

iQIYI (IQ US)

Margin intact with continued ARM expansion

We estimate iQIYI could deliver an upbeat margin but mild rev growth in 4Q23E, with better-than-feared ads revenue and rising ARM (despite subs volatility). We suggest looking beyond the high base for 1Q24E, and focusing on upcoming rich content in its 2024 pipeline, including San Ke Shu (南来北往), Fox Spirit Matchmaker (狐妖小红娘) and Gu Zhou (孤舟). ARM expansion should support its earnings growth and solid free cash flow in FY24E. We are also positive on its margin improvement on higher ROI in content investments. To reflect the upbeat margin in 4Q23E, we adjust FY23E earnings forecast by 6%, while keeping FY24/25E earnings unchanged. Maintain BUY with DCF-based TP of US\$8.6.

- Expect a moderate 4Q23E with upbeat margin but mild rev growth.** We expect revenue +1% YoY in 4Q23E, 3% below consensus, due to launch delays for certain dramas. On the flip side, iQIYI should deliver decent adj. NP at RMB656mn (20% above consensus). By segment, we forecast membership rev +1.1% YoY (vs. prior +5%), on rising ARM partially (forecasting +10.5% YoY) offset by subs volatility. Ads rev is likely to rise 6.1% YoY (vs. prior +0%) on better-than-expected brand ads. We expect content distribution/others rev to change -32.9%/+21.2% YoY due to adjustments in the launch schedule.
- Eyes on upcoming key dramas along with rising ARM.** Market concerns might lie in iQIYI's subs trend, tough base and competition from Tencent Video in 1Q24E. Despite short-term subs volatility, ARM expansion should support its earnings growth and solid free cash flow in FY24E. We remain positive on its ARM upside, supported by a healthy subs structure, enriched subs benefits and narrowing discounts. We suggest investors look at its rich FY24E pipeline, including San Ke Shu (南来北往), Fox Spirit Matchmaker (狐妖小红娘) and Gu Zhou (孤舟), etc.
- Margin improvement intact.** We anticipate iQIYI to achieve non-GAAP OP at RMB873 in 4Q23E (implying 11.4% OPM, vs 11.2% in 3Q23). For FY24E, we are positive on its margin improvement primarily driven by higher ROI in content investments.
- Maintain BUY.** To reflect the mild topline and upbeat margin in 4Q23E, we lift FY23E earnings forecast by 6%, while keeping FY24/25E earnings unchanged. Maintain BUY with DCF-based TP of US\$8.6 (17x FY24E P/E).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	30,554	28,998	31,835	33,687	35,110
YoY growth (%)	2.9	(5.1)	9.8	5.8	4.2
Adjusted net profit (RMB mn)	(4,549.1)	1,265.6	2,812.5	3,424.0	3,902.8
Diluted EPS (RMB)	(5.64)	1.50	2.97	3.60	4.08
YoY growth (%)	NA	NA	98.2	21.1	13.4
Consensus EPS (RMB)	(7.77)	0.37	1.00	1.71	2.27
P/S (x)	0.4	0.4	0.8	0.8	0.7
P/E (x)	NA	NA	9.2	7.6	6.7
ROE (%)	(84.4)	(2.3)	22.7	23.3	20.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$8.60
(Previous TP)	US\$8.60
Up/Downside	129.9%
Current Price	US\$3.74

China Entertainment

Sophie HUANG

(852) 3900 0889

sophiehuang@cmbi.com.hk

Eason XU

(852) 3900 0849

easonxu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	1,596.2
Avg 3 mths t/o (US\$ mn)	33.9
52w High/Low (US\$)	7.73/3.74
Total Issued Shares (mn)	426.8
Source: FactSet	

Shareholding Structure

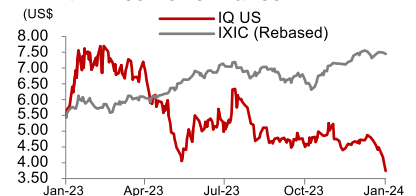
FIL Ltd	5.4%
Goldman Sachs Group Inc	5.0%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-20.4%	-19.6%
3-mth	-16.9%	-26.2%
6-mth	-28.9%	-31.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 4Q23E financial preview

RMB mn	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	QoQ	YoY	Consensus	Diff %
Revenue	7,471	7,593	8,349	7,802	8,015	7,669	-4.3%	1.0%	7,905	-3%
Operating profit	310	784	859	610	747	739	-1.0%	-5.7%	737	0%
Net profit	(396)	304	618	365	476	432	-9.3%	41.9%	495	-13%
Adj. net profit	187	856	940	595	622	656	5.5%	-23.4%	546	20%
EPS (RMB)	0.22	0.98	0.97	0.61	0.64	0.67	5.0%	-32.1%	0.52	28%
Margin (%)										
Gross margin	23.6%	28.9%	28.7%	26.0%	27.1%	26.9%			27.3%	
Operating margin	4.1%	10.3%	10.3%	7.8%	9.3%	9.6%			9.3%	
Adj. net margin	2.5%	11.3%	11.3%	7.6%	7.8%	8.6%			6.9%	
Growth (%)										
Revenue (YoY)	-1.6%	2.8%	14.7%	17.2%	7.3%	1.0%			4.1%	
Revenue (QoQ)	12.2%	1.6%	10.0%	-6.5%	2.7%	-4.3%			-1.4%	
Operating profit	NA	NA	819.2%	385.3%	141.1%	-5.7%			-5.9%	
Adj. net profit	NA	NA	479.3%	659.9%	232.3%	-23.4%			-36.2%	

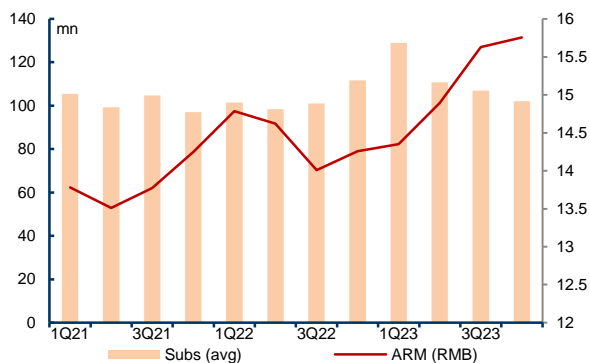
Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 4Q23E revenue breakdown

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	QoQ	YoY
Revenue (RMB mn)	7,471	7,593	8,349	7,802	8,015	7,696	-4.0%	1.4%
Membership Services	4,211	4,744	5,547	4,947	5,012	4,821	-3.8%	1.6%
Online Advertising	1,247	1,553	1,404	1,495	1,674	1,648	-1.6%	6.1%
Content Distribution	730	635	727	553	526	426	-19.0%	-32.9%
Others	1,284	661	670	807	803	801	-0.2%	21.2%

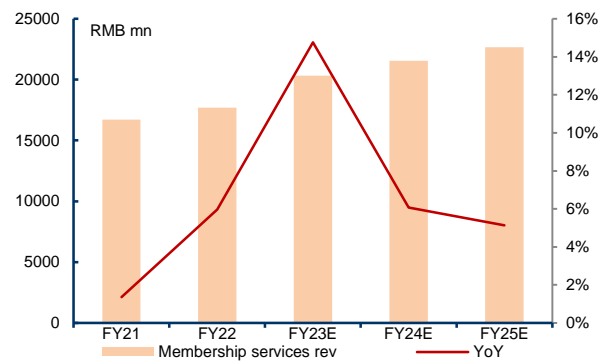
Source: Company data, CMBIGM estimates

Figure 3: Quarterly subs estimates



Source: Company data, CMBIGM estimates

Figure 4: Yearly subs revenue estimates



Source: Company data, CMBIGM estimates

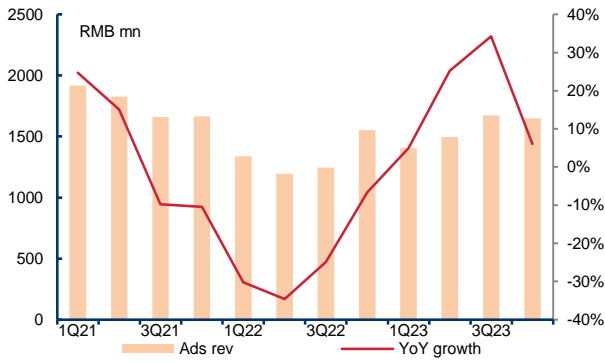
Figure 5: iQIYI's key drama series pipeline in FY23-25E

Type	Title	Chinese Title	Genre	Starring	Launch date
National Drama/ 国民大戏	The Water of River	大河之水	Suspense	聂远、杨蓉	4Q23
	The Unique Girl	独一无二的地	Romance	张云龙、宋伊人、毛林林	4Q23
	Gold Trio	老家伙	Life	张国立、王刚、张铁林	4Q23
	Ban to Run	如果奔跑是我的宿命	Life	王宥钧、李添诺、荣飞	4Q23
	Young Couple	小夫妻	Life	殷桃、郭京飞、齐溪	4Q23
	Soldiers from the Wind	兵自风中来	Military	欧豪、蓝盈莹、刘怡君	2023
	The Comic Bang	开画! 少女漫	Romance	沈月、王敬轩、赵弈钦	2023
	Men in Love	请和这样的我恋爱吧	Romance	代旭、刘畅、孙嘉灵	2023
	I Am Criminal Police	我是刑警	Crime	于和伟、李春嫒、刘泊潇	TBD
	Moments of Youth	明天的少年	Life	吴宇恒、周彦辰、杨肸子	1Q24

	Road to Brightness	长风破浪	Life	王一博、李沁、王阳	1Q24
	City of City	城中之城	Modern	白宇帆、于和伟、夏梦	2Q24
	San Ke Shu	南来北往	History	白敬亭、丁勇岱	1Q24
	My Altay	我的阿勒泰	Life	马伊琍、周依然、于适	1Q24
	The White Olive Tree	白色橄榄树	Ro	陈哲远、梁洁	2Q24
	Beautiful Lie	你的谎言也动听	Life	陈星旭、张予曦	4Q24
	Northward	北上	Modern	白鹿、欧豪	2024
	Ray of Sunshine	橙色光芒	Modern	谭卓、高叶、刘奕君	2024
	Created in China	艰难的制造	History	高露、刘奕君、朱雨辰	2024
	Watchman	守诚者	Crime	陈小春、李治廷、韩雪	2Q24
	Headwinds	迎风	Life	孙千、翟子路、刘琳	2024
	The Elephant is Right Here	消失的大象	Modern	李九霄、蒋龙、马吟吟	2024
Oriental Fantasy/ 东方幻想	Fighting for Love	阿麦从军	Costume	张天爱、张昊唯	3Q23
	White Cat Legend	大理寺少卿游	Costume	丁禹兮、周奇	4Q23
	Meet Me in Your Sound	幻乐森林	Costume	许佳琪、魏哲鸣、吴希泽	4Q23
	The Demon Hunter's Romance	无忧渡	Romance	任嘉伦、宋祖儿	4Q23
	Zi Chuan	紫川	Costume	杨旭文、刘宇宁、李墨之	2023
	Fox Spirit Matchmaker	狐妖小红娘月红篇	Costume	杨幂、龚俊、郭晓婷	2023
	Fox Spirit Matchmaker	狐妖小红娘竹业篇	Costume	刘诗诗、张云龙	2023
	My Life is a Thief	柳叶摘星辰	Costume	唐晓天、庄达菲、林枫松	TBD
	Love in the Desert	漠风吟	Romance	哈妮克孜、方逸伦	4Q24
Legend of Justice/ 正义传奇	New York Mission 2	唐人街探案 2	Crime	邱泽、尚语贤、张钧甯	3Q23
	Back for You	漫影寻踪	Romance	杨颖、王安宇、匡牧野	4Q23
	Ball Lightning	球状闪电	Sci-fi	童谣、王安宇、杨立新	1Q24
	Rident 2	三叉戟 2	Crime	陈建斌、董勇、郝平	1Q24
	Square Pavilion	四方馆	Costume	檀健次、周依然、杜淳	3Q24
	In the Name of the Brother	哈尔滨一九四四	History	张子贤、秦昊、王鹤润	3Q24
	Stealing Time	黄雀	Crime	郭京飞、秦岚	4Q24
	Dark Night and Dawn	暗夜与黎明	Crime	陈哲远、聂远、邢菲	2024
	Cat and Thief	斗贼	Crime	黄景瑜、修睿	TBD
Annual Joy Party/ 一年一度喜乐会	Annual Joy Party	一年一度喜乐会	Comedy	张哲华、土豆、张小婉	1Q24
Light On/ 迷雾剧场	The Limbo	二十一天	Suspense	欧豪、张雪迎、姜武	4Q23
	Interlaced Scenes	交错的情景	Suspense	马伊琍、佟大为、高至霆	4Q23
	Tell No One	不可告人	Suspense	欧豪、李一桐	4Q23
	Lost in the Shadows	看不见影子的少年	Suspense	张颂文、荣梓杉、成泰燊	1Q24
	The Sundown	乌云之上	Suspense	孙俪、罗晋、丁冠森	2024

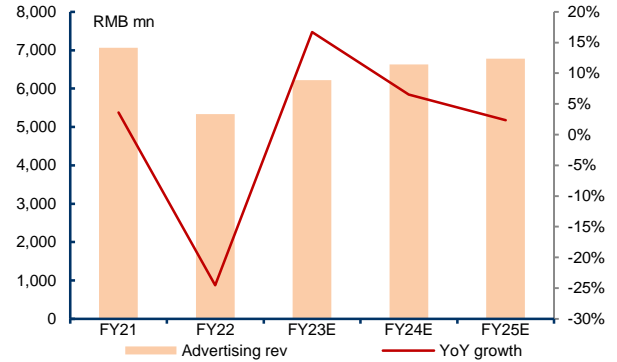
Source: Company data, CMBIGM

Figure 6: iQIYI's quarterly ads revenue estimates



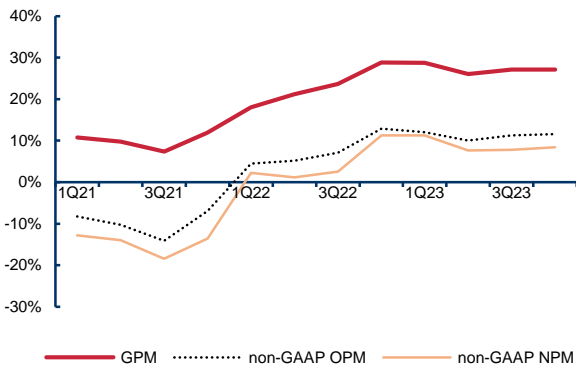
Source: Company data, CMBIGM estimates

Figure 7: iQIYI's yearly ads revenue estimates



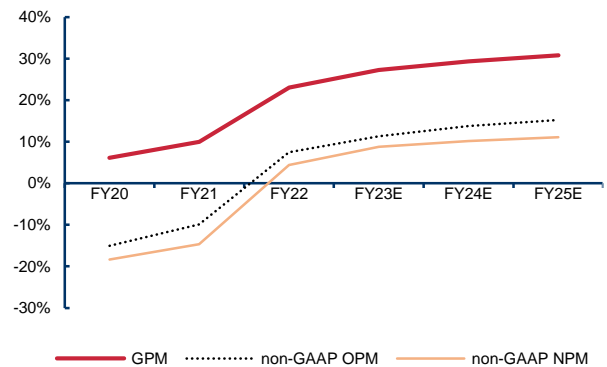
Source: Company data, CMBIGM estimates

Figure 8: iQIYI's quarterly margin estimates



Source: Company data, CMBIGM estimates

Figure 9: iQIYI's yearly margin estimates



Source: Company data, CMBIGM estimates

Figure 10: DCF valuation

DCF valuation (RMB mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	3,598	4,632	5,358	6,225	7,276	8,230	9,187	10,004	10,805	11,561
Tax	(75)	(295)	(575)	(591)	(728)	(865)	(1,003)	(1,118)	(1,080)	(1,156)
D&A	13,408	13,910	14,428	15,029	15,516	15,978	16,452	16,936	17,783	18,672
Working capital	(10,401)	(14,120)	(14,649)	(15,198)	(15,723)	(16,209)	(16,648)	(17,159)	(18,017)	(18,918)
CAPEX	(891)	(910)	(994)	(1,025)	(1,057)	(1,068)	(1,068)	(1,075)	(1,129)	(1,174)
FCF	5,638	3,217	3,567	4,440	5,284	6,066	6,920	7,589	8,362	8,986
FCF Growth		-43%	11%	24%	19%	15%	14%	10%	10%	7%
Terminal Value										96,247
PV (FCF+ Terminal Value)	5,638	2,857	2,813	3,109	3,285	3,349	3,392	3,303	3,232	36,120

Assumptions	
WACC	12.6%
Tax rate	15.0%
Risk free rate	3.6%
Beta	1.10
Market risk return	11.8%
Terminal growth rate	3.0%

Equity Value	
PV	67,099
minus: Net cash	8,703
minus: Minority Interest	0
Equity Value	58,396
Shares (mn)	947
Target Price (US\$) based on DCF	8.6

		WACC				
		11%	12%	13%	14%	15%
Growth	1.5%	9.6	8.4	7.9	6.8	6.1
	2.0%	9.9	8.7	8.1	6.9	6.3
	2.5%	10.3	9.0	8.3	7.1	6.4
	3.0%	10.7	9.3	8.6	7.3	6.5
	3.5%	11.2	9.6	8.9	7.5	6.7
	4.0%	11.7	10.0	9.2	7.7	6.9
	4.5%	12.3	10.5	9.6	7.9	7.0

Source: CMBIGM estimates

Figure 11: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	31,835	33,687	35,110	32,072	34,139	36,480	-0.7%	-1.3%	-3.8%
Gross profit	8,663	9,870	10,810	8,747	9,949	11,070	-1.0%	-0.8%	-2.3%
Operating profit	2,955	3,952	4,649	2,938	3,978	4,689	0.6%	-0.6%	-0.9%
Adj. net profit	2,812	3,424	3,903	2,460	3,243	3,914	14.3%	5.6%	-0.3%
EPS (RMB)	2.97	3.60	4.08	2.19	2.89	3.46	35.7%	24.6%	17.9%
Gross margin	27.2%	29.3%	30.8%	27.3%	29.1%	30.3%	-0.1ppts	+0.2ppts	+0.4ppts
Operating margin	9.3%	11.7%	13.2%	9.2%	11.7%	12.9%	+0.1ppts	+0.1ppts	+0.4ppts
Net margin	8.8%	10.2%	11.1%	7.7%	9.5%	10.7%	+1.2ppts	+0.7ppts	+0.4ppts

Source: Bloomberg, CMBIGM estimates

Figure 12: Earnings revision

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	31,835	33,687	35,110	32,057	33,722	35,114	-0.7%	-0.1%	0.0%
Gross Profit	8,663	9,870	10,810	8,733	9,890	10,810	-0.8%	-0.2%	0.0%
Operating Profit	2,955	3,952	4,649	2,986	3,972	4,647	-1.0%	-0.5%	0.0%
Adj. net profit	2,812	3,424	3,903	2,650	3,427	3,902	6.1%	-0.1%	0.0%
EPS (RMB)	2.97	3.60	4.08	2.80	3.60	4.08	6.1%	-0.1%	0.0%
Gross Margin	27.2%	29.3%	30.8%	27.2%	29.3%	30.8%	-0.0ppts	-0.0ppts	+0.0ppts
Operating Margin	9.3%	11.7%	13.2%	9.3%	11.8%	13.2%	-0.0ppts	-0.0ppts	+0.0ppts
Net Margin	8.8%	10.2%	11.1%	8.3%	10.2%	11.1%	+0.6ppts	+0.0ppts	+0.0ppts

Source: Bloomberg, CMBIGM estimates

Figure 13: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
iQIYI	IQ US	4,265	USD	4.46	BUY	8.60	9.9	8.1	7.2	0.9	0.8	0.8	18%
Internet giants													
Tencent	700 HK	342,406	HKD	282.40	BUY	465.00	15.7	13.3	11.8	4.0	3.6	3.3	15%
Alibaba	BABA US	182,720	USD	71.84	BUY	148.30	8.1	7.6	6.9	1.4	1.3	1.2	10%
Disney	DIS US	165,369	USD	90.35	NA	NA	20.7	17.1	15.0	1.8	1.7	1.6	19%
Netflix	NFLX US	215,408	USD	492.16	NA	NA	39.2	30.3	24.8	6.4	5.6	5.1	27%
Average							14.8	17.1	14.6	3.4	3.1	2.8	18%
VAS & Subscribers													
Mango	300413 CH	5,751	CNY	22.11	NA	NA	18.9	15.8	13.7	2.8	2.5	2.3	17%
Bilibili	BILI US	4,486	USD	10.65	BUY	24.00	NA	NA	43.1	1.4	1.2	1.1	NA
TME	TME US	16,114	USD	9.39	NA	NA	19.4	17.6	15.6	4.2	4.1	3.7	11%
Huya	HUYA US	816	USD	3.43	BUY	6.80	NA	54.3	17.9	0.8	0.9	0.8	83%
Douyu	DOYU US	275	USD	0.87	NA	NA	18.3	29.5	14.9	0.4	0.4	0.4	11%
Momo	MOMO US	1,498	USD	6.51	HOLD	14.00	4.9	4.9	4.7	0.9	0.9	0.9	2%
YY	YY US	1,938	USD	31.87	BUY	50.50	6.9	7.6	7.0	0.9	0.8	0.8	6%
China Literature	772 HK	3,814	HKD	29.15	NA	NA	18.4	16.2	14.2	3.6	3.3	3.0	12%
Average							14.5	15.2	12.6	2.3	2.1	1.9	10%
Film, TV & IP													
Linmon Media	9857 HK	312	HKD	6.76	NA	NA	6.8	5.3	NA	1.4	1.1	NA	NA
Strawbear entertain	2125 HK	43	HKD	0.48	BUY	4	NA	NA	NA	NA	NA	NA	NA
Average							6.8	5.3	NA	1.4	1.1	NA	NA
Advertising													
Baidu	BIDU US	38,145	USD	109.11	BUY	195.60	10.2	10.1	9.0	2.0	1.9	1.7	4%
Weibo	WB US	2,191	USD	9.03	BUY	23.50	4.4	4.1	3.8	1.2	1.2	1.1	6%
Facebook	META US	962,388	USD	374.49	NA	NA	25.7	20.6	18.4	7.2	6.4	5.7	17%
Snapchat	SNAP US	27,050	USD	16.43	NA	NA	NA	NA	87.5	5.9	5.2	4.4	89%
Average							13.4	11.6	10.4	3.0	2.7	3.2	9%
Average							15.5	14.3	12.7	2.5	2.3	2.2	12%

Source: Bloomberg, CMBIGM estimates

Note: 1) Data as of 12 Jan 2024; CNY:USD = 0.14; 2) iQIYI's forward P/E and P/S are based on our estimates.

Key Investment Risks

Key investment risks: 1) key content launch delays; 2) regulatory uncertainty; 3) slower-than-expected ads recovery due to macro uncertainty; and 4) competition from short-form video (SFV).

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	29,707	30,554	28,998	31,835	33,687	35,110
Cost of goods sold	(27,884)	(27,513)	(22,319)	(23,172)	(23,817)	(24,300)
Gross profit	1,823	3,041	6,678	8,663	9,870	10,810
Operating expenses	(7,863)	(7,520)	(5,366)	(5,708)	(5,918)	(6,161)
SG&A expense	(5,188)	(4,725)	(3,467)	(3,955)	(4,125)	(4,313)
R&D expense	(2,675)	(2,795)	(1,899)	(1,752)	(1,794)	(1,849)
Operating profit	(4,477)	(3,027)	2,181	3,598	4,632	5,358
Interest income	157	119	70	59	65	67
Interest expense	(1,066)	(1,350)	(715)	(881)	(914)	(880)
Foreign exchange gain/loss	43	55	(168)	(90)	0	0
Other income/expense	147	90	(319)	23	0	0
Pre-tax profit	(6,984)	(6,012)	(34)	1,966	3,102	3,836
Income tax	(23)	(97)	(84)	(75)	(295)	(575)
Minority interest	31	61	18	0	0	0
Net profit	(7,038)	(6,170)	(136)	1,891	2,807	3,260
Adjusted net profit	(5,476)	(4,549)	1,266	2,812	3,424	3,903
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	22,290	11,524	13,786	21,002	22,997	25,336
Cash & equivalents	10,915	2,997	7,098	13,026	14,862	17,127
Restricted cash	25	78	14	14	14	14
Account receivables	3,344	2,748	2,403	2,994	3,122	3,206
Prepayment	3,516	3,267	2,603	3,151	3,138	3,085
Financial assets at FVTPL	3,358	1,348	818	818	818	818
Other current assets	1,131	1,087	850	999	1,044	1,087
Non-current assets	25,895	30,948	32,263	29,509	31,044	32,556
PP&E	1,393	1,345	1,105	1,837	2,066	2,261
Deferred income tax	51	31	0	0	0	0
Investment in JVs & assos	3,203	3,035	2,454	2,454	2,454	2,454
Intangibles	7,062	7,803	7,277	7,608	8,019	8,467
Goodwill	3,888	3,888	3,826	3,826	3,826	3,826
Other non-current assets	10,297	14,845	17,601	13,783	14,680	15,548
Total assets	48,185	42,472	46,048	50,510	54,041	57,892
Current liabilities	24,855	22,476	28,130	29,665	29,772	29,720
Short-term borrowings	2,966	4,118	3,348	4,687	4,218	3,796
Account payables	7,562	8,896	5,993	7,556	7,766	7,857
Other current liabilities	11,086	6,290	16,163	14,595	14,882	15,101
Accrued expenses	3,241	3,172	2,626	2,828	2,906	2,965
Non-current liabilities	13,887	14,323	11,575	11,575	11,575	11,575
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	11,927	12,652	9,568	9,568	9,568	9,568
Other non-current liabilities	1,960	1,670	2,007	2,007	2,007	2,007
Total liabilities	38,741	36,799	39,705	41,240	41,347	41,295
Share capital	0	0	0	0	0	0
Capital surplus	47,687	49,642	50,886	52,917	53,533	54,176
Retained earnings	(40,974)	(47,164)	(46,499)	(45,391)	(42,583)	(39,323)
Other reserves	2,543	2,709	1,863	2,709	2,709	2,709
Total shareholders equity	9,336	5,276	6,343	10,329	13,752	17,655
Total equity and liabilities	48,185	42,472	46,048	51,569	55,100	58,950

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,984)	(6,012)	(34)	1,966	3,102	3,836
Depreciation & amortization	17,196	16,766	16,475	13,408	13,910	14,428
Change in working capital	(16,613)	(17,586)	(18,346)	(10,401)	(14,120)	(14,649)
Others	959	819	1,834	508	322	67
Net cash from operations	(5,442)	(6,013)	(71)	5,480	3,214	3,681
Investing						
Capital expenditure	(241)	(262)	(638)	(669)	(674)	(695)
Acquisition of subsidiaries/ investments	(1,017)	(386)	582	0	0	0
Net proceeds from disposal of short-term investments	(9,888)	(11,456)	0	0	0	0
Others	11,305	13,367	322	(223)	(236)	(298)
Net cash from investing	159	1,262	266	(891)	(910)	(994)
Financing						
Net borrowings	(369)	259	(240)	1,339	(469)	(422)
Proceeds from share issues	10	268	0	0	0	0
Others	9,733	(3,487)	4,709	0	0	0
Net cash from financing	9,374	(2,959)	4,469	1,339	(469)	(422)
Net change in cash						
Cash at the beginning of the year	6,910	10,941	3,075	7,112	13,040	14,875
Exchange difference	(91)	(217)	0	0	0	0
Cash at the end of the year	10,941	3,075	7,112	13,040	14,875	17,141
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	2.5%	2.9%	(5.1%)	9.8%	5.8%	4.2%
Gross profit	na	66.8%	119.6%	29.7%	13.9%	9.5%
Operating profit	na	na	na	64.9%	28.7%	15.7%
Net profit	na	na	na	na	48.5%	16.1%
Adj. net profit	na	na	na	122.2%	21.7%	14.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	6.1%	10.0%	23.0%	27.2%	29.3%	30.8%
Operating margin	(15.1%)	(9.9%)	7.5%	11.3%	13.7%	15.3%
Adj. net profit margin	(18.4%)	(14.9%)	4.4%	8.8%	10.2%	11.1%
Return on equity (ROE)	(74.3%)	(84.4%)	(2.3%)	22.7%	23.3%	20.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	1.0	3.5	1.6	0.6	0.3	0.1
Current ratio (x)	0.9	0.5	0.5	0.7	0.8	0.9
Receivable turnover days	42.8	36.4	34.7	33.0	33.1	32.9
Payable turnover days	103.2	109.2	132.8	117.3	117.4	117.3
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	13.5	9.1	7.9
P/E (diluted)	na	na	16.5	9.1	7.5	6.6
P/B	11.6	13.4	3.3	2.5	1.9	1.5

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 CMBIGM 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.
