



February 18, 2014
 Equity Focus
 Rating: BUY
 TP: HK\$ 7.10

H-Share price (HK\$) 6.05
 Est. share price return 17.36%
 Est. dividend yield 1.47%
 Est. total return 18.83%

Previous Rating & TP HOLD; HK\$ 6.15
 Previous Report Date October 28, 2013

Analyst: Steve Wong
 Tel: (852) 2147 8869
 Email: stevecwong@abci.com.hk

Key Data

52Wk H/L(HK\$)	7.35 / 4.16
Issued shares (mn)	13,803
H-Shares (mn)	2,024
A-Shares (mn)	11,779
Market cap	
H-shares (HK\$ mn)	12,245
A-Shares (RMB mn)	52,299
3-mth avg daily turnover (HK\$ mn)	103.1
Major shareholder(s) (%)	
CSRG (State-owned)	56.48
Source(s): Company, Bloomberg, ABCI Securities	

9M13 Revenue breakdown (%)

Locomotives	21.52
Passenger carriages	5.50
Freight wagons	10.83
MUs	13.82
Rapid transit vehicles	8.87
New Businesses	16.62
Others	22.83
Source(s): Company, ABCI Securities	

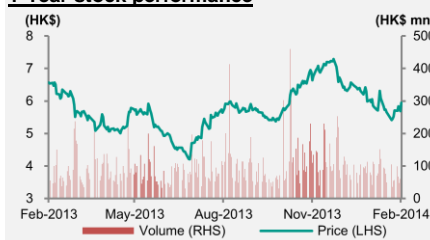
Share performance (%)

	Absolute	Relative*
1-mth	4.12	6.96
3-mth	(13.43)	(9.05)
6-mth	2.54	2.28

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg

CSR (1766 HK)

Railway construction on fast track; upgrade to BUY

- CRC's freight transport fee has increased by RMB 1.5 cents per ton-km on average since 2014. We expect China Railway Corporation (CRC)'s income to rise 13.19% YoY in 2014E
- As new construction starts on railway transport industry take flight, we expect CRC to pace up its procurement for rolling stock in 2014E-15E
- We revise up CSR's FY14E and FY15E net income by 17.28% and 20.88%. The counter has retreated by 17.55% from its peak in Dec 2013 and is trading at 13.56x FY14E P/E, which is below the lower quartile of its historical valuation and represents a good buying opportunity. We upgrade CSR from Hold to **BUY** with TP at HK\$ 7.10

Income to increase in CRC. According to NDRC, the railway freight transport fee has increased by RMB 1.5 cents per ton-km on average since 2014. We estimate total freight traffic volume to be 2,922bn ton-km for 2013, and would stay flat in 2014. Thus, overall transportation income would increase by RMB 43.82bn, or 13.19% YoY for 2014. According to CRC, the budgeted CAPEX of railway transport industry for 2014 would be RMB 630bn. The estimated freight fee increment for 2014 is therefore equivalent to 6.96% of the budgeted CAPEX. We estimate the average railway freight fee after adjustment would be RMB 14.5 cents per ton-km, which is 71% lower than the average highway toll fee estimate of RMB 50 cents per ton-km. Thus, CRC has much room to increase its fees and we expect another round of fee rise in 2H14.

Development of new projects is accelerating. Construction for the Longyan Railway, the intra-province railway line in Shandong connecting the two cities, Yantai and Longkou, has commenced on Feb 17. Including Longyan Railway, nine major railway line construction projects with an estimated investment of RMB 398.8bn have started since 2014. Progress of railway construction projects is pacing up to achieve the railway transport system development target set in the 12th Five-Year Plan. According to our estimates, the total length of rail track by end-2013 was 102,300 km. Also, a total of 17,700km of newly constructed track would be in operation by 2015. With the adjusted freight fee, we expect CRC to introduce private funding to lower its financial burden. We expect prompt delivery of CRC's construction projects and rolling stock procurement to pace up in 2014-15.

Undemanding valuations prompt us to upgrade from hold to BUY. We estimate CSR's 4Q13 revenue and net income to have grown 45.03% YoY and 45.60% YoY as CRC resumed its order. As we expect CRC's financial status to improve, we revise up our net income forecasts by 17.28% and 20.88% for FY14E-15E. The counter is currently trading at 13.56x FY14E P/E and 1.64x FY14E P/B, vs. the lower quartile of historical P/E and P/B at 15.36x and 1.82x since 2008. We roll over our valuation to FY14E, and revise up our TP to HK\$ 7.10 (original TP: HK\$ 6.15). As the counter has retreated by 17.55% from the peak in Dec 2013 and current valuation is undemanding, we upgrade our rating for CSR from Hold to **BUY**.

Risk factors: 1) Increased competition from CNR and international players; 2) Slowdown in rolling stock purchases from CRC due to debt problem.

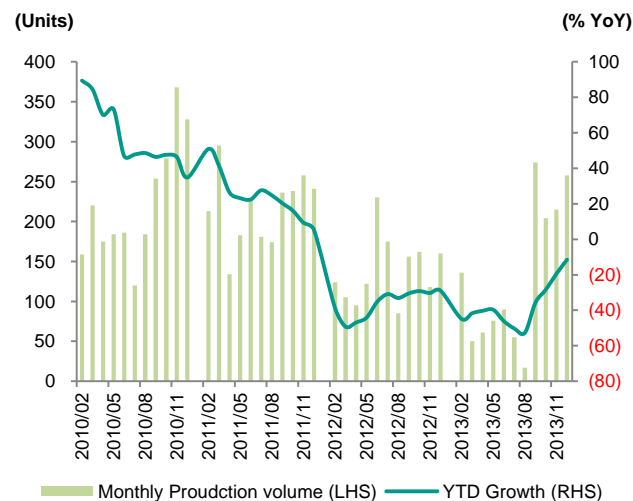
Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	79,517	89,019	93,943	105,130	118,525
Chg (% yoy)	23.99	11.95	5.53	11.91	12.74
Net Income (RMB mn)	3,864	4,009	4,193	4,811	5,731
Chg (% yoy)	52.96	3.75	4.59	14.74	19.11
EPS (RMB)	0.326	0.299	0.304	0.349	0.415
P/E (x)	-	15.80	15.56	13.56	11.38
BVPS (RMB)	1.906	2.373	2.587	2.875	3.220
P/B (x)	-	1.99	1.83	1.64	1.47
DPS (RMB)	0.210	0.093	0.061	0.070	0.083
Yield (%)	-	1.96	1.29	1.47	1.76
ROAE (%)	18.48	14.49	12.25	12.76	13.62
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

The order flow from CRC was back on track in 4Q13. Production volume of locomotive rebounded from the trough at -52.70% YoY in Aug 2013 to -11.50% YoY in Dec 2013, signaling that rolling stock manufacturing industry has been recovering. With construction activities of railway transport industry gathering speed, we expect rolling stock procurement will increase in 2014E-15E.

Exhibit 1: Production volume of locomotive and cumulative yoy growth in 2M10-12M13


Source(s): NBS

Exhibit 2: Major railway construction projects started since 2014

	Length (km)	Construction Duration (Years)	Construction Cost (RMB mn)
Beijing – Shenyang	705	4	121,050
Jiujiang – Jingdezhen – Quzhou	343	5	34,300
Yunnan – Zhenxiang	515	4	67,800
Hangzhou – Huangshan	213	5	36,500
Liaocheng – Jinan	110	3	11,000
Shanghai – Nantong	249	4	48,680
Zhangjiakou – Hohhot	287	4	34,650
Shijiazhuang – Jinan	319	3	43,600
Longkou – Yantai	113	3	1,200
Total:			398,780

Source(s): Media, ABCI Securities

Exhibit 3: Major railway construction projects started in 2013

	Length (km)	Construction Duration (Years)	Construction Cost (RMB mn)
Baoji – Lanzhou	401	4	63,130
Chengdu – Guiyang	519	4	51,900
Zhengzhou – Xuzhou	362	4	46,560
Zhangjiakou – Tangshan	528	3	40,001
Lianyungang – Yancheng	234	4	26,000
Fuzhou – Pingtan	90	5	21,230
Chengdu – Pujiang	99	3	15,000
Dunhuang – Golmud	506	5	13,480
Others			193,999
Total:			471,300

Source(s): Media, ABCI Securities

Exhibit 4: Major contracts of CSR in 2013

Category	Detail of contract	Date of Announcement	Contract Value (RMB mn)
MU	Entered into a contract with the Ministry of the Interior and Transport of Argentina in relation to the sale of EMUs with a value of approximately RMB3.43 billion.	2013/1/11	3,430
MU	Entered into a contract with DEC International Cooperation Limited in relation to the sale of DMUs with a value of approximately RMB0.67 billion	2013/1/11	670
Locomotive	Entered into a contract with Wuhan Railway Bureau in relation to the sale of locomotives with a value of approximately RMB1.5 billion.	2013/2/4	1,500
Locomotive	Entered into a contract with China Shenhua Energy Company Limited Shenshuo Railway Branch (中國神華能源股份有限公司神朔鐵路分公司) in relation to the sale of locomotives with a value of approximately RMB1.15 billion	2013/2/4	1,150
Locomotive	Entered into a contract with Shuohuang Railway Development Co., Ltd. (朔黃鐵路發展有限責任公司) in relation to the sale of locomotives with a value of approximately RMB0.27 billion.	2013/2/4	270
Locomotive	Entered into a contract with Beijing Railway Transportation Company Limited (北京京鐵運輸有限公司) in relation to the sale of locomotives with a value of approximately RMB870 million.	2013/5/27	870
Locomotive	Entered into contracts with certain railway bureaus under China Railway Corporation in relation to the overhaul of locomotives with a total value of approximately RMB1.13 billion	2013/5/27	1,130
MU	Entered into a contract with the Ministry of Interior and Transportation of Argentina in relation to the sale of electric MUs with a value of approximately RMB2.24 billion	2013/5/27	2,240
MU	Entered into a contract with certain railway bureaus under China Railway Corporation in relation to the maintenance of MUs with a value of approximately RMB1.7 billion	2013/5/27	1,700
Locomotive	Entered into a contract with Santi Forestry Co., Ltd. in relation to the sale of locomotives with a value of approximately RMB0.37 billion	2013/7/8	370
Locomotive	Entered into a contract with Harbin Railway Bureau of China Railway Corporation in relation to the overhauling of locomotives with a value of approximately RMB0.24 billion.	2013/7/8	240
MU	Entered into contracts with certain railway bureaus of China Railway Corporation in relation to the inspection and overhauling of MUs with a value of approximately RMB0.23 billion.	2013/7/8	230
Locomotive	Entered into a contract with the Land Transport Authority of Singapore in relation to the sale of locomotives with a value of approximately RMB0.17 billion	2013/7/8	170
MU	Entered into contracts with certain railway bureaus under China Railway Corporation in relation to the overhaul of MUs with a value of approximately RMB2.23 billion.	2013/9/10	2,230
Locomotive	Entered into contracts with certain railway bureaus under China Railway Corporation, respectively, in relation to the overhaul of locomotives with a total value of approximately RMB0.59 billion.	2013/9/10	590
MU	Entered into contracts with certain railway bureaus under China Railway Corporation in relation to the sale of MUs with a value of approximately RMB14.93 billion.	2013/10/21	14,930
Locomotive	Entered into contracts with certain railway bureaus under China Railway Corporation in relation to the sale of locomotives with a value of approximately RMB6 billion.	2013/10/21	6,000
Locomotive	Entered into contracts with certain railway bureaus under China Railway Corporation in relation to the sale of locomotives with a value of approximately RMB1.27 billion.	2013/10/21	1,270
MU	Entered into a contract with the Ministry of Transport of Malaysia in relation to the sale of MUs with a value of approximately RMB0.96 billion	2013/10/21	960
Locomotive	Entered into contracts with certain railway bureaus under China Railway Corporation in relation to the sale of locomotives with a value of approximately RMB0.9 billion	2013/10/21	900
Locomotive	Entered into contracts with certain railway bureaus under China Railway Corporation in relation to the sale of locomotives with a value of approximately RMB2.63 billion	2013/12/23	2,630
Locomotive	Entered into a contract with the Railway Bureau of Urumqi under China Railway Corporation in relation to the overhauling of locomotives with a value of approximately RMB0.12 billion	2013/12/23	120
MU	Entered into contracts with certain railway bureaus under China Railway Corporation in relation to the sale of MUs with a value of approximately RMB 25.63 billion	2013/12/31	25,630
Total:			63,480

Source(s): Company, ABCI Securities

Exhibit 5: Major changes in our FY13E-15E forecasts

	FY13E			FY14E			FY15E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Revenue (RMB mn)	88,349	93,943	6.33	97,983	105,130	7.29	109,750	118,525	8.00
Locomotives	16,762	16,762	-	18,019	18,019	-	19,382	19,382	-
Passenger carriages	6,284	6,284	-	6,683	6,683	-	7,110	7,110	-
Freight wagons	9,084	9,084	-	9,728	9,728	-	10,420	10,420	-
MUs	17,899	23,493	31.25	21,143	28,290	33.80	25,458	34,233	34.47
Rapid transit vehicles	9,957	9,957	-	12,532	12,532	-	15,839	15,839	-
New Businesses	11,482	11,482	-	12,152	12,152	-	12,929	12,929	-
Others	16,882	16,882	-	17,726	17,726	-	18,612	18,612	-
Gross profit (RMB mn)	15,390	16,492	7.16	16,738	18,482	10.42	18,714	21,014	12.29
GPM (%)	17.42	17.56	0.14ppt	17.08	17.58	0.50ppt	17.05	17.73	0.68ppt
Net income (RMB mn)	3,829	4,193	9.52	4,102	4,811	17.28	4,741	5,731	20.88
Net margin (%)	4.33	4.46	0.13ppt	4.19	4.58	0.39ppt	4.32	4.83	0.52ppt
EPS (RMB)	0.277	0.304	9.52	0.297	0.349	17.28	0.343	0.415	20.88
BVPS (RMB)	2.561	2.587	1.03	2.802	2.875	2.59	3.086	3.220	4.34
DPS (RMB)	0.055	0.061	9.52	0.059	0.070	17.28	0.069	0.083	20.88

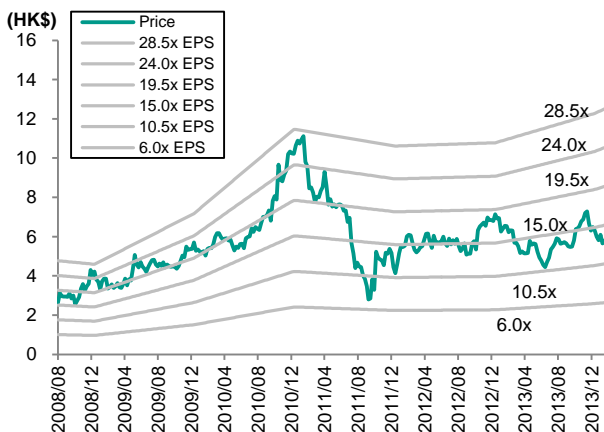
Source(s): ABCI Securities estimates

Exhibit 6: Peer valuation table for rolling stock manufacturers

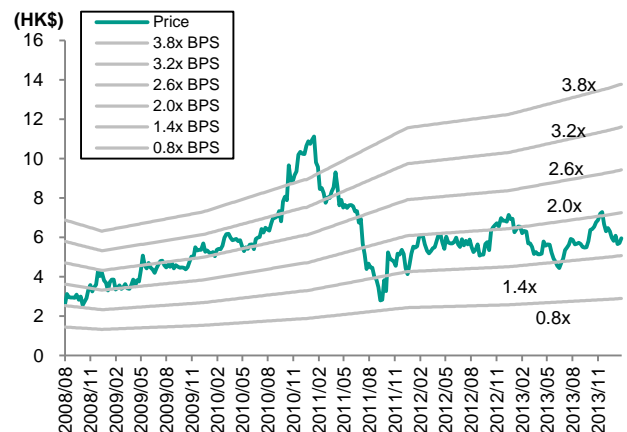
Company	Ticker	Mkt cap (HK\$ mn)	As of 2014/2/17 Share Price CRY	P/E (x)		EPS (%Yoy)		P/B (x)		ROAE (%)		
				FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
Domestic Rolling Stock Makers												
CSR-H	1766 HK	12,245	HKD	6.05	15.56	13.56	1.54	14.74	1.83	1.64	12.25	12.76
CSR-A	601766 CH	66,880	RMB	4.44	14.62	12.74	1.54	14.74	1.72	1.54	12.25	12.76
CSR Times Electric	3898 HK	29,740	HKD	25.30	18.97	16.23	(7.49)	16.92	2.62	2.34	16.28	15.24
CNR	601299 CH	60,444	RMB	4.58	12.21	10.20	10.29	19.73	1.26	1.15	10.82	12.06
Zhuzhou Times	600458 CH	8,374	RMB	9.90	25.85	20.97	23.55	23.24	2.14	2.13	8.82	8.58
Changchun Eurasia Group	600697 CH	3,672	RMB	18.05	11.56	9.24	22.91	25.18	2.13	1.79	21.52	21.06
Jinxi Axle	600495 CH	7,248	RMB	13.51	30.70	22.78	10.00	34.77	1.33	1.72	11.25	6.59
Sector Weighted Average					15.65	13.21	4.64	18.03	1.73	1.59	12.42	12.67
International Rolling Stock Makers												
Alstom	ALO FP	68,784	EUR	20.97	8.19	8.34	(3.68)	(1.83)	1.18	1.07	19.78	14.50
Bombardier Inc.	BBD/A CN	46,331	CAD	3.83	8.63	7.53	30.65	14.57	2.14	1.80	39.78	26.79
CAF	CAF SM	13,833	EUR	379.75	13.22	11.04	(0.96)	19.70	1.70	1.53	14.04	14.60
Vossloh A.G.	VOS GR	10,581	EUR	74.73	36.07	17.55	(58.06)	105.45	1.86	1.74	5.35	10.41
Faiveley Transport	LEY FP	8,974	EUR	57.79	13.74	12.73	0.86	7.96	1.42	1.31	13.11	10.73
Nippon Sharyo	7102 JP	5,471	JPY	491.00	10.42	12.54	325.47	(16.88)	1.12	1.03	2.03	8.55
Kinki Sharyo	7122 JP	1,726	JPY	329.00	(10.35)	113.45	(561.54)	(109.12)	0.68	0.68	(6.40)	0.60
Sector Weighted Average					10.85	10.53	8.72	11.10	1.57	1.38	22.94	17.31
Overall Weighted Average					13.48	12.00	6.49	14.90	1.66	1.50	17.18	14.77

1: EPS is expected to turn positive in FY14E

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 7: P/E band of CSR-H in 1M08-2M14 (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 8: P/B band of CSR-H in 1M08-2M14 (HK\$)


Source(s): Company, Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	79,517	89,019	93,943	105,130	118,525
Locomotives	17,803	14,396	16,762	18,019	19,382
Passenger carriages	6,354	7,753	6,284	6,683	7,110
Freight wagons	9,692	10,419	9,084	9,728	10,420
MUs	20,981	21,524	23,493	28,290	34,233
Rapid transit vehicles	8,217	7,947	9,957	12,532	15,839
New Businesses	11,637	10,902	11,482	12,152	12,929
Others	4,832	16,078	16,882	17,726	18,612
COGS	(64,647)	(73,264)	(77,451)	(86,648)	(97,512)
Gross profit	14,870	15,755	16,492	18,482	21,014
SG&A	(9,752)	(10,840)	(11,357)	(12,606)	(14,014)
Other income and gains	324	678	678	807	957
Pre-tax profit	5,442	5,593	5,813	6,683	7,956
Income tax	(699)	(741)	(756)	(869)	(1,034)
Net profit	4,743	4,852	5,058	5,814	6,922
Profit attributable to:					
Minority interests	879	843	865	1,003	1,191
Equity shareholders of the Company	3,864	4,009	4,193	4,811	5,731
EPS (RMB)	0.326	0.299	0.304	0.349	0.415
DPS (RMB)	0.210	0.093	0.061	0.070	0.083
EBIT	6,503	6,422	6,605	7,517	8,830
EBITDA	8,062	8,205	8,522	9,531	10,936

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	63,607	72,261	79,956	87,430	92,882
Cash and equivalent	23,730	15,044	17,195	21,387	23,239
Trade and bill receivables	17,891	30,355	33,990	35,137	36,303
Inventories	17,842	18,770	20,274	21,982	23,969
Other current assets	4,144	8,092	8,498	8,924	9,372
Non-current assets	29,179	32,956	35,008	36,780	38,678
Property, plant and equipment	21,390	22,996	24,306	25,531	26,677
Intangible assets	5,003	5,367	5,514	5,589	5,611
Long-term investments	2,340	3,099	3,409	3,750	4,125
Other non-current assets	446	1,494	1,780	1,910	2,265
Total assets	92,786	105,217	114,964	124,210	131,560
Current liabilities	59,185	61,538	64,303	68,096	68,978
Trade and bill payables	27,946	39,663	40,971	42,116	40,702
Receipts in advance	7,409	7,272	8,171	9,111	10,373
Short term borrowings	18,099	8,596	8,554	9,600	9,908
Other current liabilities	5,732	6,007	6,608	7,268	7,995
Non-current liabilities	5,513	4,169	7,508	8,187	8,933
Long-term borrowings	2,325	727	3,722	4,022	4,352
Other non-current liabilities	3,188	3,442	3,786	4,165	4,581
Total liabilities	64,698	65,707	71,811	76,283	77,911
Minority interests	5,526	6,754	7,446	8,248	9,201
Shareholders' equities	22,562	32,756	35,707	39,680	44,448
BVPS (RMB)	1.906	2.373	2.587	2.875	3.220

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	5,442	5,593	5,813	6,683	7,956
Changes in depreciation and amortization	1,559	1,783	1,917	2,013	2,105
Changes in working capital	58	(4,764)	(3,591)	(1,616)	(4,241)
Financial cost	994	764	752	793	831
Income tax paid	(568)	(855)	(755)	(867)	(1,033)
Others	(544)	(126)	-	-	-
CF Operating	6,941	2,395	4,137	7,005	5,619
Increase in PP&E	(5,611)	(3,165)	(3,000)	(3,000)	(3,000)
Increase in intangible assets	(646)	(581)	(374)	(314)	(273)
Others	(1,286)	(499)	-	-	-
CF Investing	(7,543)	(4,245)	(3,374)	(3,314)	(3,273)
Capital injection	278	9,310	-	-	-
Net debt financing	10,408	(11,101)	2,953	1,346	637
Dividend payout	(719)	(2,782)	(1,242)	(839)	(962)
Interest paid	(931)	(970)	(752)	(793)	(831)
Others	(138)	(129)	428	786	661
CF Financing	8,898	(5,672)	1,387	501	(494)
Net change in cash	8,296	(7,522)	2,151	4,193	1,852
Cash at the beginning	14,541	23,730	15,044	17,195	21,387
Adjustment (Time deposit & FX effect)	894	(1,164)	-	-	-
Cash at the end	23,730	15,044	17,195	21,387	23,239

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Locomotives	22.39	16.17	17.84	17.14	16.35
Passenger carriages	7.99	8.71	6.69	6.36	6.00
Freight wagons	12.19	11.70	9.67	9.25	8.79
MUs	26.39	24.18	25.01	26.91	28.88
Rapid transit vehicles	10.33	8.93	10.60	11.92	13.36
New Businesses	14.63	12.25	12.22	11.56	10.91
Others	6.08	18.06	17.97	16.86	15.70
Profit & loss ratios (%)					
Gross margin	18.70	17.70	17.56	17.58	17.73
Net profit margin	4.86	4.50	4.46	4.58	4.83
Effective tax rate	12.84	13.25	13.00	13.00	13.00
Growth (%)					
Revenue	23.99	11.95	5.53	11.91	12.74
Gross profit	35.34	5.95	4.68	12.07	13.70
EBIT	62.10	(1.25)	2.84	13.82	17.47
EBITDA	51.55	1.77	3.86	11.84	14.74
Net profit	52.96	3.75	4.59	14.74	19.11
Balance sheet ratios					
Current ratio (x)	1.07	1.17	1.24	1.28	1.35
Quick ratio (x)	0.77	0.68	0.71	0.77	0.82
Cash ratio (x)	0.40	0.24	0.27	0.31	0.34
Trade and bill receivables days	70.67	98.91	125.00	120.00	110.00
Trade and bill payables turnover days	149.38	168.41	190.00	175.00	155.00
Inventory turnover days	100.60	91.20	92.00	89.00	86.00
Total debt / equity ratio (%)	72.72	23.60	28.45	28.42	26.58
Net debt / equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROAE	18.48	14.49	12.25	12.76	13.62
ROAA	4.64	4.05	3.81	4.02	4.48
Payout ratio	64.30	30.98	20.00	20.00	20.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Wong Cheuk Wai, Steve, 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.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return – 6% \leq Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on

investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2014 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183