

Sep 17, 2013

BUY
Unchanged

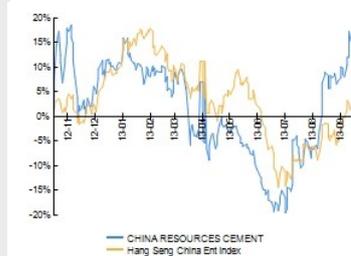
两广地区价格上涨超预期；重申买入评级并上调目标价至 6.5 港币

CHINA RESOURCES CEMENT (1313 HK)

Market Data: Sep,16

Closing Price (HK\$)	5.26
Price Target (HK\$)	6.50
HSCEI	10,707
HSCCI	4,461
52-week High/Low (HK\$)	5.55/3.59
Market Cap (USD Mn)	4,447
Market Cap (HK\$ Mn)	34,487
Shares Outstanding (Mn)	6,519
Exchange Rate (RMB-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Related Reports

"China Resources Cement (1313 HK):
Competitive advantages in GD/GX;
initiate at BUY, TP: HK\$5.40" Aug
12, 2013

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Financial summary and valuation

	2011	2012	2013E	2014E	2015E
Revenue (HKD million)	23,239.96	25,345.33	30,449.92	34,196.55	38,978.91
YOY (%)	64.34	9.06	20.14	12.30	13.98
Net income (HKD million)	4,179.01	2,324.37	3,522.01	4,036.21	4,600.21
YOY (%)	104.77	(44.38)	51.53	14.60	13.97
EPS (HKD)	0.64	0.36	0.54	0.62	0.71
Diluted EPS (HKD)	0.64	0.36	0.54	0.62	0.71
ROE (%)	21.66	10.85	14.56	14.72	14.79
Debt/asset (%)	91.53	87.47	79.58	64.05	32.65
Dividend Yield (%)	17.16	19.63	20.00	20.00	20.00
P/E (x)	8.21	14.75	9.74	8.50	7.45
P/B (x)	1.78	1.60	1.42	1.25	1.10
EV/EBITDA (x)	7.50	9.72	7.34	6.47	5.75

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

投资要点:

- **两广地区供需结构改善带动水泥价格上涨超预期** 我们预计华南地区 2013/14 年将有 1000/1500 万吨的新增水泥产能（对应 3.8/5.5%的年增长率）投产，但不及 1400/1500 万吨的落后产能淘汰力度。与此同时，预计需求将有 12/8% 的年增长率，显著超出供给增长速度。因此，两广地区的水泥价格从 6 月份开始 2 季度淡季超预期逆势上涨，至今总计上涨 40-60 元/吨。我们认为，华南地区供需结构的改善将使得水泥价格在未来两年内实现趋势性上涨。
- **超预期的价格上涨将导致 2013 年下半年吨毛利超预期** 华润水泥在 2013 年上半年实现了 66 港币/吨的吨毛利。在 8 月份的业绩发布会上，管理层表示公司下半年的水泥价格相比上半年将有 5-10% 的上涨（即 15-20 港币/吨）。在最近的几轮价格上涨之后，我们估计目前公司的销售均价已经高出 2013 年上半年 30-40 港币/吨，显著超出管理层给的指引。因此，我们预计华润水泥 2013 年下半年将实现 97 港币/吨的吨毛利，高出管理层指引 10-15 港币/吨。
- **2013 年下半年销售量指引亦有上行空间** 在中期业绩发布会上，管理层将 2013 全年的销售量指引从 7000 万吨上调至 7500 万吨，对应下半年销售量 4000 万吨，比上半年高出 14%。但是我们认为新的指引仍然过于谨慎基于：1) 2010/11/12 年公司下半年的销售量分别比上半年上涨了 57/34/37%，平均上涨 42%。2) 受益于基建项目加速，两广地区的水泥需求保持两位数的强劲增长势头。考虑到公司 2013 年的新增产能有限，我们预计华润水泥 2013 年全年销售量为 8000 万吨，高出管理层指引 7%。
- **核心假设：**我们将 2013 年的吨毛利假设从 74 港币/吨上调至 84 港币/吨；同时我们将 2013 年的销售量假设从 7800 万吨上调至 8000 万吨。
- **估值&目标价：**为反应两广地区超预期的水泥价格上涨，我们上调 2013 年的盈利预测 20%。与此同时，我们将目标价从 5.4 港币上调至 6.5 港币，对应 12 倍的 2013 年预测市盈率。华润水泥应当享有高于行业平均的估值水平由于其低于同行的融资成本和高效的运行效率，这两个优势均沿袭自母公司。我们维持买入评级。

- **股价表现催化剂:** 两广地区水泥价格超预期上涨将成为公司股价上行的催化剂。
- **投资风险:** 中国经济结构转型可能导致水泥需求弱于预期。

Investment Highlights:

- **Structural changes in S/D dynamics to drive better-than-expected cement price increase in GD/GX** We expect 10/15MT or 3.8/5.5% new capacity to come on stream in Southern China in 2013/14, which is to be more than offset by old capacity elimination of 14/15MT. Meanwhile, demand is expected to grow 12/8%, outpacing supply addition significantly. As such, cement prices started increasing since June 2013, against the weak season of 2Q, with total increases of RMB40-60/t, higher than expected. **The structural improvement in S/D dynamics in Southern China will likely to drive an upward trend of cement prices in next two years, in our view.**

- **Better than expected price hikes would lead 2H13 GP to beat expectation** CRC realized a unit GP of HKD66/t for cement products in 1H13. During analyst meeting in Aug, management guided 5-10% HoH ASP increases (or HKD15-20/t) in 2H13. Post recent price increases, we estimate the spot ASP is HKD30-40/t higher vs 1H13, significantly beating management guidance. Accordingly, we expect CRC to achieve a unit GP of HKD97/t in 2H13, HKD10-15/t higher versus guidance.

- **Upside risks in guidance for 2H13 sales volume** During the interim results briefing, management lifted 2013 full year sales target to 75MT from 70MT, which implies sales volume of 40MT in 2H13 or 14% higher HoH. We believe the new guidance is still conservative given: 1) sales volume in 2H was 57/34/37% higher HoH in 2010/11/12 respectively, with an average of 42%. 2) Cement demand growth momentum in GD/GX is strong with double digit growth on the back of accelerated infrastructure projects. **Considering the company's limited capacity addition in 2013, we expect CRC to deliver 80MT in 2013 or 7% higher than guidance.**

- **Key assumptions:** We have lifted our 2013 GP assumption from HKD74/t to HKD84/t; Our 2013 sales volume assumption has also been revised up from 78MT to 80MT.

- **Valuation & Target price:** We raise our 2013 earnings forecast by 20% mainly to reflect better than expected price increases in GD/GX. Accordingly, we raised our target price to HKD6.5 (from HKD5.4), implying 12x 13E PE. CRC deserves higher-than-industry valuation multiple due to its lower-than-peers' financing cost and high operating efficiency, both as heritage from parent company. We maintain Buy rating.

- **Catalysts:** Higher-than-expected cement price increase in GD/GX would serve as a positive catalyst for cement stock.

- **Risks:** China's economic structural changes could result in weaker-than-expected demand.

Investment Case

Valuation and Target Price

We raise our 2013 earnings forecast by 20% mainly to reflect better than expected price increases in GD/GX. Accordingly, we raised our target price to HKD6.5 (from HKD5.4), implying 12x 13E PE. CRC deserves higher-than-industry valuation multiple due to its lower-than-peers' financing cost and high operating efficiency, both as heritage from parent company. We maintain Buy rating.

Key Assumptions

We have lifted our 2013 GP assumption from HKD74/t to HKD84/t; Our 2013 sales volume assumption has also been revised up from 78MT to 80MT.

How we differ from consensus

Structural changes in S/D dynamics to drive better-than-expected cement price increase in GD/GX We expect 10/15MT or 3.8/5.5% new capacity to come on stream in Southern China in 2013/14, which is to be more than offset by old capacity elimination of 14/15MT. Meanwhile, demand is expected to grow 12/8%, outpacing supply addition significantly. As such, cement prices started increasing since June 2013, against the weak season of 2Q, with total increases of RMB40-60/t, higher than expected. **The structural improvement in S/D dynamics in Southern China will likely to drive an upward trend of cement prices in next two years, in our view.**

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Catalysts

Higher-than-expected cement price increase in GD/GX would serve as a positive catalyst for cement stock.

Risks to central scenario

China's economic structural changes could result in weaker-than-expected demand.

Table of Contents

Structural changes in S/D dynamics to drive better-than-expected cement price increase in GD/GX	6
Better than expected price hikes would lead 2H13 GP to beat expectation.....	7
Upside risks in guidance for 2H13 sales volume.....	7
Key assumptions	8
Valuation & Target price.....	9
Catalysts.....	10
Risks	10
Appendix.....	11

Chart & Table

Fig 1: Higher-than-expected cement price increase in GD/GX since Jun.	6
Fig 2: New capacity addition in GD/DX in 2H13 and 2014.....	7
Fig 3: Supply and demand dynamics to improve in GD/GX from 2013.....	7
Fig 4: Sales volume HoH increase in 2H13 implied by management guidance is still conservative compared to 2010/11/12.	8
Fig 5: FAI growth rates in GD/GX remain at high levels.	8
Fig 6: Our key assumptions for CRC's cement and concrete business.	9
Fig 7: Sensitivity analysis suggests HK\$5/T increase in ASP would boost 2013 EPS by 11%.	9
Fig 8: Our 2013/14 earnings estimates are 24/23% higher than market consensus.....	9
Fig 9: CRC is trading at 11.7x 13E P/E, below the historical averages of 12.5x leading PE.	10
Fig 10: CRC is currently trading at RMB522/T, 10.6% below its historical average of RMB584/T.....	10
Fig 11: Consolidated Income Statement	11
Fig 12: Consolidated Cash Flow Statement.....	11
Fig 13: Consolidated Balance Sheet	12
Fig 14: Key Financial Ratios	12

Structural changes in S/D dynamics to drive better-than-expected cement price increase in GD/GX

We expect 10/15MT or 3.8/5.5% new capacity to come on stream in Southern China in 2013/14, which is to be more than offset by old capacity elimination of 14/15MT. Meanwhile, demand is expected to grow 12/8%, outpacing supply addition significantly. As such, cement prices started increasing since June 2013, against the weak season of 2Q, with total increases of RMB40-60/t, higher than expected. **The structural improvement in S/D dynamics in Southern China will likely to drive an upward trend of cement prices in next two years, in our view.**

Fig 1: Higher-than-expected cement price increase in GD/GX since Jun.

Province	Date	Region	Cement Price Increase
Guangdong	1-Jul	East Guangdong	RMB10-20/t
	5-Jul	Pear River Delta region	RMB20/t for P.O.42.5
	5-Jul	Qingyuan	RMB10-15/t for P.O.42.5
	19,20-Jul	Qingyuan	RMB10/t for P.O.32.5
	5-Aug	Qingyuan, Pear River Delta	RMB20/t for P.O.42.5
	6-Aug	Meizhou	RMB20/t for P.O.42.5
	27-Aug	Zhanjiang	RMB10/t for P.O.32.5
	3-Sep	Guangzhou	RMB30/t
	11-Sep	Yingde, Zhaoqing, Guangzh	RMB30/t
Guangxi	19-Jun	Nanning, Fusui, Shangsi	RMB15/t for bulked cement
	20-Jun	Laibin	RMB10/t
	24-Jun	Nanning	RMB15-20/t
	2-Jul	Hezhou	RMB20/t
	11-Jul	Guilin	RMB15/t for P.O.32.5, RMB10/t for P.O.42.5
	19-Jul	Wuxuan, Liuzhou	RMB20/t
	20-Jul	Guigang	RMB10/t for bagged cement, RMB20/t for bulked cement
	24-Jul	Nanning, Fusui, Shangsi, Ba	RMB20/t for bagged cement
	2-Aug	Guilin	RMB15/t excl. P.O.42.5 bulked
	5-Aug	Yulin	RMB10-20/t
	7-Aug	Hezhou	RMB20/t
	24-Aug	Nanning, Baise, Chongzuo	RMB20/t
	1-Sep	Laibin, Liuzhou, Guigang	RMB20/t
	12-Sep	Guilin	RMB20/t for P.O.42.5
	12-Sep	Qingxin	RMB30/t
	13-Sep	Yangchun	RMB30/t

Source: SC199, SWS Research

Fig 2: New capacity addition in GD/DX in 2H13 and 2014.

Year	Province	Company	Clinker Capacity (MT/Y)
2H13	Guangdong	阳春海螺	1.7
2H13	Guangdong	金杰环保建材	1.4
Total			3.1
2014	Guangdong	海螺水泥	4.8
2014	Guangdong	罗定中材	1.8
2014	Guangdong	华润水泥	2.0
Total			8.7
2014	Guangxi	中国建材	1.8
2014	Guangxi	华润水泥	2.0
Total			3.8

Source: SC199, Company data, SWS Research

Fig 3: Supply and demand dynamics to improve in GD/GX from 2013.

M tonnes	2009	2010	2011	2012	2013E	2014E	2015E
Demand	165	191	215	232	260	280	303
% growth		16%	12%	8%	12%	8%	8%
Supply (capacity)	220	241	255	278	274	274	264
% growth		10%	6%	9%	-1%	0%	-4%
-NSP	133	164	184	222	232	247	252
-Old capacity	87	77	70	56	42	27	12
Old capacity elimination		-10	-6	-14	-14	-15	-15
NSP %	61%	68%	72%	80%	85%	90%	95%
Surplus/Shortage	55	50	40	46	14	-6	-39

Source: SC199, SWS Research

Better than expected price hikes would lead 2H13 GP to beat expectation

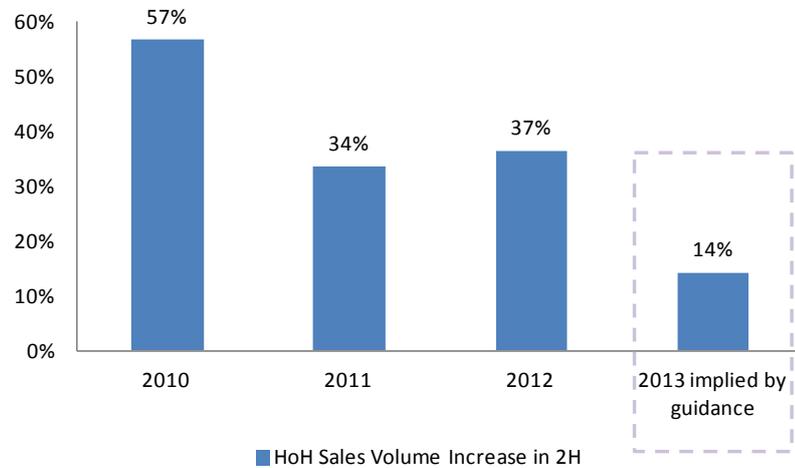
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Upside risks in guidance for 2H13 sales volume

During the interim results briefing, management lifted 2013 full year sales target to 75MT from 70MT, which implies sales volume of 40MT in 2H13 or 14% higher HoH. We believe the new guidance is still conservative given: 1)

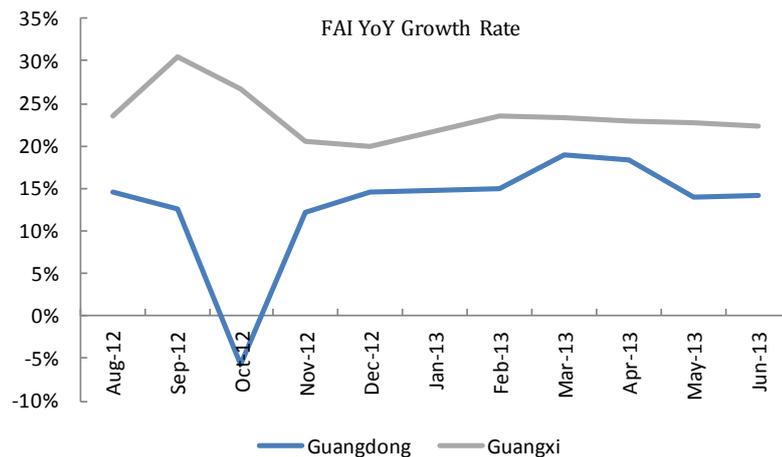
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Fig 4: Sales volume HoH increase in 2H13 implied by management guidance is still conservative compared to 2010/11/12.



Source: Digital Cement, SWS Research

Fig 5: FAI growth rates in GD/GX remain at high levels.



Source: NBS, SWS Research

Key assumptions

We have lifted our 2013 GP assumption from HKD74/t to HKD84/t; Our 2013 sales volume assumption has also been revised up from 78MT to 80MT.

Fig 6: Our key assumptions for CRC's cement and concrete business.

M T, HK\$/T	2009	2010	2011	2012	2013E	2014E	2015E
Capacity							
Cement	29	48	69	74	95	100	100
Clinker	21	33	47	50	70	80	80
Volume							
Cement	19.2	32.7	50.6	64.6	80	88	100
Concret	6.3	10.8	13.8	13.4	15.4	18.8	21.7
Growth %		70%	55%	28%	24%	10%	14%
		71%	28%	-3%	15%	22%	15%
ASP							
Cement	264.1	330.1	361	315	308	308	308
Concret	291.1	309.9	357	371	377	377	377
ACP							
Cement	185	217	242	241	224	223	223
Concret	207	238	272	274	283	283	283
GP/T							
Cement	79	113	119	74	84	85	85
Concret	84.4	72.2	85.8	97.2	93	93	93
GP/T mix	80	103	112	78	85	87	87
Other	3.9	5.5	9.5	5.4	7.1	7.1	7.1
Sg&A	-37.0	-50.6	-39.6	-38.8	-39.0	-39.0	-39.0
Finance	-5.8	-6.2	-10.4	-10.7	-8.8	-8.8	-8.8
Expenses	-42.8	-56.8	-50.0	-49.5	-47.8	-47.8	-47.8
Associate	0.3	0.0	4.5	2.8	3.0	3.0	3.0
Earning before tax	41.3	51.3	76.1	36.7	47.7	48.8	48.9
% tax	3%	4%	11%	18%	22%	22%	22%
Taxes	1.1	2.2	8.7	6.8	10.6	10.9	10.9
Earnings	40.3	49.0	67.4	30.0	37.1	38.0	38.0
Minorities	0.7	2.1	2.6	0.3	0.2	0.2	0.2
NP/T	39.6	46.9	64.8	29.7	36.9	37.8	37.8

Source: Company data, SWS Research

Fig 7: Sensitivity analysis suggests HK\$5/T increase in ASP would boost 2013 EPS by 11%.

	% changes of 2013EPS					
	-10	-5	0	+5	+10	
Volume changes, MT	-10	-29%	-19%	-9%	1%	11%
	-5	-26%	-15%	-5%	6%	17%
	0	-23%	-11%	0%	11%	23%
	+5	-20%	-7%	5%	17%	29%
	+10	-16%	-4%	9%	22%	35%

Source: Company data, SWS Research

Valuation & Target price

We raise our 2013 earnings forecast by 20% mainly to reflect better than expected price increases in GD/GX. Accordingly, we raised our target price to HKD6.5 (from HKD5.4), implying 12x 13E PE. CRC deserves higher-than-industry valuation multiple due to its lower-than-peers' financing cost and high operating efficiency, both as heritage from parent company. We maintain Buy rating.

We forecast 2013-15 EPS of HK\$0.54/0.62/0.71, implying a CAGR of 14%. Our 2013/14 earnings estimates are 24/23% higher than market consensus. We believe the higher-than-expected GP margin and strong sales volume will lead to a sustainable profit improvement and future stock re-rating.

Fig 8: Our 2013/14 earnings estimates are 24/23% higher than market consensus.

	2013E			2014E		
	Consensus	SWS	diff %	Consensus	SWS	diff %
EPS, HK\$/Sh	0.44	0.54	24%	0.50	0.62	23%

Source: Bloomberg, SWS Research

The company is currently trading at 11.7x 13E P/E, below the historical averages of 12.5x leading PE.

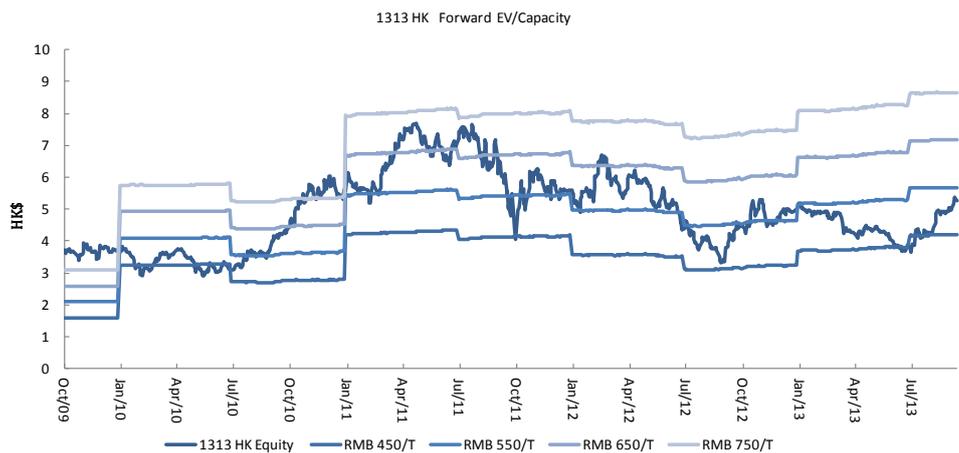
Fig 9: CRC is trading at 11.7x 13E P/E, below the historical averages of 12.5x leading PE.



Source: Bloomberg, Company Data, SWS Research

On EV per tonne basis, CRC is currently trading at RMB522/T, 10.6% below its historical average of RMB584/T.

Fig 10: CRC is currently trading at RMB522/T, 10.6% below its historical average of RMB584/T.



Source: Bloomberg, Company Data, SWS Research

Catalysts

Higher-than-expected cement price increase in GD/GX would serve as a positive catalyst for the stock price.

Risks

China's economic structural changes could result in weaker-than-expected demand.

Appendix

Fig 11: Consolidated Income Statement

million HKD	2009	2010	2011	2012	2013E	2014E	2015E
Revenue	6,907	14,142	23,240	25,345	30,450	34,197	38,979
Cost of Sales	4,865	9,678	16,016	19,246	22,301	24,954	28,446
Gross Profit	2,042	4,463	7,224	6,100	8,149	9,243	10,533
Other Income	98	238	613	422	678	759	864
Distribution expenses	474	990	1,228	1,223	1,622	1,816	2,069
Administrative expenses	470	1,212	1,325	1,808	2,099	2,350	2,677
EBITDA	1,649	3,347	6,923	5,454	7,220	8,192	9,215
EBIT	1,203	2,499	5,574	3,709	5,392	6,157	7,017
Finance Costs	149	268	668	835	840	940	1,071
Profit before tax	1,054	2,231	4,906	2,873	4,553	5,217	5,946
Income tax expense	27	98	562	528	1,012	1,159	1,321
Minority interests	17	93	166	21	19	21	24
Profit for the year	1,010	2,041	4,179	2,324	3,522	4,036	4,600

Source: Company data, SWS Research

Fig 12: Consolidated Cash Flow Statement

million HKD	2009	2010	2011	2012	2013E	2014E	2015E
Profit before taxation	1,054	2,231	4,906	2,873	4,553	5,217	5,946
Plus: Depr. and amortisation	446	847	1,349	1,745	1,827	2,035	2,198
Finance cost	138	211	597	776	780	873	995
Losses from investments	(22)	19	(3)	6	0	0	0
Increase in working capital	0	(2,727)	654	958	(11)	(121)	(184)
Others	(547)	(2,898)	(1,046)	(138)	(1,851)	(2,099)	(2,392)
CF from operating activities	1,069	3,137	5,151	4,305	5,320	6,147	6,930
CAPEX	(6,047)	(7,971)	(9,217)	(3,660)	(5,608)	(5,176)	(4,079)
Other CF from investing activities	(891)	316	(4,074)	(840)	60	67	76
CF from investing activities	(6,938)	(7,655)	(13,290)	(4,500)	(5,548)	(5,109)	(4,002)
Equity financing	7,512	0	0	0	0	0	0
Net borrowing	4,357	2,796	7,079	(2,721)	1,017	895	1,812
Dividend and interest paid	0	0	(619)	(391)	(456)	(704)	(807)
Other CF from financing activities	(641)	(41)	1,112	3,132	0	0	0
CF from financing activities	11,228	2,754	7,571	20	561	191	1,005
Net cash flow	5,360	(1,764)	(568)	(175)	332	1,228	3,933

Source: Company data, SWS Research

Fig 13: Consolidated Balance Sheet

million HKD	2009	2010	2011	2012	2013E	2014E	2015E
Current Assets							
Bank balances and cash	6,152	4,125	3,750	3,567	3,899	5,127	9,060
Trade and other receivables	1,428	2,704	4,374	4,099	4,922	5,528	6,301
Inventories	602	1,182	2,296	2,322	2,688	3,008	3,429
Long-term investment	43	967	3,750	3,734	3,925	4,124	4,327
PP&E	14,264	21,863	30,014	31,553	34,710	36,598	37,277
Intangible and other assets	791	2,264	4,052	4,475	5,033	5,561	6,033
Total Assets	24,234	35,328	50,458	52,159	57,179	61,111	62,821
Current Liabilities	5,201	11,887	20,351	16,778	17,869	17,580	13,692
Borrowings	3,099	5,156	11,377	8,993	8,865	7,509	2,221
Trade and other payables	2,091	6,674	8,805	7,598	8,798	9,845	11,223
Other current liabilities	10	57	168	187	206	226	248
Long-term liabilities	6,402	8,196	10,205	13,423	14,446	15,348	17,164
Total Liabilities	11,603	20,083	30,557	30,201	32,315	32,928	30,855
Minority Interests	373	469	603	583	671	761	863
Shareholder Equity	12,258	14,776	19,299	21,376	24,193	27,422	31,102
Share Capital	652	652	652	652	652	652	652
Reserves	11,606	14,124	18,647	20,724	23,541	26,770	30,450
Total Liabilities and equity	24,234	35,328	50,458	52,159	57,179	61,111	62,821

Source: Company data, SWS Research

Fig 14: Key Financial Ratios

	2009	2010	2011	2012	2013E	2014E	2015E
Ratios per share (HK\$)							
Earnings per share	0.40	0.31	0.64	0.36	0.54	0.62	0.71
Operating CF per share	0.4	0.5	0.8	0.7	0.8	0.9	1.1
Dividend per share	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Net assets per share	4.9	2.3	3.0	3.3	3.7	4.2	4.8
Key Operating Ratios(%)							
ROIC	3.1	5.5	9.5	5.7	7.9	9.0	10.3
ROE	8.2	13.8	21.7	10.9	14.6	14.7	14.8
Gross profit margin	29.6	31.6	31.1	24.1	26.8	27.0	27.0
EBITDA Margin	23.9	23.7	29.8	21.5	23.7	24.0	23.6
EBIT Margin	17.4	17.7	24.0	14.6	17.7	18.0	18.0
Growth rate of Revenue(YoY)	0.0	104.7	64.3	9.1	20.1	12.3	14.0
Growth rate of Profit(YoY)	0.0	102.0	104.8	(44.4)	51.5	14.6	14.0
Net gearing	26.3	61.6	91.5	87.5	79.6	64.1	32.7
Turnover rate of net assets	54.7	92.8	116.8	115.4	119.1	113.7	100.4
Turnover rate of total assets	28.5	40.0	46.1	48.6	53.3	56.0	62.0
Effective tax rate (%)	2.5	4.4	11.4	18.4	22.2	22.2	22.2
Dividend yield (%)	0.0	14.4	17.2	19.6	20.0	20.0	20.0
Valuation Ratios (X)							
P/E	33.9	16.8	8.2	14.8	9.7	8.5	7.5
P/B	1.1	2.3	1.8	1.6	1.4	1.3	1.1
EV/Sales	5.4	3.1	2.2	2.1	1.7	1.5	1.4
EV/EBITDA	22.8	13.0	7.5	9.7	7.3	6.5	5.8

Source: Company data, SWS Research

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