

# Bolina Holding (1190 HK)

Share Price: HKD3.56

MCap (USD): 456M

Hong Kong

Target Price: HKD4.58(-28.9%)

ADTV (USD): 2M

Construction

# BUY

(Unchanged)

## Still An Urbanisation-Theme Pick

- Maintain BUY. Lowered TP to HKD4.58 (from HKD5.12). Revised down FY13-15F earnings on more conservative assumptions; TP multiple intact at 12x FY14F.
- We remain positive on the urbanisation and industry consolidation themes as Bolina will be a key beneficiary.
- Near-term capacity constraint is the key challenge but may be alleviated by plans to outsource some of the production.

### What's New

We visited Bolina's headquarters in Zhangzhou and we toured the Foshan regional hub. Bolina is making good progress in deepening sales penetration in China and its overseas sales orders are solid.

We believe Bolina missed its FY13F sales target due to shortages of parts and fittings as it was late in placing orders with its suppliers. Total POS for FY13F should be at the low end of guidance as it continued to phase out non-performing distributors during 2H13.

The engineering department has received orders from more than 10 property developers since it was established last year. Negotiations on both horizontal and vertical M&A are underway.

### What's Our View

We lower our FY13/14/15F earnings forecasts by 7.4%/10.6%/15.2% on more conservative domestic sales assumptions. We also lower our blended GPM assumptions on product-mix shift.

We believe intense competition and rising production cost will speed up industry consolidation, as illustrated by accelerating M&A and bankruptcy of small producers.

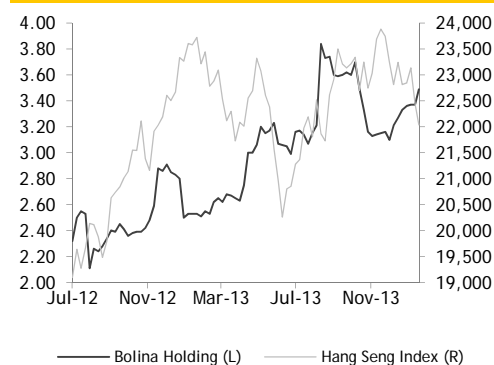
The 6<sup>th</sup> production line should commence operation this summer, but manufacturing bottlenecks will remain, although this is likely to be partly alleviated by plans to possibly outsource some of the production. We see upside risk to our FY15 capex assumptions for constructing new production plants.

| FYE Dec (CNY m)        | FY11A    | FY12A    | FY13E    | FY14E    | FY15E    |
|------------------------|----------|----------|----------|----------|----------|
| Revenue                | 655.5    | 816.7    | 912.8    | 1,063.3  | 1,226.3  |
| EBITDA                 | 221.1    | 286.5    | 316.1    | 368.5    | 418.4    |
| Core net profit        | 160.4    | 246.2    | 262.8    | 315.0    | 365.6    |
| Core EPS (CNY)         | 0.20     | 0.28     | 0.26     | 0.31     | 0.36     |
| Core EPS growth (%)    | nm       | 35.6     | (6.0)    | 19.9     | 16.1     |
| Net DPS (CNY)          | 0.00     | 0.09     | 0.08     | 0.09     | 0.11     |
| Core P/E (x)           | 13.4     | 9.9      | 10.5     | 8.8      | 7.6      |
| P/BV (x)               | 8.8      | 2.8      | 2.7      | 2.2      | 1.8      |
| Net dividend yield (%) | 0.0      | 3.4      | 2.9      | 3.4      | 4.0      |
| ROAE (%)               | nm       | 44.7     | 27.7     | 27.2     | 25.9     |
| ROAA (%)               | 29.4     | 28.4     | 21.3     | 21.8     | 21.5     |
| EV/EBITDA (x)          | na       | 4.9      | 6.7      | 5.5      | 4.7      |
| Net debt/equity (%)    | net cash | net cash | net cash | net cash | net cash |

### Key Data

|                       |           |
|-----------------------|-----------|
| 52w high/low (HKD)    | 3.92/2.50 |
| Free float (%)        | 30.7      |
| Issued shares (m)     | 1,015     |
| Market capitalization | HKD3.5B   |
| Major shareholders:   |           |
| -XIAO ZHI YONG        | 59%       |
| -XIAO XIU YU          | 10%       |
| -Neuberger Berman LLC | 5%        |

### Share Price Performance



|                         | 1 Mth | 3 Mth | 12 Mth |
|-------------------------|-------|-------|--------|
| Absolute(%)             | 4.8   | 4.8   | 37.9   |
| Relative to country (%) | 8.5   | 10.6  | 48.5   |

### Maybank vs Market

|                    | Positive          | Neutral | Negative |
|--------------------|-------------------|---------|----------|
| Market Recs        | 0                 | 0       | 0        |
|                    | Maybank Consensus |         | % +/-    |
| Target Price (HKD) | 4.58              | na      | na       |
| 2013 PATMI(CNYm)   | 263               | na      | na       |
| 2014 PATMI(CNYm)   | 315               | na      | na       |

Source: FactSet; Maybank

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## Favourable Big Picture

We are positive on growth in China's sanitary ware market given the rising urbanisation rate (up from 52.6% to 57.4% in 2017F, based on Frost & Sullivan's forecast), and demand from both new home purchases (80%) and replacement needs (20%). Of note, the urban population is expected to increase by 69m over 2013 to 2017F, while per capita disposable income of urban households is projected to expand at a 7% CAGR during the period.

### Expect lower policy risk for China property market in 2014F

Our China property team forecasts a moderate 5% YoY growth in property prices for the overall market in 2014F and for GFA transaction to rise 7% YoY. Given the expected mild pace of price increase, this should reduce the risk of tightening measures. Overall, we favour tier-2 cities over tier-1/3(or below) cities given lower risk to policy and inventory issues. Bolina has relatively more focus on tier-2/3 cities but it will expand further into tier-3 cities and below as the chairman & CEO, Mr Xiao, believes Bolina will benefit from rising urbanization and have first-move advantage in these cities as well-known brands do not have a presence in these cities yet.

### More competitors exit...better supply/demand landscape

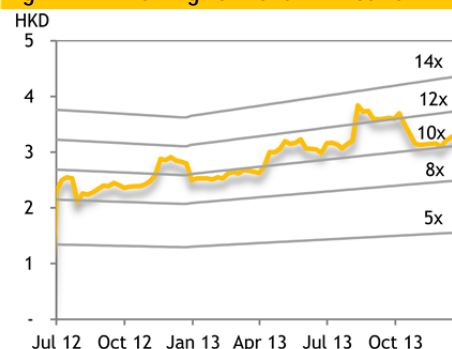
We believe the recent acquisition of EAGO by China Lesso (2128 HK, NR) and the bankruptcy of unlisted Voyou illustrate the increasingly difficult operating environment for small producers. With more stringent environmental requirements on production, we believe less efficient and the more polluted manufacturers (in particular for coal based) will be phased out in the near future. Of note, there are over 1,000 domestic brands whereas the top 10 brands (including MNCs) accounted for only around 40% market share in 2012. We expect the oversupply situation to improve and well-established players to further gain market share.

## To ride on strong company specifics

We believe Bolina's low-cost advantage, due to above-sector output yield (90% vs industry's 70%) and ahead-of-industry R&D capabilities, helps differentiate it from domestic peers. We visited its manufacturing plant recently. We observed it has a busy production schedule for its overseas clients such as Niagara Conservation and Western etc. Indeed, due to tight capacity, Bolina can meet only 60-70% of clients' orders currently and manufacturing priorities are being given to higher-margin ODM orders.

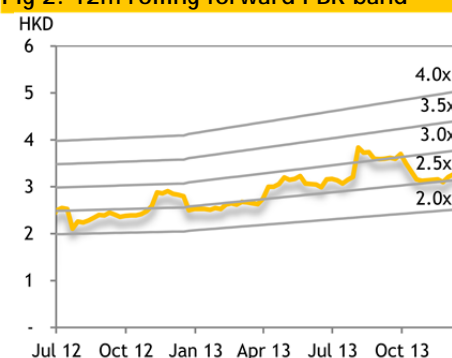
We believe Bolina's competitive pricing (20-30% lower than products of comparable quality produced by MNCs) and wider ASP range facilitate its expansion into the counties/towns level. Given the establishment of several regional offices (together with warehouses), we believe more frequent dialogues with local distributors and the local sales teams will better ensure compliant sales practices and the understanding of the end-customer demand situation.

Fig 1: 12m rolling forward PER band



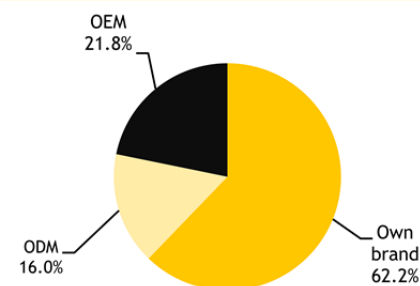
Source: Factset, Maybank Kim Eng

Fig 2: 12m rolling forward PBR band



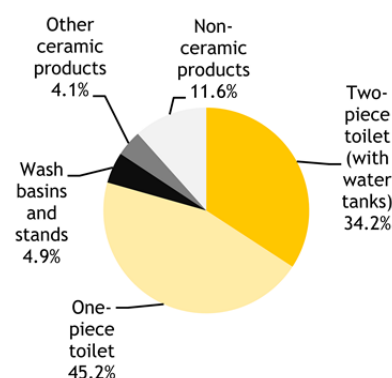
Source: Factset, Maybank Kim Eng

Fig 3: Sales breakdown by channels (1H13)



Source: Company data, Maybank Kim Eng

Fig 4: Sales breakdown by products (1H13)



Source: Company data, Maybank Kim Eng

## Corporate strategy outlook

Our discussions with CEO Mr Xiao indicate its top priority is to achieve balanced growth between market-share gain and profitability, while domestic market sales contribution should gradually rise against the overseas businesses. The company maintains its target of achieving 10% market share and reaching 1,000 POS over the next three to five years despite the low level of POS net additions in FY13F. Recall, management guided for 500-550 POS by the end of FY13F against 453 in FY12; we estimate it achieved the low end of this range.

Separately, it is exporting its branded products to overseas markets such as Dubai and the Philippines on a trial project basis. Meanwhile, the company will gradually increase its exposure to the commercial projects as management foresees more fully furnished new flats to be available in future. The company has started to build up relationships with some well-known property developers such as Shimao (813HK, BUY), Gindale, Yuzhou (1628 HK, NR), Wanda and Vanke, etc.

The 6<sup>th</sup> production line should achieve full ramp-up by 1Q15F. By then, the annualized capacity should reach 5.9m pieces compared with 4.9m at end-FY13F. We gathered from our NDR with Bolina in Sep 2013 that the company is currently looking for land to build a new production plant to satisfy the growing demand. Meanwhile, management indicated it is negotiating with several domestic manufacturers to possibly outsource some of the production to resolve the near-term capacity constraint.

## Revised down FY13-15F earnings CAGR

We now forecast 14.1% net profit CAGR over FY13-15F against our original expectation of 21%. We look for 19.9%/16.1% net profit growth in 2014/2015F. The major discrepancy between our old forecast and new projection is due to more conservative top-line growth expectations and to a lesser extent, a less aggressive margins outlook.

We expect overseas market ASP and gross margin to trend up. Nonetheless, domestic ASP and margins may have limited upside in future given the demand for whole-set bathroom products are on the rise and thus the sales contribution of high-margin one-piece toilet may come down. We expect the company to maintain its ex-factory price policy (60% discount to suggested retail price) and revenue growth is mostly volume-driven.

**Key catalysts:** lower tax rate from FY14F onwards if the earlier application for the accreditation of New and High Technology Enterprise for Zhangzhou Wanhui is approved. If stringent water-preservation standards are applied, as Bolina already meets local requirements.

**Key risks:** supply shortage of raw materials and non-ceramic fittings; production bottleneck; property austerity measures; increasing exposure to the 3<sup>rd</sup>/4<sup>th</sup> tier cities property market volatility; negative margin risk due to product-mix changes (ie, rising sales contribution from non-ceramic products and preference for basic items among consumers in lower-tier cities); and intensified market competition.

Figure 5: Our sales assumptions

|                                 | FY11A     | FY12A     | FY13F     | FY14F     | FY15F     |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|
| <b>Production</b>               |           |           |           |           |           |
| Capacity(units)                 | 3,900,000 | 4,900,000 | 4,900,000 | 5,900,000 | 6,900,000 |
| Production volume(units)        | 3,531,786 | 4,552,100 | 4,655,000 | 5,605,000 | 6,210,000 |
| Sales volume to production vol. | 102.41    | 93.68     | 102.36    | 97.32     | 99.70     |
| Utilization rate (%)            | 90.56     | 92.90     | 95.00     | 95.00     | 90.00     |
| <b>Sales volume</b>             |           |           |           |           |           |
| Total                           | 3,616,965 | 4,264,424 | 4,764,713 | 5,455,048 | 6,191,142 |
|                                 | 47.4      | 17.9      | 11.7      | 14.5      | 13.5      |
| Own branded                     | 1,248,133 | 1,670,591 | 1,937,886 | 2,344,842 | 2,813,810 |
|                                 | 276.39    | 33.85     | 16.00     | 21.00     | 20.00     |
| ODM                             | 1,230,610 | 1,319,462 | 1,425,019 | 1,610,271 | 1,787,401 |
|                                 | (3.17)    | 7.22      | 8.00      | 13.00     | 11.00     |
| OEM                             | 1,138,222 | 1,274,371 | 1,401,808 | 1,499,935 | 1,589,931 |
|                                 | 33.71     | 11.96     | 10.00     | 7.00      | 6.00      |
| <b>ASP (CNY/unit)</b>           |           |           |           |           |           |
| Total                           | 181.2     | 191.5     | 191.6     | 194.9     | 198.1     |
|                                 | 19.76     | 5.68      | 0.02      | 1.75      | 1.62      |
| Own branded                     | 304.5     | 304.4     | 292.2     | 283.5     | 275.0     |
|                                 | (21.12)   | (0.02)    | (4.00)    | (3.00)    | (3.00)    |
| ODM                             | 131.6     | 133.1     | 139.8     | 146.8     | 154.1     |
|                                 | (0.62)    | 1.15      | 5.00      | 5.00      | 5.00      |
| OEM                             | 99.7      | 104.0     | 105.0     | 108.2     | 111.4     |
|                                 | 13.21     | 4.30      | 1.00      | 3.00      | 3.00      |
| <b>Sales breakdown (%)</b>      |           |           |           |           |           |
| Self-branded products           | 57.98     | 62.27     | 62.05     | 62.51     | 63.09     |
| ODM                             | 24.71     | 21.51     | 21.83     | 22.23     | 22.46     |
| OEM                             | 17.31     | 16.22     | 16.13     | 15.26     | 14.45     |

Source: Company data, Kim Eng Securities

Figure 6: Our gross margin assumptions by segment

| Gross margin (%) | FY11A | FY12A | FY13F | FY14F | FY15F |
|------------------|-------|-------|-------|-------|-------|
| Blended          | 46.34 | 47.73 | 49.41 | 49.97 | 50.29 |
| -Own branded     | 57.00 | 55.50 | 59.06 | 59.48 | 59.48 |
| -ODM             | 33.40 | 37.20 | 36.19 | 36.80 | 37.40 |
| -OEM             | 29.10 | 32.00 | 30.15 | 30.15 | 30.15 |

Source: Company data, Kim Eng Securities

Figure 7: Our distribution and selling expenses to sales ratios assumptions

| As a % of total sales        | FY11A | FY12A | FY13F | FY14F | FY15F |
|------------------------------|-------|-------|-------|-------|-------|
| Logistic expense             | 1.30  | 1.20  | 1.50  | 1.40  | 1.30  |
| A&P                          | 1.30  | 2.00  | 2.40  | 2.70  | 3.30  |
| Booth renovation             | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  |
| Operating lease              | 0.20  | 0.20  | 0.20  | 0.18  | 0.15  |
| Salary and staff welfare     | 0.40  | 0.70  | 0.70  | 0.60  | 0.60  |
| Travelling and entertainment | 0.40  | 0.40  | 0.50  | 0.50  | 0.50  |
| Others                       | 0.20  | 0.20  | 0.10  | 0.10  | 0.10  |
| Total                        | 3.90  | 4.80  | 5.54  | 5.28  | 5.51  |

Source: Company data, Maybank Kim Eng estimates (FY12 numbers are based on our estimates as company did not disclose)

Figure 8: Our G&amp;A expenses to sales ratio assumptions

| As a % of sales            | FY11A | FY12A | FY13F | FY14F | FY15F |
|----------------------------|-------|-------|-------|-------|-------|
| Salary & welfare           | 1.90  | 2.10  | 2.30  | 2.50  | 2.60  |
| R&D                        | 0.80  | 2.00  | 2.50  | 2.70  | 2.70  |
| Depreciation & Amort.      | 0.40  | 0.40  | 0.40  | 0.40  | 0.40  |
| Exchange losses            | 0.20  | 0.40  | 0.40  | 0.10  | 0.10  |
| Office supplies            | 0.40  | 0.40  | 0.40  | 0.30  | 0.30  |
| Travelling & entertainment | 0.30  | 0.30  | 0.30  | 0.30  | 0.30  |
| Professional fee           | 0.20  | 0.20  | 0.10  | 0.10  | 0.10  |
| Listing expenses           | 2.60  | 0.60  | -     | -     | -     |
| Others                     | 0.80  | 0.80  | 0.80  | 0.70  | 0.60  |
| Total                      | 7.80  | 7.20  | 7.20  | 7.10  | 7.10  |

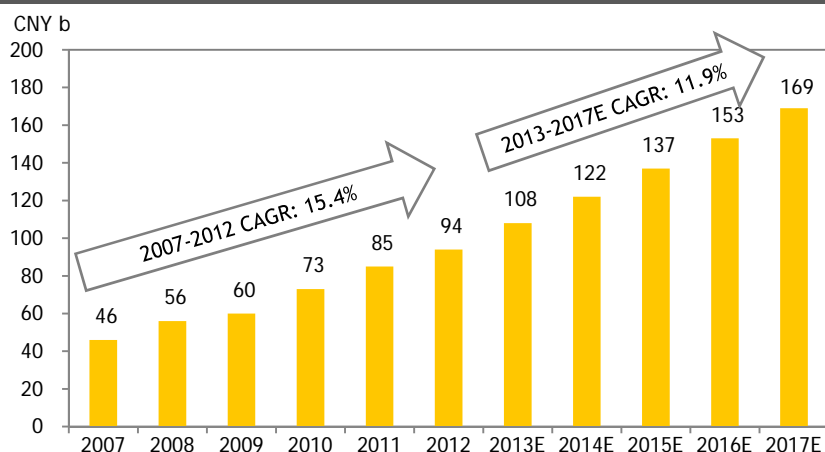
Source: Company data, Maybank Kim Eng estimates (FY12 numbers are based on our estimates as company did not disclose)

Figure 9: Peer valuation comparison- household durables manufacturers

| Company                    | Ticker    | Price(\$, local cur) | Mkt cap (USDm) | Sh px 1-mth % | Sh px 3-mth % | PER FY13F (x) | PER FY14F (x) | PER FY15F (x) | EPS FY13F YoY% | EPS FY14F YoY% | Div yld FY13 (%) | P/B FY13 (x) |
|----------------------------|-----------|----------------------|----------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|------------------|--------------|
| <b>Domestic peers</b>      |           |                      |                |               |               |               |               |               |                |                |                  |              |
| Man Wah*                   | 1999 HK   | 13.58                | 1,664.0        | 5.76          | (0.29)        | 14.23         | 13.18         | 11.74         | 57.1           | 4.0            | 3.31             | 3.07         |
| Royale Furniture           | 1198 HK   | 0.33                 | 59.0           | (1.49)        | (17.50)       | N/A           | N/A           | N/A           | N/A            | N/A            | N/A              | N/A          |
| China Flooring             | 2083 HK   | 1.22                 | 232.0          | (10.29)       | (12.86)       | 11.90         | 9.52          | N/A           | N/A            | N/A            | N/A              | N/A          |
| Samson                     | 531 HK    | 1.12                 | 437.0          | 6.67          | 4.67          | 16.03         | 14.43         | 14.43         | N/A            | N/A            | 11.78            | 0.85         |
| Dongpeng                   | 3386 HK   | 2.65                 | 424.0          | 0.76          | N/A           | 8.62          | 6.27          | 5.45          | N/A            | 37.5           | 3.87             | N/A          |
| Bolina                     | 1190 HK   | 3.56                 | 463.0          | 6.91          | 14.47         | 11.2          | 9.3           | 8.0           | (7.5)          | 19.9           | 2.7              | 2.8          |
| <b>International peers</b> |           |                      |                |               |               |               |               |               |                |                |                  |              |
| Toto*                      | 5332 JP   | 1482.00              | 5,129.8        | (11.10)       | 2.42          | 13.30         | 18.38         | 15.87         | 126.7          | (22.7)         | 1.35             | 2.11         |
| Joyou                      | JY8 GY    | 13.05                | 423.0          | 1.91          | (6.49)        | 10.63         | 8.47          | 7.45          | (25.9)         | 25.5           | 0.00             | 0.85         |
| HSIL*                      | HSI IN    | 90.20                | 94.6           | (15.19)       | 7.00          | 11.16         | 6.81          | 4.51          | (34.9)         | 64.0           | 4.25             | 0.57         |
| Villeroy & Boch            | VIB3 GY   | 11.55                | 426.1          | (0.82)        | 15.62         | 16.99         | 12.91         | 10.89         | 22.1           | 31.6           | 3.68             | 1.51         |
| Globe Union                | 9934 TT   | 20.05                | 212.8          | (11.09)       | (11.09)       | 3.33          | 11.08         | 8.32          | N/A            | (69.9)         | 7.98             | N/A          |
| Geberit                    | GEBN VX   | 255.80               | 10,794.2       | (6.78)        | (5.15)        | 22.11         | 20.75         | 19.54         | 12.5           | 6.6            | 2.95             | 6.00         |
| GWA                        | GWA AU    | 2.94                 | 789.0          | (0.68)        | (6.67)        | 18.38         | 15.89         | 14.56         | 26.0           | 15.6           | 3.78             | 2.03         |
| Hanssem                    | 009240 KS | 51800.00             | 1,138.1        | 1.77          | 20.19         | 22.19         | 18.21         | 15.93         | 22.4           | 21.9           | 1.16             | 4.76         |
| Hocheng Corp.              | 1810 TT   | 10.10                | 123.3          | (6.05)        | (9.82)        | N/A           | N/A           | N/A           | N/A            | N/A            | N/A              | N/A          |
| Guahgzhou Seagull          | 002084 CH | 4.89                 | 328.0          | 0.00          | (6.68)        | 54.33         | 44.45         | N/A           | N/A            | N/A            | N/A              | N/A          |
| Markor                     | 600337 CH | 6.11                 | 653.0          | 5.16          | (10.93)       | 26.11         | 20.64         | 15.09         | 680.0          | 26.5           | 1.96             | 1.47         |

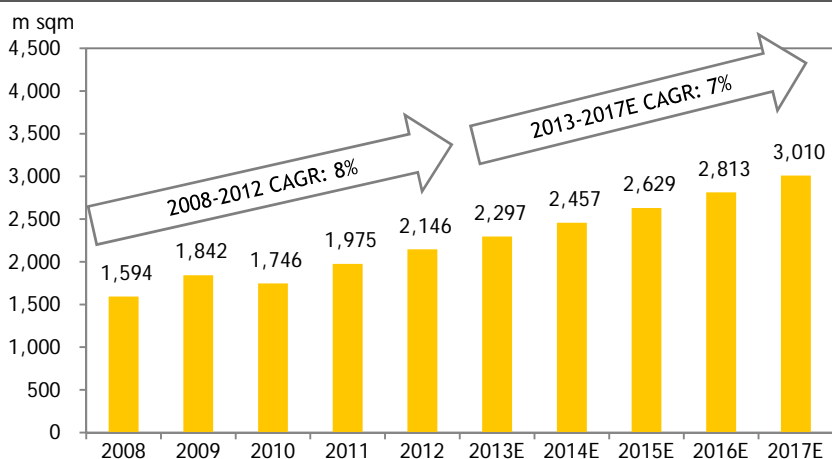
Source: Bloomberg, Factset, Maybank Kim Eng\* with March & June year end, FYMar. June14/15/16F

Figure 10: China bathroom products market size



Source: Frost & Sullivan, Maybank Kim Eng

Figure 11: Gross floor area of residential properties under construction and completed in China



Source: Frost & Sullivan, Maybank Kim Eng

| FYE 31 Dec (CNY m)                | FY11A   | FY12A   | FY13E   | FY14E   | FY15E   |
|-----------------------------------|---------|---------|---------|---------|---------|
| <b>Key Metrics</b>                |         |         |         |         |         |
| P/E (reported) (x)                | 13.4    | 9.9     | 10.5    | 8.8     | 7.6     |
| Core P/E (x)                      | 13.4    | 9.9     | 10.5    | 8.8     | 7.6     |
| P/BV (x)                          | 8.8     | 2.8     | 2.7     | 2.2     | 1.8     |
| P/NTA (x)                         | 8.8     | 2.8     | 2.7     | 2.2     | 1.8     |
| Net dividend yield (%)            | 0.0     | 3.4     | 2.9     | 3.4     | 4.0     |
| FCF yield (%)                     | 6.8     | 10.6    | 4.6     | 5.6     | 5.6     |
| EV/EBITDA (x)                     | na      | 4.9     | 6.7     | 5.5     | 4.7     |
| EV/EBIT (x)                       | na      | 4.7     | 6.2     | 5.0     | 4.2     |
| <b>Income Statement</b>           |         |         |         |         |         |
| Revenue                           | 655.5   | 816.7   | 912.8   | 1,063.3 | 1,226.3 |
| Gross profit                      | 303.7   | 389.8   | 451.0   | 531.3   | 616.7   |
| EBITDA                            | 221.1   | 286.5   | 316.1   | 368.5   | 418.4   |
| Depreciation                      | (8.0)   | (9.1)   | (23.1)  | (36.1)  | (49.1)  |
| Amortisation                      | (0.0)   | (0.1)   | (0.1)   | (0.1)   | (0.1)   |
| EBIT                              | 229.2   | 295.7   | 339.2   | 404.6   | 467.5   |
| Net interest income / (exp)       | (14.2)  | (13.1)  | (4.7)   | (3.5)   | (1.9)   |
| Associates & JV                   | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Exceptionals                      | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Other pretax income               | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Pretax profit                     | 215.0   | 282.5   | 334.6   | 401.1   | 465.6   |
| Income tax                        | (54.8)  | (36.5)  | (72.0)  | (86.3)  | (100.1) |
| Minorities                        | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Reported net profit               | 160.4   | 246.2   | 262.8   | 315.0   | 365.6   |
| Core net profit                   | 160.4   | 246.2   | 262.8   | 315.0   | 365.6   |
| <b>Balance Sheet</b>              |         |         |         |         |         |
| Cash & Short Term Investments     | 261.5   | 789.8   | 821.0   | 885.0   | 934.9   |
| Property, Plant & Equip (net)     | 159.0   | 194.4   | 321.4   | 485.3   | 686.3   |
| Intangible assets                 | 0.3     | 0.3     | 0.3     | 0.2     | 0.1     |
| Investment in Associates & JVs    | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Other assets                      | 149.2   | 148.0   | 162.5   | 180.9   | 196.2   |
| Total assets                      | 584.9   | 1,147.2 | 1,319.4 | 1,565.4 | 1,831.0 |
| ST interest bearing debt          | 225.0   | 170.5   | 162.0   | 153.9   | 146.2   |
| LT interest bearing debt          | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Other liabilities                 | 116.5   | 119.4   | 119.6   | 137.6   | 139.8   |
| Total Liabilities                 | 341.6   | 290.0   | 281.6   | 291.5   | 286.0   |
| Shareholders Equity               | 243.3   | 857.3   | 1,037.8 | 1,273.9 | 1,545.0 |
| Minority Interest                 | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Total shareholders equity         | 243.3   | 857.3   | 1,037.8 | 1,273.9 | 1,545.0 |
| <b>Cash Flow</b>                  |         |         |         |         |         |
| Pretax profit                     | 215.0   | 282.5   | 334.6   | 401.1   | 465.6   |
| Depreciation & amortisation       | 8.1     | 9.2     | 23.1    | 36.1    | 49.1    |
| Adj net interest (income)/exp     | 14.2    | 13.1    | 4.7     | 3.5     | 1.9     |
| Change in working capital         | 23.3    | 29.8    | (14.3)  | (0.4)   | (13.1)  |
| Cash taxes paid                   | (34.6)  | (50.9)  | (72.0)  | (86.3)  | (100.1) |
| Other operating cash flow         | 0.2     | 15.7    | 0.4     | 0.4     | 0.4     |
| Cash flow from operations         | 226.3   | 299.7   | 276.6   | 354.5   | 403.9   |
| Capex                             | (80.6)  | (42.3)  | (150.0) | (200.0) | (250.0) |
| Free cash flow                    | 145.7   | 257.4   | 126.6   | 154.5   | 153.9   |
| Dividends paid                    | (101.9) | (17.6)  | (82.3)  | (78.8)  | (94.5)  |
| Equity raised / (purchased)       | 0.0     | 369.1   | 0.0     | 0.0     | 0.0     |
| Change in Debt                    | (5.3)   | (54.5)  | (8.5)   | (8.1)   | (7.7)   |
| OTH investing/financing cash flow | (9.1)   | (24.6)  | (4.7)   | (3.5)   | (1.9)   |
| Effect of exch rate changes       | (0.5)   | (1.4)   | 0.0     | 0.0     | 0.0     |
| Net cash flow                     | 196.1   | 529.7   | 31.2    | 64.1    | 49.8    |

| FYE 31 Dec (CNY m)                     | FY11A    | FY12A    | FY13E    | FY14E    | FY15E    |
|--|----------|----------|----------|----------|----------|
| <b>Key Ratios</b>                      |          |          |          |          |          |
| <b>Growth ratios (%)</b>               |          |          |          |          |          |
| Revenue growth                         | 76.5     | 24.6     | 11.8     | 16.5     | 15.3     |
| EBITDA growth                          | 131.0    | 29.6     | 10.4     | 16.6     | 13.5     |
| EBIT growth                            | 124.7    | 29.0     | 14.7     | 19.3     | 15.5     |
| Pretax growth                          | 130.3    | 31.4     | 18.4     | 19.9     | 16.1     |
| Reported net profit growth             | 95.3     | 53.5     | 6.7      | 19.9     | 16.1     |
| Core net profit growth                 | 95.3     | 53.5     | 6.7      | 19.9     | 16.1     |
| <b>Profitability ratios (%)</b>        |          |          |          |          |          |
| EBITDA margin                          | 33.7     | 35.1     | 34.6     | 34.7     | 34.1     |
| EBIT margin                            | 35.0     | 36.2     | 37.2     | 38.1     | 38.1     |
| Pretax profit margin                   | 32.8     | 34.6     | 36.7     | 37.7     | 38.0     |
| Payout ratio                           | 0.0      | 33.4     | 30.0     | 30.0     | 30.0     |
| <b>DuPont analysis</b>                 |          |          |          |          |          |
| Net profit margin (%)                  | nm       | nm       | nm       | nm       | nm       |
| Revenue/Assets (x)                     | 1.1      | 0.7      | 0.7      | 0.7      | 0.7      |
| Assets/Equity (x)                      | 2.4      | 1.3      | 1.3      | 1.2      | 1.2      |
| ROAE (%)                               | nm       | 44.7     | 27.7     | 27.2     | 25.9     |
| ROAA (%)                               | 29.4     | 28.4     | 21.3     | 21.8     | 21.5     |
| <b>Liquidity &amp; Efficiency</b>      |          |          |          |          |          |
| Cash conversion cycle                  | 90.9     | 63.6     | 61.2     | 59.2     | 57.2     |
| Days receivable outstanding            | 30.1     | 25.7     | 24.7     | 23.7     | 22.7     |
| Days inventory outstanding             | 85.6     | 62.0     | 59.2     | 57.2     | 55.2     |
| Days payables outstanding              | 24.8     | 24.1     | 22.7     | 21.7     | 20.7     |
| Dividend cover (x)                     | nm       | 3.0      | 3.3      | 3.3      | 3.3      |
| Current ratio (x)                      | 1.2      | 2.8      | 2.9      | 3.2      | 3.4      |
| <b>Leverage &amp; Expense Analysis</b> |          |          |          |          |          |
| Asset/Liability (x)                    | 1.7      | 4.0      | 4.7      | 5.4      | 6.4      |
| Net debt/equity (%)                    | net cash | net cash | net cash | net cash | net cash |
| Net interest cover (x)                 | 16.2     | 22.5     | 72.8     | nm       | nm       |
| Debt/EBITDA (x)                        | 1.0      | 0.6      | 0.5      | 0.4      | 0.3      |
| Capex/revenue (%)                      | 12.3     | 5.2      | 16.4     | 18.8     | 20.4     |
| Net debt/ (net cash)                   | (36.4)   | (619.3)  | (659.0)  | (731.1)  | (788.6)  |



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