



Autohome (ATHM US)

Leading online automobile platform in China; initiate with BUY

- Leading automobile online platform in China with an estimated market share of 36.3% in China's online automobile advertising market in 2019
- Strong support from the Ping An Group on new business initiatives
- Supportive macro outlook given low vehicle penetration and rising online penetration of automobile advertising in China
- Initiate **BUY** with a DCF-based TP of US\$ 150.

Leading online automobile platform in China. Autohome ("the Company") is a leading automobile online platform in China with an estimated market share of 36.3% in China's online automobile advertising market in 2019. Leveraging its sizable customer base, comprehensive automobile content, and user intelligence, the Company provides various valued-added services including media service, leads generations, online marketplace, among others, to industry participants. In addition, the Company benefited from support from Ping An Group, its largest shareholder, to develop its auto financing business.

Supportive industry outlook. China has a relatively low vehicle penetration of 183 per thousand people in 2019, significantly lower than other developed countries such as the US (837per 1000ppl) or the UK (579 per 1000ppl). In addition, the online penetration rate of automobile advertising expenditure rose from 31.2% in 2015 to 45.6% in 2019 due to the rapid growth in internet users and internet infrastructure, and we expect such trend to continue.

Initiate with BUY. We initiate **BUY** with a DCF-based TP of US\$ 150 to reflect its leading position in online automobile platform. In addition, the recent privatization of its closest peer, BitAuto (BITA US), has led to decrease in supply in listed online automobile platform available for investors, increasing the scarcity value of Autohome.

Results and Valuation

	2019A	2020E	2021E	2022E
Revenue (RMB mn)	8,421	8,662	9,702	10,954
Chg (% YoY)	16.4	2.9	12.0	12.9
Net profit (RMB mn)	3,200	3,304	3,911	4,597
Chg (% YoY)	11.4	3.2	18.4	17.5
Core net profit (RMB mn)*	3,408	3,520	4,154	4,871
Chg (% YoY)	10.7	3.3	18.0	17.3
Earnings per ADS (RMB)	26.8	27.6	32.7	38.5
Chg (% YoY)	763.8	3.2	18.4	17.5
Core earnings per ADS (RMB)*	28.5	29.5	34.8	40.8
Chg (% YoY)	10.5	3.3	18.0	17.3
Core P/E (x)*	28.1	27.2	23.1	19.7
ROAE (%)	24.9	20.2	19.4	18.6
ROAA (%)	18.3	15.8	15.7	15.5

1 common share = 1 ADS

Source(s): Bloomberg, ABCI Securities estimates

*Excluding the impact of share-based compensation expenses, impairment, fair value changes, etc

Company Report

Initiation

Jan 28, 2021

Rating: **BUY**

TP: **USD 150**

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ADS price (USD)	123.4
Est. share price return	21.6%
Est. dividend yield	0%
Est. total return	21.6%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(USD)	123.4/59.5
Issued ADS (mn)	119.1
Class A market cap (USD mn)	14,697
Avg daily turnover (USD mn)	48.7
Major shareholder(s)	
Ping An Insurance	51.9%

Source(s): Bloomberg, The Company

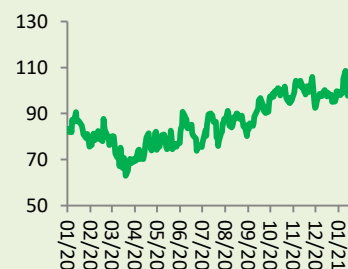
Share Performance (%)

	Absolute	Relative*
1-mth	29.8	13.1
3-mth	27.6	11.9
6-mth	51.9	24.9

*Relative to MXCN

Source(s): Bloomberg, ABCI Securities

Share performance(USD)



Source(s): Bloomberg, ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Autohome (ATHM US)
Internet Media and Consumer Commerce Sector
Jan 28, 2021

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農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Autohome (ATHM US)
Internet Media and Consumer Commerce Sector
Jan 28, 2021

Leading automobile online platform in China

Autohome is a leading automobile online platform in China. It delivers comprehensive, independent and interactive content to automobile consumers via its two websites, *autohome.com.cn* and *che168.com*, accessible through PCs and mobile devices.

As of Dec 31, 2019, it had over 110mn registered users, representing ~25% YoY growth. In Sep 2020, the number of average DAUs who accessed its mobile websites, primary app, and the mini app were 39mn.

Its website, *autohome.com.cn*, targets a wide spectrum of automobile consumers with a focus on new automobiles; its other website, *che168.com*, focuses on used automobiles.

Exhibit 1: Autohome website

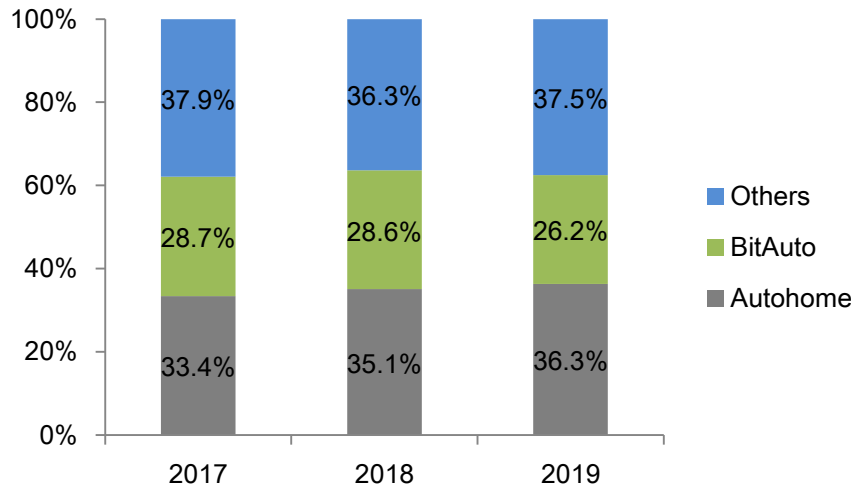


Source(s): Company, ABCI Securities

By our estimates, the Company's market share rose from 33.4% in 2017 to 36.3% in 2019 in China's online automobile advertising industry, higher than its closest peer, BitAuto (26.2%).



Exhibit 2: China's online automobile advertising market share



Source(s): Companies, CIC, ABCI Securities

The Company is constantly improving its content. E.g., it has recently launched a light version of Autohome's application to attract younger audiences. It also rolled out the MicroPulse channel, allowing users to post their photos and to make brief comments while encouraging them to synchronize their posts to specific car models. This has provided automakers with new channels to stimulate more content, resources, and followers.

Exhibit 3: Autohome app



Source(s): Company, ABCI Securities

Exhibit 4: Autohome app



Source(s): Company, ABCI Securities



Comprehensive automobile libraries

The Company has one of the most comprehensive automobile libraries in China with over 46,800 vehicle model configurations at end-2019, covering the majority of passenger vehicle models released in China since 2005. The libraries includes a broad range of data including specifications of performance levels, dimensions, powertrains, vehicle bodies, interiors, safety, entertainment systems and other unique features, as well as automakers' suggested retail prices.

In our view, the content-rich automobile libraries, which have taken years to build up, represent a major competitive advantage for the Company and a substantial entry barrier for potential new competitors.

User intelligence engine

The Company has developed user intelligence engine to prioritize specific contents to individual user by analyzing browsing behavior and preferences. E.g., a user who searches or enters a page for a specific vehicle model will be provided with links to relevant content such as vehicle specifications, photos and video clips, reviews, competing vehicle models, and listing and promotional information from local dealers. Users can compare competing vehicle models and brands for price and specifications to make informed decisions before the purchase.

Comprehensive value-added services

The Company has accumulated a sizable and loyal user base over the years, enabling it to become a preferred platform for automakers and dealers. It provided media services to 101, 103, and 92 automakers operating in China in 2017, 2018, and 2019, respectively.

Media services: Leveraging its sizable and loyal user base and user intelligence data, the Company provides a broad range of advertising solutions to automakers for brand promotion, new model releases, sales promotions, etc. The Company segments its user base in various dimensions, such as geographical locations and specific automotive interests, for targeted marketing. In addition, it organizes various offline events to complement its advertising services. E.g., it helps automakers increase their brand awareness and execute sales promotions by organizing large-scale test-driving activities in multiple cities across China. In 9M20, the cumulative GMV for its road trip business totaled RMB 340mn, more than doubling the figure in 2019.

Lead generation services: It provide subscription services to dealers that allow them to market their inventory and services on its online platform for sales leads generation. Dealers can create online stores and upload and manage their automobile inventories, pricing, and promotional information. On the other hand, potential automobile consumers can interact with dealer subscribers to inquire for more detailed information and schedule test drives. Its dealer subscribers can track all the interactions with their customers, analyze the number of sales leads, and assess the effectiveness of their marketing activities. In 3Q20, the number of paying dealers for Smart Store 2.0, a product generating incremental leads for dealer customers, has reached ~2,700 dealers.

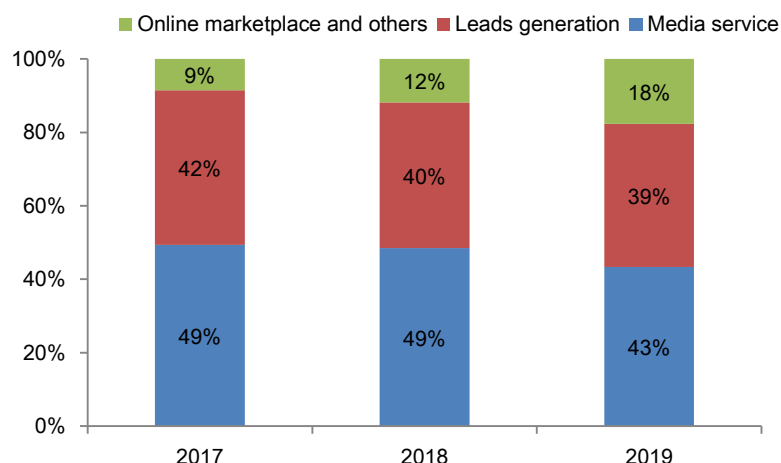
Online marketplace and other services: The Company provides platform-based services and transaction-oriented marketing solutions via its online transaction platform, Autohome Mall, as well as TTP Car, a company operating an online bidding platform for used automobiles. In addition, the Company provides various auto financing services, such as loans and insurances, via cooperative financial



institutions. The Company also provides various data products, such as consumer intelligence, to automakers and autodealers. In 9M20, a total of 38 automakers were engaged in its data products that delivered over 100 programs.

In terms of revenue contribution, media services have been the largest revenue contribution in recent years, accounting for 43.4% of total revenue in 2019, compared to 51.2% of revenue in 2017. On the other hand, online marketplace and other revenue have been on the rise, with its revenue contribution increasing from 9% in 2017 to 18% in 2019.

Exhibit 5: Revenue mix



Source(s): Company, ABCI Securities

Collaboration with the Ping An Group

The Company is currently 51.9%-owned by Ping An Insurance. Over the past few years, the Company has collaborated with the Ping An Group to develop auto financing business by providing various financial products, including loans, leasing, and insurance, to its users and automobile sellers and facilitated car transactions on its platform.

In our view, its auto financing business has benefited from Ping An's support in the area of product development, risk management, among others.

Exhibit 6: Connected transaction between the company and Ping An Group

RMB mn	2017	2018	2019
Ping An Group provided the company with services and assets	55.2	88.7	107.7
The company provided services to Ping An Group	21.2	473.5	447
% of the company's total revenue	0.34%	6.55%	5.31%

Source(s): Company, ABCI Securities

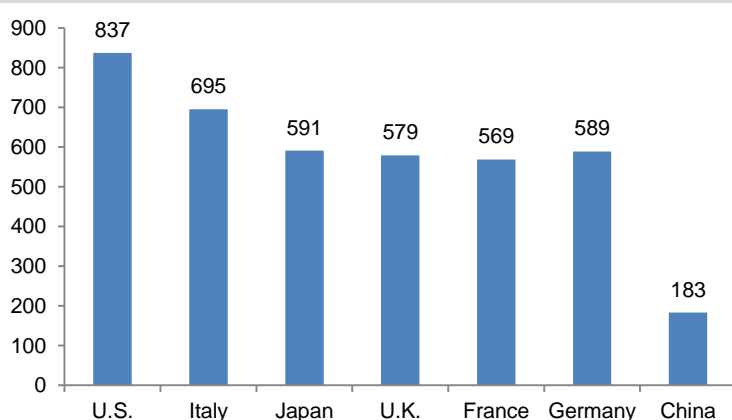
Supportive industry outlook

China's passenger automobile industry

Overall, China is the largest passenger automobile market in the world with 21.4 mn units sold in 2019. However, China still has a relatively low car parc (all registered vehicles) per thousand people of 183 in 2019, significantly lower than other developed countries such as the US (837 per 1000) or UK (579 per 1000), respectively.

Given China's large population and growing per-capita income, growth potential in China's automobile industry is enormous, in our view.

Exhibit 7: Global car parc per thousand people (2019)



Source(s): World Bank, China Automotive Industry Yearbook, NBSC, CIC

In our view, there are several key long-term growth drivers of China's automobile market.

Increasing per capita disposable income of urban households. The annual per capita disposable income has been growing steadily in recent years, thanks to the economic growth in China, especially in lower tier cities. Rapid urbanization and improved income drive up demand for automobiles as it becomes increasingly affordable to the households.

Rising popularity of auto finance and auto financial leasing services. The rapid development of auto finance and auto financial leasing services would encourage automobile purchase by lowering the entry barriers as well as changing the consumption pattern in China.

The emergence of auto ecommerce platforms. The emergence of auto ecommerce platforms offers a new and more convenient channel for consumers to purchase automobiles and related services. Aside from simplifying the purchasing process, these platforms also provide consumers with a diversified range of services including insurance or maintenance.

Lower-tier cities become the major markets. Since markets of in tier-1/2 cities tend to be more saturated and competitive, lower-tier regions are expected to be the major markets for automobiles in the future. Automakers and auto dealers are extending their offline sales network in these regions to meet the growing demand. We expect

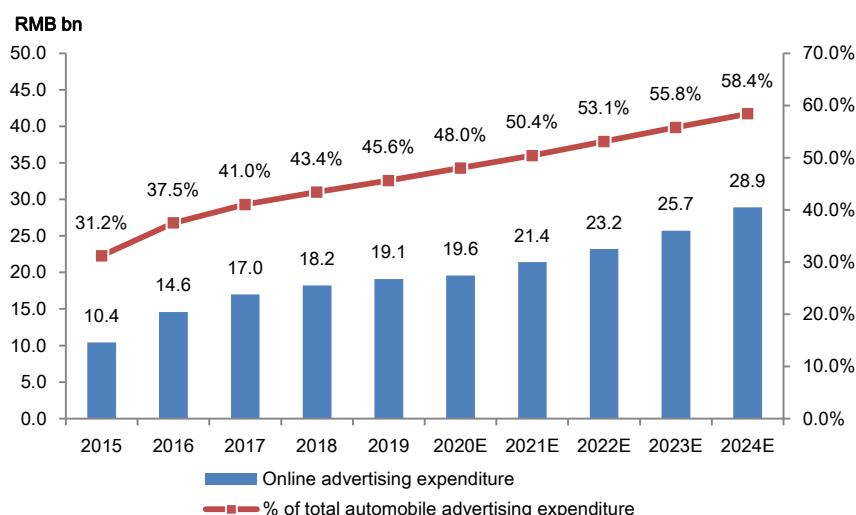
automobile market in these regions to exhibit stronger growth in coming years than the higher-tier counterparts due to the more relaxed policies for automobile purchase, improving disposable income, and a less saturated market.

China's automobile online advertising industry

The automobile advertisement industry has been one of the fastest-growing sectors with expenditure rising from RMB 33.5bn in 2015 to RMB 42.0bn in 2019, representing a CAGR of 5.8%. Overall, the increase in the industry's advertising expenditure has been driven by the expansion of automobile market and development of various advertising platforms.

In 2015-19, the online advertising expenditures of the automobile advertisers in China grew at a CAGR of 16.3% from RMB 10.4bn to RMB 19.1bn. During the same period, the online penetration rate of automobile advertising expenditure rose from 31.2% to 45.6% due to rapid growth in internet users and internet infrastructure.

Exhibit 8: China's automobile online advertising market size



Source(s): CNNIC, China Public Relations Association, CIC

In our view, there are several key drivers in China's online automobile advertising market.

Rising advertising investment by automakers and autodealers. Automakers and autodealers have increased their investment in advertising in recent years. The total advertising expenditure of automakers in China increased from RMB 33.5bn in 2015 to RMB 42.0bn in 2019. As an important channel of automotive advertising, automobile online platform is set to benefit.

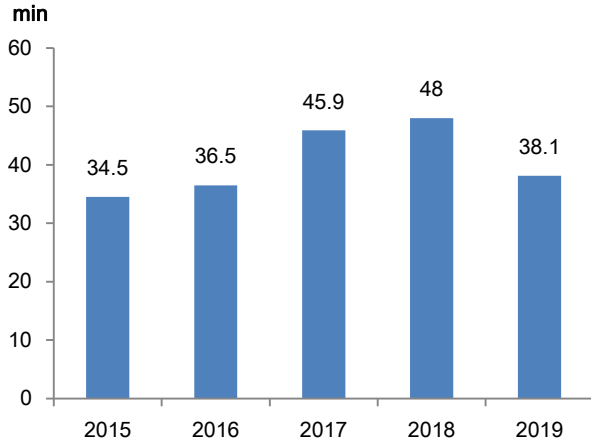
Growing user traffic. Automobile vertical media advertising platform has been able to attract high traffic through quality contents. This is illustrated by rapid growth of user browsing time, number of visits, and the number of page views on online automotive platforms in recent years.

In 2015-19, the average user browsing time per month on online automotive vertical media platforms increased from 34.5min to 38.1min, and the average number of visits on PC per user per month increased from 4.5 to 4.9. In addition, the average number



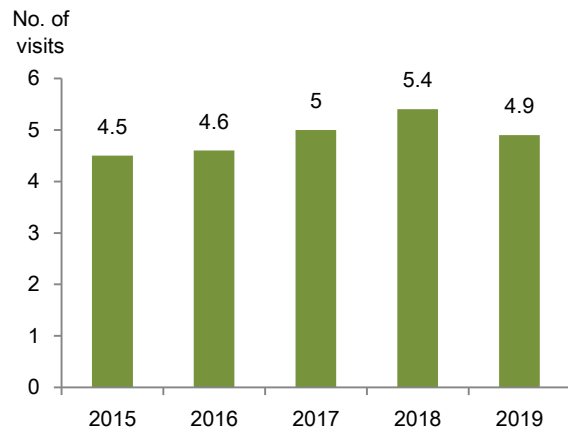
of visits of online automobile platform app used per user per month increased from 5.1 to 6.4 during the same period.

Exhibit 9: Average user browsing time per month on automobile vertical media platform on PC, China, 2015-19



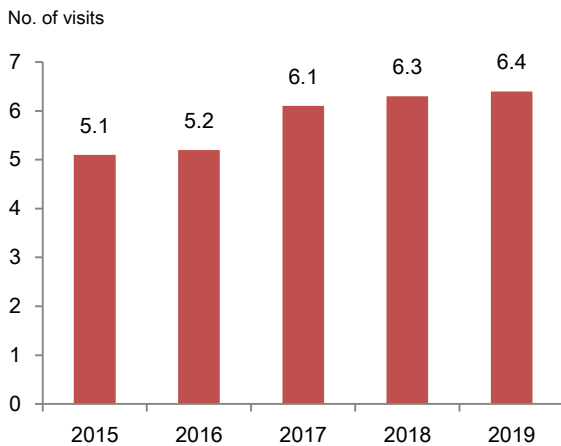
Source(s): CIC, ABCI Securities

Exhibit 10: Average number of visits per user per month on automobile vertical media platforms on PC, China, 2015-19



Source(s): CIC, ABCI Securities

Exhibit 11: Average number of visits of automobile platform app used per month on mobile device, China, 2015-19



Source(s): CIC, ABCI Securities

Technical innovations such as AI engine and big data. With accumulated data on user behavior, automobile vertical media platform can better understand its users and enable automakers and autodealers to target customers and employ precise marketing. AI engine enables the automobile vertical media platform to analyze user needs, achieve intelligent matching, and offer customized recommendation. With improved user experience and resultant user loyalty, the online automotive vertical media platform will achieve a differential advantage over other types of platforms.



Financial analysis

We expect revenue growth to slow to 3% YoY in 2020E vs. 16% YoY in 2019 since business is impacted by the COVID-19 in 1H20. Some major automakers have postponed new model launches to 2021, which in turn reduced advertising spending for 2020.

On a positive note, the Company has resumed a 7% YoY revenue growth in 3Q20 vs. -4% YoY in 1Q20 and 0% YoY in 2Q20, indicating a gradual recovery. We expect the industry recovery to continue. For 2021E-22E, we expect revenue growth to accelerate to 12% YoY and 13% YoY driven by ongoing content enhancement, increased number of paying dealer, and product development such as dealer data products and annual performance-based marketing solutions.

In terms of revenue mix, we expect online marketplace to become the major growth driver driven by ongoing business expansion and deepened collaboration with the Ping An Group. Revenue from data product increased by 51% YoY in 3Q20. Overall, we expect online marketplace and others revenue to account for 31% of total revenue in 2022E vs. 18% in 2019.

Exhibit 12: Revenue forecasts (RMB mn)

	2018	2019	2020E	2021E	2022E
Media service	3,508	3,654	3,471	3,749	4,049
Leads generation	2,871	3,276	3,177	3,336	3,503
Online marketplace and others	854	1,491	2,013	2,617	3,403
Total revenue	7,233	8,421	8,662	9,702	10,954

Source(s): Company, ABCI Securities estimates

Gross margin: Gross margin has remained largely stable at 88.6% in 2019 and we expect such trend to continue.

Sales and marketing expenses: Sales and marketing expenses/sales ratio as 36.7% in 2019. We expect it to improve to 34.0% by 2022E on economies of scale and brand awareness.

General and admin expenses: General and admin expenses /sales ratio improved from 4.4% in 2018 to 3.8% in 2019 due to cost control and economies of scale. We expect this ratio to fall further to 3.0% in 2022E.

Product development expenses: We expect product development expenses/sales ratio to improve from 15.3% in 2019 to 14.0% in 2022E on economies of scale.

Based on the above margins and cost trends, we expect core net profit to reach RMB 4.9bn by 2022E vs. RMB3.5bn in 2019.

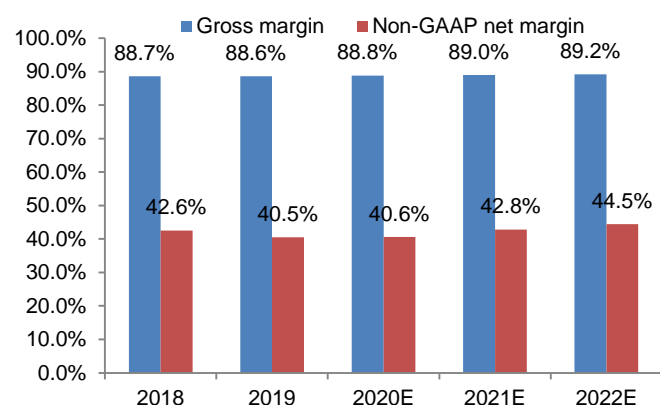


Exhibit 13: Cost trend (RMB mn)

	2018	2019	2020E	2021E	2022E
Sales and marketing	(2,435)	(3,093)	(3,291)	(3,493)	(3,724)
General and admin	(315)	(318)	(433)	(388)	(329)
Product development	(1,135)	(1,291)	(1,213)	(1,358)	(1,534)
Total	(3,885)	(4,702)	(4,937)	(5,239)	(5,587)
% of revenue					
Sales and marketing	(33.7%)	(36.7%)	(38.0%)	(36.0%)	(34.0%)
General and admin	(4.4%)	(3.8%)	(5.0%)	(4.0%)	(3.0%)
Product development	(15.7%)	(15.3%)	(14.0%)	(14.0%)	(14.0%)
Total	(53.7%)	(55.8%)	(57.0%)	(54.0%)	(51.0%)

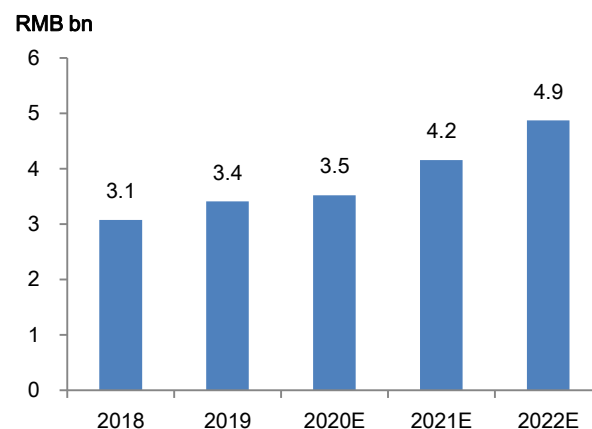
Source(s): The Company, ABCI Securities estimates

Exhibit 14: Margin outlook



Source(s): The Company, ABCI Securities estimates

Exhibit 15: Core net profit outlook



Source(s): The Company, ABCI Securities estimates



Earnings sensitivity

We estimate that a 50bp improvement in core net margin will increase its 2021E core net profit 0.9%.

Exhibit 16: Earnings sensitivity analysis

Changes in core net margin (bps)	Changes in 2020E core net profit
50	0.9%
40	0.7%
30	0.5%
20	0.2%
10	0.0%
(10)	(0.5%)
(20)	(0.7%)
(30)	(0.9%)
(40)	(1.2%)
(50)	(1.4%)

Source(s): ABCI Securities estimates



Initiate with BUY

We initiate **BUY** on the counter with a DCF-based TP of US\$150.

Our DCF-based valuation range is US\$ 94.5- US\$ 164.5 per ADS, based 7-10% WACC. We set our TP to US\$ 150. Our TP implies 24x 2022E core PE.

Peer valuation analysis

Listed online automobile platform: we consider the listed online automobile platforms to be the Group's comparable peers due to the similarity in business model. In the US, BitAuto was once the most comparable peer but the counter has been privatized recently, further decreasing the number of choices for investors interested in the specific industry. In addition, HK-listed online automobile platform, Yinxin, is currently trading at 31x 2021E PE.

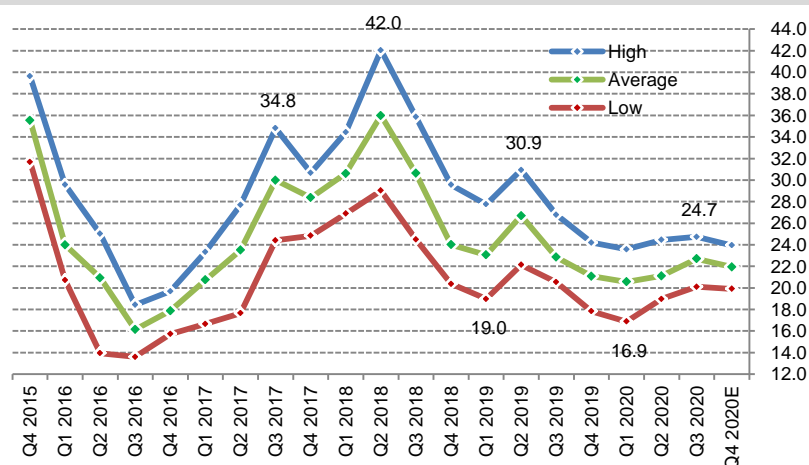
Listed media/advertising companies: China-listed advertising/media companies, such as Focus Media, Bluefocus, and others, are currently trading at an average of 25.4x 2021E P/E. However, these are mainly traditional offline media/advertising companies with a different business model than the Group's.

Exhibit 17: Peer valuation

			Market cap (Lcy)	Price (Lcy)	P/sales			P/E		
					2019	2020E	2021E	2019	2020E	2021E
HK-listed online automobile platform										
2858 HK Equity	YIXIN		17,982	2.8	2.6	4.6	3.4	NA	NA	31.0
China-listed advertising/media companies										
002027 CH Equity	FOCUS MEDIA		178,483	12.2	12.5	12.8	9.8	64.3	48.6	33.6
300058 CH Equity	BLUEFOCUS		15,121	6.1	0.5	0.3	0.3	21.4	19.8	17.2
002131 CH Equity	LEO GROUP		20,332	3.0	1.2	NA	NA	NA	NA	NA
Average					4.7	6.6	5.1	42.9	34.2	25.4

Source(s): ABCI Securities estimates

Exhibit 18: Trailing PER band



Source(s): Bloomberg, ABCI Securities



Risk factors

Market competition

The Group has to compete with other online automobile online platforms on content, prices, advertising solutions, etc.

Slowdown in automobile consumption

As the Group's business is dependent on advertising spending on automobile. Any significant slowdown in automobile consumption in China would impact financial performance.

Business expansion risk

The Group is expanding into new transaction facilitation services, which involves new risks and challenges that may impact financial performance.

Non-GAAP financials

The Group has disclosed the non-GAAP financial metric, such as the non-GAAP net profit, to supplement its GAAP financial measures. Historically, there were differences between its GAAP net profit and non-GAAP net profit due to inclusion of items such as share-based compensation, impairment, fair valuation changes of investment, and disposal gains of asset in the former. Among these items, share-based compensation expense is related to various factors including price movement of ordinary shares, expected volatility, risk-free interest rate, etc. While investors tend to exclude these items when performing analysis given their non-cash nature, we believe these non-GAAP financial measures should only serve as reference.



Financial forecast

Consolidated income statement (2019A-2022E)

FY Ended Dec 31 (RMB mn)	2019A	2020E	2021E	2022E
Total revenue	8,421	8,662	9,702	10,954
Cost of sales	(960)	(970)	(1,067)	(1,183)
Gross profit	7,460	7,692	8,635	9,771
Sales and marketing	(3,093)	(3,291)	(3,493)	(3,724)
General and admin	(318)	(433)	(388)	(329)
Product development	(1,291)	(1,213)	(1,358)	(1,534)
Other operating income	477	500	550	550
Operating Profits	3,235	3,254	3,946	4,734
Interest income	470	500	550	550
Share of results of investee	1	0	0	0
FV change of non-current asset	(5)	0	0	0
PBT	3,701	3,754	4,496	5,284
Tax	(500)	(451)	(584)	(687)
PAT	3,201	3,304	3,911	4,597
Minority interests	(1)	0	0	0
Net income	3,200	3,304	3,911	4,597
Share-based compensation	204	217	243	274
Other non-core items	5	0	0	0
Core net income	3,408	3,520	4,154	4,871
Growth				
Total revenue (%)	16.4	2.9	12.0	12.9
Gross Profits (%)	16.3	3.1	12.3	13.2
Operating Profits (%)	12.8	0.6	21.2	20.0
Net profit (%)	11.4	3.2	18.4	17.5
Core net profit (%)	10.7	3.3	18.0	17.3
Operating performance				
Operating margin (%)	38.4	37.6	40.7	43.2
Net margin (%)	38.0	38.1	40.3	42.0
Core net margin (%)	40.5	40.6	42.8	44.5
ROAE (%)	24.9	20.2	19.4	18.6
ROAA (%)	18.3	15.8	15.7	15.5

Note: Individual items may not sum to total due to rounding

Source(s): The Company, ABCI Securities estimates



Consolidated balance sheet (2019A-2022E)

As of Dec 31 (RMB mn)	2019A	2020E	2021E	2022E
Fixed assets	282	662	1,032	1,402
Investments	72	72	72	72
Other non-current assets	2,444	2,444	2,444	2,444
Total non-current assets	2,797	3,177	3,547	3,917
Cash & equivalents	1,988	4,007	5,965	8,371
Short-term investments	10,807	11,887	13,671	15,721
Account receivables	3,232	3,393	3,563	3,741
Other current assets	332	332	332	332
Total current assets	16,358	19,619	23,530	28,165
Total assets	19,155	22,797	27,077	32,082
Account payables	2,418	2,538	2,665	2,799
Other current liabilities	1,548	1,548	1,548	1,548
Total current liabilities	3,965	4,086	4,213	4,346
Total non-current liabilities	584	584	584	584
Total liabilities	4,549	4,670	4,797	4,930
Equity attributable to shareholders	14,629	18,149	22,303	27,175
Non-controlling interests	(23)	(23)	(23)	(23)
Total equity	14,606	18,126	22,280	27,152

Notes: Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): The Company, ABCI Securities estimates

Consolidated cash flow statement (2019A-2022E)

As of Dec 31 (RMB mn)	2019A	2020E	2021E	2022E
Operating cash flow	2,889	2,519	2,458	2,906
Investing cash flow	(1,168)	(500)	(500)	(500)
Financing cash flow	69	-	-	-
Fx effect	(13)	-	-	-
Net cash flows	1,776	2,019	1,958	2,406

Notes: Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): The Company, ABCI Securities estimates



Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-20 CAGR at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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