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北京控股 （00392 HK）

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New Platform Sustains Future Growth, Upgrade to "BUY"
新业务平台支撑公司未来的增长，上调投资评级至 "买入"

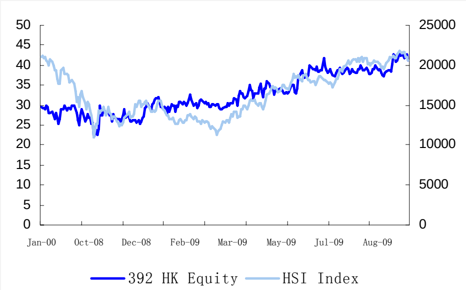
- Beijing Enterprise (BJE or the Company) is now acting as a high quality play in the conglomerate sector after concentrating on public utilities industry. Since BJE's core businesses (Gas, Brewery and Water Treatment) are all among the top market players, we believe the Company has a high growth potential in coming years. We expect BJE 09-11 total revenue grows at 16%, 15%, and 10%, respectively.
- Gas business builds a solid foundation for the Company's future growth. The gas business including the Downstream, Midstream and Upstream gas business forms a complete industry chain. Yanjing brewery shows a rapid growth while water project expansion faster than expectation. The toll road projects disposing/asset swap acts as the recent catalyst.
- Taking positive view on BJE's core business' industries outlook and BJE's decent growth potential with a possible asset swap catalyst, we set the TP at HKD48.00, 11% discounted to FY10 NAV, based on FY10 20x P/E and FY10 1.75x P/B, respectively. Upgrade to "BUY", still has a 15% upside potential.
- 北京控股在调整成为以发展公用事业为主的综合类公司后，其业绩表现良好。由于其核心业务包括煤气，啤酒和污水处理均为市场的龙头企业，我们认为公司在未来几年具有高速增长的潜力。我们预测公司 09-11 年收入增长分别是 16%, 15%, 10%。
- 北控旗下的天然气业务是公司未来发展的基础，其天然气业务已经涵括了整个行业的产业链-上游（生产），中游（运输）及下游（销售）天然气业务。燕京啤酒依然处于快速增长阶段。污水处理业务并购的速度快于我们的预期。高速收费路的出售或资产置换是北京控股近期股价的催化剂。
- 由于北京控股的主营业务未来收入可见度好，并且行业前景明朗，我们结合市场综合估值水平，给出目标价 48.0 港元，仍较 NAV 折让 11%， 相当于 20 倍 10 年 P/E 和 1.75 倍 10 年 P/B。 上调至"买入"评级， 仍有 15%的上涨空间。

Rating: Buy
评级：买入

6M TP 目标价: HK$48.00

Share price 股价：HK$41.60

Stock performance
股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	6.27	7.36	42.51
Rel. % to HS index 相对恒指变动 %	1.95	(5.79)	25.26
Avg share price(HK$) 平均股价（港元）	40.41	39.16	32.59

Source:Bloomberg, Guotai Junan (HK)

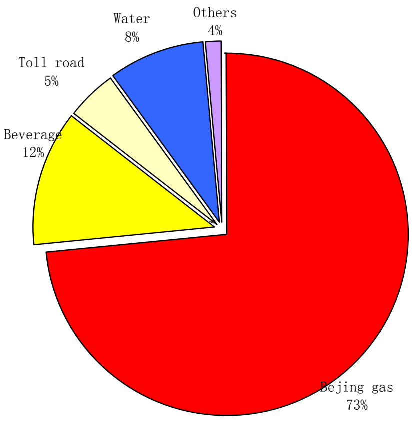
Year End 年结 12/31	Turnover 收入 (HKD m)	Net Profit 股东净利 (HKD m)	EPS 每股净利 (HKD)	EPS 每股净利变动 (△%)	PER 市盈率 (x)	DPS 每股股息 (HKD)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2007A	11,300	1,478	1.670	209.3	25.7	0.600	1.4	8.3
2008A	19,704	2,281	2.006	20.1	21.4	0.650	1.5	8.1
2009F	22,831	2,696	2.371	18.2	18.1	0.710	1.7	8.9
2010F	26,347	3,184	2.800	18.1	15.3	0.840	2.0	10.0
2011F	29,070	3,484	3.064	9.4	14.0	0.920	2.1	10.4

Shares in issue (m) 总股数 (m)	1,138.8	Major shareholder 大股东	BEH Group 36.1%
Market cap. (HK$ m) 市值 (HK$ m)	48,796.3	Free float (%) 自由流通比率 (%)	47.9
FY10 P/B (x) 市净率 (x)	1.4	FY10NBV per share (HK$) 每股净资产	27.4
FY09 net gearing (%) 净负债/权益比率 (%)	10.2	Est. FY10 NAV (HK$) 每股估值（港元）	53.9

Source：the Company, Guotai Junan (HK) research

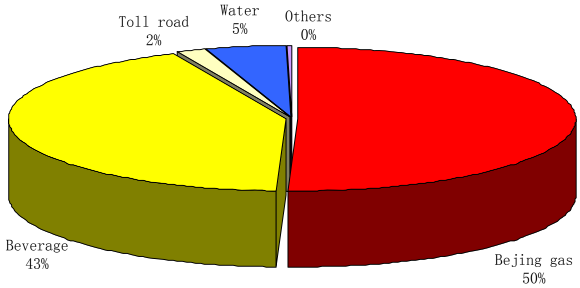
Defensive play with a positive growing trend. Beijing Enterprise (BJE or the Company) is now acting as a high quality play in the conglomerate sector after clearly defining itself as a company concentrating on public utilities industry since late 2007. According to its 1H09 interim results, BEJ has once again shown its success for its development strategy which has already built a new platform to sustain its future growth. BJE's 1H09 net profit grew by 11.3% yoy to HKD 1.4 billion. Revenue rose 21.2% to HKD 11.6 billion attributed by its core businesses. BJE's net profit is mainly driven by the gas business contribution. Along with its unique characteristic (only gas distributor and supplier in Beijing), we believe the Company acts as a defensive player like other public utilities companies. Furthermore, as a conglomerate company, BJE has other businesses (Brewery and Water Treatment) which are all the top market players. As a defensive player in public utilities industry and market leading players in other businesses, we believe the Company has a high growth potential in coming years. We expect the Company 09-11 total revenue grow at 16%, 15%, and 10%, respectively.

Figure 1. BJE 1H09 net profit breakdown



Source: the Company, Guotai Junan (HK) research

Figure 2. BJE 1H09 revenue breakdown



Source: the Company, Guotai Junan (HK) research

Gas business builds a solid foundation for the Company's future growth. In 1H09, the Natural gas business contributed 73.4% of its total profit and accounted for 47% of our 2009 full year estimate of total gas business revenue. BJE operates in both gas transmission – midstream (PertoChina Beijing Gas/Huayou) and gas distribution - downstream (Beijing Gas). The upstream business (Keqi coal-based Gas company), which transforms coal to natural gas, will start operation in the 2011. We believe gas business builds the foundation for its future growth. We hold a positive view in gas business for the next few years based on the following two reasons:

A. The National Development & Reform Commission (NDRC) of the central government sets out a future usage of the mix energy plan which gives guidance on natural gas growth. According to the plan, the consumption of natural gas will grow from 3.5% of the total in 2008 to about 5.3% of the total in 2010, and to 9% by 2016. In addition, the capacity of natural gas related power generating equipment will increase from 1% (9 GW) in 2008 to about 5% (70GW) by 2020.

B. Beijing's Urban Planning Board sets out an objective to increase gas consumption in the metropolitan area from 4.9bn m^3 in 2008 to more than 12bn m^3 by 2016, implying a volume growth of CAGR at 12% for the next eight years. Since Beijing Gas is the only natural gas distributor in Beijing, the sales volume of Beijing Gas grows at an average rate of 12% each year during 2008-2016.

Downstream gas business' future income has been secured. In 1H09, downstream natural gas sales grew 11.4% yoy to HKD 451million. In terms of sales volume, it grew 14.9% yoy to 2.86 billion m^3 accounting for 52% of our 2009 full year estimate of gas sales volume. The growth was lifted by the increase in power electricity usage which was the result of switching coal-fired to gas-fired power plants in Beijing. As mentioned above, Beijing Gas is the only natural gas distributor in Beijing. The Company will be the only beneficiary in relation to a higher consumption level of natural gas in Beijing which secures its future income. For more detail, the further income is likely to be locked by the following aspects:

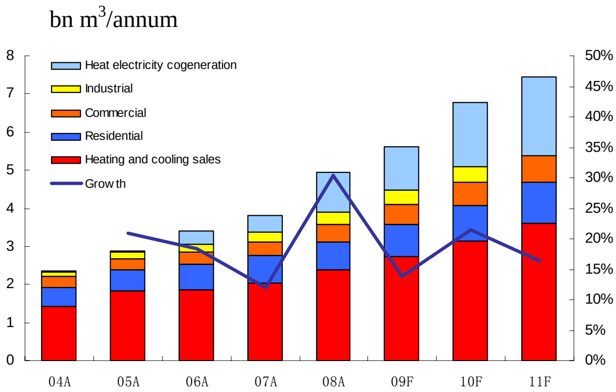
A. As a capital city of China, Beijing continues its urbanization process which demands heating and cooling. There is a growing usage demand from residential consumer group due to the population growth and expansion of gas-distribution network which connects ten satellite cities in rural counties around Beijing.

B. The stricter environmental policy in Beijing ensures the industrial and commercial consumer groups to use natural gas to restrict air pollution, which stimulates natural gas sales volume growth.

C. The power plants switch from coal-fired to gas-fired power in Beijing which enlarges electricity supply consumer group.

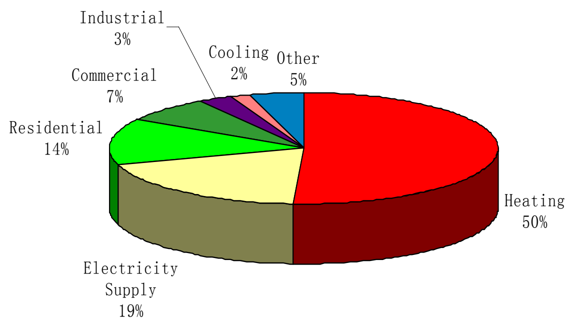
Based on the above reasons, we predict the 09-11 gas sales volume will rise at 15%, 20%, and 15%, respectively. It is mainly contributed by the electricity supply consumer group with a 09 -11 growth CAGR at 22%. The growth in sales volume indicates the downstream gas business earning improvement. We estimate the 09-11 downstream gas business' net profit are about HKD835 million, HKD1, 067 million, HKD1, 172 million, implying a 09-11 CAGR at 12%.

Figure 3. Beijing Gas sales volume forecast



Source: the Company, Guotai Junan (HK) research

Figure 4. 1H09 Beijing Gas sales breakdown



Source: the Company, Guotai Junan (HK) research

Gas distribution network expansions enhance its future growth's potential. Beijing Gas is interested in operating the gas distribution business outside Beijing area. It made an acquisition (60%) of Shandong Zhongyuan Gas in Shandong Province, which provides 300 million cubic meters natural gas to about 82,000 customers. And, according to management, Beijing gas made progress in expanding its gas business, such as executing the "Framework Agreement for the Cooperation in the Capital Restructuring Project for Jinzhou Municipal Gas Corporation with Jinzhou Municipal Government and Petrochina Liaohe Oil Field" and "Concluded cooperation intention for proposed investment and capital injection in Shandong Natural Gas Pipeline Co., Ltd with Shandong Provincial Government". We have factored in the future growth potential in our company valuation assumption.

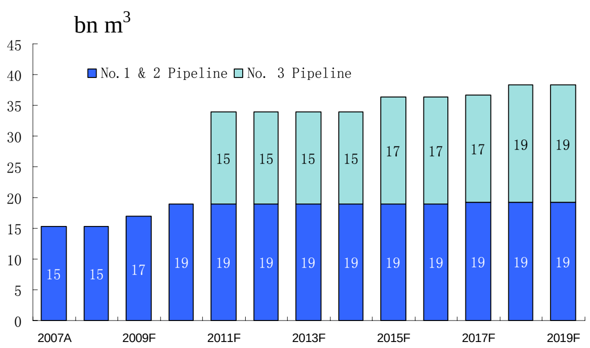
Table 1. Hong Kong listed city-gas operators in China

Gas Operators	Bloomberg code	No. of piped city gas projects	Annual piped gas sales (Bn M3)	Number of users (million)	Length of pipeline (KM)	Market Cap (Million)	2009 PE	2009 PB
Beijing Enterprises	392 HK	1	4.89	3.6	7,550	48,676	18.0	1.4
Hong Kong & China Gas	3 HK	72	5.8	9.5	34,200	121,192	28.0	3.5
Xinao Gas	2688 HK	72	1.88	3.7	12,584	15,794	15.0	2.3
China Resources Gas	1193 HK	7	1.37	2.2	8,229	9,420	31.0	4.9
China Gas	384 HK	107	1.15	3.7	18,000	8,702	20.0	2.0

Source: Bloomberg, Guotai Junan (HK) research

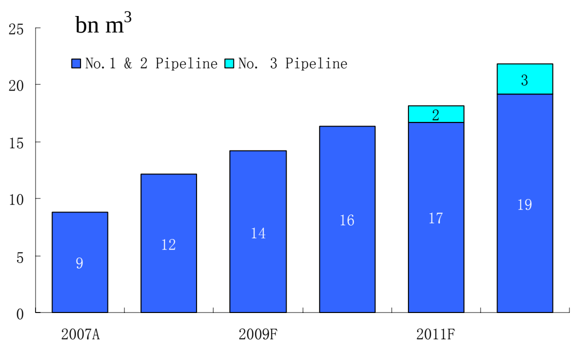
Midstream gas business gives BEJ a unique advantage. PetroChina Beijing (PBG), Joint Venture with PrtroChina, operates Shaanxi-Beijing transmission pipeline which gives a unique advantage (stable supply) to Beijing Gas. Beijing Gas has 40% interest in PBG. In recent years, the utilization of No. 1 & 2 pipeline is maintained at a high level due to the strong increase of natural gas consumption in Bohai and Hebei area. In 2008, the transmission volume reached 12.2 billion m^3, representing 80% of its full capacity. 1H09, there was already 6.96 billion m^3 gas transmission volume, representing 50% of 2009 our full year estimate of transmission volume. The compression projects and the No. 3 Shaanxi-Beijing transmission pipeline will meet the growing demand of natural gas. The further transmission capacity is presented in figure 5 follow by the company's guidance. According to the transmission capacity, we make the estimations for future transmission volume (Referring to the figure 6). Due to the growing transmission volume, we forecast the 09-11 profit contributed by the midstream gas business will grow at 16%, 17%, and 7%, respectively.

Figure 5. PBG transmission capacity



Source: the Company, Guotai Junan (HK) research

Figure 6. PBG transmission volume

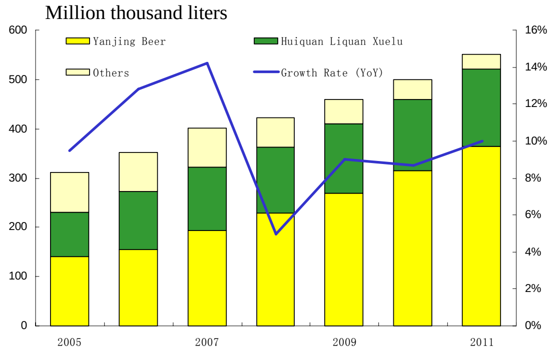


Source: the Company, Guotai Junan (HK) research

Upstream gas business - the other supply source of natural gas. The Keqi coal-based Gas Company (KCG), Joint Venture with Datang Power and other partners, will use coal as the base material and apply gasification technology on the conversion of coal to natural gas and some other products. Beijing Gas has 34% share in KCG. According to the management, the KCG project can provide 4 billion m^3 of natural gas to Beijing by the year of 2013 with the total cost of RMB 25 billion. We expect KCG project will register a loss for the first 4 - 5 years. Once the natural gas price rises up by at least 15%-20% of current level, KCG project will start to generate income and contribute profit to BJE. As other natural supply to Beijing, we believe the Beijing municipal encourages and supports development of this upstream gas business of BJE.

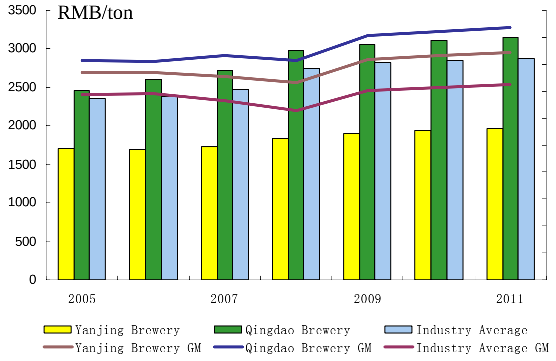
Yanjing Brewery is a clear market leader in China. Yanjing Brewery is the third-largest domestic brewery producer in terms of the sales volume in 2008, with the market share of 10.28%, behind Qingdao beer (13.11%) and China Resources Enterprise's snow beer (17.45%). In 1H09, the Yanjing Brewery business contributed 12.1% of total profit and account for 56% of our 2009 full year estimate of beer business earning. Yanjing Brewery continue with its "1+3" brand name strategy which stands for Yanjing Beer + Huiquan Beer, Liquan Beer and Xuelu Beer. The "1+3" Beer accounted for 86% or 410 million tons of total Yanjing Brewery sales. In order to increase the gross margin, we believe the company will continue to bring other brands' brewery into "1+3" brands of brewery which received a premium because of brand name recognition effect.

Figure 7. Sales volume forecast



Source: the Company, Guotai Junan (HK) research

Figure 8. ASP and gross margin forecast



Source: the Company, Guotai Junan (HK) research

As shown in Figure 6, Yanjing brewery's ASP was about 20% or 25% lower than the industry average. However, the gross margin for Yanjing is about 5 percentage points higher than the industry brought by the lead market position. We assume Yanjing brewery maintains to grow with the market for next few years. It is worth to note that we expect that the sales volume continues to increase in 3Q due to high temperature in Beijing area this year and Yanjing brewery will start raising ASP higher than the market raise yield next year due to clear market position and well known brand name.

Expansion projects improve the water business performance. BEJ's water treatment business includes two subsidiaries – Beijing No. 9 Water Treatment plant and Beijing Enterprise Water (BEW, 0371 HK). In 1H09, the water treatment business contributed to 8.4% (HKD119 million) of total revenue and accounted for 62% of our 2009 full year estimate of water business profit. According to the management, they will take BEW as a water business platform to deal with all the water related businesses later. Now, BEW surprises us and market with its faster-than-expected expansion plan. In first 9 months of 09, BEW's capacity has already exceeded its full year target by 4 million tons of water processing capacity per day. By now, BEW becomes a sizeable player in China water market. We forecast BEW continues to expand by applying to BT, BOT, TOT and EPC cooperate model with its mature technology and experienced management team. Future more, in regarding to BEW expansion plan, the solid waste may be added in the segment as new growing point. We expect the profit contributed by BEW maintain a fast growing speed in 09-11, representing a CAGR at 25%.

Disposing the toll road projects holds as the recent catalyst. Beijing Municipal Committee of Transport and Beijing Municipal Commission of Development and Reform have adjusted the toll policy for Beijing Capital Airport Expressway. According to the new policy, Beijing Enterprise's (BJE）subsidiary Beijing Capital Expressway will only collect one way toll from same day round-trip vehicles in Tianzhu Toll Station and cut its toll by half in Yanglin toll Station. All changes will take effect from 1st October 2009. We believe this policy change only has a minor impact on BJE by the following reasons:

A. The outlook for Capital Airport Expressway business has become gloomy since Apr.2007 due to traffic separation to the South Extension Ling connecting to the Terminal 3 of Beijing International Airport.

B. Capital Airport Expressway only contributed about 4.5% of BJE's 1H09 net profit and accounted for 3.3% of our 10F NAV for the BJE.

C. BEJ's parent company has agreed to compensate for the loss from revenue drop as a result of the new policy. The relevant departments of Beijing Municipal in principal also plan to solve the issue of Airport Expressway by means of asset swap.

According to the reasons above, we believe Capital airport expressway has only limited growth potential. Also, we expect the traffic volume of Shenzhen Shiguan road continue to shrink due to traffic separation to other free highway around Shenzhen area. With the limited upside potential, the management mentioned to dispose its toll road' projects on interim analysts' meeting. We believe the offer of asset swap by Beijing Municipal will be a good start for BEJ to start its toll road business disposing progress. Also, we expect BEJ will take this golden chance to acquire high quality assets in Beijing during the asset swap with more than HKD10.2billion cash on hand which will be the recent catalyst to the company stock performance.

Secured future incomes enhance financial position. The income has been shown a 33% CAGR in 05-08 as growth accelerates and we predict the 09-11 EPS will increase by 16%, 19%, and 10%, respectively. The balance sheet remains healthy with a FY09 net gearing ratio of 10%. The stable future organic growth strengthens its future cash flow. At the end of June 09, the company holds cash of HKD10.2 billion. The stable future earning is mainly derived from the gas business due to the new pipeline (No.3 Shaanxi-Beijing) and pipeline network expansions (satellite cities). Finance cost is maintained at a low level in regarding to its low debt level. The near term major cash outflow (capex) will be No.3 Shaanxi-Beijing, pipeline network expansion, KCG project, and water M&A projects.

Major risk factors. Even thought BJE acts as defensive player, it still fact certain risks. First, natural gas industry is highly regulated by the central and municipal governments. So, any change of natural gas price is subjected to NDRC approval. The time lag between the adjustment of the cost and the selling price of natural gas will be the biggest risk to its gas business. Second, since the coal-to-gas conversion technology is relatively new in China, KCG project still face some uncertainties. Third, the brewery business is subjected to raw material (mainly grain and wrapping materials) cost fluctuation.

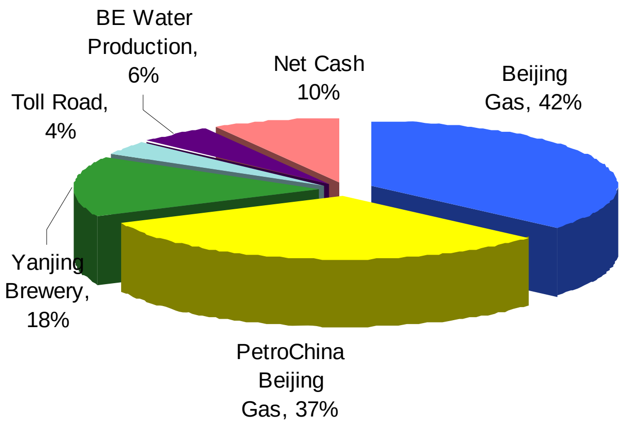
Raise target price to HK$48.00, upgrade to "BUY". We conduct a sum of parts valuation for BJE's. We value the gas business, toll roads and Beijing no.9 water plant by using the discounted free cash flow method and a industry average PE multiple(vary yields) for the BEW, Yanjing brewery, Beijing development and Beijing Hi-tech. We apply a weighted average cost of capital (WACC) of 9.3% with 0.95 x company beta, 3.02% risk-free rate and 8.83% market risk premium. Based on the above assumption, we calculate the FY10 NAV at HKD53.90/share. Taking a positive view on BJE's core business' industries outlook and BJE's decent growth potential with a possible asset swap catalyst, we set the TP at HKD48.00, 11% discounted to NAV, after factoring in the current market condition. The target price is representing 20x and 1.75x FY10 P/E and FY10 P/B, respectively. As we discussed above, BEJ's future gas business earning is likely secured with an organic growth, and its other core businesses (Beer and Water) also has a bright future indicated by a growth potential in the recent years. We upgrade the investment grade to "BUY".

Table 2. BJE's NAV Breakdown

Corporate structure	Percentage of share		FY10 NAV		NAV
	%		NAV(HK$ m)	NAV/sh	%
Infrastructure					
Capital airport expressway &Shiguan Road	55-96	DCF @ 9%	2,486	2.18	4.1
Beijing Enterprises Water	65.15	20 X 10F PE	1,329	1.17	2.2
Beijing No.9 Water Plant	100.0	DCF @ 9%	2,495	2.19	4.1
Public Utilities					
PetroChina Beijing Gas	40.0	DCF @ 9%	22,412	19.68	36.5
KCG Project	34.0	DCF @ 9%	962	0.84	1.6
Beijing gas	100.0	DCF @ 9%	25,840	22.69	42.1
Consumer products					
Yanjing brewery (000729.CH)	45.2	25 X 10F PE	11,612	10.20	18.9
Technology business					
Beijing development (154.HK)	42.9	Market value	281	0.25	0.5
BE High -Tech	98.0	Market value	61	0.05	0.1
Net Cash			**-6,125**	**-5.38**	**-10.0**
Total NAV			**61,354**	**53.90**	**100.0**

Source: the Company, Guotai Junan (HK) research

Figure 9. BJE's NAV Breakdown



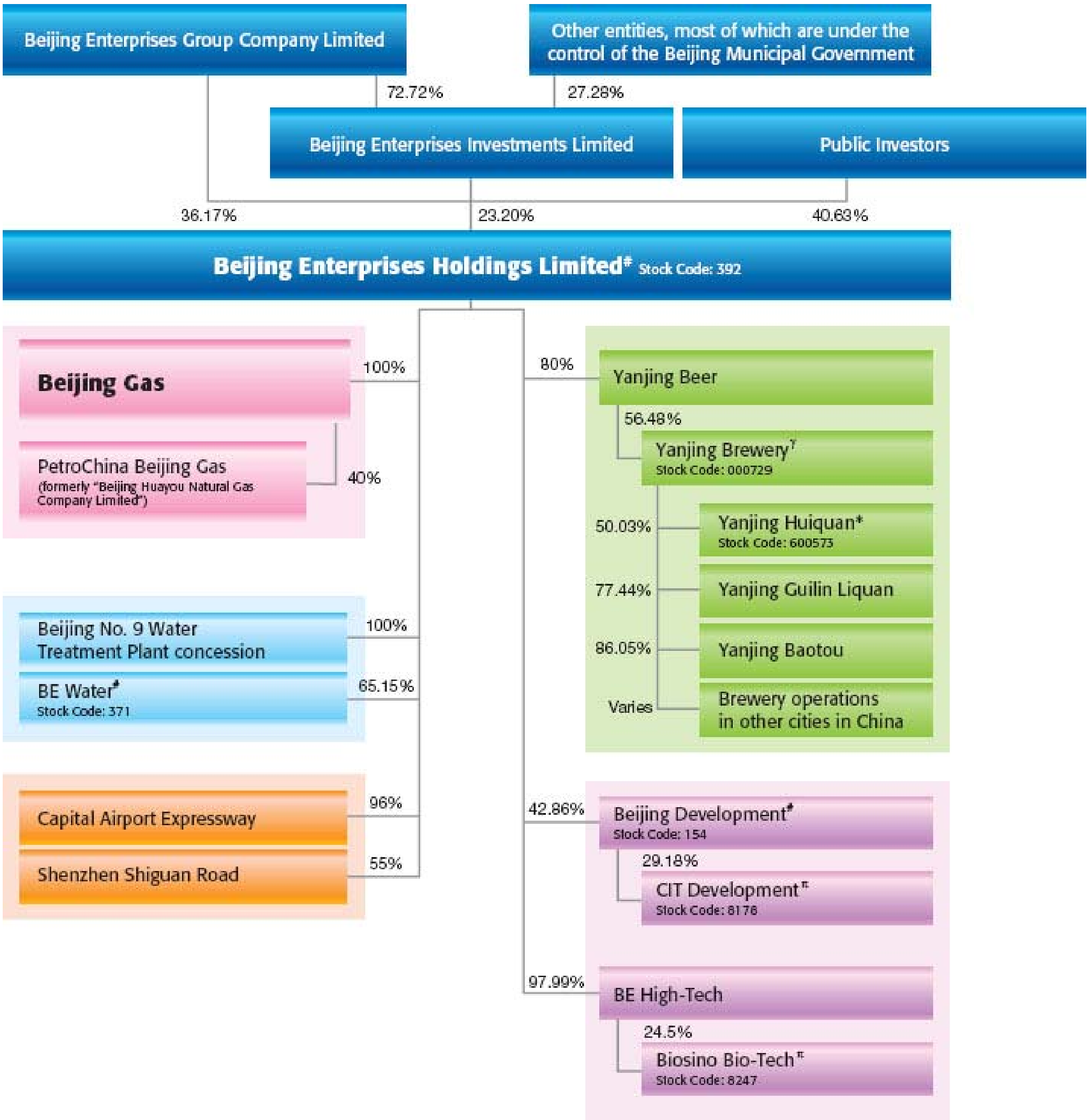
Source: the Company, Guotai Junan (HK) research

Appendix 1: BJE's 1H09 results

HKD million	1H09	1H08A	YoY
Revenue	11,628	**9,593**	***21%***
Cost of sales	(8,710)	(7,183)	*21%*
Gross profit	2,918	2,289	*27%*
Other income and gains,net	365	500	*-27%*
Selling and distribution cost	(663)	(557)	*19%*
Administrative expense	(766)	(587)	*31%*
Other operating expense,net	(183)	(96)	*91%*
Profit from operations	1,671	**1,549**	*8%*
Finance cost	(183)	(183)	*0%*
Share of associates	(4)	(6)	*-35%*
Share of jointly-controlled entities	594	442	*34%*
Profit before tax	2,077	**1,801**	*15%*
Tax	(346)	(282)	*23%*
Profit for the period	1,731	1,519	*14%*
Minority interest	(313)	(246)	*27%*
Net profit	1,418	1,273	*11%*
Interim dividend	227	228	*0%*
Special dividend	0	0	
Weighted Shares (million)	1,139	1,139	*0%*
Diluted Shares (million)	1,233	1,140	*8%*
EPS (HKD)			
Basic	1.25	1.12	*11%*
Diluted	1.15	1.12	*3%*

Source: the Company, Guotai Junan (HK) research

Appendix 2: Company Chart



Source: the Company, Guotai Junan (HK) research

Appendix 3: Financial Statements

Income Statement

HKD million	2007A	2008A	2009F	2010F	2011F
Turnover	**10,976**	**19,704**	**22,831**	**26,347**	**29,070**
Cost of sales	(14,140)	(15,199)	(17,124)	(19,761)	(21,803)
Gross profit	**(3,165)**	**4,505**	**5,708**	**6,587**	**7,268**
Selling expense	(889)	(1,143)	(1,298)	(1,498)	(1,652)
G&A expense	(891)	(1,458)	(1,689)	(1,949)	(2,151)
Other expense	(86)	(193)	(232)	(278)	(334)
Other income	533	535	588	647	712
Others (one-off)	0	451	0	0	0
Operating profit	1,831	2,697	3,078	3,509	3,843
OP margin (%)	*17*	*14*	*13*	*13*	*13*
Finance costs	(243)	(407)	(326)	(358)	(430)
P&L of JV	178	913	934	1,039	1,101
P&L of associates	261	(147)	(154)	(162)	(170)
PBT	**2,027**	**3,056**	**3,532**	**4,028**	**4,344**
Tax	(264)	(359)	(883)	(886)	(956)
others	0	0	545	614	753
Continued operations	1,763	2,697	3,194	3,756	4,142
Discontinued operations	81	0	0	0	0
Profit for the year	1,844	2,697	3,194	3,756	4,142
Minority interest	(365)	(414)	(497)	(572)	(658)
Net profit	**1,478**	**2,281**	**2,696**	**3,184**	**3,484**
YoY (%)	*336.5*	*54.3*	*18.2*	*18.1*	*9.4*
Net margin (%)	*13.5*	*11.6*	*11.8*	*12.1*	*12.0*
Share outstanding	860	1,137	1,137	1,137	1,137
EPS	1.67	2.01	2.37	2.80	3.06
DPS	0.60	0.65	0.71	0.84	0.92

Cash Flow Statement

HKD million	2007A	2008A	2009F	2010F	2011F
Profit before tax	2,027	3,056	3,532	4,028	4,344
D&A	854	1,208	1,571	1,806	2,077
(Increase)/decrease in inventories	(694)	(725)	(487)	(547)	(424)
(Increase)/decrease in A/R	(417)	(181)	(168)	(188)	(146)
(Increase)/decrease in A/P	1,024	(460)	206	232	179
Tax	(264)	(359)	(883)	(886)	(956)
Others	(380)	(547)	(834)	(962)	(1,062)
Net CFO activities	2,151	1,992	2,937	3,481	4,013
Acquisition of P.P.E.	(1,378)	(1,575)	(4,000)	(5,000)	(3,000)
Increase in investments in JV and Assoc.	(23)	(524)	(419)	(293)	(176)
Increase in time deposits	(28)	(380)	0	0	0
Disposal of subsidiaries	80	(80)	0	0	0
Others	160	(987)	650	700	700
Net CFI activities	(3,199)	(3,534)	(3,769)	(4,593)	(2,476)
Issue of convertible bonds	336	100	0	0	0
New borrowings	3,166	(54)	(50)	(50)	(50)
Dividend paid	(353)	(683)	(717)	(753)	(791)
Others	(249)	(447)	(518)	(200)	(100)
Net CFF activities	6,145	(505)	(1,670)	(1,407)	(1,365)
Net increase in cash and cash equivalents	5,097	(2,048)	(2,502)	(2,519)	172
Cash and cash equivalents at 1 Jan	2,708	8,072	6,667	4,415	2,146
Effect of foreign exchange rate changes	239	262	250	250	250
Cash and cash equivalents at 31 Dec	8,044	6,286	4,415	2,146	2,569

Balance Sheet

HKD million	2007A	2008A	2009F	2010F	2011F
P.P.&E.	15,814	17,988	20,686	23,789	24,265
Intangible assets	12	15	14	14	13
Interests in jointly-controlled entities	3,303	4,509	4,509	4,509	4,509
Interests in associates	881	802	1,604	2,407	3,610
Receivables - concession arrangements	1,502	2,821	2,821	2,821	2,821
Available-for-sale investments	290	310	359	414	457
Others	1,840	2,423	2,423	2,423	2,423
Total non-current assets	31,712	38,740	41,862	45,417	46,753
Cash and cash equivalents	8,072	6,667	4,415	2,146	2,569
Inventories	2,342	3,067	3,554	4,102	4,526
A.R. prepayments and deposits	875	1,056	1,224	1,412	1,558
Other A R.	1,539	1,419	1,645	1,898	2,094
Other current assets	158	284	329	379	419
Total current assets	13,310	12,956	11,167	9,937	11,165
Total assets	45,022	51,697	53,029	55,354	57,917
A.P.	1,758	1,298	1,504	1,736	1,915
Tax payable	858	819	949	1,095	1,208
Bank loans	2,641	3,173	2,586	2,543	2,022
Other payables and accruals	4,286	4,690	5,434	6,271	6,919
Total current liabilities	9,626	9,979	10,473	11,645	12,064
Convertible bonds	0	516	516	516	516
Bank and other borrowings	3,282	3,895	4,415	5,215	6,215
Other long term liabilities	137	204	237	273	302
Deferred tax	175	280	324	374	413
Total non-current assets	3,832	5,407	5,492	6,379	7,446
Total liabilities	13,458	15,386	15,966	18,024	19,510
Minority interests	4,675	6,678	5,904	4,560	3,937
Share capital	114	114	114	114	114
Reserves	26,320	29,007	30,457	31,980	33,579
Dividend	456	512	588	677	778
Total shareholders' equity	26,889	29,632	31,159	32,770	34,471
Total liabilities and shareholders' equity	45,022	51,697	53,029	55,354	57,917
NBV/Share(HK$)	23.65	26.06	27.40	28.82	30.32

Financial ratios

	2007F	2008F	2009F	2010F	2011F
Operating ratios					
EBIT margin %	16.7	13.7	13.5	13.3	13.2
Net margin %	13.5	11.6	11.8	12.1	12.0
Dividend payout %	35.9	32.4	29.9	30.0	30.0
Inventory turnover days	51.5	65.0	70.6	70.7	72.2
A.R. turnover days	22.2	17.9	18.2	18.3	18.6
A.P. turnover days	32.2	36.7	29.9	29.9	30.6
Valuation ratios					
P/Sales	4.1	2.4	2.2	2.0	1.8
EV/EBITDA	17.1	13.6	12.8	12.3	11.4
P/Operating cash flow	22.1	21.6	16.1	13.6	11.8
P/B %	1.8	1.6	1.5	1.4	1.4
ROE %	8.3	8.1	8.9	10.0	10.4
ROA %	3.3	4.4	5.1	5.8	6.0
Financial ratios					
Net gearing %	(12.0)	3.2	10.2	19.2	18.4
Long term debt / Equity %	12.2	13.1	14.2	15.9	18.0
Current ratio	*1.4*	*1.3*	*1.1*	*0.9*	*0.9*
Dividend yield %	1.4	1.6	1.7	2.0	2.2
Interest coverage	7.5	6.6	9.5	9.8	8.9

Source: the Company, Guotai Junan (HK) research

Company Rating Definition
The Benchmark: Hong Kong Hang Seng Index
Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition
The Benchmark: Hong Kong Hang Seng Index
Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

(1). The Analysts and their associates do not serve as director in the listed corporation mentioned in this Research Report.

(2). The Analysts and their associates have no financial interests in the listed corporation mentioned in this Research Report.

(3). Except for Shandong Chenming (01812), Guotai Junan and its group companies do not hold more than 1% of the market capitalization of listed corporation mentioned in this Research Report.

(4). Guotai Junan and its group companies have not had investment banking relationships within the preceding 12 months for the listed corporation mentioned in this Research Report.

DISCLAIMER

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