

12 July 2016

Major changes	Analyst	Rating	Page
<p><b>Man Wah Holdings (1999 HK)</b> Downgrading: time to take profit Target price ↓4.2% to HKD11.30</p>	Carlton Lai	Buy → Hold	P.3
<p><b>BYD (1211 HK)</b> Upgrading: on track for a re-rating Target price ↑30.0% to HKD65.00</p>	Kelvin Lau	Outperform → Buy	P.7
<p><b>Advanced Info Service (ADVANC TB)</b> Good entry point Target price ↑15.2% to Bt190.00</p>	Sarachada Sornsong	Hold → Buy	P.10
<p><b>Texhong Textile (2678 HK)</b> More than just a short-term profit alert Target price ↑26.5% to HKD10.50</p>	John Choi	Buy	P.11
<p><b>General Interface Solution (6456 TT)</b> Looking for strong revenue growth in 2H16 Target price ↓27.0% to TWD92</p>	Kylie Huang	Buy	P.14
Other research			
<p><b>China Telecoms Sector</b> Tower lease renegotiations: how to play?</p>	Ramakrishna Maruvada	Positive	P.18
<p><b>Anta Sports Products (2020 HK)</b> Time for a rebound</p>	Adrian Chan	Buy	P.19
<p><b>Feng Tay Enterprise (9910 TT)</b> On track with Nike growth</p>	Helen Chien	Hold	P.23
<p><b>DiGi.Com (DIGI MK)</b> Still a weak tone in prepaid</p>	Lim Tee Yang	Hold	P.27
<p><b>SapuraKencana (SAKP MK)</b> Premature cessation of Berantai RSC</p>	Tan Kee Hoong	Hold	P.28
<p><b>Indonesia Gold sector</b> Brexit boost</p>	Arandi Ariantara	Neutral	P.29
Macro research			
<p><b>Indonesia market update</b> Politics</p>	Harry Su		P.30
<p><b>Indonesia economy</b> Inflation &amp; PMI update</p>	Fakhrul Fulvian		P.31
Memos – quick updates			
<p><b>China Property</b> Tightening policies being rolled out in more cities</p>	Cynthia Chan		P.32
<p><b>Beijing Capital International Airport (694 HK)</b> International traffic picks up a bit, domestic remains flat</p>	Kelvin Lau		P.35
<p><b>BYD (1211 HK)</b> Wins bids for commercial vehicles</p>	Kelvin Lau		P.36
<p><b>China State Construction International (3311 HK)</b> June 2016 operating data: new contract growth still solid</p>	Kelvin Lau		P.37
<p><b>Hon Hai (2317 TT)</b> 2Q16 sales in-line</p>	Kylie Huang		P.39

Company Roadshows			
Date	Company	Event	Venue
18-21 Jul	Gamuda Berhad (GAM MK)	NDR	EU
26 Jul	Incitec Pivot (IPL AU)	NDR	Tokyo
26-28 Jul	M1 Ltd (M1 SP)	NDR	US
27 Jul	HKEI (2638 HK)	NDR	HK
28-29 Jul	China Water Affairs (855 HK)	NDR	Tokyo
1 Aug	CKI / Power Assets (1038 HK/ 6 HK)	NDR	HK
1-5 Aug	Samsung Electronics Co. (005930 KS)	NDR	US
3-5 Aug	Delta Electronics (DELTA TB)	NDR	EU
4 Aug	Nine Dragons Paper (2689 HK)	Group Luncheon	HK
4 Aug	Nine Dragons Paper (2689 HK)	Group Luncheon (VC)	SG
4 Aug	Nine Dragons Paper (2689 HK)	VC	Tokyo
5 Aug	Xinyi Solar (968 HK)	NDR	HK
17 Aug	China State Construction International (3311 HK)	NDR	HK
17 Aug	China State Construction International (3311 HK)	Group Luncheon (VC)	SG
17 Aug	China Suntien (956 HK)	NDR	HK
18 Aug	Fufeng Group (546 HK)	NDR	HK
22 Aug	Mega Financial Holding (2886 TT)	NDR	Tokyo
23 Aug	SITC (1308 HK)	NDR	HK
23-24 Aug	CIMC Enric (3899 HK)	NDR	HK
25 Aug	Canvest Environmental (1381 HK)	NDR	HK

Daiwa Asian Events		
Date	Company	Venue
19-Aug	Daiwa ASEAN Conference - The 8th HOSE-Daiwa Vietnam Corporate Day 2016	SG
6-9 Sep	Daiwa Pan-Asia Innovative Companies Conference	NY, Toronto, San Francisco
8-9 Sep	Daiwa Pan Asia REIT Day Tokyo 2016	Tokyo
8-11 Nov	Daiwa Investment Conference Hong Kong 2016	HK
27 Feb-3 Mar 2017	Daiwa Investment Conference Tokyo 2017	Tokyo

Source: Daiwa

Market	Performance chg (%)			EPS growth (%)		PER (x)	
	1D	1M	YTD	16E	17E	16E	17E
TPX	3.8	(5.6)	(18.8)	15.2	9.4	12.6	11.5
HSCEI	2.0	(1.5)	(9.9)	(3.5)	5.8	6.2	5.9
HSI	1.5	(0.8)	(4.7)	(1.0)	9.4	10.9	9.9
KOSPI	1.3	(1.4)	1.4	23.9	9.2	10.7	9.8
TWSE	1.7	0.8	5.4	(0.3)	10.5	13.5	12.4
SENSEX*	1.8	3.7	5.8	13.4	18.0	18.0**	15.3**
FSSTI	1.0	1.9	(0.2)	(2.0)	4.9	12.6	12.0
FBMKLCI*	0.6	0.8	(2.3)	(1.5)	8.3	16.3**	15.0**
SET*	0.9	2.7	14.0	7.5	13.7	15.2**	13.4**
PCOMP*	1.2	4.7	13.1	6.9	9.8	20.0**	18.2**
JCI*	2.0	4.4	10.4	7.5	13.5	16.4**	14.4**
AS51	2.0	0.5	0.8	(11.1)	6.2	16.3	15.4

Source: Thomson Reuters

\*Valuation based on MSCI Universe \*\*MSCI index priced as of 8 Jul

See important disclosures, including any required research certifications, beginning on page 50.


<b>Sunny Optical Technology (2382 HK)</b>	<i>Kylie Huang</i>	P.40
1H16 shipments broadly in-line		
<b>TSMC (2330 TT)</b>	<i>Rick Hsu</i>	P.41
TSMC reported upbeat 2Q16 top-line; we've been a buyer of this name.		
<hr/>		
<b>Daiwa's Banner Products</b>		P.43
<b>Analysts' company visits</b>		P.44
<b>Rating and target-price information</b>		P.45
<b>Recently published reports</b>		P.46

# Man Wah Holdings (1999 HK)

 Target price: **HKD11.30** (from HKD11.80)

 Share price (11 Jul): **HKD12.20** | Up/downside: **-7.3%**

 5 4 **3** 2 1


**Hold**  
 (from Buy)

## Downgrading: time to take profit

- Share price and valuation are at multi-year highs
- Initial signs of softening demand for furniture overseas
- Cutting TP to HKD11.30; downgrading to a Hold (3) rating

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**What's new:** Man Wah's share price is lingering at an all-time high and we believe now is a good time for investors to take profit. With the increasing macro uncertainty globally, we believe the street has become too optimistic on the company's top-line growth for FY17. While we continue to like the company over a multi-year horizon, we believe the shares are currently fairly priced, and see potential revenue and earnings cuts by the street.

### What's the impact: Near-term pressure for its overseas businesses?

Although we believe Man Wah is still capturing recliner market share globally, we see signs of a possible slowdown in furniture demand overseas as: 1) US retail spending on furniture in May grew by only 0.2% YoY. This compares to a YoY growth rate of 3.0% or above for every month since January 2014 (some of its US furniture peers have also posted weaker sales growth recently), 2) with Brexit and the depreciation of the GBP and EUR, the recovery of its Europe and other overseas business in FY17 is now likely to be at risk. We now look for this division's revenue growth to resume in FY18 instead of FY17, and 3) our recent talks with management have confirmed that the US is tracking "slightly below expectations". We also note that 1H FY16 will be a particularly tough comparison, given that Man Wah's US business grew by 19% YoY.

**Limited share-price downside.** Despite the above, we believe Man Wah's share price will continue to outperform most of the China exporters due to: 1) the potential for an increase in its dividend payout given its strong cash accumulation, 2) the chance of a special dividend in FY18 or a step-up in share buybacks, and 3) it being a beneficiary of ongoing CNY depreciation.

After reducing our North America and Europe revenue growth rates, we cut our FY17-19E EPS by 4-5%.

**What we recommend:** We cut our 12-month TP to HKD11.30 (from HKD11.80), based on an unchanged 15x PER (equivalent to a 10% premium to the average multiple of its China exporter peers) and our revised FY17 EPS estimate. At this juncture, Man Wah's valuation looks fair to us (the company is trading at 2SD above its mean trading PER since 2013), and we recommend investors wait for a better entry point. We downgrade the stock from a Buy (1) to a Hold (3) rating. Key upside risk: a significant rebound in US and Europe retail sentiment. Key downside risk: a substantial rise in raw material prices.

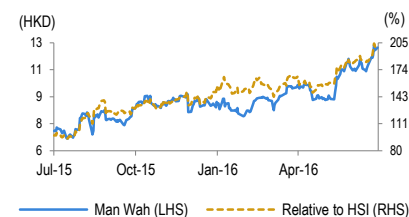
**How we differ:** We believe we are one of the first brokers among the Bloomberg consensus to recommend investors take profit at the current share price level.

### Forecast revisions (%)

Year to 31 Mar	17E	18E	19E
Revenue change	(2.8)	(5.7)	(7.4)
Net profit change	(4.0)	(4.9)	(5.3)
Core EPS (FD) change	(4.0)	(4.9)	(5.3)

Source: Daiwa forecasts

### Share price performance



12-month range	6.73-12.36
Market cap (USDbn)	3.05
3m avg daily turnover (USDm)	4.52
Shares outstanding (m)	1,943
Major shareholder	Wong Man Li (Chairman) (62.6%)

### Financial summary (HKD)

Year to 31 Mar	17E	18E	19E
Revenue (m)	7,930	8,783	9,919
Operating profit (m)	1,767	1,967	2,136
Net profit (m)	1,471	1,639	1,787
Core EPS (fully-diluted)	0.753	0.839	0.915
EPS change (%)	20.0	11.4	9.0
Daiwa vs Cons. EPS (%)	(3.6)	(5.3)	(6.0)
PER (x)	16.2	14.5	13.3
Dividend yield (%)	3.4	3.7	4.0
DPS	0.409	0.453	0.492
PBR (x)	4.3	3.7	3.3
EV/EBITDA (x)	11.3	9.8	8.7
ROE (%)	28.9	27.7	26.3

Source: FactSet, Daiwa forecasts

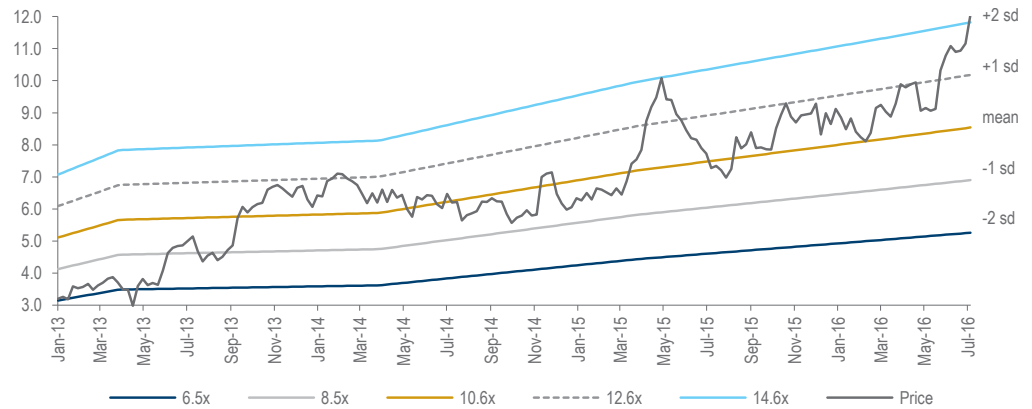
**Man Wah: key changes to Daiwa forecasts**

	FY17			FY18			FY19		
	New	Old	Change	New	Old	Change	New	Old	Change
Total sofa sales volume (sets)	996,171	1,046,753	-5%	1,076,998	1,171,282	-8%	1,180,169	1,313,074	-10%
Average selling price (HKD)	7,026	6,992	0%	7,159	7,124	0%	7,275	7,241	0%
Sales network in China (no. of stores)	1,837	1,827	1%	1,999	1,989	1%	2,101	2,091	0%
<b>Revenue</b>									
China Market	2,781	2,692	3%	3,148	3,045	3%	3,662	3,538	3%
North America Market	4,393	4,641	-5%	4,794	5,350	-10%	5,281	6,112	-14%
Europe and other Overseas Markets	756	827	-9%	840	919	-9%	976	1,067	-9%
<b>Total revenue</b>	<b>7,930</b>	<b>8,161</b>	<b>-3%</b>	<b>8,783</b>	<b>9,314</b>	<b>-6%</b>	<b>9,919</b>	<b>10,717</b>	<b>-7%</b>
Gross profit	3,269	3,383	-3%	3,578	3,776	-5%	3,951	4,225	-6%
Core operating profit	1,667	1,736	-4%	1,867	1,963	-5%	2,036	2,149	-5%
Core net income	1,471	1,532	-4%	1,639	1,722	-5%	1,787	1,887	-5%
Adjusted diluted EPS (HK cents)	75.32	78.44	-4%	83.90	88.18	-5%	91.48	96.60	-5%
<b>Profit Margins</b>									
Gross margin	41.2%	41.5%	-0.2 pp	40.7%	40.5%	0.2 pp	39.8%	39.4%	0.4 pp
Core operating margin	21.0%	21.3%	-0.2 pp	21.3%	21.1%	0.2 pp	20.5%	20.1%	0.4 pp
Core net margin	18.6%	18.8%	-0.2 pp	18.7%	18.5%	0.2 pp	18.0%	17.6%	0.4 pp

Source: Daiwa forecasts

**Shares are now trading 2SD above its mean trading PER since 2013**

**Man Wah: one-year forward PER bands**



Source: Bloomberg; Daiwa forecasts

## Financial summary

### Key assumptions

Year to 31 Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Total sales volume of sofas (sets)	537,275	614,258	777,754	857,117	937,000	996,171	1,076,998	1,180,169
Average selling price of sofas (HKD)	7,196	7,139	6,908	6,747	6,814	7,026	7,159	7,275
CHEERS store count in China	518	627	873	1,120	1,334	1,534	1,704	1,814
ENLANDA store count in China	237	275	309	321	311	303	295	287
Sales from internet and TV platforms (HKDm)	10	65	98	80	128	180	230	290

### Profit and loss (HKDm)

Year to 31 Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
North America sales	2,460	2,752	3,287	3,562	3,995	4,393	4,794	5,281
China sales	1,253	1,392	1,758	2,066	2,543	2,781	3,148	3,662
Other Revenue	624	733	947	926	789	756	840	976
<b>Total Revenue</b>	<b>4,336</b>	<b>4,877</b>	<b>5,991</b>	<b>6,555</b>	<b>7,328</b>	<b>7,930</b>	<b>8,783</b>	<b>9,919</b>
Other income	65	89	286	320	176	159	164	168
COGS	(2,861)	(3,106)	(3,860)	(4,222)	(4,432)	(4,661)	(5,204)	(5,968)
SG&A	(1,205)	(1,260)	(1,311)	(1,364)	(1,574)	(1,661)	(1,775)	(1,984)
Other op. expenses	0	0	0	0	0	0	0	0
<b>Operating profit</b>	<b>336</b>	<b>600</b>	<b>1,106</b>	<b>1,289</b>	<b>1,498</b>	<b>1,767</b>	<b>1,967</b>	<b>2,136</b>
Net-interest inc./ (exp.)	(8)	(17)	(43)	(23)	(12)	(6)	(6)	(6)
Assoc/forex/extraord./others	9	41	91	(8)	4	1	1	1
<b>Pre-tax profit</b>	<b>338</b>	<b>624</b>	<b>1,154</b>	<b>1,259</b>	<b>1,490</b>	<b>1,762</b>	<b>1,962</b>	<b>2,130</b>
Tax	(35)	(58)	(167)	(175)	(150)	(203)	(235)	(256)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
<b>Net profit (reported)</b>	<b>302</b>	<b>566</b>	<b>986</b>	<b>1,084</b>	<b>1,340</b>	<b>1,560</b>	<b>1,727</b>	<b>1,875</b>
<b>Net profit (adjusted)</b>	<b>265</b>	<b>488</b>	<b>726</b>	<b>861</b>	<b>1,229</b>	<b>1,471</b>	<b>1,639</b>	<b>1,787</b>
<b>EPS (reported)(HKD)</b>	<b>0.157</b>	<b>0.313</b>	<b>0.542</b>	<b>0.561</b>	<b>0.689</b>	<b>0.803</b>	<b>0.889</b>	<b>0.965</b>
<b>EPS (adjusted)(HKD)</b>	<b>0.137</b>	<b>0.270</b>	<b>0.399</b>	<b>0.446</b>	<b>0.632</b>	<b>0.757</b>	<b>0.843</b>	<b>0.920</b>
<b>EPS (adjusted fully-diluted)(HKD)</b>	<b>0.137</b>	<b>0.270</b>	<b>0.371</b>	<b>0.434</b>	<b>0.628</b>	<b>0.753</b>	<b>0.839</b>	<b>0.915</b>
<b>DPS (HKD)</b>	<b>0.065</b>	<b>0.140</b>	<b>0.250</b>	<b>0.630</b>	<b>0.350</b>	<b>0.409</b>	<b>0.453</b>	<b>0.492</b>
<b>EBIT</b>	<b>336</b>	<b>600</b>	<b>1,106</b>	<b>1,289</b>	<b>1,498</b>	<b>1,767</b>	<b>1,967</b>	<b>2,136</b>
<b>EBITDA</b>	<b>424</b>	<b>724</b>	<b>1,249</b>	<b>1,440</b>	<b>1,653</b>	<b>1,961</b>	<b>2,187</b>	<b>2,381</b>

### Cash flow (HKDm)

Year to 31 Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Profit before tax	338	624	1,154	1,259	1,490	1,762	1,962	2,130
Depreciation and amortisation	88	124	142	151	155	194	220	246
Tax paid	(52)	(56)	(135)	(169)	(159)	(203)	(235)	(256)
Change in working capital	(149)	(28)	(32)	(209)	246	(119)	(105)	(107)
Other operational CF items	(21)	(61)	(293)	(241)	(88)	(90)	(90)	(90)
<b>Cash flow from operations</b>	<b>204</b>	<b>602</b>	<b>836</b>	<b>790</b>	<b>1,644</b>	<b>1,544</b>	<b>1,751</b>	<b>1,923</b>
Capex	(536)	(264)	(236)	(600)	(227)	(400)	(400)	(400)
Net (acquisitions)/disposals	0	0	0	0	0	0	0	0
Other investing CF items	(377)	283	30	38	(75)	100	100	100
<b>Cash flow from investing</b>	<b>(913)</b>	<b>18</b>	<b>(207)</b>	<b>(562)</b>	<b>(303)</b>	<b>(300)</b>	<b>(300)</b>	<b>(300)</b>
Change in debt	565	163	(208)	400	(688)	0	0	0
Net share issues/(repurchases)	(131)	(179)	(161)	(273)	(299)	0	0	0
Dividends paid	(185)	(152)	(387)	(1,221)	(564)	(795)	(881)	(956)
Other financing CF items	30	10	859	84	(13)	0	0	0
<b>Cash flow from financing</b>	<b>281</b>	<b>(158)</b>	<b>103</b>	<b>(1,010)</b>	<b>(1,563)</b>	<b>(795)</b>	<b>(881)</b>	<b>(956)</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>(429)</b>	<b>462</b>	<b>732</b>	<b>(782)</b>	<b>(221)</b>	<b>449</b>	<b>570</b>	<b>667</b>
Free cash flow	(332)	338	599	190	1,417	1,144	1,351	1,523

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### Balance sheet (HKDm)

As at 31 Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Cash & short-term investment	1,190	1,655	2,362	1,599	1,448	1,896	2,466	3,133
Inventory	546	636	702	781	607	741	856	981
Accounts receivable	391	369	501	622	591	652	722	815
Other current assets	538	238	254	401	193	203	213	223
<b>Total current assets</b>	<b>2,665</b>	<b>2,898</b>	<b>3,819</b>	<b>3,403</b>	<b>2,839</b>	<b>3,492</b>	<b>4,257</b>	<b>5,153</b>
Fixed assets	1,371	1,532	1,607	1,988	2,034	2,240	2,421	2,575
Goodwill & intangibles	1	1	1	1	0	0	0	0
Other non-current assets	446	570	703	704	772	772	772	772
<b>Total assets</b>	<b>4,483</b>	<b>5,001</b>	<b>6,130</b>	<b>6,096</b>	<b>5,645</b>	<b>6,504</b>	<b>7,450</b>	<b>8,500</b>
Short-term debt	583	746	543	938	250	250	250	250
Accounts payable	295	259	290	281	267	306	342	392
Other current liabilities	231	321	407	420	415	460	514	586
<b>Total current liabilities</b>	<b>1,109</b>	<b>1,326</b>	<b>1,241</b>	<b>1,638</b>	<b>931</b>	<b>1,017</b>	<b>1,107</b>	<b>1,228</b>
Long-term debt	0	0	251	0	0	0	0	0
Other non-current liabilities	186	207	136	5	3	3	3	3
<b>Total liabilities</b>	<b>1,294</b>	<b>1,532</b>	<b>1,628</b>	<b>1,643</b>	<b>935</b>	<b>1,020</b>	<b>1,110</b>	<b>1,231</b>
Share capital	379	356	380	778	775	775	775	775
Reserves/R.E./others	2,779	3,074	4,075	3,617	3,938	4,709	5,562	6,487
<b>Shareholders' equity</b>	<b>3,158</b>	<b>3,430</b>	<b>4,455</b>	<b>4,396</b>	<b>4,712</b>	<b>5,483</b>	<b>6,336</b>	<b>7,262</b>
Minority interests	30	39	48	57	(2)	1	4	7
<b>Total equity &amp; liabilities</b>	<b>4,483</b>	<b>5,001</b>	<b>6,130</b>	<b>6,096</b>	<b>5,645</b>	<b>6,504</b>	<b>7,450</b>	<b>8,500</b>
EV	23,130	22,836	22,187	23,102	22,507	22,062	21,494	20,831
<b>Net debt/(cash)</b>	<b>(607)</b>	<b>(910)</b>	<b>(1,568)</b>	<b>(661)</b>	<b>(1,198)</b>	<b>(1,646)</b>	<b>(2,216)</b>	<b>(2,883)</b>
<b>BVPS (HKD)</b>	<b>1.666</b>	<b>1.925</b>	<b>2.344</b>	<b>2.259</b>	<b>2.425</b>	<b>2.822</b>	<b>3.261</b>	<b>3.737</b>

### Key ratios (%)

Year to 31 Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Sales (YoY)	13.9	12.5	22.8	9.4	11.8	8.2	10.8	12.9
EBITDA (YoY)	(39.3)	70.8	72.5	15.3	14.8	18.6	11.5	8.9
Operating profit (YoY)	(47.7)	78.7	84.4	16.5	16.2	18.0	11.3	8.6
Net profit (YoY)	(53.5)	84.3	48.8	18.5	42.7	19.7	11.4	9.0
Core EPS (fully-diluted) (YoY)	(53.4)	96.3	37.5	17.1	44.6	20.0	11.4	9.0
Gross-profit margin	34.0	36.3	35.6	35.6	39.5	41.2	40.7	39.8
EBITDA margin	9.8	14.8	20.8	22.0	22.6	24.7	24.9	24.0
Operating-profit margin	7.7	12.3	18.5	19.7	20.4	22.3	22.4	21.5
Net profit margin	6.1	10.0	12.1	13.1	16.8	18.6	18.7	18.0
ROAE	8.5	14.8	18.4	19.5	27.0	28.9	27.7	26.3
ROAA	6.6	10.3	13.1	14.1	20.9	24.2	23.5	22.4
ROCE	9.8	15.0	23.3	24.1	28.9	33.0	31.9	30.3
ROIC	14.7	21.2	34.4	33.0	36.9	42.5	43.5	44.2
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	10.5	9.3	14.5	13.9	10.1	11.5	12.0	12.0
Accounts receivable (days)	30.4	28.4	26.5	31.3	30.2	28.6	28.5	28.3
Current ratio (x)	2.4	2.2	3.1	2.1	3.0	3.4	3.8	4.2
Net interest cover (x)	43.6	35.7	25.6	57.0	125.2	307.3	314.8	341.7
Net dividend payout	41.5	44.8	46.2	112.3	50.8	51.0	51.0	51.0
Free cash flow yield	n.a.	1.4	2.5	0.8	6.0	4.8	5.7	6.4

Source: FactSet, Daiwa forecasts

## Company profile

Man Wah Holdings is a manufacturer of motion recliners and sofas. The company is an ODM for many major retailers in the US and generates over 50% of its revenue from North America. In China, the company sells sofas under its own brand "Cheers" through a retail network of over 1,500 stores. For motion recliners, Man Wah has market shares of 30% and 10% in China and the United States respectively.



# BYD (1211 HK)

 Target price: **HKD65.00** (from HKD50.00)

 Share price (11 Jul): **HKD47.60** | Up/downside: **+36.5%**

5 4 3 2 1


**Buy**  
 (from Outperform)

## Upgrading: on track for a rerating

- We see strong SUV and bus sales leading to a margin improvement
- Subsidy cut should benefit strong players like BYD in the long run
- Upgrading to Buy (1) from Outperform (2); raising TP to HKD65

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**What's new:** Following our recent discussions with BYD management, we are turning more positive on the company's long-term outlook. We see grounds for a multi-year rerating for BYD, and hence upgrade our recommendation by one notch to Buy (1).

**What's the impact: Margin improvement from new energy vehicles (NEVs).** As per the latest YTD May data, BYD's Tang SUV (launched mid-2015) contributed additional average monthly sales of around 3,000 units. Management expects the Tang to record sales of 5,000 units/month by end-2016. Orders for the K9 electric bus have been ramping up, with around 6,000 in hand; we expect BYD to achieve 13,000 unit orders in 2016 (previous estimate: 10,000). New contributions from the Tang and strong sales of K9 have led to a better-than-expected product mix. We now forecast the gross margin to improve 1.1pp. YoY to 16.4% (previous: flat YoY).

**New policy should benefit the industry long term.** Government policy moves (including enhancement of the subsidy programme and an investigation into claims that some OEMs fraudulently received subsidies) could dampen sentiment on the sector in the near term, but are likely to benefit the long-term development of China's NEV industry by eliminating smaller players. We expect the impact of the reduction of subsidies from 2017 to be slightly negative for BYD but not hinder its strong EPS growth prospects as the brand becomes more mature.

**TP change reflects upbeat stance on earnings growth.** We raise our 2016-18E EPS by 47-82% after revising our overall gross margin forecast on strong sales of the Tang and Song (ICE version) SUVs, strong sales of the K9, and the turnaround of its solar business. As such, we lift our SOTP-based 12-month target price to HKD65 (from HKD50) on 2016-17E average equity value (previous: 2016E).

**What we recommend:** We upgrade BYD to Buy (1) from Outperform (2). We expect the upcoming 1H16 results and strong 2H16 outlook to lead to positive sentiment on the stock. While the coming NEV policy could be slightly negative in the near term, it should help eliminate competition and industry malpractice, which would benefit BYD in the long run. The stock is trading at 2016-17E PERs of 18-21x, which we consider undemanding based on our forecast 20-193% YoY increases in 2016-18E EPS. The key risk to our call: lower-than-expected new-car sales.

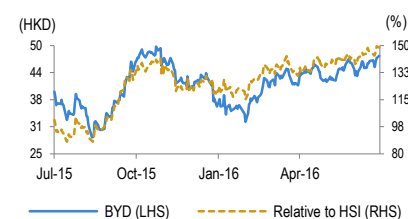
**How we differ:** Our 2016-18E EPS are 30-34% higher than consensus on potentially strong 1H16 results and are more optimism on NEV sales.

### Forecast revisions (%)

Year to 31 Dec	16E	17E	18E
Revenue change	18.5	2.7	6.9
Net profit change	82.4	46.6	52.0
Core EPS (FD) change	82.4	46.6	52.0

Source: Daiwa forecasts

### Share price performance



12-month range	28.80-49.75
Market cap (USDbn)	16.79
3m avg daily turnover (USDm)	24.70
Shares outstanding (m)	2,737
Major shareholder	Mr. Wang Chuan-fu (23.1%)

### Financial summary (CNY)

Year to 31 Dec	16E	17E	18E
Revenue (m)	117,562	137,989	164,144
Operating profit (m)	8,125	9,341	11,288
Net profit (m)	5,041	6,031	7,462
Core EPS (fully-diluted)	1.934	2.314	2.863
EPS change (%)	193.1	19.6	23.7
Daiwa vs Cons. EPS (%)	33.4	29.8	34.3
PER (x)	21.2	17.7	14.3
Dividend yield (%)	0.0	0.0	0.0
DPS	0.000	0.000	0.000
PBR (x)	2.1	1.9	1.7
EV/EBITDA (x)	9.5	8.4	7.1
ROE (%)	11.9	10.9	12.0

Source: FactSet, Daiwa forecasts

## Financial summary

### Key assumptions

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
BYD NEV volume (units)	n.a.	3,344	3,142	20,859	58,000	140,161	222,255	331,846
Volume growth - NEV (%)	n.a.	n.a.	(6.0)	563.9	178.1	141.7	58.6	49.3
Battery shipment (%)	0.8	1.2	7.4	(0.8)	15.5	0.0	0.0	0.0
Handset shipment (%)	(4.8)	(12.3)	13.4	23.9	36.5	25.0	22.0	20.0

### Profit and loss (CNYm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Automobile	22,136	22,551	25,291	26,270	38,934	70,652	82,024	98,135
Mobile handset	19,557	17,155	19,459	24,116	32,928	41,160	50,215	60,258
Other Revenue	4,620	4,675	5,018	4,980	5,750	5,750	5,750	5,750
<b>Total Revenue</b>	<b>46,312</b>	<b>44,381</b>	<b>49,768</b>	<b>55,366</b>	<b>77,612</b>	<b>117,562</b>	<b>137,989</b>	<b>164,144</b>
Other income	846	718	651	950	499	696	560	666
COGS	(39,445)	(39,255)	(43,252)	(47,743)	(65,753)	(98,259)	(116,099)	(138,257)
SG&A	(5,299)	(4,717)	(5,364)	(6,694)	(8,295)	(11,874)	(13,109)	(15,265)
Other op. expenses	0	0	0	0	0	0	0	0
<b>Operating profit</b>	<b>2,414</b>	<b>1,127</b>	<b>1,803</b>	<b>1,879</b>	<b>4,063</b>	<b>8,125</b>	<b>9,341</b>	<b>11,288</b>
Net-interest inc./(exp.)	(687)	(812)	(947)	(1,292)	(1,464)	(1,349)	(1,234)	(1,258)
Assoc/forex/extraord./others	1	(25)	(24)	287	1,196	0	0	0
<b>Pre-tax profit</b>	<b>1,727</b>	<b>291</b>	<b>832</b>	<b>874</b>	<b>3,795</b>	<b>6,776</b>	<b>8,106</b>	<b>10,030</b>
Tax	(132)	(78)	(56)	(134)	(657)	(1,173)	(1,403)	(1,736)
Min. int./pref. div./others	(210)	(132)	(223)	(306)	(315)	(562)	(672)	(832)
<b>Net profit (reported)</b>	<b>1,385</b>	<b>81</b>	<b>553</b>	<b>434</b>	<b>2,823</b>	<b>5,041</b>	<b>6,031</b>	<b>7,462</b>
<b>Net profit (adjusted)</b>	<b>1,385</b>	<b>81</b>	<b>553</b>	<b>87</b>	<b>1,634</b>	<b>5,041</b>	<b>6,031</b>	<b>7,462</b>
<b>EPS (reported)(CNY)</b>	<b>0.598</b>	<b>0.035</b>	<b>0.235</b>	<b>0.179</b>	<b>1.140</b>	<b>1.934</b>	<b>2.203</b>	<b>2.726</b>
<b>EPS (adjusted)(CNY)</b>	<b>0.598</b>	<b>0.035</b>	<b>0.235</b>	<b>0.036</b>	<b>0.660</b>	<b>1.934</b>	<b>2.203</b>	<b>2.726</b>
<b>EPS (adjusted fully-diluted)(CNY)</b>	<b>0.598</b>	<b>0.035</b>	<b>0.235</b>	<b>0.036</b>	<b>0.660</b>	<b>1.934</b>	<b>2.314</b>	<b>2.863</b>
<b>DPS (CNY)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.050</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>EBIT</b>	<b>2,414</b>	<b>1,127</b>	<b>1,803</b>	<b>1,879</b>	<b>4,063</b>	<b>8,125</b>	<b>9,341</b>	<b>11,288</b>
<b>EBITDA</b>	<b>5,091</b>	<b>4,383</b>	<b>5,336</b>	<b>6,092</b>	<b>9,376</b>	<b>14,168</b>	<b>16,409</b>	<b>19,460</b>

### Cash flow (CNYm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Profit before tax	1,727	291	832	874	3,795	6,776	8,106	10,030
Depreciation and amortisation	2,678	3,256	3,533	4,212	5,314	6,043	7,068	8,173
Tax paid	(344)	(299)	(246)	(192)	(399)	(1,173)	(1,403)	(1,736)
Change in working capital	1,179	1,132	(2,913)	(6,106)	(5,977)	(3,398)	(1,461)	(2,026)
Other operational CF items	744	1,175	1,230	1,251	1,110	1,414	1,423	1,433
<b>Cash flow from operations</b>	<b>5,985</b>	<b>5,555</b>	<b>2,436</b>	<b>38</b>	<b>3,842</b>	<b>9,662</b>	<b>13,734</b>	<b>15,873</b>
Capex	(8,942)	(7,150)	(5,764)	(8,578)	(12,290)	(11,903)	(13,871)	(13,871)
Net (acquisitions)/disposals	(280)	2,573	80	480	1,562	0	0	0
Other investing CF items	299	(32)	(168)	197	(8)	0	0	0
<b>Cash flow from investing</b>	<b>(8,923)</b>	<b>(4,610)</b>	<b>(5,851)</b>	<b>(7,901)</b>	<b>(10,736)</b>	<b>(11,903)</b>	<b>(13,871)</b>	<b>(13,871)</b>
Change in debt	3,733	(3,085)	3,232	5,314	5,774	251	251	251
Net share issues/(repurchases)	1,368	0	0	3,342	3,200	15,000	0	0
Dividends paid	0	0	0	(124)	(37)	0	0	0
Other financing CF items	(366)	1,868	1,276	(1,262)	(187)	(1,414)	(1,423)	(1,433)
<b>Cash flow from financing</b>	<b>4,736</b>	<b>(1,217)</b>	<b>4,508</b>	<b>7,271</b>	<b>8,750</b>	<b>13,837</b>	<b>(1,173)</b>	<b>(1,182)</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>1,798</b>	<b>(271)</b>	<b>1,093</b>	<b>(592)</b>	<b>1,856</b>	<b>11,596</b>	<b>(1,309)</b>	<b>821</b>
Free cash flow	(2,958)	(1,595)	(3,328)	(8,540)	(8,448)	(2,241)	(137)	2,003

Source: FactSet, Daiwa forecasts



## Financial summary continued ...

### Balance sheet (CNYm)

As at 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash & short-term investment	3,737	3,487	4,511	3,950	6,011	17,607	16,297	17,118
Inventory	6,596	7,345	8,221	9,978	15,751	23,537	27,811	33,118
Accounts receivable	9,782	9,937	13,135	22,435	26,679	40,411	47,433	56,423
Other current assets	2,665	2,555	4,099	4,471	6,079	7,767	8,631	9,736
<b>Total current assets</b>	<b>22,780</b>	<b>23,324</b>	<b>29,966</b>	<b>40,834</b>	<b>54,519</b>	<b>89,322</b>	<b>100,172</b>	<b>116,396</b>
Fixed assets	30,723	33,659	34,147	36,379	38,126	42,910	48,796	53,738
Goodwill & intangibles	6,689	7,983	9,623	10,821	11,824	12,900	13,816	14,572
Other non-current assets	6,689	5,042	4,279	5,974	11,016	11,016	11,016	11,016
<b>Total assets</b>	<b>66,881</b>	<b>70,008</b>	<b>78,015</b>	<b>94,009</b>	<b>115,486</b>	<b>156,148</b>	<b>173,800</b>	<b>195,722</b>
Short-term debt	11,342	11,288	16,172	19,173	26,413	26,413	26,413	26,413
Accounts payable	17,236	19,933	22,293	25,851	30,656	45,811	54,129	64,459
Other current liabilities	6,050	6,008	4,879	7,998	9,041	13,695	16,075	19,122
<b>Total current liabilities</b>	<b>34,628</b>	<b>37,228</b>	<b>43,344</b>	<b>53,022</b>	<b>66,110</b>	<b>85,919</b>	<b>96,617</b>	<b>109,994</b>
Long-term debt	7,079	7,341	8,652	10,979	11,230	11,481	11,731	11,982
Other non-current liabilities	1,194	1,294	1,162	1,113	2,116	2,116	2,116	2,116
<b>Total liabilities</b>	<b>42,901</b>	<b>45,863</b>	<b>53,158</b>	<b>65,114</b>	<b>79,457</b>	<b>99,516</b>	<b>110,464</b>	<b>124,092</b>
Share capital	2,354	2,354	2,354	2,476	2,476	2,737	2,737	2,737
Reserves/R.E./others	18,770	18,843	19,356	22,890	29,818	49,598	55,629	63,091
<b>Shareholders' equity</b>	<b>21,125</b>	<b>21,197</b>	<b>21,710</b>	<b>25,366</b>	<b>32,294</b>	<b>52,335</b>	<b>58,366</b>	<b>65,829</b>
Minority interests	2,856	2,947	3,147	3,529	3,735	4,297	4,969	5,801
<b>Total equity &amp; liabilities</b>	<b>66,881</b>	<b>70,008</b>	<b>78,015</b>	<b>94,009</b>	<b>115,486</b>	<b>156,148</b>	<b>173,800</b>	<b>195,722</b>
EV	129,294	129,468	134,704	140,644	145,805	135,022	137,254	137,516
<b>Net debt/(cash)</b>	<b>14,684</b>	<b>15,143</b>	<b>20,313</b>	<b>26,202</b>	<b>31,632</b>	<b>20,287</b>	<b>21,847</b>	<b>21,276</b>
<b>BVPS (CNY)</b>	<b>9.127</b>	<b>9.004</b>	<b>9.222</b>	<b>10.245</b>	<b>13.043</b>	<b>19.119</b>	<b>21.322</b>	<b>24.049</b>

### Key ratios (%)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Sales (YoY)	n.a.	(4.2)	12.1	11.2	40.2	51.5	17.4	19.0
EBITDA (YoY)	n.a.	(13.9)	21.7	14.2	53.9	51.1	15.8	18.6
Operating profit (YoY)	n.a.	(53.3)	60.0	4.2	116.2	100.0	15.0	20.8
Net profit (YoY)	n.a.	(94.1)	579.6	(84.2)	1,772.9	208.6	19.6	23.7
Core EPS (fully-diluted) (YoY)	n.a.	(94.2)	579.6	(84.7)	1,734.4	193.1	19.6	23.7
Gross-profit margin	14.8	11.6	13.1	13.8	15.3	16.4	15.9	15.8
EBITDA margin	11.0	9.9	10.7	11.0	12.1	12.1	11.9	11.9
Operating-profit margin	5.2	2.5	3.6	3.4	5.2	6.9	6.8	6.9
Net profit margin	3.0	0.2	1.1	0.2	2.1	4.3	4.4	4.5
ROAE	13.1	0.4	2.6	0.4	5.7	11.9	10.9	12.0
ROAA	4.1	0.1	0.7	0.1	1.6	3.7	3.7	4.0
ROCE	11.4	2.6	3.9	3.5	6.1	9.7	9.5	10.7
ROIC	5.8	2.1	4.0	3.2	5.5	9.3	9.5	10.5
Net debt to equity	69.5	71.4	93.6	103.3	97.9	38.8	37.4	32.3
Effective tax rate	7.7	26.8	6.8	15.3	17.3	17.3	17.3	17.3
Accounts receivable (days)	38.5	81.1	84.6	117.2	115.5	104.1	116.2	115.5
Current ratio (x)	0.7	0.6	0.7	0.8	0.8	1.0	1.0	1.1
Net interest cover (x)	3.5	1.4	1.9	1.5	2.8	6.0	7.6	9.0
Net dividend payout	0.0	0.0	21.3	0.0	0.0	0.0	0.0	0.0
Free cash flow yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.8

Source: FactSet, Daiwa forecasts

## Company profile

Listed in Hong Kong in 2002, BYD is engaged in the R&D, manufacture and distribution of automobiles, rechargeable batteries and mobile phone components. It owns 65% of BYD Electronics (285 HK, Not rated). BYD focuses on autos (especially NEVs), rechargeable batteries (lithium-ion and nickel batteries used in mobile phones and other portable electronic devices), as well as mobile-phone components and its assembly mobile phones business (casings, keypads, mobile-phone designs, etc.).

**BUY** (From: HOLD)**TP: Bt 190.00** (From: Bt 165.00)**11 JULY 2016**

Change in Recommendation

Upside : 12.1%

## Advanced Info Service (ADVANC TB)

### Good entry point

**SARACHADA SORNSONG**

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We upgrade ADVANC to BUY as it has coped with competitive cost effects and pricey spectrum fees better than we'd earlier assumed. This should allow it to maintain its 100% dividend payout ratio for 2016F and we see no need for a cut in 2017. Also, 2016F dividend yield looks attractive at 7% after its 7% share price fall since April.

#### Better cost management than we'd expected

We upgrade ADVANC to BUY (from Hold) despite very fierce competition and pricey spectrum fees, as ADVANC has been able to reduce the earnings hit by spending more efficiently on handset subsidies and network expenses. ADVANC should also be able to defend its market share more easily than DTAC. Despite the 2G transition hiccup, its subscriber base has still expanded while it has started to regain lost post-paid subs. Also, we don't see the partnership delay with TOT on 2.1GHz spectrum from 2H16 to 2017 doing any harm to its ability to offer services near term. This is because ADVANC's spectrum capacity is no longer at critical level after it secured 900MHz spectrum in June.

#### Limited risk of 100% payout cut in our view

As we see no downside to revenues from its flat growth guidance but more efficient cost control, we raise our earnings forecast for this year by 11% and by an average of 5% over 2017-20F. That said, we still look for earnings to contract over 2016-17F on higher amortization costs. Nevertheless, ADVANC has still been able to sustain its annual EBITDA at over Bt68bn, a level we see as ample enough to support a 100% dividend payout ratio, invest in capex and contain net-debt-to-EBITDA within 3x. We now see a limited risk of a cut in payout to 80%, in contrast to our earlier projection.

#### Upgrading to BUY with a new TP of Bt190

ADVANC's share price has come down by 7% since April. The counter has also underperformed the SET by 11% over the period. With our earnings hikes and view of a continued 100% payout ratio, ADVANC now offers a very attractive forecast dividend yield of 7%, which we see as a good entry point. As the company pays a dividend semi-annually, we project an interim dividend of Bt6, to be paid in September, implying a dividend yield of 3.5% for less than a three-month holding period. There is also 12% potential upside to our new DCF-based 12-month TP of Bt190 (from Bt165), which we have lifted by 15% to reflect our higher earnings and valuation base year roll-over into 2017F.

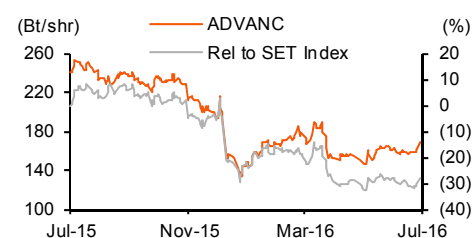
#### Set-up of infrastructure fund looks unlikely

ADVANC admits it is studying the feasibility of setting up an infrastructure fund. The rationale is to explore whether its current debt funding structure is the optimal way to create the best return for all stakeholders in the ongoing high capex era. Unlike TRUE, we don't see the set-up of an infrastructure fund being net accretive to ADVANC and don't expect the company to proceed with the plan. ADVANC's balance sheet looks far from stretched. It has no problems raising debt at ultra-low funding costs while we would expect a competitiveness issue if the fund set-up goes ahead as it would lose ownership over its infrastructure assets.

#### COMPANY VALUATION

Y/E Dec (Bt m)	2015A	2016F	2017F	2018F
Sales	155,213	157,721	164,429	171,807
Net profit	39,152	35,235	32,952	33,583
Consensus NP	—	30,408	31,549	31,571
Diff frm cons (%)	—	15.9	4.4	6.4
Norm profit	38,924	36,135	32,952	33,583
Prev. Norm profit	—	32,482	30,874	29,729
Chg frm prev (%)	—	11.2	6.7	13.0
Norm EPS (Bt)	13.1	12.2	11.1	11.3
Norm EPS grw (%)	8.6	(7.2)	(8.8)	1.9
Norm PE (x)	12.9	13.9	15.3	15.0
EV/EBITDA (x)	7.9	8.7	8.6	8.6
P/BV (x)	10.4	10.8	11.1	11.0
Div yield (%)	7.7	7.0	6.5	6.7
ROE (%)	81.8	76.0	71.5	73.5
Net D/E (%)	114.6	187.5	208.5	253.8

#### PRICE PERFORMANCE



#### COMPANY INFORMATION

Price as of 11-Jul-16 (Bt)	169.50
Market Cap (US\$ m)	14,345.4
Listed Shares (m shares)	2,973.1
Free Float (%)	36.2
Avg Daily Turnover (US\$ m)	61.5
12M Price H/L (Bt)	252.00/131.00
Sector	Telecom
Major Shareholder	INTUCH 40.45%

Sources: Bloomberg, Company data, Thanachart estimates



# Texhong Textile (2678 HK)

 Target price: **HKD10.50** (from HKD8.30)

 Share price (11 Jul): **HKD8.47** | Up/downside: **+23.9%**

5 4 3 2 1


**Buy**  
 (unchanged)

## More than just a short-term profit alert

- Profit alert: likely on stronger-than-expected gross-margin expansion
- Could be the start of a positive share-price trend
- Raising TP to HKD10.50; reiterating our Buy (1) rating

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**What's new:** Texhong Textile has recently announced a profit alert for its 1H16 results, indicating a 'substantial increase' in its earnings. We now expect Texhong to report a 35% YoY (vs. 14% previously) rise in its 2016 earnings, largely on a favourable cotton price environment and the sales volume growth. Given that cotton prices are still at their multi-year lows and have yet to rise materially, we believe Texhong could benefit even more once cotton prices embark on an uptrend.

**What's the impact: The start of a positive share-price trend?** We believe the positive earnings surprise is mainly a result of stronger-than-expected gross-margin expansion (vs. both our and consensus estimates) due to the fairly stable cotton prices year-to-date. We recall that Texhong has gone through 2 challenging years of downward-trending cotton prices, which have greatly compressed its yarn ASPs and gross margin. We believe the current cotton price environment, in which prices appear to have reached a bottom, could allow for a swift rebound in earnings for Texhong as: 1) the value of its cotton inventory could remain stable, allowing its gross margin to recover and; 2) its 2015 earnings are at a relatively low base. We now expect Texhong's full-year 2016 gross margin to be roughly in line with its 2H15 gross margin of 18.9%.

**Mark-to-market variations.** Our forecasts assume that the CNY would depreciate to 7.50 by end-2016 and we have factored in a CNY80m non-cash mark-to-market expense on the company's USD debt exposure. While our core EPS of CNY0.90 excludes this figure, we note that variations in this expense figure may have contributed to the improvement in the company's reported earnings (which is what profit alerts are typically based on).

We raise our 2016-18E EPS by 3-18% after adjusting our sales volume and gross margin assumptions upwards.

**What we recommend:** We raise our 12-month TP to HKD10.50 (from HKD8.30), based on a target PER of 9x (from 8x, now in line with its average forward PER since 2012) and the average of our revised 2016-17E EPS. We reiterate our Buy (1) call as we believe Texhong has yet to see the full benefits of an upward trending cotton price environment. We are also positive on the company's vertical integration plan in Vietnam, which, if successful, could greatly improve Texhong's earnings visibility. Key risk to our call: a sudden drop in cotton prices.

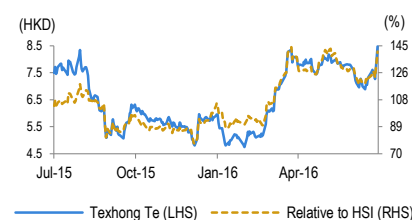
**How we differ:** Our 2016-17E EPS are 4-8% higher than consensus as we assume higher gross margins.

### Forecast revisions (%)

Year to 31 Dec	16E	17E	18E
Revenue change	3.2	3.7	2.4
Net profit change	18.0	7.7	2.5
Core EPS (FD) change	18.0	7.7	2.5

Source: Daiwa forecasts

### Share price performance



12-month range	4.75-8.47
Market cap (USDbn)	0.96
3m avg daily turnover (USDm)	0.42
Shares outstanding (m)	885
Major shareholder	Mr Hong Tianzhu (60.7%)

### Financial summary (CNY)

Year to 31 Dec	16E	17E	18E
Revenue (m)	11,560	12,538	13,370
Operating profit (m)	1,376	1,458	1,536
Net profit (m)	797	936	1,060
Core EPS (fully-diluted)	0.901	1.058	1.198
EPS change (%)	34.9	17.5	13.2
Daiwa vs Cons. EPS (%)	7.8	4.1	(0.8)
PER (x)	8.1	6.9	6.1
Dividend yield (%)	3.7	4.3	4.9
DPS	0.270	0.318	0.359
PBR (x)	1.4	1.3	1.1
EV/EBITDA (x)	4.7	4.1	3.5
ROE (%)	19.0	19.5	19.3

Source: FactSet, Daiwa forecasts

## Financial summary

### Key assumptions

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Sales volume growth - stretchable core-spun yarns (YoY %)	3.0	44.8	12.2	19.8	7.4	7.5	6.6	4.3
Sales volume growth - other yarns (YoY %)	9.8	2.3	27.1	113.0	13.8	11.1	7.0	4.0
Sales volume growth - fabrics (YoY %)	(15.8)	16.7	(5.8)	(13.3)	(14.8)	1.6	3.3	5.0
Sales growth by products -stretchable core-spun yarns (YoY %)	24.3	18.9	12.5	8.2	1.2	8.0	7.9	6.4
Sales growth by products -other yarns (YoY %)	45.8	(16.2)	29.5	88.3	3.4	11.6	9.1	6.1
Sales growth by products -fabrics (YoY %)	2.0	10.3	(14.9)	(16.4)	(15.1)	3.2	6.2	9.2

### Profit and loss (CNYm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Stretchable core-spun yarns	3,693	4,391	4,938	5,342	5,407	5,843	6,303	6,705
Other yarns	2,096	1,756	2,274	4,281	4,446	4,973	5,444	5,802
Other Revenue	1,083	1,195	1,017	847	722	744	791	863
<b>Total Revenue</b>	<b>6,873</b>	<b>7,341</b>	<b>8,229</b>	<b>10,470</b>	<b>10,575</b>	<b>11,560</b>	<b>12,538</b>	<b>13,370</b>
Other income	22	6	31	16	10	11	12	13
COGS	(6,317)	(6,217)	(6,645)	(9,176)	(8,669)	(9,369)	(10,164)	(10,845)
SG&A	(361)	(430)	(542)	(680)	(750)	(827)	(928)	(1,003)
Other op.expenses	0	0	0	0	0	0	0	0
<b>Operating profit</b>	<b>217</b>	<b>699</b>	<b>1,072</b>	<b>630</b>	<b>1,166</b>	<b>1,376</b>	<b>1,458</b>	<b>1,536</b>
Net-interest inc./(exp.)	(78)	(123)	(122)	(249)	(419)	(310)	(249)	(224)
Assoc/forex/extraord./others	(56)	(19)	290	(26)	(12)	(75)	(49)	5
<b>Pre-tax profit</b>	<b>83</b>	<b>557</b>	<b>1,240</b>	<b>355</b>	<b>736</b>	<b>990</b>	<b>1,160</b>	<b>1,317</b>
Tax	(22)	(71)	(114)	(48)	(147)	(188)	(209)	(237)
Min. int./pref. div./others	(0)	0	(0)	0	2	(5)	(15)	(20)
<b>Net profit (reported)</b>	<b>61</b>	<b>487</b>	<b>1,126</b>	<b>307</b>	<b>591</b>	<b>797</b>	<b>936</b>	<b>1,060</b>
<b>Net profit (adjusted)</b>	<b>61</b>	<b>487</b>	<b>861</b>	<b>307</b>	<b>591</b>	<b>797</b>	<b>936</b>	<b>1,060</b>
<b>EPS (reported)(CNY)</b>	<b>0.069</b>	<b>0.550</b>	<b>1.273</b>	<b>0.347</b>	<b>0.668</b>	<b>0.901</b>	<b>1.058</b>	<b>1.198</b>
<b>EPS (adjusted)(CNY)</b>	<b>0.069</b>	<b>0.550</b>	<b>0.974</b>	<b>0.347</b>	<b>0.668</b>	<b>0.901</b>	<b>1.058</b>	<b>1.198</b>
<b>EPS (adjusted fully-diluted)(CNY)</b>	<b>0.069</b>	<b>0.550</b>	<b>0.974</b>	<b>0.347</b>	<b>0.668</b>	<b>0.901</b>	<b>1.058</b>	<b>1.198</b>
<b>DPS (CNY)</b>	<b>0.082</b>	<b>0.219</b>	<b>0.374</b>	<b>0.103</b>	<b>0.199</b>	<b>0.270</b>	<b>0.318</b>	<b>0.359</b>
<b>EBIT</b>	<b>217</b>	<b>699</b>	<b>1,072</b>	<b>630</b>	<b>1,166</b>	<b>1,376</b>	<b>1,458</b>	<b>1,536</b>
<b>EBITDA</b>	<b>393</b>	<b>904</b>	<b>1,340</b>	<b>1,028</b>	<b>1,584</b>	<b>1,872</b>	<b>2,012</b>	<b>2,124</b>

### Cash flow (CNYm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Profit before tax	83	557	1,240	355	736	990	1,160	1,317
Depreciation and amortisation	176	205	268	398	418	497	554	588
Tax paid	(100)	(55)	(88)	(78)	(135)	(188)	(209)	(237)
Change in working capital	(292)	63	(531)	122	471	(266)	40	(45)
Other operational CF items	96	154	(161)	284	463	306	244	219
<b>Cash flow from operations</b>	<b>(36)</b>	<b>924</b>	<b>729</b>	<b>1,080</b>	<b>1,952</b>	<b>1,338</b>	<b>1,789</b>	<b>1,841</b>
Capex	(460)	(656)	(968)	(607)	(1,331)	(1,250)	(700)	(500)
Net (acquisitions)/disposals	19	11	26	22	(14)	0	0	0
Other investing CF items	0	0	0	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(441)</b>	<b>(645)</b>	<b>(942)</b>	<b>(585)</b>	<b>(1,345)</b>	<b>(1,250)</b>	<b>(700)</b>	<b>(500)</b>
Change in debt	692	(81)	1,096	216	1,038	(353)	(300)	(400)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(199)	0	(326)	(232)	(176)	(239)	(281)	(318)
Other financing CF items	(123)	(131)	(168)	(270)	(622)	(310)	(249)	(224)
<b>Cash flow from financing</b>	<b>371</b>	<b>(212)</b>	<b>601</b>	<b>(285)</b>	<b>239</b>	<b>(902)</b>	<b>(829)</b>	<b>(942)</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>(106)</b>	<b>67</b>	<b>389</b>	<b>210</b>	<b>846</b>	<b>(814)</b>	<b>260</b>	<b>399</b>
Free cash flow	(496)	268	(239)	473	621	88	1,089	1,341

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### Balance sheet (CNYm)

As at 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash & short-term investment	495	552	946	1,138	2,188	1,373	1,633	2,033
Inventory	1,289	1,422	2,280	1,636	1,893	1,874	1,931	2,061
Accounts receivable	873	1,049	1,315	1,320	1,032	1,387	1,505	1,604
Other current assets	0	0	13	291	515	61	61	61
<b>Total current assets</b>	<b>2,657</b>	<b>3,023</b>	<b>4,555</b>	<b>4,385</b>	<b>5,627</b>	<b>4,695</b>	<b>5,130</b>	<b>5,759</b>
Fixed assets	2,177	2,494	4,199	4,542	5,549	6,303	6,448	6,360
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	96	108	190	211	224	229	234	239
<b>Total assets</b>	<b>4,930</b>	<b>5,625</b>	<b>8,944</b>	<b>9,139</b>	<b>11,401</b>	<b>11,227</b>	<b>11,812</b>	<b>12,358</b>
Short-term debt	144	206	166	236	1,548	1,400	1,400	1,000
Accounts payable	920	1,174	2,405	2,107	2,913	2,530	2,744	2,928
Other current liabilities	31	64	115	147	164	164	164	164
<b>Total current liabilities</b>	<b>1,094</b>	<b>1,444</b>	<b>2,686</b>	<b>2,491</b>	<b>4,625</b>	<b>4,094</b>	<b>4,309</b>	<b>4,092</b>
Long-term debt	1,712	1,564	2,623	2,779	2,505	2,300	2,000	2,000
Other non-current liabilities	52	59	254	414	332	332	332	332
<b>Total liabilities</b>	<b>2,858</b>	<b>3,067</b>	<b>5,564</b>	<b>5,684</b>	<b>7,463</b>	<b>6,726</b>	<b>6,640</b>	<b>6,424</b>
Share capital	283	283	283	283	283	283	283	283
Reserves/R.E./others	1,789	2,275	3,097	3,171	3,628	4,186	4,841	5,583
<b>Shareholders' equity</b>	<b>2,072</b>	<b>2,558</b>	<b>3,380</b>	<b>3,455</b>	<b>3,911</b>	<b>4,469</b>	<b>5,124</b>	<b>5,866</b>
Minority interests	0	(0)	0	0	27	32	47	67
<b>Total equity &amp; liabilities</b>	<b>4,930</b>	<b>5,625</b>	<b>8,944</b>	<b>9,139</b>	<b>11,401</b>	<b>11,227</b>	<b>11,812</b>	<b>12,358</b>
EV	7,774	7,627	8,248	8,277	8,289	8,751	8,201	7,416
<b>Net debt/(cash)</b>	<b>1,360</b>	<b>1,218</b>	<b>1,844</b>	<b>1,877</b>	<b>1,865</b>	<b>2,327</b>	<b>1,767</b>	<b>967</b>
<b>BVPS (CNY)</b>	<b>2.342</b>	<b>2.892</b>	<b>3.821</b>	<b>3.905</b>	<b>4.421</b>	<b>5.052</b>	<b>5.792</b>	<b>6.631</b>

### Key ratios (%)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Sales (YoY)	25.6	6.8	12.1	27.2	1.0	9.3	8.5	6.6
EBITDA (YoY)	(66.3)	129.9	48.2	(23.3)	54.1	18.2	7.5	5.6
Operating profit (YoY)	(78.8)	222.4	53.2	(41.2)	85.1	18.0	6.0	5.4
Net profit (YoY)	(92.7)	694.3	77.0	(64.4)	92.6	34.9	17.5	13.2
Core EPS (fully-diluted) (YoY)	(92.7)	694.3	77.0	(64.4)	92.6	34.9	17.5	13.2
Gross-profit margin	8.1	15.3	19.2	12.4	18.0	19.0	18.9	18.9
EBITDA margin	5.7	12.3	16.3	9.8	15.0	16.2	16.0	15.9
Operating-profit margin	3.2	9.5	13.0	6.0	11.0	11.9	11.6	11.5
Net profit margin	0.9	6.6	10.5	2.9	5.6	6.9	7.5	7.9
ROAE	2.9	21.0	29.0	9.0	16.0	19.0	19.5	19.3
ROAA	1.2	9.2	11.8	3.4	5.8	7.0	8.1	8.8
ROCE	5.9	16.9	20.4	10.0	16.1	17.0	17.4	17.5
ROIC	5.1	16.9	21.6	10.3	16.8	17.6	17.4	18.2
Net debt to equity	65.7	47.6	54.5	54.3	47.7	52.1	34.5	16.5
Effective tax rate	26.6	12.8	9.2	13.6	20.0	19.0	18.0	18.0
Accounts receivable (days)	47.1	47.8	52.4	45.9	40.6	38.2	42.1	42.4
Current ratio (x)	2.4	2.1	1.7	1.8	1.2	1.1	1.2	1.4
Net interest cover (x)	2.8	5.7	8.8	2.5	2.8	4.4	5.9	6.9
Net dividend payout	118.0	39.8	29.3	29.7	29.8	30.0	30.0	30.0
Free cash flow yield	n.a.	4.2	n.a.	7.3	9.6	1.4	16.9	20.8

Source: FactSet, Daiwa forecasts

### Company profile

Texhong Textile Group Limited (Texhong) manufactures yarns and grey fabrics, especially high value-added core-spun yarn textiles. The company's sales network includes Mainland China, Brazil, Turkey, South Korea and Bangladesh, and it had more than 3,000 customers as at end-2014. Texhong operates production plants in China and Vietnam, with a total production capacity at end-2014 of over 2.16m spindles and 572 air-jet looms.



# General Interface Solution (6456 TT)

 Target price: **TWD92** (from TWD126)

 Share price (11 Jul): **TWD78** | Up/downside: **+17.6%**

 5 4 3 2 1  
**Buy**  
 (unchanged)

## Looking for strong revenue growth in 2H16

- GIS likely to see weak 2Q16 results on iPad weakness
- Earnings growth should resume from 2H16 on new product ramp-up
- Reiterating our Buy (1) rating; cutting target price to TWD92

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**What's new:** Although we had previously highlighted that GIS is likely to suffer a weak 2Q16, due to inventory adjustments for the iPhone and iPad, the degree of weakness was worse than we had initially expected. However, we believe that 2Q16 should mark the bottom for the year and expect the company to deliver sequential revenue growth for 2H16 and into 2017.

**What's the impact: 2Q16 results could disappoint on iPad weakness.** GIS's preliminary revenue for 2Q16 was TWD10.3bn, down 48% QoQ and 26% YoY. This is significantly lower than our estimate of TWD16.3bn, and is likely to have been driven by the weak sell-through of the iPad Pro (12.9" and 9.7") due to the high pricing points, in our view. Dragged down by lower economies of scale, we forecast that GIS will suffer a LPS of TWD0.7 for 2Q16 (vs. our earlier estimate of an EPS of TWD0.45).

### We expect strong revenue and earnings growth to resume in 2H16.

Driven by a likely increase in 3D touch orders for the new iPhones, we expect GIS's 3Q16 revenue to grow by 107% QoQ, reaching TWD21bn, with an EPS of TWD2.0. We expect the revenue momentum to continue in 4Q16, due to seasonal factors, and in total we expect GIS to deliver 70%+ HoH revenue growth for 2H16. Looking into 2017, thanks to an increase in the contribution from its MegaSite model on more project wins and increasing operating leverage, we expect GIS to see its strong earnings growth resume, at 35% YoY, from a decline of 15% YoY in 2016. In the long term, we expect GIS to receive more orders wins from Apple as a result of the Hon Hai/Sharp deal. In addition, the likely adoption of OLED in iPhones from 2H17 could bring GIS new lamination orders, but we have not yet factored these into our model.

**What we recommend:** We are cutting our 2016-18E EPS by 15-30% to factor in the likely net loss for 2Q16 and our more conservative assumptions for the revenue contribution from iPads. We reiterate our Buy (1) rating on the stock but lower our 12-month TP to TWD92 (from TWD126), now based on a target PER of 12x (13x previously), the low end of the stock's historical range of 8-19x, applied to our 1-year forward EPS, to factor in the slower-than-expected earnings growth. If there is any share price weakness following the likely poor 2Q16 results, we would view this as a good opportunity for investors to accumulate the stock. Key risk: greater-than-expected pricing competition.

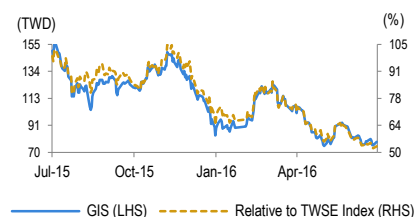
**How we differ:** Our 2016-18 earnings forecasts are 8-16% lower than the consensus due to our more cautious revenue outlook.

### Forecast revisions (%)

Year to 31 Dec	16E	17E	18E
Revenue change	(20.0)	(21.4)	(15.9)
Net profit change	(30.0)	(21.9)	(15.1)
Core EPS (FD) change	(30.0)	(21.9)	(15.1)

Source: Daiwa forecasts

### Share price performance



12-month range	74-155
Market cap (USDbn)	0.74
3m avg daily turnover (USDm)	5.41
Shares outstanding (m)	309
Major shareholder	Hon Hai Group (38.0%)

### Financial summary (TWD)

Year to 31 Dec	16E	17E	18E
Revenue (m)	81,880	92,600	104,850
Operating profit (m)	2,440	3,287	3,984
Net profit (m)	1,881	2,543	3,099
Core EPS (fully-diluted)	6.078	8.218	10.015
EPS change (%)	(17.6)	35.2	21.9
Daiwa vs Cons. EPS (%)	(15.5)	(8.4)	(16.4)
PER (x)	12.9	9.5	7.8
Dividend yield (%)	3.7	3.1	4.2
DPS	2.9	2.4	3.3
PBR (x)	1.9	1.7	1.5
EV/EBITDA (x)	4.7	3.5	2.6
ROE (%)	15.7	19.1	20.3

Source: FactSet, Daiwa forecasts



**GIS: Daiwa's previous vs. revised annual forecasts**

TWDm	Revised forecasts			Previous forecasts			Change		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Revenues	81,880	92,600	104,850	102,300	117,800	124,700	-20%	-21%	-16%
Gross profit	7,287	8,103	9,227	8,696	9,895	10,400	-16%	-18%	-11%
Operating expense	4,847	4,815	5,243	5,217	5,702	5,736	-7%	-16%	-9%
Operating profit	2,440	3,287	3,984	3,478	4,194	4,664	-30%	-22%	-15%
Pre-tax profit	2,351	3,179	3,874	3,359	4,069	4,561	-30%	-22%	-15%
Net profit	1,881	2,543	3,099	2,687	3,256	3,649	-30%	-22%	-15%
EPS (TWD)	6.08	8.22	10.02	8.68	10.52	11.79	-30%	-22%	-15%
<b>Margins (%)</b>									
Gross Margin	8.9%	8.8%	8.8%	8.5%	8.4%	8.3%			
Operating Margin	3.0%	3.6%	3.8%	3.4%	3.6%	3.7%			
Pre-tax Margin	2.9%	3.4%	3.7%	3.3%	3.5%	3.7%			
Net Margin	2.3%	2.7%	3.0%	2.6%	2.8%	2.9%			

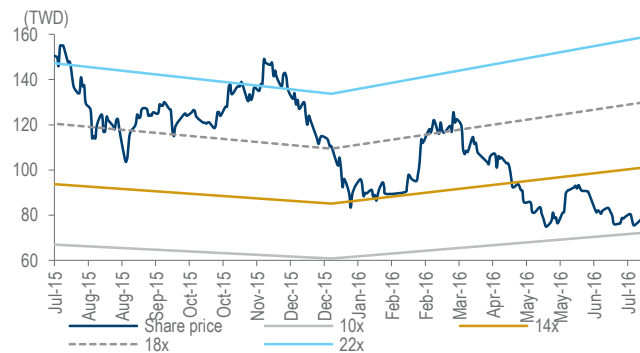
Source: Daiwa forecasts

**GIS: quarterly and annual P&L statements**

(TWDm)	2016E				2017E				2016E	2017E	2018E
	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE			
<b>Net sales</b>	19,593	10,283	21,293	30,711	20,116	16,639	22,279	33,565	81,880	92,600	104,850
COGS	17,902	9,520	19,284	27,886	18,494	15,295	20,105	30,603	74,593	84,498	95,623
<b>Gross profit</b>	1,691	763	2,009	2,824	1,622	1,344	2,174	2,962	7,287	8,103	9,227
Operating costs	1,200	969	1,212	1,466	1,083	1,083	1,252	1,396	4,847	4,815	5,243
<b>Operating profit</b>	491	-207	798	1,358	539	261	922	1,566	2,440	3,287	3,984
Pretax profit	407	-217	773	1,388	512	234	894	1,539	2,351	3,179	3,874
<b>Net profit</b>	353	-217	622	1,123	420	175	733	1,215	1,881	2,543	3,099
<b>Net EPS (TWD)</b>	1.14	-0.70	2.01	3.63	1.36	0.57	2.37	3.93	6.08	8.22	10.02
<b>Operating Ratios</b>											
Gross margin	8.6%	7.4%	9.4%	9.2%	8.1%	8.1%	9.8%	8.8%	8.9%	8.8%	8.8%
Operating margin	6.1%	9.4%	5.7%	4.8%	2.7%	1.6%	4.1%	4.7%	3.0%	3.6%	3.8%
Pre-tax margin	2.1%	-2.1%	3.6%	4.5%	2.5%	1.4%	4.0%	4.6%	2.9%	3.4%	3.7%
Net margin	1.8%	-2.1%	2.9%	3.7%	2.1%	1.1%	3.3%	3.6%	2.3%	2.7%	3.0%
<b>YoY (%)</b>											
Net revenue	29%	-26%	-21%	-18%	3%	62%	5%	9%	-13%	13%	13%
Gross profit	119%	-18%	-29%	-15%	-4%	76%	8%	5%	-7%	11%	14%
Operating income	n.m.	n.m.	-44%	-12%	10%	n.m.	16%	15%	-11%	35%	21%
Pretax income	660%	n.m.	-33%	-3%	26%	n.m.	16%	11%	-14%	35%	22%
Net income	845%	n.m.	-35%	0%	19%	n.m.	18%	8%	-15%	35%	22%
<b>QoQ (%)</b>											
Net revenue	-48%	-48%	107%	44%	-35%	-17%	34%	51%			
Gross profit	-50%	-55%	163%	41%	-43%	-17%	62%	36%			
Operating income	-68%	n.m.	n.m.	70%	-60%	-52%	253%	70%			
Pretax income	-72%	n.m.	n.m.	80%	-63%	-54%	283%	72%			
Net income	-69%	n.m.	n.m.	81%	-63%	-58%	318%	66%			

Source: Company, Daiwa forecasts

**GIS: 1-year forward PER**



Source: Company, Daiwa forecasts

**GIS: 1-year forward PBR**



Source: Company, Daiwa forecasts

## Financial summary

### Key assumptions

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
iPhone shipment (k units)	n.a.	18,000	21,582	10,763	62,500	78,000	93,775	97,057
iPad touch module shipments (K units)	n.a.	12,500	33,000	29,240	20,625	17,063	15,191	12,282
iPad touch-display (MegaSite) shipments (K units)	n.a.	0	0	0	2,600	4,500	6,700	9,500

### Profit and loss (TWDm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Smartphone	n.a.	16,436	27,591	14,484	28,058	28,695	32,546	34,567
Tablet	n.a.	18,365	50,279	59,444	63,659	52,960	59,669	69,768
Other Revenue	n.a.	309	2,459	2,035	1,961	224	385	514
<b>Total Revenue</b>	<b>47</b>	<b>35,109</b>	<b>80,329</b>	<b>75,963</b>	<b>93,679</b>	<b>81,880</b>	<b>92,600</b>	<b>104,850</b>
Other income	0	0	0	0	0	0	0	0
COGS	(36)	(33,848)	(73,763)	(70,273)	(85,809)	(74,593)	(84,498)	(95,623)
SG&A	(43)	(673)	(2,782)	(2,874)	(3,550)	(3,587)	(3,563)	(3,879)
Other op.expenses	0	(118)	(891)	(1,013)	(1,564)	(1,260)	(1,252)	(1,363)
<b>Operating profit</b>	<b>(32)</b>	<b>471</b>	<b>2,892</b>	<b>1,804</b>	<b>2,755</b>	<b>2,440</b>	<b>3,287</b>	<b>3,984</b>
Net-interest inc./(exp.)	(6)	(72)	(322)	(372)	(316)	(339)	(328)	(310)
Assoc/forex/extraord./others	(0)	(40)	36	183	294	250	220	200
<b>Pre-tax profit</b>	<b>(38)</b>	<b>359</b>	<b>2,606</b>	<b>1,614</b>	<b>2,734</b>	<b>2,351</b>	<b>3,179</b>	<b>3,874</b>
Tax	0	25	(302)	(279)	(522)	(470)	(636)	(775)
Min. int./pref. div./others	0	196	44	0	0	0	0	0
<b>Net profit (reported)</b>	<b>(38)</b>	<b>580</b>	<b>2,348</b>	<b>1,335</b>	<b>2,211</b>	<b>1,881</b>	<b>2,543</b>	<b>3,099</b>
<b>Net profit (adjusted)</b>	<b>(38)</b>	<b>580</b>	<b>2,348</b>	<b>1,335</b>	<b>2,211</b>	<b>1,881</b>	<b>2,543</b>	<b>3,099</b>
<b>EPS (reported)(TWD)</b>	<b>(0.905)</b>	<b>13.682</b>	<b>8.755</b>	<b>4.668</b>	<b>7.378</b>	<b>6.078</b>	<b>8.218</b>	<b>10.015</b>
<b>EPS (adjusted)(TWD)</b>	<b>(0.905)</b>	<b>13.682</b>	<b>8.755</b>	<b>4.668</b>	<b>7.378</b>	<b>6.078</b>	<b>8.218</b>	<b>10.015</b>
<b>EPS (adjusted fully-diluted)(TWD)</b>	<b>(0.905)</b>	<b>13.682</b>	<b>8.755</b>	<b>4.668</b>	<b>7.378</b>	<b>6.078</b>	<b>8.218</b>	<b>10.015</b>
<b>DPS (TWD)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>2.905</b>	<b>2.431</b>	<b>3.287</b>
<b>EBIT</b>	<b>(32)</b>	<b>471</b>	<b>2,892</b>	<b>1,804</b>	<b>2,755</b>	<b>2,440</b>	<b>3,287</b>	<b>3,984</b>
<b>EBITDA</b>	<b>(30)</b>	<b>601</b>	<b>3,811</b>	<b>4,219</b>	<b>6,035</b>	<b>6,299</b>	<b>7,867</b>	<b>9,285</b>

### Cash flow (TWDm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Profit before tax	(38)	359	2,606	1,614	2,734	2,351	3,179	3,874
Depreciation and amortisation	2	129	919	2,415	3,280	3,859	4,580	5,301
Tax paid	0	25	(302)	(279)	(522)	(470)	(636)	(775)
Change in working capital	151	(4,290)	5,053	2,036	(5,447)	576	(235)	(292)
Other operational CF items	0	258	44	50	13	0	0	0
<b>Cash flow from operations</b>	<b>115</b>	<b>(3,520)</b>	<b>8,320</b>	<b>5,836</b>	<b>57</b>	<b>6,316</b>	<b>6,888</b>	<b>8,108</b>
Capex	(924)	(3,356)	(10,522)	(4,273)	(2,766)	(4,000)	(4,000)	(4,000)
Net (acquisitions)/disposals	0	(61)	(85)	5	17	0	0	0
Other investing CF items	(1)	(28)	(204)	(87)	(262)	0	0	0
<b>Cash flow from investing</b>	<b>(925)</b>	<b>(3,445)</b>	<b>(10,811)</b>	<b>(4,355)</b>	<b>(3,011)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>
Change in debt	787	10,567	(452)	1,351	836	262	267	272
Net share issues/(repurchases)	424	0	2,161	615	1,834	0	0	0
Dividends paid	0	0	0	0	0	(899)	(752)	(1,017)
Other financing CF items	0	0	0	0	0	0	0	0
<b>Cash flow from financing</b>	<b>1,211</b>	<b>10,567</b>	<b>1,709</b>	<b>1,966</b>	<b>2,670</b>	<b>(637)</b>	<b>(485)</b>	<b>(745)</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>401</b>	<b>3,602</b>	<b>(782)</b>	<b>3,447</b>	<b>(285)</b>	<b>1,679</b>	<b>2,403</b>	<b>3,363</b>
Free cash flow	(809)	(6,875)	(2,202)	1,563	(2,709)	2,316	2,888	4,108

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### Balance sheet (TWDm)

As at 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash & short-term investment	401	4,003	3,221	6,668	6,383	8,062	10,465	13,828
Inventory	93	3,338	5,433	4,515	8,249	8,288	9,389	10,625
Accounts receivable	48	15,737	18,565	10,321	17,729	15,254	17,252	19,534
Other current assets	78	2,152	2,036	1,194	996	1,260	1,425	1,613
<b>Total current assets</b>	<b>620</b>	<b>25,231</b>	<b>29,254</b>	<b>22,697</b>	<b>33,357</b>	<b>32,864</b>	<b>38,530</b>	<b>45,600</b>
Fixed assets	922	4,149	13,751	15,620	15,122	15,263	14,683	13,383
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	1	29	318	339	556	556	556	556
<b>Total assets</b>	<b>1,543</b>	<b>29,408</b>	<b>43,324</b>	<b>38,657</b>	<b>49,035</b>	<b>48,683</b>	<b>53,769</b>	<b>59,538</b>
Short-term debt	0	7,338	6,237	4,324	5,677	5,791	5,907	6,025
Accounts payable	34	13,703	19,186	13,956	18,173	17,371	19,678	22,268
Other current liabilities	336	3,386	7,761	5,022	6,303	5,510	6,231	7,055
<b>Total current liabilities</b>	<b>370</b>	<b>24,427</b>	<b>33,185</b>	<b>23,303</b>	<b>30,154</b>	<b>28,672</b>	<b>31,815</b>	<b>35,349</b>
Long-term debt	786	2,217	4,568	7,928	7,411	7,559	7,710	7,865
Other non-current liabilities	1	1,799	97	0	0	0	0	0
<b>Total liabilities</b>	<b>1,157</b>	<b>28,443</b>	<b>37,849</b>	<b>31,231</b>	<b>37,565</b>	<b>36,231</b>	<b>39,526</b>	<b>43,213</b>
Share capital	424	424	2,682	2,860	3,095	3,095	3,095	3,095
Reserves/R.E./others	(38)	542	2,792	4,565	8,376	9,358	11,148	13,230
<b>Shareholders' equity</b>	<b>386</b>	<b>966</b>	<b>5,475</b>	<b>7,425</b>	<b>11,470</b>	<b>12,452</b>	<b>14,243</b>	<b>16,325</b>
Minority interests	0	0	0	0	0	0	0	0
<b>Total equity &amp; liabilities</b>	<b>1,543</b>	<b>29,408</b>	<b>43,324</b>	<b>38,657</b>	<b>49,035</b>	<b>48,683</b>	<b>53,769</b>	<b>59,538</b>
EV	24,585	29,752	31,784	29,784	30,905	29,488	27,352	24,261
<b>Net debt/(cash)</b>	<b>385</b>	<b>5,552</b>	<b>7,584</b>	<b>5,585</b>	<b>6,705</b>	<b>5,288</b>	<b>3,153</b>	<b>61</b>
<b>BVPS (TWD)</b>	<b>9.095</b>	<b>22.777</b>	<b>20.410</b>	<b>25.959</b>	<b>37.066</b>	<b>40.239</b>	<b>46.025</b>	<b>52.753</b>

### Key ratios (%)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Sales (YoY)	n.a.	74,513.3	128.8	(5.4)	23.3	(12.6)	13.1	13.2
EBITDA (YoY)	n.a.	n.a.	534.7	10.7	43.1	4.4	24.9	18.0
Operating profit (YoY)	n.a.	n.a.	513.5	(37.6)	52.8	(11.4)	34.7	21.2
Net profit (YoY)	n.a.	n.a.	304.9	(43.1)	65.6	(14.9)	35.2	21.9
Core EPS (fully-diluted) (YoY)	n.a.	n.a.	(36.0)	(46.7)	58.1	(17.6)	35.2	21.9
Gross-profit margin	23.2	3.6	8.2	7.5	8.4	8.9	8.8	8.8
EBITDA margin	n.a.	1.7	4.7	5.6	6.4	7.7	8.5	8.9
Operating-profit margin	n.a.	1.3	3.6	2.4	2.9	3.0	3.6	3.8
Net profit margin	(81.5)	1.7	2.9	1.8	2.4	2.3	2.7	3.0
ROAE	n.a.	85.9	72.9	20.7	23.4	15.7	19.1	20.3
ROAA	n.a.	3.7	6.5	3.3	5.0	3.8	5.0	5.5
ROCE	n.a.	8.1	21.6	10.0	12.5	9.7	12.3	13.7
ROIC	(4.1)	12.9	26.1	11.4	14.3	10.9	15.0	18.9
Net debt to equity	99.9	575.0	138.5	75.2	58.5	42.5	22.1	0.4
Effective tax rate	n.a.	n.a.	11.6	17.3	19.1	20.0	20.0	20.0
Accounts receivable (days)	188.0	82.1	77.9	69.4	54.6	73.5	64.1	64.0
Current ratio (x)	1.7	1.0	0.9	1.0	1.1	1.1	1.2	1.3
Net interest cover (x)	n.a.	6.5	9.0	4.8	8.7	7.2	10.0	12.8
Net dividend payout	n.a.	0.0	0.0	0.0	0.0	47.8	29.6	32.8
Free cash flow yield	n.a.	n.a.	n.a.	6.5	n.a.	9.6	11.9	17.0

Source: FactSet, Daiwa forecasts

## Company profile

General Interface Solution (GIS), founded in 2011 as the touch panel module manufacturing unit of Hon Hai Group, provides integrated touch panel services to clients through 3 manufacturing facilities located in China and Taiwan. GIS was listed on the TWSE in 2015.

## China Telecoms Sector

### Tower lease renegotiations: how to play?

- Tower lease terms revised to boost short-term profits of China Unicom and China Telecom; impact on China Mobile likely to be marginal
- Medium-term outlook is largely unaffected; we see tower-company valuations being supported by likely efficiency gains
- Reaffirming Positive sector view; China Mobile remains our top pick, followed by China Telecom and then China Unicom

Negative Neutral Positive



**Positive**  
(unchanged)

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**What's new:** On 8 July, the listed mobile operators divulged the key terms of their renegotiated agreements with the China Tower company. These revised agreements essentially contain some short-term fixes to boost the profitability of China Unicom (762 HK, HKD7.98, Buy [1]) and China Telecom (728 HK, HKD3.50, Buy [1]), at the expense of China Tower.

**What's the impact:** The complex lease formula has been adjusted to boost profitability of China Unicom and China Telecom, at the expense of China Tower. This is done by: 1) excluding tower financing costs from the lease formula, and 2) making available higher discounts (40% for 2 tenants) for electricity usage among shared sites. The impact on China Mobile's (941 HK, HKD87.45, Buy [1]) 2016E earnings is unlikely to be significant as we believe the proportion of co-shared sites it uses currently is likely to be low.

Our sensitivity analysis indicates that for 2016, a 5% reduction in our lease forecasts would lead to EPS improvements of 19% for China Unicom, 2.1% for China Telecom and 0.9% for China Mobile.

The flip side of these renegotiations is that the profitability of China Tower could suffer in 2016. However, our medium-term (2017 onwards) forecasts are likely to be unaffected as we see a few offsetting factors: 1) the number of towers being rented out to smaller players is tracking higher than our forecasts (China Telecom is now targeting to rent 700,000 towers by end-2016 vs. our forecast of 570,000), and 2) the proportion of towers shared is also improving ahead of our expectations (90% of towers rented by China Telecom in 1H16 are shared with another tenant), implying likely efficiency gains. Thus, we remain comfortable with our 2017 forecasts and valuation (1.3x 2016E PBV) for China Tower (see [Stocks at bargain prices](#), 6 July).

**What we recommend:** We reiterate our Positive sector view with Buy (1) ratings on China Mobile, China Unicom and China Telecom. Despite having the least potential upside to our target price, China Mobile remains our top pick for its large index weighting, low earnings volatility and 4G dominance. Between China Telecom and China Unicom, we have a preference for the former, given its superior operational momentum. Greater-than-anticipated competitive pressure would be the main risk to our view on all 3 stocks.

**How we differ:** Even though our sector earnings forecasts are well below the Bloomberg consensus, which we attribute to differing views on the impact of tower leases, we believe the sector stocks could rally as valuations are depressed.

### China Telecoms Sector: Ratings

HKD/share	Rating	Price	Target	Upside
Mobile	Buy	87.45	108.7	24.3%
Unicom	Buy	7.98	11.5	44.1%
Telecom	Buy	3.5	4.6	30.9%

Source: Daiwa, Bloomberg

### China Telecoms Sector: 2016E valuations

	EV/EBITDA	PER	PBV	Div Yield (%)
China Mobile	4.7	14.9	1.6	2.8%
China Unicom	4.0	81.0	0.7	0.5%
China Telecom	3.9	15.4	0.8	2.1%

Source: Daiwa forecasts

### China Telecoms Sector: tower lease forecasts

	2016E	2017E	2018E
<b>Lease fees (CNY bn)</b>			
China Mobile	34.9	36.0	36.0
China Unicom	17.7	18.2	18.5
China Telecom	16.7	18.0	18.3
<b>Towers leased ('000)</b>			
China Mobile	970	1020	1020
China Unicom	650	700	700
China Telecom	570	620	620

Source: Daiwa forecasts

### China Tower: key forecasts

	2016E	2017E	2018E
<b>CNY bn</b>			
Revenue	69.3	72.2	72.8
EBITDA	27.7	28.9	29.1
Net income	5.0	6.0	6.3

Source: Daiwa forecasts

# Anta Sports Products (2020 HK)

 Target price: **HKD18.50** (from HKD23.00)

 Share price (11 Jul): **HKD15.22** | Up/downside: **+21.5%**

 5 4 3 2 **1**

**Buy**  
 (unchanged)

## Time for a rebound

- Stock oversold on noise, long-term fundamentals remain intact
- Risk-reward profile attractive among consumer discretionary names
- Reiterating our Buy (1) rating; lowering TP to HKD18.50

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**What's new:** We attended Anta's 1Q17 trade fair in Jinjiang and made Anta and Fila store visits in Xiamen on 7 July. While some investors are concerned about Anta's core brand growth hitting a plateau and facing increasing challenges in gaining market share going forward, our market research indicates the contrary, with solid distributor interest in its functional products in 1Q17. We see the recent share price pullback as a good opportunity for long-horizon investors to build positions in the stock, which is now trading at a 12-month forward PER of 13x (~2013-14 range) but amid an increasingly supportive policy landscape and appetite for fitness.

**What's the impact:** Our latest on-the-ground checks in Xiamen were encouraging, with retail discount levels back to normal (c.30% vs. 32-33% in 1Q16) and distributors able to earn a healthy operating margin of a mid-to high-single digit. Store managers also said the brand's sales turnover from 7<sup>th</sup> generation stores was already up by a double-digit percentage YoY vs. that from 6<sup>th</sup> generation. Management expects to upgrade another 2,000 stores in 2016 (from approx. 1,000 7<sup>th</sup> generation stores at end-15).

**Near-term expectations.** We expect deteriorating macro conditions in China to have further negative implications on consumer sentiment, and in addition to a higher base, we expect Anta's 2Q16 core brand retail sales to echo its mid-single digit YoY growth in 1Q16 and its 1Q17 order book to grow YoY by high-single digits (vs. a low-double digits for 4Q16).

**Earnings revisions.** We cut our 2016-18E EPS by 2-9% as we lower our revenue by 1-6% over the period on deteriorating macro conditions in China. But we raise our gross-margin assumptions to 47.3-48% (47-47.8% previously) on a better product mix. Also, its FILA and Descente store openings should have a deleveraging impact.

**What we recommend:** We reiterate our Buy (1) rating and cut our 12-month TP to HKD18.50, based on a target 15.9x PER applied to the average of our 2016-17E EPS (from HKD23.5, on a 20x 2016E PER basis). Our forecasts call for 15%/14% YoY earnings growth in 2016/17E, driven by Anta's multi-brand strategy, while offering a 5% dividend yield for 2016E, vs. a weighted average of 7% earnings growth and 4% dividend yield for the HK-listed consumer discretionary names (excl. autos) with market caps of more than USD1bn and trading at 15.8x 12-month forward PER (Bloomberg consensus forecasts).

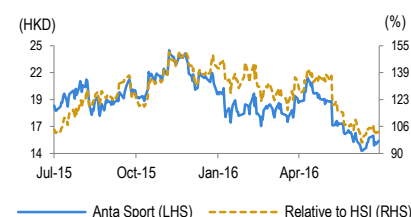
**How we differ:** We hold a longer-term view on the company's fundamentals and are less worried by the market's concerns in the near term regarding the change in disclosure and Anta's decelerating core brand growth.

### Forecast revisions (%)

Year to 31 Dec	16E	17E	18E
Revenue change	(1.3)	(2.6)	(6.4)
Net profit change	(2.3)	(4.2)	(8.8)
Core EPS (FD) change	(2.3)	(4.2)	(8.8)

Source: Daiwa forecasts

### Share price performance



12-month range	14.24-24.05
Market cap (USDbn)	4.89
3m avg daily turnover (USDm)	16.40
Shares outstanding (m)	2,496
Major shareholder	Mr. Ding Shizhong (55.3%)

### Financial summary (CNY)

Year to 31 Dec	16E	17E	18E
Revenue (m)	13,044	14,632	16,048
Operating profit (m)	3,134	3,571	3,969
Net profit (m)	2,349	2,672	2,974
Core EPS (fully-diluted)	0.939	1.068	1.189
EPS change (%)	15.1	13.8	11.3
Daiwa vs Cons. EPS (%)	0.7	(0.8)	(2.2)
PER (x)	14.0	12.3	11.0
Dividend yield (%)	5.0	5.7	6.4
DPS	0.658	0.749	0.834
PBR (x)	3.5	3.2	2.9
EV/EBITDA (x)	8.3	7.1	6.2
ROE (%)	26.3	27.3	27.6

Source: FactSet, Daiwa forecasts

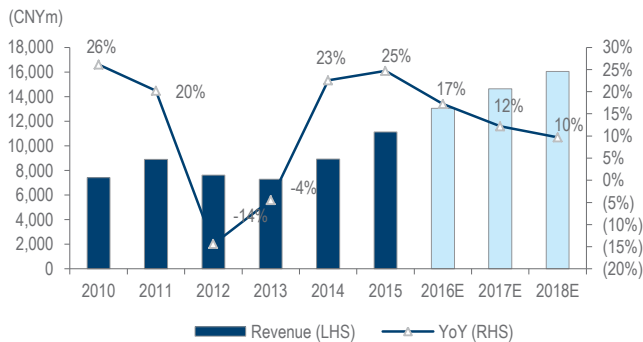


**Anta and FILA stores in Xiamen**



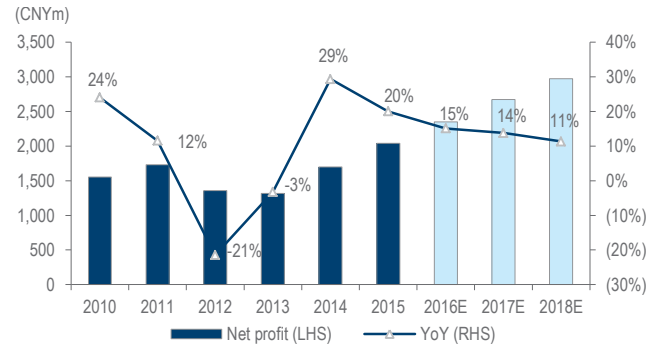
Source: Daiwa

**Anta: revenue trend (2010-18E)**



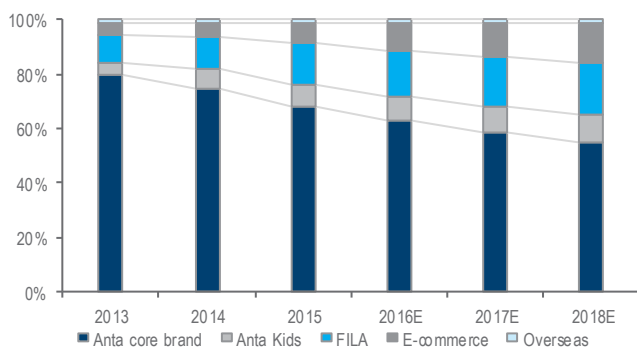
Source: Company, Daiwa forecasts

**Anta: net profit trend (2010-18E)**



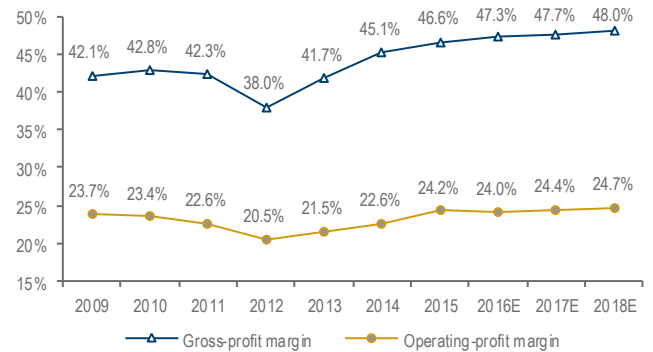
Source: Company, Daiwa forecasts

**Anta: product-mix contribution to sales (2013-18E)**



Source: Daiwa estimates and forecasts

**Anta: Gross margin and operating margin trends (2009-18E)**



Source: Company, Daiwa forecasts

**China Sportswear Sector: trade fair results (1Q15-4Q16)**

(YoY%)	Anta	Xtep	Peak	Li Ning	361	China DX
1Q15	+ low double	+ low single	+ mid-teens	+mid-twenties	8%	
2Q15	+ low double	+ low single	+ mid-teens	+ mid-teens	11%	+ low
3Q15	+ low double	+ low single	+ mid-teens	+ high-teens	16%	double
4Q15	+ low double	+ low single	+ mid-teens	+low-teens	18%	
1Q16	+ low double	10%	+ mid-teens	+ mid-teens	15%	+ low
2Q16	+ low double	10%	+ mid-teens	+ high-teens	15%	double
3Q16	+ high single	+ high single	+ low-teens	+ low-teens	+high single	
4Q16	+ low double	+ high single	- low single	+ high single	+high single	+10 - 20%

Source: Company

**China Sportswear Sector: SSSG (1Q14-1Q16)**

(YoY%)	Anta	Xtep	Peak	Li Ning	361	China DX
1Q14	+ mid single	+ low single	+ low single	n/a	1.8%	n/a
2Q14	+ low double	+ mid single	+ low single	n/a	2.8%	n/a
3Q14	+ high single	+ mid single	+ low single	n/a	4.7%	n/a
4Q14	+ high single	+ mid single	+ low single	+mid single	5.5%	n/a
1Q15	+ high single	+ mid single	+mid single	+mid single	6.3%	n/a
2Q15	+ high single	+ high single	+mid single	+ low-teens	7.2%	21.5%
3Q15	+ high single	+ high single	+ high single	+mid single	8.4%	7 - 9%
4Q15	+ mid single	+mid single	+ mid single	+ low single	7.9%	+ low single
1Q16	+mid single	+mid single	Flat	+ low single	7.2%	+ low single

Source: Company



## Financial summary

### Key assumptions

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
A&P (% of sales)	13.7	10.5	11.1	12.0	11.5	12.3	12.3	12.3
Anta Core brand stores	8,665	8,075	7,757	7,622	7,031	7,050	7,075	7,100
Anta Core brand (% of sales)	89	89	80	78	69	64	60	56

### Profit and loss (CNYm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Core brand	7,886	6,808	5,823	6,915	7,730	8,349	8,766	9,029
Others	1,019	815	1,458	2,008	3,395	4,695	5,866	7,019
Other Revenue	0	0	0	0	0	0	0	0
<b>Total Revenue</b>	<b>8,905</b>	<b>7,623</b>	<b>7,281</b>	<b>8,923</b>	<b>11,126</b>	<b>13,044</b>	<b>14,632</b>	<b>16,048</b>
Other income	74	128	102	86	227	100	100	100
COGS	(5,142)	(4,730)	(4,242)	(4,896)	(5,941)	(6,880)	(7,658)	(8,343)
SG&A	(1,825)	(1,458)	(1,576)	(2,094)	(2,716)	(3,130)	(3,504)	(3,836)
Other op.expenses	0	0	0	0	0	0	0	0
<b>Operating profit</b>	<b>2,011</b>	<b>1,563</b>	<b>1,566</b>	<b>2,019</b>	<b>2,697</b>	<b>3,134</b>	<b>3,571</b>	<b>3,969</b>
Net-interest inc./(exp.)	149	166	187	224	133	160	175	202
Assoc/forex/extraord./others	0	0	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>2,160</b>	<b>1,730</b>	<b>1,753</b>	<b>2,243</b>	<b>2,829</b>	<b>3,293</b>	<b>3,746</b>	<b>4,171</b>
Tax	(436)	(374)	(423)	(510)	(741)	(889)	(1,012)	(1,126)
Min. int./pref. div./others	6	3	(15)	(32)	(48)	(55)	(63)	(70)
<b>Net profit (reported)</b>	<b>1,730</b>	<b>1,359</b>	<b>1,315</b>	<b>1,700</b>	<b>2,041</b>	<b>2,349</b>	<b>2,672</b>	<b>2,974</b>
<b>Net profit (adjusted)</b>	<b>1,730</b>	<b>1,359</b>	<b>1,315</b>	<b>1,700</b>	<b>2,041</b>	<b>2,349</b>	<b>2,672</b>	<b>2,974</b>
EPS (reported)(CNY)	0.694	0.545	0.527	0.681	0.818	0.941	1.070	1.192
EPS (adjusted)(CNY)	0.694	0.545	0.527	0.681	0.818	0.941	1.070	1.192
EPS (adjusted fully-diluted)(CNY)	0.692	0.544	0.526	0.680	0.816	0.939	1.068	1.189
DPS (CNY)	0.424	0.390	0.378	0.484	0.572	0.658	0.749	0.834
EBIT	2,011	1,563	1,566	2,019	2,697	3,134	3,571	3,969
EBITDA	2,101	1,673	1,696	2,178	2,885	3,350	3,813	4,232

### Cash flow (CNYm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Profit before tax	2,160	1,730	1,753	2,243	2,829	3,293	3,746	4,171
Depreciation and amortisation	90	110	130	159	188	217	242	264
Tax paid	(387)	(446)	(367)	(522)	(738)	(889)	(1,012)	(1,126)
Change in working capital	(454)	430	(421)	(68)	(415)	(381)	(200)	38
Other operational CF items	38	142	32	(125)	38	40	40	40
<b>Cash flow from operations</b>	<b>1,448</b>	<b>1,965</b>	<b>1,128</b>	<b>1,686</b>	<b>1,903</b>	<b>2,280</b>	<b>2,816</b>	<b>3,386</b>
Capex	(179)	(206)	(168)	(250)	(457)	(525)	(525)	(525)
Net (acquisitions)/disposals	0	(136)	(15)	0	(26)	0	0	0
Other investing CF items	(559)	(633)	803	(615)	70	(244)	(200)	(179)
<b>Cash flow from investing</b>	<b>(738)</b>	<b>(976)</b>	<b>620</b>	<b>(865)</b>	<b>(413)</b>	<b>(769)</b>	<b>(725)</b>	<b>(704)</b>
Change in debt	0	997	(528)	849	(69)	0	0	0
Net share issues/(repurchases)	1	0	4	6	42	0	0	0
Dividends paid	(1,055)	(996)	(878)	(1,072)	(1,334)	(1,628)	(1,757)	(1,976)
Other financing CF items	(5)	(4)	(5)	(4)	89	0	0	0
<b>Cash flow from financing</b>	<b>(1,059)</b>	<b>(3)</b>	<b>(1,408)</b>	<b>(220)</b>	<b>(1,271)</b>	<b>(1,628)</b>	<b>(1,757)</b>	<b>(1,976)</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>(350)</b>	<b>986</b>	<b>341</b>	<b>601</b>	<b>219</b>	<b>(117)</b>	<b>334</b>	<b>706</b>
Free cash flow	1,269	1,759	960	1,436	1,446	1,755	2,291	2,861

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### Balance sheet (CNYm)

As at 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash & short-term investment	4,428	4,988	4,839	6,034	6,531	6,653	7,183	8,064
Inventory	618	687	689	867	1,016	1,191	1,336	1,466
Accounts receivable	1,709	1,373	1,933	1,701	2,207	2,408	2,574	2,506
Other current assets	15	1,055	725	745	403	403	403	403
<b>Total current assets</b>	<b>6,770</b>	<b>8,102</b>	<b>8,187</b>	<b>9,347</b>	<b>10,157</b>	<b>10,655</b>	<b>11,496</b>	<b>12,438</b>
Fixed assets	680	918	935	1,068	1,166	1,358	1,544	1,710
Goodwill & intangibles	541	529	507	489	464	443	423	404
Other non-current assets	204	487	489	480	715	769	822	875
<b>Total assets</b>	<b>8,194</b>	<b>10,036</b>	<b>10,118</b>	<b>11,384</b>	<b>12,502</b>	<b>13,224</b>	<b>14,284</b>	<b>15,427</b>
Short-term debt	0	997	490	1,348	1,330	1,330	1,330	1,330
Accounts payable	1,471	1,774	1,889	1,654	1,990	1,985	2,096	2,196
Other current liabilities	133	127	194	182	243	243	243	243
<b>Total current liabilities</b>	<b>1,604</b>	<b>2,898</b>	<b>2,574</b>	<b>3,185</b>	<b>3,563</b>	<b>3,559</b>	<b>3,670</b>	<b>3,769</b>
Long-term debt	0	0	0	0	0	0	0	0
Other non-current liabilities	171	205	195	194	124	124	124	124
<b>Total liabilities</b>	<b>1,776</b>	<b>3,103</b>	<b>2,769</b>	<b>3,379</b>	<b>3,688</b>	<b>3,683</b>	<b>3,794</b>	<b>3,893</b>
Share capital	242	242	242	242	243	243	243	243
Reserves/R.E./others	6,130	6,510	6,912	7,553	8,337	9,064	10,013	11,056
<b>Shareholders' equity</b>	<b>6,372</b>	<b>6,752</b>	<b>7,154</b>	<b>7,795</b>	<b>8,580</b>	<b>9,307</b>	<b>10,256</b>	<b>11,299</b>
Minority interests	47	180	195	209	235	235	235	235
<b>Total equity &amp; liabilities</b>	<b>8,194</b>	<b>10,036</b>	<b>10,118</b>	<b>11,384</b>	<b>12,502</b>	<b>13,224</b>	<b>14,284</b>	<b>15,427</b>
EV	28,369	28,940	28,597	28,275	27,784	27,662	27,132	26,252
<b>Net debt/(cash)</b>	<b>(4,428)</b>	<b>(3,991)</b>	<b>(4,349)</b>	<b>(4,685)</b>	<b>(5,201)</b>	<b>(5,323)</b>	<b>(5,853)</b>	<b>(6,734)</b>
<b>BVPS (CNY)</b>	<b>2.555</b>	<b>2.707</b>	<b>2.868</b>	<b>3.123</b>	<b>3.437</b>	<b>3.729</b>	<b>4.109</b>	<b>4.527</b>

### Key ratios (%)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Sales (YoY)	20.2	(14.4)	(4.5)	22.5	24.7	17.2	12.2	9.7
EBITDA (YoY)	15.4	(20.4)	1.4	28.4	32.4	16.1	13.8	11.0
Operating profit (YoY)	15.8	(22.3)	0.1	29.0	33.6	16.2	13.9	11.1
Net profit (YoY)	11.5	(21.5)	(3.2)	29.3	20.0	15.1	13.8	11.3
Core EPS (fully-diluted) (YoY)	11.5	(21.4)	(3.3)	29.2	20.0	15.1	13.8	11.3
Gross-profit margin	42.3	38.0	41.7	45.1	46.6	47.3	47.7	48.0
EBITDA margin	23.6	21.9	23.3	24.4	25.9	25.7	26.1	26.4
Operating-profit margin	22.6	20.5	21.5	22.6	24.2	24.0	24.4	24.7
Net profit margin	19.4	17.8	18.1	19.1	18.3	18.0	18.3	18.5
ROAE	28.7	20.7	18.9	22.7	24.9	26.3	27.3	27.6
ROAA	22.7	14.9	13.0	15.8	17.1	18.3	19.4	20.0
ROCE	33.1	21.8	19.9	23.5	27.7	29.8	31.5	32.2
ROIC	93.6	49.7	40.0	49.4	57.4	58.4	58.9	61.4
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	20.2	21.6	24.1	22.7	26.2	27.0	27.0	27.0
Accounts receivable (days)	55.3	73.8	82.9	74.3	64.1	64.6	62.1	57.8
Current ratio (x)	4.2	2.8	3.2	2.9	2.9	3.0	3.1	3.3
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	61.1	71.7	71.7	71.1	70.0	70.0	70.0	70.0
Free cash flow yield	3.9	5.4	2.9	4.4	4.4	5.4	7.0	8.7

Source: FactSet, Daiwa forecasts

### Company profile

ANTA Sports Products Limited is a professional sportswear company established in 1994, in Jinjiang, Fujian. It is involved in the innovation, design, research, development, manufacturing and retail of sports equipment. The company listed on the Hong Kong Stock Exchange in 2007.

# Feng Tay Enterprise (9910 TT)

 Target price: **TWD155.00** (from TWD176.00)

 Share price (11 Jul): **TWD146.50** | Up/downside: **+5.8%**

 5 4 **3** 2 1


**Hold**  
 (unchanged)

## On track with Nike growth

- 2Q16 revenue in line with our and consensus estimates
- We maintain our 2016-17 YoY shipment growth forecasts
- Reiterating our Hold (3) rating; cutting 12-month TP to TWD155

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**What's new:** Feng Tay posted June revenue of TWD5.3bn (up by 10.7% YoY, down by 1.6% MoM and up by 13.1% YoY in 1H16) on 11 July after the market close. The 2Q16 revenue thus came to TWD15.4bn (up by 11.5% YoY and up by 9.5% QoQ), achieving 98% of our estimate and 99% of consensus. The company also released 2Q16 actual shipment figures as well as guidance for 3Q16 sales and production shipments.

**What's the impact:** **2Q16 production shipments slightly lower; sales shipments slightly higher.** Feng Tay's actual 2Q16 production shipments of 24.2m (up by 10.1% YoY and up by 6.7% QoQ) slightly missed guidance of 24.6m, likely due to inventory digestion by major client, Nike. However, 2Q16 sales shipments of 26.0m (up by 8.4% YoY and up by 17.1% QoQ) exceeded guidance of 25.3m. Overall, 1H16 production shipments rose 9.9% YoY and sales shipments rose 8.1% YoY.

**3Q16 shipment guidance slightly lower than expected.** Feng Tay has guided for 3Q16 production shipments of 23.5m (up by 7% YoY and down by 3% QoQ) and sales shipments of 23.2m (up by 6% YoY and down by 11% QoQ), due to Nike's ongoing inventory digestion.

**Nike footwear segment outgrows apparel segment in FY16.** In FY16, Nike's footwear business grew by 6% YoY (up by 9% YoY on a currency-neutral basis) and the apparel business grew by 4% YoY (up by 7% YoY). In FY17, Nike targets high-single-digit growth YoY, reflecting high-single-digit to low-double-digit growth on a currency-neutral basis, in line with our 2016 revenue growth forecast of 12.1% YoY for Feng Tay.

**Forecast revisions.** For 2016-17, we slightly cut our revenue forecasts by 3% and our net profit forecasts by 6-7%, to factor in higher R&D expense for automation and Nike inventory digestion. We also introduce 2018 estimates.

**What we recommend:** We reiterate our Hold (3) call and cut our 12-month TP to TWD155 (from TWD176), as we roll over our valuation basis to the average of our 2016-17E EPS (from 2016E EPS) and apply a new PER of 18x (from 21x) on slower earnings-growth expectations over 2016-17. Our target PER is in line with the stock's past-5-year average. Key upside/downside risks: better-/worse-than-expected operating efficiency.

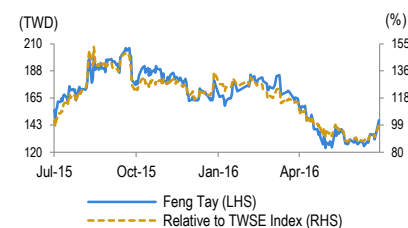
**How we differ:** We are more conservative on Feng Tay's operating-margin expansion in the long term due to its cost-plus model with clients.

### Forecast revisions (%)

Year to 31 Dec	16E	17E	18E
Revenue change	(2.7)	(2.7)	n.a.
Net profit change	(5.7)	(7.3)	n.a.
Core EPS (FD) change	(5.7)	(7.3)	n.a.

Source: Daiwa forecasts

### Share price performance



12-month range	123.50-206.50
Market cap (USDbn)	2.70
3m avg daily turnover (USDm)	7.09
Shares outstanding (m)	596
Major shareholder	Wang family (60.0%)

### Financial summary (TWD)

Year to 31 Dec	16E	17E	18E
Revenue (m)	62,556	70,398	77,437
Operating profit (m)	6,443	7,286	8,092
Net profit (m)	4,727	5,447	6,006
Core EPS (fully-diluted)	7.926	9.133	10.071
EPS change (%)	11.5	15.2	10.3
Daiwa vs Cons. EPS (%)	0.7	(0.7)	(0.7)
PER (x)	18.5	16.0	14.5
Dividend yield (%)	3.8	4.4	4.8
DPS	5.5	6.4	7.0
PBR (x)	5.9	5.1	4.6
EV/EBITDA (x)	11.2	9.9	8.8
ROE (%)	33.8	34.2	33.2

Source: FactSet, Daiwa forecasts

**Feng Tay: revisions to revenue and earnings forecasts**

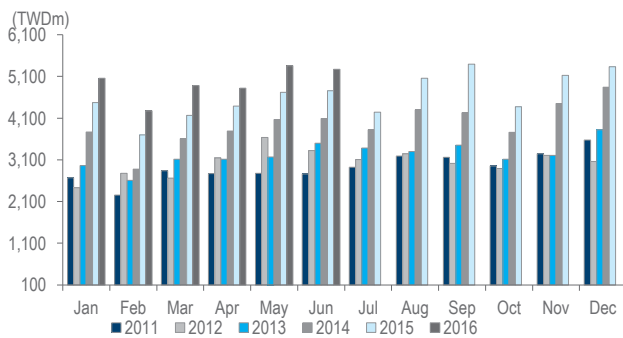
(TWDm)	2016E			2017E		
	New	Previous	Change	New	Previous	Change
<b>Sales</b>	<b>62,556</b>	64,294	-2.7%	<b>70,398</b>	72,353	-2.7%
<b>Gross profit</b>	<b>13,575</b>	13,322	1.9%	<b>15,347</b>	15,136	1.4%
Gross-profit margin	<b>21.7%</b>	20.7%	1.0pp	<b>21.8%</b>	20.9%	0.9pp
<b>Operating profit</b>	<b>6,443</b>	6,635	-2.9%	<b>7,286</b>	7,793	-6.5%
Operating-profit margin	<b>10.3%</b>	10.3%	0.0pp	<b>10.4%</b>	10.8%	-0.4pp
<b>Net profit</b>	<b>4,727</b>	5,010	-5.7%	<b>5,447</b>	5,878	-7.3%
Net-profit margin	<b>7.6%</b>	7.8%	-0.2pp	<b>7.7%</b>	8.1%	-0.4pp
<b>EPS (TWD)</b>	<b>7.93</b>	8.40	-5.7%	<b>9.13</b>	9.86	-7.3%

Source: Daiwa forecast

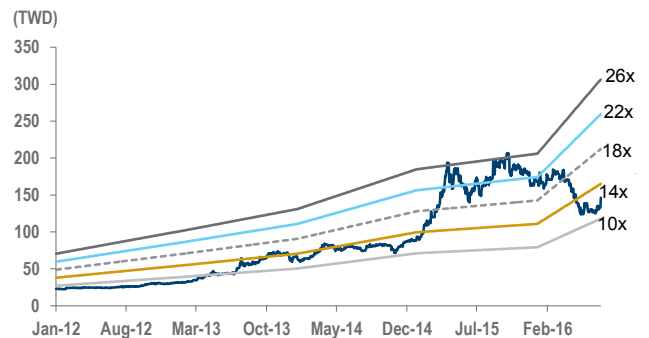
**Feng Tay: quarterly P&L**

TWDm	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16E	3Q16E	4Q16E
Revenue	12,318	13,861	14,849	14,776	14,105	15,450	16,300	16,701
Gross profit	2,455	2,799	3,141	3,372	3,094	3,430	3,472	3,579
Operating profit	1,074	1,306	1,527	1,615	1,384	1,665	1,672	1,722
Profit before tax	1,227	1,439	1,834	1,759	1,425	1,824	1,822	1,872
Net profit	838	976	1,248	1,176	914	1,265	1,268	1,280
Basic EPS (TWD)	1.41	1.64	2.09	1.97	1.53	2.12	2.13	2.15
<b>Margin</b>								
Gross margin	19.9%	20.2%	21.2%	22.8%	21.9%	22.2%	21.3%	21.4%
Operating margin	8.7%	9.4%	10.3%	10.9%	9.8%	10.8%	10.3%	10.3%
Pre tax margin	10.0%	10.4%	12.4%	11.9%	10.1%	11.8%	11.2%	11.2%
Net margin	6.8%	7.0%	8.4%	8.0%	6.5%	8.2%	7.8%	7.7%
<b>YoY</b>								
Revenue	20.4%	16.5%	19.6%	12.7%	14.5%	11.5%	9.8%	13.0%
Gross profit	24.5%	12.8%	22.3%	22.7%	26.0%	22.5%	10.5%	6.1%
Operating profit	34.1%	4.7%	30.3%	26.1%	28.9%	27.5%	9.5%	6.6%
Profit before tax	24.0%	9.7%	38.4%	23.2%	16.2%	26.8%	-0.7%	6.4%
Net profit	27.8%	58.4%	42.8%	25.0%	9.1%	29.6%	1.6%	8.8%
<b>QoQ</b>								
Revenue	-6.0%	12.5%	7.1%	-0.5%	-4.5%	9.5%	5.5%	2.5%
Gross profit	-10.6%	14.0%	12.2%	7.4%	-8.2%	10.9%	1.2%	3.1%
Operating profit	-16.1%	21.5%	17.0%	5.8%	-14.3%	20.3%	0.4%	3.0%
Profit before tax	-14.1%	17.3%	27.5%	-4.1%	-19.0%	28.0%	-0.2%	2.8%
Net profit	-11.0%	16.5%	27.8%	-5.7%	-22.3%	38.3%	0.3%	1.0%

Source: Company, Daiwa forecast

**Feng Tay: monthly revenue trend**


Source: Company

**Feng Tay: 1-year-forward PER**


Source: Bloomberg, Daiwa forecast

## Financial summary

### Key assumptions

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Shipment growth (YoY %)	13.1	(6.3)	6.2	15.9	12.5	10.0	10.0	10.0
Shipment (m pair)	68.6	64.3	68.3	79.2	89.0	97.9	107.7	118.5
ASP growth (YoY %)	5.0	9.5	(1.6)	7.8	4.0	2.0	2.3	0.0
ASP	518.7	567.7	558.5	602.1	626.4	638.9	653.6	653.6

### Profit and loss (TWDm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
North America	18,531	19,387	22,390	27,810	32,895	37,207	37,827	37,827
Asia	3,368	6,017	7,594	8,506	10,036	11,782	13,845	13,845
Other Revenue	13,705	11,113	8,165	11,338	12,874	13,567	18,725	25,765
<b>Total Revenue</b>	<b>35,604</b>	<b>36,517</b>	<b>38,148</b>	<b>47,654</b>	<b>55,804</b>	<b>62,556</b>	<b>70,398</b>	<b>77,437</b>
Other income	0	0	0	0	0	0	0	0
COGS	(29,838)	(29,644)	(30,708)	(37,885)	(44,038)	(48,981)	(55,051)	(60,479)
SG&A	(3,087)	(3,316)	(3,445)	(3,990)	(4,646)	(5,161)	(5,843)	(6,427)
Other op.expenses	(1,020)	(1,030)	(1,090)	(1,278)	(1,597)	(1,970)	(2,218)	(2,439)
<b>Operating profit</b>	<b>1,659</b>	<b>2,528</b>	<b>2,905</b>	<b>4,501</b>	<b>5,522</b>	<b>6,443</b>	<b>7,286</b>	<b>8,092</b>
Net-interest inc./(exp.)	(67)	(70)	(51)	(40)	(36)	(42)	(43)	(37)
Assoc/forex/extraord./others	469	262	538	594	772	542	671	672
<b>Pre-tax profit</b>	<b>2,061</b>	<b>2,721</b>	<b>3,393</b>	<b>5,055</b>	<b>6,259</b>	<b>6,943</b>	<b>7,914</b>	<b>8,727</b>
Tax	(438)	(671)	(769)	(1,613)	(1,597)	(1,805)	(2,058)	(2,269)
Min. int./pref. div./others	(191)	(369)	(330)	(355)	(424)	(411)	(410)	(452)
<b>Net profit (reported)</b>	<b>1,432</b>	<b>1,680</b>	<b>2,294</b>	<b>3,087</b>	<b>4,238</b>	<b>4,727</b>	<b>5,447</b>	<b>6,006</b>
<b>Net profit (adjusted)</b>	<b>1,432</b>	<b>1,680</b>	<b>2,294</b>	<b>3,087</b>	<b>4,238</b>	<b>4,727</b>	<b>5,447</b>	<b>6,006</b>
<b>EPS (reported)(TWD)</b>	<b>2.675</b>	<b>3.018</b>	<b>3.962</b>	<b>5.332</b>	<b>7.106</b>	<b>7.926</b>	<b>9.133</b>	<b>10.071</b>
<b>EPS (adjusted)(TWD)</b>	<b>2.675</b>	<b>3.018</b>	<b>3.962</b>	<b>5.332</b>	<b>7.106</b>	<b>7.926</b>	<b>9.133</b>	<b>10.071</b>
<b>EPS (adjusted fully-diluted)(TWD)</b>	<b>2.675</b>	<b>3.018</b>	<b>3.962</b>	<b>4.622</b>	<b>7.106</b>	<b>7.926</b>	<b>9.133</b>	<b>10.071</b>
<b>DPS (TWD)</b>	<b>1.800</b>	<b>2.200</b>	<b>3.300</b>	<b>3.700</b>	<b>5.000</b>	<b>5.548</b>	<b>6.393</b>	<b>7.050</b>
<b>EBIT</b>	<b>1,659</b>	<b>2,528</b>	<b>2,905</b>	<b>4,501</b>	<b>5,522</b>	<b>6,443</b>	<b>7,286</b>	<b>8,092</b>
<b>EBITDA</b>	<b>2,871</b>	<b>3,843</b>	<b>4,138</b>	<b>5,820</b>	<b>6,993</b>	<b>8,061</b>	<b>9,070</b>	<b>10,043</b>

### Cash flow (TWDm)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Profit before tax	2,061	2,721	3,393	5,055	6,259	6,943	7,914	8,727
Depreciation and amortisation	1,213	1,315	1,233	1,319	1,470	1,618	1,784	1,951
Tax paid	(438)	(554)	(586)	(1,500)	(1,053)	(1,805)	(2,058)	(2,269)
Change in working capital	(175)	431	(140)	(302)	199	(1,153)	(954)	(855)
Other operational CF items	6	4	(8)	81	27	(18)	(22)	(28)
<b>Cash flow from operations</b>	<b>2,667</b>	<b>3,916</b>	<b>3,891</b>	<b>4,653</b>	<b>6,902</b>	<b>5,585</b>	<b>6,664</b>	<b>7,525</b>
Capex	(1,562)	(1,342)	(1,016)	(2,054)	(2,982)	(3,000)	(3,000)	(3,000)
Net (acquisitions)/disposals	21	229	371	82	123	0	0	0
Other investing CF items	(121)	(77)	9	47	(228)	0	0	0
<b>Cash flow from investing</b>	<b>(1,662)</b>	<b>(1,189)</b>	<b>(635)</b>	<b>(1,925)</b>	<b>(3,086)</b>	<b>(3,000)</b>	<b>(3,000)</b>	<b>(3,000)</b>
Change in debt	488	(896)	(1,189)	484	(692)	(55)	0	0
Net share issues/(repurchases)	(135)	0	0	0	0	0	0	0
Dividends paid	(936)	(936)	(1,178)	(1,837)	(2,142)	(2,982)	(3,309)	(3,813)
Other financing CF items	(147)	(261)	(1,079)	(967)	(169)	0	0	0
<b>Cash flow from financing</b>	<b>(730)</b>	<b>(2,093)</b>	<b>(3,445)</b>	<b>(2,320)</b>	<b>(3,004)</b>	<b>(3,037)</b>	<b>(3,309)</b>	<b>(3,813)</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>275</b>	<b>634</b>	<b>(190)</b>	<b>408</b>	<b>813</b>	<b>(452)</b>	<b>356</b>	<b>713</b>
Free cash flow	1,105	2,575	2,875	2,599	3,920	2,585	3,664	4,525

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### Balance sheet (TWDm)

As at 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash & short-term investment	1,303	1,808	1,583	1,891	2,374	1,922	2,278	2,990
Inventory	3,903	3,735	4,045	5,233	5,403	6,765	7,604	8,353
Accounts receivable	3,014	2,518	3,139	4,138	4,452	4,888	5,501	6,051
Other current assets	1,065	925	666	844	1,140	932	932	932
<b>Total current assets</b>	<b>9,285</b>	<b>8,986</b>	<b>9,432</b>	<b>12,106</b>	<b>13,369</b>	<b>14,508</b>	<b>16,314</b>	<b>18,327</b>
Fixed assets	10,947	10,529	10,254	11,480	13,273	14,464	15,721	16,815
Goodwill & intangibles	665	634	354	361	402	402	402	402
Other non-current assets	873	782	1,457	1,449	1,654	1,654	1,654	1,654
<b>Total assets</b>	<b>21,769</b>	<b>20,931</b>	<b>21,497</b>	<b>25,397</b>	<b>28,697</b>	<b>31,027</b>	<b>34,090</b>	<b>37,198</b>
Short-term debt	2,534	2,023	2,652	1,978	1,303	1,303	1,303	1,303
Accounts payable	2,353	2,100	2,302	3,101	3,364	4,009	4,506	4,950
Other current liabilities	2,152	1,939	2,490	3,144	3,655	3,649	4,078	4,547
<b>Total current liabilities</b>	<b>7,040</b>	<b>6,062</b>	<b>7,445</b>	<b>8,223</b>	<b>8,322</b>	<b>8,961</b>	<b>9,887</b>	<b>10,801</b>
Long-term debt	2,330	1,854	89	1,360	1,414	1,360	1,360	1,360
Other non-current liabilities	1,560	1,799	2,692	3,391	4,088	4,088	4,088	4,088
<b>Total liabilities</b>	<b>10,930</b>	<b>9,715</b>	<b>10,226</b>	<b>12,973</b>	<b>13,824</b>	<b>14,409</b>	<b>15,335</b>	<b>16,248</b>
Share capital	5,197	5,353	5,567	5,790	5,964	5,964	5,964	5,964
Reserves/R.E./others	3,511	3,674	4,178	5,063	7,132	8,877	11,015	13,208
<b>Shareholders' equity</b>	<b>8,708</b>	<b>9,028</b>	<b>9,745</b>	<b>10,853</b>	<b>13,096</b>	<b>14,841</b>	<b>16,979</b>	<b>19,172</b>
Minority interests	2,131	2,189	1,526	1,571	1,777	1,777	1,777	1,777
<b>Total equity &amp; liabilities</b>	<b>21,769</b>	<b>20,931</b>	<b>21,497</b>	<b>25,397</b>	<b>28,697</b>	<b>31,027</b>	<b>34,090</b>	<b>37,198</b>
EV	93,061	91,627	90,053	90,386	89,489	89,887	89,531	88,818
<b>Net debt/(cash)</b>	<b>3,561</b>	<b>2,069</b>	<b>1,158</b>	<b>1,446</b>	<b>344</b>	<b>741</b>	<b>385</b>	<b>(328)</b>
<b>BVPS (TWD)</b>	<b>16.267</b>	<b>16.215</b>	<b>16.831</b>	<b>18.744</b>	<b>21.959</b>	<b>24.885</b>	<b>28.470</b>	<b>32.148</b>

### Key ratios (%)

Year to 31 Dec	2011	2012	2013	2014	2015	2016E	2017E	2018E
Sales (YoY)	18.8	2.6	4.5	24.9	17.1	12.1	12.5	10.0
EBITDA (YoY)	2.8	33.8	7.7	40.6	20.2	15.3	12.5	10.7
Operating profit (YoY)	1.7	52.4	14.9	54.9	22.7	16.7	13.1	11.1
Net profit (YoY)	(7.5)	17.3	36.5	34.6	37.3	11.5	15.2	10.3
Core EPS (fully-diluted) (YoY)	(10.2)	12.8	31.3	16.7	53.8	11.5	15.2	10.3
Gross-profit margin	16.2	18.8	19.5	20.5	21.1	21.7	21.8	21.9
EBITDA margin	8.1	10.5	10.8	12.2	12.5	12.9	12.9	13.0
Operating-profit margin	4.7	6.9	7.6	9.4	9.9	10.3	10.4	10.5
Net profit margin	4.0	4.6	6.0	6.5	7.6	7.6	7.7	7.8
ROAE	17.1	18.9	24.4	30.0	35.4	33.8	34.2	33.2
ROAA	6.9	7.9	10.8	13.2	15.7	15.8	16.7	16.9
ROCE	11.0	16.4	20.0	30.2	33.1	34.9	35.8	35.9
ROIC	9.5	13.8	17.5	23.3	28.3	29.3	29.5	30.1
Net debt to equity	40.9	22.9	11.9	13.3	2.6	5.0	2.3	n.a.
Effective tax rate	21.3	24.7	22.7	31.9	25.5	26.0	26.0	26.0
Accounts receivable (days)	31.1	27.6	27.1	27.9	28.1	27.2	26.9	27.2
Current ratio (x)	1.3	1.5	1.3	1.5	1.6	1.6	1.7	1.7
Net interest cover (x)	24.9	36.3	57.4	113.3	155.0	152.4	170.2	219.2
Net dividend payout	67.3	72.9	83.3	69.4	70.4	70.0	70.0	70.0
Free cash flow yield	1.3	2.9	3.3	3.0	4.5	3.0	4.2	5.2

Source: FactSet, Daiwa forecasts

## Company profile

Founded in 1971, Feng Tay manufactures sports shoes, casual shoes, and sports balls (particularly golf and soccer). Its major clients include Nike (82% of 2015 sales), Bauer (3.5%), Converse (3%), Salomon (2.5%) and others (9%).



## Still a weak tone in prepaid

DiGi's 1H16 results were within expectations. Prepaid trends were relatively weak but management is cautiously optimistic for a better operating environment in 2H16. Increasing competition in 2H16 is a key risk to earnings. Maintain HOLD with unchanged TP of RM4.80.

### 1H16 results within expectations

DiGi's 1H16 results were within our and consensus expectations as net profit of RM819m (-13.1% yoy) accounted for 47%/48% of full-year estimates respectively. DiGi declared a 2<sup>nd</sup> interim DPS of 5.4 sen (100% payout), bringing 1H16 DPS to 10.5 sen.

### Prepaid still a drag

DiGi's 2Q16 service revenue fell by 2.0% yoy to RM1.56bn, weighed down by weaker prepaid revenue (-6.7% yoy) due to lower IDD (international direct dialling) traffic usage levels and continued migration to postpaid plans. As prepaid still contributes the bulk (68%) of DiGi's revenue, the strong 9.8% yoy growth in 2Q16 postpaid revenue from steady postpaid subscriber growth (+17k qoq) and take-up of higher priced plans was not sufficient to mitigate the weakness in prepaid. DiGi's 2Q16 EBITDA margin fell by 1.0-ppt yoy to 43.5% due to the weaker topline and strong USD.

### Cautiously optimistic on 2H

Management is cautiously optimistic on the outlook for 2H16 and indicated that the operating environment for prepaid may improve as competition has shifted towards postpaid. In addition, management is recalibrating its IDD pricing and focusing on data monetisation. However, the impending entry of TM's webe, speculated to be generous postpaid plan, coupled with the new Yes postpaid plans, are risks to the good postpaid growth that DiGi has enjoyed for the past few quarters. In mitigation, DiGi has expanded its LTE population coverage to 76% as well as its sales channels. Besides that, while DiGi reaffirmed that its capex plans are unchanged, we believe it may spend less on capex in 2016 with a revised capex guidance of 13-14% of service revenue.

### Maintain HOLD with unchanged TP of RM4.80

We make no changes to our earnings forecasts at this juncture and maintain our DCF-derived (WACC 6.3% and LT growth 2.0%) 12-month TP of RM4.80. While we see DiGi as a beneficiary of the larger 900Mhz spectrum allocation which would improve its capex efficiency and network coverage in the medium term, we believe DiGi is still facing headwinds in growing its prepaid revenue due to the weak RM amid IDD price competition as it has the largest market share in the migrant market.

### Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	7,018.5	6,913.9	6,960.5	7,004.0	7,080.0
EBITDA (RMm)	3,163.5	2,982.3	2,958.8	2,996.8	3,007.6
Pretax profit (RMm)	2,645.2	2,308.7	2,349.8	2,356.2	2,379.5
Net profit (RMm)	2,031.1	1,722.5	1,762.5	1,766.8	1,795.9
EPS (sen)	26.1	22.2	22.7	22.7	23.1
PER (x)	18.2	21.4	21.0	20.9	20.6
Core net profit (RMm)	2,035.1	1,748.3	1,762.5	1,766.8	1,795.9
Core EPS (sen)	26.2	22.5	22.7	22.7	23.1
Core EPS growth (%)	19.3	(14.1)	0.8	0.2	1.6
Core PER (x)	18.1	21.1	21.0	20.9	20.6
Net DPS (sen)	26.0	22.0	22.7	22.7	23.1
Dividend Yield (%)	5.5	4.6	4.8	4.8	4.9
EV/EBITDA (x)	12.0	12.7	12.8	12.7	12.6

Chg in EPS (%)	-	-	-
Affin/Consensus (x)	1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Results Note

# DiGi.Com

DIGI MK  
Sector: Telecommunications

**RM4.75 @ 11 Jul 2016**

**HOLD (maintain)**

Upside 1%

**Price Target: RM4.80**

Previous Target: RM4.80



## Price Performance

	1M	3M	12M
Absolute	+3.9%	-2.1%	-14.1%
Rel to KLCI	+3.1%	+1.6%	-10.9%

## Stock Data

Issued shares (m)	7,775.0
Mkt cap (RMm)/(US\$m)	36,931.3/9,245.5
Avg daily vol - 6mth (m)	7.4
52-wk range (RM)	4.31-5.85
Est free float	22%
BV per share (RM)	0.07
P/BV (x)	65.8
Net cash/(debt) (RMm) (2Q16)	(1,058.7)
ROE (2016E)	256.9%
Derivatives	Nil
Shariah Compliant	Yes

## Key Shareholders

Telenor	49.0%
EPF	11.7%
PNB	6.7%

Source: Affin Hwang, Bloomberg

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## Premature cessation of Berantai RSC

SAKP and its partner Petrofac have reached a mutual agreement with PETRONAS for the cessation of Berantai RSC, effective 30 Sep 2016. As part of the arrangement, PETRONAS will reimburse SAKP and Petrofac for the outstanding capex and opex incurred, remuneration fees for the remaining concession period, and the cost of FPSO Berantai. We are cutting our FY17-19E core net profit to reflect the loss of earnings going forward, but are keeping our TP intact at RM1.36, as we expect the PETROANS compensation to be in line with our valuation for the Berantai RSC and FPSO. Maintain HOLD.

### Berantai RSC to cease, effective 30 Sep 2016

SAKP announced that the group and its partner, Petrofac Energy Developments, have reached a mutual agreement with PETRONAS for the cessation of the Berantai Risk Service Contract (RSC), effective 30 Sep 2016. In return, PETRONAS will reimburse all outstanding capex and opex incurred in the development of the field to the contractors (i.e., SAKP and Petrofac) by June 2017. As part of the arrangement, the ownership of the Berantai FPSO will be transferred to PETRONAS.

### Premature cessation of FPSO Berantai not a negative for SAKP

We understand that PETRONAS's compensation for the cessation of the Berantai RSC will cover: (1) outstanding capex and opex, (2) remuneration fees for the remaining concession period (until 2019), and (3) the cost of FPSO Berantai. As such, while the premature cessation will necessarily reduce the group's earnings going forward, we believe it will not negatively affect SAKP's intrinsic value, as the compensation includes an element of future profit. Instead, the early cessation is actually a positive for SAKP, in our view, as it will bring forward future cash flow that was originally supposed to accrue in 2016-2019 to the present time (i.e., June 2017).

### Maintain HOLD and TP of RM1.36

We cut our core net profit for FY17E by 24%, FY18E to a loss, and FY19E by 44%, to reflect the loss of earnings from the Berantai RSC. However, we have not accounted for the gains from the deemed disposal of the RSC assets in FY18, as the accountings for this are yet unclear; which means our FY18E headline net profit is currently understated. We keep our HOLD rating and SOTP-derived 12-month TP of RM1.36, assuming that the PETRONAS compensation will be in line with our valuation for the Berantai RSC and FPSO, at RM2.1bn.

### Earnings & Valuation Summary

FYE 31 Jan	2015	2016	2017E	2018E	2019E
Revenue (RMm)	9,943.0	10,184.0	7,864.7	7,126.2	8,132.2
EBITDA (RMm)	3,037.7	3,119.7	2,212.9	1,832.7	2,146.3
Pretax profit (RMm)	1,616.0	(712.6)	102.8	(133.7)	186.4
Net profit (RMm)	1,432.8	(791.6)	111.8	(107.5)	186.7
EPS (sen)	23.9	(13.3)	1.9	(1.8)	3.1
PER (x)	5.9	(10.7)	75.8	(78.9)	45.4
Core net profit (RMm)	1,165.5	785.8	111.8	(107.5)	186.7
Core EPS (sen)	19.5	13.2	1.9	(1.8)	3.1
Core EPS growth (%)	27.9	(32.4)	(85.8)	(196.1)	(273.7)
Core PER (x)	7.3	10.8	75.8	(78.9)	45.4
Net DPS (sen)	4.4	1.3	0.3	-	0.5
Dividend Yield (%)	3.1	1.0	0.2	-	0.3
EV/EBITDA (x)	7.5	7.7	10.1	11.9	10.0
Chg in EPS (%)	-	-	(24.3)	(395.1)	(43.6)
Affin/Consensus (x)	-	-	0.3	(0.3)	0.3

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Flash Note

# SapuraKencana

SAKP MK  
Sector: Oil & Gas

**RM1.40 @ 11 July 2016**

**HOLD (maintain)**

Downside 2.9%

**Price Target: RM1.36**

Previous Target: RM1.36



## Price Performance

	1M	3M	12M
Absolute	-14.6%	-23.1%	-41.2%
Rel to KLCI	-15.3%	-20.2%	-39.0%

## Stock Data

Issued shares (m)	5,992.2
Mkt cap (RMm)/(US\$m)	8389/2100.5
Avg daily vol - 6mth (m)	18.9
52-wk range (RM)	1.29-2.46
Est free float	24.7%
BV per share (RM)	1.98
P/BV (x)	0.71
Net cash/ (debt) (RMm) (1Q17)	15,003.5
ROE (2017E)	0.9%
Derivatives	Nil.
Shariah Compliant	Yes

## Key Shareholders

Sapura Holdings	16.7%
EPF	15.0%
Tan Sri Mokhzani Mahathir	10.1%

Source: Affin Hwang, Bloomberg

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# Gold sector

**Neutral**  
(unchanged)

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**Brexit boost**

▪ **Safe-haven status = Gold volumes to highest levels since April**

Gold's function as a safe haven asset amid increased uncertainties has recently re-emerged following the UK's decision to leave the EU, allowing gold prices to rise to USD1,323/toz, up 9% from its ytd average, with trading volumes up to 574,241 toz in June 2016, way above ytd average of 44,245 toz (exhibit 4). Note that in 1Q16, gold price had already closed at USD1,233/toz, up 17% q-q and was the best performing major asset class (exhibit 10), with gold demand having jumped 21% y-y to 1,289mt, the highest 1Q volume since 2013. This was supported by acceleration in gold investments (+122% y-y) despite slowing central bank buying (-3% y-y) and lack of jewellery demand (-19% y-y). Looking ahead, we expect gold demand to remain well supported due to Brexit.

▪ **UK likely to increase proportion of its gold to total reserves**

At this stage, our economist believes that GBP will have the lowest weighting in the IMF's special drawing rights composition (SDR) post CNY having entered the list in October 2016 (exhibit 8), limiting UK's ability to increase the country's debt through quantitative easing (the IMF estimates UK's 2015 net debt to GDP of 81%, US: 81%, Japan: 126%). Therefore, we expect the Bank of England (BoE) to increase its allocation to gold as a safeguard given increased uncertainties post Brexit. Currently, gold accounts for 9% of the UK's total reserves. After comparing the UK's gold holdings to its peers based on country's total reserves (exhibit 6) we believe, the UK's upcoming gold purchases could range from 318mt to 1,073mt if the UK were to decide to hedge current increasing uncertainty through higher gold reserves (exhibit 5).

**Outlook: Revise 2016 gold price assumption to USD1,300/toz**

Possibility of central banks deciding to increase gold purchases following the Brexit vote, coupled with improved outlook on India's demand due to new tax structure and upcoming wedding season, suggests increasingly greater gold demand in 2016. Furthermore, China's May gold imports jumped 68% m-m to its highest level in 2016 to 115mt, while India's gold bar imports spiked 46% m-m to around 50mt. Based on aforementioned factors, we revise up our 2016 average gold price assumption from USD1,100/toz to USD1,300/toz (current: USD1,360/toz; ytd average: USD1,219), implying USD1,377/toz gold average price for the rest of 2016.

**Recommendation: PSAB as our precious metal top-pick**

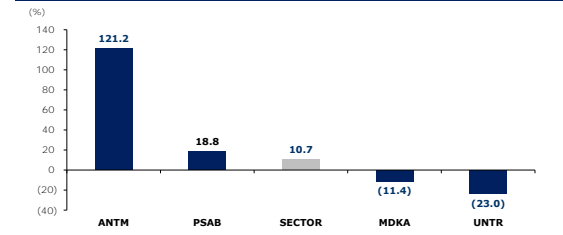
Stock wise, PSAB is our top pick as the company is already in producing phase with expected gross margin expansion to 54% from 52% following gold price appreciation. On PSAB, we cut our earnings forecasts (exhibit 13) due to lower production volumes, but the stock remains a BUY, and we increase our DCF-based 12M TP to IDR413 (from IDR280) on better price outlook. We also reiterate BUY on gold exploration companies UNTR and MDKA on better gold price outlook. For ANTM, we raise our earnings forecasts on higher gold earnings contribution and expect additional 60mt gold refinery revenue derived from Freeport Indonesia's anode slime project in Gresik starting 2018. As such, we upgrade ANTM to HOLD (from Reduce) with a new TP of IDR680 (from IDR207). Risk to our sector call is lower gold prices.

**Exhibit 1. Stock coverage**

Ticker	Market cap (USDmn)	Rating	Current prices (IDR)	Target prices (IDR)	(%)
UNTR	3.1	BUY	14,800	18,300	24
ANTM	1.3	HOLD	715	680	(5)
PSAB	0.7	BUY	356	413	16
MDKA	0.5	BUY	1,980	2,200	11

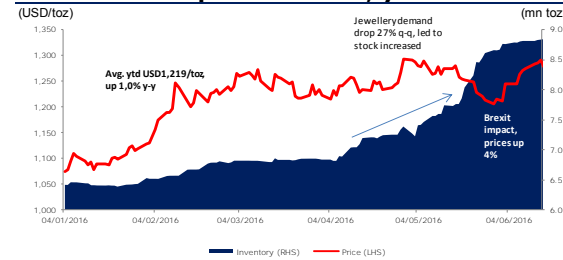
Source: Bloomberg, Bahana estimate

**Exhibit 2. Gold relative to JCI, ytd**



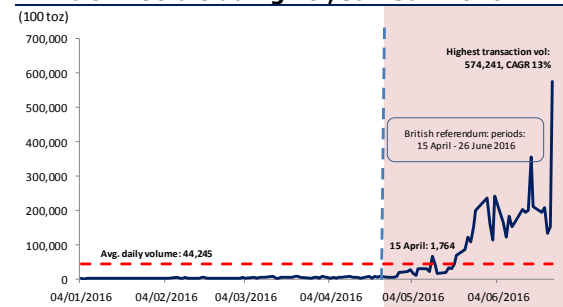
Source: Bloomberg

**Exhibit 3. Gold prices & stock, ytd**



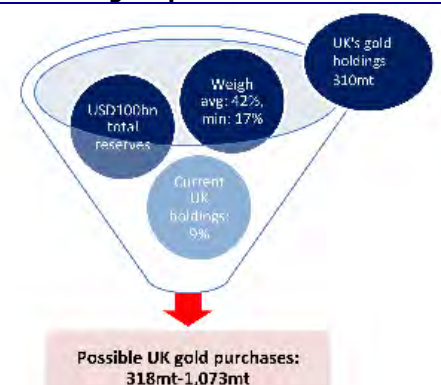
Source: Bloomberg

**Exhibit 4. Gold trading vol, Jan-Jun 2016**



Source: Bloomberg, Bahana

**Exhibit 5. UK gold purchases scenario**



Source: World Gold Council, Bloomberg, Bahana

Disclosure: Bahana Securities does and seeks to do business with companies covered in its research reports. Investors should consider this report as only a single factor in making their investment decision.

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# Indonesia market update: Politics

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**Important developments**

Over the Lebaran break, some important political developments have emerged with the resurfacing of the cabinet reshuffle issue, the creation of two Special Staffs by Jokowi post the occurrence of the Solo bombing, the appointment of Tito Karnavian as Police Chief and the demise of the Election Committee (KPU) head. From the parliament front, cancellation of the KPK law discussion this year also materialized.

**Reports of cabinet reshuffle are rife, despite denials from the palace:**

Media reports are rife about a possible cabinet reshuffle post the Lebaran holiday (exhibit 2 & 4) with changes including, but not limited to: Rini Soemarno being moved to Presidential Staff while Hendri Saparini, current Telkom commissioner, is being talked about to take over the SOE minister position. On the other hand, current presidential staff Teten Masduki is expected to be the new Agrarian Affairs Minister while Golkar's politician Agus Marham to be Minister of Transmigration and PAN's politician Mulfachri Harahap for Minister of Administrative and Bureaucratic Reforms. However, the palace has denied these rumors. At this stage, we only consider possible changes in the SOE Minister post as significant as policy on state-owned enterprises could affect the government's economic plans and direction.

**Solo bombing, followed by formation of new Special Staffs by Jokowi:**

A day prior to Lebaran, a bomb exploded in Solo, near a police office (exhibit 8) with the National Intelligence (BIN) Chief, Sutiyoso, and the police suspecting ISIS as the mastermind. While only the bomber was killed, Indonesia has never seen terrorism during Ramadhan. This should serve as a warning for BIN to maintain national stability ahead. It is interesting that the bombing had occurred ahead of a possible new BIN head as a political compromise. With Sutiyoso reportedly unwilling to relinquish his post to Budi Gunawan, this political jostling is worth watching, in our view. Following this Solo terrorism, Jokowi has decided to appoint two Special Staff: Gories Mere for Intelligence and Diaz Hendropriyono for Social Affairs (exhibit 3 & 5).

**Temporary Election Committee (KPU) Chief:** On 7 July, the Election Committee (KPU) Chief, Husni Kamil Malik, passed away. We see this as important given a significant number of regional elections at the end of this year. Our discussions with the government indicate that Ferry Kurnia Rizkiyansyah (exhibit 6) may be the possible replacement. On the KPU, we note that the current committee's tenure will end in 2017 and historically, we have never had re-elected KPU members (exhibit 7). That said, the fate of Indonesia's 2019 first simultaneous parliament-presidential elections and electronic-based elections will hinge on the next KPU committee.

**Inauguration of New Police Chief:** On 14 July, Jokowi is expected to inaugurate Tito Karnavian as Indonesia's new police chief with Syafrudin and Lutfi Lubihanto as possible candidates for the Vice Police Chief (exhibit 1). If Lutfi, another young generation within the police force, is appointed for the post, it would be interesting to see how the two would work together with their police seniors in maintaining national security on the ground.

**Exhibit 1. New Police Commander**

Police Chief:  
Komjen. Pol. Tito Karnavian



Prospected Police Vice Chief:

Komjen. Pol. Lutfi Lubihanto

Komjen. Pol. Syafrudin



Source: Tempo

**Exhibit 2. Recent news on reshuffle**



Source: Detik, Berita Satu

**Exhibit 3. Jokowi's new Special Staffs**



Source: Detik

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# Indonesia economy: Inflation & PMI update

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## On the cards: 75bp rate cuts

- CPI below our expectation on manageable staple prices:** June consumer price index (CPI) came in below our (+0.80% m-m; +3.60% y-y), but above consensus (+0.54% m-m; +3.40% y-y) expectations. CPI rose 0.66% m-m (+3.45% y-y), but was significantly lower than last year's Ramadhan-related inflation (July 2015: 0.93% m-m) supported by smaller staple foods inflation at +1.62% m-m (July 2015: -2.02%) on onions and tomatoes, while other components are still on the rise with clothing at +0.70% m-m (July 2015: 0.39% y-y) and processed foods at +0.58% m-m (July 2015: +0.51%) (exhibit 3). On a y-y basis, the CPI rose +3.45% (May: +3.33%), lower than last year's Ramadhan level of 7.26%.
- WPI up following June's higher oil prices:** The non-oil & gas WPI rose 0.97% m-m and 11.54% y-y (May: +1.23% m-m; +11.39% y-y), with the domestic WPI up 1.44% m-m and 13.46% y-y (May: +0.43% m-m; +13.55% y-y) (exhibit 6). On the domestic side (exhibit 7), the agriculture WPI was up 2.58% m-m and 53.43% y-y (May: +0.25% m-m; +56.97% y-y), followed by the manufacturing WPI, which was up 1.19% m-m and 3.69% y-y (May: +0.52% m-m; +3.24% y-y), while the mining WPI fell 1.38% m-m (-2.50% y-y) (May: +0.12% m-m; -1.42% y-y). The non-oil & gas import WPI was at +0.41% m-m and 4.25% y-y (May: +0.25% m-m; +4.62% y-y), in line with non-oil & gas exports which were down 0.54% m-m and 9.93% y-y (May: +5.49% m-m; 8.50% y-y).
- Record high PMI in June supported by solid local demand:** On 1 July, Markit announced that Indonesia's June PMI increased 1.3ppts to 51.9 from 50.6 in May (exhibit 9), suggesting improvements on the production side. On the pricing front, input cost inflation was the highest in six months, but output prices only increased mildly. June data also indicated that the manufacturers had ample available capacity despite rising new orders. Furthermore, Markit saw uptrends in output prices, as businesses require greater input for production, increased purchases as well as escalation in new hires. Externally, new overseas orders decreased in June (exhibit 10), suggesting continued subdued global demand.

## 4.50% 7-D reverse repo rate & 10-yr govt bond yield target of 6.50%

Core inflation dropped to 3.49% y-y during the Lebaran period and was the lowest reported since 2010 (exhibit 4), impacted by continued muted local demand, imported low inflation and below-capacity economic growth. We believe this will encourage BI to continue its loosening cycle. Recent changes in global market and accommodative monetary policy post-Brexit already triggered 10-yr US T-bills yield to record a low at 1.36%, with a wider real-yield spread between Indonesia and the US (exhibit 5). The last time a low US T-bills yield occurred was in 2012 (exhibit 11) when Indonesia's inflation was around 4% with the BI rate at a low of 5.75%. We believe this condition should be favourable for further capital inflows and limited currency depreciation risk going forward. Hence, we revise down our interest rate forecast with the 7-day reverse repo rate at 4.50% at year-end (previously 5.0%), translating to a lower 10-yr government-bond yield target of 6.50% at year-end (previously 7.0%) from the current level of 7.2% (exhibit 12).

## Exhibit 1. Macroeconomic forecasts

	2014A	2015A	2016F	2017F
Cur acc (% GDP)	-3.0	-2.1	-2.3	-2.3
Fiscal bal (% GDP)	-2.3	-2.6	-2.7	-2.5
GDP growth(% y-y)	5.0	4.8	5.1	5.2
Inflation (% y-y)	8.4	3.3	3.9	4.5
Oil price (USD/bbl)	57.3	30.9	35.0	50.0
Oil price (USD/bbl)*	99.5	51.6	35.0	50.0
IDR/1USD	12,385	13,788	14,000	13,500
BI rate (% p.a.)	7.75	7.50	5.75	5.75
7-D Rev. Repo Rate	-	-	4.50	4.50
FX reserves (USDbn)	111.9	105.0	105.0	112.0

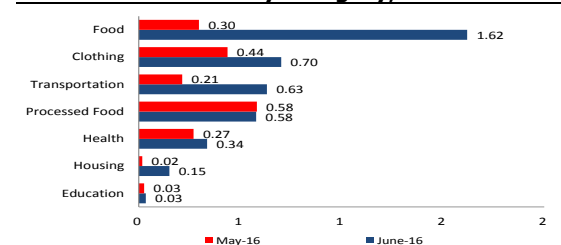
Source: BI, BPS, Bahana estimate, \*Average Brent oil price

## Exhibit 2. Inflation breakdown

	Jun-16	BS	Cons.	May-16
Inflation (% m-m)	0.66	0.80	0.54	0.24
Inflation (% y-y)	3.45	3.60	3.40	3.33
Inflation (% y-t-d)	1.06	-	-	0.40
Core infl (% m-m)	0.33	-	-	0.23
Core infl (% y-y)	3.49	-	3.42	0.03
Administered (% m-m)	0.72	-	-	0.27
Volatile (% m-m)	1.71	-	-	0.32
Administered (% y-y)	-0.50	-	-	-0.95
Volatile (% y-y)	8.12	-	-	8.15

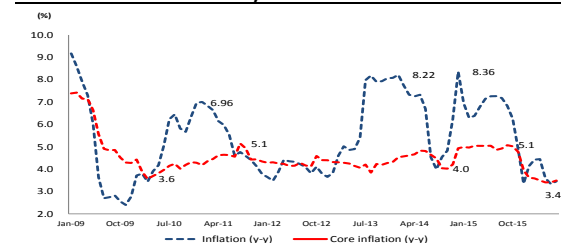
Source: BPS, Bloomberg, Bahana estimate

## Exhibit 3. Inflation by category, % m-m



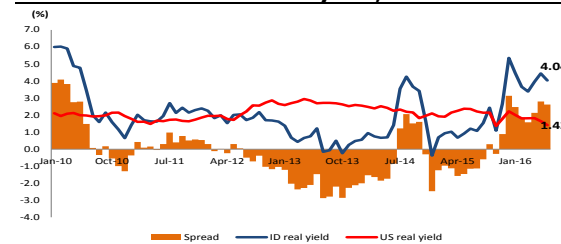
Source: BPS, Bahana

## Exhibit 4. Inflation, 2009-2016



Source: Statistics Indonesia

## Exhibit 5. ID & US bonds yield, Jan 10-Jun 16



Source: Bloomberg, Bahana

# China Property

## Tightening policies being rolled out in more cities

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**What's new:** On 9th July, Xiamen Land and Resources and Real Estate Management Bureau issued a notice to adjust housing mortgage policies in Xiamen, effective from 15th July.

Regarding commercial mortgage policies:

1. The mortgage downpayment for families with no homes and no mortgage records in Xiamen will be 25%.
2. The downpayment for families that own homes but have no mortgage records or have already paid off their only outstanding mortgage record will be 30%.
3. The downpayment for families with one mortgage record that has not been paid off or with two or more mortgage records that have been paid off will be raised from 40% to 60%.
4. Families with two mortgage records or more that have not been paid off are not subject to commercial mortgage application.

Regarding housing provident fund (HPF) mortgage policies

1. The mortgage downpayment for families applying for HPF mortgage for the first time will be at least 20%, while the mortgage rate will be in-line with the benchmark HPF borrowing rate.
2. The downpayment for families applying for HPF mortgage for the second time will be at least 50%, while the mortgage rate will be 1.1x the benchmark HPF borrowing rate.
3. HPF mortgage will be suspended for families applying for HPF mortgage for the third time and above.

### Changes in commercial mortgage downpayment requirements in Xiamen

Scenario 1			Scenario 2			Scenario 3		
Now	Least strict	Strictest	Now	Least strict	Strictest	Now	Least strict	Strictest
25%	20%	30%	30%	20%	60%	60%	40%	Mortgage suspended

\*Least strict is after mortgage downpayment requirement for first and second homes were lowered in early-February 2016 nationwide (except the cities with home purchase restrictions in place)

\*\*Strictest is after mortgage downpayment requirement for second homes were raised to 60% in January-2011.

**Our view:** The higher mortgage downpayment requirements in Xiamen did not come as a surprise. Given the buoyant market sentiments towards property and land purchases in many tier-2 cities and a few tier-3 cities, we think some measures to cool down the market and to bring in a larger degree of rationalism are to be expected. Before Xiamen raised downpayment requirements, some other cities (i.e. Suzhou, Nanjing, Shenzhen, Shanghai, Langfang, etc.) had already rolled out tightening measures in the past months. (see below table on tightening policies)

Our read is that these tightening measures are not aimed primarily at engineering a major correction in the market to bring down prices to a very affordable level for the emerging middle class. Instead, we see them as measures for ensuring that the China residential property market would not become so "hot" that it would begin to get out of control. Overall, our view is that the Chinese government will continue to adopt measures to ensure that the China residential property market would remain in a healthy shape. We believe that the cities that have seen major home price increases in the past year are more likely to introduce tightening measures and some of these cities include Wuhan, Dongguan, Hefei, Huizhou, etc. (see below table on new home prices)



We reaffirm our Positive stance on the China property sector as we believe that a rational adjustment in the sector is underway, and our read is that these measures are primarily for ensuring that the China residential property sector would return to a more healthy and sustainable path. We suggest investors to stick to the quality China developers that are able to find a business model which can drive a sustained growth in their profits and our top picks are COLI (688 HK, HKD25.35, Buy [1]), CR Land (1109 HK, HKD18.46, Buy [1]) and Longfor (960 HK, HKD10.00, Buy [1]). Key risk is a major deterioration in the China economy.

**New home prices in our tracked cities**

(CNY/sqm)	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	MoM	YoY
<b>Tier-1 cities</b>								
Beijing	35,086	35,160	35,456	36,175	36,810	37,533	2.0%	14.7%
Shanghai	37,062	37,144	39,035	39,394	40,144	40,612	1.2%	20.4%
Guangzhou	17,158	17,268	17,346	17,519	17,780	17,875	0.5%	4.2%
Shenzhen	44,823	47,248	48,963	50,354	51,361	52,373	2.0%	52.0%
	<b>33,532</b>	<b>34,205</b>	<b>35,200</b>	<b>35,861</b>	<b>36,524</b>	<b>37,098</b>	<b>1.6%</b>	<b>25.7%</b>
<b>Tier-2 cities</b>								
Hangzhou	16,278	16,410	16,453	16,504	17,034	17,244	1.2%	8.2%
Nanjing	15,036	15,323	15,807	16,554	17,205	17,863	3.8%	28.1%
Ningbo	12,137	12,013	12,123	12,163	12,358	12,463	0.8%	1.6%
Suzhou	12,721	13,428	14,205	14,985	15,031	15,302	1.8%	26.8%
Wuxi	8,343	8,420	8,392	8,515	8,861	8,980	1.3%	9.1%
Fuzhou	12,151	12,008	12,086	12,116	12,240	12,440	1.6%	-5.8%
Xiamen	22,445	22,243	22,562	23,847	25,242	26,199	3.8%	21.6%
Jinan	8,491	8,530	8,585	8,683	8,724	8,842	1.4%	2.6%
Qingdao	8,650	8,686	8,727	8,780	8,809	8,828	0.2%	-1.4%
Tianjin	11,021	11,029	11,241	11,572	11,803	12,017	1.8%	13.2%
Taiyuan	7,126	7,146	7,034	7,029	7,028	7,096	1.0%	1.3%
Chengdu	7,720	7,647	7,597	7,538	7,549	7,559	0.1%	-4.5%
Chongqing	6,964	6,977	7,000	7,055	7,121	7,167	0.6%	2.1%
Xi'an	6,406	6,417	6,446	6,476	6,508	6,564	0.9%	-1.9%
Changchun	6,707	6,593	6,659	6,790	6,777	6,829	0.8%	0.1%
Dalian	10,111	10,084	10,091	10,115	10,141	10,104	-0.4%	-4.7%
Harbin	7,109	7,145	7,097	7,075	7,087	7,167	1.1%	-0.3%
Shenyang	7,137	7,066	6,983	7,009	7,027	6,979	-0.7%	-3.0%
Changsha	6,217	6,290	6,336	6,312	6,416	6,524	1.7%	2.5%
Wuhan	9,051	9,113	9,149	9,443	9,659	9,910	2.6%	20.0%
Dongguan	10,157	10,582	11,293	11,741	12,167	12,430	2.2%	37.3%
Hefei	8,026	8,202	8,506	8,581	9,075	9,310	2.6%	24.1%
Shijiazhuang	7,290	7,292	7,376	7,408	7,583	7,615	0.4%	8.5%
Zhengzhou	9,531	9,569	9,606	9,597	9,667	9,767	1.0%	7.0%
Nanchang	8,849	8,863	8,818	8,916	9,190	9,261	0.8%	5.2%
Kunming	7,644	7,574	7,510	7,556	7,598	7,618	0.3%	-4.2%
Nanning	7,336	7,272	7,307	7,264	7,325	7,373	0.7%	0.5%
	<b>9,654</b>	<b>9,701</b>	<b>9,814</b>	<b>9,986</b>	<b>10,194</b>	<b>10,350</b>	<b>1.5%</b>	<b>8.6%</b>
<b>Tier-3 cities</b>								
Xuzhou	5,735	5,876	5,933	5,788	5,820	5,893	1.3%	3.3%
Zhongshan	6,200	6,549	6,821	7,215	7,437	7,590	2.1%	26.5%
Jilin	5,215	5,121	5,097	5,053	5,071	5,064	-0.1%	-7.8%
Ganzhou	6,098	6,146	6,169	6,166	6,270	6,203	-1.1%	6.8%
Guilin	4,955	4,998	4,963	4,985	4,950	4,879	-1.4%	-2.3%
Guiyang	4,508	4,486	4,472	4,530	4,551	4,549	0.0%	-3.6%
Hohhot	6,432	6,449	6,473	6,469	6,531	6,526	-0.1%	-1.8%
Lanzhou	7,226	7,215	7,177	7,288	7,332	7,491	2.2%	7.4%
Quanzhou	7,521	7,450	7,282	7,288	7,303	7,368	0.9%	-3.9%
Xining	5,900	5,892	5,856	5,830	5,888	5,888	0.0%	-1.0%
Yinchuan	4,807	4,812	4,893	4,886	4,883	4,884	0.0%	-3.4%
Huizhou	7,237	7,323	7,766	8,255	8,466	8,619	1.8%	35.9%
Nantong	8,267	8,214	8,209	8,197	8,415	8,456	0.5%	4.4%
Shantou	8,563	8,479	8,567	8,580	8,537	8,497	-0.5%	5.1%
Wenzhou	13,230	13,488	13,693	13,955	14,130	14,629	3.5%	13.3%
Changzhou	7,007	6,889	7,094	7,184	7,255	7,353	1.4%	1.2%
	<b>6,806</b>	<b>6,837</b>	<b>6,904</b>	<b>6,979</b>	<b>7,052</b>	<b>7,118</b>	<b>0.9%</b>	<b>5.7%</b>
<b>100 city-average</b>	<b>11,026</b>	<b>11,092</b>	<b>11,303</b>	<b>11,467</b>	<b>11,662</b>	<b>11,816</b>	<b>1.3%</b>	<b>11.2%</b>

Source: CREIS, Daiwa

**Tightening property policies in various cities in recent months**

Date	Government body/Province/City	Policy
18-Mar-16	Suzhou government	Suzhou government issued a document which includes ten tightening measures over the property market, including 1) the strengthening of management of pre-sales permits: the application of pre-sales permits has to be for at least 30,000sqm within a project and the units with pre-sales permit have to be sold within 10 days, 2) the ASPs for the same batch of units to be sold have to be publicly announced and the actual ASPs cannot be higher than the announced ASPs. These ASPs cannot be raised within 3 months and can only be raised by within 6% in 6 months and by 12% in 12 months, 3) the inspection of illegal financial activities, downpayment loans and other high-leverage financing by P2P, micro-lending companies and home purchases by crowd-funding.
25-Mar-16	Shanghai government	Shanghai government released tightening measures: 1) social insurance/personal income tax payment requirement wanting to purchase flats raised to 5 years from 2 years, 2) for families that already own one housing unit and want to purchase another ordinary unit for upgrading purposes, the minimum mortgage downpayment requirement will be 50%. The minimum downpayment requirement for non-ordinary housing units would be 70%, 3) These downpayment requirements apply regardless of whether or not the families have already paid off outstanding mortgages, 4) homebuyers are to affirm during the mortgage application process that the downpayment is being funded by self-owned capital.
25-Mar-16	Shenzhen government	The more significant tightening measures released by the Shenzhen government include: 1) for families that do not own a housing unit in Shenzhen and do not have mortgage records in recent 2 years, the minimum mortgage downpayment will be maintained at 30%. For families that do not own a unit in Shenzhen but have mortgage records in recent 2 years or for families that already own a unit in Shenzhen but have paid off the outstanding mortgage, the minimum mortgage downpayment will be 40%, 2) families with Shenzhen "hukou" are restricted to purchasing 2 housing units in Shenzhen. Non-local families that can provide proof of 3 consecutive years and above of social insurance/personal income tax payment are restricted to purchasing 1 housing unit, 3) the restriction on financial institutions like internet finance corporations and micro-lending companies from participating in downpayment loans, bridge loans and crowd funding businesses.
28-Mar-16	Nanjing Branch of The People's Bank of China, Jiangsu Office of the China Banking Regulatory Commission	Among the tightening measures introduced in Nanjing, the more important ones are: 1) families purchasing ordinary housing units for the first time are subject to first home mortgage policies, but families with mortgage records would not be considered first-time ordinary housing buyers, 2) housing mortgage loans cannot be released to home buyers that borrowed downpayment loans through real estate agencies, P2P and micro-lending companies, 3) banks and financial institutions are to suspend or strictly control cooperation with developers that market their projects using zero-downpayment and downpayment installment campaigns.
1-Apr-16	Hefei government	Some of the tightening property policies released in Hefei include: 1) urban areas are to increase their residential land supply by 15% YoY in 2016, 2) areas with high commodity housing ASPs and fluctuating ASPs are to increase residential land supply while areas with high housing inventory are to decrease or suspend land supply, 3) investigate on marketing activities which promoted the selling of housing units together with car park spaces.
2-Apr-16	Langfang government	According to the issued document, non-local families are restricted to purchasing one housing unit and the minimum downpayment requirement is 30%. Moreover, P2P, micro-lending and real estate agencies are banned from participating in downpayment loan, bridge loan and crowd-funding businesses.
25-Apr-16	Nanjing Municipal Commission of Development and Reform	The more important measures introduced include guidance on commodity ASPs: at its 6 main districts plus Jiangning and Pukou, commodity housing projects with a declared ASP of below CNY20,000/sqm, the annualized increase should not go over 12%. For projects with declared ASP of CNY20,000-30,000/sqm, the annualized increase should not go over 10%. For projects with ASPs of over CNY30,000/sqm, the annualized increase should not be over 8%. Other measures include encouraging corporates to speed up the launch of ordinary commodity housing projects, effectively increasing the supply of small/medium-sized units, strengthening the investigation on the funding source of mortgage downpayment, etc.
5-May-16	Beijing Municipal Commission of Housing and Urban-Rural Development and Tongzhou District Government	Purchases of serviced apartments, commercial and office projects in Tongzhou District in Beijing are restricted. The requirements for families to be able to purchase serviced apartments in Tongzhou include: 1) local families or individuals that do not own homes in Beijing, 2) local families that own 1 home in Beijing, 3) non-local families that do not own homes in Beijing and have paid 5 consecutive years of social insurance/personal income tax.
18-May-16	Suzhou Ministry of Land and Resources	Starting from 23-May-16, a ceiling will be set on the land premium of land plots to be sold. Once the quoted land premium goes over the set ceiling, the land auction/bidding will be suspended and the auction/bidding results will be void.
24-May-16	Nanjing government	The city will limit the highest bidding price developers can offer in land auctions by setting a highest ceiling price for residential land plots. If the bids go above that price, the land auction will end.
7-Jul-16	Sanhe, Langfang	Starting from 7-Jul-16, secondary homes in Sanhe will be subject to purchase restrictions. Non-local families will be restricted to purchasing one secondary home and the mortgage downpayment cannot be below 30%.
9-Jul-16	Xiamen Land and Resources and Real Estate Management Bureau	Starting from 15-Jul-16, the housing mortgage policies in Xiamen will be adjusted. The commercial mortgage downpayment for families with no homes and no mortgage records in Xiamen will be 25%. The mortgage downpayment for families that own homes but have no mortgage records or have already paid off their only outstanding mortgage record will be 30%. The mortgage downpayment for families with one mortgage record that has not been paid off or with two or more mortgage records that have been paid off will be raised from 40% to 60%. Families with two mortgage records or more that have not been paid off are not subject to commercial mortgage application.

Source: Government bodies, Daiwa

In the interests of timeliness, this document has not been edited.

# Beijing Capital International Airport (694 HK)

Share price (8 Jul): HKD8.40

12-mth rating: Hold (3)

Target price: HKD8.10

## International traffic picks up a bit, domestic remains flat

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### What's new

- BCIA announced June operating data. Domestic traffic remains weak while international passenger traffic improved a bit compared to last month.

### Highlights

- Moderate performance in aircraft movements** – BCIA recorded aircraft movements of 48,206 in June, down -0.4% YoY. By segment, aircraft movements for domestic air routes decreased by 1.7% YoY, while aircraft movements for international, Hong Kong, Macau and Taiwan air routes rose by 4.2% YoY. For the first 6 months, BCIA's total aircraft movements expanded by 2.2% YoY, reaching 297,718, slightly better than our forecasts of a 1% YoY increase (flat YoY for domestic and 4% YoY increase for international).
- Passenger throughput growth dragged down by domestic routes** – The company registered passenger throughput of 7,520,000 in June, up 2.7% YoY. The passenger throughput of domestic routes increased by 0.6% YoY, and its passenger throughput growth for international, Hong Kong, Macau and Taiwan routes reverted to a relative high level of 8.7% YoY comparing to last month (vs 2.5% in May and 12.4% YTD). For 1H16, BCIA's total passenger throughput was 45,596,000, rising by 3.5% YoY, slightly better than our forecast of 3% YoY (1% YoY increase for domestic and 9% YoY for international).

### Recommendation

- The overall June data showed weak growth for both domestic aircraft movements and domestic passenger traffic. We reiterate our Hold (3) rating on the stock with a DCF-based 12-month target price of HKD8.1. Key risk to our call would be higher- or lower-than-expected passenger throughput growth.

### BCIA: June operating data

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	YTD
Aircraft Movements	50,174	46,936	51,086	50,129	51,184	48,208	297,718
Passenger throughput	7,537,000	7,182,000	7,724,000	7,826,000	7,805,000	7,520,000	45,596,000
YoY%	Jan-15	Feb-15	Mar-15	Apr-16	May-16	Jun-16	YTD
Aircraft Movements	1.6%	3.1%	1.0%	2.7%	5.4%	-0.4%	2.2%
Domestic Routes	-0.6%	0.7%	-0.4%	2.2%	5.9%	-1.7%	1.7%
International & HK, Macau & Taiwan Routes	9.6%	11.7%	6.1%	4.3%	3.7%	4.2%	6.5%
Passenger throughput	8.0%	2.8%	0.3%	2.9%	4.4%	2.7%	3.5%
Domestic Routes	4.1%	0.5%	-1.7%	0.0%	5.0%	0.6%	0.6%
International & HK, Macau & Taiwan Routes	20.9%	9.9%	7.2%	12.2%	2.5%	8.7%	12.4%

Source: Company, Daiwa

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## BYD (1211 HK)

Share price (7 Jul): **HKD46.4**

12-mth rating: **Outperform (2)**

Target price: **HKD50.0**

### Wins bids for commercial vehicles

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**What's new**

- BYD disclosed that its subsidiary, BYD Auto Industry Co., Ltd., has recently participated in the bidding in relation to the acquisition of 2,919 new energy vehicles by Shenzhen Western Bus Co. Ltd. in 2016. As the results of the bidding show, the subsidiary was recognized as the winning bidder on the list. Also, the subsidiary received a Notice of Successful Bid from Shenzhen Western Bus Co. Ltd., comprising 832 new energy vehicles for another earlier bidding that took place year (Shenzhen Western Bus Bidding in January 2016).

**Analysis**

- **Strong demand for BYD's commercial vehicles so far this year** - The order for 2,919 new energy vehicles has a contract value of ca. CNY1.8bn, excluding national and municipal government subsidies, while the order for 832 new energy vehicles has a contract value of ca. CNY192m, excluding national and municipal government subsidies. Also, in the bidding for Shenzhen Eastern Bus as reported this April, BYD has won domestic orders for 6,775 new energy vehicles in total, for a total contract value of ca. CNY3.8bn. As a result of these wins, the company should be on track to hit their target of 10,000-13,000 deliveries in 2016.
- **Overseas orders proving BYD's competitiveness in the global market** - BYD has also received a number of overseas orders for its commercial vehicles this year from the US, Indonesia and Canada. In our view, the high product quality and good reputation of its EV commercial vehicles are helping BYD to gain more orders globally.

**Recommendation**

- We see the rise in BYD's commercial-vehicle sales volumes coming mainly from its high quality products and improving brand acceptance. We remain positive on China's NEV sales and see BYD as the best proxy to participate in this growing market segment. We have an Outperform (2) rating on BYD and a SOTP-based 12-month target price of HKD50.0. Key risk to our call would be weaker-than-expected new-car sales, especially in the NEV segment, for BYD.

**2016 BYD's announced electric bus/truck orders**

Month	Numbers of Vehicles	Customer	Region of Customer	Estimated Contract Value	Delivery Schedule
Feb	29	AVTA (Los Angeles)	California - US	USD72.4m	To be delivered within next 12 months
Mar	150	Transjakarta	Jakarta - Indonesia	n.a.	Delivered since December 2016 and to be fully delivered by end-2017
Apr	3,024	Shenzhen Eastern Bus	Shenzhen - China	CNY1.8bn	n.a
May	200	Municipality of St.Albert	St. Albert - Canada	USD160m	To be delivered from August/September 2016
June	27 (Trucks)	Fund of San Bernardino County	California - US	USD9.1m	n.a
June	8 (Trucks)	Operators of California ports	California - US	USD23.6m	n.a
July	2,919	Shenzhen Western Bus	Shenzhen - China	CNY1.8bn	n.a
July	832	Shenzhen Western Bus	Shenzhen - China	CNY192m	n.a

Source: Company, GGLB, Gasgoo, xcar

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# China State Construction International (3311 HK)

Share price (8 Jul): **HKD9.93**

12-mth rating: **Buy (1)**

Target price: **HKD15.00**

## June 2016 operating data: new contract growth still solid

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### What's new

- CSCI reported 1H16 new contract wins after market close on 8 July. Its YTD-June new contract value reached HKD43.0bn, up 16.7% YoY. We believe the fundamentals of the company remains solid, while the recent share price sell-off is overdone. We see the current share price as an attractive entry level for investors.

### Analysis

- **New contract value growth remains strong** – CSCI registered new contract value wins of HKD43bn for 1H16, up by 16.7% YoY. For June 2016 alone, the company won HKD6.3bn in new contracts.
- **PRC infrastructure was the major driver** – The company's PRC infrastructure segment won new contracts worth HKD3.8bn, leading its growth in June. The key project wins in June included an infrastructure Public-Private-Partnership (PPP) project in Changsha Bonded Area, Hunan Province with an attributable contract value of HKD3.1bn. This project includes construction work of a port, customs house, office and related property, play, warehouse and municipal road. The relocation housing project in Hefei Economic Development Area, Anhui Province was another important project which contributed about HKD0.7bn of new contract value. For 1H16, the new contract wins of CSCI's PRC infrastructure segment grew by 32.5% YoY. For the remainder of 2016, we believe this segment should continue to lead the company's new contract growth.
- **Macau as another driver in June** – The company's Macau segment contributed HKD1.3bn worth of new contract value in June. The major project was the transportation junction construction project in Barra with an attributable contract value of HKD0.6bn. Meanwhile, only minimal new contract was awarded for its HK cash construction segment.
- **Year-end new contract value win target may be revised up, in our view** – CSCI's 1H16 new contract wins reached HKD43bn, achieving 55.1% of the company's full year guidance of HKD78bn. We believe the company is likely to revise up its new contract value target during its interim results announcement, in line with the common practice adopted by the company in the previous years.

### Recommendation

- CSCI's 1H16 new contract value growth is well on track and is in line with our expectations. Our recent talks with management suggest the company's fundamentals remain solid (To see our recent update: Worth a revisit, 20th June, *please [click here](#)*). We see the recent market sell-off due to its acquisition of China Overseas Building from its parent company as overdone. We expect the possible new contract growth revision, delivery of strong net profit growth and future asset injection to regain investors' interest in the stock and serve as share price catalysts. We also see its current valuation of 8x 2016E PER as an attractive entry level. Hence, we maintain our BUY (1) call on the stock with a 12-month target price of HKD15.0, based on 2016E PER of 12x. The major risk to our call would be an unexpected slowdown in government-infrastructure construction projects.



**CSCI Operating Data**

(HK\$ billion)						
<b>New contract awarded</b>						
<b>YTD</b>	<b>31-Jan-16</b>	<b>29-Feb-16</b>	<b>31-Mar-16</b>	<b>30-Apr-16</b>	<b>31-May-16</b>	<b>30-Jun-16</b>
Infrastructure Investment	2.38	8.86	12.94	16.47	19.23	23.02
Cash Construction & Related	5.46	6.72	7.37	12.27	16.69	18.12
Others (incl. PRC )	0.19	0.22	0.23	0.24	0.24	0.37
Hong Kong	4.16	5.39	5.40	10.29	11.99	12.00
Macau	1.11	1.11	1.74	1.74	4.46	5.75
Far East Global*	-	-	0.77	0.77	0.77	1.85
Total	7.84	15.58	21.08	29.51	36.69	42.99
<b>Project in progress (Total Value)</b>						
<b>as of</b>	<b>31-Jan-16</b>	<b>29-Feb-16</b>	<b>31-Mar-16</b>	<b>30-Apr-16</b>	<b>31-May-16</b>	<b>30-Jun-16</b>
Infrastructure Investment	119.24	125.71	129.79	130.83	133.59	137.37
Cash Construction & Related	80.92	82.19	82.83	87.69	92.11	93.52
Others (incl. PRC )	2.57	2.60	2.60	2.62	2.62	2.75
Hong Kong	58.96	60.20	60.20	65.06	66.74	66.74
Macau	19.39	19.39	20.03	20.01	22.75	24.03
Far East Global*	6.39	6.39	6.98	6.98	6.98	8.07
Total	206.55	214.29	219.60	225.50	232.68	238.96
<b>Backlog</b>						
<b>as of</b>	<b>31-Jan-16</b>	<b>29-Feb-16</b>	<b>31-Mar-16</b>	<b>30-Apr-16</b>	<b>31-May-16</b>	<b>30-Jun-16</b>
Infrastructure Investment	87.53	93.57	97.11	96.74	97.72	99.26
Cash Construction & Related	40.02	39.21	38.68	41.68	42.65	41.97
Others (incl. PRC )	2.17	2.17	2.14	2.09	1.99	2.05
Hong Kong	26.19	25.97	25.28	28.78	29.25	28.31
Macau	11.66	11.07	11.26	10.81	11.41	11.61
Far East Global*	3.67	3.67	3.74	3.74	3.74	4.30
Total	131.22	136.45	139.53	142.16	144.11	145.53
<b>New contract awarded</b>						
<b>YTD YoY (%)</b>	<b>31-Jan-16</b>	<b>29-Feb-16</b>	<b>31-Mar-16</b>	<b>30-Apr-16</b>	<b>31-May-16</b>	<b>30-Jun-16</b>
Infrastructure Investment	n.a.	130.73	154.22	68.58	39.96	32.53
Cash Construction & Related	-34.45	-33.53	-46.44	-25.68	-4.95	1.00
Others (incl. PRC )	280.00	83.33	9.52	-20.00	-20.00	-45.59
Hong Kong	44.44	17.43	-33.25	-4.28	1.61	1.69
Macau	-79.44	-79.44	-68.13	-68.13	-18.32	5.31
Far East Global*	n.a.	n.a.	6.94	6.94	6.94	20.92
Total	-5.88	11.68	7.72	9.30	14.58	16.69
<b>Project in progress (Total Value)</b>						
<b>YoY (%)</b>	<b>31-Jan-16</b>	<b>29-Feb-16</b>	<b>31-Mar-16</b>	<b>30-Apr-16</b>	<b>31-May-16</b>	<b>30-Jun-16</b>
Infrastructure Investment	45.73	46.77	52.82	46.00	42.75	53.71
Cash Construction & Related	-1.17	-1.75	-1.05	1.45	5.29	9.64
Others (incl. PRC )	289.39	256.16	217.07	184.78	184.78	180.61
Hong Kong	-4.70	-5.30	-5.17	-1.59	-0.61	1.92
Macau	0.21	0.21	3.19	3.09	17.21	27.55
Far East Global*	69.50	69.50	55.80	55.80	55.80	52.55
Total	23.34	23.82	26.85	24.91	25.41	32.79
<b>Backlog</b>						
<b>YoY (%)</b>	<b>31-Jan-16</b>	<b>29-Feb-16</b>	<b>31-Mar-16</b>	<b>30-Apr-16</b>	<b>31-May-16</b>	<b>30-Jun-16</b>
Infrastructure Investment	74.71	74.21	81.04	67.78	60.64	51.15
Cash Construction & Related	-12.68	-13.77	-17.68	-12.55	-9.12	-7.06
Others (incl. PRC )	486.49	416.67	397.67	354.35	397.50	259.65
Hong Kong	-12.03	-12.85	-19.75	-11.45	-9.16	-8.02
Macau	-25.69	-27.41	-25.23	-26.46	-20.38	-15.93
Far East Global*	42.25	42.25	16.51	16.51	16.51	20.79
Total	33.20	34.09	34.37	30.99	29.86	27.22

Source: company

Note: \*data of Far East Global will be updated on a quarterly basis

In the interests of timeliness, this document has not been edited.

# Hon Hai (2317 TT)

Share price (11 Jul): **TWD82.5**

12-mth rating: **Hold (3)**

Target price: **TWD80.0**

## 2Q16 sales in-line

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### Hon Hai June-16 monthly sales (TWDbn)

Company	Ticker	Recommendation	June Sales	MoM	YoY	2Q16 Sales	Daiwa's 2Q16 Forecasts	2Q16 Achievement %	16E/17E PER	3-Yr range	Release date
Hon Hai	2317 TT	Hold	305	3.2%	-4.3%	923	933	99%	9.3x/8.9x	8-12x	11-Jul

Source: Company, Daiwa forecasts

- Hon Hai reported June sales of TWD305bn, up 3.2% MoM and down 4.3% YoY. In aggregate, 2Q16 sales of TWD923bn (down 3.7% QoQ and 5.1% YoY) came in line with our 2Q16 revenue estimate of TWD933bn.
- As discussed in [Eyeing spec upgrade trends](#), we expect the iPhone production volume to decline by 9% YoY in 2016 as a result of the slow 1H16E. Hon Hai is not immune to the downward trend as a major assembler for iPhones. Consequently, we expect Hon Hai's full-year 2016 revenue to drop by 2% YoY and its EPS to come in at TWD8.9, down 6% YoY. In addition, we are concerned about the potential earnings dilution resulting from the Sharp deal. As discussed in [High uncertainty associated with Sharp deal](#), published on May 12, we could see 9-10% dilution for Hon Hai's 2016-17E earnings if we assume Sharp encounters losses of JPY100bn a year, but we have not factored this into our current earnings estimates. In the long term, the deal could be positive for the company in terms of building up its capability in panels and enhancing vertical integration.
- We have a Hold (3) rating on Hon Hai with a 12-month target price of TWD80 based on a 9x PER, the low end of the stock's past-3-year trading range of 8-12x, on our 1-year-forward EPS. Key upside risk: better-than-expected smartphone sales; key downside risk: worse-than-expected price competition.

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# Sunny Optical Technology (2382 HK)

Share price (8 Jul): **HKD26.20**

12-mth rating: **Outperform (2)**

Target price: **HKD29.00**

## 1H16 shipments broadly in-line

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**Sunny Optical: Jun-16 shipments vs. Daiwa estimates**

k unit	Jun-16 Shipments	MoM	YoY	1H16E	1H16 Achievement %
Handset camera modules	25,401	+30.9%	+29.5%	107,616	100.1%
Handset lens sets	29,543	+22.3%	+37.9%	137,747	104.8%
Vehicle lens sets	1,655	-0.3%	+21.5%	11,163	94.8%

Source: Company, Daiwa forecasts

Sunny reported June shipments of 25.4m units for handset camera modules (HCM), 29.5m units for handset lens sets (HLS), and 1.7m units for vehicle lens sets (VLS). HCM shipments grew 30.9% MoM and 29.5% YoY, HLS grew 22.3% MoM and 37.9% YoY, while VLS shipments slightly fell 0.3% MoM and grew 21.5% on a year-on-year basis. In total, for 1H16, HCM shipments reached 107.8m units, down 11.0% HoH and up 0.8% YoY, HLS at 144.4m units, down 18.8% HoH and up 16.6% YoY, VLS at 10.6m units, up 15.6% HoH and 43.7% YoY. Compared to our 1H16 estimates, HCM and HLS shipments were in line, with achieving rates of 100.1% and 104.8% respectively, while VLS was slightly below, with 94.8% achieving rate.

Looking into 2016, for HCM we expect a rising revenue contribution from high-end projects (market share gains) to drive volume growth by 16% YoY. For HLS, we remain confident of 25% YoY volume growth from project wins in 8-10MP+ from China and Korea customers. Also, for VLS, we expect Sunny's market-leading position to remain solid and look for VLS shipments to grow by over 40% YoY in 2016 on Sunny's market leading position and the rising adoption of advanced driver assistance system (ADAS) in smart cars equipped with multiple cameras.

We have an Outperform (2) rating on Sunny, with the 12-month target price of HKD 29.00, based on a 21x PER, on our 1-year-forward EPS. As highlighted in [Highlights from site visit: confident of strong 2016](#), published on 20 June 2016, we expect Sunny to deliver a back-loaded 2016 and view the muted 1H16 as an opportunity to accumulate the shares. We forecast Sunny's gross margin to improve to 17.4% in 2016 and 17.9% in 2017 from 16.5% in 2015 due to the favorable product mix, improving production yield and ASP improvement from specs upgrades, as discussed in [On track for a robust 2016](#) published on 10 May 2016. Key risk to our call: worse-than-expected competition in HCM and HLS.

In the interests of timeliness, this document has not been edited.

# TSMC (2330 TT)

Share price (7 Jul): **TWD164.5**

12-mth rating: **Buy (1)**

Target price: **TWD185**

**TSMC reported upbeat 2Q16 top-line; we've been a buyer of this name.**

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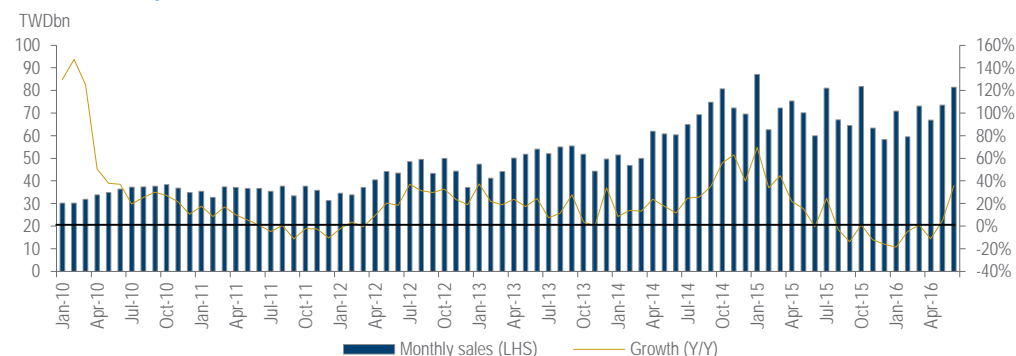
**What's new:** TSMC reported strong 2Q16 top-line which beat its own guidance, our and consensus estimates, attributable to order strength from Android and 16nm FF, in our opinion. Despite the likely business rebalance, we expect its 3Q16 revenue to show above-seasonal growth, thanks to the 16nm strength. We've been a strong buyer of this name since we upgraded our rating on 3 June 2016.

**What's the impact**

- **2Q top-line beat.** TSMC, reported June sales of TWD81.4bn, up 11% MoM (+36% YoY) marking its the 3<sup>rd</sup> highest monthly sales in history (see chart below). This closes its 2Q16 sales at TWD221.8bn, up 9% QoQ, beating its own guidance (TWD215-218bn), 2% above our estimate (TWD218bn) and consensus (TWD218bn).
- **A bit rebalance likely.** While we attribute the strength to stronger-than-expected orders from Android smartphone related chips, as well as 16nm FF demand from non-Apple customers (mainly graphics applications), we are not surprised by this beat since we had flagged such a possibility in our TSMC note published on 3 June 2016 (see [It is more than just A10](#)). Therefore, we expect to see some business rebalance for 3Q16, since the strong results in 2Q should compress our growth forecast to 17% QoQ (previous: 19%) despite our unchanged forecast in dollar terms (TWD258.7bn). This rebalance is however no harm to our positive stance on its fundamentals this year.
- **2Q results preview.** Given the strong top-line performance adding to margin upside on operational leverage, we expect TSMC to report GM and OPM at the high end of its guidance range and see potential for upside surprise. We currently forecast its 2Q EPS of TWD2.64, in line with consensus, and expect the EPS to grow 40% QoQ, 8% ahead of the consensus on strong demand for 16nm FF from both Apple and non-Apple customers (see table below). TSMC is scheduled to report this Thursday (14 July).

**What we recommend:** We've been a buyer of TSMC and upgraded our rating to Buy on 3 June 2016. Although its recent stock strength has compressed the upside potential to our TP, we expect the market to react to its 3Q guidance positively. Our 12-month TP of TWD185 is based on a 3.4x ROE-adjusted PBR; key risk to our call: weaker-than-expected restocking on macro.

**TSMC: Monthly sales trend**



Source: Company

**TSMC: Results preview**

TWDm	2Q16E			3Q16E		
	Daiwa	Consensus	Variance	Daiwa	Consensus	Variance
Revenue	218,204	217,866	0%	258,749	243,938	6%
Gross profit	111,056			133,352		
Operating profit	88,254			106,442		
Pretax profit	90,150			107,867		
Net profit	68,424	68,314	0%	95,894	88,384	8%
Adjusted EPS (TWD)	2.64	2.63	0%	3.70	3.41	8%
<b>Margin</b>						
Gross	50.9%			51.5%		
Operating	40.4%			41.1%		
Net	31.4%			37.1%		
<b>Operation</b>						
Shipment ('000, 12" equ.wafers)	2,250			2,529		
Utilization*	90%			97%		
20/16nm sales contribution	23%			32%		

Source: Bloomberg, Daiwa forecasts


\*Note: Calculated as wafer shipment/ capacity

In the interests of timeliness, this document has not been edited.



*Daiwa's Banner Products*

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<p><b>Hong Kong Property Sector</b></p>		<p><b>Hong Kong Property Sector:</b> First impressions can be deceiving: another look at the contrarian case <i>1 July 2016</i></p> <p>Hong Kong Property stocks are not for the faint-hearted. They never have been. History shows us that these shares can be highly volatile, particularly during times when the physical market is facing challenges. But we think such volatility presents opportunity as well as risk. Buying Hong Kong property stocks at the right time can pay off handsomely, as it did in 4Q05, 4Q08 and 4Q13 when share prices saw 50-180% upside within a few months.</p> <p>Jonas Kan, CFA (852) 2848 4439 (jonas.kan@hk.daiwacm.com)</p>
<p><b>Korea Automobiles and Components Sector</b></p>		<p><b>Korea Automobiles and Components Sector:</b> Electric vehicles and smart cars: reinventing the wheel <i>23 June 2016</i></p> <p>Apple and Tesla's aggressive moves towards EVs and smart cars herald a new era and should give parts makers' shares a leg up We revise up our EV and smart-car forecasts on more stringent regulations, government support and falling component prices Mando and Hanon (both Buys [1]) are our top picks; we also like HMC (Buy [1]) on a 6-month view</p> <p>Sung Yop Chung (82) 2 787 9157 (sychung@kr.daiwacm.com)</p>
<p><b>Hong Kong Property Sector</b></p>		<p><b>Hong Kong Property Sector:</b> It's time to be more greedy than fearful <i>25 May 2016</i></p> <p>Challenges abound, but we think the Hong Kong property market is more mature and sophisticated than many observers realise Corporate fundamentals are stronger than industry fundamentals – a distinction that we think deserves more recognition Significant investment value could be unlocked if family-owned property companies continue to modernise; reiterating Positive stance</p> <p>Jonas Kan, CFA (852) 2848 4439 (jonas.kan@hk.daiwacm.com)</p>
<p><b>Singapore Strategy</b></p>		<p><b>Singapore Strategy:</b> Navigating choppy markets <i>8 April 2016</i></p> <p>We identify optical communications as a key beneficiary of the rising Big Data/IoT cycle We flag 2 demand drivers: 1) the continued expansion of global FTTX coverage, and 2) bandwidth upgrades at global datacentres Food chain value proposition centres on epiwafer-growing — LandMark Opto (Buy [1]); WinSemi (Buy [1]) should also benefit</p> <p>Ramakrishna Maruvada (65) 6499 6543 (ramakrishna.maruvada@sg.daiwacm.com) Shane Goh (65) 6499 6546 (shane.goh@sg.daiwacm.com)</p>

Daiwa research is available electronically on Bloomberg, Reuters, Thomson One Analytics, FactSet, Capital IQ and Daiwa's L-ZONE. Please contact your Daiwa sales representative for more information.

*Analysts' company visits*

Text in **RED**: Result **BLACK**: Company Visit

	MONDAY		TUESDAY		WEDNESDAY		THURSDAY		FRIDAY	
	July	11		12		13		14		15
HK/CN										
TW							<b>Helen Chien:</b> Dr.Wu skincare (6523 TT) <b>Rick Hsu: TSMC (2330 TT)</b>			
SG			<b>Ramakrishna Maruvada:</b> MM2 Asia (MM2 SP)				<b>Shane Goh:</b> BreadTalk (BREAD SP)			
KR	<b>Mike Oh:</b> Mirae Asset Life Insurance (085620 KS)		<b>Iris Park:</b> Nongshim (004370 KS)		<b>Thomas Kwon:</b> Com2Us (078340 KS) & Gamevil (063080 KS)					
		18		19		20		21		22
HK/CN										
TW										
SG			<b>David Lum:</b> Keppel REIT (KREIT SP)		<b>David Lum:</b> Ascott Residence Trust (AREIT SP) & CapitaLand Commercial Trust (CCT SP)		<b>David Lum:</b> Ascendas REIT (AREIT SP) <b>Royston Tam:</b> Keppel (KEP SP) & SATS (SATS SP) & Vard (VARD SP)			
KR										

## Rating and target-price information

Company name	Bloomberg code	Country	12M rating		12M target price*		Date
			Previous	Latest	Previous	Latest	
General Interface Solution	6456 TT	Taiwan	Buy -	<b>Buy</b>	126 ↓	<b>92</b>	11-Jul-16
Feng Tay Enterprise	9910 TT	Taiwan	Hold -	<b>Hold</b>	176 ↓	<b>155</b>	11-Jul-16
Texhong Textile	2678 HK	China	Buy -	<b>Buy</b>	8.3 ↑	<b>10.5</b>	11-Jul-16
BYD	1211 HK	China	Outperform ↑	<b>Buy</b>	50 ↑	<b>65</b>	11-Jul-16
Advanced Info Service	ADVANC TB	Thailand	Hold ↑	<b>Buy</b>	165 ↑	<b>190</b>	11-Jul-16
Man Wah Holdings	1999 HK	Hong Kong	Buy ↓	<b>Hold</b>	11.8 ↓	<b>11.3</b>	11-Jul-16
Anta Sports Products	2020 HK	China	Buy -	<b>Buy</b>	23 ↓	<b>18.5</b>	11-Jul-16
J Resources Asia Pasific	PSAB IJ	Indonesia	Buy -	<b>Buy</b>	1400 ↓	<b>413</b>	11-Jul-16
Aneka Tambang Persero	ANTM IJ	Indonesia	Reduce ↑	<b>Hold</b>	207 ↑	<b>680</b>	11-Jul-16
Ascendas Real Estate Investment Trust	AREIT SP	Singapore	Outperform ↓	<b>Hold</b>	2.52 ↓	<b>2.35</b>	8-Jul-16
China Communications Construction	1800 HK	China	Hold ↑	<b>Outperform</b>	9.5 ↓	<b>9</b>	8-Jul-16
Loen Entertainment	016170 KS	Korea	n.a. →	<b>Buy</b>	n.a. →	<b>87000</b>	8-Jul-16
St. Shine Optical	1565 TT	Taiwan	Outperform -	<b>Outperform</b>	717 ↑	<b>800</b>	8-Jul-16
Amcorp Properties	APRO MK	Malaysia	Buy ↓	<b>Hold</b>	1.54 ↓	<b>0.89</b>	8-Jul-16
China Life Insurance	2628 HK	China	Hold -	<b>Hold</b>	20 ↓	<b>18</b>	7-Jul-16
China Taiping Insurance Holdings	966 HK	China	Buy -	<b>Buy</b>	32.5 ↓	<b>26.5</b>	7-Jul-16
Frasers Centrepoint	FCL SP	Singapore	Buy -	<b>Buy</b>	2.01 ↓	<b>1.96</b>	7-Jul-16
Ezion Holdings	EZI SP	Singapore	Hold -	<b>Hold</b>	0.47 ↓	<b>0.44</b>	7-Jul-16
Amorepacific	090430 KS	Korea	Buy -	<b>Buy</b>	460000 ↑	<b>515000</b>	7-Jul-16
Banpu PCL	BANPU TB	Thailand	Sell -	<b>Sell</b>	9.5 ↑	<b>11</b>	6-Jul-16
City Developments	CIT SP	Singapore	Buy -	<b>Buy</b>	11.17 ↑	<b>11.21</b>	6-Jul-16
China Resources Beer	291 HK	China	Hold -	<b>Hold</b>	14.3 ↑	<b>15.4</b>	6-Jul-16
China Mobile	941 HK	China	Buy -	<b>Buy</b>	110.8 ↓	<b>108.7</b>	6-Jul-16
China Unicom	762 HK	China	Outperform ↑	<b>Buy</b>	10.1 ↑	<b>11.5</b>	6-Jul-16
China Telecom	728 HK	China	Outperform ↑	<b>Buy</b>	4.42 ↑	<b>4.58</b>	6-Jul-16
China Agri-Industries	606 HK	China	n.a. →	<b>Buy</b>	n.a. →	<b>3.1</b>	5-Jul-16
CJ CGV	079160 KS	Korea	Buy -	<b>Buy</b>	150000 ↓	<b>12400</b>	5-Jul-16
Tropicana Corp	TRCB MK	Malaysia	Buy -	<b>Buy</b>	1.95 ↓	<b>1.73</b>	5-Jul-16
Samsung Electro-Mechanics	009150 KS	Korea	Buy -	<b>Buy</b>	76000 ↓	<b>74000</b>	4-Jul-16
KPJ Healthcare	KPJ MK	Malaysia	Buy -	<b>Buy</b>	4.9 ↑	<b>5.01</b>	4-Jul-16

Note: Daiwa's 30 most recent rating/target-price changes

\*Local currency; D: delisted

## Recently published reports

Research reports*	Subtitle	No. of pages	Date of publication
BYD	Upgrading: on track for a re-rating	18	11-Jul-16
China Communications Construction	Overseas seen as key earnings driver for the future	13	8-Jul-16
Loen Entertainment	Initiation: turning up the volume	27	8-Jul-16
ASEAN Intelligence	What matters this week	46	8-Jul-16
Discovery	Asia small-cap weekly	16	8-Jul-16
China Autos – PV Weekly Monitor	1-30 June: sales volume accelerates	12	7-Jul-16
China Agri-Industries	Initiation: reform and rebound	35	5-Jul-16
Vibhavadi Medical Center	Valuation too rich	20	5-Jul-16
China Industrial Sector	Highlights of Daiwa's Auto and Industrial Leaders Conference – industrials and aviation	29	4-Jul-16
China Autos Sector	Highlights of Daiwa's Auto and Industrial Leaders Conference – autos	16	4-Jul-16
China Everbright International	Upgrading: refocusing on its waste-to-energy identity	17	28-Jun-16
China Longyuan Power	Utilisation more protected, upside for both EPS & PER	20	27-Jun-16
SATS	Multi-pronged growth catalysts	52	27-Jun-16
Singapore Strategy	Brexit: surveying the damage	11	24-Jun-16
Samsung Electronics	2Q16E results preview and Investor Forum feedback	21	24-Jun-16
Supalai Public Co Ltd	Leading by presales	16	24-Jun-16
Discovery	Asia small-cap weekly	20	24-Jun-16
NetEase	Initiation: raising its game	45	24-Jun-16
China Autos – PV Weekly Monitor	1-17 June: moderate sales growth	10	23-Jun-16
Korea Automobiles and Components Sector	Electric vehicles and smart cars: reinventing the wheel	136	23-Jun-16
Bangkok Airways Pcl	Not just a typical airline	20	23-Jun-16
Frasers Centrepoint	Initiation: awaiting fruition of capital recycling pipeline	38	22-Jun-16
Frasers Commercial Trust	Initiation: a value proposition	25	21-Jun-16
Alibaba Group	Investor Day wrap: pedal to the metal	21	20-Jun-16
Discovery	Asia small-cap weekly	17	17-Jun-16
Humedix	Initiation: attractive play on ageing Asia	22	17-Jun-16
ASEAN Intelligence	What matters this week	35	17-Jun-16
Karmarts Pcl	Weak growth foundations	16	15-Jun-16
Tesco Lotus Retail Growth.	Just a yield story	19	15-Jun-16
Taiwan Financials Sector	Still a tough road ahead	32	14-Jun-16
Lifestyle	Spin-off to unlock asset value	13	10-Jun-16
PTT Exp. & Production	SELL into sentiment rally	13	10-Jun-16
Discovery	Asia small-cap weekly	18	10-Jun-16
ASEAN Intelligence	What matters this week	35	10-Jun-16

\*The 30 most recent reports published by Daiwa

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**Disclosure of investment ratings**

Rating	Percentage of total
Buy*	65.8%
Hold**	21.8%
Sell***	12.4%

Source: Daiwa

Notes: data is for single-branded Daiwa research in Asia (ex Japan) and correct as of 30 June 2016.

\* comprised of Daiwa's Buy and Outperform ratings.

\*\* comprised of Daiwa's Hold ratings.

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**Conflict of Interest Disclosure: Affin Hwang**

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Sector ratings are based on fundamentals for the sector as a whole. Hence, a sector may be rated "Overweight" even though its constituent stocks are all rated "Reduce"; and a sector may be rated "Underweight" even though its constituent stocks are all rated "Buy".

"Overweight": positive fundamentals for the sector.

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If the downside is 10% or more, the rating is SELL.

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