

Hong Kong

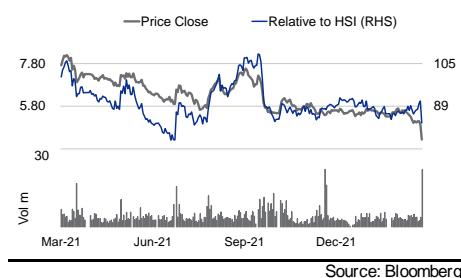
ADD (no change)

Consensus ratings*: Buy 11 Hold 3 Sell 2

Current price:	HK\$4.24
Target price:	HK\$6.12
Previous target:	HK\$9.05
Up/downside:	44.3%
CGI / Consensus:	-7.9%
Reuters:	2314.HK
Bloomberg:	2314 HK
Market cap:	US\$2,348m
	HK\$18,366m
Average daily turnover:	US\$2.43m
	HK\$18.97m
Current shares o/s:	4,332m
Free float:	28.4%
*Source: Bloomberg	

Key changes in this note

- Net profit forecasts for FY22 and FY23 decreased by 23.0% and 21.6%.



Price performance	1M	3M	12M
Absolute (%)	-22.6	-24.2	-45.1
Relative (%)	-7.9	-10.7	-17.8

Major shareholders	% held
Mr. Lee Man Bun	31.3
Dr. Lee Man Chun Raymond	31.0

Analyst

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Lee & Man Paper

Weak 2H21 results; waiting for recovery in sentiment

- Lee & Man Paper's (LMP) 2021 results were weaker than expected, with lower profitability in 2H21.
- Revenue growth in 2021 was driven by average selling prices (ASPs), but volume shipments were up only slightly yoy.
- We still believe that the tissue paper division is a long-term growth driver for the Company, but its performance was weaker than expected.
- Shares of LMP were under pressure after its weak 2021 results and concerns about the growth outlook
- We maintain our ADD rating with a lower target price (TP) of HK\$6.12, based on 8x FY22F P/E (target P/E multiple reduced from 10x to 8x, given lower growth). The cut in our TP is due mainly to a downward revision in our net profit forecast and lower target P/E multiple.

2021 results highlights

LMP's 2021 turnover increased by 25.7% yoy, from HK\$25,868m in 2020 to HK\$32,511m in 2021. Net profit dropped 11.4% yoy, from HK\$35,24m in 2020 to HK\$3,123m in 2021. The Company's revenue was higher than expected, but net profit was much lower than our and market expectations, given weaker-than-expected gross profit in 2H21. Revenue growth in 2021 was driven by an ASP hike (up over 20% yoy). Sales volume was up slightly yoy (up about 1.2% yoy to 6.3m tonnes). LMP's weak results were due to lower-than-expected profitability for packaging paper products and softer performance of tissue paper products. Gross profit was down 4.7ppts to 17.5% in 2021, in our view, due to a higher-than-expected increase in production costs (vs. ASPs), including both raw material and energy costs. Packaging paper remained a major profit contributor, accounting for 84.7% of total segment profit in 2021, up from 83.2% in 2020. LMP declared a final dividend of HK\$0.11 per share vs. HK\$0.18 a year ago.

Recovery expected to take time

We expect LMP's volume shipments to remain stable in 2022, given the Chinese government's pro-growth policy. However margin pressure may persist in 1H22. LMP may report a yoy decline in operating performance, especially since 1H21 is a high base. We believe LMP's net profit per tonne bottomed out in 1H22 and will recover gradually in 2H22, given the Chinese government's intervention in local coal prices and the improving operating environment.

Leading players expected to gain market share

Despite weaker-than-expected 2021 results, the leading players should have an advantage over the smaller players regarding raw material supply. LMP increased its containerboard capacity from 6.52mt to 6.88mt when its second line in Malaysia (0.35mt) started operations. Tissue paper capacity is stable at 895kt, while pulp capacity is 180kt.

Higher net profit forecasts and TP

We cut our net profit forecasts for FY22 and FY23 by 23.0% and 21.6%, respectively, mainly because of a downward revision in gross profit margin forecasts for the packaging paper and tissue paper divisions. We maintain our ADD rating with a lower target price (TP) of HK\$6.12, based on 8x FY22F P/E (target P/E multiple reduced from 10x to 8x because of lower growth). The cut in our TP is due mainly to a downward revision in our net profit forecast and a lower target P/E multiple.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (HK\$m)	25,868	32,511	33,967	35,727	36,970
Operating EBITDA (HK\$m)	5,174	4,616	4,841	5,307	5,910
Net Profit (HK\$m)	3,533	3,125	3,313	3,627	4,142
Core EPS (HK\$)	0.85	0.74	0.77	0.86	0.97
Core EPS Growth	18.8%	(13.2%)	4.8%	10.9%	13.2%
FD Core P/E (x)	4.98	5.74	5.48	4.94	4.36
DPS (HK\$)	0.30	0.26	0.26	0.29	0.31
Dividend Yield	7.08%	6.13%	6.13%	6.75%	7.42%
EV/EBITDA (x)	5.97	7.05	6.61	5.94	5.15
P/FCFE (x)	100.4	5.9	7.2	6.7	5.3
Net Gearing	43.8%	45.6%	41.3%	37.8%	32.8%
P/BV (x)	0.65	0.59	0.56	0.53	0.50
ROE	14.2%	10.8%	10.5%	11.0%	11.8%
% Change In Core EPS Estimates			(23.0%)	(21.6%)	
CGI/consensus EPS (x)			0.79	0.86	1.84

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Change in assumptions

	2022F			2023F		
	Old	New	% change	Old	New	% change
Turnover (HKD m)						
Linerboard	23,046.8	25,171.1	9.2%	23,738.2	25,926.3	9.2%
Medium	2,384.0	2,062.4	-13.5%	2,698.6	2,336.7	-13.4%
Whiteboard	1,041.9	1,417.3	36.0%	1,188.2	1,593.7	34.1%
Pulp						
Tissue Paper	6,131.4	5,088.2	-17.0%	6,456.5	5,641.6	-12.6%
Total	32,637.6	33,967.3	4.1%	34,115.1	35,726.5	4.7%
YoY Change (%)						
Linerboard	3.0	3.0		3.0	3.0	
Medium	14.3	14.4		13.2	13.3	
Whiteboard	15.4	8.0		14.1	12.4	
Pulp						
Tissue Paper						
Total	6.2	4.5		4.5	5.2	
Gross margin (%)						
			ppt			ppt
Linerboard	22.6	18.0	(4.6)	23.1	18.5	(4.6)
Medium	16.5	12.6	(3.9)	17.0	13.1	(3.9)
Whiteboard	21.8	19.9	(1.9)	22.3	20.4	(1.9)
Pulp						
Tissue Paper						
Net margin (%)	13.3	9.8	(3.5)	13.7	10.2	(3.6)
Cost (HKD m)						
S,G&A	(2,899.0)	(2,851.6)	-1.6%	(2,996.1)	(2,963.5)	-1.1%
Financial Expenses	(172.3)	(85.2)	-50.5%	(176.7)	(87.0)	-50.7%
YoY Change (%)						
			ppt			ppt
S,G&A	5.5	3.9	(1.7)	3.9	4.5	0.6
Financial Expenses	5.1	10.8	5.8	3.4	3.9	0.6
Net profit	4,339.2	3,312.6	-23.7%	4,682.8	3,626.8	-22.6%
CAPEX (HKD m)	2,500.0	2,500.0	0.0%	2,500.0	2,500.0	0.0%
Net Gearing (%)	40.4	41.3		36.0	37.8	
Shipment (000 tonnes)						
Linerboard	4,882.0	4,882.0	0.0%	4,882.0	4,882.0	0.0%
Medium	505.0	400.0	-20.8%	555.0	440.0	-20.7%
Whiteboard	466.0	436.0	-6.4%	516.0	476.0	-7.8%
Tissue Paper	895.0	850.0	-5.0%	915.0	915.0	0.0%
Shipment YoY Change (%)						
Linerboard	0	0		0	0	
Medium	11.0	11.1		9.9	10.0	
Whiteboard	12.0	4.8		10.7	9.2	
Tissue Paper	11.9	6.3		2.2	7.6	
ASP (HK\$)						
Linerboard	4,720.8	5,155.9	9.2%	4,862.4	5,310.6	9.2%
Medium	4,720.8	5,155.9	9.2%	4,862.4	5,310.6	9.2%
Whiteboard	2,235.7	3,250.6	45.4%	2,302.8	3,348.1	45.4%
Tissue Paper	6,850.7	5,986.1	-12.6%	7,056.2	6,165.7	-12.6%
ASP YoY Change (%)						
Linerboard	3.0	3.0		3.0	3.0	
Medium	3.0	3.0		3.0	3.0	
Whiteboard	3.0	3.0		3.0	3.0	
Tissue Paper	3.0	3.0		3.0	3.0	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

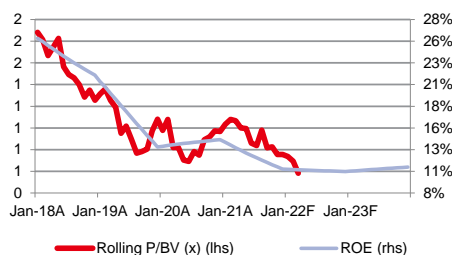
Figure 2: Assumptions

	2012	2013	2014	2015*	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Turnover (HKD m)													
Linerboard	9,418.0	13,166.0	13,237.0	13,576.0	14,334.0	20,120.0	23,128.0	19,457.0	19,457.0	24,438.0	25,171.1	25,926.3	26,704.1
Medium	1,073.0	1,356.0	1,547.0	1,547.0	1,240.0	1,407.0	2,297.0	1,210.0	1,275.3	1,802.1	2,062.4	2,336.7	2,516.2
Whiteboard	601.9	1,800.9	1,531.0	1,394.0	1,463.0	1,575.0	1,731.0	1,718.0	785.2	1,312.9	1,417.3	1,593.7	1,710.5
Pulp	331.1	647.4	710.0	674.9	303.0	16.0	4.1	2.2	33.5	228.3	228.3	228.3	228.3
Tissue Paper	0	0	74.1	423.8	1,001.7	2,718.9	5,048.0	4,757.0	4,316.9	4,730.2	5,088.2	5,641.6	5,810.8
Total	11,424.0	16,970.4	17,099.1	17,615.6	18,341.7	25,836.9	32,208.1	27,144.2	25,868.0	32,511.4	33,967.3	35,726.5	36,969.9
YoY Change (%)													
Linerboard		39.8	0.5	2.6	5.6	40.4	15.0	(15.9)	0	25.6	3.0	3.0	3.0
Medium		26.4	14.1	0	(19.8)	13.5	63.3	(47.3)	5.4	41.3	14.4	13.3	7.7
Whiteboard		199.2	(15.0)	(8.9)	4.9	7.7	9.9	(0.8)	(54.3)	67.2	8.0	12.4	7.3
Pulp		95.5	9.7	(4.9)	(55.1)	(94.7)	(74.4)	(46.1)	n.a.	n.a.	n.a.	n.a.	n.a.
Tissue Paper					136.4	171.4	85.7	(5.8)	(9.3)	9.6	7.6	10.9	3.0
Total		48.6	0.8	3.0	4.1	40.9	24.7	(15.7)	(4.7)	25.7	4.5	5.2	3.5
Gross margin (%)													
Linerboard	17.1	17.0	18.0	20.3	22.2	29.1	23.3	18.8	22.2	17.5	18.0	18.5	19.5
Medium	17.5	17.5	18.6	20.8	22.3	29.5	23.0	18.0	22.2	17.5	18.0	18.5	19.5
Whiteboard	13.0	13.0	13.0	15.0	17.3	24.5	18.1	12.1	16.1	12.1	12.6	13.1	14.1
Pulp	17.0	17.0	17.0	20.0	22.3	29.4	23.4	17.4	21.4	19.4	19.9	20.4	20.9
Tissue Paper	18.0	15.4	17.4	19.4	19.4	22.4	16.4	10.4	10.9	11.4	11.9	12.4	12.9
Net margin (%)	0	0	25.0	25.0	28.0	28.0	27.0	24.0	24.3	19.4	19.9	20.4	21.4
Cost (HKD m)	11.6	11.5	11.1	13.2	15.6	19.5	15.2	11.9	13.6	9.6	9.8	10.2	11.2
Cost of Sales													
S,G&A	(9,473)	(14,084)	(14,028)	(14,037)	(14,261)	(18,324)	(24,700)	(22,051)	(20,120)	(26,808)	(27,844)	(29,109)	(29,766)
Financial Expenses	(660.2)	(934.0)	(1,038.9)	(1,114.2)	(1,127.3)	(1,726.6)	(2,098.8)	(1,775.1)	(1,881.3)	(2,573.1)	(2,851.6)	(2,963.5)	(3,029.7)
YoY Change (%)													
Cost of Sales		48.7	(0.4)	0.1	1.6	28.5	34.8	(10.7)	(8.8)	33.2	3.9	4.5	2.3
R&D		41.5	11.2	7.2	1.2	53.2	21.6	(15.4)	6.0	36.8	10.8	3.9	2.2
Financial Expenses		112.4	44.2	(27.9)	8.0	10.8	72.5	1.6	(47.5)	(55.8)	13.1	2.1	2.1
CAPEX (HKD m)													
Net Gearing (%)	1,600.0	2,242.5	2,093.3	2,849.5	3,800.0	3,483.0	1,978.3	2,863.3	3,511.0	2,500.0	2,500.0	2,500.0	2,500.0
	57.7	62.7	62.0	65.6	73.0	58.5	50.9	49.4	43.9	45.7	41.3	37.8	32.8
Shipment (000 tonnes)													
Linerboard	2,658	3,861	3,945	4,316	4,565	4,460	4,674	4,882	4,882	4,882	4,882	4,882	4,882
Medium	326	431	508	509	397	271	476	320	320	360	400	440	460
Whiteboard	176	519	437	425	454	376	369	416	416	416	436	476	496
Tissue Paper	0	0	10	48	141	352	601	663	710	800	850	915	915
Shipment YoY Change (%)													
Linerboard		45	2	9	6	(2)	5	4	0	0	0	0	0
Medium		32	18	0	(22)	(32)	76	(33)	0	13	11	10	5
Whiteboard		195	(16)	(3)	7	(17)	(2)	13	0	0	5	9	4
Tissue Paper					194	150	71	10	7	13	6	8	0
ASP (HK\$)													
Linerboard	3,543.3	3,410.0	3,355.4	3,145.5	3,140.0	4,511.2	4,948.2	3,985.5	3,985.5	5,005.7	5,155.9	5,310.6	5,469.9
Medium	3,291.4	3,146.2	3,045.3	3,039.3	3,123.4	5,191.9	4,825.6	3,781.3	3,985.5	5,005.7	5,155.9	5,310.6	5,469.9
Whiteboard	3,419.8	3,470.0	3,503.4	3,280.0	3,222.5	4,188.8	4,691.1	4,129.8	1,887.5	3,155.9	3,250.6	3,348.1	3,448.6
Tissue Paper	0	0	7,413.4	8,828.7	7,104.1	7,724.1	8,399.3	7,175.0	6,457.5	5,811.7	5,986.1	6,165.7	6,350.6
ASP YoY Change (%)													
Linerboard		(3.8)	(1.6)	(6.3)	(0.2)	43.7	9.7	(19.5)	0	25.6	3.0	3.0	3.0
Medium		(4.4)	(3.2)	(0.2)	2.8	66.2	(7.1)	(21.6)	5.4	25.6	3.0	3.0	3.0
Whiteboard		1.5	1.0	(6.4)	(1.8)	30.0	12.0	(12.0)	(54.3)	67.2	3.0	3.0	3.0
Tissue Paper					(19.5)	8.7	8.7	(14.6)	(10.0)	(10.0)	3.0	3.0	3.0

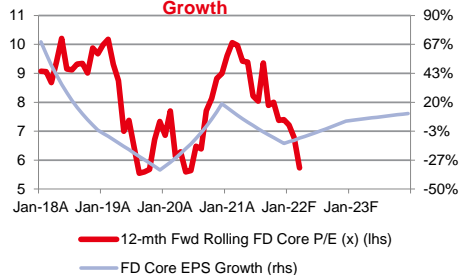
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	25,868	32,511	33,967	35,727	36,970
Gross Profit	7,055	7,189	7,693	8,271	8,940
Operating EBITDA	5,174	4,616	4,841	5,307	5,910
Depreciation And Amortisation	(1,307)	(1,486)	(1,570)	(1,653)	(1,736)
Operating EBIT	3,867	3,130	3,271	3,654	4,174
Financial Income/(Expense)	653	753	791	836	890
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	4,520	3,883	4,062	4,490	5,064
Exceptional Items	(190)	(87)	(47)	(108)	(81)
Pre-tax Profit	4,330	3,795	4,016	4,382	4,983
Taxation	(669)	(543)	(574)	(627)	(712)
Exceptional Income - post-tax					
Profit After Tax	3,661	3,253	3,442	3,756	4,270
Minority Interests					
Preferred Dividends	(129)	(128)	(128)	(128)	(128)
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,533	3,125	3,313	3,627	4,142
Recurring Net Profit	3,693	3,200	3,353	3,720	4,211
Fully Diluted Recurring Net Profit	3,693	3,200	3,353	3,720	4,211

Cash Flow

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	5,174	4,616	4,841	5,307	5,910
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(1,615)	(1,753)	(426)	(515)	(364)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(159)	(150)	(115)	(78)	(42)
Net Interest (Paid)/Received	(171)	(75)	(85)	(87)	(89)
Tax Paid					
Cashflow From Operations	3,230	2,638	4,215	4,626	5,415
Capex	(3,511)	(2,500)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0	0
Other Investing Cashflow	1,453	274	517	291	266
Cash Flow From Investing	(2,058)	(2,226)	(1,983)	(2,209)	(2,234)
Debt Raised/(repaid)	(988)	2,727	303	304	303
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,086)	(1,429)	(953)	(1,174)	(1,291)
Preferred Dividends					
Other Financing Cashflow	(832)	(696)	(719)	(766)	(842)
Cash Flow From Financing	(2,906)	601	(1,369)	(1,636)	(1,831)
Total Cash Generated	(1,735)	1,013	863	781	1,350
Free Cashflow To Equity	183	3,138	2,535	2,721	3,484
Free Cashflow To Firm	1,342	487	2,317	2,504	3,270

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,185	2,198	3,061	3,842	5,192
Total Debtors	6,368	7,219	7,542	7,933	8,209
Inventories	4,350	5,467	5,712	6,008	6,217
Total Other Current Assets	99	169	173	177	180
Total Current Assets	12,003	15,053	16,488	17,960	19,799
Fixed Assets	31,891	32,904	33,835	34,682	35,445
Total Investments	1,786	3,424	3,424	3,424	3,424
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	1,121	1,122	1,122	1,122	1,122
Total Non-current Assets	34,798	37,451	38,381	39,228	39,992
Short-term Debt	5,255	8,675	8,675	8,675	8,675
Current Portion of Long-Term Debt					
Total Creditors	2,631	3,110	3,249	3,417	3,536
Other Current Liabilities	699	541	581	625	670
Total Current Liabilities	8,585	12,325	12,504	12,716	12,881
Total Long-term Debt	8,394	7,709	8,009	8,309	8,609
Hybrid Debt - Debt Component	0	0	0	0	0
Total Other Non-Current Liabilities	1,394	1,390	1,393	1,396	1,398
Total Non-current Liabilities	9,788	9,099	9,402	9,704	10,006
Total Provisions	0	0	0	0	0
Total Liabilities	18,373	21,424	21,906	22,421	22,887
Shareholders' Equity	28,420	31,072	32,955	34,758	36,894
Minority Interests	8	8	9	9	10
Total Equity	28,428	31,080	32,964	34,768	36,904

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(4.7%)	25.7%	4.5%	5.2%	3.5%
Operating EBITDA Growth	12.2%	(10.8%)	4.9%	9.6%	11.4%
Operating EBITDA Margin	20.0%	14.2%	14.3%	14.9%	16.0%
Net Cash Per Share (HK\$)	(2.88)	(3.27)	(3.14)	(3.03)	(2.79)
BVPS (HK\$)	6.56	7.17	7.61	8.02	8.52
Gross Interest Cover	22.68	41.52	38.38	41.99	47.00
Effective Tax Rate	15.4%	14.3%	14.3%	14.3%	14.3%
Net Dividend Payout Ratio	34.9%	35.1%	33.5%	33.2%	32.3%
Accounts Receivables Days	82.94	76.27	79.31	79.05	79.90
Inventory Days	77.05	70.75	77.65	77.90	79.81
Accounts Payables Days	53.14	41.37	44.17	44.31	45.40
ROIC (%)	11.0%	7.7%	7.6%	8.2%	9.1%
ROCE (%)	9.69%	7.06%	6.83%	7.31%	8.02%
Return On Average Assets	7.08%	5.21%	5.02%	5.40%	5.92%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Linerboard (000 tonnes)	4,882.0	4,882.0	4,882.0	4,882.0	4,882.0
Medium (000 tonnes)	320.0	360.0	400.0	440.0	460.0
Whiteboard (000 tonnes)	416.0	416.0	436.0	476.0	496.0
Tissue Paper (000 tonnes)	710.0	800.0	850.0	915.0	915.0
Linerboard ASP (HK\$)	3,985.5	5,005.7	5,155.9	5,310.6	5,469.9
Medium ASP (HK\$)	3,985.5	5,005.7	5,155.9	5,310.6	5,469.9
Whiteboard ASP (HK\$)	1,887.5	3,155.9	3,250.6	3,348.1	3,448.6
Tissue Paper ASP (HK\$)	6,457.5	5,811.7	5,986.1	6,165.7	6,350.6

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2021		
619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

Lee & Man Paper (2314 HK)

RECOMMENDATION FRAMEWORK

Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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