

# Company Report

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

## Kingsoft (3888 HK)

### 3Q22 OP miss on gaming, offset by WPS performance

■ 3Q22 group revenue +22% yoy, inline, OP +15% yoy, miss on expenses. RMB6.06bn net loss from Kingsoft Cloud (KC US) write down

■ WPS's growth driven by subscription business to offset gaming's softer performance, which hinges on uncertain license approvals

■ BUY, TP maintained at HKD34; Valuation remains attractive

### Mixed 3Q22 results, OP missed on higher expenses

Kingsoft 3Q22 revenue reached RMB1.84bn, +22%/flat yoy/qoq, inline. GPM maintained at 80%. OP +15%/-21% yoy/qoq, 23% lower than consensus, mainly due to gaming segment's higher operating expenses, especially from selling and marketing expenses for *JX World III* (剑侠世界3) promotion activities on Aug, which increased RMB56mn qoq. Kingsoft recorded RMB6.49bn impairment provision for its Kingsoft Cloud investment, with the amount nearing the high end of its previous impairment guidance, dragging reported NL to RMB6.06bn. Adj. NP remained loss of RMB88mn (after-tax impairment of RMB5.9bn) vs. RMB82mn loss in 2Q22. Operating cash flow lowered to RMB288mn vs. RMB865mn in 2Q22, while net cash plus short term investment remains stable at RMB17.3bn.

### Gaming challenged by macro and uncertain license approvals

Gaming revenue +18%/-8% yoy/qoq in 3Q22 (vs. +31%/-7% yoy/qoq in 2Q22) to RMB832mn, 4% above our estimate, mainly driven by robust performance of its *JX World III* (剑侠世界3) and *JX1: Gui Lai* (剑网1: 归来), but partly offset by decreased revenue from existing games. Going forward, Mgmt. forecasts FY22E gaming revenue growth to be slightly lower than 20% yoy, given macro weakness, suspension of gaming licenses, and corresponding gaming pipeline delays. For example, Mgmt. expects to launch *Moyu 2* (魔域2) in mid-Jan 2023, which is 1-mo delay compared to previous plan. For key new games pending for game licenses approval such as *Project Snow* (尘白禁区) and *Code Mask* (彼界), Mgmt. plans to delay the launch time from 1Q23 to 2Q23 and, if license cannot be obtained by 2Q23, will consider to launch overseas first. We forecast gaming revenue to decrease 2% yoy in 4Q22E, due to headwinds and higher base last year, but supported by the release of new DLC of *JX3OL* (剑网3) (launched on Oct 27, Figure 13).

### WPS to maintain fast growth driven by subscription business

WPS 3Q22 revenue +25%/+9% yoy/qoq (vs. +18%/+6% yoy/qoq in 2Q22) to RMB1.0bn, inline, mainly driven by fast growth from subscription business (toC + toB) and less drag from institutional licensing business. Going forward, we expect WPS revenue growth to maintain acceleration trend, driven by: 1) ToC: paid users and pricing increase; 2) ToB: Demand increase amid technology innovation and self-sufficiency related policy push, and WPS's digital one-stop office platform (数字办公平台) penetration increase.

### Maintain BUY, valuation remains attractive from WPS angle

We forecast FY23/24E group revenue to grow 20%/17% yoy. Our next 12-mo SOTP-TP remained at HKD34 on: 1) Earnings revision (Figure 8) due to more conservative on gaming's revenue and margin performance; 2) Lower gaming segment P/E to 8x from 10x previously; 3) Roll-forward and FX changes. We see emerging value, as current share price implies 23x/4x forward P/E for WPS/gaming and zero value for Kingsoft Cloud, with WPS at a massive discount c.73% to traded value in A-share market. Kingsoft currently trades at 17.8x P/NOPAT, in our view remains attractive given WPS long term growth potential. **Key risks:** 1) Game pipeline; 2) Macro consumption; 3) Competition; 4) Regulation.

### Financials

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	5,594	6,371	7,560	9,043	10,614
yoy growth (%)	28	14	19	20	17
Adjusted net profit to shareholders	1,274	-228	-28	527	869
yoy growth (%)	136	n.a.	(88)	n.a.	65
Adj. diluted EPS (HKD)	1.1	-0.2	-0.02	0.4	0.7
P/NOPAT (x)	19.2	28.1	22.4	17.8	14.1
NOPAT ROE (%)	5.6	4.0	6.3	7.5	8.9

Note: Closing price as of Nov 15, 2022, Sources: Bloomberg, Company, CMS (HK) estimates

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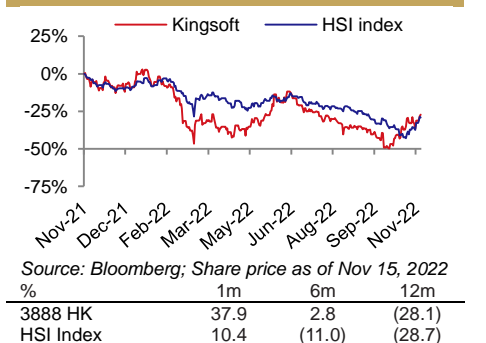
## WHAT'S NEW

3Q22 results; Earnings revision

## BUY

Previous	BUY
Price (Nov 15, 2022)	HKD26.3
12-month Target Price (Potential up/downside)	HKD34 (+29.5%)
Previous	HKD34

### Price Performance



### Sector: TMT

Hang Seng Index (Nov 15, 2022)	18,343
MSCI China (Nov 15, 2022)	60

### Key Data

52-week range (HKD)	17 - 39
Market cap (USD mn)	35.8
Avg. daily volume (mn)	8.93
FY23E Adj diluted EPS (HKD)	0.4

### Shareholding Structure

Lei Jun	22.7%
Tencent Holdings Limited	7.8%
Pak Kwan Kau	7.3%
Others	0.2%
Free float	62%

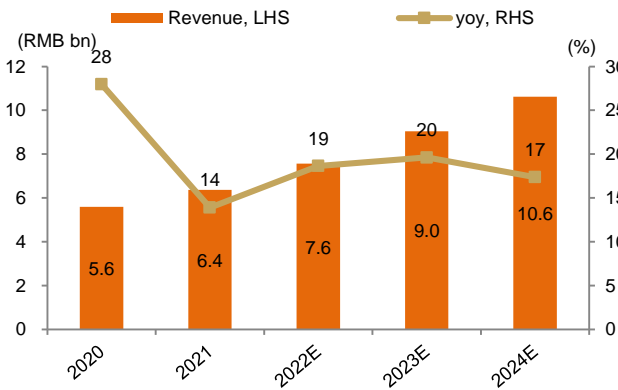
Sources: Bloomberg, Wind, CMS (HK) research

### Related Research

- Kingsoft (3888 HK) - Steady growth intact driven by WPS acceleration (BUY) (Nov. 8, 2022)
- Kingsoft (3888 HK) - Value emerging on short-term headwinds (BUY) (Sept 7, 2022)
- Kingsoft (3888 HK) - Improving outlook on gaming recovery (BUY) (July 7, 2022)

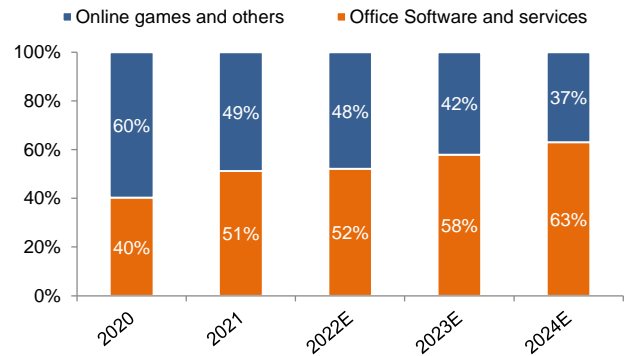
Focus charts

Figure 1: Total revenue



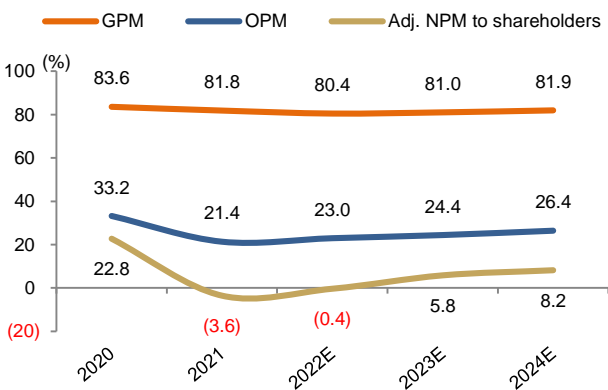
Sources: Company, CMS (HK) estimates

Figure 2: Segment as % of total revenue



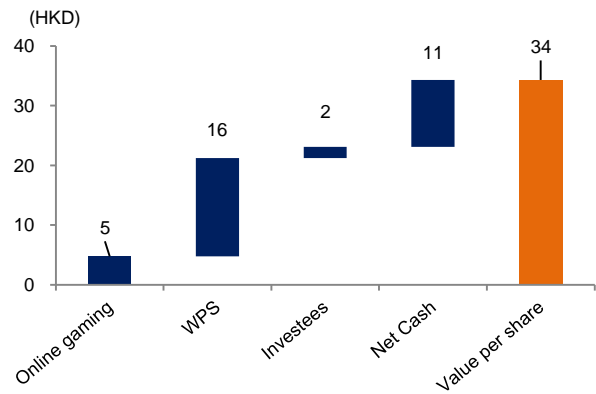
Sources: Company, CMS (HK) estimates

Figure 3: Margin trends



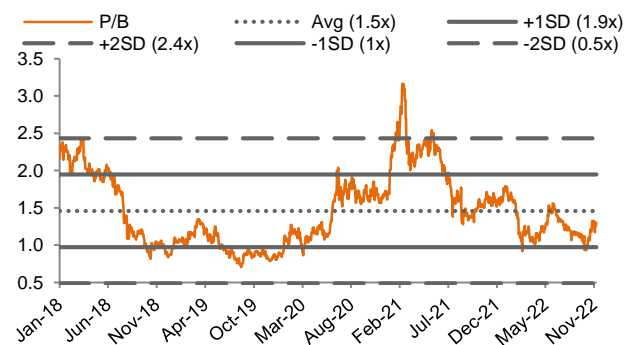
Sources: Company, CMS (HK) estimates

Figure 4: SOTP valuation



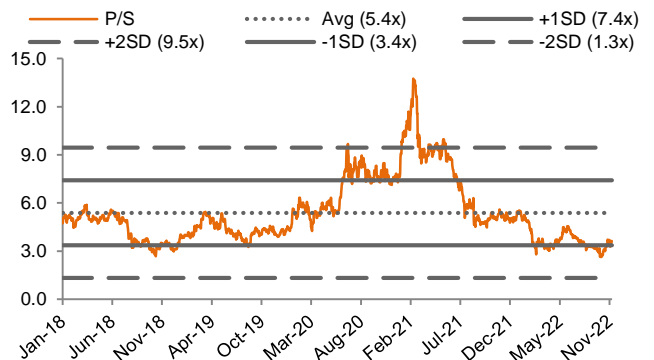
Sources: Company, CMS (HK) estimates

Figure 5: P/B range



Sources: Company, Bloomberg, CMS (HK) estimates

Figure 6: P/S range



Sources: Company, Bloomberg, CMS (HK) estimates

Figure 7: Kingsoft's 3Q22 results

RMB mn	3Q21	2Q22	3Q22	yoy		qoq		Actual vs CMS		Actual vs Consensus	
				2Q22	3Q22	2Q22	3Q22	3Q22E	% diff	3Q22E	% diff
<b>Revenue</b>	<b>1,510</b>	<b>1,834</b>	<b>1,837</b>	<b>24%</b>	<b>22%</b>	<b>-1%</b>	<b>0%</b>	<b>1,802</b>	<b>2%</b>	<b>1,845</b>	<b>0%</b>
Online games and others	706	910	832	31%	18%	-7%	-8%	798	4%		
Office software and services	804	925	1,005	18%	25%	6%	9%	1,004	0%		
<b>Gross profit</b>	<b>1,241</b>	<b>1,468</b>	<b>1,466</b>	<b>22%</b>	<b>18%</b>	<b>-2%</b>	<b>0%</b>	<b>1,436</b>	<b>2%</b>	<b>1,478</b>	<b>-1%</b>
R&D Expense	(621)	(642)	(642)	21%	3%	6%	0%	(596)	8%		
S&M Expenses	(243)	(283)	(356)	-9%	47%	5%	26%	(288)	23%		
G&A Expenses	(134)	(153)	(156)	15%	17%	4%	2%	(146)	7%		
Share-based Compensation Costs	(74)	(63)	(64)	54%	-14%	-15%	1%	(63)	1%		
Other income & expenses	117	92	83	143%	-29%	-4%	-11%	90	-8%		
<b>Operating profit</b>	<b>287</b>	<b>419</b>	<b>332</b>	<b>82%</b>	<b>15%</b>	<b>-16%</b>	<b>-21%</b>	<b>433</b>	<b>-23%</b>	<b>429</b>	<b>-23%</b>
Other gains/(loss)	734	6	(6,487)	-88%	n.a.	-75%	n.a.	(6,000)	8%		
Finance income, net	73	71	67	6%	-8%	-9%	-5%	98	-31%		
Share of Associates/ JV	(292)	(417)	(418)	92%	43%	50%	0%	(393)	6%		
<b>Income before tax</b>	<b>801</b>	<b>78</b>	<b>(6,506)</b>	<b>-38%</b>	<b>n.a.</b>	<b>-76%</b>	<b>n.a.</b>	<b>(5,862)</b>	<b>11%</b>		
Income tax	(97)	(29)	588	n.a.	n.a.	-14%	n.a.	0	n.a.		
<b>Net income</b>	<b>704</b>	<b>49</b>	<b>(5,918)</b>	<b>-68%</b>	<b>n.a.</b>	<b>-83%</b>	<b>n.a.</b>	<b>(5,862)</b>	<b>1%</b>		
<b>Net income to shareholder</b>	<b>565</b>	<b>(139)</b>	<b>(6,055)</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>4243%</b>	<b>(6,053)</b>	<b>0%</b>		
<b>Adj. net profit to shareholder</b>	<b>(95)</b>	<b>(82)</b>	<b>(88)</b>	<b>n.a.</b>	<b>-7%</b>	<b>n.a.</b>	<b>7%</b>	<b>10</b>	<b>n.a.</b>		
<b>OCF</b>	<b>490</b>	<b>865</b>	<b>288</b>								
<b>Total cash</b>	<b>18,475</b>	<b>19,420</b>	<b>19,848</b>								
<b>Net cash (debt)</b>	<b>16,246</b>	<b>17,006</b>	<b>17,261</b>								
<b>Total equity</b>	<b>28,266</b>	<b>29,159</b>	<b>23,791</b>								
<b>Net cash/equity</b>	<b>57%</b>	<b>58%</b>	<b>73%</b>								
<b>Margin analysis (%)</b>											
Gross margin	82.2	80.0	79.8	-1.6ppt	-2.4ppt	-1.1ppt	-0.2ppt	79.7	0.1ppt	80.1	-0.3ppt
Operating margin	19.0	22.8	18.1	7.3ppt	-1.0ppt	-4.1ppt	-4.8ppt	24.0	-6.0ppt	23.3	-5.2ppt
NP after minority	37.4	(7.6)	(329.6)	-10.9ppt	-367.0ppt	-13.0ppt	-322.0ppt	(335.9)	6.3ppt		
Adj. NP after minority	(6.3)	(4.5)	(4.8)	-7.3ppt	1.5ppt	-12.6ppt	-0.3ppt	0.6	-5.4ppt		

Sources: Company, Bloomberg, CMS (HK) estimates

Figure 8: Kingsoft's earnings revision

RMB mn	Revised			Previous			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,560	9,043	10,614	7,663	9,263	10,921	-1%	-2%	-3%
Online games and others	3,624	3,805	3,919	3,727	4,026	4,227	-3%	-5%	-7%
Office software and services	3,936	5,238	6,695	3,935	5,238	6,695	0%	0%	0%
Gross profit	6,081	7,325	8,697	6,155	7,491	8,928	-1%	-2%	-3%
Operating profit	1,736	2,207	2,803	1,902	2,346	2,882	-9%	-6%	-3%
Online games and others	894	977	1,096	1,056	1,115	1,175	-15%	-12%	-7%
Office software and services	842	1,230	1,707	846	1,230	1,707	0%	0%	0%
Adj. net income to shareholders	(28)	527	869	167	605	960	-117%	-13%	-9%
<b>Margins (%)</b>									
Gross margin	80.4	81.0	81.9	80.3	80.9	81.7	0.1ppt	0.1ppt	0.2ppt
Operating margin	23.0	24.4	26.4	24.8	25.3	26.4	-1.9ppt	-0.9ppt	0.0ppt
Online games and others	24.7	25.7	28.0	28.3	27.7	27.8	-3.7ppt	-2.0ppt	0.2ppt
Office software and services	21.4	23.5	25.5	21.5	23.5	25.5	-0.1ppt	0.0ppt	0.0ppt
Adj. net margin to shareholders	(0.4)	5.8	8.2	2.2	6.5	8.8	-2.5ppt	-0.7ppt	-0.6ppt
<b>yoY (%)</b>									
Revenue	18.7	19.6	17.4	20.3	20.9	17.9	-1.6ppt	-1.3ppt	-0.5ppt
Online games and others	16.6	5.0	3.0	20.0	8.0	5.0	-3.3ppt	-3.0ppt	-2.0ppt
Office software and services	20.6	33.1	27.8	20.5	33.1	27.8	0.0ppt	0.0ppt	0.0ppt
Gross profit	16.6	20.5	18.7	18.0	21.7	19.2	-1.4ppt	-1.3ppt	-0.4ppt
Operating profit	27.6	27.1	27.0	39.8	23.3	22.9	-12.2ppt	3.8ppt	4.1ppt
Online games and others	56.3	9.3	12.2	84.6	5.6	5.4	-28.4ppt	3.7ppt	6.8ppt
Office software and services	6.8	46.1	38.7	7.3	45.5	38.7	-0.5ppt	0.7ppt	0.0ppt
Adj. net income to shareholders	(87.9)	n.a.	64.9	n.a.	261.9	58.8	n.a.	n.a.	6.1ppt

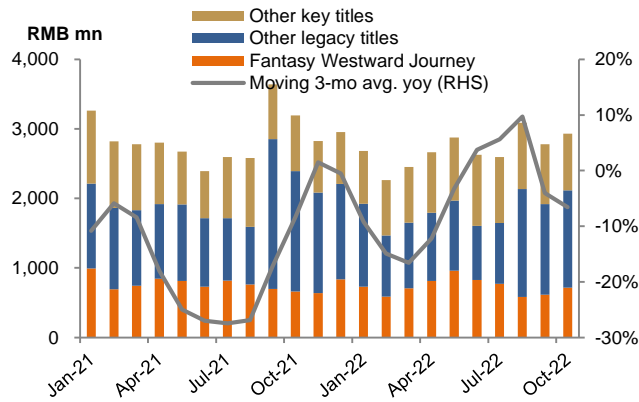
Sources: Company, Bloomberg, CMS (HK) estimates

Figure 9: Kingsoft's earnings vs. consensus

RMB mn	CMS forecasts			Consensus			Diff %		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,560	9,043	10,614	7,621	9,275	10,451	-1%	-3%	2%
Gross margin (%)	80.4	81.0	81.9	81.1	81.2	80.8	-0.7ppt	-0.2ppt	1.1ppt
Operating profit	1,736	2,207	2,803	1,844	2,258	2,617	-6%	-2%	7%
Operating margin (%)	23.0	24.4	26.4	24.2	24.3	25.0	-1.2ppt	0.1ppt	1.4ppt
Profit before tax	(5,984)	1,240	1,889	(737)	1,894	2,306	712%	-35%	-18%
NP to shareholders	(6,173)	229	551	261	488	935	-2468%	-53%	-41%
Adj. NP to shareholders	(28)	527	869	240	628	961	-111%	-16%	-9%
Adj. NPM to shareholders (%)	(0.4)	5.8	8.2	3.2	6.8	9.2	-3.5ppt	-0.9ppt	-1.0ppt

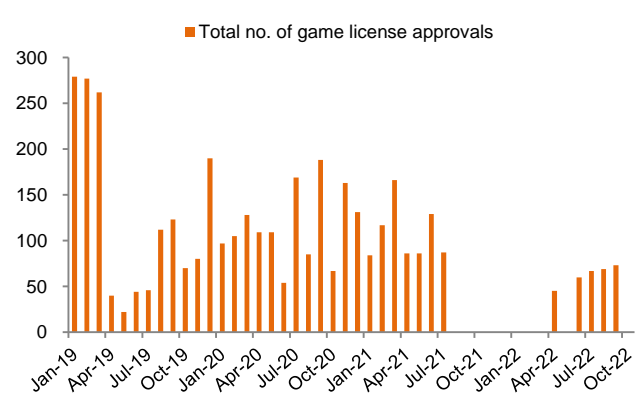
Sources: Company, Bloomberg, CMS (HK) estimates; Data as of Nov 16, 2022

Figure 10: Kingsoft key titles' gross billings performance



Sources: Qimai, Company, CMS (HK)

Figure 11: No. of game license approved since 2019



Sources: NPPA, CMS (HK)

Figure 12: Kingsoft's key gaming pipeline

EN Name	CN Name	Country/Regions	Version	Licensed (Y/N)	Release Date(tentative)	Type	Latest update
<b>Domestic games</b>							
JX3: Yuanqi	剑网3: 缘起	China	PC	Y	2022.5	MMORPG	
Pop Superman	全民泡泡超人	China	Mobile	Y	2022.6	PVP	Cooperate with Xiaoguo and Bubble Mart
Biphase	双相	China	Mobile	Y	2022.11	RPG	
Moyu 2	魔域手游2	China	Mobile	Y	1Q23E	MMORPG	
Wolongyin	卧龙吟	China	Mobile	Y	2023E	SLG	
Code: Mask	彼界	China	Mobile	N	2Q23E	CAG	Waiting for gaming license
Project Snow	尘白禁区	China	Mobile	N	2Q23E	TPS	Waiting for gaming license
Ballads of Hongye	东方: 平野孤鸿	China	Mobile	N	TBA	SIM	Free testing version available on Steam
Journey Of Abyss	阿比斯幻境	China	Mobile	N	TBA	AVG	
Project Cat	我和我的猫	China	Mobile	N	TBA	EDU	
NewDawn	NewDawn	China	Mobile	N	TBA	MMORPG	Testing
Code B.R.E.A.K	Code B.R.E.A.K	China	PC	N	TBA	STG	Testing
<b>Overseas games</b>							
JX World 3	剑侠世界3	Vietnam/ Korea	Mobile		4Q22E/in the early 23E	MMORPG	
Wulinxianxia	武林闲侠	Vietnam/ Korea	Mobile		4Q22E	SLG	

Sources: Company, Steam, CMS (HK)

Figure 13: Kingsoft's JX3 launched new DLC in Oct 27



Sources: Company, Weibo, CMS (HK)

Figure 14: Moyu 2 (魔域2) is expected to be released in 1Q23E



Sources: TapTap, CMS (HK)

Figure 15: Policies overview relating to technology innovation: Kingsoft is one of the beneficiaries

Date	Objects/Source	Policy/Event	Content
2015/1	State Council	Opinion of the State Council on Promoting the Innovative Development of Cloud Computing and Cultivating New Business Forms of the Information Industry 《关于促进云计算创新发展培育信息产业新业态的意见》	It is necessary to accelerate the development of cloud computing and create a new business form for the information industry
2016/6	G20 Hangzhou Summit	the G20 Digital Economy Development and Cooperation Initiative 《二十国集团数字经济与合作倡议》	For the first time, the "digital economy" is listed as an important topic in the G20's blueprint for innovation and growth
2016/11	NPC	The Cybersecurity Law of the People's Republic of China 《中华人民共和国网络安全法》	Strengthen cybersecurity management
2016/12	MIIT	Guiding Opinions on Further Advancing the Informatization of Small and Medium-sized Enterprises 《关于进一步推进中小企业信息化的指导意见》	Further improve the application level of information technology in small and medium-sized enterprises, and enhance the vitality of entrepreneurship and innovation
2016/12	State Council	Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China 《“十三五”国家信息化规划》	Accelerate the development of informatization
2017/4	MIIT	Three-year Action Plan for Cloud Computing Development (2017-2019) 《云计算发展三年行动计划(2017-2019年)》	Promote the healthy and rapid development of cloud computing
2018/4	State Council	Measures for the Management of Scientific Data 《科学数据管理办法》	Further strengthen and standardize scientific data management and ensure scientific data security
2018/9	MIIT	Implementation Guide for Promoting the Migration of Enterprises to the Cloud (2018-2020) 《推动企业上云实施指南(2018-2020年)》	Encourage enterprises to use cloud computing to accelerate digital, network, and intelligent transformation, and promote the deep integration of the Internet, big data and artificial intelligence with the real economy
2019/7	MIIT	Special Action Plan for Telecommunication and Internet Industry to Improve Network Data Security Protection Capability 《电信和互联网行业提升网络数据安全保护能力专项行动方案》	Accelerate the construction of a comprehensive security system for industry network data security
2020/4	NDRC and CAC	Implementation Plan for Promoting the Actions of "Migrating to Cloud, Using Digital Tools and Enabling Intelligence" and Fostering the Development of New Economy 《关于推进“上云用数赋智”行动培育新经济发展实施方案》	Deeply implement the digital economy strategy and accelerate digital industrialization and industrial digitization
2020/9	State Council	Notice on Accelerating the Digital Transformation of State-owned Enterprises 《关于加快推进国有企业数字化转型工作的通知》	State-owned enterprises shall give full play as a leading role in the state-owned economy, and take the initiative to grasp and lead the new generation of information technology transformation trends
2021/6	NPC	Data Security Law 《数据安全法》	Approved by the 29 <sup>th</sup> meeting of the Standing Committee of the 13 <sup>th</sup> National People's Congress and officially promulgated, it will come into force on September 1, 2021
2021/8	NPC	Personal Information Protection Law of the People's Republic of China 《个人信息保护法》	Comprehensive regulations on citizens' rights in processing personal information, obligations of personal information processors, cross-border transfer of personal information, etc.
2022/1	State Council	The "14th Five-Year" Development Plan for the Digital Economy 《“十四五”数字经济发展规划》	Continuously improve digital infrastructure, accelerate the cultivation of new business forms and new models, and achieve positive results in promoting digital industrialization and industrial digitization
2022/5	CPC Central Committee and State Council	Opinions on the Implementation of the National Cultural Digitalization Strategy 《关于推进实施国家文化数字化战略的意见》	Generally build a cultural digital infrastructure and service platform, and form a cultural service supply system that promotes online and offline interaction with comprehensive coverage
2022/6	State Council	Guiding Opinions of the State Council on Strengthening the Building of a Digital Government 《关于加强数字政府建设的指导意见》	In line with the trend of digital transformation of the economy and society, fully release the dividends of digital development, further increase efforts, make breakthroughs in reform, innovate and develop, and comprehensively create a new situation in the construction of digital government.
2022/10	State Council	Guidance on the Construction of National Integrated Government Affairs Big Data System 《全国一体化政务大数据体系建设指南》	Integrate and build a national integrated government big data system with unified standards, reasonable layout, coordinated management, safety and reliability, strengthen data aggregation, sharing, opening, development and utilization, promote the lawful and orderly flow of data, and give full play to government data in improving the government's ability to perform its duties. important role in supporting the construction of digital government and promoting the modernization of national governance system and governance capacity

Sources: Governments above, CMS (HK)

Figure 16: Kingsoft's SOTP valuation table

RMB mn	Valuation metrics	Next 12-month core earnings before MI	Valuation multiple (x)	Valuation	Ownership	Value contribution to Kingsoft	% of total value	Previous Value	Current share price backtest estimate
<b>Online gaming</b>	P/E	1,024	8	8,194	72.0%	5,899	14%	8,251	4
<b>WPS</b>	P/E	1,296	30	38,867	52.7%	20,487	48%	18,703	23
<b>Total core business value</b>						<b>26,387</b>		<b>26,954</b>	
<b>Investees</b>		<b>Next 12-month revenue</b>							
Kingsoft Cloud (KC US)	P/S	10,779	0.5	5,390	37.4%	2,016	5%	1,942	0
Cheetah mobile (CMCM US)	Market cap			382	47.5%	181	0%	279	
<b>Total investees value</b>						<b>2,197</b>	<b>5%</b>	<b>2,221</b>	
<b>Net Cash</b>						13,951	33%	13,951	13,951
<b>Total group value (RMB mn)</b>						<b>42,535</b>		<b>43,126</b>	<b>32,607</b>
RMB/HKD						0.90		0.93	0.90
Total market cap (HKD mn)						47,261		46,372	36,230
# of shares (mn)						1,380		1,380	1,380
<b>Per share value (HKD)</b>						<b>34</b>		<b>34</b>	<b>26</b>
<b>TP implied P/NOPAT* (x)</b>									
FY22E						19			15
FY23E						21			16
FY24E						17			13
<b>Target value excl. net cash implied P/NOPAT (x)</b>									
FY22E						13			8
FY23E						14			9
FY24E						11			7

\* We use NOPAT to focus on recurring profitable segments; Note: Closing price as of Nov. 15, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

Valuation comparison

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (X)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY23E	Sales	EPS	EBITDA
<b>Platform</b>																		
Tencent	700 HK	HKD	BUY	288.0	459.0	352.7	12.9	10.4	21.0	16.4	3.4	4.1	16.6	12.3	14.1	7.7	6.3	8.7
Alibaba	BABA US	USD	BUY	79.3	142.0	209.9	6.0	5.6	9.6	10.6	n.a.	1.6	10.4	15.2	13.1	8.8	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	166.4	261.0	131.6	n.a.	n.a.	n.a.	n.a.	n.a.	3.9	n.a.	n.a.	8.4	24.9	n.a.	n.a.
Baidu	BIDU US	USD	NR	99.7	n.a.	34.5	6.6	5.7	13.0	11.1	3.0	2.0	9.1	6.1	7.5	6.0	4.3	23.7
Alphabet	GOOGL US	USD	NR	98.4	n.a.	1,275.9	10.3	9.4	17.0	15.0	1.0	5.3	12.6	25.5	26.0	8.0	16.5	21.7
Facebook	FB US	USD	NR	117.1	n.a.	310.4	5.9	6.2	11.6	13.3	n.a.	2.7	6.6	19.6	18.0	6.9	n.a.	n.a.
Naver	035420 KS	KRW	NR	192,000.0	n.a.	24.0	18.7	16.7	33.6	25.3	n.a.	3.9	22.6	4.0	5.1	15.4	n.a.	2.3
<b>China Mean</b>							<b>8.0</b>	<b>6.9</b>	<b>13.4</b>	<b>12.2</b>	<b>3.2</b>	<b>2.6</b>	<b>11.7</b>	<b>12.2</b>	<b>11.2</b>	<b>11.2</b>	<b>5.3</b>	<b>16.2</b>
<b>Global Mean</b>							<b>11.6</b>	<b>10.8</b>	<b>20.7</b>	<b>17.9</b>	<b>1.0</b>	<b>3.9</b>	<b>13.9</b>	<b>16.4</b>	<b>16.3</b>	<b>10.1</b>	<b>16.5</b>	<b>12.0</b>
<b>Cloud</b>																		
Chinasoft	354 HK	HKD	BUY	6.9	10.0	2.7	9.4	9.4	13.4	11.3	1.1	0.8	47.4	10.7	11.5	21.7	11.7	4.5
Tencent	700 HK	HKD	BUY	288.0	459.0	352.7	12.9	10.4	21.0	16.4	3.4	4.1	16.6	12.3	14.1	7.7	6.3	8.7
Alibaba	BABA US	USD	BUY	79.3	142.0	209.9	6.0	5.6	9.6	10.6	n.a.	1.6	10.4	15.2	13.1	8.8	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	26.3	34.0	4.6	10.9	8.7	n.a.	n.a.	n.a.	4.4	n.a.	n.a.	2.1	19.1	n.a.	26.5
Kingdee	268 HK	HKD	NR	15.5	n.a.	6.9	n.a.	n.a.	n.a.	n.a.	n.a.	9.7	n.a.	n.a.	n.a.	22.7	n.a.	n.a.
Mingyuan Cloud	909 HK	HKD	NR	6.9	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	5.8	n.a.	n.a.	n.a.	6.0	n.a.	n.a.
KC Cloud	KC US	USD	NR	3.4	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	8.9	n.a.	n.a.
Microsoft	MSFT US	USD	NR	242.0	n.a.	1,803.8	19.4	17.3	27.2	24.9	n.a.	10.0	22.2	42.9	36.7	n.a.	n.a.	n.a.
Alphabet	GOOGL US	USD	NR	98.4	n.a.	1,275.9	10.3	9.4	17.0	15.0	1.0	5.3	12.6	25.5	26.0	8.0	16.5	21.7
Amazon	AMZN US	USD	NR	98.9	n.a.	1,009.4	15.4	13.1	49.6	30.2	n.a.	2.0	19.9	0.0	12.7	15.3	0.8	17.7
Salesforce	CRM US	USD	NR	162.1	n.a.	162.1	36.3	16.3	n.a.	33.9	n.a.	6.7	29.7	0.9	7.9	n.a.	n.a.	n.a.
Oracle	ORCL US	USD	NR	79.2	n.a.	213.5	21.9	11.7	35.0	16.0	n.a.	5.5	24.6	n.a.	n.a.	n.a.	n.a.	n.a.
VMware	VMW US	USD	NR	116.3	n.a.	49.4	17.4	11.4	29.8	17.9	n.a.	4.2	12.5	32.2	n.a.	n.a.	n.a.	n.a.
Dropbox	DBX US	USD	NR	22.9	n.a.	8.3	10.5	10.1	14.4	13.6	1.3	3.6	10.1	n.a.	n.a.	11.8	10.9	38.9
<b>China Mean</b>							<b>9.8</b>	<b>8.5</b>	<b>14.7</b>	<b>12.8</b>	<b>2.3</b>	<b>3.9</b>	<b>24.8</b>	<b>12.8</b>	<b>10.2</b>	<b>13.6</b>	<b>9.0</b>	<b>13.2</b>
<b>Global Mean</b>							<b>18.7</b>	<b>12.7</b>	<b>28.8</b>	<b>21.6</b>	<b>1.2</b>	<b>5.3</b>	<b>18.8</b>	<b>20.3</b>	<b>20.8</b>	<b>11.7</b>	<b>9.4</b>	<b>26.1</b>
<b>Social network &amp; pan-entertainment</b>																		
Tencent	700 HK	HKD	BUY	288.0	459.0	352.7	12.9	10.4	21.0	16.4	3.4	4.1	16.6	12.3	14.1	7.7	6.3	8.7
Bilibili	BILI US	USD	BUY	16.3	31.0	6.5	n.a.	n.a.	n.a.	n.a.	n.a.	1.9	n.a.	n.a.	n.a.	20.8	n.a.	n.a.
China Literature	772 HK	HKD	HOLD	28.0	68.0	3.6	14.1	11.1	19.4	16.1	1.3	3.1	16.0	6.4	7.9	3.4	14.5	n.a.
Kuaishou	1024 HK	HKD	NR	52.2	n.a.	28.7	n.a.	44.6	n.a.	n.a.	n.a.	2.2	n.a.	n.a.	n.a.	16.3	n.a.	n.a.
Tencent Music	TME US	USD	NR	17.5	n.a.	7.7	7.3	6.5	11.8	10.6	n.a.	1.9	19.8	5.7	5.9	n.a.	n.a.	14.3
Weibo	WB US	USD	NR	15.4	n.a.	3.6	5.7	4.9	6.9	6.2	n.a.	1.9	10.6	8.6	11.1	1.5	n.a.	n.a.
iQiyi	IQ US	USD	NR	3.1	n.a.	2.7	9.1	10.9	n.a.	21.8	n.a.	0.7	n.a.	4.1	8.7	n.a.	n.a.	n.a.
YY	YY US	USD	NR	32.3	n.a.	2.3	n.a.	n.a.	16.0	13.2	0.4	0.9	11.0	1.2	2.6	4.5	41.2	95.9
Momo	MOMO US	USD	NR	6.2	n.a.	1.2	0.6	0.5	5.0	4.7	n.a.	0.7	4.9	13.1	13.0	n.a.	n.a.	n.a.
Huya	HUYA US	USD	NR	3.2	n.a.	0.8	6.8	11.1	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Douyu	DOYU US	USD	NR	1.4	n.a.	0.4	19.4	n.a.	n.a.	37.9	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Meta	FB US	USD	NR	117.1	n.a.	310.4	5.9	6.2	11.6	13.3	n.a.	2.7	6.6	19.6	18.0	6.9	n.a.	n.a.
Netflix	NFLX US	USD	NR	310.2	n.a.	138.0	23.5	21.0	27.2	25.9	n.a.	4.4	n.a.	24.8	21.1	12.0	4.7	6.7
Snapchat	SNAP US	USD	NR	11.8	n.a.	19.0	n.a.	29.0	n.a.	n.a.	n.a.	4.0	n.a.	n.a.	n.a.	17.6	n.a.	n.a.
Spotify	SPOT US	USD	NR	85.1	n.a.	16.4	n.a.	n.a.	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	15.0	n.a.	n.a.
<b>China Mean</b>							<b>9.5</b>	<b>12.5</b>	<b>13.4</b>	<b>15.9</b>	<b>1.7</b>	<b>1.7</b>	<b>13.2</b>	<b>7.3</b>	<b>9.0</b>	<b>10.7</b>	<b>20.7</b>	<b>39.6</b>
<b>Global Mean</b>							<b>14.7</b>	<b>18.7</b>	<b>19.4</b>	<b>19.6</b>	<b>n.a.</b>	<b>3.1</b>	<b>6.6</b>	<b>22.2</b>	<b>19.6</b>	<b>12.9</b>	<b>4.7</b>	<b>6.7</b>

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (X)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY22E	FY22E	FY23E	Sales
<b>Online Gaming</b>																		
Netease	NTES US	USD	BUY	71.6	120.0	47.0	8.4	7.8	14.3	14.0	2.0	3.3	14.3	21.4	18.8	10.8	7.0	15.4
Tencent	700 HK	HKD	BUY	288.0	459.0	352.7	12.9	10.4	21.0	16.4	3.4	4.1	16.6	12.3	14.1	7.7	6.3	8.7
Bilibili	BILI US	USD	BUY	16.3	31.0	6.5	n.a.	n.a.	n.a.	n.a.	n.a.	1.9	n.a.	n.a.	n.a.	20.8	n.a.	n.a.
<b>Kingsoft</b>	<b>3888 HK</b>	<b>HKD</b>	<b>BUY</b>	<b>26.3</b>	<b>34.0</b>	<b>4.6</b>	<b>10.9</b>	<b>8.7</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>4.4</b>	<b>n.a.</b>	<b>n.a.</b>	<b>2.1</b>	<b>19.1</b>	<b>n.a.</b>	<b>26.5</b>
iDreamSky	1119 HK	HKD	BUY	4.1	4.4	0.7	23.4	11.8	n.a.	n.a.	n.a.	1.8	n.a.	n.a.	3.4	15.8	n.a.	64.3
XD	2400 HK	HKD	NR	5.5	n.a.	0.5	5.5	3.0	11.1	6.1	n.a.	2.6	n.a.	18.0	27.7	50.6	n.a.	30.5
Netdragon	777 HK	HKD	NR	14.7	n.a.	1.0	2.4	2.2	6.3	5.0	0.2	0.9	3.7	14.6	16.7	16.5	25.9	9.9
CMGE	302 HK	HKD	NR	1.6	n.a.	0.6	6.8	4.7	8.6	6.2	0.9	1.1	9.1	7.4	10.2	8.1	10.1	7.3
IGG	799 HK	HKD	NR	2.8	n.a.	0.4	n.a.	14.3	n.a.	13.4	n.a.	0.6	n.a.	n.a.	5.3	2.5	n.a.	n.a.
Archosaur Game	9990 HK	HKD	NR	3.3	n.a.	0.3	n.a.	1.3	n.a.	18.1	n.a.	2.4	n.a.	n.a.	3.8	52.6	n.a.	n.a.
SEA	SE US	USD	NR	62.3	n.a.	35.0	n.a.	n.a.	n.a.	n.a.	n.a.	2.9	n.a.	n.a.	n.a.	26.9	n.a.	n.a.
Nintendo	7974 JP	JPY	NR	5,764.0	n.a.	53.7	9.0	10.3	13.9	16.3	n.a.	3.9	23.0	27.0	21.6	n.a.	n.a.	n.a.
Activision Blizzard	ATVI US	USD	NR	73.9	n.a.	57.8	17.3	12.9	24.9	19.2	4.1	7.2	25.0	11.8	13.3	9.0	6.0	6.8
Electronic Arts	EA US	USD	NR	128.8	n.a.	35.6	23.1	13.1	49.7	17.5	n.a.	5.6	20.7	11.5	20.8	n.a.	n.a.	n.a.
Take-Two	TTWO US	USD	NR	101.0	n.a.	17.0	26.7	19.4	44.7	24.2	n.a.	5.3	n.a.	n.a.	3.3	n.a.	n.a.	n.a.
Nexon	3659 JP	JPY	NR	2,666.0	n.a.	16.6	14.7	11.5	21.1	20.4	n.a.	6.5	21.6	12.6	12.7	13.0	n.a.	14.5
Ncsoft	036570 KS	KRW	NR	456,500.0	n.a.	7.6	12.0	11.4	19.7	19.2	2.2	3.9	15.0	15.7	14.7	5.3	9.1	20.9
Zynga	ZNGA US	USD	NR	8.2	n.a.	9.3	16.2	14.8	25.9	20.5	n.a.	3.3	15.4	n.a.	n.a.	8.4	n.a.	54.2
Netmarble	251270 KS	KRW	NR	52,400.0	n.a.	3.4	33.5	17.0	n.a.	30.9	n.a.	1.7	(18.5)	n.a.	2.6	5.7	n.a.	2.5
<b>China Mean</b>							<b>9.8</b>	<b>7.2</b>	<b>12.5</b>	<b>11.6</b>	<b>1.7</b>	<b>2.4</b>	<b>11.6</b>	<b>15.9</b>	<b>12.1</b>	<b>19.6</b>	<b>11.3</b>	<b>22.3</b>
<b>Global Mean</b>							<b>19.1</b>	<b>13.8</b>	<b>28.6</b>	<b>21.0</b>	<b>3.1</b>	<b>4.5</b>	<b>14.6</b>	<b>15.7</b>	<b>12.7</b>	<b>11.4</b>	<b>7.6</b>	<b>19.8</b>
<b>E-commerce</b>																		
JD.com	JD US	USD	BUY	54.5	72.0	85.1	15.2	11.7	25.3	18.3	0.7	0.5	20.4	10.5	13.2	17.2	34.1	45.3
Alibaba	BABA US	USD	BUY	79.3	142.0	209.9	6.0	5.6	9.6	10.6	n.a.	1.6	10.4	15.2	13.1	8.8	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	166.4	261.0	131.6	n.a.	n.a.	n.a.	n.a.	n.a.	3.9	n.a.	n.a.	8.4	24.9	n.a.	n.a.
Pinduoduo	PDD US	USD	NR	71.0	n.a.	89.7	18.8	15.0	21.9	17.6	0.4	5.1	15.7	27.5	25.8	27.4	54.7	99.8
Beike	BEKE US	USD	NR	14.9	n.a.	18.9	41.6	16.6	n.a.	26.3	2.3	2.1	n.a.	2.0	6.2	n.a.	38.7	14.2
Vipshop	VIPS US	USD	NR	9.2	n.a.	5.8	3.5	3.3	6.9	6.6	n.a.	0.4	6.1	14.0	12.8	n.a.	n.a.	0.4
Baozun	BZUN US	USD	NR	4.4	n.a.	0.3	6.5	4.5	9.0	4.2	0.2	0.2	5.7	1.1	5.4	5.2	45.2	9.2
Amazon	AMZN US	USD	NR	98.9	n.a.	1,009.4	15.4	13.1	49.6	30.2	n.a.	2.0	19.9	0.0	12.7	15.3	0.8	17.7
eBay	EBAY US	USD	NR	47.0	n.a.	25.5	8.5	8.7	10.8	11.5	1.3	2.6	9.0	31.5	47.1	1.9	8.6	1.2
<b>China Mean</b>							<b>15.3</b>	<b>9.8</b>	<b>16.5</b>	<b>14.6</b>	<b>0.9</b>	<b>1.8</b>	<b>13.2</b>	<b>11.6</b>	<b>12.3</b>	<b>16.8</b>	<b>41.3</b>	<b>35.7</b>
<b>Global Mean</b>							<b>11.9</b>	<b>10.9</b>	<b>30.2</b>	<b>20.8</b>	<b>1.3</b>	<b>2.3</b>	<b>14.4</b>	<b>15.8</b>	<b>29.9</b>	<b>8.6</b>	<b>4.7</b>	<b>9.4</b>
<b>Vertical</b>																		
trip.com	TCOM US	USD	NR	29.3	n.a.	18.8	n.a.	23.5	n.a.	20.2	n.a.	6.7	35.1	0.4	3.9	21.7	n.a.	n.a.
Autohome	ATHM US	USD	NR	31.7	n.a.	4.0	3.9	3.2	13.8	13.0	n.a.	4.1	13.1	8.1	8.3	0.6	n.a.	n.a.
Tongcheng-Elong	780 HK	HKD	NR	16.0	n.a.	4.6	26.0	13.5	39.1	20.9	1.1	4.7	32.7	3.8	7.6	9.9	36.1	17.0
Expedia	EXPE US	USD	NR	99.9	n.a.	15.6	6.8	5.9	13.9	10.6	n.a.	1.3	4.1	37.0	40.2	29.4	n.a.	68.6
<b>China Mean</b>							<b>12.2</b>	<b>11.5</b>	<b>22.3</b>	<b>16.2</b>	<b>1.1</b>	<b>4.2</b>	<b>21.3</b>	<b>12.3</b>	<b>15.0</b>	<b>15.4</b>	<b>36.1</b>	<b>42.8</b>

Note: Closing prices as of Nov 15, 2022; For future estimates of NR Co.s, BBG consensus used; Sources: BBG, Company, CMS (HK) estimates

## Financial Summary

### Balance Sheet

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
PPE	1,185	1,259	1,378	1,559	1,778
Investment in JV/ Asso	12,933	12,277	5,611	4,395	3,128
Other non-current assets	1,195	1,348	1,348	1,348	1,348
<b>Total non-current assets</b>	<b>15,313</b>	<b>14,884</b>	<b>8,338</b>	<b>7,303</b>	<b>6,254</b>
Financial assets at fair value through profit or loss	3,911	2,902	7,594	7,594	7,594
Pledge deposit	13	9	9	9	9
Cash and Cash Equivalents	14,049	16,190	12,165	15,513	19,052
Trade receivables	772	839	907	904	1,061
Other current assets	986	1,711	1,909	1,827	1,929
<b>Total current assets</b>	<b>19,732</b>	<b>21,652</b>	<b>22,584</b>	<b>25,848</b>	<b>29,646</b>
<b>Total assets</b>	<b>35,044</b>	<b>36,535</b>	<b>30,922</b>	<b>33,151</b>	<b>35,900</b>
Account Payables	291	423	378	452	531
Other Payables	1,158	1,427	1,512	1,809	2,123
Bank Loans	0	0	0	0	0
Deferred Revenue	1,476	2,003	1,973	2,479	2,934
Other current liabilities	319	243	243	243	243
<b>Total current liabilities</b>	<b>3,244</b>	<b>4,096</b>	<b>4,106</b>	<b>4,982</b>	<b>5,830</b>
Deferred revenue	98	144	144	144	144
Deferred Tax Liabilities	1,059	1,030	312	312	312
Interest-bearing Bank Loans	0	0	0	0	0
Convertible bonds	2,197	2,249	2,587	2,587	2,587
Other non-current liabilities	219	225	225	225	225
<b>Total non-current liabilities</b>	<b>3,573</b>	<b>3,647</b>	<b>3,267</b>	<b>3,267</b>	<b>3,267</b>
<b>Total Shareholders' Equity</b>	<b>24,665</b>	<b>24,784</b>	<b>18,843</b>	<b>19,370</b>	<b>20,217</b>
Minority Interest	3,563	4,008	4,706	5,531	6,586
<b>Total Equity</b>	<b>28,228</b>	<b>28,792</b>	<b>23,548</b>	<b>24,901</b>	<b>26,802</b>
<b>Total equity and liabilities</b>	<b>35,044</b>	<b>36,535</b>	<b>30,922</b>	<b>33,151</b>	<b>35,900</b>

### Cashflow Statement

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
<b>Operating cash flow</b>	<b>2,991</b>	<b>2,220</b>	<b>1,120</b>	<b>3,462</b>	<b>3,632</b>
PBT	2,069	1,143	-5,984	1,240	1,889
Depreciation	404	129	183	181	205
Share-based compensation cost	241	219	272	298	318
Working Capital chg	825	382	-256	961	589
Others	-548	347	6,905	781	630
<b>Investing cash flow</b>	<b>-7,575</b>	<b>-1,605</b>	<b>-4,569</b>	<b>55</b>	<b>98</b>
CAPEX	-493	-302	-302	-362	-425
Change in time deposits	-3,496	-2,084	0	0	0
Others	-3,585	782	-4,267	416	522
<b>Financing cash flow</b>	<b>1,876</b>	<b>-480</b>	<b>-576</b>	<b>-168</b>	<b>-191</b>
Dividends	-238	-228	-40	0	-23
Net borrowing	-531	0	339	0	0
Others	2,645	-252	-875	-168	-168
<b>Net cash flow</b>	<b>-2,708</b>	<b>135</b>	<b>-4,025</b>	<b>3,348</b>	<b>3,539</b>

Note: Closing price as of Nov. 15, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

### Profit & Loss Statement

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	5,594	6,371	7,560	9,043	10,614
Cost of revenues	-917	-1,157	-1,479	-1,718	-1,917
<b>Gross profit</b>	<b>4,677</b>	<b>5,214</b>	<b>6,081</b>	<b>7,325</b>	<b>8,697</b>
Selling and marketing	-838	-1,065	-1,226	-1,438	-1,683
General and admin	-454	-570	-635	-804	-972
R&D expenses	-1,656	-2,328	-2,584	-3,028	-3,452
Share-based Compensation	-179	-219	-272	-298	-318
Other income/expenses	306	328	373	452	531
<b>Total operating expenses</b>	<b>-2,822</b>	<b>-3,854</b>	<b>-4,345</b>	<b>-5,117</b>	<b>-5,894</b>
<b>Operating profit</b>	<b>1,855</b>	<b>1,361</b>	<b>1,736</b>	<b>2,207</b>	<b>2,803</b>
Other gains/losses	155	842	-6,458	0	0
Net financial income	330	273	268	248	354
Share of Associates/ JV	-271	-1,333	-1,530	-1,215	-1,268
<b>Income before tax</b>	<b>2,069</b>	<b>1,143</b>	<b>-5,984</b>	<b>1,240</b>	<b>1,889</b>
Income tax	-271	-190	508	-186	-283
Minority interest	549	558	697	825	1,055
<b>Net income to shareholders</b>	<b>1,250</b>	<b>395</b>	<b>-6,173</b>	<b>229</b>	<b>551</b>
<b>Adjusted net income to shareholders</b>	<b>1,274</b>	<b>-228</b>	<b>-28</b>	<b>527</b>	<b>869</b>
<b>Adjusted NOPAT</b>	<b>1,577</b>	<b>1,156</b>	<b>1,476</b>	<b>1,876</b>	<b>2,382</b>

### Financial ratios (%)

	FY20	FY21	FY22E	FY23E	FY24E
<b>yoy growth</b>					
Revenue	28.0	13.9	18.7	19.6	17.4
Gross profit	31.3	11.5	16.6	20.5	18.7
Operating profit	83.2	-26.7	27.6	27.1	27.0
Net profit to shareholders	n.a.	-68.4	n.a.	n.a.	140.9
Adjusted net income to shareholders	135.8	n.a.	-87.9	n.a.	64.9
Adjusted NOPAT	83.2	-26.7	27.6	27.1	27.0
<b>Key ratio</b>					
NOPAT ROE	5.6	4.0	6.3	7.5	8.9
Gross margin	83.6	81.8	80.4	81.0	81.9
Operating margin	33.2	21.4	23.0	24.4	26.4
Net margin to shareholders	22.3	6.2	-81.7	2.5	5.2
Adj. net margin to shareholders	22.8	-3.6	-0.4	5.8	8.2
Adj. NOPAT	28.2	18.2	19.5	20.7	22.4
Payout ratio	18.4	10.0	10.0	10.0	10.0
<b>Per share</b>					
Adjusted diluted EPS (RMB)	0.9	-0.2	0.0	0.4	0.6
BVPS (RMB)	18.0	18.0	13.7	14.0	14.6
DPS (RMB)	0.17	0.03	0	0.02	0.04
<b>Valuation</b>					
P/NOPAT (x)	19.2	28.1	22.4	17.8	14.1
P/B (x)	1.2	1.3	1.8	1.7	1.7
Dividend yield (%)	0.8	0.1	0.0	0.1	0.2

## Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
HOLD	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

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