

Soho China Limited (410 HK)

Overweight

Target price (HKD)	6.50
Share price (HKD)	5.36
Forecast dividend yield (%)	5.8
Potential return (%)	27.1

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Dec	2014 a	2015 e	2016 e
HSBC EPS	0.34	0.23	0.14
HSBC PE	12.6	18.9	31.3
Performance	1M	3M	12M
Absolute (%)	-1.7	-7.9	-10.1
Relative ^a (%)	-0.9	-8.0	-30.1

Note: (V) = volatile (please see disclosure appendix)

6 March 2015

Michelle Kwok*

Analyst
The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6918
michellekwok@hsbc.com.hk

Derek Kwong*

Analyst
The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6629
derekkwong@hsbc.com.hk

Albert Tam*

Associate
The Hongkong and Shanghai Banking Corporation Limited
+852 2822 4395
albert.p.h.tam@hsbc.com.hk

View HSBC Global Research at:
<http://www.research.hsbc.com>

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

OW: Decent progress but Shanghai faces more competition

- **Decent leasing progress underpinned by favourable office market dynamics in Beijing and Shanghai**
- **Net gearing set to increase further, absent an asset sale**
- **Maintain OW with a new TP of HKD6.50 (vs. HKD6.60)**

Headline miss in FY14 results; other line items were in-line. FY14 core profit of RMB1,778m is down 60% y-o-y, 11% and 17% below our and consensus estimates, mainly due to a 9% miss in property development revenue. Core profit margin of 29% was slightly below our forecast of 30%. Final dividend of RMB0.13 and the full year dividend of RMB0.25 remain flat y-o-y. The implied dividend yield is 5.8%, consistent with yield levels that SOHO has been paying over the past five years.

Some encourage leasing progress, but much work needs to be done in 2015. SOHO has made some progress on the leasing front in 2014 and YTD amid favourable commercial property environments in Beijing and Shanghai. While the supply/demand dynamics continue to be strong in Beijing's Grade A office market, increasing supply in Shanghai will probably lead to weaker landlord sentiment. With new completions in 2015 concentrated in Shanghai, SOHO will need to continue to step up its effort in leasing up its commercial portfolio.

Opportunistic asset sale is the right approach. In 2014, SOHO sold three projects in Shanghai for a total consideration of RMB8.3bn. Strategically, we believe this demonstrates that SOHO is still taking an opportunistic approach in the sales market which is positive for cash flow management. However, if we assume no further asset sales in 2015, SOHO's net gearing would edge up further to c25% given that rental income remains insignificant at cRMB1bn which is insufficient to cover total operating cash outflow of cRMB4.5bn, based on our forecast.

Maintain OW with a new TP of HKD6.50. We upgraded the stock from N to OW in February on valuation which we believe continues to look attractive at 50% discount to our revised NAV estimate of HKD13.0 (from HKD13.1). The company continues to offer decent and consistent dividend yield which presents another investment attribute. Our new TP is HKD6.50 (from HKD6.60), based on unchanged on 50% (-0.5 SD) discount to our revised NAV estimate. Key downside risks include lower-than-expected leasing progress and faster-than-expected deterioration in financial leverage.

Index ^a	HSCEI
Index level	11,607
RIC	0410.HK
Bloomberg	410 HK

Source: HSBC

Enterprise value (CNYm)	24,663
Free float (%)	36
Market cap (USDm)	3,573
Market cap (HKDm)	27,869

Source: HSBC

Financials & valuation SOHO China

Overweight

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (RMBm)				
Property sales revenue	5,674	2,902	1,173	0
Property investment & other revenue	424	1,106	1,330	2,538
Cost of sales	(3,020)	(1,816)	(936)	(711)
Gross profit	3,078	2,192	1,566	1,828
SG&A	(478)	(553)	(559)	(576)
Other income and gains	586	0	0	0
Operating profit/EBIT	3,186	1,639	1,007	1,252
Net interest expense	378	135	23	(31)
Non operating profit/loss	3,125	0	0	0
PBT	6,689	1,773	1,030	1,221
Taxation	(2,538)	(585)	(315)	(305)
Minority interests	(72)	0	0	0
Net profit	4,080	1,188	715	916
Net impact of ppty rev reserve	2,302	0	0	0

Cash flow summary (RMBm)

Cash flow from operations	638	36	765	125
Capex	(666)	(408)	(1,156)	(850)
Other investing activities	(690)	0	0	0
Dividends paid	(1,306)	(1,306)	(1,306)	(1,306)
Other financing activities	3,644	(385)	1,898	3,536
Net change in cash	1,618	(2,064)	200	1,506
Cash at the beginning	10,519	12,137	10,073	10,273
Cash at the end	12,137	10,073	10,273	11,779

Balance sheet summary (RMBm)

Shareholders' funds	39,363	39,244	38,654	38,263
Long-term liabilities	18,909	14,754	10,892	11,094
Minority interests	1,097	1,097	1,097	1,097
Deferred items	5,933	5,933	5,933	5,933
Total capital employed	65,302	61,029	56,576	56,387
Fixed assets	53,526	54,749	57,803	58,704
Other assets	5,538	5,552	5,567	5,581
Current assets	17,731	16,558	16,447	18,276
Total assets	76,794	76,860	79,817	82,561

Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
y-o-y % change				
Revenue	-58%	-34%	-38%	1%
Operating profit	-54%	-40%	-29%	18%
PBT	-46%	-73%	-42%	18%
Reported EPS	-48%	-71%	-40%	28%
HSBC EPS	-62%	-33%	-40%	28%

Ratios (%)

ROIC ex-exceptional	3%	2%	1%	2%
ROAE ex-exceptional	4%	3%	2%	2%
ROAA ex-exceptional	2%	2%	1%	1%
Operating margin	64%	58%	66%	77%
Core profit margin	29%	30%	29%	36%
Interest cover ex-exceptional (x)	6.1	1.7	1.1	1.1
Net debt/equity (incl. restricted cash)	20%	24%	29%	34%

Per share data (RMB)

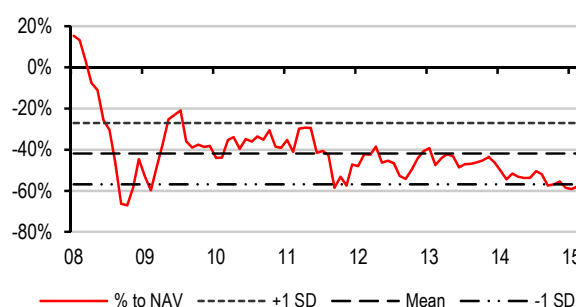
Reported EPS (diluted)	0.78	0.23	0.14	0.18
HSBC EPS (diluted)	0.34	0.23	0.14	0.18
DPS	0.25	0.25	0.25	0.25
BV	7.53	7.51	7.40	7.32

SOHO China: NAV breakdown

	(RMBm)	(HKD/sh)	% of GAV
Development properties			
Office/Retail	1,040	0.2	1.6%
Investment properties			
Office/Retail	63,072	15.1	98.4%
GAV	64,112	15.3	100.0%
Net debt (excluding restricted cash)	(9,346)	(2.2)	
Outstanding LAT	(339)	(0.1)	
Outstanding land premium	0	0.0	
12-mo fwd NAV	54,427	13.0	

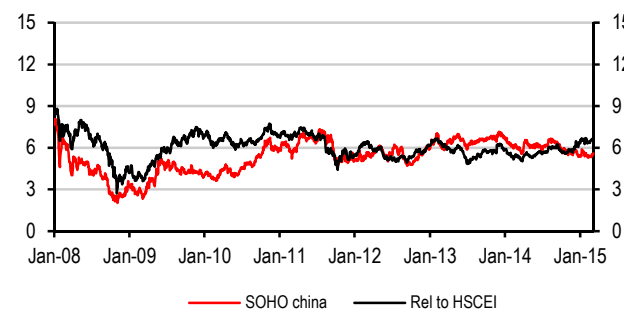
Source: HSBC estimates

NAV discount chart



Source: Company data, Thomson Reuters Datastream, HSBC estimates

Price relative



Source: Thomson Reuters Datastream, HSBC estimates

Note: Priced at close of 6 March 2015

Some leasing progress made but still much work to be done

SOHO had completed 645k sqm GFA commercial property in 2014, a peak year for new completions. Some leasing progress was made during the year amid favourable commercial property environment in Beijing and Shanghai, particularly in Beijing. The Grade A office market in Beijing has substantially no new supply in the CBD and Finance Street while the bulk of the upcoming new completions are owner occupied, implying limited new lettable area, according to JLL. With demand from domestic companies remaining strong and a favourable supply backdrop, overall Beijing Grade A office vacancy rate was tight at 2.5% in end-14 and this trend is expected to persist. JLL expects rent growth to accelerate in 2015, up c6% y-o-y. In Shanghai, office leasing market dynamics was also quite decent which resulted in net positive absorption, but increasing supply over the next few years means more intense competition and perhaps slightly weaker landlord sentiment. As such, JLL expects more moderate rent growth at 1.3% y-o-y.

For the newly completed projects in 2014, Wangjing SOHO Tower 3 office space has achieved 100% occupancy in 9 months as of the end of January-15, while Fuxing Plaza's occupancy rate went up from 20% (office) and 50% (retail) in end-13 to an 86.8% overall at the end of 2014. On the other hand, much work still needs to be done in Guanghualu SOHO II and Sky SOHO where occupancy rates remained below 10%. We also point out that all new completions in 2015 are in Shanghai where there is no shortage of new office supply. Hence, SOHO will need to continue to step up its effort in leasing up its commercial portfolio in 2015.

Completion schedule of key projects and latest occupancy rate

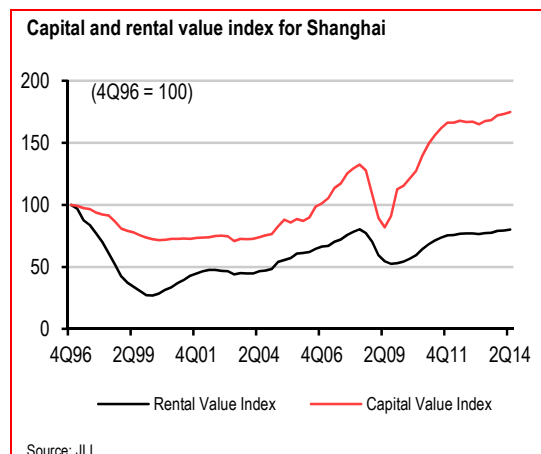
Project	City	Use	Attri. GFA (sqm)	Interest	End-14 occupancy
2009 Completion					
Tiananmen South (Qianmen)	Beijing	Retail	54,700	100%	76%
2012 Completion					
SOHO Century Plaza	Shanghai	Retail, office	59,000	100%	95%
2014 Completion					
Wangjing SOHO (Tower 3)	Beijing	Retail, office	170,000	100%	68.9%*
Guanghualu SOHO II	Beijing	Retail, office	166,000	100%	6.0%
SOHO Fuxing Plaza	Shanghai	Retail, office	137,000	100%	86.6%**
Sky SOHO ***	Shanghai	Retail, office	171,500	100%	7.3%
2015 Completion					
Hongkou SOHO	Shanghai	Retail, office	96,000	100%	N/A
Bund SOHO	Shanghai	Retail, office	130,000	90%	N/A
Bund 8-1 Land	Shanghai	Retail, office, others	213,000	50%	N/A
2016 Completion					
SOHO Tianshan Plaza	Shanghai	Retail, office, hotel	170,000	100%	N/A
2018 Completion					
Leeza Project	Beijing	Retail, office	170,000	100%	N/A
Gubei Project	Shanghai	Retail, office	150,000	100%	N/A

Source: Company data

* As at end-Jan

**As at end-Feb

***On Sep 2014, a total GFA of 100k sqm of Sky SOHO was sold to Ctrip. The remaining part will be held by SOHO China as investment properties.



Still being opportunistic in asset sales – the right approach

In 2014, SOHO sold three projects in Shanghai for a total consideration of RMB8.3bn. These projects include SOHO Hailun Plaza, SOHO Jing'an Plaza and Sky SOHO. Strategically, we believe this demonstrates that SOHO is still taking an opportunistic approach in the sales market which is positive for cash flow and balance sheet management, given the capital intensive nature of investment property development.

Sky SOHO case study

In September 2014, SOHO successfully sold part of Sky SOHO for RMB3.05bn, or RMB30k/sqm. While this transaction led to a small accounting loss in FY14 of RMB7.3m, the sales price did generate an economic gain. Based on our understanding, the accounting loss was due to a previously booked revaluation gain which did not account for any provision for LAT given that SOHO had no intention to sell the asset at the time of the revaluation. Management indicated that the book cost of Sky SOHO would be below the actual sale price after appropriating accounting for LAT. In our view, the transaction made financial sense and has certainly helped SOHO better position itself in terms of balance sheet management. SOHO bought the site in 2010 for RMB1.56bn while the total development cost of the project is estimated at RMB2.3bn. With this sale, the company was able to recoup c80% of this project's total investment.

The remaining portion of Sky SOHO is comprised of 128,130sqm, of which office and retail accounts for 102,964sqm and 25,166sqm, respectively. According to Soufun, office rent at Sky SOHO is around RMB3.8/sqm/day. Taking into account the total land and development cost of RMB17,134/sqm, we calculate yield on cost of 8.4% for office. And based on retail rent of RMB8/sqm/day, the implied yield on cost is around 10.5%.

Sky SOHO case study

Acquisition date	Aug-10	Total GFA (sqm)	243,000
Consideration (RMB bn)	1.6		
Land cost (RMB/sqm)	7,046	Sold (sqm) in Sept-14	100,167
Est. development cost (RMB bn)	2.3	Lettable GFA retained (sqm)	128,130
Est. development cost (RMB/sqm)	10,088	Office	102,964
Total cost (RMB bn)	3.9	Retail	25,166
Total cost (RMB/sqm)	17,134		
Yield on cost analysis			
Office		Retail	
Assumed rent (RMB/sqm/day)	4.0	Assumed rent (RMB/sqm)	5
Annual rental income (RMB)	140,854,752	Annual rental income (RMB)	45,298,800
Total cost for office portion for investment (RMB)	1,764,185,176	Total cost for retail portion for investment (RMB)	431,194,244
Office - yield on cost	8.4%	Retail - yield on cost	10.5%

Source: Company data, Soufun, HSBC estimate

Net gearing set to increase further but remains manageable

Net gearing ratio is up slightly from 17% in end-13 to 19% in end-14 but still remains one of the lowest in the sector. Total cash on hand is ample at RMB12.5bn in end-14. In 2015, we expect net gearing level to edge up to 25%, as the forecast rental income of RMB1.1bn is insufficient to cover construction cost of RMB2.5bn, interests cost of RMB1bn and other expenses of RMB1.1bn. Net gearing could be better preserved in case of any non-core asset disposal, but could also deteriorate further due to unexpected acquisition outlay.

SOHO 3Q – the latest product

SOHO 3Q is the company's latest product. This is the office of the mobile era, as SOHO puts it. SOHO 3Q offers modern shared office spaces which allow prospective tenants to work flexibly given the option to rent a desk or a private office for as short as one week, while rental payment can be made via their mobile phones. Conceptually, 3Q is similar to what Regus, which is a company that provides business centres globally. From the financial standpoint, SOHO expects 3Q to bring in revenue of USD83m, assuming full capacity of its planned 8,000 seats, while management also indicated potential operating and net profile margin of 40% and 20%, respectively. Given 3Q's niche business concept in China, the demand profile is difficult to gauge at the moment until the planned initiative of 8,000 seats fully comes online by October. At 20% net margin, the implied net profit from 3Q is cRMB100m, which is insignificant and only accounts for 8% of our FY15 core profit forecast.

What's changed? EPS and target prices

We have revised our FY15e/16e core EPS up by 11.6%/11.8% to reflect the higher-than-expected occupancy achieved in Wangjing SOHO Tower 3 and SOHO Fuxing Plaza. Wangjing SOHO has achieved full occupancy in early 2015 and Fuxing has reached over 86% at the end of Feb-14. At the same time, we introduce our FY17e EPS of RMB0.18, which implies growth of 28% y-o-y. Our NAV estimate remains largely unchanged at HKD13.0, slightly down by 1% compare to our previous estimate.

We reiterate our Overweight rating on the stock. We revise down our TP by 1.5% to HKD6.50 (from HKD6.60), on an unchanged target discount of 50% (0.5 standard deviation below the mean) to our new NAV estimate of HKD13.0 per share. Under our research model, for stocks without a volatility indicator,

the Neutral band is 5 percentage points above and below the hurdle rate for China stocks of 9.0%. Our target price implies a potential return of 27.1% (including a forecast dividend yield of 5.8%), which is above the Neutral band of our ratings model.

Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Key downside risks are slower-than-expected lease-up progress and uncertainties related to macroeconomic and property-specific policies in China.

FY14 results review

FY14 core profit of RMB1,778m is down 60% y-o-y, 11% and 17% below our and consensus estimate, mainly due to a 9% miss in property development revenue. Core profit margin of 29% came in slightly below our forecast of 30%. Final dividend of RMB0.13 and full year dividend of RMB0.25 remain flat y-o-y. The full year dividend yield remains above 5% at 5.8%, consistent with yield levels SOHO has been paying over the past five years. Despite the headline miss, the results were in-line overall.

Turnover decreased amid transition to a pure landlord. Total turnover was down 58% y-o-y, due to a 60% y-o-y decline in property sales revenue, offset by an increase of 52% in its rental income although absolute rental income remains insignificant accounting for only 7% of total revenue.

Gross profit margin and core profit margin slightly declined. Gross profit margin was down 5ppt y-o-y to 50% while core net profit margin was approximately 29%, down 1.2ppt y-o-y. The decline in gross margin was a function of change in product mix.

Selling and administrative expenses was down 34% y-o-y. Selling expenses in FY14 was down 46% y-o-y to RMB200m, mainly owing to the decline in property sales during the period.

Interest expense: Finance cost was up 163% y-o-y to RMB330m, mainly due to a decline in interest capitalization rate from 91% in end-13 to 71% in end-14.

Balance sheet position: The net gearing level edged up by 2.6ppt y-o-y to 20% as at end-14, owing to an increase in long-term borrowings, partially offset by an 18% y-o-y increase in cash to RMB12,101m.

Dividend: The company declared a final dividend of RMB0.13 per share, bring the full-year dividend to RMB0.25 per share, unchanged y-o-y. The payout ratio increased from 28% in FY13 to 73% in FY14.

SOHO China - FY14 results comparison table

(RMBm)	FY2013	FY2014	y-o-y % chg	Remarks
Turnover				
Sales of properties	14,342	5,674	-60%	Fewer sales of properties during the transition period from "build-to-sell" to "build-to-hold" model.
Rental income	279	424	52%	The increase in rental income is attributable to the higher average occupancy rate of Qianmen Avenue Project and SOHO Century Plaza as well as the contribution from newly completed Wangjing SOHO Tower 3, SOHO Fuxing Plaza and Sky SOHO.
Total Turnover	14,621	6,098	-58%	
Cost of sales	-6,508	-3,020	-54%	
Gross profit	8,114	3,078	-62%	
Selling and admin expenses	-721	-478	-34%	
Others expenses/income	176	-12	-107%	
Other gains (mainly revaluation gains)	4,220	3,723	-12%	Includes RMB7.26m loss on disposal of Sky SOHO
Profit from operating activities	11,789	6,311	-46%	
Finance income	807	708	-12%	
Finance cost	-125	-330	163%	Due to higher total borrowing, while the interest capitalization rate declined from 91% in end-13 to 71% in end-14.
Profit before taxation	12,470	6,689	-46%	
Taxation	-5,034	-2,538	-50%	
Minority interests	-48	-72	49%	
Net profit	7,388	4,080	-45%	
Revaluation gain on IP, net of tax	2,948	2,302	-22%	
Core profit	4,440	1,778	-60%	
Reported EPS (RMB)	1.49	0.78	-48%	
Core EPS (RMB)	0.90	0.34	-62%	
DPS (RMB)	0.25	0.25	0%	
Payout ratio	28%	73%	46ppt	
Liquidity	Dec-13	Dec-14		
Long-term borrowings	14,310	18,909	32%	Senior notes and bank loans of approx. RMB20bn, equivalent to 26% of the total assets. (FY13: 26%)
Short-term borrowings	2,760	1,353	-51%	
Cash and bank deposits	10,253	12,101	18%	
Cash and bank deposits (incl. res cash)	10,650	12,478	17%	
Net debt /(cash) - excluding res cash	6,817	8,161	20%	
Net debt /(cash) - including res cash	6,421	7,784	21%	
Shareholders' equity	37,461	39,363	5%	
Net gearing (excluding res cash)	18%	21%	2.5ppt	
Net gearing (including res cash)	17%	20%	2.6ppt	
Margins			ppt	
Gross margin	55%	50%	-5.0	
PBT margin	85%	110%	24.4	
Reported NP margin	51%	67%	16.4	
Underlying NP margin	30%	29%	-1.2	

Source: Company data, HSBC

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Michelle Kwok, Derek Kwong and Albert Tam

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

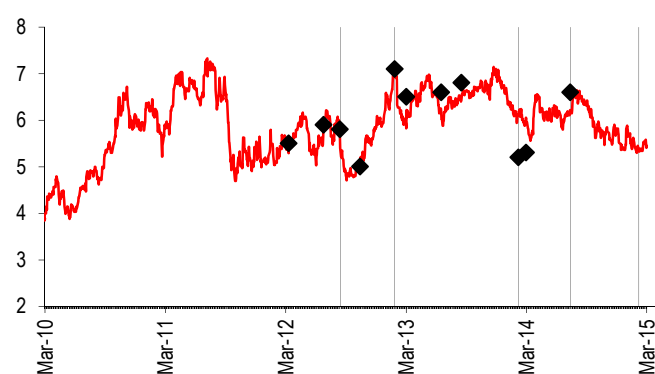
Rating distribution for long-term investment opportunities

As of 06 March 2015, the distribution of all ratings published is as follows:

Overweight (Buy)	41%	(30% of these provided with Investment Banking Services)
Neutral (Hold)	40%	(28% of these provided with Investment Banking Services)
Underweight (Sell)	19%	(19% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Soho China Limited (0410.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Neutral	Neutral (V)	17 August 2012
Neutral (V)	Neutral	30 January 2013
Neutral	Underweight	09 February 2014
Underweight	Neutral	16 July 2014
Neutral	Overweight	09 February 2015
Target Price	Value	Date
Price 1	5.50	14 March 2012
Price 2	5.90	28 June 2012
Price 3	5.80	17 August 2012
Price 4	5.00	17 October 2012
Price 5	7.10	30 January 2013
Price 6	6.50	06 March 2013
Price 7	6.60	20 June 2013
Price 8	6.80	20 August 2013
Price 9	5.20	09 February 2014
Price 10	5.30	04 March 2014
Price 11	6.60	16 July 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SOHO CHINA LIMITED	0410.HK	5.45	05-Mar-2015	2, 4, 6, 7

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 31 January 2015 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.
- 7 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

Additional disclosures

- 1 This report is dated as at 06 March 2015.
- 2 All market data included in this report are dated as at close 05 March 2015, unless otherwise indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Disclaimer

** Legal entities as at 30 May 2014*

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Bank Canada, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Brasil SA – Banco Múltiplo; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Issuer of report

The Hongkong and Shanghai Banking Corporation Limited

Level 19, 1 Queen's Road Central

Hong Kong SAR

Telephone: +852 2843 9111

Fax: +852 2596 0200

Website: www.research.hsbc.com

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in the conduct of its Hong Kong regulated business for the information of its institutional and professional investor (as defined by Securities and Future Ordinance (Chapter 571)) customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority. All enquires by recipients in Hong Kong must be directed to your HSBC contact in Hong Kong. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. It may not be further distributed in whole or in part for any purpose. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

In Canada, this document has been distributed by HSBC Bank Canada and/or its affiliates. Where this document contains market updates/overviews, or similar materials (collectively deemed "Commentary" in Canada although other affiliate jurisdictions may term "Commentary" as either "macro-research" or "research"), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any financial product or instrument (including, without limitation, any currencies, securities, commodities or other financial instruments).

© Copyright 2015, The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited. MICA (P) 157/06/2014, MICA (P) 136/02/2015 and MICA (P) 041/01/2015

Global Financial Institution Group Research Team

Carlo Digrandi
Global Head of Financial Institutions Research
+44 20 7991 6843 carlo.digrandi@hsbcib.com

Banks

Europe

Robin Down
Analyst, Global Sector Head, Banks
+44 20 7991 6926 robin.down@hsbcib.com

Peter Toeman
+44 20 7991 6791 peter.toeman@hsbcib.com

Iason Kepaptsoglou
+44 20 7991 6722 iason.kepaptsoglou@hsbcib.com

Lorraine Quoirez
+331 5652 4312 lorraine.quoise@hsbcib.com

Nitin Arora
+44 20 7991 6844 nitin2.arora@hsbcib.com

Johannes Thormann
Global Head of Exchanges
+49 211 910 3017 johannes.thormann@hsbc.de

CEEMEA

Andrzej Nowaczek
+44 20 7991 6709 andrzej.nowaczek@hsbcib.com

Aybek Islamov
+971 44 236 921 aybek.islamov@hsbcib.com

Vikram Viswanathan
+971 4 423 6931 vikramviswanathan@hsbc.com

Tamer Sengun
+90 212 376 46 15 tamersengun@hsbc.com.tr

Henry Hall
+27 11 676 4476 henry.hall@za.hsbc.com

Latin America Financials

Carlos Gomez-Lopez, CFA
+1 212 525 5253 carlos.gomezlopez@us.hsbc.com

Asia

Michael Chang
+852 2996 6555 michaelpchang@hsbc.com.hk

York Pun
+852 2822 4396 yorkkypun@hsbc.com.hk

Michael Chu
+852 2996 6926 michaelwschu@hsbc.com.hk

Alice Li
+852 2822 2981 aliceli@hsbc.com.hk

Anthony Lam
+852 2822 4202 anthony.t.y.lam@hsbc.com.hk

Sinyoung Park
+822 3706 8770 sinyoungpark@kr.hsbc.com

Sachin Sheth
+91 22 2268 1224 sachinsheth@hsbc.co.in

Tejas Mehta
+91 22 2268 1243 tejamehta@hsbc.co.in

Kar Weng Loo
+65 6658 0621 karwengloo@hsbc.com.sg

Xiushi Cai
+65 6658 0617 xiushicai@hsbc.com.sg

Bruce Warden
+8862 6631 2868 brucewarden@hsbc.com.tw

Jane Liu
+8862 6631 2869 jane.l.liu@hsbc.com.tw

Insurance

Europe

Kailesh Mistry
Analyst, Head of European Insurance
+44 20 7991 6756 kailesh.mistry@hsbcib.com

Dhruv Gahlaut
+44 207 991 6728 dhruv.gahlaut@hsbcib.com

Steven Haywood
+44 207 991 3184 steven.haywood@hsbcib.com

Thomas Fossard
+33 1 56 52 43 40 thomas.fossard@hsbc.com

Abilash P T
+44 207 9914475 abilash.p.t@hsbc.com

Asia

James Garner
Analyst, Head of Asian Insurance
+852 2822 4321 james.e.garner@hsbc.com.hk

Jianwei Yang
+852 2914 9575 jianwei.yang@hsbc.com.hk

Bolun Tang
+852 2822 2895 bo.lun.tang@hsbc.com.hk

Sinyoung Park
+822 3706 8770 sinyoungpark@kr.hsbc.com

Real Estate

Europe

Stephen Bramley-Jackson
Head of Real Estate, Europe
+44 20 7992 3102 stephen.bramley-jackson@hsbcib.com

Thomas Martin
+49 211 910 3276 thomas.martin@hsbc.de

Stéphanie Dossmann
+33 1 56 52 43 01 stephanie.dossmann@hsbc.com

Asia

Derek Kwong
Head of Real Estate Equity Research, Asia
+852 2996 6629 derekkwong@hsbc.com.hk

Jenny Lai
Head of Research, Taiwan
+8862 6631 2860 jennylai@hsbc.com.tw

Ashutosh Narkar
+91 22 2268 1474 ashutoshnarkar@hsbc.co.in

Puneet Gulati
+91 22 2268 1235 puneetgulati@hsbc.co.in

Michelle Kwok
+852 2996 6918 michellekwok@hsbc.com.hk

Perveen Wong
+852 2996 6571 perveenwong@hsbc.com.hk

Pratik Burman Ray
+65 6658 0611 pratikray@hsbc.com.sg

Frank Lee
+852 3941 7008 frankcclee@hsbc.com.hk

Albert Tam
+852 2822 4395 albert.p.h.tam@hsbc.com.hk

CEEMEA

Levent Bayar
+90 212 376 46 17 leventbayar@hsbc.com.tr

LatAm

Jonathan Brandt
+1 212 525 4499 jonathan.l.brandt@us.hsbc.com

Ivan Enriquez
+52 55 5721 2397 ivan.enriquez@hsbc.com.mx

Fred Mendes
+55 11 3847 5436 frederico.p.mendes@hsbc.com.br

Credit Research

Banks and Insurance

Asia

Dilip Shahani
Analyst, Head of Global Research, Asia-Pacific
+852 2822 4520 dilipshahani@hsbc.com.hk

Devendran Mahendran
Sovereigns and Financial Institutions
+852 2822 4521 devendran@hsbc.com.hk

Specialist Sales

Nigel Grinyer
+44 20 7991 5386 nigel.grinyer@hsbcib.com

Martin Williams
+44 20 7991 5381 martin.williams@hsbcib.com

Juergen Werner
+49 211 910 4461 juergen.werner@hsbc.de

Matthew Robertson
+44 20 7991 5077 matthew.robertson@hsbcib.com