



Xin Point (1571 HK)

The specialist in automotive decorative component

- Revenue growth and improved margins in 1H17 showed effectiveness of the Group's strategy and operation efficiency; backlog orders by end-1H17 amounted to RMB 8.7bn
- A leading player in China's relatively fragmented automotive electroplated components industry, with above-average growth and yield rate; the Group has a one-stop production platform backed by strong R&D, product quality and production capability
- We expect revenue would grow at 22.62% CAGR in 2016-19E with improving margins; the Group also announced 1H17 dividend of RMB 0.05 and 30% DPO going forward
- Initiate **BUY**; TP represents 11.66x/9.20x 17E/18E P/E or 2.20x/1.97x 17E/18E P/B

1H17 saw decent growth and margins. The Group's revenue grew 28.1%, supported by volume and ASP growth of 14.1% YoY and 12.3% YoY. Revenue of automotive decorative component segment grew 30.7% YoY, supported by volume and ASP growth of 19.2% YoY and 10% YoY. The Group's margins maintained stable – GPM maintained at 42% in 1H17 while NPM (to owners of the parent) edged up from 19.4% in 1H16 to 19.8% in 1H17. In addition, total-debt-equity ratio trended lower to 0.18% by end-1H17.

A leading player in China's fragmented automotive electroplated components industry. In 2016, the Group was ranked second by turnover market share (5%) in the automotive plastic electroplated components segment, according to F&S. The local market is relatively fragmented in China, with the top player taking up 5.2% of market share (by total revenue) in 2016. The Group has been growing at an above-industry rate, which implies an increasing market share. The Group also attains a higher yield rate (a measure of the success rate of products) than the industry average.

One-stop production platform backed by strong R&D investment. Supported by a strong R&D team, the Group has a one-stop production platform covering all aspects from component design & development to product assembly. Its product quality and production capability have been widely recognized in the market, as reflected by the sales and margin growth in the last three years.

Decent growth prospect with a strong dividend policy. The backlog orders of the Group amounted to RMB 8.7bn by end-1H17, which equals to 9.8x 1H17 revenue and 5.6x 2016 revenue. We project total revenue would grow at 22.62% CAGR in 2016-19E, supported by a revenue CAGR of 23.43% in the automotive decorative component segment. In 2017E-19E, GPM would improve from 41.76% to 42.57%; NPM (to owners of the parent) would increase from 19.78% to 20.88%. Moreover, the Group stated a minimum dividend payout of 30% starting from 2017; the 1H17 dividend declared was RMB 0.05, which represents a DPO of 21.74%

Initiate BUY; TP at HK\$ 5.20. After the 1H17 result announcement, stock price soared and once reached new high at HK\$ 4.75, which was 10.65x/8.40x of 17E/18E EPS or 2.01x/1.80x of 17E/18E BPS. We believe further upside would be supported by solid growth potential. Our current TP is equivalent to 11.66x/9.20x 17E/18E P/E or 2.20x/1.97x 17E/18E P/B, which is in line the valuation of its HK/international peers.

Risk factors: 1) Growth risk; 2) Commodity price risk; 3) Labor supply risk; 4) Product concentration risk; 5) Order procurement risk; 6) Product quality risk; 7) Customer concentration risk; 8) Export risk; 9) Currency risk.

Results and Valuation

FY ended Aug 31	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue (RMB mn)	1,204	1,541	1,897	2,304	2,840
Chg (% YoY)	19.62	27.99	23.11	21.46	23.30
Net Profit (RMB mn)	228	298	375	476	593
Chg (% YoY)	30.85	30.60	25.72	26.79	24.73
Basic EPS (RMB cent)	N/A	N/A	37.27	47.25	58.94
Chg (% YoY)	N/A	N/A	N/A	1.27	1.25
P/E (x)	N/A	N/A	10.56	8.33	6.68
BVPS (RMB cent)	N/A	N/A	197.43	220.95	250.12
P/B (x)	N/A	N/A	1.99	1.78	1.57
DPS(HKD)	N/A	N/A	11.18	14.18	17.68
Yield (%)	N/A	N/A	2.84	3.60	4.49
ROAA (%)	19.87	21.42	17.60	16.77	18.09
ROAE (%)	30.64	32.24	24.88	22.59	25.02

Source(s): Company, ABCI Securities estimates

Company Report

Initiation

Sep 7, 2017

Rating: **BUY**

TP: **HK\$ 5.20**

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Email: paulpan@abci.com.hk

Share price (HK\$)	4.71
52Wk H/L(HK\$)	4.75/2.75
Est. share price return	10.40%
Est. dividend yield	2.84%
Est. total return	13.24%

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	1,006.49
Mkt cap (HK\$ mn)	4,740.55
ADT since IPO (HK\$mn)	16.31

Shareholding (%)	
Green Pinnacle	71.40
Greater Talent	6.31

Source(s): Bloomberg, HKEX

% to total revenue	FY17E
Automotive decorative component segment	98.48
Non-automotive decorative component segment	1.52

Source(s): ABCI Securities estimates

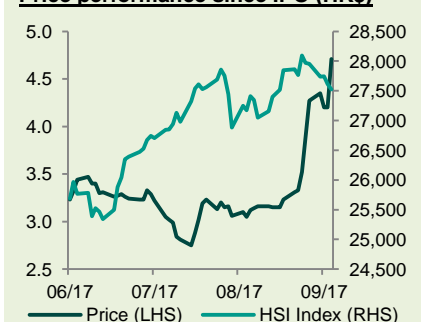
Price Performance (%)

	Absolute	Relative*
1-mth	50.48	50.36
3-mth	N/A	N/A
6-mth	N/A	N/A

* Relative to HSI

Source(s): Bloomberg

Price performance since IPO (HK\$)



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of end of Sep 7, 2017



1H17 performance review

Growth momentum supported by the China and Europe segments

In 1H17, the Group' topline grew 28.08% YoY. Overall ASP and sales volume increased 12.27% YoY and 14.08% YoY. For the Group's automotive decorative component segment, revenue rose 30.73% YoY in 1H17, supported by ASP and volume growth of 9.98% YoY and 19.20% YoY.

Some geographical segments experienced significant growth. The China and Europe segments saw revenue growth of 30.02% YoY and 38.84% YoY in 1H17. According to the Group and our calculation, the Group's ASP and sales volume of automotive decorative components in China grew 12.63% YoY and 20.30% YoY in 1H17. The Group's ASP and sales volume of automotive decorative in Europe rose 26.45% YoY and 9.80% YoY. North America, however, saw a slower revenue growth of 17.21% YoY during the same period. Revenue contribution from China, North America and Europe were 43.43%, 28.33%, and 24.71% in 1H17.

Efficient working capital management and strong cash position

Overall working capital management was efficient, as CCC decreased by 1 day to 120 days in 1H17 compared to 1H16. Receivable turnover days increased by 7 to 95 from 88, while the payable turnover increased by 9 days to 62 from 53.

Moreover, the Group is in a strong cash position, with cash and cash equivalent amounting to RMB 885.71mn by end-1H17 and a net cash position of RMB 882.45mn. Total debt-to-equity ratio was 0.18% and net cash-to-equity ratio was 48.40 % by end-1H17.

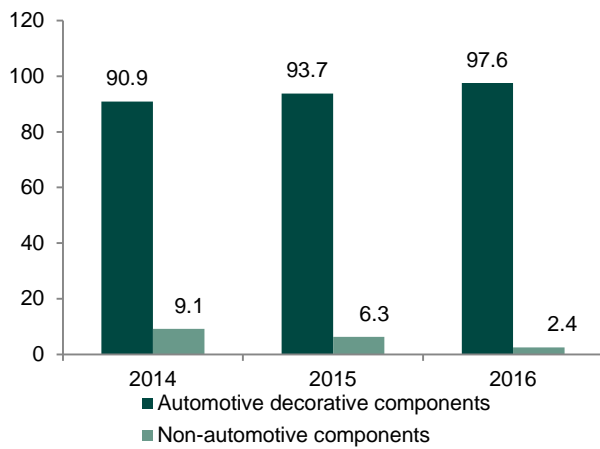
Business analysis

Business portfolio analysis

The Group is one of the leading automotive plastic electroplated components suppliers in China. Its in-depth industry knowledge and experience enable it to provide a wide range of products, including the exterior and interior automotive decorative components. Automotive decorative component is the core business for the Group, accounting for 93.7%/97.6%/99.1% of total revenue in 2015/16/1H17, while the rest of its revenue is derived from non-automotive decorative component. More specifically, the Group specializes in automotive interior decorative component, which is now the major revenue source for the Group. In 2014/15/16, interior automotive decorative component contributed to 91.9%/92.9%/93.6% of the revenue from the automotive decorative component segment, according to the Prospectus.

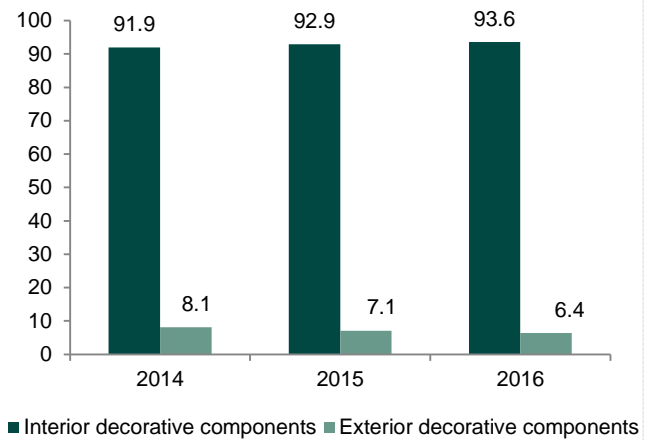


Exhibit 1: Revenue contribution by segment (%)



Source(s): Company, ABCI Securities

Exhibit 2: Breakdown of revenue from automotive decorative component segment (%)



Source(s): Company, ABCI Securities

Production capabilities and R&D analysis

The Group's current production sites are in Huizhou (Headquarter), Wuxi, and Tianjin. As of end-1H17, the Group's annualized electro-plating production capacity increased to 2,525,300 sqm from 2,123,100 sqm by end-2016. The Group's average utilization rate of electroplating production lines also increased from 80.7% in 2016 and 73.6% in 1H16 to 84.0% in 1H17.

Exhibit 3: Production sites and production capacity – electroplating lines

	Huizhou (sqm k)	Wuxi (sqm k)	Tianjin (sqm k)	Total (sqm k)
2014				
Designed production capacity*	1,335.9	609.9	177.8	2,123.6
Actual production volume	971.4	326.7	78.8	1,376.9
Average utilization rate**	72.70%	53.60%	44.30%	64.8%
2015				
Designed production capacity*	1,418.0	604	125.4	2,147.4
Actual production volume	1,063.3	454.7	69.5	1,587.5
Average utilization rate**	75.0%	75.30%	55.40%	73.9%
2016				
Designed production capacity*	1418.0	604.0	101.1	2,123.1
Actual production volume	1,195.30	458.0	59.9	1,713.2
Average utilization rate**	84.3%	75.8%	59.2%	80.7%
1H17***				
Designed production capacity*	N/A	N/A	N/A	2,525.3
Actual production volume	N/A	N/A	N/A	2,121.3
Average utilization rate**	N/A	N/A	N/A	84.0%

Note:

* Designed production capacity in 2014, 2015 and 2016 is calculated on the basis of 312 days per year and 24 working hours per day.

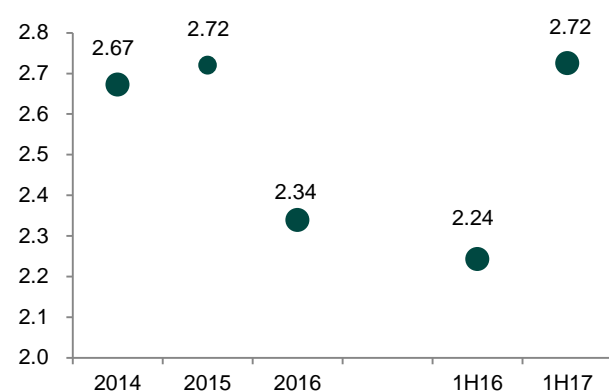
** Average utilization rate is calculated based on the actual production volume during the relevant year divided by the designed production capacity.

*** No disclosure of individual production site's production capacity; 1H17 actual production volume was calculated

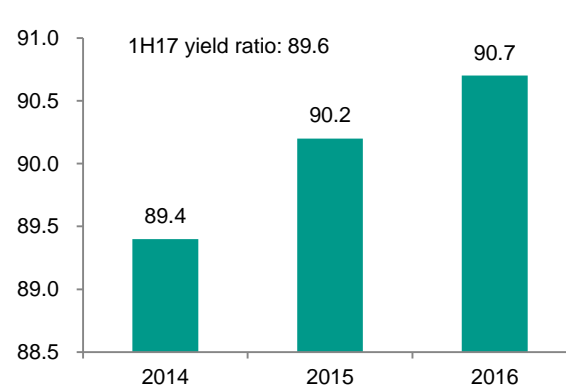
Source(s): Company, ABCI Securities calculation

The Group now has the capability to provide one-stop production service that ranges from component design & development to product assembly. By end-2016, the Group had a R&D team with ~305 members, of which two experts were recruited from Germany and Canada. The Group has registered for 38 utility model and invention patents. Our calculation shows R&D expense-to-revenue ratio increased from 2.34% in 2016 and 2.24% in 1H16 to 2.72% in 1H17.

The Group's yield rate, which is a measure of the success rate of products, has been stable at 89.6% in 1H17 (89.4%/90.2%/90.7% in 2014/15/16). The slight decrease was due to the commencement of new production line in Feb 2017. Meanwhile, the yield rates of leading Chinese automotive electroplated component manufacturers generally range from 80%-90%, and the industry's overall average yield rate is estimated to be no more than 80%, according to F&S.

Exhibit 4: R&D expense-to-revenue ratio (%)


Source(s): Company, ABCI Securities

Exhibit 5: Yield rate of the Group (%)


Source(s): Company, ABCI Securities

Global business footprint

Since its establishment in 2002, the Group has expanded its business footprint to North America, Europe, and Asia. Revenue contribution from Europe increased from 14.0% in 2014 to 24.71% 1H17. The North American market contributed to 34.4% and 30.0% of total revenue in 2014 and 2016, but the contribution declined to 28.33% in 1H17 due to slower growth momentum. Collective revenue from the overseas markets accounted for 56.6% of total revenue in 1H17.

Exhibit 6: Revenue contribution by geographical segment (%)

	2014	2015	2016	1H16	1H17
China	48.03	47.48	43.72	42.78	43.43
North America	34.36	31.67	29.99	30.96	28.33
Europe	14.04	17.45	22.60	22.80	24.71
Others	3.56	3.40	3.68	3.46	3.53

Source(s): Company, ABCI Securities

ASP, Volume, and Pricing Strategy

The Group's ASP for the automotive decorative component segment rose steadily from RMB 4.0/unit in 2014 to RMB ~5.0/unit for 1H17. In addition, sales volume for the automotive decorative component segment grew 20.25% YoY in 2015, 13.53% YoY in 2016, and 19.20% YoY in 1H17.



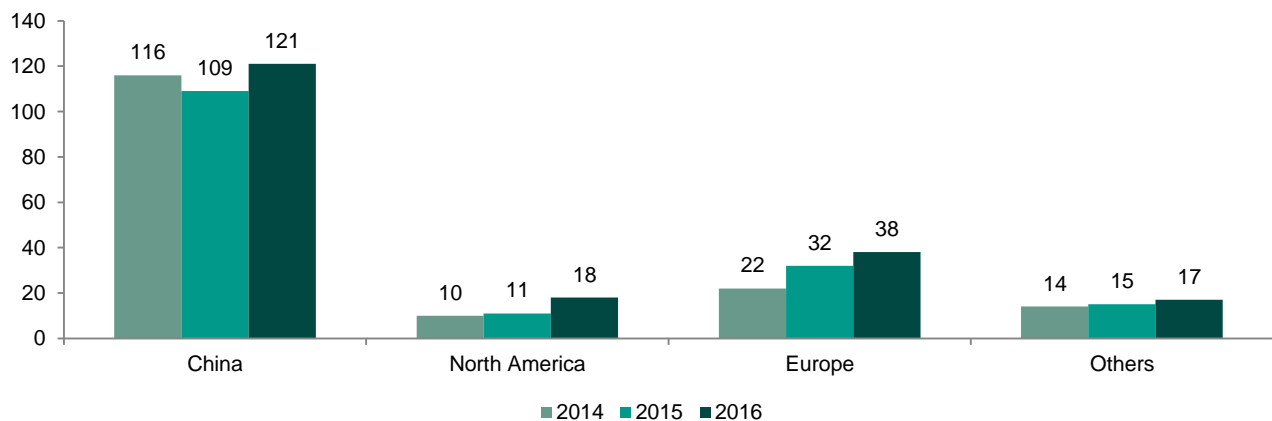
Exhibit 7: ASP and volume of the Group

	2014	2015	2016	1H16	1H17
Overall					
ASP (RMB/unit)	3.62	3.72	4.71	4.41	4.95
<i>Growth (YoY %)</i>	<i>3.05</i>	<i>2.74</i>	<i>26.47</i>	<i>24.64</i>	<i>12.27</i>
Volume (Unit k)	277,844	323,508	327,410	156,990	179,100
<i>Growth (YoY %)</i>	<i>9.67</i>	<i>16.44</i>	<i>1.21</i>	<i>(0.93)</i>	<i>14.08</i>
Automotive decorative component segment					
ASP(RMB/unit)	4.00	4.10	4.80	4.50	4.95
<i>Growth (YoY %)</i>	<i>(4.76)</i>	<i>2.50</i>	<i>17.07</i>	<i>12.50</i>	<i>9.98</i>
Volume (Unit k)	230,143	276,745	314,190	148,970	177,572
<i>Growth (YoY %)</i>	<i>23.85</i>	<i>20.25</i>	<i>13.53</i>	<i>14.25</i>	<i>19.20</i>

Source(s): Company, ABCI Securities

In the past few years, the Group has been expanding its business in the overseas markets. The no. of customers in North America increased from 10 by end-2014 to 18 by end-2016, while the no. of customers in Europe increased from 22 by end-2014 to 38 by end-2016. According to the Prospectus and our calculation, in 2014-1H17, ASP (automotive decorative component segment) of the Europe segment ranged from RMB 6.1/unit–RMB 8.6/unit, while ASP (automotive decorative component segment) of the China segment ranged from RMB 3.0/unit to RMB 4.0/unit. Overall, premium paid by these overseas customers has elevated overall pricing and margins.

Exhibit 8: No. of customers by geographical segment (by end of period)



Source(s): Company, ABCI Securities

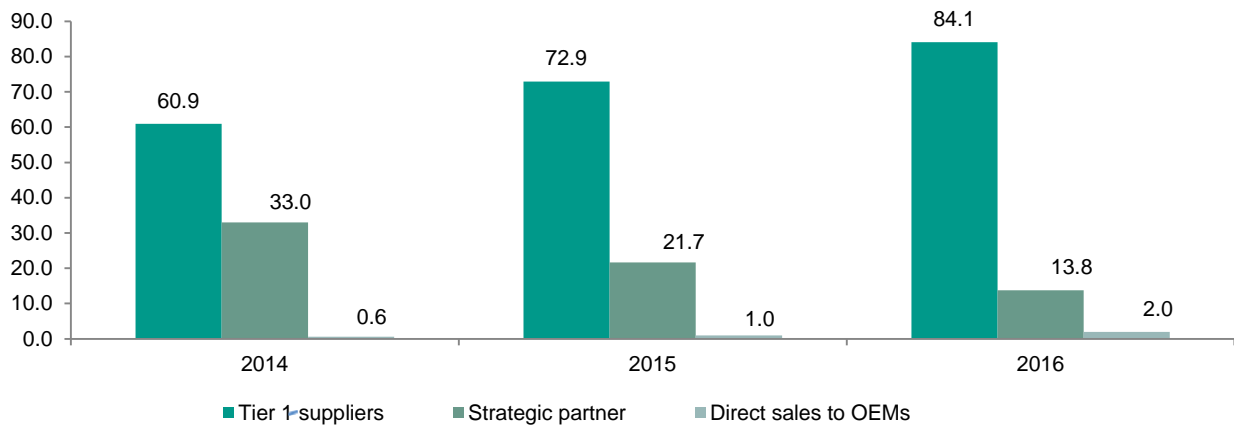
According to the Group, OEMs generally require tier-1 suppliers to meet price reduction initiatives and objectives every year, resulting in a step-down in component pricing over the period of supply. The price reduction generally ranges from 2% to 6% per year in 2014-16. To maintain a stable ASP, the Group would need to develop new components for its customers or obtain new customers. We believe it has been highly capable of obtaining new product orders to offset impacts of the price decline.

Top-tier clientele

The Group focuses on developing a customer base with top-tier clients. According to the Group, revenue contribution of tier-1 suppliers to automotive decorative component segment increased from 60.9% in 2014 to 84.1% in 2016. Revenue contribution from direct sales to OEMs to the automotive decorative component segment increased from 0.6% in 2014 and 2.0% in 2016. As of Apr 28, 2017, the Group was the approved supplier for internationally renowned OEMs, including 北京奔驰汽车有限公司 and Volvo Cars. In our view, the Group's relationship with the

top-tier customers is evidence of its strength in product quality and production capability.

Exhibit 9: Revenue composition by customer type in the automotive decorative component segment (%)



Source(s): Company, ABCI Securities

History and milestones

The Group entered North America in 2006 and Europe in 2008. Since then, the two markets have been significant contributors to the Group's income, accounting for 28.33% and 24.71% of total revenue in 1H17. The no. of customers from North America/Europe reached 18/38 by end-2016 vs. 10/22 by end-2014. For details of the Group's history and milestones, please refer to Appendix IV.

Investment highlights

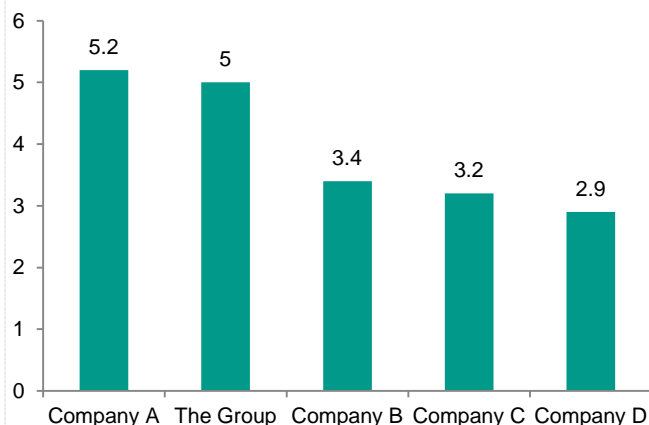
Core strengths of the Group

1. Leading player in the automotive plastic electroplated component industry in China

The Group has a leading market share in the automotive plastic electroplated component industry. According to F&S data, the Group was ranked second in terms of total revenue market share (5.0%) in the automotive plastic electroplated component market in 2016.

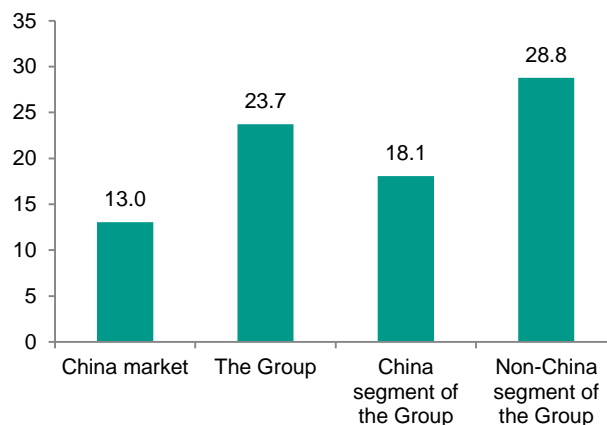
In addition, we believe the Group's market share has been increasing as it has been expanding at rates higher than the market. According to our calculation based on F&S data, the China market had a revenue CAGR of 13.0% in 2014-16. The Group's total revenue grew at 23.7% CAGR, with revenue from China/non-China segments expanding at 18.1%/28.8% CAGRs.

Exhibit 10: Market share (by revenue) of the Group – 2016 (%)



Source(s): Company, F&S report, ABCI Securities

Exhibit 11: 2014-16 revenue CAGR growth (%)



* China market growth is calculated based on Prospectus data
 Source(s): Company, F&S report, ABCI Securities

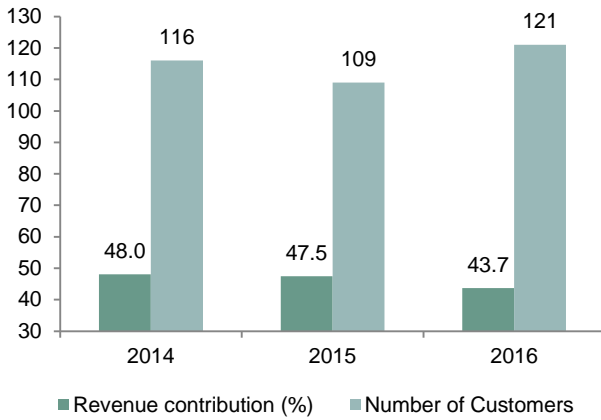
The Group's leading position in the industry has given it advantages such as more bargaining power when securing new orders from foreign customers and negotiating prices with suppliers. Its large market share also creates a natural entry barrier for new entrants.

2. Business footprint in the overseas market and business partnership with renowned luxury automobile brands

The Group's geographically diverse business and partnerships with major brands/OEMs (including 北京奔驰汽车有限公司 and Volvo Cars) reflect its strong capability in procuring new orders. Revenue contribution from Europe increased from 14.04% in 2014 to 24.71% in 1H17; revenue contribution from North America has been high although the figure declined from 2014's 34.4% to 1H17's 28.33%. The no. of North American customers was 18 by end-2016 and the no. of European customers has exceeded 30 since end-2015. Meanwhile, the no. of Chinese customers has exceeded 100 since end-2014.

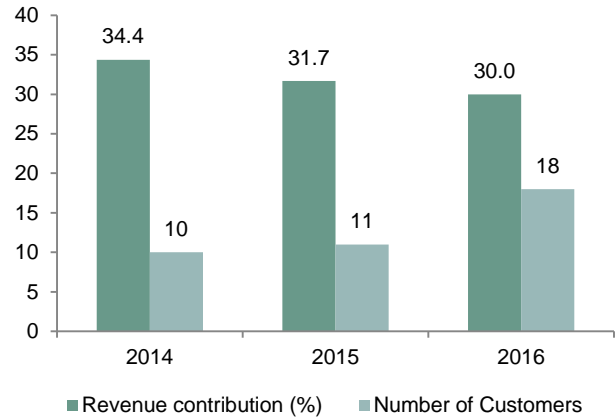


Exhibit 12: Revenue contribution and no. of customers – China



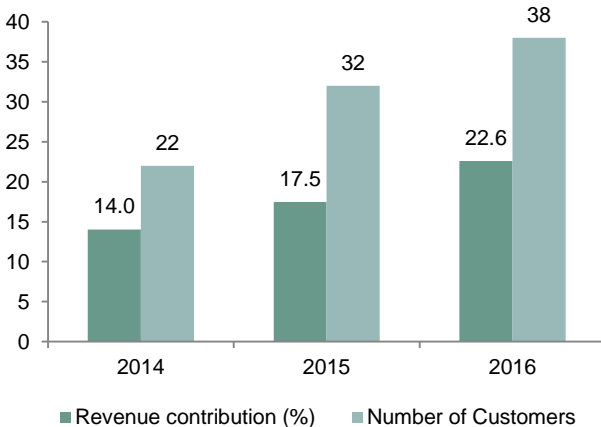
Source(s): Company, ABCI Securities

Exhibit 13: Revenue contribution and no. of customers – North America



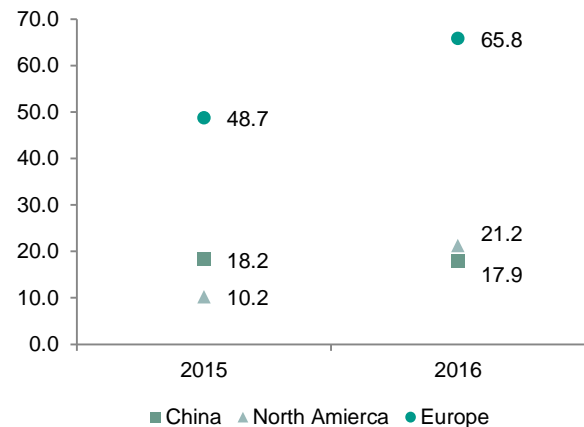
Source(s): Company, ABCI Securities

Exhibit 14: Revenue contribution and no. of customers – Europe



Source(s): Company, ABCI Securities

Exhibit 15: Revenue growth by geographical segments (YoY %)



Source(s): Company, ABCI Securities

We believe the Group's overseas market expansion has enabled it to achieve strong revenue growth and better margins because overseas customers and luxury brands are more willing to obtain quality products at higher prices. According to the Prospectus and our calculation, in 2014 –1H17, the Group's ASP for European customers ranges from RMB 6.1-8.6/unit, higher than the ASP range for Chinese customers (RMB 3.0-4.0/unit). The Group's revenue growth was mainly supported by strong growth in the overseas market or more specifically, the European market.

3. Vertically integrated business model to provide one-stop production services

The Group has a one-stop production platform covering design, production, and assembly. We believe such production and design capabilities have enabled it to attract an increasing number of overseas customers. Its revenue from Europe increased by 48.7% YoY/65.8% Yo/38.8% YoY in 2015/2016/1H17. Revenue from the North American market, albeit growing at slower rates, contributing to ~30% of the Group's total revenue over the past few years. Moreover, stable ASP and expanding sales volume indicate that its ability to obtain new product orders and securing new customers/contracts.

4. Cutting-edge technology to enhance production efficiency

The Group has adopted advanced technologies in its production and has been investing in R&D. According to the Prospectus, the Group employs technologies such as nylon electroplating technology and VM electroplating technology. As of Apr 28, 2017, the Group had 38 registered patents in China; it also made five patent applications in China and one in Germany as of Apr 28, 2017. Based on our calculation, the Group's R&D expense was 2.72%/2.34%/2.72% of total sales in 2015/2016/1H17, and R&D expense CAGR in 2014-16 was 15.75%.

The Group's commitment in R&D has raised production efficiency. According the F&S data, yield rates of the leading Chinese automotive electroplated component manufacturers range from 80%-90% while the overall industry average yield rate is no more than 80%. Meanwhile, the Group's yield rate has been above the industry average. High yield rate reduces the amount of defective products, thus increasing the overall profit margins.

5. Management expertise aids operation

We believe the management team has been able to apply their expertise in operation. Aside from the consistent margins and satisfactory growth in the past few years, the Group also maintains a sound working capital management, relying almost entirely on working capital with limited external leverage. In 2016, the Group's overall cash conversion cycle (CCC) decreased to 115 days. In terms of leverage, the Group's total debt-to-equity ratio and total debt-to-asset ratio were low.

Exhibit 16: Working capital turnover days

	2014	2015	2016	1H16	1H17
Receivable turnover days	88	88	91	88	95
Inventory turnover days	78	80	80	85	87
Payable turnover days	45	46	56	53	62
CCC	120	122	115	121	120

Source(s): Company, ABCI Securities

Exhibit 17: Leverage ratios (%)

	2014	2015	2016	1H16	1H17
Total debt to equity	1.17	3.77	0.49	0.82	0.18
Total debt to assets	0.83	2.45	0.33	0.52	0.14
Net cash/(debt) to equity	25.76	31.87	21.85	35.30	48.40
Net cash/(debt) to assets	18.20	20.69	14.80	22.25	37.54

Source(s): Company, ABCI Securities

6. High returns to maintain sufficient capital for reinvestment

The Group has been able to maintain high returns over the past few years. ROAA has been steady, reaching 21.42% in 2016 while ROAE increased from 30.6% in 2015 to 32.24% in 2016. We believe the high return reflects the efficient use of assets (revenue/average assets ratio was 1.08x/1.11x in 2015/16) while the relatively low leverage level means ROAA still has room for growth. We believe the Group's high returns would generate sufficient capital for reinvestment.

Exhibit 18: Return ratios and sales turnover

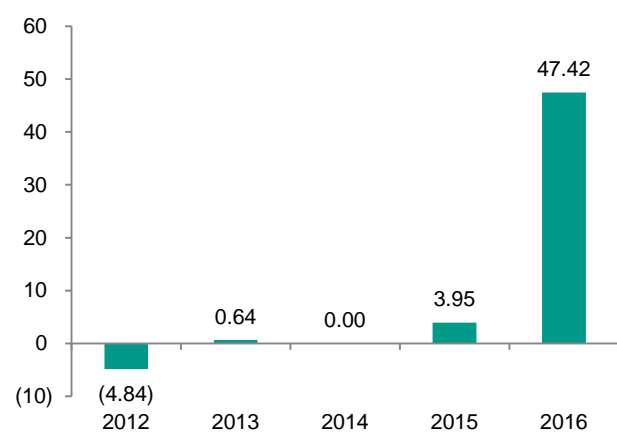
	2014	2015	2016	1H16	1H17
ROAA (%)	20.33	19.87	21.42	20.41	18.20
ROAE (%)	29.17	30.64	32.24	31.91	24.69
ROIC (%)	43.52	48.81	50.16	55.43	45.64
Sales-to-average asset ratio (x)	1.13	1.08	1.11	1.05	1.07

Source(s): Company, ABCI Securities

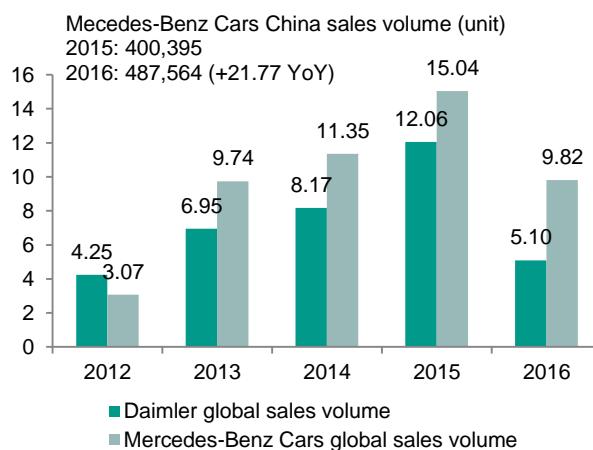
Growth outlook: business strategy and backlog orders support future growth trajectory
Proven ability in new order procurement and concentration in overseas markets/brands

We believe the Group's ability in customer acquisition and new order procurement would support its future growth. After the Group's first venture into North America in 2006, it has become the second largest revenue contributor of the Group since 2014. Separately, revenue from the European market grew 48.7% YoY, 65.8% YoY, and 38.8% in 2015, 2016, and 1H17.

We believe the Group's strategic focus on the overseas markets and reputable brands would allow it to achieve better growth than peers. According to Bloomberg data, sales volume of Mercedes-Benz Cars and Volvo – two of the Group's major clients, have been rising in recent years, with the former recording a sales volume growth of 21.77% YoY in China in 2016. In addition, the U.S. and Europe would continue to be the major contributors to the global automobile production, according to our calculation based on F&S projection.

Exhibit 19: Volvo Cars' global sales volume growth (YoY %)


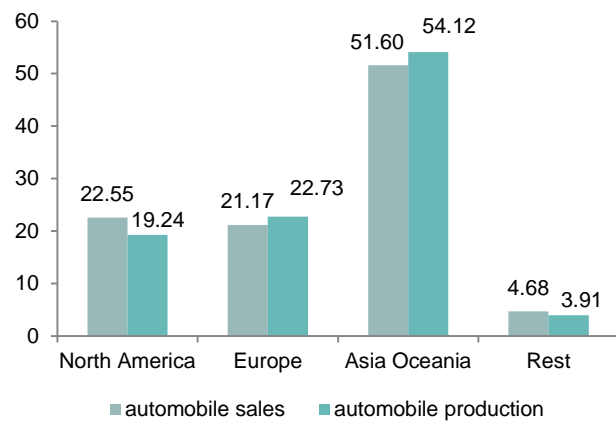
Source(s): Bloomberg, ABCI Securities

Exhibit 20: Daimler and Mercedes-Benz Cars global sales volume growth (YoY %)


Source(s): Bloomberg, ABCI Securities

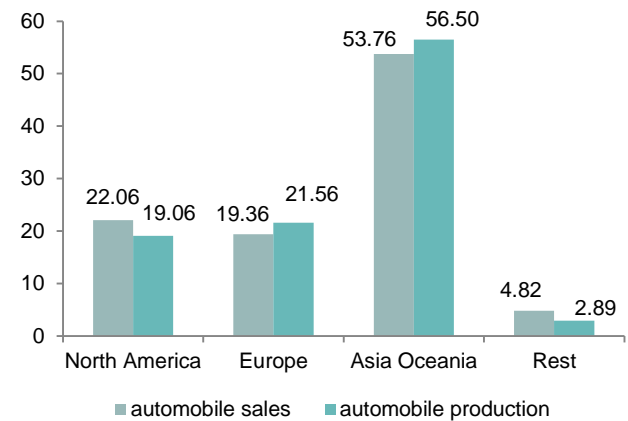


Exhibit 21: Global automobile market share - 2016 (%)



Source(s): Xin Point Prospectus, F&S data, ABCI Securities calculation

Exhibit 22: Global automobile market share - 2019 (%)



Source(s): Xin Point Prospectus, F&S data, ABCI Securities calculation

Decent growth prospect supported by backlog orders

According to the Group, total backlog orders were RMB 8.7bn by end-1H17, equivalent to 9.8x of the 1H17 revenue or 5.6x of the 2016 revenue. Going forward, we expect a steady ASP and stable volume growth. We estimate total revenue would grow at 22.62% CAGR in 2016-19E, supported by the 23.43% revenue CAGR in the automotive decorative component segment. For 2016-19E, ASP would increase only mildly at 4.05% CAGR while sales volume would increase at 17.85% CAGR; ASP and volume of the automotive decorative segment would grow at 3.49% CAGR and 19.13% CAGRs.

The China and Europe segments would be the largest growth contributors. For 2016-19E, revenue from China/Europe would grow at 22.51%/28.28% CAGRs.

Exhibit 23: Revenue, ASP and volume growth projection for the Group (YoY %)

	2017E	2018E	2019E	2016-19E CAGR
Overall				
Revenue	23.11	21.46	23.30	22.62
ASP	6.23	4.14	1.82	4.05
Volume	15.90	16.63	21.09	17.85
Automotive decorative component segment				
Segment revenue	24.27	22.12	23.91	23.43
Segment ASP	5.34	3.75	1.42	3.49
Segment Volume	17.58	17.70	22.17	19.13

Source(s): Company, ABCI Securities estimates

Exhibit 24: Geographical segment revenue growth projection (YoY %)

	2017E	2018E	2019E	2016-19E CAGR
China	24.63	20.80	22.14	22.51
North America	15.95	17.57	21.99	18.48
Europe	30.23	26.84	27.80	28.28
Others	19.79	24.49	16.27	20.14

Source(s): Company, ABCI Securities estimates



Profitability outlook

We believe profitability would improve steadily. In 2017E-19E, the Group's GPM would increase from 41.76% to 42.57%. OPM would increase from 26.57% in 2017E to 27.69% in 2019E. NPM (to owners of the parent) would rise from 19.78% in 2017E to 20.88% in 2019E. For 2016-19E, GP and NP (to owners of the parent) would expand at 24.06% and 25.75% CAGRs.

Exhibit 25: Margin and profit growth projections

	2017E	2018E	2019E
Margins (%)			
GPM	41.76	42.32	42.57
OPM	26.57	27.63	27.96
Pretax margin	26.61	27.68	28.00
NPM (to owners of the parent)	19.78	20.64	20.88
Profit growth (YoY %)			
Gross profit	25.06	23.09	24.03
Operating profit	22.42	26.29	24.78
Pretax profit	22.65	26.37	24.71
Net profit (to owners of the parent)	25.72	26.79	24.73

Source(s): Company, ABCI Securities estimates

Production capacity expansion plans

According to the Prospectus, the Group has four expansion plans covering the Huizhou New Production Base, Wuxi New Production Base, Production Base in Mexico, and the Electroplating Production Line (O Line) at Huizhou Production base. For details of the expansion plans, please refer to the Exhibit 54.

Exhibit 26: Capacity expansion plan

Exp. Start date	Exp. annual capacity	Exp. breakeven period	Exp. payback period	GFA -land	GFA-production plant	Land premium	Source of funding	Investment amount
Huizhou New Production Base								
Oct-17	Around 300 sets of moulds and around 70mn pieces of plastic components	~1 year after commencement of production	~6 years (including construction period of one year)	31,403 sqm	30,035 sqm.	RMB 9.2 mn (Fully settled)	IPO proceed	RMB 140.4mn
Wuxi New Production Base								
Aug-17	Around 200 sets of moulds and around 20mn pieces of plastic components	~1 year after commencement of production	~6 years (including the construction period)	13,619 sqm.	39,247 sqm.	RMB 6.7 mn (Fully settled)	IPO proceed	RMB 69.7mn
Production base in Mexico								
Dec-18	Electroplating: 220,000 sqm.	~6 months after the commencement of production	~6 years (including construction period of 1.5 years)	50,000 sqm	18,000 sqm	N/A	IPO proceed	RMB 269.8mn
Electroplating production line (O Line) at Huizhou Production Bases								
* Assembly of the production line was commenced in Feb 2017								
Early 2018	350,000 sqm.	~6 months after commencement of production	~2 years after commencement of production	N/A	N/A	N/A	IPO proceed	RMB 20.8mn

Source(s): Company, ABCI Securities



Valuation

The Group's 1H17 performance has demonstrated its ability to expand overseas, obtain new orders, and raise the price premium of its products. The RMB 8.7bn of backlog orders by end-1H17 was 9.8x of its 1H17 revenue and 5.6x of 2016 revenue, supporting the Group's future growth.

The Group's IPO price was set at HK\$ 3.42, which was 7.67x/6.05x of 17E/18E EPS or 1.45x/1.29x of 17E/18E BPS. Stock price soared after the Group had announced its 1H17 results and once reached HK\$ 4.75, which was 10.65x/8.40x of 17E/18E EPS or 2.01x/1.80x of 17E/18E BPS.

Among the Group's peers, the PRC-listed ones have the highest valuation at 29.59x 17E P/E on average. HK/international universes peer are valued at 12.83x/12.91x average 17E P/E, indicating a similar growth expectation for the industry in both markets. In addition, peers in HK/International currently are trading at 2.39x/3.19x 17E P/B, which are also lower than the 3.87x 17E P/B for PRC peers.

In our DCF valuation, we assume a cost of equity of 19.10% based on a beta of 2.02, a risk-free rate of 3.69%, and an expected market return of 11.17%. We also assume a target debt-to-asset level of 0% and a tax rate of 25.82%. We set our TP at HK\$ 5.20, which represents 11.66x/9.20x 17E/18E P/E or 2.20x/1.97x 17E/18E P/B. Our current valuation is in line with the HK and international peers.



Exhibit 27: Peer valuation

Ticker	Chinese name	English name	Curcy	Price	Mkt cap (mn)	YTD Chg (%)	P/E		P/B		Div yld.		ROA		ROE	
							17E	18E	17E	18E	17E	18E	17E	18E	17E	18E
HK Universe																
1571 HK	信邦控股	Xin Point	HKD	4.71	4,741	37.72	10.11	7.98	1.91	1.71	2.97	3.76	17.60	16.77	24.88	22.59
425 HK	敏实集团	Minth Group	HKD	37.95	43,689	57.14	16.97	13.99	2.99	2.61	2.13	2.62	13.53	14.27	18.44	19.53
179 HK	德昌电机控股	Johnson Elec	HKD	27.55	23,992	34.39	11.64	10.65	1.39	1.26	2.15	2.26	7.85	8.07	12.89	12.89
1316 HK	耐世特	Nexteer	HKD	13.02	32,585	43.83	12.16	10.61	3.11	2.52	1.62	1.74	12.91	13.21	28.36	26.34
3606 HK	福耀玻璃	Fuyao Glass -H	HKD	26.85	69,770	11.85	17.33	14.77	2.85	2.61	3.53	4.06	10.80	11.56	17.11	18.27
868 HK	信义玻璃	Xinyi Glass	HKD	7.79	31,227	30.16	8.34	7.54	1.99	1.74	5.85	6.36	14.25	14.29	25.20	24.08
<i>Average</i>							<u>12.76</u>	<u>10.92</u>	<u>2.37</u>	<u>2.08</u>	<u>3.04</u>	<u>3.47</u>	<u>12.82</u>	<u>13.03</u>	<u>21.15</u>	<u>20.62</u>
PRC Universe																
002048 CH	宁波华翔	Ningbo Huaxian	CNY	23.11	12,249	4.38	14.05	11.61	1.92	1.62	0.32	0.32	5.93	5.98	15.77	16.20
601689 CH	拓普集团	Ningbo Tuopu	CNY	29.45	21,427	0.10	26.56	21.28	3.77	3.26	0.76	0.93	12.05	12.17	16.39	16.70
300100 CH	双林股份	Ningbo Shuangli	CNY	25.96	10,331	(23.65)	22.48	18.15	3.56	3.03	0.08	0.08	7.00	7.60	18.27	19.03
002555 CH	三七互娱	Wuhu Shunrong	CNY	22.45	48,225	36.89	27.25	21.90	7.71	5.88	0.87	1.01	22.49	21.98	30.61	28.11
002355 CH	兴民智通	Xingmin Intel	CNY	10.75	5,522	(20.90)	69.35	53.75	2.55	2.42	N/A	N/A	1.88	2.17	4.50	5.69
002085 CH	万丰奥威	Wanfeng Auto	CNY	18.77	41,048	13.99	31.39	27.09	5.82	4.84	0.07	0.07	11.73	11.61	19.03	17.80
600660 CH	福耀玻璃	Fuyao Glass-A	CNY	23.24	57,996	24.75	17.69	15.31	2.95	2.71	3.34	3.71	11.06	11.81	17.18	18.17
300432 CH	富临精工	Mianyang Fulin	CNY	24.75	12,622	1.43	28.00	21.63	2.69	2.39	0.63	0.81	8.20	9.05	11.33	13.03
<i>Average</i>							<u>29.59</u>	<u>23.84</u>	<u>3.87</u>	<u>3.27</u>	<u>0.87</u>	<u>0.99</u>	<u>10.04</u>	<u>10.30</u>	<u>16.63</u>	<u>16.84</u>
International Universe																
EO FP	佛吉亚公司	Faurecia	EUR	50.8	7,012	37.91	11.83	10.55	2.07	1.79	2.08	2.34	5.76	6.34	18.06	17.76
LEA US	Lear 公司	Lear Corp	USD	153.04	10,408	15.62	9.25	8.78	2.59	2.18	1.28	1.17	11.00	10.44	32.41	26.82
ADNT US	Adient PLC	Adient PLC	USD	72.56	6,757	23.82	7.75	7.12	1.71	1.49	1.54	1.75	9.05	7.63	19.00	21.10
MSS IN	Motherson Sumi	Motherson Sumi	INR	331.75	698,389	52.44	31.15	23.49	7.12	5.93	0.80	1.21	8.85	10.96	25.42	27.27
CON GR	德国大陆集团	Continental Ag	EUR	196.3	39,261	6.86	12.21	11.08	2.39	2.08	2.42	2.70	8.61	8.93	20.24	19.56
GNTX US	金泰克斯公司	Gentex Corp	USD	18.3	5,226	(7.06)	14.41	13.14	2.57	2.33	2.11	2.22	15.82	16.11	18.81	18.74
FR FP	法雷奥集团	Valeo Sa	EUR	58.31	13,974	6.78	13.36	11.71	2.88	2.45	2.39	2.73	7.01	7.59	22.55	22.35
DLPH US	德尔福汽车	Delphi	USD	96.73	25,812	43.62	14.46	13.22	7.15	5.48	1.22	1.29	13.82	14.04	57.05	46.01
BWA US	博格华纳股	Borgwarner Inc	USD	46.42	9,798	17.70	12.56	11.68	2.56	2.23	1.21	1.30	8.61	8.85	21.93	20.38
TEN US	Tenneco 公司	Tenneco Inc	USD	54.59	2,904	(12.61)	8.16	7.52	4.19	3.35	1.81	1.85	8.25	8.29	53.61	45.02
MG CN	麦格纳国际	Magna Intl	CAD	59.22	21,937	1.58	8.24	7.44	1.38	1.22	2.23	2.35	9.58	9.69	21.13	20.43
GMM GR	格拉默	Grammer Ag	EUR	46.33	584	(2.57)	11.55	9.70	1.63	1.44	2.82	3.14	11.50	14.90	9.12	15.80
CIE SM	西艾意汽车	Cie Automotive	EUR	21.4	2,761	15.58	12.85	11.28	3.25	2.62	2.29	2.75	4.70	5.10	24.42	23.27
<i>Average</i>							<u>12.91</u>	<u>11.28</u>	<u>3.19</u>	<u>2.66</u>	<u>1.86</u>	<u>2.06</u>	<u>9.43</u>	<u>9.91</u>	<u>26.44</u>	<u>24.96</u>

*Data as of end of Sep 7, 2017

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

Growth risk. The Group's growth is largely dependent on the growth in production/volume of vehicles of its customers. Sudden decline in consumer demand for vehicles or change in consumer preference that results in lower demand for vehicles produced by the Group's customers may reduce earnings.

Commodity price risk. Raw material makes up for 38.2%/32.2%/31.0% of the Group's COGS in 2014/15/16. The major raw materials used in production are nickel sulphate, phosphor copper, and PC (Poly Carbonate)/ABS (acrylonitrile-butadiene-styrene). If prices of these materials increase substantially, the Group's margins would be negatively impacted. For sensitivity analysis of the Group's pretax profit and raw material cost, please refer to Appendix V.

Labor supply risk. The Group's staff cost contributed to 23.8%/25.0%/25.1% of COGS in 2014/15/16. Rising cost of labor and shortage of skilled labor forces may impact the Group's production and profitability. For sensitivity analysis of the Group's pretax profit and cost of labor, please refer to Appendix V.

Product concentration risk. The Group's product portfolio is highly concentrated in the interior automotive decorative component segment, whose revenue contributions to the Group were 83.5%/87.1%/91.3% in 2014/015/016. High concentration in a single product category may render the Group more vulnerable to changes in the industry or customers.

Order procurement risk. The Group's ability to procure new product orders would impact its revenue growth and ASP stability. If the Group could not obtain new product orders, the step-down terms would gradually lower its ASP. In addition, without sufficient new orders, the Group's sales may stall or decline.

Product quality risk. The Group's success in the future depends on the consistency of the product quality. Failure to maintain the product quality would hamper business performance.

Customer concentration risk. The Group's top five customers contributed to 48.9%/43.0%/38.9% of total revenue in 2014/15/16. If the Group could not diversify the customer base in the future, its business performance may fluctuate due to heavy reliance on a few customers.

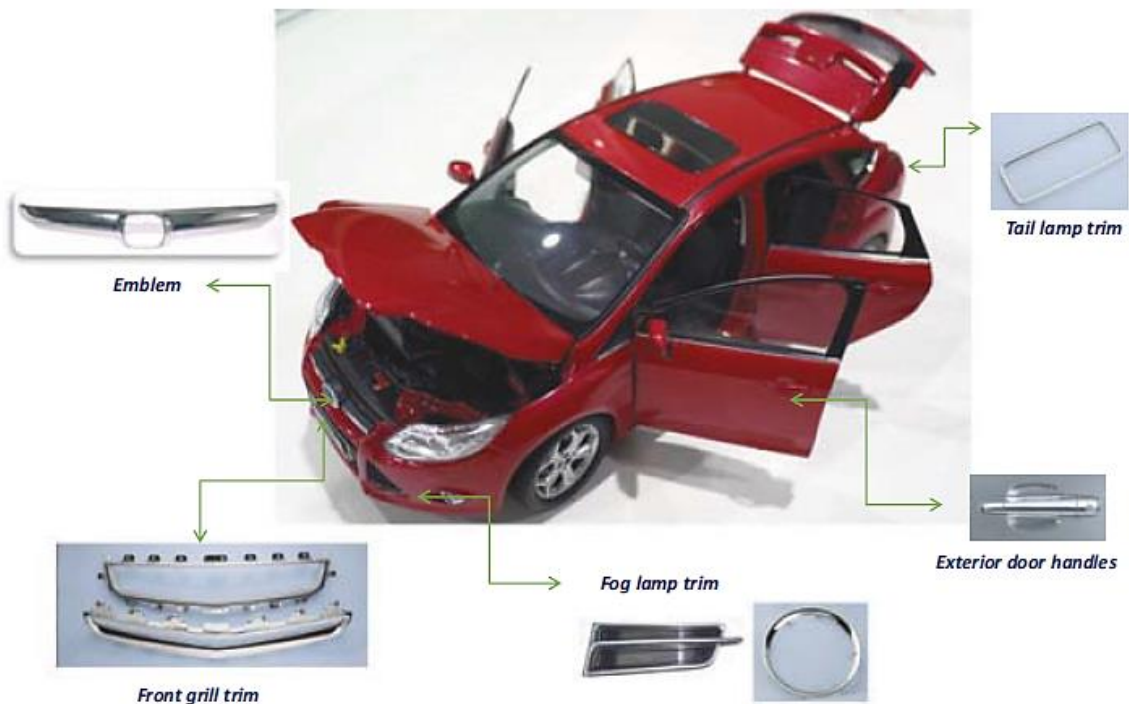
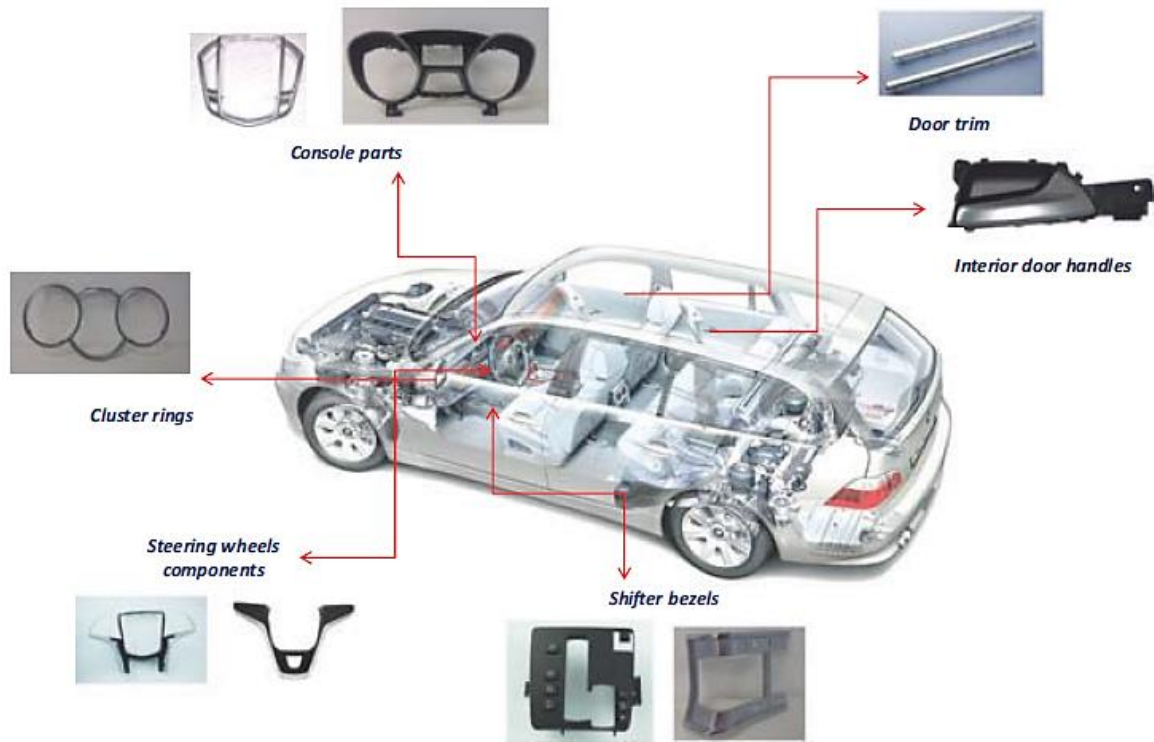
Supplier concentration risk. The Group's top five suppliers accounted for 13.0%/14.3%/13.1% of total cost of sales in 2014/15/16. If the Group could not diversify its supplier base, its production may suffer when these suppliers fail to provide raw materials for the Group.

Export risk. Foreign markets contributed to 52.0%/52.5%/56.3% of the Group's total revenue in 2014/15/16. In addition, according to F&S report, the Group's export revenue contributed to 57% of total revenue in 2016, ranking first in the industry. Any trade dispute regarding automobile industry between China and these destination countries would impact the Group's performance.

Currency risk. The Group currently has currency exposure to US\$, EUR, JPY, and HKD. Any fluctuation of exchange rates would impact margins and pretax income. In general, RMB's strengthening against these currencies would reduce profit, while the opposite would be profit-accretive. For sensitivity analysis of the Group's pretax profit and currency exchange rate, please refer to Appendix V.



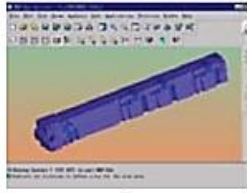
Appendix I: Product portfolio of the Group



Source(s): Company

Appendix II: Production process of the Group

Component design and development



Mould design and production



Plastic injection moulding



Electroplating / Spray painting



Assembly, final inspection and global logistics



Source(s): Company

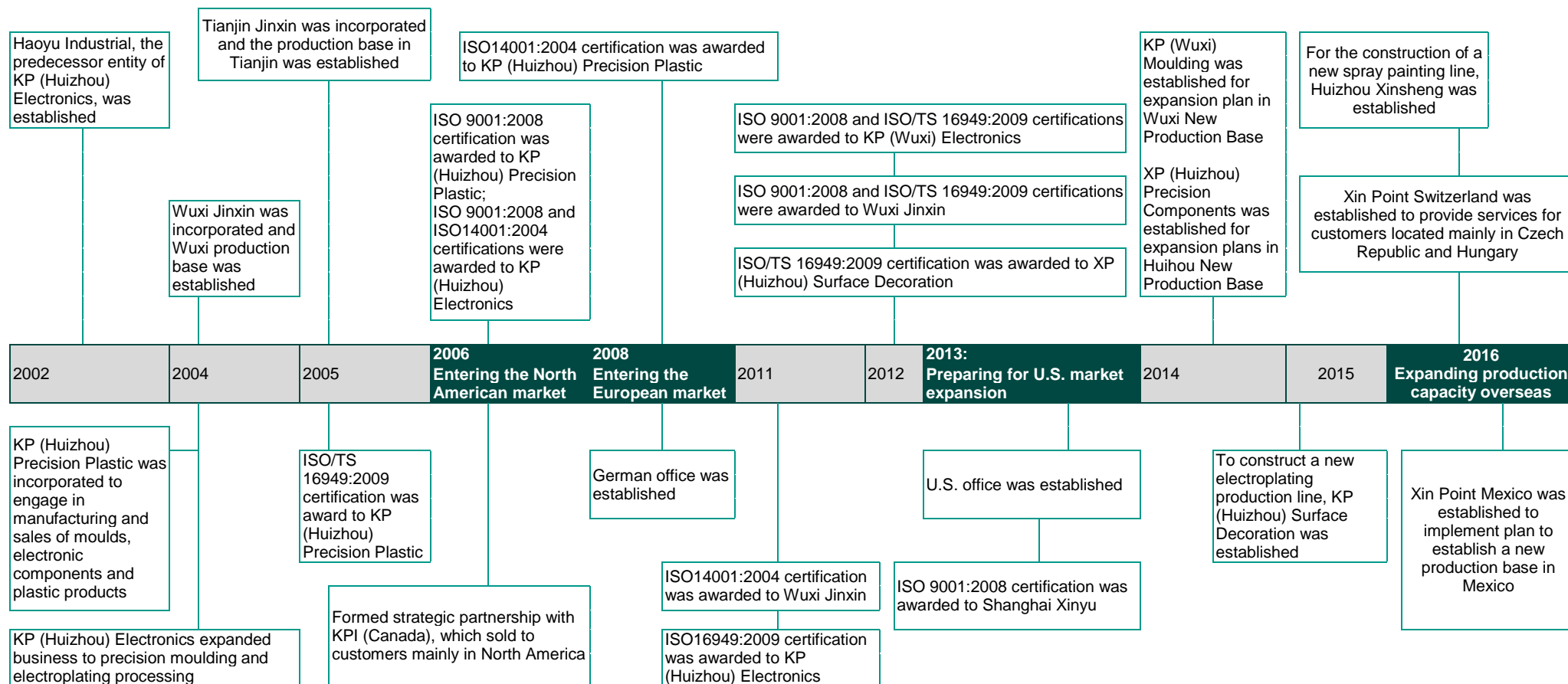


Appendix III: Production sites of the Group



Source(s): Company

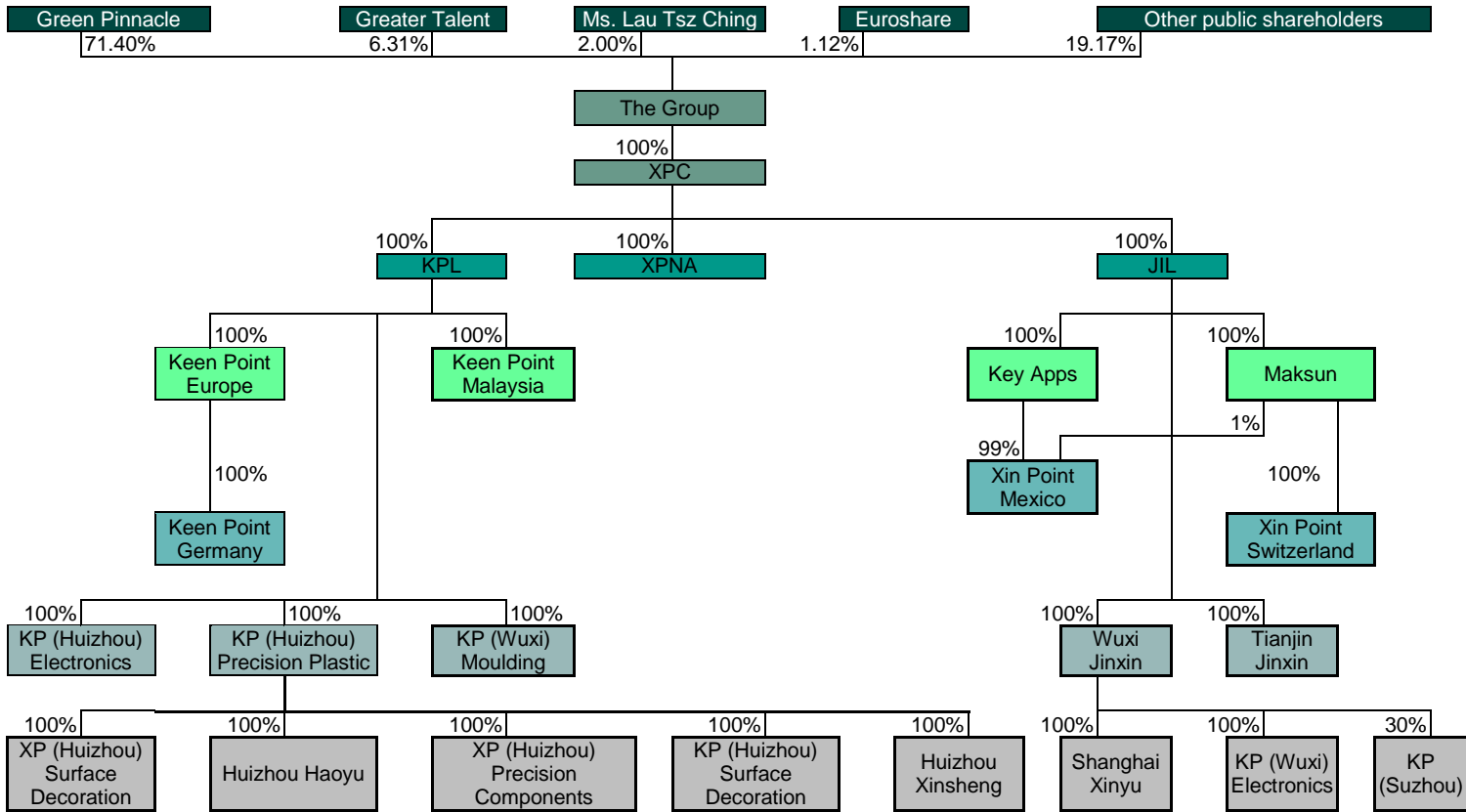
Appendix IV: History and milestones



Source(s): Company, ABCI Securities



Appendix V: Post-IPO shareholding structure



Source(s): Company, HKEX, ABCI Securities



Appendix VI: Sensitivity analysis

Sensitivity Analysis – Impact of pretax profit to on cost of raw material

Increase/decrease in pretax profit	Increase/decrease in the cost of raw material					
	+/-5%		+/-10%		+/-15%	
	RMB k	%	RMB k	%	RMB k	%
2014	-/+11,799	-/+5.2	-/+23,599	-/+10.3	-/+35,398	-/+15.5
2015	-/+12,104	-/+4.4	-/+24,208	-/+8.9	-/+36,312	-/+13.3
2016	-/+14,078	-/+3.4	-/+28,155	-/+6.8	-/+42,233	-/+10.3

Source(s): Xin Point Prospectus

Sensitivity Analysis – Impact of pretax profit on cost of labor

Increase/decrease in pretax profit	Increase/decrease in the cost of labor					
	+/-5%		+/-10%		+/-15%	
	RMB k	%	RMB k	%	RMB k	%
2014	+/-11,929	-/+5.2	+/-23,858	-/+10.4	+/-35,787	-/+15.7
2015	-/+14,480	-/+3.3	-/+28,960	-/+10.6	-/+43,439	-/+15.9
2016	-/+17,741	-/+4.3	-/+35,482	-/+8.6	-/+53,222	-/+12.9

Source(s): Xin Point Prospectus

Sensitivity Analysis – Impact of foreign exchange on pretax profit

	Increase/ (decrease) in foreign currency rate (%)	Increase/(decrease) in pretax profit (RMB k)		
		2014	2015	2016
If RMB weakens against US\$	1	4,203	4,542	5,143
If RMB weakens against EUR	1	1,546	2,120	3,491
If RMB weakens against JPY	1	37	75	44
If RMB weakens against HKD	1	5	12	13
If RMB strengthens against US\$	-1	-4,203	-4,542	-5,143
If RMB strengthens against EUR	-1	-1,546	-2,120	-3,491
If RMB strengthens against JPY	-1	-37	-75	-44
If RMB strengthens against MYR	-1	-5	-12	-13

Source(s): Company, ABCI Securities



Consolidated income statement (2015A-2019E)

FY ends at Dec 31 (RMB mn, otherwise stated)	2015A	2016A	2017E	2018E	2019E	1H16	1H17
Revenue	1,204	1,541	1,897	2,304	2,840	692	887
By product segment							
- Automotive decorative components	1,128	1,503	1,868	2,281	2,826	672	879
- Non-automotive components	75	38	29	23	14	20	8
By geographical segment							
- China	571	674	839	1,014	1,239	296	385
- North America	381	462	536	630	768	214	251
- Europe	210	348	454	575	735	158	219
- Others	41	57	68	85	98	24	31
COGS	(751)	(907)	(1,105)	(1,329)	(1,631)	(401)	(514)
Gross profit	452	633	792	975	1,209	291	373
S&D expense	(24)	(29)	(36)	(44)	(54)	(19)	(23)
Admin expense	(177)	(219)	(279)	(327)	(402)	(102)	(126)
Net other income/(expenses)	24	26	27	33	41	8	13
Operating profit	276	412	504	637	794	179	236
Finance cost	(1)	(1)	(0)	(0)	0	(0)	(0)
Share of profit and losses of an associate	0	0	1	1	1	0	0
Pretax profit	273	411	505	638	795	183	237
Tax	(51)	(113)	(130)	(162)	(202)	(49)	(61)
Net profit	222	298	375	476	593	134	176
- Profit attributable to shareholders	228	298	375	476	593	134	176
- Minority interest	(7)	0	0	0	0	0	0
Dividend	67	110	113	143	178	0	59
EPS (RMB cent)	N/A	N/A	37.27	47.25	58.94	N/A	23.00
DPS (RMB cent)	N/A	N/A	11.18	14.18	17.68	N/A	5.00

Note: The Group paid out dividend of RMB 110 mn before IPO in 2017

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2015A-2019E)

FY ends at Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E	1H16	1H17
Cash and cash equivalent	293	230	1,090	661	904	309	886
Trade and bills receivable	320	445	502	651	769	351	481
Inventories	180	219	285	310	427	195	271
Others	85	98	89	143	139	65	100
Total current assets	878	991	1,965	1,765	2,239	921	1,737
PP&E	313	429	677	1,039	1,249	366	510
Investment in an associate	1	1	1	1	2	1	1
Deferred tax assets	9	10	15	20	27	7	7
Others	66	87	86	100	118	63	96
Total non-current assets	389	526	779	1,161	1,395	437	614
Total assets	1,267	1,518	2,745	2,926	3,633	1,358	2,351
Trade payable	106	184	171	234	270	135	203
ST borrowings	26	4	2	0	0	3	0
Others	307	300	584	468	845	360	325
Total current liabilities	439	489	758	702	1,116	499	528
LT Borrowings	5	1	0	0	0	3	0
Total non-current liabilities	5	1	0	0	0	3	0
Shareholders' equity	823	1,028	1,987	2,224	2,517	856	1,823
Minority interest	0	0	0	0	0	0	0
Total equity	823	1,028	1,987	2,224	2,517	856	1,823
Total liabilities and equity	1,267	1,518	2,745	2,926	3,633	1,358	2,351

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2015A-2019E)

FY ends at Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E	1H16	1H17
Pretax profit	273	411	505	638	795	183	237
Depreciation	52	59	77	106	137	29	30
Change in working capital	(60)	(96)	(19)	(186)	(68)	(18)	(71)
Others	(32)	(63)	245	(188)	(30)	(24)	(24)
Cash flow from operating activities	232	312	808	370	834	170	171
Capex	(108)	(177)	(321)	(478)	(357)	(82)	(81)
Others	(11)	(12)	(244)	(328)	(105)	7	(38)
Cash flow from investing activities	(119)	(189)	(564)	(806)	(462)	(75)	(119)
Change in borrowings	25	(22)	(3)	(2)	0	(24)	(2)
Others	(22)	(181)	615	(13)	(143)	(67)	600
Cash flow from financing activities	2	(203)	612	(15)	(143)	(91)	598
Net change in cash	115	(80)	856	(451)	229	4	650
Forex effect	3	8	5	22	13	3	6
Cash and cash equivalent - end	302	230	1,090	661	904	309	886

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2015A-2019E)

FY ends at Dec 31	2015A	2016A	2017E	2018E	2019E	1H16	1H17
Growth (YoY %)							
Revenue	19.62	27.99	23.11	21.46	23.30	23.48	28.08
By product segment							
- Automotive decorative components	23.39	33.21	24.27	22.12	23.91	28.86	30.73
- Non-automotive components	(17.9)	(50.1)	(23.2)	(21.2)	(37.9)	(48.29)	(60.00)
By geographical segment							
- China	18.24	17.87	24.63	20.80	22.14	9.34	30.02
- North America	10.24	21.23	15.95	17.57	21.99	14.25	17.21
- Europe	48.69	65.77	30.23	26.84	27.80	92.83	38.84
- Others	14.25	38.44	19.79	24.49	16.27	17.87	30.54
Gross profit	16.66	39.96	25.06	23.09	24.03	32.09	28.09
Operating profit	20.27	49.23	22.42	26.29	24.78	45.85	32.27
Net profit (to owners of the parent)	30.85	30.60	25.72	26.79	24.73	36.94	31.37
Profitability ratios (%)							
GPM	37.6	41.1	41.76	42.32	42.57	42.03	42.03
OPM	22.9	26.7	26.57	27.63	27.96	25.80	26.65
Pretax margin	22.7	26.7	26.61	27.68	28.00	26.48	26.68
NPM (to owners of the parent)	19.0	19.4	19.78	20.64	20.88	19.35	19.84
Return ratios (%)							
ROAA	19.87	21.42	17.60	16.77	18.09	20.41	18.20
ROAE	30.64	32.24	24.88	22.59	25.02	31.91	24.69
ROIC	48.81	50.16	49.93	42.51	40.79	55.43	45.64
Liquidity ratio (x)							
Current ratio	2.00	2.03	2.59	2.51	2.01	1.85	3.29
Quick ratio	1.59	1.58	2.22	2.07	1.62	1.46	2.78
Cash ratio	0.67	0.47	1.44	0.94	0.81	0.62	1.68
Cash conversion cycle (days)							
Days of outstanding receivable	88	91	91	91	91	88	95
Days of inventory on hand	80	80	83	82	82	85	87
Days of outstanding payable	46	56	55	55	53	53	62
CCC	122	115	119	118	121	121	120
Leverage ratios (%)							
Debt to equity	3.77	0.49	0.10	0.00	0.00	0.82	0.18
Debt to assets	2.45	0.33	0.07	0.00	0.00	0.52	0.14
Net cash/(debt) to equity	31.87	21.85	54.75	29.74	35.89	35.30	48.40
Net cash/(debt) to assets	20.69	14.80	39.64	22.60	24.87	22.25	37.54

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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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

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.

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