

Yangtze Optical Fibre and Cable

Bloomberg: 6869 HK Equity | Reuters: 6869.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Feb 2024

HOLD

Last Traded Price (6 Feb 2024): HK\$7.70 (HSI : 16,137)
Price Target 12-mth: HK\$8.30 (8% upside) (Prev HK\$9.90)

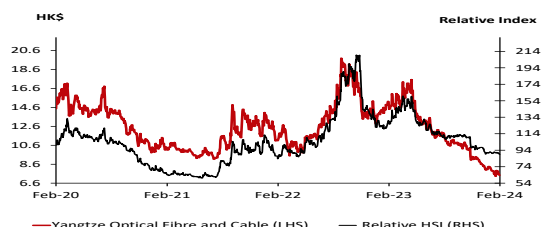
Analysts

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What's New

- Expect revenue to drop by 4% in FY23, due to weaker demand for optical cable products
- Weak cable demand to sustain in FY24; expect cable revenue to decline another 4% in FY24
- Forecast earnings drop of 4% in FY23, before mild recovery of 2% and 5% in FY24 and FY25, respectively
- Maintain HOLD on muted near-term demand outlook for its core optical cable business; TP of HK\$8.3

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	13,830	13,250	14,137	15,270
EBITDA	1,787	1,870	1,925	1,981
Pre-tax Profit	1,152	1,100	1,128	1,184
Net Profit	1,167	1,115	1,142	1,200
Net Profit Gth (Pre-ex) (%)	64.7	(4.5)	2.5	5.0
EPS (RMB)	1.54	1.47	1.51	1.58
EPS (HK\$)	1.68	1.60	1.64	1.72
EPS Gth (%)	64.7	(4.5)	2.5	5.0
Diluted EPS (HK\$)	1.68	1.60	1.64	1.72
DPS (HK\$)	0.50	0.48	0.49	0.52
BV Per Share (HK\$)	14.56	15.66	16.82	18.05
PE (X)	4.6	4.8	4.7	4.5
P/Cash Flow (X)	3.4	8.0	11.0	21.5
P/Free CF (X)	nm	44.4	nm	nm
EV/EBITDA (X)	5.5	5.3	5.4	5.5
Net Div Yield (%)	6.5	6.2	6.4	6.7
P/Book Value (X)	0.5	0.5	0.5	0.4
Net Debt/Equity (X)	0.0	0.0	0.0	0.1
ROAE(%)	11.7	10.6	10.1	9.9
Earnings Rev (%):	Nil	Nil	Nil	Nil
Consensus EPS (RMB)		1.69	1.64	1.79
Other Broker Recs:		B:4	S:0	H:5

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Awaiting demand recovery for core optical business

Investment Thesis

A leading integrated optical fibre and cable maker. YOFC is equipped with the capability and technology to produce upstream products such as optical fibre preforms and optical fibres. Its vertically integrated business model and advanced technology should help YOFC achieve higher margins than its peers.

Upstream segment's margin improvement to partly mitigate reduced demand. We expect the gross margin expansion of its preform and optical fiber segments to partially offset the revenue decline in its core optical business. 1H23 gross margin for this segment hit a record of 54% (from 47.4% in 1H22), and we foresee this upward trend continuing as the company pursues cost optimisation; we see increasing contribution by advanced optical fibre products, which command higher ASP.

Pursuing diversification amid pressure on core business. We expect the demand for optical fibre and cable will continue to be under pressure in the near term in both domestic and overseas markets. The company has also been expanding its presence in the optical component, module, and third-generation semiconductor sectors. We believe that these initiatives could partially offset the decline in its core optical business.

Maintain HOLD with TP of HK\$8.3. We maintain HOLD on YOFC, with TP of HK\$8.3 (lowered from HK\$9.9). Our TP is based on 5x FY24 PE (lowered from the previous 6x), c.1SD below its historical average, due to a muted outlook on near-term demand for its core optical cable business.

Key Risks

Price cut by preform players (downside risk). A significant price cut by any player will lead to a decline in preform prices in the industry.

Faster-than-expected demand recovery (upside risk). Stronger-than-expected demand from China telecom operators and faster-than-expected expansion in the overseas market.

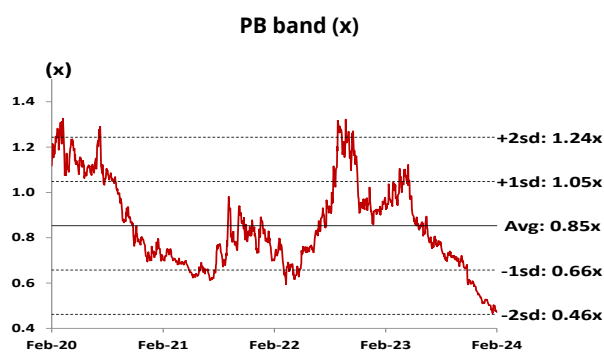
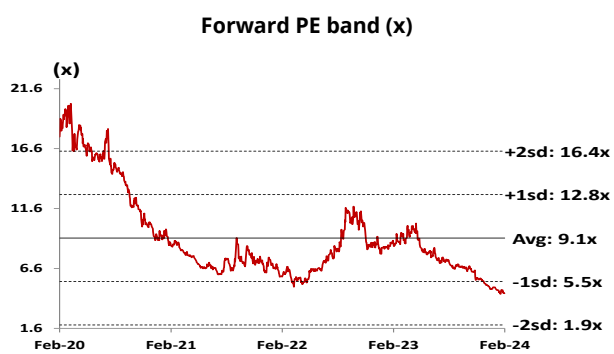
Issued Capital - H shares (m shs)	352
- Non H shrs (m shs)	406
H shs as a % of Total	46
Total Mkt Cap (HK\$m/US\$m)	13,105 / 1,675
Major Shareholders (%)	
China Huaxin Post and Telecom Technologies Co., Ltd.	44.3
Wuhan Yangtze Communication Industry Group	29.5
Co Ltd	
Major H Shareholders (As % of H shares)	
Draka Holding BV	51.2
H Shares-Free Float (%)	48.8
3m Avg. Daily Val. (US\$m)	1.46
GICS Industry: Information Technology / Technology Hardware & Equipment	

Yangtze Optical Fibre and Cable

Company Background

Yangtze Optical Fibre and Cable (YOFC) is the largest optical fibre preform, optical fibre, and optical cable supplier in China. Two of its major Chinese shareholders are Huaxin and YCIG, ultimately held by SASAC. Draka, the largest foreign shareholder, was a Dutch manufacturer of electrical cables, which was later acquired by Prysmian S.p.A (Prysmian, PRY.IM, NR) (listed on the Milan Stock Exchange). The Prysmian Group is the global leader in the energy and telecom cable and systems industry.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Yangtze Optical Fibre and Cable

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Optical fibre preform and fibre	2,919	3,815	3,363	3,229	3,261
Optical fibre cable	3,921	5,799	3,984	3,824	3,863
Others	2,697	4,216	5,903	7,083	8,146
Total	9,536	13,830	13,250	14,137	15,270

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	9,536	13,830	13,250	14,137	15,270
Cost of Goods Sold	(7,664)	(10,587)	(9,917)	(10,628)	(11,512)
Gross Profit	1,872	3,243	3,333	3,509	3,758
Other Opng (Exp)/Inc	(1,397)	(2,063)	(2,160)	(2,304)	(2,489)
Operating Profit	475	1,181	1,173	1,205	1,269
Other Non Opg (Exp)/Inc	289	(58)	(62)	(62)	(62)
Associates & JV Inc	107	112	120	120	120
Net Interest (Exp)/Inc	(123)	(83)	(131)	(135)	(143)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	748	1,152	1,100	1,128	1,184
Tax	(27)	9	9	9	10
Minority Interest	(12)	6	5	6	6
Preference Dividend	0	0	0	0	0
Net Profit	709	1,167	1,115	1,142	1,200
Net Profit before Except.	709	1,167	1,115	1,142	1,200
EBITDA	872	1,787	1,870	1,925	1,981
Growth					
Revenue Gth (%)	16.0	45.0	(4.2)	6.7	8.0
EBITDA Gth (%)	(1.4)	104.9	4.7	2.9	2.9
Opg Profit Gth (%)	(5.7)	148.7	(0.6)	2.7	5.3
Net Profit Gth (%)	30.3	64.7	(4.5)	2.5	5.0
Margins & Ratio					
Gross Margins (%)	19.6	23.5	25.2	24.8	24.6
Opg Profit Margin (%)	5.0	8.5	8.9	8.5	8.3
Net Profit Margin (%)	7.4	8.4	8.4	8.1	7.9
ROAE (%)	7.5	11.7	10.6	10.1	9.9
ROA (%)	4.0	4.9	3.8	3.7	3.7
ROCE (%)	3.4	6.5	5.3	5.2	5.3
Div Payout Ratio (%)	30.1	30.0	30.0	30.0	30.0
Net Interest Cover (x)	3.9	14.2	9.0	8.9	8.9

Source: Company, DBS HK

Yangtze Optical Fibre and Cable

Interim Income Statement (RMB m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	4,352	5,184	6,391	7,439	6,915
Cost of Goods Sold	(3,340)	(4,324)	(4,956)	(5,631)	(5,111)
Gross Profit	1,011	861	1,436	1,808	1,804
Other Oper. (Exp)/Inc	(752)	(645)	(835)	(1,228)	(1,134)
Operating Profit	260	215	601	580	670
Other Non Opg (Exp)/Inc	271	18	(39)	(19)	(84)
Associates & JV Inc	33	75	33	80	117
Net Interest (Exp)/Inc	(47)	(76)	(36)	(47)	(22)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	517	231	559	593	681
Tax	(31)	3	(42)	51	(55)
Minority Interest	(7)	(6)	8	(2)	(19)
Net Profit	479	229	525	642	607
Net profit bef Except.	479	229	525	642	607
Growth					
Revenue Gth (%)	27.7	7.7	46.9	43.5	8.2
Opg Profit Gth (%)	(29.0)	56.1	131.5	169.4	11.6
Net Profit Gth (%)	82.5	(18.4)	9.6	179.7	15.5
Margins					
Gross Margins (%)	23.2	16.6	22.5	24.3	26.1
Opg Profit Margins (%)	6.0	4.2	9.4	7.8	9.7
Net Profit Margins (%)	11.0	4.4	8.2	8.6	8.8

Source: Company, DBS HK

Yangtze Optical Fibre and Cable

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	4,372	7,393	7,351	7,284	7,226
Invt in Associates & JVs	1,684	1,828	1,828	1,828	1,828
Other LT Assets	1,108	3,567	3,465	3,363	3,261
Cash & ST Invt	4,302	5,672	5,474	5,103	4,476
Inventory	2,763	3,159	3,611	4,128	4,719
Debtors	4,798	6,050	7,565	9,472	11,871
Other Current Assets	451	534	534	534	534
Total Assets	19,479	28,203	29,828	31,712	33,916
ST Debt	1,718	1,755	1,755	1,755	1,755
Creditors	2,714	3,463	4,328	5,410	6,763
Other Current Liab	2,132	2,858	2,858	2,858	2,858
LT Debt	1,290	3,951	3,951	3,951	3,951
Other LT Liabilities	1,041	1,640	1,640	1,640	1,640
Shareholder's Equity	9,782	10,144	10,909	11,717	12,574
Minority Interests	803	4,393	4,387	4,382	4,376
Total Cap. & Liab.	19,479	28,203	29,828	31,712	33,916
Non-Cash Wkg. Capital	3,167	3,423	4,525	5,866	7,504
Net Cash/(Debt)	1,295	(34)	(232)	(603)	(1,229)
Debtors Turn (avg days)	174.8	143.2	187.5	220.0	255.1
Creditors Turn (avg days)	123.4	112.9	154.2	179.4	205.7
Inventory Turn (avg days)	128.1	108.3	134.0	142.6	149.5
Asset Turnover (x)	0.5	0.6	0.5	0.5	0.5
Current Ratio (x)	1.9	1.9	1.9	1.9	1.9
Quick Ratio (x)	1.4	1.5	1.5	1.5	1.4
Net Debt/Equity (X)	CASH	0.0	0.0	0.0	0.1
Net Debt/Equity ex MI (X)	CASH	0.0	0.0	0.1	0.1
Capex to Debt (%)	35.7	39.1	9.7	9.7	9.7
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

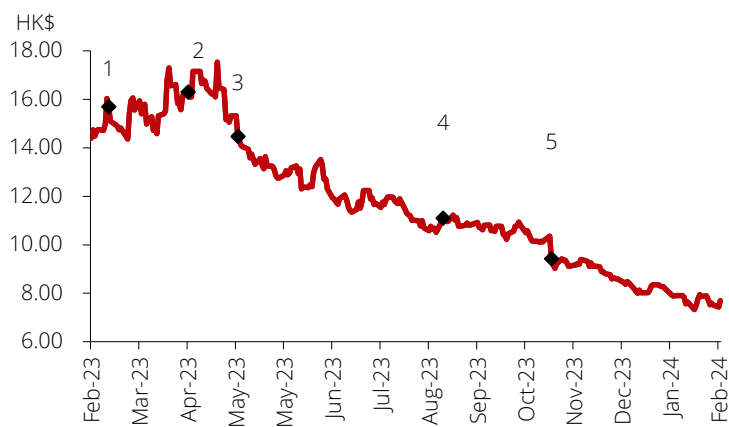
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	748	1,152	1,100	1,128	1,184
Dep. & Amort.	381	592	683	706	698
Tax Paid	(27)	9	9	9	10
Assoc. & JV Inc/(loss)	(107)	(112)	(120)	(120)	(120)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(406)	(229)	(1,102)	(1,342)	(1,638)
Other Operating CF	(61)	183	103	108	116
Net Operating CF	527	1,595	673	489	249
Capital Exp.(net)	(1,074)	(2,228)	(552)	(552)	(552)
Other Invt.(net)	(320)	228	0	0	0
Invt in Assoc. & JV	(60)	(311)	0	0	0
Div from Assoc & JV	52	90	120	120	120
Other Investing CF	12	35	0	0	0
Net Investing CF	(1,390)	(2,187)	(432)	(432)	(432)
Div Paid	(254)	(370)	(350)	(334)	(343)
Chg in Gross Debt	1,944	2,235	0	0	0
Capital Issues	623	129	0	0	0
Other Financing CF	(24)	(17)	(165)	(169)	(177)
Net Financing CF	2,289	1,977	(515)	(503)	(520)
Currency Adjustments	(43)	76	76	76	76
Chg in Cash	1,384	1,461	(198)	(371)	(626)
Opg CFPS (RMB)	1.23	2.41	2.34	2.41	2.49
Free CFPS (RMB)	(0.72)	(0.84)	0.16	(0.08)	(0.40)

Source: Company, DBS HK

Yangtze Optical Fibre and Cable

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Feb-23	HK\$16.04	HK\$24.70	Buy
2:	3-Apr-23	HK\$16.16	HK\$25.40	Buy
3:	2-May-23	HK\$15.32	HK\$26.70	Buy
4:	29-Aug-23	HK\$10.92	HK\$17.30	Buy
5:	31-Oct-23	HK\$10.36	HK\$9.90	Hold

Source: DBS HK

Analyst: Tsz Wang Tam

Andy Yu

Yangtze Optical Fibre and Cable

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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