

# Meituan Dianping-W (3690 HK)

## Unavoidable near-term headwinds; initiate with HOLD

- In our view, the recent coronavirus outbreak will pose some short-term risks especially for the Group's in-store/hotel/travel segment; the food delivery segment may face potential disturbance in selected cities but higher demand for food delivery services would mitigate the negative impacts
- Long-term outlook remains intact with a leading position in the consumer service e-commerce market.
- Near-term macro headwinds related to coronavirus outbreak would hinder share price performance. Initiate with **HOLD** with TP at HK\$ 100

**Near-term headwinds.** The recent outbreak of the coronavirus (2019-nCoV) poses near-term headwinds to Meituan (MD), especially for its in-store/hotel/travel segment, which accounted 62% of gross profit in 9M19. Food delivery business, on the other hand, might see higher cost and business disturbance in selected areas, such as Hubei and Zhejiang, but increased demand for food delivery services in other regions to avoid dining out may mitigate some of the negative impacts.

**Long-term outlook still intact.** Looking beyond the near-term headwinds, we believe MD is well positioned to benefit from the structural uptrend of consumer upgrade from physical goods to services given its leading position in the consumer service e-commerce market. In particular, it has been increasing its online food delivery market shares steadily from 54% in 1Q18 to 65.8% in 3Q19, according to Trustdata, despite close competition with Alibaba's Ele.me. In terms of profitability, the Group has turned around with a positive core net profit since 2Q19 – and we expect this trend to continue in the near future.

**Initiate with HOLD.** We believe macro headwinds induced by the coronavirus outbreak might hinder potential share performance in the near future and some volatility in share price can be expected; nonetheless, long-term outlook remains positive. Our SOTP-based TP is HK\$ 100, which warrants a HOLD rating.

### Results and Valuation

	2018A	2019E	2020E	2021E
Revenue (RMB mn)	65,227	98,529	129,035	173,271
Chg (% YoY)	92.3	51.1	31.0	34.3
Net profit (RMB mn)	(115,477)	1,743	4,172	11,197
Chg (% YoY)	510.5	(101.5)	139.4	168.4
Core net profit (RMB mn)	(8,517)	4,102	6,187	13,838
Chg (% YoY)	198.6	(148.2)	50.8	123.6
Underlying EPS (RMB)	(42.41)	0.30	0.72	1.93
Chg (% YoY)	242.6	(100.7)	136.5	168.4
Core EPS (RMB)	(3.13)	0.71	1.07	2.38
Chg (% YoY)	67.6	(122.9)	49.1	123.6
P/S (x)	3.7	5.1	4.0	3.0
Core P/E (x)*	(28.2)	123.5	82.8	37.0
ROAE (%)	(502.0)	2.0	4.6	11.4
ROAA (%)	(113.0)	1.4	3.3	8.1

\*Excluding share-based compensation, gain/loss from investee companies, amortization, and impairment

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

### Initiation

Feb 10, 2020  
 Rating: **HOLD**  
 TP: **HK\$100**

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Share price (HK\$)	95.8
Est. share price return	4.4%
Est. dividend yield	NA
Est. total return	4.4%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities

#### Key Data

52Wk H/L(HK\$)	116.0/47.0
Issued shares (mn)	5,815
Class B market cap (HK\$ bn)	486,626
Avg daily turnover (HK\$ mn)	930
Major shareholder(s)	Voting right
Wang Xing	49.1%
Mu Rongjun	10.8%
Tencent	9.0%

Source(s): Bloomberg, HKEx, ABCI Securities

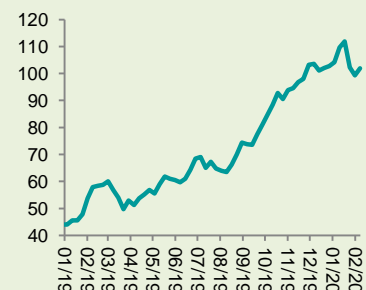
#### Share Performance (%)

	Absolute	Relative*
1-mth	-10.5	-6.2
3-mth	3.6	4.5
6-mth	54.4	48.8

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

#### Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

## Near-term headwinds

In our view, the recent outbreak of the novel coronavirus (2019-nCoV) is likely to pose some near-term headwinds to Meituan (MD) in 1H20, or even in 2H20 and after if the epidemic continues.

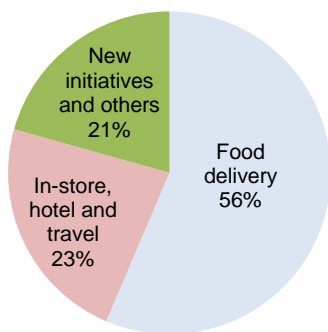
Among MD's major segments, we believe the in-store, hotel, and travel segment would be the hardest hit due to disturbances in international and domestic inter-city transportations, in addition to the lower demand for traveling as the public seek to avoid crowds and various quarantine measures enforced. The segment accounted for 23% of revenue but 62% of gross profit in 9M19.

The virus outbreak has conflicting implications for the food delivery business. On a positive note, there will be higher demand for food delivery services in general since consumers would avoid dining out to minimize infection risk; however, disturbances of business operation of local restaurants in various areas, such as Hubei and Zhejiang, could hinder local operations. In addition, rider cost might increase as the Group would need to raise incentives to compensate for the higher health risk, and the added cost would reduce margins.

To support the merchants affected by the outbreak, MD has employed various measures, such as (1) commission of merchants in Wuhan is waived for a month; (2) online training for merchants on food safety; (3) micro-loans to merchants are provided by the Group partnering up with various financial institutions

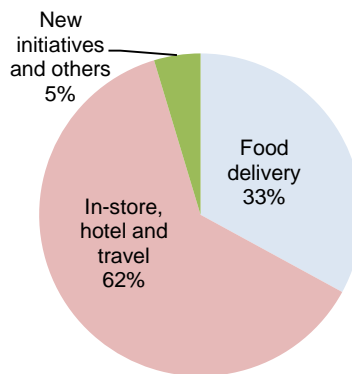
Overall, the food delivery segment only accounted for 33% of gross profit in 9M19 despite its high revenue contribution of 56% during the same period.

**Exhibit 1: Revenue mix (9M19)**



Source(s): Company, ABCI Securities

**Exhibit 2: Gross profit mix (9M19)**



Source(s): Company, ABCI Securities



Our sensitivity analysis illustrates that a 1% reduction in food delivery revenue would result in a 1.8% drop in 2020E core profit; a 1% reduction in in-store/hotel/travel revenue would lead to a 2.6% drop in 2020E.

**Exhibit 3: Sensitivity analysis**

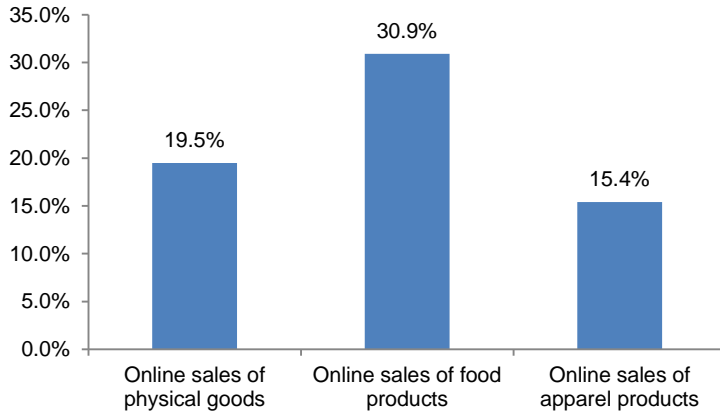
Scenario	Impact on 2020E core profit
1% reduction in food delivery revenue	-1.8%
1% reduction in in-store/hotel/travel revenue	-2.6%

Source(s): ABCI Securities estimates

## Long-term outlook still intact

We believe MD's long-term outlook remains intact. Overall, the Group has been riding on a positive macro backdrop in recent years. In 2019, online sales of food products in China, which included online food delivery, were up 30.9% YoY, significantly higher than the 19.5% YoY growth of online sales of physical goods and 15.4% YoY growth of online sales of apparels.

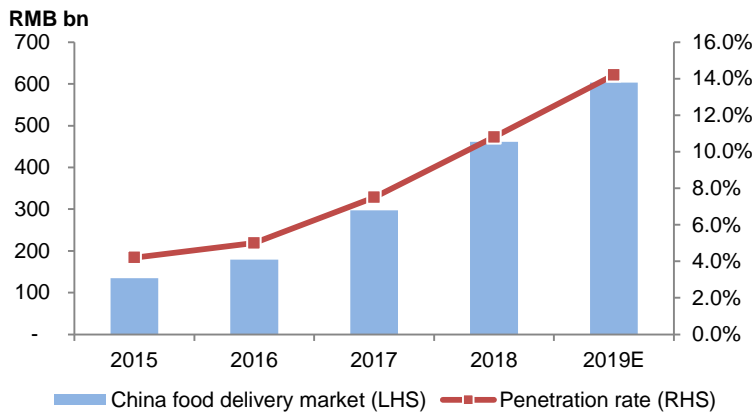
**Exhibit 4: Online sales in China (2019)**



Source(s): NBS

According to Trustdata, China's food delivery market has been expanding at a 45% CAGR between 2016-19E, reaching RMB 604bn in 2019E. Food delivery penetration rate increased from 4.2% to 14.2% over the same period.

**Exhibit 5: China's food delivery market**



Source(s): Trustdata, ABCI Securities



In our view, China's online food delivery market is benefiting from several positive structural trends.

**Urbanization.** China's ongoing urbanization has led to the emergence of a large number of cities, accelerating the growth of the consumer service industry.

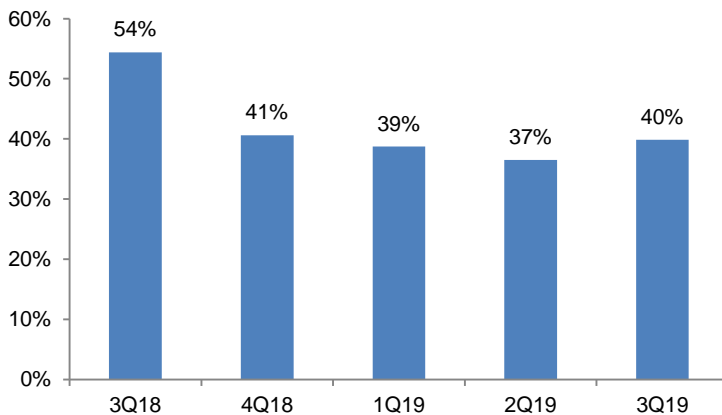
**Consumer upgrade.** The improvement in Chinese consumers' standard of living has led to an ongoing consumer upgrade from basic needs to more discretionary spending, and from physical goods-oriented purchase to services/experience-oriented ones.

**Labor supply for the consumer service industry.** There is a shift in the labor supply from the traditional agricultural and manufacturing sectors into the services sector. In our view, this accelerates the emergence of new business models such as on-demand delivery.

**Telecom infrastructures.** In our view, the growing penetration of mobile internet and mobile payment solutions, such as AliPay and TenPay in China, has provided the infrastructure required to support the growth of online food delivery.

On the back of this positive macro backdrop, gross transaction value (GTV) of MD's food delivery has been experiencing a rapid growth pace of about 37-40% YoY in recent quarters.

Exhibit 6: MD's food delivery GTV growth (YoY)



Source(s): Company, ABCI Securities

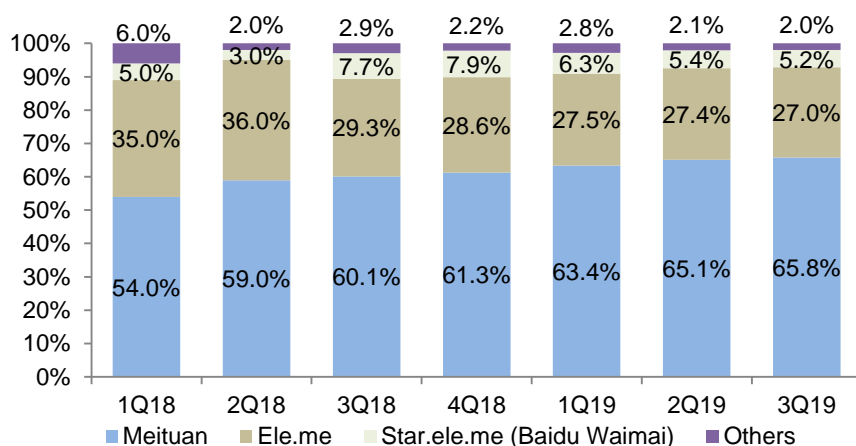
## China's leading e-commerce platform for services

MD is China's leading e-commerce platform for services, connecting consumers and merchants on various services offerings for consumers' daily needs such as food, lifestyle, and travel services.

In 9M19, its platform generated RMB 492bn in gross transaction volume. Also, it served 436mn of annual transacting users and 5.9mn of active merchants as of Sep 2019.

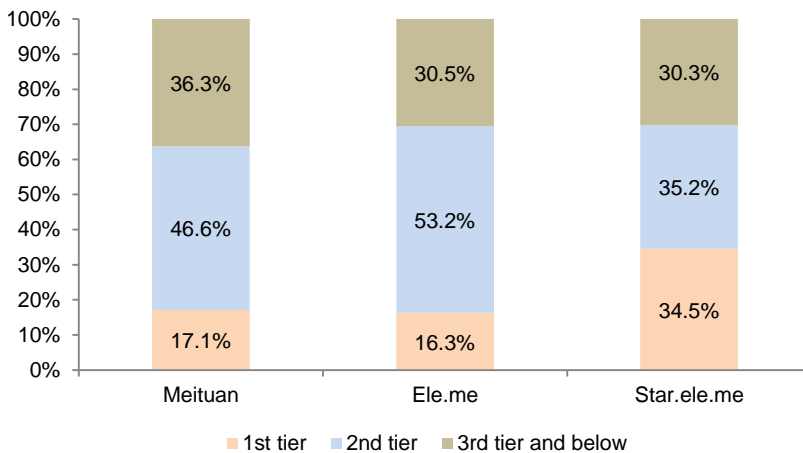
Overall, MD enjoys a dominant market position in the online food delivery market. According to Trustdata, its market share has increased steadily from 54% in 1Q18 to 65.8% in 3Q19. In contrast, the market share of its major competitor, Alibaba's Ele.me, has been sliding gradually in recent quarters despite its effort to restructure the business.

**Exhibit 7: Market share trend in China's online food delivery**



Source(s): Trustdata

**Strong brand equity, substantial user base, and high user stickiness:** As China's largest online food delivery platform, MD has become a household brand in the country. In our view, MD's strong brand equity has led to substantial user base and high consumer stickiness. E.g., the annual number of transactions made by each transacting user increased from 10.4 in 2015 to 23.8 in 2018; also, according to Trustdata. About 36.3% of MD's users were located in third-tier cities or below in June 2019, higher than its major peers; this should allow the Group to capture growth in the lower-tier cities better than its peers.

**Exhibit 8: User distribution by city tier (June 2019)**


Source(s): Trustdata

**Empowering merchants with a wide range of solution services:** The Group provides merchants with various valued-added tools to help them succeed in the platform. These include targeted online marketing tools, a cost-effective on-demand delivery infrastructure, cloud-based ERP systems, integrated payment systems, and supply chain, and financing solutions. In our view, these services help merchants attract more consumers, increase sales, and enhance profitability.

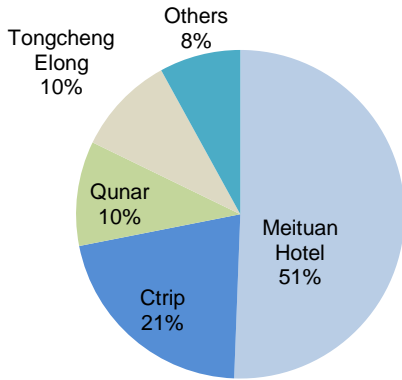
As a result, the Group has increased its merchant base while cultivating long-term loyalty. Its active merchant increased from 2mn in 2015 to 5.9mn as of Sep 2019.

**Comprehensive intra-city on-demand delivery network:** The Group has one of the leading intra-city on-demand delivery networks in China with about 2.7mn of delivery riders. In 9M19, it completed food delivery transactions amounting to ~RMB 6.2bn. In our view, this comprehensive delivery network creates a significant entry barrier for potential new entrants. It also lays the logistic foundation for future product category expansion.

**One-stop platform capturing cross-selling opportunities:** Its one-stop platform offers diversified services in various high-frequency consumer services, which in turn enables it to capture cross-selling opportunities to a broad range of new categories such as beauty, entertainment, hotel, travel, and other lifestyle services. In 1H19, it has the largest market share in China's online hotel booking industry both in terms of order volume and room nights, as illustrated in Exhibit 9 &10.

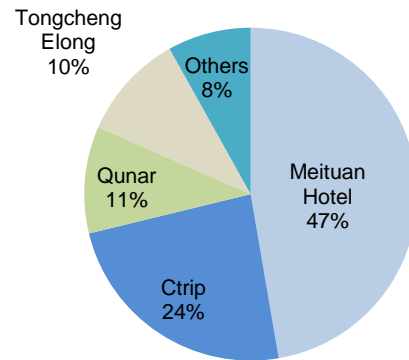


Exhibit 9: China's online hotel booking market share in terms of order volume (1H19)



Source(s): Trustdata

Exhibit 10: China's online hotel booking market share in terms of room nights (1H19)



Source(s): Trustdata

In addition to hotel booking, the Group is currently developing various new businesses, including cloud-based ERP systems, integrated payment services, supply chain solutions to merchants, small and medium-sized merchants financing services, local transportation services, and more.





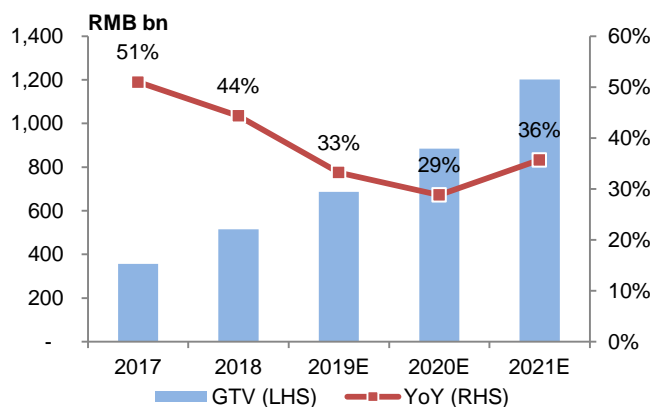
### Financial analysis

In 2019-2021E, we expect GTV to grow by 33% CAGR reaching RMB 1.2tr by 2021E, driven by the growing number of transacting users and food delivery transactions.

MD's monetization rate improved to 14.1% in 9M19 vs. 12.7% in 2018, mainly driven by smoothening operations of its new business initiatives. Looking forward, we expect the monetization rate to stay mostly stable over the next 1-2 years.

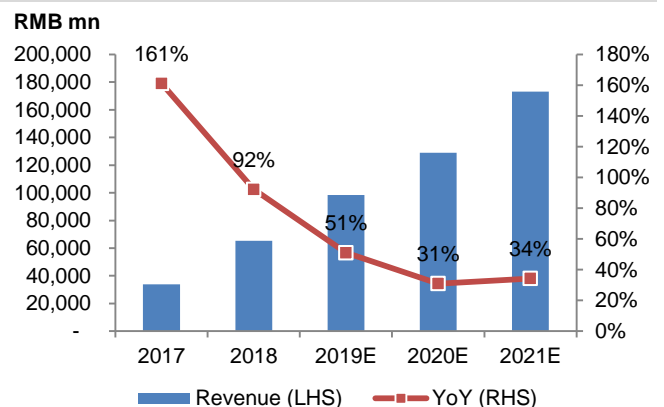
Overall, we expect revenue to experience 38% CAGR in 2019-2021E, reaching RMB 173bn by 2021E, mainly driven by growing GTV.

Exhibit 11: GTV outlook



Source(s): Company, ABCI Securities

Exhibit 12: Revenue outlook



Source(s): Company, ABCI Securities

Exhibit 13: Major assumptions

	2017	2018	2019E	2020E	2021E
Annual transacting users (m)	310	400	480	553	608
No. of food delivery transaction (m)	4,090	6,393	8,951	12,352	16,675
Number of domestic hotel room nights (m)	205	284	397	437	590
Monetization rates	9.5%	12.7%	14.3%	14.6%	14.4%

Source(s): Company, ABCI Securities

In terms of business mix, food delivery accounted for 58% of revenue in 2018, followed by in-store, hotel and travel (24%), and new initiatives and others (17%). We expect revenue share of food delivery business to increase to 62% by 2021E, given the ongoing expansion.

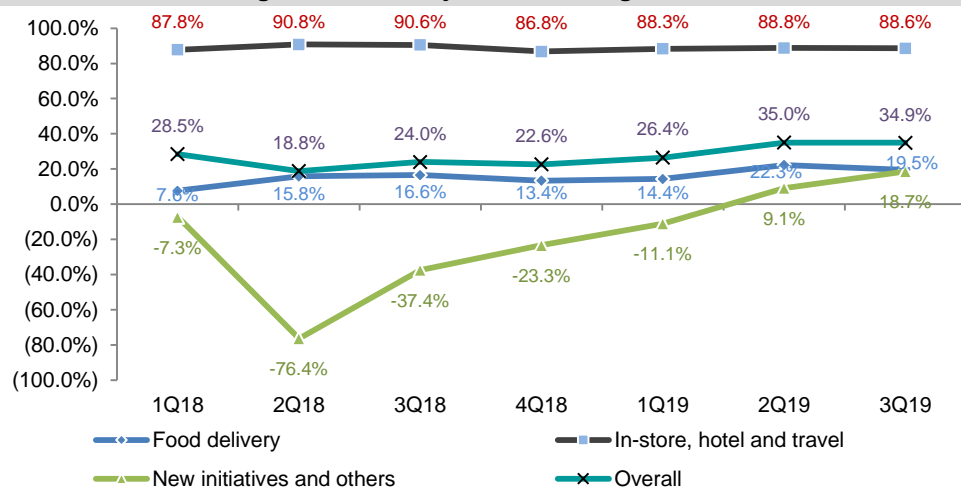
**Exhibit 14: GTV and revenue forecasts**

	2017	2018	2019E	2020E	2021E
<b>Gross transaction volume (RMB bn)</b>	<b>357</b>	<b>516</b>	<b>687</b>	<b>885</b>	<b>1,201</b>
Food delivery	171	283	396	554	765
In-store, hotel and travel	158	177	221	243	328
New initiatives and others	28	56	70	88	108
<b>Revenue (RMB mn)</b>	<b>33,927</b>	<b>65,227</b>	<b>98,529</b>	<b>129,035</b>	<b>173,271</b>
Food delivery	21,032	38,143	55,429	77,600	107,088
In-store, hotel and travel	10,853	15,840	22,100	24,310	32,819
New initiatives and others	2,043	11,244	21,000	27,125	33,364

Source(s): Company, ABCI Securities

Among the three segments, in-store, hotel & travel enjoy the highest gross margin (GPM) of 88-90% in recent years; the gross margin of food delivery rose to 19.5% in 3Q19 from 8.1% in 2017, thanks to improved market position conducive to higher pricing power. New initiatives and other businesses have turned around with a positive gross margin since 2Q19 because of the operating restructuring related to Mobike.

As a result, the overall gross margin improved to 32.6% in 9M19 vs. 23.2% in 2018. Looking forward, we expect gross margin to improve further to 33.3% by 2021E.

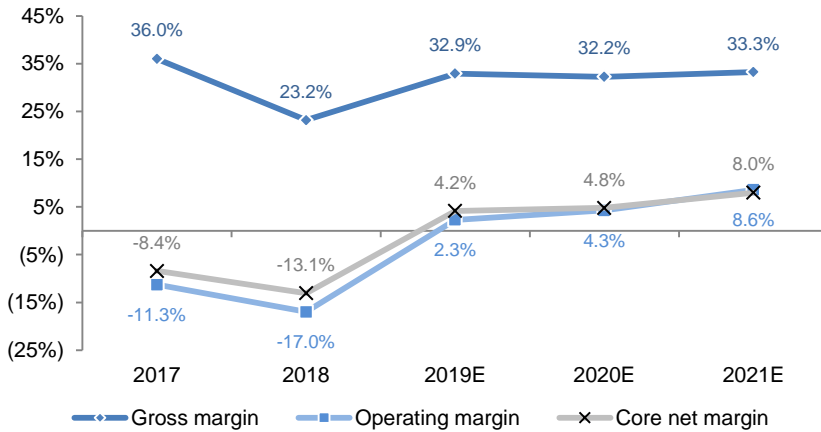
**Exhibit 15: Gross margin trends of major business segments**


Source(s): Company, ABCI Securities

In terms of operating cost, we expect SG&A/GTV ratio to drop to 3.8% by 2021E from 5.6% in 2018 on economies of scale. As a result of improving operating leverage, we expect core net margin (excl. impacts of fair value changes of preferred shares, share-based compensation, other non-operating items) to rise to 8.0% by 2021E from -13.1% in 2018.



Exhibit 16: Margin forecasts

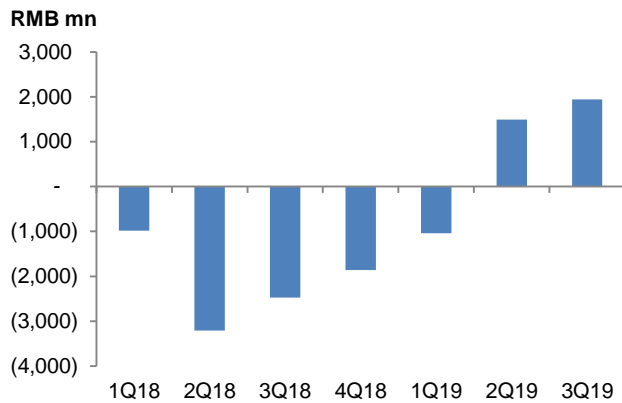


Source(s): Company, ABCI Securities

In terms of profitability, the Group has experienced a turnaround with positive core net profit starting 2Q19. Overall, we expect this trend to continue.

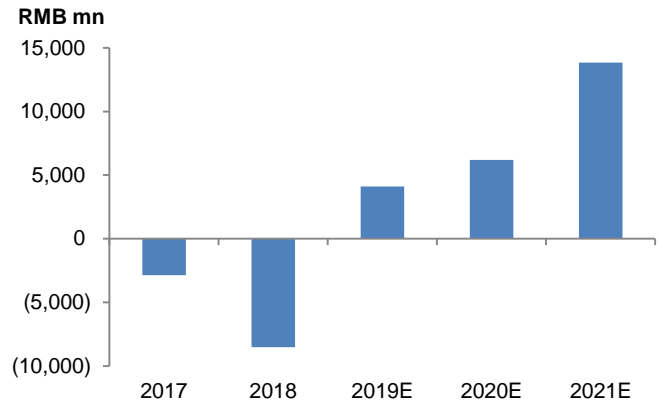
Looking forward, we expect core net profit to reach RMB13.8bn by 2021E vs. the core net losses of RMB 8.5bn in 2018.

Exhibit 17: Quarterly core net profit



Source(s): Company

Exhibit 18: Core net profit outlook



Source(s): Company, ABCI Securities

## Initiate with HOLD; TP at HK\$ 100

Overseas listed major online food delivery platforms such as Grubhub (GRUB US), Just Eat (JE/LN), Delivery Hero (DHER GY), and Takeaway.com (TKWY NA) are currently trading at the averages of 5.9x/4.7x 2020E/2021E P/S. Overall, these platforms are still in the early stage of profitability, and investors tend to value them on a P/S basis.

On the other hand, major online travel platforms, including Trip.com (TCOM US) and Tongcheng-Elong (780 HK), are currently trading at the averages of 14.5x/11.8x 2020E/2021E P/E.

### Exhibit 19: Peer valuation

		Market cap (Lcy)	Price (Lcy)	P/sales			P/E		
				2019E	2020E	2021E	2019E	2020E	2021E
<b>Listed online food delivery platform</b>									
GRUB US Equity	GRUBHUB	4,952	<b>54.2</b>	3.8	3.4	3.0	60.3	291.5	63
JE LN Equity	JUST EAT	5,882	<b>861</b>	5.7	4.6	3.9	189.7	45.9	29.7
DHER GY Equity	DELIVERY HERO	13,711	<b>69.6</b>	10.4	6.5	4.5	NA	NA	NA
TKWY NA Equity	TAKEAWAY.COM	5,209	<b>85.1</b>	12.6	9.2	7.4	NA	112.8	50
				<b>8.1</b>	<b>5.9</b>	<b>4.7</b>	<b>125</b>	<b>150.1</b>	<b>47.6</b>
<b>Listed online travel platform</b>									
TCOM US Equity	TRIP.COM	18,906	<b>32.1</b>	3.7	3.3	2.8	22.6	18.3	14.7
780 HK Equity	TONGCHENG-ELONG	22,586	<b>10.6</b>	2.7	2.3	1.9	13.2	10.8	8.8
				<b>3.2</b>	<b>2.8</b>	<b>2.4</b>	<b>17.9</b>	<b>14.5</b>	<b>11.8</b>
<b>HK-listed major online platform</b>									
700 HK Equity	TENCENT	3,616,620	<b>378.6</b>	8.7	7	5.8	34.6	28.3	23.2
9988 HK Equity	ALIBABA	4,386,789	<b>204.4</b>	7.6	5.9	4.8	30.5	25.4	20.1
				<b>8.2</b>	<b>6.4</b>	<b>5.3</b>	<b>32.6</b>	<b>26.9</b>	<b>21.6</b>

Source(s): Bloomberg, ABCI Securities

We set our TP to HK\$ 100 using the SOTP approach, which warrants a **HOLD** rating. Despite the intact long-term outlook, we believe near-term macro headwinds related to coronavirus outbreak would hinder share performance in the near term.

### Exhibit 20: SOTP-based TP (HK\$ per share)

Segment	TP	Comment
Food delivery	82	5.5x 2020E P/S
In-store/Hotel/Travel	18	18.0x 2020E P/E
<b>Overall</b>	<b>100</b>	

Source(s): ABCI Securities estimates



## Risk factors

### **Prolonged coronavirus epidemic**

Prolonged coronavirus outbreak could significantly impact its In-store/travel/hotel segment, which accounted for 62% of gross margin in 9M19 due to disturbances in the international and local inter-city transportations as well as lower traveling of demand by consumers.

### **Business expansion risk**

The Group has been expanding into new service categories, such as car-hailing, bike-sharing, and retail grocery store markets. Expansion into new service categories involves new risks and challenges, which might impact financial performance.

### **Market competition**

The Group has to compete with other online e-commerce service platform, in particular Alibaba and Ctrip. The competition will be in terms of commission rate, promotion discount, brand advertising, technological investment, etc.

### **Slowing down of service consumption**

As the Group is exposed to consumer spending on services, any significant slowdown of consumption in China would impact financial performance.

### **Non-GAAP financials**

The Group has disclosed non-GAAP financial metrics such as non-GAAP net profit to supplement its GAAP financial measures. In our view, these non-GAAP financial measures are not standardized and should only be used as reference.



Consolidated income statement (FY18A-FY21E)

FY Ended Dec 31 (RMB mn)	FY18A	FY19E	FY20E	FY21E
<b>Total revenue</b>	<b>65,227</b>	<b>98,529</b>	<b>129,035</b>	<b>173,271</b>
Cost of sales	(50,122)	(66,095)	(87,433)	(115,638)
<b>Gross profit</b>	<b>15,105</b>	<b>32,433</b>	<b>41,602</b>	<b>57,633</b>
Other gains/losses	2,585	2,600	2,850	2,850
Selling & marketing expenses	(15,872)	(20,058)	(24,777)	(31,219)
R&D expenses	(7,072)	(8,587)	(9,734)	(10,807)
General & admin expenses	(5,832)	(4,122)	(4,424)	(3,602)
<b>Operating Profits</b>	<b>(11,086)</b>	<b>2,267</b>	<b>5,517</b>	<b>14,855</b>
Finance income, net	249	(21)	(50)	(50)
Other cost	(104,654)	75	90	110
<b>Profit before tax</b>	<b>(115,491)</b>	<b>2,321</b>	<b>5,557</b>	<b>14,915</b>
Tax	2	580	1,389	3,729
<b>Profit after tax</b>	<b>(115,493)</b>	<b>1,741</b>	<b>4,168</b>	<b>11,186</b>
Minority interests	(16)	(2)	(4)	(11)
<b>Profits attributable to shareholders</b>	<b>(115,477)</b>	<b>1,743</b>	<b>4,172</b>	<b>11,197</b>
Share-based compensation	1,865	2,061	1,770	2,401
Amortization and impairment	2,368	600	600	600
Adjustments on disposals/revaluation	102,743	(300)	(350)	(350)
Other adjustments	(16)	(2)	(4)	(11)
<b>Core net profits</b>	<b>(8,517)</b>	<b>4,102</b>	<b>6,187</b>	<b>13,838</b>
<b>Growth</b>				
Total revenue (%)	92.3	51.1	31.0	34.3
Gross Profits (%)	23.6	114.7	28.3	38.5
Operating Profits (%)	189.7	(120.5)	143.3	169.3
Net profit (%)	510.5	(101.5)	139.4	168.4
Core net profit (%)	198.6	(148.2)	50.8	123.6
<b>Operating performance</b>				
Operating margin (%)	(17.0)	2.3	4.3	8.6
Net margin (%)	(177.0)	1.8	3.2	6.5
Core net margin (%)	(13.1)	4.2	4.8	8.0
ROAE (%)	(502.0)	2.0	4.6	11.4
ROAA (%)	(113.0)	1.4	3.3	8.1

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

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (FY18A-FY21E)

As of Dec 31 (RMB mn)	FY18A	FY19E	FY20E	FY21E
Fixed assets	3,979	2,750	2,121	8,186
Intangible assets	33,876	33,876	33,876	33,876
Investment in associates and JV	2,103	2,103	2,103	2,103
Financial assets	6,242	6,242	6,242	6,242
Other non-current assets	1,312	1,312	1,312	1,312
<b>Total non-current assets</b>	<b>47,512</b>	<b>46,283</b>	<b>45,655</b>	<b>51,719</b>
Cash & equivalents	17,044	20,697	26,737	33,578
Restricted cash	4,256	4,256	4,256	4,256
Account receivables	466	1,796	2,705	4,108
Deposit, prepayments and other assets	9,065	9,065	9,065	9,065
Inventories	400	605	792	1,063
Other current assets	41,918	41,918	41,918	41,918
<b>Total current assets</b>	<b>73,149</b>	<b>78,336</b>	<b>85,473</b>	<b>93,988</b>
<b>Total assets</b>	<b>120,661</b>	<b>124,619</b>	<b>131,127</b>	<b>145,707</b>
Accounts payable	5,341	7,558	9,899	13,292
Borrowings and notes	1,800	1,800	1,800	1,800
Deferred revenue	3,103	3,103	3,103	3,103
Other current liabilities	21,581	21,581	21,581	21,581
<b>Total current liabilities</b>	<b>31,825</b>	<b>34,042</b>	<b>36,382</b>	<b>39,776</b>
Deferred revenue	625	625	625	625
Borrowings	470	470	470	470
Other non-current liabilities	1,232	1,232	1,232	1,232
<b>Total non-current liabilities</b>	<b>2,326</b>	<b>2,326</b>	<b>2,326</b>	<b>2,326</b>
<b>Total liabilities</b>	<b>34,151</b>	<b>36,369</b>	<b>38,709</b>	<b>42,102</b>
<b>Net current assets</b>	<b>41,324</b>	<b>44,294</b>	<b>49,090</b>	<b>54,212</b>
Equity attributable to shareholders	86,504	88,247	92,419	103,616
Non-controlling interests	5	4	(1)	(12)
<b>Total equity</b>	<b>86,510</b>	<b>88,251</b>	<b>92,418</b>	<b>103,604</b>

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

Individual items may vary from reported figures due to rounding /definition differences

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Chow Sau Shing, 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 (except "Disclosures of Interests" below) 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 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 2008 (HSI total return index 2008-19 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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