

6 December 2017

**BUY**  
Unchanged

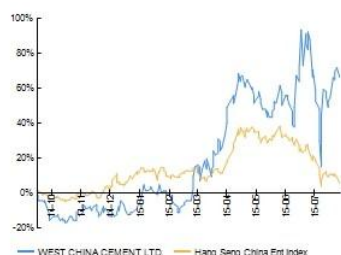
## 延伸新业务

### 西部水泥 (2233:HK)

#### Market Data: 5 Dec

|                          |           |
|--------------------------|-----------|
| Closing Price (HK\$)     | 1.14      |
| Price Target (HK\$)      | 1.65      |
| HSCEI                    | 11484     |
| HSSCI                    | 4304      |
| 52-week High/Low (HK\$)  | 1.16/0.70 |
| Market Cap (US\$m)       | 797       |
| Market Cap (HK\$m)       | 6180      |
| Shares Outstanding (m)   | 4,517     |
| Exchange Rate (Rmb-HK\$) | 1.26      |

#### Price Performance Chart:



Source: Bloomberg

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#### Related Reports

"West China Cement (2233 HK) – Get by with a little help" 15 March 2016

#### Financial summary and valuation

|                    | 2015    | 2016E   | 2017E   | 2018E | 2019E |
|--------------------|---------|---------|---------|-------|-------|
| Revenue (Rmbm)     | 3,501   | 4,361   | 4,649   | 4,860 | 4,899 |
| YoY (%)            | (9.8)   | 24.6    | 6.6     | 4.5   | 0.8   |
| Net income (Rmbm)  | (309)   | 10      | 522     | 656   | 775   |
| YoY (%)            | (961.2) | (103.3) | 4,954.7 | 25.7  | 18.1  |
| EPS (Rmb)          | (0.06)  | 0.00    | 0.09    | 0.12  | 0.14  |
| Diluted EPS (Rmb)  | (0.06)  | 0.00    | 0.09    | 0.12  | 0.14  |
| ROE (%)            | (5.2)   | 0.2     | 4.0     | 4.4   | 5.1   |
| Debt/asset (%)     | 0.05    | 0.04    | 0.04    | 0.04  | 0.04  |
| Dividend yield (%) | (1.35)  | 0.04    | 2.14    | 2.69  | 3.18  |
| PE (x)             | (14.7)  | 455.1   | 9.8     | 7.7   | 6.5   |
| PB (x)             | 0.8     | 0.8     | 0.4     | 0.4   | 0.4   |
| EV/Ebitda (x)      | 11.9    | 4.5     | 4.0     | 3.5   | 2.9   |

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

**陕西省水泥供需关系明显好转** 受益于错峰生产计划的实施，从16年下半年，基建行业的水泥需求开始大幅上升。陕西省作为西部水泥的核心市场，水泥价格从人民币230元/吨上升至现价人民币355元/吨，这是继2014年以来最大幅度的价格上涨。现在的市场竞争格局保持稳定，并在未来三年内都利好西部水泥。不同于其他地区的是，陕西省的水泥需求很大程度上依赖于基础建设，尤其是铁路和公路建设。由于陕西和新疆都是国家“一带一路”战略和“2020年脱贫计划”关注的重点地区，因此我们对这两个省份未来三年内的水泥需求都十分有信心。为了达到国家的战略目标，政府批复了非常多的在未来三年内实施的基建项目而不是以往的五年时长。2016年下半年的实际需求由于当地高速公路和铁路基建项目的释放也在不断增长。

**骨料业务和尧柏环保获额外收益** 从2017年下半年开始，像海螺水泥、华润水泥和中国建材的大型企业更专注于拓展上游供应链业务：骨料业务。与此同时，西部水泥也大力发展骨料业务并计划于2018增加1600万吨的产能。在17年第三季度，陕西省骨料的每吨毛利率甚至高于水泥已达到人民币70-75元/吨，我们预计骨料将在未来的两年持续为西部水泥带来额外10%的收入。在2015年，西部水泥和海螺创业联合创立了尧柏环保，重点发展工业危废处理业务。海螺创业和西部水泥分别拥有尧柏环保60%和20%的股份。在今年下半年，尧柏环保已有37.5万吨的产能并都归在海螺创业的运营产能里。根据海螺创业的管理层透露，2017年的产量将达到11-12万吨，每吨价格在人民币1000元/吨左右，而每吨净利润已达到人民币700元/吨。公司的目标产能利用率在19年将提高至90%，届时毛利率将稳定在55%。

**与海螺水泥在运营上深度合作** 虽然安徽海螺水泥(914 HK - 买入)曾尝试收购西部水泥，但现在并没有新的动态，这增加了投资者的担忧并导致对西部水泥的股价压制，陕西市场因其利好的战略位置仍十分具有吸引力。据海螺的管理层透露，海螺水泥与西部水泥的合作非常有效，实现了削减成本，提高效率以及其他运营事项的有效促进，因此我们认为，海螺有很大的可能性将再次增持西部水泥的股份。另外，我们发现西部水泥的单位成本和单位利润在海螺参股后都出现了很大程度的提升，因此我们认为公司的运营效率将持续提高。

**维持买入** 我们对于陕西市场的结构变化带来的市场潜力和定价能力十分乐观。我们认为2017年的每股净收益将维持在人民币0.09元(同比增长4954%)；另外，2018年每股净收益区间为人民币0.10元至人民币0.12元(同比增长25.7%)。从吨企业价值的角度分析，我们认为目前公司的股价下行潜力有限，其现价为人民币256/吨，仍大大低于市场均价人民币400元/吨。鉴于17年下半年的市场供求明显好转，我们认为，每吨企业价值在人民币360元/吨是合理的。我们的目标价上调至1.65港元，仍具有43.5%的空间，维持买入。

The company does not hold any equities or derivatives of the listed company mentioned in this report ("target"), but then we shall provide financial advisory services subject to the relevant laws and regulations. Any affiliates of the company may hold equities of the target, which may exceed 1 percent of issued shares subject to the relevant laws and regulations. The company may also provide investment banking services to the target. The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for relevant disclosure materials or log into www.swsresearch.com under disclosure column for further information. The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

Cement prices in Shaanxi Province, West China Cement's (WCC) core market, have increased 54.4% since mid-2016 to a current Rmb355/t as government-mandated production cuts tighten supply and an accelerated pace of infrastructure build-out drives up demand. Furthermore, we note improving profitability stemming operating efficiencies achieved thanks to the firm's tie-up with investor Anhui Conch Cement (914:HK – Outperform) and as the firm records a greater contribution from the higher-margin aggregates business. We maintain our EPS forecast at Rmb0.09 in 17E (+327% YoY) but raise our forecasts from Rmb0.10 to Rmb0.12 in 18E (+27% YoY) and from Rmb0.12 to Rmb0.14 in 19E (+16.7% YoY) to reflect the higher profitability outlook, and lift our target price to HK\$1.65 to reflect a valuation more in line with the sector. We transfer coverage of WCC with our BUY recommendation unchanged.

**Wading upstream.** Starting 2H17, major cement producers in China – among them WCC – have increased focus on developing integrated upstream businesses. WCC plans to add 16mt of aggregates capacity in 2018 and we expect aggregates sales to contribute an additional 10% of revenue to WCC in 2018-19E. We note that, as of 3Q17, aggregates unit gross margin topped that of cement in Shaanxi at Rmb70-75/t. Meanwhile, WCC and Anhui Conch, through its subsidiary China Conch Venture Holdings (586:HK – N-R), formed an industrial hazardous waste treatment joint venture, Yaobai Environmental, in 2015. As of 2H17, Yaobai owned 375kt of treatment capacity, operated entirely by Conch Venture. According to Conch Venture management, the firm will process 110-120kt in 2017 at an average selling price (ASP) of Rmb1,000/t, resulting in unit net profit of Rmb700/t. The firm targets a 90% utilisation rate by 19E with gross margin at c.55%.

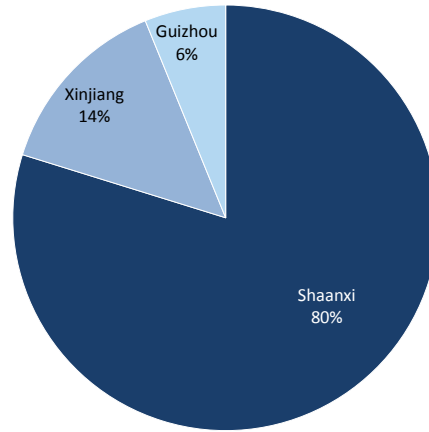
**Cooperation with Conch.** While we note rising concerns among investors over the lack of progress in the proposed merger of WCC into Conch may be weighing on WCC's stock performance, the fundamental market outlook in Shaanxi Province remain positive given strong fixed-asset investment (FAI) in the region. Conch management has stressed progress in its efforts to improve operating efficiency in its partnership with WCC, and we thus believe that there is a significant possibility that Conch will seek to increase its holdings in WCC further. We found WCC unit cost and margin have improved substantially since Conch joined its board and we see room for fresh operating efficiency gains in future.

**Maintain BUY.** We remain upbeat on market conditions in Shaanxi. We maintain our EPS forecast at Rmb0.09 in 17E (+4954% YoY) and raise our forecasts from Rmb0.10 to Rmb0.12 in 18E (+25.7% YoY) and from Rmb0.12 to Rmb0.14 in 19E (+18.1% YoY). We see little downside to the stock's current price – on an EV/capacity basis, it is trading at Rmb256/t, vs a market average of Rmb400/t. Given the improving market supply-demand outlook from 2H17 onwards, we believe that an EV/capacity multiple of Rmb360/t is reasonable and thus we raise our target price from HK\$1.50 to HK\$1.65. With 43.5% upside, we transfer coverage with a maintained BUY recommendation.

# Into the limelight

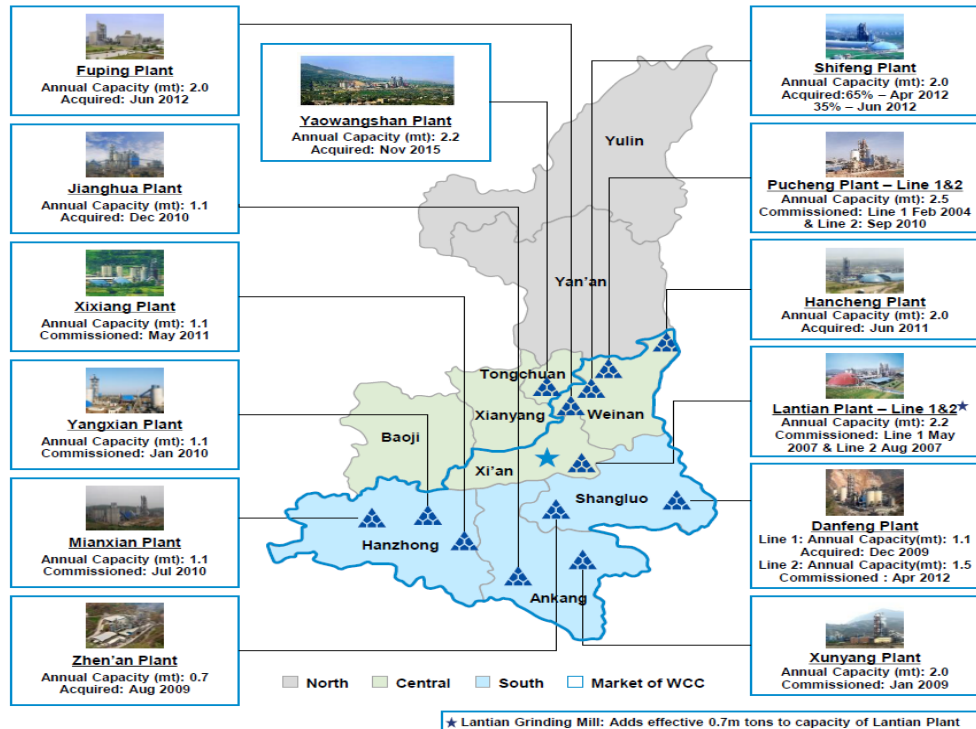
West China Cement is the one of leading cement producers in Shaanxi Province, with total capacity of 29.2mt, of which 23.3mt is located in Shaanxi, 4.1mt in Xinjiang and 1.8mt in Guizhou. In Southern Shaanxi, the firm dominates the local market, accounting for c.90% of cement sales.

Fig 1: WCC capacity, by geography



Source: Company data, SWS Research

Fig 2: WCC capacity locations and details



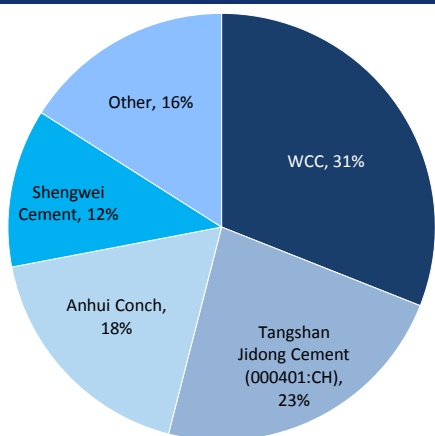
Source: Company information.

Source: Company website, SWS Research

Cement prices in Shaanxi Province, West China Cement's (WCC) core market, have increased from Rmb230/t in mid-2016 to a current Rmb355/t as government-mandated production cuts (its peak-shifting programme under which it orders producers to halt operations for a given number of days, varying by province and manufacturer depending on factors such as local air quality conditions and age/extent of capacity in region) tighten supply and an accelerated pace of infrastructure build-out drives up demand.

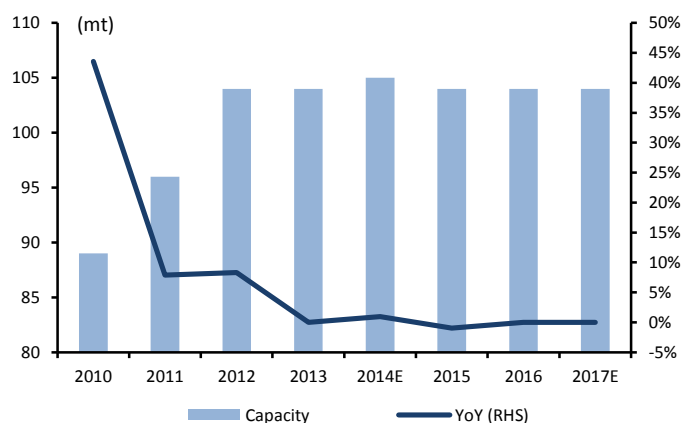
The Shaanxi market is well-known for intensive price competition among major players since 2013, which has impacted WCC’s earnings. Following consolidation of WCC and Anhui Conch in 2016, the top four players now account for 80%-plus of the local market. Although the central Shaanxi market remains oversupplied, we note that no new capacity addition are scheduled for the next three years.

Fig 3: Shaanxi market breakdown, by major market players



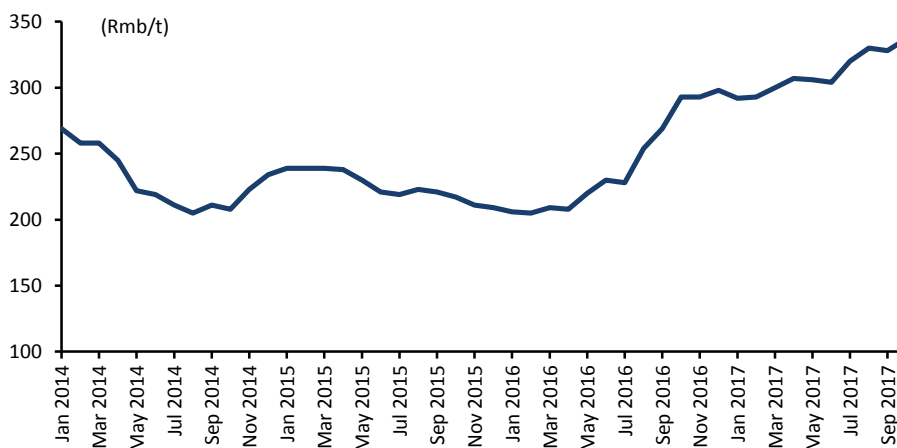
Source: Company data, SWS Research

Fig 4: Shaanxi capacity



Source: Company data, SWS Research

Fig 5: 42.5-grade Portland cement price in Shaanxi Province



Source: Wind, SWS Research

Unlike other regions, Shaanxi’s cement demand is much more heavily predicated upon infrastructure construction, particularly rail and road building. However, due to a drying up of funding from the regional government, infrastructure project construction has slowed since 2H15, leading to a decline in regional cement prices. Investors are concerned over the impact of cement demand on earnings in 2018.

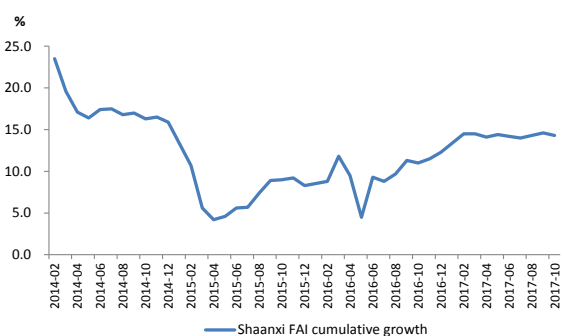
However, we remain confident on the medium-term infrastructure demand outlook in Shaanxi and nearby Xinjiang due to the government’s *One Belt, One Road* trade links initiative and the its drive to eradicate poverty in China by 2020. As part of these goals, the government has released a number of key infrastructure projects for the next three years, accelerating the project planning timeframe from the more typical five-year horizon. We note that actual demand picked up in 2H16 as local high-speed rail and highway construction picked up. We expect WCC to become one of the largest beneficiaries of increased cement demand for local projects and note that it has already signed to be the supplier for 10 expressway and eight railway projects, in addition to four power station projects for 2017-20. Meanwhile, property investment growth in the Shaanxi capital, Xi’an, reached 22% YoY in 1H17, and we expect new starts to rise 5-8% in 2H17E and 2018E.

Fig 6: WCC infrastructure projects

| Project Name   | Planned construction period |
|--|-----------------------------|
| <b>Railway</b>   |                             |
| Xi'an-Chengdu Railway (Central and Shannan Region)   | 2012-17                     |
| Yangpingguan-Ankang Railway Line II (Shannan Region)   | 2016-18                     |
| Yinchuan-Xi'an Railway (Central Region)  | 2016-21                     |
| Xi'an-Yan'an Railway (Central Region)  | 2017-21                     |
| Xi'an-Wuhan Railway (Shannan Region)   | 2017-21                     |
| Xi'an-Chongqing Railway (Shannan Region)   | 2017-21                     |
| Xi'an-Famen Temple Inter-City Railway (Central Region)   | 2017-21                     |
| Xi'an-Hancheng Inter-City Railway (Central Region)   | 2017-21                     |
| Yanliang-Xianyang International Airport Inter-City Railway (Central Region)                          | 2017-21                     |
| <b>Expressway</b>  |                             |
| Shanyang-Zhashui (Shannan Region)  | 2017-18                     |
| Taoba Expressway (Shannan Region)  | 2016-20                     |
| Taibai-Fengxian Expressway (Shannan Region)  | 2017-18                     |
| Baoji-Hanzhong Expressway (Shannan Region)   | 2013-17                     |
| Xixiang-Zhenba Expressway (Shannan Region)   | 2017-20                     |
| Heyang-Tongchuan Expressway (Central Region)   | 2017-20                     |
| Reconstruction and extension of Pucheng-Laoyukou Expressway of Beijing-Kunming line (Central Region) | 2018-21                     |
| Shiquan-Ningshan Expressway (Shannan Region)   | 2017-21                     |
| Xi'an-Xianyang South Ring Expressway (Central Region)  | 2018-21                     |
| <b>Airport</b>   |                             |
| Ankang Airport (Shannan Region)  | 2017-21                     |
| Yan'an Airport (Central Region)  | 2017-21                     |
| Xi'an Xianyang International Airport Phase III (Central Region)                                      | 2017-20                     |
| <b>Hydropower Station</b>  |                             |
| Zhen'an Hydropower Station (Shannan Region)  | 2017-21                     |
| <b>Other</b>   |                             |
| Dongzhuang Reservoir (Central Region)  | 2017-21                     |
| Xi'an Metro Line 9 (Central Region)  | 2017-20                     |
| Xunyang Hydropower Station (Shannan Region)  | 2017-22                     |
| Xi'an Metro Line 5&6 (Central Region)  | 2016-20                     |
| Xi'an Railway Station Reconstruction and Expansion (Central Region)                                  | 2016-18                     |
| Nangoumen Reservoir (Central Region)   | 2016-20                     |
| HanjiangNo.4 Bridge (Shannan Region)   | 2016-18                     |
| Donghe Reservoir (Shannan Region)  | 2016-18                     |

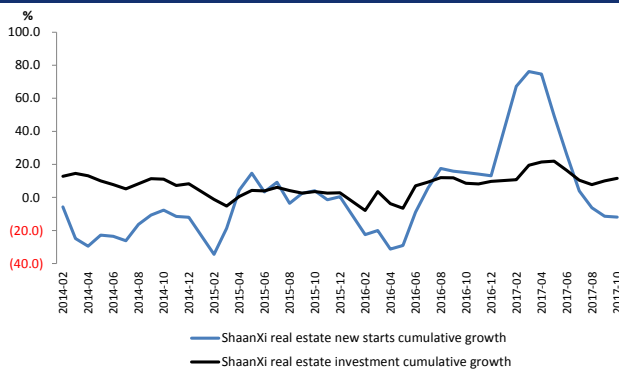
Source: Company data, SWS Research

Fig 7: Shaanxi FAI growth, 2014-17



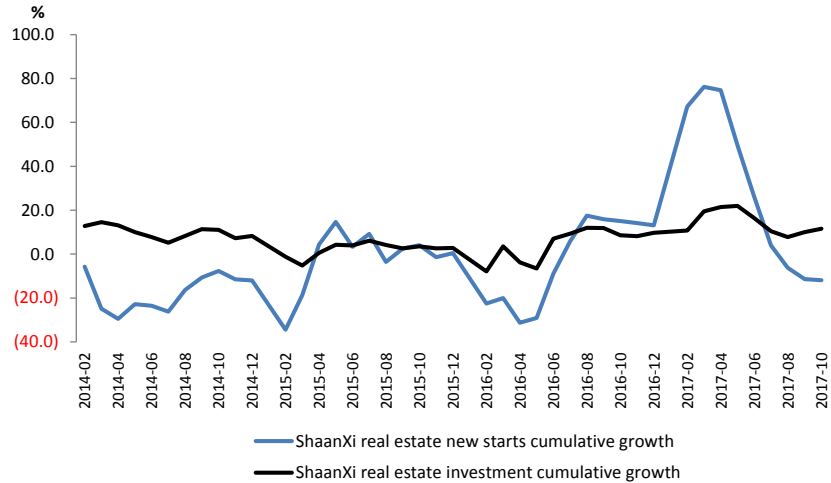
Source: Wind, SWS Research

Fig 8: Shaanxi capacity



Source: Wind, SWS Research

**Fig 9: Shaanxi Property investment and new start in 2014-2017**



Source: Wind, SWS Research

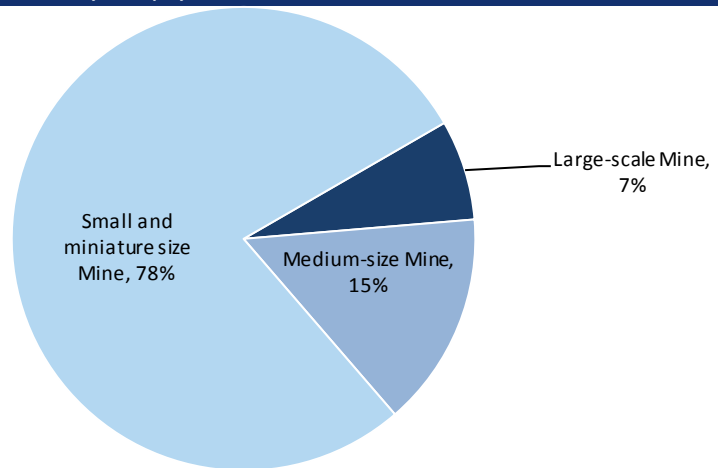
**Extra boost from upstream services**

Starting 2H17, major cement producers in China – among them WCC – have increased focus on developing integrated upstream businesses.

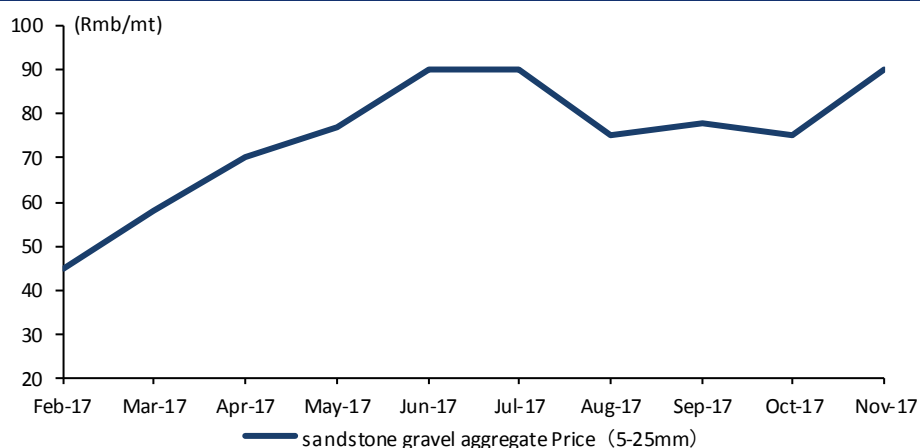
Small clinker lines, previously the dominant power in the aggregates business, have been forced out of the market by increasingly stringent environmental regulations. According to China Aggregate Digital, around 3,000 small operators were forced out of the market in 1H17, equivalent to almost 50% of producers in the market.

WCC plans to add 16mt of aggregates capacity in 2018 and we expect aggregates sales to contribute an additional 10% of revenue to WCC in 2018-19E. We note that, as of 3Q17, aggregates unit gross margin topped that of cement in Shaanxi at Rmb70-75/t.

**Fig 10: Aggregate business dominated by small players**



Source: China aggregates, SWS Research

**Fig 11: Aggregate price in 2017**


Source: China aggregates, SWS Research

**Fig 12: Aggregate business margin**

| Company                 | Revenue (Rmbm) | Cost | GP  | 1H17 GP(%) | 1H16 GP(%) |
|-------------------------|----------------|------|-----|------------|------------|
| Anhui Conch 914 HK      | 292            | 134  | 158 | 53.9       | 42.3       |
| Huaxin Cement 600801 CH | 220            | 122  | 98  | 44.6       | 32.5       |

Source: China aggregates, SWS Research

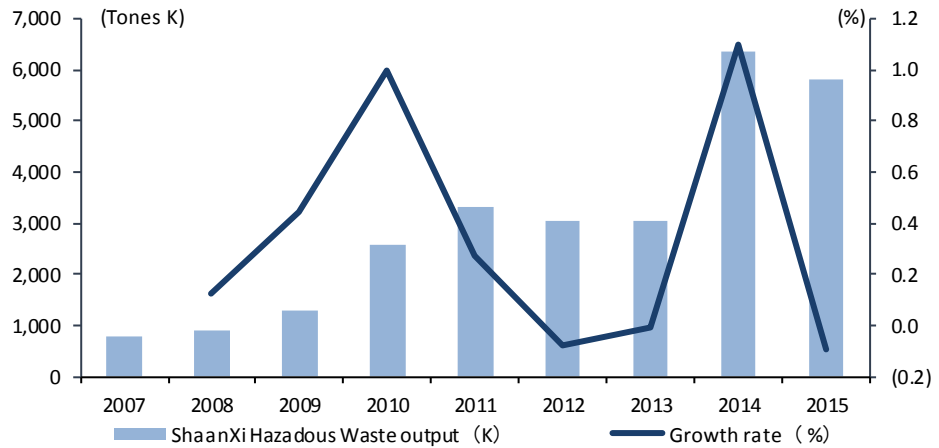
**Fig 13: WCC aggregate business breakdown in 2017E-2019E**

| Rmb/t         | 2017E | 2018E | 2019E |
|---------------|-------|-------|-------|
| Capacity (mt) | 4     | 16    | 16    |
| Volume (mt)   | 1     | 6.5   | 10    |
| ASP           | 80    | 75    | 72    |
| ACP           | 20    | 20    | 22    |
| GP            | 60    | 55    | 50    |

Source: China aggregates, SWS Research

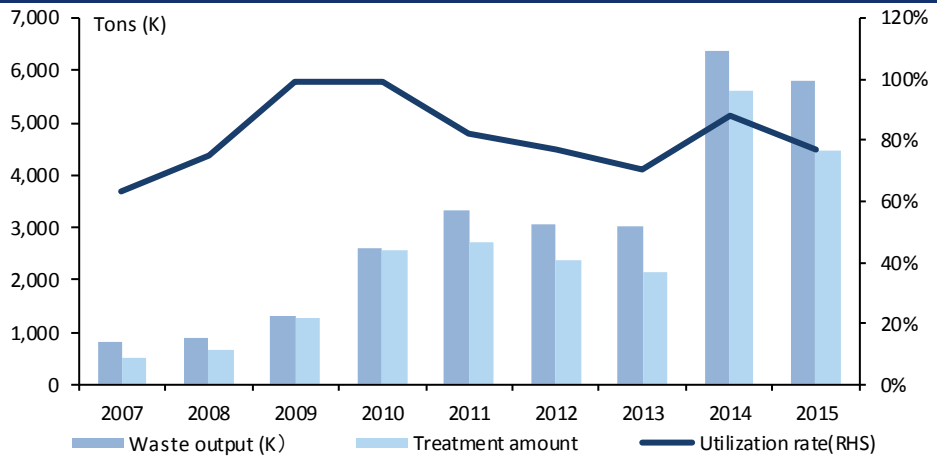
Meanwhile, WCC and investor Anhui Conch Cement (914:HK –Outperform), through subsidiary China Conch Venture Holdings (586:HK – N-R), formed a 40-60 industrial hazardous waste treatment joint venture, Yaobai Environmental, in 2015, in which WCC holds 20%. As of 2H17, Yaobai owned 375kt of treatment capacity, operated entirely by Conch Venture. According to Conch Venture management, the firm will process 110-120kt in 2017 at an average selling price (ASP) of Rmb1,000/t, resulting in unit net profit of Rmb700/t. The firm targets a 90% utilisation rate by 19E with gross margin at c.55%. From Shaanxi Environmental Bureau data, we found there is an ongoing gap between regional waste output and treatment, and we believe Yaobai Environment will continue to benefit as the government focuses on environmental issues.

Fig 14: Shaanxi waste output and growth in 2012-2015



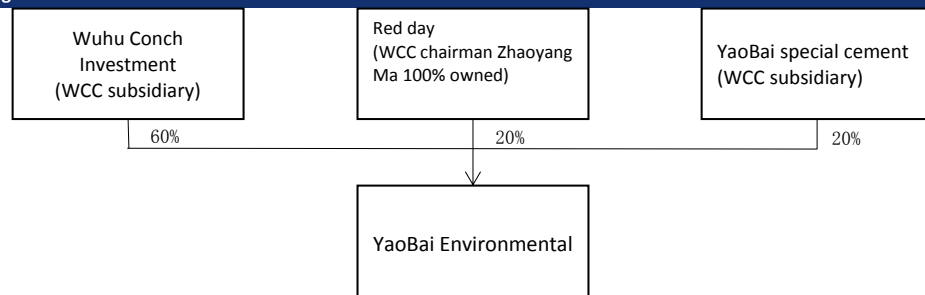
Source: Shaanxi environment bureau, SWS Research

Fig 15: Shaanxi waste output and treatment gap in 2007-2015



Source: Shaanxi environment bureau, SWS Research

Fig 16: Yaobai environmental shareholder structure



Source: Company, SWS Research

Fig 17: Yaobai environmental capacity breakdown

| Number   | Status    | Location           | Business Mode          | Size (T) |
|----------|-----------|--------------------|------------------------|----------|
| 1        | Completed | Lantian, Shaanxi   | Joint Venture          | 90,000   |
| 2        |           | Fuping, Shaanxi    |                        | 100,000  |
| 3        |           | Qian, Shaanxi      |                        | 70,000   |
| 4        |           | MianXian, Shaanxi  | Joint Venture          | 45,000   |
| 5        |           | Huangning, Shaanxi | Equity Fund Investment | 70,000   |
| Subtotal |           |                    |                        | 375,000  |

Source: Company, SWS Research



**Fig 18: Yaobai revenue and profit prediction in 2017E-2018E**

| Rmb k                  | 2017E   | 2018E   | 2019E   | 2020E   |
|------------------------|---------|---------|---------|---------|
| Annual Capacity(tons)  | 375,000 | 375,000 | 375,000 | 375,000 |
| Output                 | 110,000 | 187,500 | 262,500 | 337,500 |
| Utilization rate(%)    | 29%     | 50%     | 70%     | 90%     |
| ASP                    | 1,000   | 1,000   | 1,000   | 1,000   |
| revenue (k)            | 110,000 | 187,500 | 262,500 | 337,500 |
| net dollar margin      | 70%     | 70%     | 65%     | 60%     |
| net profit (k)         | 77,000  | 131,250 | 170,625 | 202,500 |
| WCC profit (20% owned) | 15400   | 26250   | 36562.5 | 40500   |

Source: Company, SWS Research

### Cooperation with Conch

While we note rising concerns among investors over the lack of progress in the proposed merger of WCC into Conch may be weighing on WCC's stock performance, the fundamental market outlook in Shaanxi Province remain positive thanks to strong FAI in the region.

Conch management has stressed progress in its efforts to improve operating efficiency in its partnership with WCC, and we thus believe that there is a significant possibility that Conch will seek to increase its holdings in WCC further.

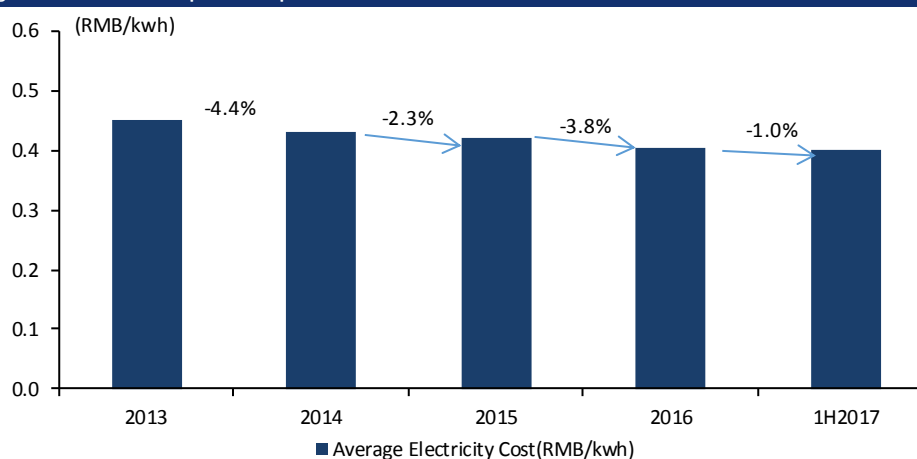
The firm currently holds 21.5% of WCC shares, acquired at an average price of HK\$1.59, which, at equivalent to an enterprise value of Rmb330 per tonne of WCC capacity, is substantially below the valuation appropriate to a firm during the ongoing upcycle. Current average replacement cost is around Rmb400-450/t and we believe both companies need more time to reach a deal.

However, we note that WCC unit cost and margin have improved substantially since Conch joined its board and we see room for fresh operating efficiency gains in future.

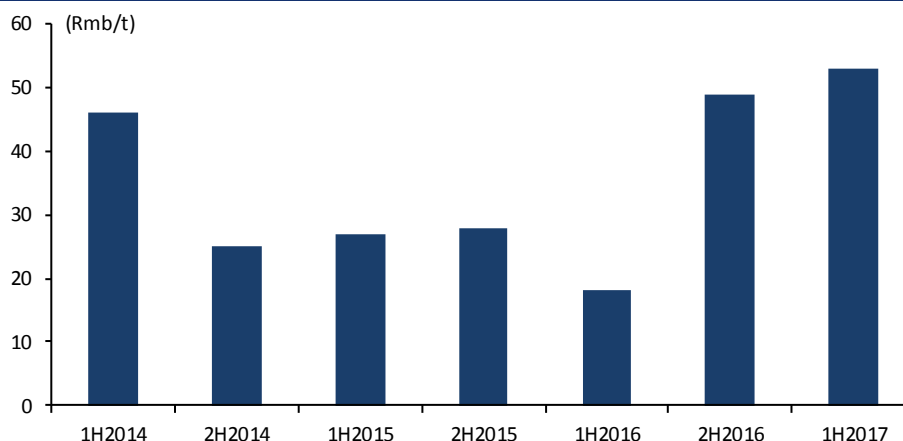
**Fig 19: WCC largest shareholders**

| The Western Cement Primary Shareholder |        |
|--|--------|
| Shareholder                            | Stake  |
| Jimin Zhang                            | 32.40% |
| Anhui Conch Cement Company Limited     | 21.17% |
| Deutsche Bank Aktiengesellschaft       | 5.39%  |
| AllianceBernstein L.P.                 | 5.01%  |

Source: Company, SWS Research

**Fig 20: WCC unit cost drop after cooperate with Conch**


Source: Company, SWS Research

**Fig 21: WCC unit margin from 2014-2017**


Source: Company, SWS Research

### Maintain BUY

We remain upbeat on market conditions in Shaanxi. We maintain our EPS forecast at Rmb0.09 in 17E (+4954% YoY) and raise our forecasts from Rmb0.10 to Rmb0.12 in 18E (+25.7% YoY) and from Rmb0.12 to Rmb0.14 in 19E (+18.1% YoY) to reflect our more positive profitability outlook on the basis of an improvement in cement margins thanks to the cost savings and operational efficiency gains following the firm's partnership with Anhui Conch Cement, as well as the introduction of the firm's higher-margin aggregates business.

**Fig 22: Estimates revisions**

|                   | New  |       | Old  |       | Change |        |
|-------------------|------|-------|------|-------|--------|--------|
|                   | 17E  | 18E   | 17E  | 18E   | 17E    | 18E    |
| Volume (mt)       | 18.9 | 19.44 | 18.9 | 19.44 | 0.0%   | 0.0%   |
| Unit gross profit | 60   | 65    | 53   | 60    | +13.2% | +8.3%  |
| Unit net profit   | 28   | 34    | 25   | 28    | +9.1%  | +19.0% |
| Net profit (Rmbm) | 522  | 656   | 478  | 551   | +9.1%  | +19.0% |
| EPS (Rmb)         | 0.10 | 0.12  | 0.09 | 0.10  | +6.9%  | +21.0% |

Source: Wind, SWS Research

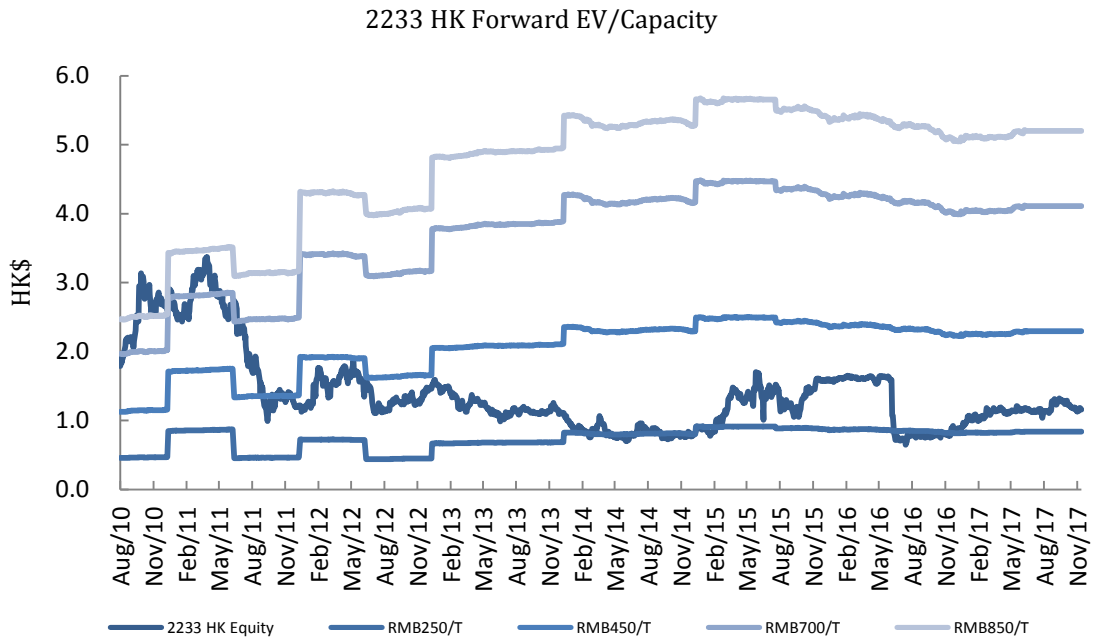
We see little downside to the stock's current price – on an EV/capacity basis, it is trading at Rmb256/t, vs a market average of Rmb400/t. Given the improving market supply-demand outlook from 2H17 onwards, we believe that an EV/capacity multiple of Rmb360/t is reasonable. We raise our target price from HK\$1.50 to HK\$1.65. With 45% upside, we transfer coverage with a maintained BUY recommendation.

**Fig 21: Cement peers comparables**

| Company                                     | Price (HK\$) | Rating     | Target price (HK\$) | +/- (%)    | EV/capacity |              | PE (x)      |            | PB (x)     |            |            |
|---|--------------|------------|---------------------|------------|-------------|--------------|-------------|------------|------------|------------|------------|
|   |              |            |                     |            | 17E         | 16A          | 17E         | 18E        | 16A        | 17E        | 18E        |
| Anhui Conch Cement (914:HK)                 | 38.1         | Outperform | 34.50               | 2%         | 573         | 20.0         | 11.5        | 11.2       | 2.2        | 2.0        | 1.8        |
| China National Building Materials (3323:HK) | 6.94         | BUY        | 6.05                | 22%        | 419         | 30.1         | 8.2         | 7.2        | 0.4        | 0.4        | 0.4        |
| China Resources Cement (1313:HK)            | 5.11         | Outperform | 4.60                | 21%        | 399         | 25.1         | 8.9         | 8.2        | 1.3        | 1.1        | 1.0        |
| <b>WCC</b>                                  | <b>1.14</b>  | <b>BUY</b> | <b>1.38</b>         | <b>32%</b> | <b>245</b>  | <b>509.0</b> | <b>10.1</b> | <b>8.0</b> | <b>0.9</b> | <b>0.9</b> | <b>0.8</b> |

Source: Bloomberg, SWS Research

Fig 23: Estimates revisions



Source: Wind, SWS Research

## APPENDIX: Financial statements

**Table 1: Consolidated Income Statement**

| Rmbm                       | 2015    | 2016E   | 2017E   | 2018E   | 2019E   |
|----------------------------|---------|---------|---------|---------|---------|
| <b>Revenue</b>             | 3,501   | 4,361   | 4,649   | 4,860   | 4,899   |
| <b>Cost of Sales</b>       | (3,037) | (3,397) | (3,515) | (3,596) | (3,558) |
| <b>Gross Profit</b>        | 463     | 964     | 1,134   | 1,264   | 1,341   |
| <b>Other Income</b>        | (188)   | 281     | 151     | 156     | 175     |
| Distribution expenses      | (43)    | (46)    | (48)    | (50)    | (50)    |
| Administrative expenses    | (271)   | (271)   | (284)   | (292)   | (292)   |
| <b>EBITDA</b>              | 662     | 1,692   | 1,612   | 1,628   | 1,658   |
| EBIT                       | (38)    | 927     | 953     | 1,078   | 1,175   |
| Finance Costs              | (218)   | (247)   | (208)   | (156)   | (136)   |
| <b>Profit before tax</b>   | (257)   | 119     | 679     | 854     | 971     |
| Income tax expense         | (51)    | (104)   | (156)   | (196)   | (194)   |
| Minority interests         | 2       | 5       | 1       | 2       | 2       |
| <b>Profit for the year</b> | (309)   | 10      | 522     | 656     | 775     |

Source: Company, SWS Research

**Table 2: Consolidated Cash Flow Statement**

| Rmbm                                | 2015  | 2016E | 2017E | 2018E | 2019E |
|-------------------------------------|-------|-------|-------|-------|-------|
| <b>Profit before taxation</b>       | (257) | 119   | 679   | 854   | 971   |
| Plus : Depr. and amortisation       | 703   | 0     | 715   | 686   | 658   |
| Finance cost                        | 237   | 265   | 208   | 156   | 136   |
| Losses from investments             | 277   | 159   | 0     | 0     | 0     |
| Change in working capital           | (391) | 93    | 326   | (0)   | (7)   |
| Others                              | (81)  | (75)  | (156) | (196) | (194) |
| <b>CF from operating activities</b> | 474   | 1,313 | 1,743 | 1,396 | 1,411 |
| CAPEX                               | (350) | (379) | (325) | (340) | (343) |
| Other CF from investing activities  | 154   | 10    | 0     | 0     | 0     |
| <b>CF from investing activities</b> | (772) | (170) | (325) | (340) | (343) |
| Equity financing                    | 1,204 | 0     | 0     | 0     | 0     |
| Net change in liabilities           | (287) | (75)  | 0     | 0     | 0     |
| Dividend and interest paid          | (272) | (263) | (312) | (287) | (291) |
| Other CF from financing activities  | 0     | 0     | (40)  | (39)  | (41)  |
| <b>CF from financing activities</b> | 255   | (342) | (352) | (326) | (332) |
| <b>Net cash flow</b>                | (43)  | 802   | 1,074 | 757   | 774   |
| <b>FCFF</b>                         | (127) | 536   | 1,484 | 1,130 | 1,146 |
| <b>FCFE</b>                         | (651) | 196   | 1,276 | 974   | 1,010 |

Source: Company, SWS Research

**Table 3: Consolidated Balance Sheet**

| Rmbm                                | 2015   | 2016E  | 2017E  | 2018E  | 2019E  |
|-------------------------------------|--------|--------|--------|--------|--------|
| <b>Current Assets</b>               | 2,042  | 2,515  | 3,659  | 4,443  | 5,197  |
| Bank balances and cash              | 455    | 1,259  | 2,333  | 3,090  | 3,864  |
| Trade and other receivables         | 685    | 661    | 704    | 736    | 742    |
| Inventories                         | 576    | 509    | 527    | 539    | 533    |
| Long-term investment                | 54     | 46     | 50     | 0      | 0      |
| PP&E                                | 8,257  | 7,564  | 7,127  | 6,664  | 6,202  |
| Intangible and other assets         | 1,157  | 1,148  | 1,081  | 1,009  | 989    |
| <b>Total Assets</b>                 | 11,382 | 11,182 | 11,780 | 12,029 | 12,301 |
| <b>Current Liabilities</b>          | 2,770  | 2,400  | 2,787  | 2,830  | 2,824  |
| Borrowings                          | 538    | 465    | 465    | 465    | 465    |
| Trade and other payables            | 1,411  | 1,077  | 1,464  | 1,508  | 1,501  |
| Other current liabilities           | 3,527  | 3,725  | 3,725  | 3,725  | 3,725  |
| Long-term liabilities               | 3      | 2      | 2      | 2      | 2      |
| <b>Total Liabilities</b>            | 5,479  | 5,268  | 5,655  | 5,699  | 5,692  |
| Minority Interests                  | 47     | 51     | 52     | 54     | 54     |
| Shareholder Equity                  | 5,856  | 5,863  | 11,984 | 12,509 | 12,509 |
| Share Capital                       | 125    | 125    | 125    | 125    | 125    |
| Reserves                            | 0      | 0      | 0      | 0      | 0      |
| Equity attributable                 | 5,715  | 5,721  | 6,138  | 6,663  | 6,663  |
| <b>Total Liabilities and equity</b> | 11,382 | 11,182 | 11,780 | 12,029 | 12,301 |

Source: Company, SWS Research

**Table 4: Key Financial Ratios**

|                                | 2015     | 2016E    | 2017E    | 2018E  | 2019E  |
|--------------------------------|----------|----------|----------|--------|--------|
| <b>Ratios per share (Rmb)</b>  |          |          |          |        |        |
| Earnings per share             | (0.06)   | 0.0020   | 0.0932   | 0.1182 | 0.1411 |
| Operating CF per share         | 0.10     | 0.14     | 0.32     | 0.26   | 0.26   |
| Dividend per share             | (0.01)   | 0.00     | 0.02     | 0.02   | 0.03   |
| Net assets per share           | 1.18     | 1.08     | 2.21     | 2.31   | 2.31   |
| <b>Key Operating Ratios(%)</b> |          |          |          |        |        |
| ROIC                           | (0.44)   | 10.32    | 5.65     | 5.96   | 6.58   |
| ROE                            | (5.24)   | 0.17     | 3.98     | 4.43   | 5.10   |
| Gross profit margin            | 13.24    | 22.11    | 24.39    | 26.00  | 27.38  |
| EBITDA Margin                  | 18.92    | 38.80    | 34.67    | 33.50  | 34.11  |
| EBIT Margin                    | (1.09)   | 21.26    | 20.51    | 22.18  | 23.99  |
| Growth rate of Revenue(YoY)    | (9.85)   | 24.57    | 6.61     | 4.53   | 0.80   |
| Growth rate of Profit(YoY)     | (961.25) | (103.34) | 4,954.69 | 25.70  | 18.14  |
| Debt-to-asset ratio            | 0.05     | 0.04     | 0.04     | 0.04   | 0.04   |
| Turnover rate of net assets    | 0.60     | 0.74     | 0.39     | 0.39   | 0.39   |
| Turnover rate of total assets  | 0.31     | 0.39     | 0.39     | 0.40   | 0.39   |
| Effective tax rate (%)         | (19.81)  | 87.49    | 23.00    | 23.00  | 20.00  |
| Dividend yield (%)             | (1.35)   | 0.04     | 2.14     | 2.69   | 3.18   |
| <b>Valuation Ratios (X)</b>    |          |          |          |        |        |
| P/E                            | (14.7)   | 455.1    | 9.8      | 7.7    | 6.5    |
| P/B                            | 0.8      | 0.8      | 0.4      | 0.4    | 0.4    |
| EV/Sales                       | 2.3      | 1.7      | 1.4      | 1.2    | 1.0    |
| EV/EBITDA                      | 11.9     | 4.5      | 4.0      | 3.5    | 2.9    |

Source: Company, SWS Research

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