

Xtep (1368 HK)

Better retail trend drags by lower margins

Despite better retail sales trend and discounts environment in 2H20E onwards, the act to raise wholesale discount is a drag on margins. Providing limited near-term catalysts, we maintain HOLD and adjusted TP to HK\$2.73, based on a 10x FY21E P/E (up from 5 years avg. of 9x because of general industry re-rating).

- 1H20E results roughly inline.** The Group's net profit fell by 46% to RMB 248mn in 1H20, 2% above CMBI est. and slightly better than the "45% to 55% drop" in its pre-announced profit warning. However, the results quality, in our view, is dampened by: 1) higher other income, 2) higher opex, 3) higher finance costs as well as 4) need of receivable provisions.
- Retail sales growth in Jul-Aug resumed to +ve MSD and expect faster online growth and better retail discounts in 2H20E.** Management cited retail sales growth in Jul-Aug 2020 had improved to ~+ve MSD (vs -ve LSD in 2Q20). They also expect online to speed up in 2H20E (vs flattish in 1H20) and retail discounts to be 25-30% off in 2H20E (vs 30-35% in 1H20).
- We are more concerned about receivable than inventory.** Xtep's inventory days went up by 22% HoH to up to 94 days in 1H20 (vs 77 days in 2H19), which is somehow better than Anta's +55% HoH to 135 days (included effect of more direct retail/ FILA sales though) and Li Ning's +23% HoH to 84 days. However, we are more concerned on Xtep's receivable days, which went up by 41% HoH to 137 days in 1H20 (vs 96 days in 2H19), vs Anta's +35% HoH to 46 days and Li Ning's +5% HoH to 22 days.
- Raising wholesale discounts will help its distributors but negative for Xtep's margins.** The Company has decided to raise its wholesale discounts since 4Q20E, which should help improving distributors' profitability and reducing chances and needs for further provisions on receivables. However, this would result in a decline in Xtep's GP margin, to ~40-41% from 4Q20E onwards and we estimate ~1ppt negative impact for NP margin in FY21-22E.
- K-Swiss & Palladium's turnaround may be longer and initial losses for Saucony & Merrell continue.** Due to disruption by COVID-19, management believed it may take 3.5 years (vs 3 years previously) to achieve an operating breakeven for K&P. For K&P, we forecast a 22% sales decline and US\$ 15mn (~RMB 100mn) loss in FY20E. For S&M JV, we expect 35/ 10 new Saucony/ Merrell stores, RMB 48mn sales and RMB 36mn losses in FY20E.
- Maintain HOLD and adjusted TP to HK\$ 2.73.** We cut our FY20E/ 21E/ 22E EPS estimates by 4%/ 9%/ 6%, to factor in 1) faster online sales, and 2) lower GP margin. Our TP is based on 10x FY21E P/E (up from 9x) and we maintain HOLD. Current 9x FY21E P/E is not attractive given lack of growth.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	6,383	8,183	8,309	9,299	10,131
YoY growth (%)	24.8	28.2	1.5	11.9	8.9
Net income (RMB mn)	657	728	449	586	766
EPS (RMB)	0.295	0.302	0.180	0.235	0.307
YoY growth (%)	60.6	2.3	(40.3)	30.4	30.8
Consensus EPS (RMB)	n/a	n/a	0.204	0.285	0.341
P/E (x)	7.5	7.4	12.3	9.4	7.2
P/B (x)	0.9	0.8	0.8	0.8	0.7
Yield (%)	7.9	7.9	4.9	6.4	8.3
ROE (%)	12.3	11.8	6.3	8.0	10.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$2.73
(Previous TP)	HK\$2.70
Up/Downside	+5.9%
Current Price	HK\$2.58

China Sportswear Sector

Walter Woo
 (852) 3761 8776
 walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	6,500
Avg 3 mths t/o (HK\$ mn)	13.86
52w High/Low (HK\$)	5.39/2.04
Total Issued Shares (mn)	2,519.4

Source: Bloomberg

Shareholding Structure

Mr Ding Shui Po & Family	53.89%
Templeton Investments	2.62%
Employee incentive scheme	4.01%
Free Float	39.48%

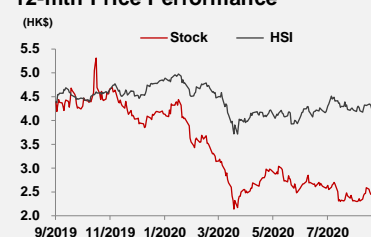
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	11.7%	8.6%
3-mth	3.2%	-6.8%
6-mth	-17.8%	-15.5%
12-mth	-42.4%	-41.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Xtep (1368 HK, HOLD) – Recovery may take longer than expected – 14 Jul 2020
- Xtep (1368 HK, BUY) – Solid cash position to yield attractive dividend – 19 Mar 2020
- Xtep (1368 HK, BUY) – Good 4Q19 but likely a temporary drag in 1Q20 – 5 Feb 2020

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	8,309	9,299	10,131	7,990	8,929	9,862	4.0%	4.1%	2.7%
Gross profit	3,331	3,777	4,158	3,343	3,803	4,245	-0.4%	-0.7%	-2.1%
EBIT	887	1,042	1,254	841	1,084	1,302	5.5%	-3.9%	-3.7%
Net profit att.	449	586	766	467	642	817	-3.8%	-8.8%	-6.3%
Diluted EPS (RMB)	0.180	0.235	0.307	0.187	0.258	0.328	-3.8%	-8.8%	-6.3%
Gross margin	40.1%	40.6%	41.0%	41.8%	42.6%	43.0%	-1.8ppt	-2ppt	-2ppt
EBIT margin	10.7%	11.2%	12.4%	10.5%	12.1%	13.2%	0.1ppt	-0.9ppt	-0.8ppt
Net profit att. margin	5.4%	6.3%	7.6%	5.8%	7.2%	8.3%	-0.4ppt	-0.9ppt	-0.7ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	8,309	9,299	10,131	8,055	9,275	10,357	3.2%	0.3%	-2.2%
Gross profit	3,331	3,777	4,158	3,280	3,856	4,343	1.6%	-2.0%	-4.3%
EBIT	887	1,042	1,254	839	1,109	1,306	5.7%	-6.1%	-4.0%
Net profit att.	449	586	766	485	695	829	-7.4%	-15.7%	-7.6%
Diluted EPS (RMB)	0.180	0.235	0.307	0.204	0.285	0.341	-11.6%	-17.5%	-9.9%
Gross margin	40.1%	40.6%	41.0%	40.7%	41.6%	41.9%	-0.6ppt	-1ppt	-0.9ppt
EBIT margin	10.7%	11.2%	12.4%	10.4%	12.0%	12.6%	0.3ppt	-0.8ppt	-0.2ppt
Net profit att. margin	5.4%	6.3%	7.6%	6.0%	7.5%	8.0%	-0.6ppt	-1.2ppt	-0.4ppt

Source: Company data, CMBIS estimates

Results Summary

Figure 3: Results summary – Half Year

Half yearly (RMB mn)	1H19	2H19	1H20	2H20E	1H19 YoY	2H19 YoY	1H20 YoY	2H20E YoY	1H20E CMBIS	Actual vs CMBIS
Revenue	3,357	4,826	3,679	4,630	23%	32%	10%	-4%	3,564	3%
COGS	(1,860)	(2,773)	(2,190)	(2,789)					(2,096)	
Gross profit	1,497	2,053	1,489	1,841	25%	26%	-1%	-10%	1,468	1%
GP margins	44.6%	42.5%	40.5%	39.8%					41.2%	
Other income & gains	138	170	210	81					89	135%
S & D expenses	(637)	(1,082)	(685)	(983)	33%	23%	8%	-9%	(791)	-13%
S & D exp / sales	-19.0%	-22.4%	-18.6%	-21.2%					-22.2%	
Admin expenses	(281)	(625)	(513)	(554)	7%	74%	83%	-11%	(317)	62%
Admin exp / sales	-8.4%	-13.0%	-13.9%	-12.0%					-8.9%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	717	517	501	386	21%	14%	-30%	-25%	449	12%
OP margins	21.4%	10.7%	13.6%	8.3%					12.6%	
Other items	0	0	0	0					0	
Net finance income	(35)	(76)	(77)	(38)					(32)	141%
Net finance income / sales	-1.1%	-1.6%	-2.1%	-0.8%					-0.9%	
Profit after financing costs	682	441	423	348					417	
Associated coms	(1)	(2)	(5)	(31)					(18)	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	681	439	418	317	24%	3%	-39%	-28%	399	5%
Tax	(218)	(172)	(166)	(114)					(156)	
Tax / sales	-6.5%	-3.6%	-4.5%	-2.5%					-4.4%	
Effective tax rate	-32.0%	-39.1%	-39.6%	-35.9%					-39.0%	
Minority interests	(0)	4	4	2					0	
Net profit att.	463	264	248	201	23%	-6%	-46%	-24%	243	2%
NP margins	13.8%	5.5%	6.7%	4.3%					6.8%	
Sales by segment										
Mass market	3,357	4,350	3,201	4,179	23%	19%	-5%	-4%	3,096	3%
Athleisure	0	466	459	422				-9%	450	2%
Professional sports	0	10	20	29				186%	18	8%
Total	3,357	4,826	3,679	4,630	23%	32%	10%	-4%	3,564	3%

Source: Company data, CMBIS estimates

Figure 4: Results review - Full Year

Full yearly (RMB mn)					FY19	FY20E	FY21E
	FY18	FY19	FY20E	FY21E	YoY	YoY	YoY
Revenue	6,383	8,183	8,309	9,299	28%	2%	12%
COGS	(3,555)	(4,632)	(4,979)	(5,522)			
Gross profit	2,828	3,550	3,331	3,777	26%	-6%	13%
GP margins	44.3%	43.4%	40.1%	40.6%			
Other income & gains	196	308	291	214			
S & D expenses	(1,357)	(1,718)	(1,668)	(1,855)	27%	-3%	11%
S & D exp / sales	-21.3%	-21.0%	-20.1%	-19.9%			
Admin expenses	(622)	(906)	(1,067)	(1,094)	46%	18%	3%
Admin exp / sales	-9.8%	-11.1%	-12.8%	-11.8%			
Other opex	0	0	0	0			
Operating profit (EBIT)	1,044	1,234	887	1,042	18%	-28%	17%
OP margins	16.4%	15.1%	10.7%	11.2%			
Other items	0	(2)	(36)	(65)			
Net finance income	(68)	(111)	(115)	(96)			
Net finance income / sales	-1.1%	-1.4%	-1.4%	-1.0%			
Profit after financing costs	976	1,121	735	881			
Associated coms	0	0	0	0			
Jointly controlled coms	0	0	0	0			
Pre-tax profit	976	1,121	735	881	15%	-34%	20%
Tax	(306)	(390)	(279)	(291)			
Tax / sales	-4.8%	-4.8%	-3.4%	-3.1%			
Effective tax rate	-31.4%	-34.8%	-38.0%	-33.0%			
Minority interests	13	4	7	4			
Net profit att.	657	728	449	586	11%	-38%	30%
NP margins	10.3%	8.9%	5.4%	6.3%			
Sales by segment							
Mass market	6,383	7,707	7,380	8,083	21%	-4%	10%
Athleisure	0	466	881	999		89%	13%
Professional sports	0	10	48	217		379%	349%
Total	6,383	8,183	8,309	9,299	28%	2%	12%

Source: Company data, CMBIS estimates

Valuation

Figure 5: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$m)	Year End	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
H shares Sportswear															
Xtep Intl	1368 HK	HOLD	2.73	2.58	5.9%	6,500	Dec-19	12.3	9.4	0.8	0.8	8.0	20.5	6.4	
Anta Sports	2020 HK	BUY	101.84	82.05	24.1%	221,783	Dec-19	37.0	25.3	8.3	6.6	23.0	1.7	0.9	
Li Ning	2331 HK	BUY	36.52	34.45	6.0%	85,564	Dec-19	47.6	35.1	9.0	7.4	19.8	2.3	0.6	
361 Degrees	1361 HK	NR	n/a	1.11	n/a	2,295	Dec-19	5.1	4.5	0.3	0.3	n/a	1.1	7.7	
Topsports	6110 HK	NR	n/a	9.81	n/a	60,834	Feb-20	22.1	17.1	4.5	3.9	36.9	1.6	2.2	
Pou Sheng	3813 HK	NR	n/a	1.81	n/a	9,696	Dec-19	20.3	7.6	1.1	0.9	5.6	1.1	0.9	
China DX	3818 HK	NR	n/a	1.02	n/a	6,004	Mar-20	12.0	10.6	0.5	0.5	n/a	0.8	5.5	
								Avg.	22.4	15.7	3.5	2.9	18.5	4.1	3.2
								Med.	20.3	10.6	1.1	0.9	19.8	1.6	2.2
International Sportswear															
Nike Inc	NKE US	NR	n/a	112.29	n/a	1,357,542	May-20	47.9	34.0	22.0	19.4	29.7	1.5	0.9	
Adidas	ADS GY	NR	n/a	253.00	n/a	467,215	Dec-19	97.4	28.9	6.9	6.1	8.5	24.7	1.0	
Puma	PUM GY	NR	n/a	69.42	n/a	96,476	Dec-19	161.1	36.8	5.3	4.9	3.3	11.1	0.3	
Under Armour	UAA US	NR	n/a	10.15	n/a	33,805	Dec-19	n/a	94.0	3.2	3.2	(39.5)	0.0	0.0	
Lululemon	LULU US	NR	n/a	377.48	n/a	380,931	Feb-20	87.2	59.7	20.9	18.3	36.1	5.8	0.0	
Skechers	SKX US	NR	n/a	31.03	n/a	37,967	Dec-19	47.8	13.9	1.9	1.7	6.6	10.4	0.0	
Vf Corp	VFC US	NR	n/a	67.94	n/a	205,172	Mar-20	63.7	26.6	9.2	9.3	9.8	3.1	2.9	
Columbia	COLM US	NR	n/a	87.61	n/a	44,915	Dec-19	46.0	21.3	3.2	2.6	11.1	(45.6)	0.5	
Wolverine	WWW US	NR	n/a	25.67	n/a	16,289	Dec-19	24.5	12.7	2.8	2.4	7.4	1.8	1.6	
Mizuno Corp	8022 JP	NR	n/a	1905.00	n/a	3,723	Mar-20	n/a	14.6	0.5	0.5	2.3	0.0	2.6	
Asics Corp	7936 JP	NR	n/a	1411.00	n/a	19,700	Dec-19	n/a	34.8	1.9	1.8	(3.1)	0.0	1.8	
								Avg.	72.0	34.3	7.1	6.4	6.6	1.2	1.0
								Med.	55.8	28.9	3.2	3.2	7.4	1.8	0.9

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 6: Xtep's key assumptions

Major assumptions	FY18A	FY19A	FY20E	FY21E	FY22E
Sales by segment (RMB mn)					
Shoes	3,925	4,653	4,856	5,542	6,075
Apparels	2,327	3,344	3,278	3,573	3,858
Accessories	131	185	176	185	198
Total	6,383	8,183	8,309	9,299	10,131
Sales by segment growth (%)					
Shoes	20.5%	18.6%	4.4%	14.1%	9.6%
Apparels	32.2%	43.7%	-2.0%	9.0%	8.0%
Accessories	36.6%	41.0%	-5.0%	5.0%	7.0%
Total	24.8%	28.2%	1.5%	11.9%	8.9%
Sales by segment (RMB mn)					
Mass market	6,383	7,707	7,380	8,083	8,683
Athleisure	0	466	881	999	1,148
Professional sports	0	10	48	217	301
Total	6,383	8,183	8,309	9,299	10,131
Sales by segment growth (YoY)					
Mass market	24.8%	20.7%	-4.2%	9.5%	7.4%
Athleisure	n/a	n/a	89.0%	13.5%	14.9%
Professional sports	n/a	n/a	379.0%	349.2%	38.4%
Total	24.8%	28.2%	1.5%	11.9%	8.9%
Sales network					
Xtep	5,580	5,279	5,015	5,065	5,167
Xtep kids	450	850	833	891	980
Oversea stores	200	250	250	250	300
Total	6,230	6,379	6,098	6,207	6,447
GP margins	44.3%	43.4%	40.1%	40.6%	41.0%
Opex breakdown					
A&P / sales	15.2%	14.4%	12.1%	11.7%	11.3%
Staff costs/ sales	11.6%	11.0%	12.9%	12.6%	12.4%
R&D / sales	2.6%	2.4%	2.8%	2.6%	2.5%
D&A / sales	1.4%	1.7%	2.2%	2.0%	1.9%
Provisions (write backs) / sales	-0.8%	-0.9%	-0.3%	0.0%	0.0%
Rental / sales	0.3%	0.1%	0.7%	0.9%	1.1%
Selling & distribution costs / sales	21.3%	21.0%	20.1%	19.9%	19.7%
Admin expenses / sales	9.8%	11.1%	12.8%	11.8%	11.2%
Total	31.0%	32.1%	32.9%	31.7%	30.8%
OP margins	16.4%	15.1%	10.7%	11.2%	12.4%
Effective tax rate	31.4%	34.8%	38.0%	33.0%	32.0%
Net profit att. margins	10.3%	8.9%	5.4%	6.3%	7.6%
Net profit att. growth (%)	60.9%	10.8%	-38.3%	30.4%	30.8%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	6,383	8,183	8,309	9,299	10,131
Footwear	3,925	4,653	4,856	5,542	6,075
Apparel	2,327	3,344	3,278	3,573	3,858
Accessories	131	185	176	185	198
Cost of goods sold	(3,555)	(4,632)	(4,979)	(5,522)	(5,973)
Gross profit	2,828	3,550	3,331	3,777	4,158
Other income	196	308	291	214	218
Operating expenses	(1,980)	(2,625)	(2,735)	(2,949)	(3,122)
D & A	(8)	(141)	(267)	(272)	(276)
Staff costs	(738)	(901)	(1,075)	(1,170)	(1,253)
S & D costs (ex-staff, D&A)	(623)	(823)	(600)	(691)	(745)
Admin exp. (ex-staff, D&A)	(611)	(760)	(794)	(816)	(847)
Other operating expenses	-	-	-	-	-
EBIT	1,044	1,234	887	1,042	1,254
Finance costs, net	(68)	(111)	(115)	(96)	(101)
JVs & associates	-	(2)	(36)	(65)	(15)
Exceptional	-	-	-	-	-
Pre-tax profit	976	1,121	735	881	1,138
Income tax	(306)	(390)	(279)	(291)	(364)
Less: Minority interests	13	4	7	4	8
Net profit	657	728	449	586	766

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	1,044	1,234	887	1,042	1,254
D & A	60	185	317	330	341
Change in working capital	(513)	36	174	(266)	(224)
Income tax paid	(309)	(334)	(279)	(291)	(364)
Others	(128)	(343)	(115)	(96)	(101)
Net cash from operating	154	778	983	720	906
Capex & investments	(72)	(97)	(208)	(139)	(152)
Associated companies	(1)	(35)	-	-	-
Interest received	-	-	-	-	-
Others	(208)	(1,913)	-	-	-
Net cash from investing	(281)	(2,045)	(208)	(139)	(152)
Equity raised	(31)	1,187	-	-	-
Net change in bank loans	(10)	386	-	-	-
Dividend paid	(459)	(436)	(332)	(321)	(419)
Others	(11)	(98)	-	-	-
Net cash from financing	(511)	1,039	(332)	(321)	(419)
Net change in cash	(637)	(227)	443	259	335
Beginning cash balance	3,832	3,196	2,970	3,412	3,672
Exchange difference	1	1	-	-	-
Cash at the end of the year	3,196	2,970	3,412	3,672	4,006

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	1,139	3,057	2,911	2,655	2,451
Fixed asset	641	662	791	841	893
Intangible assets & goodwill	105	1,738	1,499	1,258	1,017
Prepaid lease payments	279	104	104	104	104
Interest in joint ventures	114	197	161	96	81
Other non-current assets	-	356	356	356	356
Current assets	8,060	9,266	9,767	10,590	11,397
Cash and cash equivalents	3,196	2,970	3,523	3,795	4,141
Inventories	836	1,046	1,159	1,286	1,391
Trade and other receivables	2,115	2,910	2,732	3,057	3,331
Prepayments	727	818	830	929	1,012
Other current assets	1,186	1,522	1,522	1,522	1,522
Current liabilities	3,278	3,671	3,903	4,201	4,449
Bank loans	1,483	1,086	1,086	1,086	1,086
Trade payables	879	1,420	1,637	1,816	1,964
Accruals & other payables	861	981	996	1,114	1,214
Tax payables	54	115	115	115	115
Others	1	69	69	69	69
Non-current liabilities	590	1,691	1,691	1,691	1,691
Bank loans	461	1,269	1,269	1,269	1,269
Deferred income	-	-	-	-	-
Deferred tax	107	280	280	280	280
Others	22	142	142	142	142
Minority Interest	-	-	7	11	19
Total net assets	5,331	6,960	7,077	7,342	7,689
Shareholders' equity	5,331	6,960	7,077	7,342	7,689

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Footwear	61.5	56.9	58.4	59.6	60.0
Apparel	36.5	40.9	39.4	38.4	38.1
Accessories	2.1	2.3	2.1	2.0	2.0
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	44.3	43.4	40.1	40.6	41.0
Operating margin	16.4	15.1	10.7	11.2	12.4
Pre-tax margin	15.3	13.7	8.8	9.5	11.2
Net margin	10.3	8.9	5.4	6.3	7.6
Effective tax rate	31.4	34.7	36.2	30.7	31.6
Balance sheet ratios					
Current ratio (x)	2.5	2.5	2.5	2.5	2.6
Quick ratio (x)	2.2	2.2	2.2	2.2	2.2
Cash ratio (x)	1.0	0.8	0.9	0.9	0.9
Inventory turnover days	86	82	85	85	85
Trade receivables days	121	130	120	120	120
Trade payables days	90	112	120	120	120
Total debt / total equity ratio (%)	36	34	33	32	31
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	12.3	10.5	6.3	8.0	10.0
ROA	7.1	5.9	3.5	4.4	5.5
Per share					
EPS (RMB)	0.30	0.30	0.18	0.24	0.31
DPS (RMB)	0.18	0.18	0.11	0.14	0.18
BVPS (RMB)	2.40	2.79	2.84	2.95	3.09

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 and/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

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

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.