

# Dongfeng Motor (489 HK)

## French brands drags bottom-line performance

Dongfeng announced its FY19 results. Revenue achieved RMB101.1bn (vs CMBIS estimate of RMB93.5bn/ vs consensus estimate of RMB96.3bn), a decrease of 3% YoY. NP was RMB12.9bn (vs CMBIS estimate RMB14.5bn / vs consensus estimate of RMB13.7bn), a decrease of 1%. EPS declined by 1% to RMB1.49 while DPS remained flat as RMB0.35 in 2019. The divd yield return reached 7.6%.

- **Topline beat the consensus, which mainly came from the excellent performance in the CV segment.** In 2019, the revenue from the CV segment was RMB68.9bn, an increase of 39% YoY, representing 68% of total revenue. The revenue from financial business also reached RMB5.4bn, an increase of 39%YoY in 2019. However, the PV segment revenue declined by 34%YoY to RMB26.7bn given the unpromising performance of both DPCA and local brands.
- **The share of profit from JVs declined by 5% YoY to RMB11.6bn, resulting in a disappointed bottom-line.** Particularly, DPCA had a total impairment of RMB2.5bn while Dongfeng Renault had an impairment of RMB1.1bn. The proportional impact on DFG was RMB1.8bn in 2019, which directly dragged down the bottom-line performance.
- **DPCA is the key to solve the problem.** The sales volume of DPCA was 114K units in 2019, a decrease of 55%YoY. As a result, DPCA had a total loss of RMB5.96bn in 2019 compared with a loss of RMB3.69bn in 2018. In late 2019, DPCA has released a business plan (元计划) to revive Peugeot /Citroën brands through asset reorganization, personnel optimization, sales channels consolidation, etc. The Company expects the asset optimization process to be completed in 2H20E.
- **We adjust up the top-line forecast in 2020E by 1% to RMB95.1bn to reflect the excellent performance of the CV segment.** However, we cut our bottom-line forecast by 24% to RMB12.4bn in 2020E given the ambiguous future of DPCA. Therefore, we cut our TP to HK\$5.6 (based on new 3.5x 2020E P/E) with an upside of 9.9% from initial TP HK\$8.2 (based on initial 3.8x 2020E P/E). Reiterate HOLD.

### Earnings Summary

| (YE 31 Dec)         | FY18A   | FY19A   | FY20E  | FY21E  | FY22E   |
|---------------------|---------|---------|--------|--------|---------|
| Revenue (RMB mn)    | 104,543 | 101,087 | 95,162 | 98,389 | 104,635 |
| YoY growth (%)      | -17.02% | -3.31%  | -5.86% | 3.39%  | 6.35%   |
| Net income (RMB mn) | 12,979  | 12,858  | 12,439 | 13,564 | 15,383  |
| EPS (RMB)           | 1.51    | 1.49    | 1.44   | 1.57   | 1.79    |
| YoY growth (%)      | -8%     | -1%     | -3%    | 9%     | 13%     |
| Consensus EPS(RMB)  | 1.51    | 1.59    | 1.52   | 1.64   | 1.56    |
| P/E (x)             | 3.05    | 3.08    | 3.19   | 2.92   | 2.58    |
| P/B (x)             | 0.33    | 0.31    | 0.29   | 0.27   | 0.25    |
| Yield (%)           | 7.61%   | 7.61%   | 7.85%  | 8.56%  | 9.70%   |
| ROE (%)             | 11.44%  | 10.45%  | 9.33%  | 9.43%  | 9.96%   |
| Net gearing (%)     | 60%     | 83%     | 45%    | 44%    | 45%     |

Source: Company data, Bloomberg, CMBIS estimates

### HOLD (Maintain)

|               |          |
|---------------|----------|
| Target Price  | HK\$5.6  |
| (Previous TP  | HK\$8.2) |
| Up/Downside   | +9.9%    |
| Current Price | HK\$5.1  |

### China Auto Sector

#### Jack Bai

(852) 3900 0835

jackbai@cmbi.com.hk

#### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 44,028    |
| Avg 3 mths t/o (HK\$ mn) | 95.74     |
| 52w High/Low (HK\$)      | 8.52/4.38 |
| Total Issued Shares (mn) | 8,616     |

Source: Bloomberg

#### Shareholding Structure

|                          |       |
|--------------------------|-------|
| Reynolds Margaret (Meg)  | 8.07% |
| Pandanus Associates Inc. | 7.99% |
| Citigroup Inc.           | 6.92% |

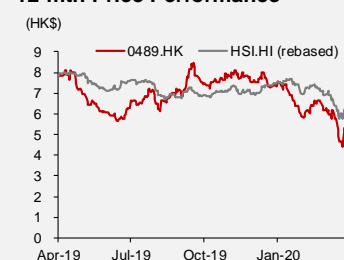
Source: HKEx

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -17.0%   | -8.2%    |
| 3-mth | -30.3%   | -16.7%   |
| 6-mth | -31.4%   | -24.2%   |

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PricewaterhouseCoopers Zhong Tian

#### Related Reports

1. "Dongfeng Motor (489 HK) – Ambiguous future with PSA" – 3 Oct 2019
2. "Dongfeng Motor (489 HK) – 1H19 performance updates" – 30 Aug 2019

## Earnings Revision

Figure 1: FY19 results review

| RMB mn       | FY18A   | FY19A   | YoY     | CMBIS  |          | Consensus |          |
|--------------|---------|---------|---------|--------|----------|-----------|----------|
|              |         |         |         | FY19E  | Diff (%) | FY19E     | Diff (%) |
| Revenue      | 104,543 | 101,087 | -3%     | 93,564 | 8%       | 96,316    | 5%       |
| Gross profit | 13,415  | 13,491  | 1%      | 12,163 | 11%      | 12,909    | 5%       |
| EBIT         | 14,504  | 15,180  | 5%      | 17,057 | -11%     | NA        | NA       |
| Net profit   | 12,979  | 12,858  | -1%     | 14,513 | -11%     | 13,677    | -6%      |
| EPS (RMB)    | 1.51    | 1.49    | -1%     | 1.68   | -11%     | 1.59      | -6%      |
| Gross margin | 12.83%  | 13.35%  | 0.5 ppt | 13.00% | 0.3 ppt  | 13.40%    | -0.1 ppt |
| EBIT margin  | 13.87%  | 15.02%  | 1.1 ppt | 18.23% | -3.2 ppt | NA        | NA       |
| Net margin   | 12.41%  | 12.72%  | 0.3 ppt | 11.72% | 1.0 ppt  | 14.20%    | -1.5 ppt |

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Earnings revision

| (RMB mn)     | New    |        | Old    |        | Change (%) |          |
|--------------|--------|--------|--------|--------|------------|----------|
|              | FY20E  | FY21E  | FY20E  | FY21E  | FY20E      | FY21E    |
| Revenue      | 95,162 | 98,389 | 94,130 | 93,412 | 1%         | 5%       |
| Gross profit | 12,856 | 13,922 | 12,237 | 12,144 | 5%         | 15%      |
| EBIT         | 15,162 | 16,499 | 19,362 | 21,809 | -22%       | -24%     |
| Net profit   | 12,439 | 13,564 | 16,361 | 18,557 | -24%       | -27%     |
| EPS (RMB)    | 1.44   | 1.57   | 1.90   | 2.15   | -24%       | -27%     |
| Gross margin | 13.51% | 14.15% | 13.00% | 13.00% | 0.5 ppt    | 1.2 ppt  |
| EBIT margin  | 15.93% | 16.77% | 20.57% | 23.35% | -4.6 ppt   | -6.6 ppt |
| Net Margin   | 13.07% | 13.79% | 17.38% | 19.87% | -4.3 ppt   | -6.1 ppt |

Source: CMBIS estimates

Figure 3: CMBIS estimates vs consensus

| (RMB mn)     | New    |        | Consensus |        | Diff (%) |          |
|--------------|--------|--------|-----------|--------|----------|----------|
|              | FY20E  | FY21E  | FY20E     | FY21E  | FY20E    | FY21E    |
| Revenue      | 95,162 | 98,389 | 93,653    | 96,710 | 2%       | 2%       |
| Gross profit | 12,856 | 13,922 | 12,485    | 12,959 | 3%       | 7%       |
| EBIT         | 15,162 | 16,499 | NA        | NA     | NA       | NA       |
| Net profit   | 12,439 | 13,564 | 13,069    | 13,951 | -5%      | -3%      |
| EPS (RMB)    | 1.44   | 1.57   | 1.52      | 1.64   | -5%      | -4%      |
| Gross margin | 13.51% | 14.15% | 13.33%    | 13.40% | 0.2 ppt  | 0.7 ppt  |
| EBIT margin  | 15.93% | 16.77% | NA        | NA     | NA       | NA       |
| Net Margin   | 13.07% | 13.79% | 13.95%    | 14.43% | -0.9 ppt | -0.6 ppt |

Source: Bloomberg, CMBIS estimates

Figure 4: Revenue breakdown

| (RMB mn)                  | FY18A   | FY19A   | FY20E  | FY21E  | FY22E   |
|---------------------------|---------|---------|--------|--------|---------|
| Passenger vehicles        | 40,239  | 26,738  | 19,263 | 18,233 | 17,873  |
| ...YoY                    | -35%    | -34%    | -28%   | -5%    | -2%     |
| Commercial vehicles       | 60,136  | 68,893  | 70,008 | 73,921 | 80,185  |
| ...YoY                    | -1%     | 15%     | 2%     | 6%     | 8%      |
| Financial business        | 3,876   | 5,387   | 5,926  | 6,400  | 6,912   |
| ...YoY                    | 27%     | 39%     | 10%    | 8%     | 8%      |
| Others                    | 508     | 565     | 610    | 641    | 673     |
| ...YoY                    | -6%     | 11%     | 8%     | 5%     | 5%      |
| Intra-segment elimination | -216    | -496    | -645   | -806   | -1,008  |
| ...YoY                    | 69%     | 130%    | 30%    | 25%    | 25%     |
| Total                     | 104,543 | 101,087 | 95,162 | 98,389 | 104,635 |
| ...YoY                    | -17%    | -3%     | -6%    | 3%     | 6%      |

Source: Company data, CMBIS estimates

Figure 5: P&amp;L forecast

| RMB mn                | FY18              | FY19              | FY20E             | FY21E             | FY22E             |
|-----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Revenue</b>        | <b>104,543</b>    | <b>101,087</b>    | <b>95,162</b>     | <b>98,389</b>     | <b>104,635</b>    |
| ...YoY                | -17.02%           | -3.31%            | -5.86%            | 3.39%             | 6.35%             |
| Cost of sales         | -91,128           | -87,596           | -82,306           | -84,467           | -89,442           |
| <b>Gross profit</b>   | <b>13,415</b>     | <b>13,491</b>     | <b>12,856</b>     | <b>13,922</b>     | <b>15,193</b>     |
| GPM (%)               | 12.83%            | 13.35%            | 13.51%            | 14.15%            | 14.52%            |
| ...YoY                | -17.52%           | 0.57%             | 5.70%             | 8.29%             | 9.13%             |
| <br>Selling Exp       | <br>-6,342        | <br>-4,349        | <br>-4,282        | <br>-4,624        | <br>-4,918        |
| ...% of rev           | -6.07%            | -4.30%            | -4.50%            | -4.70%            | -4.70%            |
| Admin Exp             | -4,506            | -5,076            | -4,948            | -4,919            | -4,924            |
| ...% of rev           | -4.31%            | -5.02%            | -5.20%            | -5.00%            | -4.71%            |
| <b>EBIT</b>           | <b>14,504</b>     | <b>15,180</b>     | <b>15,162</b>     | <b>16,499</b>     | <b>18,560</b>     |
| EBIT Margin (%)       | 13.87%            | 15.02%            | 15.93%            | 16.77%            | 17.74%            |
| ...YoY                | -11.38%           | 4.66%             | -0.12%            | 8.82%             | 12.49%            |
| <br><b>Net profit</b> | <br><b>12,979</b> | <br><b>12,858</b> | <br><b>12,439</b> | <br><b>13,564</b> | <br><b>15,383</b> |
| NPM (%)               | 12.41%            | 12.72%            | 13.07%            | 13.79%            | 14.70%            |
| ...YoY                | -7.70%            | -0.93%            | -3.26%            | 9.05%             | 13.41%            |

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)              | FY18A          | FY19A          | FY20E         | FY21E         | FY22E          |
|---------------------------------|----------------|----------------|---------------|---------------|----------------|
| <b>Revenue</b>                  | <b>104,543</b> | <b>101,087</b> | <b>95,162</b> | <b>98,389</b> | <b>104,635</b> |
| Passenger vehicles              | 40,239         | 26,738         | 19,263        | 18,233        | 17,873         |
| Commercial vehicles             | 60,136         | 68,893         | 70,008        | 73,921        | 80,185         |
| Financial business              | 3,876          | 5,387          | 5,926         | 6,400         | 6,912          |
| Others                          | 508            | 565            | 610           | 641           | 673            |
| Intra-segment                   | (216)          | (496)          | (645)         | (806)         | (1,008)        |
| Cost of sales                   | (91,128)       | (87,596)       | (82,306)      | (84,467)      | (89,442)       |
| <b>Gross profit</b>             | <b>13,415</b>  | <b>13,491</b>  | <b>12,856</b> | <b>13,922</b> | <b>15,193</b>  |
| S&D expenses                    | (6,342)        | (4,349)        | (4,282)       | (4,624)       | (4,918)        |
| Admin expenses                  | (4,506)        | (5,076)        | (4,948)       | (4,919)       | (4,924)        |
| Impairment                      | (1,006)        | (1,163)        | (1,039)       | (981)         | (981)          |
| Other income                    | 3,164          | 2,231          | 2,068         | 2,221         | 2,445          |
| Other expenses                  | (5,683)        | (5,500)        | (4,944)       | (5,081)       | (5,444)        |
| Finance expenses                | (265)          | (575)          | (717)         | (764)         | (825)          |
| Share of profit of JVs          | 12,280         | 11,633         | 11,146        | 11,141        | 11,789         |
| Share of PL of associates       | 3,182          | 3,913          | 4,304         | 4,821         | 5,399          |
| <b>Profit before income tax</b> | <b>14,239</b>  | <b>14,605</b>  | <b>14,444</b> | <b>15,735</b> | <b>17,735</b>  |
| Income tax expense              | (1,661)        | (1,759)        | (1,733)       | (1,888)       | (2,128)        |
| <b>Profit for the year</b>      | <b>12,578</b>  | <b>12,846</b>  | <b>12,711</b> | <b>13,847</b> | <b>15,607</b>  |
| Less: MI                        | (401)          | (12)           | 272           | 282           | 224            |
| <b>Net Profit</b>               | <b>12,979</b>  | <b>12,858</b>  | <b>12,439</b> | <b>13,564</b> | <b>15,383</b>  |

### Cash flow summary

| YE 31 Dec (RMB mn)             | FY18A           | FY19A           | FY20E          | FY21E          | FY22E           |
|--------------------------------|-----------------|-----------------|----------------|----------------|-----------------|
| <b>Net income</b>              | <b>12,979</b>   | <b>12,858</b>   | <b>12,439</b>  | <b>13,564</b>  | <b>15,383</b>   |
| D&A                            | 2,455           | 2,454           | 2,963          | 3,249          | 3,556           |
| Change in working capital      | (8,144)         | 1,824           | 5,281          | (613)          | (2,323)         |
| Others                         | (29,539)        | (28,691)        | 2,824          | (3,934)        | (3,842)         |
| <b>Net cash from operating</b> | <b>(22,249)</b> | <b>(11,555)</b> | <b>23,508</b>  | <b>12,265</b>  | <b>12,774</b>   |
| Capex & investments            | (4,395)         | (4,397)         | (4,573)        | (4,976)        | (5,423)         |
| Associated companies           | (3,068)         | (4,031)         | (5,070)        | (4,319)        | (5,053)         |
| Others                         | 20,143          | 9,900           | -              | -              | 1               |
| <b>Net cash from investing</b> | <b>12,680</b>   | <b>1,472</b>    | <b>(9,643)</b> | <b>(9,295)</b> | <b>(10,475)</b> |
| Equity raised                  | -               | -               | -              | -              | -               |
| Change of Debts                | 9,374           | 7,590           | 2,125          | 2,342          | 3,028           |
| Dividend paid                  | (3,016)         | (3,628)         | (3,110)        | (3,391)        | (3,846)         |
| Others                         | (3,455)         | 7,279           | -              | -              | 1               |
| <b>Net cash from financing</b> | <b>2,903</b>    | <b>11,241</b>   | <b>(985)</b>   | <b>(1,049)</b> | <b>(817)</b>    |
| <b>Net change in cash</b>      | <b>(6,666)</b>  | <b>1,158</b>    | <b>12,880</b>  | <b>1,922</b>   | <b>1,482</b>    |
| Cash at the beginning          | 44,058          | 30,904          | 30,085         | 42,965         | 44,887          |
| Exchange difference            | (6,488)         | (1,977)         | -              | -              | 1               |
| <b>Cash at the end</b>         | <b>30,904</b>   | <b>30,085</b>   | <b>42,965</b>  | <b>44,887</b>  | <b>46,369</b>   |
| Less: pledged cash             | 3,653           | 3,317           | 3,653          | 3,653          | 3,653           |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY18A          | FY19A          | FY20E          | FY21E          | FY22E          |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Non-current assets</b>      | <b>111,294</b> | <b>129,896</b> | <b>136,070</b> | <b>147,730</b> | <b>161,090</b> |
| Fixed asset                    | 15,835         | 17,309         | 16,676         | 17,308         | 18,051         |
| Intangible assets              | 4,809          | 5,076          | 5,576          | 5,942          | 6,336          |
| Interest in JV/associate       | 62,329         | 62,140         | 73,742         | 81,232         | 90,180         |
| Other non-current assets       | 28,321         | 45,371         | 40,076         | 43,247         | 46,524         |
| <b>Current assets</b>          | <b>115,223</b> | <b>140,104</b> | <b>116,119</b> | <b>120,997</b> | <b>127,211</b> |
| Cash                           | 30,904         | 30,085         | 42,965         | 44,887         | 46,369         |
| Account receivable             | 22,522         | 12,129         | 12,751         | 13,480         | 14,274         |
| Inventory                      | 10,710         | 12,191         | 10,288         | 10,558         | 11,180         |
| Other current assets           | 51,087         | 85,699         | 50,115         | 52,071         | 55,388         |
| <b>Current liabilities</b>     | <b>84,457</b>  | <b>104,182</b> | <b>78,874</b>  | <b>82,515</b>  | <b>87,445</b>  |
| Borrowings                     | 15,424         | 19,413         | 14,991         | 15,457         | 16,400         |
| Account payables               | 37,140         | 46,589         | 32,563         | 34,398         | 36,514         |
| Other payables                 | 31,263         | 37,172         | 30,376         | 31,630         | 33,444         |
| Tax payables                   | 630            | 1,008          | 944            | 1,030          | 1,086          |
| <b>Non-current liabilities</b> | <b>17,135</b>  | <b>33,850</b>  | <b>26,164</b>  | <b>28,522</b>  | <b>31,119</b>  |
| Borrowings                     | 10,729         | 25,998         | 20,878         | 22,754         | 24,839         |
| Provisions                     | 659            | 750            | 638            | 659            | 701            |
| Deferred income tax            | 2,086          | 2,275          | 2,088          | 2,344          | 2,594          |
| Others                         | 3,661          | 4,827          | 2,561          | 2,765          | 2,985          |
| <b>Total net assets</b>        | <b>124,925</b> | <b>131,968</b> | <b>147,152</b> | <b>157,689</b> | <b>169,738</b> |
| <b>Minority Interest</b>       | <b>6,569</b>   | <b>6,187</b>   | <b>8,329</b>   | <b>8,926</b>   | <b>9,608</b>   |
| <b>Shareholders' equity</b>    | <b>118,356</b> | <b>127,781</b> | <b>138,822</b> | <b>148,764</b> | <b>160,130</b> |

### Key ratios

| YE 31 Dec                           | FY18A       | FY19A       | FY20E       | FY21E       | FY22E       |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Sales mix (%)</b>                |             |             |             |             |             |
| Passenger vehicles                  | 38%         | 26%         | 20%         | 19%         | 17%         |
| Commercial vehicles                 | 58%         | 68%         | 74%         | 75%         | 77%         |
| Financial business                  | 4%          | 5%          | 6%          | 7%          | 7%          |
| Others                              | 0%          | 1%          | 1%          | 1%          | 1%          |
| Intra-segment                       | 0%          | 0%          | -1%         | -1%         | -1%         |
| <b>Total</b>                        | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |
| <b>P&amp;L ratios (%)</b>           |             |             |             |             |             |
| Gross profit margin                 | 13%         | 13%         | 14%         | 14%         | 15%         |
| Pre-tax margin                      | 14%         | 14%         | 15%         | 16%         | 17%         |
| Net margin                          | 12%         | 13%         | 13%         | 14%         | 15%         |
| Effective tax rate                  | 12%         | 12%         | 12%         | 12%         | 12%         |
| <b>Balance sheet ratios</b>         |             |             |             |             |             |
| Current ratio (x)                   | 1.36        | 1.34        | 1.47        | 1.47        | 1.45        |
| Quick ratio (x)                     | 0.66        | 0.50        | 0.73        | 0.73        | 0.72        |
| Cash ratio (x)                      | 0.37        | 0.29        | 0.54        | 0.54        | 0.53        |
| Debtors turnover days               | 79          | 44          | 57          | 58          | 58          |
| Total debt / total equity ratio (%) | 81%         | 103%        | 71%         | 70%         | 70%         |
| Net debt / equity ratio (%)         | 60%         | 83%         | 45%         | 44%         | 45%         |
| <b>Returns (%)</b>                  |             |             |             |             |             |
| ROE                                 | 11%         | 10%         | 9%          | 9%          | 10%         |
| ROA                                 | 7%          | 6%          | 6%          | 6%          | 7%          |
| <b>Per share</b>                    |             |             |             |             |             |
| EPS (RMB)                           | 1.51        | 1.49        | 1.44        | 1.57        | 1.79        |
| DPS (RMB)                           | 0.35        | 0.35        | 0.36        | 0.39        | 0.45        |
| BVPS (RMB)                          | 13.74       | 14.83       | 16.11       | 17.26       | 18.58       |

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

|                  |   |
|------------------|---|
| <b>BUY</b>       | : Stock with potential return of over 15% over next 12 months     |
| <b>HOLD</b>      | : Stock with potential return of +15% to -10% over next 12 months |
| <b>SELL</b>      | : Stock with potential loss of over 10% over next 12 months       |
| <b>NOT RATED</b> | : Stock is not rated by CMBIS                                     |

|                       |   |
|-----------------------|---|
| <b>OUTPERFORM</b>     | : Industry expected to outperform the relevant broad market benchmark over next 12 months           |
| <b>MARKET-PERFORM</b> | : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months |
| <b>UNDERPERFORM</b>   | : 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

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.