



Aug 17, 2016  
Company Report  
Rating: BUY  
TP: HK\$ 4.30

H-Share price (HK\$) 3.00  
Est. share price return 43.3%  
Est. dividend yield 2.1%  
Est. total return 45.5%

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**Key Data**

Market share (HK\$mn)	29,184
H-shares (HK\$mn)	11,823
3-mth avg. daily turnover (HK\$ mn)	67
52-week high/low (HK\$)	3.19/1.39
Issued shares (mn)	9,728
H-shares (mn)	4,193
Major shareholder(s) (%): Huaneng Group	54.0

Source(s): Company, Bloomberg, ABCI Securities

**1H16 Revenue breakdown (%)**

Wind power	91.9
Solar power	7.1
Other	1.0

Source(s): Company, ABCI Securities

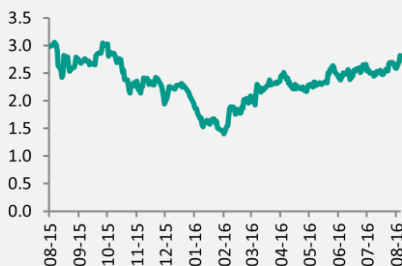
**Share performance (%)**

	Absolute	Relative*
1-mth	20.00%	15.43%
3-mth	31.69%	15.93%
6-mth	72.91%	52.43%

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance**



Source(s): Bloomberg, ABCI Securities

# Huaneng Renewables (958 HK)

## 1H16 results beat estimates; reiterate BUY

- Net income was up 59% YoY to RMB1.8bn, equivalent to 75% of Bloomberg's full-year consensus. The result is better than expected
- Wind power capacity was up 19% YoY to 10GW; wind power generation rose 31% YoY to 9,858GWh
- HNR's strong capacity growth with improved utilization hour should drive up net income by 42%/18% YoY in 2016E/17E. Reiterate **BUY**

**1H16 net income beat market estimates.** Huaneng Renewables (HNR) announced its 1H16 results on Aug 12. Net income was RMB 1,807mn (+59% YoY), 3% higher than the Bloomberg consensus, reaching 75%/90% of Bloomberg and our full-year estimates. Overall, the result is better than expected.

**Strong wind capacity growth of 19%YoY was the key driver.** Installed wind power capacity grew by a robust 19% YoY in 1H16, partly due to HNR's relatively small capacity size (~61% of Longyuan's [916 HK, BUY] as of 1H16 ).

**Utilization hour up by 2%- a positive surprise.** HNR's wind power utilization hour was 1,094 (+2%YoY), slightly higher than Longyuan's 980hr. This was due to 1) HNR conducted more electricity direct sales in the "3-North" regions (Inner Mongolia, northeast and northwest China); 2).its wind power assets in the "3-North" regions are located in areas where power curtailment is lower.

**HNR's total capacity is likely to increase by 15% CAGR in 2015-20E.** Under the government's new policy approved in the National People's Congress, non-hydro renewable energy (e.g. wind and solar) in each IPP is required to account for no less than 9% of total power generation by end-2020. HNR, as the key renewable energy arm of Huaneng Group (China's largest IPP) that controls 67% of renewable energy capacity in the latter, the new policy implies HNR would need to boost its total capacity (wind and solar) from the current 10GW by end-2015 to no less than 20GW by end-2020, implying a 15% CAGR in 2015-20E.

**Strong 42%/18%YoY net income growth in 2016E/17E.** HNR's 1H16 net income represented 75% of Bloomberg's full-year consensus. HNR's 1H net income usually contribute to 60% of its full-year total. Thus, we believe the 30% YoY growth expected for FY16E net income is too low. Assuming a robust capacity growth of 13% YoY and a 6% YoY increment in utilization hour in 2016E, we expect HNR's net income to go up by 42%YoY, to be followed by an 18% YoY growth in 2017E.

**TP at HK\$4.30; reiterate BUY.** HNR's 1H16 results exceed our estimates due to its higher-than-expected utilization hour. We revise up our utilization assumption and adjust other operational assumptions accordingly. We roll over our valuation basis from 2016 to 2017 and our DCF-derived TP arrives at HK\$4.30 (previously at HK\$3.50), implying 14x/11x 2016E/17E P/E and 1.8x/1.6x 2016E/17E P/B. We believe HNR would achieve a 25% EPS CAGR in 2015-18E. Our TP is equivalent to 2017E PEG of 0.4, which we deem as attractive. Reiterate **BUY**.

**Risk factors:** (1) Power curtailment risk; (2) Wind resources risk; (3) Tariff risk; (4) Construction risks; (5) Fundraising activities to finance upcoming projects.

**Results and Valuation**

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	6,151	7,357	9,317	10,660	11,996
Chg (% YoY)	4.1	19.6	26.6	14.4	12.5
Net Income (RMB mn)	1,121	1,860	2,646	3,119	3,640
Chg (% YoY)	22.8	65.9	42.3	17.9	16.7
EPS (RMB)	0.124	0.191	0.272	0.321	0.374
Chg (% YoY)	16.2	54.3	42.3	17.9	16.7
BVPS (RMB)	1.780	1.830	2.050	2.306	2.606
Chg (% YoY)	8.6	2.8	12.0	12.5	13.0
P/E (x)	19.46	12.61	8.86	7.52	6.44
P/B (x)	1.35	1.32	1.18	1.05	0.93
ROE (%)	6.96	10.45	13.28	13.91	14.36
ROA (%)	1.51	2.25	2.95	3.14	3.37
DPS (RMB)	0.022	0.030	0.054	0.064	0.075
Dividend yield (%)	0.89	1.24	2.26	2.66	3.11
Net gearing* (%)	225.8	252.1	255.0	241.6	228.0

Source(s): Company data, ABCI Securities estimates

\* Total debt minus total cash on hand divided by Shareholders equity



## 1H16 results highlight

**1H16 net income beat market estimates.** Huaneng Renewables (HNR) announced its 1H16 results on Aug 12. Net income was RMB 1,807mn (+59% YoY), 3% higher than the Bloomberg consensus, representing 75%/90% of the Bloomberg estimate and our full-year estimate. Overall, the results are better than expected.

**Robust capacity growth of 19% YoY was the key net income driver.** Installed wind power capacity expanded by 19% YoY in 1H16, thanks to HNR's relatively small capacity size (~61% to Longyuan [916 HK, BUY] as of 1H16).

**Utilization hour increased by 2% YoY on higher electricity direct sales.** HNR's wind power utilization hour was 1,094 (+2% YoY), slightly higher than Longyuan's 980hr. This was due to 1) HNR increased its electricity direct sales in "3-North" regions (Inner Mongolia, northeast and northwest China); 2).its wind power assets in the "3-North" regions are located in areas where power curtailment is lower.

**Net gearing ratio should continue to exceed 200%.** Net gearing ratio improved from 252% in 2015 to 243% in 1H16 as increased utilization hour boost cash inflow. Since HNR will continue to expand its capacity, net gearing ratio would stay high at above 200%. This may necessitate fundraising activities in the near future.

Results summary		1H15	1H16	YoY
<b>Income Statement</b>				
Revenue	RMBmn	3,923	4,914	25%
Op. profit	RMBmn	2,349	2,977	27%
Net income	RMBmn	1,134	1,807	59%
Basic EPS	RMB	0.12	0.19	59%
<b>Ratios</b>				
Op. margin	%	59.9%	60.6%	1ppt
Net margin	%	28.9%	36.8%	8ppt
Net gearing/(Net cash)	%	232%	243%	11ppt
<b>Wind power op. data</b>				
Installed capacity	MW	8,423	10,020	19%
Gross generation	GWh	7,512	9,858	31%
Utilization hour	Hours	1,069	1,094	2%
<b>Solar power op. data</b>				
Installed capacity	MW	585	815	39%
Gross generation	GWh	380	479	26%
Utilization hour	Hours	755	805	7%

Source(s): Company data

## 2017 outlook

**Robust wind capacity growth of 13%/13%YoY in 2016E/17E.** HNR added 0.3GW of new wind capacity in 1H16 and management is confident in adding another 1GW in 2H16. This would translate into a 13% YoY capacity growth for 2016. In addition, management plans to allocate RMB 10bn each year for capacity expansion and targets to build 1.4GW of new wind capacity each year going forward. Hence, HNR's capacity would expand by 13%YoY in 2017E.

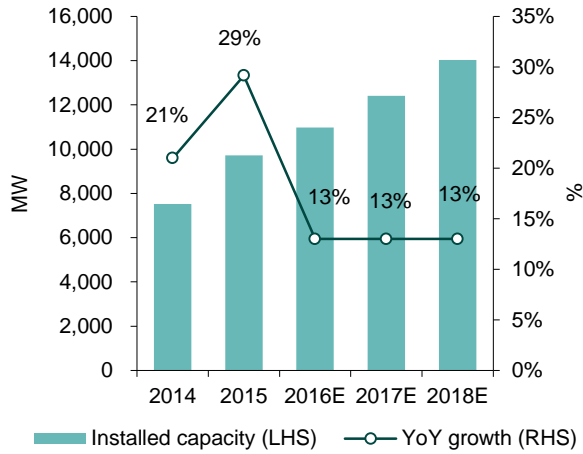
**Utilization hour in 2016E/17E would be similar to the recent high level of 2,000.** HNR's utilization hour was 1,094 in 1H16, the highest among wind power operators we follow, driven by increased electricity direct sales and its wind power assets located in regions with less power curtailment in the "3-North" regions. With its impressive 1H16 results, we believe HNR's full-year utilization hour would reach its 3-year high at 1,987. We expect utilization hour in 2017E would stay at a similar level.

**All-in unit capacity cost for wind power declined to RMB 7/W.** Based on our calculation, HNR's all-in unit capacity cost (construction + others) of wind power decreased from RMB 8/W in 2015 to RMB 7/W in 1H16. The declining unit cost was driven by technology advancement and improving cost management. A lower unit cost should help HNR expand its capacity with less capex, which would in turn enable the Group to acquire better wind energy assets to secure future growth.

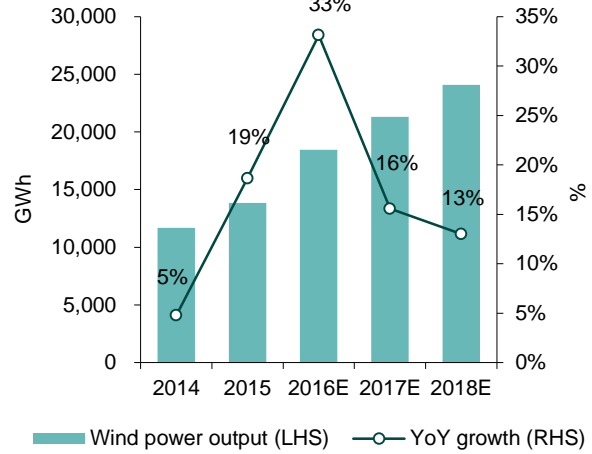
**Strong net income growth of 42%/18%YoY in 2016E/17E can be expected.** HNR's 1H16 net income represented 75% of Bloomberg's full-year consensus. HNR's 1H net income usually contribute 60% of its full-year total. Thus, we believe the 30% YoY growth expected for FY16E net income is too low. Assuming a robust capacity growth of 13% YoY and a 6% YoY increment in utilization hour in 2016E, we expect HNR's net income to go up by 42% YoY, to be followed by an 18% YoY growth in 2017E.

**HNR's total capacity is likely to increase by 15% CAGR in 2015-20E.** Under the government's new policy approved in the National People's Congress in Mar 2016, non-hydro renewable energy (e.g. wind and solar) in each IPP will need to account for no less than 9% of total power generation by end-2020. HNR, as the key renewable energy arm of Huaneng Group (China's largest IPP) that controls 67% of renewable energy capacity in the latter, the new policy implies HNR would need to boost its total capacity (wind and solar) from the current 10GW by end-2015 to no less than 20GW by end-2020, implying a 15% CAGR in 2015-20E.

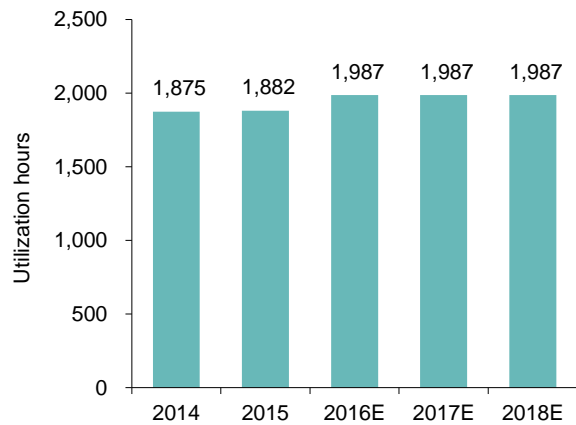
In April 2016, National Energy Administration announced a new policy stating that all coal-fire IPP groups (e.g. Huaneng, Datang, Huadian etc.) should further increase the proportion of renewable energy in the overall power generation from 9% to 15% by end-2020. Assuming that the mix of renewable energy increases to 15%, HNR would need to boost its capacity from 10GW by end-2015 to no less than 34GW by end-2020, representing a 27% CAGR in capacity over 2015-20E.

**Exhibit 1: HNR's capacity growth will remain robust**


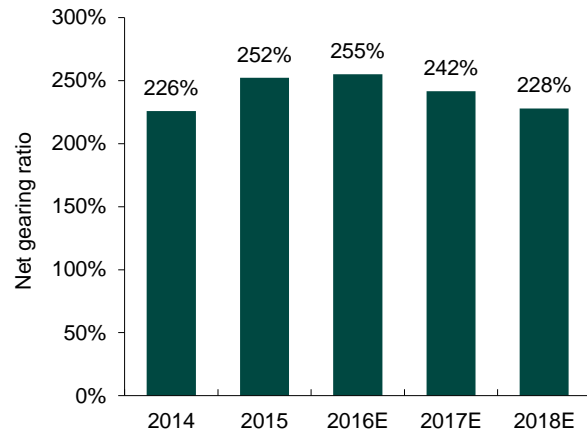
Source(s): Company data, ABCI Securities estimates

**Exhibit 2: HNR's wind power generation will grow strongly**


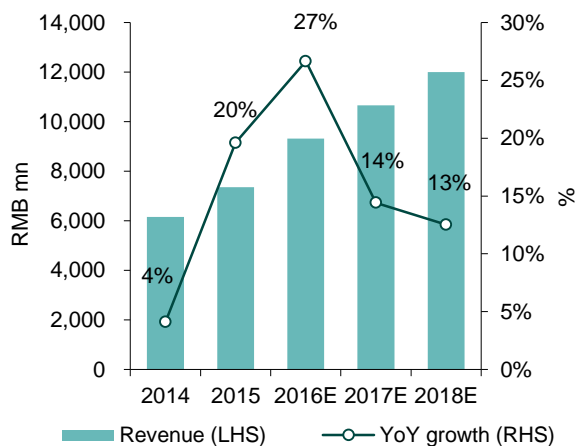
Source(s): Company data, ABCI Securities estimates

**Exhibit 3: HNR's utilization hour**


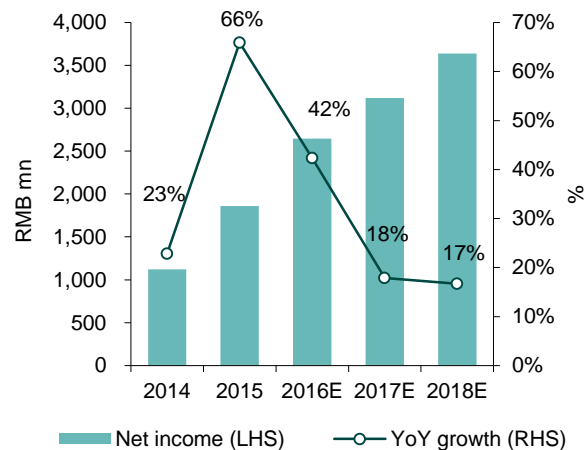
Source(s): Company data, ABCI Securities estimates

**Exhibit 4: HNR's net gearing ratio would stay high**


Source(s): Company data, ABCI Securities estimates

**Exhibit 5: HNR's revenue outlook**


Source(s): Company data, ABCI Securities estimates

**Exhibit 6: HNR's net income outlook**


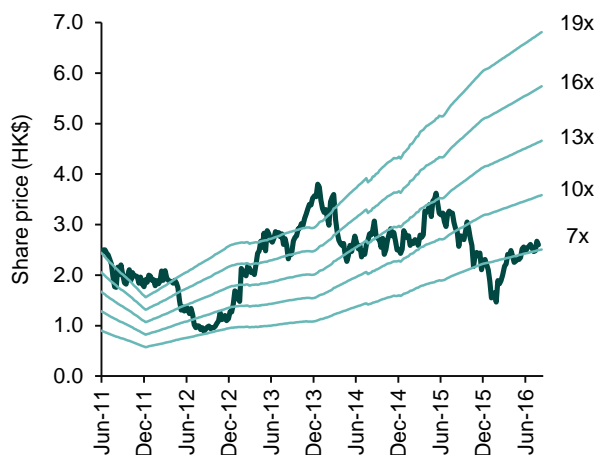
Source(s): Company data, ABCI Securities estimates

## Valuation

**TP at HK\$ 4.30; reiterate BUY.** HNR's 1H16 results are better than expected due to its higher utilization hour. We revise up our utilization assumption and adjust other operation assumptions accordingly. We expect HNR to deliver an net income growth 42%/18%YoY in 2016/17E. We roll over our valuation basis from 2016 to 2017 and our DCF-derived TP is HK\$ 4.30 (previously at HK\$3.50), implying 14x/11x 2016E/17E P/E and 1.8x/1.6x 2016E/17E P/B.。

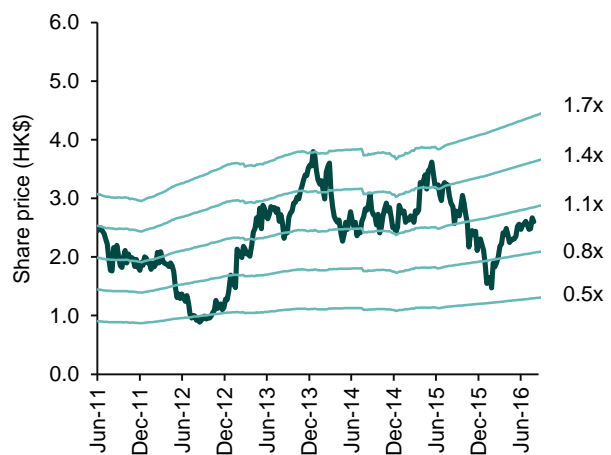
We believe HNR would achieve a 25% EPS CAGR in 2015-18E. Our TP is equivalent to 2017E PEG of 0.4, which we deem as attractive. To reiterate, we favor HNR based on 1) its capacity growth driven by policy demand; 2) improved utilization hour; 3) low unit capacity cost (at a similar level with the market leader Longyuan) that should allow the Group to achieve robust net income growth. HNR remains our top pick in China's wind power sector. Maintain **BUY**.

Exhibit 7: HNR's fwd P/E



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 8: HNR's fwd P/B



Source(s): Bloomberg, ABCI Securities estimates



**Consolidated income statement (2014A-2018E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Revenue</b>	<b>6,151</b>	<b>7,357</b>	<b>9,317</b>	<b>10,660</b>	<b>11,996</b>
Wind power	5,728	6,730	8,552	9,686	10,727
Solar power	386	604	762	971	1,266
Other	37	23	3	3	3
<b>COGS</b>	<b>-2,650</b>	<b>-3,214</b>	<b>-4,015</b>	<b>-4,531</b>	<b>-5,048</b>
<b>Gross profit</b>	<b>3,501</b>	<b>4,143</b>	<b>5,302</b>	<b>6,129</b>	<b>6,948</b>
SG&A	-187	-189	-186	-213	-240
Net financial income (cost)	-2,112	-2,073	-2,133	-2,374	-2,555
Other income and gains	30	160	-80	-120	-160
<b>Pre-tax profit</b>	<b>1,232</b>	<b>2,041</b>	<b>2,904</b>	<b>3,422</b>	<b>3,993</b>
Income tax	-86	-141	-203	-240	-280
<b>Net profit</b>	<b>1,147</b>	<b>1,899</b>	<b>2,700</b>	<b>3,183</b>	<b>3,714</b>
Profit attributable to:					
Minority interests	-26	-40	-54	-64	-74
<b>Equity shareholders of the Company</b>	<b>1,121</b>	<b>1,860</b>	<b>2,646</b>	<b>3,119</b>	<b>3,640</b>
<b>Basic EPS (RMB)</b>	<b>0.124</b>	<b>0.191</b>	<b>0.272</b>	<b>0.321</b>	<b>0.374</b>
<b>DPS (RMB)</b>	<b>0.022</b>	<b>0.030</b>	<b>0.054</b>	<b>0.064</b>	<b>0.075</b>

Source(s): Company data, ABCI Securities estimates

**Consolidated balance sheet (2014A-2018E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Current assets</b>	<b>11,141</b>	<b>7,652</b>	<b>8,090</b>	<b>9,942</b>	<b>10,980</b>
Cash and equivalent	7,786	4,504	3,463	4,648	5,023
Pledged and restricted bank deposits	2	27	0	0	0
Trade and bill receivables	3,160	2,900	4,339	4,965	5,587
Other receivables and prepayments	176	122	255	292	329
Inventories	13	43	33	37	41
Other current assets	4	56	0	0	0
<b>Non-current assets</b>	<b>62,997</b>	<b>74,901</b>	<b>81,499</b>	<b>89,436</b>	<b>97,029</b>
Property, plant and equipment	57,873	68,658	75,499	83,057	90,216
Lease prepayment	0	0	0	0	0
Intangible assets	696	682	674	666	659
Investment in JV and associates	112	109	79	79	79
Other receivables and deposits	5	4	4	4	4
Other non-current assets	4,310	5,448	5,243	5,631	6,071
<b>Total assets</b>	<b>74,138</b>	<b>82,553</b>	<b>89,589</b>	<b>99,378</b>	<b>108,008</b>
<b>Current liabilities</b>	<b>25,741</b>	<b>28,533</b>	<b>30,714</b>	<b>34,381</b>	<b>36,814</b>
Trade and bill payables	0	0	0	0	0
Other payables	8,001	9,311	8,997	10,845	11,695
Short term borrowings	17,306	18,727	21,717	23,535	25,118
Other current liabilities	434	496	0	0	0
<b>Non-current liabilities</b>	<b>31,512</b>	<b>35,395</b>	<b>38,060</b>	<b>41,624</b>	<b>44,835</b>
Deferred tax liabilities	19	20	20	20	20
Long-term borrowings	26,842	30,677	32,575	35,303	37,678
Other non-current liabilities	4,651	4,698	5,465	6,301	7,137
<b>Total liabilities</b>	<b>57,253</b>	<b>63,928</b>	<b>68,774</b>	<b>76,004</b>	<b>81,648</b>
<b>Minority interests</b>	<b>784</b>	<b>827</b>	<b>881</b>	<b>944</b>	<b>1,019</b>
<b>Shareholders' equities</b>	<b>16,101</b>	<b>17,798</b>	<b>19,934</b>	<b>22,430</b>	<b>25,341</b>

Source(s): Company data, ABCI Securities estimates



**Consolidated cash flow statement (2014A-2018E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Profit before tax</b>	<b>1,147</b>	<b>1,899</b>	<b>2,700</b>	<b>3,183</b>	<b>3,714</b>
Change in depreciation and amortization	2,254	2,720	3,435	3,869	4,304
Change in working capital	689	967	-1,835	1,245	255
Net financial cost (income)	2,088	2,197	2,133	2,374	2,555
Income tax paid	-77	-126	-203	-240	-280
Net interest received	86	141	0	0	0
Others	-62	-116	0	0	0
<b>CF Operating</b>	<b>6,125</b>	<b>7,682</b>	<b>6,230</b>	<b>10,431</b>	<b>10,548</b>
Capex	-13,394	-12,644	-10,246	-11,395	-11,431
Increase in intangible assets	0	0	-22	-23	-24
Others	433	130	91	69	93
<b>CF Investing</b>	<b>-12,961</b>	<b>-12,514</b>	<b>-10,177</b>	<b>-11,349</b>	<b>-11,363</b>
Net Capital raise	1,358	0	0	0	0
Net debt financing	10,489	5,285	4,888	4,546	3,958
Dividend payout	-213	-214	-529	-624	-728
Interest paid	-2,228	-2,440	-2,242	-2,223	-2,443
Others	-517	-853	790	405	402
<b>CF Financing</b>	<b>8,889</b>	<b>1,778</b>	<b>2,906</b>	<b>2,103</b>	<b>1,189</b>
<b>Net change in cash</b>	<b>2,053</b>	<b>-3,054</b>	<b>-1,041</b>	<b>1,185</b>	<b>375</b>
Cash at the beginning	4,322	6,385	4,504	3,463	4,648
Adjustment (Time deposit & FX effect)	1,412	1,173	0	0	0
<b>Cash at the end</b>	<b>7,786</b>	<b>4,504</b>	<b>3,463</b>	<b>4,648</b>	<b>5,023</b>

Source(s): Company data, ABCI Securities estimates

**Key Ratio (2014A-2018E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Sales mixed (%)</b>					
Wind power	93.12	91.48	91.79	90.86	89.42
Solar power	6.28	8.21	8.18	9.11	10.56
Other	0.60	0.31	0.03	0.03	0.02
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	56.92	56.31	56.91	57.50	57.92
Operating profit margin	54.39	55.95	54.06	54.37	54.59
Pre-tax margin	20.04	27.74	31.17	32.10	33.29
Net profit margin	18.64	25.82	28.98	29.86	30.96
Selling & administrative expenses/revenue	3.04	2.57	2.00	2.00	2.00
Effective tax rate	6.95	6.93	7.00	7.00	7.00
<b>Growth (%)</b>					
Revenue	4.10	19.60	26.64	14.42	12.53
Gross profit	6.50	18.33	27.99	15.60	13.36
Operating profit	19.80	23.03	22.35	15.09	12.97
Net profit	21.69	65.61	42.19	17.86	16.68
<b>Balance sheet ratios</b>					
Current ratio (x)	0.43	0.27	0.26	0.29	0.30
Quick ratio (x)	0.43	0.26	0.25	0.28	0.29
Cash ratio (x)	0.30	0.16	0.11	0.14	0.14
Trade and bill receivables days	187.53	143.88	170.00	170.00	170.00
Trade and bill payables turnover days	0.00	0.00	0.00	0.00	0.00
Inventory turnover days	1.81	4.88	3.00	3.00	3.00
Total debt / equity ratio (%)	274.19	277.59	272.36	262.32	247.80
Net debt / equity ratio (%)	225.82	252.13	254.99	241.60	227.98
<b>Returns (%)</b>					
ROAA	1.7	2.4	3.1	3.3	3.5
ROAE	7.4	11.0	14.0	14.7	15.2
Payout ratio	17.36	15.69	20.00	20.00	20.00

Source(s): Company data, ABCI Securities estimates



## Disclosures

### Analyst Certification

I, Ng King Chuen, Kelvin, 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.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

### 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 from 2010-2014

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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