

Hong Kong

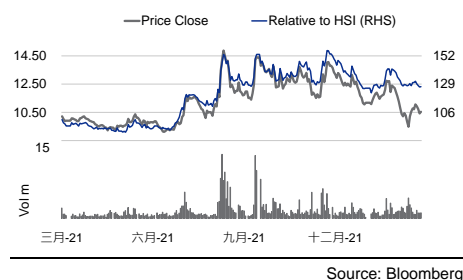
ADD (no change)

Consensus ratings*: Buy 8 Hold 6 Sell 0

Current price:	HK\$10.54
Target price:	HK\$14.48
Previous target:	HK\$13.27
Up/downside:	37.4%
CGI / Consensus:	-12.0%
Reuters:	6869.HK
Bloomberg:	6869 HK
Market cap:	US\$2,193m
	HK\$17,169m
Average daily turnover:	US\$2.11m
	HK\$16.46m
Current shares o/s:	757.9m
Free float:	32.7%
*Source: Bloomberg	

Key changes in this note

- 2022F and 2023F net profit increased by 9.1% and 7.5%, respectively.



Price performance	1M	3M	12M
Absolute (%)	-14.3	-22.9	6.7
Relative (%)	-9.8	-16	30.2

Major shareholders	% held
China Huaxin	23.7
Draka	23.7

Analyst(s)

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YOFC

2021 results lower than expected but still on the recovery track

- YOFC reported its 2021 results, which were lower than we expected.
- Owing to reclassification of shipping costs, YOFC reported a gross margin of 19.6% in 2021, down 0.4pp yoy.
- Despite the lower-than-expected 2021 results, we maintain the view that YOFC is on the recovery track in terms of fundamentals.
- Successful diversification and internationalization will also drive YOFC's medium-term growth.
- We reiterate our ADD rating, with a higher target price of HK\$14.48 (based on 12x 2022F P/E). The upward revision in the target price is due to revising up our net profit forecasts.

2021 results highlights

YOFC's 2021 revenue was Rmb9,536.1m, up 16.0% yoy, lower than our expectation of 17.5% yoy for full-year 2021. Shipping costs were reclassified from market expenses to cost of goods sold. Its gross profit margin (GPM) decreased by 0.5pp yoy to 19.6% in 2021. The yoy decline in the gross profit margin reflects industry profitability pressure. YOFC's 2021 net profit was Rmb708.5m, up 30% yoy, lower than our expectation, attributable mainly to higher-than-expected other losses. By segment, a) revenue from optical fibre preform and optical fibre was Rmb2,918.5m, down 1.2% yoy; b) revenue from optical fibre cable was Rmb3,920.8m, up 19.3% yoy, and c) revenue from other products and services was Rmb2,571.3m, up 43.3% yoy, attributable mainly to substantial growth in optical modules, communication network engineering projects, and the integrated wiring business.

Demand for optical communications expected to resume

In 2021, the average prices remained low for the industry, and corporate profitability was under pressure. The continuous rise in network traffic supports the construction of telecommunication networks. We expect optical communications companies to benefit from resilient global demand for optical fibre, owing to the global 5G roll-out and resilient demand from the DataCom segment. CRU estimated that global demand for optical fibre reached 500fkm in 2021, resuming yoy growth. This was the first time optical fiber reported yoy growth since 2H18. CRU estimated that global demand for optical fiber will continue to grow in 2022 since the key regions, including China, the US, India and the EU, will report yoy growth of at least 6%. In the China market, the key projects in China will drive demand for optical fiber. We believe YOFC's internationalization strategy will help it benefit from resuming demand in both China and overseas markets. YOFC's overseas sales reached Rmb3,086m in 2021, accounting for over 30% of total revenue.

Positive diversification strategy effect

YOFC's revenue from other products and services in 2021 demonstrates the success of its diversification strategy, which includes increasing R&D in high-end products (e.g. active optical cable (AOC) products, multi-mode optical fibre and cable products), and the development of optical transceiver and optical sub-assembly products (YOFC acquired Sunstar Communication in early 2020). The Company is also looking for other diversification opportunities, including undersea cable and semiconductor materials (Hangzhou Semiconductor Wafer in 2H20, Tus Semiconductor in 1Q22).

Maintain ADD with a higher target price

We raised our 2022F and 2023F net profit forecast by 9.1% and 7.5%, respectively, after factoring higher profitability, given an ASP recovery.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	8,222	9,536	11,221	13,009	14,892
Operating EBITDA (Rmbm)	821	816	1,132	1,293	1,474
Net Profit (Rmbm)	544	709	762	847	1,007
Core EPS (Rmb)	0.72	0.93	1.01	1.12	1.33
Core EPS Growth	(32.1%)	30.3%	7.6%	11.2%	18.8%
FD Core P/E (x)	11.95	9.17	8.53	7.67	6.46
DPS (Rmb)	0.22	0.28	0.30	0.34	0.40
Dividend Yield	2.52%	3.28%	3.52%	3.91%	4.65%
EV/EBITDA (x)	8.60	9.74	7.11	6.27	5.47
P/FCFE (x)	NA	13.56	23.16	20.02	13.53
Net Gearing	2.39%	6.14%	6.54%	6.56%	5.69%
P/BV (x)	0.72	0.66	0.63	0.59	0.56
ROE	6.10%	7.53%	7.58%	7.96%	8.89%
% Change In Core EPS Estimates			9.07%	7.53%	
CGI/consensus EPS (x)			0.88	0.86	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Change in assumptions

	2022F			2023F		
	Old	New	% change	Old	New	% change
Turnover (Rmbm)						
Optical fibre preforms and fibres	4,139.8	3,442.1	-16.9%	4,766.2	3,979.4	-16.5%
Optical fibre cables	4,302.1	4,302.1	0.0%	4,874.3	4,874.3	0.0%
Other products and services	2,592.8	3,477.0	34.1%	2,964.2	4,154.9	40.2%
Total	11,034.7	11,221.2	1.7%	12,604.7	13,008.6	3.2%
YoY Change (%)						
Optical fibre preforms and fibres	15.1	17.9		15.1	15.6	
Optical fibre cables	13.3	9.7		13.3	13.3	
Other products and services	14.3	28.9		14.3	19.5	
Total	14.2	17.7		14.2	15.9	
Gross margin (%)						
Optical fibre preforms and fibres	21.7	20.9		21.8	21.0	
Optical fibre cables	33.6	34.6		33.8	34.8	
Optical fibre cables	13.0	13.0		13.0	13.0	
Other products and services	17.1	17.1		17.1	17.1	
Net margin (%)	6.3	6.8		6.2	6.5	
ASP						
Optical fibre preforms (Rmb/tonne)	809.7	849.0	4.9%	834.0	874.5	4.9%
Optical fibres (Rmb/fkm)	51.5	36.7	-28.8%	53.0	37.8	-28.8%
Optical fibre cables (Rmb/fkm)	79.7	79.7	0.0%	82.1	82.1	0.0%
YoY Change (%)						
ASP						
Optical fibre preforms	3.0	8.0		3.0	3.0	
Optical fibres	3.0	3.0		3.0	3.0	
Optical fibre cables	3.0	3.0		3.0	3.0	
Volume						
Optical fibre preforms (tonne)	1,818.1	1,818.1	0.0%	2,090.8	2,090.8	0.0%
Optical fibres (fkm)	51,798.2	51,798.2	0.0%	56,978.0	56,978.0	0.0%
Optical fibre cables (fkm)	53,979.7	53,979.7	0.0%	59,377.7	59,377.7	0.0%
YoY Change (%)						
Volume						
Optical fibre preforms	15.0	15.0		15.0	15.0	
Optical fibres	10.0	10.0		10.0	10.0	
Optical fibre cables	10.0	10.0		10.0	10.0	
Cost (Rmbm)						
S,G&A	(1,660.3)	(1,582.6)	-4.7%	(1,896.6)	(1,834.7)	-3.3%
Financial Expenses	(51.6)	(59.2)	14.6%	(75.7)	(105.6)	39.4%
YoY Change (%)						
S,G&A	3.2	16.0		14.2	15.9	
Financial Expenses	(21.8)	(10.4)		46.7	78.5	
CAPEX (Rmbm)	393.3	393.3		423.5	423.5	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

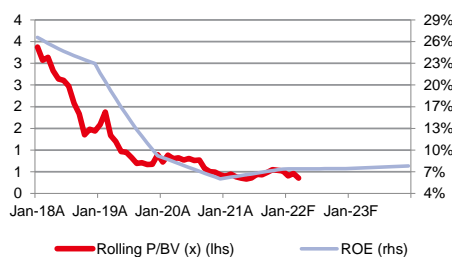
Figure 2: Assumptions

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Turnover (RMBm)												
Optical fibre preforms and fibres	2,722.7	3,229.7	3,756.6	4,073.1	4,702.9	4,691.2	2,508.4	2,953.0	2,918.5	3,442.1	3,979.4	4,602.9
Optical fibre cables	1,817.6	1,989.4	2,643.3	3,580.7	5,034.9	5,726.7	4,002.0	3,287.5	3,920.8	4,302.1	4,874.3	5,522.6
Other products and services	285.6	457.7	331.3	457.7	628.2	941.8	1,259.3	1,981.0	2,696.8	3,477.0	4,154.9	4,766.6
Total	4,825.9	5,676.8	6,731.1	8,111.5	10,366.1	11,359.8	7,769.7	8,221.5	9,536.1	11,221.2	13,008.6	14,892.0
YoY Change (%)												
Optical fibre preforms and fibres		18.6	16.3	8.4	15.5	(0.2)	(46.5)	17.7	(1.2)	17.9	15.6	15.7
Optical fibre cables		9.5	32.9	35.5	40.6	13.7	(30.1)	(17.9)	19.3	9.7	13.3	13.3
Other products and services				38.2	37.3	49.9	33.7	57.3	36.1	28.9	19.5	14.7
Total		17.6	18.6	20.5	27.8	9.6	(31.6)	5.8	16.0	17.7	15.9	14.5
Gross margin (%)	21.1	19.2	19.4	20.3	26.3	27.9	23.3	20.0	19.3	20.9	21.0	21.1
Optical fibre preforms and fibres	27.3	25.3	26.0	27.6	36.7	40.6	37.4	32.2	32.4	34.6	34.8	35.0
Optical fibre cables	11.7	9.1	8.5	10.0	16.0	17.9	15.0	10.2	11.0	13.0	13.0	13.0
Other products and services	21.4	19.4	30.8	35.0	31.0	25.3	21.4	18.1	17.1	17.1	17.1	17.1
Net margin (%)	8.6	8.2	8.5	8.8	12.2	13.1	10.3	6.6	7.4	6.8	6.5	6.8
YoY Change (%)												
ASP												
Optical fibre preforms		(7.9)	0	4.0	16.2	0	(30.0)	(5.0)	5.0	8.0	3.0	3.0
Optical fibres		(6.7)	5.0	3.5	0	(0.4)	(25.0)	6.6	(25.3)	3.0	3.0	3.0
Optical fibre cables		(1.3)	(5.1)	8.4	18.0	3.0	(30.0)	(25.0)	5.0	3.0	3.0	3.0
YoY Change (%)												
Volume												
Optical fibre preforms		33.8	20.0	7.0	0	0	(29.6)	15.0	18.0	15.0	15.0	15.0
Optical fibres		24.5	8.7	3.0	15.0	0	(25.0)	15.0	15.0	10.0	10.0	10.0
Optical fibre cables		10.9	40.0	25.0	19.2	10.4	(0.2)	9.5	10.0	10.0	10.0	10.0
Cost (HKDm)												
S,G&A	(548.6)	(565.4)	(714.4)	(861.7)	(1,273.0)	(1,549.0)	(1,189.4)	(1,122.1)	(1,364.0)	(1,582.6)	(1,834.7)	(2,100.4)
Financial Expenses	(68.0)	(78.0)	(81.3)	(99.2)	(156.4)	(112.2)	(78.2)	(44.8)	(66.1)	(59.2)	(105.6)	(115.2)
YoY Change (%)												
S,G&A		3.1	26.4	20.6	47.7	21.7	(23.2)	(5.7)	21.6	16.0	15.9	14.5
Financial Expenses		14.8	4.2	22.1	57.6	(28.2)	(30.3)	(42.7)	47.5	(10.4)	78.5	9.1
CAPEX (RMBm)	n.a.	n.a.	112.4	278.5	161.5	233.8	369.4	600.0	690.0	393.3	423.5	456.0

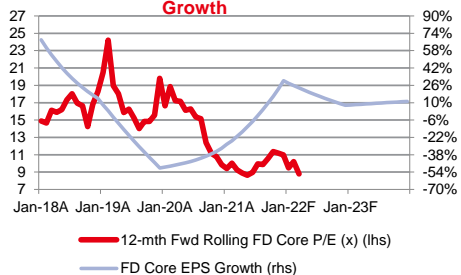
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE



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



Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	8,222	9,536	11,221	13,009	14,892
Gross Profit	1,943	2,180	2,715	3,128	3,574
Operating EBITDA	821	816	1,132	1,293	1,474
Depreciation And Amortisation	(295)	(341)	(368)	(396)	(426)
Operating EBIT	526	475	765	897	1,047
Financial Income/(Expense)	(44)	(86)	(60)	(71)	(81)
Pretax Income/(Loss) from Assoc.	(17)	65	26	30	34
Non-Operating Income/(Expense)	114	294	84	49	75
Profit Before Tax (pre-EI)	579	748	815	906	1,076
Exceptional Items					
Pre-tax Profit	579	748	815	906	1,076
Taxation	(35)	(27)	(39)	(44)	(52)
Exceptional Income - post-tax					
Profit After Tax	544	721	775	862	1,024
Minority Interests	(1)	(12)	(13)	(15)	(18)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	544	709	762	847	1,007
Recurring Net Profit	544	709	762	847	1,007
Fully Diluted Recurring Net Profit	544	709	762	847	1,007

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	821	816	1,132	1,293	1,474
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(866)	(233)	(794)	(842)	(887)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	186	(56)	(43)	(97)	(45)
Net Interest (Paid)/Received	(44)	(86)	(60)	(71)	(81)
Tax Paid					
Cashflow From Operations	97	441	235	283	461
Capex	(600)	(690)	(393)	(423)	(456)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(843)	0	0	0	0
Other Investing Cashflow	(108)	(700)	128	136	129
Cash Flow From Investing	(1,551)	(1,390)	(265)	(287)	(327)
Debt Raised/(repaid)	631	1,428	310	329	347
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	(241)	(164)	(213)	(229)	(254)
Preferred Dividends					
Other Financing Cashflow	373	1,111	(116)	(130)	(157)
Cash Flow From Financing	763	2,375	(19)	(30)	(65)
Total Cash Generated	(690)	1,426	(48)	(34)	69
Free Cashflow To Equity	(823)	479	281	325	481
Free Cashflow To Firm	(1,394)	(843)	86	121	270

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,444	2,771	2,702	2,668	2,737
Total Debtors	3,921	4,296	5,055	5,860	6,708
Inventories	2,537	2,909	3,423	3,969	4,543
Total Other Current Assets	1,549	2,338	2,392	2,449	2,509
Total Current Assets	9,450	12,314	13,571	14,945	16,497
Fixed Assets	3,956	4,305	4,330	4,358	4,388
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	2,450	2,860	2,985	3,116	3,254
Total Non-current Assets	6,405	7,165	7,316	7,474	7,642
Short-term Debt	1,144	2,132	2,141	2,151	2,162
Current Portion of Long-Term Debt					
Total Creditors	2,199	2,714	3,193	3,702	4,238
Other Current Liabilities	1,034	1,718	2,021	2,343	2,682
Total Current Liabilities	4,376	6,563	7,355	8,196	9,082
Total Long-term Debt	525	1,290	1,290	1,290	1,290
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,297	749	774	800	829
Total Non-current Liabilities	1,822	2,039	2,063	2,090	2,118
Total Provisions	272	292	321	353	388
Total Liabilities	6,470	8,894	9,739	10,638	11,588
Shareholders' Equity	9,047	9,782	10,331	10,950	11,702
Minority Interests	338	803	816	831	849
Total Equity	9,386	10,585	11,147	11,781	12,551

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	5.8%	16.0%	17.7%	15.9%	14.5%
Operating EBITDA Growth	(6.0%)	(0.6%)	38.7%	14.2%	14.0%
Operating EBITDA Margin	10.0%	8.6%	10.1%	9.9%	9.9%
Net Cash Per Share (Rmb)	(0.30)	(0.86)	(0.96)	(1.02)	(0.94)
BVPS (Rmb)	11.94	12.91	13.63	14.45	15.44
Gross Interest Cover	8.89	4.50	6.64	7.16	7.69
Effective Tax Rate	6.05%	3.65%	4.84%	4.83%	4.84%
Net Dividend Payout Ratio	30.1%	30.1%	30.0%	30.0%	30.0%
Accounts Receivables Days	161.4	157.2	152.1	153.1	154.4
Inventory Days	129.3	135.1	135.9	136.5	137.6
Accounts Payables Days	117.6	121.9	126.7	127.3	128.4
ROIC (%)	5.90%	4.25%	6.23%	6.92%	7.64%
ROCE (%)	5.03%	3.86%	5.61%	6.24%	6.90%
Return On Average Assets	3.97%	4.57%	4.14%	4.31%	4.75%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Optical fibre preforms ASP YoY Change (%)	-5.0%	5.0%	8.0%	3.0%	3.0%
Optical fibres ASP YoY Change (%)	6.6%	-25.3%	3.0%	3.0%	3.0%
Optical fibre cables ASP YoY Change (%)	-25.0%	5.0%	3.0%	3.0%	3.0%
Optical fibre preforms Volume YoY Change (%)	15.0%	18.0%	15.0%	15.0%	15.0%
Optical fibres Volume YoY Change (%)	15.0%	15.0%	10.0%	10.0%	10.0%
Optical fibre cables Volume YoY Change (%)	9.5%	10.0%	10.0%	10.0%	10.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

YOFC (6869 HK)

— Price Close



RECOMMENDATION FRAMEWORK

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