建银国际
CCB International

Harmony Auto | 3836 HK

Punching above its weight

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- ▶ **Unique positioning**
- ▶ **One of a handful of dealers thriving amid industry consolidation**

Outperform (initiation)

Current price:		Target:
HK$4.52	▶	HK$7.20
(as at 3 Sep 2021)		(initiation)

Initiate with Outperform and HK$7.20 target price, based on 10x FY22F P/E, two standard deviations above the company's historical five-year average forward P/E, or a 40% discount to the average for Hong Kong-listed major dealership groups

(Harmony) smaller scale. The target price reflects estimated EPS growth of 92%/18%/22% in 2021F/2022F/2023F.

To benefit from BMW/Lexus new product cycle. Nearly 90% of Harmony's new car sales volume comes from the BMW and Lexus brands. Brilliance-BMW's new X5L is scheduled to roll out in 2Q22F. Supply of this signature luxury SUV will be increased from around 30k imports annually to around 100k-120k from Shenyang. BMW will be the first luxury OEM to bring in upscale seven-seater SUVs. With four mega flagship stores located in Beijing, Shanghai, Guangzhou, and Zhengzhou, Harmony stands to benefit from robust demand in these key markets. Meanwhile, Lexus just launched its NX SUV on the heels of the ES launched last year. In our view, these new models will boost new car sales turnover while ensuring healthier inventory levels. In turn, the dealerships will benefit from stable new car margins and lower financing cost.

Aftersales services cash cow. Most Harmony luxury stores have been in operation for years and most are located in premium locations in first- and second-tier Chinese cities. Harmony's aftersales business is picking up at its new stores. We forecast stable after-sales service margins since service costs are relatively lower for basic maintenance services. This attracts return customers seeking checkups and other value-added services.

Trading data

52-week range	HK$2.76-4.57
Market capitalization (m)	HK$6,974/US$896
Shares outstanding (m)	1,543
Free float (%)	31
3M average daily T/O (m share)	2.0
3M average daily T/O (US$ m)	1.2
Expected 12-month return (%)	59

Source: Bloomberg, CCBIS estimates

Share price vs HSCEI

Source: Bloomberg

Forecast and valuation

Year to 31 Dec	2019	2020	2021F	2022F	2023F
Revenue (RMB m)	12,622	14,747	18,043	20,006	22,059
YoY (%)	18.6	16.8	22.3	10.9	10.3
Net profit (RMB m)	513	411	789	935	1,136
YoY (%)	-24.9	-20.0	92.2	18.4	21.5
Fully diluted EPS (RMB)	0.34	0.27	0.51	0.61	0.74
YoY (%)	-23.4	-21.5	92.2	18.4	21.5
P/E (x)	11.9	15.1	7.9	6.6	5.5
DPS (HK$)	0.08	0.08	0.17	0.20	0.25
Dividend yield (%)	1.7	1.7	3.8	4.5	5.5
P/B (x)	0.9	0.8	0.8	0.7	0.6
ROAE (%)	7.3	5.6	10.1	11.0	12.2
Net debt/equity (%)	14.0	10.5	9.2	4.9	-0.4

Source: Bloomberg, CCBIS estimates

Stock performance

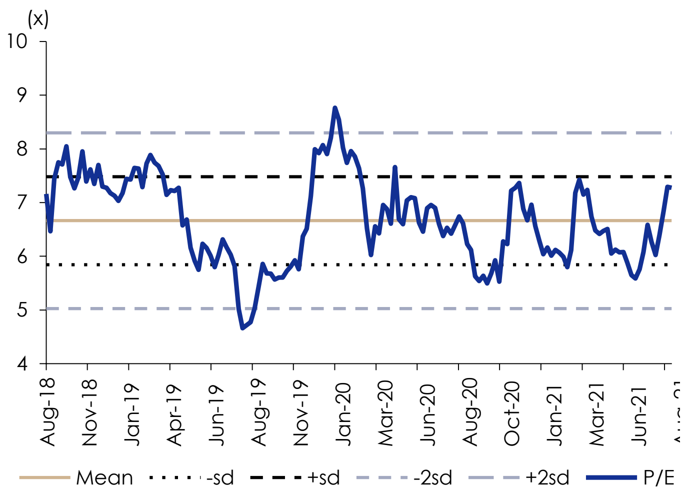
Performance over	1M	3M	12M
Absolute	15	22	26
Relative (%) to HSCEI	34	525	50

Source: Bloomberg

INITIATE WITH OUTPERFORM AND HK$7.20 TARGET PRICE

We initiate coverage on Harmony Auto with an Outperform rating and target price of HK$7.20 based on 10x FY22F P/E, two standard deviations above the company's historical five-year average forward P/E, or a 40% discount to the average for Hong Kong-listed major dealership groups like Zhongsheng, Meidong, and Yongda, given Harmony's smaller scale. Our target price reflects forecast EPS growth of 92%/18%/22% in 2021F/2022F/2023F. Our valuation is based on peer comparisons and P/E analysis, the most common valuation methodology within the auto dealership space. Harmony's wide luxury distribution network is positioned to take advantage of robust upgrade demand within the populous Henan province, as well as affluent first- and second-tier cities in China.

Harmony – historical 3-year average forward P/E bands



Source: Company data, CCBIS estimates

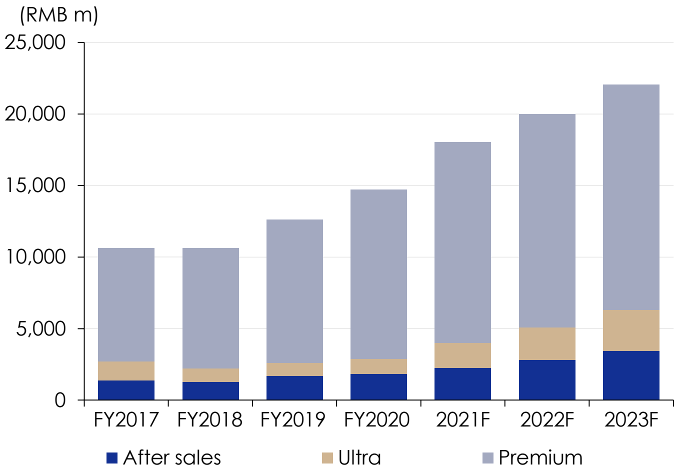
Harmony – historical 5-year average forward P/E bands

Source: Bloomberg, CCBIS estimates

Harmony's exclusive focus on luxury and ultra-luxury auto brands, notably BMW, Lexus, Bentley, and Ferrari, differentiates it from other car dealers in China. The prestige and renown of these brands has rubbed off on Harmony, which enjoys a good reputation in China. Harmony has inherited the qualities of the brands it sells, including the penetration achieved by BMW, the superior efficiency of the Lexus, and the lower margin risk of Bentleys and Ferraris.

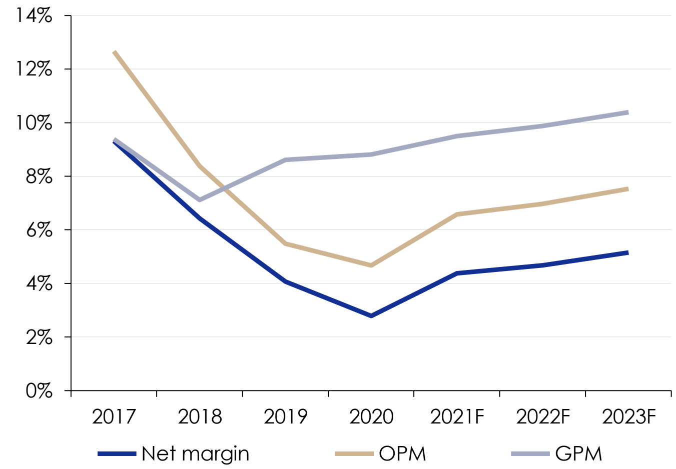
We expect new car sales under Harmony's luxury brands to contribute at least 75% of total company revenue in 2021F. In our view, Harmony stands a very good chance of securing more luxury authorizations over the next two years, a development sure to sharpen its competitive edge and increase profits. Its quality after-sale services business has won it a loyal following, not to mention lucrative gross margin of nearly 45% in 1H21 along with average revenue growth of over 20% p.a. in 2020-2023F.

Harmony Auto – revenue mix (RMB m)



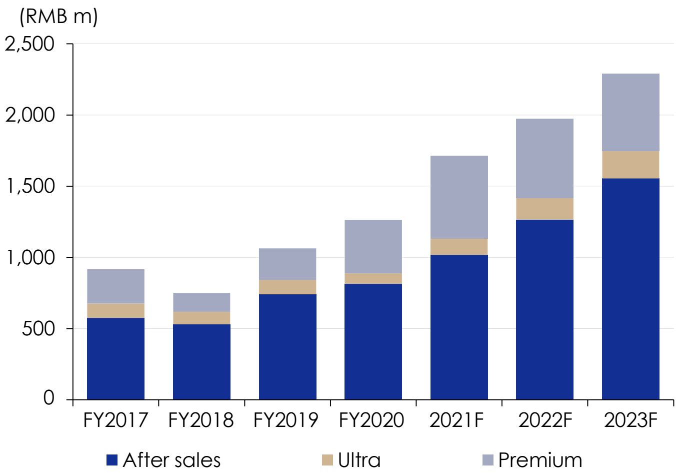
Source: Company data, CCBIS estimates

Harmony Auto – margin ratios



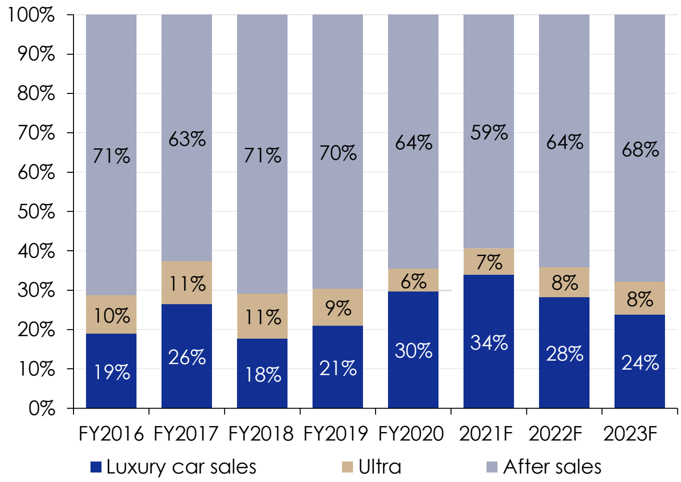
Source: Company data, CCBIS estimates

Harmony Auto – gross profit mix (RMB m)



Source: Company data, CCBIS estimates

Harmony Auto – gross profit mix contribution



Source: Company data, CCBIS estimates

We see good investment value in Harmony based on its: (1) unique positioning in China's southern regions; (2) balanced 4S store distribution in both the luxury and ultra-luxury segments; (3) smart luxury brand mix with increasing exposure to European (German, British and Italian) and Japanese OEMs; and (4) economies of scale in after-sale services relative to peers. We initiate coverage on China Harmony with an Outperform rating taking into account the following five characteristics.

- **BMW still the core asset.** BMW is Harmony's core business as it contributes around 75% of its new car sales volume. BMW stores cover seven provinces but are most concentrated in Henan. Over 80% of the BMWs sold in the province are through the Harmony network. The upscale X5L been added to the JV pipeline for 2022F heralds another BMW boom in China. About 5% of all BMW sales in China are through Harmony.

- **Lexus story intact, likely to outperform in the luxury space.** Lexus has been the most profitable brand for dealership groups in the past few years, a trend that looks to continue given the imminent launch of the upgraded NX SUV, the company's latest model. Though sales growth for Lexus is not as significant as that of the top-three German marques or even other emerging luxury names, we nevertheless believe moderate unit growth is a plus for securing dealer group margins. Harmony has eight Lexus stores in the portfolio with more on the pipeline for 2022F-2023F. We look for

Harmony's Lexus sales volume of 5.8k/6.7k units in 2022F/2023F to contribute 12%/13% of total PV volume or 20%/21% of total new car sales gross profit.

- **Ultra-luxury recovery on track.** Harmony is the only top dealership group in China that can boast comprehensive coverage of the ultra-luxury brands, including Rolls Royce, Ferrari, Lamborghini, Bentley, and Maserati. Coverage is spread across China's first- and especially second-tier cities. A new Bentley flagship store is about to open in Beijing. Thanks to the latest product portfolio updated with Bentleys and Ferraris and the rollout in the last three years of SUV products across the ultra-luxury brands, namely Rolls Royce, Bentley, Lamborghini, and Maserati. We forecast a 29%/24% YoY increase in new ultra-luxury car sales volume at Harmony in 2022F/2023F.
- **Strong aftersales momentum underpins profit growth.** We expect Harmony's network to continue to extend beyond its center in Henan to cover 14 provinces. These additions will significantly enlarge its territory and recognition at a time when demand for luxury and ultra-luxury cars is rising across China. Revenue from Harmony's after-sale services business is expected to grow 24%/23% YoY in 2022F/2023F.
- **Motivated sales force.** Harmony cultivates a data-driven management and monthly-/quarterly-based KPI and bonus distribution system to motivate frontline sales people.
- **Solid inventory management execution.** Harmony has been seeing growing turnover lately. It employs careful inventory control and strict monitoring of inventory levels to enhance capital efficiency, widening gross profit margins and after-sales services.

Risks include (1) a slowdown in China's luxury vehicle market due to shocks within the macro environment, (2) intense price competition and lower ASP and profitability from a supply glut in 2022F-2023F once the chipset shortage has been resolved, (3) slow ultra-luxury brand sales due to government crackdowns on ostentatious spending, and (4) erosion in aftersales margin as the company grows in scale.

Valuation comparison with other Hong Kong-listed dealerships

Many large Hong Kong-listed dealerships trade at a premium P/E due to market optimism over their profitability in light of strong demand for luxury cars. Zhongsheng Group (881 HK, Outperform), for example, is trading at a high P/E of 15x FY22F or 0.6x PEG. Meidong (1268 HK, Outperform) is trading at a high P/E of 28x FY22F or 0.9x PEG. Yongda (3669 HK, Outperform), is trading at a P/E of 8x FY22F or 0.5x PEG. Mature US-listed dealerships are trading at high P/Es in the 15-20x range reflecting their well-balanced business models and large profits garnered from used-car sales and auto financing, as well as the global chipset supply chain shock. Carmax (KMX US, Not Rated) has been trading on a high 2022F P/E in the 17-20x range. Harmony is currently trading at around 6x 2022F P/E or 0.33x PEG. We forecast solid earnings momentum of 18%/22% in 2022F/2023F, but given how volatile the new car sales business is, and considering the company's less mature aftersales customer base and share capital liquidity, we believe Harmony's valuation should be discounted against other dealership stocks.

LEADING LUXURY PLAYER IN CHINA'S AUTO DEALERSHIP SPACE

Harmony Group was ranked 42th and 34th place in China's top-hundred auto dealerships in 2019 and 2020 in terms of sales revenue, according to research conducted by China Automobile Dealership Association (CADA). The company continues to operate its extensive network from its home base in Henan Province, although it has expanded to 14 provinces, an area encompassing the cities of Beijing and Shanghai and all of China's coastal provinces. Besides the mainstream luxury brands, Harmony boasts considerable coverage of Bentley, Ferrari, and other ultra-luxury brands. It is the largest Bentley dealer in China, the second-largest Ferrari dealer, the third-largest Lexus dealer, and the fifth-largest BMW dealer.

Robust growth at Harmony is being fueled by heavy upgrade auto demand in China, with the highest growth from the central and east coast regions. We expect the ultra-luxury upgrade replacement cycle of China's affluent first- and second-tier cities to support Harmony's business through more than 20 outlets.

Possible acquisitions and the addition of new brands

China's auto dealership industry is highly fragmented, with over 23,000 dealerships in the middle market and luxury brand segment by end-2020, according to CADA. Based on our estimates, only 10% of these are luxury dealership stores. Among all the luxury stores, only an estimated 30% are consistently profitable, according to CADA.

China's auto dealership industry continues to consolidate, forming nationwide and regional mega-sized auto dealership groups. First-tier groups will be capable of generating RMB100b in revenue while second-tier groups are expected to generate annual revenue of RMB10b each. It seems clear that further network expansion and consolidation within the industry will be a major trend and that Harmony will benefit from resulting in stable cash flows and solid cash positions.

Lexus NX exterior

Source: Company

Lexus NX interior

Source: Company

To benefit from new product cycle at BMW and Lexus

Nearly 90% of Harmony's new car sales volume stems from the BMW and Lexus brands, which is why Brilliance-BMW's new X5L scheduled for rollout in 2Q22F is so important. Supply of this signature luxury SUV is set to rise from around 30k imports annually currently to around 100k-120k from Shenyang. BMW will be the first luxury OEM to introduce the upscale seven-seater SUV. It will be sold through four mega flagship stores in Beijing, Shanghai, Guangzhou, and Zhengzhou. Harmony stands to benefit from robust demand in these key markets. Meanwhile, Lexus just launched its newly designed NX SUV. It will join the ES launched last year. We believe new models will improve new car sales turnover at Harmony resulting in healthier inventory levels. In turn, the dealerships will have more stable new car margin and lower financing cost.

Brilliance-BMW X5 with extended wheelbase spy photo

Source: QQ

Brilliance-BMW X5 code G18, instead of G5 for imports

Source: QQ

Luxury car makers improve OEM and distributor relations

After the challenging market marked by OEM oversupply in 2015 and 2018, there was a push to improve relations between the OEMs and the dealerships. Many luxury car makers operating in China, including Infiniti, BMW, Volvo, Porsche, JLR, and Audi, made the decision to replace senior sales team members with individuals with more practical on-the-ground sales experience. So far, this decision seems to have paid off. Rebate policies now confer more benefits on the dealerships. For example, higher rebate points from selling cars are offered and more frequent market surveys are conducted to better reflect the accuracy of market conditions and channel inventory levels.

Increasing aftersales profitability potential

Most of Harmony's mid-end stores have been in operation for years and located in premium locations in the region being covering. We expect after-sales service margins to remain stable given service costs are relatively lower after price cuts at some of the major OEMs (Mercedes, BMW, JLR, and so on), and because officially approved third-party accessories are allowed. Price cuts make 4S dealerships more competitive; moreover, additional aftersales discount cards (usually on labor charges) offered at the point of new car sales in certain 4S stores make prices even more appealing. In turn, 4S stores gain opportunities to elicit value-added services whenever customers return for regular service. Partnerships between the dealerships and insurance companies will continue to generate stable income from high margin accident repairs. In our view, luxury dealerships in lower-tier cities have stronger market power when it comes to setting prices, while those in first- and second-tier cities have less price sensitive customer bases.

FINANCIAL ANALYSIS

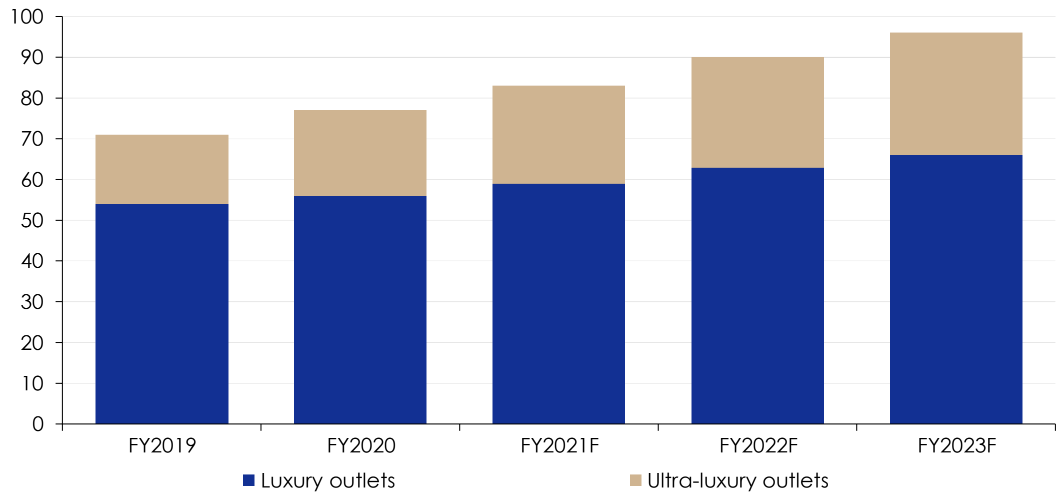
We forecast a sharp 92% YoY rise in net profit at Harmony, from RMB411m in 2020 to RMB789m in 2021F and then to RMB935m/1,136m in 2022F/2023F, up 18%/22%. Likely drivers include:

1. Rapid expansion of the luxury dealership store network;
2. Surging sales volume growth at new and existing stores;
3. Higher ASP due to a higher proportion of ultra-luxury cars sold;
4. Growing new car sales margin from a rising contribution of imported vehicles and better channel management;
5. Rapid growth in high-margin after-sale services;
6. Efficiency gains through economies of scale.

Expansion of the dealership network

We forecast dealership outlets at Harmony will rise from 77 in 2020 to 83/90/96 by 2021F/2022F/2023F, driven by sales of BMWs, Lexus, Bentleys, and Ferraris. In our view, expansion will be achieved through a combination of M&A and organic growth in the form of five new stores.

Number of Harmony dealerships in operation continues to grow



Source: Company data, CCBIS estimates

Rising sales volume of new and existing stores

Not only will Harmony Auto's existing stores benefit from rising demand for the cars in their territory, but the company will also benefit from rising volume per store, especially for recently established stores with low start-up sales bases. Harmony is growing it reputation and market recognition. We believe it will be able to strengthen its competitiveness and customer loyalty by enriching the product mix at its stores with imported new car models selling at even higher ASPs.

We forecast car sales volume at Harmony will rise from 36,573 units in 2020 to 43,933 units in 2021F, a 20% YoY increase, before rising to 47,742/51,606 units in 2022F/2023F, a 9%/8% YoY increase that does not take into account potential M&A.

Harmony's product mix is also changing rapidly. At the moment, only ultra-luxury and luxury brands are part of the portfolio. We expect growing contribution from imports of Lexus, Bentleys, and Ferraris. In our view, this will lead to significantly higher gross profit.

Harmony automobile sales volume by segment (2018-2023F)

Units	2018	2019	2020	2021F	2022F	2023F
Luxury brands	26,144	32,130	35,938	42,728	46,192	49,686
Ultra luxury brands	823	653	635	1,205	1,550	1,920
Total volume	**26,967**	**32,783**	**36,573**	**43,933**	**47,742**	**51,606**

Source: Company data, CCBIS estimates

Along with a higher proportion of imported brand cars sold, ASP and gross margins will be kept stable. We expect the recent chipset shortage will boost margin in the near-term, but stabilize in 2022F/2023F.

We forecast average gross margin for new car dealerships will recover from 3.0%/3.5% in 2019/2020 to 4.4% in 2021F, before dipping to 4.1%/4.0% in 2022F/2023F

Average selling price for different brand segments (2018-2023F)

RMB '000	2018	2019	2020	2021F	2022F	2023F
Luxury brands	322	311	329	329	323	317
Ultra luxury brands	1,139	1,402	1,678	1,441	1,477	1,492
Average	**347**	**333**	**353**	**359**	**360**	**361**

Source: Company data, CCBIS estimates

Average gross margin for different brand segments (2018-2023F)

%	2018	2019	2020	2021F	2022F	2023F
Luxury brands	1.6	2.2	3.2	4.1	3.7	3.5
Ultra-luxury brands	9.2	11.0	6.9	6.6	6.7	6.7
Average	**2.3**	**3.0**	**3.5**	**4.4**	**4.1**	**4.0**

Source: Company data, CCBIS estimates

Rapid growth within the high-margin after-sale services business

Harmony's after-sale services started from a low base (12% of total turnover in 2018), but then rose rapidly by 32% YoY in 2019. We expect Harmony's efforts to develop this business to translate to sustained 20% or more growth p.a. in the next three years given the company's investments to extend warranty services and pre-owned car sales. We forecast gross margin of after-sale services of 45% in 2021F-2023F, supporting overall margin improvement at the company.

Revenue and gross margin for car dealership business (2018-2023F)

	2018	2019	2020	2021F	2022F	2023F
Revenue (RMB m)						
New car dealerships	9,346	10,910	12,893	15,783	17,194	18,605
After-sale services	1,280	1,686	1,818	2,260	2,812	3,454
Gross profit (RMB m)						
New car dealerships	219	323	449	696	710	738
After-sale services	531	740	815	1,017	1,265	1,554
Gross margins (%)						
New car dealerships	2.3	3.0	3.5	4.4	4.1	4.0
After-sale services	41.5	43.9	44.8	45.0	45.0	45.0
Average gross margin for car dealerships	**7.1**	**8.4**	**8.6**	**9.5**	**9.9**	**10.4**

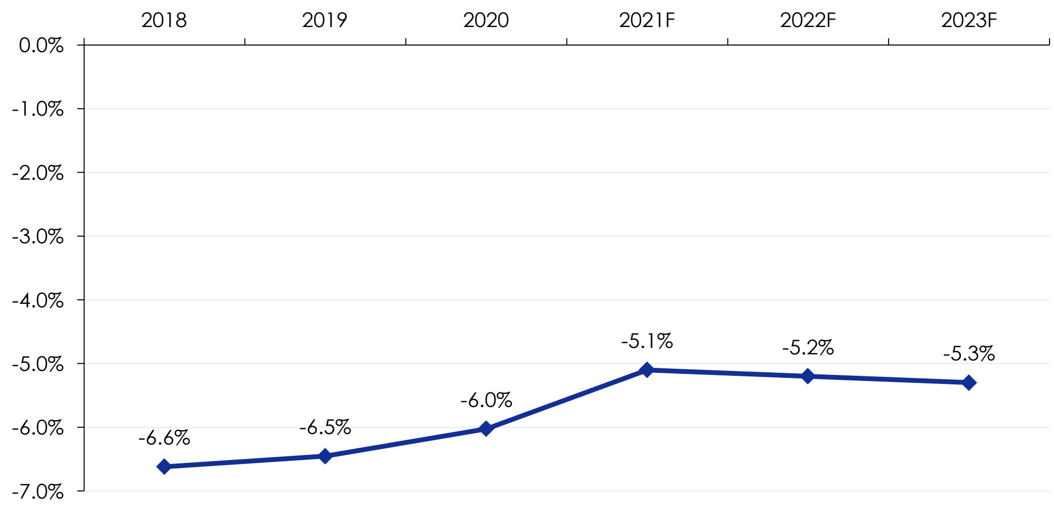
Source: Company data, CCBIS estimates

Economies of scale leading to efficiency gains

Growing economies of scale and improvements in efficiency will lead to overall margin improvement at Harmony, in our view. We expect the company to make improvements in the areas of inventory and accounts receivable management, leading to better utilization of operating cashflow.

We forecast the company's aggregate cost-to-turnover ratio will decline significantly from 6.0% in 2020 to 5.1% in 2021F as operating efficiency improves and through healthy channel inventory from active management and as the global chipset supply chain returns to normal operations. This ratio may rise a bit in 2022F/2023F to 5.2%/5.3%. Aggregate cost includes selling and distribution expense and administration costs.

Selling and administration expenses as a percentage of total revenue at Harmony



Source: Company data, CCBIS estimates

Balance sheet and cashflow projections

Assuming Harmony sustains the group's current rate of dealership network expansion, we forecast around the company to invest around RMB400m annually for new stores opening and current store upgrading in 2021F-2023F.

In our view, Harmony's profit margins stand to improve in 2021F due to excess demand for cars and a higher contribution from import makes. Car sales and after-sale services should provide the company with strong operating cashflow.

Inventory management

Given the store expansion of its dealership network, Harmony would do well to invest in inventory, mainly new cars and spare parts. Inventory levels fell from 42 days in 2018 to 30 days in 2020 and then to 24 days of late. Under the somewhat typical sales conditions for luxury autos in 2021F-2023F, inventory days were kept under 30 days. Any unexpected rise in inventory could cause a drain on operating cashflow.

Harmony auto – net gearing ratio and net debt

	FY2017	FY2018	FY2019	FY2020	FY2021F	FY2022F	FY2023F
Net debt/equity (gearing) (%)	2	13	15	11	8	1	-6
Net debt	155	914	1,063	805	665	117	-641

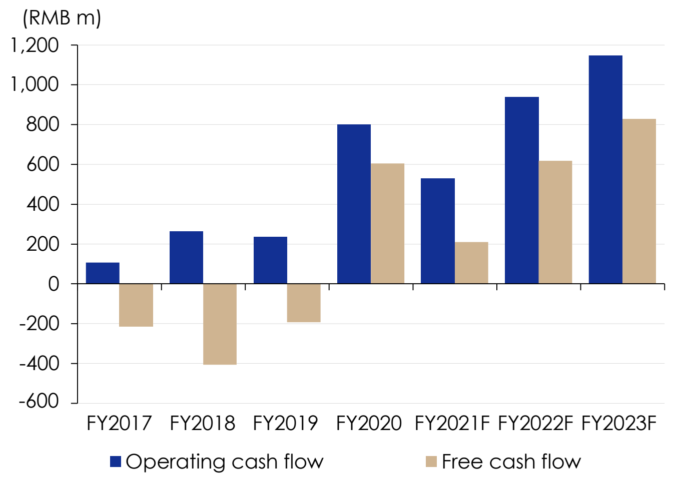
Source: Company data, CCBIS estimates

Harmony – ROAE and net income

	FY2017	FY2018	FY2019	FY2020	FY2021F	FY2022F	FY2023F
ROE (%)	15.9	9.9	7.0	5.4	9.5	10.1	10.9
Net income	1,009	684	513	411	789	935	1,136

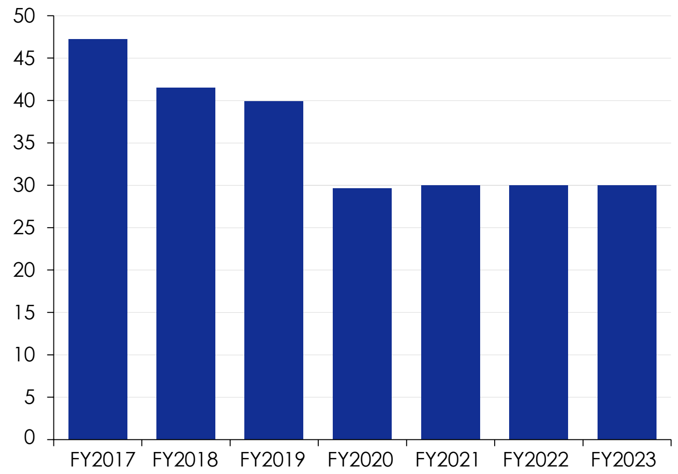
Source: Company data, CCBIS estimates

Harmony – free cash flow & operating cashflow (RMB m)



Source: Company data, CCBIS estimates

Inventory for Harmony Auto's operations (days)



Source: Company data, CCBIS estimates

Harmony Auto – income statement assumptions

FYE 31 Dec (RMB m)	2019	2020	2021F	2022F	2023F	1H20	2H20	1H21	2H21F
Revenue	12,622	14,747	18,043	20,006	22,059	5,755	8,992	9,374	8,669
Cost of revenue	(11,535)	(13,448)	(16,329)	(18,031)	(19,767)	(5,235)	(8,213)	(8,515)	(7,814)
Gross profit	**1,087**	**1,299**	**1,713**	**1,975**	**2,292**	**520**	**779**	**859**	**854**
Gross profit margin (%)	8.6	8.8	9.5	9.9	10.4	9.0	8.7	9.2	9.9
Other income & gains	420	278	333	400	480	175	103	218	115
Sell & distribution costs	(633)	(690)	(686)	(780)	(882)	(284)	(405)	(427)	(259)
Ad expense	(181)	(199)	(235)	(260)	(287)	(76)	(123)	(111)	(123)
Operating profit	**692**	**688**	**1,127**	**1,335**	**1,603**	**334**	**354**	**539**	**587**
Operating margin (%)	5.5	4.7	6.2	6.7	7.3	5.8	3.9	5.8	6.8
Net finance cost	1	(72)	(70)	(70)	(70)	(25)	(47)	(36)	(34)
Share of associates	(20)	1	2	2	2	(2)	3	1	1
Share results of JCE	0	0	0	0	0	0	0	0	0
Profit before tax	**673**	**617**	**1,059**	**1,267**	**1,535**	**308**	**310**	**504**	**554**
Tax expense	(147)	(195)	(254)	(317)	(384)	(65)	(130)	(104)	(150)
Minority interest	13	11	15	15	15	7	4	10	5
Profit to shareholders	**513**	**411**	**789**	**935**	**1,136**	**235**	**176**	**391**	**399**
Net profit margin (%)	4.1	2.8	4.4	4.7	5.2	4.1	2.0	4.2	4.6
EPS (RMB)	0.34	0.27	0.51	0.61	0.74	0.15	0.11	0.25	0.26
EPS (HK$)	0.38	0.31	0.60	0.72	0.87	0.17	0.13	0.30	0.30

Source: Company data, CCBIS estimates

Harmony Auto | 3836 HK – financial summary

Profit and loss

FYE 31 Dec (RMB m)	2019	2020	2021F	2022F	2023F
Revenue	**12,622**	**14,747**	**18,043**	**20,006**	**22,059**
COGS	(11,535)	(13,448)	(16,329)	(18,031)	(19,767)
Gross profit	**1,087**	**1,299**	**1,713**	**1,975**	**2,292**
Other income	420	278	333	400	480
Operating expenses	(815)	(888)	(920)	(1,040)	(1,169)
EBIT	**692**	**688**	**1,127**	**1,335**	**1,603**
Net financial income (exp.)	1	(72)	(70)	(70)	(70)
JVs & associates	(20)	1	2	2	2
Profit before tax	**673**	**617**	**1,059**	**1,267**	**1,535**
Tax expense	(147)	(195)	(254)	(317)	(384)
Total profit	**526**	**422**	**804**	**950**	**1,151**
Minority interest	(13)	(11)	(15)	(15)	(15)
Net profit attribute to shareholder	**513**	**411**	**789**	**935**	**1,136**
Core profit	**513**	**411**	**789**	**935**	**1,136**
Reported EPS (HK$)	0.38	0.30	0.57	0.68	0.83
Diluted EPS (RMB)	0.34	0.27	0.51	0.61	0.74
Dividend (RMB m)	104	105	237	281	341
Dividend per share (RMB)	0.07	0.07	0.15	0.18	0.22

Balance sheet

FYE 31 Dec (RMB m)	2019	2020	2021F	2022F	2023F
Cash & equivalents	1,362	1,714	2,010	2,608	3,400
Pledge deposit & restrict cash	112	107	107	107	107
Receivables	2,724	3,048	3,649	4,085	4,557
Assets held for sale	88	84	84	84	84
Inventory	1,262	1,094	1,342	1,482	1,625
Total current assets	**5,548**	**6,047**	**7,192**	**8,366**	**9,773**
Property, plant & equipment	4,005	4,422	4,327	4,187	4,001
Intangible assets	156	279	282	285	288
JVs & associates	13	14	14	14	14
Other non-current assets	1,700	1,590	1,590	1,590	1,590
Total non-current assets	**5,874**	**6,305**	**6,213**	**6,076**	**5,893**
Total assets	**11,423**	**12,352**	**13,405**	**14,442**	**15,666**
Short-term borrowings	2,494	2,604	2,865	3,151	3,466
Trade & bills payable	821	1,203	1,297	1,334	1,372
Other current liabilities	218	285	285	285	285
Total current liabilities	**3,533**	**4,093**	**4,447**	**4,770**	**5,124**
Other non-current liabilities	566	712	712	712	712
Total non-current liabilities	**566**	**712**	**712**	**712**	**712**
Total liabilities	**4,099**	**4,805**	**5,159**	**5,483**	**5,836**
Share capital	13	13	13	13	13
Reserves and retained profits	7,258	7,476	8,160	8,858	9,714
Shareholders' equity	**7,270**	**7,488**	**8,172**	**8,870**	**9,726**
Minority interest	53	59	74	89	104
Total equity	**7,323**	**7,547**	**8,247**	**8,960**	**9,831**
Total equity and liabilities	**11,423**	**12,352**	**13,405**	**14,442**	**15,666**

Cash flow

FYE 31 Dec (RMB m)	2019	2020	2021F	2022F	2023F
Profit before tax	**673**	**617**	**1,059**	**1,267**	**1,535**
Amortization & depreciation	158	189	414	459	505
Net financial charge adjust.	(1)	72	70	70	70
Change in working capital	(170)	297	(197)	(124)	(127)
Tax paid	(121)	(179)	(254)	(317)	(384)
Other	(304)	(197)	(561)	(417)	(451)
Operating cash flow	**236**	**800**	**530**	**939**	**1,148**
Disposal of fixed assets	106	142	–	–	–
Capex	(429)	(194)	(320)	(320)	(320)
Investment	–	–	–	–	–
Net interest received (paid)	41	66	60	60	60
Other	239	(234)	–	–	–
Investment cash flow	**(42)**	**(220)**	**(260)**	**(260)**	**(260)**
Change in borrowings	356	111	260	286	315
Equity issues	(29)	(12)	–	–	–
Dividend paid	(156)	(104)	(105)	(237)	(281)
Other	(145)	(203)	(130)	(130)	(130)
Financing cash flow	**26**	**(208)**	**25**	**(80)**	**(95)**
Change in cash flow	219	371	295	598	793
Cash & equivalents, begin	1,148	1,362	1,714	2,010	2,608
Forex	(5)	(18)	–	–	–
Cash & equivalents, end	**1,362**	**1,714**	**2,010**	**2,608**	**3,400**
Free cash flow	**(152)**	**671**	**270**	**679**	**888**

Ratios

FYE 31 Dec	2019	2020	2021F	2022F	2023F
Growth (%)					
Revenue	18.6	16.8	22.3	10.9	10.3
EBITDA	-17.5	3.0	75.7	16.5	17.5
EBIT	-22.4	-0.6	63.7	18.5	20.1
Net profit	-24.9	-20.0	92.2	18.4	21.5
Core net profit	-24.9	-20.0	92.2	18.4	21.5
Profitability (%)					
Gross margin	8.6	8.8	9.5	9.9	10.4
EBITDA margin	6.7	5.9	8.5	9.0	9.6
EBIT margin	5.5	4.7	6.2	6.7	7.3
Net margin	4.1	2.8	4.4	4.7	5.2
Core net margin	4.1	2.8	4.4	4.7	5.2
Tax rate	21.8	31.6	24.0	25.0	25.0
Efficiency (days)					
Inventory turnover	38	32	27	29	29
Trade receivables	4	4	4	4	4
Trade payables	4	5	7	8	8
Returns & leverage (%)					
ROAA	4.6	3.5	6.1	6.7	7.5
ROAE	7.3	5.6	10.1	11.0	12.2
Net debt (cash)/equity	14.0	10.5	9.2	4.9	-0.4
Liquidity (x)					
Current ratio	1.6	1.5	1.6	1.8	1.9
Quick ratio	1.2	1.2	1.3	1.4	1.6

Source: Company data, CCBIS estimates

Rating definitions:

Outperform (O) – expected return > 10% over the next twelve months
Neutral (N) – expected return between -10% and 10% over the next twelve months
Underperform (U) – expected return < -10% over the next twelve months

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