



Minsheng Bank (1988 HK / 600016 CH)

Lack of fundamental catalyst

- Relatively weak fundamentals compared to industry average
- Aside from challenging operation environment, low balance sheet growth slows topline recovery
- Marginal improvement in NPL ratio but risk buffer limits earnings support
- Maintain **HOLD**. Our GGM-based H/A-shr TPs imply 0.21x/0.31x 24E P/B

Fundamental outlook stays sluggish. Fundamental remains weak in 1Q24 compared to major listed peers. Topline and net profit dropped 6.8% and 5.63% YoY in 1Q24. On the other hand total assets and total liabilities grew by a mere 0.68% and 0.54% QoQ as of Mar 2024. We believe a slow balance sheet growth will limit MSB's ability to achieve a meaningful fundamental turnaround in coming quarters, especially given the sector-wide NIM pressure and slow net fee income recovery. As specified in Exhibit 2&3, MSB underperformed in most major performance indicators such as profitability, capital position and risk buffer, when compared with the industry average and JSB average according to NAFR data. Except that its NPL ratio, as of Dec 2023, was 11bps lower than the industry average and its earnings growth in 2023 was 5.24ppt higher than JSB average. In our opinion, only meaningful improvement in fundamentals will rebuild investor confidence in the bank.

Topline to recover slowly. We lower our FY24E/25E NII and net fee income by 4.91%/5.67% and 21.27%/29.61% mainly due to lethargic growth in balance sheet and slow recovery in net fee income. In our base case scenario, we anticipate MSB's total assets and total liabilities CAGR to be 5.8% and 6.0% over FY23-26E. We estimate the bank's NIM to narrow 6bps-14bps YoY each in FY24E-26E, reaching 1.18% by FY26E. NII may resume positive growth in FY25E. On net fee income front, reduction in agency fee rate in 3Q23 will hinder momentum, while recovery in capital market and retail consumption demand will be crucial. Our base case suggests MSB's net fee income to turn positive in FY26E at the earliest. By lowering MSB's FY24E/25E topline by 2.16%/3.53%, we project a FY23-26E CAGR of 0.6%.

Results and Valuation

| FY ended Dec 31 | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------|---------|---------|---------|---------|---------|
| Revenue (RMB mn) | 139,219 | 137,391 | 136,228 | 137,471 | 140,086 |
| Chg (% YoY) | (15.9) | (1.3) | (0.8) | 0.9 | 1.9 |
| Net profit* (RMB mn) | 35,269 | 35,823 | 35,085 | 35,487 | 36,533 |
| Chg (% YoY) | 2.6 | 1.6 | (2.1) | 1.1 | 2.9 |
| EPS (RMB) | 0.71 | 0.72 | 0.70 | 0.71 | 0.74 |
| Chg (% YoY) | 0.4 | 1.1 | (2.3) | 1.3 | 3.4 |
| BVPS (RMB) | 11.53 | 12.10 | 12.55 | 13.02 | 13.50 |
| Chg (% YoY) | 4.3 | 4.9 | 3.8 | 3.7 | 3.7 |
| P/E (x) – H-shr | 3.64 | 3.60 | 3.69 | 3.64 | 3.52 |
| P/B (x) – H-shr | 0.22 | 0.21 | 0.21 | 0.20 | 0.19 |
| P/E (x) – A-shr | 5.55 | 5.49 | 5.62 | 5.55 | 5.37 |
| P/B (x) – A-shr | 0.34 | 0.33 | 0.31 | 0.30 | 0.29 |
| ROAA (%) | 0.50 | 0.48 | 0.44 | 0.43 | 0.41 |
| ROAE (%) | 6.31 | 6.10 | 5.83 | 5.72 | 5.71 |
| DPS(RMB) | 0.214 | 0.216 | 0.240 | 0.243 | 0.250 |
| Yield (%) H-shr | 8.25 | 8.33 | 9.27 | 9.38 | 9.66 |
| Yield (%) A-shr | 5.42 | 5.47 | 6.09 | 6.16 | 6.34 |

Note: HKD/CNY=1.08

*Net profit refers to Net profit attributable to equity holders of the Company in this report unless otherwise stated

Source(s): Company, Bloomberg, ABCI Securities estimates

Company Report

May 3, 2024

Rating (H): HOLD

Rating (A): HOLD

TP (H): HK\$ 2.68

TP (A): RMB 3.76

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| | |
|-----------------------------------|----------------------------------|
| Price (H/A shr) | HK\$ 2.80/ RMB 3.95 |
| Est. share price return (H/A shr) | -4.29%/ -4.81% |
| Est. dividend yield (H/A shr) | 9.27%/6.09% |
| Est. total return (H/A shr) | 4.98%/ 1.28% |
| Last Rating & TP (H/A shr) | HOLD, HK\$2.49 /HOLD, RMB3.38 |
| Previous Report Date | 4 Sep, 2023 |

Source(s): Bloomberg, ABCI Securities estimates

Key Data

| | |
|--|-----------|
| 52Wk H/L (HK\$) (H shr) | 3.52/2.43 |
| 52Wk H/L (RMB) (A shr) | 4.52/3.58 |
| Total issued shares (mn) | 43,782.4 |
| Issued H shr (mn) | 8,320.3 |
| Issued A shr (mn) | 35,462.1 |
| Market cap (HK\$ mn) | 174,578.1 |
| H-shr market cap (HK\$ mn) | 23,296.8 |
| A-shr market cap (HK\$ mn) | 151,281.3 |
| 3-mth avg daily turnover (HK\$ mn) (H shr) | 36.6 |
| 3-mth avg daily turnover (RMB mn) (A shr) | 420.1 |
| Major shareholder(s) (%): | |
| Dajia Life Insurance | 17.84 |
| New Hope | 4.18 |
| China Oceanwide | 4.12 |

Source(s): Bloomberg, ABCI Securities



Exhibit 1: Key financial performance in 1Q24

| (RMB mn) | 1Q23 | 1Q24 | change (%) |
|---|----------|----------|--------------|
| Net interest income | 25,369 | 24,262 | (4.36) |
| Net fee and commission | 5,935 | 5,129 | (13.58) |
| Operating income | 36,773 | 34,273 | (6.80) |
| Operating expenses | (11,277) | (11,300) | 0.20 |
| Impairment losses | (9,331) | (7,737) | (17.08) |
| Profit before tax | 16,039 | 15,253 | (4.90) |
| Net profit attributable to equity holders | 14,232 | 13,431 | (5.63) |
| | | | |
| Key indicators (%) | 1Q23 | 1Q24 | change (ppt) |
| Net interest margin | 1.49 | 1.38 | (0.11) |
| Cost to income ratio | 26.95 | 29.32 | 2.37 |
| ROAA | 0.77 | 0.70 | (0.07) |
| ROAE | 11.10 | 10.01 | (1.09) |
| | | | |
| | Dec-23 | Mar-24 | |
| CT1 CAR | 9.28 | 9.35 | 0.07 |
| Total CAR | 13.14 | 12.38 | (0.76) |
| NPL ratio | 1.48 | 1.44 | (0.04) |
| Provision to total loans | 2.22 | 2.16 | (0.06) |
| Provision coverage ratio | 149.69 | 149.36 | (0.33) |

Source(s): Company, ABCI Securities

Exhibit 2: MSB's key performance indicators vs. industry average (%)

| | MSB (2023) | Industry average (4Q23) | Diff |
|----------------------------|------------|-------------------------|--------|
| Net interest margin | 1.46 | 1.69 | -0.23 |
| Cost to income ratio | 37.00 | 35.26 | 1.74 |
| Return on average assets | 0.48 | 0.70 | -0.22 |
| Return on average equity | 6.10 | 8.93 | -2.83 |
| CT1 CAR | 9.28 | 10.54 | -1.26 |
| Total CAR | 13.14 | 15.06 | -1.92 |
| NPL ratio | 1.48 | 1.59 | -0.11 |
| Provision to total loans | 2.22 | 3.27 | -1.05 |
| Provision coverage ratio | 149.69 | 205.14 | -55.45 |
| Total assets growth | 5.78 | 9.90 | -4.12 |
| Total liabilities growth | 5.94 | 10.10 | -4.16 |
| Earnings growth YoY (2023) | 1.57 | 3.23 | -1.66 |

Note: Green/red represents better/worse than average

Source(s): Company, NAFR, ABCI Securities

Exhibit 3: MSB's key performance indicators vs. JSBs average (%)

| | MSB (2023) | JSBs average (4Q23) | Diff |
|----------------------------|------------|---------------------|--------|
| Net interest margin | 1.46 | 1.76 | -0.30 |
| Return on average assets | 0.48 | 0.71 | -0.23 |
| Total CAR | 13.14 | 13.43 | -0.29 |
| NPL ratio | 1.48 | 1.26 | 0.22 |
| Provision to total loans | 2.22 | 2.76 | -0.54 |
| Provision coverage ratio | 149.69 | 219.07 | -69.38 |
| Earnings growth YoY (2023) | 1.57 | -3.67 | 5.24 |

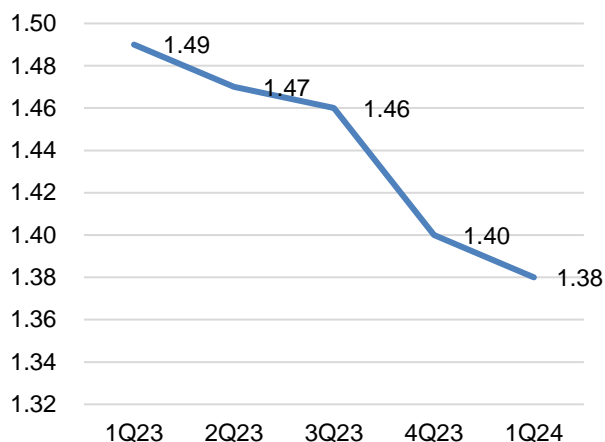
Note: Green/red represents better/worse than average

Source(s): Company, NAFR, ABCI Securities

Lower risk buffer limits earnings support. In our opinion, MSB's low risk buffers will limit its flexibility to support earnings. As of Mar 2024, MSB's provisioning ratio and provision coverage ratio were reported at 2.16% and 149.36%, down 6bps and 33bps QoQ, much lower than the JSB average of 2.76% and 219.07%, according to the NAFR statistics. MSB's NPL was down 4bps QoQ to 1.44% as of Mar-24. In view of this, we estimate FY23-26E provision expenses CAGR to be -3.2%. With MSB's business strength in private enterprises and MSEs, however, we assume its asset quality to be less stable than peers. Our base case estimates MSB's NPL ratio at 1.30% by end-FY26E, with provisioning ratio and provision coverage ratio approaching to 2.00% and 153.85% by end-FY26E.

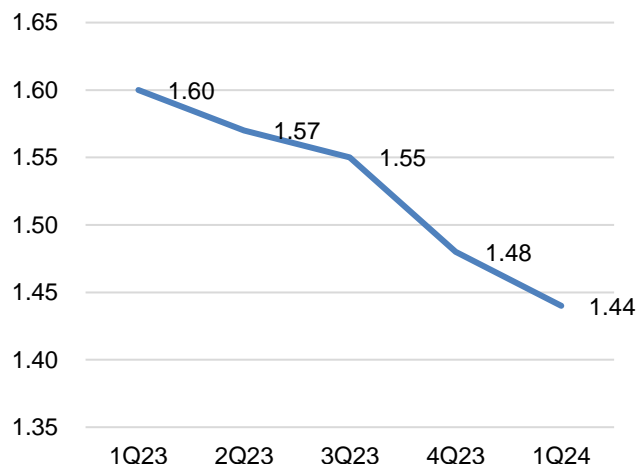


Exhibit 4: MSB's quarterly NIM (%)



Note: Q2 and Q4 NIM based on ABCI calculation
Source(s): Company, ABCI Securities estimates

Exhibit 5: MSB's quarterly NPL ratio (%)



Source(s): Company, ABCI Securities

Exhibit 6: Changes in forecasts

| (RMB mn) | 2024E (old) | 2024E (new) | change (%) | (RMB mn) | 2025E (old) | 2025E (new) | change (%) |
|---|-------------|-------------|--------------|---|-------------|-------------|--------------|
| Net interest income | 105,968 | 100,770 | (4.91) | Net interest income | 107,211 | 101,136 | (5.67) |
| Net fee and commission | 23,211 | 18,274 | (21.27) | Net fee and commission | 25,184 | 17,726 | (29.61) |
| Operating income | 139,236 | 136,228 | (2.16) | Operating income | 142,507 | 137,471 | (3.53) |
| Operating expenses | (55,264) | (54,391) | (1.58) | Operating expenses | (57,474) | (56,295) | (2.05) |
| Impairment losses | (46,740) | (45,094) | (3.52) | Impairment losses | (46,166) | (43,597) | (5.56) |
| Profit before tax | 37,233 | 36,743 | (1.32) | Profit before tax | 38,867 | 37,579 | (3.31) |
| Income tax expenses | (1,489) | (1,470) | (1.28) | Income tax expenses | (1,943) | (1,879) | (3.29) |
| Net profit attributable to equity holders | 35,398 | 35,085 | (0.88) | Net profit attributable to equity holders | 36,612 | 35,487 | (3.07) |
| Key indicators (%) | | | change (ppt) | Key indicators (%) | | | change (ppt) |
| Net interest margin | 1.33 | 1.32 | (0.01) | Net interest margin | 1.24 | 1.24 | - |
| CIR | 39.74 | 39.98 | 0.24 | CIR | 40.38 | 41.00 | 0.62 |
| ROAA | 0.43 | 0.44 | 0.01 | ROAA | 0.42 | 0.43 | 0.01 |
| ROAE | 5.89 | 5.83 | (0.06) | ROAE | 5.90 | 5.72 | (0.18) |
| Dividend payout | 30.00 | 30.00 | - | Dividend payout | 30.00 | 30.00 | - |
| CT1 CAR | 8.67 | 9.22 | 0.55 | CT1 CAR | 8.48 | 9.17 | 0.69 |
| Total CAR | 12.21 | 13.25 | 1.04 | Total CAR | 11.76 | 13.12 | 1.36 |
| NPL ratio | 1.51 | 1.40 | (0.11) | NPL ratio | 1.53 | 1.34 | (0.19) |
| Provision to total loans | 2.21 | 2.10 | (0.11) | Provision to total loans | 2.14 | 2.04 | (0.10) |
| Provision coverage ratio | 146.36 | 150.00 | 3.64 | Provision coverage ratio | 139.87 | 152.24 | 12.37 |

Source(s): Company, ABCI Securities estimates

Maintain HOLD on relatively weak fundamentals. In our opinion, MSB's relatively weak fundamentals in recent quarters has been the major reason behind its depressed valuation. We maintain our **HOLD** rating to MSB's H/A-shr as concrete fundamental recovery is crucial to rebuilding investor confidence. In our Gordon Growth model, by factoring in 0.7% net profit CAGR over FY23-26E, we revise down our sustainable ROAE and long-term growth assumptions. Also, we revise the beta and risk premium and roll over our TP calculation from mid-24E to end-24E BVPS. Our H/A-shr TPs therefore increased 7.6%/11.2% to HK\$ 2.68/RMB 3.76, which imply 0.21x/0.31x FY24E P/B.



Exhibit 7: Changes in GGM assumptions

| | H-shr | | A-shr | | Reason |
|---------------------|-------|-------|-------|-------|--|
| | old | new | old | new | |
| TP (HKD/RMB) | 2.49 | 2.68 | 3.38 | 3.76 | Roll over TP calculation to FY24E BVPS |
| Sustainable ROE (%) | 5.79 | 5.56 | 5.79 | 5.56 | Lower earnings and ROAE forecasts |
| COE (%) | 13.97 | 15.94 | 10.77 | 11.54 | Adjust beta and risk premium with reference to Bloomberg |
| LT gr (%) | 3.90 | 3.00 | 3.90 | 3.00 | Reduce on sluggish balance sheet and earnings growth |
| Target 24E P/B (x) | 0.18 | 0.21 | 0.27 | 0.31 | |

Source(s): Company, ABCI Securities estimates

Risk Factors: 1) Business focus on MSEs may increase volatility in asset quality and credit cost; 2) Potential asset quality deterioration in specific sectors or regions; 3) Delayed recovery in topline and earnings growth; 4) Low provisioning ratio and provision coverage ratio; 5) Declining NIM & ROAE and increasing CIR; 6) Potential dilution effect from issuance of additional capital instruments; 7) Potential dilution from conversion of outstanding convertible preference shares/perpetual bonds.



Financial statements

Consolidated income statement

| FY Ended Dec 31 (RMB mn) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|----------------|----------------|----------------|----------------|----------------|
| Net interest income | 107,463 | 102,431 | 100,770 | 101,136 | 102,060 |
| Non-interest income | 31,756 | 34,960 | 35,458 | 36,334 | 38,025 |
| Of which: Fees and commissions | 20,274 | 19,236 | 18,274 | 17,726 | 18,080 |
| Operating income | 139,219 | 137,391 | 136,228 | 137,471 | 140,086 |
| Operating expenses | (52,602) | (52,807) | (54,391) | (56,295) | (58,547) |
| Pre-provision operating profit | 86,617 | 84,584 | 81,837 | 81,176 | 81,539 |
| Impairment loans losses | (49,447) | (47,226) | (45,094) | (43,597) | (42,829) |
| Profit before tax | 37,170 | 37,358 | 36,743 | 37,579 | 38,710 |
| Tax | (1,393) | (1,372) | (1,470) | (1,879) | (1,936) |
| Minority interests | (508) | (163) | (187) | (214) | (241) |
| Net profit attributable to equity holders | 35,269 | 35,823 | 35,085 | 35,487 | 36,533 |
| Dividend and interest to other equity instruments | (4,106) | (4,316) | (4,316) | (4,316) | (4,316) |
| Net profit attributable to ordinary shareholders | 31,163 | 31,507 | 30,769 | 31,171 | 32,217 |
| Growth (%) | | | | | |
| Net interest income | (14.6) | (4.7) | (1.6) | 0.4 | 0.9 |
| Non-interest income | (20.2) | 10.1 | 1.4 | 2.5 | 4.7 |
| Of which: Fees and commissions | (26.5) | (5.1) | (5.0) | (3.0) | 2.0 |
| Operating income | (15.9) | (1.3) | (0.8) | 0.9 | 1.9 |
| Operating expenses | 2.8 | 0.4 | 3.0 | 3.5 | 4.0 |
| Pre-provision operating profit | (24.3) | (2.3) | (3.2) | (0.8) | 0.4 |
| Impairment loans losses | (37.2) | (4.5) | (4.5) | (3.3) | (1.8) |
| Profit before tax | 4.4 | 0.5 | (1.6) | 2.3 | 3.0 |
| Tax | 86.5 | (1.5) | 7.1 | 27.8 | 3.0 |
| Minority interests | 7.6 | (67.9) | 15.0 | 14.0 | 13.0 |
| Net profit attributable to equity holders | 2.6 | 1.6 | (2.1) | 1.1 | 2.9 |
| Dividend and interest to other equity instruments | 23.4 | 5.1 | 0.0 | 0.0 | 0.0 |
| Net profit attributable to ordinary shareholders | 0.4 | 1.1 | (2.3) | 1.3 | 3.4 |
| Per share (RMB) | | | | | |
| EPS | 0.71 | 0.72 | 0.70 | 0.71 | 0.74 |
| BVPS | 11.53 | 12.10 | 12.55 | 13.02 | 13.50 |
| DPS | 0.214 | 0.216 | 0.240 | 0.243 | 0.250 |
| Key ratio (%) | | | | | |
| Net interest margin | 1.60 | 1.46 | 1.32 | 1.24 | 1.18 |
| Cost to income ratio | 36.44 | 37.00 | 39.98 | 41.00 | 41.84 |
| Return on average assets | 0.50 | 0.48 | 0.44 | 0.43 | 0.41 |
| Return on average equity | 6.31 | 6.10 | 5.83 | 5.72 | 5.71 |
| Effective tax rate | 3.75 | 3.67 | 4.00 | 5.00 | 5.00 |
| Dividend payout | 30.07 | 30.02 | 30.00 | 30.00 | 30.00 |

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

| As of Dec 31 (RMB mn) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|------------------|------------------|------------------|------------------|------------------|
| Cash & balances with central bank | 338,552 | 390,367 | 402,947 | 418,558 | 439,723 |
| Due from FIs and repo | 274,149 | 338,229 | 395,649 | 467,000 | 548,776 |
| Investment securities | 2,225,870 | 2,272,142 | 2,351,667 | 2,457,492 | 2,580,367 |
| Net loans and advances | 4,072,982 | 4,323,908 | 4,586,729 | 4,854,013 | 5,126,013 |
| Total interest-earning assets | 6,911,553 | 7,324,646 | 7,736,991 | 8,197,063 | 8,694,879 |
| Property and equipment | 58,896 | 60,490 | 62,305 | 64,797 | 68,037 |
| Other non-interest earning assets | 285,224 | 289,829 | 295,080 | 303,932 | 315,521 |
| Total assets | 7,255,673 | 7,674,965 | 8,094,376 | 8,565,792 | 9,078,437 |
| Customer deposits | 4,051,592 | 4,353,281 | 4,684,111 | 5,034,301 | 5,405,017 |
| Due to FIs and repo | 1,833,211 | 1,875,361 | 1,922,245 | 1,989,524 | 2,069,105 |
| Subordinated debt | 648,107 | 675,826 | 712,996 | 745,081 | 778,610 |
| Total interest-bearing liabilities | 6,532,910 | 6,904,468 | 7,319,353 | 7,768,905 | 8,252,731 |
| Current taxes | 5,040 | 1,392 | 1,308 | 1,243 | 1,193 |
| Other liabilities | 104,909 | 131,304 | 115,313 | 116,283 | 123,386 |
| Total liabilities | 6,642,859 | 7,037,164 | 7,435,974 | 7,886,431 | 8,377,310 |
| Share capital | 43,782 | 43,782 | 43,782 | 43,782 | 43,782 |
| Other equity instruments | 94,962 | 94,962 | 94,962 | 94,962 | 94,962 |
| Reserves | 461,184 | 485,858 | 505,798 | 526,065 | 547,103 |
| Minorities | 12,886 | 13,199 | 13,859 | 14,552 | 15,279 |
| Shareholder's equity | 612,814 | 637,801 | 658,401 | 679,361 | 701,127 |
| Growth (%) | | | | | |
| Cash & balances with central bank | (6.3) | 15.3 | 3.2 | 3.9 | 5.1 |
| Due from FIs and repo | 8.5 | 23.4 | 17.0 | 18.0 | 17.5 |
| Investment securities | 9.4 | 2.1 | 3.5 | 4.5 | 5.0 |
| Net loans and advances | 2.7 | 6.2 | 6.1 | 5.8 | 5.6 |
| Total interest-earning assets | 4.5 | 6.0 | 5.6 | 5.9 | 6.1 |
| Property and equipment | 3.7 | 2.7 | 3.0 | 4.0 | 5.0 |
| Other non-interest earning assets | 1.9 | 1.6 | 1.8 | 3.0 | 3.8 |
| Total assets | 4.4 | 5.8 | 5.5 | 5.8 | 6.0 |
| Customer deposits | 5.9 | 7.4 | 7.6 | 7.5 | 7.4 |
| Due to FIs and repo | 6.3 | 2.3 | 2.5 | 3.5 | 4.0 |
| Subordinated debt | (8.8) | 4.3 | 5.5 | 4.5 | 4.5 |
| Total interest-bearing liabilities | 4.3 | 5.7 | 6.0 | 6.1 | 6.2 |
| Current taxes | (42.8) | (72.4) | (6.0) | (5.0) | (4.0) |
| Other liabilities | 9.7 | 25.2 | (12.2) | 0.8 | 6.1 |
| Total liabilities | 4.3 | 5.9 | 5.7 | 6.1 | 6.2 |
| Share capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity instruments | 5.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserves | 4.7 | 5.4 | 4.1 | 4.0 | 4.0 |
| Minorities | 5.1 | 2.4 | 5.0 | 5.0 | 5.0 |
| Shareholder's equity | 4.5 | 4.1 | 3.2 | 3.2 | 3.2 |
| Key ratio (%) | | | | | |
| CT1 CAR | 9.17 | 9.28 | 9.22 | 9.17 | 8.98 |
| Total CAR | 13.14 | 13.14 | 13.25 | 13.12 | 12.81 |
| NPL ratio | 1.68 | 1.48 | 1.40 | 1.34 | 1.30 |
| Provision to total loans | 2.39 | 2.22 | 2.10 | 2.04 | 2.00 |
| Provision coverage ratio | 142.49 | 149.69 | 150.00 | 152.24 | 153.85 |

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates



Disclosures

Analyst Certification

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Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with MSB.

Definition of equity rating

| Rating | Definition |
|--------|--|
| Buy | Stock return rate \geq Market return rate ($\sim 7\%$) |
| Hold | - Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim 7\%$) |
| Sell | Stock return $<$ - Market return ($\sim 7\%$) |

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2005 (For reference: HSI total return index 2005-23 averaged at 7.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

Disclaimers

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