

Company Report

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

JD.com (JD US)

Passing through the last stage of pandemic impact

- We forecast 4Q22E Group revenue growth to reach +7.7% yoy, sequentially slowed from 3Q22 due to pandemic issues
- Logistics issues are incrementally improving anecdotally in 1st tier cities after disruptions through December due to spread
- BUY; Consumer spending recovery will take time, while near term margin improvement from cost savings will maintain

4Q22E passing through inflection point

We expect JD's 4Q22E revenue growth to reach +7.7% yoy, vs +11.4% yoy for 3Q22, with several issues contributed to the softer results: 1) Lockdown-led logistics issues negatively impacted on fulfillment during Oct. and Nov.; 2) Dec was supported by early purchase for Chinese New Year festival products (年货节); 3) Overall still lackluster macro led to consumer spending weakness (though we note China total retail sales growth for Oct and Nov were -0.5% yoy and -5.9% yoy respectively, showing JD's resilience despite overall market weakness). On profit side, we estimate JD's 4Q22E NG NPM to reach 1.9% (+0.6ppt yoy) with NG NP of RMB5.6bn (+57% yoy, vs +99% yoy in 3Q22), driven by cascading benefits from efforts to streamline business and cost controls through 2022. As we anticipated earlier in the year, JD has completed its exit of Jingxipinpin as its regional exposure shrank through the year. JD also anecdotally note quick recovery from reopening led logistics issue in high-tier cities in early December, for example, Beijing had logistics issues with in early 2 weeks but then recovered briskly.

1Q23E growth to remain subdued due to high base and slow recovery

Incrementally, we believe JD's top line growth in 1Q23E should maintain slight pickup to +14% yoy, tracking with our existing view on JD's recovery, as we expect: 1) Consumption environment remains challenging in the face of macro drag but we think should still have some small incremental upside, partly driven by stimulus policies (e.g. Appliance subsidy voucher (绿色智能家电消费补贴, Figure 9); 2) Continued focus on 3P segment, as JD has taken a number of initiatives to attract SMEs as well as individual vendors to use JD as their marketing platform, such as subsidies and waved fees for new openings, logistics and financial support; 3) JD is also enhancing lower price point product offerings within core categories to remain competitive with continued competitive environment.

BUY: Positive on resilient growth outlook

We forecast JD's FY22E revenue/NG NI to grow +10%/+53% yoy. JD stands to benefit from macro/consumption recovery with market share gain (e.g. troubles of traditional appliance offline retail leaders), and regulatory stability. We maintain BUY, TP up to USD74 from USD73 due to slight earnings revision (Figure 7) and FX changes. TP implies 25x/18x FY23/24E forward P/E. **Key risks:** 1) Macro/Consumption recovery; 2) Competition; 3) Regulatory.

Financials

| RMB mn | FY20 | FY21 | FY22E | FY23E | FY24E |
|----------------------|---------|---------|-----------|-----------|-----------|
| Revenue | 745,802 | 951,592 | 1,048,068 | 1,254,467 | 1,520,542 |
| Growth | 29.3% | 27.6% | 10.1% | 19.7% | 21.2% |
| Non-GAAP net profit | 16,828 | 17,206 | 26,305 | 31,346 | 45,003 |
| Growth | 56.5% | 2.3% | 52.9% | 19.2% | 43.6% |
| Non-GAAP EPADS (USD) | 1.67 | 1.66 | 2.48 | 2.94 | 4.22 |
| P/E (US) | 39.4 | 39.8 | 26.6 | 22.4 | 15.6 |
| ROE | 12.5% | 8.7% | 12.1% | 13.0% | 16.2% |

Note: Closing price as of Jan. 5, 2023; Sources: Bloomberg, Company, CMS (HK) estimates

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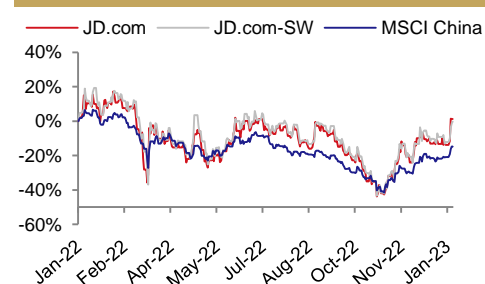
WHAT'S NEW

4Q22E preview; Revised earnings forecast and TP

BUY

| Previous | BUY |
|---|---------------------------------|
| Price (Jan. 5, 2023) | USD65.9 HKD247.4 |
| 12-month Target Price (Potential up/downside) | USD74 (+12.3%) HKD282 (+18%) |
| Previous | USD73 HKD278 |

Price Performance



Source: Bloomberg

| % | 1m | 6m | 12m |
|------------|------|-------|--------|
| JD US | 12.7 | 4.4 | 1.2 |
| 9618 HK | 11.5 | 0.1 | (1.3) |
| MSCI China | 11.2 | (6.3) | (14.8) |

Sector: Technology, Media & Telecom

| | |
|--------------------------------|--------|
| Hang Seng Index (Jan. 5, 2023) | 21,052 |
| MSCI China (Jan. 5, 2023) | 69 |

Key Data

| | |
|------------------------------|---------------|
| 52-week range (USD/HKD) | 33-79/139-301 |
| Market cap (USD bn) | 104.1 |
| Avg. daily volume US/HK (mn) | 6.63/6.08 |
| FY22E NG EPADS/EPS (USD/HKD) | 2.48/9.62 |

Shareholding Structure

| | |
|------------|-------|
| Walmart | 10.7% |
| Tencent | 2.7% |
| Free float | 86.6% |

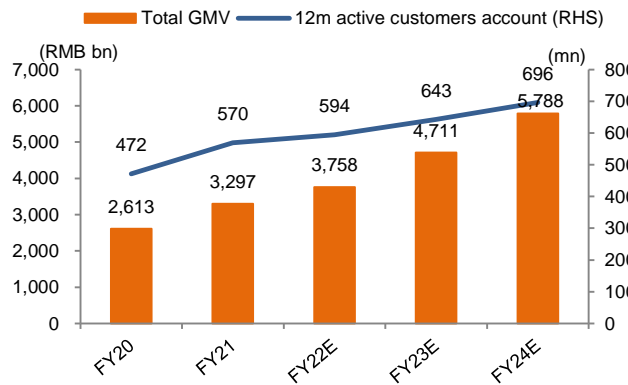
Sources: Wind, Bloomberg, CMS (HK) research

Related Research

1. JD (JD US) - 3Q22 beat again on solid margin improvement (BUY) (Nov. 19, 2022)
2. JD (JD US) - Resilient in the face of headwinds (BUY) (Oct. 11, 2022)
3. JD (JD US) - Solid results, short term growth headwinds remain (BUY) (Aug 24, 2022)
4. JD (JD US) - Sequential pickup from 2Q trough (BUY) (July 12, 2022)

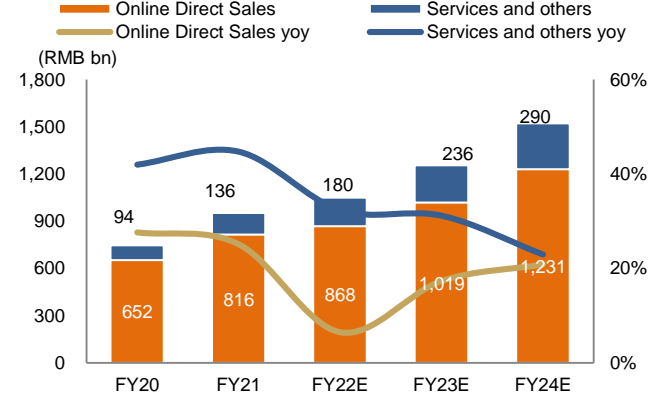
Focus charts

Figure 1: GMV* and AAC (annual active customer accounts)



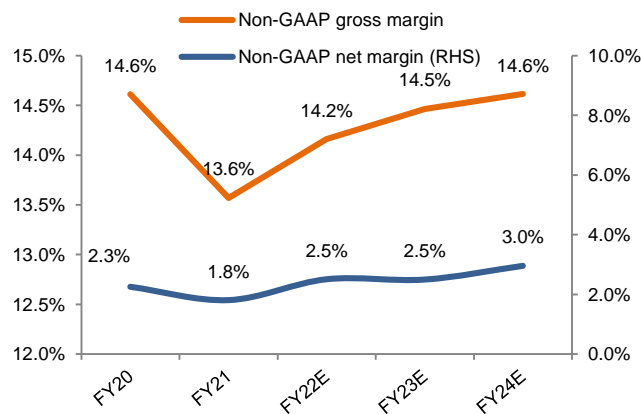
Sources: Company, CMS (HK) estimates; *redefined in 3Q17 with broader inclusion of transactions

Figure 2: Online direct sales vs. Services and others in revenue



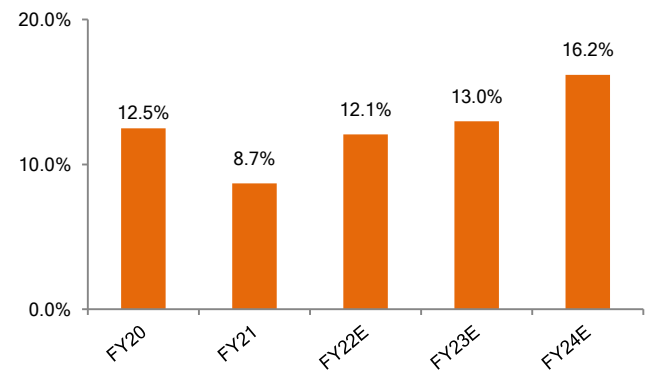
Sources: Company, CMS (HK) estimates

Figure 3: Non-GAAP GPM & Non-GAAP NPM



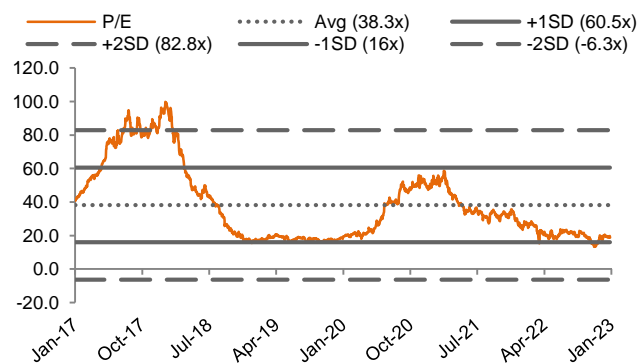
Sources: Company, CMS (HK) estimates

Figure 4: ROE



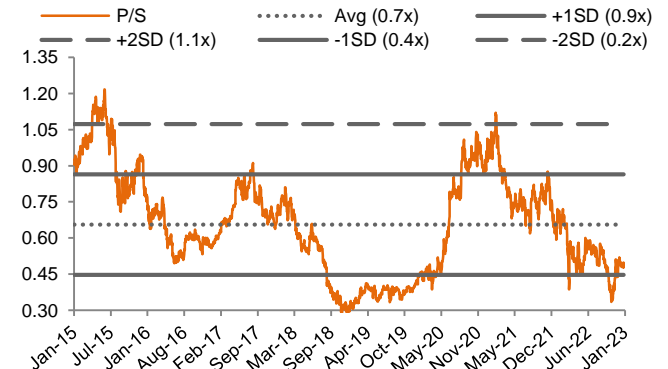
Sources: Company, CMS (HK) estimates

Figure 5: P/E range



Sources: Bloomberg, Company, CMS (HK) estimates

Figure 6: P/S range



Sources: Bloomberg, Company, CMS (HK) estimates

Figure 7: Earnings revision summary

| RMB mn | Revised | | | Previous | | | Difference | | |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|--------|-------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 1,048,068 | 1,254,467 | 1,520,542 | 1,053,820 | 1,286,689 | 1,527,430 | -1% | -3% | 0% |
| Online direct sales | 868,241 | 1,018,632 | 1,230,694 | 871,997 | 1,045,872 | 1,235,152 | 0% | -3% | 0% |
| Services and others | 179,828 | 235,835 | 289,849 | 181,823 | 240,817 | 292,278 | -1% | -2% | -1% |
| Marketplace and advertising | 81,835 | 98,202 | 122,752 | 82,947 | 102,079 | 123,822 | -1% | -4% | -1% |
| Logistics and other service | 97,993 | 137,634 | 167,097 | 98,877 | 138,738 | 168,455 | -1% | -1% | -1% |
| JD Retail | 930,674 | 1,097,604 | 1,331,893 | 935,542 | 1,128,721 | 1,337,422 | -1% | -3% | 0% |
| JD Logistics | 135,768 | 174,252 | 210,504 | 136,908 | 176,632 | 213,394 | -1% | -1% | -1% |
| Dada | 8,194 | 13,344 | 17,347 | 8,194 | 13,344 | 17,347 | 0% | 0% | 0% |
| New businesses | 23,588 | 23,230 | 25,553 | 23,588 | 23,230 | 25,553 | 0% | 0% | 0% |
| Inter-segment | (50,157) | (53,963) | (64,755) | (50,412) | (55,238) | (66,286) | -1% | -2% | -2% |
| Gross profit | 147,749 | 180,674 | 221,258 | 148,566 | 185,237 | 222,134 | -1% | -2% | 0% |
| Operating profit | 17,130 | 19,179 | 31,939 | 17,476 | 20,276 | 32,748 | -2% | -5% | -2% |
| Non-GAAP EBITDA | 32,103 | 39,864 | 54,915 | 32,500 | 41,244 | 55,789 | -1% | -3% | -2% |
| Net income (to shareholders) | 10,118 | 19,424 | 30,790 | 10,412 | 20,354 | 31,473 | -3% | -5% | -2% |
| Non-GAAP net income (to shareholders) | 26,305 | 31,346 | 45,003 | 26,648 | 32,553 | 45,745 | -1% | -4% | -2% |
| Key ratio and margin | | | | | | | | | |
| Non-GAAP gross margin | 14.2% | 14.5% | 14.6% | 14.2% | 14.5% | 14.6% | 0.0pp | 0.0pp | 0.0pp |
| Non-GAAP operating margin | 2.4% | 2.5% | 3.0% | 2.5% | 2.5% | 3.1% | 0.0pp | 0.0pp | 0.0pp |
| Non-GAAP EBITDA margin | 3.1% | 3.2% | 3.6% | 3.1% | 3.2% | 3.7% | 0.0pp | 0.0pp | 0.0pp |
| Non-GAAP net margin (to shareholders) | 2.5% | 2.5% | 3.0% | 2.5% | 2.5% | 3.0% | 0.0pp | 0.0pp | 0.0pp |
| yoy | | | | | | | | | |
| Revenue | 10% | 20% | 21% | 11% | 22% | 19% | -0.6pp | -2.4pp | 2.5pp |
| Online direct sales | 6% | 17% | 21% | 7% | 20% | 18% | -0.5pp | -2.6pp | 2.7pp |
| Services and others | 32% | 31% | 23% | 34% | 32% | 21% | -1.5pp | -1.3pp | 1.5pp |
| Marketplace and advertising | 13% | 20% | 25% | 15% | 23% | 21% | -1.5pp | -3.1pp | 3.7pp |
| Logistics and other service | 54% | 40% | 21% | 55% | 40% | 21% | -1.4pp | 0.1pp | 0.0pp |
| Gross profit | 14% | 22% | 22% | 15% | 25% | 20% | -0.6pp | -2.4pp | 2.5pp |
| Operating profit | 314% | 12% | 67% | 322% | 16% | 62% | -8.4pp | -4.1pp | 5.0pp |
| Non-GAAP EBITDA | 72% | 24% | 38% | 74% | 27% | 35% | -2.1pp | -2.7pp | 2.5pp |
| Non-GAAP net income (to shareholders) | 53% | 19% | 44% | 55% | 22% | 41% | -2.0pp | -3.0pp | 3.0pp |

Sources: Company, CMS (HK) estimates

Figure 8: CMS estimates vs consensus

| RMB mn | CMS forecasts | | | Consensus | | | Diff % | | |
|-------------|---------------|-----------|-----------|-----------|-----------|-----------|--------|-------|--------|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 1,048,068 | 1,254,467 | 1,520,542 | 1,048,282 | 1,205,266 | 1,373,401 | 0% | 4% | 11% |
| GM (%) | 14.1 | 14.4 | 14.6 | 14.1 | 14.4 | 14.7 | 0.0pp | 0.0pp | -0.1pp |
| Core OP | 25,460 | 30,781 | 45,832 | 18,758 | 28,354 | 38,051 | 36% | 9% | 20% |
| PBT | 13,251 | 22,617 | 35,988 | 14,105 | 28,643 | 40,606 | -6% | -21% | -11% |
| GAAP NP | 10,118 | 19,424 | 30,790 | 11,551 | 22,494 | 30,683 | -12% | -14% | 0% |
| Non-GAAP NP | 26,305 | 31,346 | 45,003 | 26,413 | 33,026 | 42,286 | 0% | -5% | 6% |

Sources: Bloomberg, Company, CMS (HK) estimates; Note: consensus data as of Jan. 6, 2023

Figure 9: Summary of consumption coupon in major cities in recent months

| Province/City | Authority | Time | distribute/discount | Amount in Total (RMB) | Type | Platform |
|---------------|---|--|--|-----------------------|--|--|
| Beijing | Commerce Bureau of Beijing Municipality | From Nov. to Dec. 22, 6 rounds in total | Price-Break Discount | n.a. | Green energy-saving electrical appliances | The company's own online platform |
| Guangzhou | Commerce Bureau of Guangzhou Municipality | During Dec. 22, 3 rounds in total | Price-Break Discount | 30mn | Retail and catering | UnionPay "Cloud QuickPass" |
| Shenzhen | Commerce Bureau of Shenzhen Municipality | From Oct. to Dec. 22, 3 rounds in total | Price-Break Discount. First come first served. | n.a. | Electronic devices and appliances | UnionPay "Cloud QuickPass" |
| Chengdu | Commerce Bureau of Chengdu Municipality | From Oct. to Dec. 22, 4 rounds in total | Subsidy | 400mn | Retail, catering, travel and automobile | UnionPay "Cloud QuickPass", TD, Meituan |
| Chengdu | The Chengdu Municipal Publicity Bureau | From Jan. 23 to Apr. 23. | Price-Break Discount. First come first served. | 10mn | Movies and books | Wechat, Meituan, Dianping and Maoyan |
| Shanghai | Commerce Bureau of Shanghai Municipality | First round: Aug. 22 Second round: Sept. 22 Third round: Oct. 22 | Price-Break Discount. Lucky Draw | 120mn | Retail, catering and travel | Alipay, Wechat pay, UnionPay "Cloud QuickPass" |
| Shanghai | Commerce Bureau of Shanghai Municipality | Fourth round: Dec. 22 | Price-Break Discount. Lucky Draw | 100mn | Retail, catering and travel | Alipay, Wechat pay, UnionPay "Cloud QuickPass" |
| Shanghai | Commerce Bureau of Shanghai Municipality | From Oct. 22 till the subsidy was used up | Subsidy | 200mn | Green energy-saving electrical appliances | offline and online platforms |
| Guangdong | Commerce Bureau of Guangdong Municipality | Sept. 22 to Oct. 22 | Subsidy | 100mn | Electrical appliances | UnionPay "Cloud QuickPass" |
| Jiangsu | Commerce Bureau of Jiangsu Municipality | Sept. 22 to Nov. 22 | Subsidy and price-Break Discount. | 300mn | Catering, retail, travel, sports, electronic appliances and automobile | offline and online platforms |

Sources: Official websites of above entity, CMS (HK) estimates

Figure 10: DCF Valuation

| RMB mn | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E | FY29E | FY30E | FY31E | FY32E |
|----------------------------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 1,254,467 | 1,520,542 | 1,733,418 | 1,976,097 | 2,213,228 | 2,434,551 | 2,678,006 | 2,945,807 | 3,240,387 | 3,564,426 |
| EBIT | 19,179 | 31,939 | 38,144 | 45,460 | 53,129 | 60,876 | 69,642 | 79,552 | 90,748 | 103,387 |
| NOPAT | 15,786 | 26,541 | 32,423 | 38,641 | 45,160 | 51,745 | 59,196 | 67,619 | 77,135 | 87,879 |
| Depreciation & Amortization | 12,469 | 15,356 | 17,334 | 19,761 | 22,132 | 24,346 | 26,780 | 29,458 | 32,404 | 35,644 |
| Share-based Compensation Expense | 10,220 | 12,387 | 14,122 | 16,099 | 18,030 | 19,833 | 21,817 | 23,999 | 26,398 | 29,038 |
| Chg in OWC | 13,371 | 18,578 | 17,334 | 19,761 | 22,132 | 24,346 | 26,780 | 29,458 | 32,404 | 35,644 |
| CAPEX | (21,326) | (25,849) | (26,001) | (29,641) | (30,985) | (34,084) | (37,492) | (38,295) | (42,125) | (46,338) |
| FCF | 30,520 | 47,013 | 55,211 | 64,620 | 76,469 | 86,186 | 97,081 | 112,238 | 126,216 | 141,868 |
| Discount year | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 | 7.00 | 8.00 | 9.00 | 10.00 |
| Discount factor | 0.87 | 0.75 | 0.65 | 0.57 | 0.49 | 0.43 | 0.37 | 0.32 | 0.28 | 0.24 |
| DCF | 26,493 | 35,425 | 36,113 | 36,691 | 37,690 | 36,874 | 36,055 | 36,184 | 35,322 | 34,463 |
| PV of DCF | 351,310 | | | | | | | | | |
| Perpetual growth | | 3.0% | | | | | | | | |
| Terminal value | 1,197,727 | | | | | | | | | |
| PV of terminal value | 290,957 | | | | | | | | | |
| Total PV | 642,267 | | | | | | | | | |
| Net cash (by 23YE) | 205,047 | | | | | | | | | |
| Minority interest | 35,533 | | | | | | | | | |
| PV of equity (RMB mn) | 811,782 | | | | | | | | | |
| No. of ADS (by 23YE) | 1,591 | | | | | | | | | |
| PV per ADS (RMB) | 510 | | | | | | | | | |
| CNYUSD | 6.87 | | | | | | | | | |
| Value per ADS (USD) | 74 | | | | | | | | | |
| USD HKD | 7.85 | | | | | | | | | |
| TP (HKD) | 292 | | | | | | | | | |
| Pre tax cost of debt | 4.50% | | | | | | | | | |
| Tax rate | 15.00% | | | | | | | | | |
| After tax cost of debt | 3.83% | | | | | | | | | |
| Risk free rate | 2.8% | | | | | | | | | |
| Market rate of return | 15.0% | | | | | | | | | |
| Market premium | 12.2% | | | | | | | | | |
| Beta | 1.12 | | | | | | | | | |
| Cost of equity | 16.5% | | | | | | | | | |
| Long-run debt-to-capital ratio | 10.0% | | | | | | | | | |
| WACC | 15.2% | | | | | | | | | |

Sources: Company, CMS (HK) estimates

Figure 11: Sensitivity table on TP with different assumptions on terminal growth and WACC

| TP (USD) | | WACC | | | | | | |
|-----------------------|------|-------|-------|-------|-------|-------|-------|-------|
| | | 14.6% | 14.8% | 15.0% | 15.2% | 15.4% | 15.6% | 15.8% |
| Perpetual growth rate | 2.0% | 76 | 74 | 73 | 72 | 71 | 70 | 69 |
| | 2.5% | 77 | 76 | 74 | 73 | 72 | 71 | 70 |
| | 3.0% | 78 | 77 | 76 | 74 | 73 | 72 | 71 |
| | 3.5% | 80 | 78 | 77 | 76 | 74 | 73 | 72 |
| | 4.0% | 81 | 80 | 78 | 77 | 76 | 74 | 73 |

Sources: 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 | FY22E | FY22E | FY23E | Sales |
| Platform | | | | | | | | | | | | | | | | | | |
| Tencent | 700 HK | HKD | BUY | 347.8 | 430.0 | 426.1 | 14.7 | 12.0 | 23.3 | 19.0 | 4.4 | 4.7 | 18.3 | 13.5 | 15.7 | 4.6 | 5.3 | 7.5 |
| Alibaba | BABA US | USD | BUY | 104.6 | 143.0 | 276.9 | 7.1 | 6.5 | 10.6 | 11.3 | n.a. | 1.8 | 13.3 | 15.2 | 13.7 | 8.0 | n.a. | n.a. |
| Meituan | 3690 HK | HKD | BUY | 190.8 | 249.0 | 151.2 | n.a. | 43.1 | n.a. | n.a. | n.a. | 4.4 | n.a. | 2.2 | 10.1 | 24.0 | n.a. | n.a. |
| Baidu | BIDU US | USD | NR | 132.5 | n.a. | 45.8 | 9.3 | 8.2 | 15.5 | 14.1 | 1.5 | 2.5 | 17.7 | 5.4 | 7.6 | 5.0 | 10.2 | 25.3 |
| Alphabet | GOOGL US | USD | NR | 86.2 | n.a. | 1,119.4 | 9.4 | 8.7 | 16.4 | 14.8 | 1.4 | 4.7 | 11.5 | 25.8 | 26.9 | 4.7 | 11.6 | 16.1 |
| Facebook | FB US | USD | NR | 126.9 | n.a. | 332.9 | 6.4 | 6.6 | 12.5 | 14.2 | n.a. | 2.9 | 7.1 | 19.4 | 18.1 | 5.0 | n.a. | n.a. |
| Naver | 035420 KS | KRW | NR | 186,000.0 | n.a. | 23.9 | 17.8 | 15.8 | 32.1 | 24.2 | n.a. | 3.7 | 19.8 | 4.0 | 5.0 | 16.4 | 0.5 | 3.5 |
| China Mean | | | | | | | 9.7 | 15.3 | 15.1 | 14.0 | 2.9 | 3.1 | 15.6 | 10.3 | 12.2 | 9.9 | 7.8 | 16.4 |
| Global Mean | | | | | | | 11.2 | 10.4 | 20.3 | 17.7 | 1.4 | 3.8 | 12.8 | 16.4 | 16.7 | 8.7 | 6.1 | 9.8 |
| Cloud | | | | | | | | | | | | | | | | | | |
| Chinasoft | 354 HK | HKD | BUY | 7.4 | 10.0 | 2.9 | 9.4 | 9.4 | 13.4 | 11.3 | 1.1 | 0.8 | 49.4 | 10.7 | 11.5 | 21.7 | 11.7 | 4.5 |
| Tencent | 700 HK | HKD | BUY | 347.8 | 430.0 | 426.1 | 14.7 | 12.0 | 23.3 | 19.0 | 4.4 | 4.7 | 18.3 | 13.5 | 15.7 | 4.6 | 5.3 | 7.5 |
| Alibaba | BABA US | USD | BUY | 104.6 | 143.0 | 276.9 | 7.1 | 6.5 | 10.6 | 11.3 | n.a. | 1.8 | 13.3 | 15.2 | 13.7 | 8.0 | n.a. | n.a. |
| Kingsoft | 3888 HK | HKD | BUY | 29.4 | 34.0 | 5.1 | 10.6 | 8.4 | n.a. | 47.2 | n.a. | 4.2 | n.a. | 0.1 | 2.7 | 19.1 | n.a. | 26.5 |
| Kingdee | 268 HK | HKD | NR | 18.1 | n.a. | 8.1 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 22.8 | n.a. | n.a. |
| Mingyuan Cloud | 909 HK | HKD | NR | 8.6 | n.a. | 2.2 | n.a. | n.a. | n.a. | n.a. | n.a. | 7.1 | n.a. | n.a. | n.a. | 5.6 | n.a. | n.a. |
| KC Cloud | KC US | USD | NR | 5.2 | n.a. | 1.3 | n.a. | n.a. | n.a. | n.a. | n.a. | 1.1 | n.a. | n.a. | n.a. | 2.4 | n.a. | n.a. |
| Microsoft | MSFT US | USD | NR | 222.3 | n.a. | 1,657.2 | 17.3 | 15.9 | 24.2 | 22.9 | n.a. | 8.9 | 19.8 | 42.9 | 37.0 | n.a. | n.a. | n.a. |
| Alphabet | GOOGL US | USD | NR | 86.2 | n.a. | 1,119.4 | 9.4 | 8.7 | 16.4 | 14.8 | 1.4 | 4.7 | 11.5 | 25.8 | 26.9 | 4.7 | 11.6 | 16.1 |
| Amazon | AMZN US | USD | NR | 83.1 | n.a. | 848.0 | 13.1 | 11.2 | n.a. | 27.3 | n.a. | 1.7 | 17.5 | n.a. | 12.8 | 13.0 | n.a. | 15.5 |
| Salesforce | CRM US | USD | NR | 136.3 | n.a. | 136.3 | 30.1 | 13.6 | n.a. | 27.5 | n.a. | 5.5 | 24.2 | 0.5 | 8.2 | n.a. | n.a. | n.a. |
| Oracle | ORCL US | USD | NR | 84.3 | n.a. | 227.3 | 22.5 | 12.5 | 36.1 | 16.8 | n.a. | 5.7 | 25.4 | n.a. | n.a. | n.a. | n.a. | n.a. |
| VMware | VMW US | USD | NR | 121.7 | n.a. | 51.8 | 17.2 | 12.9 | 30.3 | 18.7 | n.a. | 4.3 | 12.7 | 25.5 | n.a. | n.a. | n.a. | n.a. |
| Dropbox | DBX US | USD | NR | 22.1 | n.a. | 8.0 | 10.1 | 9.7 | 13.8 | 13.1 | 1.4 | 3.4 | 9.5 | n.a. | n.a. | 10.1 | 9.7 | 37.0 |
| China Mean | | | | | | | 10.4 | 9.1 | 15.8 | 22.2 | 2.8 | 3.3 | 27.0 | 9.9 | 10.9 | 12.0 | 8.5 | 12.8 |
| Global Mean | | | | | | | 17.1 | 12.1 | 24.2 | 20.2 | 1.4 | 4.9 | 17.2 | 23.6 | 21.3 | 9.3 | 10.7 | 22.8 |
| Social network & pan-entertainment | | | | | | | | | | | | | | | | | | |
| Tencent | 700 HK | HKD | BUY | 347.8 | 430.0 | 426.1 | 14.7 | 12.0 | 23.3 | 19.0 | 4.4 | 4.7 | 18.3 | 13.5 | 15.7 | 4.6 | 5.3 | 7.5 |
| Bilibili | BILI US | USD | BUY | 29.2 | 29.0 | 11.7 | n.a. | n.a. | n.a. | n.a. | n.a. | 2.7 | n.a. | n.a. | 17.9 | n.a. | n.a. | |
| China Literature | 772 HK | HKD | HOLD | 37.3 | 68.0 | 4.8 | 19.5 | 15.3 | 25.5 | 21.1 | 1.9 | 4.0 | 20.8 | 6.3 | 7.8 | 3.3 | 13.2 | n.a. |
| Kuaishou | 1024 HK | HKD | NR | 79.4 | n.a. | 43.7 | n.a. | n.a. | n.a. | n.a. | n.a. | 3.2 | n.a. | n.a. | n.a. | 15.3 | n.a. | n.a. |
| Tencent Music | TME US | USD | NR | 36.0 | n.a. | 15.8 | 19.1 | 17.2 | 23.1 | 20.9 | n.a. | 3.8 | 32.0 | 8.2 | 8.6 | n.a. | n.a. | 11.2 |
| Weibo | WB US | USD | NR | 20.0 | n.a. | 4.7 | 8.0 | 7.5 | 9.5 | 8.9 | n.a. | 2.5 | 12.4 | 7.9 | 10.9 | n.a. | n.a. | n.a. |
| iQiyi | IQ US | USD | NR | 6.9 | n.a. | 5.9 | 31.5 | 23.4 | n.a. | 30.7 | n.a. | 1.4 | 38.6 | 1.5 | 15.1 | 0.5 | n.a. | n.a. |
| YY | YY US | USD | NR | 39.3 | n.a. | 2.8 | 0.1 | 0.1 | 15.4 | 15.7 | 0.4 | 1.1 | 4.0 | 6.2 | 2.2 | 3.2 | 35.4 | 78.8 |
| Momo | MOMO US | USD | NR | 9.8 | n.a. | 1.9 | 3.7 | 3.4 | 7.3 | 6.9 | n.a. | 1.1 | 6.5 | 14.5 | 14.2 | n.a. | n.a. | n.a. |
| Huya | HUYA US | USD | NR | 5.1 | n.a. | 1.2 | 2.9 | 4.6 | n.a. | n.a. | n.a. | 0.9 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Douyu | DOYU US | USD | NR | 1.7 | n.a. | 0.5 | n.a. | n.a. | n.a. | 44.5 | n.a. | 0.5 | n.a. | n.a. | 0.3 | n.a. | n.a. | n.a. |
| Meta | FB US | USD | NR | 126.9 | n.a. | 332.9 | 6.4 | 6.6 | 12.5 | 14.2 | n.a. | 2.9 | 7.1 | 19.4 | 18.1 | 5.0 | n.a. | n.a. |
| Netflix | NFLX US | USD | NR | 309.7 | n.a. | 137.8 | 23.4 | 21.1 | 27.9 | 27.0 | n.a. | 4.3 | n.a. | 24.8 | 20.7 | 10.7 | 2.6 | 5.0 |
| Snapchat | SNAP US | USD | NR | 9.1 | n.a. | 14.7 | 43.4 | 24.1 | n.a. | n.a. | n.a. | 3.2 | n.a. | n.a. | n.a. | 13.8 | n.a. | n.a. |
| Spotify | SPOT US | USD | NR | 81.6 | n.a. | 15.8 | n.a. | n.a. | n.a. | n.a. | n.a. | 1.3 | n.a. | n.a. | n.a. | 15.8 | n.a. | n.a. |
| China Mean | | | | | | | 12.4 | 10.4 | 17.3 | 21.0 | 2.2 | 2.4 | 18.9 | 8.3 | 9.4 | 8.9 | 18.0 | 32.5 |
| Global Mean | | | | | | | 24.4 | 17.3 | 20.2 | 20.6 | n.a. | 2.9 | 7.1 | 22.1 | 19.4 | 11.3 | 2.6 | 5.0 |

| 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 | FY22E | FY23E | Sales |
| Online Gaming | | | | | | | | | | | | | | | | | | | |
| Netease | NTES US | USD | BUY | 82.1 | 113.0 | 53.9 | 9.1 | 8.2 | 14.4 | 14.7 | 2.1 | 3.5 | 14.8 | 23.0 | 19.3 | 10.8 | 6.7 | 14.2 | |
| Tencent | 700 HK | HKD | BUY | 347.8 | 430.0 | 426.1 | 14.7 | 12.0 | 23.3 | 19.0 | 4.4 | 4.7 | 18.3 | 13.5 | 15.7 | 4.6 | 5.3 | 7.5 | |
| Bilibili | BILI US | USD | BUY | 29.2 | 29.0 | 11.7 | n.a. | n.a. | n.a. | n.a. | n.a. | 2.7 | n.a. | n.a. | n.a. | 17.9 | n.a. | n.a. | |
| Kingsoft | 3888 HK | HKD | BUY | 29.4 | 34.0 | 5.1 | 10.6 | 8.4 | n.a. | 47.2 | n.a. | 4.2 | n.a. | 0.1 | 2.7 | 19.1 | n.a. | 26.5 | |
| iDreamSky | 1119 HK | HKD | BUY | 4.1 | 4.4 | 0.7 | 22.6 | 11.4 | n.a. | n.a. | n.a. | 1.7 | n.a. | n.a. | 3.4 | 15.8 | n.a. | 64.3 | |
| XD | 2400 HK | HKD | NR | 5.1 | n.a. | 0.5 | 4.7 | 3.1 | 10.1 | 6.8 | n.a. | 2.3 | n.a. | 18.0 | 27.7 | 42.3 | n.a. | 17.6 | |
| Netdragon | 777 HK | HKD | NR | 17.9 | n.a. | 1.2 | 3.4 | 2.9 | 7.4 | 5.9 | 0.3 | 1.0 | 4.4 | 14.4 | 16.3 | 16.1 | 27.4 | 8.9 | |
| CMGE | 302 HK | HKD | NR | 1.9 | n.a. | 0.7 | 7.6 | 5.2 | 9.7 | 7.0 | 1.0 | 1.3 | 10.3 | 7.4 | 10.2 | 8.1 | 10.1 | 7.3 | |
| IGG | 799 HK | HKD | NR | 3.0 | n.a. | 0.5 | n.a. | 15.8 | n.a. | 14.0 | n.a. | 0.6 | n.a. | n.a. | 5.3 | 2.5 | n.a. | n.a. | |
| Archosaur Game | 9990 HK | HKD | NR | 4.4 | n.a. | 0.4 | n.a. | 2.9 | n.a. | 23.4 | n.a. | 3.1 | n.a. | n.a. | 3.8 | 42.7 | n.a. | n.a. | |
| SEA | SE US | USD | NR | 55.8 | n.a. | 31.4 | n.a. | n.a. | n.a. | n.a. | n.a. | 2.6 | n.a. | n.a. | n.a. | 21.8 | n.a. | n.a. | |
| Nintendo | 7974 JP | JPY | NR | 5,530.0 | n.a. | 53.9 | 8.7 | 9.7 | 13.6 | 15.2 | n.a. | 3.8 | 22.4 | 27.0 | 21.4 | n.a. | n.a. | n.a. | |
| Activision Blizzard | ATVI US | USD | NR | 77.0 | n.a. | 60.2 | 17.9 | 13.4 | 24.7 | 19.3 | 4.6 | 7.4 | 26.6 | 11.3 | 13.3 | 7.9 | 5.4 | 5.7 | |
| Electronic Arts | EA US | USD | NR | 124.7 | n.a. | 34.4 | 21.7 | 12.5 | 46.7 | 17.0 | n.a. | 5.3 | 19.4 | 11.5 | 20.7 | n.a. | n.a. | n.a. | |
| Take-Two | TTWO US | USD | NR | 106.0 | n.a. | 17.8 | 27.0 | 20.8 | 45.5 | 27.2 | n.a. | 5.4 | n.a. | n.a. | 3.8 | n.a. | n.a. | n.a. | |
| Nexon | 3659 JP | JPY | NR | 2,981.0 | n.a. | 19.4 | 18.1 | 14.2 | 22.8 | 22.4 | n.a. | 7.2 | 22.5 | 12.7 | 13.0 | 14.2 | n.a. | 11.8 | |
| Ncsoft | 036570 KS | KRW | NR | 432,500.0 | n.a. | 7.4 | 10.8 | 10.5 | 17.7 | 18.0 | 1.9 | 3.6 | 14.4 | 16.3 | 14.5 | 5.6 | 9.5 | 21.4 | |
| Zynga | ZNGA US | USD | NR | 8.2 | n.a. | 9.3 | 15.8 | 14.3 | 25.1 | 19.8 | n.a. | 3.2 | 15.0 | n.a. | n.a. | 8.4 | n.a. | 54.2 | |
| Netmarble | 251270 KS | KRW | NR | 52,100.0 | n.a. | 3.5 | 35.8 | 18.1 | n.a. | 45.1 | n.a. | 1.7 | (21.6) | n.a. | 1.4 | 5.7 | n.a. | n.a. | |
| China Mean | | | | | | | 10.3 | 7.9 | 13.3 | 17.0 | 2.0 | 2.6 | 12.5 | 14.2 | 12.4 | 17.3 | 11.2 | 20.1 | |
| Global Mean | | | | | | | 19.5 | 14.2 | 28.0 | 23.0 | 3.2 | 4.5 | 14.1 | 15.8 | 12.6 | 10.6 | 7.4 | 23.3 | |
| E-commerce | | | | | | | | | | | | | | | | | | | |
| JD.com | JD US | USD | BUY | 65.9 | 74.0 | 104.1 | 19.3 | 15.5 | 26.6 | 22.4 | 0.8 | 0.7 | 27.0 | 12.1 | 13.0 | 14.8 | 33.2 | 43.8 | |
| Alibaba | BABA US | USD | BUY | 104.6 | 143.0 | 276.9 | 7.1 | 6.5 | 10.6 | 11.3 | n.a. | 1.8 | 13.3 | 15.2 | 13.7 | 8.0 | n.a. | n.a. | |
| Meituan | 3690 HK | HKD | BUY | 190.8 | 249.0 | 151.2 | n.a. | 43.1 | n.a. | n.a. | n.a. | 4.4 | n.a. | 2.2 | 10.1 | 24.0 | n.a. | n.a. | |
| Pinduoduo | PDD US | USD | NR | 95.4 | n.a. | 120.7 | 20.6 | 16.9 | 22.8 | 19.8 | 0.4 | 6.4 | 19.2 | 33.8 | 27.5 | 31.6 | 63.5 | n.a. | |
| Beike | BEKE US | USD | NR | 17.5 | n.a. | 21.9 | 43.0 | 17.3 | n.a. | 29.8 | 1.9 | 2.5 | n.a. | 2.6 | 6.0 | n.a. | 45.5 | 16.6 | |
| Vipshop | VIPS US | USD | NR | 15.6 | n.a. | 9.5 | 7.2 | 6.7 | 9.9 | 9.5 | n.a. | 0.6 | 9.6 | 16.3 | 13.9 | n.a. | n.a. | 3.2 | |
| Baozun | BZUN US | USD | NR | 6.4 | n.a. | 0.4 | 9.2 | 7.5 | 14.9 | 9.8 | 0.6 | 0.3 | 42.6 | 0.1 | 3.2 | n.a. | 24.9 | n.a. | |
| Amazon | AMZN US | USD | NR | 83.1 | n.a. | 848.0 | 13.1 | 11.2 | n.a. | 27.3 | n.a. | 1.7 | 17.5 | n.a. | 12.8 | 13.0 | n.a. | 15.5 | |
| eBay | EBAY US | USD | NR | 43.1 | n.a. | 23.4 | 8.0 | 8.2 | 10.9 | 10.7 | 1.7 | 2.4 | 8.5 | 31.5 | 47.2 | n.a. | 6.3 | n.a. | |
| China Mean | | | | | | | 17.8 | 16.0 | 18.4 | 17.8 | 0.9 | 2.2 | 22.9 | 11.8 | 12.5 | 18.6 | 40.1 | 26.8 | |
| Global Mean | | | | | | | 10.6 | 9.7 | 10.9 | 19.0 | 1.7 | 2.0 | 13.0 | 31.5 | 30.0 | 13.0 | 6.3 | 15.5 | |
| Vertical | | | | | | | | | | | | | | | | | | | |
| trip.com | TCOM US | USD | NR | 38.3 | n.a. | 24.6 | n.a. | 32.8 | n.a. | 33.3 | n.a. | 8.5 | n.a. | n.a. | 3.8 | 22.4 | n.a. | n.a. | |
| Autohome | ATHM US | USD | NR | 34.9 | n.a. | 4.4 | 5.4 | 4.4 | 14.8 | 13.9 | n.a. | 4.4 | 14.0 | 8.1 | 8.3 | 0.5 | n.a. | n.a. | |
| Tongcheng-Elong | 780 HK | HKD | NR | 19.8 | n.a. | 5.7 | 42.2 | 18.4 | n.a. | 27.8 | 2.3 | 6.0 | n.a. | 3.5 | 7.6 | 8.2 | 29.8 | 15.2 | |
| Expedia | EXPE US | USD | NR | 93.0 | n.a. | 14.5 | 6.4 | 5.6 | 12.8 | 10.1 | n.a. | 1.2 | 4.0 | 39.1 | 43.8 | 26.2 | n.a. | 64.1 | |
| China Mean | | | | | | | 18.0 | 15.3 | 13.8 | 21.3 | 2.3 | 5.0 | 9.0 | 16.9 | 15.9 | 14.3 | 29.8 | 39.7 | |

Note: Closing prices as of Jan. 5, 2023 for all listcos; For future estimates of NR Co.s, BBG consensus used; Sources: BBG, Company, CMS (HK) estimate

Financial Summary

Profit & Loss

| RMB mn | FY20 | FY21 | FY22E | FY23E | FY24E |
|--|-----------------|------------------|------------------|------------------|------------------|
| Total net revenues | 745,802 | 951,592 | 1,048,068 | 1,254,467 | 1,520,542 |
| Cost of revenues | (636,694) | (822,525) | (900,319) | (1,073,793) | (1,299,285) |
| Gross profit | 109,108 | 129,067 | 147,749 | 180,674 | 221,258 |
| Fulfillment | (48,700) | (59,055) | (64,893) | (77,768) | (92,751) |
| Marketing | (27,156) | (38,743) | (39,080) | (51,030) | (58,456) |
| R&D | (16,149) | (16,332) | (17,494) | (20,443) | (24,019) |
| G&A | (6,409) | (11,562) | (10,382) | (12,254) | (14,092) |
| Impairment | 0 | 0 | 0 | 0 | 0 |
| Total operating expenses | (98,414) | (125,693) | (131,849) | (161,495) | (189,318) |
| Gain on disposals of long-lived assets | 1,649 | 767 | 1,229 | 0 | 0 |
| Operating profit/(loss) | 12,343 | 4,141 | 17,130 | 19,179 | 31,939 |
| Share of results of equity investees | 4,291 | (4,918) | (1,931) | 0 | 0 |
| Net interest income & other income | 34,185 | (1,804) | (1,948) | 3,438 | 4,049 |
| Income/(loss) before tax | 50,819 | (2,582) | 13,251 | 22,617 | 35,988 |
| Income tax expense | (1,482) | (1,887) | (4,061) | (3,392) | (5,398) |
| Non-controlling interest | 68 | 908 | 928 | 200 | 200 |
| Net income | 49,405 | (3,561) | 10,118 | 19,424 | 30,790 |
| Non-GAAP net income | 16,828 | 17,206 | 26,305 | 31,346 | 45,003 |

Financial Ratios

| | FY20 | FY21 | FY22E | FY23E | FY24E |
|-------------------------------|-------|-------|-------|-------|-------|
| yoy growth rate | | | | | |
| Direct sales | 27.6% | 25.1% | 6.4% | 17.3% | 20.8% |
| Service and others | 42.0% | 44.7% | 32.3% | 31.1% | 22.9% |
| Revenue | 29.3% | 27.6% | 10.1% | 19.7% | 21.2% |
| Non-GAAP net income | 56.5% | 2.3% | 52.9% | 19.2% | 43.6% |
| Profitability | | | | | |
| Non-GAAP gross margin | 14.6% | 13.6% | 14.2% | 14.5% | 14.6% |
| Non-GAAP NP margin | 2.3% | 1.8% | 2.5% | 2.5% | 3.0% |
| ROE | 12.5% | 8.7% | 12.1% | 13.0% | 16.2% |
| ROA | 4.9% | 3.7% | 5.1% | 5.4% | 6.8% |
| Operating efficiency | | | | | |
| Inventory turnover days | 33.5 | 29.9 | 31.7 | 30.2 | 30.0 |
| AR turnover days | 3.3 | 3.6 | 3.9 | 3.3 | 3.3 |
| AP turnover days | 56.5 | 54.9 | 59.5 | 57.0 | 56.7 |
| Per share ratios (RMB) | | | | | |
| Sales per share | 479.8 | 612.5 | 662.6 | 788.7 | 956.0 |
| Sales per share (USD) | 74.0 | 94.2 | 98.9 | 117.7 | 142.7 |
| Sales per share (HKD) | 286.9 | 365.1 | 383.2 | 456.2 | 552.9 |
| Non-GAAP EPADS | 10.8 | 10.8 | 16.6 | 19.7 | 28.3 |
| NG EPADS (USD) | 1.7 | 1.7 | 2.5 | 2.9 | 4.2 |
| NG EPADS (HKD) | 6.5 | 6.4 | 9.6 | 11.4 | 16.4 |
| Valuation (x) | | | | | |
| P/S (US) | 0.9 | 0.7 | 0.7 | 0.6 | 0.5 |
| P/S (HK) | 0.9 | 0.7 | 0.6 | 0.5 | 0.4 |
| P/E (US) | 39.4 | 39.8 | 26.6 | 22.4 | 15.6 |
| P/E (HK) | 38.2 | 38.5 | 25.7 | 21.7 | 15.1 |

Balance Sheet

| RMB mn | FY20 | FY21 | FY22E | FY23E | FY24E |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash and cash equivalents | 86,085 | 70,767 | 77,419 | 98,630 | 136,859 |
| Short-term investments | 60,577 | 114,564 | 114,564 | 120,292 | 126,307 |
| Accounts receivable | 7,112 | 11,900 | 10,481 | 12,545 | 15,205 |
| Inventories | 58,933 | 75,601 | 81,029 | 96,641 | 116,936 |
| PPE | 22,597 | 32,944 | 39,730 | 46,104 | 52,307 |
| Investment in equity investees | 58,501 | 63,222 | 70,222 | 77,222 | 84,222 |
| Others | 128,483 | 127,508 | 144,251 | 162,027 | 184,351 |
| Total assets | 422,288 | 496,507 | 537,696 | 613,462 | 716,187 |
| Short-term borrowing | 0 | 4,368 | 0 | 0 | 0 |
| Long-term borrowing | 9,595 | 9,386 | 10,606 | 11,879 | 13,304 |
| Non-recourse securitization debt | 0 | 0 | 0 | 0 | 0 |
| Accounts payable | 106,818 | 140,484 | 153,054 | 182,545 | 220,878 |
| Others | 84,256 | 95,485 | 110,230 | 125,788 | 145,777 |
| Total liabilities | 200,669 | 249,723 | 273,890 | 320,212 | 379,959 |
| Total shareholders' equity | 187,543 | 208,912 | 226,863 | 256,507 | 299,685 |
| Non-controlling interests | 16,943 | 36,661 | 35,733 | 35,533 | 35,333 |
| Total equity | 204,486 | 245,572 | 262,596 | 292,040 | 335,017 |
| Redeemable NCI held for sale | 17,133 | 1,212 | 1,212 | 1,212 | 1,212 |

Cashflow Statement

| RMB mn | FY20 | FY21 | FY22E | FY23E | FY24E |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Operating cashflow | 42,544 | 42,299 | 38,212 | 55,284 | 76,912 |
| Net income/(loss) | 49,337 | (4,468) | 9,190 | 19,224 | 30,590 |
| Depreciation and amortization | 6,068 | 6,232 | 9,883 | 12,469 | 15,356 |
| Share-based compensation | 4,156 | 9,134 | 7,834 | 10,220 | 12,387 |
| Share of results of equity investees | (4,291) | 4,918 | 0 | 0 | 0 |
| Working capital chg | 18,678 | 19,518 | 11,305 | 13,371 | 18,578 |
| Others | (31,403) | 6,966 | (0) | 0 | 0 |
| CF from IA | (57,811) | (74,248) | (34,774) | (36,905) | (41,968) |
| Purchase of PPE and software | (3,370) | (5,562) | (10,481) | (12,545) | (15,205) |
| Net addition of ST investments | (35,598) | (52,557) | 0 | (5,728) | (6,015) |
| Others | (18,842) | (16,129) | (24,293) | (18,633) | (20,748) |
| CF from FA | 71,072 | 19,503 | 3,215 | 2,833 | 3,285 |
| Net addition of borrowing | 0 | 0 | 3,215 | 2,833 | 3,285 |
| Proceed from ordinary shares | 31,342 | 0 | 0 | 0 | 0 |
| Others | 39,730 | 19,503 | 0 | 0 | 0 |
| Net cash flow | 50,723 | (13,944) | 6,654 | 21,211 | 38,229 |

Note: Closing price as of Jan. 5, 2023

Sources: Bloomberg, Company, CMS (HK) estimates

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 |

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