

## Company Report: Sina (SINA US)

公司报告: 新浪 (SINA US)

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# Video and News Feed Monetization Speeding Up, "Buy"

新浪加速视频广告和信息流广告的货币化, "买入"

- **FY17 non-GAAP net profit grew 90.8% yoy**, better than expected thanks to Weibo advertising contributions. The demand for social marketing in China is ramping up, which has helped to speed up monetization of video advertising and news feed advertising. Weibo MAU users reached 392 million in Dec. 2017, up 25% yoy.
- **We raise Sina's FY18-FY19 advertising revenue forecasts by 6.1%/ 7.7%, respectively.** Weibo is expected to improve marketing channels through different platforms and cooperation with smartphone makers and third party content providers. Better video content on the Weibo platform is expected to help advertising revenue to grow.
- **Non-advertising revenue in FY18-FY20 is expected to grow by 56.6%/ 41.1%/ 31.7%, respectively.** 4Q17 non-advertising revenue grew 80.0% yoy due to Weibo membership fees, fintech business and e-payment services contributions. The tightening up of online microloan services regulations may affect growth in FY18.
- **Maintain the Company's investment rating of "Buy" and revise up TP from US\$125.00 to US\$142.00.** We lift FY18-FY19 non-GAAP EPS forecasts by 5.7%/ 6.1%, respectively. The new TP represents 33.3x FY18 non-GAAP PER, 26.1x FY19 non-GAAP PER and 21.2x FY20 non-GAAP PER.
- **2017 财年非 GAAP 净利润同比增长 90.8%**, 好于预期, 因微博广告的贡献。中国对社交营销的需求正在增加, 这有助于新浪加速视频广告和信息流广告的货币化。2017 年 12 月微博用户达 3.92 亿, 同比增长 25%。
- **我们分别上调 2018-2019 年新浪广告收入预测 6.1%/ 7.7%。** 预计微博将通过与智能手机制造商和第三方内容提供商的合作改善营销渠道。预计微博平台上更好的视频内容将有助微博广告收入的增长。
- **预计 2018-2020 财年非广告收入分别增长 56.6%/ 41.1%/ 31.7%。** 由于微博会员费、金融科技业务和电子支付服务的贡献, 2017 年第 4 季非广告收入同比增长 80.0%。在线小额贷款服务监管的加强可能会影响 2018 财年的增长。
- **维持公司的投资评级为"买入"及目标价从 125.00 美元上调至 142.00 美元。** 我们分别上调 2018 财年至 2019 财年的每股非 GAAP 盈利预测 5.7%/ 6.1%。新目标价相当于 33.3 倍 2018 年非 GAAP 市盈率、26.1 倍 2019 年非 GAAP 市盈率及 21.2 倍 2020 年非 GAAP 市盈率。

Rating:

**Buy**  
Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**US\$142.00**

Revised from 原目标价:

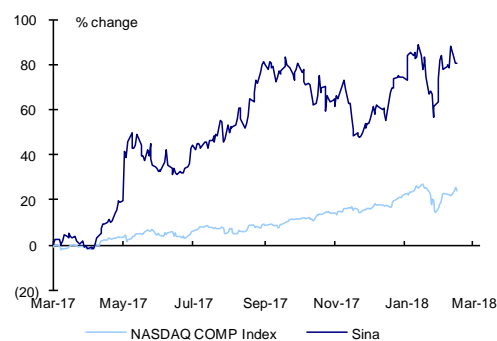
US\$125.00

Share price 股价:

US\$114.550

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(4.5)	10.8	78.4
Rel. % to NASDAQ Index 相对纳指变动 %	(3.4)	4.1	52.6
Avg. Share price(US\$) 平均股价 (美元)	113.4	109.2	91.7

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2016A	1,031	225	3.202	(94.7)	35.8	38.116	3.0	0.000	0.0	8.6
2017A	1,584	157	2.196	(31.4)	52.2	39.937	2.9	0.000	0.0	5.7
2018F	2,217	228	3.148	43.4	36.4	60.496	1.9	0.000	0.0	6.3
2019F	2,856	308	4.143	31.6	27.6	77.349	1.5	0.000	0.0	6.1
2020F	3,543	396	5.188	25.2	22.1	94.645	1.2	0.000	0.0	6.1
Shares in issue (m) 总股数 (m)				71.2	Major shareholder 大股东				Charles Chao 15.8%	
Market cap. (US\$ m) 市值 (US\$ m)				8,156.0	Free float (%) 自由流通比率 (%)				84.2	
3 month average vol. 3 个月平均成交股数 ('000)				987.4	FY18 Net gearing (%) FY18 净负债/股东资金 (%)				Net cash	
52 Weeks high/low (US\$) 52 周高/低 (US\$)				124.600 / 62.900						

Source: the Company, Guotai Junan International.

## FY17 Results Review

**Sina's FY17 results beat expectations with 164.8% yoy growth in non-GAAP operating profit, thanks to gross margin improvement and robust Weibo revenue contributions.** 4Q17 advertising revenue grew 58% yoy, driven by Weibo advertising revenue contributions, despite portal advertising showing weak yoy growth. Weibo revenue surged 77% yoy in 4Q17 thanks to a larger user base and ramping up demand of social marketing in China. Weibo MAU users reached 392 million in Dec. 2017, up 25% yoy. The launch of Weibo Stories managed to attract new users and improve platform traffic through short video socializing and new features. SME and KA customers are still Weibo's major revenue drivers. Gross margin improved by 5.0 ppt yoy to 74.9% in 4Q17 due to lower Weibo user acquisition costs and scale effect. Non-GAAP operating margin improved by 3.5 ppt yoy to 29.7% in 4Q17 thanks to gross margin improvement and scale effect.

**Table-1: Sina's Consolidated Income Statement Analysis**

USD (Million)	FY17	FY16	YoY	Comments
Revenue	1,584	1,031	53.6%	
-Advertising	1,312	872	50.5%	Driven by robust growth in Weibo advertising revenue
-Non-advertising	272	160	70.0%	Due to membership services fees and revenue share from live broadcasting contributions
Gross profit	1,170	676	73.1%	
S&M expenses	(409)	(247)	65.6%	
Product development	(267)	(216)	23.6%	
G&A expenses	(105)	(99)	6.1%	
Goodwill & intangibles impairment	0	40	n.a.	
Operating income	389	73	432.9%	
Non-GAAP operating profit	474	179	164.8%	
Non-operating income	36	231	(84.4%)	Related to asset disposal in FY16
Income before tax	424	305	39.0%	
Taxes	(75)	(27)	177.8%	
GAAP Net profit	157	225	(30.2%)	
Non-GAAP Net profit	208	109	90.8%	
EPS (USD)	2.20	3.20	(31.3%)	
Gross profit margin	73.9%	65.6%	8.3ppt	Margin improvement thanks to lower user acquisition costs
Non-GAAP operating margin	29.9%	17.4%	12.6ppt	
Non-GAAP net profit margin	13.1%	10.6%	2.6ppt	

Source: the Company, Guotai Junan International.

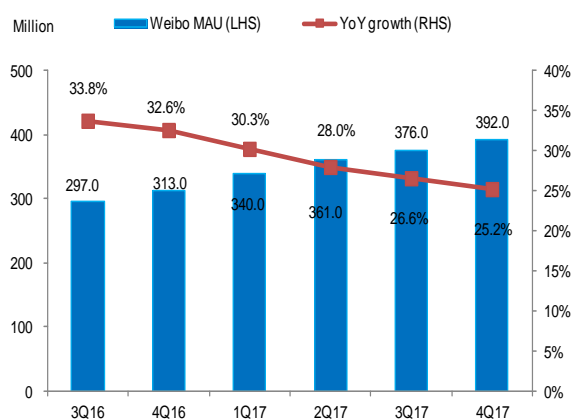
**We revise up Sina's FY18-FY19 advertising revenue forecasts by 6.1%/ 7.7%, respectively.** Advertising revenue grew 57.6% yoy in 4Q17, contributed by 76.9% yoy growth in Weibo advertising revenue and 16.5% yoy growth in portal advertising. Weibo advertising growth was driven by SME and KA customer contributions (which accounted for 88.5% of Weibo advertising revenue in 4Q17) due to effectiveness in social marketing. The launch of short video content and live broadcasting from third party providers with better user generated content ecosystems helped to improve user surfing time. Short video advertising is expected to ramp up contributions in FY18, driven by higher marketing spending in Weibo Stories and Weibo Mobile platforms. Weibo has prioritized relationship-based information feeds based on users' frequency of social interactions and the timeliness of distribution. Weibo is expected to introduce more variety in content in FY18 with cooperation with TV stations and other internet video platforms to boost revenue per average customer. Weibo has a strong cooperation network with third party video providers, sports leagues and content providers to provide quality video content to attract new users. We expect stronger contributions from video advertising in Weibo Stories in FY18. Driven by AI technology, better content ecosystem and marketing channels improvement, Weibo's FY18-FY20 advertising and marketing revenue is expected to grow by 52.0%/ 39.0%/ 27.0%, respectively.

**4Q17 portal advertising revenue grew 16.5% yoy, compared to 13.8% in 3Q17, driven by larger user base within the Sina News app and video content.** News feeds and short video advertising helped to drive revenue through the launch of users' favorite information and content. There was large traffic contribution from Weibo which helped to drive user growth. We expect Weibo to be an important and low-cost channel for Sina News app to grow new users and improve platform traffic. Live broadcasting and short video content have improved users' engagement and adoption. Users are more willing to watch video news recently due to ease of viewing and understanding. Sina Portal advertising revenue is estimated to show moderate growth in FY18 with improvement in mobile advertising offset by decline in PC advertising business. We expect FY18-FY20 portal advertising revenue to grow by 1.5%/ 3.0%/ 5.0%, respectively.

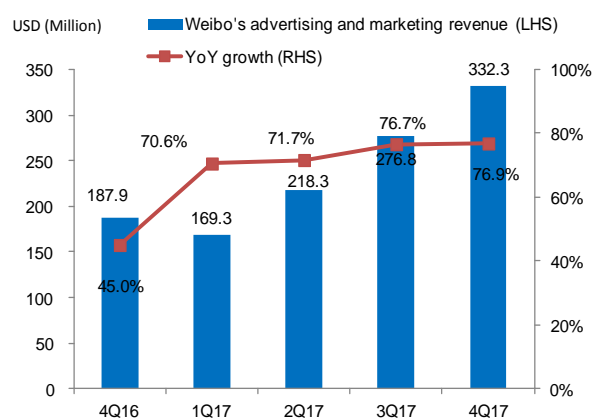
**Table-2: Sina's and Weibo's Quarterly Advertising Revenue Analysis**

US\$ (Million)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Weibo advertising	99.2	127.2	156.7	187.9	169.3	218.3	276.8	332.5
YoY	25.4%	44.7%	48.0%	45.0%	70.6%	71.7%	76.7%	76.9%
Weibo non-advertising	20.0	19.7	20.2	24.9	29.9	35.0	43.2	45.1
YoY	17.0%	(1.3%)	6.9%	25.2%	49.2%	77.7%	114.2%	81.4%
Portal advertising	63.7	78.7	76.8	81.7	59.8	77.9	87.4	95.3
YoY	(10.5%)	(11.0%)	(12.3%)	(12.8%)	(6.2%)	(1.0%)	13.8%	16.7%
Sina non-advertising	15.7	19.2	21.2	19.0	20.2	28.7	39.8	33.8
YoY	(8.4%)	12.9%	51.5%	40.3%	28.7%	49.6%	88.0%	78.2%

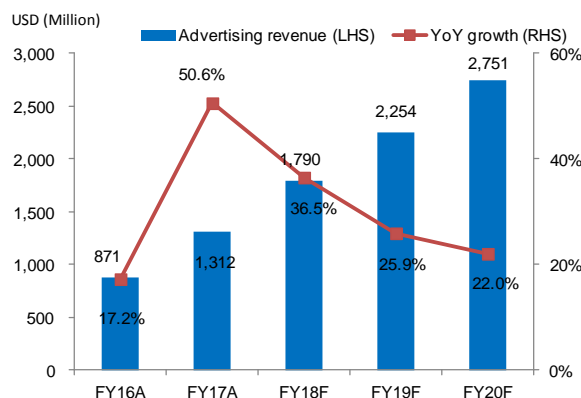
Source: the Company.

**Figure-1: Weibo's MAU and YoY Growth**


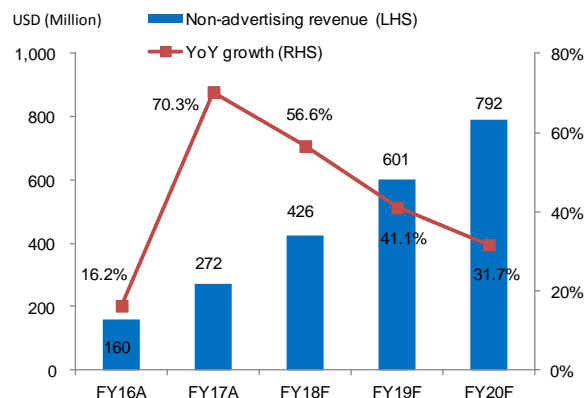
Source: the Company.

**Figure-2: Weibo's Quarterly Advertising and Marketing Revenue and YoY Growth**


Source: the Company.

**Figure-3: Sina's Advertising Revenue and YoY Growth**


Source: the Company, Guotai Junan International.

**Figure-4: Sina's Non-advertising Revenue and YoY Growth**


Source: the Company, Guotai Junan International.

**Non-advertising revenue grew 80.0% yoy in 4Q17, driven by 81.4% yoy growth in Weibo VAS services revenue and 78.2% yoy growth in non-advertising portal services revenue.** Robust Weibo VAS revenue growth was contributed by membership services fees. Sina Portal's non-advertising revenue was driven by Fintech business and the online payment system Sina Pay. There was significant growth from the online microloan business in FY17 but is expected to slow down in FY18 due to the launch of stricter regulations. The Chinese government has tightened up the rules for online microloan services in China with stricter background checks of borrowers and the lowering of lending rate. We forecast Sina's FY18-FY20 non-advertising revenue to grow 56.6%/ 41.1%/ 31.7%, respectively.

**Table-3: Advertising Contributions from Alibaba and SME & KA Customers to Weibo**

US\$ (Million)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Alibaba advertising revenue	11.1	12.8	9.3	24.7	7.8	13.2	25.3	38.4
YoY	(67.8%)	(54.8%)	(71.4%)	(48.8%)	(29.7)	3.1%	173.8%	55.4%
SME & KA advertising revenue	88.1	114.3	147.4	163.2	161.5	205.1	251.5	294.0
YoY	97.3%	92.3%	101.1%	100.7%	83.3%	79.4%	70.6%	80.1%

Source: the Company.

### Profit Revision

**We revise up Sina's FY18-FY19 non-GAAP EPS by 5.7%/ 6.1%, respectively.** We lift Sina's FY18-FY19 revenue by 5.5%/ 6.7%, respectively, due to the revision of Weibo and portal forecasts.

**Table-4: Sina's Financial Estimations Revisions**

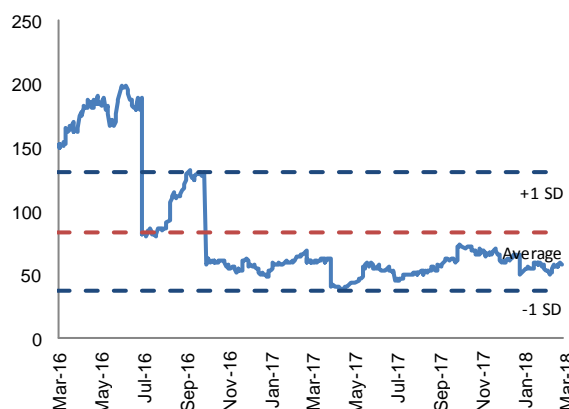
US\$ (Million)	OLD			NEW			CHANGE		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total revenue	1,584	2,217	n.a.	1,584	2,217	2,856	5.5%	6.7%	n.a.
Advertising revenue	1,312	1,790	n.a.	1,312	1,790	2,254	6.1%	7.7%	n.a.
Non-advertising revenue	272	426	n.a.	272	426	601	0.0%	0.0%	n.a.
Non-GAAP net profit	208	308	n.a.	208	308	404	5.7%	6.1%	n.a.
Non-GAAP EPS (US\$)	2.916	4.262	n.a.	2.916	4.262	5.444	5.7%	6.1%	n.a.

Source: Guotai Junan International.

### Valuation

**Maintain the Company's investment rating of "Buy" and revise up TP from US\$125.00 to US\$142.00.** We expect feed advertising and short video revenue to maintain its strong pace of growth due to the proliferation of social marketing in China. Strong links with Weibo can also help Sina portal and Sina News app to improve user growth in FY18. The new TP represents 33.3x FY18 non-GAAP PER, 26.1x FY19 non-GAAP PER and 21.2x FY20 non-GAAP PER.

**Figure 5: Sina's PE Graph**



Source: Bloomberg.

**Table-5: Peers Comparison**

				PER (x)			PBR (x)			ROE(%)	ROA(%)
Company	Ticker	Currency	Price	17F	18F	19F	17F	18F	19F	18F	18F
US Online Game Companies											
Changyou	CYOU US	USD	28.230	13.6	11.0	12.2	1.1	1.3	1.2		14.3
Electronic Arts Inc	EA US	USD	122.170	38.3	28.5	24.6	9.3	8.7	7.1	9.2	21.7
Activision Blizzard Inc	ATVI US	USD	72.010	n.a.	27.4	23.9	5.8	4.9	4.1	5.0	10.0
Netease	NTES US	USD	286.550	23.8	18.1	15.4	5.3	4.1	3.4	4.4	16.7
Simple Average				25.2	21.3	19.0	5.4	4.7	3.9	5.0	15.7
Weighted Average				30.7	24.9	21.6	6.6	5.7	4.7	6.0	15.4
HK Online Game Companies											
Tencent	00700 HK	HKD	447.000	52.4	39.9	31.0	14.5	10.7	8.1	10.7	14.9
Boyya Interactive Int.	00434 HK	HKD	3.230	6.4	6.1	6.2	0.7	0.7	0.6	0.6	10.2
IGG	00799 HK	HKD	10.780	11.1	9.0	8.2	6.1	4.6	3.7	4.1	44.5
Netdragon	00777 HK	HKD	20.850	n.a.	41.3	31.6	2.0	2.0	1.9	1.9	3.5
Simple Average				23.3	24.1	19.2	5.8	4.5	3.6	4.3	18.2
Weighted Average				52.3	39.8	30.9	14.4	10.7	8.1	10.7	14.9
Advertising Companies											
Sohu.Com Inc	SOHU US	USD	33.460	n.a.	n.a.	n.a.	1.7	2.7	2.5	n.a.	(3.0)
Weibo	WB US	USD	127.780	79.9	45.9	31.4	23.4	14.3	9.8	15.2	29.3
Bitauto	BITA US	USD	27.420	36.5	12.4	9.5	0.9	0.9	0.8	1.0	2.7
Cheetah Mobile	CMCM US	USD	14.320	22.9	16.8	16.7	3.6	3.0	2.4	n.a.	10.3
58.com	WUBA US	USD	74.440	47.7	30.6	21.7	3.7	3.4	2.9	n.a.	8.2
Soufun	SFUN US	USD	4.500	n.a.	19.7	14.6	3.4	2.9	2.4	n.a.	6.7
Phoenix New Media	FENG US	USD	5.010	39.1	32.7	25.4	1.0	1.0	1.0	1.1	1.8
Sina	SINA US	USD	114.550	52.1	32.7	21.0	2.9	2.5	2.3	2.6	6.6
Facebook	FB US	USD	175.940	32.0	19.9	16.9	6.9	5.6	4.2	5.9	22.3
Simple Average				44.3	26.4	19.7	5.3	4.0	3.1	5.2	9.4
Weighted Average				35.0	21.5	17.7	7.5	5.9	4.4	6.3	21.9
E-commerce Companies											
Alibaba	BABA US	USD	181.990	7.7	34.9	27.2	11.4	7.8	6.2	8.3	11.6
VIPSHOP	VIPS US	USD	17.680	8.7	20.8	15.8	5.3	5.1	3.8	5.3	6.7
EBay	EBAY US	USD	42.270	9.7	18.5	16.0	5.4	5.6	4.9	5.8	8.7
JD.com	JD US	USD	46.210	10.7	54.4	33.5	9.6	8.4	6.9	8.9	2.3
AMAZON	MZN US	USD	1493.450	11.7	91.1	59.6	26.1	20.3	14.6	20.7	2.7
Simple Average				10.2	46.2	31.2	11.6	9.8	7.6	9.8	6.4
Weighted Average				11.5	83.6	54.8	23.5	18.4	13.4	14.9	6.2
Search Engine Companies											
Alphabet Inc	GOOG US	USD	1071.410	58.6	21.7	18.1	4.9	4.1	3.4	4.3	14.6
Baidu	BIDU US	USD	249.750	32.0	26.1	21.6	4.9	4.3	3.7	4.4	8.8
Simple Average				45.3	23.9	19.8	4.9	4.2	3.5	4.4	11.7
Weighted Average				55.9	22.1	18.5	4.9	4.1	3.4	4.3	14.0
Overall Average				29.7	28.3	21.8	6.6	5.5	4.3	5.7	12.3
Overall Weighted Average				37.1	38.4	28.7	11.4	9.0	6.8	8.4	14.5

Source: Bloomberg.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (USD m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (USD m)	2016A	2017A	2018F	2019F	2020F
Advertising revenue	871	1,312	1,790	2,254	2,751	Fixed assets, net	242	263	292	319	279
Non-advertising revenue	160	272	426	601	792	Long term investments	1,318	1,289	1,872	2,330	1,694
Total Revenue	1,031	1,584	2,217	2,856	3,543	Other non-current assets	69	161	171	182	194
Cost of revenue	355	414	565	703	849	Total Non-current Assets	1,629	1,713	2,335	2,831	2,167
Gross profit	676	1,170	1,652	2,153	2,694	Short-term investments	389	1,382	1,451	1,524	1,600
Sales & Marketing expenses	(247)	(409)	(576)	(737)	(910)	Account receivables	210	286	257	231	208
Product development expenses	(216)	(267)	(355)	(451)	(553)	Cash & Cash Equivalents	1,408	1,991	3,018	4,230	6,833
G&A expenses	(99)	(105)	(144)	(186)	(230)	Cash & Cash Equivalents	649	444	517	595	680
Others	(40)	0	0	0	0	Total Current Assets	2,656	4,103	5,244	6,580	9,321
Operating profit	113	389	577	779	1,000	Total Assets	4,285	5,815	7,579	9,411	11,488
Others	165	(7)	(7)	(8)	(8)	Accounts payable	108	130	137	144	151
Interest & other income, net	26	43	43	57	73	Accrued liabilities	453	447	505	570	645
Profit Before Tax	305	424	612	828	1,065	Income taxes payable	40	102	66	86	106
Income Tax	(27)	(75)	(104)	(141)	(181)	Others	370	593	692	824	982
Profit After Tax	277	350	508	687	884	Total Current Liabilities	971	1,273	1,400	1,624	1,884
Non-controlling Interest	(52)	(193)	(280)	(379)	(488)	Deferred revenue	65	54	49	44	40
Shareholders' Profit	225	157	228	308	396	Convertible debt	153	880	880	880	880
Basic EPS (USD)	3.202	2.196	3.148	4.143	5.188	Other long-term liabilities	4	9	10	11	13
Non-GAAP shareholders' Profit	109	208	308	404	511	Total Non-current Liabilities	223	943	939	935	933
Non-GAAP EPS (USD)	1.551	2.916	4.262	5.444	6.699	Total Liabilities	1,194	2,216	2,339	2,560	2,817
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (USD m)	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Profit before taxation	277	350	508	687	884	Margins:					
Investment impairment (gain)	44	(9)	(9)	(10)	(10)	Gross Margin (%)	65.6	73.9	72.4	73.0	73.5
Stock-based compensation	74	91	103	111	119	Non-GAAP Operating Margin (%)	17.3	29.9	31.9	32.1	32.2
Changes in WP	215	321	(19)	54	60	Non-GAAP Net Margin	10.6	13.1	13.9	14.2	14.4
Others	(167)	836	735	693	2,887	ROE	8.6	5.7	6.3	6.1	6.1
Cash from Operating Activities	444	1,589	1,317	1,535	3,939	ROA	5.2	3.1	3.4	3.6	3.8
CAPEX	(38)	(34)	(31)	(27)	(25)						
Others	883	(1,880)	(251)	(296)	(1,320)						
Cash from Investing Activities	845	(1,914)	(282)	(323)	(1,344)						
Proceeds from issuance of shares	36	32	29	26	24						
Proceeds from bank loans	104	56	18	24	29						
Others	(743)	856	(21)	(19)	(17)						
Cash from Financing Activities	(603)	945	26	31	35						
Net Changes in Cash	685	620	1,061	1,242	2,630						
Cash at Beg of Year	763	1,408	1,991	3,018	4,230						
FX Change	(41)	(37)	(33)	(30)	(27)						
Cash at End of Year	1,408	1,991	3,018	4,230	6,833						

Source: the Company, Guotai Junan International.



### Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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