

[www.evaluateresearch.com](http://www.evaluateresearch.com)

Target Price	HK\$ 2.10
Current Price	HK\$ 1.22
Upside Potential	72.0%

Market Cap.	HK\$1,656 mn US\$212.0 mn
Shares Outstanding	1357.3 mn
Free Float (FF %)	\$55.1 mn / 26%
52 Week Range (HK\$)	2.00 / 1.17
Avg. Daily Value	HK\$3.90 mn US\$0.50 mn
Hang Seng Index Level	30,180
Insider Holding %	74%

P/E	4.60x (CY/2018E)
EV/EBITDA	4.10x (CY/2018E)
P/B	0.47x (CY/2017)

 1.22 HKD +0.04 (3.17%)


Risk: Above Average

**Analyst:**

 Ajeya Patil  
[ajeya@evaluateresearch.com](mailto:ajeya@evaluateresearch.com)
**Client Servicing:**

 Pooja Burgul  
[pooja@evaluateresearch.com](mailto:pooja@evaluateresearch.com)

## Leoch International Technology Ltd. (842\_HK)

 Earnings Update Report  
 Industrials: Capital Goods

### FY2017 [ended December] Earnings Update

#### Strong Results; Revenue up 57.2%, EPS up 16.1%

Leoch reported strong results for the second half ended December 2017. Revenue increased by 57.2% YoY to RMB5,403.4 mn [7% above our estimate] while the net income/EPS increased by 16.1% YoY to RMB150.7 mn/RMB11 cents, slightly below our estimate. The increase in revenue was driven by a solid growth of 25.8% in its core lead-acid battery business along with contribution from the lead recycling business which was acquired in January 2017. The lower EPS growth was due to a decline in gross profit margins and an increase in interest expense. The company is investing in increasing the production capacity of its traditional lead-acid batteries and has also announced its plan to start its first ever lithium-ion battery manufacturing facility. During our conversation with management, they mentioned that they are currently focusing on developing lithium-ion batteries mainly for telecom applications and will gradually enter into automotive batteries as well.

For the full year FY2017, revenue came in at RMB9,465 mn, up 51.1% YoY, while EPS was RMB18 cents, flat YoY. The revenue growth included 23.3% organic growth from the existing battery business while the rest was contributed by the lead recycling business. The growth in battery revenue was driven by a 13% increase in price and about 10% increase in volume. For the year, the lead recycling business contributed revenue of RMB1,754.8 mn accounting for about 18.5% of the company's total revenue. Gross profit margin reduced from 16.4% in FY2016 to 12.3% in FY2017 due to lower margin on the battery business [a result of an increase in the average lead price which the company was unable to completely pass on to its customers] as well as due to the addition of the lead recycling business which has lower margins than the battery business. We expect the gross margins to remain in the 12% -14% range in the future. CAPX for FY2017 was RMB314.2 mn. For FY2018, we forecast CAPX to increase to about RMB550 mn as the company invests to ramps up its production capacity. In FY2017, gross debt increased by about 70% to RMB3,014 mn. The company did not announce any dividends for the year [HK5.5 cents in FY2016] mainly to preserve its funds to finance its production capacity expansion.

### **First Lithium-ion Battery Production Facility**

In order to diversify its product line, the company has spent substantial resources on the research and development of lithium-ion batteries and is now starting its first ever lithium-ion battery production facility. Construction of the first phase of the facility will start in April 2018 and pilot production is expected to begin by the end of FY2018. The designed maximum production capacity is 1.65 GWh and phase one will achieve 20% of it.

### **Production Capacity to Increase by 50%-70% in the Next 3 Years**

The company is also planning to establish two new factories in Vietnam, one for reserve power batteries and the other for automotive batteries [SLI batteries]. Construction for both the factories will start in April 2018. Furthermore, the company has also acquired a land area of approximately 623,000 sqm. in Guizhou and Jiangsu in China and is planning to acquire more land in Chongqing for further expanding its battery production and lead recycling units. The company's current lead-acid battery production capacity stands at about 21.6 mn Kvah and the new facilities should add another 12 mn to 15 mn Kvah bringing its total production capacity to between 34 mn to 37 mn Kvah.

### **Attractive Valuations; 72% Upside**

**We maintain our PT on Leoch at HK\$2.10 per share implying an upside of about 72% over the current stock price. Our price target implies a P/E multiple of 8.1x on our FY2018 EPS estimate of RMB0.21.** Given the continued strong revenue growth and aggressive expansion plans of the company, we are quite positive on the stock. The secular tailwinds provided by the upcoming 5G network launch, increasing vehicle penetration in China, increasing demand for light electric vehicles and improving domestic economy further reinforce our confidence. At the current levels, the stock is trading at extremely attractive multiples of just 4.6x P/E and 4.1x EV/EBITDA based on our FY2018 EPS and EBITDA estimates, respectively.

### **Segment Results**

The revenue of reserve power batteries increased by 8.2% from RMB4,319.6 mn in FY2016 to RMB4,674.2 mn in FY2017, as a result of strong demand for UPS and other consumer product batteries compensating for a plunge in demand for telecommunication batteries. We expect demand for telecommunication batteries to remain slow in FY2018 and gather pace in FY2019 as telecom companies begin to invest in the upgradation to 5G network. The revenue of SLI batteries increased by 50.0% from RMB1,442.8 mn in FY2016 to RMB2,164.7 mn in FY2017, which was primarily due to an enlarged customer base and intensive market penetration as a result of the company's continued investment in and promotion of SLI batteries. The revenue of motive power batteries increased by 76.4% from RMB281.8 mn in FY2016 to RMB497.0 mn in FY2017, mainly attributable to increase in sales of batteries used for electric vehicles and forklifts.

## Product Segments

Product category	2017			2016	
	Revenue RMB'000	Percentage share	Percentage increase	Revenue RMB'000	Percentage share
Reserve power batteries	4,674,185	49.4%	8.2%	4,319,624	69.0%
SLI batteries	2,164,669	22.9%	50.0%	1,442,831	23.0%
Motive power batteries	497,012	5.3%	76.4%	281,793	4.5%
Others	325,477	3.4%	48.9%	218,622	3.5%
Sub-total	7,661,343	81.0%	22.3%	6,262,870	100%
Recycling lead products	1,754,834	18.5%	N/A	-	-
Others	49,267	0.5%	N/A	-	-
Total	9,465,444	100%	51.1%	6,262,870	100%

## Geographical Segments

	2017			2016	
	Revenue RMB'000	Percentage share	Percentage increase	Revenue RMB'000	Percentage share
PRC	6,389,915	67.5%	69.4%	3,773,107	60.2%
European Union	902,930	9.5%	18.5%	761,715	12.2%
United States of America	895,555	9.5%	17.5%	762,237	12.2%
Other Asian countries/areas	887,497	9.4%	29.4%	685,775	10.9%
Other countries	389,547	4.1%	39.1%	280,036	4.5%
Total	9,465,444	100%	51.1%	6,262,870	100%

## 5-Year Price Chart



Income Statement ( millions RMB )	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E	FY 2020E	CAGR (2017-2020)
<b>Revenue</b>	<b>3,646.9</b>	<b>4,248.4</b>	<b>4,330.9</b>	<b>6,262.9</b>	<b>9,465.4</b>	<b>10,951.6</b>	<b>12,602.3</b>	<b>14,271.2</b>	14.7%
y/y	12.3%	16.5%	1.9%	44.6%	51.1%	15.7%	15.1%	13.2%	
Cost of Revenue	-3,040.9	-3,531.7	-3,561.2	-5,237.3	-8,302.9	-9,571.7	-11,014.4	-12,473.0	
<b>Gross Profit</b>	<b>606.0</b>	<b>716.7</b>	<b>769.7</b>	<b>1,025.6</b>	<b>1,162.5</b>	<b>1,379.9</b>	<b>1,587.9</b>	<b>1,798.2</b>	
Gross margin (%)	16.6%	16.9%	17.8%	16.4%	12.3%	12.6%	12.6%	12.6%	
Other Operating Revenue	11.1	11.5	11.1	22.9	25.1	25.6	26.1	26.6	
as a % of sales	0.3%	0.3%	0.3%	0.4%	0.3%	0.2%	0.2%	0.2%	
Selling, General & Admin Expense	-556.9	-576.8	-518.1	-623.1	-771.0	-875.9	-989.2	-1,092.7	
as a % of sales	15.3%	13.6%	12.0%	9.9%	8.1%	8.0%	7.8%	7.7%	
Other Operating expenses	-13.5	-14.1	-2.5	-37.4	-6.5	-6.8	-7.0	-7.1	
as a % of sales	0.4%	0.3%	0.1%	0.6%	0.1%	0.1%	0.1%	0.0%	
<b>Operating Income</b>	<b>46.6</b>	<b>137.3</b>	<b>260.2</b>	<b>388.0</b>	<b>410.1</b>	<b>522.8</b>	<b>617.8</b>	<b>725.0</b>	20.9%
y/y	-54.6%	194.4%	89.5%	49.1%	5.7%	27.5%	18.2%	17.4%	
Operating margin (%)	1.3%	3.2%	6.0%	6.2%	4.3%	4.8%	4.9%	5.1%	
Interest Expense	-98.8	-108.5	-104.7	-108.9	-151.8	-186.9	-186.9	-186.9	
Interest income	25.5	14.1	15.9	8.7	13.4	10.4	13.1	12.2	
Equity in (losses)income of affiliates	0.4	-3.9	-7.4	-2.9	0.0	0.0	0.0	0.0	
Other recurring (expenses)/income	27.1	-3.7	6.1	15.7	24.1	24.6	25.1	25.6	
Amortization of intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other non recurring (expenses) income	-121.6	76.6	-35.7	-20.0	10.1	0.0	0.0	0.0	
<b>Pretax Income (reported)</b>	<b>-120.9</b>	<b>111.9</b>	<b>134.6</b>	<b>280.5</b>	<b>306.0</b>	<b>370.9</b>	<b>469.1</b>	<b>575.9</b>	23.5%
y/y	-258.0%	-192.5%	20.3%	108.5%	9.1%	21.2%	26.5%	22.8%	
<b>Pretax Income (adjusted)</b>	<b>0.8</b>	<b>35.2</b>	<b>170.2</b>	<b>300.5</b>	<b>295.8</b>	<b>370.9</b>	<b>469.1</b>	<b>575.9</b>	24.9%
y/y	-99.0%	4564.8%	383.3%	76.5%	-1.6%	25.4%	26.5%	22.8%	
- Income Tax Expense	-8.4	-30.1	-28.3	-48.7	-35.4	-55.6	-77.4	-95.0	
Effective tax rate (%)	-6.9%	26.9%	21.0%	17.4%	11.6%	15.0%	16.5%	16.5%	
- Minority Interests	0.0	0.0	0.3	-10.1	28.6	31.5	34.6	38.1	
<b>Income Before XO Items</b>	<b>-129.3</b>	<b>81.8</b>	<b>106.6</b>	<b>241.9</b>	<b>242.0</b>	<b>283.8</b>	<b>357.1</b>	<b>442.8</b>	22.3%
y/y	-280.4%	-163.3%	30.3%	127.0%	0.0%	17.3%	25.8%	24.0%	
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	
<b>Net Income (reported)</b>	<b>-129.3</b>	<b>81.8</b>	<b>106.6</b>	<b>241.9</b>	<b>242.0</b>	<b>283.8</b>	<b>357.1</b>	<b>443.8</b>	22.4%
y/y	-280.4%	-163.3%	30.3%	127.0%	0.0%	17.3%	25.8%	24.3%	
Exceptional (L)G	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Net Income (adjusted)</b>	<b>-7.6</b>	<b>5.1</b>	<b>142.3</b>	<b>261.9</b>	<b>231.9</b>	<b>283.8</b>	<b>357.1</b>	<b>442.8</b>	24.1%
y/y	-110.9%	-167.4%	2664.3%	84.1%	-11.4%	22.4%	25.8%	24.0%	
Basic EPS (reported)	-0.10	0.06	0.08	0.18	0.18	0.21	0.26	0.33	
Basic EPS (adjusted)	-0.01	0.00	0.11	0.19	0.17	0.21	0.26	0.33	
Basic Weighted Avg Shares	1,336	1,345	1,353	1,353	1,356	1,363	1,363	1,363	
<b>Diluted EPS (reported)</b>	<b>-0.10</b>	<b>0.06</b>	<b>0.08</b>	<b>0.18</b>	<b>0.18</b>	<b>0.21</b>	<b>0.26</b>	<b>0.33</b>	22.4%
y/y	-280.3%	-162.9%	29.5%	126.7%	-0.6%	17.3%	25.8%	24.3%	
<b>Diluted EPS (adjusted)</b>	<b>-0.01</b>	<b>0.00</b>	<b>0.11</b>	<b>0.19</b>	<b>0.17</b>	<b>0.21</b>	<b>0.26</b>	<b>0.33</b>	24.1%
y/y	-110.9%	-166.9%	2647.4%	83.9%	-12.0%	22.4%	25.8%	24.0%	
Diluted Weighted Avg Shares (mn)	1,336	1,345	1,353	1,354	1,363	1,363	1,363	1,363	

Reference Items	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E	FY 2020E
EBITDA	213.4	341.4	478.4	644.1	717.9	864.6	995.4	1,135.5
Dividends per Share	0.000	0.018	0.021	0.049	0.000	0.000	0.000	0.000
Dividend payout ratio	0%	470%	20%	25%	0%	0%	0%	0%
Dep & Amor.	166.7	204.1	218.2	256.1	307.7	341.8	377.6	410.5
as a % of sales	4.6%	4.8%	5.0%	4.1%	3.3%	3.1%	3.0%	2.9%
as a % of gross PPE								
<b>Balance Sheet (millions RMB)</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016E</b>	<b>FY 2017</b>	<b>FY 2018E</b>	<b>FY 2019E</b>	<b>FY 2020E</b>
<b>Assets</b>								
+ Cash & Near Cash Items	822.4	761.4	788.0	705.2	941.2	1,188.3	1,105.9	1,135.5
+ Short-Term Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receivable	1,092.5	1,358.3	1,548.9	2,264.4	2,526.6	2,716.2	3,063.1	3,399.3
+ Inventories	722.3	796.1	889.0	1,127.1	1,872.3	1,728.9	1,989.5	2,252.9
+ Other Current Assets	176.1	134.2	209.4	214.6	235.6	240.3	245.1	250.0
<b>Total Current Assets</b>	<b>2,813.2</b>	<b>3,050.0</b>	<b>3,435.3</b>	<b>4,311.4</b>	<b>5,575.6</b>	<b>5,873.7</b>	<b>6,403.6</b>	<b>7,037.8</b>
+ Long-Term Investments	10.5	23.3	54.3	124.0	132.6	49.9	49.9	49.9
+ Gross Fixed Assets	2,434.6	2,472.0	2,591.9	2,780.1	3,094.3	3,641.9	4,019.9	4,405.3
- Accumulated Depreciation	-505.1	-593.9	-772.866	-902.4	-1,048.1	-1,389.9	-1,767.5	-2,178.0
+ Net Fixed Assets	1,929.5	1,878.1	1,819.0	1,877.7	2,046.2	2,251.9	2,252.4	2,227.2
+ Other Long-Term Assets	161.2	212.2	243.6	266.6	378.0	393.1	408.8	425.2
+ Goodwill & other Intangible Assets	91.6	97.0	181.4	293.7	492.9	528.9	563.4	591.4
<b>Total Long-Term Assets</b>	<b>2,192.8</b>	<b>2,210.7</b>	<b>2,298.2</b>	<b>2,561.9</b>	<b>3,049.7</b>	<b>3,223.9</b>	<b>3,274.6</b>	<b>3,293.7</b>
<b>Total Assets</b>	<b>5,006.0</b>	<b>5,260.7</b>	<b>5,733.5</b>	<b>6,873.3</b>	<b>8,625.3</b>	<b>9,097.5</b>	<b>9,678.2</b>	<b>10,331.5</b>
<b>Liabilities &amp; Shareholders' Equity</b>								
+ Accounts Payable	1,067.7	1,216.4	1,220.1	1,631.5	1,665.2	1,843.2	2,057.5	2,260.0
+ Short-Term Borrowings	1,183.1	1,139.5	1,471.0	1,275.0	2,904.6	2,904.6	2,904.6	2,904.6
+ Other Short-Term Liabilities	466.1	465.8	464.7	645.7	795.9	835.7	877.5	921.4
<b>Total Current Liabilities</b>	<b>2,716.9</b>	<b>2,821.7</b>	<b>3,155.9</b>	<b>3,552.2</b>	<b>5,365.7</b>	<b>5,583.5</b>	<b>5,839.5</b>	<b>6,086.0</b>
+ Long-Term Borrowings	39.4	62.2	84.8	488.5	109.3	109.3	109.3	109.3
+ Other Long-Term Liabilities	39.4	46.1	47.2	74.7	103.5	105.6	107.7	109.8
<b>Total Liabilities</b>	<b>2,795.7</b>	<b>2,930.0</b>	<b>3,287.9</b>	<b>4,115.4</b>	<b>5,578.6</b>	<b>5,798.5</b>	<b>6,056.6</b>	<b>6,305.2</b>
+ Total Preferred Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	114.6	115.7	115.8	115.8	116.2	116.2	116.2	116.2
+ Retained Earnings & Other Equity	2,095.8	2,214.9	2,323.7	2,582.0	2,760.4	3,044.3	3,401.4	3,844.2
<b>Total Shareholders' Equity</b>	<b>2,210.3</b>	<b>2,330.7</b>	<b>2,439.6</b>	<b>2,697.9</b>	<b>2,876.6</b>	<b>3,160.5</b>	<b>3,517.6</b>	<b>3,960.4</b>
+ Minority Interest	0.0	0.0	6.0	60.0	170.1	138.6	104.0	66.0
<b>Total Liabilities &amp; Equity</b>	<b>5,006.0</b>	<b>5,260.7</b>	<b>5,733.5</b>	<b>6,873.3</b>	<b>8,625.3</b>	<b>9,097.5</b>	<b>9,678.2</b>	<b>10,331.5</b>

Cash Flow (millions RMB)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E	FY 2020E
+ Net Income	-129.3	81.8	106.6	261.9	231.9	283.8	357.1	442.8
+ Depreciation & Amortization	166.7	204.1	218.2	256.1	307.7	341.8	377.6	410.5
+ Other Non-Cash Adjustments	193.3	99.4	178.91	37.6	0.2	-29.4	-32.5	-35.9
+ Changes in Non-Cash Capital	141.5	-200.2	-360.9	-366.5	-844.3	166.9	-356.3	-358.2
<b>Cash From Operating Activities</b>	<b>372.2</b>	<b>185.0</b>	<b>142.8</b>	<b>189.1</b>	<b>-304.5</b>	<b>763.2</b>	<b>345.9</b>	<b>459.3</b>
+ Disposal of Fixed Assets	27.6	29.1	9.5					
+ Capital Expenditures	-369.0	-122.7	-311.3	-188.2	-314.2	-547.6	-378.1	-385.3
+ Increase in Investments	-16.9	-71.0	-63.3	-92.7	-120.0	67.5	-15.7	-16.4
+ Decrease in Investments	29.8	0.0	1.0					
+ Other Investing Activities	25.5	14.1	16.0	-112.3	-199.2	-36.0	-34.5	-28.0
<b>Cash From Investing Activities</b>	<b>-303.0</b>	<b>-150.6</b>	<b>-348.1</b>	<b>-393.3</b>	<b>-633.4</b>	<b>-516.0</b>	<b>-428.3</b>	<b>-429.7</b>
+ Dividends Paid	0.0	0.0	-24.0	-65.9	0.0	0.0	0.0	0.0
+ Change in Short-Term Borrowings	0.0	0.0	0.0	-196.0	1,629.5	0.0	0.0	0.0
+ Increase in Long-Term Borrowing	1,631.3	1,382.9	2,427.4	403.6	-379.1	0.0	0.0	0.0
+ Decrease in Long-term Borrowing	-1,803.4	-1,404.8	-2,081.2					
+ Increase in Capital Stocks	0.5	1.3	0.5					
+ Decrease in Capital Stocks	0.0	0.0	0.0					
+ Other Financing Activities	165.0	-27.3	-56.3					
<b>Cash from Financing Activities</b>	<b>-6.6</b>	<b>-47.9</b>	<b>266.4</b>	<b>141.6</b>	<b>1,250.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Changes in Cash</b>	<b>62.7</b>	<b>-13.5</b>	<b>61.1</b>	<b>-62.6</b>	<b>312.5</b>	<b>247.2</b>	<b>-82.4</b>	<b>29.6</b>
Opening cash					725.4	941.2	1,188.3	1,105.9
Closing cash					941.2	1,188.3	1,105.9	1,135.5

Ratio Analysis	FY 2013	FY 2014	FY 2015	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E
<b>Per Share Data (RMB)</b>								
Basic EPS (adjusted)	-0.01	0.00	0.11	0.19	0.17	0.21	0.26	0.33
Diluted EPS (adjusted)	-0.01	0.00	0.11	0.19	0.17	0.21	0.26	0.33
Dividend per share (DPS)	0.000	0.018	0.021	0.049	0.000	0.000	0.000	0.000
Book Value per share (BVPS)	1.6	1.7	1.7	1.8	1.7	1.9	2.2	2.5
<b>Margins (%)</b>								
Gross Margin	16.6%	16.9%	17.8%	16.4%	12.3%	12.6%	12.6%	12.6%
Operating Margin	1.3%	3.2%	6.0%	6.2%	4.3%	4.8%	4.9%	5.1%
EBITDA Margin	5.9%	8.0%	11.0%	10.3%	7.6%	7.9%	7.9%	8.0%
Pre-Tax Margin (adjusted)	0.0%	0.8%	3.9%	4.8%	3.1%	3.4%	3.7%	4.0%
Net Income Margin (adjusted)	-0.2%	0.1%	3.3%	4.2%	2.4%	2.6%	2.8%	3.1%

<b>Return Ratios</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016E</b>	<b>FY 2017E</b>	<b>FY 2018E</b>	<b>FY 2019E</b>	<b>FY 2020E</b>
<b>DuPont ROE (%)</b>	<b>-0.3%</b>	<b>0.2%</b>	<b>5.8%</b>	<b>9.7%</b>	<b>8.1%</b>	<b>9.0%</b>	<b>10.2%</b>	<b>11.2%</b>
Margin (%)	-0.2%	0.1%	3.3%	4.2%	2.4%	2.6%	2.8%	3.1%
Turnover (x)	0.7	0.8	0.8	0.9	1.1	1.2	1.3	1.4
Leverage (x)	2.3	2.3	2.4	2.5	3.0	2.9	2.8	2.6
ROA	-0.2%	0.1%	2.5%	3.8%	2.7%	3.1%	3.7%	4.3%
Return on Capital Employed	2.0%	5.6%	10.1%	11.7%	12.6%	14.9%	16.1%	17.1%
Return on Invested Capital	-0.2%	0.1%	3.6%	5.9%	3.9%	4.6%	5.5%	6.3%
Net cash / equity	-18.1%	-18.9%	-31.5%	-39.2%	-72.1%	-57.8%	-54.2%	-47.4%
<b>FCF Calculation</b>								
Op. cash	372.2	185.0	142.8	189.1	-304.5	763.2	345.9	459.3
capex	-369.0	-122.7	-311.3	-188.2	-314.2	-547.6	-378.1	-385.3
FCF (RMB million)	3.2	62.3	-168.5	0.8	-618.7	215.6	-32.2	73.9
FCF margin (%)	0.1%	1.5%	-3.9%	0.0%	-6.5%	2.0%	-0.3%	0.5%
FCF per share	0.00	0.05	-0.12	0.00	-0.45	0.16	-0.02	0.05
Price/FCF per share	412.6	21.6	-8.0	1633.3	-2.2	6.3	-42.4	18.4
<b>Net Cash calculation</b>								
Cash + short term investments	822.4	761.4	788.0	705.2	941.2	1,188.3	1,105.9	1,135.5
Less: long term debt	-1,222.5	-1,201.7	-1,555.9	-1,763.5	-3,013.9	-3,013.9	-3,013.9	-3,013.9
<b>Net Cash (Debt)</b>	<b>-400.2</b>	<b>-440.2</b>	<b>-767.9</b>	<b>-1,058.2</b>	<b>-2,072.7</b>	<b>-1,825.6</b>	<b>-1,907.9</b>	<b>-1,878.3</b>
Net cash per share	-0.3	-0.3	-0.57	-0.8	-1.5	-1.3	-1.4	-1.4
<b>Valuation ratio's</b>								
P/B	0.42	0.67	0.35	0.56	0.57	0.52	0.46	0.40
P/E	-116.36	292.74	5.50	5.17	5.88	4.80	3.82	3.08
P/S	0.24	0.35	0.18	0.21	0.14	0.12	0.11	0.09
EV/sales	0.47	0.31	0.41	0.29	0.19	0.16	0.14	0.13
EV/EBITDA	7.96	3.89	3.74	2.78	5.00	4.15	3.60	3.16
EV/EBIT	36.43	9.68	6.88	4.62	4.37	3.43	2.90	2.47
EV/FCF	524.44	21.34	-10.63	2159.77	-2.90	8.31	-55.71	24.23
Dividend Yield (%)	0.0%	1.8%	2.1%	4.9%	0.0%	0.0%	0.0%	0.0%
Div payout on FCF	0.0%	38.9%	-16.7%	7951.0%	0.0%	0.0%	0.0%	0.0%
Receivable days	103	105	123	111	92	91	89	87
Inventory days	94	78	86	70	66	66	66	66
payables days	125	118	125	99	72	70	68	66
Current ratio	1.0	1.1	1.1	1.2	1.0	1.1	1.1	1.2



	FY 2013	FY 2014	FY 2015	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E
<b>Working Capital Ratios</b>								
Receivable days	103	105	123	111	92	91	89	87
Inventory days	94	78	86	70	66	66	66	66
payables days	125	118	125	99	72	70	68	66
Current ratio	1.0	1.1	1.1	1.2	1.0	1.1	1.1	1.2
Quick ratio	0.8	0.8	0.8	0.9	0.7	0.7	0.8	0.8
Working capital	457.1	606.4	962.5	1329.0	2173.3	2006.4	2362.7	2720.8
Cash conversion cycle	72.3	65.7	84.0	82.0	85.8	86.2	86.5	86.7
<b>Leverage Ratios</b>								
Debt / equity	55%	52%	64%	65%	105%	95%	86%	76%
Net cash (debt) / equity	-18%	-19%	-31%	-39%	-72%	-58%	-54%	-47%
Net cash (debt) / mkt cap	-45%	-29%	-98%	-78%	-153%	-135%	-141%	-139%
Net cash (debt) / capital	-12%	-12%	-19%	-24%	-35%	-30%	-29%	-27%
<b>Coverage Ratios</b>								
Interest coverage [EBIT]	0.6	1.5	2.9	3.9	3.0	3.0	3.6	4.2
Interest coverage [Opt. CF]	5.1	2.0	1.6	1.9	-2.2	4.3	2.0	2.6
<b>Earnings Quality Ratios</b>								
Net operating assets/liab [NOA]	2610.5	2770.9	3213.5	3816.2	5119.4	5124.6	5529.5	5904.7
Average NOA	2750.5	2690.7	2992.2	3514.8	4467.8	5122.0	5327.1	5717.1
B/S accrual ratio	-0.10	0.06	0.15	0.17	0.29	0.00	0.08	0.07
CF accrual ratio	-0.01	-0.03	-0.01	0.10	0.10	0.23	0.01	0.08
<b>Enterprise Value Calculation (in RMB)</b>								
Market Cap.	889	1,506	782	1,345				
+ Minority Interest	0	0	6	170				
+Total Debt (ST & LT Debt)	1,223	1,202	1,556	3,014				
- Cash & Equivalents	694	695	695	941				
<b>Enterprise Value</b>	<b>1,418</b>	<b>2,013</b>	<b>1,649</b>	<b>3,588</b>				

DCF model	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
(in RMB million)													
EBIT	47	137	260	388	410	523	618	725	791	846	889	916	905
% growth	-55%	194%	90%	49%	6%	27%	18%	17%	9%	7%	5%	3%	-1%
Taxes @	-7%	27%	21%	17%	12%	15%	17%	17%	20%	20%	20%	20%	20%
EBIAT	50	100	206	321	363	444	516	605	632	677	711	733	724
% growth	-48%	101%	105%	56%	13%	23%	16%	17%	4%	7%	5%	3%	-1%
+ D&A	167	204	218	256	308	342	378	410	448	479	504	519	525
- Capital expenditures	-369	-123	-311	-188	-314	-548	-378	-385	-437	-487	-533	-572	-602
- Change in net WC	142	-200	-361	-366	-844	167	-356	-358	-366	-353	-323	-276	-214
<b>Free Cash Flow to Firm</b>	-11	-19	-248	22	-488	406	159	272	276	316	359	404	433
FCY y/y growth	-129%	70%	1241%	-109%	-2325%	-183%	-61%	71%	1%	14%	14%	12%	7%

#### Value per Share

Terminal Growth	Cost of capital				
	7.5%	8.5%	9.5%	10.5%	11.5%
1.5%	3.23	2.46	1.89	1.45	1.10
1.8%	3.42	2.59	1.99	1.52	1.15
2.0%	3.56	2.69	2.05	1.57	1.19
2.3%	3.79	2.84	2.16	1.65	1.25
2.5%	3.96	2.95	2.24	1.70	1.29

WACC	9.5%
PV of Free Cash Flow	1,736
PV of Terminal Value	2,856
Add: Net Cash	-2,073
Less: Minority Interest	-60
Total Equity Value	2,459
Shares outstanding	1,353
<b>DCF value</b>	<b>2.05</b>

All values in RMB except DCF value which is in HKD

## Disclaimer

Evaluate Research provides institutional equity research on global public mid-cap companies. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; and we do not seek insider information for writing this report. Opinions, estimates and projections in this report constitute the current judgment of the analyst(s) as on the date of this report. It is not guaranteed as to accuracy, nor is it a complete statement, of the financial products, securities, or markets referred to. Opinions are subject to change without notice. To the extent permitted by law, Evaluate does not accept any liability arising from the use of information in this report.

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Evaluate does not make individually tailored investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. The securities, issuances or investment strategies discussed in this report may not be suitable for all investors. Investments involve many risk and potential loss of capital. Past performance is not necessarily indicative of future results. Evaluate may publish further update notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies as may be decided by the research management.

The companies or funds covered in this research may pay us a fee in order for this research to be made available. Any fees are paid upfront without recourse. Evaluate and its analysts are free to issue any opinion on the security or issuance. Evaluate seeks to comply with the CFA Institute Standards as well as NIRI Guidelines (National Investor Relations Institute, USA) for all conduct, research and dissemination of research, particularly governing independence in issuer commissioned research.

Forward-looking information or statements in this report contain information that is based on assumptions, forecasts and estimates of future results, and therefore involve known and unknown risks or uncertainties which may cause the actual results, performance or achievements of their subject matter to be materially different from the current expectations.

Evaluate makes an effort to use reliable, comprehensive information, but makes no representation that this information is accurate or complete. Evaluate is under no obligation to update or keep current the information contained herein. The compensation of the analyst who prepares any Evaluate research report is determined exclusively by Evaluate's research and senior management.

Evaluate Research Ltd. does not conduct any investment banking, stock brokerage or money management business and accordingly does not itself hold any positions in the securities mentioned in this report. However, Evaluate's directors, affiliates, and employees may have a position in any or related securities mentioned in this report at an appropriate time period after the report has already been disseminated, and in compliance with all CFA Institute Standards.

No part of this report may be reproduced or published without the prior written consent from Evaluate Research Ltd. Please cite the source when quoting.

Copyright 2015 Evaluate Research Limited. All rights reserved.

## Evaluate Research Ltd.

30/F Singapore Land Tower  
50 Raffles Place  
SINGAPORE

Sai Capital Bldg – Suite 402  
Opp. JW Marriott Hotel  
SB RD, Pune 411 016  
INDIA

### Analyst:

Ajeya Patil  
ajeya@evaluateresearch.com

### Client Servicing:

Pooja Burgul  
pooja@evaluateresearch.com

*I, Ajeya Patil, certify that the opinions expressed in this report accurately reflect my personal views about the subject and its underlying securities. I further certify that the performance of stocks or securities in this report is not directly tied to my compensation, though my compensation is based on firm profitability, including the investment research and management performance of Evaluate Research Ltd.*