

Kingsoft Cloud (KC US)

Bottoming out

KC reported in-line FY4Q21 revenue growth of +38% YoY to RMB2,660mn although adj. EBITDA margin deteriorated on 1) higher IDC costs related to unused bandwidth and 2) consolidation of Camelot business. Looking into FY22E, KC targets to down-size lower-margin CDN business and achieve adj. EBITDA breakeven in FY4Q22. Margin improvement, potential HK dual listing and share repurchase could support share price rating under current undemanding valuation (trading at 1.6x net cash). Maintain BUY.

- FY4Q21 kitchen-sinking.** KC reported in-line FY4Q21 revenue growth of +38% YoY to RMB2,660mn. Public Cloud growth slowed to RMB1,530mn (+12% YoY) while Enterprise Cloud business remained strong at RMB1,129mn (+111% YoY). Gross margin missed at 1.0% (-3.8 pct pts YoY, -2.6 pct pts QoQ) due to 1) higher IDC costs (+25.7% YoY) related to lock-up usage of bandwidth redundancy as internet customers' demand was weaker than expected and 2) higher staff costs resulted from Camelot consolidation. Adj. EBITDA margin deteriorated to -10.5% (-9.5 pct pts YoY, -4.6 pct pts QoQ).
- Down-sizing lower-margin CDN business, targets adj. EBITDA to breakeven in FY4Q22.** Looking ahead, KC expects FY1Q22 revenue to grow at +13-19% YoY to RMB2.05-2.15bn. CDN services revenue will decline at 20-25% YoY but core cloud services (computing/storage/enterprise cloud) will grow fast at +49-55% YoY. With continuous effort in lowering its CDN revenue contribution (from 40% in FY21 to 20-25% in FY22E), KC expects adj. EBITDA margin to improve sequentially starting from FY1Q22 and achieve breakeven by FY4Q22.
- HK dual listing/ Share repurchase as potential catalysts.** KC is trading at 1.6x net cash and we think the share price has overly priced in the macro/geopolitical uncertainties. Meanwhile, any progress in dual listing in HK/ share repurchase program will be positive catalysts to share price.
- Maintain BUY.** We largely keep our FY22-23E revenue forecast. We now expect FY22E revenue growth of 12% YoY as the Company is under transition to down-size lower-margin CDN business. We revised up our target price to US\$7.87 (prior US\$6.37) on higher 1.2x (prior 1.0x) FY22E P/S as share price could re-rate on improving adj. EBITDA margins. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	6,577	9,061	10,188	11,552	13,208
YoY growth (%)	66%	38%	12%	13%	14%
Adj. EBITDA (RMB mn)	(119)	(522)	(192)	158	747
YoY growth (%)	n.a.	n.a.	-63%	-183%	372%
Net income (RMB mn)	(982)	(1,589)	(1,684)	(1,371)	(1,016)
EPS (RMB)	-6.14	-6.92	-6.97	-5.67	-4.20
YoY growth (%)	n.a.	n.a.	1%	-19%	-26%
P/S	1.5	1.1	1.0	0.8	0.7
P/B	1.2	0.8	1.0	1.2	1.3
ROE (%)	-12%	-14%	-17%	-16%	-14%
Net gearing (%)	net cash				

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$7.87
(Previous TP)	US\$6.37
Up/Downside	+25.5%
Current Price	US\$6.27

China Software & IT Services

Marley Ngan
 (852) 3916 3719
 marleyngan@cmbi.com.hk

Bowen Li
 (852) 3761 8957
 libowen@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	1,515
Avg 3 mths t/o (HK\$ mn)	36.28
52w High/Low (HK\$)	50.02/ 2.50
Total Issued Shares (mn)	242

Source: Bloomberg

Shareholding Structure

Kingsoft Group (3888 HK)	42.5%
Xiaomi (1810 HK)	13.4%
Mr. Jun LEI	13.4%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-11.1%	-15.6%
3-mth	-59.7%	-55.5%
6-mth	-78.9%	-77.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

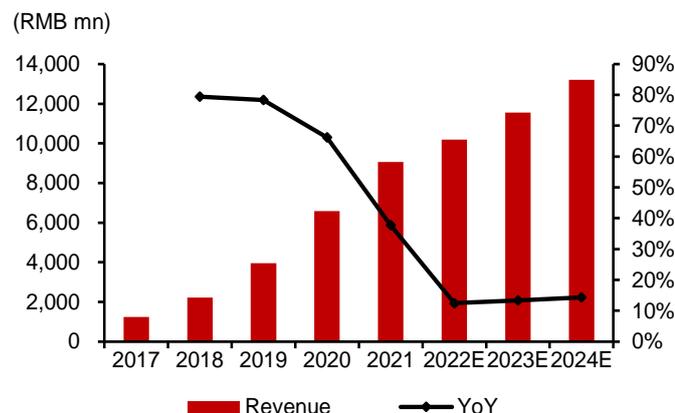
Auditor: Ernst & Young Hua Ming

Related Reports

- Kingsoft Cloud (KC US) – “Attractive risk reward” – 16 Mar 2022 ([link](#))
- China Software & IT Services “China cloud market to recover in 2022E” – 25 Jan 2022 ([link](#))

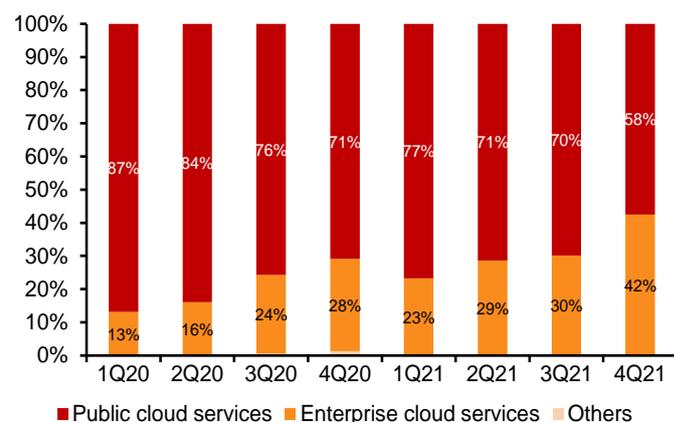
Focus Charts

Figure 1: Revenue and YoY



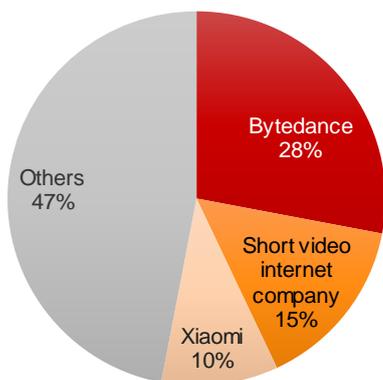
Source: Company data, CMBIGM

Figure 2: Revenue mix



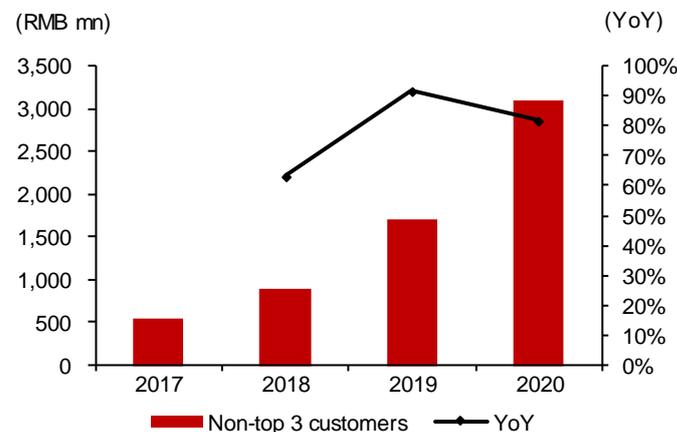
Source: Company data, CMBIGM

Figure 3: Customer mix (FY20)



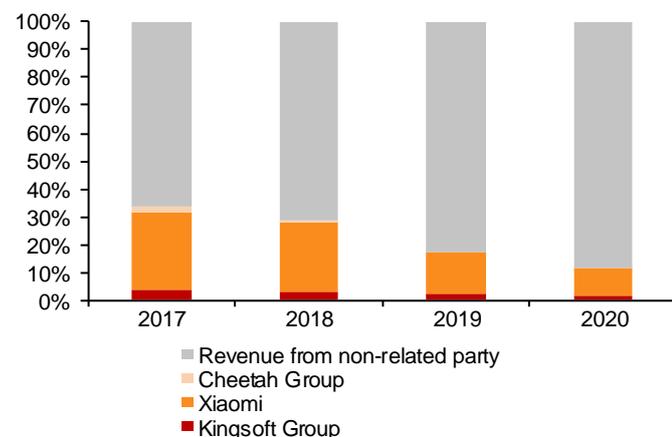
Source: Company data, CMBIGM

Figure 4: Revenue from non-top 3 customers



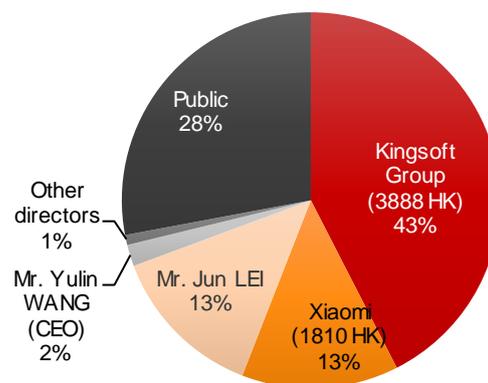
Source: Company data, CMBIGM

Figure 5: Related party transaction (revenue)



Source: Company data, CMBIGM

Figure 6: Shareholding structure



Source: Company data, CMBIGM

FY4Q21E results review

- **Revenue in-line:** RMB2,660mn (+38% YoY, +10% QoQ), in-line with our and consensus estimates.
 - **Public Cloud growth slowed:** Revenue was at RMB1,530mn (+12% YoY, -9% QoQ)
 - **Enterprise Cloud growth remained resilient:** Revenue was at RMB1,129mn (+111% YoY, +55% QoQ)
- **Gross margin missed:** GPM was at 1.0% (-3.8 pct pts YoY, -2.6 pct pts QoQ)
 - Higher IDC costs (+25.7% YoY) related to lock-up usage of bandwidth redundancy as internet customers' demand was weaker than expected.
 - Higher staff costs resulted from Camelot consolidation
- **Operating loss widened:** -RMB671mn (vs. -RMB469mn in FY3Q21)
- **Adj. EBITDA margin deteriorated:** -10.5% (-9.5 pct pts YoY, -4.6 pct pt QoQ).
- **Net loss narrowed:** -RMB478mn (vs. -RMB508mn in FY3Q21) above our and consensus forecast given one-off gains amounted to RMB199mn.

Figure 7: FY4Q21E results review

	Dec-20 4Q20	Sep-21 3Q21	Dec-21 4Q21			Dec-21 4Q21	versus	Dec-21 4Q21	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	1,923	2,414	2,660	38%	10%	2,592	3%	2,599	2%
Gross profit	93	88	28	-70%	-68%	40	-29%	36	-23%
Gross margin	4.8%	3.7%	1.0%	-3.8 pct pts	-2.6 pct pts	1.5%	-0.5 pct pts	1.4%	-0.3 pct pts
Operating profit	-245	-469	-671	-173%	-43%	-638	-5%	-571	-17%
Operating margin	-12.8%	-19.4%	-25.2%	-12.5 pct pts	-5.8 pct pts	-24.6%	-0.6 pct pts	-22.0%	-3.2 pct pts
Adj. EBITDA	-18	-141	-278	-1487%	-98%	-280	1%	-272	-2%
Adj. EBITDA margin	-0.9%	-5.8%	-10.5%	-9.5 pct pts	-4.6 pct pts	-10.8%	0.4 pct pts	-10.4%	0 pct pts
Net non-op	144	-33	192			124		81	
PBT	-102	-502	-478	-370%	5%	-514	7%	-490	2%
Net income	-105	-508	-478	-354%	6%	-519	8%	-669	29%
Net margin	-5.5%	-21.0%	-18.0%	-12.5 pct pts	3.1 pct pts	-20.0%	2.1 pct pts	-25.7%	7.8 pct pts
EPS RMB	-0.03	-0.15	-0.13	-313%	11%	-0.14	8%	-2	95%

Source: Company data, Bloomberg, CMBIGM

Earnings revision

Figure 8: Earnings revision

RMB mn	2022E			2023E		
	New	Old	%Diff	New	Old	%Diff
Sales	10,188	9,892	3%	11,552	11,146	4%
Gross profit	444	414	7%	919	841	9%
OP Profit	-1,875	-1,819	3%	-1,429	-1,357	5%
Adj. EBITDA	-192	-201	-5%	158	167	-5%
Net profit	-1,684	-1,664	1%	-1,371	-1,270	8%
EPS	-6.97	-6.88	1%	-5.67	-5.26	8%
Margins						
GM	4.4%	4.2%	17 bps	8.0%	7.5%	41 bps
OPM	-18.4%	-18.4%	-2 bps	-12.4%	-12.2%	-20 bps
Adj. EBITDA margin	-1.9%	-2.0%	15 bps	1.4%	1.5%	-12 bps
Net margin	-16.5%	-16.8%	29 bps	-11.9%	-11.4%	-47 bps

Source: Company data, CMBIGM

Figure 9: CMBI vs. consensus forecast

RMB mn	2022E			2023E		
	CMBI	Street	Diff	CMBI	Street	Diff
Sales	10,188	10,751	-5%	11,552	13,608	-15%
Gross profit	444	704	-37%	919	1,336	-31%
Operating profit	-1,875	-1,458	29%	-1,429	-992	44%
Adj. EBITDA	-192	-312	-38%	158	193	-18%
Net profit	-1,684	-1,289	31%	-1,371	-849	61%
EPS	-6.97	-4.96	40%	-5.67	-3.29	73%
Margins						
GM	4.4%	6.5%	-219 bps	8.0%	9.8%	-186 bps
OPM	-18.4%	-13.6%	-485 bps	-12.4%	-7.3%	-508 bps
Adj. EBITDA margin	-1.9%	-2.9%	102 bps	1.4%	1.4%	-5 bps
Net margin	-16.5%	-12.0%	-454 bps	-11.9%	-6.2%	-563 bps

Source: Company data, CMBIGM

Operating model

Figure 10: KC income statement

RMB mn	2018	2019	2020	2021	2022E	2023E	2024E
Revenues	2,218	3,956	6,577	9,061	10,188	11,552	13,208
Cost of sales	(2,419)	(3,949)	(6,220)	(8,709)	(9,745)	(10,632)	(11,670)
Gross Profit	(200)	8	357	351	444	919	1,538
<i>Gross margin</i>	<i>-9.0%</i>	<i>0.2%</i>	<i>5.4%</i>	<i>3.9%</i>	<i>4.4%</i>	<i>8.0%</i>	<i>11.6%</i>
R&D	(441)	(595)	(775)	(1,044)	(1,157)	(1,095)	(1,167)
SG&A	(339)	(556)	(789)	(1,120)	(1,162)	(1,253)	(1,362)
Operating Income	(979)	(1,144)	(1,207)	(1,812)	(1,875)	(1,429)	(991)
<i>Operating margin</i>	<i>-44.2%</i>	<i>-28.9%</i>	<i>-18.4%</i>	<i>-20.0%</i>	<i>-18.4%</i>	<i>-12.4%</i>	<i>-7.5%</i>
Adj. EBITDA	(520)	(418)	(119)	(522)	(192)	158	747
<i>Adj. EBITDA margin</i>	<i>-23.4%</i>	<i>-10.6%</i>	<i>-1.8%</i>	<i>-5.8%</i>	<i>-1.9%</i>	<i>1.4%</i>	<i>5.7%</i>
Non-Operating Income	(17)	41	260	236	205	70	(18)
Profit Before Tax	(997)	(1,102)	(947)	(1,576)	(1,670)	(1,359)	(1,009)
Income tax (expense) gain	(10)	(9)	(15)	(16)	(14)	(11)	(6)
Minorities	0	(1)	4	(0)	(0)	(0)	(0)
Accretion to redemption value of redeemable convertible preferred shares	-	-	-	-	-	-	-
Net Income to Shareholders	(1,749)	(1,161)	(982)	(1,589)	(1,684)	(1,371)	(1,016)
<i>Net margin</i>	<i>-79%</i>	<i>-29%</i>	<i>-15%</i>	<i>-18%</i>	<i>-17%</i>	<i>-12%</i>	<i>-8%</i>
EPS (RMB) per share	(2.20)	(1.31)	(0.41)	(0.46)	(0.46)	(0.38)	(0.28)
EPS (RMB) per ADS	(33.06)	(19.58)	(6.14)	(6.92)	(6.97)	(5.67)	(4.20)

Source: Company Data, CMBIGM

Figure 11: KC income statement (Quarterly)

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22E	2Q22E	3Q22E	4Q22E
Revenues	1,814	2,174	2,414	2,660	2,054	2,418	2,698	3,018
Cost of sales	(1,697)	(2,055)	(2,325)	(2,632)	(2,015)	(2,347)	(2,566)	(2,816)
Gross Profit	117	118	88	28	39	71	132	202
<i>Gross margin</i>	<i>6.4%</i>	<i>5.5%</i>	<i>3.7%</i>	<i>1.0%</i>	<i>1.9%</i>	<i>2.9%</i>	<i>4.9%</i>	<i>6.7%</i>
R&D	(265)	(232)	(269)	(278)	(308)	(242)	(305)	(302)
SG&A	(204)	(207)	(289)	(420)	(226)	(302)	(311)	(323)
Operating Income	(352)	(320)	(469)	(671)	(495)	(473)	(485)	(422)
<i>Operating margin</i>	<i>-19.4%</i>	<i>-14.7%</i>	<i>-19.4%</i>	<i>-25.2%</i>	<i>-24.1%</i>	<i>-19.6%</i>	<i>-18.0%</i>	<i>-14.0%</i>
Adj. EBITDA	(49)	(55)	(141)	(278)	(128)	(57)	(28)	21
<i>Adj. EBITDA margin</i>	<i>-2.7%</i>	<i>-2.5%</i>	<i>-5.8%</i>	<i>-10.5%</i>	<i>-6.2%</i>	<i>-2.3%</i>	<i>-1.0%</i>	<i>0.7%</i>
Non-Operating Income	(27)	103	(33)	192	(43)	88	(36)	196
Profit Before Tax	(379)	(217)	(502)	(478)	(539)	(385)	(520)	(226)
Net Income to Shareholders	(382)	(220)	(508)	(478)	(543)	(388)	(525)	(228)
<i>Net margin</i>	<i>-21.1%</i>	<i>-10.1%</i>	<i>-21.0%</i>	<i>-18.0%</i>	<i>-26.4%</i>	<i>-16.1%</i>	<i>-19.4%</i>	<i>-7.6%</i>
EPS (RMB) per share	(0.11)	(0.07)	(0.15)	(0.13)	(0.15)	(0.11)	(0.14)	(0.06)
EPS (RMB) per ADS	(1.72)	(0.99)	(2.22)	(1.97)	(2.24)	(1.60)	(2.17)	(0.94)

Source: Company Data, CMBIGM

Figure 12: KC operating model

RMB mn	2018	2019	2020	2021	2022E	2023E	2024E
Revenue breakdown							
Public cloud services	2,111	3,459	5,167	6,159	6,219	6,534	6,865
Enterprise cloud services	94	486	1,373	2,898	3,964	5,012	6,338
Others	13	11	38	4	4	5	6
Total	2,218	3,956	6,577	9,061	10,188	11,552	13,208
Revenue mix							
Public cloud services	95%	87%	79%	68%	61%	57%	52%
Enterprise cloud services	4%	12%	21%	32%	39%	43%	48%
Others	1%	0%	1%	0%	0%	0%	0%
Revenue YoY							
Public cloud services	76%	64%	49%	19%	1%	5%	5%
Enterprise cloud services	518%	415%	182%	111%	37%	26%	26%
Others	-27%	-16%	237%	-90%	15%	15%	15%
Total	79%	78%	66%	38%	12%	13%	14%
Key operating metrics							
Public cloud							
No. of premium customers	139	175	191	221	225	230	235
YoY	24%	26%	9%	16%	2%	2%	2%
Net dollar retention rate of premium customer	161%	155%	147%	120%	70%	105%	105%
Avg. revenue per premium customer (RMB mn)	14.5	19.2	26.4	27.3	27.1	27.9	28.7
YoY	42%	32%	38%	4%	-1%	3%	3%
Computing	663	1,018	1,587	-	-	-	-
Storage	289	298	285	-	-	-	-
Delivery	1,161	2,137	3,318	-	-	-	-
Enterprise cloud							
No. of premium customers	17	67	124	200	250	287	330
Avg. revenue per premium customer (RMB mn)	5.5	7.2	11.0	13.8	15.8	17.4	19.2
Cost of sales breakdown							
IDC costs	1,890	2,857	4,059	5,102	4,145	4,311	4,529
Depreciation and amortization costs	407	599	746	785	1,077	1,245	1,353
Staff costs	24	52	48	518	1,503	1,531	1,661
Other costs	98	440	1,367	2,305	3,020	3,545	4,235
Total	2,419	3,949	6,220	8,710	9,745	10,632	11,778
Cost of sales mix							
IDC costs	78%	72%	65%	59%	43%	41%	38%
Depreciation and amortization costs	17%	15%	12%	9%	11%	12%	11%
Staff costs	1%	1%	1%	6%	15%	14%	14%
Other costs	4%	11%	22%	26%	31%	33%	36%

Source: Company Data, CMBIGM

Valuation

Maintain BUY

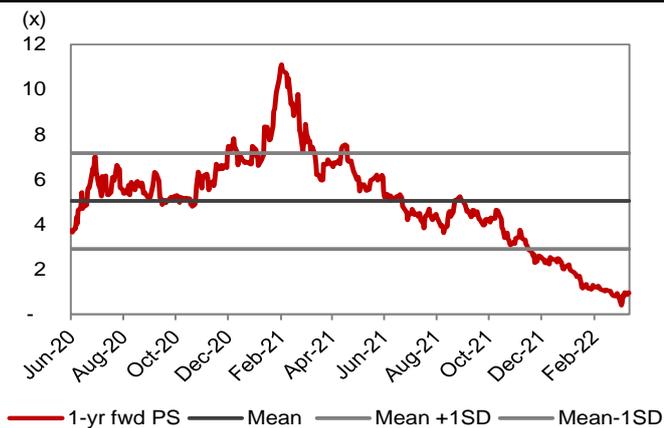
We maintain our BUY recommendation on Kingsoft Cloud with new target price of US\$7.87 (prior US\$6.37), based on higher 1.2x (prior 1x) FY22E P/S as share price could re-rate on 1) improving adj. EBITDA margin and 2) dual-listing/ share repurchase program.

Figure 13: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ bn)	Price (LC)	P/S		EV/sales		Sales CAGR FY20-23E	EBITDA margin FY21
					FY21E	FY22E	FY21E	FY22E		
Kingsoft Cloud	KC US	BUY	1.5	6.3	1.1	1.0	0.6	0.5	21%	-6%
Ucloud	688158 CH	NR	1.3	18.5	2.2	1.5	1.9	1.3	49%	8%
				Mean	1.6	1.2	1.3	0.9	35%	1%
Agora	API US	NR	1.3	11.6	8.1	7.5	3.6	3.3	21%	5%
Tuya	TUYA US	NR	2.1	3.8	7.0	6.1	3.6	3.1	n.a.	n.a.
Glodon	002410 CH	BUY	9.2	49.2	11.4	9.2	10.8	8.8	23%	12%
Yonyou	600588 CH	NR	12.6	23.4	8.3	7.0	8.2	7.0	16%	13%
Kingsoft Office	688111 CH	NR	14.1	194.7	26.8	19.8	24.4	18.0	37%	36%
Wangsu	300017 CH	NR	2.3	6.0	2.9	2.8	1.9	1.8	-6%	13%
Sangfor	300454 CH	NR	7.6	116.6	6.6	4.9	6.5	4.8	32%	14%
Kingdee	268 HK	NR	7.6	17.1	11.2	9.1	10.5	8.6	25%	4%
MYC	909 HK	BUY	3.0	11.7	8.2	6.4	5.3	4.2	30%	24%
Youzan	8083 HK	NR	0.5	0.2	2.0	1.7	2.0	1.7	12%	-16%
Weimob	2013 HK	NR	1.8	5.5	4.2	3.3	3.6	2.8	25%	4%
				Mean	8.8	7.1	7.3	5.8	22%	11%
Alibaba	BABA US	NR	317.8	117.2	2.9	2.4	2.2	1.8	25%	30%
Tencent	700 HK	NR	462.4	376.4	5.2	4.6	5.5	4.8	15%	38%
Baidu	BIDU US	NR	53.9	154.9	2.8	2.5	2.2	2.0	13%	25%
Amazon	AMZN US	NR	1,663.0	3268.2	3.5	3.1	3.6	3.1	19%	14%
Microsoft	MSFT US	NR	2,245.2	299.5	13.5	11.3	13.2	11.1	17%	46%
Google	GOOG US	NR	1,829.5	2770.1	8.7	7.3	8.2	6.8	26%	43%
Avg.				Mean	6.1	5.2	5.8	4.9	19%	33%

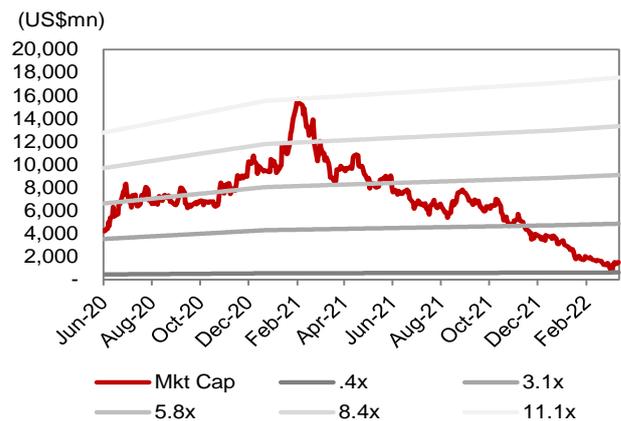
Source: Bloomberg, CMBIGM

Figure 14: 12M forward P/S chart



Source: Bloomberg, CMBIGM

Figure 15: 12M forward P/S band



Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE Dec 31 (Rmb mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,577	9,061	10,188	11,552	13,208
Cost of sales	(6,220)	(8,709)	(9,745)	(10,632)	(11,670)
Gross Profit	357	351	444	919	1,538
S&M	(409)	(518)	(560)	(576)	(623)
G&A	(380)	(602)	(603)	(677)	(739)
R&D	(775)	(1,044)	(1,157)	(1,095)	(1,167)
Operating Profit/(Loss)	(1,207)	(1,812)	(1,875)	(1,429)	(991)
Adj. EBITDA	-119	-522	-192	158	747
Interest income	12	10	21	24	22
Interest expense	-	(2)	(2)	(4)	(2)
Other non-ops	958	1,478	1,438	1,307	870
Profit Before Tax	(237)	(326)	(418)	(101)	(102)
Income tax	(15)	(16)	(14)	(11)	(6)
Profit After Tax	(962)	(1,592)	(1,684)	(1,370)	(1,016)
Non Controlling Interest	(0)	3	(0)	(0)	(0)
Others	(20)	-	-	-	-
Net profit	(982)	(1,589)	(1,684)	(1,371)	(1,016)

Cash flow summary

YE Dec 31 (Rmb mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net Income	(962)	(1,592)	(1,684)	(1,370)	(1,016)
Depreciation And	758	856	1,174	1,357	1,474
Net Change In Working	(300)	-	(273)	(176)	(335)
Others	213	27	-	-	-
Net cash from operating	(290)	(709)	(783)	(189)	123
Capital Expenditures	(1,560)	-	(1,523)	(746)	(854)
Short-term investments	(5,608)	-	-	-	-
Other Investing Activities	2,854	(422)	(5)	(5)	(5)
Net cash from investing	(4,314)	(422)	(1,528)	(751)	(859)
Equity raised	5,934	-	-	-	-
Change of debts	178	-	2,100	1,457	(685)
Dividend paid	-	-	-	-	1
Others	11	2,212	-	-	(1)
Net cash from financing	6,124	2,212	2,100	1,457	(685)
Net change in cash	1,520	1,082	(212)	516	(1,421)
Cash at beginning of the year	2,023	3,425	4,457	4,245	4,761
Exchange difference	(118)	(50)	-	-	-
Cash at the end of the year	3,425	4,457	4,245	4,761	3,341

Balance sheet

YE Dec 31 (Rmb mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	2,384	8,665	9,020	8,414	7,798
PPE, net	1,957	2,364	2,769	2,214	1,649
Intangible assets	17	1,170	1,119	1,068	1,017
Others	411	5,131	5,131	5,131	5,131
Current assets	9,545	12,413	11,723	12,872	12,232
Cash	3,425	4,457	4,245	4,761	3,341
Accounts Receivable	2,335	3,571	3,333	3,772	4,317
Others	3,785	4,385	4,145	4,339	4,574
Current liabilities	3,466	7,516	7,485	8,816	8,850
Borrowings	74	-	-	-	-
Accounts Payable	2,057	2,939	2,695	2,995	3,257
Accrued Expenses	845	2,224	1,717	1,873	2,056
Others	489	2,353	3,074	3,948	3,537
Non-current liabilities	224	2,070	3,449	4,031	3,757
Borrowings	-	-	1,379	1,962	1,688
Amounts due	-	473	473	473	473
Others	224	1,597	1,597	1,597	1,597
Total mezzanine equity	-	-	-	-	-
Share capital	23	25	25	25	25
Capital surplus	14,150	18,246	18,246	18,246	18,246
Retained earnings	-5,864	-7,459	-9,143	-10,513	-11,529
Others	-68	681	681	681	681
Total equity	8,240	11,492	9,809	8,438	7,422

Key ratios

YE Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Public cloud services	79%	68%	61%	57%	52%
Enterprise cloud services	21%	32%	39%	43%	48%
Others	1%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Growth (YoY)					
Revenue	66%	38%	12%	13%	14%
Gross profit	4531%	-2%	26%	107%	67%
Adj. EBITDA	n.a.	n.a.	n.a.	-183%	372%
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Margins					
Gross margin	5%	4%	4%	8%	12%
Operating margin	-18%	-20%	-18%	-12%	-8%
Adj. EBITDA margin	-2%	-6%	-2%	1%	6%
Balance sheet ratio					
Net debt / equity ratio (%)	net	net	net	0.0	0.1
Cash	cash	cash	cash		
Current ratio	2.8	1.7	1.6	1.5	1.4
Returns (%)					
ROE	-12%	-14%	-17%	-16%	-14%
ROIC	-9%	-10%	-11%	-9%	-7%
Per ADS					
EPS (Rmb)	-6.14	-6.92	-6.97	-5.67	-4.20
BVPS (Rmb)	51.5	50.1	40.6	34.9	30.7

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.