

# Anta Sports (2020 HK)

## Risk of slowing growth augments; downgrade to HOLD

- Sales growth in 1H18 and 3Q18 remained strong, with non-anta brand product sales increasing by 90%-95% YoY for the past two quarters
- The Group made an offer to acquire Amer Sports; we estimate the acquisition would require external financing and may result in lower margins and growth for Anta
- Slowing retail sales growth indicates a less favorable consumer market; higher S&D expenses in 1H18 also indicates intensifying competition.
- Revise to **HOLD**; current TP represents 22.88x/17.50x 18E/19E P/E, or 5.58x/5.10x 18E/19E P/B

**Strong growth momentum in 3Q18 & 1H18.** Retail sales value growth of the Group's non-Anta brand products has been above 80% YoY over the past three quarters, while Anta-brand products have been expanding at a lower pace. 1H18 revenue grew 44.1% YoY, supported by the 64.6% YoY increase in apparel segment and 51.3% YoY in accessories segment. Footwear revenue also rose 21.3% YoY in 1H18 against the backdrop of declining retail sales of apparel and textile nationwide.

**Potential acquisition of Amer Sports.** According to our calculation based on the Bloomberg consensus, the acquisition price of EUR 40 offered by Anta and FountainVest Partners represents 31.06x/25.61x/23.42x 18E/19E/20E P/E, which is higher than Anta's stand-alone valuation at the moment. We have several concerns for this transaction. First, Amer Sports would have a slower growth momentum and lower profitability than Anta, which may drag down Anta's overall results post acquisition (Exhibit 3). Secondly, total consideration is estimated to reach RMB 37.1bn based on the current shares outstanding and exchange rate (Exhibit 2). With a net cash position at RMB ~9bn by end-1H18, Anta would need another RMB ~10bn or more for the 50% stake acquisition. Raising fund offshore may add to the difficulty to the acquisition. We believe this aggressive move shows Anta needs new growth drivers to sustain future growth.

**Amer Sports - not an easy target to woo.** Amer Sports has a large brand portfolio that covers three segments – outdoor, ball sports, and fitness, serving a diverse group of sportswear/equipment consumers. Amer Sports's net sales of EUR 2,685.20mn in FY17 is similar to Anta's. In addition, both margin and growth have been improving. It has been actively expanding brand portfolio (acquired Peak Performance in June 2018, and Armada in 2017) and was able to acquire Peak Performance by leverage. It had sustained a strong cash flow and a healthy cash position prior to acquiring Peak Performance. Even though Anta is offering EUR 40 per share, which represents a substantial premium, we believe it would take more than a generous offer price to convince Amer Sports to sell.

**Risk of slowed growth lingers.** China's consumer market has turned less favorable. Retail sales growth of "Apparel and textile" has been dwindling since the beginning of 2018. Greater China sales growth of Nike, one of the Group's major competitors, retreated from 35.0% YoY in Mar-May 2018 to 24% YoY in June-Aug 2018. Even though the Group managed to achieve higher sales growth in 1H18, S&D expenses jumped 81.5% YoY, reflecting intensified competition. In addition, high growth in 4Q17 means 4Q18 growth may slow on high-base effect. Marketing efforts to boost sales may suppress margin further. (Cont. next page)

### Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	13,346	16,692	22,034	28,608	36,806
Chg (% YoY)	19.95	25.08	32.00	29.83	28.66
Net Profit (RMB mn)	2,386	3,090	3,601	4,709	6,255
Chg (% YoY)	16.91	29.52	16.55	30.75	32.85
Basic EPS (RMB cent)	95.36	117.01	134.14	175.39	233.01
Chg (% YoY)	16.78	22.70	14.64	30.75	32.85
P/E (x)	28.79	23.46	20.47	15.65	11.78
BVPS (RMB)	3.82	5.11	5.50	6.01	6.70
P/B (x)	7.19	5.38	4.99	4.56	4.10
DPS(HKD cent)	76.00	98.00	106.62	139.90	185.40
Yield (%)	2.46	3.17	3.44	4.52	5.99
ROAA (%)	18.29	18.97	18.82	22.15	26.37
ROAE (%)	26.32	26.57	25.29	30.46	36.65

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Oct 29, 2018

Rating: HOLD

TP: HK\$ 34.6

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Share price (HK\$)	30.95
52 wk High/Low	49.3/29.05
Est. share price return	11.79%
Est. dividend yield	3.17%
Est. total return	14.96%
Previous Rating and TP	BUY; HK\$45.5
Previous Report Date	Mar 1, 2018

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

Issued shares (mn)	2,684.89
Mkt cap (HK\$m)	83,097.38
3 mth days ADT (HK\$m)	324.66
Shareholding (%)	
Anta International	51.16
Anda Holdings	5.99
Anda Investments	4.30
Shine Well	0.35
Talent Trend	0.04

Source(s): Company, Bloomberg, HKEX

% to total revenue	FY18E
Footwear	37.80
Apparel	59.28
Accessories	2.93

Source(s): ABCI Securities estimates

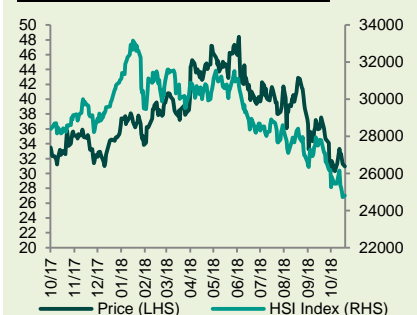
### Share performance (%)

	Absolute	Relative*
1-mth	(17.58)	(7.00)
3-mth	(24.98)	(11.90)
6-mth	(27.67)	(12.00)

\* Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

\* All pricing and market data as of end-Oct 29, 2018

\*\*RMB/HKD: 1.1274



**Revise to HOLD; TP at HK\$ 34.6.** Potential impacts of the Amer Sports acquisition are excluded in our projections due to the transaction uncertainty. We expect FY17-20E revenue CAGR would be 30.2 while GPM would be stable at ~52.0% in FY18E-20E, but NPM (to owners of Company) would not improve much due to higher S&D expenses. Revise to **HOLD**, as we are concerned that less favorable consumer market conditions, margin squeeze on higher S&D expense, and potential increase in leverage resulting from the Amer Sports acquisition may increase the Group's risk premium. Our DCF model generates a valuation range of HK\$ 90.18bn – HK\$ 173.61bn. However, we set our TP at HK\$ 34.6, which is at around the low-end of the valuation range, to reflect the rising risk premium going forward. Our current TP represents 22.88x/17.50x 18E/19E P/E, or 5.58x/5.10x 18E/19E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory risk; 3); Commodity price risk 4) Changing consumer taste in China, 5) Business acquisition risk.

**Exhibit 1: Anta's retail sales value growth by brand (YoY %)**

	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
Anta brand	Low-teens	High-teens	Low-teens	20%-30%	Mid-teens	20%-25%	20%-25%	Low-teens	Mid-teens
Non-anta brand	60%-70%	50%-60%	40%-50%	50%-60%	40%-50%	85%-90%	80%-85%	90%-95%	90%-95%

Source(s): Anta, ABCI Securities

**Exhibit 2: Acquisition offer for Amer Sports**

**Consideration**

Offer price	EUR 40 per share
Shares outstanding	116,517,285
Total amount to be paid (all shares to be acquired)	EUR 4,660,691,400 (or RMB 36,967,672,047)

**Valuation**

**Bloomberg consensus GAAP EPS for Amer Sports (EUR)**

FY18E	FY19E	FY20E
1.288	1.562	1.708

**Corresponding P/E of offer price(x)**

FY18E	FY19E	FY20E
31.06	25.61	23.42

Note:

- 1) As of end of Oct 29, 2018
- 2) EUR/RMB: 7.9318

Source(s): Bloomberg, ABCI Securities

**Exhibit 3: Amer Sports snapshot**

**Key financial data (EUR mn, except for per share data)**

	9M18A	9M17A	1H18A	1H17A	2017A	2016A	2015A
Net sales	1,804.0	1,788.6	1,106.8	1,160.0	2,685.20	2,622.10	2,534.40
EBIT	125.1	76.8	10.8	7.0	168.3	204.8	204.1
EBIT (excluding items affecting comparability-IAC)	134.5	116.3	14.9	12.7	214.5	221.7	212.1
Net result attributable to equity holders of the parent company	69.3	42.0	(4.3)	(5.0)	93.3	126.9	121.6
Interest-bearing liabilities	1,146.2	837.4	973.1	830.8	819.1	899.9	791.7
Shareholders' equity	921.5	860.1	841.9	837.8	888.0	1,003.10	949.6
EPS (EUR)	0.64	0.36	(0.04)	(0.04)	0.8	1.08	1.04
EPS (EUR) (excl. IAC)	0.70	0.61	(0.01)	(0.01)	1.18	1.18	1.09
Cash flow from operating activities	(97.7)	56.7	9.0	87.6	241.0	150.3	211.5
Free cash flow**	(152.8)	5.1	(20.6)	60.9	161.3	64.4	121.7
<b>Key ratios (% , except for Net D/E ratio)</b>	<b>9M18A</b>	<b>9M17A</b>	<b>1H18A</b>	<b>1H17A</b>	<b>2017A</b>	<b>2016A</b>	<b>2015A</b>
EBIT (excl. IAC) margin	7.5	6.5	1.4	1.1	8.0	8.5	8.4
NPM (to equity holders of the parent company)	3.8	2.3	(0.4)	(0.4)	3.5	4.8	4.8
Net D/E ratio (X)	1.0	0.7	1.0	0.7	0.5	0.5	0.5
ROE	10.2	6.0	(1.0)	(1.1)	9.9	13.0	13.6

Note:

- 1) FY end as of Dec 31
  - 2) Free cash flow = Cash flow from operating activities - net capital expenditure - change in restricted cash
- Net capital expenditure = total capital expenditure less proceeds from sale of assets

Source(s): Amer Sports, ABCI Securities



**Exhibit 4: Amer Sports segment performance**

	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17	4Q16
Net sales (EUR mn)	757.2	455.1	591.7	786.0	697.9	464.3	626.4	734.1
Outdoor	522.0	216.2	349.1	504.1	468.9	210.1	356.9	452.4
Ball Sports	147.2	159.0	164.2	163.0	141.2	169.8	185.0	171.9
Fitness	88.0	79.9	78.4	118.9	87.8	84.4	84.5	109.8
Sales composition (%)								
Outdoor	68.9	47.5	59.0	64.1	67.2	45.3	57.0	61.6
Ball Sports	19.4	34.9	27.8	20.7	20.2	36.6	29.5	23.4
Fitness	11.6	17.6	13.2	15.1	12.6	18.2	13.5	15.0
EBIT (EUR mn)	116.9	(22.7)	40.3	98.1	103.8	(21.9)	34.4	82.3
Outdoor	113.1	(27.9)	33.6	81.4	99.8	(28.5)	25.7	70.7
Ball Sports	7.7	11	14.9	13.8	6.3	9.3	15.8	12.8
Fitness	1.2	0	0.1	12.4	4.5	2.5	0.7	6.8
Headquarters	(5.1)	(5.8)	(8.3)	(9.5)	(6.8)	(5.2)	(7.8)	(8.0)
EBIT margin (%)								
Outdoor	21.7	(12.9)	9.6	16.1	21.3	(13.6)	7.2	15.6
Ball Sports	5.2	6.9	9.1	8.5	4.5	5.5	8.5	7.4
Fitness	1.4	0.0	0.1	10.4	5.1	3.0	0.8	6.2

Source(s): Amer Sports, ABCI Securities

**Exhibit 5: Projected Anta and Amer Sports consolidated results**

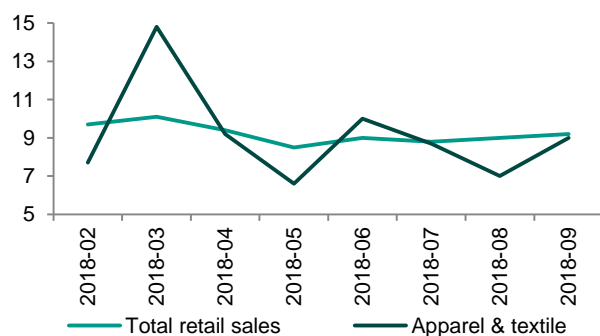
	Anta and Amer consolidated results (RMB mn)		Anta stand-alone results (RMB mn)	
	2019E	2020E	2019E	2020E
Size (RMB mn)				
Sales	51,368	60,617	28,608	36,806
Gross profit	25,465	30,447	14,988	19,470
EBIT	8,433	10,679	6,224	8,331
NP	6,152	7,771	4,819	6,400
Profitability (%)				
GPM	49.57	50.23	52.39	52.90
OPM	16.42	17.62	21.76	22.64
NPM	11.98	12.82	16.45	16.82
Growth (YoY %)				
Sales	133.13	18.01	29.83	28.66
Gross profit	122.77	19.56	31.11	29.9
EBIT	79.12	26.63	32.2	33.85
NP	66.91	26.32	27.68	31.58
Return ratios (%)				
ROAA	17.80	18.71	17.76	18.91
ROAE	38.92	44.67	29.77	35.59

Note:

- 1) Anta results are our own estimates; Amer Sports' results are based on Bloomberg consensus.
- 2) Anta's results assumes that (a) it would take a loan of RMB 9.46bn to acquire 50% of Amer Sports in 2019E; (b) the acquisition would be completed in 2019E; (c) the total consideration would be paid out to Amer Sports entirely in 2019
- 3) EUR/RMB: 7.9318

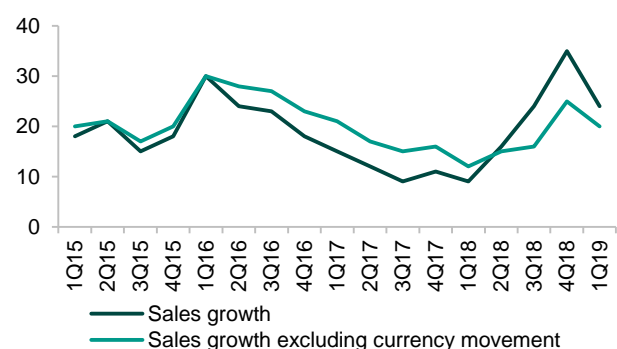
Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 6: Apparel & textile retail sales growth (YoY %)**



Source(s): NBS, ABCI Securities

**Exhibit 7: Nike's Greater China sales growth (YoY %)**



Note:

- 1) Quarterly data is for fiscal year
- 2) Nike's FY-end is at May 31

Source(s): Nike, ABCI Securities



Consolidated income statement (2016A-2020E)

FY ends at Dec 31 (RMB mn, except per share data)	2016A	2017A	2018E	2019E	2020E
<b>Revenue</b>	<b>13,346</b>	<b>16,692</b>	<b>22,034</b>	<b>28,608</b>	<b>36,806</b>
- Footwear	6,001	7,049	8,328	9,853	11,731
- Apparel	6,886	9,116	13,062	18,009	24,213
- Accessories	459	528	645	745	863
COGS	(6,887)	(8,451)	(10,603)	(13,620)	(17,336)
<b>Gross profit</b>	<b>6,459</b>	<b>8,241</b>	<b>11,431</b>	<b>14,988</b>	<b>19,470</b>
- Footwear	2,723	3,292	3,998	4,725	5,634
- Apparel	3,508	4,740	7,153	9,941	13,464
- Accessories	168	208	281	322	372
Other net income/(loss)	260	458	517	728	900
S&D expenses	(2,831)	(3,809)	(6,122)	(8,023)	(10,130)
Admin expenses	(685)	(901)	(1,117)	(1,468)	(1,908)
<b>Operating profit</b>	<b>3,203</b>	<b>3,989</b>	<b>4,708</b>	<b>6,224</b>	<b>8,331</b>
Net finance income/(expense)	108	322	297	325	376
<b>Pretax profit</b>	<b>3,311</b>	<b>4,311</b>	<b>5,005</b>	<b>6,549</b>	<b>8,707</b>
Tax	(866)	(1,152)	(1,319)	(1,730)	(2,307)
<b>Net profit</b>	<b>2,445</b>	<b>3,159</b>	<b>3,686</b>	<b>4,819</b>	<b>6,400</b>
- Owners of the company	2,386	3,090	3,601	4,709	6,255
- Minority interest	59	69	85	111	145
Dividend	1,675	2,178	2,539	3,331	4,415
<b>EPS (RMB cent)</b>					
- Basic	95.36	117.01	134.14	175.39	233.01
- Diluted	95.16	116.84	133.93	175.12	232.65
<b>DPS (HK cent)</b>	<b>76</b>	<b>98</b>	<b>107</b>	<b>141</b>	<b>186</b>

\* All forecasts assume no acquisition of Amer Sports

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2016A-2020E)

FY ends at Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Cash and cash equivalent	5,830	6,968	7,129	8,314	8,073
Other ST deposit	1,687	2,586	1,929	2,282	2,204
Trade and other receivables	2,641	3,733	5,129	5,074	6,405
Inventory	1,295	2,155	2,001	3,149	3,377
Others	0	0	0	0	0
<b>Current assets</b>	<b>11,453</b>	<b>15,442</b>	<b>16,188</b>	<b>18,819</b>	<b>20,059</b>
PP&E	1,170	1,203	1,343	1,428	1,546
Construction in progress	157	706	307	353	462
Intangible assets	478	705	725	744	766
Others	966	1,018	1,536	2,081	2,286
<b>Non-current assets</b>	<b>2,770</b>	<b>3,632</b>	<b>3,911</b>	<b>4,606</b>	<b>5,059</b>
<b>Total assets</b>	<b>14,224</b>	<b>19,074</b>	<b>20,099</b>	<b>23,425</b>	<b>25,118</b>
Trade and other payables	3,060	3,978	3,969	5,672	5,269
ST borrowings	938	148	131	167	115
Others	275	373	388	504	659
<b>Current liabilities</b>	<b>4,273</b>	<b>4,498</b>	<b>4,488</b>	<b>6,343</b>	<b>6,042</b>
LT payable to non-controlling interests	40	0	0	0	0
Deferred tax assets	14	215	104	86	96
<b>Total non-current liabilities</b>	<b>55</b>	<b>215</b>	<b>104</b>	<b>86</b>	<b>96</b>
Shareholders' equity	9,549	13,706	14,769	16,146	17,986
Minority interest	348	654	739	849	994
<b>Total equity</b>	<b>9,896</b>	<b>14,361</b>	<b>15,507</b>	<b>16,995</b>	<b>18,981</b>
<b>Total liabilities and equity</b>	<b>14,224</b>	<b>19,074</b>	<b>20,099</b>	<b>23,425</b>	<b>25,118</b>

\* All forecasts assume no acquisition of Amer Sports

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2016A-2020E)**

<b>FY ends at Dec 31 (RMB mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Pretax profit	3,311	4,311	5,005	6,549	8,707
Depreciation & amortization	226	250	312	375	455
Change in working capital	(216)	(381)	(1,250)	611	(1,961)
Others	(853)	(999)	(1,358)	(1,719)	(2,296)
<b>Cash flow from operating activities</b>	<b>2,468</b>	<b>3,181</b>	<b>2,709</b>	<b>5,815</b>	<b>4,906</b>
CapEx	(628)	(585)	(583)	(677)	(861)
Others	113	(994)	(521)	(1,243)	(973)
<b>Cash flow from investing activities</b>	<b>(515)</b>	<b>(1,579)</b>	<b>(1,104)</b>	<b>(1,920)</b>	<b>(1,834)</b>
Bank borrowing	(392)	(827)	21	36	(52)
Dividend paid	(1,572)	(1,976)	(2,347)	(3,081)	(3,981)
Others	566	2,801	685	753	828
<b>Cash flow from financing activities</b>	<b>(1,398)</b>	<b>(2)</b>	<b>(1,642)</b>	<b>(2,292)</b>	<b>(3,204)</b>
<b>Net change in cash</b>	<b>555</b>	<b>1,601</b>	<b>(36)</b>	<b>1,603</b>	<b>(133)</b>
ForEx effect	109	(463)	197	(418)	(108)
<b>Cash at the end of FY</b>	<b>5,830</b>	<b>6,968</b>	<b>7,129</b>	<b>8,314</b>	<b>8,073</b>

\* All forecasts assume no acquisition of Amer Sports

Source(s): Company, ABCI Securities estimates

**Key operating and financial ratios (2016A-2020E)**

<b>FY ends at Dec 31</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
<b>Growth (YoY %)</b>					
Revenue	19.95	25.08	32.00	29.83	28.66
Gross profit	24.56	27.59	38.71	31.11	29.90
EBIT	18.79	24.52	18.04	32.20	33.85
EBITDA	18.87	23.61	18.44	31.44	33.15
Net profit (to owners of the company)	16.91	29.52	16.55	30.75	32.85
<b>Profitability ratios (%)</b>					
GPM	48.40	49.37	51.88	52.39	52.90
OPM	24.00	23.90	21.37	21.76	22.64
EBITDA margin	25.70	25.39	22.79	23.07	23.87
Pretax	24.81	25.82	22.71	22.89	23.66
NPM (to owners of the company)	17.87	18.51	16.34	16.46	17.00
<b>Revenue contribution (%)</b>					
- Footwear	44.96	42.23	37.80	34.44	31.87
- Apparel	51.59	54.61	59.28	62.95	65.78
- Accessories	3.44	3.16	2.93	2.61	2.34
<b>Return ratios (%)</b>					
ROAA	18.29	18.97	18.82	22.15	26.37
ROAE	26.32	26.57	25.29	30.46	36.65
ROIC	28.07	27.62	26.29	29.45	33.91
<b>Liquidity ratio (x)</b>					
Current ratio	2.68	3.43	3.61	2.97	3.32
Quick ratio	2.38	2.95	3.16	2.47	2.76
Cash ratio	1.76	2.12	2.02	1.67	1.70
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	39	41	40	41	42
Days of inventory on hand	61	75	72	69	69
Days of outstanding payable	42	46	46	47	45
CCC	58	69	65	63	65
<b>Leverage ratios (%)</b>					
Total debt/Equity	9.48	0.77	0.84	0.98	0.60
Total debt/Total assets	6.59	0.58	0.65	0.71	0.46
Net cash/Equity	60.42	65.76	57.57	61.36	53.54
Net cash/Total assets	42.04	49.51	44.42	44.52	40.46

\* All forecasts assume no acquisition of Amer Sports

Source(s): Company, ABCI Securities estimates





## Disclosures

### Analyst Certification

I, PAN Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-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 2005 (HSI total return index 2005-17 CAGR at 10%)

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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