

Glodon (002410 CH)

SaaS is good but operating leverage unclear yet

Glodon FY20 results missed our estimates on slower Construction business growth and higher opex although SaaS transition is in good shape (revenue +71% YoY). FY21E SaaS growth outlook is likely to remain strong given +68% YoY increase in unearned revenue in FY20. However, we believe further re-rating is difficult without solid opex control plan to realize operating leverage with SaaS. Maintain BUY but lower target price to RMB89.19 (prior RMB107.26).

- **FY4Q20 missed on higher opex with faster SaaS transition.** Glodon FY4Q20 achieved top line growth of +9% YoY to RMB1,417mn and net profit growth of +32% YoY to RMB101m. FY4Q20 results missed our estimates on 1) faster-than-expected SaaS transition in costing business (license revenue -38% YoY vs. CMBI prior forecast of -16% YoY) and 2) higher sales & marketing expense (+12% YoY).
- **SaaS in good shape while Construction business growth resumed.** Glodon delivered robust FY4Q20 costing SaaS revenue growth of +71% YoY to RMB515mn. Newly signed SaaS contract was at RMB663mn (+50% YoY) and unearned revenue was at RMB422mn (+68% YoY), all suggesting strong SaaS revenue ahead. Construction segment growth also resumed in FY4Q20 at +25% YoY (vs. mere +1% YoY in 9M20 given COVID-19 and more stringent account receivables management). Glodon targets 30% revenue CAGR for its construction business in the coming three years.
- **Cash flow improved but operating leverage unclear.** Glodon's FY20 operating cash flow improved significantly to RMB1,876mn (vs. RMB641mn in FY19) as SaaS contribution increased. However, operating leverage is not clear yet with operating margin of 10.2% in FY20 (only up +0.6 pct pts YoY) given increasing investment in sales channel and R&D on new products.
- **Maintain BUY.** We cut FY21-22E net profit by 2-9% to reflect 1) lower Construction business growth (FY20 missed prior guidance by 17%) and 2) higher-than-expected opex. We maintain our view that Glodon is the best software company in China that undergoes SaaS transition but clearer opex control plan is needed to drive further re-rating. Retain BUY but cut target price to RMB89.19, based on 18x FY22E EV/sales (prior 20x) given dimmer profitability outlook.

Earnings Summary

(YE 31 Dec)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,541	4,005	4,786	5,536	6,290
YoY growth (%)	22%	13%	20%	16%	14%
Net profit (RMB mn)	235	330	653	855	966
EPS (RMB)	0.21	0.28	0.55	0.72	0.81
YoY growth (%)	-47%	34%	98%	31%	13%
Consensus EPS (RMB)	0.21	0.32	0.56	0.80	0.00
PE (x)	319.7	239.0	121.0	92.4	81.7
EV/sales	22.0	18.5	15.4	13.2	11.4
Dividend Yiled (%)	0.00	0.00	0.00	0.00	0.00
ROE (%)	7%	7%	10%	12%	12%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB89.19
(Previous TP	RMB107.26)
Up/Downside	+33.9%
Current Price	RMB66.60

China Software and IT Services

Marley Ngan

(852) 3916 3719

marleyngan@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	74,858
Avg 3 mths t/o (RMB mn)	677.07
52w High/Low (RMB)	92.50/ 41.02
Total Issued Shares (mn)	1,186

Source: Bloomberg

Shareholding Structure

Xi Zhizhong - Chairman	16.0%
Other co-founders	20.3%

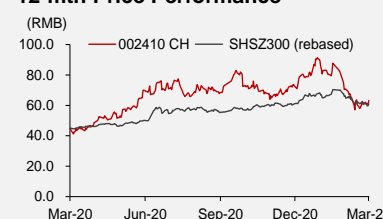
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-13.9%	-4.4%
3-mth	-16.4%	-14.4%
6-mth	-11.0%	-17.5%

Source: Bloomberg

12-mth Price Performance

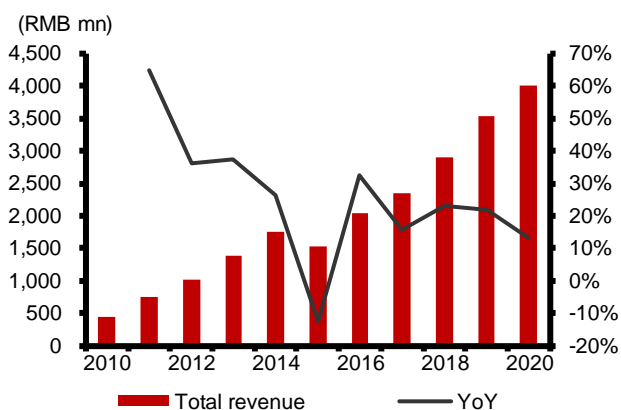


Source: Bloomberg

Auditor: BDO

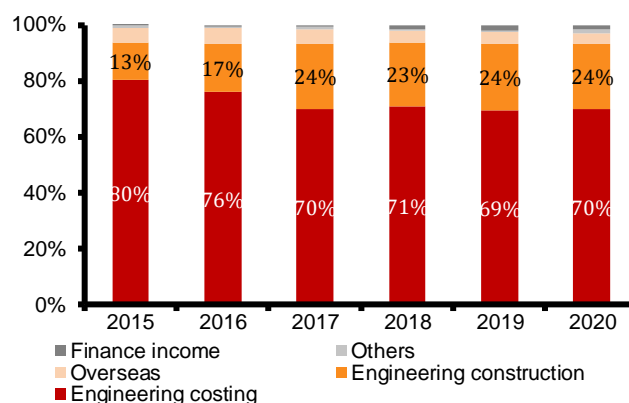
Focus Charts

Figure 1: Revenue and growth



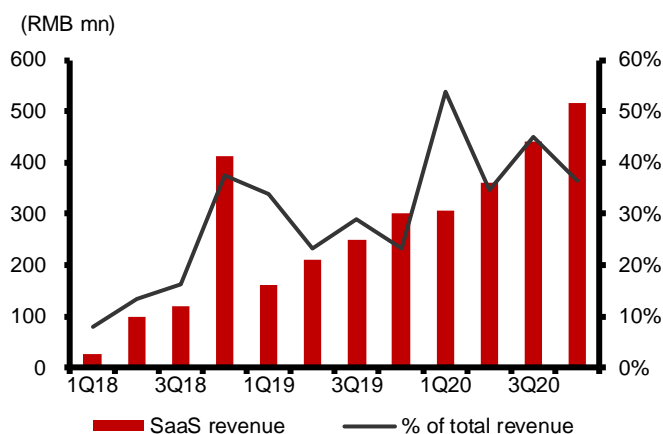
Source: Company data, CMBIS estimates

Figure 2: Revenue breakdown



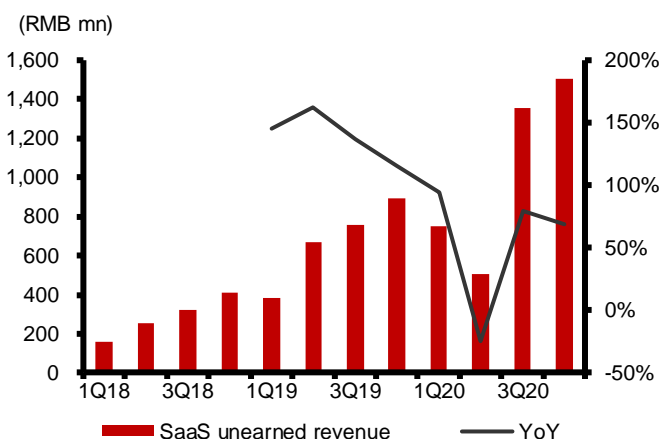
Source: Company data, CMBIS estimates

Figure 3: SaaS revenue



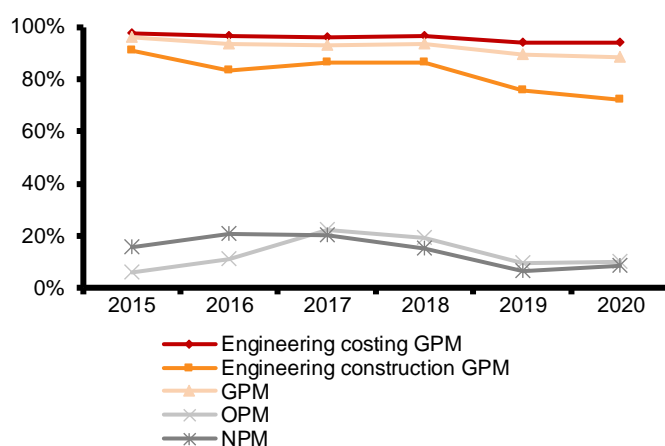
Source: Company data, CMBIS estimates

Figure 4: SaaS unearned revenue



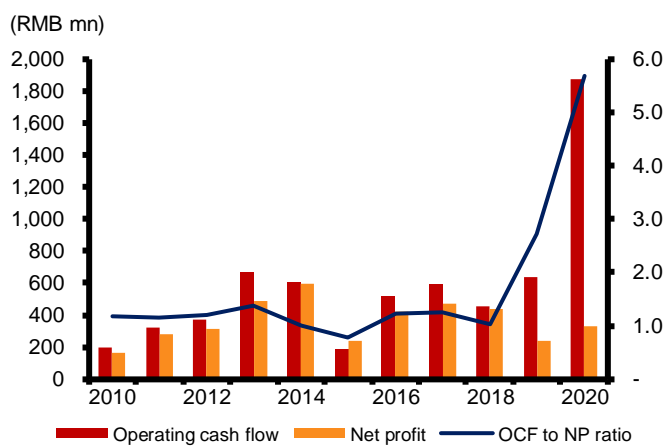
Source: Company data, CMBIS estimates

Figure 5: Margins



Source: Company data

Figure 6: Improved operating cash flow with SaaS



Source: Company data (2019 revenue)

FY4Q20 results review

- **Revenue** was at RMB1,417mn (+9% YoY, +45% QoQ), below our estimate but in-line with consensus.
- **Gross profit** was at RMB1,213mn (+8% YoY, +38% QoQ), below our estimate by 9% and consensus by 2%.
- **Gross margin** was at 85.6%, (-0.7 pct pts YoY, -4.2 pct pts QoQ), above our estimate by 0.1 pct pts but below consensus by 0.2 pct pts.
- **Operating profit** was at RMB84mn (-25% YoY, -31% QoQ), below our estimates by 47% and consensus by 25%.
- **Operating margin** was at 5.9% (-2.6 pct pts YoY, -6.5 pct pts QoQ), below our estimates by 4.3 pct pts.
- **Net profit** was at RMB101mn (+32% YoY, +1% QoQ), below both our and consensus estimates.

Figure 7: FY4Q20 results review

	Dec-19 4Q19	Sep-20 3Q20	Dec-20 4Q20			Dec-20 4Q20	versus	Dec-20 4Q20	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	1,304	979	1,417	9%	45%	1,550	-9%	1,436	-1%
Gross profit	1,125	879	1,213	8%	38%	1,327	-9%	1,233	-2%
Gross margin	86.3%	89.8%	85.6%	-0.7 pct pts	-4.2 pct pts	85.6%	0.1 pct pts	85.8%	-0.2 pct pts
Operating profit	111	121	84	-25%	-31%	159	-47%	111	-25%
Operating margin	8.5%	12.4%	5.9%	-2.6 pct pts	-6.5 pct pts	10.2%	-4.3 pct pts	7.7%	-1.8 pct pts
Net non-op	-30	4	23	177%	433%	1	1628%	134	-83%
PBT	81	126	107	32%	-15%	160	-33%	245	-56%
Net income	76	100	101	32%	1%	143	-30%	143	-30%
EPS RMB	0.07	0.08	0.08	26%	1%	0.12	-30%	0.12	-29%

Source: Company data, CMBIS

Figure 8: FY20 results review

	FY 2019	FY 2020		FY 2020	versus	FY 2020	versus
RMB mn	actual	actual	YoY	CMBI	CMBI	consensus	consensus
Revenue	3,541	4,005	13%	4,138	-3%	4,104	-2%
Gross profit	3,170	3,550	12%	3,664	-3%	3,651	-3%
Gross margin	89.5%	88.7%	-0.9 pct pts	88.5%	0.1 pct pts	89.0%	-0.3 pct pts
Operating profit	338	408	21%	483	-16%	425	-4%
Operating margin	9.5%	10.2%	0.6 pct pts	11.7%	-1.5 pct pts	10.4%	-0.2 pct pts
Net non-op	-54	3		-19		29	
PBT	284	410	45%	464	-12%	455	-10%
Tax	-29	-29	1%	-47	39%	0	#DIV/0!
Minorities	-20	-51	-161%	-43	-19%	-81	37%
Net income	235	330	41%	373	-12%	374	-12%
EPS RMB	0.21	0.28	34%	0.32	-12%	0.32	-13%

Source: Company data, CMBIS

FY4Q20 revenue breakdown

- **Engineering costing SaaS revenue** was at RMB515mn (+71% YoY, +17% QoQ). SaaS revenue accounted for 36% of total FY4Q20 revenue.
- **Engineering costing non-SaaS revenue** was at RMB381mn (-38% YoY, +26% QoQ).
- **Newly signed SaaS contract** was at RMB663mn, (+50% YoY, +22% QoQ).
- **Unearned SaaS revenue** was at RMB1,506mn (+68% YoY, +11% QoQ).
- **Engineering construction revenue** was at RMB422mn (+25% YoY, +128% YoY).

Figure 9: FY4Q20 revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Revenue breakdown								
Engineering costing	327	641	570	914	416	736	743	896
...SaaS	160	211	248	302	305	361	441	515
...non-SaaS	167	430	322	612	111	375	302	381
Engineering construction	100	190	227	336	96	241	185	421
Others	46	77	60	53	54	66	51	100
Total	473	907	857	1,303	566	1,043	979	1,417
Revenue YoY								
Engineering costing	36%	25%	14%	14%	27%	15%	30%	-2%
...SaaS	493%	115%	107%	-27%	91%	71%	78%	71%
...non-SaaS	-21%	3%	-15%	57%	-34%	-13%	-6%	-38%
Engineering construction	28%	28%	20%	33%	-4%	27%	-19%	25%
Others	100%	12%	37%	22%	18%	-14%	-15%	88%
Total	39%	24%	17%	19%	20%	15%	14%	9%
SaaS metrics								
Newly signed contract	131	498	329	442	159	869	543	663
YoY	75%	183%	95%	88%	21%	74%	65%	50%
Unearned revenue	385	672	754	894	748	507	1,357	1,506
YoY	145%	163%	136%	116%	94%	-25%	80%	68%

Source: Company data, CMBIS

Earnings revision

Figure 10: Earnings revision

RMB mn	2021E			2022E		
	New	Old	%Diff	New	Old	%Diff
Sales	4,786	5,091	-6%	5,536	5,966	-7%
Gross profit	4,217	4,466	-6%	4,843	5,197	-7%
OP Profit	748	797	-6%	991	1,126	-12%
PBT	802	807	-1%	1,055	1,145	-8%
Net profit	653	663	-2%	855	936	-9%
EPS (RMB)	0.55	0.56	-2%	0.72	0.79	-9%
Margins						
GM	88.1%	87.7%	39 bps	87.5%	87.1%	37 bps
OPM	15.6%	15.6%	-2 bps	17.9%	18.9%	-98 bps
PBT margin	16.8%	15.9%	90 bps	19.1%	19.2%	-14 bps
Net margin	13.6%	13.0%	62 bps	15.4%	15.7%	-25 bps

Source: Company data, CMBIS estimates

Figure 11: CMBI estimates vs consensus

RMB mn	2021E			2022E		
	CMBI	Street	Diff	CMBI	Street	Diff
Sales	4,786	5,056	-5%	5,536	6,158	-10%
Gross profit	4,217	4,462	-5%	4,843	5,403	-10%
OP Profit	748	754	-1%	991	1,088	-9%
PBT	802	785	2%	1,055	1,124	-6%
Net profit	653	664	-2%	855	957	-11%
EPS (RMB)	0.6	0.6	-2%	0.7	0.8	-10%
Margins						
GM	88%	88%	-15 bps	87%	88%	-26 bps
OPM	16%	15%	72 bps	18%	18%	22 bps
PBT margin	17%	16%	123 bps	19%	18%	80 bps
Net margin	14%	13%	50 bps	15%	16%	-10 bps

Source: Company data, CMBIS estimates

Operating model

Figure 12: Operating model

RMB mn	2019	2020	2021E	2022E	2023E
Revenues	3,541	4,005	4,786	5,536	6,290
Cost of sales	-371	-454	-569	-693	-807
Gross Profit	3,170	3,550	4,217	4,843	5,483
<i>Gross margin</i>	<i>89.5%</i>	<i>88.7%</i>	<i>88.1%</i>	<i>87.5%</i>	<i>87.2%</i>
R&D	-969	-1,083	-1,230	-1,394	-1,584
SG&A	-1,922	-2,135	-2,324	-2,554	-2,902
Operating Income	338	408	748	991	1,106
<i>Operating margin</i>	<i>9.5%</i>	<i>10.2%</i>	<i>15.6%</i>	<i>17.9%</i>	<i>17.6%</i>
Interest Expense	-41	17	64	72	84
Non-operating income/ (expense)	-14	-15	-10	-8	-8
Profit Before Income Taxes	284	410	802	1,055	1,182
Income Tax Expense	-29	-29	-66	-75	-84
Net profit (loss)	235	330	653	855	966
<i>Net margin</i>	<i>6.6%</i>	<i>8.3%</i>	<i>13.6%</i>	<i>15.4%</i>	<i>15.4%</i>
EPS (RMB)	0.21	0.28	0.55	0.72	0.81
DPS (RMB)	0.10	0.25	0.20	0.20	0.20
<u>Revenue breakdown</u>					
Engineering costing	2,452	2,791	3,290	3,717	4,123
...recurring revenue	921	1,622	2,414	2,928	3,374
...non-recurring revenue	1,531	1,169	876	789	749
Engineering construction	853	943	1,179	1,450	1,740
Others	236	271	317	369	426
<u>Gross margin breakdown</u>					
Engineering costing	94%	94%	94%	94%	94%
Engineering construction	76%	72%	71%	71%	71%
<u>Growth (YoY)</u>					
Revenues	22%	13%	20%	16%	14%
Gross Profit	17%	12%	19%	15%	13%
Operating Income	-39%	21%	83%	32%	12%
EPS	-47%	34%	98%	31%	13%

Source: Company data, CMBIS estimates

Figure 13: Quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21E	2Q21E	3Q21E	4Q21E
Revenues	473	907	857	1,304	566	1,043	979	1,417
Gross Profit	446	852	747	1,125	534	924	879	1,213
Operating income	75	57	95	111	82	121	121	84
Net profit	55	34	69	76	53	77	100	101
EPS (RMB)	0.05	0.03	0.06	0.07	0.05	0.07	0.08	0.08
Margins								
Gross margin	94%	94%	87%	86%	94%	89%	90%	86%
Operating margin	16%	6%	11%	9%	15%	12%	12%	6%
Net margin	12%	4%	8%	6%	9%	7%	10%	7%
Growth (QoQ)								
Revenues	-57%	92%	-5%	52%	-57%	84%	-6%	45%
Gross Profit	-56%	91%	-12%	51%	-53%	73%	-5%	38%
Operating income	-56%	-25%	67%	17%	-26%	47%	1%	-31%
EPS	-62%	-38%	102%	10%	-31%	42%	26%	1%
Growth (YoY)								
Revenues	39%	24%	17%	19%	20%	15%	14%	9%
Gross Profit	37%	21%	10%	12%	20%	8%	18%	8%
Operating income	-1%	-42%	-54%	-35%	9%	113%	28%	-25%
EPS	-3%	-62%	-53%	-48%	-5%	119%	37%	26%

Source: Company data, CMBIS estimates

Figure 14: Quarterly revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21E	2Q21E	3Q21E	4Q21E
Revenue breakdown								
Engineering costing	327	641	570	914	416	736	743	896
...SaaS	160	211	248	302	305	361	441	515
...non-SaaS	167	430	322	612	111	375	302	381
Engineering construction	100	190	227	336	96	241	185	421
Others	46	77	60	53	54	66	51	100
Total	473	907	857	1,303	566	1,043	979	1,417
Revenue YoY								
Engineering costing	36%	25%	14%	14%	27%	15%	30%	-2%
...SaaS	493%	115%	107%	-27%	91%	71%	78%	71%
...non-SaaS	-21%	3%	-15%	57%	-34%	-13%	-6%	-38%
Engineering construction	28%	28%	20%	33%	-4%	27%	-19%	25%
Others	100%	12%	37%	22%	18%	-14%	-15%	88%
Total	39%	24%	17%	19%	20%	15%	14%	9%
SaaS metrics								
Newly signed contract	131	498	329	442	159	869	543	663
YoY	75%	183%	95%	88%	21%	74%	65%	50%
Unearned revenue	385	672	754	894	748	507	1,357	1,506
YoY	145%	163%	136%	116%	94%	-25%	80%	68%

Source: Company data, CMBIS estimates

Valuation

Glodon (002410 CH, BUY, TP RMB89.19)

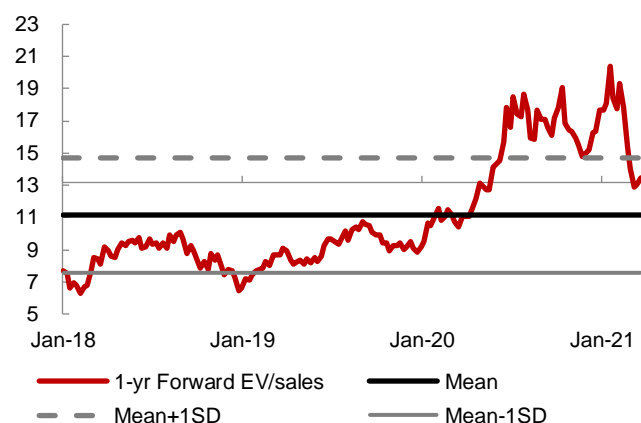
We have BUY rating on Glodon with target price of RMB89.19, based on lowered 18x FY22E EV/Sales (prior 20x) as profitability outlook becomes dimmer. We believe further re-rating will be difficult without solid opex control plan.

Figure 15: Peers' valuation

			Mkt Cap	Price	TP	EV/sales (x)		FCF margin (%)		Sales CAGR	EPS CAGR
Company	Ticker	Rating	(US\$ mn)	(LC)	(LC)	FY21E	FY22E	FY21E	FY22E	FY20-22	FY20-22
Glodon	002410 CH	BUY	12,018	66.60	89.19	15.4	13.2	17%	14%	18%	61%
MYC	909 HK	HOLD	8,985	36.25	48.75	23.7	17.0	28%	27%	40%	49%
Yonyou	600588 CH	NR	18,118	36.40	N/A	11.2	8.8	17%	13%	21%	27%
Kingsoft Office	688111 CH	NR	23,147	329.95	N/A	41.6	30.3	47%	63%	43%	38%
Kingdee	268 HK	NR	10,752	24.10	N/A	15.9	12.6	7%	11%	25%	-
Adobe	ADBE US	NR	224,957	469.32	N/A	14.5	12.7	40%	41%	17%	17%
Autodesk	ADSK US	NR	59,461	270.78	N/A	15.9	13.9	36%	38%	15%	34%
Salesforce	CRM US	NR	194,119	210.77	N/A	8.9	7.3	20%	18%	23%	9%
Veeva System	VEEV US	NR	37,851	249.90	N/A	25.0	20.6	36%	37%	27%	22%
CoStar	CSGP US	NR	31,907	809.60	N/A	15.1	13.0	23%	28%	17%	23%
Mean						18.7	14.8	27%	29%	25%	31%
Median						15.5	12.9	25%	28%	22%	27%

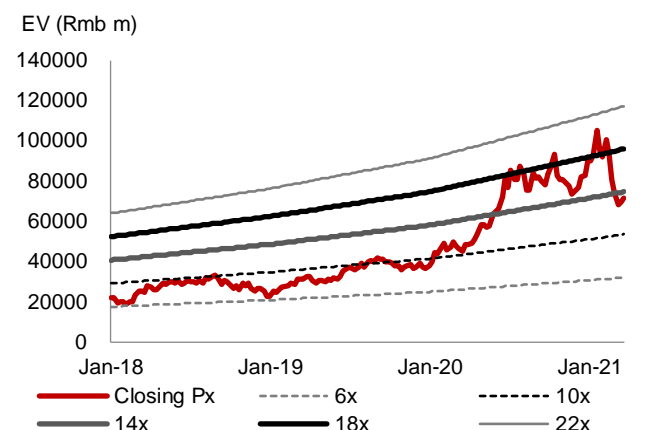
Source: Bloomberg, CMBIS estimates

Figure 16: 12M forward EV/sales chart



Source: Company data, CMBIS

Figure 17: 12M forward EV/sales band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,541	4,005	4,786	5,536	6,290
Cost of sales	(371)	(454)	(569)	(693)	(807)
Gross profit	3,170	3,550	4,217	4,843	5,483
Selling exp	(1,102)	(1,256)	(1,380)	(1,517)	(1,723)
Admin exp	(820)	(879)	(944)	(1,037)	(1,179)
R&D exp	(969)	(1,083)	(1,230)	(1,394)	(1,584)
Other operating exp.	59	75	85	96	109
Operating profit	338	408	748	991	1,106
Finance income/ (costs)	(41)	17	64	72	84
Other non-oper exp.	(14)	(15)	(10)	(8)	(8)
Pre-tax profit	284	410	802	1,055	1,182
Income tax expense	(29)	(29)	(66)	(75)	(84)
Minority interests	(20)	(51)	(83)	(125)	(132)
Net profit to shareholders	235	330	653	855	966

Cash flow summary

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Net profit	235	330	653	855	966
Depreciation/amortization	187	134	237	261	284
Change in working capital	312	784	273	379	387
Others	(93)	628	83	125	132
Net cash from operating	641	1,876	1,246	1,620	1,769
Capex	(243)	(439)	(374)	(418)	(404)
Other	16	(257)	0	0	0
Net cash from investing	(227)	(697)	(374)	(418)	(404)
Net borrowings	(112)	(1,088)	(0)	(0)	(0)
Dividend paid	(301)	(157)	(296)	(237)	(237)
Other	23	2,645	(83)	(125)	(132)
Net cash from financing	(389)	1,400	(380)	(363)	(369)
Net change in cash	24	2,580	492	839	996
Cash at beginning of the year	2,212	2,231	4,797	5,289	6,128
Exchange difference	(5)	(14)	0	0	0
Cash at the end of the year	2,231	4,797	5,289	6,128	7,124

Balance sheet

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Current assets	2,950	5,420	6,063	6,863	7,813
Cash & equivalents	2,231	4,797	5,289	6,128	7,124
Account receivables	591	475	614	568	516
Inventory	21	26	39	45	51
Other current assets	106	121	121	121	121
Non-current assets	3,217	4,127	4,265	4,421	4,541
PPE	860	994	1,280	1,587	1,856
Intangible assets	1,148	1,664	1,515	1,365	1,216
Other non-current assets	1,209	1,470	1,470	1,470	1,470
Total assets	6,167	9,547	10,328	11,284	12,354
Current liabilities	2,809	2,858	3,283	3,621	3,962
ST borrowings	1,089	3	3	2	2
Account payables	1,068	1,740	2,165	2,504	2,844
Accrued expense	0	0	0	0	0
Unearned revenue	653	1,115	1,115	1,115	1,115
Non-current liabilities	9	131	131	131	131
LT borrowings	0	0	0	0	0
Other non-current liabilities	9	131	131	131	131
Total liabilities	2,818	2,989	3,414	3,752	4,093
Share capital	1,129	1,186	1,186	1,186	1,186
Capital surplus	509	3,135	3,135	3,135	3,135
Retained earnings	1,709	1,957	2,314	2,931	3,660
Other reserves	(78)	125	125	125	125
Minority interest	80	156	156	156	156
Total equity	3,349	6,558	6,914	7,532	8,261
Total liabilities and equity	6,167	9,547	10,328	11,284	12,354

Key ratios

YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
Revenue mix					
Engineering costing	69%	70%	69%	67%	66%
- SaaS	26%	41%	50%	53%	54%
Engineering construction	24%	24%	25%	26%	28%
Overseas	4%	4%	4%	4%	4%
Others	1%	2%	2%	2%	2%
Finance income	2%	1%	1%	1%	1%
Growth (%)					
Revenue	22%	13%	20%	16%	14%
Operating profit	-39%	21%	83%	32%	12%
EPS	-47%	34%	98%	31%	13%
Profit & loss ratio (%)					
Gross margin	89.5%	88.7%	88.1%	87.5%	87.2%
Operating margin	9.5%	10.2%	15.6%	17.9%	17.6%
Net profit margin	6.6%	8.3%	13.6%	15.4%	15.4%
Balance sheet ratio					
Receivable turnover days	47	49	42	39	31
Unearned revenue days	67	81	85	74	65
Payable turnover days	110	159	165	165	165
Current ratio (x)	1.05	1.90	1.85	1.90	1.97
Net debt to equity	net	net	net	net	net
Profitability (%)					
ROE	7%	7%	10%	12%	12%
ROIC	14%	18%	38%	56%	73%
Per share data (RMB)					
EPS (RMB)	0.21	0.28	0.55	0.72	0.81
DPS (RMB)	0.10	0.25	0.20	0.20	0.20
BVPS (RMB)	2.90	5.40	5.70	6.22	6.84

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

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

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS 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.