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30 March 2023

China

Technology

Reuters 0354.HK
Bloomberg 354 HK

Priced on 30 March 2023

HS CEI @ 6,922.7

12M hi/lo HK\$8.17/4.83

12M price target HK\$6.70
±% potential +32%

Shares in issue 3,090.0m
Free float (est.) 88.4%

Market cap US\$2.3bn

3M ADV US\$19.5m

Major shareholders

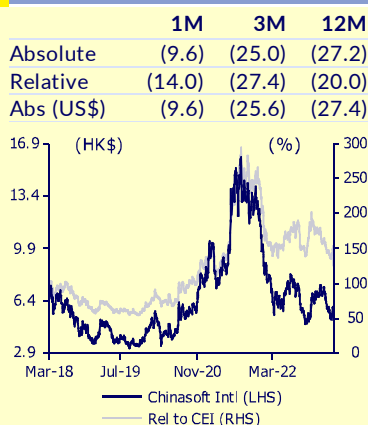
Yuhong Chen 11.6%
UBS Group 8.6%

Blended ESG Score (%)*

Overall 65.3
Country average 68.3
GEM sector average 74.8

*Click to visit company page on [clsa.com](https://www.clsa.com) for details

Stock performance (%)



Source: Bloomberg

Patience is needed

Weak 2022 results; Cost-control should help on margin in 2023

Chinasoft Intl (CSI) posted a weak set of 2022 results with revenue up +8.7% YoY to Rmb20,005m. Net profit was down by -33.2% YoY to Rmb759m. All major line items missed consensus and our forecasts. Looking forward in 2023, we expect some margin improvement as management committed to cost control in 2H22 and 2023; improving efficiency of existing employees is one of its goals this year. Smaller customers and SOEs are expected to lead the sales growth. We revise our forecasts and lower TP from HK\$7.70 to HK\$6.70. Maintain BUY.

A miss on 2022 results

2022 revenue was up 8.7% YoY to Rmb20,005m, but below consensus and our estimate by 8.8% and 1.7%, respectively. Of which, Cloud Intelligence Group (CIG) recorded revenue of Rmb6,618m, up 24.9% YoY and accounted for 33.1% of total revenue. Revenue from fundamental IT services was up merely by 2.2% YoY to Rmb13,387m. GPM was down 370bps to 23.0%, mainly due to disturbance from Covid-19. 2022 net profit recorded at Rmb759m, down by -33.2% YoY, implying a miss to consensus and ours forecasts by 34.0% and 13.8%, respectively.

Pressure from key accounts (key customers)

Sales from Huawei (49% of revenue) was down -0.6% YoY in 2022 to Rmb9,827m, impacted mainly by the consumer business and the macro overhang on the brand. HSBC (6% of revenue) and Tencent (4% of revenue) were down by -1.9% and -1.3% YoY, respectively. Growing momentum was on the smaller accounts such as China Mobile and China Telecom. We see scope for CSI to increase revenue from state-owned enterprises (SOE) and companies tapped into "Xinchuang".

2023 is still not easy; but cost control and higher efficiency should help

Management sees ongoing pressure on the fundamental IT services business, mainly from Huawei and other key accounts; more time is needed for recovery. On employee size, number of staff was down to 82,140 in 2022, or -10.8% YoY. One-off expenses related to staff layoff should be mostly booked in 2022, hence, we expect some margin improvement in 2023. Also, CSI expects staff number to stay flat or slight down this year; this shall protect some margin downside.

Maintain BUY

We revise our forecast and introduce 2025 estimates. As a result, we lower our target price from HK\$7.70 to HK\$6.70, based on 15x PE 24CL (unchanged), largely in-line with the company's average forward 12-month PE. We continue to view CSI as a long-term beneficiary from the digitalization tailwind in China; and we see the company also expanding to SOE on "Xinchuang" initiative, amid challenges in near-term from Huawei and other key accounts. Maintain BUY.

Financials

Year to 31 December	21A	22A	23CL	24CL	25CL
Revenue (Rmbm)	18,398	20,005	21,521	23,971	26,548
Rev forecast change (%)	-	-	(6.0)	(6.7)	(7.6)
Net profit (Rmbm)	1,137	759	940	1,205	1,574
NP forecast change (%)	-	-	(15.7)	(13.0)	(2.9)
EPS (Rmb)	0.38	0.25	0.30	0.39	0.51
CL/consensus (7) (EPS%)	-	-	63	69	97
EPS growth (% YoY)	12.5	(34.4)	20.8	28.2	30.6
PE (x)	11.0	16.8	13.9	10.9	8.3
Dividend yield (%)	0.6	0.6	0.8	1.0	1.3
ROE (%)	11.2	6.4	7.5	8.9	10.5
Net debt/equity (%)	(31.1)	(25.4)	(24.1)	(25.8)	(29.1)

Source: www.clsa.com

Financials at a glance

Year to 31 December	2021A	2022A	2023CL	(% YoY)	2024CL	2025CL
Profit & Loss (Rmbm)						
Revenue	18,398	20,005	21,521	7.6	23,971	26,548
Cogs (ex-D&A)	(13,050)	(14,882)	(15,762)		(17,370)	(18,973)
Gross Profit (ex-D&A)	5,348	5,123	5,759	12.4	6,601	7,575
SG&A and other expenses	(3,948)	(3,870)	(4,120)		(4,567)	(5,034)
Op Ebitda	1,400	1,253	1,639	30.8	2,034	2,541
Depreciation/amortisation	(444)	(523)	(595)		(657)	(727)
Op Ebit	956	731	1,044	42.9	1,376	1,814
Net interest inc/(exp)	(100)	(113)	(109)		(105)	(102)
Other non-Op items	396	212	95	(55.2)	49	12
Profit before tax	1,252	830	1,030	24.1	1,320	1,724
Taxation	(115)	(71)	(88)		(113)	(148)
Profit after tax	1,137	759	942	24.1	1,207	1,577
Minority interest	0	1	(2)		(2)	(3)
Net profit	1,137	759	940	23.8	1,205	1,574
Adjusted profit	1,137	759	940	23.8	1,205	1,574
Cashflow (Rmbm)						
Operating profit	956	731	1,044	42.9	1,376	1,814
Depreciation/amortisation	444	523	595	13.8	657	727
Working capital changes	(887)	(899)	(588)		(660)	(651)
Other items	449	63	(46)		(122)	(204)
Net operating cashflow	962	416	1,005	141.3	1,252	1,686
Capital expenditure	(449)	(321)	(848)		(640)	(696)
Free cashflow	513	95	157	64.8	611	990
M&A/Others	(81)	33	53	61.1	59	68
Net investing cashflow	(530)	(288)	(795)		(582)	(628)
Increase in loans	173	(151)	0		0	0
Dividends	(70)	0	0		0	0
Net equity raised/other	1,274	(488)	(109)		(105)	(102)
Net financing cashflow	1,377	(639)	(109)		(105)	(102)
Incr/(decr) in net cash	1,810	(511)	100		564	956
Exch rate movements	(40)	(40)	(40)		(40)	(40)
Balance sheet (Rmbm)						
Cash & equivalents	5,556	5,005	5,066	1.2	5,590	6,506
Accounts receivable	5,894	6,157	6,148	(0.1)	6,477	6,804
Other current assets	2,069	2,439	2,840	16.5	3,131	3,437
Fixed assets	1,220	1,119	978	(12.7)	797	581
Investments	385	485	485	0	485	485
Intangible assets	1,037	1,124	1,092	(2.8)	1,126	1,162
Other non-current assets	741	636	1,062	67.1	1,192	1,342
Total assets	16,902	16,965	17,672	4.2	18,799	20,318
Short-term debt	917	766	766	0	766	766
Accounts payable	2,252	2,043	1,810	(11.4)	1,711	1,636
Other current liabs	817	744	783	5.2	842	898
Long-term debt/CBs	1,021	1,162	1,162	0	1,162	1,162
Provisions/other LT liabs	269	114	114	0	114	114
Shareholder funds	11,604	12,110	13,010	7.4	14,175	15,708
Minorities/other equity	23	25	27	7.3	29	32
Total liabs & equity	16,902	16,965	17,672	4.2	18,799	20,318
Ratio analysis						
Revenue growth (% YoY)	30.5	8.7	7.6		11.4	10.7
Ebitda margin (%)	7.6	6.3	7.6		8.5	9.6
Ebit margin (%)	5.2	3.7	4.9		5.7	6.8
Net profit growth (%)	19.1	(33.2)	23.8		28.2	30.6
Op cashflow growth (% YoY)	(16.5)	(56.7)	141.3		24.6	34.7
Capex/sales (%)	2.4	1.6	3.9		2.7	2.6
Net debt/equity (%)	(31.1)	(25.4)	(24.1)		(25.8)	(29.1)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	11.2	6.4	7.5		8.9	10.5
ROIC (%)	11.9	8.1	10.5		12.8	15.8

Source: www.clsa.com

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Patience is needed

2022 results summary

Revenue: FY22 revenue was up by +8.7% YoY to Rmb20,005m, from Rmb18,398m in FY21. This missed consensus forecasts by 8.8%, and a tad miss to our estimates by 1.7%, given an uneasy year in 2022.

Gross profit and GPM: Gross profit was recorded at Rmb4,600m, representing a decline of -6.4% YoY from Rmb4,904m in FY21. GPM was down by 370bps to 23.0%, a miss to ours and consensus forecasts by 130bps and 200bps, respectively. The worsened GPM was mainly due to the impact of COVID-19 pandemic during FY22 and fluctuations in demand from major customers leading to an increase in one-time costs.

Core operating profit (GP - S&M expenses - R&D expenses - Admin expenses) and Core OPM: Core operating profit decreased from Rmb956m in FY21 to Rmb731m in FY22, representing a decline of -23.6% YoY. Core OPM was down by roughly -1.5% from 5.2% to 3.7%.

Net profit and NPM: Net profit attributable to the shareholders in FY22 recorded at Rmb759m, down by -33.2% YoY from Rmb1,137m in FY21. The NPM was down from 6.2% to 3.8%. CL forecasted FY22 net profit at Rmb881m; while consensus forecasted of Rmb1,150m. A miss to ours and consensus forecasts by -13.8% and -34.0%, respectively.

Dividend: The Company declared the distribution of a final dividend of HK\$0.0567 per share for FY22, representing a payout of around 10.5% (6.2% for FY21).

Figure 1

Revenue summary and forecasts, by customer						
Rmbm	FY20A	FY21A	FY22A	FY23CL	FY24CL	FY25CL
Huawei	8,030	9,882	9,827	9,630	10,112	10,617
Growth (%)		23.1	(0.6)	(2.0)	5.0	5.0
Contribution (%)	56.9	53.7	49.1	44.7	42.2	40.0
HSBC	830	1,181	1,159	1,159	1,251	1,326
Growth (%)		42.2	(1.9)	-	8.0	6.0
Contribution (%)	5.9	6.4	5.8	5.4	5.2	5.0
Tencent	500	706	697	697	752	798
Growth (%)		41.2	(1.3)	-	8.0	6.0
Contribution (%)	3.5	3.8	3.5	3.2	3.1	3.0
Alibaba	400	597	467	467	505	535
Growth (%)		49.2	(21.7)	-	8.0	6.0
Contribution (%)	2.8	3.2	2.3	2.2	2.1	2.0
Ping An	450	523	490	490	538	587
Growth (%)		16.1	(6.3)	-	10.0	9.0
Contribution (%)	3.2	2.8	2.4	2.3	2.2	2.2
Others	3,891	5,510	7,366	9,079	10,813	12,685
Growth (%)		41.6	33.7	23.2	19.1	17.3
Contribution (%)	27.6	29.9	36.8	42.2	45.1	47.8
Total revenue	14,101	18,398	20,005	21,521	23,971	26,548
Growth (%)	17.1	30.5	8.7	7.6	11.4	10.7

Source: CLSA, Company

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Figure 2

Financial summary						
Rmbm	FY20A	FY21A	FY22A	FY23CL	FY24CL	FY25CL
Revenue	14,101	18,398	20,005	21,521	23,971	26,548
Growth (%)	17.1	30.5	8.7	7.6	11.4	10.7
Gross profit	4,118	4,904	4,600	5,164	5,944	6,848
Growth (%)	14.9	19.1	(6.2)	12.3	15.1	15.2
Margin (%)	29.2	26.7	23.0	24.0	24.8	25.8
Core operating profit	1,157	956	731	1,044	1,376	1,814
Growth (%)	20.4	(17.4)	(23.6)	42.9	31.8	31.8
Margin (%)	8.2	5.2	3.7	4.9	5.7	6.8
Operating profit	1,113	908	675	989	1,321	1,759
Growth (%)	23.4	(18.4)	(25.6)	46.4	33.6	33.1
Margin (%)	7.9	4.9	3.4	4.6	5.5	6.6
Net profit	948	1,137	759	942	1,207	1,577
Growth (%)	25.3	19.9	(33.2)	24.1	28.2	30.6
Margin (%)	6.7	6.2	3.8	4.4	5.0	5.9
Net profit attributable to ordinary shareholders	955	1,137	759	940	1,205	1,574
Growth (%)	26.5	19.1	(33.2)	23.8	28.2	30.6
Margin (%)	6.8	6.2	3.8	4.4	5.0	5.9

Source: CLSA, Company

Figure 3

Forecast changes									
Rmbm	NEW			OLD			% change or ppt change		
	FY23CL	FY24CL	FY25CL	FY23CL	FY24CL	FY25CL	FY23CL	FY24CL	FY25CL
Revenue	21,521	23,971	26,548	22,887	25,680	na	(6.0%)	(6.7%)	na
Growth (%)	7.6	11.4	10.7	12.4	12.2	na			
Gross profit	5,164	5,944	6,848	5,666	6,486	na	(8.9%)	(8.4%)	na
Growth (%)	12.3	15.1	15.2	14.8	14.5	na			
Margin (%)	24.0	24.8	25.8	24.8	25.3	na	(0.8)	(0.5)	na
Operating profit	989	1,321	1,759	921	1,245	na	7.3%	6.1%	na
Growth (%)	46.4	33.6	33.1	46.1	35.2	na			
Margin (%)	4.6	5.5	6.6	4.0	4.8	na	0.6	0.7	na
Net profit	942	1,207	1,577	1,117	1,388	na	(15.7%)	(13.0%)	na
Growth (%)	24.1	28.2	30.6	26.8	24.2	na			
Margin (%)	4.4	5.0	5.9	4.9	5.4	na	(0.5)	(0.4)	na
Net profit attributable to ordinary shareholders	940	1,205	1,574	1,115	1,385	na	(15.7%)	(13.0%)	na
Growth (%)	23.8	28.2	30.6	26.8	24.2	na			
Margin (%)	4.4	5.0	5.9	4.9	5.4	na	(0.5)	(0.4)	na

Source: CLSA, Company

Figure 4

10-year historical 12-month forward PE



Dated: 30 Mar 2023. Source: CLSA, Refinitiv

Figure 5

Comp table - IT services										
Company	Ticker	Last price (local ccy)	Mkt Cap (US\$m)	3M ADTO (US\$m)	PE CY23 (x)	PE CY24 (x)	EV/Sales CY23 (x)	EV/Sales CY24 (x)	EV/EBITDA CY23 (x)	EV/EBITDA CY24 (x)
Digital China	000034.SZ	30.23	2,936	138.8	na	na	0.2	0.2	17.4	14.9
GIE Consulting	300687.SZ	37.33	2,189	53.9	38.6	28.3	4.6	3.5	31.8	23.8
Accenture	ACN.N	279.94	185,487	204.4	24.2	22.3	2.8	2.6	15.4	14.1
IBM	IBM	129.71	117,661	683.3	13.7	12.8	2.5	2.5	10.3	10.1
Infosys	INFY.NS	1,383.55	69,639	111.6	23.6	20.5	2.5	2.5	10.3	10.1
TATA Consultancy	TCS.NS	3,138.90	139,773	71.7	27.1	23.8	4.9	4.4	18.2	16.2
Average					25.4	21.5	2.9	2.6	17.2	14.9

Dated: 30 Mar 2023. Source: CLSA, Refinitiv

Figure 6

Target price computation - New	
	24CL
24CL Net profit attributable to equity shareholders (Rmbm)	1,205
Targeted PE multiple (x)	15.0
Equity value (Rmbm)	18,070
Number of shares - diluted (m)	3,090
Exchange rate (US\$/Rmb)	6.80
Exchange ratio (HK\$/Rmb)	0.87
Target price (HK\$)	6.70

Source: CLSA

Figure 7

Target price computation - Old: 2 Mar 2023	
	24CL
24CL Net profit attributable to equity shareholders (Rmbm)	1,385
Targeted PE multiple (x)	15.0
Equity value (Rmbm)	20,780
Number of shares - diluted (m)	3,091
Exchange rate (US\$/Rmb)	6.80
Exchange ratio (HK\$/Rmb)	0.87
Target price (HK\$)	7.70

Source: CLSA

Valuation details

Our new TP is based on 15.0x 24CL PE, largely in-line to the company's 10-year historical average PE.

Investment risks

We believe the primary investment risks come from 1) uncertainties on Huawei; 2) uncertainties from new products/services development; 3) risk of greater competition; 4) risk of economic downturn; and 5) risk from Covid-19 pandemic that delays delivery of services.

Detailed financials

Profit & Loss (Rmbm)

Year to 31 December	2019A	2020A	2021A	2022A	2023CL	2024CL	2025CL
Revenue	12,042	14,101	18,398	20,005	21,521	23,971	26,548
Cogs (ex-D&A)	(8,156)	(9,654)	(13,050)	(14,882)	(15,762)	(17,370)	(18,973)
Gross Profit (ex-D&A)	3,886	4,448	5,348	5,123	5,759	6,601	7,575
Research & development costs	(809)	(930)	(1,249)	(1,238)	(1,321)	(1,464)	(1,614)
Selling & marketing expenses	(618)	(729)	(943)	(949)	(1,010)	(1,118)	(1,230)
Other SG&A	(1,196)	(1,302)	(1,756)	(1,683)	(1,789)	(1,985)	(2,190)
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	1,264	1,486	1,400	1,253	1,639	2,034	2,541
Depreciation/amortisation	(303)	(329)	(444)	(523)	(595)	(657)	(727)
Op Ebit	961	1,157	956	731	1,044	1,376	1,814
Interest income	29	76	0	0	0	0	0
Interest expense	(166)	(151)	(100)	(113)	(109)	(105)	(102)
Net interest inc/(exp)	(137)	(76)	(100)	(113)	(109)	(105)	(102)
Associates/investments	-	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	149	237	419	348	231	185	148
Provisions/other non-cash items	(174)	(283)	(23)	(135)	(135)	(135)	(135)
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	799	1,035	1,252	830	1,030	1,320	1,724
Taxation	(42)	(87)	(115)	(71)	(88)	(113)	(148)
Profit after tax	757	948	1,137	759	942	1,207	1,577
Preference dividends	-	-	-	-	-	-	-
Profit for period	757	948	1,137	759	942	1,207	1,577
Minority interest	(2)	7	0	1	(2)	(2)	(3)
Net profit	755	955	1,137	759	940	1,205	1,574
Extraordinaries/others	0	0	0	0	0	0	0
Profit available to ordinary shares	755	955	1,137	759	940	1,205	1,574
Dividends	(48)	(52)	(70)	(80)	(98)	(126)	(165)
Retained profit	707	903	1,067	680	842	1,078	1,409
Adjusted profit	755	955	1,137	759	940	1,205	1,574
EPS (Rmb)	0.3	0.3	0.4	0.3	0.3	0.4	0.5
Adj EPS [pre excep] (Rmb)	0.3	0.3	0.4	0.3	0.3	0.4	0.5
Core EPS (Rmb)	0.3	0.3	0.4	0.3	0.3	0.4	0.5
DPS (Rmb)	0.0	0.0	0.0	0.0	0.0	0.0	0.1

Profit & loss ratios

Year to 31 December	2019A	2020A	2021A	2022A	2023CL	2024CL	2025CL
Growth (%)							
Revenue growth (% YoY)	13.8	17.1	30.5	8.7	7.6	11.4	10.7
Ebitda growth (% YoY)	13.8	17.6	(5.8)	(10.5)	30.8	24.1	24.9
Ebit growth (% YoY)	4.6	20.4	(17.4)	(23.6)	42.9	31.8	31.8
Net profit growth (%)	5.5	26.5	19.1	(33.2)	23.8	28.2	30.6
EPS growth (% YoY)	9.9	20.6	12.5	(34.4)	20.8	28.2	30.6
Adj EPS growth (% YoY)	9.9	20.6	12.5	(34.4)	20.8	28.2	30.6
DPS growth (% YoY)	1.9	32.4	(24.2)	8.5	18.9	28.2	30.6
Core EPS growth (% YoY)	9.9	20.6	12.5	(34.4)	20.8	28.2	30.6
Margins (%)							
Gross margin (%)	32.3	31.5	29.1	25.6	26.8	27.5	28.5
Ebitda margin (%)	10.5	10.5	7.6	6.3	7.6	8.5	9.6
Ebit margin (%)	8.0	8.2	5.2	3.7	4.9	5.7	6.8
Net profit margin (%)	6.3	6.8	6.2	3.8	4.4	5.0	5.9
Core profit margin	6.3	6.8	6.2	3.8	4.4	5.0	5.9
Op cashflow margin	6.3	8.2	5.2	2.1	4.7	5.2	6.4
Returns (%)							
ROE (%)	12.1	12.5	11.2	6.4	7.5	8.9	10.5
ROA (%)	8.6	8.9	5.8	3.9	5.5	6.9	8.5
ROIC (%)	15.1	16.2	11.9	8.1	10.5	12.8	15.8
ROCE (%)	15.7	17.5	12.9	8.6	11.0	13.5	16.7
Other key ratios (%)							
Effective tax rate (%)	5.3	8.4	9.2	8.6	8.6	8.6	8.6
Ebitda/net int exp (x)	9.2	19.6	14.1	11.1	15.0	19.3	25.0
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	8.9	9.7	6.6	10.9	10.7	10.7	10.7

Source: www.clsa.com

Balance sheet (Rmbm)

Year to 31 December	2019A	2020A	2021A	2022A	2023CL	2024CL	2025CL
Cash & equivalents	2,526	3,787	5,556	5,005	5,066	5,590	6,506
Accounts receivable	3,297	4,580	5,894	6,157	6,148	6,477	6,804
Inventories	54	51	163	99	107	119	132
Other current assets	2,321	1,976	1,906	2,339	2,734	3,012	3,305
Current assets	8,198	10,394	13,520	13,601	14,054	15,198	16,748
Fixed assets	802	858	1,220	1,119	978	797	581
Investments	228	247	385	485	485	485	485
Goodwill	974	941	844	844	844	844	844
Other intangible assets	127	145	193	281	249	283	318
Other non-current assets	416	502	741	636	1,062	1,192	1,342
Total assets	10,745	13,087	16,902	16,965	17,672	18,799	20,318
Short term loans/OD	1,523	368	917	766	766	766	766
Accounts payable	1,229	1,753	2,252	2,043	1,810	1,711	1,636
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	84	83	181	154	154	154	154
Other current liabs	314	514	636	590	629	687	744
Current liabilities	3,150	2,718	3,986	3,553	3,358	3,318	3,300
Long-term debt/leases/other	200	1,421	1,021	1,162	1,162	1,162	1,162
Convertible bonds	728	0	0	0	0	0	0
Provisions/other LT liabs	134	171	269	114	114	114	114
Total liabilities	4,211	4,311	5,276	4,830	4,635	4,595	4,577
Share capital	3,262	4,867	6,432	6,151	6,151	6,151	6,151
Retained earnings	3,677	4,492	5,760	6,498	7,398	8,562	10,096
Reserves/others	(471)	(605)	(589)	(539)	(539)	(539)	(539)
Shareholder funds	6,468	8,753	11,604	12,110	13,010	14,175	15,708
Minorities/other equity	66	23	23	25	27	29	32
Total equity	6,534	8,776	11,627	12,135	13,037	14,204	15,741
Total liabs & equity	10,745	13,087	16,902	16,965	17,672	18,799	20,318
Total debt	2,451	1,790	1,938	1,929	1,929	1,929	1,929
Net debt	(75)	(1,997)	(3,618)	(3,077)	(3,137)	(3,662)	(4,578)
Adjusted EV	11,736	10,441	8,520	9,254	9,511	8,989	8,076
BVPS (Rmb)	2.4	3.1	3.9	4.0	4.2	4.6	5.1

Balance sheet ratios

Year to 31 December	2019A	2020A	2021A	2022A	2023CL	2024CL	2025CL
Key ratios							
Current ratio (x)	2.6	3.8	3.4	3.8	4.2	4.6	5.1
Growth in total assets (% YoY)	2.5	21.8	29.2	0.4	4.2	6.4	8.1
Growth in capital employed (% YoY)	11.7	5.0	18.1	13.1	9.3	6.5	5.9
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	3.2	1.6	2.0	4.6	1.9	1.5	1.1
Gross debt to Ebitda (x)	1.9	1.2	1.4	1.5	1.2	0.9	0.8
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(1.1)	(22.8)	(31.1)	(25.4)	(24.1)	(25.8)	(29.1)
Gross debt/equity (%)	37.5	20.4	16.7	15.9	14.8	13.6	12.3
Interest cover (x)	6.0	8.1	9.6	6.5	9.5	13.0	17.8
Debt cover (x)	0.3	0.6	0.5	0.2	0.5	0.6	0.9
Net cash per share (Rmb)	0.0	0.7	1.2	1.0	1.0	1.2	1.5
Working capital analysis							
Inventory days	2.5	1.9	2.9	3.1	2.3	2.3	2.3
Debtor days	89.2	102.0	103.9	109.9	104.3	96.1	91.3
Creditor days	58.8	54.5	54.2	50.9	43.0	35.6	31.0
Working capital/Sales (%)	33.6	30.2	26.6	29.0	29.7	29.4	29.0
Capital employed analysis							
Sales/Capital employed (%)	186.4	208.0	229.7	220.8	217.4	227.4	237.8
EV/Capital employed (%)	181.7	154.0	106.4	102.2	96.1	85.3	72.3
Working capital/Capital employed (%)	62.6	62.8	61.1	64.1	64.6	66.9	69.0
Fixed capital/Capital employed (%)	12.4	12.7	15.2	12.4	9.9	7.6	5.2
Other ratios (%)							
PB (x)	1.9	1.4	1.1	1.1	1.0	0.9	0.8
EV/Ebitda (x)	9.3	7.0	6.1	7.4	5.8	4.4	3.2
EV/OCF (x)	15.6	9.1	8.9	22.2	9.5	7.2	4.8
EV/FCF (x)	18.1	10.5	16.6	97.4	60.7	14.7	8.2
EV/Sales (x)	1.0	0.7	0.5	0.5	0.4	0.4	0.3
Capex/depreciation (%)	43.8	57.0	113.2	66.2	152.5	103.8	101.8

Source: www.clsa.com

Cashflow (Rmbm)

Year to 31 December	2019A	2020A	2021A	2022A	2023CL	2024CL	2025CL
Operating profit	961	1,157	956	731	1,044	1,376	1,814
Operating adjustments	(162)	(122)	296	99	(14)	(56)	(89)
Depreciation/amortisation	303	329	444	523	595	657	727
Working capital changes	(516)	(533)	(887)	(899)	(588)	(660)	(651)
Interest paid / other financial expenses	-	-	-	-	-	-	-
Tax paid	(84)	(83)	(20)	(97)	(88)	(113)	(148)
Other non-cash operating items	252	405	173	61	56	47	34
Net operating cashflow	754	1,153	962	416	1,005	1,252	1,686
Capital expenditure	(107)	(163)	(449)	(321)	(848)	(640)	(696)
Free cashflow	647	990	513	95	157	611	990
Acq/inv/disposals	5	(98)	(50)	(160)	(19)	-	-
Int, invt & associate div	(122)	69	(30)	193	72	59	68
Net investing cashflow	(224)	(192)	(530)	(288)	(795)	(582)	(628)
Increase in loans	52	217	173	(151)	0	0	0
Dividends	(48)	(52)	(70)	0	0	0	0
Net equity raised/others	(653)	196	1,274	(488)	(109)	(105)	(102)
Net financing cashflow	(650)	362	1,377	(639)	(109)	(105)	(102)
Incr/(decr) in net cash	(119)	1,323	1,810	(511)	100	564	956
Exch rate movements	(1)	(62)	(40)	(40)	(40)	(40)	(40)
Opening cash	2,646	2,526	3,787	5,556	5,005	5,066	5,590
Closing cash	2,526	3,787	5,556	5,005	5,066	5,590	6,506
OCF PS (Rmb)	0.3	0.4	0.3	0.1	0.3	0.4	0.5
FCF PS (Rmb)	0.2	0.4	0.2	0.0	0.1	0.2	0.3

Cashflow ratio analysis

Year to 31 December	2019A	2020A	2021A	2022A	2023CL	2024CL	2025CL
Growth (%)							
Op cashflow growth (% YoY)	367.9	52.8	(16.5)	(56.7)	141.3	24.6	34.7
FCF growth (% YoY)	5,934.9	52.9	(48.1)	(81.5)	64.8	290.3	61.9
Capex growth (%)	(28.9)	52.2	175.7	(28.4)	163.9	(24.5)	8.7
Other key ratios (%)							
Capex/sales (%)	0.9	1.2	2.4	1.6	3.9	2.7	2.6
Capex/op cashflow (%)	14.2	14.1	46.7	77.2	84.4	51.2	41.3
Operating cashflow payout ratio (%)	8.9	8.1	7.8	19.8	10.0	10.3	10.0
Cashflow payout ratio (%)	6.4	4.5	7.3	19.1	9.8	10.1	9.8
Free cashflow payout ratio (%)	7.4	5.2	13.7	83.7	62.9	20.6	16.7

DuPont analysis

Year to 31 December	2019A	2020A	2021A	2022A	2023CL	2024CL	2025CL
Ebit margin (%)	8.0	8.2	5.2	3.7	4.9	5.7	6.8
Asset turnover (x)	1.1	1.2	1.2	1.2	1.2	1.3	1.4
Interest burden (x)	0.8	0.9	1.3	1.1	1.0	1.0	1.0
Tax burden (x)	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Return on assets (%)	8.6	8.9	5.8	3.9	5.5	6.9	8.5
Leverage (x)	1.7	1.6	1.5	1.4	1.4	1.3	1.3
ROE (%)	12.1	12.5	11.2	6.4	7.5	8.9	10.5

EVA® analysis

Year to 31 December	2019A	2020A	2021A	2022A	2023CL	2024CL	2025CL
Ebit adj for tax	910	1,060	868	668	955	1,259	1,659
Average invested capital	6,006	6,534	7,298	8,290	9,108	9,850	10,482
ROIC (%)	15.1	16.2	11.9	8.1	10.5	12.8	15.8
Cost of equity (%)	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Cost of debt (adj for tax)	3.8	3.7	3.6	3.7	3.7	3.7	3.7
Weighted average cost of capital (%)	11.6	11.6	11.6	11.6	11.6	11.6	11.6
EVA/IC (%)	3.5	4.6	0.3	(3.5)	(1.1)	1.2	4.2
EVA (Rmbm)	212	302	21	(294)	(102)	116	442

Source: www.clsa.com



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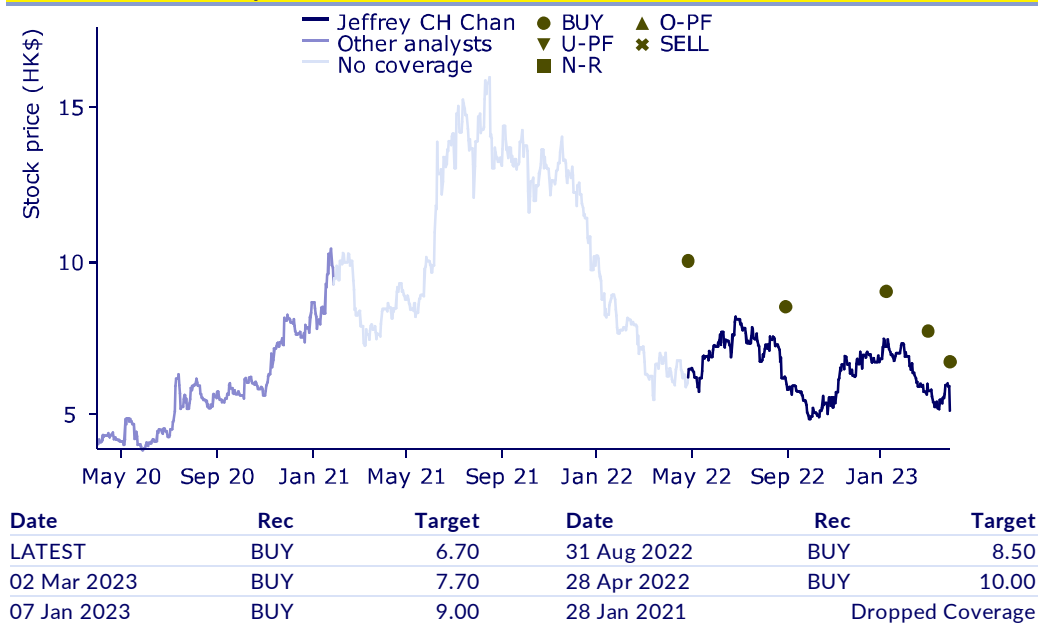
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