



SZI (604 HK)

First mover in the Big Bay Area

- The development of Big Bay Area should benefit SZI given its high exposure in Shenzhen (34% of landbank) and Huizhou (15% of landbank)
- SZI's gross margin (GPM) grew 4.1ppt YoY to 38.7% in 2016; Shenzhen projects had a GPM of 49.9%
- Driven by strong corporate demand for office, SZI's presales jumped 32%YoY to RMB 6.9bn in 1Q17.
- Maintain **BUY** with revised TP of HK\$ 3.80 based on an unchanged NAV discount at 60%

Benefiting from the Big Bay Area (BBA) development. As of Dec 2016, SZI has a total landbank of 7.86mn sqm, of which 34% was located in Shenzhen and 15% in Huizhou. We believe the BBA development should benefit this Shenzhen-oriented SOE more than its peers without an SOE background. Backed by its parent company Shumyip Group, SZI has managed to secure cheap land resources since 2013. In Dec 2016, SZI acquired a project in Qianhai, which is touted as Shenzhen's next CBD, from its sister company SZ International (152 HK). Qianhai will be one of the core centers of BBA.

Solid margin improvement. In 2016, SZI's gross profit margin (GPM) increased 4.1ppt YoY to 38.7%, of which GPM of its property development business rose 6.7ppt YoY to 41.3%. Projects in Shenzhen had the highest GPM at 49.9%, followed by 36.1% in other tier-1 regions, 31.8% for tier-2 and 11.0% for tier-3/4 areas. We believe margins should improve further in 2017 on increased contribution from SZ and turnaround in lower-tier cities.

Office sales are not impacted by home purchase restriction (HPR). SZI generated significant amount of presales from offices. As non-residential products are not subjected to HPR, SZI's presale has remained strong so far in 2017. In 1Q17, SZI's presale grew 32% YoY to RMB 6.9bn, driven by a 27% YoY ASP hike and 4% YoY increase in GFA. In particular, SZI completed an en bloc sale of the office tower in Tanglang project at RMB 5bn in Feb 2017, reflecting robust corporate demand for office space.

Maintain BUY with revised TP of HK\$3.80. For 2017, SZI set a presales target of RMB19.1bn (+0% YoY compared to 2016 presale) despite increased saleable resources of RMB 31bn (+7% YoY). This may indicate SZI's prudent view on Shenzhen market as a result of recent policy tightening. We factor in the lower-than-expected presales target and cut our NAV forecast to HK\$ 9.46 (from HK\$10.13). We reduce our TP to HK\$3.80 (from HK\$4.10), still based on an unchanged 60% discount to NAV. While SZI's presales growth is likely to be slower than peers, the Group differentiates itself from peers by its high margins and steady profit growth. Maintain **BUY**.

Risk factors: 1) Rising land cost in tier-1 cities; 2) Further policy tightening in SZ; 3) Delays in asset injections from parents; 4) Execution risks in urban redevelopment projects

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (HK\$ mn)	18,428	21,354	23,706	27,545	28,752
Chg (% YoY)	33.3	15.9	11.0	16.2	4.4
Core net profit (HK\$ mn)	2,159	2,615	3,106	4,281	5,297
Chg (% YoY)	32.9	21.1	18.8	37.8	23.8
Core EPS (HK\$)	0.29	0.35	0.42	0.58	0.72
Chg (% YoY)	5.1	21.1	18.8	37.8	23.8
BVPS (HK\$)	4.59	4.33	4.54	4.83	5.19
Chg (% YoY)	(9.6)	(5.7)	4.9	6.4	7.4
Core PE (x)	11.7	9.7	8.2	5.9	4.8
P/B (x)	0.7	0.8	0.8	0.7	0.7
ROE (%)	6.5	8.0	9.0	11.7	13.5
ROA (%)	2.4	2.7	3.2	4.1	5.1
DPS(HK\$)	0.16	0.22	0.21	0.29	0.36
Yield (%)	4.7	6.4	6.1	8.5	10.5
Net gearing (%)	21.2	21.2	6.1	66.9	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

May 17, 2017

Rating: **BUY**

TP: **HK\$ 3.80**

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Share price (HK\$)	3.43
Est. share price return	10.8%
Est. dividend yield	6.1%
Est. total return	16.9%
Previous Rating & TP	BUY, HK\$4.10

Previous Report Date Nov 3, 2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	3.92/2.91
Issued shares (mn)	7,649
Market cap (HK\$ mn)	25,856
3-mth avg daily turnover(HK\$ mn)	50.5
Major shareholder(s) (%)	
Shum Yip Holdings	61.23%

Source(s): Bloomberg, ABCI Securities

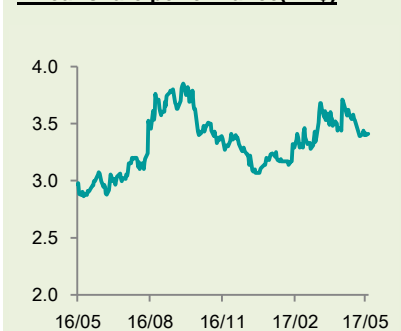
Share Performance (%)

	Absolute	Relative*
1-mth	(8.6)	(12.5)
3-mth	0.0	5.3
6-mth	2.7	(9.4)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Quality landbank in Shenzhen to be injected

As of Dec 2016, SZI has a total landbank of 7.86mn sqm, of which 34% was located in Shenzhen and 15% in Huizhou. We believe development of the BBA would benefit this Shenzhen-oriented SOE more than its peers without an SOE background. Backed by its parent company, Shumyip Group, SZI has been able to secure cheap land resources since 2013. The Upperhills project acquired in 2013 at RMB11k/sqm had a presales ASP as high as RMB60k/sqm in 2016. The Qianhai project recently acquired from its sister company, SZ International (152 HK), in Dec 2016 entail strong potential. Qianhai is touted as Shenzhen's next CBD and we believe it will be one of the core centers for BBA. In addition, SZ International still has an abundant land inventory in Qianhai that can potentially be injected into SZI upon conversion to residential/ office from logistic use.

Exhibit 4: SZI's landbank by cities (Dec 2016)

Province	City	GFA (mn sqm)	%
Guangdong	Shenzhen	2.65	34%
	Huizhou	1.15	15%
	Shunde	0.13	2%
	Shanshui	0.65	8%
Jiangsu	Changzhou	0.13	2%
	Taizhou	0.75	10%
Anhui	Hefei Chaohu	0.09	1%
	Ma'anshan	0.84	11%
Hubei	Wuhan	0.95	12%
Hunan	Changsha	0.32	4%
Sichuan	Chengdu	0.15	2%
Xinjiang	Kashi	0.06	1%
Total		7.86	100%

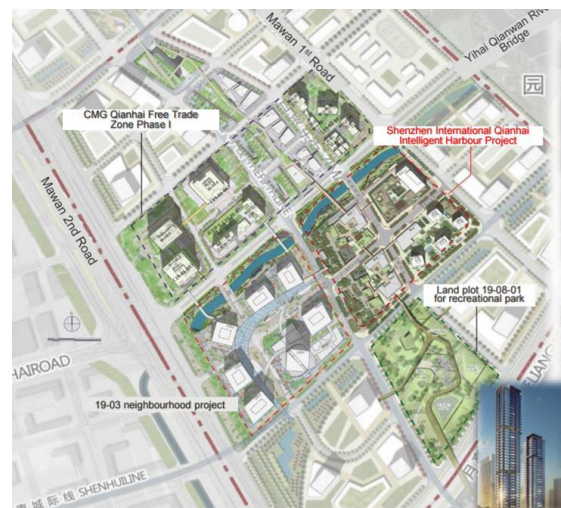
Source(s): Company, ABCI Securities

Exhibit 2: Landbank injection from parent group

Date	Project	Estimated GFA	Stake	Land cost
		000 sqm	%	RMB/sqm
Dec-16	SZ International's Qianhai project- 1st phase	53	50%	42,344
Dec-15	Huangbeiling, Luohu District, Shenzhen	250	95%	16,480
May-14	Shumyip Zhongcheng project	385	100%	20,877
Jan-13	Upperhills	789	100%	11,370

Source(s): Company, ABCI Securities

Exhibit 3: 1st phase of Qianhai 19-06-06 project by SZ International



Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities



SZI can also leverage on its SOE status to obtain sites owned by other non-property SOEs. E.g., Shumyip Group reached a strategic cooperation agreement with Shenzhen Metro group for joint development of potential projects in Futian, Nanshan, Luohu and Longhua New district. Other potential cooperation partners include Shenzhen Metro, Shenzhen Bus and Shenzhen Press Group. We estimate land acquired by Shumyip Group and its projects co-developed with JV partners could add another 3-4mn sqm to SZI's landbank in Shenzhen upon injection.

Exhibit 4: SZI's existing and potential projects in Shenzhen (Dec 2016)



Source(s): Company, ABCI Securities

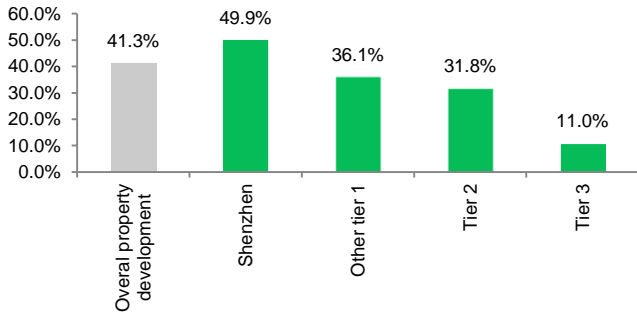
Together with its parent, SZI played the key coordination role in redevelopment projects in Bagualing, Chegongmiao, middle region of Science and Technology Park, Xinan district, and Nantou ancient city. These projects have a total site area of 10 sqkm and would mature over time.

Solid margin improvement

In 2016, SZI's GPM increased 4.1ppt YoY to 38.7%, of which GPM of property development business rose 6.7ppt YoY to 41.3%. Projects in Shenzhen had the highest GPM at 49.9%, followed by 36.1% in other tier-1 region, 31.8% for tier-2 and 11.0% for tier-3/4 areas. We believe margins should improve further in 2017 due to: **1) Increased contribution from SZ:** SZ accounts for 77% of total presales and 72% of booked sales in 2016; **2) Turnaround in lower-tier cities:** In 2016, SZI wrote off RMB 857mn as impairment for its projects in tier-3/4 cities. Given the reduced book value, we think GPM for these projects should improve in 2017. Besides, ASPs of these projects are also improving as a result of HPR in higher-tier cities. E.g., ASP of the project in Ma'anshan rose from RMB 5,500/sqm in 2016 to RMB 7,000/sqm in recently in 2017, according to Fang.com.

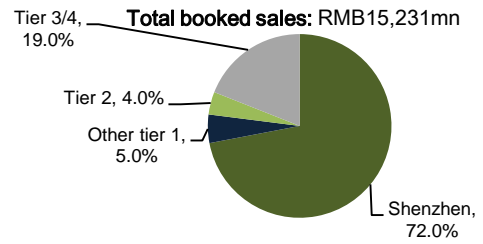


Exhibit 5: SZI's GPM by city (2016)



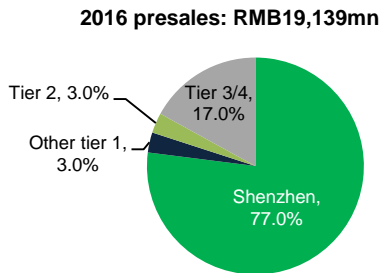
Source(s): Company, ABCI Securities

Exhibit 6: SZI's booked sales breakdown (2016)



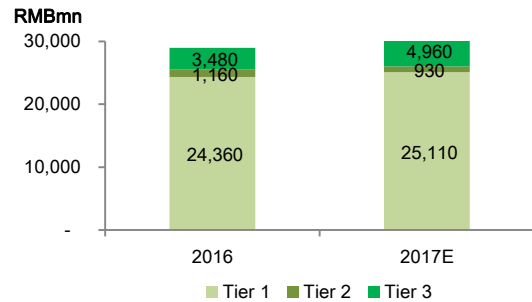
Source(s): Company, ABCI Securities

Exhibit 7: SZI's presale by city (2016)



Source(s): Company, ABCI Securities

Exhibit 8: SZI's saleable resources by city

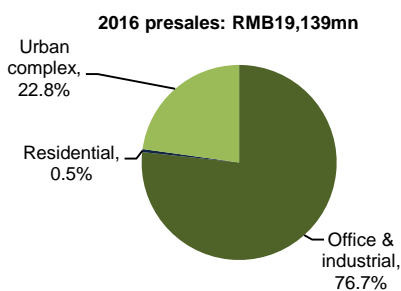


Source(s): Company, ABCI Securities estimates

Office products are not impacted by HPR

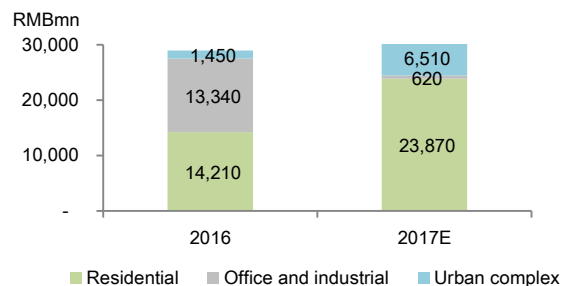
SZI generated a significant amount of presales from office space. As non-residential products are not subjected to HPR, SZI's presale has remained robust so far in 2017. In 1Q17, SZI's presale grew 32%YoY to RMB 6.9bn, driven by 27% YoY ASP hike and 4% YoY increase in GFA. In Feb 2017, SZI completed an en bloc sales of the office tower in Tanglang project at RMB5bn, indicating robust demand for office space by corporates. In 2016, SZI's office had a GPM of 48%, compared to 39% at the group level. Since office products have limited LAT deduction, LAT increased 65% YoY to HK\$ 3.2bn. In 2017E, residential products are expected to take up 77% of saleable resources (2016: 49%). Growth in LAT expenses should moderate in 2018.

Exhibit 9: SZI's presales by product (2016)



Source(s): Company, ABCI Securities

Exhibit 10: SZI's sellable resources by product



Source(s): Company, ABCI Securities



Exhibit 11:SZI's FY16 results

P&L	FY16	FY15	YoY
	HK\$ mn	HK\$ mn	(%)
Turnover	21,354	18,428	15.9
Cost of Sales	(13,083)	(12,054)	8.5
Gross Profit	8,271	6,374	29.7
GPM (%)	38.7	34.6	+4.1ppt
Selling and distribution costs	(362)	(483)	(25.0)
Administrative expense	(1,750)	(1,038)	68.6
EBIT	6,158	4,854	26.9
EBIT Margin (%)	28.8	26.3	+2.5ppt
Other income	298	589	(49.3)
Fair Value gains on IP and others	1,860	1,515	na
Other exceptional items	(328)	(346)	na
Share of profit from JCE/ Assoc.	1,143	608	88.0
Finance cost	(838)	(708)	18.3
Profit before tax	8,293	6,511	27.4
Tax	(4,822)	(3,423)	40.9
- LAT	(3,191)	(1,937)	64.7
- Enterprise tax	(1,631)	(1,486)	9.8
Profit after tax	3,471	3,087	12.4
Minority Interest	(300)	(218)	37.5
Net profit	3,171	2,869	10.5
Core net profit	2,615	2,159	21.1
Core net margin	12.2	11.7	+0.5ppt

Operating statistics	FY16	FY15	YoY
			%
GFA Delivered (mn sqm)	0.90	0.95	(5.5)
Booked ASP (HK\$/sqm)	21,372	16,856	26.8
Booked sales (HK\$ mn)	19,139	15,972	19.8
Contracted GFA (mn sqm)	0.92	0.80	14.7
Contracted ASP (HK\$/sqm)	16,513	15,180	8.8
Contracted Sales (HK\$ mn)	15,231	12,205	24.8
Balance sheet	Dec-16	Dec-15	YoY
	HK\$ mn	HK\$ mn	
Gross debt	24,631	26,664	(7.6)
Cash	12,064	13,819	(12.7)
Net debt	12,568	12,845	(2.2)
Net gearing (%)	34.7%	36.1%	-1.4ppt
Net gearing- ex related party loan (%)	21.2%	21.2%	0.0ppt
Revenue breakdown	FY16	FY15	YoY
Property development	17,808	15,057	18.3
Property investment	765	789	(3.1)
Sales of industrial goods	298	431	(30.8)
Property management	1,557	1,369	13.7
Others	926	782	18.5
Total	21,354	18,428	15.9

Source(s): Company, ABCI Securities



Maintain BUY with revised TP of HK\$3.80.

In 2017, SZI expects a sales target of RMB19.1bn (+0% YoY) despite increase in saleable resources (+7%YoY) to RMB31bn. This may indicate SZI's prudent view on Shenzhen market as a recent of policy tightening. We factor in this slower sales target and cut our NAV forecast to HK\$9.46 (from HK\$10.13). We reduce our TP to HK\$3.80 (from HK\$4.10), still based on an unchanged 60% discount to NAV. While SZI's presale is likely to be slower than peers, the Group differentiates itself from peers with its high margin and steady profit growth. Maintain **BUY**.

Exhibit 6: SZI's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Shenzhen	2.2	43,462	56%		5,918
Huizhou	1.7	2,547	3%		2,393
Shunde	0.4	1,158	2%	DCF with	2,031
Wuhan	0.7	1,619	2%	WACC of 8.9%	385,144
Changsha	0.4	400	1%		
Others	2.3	6,310	8%		578
Subtotal	7.3	55,496	72%		4,359
Investment properties	1.1	19,102	25%	6.0% cap rate on 2017E net rental	
Roadking (1098 HK)		2,312	3%	Market value	
Coastal Greenland (1124 HK)		144	0%	Market value	
Total 2017E GAV		77,054	100%		
2017E Net cash/ (debt)		(7,179)	-9%		
Total 2017E NAV		69,876	91%		
No. of share outstanding (diluted)		7,384			
NAV per share (HKD)		9.46			
Target discount (%)		60%			
Target Price (HKD)		3.80			

WACC	8.9%
Cost of debt	4.5%
Cost of equity	15.0%
Debt/ (Debt + Equity)	53%

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	13,827	18,428	21,354	23,706	27,545	28,752
Cost of sales	(9,754)	(12,054)	(13,083)	(14,716)	(15,879)	(15,240)
Gross Profit	4,073	6,374	8,271	8,990	11,666	13,512
SG&A expenses	(1,626)	(1,521)	(2,113)	(2,613)	(2,959)	(2,841)
EBIT	2,447	4,854	6,158	6,378	8,707	10,671
Finance cost	(743)	(708)	(838)	(737)	(722)	(707)
Share of profit of associates	697	608	1,143	562	638	756
Other income/ (expenses)	907	589	298	219	236	294
Fair value gain of investment properties	1,609	1,515	1,860	0	0	0
Disposal/one-off items	935	(346)	(328)	0	0	0
Profit before tax	5,853	6,511	8,293	6,422	8,859	11,014
Tax	(2,349)	(3,423)	(4,822)	(3,198)	(4,295)	(5,268)
Profit after tax	3,504	3,087	3,471	3,224	4,564	5,746
Minority interest	(375)	(218)	(300)	(118)	(283)	(449)
Reported net profit	3,129	2,869	3,171	3,106	4,281	5,297
Less: exceptional items	(1,505)	(710)	(556)	0	0	0
Underlying net profit	1,624	2,159	2,615	3,106	4,281	5,297
Per share						
Underlying EPS (HK\$)	0.28	0.29	0.35	0.42	0.58	0.72
DPS (HK\$)	0.16	0.16	0.22	0.21	0.29	0.36
Payout ratio (%)	58%	55%	62%	50%	50%	50%
BVPS (HK\$)	5.07	4.59	4.33	4.54	4.83	5.19
Growth %						
Revenue	41.4%	33.3%	15.9%	11.0%	16.2%	4.4%
Gross Profit	13.1%	56.5%	29.7%	8.7%	29.8%	15.8%
EBIT	0.9%	98.3%	26.9%	3.6%	36.5%	22.5%
Underlying net profit	-9.1%	32.9%	21.1%	18.8%	37.8%	23.8%
Margin %						
GPM	29.5%	34.6%	38.7%	37.9%	42.4%	47.0%
GPM (post-LAT)	14.5%	17.8%	19.5%	23.4%	25.2%	26.8%
EBIT margin	17.7%	26.3%	28.8%	26.9%	31.6%	37.1%
Core net margin	6.5%	8.7%	5.5%	11.2%	14.3%	17.4%
Key assumptions						
Contracted Sales (HK\$ mn)	8,994	19,166	21,436	22,841	30,910	23,632
GFA sold (mn sqm)	0.63	0.95	0.90	1.21	1.15	0.81
ASP (HK\$/sqm)	14,173	20,227	23,937	18,803	26,820	29,323
Booked Sales (HK\$ mn)	10,938	15,057	16,470	19,758	22,922	23,627
GFA delivered (mn sqm)	0.76	0.80	0.80	0.92	0.97	0.83
Booked ASP (HK\$/sqm)	14,443	18,728	20,471	21,591	23,515	28,379

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2019E)

As of Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	59,686	55,498	56,984	58,134	62,787	61,951
Cash	8,375	9,708	9,860	14,748	26,892	35,773
Restricted cash	1,282	4,111	2,204	2,204	2,204	2,204
Trade & other receivables	715	528	323	323	323	323
Properties under development	30,795	30,312	35,292	31,554	24,063	14,346
Properties held for sale	14,708	9,032	7,515	7,515	7,515	7,515
Inventories	136	99	93	93	93	93
Other current assets	18,519	10,840	9,306	9,306	9,306	9,306
Non-current assets	34,819	35,587	39,562	40,054	40,616	41,292
Property, plant & equipment	3,421	4,144	3,844	3,775	3,700	3,619
Properties under development	-	-	-	-	-	-
Investment properties	20,019	20,908	22,807	22,807	22,807	22,807
Investment in Associate and JCE	8,039	6,875	7,296	7,858	8,495	9,252
Other non-current assets	3,341	3,659	5,614	5,614	5,614	5,614
Total Assets	94,505	91,085	96,546	98,188	103,403	103,243
Current Liabilities	34,843	30,677	36,306	36,327	39,169	35,961
Short term borrowings	12,057	5,274	5,288	4,788	4,288	3,788
Trade & other payables	10,525	6,568	9,236	9,236	9,236	9,236
Pre-sales deposits	3,765	8,366	8,905	9,426	12,768	10,061
Other current assets	8,496	10,469	12,877	12,877	12,877	12,877
Non-current liabilities	26,888	24,839	24,019	24,019	24,019	24,019
Long term borrowings	17,342	16,101	14,469	14,469	14,469	14,469
Other payables	1,736	1,315	752	752	752	752
Other non-current assets	7,811	7,423	8,798	8,798	8,798	8,798
Total Liabilities	61,731	55,516	60,325	60,346	63,188	59,980
Net Assets	32,774	35,569	36,221	37,842	40,215	43,263
Shareholders' Equity	30,496	33,326	32,811	34,364	36,504	39,153
Minority Interest	2,278	2,243	3,410	3,478	3,711	4,110
Total Equity	32,774	35,569	36,221	37,842	40,215	43,263
Key ratio						
Gross debt (HK\$ mn)	29,399	21,375	19,757	19,257	18,757	18,257
Net debt (HK\$ mn)	19,741	7,556	7,694	2,305	(10,339)	(19,720)
Net gearing (%)	60%	21%	21%	6%	-26%	-46%
Contracted sales/ Total assets (x)	0.10	0.21	0.22	0.23	0.30	0.23

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	2,596	5,009	6,339	6,564	8,899	10,868
Change in Working Capital	112	10,253	2,643	4,632	11,197	7,366
Tax payment	(1,074)	(3,423)	(4,822)	(3,198)	(4,295)	(5,268)
Operating cash flow	1,634	11,839	4,160	7,998	15,801	12,966
Purchase of PP&E	(117)	(117)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(359)	0	0	0	0	0
Investment in Associate/ JCE	(1,520)	0	0	0	0	0
Others	(435)	589	298	219	236	294
Investing cash flow	(2,431)	472	182	103	119	178
Debt raised	20,780	5,000	8,745	10,000	10,000	10,000
Debt repaid	(15,382)	(16,179)	(10,000)	(10,500)	(10,500)	(10,500)
Interest expenses	(1,850)	(1,385)	(1,261)	(1,109)	(1,086)	(1,063)
Equity raised	0	0	0	0	0	0
Dividend to shareholders	(324)	(1,132)	(1,624)	(1,553)	(2,140)	(2,649)
Others	(702)	2,717	(50)	(50)	(50)	(50)
Financing cash flow	2,527	(10,979)	(4,190)	(3,212)	(3,776)	(4,262)
Net cash inflow/ (outflow)	1,730	1,333	151	4,889	12,144	8,881
Cash- beginning	6,645	8,375	9,708	9,860	14,748	26,892
Cash- year-end	8,375	9,708	9,860	14,748	26,892	35,773

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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