

Nov 8, 2016
Company Report
Rating: BUY
TP: HK\$ 7.68

Share price (HK\$) 6.40
Est. share price return 20.00%
Est. dividend yield 2.67%
Est. total return 22.67%

Previous Rating & TP N/A
Previous Report Date N/A

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Key Data

52Wk H/L(HK\$) 7.21/3.74
Issued shares (mn) 14,650.81
Market cap (HK\$ mn) 93,765.18
3-mth avg daily turnover (HK\$ mn) 360.95
Major shareholder(s) (%):
Long Wan 16.20
Meixiang Wang 16.20
China Diamond Holdings Company Limited 12.94

Source(s): Bloomberg, HKEX, ABCI Securities

Key data

Revenue composition (%)	1H15	1H16
Packaged meat	52.00	51.10
Fresh pork	40.87	43.86
Hog production	5.33	3.04

Source(s): The Group, ABCI Securities

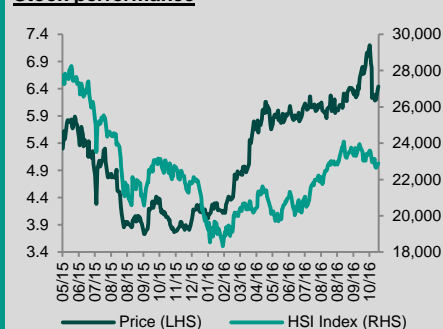
Share performance (%)

	Absolute	Relative*
1-mth	(3.03)	0.75
3-mth	7.72	5.01
6-mth	13.18	(4.28)

*Relative to HSI Index

Source(s): Bloomberg, ABCI Securities

Stock performance



Source(s): Bloomberg, ABCI Securities

* All market data as of closing of Nov 8, 2016

WH Group (288 HK)

Anchoring growth on two strong subsidiaries

- Shuanghui Development (000895 CH), WH Group's China subsidiary, saw slower growth momentum but higher profitability in 3Q16. Segment results varied. In general, we think the Group has been able to fight the downtrend
- Smithfield, WH Group's U.S. subsidiary, turned around in 3Q16 with strong improvements in fresh pork and hog production segments. In contrast, packaged meat and international segment lagged behind. Its packaged meat products have successfully penetrated the Chinese consumer market
- Our previous projections remain largely intact after factoring in the 3Q16 performance of both subsidiaries
- Maintain **BUY** with TP of HK\$ 7.68, representing 13.97x/12.92x FY16E/17E P/E, and 2.37x/2.23x FY16E/17E P/B

Shuanghui Development (000895 CH) 3Q16 update

3Q16 growth momentum slowed. The Group's overall growth faltered in 3Q16 as the 3Q16 revenue grew by 8.3% YoY, but GP, OP and NP declined by 3.59% YoY, 5.51% YoY, and 0.96% YoY. Impacted by the 3Q16 performance, 9M16 revenue, GP, OP, and NP growth declined to 19.12% YoY, 1.89% YoY, 4.76% YoY, 4.86% YoY. The slower growth momentum in 3Q16 can be attributed to: 1) the general decline in China's economic momentum; 2) the ongoing product portfolio adjustment; 3) RMB depreciation increased the cost of procuring imported pork from the U.S.; 4) adverse weather condition in July, which caused flooding in some provinces, affected sales. Moreover, management explained the 31% YoY increase in hog price raised the procurement cost by RMB 3.89bn.

Segment performance varied. Slaughtering business saw revenue growth of 16.99% YoY for 3Q16 and 42.55% YoY for 9M16. For 9M16, ASP reached RMB 23.82/kg, up 16.17% YoY, while volume grew 18.9% YoY. For the packaged meat business, revenue declined by 1.25% YoY for 9M16 and 0.44% YoY for 3Q16; 9M16 volume grew by 1.86% YoY while ASP declined 3.05% YoY. However, management clarified that 3Q16 ASP was higher than 2Q16 by RMB 500/tonne for the packaged meat segment.

Overall profitability improved but certain segments were under pressure. Profitability in 3Q16 improved. GPM, OPM, and NPM were 18.72%, 10.61% and 8.77%. The decline of OP (-5.51% YoY) in 3Q16 was mainly caused by the increased cost. Hog price has been decreasing in 3Q16, but OP of fresh pork has been increasing by 73% YoY and 45% QoQ due to the slower decline in pork price. Yet the packaged meat business did not benefit from the slower decline in pork selling price and the 2Q pork inventory (procured at higher cost) also impacted the segment's profitability, according to management in the conference call. 3Q16 OP for the packaged meat segment declined by 15.45 YoY. In addition, chicken cost increased in 2Q16 & 3Q16, while chicken price declined slightly in July & Aug. Therefore, OP was dragged down by the lower margin from the chicken business.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (US\$ mn)	22,243	21,209	22,191	24,386	26,943
Chg (% YoY)	97.66	(4.65)	4.63	9.89	10.48
Net Profit (US\$ mn)	766	786	1,038	1,123	1,165
Chg (% YoY)	(391.25)	2.61	32.08	8.16	3.72
Basic EPS (US\$)	0.0644	0.0575	0.0709	0.0766	0.0795
Chg (% YoY)	(345.80)	(10.71)	23.25	8.16	3.72
P/E (x)	12.89	14.44	11.72	10.83	10.44
BVPS (US\$ cent)	0.3502	0.3934	0.4178	0.4438	0.4711
P/B (x)	2.37	2.11	1.99	1.87	1.76
DPS (HK\$ cent)	-	0.1250	0.1710	0.1909	0.1931
Yield (%)	0.00	1.94	2.66	2.96	3.00
ROAA (%)	5.31	5.42	7.04	7.10	6.90
ROAE (%)	20.69	14.43	17.47	17.79	17.38

Source(s): The Group, Bloomberg, ABCI Securities estimates

**Update on Slaughtering business update.**

In 9M16, the number of pigs slaughtered was 8,925k, down 0.57% YoY. Total sales volume of fresh pork and packaged meat was 2176.2k tonnes, of which fresh pork sold was 975k tonnes, up 19.1% YoY, and the packaged meat sold was 1202k tonnes, up 2.1% YoY. For 3Q16 alone, the sales volume of fresh meat increased by 14.1% YoY. There was a large discrepancy between the growth of slaughtering number and the growth of sales volume for fresh meat. According to the management, the difference was due to: 1) the average size of hog was higher in 2016; 2) inventory in 2016 declined; 3) internal sales volume decreased while external sales volume increased; 4) higher imported meat volume also boosted the figure. In 4Q16, the discrepancy will persist.

Update on meat import.

In 9M16, the imported meat volume was ~220k tonnes. A larger portion of the imported pork was sold through the fresh meat business. Imported volume of meat would achieve the yearly target of 300k tonnes. For 2017, both the U.S. pork price and China pork price would decrease although the price gap would continue. Therefore, the volume of imported meat would increase YoY in 2017.

Fighting against the downtrend: improved portfolio, efficiency, and synergies

According to management, the Group has been adjusting the product portfolio, with new product sales in 9M16 accounting for more than 10% of total sales. Sales network also expanded. As of end-3Q16; total points of sales (POS) increased by 41k to 935k; POS for fresh pork increased by 4.6k to almost 50k, while POS for packaged meat increased by 36k to 880k. Moreover, efficiency of packaged meat was up 10% and that of the fresh pork increased by 13%. Finally, the Group continued to enhance synergies between its operations in China and the U.S. as well as ramping up its R&D effort.

Smithfield Development 3Q16 update**Turnaround in 3Q16**

3Q16 revenue was up 3.89% YoY increase while net profit jumped 72.63% YoY. 9M16 revenue decline narrowed to 1.63% YoY, (1H16: -4.28% YoY). 3Q16 GPM, OPM, and NPM were 13.35%, 6.96%, and 4.06%. For 9M16, GPM, OPM, and NPM were 12.98% (1H16:12.79%), 6.71% (1H16:6.58%), and 3.89% (1H16: 3.81%).

Fresh pork recorded impressive growth in operating profit

The segment's revenue increased 6.1% YoY for 3Q16 but declined 4.15% YoY for 9M16. Value of meat cuts continued to grow at a significantly faster pace than the raw material costs; hence the segment's operating profit jumped 443.97% YoY for 3Q16 and 628.26% YoY for 9M16. OPM for the segment in 3Q16 was 6.05% (2Q16: 11.84%) and 6.33% for 9M16 (1H16: 6.48%).

Packaged meat was under pressure

9M16 sales volume was similar to 9M15. The 4% increase in ASP drove up the segmental revenue by 3.21% YoY for 3Q16 and 4.08% YoY for 9M16. 9M16 revenue grew at a slower pace than that in 1H16 (+4.51% YoY). The segment's operating profit was up 21.82% YoY for 3Q16 (2Q16 : +8.94% YoY) and 12.08% YoY for 9M16 (1H16: +8.94% YoY). The segment's OPM declined to 8.13% for 3Q16 (2Q16: 22.94%) and 10.16% for 9M16 (1H16: 11.17%).

Hog production segment performed better in 3Q16

Lower hog price was the major culprit behind the segment's revenue decline of 6.55% YoY for 3Q16 and 32.16% YoY for 9M16. However, the YoY decline has

narrowed from 2Q16's 43.52% and 1H16's 43.32%. The segment's operating profit decreased by 26.75% YoY for 3Q16 and 142.36% YoY for 9M16, whose declines also moderated from the ones in 2Q16 and 1H16. OPM of the segment was 16.35% for 3Q16 and -6.69% for 9M16 vs. -48.2% for 2Q16 and -23.24% for 1H16.

International business improved slightly

The segment benefited from higher volumes in key categories in Eastern Europe. Revenue growth increased from 1.08% YoY for 1H16 to 2.86% YoY for 9M16, and 3Q16 growth was ~6.2% YoY. The segment's operating profit increased by 83.66% YoY in 3Q16, lifting the 9M16 growth to 33.7% vs. 8.79% YoY for 1H16. OPM rose from 5.01% for 1H16 to 5.90% for 9M16.

Sound capital structure with sufficient liquidity

Net debt-to-EBITDA ratio was below 2x; debt-to-capital ratio was ~32%; global liquidity was US\$ 1.4bn by end of quarter. The Group maintained a strong liquidity even after spending 225mn in voluntary pension contribution and 376mn in dividend payment to parent company. While it does not expect further pension contribution in 2016, cash flow plan reflects a small dividend payment to WH Group in 4Q16. It expects a full-year dividend at ~US\$ 400mn. The early redemption of 2018 notes reduced future interest expenses by US\$ 23mn. Capex incurred to date was US\$ 274mn. Capital budgeting for 2016 was on target at US\$ 350mn against expected depreciation of US\$ 240mn. The strong balance sheet position enables the Group to pursue M&A opportunities in the value chain, according to the management.

Smithfield's success in breaking into the Chinese market

According to Shuanghui Development's management, Smithfield's packaged meat products have already penetrated 3,800 supermarkets and 5,000 convenient stores in China. The brand will find more channels to boost sales. According to a Nilson report on the June sales cited by the management, in the hyper market space, Shuanghui's meat product sales was ranked 1st while Smithfield's was ranked 3rd. We think Smithfield's performance has met expectation.

Outlook for WH Group

Share disposal brings downside pressure on share price

In the latest round of share disposal, CDH disposed 1bn shares at HK\$ 6.25 (FY16E/17E P/E: 11.37x/10.98x; FY16E/17E P/B: 1.93x/1.82x) to independent third parties. CDH's shareholding would decrease from 19.77% to 12.94%. Back in Aug, CDH also conducted disposal of shares in Aug at HK\$ 5.95. CDH raised the Group's valuation from HK\$ 87.1171bn in Aug to the latest HK\$ 91.5081bn. WH Group's total market cap was HK\$ 93.765bn as of closing on Nov 8, 2016, which would be roughly in line with the valuation in the latest disposal. We believe that the step-up in valuation and the short interval between disposals suggests that as long as the stock price of WH Group continues to rise, CDH would possibly continue to divest its interest in the Group at higher prices.

Still optimistic on WH Group's outlook

The 3Q16 results of Shuanghui Development met our expectation and turnaround in Smithfield improves prospect. Our forecasts remain largely unchanged. We expect growth in revenue, gross profit, operating profit and net profit to be 9.89% YoY, 10.25% YoY, 7.42% YoY, and 8.16% YoY for FY17E and 10.48% YoY, 12.51% YoY, 2.27% YoY, and 3.72% YoY for FY18E. GPM, OPM, and NPM (post-biological fair value adjustment) would be 19.42%, 8.29%, and 4.60% for FY17E and 19.78%, 7.68%, and 4.32% for FY18E.



Valuation for WH Group

Our projections remain largely intact after factoring in the 3Q business results. We maintain the **BUY** rating and TP of HK\$ 7.68, representing 13.97x/12.92x FY16E/17E P/E, and 2.37x/2.23x FY16E/17E P/B.

Exhibit 1: Shuanghui Development performance overview

Growth (YoY %)				Profitability (%)			
	1H16	3Q16	9M16		1H16	3Q16	9M16
Revenue	25.42	8.30	19.12	GPM	18.00	18.72	18.24
- Meat product	(1.68)	(0.44)	(1.25)	- Operating GPM	18.00	18.67	18.22
- Slaughtering	58.69	16.99	42.55	OPM	10.59	10.61	10.60
- Others	47.10	24.71	38.17	- Meat product	22.41	19.11	21.24
GP	5.01	(3.59)	1.89	- Slaughtering	0.99	1.95	1.30
OP	10.83	(5.51)	4.76	- Others	8.21	14.07	10.22
- Meat product	10.29	(15.44)	0.56	NPM	8.43	8.77	8.54
- Slaughtering	(51.73)	73.92	(25.67)				
NP	8.44	(0.96)	4.86				
EPS - basic	8.51	(0.93)	5.07				

Source(s): The Group, ABCI Securities

Exhibit 2: Smithfield performance overview

Growth (YoY %)				Profitability (%)			
	1H16	3Q16	9M16		1H16	3Q16	9M16
Revenue	(4.28)	3.89	(1.63)	GPM	12.79	13.35	12.98
- Fresh pork	(8.75)	6.11	(4.15)	OPM	6.58	6.96	6.71
- Packaged meats	4.51	3.21	4.08	- Fresh pork	6.48	6.05	6.33
- Hog production	(43.32)	(6.55)	(32.16)	- Packaged meats	11.17	8.13	10.16
- International	1.08	6.18	2.86	- Hog production	(23.24)	16.35	(6.69)
GP	5.43	22.73	10.94	- International	5.01	7.47	5.90
OP	19.48	60.25	31.34	NPM	3.81	4.06	3.89
- Fresh pork	771.82	443.97	628.26				
- Packaged meats	8.94	21.82	12.08				
- Hog production	(308.87)	(26.75)	(142.36)				
- International	8.79	83.66	33.70				
NP	28.63	72.63	41.51				

Source(s): The Group, ABCI Securities

Exhibit 3: Segment revenue performance and underlying assumptions – WH Group

(YoY %)	FY14A	FY15A	FY16E	FY17E	FY18E	1H15A	1H16A
Revenue growth							
Packaged meat	91.24	(5.39)	3.07	7.84	7.66	(4.99)	0.66
Fresh pork	106.12	(8.26)	4.50	12.61	13.46	(7.68)	9.93
Hog production	207.33	68.65	19.27	10.90	13.95	120.24	(41.54)
ASP growth							
Packaged meat	28.54	(4.08)	(0.01)	1.72	0.54	(3.21)	(1.39)
Fresh pork	(1.43)	(10.77)	2.60	6.81	4.10	(11.97)	0.08
Hog production	(5.12)	56.35	12.95	7.23	11.57	112.04	(0.42)
VOL growth							
Packaged meat	48.78	(1.36)	3.08	6.01	7.08	(1.84)	2.07
Fresh pork	109.11	2.82	1.85	5.43	8.98	4.88	1.72
Hog production	223.90	7.87	5.60	3.42	2.13	3.87	0.24

Source(s): The Group, ABCI Securities estimates

Appendix: Financial Statements of the Group

Consolidated income statement (2014A-2018E)

As of Dec 31 (USD mn, except per share data)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Revenue	22,243	21,209	22,191	24,386	26,943	10,205	10,453
- Packaged meat	11,880	11,240	11,585	12,493	13,451	5,307	5,342
- Fresh pork	9,364	8,591	8,977	10,109	11,469	4,171	4,585
- Hog production	587	990	1,181	1,310	1,492	544	318
- Others	412	388	449	474	530	183	208
COGS	(18,828)	(17,129)	(17,896)	(19,650)	(21,614)	(8,217)	(8,417)
Gross profit	3,415	4,080	4,296	4,736	5,328	1,988	2,036
Distribution and selling expenses	(1,662)	(1,783)	(1,835)	(2,043)	(2,254)	(829)	(854)
Admin expenses	(758)	(740)	(783)	(860)	(952)	(353)	(339)
Biological adjustment	727	(63)	186	160	(96)	(147)	135
Others	6	13	19	30	42	6	14
Operating profit	1,728	1,507	1,883	2,023	2,068	665	992
- Packaged meat	1,178	1,499	1,520	1,666	1,784	729	769
- Fresh pork	223	226	397	413	426	58	191
- Hog production	412	54	42	69	71	44	(42)
- Others	(199)	(222)	(76)	(126)	(213)	(102)	(80)
Net finance cost	(371)	(219)	(197)	(212)	(225)	(118)	(96)
Share of profits from JV and associates	63	14	32	35	42	7	17
Pretax profit	1,420	1,302	1,718	1,846	1,885	554	913
Tax	(448)	(307)	(403)	(424)	(429)	(154)	(261)
Net profit	972	995	1,316	1,422	1,457	400	652
- Profit attributable to shareholders	766	786	1,038	1,123	1,165	303	551
- Minority interest	206	209	278	299	307	97	101
EPS							
- Basic (US\$ cent)	6.44	5.75	7.09	7.66	7.95	2.22	4.03
- Diluted (US\$ cent)	6.11	5.50	7.02	7.59	7.88	2.12	3.85
DPS (HK\$ cent)	0	12.5	17.10	19.09	19.31	0.00	5.00

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2018E)

As of Dec 31 (USD mn, except per share data)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Cash and cash equivalent	978	1,137	1,016	1,105	873	843	515
Trade and bills receivable	845	725	902	895	1,085	793	791
Inventory	1,900	1,748	1,852	2,151	2,301	1,831	1,750
ST Biological assets	1,014	865	1,389	1,743	2,221	895	1,016
Others	637	738	886	1,010	1,020	608	897
Total current assets	5,374	5,213	6,044	6,903	7,499	4,970	4,969
PP&E	4,582	4,674	4,818	5,053	5,262	4,603	4,644
LT Biological assets	220	200	292	382	489	213	191
Goodwill	1,815	1,801	1,797	1,797	1,797	1,815	1,797
Intangible assets	1,746	1,715	1,684	1,653	1,622	1,739	1,703
Interest in JV and associates	539	185	199	214	231	188	182
Others	444	513	373	434	436	456	387
Total non-current assets	9,346	9,088	9,162	9,533	9,837	9,014	8,904
Total assets	14,720	14,301	15,207	16,436	17,336	13,984	13,873
Trade and bills payable	850	812	990	1,034	1,159	577	491
ST borrowings	719	606	1,614	1,741	1,837	902	1,412
Others	1,553	1,441	1,574	1,734	1,939	1,313	1,388
Total current liabilities	3,122	2,859	4,177	4,510	4,935	2,792	3,291
LT Borrowings	3,951	3,308	2,672	2,883	3,042	3,475	2,338
Others	1,597	1,431	1,256	1,528	1,405	1,371	1,351
Total non-current liabilities	5,548	4,739	3,927	4,411	4,447	4,846	3,689
Shareholders' equity	5,130	5,763	6,121	6,502	6,902	5,485	6,086
Minority interest	920	940	981	1,013	1,052	861	807
Total equity	6,050	6,703	7,102	7,515	7,954	6,346	6,893
Total liabilities and equity	14,720	14,301	15,207	16,436	17,336	13,984	13,873

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2018E)

FY ends at Dec 31 (USD mn)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16E
Pretax profit	1,420	1,302	1,718	1,846	1,885	554	913
Depreciation and amortization	359	391	377	474	520	192	190
Change in working capital	227	191	(542)	(426)	(569)	(243)	(619)
Others	(446)	(271)	(387)	(427)	(415)	(197)	(130)
Cash flow from operating activities	1,560	1,613	1,166	1,467	1,421	306	354
Capex	(952)	(629)	(863)	(684)	(775)	(236)	(208)
Others	231	115	444	216	347	240	(141)
Cash flow from investing activities	(721)	(514)	(419)	(468)	(428)	4	(349)
Change in borrowings	(2,751)	(744)	(371)	(340)	(254)	(286)	(194)
Others	2,099	(157)	(200)	(242)	(236)	(162)	(456)
Cash flow from financing activities	(652)	(901)	(571)	(581)	(490)	(448)	(650)
Net change in cash	187	198	176	417	503	(138)	(645)
Cash at the beginning	799	958	1,125	1,301	1,675	958	1125
ForEx effect	(28)	(31)	(0)	(43)	(44)	(1)	(15)
Cash at the end of FY	958	1,125	1,301	1,675	2,135	819	465

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2012A-2018E)

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E	1H15A	1H16E
Growth (YoY %)							
Total revenue	97.66	(4.65)	4.63	9.89	10.48	(3.18)	2.43
- Packaged meat	91.24	(5.39)	3.07	7.84	7.66	(4.99)	0.66
- Fresh pork	106.12	(8.26)	4.50	12.61	13.46	(7.68)	9.93
- Hog production	207.33	68.65	19.27	10.90	13.95	120.24	(41.54)
Gross profit	92.61	19.47	5.29	10.25	12.51	20.70	2.41
Operating profit	519.35	(12.79)	24.94	7.42	2.27	(40.31)	49.17
Net profit	(391.25)	2.61	32.08	8.16	3.72	(11.40)	81.85
Profitability ratios (post-bio adj) (%)							
GPM	15.35	19.24	19.36	19.42	19.78	19.48	19.48
OPM	7.77	7.11	8.48	8.29	7.68	6.52	9.49
- Packaged meat	9.92	13.34	13.12	13.34	13.27	13.74	14.40
- Fresh pork	2.38	2.63	4.42	4.09	3.71	1.39	4.17
- Hog production	70.19	5.45	3.55	5.28	4.76	8.09	(13.21)
EBITDA margin	9.70	9.04	8.48	8.29	7.68	10.50	9.12
NPM	3.44	3.71	4.68	4.60	4.32	3.92	6.24
Revenue contribution (%)							
- Packaged meat	53.41	53.00	52.20	51.23	49.92	52.00	51.10
- Fresh pork	42.10	40.51	40.45	41.45	42.57	40.87	43.86
- Hog production	2.64	4.67	5.32	5.37	5.54	5.33	3.04
- Others	1.85	1.83	2.02	1.94	1.97	1.79	1.99
Return ratios (%)							
ROAA	5.31	5.42	7.04	7.10	6.90	2.12	3.96
ROAE	20.69	14.43	17.47	17.79	17.38	5.71	9.30
ROIC	7.49	7.66	9.81	9.89	9.64	2.90	5.22
Liquidity ratio (x)							
Current ratio	1.72	1.82	1.45	1.53	1.52	1.78	1.51
Quick ratio	0.79	0.91	0.67	0.67	0.60	0.80	0.67
Cash ratio	0.32	0.40	0.25	0.25	0.18	0.31	0.16
Cash conversion cycle (days)							
Days of outstanding receivable	13.96	13.43	13.28	13.35	13.32	14.57	13.11
Days of inventory on hand	37.29	39.01	37.07	37.46	37.43	41.22	37.98
Days of outstanding payable	16.41	17.87	18.27	18.52	18.39	16.46	14.26
CCC	34.85	34.58	32.08	32.29	32.36	39.33	36.83
Leverage ratios (%)							
Total debt/Equity	91.03	67.92	60.34	61.54	61.34	79.80	61.62
Total debt/Total assets	31.73	27.37	28.18	28.14	28.14	31.30	27.19

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Hongxing(Paul) PAN, 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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