CMB International Securities | Equity Research | Company Update

# Zoomlion Heavy Industry - A (000157 CH)

## Margin risk priced in; Good buying opportunity

**BUY (Maintain)**

| | |
|---|---|
| **Target Price** | **RMB9.56** |
| (Previous TP | RMB10.20) |
| **Up/Downside** | **+32%** |
| **Current Price** | **RMB7.24** |

Zoomlion's 3Q20 profit is solid (+85% YoY) and management's post-results comments on demand (+10% QoQ in 4Q20E) and margin (to improve sequentially) suggest that the business outlook remains favourable. We believe the recent share price pullback on concerns over margin was overdone and we see this as good buying opportunity. We slightly took our 2020E-22E earnings forecast down by 2-4% after modelling higher sales volume but more conservative margins. We fine-tuned our TP from RMB10.2 to RMB9.56, after rolling over our base year to 2021E with a target multiple of 10x (previously 12x 2020E P/E). Maintain **BUY.**

- **Key highlight on 3Q20 results.** Net profit in 3Q20 surged 85% YoY to RMB1.67bn, within the range of profit alert (RMB1.48-1.78bn) released in mid-Oct. Revenue grew 73% YoY to RMB16.4bn while gross margin narrowed 2.4ppt YoY and 1.8ppt QoQ to 27%. Net operating cash inflow increased by 58% YoY to RMB2.6bn in 3Q.
- **Strong growth across all segments**. In 9M20, concrete machinery and crane revenue increased by 34% YoY and 44% YoY, respectively, to RMB13.7bn and RMB23.6bn. Agricultural machinery revenue grew 35% YoY. For new business lines, revenue from excavator surged 244% YoY while revenue from aerial working platform (AWP) grew 60% YoY.
- **Gross margin to rebound in 4Q20E.** Gross margin contraction in 3Q20 was due to: (1) higher sales of smaller size truck cranes and tower crane that carried lower margin; (2) higher growth of concrete mixer (lower margin) than the concrete pump; (3) fast growing AWP and excavator which had lower margin (though improving), compared with the existing business. That said, management is confident of achieving better margin in 4Q20E, as (1) new business margin keeps improving, and (2) the Company's central procurement policy started in 3Q20 will help reduce cost going forward.
- **Positive outlook in 4Q20E and 2021E.** Management believes that solid infrastructure and property investment, together with the replacement of labour and strict environmental protection policies are all favourable drivers. Besides, large players are beneficiaries of rising industry concentration. Management believes that this round of upcycle will be stronger than the previous one.

### Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---|---|---|---|---|---|
| **Revenue (RMB mn)** | 28,697 | 43,307 | 63,942 | 76,025 | 84,903 |
| **YoY growth (%)** | 39.3 | 50.9 | 47.6 | 18.9 | 11.7 |
| **Net income (RMB mn)** | 2,031 | 4,381 | 6,887 | 8,727 | 9,928 |
| **EPS (RMB)** | 0.27 | 0.58 | 0.87 | 0.96 | 1.09 |
| **YoY growth (%)** | 51.5 | 119.2 | 50.0 | 9.3 | 13.7 |
| **Consensus EPS (RMB)** | n/a | n/a | 0.82 | 0.92 | 1.02 |
| **EV/EBITDA (x)** | 16.0 | 10.5 | 7.9 | 6.5 | 5.8 |
| **P/E (x)** | 27.0 | 12.6 | 8.7 | 7.9 | 6.8 |
| **P/B (x)** | 1.5 | 1.5 | 1.3 | 1.2 | 1.0 |
| **Yield (%)** | 3.5 | 0.0 | 4.9 | 5.1 | 5.9 |
| **ROE (%)** | 5.4 | 11.4 | 16.3 | 16.8 | 16.1 |
| **Net gearing (%)** | 33.6 | 31.3 | 20.8 | 4.7 | 3.6 |

Source: Company data, Bloomberg, CMBIS estimates

**China Capital Goods**

**Wayne Fung, CFA**
(852) 3900 0826
waynefung@cmbi.com.hk

**Stock Data**

| | |
|---|---|
| Mkt Cap (RMB mn) | 55,697 |
| Avg 3 mths t/o (RMB mn) | 468 |
| 52w High/Low (RMB) | 8.97/5.28 |
| Total Issued Shares (mn) | **6,411 (A)** |
| | 1,388 (H) |

Source: Bloomberg

**Shareholding Structure**

| | |
|---|---|
| SASAC of Hunan Province | 15.9% |
| Management team | 4.9% |
| A share free float | 61.4% |
| H share free float | 17.7% |

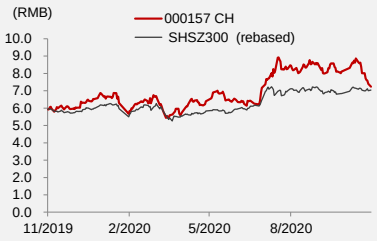
Source: HKEx, Shanghai Stock Exchange

**Share Performance**

| | Absolute | Relative |
|---|---|---|
| 1-mth | -8.8% | -10.9% |
| 3-mth | -10.4% | -10.4% |
| 6-mth | 15.6% | -3.7% |

Source: Bloomberg

**12-mth Price Performance**




Source: Bloomberg

**Auditor: KPMG**

**Related Reports**

1. Zoomlion (000157 CH, BUY) – Profit surprise in 3Q20 reaffirms our positive view – 15 Oct 2020
2. Zoomlion (000157 CH, BUY) – Interim dvd. a positive; Gross margin stabilized; Sector top pick – 24 Aug 2020
3. Zoomlion (000157 CH, BUY) – 2Q20 profit a strong beat; Lift earnings est. & TP – 15 Jul 2020
4. China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle – 30 Jun 2020

## Figure 1: 3Q20 results highlights

| (RMB mn) | 1Q19 | 1Q20 | Change YoY | 2Q19 | 2Q20 | Change YoY | 3Q19 | 3Q20 | Change YoY |
|---|---|---|---|---|---|---|---|---|---|
| **Total revenue** | **9,017** | **9,067** | ***0.6%*** | **13,245** | **19,760** | ***49.2%*** | **9,493** | **16,417** | ***72.9%*** |
| Cost of sales | -6,311 | -6,296 | *-0.2%* | -9,273 | -14,068 | *51.7%* | -6,702 | -11,979 | *78.7%* |
| **Gross profit** | **2,706** | **2,770** | ***2.4%*** | **3,972** | **5,693** | ***43.3%*** | **2,791** | **4,438** | ***59.0%*** |
| Other income | 29 | 114 | *289.3%* | 593 | 548 | *-7.6%* | 200 | 7 | *-96.6%* |
| S&D expenses | -715 | -704 | *-1.5%* | -1,166 | -1,212 | *3.9%* | -890 | -1,223 | *37.5%* |
| Administrative expenses | -624 | -488 | *-21.7%* | -1,045 | -1,782 | *70.5%* | -535 | -1,000 | *86.8%* |
| R&D expenses | -116 | -242 | *108.9%* | -345 | -806 | *133.5%* | -270 | -662 | *145.3%* |
| **EBIT** | **1,281** | **1,450** | ***13.3%*** | **2,353** | **3,247** | ***38.0%*** | **1,295** | **1,559** | ***20.3%*** |
| Net finance income/(cost) | -405 | -280 | *-30.8%* | -191 | 243 | *n/a* | -301 | 20 | *n/a* |
| Other gains/(losses) | 234 | 69 | *-70.7%* | -234 | -69 | *-70.7%* | 99 | 242 | *143.8%* |
| Share of profit of JV and associates | 34 | 47 | *40.7%* | 48 | 19 | *-61.2%* | 40 | 42 | *4.9%* |
| **Pretax profit** | **1,144** | **1,286** | ***12.5%*** | **1,976** | **3,440** | ***74.1%*** | **1,134** | **1,863** | ***64.3%*** |
| Income tax | -162 | -236 | *45.3%* | -378 | -432 | *14.4%* | -245 | -178 | *-27.2%* |
| **After tax profit** | **981** | **1,050** | *7.0%* | **1,599** | **3,008** | *88.1%* | **889** | **1,685** | *89.4%* |
| MI | 21 | -24 | *n/a* | -16 | -9 | *n/a* | 14 | -17 | *n/a* |
| **Net profit** | **1,002** | **1,026** | ***2.4%*** | **1,583** | **2,999** | ***89.5%*** | **904** | **1,668** | ***84.6%*** |
| | | | | | | | | | |
| **Operating cash flow** | **1,867** | **319** | ***-82.9%*** | **1,431** | **1,068** | ***-25.4%*** | **1,664** | **2,630** | ***58.0%*** |
| | | | | | | | | | |
| ***Key ratios*** | | | ***Change (ppt)*** | | | ***Change (ppt)*** | | | ***Change (ppt)*** |
| *Gross margin* | *30.0%* | *30.6%* | *0.5* | *30.0%* | *28.8%* | *-1.2* | *29.4%* | *27.0%* | *-2.4* |
| *S&D expenses ratio* | *7.9%* | *7.8%* | *-0.2* | *8.8%* | *6.1%* | *-2.7* | *9.4%* | *7.5%* | *-1.9* |
| *Administrative expense ratio* | *6.9%* | *5.4%* | *-1.5* | *7.9%* | *9.0%* | *1.1* | *5.6%* | *6.1%* | *0.5* |
| *R&D expense ratio* | *1.3%* | *2.7%* | *1.4* | *2.6%* | *4.1%* | *1.5* | *2.8%* | *4.0%* | *1.2* |
| *Net margin* | *10.9%* | *11.6%* | *0.7* | *12.1%* | *15.2%* | *3.2* | *9.4%* | *10.3%* | *0.9* |
| *Effective tax rate* | *14.2%* | *18.3%* | *4.1* | *19.1%* | *12.6%* | *-6.5* | *21.6%* | *9.6%* | *-12.0* |

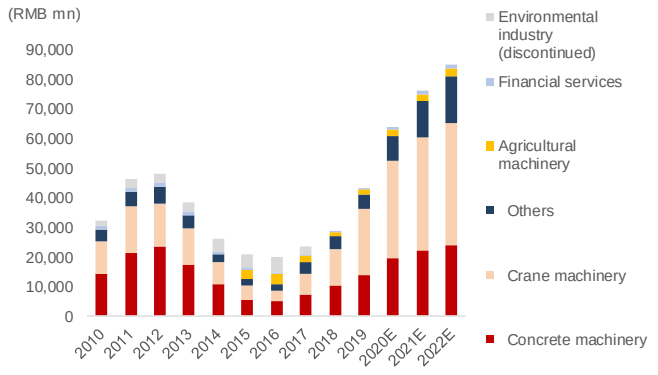
Source: Company data, CMBIS

## Figure 2: Change in key assumptions

| | Old | | | New | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E |
| (RMB mn) | | | | | | | | | |
| **Revenue** | | | | | | | | | |
| Construction machinery | 56,223 | 66,924 | 75,810 | 60,946 | 72,608 | 81,097 | 8% | 8% | 7% |
| Concrete machinery | 17,656 | 20,304 | 22,334 | 19,324 | 22,222 | 24,000 | 9% | 9% | 7% |
| Crane machinery | 31,006 | 35,657 | 39,222 | 33,221 | 38,204 | 41,260 | 7% | 7% | 5% |
| Others | 7,561 | 10,964 | 14,253 | 8,401 | 12,182 | 15,837 | 11% | 11% | 11% |
| Agricultural machinery | 1,836 | 2,020 | 2,222 | 2,058 | 2,367 | 2,651 | 12% | 17% | 19% |
| Financial services | 843 | 927 | 974 | 938 | 1,051 | 1,156 | 11% | 13% | 19% |
| **Total revenue** | **58,902** | **69,872** | **79,005** | **63,942** | **76,025** | **84,903** | **9%** | **9%** | **7%** |
| | | | | | | | | | |
| ***Revenue growth*** | | | | | | | ***Change in ppt*** | | |
| *Construction machinery* | *37.2%* | *19.0%* | *13.3%* | *48.7%* | *19.1%* | *11.7%* | *11.5* | *0.1* | *(1.6)* |
| *Concrete machinery* | *27.0%* | *15.0%* | *10.0%* | *39.0%* | *15.0%* | *8.0%* | *12.0* | *0.0* | *(2.0)* |
| *Crane machinery* | *40.0%* | *15.0%* | *10.0%* | *50.0%* | *15.0%* | *8.0%* | *10.0* | *0.0* | *(2.0)* |
| *Others* | *53.0%* | *45.0%* | *30.0%* | *70.0%* | *45.0%* | *30.0%* | *17.0* | *0.0* | *0.0* |
| *Agricultural machinery* | *16.0%* | *10.0%* | *10.0%* | *30.0%* | *15.0%* | *12.0%* | *14.0* | *5.0* | *2.0* |
| *Financial services* | *15.0%* | *10.0%* | *5.0%* | *28.0%* | *12.0%* | *10.0%* | *13.0* | *2.0* | *5.0* |
| ***Total revenue growth*** | ***36.0%*** | ***18.6%*** | ***13.1%*** | ***47.6%*** | ***18.9%*** | ***11.7%*** | ***11.6*** | ***0.3*** | ***(1.4)*** |
| | | | | | | | | | |
| ***Gross margin*** | | | | | | | ***Change in ppt*** | | |
| *Construction machinery* | *29.7%* | *30.2%* | *30.2%* | *28.3%* | *28.7%* | *28.7%* | *-1.50* | *-1.49* | *-1.48* |
| *Concrete machinery* | *27.8%* | *28.5%* | *28.5%* | *27.4%* | *27.5%* | *27.5%* | *-0.40* | *-1.00* | *-1.00* |
| *Crane machinery* | *32.5%* | *33.0%* | *33.0%* | *30.2%* | *31.0%* | *31.0%* | *-2.30* | *-2.00* | *-2.00* |
| *Others* | *23.0%* | *24.0%* | *25.0%* | *22.5%* | *23.5%* | *24.5%* | *-0.50* | *-0.50* | *-0.50* |
| *Agricultural machinery* | *8.0%* | *10.0%* | *11.0%* | *9.0%* | *12.0%* | *13.0%* | *1.00* | *2.00* | *2.00* |
| *Financial services* | *99.5%* | *100.0%* | *100.0%* | *99.5%* | *100.0%* | *100.0%* | *0.00* | *0.00* | *0.00* |
| ***Average gross margin*** | ***30.1%*** | ***30.5%*** | ***30.5%*** | ***28.7%*** | ***29.1%*** | ***29.2%*** | ***-1.39*** | ***-1.37*** | ***-1.32*** |
| | | | | | | | | | |
| **Net profit** | **7,206** | **8,933** | **10,175** | **6,887** | **8,727** | **9,928** | **-4%** | **-2%** | **-2%** |

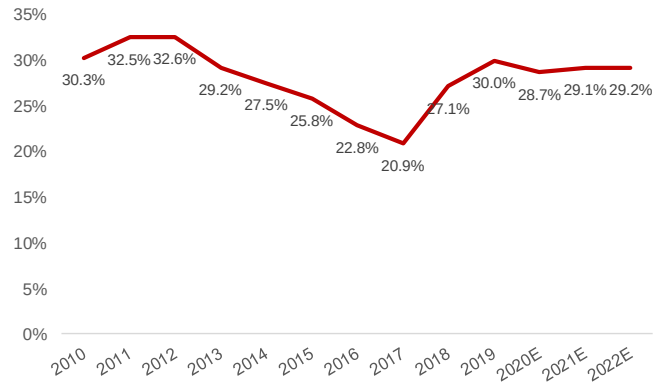
Source: Company data, CMBIS estimates

**Figure 3: Zoomlion's revenue trend**



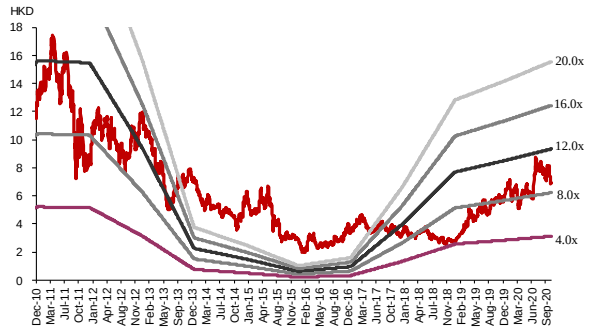

Source: Company data, CMBIS estimates

**Figure 4: Zoomlion's gross margin trend**



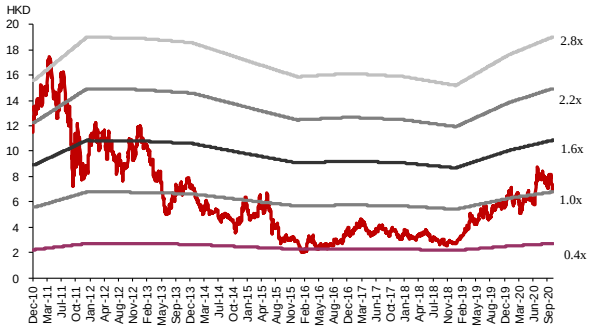

Source: Company data, CMBIS estimates

**Figure 5: Zoomlion - H 12M forward P/E band**



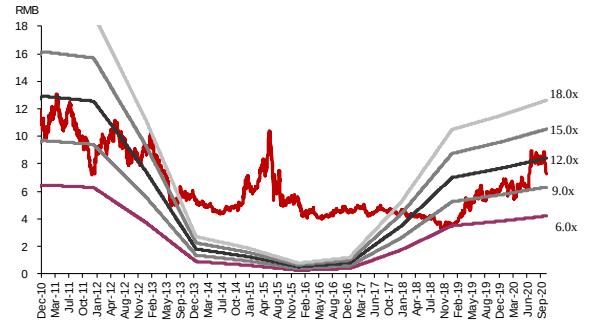

Source: Bloomberg, Company data, CMBIS estimates

**Figure 6: Zoomlion – H 12M forward P/B band**



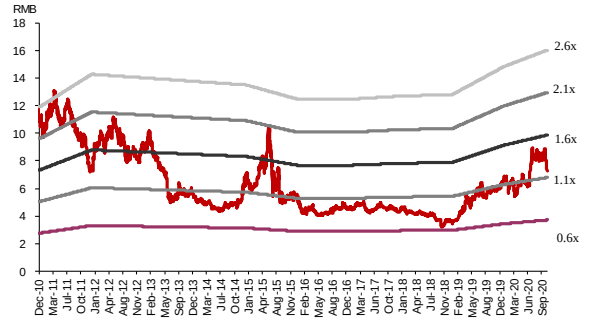

Source: Bloomberg, Company data, CMBIS estimates

**Figure 7: Zoomlion - A 12M forward P/E band**




Source: Bloomberg, Company data, CMBIS estimates

**Figure 8: Zoomlion – A 12M forward P/B band**




Source: Bloomberg, Company data, CMBIS estimates

- **Risk factors:** (1) Unexpected weakness on infrastructure spending; (2) Slow recovery of property construction; (3) Risks of new business expansion.

# Financial Summary

## Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---|---|---|---|---|---|
| **Total revenue** | **28,697** | **43,307** | **63,942** | **76,025** | **84,903** |
| Cost of sales | -20,923 | -30,314 | -45,605 | -53,874 | -60,132 |
| **Gross profit** | **7,774** | **12,993** | **18,336** | **22,152** | **24,771** |
| Other income | 882 | 1,017 | 1,048 | 978 | 978 |
| S&D expenses | -2,379 | -3,780 | -4,604 | -5,322 | -5,858 |
| Administrative expenses | -2,063 | -2,693 | -3,709 | -4,333 | -4,839 |
| R&D expenses | -581 | -1,516 | -2,877 | -3,421 | -3,821 |
| **EBIT** | **3,633** | **6,021** | **8,194** | **10,054** | **11,231** |
| Net finance income/(cost) | -1,205 | -1,165 | -519 | -278 | -90 |
| Finance income | 347 | 539 | 575 | 793 | 875 |
| Finance expenses | -1,552 | -1,704 | -1,094 | -1,071 | -964 |
| Other gains/(losses) | 0 | 0 | 0 | 0 | 0 |
| Profit of JV and associates | 222 | 188 | 254 | 271 | 288 |
| **Pretax profit** | **2,650** | **5,044** | **7,929** | **10,047** | **11,430** |
| Income tax | -682 | -759 | -1,110 | -1,407 | -1,600 |
| **After tax profit** | **1,968** | **4,285** | **6,819** | **8,640** | **9,830** |
| MI/discontinued operation | 63 | 96 | 68 | 86 | 98 |
| **Net profit** | **2,031** | **4,381** | **6,887** | **8,727** | **9,928** |
| D&A | 837 | 817 | 923 | 1,005 | 1,080 |
| **EBITDA** | **4,470** | **6,838** | **9,117** | **11,059** | **12,311** |

## Cash flow summary

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---|---|---|---|---|---|
| Pretax profit | 2,650 | 5,044 | 7,929 | 10,047 | 11,430 |
| Finance cost | 1,451 | 1,704 | 1,094 | 1,071 | 964 |
| Interest income | -347 | -539 | -575 | -793 | -875 |
| Profit or loss of associates | -222 | -188 | -254 | -271 | -288 |
| Disposal of PP&E/business | -152 | 0 | 0 | 0 | 0 |
| Depreciation and amortization | 837 | 817 | 923 | 1,005 | 1,080 |
| Income tax paid | -431 | -773 | -1,110 | -1,407 | -1,600 |
| Change in working capital | 1,152 | 442 | -2,404 | -3,816 | -4,238 |
| Others | -221 | -539 | 0 | 0 | 0 |
| **Cash flow from operation** | **4,717** | **5,968** | **5,603** | **5,837** | **6,473** |
| Net capex on PP&E | -272 | -1,082 | -2,246 | -2,646 | -2,500 |
| Investment in JV/associates | -4 | -301 | 0 | 0 | 0 |
| Investment in subsidiaries | 0 | -177 | 0 | 0 | 0 |
| Investment in intangible assets | -103 | -128 | -100 | 0 | 0 |
| Dividend received | 4 | 45 | 0 | 0 | 0 |
| Interest received | 347 | 253 | 575 | 793 | 875 |
| Others | -7,214 | 11,374 | 0 | 0 | 0 |
| **Cash flow from investing** | **-7,242** | **9,984** | **-1,771** | **-1,853** | **-1,625** |
| Equity financing/(repurchase) | 37 | -2,145 | 0 | 6,906 | 0 |
| Net bank borrowings | 6,817 | -14,008 | -1,000 | 100 | -4,100 |
| Dividend paid | -1,308 | -1,801 | 0 | -2,941 | -3,491 |
| Interest paid | -1,428 | -1,707 | -1,094 | -1,071 | -964 |
| Others | -16 | 13 | 0 | 0 | 0 |
| **Cash flow from financing** | **4,102** | **-19,648** | **-2,094** | **2,995** | **-8,555** |
| Change in cash | 1,577 | -3,696 | 1,738 | 6,978 | -3,707 |
| Cash at beginning of the year | 7,148 | 8,754 | 5,073 | 6,811 | 13,789 |
| Exchange and others | 29 | 15 | 0 | 0 | 0 |
| Cash at the end of the year | 8,754 | 5,073 | 6,811 | 13,789 | 10,082 |

## Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---|---|---|---|---|---|
| **Non-current assets** | **28,657** | **37,979** | **43,810** | **46,636** | **51,975** |
| PP&E | 6,077 | 6,735 | 8,324 | 10,234 | 11,922 |
| Lease prepayment | 1,943 | 2,433 | 2,383 | 2,333 | 2,283 |
| JV/associates | 3,500 | 3,909 | 4,163 | 4,434 | 4,723 |
| Finance lease receivables | 3,656 | 7,771 | 9,047 | 10,116 | 10,354 |
| Goodwill | 2,046 | 2,017 | 2,017 | 2,017 | 2,017 |
| Trade receivables | 5,498 | 9,072 | 11,950 | 11,795 | 15,188 |
| Intangible assets | 2,153 | 2,043 | 1,927 | 1,708 | 1,489 |
| Financial assets | 2,379 | 2,644 | 2,644 | 2,644 | 2,644 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets | 1,276 | 1,271 | 1,271 | 1,271 | 1,271 |
| Deposits | 129 | 84 | 84 | 84 | 84 |
| **Current assets** | **64,762** | **54,052** | **70,624** | **75,370** | **86,854** |
| Inventories | 9,551 | 11,772 | 14,217 | 14,417 | 17,543 |
| Trade & other receivables | 21,554 | 20,839 | 25,409 | 28,329 | 33,080 |
| Finance lease receivables | 8,835 | 9,229 | 17,048 | 11,695 | 19,009 |
| Financial assets at FVPL | 13,787 | 4,311 | 4,311 | 4,311 | 4,311 |
| Others | 1,097 | 1,413 | 1,413 | 1,413 | 1,413 |
| Pledged deposits | 1,184 | 1,415 | 1,415 | 1,415 | 1,415 |
| Cash | 8,754 | 5,073 | 6,811 | 13,789 | 10,082 |
| **Current liabilities** | **39,623** | **34,569** | **50,953** | **45,919** | **60,603** |
| Trade and other payables | 15,786 | 25,012 | 41,210 | 35,542 | 50,126 |
| Bank borrowings | 22,044 | 7,312 | 7,112 | 7,212 | 7,312 |
| Tax payable | 151 | 186 | 186 | 186 | 186 |
| Contract liabilities | 1,602 | 1,934 | 2,321 | 2,855 | 2,855 |
| Others | 40 | 125 | 125 | 125 | 125 |
| **Non-current liabilities** | **15,065** | **17,965** | **17,165** | **17,165** | **12,965** |
| Bank borrowings | 13,645 | 14,515 | 13,715 | 13,715 | 9,515 |
| Deferred tax liabilities | 429 | 455 | 455 | 455 | 455 |
| Others | 991 | 2,995 | 2,995 | 2,995 | 2,995 |
| **Equity** | **38,731** | **39,497** | **46,316** | **58,922** | **65,261** |
| Shareholders' equity | 38,164 | 38,827 | 45,714 | 58,406 | 64,844 |
| MI | 567 | 670 | 602 | 515 | 417 |

## Key ratios

| YE 31 Dec | FY18A | FY19A | FY20E | FY21E | FY22E |
|---|---|---|---|---|---|
| **Sales mix (%)** | | | | | |
| Concrete machinery | 35% | 32% | 30% | 29% | 28% |
| Crane machinery | 43% | 51% | 52% | 50% | 49% |
| Others machinery | 14% | 11% | 13% | 16% | 19% |
| Agricultural machinery | 5% | 4% | 3% | 3% | 3% |
| Financial services | 2% | 2% | 1% | 1% | 1% |
| Environmental (discontinued) | 0% | 0% | 0% | 0% | 0% |
| Total | 100% | 100% | 100% | 100% | 100% |
| **Profit & loss ratio (%)** | | | | | |
| Gross margin | 27.1 | 30.0 | 28.7 | 29.1 | 29.2 |
| EBIT margin | 12.7 | 13.9 | 12.8 | 13.2 | 13.2 |
| Net profit margin | 6.9 | 9.9 | 10.7 | 11.4 | 11.6 |
| **Growth (%)** | | | | | |
| Revenue | 39.3 | 50.9 | 47.6 | 18.9 | 11.7 |
| Gross profit | 80.6 | 67.1 | 41.1 | 20.8 | 11.8 |
| EBIT | n/a | 65.7 | 36.1 | 22.7 | 11.7 |
| Net profit | 51.3 | 115.7 | 57.2 | 26.7 | 13.8 |
| **Balance sheet ratio** | | | | | |
| Current ratio (x) | 1.6 | 1.6 | 1.4 | 1.6 | 1.4 |
| Trade receivable turnover days | 342 | 240 | 192 | 186 | 190 |
| Finance lease receivable turnover days | 161 | 124 | 123 | 115 | 110 |
| Inventory turnover days | 161 | 128 | 104 | 97 | 97 |
| Payable turnover days | 268 | 246 | 265 | 260 | 260 |
| Net debt / total equity (%) | 33.6 | 31.3 | 20.8 | 4.7 | 3.6 |
| **Profitability (%)** | | | | | |
| ROA | 2.3 | 4.7 | 6.7 | 7.4 | 7.6 |
| ROE | 5.4 | 11.4 | 16.3 | 16.8 | 16.1 |
| **Per share data** | | | | | |
| EPS (RMB) | 0.27 | 0.58 | 0.87 | 0.96 | 1.09 |
| BVPS (RMB) | 4.89 | 4.93 | 5.80 | 6.40 | 7.10 |
| DPS (RMB) | 0.25 | 0.00 | 0.37 | 0.38 | 0.44 |

Note: We have modelled the dilution effect from upcoming fund raising exercise in 2021E
Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

| | |
|---|---|
| **BUY** | : Stock with potential return of over 15% over next 12 months |
| **HOLD** | : Stock with potential return of +15% to -10% over next 12 months |
| **SELL** | : Stock with potential loss of over 10% over next 12 months |
| **NOT RATED** | : Stock is not rated by CMBIS |
| | |
| **OUTPERFORM** | : Industry expected to outperform the relevant broad market benchmark over next 12 months |
| **MARKET-PERFORM** | : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months |
| **UNDERPERFORM** | : Industry expected to underperform the relevant broad market benchmark over next 12 months |

*CMB International Securities Limited*

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.