

Ever Sunshine (1995 HK)

Fast growth driven by third parties

- Driven by projects from CIFI and third-party developers, GFA under management soared 21% HoH to 32.1mn sqm in 1H18.
- On the back of increasing CVAS business with higher profitability, the Group's gross margin increased 3.5ppt YoY to 28.8% in 1H18.
- Initiate **BUY** with TP HK\$ 2.70 based on DCF valuation with a WACC of 11%

Fastest-growing player among the top 20 property management companies in China. According to China Index Academy (CIA), Ever Sunshine Lifestyle Services (ES) is one of the fastest-growing property management companies among the Top 100 Property Management Companies, with GFA under management, revenue and net profit expanding at 64.6%, 47.4% and 121.3% CAGRs in 2015-17. It is ranked 7th, 11th and 5th among the Top 100 Property Management Companies, and 5th, 6th and 1st among the Top 20 Property Management Companies. In 1H18, ES's net profit grew 35%YoY to RMB 41mn.

GFA under management expanded on projects from independent third parties. ES's GFA under management is driven by projects from related company – CIFI (884 HK), as well as projects developed by independent third parties. GFA under management rose 21% HoH to 32.1mn sqm in 1H18. CIFI's contracted sales jumped 46%YoY to ~RMB 152bn in 2018, locking in future managed GFA for ES. CIFI's joint projects with property developers have provided ES with opportunities to enter new markets. GFA under management from independent third parties increased 39%HoH to 18.6mn sqm in 1H18. As of June 30, 2018, projects from independent third parties accounted for 58% of total GFA under management

Community value-added services (CVAS): division with the fastest revenue growth. ES's CVAS mainly includes parking space management, leasing and sales services, home-living services, common area VAS and property agency services. The division's gross margin at 66.9% in 1H18 was much higher than other business lines, supporting the Group's overall profitability

Initiate BUY with TP at HK\$2.70. Since a large part of ES's revenue is determined by PM agreements that generate a highly predictable cash flow, we believe DCF would be a suitable valuation method. Our DCF based TP of HK\$ 2.70 translates into 16.1x P/E and 3.2x P/B for 2019E, which is in line with the sector average.

Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	480	725	1,097	1,741	2,612
Chg (% YoY)	43.7	51.1	51.3	58.7	50.1
Net profit (RMB mn)	34	76	124	221	348
Chg (% YoY)	115.9	127.5	62.4	78.1	57.6
EPS (RMB)	0.03	0.07	0.11	0.14	0.23
Chg (% YoY)	115.9	127.5	57.5	33.9	57.6
BVPS (RMB)	0.15	0.22	0.62	0.72	0.88
Chg (% YoY)	25.0	45.8	183.4	16.3	22.1
P/E (x)	57.1	25.1	15.94	11.90	7.55
P/B (x)	11.4	7.8	2.77	2.38	1.95
ROE (%)	20.0	31.2	13.0	20.0	25.8
ROA (%)	6.8	10.9	8.7	13.6	17.9
DPS (RMB)	-	-	0.03	0.04	0.07
Yield (%)	-	-	1.88	2.52	3.97
Net gearing (%)	Net Cash	Net Cash	Net cash	Net cash	Net cash

Source(s): The Company, ABCI Securities estimates

Initiation report

Jan 31, 2019

Rating: **BUY**

TP: **HK\$ 2.70**

Analyst : **Kenneth Tung**

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Share price (HK\$)	2.00
Est. share price return	35.0%
Est. dividend yield	2.5%
Est. total return	37.5%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	2.19/1.59
Issued shares (mn)	1,536
Market cap (HK\$ mn)	3,072
Avg daily turnover since listing (HK\$ mn)	5.40
Major shareholder(s) (%): Lin's Family	68.8

Source(s): Bloomberg, ABCI Securities

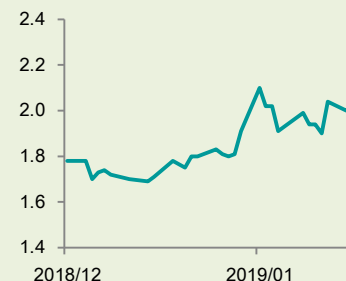
Share Performance (%)

	Absolute	Relative*
1-mth	12.4	5.1
3-mth	NA	NA
6-mth	NA	NA

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

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Fastest-growing player among the top 20 property management companies

According to China Index Academy (CIA), Ever Sunshine (ES) is one of the fastest-growing property management companies among the Top 100 Property Management Companies. Its GFA under management, revenue, and net profit increased at 64.6%, 47.4% and 121.3% CAGRs from 2015-17. It is ranked 7th, 11th and 5th among the Top 100 Property Management Companies, and 5th, 6th and 1st among the Top 20 Property Management Companies. As of June 30, 2018, ES provided property management services and VAS in 35 cities across China, with total GFA under management amounting to ~32.1mn sqm, serving more than 178,000 households.

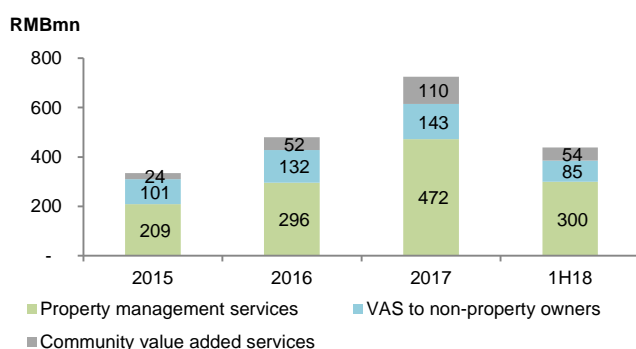
ES has three main business lines:

1) Property management (PM) services. ES provides property developers, property owners and residents with a wide range of PM services that primarily comprises cleaning, security, gardening and repair and maintenance services.

2) Value-added services to non-property owners (VASNPO). ES offers a comprehensive range of VAS to non-property owners, who are mostly property developers. VAS under this category primarily include (i) sales assistance services; (ii) additional tailored services; (iii) housing repair services; (iv) pre-delivery inspection services; (v) preliminary planning and design consultancy services that involve entering and inspecting each unit to advise on their adequacy from the end user's perspective.

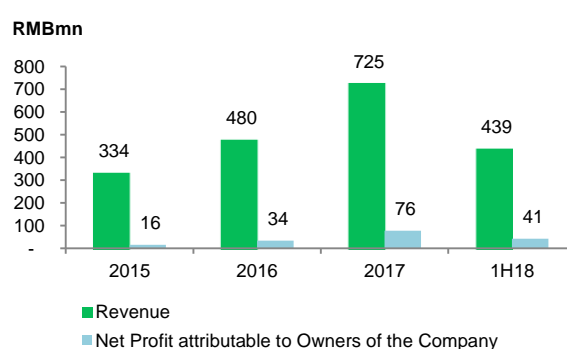
3) Community value-added services (CVAS). ES provides services to property owners and residents to improve living experiences and to preserve and increase the value of assets. These services primarily include, among others, (i) home living services; (ii) parking space management, leasing and sales services; (iii) property agency services; (iv) common area value-added services.

Exhibit 1: ES's revenue mix (2015-1H18)



Source(s): The Company, ABCI Securities

Exhibit 2: ES's revenue and net profit (2015-1H18)



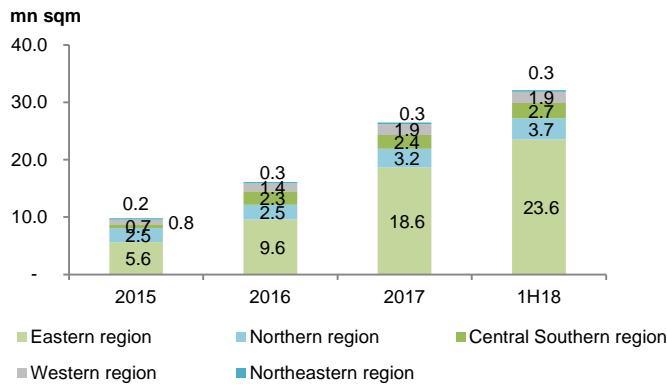
Source(s): The Company, ABCI Securities

Focus on eastern China

Since ES's inception, the Group expanded its geographic presence from Shanghai to 35 cities in China as of June 30, 2018. ES managed 208 properties, together with another 56 properties that have not been delivered for property management. Eastern China, which includes cities such as Shanghai, Suzhou, Nanjing, Hefei, etc., is the core revenue-generating regions for ES. PM revenue from eastern China increased from 60.9% in 2015, to 66.7% in 1H18.

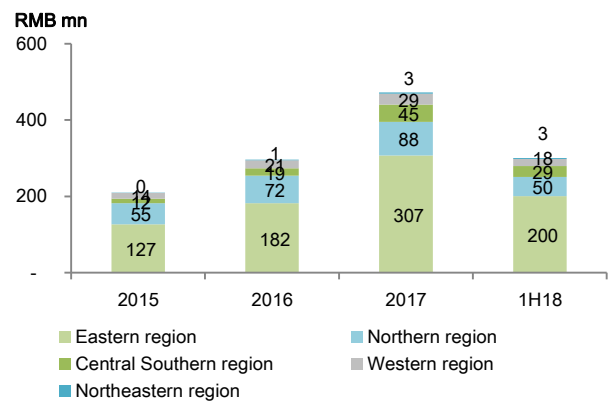


Exhibit 3: ES's GFA under management by region



Source(s): The Company, ABCI Securities

Exhibit 4: ES's PM revenue by region



Source(s): The Company, ABCI Securities

Exhibit 5: ES's projects under management in China

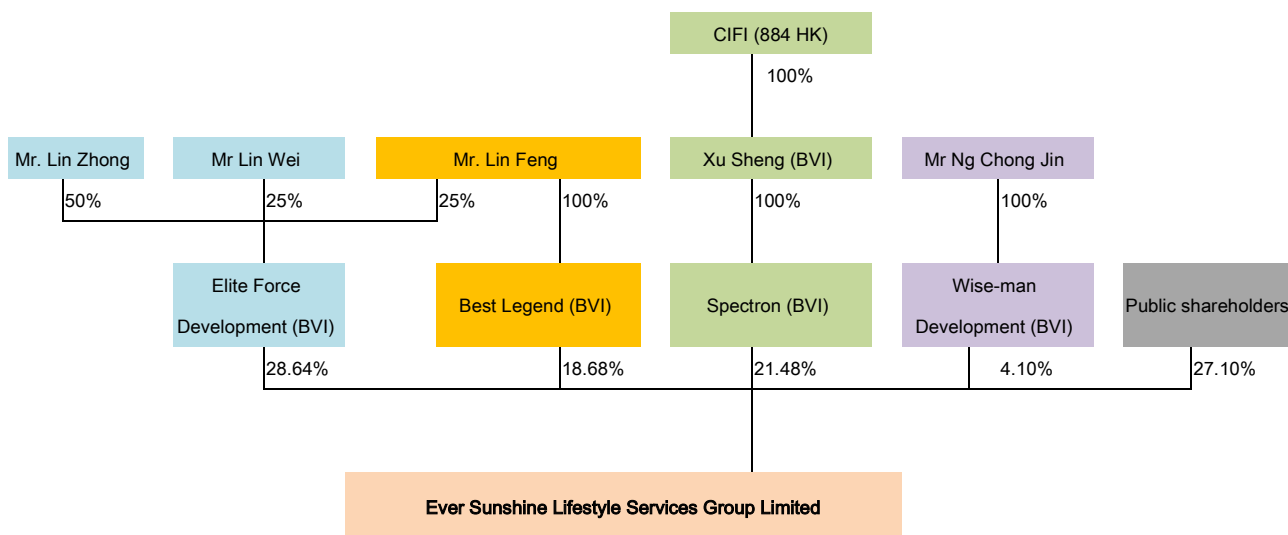


Source(s): The Company, ABCI Securities

Shareholding structure

Following ES's IPO, CIFI holds a 21.48% stake in ES. The controlling shareholders– the Lin's family, including their indirect stake via CIFI, owns 68.8% of ES's shares. Another 4.10% is owned by Mr Ng Chong Jin, who purchased the shares at HK\$15.555mn in July 2018. Public shareholders own 27.1% of total shares.

Exhibit 6: Shareholder structure after IPO



* Mr Lin Zhong is the founder of CIFI. According to HKEX, Mr Lin Zhong owns a 45.03% stake in CIFI. The Lin's family collectively owns 68.8% in ES.
 Source(s): The Company, ABCI Securities

PM Services: independent third parties and non-residential projects to drive growth

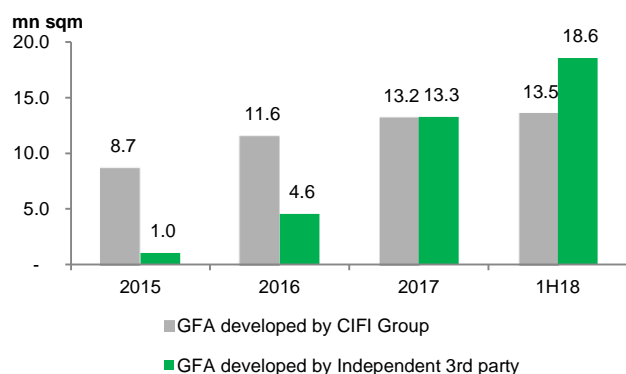
Fast-growing GFA under management driven by CIFI and independent third parties

ES's managed GFA rose from 9.8mn sqm in 2015, to 26.5mn sqm in 2017, implying a 65% CAGR during the period. The fast growth is driven by both projects from related company – CIFI, as well as projects developed by independent third parties.

According to CRIC, CIFI was ranked 15th by 2018 contracted sales amount in China. CIFI's contracted sales grew 46%YoY ~RMB 152bn in 2018. As of June 30, 2018, total landbank of CIFI was 40.4 mn sqm, up 30.3% HoH, covering 53 cities across China. In 2015-1H18, all residential communities solely developed by CIFI were managed by ES.

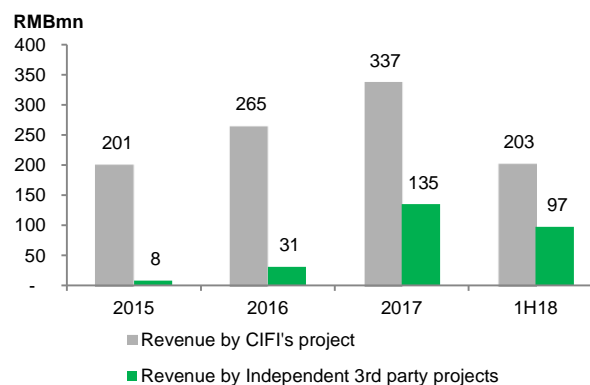
CIFI's joint projects with other property developers have provided ES with opportunities to enter new markets. ES has established a marketing team comprising 44 members with proven business development capabilities. As of Dec 2018, ES entered into strategic cooperation arrangements with three third-party developers in Shandong and one third-party developer in Beijing, pursuant to which ES will be considered in priority as the PM service providers. GFA under management from independent third parties increased from 1.0mn sqm in 2015 to 13.3mn sqm in 2017, implying a CAGR of 256% during the period. As of June 2018, projects from independent third parties accounted for 58% of total GFA under management.

Exhibit 7: Total GFA under management from projects developed by independent third parties



Source(s): The Company, ABCI Securities

Exhibit 8: PM revenue from projects developed by independent third parties

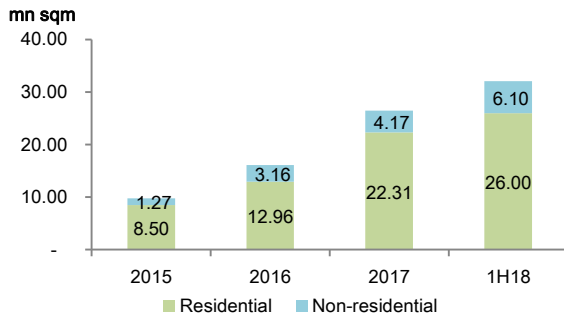


Source(s): The Company, ABCI Securities

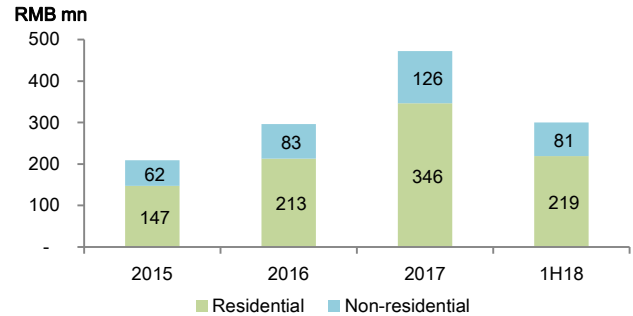
Non-residential projects to support fee rate

GFA under management from non-residential projects grew from 1.27mn sqm in 2015 to 4.17mn sqm in 2017, implying an 81% CAGR during the period. Non-residential projects account for 27.0% of ES's revenue from PM services in 1H18. Non-residential properties under management include office buildings, shopping malls, industrial parks, hospitals and schools, among others. ES was contracted to manage industrial parks, hospitals, factories, exhibition centers, gymnasiums, parks and educational institutions. ES was contracted to manage Suzhou Entrepreneurship Park (蘇州創業園) in Oct 2015, the Second People Hospital of Dezhou (德州市第二人民醫院) in Dec 2017, and the Xiamen branch office of a PRC telecom corporation in Feb 2018. According to CIA, property management fees for non-residential properties are higher than that of the residential ones. In China, the average property management fee for residential properties was RMB 2.3/sqm/mth in 2017, while property management fees for industrial parks, schools and hospitals in 2017 were RMB3.6/sqm/mth, RMB3.4/ sqm/mth and RMB 6.9 sqm/mth. We believe the

inclusion of more non-residential projects will enable ES to elevate the average management fee in the future.

Exhibit 9: GFA under management from non-residential projects


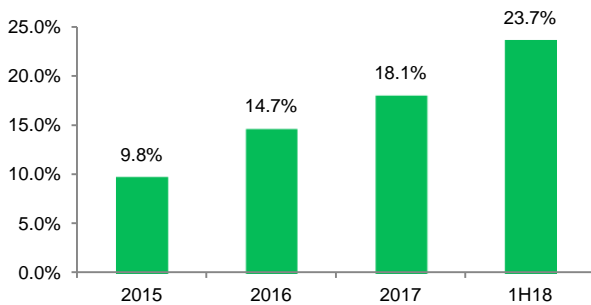
Source(s): The Company, ABCI Securities

Exhibit 10: PMS revenue from residential and non-residential projects


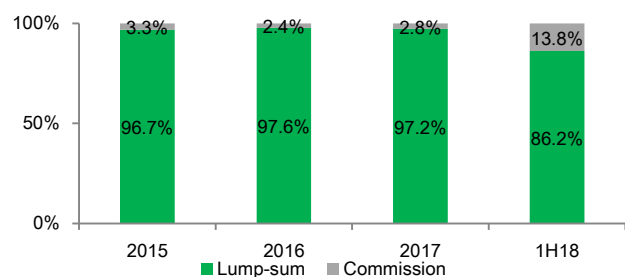
Source(s): The Company, ABCI Securities

Rising gross margin on better economies of scale

ES's gross margin for PM Business rose from 9.8% in 2015 to 23.7% in 1H18 on better economies of scale and cost-saving measures such as technologization. In the event of unexpected increase in cost of sales, ES may propose raising property management fees with property owner associations when renewing service contracts. ES has successfully raised fee for one of its projects under management from RMB 3.0/sqm/mth to RMB 4.0/sqm/mth in 2017.

Exhibit 11: Gross margin for PM business


Source(s): The Company, ABCI Securities

Exhibit 12: GFA under management: lump-sum vs. commission


Source(s): The Company, ABCI Securities

VASNPO: growing along with presales activities of CIFI

Revenue derived from developers

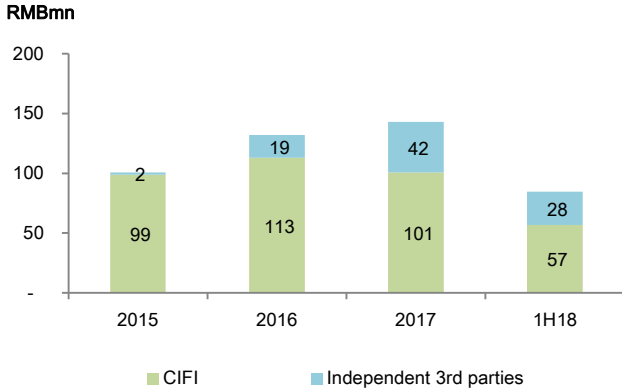
VASNPO accounted for 20% and 19% of total revenue in 2017 and 1H18. ES provides the following VAS to non-property owners, who are mostly property developers:

- a) **Sales assistance services.** Property developers may engage ES to provide such services in relation to their sales and leasing offices. ES's sales assistance services include cleaning, security, gardening, maintenance of display units and visitor management. Fees are charged based on a profit mark-up on top of costs.
- b) **Additional tailored services.** ES may offer additional services to non-property owners tailored to their specific needs. These services may include, among others, conference and administrative support services and management and maintenance of areas or facilities specific to particular properties. E.g., for water amusement parks, ES may manage and maintain customer changing rooms; for office buildings, ES may manage and maintain employee cafeterias. Fees are charged based on a profit mark-up on top of costs.
- c) **Housing repair services.** ES offers housing repair services in relation to newly-completed residential and non-residential properties. After delivery, property owners or residents may discover quality issues with the newly completed properties such as leaks and cracked walls. The property developers would liaise with ES to address these issues. Fees are charged based on a profit mark-up on top of costs.
- d) **Pre-delivery inspection services.** ES provides pre-delivery inspection services that involve entering and inspecting each unit of the property to advise on their adequacy from the end user's perspective. These services are performed after construction and before delivery. ES inspection focuses on issues such as functionality, quality and design. It undertakes various tests and surveys during the on-site examination to detect potential defects. Charges for pre-delivery inspection services are based on GFA.
- e) **Preliminary planning and design consultancy services.** ES provides preliminary planning and design consultancy services to property developers. These services include on-site consulting during construction to facilitate the understanding of the needs of end-users of properties. The scope of assessment covers individual units, communal areas, basements, landscapes and key systems, such as those related to water supply and drainage systems and fire extinguishing systems. Charges for preliminary planning and design consultancy services are based on GFA.

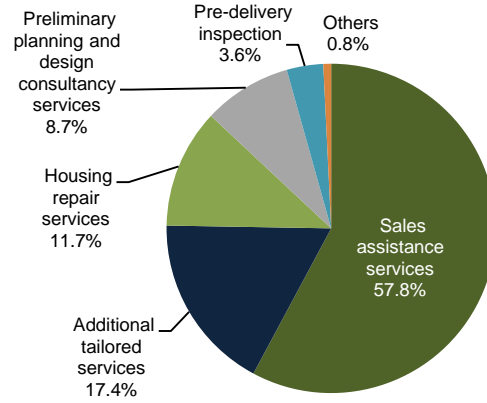
Fast-growing revenue from independent third parties

CIFI is the Group's largest customer in VASNPO business. In 2017, revenue generated from CIFI for VASNPO amounted to RMB 101 mn, accounting for 70% of the division's revenue. Despite CIFI's fast contracted sales growth (2015-17 CAGR: 85.5%), revenue from CIFI for VASNPO only grew at 1% CAGR during 2015-17. We believe this may imply lower fee per project developed by CIFI as a result of confining income from related-party transactions to a reasonable level. Gross margin for the division also dropped 2.9ppt YoY to 20.3% in 2017.

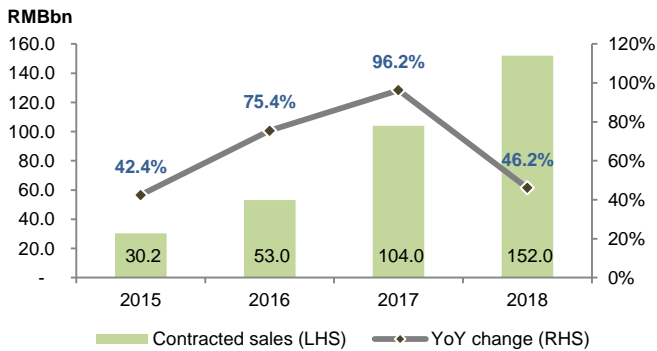
Independent third parties became a key driver for the division. VASNPO revenue from independent third parties increased from RMB 2mn in 2015 to RMB 42mn in 2017. We believe such significant growth reflects increasing demand for ES's quality services.

Exhibit 13: Revenue from VASNPO- CIFI vs. independent third parties


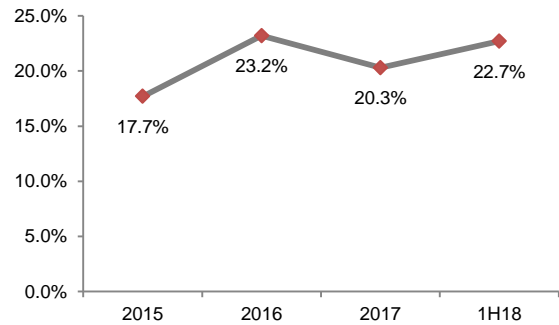
Source(s): The Company, ABCI Securities

Exhibit 14: Revenue from VASNPO by service type (2017)


Source(s): The Company, ABCI Securities

Exhibit 15: CIFI's contracted sales


Source(s): CIFI, ABCI Securities

Exhibit 16: Gross margin for VASNPO


Source(s): The Company, ABCI Securities

CVAS: division with the fastest revenue growth

Lucrative CVAS would drive overall gross margin

ES provides the following community VAS to property owners and residents:

- **Parking space management, leasing, and sales services.** ES manages, leases, and sells parking spaces. ES collects management fees for management services and rental fees in relation to leasing parking spaces. Management services in relation to parking spaces include entry control, surveillance and collection of parking fees.
- **Home-living services.** Home-living services include waste-cleaning services, group purchase services, turnkey furnishing services, home maintenance services and utility fee collection services:

a) Waste-cleaning services. In addition to removing and disposing of trash for property owners and residents, ES's waste-cleaning services include collecting waste produced during construction and decoration. ES also provides services in relation to maintenance of gas pipelines. Fees are generally charged for waste-cleaning services by GFA.

b) Group purchase services. ES coordinates group purchases of products such as groceries and tour packages for property owners or residents. By organizing group purchases, ES is taking initiative to maximize benefits of living in a residential community by bargaining for higher discounts. ES profits by charging suppliers of the purchased products commission fees or by charging property owners and residents a profit mark-up on top of the cost of the purchased products.

c) Turnkey furnishing services. ES aims to create a move-in ready unit for the property owners or residents by offering the options of purchasing sets of furniture, home appliances and accessories for apartments.

d) Home maintenance services. Property owners and residents may request miscellaneous services, such as cleaning apartments prior to move-in, converting exposed balconies into sunrooms, laying ceramic tiles as well as repair, maintenance and installation of home appliances and fixtures. Such services are provided through sub-contractors and in accordance with a pricing schedule.

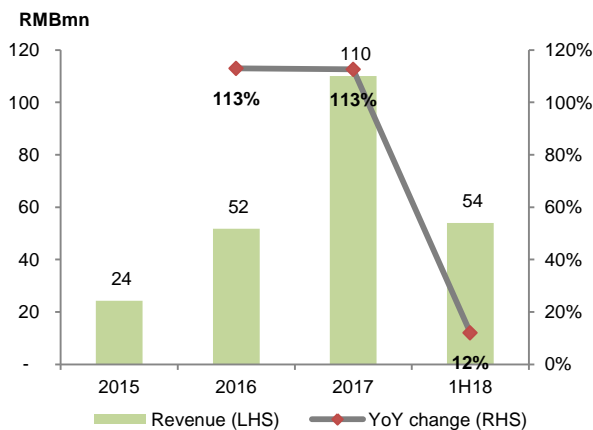
e) Utility fee collection services. ES pays charges for water, electricity and heating on behalf of property owners and residents in certain residential communities. Profits are generated from charging a small fee for every kilowatt of used electricity, for every liter of used water, and per sqm of the area of the heated residence.



- Common area VAS.** ES assists property owners in leasing common spaces such as lift advertising spaces, basements, and outer wall advertising spaces. ES may also rent out empty floor space for small businesses to use as shops. It profits from common area VAS by collecting a portion of the rental fees in accordance with an agreed-upon percentage.
- Property agency services.** ES provides property agency services to property owners in relation to apartments and parking spaces, which involve assisting in searches for tenants or buyers, marketing efforts, and coordination of visitor management. ES reaches out to potential tenants and property buyers through its network of property management offices located at the properties they manage across China.

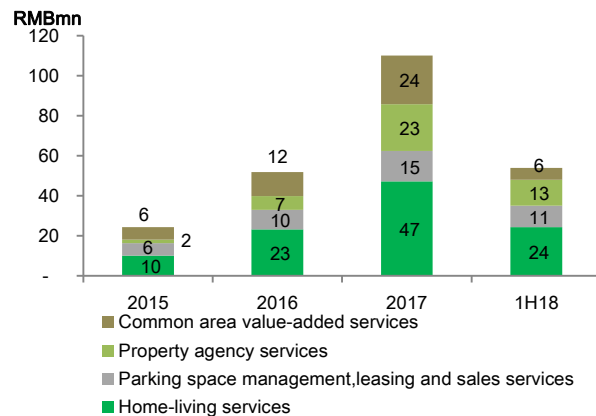
CVAS's revenue jumped 113%YoY to RMB 110mn in 2017. The division's gross margin at 62.4% in 2017 was much higher than PM services' and VASNPO's. In 1H18, CVAS's revenue only increased 12% YoY, mainly due to slowdown in home-living services. In particular, some home-living services provided, such as turnkey services, are highly correlated to delivery of properties from developers to homebuyers. We believe slowdown in 1H18 for CVAS could be a more concentrated delivery schedule in 2H18 by developers.

Exhibit 17: Revenue from CVAS



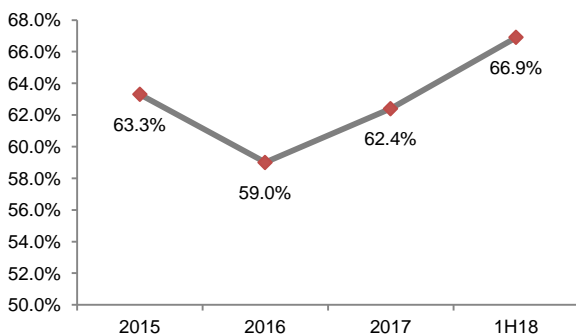
Source(s): The Company, ABCI Securities

Exhibit 18: Revenue from CVAS by service type



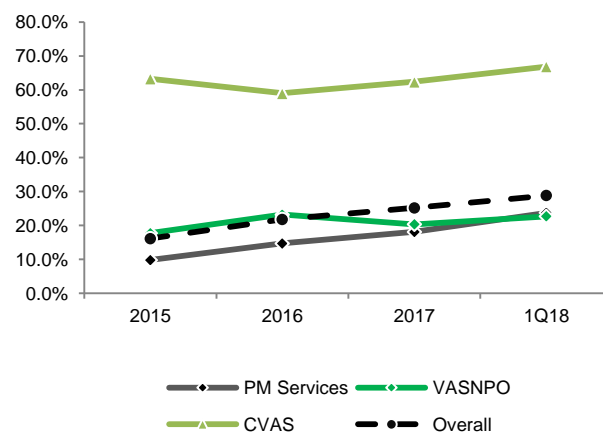
Source(s): The Company, ABCI Securities

Exhibit 19: Gross margin for CVAS



Source(s): The Company, ABCI Securities

Exhibit 20: Gross margin by division



Source(s): The Company, ABCI Securities

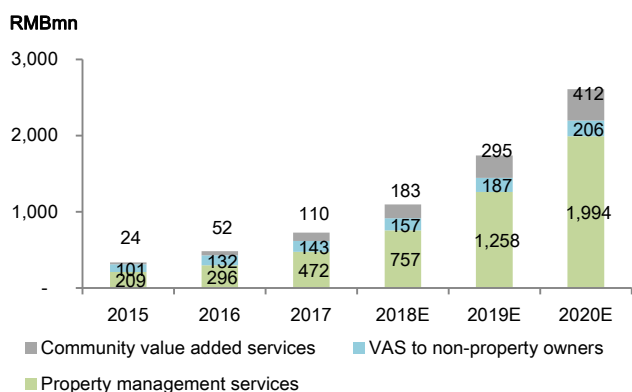
Earnings forecasts

Net profit to expand at 68% CAGR over 2018E-20E

We expect revenue to grow at 54% CAGR in 2018E-20E on expanding GFA under management (60% CAGR in our forecast); meanwhile, average management fee rate would remain stable. We forecast GFA under management from independent third parties would grow at 68% CAGR during 2018-20E (vs. 49% CAGR for GFA under management from CIFI) and become the key revenue driver.

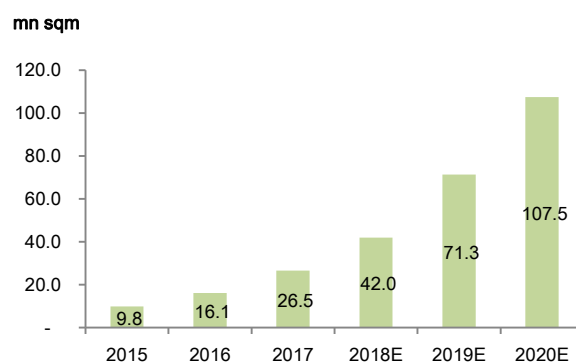
We expect gross margin to improve from 25.9% in 2018E to 26.9% in 2020E on better economies of scale, process standardization, and increasing contribution from higher-margin CVAS business. Net margin would increase from 11.3% in 2018E to 13.3% in 2020E as a result of higher interest income driven by an expanding net cash balance. Based on the higher revenue and gross margin, we forecast net profit to increase from RMB 124mn in 2018E to RMB 348mn in 2020E, representing a 68% CAGR in 2018E-20E.

Exhibit 21: ES's revenue breakdown



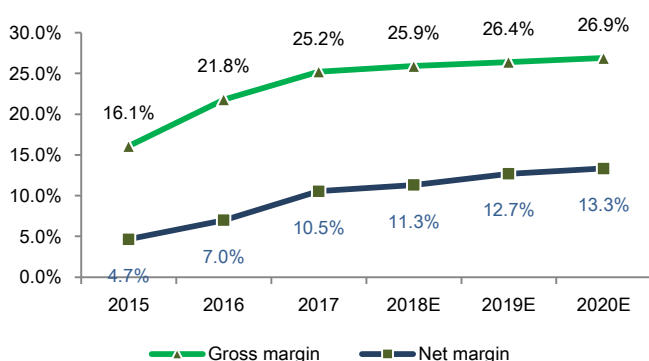
Source(s): The Company, ABCI Securities estimates

Exhibit 22: GFA under management



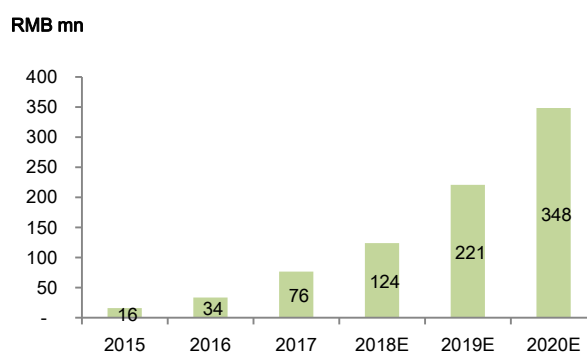
Source(s): The Company, ABCI Securities estimates

Exhibit 23: Gross and core net margins



Source(s): The Company, ABCI Securities estimates

Exhibit 24: ES's net profit

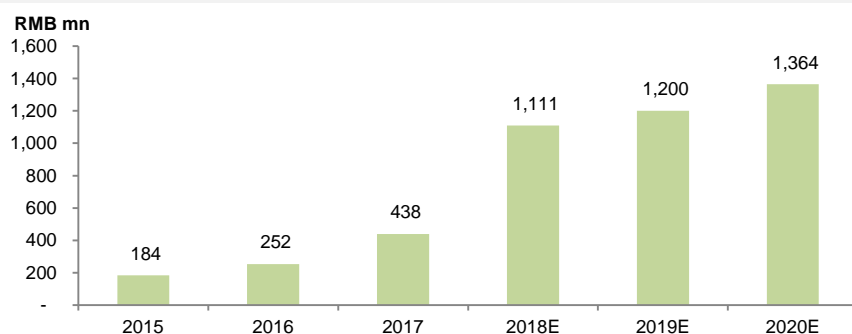


Source(s): The Company, ABCI Securities estimates

A net cash company with a clean structure

ES has been in a net cash position since 2015, with cash balance growing from RMB 184mn in 2015, to RMB 438mn in 2017. We expect net cash balance to reach RMB 1,364mn by 2020E. Besides, the Group has kept its outstanding balance due to/from related parties at a relatively low level. Trade receivables balance and prepayments, deposits & other receivables balance due from related parties were RMB 38.425mn and RMB6.865mn in 2017, representing 5.5% and 1.0% of ES's total assets.

Exhibit 25: Net cash balance



Source(s): The Company, ABCI Securities estimates

Exhibit 26: ES's 1H18 results

P&L	1H18	1H17	YoY	Balance sheet	Jun-18	Dec-17	HoH %
	RMBmn	RMBmn	(%)		RMBmn	RMBmn	
Revenue	439	316	39.0	Gross debt	0	0	--
Cost of Sales	(312)	(236)	32.5	Cash	405	438	(7.6)
Gross Profit	126	80	58.2	Net debt/ (cash)	(405)	(438)	(7.6)
Gross Margin (%)	28.8	25.3	3.5ppt	Net gearing (%)	Net cash	Net cash	--
Selling and distribution costs	0	0	--		1H18	1H17	YoY Chg
Administrative expense	(77)	(42)	84.9	Total revenue	439	316	39.0
EBIT	49	38	29.1	- Property management services	300	202	48.9
EBIT Margin (%)	11.2	12.1	(0.9ppt)	- VASNPO	85	66	28.3
Other income	7	3	--	- CVAS	54	48	12.0
Share of results of an associate	1	0	--	Gross profit	126	80	58.2
Other expenses	(0)	(0)	(1.9)	- Property management services	71	36	96.9
Other exceptional item	0	0	--	- VASNPO	19	13	42.8
Profit before tax	57	41	38.1	- CVAS	36	30	19.0
Tax	(16)	(11)	49.1	Gross profit margin	28.8%	25.3%	3.5ppt
Profit after tax	41	31	34.3	- Property management services	23.7%	17.9%	5.8ppt
Minority Interest	0	0	--	- VASNPO	22.7%	20.4%	2.3ppt
Net profit	41	31	35.2	- CVAS	66.9%	63.0%	3.9ppt

Source(s): The Company, ABCI Securities

Future plans

- **Acquisitions of quality PMCs:** ES plans to acquire or invest in quality property management service providers that operate on a regional scale. Key criteria in evaluating potential targets include: (a) GFA under management of at least 3mn sqm; (b) maintaining an annual net profit of at least RMB 3.0mn for the most recent financial year; (c) maintaining a net profit margin of above 8.0% for the most recent financial year.
- **Acquisitions of companies that provide community products and services:** ES plans to acquire services providers that offer community products and services complementary to its own operation, such as community education (such as preschool education), community retail business, community elderly caring (such as daily care and healthcare), municipal sanitation and municipal order and security maintenance, with a view to enhancing ES's brand recognition and diversifying service offerings.
- **Improving IT system:** ES plans to develop a Property Management Cloud, CRM Cloud, Parking Cloud and Bill Management Cloud for streamlining their procedures in relation to customer services. It also plans to upgrade various smart facilities and internet-based systems for property management projects, including smart access control systems, smart car park management systems, smart fire extinguishing systems, smart home systems and other smart detection and monitoring systems.
- **Development of “Joy Life” (悅生活) online service platform:** ES plans to develop a one-stop service community platform and the “Joy Life” (悅生活) online service platform in order to achieve customer appreciation and recognition, improve the quality of services, and raise overall profitability

In Dec 2018 and Jan 2019, the company issued 380mn and 36.4mn new shares, raising a total of HK\$ 683mn (offering price at HK\$1.78/share). We believe the Group has the required financial resources to execute its future plan in the foreseeable future.

Our financial model does not assume any inorganic growth via acquisitions or capex needed for the future plans listed above.

Initiate BUY with TP HK\$2.70 based on DCF

DCF valuation based on 11% WACC

In assessing the value of PMCs, the market tends to employ the comparative approach (e.g. fair value-to-earnings multiple), which focuses mainly on short-term earnings aspect instead of the balance sheet position and longer-term growth. A substantial proportion of ES's revenue is determined by PM agreements entailing recurrent income; hence, we believe DCF valuation would offer a more accurate assessment based on the Group's high cash flow visibility. Our DCF-derived TP for ES (with a WACC of 11%) is HK\$ 2.70, which translates into 16.1x P/E and 3.2x P/B for 2019E.

Exhibit 28: ES's DCF valuation sensitivity to changes in WACC

WACC	Base case				
	9%	10%	11%	12%	13%
2019E Enterprise value (RMBmn)	2,907	2,569	2,300	2,082	1,902
2019E Net cash (RMBmn)	1,098	1,098	1,098	1,098	1,098
2019 Equity value (RMB mn)	4,005	3,667	3,398	3,181	3,001
TP (HK\$)	3.14	2.88	2.70	2.51	2.37
Change	16.3%	6.7%	0.0%	-7.0%	-12.2%

Source(s): ABCI Securities estimates

Comparative approach

We consider PMCs in China, including A-Living (3319 HK), Colour Life (1778 HK), Country Garden Services (6098 HK), China Overseas Properties (2669 HK), and Greentown Services (2869 HK), to be ES's comparable peers. Our TP implies 2019E PE of 16.1x for ES, which is in line with peer trading average at 16.5x 2019E P/E. While the Group's GFA under management expands faster than peers (GFA, revenue and net profit jumped 64%, 51% and 128% YoY in 2017, vs. 27%, 27% and 48% YoY among the HK-listed peers), it has a smaller scale in terms of GFA under management (32.1mn sqm in 1H18, equivalent to 29%/23% of GFA managed by A-living/ Country Garden Services). Therefore, we believe ES's valuation towards the sector's mid-range is justifiable.

Exhibit 29: Valuation of China's PMCs listed in HK

Company	Ticker	Mkt Cap HK\$ (bn)	Shr Price (HK\$)	Performance			Valuation									
				3M	YTD	2018	P/E			Yield (%)			P/B			
				(HKD)	(HKD)	(HKD)	2017A	2018E	2019E	2017A	2018E	2019E	2017A	2018E	2019E	
1	A-Living*	3319 HK	13.8	10.34	13	(3)	NA	39.2	16.8	11.5	0.0	1.7	2.5	5.0	2.2	1.9
2	Country Garden Services*	6098 HK	32.2	12.06	22	(3)	NA	68.6	31.3	23.9	NA	0.9	1.1	18.2	11.6	6.9
3	Greentown Services*	2869 HK	19.5	7.02	42	17	(1)	43.1	33.4	25.4	1.0	1.0	1.3	8.3	7.4	6.1
4	China Overseas Property*	2669 HK	8.8	2.69	54	17	10	28.8	22.6	18.4	1.1	1.4	1.7	8.5	7.8	6.0
5	Colour Life*	1778 HK	5.9	4.42	21	5	(18)	15.2	9.6	7.8	3.2	4.1	5.1	1.8	1.7	1.5
6	Ever Sunshine#	1995 HK	3.1	2.00	NA	12	NA	25.1	15.9	11.9	0.0	1.9	2.5	7.8	2.8	2.4
PMC Avg					30	8	(3)	36.7	21.6	16.5	1.1	1.8	2.4	8.3	5.6	4.1

*Bloomberg's consensus forecast; # ABCI Securities estimates

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 30: Peer comparison – GFA (1H18 vs. 1H17)

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			Ever Sunshine (1995 HK)		
	1H17	1H18	YoY chg	1H17	1H18	YoY chg	1H17	1H18	YoY chg	1H17	1H18	YoY chg	1H17	1H18	YoY chg	1H17	1H18	YoY chg
GFA comparison																		
GFA under management (mn sqm)	71.4	109.1	53%	117.5	150.8	28%	121.6	131.7	8%	289.7	333.6	15%	107.4	136.8	27%	24.5	32.1	31%
- Residential	NA	NA		96.4	119.9	24%	NA	NA		NA	NA		NA	131.3		19.5	26.0	33%
- Non-residential	NA	NA		21.2	30.9	46%	NA	NA		NA	NA		NA	5.5		5.0	6.1	23%
% as total contracted GFA																		
- Residential	NA	NA		82%	80%	+3ppt	NA	NA		NA	NA		NA	96%		80%	81%	+1ppt
- Non-residential	NA	NA		18%	21%	-3ppt	NA	NA		NA	NA		NA	4%		20%	19%	-1ppt
Average management fee (RMB/sqm/mth)	NA	NA		3.09	3.13	1%	NA	NA		NA	NA		1.80	1.91		2.13	2.26	6%
Contracted GFA (mn sqm)	126.1#	185.6	47%	NA	NA		NA	NA		420.2	484.0	15%	246.8	386.0	56%	33.4#	42.4	27%
Revenue bearing GFA (mn sqm)	71.4	109.1	53%	NA	NA		NA	NA		NA	NA		107.4	136.8	27%	24.5	32.1	31%
- Developed by major shareholders/parent group	40.6	48.4	19%										99.0	121.9	23%	12.5	13.5	8%
- Independent third parties	30.8	60.7	97%										8.4	14.9	77%	11.9	18.6	55%

Dec 2017 figures

Source(s): The Company, A-Living , China Overseas Property, Colour Life , Country Garden Services , ABCI Securities

Exhibit 31: Peer comparison- Financial (1H18 vs. 1H17)

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			Ever Sunshine (1995 HK)		
	1H17	1H18	YoY chg	1H17	1H18	YoY chg	1H17	1H18	YoY chg	1H17	1H18	YoY chg	1H17	1H18	YoY chg	1H17	1H18	YoY chg
Financials comparison																		
Revenue (RMBmn)	692	1,406	103%	2,203	2,927	33%	1,592	1,907	20%	747	1,757	135%	1,415	2,016	42%	316	439	39%
- PMS revenue	547	750	37%	1,529	2,015	32%	1,492	1,772	19%	576	1,467	155%	1,160	1,564	35%	202	300	49%
- VAS revenue	145	655	353%	675	912	35%	101	135	34%	170	290	70%	255	452	77%	114	138	21%
% as total revenue																		
- PMS revenue	79%	53%	-26ppt	70%	69%	-2ppt	94%	93%	-1ppt	79%	84%	-5ppt	82%	78%	-4ppt	64%	68%	+4ppt
- VAS revenue	21%	47%	+26ppt	30%	31%	+2ppt	6%	7%	+1ppt	21%	16%	+5ppt	18%	22%	+5ppt	36%	32%	-4ppt
PMS revenue (RMBmn)	NA	NA		NA	NA		NA	NA		NA	NA		NA	NA		202	300	49%
- Residential																147	219	49%
- Non-residential																54	81	49%
Gross profit (RMBmn)	220	510	131%	410	551	34%	436	528	21%	340	620	82%	487	786	61%	80	126	58%
Gross margin (%)	31.9%	36.3%	4.5%	18.6%	18.8%	0.2%	27.4%	27.7%	0.4%	45.5%	35.3%	-8.4%	34.4%	39.0%	4.6%	25.3%	28.8%	3.5%
Gross Margin (%)	31.9%	36.3%	4.5%	18.6%	18.8%	0.2%	27.4%	27.7%	0.4%	45.5%	35.3%	-8.4%	34.4%	39.0%	4.6%	25.3%	28.8%	3.5%
- PMS	31.9%	29.0%	-2.9%	10.8%	11.9%	1.1%	25.4%	26.4%	0.9%	36.4%	30.3%	-6.1%	30.7%	34.5%	3.9%	35.6%	39.5%	3.9%
- VAS	31.6%	44.6%	13.1%	37.4%	34.1%	-3.3%	55.9%	45.4%	-10.5%	76.2%	60.7%	-15.5%	51.5%	54.4%	2.9%	38.4%	39.9%	1.5%
Core net profit* (RMBmn)	112	332	196.3%	178	229	29%	159	221	39%	101	175	74.1%	202	413	104%	31	41	34%
Net margin (%)	16.2%	23.6%	7.4%	8.1%	7.8%	-0.2%	10.0%	11.6%	1.6%	13.5%	10.0%	-3.5%	14.3%	20.5%	6.2%	9.7%	9.4%	-0.3%
	Dec17	Jun18	HoH chg	Dec17	Jun18	HoH chg	Dec17	Jun18	HoH chg	Dec17	Jun18	HoH chg	Dec17	Jun18	HoH chg	Dec17	Jun18	HoH chg
Gross debt (RMBmn)	-	12	NA	-	-	NA	265	-	-100%	1,505	4,172	177%	-	-	NA	-	-	NA
Cash (RMBmn)	880	4,173	374%	1,990	1,816	-9%	2,711	2,201	-19%	1,234	3,367	173%	2,637	3,094	17%	438	405	-8%
Net debt (RMBmn)	(880)	(4,161)	373%	(1,990)	(1,816)	-9%	(2,446)	(2,201)	-10%	271	805	197%	(2,637)	(3,094)	17%	(438)	(405)	-8%
Total Equity (RMBmn)	1,474	5,039	242%	1,992	2,077	4%	862	1,046	21%	3,505	2,935	-16%	1,542	1,818	18%	245	262	7%
Net gearing (%)	-60%	-83%	-23%	-100%	-87%	12%	-284%	-210%	73%	8%	27%	20%	-171%	-170%	1%	-179%	-155%	24%

* Core profit= Net profit-Deferred tax adjustment- (Other (losses)/gains-net + Other exceptional items) x 0.75

Source(s): The Company, A-Living , China Overseas Property, Colour Life , Country Garden Services , ABCI Securities



Exhibit 32: Peer comparison- GFA (2017 vs. 2016)

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			Ever Sunshine (1995 HK)		
	2016	2017	YoY chg	2016	2017	YoY chg	2016	2017	YoY chg	2016	2017	YoY chg	2016	2017	YoY chg	2016	2017	YoY chg
GFA comparison																		
GFA under management (mn sqm)	50.1	78.3	56%	105.2	137.8	31%	116.5	128.3	10%	291	294	1%	91.1	122.8	35%	16.1	26.5	64%
- Residential	48.8	57.5	18%	80.2	108.9	36%	NA	NA		NA	NA		90.9	117.1	29%	13.0	22.3	72%
- Non-residential	1.3	20.8	1538%	25.0	28.9	16%	NA	NA		NA	NA		0.2	5.7	n.m.	3.2	4.2	32%
% as total contracted GFA																		
- Residential	97%	73%	-24ppt	76%	79%	+3ppt	NA	NA		NA	NA		100%	95%	-5ppt	80%	84%	+4ppt
- Non-residential	3%	27%	+24ppt	24%	21%	-3ppt	NA	NA		NA	NA		0%	5%	+5ppt	20%	16%	-4ppt
Average management fee (RMB/sqm/mth)	NA	NA		3.08	3.11	1%	NA	NA		NA	NA		NA	NA		2.6	2.1	-19%
Contracted GFA (mn sqm)	73.4	126.1	72%	NA	378		NA	NA		395	435	10%	207.1	329.5	59%	22.6	33.4	47%
Revenue bearing GFA (mn sqm)	50.1	78.3	56%	NA	NA		NA	NA		NA	NA		91.1	122.8	35%	16.1	26.5	64%
- Developed by major shareholders/parent group	34.3	44.9	31%										87.3	109.4	25%	11.6	13.2	14%
- Independent third parties	15.8	33.5	112%										3.7	13.3	258%	4.6	13.3	192%

Source(s): The Company, A-Living, China Overseas Property, Colour Life, Country Garden Services, ABCI Securities

Exhibit 33: Peer comparison- Financial (2017 vs. 2016)

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			Ever Sunshine (1995 HK)		
	2016	2017	YoY chg	2016	2017	YoY chg	2016	2017	YoY chg	2016	2017	YoY chg	2016	2017	YoY chg	2016	2017	YoY chg
Financials comparison																		
Revenue (RMBmn)	1,245	1,761	41%	3,722	5,140	38%	3,297	3,358	2%	1,342	1,629	21%	2,358	3,122	32%	480	725	51%
- PMS revenue	978	1,206	23%	2,620	3,560	36%	3,068	3,095	1%	1,059	1,231	16%	1,957	2,545	30%	296	472	59%
- VAS revenue	267	555	108%	1,102	1,580	43%	229	263	15%	283	397	40%	402	577	44%	184	253	38%
% as total revenue																		
- PMS revenue	79%	68%	-10ppt	70%	69%	-2ppt	93%	92%	-1ppt	79%	76%	-3ppt	83%	82%	-1ppt	62%	65%	+3ppt
- VAS revenue	21%	32%	+10ppt	30%	31%	+2ppt	7%	8%	+1ppt	21%	24%	+3ppt	17%	18%	+1ppt	38%	35%	-3ppt
PMS revenue (RMBmn)	NA	NA		2,620	3,560	36%	NA	NA		NA	NA		1,957	2,545	30%	296	472	59%
- Residential				1,894	2,513	33%							1,949	2,513	29%	213	346	62%
- Non-residential				726	1,047	44%							8	32	317%	83	126	52%
Gross profit (RMBmn)	312	591	89%	716	946	32%	767	802	5%	586	731	25%	800	1,036	29%	105	183	75%
Gross margin (%)	25.0%	33.5%	8.5%	19.2%	18.4%	-0.8%	23.3%	23.9%	-0.9%	43.7%	44.9%	1.2%	33.9%	33.2%	-0.8ppt	21.8%	25.2%	3.4%
Gross Margin (%)	25.0%	33.5%	8.5ppt	19.2%	18.4%	-0.8ppt	23.3%	23.9%	-0.9ppt	43.7%	44.9%	1.2ppt	33.9%	33.2%	-0.8ppt	21.8%	25.2%	3.4%
- PMS	24.9%	26.9%	2.0ppt	10.9%	11.2%	0.3ppt	21.1%	21.3%	0.2ppt	35.6%	35.2%	-0.4ppt	30.3%	29.4%	-0.9ppt	35.6%	35.2%	-0.4%
- VAS	25.4%	47.9%	22.5ppt	39.1%	34.7%	-4.4ppt	52.2%	53.9%	1.7ppt	73.8%	74.8%	1.0ppt	51.4%	49.8%	-1.6ppt	23.4%	38.5%	15.1%
Net profit (RMBmn)	161	290	80.3%	286	387	36%	238	307	29%	188	321	70.8%	324	402	24%	34	76	128%
Net margin (%)	12.9%	16.5%	3.5%	7.7%	7.5%	0%	7.2%	9.1%	1.9%	14.0%	19.7%	5.7%	13.7%	12.9%	-0.9%	7.0%	10.5%	3.5%
	Dec16	Dec17	YoY chg	Dec16	Dec17	YoY chg	Dec16	Dec17	YoY chg	Dec16	Dec17	YoY chg	Dec16	Dec17	YoY chg	Dec16	Dec17	YoY chg
Gross debt (RMBmn)	795	-	-100%	-	-	NA	310	265	-15%	1,338	1,505	12%	-	-	NA	-	-	NA
Cash (RMBmn)	526	880	67%	2,296	1,990	-13%	2,417	2,711	12%	1,248	1,234	-1%	1,775	2,637	49%	252	438	74%
Net debt (RMBmn)	269	(880)	-427%	(2,296)	(1,990)	-13%	(2,107)	(2,446)	16%	90	271	200%	(1,775)	(2,637)	49%	(252)	(438)	74%
Total Equity (RMBmn)	303	1,474	386%	1,746	1,992	14%	821	862	5%	1,532	1,827	19%	1,083	1,542	42%	168	245	46%
Net gearing (%)	89%	-60%	-148ppt	-132%	-100%	-32ppt	-257%	-284%	-27ppt	6%	15%	+9ppt	-164%	-171%	-7ppt	-150%	-179%	-28.6%

Source(s): The Company, A-Living, China Overseas Property, Colour Life, Country Garden Services, ABCI Securities



Risk factors

- **Thirty-seven percent of ES's GFA under management will expire by 2019**

About 37% of ES's GFA under management will expire by 2019. If ES is unable to renew the contracts, PM revenue may decline. We, however, believe the risk is low because (1) ES had a high renewal rate at 99.3%-100% in 2015-17 and 98.9% for 1H18; (2) the majority of ES's preliminary PM services contracts do not have a fixed term. Property management service contracts without fixed terms are generally preliminary management contracts with property developers. They will terminate automatically when property owner associations are established and a new property management service contract is established.

Exhibit 34: Expiration schedule of properties developed by ES (Jun 2018)

	GFA under management	
	mn sqm	%
Without fixed terms	15.75	49%
Year ending Dec 31, 2018	4.65	14%
Year ending Dec 31, 2019	7.22	23%
Year ending Dec 31, 2020	2.99	9%
Year ending Dec 31, 2021 and beyond	1.48	5%
Total	32.10	100%

Source(s): The Company, ABCI Securities

- **Declining management fee rate.** The average management fee of ES declined from RMB 2.68/sqm/mth in 2015, to RMB 2.56/sqm/mth in 2016 and RMB 2.09/sqm/mth in 2017. This may reflect weakened pricing power and inability to lift management fee rate in our view. Besides, we believe the acquisition of Ningbo Yongda (GFA under management: 4.261mn sqm) in 2017 has negatively impacted management fee rate in 2017. Despite the fallen fee, ES was able to improve gross margin for PM business from 14.7% in 2016 to 18.1% in 2017 through better economies of scale and process standardization measures. In 1H18, ES achieved an average management fee of 2.26/sqm/mth, up 6%YoY.
- **Online platform yet to be established.** Currently, most of the CVAS services are conducted via the offline channels. ES plans to develop the "Joy Life (悦生活)" online service platform. With first-hand information collected during interactions with residents, ES can better address their needs by offering customized value-added services in retail, tourism, health and education areas, as well as repair and maintenance, and leasing assistance.
- **Substantial amount of related-party transactions.** Revenue from CIFI, which included PM and other services provided, was RMB 147mn in 2017, representing 20.3% of total revenue. Contribution from CIFI, however, has been declining for the past few years from 40.2% of total revenue in 2015 to 17.9% in 1H18.

Exhibit 35: Related-party transactions with CIFI

(RMBmn)	2015	2016	2017	1H18
Provision of services				
- Property management services	36	44	46	22
- VAS to non-property owners	99	113	101	57
Total	134	158	147	78
YoY chg		17%	-7%	6%
As % of total revenue	40.2%	32.8%	20.3%	17.9%

Source(s): The Company, ABCI Securities

Financial statements

Consolidated income statement (2015A-2020E)

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Revenue	334	480	725	1,097	1,741	2,612
Cost of services	(280)	(375)	(542)	(813)	(1,281)	(1,909)
Gross Profit	54	105	183	284	460	703
Administrative expenses	(42)	(64)	(88)	(135)	(189)	(265)
EBIT	12	40	95	149	270	438
Other income	10	7	10	5	5	5
Finance cost	-	(1)	-	-	-	-
Finance income	-	-	-	12	19	22
Share of results of associates	-	-	1	-	-	-
Other expenses	(0)	(0)	(1)	-	-	-
Profit before tax	21	45	105	165	295	464
Tax	(6)	(12)	(28)	(41)	(74)	(116)
Profit after tax	16	34	76	124	221	348
Net profit attributable to owners of the Company	16	34	76	124	221	348
Growth %						
Revenue		43.7%	51.1%	51.3%	58.7%	50.1%
Gross Profit		94.6%	74.8%	55.3%	61.7%	52.9%
EBIT		235.6%	135.4%	56.7%	81.5%	62.1%
Net profit		115.9%	127.5%	62.4%	78.1%	57.6%
Margin %						
Gross margin	16.1%	21.8%	25.2%	25.9%	26.4%	26.9%
EBIT margin	3.6%	8.4%	13.1%	13.6%	15.5%	16.8%
Net margin	4.7%	7.0%	10.5%	11.3%	12.7%	13.3%
Revenue breakdown						
Property management services	209	296	472	757	1,258	1,994
VAS to non-property owners	101	132	143	157	187	206
Community value added services	24	52	110	183	295	412
Total	334	480	725	1,097	1,741	2,612
Key assumptions						
Contracted GFA (mn sqm)	15.2	22.6	33.4	64.4	101.1	146.3
GFA under management (mn sqm)	9.8	16.1	26.5	42.0	71.3	107.5

Source(s): The Company, ABCI Securities estimates

Consolidated balance sheet (2015A-2020E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Current assets	330	423	617	1,333	1,529	1,843
Bank balances and cash	184	252	438	1,111	1,200	1,364
Trade receivables	48	89	121	165	272	422
Inventories	49	47	0	0	0	0
Income tax recoverable	0	1	2	2	2	2
Other current assets	49	34	55	55	55	55
Non-current assets	53	73	85	93	100	107
Property, plant and equipment	3	3	15	23	30	36
Goodwill	0	0	17	17	17	17
Other non-current assets	50	70	53	53	53	53
Total Assets	383	496	702	1,426	1,630	1,950
Current Liabilities	240	319	445	463	511	588
Accruals and other payables	163	197	265	265	265	265
Contract liabilities	52	90	120	120	120	120
Trade payables	11	21	37	54	103	179
Other current liabilities	13	11	24	24	24	24
Non-current liabilities	9	9	12	12	12	12
Deferred Tax Liabilities	9	9	12	12	12	12
Total Liabilities	249	328	458	475	524	600
Net Assets	134	168	245	951	1,106	1,350
Shareholders' Equity	134	168	245	951	1,106	1,350
Total Equity	134	168	245	951	1,106	1,350
Key ratio						
Gross debt (RMB mn)	-	-	-	-	-	-
Net debt/ (cash) (RMB mn)	(184)	(252)	(438)	(1,111)	(1,200)	(1,364)
Net gearing (%)	-137%	-150%	-179%	-117%	-109%	-101%

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement (2015A-2020E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
EBITDA	13	41	97	151	273	441
Change in Working Capital	31	74	108	(26)	(58)	(74)
Tax payment	(9)	(15)	(15)	(41)	(74)	(116)
Operating Cash flow	35	100	190	83	142	252
Purchase of PP&E	(1)	(2)	(3)	(10)	(10)	(10)
Acquisition of associate	0	0	(2)	0	0	0
Purchase of financial assets	0	(100)	(393)	0	0	0
Proceeds from disposal of financial assets	0	80	414	0	0	0
Others	2	3	(22)	12	20	22
Investing Cash flow	1	(19)	(6)	2	10	12
Interest received	0	0	5	0	0	0
Equity raised	0	0	0	620	0	0
Dividend to shareholders	0	0	(10)	(37)	(66)	(105)
Others	79	(13)	7	5	5	5
Financing Cash flow	79	(13)	2	588	(61)	(100)
Net cash inflow/ (outflow)	115	68	186	672	90	164
Cash- beginning	69	184	252	438	1,111	1,200
Cash- year-end	184	252	438	1,111	1,200	1,364

Source(s): The Company, ABCI Securities estimates

Appendix I- Company background

Exhibit 36: ES's Corporate information

Auditor	BDO Limited
Headquarter	6F, Henderson CIFI Center No.20 Lane 1188 Shenhong Road Minhang District Shanghai PRC
Company secretary	Ms. Yeung Ching Man
Authorised representatives	Mr. Lin Zhong Mr. Lin Feng

Source(s): The Company, ABCI Securities

Exhibit 37: Board of directors

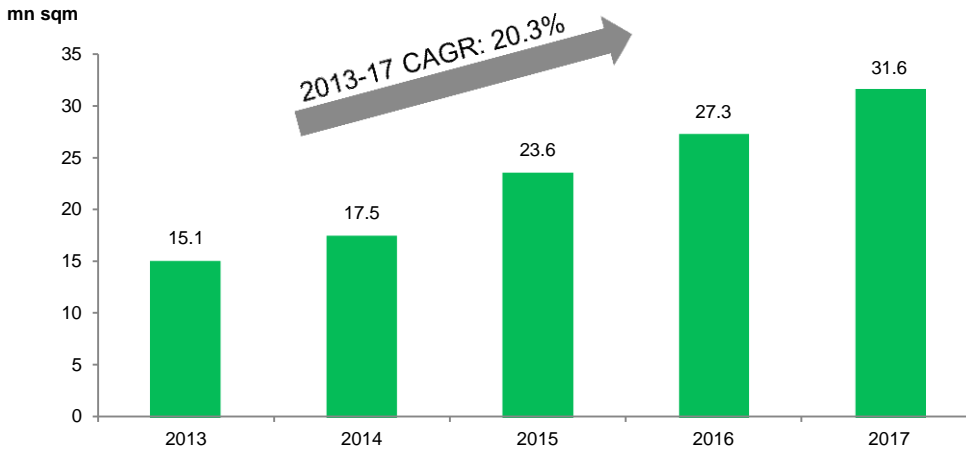
Name	Position	Role and responsibilities
Mr. LIN Zhong	Executive Director and the chairman of the Board	Overall strategic decisions, business planning and major operational decisions
Mr. ZHOU Hongbin	Executive Director and President	Overall business operations and management, major decision making and executing the decisions of the Board
Mr. LIN Feng	Non-executive Director and the deputy chairman of the Board	Provision of guidance for the overall development of the Group
Mr. GE Ming	Non-executive Director	Provision of guidance for the overall development of the Group
Mr. MA Yongyi	Independent non-executive Director	Providing independent advices to the Board
Ms. WANG Peng	Independent non-executive Director	Providing independent advices to the Board
Mr. CHEUNG Wai Chung	Independent non-executive Director	Providing independent advices to the Board

Source(s): The Company, ABCI Securities



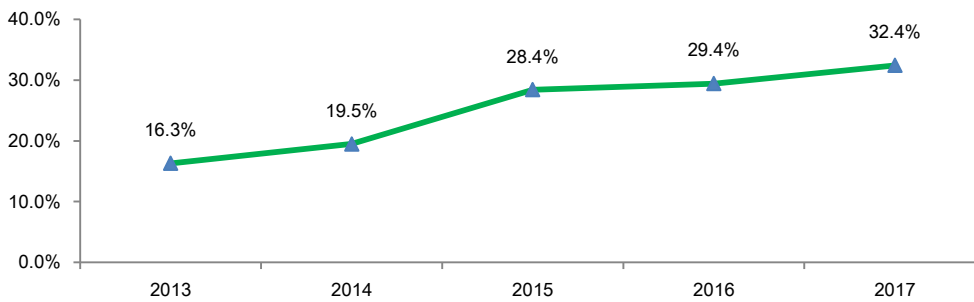
Appendix II- Industry overview

Exhibit 38: Average GFA under management of Top 100 PMCs



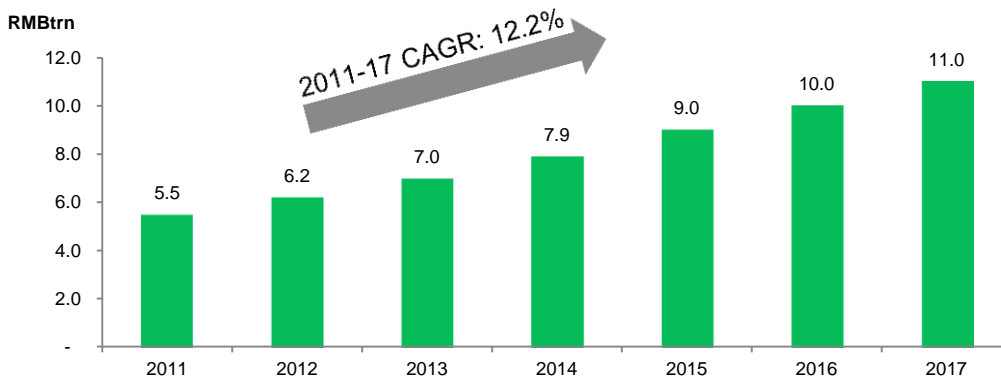
Source(s): CIA, ABCI Securities

Exhibit 39: Market share of Top 100 PMCs



Source(s): CIA, ABCI Securities

Exhibit 40: Market size of community value-added services



Source(s): CIA, ABCI Securities

Disclosures

Analyst Certification

I, Tung Yiu Kei Kenneth, 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 (10%)
Hold	- Market return (-10%) \leq Stock return < 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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