

Radiance Holdings Limited (9993 HK)

Profit-over-scale strategy to pay off; Initiate with Buy

Radiance is a Top 40 national developer (RMB89bn sales in 2019) with key regions in Xi'an, Chongqing and Yangtze River Delta. Starting from Fujian, Radiance has been maintaining a strongly profit-over-scale strategy in the following areas: **1) Concentrated in profitable regions:** As approaching RMB100bn sales, the Company only entered 30 cities with a total attributable land bank of over 29mn sq m, meaning 1mn sq m per city (vs. industry average of 0.6-0.7mn sq m). This translates into more deep-root and high-margin cities such as Xi'an and Chongqing with GP margin of >30%. **2) High attributable sales ratio at 75-80%:** This is higher than the industry average of 65-70% to ensure the profits staying in the firm. **3) Exit North regions/Penetrates into Yangtze River Delta:** From the land bank perspective, it has shifted towards Yangtze River Delta (now 17% of total). This is to take advantage of the regional development but more importantly ensure margin and cash flow safety, vs. gradually exiting regions like Tianjin and Liaoning province. As a result, we think the Company will enter a stage of high earning growth at 25% CAGR in 2020-2022E, higher than the industry.

■ **We expect sales to grow 16% CAGR in 2020-23E reaching RMB150bn:** the reasons that it may outgrow the industry are 1) Abundant land bank of attributable 29mn sq m (total 40mn sq m) which is enough for 4-5 years. **2) Satisfying all three red lines** by 2020E end so it has the flexibility to grow the debts by 15% per year, which means potentially higher growth in future sellable resources. **3) Higher sell-through rate** as more sellable resources has been shifted from North (like Tianjin) to Yangtze River Delta which enjoys better demands. For the sales margin, we expect to be relatively stable at 25% as Xi'an and Chongqing's high margins can provide cushions.

■ **Core earnings growing at 25% CAGR in 2020-23E with improving B/S:** We expect 2020-22E revenue to grow 24% CAGR backed by 30% sales CAGR in 2017-2020E. Also GPM is estimated to recover to 25% level from 22% in 2019 (one-off impacts from Nanjing and Shanghai projects). After incorporating higher LAT, we expect core earnings to grow at 25% 2020-20E CAGR to RMB4.9bn in 2022E. **For balance sheet,** we expect the Company to meet all three red lines by 2020E with cash/short-term debt at 1.1, net gearing at 94% and total liability/total asset (after sales liability) to be 69%

■ **We initiate with Buy rating and TP of HK\$5.55.** We derive TP by applying 60% discount to its NAV per share at HK\$13.87, equivalent to 4.8x 21E PE. It is trading at 3.7x 21E (vs. industry of 4.5x) at a yield of 6%. **Key catalysts:** 1) 2020E results in Mar 2021. 2) Property policy turns stable in 1Q21. **Risks:** Further industry tightening; Sales slowdown in Yangtze River Delta.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	15,971	25,963	31,793	40,050	49,776
YoY growth (%)	35.6	62.6	22.5	26.0	24.3
Net income (RMB mn)	2,008	2,508	3,396	4,090	4,983
EPS (RMB)	N.A	N.A	0.84	1.01	1.23
P/E (x)	N.A	N.A	4.5	3.7	3.1
P/B (x)	N.A	N.A	0.6	0.5	0.4
Yield (%)	N.A	N.A	5.8	7.0	8.6
ROE (%)	14.0	14.9	13.8	13.6	14.2
Net gearing (%)	165%	167%	94%	82%	75%

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	HK\$5.55
Up/Downside	+29.0%
Current Price	HK\$4.29

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	17,435
Avg 3 mths t/o (HK\$ mn)	N.A.
52w High/Low (HK\$)	4.49/4.18
Total Issued Shares (mn)	4,045

Source: Bloomberg

Shareholding Structure

Radiance Group	84.05%
Free float	15.95%

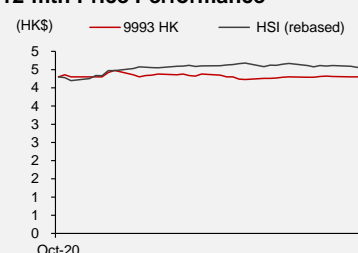
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.8%	-2.0%
3-mth	N.A.	N.A.
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

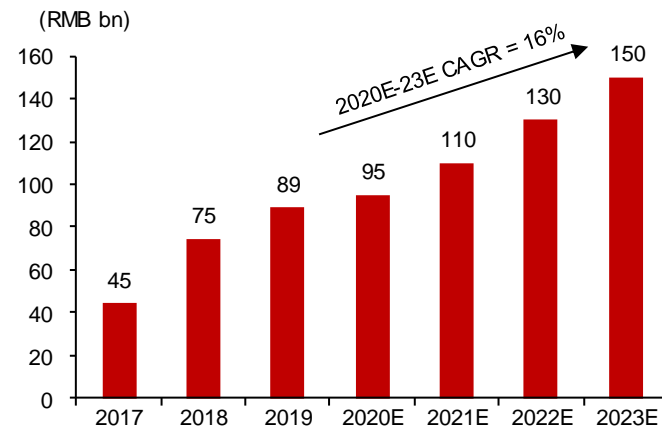
Auditor: Ernst & Young

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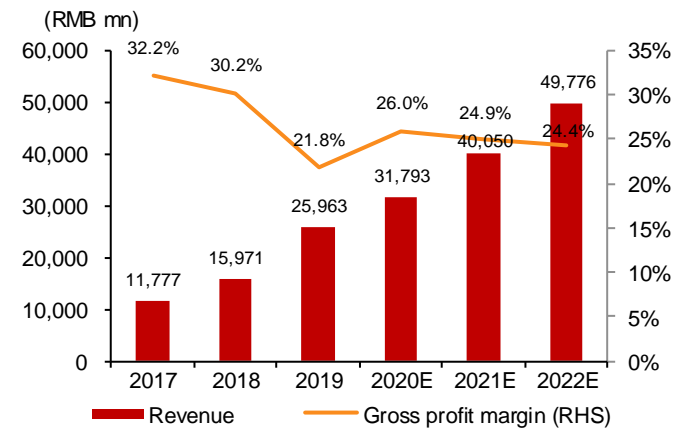
Focus Charts

Figure 1: Contract sales



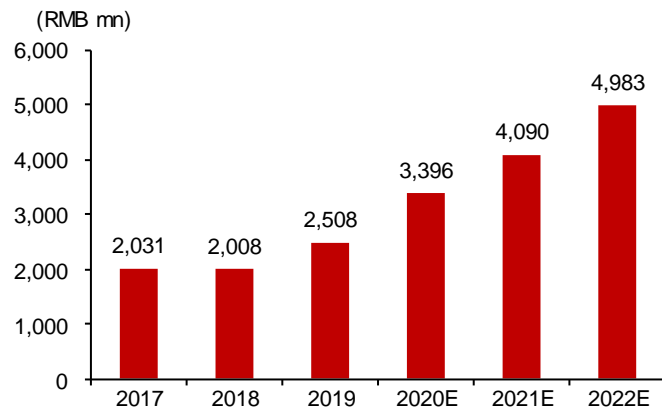
Source: Company data, CMBIS estimates

Figure 2: Revenue and gross profit margin



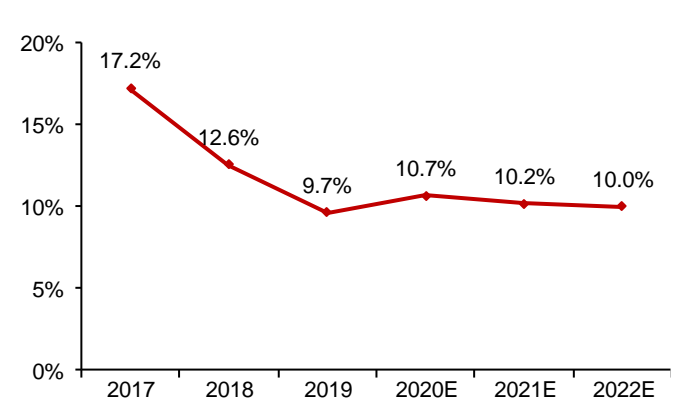
Source: Company data, CMBIS estimates

Figure 3: Net profit attributable to shareholders



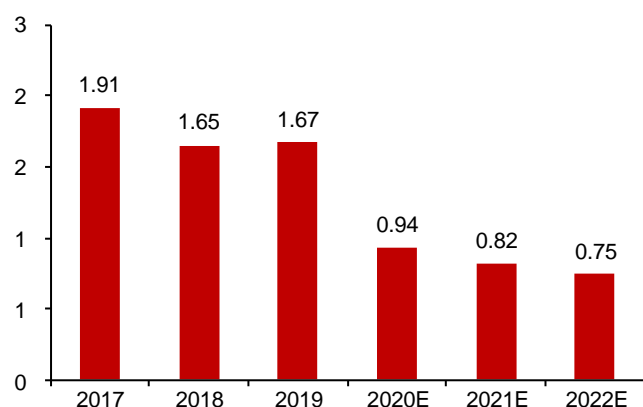
Source: Company data, CMBIS estimates

Figure 4: Net (attributable) profit margin



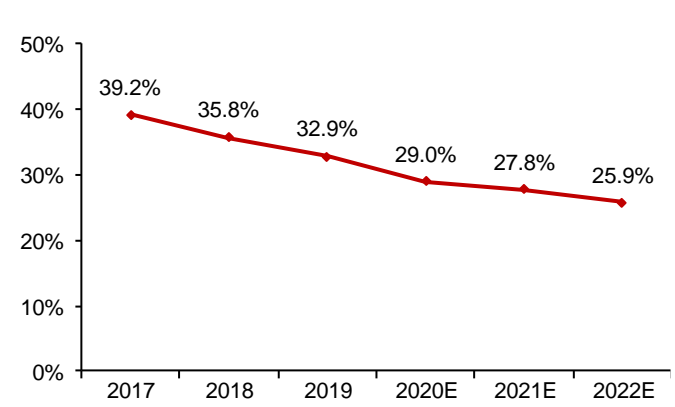
Source: Company data, CMBIS estimates

Figure 5: Net gearing ratio



Source: Company data, CMBIS estimates

Figure 6: Debt-to-asset ratio



Source: Company data, CMBIS estimates

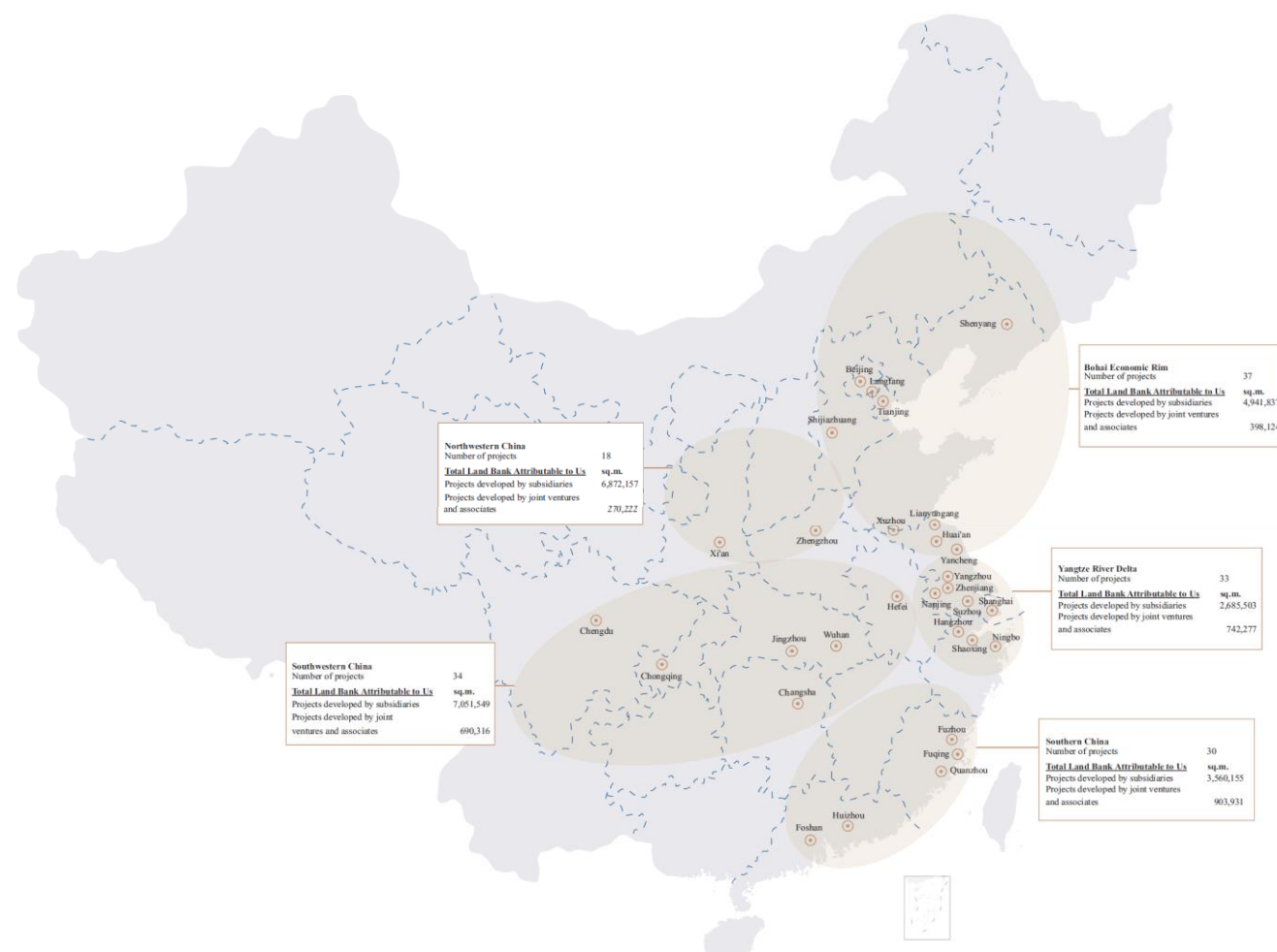
Company Overview

One of China's Top 40

Established more than 20 years, Radiance focuses on providing quality residential properties to first-time homebuyers and first-time upgraders. It was ranked 36th among "2020 China's Top 40 Real Estate Developers" by the China Real Estate Association and the China Real Estate Appraisal Center of E-House China Research Institute in 2020.

Radiance has expanded its footprint across the YRD, the Bohai Economic Rim, Southern China, Southwestern China and Northwestern China. As of 31 Jul 2020, Radiance had 160 property development projects at various stages of development, among which 117 are developed by its subsidiaries and 43 by joint ventures and associates. Total attributable GFA as of 31 Jul 2020 is 29.08mn sq m, comprising (i) GFA available for sale, rentable GFA and rentable GFA for property investment for completed projects of 2.53mn sq m; (ii) planned GFA for properties under development of 17.25mn sq m; and (iii) estimated GFA for properties held for future development of 9.30mn sq m. As of the same date, 93.3% of total attributable GFA was located in second-tier cities and core third-tier cities.

Figure 7: Geographical distribution of projects as of 31 Jul 2020



Source: Company data, CMBIS

Company history

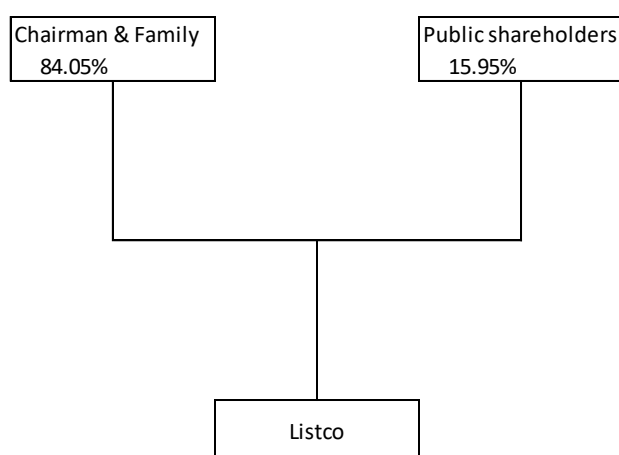
Prior to the founding of Radiance Group, Mr. Lam Ting Keung (“Mr. Lam”) worked in a property development company in China. Having found huge business opportunities in the property market, Mr. Lam commenced the development of residential properties in Fuzhou City in 1996. On 2 Sep 1996, Mr Lam founded and fully owned Radiance Group in China. In Jun 2015, Shanghai Huayue, which was at the time wholly owned by relatives of Mr. Lam, invested in Radiance Group by injecting RMB200mn capital. RMB19.05mn of such RMB200mn capital injection was credited to the registered capital of Radiance Group and the remaining RMB180.95mn was credited to the capital reserve of Radiance Group. After IPO, the Chairman and family is currently owning 84.05% while public shareholders owns 15.95%.

Disposal of property management business

In order to streamline the structure and focus on the businesses of property development, Radiance took the following disposals and reorganization to dispose property management business.

Xi'an Jinhui Square Commercial Property Management was principally engaged in the provision of property management services and other valued-added services to commercial properties developed by the Group. On 2 Dec 2019, Xi'an Jinhui Properties Development Co. Ltd. (the sole shareholder of Xi'an Jinhui Square Commercial Property Management) transferred the entire equity interest in Xi'an Jinhui Square Commercial Property Management to Beijing Jinhui Jinjiang at a consideration of RMB5mn. On 23 Dec 2019, Radiance Group (the sole shareholder of Beijing Jinhui Jinjiang) transferred the entire equity interest in Beijing Jinhui Jinjiang at a consideration of RMB27mn to Fuzhou Jinhui Property Management Co., Ltd, which is indirectly owned by Mr. Lam and Ms. Lam Fung Ying (“Ms. Lam”).

Figure 8: Shareholding structure



Source: Company data, CMBIS

Business Overview

Reputable developer with footprint across key regions

Radiance is a national player with more than 20 years' experience. The Company was ranked 36th among "2020 China's Top 40 Real Estate Developers" by the China Real Estate Association. It has been ranked as one of "China's Top 40 Real Estate Developers" by the China Real Estate Association and the China Real Estate Appraisal Center of E-House China Research Institutes for seven consecutive years since 2014.

Revenue from property development amounted to RMB11.3bn, RMB15.1bn and RMB25.0bn in 2017-19, respectively, which represented about 95.8%, 94.9% and 96.4% of total revenue in the corresponding year. Contract sales of Radiance amounted to RMB28.0bn, RMB43.2bn and RMB56.0bn in 2017-19, respectively. As of 31 Jul 2020, total attributable land bank amounted to 29.08mn sq m.

Radiance has penetrated into five key regions with robust economic growth, namely the YRD, the Bohai Economic Rim, Southern China, Southwestern China and Northwestern China. Number of projects in the YRD, the Bohai Economic Rim, Southern China, Southwestern China and Northwestern China were 36, 38, 33, 35 and 18, respectively as of 31 Jul 2020, making up 13.8%, 18.2%, 17.3%, 26.2% and 24.5% of total attributable GFA.

Figure 9: Property portfolio in different regions as of 31 Jul 2020

Region	Number of projects	% of total	Total attributable land bank (1) (sq m)	% of total
Yangtze River Delta	36	22.5%	4,006,171	13.8%
Bohai Economic Rim	38	23.8%	5,300,069	18.2%
Southern China	33	20.6%	5,026,649	17.3%
Southwestern China	35	21.9%	7,618,062	26.2%
Northwestern China	18	11.3%	7,130,806	24.5%
Total	160	100.0%	29,081,757	100.0%

Source: Company data, CMBIS

Note: (1) Total land bank equals to the sum of (i) total GFA available for sale, total rentable GFA and total rentable GFA for property investment for completed properties; (ii) total planned GFA for properties under development; and (iii) total estimated GFA for properties held for future development. For projects held by JV or associates, total GFA will be adjusted by equity interest in the respective project.

Property development

Residential property offerings

Radiance focuses on providing quality and diversified residential properties to first-time homebuyers and upgraders. It provides four residential property series to meet the different target customers' needs and preferences:

1. The New Block series (优步系) (also known as "Comfort series") comprises residential properties mainly targeting first-time homebuyers. It features creative and modern design and offers a "7U" community to customers, including (i) U-Transportation — convenient access to various transportation facilities; (ii) U-Resources — easy access to community services and ancillary facilities; (iii) U-Growth — high-quality educational resources; (iv) U-Style — artistic design and landscaping; (v) U-Neighborhood — access to membership clubs in the community; (vi) U-Service — sophisticated technology to facilitate smart living; and (vii) U-Product — space-efficient properties offering quality living environment. The design of properties of the New Block series

focuses on the efficient utilization of interior spaces and aims to provide multi-functional spaces to customers. Properties of the New Block series generally can provide a comfortable living environment to a three-generation family.

2. The Elite's Mansion series (云着系) (also known as "Cloud Series") comprises apartments featuring smart home design for the modern-living generation and targeting first-time upgraders. The Company incorporates smart living facilities into artistic architectures to provide comfort, convenient and smart living experience to customers. It established a smart community based on IoT, big data and artificial intelligence, which includes smart home, smart security, smart transportation, smart property management, smart logistical support, smart operation, smart health and smart sharing. With this series, the Company aims to harmoniously integrate technology with humanity and provide a healthy and smart-living environment.
3. The King's Garden series (铭着系) (also known as "Mansion Series") comprises apartment buildings and standalone villas targeting high-end customers. The Company works with world-renowned architectural design firms, such as Shanghai Lacime Architecture Design Co., Ltd., to deliver advanced design and quality living experiences. High-quality materials are used in interior decoration and high-end equipment is installed. Projects of the King's Garden series are located in prime locations in first- and second-tier cities with convenient access to various resources and facilities in the respective city.
4. The Metropolitan series (大城系) comprises large-scale complexes of residential communities with commercial areas in the vicinity, such as shopping malls and shopping streets. Projects of this series consist of different types of residential buildings to accommodate customers with different needs. Radiance also tailors the design of each project of this series according to characteristics of the respective land parcel and the surrounding environment.

In addition to residential projects, Radiance is also engaged in the development of commercial properties, of which it would retain a portion for leasing and long term investment. As of 31 Jul 2020, rentable GFA for property investment amounted to 0.62mn sq m with an average occupancy rate of 86.0%.

Land bank portfolio

The following table presents a detailed breakdown of Radiance's land bank portfolio. As of 31 Jul 2020, total attributable land bank amounted to 29.08mn sq m, consisting of residential properties with an aggregate attributable GFA of 25.63mn sq m and non-residential properties with an aggregate attributable GFA of 3.45mn sq m.

Figure 10: Property portfolio in terms of geographical location as of 31 Jul 2020

Province or Municipality	Number of projects	Completed GFA available for sales (1) (sq m)	Rentable GFA (2) (sq m)	Rentable GFA for property investment (3) (sq m)	GFA under development (4) (sq m)	Planned GFA for future development (5) (sq m)	Total attributable land bank (6)(7) (sq m)	% of total attributable land bank
Yangtze River Delta								
Zhejiang Province	7	0	0	0	700,157	241,495	941,652	3.5%
Jiangsu Province (South)	21	167,182	18,040	36,464	1,332,275	494,694	2,048,655	7.7%
Shanghai Municipality	2	34,239	19,231	30,622	0	0	84,092	0.3%
Sub-total	30	201,421	37,271	67,086	2,032,432	736,189	3,074,399	11.5%
Bohai Economic Rim								
Beijing Municipality	2	0	3,237	102,975	174,907	0	281,119	1.1%
Tianjin Municipality	8	5,703	0	0	783,045	98,572	887,320	3.3%
Hebei Province	11	67,149	0	0	502,614	814,691	1,384,454	5.2%
Liaoning Province	2	0	0	0	307,477	0	307,477	1.2%
Jiangsu Province (North)	13	119,338	64,887	0	1,358,505	736,677	2,279,407	8.5%
Sub-total	36	192,190	68,124	102,975	3,126,548	1,649,940	5,139,777	19.3%
Southern China								
Fujian Province	19	188,238	0	16,760	1,981,811	593,633	2,780,442	10.4%
Guangdong Province	9	69,819	0	0	533,659	41,365	644,843	2.4%
Sub-total	28	258,057	0	16,760	2,515,470	634,998	3,425,285	12.8%
Southwestern China								
Chongqing Municipality	14	303,351	4,291	193,700	1,427,109	652,889	2,581,340	9.7%
Hubei Province	5	0	0	0	994,296	1,779,487	2,773,783	10.4%
Hunan Province	4	4,625	0	0	357,158	771,293	1,133,076	4.2%
Sichuan Province	3	81,134	11,297	0	121,758	45,336	259,525	1.0%
Anhui Province	6	221,030	0	0	546,643	168,781	936,454	3.5%
Sub-total	32	610,140	15,588	193,700	3,446,964	3,417,786	7,684,178	28.8%
Northwestern China								
Shaanxi Province	16	234,245	1,417	221,423	2,806,745	3,627,654	6,891,484	25.8%
Henan Province	2	0	0	0	459,277	0	459,277	1.7%
Sub-total	18	234,245	1,417	221,423	3,266,022	3,627,654	7,350,761	27.6%
Total land bank	144	1,496,052	122,399	601,944	14,387,437	10,066,567	26,674,399	100.0%

Source: Company data, CMBIS

Notes: (1) Includes (i) GFA pre-sold but not yet delivered, and (ii) GFA unsold and available for sale.

(2) GFA available to generate rental income, excluding GFA of the property held for investment.

(3) GFA of the property available to generate rental income and held for investment.

(4) Total planned GFA under development as set out in the construction work planning permits or construction work commencement permits

(5) Includes (i) GFA for which Radiance has signed a land grant contract but has not obtained the relevant land use right certificates; and (ii) GFA for which Radiance has obtained the land use right certificates but has not obtained the requisite construction work commencement permits.

(6) Total land bank equals to the sum of (i) total GFA available for sale, total rentable GFA and total rentable GFA for property investment for completed properties; (ii) total planned GFA for properties under development; and (iii) total estimated GFA for properties held for future development.

(7) For projects held by JV or associates, total GFA will be adjusted by equity interest in the respective project.

Property leasing

The Company holds and operates a portion of commercial properties (including office buildings, shopping malls and commercial blocks of shopping streets) for capital appreciation and leases them to receive rental income.

As of 31 Jul 2020, Radiance had 23 completed investment properties of a total GFA of 657,634 sq m and one investment property held for future development of a total planned/estimated GFA of 69,530 sq m. As of 31 Dec 2017, 2018 and 2019, the average occupancy rate of Radiance's investment properties was 84.9%, 87.6% and 90.0%, respectively. Rental income amounted to RMB126mn, RMB279mn and RMB353mn in 2017-19, respectively.

Figure 11: Major investment properties as of 31 Jul 2020

Project	Location	Type of properties	Total GFA (sq m)	Status	Occupancy rate (1)
Beijing Radiance Plaza	Beijing	Office	102,975	Completed	94.0%
Chongqing Jinhui Plaza	Chongqing	Commercial	120,846	Completed	59.0% (2)
Jinhui city Phase IV (Bronze Road)	Chongqing	Commercial	72,854	Completed	84.0%
Xi'an Jinhui Global Plaza (Mall)	Xi'an	Shopping mall	124,336	Completed	94.0%
Jinhui Building (International Plaza)	Xi'an	Office	48,685	Completed	81.0%
Chuangzhi Building	Xi'an	Commercial	20,497	Completed	100.0%
Xi'an Jinhui Global Plaza (Block B)	Xi'an	Office	27,905	Completed	100.0%
Fuzhou Jinhui Mansion	Fuzhou	Commercial	16,760	Completed	100.0%
Shanghai Jingang Commercial Plaza	Shanghai	Commercial	30,622	Completed	100.0%
Suzhou Qianwan Commercial Center	Suzhou	Commercial	36,464	Completed	100.0%
Xi'an Jinhui World City Block G	Xi'an	Commercial	15,074	Completed	48.0% (4)
Chongqing Jinhui City Phase V (3)	Chongqing	Office	69,530	Held for future development	N.A.

Source: Company data, CMBIS

Notes: (1) Refers to occupancy rate of properties for commercial or office use (excluding car parks).

(2) Chongqing Jinhui Plaza had a relatively low occupancy rate as of 31 Jul 2020 as the Company was still in the process of locating appropriate tenants.

(3) The project is expected to be completed in May 2023.

(4) Xi'an Jinhui World City Block G has a relatively low occupancy rate as of 31 Jul 2020 as the project was completed in Mar 2020 and the Company was still in the process of locating appropriate tenants.

Other businesses

Property management: no income beyond 2020

Revenue from property management services was RMB357mn, RMB481mn and RMB517mn in 2017-19, respectively. However, as the Company disposed this business in Dec 2019 in order to focus on property development and property investment, there will be no revenue contribution from property management services starting from 2020.

Management consulting services

Radiance provides management consulting services to its joint ventures and associates for those projects that it develops by cooperating with third-party business partners through joint ventures and associates, mainly including supporting and consulting services provided to these entities in connection with the design, sales and marketing of properties, and overall project management during the development and sales of properties. Revenue from management consulting services was RMB8mn, RMB62mn and RMB56mn in 2017-19, respectively.

Hotel business

As of 31 Jul 2020, Radiance had two hotels under construction and two hotels in the planning and designing stage located in Fuzhou, Xi'an, Suzhou and Wuhan, respectively. All four hotels are designed as five-star hotels and are planned to be in core business districts. The Company wishes to expand its hotel business alongside other businesses, both in scale and geographical scope.

Suppliers and customers

Largest supplier accounted for 25.9% of total purchase in 2019

Radiance's major suppliers are construction contractors and equipment suppliers. In 2017-19, purchases from the five largest suppliers amounted to RMB4.29bn, RMB6.80bn and RMB8.32bn, respectively, accounting for 47.8%, 52.3% and 62.7% of total purchases, respectively. All five were Independent Third Parties. The largest supplier accounted for approximately 18.5%, 20.8% and 25.9% of total purchases, respectively, in 2017-19.

No single customer contributed more than 0.5% of revenue in 2017-19

Radiance's customers are mainly individuals and corporate properties. Revenue from the five largest customers amounted to RMB127mn, RMB219mn and RMB225mn in 2017-19, respectively, representing 1.1%, 1.4% and 0.9% of total revenue, respectively. All five were Independent Third Parties. The largest customer accounted for approximately 0.2%, 0.4% and 0.3% of total revenue, respectively, in 2017-19.

COVID-19 impact

As of 31 Jul 2020, the Company had obtained approvals from relevant authorities with respect to resumption of construction for four projects in Wuhan and all of projects in Hubei Province had resumed normal operations. On-site construction activities had resumed and all sales offices had re-opened.

In order to release the pain of COVID-19 pandemic, Radiance implemented rent reduction or exemption measures for some tenants in its investment properties in Beijing, Chongqing, Xi'an and Suzhou. Between the COVID-19 outbreak and up to the Latest Practicable Date, the Company expects to incur additional costs and expenses, which mainly consisted of (i) costs incurred for purchasing epidemic prevention materials; (ii) cost incurred for building quarantine spaces and facilities; and (iii) compensation and financial incentives provided to contractors to help them return to work.

Competitive Advantages

A large national developer

Since its establishment in Fuzhou in 1996, Radiance has become a national property developer covering five regions in China. As of 31 Jul 2020, its property portfolio covered 160 property projects, in 16 provinces and municipalities in China. The Company had been awarded “China’s Top 40 Real Estate Developers” by the China Real Estate Association and the China Real Estate Appraisal Center of E-House China Research Institute for seven consecutive years since 2014.

Radiance focuses on property development business in five regions with strong economic growth potential in China, including the YRD, the Bohai Economic rim, Southern China, Southwestern China and Northwestern China. As of 31 Jul 2020, total land bank amounted to 29.08mn sq m, spread across 31 cities.

According to JLL, in 2019, Radiance ranked top 3 in Xi’an and Huai’an and top 10 in Jingzhou and Fuzhou in terms of contracted sales of residential properties and was among top 5 in terms of the total site area of newly acquired land parcels of residential properties in Langfang and Shijiazhuang. According to JLL, during the three years ended 31 Dec 2019, the Company was among top 10 in Xi’an, Yangzhou, Jingzhou, Chongqing, Fuzhou and Huai’an in terms of contracted sales of residential properties and was among top 10 in Fuzhou, Xi’an, Changsha, Shijiazhuang and Langfang in terms of the total site area of newly acquired land parcels of residential properties.

Acquiring quality land bank

Radiance has accumulated a quality land bank at relatively low land acquisition costs in strategic locations with strong growth potential. As of 31 Jul 2020, Radiance’s land bank in YRD, the Bohai Economic rim, Southern China, Southwestern China and Northwestern China was 4.01mn sqm, 5.30mn sqm, 5.03mn sqm, 7.62mn sqm and 7.13mn sqm, respectively, accounting for 13.8%, 18.2%, 17.3%, 26.2% and 24.5% of total land bank, respectively. Furthermore, as of 31 Jul 2020, land bank in the second-tier cities and core third-tier cities accounted for 93.2% of total land bank. The strategic allocation for land bank will provide solid foundation for long-term growth.

Radiance acquires land through public tender, auction or listing-for-sale. It also obtained land by acquiring equity interest in companies that own land use rights of land parcels. The Company have established a prudent land acquisition strategy with strict screening criteria for target land parcels.

Providing quality and diversified residential properties to first-time homebuyers and first-time upgraders

Through its flagship product series, Radiance provides quality and diversified residential properties to first-time homebuyers and first-time upgraders. The New Block series is designed to provide first-time homebuyers with properties of high cost efficiency. It was awarded “China’s Top 10 Brand of Real Estate Project Series” by the China Index Academy in 2019. The Elite’s Mansion series is designed to provide comfortable properties for customers for home upgrading, featuring smart-living facilities and artistic design to provide comfort, convenient and smart-living experience to customers. In addition, the Company has developed King’s Garden series and Metropolitan series to provide convenient and comfortable living experience for customers with different needs.

As of 31 Jul 2020, among Radiance 160 projects, 56 projects were New Block series with an aggregate attributable GFA of 9.33mn sq m and 39 projects were Elite’s Mansion series with an aggregate attributable GFA of 7.47mn sq m. As a result, New Block series and

Elite's Mansion series accounted for 32.1% and 25.7% of total attributable GFA, respectively, as on 31 Jul 2020.

Rapid asset turnover underpinned by standardized development processes and strong execution capabilities

Radiance has established a standardized property development process, covering site selection and land acquisition, financing, project design, contracting and procurement, construction and quality control, marketing, pre-sales and delivery. This standardized development process enables the Company to efficiently complete project development while ensuring project quality. The Company has established a flat organizational structure composed of three levels: group, region and city. On the one hand, the flat organizational structure ensures the effectiveness of the headquarters' decision-making and facilitates the headquarters to monitor market trend and business development. On the other hand, it provides sufficient autonomy to regional and city companies.

In addition, the Company has classified over a hundred check points involved in project development into milestone check points, group-level check points and regional-level check points. It has established an operation system to control all the check points and track project progress. Radiance typically requires the approval of a development plan to be completed within 110 days after land acquisition, pre-sales to commence within 8 months, and delivery to be completed within 24 to 30 months.

Radiance also understands the balance between rapid asset turnover and project quality. The standardized development process enables the Company to effectively control project quality, maintain operational efficiency and efficiently expand into new markets.

Experience management team and highly qualified talents

Chairman, executive Director and president, Mr. Lam Ting Keung, has over 26 years of experience in real estate industry. Chairman makes timely and precise decisions on business development with his forward-looking vision. Joining in 2011, Mr. Lam Yu, executive Director, executive president and son of Mr. Lam Ting Keung, has held different management positions in the Company. Since 2015, Mr. Lam Yu has been responsible for the management of several departments of Radiance's headquarters.

The Company owns a group of talent employees, who have extensive experience in property development, planning, design, construction, financing and other related fields. The Company offers different training program to different group of employees, such as "Radiance Kickstart Program" for outstanding entry-level graduates, "Radiance Wing Program" for junior managers, "Radiance Leader Program 1.0" and "Radiance Leader Program 2.0" for mid-level to senior managers and "Radiance Captain Program" for senior managers. These training programs would not only enhance employees' professional skills, but also strengthen their sense of belonging. Furthermore, the Company provides employees with specialized external training in order to improve their specialized skills.

Business Strategy

Continue to focus on key regions and further strengthen its market position

Radiance continues to strengthen the development in the five regions, including the YRD, the Bohai Economic rim, Southern China, Southwestern China and Northwestern China. Furthermore, it wishes to enlarge market shares therein. Because of solid economy, high population inflow and less susceptible to relevant PRC laws and regulations, Radiance will strengthen the development in the second-tier cities and core third-tier cities in the regions that it has entered into. Meanwhile, the Company considers to explore new market out of these five regions. It will also develop quality commercial properties in the first-tier and second-tier cities as a supplement to the development of residential properties.

Acquire quality land bank

Radiance will enrich its land acquisition methods. It will joint hand with comparable property developers or other regional leading third-party business partners to acquire new land parcels. Besides acquiring lands through public tenders, auctions and listings-for-sale, Radiance will acquire lands by way of acquisition of equity interests, asset acquisition or capital injection. It will also participate urban redevelopment projects by cooperation with third-party property developers who have already been involved in such urban redevelopment projects.

Improve in product design & quality and empower products with smart technology

The Company continues to refine the positioning of four product lines to improve customer satisfaction. For New Block series which targets first-time homebuyers by providing cost effective properties, Radiance plans to make full use of space through compact design and provide more functional areas for customers to further improve the cost performance of properties. For Elite's Mansion series which targets first-time upgraders by providing comfortable properties, Radiance would build a technologically innovated community featuring cost efficiency, modern architectural style, multi-functional extensible space, interconnected health system, smart home equipment and community sharing space. For King's Garden series which targets high-end customers by providing quality and comfortable properties, Radiance provides customized products catering to different residential habits and preferences in each region, and further improving the quality and comfort of such products. Metropolitan series is large-scale complexes of residential communities with commercial areas in the vicinity. Radiance tailors the design of properties of this series based on local conditions, aiming to create a harmonious community for customers. The Company also empowers products with smart technology in order to create "smart and healthy" living spaces. By further upgrading and optimizing existing products, Radiance endeavours to provide customers with products of high quality and better design to further improve customer satisfaction.

Implement prudent financial policies, optimize capital structure and increase shareholder returns

Radiance continues to implement prudent financial policies to control land acquisition costs and construction costs. It will use centralized procurement and takes measures to monitor sale and general administrative expenses. Furthermore, it will closely monitor the project expenses so that over budget cannot be happened. In addition, the Company closely monitors key financial indicators such as asset liability ratio and interest coverage ratio, and prudently manages the capital structure, cash flow and liquidity position in order to control costs and monitor risks.

Radiance also aims to improve shareholder return by optimizing capital structure, improving operational efficiency and capital utilization efficiency. It plans to further optimize capital structure by diversifying financing channels. In terms of financing management, Radiance intends to balance the time value of money and costs of capital, and to efficiently allocate short- and long-term debts through multiple and flexible financing channels in an effort to reduce financing costs. Furthermore, it will streamline the internal approval process and operational procedure to enhance the efficiency and asset turnover.

Attract and expand skilled and talented employees

The Company will further attract and recruit professionals to expand talent pool. It provides systematic internal training and specialized external training to strengthen employees' professional skills and execution capabilities. Meanwhile, it provides employees with competitive remuneration and benefits packages. Radiance aims to effectively utilize employee competition mechanism and retain and motivate talented and experienced employees.

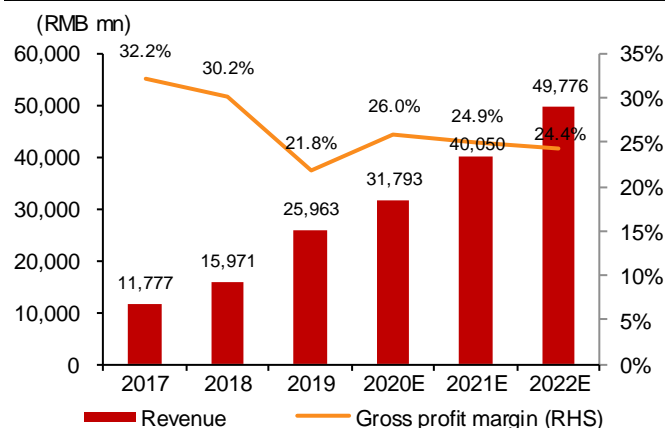
Financial Analysis

Forecast revenue to growth at a 24% CAGR next three years

Revenue amounted to RMB11.8bn, RMB16.0bn and RMB26.0bn in 2017-19, respectively. Approximately 95.8%, 94.9% and 96.4% of total revenue was generated from property development business in the corresponding period. The substantial rise in revenue from property development was attributed by the rise in recognized GFA from 1.10mn sq m in 2017 to 1.28mn sq m in 2018 and further to 1.78mn sq m in 2019. Recognized ASP also increased from RMB10,250 per sq m in 2017 to RMB11,800 per sq m in 2018 and further to RMB14,061 per sq m in 2019.

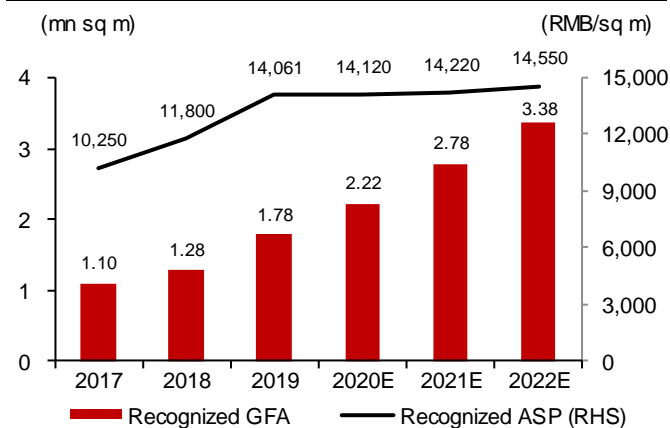
As of 31 Dec 2019, contract liabilities amounted to RMB56.7bn, which provided a guidance for future earnings recognition. We forecast total revenue to be RMB31.8bn, RMB40.1bn and RMB49.8bn in 2020-22, respectively, representing a CAGR of 24.2% in the same period. Based on our forecasted of 2.22mn sq m, 2.78mn sq m and 3.38mn sq m of recognized GFA as well as RMB14,120 per sq m, RMB14,220 per sq m and RMB14,550 per sq m of recognized ASP in 2020-22, respectively, we expect revenue from property sales to be RMB31.3bn, RMB39.5bn and RMB49.2bn in the corresponding period.

Figure 12: Revenue and gross profit margin



Source: Company data, CMBIS estimates

Figure 13: Recognized GFA and ASP



Source: Company data, CMBIS estimates

Gross profit margin is expected to rebound

Gross profit margin was 32.2%, 30.2% and 21.8% in 2017-19, respectively. The shrinking of gross profit margin from 2017 to 2019 was mainly driven by the higher land cost for projects delivery in Nanjing and Shanghai. Gross margin for property sales business was 32.1%, 29.2% and 20.7% in 2017-19, respectively. Average land use right cost per sq m as % of recognized ASP was 20.9%, 22.8% and 36.4% in 2017-19, respectively.

Gross margin for property management business was 17.3% in 2019. Due to the discontinuation of property management business since 2020, overall gross margin will be lifted afterwards. Furthermore, we expect more delivery came from projects in other leading second tier cities with higher gross margin. Therefore, we project overall gross margin to be 26.0%, 24.9% and 24.4% in 2020-22, respectively.

Figure 14: Average cost of properties sold

	2017 (RMB/sq m)	2018 (RMB/sq m)	2019 (RMB/sq m)
Land use right costs	2,141	2,692	5,120
Construction costs	4,198	4,688	4,797
Capitalized interest	622	977	1,234
Total	6,961	8,356	11,152
Gross margin for property sales	32.1%	29.2%	20.7%

Source: Company data, CMBIS

SG&A expenses

Selling, General and Administrative (SG&A) expenses increased from RMB1.07bn in 2017 to RMB1.42bn in 2018 to RMB1.81bn in 2019. The rise in SG&A expenses was attributed to strengthened selling and marketing efforts as well as business expansion. As a percentage of revenue, SG&A expense declined from 9.1% in 2017 to 8.9% in 2018 and further to 7.0% in 2019 because of economies of scales as the growth in revenue was faster than the growth in SG&A expenses.

We forecast SG&A expenses to revenue ratio to be 7.3%, 6.9% and 6.6% in 2020-22, respectively because of economies of scale.

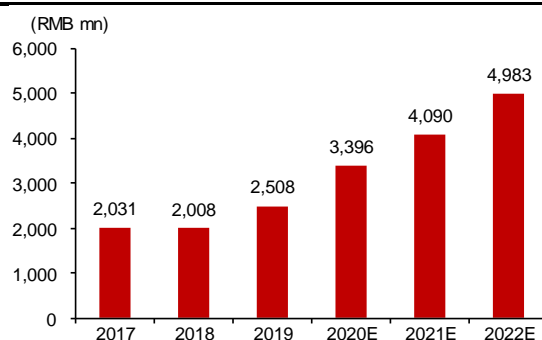
Figure 15: SG&A expenses

	2020E (RMB mn)	% of revenue	2021E (RMB mn)	% of revenue	2022E (RMB mn)	% of revenue
Selling expenses	954	3.0%	1,121	2.8%	1,344	2.7%
Administrative expenses	1,272	4.1%	1,522	3.8%	1,792	3.6%
Other expenses	64	0.2%	80	0.2%	100	0.2%
SG&A expenses	2,289	7.3%	2,723	6.9%	3,235	6.6%

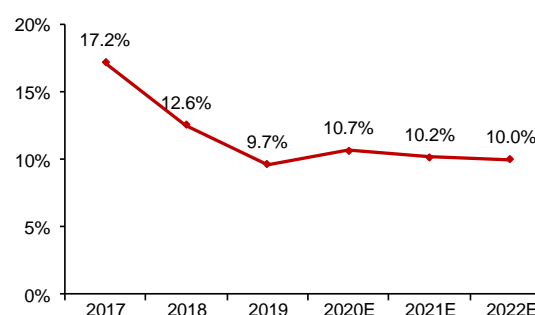
Source: Company data, CMBIS estimates

Estimated net profit attributable to shareholders to grow at 25% CAGR next three years

Net profit attributable to shareholders was RMB2.03bn, RMB2.01bn and RMB2.51bn in 2017-19, respectively. Business expansion, recovery of gross margin and better cost control drive the earnings growth in the future. We forecast net attributable profit to be RMB3.40bn, RMB4.09bn and RMB4.98bn in 2020-22, respectively, representing a 25.7% CAGR during 2019-22. Furthermore, we project net (attributable) profit margin to be 10.7%, 10.2% and 10.0% in 2020-22, respectively.

Figure 16: Net profit attributable to shareholders

Source: Company data, CMBIS estimates

Figure 17: Net (attributable) profit margin

Source: Company data, CMBIS estimates

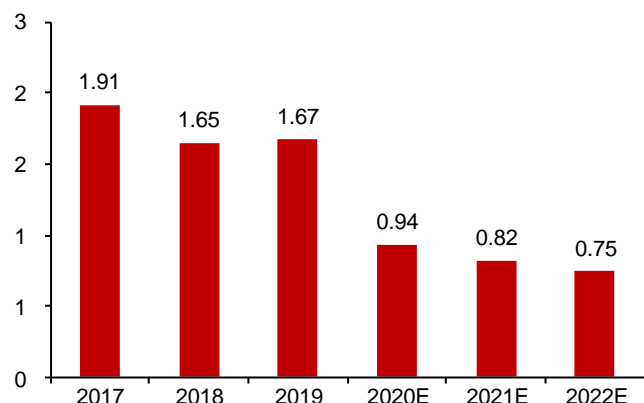
Net gearing continues to improve

As of 31 Dec 2019, total interest-bearing bank and other borrowings was RMB49.1bn while cash and cash balances consisted of cash and cash equivalents, pledge deposits and restricted cash was RMB13.4bn.

The weighted average effective interest rate was 7.25%, 7.65% and 7.76% in 2017-19, respectively. The rise in effective interest rate was mainly due to an increase in trust financing which has higher interest rates than bank borrowings. As of 31 Dec 2019, total outstanding principal of trust financing arrangement was approximately RMB15.4bn. Compared with bank borrowings, trust financing usually offers greater flexibility in terms of availability, approval schedule and repayment requirements. Furthermore, the Company has accessed capital markets for debt financing. It has issued several corporate bonds and ABS in China. Radiance Capital Investments, an indirect wholly-owned subsidiary of Radiance Group, issued senior notes in an aggregate amount of US\$250mn of 11.75% coupon due 2021 in Oct 2019 and US\$300mn of 10.5% coupon due 2022 in Jan 2020.

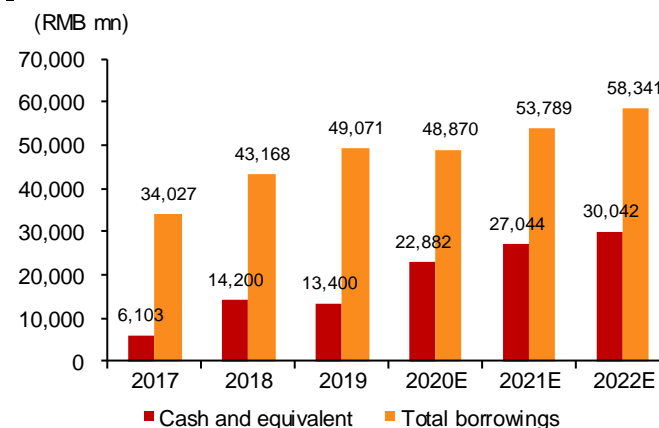
Net gearing ratio was 1.91, 1.65 and 1.67 in 2017-19, respectively. The decline of net gearing ratio was mainly due to the increment of total equity from RMB14.6bn as at 31 Dec 2017 to RMB21.4bn as at 31 Dec 2019. We predict total equity to increase to RMB27.8bn as at 31 Dec 2020 because of new capital and increase in net profit attributable to shareholders during the year. Furthermore, we forecast cash on hand, including restricted cash, to increase from RMB13.4bn as at 31 Dec 2019 to RMB22.9bn as at 31 Dec 2020. As a result, we forecast net gearing ratio to further retreat to 0.94 as at 31 Dec 2020.

Figure 18: Net gearing ratio



Source: Company data, CMBIS estimates

Figure 19: Cash and debt position



Source: Company data, CMBIS estimates

Valuation

Currently, China property developers under coverage of CMBIS are trading at 51.2% discount to NAV or 5.8x 20E P/E. Using a DCF method ended 31 Dec 2020, we estimate gross asset value of Radiance's properties amounted to RMB81.9bn. We also forecast total cash and total debt to be RMB22.9bn and RMB48.9bn as at 31 Dec 2020, respectively. As a result, we estimate NAV of Radiance to be RMB55.2bn as at 31 Dec 2020. We set TP to HK\$ 5.55 based on a discount rate of 60%, representing 28.8% upside.

Figure 20: End-20 NAV of the Company

	NAV/share			% of NAV	Remark
	(Rmb mn)	(HK\$ mn)	(HK\$)		
Properties under development	63,910	72,841	18.01	129.8%	
Investment property	11,306	12,886	3.19	23.0%	At book
Gross Amount	75,216	85,727	21.19	152.8%	DCF with WACC of 11.5%
Net debt	(25,989)	(29,620)	(7.32)	-52.8%	by end-20
NAV	49,228	56,107	13.87	100.0%	

Source: CMBIS estimates

Figure 21: Peers' valuation

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			NAV/share (LC)	Discount to NAV	TP Discount
						19A	20E	21E			
Vanke - H	2202 HK	26.25	408,663	BUY	33.92	6.8	6.0	5.3	48.46	45.8%	30%
COLI	688 HK	17.72	208,147	BUY	30.49	4.2	4.0	3.8	43.55	59.3%	30%
Country Garden	2007 HK	10.12	236,660	BUY	13.36	4.9	4.9	4.1	26.72	62.1%	50%
CR Land	1109 HK	31.35	258,853	BUY	44.79	6.8	7.6	6.3	63.98	51.0%	30%
Longfor	960 HK	43.90	297,351	HOLD	34.27	12.6	12.3	9.9	48.95	10.3%	30%
Shimao	813 HK	24.70	107,900	BUY	44.94	6.7	6.0	5.1	59.92	58.8%	25%
Agile	3383 HK	10.16	45,594	BUY	13.89	4.7	4.5	3.8	27.78	63.4%	50%
KWG	1813 HK	10.12	36,230	BUY	17.87	2.9	4.2	3.6	25.52	60.3%	30%
China Aoyuan	3883 HK	7.63	21,839	BUY	15.48	4.4	2.8	2.5	30.95	75.3%	50%
Times China	1233 HK	10.36	21,748	BUY	16.20	3.4	2.9	2.5	32.40	68.0%	50%
Yuzhou	1628 HK	2.77	17,037	BUY	4.82	3.5	3.0	2.6	9.65	71.3%	50%
China SCE	1966 HK	3.24	14,735	BUY	5.60	3.5	3.2	2.8	9.34	65.3%	40%
Redsun	1996 HK	2.70	9,600	BUY	3.52	6.1	5.6	4.3	5.87	54.0%	40%
Sinic	2103 HK	4.09	14,923	BUY	5.06	6.4	5.4	4.4	10.11	59.5%	50%
Vanke - A	000002 CH	28.60	347,326	BUY	31.36	8.3	7.3	6.5	48.46	41.0%	35%
Average						5.7	5.3	4.5		56.4%	39.4%

Source: Bloomberg, CMBIS estimates

Key investment risks

In our view, key investment risks for the Company include 1) fluctuation of the China property market; 2) lack of financing for property development projects; 3) changes in government policies and regulations; 4) intra-sector competition.

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	15,971	25,963	31,793	40,050	49,776
Property development	15,150	25,037	31,346	39,532	49,179
Property management	481	517	-	-	-
Property leasing	279	353	388	454	527
Management consulting	62	56	59	65	70
Cost of sales	(11,146)	(20,301)	(23,532)	(30,070)	(37,652)
Gross profit	4,826	5,662	8,261	9,981	12,124
Other income and gains	286	288	252	333	390
Distribution expenses	(519)	(771)	(954)	(1,121)	(1,344)
Administrative expenses	(795)	(988)	(1,272)	(1,522)	(1,792)
Other expenses	(102)	(49)	(64)	(80)	(100)
Operating profit	3,695	4,141	6,224	7,590	9,278
Finance expenses	(572)	(495)	(535)	(554)	(606)
Associates/JV	(90)	441	315	385	420
Exceptional	617	481	101	-	-
Pre-tax profit	3,650	4,569	6,105	7,420	9,093
Profits tax	(1,350)	(1,879)	(2,484)	(3,045)	(3,774)
After-tax profit	2,300	2,690	3,621	4,375	5,319
Minority interest	(292)	(182)	(225)	(285)	(336)
Perpetual	-	-	-	-	-
Net profit	2,008	2,508	3,396	4,090	4,983

Cash flow summary

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	3,695	4,141	6,224	7,590	9,278
Depreciation and amortization	66	85	94	101	107
Change in working capital	(15,264)	(22,982)	(5,662)	(16,480)	(25,400)
Income tax paid	(1,740)	(2,288)	(2,607)	(2,735)	(3,524)
Others	14,678	15,347	10,160	13,368	20,479
Net cash from operating	1,434	(5,697)	8,209	1,844	940
Capex	(857)	(100)	(929)	(925)	(921)
Associates/JV	(183)	(518)	(271)	(530)	(220)
Other	(505)	81	(110)	(136)	(136)
Net cash from investing	(1,545)	(537)	(1,310)	(1,591)	(1,277)
Equity raised	-	-	2,774	-	-
Change of Debts	8,286	4,909	(201)	4,919	4,552
Dividend paid	(1)	-	-	(1,019)	(1,227)
Other	(1,797)	612	-	-	-
Net cash from financing	6,487	5,521	2,574	3,900	3,325
Net change in cash	6,377	(714)	9,472	4,153	2,988
Cash at the beginning	3,555	9,932	9,219	18,700	22,863
Exchange difference	-	-	10	10	10
Cash at the end	9,932	9,219	18,700	22,863	25,861
Pledged deposit	4,268	4,181	4,181	4,181	4,181
Cash at BS					

Balance sheet

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	18,381	19,699	21,054	22,624	23,914
Fixed asset	535	509	550	580	600
Investment properties	9,735	10,506	11,306	12,106	12,906
Associates/JV	3,098	4,079	4,350	4,880	5,100
Intangible assets	20	18	18	18	18
Other non-current assets	4,993	4,587	4,830	5,040	5,290
Current assets	102,231	129,646	147,532	170,944	201,762
Cash	14,200	13,400	22,882	27,044	30,042
Account receivable	6,509	12,269	9,120	10,300	12,500
Inventories	72,498	94,988	105,800	123,100	148,300
Other current assets	9,024	8,989	9,730	10,500	10,920
Current liabilities	80,479	95,288	107,525	125,498	150,736
Borrowings	23,352	19,205	18,000	20,700	23,805
Trade and other payables	9,824	11,702	13,702	15,702	17,702
Contract liabilities	41,935	56,685	67,982	80,936	100,699
Deferred taxation	2,467	2,763	3,040	3,250	3,500
Other current liabilities	2,902	4,932	4,800	4,910	5,030
Non-current liabilities	22,601	32,677	33,280	35,599	37,046
Borrowings	19,815	29,866	30,870	33,089	34,536
Other non-current liabilities	2,785	2,811	2,410	2,510	2,510
Shareholders' equity	14,322	16,830	23,001	27,091	32,074
Minority interest	3,210	4,549	4,780	5,380	5,820
Perpetual bond	0	0	0	0	0
Total equity	17,532	21,379	27,781	32,471	37,894

Key ratios

YE Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property development	94.9	96.4	98.6	98.7	98.8
Property management	3.0	2.0	0.0	0.0	0.0
Property leasing	1.7	1.4	1.2	1.1	1.1
Management consulting	0.4	0.2	0.2	0.2	0.1
Total	100.0	100.0	100.0	100.0	100.0
Growth					
Revenue	35.6	62.6	22.5	26.0	24.3
Gross profit	27.3	17.3	45.9	20.8	21.5
Operating profit	22.6	12.1	50.3	21.9	22.2
Net profit	-1.1	24.9	35.4	20.4	21.8
Profit & loss ratios (%)					
Gross margin	30.2	21.8	26.0	24.9	24.4
Operating margin	23.1	16.0	19.6	19.0	18.6
Net margin	12.6	9.7	10.7	10.2	10.0
Effective tax rate	37.0	41.1	40.7	41.0	41.5
Balance sheet ratios					
Current ratio (x)	1.3	1.4	1.4	1.4	1.3
Net gearing ratio (x)	1.65	1.67	0.94	0.82	0.75
Returns (%)					
ROE	14.0	14.9	13.8	13.6	14.2
ROA	1.9	1.8	2.1	2.3	2.4
Per share					
EPS (RMB)	N.A.	N.A.	0.84	1.01	1.23
DPS (RMB)	N.A.	N.A.	0.25	0.30	0.37
BVPS (RMB)	N.A.	N.A.	6.87	8.03	9.37

Source: Company data, CMBIS estimates

*Include restricted cash, pledged time deposits and cash and cash equivalents

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