復旦大學管理学院
SCHOOL OF MANAGEMENT
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Analysis Report: Anhui Conch Cement (600585.SH)

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CONCH
海螺水泥

As china's largest cement producer, Conch will enjoy double-clicks on its revenue and stock price.

OUTLINES

We expect a gentle rise of FY18/19 cement price. By the end of 1H,2017, China has 2.2 billion tons of clinker capacity and 3.83 billion tons of cement capacity, far away from its 5-year target. We expect 100mtpa cut in 2018 and 2019 respectively (10% of its existing capacity) and a stable growth in construction demand, leading to a smooth uplift in cement price.

Taking the leading position with outstanding cost-control ability and financial metrics, Conch will enjoy the policy bonus through a double-click on its revenue: higher selling price plus higher market share. As a highly homogenized industry, those company has location and cost advantages will benefit most through the production control. Conch, as the largest cement producer located in East China where has buoyant industrial demand, abundant raw martial recourses and high concertation level, can take advantage from its highest management efficiency as well as lowest unit cost to improve market share.

Conch's ambitions in expanding capacity and market will enhance its ROE in the long run and create another double-click on its stock price: higher profitability plus higher P/E ratio. We see that Conch owns vast potential to proactively expand its ROE through M&A and overseas capacity additions, as well as vertical business expansion (e.g. aggregate and concrete) backed by its robust cash position and net cash flow. This should fundamentally differentiate its valuation from other domestic peers, which rely on further cement price hikes to improve their ROE and are forced to involve in the remnant competition.

A safe shelter and cheap call option of china's capital market with 10 P/E, 1.6P/B and 3% dividend yield. A-share market has showed some positive signals after 2 years weakening, both technically and sentimentally. Political environment and financial regulation has eased post the national congress, providing a boost to the market performance. With low risk premium and stable dividend, conch is a prefect call option to participant in the future rise.

BUY Anhui Conch

Price：24.99

Price Target：36.52

Price Target Potential：46.14%

Price Target Period：1 Year

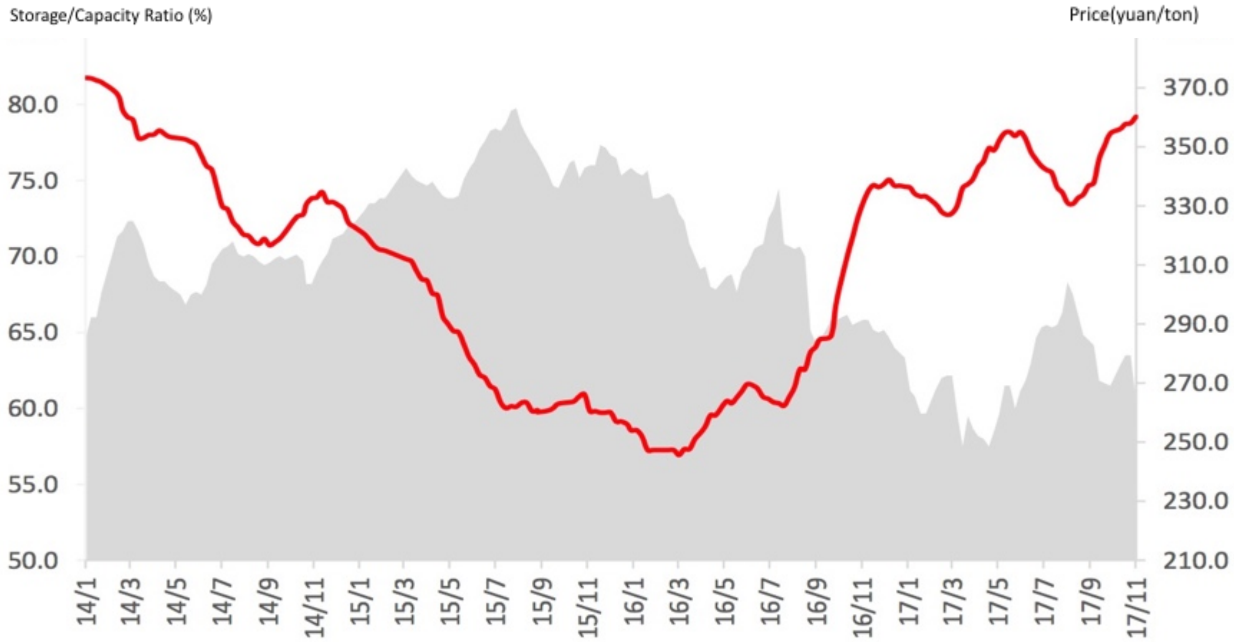
Stock Performance

Market Overview

Exchange	SSE
Sector	Construction Materials
Price Range(52wk)	16.22 - 27.13
Average Volume (3M)	2.06B
Market Cap	RMB 134.9B
Outstanding Shares	5.3B
P/E TTM	10.71
EPS TTM	2.33

Industry Analysis

The past year has witnessed the success of china's supply-side reform and the stability of china's economy, driving cement price to an uphill path and inventory to a record low.



Source: Wind

Policy

➢ **Supply-side reform**

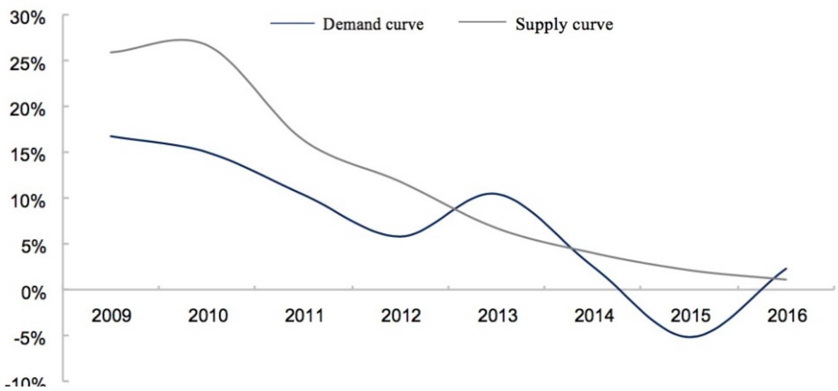
By the end of 1H,2017, China has 2.2 billion tons of clinker capacity and 3.83 billion tons of cement capacity. However, according to the 13[th] *Five Year Plan of Cement Industry* released in Jun 2016, the main reform target is: (by the end of 2020)

- Cut capacity by 400mtpa (20% of existing capacity)
- industry concentration reaches 80%(54% in 2015)
- pollutants discharge down 30%
- encourage Intelligent Manufacturing，e-commerce occupation reaches 30%(10% in 2015)

➢ **Environmental Restrictions**

According to the action plan released by MEP/NDRC/MII, Jing-Jin-Ji Area and surrounding provinces including Shanxi/Shandong/Henan were required to stop or shift production during the heating season (from Nov to Mar), which will affect around 20% of cement's total output. Taking other areas' restrictions into account, over 40% of cement output will be cut during the heating season.

Supply-Demand Outlook



As china's property and infrastructure construction account for nearly 70% of cement's consumption, it's reasonable to use FAI (Fixed Asset Investment) and RDI (Real-estate Development Investment) to evaluate cement's demand(exclude the impact of PPI). We can see the demand curve recovered since the second half of 2015, and exceed supply curve in 2016 due to supply-side reform.

In FY18 and FY19, we expect a 100mtpa clinker capacity cut annually according to the action plan of supply-side reform. Maintaining current cement/clinker ratio, it will result in a 7.3% decline of cement output. Though most of them can be covered by the rise of capacity utilization, it's very hard for the production growth to be positive again. By the end of Sep, 2017, cement's output growth was -0.5%yoy. Considering capacity cut plan for cement industry released in Jun 2017, a -0.5% yoy output growth for FY18 and FY19 is a conservative assumption.

Assume demand can maintain its current growth, cement will go through a shortage in the future. Even it stops increasing since 2016, in 2019 the market is still balanced. Thus, we expect a smooth uplift in cement price in the following 2 years.

	2014	*2015*	*2016*	*2017E*	*2018E*	*2019E*
Production (million ton)	2476.19	2347.96	2402.95	2390.93	2378.98	2367.08
yoy	2.6%	-4.9%	2.5%	-0.5%	-0.5%	-0.5%
Consumption (million ton)	2475.62	2307.89	2347.12	2389.39	2425.21	2461.58
yoy	3.0%	-6.7%	1.7%	1.8%	1.5%	1.5%

Source : Wind

Regional Structure

➢ **Demand**

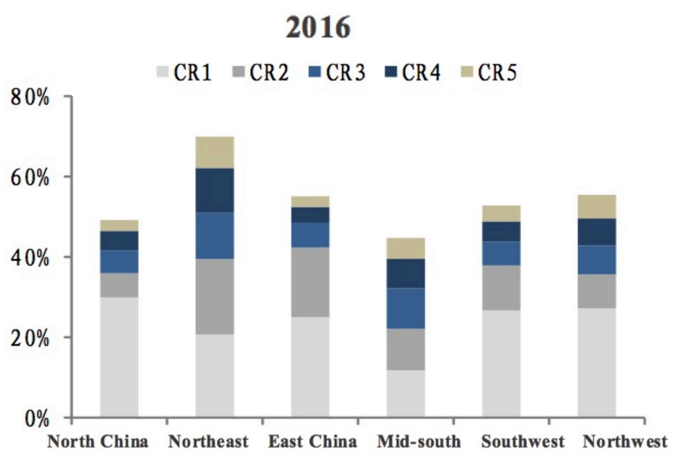
As to the property downstream, East China, Mid-south and Northwest maintained a health construction growth while other three parts suffered a decline. Investment in East China and Mid-south rebounded from Q3-16 and comfortably exceeded the national benchmark. Northeast was the worst area as a result of severe population loss. Also, Southern part outperforms northern part in output and capacity utilization, which also indicates southern part has better supply-demand environment.

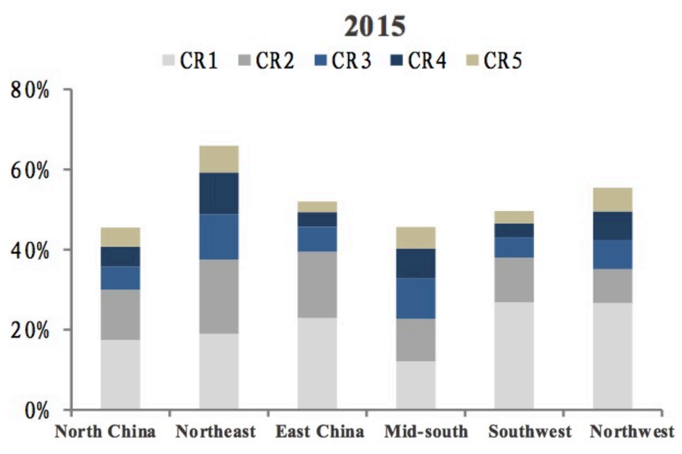
	FAI yoy	*RDI yoy*	*Output yoy*
National wide	**7.50%**	**8.10%**	**-0.47%**
North China	8.21%	6.82%	-3.79%
East China	**8.42%**	**11.15%**	**3.34%**
Southwest	13.39%	4.10%	-0.19%
Northeast	-0.72%	-5.38%	-12.20%
Mid-south	**12.37%**	**12.02%**	**-0.15%**
Northwest	8.80%	6.89%	0.36%

Source : Wind

➢ **Concentration Level**

Take related-party into consideration, use CR3 and CR5 to evaluate regional concentration level (chart 1). In general, Northeast is the most concentrated area with two leading companies, Yatai (600881.SH) and North Cement (Subsidiary of CNBM, 3323.HK) located in Jilin and Heilongjiang province respectively. The second place is taken by East China and Northwest, followed with Southwest and Mid-south, which was the most competitive area. However, compared with 2015, the concentration level all increased due to some big mergers. Especially in North China area, the merger of BBMG (601992.SH) and JDSN (000401.SZ) significantly reduces the competition intensity. Moreover, for cement industry, the threat of potential entrants mainly depends on the development of goods transportation. Geographical factors contribute to less competitors in northern and western areas.

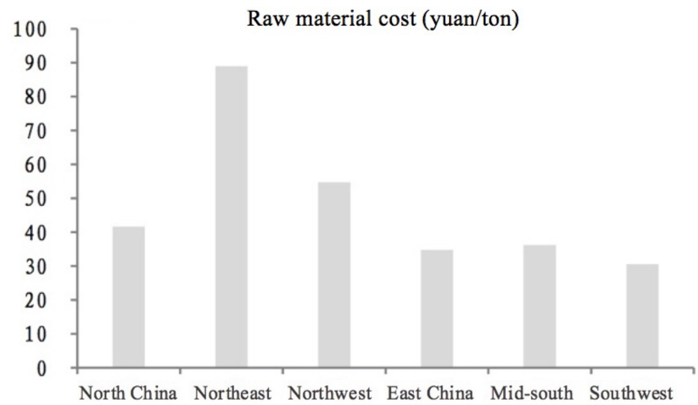


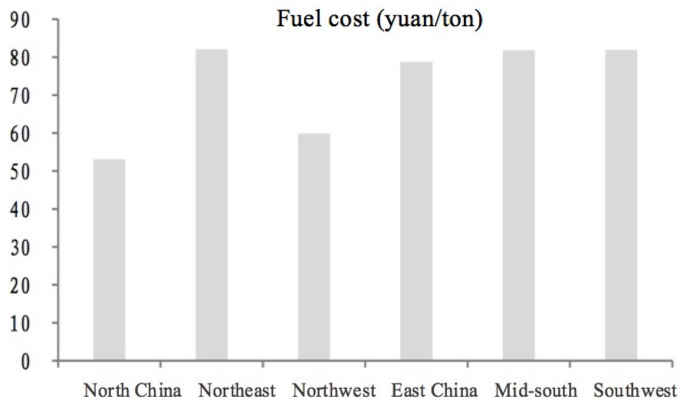


Source: Wind / Soochow Securities report

- **Profit Margin**

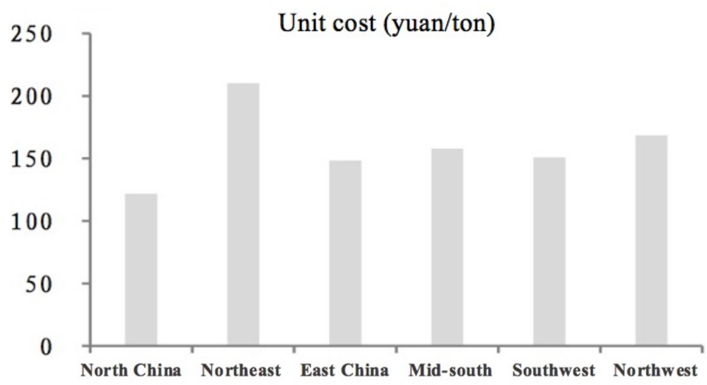
Raw material(limestone) and fuel(coal) occupied most of the cost of cement, accounted for 27% and 47% respectively. As most cement producers owned limestone mines, there's no significant different in limestone cost. However, as limestone reserves were mainly distributed in East China and Southwest, those two areas enjoyed a relatively low raw material cost. On the contrary, cement producer has low bargain power to its coal supplier, thus, those areas with abundant coal resource and low transportation cost would outperform others.

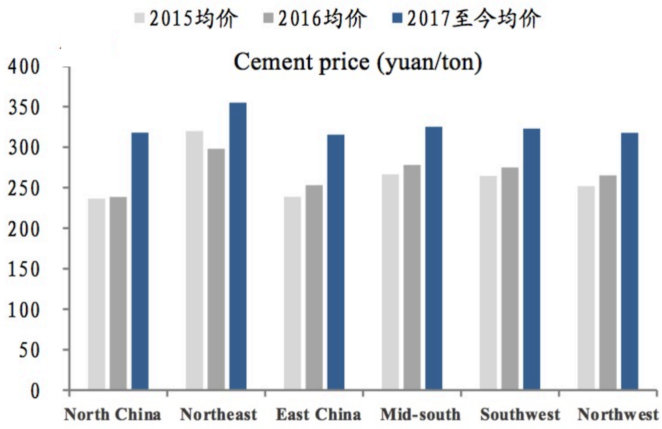




Source: Wind / Soochow Securities report

For price, northeast has the highest selling price due to its high concentration level. North China went through a sharp rise this year due to the merger, and price in East China and Mid-south was mostly driven by demand.





Source: Wind / Soochow Securities report

Conclusion

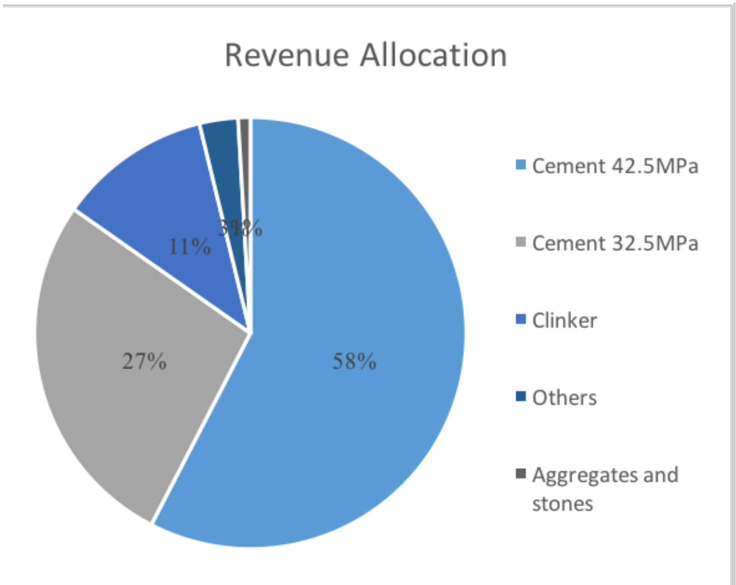
Given the unpredictable cement price and high volatility of coal cost in a highly homogenized market, those companies that built its main business in East China and Mid-south area and has strong cost-control ability and management efficiency can take full advantage of the cyclicity bonus.

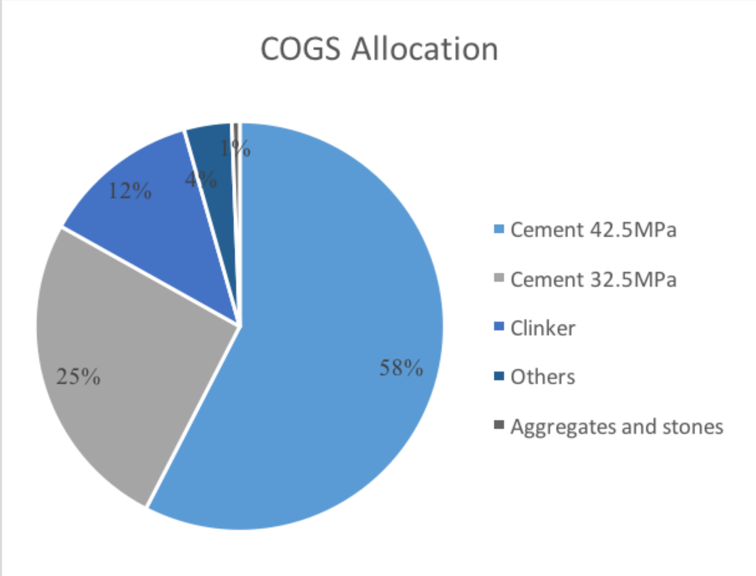
Area	*Demand*	*Concentration*	*Profit Margin*
North China	Mid	Mid	Mid
Northeast	Low	High	Mid
East China	**High**	**High**	**High**
Mid-South	High	Low	High
Southwest	Mid	Mid	Mid
Northwest	Mid	Mid	Low

Company Insights

Since its listing in 1997, Conch has focused on developing and growing its cement business by promoting independent innovation and technology innovation, facilitating energy conservation and emission reduction and developing recycling economy. After nearly 20-years' constant, healthy and steady development, and by continuously enhancing internal management and promoting technology innovation, the Company has created the unique "Conch model", establishing strong advantage in resources, technology, human resources, funding, market share and brand recognition.

According to the pie chart, Cement 42.5 contributes roughly 58% of the revenue. Cement 32.5 accounts for 27%. Clinker makes up 12% of the revenue. Other products share 3% of the revenue with the rest goes to aggregates and stones. In conclusion, the company mainly concentrates on the cement production(both #42.5 and #32.5).





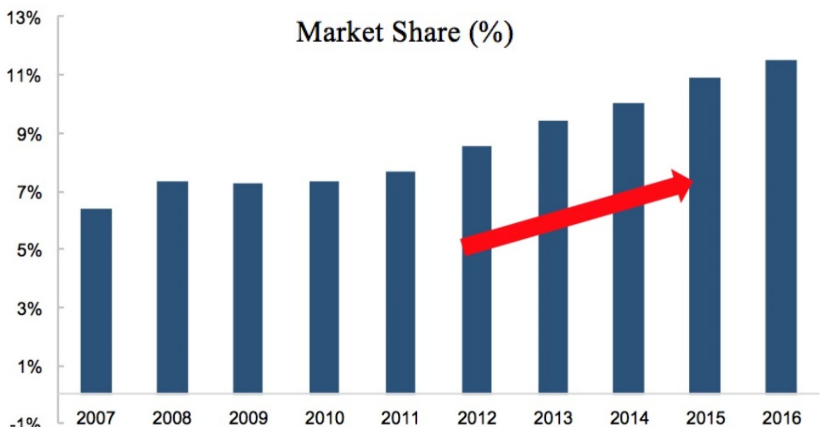
Source : Wind

Position Advantage: leading status and rising market share

➢ **Leading status**

The high-grade cement and commodity clinker of "CONCH" brand are the company's leading products. The brand "CONCH" is also recognized as a well-known trademark by State Trademark Office. "CONCH" Brand Cement is approved for inspection-free product by General Administration of Quality Supervision, Inspection and Quarantine. It is long-term and widely used in remarkable landmark projects, such as The Beijing–Shanghai High-Speed Railway, Hangzhou Bay Cross-sea Bridge, Shanghai Oriental Pearl TV Tower. Furthermore, the products are exported to more than 20 countries and regions in U.S., Europe, Africa, and Asia.

➢ **Rising market share**



Source : Wind

Conch has raised its market share continually through the past 10 years. In 2016, the merger between CNBM and Sinoma greatly improve Market Condition. Conch, China National Building Materials Group Corporation(CNBM) and Sinoma are three dominant players in cement business. The merger between CNBM and Sinoma will reduce the competition and raise the regional pricing power. Conch and the new CNBM account for approximately 50% and 40% of clinker capacity in eastern China and southwestern China and their market shares are 22% and 11% respectively (as shown in Table 1). This makes price coordination and "supply-side reform" much easier. In addition, the overlap between two giants may also enhance their bargaining power in coal procurement, as CNBM's management forms a joint coal procurement plan with Conch to reduce production costs. The tension between Conch and CNBM should now be loosen, leading to a recent increase in Conch's share price.

Market Share of the Domestic Cement Industry

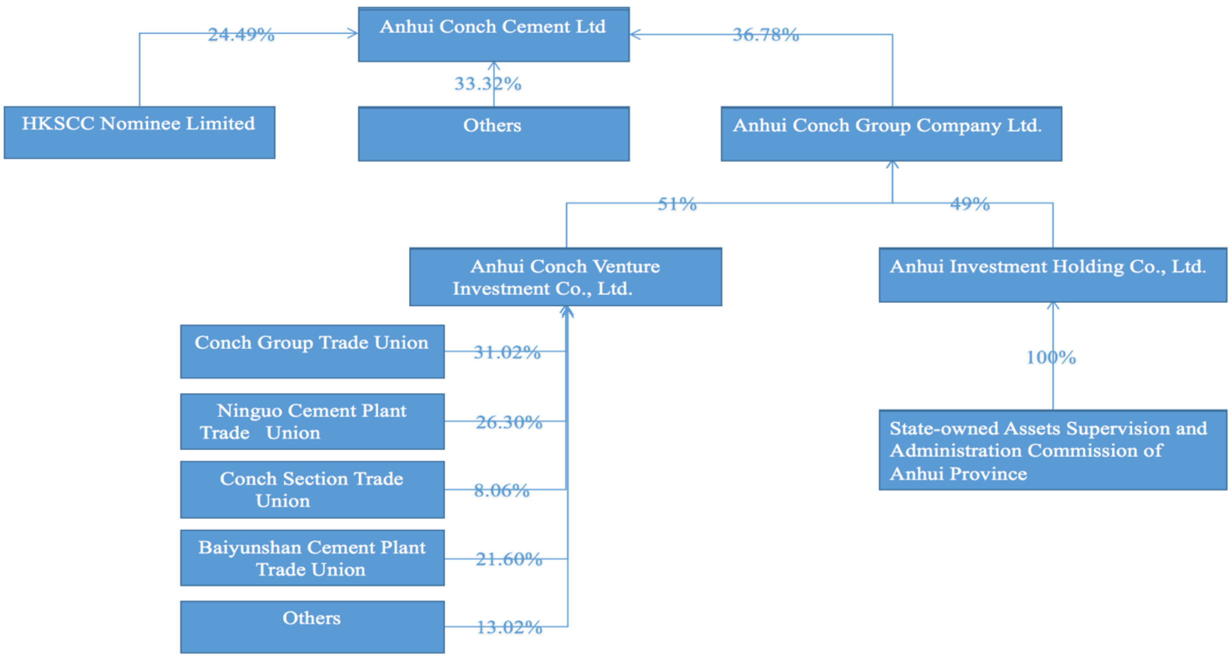
	CNBM	*Conch*	*Jidong*	*CRC*	*Huaxin*	*Shanshui*	*Hongshi*	*TCCI*	*Tianrui*	*Tapai*	*Total*
Eastern	29%	**19%**	0%	1%	0%	5%	4%	1%	0%	1%	60%
Southern	14%	**12%**	1%	12%	8%	0%	1%	5%	5%	1%	59%
Northern	8%	**0%**	32%	2%	0%	5%	0%	0%	0%	0%	47%
Northeastern	22%	**0%**	10%	0%	0%	12%	0%	2%	9%	0%	55%
Southwestern	27%	**12%**	1%	1%	9%	1%	5%	4%	1%	0%	61%
Northwestern	27%	**8%**	6%	0%	0%	1%	2%	0%	0%	0%	44%
Total	**22%**	**11%**	**6%**	**4%**	**4%**	**3%**	**2%**	**2%**	**2%**	**0%**	**56%**

Source: Digital Cement

Management Advantage: high efficiency and low unit cost

➢ **Management and Shareholder Structure**

As shown in the graph, State-owned Assets Supervision and Administration Commission of Anhui Province own 18% of the company; HKSCC Nominee Limited has 24.49% ownership. But the actual controller of Conch is Anhui Conch Venture Investment Co., Ltd (25% ownership)., which is formed by four groups of trade union (Conch Group Trade Union, Ninguo Cement Plant Trade Union, Conch Section Trade Union, Baiyunshan Cement Plant Trade Union) and eight other former members of the management team. Conch's shareholder structure is the result of stated-own enterprises reform, which creates the sense of ownership for the employees and provides a strong incentive for employees to work better.

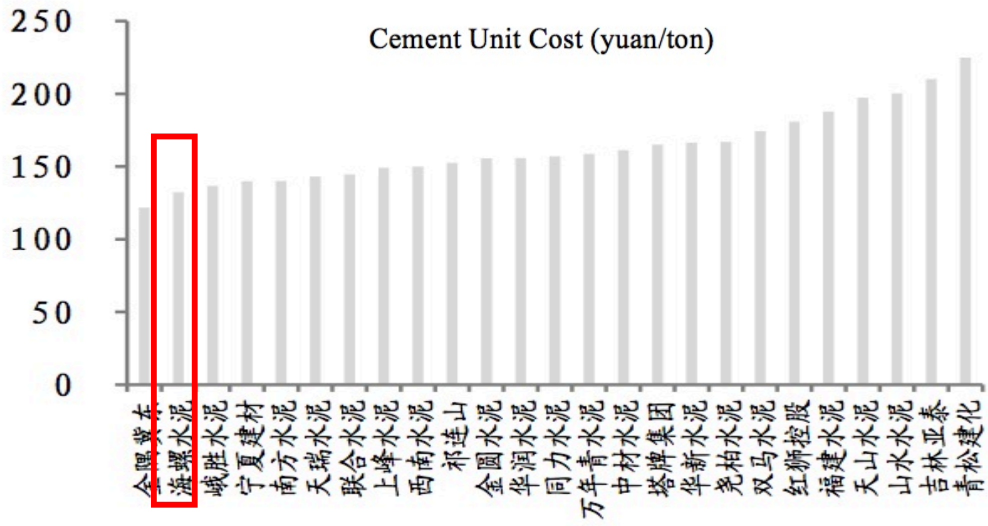


➢ **Closed tight with high-ranking government officials**

Over the year, the company enjoys a closed tight with the high-ranking Chinese government officials who highly support Conch's M&A and continuing expansions. President Xi Jinping has visited the company twice over the last five years and Premier Li Keqiang was born there. This invaluable asset gives the company an edge in the cement industry, especially in the policy front. Furthermore, the newly selected Chairman of the Board is also a former mayor from Anhui provincial government. Thus, we expect the company to have a closer tight with the local government.

➢ **Lowest unit cost**

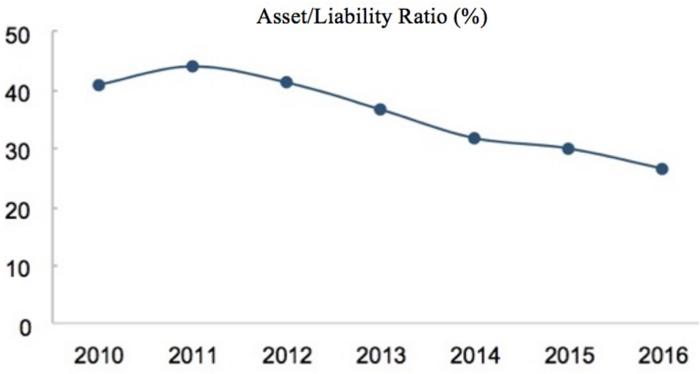
Conch's location, scale, management efficiency and financial status contribute to its second lowest unit cost in the industry. The lowest one is BBMG and JDSN group, benefiting from the merger.

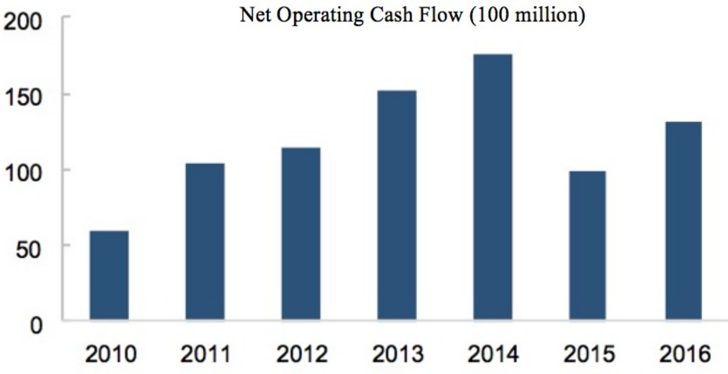


Source: Wind / Soochow Securities report

Financials: health cash condition and sustainable ROE

Conch had good financial conditions all along those years. With 20.7billion cash, 8.09 billion net cash flow 8.09 billion(7%yoy) and 26.35% A/L ratio disclosed in Q3 report, Conch is likely to increase its dividend yield afterwards.

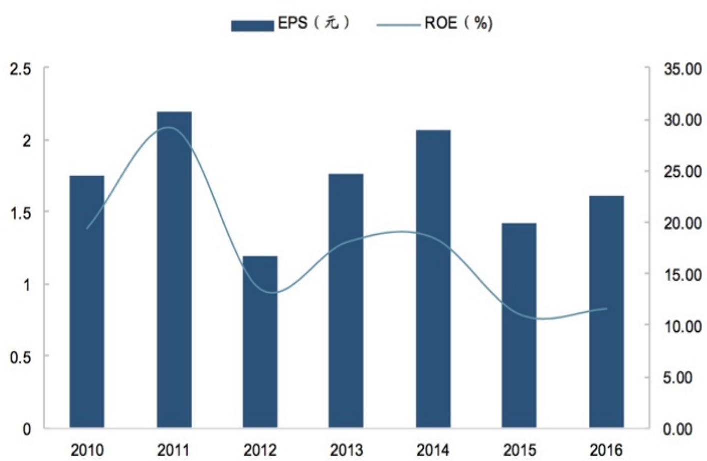




Source : Wind

- **Profitability**

Conch' s profit margin ranked 2nd among its comparable companies and maintained an over 10% ROE even in the downward market, showing its strong profitability.



Source : Wind

		Gross margin%	Net margin%	ROE%
600585.SH	Conch	32.47	16.00	11.59
000546.SZ	JYSN	36.96	15.15	15.20
002233.SZ	Tapai	26.10	12.53	10.10
000789.SZ	WNQ	23.52	6.83	8.44
600801.SH	Huaxin	26.28	4.59	4.61
600720.SH	QLS	28.24	2.64	3.43
600449.SH	Saimasy	28.94	2.59	1.38
000877.SH	Sinoma	21.54	0.38	1.61
000885.SZ	TLSN	25.34	2.38	1.93
000401.SZ	JDSN	24.17	-0.19	0.52
	Average	**27.36**	**6.29**	**5.88**

➢ **Solvency**

Conch significantly outperform its competitors in income quality and cash flow position.

		Current ratio	A/L ratio	A/R turnover
600585.SH	**Conch**	**1.72**	**26.68**	**103.89**
000546.SZ	JYSN	0.95	54.49	2.88
002233.SZ	Tapai	1.64	30.43	33.26
000789.SZ	WNQ	0.98	48.25	9.60
600801.SH	Huaxin	0.76	58.53	22.71
600720.SH	QLS	0.75	47.98	9.27
600449.SH	Saimasy	0.96	42.71	4.47
000877.SH	Sinoma	0.40	63.29	6.52
000885.SZ	TLSN	0.43	54.12	37.19
000401.SZ	JDSN	0.52	73.08	8.27
	Average	**0.91**	**49.96**	**23.82**

➢ **Growth**

Conch accomplished outstanding growth in cement industry.

		Revenue growth%	EBITDA growth%	Net Asset growth
600585.SH	**Conch**	**9.72**	**24.16**	**8.68**
000546.SZ	JYSN	16.02	22.25	16.65
002233.SZ	Tapai	-5.34	19.32	6.99
000789.SZ	WNQ	1.34	11.45	6.37
600801.SH	Huaxin	1.92	313.23	4.05
600720.SH	QLS	5.62	148.90	1.35
600449.SH	Saimasy	15.84	154.31	1.38
000877.SH	Sinoma	-0.90	86.96	-8.90
000885.SZ	TLSN	-2.94	259.23	1.76
000401.SZ	JDSN	11.05	78.00	-0.75
	Average	**5.23**	**111.78**	**3.76**

Company Strategies: future growth

In the context of supply-side reform, Conch will seize the opportunity of structural adjustment of the domestic cement industry, adhere to established principles and standards, steadily promote mergers and acquisitions and equity cooperation vertically and horizontally to further improve the layout of the domestic market and increase market share. In the meantime, Conch will continue to follow to the "One Belt and One Road" policy, actively implement its international strategy and explore oversea markets.

➢ **Domestic**

At the very beginning, 1998, Conch had implemented the T-sharp strategy to conquer East China market, where demand and profit margin was relatively high as mentioned before. Its central tactic was to establish clinker production base along the Yangtze River that had large limestone reserves, meanwhile, to acquire small and cheap cement plants in the coastal area, where is the main consumption area, and change them into its own cement mills to sell products.

This T-shape strategy made full use of the abundant raw material and transportation resources along the Yangtze River to reduce Conch's cost, and solved the contradiction between scale expansion and market development, contributing to its leading position in national wide.

In the past 10 years, rooted in East China Market, Conch has stablished over 480 marketing departments in the marketplaces where the Company operates across the country, building up an extensive marketing network. In 2016, its revenue in east, mid, west and south area reached 17.45,30.87,11.87,10.67 billion, accounts for 25%, 43%,17%,15 of its total revenue respectively. It also extends its business to upstream and downstream chain by adding capacities in aggregate and concrete industry, which has higher gross margin and promote the sustainable development of the company.

➢ **Overseas**

While continuing to further fine-tune its strategic market planning at home, Conch also proactively promoted its oversea expansion by keeping abreast with the "One Belt and One Road" policy advocated by the China government. In 2016, the Group has invested in the construction of cement projects and has gained control over or shareholding in 14 companies in five countries including Indonesia, Myanmar and Cambodia, achieving remarkable results.

In 2017, Conch has accomplished stage-II of Indonesia Pelabuhan Merak grinding station and pushed 4 clinker line in Indonesia and Cambodia into construction peaks. Projects in Laos, Russia and Burma were proceeding step by step, contributing to Conch's revenue in the long run. According to announcements, Conch's designed capacity in oversea market was 450mtpa, occupied 20.5% of its existing capacity, guaranteeing its future growth and thus differentiating it from other domestic peers, which rely on further cement price hikes to improve their ROE and are forced to involve in the remnant competition.

Moreover, the one-belt-one-road summit forum disclosed over 780 billion infrastructure investments among the related country, which, Conch as a cement company with wide business distribution and health oversea growth will surely benefit with.

Conclusion

As a highly homogenized industry, those company has location and cost advantages will benefit most through the production control. Conch, as the largest cement producer located in East China where has buoyant industrial demand, abundant raw martial recourses and high concertation level, can take advantage from its highest management efficiency as well as lowest unit cost to improve market share.

Moreover, we see that Conch owns vast potential to proactively expand its ROE through M&A and overseas capacity additions, as well as vertical business expansion (e.g. aggregate and concrete) backed by its robust cash position and net cash flow. This should fundamentally differentiate its valuation from other domestic peers, which rely on further cement price hikes to improve their ROE and are forced to involve in the remnant competition.

Evaluation

FCFF

Anhui Conch Cement has been in the industry for twenty years as a public company. It is a very mature company with good cash flow to firm since it went public. FCFF valuation is quite an ideal approach.

The WACC calculated is 11.18%. Risk free rate is 3.93% based on the China government long term debt. As of market risk premium, we calculated investment growth of the CSI 300 index's growth in recent 10 years including the reinvestment of dividends. It is 12.3% annually. So the market risk premium is 8.37%. Beta is 1.18 according to regression result of recent 100 weeks (resource from Wind.) Then we get cost of debt, actual tax and debt ratio from annual report. As of the long term growth, we use the forecast long term China CPI growth.

There is a 46.14% upside potential according to the valuation. The fair price is RMB 36.52 while current share price is RMB 24.99. Valuation chart is also showed below.

RMB 100M	2017E	2018E	2019E	2020E	2021E	2022E
EBIT after tax	152.1	169	185.9	202.8	220	236.6
D&A	20	23.42	27.42	32.11	37.6	44
NWC	-11.7	-13.7	-16	-18.8	-22	-25.8
Capex	-83.5	-75.2	-66.8	-58.5	-50.1	-41.8
FCFF	76.9	103.6	130.5	157.7	185	213.1
PV FCFF	76.9	93.2	105.6	114.7	121	125.4

PV terminal	1393.4
PV total	2030.4
Net Debt	-94.78
Firm Value	1935.62
No. shares	52.99
Value Price	**36.52**
Price now	**24.99**
Up potential	**46.14%**

Risk Free Rate	3.93%
Risk Premium	8.37%
Beta	1.18
Cost Debt	5%
Cost Equity	13.81%
Debt Ratio	26.35%
Tax	23.12%
WACC	**11.18%**
Growth	**2%**

Multiple

There are 47 companies in the same industry that are listed in the China stock market. The Anhui Conch Cement is the largest one by market capital with 132.5 billion RMB. While the second one is Tangshan Jidong Cement with 19.1 billion RMB. Anhui Conch Cement is about 7 times the second one in the industry.

Anhui Conch Cement has the lowest PE among the 47 companies in the industry with 10.1. It also gets good compare results with its PB ranks 9th (from low to high), ROE ranks 9th (from high to low)

Detail compare chart is also showed below. Among the compared companies, 000401 is the largest cement company in the north. 002233 is the largest cement company in the south. And 600720 is a typical cement company in the west.

	Mkt Cap	Net Profit	PE	PB	ROE	GrossMrgn	NetMrgn
600585	1325	98.1	10.1	1.59	12.30%	32.40%	20.50%
Industry Average	134	4.9	20.4	1.96	9.59%	26.60%	9.60%
Rank in Industry	1	1	1	9	9	7	4

Multiple Evaluation	Price	Mkt Cap	EPS			PE		
			EPS17E	EPS18E	EPS19E	PE17E	PE18E	PE19E
SH.600585 海螺水泥	25	1325	2.58	2.86	3.15	9.69	8.74	7.9
SH.000401 冀东水泥	14.18	191	0.474	0.569	0.683	29.92	24.92	20.76
SZ.002233 塔牌集团	12.16	144	0.847	1.02	1.22	14.36	11.9	9.97
SH.600720 祁连山	10.75	83	0.61	0.73	0.88	17.6	14.73	12.22

Risk

- **Macroeconomic weakness**
- **Policy changes**
- **Company income growth lower than expected**

BUY

Shanghai Environment Group Co Ltd（601200）

Price: 27.74
Price Target: 31
Price Target Potential: 11.75%
Price Target Period: 6M

Shanghai Environment Group Co., Ltd. is a Shanghai-based company primarily involved in the investment, construction and operation of municipal environmental projects, such as solid waste treatment and urban sewage treatment, among others. The Company operates through four main segments: Solid Waste Treatment segment, Sewage Treatment segment, Contractors and Design segment and Environmental Services segment. The Company's main business is primarily involved in the solid waste incineration, sanitary landfill, medical waste and hazardous waste treatment, sludge treatment, organic waste treatment and soil remediation.

In term of valuation, Shanghai Environment Group Co Ltd's Q3 revenues grew 26.96% year on year from 2.01 billion to 2.55 billion while net income improved 36.22% from 341.40 million to 465.06 million. The expected EPS for the following three years are 0.88/1.06/1.28 respectively with their P/E amount to be 30/25/21 correspondingly. The company enjoys the P/E premium due to its leading position in solid waste incineration. Given the assumption that the company's revenue maintains the current pace of growth, we raise our targeted price to 31 yuan for the next year.

Stock Performance

Market Overview

Exchange	SSE
Sector	Public Utility
Price Range(52wk)	23.33-42.37
Average Volume (3M)	0.5B
Market Cap	RMB 18.9B
Outstanding Shares	0.7B
P/E TTM	32.65
EPS TTM	0.82

Betta Pharmaceuticals Co., Ltd. is a Zhejiang-based high-tech pharmaceutical company founded by a team of PhD returnees. Betta Pharmaceuticals is a lung cancer drug producer. In 2011, Icotinib Hydrochloride Tablets (Conmana), which accounts for 99% of the company's revenue, was granted marketing approval by China Food and Drug Administration.

The company has set up an R&D center in Beijing, employing more than 100 research staffs. The company now has 11 sales offices throughout the country, a marketing and sales force of around 250 people and more than 610 employees. It also owns GMP-certified tablets and ointment manufacturing plants as well as marketing approvals of 11 drugs, which include active pharmaceutical ingredients and oral oncology drugs. In order to meet the growing market and production demands, a new production base covering over 90,000 square meters is also under active planning and construction.

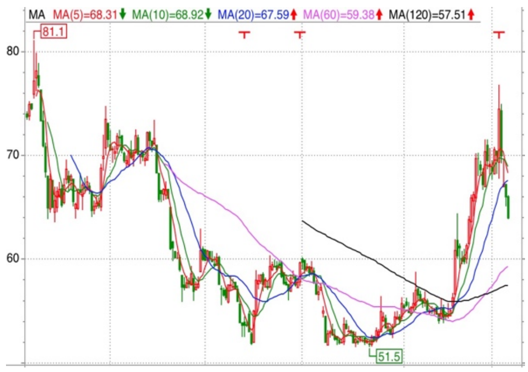
In term of valuation, Betta Pharmaceuticals Co., Ltd's Q3 revenue grew by 0.5% to 270 million mainly due to new project developments. Despite its low earning growth rate, the company consistently perform 95% gross margin year over year, showing its strength on profitability. The expected EPS for the next three years are 0.75/0.99/1.23 respectively with their P/E amount to 85/65/52 correspondingly. The company's greatest asset is its research-intensive team, which results in its high P/E. We expect the price to break the new high by the end of April.

BUY

Betta Pharmaceuticals Co Ltd （300558）

Price: 68.48
Price Target: 85
Price Target Potential: 24.12%
Price Target Period: 6M

Stock Performance



Market Overview

Exchange	SZSE
Sector	Medicine
Price Range(52wk)	51.5-81.1
Average Volume (3M)	4.2M
Market Cap	RMB 25.65B
Outstanding Shares	0.4B
P/E TTM	97.21
EPS TTM	0.66

Shenzhen TopbandCo.,Ltd is a Shenzhen-based company primarily engaged in the design, development, processing, manufacture and sale of electronic intelligent controllers. The Company operates through two segments, including Intelligent Controller segment and New Energy segment. Intelligent Controller segment provides intelligent controller equipment and system solutions. Its intelligent controller products are applied in various industries, including home appliances, power tools, power switches, personal care, industrial control, medical instrument and others. New Energy segment mainly provides nano lithium iron phosphate batteries, which are used in new energy vehicles and energy storage systems. The Company also offers high efficiency motors. The Company distributes its products in both domestic and overseas markets.

In term of valuation, Shenzhen TopbandCo.,Ltd's Q3 revenues grew 54% year on year to 2 billion while net income improved 64% to 173 million. The expected EPS for the following three years are 0.32/0.44/0.65 respectively with their P/E amount to 43/32/21 correspondingly. Given the assumption that the company's revenue maintains the current pace of growth, we expect the price to increase to 19 yuan by the end of April.

BUY

Shenzhen Topband Co Ltd（002139）

Price: 12.88
Price Target: 19
Price Target Potential: 47.52%
Price Target Period: 6M

Stock Performance

Market Overview

Exchange	SZSE
Sector	Electrical Manufacturing
Price Range(52wk)	8.24-14.98
Average Volume (3M)	1.17B
Market Cap	RMB 9.45B
Outstanding Shares	0.68B
P/E TTM	44.66
EPS TTM	0.31

Top choice Medical Investment Co.,Inc. is a China-based company engaged in the provision of healthcare service. The Company mainly operates through the segment of oral healthcare service. The Company operates its businesses primarily in domestic market, with Zhejiang province as its major market. The Company operates various oral healthcare hospitals, including Hangzhou Dental Hospital, Hangzhou Chengxi Dental Hospital and Ningbo Dental Hospital. The Company is also engaged in the in vitro fertilization (IVF) service business.

In term of valuation, Top choice Medical Investment Co.,Inc.'s Q3 revenues grew 36% year on year to 870 million while net income improved 45% to 182 million. The expected EPS for the following three years are 0.57/0.73/0.94 respectively with their P/E amount to 58/45/35 correspondingly. Given the assumption that the company's revenue maintains the current pace of growth, we expect the price to increase to 36.5 yuan by the end of April.

BUY

Top Choice Medical Investment Corp（600763）

Price: 29.83
Price Target: 36.5
Price Target Potential: 22.36%
Price Target Period: 6M

Stock Performance

Market Overview

Exchange	SSE
Sector	Medicine
Price Range(52wk)	22.5-34.8
Average Volume (3M)	0.17B
Market Cap	RMB 10.5B
Outstanding Shares	0.32B
P/E TTM	54.02
EPS TTM	0.61