



Aug 31, 2016  
Company Report  
Rating: BUY  
TP: HK\$ 4.60

Share price (HK\$) 3.76  
Est. share price return 22.3%  
Est. dividend yield 5.3%  
Est. total return 27.6%

Previous Rating & TP HK\$4.60; BUY  
Previous Report Date Mar 31, 2016

Analyst : Kenneth Tung  
Tel: (852) 2147 8311  
Email: kennethtung@abci.com.hk

**Key Data**

52Wk H/L(HK\$)	3.88/2.59
Issued shares (mn)	7,384
Market cap (HK\$ mn)	28,781
3-mth avg daily turnover (HK\$ mn)	37.11
Major shareholder(s) (%):	
Shum Yip Holdings	61.23

Source(s): Company, Bloomberg, ABCI Securities

**1H16 Revenue breakdown (%)**

Property development	72.4
Property investment	6.1
Property management	11.5
Others	10.0

Source(s): Company, ABCI Securities

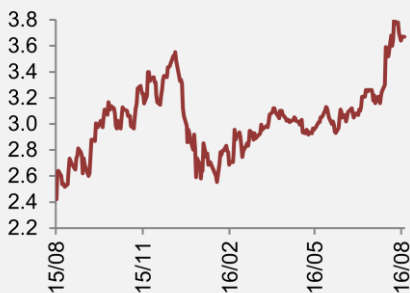
**Share performance (%)**

	Absolute	Relative*
1-mth	19.0	13.1
3-mth	23.2	11.0
6-mth	35.1	13.8

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

## Shenzhen Investment (604 HK)

1H16 results are encouraging; top **BUY** in China property sector

- Core profit rose 34.6% YoY to HK\$ 589mn
- Gross margin remained stable at 33.8%; net gearing increased to 37.9% in June 16 from 36.5% in Dec 15
- 1H16 presales surged 83%YoY to RMB 14.0bn, driven by 23% YoY increase in GFA and 50% YoY ASP hike
- Margins are set to improve further on rising contribution from Shenzhen; the city accounted for 82% of 1H16 presales but represented 44% of 1H16 booked sales only
- Maintain **BUY** with unchanged TP at HK\$ 4.60, still based on NAV discount of 50%. SZI is our top **BUY** in the sector

**Core profit jumped 34.6%YoY to HK\$ 589mn.** SZI's 1H16 core profit surged 34.6% to HK\$ 589mn. Although revenue only increased 1.6% YoY to HK\$ 6,383mn, reduction in finance cost (-25% YoY to HK\$ 314mn) and higher contribution from associates (+119% YoY to HK\$ 292mn, as investment in Coastal Greenland turned to a profit of HK\$15.5mn from a loss of HK\$61.5mn) in 1H16 boosted the bottom line. Revenue from property development dropped 1.9% YoY to HK\$ 4.6bn as booked GFA grew 87.5% YoY to 0.38mn sqm while ASP dropped 45.1% YoY to RMB 10.2k/sqm. Decline in ASP was mainly due to changes in geographical mix in 1H16, with Shenzhen accounting for 44% of total booked sales vs. 72% in 1H15. Gross margin remained stable at 33.8% in 1H16; in particular, gross margin for Shenzhen and Guangzhou was high at 56.2% and 32.1%. Gross margin for tier-2 /3 cities also rebounded to 20.5% and 16.0% in 1H16 from just ~10.5% in FY15. As contribution from SZ projects would increase in 2H16, we expect gross margin for FY16 to rise further. On the balance sheet side, net gearing remained stable at 37.9% in June 2016, vs. 36.5% in Dec 2016. Given the improved earnings and a solid balance sheet, SZI raised its interim DPS by 133% YoY to HK\$ 0.07. Full-year payout ratio may approach the higher end of the 30-40% guidance.

**1H16 presales surged 83% YoY to RMB 14.0bn.** SZI's 1H16 presales surged 83% YoY to RMB 14.0bn, driven by 23% YoY increase in GFA and 50% YoY ASP hike. Shenzhen accounted for 82% of total 1H16 presales from 70% for FY15. As of July 2016, SZI's total presale was RMB 14.6bn, or 79% of full-year target (RMB 18.5bn). Despite the tightening policy implemented in Shenzhen in early 2016, sales of SZI's office products, which were not subjected to home purchase restriction, were impressive. E.g. SZI sold 14 floors of office tower in the Zhongcheng project to China Pacific Insurance (2601 HK) at RMB 2.35bn in June 2016. Outside Shenzhen, SZI has been actively looking for disposal opportunities for its land in tier-3/4 cities. In June 2016, SZI entered into an agreement to return an undeveloped site of 91k sqm in Jiangyan to the local government at RMB 116mn. (Continue next page)

**Results and Valuation**

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (HK\$ mn)	13,827	18,428	21,457	28,659	33,619
Chg (% YoY)	41.4	33.3	16.4	33.6	17.3
Underlying Net Income (HK\$ mn) <sup>1</sup>	1,624	2,159	2,928	3,644	4,020
Chg (% YoY)	(9.1)	32.9	35.6	24.5	10.3
Underlying EPS (HK\$)	0.28	0.29	0.40	0.49	0.54
Chg (% YoY)	(27.7)	5.1	35.6	24.5	10.3
BVPS (HK\$)	5.07	4.59	4.59	4.84	5.11
Chg (% YoY)	(4.5)	(9.6)	0.1	5.4	5.6
Underlying PE (x)	13.5	12.9	9.5	7.6	6.9
P/B (x)	0.7	0.8	0.8	0.8	0.7
ROE (%)	5.3	6.5	8.4	10.0	10.4
ROA (%)	1.7	2.4	3.1	3.7	3.9
DPS(HK\$)	0.16	0.16	0.20	0.25	0.27
Yield (%)	4.3	4.3	5.3	6.6	7.2
Net gearing <sup>2</sup> (%)	60.2	21.2	4.1	(20.3)	(51.3)

<sup>1</sup>Underlying net income =Net profit - revaluation gain of investment properties and one-off items

<sup>2</sup>Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates



**Multiple channels to acquire land at reasonable prices in Shenzhen.** Apart from asset injection from parents and participation in the urban redevelopment scheme, SZI also attracts JV opportunities with other non-property SOEs with quality sites in Shenzhen with its SOE status. In addition to its existing JV partners such as SZ International (152 HK) and SZ Metro, SZI may enter into JV projects sourced from its parent group, who has recently signed a strategic cooperation agreement with SZ Media Group to jointly develop potential sites in Futian, Nanshan, Luohu, and Longhua District.

**Maintain BUY with TP of HK\$ 4.60.** As SZI's 1H16 results are in line with our expectation, we keep our NAV forecast and TP unchanged at HK\$ 4.60. We like SZI's ability to acquire land through multiple channels in Shenzhen at attractive prices amid rising land prices. Besides, SZI's expertise in mixed-use development also allows the Group to defend better against policy tightening. Rising dividends would provide catalyst to share price. We keep SZI as our top **BUY** in the China property sector.

**Risk factors:** 1) FX loan exposure; 2) Impairment loss on lower-tier cities; 3) Further policy tightening in Shenzhen

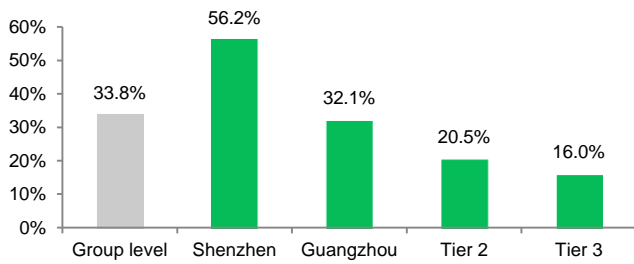
**Exhibit 1: SZI's 1H16 results**

P&L	1H16	1H15	YoY Chg	Operating statistics	1H16	1H15	YoY Chg
	HK\$m	HK\$m	(%)				%
<b>Turnover</b>	<b>6,383</b>	<b>6,279</b>	<b>1.6</b>	Contracted GFA (mn sqm)	0.59	0.48	22.6
Cost of Sales & direct operating costs	(4,226)	(4,147)	1.9	Contracted ASP (RMB/sqm)	23,732	15,874	49.5
<b>Gross Profit</b>	<b>2,157</b>	<b>2,132</b>	<b>1.2</b>	<b>Contracted Sales (RMB mn)</b>	<b>14,042</b>	<b>7,660</b>	<b>83.3</b>
<b>Gross Margin (%)</b>	<b>33.8</b>	<b>34.0</b>	<b>(0.2ppt)</b>	GFA Delivered (mn sqm)	0.38	0.20	87.5
Selling and distribution costs	(156)	(161)	(3.2)	Booked ASP (RMB/sqm)	10,165	18,524	(45.1)
Administrative expense	(524)	(494)	6.1	<b>Property sales booked (RMB mn)</b>	<b>3,887</b>	<b>3,778</b>	<b>2.9</b>
<b>EBIT</b>	<b>1,477</b>	<b>1,477</b>	<b>(0.0)</b>				
<b>EBIT Margin (%)</b>	<b>23.1</b>	<b>23.5</b>	<b>(0.4ppt)</b>	<b>Balance sheet</b>	<b>Jun-16</b>	<b>Dec-15</b>	<b>HoH chg</b>
Other income/(loss)	91	209	(56.7)		<b>HK\$m</b>	<b>HK\$m</b>	<b>ppt</b>
Exceptional items	526	61	na	Gross debt	26,758	26,664	0.4
Fair Value gains on IP	741	754	na	Cash	14,384	13,819	4.1
Share of profit from JCE/ Associates	292	133	119.2	<b>Net debt</b>	<b>12,374</b>	<b>12,845</b>	<b>(3.7)</b>
Finance cost	(314)	(418)	(25.0)	<b>Net gearing (%) - all interest bearing debt</b>	<b>37.9%</b>	<b>36.5%</b>	<b>+1.4ppt</b>
<b>Profit before tax</b>	<b>2,813</b>	<b>2,216</b>	<b>26.9</b>	<b>Net gearing (%) - ex related party</b>	<b>23.9%</b>	<b>22.7%</b>	<b>+1.2ppt</b>
<b>Tax</b>	<b>(1,121)</b>	<b>(1,184)</b>	<b>(5.4)</b>	<b>Revenue breakdown (HK\$m)</b>	<b>1H16</b>	<b>1H15</b>	<b>YoY chg</b>
- LAT	(519)	(693)	(25.1)	Property development	4,621	4,710	(1.9)
- Enterprise tax	(601)	(491)	22.4	Property investment	386	382	1.2
<b>Profit after tax</b>	<b>1,692</b>	<b>1,032</b>	<b>64.0</b>	Sales of industrial goods	145	235	(38.4)
Minority Interest	(38)	(47)	(19.7)	Property management	734	667	10.1
<b>Net profit</b>	<b>1,655</b>	<b>985</b>	<b>68.0</b>	Others	496	286	73.6
<b>Core net profit</b>	<b>589</b>	<b>437</b>	<b>34.6</b>	<b>Total</b>	<b>6,383</b>	<b>6,279</b>	<b>1.6</b>
<b>Core net margin</b>	<b>9.2</b>	<b>7.0</b>	<b>+2.2ppt</b>				

Source(s): Company, ABCI Securities

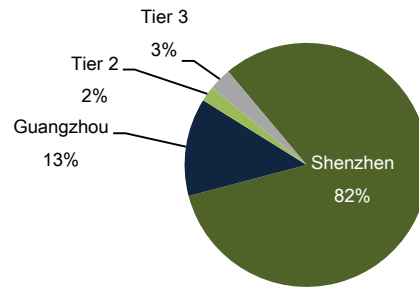


**Exhibit 2: SZI's gross margin by city (1H16)**



Source(s): Company, ABCI Securities

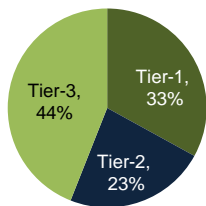
**Exhibit 3: SZI's presales by city (1H16)**



Source(s): Company, ABCI Securities

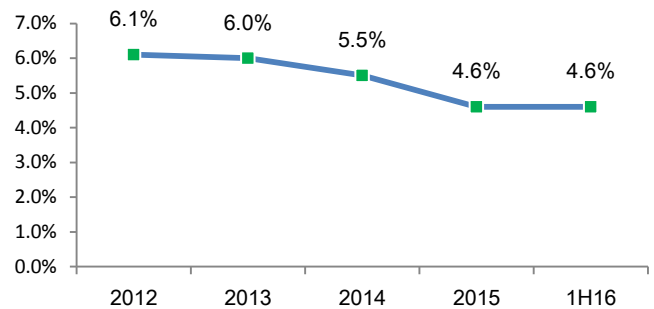
**Exhibit 4: SZI's landbank by tier (Jun 2016)**

Total GFA: 9.01mn sqm



Source(s): Company, ABCI Securities

**Exhibit 5: Average finance cost**



Source(s): Company, ABCI Securities

**Exhibit 6: SZI's 2016E NAV**

	Attr. GFA (M sqm)	Net asset value (HKD m)	% of total	Valuation Method	Implied value per sqm (HKD)
<b>Property development</b>					
Shenzhen	2.2	45,382	61%	DCF at WACC of 8.9%	20,791
Huizhou	1.7	2,572	3%		1,488
Shunde	0.4	1,510	2%		3,422
Wuhan	0.7	1,271	2%		1,912
Changsha	0.4	404	1%		1,127
Others	2.3	7,541	10%		3,284
<b>Subtotal</b>	<b>7.3</b>	<b>58,680</b>	<b>79%</b>		
<b>Investment properties</b>					
Roadking (1098 HK)	1.1	14,111	19%	6% Cap rate on 2016E net rental income	13,312
Coastal Greenland (1124 HK)		1,283	2%	Mkt value	
		116	0%	Mkt value	
<b>Total 2016E GAV</b>		<b>74,189</b>	<b>100%</b>		
2016E Net debt		(6,819)	-9%		
<b>Total 2016E NAV</b>		<b>67,370</b>	<b>91%</b>		
No. of share outstanding		7,384			
<b>NAV per share (HKD)</b>		<b>9.12</b>			
Target discount (%)		50%			
<b>Target Price (HKD)</b>		<b>4.60</b>			

<b>WACC</b>	<b>8.9%</b>
Cost of Debt	4.5%
Cost of Equity	15.0%
<b>Debt/ (Debt + Equity)</b>	<b>53%</b>

Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2013A-2018E)**

<b>FY Ended Dec 31 (HK\$ mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Revenue</b>	<b>9,779</b>	<b>13,827</b>	<b>18,428</b>	<b>21,457</b>	<b>28,659</b>	<b>33,619</b>
Cost of sales	(6,177)	(9,754)	(12,054)	(13,472)	(18,080)	(21,235)
<b>Gross Profit</b>	<b>3,602</b>	<b>4,073</b>	<b>6,374</b>	<b>7,986</b>	<b>10,579</b>	<b>12,384</b>
SG&A expenses	(1,176)	(1,626)	(1,521)	(1,842)	(2,297)	(2,518)
<b>EBIT</b>	<b>2,426</b>	<b>2,447</b>	<b>4,854</b>	<b>6,143</b>	<b>8,283</b>	<b>9,866</b>
Finance cost	(636)	(743)	(708)	(849)	(849)	(849)
Share of profit of associates	1,051	697	608	337	313	433
Other income/ (expenses)	742	907	589	291	300	339
Fair value gain of investment properties	625	1,609	1,515	0	0	0
Disposal/one-off items	869	935	(346)	0	0	0
<b>Profit before tax</b>	<b>5,077</b>	<b>5,853</b>	<b>6,511</b>	<b>5,923</b>	<b>8,047</b>	<b>9,789</b>
Tax	(1,976)	(2,349)	(3,423)	(2,887)	(4,278)	(5,505)
<b>Profit after tax</b>	<b>3,101</b>	<b>3,504</b>	<b>3,087</b>	<b>3,036</b>	<b>3,769</b>	<b>4,284</b>
Minority interest	(373)	(375)	(218)	(108)	(125)	(264)
<b>Reported net profit</b>	<b>2,728</b>	<b>3,129</b>	<b>2,869</b>	<b>2,928</b>	<b>3,644</b>	<b>4,020</b>
Less: exceptional items	(942)	(1,505)	(710)	0	0	0
<b>Underlying net profit</b>	<b>1,787</b>	<b>1,624</b>	<b>2,159</b>	<b>2,928</b>	<b>3,644</b>	<b>4,020</b>
<b>Per share</b>						
Underlying EPS (HK\$)	0.38	0.28	0.29	0.40	0.49	0.54
DPS (HK\$)	0.19	0.16	0.16	0.20	0.25	0.27
Payout ratio (%)	49%	58%	55%	50%	50%	50%
BVPS (HK\$)	5.31	5.07	4.59	4.59	4.84	5.11
<b>Growth %</b>						
Revenue	14.1%	41.4%	33.3%	16.4%	33.6%	17.3%
Gross Profit	16.6%	13.1%	56.5%	25.3%	32.5%	17.1%
EBIT	19.6%	0.9%	98.3%	26.6%	34.8%	19.1%
Underlying net profit	9.0%	-9.1%	32.9%	35.6%	24.5%	10.3%
<b>Margin %</b>						
Gross margin	36.8%	29.5%	34.6%	37.2%	36.9%	36.8%
Gross margin (post-LAT)	15.5%	14.5%	17.8%	23.8%	25.8%	28.0%
EBIT margin	24.8%	17.7%	26.3%	28.6%	28.9%	29.3%
Core net margin	10.2%	6.5%	8.7%	12.6%	12.1%	11.5%
<b>Key assumptions</b>						
Contracted Sales (HK\$ mn)	11,545	8,994	19,166	24,737	29,968	33,084
GFA sold (mn sqm)	0.73	0.63	0.95	1.18	1.17	1.11
ASP (HK\$/sqm)	15,826	14,173	20,227	21,015	25,526	29,745
Booked Sales (HK\$ mn)	7,205	10,938	15,057	17,815	24,578	28,863
GFA delivered (mn sqm)	0.54	0.76	0.80	0.88	1.00	0.99
Booked ASP (HK\$/sqm)	13,378	14,443	18,728	20,133	24,479	29,214

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2018E)

As of Dec 31 (HK\$ mn)	2013A	2014A	2015A	2016E	2017E	2018E
<b>Current assets</b>	<b>49,719</b>	<b>59,686</b>	<b>55,498</b>	<b>59,788</b>	<b>63,253</b>	<b>66,694</b>
Cash	6,534	8,375	9,708	15,734	25,160	38,415
Restricted cash	927	1,282	4,111	4,111	4,111	4,111
Trade & other receivables	416	715	528	528	528	528
Properties under development	28,357	30,795	30,312	28,576	22,614	12,801
Properties held for sale	8,344	14,708	9,032	9,032	9,032	9,032
Inventories	126	136	99	99	99	99
Other current assets	13,484	18,519	10,840	10,840	10,840	10,840
<b>Non-current assets</b>	<b>27,173</b>	<b>34,819</b>	<b>35,587</b>	<b>35,880</b>	<b>36,144</b>	<b>36,523</b>
Property, plant & equipment	2,698	3,421	4,144	4,100	4,051	3,997
Properties under development	-	-	-	-	-	-
Investment properties	15,300	20,019	20,908	20,908	20,908	20,908
Investment in Associate and JCE	6,274	8,039	6,875	7,212	7,526	7,958
Other non-current assets	2,902	3,341	3,659	3,659	3,659	3,659
<b>Total Assets</b>	<b>76,892</b>	<b>94,505</b>	<b>91,085</b>	<b>95,668</b>	<b>99,397</b>	<b>103,217</b>
<b>Current Liabilities</b>	<b>30,817</b>	<b>34,843</b>	<b>30,677</b>	<b>33,739</b>	<b>35,570</b>	<b>37,166</b>
Short term borrowings	12,122	12,057	5,274	5,274	5,274	5,274
Trade & other payables	5,047	10,525	7,224	7,224	7,224	7,224
Pre-sales deposits	6,116	3,765	7,710	10,771	12,603	14,199
Other current liabilities	7,531	8,496	10,469	10,469	10,469	10,469
<b>Non-current liabilities</b>	<b>18,496</b>	<b>26,888</b>	<b>24,839</b>	<b>24,839</b>	<b>24,839</b>	<b>24,839</b>
Long term borrowings	12,168	17,342	16,101	16,101	16,101	16,101
Other payables	1,221	1,736	1,315	1,315	1,315	1,315
Other non-current liabilities	5,107	7,811	7,423	7,423	7,423	7,423
<b>Total Liabilities</b>	<b>49,312</b>	<b>61,731</b>	<b>55,516</b>	<b>58,578</b>	<b>60,409</b>	<b>62,006</b>
<b>Net Assets</b>	<b>27,579</b>	<b>32,774</b>	<b>35,569</b>	<b>37,091</b>	<b>38,988</b>	<b>41,212</b>
<b>Shareholders' Equity</b>	<b>25,338</b>	<b>30,496</b>	<b>33,326</b>	<b>34,790</b>	<b>36,612</b>	<b>38,622</b>
Perpetual Convertible Securities	-	-	-	-	-	-
Minority Interest	2,242	2,278	2,243	2,301	2,376	2,590
<b>Total Equity</b>	<b>27,579</b>	<b>32,774</b>	<b>35,569</b>	<b>37,091</b>	<b>38,988</b>	<b>41,212</b>
<b>Key ratio</b>						
Gross debt (HK\$ mn)	24,289	29,399	21,375	21,375	21,375	21,375
Net debt (HK\$ mn)	16,828	19,741	7,556	1,530	(7,896)	(21,151)
Net gearing (%)	61%	60%	21%	4%	-20%	-51%
Contracted sales/ Total assets (x)	0.15	0.10	0.21	0.26	0.30	0.32

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2013A-2018E)**

<b>FY ended Dec 31 (HK\$ mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
EBITDA	2,549	2,596	5,009	6,304	8,448	10,037
Change in Working Capital	(1,890)	112	10,253	5,161	8,157	11,773
Tax payment	(793)	(1,074)	(3,423)	(2,887)	(4,278)	(5,505)
<b>Operating Cash Flow</b>	<b>(134)</b>	<b>1,634</b>	<b>11,839</b>	<b>8,578</b>	<b>12,328</b>	<b>16,305</b>
Purchase of PP&E	(203)	(117)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(517)	(359)	0	0	0	0
Investment in Associate/ JCE	(1)	(1,520)	0	0	0	0
Proceeds from Disposals	0	0	0	0	0	0
Others	710	(435)	589	291	300	339
<b>Investing Cash Flow</b>	<b>(10)</b>	<b>(2,431)</b>	<b>472</b>	<b>174</b>	<b>183</b>	<b>222</b>
Debt raised	15,113	20,780	5,000	10,000	10,000	10,000
Debt repaid	(13,880)	(15,382)	(16,179)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,587)	(1,850)	(1,385)	(1,212)	(1,212)	(1,212)
Equity raised	0	0	0	0	0	0
Convertible securities coupon payments	25	4	0	0	0	0
Dividend to shareholders	(276)	(324)	(1,132)	(1,464)	(1,822)	(2,010)
Others	660	(702)	2,717	(50)	(50)	(50)
<b>Financing Cash Flow</b>	<b>55</b>	<b>2,527</b>	<b>(10,979)</b>	<b>(2,726)</b>	<b>(3,085)</b>	<b>(3,272)</b>
<b>Net cash inflow/ (outflow)</b>	<b>(89)</b>	<b>1,730</b>	<b>1,333</b>	<b>6,026</b>	<b>9,426</b>	<b>13,255</b>
Cash- beginning	6,734	6,645	8,375	9,708	15,734	25,160
<b>Cash- year-end</b>	<b>6,645</b>	<b>8,375</b>	<b>9,708</b>	<b>15,734</b>	<b>25,160</b>	<b>38,415</b>

Source(s): Company, ABCI Securities estimates

## Disclosures

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I, Tung Yiu Kei, Kenneth, 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 $\geq$ 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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**