SMI Holdings Group

Seeking growth at a reasonable price

HONG KONG

198 HK		Neutral
Price (at 14:52, 27 Jan 2017 GMT)		HK$0.73
Valuation - DCF	**HK$**	**0.75**
12-month target	**HK$**	**0.78**
Upside/Downside	**%**	**+6.8**
12-month TSR	**%**	**+6.8**
Volatility Index		**Very High**
GICS sector		**Media**
Market cap	**HK$m**	**9,936**
Market cap	**US$m**	**1,298**
Free float	**%**	**39**
30-day avg turnover	**US$m**	**0.7**
Number shares on issue	**m**	**13,611**

Investment fundamentals

Year end 31 Dec		2015A	2016E	2017E	2018E
Revenue	m	2,924.1	4,184.8	5,470.9	6,400.9
EBITDA	m	903.9	1,568.7	2,086.2	2,449.9
EBITDA growth	%	63.7	73.6	33.0	17.4
EBIT	m	660.9	1,248.2	1,615.2	1,890.4
EBIT growth	%	62.6	88.9	29.4	17.0
Reported profit	m	360.0	597.4	831.6	1,022.8
Adjusted profit	m	360.0	597.4	831.6	1,022.8
EPS adj	¢	2.9	4.1	5.6	6.8
EPS adj growth	%	115.3	40.7	36.4	20.6
PER rep	x	24.8	17.6	12.9	10.7
PER adj	x	24.8	17.7	12.9	10.7
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	8.5	11.0	10.9	10.6
ROE	%	8.4	10.8	12.3	11.8
EV/EBITDA	x	13.8	8.8	6.7	5.8
Net debt/equity	%	26.3	66.7	51.5	36.9
P/BV	x	1.6	1.7	1.3	1.1

Source: FactSet, Macquarie Research, February 2017
(all figures in HKD unless noted)

- We are initiating coverage of SMI Holdings Group, the closest peer to Wanda Cinema with a Neutral rating and a target price of HK$ 0.78. SMI is the 5th largest cinema operator in China by box office revenue, which should grow its number of screens at 31% CAGR 2015-18E. We value SMI on 7x FY17E EV/EBITDA, in-line with the 2-year median, and implies a 14x FY17E PE. This is a deep discount to global emerging market cinema downstream peers, which are trading at 13x 12-month forward EV/EBITDA. This is mainly to reflect its small box office market share (3.6% in 2015), high gearing ratio and corporate governance concerns.
- **Leading theatre operator with aggressive expansion:** SMI's theatre network has expanded significantly over the past five years, with the number of owned theatres rising to 250 in 1H16 from 15 in 2010 and the number of screens rising to 1,700 in 1H16 from 105 in 2010. Going forward, we expect the company to open 80–90 new theatres per year, reaching 450 theatres and 3,150 screens by 2018, through both acquisition (70%) and self-built (30%). On the other hand, we note that the ROI from new theatres will be lower than existing ones and the company may need to pay a premium to acquire the theatres in good locations.
- **Scale effect driving up profitability:** Many of the theatres built in China between 2010 and 2015 are likely to face tough competition and will be acquired by industry leaders, in our view. The market for Cinema operators in China remains fragmented compared with the US market: the top-five cinema players in the US collectively had a 50% market share in 2015 vs 30% for the top-five Chinese cinema operators. As SMI continues to expand its network, the company should increase bargaining power to negotiate costs as well as to scale its higher-margin non-ticketing revenue business. We expect the company's non-GAAP net margin to improve to 16% in 2018 vs 12% in 2015.
- **Integrated business with multiple revenue streams:** SMI is diversifying its revenue stream away from pure box office income, leveraging its 13 million members as well as its theatre network. For example, SMI Living, the company's e-commerce initiative, offers both high-quality products and a convenient shopping experience. All of SMI's theatres now have an SMI Living store. SMI's advantage over other general purpose e-commerce websites is that: 1) the company's products are curated for movie-watchers; and, 2) it operates its own delivery fleet that covers only a 2km radius from each theatre, which lowers logistics costs.
- **High gearing ratio:** We estimate the debt to equity ratio to jump from 26% in 2015 to 67% in 2016, well above 20% for Wanda Cinema in 2016. This is mainly due to the company's aggressive expansion plan. While we expect the gearing ratio to ease slightly in the next two years as the capex cycle peaks out, we estimate it will still be at 37% by 2018. Moreover, the high gearing ratio will likely force the company to seek equity financing which will dilute existing shareholders.
- **Corporate governance risk:** The company's previous auditor, RSM, resigned in 2015 after it was unable to provide an opinion on the company's FY14 annual report due to a lack of proof on revenue recognition. Deloitte was subsequently appointed as auditor for 2015.

Macquarie Governance and Risk Score (MGRS)

On our proprietary Governance and Risk Score SMI Holdings Group scores in the 4th quartile of our current universe coverage.

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3 February 2017
Macquarie Capital Limited

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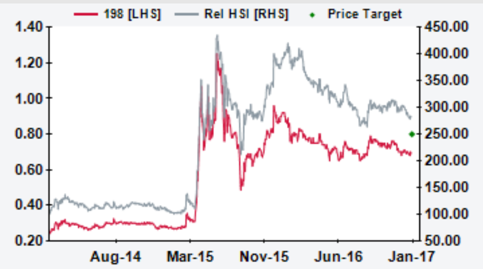
Fig 1 198 HK rel HSI performance, & rec history

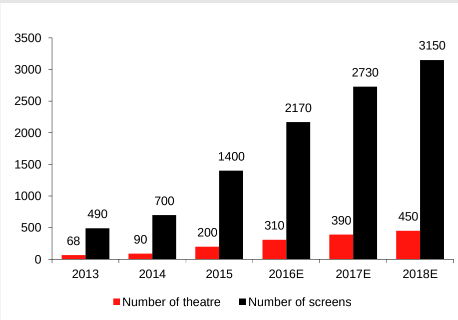


Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2017

(all figures in HKD unless noted)

Fig 2 SMI theatre and screen numbers



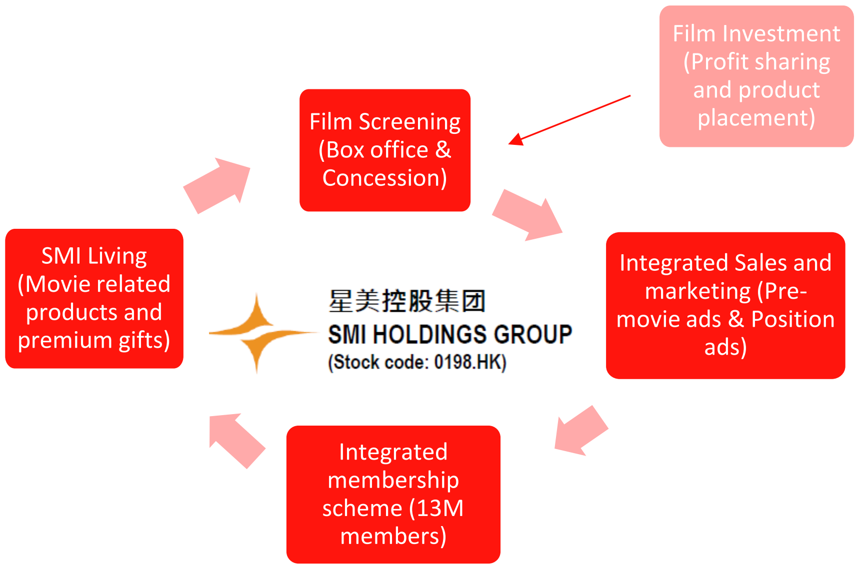
Source: Company data, Macquarie Research, February 2017

SMI Holdings

Company profile

- SMI Holdings is a leading cinema operator in China with a vertically-integrated film business that includes movie production, distribution, cinema operation, and also O2O retail business. It's the fifth largest cinema operator with a box office of over Rmb1.6bn in 2015.
- **Movie theatre business**: In 2016, we expect SMI to generate 84% of its revenue from operating movie theatres. 50% of the theatre business is generated from box office, 35% from advertising and 15% from food and beverages (F&B). SMI typically retains about 50% of the box office revenue after splitting it with movie studios and distributors. All of SMI's theatres are self-operated.
- **Retail stores:** SMI operates a retail store business (in addition to the movie theatre F&B operations) called SMI Living, which is an O2O initiative that enables users to make purchases on SMI's website and pick up products at one of SMI's stores or have them delivered to their homes. We expect retail stores to generate 16% of SMI's total revenue in 2016.
- **SMI Culture**: SMI Holdings has gained a controlling stake (63.4%) in SMI Culture in October-2016 and will consolidate its financials in the future. SMI Culture is engaged in the movie production and distribution business.

Fig 3 Integrated business model



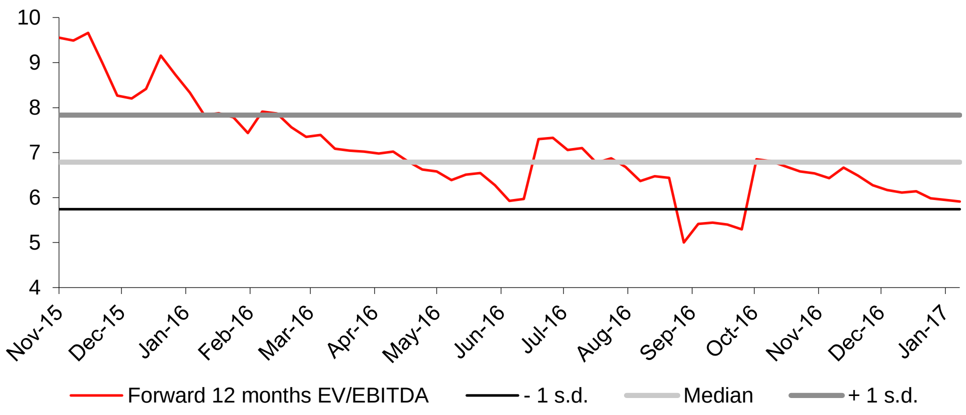
Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: Company data, Macquarie Research, February 2017

Valuation

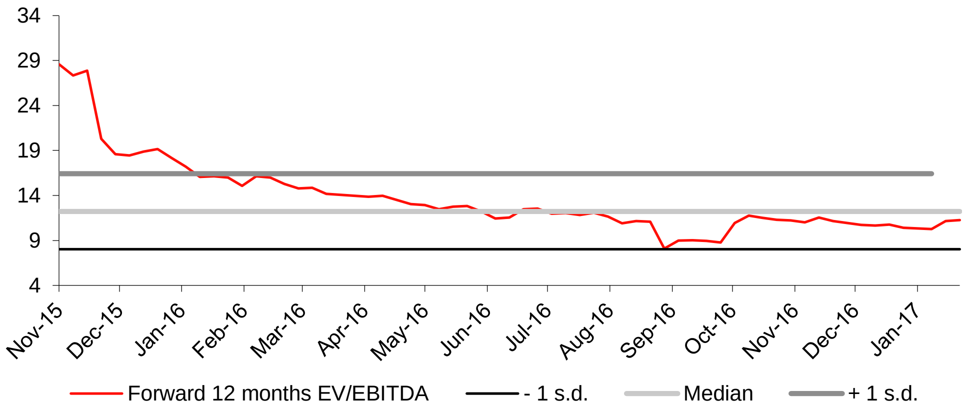
- We initiate coverage with Neutral and a TP of HK$0.78.
- We value SMI Holdings based on 7x FY17E EV/EBITDA, which implies 14x FY17E PE. The company traded at 6.7x median 12-month EV/EBITDA (6-8x historical range) and 12x median 12-month forward PE (8-16x range) since movie theatres have become its main growth focus in 2015. This is a deep discount to its global emerging market downstream peers, which are trading at 13x 12-month forward EV/EBITDA, due mainly to its small market share (3.6% as of 2015), high gearing ratio and corporate governance concerns. We expect SMI's EBITDA to grow 16% between FY16E and FY19E.
- Alternatively, a 10-year DCF yields a HK$0.75 fail value.

Fig 4 SMI holdings 12-month forward EV/EBITDA



Source: Bloomberg, Macquarie Research, February 2017

Fig 5 SMI holdings 12-month forward PE



Source: Bloomberg, Macquarie Research, February 2017

Fig 6 DCF sanity check

YE Dec 31 (HKD mn)	2017E	2018E	2019E	2020E	2021E	2022E
Free Cash Flow	264	904	1,772	2,029	2,123	2,388
EBIT * (1-t)	1,211	1,418	1,642	1,768	1,885	1,986
+ D&A	471	559	592	583	566	540
+ Capex & Investments	(1,600)	(1,200)	(600)	(400)	(400)	(200)
+ (Inc) / dec in NWC	182	127	138	77	72	62
NPV of FCF	242	753	1,340	1,394	1,325	1,355

Base BOse WACC BOlculation :		DCF Valuation (HKD 000) :	
Risk Free Rate	3.0%	Total NPV of forecast	5,054
Equity Risk premium	7.5%	Terminal EBITDA	3,188
Beta	0.98	Terminal EBITDA Multiple	5.0 x
Cost of common equity	10.4%	Terminal Value	15,941
After tax cost of debt	7.5%	NPV of Terminal value	9,952
Debt/Total Capital (Steady State):		Enterprise Value	15,007
% Common Equity	90%	TV : EV	66.3%
% of debt	10%	Net (Cash) debt - 2017E	3,945
WACC BOlculated	10.1%	HypothetiBOl DCF-based Fair Value :	
Terminal FCFF =	2,388		
Implied Perpetual Growth Rate	-4.9%	Equity value (HKD 000)	11,061
		Per Share (HKD)	**0.75**

DCF MATRIX

HypothetiBOl DCF-Based Fair Value (HKD)

Exit Multiple	2x	3x	4x	**5x**	6x	7x	8x
WACC							
7%	0.42	0.57	0.73	**0.88**	1.04	1.19	1.35
8%	0.39	0.54	0.69	**0.84**	0.98	1.13	1.28
9%	0.37	0.51	0.65	**0.79**	0.93	1.08	1.22
10%	**0.35**	**0.48**	**0.62**	$\boxed{0.75}$	**0.89**	**1.02**	**1.16**
11%	0.32	0.45	0.58	**0.71**	0.84	0.97	1.10
12%	0.30	0.43	0.55	**0.67**	0.80	0.92	1.04
13%	0.28	0.40	0.52	**0.64**	0.76	0.87	0.99

NPV of ForeBOst FCF (HKD 000)

	2017E	2018E	2019E	2020E	2021E	2022E	Total NPV
FCF	264	904	1,772	2,029	2,123	2,388	
WACC							
7%	248	794	1,452	1,553	1,518	1,595	5,566
8%	246	780	1,413	1,498	1,450	1,510	5,387
9%	244	766	1,376	1,445	1,386	1,430	5,217
10%	**242**	**753**	**1,340**	**1,394**	**1,325**	**1,355**	**5,054**
11%	240	740	1,305	1,345	1,268	1,284	4,899
12%	238	727	1,271	1,299	1,213	1,218	4,749
13%	236	715	1,239	1,255	1,161	1,155	4,607

Terminal EBITDA	3188
Year	4.91

Terminal value as EBITDA multiple (HKD mn)

Exit Multiple	2x	3x	4x	**5x**	6x	7x	8x
WACC							
7%	4,560	6,840	9,120	**11,399**	13,679	15,959	18,239
8%	4,356	6,534	8,712	**10,890**	13,069	15,247	17,425
9%	4,163	6,245	8,327	**10,409**	12,490	14,572	16,654
10%	**3,981**	**5,971**	**7,962**	$\boxed{9,952}$	**11,943**	**13,933**	**15,924**
11%	3,808	5,712	7,616	**9,520**	11,424	13,328	15,232
12%	3,644	5,466	7,288	**9,110**	10,932	12,754	14,576
13%	3,488	5,232	6,977	**8,721**	10,465	12,209	13,953

Implied non-GAAP PER (2017E)

Exit Multiple	2x	3x	4x	**5x**	6x	7x	8x
WACC							
7%	7.4x	10.2x	12.9x	**15.7x**	18.4x	21.1x	23.9x
8%	7.0x	9.6x	12.2x	**14.8x**	17.4x	20.1x	22.7x
9%	6.5x	9.0x	11.5x	**14.0x**	16.5x	19.1x	21.6x
10%	**6.1x**	**8.5x**	**10.9x**	$\boxed{13.3x}$	**15.7x**	**18.1x**	**20.5x**
11%	5.7x	8.0x	10.3x	**12.6x**	14.9x	17.2x	19.5x
12%	5.3x	7.5x	9.7x	**11.9x**	14.1x	16.3x	18.5x
13%	5.0x	7.1x	9.2x	**11.3x**	13.4x	15.5x	17.6x

Source: Company data, Macquarie Research, February 2017

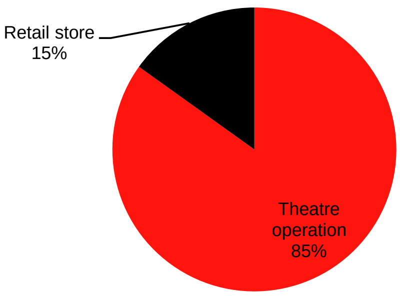
Investment Thesis

Leading theatre operator with strong growth momentum

SMI generated 85% of its 1H16 revenue from operating movie theatres. 50% of the theatre business is generated from box office, 35% from advertising and 15% from food and beverages (F&B). SMI typically retains about 50% of the box office revenue after splitting it with movie studios and distributors. Advertising revenue accounted for 22% of total theatre revenue and the percentage has ramped up quickly to 35% in 1H16. All the F&B revenues go straight to SMI.

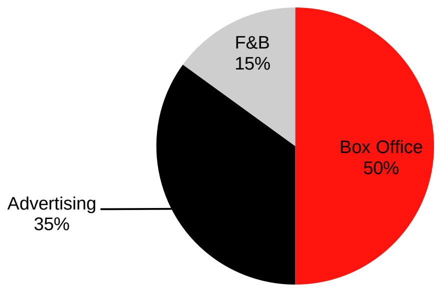
We estimate SMI's theatre number to have expanded from 37 in 2011 to 310 in 2016E (5-year CAGR 52.9%) and the number of screens have increased from 258 in 2011 to 2,170 in 2016 (5-year CAGR 53.1%). We expect the company to open 80-90 new theatres per year and reach 450 theatres and 3,150 screens by 2018. Currently about 60% of SMI's theatres are acquired and 40% are self-built. The company targets to increase its ratio of acquired/self-built theatres to 70/30.

Fig 7 SMI revenue split (1H16)



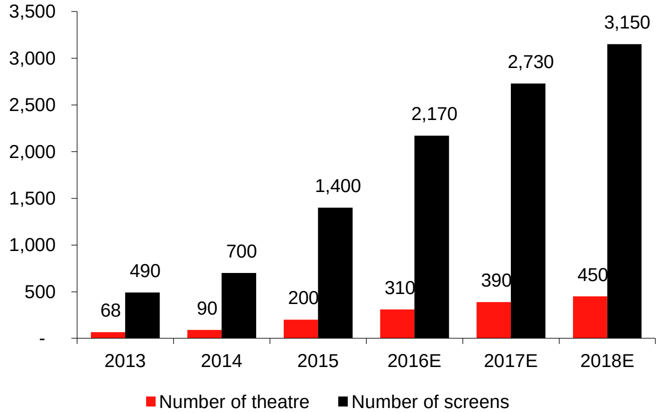
Source: Company data, Macquarie Research, February 2017

Fig 8 Theatre operation revenue breakdown (1H16)



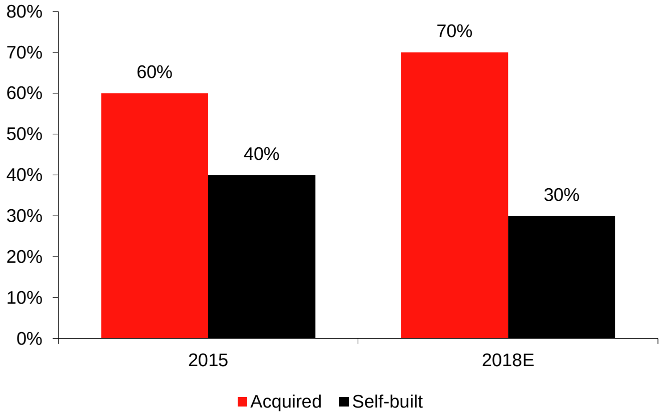
Source: Company data, Macquarie Research, February 2017

Fig 9 Number of SMI theatres and screens



Source: Company data, Macquarie Research, February 2017

Fig 10 Split between SMI's acquired and self-built theatres



Source: Company data, Macquarie Research, February 2017

For self-built theatres, the cost is typically Rmb15-20k per seat. Each movie hall on average has 150 seats, and each SMI theatre on average has 7 halls. Therefore, the total investment for a self-built theatre is Rmb15m-20m. For acquired theatres, the company typically pays 50-100% over what it would have cost to build the project.

Fig 11 Self-built and Acquired theatre comparison

	Acquired	Self-built
Investment cost	A 50-100% premium to what it would cost to build	~Rmb 15-20M per theatre or Rmb15k-20k per seat
Payback period	Up to 5 years	3-5 years

Source: Company data, Macquarie Research, February 2017

According to the company, it typically takes 3 years for a newly constructed SMI theatre to ramp up. Seat utilization is usually 5-8% during a theatre's first year of operation; the rate goes up to 8-10% the next year and further up to 10-15% in the third year. After the third year, a theatre enters mature stage with 15-20% utilization. Other factors, such as location, level of competition also impact the utilization rate and payback period.

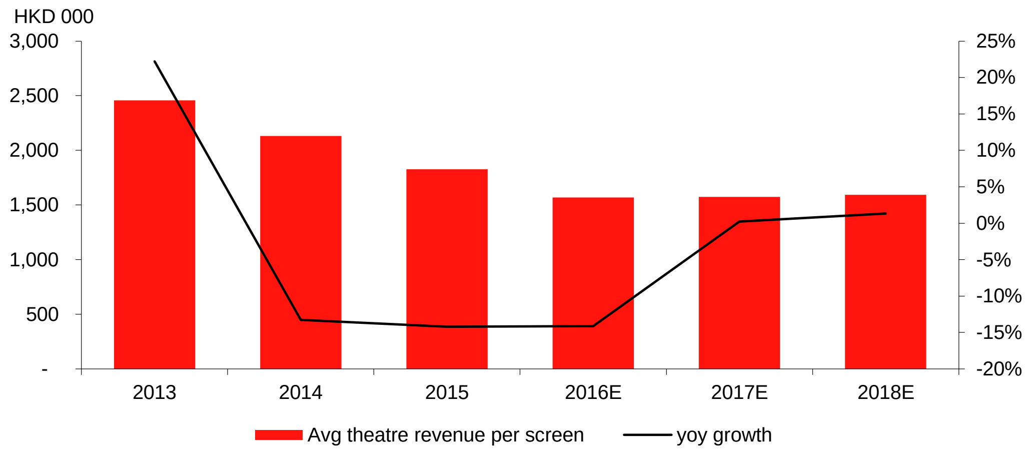
Fig 12 Seat utilization rate for new SMI theatre

Years of operation	Seat Utilization
First Year	5%-8%
Second Year	8%-10%
Third-year	10%-15%
Mature stage	15-20%

Source: Macquarie Research, February 2017

The per screen average box office revenue dropped 13%/3% yoy to HKD2.5m/2.4m in 2014/2015 as the newly added theatres have lower utilization rate and lower per screen office revenue. We estimate the per screen average (PSA) box office to further decrease 19% yoy to Rmb2.0m in 2016 as the company added another 770 screens to its portfolio. We expect the PSA will stabilize in 2017E and 2018E as the 700 new screens the company installed in 2015 will start to begin to ramp up and offset the low utilization rate of new cinemas.

Fig 13 Per screen average box office (PSA)

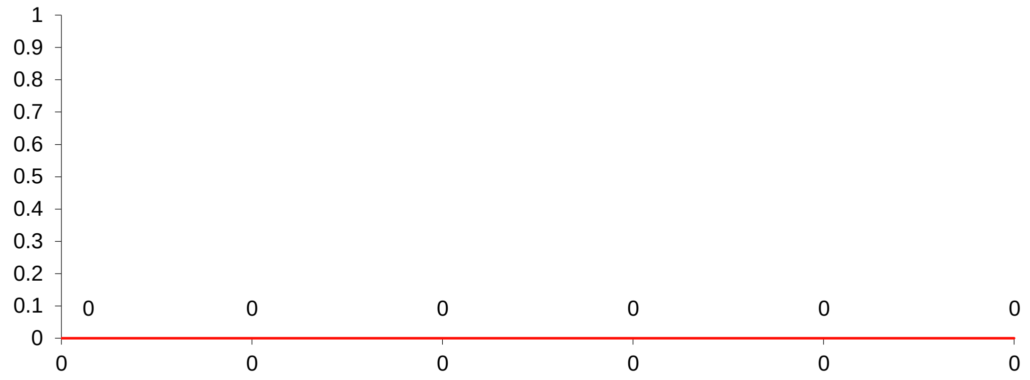


Source: Company data, Macquarie Research, February 2017

Scale effect drives up profitability

4,000-5,000 out of the 7,000 movie theatres in China are independent theatres. These were built during China movie industry's explosive growth stage from 2010-15. As the industry growth rate slows, more consolidation should occur. The top 5 cinema players in the US collectively had a 50% market share in 2015 vs 29% for the top 5 Chinese cinema operators. As the network grows, the company should gain more bargaining power on negotiating costs and also scale its non-ticketing revenue business, which has higher margins. We expect the company's non-GAAP net margin to improve to 16% in 2018 vs. 12% in 2015.

Fig 14 SMI non-GAAP net margin

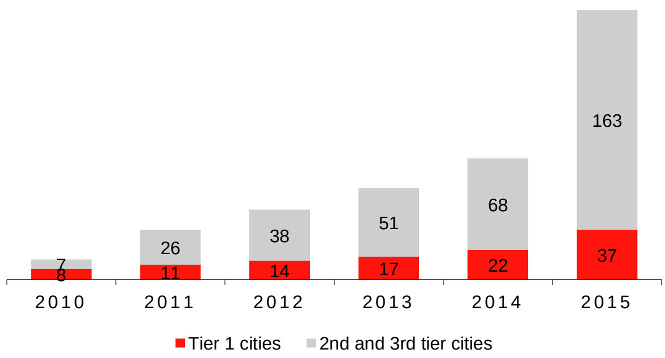


Source: Company data, Macquarie Research, February 2017

Fig 15 SMI theatre network (1H16)

Source: Company data, Macquarie Research, February 2017

Fig 16 SMI theatre number by city tiers



Source: Company data, Macquarie Research, February 2017

Integrated business with diversified revenue stream

SMI's retail store (in addition to the movie theatre F&B operation), SMI Living is an O2O initiative that enables users to purchase online at SMI's Xingmeihui (星美汇) website and pick up products either at one of SMI's stores or have them delivered to their homes. The concept of SMI living is to leverage SMI's national theatre network to build an integrated e-commerce chain that covers regions within 2km of each theatre. Currently the first batch of 2,000 logistic distribution vehicles has been deployed in the living areas surrounding the theatres in up to 100 cities, delivering SMI products to the doors of end-users at no charge.

By leveraging SMI's 13m members and offline theatre network, the company is trying to diversify its revenue stream away from pure box office income. SMI's advantage over other general purpose e-commerce website is that: 1) their products are differentiated; and, 2) they operate their own delivery fleet and only covers 2km radius distance which brings down logistics costs. We expect its revenue contribution to the company to increase from 12.4% in 2015 to 18% in 2018.

Fig 17 SMI Living webpage

Source: Company data, Macquarie Research, February 2017

SMI culture

SMI gained a controlling (63.4%) stake in SMI Culture in October 2016 and will consolidate its financials in the future. SMI Culture is engaged in the movie production and distribution business. Some of the movies it has distributed in the past include Ip Man 3 and The Mermaids. The company generated HK$191m revenue and HK$19m net profit in 2015.

Fig 18 SMI Culture past movie projects

	Chinese name	Box Office (Rmb mn)
Love for life (2011)	最爱	59
Wu Xia (2011)	武侠	170
Last Supper (2012)	王的盛宴	77
The Guillotines (2012)	血滴子	72
American dreams in China (2013)	中国合伙人	538
Dearest (2014)	亲爱的	345
The Mermaid (2016)	美人鱼	3,390
Ip Man 3 (2016)	叶问 3	802
Chongqing Hot Pot (2016)	火锅英雄	371

Source: Macquarie Research, February 2017

Corporate Governance & Risk

SMI Holdings falls in our 4th quartile for Corporate Governance and Risk.

Fig 19 Macquarie Governance and Risk Score

	Q1	Q2	Q3	Q4
Overall Score				●
Corporate Governance				●
History				●
Shareholding				●
Access				●
Board & Mgmt	●			
Compensation		●		
Balance Sheet Mgmt				●
Risk (Q1=Low risk, Q4=High risk)				●
Accounting & Audit				●
Visibility of Growth				●
Earnings Quality and Risk				●
True BS Strength				●
Misc Risks				●

Source: Macquarie Research, February 2017

Weak internal controls

The company's previous auditor RSM resigned in 2015 after it was unable to provide an opinion for the company's FY14 annual report. RSM cited "inability to obtain sufficient appropriate audit evidence to satisfy ourselves as to the deposits received from several customers of the banks of its PRC subsidiary of approximately HK$393m, of which HK$239m was recognised as revenue and HK$154m was recognised as payables". Deloitte was subsequently appointed as auditor of the company in 2015.

Rising gearing ratio

The company has raised more than HK$3.3bn since 2015 to fund its working capital and capex need. As the company continues to seek aggressive expansion network growth in the next 2-3 years, the capex need will remain high. We expect the net gearing ratio to be 67% by the end of 2016. It will become increasingly difficult for the company to obtain debt financing with such a high gearing ratio and the funding cost will also go up. As a result, the company will likely raise funding either through more convertible bonds or direct new share issuance both of which will dilute existing shareholder stakes.

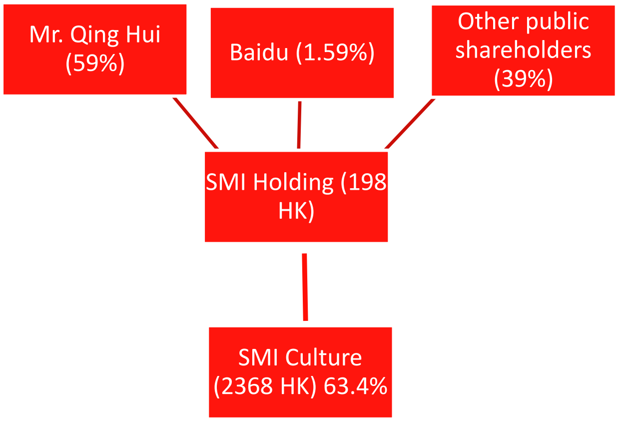
Potential lower ROI in new cinemas

Although China's per capita spending on movies is still low compared to developed markets, cinemas penetration in tier 1 and most tier 2 cities is close to saturation levels. SMI's expansion could face the risks of: 1) building new cinemas in low-tier cities that doesn't have large enough movie watching audiences; or 2) overpaying for existing cinema acquisition that generates poor ROI.

Rising E-commerce competition

Despite SMI Living's recent success, e-commerce remains a highly competitive business. Even major players, such as JD.com, can barely make profits. We think SMI's unique advantage is that: 1) its products are differentiated; and, 2) it operates its own delivery fleet and only covers a 2km radius, which brings down logistics costs. Nevertheless, big e-commerce players have significantly more capital and better brand recognition than SMI.

Fig 20 SMI holding shareholder structure



Source: Company data, Macquarie Research, February 2017

Financial analysis

Income statement

Revenue: We estimate SMI holding's total revenue will grow 43%/31%/17% in 16E/17E/18E. We expect **theatre operations** to grow 37%/29%/16% during the corresponding period. We expect the **retail store** e-commerce revenue to grow 86%/40%/22% in 16E/17E/18E, driven mostly by the increasing number in SMI Living retail store.

Fig 21 Revenue segments

	2013	2014	2015	2016E	2017E	2018E
Revenues	**1,418**	**1,681**	**2,924**	**4,185**	**5,471**	**6,401**
Theatre operation	1,204	1,492	2,559	3,509	4,526	5,250
Retail store	48	188	364	676	945	1,151
Investment in film production and distribution	163	-	-			
Others	2	2	2	-	-	-
YoY growth	**65.4%**	**18.5%**	**74.0%**	**43.1%**	**30.7%**	**17.0%**
Theatre operation	*65.0%*	*23.9%*	*71.5%*	*37.1%*	*29.0%*	*16.0%*
Retail store	*8.0%*	*289.2%*	*94.0%*	*85.7%*	*39.9%*	*21.7%*
Investment in film production and distribution	*128.8%*					
Others	*-80.6%*	*-31.3%*	*0.8%*			

Source: Company data, Macquarie Research, February 2017

Gross margin: dropped from 59% in 2014 to 29% in 2015, due mainly to cost reclassification. Box office revenue sharing cost, which was previously booked under S&M, is now booked under COGS. Among SMI's different theatre business lines, advertising has the highest GPM at ~90%, F&B GPM is 65-70%, and film business GPM is around 50%.

We expect SMI's GPM to stay at 34% from 2016E-18E. The positive margin impact of increasing advertising revenue contribution will be offset by the lower film business as new theatres have lower margin than mature ones.

Non-GAAP operating margin: we expect the improvement in gross margin will trickle down to operating margin as the business gains operating leverage. We estimate SMI's non-GAAP OPM to be at 29%-30% between 2016E-2018E.

Non-GAAP net margin: the company's interest burden has gone up as it takes on more debt to fuel expansion. Finance cost has increased from HK$57.8m in 2013 to HK$213.4m in 2015. As the gearing ratio increases, the cost of borrowing also rises. The effective interest rate for SMI has gone up from 7.2% in 2013 to 8.9%, we expect the cost of debt will be at 10% from 2016-2018. We estimate SMI's non-GAAP NPM to be at 14.3%/15.2%/16.0% between 2016E-2018E.

High financing needs to fund aggressive expansion plan

Operating cash flow: was HK$599m/597m/969m in 2013/2014/2015. The rising cash flow is underpinned by stable income generated from the theatre business. We expect the operating cash flow to be HK$1031m/1484m/1709m in 2016E/17E/18E.

Investing cash flow: was HK$(1003m)/ (1345m)/ (2678m) in 2013/2014/2015. The capex was mainly used in building the new theatres as well as acquiring existing theatres. Each newly constructed theatre costs around Rmb20m to build and an acquired theatre costs an extra 50-100% due to scarcity premium. All together, we expect the company will add 110/80/60 new theatres in 2016E/17E/18E. The premium amount the company paid for theatre acquisition will be booked under goodwill. We expect the investing cash flow to be HK$(3547m)/ (2543m)/ (2332m) in 2016E/17E/18E.

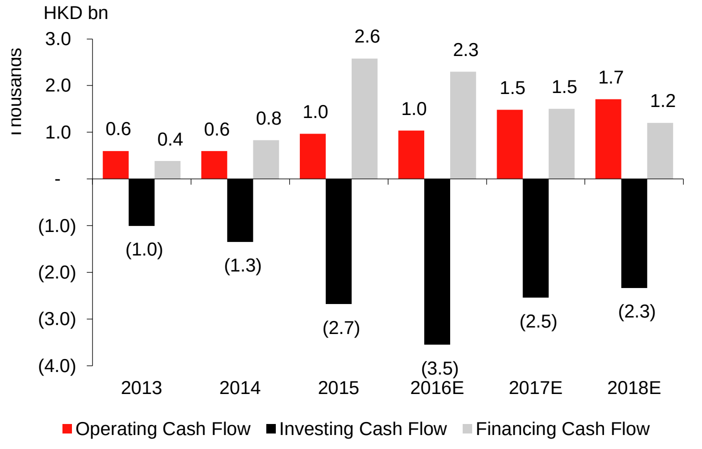
Financing cash flow: was HK$382m/833m/2581m in 2013/2014/2015. Since 2015, the company has raised HK$4.3b from both equity and debt financing, of which HK$926m are equity and HK$3.3bn are debt. We expect the company will use more equity financing to fund its capital needs going forward as the debt ratio is already quite high. We expect the financing cash flow to be HK$2300m/1500m/1200m in 2016E/17E/18E.

Fig 22 Major capital raising in the past

Date	Type	Net proceeds (HKD mn)
Apr-15	Subscription of new shares	39
Apr-15	Convertible bonds	93
Jun-15	Placement of new shares	437
Jul-15	Subscription of new shares	450
Nov-15	Convertible bonds	799
Jun-16	Bond	400
Jun-16	Note	338
Aug-16	ABS	1,700

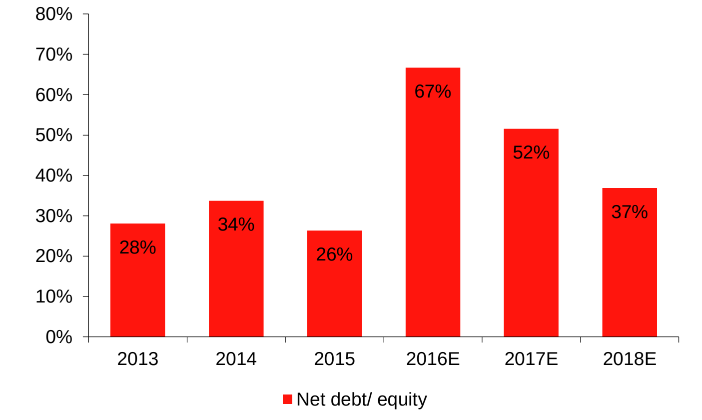
Source: Company data, Macquarie Research, February 2017

Fig 23 Cash flow statement



Source: Company data, Macquarie Research, February 2017

Fig 24 Net gearing ratio



Source: Company data, Macquarie Research, February 2017

Fig 25 Ratios

YE 31 December		2013	2014	2015	2016E	2017E	2018E	15-16E	16E-17E	17E-20E
Per Share										
EPS (diluted)	(HKD)	0.01	0.01	0.03	0.04	0.06	0.07	40%	36%	18%
Non-GAAP EPS (diluted)	(HKD)	0.02	0.01	0.03	0.04	0.06	0.07	39%	36%	18%
EBITDA	(HKD)	0.04	0.06	0.07	0.11	0.14	0.16			10%
BVPS	(HKD)	0.33	0.34	0.43	0.40	0.52	0.64	-6%	29%	15%
Basic shares	mn	8,175	9,434	11,761	13,562	13,834	14,112	15%	2%	2%
Value										
EV/Revenue	x	10.2 x	8.6 x	4.9 x	3.4 x	2.6 x	2.3 x	--	--	--
EV/EBITDA	x	43.3 x	26.1 x	16.0 x	9.2 x	6.9 x	5.9 x	--	--	--
EV/FCF	x	-56.4 x	1796.0 x	16.3 x	-56.0 x	13.5 x	7.8 x	--	--	--
Non-GAAP P/E	x	52.8 x	53.6 x	24.6 x	17.6 x	12.9 x	10.7 x	--	--	--
Non-GAAP P/E (ex Cash)	x	50.3 x	59.3 x	28.4 x	24.2 x	17.7 x	14.2 x	--	--	--
Price/ Sales	x	7.4 x	6.3 x	3.6 x	2.5 x	1.9 x	1.6 x	--	--	--
Price/ Book	x	2.2 x	2.1 x	1.7 x	1.8 x	1.4 x	1.1 x	--	--	--
Profit & Loss										
Revenue	(HKD mn)	1,418	1,681	2,924	4,185	5,471	6,401	43%	31%	13%
EBITDA	(HKD mn)	333	552	904	1,569	2,086	2,450	74%	33%	12%
Operating Profit	(HKD mn)	325	406	661	1,248	1,615	1,890	89%	29%	13%
Net Income	(HKD mn)	113	131	360	597	832	1,023	66%	39%	20%
Non-GAAP net income	(HKD mn)	134	137	361	597	832	1,023	65%	39%	20%
Profitability										
Gross Margin	%	63%	59%	29%	34%	34%	34%	467 bps	44 bps	0 bps
EBITDA Margin	%	23%	33%	31%	37%	38%	38%	657 bps	65 bps	(125 bps)
Operating Margin	%	23%	24%	23%	30%	30%	30%	722 bps	(30 bps)	4 bps
Net Margin	%	8%	8%	12%	14%	15%	16%	197 bps	93 bps	296 bps
Cash Flow										
Operating Cash Flow	(HKD mn)	599	597	969	1,038	1,485	1,709	7%	43%	12%
Free Cash Flow : Yield	(HKD mn)	(256)	8	888	(258)	1,072	1,850	-129%	--	44%
Dividend Yield	%	7%	6%	4%	0%	0%	0%	(403 bps)	--	--
FCF Yield	%	-4.3%	0.1%	10.0%	-2.4%	10.0%	16.9%	(1245 bps)	--	1813 bps
Earnings Yield	%	2.2%	2.0%	4.1%	5.7%	7.7%	9.3%	159 bps	207 bps	495 bps
Balance Sheet										
Net debt (Cash)	(HKD)	767	1,117	1,377	3,887	3,945	3,568	282%	102%	90%
Net debt/ equity	%	28%	34%	26%	67%	52%	37%	--	--	--
Shareholders Equity	(HKD)	2,735	3,312	5,231	5,829	7,660	9,683	11%	31%	17%
Efficiency										
ROE (average)	%	nm	4.3%	8.4%	10.8%	12.3%	12%	238 bps	153 bps	9 bps
ROA (average)	%	nm	2.5%	4.6%	5.3%	5.6%	6%	66 bps	36 bps	112 bps
ROIC (average)	%	nm	3.5%	6.3%	6.8%	7.2%	7%	51 bps	45 bps	153 bps

Source: Company data, Macquarie Research, February 2017

Fig 26 Financials

YE 31 December (HKD mn)	2013	2014	2015	2016E	2017E	2018E	15-16E	16E-17E	17E-20E
Consolidated Income Statement									
Total Revenue	1,417.7	1,680.6	2,924.1	4,184.8	5,470.9	6,400.9	43%	31%	13%
Gross Profit	895.9	997.5	854.0	1,417.8	1,877.6	2,196.8	66%	32%	13%
GP Margin	63.2%	59.4%	29.2%	33.9%	34.3%	34.3%	467 bps	44 bps	0 bps
SG&A	56.9	206.5	101.7	186.0	237.5	277.5	83%	28%	13%
Operating Profit	325	406	661	1,248	1,615	1,890	89%	29%	13%
OP Margin	22.9%	24.2%	22.6%	29.8%	29.5%	29.5%	722 bps	(30 bps)	4 bps
Non-Operating, Net	(152.5)	(197.3)	(214.0)	(496.6)	(506.3)	(526.7)	132%	2%	-6%
Income Taxes (Credit)	56.9	83.7	78.5	152.9	277.2	340.9	95%	81%	20%
Net Income	113.0	131.0	360.0	597.4	831.6	1,022.8	66%	39%	20%
NP Margin	8.0%	7.8%	12.3%	14.3%	15.2%	16.0%	197 bps	93 bps	296 bps
Non-GAAP net Income	133.8	137.4	361.2	597.4	831.6	1,022.8	65%	39%	20%
EBITDA	333.1	552.1	903.9	1,568.7	2,086.2	2,449.9	74%	33%	12%
EBITDA Margin	23.5%	32.9%	30.9%	37.5%	38.1%	38.3%	657 bps	65 bps	(125 bps)
Consolidated Balance Sheet									
Current Assets	599.8	1,130.5	2,058.4	2,409.8	3,343.0	4,278.0	17%	39%	23%
Cash	41.4	130.2	1,007.6	797.6	1,238.9	1,816.3	-21%	55%	38%
Trade receivables	513.0	691.9	544.6	917.2	1,199.1	1,402.9	68%	31%	13%
Held-for-trading investments	-	77.6	196.0	280.5	366.7	429.1			
Inventory	45.3	87.8	96.9	129.5	168.2	196.7	34%	30%	13%
Non-currnet assets	3,894.5	5,000.6	7,427.2	10,781.2	13,004.0	14,887.7	45%	21%	6%
PPE	1,284.1	1,758.1	2,266.0	4,145.4	5,274.4	5,914.9	83%	27%	3%
Goodwill	1,421.7	1,454.1	3,369.2	4,716.8	5,660.2	6,792.2			
Intangible assets	129.3	13.2	56.8	56.8	56.8	56.8			
Prepayment for construction of Cinema	823.7	522.8	376.8	503.7	654.1	765.3			
Other Fixed Assets	235.7	1,252.5	1,358.5	1,358.5	1,358.5	1,358.5	0%	0%	0%
Total Assets	4,494.2	6,131.1	9,485.6	13,191.0	16,347.0	19,165.8	39%	24%	10%
Current Liabilities	1,126.3	1,963.0	2,152.3	2,887.0	3,636.4	4,178.3	34%	26%	12%
Trade payables	784.2	1,322.9	1,506.7	2,156.3	2,819.0	3,298.1	43%	31%	13%
Tax payable	68.0	92.0	145.6	208.3	272.4	318.6			
Other Current Liabilities	16.4	29.9	51.7	74.0	96.8	113.2	43%	31%	13%
LT Liabilities	557.8	802.9	2,106.0	4,479.3	5,054.2	5,308.3	113%	13%	-5%
Borrowing	550.8	728.8	1,935.9	4,235.9	4,735.9	4,935.9			
Deferred revenue	2.0	2.9	100.9	144.4	188.8	220.9			
Total Liabilities	1,684.1	2,765.9	4,258.3	7,366.3	8,690.6	9,486.6	73%	18%	3%
Shareholders Equity	2,810.2	3,365.2	5,227.3	5,824.7	7,656.4	9,679.2	11%	31%	17%
Capital	845.2	1,017.6	1,350.7	1,350.7	1,350.7	1,350.7	0%	0%	0%
Capital reserve	1,890.2	2,294.8	3,880.6	4,478.0	6,309.6	8,332.4			
NCI	74.8	52.8	(4.0)	(4.0)	(4.0)	(4.0)	0%	0%	0%
Total Sh. Equity + Liabilities	4,494.2	6,131.1	9,485.6	13,191.0	16,347.0	19,165.8	39%	24%	10%
	-	-	-	-	-	-			
Consolidated Cash Flow									
Operating Cash Flow	599.0	597.3	969.3	1,037.6	1,484.6	1,709.4	7%	43%	12%
Net Income	133.8	137.4	361.2	597.4	831.6	1,022.8	65%	39%	20%
Depreciation/Amortization	8.0	145.7	243.0	320.6	471.0	559.5	32%	47%	7%
Change in Working Capital	(313.6)	(398.2)	301.0	119.6	182.0	127.2	-60%	52%	-25%
Investing Cash Flow	(1,003.3)	(1,345.5)	(2,677.7)	(3,547.7)	(2,543.4)	(2,332.0)	32%	-28%	-46%
Purchase of PPE	(370.9)	(303.8)	(432.8)	(2,200.0)	(1,600.0)	(1,200.0)	408%	-27%	-37%
Prepayment for construction of Cinema	(440.6)	-	-						
Acquisition of subsidiary	(243.0)	(993.6)	(1,985.3)	(1,347.7)	(943.4)	(1,132.0)	-32%	-30%	--
Financing Cash Flow	382.7	833.4	2,580.7	2,300.0	1,500.0	1,200.0	-11%	-35%	--
Proceed from bank borrowing	108.7	257.8	411.4	800.0	500.0	200.0	94%	-38%	--
Proceed from bonds and CB	20.0	754.9	1,342.7		1,000.0	1,000.0	--	--	--
Net Change in Cash	(21.7)	85.3	872.3	(210.0)	441.3	577.4	--	--	17%
FX impact	(5.4)	3.6	5.1	-	-	-	--	--	--
Cash at beginning of period	68.5	41.4	130.2	1,007.6	797.6	1,238.9	674%	-21%	47%
Cash at end of period	41.4	130.2	1,007.6	797.6	1,238.9	1,816.3	-21%	55%	38%

Source: Company data, Macquarie Research, February 2017

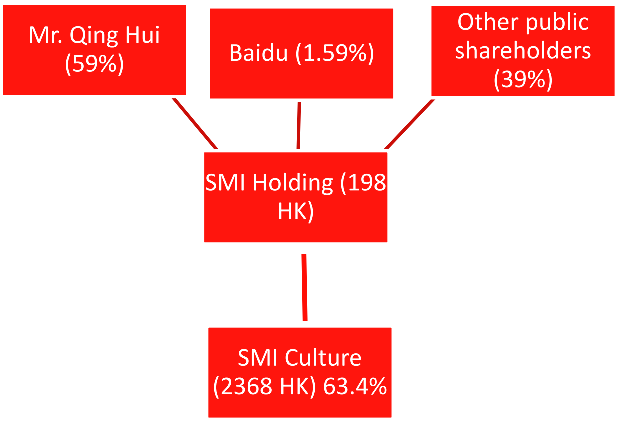
Management and shareholder structure

Fig 27 Management profile

Name	Age	Position	Description
Mr. CHENG Chi Chung	49	CEO & Executive Director	Appointed as executive director of the Company on 22 November 2011 and Chief Executive Officer ("CEO") of the Company on 7 June 2012. He holds an EMBA degree from Tsinghua University of Beijing and a Bachelor's degree from the Taiwan University, and obtained Special Awards and honour of the 44th National Culture and Arts in China. He has also been the CEO of Beijing Gome Online Co., Ltd.（北京國美在線有限公司）, the group vice president of China Seven Star Shopping Limited (a company listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 0245), the CEO of Beijing Yichengyangguang Technology Development Co., Ltd.（北京億誠陽光科技發展有限公司）, the general manager of Eastern Broadcasting and Eastern Shopping (America)（東森電視及東森購物（美洲））, the general manager of Eastern Public Relations Company（東森公關公司）and the director of Eastern Broadcasting News Channel（東森電視新聞台）.Mr. CHENG has extensive management experience in culture, media and retail areas.
Mr. YANG Rongbing	36	VP & Executive Director	Appointed as an executive director of the Company on 3 May 2013. He holds a MBA from Central University of Finance and Economics. Mr. YANG joined the Group in 2010 and is an executive director and the vice president of the Company. Mr. YANG is mainly responsible for corporate strategy whilst oversees a list of key operational departments including finance, investment, human resources and legal. Mr. YANG has extensive experience in investment and finance, and is familiar with relevant areas of the media industry, including financial markets and tax planning. Mr. YANG is also an expert in adopting a wide range of innovative financial vehicles to support rapid growth and continuously improving capital structure. Mr. YANG has acquired deep experiences in financial management, capital planning, internal control, investment and financing and capital financial strategy from serving various financial and investment roles in state-owned enterprises and institutions such as Beijing GoldenTide Group Co., Ltd., Foreign Economic Cooperation Office under Ministry of Environmental Protection, Center for Development of Trade and Control of Investment in Europe, etc.
Mr. ZHOU Lin	52	Executive Director	Appointed as an executive director of the Company on 1 July 2015. He obtained a degree in Computer and Communications from Beijing University of Posts and Telecommunications in 1984 and a qualified engineer in the People's Republic of China. Mr. ZHOU has over 30 years' experience in computer and software related industry. Mr. ZHOU was the deputy general manager of Tongding Interconnection Information Co., Ltd.（通鼎互聯信息股份有限公司）, whose shares are listed on the Shanghai Exchange Limited.

Source: Company data, Macquarie Research, February 2017

Fig 28 SMI holding shareholder structure



Source: Company data, Macquarie Research, February 2017

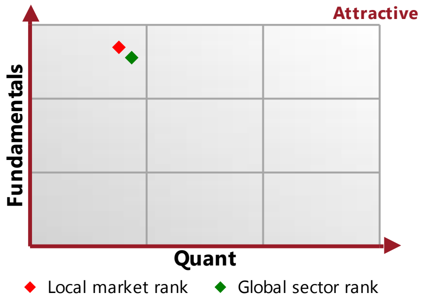
Macquarie Quant View

The quant model currently holds a reasonably negative view on SMI Holdings Group. The strongest style exposure is Growth, indicating this stock has good historic and/or forecast growth. Growth metrics focus on both top and bottom line items. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

229/322

Global rank in Media

% of BUY recommendations	100% (2/2)
Number of Price Target downgrades	2
Number of Price Target upgrades	0

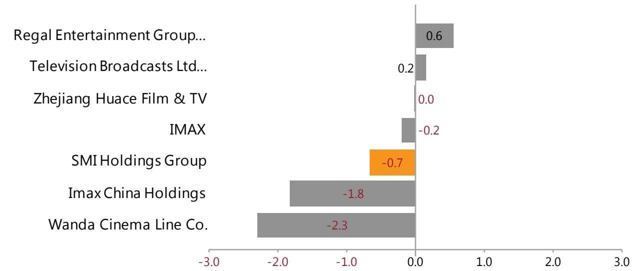


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Hong Kong) and Global sector (Media)

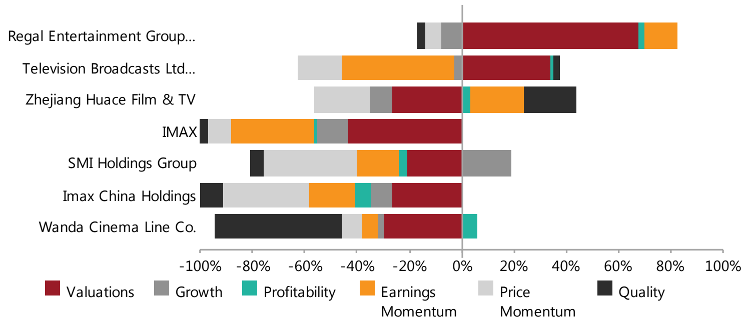
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



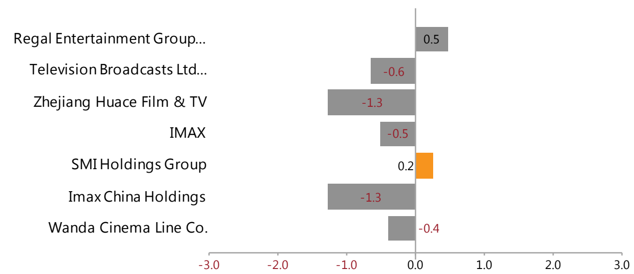
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



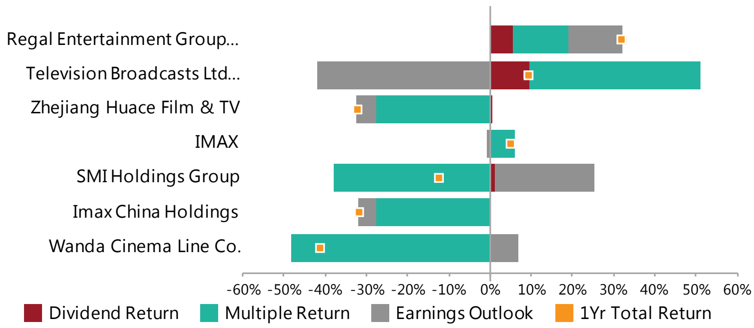
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



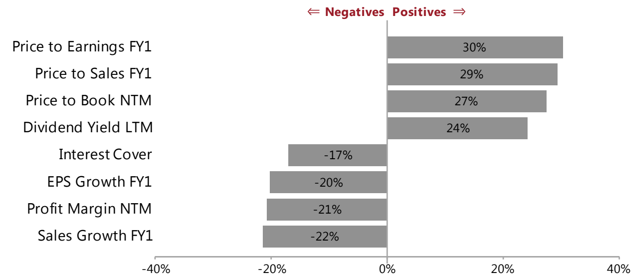
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



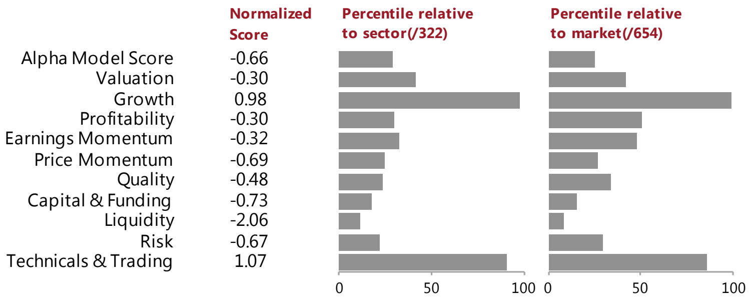
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

SMI Holdings Group (198 HK, Neutral, Target Price: HK$0.78)

Interim Results		1H/16A	2H/16E	1H/17E	2H/17E
Revenue	**m**	**1,833**	**2,352**	**2,610**	**2,861**
Gross Profit	**m**	**612**	**806**	**897**	**981**
Cost of Goods Sold	m	1,221	1,546	1,713	1,880
EBITDA	**m**	**630**	**938**	**903**	**1,183**
Depreciation	m	160	160	235	235
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**470**	**778**	**667**	**948**
Net Interest Income	m	-148	-348	-201	-306
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**322**	**430**	**467**	**642**
Tax Expense	m	-45	-107	-117	-161
Net Profit	**m**	**276**	**322**	**350**	**482**
Minority Interests	m	-1	0	0	0
Reported Earnings	**m**	**275**	**322**	**350**	**482**
Adjusted Earnings	**m**	**275**	**322**	**350**	**482**
EPS (rep)	¢	1.9	2.2	2.4	3.3
EPS (adj)	¢	1.9	2.2	2.4	3.3
EPS Growth yoy (adj)	%	23.5	59.8	24.8	46.4
EBITDA Margin	%	34.4	39.9	34.6	41.4
EBIT Margin	%	25.6	33.1	25.6	33.1
Earnings Split	%	46.0	54.0	42.1	57.9
Revenue Growth	%	30.6	54.7	42.4	21.6
EBIT Growth	%	43.0	134.3	42.0	21.8

Profit & Loss		2015A	2016E	2017E	2018E
Revenue	**m**	**2,924**	**4,185**	**5,471**	**6,401**
Gross Profit	**m**	**854**	**1,418**	**1,878**	**2,197**
Cost of Goods Sold	m	2,070	2,767	3,593	4,204
EBITDA	**m**	**904**	**1,569**	**2,086**	**2,450**
Depreciation	m	243	321	471	559
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**661**	**1,248**	**1,615**	**1,890**
Net Interest Income	m	-214	-497	-506	-527
Associates	m	0	0	0	0
Exceptionals	m	-0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**447**	**752**	**1,109**	**1,364**
Tax Expense	m	-78	-153	-277	-341
Net Profit	**m**	**368**	**599**	**832**	**1,023**
Minority Interests	m	-8	-1	0	0
Reported Earnings	**m**	**360**	**597**	**832**	**1,023**
Adjusted Earnings	**m**	**360**	**597**	**832**	**1,023**
EPS (rep)	¢	2.9	4.1	5.6	6.8
EPS (adj)	¢	2.9	4.1	5.6	6.8
EPS Growth (adj)	%	115.3	40.7	36.4	20.6
PE (rep)	x	24.8	17.6	12.9	10.7
PE (adj)	x	24.8	17.7	12.9	10.7
Total DPS	¢	0.0	0.0	0.0	0.0
Total Div Yield	%	0.0	0.0	0.0	0.0
Basic Shares Outstanding	m	11,761	13,629	13,903	14,183
Diluted Shares Outstanding	m	12,241	14,443	14,733	15,029

Profit and Loss Ratios		2015A	2016E	2017E	2018E
Revenue Growth	%	74.0	43.1	30.7	17.0
EBITDA Growth	%	63.7	73.6	33.0	17.4
EBIT Growth	%	62.6	88.9	29.4	17.0
Gross Profit Margin	%	29.2	33.9	34.3	34.3
EBITDA Margin	%	30.9	37.5	38.1	38.3
EBIT Margin	%	22.6	29.8	29.5	29.5
Net Profit Margin	%	12.3	14.3	15.2	16.0
Payout Ratio	%	0.0	0.0	0.0	0.0
EV/EBITDA	x	13.8	8.8	6.7	5.8
EV/EBIT	x	18.9	11.1	8.7	7.5
Balance Sheet Ratios					
ROE	%	8.4	10.8	12.3	11.8
ROA	%	8.5	11.0	10.9	10.6
ROIC	%	12.2	15.1	12.5	12.2
Net Debt/Equity	%	26.3	66.7	51.5	36.9
Interest Cover	x	3.1	2.5	3.2	3.6
Price/Book	x	1.6	1.7	1.3	1.1
Book Value per Share		0.4	0.4	0.6	0.7

Cashflow Analysis		2015A	2016E	2017E	2018E
EBITDA	**m**	**904**	**1,569**	**2,086**	**2,450**
Tax Paid	m	0	0	0	0
Chgs in Working Cap	m	0	0	0	0
Net Interest Paid	m	0	0	0	0
Other	m	65	-531	-602	-741
Operating Cashflow	**m**	**969**	**1,038**	**1,485**	**1,709**
Acquisitions	m	-1,985	-1,348	-943	-1,132
Capex	m	-433	-2,200	-1,600	-1,200
Asset Sales	m	0	0	0	0
Other	m	-260	0	0	0
Investing Cashflow	**m**	**-2,678**	**-3,548**	**-2,543**	**-2,332**
Dividend (Ordinary)	m	0	0	0	0
Equity Raised	m	0	0	0	0
Debt Movements	m	0	0	0	0
Other	m	-2,581	-2,300	-1,500	-1,200
Financing Cashflow	**m**	**-2,581**	**-2,300**	**-1,500**	**-1,200**
Net Chg in Cash/Debt	**m**	**-4,289**	**-4,810**	**-2,559**	**-1,823**
Free Cashflow	**m**	**537**	**-1,162**	**-115**	**509**

Balance Sheet		2015A	2016E	2017E	2018E
Cash	m	1,008	798	1,239	1,816
Receivables	m	1	1	1	1
Inventories	m	0	0	0	0
Investments	m	0	0	0	0
Fixed Assets	m	2,266	4,145	5,274	5,915
Intangibles	m	0	0	0	0
Other Assets	m	6,211	8,247	9,832	11,433
Total Assets	**m**	**9,486**	**13,191**	**16,347**	**19,166**
Payables	m	1,507	2,156	2,819	3,298
Short Term Debt	m	448	448	448	448
Long Term Debt	m	1,936	4,236	4,736	4,936
Provisions	m	0	0	0	0
Other Liabilities	m	367	526	687	804
Total Liabilities	**m**	**4,258**	**7,366**	**8,691**	**9,487**
Shareholders' Funds	m	1,351	1,351	1,351	1,351
Minority Interests	m	0	0	0	0
Other	m	3,877	4,474	6,306	8,328
Total S/H Equity	**m**	**5,227**	**5,825**	**7,656**	**9,679**
Total Liab & S/H Funds	**m**	**9,486**	**13,191**	**16,347**	**19,166**

All figures in HKD unless noted.
Source: Company data, Macquarie Research, February 2017

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

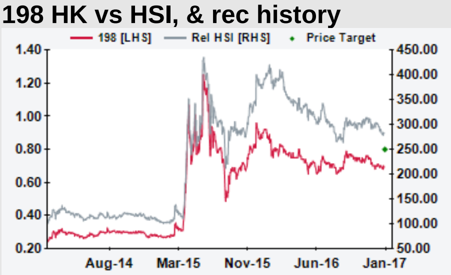
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	57.53%	50.72%	45.57%	42.28%	60.58%	52.79%	(for global coverage by Macquarie, 8.71% of stocks followed are investment banking clients)
Neutral	33.90%	33.97%	43.04%	50.11%	37.23%	35.62%	(for global coverage by Macquarie, 8.05% of stocks followed are investment banking clients)
Underperform	8.56%	15.30%	11.39%	7.61%	2.19%	11.59%	(for global coverage by Macquarie, 4.63% of stocks followed are investment banking clients)

198 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, December 2016

12-month target price methodology

198 HK: HK$0.78 based on a PER methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price

Target price risk disclosures:
198 HK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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