



Aug 18, 2016  
Company Report  
Rating: BUY  
TP: HK\$ 3.20

Share price (HK\$) 2.22  
Est. share price return 44.1%  
Est. dividend yield 6.8%  
Est. total return 50.9%

Previous Rating & TP BUY; HK\$2.40  
Previous Report Date Mar 10, 2016

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**Key Data**

52Wk H/L(HK\$) 2.36/1.33  
Issued shares (mn) 6,676  
Market cap (HK\$ mn) 15,564  
3-mth avg daily turnover (HK\$ mn) 9.38  
Major shareholder(s) (%):  
Lin's family 53.82

Source(s): Company, Bloomberg, ABCI Securities

**1H16 Revenue breakdown (%)**

Property development 91.3  
Property management 8.6  
Property investment 0.1

Source(s): Company, ABCI Securities

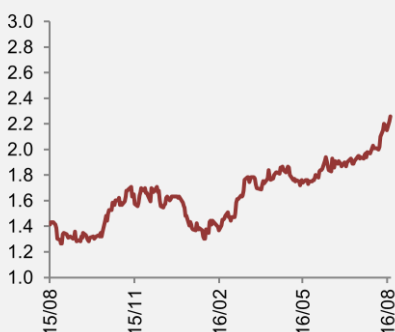
**Share performance (%)**

	Absolute	Relative*
1-mth	18.4	11.3
3-mth	32.6	14.2
6-mth	58.7	33.3

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

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



Source(s): Bloomberg, ABCI Securities

**CIFI (884 HK)**  
Growing fast and hard; reiterate **BUY**

- 1H16 core profit jumped 52% YoY to RMB 948mn; gross margin expanded 5.5ppt YoY to 27.1%
- Net gearing improved 1.7ppt HoH to 57.5% as at Jun 2016; finance cost dropped to 5.8% in June 16 from 7.2% in Dec15
- 7M16 presales soared 174%YoY to RMB 32.6bnm, achieving 74% of the revised sales target at RMB43.8bn
- Maintain **BUY** with revised TP of HK\$ 3.20 (from HK\$ 2.40) based on a 50% discount to NAV

**Core profit increased 52% YoY to RMB 948mn.** CIFI's 1H16 core profit increased 52% YoY to RMB 948mn. Revenue increased 80%YoY to RMB 8,744mn while gross margin was up 5.5ppt YoY to 27.1% despite a 20% YoY drop in booked ASP (RMB 11,120/sqm). We expect gross margin to increase further for FY16 as 1H16 presales ASP at RMB18.5k/sqm was 66% higher than the 1H16 booked ASP. Helped by strong cash inflow as 1H16 presale was up163% YoY to RMB 27.6bn, net gearing declined 1.7ppt HoH to 57.5%. 1H16 cash collection rate reached a new high at 95%. Weighted average interest cost declined 1.4ppt to 5.8% in June 16 from 7.2% in Dec15, driven by lower cost of onshore bank loans (from 6.6% in Dec 15 to 5.6% in June 16) and offshore senior notes (from 9.8% in Dec 15 to 8.3% in June 16). CIFI announced an interim DPS of HK\$ 0.04 (vs. HK\$ 0.03 in 1H15). In our view, CIFI is exceptional in the sense that it can achieve a rapid growth in both revenue and profit without significantly raising its gearing.

**Raising 2016 sales target by 20% to RMB 43.8bn.** Driven by CIFI's favorable geographic exposure in tier-1/2 cities, 7M16 presales grew 174% YoY to RMB 32.6bn with a 41% YoY growth in ASP and 94% YoY increase in GFA sold. Hence, CIFI raises its sales target to RMB 43.8bn from its original target of RMB 36.5bn. Key tier-1/2 cities including Shanghai (26%), Suzhou (25%), Hangzhou(13%), Beijing (11%), Nanjing (6%), and Hefei (5%) jointly accounted for 86% of total 1H16 presale. By presales revenue, CIFI was ranked 1<sup>st</sup> in Suzhou and 4<sup>th</sup> in Shanghai. CIFI acquired 2.68mn sqm of landbank at RMB 11.3bn (attributable: RMB 6.7bn), or RMB 4,197/sqm. The average land cost represents only 23% of 1H16 presales ASP, reflecting its prudent landbanking practice to defend margins. As of June 2016, CIFI has a total landbank of 13.5mn sqm at an average land cost of RMB 5,600/sqm. In the future, the Group will focus on laggard second-tier cities with great re-rating potentials. This year, CIFI forages into the Foshan and Ningbo markets by purchasing new sites in the regions.

**Maintain BUY and raise TP to HK\$ 3.20.** We factor in the value of the latest land acquisitions and raise our 2016E NAV forecast by 9% to HK\$ 6.42/share (from HK\$ 5.88). We also lift our TP to HK\$ 3.20 (from HK\$ 2.40) as a result of the lower discount to NAV applied at 50% (from 60%) given the rapid sales growth and lower gearing. Attractively valued at 4.1x 2016E P/E with a FY16E yield of 6.8%, CIFI is a fast-growing developer demonstrating good financial disciplines and is therefore one of our preferred sector picks. Maintain **BUY**.

**Results and Valuation**

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	16,179	18,231	27,304	26,366	26,056
Chg (% YoY)	35.9	12.7	49.8	(3.4)	(1.2)
Underlying Net Income (RMB mn) <sup>1</sup>	1,939	2,210	3,009	3,503	3,776
Chg (% YoY)	27.6	14.0	36.2	16.4	7.8
Underlying EPS (RMB)	0.32	0.35	0.45	0.53	0.57
Chg (% YoY)	27.6	7.7	31.0	16.4	7.8
BVPS (RMB)	1.69	2.01	2.24	2.61	3.01
Chg (% YoY)	18.5	18.8	11.3	16.5	15.3
Underlying PE (x)	5.8	5.4	4.1	3.6	3.3
P/B (x)	1.1	0.9	0.8	0.7	0.6
ROE (%)	19.0	17.2	20.3	20.3	18.9
ROA (%)	4.5	3.3	4.1	4.4	4.4
DPS(HK\$)	0.11	0.14	0.15	0.16	0.17
Yield (%)	5.0	6.3	6.8	7.2	7.7
Net gearing <sup>2</sup> (%)	58.2	59.2	74.2	9.3	Net cash

<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



**Risk factors:** 1) Potential policy tightening in second-tier cities; 2) Expensive land acquisition may erode margins

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

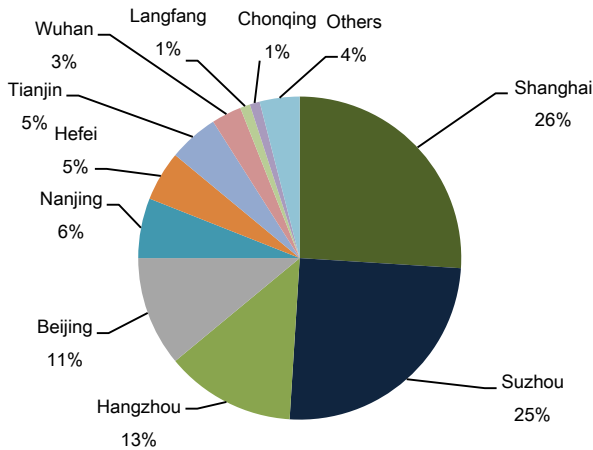
P&L	1H16	1H15	YoY Chg
	RMBmn	RMBmn	(%)
<b>Turnover</b>	<b>8,744</b>	<b>4,860</b>	<b>79.9</b>
Cost of Sales & direct operating costs	(6,377)	(3,813)	67.2
<b>Gross Profit</b>	<b>2,367</b>	<b>1,047</b>	<b>126.1</b>
<b>Gross Margin (%)</b>	<b>27.1</b>	<b>21.5</b>	<b>+5.5ppt</b>
Selling and distribution costs	(218)	(114)	91.7
Administrative expense	(315)	(215)	46.4
<b>EBIT</b>	<b>1,834</b>	<b>718</b>	<b>155.3</b>
<b>EBIT Margin (%)</b>	<b>21.0</b>	<b>14.8</b>	<b>+6.2ppt</b>
Other income/(loss)	157	319	(50.8)
Exceptional items	(284)	(13)	na
Fair Value gains on IP	(66)	328	na
Share of profit from JCE/ Associates	239	53	352.1
Finance cost	(108)	(97)	12.1
<b>Profit before tax</b>	<b>1,772</b>	<b>1,309</b>	<b>35.4</b>
<b>Tax</b>	<b>(723)</b>	<b>(397)</b>	<b>82.0</b>
- LAT	(305)	(196)	55.8
- Enterprise tax	(417)	(206)	102.8
<b>Profit after tax</b>	<b>1,049</b>	<b>912</b>	<b>15.1</b>
Minority Interest	(211)	(109)	93.0
<b>Net profit</b>	<b>838</b>	<b>802</b>	<b>4.5</b>
<b>Core net profit</b>	<b>948</b>	<b>623</b>	<b>52.2</b>
<b>Core net margin</b>	<b>10.8</b>	<b>12.8</b>	<b>-2.0ppt</b>

Operating statistics	1H16	1H15	YoY Chg
			%
Presales GFA (mn sqm)	1.49	0.84	77.4
Presales ASP (RMB/sqm)	18,504	12,519	47.8
<b>Presales (RMB mn)</b>	<b>27,590</b>	<b>10,520</b>	<b>162.3</b>
GFA Delivered (mn sqm)	0.72	0.33	119.7
Booked ASP (RMB/sqm)	11,120	13,880	(19.9)
<b>Property sales booked (RMB mn)</b>	<b>7,985</b>	<b>4,536</b>	<b>76.0</b>

Balance sheet	June-16	Dec-15	HoH chg
	RMBmn	RMBmn	ppt
Gross debt	25,570	23,955	6.7
Cash	16,570	14,905	11.2
<b>Net debt</b>	<b>9,000</b>	<b>9,050</b>	<b>(0.6)</b>
<b>Net gearing (%)</b>	<b>57.5%</b>	<b>59.2%</b>	<b>-1.7ppt</b>

Source(s): Company, ABCI Securities

**Exhibit 2: CIFI's 1H16 presales by city (RMB27.6bn, +173%YoY)**



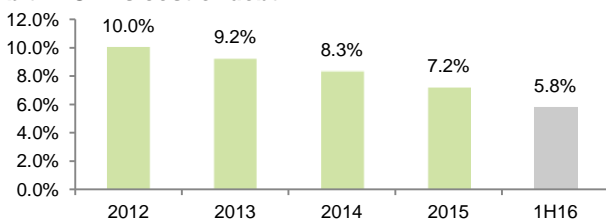
Source(s): Company, ABCI Securities

**Exhibit 3: CIFI's average cost of debt (Jun 2016)**

	June-16	Dec-15	HoH
<b>Average cost of debt</b>	<b>5.8%</b>	<b>7.2%</b>	<b>-1.4ppt</b>
<u>Average cost of :</u>			
Onshore bank loan	5.6%	6.6%	-1.0ppt
Onshore corporate bond	5.0%	5.0%	-
Offshore bank loans	4.5%	4.5%	-
offshore senior note	8.3%	9.8%	-1.5ppt

Source(s): Company, ABCI Securities

**Exhibit 4: CIFI's cost of debt**



Source(s): Company, ABCI Securities

**Exhibit 5: CIFI's cash flow guidance**

	1H16	FY16E
	RMBbn	RMBbn
Cash inflow (Presales + other operating income)	16.0	27.0
Land acquisition	(6.0)	(12.0)
Construction capex	(4.8)	(8.0)
Tax	(2.6)	(3.5)
Interest	(0.7)	(1.5)
SG&A	(0.5)	(1.1)
<b>Cash outflow</b>	<b>(14.6)</b>	<b>(26.1)</b>

Source(s): Company, ABCI Securities estimates



**Exhibit 6: CIFI's FY16E NAV**

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Method	Implied value per sqm (RMB)
<b>Property development</b>					
Shanghai	1.5	9,976	20%	DCF at WACC of 10.4%	6,582
Suzhou	1.7	7,520	15%		4,511
Hangzhou	0.9	4,654	9%		5,200
Beijing	0.6	4,256	8%		7,661
Tianjin	1.4	3,330	7%		2,415
Chongqing	1.4	3,594	7%		2,658
Others	5.8	16,231	32%		2,789
<b>Subtotal</b>	<b>13.2</b>	<b>49,560</b>	<b>99%</b>		<b>3,759</b>
<b>Property investment &amp; management</b>		738	1%	6.0% cap rate on 2016E net rental income	
<b>Total 2016E GAV</b>		<b>50,297</b>	<b>100%</b>		
2016E Net debt		(14,249)	-28%		
<b>Total 2016E NAV</b>		<b>36,048</b>	<b>72%</b>		
No. of share outstanding (diluted)		6,627			
<b>NAV per share (RMB)</b>		<b>5.44</b>			
Ex rate		1.18			
<b>NAV per share (HKD)</b>		<b>6.42</b>			
Target discount (%)		<b>50%</b>			
<b>Target Price (HKD)</b>		<b>3.20</b>			

<b>WACC</b>	<b>10.4%</b>
Cost of debt	9.4%
Cost of equity	15.0%
<b>Debt/ (Debt + Equity)</b>	<b>58%</b>

Source(s): Company, ABCI Securities estimates



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

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Revenue</b>	<b>11,909</b>	<b>16,179</b>	<b>18,231</b>	<b>27,304</b>	<b>26,366</b>	<b>26,056</b>
Cost of sales	(8,841)	(11,993)	(14,087)	(19,710)	(18,812)	(18,505)
<b>Gross Profit</b>	<b>3,069</b>	<b>4,187</b>	<b>4,144</b>	<b>7,593</b>	<b>7,554</b>	<b>7,551</b>
SG&A expenses	(822)	(849)	(978)	(1,330)	(1,418)	(1,527)
<b>EBIT</b>	<b>2,246</b>	<b>3,338</b>	<b>3,165</b>	<b>6,263</b>	<b>6,136</b>	<b>6,024</b>
Finance cost	(188)	(386)	(203)	(299)	(216)	(232)
Share of profit of associates	(14)	(119)	173	1,128	1,780	2,050
Other income/ (expenses)	75	103	321	133	188	334
Fair value gain of investment properties	757	245	-	-	-	-
Disposal/one-off items	100	143	348	-	-	-
<b>Profit before tax</b>	<b>2,975</b>	<b>3,325</b>	<b>3,805</b>	<b>7,225</b>	<b>7,888</b>	<b>8,176</b>
Tax	(934)	(1,325)	(1,334)	(3,012)	(3,118)	(3,169)
<b>Profit after tax</b>	<b>2,041</b>	<b>2,000</b>	<b>2,471</b>	<b>4,212</b>	<b>4,770</b>	<b>5,007</b>
Minority interest	(147)	(138)	(375)	(1,203)	(1,268)	(1,232)
<b>Reported net profit</b>	<b>1,894</b>	<b>1,861</b>	<b>2,095</b>	<b>3,009</b>	<b>3,503</b>	<b>3,776</b>
<i>Less: exceptional items</i>	<i>(375)</i>	<i>78</i>	<i>115</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Underlying net profit</b>	<b>1,519</b>	<b>1,939</b>	<b>2,210</b>	<b>3,009</b>	<b>3,503</b>	<b>3,776</b>
<b>Per share</b>						
Underlying EPS (RMB)	0.25	0.32	0.35	0.45	0.53	0.57
DPS (RMB)	0.07	0.11	0.14	0.15	0.16	0.17
Payout ratio (%)	28%	34%	40%	33%	30%	30%
BVPS (RMB)	1.43	1.69	2.01	2.24	2.61	3.01
<b>Growth %</b>						
Revenue	46.2%	35.9%	12.7%	49.8%	-3.4%	-1.2%
Gross Profit	59.3%	36.4%	-1.0%	83.2%	-0.5%	0.0%
EBIT	63.2%	48.6%	-5.2%	97.9%	-2.0%	-1.8%
Underlying net profit	64.9%	27.6%	14.0%	36.2%	16.4%	7.8%
<b>Margin %</b>						
Gross margin	25.8%	25.9%	22.7%	27.8%	28.7%	29.0%
Gross margin (post-LAT)	23.7%	23.7%	22.4%	21.5%	21.7%	21.8%
EBIT margin	18.9%	20.6%	17.4%	22.9%	23.3%	23.1%
Core net margin	11.9%	11.3%	11.2%	11.3%	11.3%	11.4%
<b>Key assumptions</b>						
Contracted Sales (RMB mn)	15,319	21,205	30,223	44,523	51,657	57,443
GFA sold (mn sqm)	1.43	1.73	2.06	2.43	2.59	2.81
ASP (RMB/sqm)	10,725	12,236	14,700	18,305	19,939	20,432
Booked Sales (RMB mn)	11,579	15,654	17,047	26,059	25,058	24,681
GFA delivered (mn sqm)	1.24	1.42	1.32	1.74	1.48	1.30
Booked ASP (RMB/sqm)	9,346	11,048	12,875	15,015	16,968	19,005

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2013A-2018E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Current assets</b>	<b>29,829</b>	<b>30,052</b>	<b>53,489</b>	<b>57,762</b>	<b>63,082</b>	<b>70,379</b>
Cash	7,061	7,094	14,874	11,674	25,797	40,953
Restricted cash	100	30	32	32	32	32
Trade & other receivables	3,370	5,017	8,305	8,305	8,305	8,305
Property under development	16,996	15,223	27,085	34,558	25,754	17,895
Other current assets	2,302	2,688	3,194	3,194	3,194	3,194
<b>Non-current assets</b>	<b>9,277</b>	<b>13,487</b>	<b>13,963</b>	<b>15,347</b>	<b>15,804</b>	<b>16,316</b>
Property, plant & equipment	47	48	49	50	52	54
Investment properties	4,650	5,206	5,842	5,842	5,842	5,842
Investment in Associate and JCE	4,299	7,907	7,698	9,081	9,537	10,047
Other non-current assets	281	325	374	374	374	374
<b>Total Assets</b>	<b>39,106</b>	<b>43,539</b>	<b>67,452</b>	<b>73,109</b>	<b>78,887</b>	<b>86,695</b>
<b>Current Liabilities</b>	<b>18,632</b>	<b>20,111</b>	<b>29,733</b>	<b>31,476</b>	<b>33,593</b>	<b>37,571</b>
Short term borrowings	3,017	3,035	2,794	4,794	6,794	8,794
Trade & other payables	6,330	10,110	14,214	14,214	14,214	14,214
Pre-sales deposits	8,068	5,016	10,396	10,139	10,256	12,234
Other current assets	1,218	1,950	2,329	2,329	2,329	2,329
<b>Non-current liabilities</b>	<b>11,318</b>	<b>11,845</b>	<b>22,435</b>	<b>22,435</b>	<b>22,435</b>	<b>22,435</b>
Long term borrowings	10,357	10,825	21,161	21,161	21,161	21,161
Other payables	-	-	-	-	-	-
Other non-current assets	961	1,019	1,274	1,274	1,274	1,274
<b>Total Liabilities</b>	<b>29,951</b>	<b>31,956</b>	<b>52,169</b>	<b>53,911</b>	<b>56,029</b>	<b>60,006</b>
<b>Net Assets</b>	<b>9,155</b>	<b>11,583</b>	<b>15,283</b>	<b>19,198</b>	<b>22,858</b>	<b>26,689</b>
<b>Shareholders' Equity</b>	<b>8,611</b>	<b>10,205</b>	<b>12,827</b>	<b>14,843</b>	<b>17,285</b>	<b>19,934</b>
Perpetual capital instrument	-	586	-	-	-	-
Minority Interest	544	792	2,456	4,355	5,573	6,754
<b>Total Equity</b>	<b>9,155</b>	<b>11,583</b>	<b>15,283</b>	<b>19,198</b>	<b>22,858</b>	<b>26,689</b>
<b>Key ratio</b>						
Gross debt (RMB mn)	13,374	13,861	23,955	25,955	27,955	29,955
Net debt (RMB mn)	6,213	6,737	9,050	14,249	2,126	(11,030)
Net gearing (%)	68%	58%	59%	74%	9%	-41%
Contracted sales/ Total assets (x)	39%	49%	45%	61%	65%	66%

Source(s): Company, ABCI Securities estimates



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

<b>As of Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
EBITDA	2,259	3,352	3,184	6,281	6,154	6,042
Change in Working Capital	1,545	2,035	(3,783)	(6,034)	10,862	11,921
Tax payment	(817)	(1,325)	(1,334)	(3,012)	(3,118)	(3,169)
<b>Operating Cash flow</b>	<b>2,988</b>	<b>4,062</b>	<b>(1,934)</b>	<b>(2,765)</b>	<b>13,898</b>	<b>14,795</b>
Purchase of PP&E	(17)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	35	-	-	-	-	-
Others	(4,233)	(3,135)	359	(121)	1,512	1,874
<b>Investing Cash flow</b>	<b>(4,214)</b>	<b>(3,155)</b>	<b>339</b>	<b>(141)</b>	<b>1,492</b>	<b>1,854</b>
Debt raised	11,288	10,000	10,000	10,000	10,000	10,000
Debt repaid	(6,825)	(9,508)	(14,198)	(8,000)	(8,000)	(8,000)
Interest expenses	(1,065)	(1,436)	(1,774)	(1,996)	(2,156)	(2,316)
Equity raised	308	-	1,056	-	-	-
Dividend to shareholders	(185)	(663)	(893)	(994)	(1,060)	(1,127)
Others	175	732	15,183	696	(50)	(50)
<b>Financing Cash flow</b>	<b>3,696</b>	<b>(874)</b>	<b>9,374</b>	<b>(294)</b>	<b>(1,267)</b>	<b>(1,493)</b>
<b>Net cash inflow/ (outflow)</b>	<b>2,470</b>	<b>33</b>	<b>7,780</b>	<b>(3,200)</b>	<b>14,123</b>	<b>15,156</b>
Cash- beginning	4,591	7,061	7,094	14,874	11,674	25,797
<b>Cash- year-end</b>	<b>7,061</b>	<b>7,094</b>	<b>14,874</b>	<b>11,674</b>	<b>25,797</b>	<b>40,953</b>

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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