Initiate Coverage

New Ray Medicine International 8180 HK

Attractive valuation with high earnings growth

- *We initiate New Ray Medicine International with a BUY rating at a target price of HKD0.94 per share, representing a prospective P/E of 20.0x for FY12/15E, and an upside potential of 62.1% to the current market price*
- *The company is a multi-layer distributor with its expertise and operations focusing mainly in Hangzhou, Zhejiang province*
- *The company obtained the distribution rights of Cefamandole Nafate for Injection and Italy Levocarnitine Injection earlier this year. In particular, Levocarnitine Injection was selected in the Essential Medicines List in Zhejiang province in Sep 2014*
- *We forecast the two medicines will lead growth of the company this year and will represent ~24.1% of its total revenue in FY12/14E*

Nelson Lee, CFA, FRM
(852) 2533 3708
nelsonlee@sbichinacapital.com

David Li
(852) 2533 3713
davidli@sbichinacapital.com

Stock Data (8180 HK)

Rating	BUY
Price (HK$)	0.58
Target Price (HK$)	0.94
12m Price Range (HK$)	0.49-2.16
Market cap. (HK$m)	556.8
Daily t/o (HK$m)	9.4
Free float (%)	52.3

Source: Bloomberg

The distribution rights of the new medicines will drive growth: Earlier this year, the company obtained the distribution rights of two products, namely Cefamandole Nafate for Injection and Italy Levocarnitine Injection. Based on our assumptions, we forecast that the 2 new medicines will contribute ~HKD62.5m of revenue to the company in FY12/14E (~24.1% of the total revenue in the year), which will become the main growth driver of the company during the year. We also expect the sale of the new medicines will see substantial growth in FY12/15E, because i) the company only started selling the medicines in the middle of the year in FY12/14E, while the sales in FY12/15E is expected to sustain throughout the year, and ii) Levocarnitine Injection was selected in the Essential Medicines List in Zhejiang province in Sep 2014. We expect the drug will be used by more hospitals in the province in 2015.

Advantageous position in the value chain allows for greater flexibility in its business: We think the company is in an advantageous position compared with other upstream pharmaceutical product manufacturers and downstream distributors. Compared with upstream players, they do not have to incur a large amount of R&D costs, which could drag down a company's overall return especially if the proposed products cannot win tender contracts in the collective tendering process. Compared with downstream distributors that mainly provide logistic services, the company commands a much higher profit margin as they add much more value in the value chain.

Making inroads into medical device distribution: Leveraging on its expertise as a medicines distributor, the company also intends to obtain the provincial distribution right for medical devices manufactured overseas, including those consumables such as surgical blades. We believe there are synergies between medical devices distribution and medical distribution, as resources such as manpower and expertise can be shared among different segments, resulting in a higher profitability without a significant increase in cost. Moreover, as gross margin for medical device distribution is usually higher than medicine distribution, blended gross margin is expected to be higher after the company successfully launches its distribution business on medical devices.

Figure 1. Financials and valuation

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Total revenue (HKD m)	**175.0**	**192.9**	**258.9**	**319.2**	**328.4**
Revenue growth (YoY)	*9.6%*	*10.2%*	*34.2%*	*23.3%*	*2.9%*
PBT (HKD m)	**22.2**	**28.7**	**48.1**	**54.4**	**60.0**
PBT growth (YoY)	*39.7%*	*29.5%*	*67.6%*	*12.9%*	*10.3%*
Net profit (HKD m)	**15.3**	**17.4**	**33.2**	**37.5**	**41.4**
Net profit growth (YoY)	*38.9%*	*13.5%*	*90.9%*	*12.9%*	*10.3%*
EPS (HKD cents)	**3.0**	**2.8**	**4.2**	**4.7**	**5.2**
DPS (HKD cents)	0.0	2.5	1.2	1.4	1.6
P/E (x)	19.7	20.9	14.0	12.4	11.2
Dividend yield	0.0%	4.3%	2.1%	2.4%	2.7%

Source: SBI China Capital, Company data

Investment thesis

The distribution rights of the new medicines will drive growth this year: Earlier 2014, the company obtained the distribution rights of two products, namely Cefamandole Nafate for Injection and Italy Levocarnitine Injection. The distribution rights for Cefamandole Nafate for Injection are national in nature, allowing the company to distribute the product to different provincial distributors in 16 different provinces, including Guangdong, Fujian, Hunan, Hubei, Henan, Hebei, Shandong, and Liaoning Province. The distribution rights for Italy Levocarnitine Injection, on the other hand, are only provincial and allow the company to distribute the product within only Zhejiang province.

The company also has set a sales target for the 2 new medicines: 3.0m bottles for Cefamandole Nafate (including 2.1m 0.5g bottles and 0.9m 1.0g bottles) per year, and 1.5m units of Italy Levocarnitine per year. Based on our assumptions regarding the selling price and quantity sold of the medicines (for conservative reasons, we assumed 85.0% of the sales target will be met), we forecast the 2 new medicines will contribute ~HKD62.5m of revenue to the company in FY12/14E (~24.1% of the total revenue in the year), which will become the main growth driver of the company during the year.

We expect the sale of the new medicine will see substantial growth in FY12/15E, assuming the company can renew its distribution rights after FY12/14E. According to our forecast, revenue from the sale of the new medicines will increase by 87.5% YoY to HKD117.2m in FY12/15E. The growth will mainly be attributable to the fact that the company only started selling the medicine in the middle of the year in FY12/14E, while the sale in FY12/15E is expected to be throughout the year. (See next section for more details). Also, Levocarnitine Injection was selected into the basic drug category in Zhejiang province in Sep 2014. We expect the drug will be used by more hospitals in the province in 2015.

Figure 2: Cefamandole Nafate for Injection (left) and Italy Levocarnitine Injection (right)

Source: Company data

An advantageous position in the value chain allows for greater flexibility in its business: We think the company is in an advantageous position compared with other upstream pharmaceutical product manufacturers and downstream distributors. Compared with upstream players, the company may not command profitability as high, but they do not have to incur a large amount of R&D costs, which could drag down their overall return especially if the proposed products cannot win tender contracts in the collective tendering process. In addition, the drug manufacturing business is highly capital-intensive in nature, the depreciation costs of which would increase the operating leverage of the company, and therefore make the returns on the business more volatile. Upstream players and their operating practices have also fallen under greater scrutiny with regard to anti-corruption policies, which has intensified price competition among them.

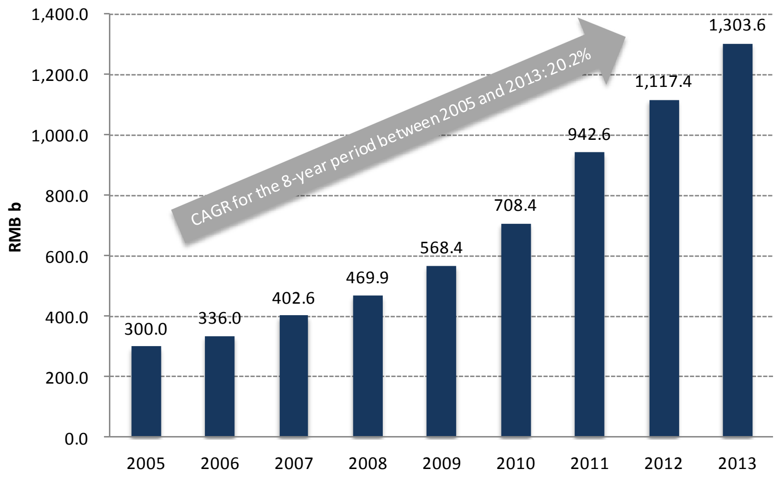
As for downstream distributors, they mainly provide only logistics services for the transportation of drugs from upstream distributors to hospitals, and therefore do not add as much value as upstream distributors, who normally assist manufacturers in the tendering process in addition to distribution services. In this regard, they normally command a much lower profit margin compared with upstream distributors. Even a sizable downstream distributor like Sinopharm (1099 HK, HKD21.45) commands a net margin of only ~2.0%.

In fact, the company is not merely a pharmaceutical distributor. Since all pharmaceutical products used by public hospitals are subject to the provincial collective tendering process in which the hospitals reside, the company also helps its suppliers win tenders by providing them with market research, including recent industry trends and competitive pricing suggestions, particularly for Zhejiang province. Currently the company is a distributor of 44 types of pharmaceutical products, 38 of which are included in the Medical Insurance Drug Catalogs. Also, during the period between 2009 and 2010, 35 out of 41 products which involved the company's participation won the provincial collective tendering process in Zhejiang, representing a successful rate of 85.4%.

Making inroads into medical device distribution: Leveraging on its expertise as a medicines distributor, the company also intends to obtain the provincial distribution right for medical devices manufactured overseas, including those consumables such as surgical blades. While the company will be responsible for negotiating with the local government regarding the price of the devices used in public hospitals, overseas manufacturers will send a crew of technical staff to China to consult on the application of the device. We believe there are synergies between medical device distribution and medical distribution (although extra capex might be required to develop its logistic team for the transportation of the devices), as resources such as manpower and expertise can be shared among different segments, resulting in higher profitability without a significant increase in cost. In addition, according to the management, gross margin for medical device distribution is generally higher than medicine distribution. Therefore, blended gross margin is expected to be higher after the company successfully launches its distribution business on medical devices in the future.

Favorable socioeconomic factors lay the ground for health industry growth: The pharmaceutical industry in China has enjoyed robust growth in recent years. According to the Wind and Ministry of Commerce (MOFCOM), the total output value of the PRC pharmaceutical industry, measured by sales to its ultimate users, expanded from approximately RMB300.0b in 2005 to approximately RMB1,303.6b in 2013, representing a CAGR of approximately 20.2% during the 8-year period (See Figure 3). The growth of the market is driven by favorable government policies as well as multiple socioeconomic factors, such as increasing disposable income and GDP growth, aging and increased life expectancy of the PRC population, increasing urbanization, and rising healthcare spending and health awareness, etc.

Figure 3: Output value of the PRC pharmaceutical industry measured by sales from 2005 to 2013



Source: Wind, MOFCOM

In addition, the Eastern China Region, where most of the company's distribution customers are located, is the largest regional pharmaceutical distribution market in 2012 in terms of revenue, commanding a market share of 39.2% in 2013. (See Figure 4). With a higher-than-average income per capita and living standard, it is believed that the major players in the region, such as New Ray Medicine, will be the biggest beneficiaries of continuous growth in the pharmaceutical industry.

Figure 4: Regional shares of the PRC pharmaceutical distribution market

Region	2007	2008	2009	2010	2011	2012	2013
Eastern China	**37.5%**	**38.4%**	**39.1%**	**44.2%**	**42.0%**	**40.5%**	**39.2%**
Northern China	19.0%	19.4%	15.7%	19.6%	19.3%	18.9%	18.7%
South Central China	24.8%	23.4%	24.5%	20.4%	19.1%	20.0%	20.7%
Southwest China	7.7%	7.6%	10.7%	8.1%	11.6%	12.0%	12.4%
Northeast China	6.6%	6.6%	5.3%	4.8%	5.0%	5.0%	5.3%
Northwest China	4.5%	4.5%	4.6%	2.9%	3.0%	3.6%	3.7%

Source: Wind, MOFCOM

Financial Forecasts

Revenue: We forecast the company's revenue to increase from HKD192.9m in FY12/13 to HKD328.4m in FY12/16E, representing a CAGR of 19.4% during the 3-year period. The increase in revenue will mainly be driven by: i) the revenue contribution from the distribution of the new drugs (Cefamandole Nafate for Injection and Italy Levocarnitine Injection) that commenced in 2H FY12/14E, and ii) the continuous steady growth of the existing drugs in which the company owns the distribution rights (See Figure 5 for more assumptions). It is worth noting that our model has not factored in any new distribution rights obtained after FY12/14E.

Gross margin: The company's gross margin was up by 4.0ppts to 26.3% in FY12/13, and further expanded to 28.8% in 1H FY12/14E, after eliminating the low-GPM products in its portfolio. We expect the company's gross margin to maintain at a similar level over the next couple of years. It is worth noting that even though Italy Levocarnitine Injection, one of the two new drugs that the company started to distribute from 2H FY12/14E, commands a gross margin of only ~13.0%, we are not particularly worried about its negative effect on the blended gross margin, as i) we expect Levocarnitine Injection will only account for 13.9% of its total revenue in FY12/14E, and ii) Cefamandole Nafate for Injection, the other new drug that we expect to account for 10.3% of its total revenue in FY12/14E, commands gross margin of ~30.0% and will help offset the negative effect that Italy Levocarnitine Injection brings to the gross margin. We expect the company's gross margin to be 27.0%, 25.7% and 26.9% in FY12/14E, FY12/15E, and FY12/16E respectively.

SG&A to sale: SG&A includes salaries, marketing expenses, depreciation, etc. We assume the SG&A to sales ratio in the next few years will stay at ~9.0%. SG&A to sales ratio was higher after listed because we expect there will be more marketing activities afterwards. We therefore estimate SG&A expenses to be HKD23.3m, HKD28.7m, and HKD29.6m in FY12/14E, FY12/15E, and FY12/16E respectively.

Net profit: We forecast the company's net profit attributable to shareholders to increase from HKD17.4m in FY12/13 to HKD41.4m in FY12/16E, representing a CAGR of 33.5% during the 3-year period. Net profit will be growing faster than revenue because of the absence of listing expenses from FY12/14E, while net profit was weighed down by HKD10.2m in listing expenses in FY12/13. Stripping out the one-off expenses, net profit attributable to shareholders would have increased at a CAGR of 14.5% during the 3-year period from FY12/13 to FY12/16E.

Capex: We expect the capex of the company to be minimal due to the asset-light nature of its business. We forecast the company to allocate ~HKD0.2m for motor vehicle and equipment purchases annually in the next few years. Capex will mainly be satisfied by internally generated cash.

Net cash position: The company does not have any debt as at 30 June 2014. We forecast its debt level will rise to HKD15.0m as the company needs to make a deposit to its suppliers for the distribution of new drugs. However, the deposit is usually refundable after the company meets its sale target a year later. The company was in a net cash position of HKD66.3m as at 30 Jun 2014. Driven by internal operating cash inflow with small needs of raising debts, we expect its net cash to increase gradually and to reach HKD136.4m by the end of 2016.

Dividend policy: The company declared a final dividend of HK2.5 cents per share for FY12/13, which represents a dividend payout ratio of 90.3% for the year. That said, the management revealed that there is no concrete dividend payout policy at the moment. To be conservative, we assume the dividend payout ratio will stay at 30.0% from FY12/15E onwards.

Figure 5. Growth and margin assumptions

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Revenue growth					
Injection drugs	9.6%	10.2%	3.0%	3.0%	3.0%
Tablet drugs	-0.3%	4.5%	-3.0%	-3.0%	-3.0%
Capsule drugs	67.5%	29.9%	5.0%	5.0%	5.0%
New products					
- Cefamandole Nafate for Injection*	-	-	-	71.4%	3.0%
- Levocarnitine Injection*	-	-	-	100.0%	3.0%
Total	9.6%	10.2%	34.2%	23.3%	2.9%
Gross profit margin					
Injection drugs	21.8%	24.5%	28.0%	28.0%	30.0%
Tablet drugs	23.2%	19.8%	20.0%	20.0%	20.0%
Capsule drugs	40.2%	58.0%	56.0%	56.0%	56.0%
New products					
- Cefamandole Nafate for Injection	-	-	30.0%	30.0%	30.0%
- Levocarnitine Injection	-	-	13.0%	13.0%	13.0%
Total	22.3%	26.3%	27.0%	25.7%	26.9%

Source: SBI China Capital

**Revenue growth of the 2 new products will see substantial growth in FY12/15E as the company only started distributing the products in the middle of the year in FY12/14E. We expect the growth rate to normalize in FY12/16E.*

Valuation

We initiate New Ray with a BUY rating and a target price of HKD0.94per share, representing a prospective P/E of 22.6x and 20.0x for FY12/14E and 12/15E respectively, and an upside potential of 62.1% to the current market price. Our target price is derived from the average of our 2-stage DCF valuation method and price-multiple method.

DCF approach: Using a risk free rate of 2.0%, market risk premium of 12.4%, beta of 0.6, and a 5.0% terminal growth rate after FY12/23E, we derived a fair value of equity of HKD0.86 per share, which is equivalent to a prospective P/E of 20.7x for FY12/14E.

Figure 6. DCF valuation

	FY12/14E	FY12/15E	FY12/16E	FY12/17E	FY12/18E	FY12/19E	FY12/20E	FY12/21E	FY12/22E	FY12/23E
WACC@9.4%										
FCFF (HKD m)	8.2	35.5	42.9	36.0	49.7	33.8	50.4	39.4	54.7	39.0
Discount Factor	0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4
Discounted FCFF (HKD m)	7.5	29.6	32.7	25.1	31.7	19.7	26.8	19.1	24.3	15.8
PV of estimated FCFF (HKD m)	232.3									
PV of terminal FCFF (HKD m)	374.6									
Value of Firm (HKD m)	**606.9**									
Minus: debt (HKD m)	15.0									
Plus: cash and cash equivalent (HKD m)	96.1									
Value of Equity (HKD m)	**688.0**									
No. of share (m)	800.0									
Intrinsic value of share (HKD)	**0.86**									

Source: SBI China Capital

Price-multiple approach: We have identified 7 companies with similar operating businesses to New Ray. As shown in Figure 7, these companies are on average trading at a prospective P/E of 24.6x for FY2014E. Although the company is listed in the GEM board, it actually has a higher-than-average profitability (indicated by its ROE and ROA). It also has the highest dividend yield among its peers. In this regard, we believe the company deserves a similar valuation to its peers. Based on our financial forecast of the company, the fair value derived from a prospective P/E of 24.6x for FY12/14E would be HKD1.02per share.

Figure 7. Peers comparison

Company	Ticker	Mkt Cap (HKD m)	3M avg turnover (HKD m)	2013 P/E (x)	2014E P/E (x)	P/book (x)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity	Major clients
New Ray Medicine International	**8180 hk**	**556.8**	**9.4**	**20.9**	**14.0**	**2.0**	**10.0**	**8.7**	**4.3**	**(43.8)**	**insitutional**
Kingworld Medicines	1110 hk	1,363.3	8.9	22.4	n.a.	2.3	10.9	6.5	1.8	1.5	Retail
China Pioneer Pharma Holdings	1345 hk	9,733.3	18.1	26.2	24.5	6.8	46.1	16.8	n.a.	(23.5)	insitutional
Jintian Pharmaceutical Group	2211 hk	6,260.0	63.7	11.2	10.5	2.1	24.5	16.7	0.0	(63.7)	insitutional
China Medical System Holdings	867 hk	34,096.2	62.8	36.9	31.4	7.6	22.3	18.4	1.1	(19.5)	insitutional
China NT Pharma Group	1011 hk	1,341.6	2.6	n.a.	n.a.	5.0	(71.7)	(14.8)	0.0	358.5	insitutional
RM Group	8185 hk	927.0	1.2	n.a.	21.2	4.4	(5.5)	(4.3)	0.0	(71.6)	Retail
Beijing TongRen Tang	8138 hk	10,209.0	12.7	35.8	35.1	7.6	21.3	19.2	0.7	(70.5)	Retail
	Average*	**9,132.9**	**24.3**	**26.5**	**24.6**	**5.1**	**6.8**	**8.4**	**0.6**	**15.9**	

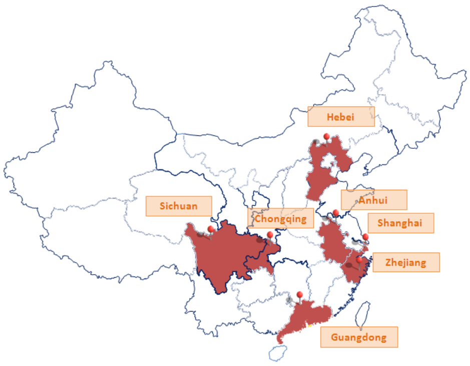
Source: SBI China Capital, Company data

**New Ray Medicine is not included in the average figures.*

Business Overview

New Ray Medicine was listed on the HKEx in 2013 by way of placing. The company is a pharmaceutical distributor (mainly a provincial pharmaceutical distributor, and also a national pharmaceutical distributor for some of its products) in China, with its operations focusing mainly in the Hangzhou and Zhejiang provinces. The company acts as a bridge between hospitals and pharmaceutical manufacturers. It obtains distribution rights of products from its suppliers (mainly from Zhongcheng Huida, Kaihongxin, and other type 2 suppliers or exclusive national distributors), and then sells the products to its distribution customers (including Sinopharm, Huadong Medicine Pharma, etc.) who in turn use their logistic services to distribute the drugs to hospitals and medical institutions. Currently the company has 117 distribution customers, 42 of which are located in Zhejiang province while the remaining 75 distribution customers are spread over 19 other regions in China, including Shanghai, Anhui, Sichuan, Hebei, and Guangdong (See Figure 8).

Figure 8. The company's distribution network in China



Source: Company data

As of 30 Jun 2014, the company has distribution rights for 47 medicinal products, of which 41 products were included in the Medical Insurance Drugs Catalogs. Figure 9 sets forth some major products of the company. Also, during 2009 to 2010, 35 of 41 products won the provincial collective tendering process in Zhejiang province which involves the company's participation, representing a successful rate of approximately 85.4%.

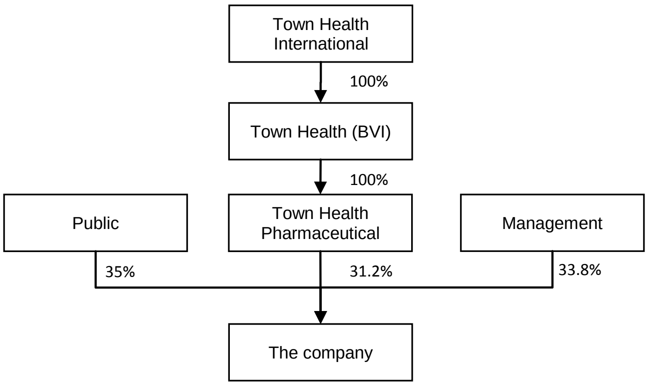
Figure 9. Some major medicines distributed by the company

Products Name	Type	Purpose of Usage	Commencement of distribution
Levocarnitine Injection (左卡尼汀注射液)	Prescription drugs	Treatment of cardiovascular diseases	2010
Cefotaxime Sodium and Sulbactam Sodium for (注射用頭孢噻肟鈉舒巴坦鈉)	Prescription drugs	Treatment of various infection arising from bacteria and virus	2011
Cefoxitin Sodium for Injection (注射用頭孢西丁鈉)	Prescription drugs	Treatment of various infection arising from bacteria and virus	2008
Cefodizime Sodium for Injection (注射用頭孢地嗪鈉)	Prescription drugs	Treatment of various infection arising from bacteria and virus	2008
Thymosin α1for Injection (注射用胸腺法新)	Prescription drugs	Treatment of liver diversion	2008
Isepamicin Sulfate Injection (硫酸異帕米星注射液)	Prescription drugs	Treatment of various infection arising from bacteria and virus	2009
Mezlocillin Sodium and Sulbactam Sodium for (注射用美洛西林鈉舒巴坦鈉)	Prescription drugs	Treatment of various infection arising from bacteria and virus	2011
Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	Prescription drugs	Providing of extra nutrition for patients with intestine diseases	2008
Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉)	Prescription drugs	Treatment of various infection arised from bacteria and virus	2009
Cefamandole Nafate for Injection (注射用頭孢孟多鈉)	Prescription drugs	Treatment of lungs, urethra, and biliary tract infection arising from bacteria and virus	2014
Clostridium Butyricum Capsule (酪酸梭菌活菌膠囊)	OTC drugs	Treatment of digestive system illness	2012

Source: Company data

Currently Town Health International (3886 HK, HKD 1.28) is the largest shareholder of the company, holding 31.2% of equity interest in the company (It used to hold 48.0% before the IPO of the company). The company's management team, including Mr. Zhou, Mr, Dai, Ms. Yang, Mr. He, and Mr. Chau, is collectively holding 33.8% of the company.

Figure 10. Shareholding structure



Source: Company data

Figure 11. Per share items

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
EPS (HK cents)					
- Basic (HK cents)	3.0	2.8	4.2	4.7	5.2
- Diluted (HK cents)	3.0	2.8	4.2	4.7	5.2
DPS (HKD cents)	0.0	2.5	1.2	1.4	1.6
BVPS (HKD)	0.2	0.3	0.3	0.3	0.4

Source: SBI China Capital, Company data

Figure 12. Ratio analysis

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Growth (YoY)					
Revenue	9.6%	10.2%	34.2%	23.3%	2.9%
Profit before tax	39.7%	29.5%	67.6%	12.9%	10.3%
Net profit	38.9%	13.5%	90.9%	12.9%	10.3%
Margins					
Gross margin	22.3%	26.3%	27.0%	25.7%	26.9%
EBT margin	12.7%	14.9%	18.6%	17.0%	18.3%
Net profit margin	8.8%	9.0%	12.8%	11.8%	12.6%
Other ratios					
Return on average assets	1.8%	1.9%	1.7%	2.9%	2.9%
Return on average equity	2.2%	2.2%	2.0%	3.5%	3.5%
Dividend payout ratio	0%	90.3%	30.0%	30.0%	30.0%
Valuation measures					
P/E (x)	19.7	20.9	14.0	12.4	11.2
P/B (x)	3.5	2.2	2.0	1.8	1.6
Dividend yield	0%	4.3%	2.1%	2.4%	2.7%

Source: SBI China Capital, Company data

Figure 13. Income statement (HKD m)

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Revenue	**175.0**	**192.9**	**258.9**	**319.2**	**328.4**
Cost of sales	(136.0)	(142.2)	(188.9)	(237.1)	(240.1)
Gross profit	**39.0**	**50.6**	**70.0**	**82.1**	**88.2**
SG&A	(9.7)	(11.0)	(23.3)	(28.7)	(29.6)
Other income	1.5	1.7	1.9	1.9	2.2
Listing and other expenses	(8.6)	(10.2)	0.0	0.0	0.0
Finance costs	(0.0)	(2.4)	(0.5)	(0.9)	(0.9)
Profit before tax	**22.2**	**28.7**	**48.1**	**54.4**	**60.0**
Income tax	(6.9)	(11.3)	(14.9)	(16.9)	(18.6)
Net profit	**15.3**	**17.4**	**33.2**	**37.5**	**41.4**
Net profit attributable to shareholders	15.3	17.4	33.2	37.5	41.4

Source: SBI China Capital, Company data

Figure 14. Balance sheet (HKD m)

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Non-current assets					
Property, plant and equipment	5.7	7.1	5.7	4.4	2.9
Prepaid lease payments	8.5	8.5	8.5	8.5	8.5
Others	0.6	0.6	0.6	0.6	0.6
Total non-current assets	**14.8**	**16.2**	**14.9**	**13.5**	**12.1**
Current assets					
Inventories	16.2	9.8	24.5	18.6	25.1
Trade and other receivables	108.5	114.3	143.5	148.8	151.0
Bills receivables	0.3	0.0	0.0	0.0	0.0
Others	0.3	0.2	0.2	0.2	0.2
Cash and cash equivalents	26.3	93.4	96.1	120.7	151.4
Total current assets	**151.5**	**217.7**	**264.4**	**288.3**	**327.8**
Current liabilities					
Borrowings	(12.0)	0.0	(15.0)	(15.0)	(15.0)
Payables	(17.4)	(17.4)	(33.4)	(27.8)	(35.2)
Total current liabilities	**(29.4)**	**(17.4)**	**(48.4)**	**(42.8)**	**(50.2)**
Non-current liabilities	**(2.5)**	**(3.3)**	**(4.5)**	**(5.1)**	**(5.6)**
Net assets	**134.4**	**213.2**	**226.4**	**254.0**	**284.1**
Equity	**134.4**	**213.2**	**226.4**	**254.0**	**284.1**

Source: SBI China Capital, Company data

Figure 15. Cash flow statement (HKD m)

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Operating activities					
Profit before tax	22.2	28.7	48.1	54.4	60.0
Adjustment for non-cash items	0.3	2.2	1.0	1.5	1.3
Operating cashflow before change in WC	22.5	30.9	49.2	55.9	61.3
Change in WC	(22.6)	(1.4)	(27.5)	(5.5)	(1.9)
Tax paid	(6.9)	(7.2)	(14.3)	(15.6)	(17.5)
Net cash generated from operating activities	**(7.0)**	**22.3**	**7.4**	**34.7**	**41.8**
Investing activities					
Purchase of PP&E	(0.2)	(2.5)	(0.2)	(0.2)	(0.2)
Interest received	0.1	0.3	0.9	1.0	1.2
Others	1.8	0.5	0.0	0.0	0.0
Nelt cash flow from investing activities	**1.8**	**(1.7)**	**0.7**	**0.8**	**1.0**
Financing activities					
Proceeds from IPO	0.0	70.0	0.0	0.0	0.0
New borrowing raised	12.0	(12.0)	15.0	0.0	0.0
Dividend paid to shareholders	0.0	0.0	(20.0)	(10.0)	(11.3)
Interest paid	(0.0)	(1.5)	(0.5)	(0.9)	(0.9)
Others	(3.4)	(10.6)	0.0	0.0	0.0
Net cash flow from financing activities	**8.6**	**45.9**	**(5.5)**	**(10.9)**	**(12.2)**
Net increase in cash and cash equivalent	3.4	66.5	2.7	24.6	30.7
Cash and cash equivalents at the beginning of the year	22.7	26.3	93.4	96.1	120.7
Exchange rate effect	0.2	0.7	0.0	0.0	0.0
Cash and cash equalents at the end of the year	**26.3**	**93.4**	**96.1**	**120.7**	**151.4**

Source: SBI China Capital, Company data

SBI China Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: research@sbichinacapital.com, thomsononeanalytics.com, factset.com and multex.com

SBI China Capital stock ratings:

STRONG BUY	: absolute upside of >50% over the next three months
BUY	: absolute upside of >10% over the next six months
HOLD	: absolute return of -10% to +10% over the next six months
SELL	: absolute downside of >10% over the next six months

Investors should assume that SBI China Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

Disclosure of Interest: SBI China Capital was the placing agent of New Ray Medicine International (8180 HK) in Oct 2014.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer:

This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI China Capital Financial Services Limited ('SBI China Capital') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI China Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI China Capital as of the date of this report only and are subject to change without notice. Neither SBI China Capital nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI China Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI China Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI China Capital located in such recipient's home jurisdiction.