

ZTE (00763 HK/000063 CH)

Turnaround on rapid 5G ramp-up

- ZTE is benefiting from the launch of 5G telecom network in 2019 and the introduction of Speed Upgrade and Tariff Reduction policy in China
- The Chinese telecom operators are raising CAPEX in 2020 to develop the 5G network
- ZTE's gross margin has been trending up, thanks to better product mix with increasing contribution from high-end products
- Initiate BUY with TP of HK\$ 26.00 for ZTE-H (763 HK), which implies 21.4x/ 17.4x FY19E/ FY20E P/E, and BUY for ZTE-A (000063 CH) with TP of RMB 37.00, equivalent to 33.8x/ 27.6x FY19E/20E P/E

Revenue of Carriers' networks business boosted by 5G network development in China. The Chinese telecom operators are raising their CAPEX for the ramp-up of 5G network in 2020 due to the expedited 5G development, which necessitates a much denser base-station density in China.

Better product mix with expanding profit margin. The gross margin of 5G telecom equipment and smartphones are much higher than that of the 3G/4G ones. ZTE is set to benefit from increased contribution from the higher-margin 5G products. We expect gross margin to improve 6.6ppt/ 0.9ppt/ 1.1ppt to 38.0%/ 38.9%/ 40.0% in FY19E-21E, respectively.

Net profit is expected to rebound and turn positive in 2019E. Affected by the US sanction penalty fine (USD1 bn), ZTE recorded a net loss in 2018. Thanks to demand for 5G telecom network products and improved margins, we estimate 2019E net profit to rebound to the positive territory.

Valuation. We recommend (1) **BUY** on **ZTE-H (763 HK)** with the TP of HK\$ 26.00, which implies 21.4x/ 17.4x FY19E/ FY20E P/E; (2) **BUY** on **ZTE-A (000063 CH)** with TP of RMB 37.00, which is equivalent to 33.8x/ 27.6x FY19E/ FY20E P/E.

Results and Valuation

FY ended Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	108,815	85,513	92,326	102,488	110,629
Chg (% YoY)	7.5	(21.4)	8.0	11.0	7.9
Net profit (RMB mn)	4,568	(6,984)	4,593	5,627	7,043
Chg (% YoY)	(293.8)	N/A	N/A	22.5	25.2
EPS (RMB)	1.090	(1.666)	1.095	1.342	1.680
Chg (% YoY)	(292.4)	N/A	N/A	22.5	25.2
BPS (RMB)	7.554	5.461	6.557	7.899	9.579
Chg (% YoY)	19.0	(27.7)	20.1	20.5	21.3
P/E (x) –H shr	16.6	(11.5)	17.9	14.6	11.7
P/E (x) –A shr	28.8	(18.8)	28.6	23.4	18.7
P/B (x) –H shr	2.4	3.5	3.0	2.5	2.0
P/B (x) –A shr	4.2	5.7	4.8	4.0	3.3
ROAE (%)	15.7	(25.6)	18.2	18.6	19.2
ROAA (%)	3.2	(5.1)	3.2	3.3	3.6

*Exchange rate assumption for FY19E-21E: HKD 1 = RMB 0.900

Source(s): Bloomberg, ABCI Securities estimates

Initiation Report

Rating (H): BUY

Rating (A): BUY

TP(H): HK\$ 26.00

TP(A): RMB 37.00

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Price (H/A shr)	21.80/ 31.36
Est. s price return (H/A shr)	19.3%/ 18.0%
Est. dividend yield (H/A shr)	0.0%/ 0.0%
Est. total return (H/A shr)	19.3%/ 18.0%

Source(s): Bloomberg, ABCI Securities

Key Data:

52Wk H/L (HK\$) (H shr)	10.7/ 27.7
52Wk H/L (RMB) (A shr)	14.5/ 38.5
Total issued shares (mn)	
Issued H shr (mn)	755.5
Issued A shr (mn)	3,461.7
H-shr market cap (HK\$ mn)	16,469.9
A-shr market cap (RMB mn)	108,558.9
Major shareholder(s) :	
Zhongxingxin	27.4%
Central Huijin Asset Management	1.25%
Hunan Nantian	1.0%

Source(s): Company, ABCI Securities



Industry analysis

The telecom operators have formally launched the 5G telecom services to China in Nov 2019. However, the 5G telecom service fee is conservative due to the need to follow the regulatory instruction of lower service tariff to improve penetration. As the 5G telecom network requires a much denser base stations distribution, the overall telecom network equipment demand is estimated to increase. To reduce CAPEX, China Unicom (762 HK) has teamed up with China Telecom (728 HK) to co-build and co-share the 5G network.

We estimate CAPEX of the Chinese telecom operators to reach RMB 302bn in 2019E. We expect the figure to increase in 2020 for 5G network development. ZTE, among other telecom network providers (including Huawei, Ericsson, and Nokia) are estimated to benefit from the increment in CAPEX. Telecom operators have launched the non-standalone 5G standard mode in 2019; we believe they will shift to standalone 5G mode in 2020 the earliest for faster data transmission despite higher equipment expenses. In our view, ZTE's product mix would shift to ones with a higher ASP, which will drive revenue growth in 2020.

Exhibit 1: Overall CAPEX of the Chinese telecom operators in 2019E:

RMB (Bn)	China Mobile	China Unicom	China Telecom
CAPEX	166.0	58.0	78.0
YoY	-0.7%	29.2%	4.1%

Source(s): Company, ABCI Securities estimates

Exhibit 2: 5G CAPEX of the Chinese telecom operators in 2019E

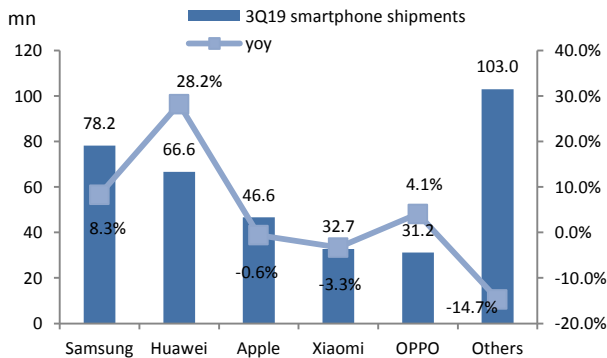
RMB (Bn)	China Mobile	China Unicom	China Telecom
CAPEX	17.2	8	9

Source(s): Company, ABCI Securities estimates

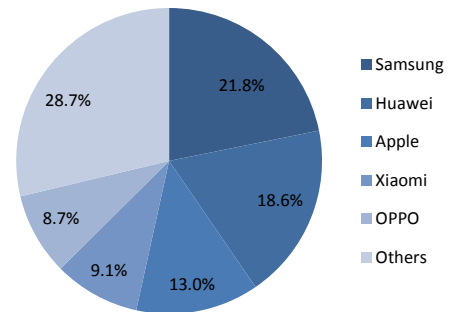
The telecom industry is entering a new era with the launch of 5G network services in 2019. More capital will be injected to facilitate transformation in the sector. Hardware providers are launching 5G equipment, such as smartphones and antennae, to capture demand. 5G will enable a much faster transmission speed, but it will also penetrate into industries and the many facets of daily life through the internet of things (IoT). 5G deployment has two architecture options: standalone (SA) and non-standalone (NSA). The NSA allows the sharing of resources with 4G network. SA, as the ultimate target network of 5G, has obvious advantages in new service support, coverage, performance, network flexibility, and terminal energy efficiency.

According to MIIT, China's mobile users reached 1.6 bn in Sep 2019, up 3.3% YoY; 4G users reached 1.26bn in Sep 2019, representing 79.1% of total mobile users in China. The average data usage per customer grew rapidly, thanks to the reduced mobile service tariff. The average mobile data per user reached over 8.39GB in Sep 2019, up 62.9% YoY. We expect 4G penetration rate to further increase, reaching 85.0% in 2020E, driven by migration of low-end users (from 2G/3G to 4G), widespread use of dual SIM cards smartphones, and lower mobile service tariff. As of Sep 2019, 4G market share of China Mobile China Unicom, China Telecom were 53.2%, 23.2%, and 23.6%, respectively.

According to IDC, smartphone shipments in 3Q19 grew 0.8% YoY, rebounding from the 2.3% decline in 2Q19 on the launch of flagship smartphone models. Huawei recorded the highest growth in 3Q19 smartphone shipments of 66.6 mn (+28.2% YoY). The company has launched a number of high-end smartphone models (e.g. P30, Mate 30) with high resolution and multi-camera with AI oriented chipset, which helped attract high-end customers. We expect Huawei can maintain its strong smartphone shipments by aliasing with telecom operators for 5G smartphone distribution in 2020.

Exhibit 3: Smartphone shipments in 3Q19


Source(s): IDC

Exhibit 4: Smartphone market share in 3Q19


Source(s): IDC

Competitor analysis

The revenue and profit growth of ZTE was affected by the US sanction of key component supply in FY18. Compared with ZTE, Huawei showed a much more solid financial performance in FY18 with 19.5% YoY growth in revenue and 25.1% growth in net profit. ZTE's revenue distribution by region was similar to that with Huawei in FY18, although the former relies more on China (accounted for 63.7% of revenue vs. Huawei's 51.6%). Carrier business is ZTE's major revenue contributor (66.7% in FY18), while consumer business is Huawei's major income source (48.4% in FY18).

Exhibit 5: Financial comparison of Huawei and ZTE in FY18

	Huawei	ZTE
Revenue (YoY growth)	19.5%	-21.4%
Gross profit (YoY growth)	16.8%	-17.8%
Gross profit margin	38.6%	31.4%
Operating profit (YoY growth)	30.0%	-165.3%
Operating profit margin	10.2%	-6.1%
Net profit (YoY growth)	25.1%	-252.9%
Net profit margin	8.2%	-8.2%
ROAA	8.9%	-5.1%
ROAE	25.5%	-25.6%

Source(s): Company

Exhibit 6: Comparison of Huawei and ZTE by revenue distribution by regions in FY18

	Huawei	ZTE
China	51.6%	63.7%
EMEA	28.4%	17.7%
Asia Pacific	11.4%	13.9%
Others	8.6%	4.7%

Source(s): Company



Exhibit 7: Comparison of Huawei and ZTE by business revenue mix in FY18

	Huawei	ZTE
Carrier business	40.8%	66.7%
Consumer business	48.4%	22.5%
Enterprise business	10.3%	10.8%

Source(s): Company



Company Overview

ZTE (or “the Group”) is a company engaging in the production of telecommunications and information technology equipment. Founded in 1985, the Group was listed on both the Hong Kong Stock Exchange (HKEx) and Shenzhen Stock Exchanges (SZSE).

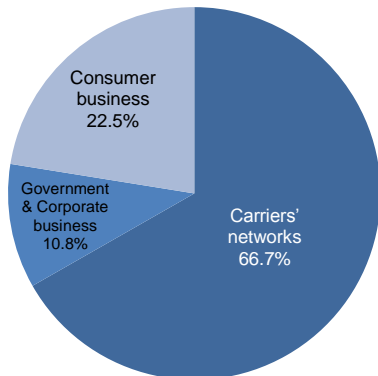
ZTE generates its revenue income mainly from three major business segments: (1) Carriers’ networks business; (2) Government & Corporate business; & (3) Consumer business.

Its Carriers’ networks business provides telecom operators with a suite of comprehensive products and services including wireless, wireline, telecom networks, software systems and solutions; the Government & Corporate business provides services and solutions for government and corporate projects; Consumer business is mainly about producing smartphones, tablets, and other personal electronic devices.

Carriers’ networks business is ZTE’s major source of revenue accounting for 66.7% of total revenue in 2018; by region, ZTE generated 63.7% of its revenue from the PRC in 2018.

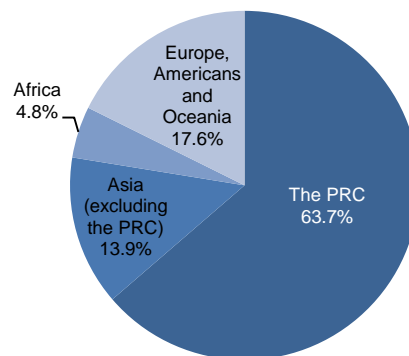
ZTE’s Carriers’ networks business has been driven by the expanding 4G network of the Chinese telecom operators in recent years. MIIT has introduced the Speed Upgrade and Tariff Reduction policy to boost telecom network coverage and improve transmission speed, hence driving up demand for telecom network equipment.

Exhibit 8: ZTE’s revenue distribution breakdown in 2018 by product



Source(s): Company

Exhibit 9: ZTE’s revenue distribution breakdown in 2018 by region



Source(s): Company

Financial Analysis

(1) Carriers' networks business

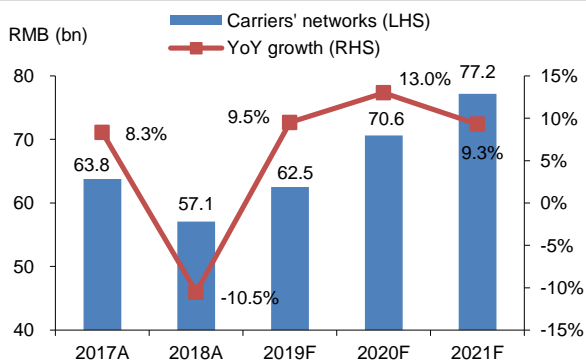
ZTE generated most of its revenue from Carriers' networks business, which accounted for 66.7% of total revenue in FY18. The segment revenue dropped 10.5% YoY in 2018, affected by the temporary shortage of electronic components supply due to the US sanction policy. With the recovery of component supply, growing demand from telecom operators and partnership with certain key customers, we expect solid growth in 2019/20. In 2019, MIIT has granted the 5G operating licenses to China Mobile (941 HK), China Telecom (728 HK), China Unicom (762 HK), and China Broadcasting and Network Company. The authority has also introduced the Speed Upgrade and Tariff Reduction Policy to boost network transmission speed and lower service tariff.

As the 5G telecom network requires a much denser base station distribution, overall demand for telecom network equipment can be expected to increase. Telecom operators will allocate more resources and capital for building the 5G network. We expect ZTE's product mix would improve with higher product ASP. We estimate revenue of its Carriers' networks business to grow 9.5%/ 13.0%/ 9.3% in FY19-21E, respectively.

(2) Government & Corporate business

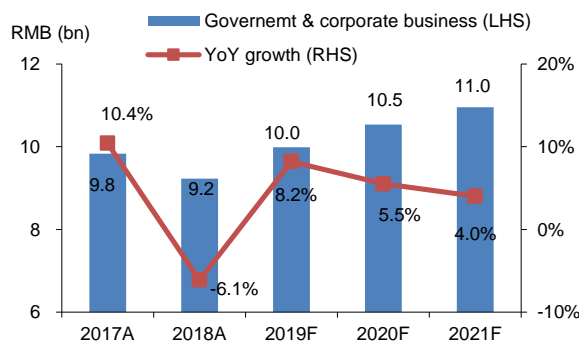
ZTE receives project orders from government and corporations to offer and provide telecom network services and solutions for cloud computing, broadband, telecom networks, and IoT. Government & Corporate business revenue fell 6.1% YoY in FY18, but we project the segment's revenue to grow 8.2%/ 5.5%/ 4.0% in FY19E-21E on 5G network development.

Exhibit 10: ZTE's Carriers' networks revenue and YoY growth



Source(s): Company, ABCI Securities estimates

Exhibit 11: ZTE's Government & Corporate business revenue and YoY growth



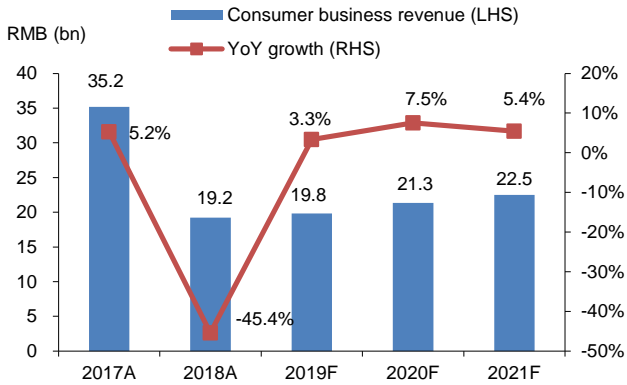
Source(s): Company, ABCI Securities estimates

(3) Consumer business

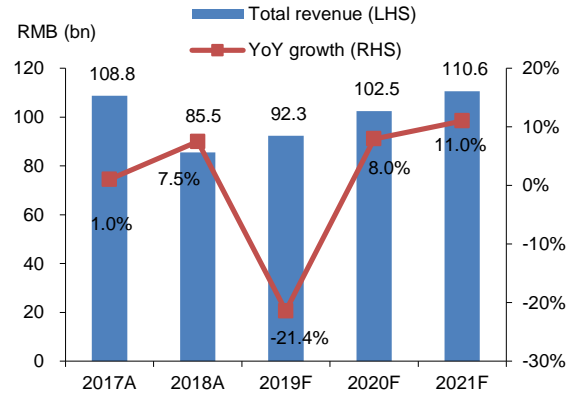
For the Consumer business, ZTE offers a series of electronic products such as smartphones, tablets, routers, and accessories. FY18 revenue of Consumer business revenue fell sharply by 45.4% YoY due to the lack of key electronic components on the US sanction policy. ZTE will need to rebuild its smartphone brand in the short term.

With the supply recovery of key electronic components, we expect Consumer business revenue to rebound in 2019. The Group has launched a number of smartphone models in 2019, including Axon 10 Pro (which is equipped with the latest 5G antenna, in-display fingerprint sensor and 48mm camera). Installment loans services are offered for smartphone buyers to lower the barrier for

purchasing. Considering the introduction of new smartphones and marketing activities, we forecast Consumer business revenue to grow 3.3%/ 7.5%/ 5.4% in FY19E-21E, respectively.

Exhibit 12: ZTE's Consumer business revenue and YoY growth


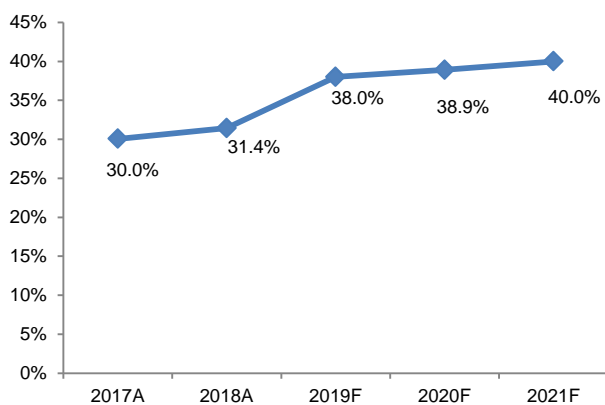
Source(s): Company, ABCI Securities estimates

Exhibit 13: ZTE's total revenue and YoY growth


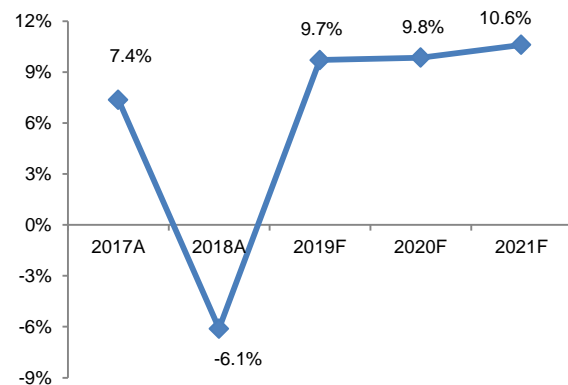
Source(s): Company, ABCI Securities estimates

ZTE's overall gross margin improved by 1.4ppt YoY to 31.4% in FY18 on better product mix. We expect the growing demand for 5G base stations, smartphones, and equipment in 2019 would further boost the overall gross margin. We expect gross margin for the Carriers' networks business to improve on increased shipments of higher-margin FDD system equipment and optical transmission products. ZTE's overall gross margin is estimated to go up by 6.6ppt/ 0.9ppt/ 1.1ppt to 38.0%/ 38.9%/ 40.0% in FY19E-21E.

R&D expenses for high-end and 5G products will increase, but operating margin can maintain a solid growth in 2019E, supported by higher revenue and gross margin. Thanks to the launch of 5G carriers' networks equipment and high-end products, we project the Group's operating margin to rebound to 9.7%/ 9.8%/ 10.6%, respectively, for FY19E-21E.

Exhibit 14: ZTE's overall gross margin


Source(s): Company, ABCI Securities estimates

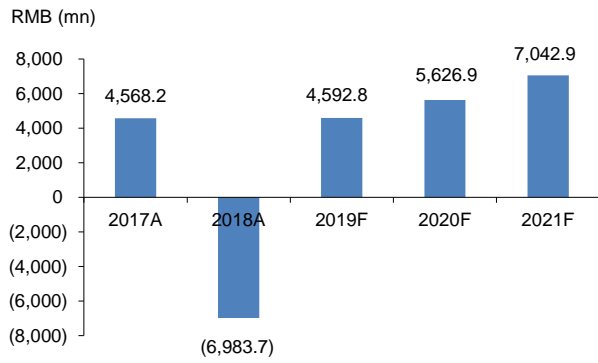
Exhibit 15: ZTE's overall operating margin


Source(s): Company, ABCI Securities estimates

Driven by 5G network expansion, recovery of component supply, and improved margins, we expect ZTE's net profit to turn positive in 2019 and adjusted net profit to jump 239.0% in FY19E and continue to improve by 13.4%/16.1% in FY20/21E, respectively. Excluding the US sanction fines, JV and associates profits, and non-core expenses, we project adjusted net margin in FY19E-21E to be 10.0%/ 10.2%/ 10.9%, respectively.

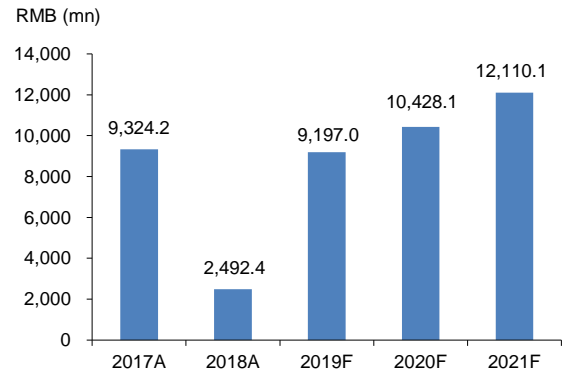


Exhibit 16: ZTE's net profit



Source(s): Company, ABCI Securities estimates

Exhibit 17: ZTE's adjusted net profit



Source(s): Company, ABCI Securities estimates



Recommend BUY ZTE-A/H (763 HK/000063 CH)

Our valuations for ZTE-H/A (763 HK/000063 CH) are based on DCF model (WACC: 12.2%/13.0%; D/ (D+E) =32.3%/30.8%; perpetuity growth rate: 2%/2%). We initiate with **BUY** for both A/H shr with TP at HK\$ 26.0/RMB 37.0. The H-shr TP implies 21.4x/ 17.4x FY19E/ FY20E P/E for the H-shr, while A-shr TP is equivalent to 33.8x/ 27.6x FY19E/ FY20E P/E.

Exhibit 18: Peer Comparison

		P/E				P/B				ROE	ROA	EV/ EBITDA	
	Ticker	Price*	18A	19E	20E	21E	18A	19E	20E	21E	19E	19E	19E
H-shr market													
ZTE	763 HK	21.80	n.a.	19.2	16.6	13.5	3.3	2.5	2.2	1.9	15.7	3.1	16.6
COMBA	2342 HK	1.85	n.a.	31.0	13.9	9.9	1.3	1.2	1.1	1.0	3.8	1.2	n.a.
Xiaomi	1810 HK	8.47	8.9	16.9	13.7	10.8	2.5	2.1	1.8	1.5	13.6	6.9	12.8
Simple Avg.			8.9	22.4	14.7	11.4	2.4	1.9	1.7	1.5	11.0	3.7	14.7
Weighted Avg.			8.9	18.0	14.9	11.9	2.8	2.2	1.9	1.6	14.3	5.3	14.3
A-shr market													
ZTE	000063 CH	31.36	n.a.	28.7	23.1	17.8	5.9	4.2	3.5	3.0	15.1	3.6	16.0
Shenzhen Sunway Communicat-A	300136 CH	41.15	40.1	36.0	27.6	21.3	9.7	7.5	5.8	4.5	24.7	14.7	24.1
Hengtong Optic-Electric Co-A	600487 CH	15.84	11.9	13.9	12.0	10.4	2.3	2.0	1.7	1.5	16.1	6.1	n.a.
Accelink Technologies Co -A	002281 CH	27.54	52.0	47.4	35.0	27.8	5.4	4.9	4.4	3.9	10.3	6.3	31.4
Hubei Kaile Science & Tech-A	600260 CH	13.19	14.4	11.9	9.5	7.5	2.5	2.1	1.7	1.4	17.0	n.a.	n.a.
Tongding Interconnection I-A	002491 CH	6.75	15.1	13.8	13.5	n.a.	1.7	n.a.	n.a.	n.a.	9.0	n.a.	n.a.
Simple Avg.			26.7	25.3	20.1	17.0	4.6	4.1	3.4	2.8	15.4	7.7	23.9
Weighted Avg.			29.4	28.1	22.3	17.7	5.6	4.4	3.6	3.0	16.2	6.1	19.3

*Based on closing price on Nov 18, 2019

Source(s): Bloomberg



Risk factors

The US Sanction policy

ZTE's products rely on suppliers for key components. The US may re-implement the sanction policy against ZTE, banning the US suppliers from selling and distributing components to the Group. In our financial model, we do not factor in further penalty from 2019 onward.

Trade tension between the US and China trade tension

The Group's business may be affected if trade tension between the US and China intensifies.

Slowdown in China's 5G development

Any delays or slowdown in 5G network development in China would negatively impact ZTE's revenue.

Concentration risk

By region, over 63.7% of total revenue was from China in 2018; by business segment, over 66.7% of total revenue in 2018 was from the telecom carriers. Any adverse changes in China or telecom carriers business will have adverse impacts on ZTE's probability and valuation.



Financial Statements

Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Carriers' networks	63,782	57,076	62,498	70,623	77,191
Government & Corporate business	9,831	9,228	9,984	10,534	10,955
Consumer business	35,202	19,210	19,844	21,332	22,484
Total revenue	108,815	85,513	92,326	102,488	110,629
Gross profit	32,699	26,875	35,084	39,868	44,252
Other income and gains	6,951	4,248	4,035	3,834	3,642
R&D costs	(12,962)	(10,906)	(11,264)	(13,016)	(14,603)
Selling and distribution expenses	(12,260)	(9,085)	(8,771)	(10,044)	(10,510)
Administrative expenses	(3,238)	(4,106)	(4,312)	(4,570)	(4,936)
Others	(112,000)	(97,764)	(98,133)	(108,469)	(116,743)
Operating Profits	8,005	(5,224)	8,966	10,091	11,731
Finance cost	(1,158)	(1,329)	(1,719)	(1,543)	(1,385)
Share of profits and losses of associates	(128)	(797)	(757)	(720)	(684)
Profit before tax	6,719	(7,350)	6,489	7,829	9,663
Tax	(1,333)	401	(1,188)	(1,433)	(1,768)
Profit after tax	5,386	(6,949)	5,302	6,396	7,895
Minority interests	(317)	383	(292)	(352)	(435)
Perpetual capital instruments	(501)	(417)	(417)	(417)	(417)
Net profit	4,568	(6,984)	4,593	5,627	7,043
Adjusted net profit	9,324	2,492	9,197	10,428	12,110
EPS (RMB)	1.090	(1.666)	1.095	1.342	1.680
Adjusted EPS (RMB)	2.226	0.594	2.194	2.487	2.888

Adjusted net profit = net profit excluding investment gains and non-operating expenses

* In FY18, there was USD1 bn related to penalty cost in others item.

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
PPE	10,202	10,194	11,150	11,475	12,187
Investments in JV And associates	3,961	3,015	2,143	1,737	1,414
Intangible assets	5,363	6,270	8,607	10,089	11,548
Others	16,176	16,870	12,202	12,431	12,687
Total non-current assets	35,703	36,350	34,103	35,732	37,836
Cash & cash equivalents	30,109	21,134	48,168	66,952	90,742
Inventories	26,234	25,011	26,262	27,575	28,954
Receivables	38,378	30,061	31,949	33,957	36,091
Others	13,538	16,794	17,249	17,792	18,406
Total current assets	108,260	93,001	123,628	146,276	174,193
Total assets	143,962	129,351	157,731	182,008	212,029
Bank borrowings	18,536	24,983	34,977	31,479	28,331
Payables	35,047	27,977	26,626	25,344	24,129
Others	34,012	36,417	50,681	73,258	99,696
Total current liabilities	87,595	89,377	112,284	130,081	152,156
Bank borrowings	3,002	2,367	2,319	1,995	1,715
Others	7,985	4,647	4,784	4,947	5,134
Total non-current liabilities	10,987	7,013	7,103	6,942	6,849
Total liabilities	98,582	96,390	119,387	137,022	159,005
Shareholders' equity	31,647	22,898	27,490	33,117	40,160
Others	13,733	10,063	10,854	11,868	12,864
Total equity	45,380	32,961	38,344	44,986	53,024

Source(s): Company, ABCI Securities estimates

Consolidated Cash Flow Statement (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Operating profit before change in working capital	9,903	2,245	32,618	36,902	42,024
Change in working capital	(3,189)	(10,072)	(7,962)	(6,362)	(6,401)
Others	(2,254)	(2,406)	(3,736)	(3,772)	(3,920)
Operating cash flow	4,460	(10,233)	20,920	26,768	31,703
CAPEX	(2,340)	(2,388)	(2,602)	(2,837)	(3,092)
Others	(1,711)	277	(1,441)	(1,502)	(1,548)
Investing cash flow	(4,052)	(2,111)	(4,043)	(4,339)	(4,640)
Bank loans	35,148	29,124	9,946	(3,822)	(3,427)
Others	(35,031)	(26,073)	(43)	(27)	(9)
Financing cash flow	117	3,051	9,903	(3,849)	(3,436)
Net increase in cash and cash equivalents	526	(9,293)	26,779	18,581	23,627
Cash and cash equivalents at beginning of year	30,050	30,109	21,134	48,168	66,952
Others	(466)	318	254	203	163
Cash and cash equivalents at end of year	30,109	21,134	48,168	66,952	90,742
Financial Ratio:					
Gross profit margin	30.0%	31.4%	38.0%	38.9%	40.0%
Operating profit margin	7.4%	-6.1%	9.7%	9.8%	10.6%
Net profit margin	4.2%	-8.2%	5.0%	5.5%	6.4%
Adjusted net profit margin	8.6%	2.9%	10.0%	10.2%	10.9%
ROAA (%)	3.2%	-5.1%	3.2%	3.3%	3.6%
ROAE (%)	15.7%	-25.6%	18.2%	18.6%	19.2%
YoY Growth:					
Revenue	7.5%	-21.4%	8.0%	11.0%	7.9%
Operating profit	2233.1%	-165.3%	-271.6%	12.5%	16.3%
Net profit	-293.8%	-252.9%	-165.8%	22.5%	25.2%
Adjusted net profit	22.4%	-73.3%	269.0%	13.4%	16.1%

Adjusted net profit = net profit excluding investment gains and non-operating expenses

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Lai Pak Kin, Ricky, 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 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 rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate $<$ Market return rate (+10%)
Sell	Stock return $<$ - Market return (-10%)

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 (HSI total return index 2005-17 CAGR at 10%)

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.

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