

**5.5x P/E; Discount to Sector/Market**

Gree is currently trading at 5.5x P/E on consensus FY 2015 EPS estimates which is very attractive on both an absolute and relative basis. The Chinese peer group average P/E is 15.7x while the Shanghai Composite Index is trading at about 9x P/E. The stock has historically traded at 13x P/E [5 year average]. The difference is even more stark if we compare Gree with the global EM comps which are trading at around 30x P/E [India-listed Voltas and Blue Star are trading at 30x and 31x P/E on current year consensus] and developed market comps at around 20x P/E. Gree has grown earnings at 52% CAGR over the last 8 years and continues to be in a secular growth space as the per capita penetration of air conditioners in China is still very low compared to the global average. Ongoing concerns about the Chinese property market and economy are excessively discounted while Gree's growth has not been impacted at all, and the long-term secular growth prospect looks intact in our view and we would advise clients to step in at current levels as the risk-reward looks attractive. Additionally, there are multiple catalysts in the intermediate term which are likely to result in multiple expansion/ positive re-rating.

**37% EPS, 23% Sales 5-year CAGR**

Gree recorded 37% EPS and 23% revenue CAGR growth over the past five years. Importantly, this was during a period which included the great recession, significant curbs and slowdown in the housing market in China, and slowing Chinese growth rates. Gree clearly is a "growth stock" and a direct play on Chinese consumer demand. Despite sluggishness and slippages in China's overall GDP rate during the past couple years, the overall economy nonetheless is amongst the fastest growing in the world, and consumer demand has been much more resilient and less cyclical than other parts of the economy. Consensus expectations for Gree are for low-teens revenue and approximately 20% EPS growth going forward for the next few years – please see our detailed financial model attached.

**#1 Global Leader; 30% Share China**

Gree is the largest residential air-conditioner manufacturer in China as well as globally with over a 300 mn installed base. The company has over 30% market share in China and is dominated by three local players, Gree, Midea [000333\_CH] and Haier [1169\_HK], which accounts for over 70% of the total market share. Gree has its own R&D facilities which comprise three technology research centers and the only National Engineering Research Center of Green Refrigeration Equipment in China. The company employs over 5000 researchers in this field. The company has more than 9,000 technology patents, including 2,500 invention patents which make its products competitive on the global stage. Gree's products are sold

Target Price	Rmb 46.00
Current Price	Rmb 29.20
Upside Potential	60%

**Deep Value Matrix**

5.5x P/E on FY2015e; 13x P/E 5-Year Avg

6.8% Dividend Yield on 2014e [8.2% on 2015e]

14% FCF Yield [FY2014e]; 30% ROE, 27% Net Cash

**Company Profile / Data**

Market Cap.	Rmb 87,830mn	(US\$14.2bn)
Shares Outstanding	3,008 mn	
Free Float (FF %)	2,185/72%	
52 Week Range (Rmb)	25.45 / 34.34	
Avg. Daily Value	Rmb 550mn	(US\$90mn)

**Performance Chart****Forecasting & Valuations**

(Rmb mn except ratio)	FY2013	FY2014E	FY2015E
Revenue	120,043	135,168	154,092
EBIT	12,059	15,680	18,337
Net Income (adjusted)	9,359	13,388	15,644
EPS (adjusted)	3.11	4.45	5.20
EPS Growth (%)	28.4	43.1	16.9
P/E	10.51	6.57	5.62
Div. yield (%)	5.14	6.85	8.22
P/B	3.05	2.22	1.83
ROE (%)	27.1	31.9	31.1
Net Cash (Debt)	23,930	30,370	34,720
EV/EBITDA	5.67	3.81	3.26

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widely in more than 200 countries and regions in the world. The company's current annual production capacity of residential and commercial air conditioners is more than 60 million units and 5.5 million units, respectively.

### **6.8% est. Div Yield [42% EPS, 42% FCF Payout]**

Gree declared RMB1.50 in dividends [paid in June] based on its FY 2013 results, which approximates to an attractive 5.1% yield at the current stock price. The dividend is extremely well covered by both earnings [42% payout on 2013 actual EPS] and free cash flows [42% payout on 2013's 12% FCF yield]. The dividend has grown at a 62% CAGR over the past 5 years [from RMB 0.133 per share in 2009 to the present level of 1.50]. With strong FCF, BS and limited CAPX requirements going forward, we expect an increased payout next year. Our FY 2014 dividend estimate of RMB2.00 [consensus estimate 1.84] approximates to a yield of 6.8% at today's stock price, while our RMB2.40 estimate [consensus 2.20] would imply a 8.2% yield. We expect the dividend growth CAGR going forward to be higher than the EPS growth rate as the payout ratio likely moves up from current levels.

### **>30% ROE's on 9% EDITDA Margins**

Gree has demonstrated excellent capital allocation skills over the past decade with its ROE increasing from 16.4% in 2003 to 35.5% currently. In fact, the ROE has stayed close to the 30% level consistently from 2008 which is commendable as the unlevered book value itself has grown at 32% CAGR in the last ten years. The company has also continuously looked to improve its operational efficiency and has achieved a steady improvement in EBITDA margins over the years. **EBITDA margins have increased from 3.9% in 2003 to 9.8% currently and are expected to improve further due to a positive mix shift with an increasing proportion of commercial A/C sales.** The company has also increased its focus on enhancing the image of its own branded A/Cs which should result in reduced reliance on OEM sales [as they have lower margins] thereby leading to a further improvement in EBITDA margins.

### **27% Net Cash, Strong BS, 12% FCF**

At the end of FY2013, the company had Rmb24 bn in net cash, Rmb 8.00 per share, which approximates to 27% of the current market cap. Along with a strong balance sheet, the company has been able to grow its book value at a 32% CAGR over the past ten years. The company has also demonstrated an excellent track record of FCF generation. In FY2013, the company had generated total FCF of RMB10.5 bn or Rmb 3.50 per share which approximates to a FCF yield of 12%. We expect FCF of RMB12.5 bn or Rmb4.14 per share in FY2014 which suggests a 14.1% FCF yield.

### **Export Potential**

Gree has been steadily, although slowly, growing its presence in international markets. Exports currently contribute 15% to revenues. The company's self-owned brands contribute one-third to total exports while the remaining comes from the OEM business. The company has set up two production facilities abroad in Brazil and Vietnam and aims to increase exports of its own branded products. **Gree currently manufactures all household air-conditioners under the Daikin brand sold in Japan.** We believe there is a substantial scope for Gree to further increase its exports revenues as the company's self-owned brands are only sold in developing countries and regions such as Southeast Asia, South America and Africa. Gree has only focused on brand enhancement in these counties and we believe there are inorganic growth opportunities in the international markets through M&A.

*Gree has grown earnings at 52% CAGR over the last 8 years and continues to be in a secular growth space as the per capita penetration of air conditioners in China is still very low compared to the global average. Consensus expectations for Gree are for low-teens revenue and approximately 20% EPS growth going forward for the next few years*

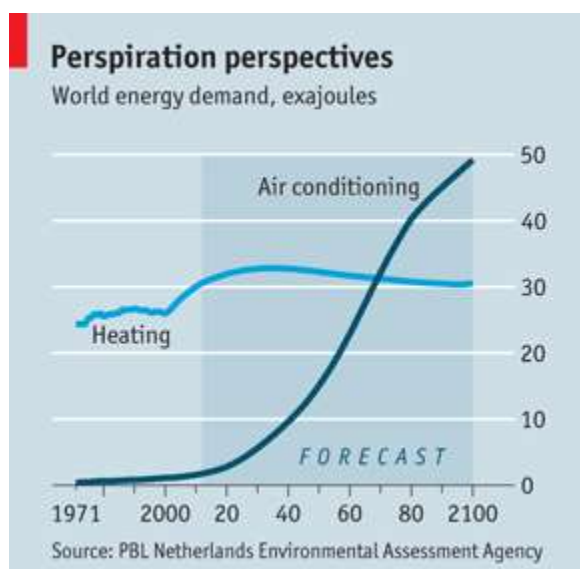
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*The penetration was just 30 per 100 household in urban areas in the year 2000; that number has quadrupled to today's 126 level in just 12 years. So while the proportion of A/C's in Chinese homes in urban areas has risen from 8% to 70% between 1995 and 2004, there remains considerable growth potential in both urban and rural areas.*

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## **Underpenetrated Markets = Secular Growth**

The air conditioner market remains significantly underpenetrated in China, especially in rural markets. While penetration levels have expanded dramatically in recent years, there still is on average only 126 air conditioners per 100 household [or 1.26 A/C's per single household] in urban areas [cities] and 25 per 100 household in rural areas – please see the two tables below. The penetration was just 30 in urban areas in the year 2000; that number has quadrupled to today's 126 level in just 12 years. So while the proportion of A/C's in Chinese homes in urban areas has risen from 8% to 70% between 1995 and 2004, there remains considerable growth potential in both urban and rural areas. It is not easy to compare Chinese A/C [where each room has a separate unit] penetration rates with many developed countries such as the USA where an entire house/apartment has one centralized unit. Nonetheless, 87% of all USA houses/apts have A/C's, and the USA consumes more energy on air conditioning than the rest of the world combined. Yet A/C's account for only 8% of USA household energy needs, compared to 41% for heating and 20% for hot water, according to America's Energy Information Agency. ***The chart below indicates that the energy demand for air conditioning globally will rise 40-fold this century. All this suggests the constant need for newer, more energy efficient models.***



Source: Economist Jan 5, 2013

11-9 Ownership of Major Durable Consumer Goods  
Per 100 Urban Households at Year-end

Item	1990	1995	2000	2005	2010	2011	2012
Motorcycle (unit)	1.94	6.29	18.80	25.00	22.51	20.13	20.27
Washing Machine (set)	78.41	88.97	90.50	95.51	96.92	97.05	98.02
Refrigerator (set)	42.33	66.22	80.10	90.72	96.61	97.23	98.48
Color Television Set (set)	58.04	89.79	116.60	134.80	137.43	135.15	136.07
Hi-Fi Stereo Component System (set)		10.52	22.20	28.79	28.08	23.97	23.63
Camera (set)	19.22	30.56	38.40	46.94	43.70	44.48	46.42
Air Conditioner (set)	0.34	8.09	30.80	80.67	112.07	122.00	126.81
Water Heater for Shower (set)		30.05	49.10	72.65	84.82	89.14	91.02
Computer (set)			9.70	41.52	71.16	81.88	87.03
Video Camera (set)			1.30	4.32	8.20	9.42	10.00
Microwave Oven (set)			17.60	47.61	59.00	60.65	62.24
Health Equipment (set)			3.50	4.88	4.24	4.09	4.27
Mobile Telephone (set)			19.50	137.00	188.86	205.25	212.64
Telephone (set)				94.40	80.94	69.58	68.41
Automobile (unit)			0.50	3.37	13.07	18.68	21.54

11-28 Number of Durable Consumer Goods Owned  
Per 100 Rural Households at Year-end

Item	1990	1995	2000	2005	2010	2011	2012
Washing Machine (set)	9.12	16.90	26.68	40.20	57.32	62.57	67.22
Refrigerator (set)	1.22	5.15	12.31	20.10	45.19	61.54	67.32
Air Conditioner (set)		0.18	1.32	6.40	16.00	22.58	25.36
Exhaust Fan (set)		0.61	2.75	5.98	11.11	13.23	14.69
Bicycle (unit)	118.33	147.02	120.48	98.37	95.98	77.11	78.97
Motorcycle (unit)	0.89	4.91	21.94	40.70	59.02	60.85	62.20
Telephone (set)			26.38	58.37	60.76	43.11	42.24
Mobile Telephone (set)			4.32	90.24	136.54	179.74	197.80
Black and White TV Set (set)	39.72	63.81	52.97	21.77	6.38	1.66	1.44
Color TV Set (set)	4.72	16.92	46.74	84.08	111.79	115.46	116.90
Camera (set)	0.70	1.42	3.12	4.05	5.17	4.55	5.18
Computer (set)			0.47	2.10	10.37	17.96	21.36

Source: National Bureau of Statistics of China - 2013

*The government is testing independent board of directors, performance-linked compensation, strategic outside partners, etc. While changes will unfold over many years, stock prices have already started to anticipate positive fundamental change, especially in the case of stocks such as Gree where the underlying valuations are at clear deep value levels.*

*China's domestic stock market continues to open up to global investors, especially with the new plan announced in April this year to link the HK and Shanghai stock exchanges. This new plan, which will go into effect next month in October, will enable far easier access to foreigners to Shanghai listed shares, while at the same time mainland Chinese investors will be able to trade more than 250 HK-listed shares*

## **SOE Sector Structural Reforms**

Reforming the state owned enterprises [SOE] sector is a major policy initiative of the new leadership in Beijing, and was articulated at the November 2014 Communist Party assembly. Facets of reform include further privatizations via stake sales and greater private capital, less government and bureaucratic interference, higher dividend payouts, etc. The government is testing independent board of directors, performance-linked compensation, strategic outside partners, etc. While changes will unfold over many years, stock prices have already started to anticipate positive fundamental change, especially in the case of stocks such as Gree where the underlying valuations are at clear deep value levels.

## **Not Just Dependent on New Housing**

A booming property market in the mainland over the past decade ensured spectacular growth for the air-conditioners industry. The per capita penetration of air-conditioners still remains very low in China and continues to remain in a secular growth space. Although new housing does represent a major driver of demand for A/C's, we believe there is substantial growth from replacement demand with the increase in installed base over the last decade. As mentioned above, there is 126 A/C's per 100 households in the urban areas and 26 A/C's per 100 households in the rural areas. We expect a major chunk of new demand to come from lifestyle upgrades as income levels among the middle and the lower middle class continue to rise.

## **Govt. Focus on Energy & Environment**

Gree and the entire A/C industry benefited from consumer subsidies given by the government to encourage energy and environment friendly products. These subsidies reduced the final purchase price to consumer by about 10%-13%. Subsidies were discontinued in 2012 but the industry has continue to show healthy growth. In many sectors, including commercial and consumer transport, the government remains very focused on these issues. Everyone has read articles about the smog issues in Beijing and Shanghai, so the problem and concerns are very real. If subsidies are resumed going forward, which is entirely possible, it will surely be a favorable catalyst for revenue growth.

## **Further Privatization via Stake Sale**

There has been some speculation that the Zhuhai government, which has a 19% stake in Gree, may sell some of this stake to the public. While we do not expect any stake sale at Gree, the Zhuhai government is transferring its 49% stake in a separate company, Gree Real Estate [600185\_CG; US\$1 billion market cap], and will likely sell some of that to the public. Earlier in March 2014, the Chinese authorities announced a sale of 30% stake in Asia's largest refiner, Sinopec's, marketing business. This was the first major restructuring following President Xi Jinping's announcement of reforms of SOE's at last year's Communist Party assembly. Zhuhai is a prefecture-level city in the Pearl River Delta on the southern coast of Guangdong province neighboring Shenzhen. It was one of the original Special Economic Zones established in the 1980.

## **Chinese Market Opening via HK-Shanghai Link**

China's domestic stock market continues to open up to global investors, especially with the new plan announced in April this year to link the HK and Shanghai stock exchanges. This new plan, which will go into effect next month in October, will enable far easier access to foreigners to Shanghai listed shares, while at the same time mainland Chinese investors will be able to trade more than 250 HK-listed shares. This new system should enable global investors to bypass various QFII [Qualified Foreign

Institutional Investor] quota and registration restrictions. This move is just one in a series of steps to further open up Chinese markets, including widening the Renminbi's daily trading band. Gree's primary listing is on the Shenzhen exchange, and it is a member of various Shanghai-Shenzhen indices [CSI 300 Index]. While the implementation and pace of reforms remains to be seen, Chinese markets are surely opening up further, and we believe stocks like Gree will be beneficiaries of incremental fund flow and rerating going forward. [Clients are urged to talk with their local brokers for more details.]

### **Global Warming Play!!**

As harsh as it sounds, global temperature is on the rise which is directly feeding into higher demand for air conditioners. The world is warming, incomes are rising and smaller families are living in larger houses in hotter places. Developing economies are quickly catching up with developed countries and China alone is expected to surpass the U.S. as the world's biggest user of electricity for air conditioning by 2020. The number of U.S. homes equipped with air conditioning rose from 64 to 100 million between 1993 and 2009, whereas 50 million air-conditioning units were sold in China in 2010 alone. And it is projected that the number of air-conditioned vehicles in China will reach 100 million in 2015, having more than doubled in just five years. Some of the other developing economies like India, Indonesia and other Southeast Asian countries are also witnessing a spurt in demand for air conditioners driven by an improving business climate and rise in income levels. This is a vicious circle where a rise in global warming results in increased demand for cooling solutions which in turn adds to global warming. We expect Gree to be a major beneficiary of this trend.

### **Price Target & Recommendation**

We are initiating coverage on Gree with a Strong-Buy rating and a 12-month price target of Rmb46 which approximates to a 60% upside from current levels. Our price target is based on P/E ratio supported by a detailed DCF analysis. Our price target represents 8.8x P/E on our FY2015 EPS estimate of Rmb5.20. Note that our earnings estimates are in line with consensus. It is interesting to note that the Chinese peer group average P/E is 15.7x while the global EM comps which are trading at around 30x P/E [India-listed Voltas and Blue Star are trading at 30x and 31x P/E on current year consensus] and developed market comps at around 20x P/E.

Our DCF analysis suggests a long-term price target of Rmb67, implying 127% upside. Our DCF model assumes WACC of 11.8%, terminal growth rate of 2.5% and Rmb21.7 bn in FCF in FY2023. See details in the appendix at the back.

*Developing economies are quickly catching up with developed countries and China alone is expected to surpass the U.S. as the world's biggest user of electricity for air conditioning by 2020. The number of U.S. homes equipped with air conditioning rose from 64 to 100 million between 1993 and 2009, whereas 50 million air-conditioning units were sold in China in 2010 alone.*

*Gree currently manufactures all household air-conditioners under the Daikin brand sold in Japan. We believe there is a substantial scope for Gree to further increase its exports revenues as the company's self-owned brands are only sold in developing countries and regions such as Southeast Asia, South America and Africa.*

*The dividend has grown at a 62% CAGR over the past 5 years [from RMB 0.133 per share in 2009 to the present level of 1.50]. With strong FCF, BS and limited CAPX requirements going forward, we expect an increased payout next year.*

*The company has set up two production facilities abroad in Brazil and Vietnam and aims to increase exports of its own branded products. Gree currently manufactures all household air-conditioners under the Daikin brand sold in Japan.*

### **Secular Growth Opportunity**

Gree should be a beneficiary in the near term of any rebound in the housing market. Longer term, the air conditioner market remains significantly underpenetrated in China, especially in rural markets. While penetration levels have expanded dramatically in recent years, there still is on average only 126 air conditioners per 100 household [or 1.26 A/c's per single household] in urban areas [cities], and 25 per household in rural areas. The penetration was just 30 in urban areas in the year 2000; that number has quadrupled to today's 126 level in just 12 years. So while the proportion of Chinese homes in urban areas has risen from 8% to 70% between 1995 and 2004, there remains considerable growth in both urban and rural areas.

### **Higher Dividends**

We expect the dividend growth CAGR going forward to be higher than the EPS growth rate as the payout ratio likely moves up from the current low levels. The dividend is extremely well covered by both earnings [42% payout on 2013 actual EPS] and free cash flows [42% payout on 2013's 12% FCF yield]. The dividend has grown at a 62% CAGR over the past 5 years [from RMB 0.133 per share in 2009 to the present level of 1.50]. With strong FCF, BS and limited CAPX requirements going forward, we expect an increased payout next year. Our FY 2014 dividend estimate of RMB2.00 [consensus estimate 1.84] approximates to a yield of 6.8% at today's stock price, while our RMB2.40 estimate [consensus 2.29] would imply an 8.2% yield.

### **Export Growth Potential**

There is a substantial scope for Gree to further increase its exports revenues as the company's self-owned brands are only sold in developing countries and regions such as Southeast Asia, South America and Africa. Gree has only focused on brand enhancement in these counties and we believe there are inorganic growth opportunities in the international markets through M&A. The company has set up two production facilities abroad in Brazil and Vietnam and aims to increase exports of its own branded products. Gree currently manufactures all household air-conditioners under the Daikin brand sold in Japan.

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Reforming the SOE sector is a major policy initiative of the new leadership in Beijing, and was articulated at the November 2014 Communist Party assembly. Facets of reforms include further privatizations via stake sales and greater private capital, less government and bureaucratic interference, higher dividend payouts, etc. The government is testing independent board of directors, performance-linked compensation, strategic outside partners, etc. While changes will unfold over many years, stock prices have already started to anticipate positive fundamental change, especially in the case of stocks such as Gree where the underlying valuations are at clear deep value levels.

## **Recent Results**

For the first half ended June, Gree reported 9.4% YoY growth in revenues to Rmb57.9 bn which was slightly below consensus estimates while net income was up 42% YoY to Rmb5.7 bn, EPS of Rmb1.90, which was marginally above consensus estimates. Domestic sales of air conditioners were up 16% YoY to Rmb43.5 bn in 1H14 while exports were soft at -16% or Rmb8.7 bn. This resulted in 9% YoY revenue growth in the second quarter [2Q2014], down 12 percentage points from the preceding quarter. The company continues to generate strong cash flow from operating activities which increased by 23% YoY in the first half to Rmb19.3 bn. Gree is currently undergoing a positive mix shift which is resulting in an improvement in the margins. In 1H14, consolidated gross margins rose 6 percentage points to 34.4% driven by an increase in the sale of higher margin central air conditioners and commercial A/C's. We expect the company to benefit from this positive mix shift over the next few years. The appreciation in Rmb resulted in a forex loss of Rmb970 mn in the first half.



*An inability to pass on the increase in input cost to customers can negatively impact the company's margins and profitability, in our view.*

*Given that Gree's balance sheet remains strong with 27% net cash, we believe there is inorganic growth opportunities through M&A's in the international markets. However, M&A's often turn out to be expensive with long gestation periods. This can negatively impact margins and profitability, in our view.*

## **Risks**

### **A Slowing Property Market**

A slowdown in property sales generally tends to have a direct impact on the demand for air conditioners. We estimate 25%-30% impact on AC demand is related to property sales with a lag of 6-8 months. The pace of growth in domestic A/C sales in China slowed to 7.6% in the month of July vs. over 20% in the preceding six months primarily driven by a slowing property market, in our view. However, the air conditioner market in China still remains underpenetrated with secular growth prospects.

### **Increase in Competition from Foreign Players**

The Chinese air conditioner market is currently dominated by three domestic players with a combined market share of over 70%. While there are several other competitors [both domestic and international], these three companies have been able to maintain their dominant position consistently. However, there is always a possibility of market share loss to competition driven by an introduction of better and technologically-advanced products by peers.

### **Increase in Raw Material Prices**

Compressor and copper are the two largest cost items in the manufacturing of air conditioners accounting for 26% and 18% of the total COGS. An inability to pass on the increase in input cost to customers can negatively impact the company's margins and profitability, in our view.

### **Sustainability of ROE and FCF**

Gree has shown high levels of ROE and FCF. While overall EBITDA margins are not high, there is risk that high returns are not sustainable and attract further competition going forward.

### **Unprofitable M&A**

Gree has been striving to increase its presence in the international markets for some time now. So far, the company has just focussed on increasing its brand awareness and value. Given that Gree's balance sheet remains strong with 26% net cash, we believe there is inorganic growth opportunities through M&A's in the international markets. However, M&A's often turn out to be expensive with long gestation periods. This can negatively impact margins and profitability, in our view.

### **Government Regulation & Interference**

Gree remains an SOE company with the largest shareholder being the Zhuhai province. There is always risk of government interference, changes in regulation, etc. and the company not acting in the public shareholder's best interest. Stock price performance and bottom-line results are not usually the government's highest priority.

### **Chinese GDP Slowdown**

It's a well documented fact that the growth rate of GDP has slowed in China. There is risks of further slowdown and credit related disruption to the overall economy.

## **Business Description**

Founded in 1991, Gree Electric Appliances Inc. of Zhuhai, is the world's largest specialized air conditioning enterprise which has integrated R&D, manufacturing, marketing and service.

In 2012, Gree became the first listed electrical appliances enterprise in China with sales revenue over 16 billion USD. In 2013, sales revenue exceeded 19 billion USD. ***Gree has been ranked on the Fortune Magazine as one of the Top 100 Chinese listed companies for 12 consecutive years.*** Gree is the only manufacturer in Chinese air conditioning industry that is honored as "World Brand".

Gree's products are sold widely in more than 200 countries and regions, while Gree own brand air conditioners are sold in over 100 countries and regions. Today Gree's annual production capacity of RAC and CAC are more than 60 million units and 5.5 million units respectively. Since 2005, Gree has topped No.1 in production and sales volume for 9 consecutive years, with over 300 million users all across the world. The company has 9 production bases around the world, 7 are located in China, another 2 in Brazil and Pakistan, with more than 70,000 employees including 5000 engineers, 530 laboratories and 2 national R&D centers.

Gree's RAC and CAC products are classified into 20 categories, 400 series and over 7000 models, which satisfy demands for all market segments. With more than 9000 technology patents, including 2500 invention patents, Gree has achieved a series of "world leading" products that have shaped the development of the industry, such as the 1Hz inverter air conditioner, R290 eco-friendly air conditioners, self-developed all DC Inverter VRF units, permanent-magnet synchronous inverter centrifugal chiller, 2-stage inverter compressor, PV direct-driven inverter centrifugal chiller, magnetic suspension inverter centrifugal chiller and so on.

Gree has won the bidding for many international projects, including 2008 Beijing Olympic Games, "2010 FIFA World Cup" in South Africa, 2010 Asian Games in Guangzhou and 2014 Winter Olympic Games in Sochi, Russia, which have significantly improved Gree brand awareness throughout the world, leading the revolution from "Made in China" to "Created in China".

## Appendix:

Source: Company Reports

### What if the Rest of the World Used as Much Air Conditioning as Americans?

U.S. households use more energy for A/C than the rest of the world combined. But that's changing, fast.

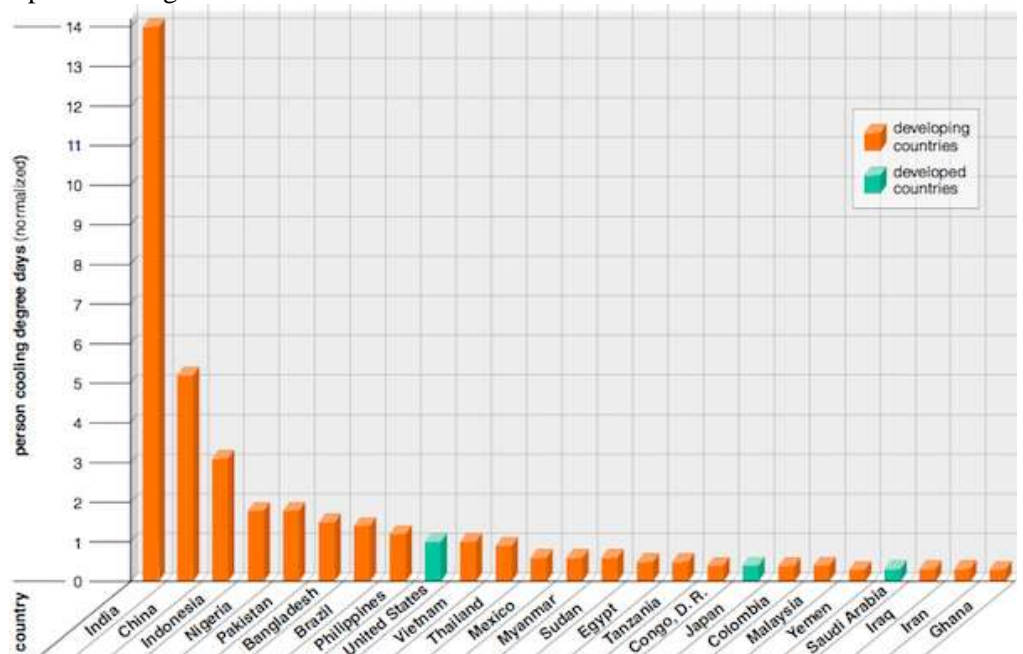
Reuters

We love our air conditioning in the U.S. The amenity is more common in American homes – 87 percent of us have either central air or window units – than dishwashers, garages, or dining rooms. All told, U.S. households demand more energy for air conditioning than the rest of the world combined.

Part of this has to do with climate (it's simply inhumane to rent an apartment to anyone in Miami, Atlanta or Houston without providing central A/C). But the bulk of that statistic really has to do with wealth. Air conditioning is a luxury for economies that can afford it. And as the standard of living rises in developing countries, particularly those in some much hotter parts of the world, global demand for the kind of A/C Americans have long enjoyed will skyrocket.

That future entails a particularly frustrating catch-22: As millions more people in the world are able to artificially cool off for the first time (and who can blame them once they get the chance?), this particular niche of energy demand will increase dramatically, further contributing to climate change. And what will we do when the climate warms up? Crank up the A/C even more.

The University of Michigan's Michael Sivak, whose earlier A/C-themed research we've covered, has attempted to calculate what this future demand might look like, if air conditioning became as prevalent in other countries as it is in the U.S. today. Sivak's calculations, published in *American Scientist*, estimate country-by-country demand given both local climate and population size. If A/C were as popular and accessible throughout the world as it is in America, these 25 countries would represent the greatest demand:

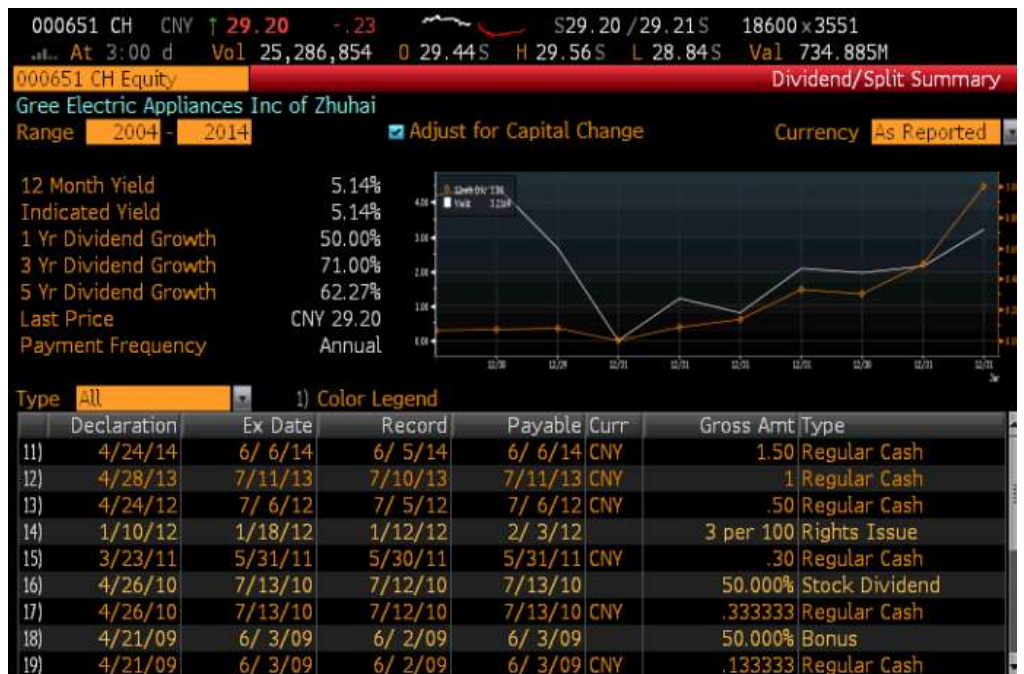


"Will AC Put a Chill on the Global Energy Supply?" by M. Sivak in American Scientist.

Of particular note, only three of those countries (the U.S., Japan and Saudi Arabia) are considered developed countries by World Bank income limits. For those other 22 countries, Sivak writes, "the current cooling demand there is nowhere near the possible peak."

That graph suggests that eight countries have the potential to exceed American A/C energy demand, or what's currently the world's top consumer. Sivak looked at 170 countries for which data was available. The total demand for the 169 countries outside the U.S. could be 45 times greater than the home air-conditioning energy Americans require today. And that doesn't even take into account the few dozen countries that Sivak didn't look at.







Source: Bloomberg

Income Statement (Rmb million)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	CAGR(14-19E)
<b>Revenue</b>	41,837.1	42,233.9	60,268.4	83,019.3	100,110.0	120,043.0	135,168.4	154,092.0	171,658.5	190,197.6	210,168.3	231,815.7	12%
y/y		0.9%	42.7%	37.7%	20.6%	19.9%	12.6%	14.0%	11.4%	10.8%	10.5%	10.3%	
Cost of Revenue	-33,737.6	-31,953.0	-47,466.1	-68,107.3	-73,203.0	-80,385.9	-88,940.8	-100,930.3	-112,436.3	-124,579.4	-137,660.3	-151,839.3	
<b>Gross Profit</b>	<b>8,099.5</b>	<b>10,280.9</b>	<b>12,802.3</b>	<b>14,912.0</b>	<b>26,907.0</b>	<b>39,657.1</b>	<b>46,227.6</b>	<b>53,161.7</b>	<b>59,222.2</b>	<b>65,618.2</b>	<b>72,508.1</b>	<b>79,976.4</b>	
Gross margin (%)	19.4%	24.3%	21.2%	18.0%	26.9%	33.0%	34.2%	34.5%	34.5%	34.5%	34.5%	34.5%	
Other Operating Revenue	0.0	0.0	0.0	0.0	0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	
as a % of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Selling, General & Admin Expense	-5,684.7	-7,408.4	-10,485.3	-10,884.6	-18,682.0	-27,598.4	-30,548.1	-34,824.8	-38,966.5	-43,174.9	-47,918.4	-52,854.0	
as a % of sales	13.6%	17.5%	17.4%	13.1%	18.7%	23.0%	22.6%	22.6%	22.7%	22.7%	22.8%	22.8%	
Other Operating expenses	0.0	0.0	0.0	0.0	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	
as a % of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
<b>Operating Income</b>	<b>2,414.8</b>	<b>2,872.5</b>	<b>2,317.0</b>	<b>4,027.4</b>	<b>8,224.9</b>	<b>12,058.8</b>	<b>15,679.5</b>	<b>18,336.9</b>	<b>20,255.7</b>	<b>22,443.3</b>	<b>24,589.7</b>	<b>27,122.4</b>	14%
y/y		19.0%	-19.3%	73.8%	104.2%	46.6%	30.0%	16.9%	10.5%	10.8%	9.6%	10.3%	
Operating margin (%)	5.8%	6.8%	3.8%	4.9%	8.2%	10.0%	11.6%	11.9%	11.8%	11.8%	11.7%	11.7%	
Interest Expense	0.0	0.0	-158.2	-173.0	-230.6	-491.9	-438.3	-318.3	-198.3	-78.3	-18.3	-18.3	
Interest income	0.0	0.0	0.0	0.0	461.3	137.3	231.3	204.9	206.7	206.5	218.7	243.7	
Equity in (losses)/income of affiliates	0.0	0.0	0.0	0.0	8.7	2.9	3.1	3.4	3.8	4.2	4.6	5.0	
Other recurring (expenses)/income	8.5	507.8	2,877.5	2,474.2	146.4	-327.2	351.2	254.1	279.5	307.5	338.2	372.0	
Amortization of intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other non recurring (expenses) income	0.0	0.0	0.0	0.0	146.5	1,511.7							
<b>Pretax Income (reported)</b>	<b>2,423.3</b>	<b>3,380.3</b>	<b>5,036.3</b>	<b>6,328.6</b>	<b>8,757.3</b>	<b>12,891.6</b>	<b>15,826.8</b>	<b>18,481.1</b>	<b>20,547.3</b>	<b>22,883.1</b>	<b>25,132.9</b>	<b>27,724.9</b>	14%
y/y		39.5%	49.0%	25.7%	38.4%	47.2%	22.8%	16.8%	11.2%	11.4%	9.8%	10.3%	
<b>Pretax Income (adjusted)</b>	<b>2,423.3</b>	<b>3,380.3</b>	<b>5,036.3</b>	<b>6,328.6</b>	<b>8,610.8</b>	<b>11,379.9</b>	<b>15,826.8</b>	<b>18,481.1</b>	<b>20,547.3</b>	<b>22,883.1</b>	<b>25,132.9</b>	<b>27,724.9</b>	16%
y/y		39.5%	49.0%	25.7%	36.1%	32.2%	39.1%	16.8%	11.2%	11.4%	9.8%	10.3%	
- Income Tax Expense	-414.4	-448.6	-753.1	-1,031.2	-1,316.7	-1,956.1	-2,374.0	-2,772.2	-3,082.1	-3,432.5	-3,769.9	-4,158.7	
effective tax rate (%)	17.1%	13.3%	15.0%	16.3%	15.0%	15.2%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
- Minority Interests	-25.3	-18.2	-27.5	-60.4	-66.2	-65	-65	-65	-65	-65	-65	-65	
<b>Income Before XO Items</b>	<b>1,983.6</b>	<b>2,913.5</b>	<b>4,255.7</b>	<b>5,237.0</b>	<b>7,374.4</b>	<b>10,870.5</b>	<b>13,387.8</b>	<b>15,643.9</b>	<b>17,400.2</b>	<b>19,385.7</b>	<b>21,297.9</b>	<b>23,501.1</b>	14%
y/y		46.9%	46.1%	23.1%	40.8%	47.4%	23.2%	16.9%	11.2%	11.4%	9.9%	10.3%	
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Net Income (reported)</b>	<b>1,983.6</b>	<b>2,913.5</b>	<b>4,255.7</b>	<b>5,237.0</b>	<b>7,374.4</b>	<b>10,870.5</b>	<b>13,387.8</b>	<b>15,643.9</b>	<b>17,400.2</b>	<b>19,385.7</b>	<b>21,297.9</b>	<b>23,501.1</b>	14%
y/y		46.9%	46.1%	23.1%	40.8%	47.4%	23.2%	16.9%	11.2%	11.4%	9.9%	10.3%	
Exceptional (L)G	0.00	157.90	248.50	130.50	0.00	0.00							
<b>Net Income (adjusted)</b>	<b>1,983.6</b>	<b>2,755.6</b>	<b>4,007.2</b>	<b>5,106.5</b>	<b>7,227.9</b>	<b>9,358.8</b>	<b>13,387.8</b>	<b>15,643.9</b>	<b>17,400.2</b>	<b>19,385.7</b>	<b>21,297.9</b>	<b>23,501.1</b>	17%
y/y		38.9%	45.4%	27.4%	41.5%	29.5%	43.1%	16.9%	11.2%	11.4%	9.9%	10.3%	
Basic EPS (reported)	0.7	1.03	1.51	1.86	2.47	3.61	4.45	5.20	5.78	6.44	7.07	7.80	
Basic EPS (adjusted)	0.7	0.98	1.42	1.81	2.42	3.11	4.45	5.20	5.78	6.44	7.07	7.80	
Basic Weighted Avg Shares	2,818	2,818	2,818	2,818	2,986	3,011	3,011	3,011	3,011	3,011	3,011	3,011	
<b>Diluted EPS (reported)</b>	<b>0.70</b>	<b>1.03</b>	<b>1.51</b>	<b>1.86</b>	<b>2.47</b>	<b>3.61</b>	<b>4.45</b>	<b>5.20</b>	<b>5.78</b>	<b>6.44</b>	<b>7.07</b>	<b>7.80</b>	14%
y/y		46.9%	46.1%	23.1%	32.9%	46.2%	23.2%	16.9%	11.2%	11.4%	9.9%	10.3%	
<b>Diluted EPS (adjusted)</b>	<b>0.70</b>	<b>0.98</b>	<b>1.42</b>	<b>1.81</b>	<b>2.42</b>	<b>3.11</b>	<b>4.45</b>	<b>5.20</b>	<b>5.78</b>	<b>6.44</b>	<b>7.07</b>	<b>7.80</b>	17%
y/y		38.9%	45.4%	27.4%	33.6%	28.4%	43.1%	16.9%	11.2%	11.4%	9.9%	10.3%	
Diluted Weighted Avg Shares	2,818	2,818	2,818	2,818	2,986	3,011	3,011	3,011	3,011	3,011	3,011	3,011	

Reference Items	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E
EBITDA	2759.8	3303.1	2765.9	4660.1	9203.3	13289.0	17031.2	19877.9	21972.3	24345.3	26691.4	29440.6
Dividends per Share	0.13	0.33	0.30	0.50	1.00	1.50	2.00	2.40	2.80	3.20	3.50	4.00
Dividend payout ratio	18.9%	34.1%	21.1%	27.6%	41.3%	48.3%	45.0%	46.2%	48.5%	49.7%	49.5%	51.3%
Dep & Amor.	345.0	430.6	448.9	632.7	978.4	1230.2	1351.7	1540.9	1716.6	1902.0	2101.7	2318.2
as a % of sales	0.8%	1.0%	0.7%	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

Balance Sheet (Rmb million)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E
<b>Assets</b>												
+ Cash & Near Cash Items	3,666.3	22,904.8	15,166.1	16,040.8	28,943.9	38,541.7	40,981.4	41,332.3	41,308.7	43,740.9	48,739.9	53,927.5
+ Short-Term Investments	0.0	352.9	1,418.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receivable	13,842.9	11,751.1	23,254.7	34,891.9	35,767.0	48,146.5	44,438.9	50,660.4	56,435.7	62,530.7	69,096.4	76,213.4
+ Inventories	4,789.9	5,823.6	11,559.2	17,503.1	17,235.0	13,122.7	17,057.1	17,973.9	20,022.9	22,185.4	24,514.8	27,039.9
+ Other Current Assets	978.0	1,778.4	3,134.0	3,319.8	3,141.6	3,921.6	3,921.6	3,921.6	3,921.6	3,921.6	3,921.6	3,921.6
<b>Total Current Assets</b>	<b>23,277.1</b>	<b>42,610.8</b>	<b>54,532.7</b>	<b>71,755.6</b>	<b>85,087.5</b>	<b>103,732.5</b>	<b>106,399.1</b>	<b>113,888.1</b>	<b>121,688.9</b>	<b>132,378.6</b>	<b>146,272.8</b>	<b>161,102.4</b>
+ Long-Term Investments	1,530.1	2,537.7	2,827.0	197.7	2,851.8	5,874.4	5,874.4	5,874.4	5,874.4	5,874.4	5,874.4	5,874.4
+ Gross Fixed Assets	6,851.8	7,535.0	9,268.0	14,550.2	20,494.5	22,891.8	25,595.2	27,906.5	30,481.4	33,334.4	36,486.9	39,964.2
- Accumulated Depreciation	-1,829.6	-2,210.6	-2,596.8	-3,057.5	-3,863.8	-4,629.2	-5,980.9	-7,521.8	-9,238.4	-11,140.4	-13,242.0	-15,560.2
+ Net Fixed Assets	5,022.2	5,324.4	6,671.2	11,492.7	16,630.7	18,262.6	19,614.3	20,384.7	21,243.0	22,194.0	23,244.9	24,403.9
+ Other Long-Term Assets	735.3	1,057.3	1,573.5	1,765.7	1,361.5	3,462.4	3,462.4	3,462.4	3,462.4	3,462.4	3,462.4	3,462.4
+ Goodwill & other Intangible Assets	0.0	0.0	0.0	0.0	1,635.3	2,370.2	2,370.2	2,370.2	2,370.2	2,370.2	2,370.2	2,370.2
<b>Total Long-Term Assets</b>	<b>7,287.6</b>	<b>8,919.4</b>	<b>11,071.7</b>	<b>13,456.1</b>	<b>22,479.3</b>	<b>29,969.6</b>	<b>31,321.3</b>	<b>32,091.7</b>	<b>32,950.0</b>	<b>33,901.0</b>	<b>34,951.9</b>	<b>36,110.9</b>
<b>Total Assets</b>	<b>30,564.7</b>	<b>51,530.2</b>	<b>65,604.4</b>	<b>85,211.7</b>	<b>107,566.8</b>	<b>133,702.1</b>	<b>137,720.4</b>	<b>145,979.9</b>	<b>154,638.9</b>	<b>166,279.6</b>	<b>181,224.7</b>	<b>197,213.3</b>
<b>Liabilities &amp; Shareholders' Equity</b>												
+ Accounts Payable	8,443.0	11,650.1	13,794.9	15,636.4	22,665.0	27,434.5	28,022.4	31,799.9	35,425.1	39,251.1	43,372.4	47,839.8
+ Short-Term Borrowings	2,867.2	11,012.0	12,303.1	15,611.4	14,449.1	13,236.3	9,236.3	5,236.3	1,236.3	236.3	236.3	236.3
+ Other Short-Term Liabilities	11,645.1	18,177.1	23,576.9	32,945.3	41,716.3	55,820.4	55,820.4	55,820.4	55,820.4	55,820.4	55,820.4	55,820.4
<b>Total Current Liabilities</b>	<b>22,955.3</b>	<b>40,839.2</b>	<b>49,674.9</b>	<b>64,193.1</b>	<b>78,830.4</b>	<b>96,491.2</b>	<b>93,079.1</b>	<b>92,856.6</b>	<b>92,481.8</b>	<b>95,307.8</b>	<b>99,429.1</b>	<b>103,896.5</b>
+ Long-Term Borrowings	0.0	0.0	1,853.8	2,582.2	984.5	1,375.3	1,375.3	1,375.3	1,375.3	375.3	375.3	375.3
+ Other Long-Term Liabilities	18.4	38.3	63.9	59.2	171.9	368.9	368.9	368.9	368.9	368.9	368.9	368.9
<b>Total Liabilities</b>	<b>22,973.7</b>	<b>40,877.5</b>	<b>51,592.6</b>	<b>66,834.5</b>	<b>79,986.8</b>	<b>98,235.4</b>	<b>94,823.3</b>	<b>94,600.8</b>	<b>94,226.0</b>	<b>96,052.0</b>	<b>100,173.3</b>	<b>104,640.7</b>
+ Total Preferred Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	1,988.4	1,988.4	2,926.9	2,926.9	6,122.2	6,122.2	6,122.2	6,122.2	6,122.2	6,122.2	6,122.2	6,122.2
+ Retained Earnings & Other Equity	5,352.9	7,981.5	10,375.7	14,680.0	20,620.7	28,460.6	35,825.9	44,242.9	53,211.8	62,961.6	73,720.3	85,176.5
<b>Total Shareholders' Equity</b>	<b>7,341.3</b>	<b>9,969.9</b>	<b>13,302.6</b>	<b>17,606.9</b>	<b>26,742.9</b>	<b>34,582.8</b>	<b>41,948.1</b>	<b>50,365.1</b>	<b>59,334.0</b>	<b>69,083.8</b>	<b>79,842.5</b>	<b>91,298.7</b>
+ Minority Interest	249.7	682.8	709.2	770.3	837.1	883.9	948.9	1,013.9	1,078.9	1,143.9	1,208.9	1,273.9
<b>Total Liabilities &amp; Equity</b>	<b>30,564.7</b>	<b>51,530.2</b>	<b>65,604.4</b>	<b>85,211.7</b>	<b>107,566.8</b>	<b>133,702.1</b>	<b>137,720.4</b>	<b>145,979.9</b>	<b>154,638.9</b>	<b>166,279.6</b>	<b>181,224.7</b>	<b>197,213.3</b>



Cash Flow (Rmb million)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E
+ Net Income	1,966.5	2,913.5	4,275.7	5,236.9	7,379.7	10,870.7	13,387.8	15,643.9	17,400.2	19,385.7	21,297.9	23,501.1
+ Depreciation & Amortization	345.0	430.6	448.9	632.7	978.4	1,230.2	1,351.7	1,540.9	1,716.6	1,902.0	2,101.7	2,318.2
+ Other Non-Cash Adjustments	-534.1	-10,517.4	8,516.1	-438.1	-197.5	-7,051.0	65.0	65.0	65.0	65.0	65.0	65.0
+ Changes in Non-Cash Capital	-1,458.7	16,615.3	-12,613.1	-1,986.6	10,125.6	7,994.4	361.1	-3,360.7	-4,199.1	-4,431.6	-4,773.8	-5,174.6
<b>Cash From Operating Activities</b>	<b>318.7</b>	<b>9,442.0</b>	<b>627.6</b>	<b>3,444.9</b>	<b>18,286.2</b>	<b>13,044.3</b>	<b>15,165.5</b>	<b>13,889.1</b>	<b>14,982.7</b>	<b>16,921.0</b>	<b>18,690.8</b>	<b>20,709.7</b>
+ Disposal of Fixed Assets	25.4	0.1	0.8	6.2	0.5	1.2						
+ Capital Expenditures	-1,021.8	-716.2	-2,482.2	-4,777.7	-3,602.4	-2,461.5	-2,703.4	-2,311.4	-2,574.9	-2,853.0	-3,152.5	-3,477.2
+ Increase in Investments						-704.1	0.0	0.0	0.0	0.0	0.0	0.0
+ Decrease in Investments						327.5						
+ Other Investing Activities	54.0	-2,377.5	557.8	1,784.1	-657.9	409.5	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash From Investing Activities</b>	<b>-942.4</b>	<b>-3,093.6</b>	<b>-1,923.6</b>	<b>-2,987.4</b>	<b>-4,259.8</b>	<b>-2,427.4</b>	<b>-2,703.4</b>	<b>-2,311.4</b>	<b>-2,574.9</b>	<b>-2,853.0</b>	<b>-3,152.5</b>	<b>-3,477.2</b>
+ Dividends Paid	-253.6	-380.9	-939.3	-845.4	-1,503.9	-3,007.9	-6,022.4	-7,226.9	-8,431.4	-9,635.9	-10,539.2	-12,044.8
+ Change in Short-Term Borrowings	7.7	955.7					-4,000.0	-4,000.0	-4,000.0	-1,000.0	0.0	0.0
+ Increase in Long-Term Borrowing	0.0	0.0	3,578.7	4,910.5	3,763.0	4,987.9	0.0	0.0	0.0	-1,000.0	0.0	0.0
+ Decrease in Long-term Borrowing	0.0	0.0	-1,361.8	-1,614.6	-5,597.2	-6,233.8						
+ Increase in Capital Stocks	0.0	0.0	0.0	0.0	0.0	0.0						
+ Decrease in Capital Stocks	0.0	0.0	0.0	0.0	0.0	0.0						
+ Other Financing Activities	-22.9	-632.2	-2,744.4	-3,279.5	4,343.4	1,525.5						
<b>Cash from Financing Activities</b>	<b>-268.8</b>	<b>-57.4</b>	<b>-1,466.8</b>	<b>-829.0</b>	<b>1,005.3</b>	<b>-2,728.3</b>	<b>-10,022.4</b>	<b>-11,226.9</b>	<b>-12,431.4</b>	<b>-11,635.9</b>	<b>-10,539.2</b>	<b>-12,044.8</b>
<b>Net Changes in Cash</b>	<b>-892.5</b>	<b>6,291.0</b>	<b>-2,762.8</b>	<b>-371.5</b>	<b>15,031.7</b>	<b>7,888.6</b>	<b>2,439.7</b>	<b>350.8</b>	<b>-23.6</b>	<b>2,432.2</b>	<b>4,999.0</b>	<b>5,187.6</b>

Ratio Analysis	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E
<b>Per Share Data (Rmb)</b>												
Basic EPS (adjusted)	0.70	0.98	1.42	1.81	2.42	3.11	4.45	5.20	5.78	6.44	7.07	7.80
Diluted EPS (adjusted)	0.70	0.98	1.42	1.81	2.42	3.11	4.45	5.20	5.78	6.44	7.07	7.80
Dividend per share (DPS)	0.13	0.33	0.30	0.50	1.00	1.50	2.00	2.40	2.80	3.20	3.50	4.00
Book Value per share (BVPS)	2.6	3.5	4.7	6.2	8.4	10.7	13.1	15.9	18.9	22.2	25.7	29.5
<b>Margins (%)</b>												
Gross Margin	19.4%	24.3%	21.2%	18.0%	26.9%	33.0%	34.2%	34.5%	34.5%	34.5%	34.5%	34.5%
Operating Margin	5.8%	6.8%	3.8%	4.9%	8.2%	10.0%	11.6%	11.9%	11.8%	11.8%	11.7%	11.7%
EBITDA Margin	6.6%	7.8%	4.6%	5.6%	9.2%	11.1%	12.6%	12.9%	12.8%	12.8%	12.7%	12.7%
Pre-Tax Margin (adjusted)	5.8%	8.0%	8.4%	7.6%	8.6%	9.5%	11.7%	12.0%	12.0%	12.0%	12.0%	12.0%
Net Income Margin (adjusted)	4.7%	6.5%	6.6%	6.2%	7.2%	7.8%	9.9%	10.2%	10.1%	10.2%	10.1%	10.1%
<b>Growth (%)</b>												
Sales growth	0.0%	0.9%	42.7%	37.7%	20.6%	19.9%	12.6%	14.0%	11.4%	10.8%	10.5%	10.3%
EBIT growth	0.0%	19.0%	-19.3%	73.8%	104.2%	46.6%	30.0%	16.9%	10.5%	10.8%	9.6%	10.3%
Net Income (adjusted) growth	0.0%	38.9%	45.4%	27.4%	41.5%	29.5%	43.1%	16.9%	11.2%	11.4%	9.9%	10.3%
EPS (adjusted) growth	0.0%	38.9%	45.4%	27.4%	33.6%	28.4%	43.1%	16.9%	11.2%	11.4%	9.9%	10.3%

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E
<b>Dupont ROE (%)</b>	<b>27.0%</b>	<b>27.6%</b>	<b>30.1%</b>	<b>29.0%</b>	<b>27.0%</b>	<b>27.1%</b>	<b>31.9%</b>	<b>31.1%</b>	<b>29.3%</b>	<b>28.1%</b>	<b>26.7%</b>	<b>25.7%</b>
Margin (%)	4.7%	6.5%	6.6%	6.2%	7.2%	7.8%	9.9%	10.2%	10.1%	10.2%	10.1%	10.1%
Turnover (x)	1.4	0.8	0.9	1.0	0.9	0.9	1.0	1.1	1.1	1.1	1.2	1.2
Leverage (x)	4.2	5.2	4.9	4.8	4.0	3.9	3.3	2.9	2.6	2.4	2.3	2.2
ROA	6.5%	5.3%	6.1%	6.0%	6.7%	7.0%	9.7%	10.7%	11.3%	11.7%	11.8%	11.9%
Net cash / equity	49.9%	233.3%	110.7%	76.4%	104.5%	107.5%	94.4%	79.3%	67.3%	62.8%	60.6%	58.7%
<b>FCF Calculation</b>												
Op. cash	318.7	9,442.0	627.6	3,444.9	18,286.2	13,044.3	15,165.5	13,889.1	14,982.7	16,921.0	18,690.8	20,709.7
capex	-1,021.8	-716.2	-2,482.2	-4,777.7	-3,602.4	-2,461.5	-2,703.4	-2,311.4	-2,574.9	-2,853.0	-3,152.5	-3,477.2
FCF (Rmb million)	-703.1	8,725.8	-1,854.6	-1,332.8	14,683.8	10,582.8	12,462.1	11,577.7	12,407.8	14,068.1	15,538.3	17,232.5
FCF margin (%)	-1.7%	20.7%	-3.1%	-1.6%	14.7%	8.8%	9.2%	7.5%	7.2%	7.4%	7.4%	7.4%
FCF per share	-0.25	3.10	-0.66	-0.47	4.92	3.51	4.14	3.84	4.12	4.67	5.16	5.72
Price/FCF per share	-34.60	6.23	-27.53	-36.53	5.94	8.31	7.06	7.59	7.09	6.25	5.66	5.10
FCF yield	NA	16.1%	NA	NA	16.8%	12.0%	14.2%	13.2%	14.1%	16.0%	17.7%	19.6%
<b>Net Cash calculation</b>												
Cash + short term investments	3,666.3	23,257.7	16,584.8	16,040.8	28,943.9	38,541.7	40,981.4	41,332.3	41,308.7	43,740.9	48,739.9	53,927.5
Less: long term debt	0.0	0.0	-1,853.8	-2,582.2	-984.5	-1,375.3	-1,375.3	-1,375.3	-1,375.3	-375.3	-375.3	-375.3
<b>Net Cash</b>	<b>3,666.3</b>	<b>23,257.7</b>	<b>14,731.0</b>	<b>13,458.6</b>	<b>27,959.4</b>	<b>37,166.4</b>	<b>39,606.1</b>	<b>39,957.0</b>	<b>39,933.4</b>	<b>43,365.6</b>	<b>48,364.6</b>	<b>53,552.2</b>
Net cash per share	1.3	8.3	5.2	4.8	9.4	12.3	13.2	13.3	13.3	14.4	16.1	17.8
<b>Valuation ratio's</b>												
P/B	3.31	5.45	3.84	2.77	3.03	3.05	2.22	1.83	1.54	1.32	1.13	0.99
P/E	12.27	19.72	12.74	9.54	10.53	10.51	6.57	5.62	5.05	4.54	4.13	3.74
P/S	0.58	1.29	0.85	0.59	0.76	0.82	0.65	0.57	0.51	0.46	0.42	0.38
EV/sales	0.57	1.01	0.82	0.62	0.63	0.63	0.48	0.42	0.38	0.34	0.31	0.28
EV/EBITDA	8.62	12.95	17.84	11.08	6.90	5.67	3.81	3.26	2.95	2.67	2.43	2.20
EV/EBIT	9.85	14.89	21.29	12.82	7.72	6.24	4.14	3.54	3.20	2.89	2.64	2.39
EV/FCF	-33.82	4.90	-26.60	-38.73	4.32	7.12	5.21	5.60	5.23	4.61	4.18	3.77
Dividend Yield (%)	1.54%	1.73%	1.66%	2.89%	3.42%	5.14%	6.85%	8.22%	9.59%	10.96%	11.99%	13.70%
Div payout on FCF	-53.4%	10.8%	-45.6%	-105.7%	20.3%	42.7%	48.3%	62.4%	68.0%	68.5%	67.8%	69.9%
Receivable days	121	111	106	128	129	128	120	120	120	120	120	120
Inventory days	52	61	67	78	87	69	70	65	65	65	65	65
payables days	91	115	98	79	95	114	115	115	115	115	115	115
Current ratio	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.2	1.3	1.4	1.5	1.6

<b>Enterprise Value Calculation</b>	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Current
Market Cap.	24,330	54,332	51,055	48,690	76,132	98,346	87927
+ Minority Interest	249.7	682.8	709.2	770.3	837.1	883.9	883.9
+Total Debt (ST & LT Debt)	2,867.2	11,012.0	14,156.9	18,193.6	15,433.6	14,611.6	14,611.6
- Cash & Equivalents	3,666	23,258	16,585	16,041	28,944	38,542	38,541.7
<b>Enterprise Value</b>	<b>23,780</b>	<b>42,769</b>	<b>49,336</b>	<b>51,614</b>	<b>63,459</b>	<b>75,300</b>	<b>64,881</b>

DCF model	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
(in Rmb million)																
EBIT	2,415	2,873	2,317	4,027	8,225	12,059	15,680	18,337	20,256	22,443	24,590	27,122	27,540	29,743	28,661	30,094
% growth		19%	-19%	74%	104%	47%	30%	17%	10%	11%	10%	10%	2%	8%	-4%	5%
Taxes @	17.1%	13.3%	15.0%	16.3%	15.0%	15.2%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIAT	2,002	2,491	1,971	3,371	6,988	10,229	13,328	15,586	17,217	19,077	20,901	23,054	23,409	25,281	24,362	25,580
% growth		24%	-21%	71%	107%	46%	30%	17%	10%	11%	10%	10%	2%	8%	-4%	5%
+ D&A	345	431	449	633	978	1,230	1,352	1,541	1,717	1,902	2,102	2,318	2,504	2,704	2,866	3,009
- Capital expenditures	-1,022	-716	-2,482	-4,778	-3,602	-2,462	-2,703	-2,311	-2,575	-2,853	-3,153	-3,477	-3,755	-4,056	-2,866	-3,009
- Change in net WC	-1,459	16,615	-12,613	-1,987	10,126	7,994	361	-3,361	-4,199	-4,432	-4,774	-5,175	-5,248	-4,757	-3,677	-3,869
<b>Free Cash Flow to Firm</b>	-134	18,821	-12,676	-2,760	14,490	16,992	12,337	11,455	12,160	13,694	15,077	16,720	16,909	19,173	20,685	21,711
FCY y/y growth		-14183%	-167%	-78%	-625%	17%	-27%	-7%	6%	13%	10%	11%	1%	13%	8%	5%

#### Value per Share

Terminal Growth	Cost of capital				
	9.8%	10.8%	11.8%	12.8%	13.8%
2.0%	80.9	72.3	65.5	60.0	55.5
2.3%	82.5	73.5	66.4	60.7	56.0
2.5%	83.7	74.3	67.0	61.1	56.3
2.8%	85.5	75.6	67.9	61.8	56.9
3.0%	86.9	76.5	68.6	62.3	57.3

WACC		11.8%
PV of Free Cash Flow		85,336
PV of Terminal Value		79,134
Add: Net Cash		37,166
Total Equity Value		201,636
Shares outstanding		3,011.21
<b>DCF value</b>		<b>67.00</b>

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