

China Power International (2380 HK)

Buy: Shift towards cleaner energy

EQUITIES
ELECTRIC UTILITIES

China

- ▶ CPI to acquire clean energy assets from parent group for RMB5bn; deal valuation looks justified
- ▶ Targets over 50% of clean energy assets by 2020; deal financing will be through 1:3 rights issue to raise HKD2bn
- ▶ Maintain Buy with unchanged TP of HKD3.0

Asset injection from parent: China Power International (CPI) announced on 9 October the acquisition of certain clean energy assets from its parent group for a total consideration of RMB5bn. The proposed injection will likely increase CPI's attributable capacity by 11.8% and upon completion clean energy will contribute c33% of total capacity. The proposed injection includes 2GW of assets under operation and another 1.9GW under construction, of which management expects 1GW to be operational by end-2017. Based on FY16 financial data, total attributable profit from the proposed assets is RMB410m (excluding Qian Zhan) representing 17% of CPI's total profit for FY16. Upon completion of the asset injection, CPI's parent company SPIC (unlisted) will still have 10GW of unlisted hydro assets and other solar and wind assets. The group's target is that 75% of its assets be listed compared to 30% currently.

Valuation looks justified: We calculate the proposed acquisition at 12.1x PE based on FY16 profit and 1.4x PB based on June 2017 net asset value compared to CPI's 9.2x PE and 0.6x PB for FY17e. Although the valuation multiples are slightly higher than CPI, we think the deal looks justified as the majority of the proposed assets are under construction and will contribute to profit upon completion. The ROE of acquired assets is 12% in FY16, which is higher than CPI's 8.7%/6.4% in FY16/17e.

Rights issue to finance the deal: CPI intends to finance the deal using a 1:3 rights issue, and targets to raise not less than HKD2bn. The rights issue price has not yet been determined; management aims to complete the issue by end-2017. Upon completion of the proposed asset injection and rights issue, we calculate CPI's 2018/19e EPS will be diluted by 11%. However, with new assets entering operation, we estimate further upside to earnings potential.

Maintain Buy with unchanged TP of HKD3.0: We believe higher hydro generation in 2H17 and newly acquired clean-energy assets will help the company generate a stable ROE and maintain a stable dividend pay-out of 50%. The stock is currently trading at FY17e PE of 9.2x and PB of 0.6x, below its historical average and peers. We maintain our Buy rating on CPI with unchanged DCF-based TP of HKD3.0 due to exposure to hydro assets and stable dividend pay-out. Our target price implies a FY18e PB of 0.5x, which we believe is justified by its ROE of 7.5% in 2018e.



MAINTAIN BUY

TARGET PRICE (HKD)

3.00

PREVIOUS TARGET (HKD)

3.00

SHARE PRICE (HKD)

2.61

(as of 09 Oct 2017)

UPSIDE/DOWNSIDE

+14.9%

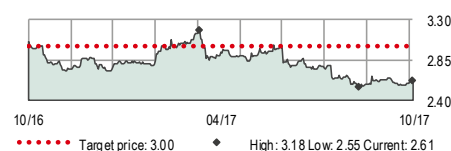
MARKET DATA

Market cap (HKDm)	19,197	Free float	45%
Market cap (USDm)	2,459	BBG	2380 HK
3m ADTV (USDm)	7	RIC	2380.HK

FINANCIALS AND RATIOS (CNY)

Year to	12/2016a	12/2017e	12/2018e	12/2019e
HSBC EPS	0.32	0.24	0.30	0.31
HSBC EPS (prev)	-	-	-	-
Change (%)	-	-	-	-
Consensus EPS	0.37	0.17	0.30	0.31
PE (x)	6.9	9.2	7.5	7.2
Dividend yield (%)	7.2	4.4	5.4	5.6
EV/EBITDA (x)	6.7	8.0	7.1	7.0
ROE (%)	8.7	6.4	7.5	7.5

52-WEEK PRICE (HKD)



Source: Thomson Reuters IBES, HSBC estimates

Summer Huang*

Analyst, Utilities & Alternative Energy

The Hongkong and Shanghai Banking Corporation Limited

summeryyhuang@hsbc.com.hk

+852 2996 6976

Evan Li*

Head of Utilities & Alternative Energy Research, APAC

The Hongkong and Shanghai Banking Corporation Limited

evan.m.h.li@hsbc.com.hk

+852 2996 6619

Charlotte Xia*

Associate

* Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

MiFID II – Research: Is your access agreed? **CONTACT us today**

Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

View HSBC Global Research at:

<https://www.research.hsbc.com>

Financials & valuation: China Power International

Buy

Financial statements

Year to	12/2016a	12/2017e	12/2018e	12/2019e
Profit & loss summary (CNYm)				
Revenue	18,866	19,520	20,655	21,336
EBITDA	7,716	6,894	8,145	8,671
Depreciation & amortisation	-3,282	-3,182	-3,441	-3,737
Operating profit/EBIT	4,434	3,712	4,703	4,934
Net interest	-2,068	-2,166	-2,296	-2,401
PBT	3,994	2,993	3,685	3,842
HSBC PBT	3,994	2,993	3,685	3,842
Taxation	-739	-554	-681	-710
Net profit	2,366	1,773	2,183	2,276
HSBC net profit	2,366	1,773	2,183	2,276
Cash flow summary (CNYm)				
Cash flow from operations	6,117	6,223	6,264	6,772
Capex	-8,571	-9,050	-7,850	-8,600
Cash flow from investment	-8,439	-9,025	-7,830	-8,578
Dividends	-2,343	-709	-873	-910
Change in net debt	4,967	3,512	2,439	2,716
FCF equity	-3,082	-4,250	-2,843	-3,115
Balance sheet summary (CNYm)				
Intangible fixed assets	835	835	835	835
Tangible fixed assets	70,887	76,755	81,163	86,026
Current assets	6,843	6,208	6,531	6,025
Cash & others	1,809	1,467	1,619	1,001
Total assets	91,187	96,419	101,152	105,508
Operating liabilities	8,246	8,578	8,590	8,627
Gross debt	46,554	49,723	52,313	54,412
Net debt	44,744	48,256	50,695	53,411
Shareholders' funds	27,267	28,331	29,640	31,006
Invested capital	68,510	73,752	78,321	83,258

Ratio, growth and per share analysis

Year to	12/2016a	12/2017e	12/2018e	12/2019e
Y-o-y % change				
Revenue	-6.6	3.5	5.8	3.3
EBITDA	-18.7	-10.7	18.2	6.5
Operating profit	-31.3	-16.3	26.7	4.9
PBT	-39.0	-25.1	23.1	4.3
HSBC EPS	-28.7	-25.0	23.1	4.3
Ratios (%)				
Revenue/IC (x)	0.3	0.3	0.3	0.3
ROIC	5.5	4.3	5.0	5.0
ROE	8.7	6.4	7.5	7.5
ROA	5.6	4.5	4.9	4.9
EBITDA margin	40.9	35.3	39.4	40.6
Operating profit margin	23.5	19.0	22.8	23.1
EBITDA/net interest (x)	3.7	3.2	3.5	3.6
Net debt/equity	129.3	132.8	131.8	131.3
Net debt/EBITDA (x)	5.8	7.0	6.2	6.2
CF from operations/net debt	13.7	12.9	12.4	12.7
Per share data (CNY)				
EPS Rep (diluted)	0.32	0.24	0.30	0.31
HSBC EPS (diluted)	0.32	0.24	0.30	0.31
DPS	0.16	0.10	0.12	0.12
Book value	3.71	3.85	4.03	4.22

Valuation data

Year to	12/2016a	12/2017e	12/2018e	12/2019e
EV/sales	2.7	2.8	2.8	2.8
EV/EBITDA	6.7	8.0	7.1	7.0
EV/IC	0.8	0.7	0.7	0.7
PE*	6.9	9.2	7.5	7.2
PB	0.6	0.6	0.5	0.5
FCF yield (%)	-44.2	-60.9	-40.8	-44.7
Dividend yield (%)	7.2	4.4	5.4	5.6

* Based on HSBC EPS (diluted)

Issuer information

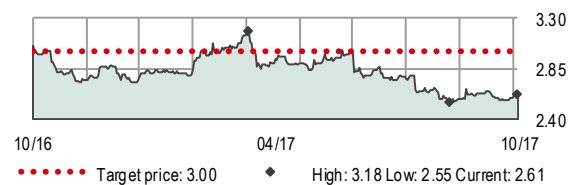
Share price (HKD)	2.61	Free float	45%
Target price (HKD)	3.00	Sector	Electric Utilities
Reuters (Equity)	2380.HK	Country	China
Bloomberg (Equity)	2380 HK	Analyst	Summer Huang
Market cap (USDm)	2,459	Contact	+852 2996 6976

ESG metrics

Environmental Indicators		Governance Indicators	
GHG Intensity (kg/USD)	NA	No. of board members	7
Energy Intensity (kWh/USD)	NA	Average board experience (years)	NA
CO2 reduction policy	Yes	Female board members (%)	0
Social Indicators		Board members Independence (%)	43
Employee costs as % of sales	10%		
Employee turnover (%)	2		
Diversity policy	Yes		

Source: Company data, HSBC

Price relative



Source: HSBC

Note: Priced at close of 09 Oct 2017

Asset injection details

Acquisition No.	Company	Attributable installed capacity (MW)				Capacity under construction (MW)	2016 net profit RMBm	NAV as of June 2017 RMBm
		Natural gas	Wind	Solar	Hydro			
1	Guangdong Company	780	50	-	-	152	121	894
	Exclude: Qian Zhan						(26)	533
1	Guangxi Company	-	392	20	630	666	283	2,578
1	Sihui Company	-	-	-	-	800	(15)	271
2	Anhui Company	-	-	122	-	76	(1)	194
2	Hubei Company	-	-	-	-	130	(0)	48
2	Shandong Company	-	-	-	-	51	(3)	83
2	Shouxian Company	-	-	-	-	-	(2)	3
	Total	780	442	142	630	1,875	410	3,537
	Acquisition 1 price (RMBm)	4,852						
	Acquisition 2 price (RMBm)	117						
	Total consideration (RMBm)	4,969						
	Implied PE	12.1						
	Implied PB	1.4						

Source: Company data, HSBC calculations

Earnings accretion/dilution

	2018e	2019e
Net profit (RMBm)	2,183	2,276
Share count (m)	7,355	7,355
EPS (RMB)	0.30	0.31
Net profit after acquisition (RMBm)	2,593	2,686
Share count post rights issue (m)	9,807	9,807
EPS (RMB)	0.26	0.27
Accretion/dilution	-11%	-11%

Source: HSBC calculations

Valuation and risks

Valuation: Our unchanged DCF-based target price of HKD3.0 uses an unchanged WACC of 5.2% based on a 2.5% risk-free rate, a 6.0% equity risk premium, a 1.0 equity beta, an 8.5% cost of equity, a 5% cost of debt, and the HSBC FX team's end-2017e forecast for RMB-HKD of 1.20. We forecast cash flow until 2037e and assume no terminal value. Our target price implies 14.9% upside from current levels. We retain our Buy rating on the stock because we believe the company's exposure to hydro power assets should help it to generate a relatively high ROE, compared with its peers, and maintain a stable dividend pay-out of 50%.

Downside risks: Lower-than-expected water flow conditions in Hunan Province – the province is still subject to water flow restrictions and could see utilisation decline under extremely dry weather conditions; lower-than-expected thermal utilisation at its Anhui power plant; and higher than-expected unit fuel costs from losing bargaining power over its mine-mouth coal supply.

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Summer Huang and Evan Li

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

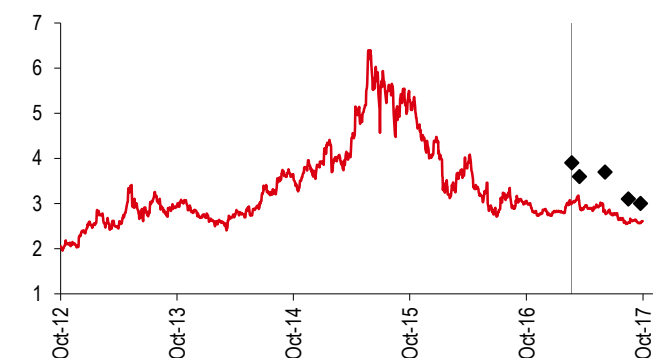
Rating distribution for long-term investment opportunities

As of 10 October 2017, the distribution of all independent ratings published by HSBC is as follows:

Buy	44%	(27% of these provided with Investment Banking Services)
Hold	42%	(25% of these provided with Investment Banking Services)
Sell	14%	(16% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at <http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures>.

Share price and rating changes for long-term investment opportunities**China Power International (2380.HK) share price performance HKD Vs HSBC rating history**

Source: HSBC

Rating & target price history

From	To	Date	Analyst
N/A	Buy	28 Feb 2017	Summer Huang
Target price	Value	Date	Analyst
Price 1	3.90	28 Feb 2017	Summer Huang
Price 2	3.60	24 Mar 2017	Summer Huang
Price 3	3.70	13 Jun 2017	Summer Huang
Price 4	3.10	25 Aug 2017	Summer Huang
Price 5	3.00	02 Oct 2017	Summer Huang

Source: HSBC

To view a list of all the independent fundamental ratings disseminated by HSBC during the preceding 12-month period, please use the following links to access the disclosure page:

Clients of Global Research and Global Banking and Markets: www.research.hsbc.com/A/Disclosures

Clients of HSBC Private Banking: www.research.privatebank.hsbc.com/Disclosures

HSBC & Analyst disclosures**Disclosure checklist**

Company	Ticker	Recent price	Price date	Disclosure
CHINA POWER INTERNATIONAL	2380.HK	2.61	09 Oct 2017	6

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 30 September 2017 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 31 August 2017, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 31 August 2017, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.

- 7 As of 31 August 2017, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company
- 12 As of 04 Oct 2017, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
- 13 As of 04 Oct 2017, HSBC beneficially held a net short position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

Economic sanctions imposed by the EU and OFAC prohibit transacting or dealing in new debt or equity of Russian SSI entities. This report does not constitute advice in relation to any securities issued by Russian SSI entities on or after July 16 2014 and as such, this report should not be construed as an inducement to transact in any sanctioned securities.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research. HSBC Private Banking clients should contact their Relationship Manager for queries regarding other research reports. In order to find out more about the proprietary models used to produce this report, please contact the authoring analyst.

Additional disclosures

1. This report is dated as at 10 October 2017.
2. All market data included in this report are dated as at close 09 October 2017, unless a different date and/or a specific time of day is indicated in the report.
3. HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
4. You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument.

Production & distribution disclosures

1. This report was produced and signed off by the author on 10 Oct 2017 06:50 GMT.
2. In order to see when this report was first disseminated please see the disclosure page available at <https://www.research.hsbc.com/R/34/Mbg6sXW>

Disclaimer

Legal entities as at 13 July 2017

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia

Issuer of report

The Hongkong and Shanghai Banking Corporation Limited

Level 19, 1 Queen's Road Central

Hong Kong SAR

Telephone: +852 2843 9111

Fax: +852 2596 0200

Website: www.research.hsbc.com

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in the conduct of its Hong Kong regulated business for the information of its institutional and professional investor (as defined by Securities and Future Ordinance (Chapter 571)) customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority. All enquiries by recipients in Hong Kong must be directed to your HSBC contact in Hong Kong. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report. In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (ABN 48 006 434 162, AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. It may not be further distributed in whole or in part for any purpose. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

In Canada, this document has been distributed by HSBC Securities (Canada) Inc. (member IIROC), and/or its affiliates. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense.

If you are an HSBC Private Banking ("PB") customer with approval for receipt of relevant research publications by an applicable HSBC legal entity, you are eligible to receive this publication. To be eligible to receive such publications, you must have agreed to the applicable HSBC entity's terms and conditions ("KRC Terms") for access to the KRC, and the terms and conditions of any other internet banking service offered by that HSBC entity through which you will access research publications using the KRC. Distribution of this publication is the sole responsibility of the HSBC entity with whom you have agreed the KRC Terms.

If you do not meet the aforementioned eligibility requirements please disregard this publication and, if you are a customer of PB, please notify your Relationship Manager. Receipt of research publications is strictly subject to the KRC Terms, which can be found at <https://research.privatebank.hsbc.com/> – we draw your attention also to the provisions contained in the Important Notes section therein.

© Copyright 2017, The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited. MCI (P) 069/06/2017, MCI (P) 126/02/2017

[917619]