PITT STREET RESEARCH

Retech Technology Co. Ltd

Peers rerating due to COVID-19

Share Price: A$0.36

ASX: RTE

Sector: Consumer Services

12 June 2020

Retech Technology (ASX: RTE), the Shanghai-based Edtech player, reported A$34.9M (+29% YoY) in FY19 revenue (year-end December). Attributable net profit experienced a slowdown in growth (A$11.2M, +9.1% YoY), which was driven by significant investment in high-growth verticals – ESG and Language Learning – and higher one-off tax charges to enable the payment of the company's first dividend. RTE's balance sheet remains strong with net cash[1] of A$19.3m, providing options for future M&A. A$1.2m in dividend was paid, representing a pay-out ratio of 10.3%.

Acquisition of Shanghai Pantosoft

On the back of China's proposed vocational education reforms to improve vocational education development via the co-operation with enterprises, in January RTE acquired 80% of Shanghai Pantosoft Co Limited, a China-based software provider, to complement its vocational vertical. This acquisition should enable RTE to tap deeper into the large and growing domestic vocational school market.

COVID-19 drives demand for online learning

Recently, the occurrence of COVID-19 has changed the way people live and communicate, at least temporarily. Due to many students being affected by school closures, RTE's Ai Learning Solutions has recently launched a new teaching model known as "Studio2Home" which essentially provides online teaching for remote students. As such, we see COVID-19 as a catalyst that drives RTE's near-term growth.

Valuation upgraded to A$1.33 – 1.64 per share

We upgrade our valuation for RTE to A$1.33 – 1.64 per share (previously A$1.19 – 1.49 per share) based on a blended methodology (DCF, EV/Sales).

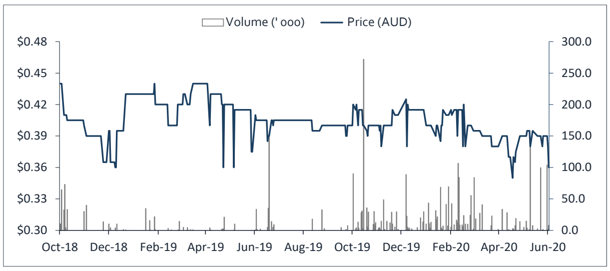
Year to Dec (AUD)[2]	2019A	2020F	2021F	2022F	2023F
Sales (m)	34.9	46.8	63.8	81.0	102.2
EBITDA (m)	15.9	19.4	24.7	31.2	39.8
Attributable Net Profit (m)	11.2	14.7	19.4	25.1	32.3
EBITDA Margin	45.6%	41.3%	38.8%	38.5%	39.0%
RoA	13.3%	14.1%	15.4%	16.4%	17.3%
EPS	4.83c	6.31c	8.32c	10.76c	13.89c
DPS	0.50c	0.60c	0.72c	0.86c	1.04c
EV/Sales	2.2x	1.2x	0.7x	0.3x	0.1x
EV/EBITDA	4.8x	2.8x	1.7x	0.9x	0.1x
P/E	8.6x	5.7x	4.3x	3.3x	2.6x
Dividend yield	1.2%	1.7%	2.0%	2.4%	2.9%

Source: Company, Pitt Street Research

Market Cap. (A$m)	83.8
# shares outstanding (m)	232.9
# shares fully diluted	232.9
Market Cap Ful. Dil. (A$ m)	83.8
Free Float	50.2%
52-week high/low (A$)	0.43 / 0.30
Avg. 12M daily volume ('1000)	22.5
Website	www.retech-rte.com

Source: Company, Pitt Street Research

Share price (A$) and avg. daily volume (k, r.h.s.)



Source: Thomson, Pitt Street Research

Valuation metrics	
Fair valuation (A$)	1.33 - 1.64
WACC	11%
Assumed terminal growth rate	1%-2%

Source: Pitt Street Research

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1 Net cash: cash less debt

2 Values in RMB are shown in the Appendix.

Table of Contents

Growth continuing

FY19 results – steady growth

For the 12 months ending December 2019, RTE has impressively grown its top line by 28.5% YoY to RMB167.7m (Figure 1). Gross profit also increased by approximately 30% YoY to RMB107.2m. Operating costs grew 53% YoY to RMB40.8m, which was higher than our forecast of RMB35.4m. Incremental higher costs were caused by RTE's increased expenses on its new ESG service and AI English business lines, with "core" administrative expenses rising by just 7.6%.

Overall, profit for the year attributable to owners of the company grew a solid 9% YoY to RMB53.8m. A full year dividend of RMB5.6m was paid as expected, representing a pay-out ratio of 10.3%.

Figure 1: key data in RMB

Year to Dec (RMB)	2019A	2020f	2021f	2022f	2023f
Sales (m)	167.7	225.0	306.5	389.4	490.9
EBITDA (m)	76.6	93.0	118.8	150.1	191.4
Net Profit (m)	53.8	70.6	93.1	120.4	155.4
EBITDA Margin (%)	45.6%	41.3%	38.8%	38.5%	39.0%
RoA (%)	13.3%	14.1%	15.4%	16.4%	17.3%
EPS	23.19c	30.30c	39.97c	51.69c	66.72c
DPS	2.40c	2.88c	3.45c	4.14c	4.97c
EV/Sales	2.2x	1.2x	0.7x	0.3x	0.0x
EV/EBITDA	4.8x	2.8x	1.7x	0.8x	0.1x
P/E	8.6x	5.7x	4.3x	3.3x	2.6x
Dividend yield %	1.2%	1.7%	2.0%	2.4%	2.9%

Source: Pitt Street Research, Company

A solid growth trajectory for Corporate e-Learning

Steady revenue growth from core corporate customers

By splitting up FY19 operating revenue by customer types, it is clear to see that revenue generated by RTE's core Corporate customers grew 28% YoY to RMB156m, underpinned by repeat Corporate customer business as well as newly acquired business.

RTE continues to win new customers across key sectors

In FY19, Retech won several major corporate customers, including Zara, Panasonic, Toys 'R' Us, Huawei, VIVO and SF Express

Following RTE's successful experience in providing e-Learning solutions for leading retail brands, such as Sephora and McDonalds, RTE has continued to win new customers across its focus industry sectors. In FY19, RTE has won SF Express, Zara, Panasonic and Toys 'R' Us as major retail and distribution customers. In other sectors such as the telecom sector, RTE has successfully won several leading corporates including Huawei and VIVO. Notably, RTE's current cooperation contracts with Huawei exceed RMB10m.

New products and technologies deployed

Apart from new customer acquisitions, RTE has been working on developing new products to meet the changing demands of its existing clients. In FY19, RTE witnessed an increasing demand for mobile learning. Accordingly, the company has modified its traditional long courses into micro courses for its repeat customers.

In addition, RTE has developed new technologies with systematic curriculum frameworks and vivid displays to attract younger generation users. This includes short video learning for social media platforms, like Tik Tok, animation HTML5, case study courses, audio courses and 2.5D courseware.

As well as winning new customers and working on production innovation, in FY19 RTE also strengthened its relationships with all of its well-known existing customers, including Ping An Group, Bank of China and Mercedes-Benz Group.

Within the financial services industry, RTE has continued to provide e-Learning services to Ping An since 2015 and Bank of China since 2016. In the previous three years, RTE had generated more than RMB30m of combined revenue from Ping An and Bank of China. Moreover, RTE also provided similar services to urban commercial banks such as Bank of Tangshan and Huaxia Bank.

Due to an increased level of internet-based applications usage, demand for online training across the autos and industrial sector continues to surge. In FY19, RTE continued to provide renewed online training materials for more than 500 Mercedes Benz dealers across China. From FY17 to FY19, RTE had generated over RMB30m in revenue from Mercedes Benz.

Multi-year projects imply recurring revenue

Overall, we believe the combination of new customer wins and existing customer retention should provide RTE with ample runway for its future Corporate e-Learning growth. Importantly, many of RTE's Corporate projects are multi-year projects. This means RTE is positioned to benefit from repeat revenue from major corporates.

Further, we expect the impact of COVID-19 on RTE's Corporate e-Learning performance will be mitigated by: 1) several of RTE's customers being major corporates that provide essential services; and 2) the increasing trend of companies directing their budgets towards online learning.

A strategic acquisition to expand vocational vertical

Acquisition overview

On 22 January 2020 RTE executed a Sale and Purchase Agreement to acquire the issued share capital of Pantosoft International Limited, which in turn holds an 80% interest in Shanghai Pantosoft Co., Ltd (Shanghai Pantosoft). The cost of the acquisition is RMB76m (A$16.1m[3]) and is expected to be entirely funded by RTE's cash at bank. With regard to the remaining 20% interest of Shanghai Pantosoft, RTE is seeking to acquire it from the owner Zhenjiang Letai Digital Industry Venture Capital Fund Partnership (Letai Fund). The company is currently in negotiations with Letai Fund and will update the market once a formal agreement is entered into.

Shanghai Pantosoft

Education support software servicing 3,000 schools

Shanghai Pantosoft (Pantosoft) is a China registered software company that commenced operations in 1996. It has developed software systems to provide digital solutions to support education management in secondary and vocational schools in China. Pantosoft is an authorised participant in the "Learning Credit Management Platform" (LCMP), a comprehensive online management system issued by the Ministry of Education of China that provides internal education and administration management in China. Key modules within the company's software suite include office automation, administration management, data centre management, office automation systems, with functionality such as management, credit management, multi-functional collaborative work, full-text search, online information release and group forums.

Pantosoft currently services approximately 3,000 vocational and secondary school clients across China. In FY19 Pantosoft generated revenues of RMB23m and earnings before tax of almost RMB6m, which represents an impressive pre-tax earnings margin of ~26%.

Retech to capitalise on the supply gap in China's vocational education sector

According to the National Bureau of Statistics of China (NBS), the country's labour force has been experiencing continuous year-on-year declines since 2011. From 2011 to 2018, China's working age population, people between the ages of 16 and 59, shrank 2.8% with the number of workers falling to ~897 million by 2018, which accounted for ~65% of China's 1.4 billion population.

Based on estimates that China's total population and working age population will reach 1.5 billion[4] and 830 million[5] by 2030 respectively, it can be derived that the country's labour force percentage will shrink from 65% down to around 57%. Within the working age population for 2018, registered students at secondary vocational schools totalled around 15.6 million.[6] Given there were 20.9 million students back in 2008[7], we can see that the secondary vocational education sector in China has been declining at an annualised rate of ~3%. Whilst vocational student numbers have been dropping, the

[3] Exchange Rate: A$ 1 – RMB 4.71
[4] Ministry of Human Resources and Social Security of the PRC
[5] Circular of the State Council on the Issuance of the National Population Development Plan (2016-2030)
[6] http://en.moe.gov.cn/documents/reports/201906/t20190605_384566.html
[7] https://www.statista.com/statistics/227035/number-of-students-at-secondary-vocational-schools-in-china/

economy's demand for vocationally trained jobs remains strong, which has resulted in a shortage of vocationally skilled personnel in the country.[8]

China-proposed reform to expand vocational education sector

To remediate this market gap caused by the supply-demand imbalance, the Chinese State Council issued the "Implementation plan on National Vocational Education Reform" (Plan) on 13 February 2019 with the aim of expanding the vocational education sector to meet the demands of the economy now and into the future. Additionally, this strengthened focus on vocational education was reinforced in early March 2019 by Chinese Premier Li Keqiang when he announced the transfer of RMB 100 billion in funding from the unemployment insurance fund into vocational training to support 15 million people for their skills upgrading.

RMB 100 billion earmarked for reforms and investments

Upon closer scrutiny, the Plan proposed a complete reform of all aspects of China's vocational education framework, including occupational standards, assessment and evaluation mechanisms, teacher training and recruitment, and industry engagement. Specifically, the Plan proposed the construction of a "Double High Plan" under which 50 high-level higher vocational schools and 150 core professional groups will be developed by 2022. Also included in the Plan are the construction of 300 vocational education groups and the development of vocational standards and official qualifications, focusing on promoting the integration of industry and education.

Furthermore, the Plan also seeks to maximise secondary vocational education opportunities for students who did not complete high school, veterans, retired athletes, laid-off workers and returned migrant workers etc. According to the 2019 Government Work Plan, China seeks to significantly increase fiscal support for vocational education including the establishment of a national scholarship programme.

Big upsides from investing in vocational vertical

Industry tailwind drives growth of vocational vertical

Plenty of growth opportunities for RTE, even if market shares were to remain flat

We view the current reform of vocational education in China as a solid structural growth driver for RTE's over the coming years. As noted in our initiation report and above, the Chinese State Council has allocated RMB100BN towards the expansion of a vocational skills training system in the country, which includes the development of 50 high-level higher vocational schools by 2022.

With this expansion in sight, RTE can potentially deliver its e-Learning solutions to these new vocational schools to advance their online education systems. Effectively, the addition of these new industry-driven vocational schools serves to expand the overall size of the vocational education market. Therefore, RTE should be able to grow its revenues and earnings over the medium term as the overall industry grows, even if its market share were to remain unchanged. Should RTE capture more of this additional layer of growth, the upside to the company will be more significant, in our view.

[8] "Full Text of 2019 Government Work Report '2019 年政府工作报告全文'." Full Text of 2019 Government Work Report '2019 年政府工作报告全文', The State Council of the People's Republic of China ,5 Mar. 2019

Pantosoft, a growth accelerator

Substantial operational and commercial synergies

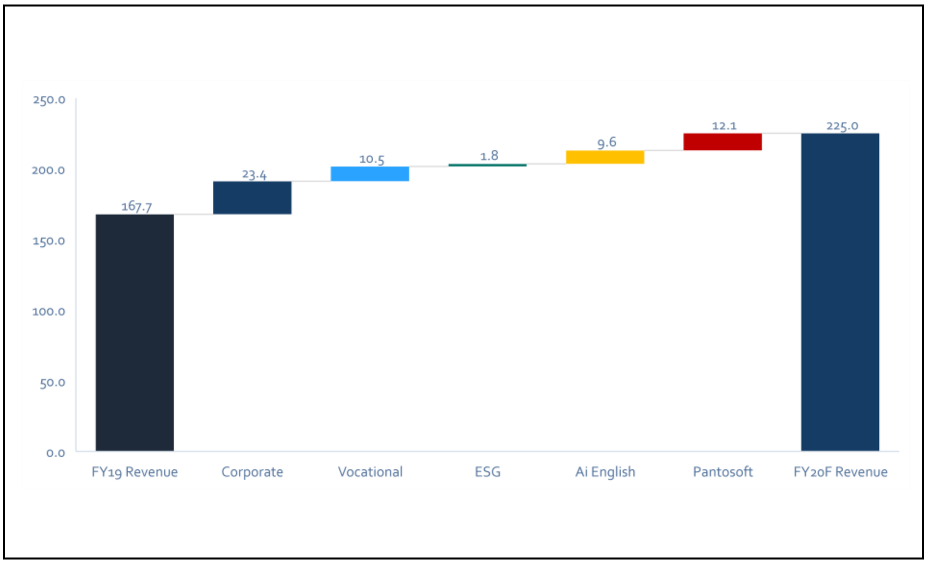
According to the Plan, the third objective is to promote the integration of vocational schools with industry partners. To ride this industry tailwind, RTE has implemented a strategy to build digital media education centres and to provide e-Learning courses into vocational and tertiary colleges. Given Pantosoft's established sales network, software and channels, we believe the acquisition allows RTE to capitalise on operational synergies and can therefore significantly accelerate its growth strategy.

The Pantosoft business is also complementary to RTE's vocational vertical. It allows RTE to broaden its e-Learning offering to the 3,000 vocational and secondary schools within Pantosoft's sales network. Hence, the acquisition provides RTE with immediate scale as it enables the company to tap deeper into the large and growing secondary vocational school segment of the broader vocational education market. As a result of having a greater presence in the vocational education market, RTE's competitiveness has also increased.

Revenue synergies

Figure 2 shows our revenue bridge between FY19 revenue and our RMB225m forecast for FY20, of which embedded revenue from Pantosoft is expected to be RMB12.1m.

Figure 2: FY20F Revenue Bridge



Source: Pitt Street Research, Company Reports

A new Language Learning product to ride the COVID-19 tailwind

Partnering with renowned teaching institutes to develop online teaching studios

As outlined in our initiation research report, RTE tapped into the lucrative, high-growth online language learning market in FY19 through the launch of its Ai English brand, under which it provides live-streamed English tuition to students in China through its partnership with primary and secondary schools, kindergartens and training institutes. Teaching institutes that are partnering with RTE to deliver live, native English lessons include East China Normal University, Beijing Jinqiao Primary School, Wuxi Foreign Language School and RISE Education. Rise is one of China's largest after-school English class businesses, with 472 outlets across China.

COVID-19 provides a tailwind of opportunities for Ai English

In FY20, the COVID-19 crisis has driven the global economy into a downturn. This has had a devastating impact on the global education industry. The pandemic has severely disrupted the day to day operations of most education groups. Rise, one of RTE's partners for Ai English, has seen its Q1 revenues decline by 67% with the closure of its live centres. Many education organisations have had no options but to close their live teaching facilities. In turn, this global school shutdown has prevented countless international students from returning to their foreign universities to resume study. To remediate this problem, many students are choosing to study foreign universities courses synchronously online.

Livestreamed from RTE's Australia-based studios, Ai English provides students in China (3-16 years old) an opportunity to learn English from native English teachers. The teaching courses are delivered in a "dual teacher" mode where RTE's technologies allow for real time live teaching from Australian teachers, accompanied by in-class teaching support in China.

To assist students under quarantine and those who were affected by school closures, Ai English established a new teaching model *Studio2Home*, which was quickly launched in early February 2020. Through this new model, students can receive live tutoring from international teachers at home without having to physically attend schools. Based on *Studio2Home*, RTE has offered several modes of online small class (*Studio2Classroom*) to its teaching and educational customers (1 teacher v. 1 student, 1 teacher v. 4 students). The company has also extended Blended class modes with small and large group interactive classes. In addition, RTE is offering its customers upgrades from Classroom to Studio learning and thereby helping customers to maintain their regular courses.

During this period, Ai English not only provides its customers access to high-quality foreign teachers and curriculums, but also online technology solutions including equipment, software and live-streaming studios. The company has also got good insights into the large demand for its live-streaming technology solution.

Ai Learnings Solutions has been whitelisted by Austrade

Seeing change as opportunity instead of risk, in FY20 RTE has expanded its Language Learning vertical through the introduction of a new product known as Ai Learning Solutions. This business is wholly-owned by RTE and provides equipment, software and live-streaming studios to educational groups.

Through the purchase and implementation of Ai Learning Solutions by educational organisations, students will enjoy an immersive classroom experience, with teachers on the platform having an immediacy and interactivity that is unparalleled in remote education. In addition, this product can accommodate various class sizes, ranging from large open classes of up to 500 students to smaller class of up to 25 people (*Studio2Home*).

Ai Learning Solutions has been whitelisted by Austrade for "Online Delivery Solution Providers Australian Education in China"

In February 2020, Ai Learnings Solutions was whitelisted by the Australian Trade and Investment Commission (Austrade) for "Online Delivery Solution Providers Australian Education in China", alongside other well-known enterprises including Alibaba cloud (NYSE: BABA), China Telecom (HKG: 0728) and Tencent (HKG: 0700).

Given a clear shift towards the trend of online education, we believe the recent development of Ai Learning Solutions by RTE as part of its Language Learning vertical will bring upside potential to the business longer term.

Robust outlook for FY20 driven by COVID-19

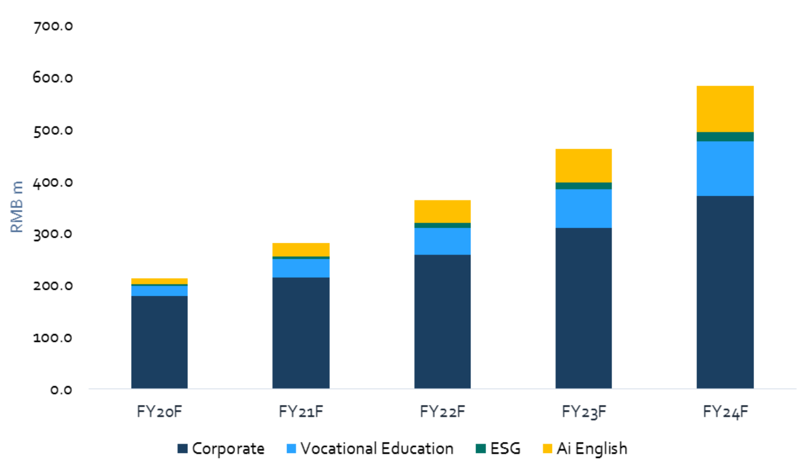
Remote learning accelerated by COVID-19

We forecast a solid +27% YoY growth in operating revenue for FY20, within which we expect the greatest growth to be delivered by the Language Learning vertical Ai English. We estimate that Ai English revenue will rise from RMB2.1m to RMB12m as the business benefits from its new teaching model *Studio2Home* launched in early February 2020 that allows students to receive live foreign tutoring at home amid school closures caused by COVID-19.

Accordingly, we view COVID-19 as a near-term tailwind for online learning and therefore we expect material upside in Language Learning revenues for FY20. However, we now expect FY20 growth for the Corporate e-Learning business to be lower than our previous forecast. This is due to the broader slowdown in China's economic activity during Q1 FY20. Although we understand that RTE is well-insulated from the COVID-19 pandemic, as most of its business comes from strong customers providing essential services like Bank of China and Huawei, we also think that there is likely to be some pause to growth as businesses look to preserve cash during the economic slowdown. We expect growth in the Corporate vertical to pick up again post FY20.

Over the FY19 to FY24 period, we estimate operating revenue CAGR of 28% p.a. and 78% p.a. for the non-Corporate verticals, reflecting the high-growth phase of RTE's Vocational and Language Learning verticals. Figure 3 shows our vertical revenue modelling from FY20 to FY24.

Figure 3: RTE's vertical revenue forecasts (RMBm)



Source: Pitt Street Research, Company Reports

Forecast changes

Based on the FY19 results and the recent Pantosoft acquisition, we have revised our model as follows (Figure 4):

- For FY20, we have incorporated Pantosoft's revenue assuming about 6 months of contribution and some continuing organic growth (5% annual growth assumed) in the Pantosoft business. If we work off Pantosoft's RMB23m revenue base for FY19[9], the revenue contribution for FY20 would be about RMB12m (Figure 2). As RTE will own an 80% interest in Pantosoft, we have accounted for a 20% minority interest for FY20. Rolling forward, we estimate Pantosoft would contribute around RMB25m in FY21 with the assumption that the remaining 20% interest in Pantosoft to be acquired by RTE sometime in FY20.
- We have re-modelled Ai English, the Language Learning's vertical, based on a function of the number of outlets and typical revenue of RMB150K per outlet. English is a requirement of China's national Middle School examinations, the Zhongkao, and most students take English as their compulsory language for the Gaokao university entrance exam. As a result, demand for quality English learning resources in China is enormous. In our view, RTE's launch of Ai English lessons into schools in China would be perceived favourably by the local students, which we believe will set the foundation for RTE to execute additional contracts with existing and new customers over the short to medium term. Although the uptake of one major new customer by RTE could potentially result in hundreds of new outlets being added to RTE's existing base, we conservatively assume an addition of 50 new outlets for the remaining of FY20, sequentially ramping up to 160 new outlets by FY24. Also, we adjust our annualised revenues by factoring in the number of outlets that may come in at a different point in time throughout a fiscal year. On our forecasts, we expect Ai English to contribute approximately RMB11.7m to the group's operating revenue for FY20 and RMB88.4m for FY24, representing a CAGR of 66%.

[9] Refer to RTE's ASX announcement on 23 January 2020.

- We have trimmed our FY20 growth rate for the Corporate vertical by 5% to factor in the slowdown in China's economic activity that took place in Q1 FY20. Although we understand that RTE is well-insulated from the COVID-19 pandemic, as most of its business comes from strong customers providing essential services like Bank of China and Huawei, we expect some pause to growth as businesses look to preserve cash during the downturn.

Figure 4: Forecast changes

RTE: Forecast changes		FY20F			FY21F	
Years ended Dec (RMBm)	Old	New	Change	Old	New	Change
Total Revenue	223.2	225.0	0.8%	296.3	306.5	3.5%
Corporate	175.3	179.1	2.2%	210.4	214.9	2.2%
Vocational Education	19.7	19.2	-2.5%	29.6	34.6	17.0%
ESG	15.0	3.0	-80.3%	30.0	5.9	-80.3%
Ai English	13.2	11.7	-11.4%	26.3	25.7	-2.2%
Shanghai Pantosoft	0.0	12.1		0	25.4	
Total Revenue YoY Growth	31.6%	34.1%		32.7%	36.2%	
Adj. NPAT	72.6	70.6	-2.8%	98.2	93.1	-5.2%
Net Cash	142.4	138.8		211.1	197.1	

Source: Pitt Street Research

Blended valuation upgraded to A$1.33 – 1.64

DCF remains largely intact

Based on our forecast changes, our DCF returned a base case valuation of $1.69 per share (previous: $1.79) and an optimistic case valuation of $2.19 per share (previous: $2.31).

The reduction in our DCF valuation range is due to slightly lower operating revenue forecasts following the FY19 earnings release, which came in slightly below our expectations. Peer group rerating due to COVID-19.

On peer valuation, we adjusted our base case FY20 EV/Sales multiple from 2.9x to 4.2x due to higher peer group multiples while our bullish case EV/Sales multiple for FY20 is increased from 3.4x to 4.8x.

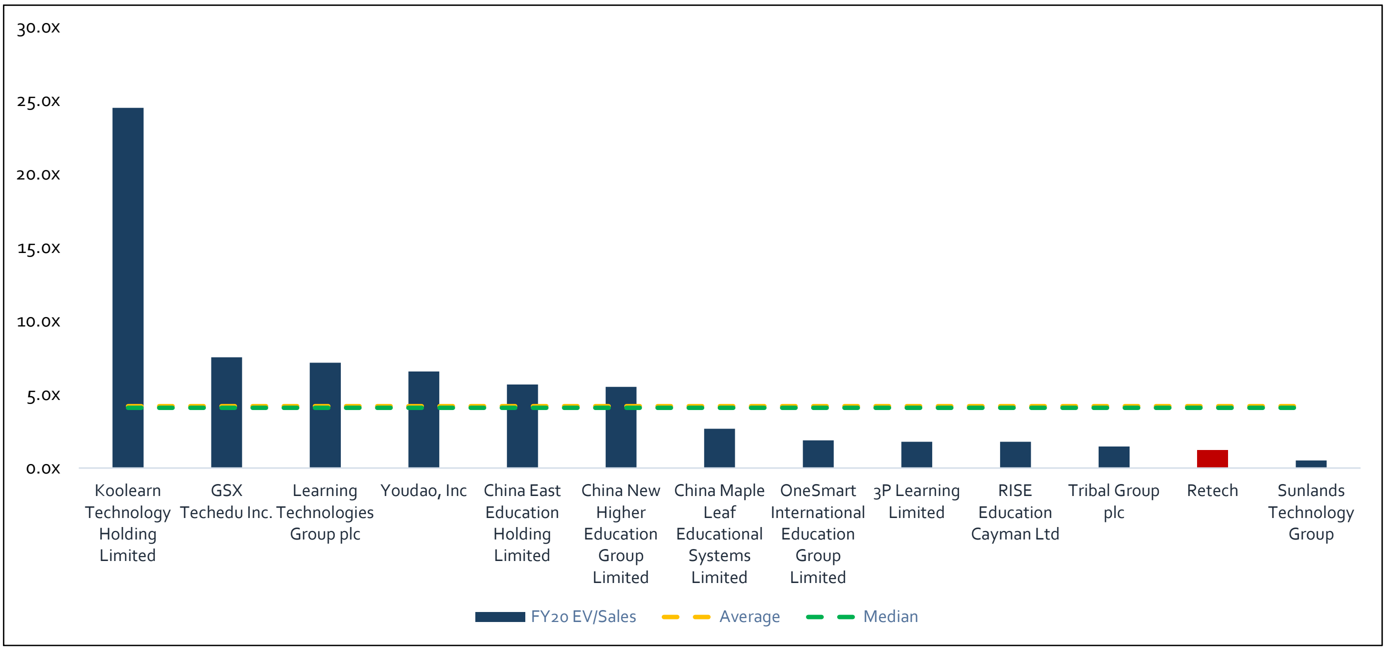
This translates to a relative valuation of $0.97 per share for our base case (previous: $0.60) and $1.09 per share bullish case (previous: $0.68).

Given the momentum in the online learning industry driven by COVID-19, most of RTE's peers have been re-rating in the past few months. This has resulted in an expansion in their trading multiples.

As part of our peer comparative analysis, we have excluded trading multiples of Koolearn Technology Holding Limited (24.5x) and Sunlands Technology Group (0.5x) as we regard them outliers to our peer group average of 4.2x. By excluding them we can minimise distortion to our valuations.

In addition, we have added China East Education Holding Limited and Youdao Inc. as two new peer comparables due to their vocational and online learning attributes. China East Education trades at 5.7x FY20 EV/Sales, while Youdao trades at 6.6x.

Figure 5: FY20 EV/Sales peer multiples



Source: Pitt Street Research, Capital IQ

Figure 5 shows a summary of FY20 EV/Sales multiples of RTE's peers. Currently, RTE trades at a 70% discount to its peer group average. Although RTE has not yet experienced a re-rate on the back of the current e-Learning tailwind, we think this is more likely due to a lack of investors awareness than its business fundamentals. As RTE continues to grow its earnings and margins, we believe it may re-rate towards the current peer average EV/Sales trading multiple of 4.2x, representing an implied value of $0.97 per share.

A higher blended valuation

As a result, our blended valuation range is upgraded to $1.33 – 1.64 per share (previous: $1.19 – 1.49). We have maintained equal weighting between DCF and EV/Sales valuations (Figure 6).

Figure 6: Blended Valuation Summary

BASE CASE

Base Case	Weight (%)	Share price (AUD)
DCF	50.0%	1.69
Relative valuation	50.0%	0.97
Composite		**1.33**
Current Price		0.36
Upside/ Downside (%)		**269.4%**

BULL CASE

Bull Case	Weight (%)	Share price (AUD)
DCF	50.0%	2.19
Relative valuation	50.0%	1.09
Composite		**1.64**
Current Price		0.36
Upside/ Downside (%)		**355.5%**

Source: Pitt Street Research

On our revised forecasts, RTE is trading on an attractive P/E multiple of 5.7x for FY20, falling to 4.3x for FY21.

Please refer to www.pittstreetresearch.com for our initiating coverage report on RTE.

Analyst certification

Marc Kennis, lead analyst on this report, has been covering a range of sectors as an analyst since 1997.

- Marc obtained an MSc in Economics from Tilburg University, Netherlands, in 1996 and a post graduate degree in investment analysis in 2001.
- Since 1996, he has worked for a variety of brokers and banks in the Netherlands, including ING and Rabobank, where his main focus has been on the Technology and Industrials sectors, including the Semiconductor sector.
- After moving to Sydney in 2014, he worked for several Sydney-based brokers before setting up TMT Analytics Pty Ltd, an issuer-sponsored equities research firm.
- In July 2016, with Stuart Roberts, Marc co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Technology companies.

Cheng Ge is an equities research analyst at Pitt Street Research.

- Cheng obtained a B.Com in Finance and LL.B from University of New South Wales, in 2013, and has passed all three levels of the CFA Program.
- Prior to joining Pitt Street Research, he has worked for several financial services firms in Sydney, where his focus was on financial advice.
- He joined Pitt Street Research in January 2020.

Retech Technology Co. Ltd

Profit & Loss (A$m)	2017A	2018A	2019A	2020f	2021f	2022f	2023f
Sales Revenue	20.50	26.92	34.91	44.32	58.51	75.51	96.34
Operating expenses	(4.19)	(5.52)	(8.50)	(8.75)	(12.19)	(16.21)	(20.60)
Adjusted EBITDA	9.41	12.69	15.79	16.80	21.84	27.56	35.10
Depn & Amort	(0.13)	(0.47)	(1.20)	(0.73)	(1.35)	(1.74)	(2.12)
Adjusted EBIT	9.28	12.22	14.58	16.07	20.50	25.82	32.98
Net Interest	0.22	0.40	0.39	1.02	1.43	2.52	3.58
Profit before tax (before exceptional)	9.50	12.62	14.98	17.72	23.24	29.73	38.01
Tax expense	(1.57)	(1.60)	(3.14)	(3.28)	(4.18)	(5.20)	(6.46)
Abnormal + Minorities	(0.32)	(0.87)	(0.65)	0.25	0.31	0.53	0.79
NPAT	7.61	10.16	11.19	14.69	19.37	25.06	32.34

Cash Flow (A$m)	2017A	2018A	2019A	2020f	2021f	2022f	2023f
Profit before tax	8.87	11.55	13.75	17.72	23.24	29.73	38.01
Depreciation & amortization	0.13	0.47	1.20	0.73	1.35	1.74	2.12
Other non-cash items	(0.20)	0.74	1.64	(0.85)	(1.43)	(2.52)	(3.58)
Change in trade and other receivables	(5.90)	0.97	(6.91)	(3.44)	(5.19)	(6.21)	(7.61)
Change in trade payables	0.89	0.89	1.52	2.37	3.30	3.21	3.89
Other operating activities	(1.19)	(3.01)	(4.27)	(4.81)	(6.56)	(8.24)	(10.20)
Operating cash flow	2.59	11.61	6.93	11.72	14.71	17.70	22.63
Capex (- asset sales)	(0.74)	(0.25)	(1.09)	(1.77)	(2.34)	(2.27)	(2.89)
Other investing activities	(23.52)	0.34	10.18	2.56	2.88	3.69	4.75
Investing cash flow	(24.26)	0.09	9.10	0.78	0.54	1.42	1.86
Dividends	-	-	(1.16)	(1.40)	(1.67)	(2.01)	(2.41)
Equity raised (repurchased)	25.05	-	-	-	-	-	-
Debt raised (repaid)	6.40	-	3.14	(4.61)	-	-	-
Other financing activities	(0.85)	(1.49)	(0.18)	(1.53)	(1.46)	(1.17)	(1.17)
Net change in cash	8.94	10.21	17.82	4.97	12.12	15.95	20.91
Cash at End Period	9.85	20.54	38.52	43.49	55.61	71.56	92.46
Net Debt (Cash)	(4.22)	(14.12)	(19.32)	(28.90)	(41.02)	(56.96)	(77.87)

Balance Sheet (A$m)	2017A	2018A	2019A	2020f	2021f	2022f	2023f
Cash	9.85	20.54	38.52	43.49	55.61	71.56	92.46
Total Assets	52.89	63.27	91.04	104.38	125.89	152.43	186.43
Total Debt	5.63	6.41	19.20	14.59	14.59	14.59	14.59
Total Liabilities	17.81	16.53	32.78	33.07	37.20	41.22	46.09
Shareholders' Funds	35.08	46.74	58.26	71.31	88.69	111.21	140.34

Ratios	2017A	2018A	2019A	2020f	2021f	2022f	2023f
Interest Cover (x)	118.38	16.57	14.84	10.49	14.05	22.12	28.25
Return on Asset (%)	15.4%	17.5%	13.3%	14.1%	15.4%	16.4%	17.3%
Return on Equity (%)	23.2%	23.7%	20.8%	20.6%	21.8%	22.5%	23.0%

Profit & Loss (RMBm)	2017A	2018A	2019A	2020f	2021f	2022f	2023f
Sales Revenue	**104.20**	**130.50**	**167.74**	**212.94**	**281.16**	**362.81**	**462.91**
Operating expenses	(21.28)	(26.75)	(40.83)	(42.04)	(58.55)	(77.89)	(98.99)
Adjusted EBITDA	**47.82**	**61.50**	**75.87**	**80.72**	**104.96**	**132.40**	**168.64**
Depn & Amort	(0.64)	(2.27)	(5.79)	(3.51)	(6.47)	(8.34)	(10.18)
Adjusted EBIT	**47.18**	**59.24**	**70.08**	**77.20**	**98.49**	**124.06**	**158.45**
Net Interest	1.10	1.94	1.88	4.91	6.85	12.11	17.20
Profit before tax (before exceptional)	**48.28**	**61.17**	**71.96**	**85.14**	**111.68**	**142.83**	**182.64**
Tax expense	(7.95)	(7.74)	(15.08)	(15.75)	(20.10)	(24.99)	(31.05)
Abnormal + Minorities	(1.63)	(4.20)	(3.12)	1.18	1.51	2.56	3.82
NPAT	**38.69**	**49.23**	**53.76**	**70.56**	**93.09**	**120.39**	**155.41**

Cash Flow (RMBm)	2017A	2018A	2019A	2020f	2021f	2022f	2023f
Profit before tax	45.09	56.01	66.05	85.14	111.68	142.83	182.64
Depreciation & amortization	0.64	2.27	5.79	3.51	6.47	8.34	10.18
Change in trade and other receivables	(29.99)	4.72	(33.22)	(16.52)	(24.93)	(29.84)	(36.59)
Change in trade payables	4.51	4.31	7.30	11.40	15.85	15.42	18.69
Other operating activities	(7.06)	(11.02)	(12.64)	(27.21)	(38.39)	(51.70)	(66.19)
Operating cash flow	**13.19**	**56.29**	**33.28**	**56.32**	**70.67**	**85.05**	**108.74**
Capex (- asset sales)	(3.75)	(1.23)	(5.22)	(8.52)	(11.25)	(10.88)	(13.89)
Other investing activities	(119.55)	1.67	48.92	12.28	13.86	17.72	22.81
Investing cash flow	**(123.30)**	**0.44**	**43.70**	**3.76**	**2.61**	**6.84**	**8.92**
Dividends	-	-	(5.59)	(6.70)	(8.04)	(9.65)	(11.58)
Equity raised (repurchased)	127.32	-	-	-	-	-	-
Debt raised (repaid)	32.54	-	-	-	-	-	-
Other financing activities	(4.34)	(7.23)	14.23	(29.50)	(7.01)	(5.61)	(5.61)
Net change in cash	**45.41**	**49.50**	**85.63**	**23.88**	**58.23**	**76.63**	**100.46**
Cash at End Period	50.06	99.56	185.09	208.97	267.19	343.82	444.28
Net Debt (Cash)	(21.47)	(68.47)	(92.83)	(138.85)	(197.07)	(273.70)	(374.16)

Balance Sheet (RMBm)	2017A	2018A	2019A	2020f	2021f	2022f	2023f
Cash	50.06	99.56	185.09	208.97	267.19	343.82	444.28
Total Assets	268.82	306.70	437.45	501.53	604.91	732.40	895.80
Total Debt	28.59	31.09	32.78	32.78	32.78	32.78	32.78
Total Liabilities	90.53	80.11	157.50	158.91	178.76	198.06	221.46
Shareholders' Funds	178.29	226.59	279.94	342.62	426.15	534.33	674.34

Ratios	2017A	2018A	2019A	2020f	2021f	2022f	2023f
Interest Cover (x)	118.38	16.57	14.84	10.49	14.05	22.12	28.25
Return on Asset (%)	15.4%	17.5%	13.3%	14.1%	15.4%	16.4%	17.3%
Return on Equity (%)	23.2%	23.7%	20.8%	20.6%	21.8%	22.5%	23.0%

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