



## Company Report: China Unicom (00762 HK)

公司报告: 中国联通 (00762 HK)

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# Profitability and Dividends Will Rise Continuously, "Buy"

盈利能力和派息将持续上升, “买入”

- **We maintain the TP at HK\$5.00 and the investment rating as "Buy".** We forecast FY22-FY24 EPS to be RMB0.540/ RMB0.593/ RMB0.631, respectively. Considering rising profitability and dividends, we maintain the investment rating as "Buy" and TP at HK\$5.00.
- **China Unicom's 1HFY22 results were in line with our expectations.** Service revenue increased by 8.3% yoy. EBITDA increased by 3.9% yoy while EBITDA as a percentage of service revenue fell by 1.4 ppt yoy to 31.9%. Shareholders' net profit was up by 19.5% yoy.
- **We expect industry internet business revenue to achieve yoy growth close to 30% in 2022.** The Company plans to increase its cloud CAPEX by 88% yoy and computing power CAPEX by 65% yoy in 2022; we expect continuous investment by the Company and strong market demand to enable its businesses to maintain strong growth in 2H22. Given rising number of IoT connections, we expect growth rate of IoT revenue to still be high.
- **We expect future dividend payout to exceed market expectations.** Given that industry internet business is still in the investment phase, we expect technical support expenses and cost of IT services to still record sharp increase in 2H22. In the full year of 2022, we expect growth of capital expenditure to be basically in line with growth of service revenue. Overall, we expect EBITDA margin to still decline but shareholders' net profit to increase steadily. We expect that while EPS of the Company will improve, dividend payout ratio will also rise, and the dividend payout may exceed market expectations in the future.
- **Catalyst:** Increase in dividend payout ratio.
- **Risk warning:** Slower-than-expected growth of industry internet business; increased competition may put pressure on ARPU.
- **我们维持 5.00 港元的目标价和“买入”的投资评级。**我们预测 2022-2024 财年的每股盈利为人民币 0.540/0.593/0.631 元。考虑到公司不断上升的盈利水平和派息,我们维持“买入”的投资评级和 5.00 港元的目标价。
- **中国联通 2022 财年上半年业绩符合我们的预期。**服务收入同比上升 8.3%。EBITDA 同比上升 3.9%, 而 EBITDA 占服务收入的比例同比下降 1.4 个百分点至 31.9%。股东净利同比上升 19.5%。
- **我们预计 2022 年产业互联网业务收入将实现接近 30% 的同比增长。**公司计划 2022 年云资本开支同比提升 88% 而算力网络资本开支提升 65%; 我们预计公司持续的投入和强劲的市场需求将使得其业务在 2022 年下半年保持强劲增长。鉴于物联网连接数不断增加,我们预计物联网收入的增速仍将很高。
- **我们预计未来派息可能超过市场预期。**鉴于产业互联网业务仍处于投入阶段,我们预计技术支撑费用和 IT 服务成本在 2022 年下半年仍将录得大幅增长。2022 年全年,我们预计资本开支的增长将基本符合服务收入的增长。总体而言,我们预计 EBITDA 利润率仍将下降,但股东净利将稳步增长。我们预计公司在继续提升每股收益的同时,也将提高派息率,未来派息率可能会超过市场预期。
- **催化剂:** 派息率的上升。
- **风险提示:** 产业互联网业务增速慢于预期; 竞争加剧使得 ARPU 承压。

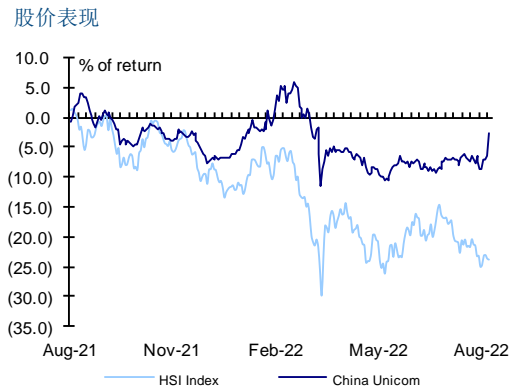
Rating: **Buy**  
Maintained

评级: **买入 (维持)**

6-18m TP 目标价: **HK\$5.00**  
HK\$5.00

Share price 股价: **HK\$3.900**

### Stock performance



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 %	4.6	4.6	-8.9
Rel. % to HS Index 相对恒指变动 %	12.5	4.6	15.0
Avg. Share price(HK\$) 平均股价 (港元)	3.7	3.7	3.8

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	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2020A	303,838	12,493	0.408	10.3	8.0	10.704	0.3	0.164	5.0	3.9
2021A	327,854	14,368	0.470	15.2	6.8	10.897	0.3	0.216	6.8	4.4
2022F	348,800	16,512	0.540	14.9	6.1	11.222	0.3	0.300	9.1	4.9
2023F	371,800	18,133	0.593	9.8	5.6	11.516	0.3	0.359	10.8	5.2
2024F	397,000	19,308	0.631	6.4	5.3	11.789	0.3	0.414	12.5	5.4
Shares in issue (m) 总股数 (m)				30,598.1	Major shareholder 大股东		China Unicom Group		80.7%	
Market cap. (HK\$ m) 市值 (HK\$ m)				119,332.6	Free float (%) 自由流通比率 (%)				19.3	
3 month average vol. 3 个月平均成交股数 ('000)				19,320.0	FY22 Net gearing (%) FY22 净负债/股东资金 (%)				Net Cash	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				4.730 / 3.600	FY22 Est. NAV (HK\$) FY22 每股估值 (港元)				5.8	

Source: the Company, Guotai Junan International.

**China Unicom's (the "Company") 1HFY22 results were in line with our expectations.** In 1HFY22, the Company's service revenue increased by 8.3% yoy to RMB160,971 million, while sales of telecommunications products slipped 1.4% yoy to RMB15,290 million. Among it, mobile service revenue and fixed-line broadband access revenue increased by 3.4% and 4.3%, respectively, while industry internet business revenue increased sharply by 31.8% yoy. Due to large-scale investment in innovative businesses, the Company's EBITDA increased only by 3.9% yoy, while EBITDA as a percentage of service revenue fell by 1.4 ppt yoy to 31.9%. Shareholders' net profit was up remarkably by 19.5% yoy to RMB10,957 million.

**We expect industry internet business revenue to achieve yoy growth close to 30% in 2022.** In 1H22, industry internet business revenue as a percentage of total service revenue rose by 3.0 ppt yoy to 22.9%, and became the main driver of the Company's revenue growth. Looking inside industry internet business, Unicom Cloud accelerated its pace to achieve remarkable yoy growth of 143.2%, recording RMB18.7 billion. IDC revenue increased by 13.3% yoy to RMB12.4 billion. The Company is making good headway in developing its internet-of-things (IoT) business. The number of IoT terminal connections reached 335.5 million, increasing 40.23 million YTD, and IoT revenue climbed significantly by 44.1% yoy to RMB4.3 billion. The Company has a 70% market share in the internet-of-vehicles factory-installed market. For big data services, the Company has been the leading figure for three consecutive years, contributing RMB1.9 billion to total industry internet revenue, up by 48.9% yoy. The Company plans to increase its cloud CAPEX by 88% yoy in 2022, thus we expect the Company's continuous investment in cloud and strong market demand to enable the business to maintain strong growth in 2H22. Following new opportunities from the "Eastern Data and Western Computing" initiative, the Company has been making efforts to offer an integrated computing network service and it has built a national advanced IDC system. The Company plans to increase its computing power CAPEX by 65% yoy in 2022 and improve its computing power by 43%, while IDC cabinets are expected to rise by 35,000 to 0.345 million in 2022. Thus, we expect IDC revenue to still grow steadily. Given the rising number of IoT connections, we expect growth rate of IoT revenue to still be high.

**We expect mobile service revenue and fixed-line broadband revenue to increase slightly yoy in 2H22.** In 1H22, the number of mobile subscribers increased by 2.40 million to 319.52 million, while the number of 5G package subscribers of the Company increased by 29.99 million to reach 184.92 million, accounting for 57.9% of total mobile subscribers. According to the Ministry of Industry and Information Technology (MIIT) of the People's Republic of China, as at the end of 1H22, a total of 1.854 million 5G base stations have been built across the country, and there were 0.429 million 5G base stations newly built in 1H22. We expect the number of mobile subscribers in 2022 to slightly increase, while 5G users to grow with the expanding coverage of 5G networks. However, we expect that the pulling effect of 5G on ARPU will not be significant currently. In 1H22, the number of fixed-line broadband subscribers increased by 4.40 million to 99.44 million; we expect fixed-line broadband subscribers to further increase in 2H22, while we expect fixed-line broadband ARPU to slightly decrease yoy. Overall, we expect fixed-line broadband business revenue to increase slightly.

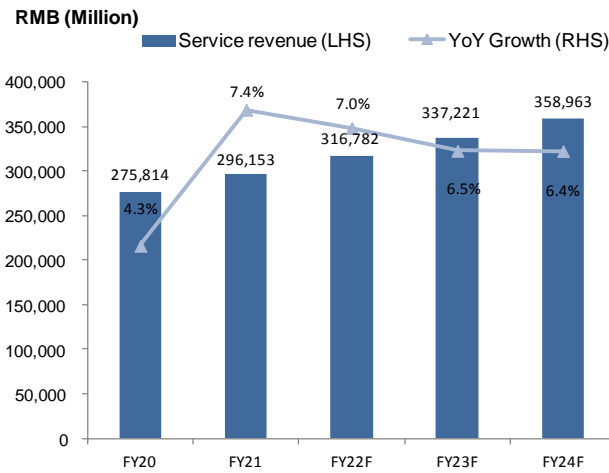
**We expect the Company's future dividend payout to exceed market expectations.** In 1HFY22, growth of network, operation and support expenses, employee benefit expenses, interconnection charges, selling & marketing expenses, as well as depreciation and amortization were all lower than growth of service revenue. We expect growth of network, operation and support expenses, and employee benefit expenses to be basically in line with growth of service revenue, while interconnection charges, selling & marketing expenses as well as depreciation and amortization will only have modest increase in 2H22. Cost of telecommunications products was in line with the revenue decline of sales of telecommunications products; we expect that costs of telecommunications products sold to still be in line with sales of telecommunications products in 2H22. Technical support expenses and cost of IT services rose significantly yoy by 74.7% and 28.9%, respectively, to enhance fundamental capabilities of industry internet business; given that industry internet business is still in the investment phase, we expect technical support expenses and cost of IT services to still record sharp increase in 2H22. Overall, we expect EBITDA margin to still decline yoy but shareholders' net profit to increase steadily yoy. Although capital expenditure increased significantly in 1H22, the Company's cash on hand is still abundant. The Company announced an interim dividend of RMB0.165 per share, and the dividend payout ratio increased by 5 ppt yoy to 46%. In the full year of 2022, we expect the growth of capital expenditure to be in line with the growth of service revenue. Given the expected steady cash position, we expect while the Company continues to improve its EPS, it will also raise its dividend payout ratios, and the dividend payout may exceed market expectations in the future.

**We maintain the TP at HK\$5.00 and the investment rating as "Buy".** We revise up FY22-FY24 shareholders' net profit forecasts by 0.5%/ 1.8%/ 0.4%, respectively. We expect the Company will raise its dividend payout ratios while its EPS will also increase steadily, thus the dividend payout level will rise continuously. We maintain the investment rating as "Buy" and TP as HK\$5.00. The TP represents 7.9x, 7.2x and 6.7x FY22-FY24 PER.

**Catalyst:** Increase in dividend payout and dividend payout ratio.

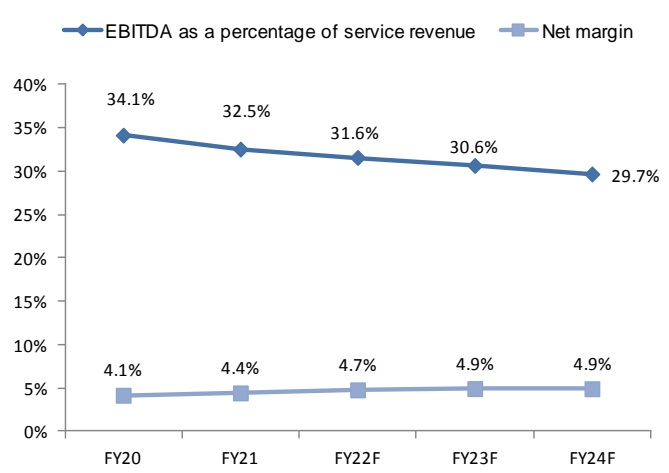
**Risk warning:** Slower-than-expected growth of industry internet business; pressure from increased competition on ARPU.

**Figure-1: China Unicom's Service Revenue**



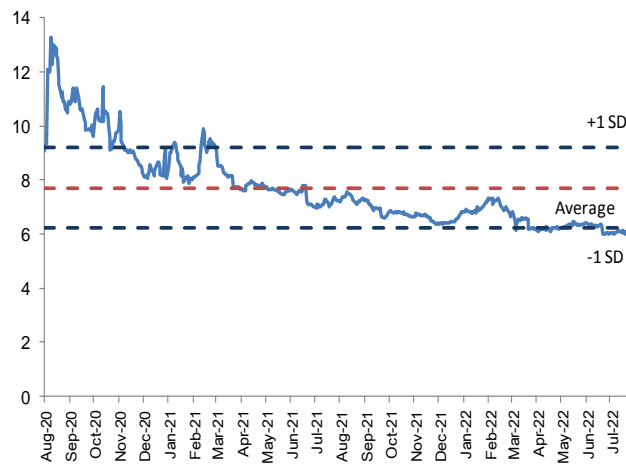
Source: the Company, Guotai Junan International.

**Figure-2: China Unicom's Profit Margins**



Source: the Company, Guotai Junan International.

**Figure-3: China Unicom's PE Graph**



Source: Bloomberg, Guotai Junan International.

**Table-1: Peers Comparison**

Company	Ticker	Currency	Price	Market Cap		PER			PBR			ROE (%)	D/Y (%)	EV/EBITDA
				(HKD Mil)	22F	23F	24F	22F	23F	24F	22F	22F	22F	
<b>HK Listed Companies</b>														
China Mobile Ltd	00941 HK	HKD	51.200	1,111,365	7.5	7.0	6.6	0.7	0.7	0.7	10.0	8.4	1.8	
China Telecom Corp Ltd-H	00728 HK	HKD	2.760	374,927	7.6	6.8	6.0	0.5	0.5	0.5	6.6	8.6	2.1	
China Unicom Hong Kong Ltd	00762 HK	HKD	3.900	119,333	6.3	5.6	5.2	0.3	0.3	0.3	4.8	7.9	0.6	
Pccw Ltd	00008 HK	HKD	4.180	32,352	34.0	35.7	27.0	3.5	5.4	24.6	3.8	8.5	6.4	
Hkt Trust And Hkt Ltd-Ss	06823 HK	HKD	10.940	82,922	16.9	16.2	15.9	2.3	2.3	2.3	13.5	6.8	9.6	
Smartone Telecommunications	00315 HK	HKD	4.160	4,599	10.4	10.0	9.7	0.9	0.9	0.8	8.5	7.2	1.5	
Hutchison Telecomm Hong Kong	00215 HK	HKD	1.200	5,783	n.a.	171.4	70.6	0.6	0.6	0.6	(0.7)	6.1	1.6	
Citic Telecom International	01883 HK	HKD	2.680	9,884	8.9	8.5	7.7	1.0	0.9	0.9	10.8	8.8	5.4	
Hkbn Ltd	01310 HK	HKD	8.580	11,254	25.4	17.5	14.8	2.5	2.7	3.1	10.8	9.3	8.1	
Simple Average					14.6	31.0	18.2	1.3	1.6	3.7	7.6	8.0	4.1	
Weighted Average					8.5	8.4	7.5	0.8	0.8	1.1	8.9	8.4	2.3	
<b>US Listed Companies</b>														
At&T Inc	T US	USD	18.000	1,006,878	7.1	7.3	7.2	0.9	0.9	0.8	13.6	6.7	6.7	
Verizon Communications Inc	VZ US	USD	44.540	1,468,347	8.6	8.4	8.3	2.1	1.8	1.6	24.6	5.8	7.0	
T-Mobile Us Inc	TMUS US	USD	144.580	1,423,242	62.3	22.5	14.9	2.5	2.5	2.5	4.9	0.0	9.2	
Simple Average					26.0	12.7	10.1	1.8	1.7	1.6	14.4	4.2	7.6	
Weighted Average					27.8	13.3	10.4	1.9	1.8	1.7	14.6	3.9	7.7	
<b>Japan Listed Companies</b>														
Nippon Telegraph & Telephone	9432 JP	JPY	3,720.000	784,101	11.3	10.8	10.1	1.6	1.5	1.3	14.9	3.2	6.2	
Kddi Corp	9433 JP	JPY	4,132.000	554,058	13.8	13.1	12.2	1.8	1.7	1.6	13.8	3.1	5.5	
Softbank Group Corp	9984 JP	JPY	5,295.000	530,907	n.a.	24.2	10.7	0.9	0.8	0.7	(18.1)	0.8	45.3	
Simple Average					12.5	16.0	11.0	1.4	1.3	1.2	3.5	2.4	19.0	
Weighted Average					12.3	15.3	10.9	1.5	1.3	1.2	5.2	2.5	17.1	
<b>EU Listed Companies</b>														
Vodafone Group Plc	VOD LN	GBp	121.600	322,391	19.9	13.6	12.6	0.7	0.7	0.7	3.8	6.1	5.1	
Deutsche Telekom Ag-Reg	DTE GR	EUR	18.832	753,795	13.1	12.0	10.6	2.1	2.0	2.0	13.3	3.7	6.5	
Telenor Asa	TEL NO	NOK	114.700	129,720	13.7	13.2	12.5	6.7	7.5	8.3	45.2	8.2	5.3	
Telefonica Sa	TEF SM	EUR	4.273	198,092	12.2	11.5	10.5	1.2	1.2	1.2	8.2	7.0	5.8	
Orange	ORA FP	EUR	10.112	215,920	9.1	8.6	7.9	0.8	0.8	0.7	8.9	7.0	4.7	
Bt Group Plc	BT/A LN	GBp	161.200	152,107	12.5	7.8	8.3	1.0	1.0	1.0	9.4	4.2	5.0	
Koninklijke Kpn Nv	KPN NA	EUR	3.188	105,668	19.2	17.5	16.0	4.2	4.0	3.8	20.8	4.4	7.6	
Telecom Italia Spa	TIT IM	EUR	0.224	37,953	n.a.	32.0	16.0	0.3	0.2	0.2	0.2	0.9	5.9	
Simple Average					14.2	14.5	11.8	2.1	2.2	2.2	13.7	5.2	5.7	
Weighted Average					14.0	12.3	11.0	1.9	1.9	2.0	12.7	5.1	5.8	
<b>Other Developed Market</b>														
Telstra Corp Ltd	TLS AU	AUD	4.030	255,060	28.4	24.1	21.8	3.2	3.2	3.2	11.1	4.0	8.1	
Singapore Telecommunications	ST SP	SGD	2.620	246,408	22.2	17.4	15.0	1.5	1.5	1.4	7.1	3.5	13.3	
Simple Average					25.3	20.7	18.4	2.4	2.3	2.3	9.1	3.7	10.7	
Weighted Average					25.3	20.8	18.4	2.4	2.4	2.3	9.1	3.8	10.6	
Overall Average					18.5	19.0	13.9	1.8	1.8	2.2	9.7	4.7	9.4	
Overall Weighted Average					17.6	14.0	11.6	1.7	1.7	1.7	10.1	4.7	8.7	

Source: Bloomberg.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F	Year end 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F
Service revenue	275,814	296,153	316,782	337,221	358,963	PP&E	364,187	355,031	351,322	348,035	343,702
Sales of telecom products & others	28,024	31,701	32,018	34,579	38,037	Right-of-use assets	37,960	32,866	27,936	26,539	25,212
Total Revenue	303,838	327,854	348,800	371,800	397,000	Interest in associates & JV	44,458	48,416	52,397	57,003	62,013
Interconnection charges	(10,574)	(11,557)	(11,667)	(11,871)	(12,045)	Deferred income tax assets	745	271	276	282	288
Depreciation & amortisation	(83,017)	(85,652)	(87,793)	(90,427)	(93,140)	Contract costs	3,672	4,025	3,824	3,633	3,451
Networks, operations & support expenses	(46,286)	(53,087)	(56,387)	(60,025)	(63,895)	Financial assets at FVTOCI	3,493	3,715	3,529	3,353	3,185
Employee benefit expenses	(55,740)	(58,944)	(62,435)	(66,552)	(71,063)	Other non-current assets	17,465	20,524	21,058	21,608	22,175
Costs of telecom products sold	(26,862)	(30,683)	(30,990)	(33,469)	(36,816)	Total Non-current Assets	471,980	464,848	460,343	460,452	460,027
Other operating expenses	(70,237)	(77,263)	(87,356)	(96,583)	(106,734)	Inventories & consumables	1,951	1,846	2,102	2,241	2,393
Total operating expenses	(292,716)	(317,186)	(336,629)	(358,927)	(383,694)	Account receivables	16,287	17,957	23,718	25,282	26,996
Operating Profit	11,122	10,668	12,171	12,873	13,306	Prepayments & other current assets	15,882	17,925	19,533	21,193	23,026
Finance costs	(1,747)	(1,385)	(1,144)	(938)	(907)	Amounts due from ultimate holding	10,570	10,558	10,347	10,140	9,937
Interest income	1,366	1,215	1,382	1,674	2,055	Financial assets at FVTPL	24,189	29,011	29,591	30,183	30,787
Share of loss of JV & associat	2,375	3,310	3,981	4,605	5,011	Short-term & restricted bank deposits	11,989	11,968	12,566	13,195	13,854
Other income - net	2,911	4,119	4,449	4,671	4,904	Cash & Cash Equivalents	23,085	34,280	43,452	55,562	72,314
Profit Before Tax	16,027	17,927	20,839	22,885	24,369	Other current assets	4,683	2,683	2,084	1,912	1,758
Income Tax	(3,450)	(3,420)	(4,168)	(4,577)	(4,874)	Total Current Assets	108,636	126,228	143,394	159,708	181,066
Profit After Tax	12,577	14,507	16,672	18,308	19,495	Total Assets	580,616	591,076	603,737	620,160	641,092
Non-controlling Interest	(84)	(139)	(160)	(175)	(187)	Accounts payable & accrued liabilities	134,437	140,124	146,574	154,479	167,168
Shareholders' Profit / Loss	12,493	14,368	16,512	18,133	19,308	Amounts due to related parties	9,183	12,926	13,572	14,251	14,963
Basic EPS	0.408	0.470	0.540	0.593	0.631	Commercial papers	7,000	6,875	0	0	0
						Short-term bank loans	740	385	327	278	236
						Lease liabilities	11,503	12,144	12,387	12,635	12,887
						Contract liabilities	42,641	45,704	43,419	41,248	39,185
						Others current liabilities	16,524	18,027	23,358	24,736	26,167
						Total Current Liabilities	222,028	236,185	239,637	247,627	260,608
						Long-term debt	4,481	1,835	1,652	1,486	1,338
						Lease liabilities	16,458	10,415	9,374	8,436	7,593
						Deferred revenue	5,927	6,951	7,395	7,883	8,417
						Others non-current liabilities	4,202	2,257	2,311	2,367	2,425
						Total Non-current Liabilities	31,068	21,458	20,731	20,172	19,772
						Total Liabilities	253,096	257,643	260,368	267,799	280,380
						Share capital	254,056	254,056	254,056	254,056	254,056
						Reserves	72,531	78,281	88,184	97,147	105,471
						Total Shareholders' Equity	326,587	332,337	342,240	351,203	359,527
						Minority Interest	933	1,096	1,129	1,158	1,186
						Total Equity	327,520	333,433	343,368	352,361	360,712
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F		2020A	2021A	2022F	2023F	2024F
Profit before tax	16,027	17,927	20,839	22,885	24,369	Operating margin (%)	3.7	3.3	3.5	3.5	3.4
Net interest expenses (income)	198	93	(238)	(736)	(1,148)	Net profit margin (%)	4.1	4.4	4.7	4.9	4.9
Depreciation & amortisation	83,017	85,652	87,793	90,427	93,140	ROA (%)	2.2	2.5	2.8	3.0	3.1
Other non-cash items	5,324	2,871	10,411	(1,785)	(2,881)	ROE (%)	3.9	4.4	4.9	5.2	5.4
Working capital change	2,862	7,871	(3,693)	2,252	7,071	Current ratio (x)	0.5	0.5	0.6	0.6	0.7
Interest received	1,309	1,215	1,382	1,674	2,055	Net gearing (%)	2.3	Net Cash	Net Cash	Net Cash	Net Cash
Interest paid	(1,832)	(1,324)	(1,144)	(938)	(907)						
Income tax paid	(1,354)	(3,669)	(4,168)	(4,577)	(4,874)						
Cash from Operating Activities	105,551	110,636	111,183	109,202	116,825						
CAPEX	(53,981)	(72,047)	(75,179)	(76,224)	(77,059)						
Others	(38,037)	(2,737)	1,161	959	824						
Cash from Investing Activities	(92,018)	(74,784)	(74,018)	(75,264)	(76,235)						
Bank loan change	(5,219)	(818)	(278)	(248)	(220)						
Chg of commercial paper, bonds & notes	(2,000)	(993)	(8,864)	53	55						
Capital element of lease rentals paid	(11,696)	(12,727)	(12,982)	(13,241)	(13,506)						
Dividend paid	(5,447)	(8,690)	(6,609)	(9,169)	(10,985)						
Others	(848)	(1,351)	809	841	875						
Cash from Financing Activities	(25,210)	(24,579)	(27,924)	(21,764)	(23,781)						
Net Changes in Cash	(11,677)	11,273	9,242	12,174	16,809						
Cash at Beg of Year	34,945	23,085	34,280	43,452	55,562						
FX change	(183)	(78)	(70)	(63)	(57)						
Cash at End of Year	23,085	34,280	43,452	55,562	72,314						

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng 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: Hong Kong Hang Seng 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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