

Glodon (002410 CH)

Exceptionally strong SaaS boosted free cash flow

Glodon FY1Q21 top line strongly beat with costing SaaS revenue growth of +80% YoY. Newly signed contract (+108% YoY) and unearned revenue (+72% YoY) suggested growth momentum to continue. Operating leverage is not obvious yet with increasing opex on new businesses (engineering construction, building decoration). We continue to like Glodon's for its significant free cash flow improvement with SaaS transition. Maintain BUY.

- **FY1Q21 revenue beat on SaaS.** Glodon reported FY1Q21 revenue of RMB849mn (+50% YoY), beat our/consensus estimates by 33%/49% respectively. Net profit was at RMB77mn (+45% YoY), below our estimate by 13% mainly on higher-than-expected opex as 1) sales and marketing activities resumed after COVID-19 (S&M expense +45% YoY) and 2) higher R&D related to new business segment - public building decoration (R&D expense +57% YoY). And thus, operating margin squeezed by 3.9 pct pts YoY to 10.6%.
- **Robust SaaS growth offset construction business weakness.** Glodon costing SaaS revenue growth was impressive at +80% YoY to RMB549mn. Newly signed contract was at RMB330mn (+108% YoY) and unearned revenue was at RMB1,288mn (+72% YoY), which indicated strong SaaS growth momentum to continue. Engineering construction segment was disappointing as revenue declined 14% YoY to RMB83mn although mgmt. maintained construction business +30% YoY growth full-year target.
- **Free cash flow improved but it takes more time for operating leverage.** As Glodon continues to invest in new business (building decoration, 3D graphics platform etc.), operating leverage from increasing costing SaaS revenue contribution (65% of 1Q21 revenue vs. 54% in 1Q20) is not obvious. However, we are positive to see free cash flow improve significantly from a net outflow of RMB200mn in 1Q (similar level for the past 5 years) to only RMB20mn in 1Q21.
- **Maintain BUY.** We raised FY21-23E revenue by 2-4% but cut FY21/22E net profit by 5% to 16% to reflect 1) strong SaaS revenue growth (+36% CAGR in FY20-22E) and 2) higher opex for new business development. We maintain BUY with new target price of RMB91.36, based on unchanged 18x FY22E EV/sales.

Earnings Summary

(YE 31 Dec)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,541	4,005	4,977	5,695	6,403
YoY growth (%)	22%	13%	24%	14%	12%
Net profit (RMB mn)	235	330	546	815	986
EPS (RMB)	0.21	0.28	0.46	0.69	0.83
YoY growth (%)	-47%	34%	65%	49%	21%
Consensus EPS (RMB)	0.21	0.28	0.55	0.81	1.11
PE (x)	340.8	254.8	154.3	103.4	85.5
EV/sales	23.5	19.8	15.9	13.8	12.1
Dividend Yiled (%)	0.00	0.00	0.00	0.00	0.00
ROE (%)	7%	7%	8%	12%	13%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB91.36**
 (Previous TP **RMB89.19**)
 Up/Downside **+28.7%**
 Current Price **RMB70.99**

China Software and IT Services

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

Stock Data

Mkt Cap (RMB mn)	79,637
Avg 3 mths t/o (RMB mn)	571.89
52w High/Low (RMB)	92.50/ 47.06
Total Issued Shares (mn)	1,187

Source: Bloomberg

Shareholding Structure

Xi Zhizhong - Chairman	16.0%
Other co-founders	20.3%

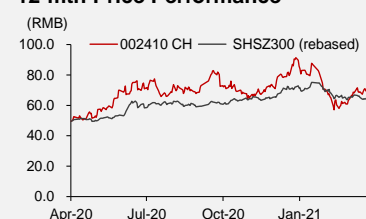
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	14.8%	10.1%
3-mth	-22.1%	-14.6%
6-mth	-3.5%	-11.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

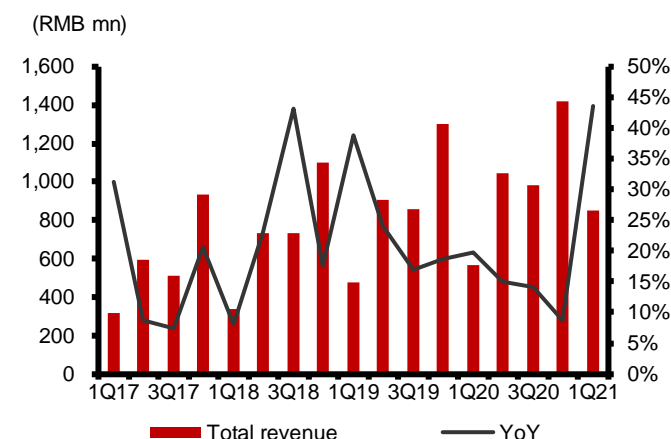
Auditor: BDO

Related Reports

"SaaS is good but operating leverage unclear yet" – 31 Mar 2021

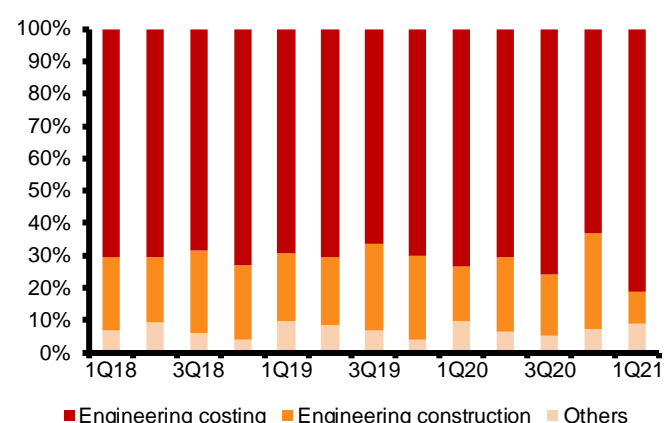
Focus Charts

Figure 1: Revenue and growth



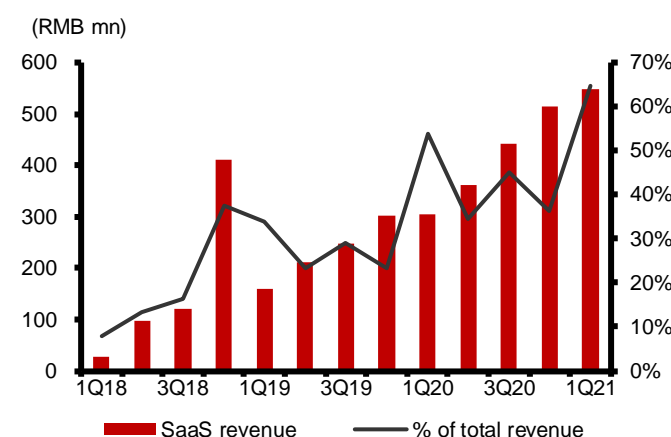
Source: Company data

Figure 2: Revenue breakdown



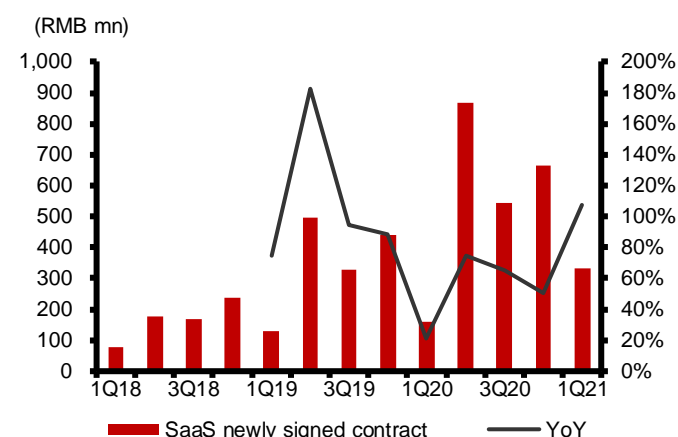
Source: Company data

Figure 3: SaaS revenue



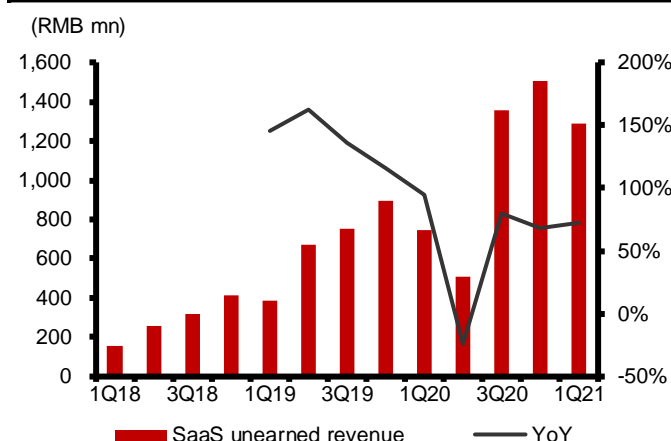
Source: Company data

Figure 4: SaaS newly signed contract



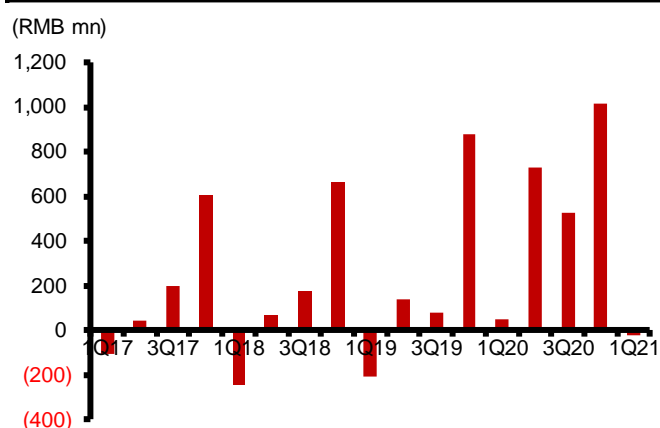
Source: Company data

Figure 5: SaaS unearned revenue



Source: Company data

Figure 6: Free cash flow



Source: Company data

FY1Q21 results review

- **Revenue** was at RMB849mn (+50% YoY, -40% QoQ), beat our estimate by 33% and consensus by 49%.
- **Gross profit** was at RMB764mn (+43% YoY, -37% QoQ), beat our estimate by 32% and consensus by 48%.
- **Gross margin** was at 90.0%, (-4.3 pct pts YoY, +4.4 pct pts QoQ), below our estimate by 0.5 pct pts and consensus by 1.1 pct pts.
- **Operating profit** was at RMB90mn (+10% YoY, +8% QoQ), below our estimate by 11%.
- **Operating margin** was at 10.6% (-3.9 pct pts YoY, +4.7 pct pts QoQ), below our estimate by 5.2 pct pts.
- **Net profit** was at RMB77mn (+45% YoY, -24% QoQ), below our estimate by 13% but beat consensus by 22%.

Figure 7: FY1Q21 results review

	Mar-20 1Q20	Dec-20 4Q20	Mar-21 1Q21			Mar-21 1Q21	versus	Mar-21 1Q21	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	566	1,417	849	50%	-40%	639	33%	569	49%
Gross profit	534	1,213	764	43%	-37%	578	32%	518	48%
Gross margin	94.3%	85.6%	90.0%	-4.3 pct pts	4.4 pct pts	90.5%	-0.5 pct pts	91.1%	-1.1 pct pts
Operating profit	82	84	90	10%	8%	101	-11%	n.a.	n.a.
Operating margin	14.5%	5.9%	10.6%	-3.9 pct pts	4.7 pct pts	15.9%	-5.2 pct pts	n.a.	n.a.
Net non-op	-11	23	7	163%	-70%	13	-47%	n.a.	n.a.
PBT	71	107	97	37%	-9%	115	-15%	88	10%
Net income	53	101	77	45%	-24%	88	-13%	63	22%
EPS RMB	0.05	0.08	0.06	38%	-24%	0.07	-13%	0.09	-26%

Source: Company data, CMBIS

FY1Q21 revenue breakdown

- **Engineering costing SaaS revenue** was at RMB549mn (+80% YoY, +7% QoQ).
SaaS revenue accounted for 65% of total FY1Q21 revenue.
- **Engineering costing non-SaaS revenue** was at RMB140mn (+26% YoY, -63% QoQ).
- **Newly signed SaaS contract** was at RMB330mn, (+108% YoY, -50% QoQ).
- **Unearned SaaS revenue** was at RMB1,288mn (+72% YoY, -14% QoQ).
- **Engineering construction revenue** was at RMB83mn (-14% YoY, -80% QoQ).

Figure 8: FY1Q21 revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
Revenue breakdown									
Engineering costing	327	641	570	914	416	736	743	896	689
...SaaS	160	211	248	302	305	361	441	515	549
...non-SaaS	167	430	322	612	111	375	302	381	140
Engineering construction	100	190	227	336	96	241	185	421	83
Others	46	77	60	53	54	66	51	100	77
Total	473	907	857	1,303	566	1,043	979	1,417	849
Revenue YoY									
Engineering costing	36%	25%	14%	14%	27%	15%	30%	-2%	66%
...SaaS	493%	115%	107%	-27%	91%	71%	78%	71%	80%
...non-SaaS	-21%	3%	-15%	57%	-34%	-13%	-6%	-38%	26%
Engineering construction	28%	28%	20%	33%	-4%	27%	-19%	25%	-14%
Others	100%	12%	37%	22%	18%	-14%	-15%	88%	42%
Total	39%	24%	17%	19%	20%	15%	14%	9%	50%
SaaS metrics									
Newly signed contract	131	498	329	442	159	869	543	663	330
YoY	75%	183%	95%	88%	21%	74%	65%	50%	108%
Unearned revenue	385	672	754	894	748	507	1,357	1,506	1,288
YoY	145%	163%	136%	116%	94%	-25%	80%	68%	72%

Source: Company data, CMBIS

Earnings revision

Figure 9: Earnings revision

RMBm	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	4,977	4,786	4%	5,695	5,536	3%	6,403	6,290	2%
Gross profit	4,398	4,217	4%	5,006	4,843	3%	5,589	5,483	2%
OP Profit	608	748	-19%	949	991	-4%	1,108	1,106	0%
PBT	665	802	-17%	1,023	1,055	-3%	1,199	1,182	1%
Net profit	546	653	-16%	815	855	-5%	986	966	2%
EPS	0.46	0.55	-16%	0.69	0.72	-5%	0.83	0.81	2%
Margins									
GM	88.4%	88.1%	27 bps	87.9%	87.5%	42 bps	87.3%	87.2%	13 bps
OPM	12.2%	15.6%	-341 bps	16.7%	17.9%	-123 bps	17.3%	17.6%	-27 bps
PBT margin	13.4%	16.8%	-340 bps	18.0%	19.1%	-108 bps	18.7%	18.8%	-6 bps
Net margin	11.0%	13.6%	-267 bps	14.3%	15.4%	-113 bps	15.4%	15.4%	4 bps

Source: Company data, CMBIS estimates

Figure 10: CMBI vs. consensus forecast

RMBm	2021			2022			2023		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	4,977	4,990	-0%	5,695	6,115	-7%	6,403	7,448	-14%
Gross profit	4,398	4,397	0%	5,006	5,354	-6%	5,589	6,471	-14%
OP Profit	608	788	-23%	949	1,114	-15%	1,108	1,502	-26%
PBT	665	777	-14%	1,023	1,125	-9%	1,199	1,539	-22%
Net profit	546	647	-16%	815	951	-14%	986	1,320	-25%
EPS	0.5	0.6	-16%	0.7	0.8	-15%	0.8	1.1	-26%
Margins									
GM	88.4%	88.1%	27 bps	87.9%	87.6%	35 bps	87.3%	86.9%	41 bps
OPM	12.2%	15.8%	-358 bps	16.7%	18.2%	-155 bps	17.3%	20.2%	-285 bps
PBT margin	13.4%	15.6%	-222 bps	18.0%	18.4%	-43 bps	18.7%	20.7%	-194 bps
Net margin	11.0%	13.0%	-200 bps	14.3%	15.5%	-123 bps	15.4%	17.7%	-232 bps

Source: Company data, CMBIS estimates

Operating model

Figure 11: Operating model

RMB mn	2019	2020	2021E	2022E	2023E
Revenues	3,541	4,005	4,977	5,695	6,403
Cost of sales	-371	-454	-578	-689	-813
Gross Profit	3,170	3,550	4,398	5,006	5,589
<i>Gross margin</i>	<i>89.5%</i>	<i>88.7%</i>	<i>88.4%</i>	<i>87.9%</i>	<i>87.3%</i>
 R&D	 -969	 -1,083	 -1,329	 -1,455	 -1,589
SG&A	-1,922	-2,135	-2,515	-2,663	-2,959
Operating Income	338	408	608	949	1,108
<i>Operating margin</i>	<i>9.5%</i>	<i>10.2%</i>	<i>12.2%</i>	<i>16.7%</i>	<i>17.3%</i>
 Interest Expense	 -41	 17	 72	 80	 92
Non-operating income/ (expense)	-14	-15	-15	-6	-2
Profit Before Income Taxes	284	410	665	1,023	1,199
Income Tax Expense	-29	-29	-64	-99	-98
Net profit (loss)	235	330	546	815	986
<i>Net margin</i>	<i>6.6%</i>	<i>8.3%</i>	<i>11.0%</i>	<i>14.3%</i>	<i>15.4%</i>
 EPS (RMB)	 0.21	 0.28	 0.46	 0.69	 0.83
DPS (RMB)	0.10	0.25	0.20	0.20	0.20
 Revenue breakdown					
Engineering costing	2,452	2,791	3,492	3,949	4,291
...recurring revenue	921	1,622	2,440	3,003	3,439
...non-recurring revenue	1,531	1,169	1,052	947	852
Engineering construction	853	943	1,179	1,415	1,740
Others	236	271	306	331	372
 Gross margin breakdown					
Engineering costing	94%	94%	95%	96%	95%
Engineering construction	76%	72%	69%	69%	69%
 Growth (YoY)					
Revenues	22%	13%	24%	14%	12%
Gross Profit	17%	12%	24%	14%	12%
Operating Income	-39%	21%	49%	56%	17%
EPS	-47%	34%	65%	49%	21%

Source: Company data, CMBIS estimates

Figure 12: Quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E
Revenues	473	907	857	1,304	566	1,043	979	1,417
Gross Profit	446	852	747	1,125	534	924	879	1,213
Operating income	75	57	95	111	82	121	121	84
Net profit	55	34	69	76	53	77	100	101
EPS (RMB)	0.05	0.03	0.06	0.07	0.05	0.07	0.08	0.08
Margins								
Gross margin	94%	94%	87%	86%	94%	89%	90%	86%
Operating margin	16%	6%	11%	9%	15%	12%	12%	6%
Net margin	12%	4%	8%	6%	9%	7%	10%	7%
Growth (QoQ)								
Revenues	-57%	92%	-5%	52%	-57%	84%	-6%	45%
Gross Profit	-56%	91%	-12%	51%	-53%	73%	-5%	38%
Operating income	-56%	-25%	67%	17%	-26%	47%	1%	-31%
EPS	-62%	-38%	102%	10%	-31%	42%	26%	1%
Growth (YoY)								
Revenues	39%	24%	17%	19%	20%	15%	14%	9%
Gross Profit	37%	21%	10%	12%	20%	8%	18%	8%
Operating income	-1%	-42%	-54%	-35%	9%	113%	28%	-25%
EPS	-3%	-62%	-53%	-48%	-5%	119%	37%	26%

Source: Company data, CMBIS estimates

Figure 13: Quarterly revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
Revenue breakdown									
Engineering costing	327	641	570	914	416	736	743	896	689
...SaaS	160	211	248	302	305	361	441	515	549
...non-SaaS	167	430	322	612	111	375	302	381	140
Engineering construction	100	190	227	336	96	241	185	421	83
Others	46	77	60	53	54	66	51	100	77
Total	473	907	857	1,303	566	1,043	979	1,417	849
Revenue YoY									
Engineering costing	36%	25%	14%	14%	27%	15%	30%	-2%	66%
...SaaS	493%	115%	107%	-27%	91%	71%	78%	71%	80%
...non-SaaS	-21%	3%	-15%	57%	-34%	-13%	-6%	-38%	26%
Engineering construction	28%	28%	20%	33%	-4%	27%	-19%	25%	-14%
Others	100%	12%	37%	22%	18%	-14%	-15%	88%	42%
Total	39%	24%	17%	19%	20%	15%	14%	9%	50%
SaaS metrics									
Newly signed contract	131	498	329	442	159	869	543	663	330
YoY	75%	183%	95%	88%	21%	74%	65%	50%	108%
Unearned revenue	385	672	754	894	748	507	1,357	1,506	1,288
YoY	145%	163%	136%	116%	94%	-25%	80%	68%	72%

Source: Company data, CMBIS estimates

Valuation

Glodon (002410 CH, BUY, TP RMB91.35)

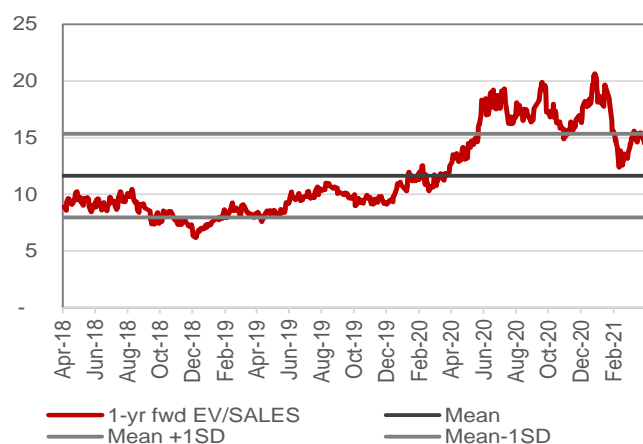
We maintain BUY with new target price of RMB91.35, based on unchanged 18x FY22E EV/Sales (50% above its 3-year average). We believe Glodon deserves re-rating as free cash flow continues to expand with increasing SaaS revenue contribution.

Figure 14: Peers' valuation

			Mkt Cap	Price	TP	EV/sales (x)		FCF margin (%)		Sales CAGR	EPS CAGR
Company	Ticker	Rating	(US\$ mn)	(LC)	(LC)	FY21E	FY22E	FY21E	FY22E	FY20-23	FY20-23
Glodon	002410 CH	BUY	12,990	70.99	89.19	15.9	13.8	26%	34%	19%	57%
MYC	909 HK	BUY	9,286	37.40	44.75	23.1	16.8	18%	13%	37%	42%
Yonyou	600588 CH	NR	17,576	34.86	N/A	11.1	8.6	19%	9%	24%	33%
Kingsoft Office	688111 CH	NR	22,800	320.82	N/A	41.2	29.7	48%	46%	41%	38%
Kingdee	268 HK	NR	11,844	26.50	N/A	17.3	13.7	7%	9%	25%	n.a.
Adobe	ADBE US	NR	246,505	515.70	N/A	15.9	13.9	42%	35%	17%	17%
Autodesk	ADSK US	NR	65,733	299.34	N/A	17.5	15.3	36%	32%	16%	36%
Salesforce	CRM US	NR	216,859	235.46	N/A	10.0	8.2	20%	15%	22%	13%
Veeva System	VEEV US	NR	43,157	283.51	N/A	28.7	23.6	36%	31%	24%	20%
CoStar	CSGP US	NR	36,813	933.28	N/A	17.6	15.2	23%	23%	18%	28%
Mean						19.8	15.8	27%	24%	25%	31%
Median						17.4	14.5	24%	23%	23%	31%

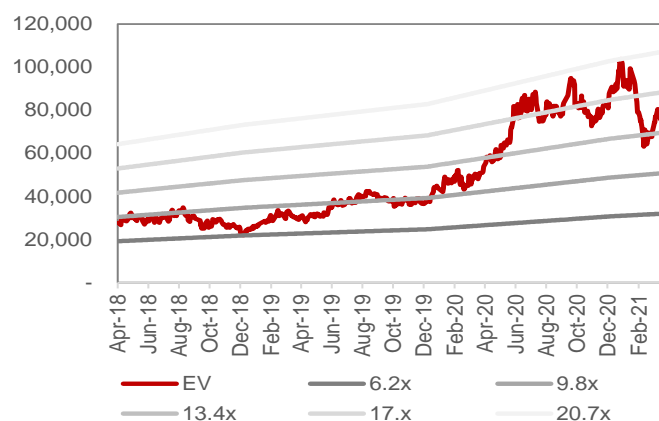
Source: Bloomberg, CMBIS

Figure 15: 12M forward EV/sales chart



Source: Bloomberg, CMBIS

Figure 16: 12M forward EV/sales band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,541	4,005	4,977	5,695	6,403
Cost of sales	(371)	(454)	(578)	(689)	(813)
Gross profit	3,170	3,550	4,398	5,006	5,589
Selling exp	(1,102)	(1,256)	(1,491)	(1,568)	(1,749)
Admin exp	(820)	(879)	(1,023)	(1,095)	(1,210)
R&D exp	(969)	(1,083)	(1,329)	(1,455)	(1,589)
Other operating exp.	59	75	53	61	67
Operating profit	338	408	608	949	1,108
Finance income/ (costs)	(41)	17	72	80	92
Other non-oper exp.	(14)	(15)	(15)	(6)	(2)
Pre-tax profit	284	410	665	1,023	1,199
Income tax expense	(29)	(29)	(64)	(99)	(98)
Minority interests	(20)	(51)	(55)	(109)	(115)
Net profit to shareholders	235	330	546	815	986
	3,541	4,005	4,977	5,695	6,403

Cash flow summary

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Net profit	235	330	546	815	986
Depreciation/amortization	187	134	233	257	282
Change in working capital	312	784	175	336	336
Others	(93)	628	(40)	109	115
Net cash from operating	641	1,876	915	1,517	1,718
Capex	(243)	(439)	(397)	(431)	(418)
Other	16	(257)	(18)	0	0
Net cash from investing	(227)	(697)	(415)	(431)	(418)
Net borrowings	(112)	(1,088)	(3)	(0)	(0)
Dividend paid	(301)	(157)	(297)	(237)	(237)
Other	23	2,645	92	(109)	(115)
Net cash from financing	(389)	1,400	(208)	(347)	(353)
Net change in cash	24	2,580	292	739	947
Cash at beginning of the year	2,212	2,231	4,797	5,089	5,828
Exchange difference	(5)	(14)	0	0	0
Cash at the end of the year	2,231	4,797	5,089	5,828	6,775

Balance sheet

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Current assets	2,950	5,420	5,789	6,485	7,385
Cash & equivalents	2,231	4,797	5,089	5,828	6,775
Account receivables	591	475	574	526	473
Inventory	21	26	36	41	46
Other current assets	106	121	90	90	90
Non-current assets	3,217	4,127	4,440	4,614	4,751
PPE	860	994	1,223	1,547	1,833
Intangible assets	1,148	1,664	1,598	1,449	1,300
Other non-current assets	1,209	1,470	1,618	1,618	1,618
Total assets	6,167	9,547	10,229	11,099	12,135
Current liabilities	2,809	2,858	2,965	3,257	3,545
ST borrowings	1,089	3	3	3	2
Account payables	1,068	1,740	2,024	2,317	2,605
Accrued expense	0	0	0	0	0
Unearned revenue	653	1,115	938	938	938
Non-current liabilities	9	131	252	252	252
LT borrowings	0	0	0	0	0
Other non-current liabilities	9	131	251	251	251
Total liabilities	2,818	2,989	3,217	3,509	3,796
Share capital	1,129	1,186	1,187	1,187	1,187
Capital surplus	509	3,135	3,227	3,227	3,227
Retained earnings	1,709	1,957	2,207	2,784	3,533
Other reserves	(78)	125	154	154	154
Minority interest	80	156	238	238	238
Total equity	3,349	6,558	7,013	7,590	8,339
Total liabilities and equity	6,167	9,547	10,229	11,099	12,135

Key ratios

YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
Revenue mix					
Engineering costing	69%	70%	70%	69%	67%
- SaaS	26%	41%	49%	53%	54%
Engineering construction	24%	24%	24%	25%	27%
Overseas	4%	4%	3%	3%	3%
Others	1%	2%	2%	2%	2%
Finance income	2%	1%	1%	1%	1%
Growth (%)					
Revenue	22%	13%	24%	14%	12%
Operating profit	-39%	21%	49%	56%	17%
EPS	-47%	34%	65%	49%	21%
Profit & loss ratio (%)					
Gross margin	89.5%	88.7%	88.4%	87.9%	87.3%
Operating margin	9.5%	10.2%	12.2%	16.7%	17.3%
Net profit margin	6.6%	8.3%	11.0%	14.3%	15.4%
Balance sheet ratio					
Receivable turnover days	47	49	38	35	28
Unearned revenue days	67	81	75	60	53
Payable turnover days	110	159	148	148	148
Current ratio (x)	1.05	1.90	1.95	1.99	2.08
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
ROE	7%	7%	8%	12%	13%
ROIC	14%	18%	27%	41%	53%
Per share data (RMB)					
EPS (RMB)	0.21	0.28	0.46	0.69	0.83
DPS (RMB)	0.10	0.25	0.20	0.20	0.20
BVPS (RMB)	2.90	5.40	5.71	6.19	6.82

Source: Company data, CMBIS 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.

CMBIS 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 CMBIS

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 Securities Limited

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

CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS 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.