

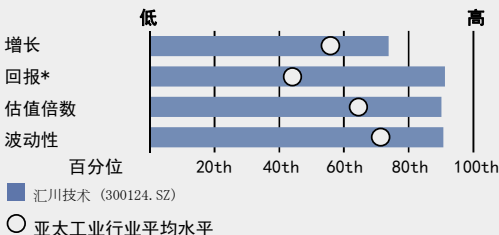


中国工业自动化的创新企业；首次覆盖加入强力买入名单(摘要)

建议理由

我们将汇川技术评为买入（强力买入名单）。我们首次覆盖中国工厂自动化行业，而汇川技术凭借其屡获验证的创新能力和向新产品市场的成功渗透以及赢取市场份额的能力成为我们 A 股中的首选。尽管我们预计公司 2013-16 年每股盈利年均复合增速与 A 股同业接近（23%），但我们认为其 2015 年预期 CROCI 将在我们覆盖的全球自动化企业中居于榜首。我们还看好公司通过股权激励计划将管理层/主要员工利益和股东利益相统一的模式。鉴于公司执行记录强劲以及客户基础扩大，我们预计汇川技术将通过市场份额的扩大来抵消对其具有关键意义的电梯控制市场的放缓。

投资摘要



投资摘要指标的全面描述请参见本报告的信息披露部分。

推动因素

(1) 公司定于 3 月 19 日发布 2014 年业绩，我们预计届时同时发布的业绩指引将显示原有业务和新业务双双保持强劲；(2) 未来 12 个月内主要新产品成功推出 – 如可用于更专业的工业机器人的高端运动控制器和通用伺服产品；(3) 现金回报持续强劲，这可能会在一定程度上缓解市场对汇川电梯相关业务的担忧（我们的电梯相关业务预测低于市场预测）。

估值

汇川技术估值看上去具有吸引力，2015/16 年预期市盈率为 32 倍/27 倍，相对于中国工业自动化同业 36 倍/29 倍的中值存在折让，尽管我们预计公司拥有在同业中最高净资产回报率和 CROCI。我们基于 2015 年预期 EV/GCI vs. CROCI/WACC 的 12 个月目标价格为人民币 43.90 元，对应的 2015/16 年市盈率为 40 倍/33 倍，与 42 倍的历史均值一致。

主要风险

(1) 中国房地产新开工面积/投资较预期疲软；(2) 市场份额上升慢于预期，尤其是新产品；(3) 传统产品的毛利率低于预期；(4) 成本控制弱于预期。

*全文翻译随后提供

所属投资名单

亚太买入名单

亚太强力买入名单

行业评级：中性

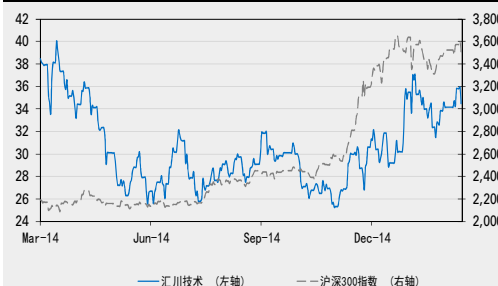
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主要数据

当前

股价 (Rmb)	34.47
12个月目标价格 (Rmb)	43.90
市值 (Rmb mn / US\$ mn)	26,958.0 / 4,297.5
外资持股比例 (%)	--

股价走势图



股价表现 (%)

	3个月	6个月	12个月
绝对	12.6	19.0	(10.4)
相对于沪深300指数	(4.7)	(18.3)	(44.0)

资料来源：公司数据、高盛研究预测、FactSet（股价为3/03/2015收盘价）

北京高华证券有限责任公司及其关联机构与其研究报告所分析的企业存在业务关系，并且继续寻求发展这些关系。因此，投资者应当考虑到本公司可能存在可能影响本报告客观性的利益冲突，不应视本报告为作出投资决策的唯一因素。有关分析师的申明和其他重要信息，见信息披露附录，或请与您的投资代表联系。

汇川技术： 财务数据概要

损益表(Rmb mn)					资产负债表(Rmb mn)				
	12/13	12/14E	12/15E	12/16E		12/13	12/14E	12/15E	12/16E
主营业务收入	1,725.9	2,275.1	2,788.3	3,266.8	现金及等价物	152.0	94.8	217.2	442.8
主营业务成本	(813.9)	(1,122.3)	(1,358.3)	(1,585.1)	应收账款	808.2	1,090.8	1,336.9	1,566.3
销售、一般及管理费用	(437.4)	(546.0)	(613.4)	(686.0)	存货	322.4	461.2	521.0	608.0
研发费用	--	--	--	--	其它流动资产	2,009.4	2,009.4	2,009.4	2,009.4
其它营业收入/(支出)	(27.4)	(34.1)	(39.0)	(42.5)	流动资产	3,292.0	3,656.2	4,084.5	4,626.5
EBITDA	478.2	611.2	822.2	1,008.4	固定资产净额	206.6	210.8	345.7	475.5
折旧和摊销	(30.9)	(38.5)	(44.6)	(55.2)	无形资产净额	174.8	162.0	149.3	136.5
EBIT	447.2	572.6	777.6	953.2	长期投资	0.0	4.7	4.7	4.7
利息收入	67.4	71.1	70.0	72.4	其它长期资产	121.9	212.4	177.9	86.5
财务费用	(0.2)	(0.2)	(0.2)	(0.2)	资产合计	3,795.3	4,246.2	4,762.1	5,329.8
联营公司	0.0	0.0	0.0	0.0	应付账款	382.7	538.1	632.6	738.2
其它	153.1	161.5	196.6	230.1	短期贷款	0.0	0.0	0.0	0.0
税前利润	667.4	805.0	1,043.9	1,255.5	其它流动负债	145.1	222.2	361.4	484.1
所得税	(98.3)	(120.7)	(156.6)	(188.3)	流动负债	527.8	760.3	994.1	1,222.3
少数股东损益	(8.9)	(18.6)	(22.8)	(27.4)	长期贷款	0.0	0.0	0.0	0.0
优先股股息前净利润	560.2	665.6	864.5	1,039.7	其它长期负债	33.9	33.9	33.9	33.9
优先股息	0.0	0.0	0.0	0.0	长期负债	33.9	33.9	33.9	33.9
非经常性项目前净利润	560.2	665.6	864.5	1,039.7	负债合计	561.7	794.2	1,028.0	1,256.3
税后非经常性损益	0.0	0.0	0.0	0.0	优先股	0.0	0.0	0.0	0.0
净利润	560.2	665.6	864.5	1,039.7	普通股权益	3,071.7	3,271.4	3,530.8	3,842.7
每股基本盈利（非经常性项目前）(Rmb)	0.72	0.85	1.11	1.33	少数股东权益	161.9	180.5	203.4	230.8
每股基本盈利（非经常性项目后）(Rmb)	0.72	0.85	1.11	1.33	负债及股东权益合计	3,795.3	4,246.2	4,762.1	5,329.8
每股摊薄盈利（非经常性项目后）(Rmb)	0.72	0.85	1.11	1.33	每股净资产(Rmb)	3.95	4.18	4.51	4.91
每股股息(Rmb)	0.50	0.60	0.77	0.93					
股息支付率(%)	69.4	70.0	70.0	70.0					
自由现金流收益率(%)	2.5	1.2	2.2	3.1					
增长率和利润率(%)					比率				
	12/13	12/14E	12/15E	12/16E		12/13	12/14E	12/15E	12/16E
主营业务收入增长率	44.6	31.8	22.6	17.2	CROC1(%)	17.6	20.1	24.6	26.8
EBITDA增长率	73.1	27.8	34.5	22.7	净资产回报率(%)	19.4	21.0	25.4	28.2
EBIT增长率	77.2	28.0	35.8	22.6	总资产回报率(%)	16.6	16.6	19.2	20.6
净利润增长率	76.4	18.8	29.9	20.3	平均运用资本回报率(%)	18.0	19.4	24.1	28.1
每股盈利增长	76.4	18.1	29.9	20.3	存货周转天数	107.3	127.4	132.0	130.0
毛利率	52.8	50.7	51.3	51.5	应收账款周转天数	138.0	152.3	158.9	162.2
EBITDA利润率	27.7	26.9	29.5	30.9	应付账款周转天数	124.3	149.7	157.3	157.8
EBIT利润率	25.9	25.2	27.9	29.2	净负债/股东权益(%)	(4.7)	(2.7)	(5.8)	(10.9)
					EBIT利息保障倍数(X)	NM	NM	NM	NM
现金流量表(Rmb mn)					估值				
	12/13	12/14E	12/15E	12/16E		12/13	12/14E	12/15E	12/16E
优先股股息前净利润	560.2	665.6	864.5	1,039.7	基本市盈率(X)	26.9	40.5	31.2	25.9
折旧及摊销	30.9	38.5	44.6	55.2	市净率(X)	4.9	8.2	7.6	7.0
少数股东权益	8.9	18.6	22.8	27.4	EV/EBITDA(X)	31.5	44.2	32.8	26.5
运营资本增减	(127.6)	(266.0)	(211.3)	(210.7)	企业价值/总投资现金(X)	4.7	8.0	7.2	6.3
其它	(20.3)	0.0	0.0	0.0	股息收益率(%)	2.6	1.7	2.2	2.7
经营活动产生的现金流	452.2	456.8	720.6	911.6					
资本开支	(71.0)	(120.5)	(132.3)	(80.8)					
收购	(98.3)	(4.7)	0.0	0.0					
剥离	0.2	0.0	0.0	0.0					
其它	(11.4)	0.0	0.0	0.0					
投资活动产生的现金流	(180.6)	(125.2)	(132.3)	(80.8)					
支付股息的现金（普通股和优先股）	(237.0)	(388.8)	(465.9)	(605.1)					
借款增减	0.0	0.0	0.0	0.0					
普通股发行（回购）	0.0	0.0	0.0	0.0					
其它	32.8	0.0	0.0	0.0					
筹资活动产生的现金流	(204.3)	(388.8)	(465.9)	(605.1)					
总现金流	66.8	(57.2)	122.4	225.6					
					注：最后一个实际年度数据可能包括已公布和预测数据。				
					资料来源：公司数据、高盛研究预测				

对此报告有贡献的人员

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The prices in the body of the report are as of the market close of February 27, 2015.

Gao Hua Securities acknowledges the role of Tian Lu, CFA, and Frank Shi of Goldman Sachs in the preparation of this product.

Exhibit 1: Inovance is the top A share pick among our China Industrial Automation coverage

Ticker	Company	Market cap (US\$ mn)	Rating New	Current price	12-m Target price	Potential upside/ downside
HOLI	Hollysys Automation Technologies Ltd.	1,072	Buy	US\$18.63	US\$ 29.3	57%
300124.SZ	Shenzhen Inovance Technology Co., Ltd	4,466	Buy *	Rmb35.80	Rmb 43.9	23%
002527.SZ	Shanghai STEP Electric Corporation	1,232	Buy	Rmb19.65	Rmb 23.9	22%
1882.HK	Haitian International Holdings Limited	3,453	Neutral	HK\$16.78	HK\$ 16.0	-5%
300024.SZ	Siasun Robot&Automation Co., Ltd	4,579	Neutral	Rmb43.84	Rmb 36.5	-17%

* On our regional Conviction List

Source: Datastream, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Glossary and explanation of key terms

Industrial Automation: control systems/related equipment that could replace human intervention to operate machinery/manufacturing processes in the industrials sector. It can be divided into Process Automation and Factory Automation.

- **Process automation (PA):** automation control systems/equipment that enable mass production of continuous processes such as oil refining, paper manufacturing, chemicals, power plants and many other industries.
- **Factory automation (FA):** automation control systems/equipment used for the production process of distinct items, mainly applied in industries where end-products are easily identifiable; i.e. automotive/electronic devices.

Inverter: changes direct current (DC) to alternating current (AC) and adjusts the AC motor speed.

PLC: Programmable Logic Controller, a controlling device widely used in the automation field, especially FA.

PIMM: Plastic Injection Molding Machinery that manufactures plastic products by the injection molding process.

Servo: (or servo system) is an automatic device that uses error-sensing negative feedback to correct the performance of a mechanism with a built-in encoder; it is used in industrials to ensure the accuracy of machines.

Machine vision: the technology and methods used to provide imaging-based automatic inspection and analysis for automation control systems, equipment, manufacturing processes, etc.

Industrial robot: an automatically controlled, reprogrammable, multipurpose manipulator programmable in three or more axis as defined per ISO 8373.

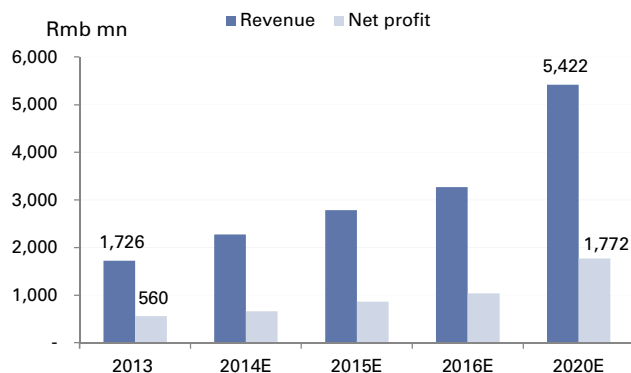
Our Buy thesis in charts

Exhibit 2: Inovance has a solid track record of launching a new product every 1-2 years and becoming local leader...

Year	Event
2003	Founded by a group of former Emerson engineers
2004	Launched low-voltage inverter products Became No.1 domestic LV inverter maker No.3 in China market, lagging ABB/Siemens
2005	Launched elevator combined control systems Became Top 2 domestic elevator control systems provider (Previously dominated by Yaskawa/Fuji)
2007	Launched PLC products Became a leading domestic brand in China PLC market
2008	Launched servo products Became No.1 domestic player in China's servo market
2010	Launched electric car controller products Became a leading domestic player in electric car controller Top supplier to Yutong Bus, the No.1 electric bus maker in China
2012	Launched sensors products Mainly used in elevators/machine tools etc.
2013	Invested into machine vision subsidiary Domestic pioneer in machine vision Launched high-voltage inverter products Aimed to break into the area dominated by foreign brands
2014	Acquired a plastic injection machine controller subsidiary To bring synergy to PIMM servo business
2015	To launch high-end motion controller products which could be used for industrial robots

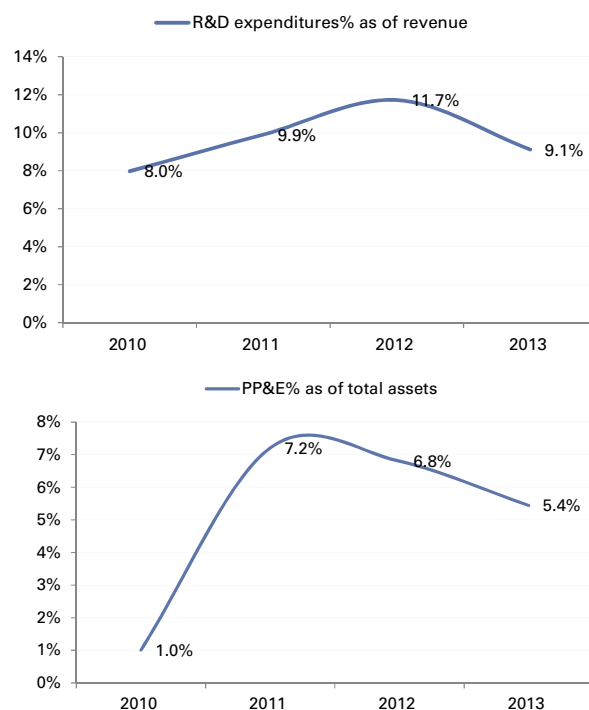
Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 4: We expect Inovance's revenue/net profit to triple by 2020E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

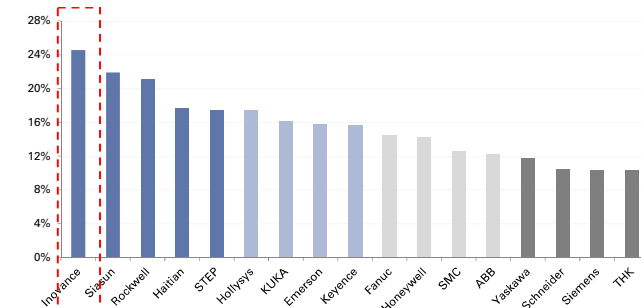
Exhibit 3: ...thanks to its focus on R&D; Inovance is also operating under an asset-light model



Note: Inovance's major capacity expansion was completed in 2011.

Source: Company data.

Exhibit 5: Inovance generates the highest CROCI among GS global automation coverage on a 2015E basis



Note: we've adjusted for net cash in our CROCI calculations.

Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Summary: Best-in-class innovation to drive growth and returns

Above-peer top and bottom line growth

We forecast a +24%/+23% revenue/net profit CAGR over 2013-16E on the back of:

- **Inovance's best-in-class innovation capability**, as evident from its continued investment in R&D (c.10% of total revenue in 2010-2013) and solid track record of launching new products every 1-2 years and then quickly becoming the leader in that market. Leveraging this capability, we expect Inovance will continue to succeed and lead in penetrating automation equipment key product markets, an industry with high growth potential and limited presence of domestic competitors, in our view (Exhibit 10).
- **Well incentivized management and engineers**: As an asset-light business (net PP&E at 5.4% of total asset in 2013), the key to Inovance's development is its management team and technology know-how. With management holding 55.51% of the outstanding shares (as of June 30, 2014), and stock options covering 21.57mn shares or c.3% of 2013 year-end shares outstanding to be granted to management/key R&D personnel, we think Inovance will be able to effectively retain and attract talent and better align management's interests with those of investors.
- **Mitigated impact from elevator market slowdown**: while we do expect elevator installation in China to slow down due to a deceleration in property investment growth, we see limited impact on Inovance's elevator combined control systems revenues, due to: (1) a regulatory tailwind as government puts stricter rules on elevator maintenance and repair – which we think will partly offset the decline in revenue from fewer new elevator installations; and (2) ongoing market share gain for Inovance on the back of its proven product quality and enlarged client base.

Inovance to maintain its global Q1 growth and return profile

Although global automation companies are much larger than Inovance currently in terms of revenues, Inovance: generates the highest 2015E CROCI and 1st quartile 2015E EBIT margin, at +25% and +28%, among global automation peers; it also generates sustainable 1st-quartile CROCI among our China Machinery and Infrastructure Construction coverage per our estimates (Exhibit 45).

Valuation: Our 12-month target price implies 23% potential upside

We derive our 12-month target price for Inovance using our 2015E EV/GCI vs. CROCI/WACC framework, benchmarked against A-share industrial automation peers. Our 12-month target price of Rmb43.9 implies 40X/33X 2015/16E P/E, in line with its historical average forward P/E of 42X. In our view, Inovance's current valuation appears attractive at 32X/27X 2015/16 P/E, which is at a discount to the domestic peer median of 36X/29X, even though we forecast Inovance to generate the highest ROE/CROCI among China industrial automation peers (Exhibit 53).

Key risks

(1) Softer-than-expected property new starts/investment in China; (2) Slower-than-expected market share gains, especially with new products; (3) Lower-than-expected gross margins for traditional products; (4) Weaker-than-expected cost control.

The most innovative automation company in China

Widest product offering among Chinese automation companies

Shenzhen Inovance Technology Co., Ltd (Inovance) was founded in 2003 by 10 engineers (led by Chairman Mr. Zhu Xingming) who used to work in Huawei and Emerson's inverter business unit. Since then, Inovance has maintained the solid track record of launching a new product every 1-2 years and quickly becoming the domestic leader in that product. Inovance has now developed into China's top automation company by revenue with the widest product offering.

Exhibit 6: Inovance has a solid innovation track record

A snapshot of Inovance's product development history

Year	Event
2003	Founded by a group of pre-Emerson engineers
2004	Launched low-voltage inverter products Became No.1 domestic LV inverter maker No.3 in China market, lagging ABB/Siemens
2005	Launched elevator combined control systems Became Top 2 domestic elevator control systems provider (Previously dominated by Yaskawa/Fuji)
2007	Launched PLC products Became leading domestic brand in China PLC market
2008	Launched servo products Became No.1 domestic player in China's servo market
2010	Launched electric car controller products Became leading domestic player in electric car controller Top supplier to Yutong Bus, the No.1 electric bus maker in China
2012	Launched sensors products Mainly used in elevators/machine tools etc.
2013	Invested into machine vision subsidiary Domestic pioneer in machine vision
	Launched high-voltage inverter products Aim to break into the area dominated by foreign brands
2014	Acquired a plastic injection machine controller subsidiary To bring synergy to PIMM servo business
2015	To launch high-end motion controller products which could be used for industrial robots

Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 7: Inovance now has the widest product offering among Chinese automation companies

An overview of Inovance's main products

Low-voltage inverters



Applications: Widely used in general industrials to control the speed of electric motors.

2014E revenue mix: 21%

2013-16E revenue CAGR: 19%

Elevator combined control systems



Applications: A combination of elevator controller and inverter which controls elevator movement.

2014E revenue mix: 40%

2013-16E revenue CAGR: 8%

PLCs



Applications: Programmable Logic Controllers, widely used in general industrial applications.

2014E revenue mix: 3%

2013-16E revenue CAGR: 12%

General servos



Applications: Servo systems for general industries.

2014E revenue mix: 6%

2013-16E revenue CAGR: 41%

PIMM servos



Applications: Servo systems specifically designed for plastic injection molding machines.

2014E revenue mix: 8%

2013-16E revenue CAGR: 4%

Electric car controllers



Applications: Designed for the control of electric car motors, now mainly used in electric buses.

2014E revenue mix: 10%

2013-16E revenue CAGR: 85%

Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

- **Low-voltage inverters** (21% of 2014E revenue): Widely used in various industrial fields to control the speed of electric motors — including both project applications such as chemicals/metallurgy/oil & gas and OEM applications such as textiles/elevators/packaging. According to Inovance, the company is the No.3 low-voltage inverter manufacturer in China in terms of sales value, behind ABB and Siemens. We expect +19% revenue CAGR in 2013-16E — driven both by market size expansion and market share gain for Inovance.
- **Elevator combined control systems** (40% of 2014E revenue): A combination of controller and inverter products, used to control elevator movement. Inovance launched its product in 2005 and it gradually became a top 2 domestic suppliers in China (along with Shanghai STEP Electric). Its current clients are mainly domestic elevator

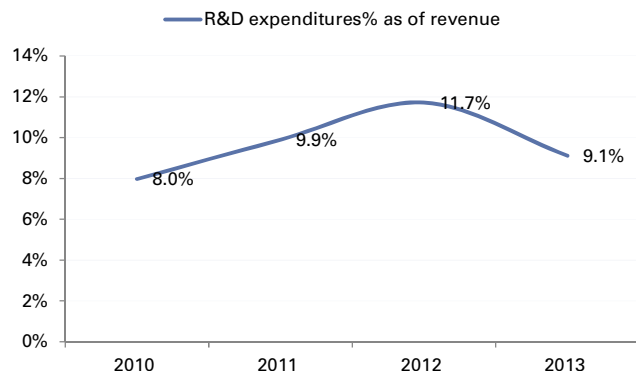
manufacturers such as SJEC Corporation. We expect China's elevator market to peak off with decelerating property investment, but we expect Inovance's elevator-related revenue to grow at a +8% revenue CAGR in 2013-16E thanks to continuous market share gain.

- **PLCs (Programmable Logic Controllers)** (3% of 2014E revenue): Although Inovance is already the leading domestic PLC manufacturer in China by sales, its market share is still pretty small (less than 1%). China's PLC market is still dominated by international companies, with U.S/European brands (Rockwell/Siemens/Schneider etc.) leading in large/mid-sized projects and Japanese companies leading in small-size projects (Mitsubishi/Omron etc.). We expect a +12% revenue CAGR in 2013-16E for Inovance's PLC revenue, driven by resilient industry growth and mild market share gains.
- **Servos/Motion control** (14% of 2014E revenue): Inovance has servos products for both plastic injection molding machines (PIMMs) and general industrial applications; it now has c. 5% market share in China, the highest among domestic companies (the China market is dominated by Japanese/Taiwanese brands e.g. Yaskawa/Panasonic/Delta). We expect Inovance's general servos revenue (+41% CAGR in 2013-16E) to outgrow PIMM servos (+4% CAGR in 2013-16E) thanks to rising demand for servos as a result of higher precision required by end users, and Inovance's market share gains as it expands into more industries.
- **Electric car controllers** (10% of 2014E revenue): Inovance has signed an exclusive cooperation agreement with Yutong Bus to provide electric car controller products to their electric bus products; among its businesses we see the highest growth potential here as we expect strong tailwinds from China's central/local governments to promote electric buses. We forecast Inovance's electric car controller revenue to expand six fold from Rmb100mn in 2013 to Rmb636mn in 2016E (+85% CAGR in 2013-16E).

Inovance provides a typical example of Chinese companies gaining market share

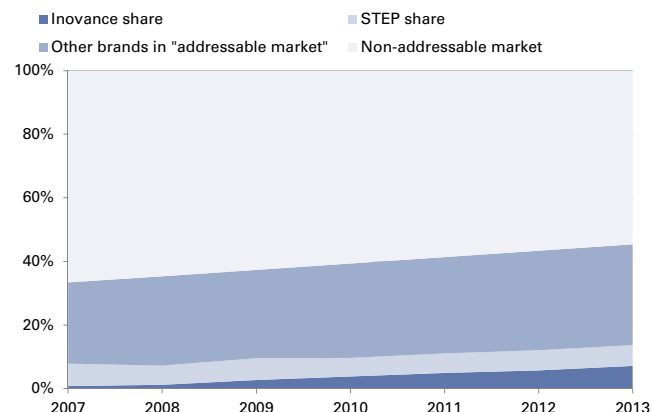
As discussed in our sector report *Rise of the machines: Recruiting robots to compete; initiate Inovance (CL)*, *STEP at Buy*, March 4, 2015, we think a key longer-term strategy for local automation companies will be to break into key components markets; we view Inovance as a good example of this strategy, thanks to its consistent and substantial investment into R&D which has led to a sustainable track record of new product launches.

Exhibit 8: Inovance has spent c.10% of revenue on R&D...
Inovance's R&D expenditure as % of total revenue, 2010-13



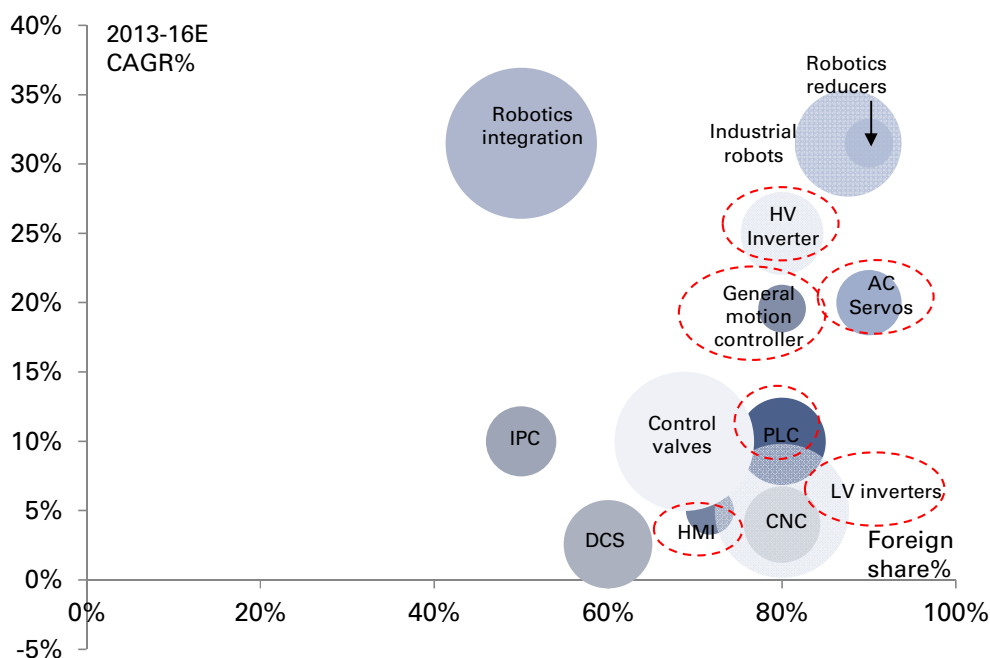
Source: Company data.

Exhibit 9: ...elevator combined control systems are a typical example of how Inovance gained share from international companies e.g. Yaskawa/Fuji
Market share split in China's elevator combined control systems market, 2007-2013



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 10: Inovance is engaged widely in automation key products market
Market size/growth/domestic share heatmap for key automation products

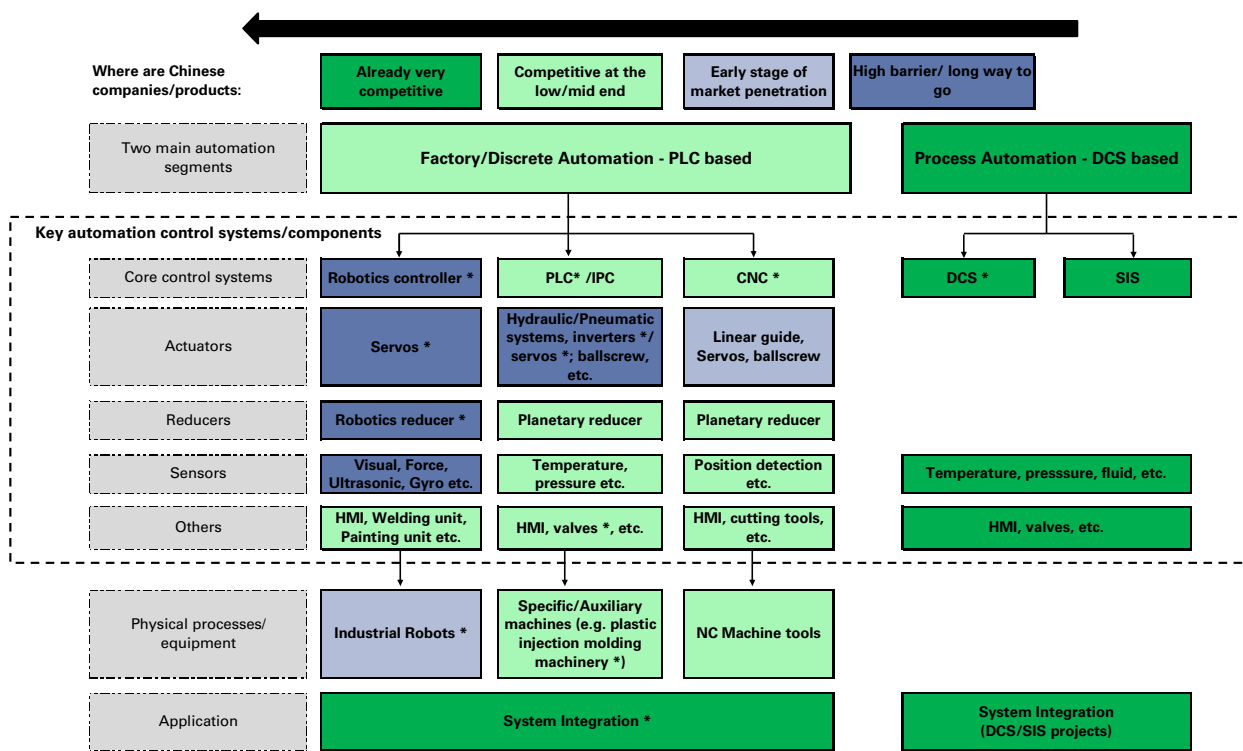


Note: the size of each circle represents the market size of each product in 2013; the products with dash red circle denote those that Inovance has presence in.

Source: Gongkong, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 11: We think local factory automation companies' opportunities mainly lie in system integration and low entry barrier components

Automation competitive landscape – a product perspective



* See further product analysis in Exhibit 12

Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 12: Inovance is engaged in a variety of key automation products (a follow-up on Exhibit 11)

Industrial Control Systems			
PLC (Factory Automation)		DCS (Process Automation)	
Programmable Logic Controller		Distributed Control System	
China's market size (2013)	Rmb 8bn	China's market size (2013)	Rmb 8bn
Margin	High, 40-50% GPM	Margin	Medium, 30-40% GPM
Mid-term growth CAGR%	c.10%	Mid-term growth CAGR%	c.3%
Local share%	20%	Local share%	40%
Key global brands	Siemens/Mitsubishi/ Schneider	Key global brands	Siemens/ABB/Emerson/Yokogawa
Key local brands	Inovance/Hollysys/ INVT	Key local brands	Hollysys/Supcon
CNC (Factory Automation)		Robotics controller (Factory Automation)	
Computer Numerical Control		Special controller designed for industrial robots	
China's market size (2013)	Rmb 6bn	China's market size (2013)	Rmb 2bn
Margin	High, 40-50% GPM	Margin	High, 40-50% GPM
Mid-term growth CAGR%	c.4%	Mid-term growth CAGR%	c.30%
Local share%	20%	Local share%	10%
Key global brands	Fanuc/Siemens	Key global brands	Fanuc/Siemens
Key local brands	Huazhong/GSK	Key local brands	Inovance/Siasun
Industrial Control Equipment			
Servo systems (Factory Automation)		LV Inverters (Factory Automation)	
Mainly used for position control		Mainly used to control the speed of electric motors	
China's market size (2013)	Rmb 6bn	China's market size (2013)	Rmb 20bn
Margin	High, 40-50% GPM	Margin	High, 40-50% GPM
Mid-term growth CAGR%	c.20%	Mid-term growth CAGR%	c.5%
Local share%	20%	Local share%	10%
Key global brands	Yaskawa/Panasonic/Delta	Key global brands	Siemens/ABB/Yaskawa
Key local brands	Inovance/GSK/Estun	Key local brands	Inovance/INVT
Control valves (Process Automation)		Robotics reducers (Factory Automation)	
To control the flow of fluid/air etc		Key components to ensure the accuracy of robot movements	
China's market size (2013)	Rmb 20bn	China's market size (2013)	Rmb 2bn
Margin	Medium, 30-40% GPM	Margin	High, 40-50% GPM
Mid-term growth CAGR%	c.3%	Mid-term growth CAGR%	c.30%
Local share%	30%	Local share%	5%
Key global brands	Fisher/Tyco/KOSO	Key global brands	Nabtesco/Harmonic
Key local brands	Sichuan Valves	Key local brands	Zhenkang/Leader drive
Automation Equipment			
Industrial robots (Factory Automation)		Robotics integration (Factory Automation)	
Usually has up to six axes		Mainly bespoke re-engineering to set up automated lines	
China's market size (2013)	Rmb 12bn	China's market size (2013)	Rmb 24bn
Margin	Medium, 30-40% GPM	Margin	Medium, 30-40% GPM
Mid-term growth CAGR%	c.30%	Mid-term growth CAGR%	c.30%
Local share%	12%	Local share%	70%
Key global brands	ABB/KUKA/Fanuc/ Yaskawa	Key global brands	KUKA/Comau/Durr
Key local brands	Siasun/Efort/GSK	Key local brands	Siasun/Adtech
Plastic injection machinery (Factory Automation)			
Key equipment to manufacture plastic products			
China's market size (2013)	Rmb 30bn		
Margin	Medium, c.30% GPM		
Mid-term growth CAGR%	c.3%		
Local share%	77%		
Key global brands	Fanuc, Engel, Sumitomo		
Key local brands	Haitian		

Source: Gomgkong, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

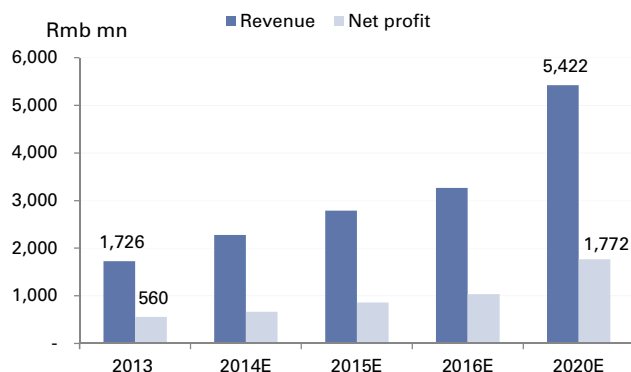
Inovance by 2020E: Revenue/net profit to triple, further diversification

Looking out to 2020, we're bullish on Inovance's long-term outlook considering: (1) China's much lower automation compared to other countries which suggests a decade-long penetration catch-up process; and (2) Inovance's sustainable innovation capability, which we believe could support its long-term success with continuous product upgrades.

We expect Inovance's revenue/net profit to more than triple to Rmb5.4bn/Rmb1.7bn by 2020E from Rmb1.7bn/Rmb560mn in 2013 (Exhibit 13); we also expect Inovance's product mix to shift further toward general industrials i.e. general inverters/motion controllers/sensors from elevator control systems owing to higher growth in those businesses than in elevator-related products (Exhibit 14).

Exhibit 13: We expect Inovance's revenue/net profit to more than triple by 2020E...

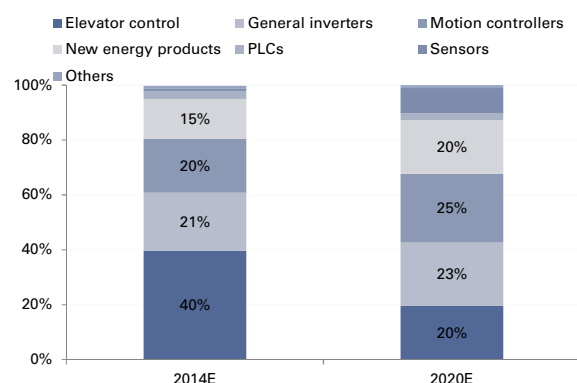
Revenue/net profit for Inovance, 2013-16E and 2020E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 14: ...with a more diversified business mix

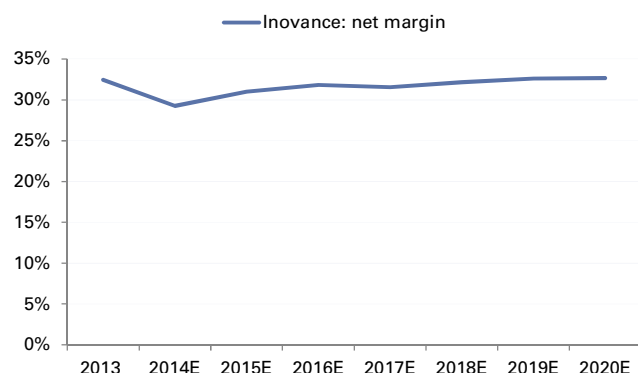
Revenue mix for Inovance, 2013-16E and 2020E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 15: Net margin is set to stay resilient, in our view...

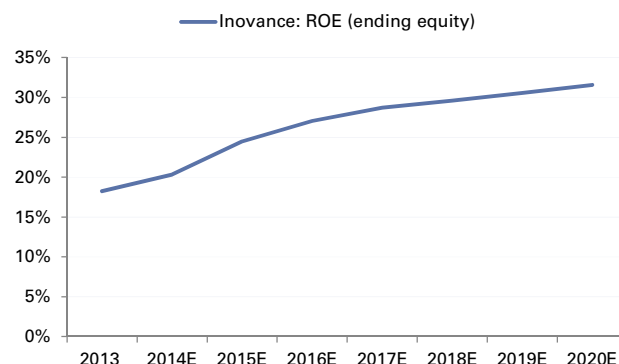
Inovance's net margin, 2013-20E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 16: ...while we expect ROE to rise steadily

Inovance's ROE (based on year-end equity balance), 2013-20E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Highest CROCI in our China Machinery & Construction coverage

Inovance generates the highest cash return among our China machinery and Infrastructure Construction coverage in 2013-16E (Exhibit 17). Moreover, whereas our coverage median CROCI is forecast to decline from 15.8% in 2013 to 12.8% in 2016E, we see Inovance's CROCI set to expand from 17.6% to 26.8%.

Exhibit 17: Inovance generate sustainable No.1 CROCI among our China Machinery & Infrastructure coverage
CROCI profile for our coverage, 2010-2016E

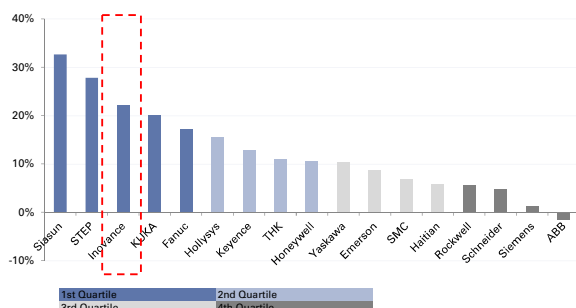
Ticker	Company	2010	2011	2012	2013	2014E	2015E	2016E
300124.SZ	Shenzhen Inovance Technology Co., Ltd	17.7%	11.5%	8.9%	17.6%	20.1%	24.6%	26.8%
300024.SZ	Siasun Robot&Automation Co., Ltd	11.7%	13.9%	17.3%	20.7%	22.5%	21.9%	20.7%
1829.HK	China Machinery Engineering Corporation				20.9%	20.3%	19.1%	21.5%
3898.HK	Zhuzhou CSR Times Electric Co.		24.2%	19.0%	18.2%	20.9%	18.1%	16.9%
002527.SZ	Shanghai STEP Electric Corporation	15.3%	10.5%	12.7%	14.3%	14.4%	17.5%	18.7%
600761.SS	Heli	19.9%	17.6%	14.1%	18.4%	17.8%	15.3%	15.5%
1766.HK/ 601766.SS	CSR Corporation Limited (H)/ (A)	20.0%	22.8%	18.5%	15.4%	15.1%	15.3%	14.2%
6199.HK/ 601299.SS	CNR Corporation Limited (H)/ (A)	12.6%	14.7%	13.6%	15.8%	14.0%	14.5%	14.1%
1186.HK/ 601186.SS	China Railway Construction (H)/(A)	16.7%	21.1%	16.0%	16.0%	14.6%	13.6%	12.8%
600582.SS	Tian Di Science & Technology	34.4%	34.2%	27.1%	15.8%	14.3%	13.4%	13.5%
3311.HK	China State Construction International Holdings Limited	20.0%	16.9%	12.5%	14.0%	12.7%	13.4%	14.1%
2386.HK	Sinopec Engineering Group Co		26.8%	21.7%	19.2%	12.9%	11.9%	12.3%
1800.HK/ 601800.SS	China Communications Construction (H)/ (A)	12.6%	13.1%	12.6%	10.6%	11.1%	10.7%	10.8%
0390.HK/ 601390.SS	China Railway Group (H)/ (A)	15.3%	11.8%	9.4%	9.8%	10.2%	10.0%	10.0%
000528.SZ	Guangxi Liugong	38.4%	19.9%	7.2%	9.5%	9.7%	9.7%	10.6%
600031.SS	Sany Heavy	50.9%	44.4%	20.5%	11.6%	8.1%	8.0%	8.3%
3339.HK	Lonking Holdings	41.0%	21.5%	6.9%	12.9%	7.8%	7.7%	8.0%
1157.HK/ 000157.SZ	Zoomlion (H)/ (A)	32.0%	42.5%	33.3%	17.4%	6.3%	6.4%	7.2%
0631.HK	Sany Heavy Equipment International Holdings	28.2%	19.8%	12.6%	10.2%	7.1%	6.0%	8.2%
601717.SS	Zhengzhou Coal Mining Machinery Group (A)	69.7%	48.1%	39.7%	16.7%	4.1%	5.3%	7.4%
000680.SZ	Shantui	23.6%	13.9%	4.4%	0.5%	2.4%	1.2%	1.7%
Median		20.0%	19.8%	13.9%	15.8%	12.9%	13.4%	12.8%

Q1 CROCI Q2 CROCI
Q3 CROCI Q4 CROCI

Source: Datastream, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

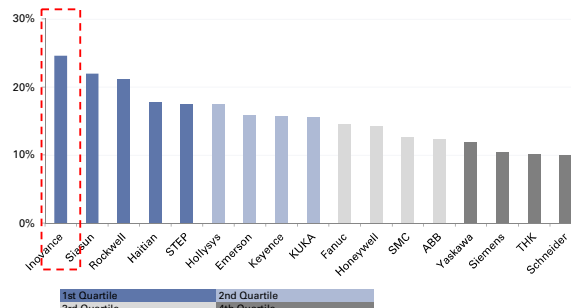
Relative to global industrial automation peers, Inovance generates global first quartile earnings growth over 2013-2016E, and first quartile EBIT margin and ROE in 2015E; it also generates the highest CROCI among global automation peers on a net-cash adjusted CROCI basis in 2015E (Exhibit 19).

Exhibit 18: Inovance generates Q1 earnings growth among GS global automation peers...
CY2013-2016E earnings CAGR, GS global automation coverage



Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

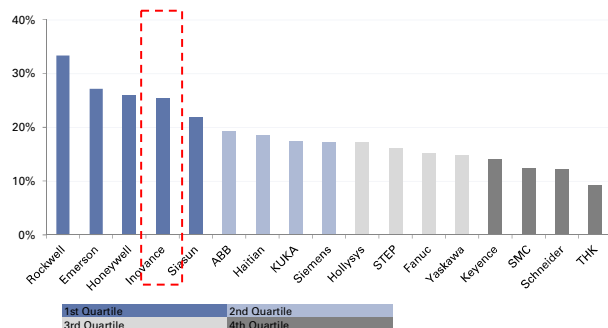
Exhibit 19: ...Inovance generates global No.1 cash return among automation peers
CY2015E net cash-adjusted CROCI, GS global automation coverage



Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 20: Inovance generates global Q1 ROE among automation peers...

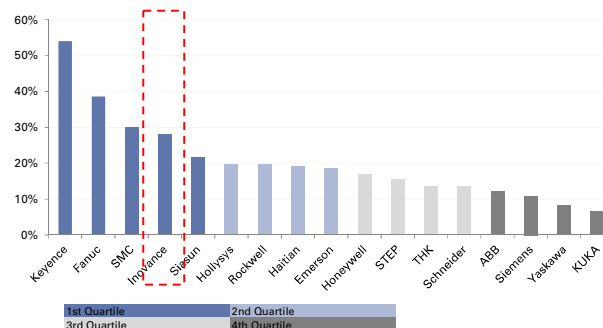
C2015E ROE, GS global automation coverage



Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 21: ...as well as Q1 EBIT margin

C2015E EBIT margin, GS global automation coverage



Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

We like Inovance's strong management incentives

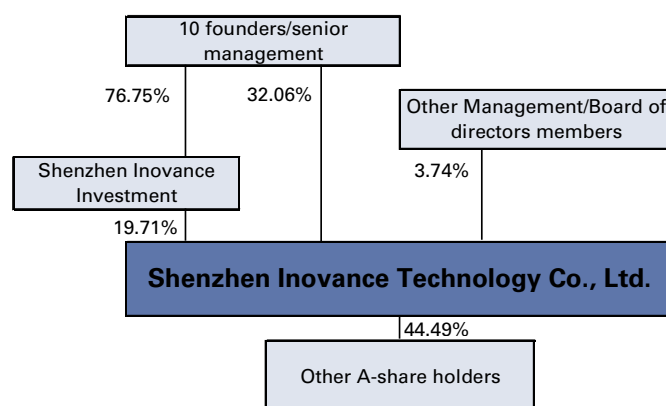
We like Inovance's strong management incentives, which are crucial to its asset-light business model (only 5.4% of its assets were net PP&E per 2013 data) in our view. Its key investment is on R&D/engineers' compensation, which differs from the capital intensive business model for most other Chinese industrial companies (e.g. construction/ mining machinery).

Inovance's incentive programs consist of:

- **Direct shareholding by the senior management team:** The 10 founders of Inovance directly and indirectly control 51.77% of Inovance shares as of June 30, 2014 (Exhibit 22); the other two corporate supervisors hold 3.74% of shares.

Exhibit 22: Inovance management team controls over 50% of shares outstanding

Inovance shareholding structure, as of June 30, 2014



Source: Company data.

- **Stock incentive plans:** Inovance announced its first stock incentive plan on Nov 8, 2012; after a few updates, the latest plan detail is that total incentive shares will be as high as

21.57mn – among them 19.58mn are stock option plans granted to 217 key management/R&D employees with an exercise price of Rmb9.734/ share vesting in three periods; 1.99mn shares are optional incentive shares to 17 key management/R&D employees with an exercise price of Rmb30.8/share. Total incentive shares amount to 3% of Inovance's 2013 year-end shares outstanding; the incentive plan covers 10% of its total employees as of 2013 year-end.

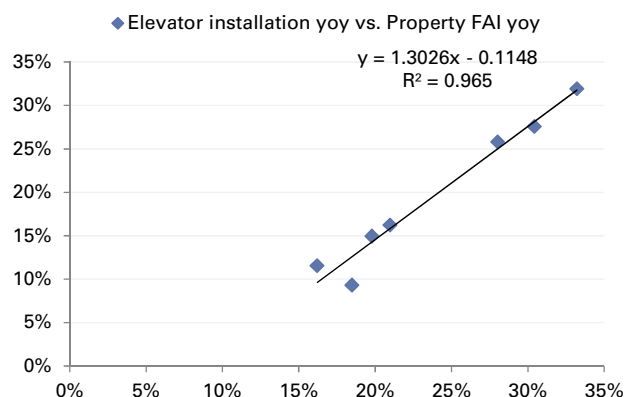
Elevators: Market deceleration offset by market share gains

The slowdown in China's property market has put pressure on elevator sales, as well as Inovance's stock price. Our analysis shows that despite the slowdown in China's elevator market, however, Inovance is likely to maintain single-digit growth in 2013-16E thanks to continuing market share gains in domestic market.

We forecast a +8%/-1%/-1% yoy change for China's elevator new installations volumes.

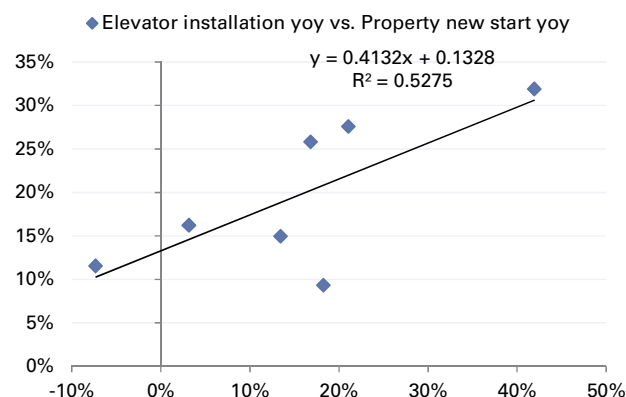
Our correlation analysis shows that historically China's elevator new installation has stronger correlation with property investment than property new starts (Exhibit 23 & 24). We view this as a reflection of the elevator business model – usually elevators are installed in the last year of the property construction cycle (2-3 years) and therefore lagging property new starts by 1-2 years. Our China property team forecasts a +8%/+8% property FAI growth in 2015/16E – much lower than 2007-14 average growth of +22%. As a result we expect to see elevator sales growth to fall into negative territory in 2015/16E (Exhibit 26).

Exhibit 23: We see strong correlation for China's elevator installation vs. property investment...



Source: National Bureau of Statistics, China Elevator Association.

Exhibit 24: ...which seems stronger than the correlation between elevator sales and new starts



Source: National Bureau of Statistics, China Elevator Association.

Exhibit 25: Our China property teams forecasts a deceleration in property investment growth...



Source: National Bureau of Statistics, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 26: ...which leads to our forecasts of a deceleration in domestic elevator installation growth



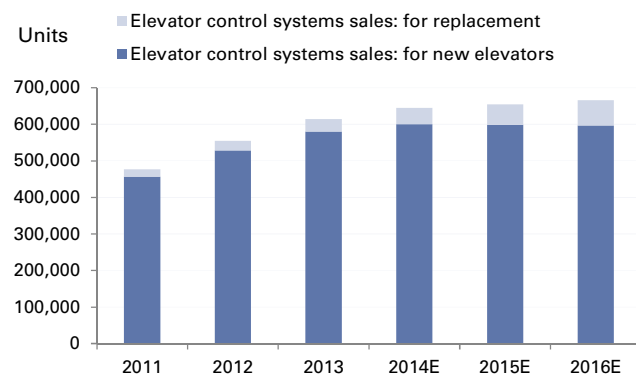
Source: China Elevator Association, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

However, we forecast +6%/+6% revenue growth for Inovance's elevator combined control system revenue in 2015/16E mainly due to:

- China's Safety Law for Special Equipment, effective from January 1, 2014, which sets a stricter rule over the maintenance/replacement of elevators; we expect to see higher replacement ratio going forward as the elevator after-sales market used to be fragmented and under-regulated.
- We expect Inovance's market share in China's total elevator controller and inverter market to expand by c.1.5pp from 7.1% in 2013 to 8.6% in 2016E, thanks to its proven track record and enlarged client base to more domestic elevator companies and likely some foreign brands in the future.

Exhibit 27: We forecast a rising elevator replacement volume which could partly offset the new elevator sales decline...

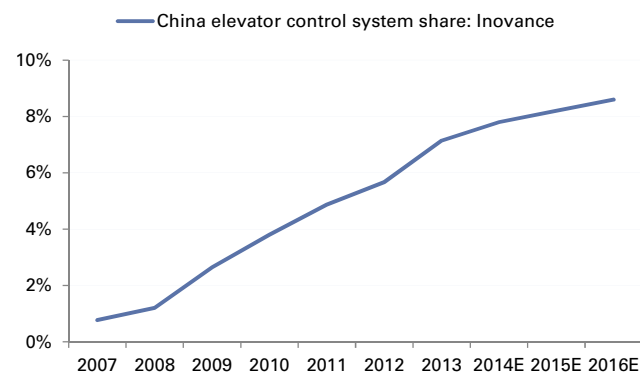
Elevator control systems sales breakdown, 2011-16E



Source: China Elevator Association, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 28: ...we expect continuing market share gain for Inovance

Inovance's share in China's elevator controller + inverter market, 2007-16E



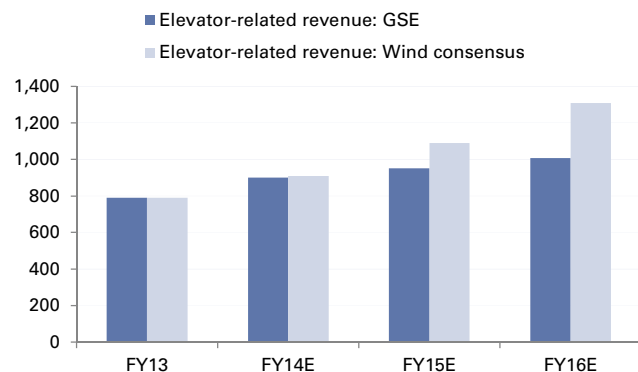
Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Where we stand versus Wind consensus

We highlight that we seem to be more cautious than consensus on forecasting the elevator-related business, but more bullish on Inovance's general industrial automation operations. Our 2014/15/16E revenue forecasts are +1%/-2%/-11% vs. Wind consensus.

Exhibit 29: Our elevator-related revenue forecasts are below GSE...

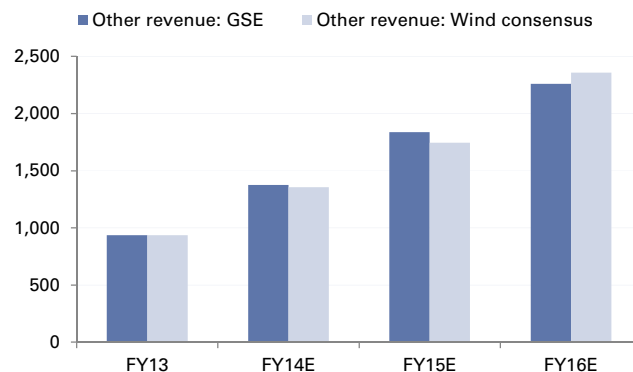
Elevator combined control systems revenue forecasts, GSE vs. Wind consensus, 2013-16E



Source: Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 30: ...but other automation revenue projections are above consensus

Other automation revenue forecasts, GSE vs. Wind consensus, 2013-16E



Source: Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Financials

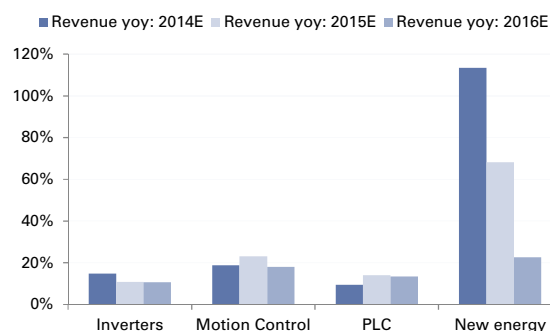
Top-line: +24% CAGR in FY2013-2016E

We forecast high revenue CAGR in 2013-16E for each of Inovance's key businesses:

- +12% for inverters
- +20% for motion control
- +12% for PLC
- +64% for new energy
- +88% for sensors business

We also expect Inovance's others business to see over +100% revenue CAGR in 2013-16E (7% of 2016E revenue) on the back of the consolidation of Ningbo Esto (a manufacturer of plastic injection molding machine controllers), categorized as "others" per Inovance), an acquisition that Inovance completed and consolidated from 4Q13.

Exhibit 31: Revenue growth for major segments

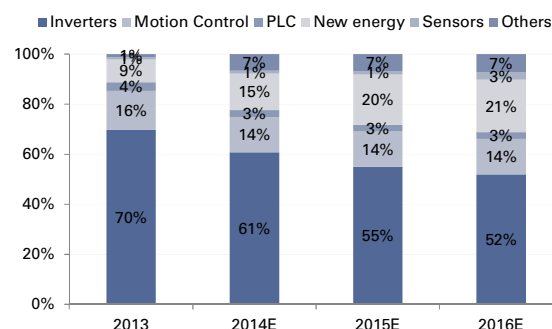


We have not included sensors in the above exhibit as it represents only 1% of 2014/15E revenue.

Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 32: Inovance's business mix is becoming more diversified

Inovance's revenue mix, 2013-16E



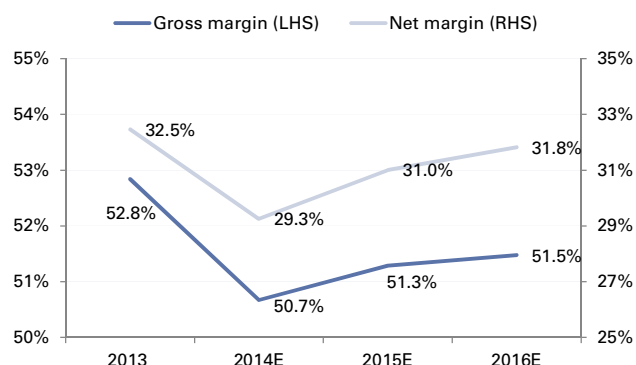
Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Gross margin to stabilize, net margin expanding

We expect Inovance's gross margin to stabilize from 2015E, after a 2.2pp erosion to 50.7% in 2014E; we attribute the lower GPM in 2014E to a lower share of high-margin inverters in the sales mix. We expect the margin improvement through 2016E to be driven by the higher share of new products (e.g. new energy) which should more than offset the further mix decline for inverters going forward. We expect Inovance's SG&A as a percentage of total sales to decline to 21% in 2016E from 24% in 2014E as a result of operating leverage and cost controls, which will drive the 2.6pp net margin expansion from 29.3% in 2014 to 31.8% in 2016.

Exhibit 33: We forecast 0.8pp/2.6pp gross/net margin improvement from 2014E to 2016E...

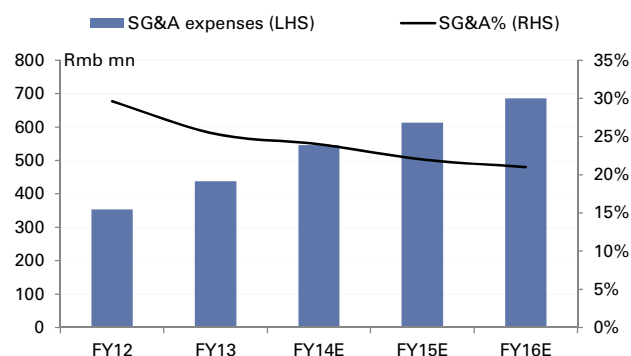
Gross margin/net margin for Inovance, 2013-16E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 34: ...partly thanks to solid SG&A cost control per our forecasts

SG&A expenses and as of total revenue%, 2013-16E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

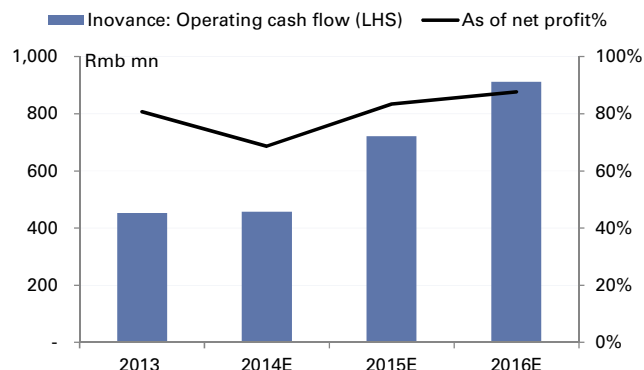
Robust operating cash flow, high dividend payout

Historically, Inovance has delivered solid working capital/operating cash flow management (Exhibit 35). We attribute this to its strong payment management with its distributors – we estimate that c. 70% of Inovance's revenue is generated via its distributor network. We expect its operating cash flow to remain robust, with a stable cash conversion cycle (Exhibit 36). The increase in 2014/15E is mainly due to an extension of receivable days from solar inverter business, per our forecasts).

We do not see this as a major threat to Inovance's cash flow management, as (1) solar inverters make up c.4% of Inovance's 2014E revenue, and we estimate the contribution is likely to decline over time in line with company strategy; (2) Inovance's management has commented in earnings briefing that the default risk seems to be low as their counterparts have "solid credit quality".

Exhibit 35: We expect Inovance to continue its solid operating cash flow management...

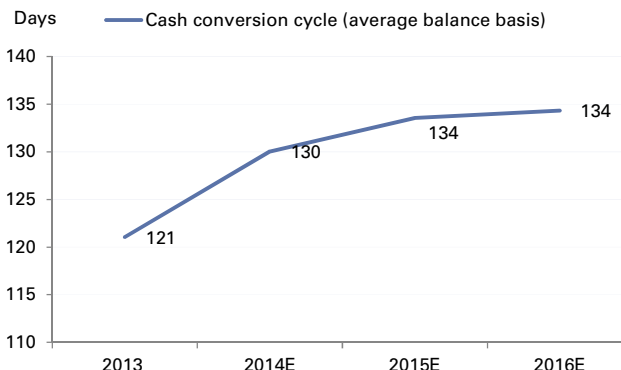
Inovance operating cashflow and its % of net profit, 2013-16E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 36: ...with stable cash conversion cycle

Cash conversion cycle (average balance basis) for Inovance, 2013-16E

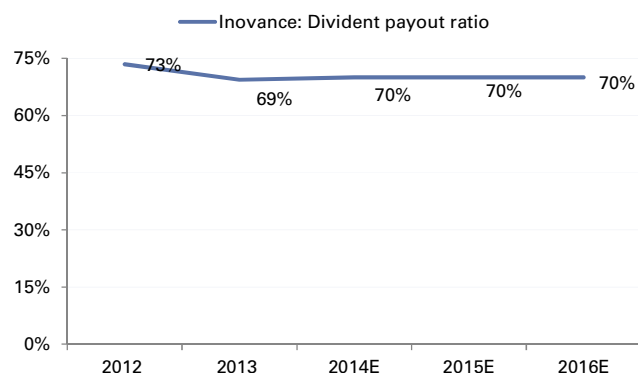


Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Inovance distributed c. 70% of net profit as dividends in 2012/13; we expect it to maintain the high dividends in 2014-16E given its asset-light business model and it has limited investment requirements other than in R&D and its people (Exhibit 38).

Exhibit 37: We expect Inovance's high dividend payout to be sustained...

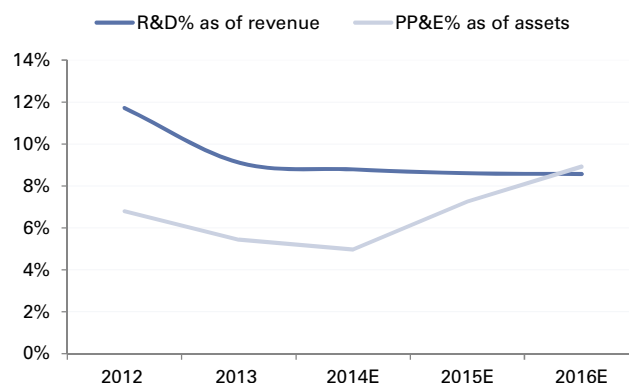
Inovance's dividend payout ratio, 2012-16E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 38: ...as Inovance is operating under an asset-light model with key investment being R&D expenditures

R&D as % of revenue and PP&E as a % of assets for Inovance, 2012-16E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 39: Forecasts summary of key revenue items

Rmb mn	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Revenue breakdown										
Inverters	157	190	278	523	779	897	1,203	1,382	1,533	1,696
Elevator combined control systems	34	59	135	267	426	572	790	900	952	1,007
Others inverters (mainly LV)	123	131	143	256	353	325	413	482	581	689
Motion Control	-	2	17	111	185	177	268	319	392	463
PLCs	0	1	6	21	42	44	61	67	77	87
New energy products	-	-	-	9	24	23	156	332	559	686
Sensors	-	-	-	-	-	10	15	25	40	100
Others	2	2	3	9	24	42	22	150	188	234
Total revenue	159	195	304	675	1,054	1,193	1,726	2,275	2,788	3,267
Revenue mix%										
Inverters	98%	97%	91%	78%	74%	75%	70%	61%	55%	52%
Elevator combined control systems	21%	30%	45%	40%	40%	48%	46%	40%	34%	31%
Others inverters (mainly LV)	77%	67%	47%	38%	34%	27%	24%	21%	21%	21%
Motion Control	0%	1%	5%	17%	18%	15%	16%	14%	14%	14%
PLCs	0%	1%	2%	3%	4%	4%	4%	3%	3%	3%
New energy products	0%	0%	0%	1%	2%	2%	9%	15%	20%	21%
Sensors	0%	0%	0%	0%	0%	1%	1%	1%	1%	3%
Others	1%	1%	1%	1%	2%	4%	1%	7%	7%	7%
Total revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Revenue yoy growth										
Inverters		21%	46%	88%	49%	15%	34%	15%	11%	11%
Elevator combined control systems		73%	131%	97%	59%	34%	38%	14%	6%	6%
Others inverters (mainly LV)		7%	9%	80%	38%	-8%	27%	17%	21%	19%
Motion Control			908%	570%	66%	-5%	52%	19%	23%	18%
PLCs		157%	472%	247%	94%	6%	38%	10%	14%	13%
New energy products					156%	-3%	584%	113%	68%	23%
Sensors							47%	67%	60%	150%
Others		5%	42%	200%	164%	72%	-47%	570%	25%	25%
Total revenue		22%	56%	122%	56%	13%	45%	32%	23%	17%

Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Historically government subsidies have contributed 12-23% of Inovance's pretax profit (Exhibit 40) composed of (1) **Value-added tax refunds**, which we view as a long-term incentive policy from China's central government to promote the development of software-related industries (the rebate is equal to 14% of software-related revenue); and (2) **Other subsidies to compensate for Inovance's R&D efforts**. We expect Inovance to continue to benefit from ongoing government subsidies, which we expect to contribute c.20% of pretax profit in 2014-16E. (For more discussion of the regulatory environment and of government subsidies, please see our sector initiation report).

Exhibit 40: We expect Inovance to sustainably receive government subsidies

Government subsidies analysis for Inovance, 2010-16E

Rmb mn	2010	2011	2012	2013	2014E	2015E	2016E
Total subsidies	31	61	56	154	161	197	230
As of pre-tax profit%	12%	15%	15%	23%	20%	19%	18%
Among: VAT refunds	27	53	48	120	111	137	160
Implied software revenue	190	378	344	857	796	976	1,143
Software as of total%	28.2%	35.8%	28.8%	49.7%	35.0%	35.0%	35.0%
Among: Other subsidies	4	8	8	34	50	60	70

Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Forecasts vs. consensus: in-line; we're more cautious on the elevator business

Our earnings forecast seem to be in-line with Wind consensus; but we highlight that our elevator forecasts are below consensus while above consensus on other automation segments (Exhibit 29 & 30). Our sensitivity analysis (Exhibit 43) suggest that our 2016E earnings would be +6%/+9% above consensus if our 2014-16E elevator revenue CAGR were as high as +15%/ +20% (vs. +6% under our base case).

Exhibit 41: Our net earnings forecasts are in-line with consensus

GSE vs. wind consensus, 2014-16E

Rmb mn	GSE			Wind consensus			Diff vs. consensus		
	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
Revenue	2,275	2,788	3,267	2,264	2,836	3,667	1%	-2%	-11%
Operating profit (Wind definition)	644	847	1,025	589	878	1,183	9%	-3%	-13%
Net profit	666	864	1,040	675	862	1,033	-1%	0%	1%
Operating margin	28.3%	30.4%	31.4%	26.0%	31.0%	32.3%	2.3pp	-0.6pp	-0.9pp
Net margin	29.3%	31.0%	31.8%	29.8%	30.4%	28.2%	-0.6pp	0.6pp	3.7pp

Note: Wind's definition of operating profit differs from GS.

Source: Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 42: 2016E net profit sensitivity test (Rmb mn)

2014-16 Elevator-related revenue CAGR	2016E SG&A%					
	0%	19%	20%	21%	22%	23%
0%	1,062	1,035	1,008	982	955	
6%	1,095	1,067	1,040	1,012	985	
10%	1,120	1,092	1,064	1,036	1,007	
15%	1,152	1,123	1,094	1,065	1,036	
20%	1,185	1,155	1,125	1,095	1,065	

Source: Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 43: 2016E earnings vs. consensus under each scenario

2014-16 Elevator-related revenue CAGR	2016E SG&A%					
	0%	19%	20%	21%	22%	23%
0%	3%	0%	-2%	-5%	-8%	
6%	6%	3%	1%	-2%	-5%	
10%	8%	6%	3%	0%	-2%	
15%	12%	9%	6%	3%	0%	
20%	15%	12%	9%	6%	3%	

Source: Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Valuation: 12-month target price implies 23% upside

We use a 2015E EV/GCI vs. CROCI/WACC valuation framework to derive our 12-month target prices for our China Industrial Automation coverage (Inovance, STEP Electric, Siasun Robot, Haitian International and Hollysys Automation Technologies), which is in-line with our current China Machinery & Infrastructure Construction coverage.

This methodology considers how the market values the cash invested in a business (EV/GCI) relative to the returns (value) created by the company from those assets (CROCI/WACC). We expect stocks above the regression line to see accelerated returns relative to the sector and those below the line to be overvalued relative to their cash returns, and as such may represent potential selling opportunities. The underlying assumption in this framework is that a company's ratio will converge to the sector average over the long term as under/overvaluations are arbitrated away.

We highlight that:

- We **adjust for net cash** when calculating the CROCI for each company in the valuation framework: we add net cash to GCI calculation, while increasing debt-adjusted cash flow (DACF) by net cash * effective interest rate * (1- marginal tax rate). We view the adjusted CROCI as a fair estimate of each company's cash return (both historical and forecast years).
- We benchmark Inovance to **A-share factory automation peers**, using Wind consensus 2014E forecasts for companies that are not covered by GS as consensus 2015 EV/GCI/CROCI forecasts are not available on Wind; we then compound our 2014E target EV by relevant WACC to derive 2015E EV, which gives each covered company's 12-month target price. We do not benchmark against global automation peers as their business size, growth and return profiles make valuation comparison of limited use; similarly, we do not benchmark Inovance against our current A-share machinery and Infrastructure Construction coverage due to automation companies' significant outperformance since 2012 (Exhibit 47).
- For A-share automation companies, we apply a **+10pp premium** to Inovance to reward its Q1 CROCI both among our current A-share machinery and Infrastructure Construction coverage (Exhibit 45) and A-share China Factory Automation Group (Exhibit 44, we use Wind forecasts for companies that are not under our coverage); this is in-line with our valuation for other Machinery and Infrastructure Construction stocks with Q1 CROCI under our coverage.

Exhibit 44: Inovance has Q1 CROCI profile among A-share factory automation peers on a 2014E basis...

Adjusted CROCI profile for A-share factory automation companies, 2010-14E

Ticker	Company	2010	2011	2012	2013	2014E
300024.SZ	Siasun Robot&Automation Co., Ltd	11.7%	13.9%	17.3%	20.7%	22.5%
300124.SZ	Shenzhen Inovance Technology Co., Ltd	17.7%	11.5%	8.9%	17.6%	20.1%
002527.SZ	Shanghai STEP Electric Corporation	15.3%	10.5%	12.7%	14.3%	14.4%
002184.SZ	Shanghai Hi-Tech Control System	10.1%	7.0%	5.4%	8.7%	8.2%
000837.SZ	Qinchuan Machine Tool	12.5%	14.5%	6.4%	4.6%	4.5%
300293.SZ	Shenyang Blue Silver Industry				18.8%	15.5%

Q1 CROCI
 Q2 CROCI
 Q3 CROCI
 Q4 CROCI

* Shanghai Hi-Tech, Qinchuan, and Shenyang Blue Silver are not under GS coverage.

Source: Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 45: ...it also generates sustainable Q1 CROCI among our China Machinery and Infrastructure Construction coverage

CROCI profile for our China Machinery and Infrastructure Construction coverage, 2010-2016E

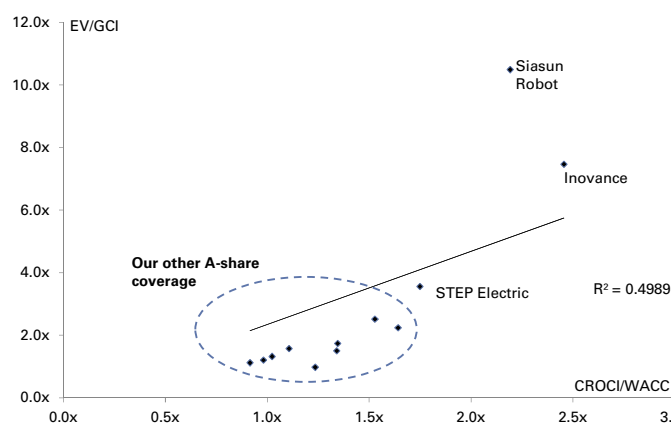
Ticker	Company	2010	2011	2012	2013	2014E	2015E	2016E
300124.SZ	Shenzhen Inovance Technology Co., Ltd	17.7%	11.5%	8.9%	17.6%	20.1%	24.6%	26.8%
300024.SZ	Siasun Robot&Automation Co., Ltd	11.7%	13.9%	17.3%	20.7%	22.5%	21.9%	20.7%
1829.HK	China Machinery Engineering Corporation				20.9%	20.3%	19.1%	21.5%
3898.HK	Zhuzhou CSR Times Electric Co.		24.2%	19.0%	18.2%	20.9%	18.1%	16.9%
002527.SZ	Shanghai STEP Electric Corporation	15.3%	10.5%	12.7%	14.3%	14.4%	17.5%	18.7%
600761.SS	Heli	19.9%	17.6%	14.1%	18.4%	17.8%	15.3%	15.5%
1766.HK/ 601766.SS	CSR Corporation Limited (H)/ (A)	20.0%	22.8%	18.5%	15.4%	15.1%	15.3%	14.2%
6199.HK/ 601299.SS	CNR Corporation Limited (H)/ (A)	12.6%	14.7%	13.6%	15.8%	14.0%	14.5%	14.1%
1186.HK/ 601186.SS	China Railway Construction (H)/(A)	16.7%	21.1%	16.0%	16.0%	14.6%	13.6%	12.8%
600582.SS	Tian Di Science & Technology	34.4%	34.2%	27.1%	15.8%	14.3%	13.4%	13.5%
3311.HK	China State Construction International Holdings Limited	20.0%	16.9%	12.5%	14.0%	12.7%	13.4%	14.1%
2386.HK	Sinopec Engineering Group Co		26.8%	21.7%	19.2%	12.9%	11.9%	12.3%
1800.HK/ 601800.SS	China Communications Construction (H)/ (A)	12.6%	13.1%	12.6%	10.6%	11.1%	10.7%	10.8%
0390.HK/ 601390.SS	China Railway Group (H)/ (A)	15.3%	11.8%	9.4%	9.8%	10.2%	10.0%	10.0%
000528.SZ	Guangxi Liugong	38.4%	19.9%	7.2%	9.5%	9.7%	9.7%	10.6%
600031.SS	Sany Heavy	50.9%	44.4%	20.5%	11.6%	8.1%	8.0%	8.3%
3339.HK	Lonking Holdings	41.0%	21.5%	6.9%	12.9%	7.8%	7.7%	8.0%
1157.HK/ 000157.SZ	Zoomlion (H)/ (A)	32.0%	42.5%	33.3%	17.4%	6.3%	6.4%	7.2%
0631.HK	Sany Heavy Equipment International Holdings	28.2%	19.8%	12.6%	10.2%	7.1%	6.0%	8.2%
601717.SS	Zhengzhou Coal Mining Machinery Group (A)	69.7%	48.1%	39.7%	16.7%	4.1%	5.3%	7.4%
000680.SZ	Shantui	23.6%	13.9%	4.4%	0.5%	2.4%	1.2%	1.7%
Median		20.0%	19.8%	13.9%	15.8%	12.9%	13.4%	12.8%

Q1 CROCI
 Q2 CROCI
 Q3 CROCI
 Q4 CROCI

Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research

Exhibit 46: We do not benchmark against other A-share machinery companies due to automation stocks' substantial outperformance since 2012...

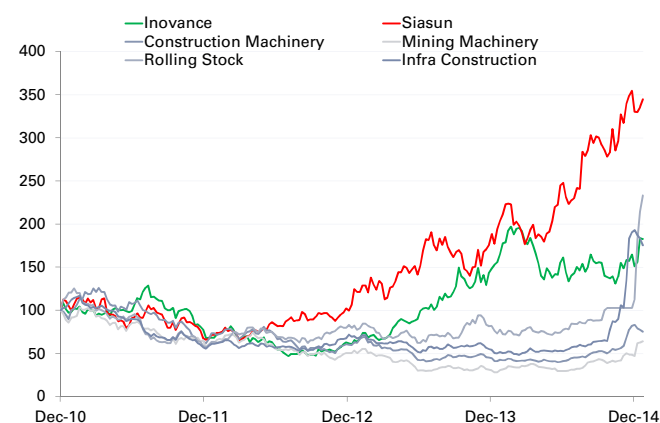
2015E EV/GCI vs. CROCI/WACC, A-share automation vs. A-share current coverage



Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

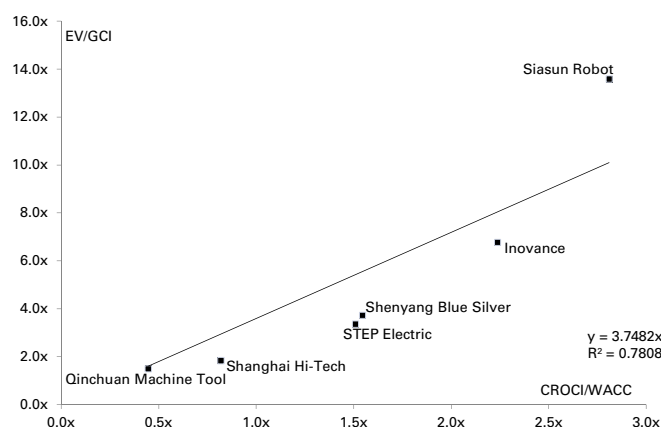
Exhibit 47: ...Inovance/Siasun significantly outperformed

Indexed stock performances, Inovance/Siasun vs. other stocks/industries under our coverage



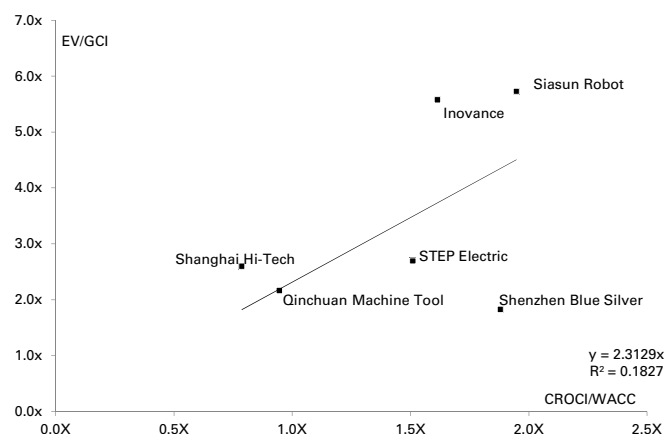
Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 48: As a result we benchmark against A-share automation peers
2014E EV/GCI vs. CROCI/WACC, A-share automation vs. other A-share peers



Source: Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 49: Historical premium/discount framework
2010-13 EV/GCI vs. CROCI/WACC, A-share automation vs. other A-share peers



Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 50: We see the most attractive risk-reward for Inovance among our A-share factory automation coverage

Valuation table for Siasun Robot, Inovance and Shanghai STEP Electric

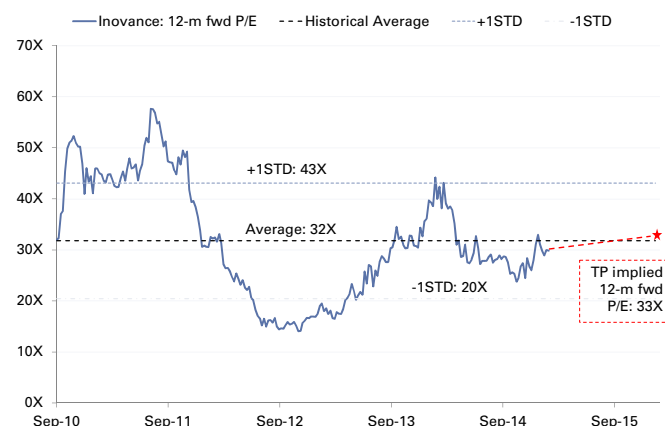
	Siasun Robot&Automation Co., Ltd	Shenzhen Inovance Technology Co., Ltd	Shanghai STEP Electric Corporation
	300024.SZ	300124.SZ	002527.SZ
CY2015E			
Sector EV/GCI vs. CROCI/WACC	3.75x	3.75x	3.75x
Historical EV/GCI premium/ (discount)	27%	49%	-23%
Current EV/GCI premium/ (discount)	29%	-19%	-41%
Premium/ (discount) applied	10%	10%	-20%
CROCI/WACC	2.8x	2.2x	1.5x
Implied 2014E EV/GCI	11.6x	9.2x	4.5x
2014E Gross capital invested (Rmb mn)	1,918	3,388	1,818
Implied 2014E EV (Rmb mn)	22,231	31,192	8,265
Implied 2015E EV (Rmb mn)	24,454	34,311	9,091
2015E Net debt and minority interest (Rmb mn)	525	(14)	(323)
2015E Implied market cap (Rmb mn)	23,928	34,325	9,414
number of shares (mn)	655	782	393
Pricing currency	CNY	CNY	CNY
12-m Target Price	36.5	43.9	23.9
Current price	43.8	35.8	19.7
Potential upside/downside to target price	-17%	23%	22%
Rating	Neutral	Buy *	Buy
Implied CY2014 P/E	68.7x	51.6x	45.2x
Implied CY2015 P/E	52.8x	39.7x	33.0x
Implied CY2016 P/E	40.2x	33.0x	26.6x
Historical Average Level (2009-2014)	54.3x	42.5x	33.2x

*Indicates Conviction list.

Source: Datastream, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 51: Our target price implies 12-m fwd P/E of 33X vs. historical average of 32X

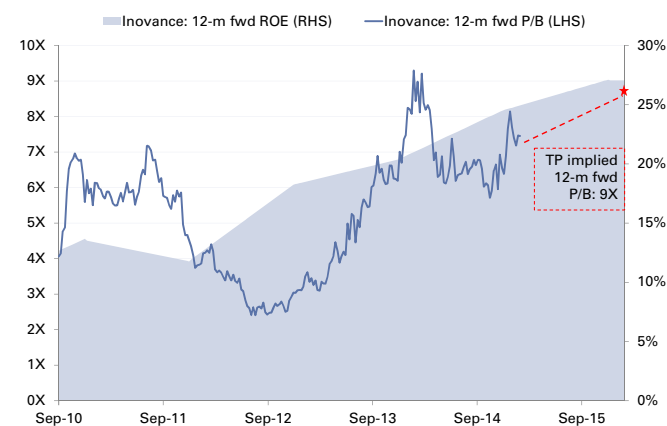
12-m fwd P/E for Inovance



Source: Datastream, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 52: Our target price also appears fair from a P/B-ROE perspective

12-m fwd P/B vs. ROE for Inovance



Source: Datastream, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 53: Inovance trades at below-average multiples while generating the highest ROE/cash return

Global automation comps

China Industrial Automation																	
Company	Ticker	Price	Rating	Market cap (US\$ mn)	P/E 2015E	P/E 2016E	P/B 2015E	P/B 2016E	EV/EBITDA 2015E	EV/EBITDA 2016E	EPS Growth 2015E	EPS Growth 2016E	ROE 2015E	ROE 2016E	CROCI 2015E	CROCI 2016E	Net debt/equity 2015E
Hollysys Automation Technologies Ltd.	HOLI	US\$18.6	Buy	1,072	10.5X	9.7X	1.8X	1.6X	6.9X	5.7X	21%	16%	17%	17%	23%	24%	-29%
Siasun Robot&Automation Co., Ltd	300024.SZ	Rmb43.8	Neutral	4,579	63.4X	48.3X	12.7X	10.5X	54.5X	40.9X	30%	31%	22%	24%	22%	21%	23%
Shenzhen Inovance Technology Co., Ltd	300124.SZ	Rmb35.8	Buy *	4,466	32.4X	26.9X	7.9X	7.3X	34.0X	27.6X	30%	20%	25%	28%	25%	27%	-6%
Shanghai STEP Electric Corporation	002527.SZ	Rmb19.7	Buy	1,232	27.2X	21.8X	4.1X	3.6X	23.9X	19.1X	37%	24%	16%	18%	17%	19%	-19%
Haitian International Holdings Limited	1882.HK	HK\$16.8	Neutral	3,453	15.8X	14.9X	2.7X	2.4X	11.8X	10.6X	10%	6%	18%	17%	18%	17%	-24%
Shenyang Blue Silver Industries **	300293.SZ	Rmb21.05	Not Covered	934	40.0X	30.6X	5.0X	4.4X	26.4X	21.2X	42%	31%	13%	14%	N/A	N/A	N/A
Shenyang Machine Tool **	000410.SZ	Rmb15.44	Not Covered	2,073	256.9X	149.6X	5.9X	5.7X	30.5X	28.5X	39%	72%	2%	4%	N/A	N/A	N/A
Shanghai Hi-Tech Control **	002184.SZ	Rmb28.11	Not Covered	1,018	55.7X	36.4X	6.8X	5.9X	36.6X	23.2X	101%	53%	12%	16%	N/A	N/A	N/A
Harbin Boshi Automation **	002698.SZ	Rmb26.19	Not Covered	1,746	40.1X	30.6X	5.7X	5.0X	36.7X	N/A	20%	31%	14%	16%	N/A	N/A	N/A
Shanghai Mechanical and Electric **	600835.SS	Rmb22.9	Not Covered	3,675	16.9X	14.4X	3.0X	2.6X	4.6X	3.6X	24%	18%	18%	18%	N/A	N/A	N/A
Median					36.2X	28.8X	5.4X	4.7X	28.5X	21.2X	30%	27%	17%	17%	22%	21%	-19%
Taiwan Industrial Automation																	
Company	Ticker	Current Price	Rating	Market cap (US\$ mn)	P/E 2015E	P/E 2016E	P/B 2015E	P/B 2016E	EV/EBITDA 2015E	EV/EBITDA 2016E	EPS Growth 2015E	EPS Growth 2016E	ROE 2015E	ROE 2016E	CROCI 2015E	CROCI 2016E	Net debt/equity 2015E
Delta Electronics Inc ***	2308.TW	NT\$210	Coverage Suspended	15,730	20.5X	18.0X	4.5X	4.1X	13.5X	11.7X	14%	14%	22%	23%	N/A	N/A	N/A
Airtac International Group ***	1590.TW	NT\$273	Not Covered	1,463	22.3X	18.1X	4.4X	3.9X	14.6X	12.3X	16%	23%	20%	22%	N/A	N/A	N/A
Hiwin Technology Corporation ***	2049.TW	NT\$253	Not Covered	2,107	22.1X	17.6X	4.2X	3.7X	15.3X	12.9X	25%	26%	19%	21%	N/A	N/A	N/A
Median					22.1X	18.0X	4.4X	3.9X	14.6X	12.3X	16%	23%	20%	22%	N/A	N/A	N/A
Japan Industrial Automation																	
Company	Ticker	Current Price	Rating	Market cap (US\$ mn)	P/E 2015E	P/E 2016E	P/B 2015E	P/B 2016E	EV/EBITDA 2015E	EV/EBITDA 2016E	EPS Growth 2015E	EPS Growth 2016E	ROE 2015E	ROE 2016E	CROCI 2015E	CROCI 2016E	Net debt/equity 2015E
Fanuc	6954.T	¥22945	Buy*	37,567	21.9X	20.2X	3.1X	2.8X	11.2X	10.0X	17%	8%	15%	15%	32%	32%	-69%
Yaskawa Electric	6506.T	¥1670	Neutral	3,515	18.3X	17.7X	2.5X	2.3X	10.0X	9.1X	6%	3%	15%	14%	12%	12%	22%
Aida Engineering Ltd.	6118.T	¥1307	Buy	671	13.4X	12.4X	1.1X	1.1X	5.2X	4.6X	7%	8%	9%	9%	12%	12%	-40%
Keyence	6861.T	¥61100	Buy	28,191	28.5X	26.0X	3.7X	3.3X	15.5X	13.7X	20%	10%	14%	13%	39%	41%	-65%
NSK	6471.T	¥1666	Buy *	7,531	13.1X	11.9X	2.1X	1.8X	7.3X	6.6X	27%	10%	16%	16%	9%	9%	24%
SMC	6273.T	¥33275	Neutral	19,091	20.3X	17.9X	2.4X	2.1X	11.2X	9.5X	18%	13%	12%	12%	18%	19%	-39%
THK	6481.T	¥2882	Neutral	3,100	16.8X	15.4X	1.5X	1.4X	6.7X	6.0X	13%	9%	9%	9%	10%	10%	-34%
Median					18.3X	17.7X	2.4X	2.1X	10.0X	9.1X	17%	9%	14%	13%	12%	12%	-39%
U.S and European Industrial Automation																	
Company	Ticker	Current Price	Rating	Market cap (US\$ mn)	P/E 2015E	P/E 2016E	P/B 2015E	P/B 2016E	EV/EBITDA 2015E	EV/EBITDA 2016E	EPS Growth 2015E	EPS Growth 2016E	ROE 2015E	ROE 2016E	CROCI 2015E	CROCI 2016E	Net debt/equity 2015E
Honeywell International Inc.	HON	US\$102.8	Buy	81,248	16.5X	14.9X	4.0X	3.6X	10.4X	9.3X	11%	11%	26%	25%	14%	15%	14%
Emerson Electric Co.	EMR	US\$57.9	Neutral	40,254	15.0X	14.4X	4.2X	4.0X	8.3X	8.0X	2%	4%	27%	28%	16%	16%	35%
ABB Ltd	ABBN.VX	SFr20.5	Sell *	49,464	17.7X	17.2X	3.1X	3.0X	9.6X	9.4X	11%	0%	19%	19%	12%	13%	15%
Siemens AG	SIEN.GE	€99.8	Buy	94,385	13.6X	14.0X	2.4X	2.3X	8.1X	7.8X	-2%	7%	17%	18%	11%	12%	-18%
Rockwell Automation Inc.	ROK	US\$117	Neutral	16,432	17.9X	16.2X	5.8X	5.6X	10.6X	9.8X	7%	9%	33%	35%	20%	21%	-1%
Schneider Electric	SCHN.PA	€72	Neutral	44,150	18.0X	15.4X	2.0X	1.9X	11.1X	10.1X	13%	15%	12%	14%	10%	10%	24%
KUKA	KU2G.DE	€69.5	Neutral	2,362	24.8X	20.8X	4.1X	3.5X	11.1X	9.8X	42%	19%	18%	18%	16%	16%	-2%
Median					17.7X	15.4X	4.0X	3.5X	10.4X	9.4X	11%	9%	19%	19%	14%	15%	14%

Price as of Feb 27, 2015 close

All financials are calendar-year based

* On our regional Conviction List

** Use Wind consensus as the stock is not under GS coverage

*** Use Bloomberg consensus as the stock is not under GS coverage

Source: Datastream, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Key risks to our view

Key risks to our investment view include the following:

- **Lower-than-expected China elevator demand** in 2014-16, due to: (1) softer-than-expected property investment, or (2) a lower-than-expected elevator replacement ratio; lower-than-expected elevator demand would lead to below-expectation elevator combined control systems revenue for Inovance.
- **Slower-than-expected market share gain in key products:** we've factored in market share gains for Inovance across its key products, including elevator combined control systems, low-voltage inverters, general servos, etc. Any miss in market share gains would lead to lower-than-expected revenue for Inovance in relevant segment/segments. As discussed above, Inovance is mainly competing with international companies across its major product lines; its competitors generally lead in technology/product performance but lag in pricing/service responsiveness. Therefore Inovance might face tougher competition if international peers take a more aggressive competitive approach — e.g. by lowering prices/extending their service networks in China.
- **Lower-than-expected gross margin** due to lower-than-expected product ramp-up or tougher-than-expected price competition.
- **Lackluster new product launches** (e.g. high-end motion control for industrial robots, and high-voltage inverter products).
- **Potential default in client payment** especially from solar inverter clients, which might affect Inovance's cash flow negatively.

信息披露附录

申明

本人, 金戈, CFA, 在此申明, 本报告所表述的所有观点准确反映了本人对上述公司或其证券的个人看法。此外, 本人薪金的任何部分不曾与, 不与, 也将不会与本报告中的具体推荐意见或观点直接或间接相关。

投资摘要

投资摘要部分通过将一只股票的主要指标与其行业和市场相比较来评价该股的投资环境。所描述的四个主要指标包括增长、回报、估值倍数和波动性。增长、回报和估值倍数都是运用数种方法综合计算而成, 以确定该股在地区研究行业内所处的百分位排名。

每项指标的准确计算方式可能随着财务年度、行业和所属地区的不同而有所变化, 但标准方法如下:

增长是下一年预测与当前年度预测的综合比较, 如每股盈利、EBITDA 和收入等。**回报**是各项资本回报指标一年预测的加总, 如 CROCI、平均运用资本回报率 and 净资产回报率。**估值倍数**根据一年预期估值比率综合计算, 如市盈率、股息收益率、EV/FCF、EV/EBITDA、EV/DACF、市净率。**波动性**根据 12 个月的历史波动性计算并经股息调整。

Quantum

Quantum 是提供具体财务报表数据历史、预测和比率的高盛专有数据库, 它可以用于对单一公司的深入分析, 或在不同行业和市场公司之间进行比较。

GS SUSTAIN

GS SUSTAIN 是侧重于长期做多建议的相对稳定的全球投资策略。GS SUSTAIN 关注名单涵盖了我们认为相对于全球同业具有持续竞争优势和出色的资本回报、因而有望在长期内表现出色的行业领军企业。我们对领军企业的筛选基于对以下三方面的量化分析: 现金投资的现金回报、行业地位和管理水平 (公司管理层对行业面临的环境、社会和企业治理方面管理的有效性)。

信息披露

相关的股票研究范围

金戈, CFA: 中国交通运输行业、中国资本品、亚太基础设施行业。

亚太基础设施行业: 中交建(A)、中交建(H)、中国机械工程、中国铁建(A)、中国铁建(H)、中国中铁(A)、中国中铁(H)、中国建筑国际、宁沪高速(A)、宁沪高速(H)、深高速(A)、深高速(H)、成渝高速(A)、成渝高速(H)、中石化炼化工程、浙江沪杭甬。

中国资本品: 中国北车(A)、中国北车(H)、中国南车(A)、中国南车(H)、柳工、海天国际、合力、和利时、龙工、三一重工、三一国际、新时达、山推、汇川技术、机器人、天地科技、长飞光纤、郑煤机、南车时代电气、中联重科(A)、中联重科(H)。

中国交通运输行业: 中航飞机、中航动力、中航电子、中航股份、中航科工、大秦铁路、广深铁路(A)、广深铁路(H)、洪都航空。

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没有对下述公司的具体信息披露: 汇川技术 (Rmb34.47)

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潜在回报: 代表当前股价与一定时间范围内预测目标价格之差。分析师被要求对研究范围内的所有股票给出目标价格。潜在回报、目标价格及相关时间范围在每份加入投资名单或重申维持在投资名单的研究报告中都有注明。

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