

Xiaomi (1810 HK)

1Q23E preview: expect earnings recovery on track; Reiterate BUY

Xiaomi will report 1Q23 results in late May. We estimate 1Q revenue/adj. net profit to deliver -19%/+8% YoY growth to RMB59.1bn/3.08bn, -5%/22% above consensus, mainly due to weak smartphone offset by better GPM and efficiency improvement. Looking ahead, we believe 1H23E weakness has been priced in, and earnings growth will recover sequentially given improving channel inventory, GPM recovery and efficiency enhancement. Overall, we are positive on Xiaomi's focus on profitability improvement amid near-term macro headwinds, and we believe the worst is likely over for Xiaomi's earnings decline. We adjusted our TP to HK\$15.44, based on same 24x FY24E P/E. Maintain BUY. Catalysts include EV progress and market share gain.

- Smartphone: sluggish shipment but upbeat GPM in 1Q23E.** Canals reported Xiaomi's global shipment declined 22% YoY in 1Q23 (vs -13% YoY for industry), and reached market share of 11% in 1Q23 (vs 13% in 1Q22). Xiaomi's 1Q23 weakness was mainly dragged by 38%/23% YoY decline in India/China, based on our estimates. We estimate 1Q23 ASP to stay flattish QoQ and GPM to rebound QoQ to 11% (vs 8.2% in 4Q22) thanks to component/semi cost decline and less FX headwinds. Looking ahead, we are positive on Xiaomi's inventory destocking and margin recovery into 2H23E. We expect Xiaomi's shipment to decline 7% YoY to 139mn in FY23E and rebound 8%/3% YoY to 150mn/155mn in FY24E/25E, while ASP will grow 1%/6% in FY24/25E.
- AIoT/internet: macro weakness on global AIoT and China ads.** We estimate AIoT/Internet revenue to decline 15%/1% YoY in 1Q23E (vs -14%/ -1% YoY in 4Q22), mainly due to macro weakness, TV panel price decline and lower ads spending from major clients. We expect AIoT GPM to recover QoQ to 16% in 1Q (vs 14.3% in 4Q) on higher TV GPM, while internet GPM will slightly drop QoQ to 70.0% (vs 71.5% in 4Q). Looking ahead, backed by component cost decline and policy easing on gaming/ads sectors, we expect both AIoT/internet segments to deliver gradual recovery into 2H23E.
- The worst is likely over; Earnings to return to YoY growth in 1Q23E.** Despite near-term macro weakness, we believe the worst is likely over for Xiaomi's earnings decline, and net profit will start to resume YoY growth in 1Q23E driven by cost improvement and efficiency enhancement. We estimate earnings to grow 8%/58%/40%/70% YoY in 1Q/2Q/3Q/4Q23. We slightly adjusted our TP to HK\$15.44, based on same 24x FY24E P/E (7% discount to 5-year avg. P/E). Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	328,309	280,044	265,935	293,430	326,856
YoY growth (%)	33.5	(14.7)	(5.0)	10.3	11.4
Adjusted net profit (RMB mn)	22,039.5	8,518.0	11,813.2	13,735.0	15,290.1
EPS (Adjusted) (RMB)	0.88	0.34	0.48	0.55	0.62
Consensus EPS (RMB)	na	0.34	0.39	0.48	0.55
P/E (x)	26.8	30.7	21.0	18.0	16.2
P/B (x)	3.8	1.8	1.6	1.5	1.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.8	1.8	5.6	5.8	6.4
Net gearing (%)	96.0	70.9	36.1	60.9	29.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$15.44**
 (Previous TP **HK\$15.41**)
 Up/Downside **36.4%**
 Current Price **HK\$11.32**

China Technology

Alex NG

(852) 3900 0881
 alexng@cmbi.com.hk

Lily YANG, Ph.D

(852) 3916 3716
 lilyyang@cmbi.com.hk

Claudia LIU

claudialiu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	230,271.4
Avg 3 mths t/o (HK\$ mn)	815.4
52w High/Low (HK\$)	14.22/8.45
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

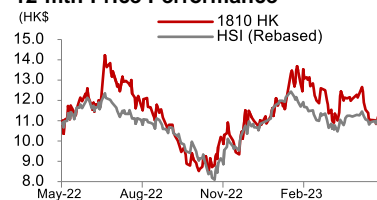
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.3%	-4.1%
3-mth	-16.3%	-8.9%
6-mth	12.3%	-7.5%

Source: FactSet

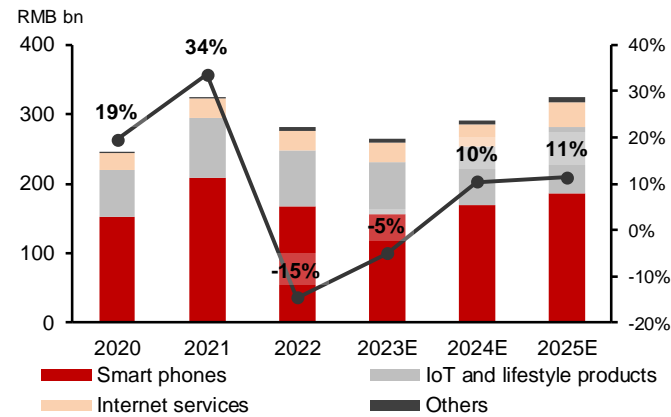
12-mth Price Performance



Source: FactSet

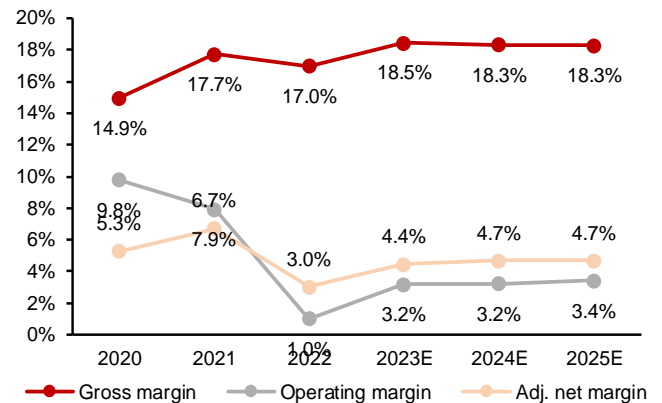
Focus Charts

Figure 1: Xiaomi revenue trend



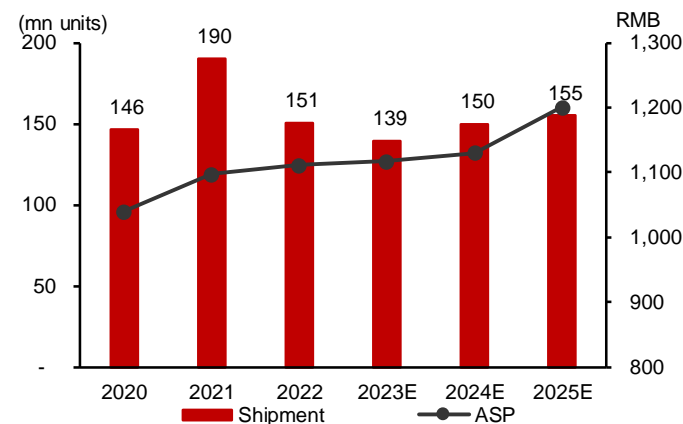
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi margin trend



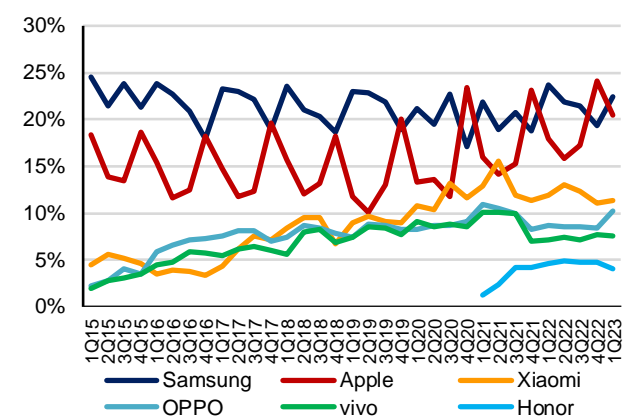
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi smartphone shipment forecast



Source: Xiaomi, CMBIGM estimates

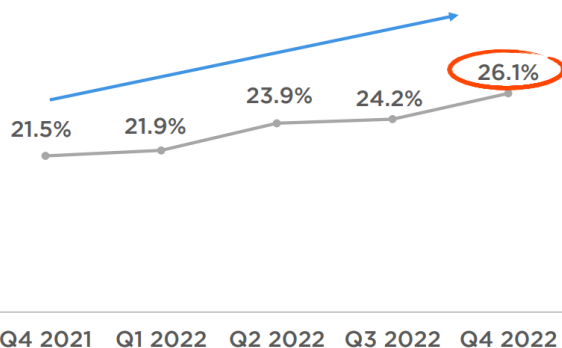
Figure 4: Global smartphone market share



Source: IDC, CMBIGM estimates

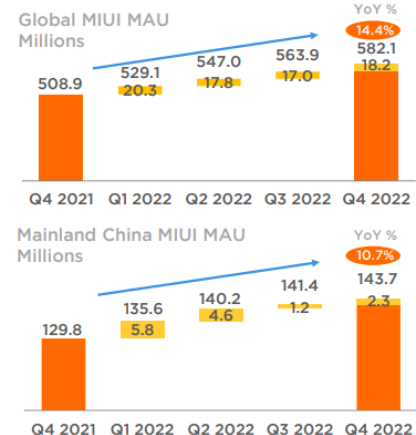
Figure 5: Overseas internet service revenue growth

Overseas Internet Services Revenue
as % of Total Internet Services Revenue



Source: Company data, CMBIGM estimates

Figure 6: Xiaomi's solid MIUI MAU growth



Source: Company data, CMBIGM estimates

1Q23 Preview

Figure 7: 1Q23 results preview

RMB mn	1Q22	2Q22	3Q22	4Q22	CMBI Estimate		Consensus		
					1Q23E	QoQ	YoY	1Q23E	Diff %
Revenue	73,352	70,171	70,474	66,047	59,088	-11%	-19%	62,467	-5%
Gross profit	12,710	11,768	11,722	11,378	11,488	1%	-10%	11,678	-2%
Operating profit	-911	1,733	-1,361	3,356	2,438	-27%	368%	2,169	12%
Adj. net profit	2,859	2,081	2,117	1,461	3,080	111%	8%	2,531	22%
Adj. EPS (RMB)	0.11	0.08	0.08	0.06	0.12	111%	8%	0.12	6%
Gross margin	17.3%	16.8%	16.6%	17.2%	19.4%	2.2 ppt	2.1 ppt	18.7%	0.7 ppt
Operating margin	-1.2%	2.5%	-1.9%	5.1%	4.1%	-1 ppt	5.4 ppt	3.5%	0.7 ppt
Adj. net margin	3.9%	3.0%	3.0%	2.2%	5.2%	3 ppt	1.3 ppt	4.1%	1.2 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	FY22	1Q23E	2Q23E	3Q23E	4Q23E	FY23E	FY24E
Smart phones	167,217	34,160	36,300	42,900	42,487	155,847	169,500
...YoY	-20%	-25%	-14%	1%	16%	-7%	9%
Shipment (mn)	150,500	30,500	33,000	39,000	36,945	139,445	150,000
...YoY	-21%	-21%	-16%	-3%	13%	-7%	8%
ASP (RMB)	1,111	1,120	1,100	1,100	1,150	1,118	1,130
...YoY	1.3%	-5.8%	1.7%	4.0%	2.5%	0.6%	1.1%
IoT and lifestyle products	79,795	16,556	18,095	18,686	21,025	74,362	84,355
...YoY	-6%	-15%	-9%	-2%	-2%	-7%	13%
Smart TVs and laptops	23,700	5,270	5,035	6,090	6,825	23,220	25,542
...YoY	-15%	-1%	-13%	-6%	-21%	-2%	10%
Other IoTs	56,095	11,286	13,060	12,596	14,200	51,142	58,813
...YoY	-2%	-22%	-1%	-16%	15%	-9%	15%
Internet services	28,321	7,073	7,367	7,512	7,650	29,603	31,614
...YoY	0%	-1%	6%	6%	7%	5%	7%
Advertising services	18,500	4,298	4,766	4,904	5,004	18,973	19,921
...YoY	2%	-5%	5%	5%	5%	3%	5%
Internet value-added	9,821	2,775	2,601	2,608	2,646	10,630	11,693
...YoY	-3%	7%	7%	9%	10%	8%	10%
Gaming	4,100	1,273	1,037	1,120	1,100	4,529	4,982
...YoY	5%	10%	10%	10%	10%	10%	10%
Other (incl. Youpin fintech, etc.)	5,721	1,503	1,564	1,488	1,546	6,101	6,711
...YoY	-8%	5%	5%	8%	10%	7%	10%
Others	4,711	1,299	1,456	2,385	984	6,124	7,961
...YoY	-25%	30%	30%	30%	30%	30%	30%
Total	280,044	59,088	63,218	71,483	72,146	265,935	293,430
...YoY	-15%	-19%	-10%	1%	9%	-5%	10%
Gross margin							
Smart phones	9.0%	11.0%	10.5%	10.0%	10.0%	10.3%	10.0%
IoT and lifestyle products	14.4%	16.0%	15.0%	14.6%	14.5%	15.0%	15.0%
Internet services	71.8%	70.0%	70.0%	70.0%	71.0%	70.3%	71.5%
Others	16.2%	10.0%	17.0%	19.0%	20.0%	16.8%	19.0%
Total	17.0%	19.4%	18.9%	17.8%	17.9%	18.5%	18.3%

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY23-24E adj. NP are 23%/15% above consensus

We trimmed FY23E adj. EPS by 3% to reflect lower overseas smartphone shipment. Our FY23/24E EPS are 23%/15% above consensus given our more positive view on efficiency improvement in FY23/24E.

Figure 9: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	265,935	293,430	326,856	286,590	329,956	357,739	-7%	-11%	-9%
Gross profit	49,073	53,720	59,791	50,675	58,495	64,472	-3%	-8%	-7%
Operating profit	8,490	9,444	11,221	7,829	9,526	12,435	8%	-1%	-10%
Adj. net profit	11,813	13,735	15,290	12,129	13,707	16,253	-3%	0%	-6%
Adj. EPS (RMB)	0.48	0.55	0.62	0.49	0.55	0.65	-3%	0%	-6%
Gross margin	18.5%	18.3%	18.3%	17.7%	17.7%	18.0%	0.8 ppt	0.6 ppt	0.3 ppt
Operating margin	3.2%	3.2%	3.4%	2.7%	2.9%	3.5%	0.5 ppt	0.3 ppt	0 ppt
Adj. net margin	4.4%	4.7%	4.7%	4.2%	4.2%	4.5%	0.2 ppt	0.5 ppt	0.1 ppt

Source: Company data, CMBIGM estimates

Figure 10: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	265,935	293,430	326,856	286,897	320,591	356,284	-7%	-8%	-8%
Gross profit	49,073	53,720	59,791	51,389	57,736	64,610	-5%	-7%	-7%
Operating profit	8,490	9,444	11,221	9,072	12,146	14,505	-6%	-22%	-23%
Adj. net profit	11,813	13,735	15,290	10,282	12,473	14,909	15%	10%	3%
Adj. EPS (RMB)	0.48	0.55	0.62	0.39	0.48	0.55	23%	15%	11%
Gross margin	18.5%	18.3%	18.3%	17.9%	18.0%	18.1%	0.5 ppt	0.3 ppt	0.2 ppt
Operating margin	3.2%	3.2%	3.4%	3.2%	3.8%	4.1%	0 ppt	-0.6 ppt	-0.6 ppt
Adj. net margin	4.4%	4.7%	4.7%	3.6%	3.9%	4.2%	0.9 ppt	0.8 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY22	1Q23E	2Q23E	3Q23E	4Q23E	FY23E	FY24E	FY25E
Revenue	280,044	59,088	63,218	71,483	72,146	265,935	293,430	326,856
...YoY	-15%	-19%	-10%	1%	9%	-5%	10%	11%
Cost of sales	(232,467)	(47,600)	(51,288)	(58,753)	(59,220)	(216,862)	(239,710)	(267,065)
Gross profit	47,577	11,488	11,930	12,730	12,926	49,073	53,720	59,791
GPM (%)	17.0%	19.4%	18.9%	17.8%	17.9%	18.5%	18.3%	18.3%
...YoY	-18%	12%	13%	7%	4%	3%	9%	11%
SG&A	(26,437)	(5,434)	(5,816)	(6,005)	(7,190)	(24,445)	(27,289)	(29,744)
...% of rev	-9.4%	-9.2%	-9.2%	-8.4%	-10.0%	-9.2%	-9.3%	-9.1%
R&D	(16,028)	(3,545)	(3,414)	(4,075)	(4,257)	(15,290)	(16,139)	(17,977)
...% of rev	-5.7%	-6.0%	-5.4%	-5.7%	-5.9%	-5.7%	-5.5%	-5.5%
Operating profit	2,816	2,438	2,304	2,263	1,485	8,490	9,444	11,221
OPM (%)	1.0%	4.1%	3.6%	3.2%	2.1%	3.2%	3.2%	3.4%
...YoY	-89%	-368%	33%	-266%	-56%	201%	11%	19%
Adj. net profit	8,518	3,080	3,298	2,954	2,480	11,813	13,735	15,290
NPM (%)	3.0%	5.2%	5.2%	4.1%	3.4%	4.4%	4.7%	4.7%
...YoY	-61%	8%	58%	40%	70%	39%	16%	11%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$15.44 (36.4% upside)

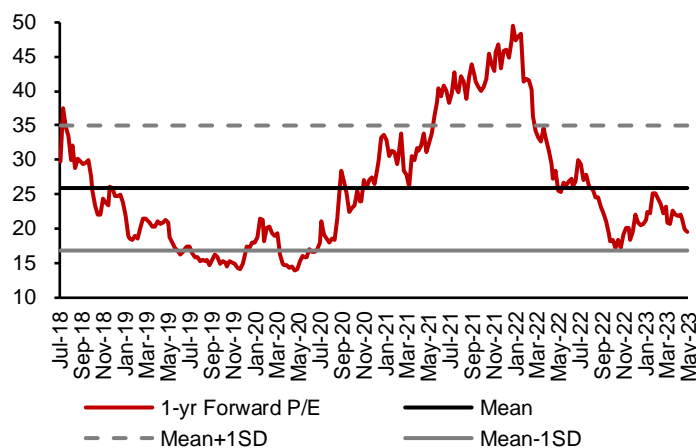
Our new TP of HK\$15.44 is based on same 24x FY24E P/E. The stock now trades at 18x FY24E P/E, and we view risk-reward as attractive given earnings recovery and smart EV upside. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
HK-listed												
Xiaomi	1810 HK	BUY	36,040	11.3	15.44	36%	21.0	18.0	1.7	1.6	5.6	5.8
Sunny Optical	2382 HK	HOLD	11,244	80.5	86.8	8%	24.5	21.2	3.3	3.0	13.4	14.1
AAC Tech	2018 HK	HOLD	2,593	17.0	15.6	-8%	15.5	14.0	0.8	0.8	5.2	5.7
BYDE	285 HK	HOLD	6,747	23.5	24.5	4%	16.1	13.2	1.7	1.5	10.4	11.4
FIT Hon Teng	6088 HK	BUY	1,347	1.5	2.3	59%	9.0	7.0	0.5	0.5	5.6	7.1
Tongda	698 HK	BUY	122	0.1	0.2	104%	2.7	2.5	0.1	0.1	2.9	4.7
Q tech	1478 HK	BUY	545	3.6	5.2	44%	7.5	5.6	0.7	0.7	9.8	12.0
TK Group	2283 HK	BUY	175	1.7	3.4	105%	3.2	4.2	0.7	0.7	20.7	17.8
Average							13.3	11.3	1.2	1.2	8.1	9.2
Smartphone												
Apple	AAPL US	NR	2,728,930	173.5	NA	NA	29.1	26.5	45.4	32.1	160.0	140.4
Lenovo	992 HK	NR	12,193	7.9	NA	NA	7.2	7.1	1.9	1.6	30.4	26.9
Samsung	005930 KS	NR	294,476	65,300.0	NA	NA	41.4	14.3	1.3	1.2	3.2	8.5
LG Elec	066570 KS	NR	13,833	111,900.0	NA	NA	8.9	6.8	0.9	0.8	10.7	12.4
Average							21.7	13.7	12.4	8.9	51.1	47.0
IoT												
Skyworth	751 HK	NR	1,288	3.9	NA	NA	5.3	4.3	0.4	0.4	7.9	8.7
Hisense	600060 CH	NR	4,191	22.2	NA	NA	14.5	12.8	1.5	1.4	10.6	11.0
Midea	000333 CH	NR	55,559	54.8	NA	NA	11.5	10.4	2.4	2.1	20.7	20.0
Gree	000651 CH	NR	28,160	34.6	NA	NA	7.0	6.4	1.5	1.4	22.9	22.0
Average							9.6	8.5	1.5	1.3	15.5	15.4

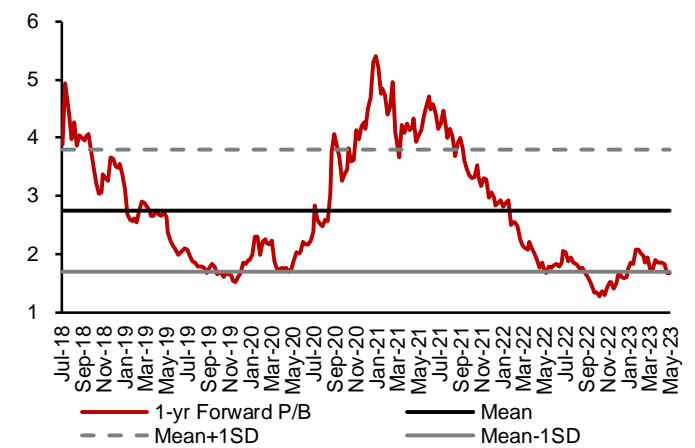
Source: Bloomberg, CMBIGM

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	245,866	328,309	280,044	265,935	293,430	326,856
Cost of goods sold	(209,114)	(270,048)	(232,467)	(216,862)	(239,710)	(267,065)
Gross profit	36,752	58,261	47,577	49,073	53,720	59,791
Selling expense	(14,539)	(20,981)	(21,323)	(19,671)	(22,594)	(24,514)
Admin expense	(3,746)	(4,739)	(5,114)	(4,774)	(4,695)	(5,230)
R&D expense	(9,256)	(13,167)	(16,028)	(15,290)	(16,139)	(17,977)
Other income	643	827	1,136	1,136	1,136	1,136
Gain/loss on financial assets at FVTPL	13,173	8,132	(1,662)	(800)	(800)	(800)
Investment gain/loss	1,381	275	(400)	14	14	14
EBIT	24,035	26,029	2,816	8,490	9,444	11,221
Net Interest income/(expense)	(1,641)	(1,612)	1,117	1,034	1,034	1,034
Foreign exchange gain/loss	(372)	(2,580)	(1,369)	(1,198)	(1,198)	(1,198)
Others	0	0	0	0	0	0
Pre-tax profit	21,633	24,417	3,934	9,523	10,477	12,255
Income tax	(1,321)	(5,134)	(1,431)	(1,177)	(1,310)	(1,532)
Minority interest	(43)	(56)	29	(43)	105	122
Net profit	20,313	19,283	2,503	8,346	9,168	10,723
Adjusted net profit	13,006	22,039	8,518	11,813	13,735	15,290
Net dividends	0	0	0	0	0	0
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	176,283	185,851	160,415	172,446	184,675	201,495
Cash & equivalents	54,752	23,512	27,607	80,870	43,139	99,429
Account receivables	19,080	23,095	19,625	17,309	21,824	19,983
Inventories	41,671	52,398	50,438	11,523	56,966	19,338
Prepayment	16,182	19,852	18,578	18,578	18,578	18,578
ST bank deposits	17,599	31,041	29,875	29,875	29,875	29,875
Financial assets at FVTPL	22,376	30,910	9,846	9,846	9,846	9,846
Other current assets	4,623	5,045	4,446	4,446	4,446	4,446
Non-current assets	77,397	107,040	113,092	115,674	118,194	120,701
PP&E	6,306	6,965	9,138	11,720	14,240	16,747
Deferred income tax	2,011	1,662	2,278	2,278	2,278	2,278
Investment in JVs & assos	12,782	10,231	7,932	7,932	7,932	7,932
Intangibles	4,266	5,579	4,630	4,630	4,630	4,630
Financial assets at FVTPL	35,215	50,114	55,980	55,980	55,980	55,980
Other non-current assets	16,817	32,490	33,134	33,134	33,134	33,134
Total assets	253,680	292,892	273,507	288,121	302,869	322,197
Current liabilities	107,927	115,727	89,628	95,895	101,476	110,081
Short-term borrowings	6,962	5,527	2,151	2,151	2,151	2,151
Account payables	72,199	74,643	53,094	59,361	64,942	73,547
Tax payable	674	2,335	1,384	1,384	1,384	1,384
Other current liabilities	28,092	33,222	32,999	32,999	32,999	32,999
Non-current liabilities	21,739	39,732	39,957	39,957	39,957	39,957
Long-term borrowings	10,635	20,720	21,493	21,493	21,493	21,493
Deferred income	301	1,203	983	983	983	983
Other non-current liabilities	10,804	17,809	17,480	17,480	17,480	17,480
Total liabilities	129,666	155,459	129,584	135,852	141,432	150,037
Share capital	409	407	406	406	406	406
Other reserves	123,691	137,212	143,658	152,047	161,110	171,710
Total shareholders equity	124,014	137,432	143,923	152,269	161,437	172,160
Minority interest	322	220	265	222	327	449
Total equity and liabilities	253,680	292,892	273,507	288,121	302,869	322,197

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	21,633	24,417	3,934	9,523	10,477	12,255
Depreciation & amortization	1,708	3,062	2,182	2,737	3,349	4,030
Tax paid	(1,126)	(2,442)	(2,382)	(1,177)	(1,310)	(1,532)
Change in working capital	4,320	(15,725)	(15,675)	47,498	(44,378)	48,073
Others	(4,658)	474	7,552	0	0	0
Net cash from operations	21,879	9,785	(4,390)	58,581	(31,862)	62,826
Investing						
Capital expenditure	(3,026)	(7,169)	(3,318)	(5,319)	(5,869)	(6,537)
Acquisition of subsidiaries/ investments	39	(1,086)	0	0	0	0
Net proceeds from disposal of short-term investments	190,494	166,947	0	0	0	0
Others	(205,186)	(203,699)	18,867	0	0	0
Net cash from investing	(17,679)	(45,008)	15,549	(5,319)	(5,869)	(6,537)
Financing						
Net borrowings	(2,004)	9,227	0	0	0	0
Proceeds from share issues	19,908	0	0	0	0	0
Share repurchases	(455)	(7,007)	0	0	0	0
Others	8,767	2,278	(7,855)	0	0	0
Net cash from financing	26,216	4,499	(7,855)	0	0	0
Net change in cash						
Cash at the beginning of the year	25,920	54,752	23,512	27,607	80,870	43,139
Exchange difference	(517)	791	0	0	0	0
Cash at the end of the year	54,752	23,512	27,607	80,870	43,139	99,429

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 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 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.