

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

TAL (TAL US)

Solid beat, improved profit growth outlook

- TAL 2QFY23 (Aug Q) revenue +31% qoq to USD294mn, beat consensus 21%, NG OP surprisingly turned positive to USD42mn
- Results reaffirmed that TAL has stepped into a new chapter with stability and incrementally improving profit outlook
- BUY, stabilized core segments, live commerce and international segment have potential down the road; TP up to USD5.6

2QFY23 a strong beat with exceptional OP turnaround

2QFY23 (Aug Q) revenue +31% qoq to USD294mn, 21% above consensus. NG OP was USD42mn, surprisingly turnaround from -USD1.8mn in 1QFY23 (vs. -USD11mn of consensus), driven by: 1) Strong revenue growth given traditional summer peak season for its learning services and content solution segments; 2) Cost and expenses saving after business restructuring as well as prudent investment on new businesses. GPM was 60.2%, flat qoq. NG OPM was 14.4%, +19 ppt above consensus, similar to 2019 level. Liquidity remains solid at USD3.3bn.

Incrementally improving profit outlook

TAL's solid results reaffirmed it has stepped into a new chapter after exiting from K-9 academic business, with main focus on learning services (STEAM, senior high and overseas), content solution (smart books and devices), and technology solution (toB business). Looking forward, we forecast TAL's learning services segment to remain the biggest revenue contributor driven by STEAM courses' solid growth from increasing demand and continued courses expansion (e.g. TAL newly launched international chess and natural science learnings courses, Figure 10), as well as triple-digit yoy growth of its overseas business. However, given the seasonality (peak season in summer and winter) for learning services and content solution segments, which accounted for c.90% of TAL's total revenue, we forecast TAL's revenue to decline 11% qoq in 3QFY23E and then +23% qoq in 4QFY23E. Although we believe the exceptional NG OPM in 2QFY23 is unlikely to repeat in next few quarters given seasonality and continued investment on smart devices (e.g. smart lamp and AI learning machine), the better-than-expected margin profile for majorities of TAL segments lift our long term profit expectation.

Maintain BUY: TP revised up to USD5.6

We revised up FY23/24/25E revenue 7%/8%/9%, and NG Core NPM +6.4ppt/4.5ppt/2.3ppt to reflect recent results and better outlook on new businesses' momentum and Group profitability. We are upbeat on TAL's education business growth, with potential extra bonus from recently launched live commerce channel (Xuejia Youpin, 学家优品). We revised up TP to USD5.6 from USD5.0 based on 18x FY24E P/E (unchanged). TAL currently trades at 14% discount to its total cash (no debt). **Key risk:** 1) Regulations (e.g. ADR de-listing, domestic policies for education business); 2) Competition.

Financials

Year ended 28/29 Feb (USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,496	4,391	1,101	1,345	1,582
Growth (%)	37%	-2%	-75%	22%	18%
Gross profit	2,447	2,188	654	807	949
Non-GAAP OP	-233	-440	-12	10	52
Non-GAAP NI	89	-961	-13	53	91
Growth (%)	1048%	n.a.	-99%	n.a.	71%
Non-GAAP EPADS (USD)	0.15	-1.49	-0.02	0.08	0.14
P/E (x)	35.4	n.a.	76.6	53.2	31.1
ROE	2%	-4%	1%	1.4%	2%

Sources: Company data, CMS (HK) estimates; share price as of Oct 28, 2022

Tommy WONG +852 3189 6634
tommywong@cmschina.com.hk
Kaia ZHANG +852 3189 6176
kaiazhang@cmschina.com.hk

Crystal LI, CFA +852 3189 6122
crystalli@cmschina.com.hk

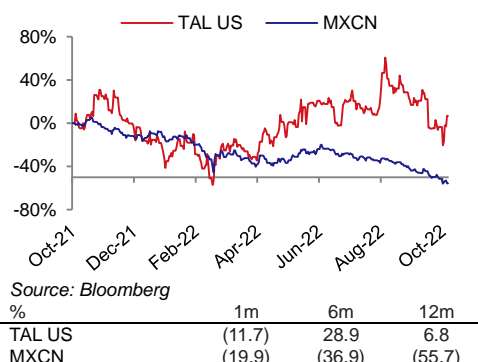
WHAT'S NEW

2QFY23 results briefing;
Earnings/TP changes

BUY

Previous	BUY
Price (Oct 28, 2022)	USD4.4
12-month Target Price (Potential up/downside)	USD5.6 (+28%)
Previous	USD5.0

Price Performance



Sector: Education

Hang Seng Index (Oct 28, 2022)	14,863
HSCEI (Oct 28, 2022)	5,029

Key Data

52-week range (USD)	1.6 - 6.72
Market cap (USD mn)	2,835
Avg. daily volume (mn)	6.63
BVPS (HKD)	47.80

Shareholding Structure

ZHANG Bangxin	26.3%
Others	4.1%
No. of shares outstanding (mn)	501
Free float	69.6%

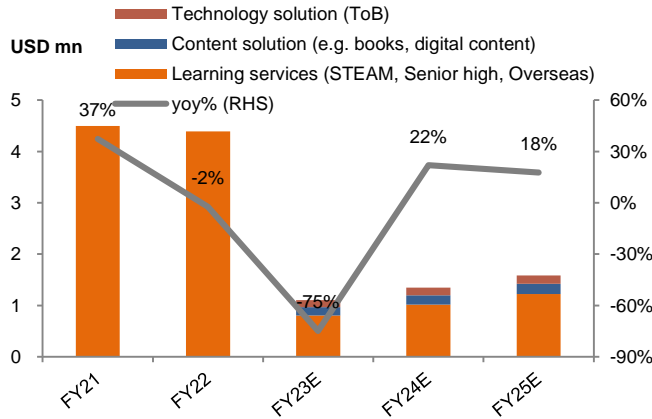
Sources: Company data, Bloomberg

Related Research

1. TAL (TAL US) - Entry into live commerce provides another optionality (BUY) (Oct 14, 2022)
2. TAL (TAL US) - Fast 4Q21 driven by online boost (HOLD) (Apr 23, 2021)
3. TAL (TAL US) - Potential marketing truce likely temporarily (HOLD) (Jan 24, 2021)

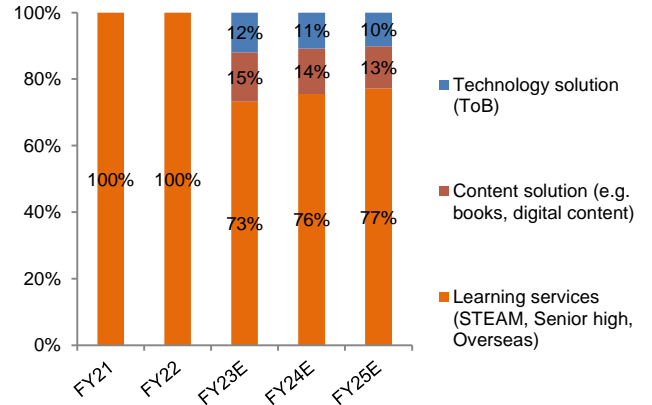
Focus charts

Figure 1: Revenue by segment



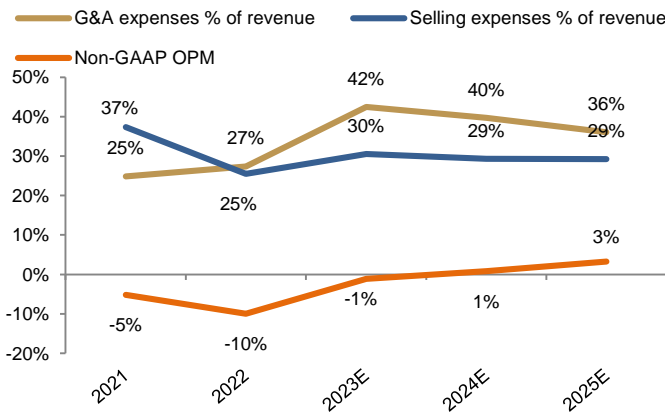
Sources: Company data, CMS (HK) estimates

Figure 2: Learning services segment remain as the cornerstone of TAL's business



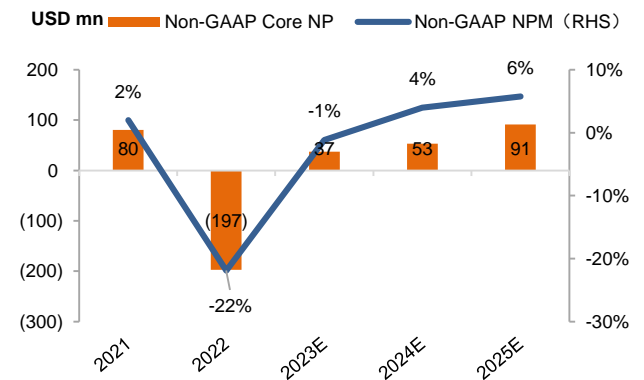
Sources: Company data, CMS (HK) estimates

Figure 3: SG&A expenses as of revenue and Non-GAAP OPM



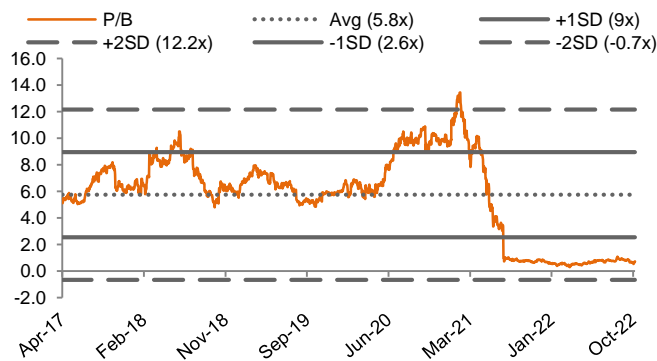
Sources: Company data, CMS (HK) estimates

Figure 4: Non-GAAP core NP and NPM: we expect TAL to turn profit in FY23E



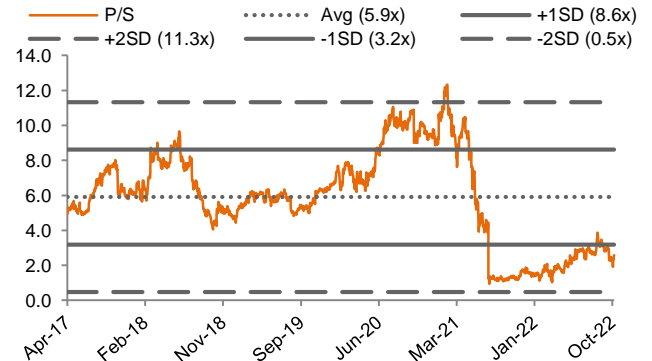
Sources: Company data, CMS (HK) estimates

Figure 5: P/B range



Sources: Bloomberg, Company data, CMS (HK) estimates

Figure 6: P/S range



Sources: Bloomberg, Company data, CMS (HK) estimates

Figure 7: TAL's 2QFY23 results vs. CMS forecast and Bloomberg consensus

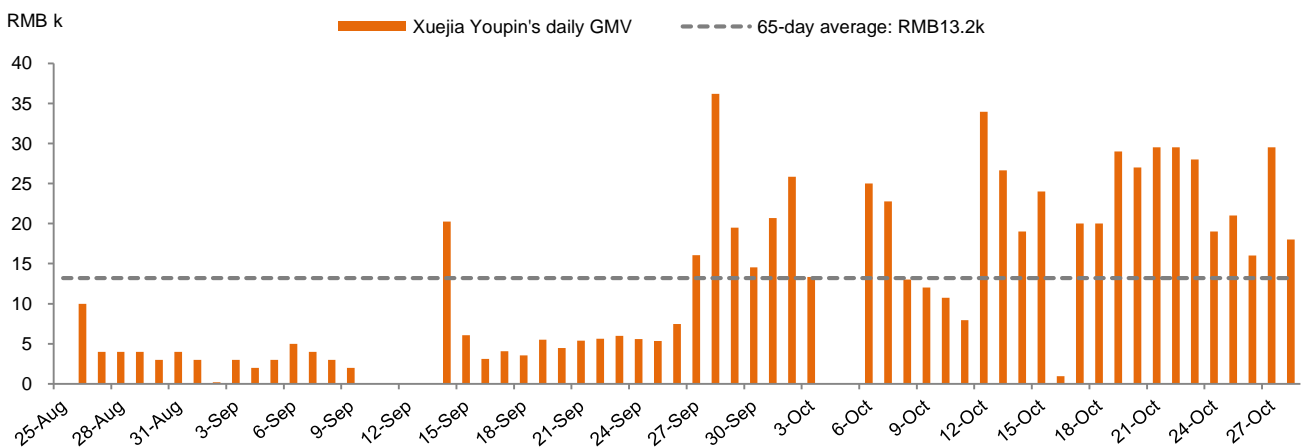
USD mn	2Q22	3Q22	4Q22	1Q23	2Q23	1Q23	2Q23	2Q23	CMS Forecast		Bloomberg Consensus	
	31-Aug	30-Nov	28-Feb	31-May	31-Aug	yoy	yoy	qoq	2Q23E	Diff	2Q23E	Diff
Revenue	1,444	1,021	541	224	294	-83.8%	-79.6%	31.3%	268	9.7%	242	21.3%
Gross profit	571	501	343	135	177	-82.4%	-69.0%	30.6%	161	10.0%	135	31.0%
OP - as reported	(380)	(108)	0.64	(28)	15	-77.7%	n.a.	n.a.	(39)	n.a.	(11)	n.a.
NP - as reported	(827)	(99)	(108)	(44)	(1)	-57.1%	-99.9%	-98.2%	(26)	-97.0%	(15)	-94.6%
Non-GAAP OP	(313)	(68)	0.8	(1.8)	42	-96.9%	n.a.	n.a.	(16)	n.a.	(11)	n.a.
Non-GAAP NP	(760)	(59)	(108)	(17)	27	-49.9%	n.a.	n.a.	(4)	n.a.	(5)	n.a.
SG&A												
Selling and marketing	310	274	103	60	78	-86.1%	-74.8%	30.1%	86	-8.9%		
G&A	356	300	212	111	97	-66.3%	-72.7%	-12.8%	114	-14.5%		
% as of revenue												
Selling and marketing	21.4%	26.8%	19.1%	26.8%	26.6%	-14.0%	5.1 ppt	-0.2 ppt	32.0%	-5.4 ppt		
G&A	24.7%	29.4%	39.2%	49.7%	33.1%	108.1%	8.4 ppt	-16.7 ppt	42.4%	-9.4 ppt		
Deferred revenue - current		539	188	227	188							
Total liquidity		3,947	3,464	3,424	3,294							
Margins:												
GPM	39.6%	49.1%	63.4%	60.5%	60.2%	4.7 ppt	20.6 ppt	-0.3 ppt	60.0%	0.2 ppt	55.7%	4.5 ppt
OPM	-26.3%	-10.6%	0.1%	-12.6%	5.1%	-3.5 ppt	31.4 ppt	17.7 ppt	-14.4%	19.5 ppt	-4.3%	9.4 ppt
NPM	-57.2%	-9.7%	-20.0%	-19.6%	-0.3%	-12.2 ppt	57 ppt	19.3 ppt	-9.8%	9.6 ppt	-6.1%	5.8 ppt
Non-GAAP OPM	-21.7%	-6.6%	0.1%	-0.8%	14.4%	3.5 ppt	36.1 ppt	15.2 ppt	-5.9%	20.3 ppt	-4.4%	18.8 ppt
Non-GAAP NPM	-52.6%	-5.7%	-20.0%	-7.7%	9.1%	-5.2 ppt	61.7 ppt	16.8 ppt	-1.3%	10.4 ppt	-2.0%	11.1 ppt

Sources: Company data, Bloomberg consensus, CMS (HK) estimates

Other key takeaways:

- Live commerce:** TAL recently entered into live commerce business with new channel in Douyin - Xuejia Youpin (学家优品, XJYP). XJYP is currently at nascent trial stage, and its avg. daily GMV reached c.RMB13k with peak at RMB36k, according to Huitun Data. XJYP’s cumulative GMV to Oct 28 (total of 65 days), is c.RMB765k, c.8% of Dongfang Zhenxuan (东方甄选, DFZX)’s GMV in the same period when it first started. Total followers of XJYP reached 61k, vs, 27mn of DFZX’s. In our view, given TAL’s well-known brand and roster of high quality teachers, similar to that of Koolearn (1797 HK), we think this entry does provide additional optionality to its long term growth strategy, especially given live commerce’s low-risk, high potential return attribute.
- International business:** TAL offers offline and online K-12 academic tutoring business under the brand of “Think Academy” in 7 regions such as UK, US, Singapore, Canada etc. Mgmt. highlighted currently 50% enrollment from US. The revenue contribution of this business is currently at low single digit, but it remains at triple-digit growth, and we expect this business can provide longer term growth opportunity leveraging TAL’s prolonged K-12 operation experience as well as good reputation.

Figure 8: TAL’s Xuejia Youpin daily GMV performance



Sources: Company data, Huitun data, CMS (HK)

Figure 9: TAL’s overseas business under the brand of “Think Academy” in 7 regions with US contribute c.50% of enrollment

Sources: Company data, CMS (HK)

Figure 10: TAL introduced new STEAM courses recently: international chess and natural science learnings



Sources: Company data, JD.com, CMS (HK)

Figure 11: TAL's earnings revision

USD mn	FY23E			FY24E			FY25E		
	Previous	Revised	change	Previous	Revised	change	Previous	Revised	change
Revenue	1,030	1,101	6.9%	1,240	1,345	8.4%	1,457	1,582	8.6%
Gross profit	592	654	10.4%	726	807	11.2%	852	949	11.3%
Non - GAAP OP	(83)	(12)	-85.1%	(47)	10	n.a.	16	52	230.8%
Non-GAAP Net income	(58)	(13)	-78.5%	(6)	53	n.a.	50	91	82.6%
Non-GAAP Core NI	(32)	37	n.a.	(6)	53	n.a.	50	91	82.6%
GPM	57.5%	59.4%	1.9 ppt	58.5%	60.0%	1.5 ppt	58.5%	60.0%	1.5 ppt
Non-GAAP OPM	-8.0%	-1.1%	6.9 ppt	-3.8%	0.8%	4.6 ppt	1.1%	3.3%	2.2 ppt
Non-GAAP NPM	-5.7%	-1.1%	4.5 ppt	-0.5%	4.0%	4.5 ppt	3.4%	5.8%	2.3 ppt
Non-GAAP Core NPM	-3.1%	3.4%	6.4 ppt	-0.5%	4.0%	4.5 ppt	3.4%	5.8%	2.3 ppt

Sources: Company data, CMS (HK) estimates

Figure 12: Tutoring sector peers comparison

Company	CN name	Ticker	Price (local currency)	CMS		Mkt cap (USDm)	3-mth avg t/o (Loc\$m)	P/E (x)		PEG*	P/S (x)		PSG*	Sales CAGR (%)	EPS CAGR (%)	
				Rating	TP(Local currency)			Up/(Dn) side (%)	FY22E		FY23E	FY22E		FY23E	2022-2024 CAGR	2022-2024 CAGR
HSI			14,863					8.3	7.3	0.6	0.7	0.7	0.1	9.3	12.3	
HSCEI			5,029					7.0	6.3	0.6	0.6	0.5	0.1	9.6	11.2	
Offline tutoring - China																
NEW ORIENTAL	新东方	EDU US 9901 HK	24.8 19.5	BUY	38.0 30.0	53.2 54.2	4,214	53.6	n.a.	25.1	n.a.	1.4	1.5	1.3	1.1	n.a.
TAL	好未来	TAL US	4.4	BUY	5.6	28.1	2,835	29.8	n.a.	76.6	n.a.	0.6	2.6	n.a.	(44.7)	n.a.
OFFCN	中公教育	002607 CH	4.3	NR	n.a.	n.a.	3,614	201.4	30.7	20.2	n.a.	2.8	2.4	n.a.	n.a.	n.a.
EAST	东方	667 HK	2.6	NR	n.a.	n.a.	715	5.3	8.4	7.2	n.a.	1.0	0.9	n.a.	n.a.	n.a.
ONLY	昂立	600661 CH	8.3	NR	n.a.	n.a.	326	41.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SCHOLAR	思考乐	1769 HK	0.8	NR	n.a.	n.a.	55	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BESTSTUDY	卓越	3978 HK	0.5	NR	n.a.	n.a.	54	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Online tutoring - China																
GAOTU	高途	GOTU US	0.7	BUY	2.3	237.9	175	2.7	22.4	4.6	0.0	0.5	0.4	0.0	21.3	188.6
KOOLEARN	新东方在线	1797 HK	40.4	BUY	53.0	31.4	5,162	790.8	n.m.	27.6	0.1	62.1	7.5	0.0	214.1	473.4
YOUDAO	有道	DAO US	3.5	NR	n.a.	n.a.	438	0.6	n.a.	25.6	n.a.	0.5	0.4	n.a.	n.a.	n.a.
SUNLAND	尚德机构	STG US	3.8	NR	n.a.	n.a.	53	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
51 TALK	51 Talk	COE US	1.6	NR	n.a.	n.a.	36	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Education (US listed Non-China)																
PEARSON		PSO US	11.1	NR	n.a.	n.a.	8,031	3.5	15.9	14.5	n.a.	1.6	1.6	n.a.	n.a.	n.a.
GRAHAM		GHC US	627.8	NR	n.a.	n.a.	3,040	8.1	11.8	8.2	n.a.	0.8	0.7	n.a.	n.a.	n.a.
GRAND		LOPE US	100.3	NR	n.a.	n.a.	3,125	20.8	15.3	13.9	n.a.	3.1	2.9	n.a.	n.a.	n.a.
LAUREATE		LAUR US	12.8	NR	n.a.	n.a.	2,104	9.8	13.4	9.6	n.a.	1.5	1.4	n.a.	n.a.	n.a.
ADTALEM		ATGE US	41.8	NR	n.a.	n.a.	1,898	13.6	14.6	10.0	4.2	1.3	1.2	n.a.	n.a.	2.4
K12		LRN US	33.2	NR	n.a.	n.a.	1,427	26.1	14.4	11.3	0.3	0.8	0.7	0.1	9.3	32.5
STRATEGIC		STRA US	69.9	NR	n.a.	n.a.	1,722	6.6	20.3	16.3	n.a.	1.5	1.5	n.a.	n.a.	n.a.
Average - Offline tutoring - China									13.0	25.8	n.a.	1.2	1.5	1.3	(14.5)	0.0
Average - Online tutoring - China									22.4	19.3	0.0	21.0	2.8	0.0	117.7	331.0
Average - Tutoring - Non-China									15.1	12.0	2.3	1.5	1.4	0.1	9.3	17.4
Average (all)									15.2	18.0	1.2	5.3	1.7	0.4	33.5	139.4

Sources: Bloomberg, Company data, CMS (HK) estimates; share price as of Oct 28, 2022. Note: All information of Non-rated stocks was sourced from Bloomberg.

*PEG was calculated based on FY21E P/E and FY20-22E EPS CAGR and PSG was calculated based on FY21E P/S and FY20-22E revenue CAGR.

Financial Summary

Balance Sheet

(USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	28 Feb	28 Feb	28 Feb	29 Feb	28 Feb
Plant, property, equipment	511	281	306	356	416
Intangible assets & Goodwill	520	2	2	2	2
LT investment	668	414	435	457	480
Other L/T assets	1,588	341	794	833	875
Non-current assets	3,288	1,039	1,536	1,648	1,772
Cash & Equivalent	3,243	1,638	1,281	1,163	1,066
Restricted cash & Term deposits	1,759	756	756	756	756
Short term investments	2,695	1,071	1,231	1,231	1,231
Accounts & Receivables	3	1	1	1	1
Inventories	39	22	12	15	17
Other current assets	419	142	149	157	165
Current assets	8,157	3,629	3,430	3,322	3,236
Total assets	12,112	5,083	4,967	4,970	5,009
ST Debt	270	0	0	0	0
Accounts & Notes payable	354	90	45	54	64
Contract liabilities	1,387	188	141	151	160
Other current liabilities	1,363	625	656	689	724
Current liabilities	3,374	903	842	895	948
LT Debt	0	0	0	0	0
CB	2,300	0	0	0	0
Other non-current liability	3,534	178	187	196	206
Non-current liabilities	3,534	178	187	196	206
Total liabilities	6,908	1,080	1,029	1,091	1,153
Total net assets	5,205	4,002	3,938	3,880	3,855
Share capital	0	0	0	0	0
Reserves	5,203	4,030	3,938	3,880	3,855
Shareholder's equity	5,204	4,030	3,938	3,880	3,855
Non-controlling interest	1	-28	0	0	0
Total Equity	5,205	4,002	3,938	3,880	3,855
Total debts	270	0	0	0	0
Net cash/(debts)*	7,426	3,464	3,268	3,149	3,053

Cashflow Statement

(USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	28 Feb	28 Feb	28 Feb	29 Feb	28 Feb
Pretax Income	-116	-1,136	-119	-58	-25
Dep. & Amort.	161	185	113	89	82
Chg in working cap	224	-245	-35	6	7
Others	686	257	-23	36	35
Net cash from operations	955	-939	-64	73	100
CAPEX	-244	-220	-123	-125	-127
Acquisition	-12	0	0	0	0
Investment	-4,283	3,385	-196	-36	-38
Others	1,897	-1,797	-38	-40	-42
Net cash from investments	-2,641	1,369	-357	-201	-206
Dividend paid	0	0	0	0	0
Shares issued (cancelled)	2,508	1	26	0	0
Debt issued (repaid)	0	0	0	0	0
Others	2,287	-2,768	37	9	10
Net cash from financing	4,795	-2,767	63	9	10
Exchange impact	-5	1	0	0	0
Net change in cash	3,103	-2,336	-357	-118	-97
Opening cash	1,915	5,018	2,682	2,324	2,206
Restrict cash	1,775	1,044	1,044	1,044	1,044
Closing cash	3,243	1,638	1,281	1,163	1,066

Sources: Company data, CMS (HK) estimates; share price as of Oct 28, 2022 *Net cash includes bank balance, term deposits and ST investments

Profit & Loss Statement

(USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	28 Feb	28 Feb	28 Feb	29 Feb	28 Feb
Revenue	4,496	4,391	1,101	1,345	1,582
Cost of revenue	-2,049	-2,203	-448	-538	-633
Gross profit	2,447	2,188	654	807	949
Selling expense	-1,680	-1,118	-336	-394	-463
G&A expense	-1,117	-1,200	-468	-534	-570
Other gain/losses	-88	-484	31	20	20
Operating profit - as reported	-438	-615	-119	-101	-64
Net interest income	97	95	37	27	32
Other income and gains	116	-259	-50	0	0
Pre-tax profit	-225	-778	-131	-74	-32
Tax	70	-397	12	15	6
Profit after tax	-155	-1,175	-119	-59	-26
Loss from equity method investments	12	11	1	0	0
Non-controlling interests	27	28	0	1	1
Net profit - as reported	-116	-1,136	-119	-58	-25
Non-GAAP adjustment					
Non - GAAP OP	-233	-440	-12	10	52
Non-GAAP Net income	89	-961	-13	53	91
Non-GAAP Core NI	80	-197	37	53	91
Non-GAAP EPADS (USD)	0.15	-1.49	-0.02	0.08	0.14
Non-GAAP Core EPADS (USD)	0.13	-0.31	0.06	0.08	0.14

Financial ratios

	FY21	FY22	FY23E	FY24E	FY25E
Year ended	28 Feb	28 Feb	28 Feb	29 Feb	28 Feb
yoy (%)					
Revenue	37.3	-2.3	-74.9	22.1	17.6
Gross Profit	35.6	-10.6	-70.1	23.4	17.6
Operating profit - as reported	n.a.	40.2	-80.7	-15.2	-36.6
Net profit - as reported	5.3	879.5	-89.5	-51.3	-57.6
Non-GAAP OP	n.a.	88.5	-97.2	n.a.	394.0
Non-GAAP NI	1,048.1	n.a.	-98.7	n.a.	70.7
Non-GAAP Core NI	-22.9	-72.0	n.a.	n.a.	134.4

Margins (%)

Gross margin	54.4	49.8	59.4	60.0	60.0
OPM - as reported	-9.7	-14.0	-10.8	-7.5	-4.0
NPM - as reported	0.6	0.6	0.0	0.1	0.1
OPM - Non-GAAP	-5.2	-10.0	-1.1	0.8	3.3
NPM - Non GAAP	2.0	-21.9	-1.1	4.0	5.8
Core NPM - Non GAAP	1.8	-4.5	3.4	4.0	5.8

Effective tax rate (%)	31.1	-51.0	9.1	20.0	n.a.
Current ratio (x)	2.4	4.0	4.1	3.7	3.4
Net cash/equity (%)	142.7	86.6	83.0	81.2	0.8

Returns (%)

Asset turnover (x)	0.5	0.5	0.2	0.3	0.3
Financial leverage (x)	2.3	1.9	1.3	1.3	1.3
EBIT margin (%)	-9.7	-14.0	-10.8	-7.5	-4.0
Interest burden (x)	0.5	1.3	1.1	0.7	0.5
Tax burden (x)	-0.4	0.3	-0.3	-0.7	-2.8
ROE (%)	2.1	-4.3	0.9	1.4	2.4
P/E (x)	35.4	n.a.	76.6	53.2	31.1
P/S (x)	0.6	0.6	2.6	2.1	1.8

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Regulatory Disclosure

Please refer to the important disclosures on our website <http://www.newone.com.hk/cmshk/gb/disclosure.html> or <http://www.cmschina.com.hk/Research/Disclosure>.

Disclaimer

This document is prepared by China Merchants Securities (HK) Co Limited. The information contained herein has been obtained from or is based on sources believed to be reliable. China Merchant Securities (HK) Co Limited, its holding company or affiliated companies, or any of its or their directors, officers or employees (collectively "CMS") do not represent or warrant, expressly or impliedly, that it is accurate, correct or complete and it should not be relied upon. CMS will not accept any responsibility or liability whatsoever for any use of or reliance upon this document or any of the content thereof.

This document is for information purpose only. Neither the information nor opinion expressed shall be construed, expressly or impliedly, as an advice, offer or solicitation of an offer, invitation, advertisement, inducement, recommendation or representation of any kind or form whatsoever to buy or sell any security, financial instrument or any investment or other specific product. The securities, instruments or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to participate in some or all of them. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. CMS is not registered as a broker-dealer in the United States and its products and services are not available to U.S. persons except as permitted under SEC Rule 15a-6.

Opinions, and associated estimates and forecasts, or any content and information in this document are only current as of the date of their publication and will be subject to change without prior notice. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realized. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Opinions expressed herein may differ or be contrary to those expressed by other business divisions or other members of CMS as a result of using different assumptions and/or criteria.

This document has been prepared without regard to the individual financial circumstances and investment

objectives of the persons who receive it. Use of any information herein shall be at the sole discretion and risk of the user. Investors are advised to independently evaluate particular investments and strategies, take financial and/or tax advice as to the implications (including tax) of investing in any of the securities or products mentioned in this document, and make their own investment decisions without relying on this publication.

CMS may have a long or short position, make markets, act as principal or agent, or engage in transactions in securities of companies referred to in this document and may also perform or seek to perform investment banking services or provide advisory or other services for those companies.

This document is for the use of intended recipients only and this document may not be reproduced, distributed or published in whole or in part for any purpose without the prior consent of CMS. CMS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document.

This document is for distribution only under such circumstances as may be permitted by applicable law. This document is not directed at you if CMS is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. In particular, this document is only made available to certain US persons to whom CMS is permitted to make available according to US securities laws, but cannot otherwise be made available, distributed or transmitted, whether directly or indirectly, into the US or to any US person.

In Hong Kong, this document is distributed by China Merchants Securities (HK) Co., Limited, which is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571).

In South Korea, professional clients can get copies of this document (upon request) through China Merchants Securities (Korea) Co., Limited

In the United Kingdom, this document is distributed by China Merchants Securities (UK) Limited. This document is for distribution only to persons who: (i) are persons falling within the definition of "Investment Professionals" pursuant to Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"); (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Financial Promotion Order; or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "Relevant Persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

If there is any inconsistency or ambiguity between the English version and the Chinese version of this disclaimer, the English version shall prevail.

© China Merchant Securities (HK) Co., Limited. All rights reserved.

Hong Kong

China Merchants Securities (HK) Co., Ltd.
Address: 48/F, One Exchange Square, Central, Hong Kong
Tel: +852 3189 6888 Fax: +852 3101 0828