

Microsoft (MSFT US)

Cloud revenue growth and AI related monetization remain keys to watch

Microsoft reported (30 Jan HKT) 2QFY25 (June year-end) results: revenue was US\$69.6bn, up 12% YoY (1QFY25: +16% YoY), 1% better than consensus, driven by a 3/2% beat in productivity and business process (PBP) / more personal computing (MPC) segment, while partly offset by a 1% short in Intelligent Cloud (IC) segment. Net profit was up 10% YoY to US\$24.1bn, 3% better than consensus, driven by better-than-expected operating efficiency gains. Management noted that Azure AI services revenue generation was ahead of expectations, while non-AI cloud services was slightly lower than expectation due to go to market execution challenges, and the trend is likely to sustain in 2HFY25. We maintain our view that AI related monetization, including pace of increase of copilot services revenue contribution, and the reacceleration in Azure's revenue growth, remain key stock price drivers for Microsoft in a 6-12-month horizon. Our FY24-27E revenue/NP forecasts were trimmed by 1-2%/0-2% due to the revision in cloud revenue growth forecast, while our DCF-based TP was largely unchanged at US\$503.1 (was US\$501.9) due to the roll forward of valuation window, translating into 32x FY26E PE. We remain positive that Microsoft is one of the key beneficiaries in the Gen-AI era. Maintain BUY.

■ **Robust revenue growth in AI cloud persists, while non-AI part showed short-term disturbance.** IC segment recorded quarterly revenue growth of 19% YoY to US\$25.5bn (37% of total revenue), and Azure and other cloud services within the segment saw revenue growth of 31% YoY (1QFY25: 33%), both at the low-end of previous guidance. Although ramp-up in AI services revenue generation remained strong and contributed to 13ppts of the growth of Azure (2QFY24: 9ppts; 1QFY25: 12ppts), management noted some short-term disturbance for non-AI services, as it is balancing driving near-term non-AI consumption with AI growth. Due to the disturbance, management guided for 19-20%/31-32% YoY revenue growth for IC/Azure in 3QFY25 in terms of constant currency, which was largely flat QoQ in terms of YoY growth trend and slightly fell short of our previous expectation of a reaccelerated trend in 2HFY25. However, management remains confident on the AI side, cited 67% YoY growth in commercial bookings for 2QFY25 as one of the evidences, and noted supply constraints still persist. Capex (incl. finance leases) came in at US\$22.6bn for 2QFY25 (1QFY25: US\$20.0bn; 2QFY24: US\$11.5bn), up 97% YoY, to fulfil the unmet demand, and management guided for a similar level of capex for 3Q-4QFY25 as compared to that in 2Q.

■ **PBP delivered another quarter of OPM expansion driven by operating efficiency gains.** PBP revenue was US\$29.4bn in 2QFY25, up 14% YoY (2QFY24:14%), and accounted for 42% of total revenue. Within the segment, M365 commercial cloud revenue increased by 16% YoY, aided by 7% YoY growth in paid M365 commercial seats, and by ARPU expansion. PBP segment's operating profit came in at US\$16.9bn in 2QFY25, up 16% YoY, and its OPM expanded to 57.4%, up 1.3ppts YoY. MPC segment recorded quarterly revenue of US\$14.7bn (21% of total revenue), flat YoY, 3ppts ahead of the high-end of previous guidance, mainly driven by Windows OEM pre-built. Search & news ads remained a bright spot within the segment, with revenue up by 21% YoY in 2QFY25 (1QFY25: 18%) driven by rate expansion and healthy volume growth in both Edge and Bing.

■ **AI related investments weighed on cloud margin but overall OPM expanded.** Although the scaling investment in AI related infrastructure has weighed on OPM of IC business segment, which saw a YoY decline of

BUY (Maintain)
Target Price US\$503.10

(Previous TP US\$501.90)

Up/Downside 21.2%

Current Price US\$415.06

China Internet
Saiyi HE, CFA

(852) 3916 1739

hesaiyi@cmbi.com.hk

Ye TAO, CFA

franktao@cmbi.com.hk

Wentao LU, CFA

luwentao@cmbi.com.hk

Joanna Ma

(852) 3761 8838

joannama@cmbi.com.hk

Stock Data

| | |
|--------------------------|---------------|
| Mkt Cap (US\$ mn) | 3,100,083.1 |
| Avg 3 mths t/o (US\$ mn) | 9,450.2 |
| 52w High/Low (US\$) | 467.56/389.33 |
| Total Issued Shares (mn) | 7469.0 |

Source: FactSet

Shareholding Structure

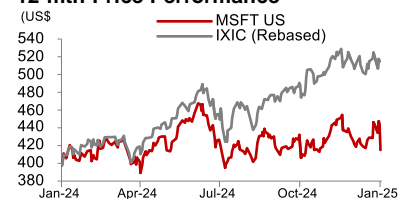
| | |
|----------------|------|
| Vanguard Group | 8.7% |
| Blackrock | 7.2% |

Source: Bloomberg

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -1.5% | -3.1% |
| 3-mth | 2.1% | -5.8% |
| 6-mth | -0.8% | -11.0% |

Source: FactSet

12-mth Price Performance


Source: FactSet

1.9ppts to 42.5% in 2QFY25, overall OPM expanded by 1.9ppts to 45.5% (consensus forecast: 43.9%), driven by strong operating profit growth of PBP and MPC segments.

Earnings Summary

| (YE 30 Jun) | FY23A | FY24A | FY25E | FY26E | FY27E |
|-----------------------|----------|----------|-----------|-----------|-----------|
| Revenue (US\$ mn) | 211,915 | 245,122 | 283,148 | 321,179 | 360,856 |
| YoY growth (%) | 6.9 | 15.7 | 15.5 | 13.4 | 12.4 |
| Net profit (US\$ mn) | 72,361.0 | 88,136.0 | 101,947.2 | 118,470.1 | 135,248.1 |
| YoY growth (%) | (0.5) | 21.8 | 15.7 | 16.2 | 14.2 |
| EPS (Reported) (US\$) | 9.72 | 11.86 | 13.75 | 16.01 | 18.31 |
| Consensus EPS (US\$) | na | na | 13.06 | 15.11 | 17.67 |
| P/E (x) | 42.7 | 35.0 | 30.2 | 25.9 | 22.7 |

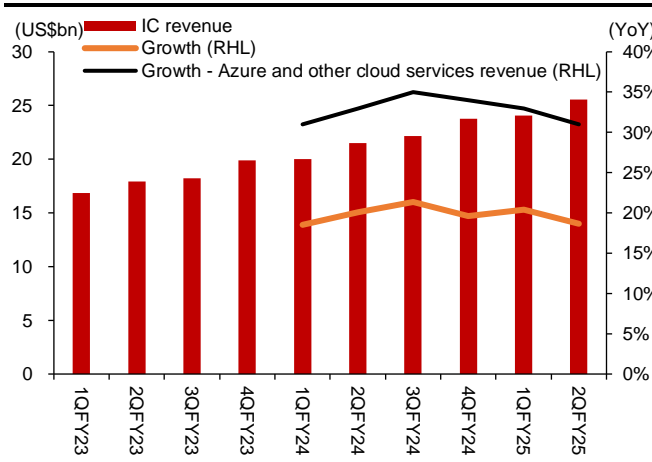
Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Microsoft: quarterly financial results

| (USDbn) | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | Consensus | Diff (%) |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| 1. Productivity and Business Processes revenue | 25.2 | 25.9 | 27.1 | 28.6 | 28.3 | 29.4 | 28.6 | 2.9% |
| Growth (yoy%) | 14.3% | 14.4% | 13.3% | 12.0% | 12.3% | 13.9% | | |
| As % of total revenue (%) | 44.6% | 41.7% | 43.8% | 44.2% | 43.2% | 42.3% | | |
| 2. Intelligent Cloud revenue | 20.0 | 21.5 | 22.1 | 23.8 | 24.1 | 25.5 | 25.9 | 1.4% |
| Growth (yoy%) | 18.5% | 20.1% | 21.4% | 19.6% | 20.4% | 18.7% | | |
| As % of total revenue (%) | 35.4% | 34.7% | 35.8% | 36.7% | 36.7% | 36.7% | | |
| 3. More Personal Computing revenue | 11.3 | 14.6 | 12.6 | 12.3 | 13.2 | 14.7 | 14.4 | 1.6% |
| Growth (yoy%) | 1.0% | 19.8% | 17.9% | 14.5% | 16.8% | 0.1% | | |
| As % of total revenue (%) | 20.0% | 23.6% | 20.4% | 19.0% | 20.1% | 21.0% | | |
| Total revenue | 56.5 | 62.0 | 61.9 | 64.7 | 65.6 | 69.6 | 68.9 | 1.0% |
| Growth (yoy%) | 12.8% | 17.6% | 17.0% | 15.2% | 16.0% | 12.3% | | |
| Gross profit | 40.2 | 42.4 | 43.4 | 45.0 | 45.5 | 47.8 | 46.9 | 2.1% |
| Growth (yoy%) | 16.0% | 20.2% | 18.0% | 14.3% | 13.1% | 12.8% | | |
| Operating income | 26.9 | 27.0 | 27.6 | 27.9 | 30.6 | 31.7 | 30.3 | 4.6% |
| Growth (yoy%) | 23.6% | 15.0% | 15.2% | 14.2% | 13.6% | 17.1% | | |
| - PBP | 14.3 | 14.5 | 15.1 | 15.7 | 16.5 | 16.9 | | |
| - IC | 8.9 | 9.6 | 9.5 | 9.8 | 10.5 | 10.9 | | |
| - MPC | 3.7 | 3.0 | 2.9 | 2.4 | 3.5 | 3.9 | | |
| Net income | 22.3 | 21.9 | 21.9 | 22.0 | 24.7 | 24.1 | 23.5 | 2.5% |
| Growth (yoy%) | 27.0% | 33.2% | 19.9% | 9.7% | 10.7% | 10.2% | | |
| GPM | 71.2% | 68.4% | 70.1% | 69.6% | 69.4% | 68.7% | 68.0% | 0.7 ppt |
| OPM | 47.6% | 43.6% | 44.6% | 43.1% | 46.6% | 45.5% | 43.9% | 1.6 ppt |
| - PBP | 56.7% | 56.1% | 55.9% | 54.9% | 58.3% | 57.4% | | |
| - IC | 44.5% | 44.4% | 43.0% | 41.3% | 43.6% | 42.5% | | |
| - MPC | 32.7% | 20.2% | 23.2% | 19.4% | 26.8% | 26.7% | | |
| NPM | 39.4% | 35.3% | 35.5% | 34.0% | 37.6% | 34.6% | 34.1% | 0.5 ppt |

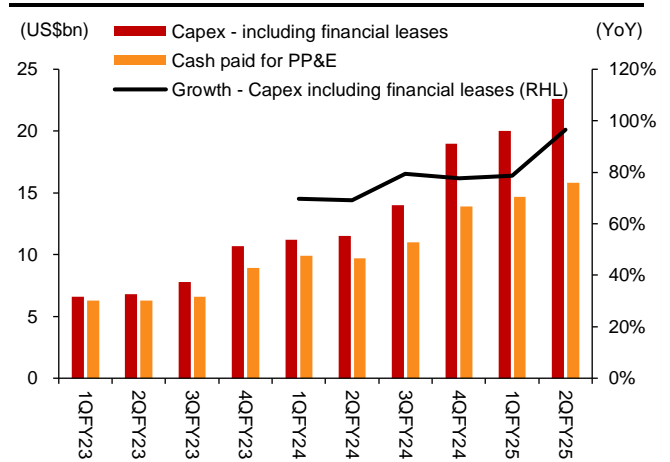
Source: Company data, Bloomberg, CMBIGM

Figure 2: Microsoft: IC revenue and growth



Source: Company data, CMBIGM

Figure 3: Microsoft: quarterly capex trend



Source: Company data, CMBIGM

Changes in forecast and valuation

Figure 4: Microsoft forecast revision

| USD bn | Current | | | Previous | | | Change (%) | | |
|------------------|---------|-------|-------|----------|-------|-------|------------|---------|---------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Revenue | 277.0 | 317.1 | 362.5 | 281.9 | 320.1 | 363.4 | -1.7% | -0.9% | -0.3% |
| Gross profit | 189.5 | 216.0 | 247.2 | 191.7 | 218.0 | 247.8 | -1.2% | -0.9% | -0.3% |
| Operating profit | 124.3 | 142.7 | 164.5 | 125.4 | 143.5 | 164.3 | -0.9% | -0.6% | 0.1% |
| Net profit | 97.6 | 116.3 | 135.5 | 100.0 | 116.2 | 134.5 | -2.4% | 0.0% | 0.7% |
| GPM | 68.4% | 68.1% | 68.2% | 68.0% | 68.1% | 68.2% | 0.4 ppt | 0.0 ppt | 0.0 ppt |
| OPM | 44.9% | 45.0% | 45.4% | 44.5% | 44.8% | 45.2% | 0.4 ppt | 0.2 ppt | 0.2 ppt |
| NPM | 35.2% | 36.7% | 37.4% | 35.5% | 36.3% | 37.0% | -0.2 ppt | 0.4 ppt | 0.4 ppt |

Source: CMBIGM estimates

Figure 5: Microsoft: CMBI forecast vs consensus

| USD bn | Current | | | Consensus | | | Difference (%) | | |
|------------------|---------|-------|-------|-----------|-------|-------|----------------|----------|----------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Revenue | 277.0 | 317.1 | 362.5 | 278.5 | 318.2 | 365.6 | -0.5% | -0.3% | -0.8% |
| Gross profit | 189.5 | 216.0 | 247.2 | 191.0 | 217.1 | 247.9 | -0.8% | -0.5% | -0.3% |
| Operating profit | 124.3 | 142.7 | 164.5 | 123.4 | 141.5 | 163.5 | 0.8% | 0.9% | 0.6% |
| Net profit | 97.6 | 116.3 | 135.5 | 99.8 | 116.7 | 137.0 | -2.2% | -0.4% | -1.1% |
| GPM | 68.4% | 68.1% | 68.2% | 68.6% | 68.2% | 67.8% | -0.2 ppt | -0.1 ppt | 0.4 ppt |
| OPM | 44.9% | 45.0% | 45.4% | 44.3% | 44.5% | 44.7% | 0.6 ppt | 0.5 ppt | 0.7 ppt |
| NPM | 35.2% | 36.7% | 37.4% | 35.8% | 36.7% | 37.5% | -0.6 ppt | 0.0 ppt | -0.1 ppt |

Source: CMBIGM estimates

Figure 6: Microsoft: DCF valuation (WACC of 7.9%; terminal growth of 3%; both unchanged)

| (USDbn) | FY25E | FY26E | FY27E | FY28E | FY29E | FY30E | FY31E | FY32E | FY33E | FY34E | FY35E | FY36E |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total revenue | 283 | 321 | 361 | 400 | 438 | 474 | 509 | 545 | 581 | 617 | 653 | 687 |
| NPV of FCF | 1,155 | 1,185 | | | | | | | | | | |
| Discounted terminal value | 2,428 | 2,620 | | | | | | | | | | |
| Total equity valuation | 3,620 | 3,863 | | | | | | | | | | |
| No. of shares (diluted, mn) | 7,476 | 7,454 | | | | | | | | | | |
| Valuation per share (USD) | 484.2 | 518.2 | | | | | | | | | | |
| TP per share (USD) | 503.1 | | | | | | | | | | | |

Source: CMBIGM estimates

Note: our target price is based on weighted average of 5-month TP in FY25E and 7-month TP in FY26E (was 8-month TP in FY25E and 4-month TP in FY26E)

Risks

1. Slower-than-expected margin expansion;
2. Slower-than-expected ramp-up in revenue contribution from AI related services.

Financial Summary

| INCOME STATEMENT | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| YE 30 Jun (US\$ mn) | | | | | | |
| Revenue | 198,270 | 211,915 | 245,122 | 283,148 | 321,179 | 360,856 |
| Cost of goods sold | (62,650) | (65,863) | (74,114) | (90,607) | (102,135) | (114,752) |
| Gross profit | 135,620 | 146,052 | 171,008 | 192,541 | 219,044 | 246,104 |
| Operating expenses | (52,237) | (57,529) | (61,575) | (66,680) | (74,070) | (80,574) |
| Selling expense | (21,825) | (22,759) | (24,456) | (26,616) | (29,285) | (31,916) |
| SG&A expense | (5,900) | (7,575) | (7,609) | (7,785) | (9,268) | (9,952) |
| R&D expense | (24,512) | (27,195) | (29,510) | (32,279) | (35,516) | (38,706) |
| Others | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating profit | 83,383 | 88,523 | 109,433 | 125,861 | 144,975 | 165,530 |
| Interest income | 333 | 788 | (1,646) | 0 | 1,285 | 1,443 |
| Others | (1) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 83,715 | 89,311 | 107,787 | 125,861 | 146,259 | 166,973 |
| Income tax | (10,978) | (16,950) | (19,651) | (23,914) | (27,789) | (31,725) |
| Others | 0 | 0 | 0 | 0 | 0 | 0 |
| After tax profit | 72,737 | 72,361 | 88,136 | 101,947 | 118,470 | 135,248 |
| Net profit | 72,737 | 72,361 | 88,136 | 101,947 | 118,470 | 135,248 |
| Adjusted net profit | 72,737 | 72,361 | 88,136 | 101,947 | 118,470 | 135,248 |
| BALANCE SHEET | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 30 Jun (US\$ mn) | | | | | | |
| Current assets | 169,684 | 184,257 | 159,734 | 191,825 | 236,470 | 301,950 |
| Cash & equivalents | 13,931 | 34,704 | 18,315 | 43,631 | 76,081 | 134,316 |
| Account receivables | 44,261 | 48,688 | 56,924 | 58,972 | 65,918 | 67,384 |
| Inventories | 3,742 | 2,500 | 1,246 | 1,246 | 1,246 | 1,246 |
| Other current assets | 107,750 | 98,365 | 83,249 | 87,976 | 93,226 | 99,003 |
| Non-current assets | 195,156 | 227,719 | 352,429 | 393,884 | 434,654 | 472,480 |
| PP&E | 74,398 | 95,641 | 135,591 | 177,046 | 217,816 | 255,642 |
| Right-of-use assets | 13,148 | 14,346 | 18,961 | 18,961 | 18,961 | 18,961 |
| Investment in JVs & assos | 6,891 | 9,879 | 14,600 | 14,600 | 14,600 | 14,600 |
| Intangibles | 11,298 | 9,366 | 27,597 | 27,597 | 27,597 | 27,597 |
| Goodwill | 67,524 | 67,886 | 119,220 | 119,220 | 119,220 | 119,220 |
| Other non-current assets | 21,897 | 30,601 | 36,460 | 36,460 | 36,460 | 36,460 |
| Total assets | 364,840 | 411,976 | 512,163 | 585,709 | 671,124 | 774,430 |
| Current liabilities | 95,082 | 104,149 | 125,286 | 137,909 | 147,879 | 160,962 |
| Short-term borrowings | 2,749 | 5,247 | 2,249 | 2,249 | 2,249 | 2,249 |
| Account payables | 19,000 | 18,095 | 21,996 | 27,017 | 28,232 | 33,842 |
| Other current liabilities | 73,333 | 80,807 | 101,041 | 108,643 | 117,399 | 124,871 |
| Non-current liabilities | 103,216 | 101,604 | 118,400 | 118,400 | 118,400 | 118,400 |
| Long-term borrowings | 47,032 | 41,990 | 42,688 | 42,688 | 42,688 | 42,688 |
| Obligations under finance leases | 11,489 | 12,728 | 15,497 | 15,497 | 15,497 | 15,497 |
| Other non-current liabilities | 44,695 | 46,886 | 60,215 | 60,215 | 60,215 | 60,215 |
| Total liabilities | 198,298 | 205,753 | 243,686 | 256,309 | 266,279 | 279,362 |
| Share capital | 86,939 | 93,718 | 100,923 | 100,923 | 100,923 | 100,923 |
| Retained earnings | 84,281 | 118,848 | 173,144 | 234,066 | 309,511 | 399,734 |
| Other reserves | (4,678) | (6,343) | (5,590) | (5,590) | (5,590) | (5,590) |
| Total shareholders equity | 166,542 | 206,223 | 268,477 | 329,399 | 404,844 | 495,067 |
| Total equity and liabilities | 364,840 | 411,976 | 512,163 | 585,709 | 671,124 | 774,430 |

| CASH FLOW | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| YE 30 Jun (US\$ mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 83,715 | 89,311 | 107,787 | 125,861 | 146,259 | 166,973 |
| Tax paid | (10,978) | (16,950) | (19,651) | (23,914) | (27,789) | (31,725) |
| Change in working capital | 446 | (2,388) | 1,824 | 5,849 | (2,226) | 5,838 |
| Others | 15,852 | 17,609 | 28,588 | 9,512 | 10,619 | 12,694 |
| Net cash from operations | 89,035 | 87,582 | 118,548 | 117,308 | 126,863 | 153,780 |
| Investing | | | | | | |
| Capital expenditure | (23,886) | (28,107) | (44,477) | (50,967) | (51,389) | (50,520) |
| Net proceeds from disposal of short-term investments | 18,438 | 10,213 | 17,937 | 0 | 0 | 0 |
| Others | (24,863) | (4,786) | (70,430) | 0 | 0 | 0 |
| Net cash from investing | (30,311) | (22,680) | (96,970) | (50,967) | (51,389) | (50,520) |
| Financing | | | | | | |
| Dividend paid | (18,135) | (19,800) | (21,771) | (23,771) | (25,771) | (27,771) |
| Net borrowings | 0 | 0 | 29,645 | 0 | 0 | 0 |
| Share repurchases | (32,696) | (22,245) | (17,254) | (17,254) | (17,254) | (17,254) |
| Others | (8,045) | (1,890) | (28,377) | 0 | 0 | 0 |
| Net cash from financing | (58,876) | (43,935) | (37,757) | (41,025) | (43,025) | (45,025) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 14,224 | 13,931 | 34,704 | 18,315 | 43,631 | 76,081 |
| Exchange difference | (141) | (194) | (210) | 0 | 0 | 0 |
| Cash at the end of the year | 13,931 | 34,704 | 18,315 | 43,631 | 76,081 | 134,316 |
| GROWTH | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 30 Jun | | | | | | |
| Revenue | 18.0% | 6.9% | 15.7% | 15.5% | 13.4% | 12.4% |
| Gross profit | 17.1% | 7.7% | 17.1% | 12.6% | 13.8% | 12.4% |
| Operating profit | 19.3% | 6.2% | 23.6% | 15.0% | 15.2% | 14.2% |
| Net profit | 18.7% | (0.5%) | 21.8% | 15.7% | 16.2% | 14.2% |
| Adj. net profit | 18.7% | (0.5%) | 21.8% | 15.7% | 16.2% | 14.2% |
| PROFITABILITY | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 30 Jun | | | | | | |
| Gross profit margin | 68.4% | 68.9% | 69.8% | 68.0% | 68.2% | 68.2% |
| Operating margin | 42.1% | 41.8% | 44.6% | 44.5% | 45.1% | 45.9% |
| Adj. net profit margin | 36.7% | 34.1% | 36.0% | 36.0% | 36.9% | 37.5% |
| Return on equity (ROE) | 47.2% | 38.8% | 37.1% | 34.1% | 32.3% | 30.1% |
| GEARING/LIQUIDITY/ACTIVITIES | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 30 Jun | | | | | | |
| Current ratio (x) | 1.8 | 1.8 | 1.3 | 1.4 | 1.6 | 1.9 |
| VALUATION | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 30 Jun | | | | | | |
| P/E | 42.6 | 42.7 | 35.0 | 30.2 | 25.9 | 22.7 |
| P/E (diluted) | 42.8 | 42.9 | 35.2 | 30.3 | 26.0 | 22.7 |
| P/B | 18.7 | 15.0 | 11.5 | 9.4 | 7.6 | 6.2 |
| P/CFPS | 47.8 | 52.1 | 41.9 | 46.6 | 40.8 | 29.8 |

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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.