

## Hong Kong

May 2, 2022 - 8:20 PM

### ADD (no change)

Consensus ratings\*: Buy 8 Hold 6 Sell 0

Current price:	HK\$10.28
Target price:	HK\$14.48
Previous target:	HK\$14.48
Up/downside:	40.8%
CGS-CIMB / Consensus:	-9.7%
Reuters:	6869.HK
Bloomberg:	6869 HK
Market cap:	US\$1,858m
	HK\$14,579m
Average daily turnover:	US\$1.77m
	HK\$13.83m
Current shares o/s	757.9m
Free float:	32.7%

\*Source: Bloomberg

### Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (Rmbm)	762	847	1,007
Core EPS (Rmb)	1.01	1.12	1.33
Core EPS Growth	7.6%	11.2%	18.8%
FD Core P/E (x)	8.60	7.73	6.51
Recurring ROE	7.58%	7.96%	8.89%
P/BV (x)	0.63	0.60	0.56
DPS (Rmb)	0.30	0.34	0.40
Dividend Yield	3.49%	3.88%	4.61%



Price performance	1M	3M	12M
Absolute (%)	-3.6	-7.1	4.9
Relative (%)	0.2	3.4	32.9

Major shareholders	% held
China Huaxin	23.7
Draka	23.7

### Analyst

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# YOFC

## A good start in 2022

- YOFC reported a net profit of Rmb203.6m in 1Q22, up 141.0% yoy, with revenue of Rmb2,981.7m, up 56.0% yoy.
- YOFC reported a gross margin of 20.0% in 1Q22, up 0.4ppt yoy.
- 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).

### A good start in 2022

- YOFC's 1Q22 revenue was Rmb2,981.7m, up 56.0% yoy, from Rmb1,911.9m in 1Q21, accounting for 31.3% for our full-year forecast for 2022; and a net profit of Rmb203.6m in 1Q22, up 141.0% yoy, accounting for 26.7% of our full-year net profit forecast for 2022. YOFC reported a gross margin of 20.0% in 1Q22, up 0.4ppt yoy. The higher profitability was due to a more favourable operating environment. The yoy revenue growth in 1Q22 was due to an increase in sales volume and ASPs. In 2021, the average prices remained low for the industry, and corporate profitability was under pressure. YOFC's 1Q22 results confirm our view that the industry, including YOFC, is back on the recovery track.

### Demand for optical communications expected to resume

- The continuous rise in network traffic supports the construction of telecommunication networks. We maintain the view that optical communications companies will 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 fibre reported yoy growth since 2H18. CRU estimated that global demand for optical fibre will continue to grow in 2022 since the key regions, including China, the US, India and the EU, are expected to report yoy growth of at least 6%. The key projects in China will drive demand for optical fibre. We believe YOFC's internationalization strategy will help it benefit from the resumption of 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 (YOFC invested in Hangzhou Semiconductor Wafer in 2H20 and Tus Semiconductor in 1Q22).

### Reiterate ADD

- 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).

**Figure 1: Assumptions**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
<b>Turnover (RMBm)</b>												
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
<b>Total</b>	<b>4,825.9</b>	<b>5,676.8</b>	<b>6,731.1</b>	<b>8,111.5</b>	<b>10,366.1</b>	<b>11,359.8</b>	<b>7,769.7</b>	<b>8,221.5</b>	<b>9,536.1</b>	<b>11,221.2</b>	<b>13,008.6</b>	<b>14,892.0</b>
<b>YoY Change (%)</b>												
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
<b>Total</b>		<b>17.6</b>	<b>18.6</b>	<b>20.5</b>	<b>27.8</b>	<b>9.6</b>	<b>(31.6)</b>	<b>5.8</b>	<b>16.0</b>	<b>17.7</b>	<b>15.9</b>	<b>14.5</b>
<b>Gross margin (%)</b>												
Optical fibre preforms and fibres	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 cables	27.3	25.3	26.0	27.6	36.7	40.6	37.4	32.2	32.4	34.6	34.8	35.0
Other products and services	11.7	9.1	8.5	10.0	16.0	17.9	15.0	10.2	11.0	13.0	13.0	13.0
<b>Total</b>	<b>21.4</b>	<b>19.4</b>	<b>30.8</b>	<b>35.0</b>	<b>31.0</b>	<b>25.3</b>	<b>21.4</b>	<b>18.1</b>	<b>17.1</b>	<b>17.1</b>	<b>17.1</b>	<b>17.1</b>
<b>Net margin (%)</b>												
	8.6	8.2	8.5	8.8	12.2	13.1	10.3	6.6	7.4	6.8	6.5	6.8
<b>YoY Change (%)</b>												
<b>ASP</b>												
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
<b>YoY Change (%)</b>												
<b>Volume</b>												
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
<b>Cost (HKDm)</b>												
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)
<b>YoY Change (%)</b>												
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
<b>CAPEX (RMBm)</b>												
	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

### Profit & Loss

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

### Balance Sheet

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

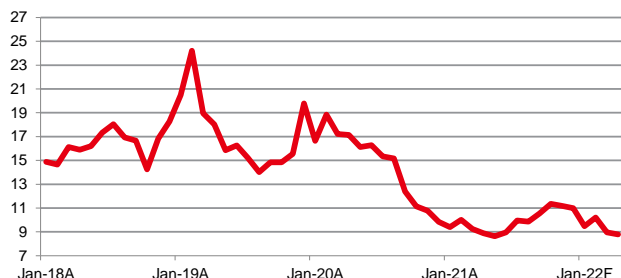
### Cash Flow

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

### Key Ratios

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

### 12-mth Fwd FD P/E (x) - YOFC



### Key Drivers

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

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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	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 )



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