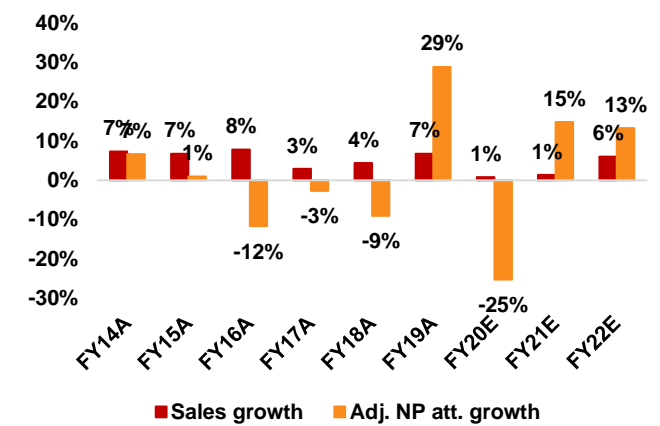
Source: Company data, CMBIS estimates

Figure 3: Sales/ net profit att. growth, half year



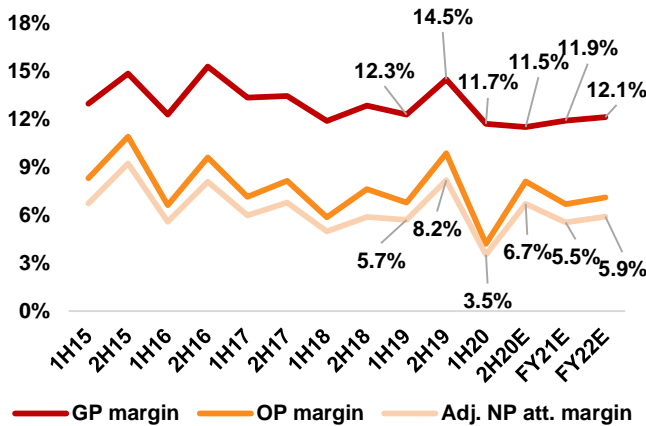
Source: Company data, CMBIS estimates

Figure 4: Sales/ net profit att. growth, full year



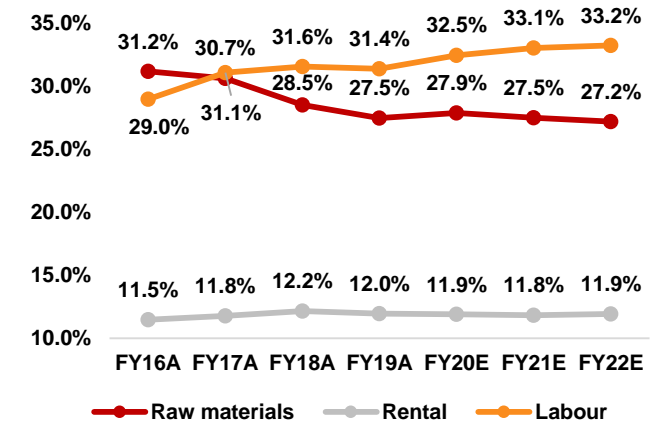
Source: Company data, CMBIS estimates

Figure 5: GP, OP, NP att. margin



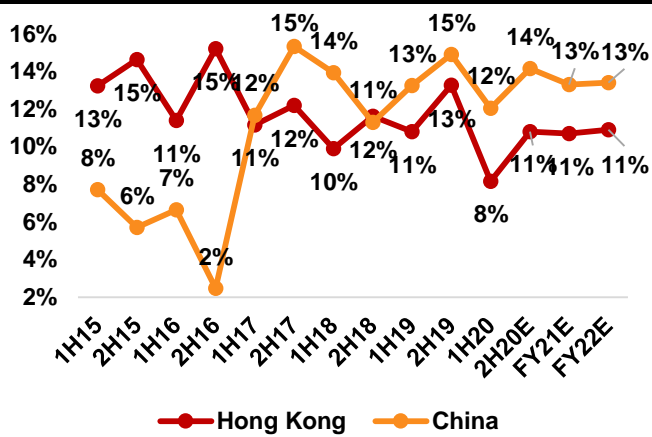
Source: Company data, CMBIS estimates

Figure 6: Opex breakdown, % of sales, by category



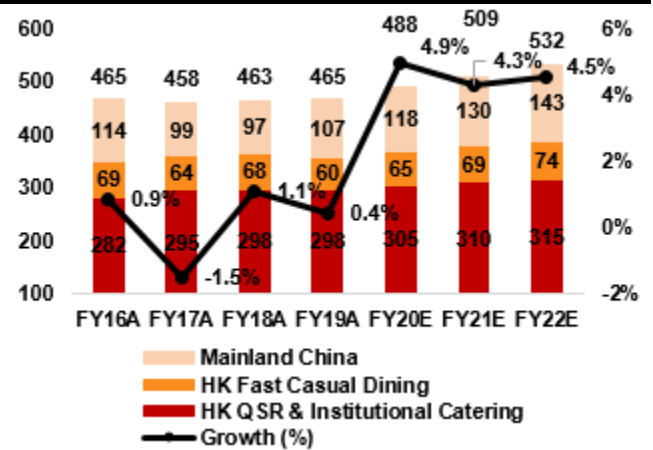
Source: Company data, CMBIS estimates

Figure 7: Restaurant level EBIT margin by region



Source: Company data, CMBIS estimates

Figure 8: Number of stores, HK and China



Source: Company data, CMBIS estimates

Figure 9: Result review - half year

HK\$ mn					1H19	2H19	1H20	1H20E	1H20E	Actual
	1H19	2H19	1H20	2H20E	YoY	YoY	YoY	YoY	1H20E CMBI	vs CMBI
Hong Kong	3,608	3,734	3,652	3,735	1%	-1%	1%	0%	3,500	4%
China	591	561	612	607	8%	6%	4%	8%	667	-8%
Total revenue	4,199	4,295	4,264	4,342	2%	0%	2%	1%	4,167	2%
COGS	(3,683)	(3,673)	(3,765)	(3,842)	1%	-2%	2%	5%	(3,731)	1%
Gross profit	515	622	499	499	5%	13%	-3%	-20%	437	14%
Other income and gains	9	9	(4)	4	-175%	-701%	-139%	-53%	2	-319%
Administrative expenses	(240)	(208)	(317)	(152)	2%	-7%	32%	-27%	(247)	28%
Operating profit	284	423	179	351	17%	29%	-37%	-17%	192	-7%
Share of results of Assos	0	0	0	0	n/a	n/a	n/a	n/a	0	n/a
Non-operating items	0	0	0	0	n/a	n/a	n/a	n/a	0	n/a
Net finance income	8	7	9	(2)	23%	32%	19%	-127%	4	123%
Profit before tax	292	430	188	350	18%	29%	-36%	-19%	196	-4%
Income tax	(52)	(78)	(38)	(59)	23%	-2%	-27%	-24%	(35)	7%
Minority interest	1	1	1	(0)	122%	12%	-31%	-141%	0	670%
Net profit att.	239	351	150	291	16%	39%	-37%	-17%	160	-7%
FV change on investment properties	0	20	0	5					0	n/a
Loss on disposal of other PP&E	(3)	(9)	(8)	(0)					(4)	121%
Impairment loss of PP&E	0	(4)	(8)	(1)					(4)	116%
Share-based compensation expenses	(13)	14	(13)	(1)					0	n/a
Adj. pre-tax profit	308	408	218	346	4%	17%	-29%	-15%	203	7%
GP margin	12.3%	14.5%	11.7%	11.5%	0.4ppt	1.6ppt	-0.6ppt	-3ppt	10.5%	1.2ppt
OP margin	6.8%	9.8%	4.2%	8.1%	0.9ppt	2.2ppt	-2.6ppt	-1.8ppt	4.6%	-0.4ppt
NP att. margin	5.7%	8.2%	3.5%	6.7%	0.7ppt	2.3ppt	-2.2ppt	-1.5ppt	3.9%	-0.3ppt
Adj. pre-tax margin	7.3%	9.5%	5.1%	8.0%	0.2ppt	1.4ppt	-2.2ppt	-1.5ppt	4.9%	0.2ppt

Source: Company data, CMBIS estimates

Figure 10: Result review - full year

HK\$ mn	FY18	FY19	FY20E	FY19 YoY	FY20E YoY
Hong Kong	7,351	7,342	7,387	0%	1%
China	1,076	1,152	1,219	7%	6%
Total revenue	8,427	8,494	8,605	1%	1%
COGS	(7,385)	(7,357)	(7,607)	0%	3%
Gross profit	1,042	1,137	998	9%	-12%
Other income and gains	(14)	18	0	-229%	-98%
Administrative expenses	(459)	(448)	(468)	-2%	5%
Operating profit	570	707	530	24%	-25%
Share of results of Assos	0	0	0	n/a	n/a
Non-operating items	0	0	0	n/a	n/a
Net finance income	12	15	7	27%	-50%
Profit before tax	581	722	538	24%	-26%
Income tax	(122)	(130)	(97)	6%	-25%
Minority interest	1	2	0	47%	-88%
Net profit att.	458	590	441	29%	-25%
FV change on investment properties	19	20	5		
Loss on disposal of other PP&E	(21)	(11)	(9)		
Impairment loss of PP&E	(33)	(4)	(9)		
Share-based compensation expenses	(26)	1	(14)		
Adj. pre-tax profit	643	716	564	11%	-21%
GP margin	12.4%	13.4%	11.6%	1ppt	-1.8ppt
OP margin	6.8%	8.3%	6.2%	1.6ppt	-2.2ppt
NP att. margin	5.4%	6.9%	5.1%	1.5ppt	-1.8ppt
Adj. pre-tax margin	7.6%	8.4%	6.6%	0.8ppt	-1.9ppt

Source: Company data, CMBIS estimates

Earnings revision

Figure 11: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	8,605	9,123	9,729	8,528	9,024	9,628	0.9%	1.1%	1.0%
Gross profit	998	1,086	1,179	1,039	1,106	1,173	-4.0%	-1.8%	0.5%
EBIT	530	610	691	581	637	691	-8.7%	-4.2%	0.0%
Reported Net profit	441	506	573	482	528	573	-8.7%	-4.2%	0.1%
Diluted EPS (RMB)	0.757	0.869	0.985	0.829	0.907	0.984	-8.7%	-4.2%	0.1%
Gross margin	11.6%	11.9%	12.1%	12.2%	12.3%	12.2%	-0.6ppt	-0.3ppt	-0.1ppt
EBIT margin	6.2%	6.7%	7.1%	6.8%	7.1%	7.2%	-0.7ppt	-0.4ppt	-0.1ppt
Net profit att. margin	5.1%	5.5%	5.9%	5.7%	5.8%	5.9%	-0.5ppt	-0.3ppt	-0.1ppt

Source: Company data, CMBIS estimates

Figure 12: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	8,605	9,123	9,729	8,849	9,478	9,907	-2.8%	-3.8%	-1.8%
Gross profit	998	1,086	1,179	1,127	1,242	1,301	-11.4%	-12.5%	-9.4%
EBIT	530	610	691	690	748	784	-23.1%	-18.4%	-11.8%
Net profit att.	441	506	573	621	669	717	-29.0%	-24.4%	-20.1%
Adjusted Net Profit	0.757	0.869	0.985	1.077	1.157	1.240	-29.7%	-24.8%	-20.6%
Diluted EPS (RMB)	11.6%	11.9%	12.1%	12.7%	13.1%	13.1%	-1.1ppt	-1.2ppt	-1ppt
Gross margin	6.2%	6.7%	7.1%	7.8%	7.9%	7.9%	-1.6ppt	-1.2ppt	-0.8ppt
EBIT margin	5.1%	5.5%	5.9%	7.0%	7.1%	7.2%	-1.9ppt	-1.5ppt	-1.3ppt

Source: Company data, CMBIS estimates

Valuation

Figure 13: Peers' valuation

Company	Ticker	Rating	12m TP	Price	Up/	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE	3yrs	Yield
			(LC)	(LC)	Down-			(HK\$ mn)	End	FY1E	FY2E	FY1E	FY2E	(%)
Leading Greater China Restaurants and Food Ingredients														
Cafe De Coral	341 HK	HOLD	18.26	19.60	-7%	11,480	Mar-19	25.9	22.5	3.3	3.2	16.9	(26.2)	3.5
Haidilao Int'l	6862 HK	BUY	37.56	34.40	9%	182,320	Dec-18	64.0	43.8	14.9	11.6	36.9	1.7	0.3
XBXB Catering	520 HK	NR	n/a	8.93	n/a	9,651	Dec-18	18.5	14.7	3.4	3.0	18.9	1.6	2.2
Yihai Int'l	1579 HK	NR	n/a	50.50	n/a	52,868	Dec-18	64.3	47.1	17.7	13.5	32.0	2.1	0.5
Yum China	YUMC US	NR	n/a	44.18	n/a	130,008	Dec-18	25.0	23.0	5.1	4.4	23.2	4.4	1.1
Gourmet Master	2723 TT	NR	n/a	126.50	n/a	5,842	Dec-18	20.0	15.5	2.1	2.0	10.5	13.8	2.9
							Avg.	36.3	27.8	7.8	6.3	23.1	(0.4)	1.8
							Med.	25.4	22.8	4.3	3.8	21.1	1.9	1.7
Other H-shares Restaurants and Food Ingredients														
Fairwood	52 HK	NR	n/a	20.40	n/a	2,642	Mar-19	10.8	13.3	3.2	3.1	23.4	n/a	6.1
Tai Hing	6811 HK	NR	n/a	1.70	n/a	1,700	Dec-18	10.8	8.2	2.2	1.4	108.2	n/a	3.5
Hop Hing	47 HK	NR	n/a	0.11	n/a	1,108	Dec-18	n/a	n/a	n/a	n/a	17.6	n/a	n/a
Tsui Wah	1314 HK	NR	n/a	0.44	n/a	614	Mar-19	8.7	6.2	0.4	0.4	0.4	n/a	13.8
Ajisen China	538 HK	NR	n/a	2.22	n/a	2,423	Dec-18	11.1	10.5	n/a	n/a	17.1	(0.5)	4.8
Tao Heung	573 HK	NR	n/a	1.29	n/a	1,311	Dec-18	n/a	n/a	n/a	n/a	8.1	n/a	n/a
Tang Palace	1181 HK	NR	n/a	1.10	n/a	1,181	Dec-18	7.6	6.6	n/a	n/a	25.4	n/a	n/a
							Avg.	9.8	9.0	2.0	1.6	28.6	(0.5)	7.0
							Med.	10.8	8.2	2.2	1.4	17.6	(0.5)	5.4
Leading Greater China Restaurants and Food Ingredients														
Yum! Brands	YUM US	NR	n/a	99.53	n/a	235,688	Dec-18	26.7	23.9	n/a	n/a	n/a	(21.5)	1.7
Mcdonald'S	MCD US	NR	n/a	193.35	n/a	1,140,000	Dec-18	24.7	22.8	n/a	33.4	n/a	4.1	2.5
Starbucks Corp	SBUX US	NR	n/a	84.34	n/a	779,822	Sep-19	27.7	24.7	n/a	n/a	n/a	3.1	2.0
Rest. Brands	QSR US	NR	n/a	64.96	n/a	236,331	Dec-18	24.0	21.9	10.0	9.4	28.2	2.5	3.1
Chipotle Mexican	CMG US	NR	n/a	809.75	n/a	176,211	Dec-18	58.3	45.3	14.0	11.9	20.3	1.1	0.0
Darden Rest.	DRI US	NR	n/a	116.74	n/a	112,054	May-19	18.2	17.1	1.3	1.1	30.8	2.1	3.0
Domino'S Pizza	DPZ US	NR	n/a	294.73	n/a	94,375	Dec-18	31.3	27.6	n/a	n/a	n/a	2.6	0.9
Dunkin' Brands	DNKN US	NR	n/a	75.12	n/a	48,722	Dec-18	24.0	22.8	n/a	n/a	n/a	2.8	2.0
Wendy'S Co	WEN US	NR	n/a	21.45	n/a	38,624	Dec-18	36.3	33.7	9.2	11.3	18.0	(1.4)	1.9
Shake Shack	SHAK US	NR	n/a	61.75	n/a	18,140	Dec-18	94.3	97.4	8.3	7.5	8.1	6.1	n/a
Wingstop	WING US	NR	n/a	78.82	n/a	18,175	Dec-18	102.8	86.1	n/a	n/a	n/a	6.5	0.5
Jollibee Foods	JFC PM	NR	n/a	184.10	n/a	31,094	Dec-18	31.6	27.5	3.8	3.5	13.7	13.2	1.2
							Avg.	41.6	37.6	7.8	11.1	19.9	1.8	1.7
							Med.	29.5	26.1	8.8	9.4	19.1	2.7	1.9
H-shares Consumer Staples														
UPC	220 HK	NR	n/a	8.03	n/a	34,684	Dec-18	22.6	20.8	2.3	2.3	10.1	1.7	4.2
Tingyi	322 HK	NR	n/a	12.10	n/a	68,043	Dec-18	23.0	20.9	3.0	2.8	12.9	3.3	3.3
Want Want China	151 HK	NR	n/a	6.80	n/a	84,423	Mar-19	19.5	18.6	4.6	4.3	27.2	3.4	3.5
China Mengniu	2319 HK	NR	n/a	30.55	n/a	120,202	Dec-18	22.5	23.2	3.6	3.2	14.2	1.2	1.0
Vitasoy	345 HK	NR	n/a	29.80	n/a	31,701	Mar-19	42.6	36.9	8.9	8.2	23.0	3.7	1.5
Tsingtao Brewery	168 HK	NR	n/a	48.80	n/a	72,558	Dec-18	32.3	28.0	3.1	2.9	9.9	1.9	1.3
CR Beer	291 HK	NR	n/a	43.00	n/a	139,500	Dec-18	55.1	38.7	6.2	5.6	6.7	0.9	0.6
Budweiser Brew	1876 HK	NR	n/a	29.10	n/a	385,383	Dec-18	49.6	38.3	4.4	4.1	9.4	n/a	1.4
Dali Foods	3799 HK	NR	n/a	5.24	n/a	71,757	Dec-18	16.3	15.0	3.8	3.6	24.5	3.1	4.6
							Avg.	31.5	26.7	4.4	4.1	15.3	2.4	2.4
							Med.	23.0	23.2	3.8	3.6	12.9	2.5	1.5

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 14: CMBI estimates vs consensus

Major assumptions	FY18A	FY19A	FY20E	FY21E	FY22E
Sales by segment (HK\$ mn)					
HK QSR & Institutional Catering	6,302	6,264	6,322	6,671	7,054
HK Fast Casual & Casual Dining	882	906	891	935	1,015
Food Processing & Distribution	167	172	174	182	191
Mainland China	1,076	1,152	1,219	1,334	1,468
Total	8,427	8,494	8,605	9,123	9,729
Growth (%)					
HK QSR & Institutional Catering	6%	-1%	1%	6%	6%
HK Fast Casual & Casual Dining	11%	3%	-2%	5%	9%
Food Processing & Distribution	8%	3%	1%	5%	5%
Mainland China	10%	7%	6%	10%	10%
Total	7%	1%	1%	6%	7%
GP margin	12.4%	13.4%	11.6%	11.9%	12.1%
Costs breakdown					
Costs of raw materials	28.5%	27.5%	27.9%	27.5%	27.2%
Depreciation	4.0%	4.1%	4.4%	4.5%	4.4%
Operating lease rentals	12.2%	12.0%	11.9%	11.8%	11.9%
Employee benefit expenses	31.3%	31.4%	32.3%	32.9%	33.1%
OP margin	6.8%	8.3%	6.2%	6.7%	7.1%
Effective tax rate	21.0%	18.0%	18.0%	18.0%	18.0%
NP att. margins	5.4%	6.9%	5.1%	5.5%	5.9%
NP att. growth(%)	-9.1%	28.9%	-25.4%	14.8%	13.3%
Sales network by region					
HK QSR & Institutional Catering	298	298	305	310	315
HK Fast Casual Dining	68	60	65	69	74
Mainland China	97	107	118	130	143
Total	463	465	488	509	532
SSSG by segment					
HK Café de Coral	3.0%	0.0%	-1.5%	2.5%	3.5%
HK Super Super Congee & Noodles	1.0%	2.0%	-2.5%	3.0%	3.0%
Mainland China Café de Coral	12.0%	2.0%	5.0%	4.5%	4.5%

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE Mar 31 (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE Mar 31 (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	8,427	8,494	8,605	9,123	9,729	EBIT	570	707	530	610	691
HK QSR & Institutional Catering	6,302	6,264	6,322	6,671	7,054	D & A	344	356	380	411	435
HK Fast Casual & Casual Dining	882	906	891	935	1,015	Change in working capital	36	23	(38)	23	26
Food Processing & Distribution	167	172	174	182	191	Income tax paid	(103)	(116)	(97)	(111)	(126)
Mainland China	1,076	1,152	1,219	1,334	1,468	Others	46	(18)	10	10	11
Cost of goods sold	(7,385)	(7,357)	(7,607)	(8,037)	(8,550)	Net cash from operating CF	893	952	786	942	1,038
Gross profit	1,042	1,137	998	1,086	1,179	Capex & investments	(433)	(277)	(487)	(489)	(523)
Other income	(14)	18	0	1	1	Associated companies	-	-	-	-	-
Operating expenses	(459)	(448)	(468)	(477)	(488)	Interest received	12	15	7	7	8
D & A	-	-	-	-	-	Others	(35)	63	-	-	-
Staff costs	-	-	-	-	-	Net cash from investing CF	(457)	(199)	(479)	(482)	(515)
S & D costs (ex-staff, D&A)	-	-	-	-	-	Equity raised	8	-	-	-	-
Admin exp. (ex-staff, D&A)	(459)	(448)	(468)	(477)	(488)	Net change in bank loans	-	-	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(471)	(680)	(468)	(409)	(469)
EBIT	570	707	530	610	691	Others	(3)	(11)	-	-	-
Finance costs, net	12	15	7	7	8	Net cash from financing CF	(466)	(691)	(468)	(409)	(469)
JVs & associates	-	-	-	-	-	Net change in cash	(30)	63	(161)	51	54
Exceptional	-	-	-	-	-	Beginning cash balance	790	801	836	674	725
Pre-tax profit	581	722	538	617	699	Exchange difference	41	(29)	-	-	-
Income tax	(122)	(130)	(97)	(111)	(126)	Cash at the end of the year	801	836	674	725	779
Less: Minority interests	1	2	0	0	0						
Net profit	458	590	441	506	573						

Balance sheet						Key ratios					
YE Mar 31 (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE Mar 31	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	3,242	3,102	3,212	3,295	3,388	Sales mix (%)					
Fixed asset	2,021	1,923	2,036	2,123	2,218	HK QSR & Institutional Catering	74.8	73.7	73.5	73.1	72.5
Intangible assets & goodwill	4	2	3	3	2	HK Fast Casual & Casual Dining	10.5	10.7	10.4	10.3	10.4
Prepaid lease payments	79	75	73	70	68	Food Processing & Distribution	2.0	2.0	2.0	2.0	2.0
Interest in joint ventures	-	-	-	-	-	Mainland China	12.8	13.6	14.2	14.6	15.1
Other non-current assets	1,137	1,103	1,100	1,100	1,100	Total	100.0	100.0	100.0	100.0	100.0
Current assets	1,374	1,392	1,241	1,324	1,416	P&L ratios (%)					
Cash and cash equivalents	824	857	696	747	801	Gross margin	12.4	13.4	11.6	11.9	12.1
Inventories	234	241	250	264	281	Operating margin	6.8	8.3	6.2	6.7	7.1
Trade and other receivables	191	165	165	175	187	Pre-tax margin	6.9	8.5	6.2	6.8	7.2
Prepayments	121	127	129	137	146	Net margin	5.4	6.9	5.1	5.5	5.9
Other current assets	3	1	1	1	1	Effective tax rate	21.0	18.0	18.0	18.0	18.0
Current liabilities	956	984	957	1,011	1,075	Balance sheet ratios					
Bank loans	-	-	-	-	-	Current ratio (x)	0.7	0.7	0.8	0.8	0.8
Trade payables	207	220	229	242	258	Quick ratio (x)	1.2	1.2	1.0	1.0	1.1
Accruals & other payables	707	725	688	730	778	Cash ratio (x)	86.2	87.1	72.7	73.8	74.5
Tax payables	41	39	39	39	39	Inventory turnover days	12	12	12	12	12
others	-	-	-	-	-	Trade receivables days	8	7	7	7	7
Non-current liabilities	87	88	88	88	88	Trade payables days	10	11	11	11	11
Bank loans	-	-	-	-	-	Total debt / total equity	-	-	-	-	-
Deferred income	35	45	45	45	45	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	34	29	29	29	29	Returns (%)					
Others	19	13	13	13	13	ROE	12.8	17.3	13.0	14.4	15.8
Minority Interest	4	6	6	7	7	ROA	9.9	13.1	9.9	10.9	11.9
Total net assets	3,570	3,415	3,402	3,513	3,633	Per share					
Shareholders' equity	3,570	3,415	3,402	3,513	3,633	EPS (HK\$)	0.79	1.01	0.76	0.87	0.98
						DPS (HK\$)	1.17	0.85	0.68	0.78	0.89
						BVPS (HK\$)	6.15	5.88	5.86	6.05	6.26

Source: Company data, CMBIS estimates

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.

CMBIS 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 CMBIS

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 Securities Limited

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

CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

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.