



# Times China (1233 HK)

## Project disposal to be a new driver

- Disposal of urban redevelopment projects could become a new profit driver. In 1H18, Times registered RMB 235mn in disposal gain from a Foshan project
- 8M18 contracted sales grew 57%YoY to RMB36.6bn. Greater Bay Area (GBA) accounts for 91.2% of total 1H18 contracted sales
- Maintain **BUY** with revised TP to HK\$ 12.10 (from HK\$13.30) based on NAV discount at 60%

**New profit model: disposal of urban redevelopment projects.** In 1H18, Times completed the conversion process of a redevelopment project in Foshan with a planned GFA of 90,000sqm. As at June 2018, Times had 70 urban redevelopment projects with a planned GFA of 19.5mn sqm, of which 5.62mn sqm are estimated to have the relevant conversion process completed in 2018-20. Management said the Group would start disposing urban redevelopment projects as land price increases. In 1H18, Time registered a project disposal gain of RMB 235mn project for the redevelopment project in Foshan, and generated RMB 96mn in compensation income from the primary land development in Qingyuan. We believe aggressive M&A activities of larger developers may have driven up the secondary land price, making land sales more lucrative than property development especially in the face of the ever-increasing property price control. We believe project disposal could become a regular business activity for Times and earnings may surprise on the upside as a result.

**Greater Bay Area (GBA) drives contracted sales growth.** 1H18 contracted sales jumped 52.7%YoY to RMB 26.0bn, of which GBA accounted for 91.2% of total. Guangzhou, Foshan and Zhuhai are the biggest contributors, accounting for 35.1%, 36.9% and 11.8% of 1H18 contracted sales. Sales momentum in July and Aug remained strong and jumped 65%YoY and 71%YoY. The Group is confident in achieving RMB 100bn in annual contracted sales by 2020.

**Attractively valued; maintain BUY.** Times remains to be one of our top small-mid cap picks given its strategic focus on the GBA and potential upside from redevelopment projects. Factoring in latest new land acquisition and assuming no further land purchase in 2019, we raise our 2019-20E earnings forecasts by 5-9%. Excluding potential value enhancement of urban redevelopment projects, we roll over our NAV forecast to 2019E and raise our NAV/share estimate to RMB 26.41 (from RMB 21.41). However, given the latest share price correction in the sector, we raise our discount to NAV to 60% (from 50%), in line with the sector's small-/mid-cap average; hence, TP is lowered to HK\$12.10 (from HK\$13.30). Trading at 3.2x 2019E PE and 0.64x 2019E P/B (small-/mid-cap average: 4.2x 2019E P/E and 0.68x 2019E P/B), we believe Times is highly undervalued. Reiterate **BUY**.

**Risk factors:** 1) Legal and compliance risks of urban redevelopment projects; 2) Slowing contracted sales due to reduced saleable resources resulted from frequent project disposals; 3) Further policy tightening on property market; 4) Further depreciation of RMB.

### Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	16,206	23,110	35,855	43,110	59,395
Chg (% YoY)	18.8	42.6	55.1	20.2	37.8
Core net profit (RMB mn)*	1,810	2,532	3,131	4,123	6,406
Chg (% YoY)	22.5	39.9	23.7	31.7	55.4
Core EPS (RMB)	0.99	1.38	1.71	2.25	3.49
Chg (% YoY)	22.5	39.9	23.7	31.7	55.4
BVPS (RMB)	4.98	8.49	9.7	11.3	13.7
Chg (% YoY)	28.6	70.5	14.1	16.2	21.7
Core P/E (x)	7.3	5.2	4.2	3.2	2.1
P/B (x)	1.4	0.8	0.74	0.64	0.53
ROE (%)	19.8	16.3	17.6	20.0	25.5
ROA (%)	2.6	2.5	2.6	3.0	4.2
DPS(RMB)	0.32	0.41	0.51	0.67	1.05
Yield (%)	3.52	4.63	7.07	9.31	14.47
Net gearing (%)	55.1	57.5	34.8	Net cash	Net cash

\* Excluding changes in fair value of investment properties and other exceptional items

\*\* RMB /HKD: 1.15

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Sep 18, 2018

Rating: **BUY**

TP: **HK\$ 12.10**

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Share price (HK\$)	8.29
Est. share price return	50.0%
Est. dividend yield	7.1%
Est. total return	57.1%
Previous Rating & TP	BUY, HK\$13.30

Previous Report Date **Mar 1, 2018**

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	13.88/6.63
Issued shares (mn)	1,834
Market cap (HK\$ mn)	15,312
3-mth avg daily turnover(HK\$ mn)	30.79
Major shareholder(s) (%)	
SHUM Chiu Hung	65.17%

Source(s): Bloomberg, ABCI Securities

### Share Performance

	Absolute	Relative*
1-mth	(7.6)	(6.7)
3-mth	(34.9)	(28.7)
6-mth	(28.4)	(16.3)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

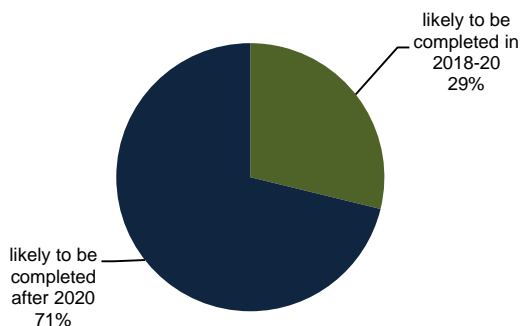


## New profit model: disposal of urban redevelopment projects

In 1H18, Times completed the conversion process of a redevelopment project in Foshan with a planned GFA of 90,000sqm. As at Jun 2018, Times had 70 urban redevelopment projects with a planned GFA of 19.5mn sqm, of which 5.62mn sqm are estimated to have the relevant conversion process completed in 2018-20. Management said the Group may dispose of urban redevelopment projects as land price increases. In 1H18, Time registered a project disposal gain of RMB 235mn project for the redevelopment project in Foshan, and generated RMB 96mn in compensation income from the primary land development in Qingyuan. We believe aggressive M&A activities of larger developers may have driven up the secondary land price, making land sales more lucrative than property development especially in the face of the ever-increasing property price control. We believe project disposal could become a regular business activity for Times and earnings may surprise on the upside.

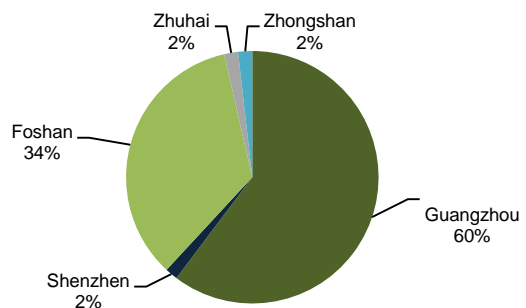
We are positive of the new business initiative as disposal of urban redevelopment projects would offer two major advantages, which includes: **1) shortening of payback period.** Urban redevelopment project has a long development cycle of 5-10 years due to its complicated process that involves obtaining multiple approvals from the government. Selling incomplete projects would transfer some of the approval requirements, hence the compliance risk, to the buying parties and enhance cash flow of the sellers; **2) margin enhancement.** Disposal of projects does not entail land appreciation tax (LAT), which could usually take up 30-60% of profit. However, we have not factored in any future disposal gains from urban redevelopment project into our financial model (earnings forecast and NAV estimates) given the unconfirmed disposal schedule and pricing. Nonetheless, we estimate 5.62mn sqm of urban redevelopment projects, whose relevant conversion procedures would be completed in 2018-20, would have a value no less than RMB 11.2bn, or ~RMB 2,000/sqm.

Exhibit 1: Urban redevelopment projects by stage as at Jun 2018 (total planned GFA: 19.5mn sqm)



Source(s): Company, ABCI Securities

Exhibit 2: Urban redevelopment projects by cities as at Jun 2018 (total planned GFA: 19.5mn sqm)



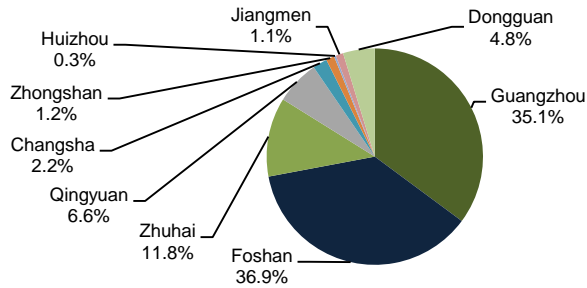
Source(s): Company, ABCI Securities

## GBA drives contracted sales growth and margins

GBA accounted for 91.2% of Time's 1H18 contracted sales, of which Guangzhou, Foshan and Zhuhai are the biggest contributors, accounting for 35.1%, 36.9% and 11.8% of total. About 10.65mn sqm of the landbank is located in the GBA, accounting for 58.5% of total land bank as at Jun 2018. Sales momentum in July and Aug remained strong and jumped 65%YoY and 71%YoY. In 8M18, Times's contracted sales grew 57%YoY to RMB36.6bn, achieving 67% of 2018 target (RMB55bn). The Group is confident in achieving RMB 100bn in annual contracted sales by 2020. Although Times has been able to exercise its pricing power for 8M18 (8M18 contracted ASP of RMB 16,861/sqm is 65% higher than the booked ASP), we conservatively assume no ASP improvement for 2019 and 2020, due to significant price control by local government. Times's net gearing grew 9.7ppt HoH to 67.2% as at Jun 2018, as the group spent RMB6,115mn to acquire 1.687mn sqm of new land sites across Guangzhou, Foshan, Zhuhai, Qingyuan and Dongguan. Despite rising interest rate environment, Times managed to contain its average finance cost at 7.6% in 1H18.



Exhibit 3: 1H18 contracted sales breakdown (total: RMB 26.0bn)



Source(s): Company, ABCI Securities

Exhibit 4: Landbank by city as at June 2018 (average land cost: RMB3,195/sqm)

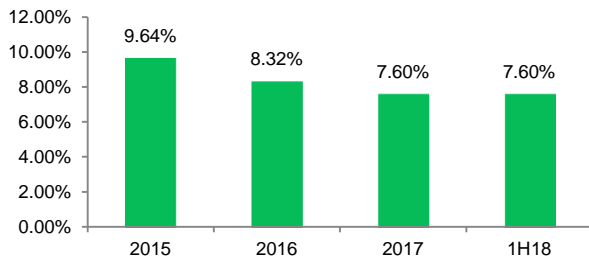
City	mn sqm	%
Guangzhou	2.16	11.9%
Foshan	2.63	14.4%
Zhuhai	1.20	6.6%
Qingyuan	5.98	32.9%
Changsha	1.57	8.6%
Zhongshan	1.17	6.4%
Huizhou	1.29	7.1%
Jiangmen	1.09	6.0%
Dongguan	1.11	6.1%
<b>Total</b>	<b>18.20</b>	<b>100.0%</b>

Source(s): Company, ABCI Securities

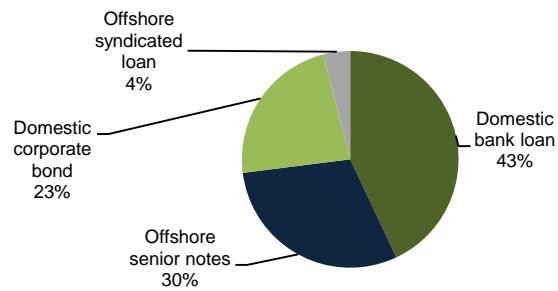
Exhibit 5: Times's 1H18 results

P&L	1H18	1H17	YoY Chg	Operating statistics	1H18	1H17	YoY
	RMB mn	RMB mn	(%)				(%)
<b>Turnover</b>	<b>10,477</b>	<b>8,725</b>	<b>20.1</b>	Contracted GFA (mn sqm)	1.51	1.17	29.5
Cost of Sales & direct operating costs	(7,521)	(6,424)	17.1	Contracted ASP (RMB/sqm)	17,240	14,614	18.0
<b>Gross Profit</b>	<b>2,956</b>	<b>2,301</b>	<b>28.5</b>	<b>Contracted Sales (RMB)</b>	<b>26,002</b>	<b>17,025</b>	<b>52.7</b>
<b>Gross Margin (%)</b>	<b>28.2</b>	<b>26.4</b>	<b>+1.8ppt</b>	GFA Delivered (mn sqm)	0.99	0.77	29.1
Selling and distribution costs	(364)	(366)	(0.7)	Booked ASP (RMB/sqm)	10,188	10,908	(6.6)
Administrative expense	(513)	(397)	29.0	<b>Property sales booked</b>	<b>10,126</b>	<b>8,399</b>	<b>20.6</b>
<b>EBIT</b>	<b>2,079</b>	<b>1,537</b>	<b>35.3</b>				
<b>EBIT Margin (%)</b>	<b>19.8</b>	<b>17.6</b>	<b>+2.2ppt</b>				
Other income, gains and losses	492	112	339.6	<b>Balance sheet</b>	<b>Jun-18</b>	<b>Dec-17</b>	<b>HoH %</b>
Fair value gain of investment properties	16	25	(37.1)		<b>RMB mn</b>	<b>RMB mn</b>	
Other exceptional items	41	(155)	na	Gross debt	40,579	33,289	21.9
Share of profit from JCE/ Associates	(164)	(2)	na	Cash	20,646	17,207	20.0
Finance cost	(247)	(174)	41.8	Net debt	19,933	16,082	23.9
<b>Profit before tax</b>	<b>2,217</b>	<b>1,342</b>	<b>65.2</b>	<b>Net gearing (%)</b>	<b>67.2%</b>	<b>57.5%</b>	<b>+9.7ppt</b>
<b>Tax</b>	<b>(1,082)</b>	<b>(544)</b>	<b>99.0</b>				
- LAT	(538)	(90)	497.6	<b>Revenue breakdown</b>	<b>1H18</b>	<b>1H17</b>	<b>YoY %</b>
- Enterprise tax and others	(544)	(454)	19.9		<b>RMB mn</b>	<b>RMB mn</b>	
<b>Profit after tax</b>	<b>1,135</b>	<b>799</b>	<b>42.2</b>	- Property sales	10,126	8,399	20.6
Minority Interest	49	(301)	(116.3)	- Property leasing	160	147	8.7
<b>Net profit</b>	<b>1,184</b>	<b>498</b>	<b>137.9</b>	- Property management	190	179	6.7
<b>Core net profit (before MI)</b>	<b>1,082</b>	<b>935</b>	<b>15.7</b>	<b>Total</b>	<b>10,477</b>	<b>8,725</b>	<b>20.1</b>
<b>Core net profit (after MI)</b>	<b>1,183</b>	<b>636</b>	<b>86.1</b>				
<i>Core net margin</i>	<i>11.3</i>	<i>7.3</i>	<i>+4.0ppt</i>				

Source(s): Company, ABCI Securities

**Exhibit 6: Average finance cost**


Source(s): Company, ABCI Securities

**Exhibit 7: Debt profile by type (Jun 2018)**


Source(s): Company, ABCI Securities

## Attractively valued; maintain BUY

Times is one of our small-/mid-cap picks given its strategic focus on the GBA and potential upside from redevelopment projects. Factoring in the latest new land acquisition but assuming no further land purchase in 2019 and after, we raise our 2019-20 earnings forecast by 5-9%. Excluding potential value enhancement of urban redevelopment projects, we roll over our NAV forecast to 2019E and raise our NAV/share estimate to RMB 26.41 (from RMB21.41). However, given the latest share price correction in the sector, we raise our NAV discount to 60% (from 50%), in line with small-/mid-cap China property sector's average. Hence, our TP is slashed to HK\$12.10 (from HK\$13.30). Trading at 3.2x 2019E P/E and 0.64x 2019E P/B (small-mid cap average: 4.2x 2019E P/E and 0.68x 2019E P/B), we believe Times is highly undervalued. Reiterate **BUY**.

**Exhibit 8: Times's 2019E NAV**

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
<b>Property development</b>					
Guangzhou	2.1	4,613	18%		2,156
Foshan	2.4	8,961	34%	DCF with	3,749
Zhuhai	1.1	1,142	4%	WACC of	1,048
Others	11.2	8,091	31%	13.2%	722
<b>Subtotal</b>	<b>16.8</b>	<b>22,808</b>	<b>88%</b>		<b>1,356</b>
Investment Properties		3,173	12%	6.5% cap rate on 2019E net rental income	
<b>Total 2019E GAV</b>		<b>25,981</b>	<b>100%</b>		
2019E Net cash/ (debt)		22,453	86%		
<b>Total 2019E NAV</b>		<b>48,434</b>	<b>186%</b>		
No. of share outstanding (diluted)		1,834			
<b>NAV per share (RMB)</b>		<b>26.41</b>			
Ex rate		1.15			
<b>NAV per share (HKD)</b>		<b>30.37</b>			
Target discount (%)		60%			
<b>Target Price (HKD)</b>		<b>12.10</b>			
<b>WACC</b>					
WACC		13.2%			
Cost of debt		9.0%			
Cost of equity		25.0%			
<b>Debt/ (Debt + Equity)</b>		<b>65%</b>			

Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2016A-2020E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
<b>Revenue</b>	16,206	23,110	35,855	43,110	59,395
Cost of sales	(11,956)	(16,660)	(25,839)	(31,836)	(42,275)
<b>Gross Profit</b>	4,250	6,450	10,016	11,274	17,120
SG&A expenses	(1,279)	(1,677)	(2,388)	(2,614)	(3,111)
<b>EBIT</b>	2,971	4,773	7,627	8,660	14,008
Finance cost	(240)	(401)	(479)	(479)	(479)
Share of profit of associates	66	225	0	0	0
Other income/ (expenses)	93	353	100	100	80
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	269	338	0	0	0
<b>Profit before tax</b>	3,161	5,288	7,248	8,281	13,609
Tax	(1,178)	(1,947)	(3,085)	(3,435)	(5,625)
<b>Profit after tax</b>	1,982	3,341	4,164	4,846	7,984
Minority interest	(27)	(674)	(1,033)	(722)	(1,578)
<b>Reported net profit</b>	1,955	2,667	3,131	4,123	6,406
<i>Less: exceptional items</i>	(145)	(135)	0	0	0
<b>Core net profit</b>	1,810	2,532	3,131	4,123	6,406
<b>Per share</b>					
Core EPS (RMB)	0.99	1.38	1.71	2.25	3.49
DPS (RMB)	0.32	0.41	0.51	0.67	1.05
Payout ratio (%)	32%	30%	30%	30%	30%
BVPS (RMB)	4.98	8.49	9.69	11.26	13.71
<b>Growth %</b>					
Revenue	18.8%	42.6%	55.1%	20.2%	37.8%
Gross Profit	19.9%	51.8%	55.3%	12.6%	51.8%
EBIT	11.4%	60.6%	59.8%	13.5%	61.8%
Core net profit	22.5%	39.9%	23.7%	31.7%	55.4%
<b>Margin %</b>					
Gross margin	26.2%	27.9%	27.9%	26.2%	28.8%
Gross margin (post-LAT)	24.1%	26.0%	23.6%	22.3%	24.1%
EBIT margin	18.3%	20.7%	21.3%	20.1%	23.6%
Core net margin	10.6%	12.4%	11.6%	11.2%	13.4%
<b>Key assumptions</b>					
Contracted Sales (RMB mn)	29,328	41,629	55,812	66,027	70,581
GFA sold (mn sqm)	2.47	2.82	3.83	5.29	5.74
ASP (RMB/sqm)	11,859	14,752	14,589	12,492	12,304
Booked Sales (RMB mn)	15,620	22,473	35,176	42,386	58,622
GFA delivered (mn sqm)	1.94	1.70	2.37	3.05	4.70
Booked ASP (RMB/sqm)	8,066	13,249	14,861	13,890	12,477

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (2016A-2020E)**

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
<b>Current assets</b>	58,654	90,402	108,352	127,110	143,369
Cash	8,923	14,263	18,291	52,799	81,925
Restricted cash	2,958	2,944	2,944	2,944	2,944
Trade & other receivables	2,579	3,253	3,253	3,253	3,253
Property under development	32,702	47,888	61,810	46,060	33,192
Other current assets	11,493	22,054	22,054	22,054	22,054
<b>Non-current assets</b>	10,435	10,977	10,868	10,760	10,651
Property, plant & equipment	1,242	1,379	1,270	1,162	1,053
Investment properties	1,598	1,498	1,498	1,498	1,498
Investment in Associate and JCE	2,721	4,734	4,734	4,734	4,734
Other non-current assets	4,875	3,366	3,366	3,366	3,366
<b>Total Assets</b>	69,089	101,379	119,220	137,869	154,020
<b>Current Liabilities</b>	33,078	44,713	55,815	70,906	81,044
Short-term borrowings	1,956	6,030	6,030	6,030	6,030
Trade & other payables	3,288	7,992	7,992	7,992	7,992
Pre-sales deposits	24,011	24,011	35,114	50,204	60,342
Other current liabilities	3,822	6,679	6,679	6,679	6,679
<b>Non-current liabilities</b>	19,820	28,720	28,720	28,720	28,720
Long-term borrowings	18,845	27,259	27,259	27,259	27,259
Other payables	0	0	0	0	0
Other non-current liabilities	975	1,461	1,461	1,461	1,461
<b>Total Liabilities</b>	52,898	73,433	84,536	99,626	109,764
<b>Net Assets</b>	16,191	27,946	34,684	38,243	44,255
<b>Shareholders' Equity</b>	9,132	15,572	17,763	20,649	25,134
Minority Interest	7,059	12,374	16,921	17,594	19,122
<b>Total Equity</b>	16,191	27,946	34,684	38,243	44,255
<b>Key ratio</b>					
Gross debt (RMB mn)	20,801	33,289	33,289	33,289	33,289
Net debt (RMB mn)	8,920	16,082	12,055	(22,453)	(51,580)
Net gearing (%)	55%	58%	35%	-59%	-117%
Contracted sales/ Total assets (x)	0.42	0.41	0.47	0.48	0.46

Source(s): Company, ABCI Securities estimates



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

<b>FY ended Dec 31 (RMB mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
EBITDA	3,061	4,902	7,756	8,788	14,137
Change in Working Capital	(840)	(7,245)	(636)	33,025	25,190
Tax payment	(1,326)	(2,005)	(3,085)	(3,435)	(5,625)
<b>Operating cash flow</b>	<b>895</b>	<b>(4,348)</b>	<b>4,036</b>	<b>38,378</b>	<b>33,702</b>
Purchase of PP&E	(80)	(256)	(20)	(20)	(20)
Addition of Investment Properties	0	0	0	0	0
Others	(4,310)	(8,240)	100	100	80
<b>Investing cash flow</b>	<b>(4,390)</b>	<b>(8,496)</b>	<b>80</b>	<b>80</b>	<b>60</b>
Debt raised	9,122	24,702	4,000	4,000	4,000
Debt repaid	(4,742)	(8,540)	(4,000)	(4,000)	(4,000)
Interest expenses	(1,453)	(2,237)	(2,663)	(2,663)	(2,663)
Equity raised	0	0	0	0	0
Dividend to shareholders	(269)	(543)	(939)	(1,237)	(1,922)
Others	4,919	4,802	3,514	(50)	(50)
<b>Financing cash flow</b>	<b>7,577</b>	<b>18,184</b>	<b>(88)</b>	<b>(3,950)</b>	<b>(4,635)</b>
<b>Net cash inflow/ (outflow)</b>	<b>4,081</b>	<b>5,340</b>	<b>4,028</b>	<b>34,508</b>	<b>29,127</b>
Cash- beginning	4,841	8,923	14,263	18,291	52,799
<b>Cash- year-end</b>	<b>8,923</b>	<b>14,263</b>	<b>18,291</b>	<b>52,799</b>	<b>81,925</b>

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Kenneth Tung, 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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