

## China Aluminum Cans

INDUSTRIAL

1H17 revenue remained the same as the previous period

HOLD

China Aluminum Cans (CAC) had announced 1H17 results, that revenue stood at HKD343mn while its attributable profit decreased by 32.4% to HKD37.9mn. This missed our expectations, mainly due to higher than expected production costs, with substantial increases in global aluminum prices and international crude oil prices during the period. Interim dividend was omitted. As the aluminum and crude oil prices are expected to remain high, we have reduced our profit forecast and revised our rating to HOLD with a target price of HKD1.13 based on 13.5x FY18 PER, where it is currently valued at fair price.

**Aluminum cans manufacturing remained stable** – CAC's revenue from aluminum cans achieved a stable growth of 8.7% YoY to HKD131mn in 1H17, constituting about 38% of its total revenue, mainly attributable to a stable sales volume of 82.7mn cans as well as rising ASP, while the Botny segment declined 7.1% to HKD211.7mn. With the intense competition in the aerosol production industry, CAC will continue to expand its product range in aluminum packaging, incorporate automation in production and build up its self-owned brand Botny with a focus on car care products.

**Narrowed margins with rising COGS** – GPM decreased by 4.7ppt to 30.9% in 1H17, mainly due to the rising costs of raw materials including aluminum and crude oil. With its expanding sales network and promotion of its new brand Botny, CAC's marketing costs increased by 12.4% during the period, while other operating expenses stayed at a similar level to 1H16. With the substantial decrease in total debt, CAC further reduced its financing costs by 79% to HKD0.4mn, while its net margin dropped 5.1ppt to about 11.1%.

**Forecast revision** – We have lowered our profit forecast, expecting FY17's net profit will see a small 1.7% drop due to higher COGS and marketing costs, while it could maintain stable revenue at about HKD700mn. With production automation and new products expected to enter the market in the coming three years, we anticipate CAC will improve its profitability and achieve a CAGR of 13.7% in net profit in FY17-19E. CAC has also maintained a cash-rich financial position with minimal debt to support its business expansion, with a net cash balance of HKD109.5mn as at the end of Jun 2017.

### Recommendation

Ticker	6898 HK
Quam's Rating	HOLD
Last Close	HK\$1.12
Target Price	1.13
Previous Target	1.90
Up/(Down)side	1%
Previous Rating	BUY

### Share Information

52-week range	1.07 – 1.80
ADT (3M) (HK\$'mn)	0.40
Market Cap. (HK\$'mn)	894.0
Shares outstanding ('mn)	798.2
Free float (%)	25.7
SH-HK Connect	No
SZ-HK Connect	No

### Major Shareholders

Lin Wan Tsang	65.3%
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### Share Price Performance



Source: Bloomberg

### Key Financials – Fiscal Year Ended December 31

(HK\$mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>Revenue</b>	<b>693.7</b>	<b>696.3</b>	<b>700.3</b>	<b>784.2</b>	<b>909.2</b>
Growth (%)	-7.8%	0.4%	0.6%	12.0%	15.9%
<b>Operating profit</b>	<b>102.8</b>	<b>125.5</b>	<b>111.7</b>	<b>137.6</b>	<b>165.5</b>
Growth (%)	0.5%	22.1%	-10.9%	23.2%	20.2%
<b>Net profit</b>	<b>79.3</b>	<b>95.3</b>	<b>93.6</b>	<b>116.7</b>	<b>140.1</b>
Growth (%)	-2.9%	20.2%	-1.7%	24.6%	20.1%
			<b>CAGR FY17-19E</b>		<b>13.7%</b>
FD-EPS (HK Cents)	6.46	7.99	6.70	8.36	10.04
P/E (x)	17.5	14.2	16.9	13.5	11.3
P/B (x)	2.6	2.6	2.6	2.3	2.0
Dividend Yield (%)	1.9	2.2	1.5	1.9	2.3

Source: Company data, Quam Securities

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## CAC's results comments

Year ended 31 December (HKD mn)	1H16		1H17		YoY	Comments	1H17	
	Reported	Reported	Original Forecast	vs Original Forecast				
<b>Revenue</b>	<b>348.7</b>	<b>343.0</b>	-1.6%	Missed expectations		<b>425.5</b>	-19.4%	
Cost of goods sold	(224.5)	(237.0)	5.6%			(260.1)	-8.9%	
<b>Gross profit</b>	<b>124.2</b>	<b>106.0</b>	-14.7%	GPM dropped from 35.6% to 30.9%		<b>165.4</b>	-35.9%	
Other income and gains, net	8.9	8.9	-			10.0	-11.4%	
Selling and distribution expenses	(23.1)	(25.9)	12.4%	Higher marketing cost than expected		(29.8)	-13.1%	
Administration expenses	(22.5)	(22.0)	-1.8%	Admin costs remained stable		(25.5)	-13.7%	
R&D expenses	(13.6)	(14.0)	2.6%	R&D costs remained stable		(17.0)	-17.6%	
Other operating expenses	(1.0)	(7.6)	678%			(4.3)	76.7%	
<b>Operating profit</b>	<b>73.0</b>	<b>45.3</b>	-38.0%	OPM dropped from 20.9% to 13.2%		<b>98.8</b>	-54.1%	
Finance costs	(1.7)	(0.4)	-78.6%	Substantial decrease in financing cost		(1.5)	-76.1%	
Profit before tax	71.3	44.9	-37.0%			97.3	-53.9%	
Taxation	(14.8)	(6.7)	-54.8%			(19.5)	-65.6%	
<b>Profit after tax</b>	<b>56.4</b>	<b>38.2</b>	-32.3%	NPM dropped from 16.2% to 11.1%		<b>77.8</b>	-50.9%	
Minority interest	0.3	0.3	-			0.4	-	
<b>Attributable profit to shareholders</b>	<b>56.1</b>	<b>37.9</b>	-32.4%			<b>77.4</b>	-51.0%	
EPS (HK Cents)	7.0	4.8	-31.4%					
FD-EPS (HK Cents)	4.0	2.7	-32.5%					
DPS (HK Cents)	1.37	-						
Payout ratio	15.3%	-						

Source: Company data, Quam Securities

## New vs Original Estimates

Year ended 31 December (HKD mn)	1H17			1H18			1H19		
	Original	New	Change	Original	New	Change	Original	New	Change
<b>Revenue</b>	<b>851.0</b>	<b>700.3</b>	<b>-17.7%</b>	<b>984.0</b>	<b>784.2</b>	<b>-20.3%</b>	<b>1,125</b>	<b>909.2</b>	<b>-19.2%</b>
GPM	38.9%	32.0%	-6.9ppt	41.3%	33.0%	-8.3ppt	43.5%	34.0%	-9.5ppt
<b>Operating profit</b>	<b>197.6</b>	<b>111.7</b>	<b>-43.5%</b>	<b>249.1</b>	<b>137.6</b>	<b>-44.8%</b>	<b>306.3</b>	<b>165.5</b>	<b>-46.0%</b>
<b>Net Profit</b>	<b>155.6</b>	<b>93.6</b>	<b>-39.8%</b>	<b>196.8</b>	<b>116.7</b>	<b>-40.7%</b>	<b>242.6</b>	<b>140.1</b>	<b>-42.3%</b>
NPM	18.3%	13.4%	-4.9ppt	20.0%	14.9%	-5.1ppt	21.6%	15.4%	-6.2ppt

Source: Company data, Quam Securities

With the intense competition of aerosol production industry as well as the rising costs of raw materials including aluminum and crude oil, we reduced our forecast of topline by about 20% and net profit by about 40% in FY17-19E. Thanks to the production automation and introduction of new products in the coming three years, we expect CAC will maintain the net profit margin at about 15% and resume its growth from FY18E.

# Financial Statements

Income Statement (HKD mn)	2015	2016	2017E	2018E	2019E
<b>Revenue</b>	<b>693.7</b>	<b>696.3</b>	<b>700.3</b>	<b>784.2</b>	<b>909.2</b>
Cost of goods sold	(483.7)	(451.7)	(476.2)	(525.4)	(600.1)
<b>Gross profit</b>	<b>209.9</b>	<b>244.6</b>	<b>224.1</b>	<b>258.8</b>	<b>309.1</b>
Other income and gains, net	20.3	19.7	20.0	20.0	20.0
Operating expenses	(127.5)	(138.8)	(132.4)	(141.2)	(163.7)
<b>EBIT</b>	<b>102.8</b>	<b>125.5</b>	<b>111.7</b>	<b>137.6</b>	<b>165.5</b>
Finance costs	(5.3)	(2.4)	(1.6)	(0.3)	(0.6)
Profit before tax	<b>97.5</b>	<b>123.0</b>	<b>110.2</b>	<b>137.3</b>	<b>164.9</b>
Income tax expense	(18.2)	(27.8)	(16.5)	(20.6)	(24.7)
Profit after tax	79.3	95.3	93.6	116.7	140.1
Minority interest	0.3	0.5	0.7	0.8	0.8
<b>Attributable profit to shareholders</b>	<b>79.0</b>	<b>94.8</b>	<b>92.9</b>	<b>115.9</b>	<b>139.3</b>

  

Per Share Items (HKD Cents)	2015	2016	2017E	2018E	2019E
EPS	12.65	15.85	11.64	14.52	17.45
Diluted EPS	6.46	7.99	6.70	8.36	10.04
DPS	2.20	2.43	1.75	2.18	2.62
BVPS	43.78	43.57	43.20	49.90	58.05

  

Balance Sheet (HKD mn)	2015	2016	2017E	2018E	2019E
<b>Non-current assets</b>					
PPE	295.9	319.1	348.6	381.7	417.0
Prepaid land lease payments	69.5	63.3	68.0	68.0	68.0
Deferred tax assets	1.4	1.6	1.3	1.3	1.3
Non-current prepayments	21.2	4.5	10.0	10.0	10.0
<b>Total non-current assets</b>	<b>388.1</b>	<b>388.5</b>	<b>427.9</b>	<b>461.0</b>	<b>496.3</b>
<b>Current assets</b>					
Inventories	65.3	67.8	94.5	104.0	140.7
Trade and bills receivables	69.4	58.5	95.0	76.9	122.4
Other receivables	13.4	11.3	12.0	12.0	12.0
Due from related parties	2.6	7.5	6.0	6.0	6.0
Pledged bank deposits	8.4	8.2	9.0	9.0	9.0
Cash and cash equivalents	179.6	122.4	113.9	197.5	230.4
<b>Total current assets</b>	<b>338.7</b>	<b>275.7</b>	<b>330.3</b>	<b>405.3</b>	<b>520.4</b>
<b>Total assets</b>	<b>726.8</b>	<b>664.2</b>	<b>758.2</b>	<b>866.3</b>	<b>1,016.7</b>
<b>Current liabilities</b>					
Trade and bills payables	62.8	62.3	90.2	96.2	133.6
Other payables and accruals	54.0	56.5	55.0	55.0	55.0
Bank borrowings	41.3	13.5	1.0	10.0	10.0
Derivative financial instruments	0.4	-	-	-	-
Tax payable	6.0	5.5	8.0	8.0	8.0
Due to related parties	3.6	0.4	0.4	0.4	0.4
Deferred income	0.3	0.3	0.3	0.3	0.3
<b>Total current liabilities</b>	<b>168.4</b>	<b>138.4</b>	<b>154.9</b>	<b>169.9</b>	<b>207.3</b>
<b>Non-current liabilities</b>					
Bank borrowings	19.8	5.1	0.0	0.0	0.0
Deferred tax liabilities	1.0	0.9	1.0	1.0	1.0
Deferred income	2.9	2.4	3.0	3.0	3.0
<b>Total non-current liabilities</b>	<b>23.7</b>	<b>8.4</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
<b>Total liabilities</b>	<b>192.1</b>	<b>146.8</b>	<b>158.9</b>	<b>173.9</b>	<b>211.3</b>
<b>Shareholders' equity</b>					
Share capital	6.2	6.0	8.0	8.0	8.0
Equity component of convertible bonds	645.0	636.4	636.4	636.4	636.4
Reserves	(120.5)	(129.0)	(49.2)	43.9	156.9
<b>Total shareholders' equity</b>	<b>530.7</b>	<b>513.3</b>	<b>595.2</b>	<b>688.2</b>	<b>801.2</b>
Minority interest	3.9	4.1	4.2	4.2	4.2
<b>Total equity</b>	<b>534.7</b>	<b>517.4</b>	<b>599.3</b>	<b>692.4</b>	<b>805.4</b>

  

Cashflow Statement (HKD mn)	2015	2016	2017E	2018E	2019E
<b>Operating activities</b>					
EBITDA	134.7	158.7	146.2	175.4	206.7
Non-cash items & adjustments	-	-	-	-	-
Tax paid	(17.3)	(28.6)	(16.3)	(20.6)	(24.7)
<b>Operating cashflow before W/C</b>	<b>117.4</b>	<b>130.1</b>	<b>129.9</b>	<b>154.8</b>	<b>182.0</b>
Change in working capital	(4.7)	8.0	(36.5)	13.4	(46.1)
<b>Cash flow from operations</b>	<b>112.7</b>	<b>138.0</b>	<b>93.5</b>	<b>168.2</b>	<b>135.9</b>
<b>Investing activities</b>					
Capex	(44.5)	(55.3)	(63.9)	(70.9)	(76.5)
Others	4.6	0.5	-	-	-
<b>Cash flow from investing activities</b>	<b>(40.0)</b>	<b>(54.8)</b>	<b>(63.9)</b>	<b>(70.9)</b>	<b>(76.5)</b>
<b>Financing activities</b>					
Change in bank borrowings	(79.9)	(42.5)	(17.5)	9.0	0.0
Interest paid	(5.3)	(2.4)	(1.6)	(0.3)	(0.6)
Dividend paid	(10.4)	(22.8)	(13.9)	(17.4)	(20.9)
Others	102.8	(56.6)	-	-	-
<b>Cash flow from financing activities</b>	<b>7.2</b>	<b>(124.3)</b>	<b>(33.1)</b>	<b>(8.7)</b>	<b>(21.5)</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>80.0</b>	<b>(41.1)</b>	<b>(3.5)</b>	<b>88.6</b>	<b>37.9</b>
Cash and cash equivalents at beginning of the Year	105.3	179.6	122.4	113.9	197.5
Effect of foreign exchange rate	(5.7)	(16.1)	(5.0)	(5.0)	(5.0)
<b>Cash and cash equivalents at end of the Year</b>	<b>179.6</b>	<b>122.4</b>	<b>113.9</b>	<b>197.5</b>	<b>230.4</b>

  

Ratio Analysis	2015	2016	2017E	2018E	2019E
<b>Growth (YoY%)</b>					
Revenue	-7.8%	0.4%	0.6%	12.0%	15.9%
EBIT	0.5%	22.1%	-10.9%	23.2%	20.2%
Net profit	-2.9%	20.2%	-1.7%	24.6%	20.1%
Diluted EPS		23.5%	-16.1%	24.7%	20.2%
<b>Margins</b>					
Gross profit margin	30.3%	35.1%	32.0%	33.0%	34.0%
EBIT margin	14.8%	18.0%	9.0%	17.6%	18.2%
Net profit margin	11.4%	13.7%	13.4%	14.9%	15.4%
<b>Other ratios</b>					
Return on assets	10.91%	14.35%	12.35%	13.47%	13.78%
Return on equity	14.83%	18.42%	15.63%	16.86%	17.40%
ROIC	13.31%	17.78%	15.60%	16.62%	17.19%
Dividend payout ratio	17.39%	15.35%	15.00%	15.00%	15.00%
<b>Valuation measures</b>					
PSR (x)	1.0	1.0	1.3	1.2	1.0
PER (x)	17.48	14.15	16.87	13.52	11.25
PBR (x)	2.58	2.59	2.62	2.26	1.95
Dividend yield	1.9%	2.2%	1.5%	1.9%	2.3%
<b>Key Ratios</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
Debt to equity	11.42%	3.58%	0.17%	1.44%	1.24%
Net debt to equity	-	-	-	-	-
Capex/ Sales	6.4%	7.9%	9.1%	9.0%	8.4%
Current ratio (x)	2.01	1.99	2.13	2.39	2.51
Quick ratio (x)	1.62	1.50	1.52	1.77	1.83
Interest coverage (x)	19.38	51.63	71.27	417.05	275.78
Days inventory (days)	54.64	53.79	62.19	68.92	74.40
Days receivable (days)	40.12	33.52	40.00	40.00	40.00
Days payable (days)	59.69	50.53	58.43	64.75	69.90
Operating cycle (days)	94.76	87.31	102.19	108.92	114.40
Cash conversion cycle (days)	35.07	36.78	43.76	44.17	44.50

<b>Rating Definitions</b>	<b>Disclaimer and Risk Statement</b>
<b>BUY</b> We expect the stock to have a total return of > 15% over the next 12 months	This document is published by Quam Securities Company Limited ("Quam Securities"), a licensed corporation (central entity number AAC577) regulated by the Securities and Futures Commission in Hong Kong. This document is for distribution in Hong Kong only to persons who are "Professional Investors" as defined in Part 1 of Schedule 1 of Securities and Futures Ordinance (Cap 571) of Hong Kong and any rules made thereunder. This document is not intended for distribution to or use by, any person or entity who is a citizen or resident of any jurisdiction where such distribution or use would be contrary to applicable law or regulation within such jurisdiction. This document does not constitute an offer or a solicitation of an offer to buy or sell any securities. This document is circulated to addressees solely and may not be reproduced or redistributed to any other person or published, in whole or in part, for any purpose. The research is based on information obtained from sources believed to be reliable, but Quam Securities does not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without prior notice. Any recommendation does not have regard to specific investment objectives, financial situation and particular needs of any specific addressee. Quam Securities accepts no liability whatsoever for any direct or consequential loss arising from any use of this document. Quam Securities and its affiliates as well as persons associated with any of them from time to time may or may not have interests in the securities mentioned in this document. The prices of securities may move up or down, and past performance is not an indication of future performance. Investors shall consider seeking separate legal or financial advice before making investment decisions.
<b>HOLD</b> We expect the stock to have a total return of < 15% and >-15% over the next 12 months	
<b>SELL</b> We expect the stock to have a total return of < -15% over the next 12 months	
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