

Markets at a Glance

Indices	Closing	DoD%
Hang Seng Index	28795.8	(0.2)
HSCEI	10913.4	(0.1)
Shanghai COMP	3005.2	(0.3)
Shenzhen COMP	1591.2	(0.5)
Gold	1416.1	(0.2)
BDIY	1549.0	7.1
Crude Oil, WTI (US\$/BBL)	57.3	1.9
Crude Oil, BRENT (US\$/BBL)	63.3	(0.8)
HIBOR, 3-M	2.6	2.9
SHIBOR, 3-M	2.6	(0.5)
RMB/USD	6.87	(0.1)

Source: Bloomberg

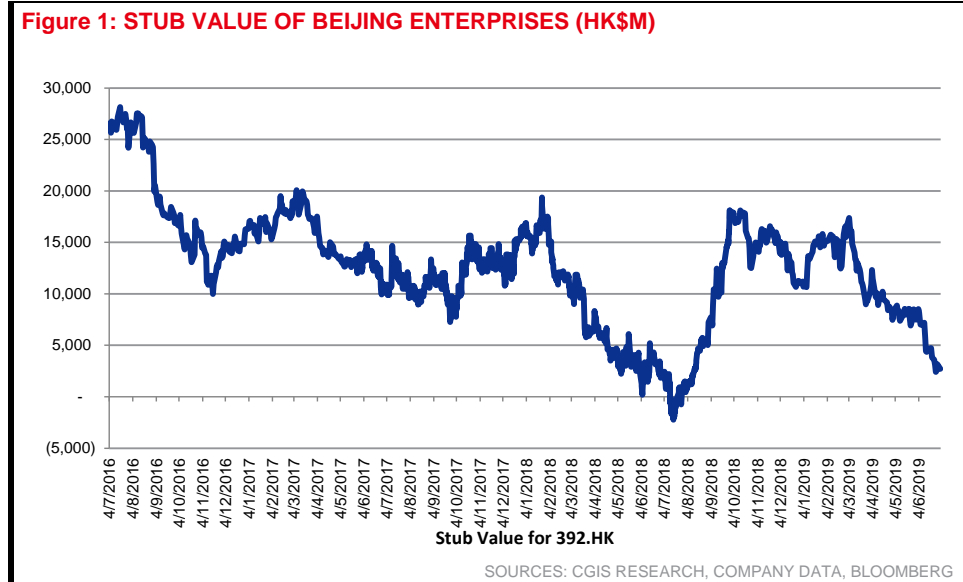
Upcoming Key Data Releases

Date	Key Data

Source: Bloomberg

CGIS Yum Cha Daily

TALKING POINT – BJE: STUB VALUE LOOKS ATTRACTIVE AGAIN



The share price of Beijing Enterprises (0392.HK) has been largely range bound in the past two months, while that of China Gas (0384.HK) has surged 33% since late May. As a result, the stub value of Beijing Enterprises dropped to the low-end of the 3-year range, as the Company owns a 23.7% stake in China Gas. If we apply a 30% holding company discount to the listed assets, the stub value implies the gas business of Beijing Enterprises (ex-China Gas) is trading at about 1x PER, which is overly conservative, in our view. Before considering the holding company discount, the attributable market cap from China Gas is equivalent to 75% of the market cap of Beijing Enterprises. In terms of PER, Beijing Enterprises is trading at 6.4x 2019E PER, while China Gas is trading at 17x FY20E PER, based on market consensus. We see the potential for Beijing Enterprises to catch up. (Analyst: Wong Chi-man)

RESEARCH NOTES

CHINA LESSO (2128.HK; HK\$6.57; ADD) – The share price of China Lesso has surged 19.7% in the past few days since market sentiment stabilized. We see further room for a re-rating. We expect the Company to deliver profit growth in the low teens in 1H19. An A-share peer provided upbeat guidance for 1H19. Increasing analyst coverage should attract more attention from investors. We raise 2019E EPS by 4.4% after raising our gross profit forecast by 2.8%. We lift our target PER from 7.5x 2019E (historical average) to 8x 2019E because of higher profit growth. We revise up our target price from HK\$7.2 to HK\$7.9. Reiterate ADD. (Analyst: Wong Chi-man)

Research Contact
Wong Chi Man, Head of Research

T: (852) 3698 6317

 E: cmwong@chinastock.com.hk

Hong Kong
ADD

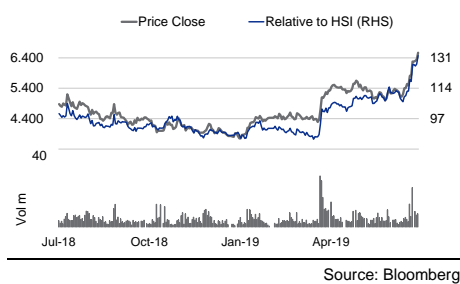
Consensus ratings*: Buy 8 Hold 0 Sell 0

Current price:	HK\$6.57
Target price:	HK\$7.90
Previous target:	HK\$7.20
Up/downside:	20.2%
CGS-CIMB / Consensus:	N/A
Reuters:	
Bloomberg:	2128 HK
Market cap:	US\$2,618m HK\$20,383m
Average daily turnover:	US\$3.31m HK\$25.93m
Current shares o/s:	3,102m
Free float:	31.5%

*Source: Bloomberg

Key changes in this note

- FY19F Revenue increased by 2.9%.
- FY19F EPS increased by 4.4%.
- FY19F ROE increased by 0.6ppt.



Price performance	1M	3M	12M
Absolute (%)	25.4	23.3	34.6
Relative (%)	17.8	27.1	32.6

Major shareholders	% held
Wong Luen Hei	68.4

Analysts
Wong Chi Man

 T (852) 3698 6317
 E cmwong@chinastock.com.hk

Mark Lau

 T (852) 3698 6393
 E marklau@chinastock.com.hk

China Lesso

Further room for a re-rating

- The share price of China Lesso has surged 19.7% in the past few days since market sentiment stabilized.
- We see further room for a re-rating. We expect the Company to deliver profit growth in the low teens in 1H19.
- An A-share peer provided upbeat guidance for 1H19.
- Increasing analyst coverage should attract more attention from investors.
- We raise 2019E EPS by 4.4% after raising our gross profit forecast by 2.8%. We lift our target PER from 7.5x 2019E (historical average) to 8x 2019E because of higher profit growth. We revise up our target price from HK\$7.2 to HK\$7.9. Reiterate ADD.

Strong share price performance but still room to go higher

The share price of China Lesso was largely range bound in Q2 2019, as market sentiment was not favourable for mid caps amid concern about the trade dispute. But the share price has jumped 19.7% in the past few days since market sentiment stabilized and improved. It is trading at only 6.5x 2019E PER, and we see a few reasons for the share price to go higher.

Expect to deliver low-teens EPS growth in 1H19

With more than half of its revenue from southern China, the Company's sales volume growth for plastic pipes may be slightly below 10% in 1H19, as the rainy weather affected the progress of construction activity. However, we believe its gross profit performance is likely to remain solid, as the decline in PVC, HDPE and PP prices in Q2 will support its margin. Although the Company has adopted a cost-plus pricing model, there is a time lag between decline in raw material costs and product price adjustments. Overall, we raise our 2019E gross profit by 2.8% and 2019E EPS by 4.4%.

1H19 upbeat guidance from an A-share peer

Yonggao (002641.CH) met some investors on July 2. Although it is a relatively small company, more than 90% of its revenue is from plastic pipes, so it is quite similar to China Lesso in terms of business nature. Yonggao issued some highlights of the meeting. The note mentioned that its operations in Q2 were running properly, while production and sales performance remained strong. We understand that for China Lesso, demand from infrastructure projects was strong in 1H19, while the demand from the property sector was stable.

Increasing analyst coverage should draw attention

In the past, only a few analysts closely followed China Lesso. However, three more analysts covered the Company in 1H19. This should help increase investors' awareness of the stock, given its low valuation and deep discount to its A-share peers (Weixing New Building Material (002372.CH) at 22.8x 2019E PER; Guangdong Xionsu (300599.CH) at 12.9x 2019E PER).

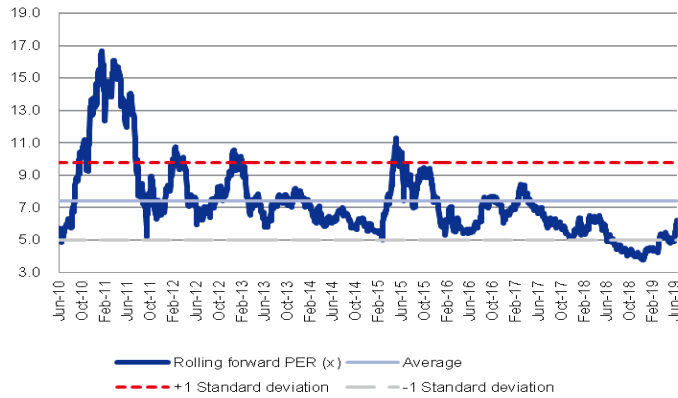
Target price raised; reiterate ADD

We lift our target price from HK\$7.20 to HK\$7.90 after raising our EPS forecasts and target PER. Previously, we set the target PER at 7.5x, in line with its historical average. Now we raise it to 8x 2019E on the back of faster earnings growth after the revision.

Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	
Revenue (Rmbm)	20,360	23,734	26,482	29,032	
Operating EBITDA (Rmbm)	3,263	3,953	4,397	4,787	
Recurring Net Profit (Rmbm)	2,021	2,402	2,722	3,038	
Core EPS (Rmb)	0.65	0.77	0.88	0.98	
Core EPS Growth	5.2%	18.8%	13.3%	11.5%	
FD Core P/E (x)	8.50	7.20	6.52	5.85	
DPS (Rmb)	0.18	0.30	0.31	0.34	
Dividend Yield	3.10%	5.17%	5.27%	5.87%	
EV/EBITDA (x)	6.77	5.61	4.90	4.02	
P/FCFE (x)	21.08	6.07	42.38	9.82	
Net Gearing	28.1%	35.0%	28.0%	14.3%	
P/BV (x)	1.33	1.22	1.04	0.90	
ROE	16.6%	17.0%	17.2%	16.5%	
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			1.03	1.03	0.00

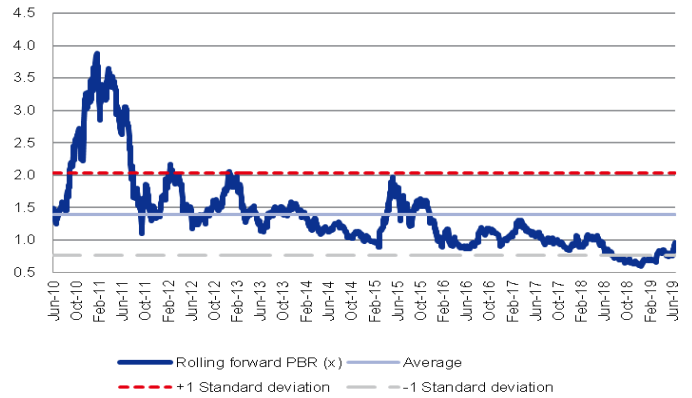
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: PER range of China Lesso



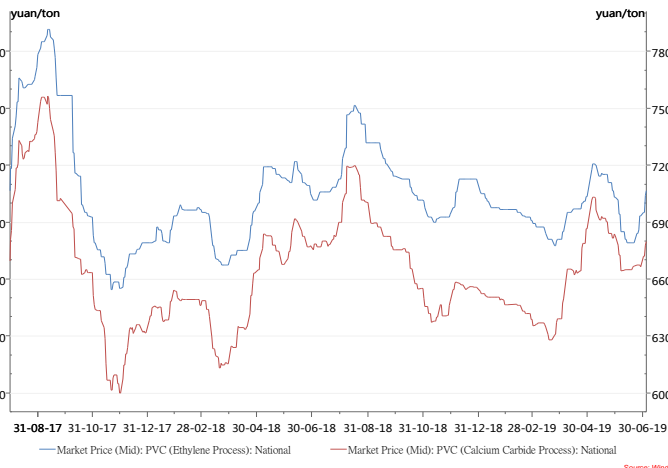
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 2: PBR range of China Lesso



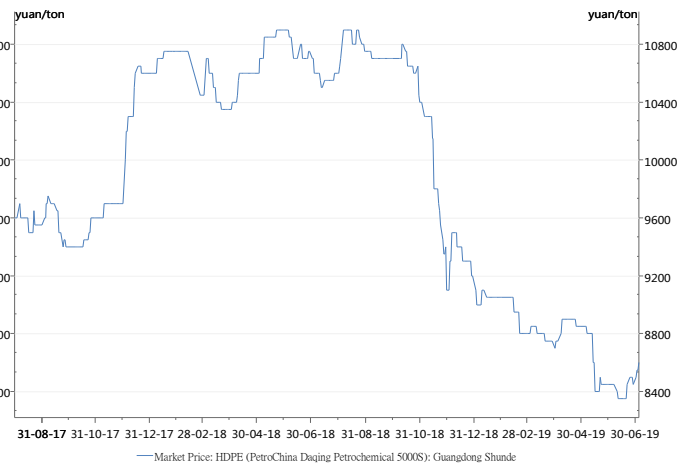
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 3: PVC prices (RMB/tonne)



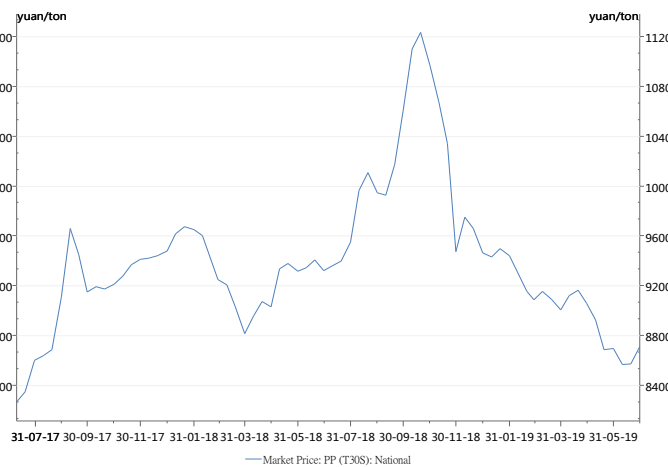
SOURCES: CGIS RESEARCH, WIND

Figure 4: HDPE prices (RMB/tonne)



SOURCES: CGIS RESEARCH, WIND

Figure 5: PP prices (RMB/tonne)

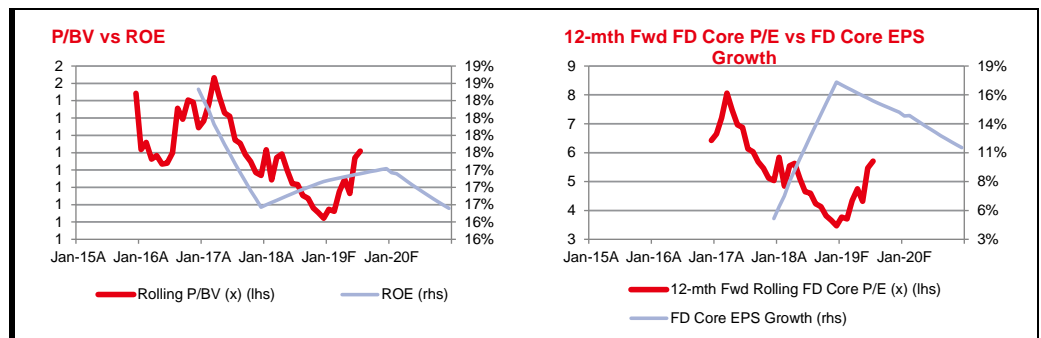


SOURCES: CGIS RESEARCH, WIND

Figure 6: Brent crude prices (US\$/barrel)



SOURCES: CGIS RESEARCH, WIND

BY THE NUMBERS

Profit & Loss

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Net Revenues	20,360	23,734	26,482	29,032
Gross Profit	5,317	6,228	6,959	7,594
Operating EBITDA	3,263	3,953	4,397	4,787
Depreciation And Amortisation	(647)	(758)	(833)	(915)
Operating EBIT	2,616	3,195	3,564	3,872
Financial Income/(Expense)	(147)	(310)	(319)	(259)
Pretax Income/(Loss) from Assoc.	(1)	117	186	218
Non-Operating Income/(Expense)	121	114	121	132
Profit Before Tax (pre-EI)	2,633	3,160	3,602	4,013
Exceptional Items	365			
Pre-tax Profit	2,955	3,116	3,552	3,963
Taxation	(689)	(789)	(873)	(974)
Exceptional Income - post-tax				
Profit After Tax	2,266	2,327	2,679	2,989
Minority Interests	27	46	43	49
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	2,293	2,492	2,722	3,038
Recurring Net Profit	2,021	2,402	2,722	3,038

Cash Flow

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F
EBITDA	3,263	3,953	4,397	4,787
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(1,602)	(545)	566	258
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	102	(967)	(566)	970
Net Interest (Paid)/Received	(147)	(310)	(319)	(259)
Tax Paid	(689)	(789)	(873)	(974)
Cashflow From Operations	927	1,342	3,206	4,781
Capex	(1,169)	(1,106)	(1,100)	(1,100)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(2,529)	(683)	(450)	(350)
Cash Flow From Investing	(3,698)	(1,789)	(1,550)	(1,450)
Debt Raised/(repaid)	3,625	3,412	(1,231)	(1,500)
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(473)	(785)	(838)	(935)
Preferred Dividends				
Other Financing Cashflow	250	(180)	(434)	(371)
Cash Flow From Financing	3,401	2,447	(2,503)	(2,805)
Total Cash Generated	630	1,999	(847)	526
Free Cashflow To Equity	853	2,964	424	1,831
Free Cashflow To Firm	(2,542)	(32)	2,089	3,702

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Cash And Equivalents	4,452	6,452	5,605	6,131
Total Debtors	4,199	4,535	4,749	5,111
Inventories	3,228	3,521	3,800	4,000
Total Other Current Assets	269	375	375	375
Total Current Assets	12,148	14,883	14,529	15,617
Fixed Assets	7,156	7,479	7,797	8,037
Total Investments	4,089	6,035	6,622	7,139
Intangible Assets	258	621	621	621
Total Other Non-Current Assets	4,322	5,618	5,668	5,718
Total Non-current Assets	15,825	19,753	20,707	21,516
Short-term Debt	2,877	6,144	5,500	5,000
Current Portion of Long-Term Debt	0	0	0	0
Total Creditors	5,016	5,205	6,120	6,789
Other Current Liabilities	0	1,483	0	0
Total Current Liabilities	7,893	12,832	11,620	11,789
Total Long-term Debt	5,442	5,587	5,000	4,000
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	230	299	316	346
Total Non-current Liabilities	5,672	5,885	5,316	4,346
Total Provisions	626	846	835	865
Total Liabilities	14,190	19,563	17,771	17,000
Shareholders' Equity	13,490	14,803	17,239	19,955
Minority Interests	294	270	227	178
Total Equity	13,783	15,073	17,466	20,133

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue Growth	18.2%	16.6%	11.6%	9.6%
Operating EBITDA Growth	8.1%	21.1%	11.2%	8.9%
Operating EBITDA Margin	16.0%	16.7%	16.6%	16.5%
BVPS (Rmb)	4.35	4.77	5.56	6.43
Gross Interest Cover	11.60	7.80	8.34	10.58
Effective Tax Rate	23.3%	25.3%	24.6%	24.6%
Net Dividend Payout Ratio	24.0%	32.5%	30.2%	30.3%
Accounts Receivables Days	29.01	30.90	29.47	29.37
Inventory Days	72.48	70.36	68.44	66.58
Accounts Payables Days	80.36	76.09	83.17	82.02
ROIC (%)	25.6%	22.5%	23.4%	23.2%
ROCE (%)	13.9%	13.3%	13.2%	13.7%
Return On Average Assets	8.34%	8.56%	8.72%	9.11%

Key Assumptions

	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Sales volume (tonnes)	2,004,840	2,168,622	2,407,500	2,599,000
PVC	1,582,697	1,682,949	1,816,338	1,934,826
Non-PVC	422,143	485,673	591,162	664,174
ASP per tonne (RMB)	9,033	9,841	9,869	9,980
PVC	7,481	8,116	8,212	8,272
Non-PVC	14,853	15,820	14,961	14,958
Cost per tonne (RMB)	6,582	7,159	7,214	7,305
Gross profit per tonne (RMB)	2,451	2,682	2,656	2,676

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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We are transferring the rating mechanism from “BUY, SELL, HOLD” to “ADD, REDUCE, HOLD”. Please refer to the definitions below.

Explanation on Equity Ratings (Existing mechanism (will be replaced by new mechanism by 01/09/19))

BUY : share price will increase by >20% within 12 months in absolute terms
SELL : share price will decrease by >20% within 12 months in absolute terms
HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

Explanation on Equity Ratings (New mechanism)

ADD : The stock’s total return is expected to exceed 10% over the next 12 months.
REDUCE : The stock’s total return is expected to fall below 0% or more over the next 12 months.
HOLD : The stock’s total return is expected to be between 0% and positive 10% over the next 12 months.

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20/F, Wing On Centre, 111 Connaught Road Central, Sheung Wan, Hong Kong. General line: 3698-6888.