

Company Report: China Literature (00772 HK)

公司报告: 阅文集团 (00772 HK)

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Positive on Intellectual Property Operations Business

对版权运营业务持正面看法

- **We are positive on the Company's intellectual property operations (IP operations) business due to 1) recovery of China's TV and film industry in 2H20 under the efficient control of COVID-19; 2) More synergy effects are expected between China Literature, Tencent Pictures and New Classics Media (NCM).** We categorize the expected development of the Company's IP operation business into three periods: 1) we believe that 2020 is the year of reform for the Company. IP structure is expected to be optimized; 2) in 2021, we believe the Company's IP operations business will become resilient, based on the preparation that took place in 2020; and 3) we believe IP operations business will return to pre-pandemic levels in 2023 and varied IP monetization methods are expected.
- **We believe the Company's user base to steady expand in our forecasted period.** Under 1) the traffic support by Tencent and 2) the amplification of the Company's reading content, we forecast the MAU on both the Company's self-owned platform products and self-operated channels on Tencent products to be 256.2 million, 280.7million and 306.6million from FY2020 to FY2022, respectively.
- **We maintain our investment rating as "Buy", and revise up the TP to HK\$69.00.** Our target price implies 109.6x, 49.5x and 45.1x 2020-2022 Non-GAAP PER, respectively. In addition, the target price corresponds to 7.6x, 6.1x and 4.8x 2020-2022 PS, respectively.
- 由于 1)在疫情得到有效控制的情况下,中国电视剧和电影行业在 2020 年下半年复苏; 2) 阅文集团、腾讯影业和新丽传媒之间有望产生更多的协同效应,我们对公司的版权运营业务持正面看法。我们将公司版权运营业务的预期发展分为三个阶段: 1) 我们认为 2020 年将是公司的改革年。预计将对版权结构进行更多优化; 2) 2021 年,我们认为公司的版权运营业务将因 2020 年的前期准备而开始复苏; 3) 我们认为版权运营业务将在 2023 年回到疫情前的水平,并且预计将有多样化的版权变现方式。
- **我们认为公司的用户基数将在我们的预测期内稳步增长。**在 1) 腾讯的流量支持和 2) 公司阅读内容的丰富下,我们预测 2020 年到 2022 年公司自有平台产品和腾讯产品自营渠道的月活跃用户分别为 2.562 亿、2.807 亿和 3.066 亿。
- **我们维持投资评级为“买入”并上调目标价至 69.00 港元。**目标价分别对应 109.6 倍、49.5 倍和 45.1 倍 2020-2022 年非 GAAP 市盈率。此外,目标价分别对应 2020 年至 2022 年 7.6 倍、6.1 倍和 4.8 倍的市销率。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$69.00

HK\$60.00

Share price 股价:

HK\$58.100

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	2.1	(3.2)	56.2
Rel. % to HS Index 相对恒指变动 %	(0.9)	(18.5)	58.2
Avg. Share price(HK\$) 平均股价 (港元)	58.2	60.8	47.6

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	5,038	911	1.013	36.5	50.4	20.481	2.5	0.000	0.0	5.9
2019A	8,348	1,096	1.098	8.4	47.3	19.434	2.7	0.000	0.0	5.8
2020F	7,823	(2,487)	(2.373)	(316.1)	(20.7)	17.894	2.7	0.000	0.0	(13.0)
2021F	9,739	1,152	1.047	n.a.	46.9	18.002	2.7	0.000	0.0	6.0
2022F	12,400	1,379	1.194	14.0	41.2	18.261	2.7	0.000	0.0	6.7
Shares in issue (m) 总股数 (m)					1,015.8	Major shareholder 大股东				Tencent Holdings 59.2%
Market cap. (HK\$ m) 市值 (HK\$ m)					59,018.0	Free float (%) 自由流通比率 (%)				22.0
3 month average vol. 3 个月平均成交股数 ('000)					3,901.2	FY21 Net gearing (%) FY21 净负债/股东资金 (%)				(20.2)
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)					69.850 / 25.950	FY21 P/S				5.1

Source: the Company, Guotai Junan International.

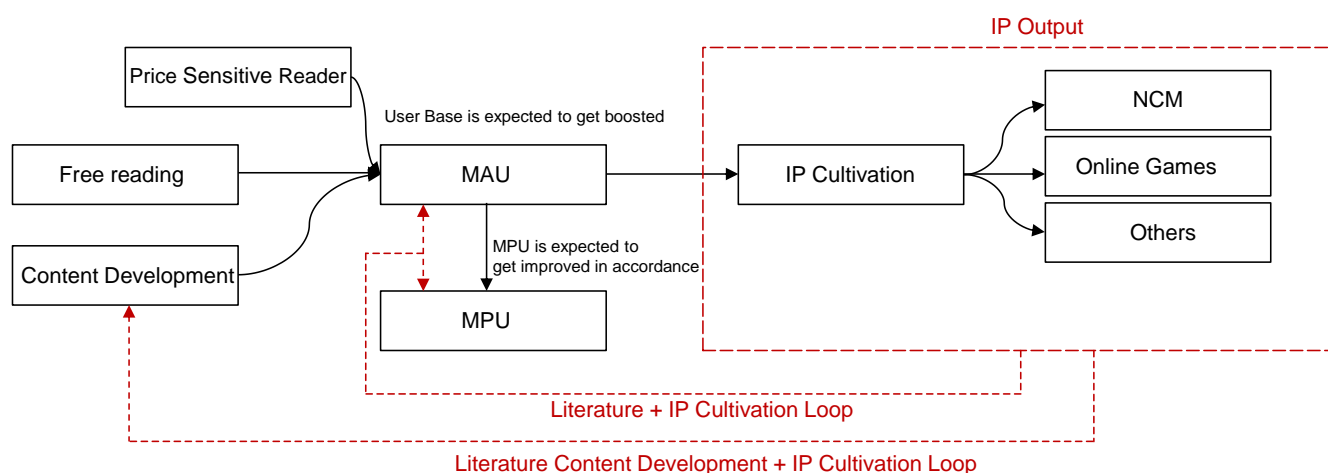
We revise up IP operations revenue for 2020-2022 by 5.8%, 4.3% and 2.9%, respectively. We have categorized the Company's expected IP operations business development into three periods from 2020 to 2022: 1) we believe that 2020 is the year of reform for the Company. IP structure is expected to be optimized; 2) in 2021, we believe that the Company's IP operations business will become resilient, based on preparation that took place in 2020; and 3) we believe that IP operations business will rally to pre-pandemic levels in 2023 and varied IP monetization methods is expected. In addition, we are positive on the Company's IP operations business in our forecasted period according to following reasons: 1) China's offline film and television industry has been recovering well during the pandemic period; According to the third-party data company TV Series Observation, 331 units of new TV series filming took place in 2020, only 5.2% less than that in 2019. Specifically, under the impact of the pandemic, only 97 units of new TV series started filming in 1H20 while the amount rebounded to 234 units in 2H20 due to the efficient control of COVID-19. NCM has 5 new TV series including Ao Xu, co-produced by Tencent Pictures and NCM, and The Rebel, co-produced by iQIYI and NCM. We believe the gradual recovery of TV series production could provide stable cash flow to IP operations business during our forecasted period. 2) More synergy effect between China Literature, Tencent Pictures and NCM is expected. On Oct 19th, Tencent Pictures, NCM and Yuewen Media jointly held a 2020 annual press conference. These three companies jointly announced the update of 56 TV series and movie projects, including Joy of Life Season 2. In addition, the manager of China Literature expects to further collaborate with Tencent Pictures and NCM on IP operations development. In addition, the Company is expected to focus more on IP operations on TV series, film and animation production. On Dec. 21st, Tencent Comic and Yuewen Comic jointly announced to produce around 300 fiction-based IP comics, including Dazhou Xianshi, Wanzhu Zhijie, etc. 3) Literature content development is expected to be further expand. On Dec. 17th, the Company announced that it will collaborate with the U.S.-based company, The Walt Disney Company, to create content for Disney's 'Star Wars' media franchise and introduce a Chinese-language online literary version. Therefore, with expected literature content amplification and varied ways of IP operations, we estimate the Company's IP operations income from 2020-2022 to be RMB2,423.9 million, RMB3,347.4 million and RMB4,893.9 million from 2020 to 2022, respectively.

Table-1: New TV series of New Classics Media in 2020

Ao Xu (赘婿)	My Best Friend's Story (流金岁月)	The Rebel (叛逆者)	Sword Snow Stride (雪中悍刀行)
			

Source: TV Series Observation, Guotai Junan International.

We expect the Company's user base to steadily expand in our forecasted period. Reader time spent on online literature continued to grow on a yearly basis after China's effective control of the local COVID-19 epidemic, with 18.7% yoy increase in September 2020, according to Questmobile. Looking forward, we believe that the Company will focus more on user expansion in the near future. On the user acquisition side, with expected strengthened synergy with the Tencent platform, we believe that the Company's reader base is expected to further enhance and the cost is controllable. On the IP ecosystem side, we reiterate that the Company's IP operations could rekindle people's interest in novels, which will attract new readers and further broaden the user base. In addition, we believe that quality IP will have a relatively big amount of loyal readers. In this case, we believe that the Company's reader retention rate could maintain stable. Therefore, we forecast MAU on both the Company's self-owned platform products and self-operated channels on Tencent products to be 256.2 million, 280.7 million and 306.6 million from FY2020 to FY2022, respectively.

Figure-1: China Literature IP Cultivation Cycle


Source: the Company, Guotai Junan International.

Profit Review

We revise up the Company's Non-GAAP net profit attributable to shareholders for 2020-2022 by 1.4%, 2.7% and 3.8%, respectively. We believe the revenue decline of NCM, which was triggered by the outbreak of COVID-19 in 1Q20, as a one-off situation and believe that it will further rally in 2021 to 2022. In addition, we believe that the Company's IP operations business will be on an upward growth trend during our forecasted period. On the user acquisition side, we believe that under the collaboration between the Company and Tencent, user scale is expected to expand in an efficient way. Hence, we forecast Non-GAAP EPS to be RMB0.532, RMB1.179 and RMB1.295 in 2020-2022, respectively. Non-GAAP shareholders' net profit is expected to be RMB558.0 million, RMB1,297.1 million and RMB1,496.6 million in 2020-2022, respectively.

Table-2: Financial Estimations Revisions

RMB (million)	OLD			NEW			CHANGE		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Total revenue	7,690.2	9,602.0	12,263.1	7,822.9	9,739.4	12,399.8	1.7%	1.4%	1.1%
- self-owned platform products	3,952.0	4,256.0	4,838.0	3,952.0	4,256.0	4,838.0	0.0%	0.0%	0.0%
- self-operated channels on Tencent products	830.0	1,170.1	1,588.0	830.0	1,170.1	1,588.0	0.0%	0.0%	0.0%
- IP operations	2,291.2	3,209.9	4,757.1	2,423.9	3,347.4	4,893.8	5.8%	4.3%	2.9%
Net profit	(2,512.9)	1,098.4	1,303.2	(2,505.1)	1,132.5	1,357.5	(0.3%)	3.1%	4.2%
Non-GAAP Profit	550.1	1,263.1	1,442.3	558.0	1,297.1	1,496.6	1.4%	2.7%	3.8%
Non-GAAP EPS	0.525	1.148	1.248	0.532	1.179	1.295	1.4%	2.7%	3.8%

Source: Guotai Junan International.

Valuation & Investment Rating

We maintain our investment rating as "Buy", and revise up the TP to HK\$69.00. We believe that the Company's IP operation business will start to rally in 2021 and reach pre-pandemic levels in 2022. In addition, we believe the Company's user scale is expected to further increase, under 1) traffic support by Tencent and 2) amplification of the Company's content production. Our target price HK\$69.00 implies 109.6x, 49.5x and 45.1x 2020-2022 Non-GAAP PE, respectively. In addition, our target price implies 7.6x, 6.1x and 4.8x 2020-2022 PS, respectively.

Table-3: Peers Comparison

				PER (x)			PBR (x)			P/S	PEG	Market Cap
Company	Ticker	Currency	Price	20F	21F	22F	20F	21F	22F	20F	20F-22F	Local currency (million)
US Online Game Companies												
Glu Mobile Inc	GLUU US	USD	9.130	20.6	16.5	13.1	3.8	3.3	2.6	2.9	0.8	1,570
Sciplay Corp-Class A	SCPL US	USD	15.400	13.2	13.2	14.9	7.2	3.4	2.2	3.4	(2.3)	1,947
Take-Two Interactive Softwre	TTWO US	USD	204.740	57.2	36.5	35.6	9.2	7.0	6.1	4.3	1.9	23,550
Electronic Arts Inc	EA US	USD	141.320	13.6	26.2	24.0	5.5	5.1	4.8	5.3	2.5	40,994
Activision Blizzard Inc	ATVI US	USD	90.690	26.8	25.8	22.4	4.7	4.1	3.5	8.7	2.8	70,090
Netease	NTES US	USD	101.570	27.6	23.7	20.4	5.1	4.3	3.8	6.2	1.7	70,187
Simple Average				26.5	23.6	21.7	5.9	4.5	3.8	5.1	1.2	
Weighted Average				27.8	26.2	23.4	5.5	4.7	4.1	6.6	2.2	
HK Online Game Companies												
Kingsoft Corp Ltd	3888 HK	HKD	54.500	13.2	45.2	34.5	3.0	2.8	2.6	10.9	(0.3)	74,814
Forgame Holdings Ltd	484 HK	HKD	2.000	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	319
Linekong Interactive Group C	8267 HK	HKD	0.465	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	171
Idreamsky Technology Holding	1119 HK	HKD	4.060	8.6	7.5	6.8	1.1	1.0	n.a.	1.4	0.7	5,155
Tencent	700 HK	HKD	583.500	37.9	30.4	25.2	8.3	6.6	5.3	9.7	1.7	5,596,738
Boyaa Interactive Int.	434 HK	HKD	0.610	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	434
Fingertango Inc	6860 HK	HKD	0.720	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,391
Leyou Technologies Holdings	1089 HK	HKD	3.310	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10,212
Fire Rock Holdings Ltd	1909 HK	HKD	4.530	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4,349
Digital Hollywood Interactiv	2022 HK	HKD	0.084	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	168
Ourgame International Holdin	6899 HK	HKD	0.500	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	539
Baioo Family Interactive Ltd	2100 HK	HKD	0.900	6.1	4.9	3.7	1.2	1.1	0.9	1.5	0.2	2,447
Feiyu Technology Internation	1022 HK	HKD	0.198	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	306
Friendtimes Inc	6820 HK	HKD	1.900	6.6	5.0	4.3	1.7	1.3	1.1	1.5	0.3	4,144
IGG	799 HK	HKD	7.780	6.0	7.1	6.7	2.4	1.9	1.6	1.8	(1.0)	9,354
Zengame Technology Holding	2660 HK	HKD	1.130	3.5	3.3	3.1	1.2	0.9	0.8	1.0	0.5	1,150
Homeland Interactive Technol	3798 HK	HKD	5.150	16.4	13.9	10.4	n.a.	n.a.	n.a.	7.9	0.6	6,468
Cmge Technology Group Ltd	302 HK	HKD	2.830	6.8	5.4	4.7	1.3	1.1	1.0	1.3	0.3	7,104
Xd Inc	2400 HK	HKD	55.950	47.3	34.5	26.7	7.8	6.5	5.3	6.5	1.4	25,408
Netdragon	777 HK	HKD	17.000	10.7	8.3	7.2	1.3	1.2	1.1	1.3	0.5	9,537
Archosaur Games Inc	9990HK	HKD	20.750	23.7	12.5	10.1	4.1	3.6	3.0	8.4	0.4	
Simple Average				15.6	14.8	12.0	3.0	2.5	2.3	4.4	0.4	
Weighted Average				37.4	30.4	25.1	8.1	6.5	5.2	9.6	1.6	
Advertising Companies												
China Literature Ltd	772 HK	HKD	58.100	n.a.	37.0	28.2	3.0	2.8	2.5	6.2	n.a.	59,017
Momo Inc-Spon Adr	MOMO US	USD	13.890	7.9	7.4	6.2	1.5	1.4	1.2	1.3	0.6	2,899
Bilibili Inc-Sponsored Adr	BILI US	USD	102.460	n.a.	n.a.	7,318.6	34.2	45.3	44.1	19.5	n.a.	35,598
Sohu.Com Inc	SOHU US	USD	16.540	n.a.	13.7	n.a.	3.2	2.8	2.2	0.4	0.1	650
Weibo	WB US	USD	41.090	19.7	16.0	14.3	3.4	2.8	2.3	5.6	1.1	9,305
Cheetah Mobile	CMCM US	USD	1.800	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.0	n.a.	251
Soufun	SFUN US	USD	13.310	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	120
Phoenix New Media	FENG US	USD	1.190	n.a.	17.0	6.3	n.a.	n.a.	n.a.	0.5	n.a.	87
Twitter Inc	TWTR US	USD	53.880	n.a.	62.8	46.4	5.3	4.9	4.7	11.9	n.a.	42,853
Sina	SINA US	USD	42.370	20.1	17.7	17.7	1.5	1.1	1.0	1.2	3.1	2,531
Facebook	FB US	USD	270.970	27.1	24.2	20.3	6.3	5.1	4.1	9.2	1.7	771,802
Simple Average				18.7	24.5	932.2	7.3	8.3	7.8	5.7	1.3	
Weighted Average				26.9	26.2	319.2	7.3	6.6	5.7	9.6	1.7	
E-commerce Companies												
Pinduoduo Inc-Adr	PDD US	USD	187.200	(581.4)	475.1	125.5	51.4	49.9	34.8	28.7	n.a.	230,374
Alibaba*	BABA US	USD	240.400	34.5	23.2	19.2	6.1	4.4	3.8	7.1	1.1	650,435
VIPSHOP	VIPS US	USD	28.970	22.4	18.3	15.7	4.5	3.7	3.1	1.3	1.2	19,622
EBay	EBAY US	USD	52.030	15.3	14.2	12.5	14.2	7.5	5.2	3.5	1.4	35,866
JD.com	JD US	USD	95.500	57.2	40.3	28.5	8.0	6.9	5.7	1.3	1.4	149,448
AMAZON	MZN US	USD	3218.510	66.7	54.5	40.3	17.5	13.0	9.7	4.3	2.3	1,614,891
Simple Average				(64.2)	104.3	40.3	16.9	14.2	10.4	7.7	1.5	
Weighted Average				2.1	81.3	41.3	17.0	13.6	10.1	6.8	1.9	
Search Engine Companies												
Sogou Inc-Adr	SOGO US	USD	8.210	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.8	n.a.	3,182
Alphabet Inc-CIA	GOOGL US	USD	1740.050	30.8	25.6	21.3	5.4	4.6	3.9	8.0	1.5	1,177,322
Baidu Inc - Spon Adr	BIDU US	USD	214.000	21.9	21.0	18.3	2.6	2.3	2.1	4.4	2.4	72,990
Simple Average				26.3	23.3	19.8	4.0	3.5	3.0	5.1	2.0	
Weighted Average				30.3	25.3	21.2	5.2	4.5	3.8	7.8	1.6	
Overall Average												
Overall Weighted Average				4.6	38.1	205.2	7.4	6.6	5.4	5.6	1.3	
				24.9	37.9	86.0	8.6	7.2	5.8	8.1	1.8	

Source: Bloomberg.

Note: * represents figures of FY19/FY20/FY21

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Self-owned platform products	2,213	2,425	3,952	4,256	4,838
Self-operated channels	952	836	830	1,170	1,588
Third-party platforms	663	449	488	580	598
Intellectual property operations	1,003	4,423	2,424	3,347	4,894
Others	207	214	129	386	482
Total Revenue	5,038	8,348	7,823	9,739	12,400
Cost of revenues	(2,480)	(4,656)	(3,924)	(5,047)	(6,671)
Gross profit	2,558	3,692	3,898	4,692	5,729
Interest Income	201	158	165	182	200
Impairment of financial assets	37	(25)	(222)	(111)	(89)
Other gains, net	339	453	(2,956)	582	671
S&M	(1,293)	(2,074)	(2,722)	(3,195)	(3,906)
G&A	(726)	(1,010)	(900)	(1,023)	(1,240)
Operating Profit	1,115	1,194	(2,736)	1,128	1,365
Finance cost, net	(148)	(173)	(104)	(114)	(120)
Share of associates / JV	111	159	174	192	211
Profit Before Tax	1,078	1,180	(2,665)	1,206	1,457
Income Tax	(165)	(68)	160	(74)	(99)
Profit after Tax	912	1,112	(2,505)	1,132	1,358
Non-controlling Interest	(2)	(16)	18	20	22
Shareholders' Profit / Loss	911	1,096	(2,487)	1,152	1,379
Basic EPS	1.013	1.098	(2.373)	1.047	1.194
Non-GAAP Shareholder's Profit	900	1,195	558	1,297	1,497
Non-GAAP EPS	1.002	1.197	0.532	1.179	1.295

Cash Flow Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Profit after tax	912	1,112	(2,505)	1,132	1,358
Income tax expense	165	68	(160)	74	99
Compensation charges	17	100	110	121	133
Share-based compensation	152	142	156	171	188
Amortisation of intangible assets	146	175	192	202	212
Impairment loss on drama	0	178	195	215	236
Impairment for intangible assets	0	0	4,375	0	0
Interest expense	49	167	100	110	115
Change in working capital	97	(601)	635	(696)	(356)
Others	(621)	(556)	(243)	(499)	(647)
Cash from Operating Activities	918	783	2,855	829	1,339
Change in PPE	(29)	(15)	(13)	(14)	(14)
Change in intangible assets	(154)	(201)	(221)	(288)	(317)
Change of term deposit	632	69	(2,345)	(582)	(698)
Settlement of consideration	0	(1,193)	(269)	(261)	(174)
payment for FA at FV P&L	(72)	(58)	(64)	(71)	(78)
Others	(554)	103	55	42	26
Cash from Investing Activities	(177)	(1,295)	(2,858)	(1,174)	(1,254)
Change in borrowings	(73)	(462)	(51)	(11)	(11)
Change in film investment	(38)	(165)	(141)	(110)	(70)
Finance costs	(46)	(175)	(100)	(110)	(115)
Others	(23)	(1,128)	24	(54)	(45)
Cash from Financing Activities	(180)	(1,930)	(268)	(285)	(241)
Net Changes in Cash	562	(2,442)	(271)	(630)	(157)
Cash at Beg of Year	7,502	8,342	5,932	5,738	5,237
FX change	278	32	76	129	79
Cash at End of Year	8,342	5,932	5,738	5,237	5,158

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Property and equipment	48	42	39	38	37
Right-of-use assets	0	93	74	78	82
Intangible assets	12,141	12,169	7,824	7,911	8,018
Invst in associates and JVS	681	964	867	954	1,049
FAs at FV through P&L	444	457	453	430	408
Deferred income tax assets	96	191	382	420	462
Prepayments, deposits and other	148	145	131	137	144
Total Non-current Assets	13,557	14,059	9,770	9,968	10,200
Inventories	130	606	653	704	761
Television series and film rights	2,857	1,108	1,170	1,956	2,406
Trade and notes receivable	1,830	3,366	2,693	2,720	2,747
Prepayments, deposits and other	610	668	802	882	970
Term deposits	482	416	2,910	3,492	4,191
Cash & Cash Equivalents	8,342	5,932	5,738	5,237	5,158
Others	27	95	85	94	103
Total Current Assets	14,278	12,191	14,050	15,085	16,336
Total Assets	27,835	26,250	23,820	25,053	26,536
Borrowings	1,385	1,303	1,251	1,238	1,226
Lease liabilities	0	56	58	61	64
Trade payable	1,131	1,021	1,082	1,168	1,262
Other payables and accruals	1,818	1,490	1,341	1,394	1,450
Deferred revenue	1,005	718	861	896	932
Current income tax liabilities	65	205	185	222	266
FL at FV through P&L	1,191	1,122	0	0	0
Total Current Liabilities	6,596	5,914	4,778	4,980	5,200
Lease liabilities	0	34	27	30	33
Deferred income tax liabilities	450	323	210	203	197
Deferred revenue	39	33	33	30	27
FL at FV through P&L	1,954	535	0	0	0
Others	380	0	23	24	25
Total Non-current Liabilities	2,823	926	293	287	282
Total Liabilities	9,420	6,839	5,071	5,267	5,483
Total Shareholders' Equity	18,403	19,397	18,753	19,809	21,098
Minority Interest	12	14	(4)	(23)	(45)
Total Equity	18,415	19,411	18,749	19,785	21,054

Financial Ratios					
	2018A	2019A	2020F	2021F	2022F
Gross margin (%)	50.8	44.2	49.8	48.2	46.2
Operating margin (%)	22.1	14.3	(35.0)	11.6	11.0
Net margin (%)	18.1	13.1	(31.8)	11.8	11.1
ROE (%)	5.9	5.8	(13.0)	6.0	6.7
ROA (%)	4.2	4.1	(9.9)	4.7	5.3

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance>15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	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	跑赢大市	Relative Performance>5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance<-5%; Or the fundamental outlook of the sector is unfavorable.

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