

18 March 2015

持有
下调

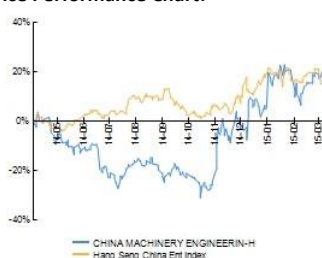
耐心等待

中国机械工程 (1829:HK)

Market Data: Mar,17

Closing Price (HK\$)	7.16
Price Target (HK\$)	6.80
HSCEI	11,607
HSCCI	4,454
52-week High/Low (HK\$)	6.96/3.87
Market Cap (US\$)	3,537
Market Cap (HK\$m)	27,436
Shares Outstanding (m)	4,126
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

Analyst

Leo Fan A0230511040074
ARG408

Contact

Leo Fan
fanlei@swsresearch.com
(+86) 21 23297818x7385

Related Reports

"CHINA MACHINERY ENGINEERING
CORP (1829:HK): Building bridges"
Nov 5,2014

Financial summary and valuation

	2012	2013	2014E	2015E	2016E
Revenue (Rmbm)	21,296.06	21,426.30	22,509.23	28,623.87	34,276.12
YoY (%)	3.79	0.61	5.05	27.17	19.75
Net income (Rmbm)	1,928.16	1,960.28	2,030.31	2,452.31	2,822.91
YoY (%)	30.96	1.67	3.57	20.78	15.11
EPS (Rmb)	0.48	0.48	0.49	0.59	0.68
Diluted EPS (Rmb)	0.48	0.48	0.49	0.59	0.68
ROE (%)	19.44	16.67	15.56	16.75	17.13
Debt/asset (%)	71.48	63.21	62.07	64.85	66.21
Dividend yield (%)	3.60	3.34	3.03	3.66	4.21
PE (x)	11.85	11.96	11.55	9.56	8.31
PB (x)	2.30	2.00	1.80	1.60	1.42
EV/Ebitda (x)	10.98	9.77	10.65	8.51	7.50

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

投资要点:

短期盈利受压，长期受益于一路一带战略。考虑到伊拉克项目的延迟超出我们原先的预期，2014 年新生效合同金额可能低于公司此前的指引和我们的预期，我们下调公司未来几年的盈利预测。

伊拉克项目的推迟超出预期。中国机械工程在伊拉克萨拉哈丁有两台 63 万千瓦电站工程项目。该项目自 2011 年 12 月 15 日签约，合同总额为 11.89 亿美元。2014 年 6 月，伊拉克政局动荡，公司启动紧急撤离机制，项目暂停。我们原本预期伊拉克政局将于 2015 年年初平静下来，项目将于年初顺利复工并把 2014 年拉下的施工进度顺利追回。伊拉克项目推进逊于预期，谨慎起见，我们假设伊拉克的项目在未来两年中对盈利没有贡献。公司撤离前以收到项目约 40% 的收入不受影响。

公司 2014 年新有效合同可能会逊于公司原先的目标。公司上半年仅 2 亿美金的项目生效，下半年仅公告了约 26 亿美金的合同生效，考虑到有一些项目由于金额较小，公司并未公告，我们预计公司 2014 年新生效合同金额约 30 亿美金，低于年初的目标。我们进而下调未来两年的收入预测。

阿根廷铁路项目最终生效。中国机械工程公告收到阿根廷铁路项目的预付款和出口信报的保函，项目历时三年后正式生效。项目总金额 24.7 亿美金，建设期 48 个月。由于该合同包含部分贸易类项目，利润率低于基建类，我们预计该项目的毛利率约为 10%。我们认为该项目在未来四年中将给公司盈利带来贡献。

耐心等待政策利好。公司在其 2012 年的招股书中公布公司控股股东有意于 2015 年年底前将从事国际工程承包的中国电工，中成套和中自控注入中国机械工程。由于目前该交易还未完成，我们没有在模型中将三家公司考虑进收入中，但是我们认为这三家公司共计将使中国机械工程的收入增加约 20-40%。同时从“一路一带”中亚和南亚投资战略讲话中，政府提到了更多的有利政策之后，公司股价已上升约 76%。然而政策出台到落地的时间差，我们认为未来两到三年益处还不能显现。

稍事休息。我们下调公司评级至持有。考虑到伊拉克项目的延迟超出我们原先的预期，2014 年新生效合同金额可能低于公司此前的指引和我们的预期，我们下调 2014 年 EPS 至人民币 0.49 元，2015 年 EPS 至人民币 0.59 元，2016 年 EPS 至人民币 0.68 元。对应下调目标价至 6.80 港币，自 2014 年 11 月我们推荐以来，公司股价上涨 34%。我们建议投资者等待更好的买入时机。

The company does not hold any equities or derivatives of the listed company mentioned in this report ("target"), but then we shall provide financial advisory services subject to the relevant laws and regulations. Any affiliates of the company may hold equities of the target, which may exceed 1 percent of issued shares subject to the relevant laws and regulations. The company may also provide investment banking services to the target. The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for relevant disclosure materials or log into www.swsresearch.com under disclosure column for further information. The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

Investment Highlights:

Earnings revision and policy upside. We revise down our earnings forecasts for CMEC on the basis of an indefinite suspension of works at its Iraqi project and a lower-than-targeted new contracts book, as well as weaker margin outlook.

Indefinite suspension in Iraq. CMEC evacuated its US\$1.19bn Salah Al-din 2x 630MW Power Plant construction project in mid-2014 due to the worsening political situation. Initially we anticipated a resumption of works by end-2014, but we now see limited prospect of a resumption before 2016. Due to the high level of uncertainty that the company can recommence work on the project in the near term, we adjust our forecasts to assume no contribution in the coming two years. Previously, we had noted that the company had received c.40% of the project value.

Contracting new orders. Our reviews of CMEC's announcements of new contracts secured over 2014 finds a significant shortfall compared with the company's target for the year, causing us to adjust our revenue forecasts for the forward two years.

Margin clarity in Argentina project. The company broke ground on its US\$2.47bn two-year Argentine railway project as of end-2014. We forecast a c.10% margin for the project, a relatively low level compared with its typical margins. We expect the project to contribute to earnings growth over the coming four years.

Policy benefits some way down the road. The company stated in its 2012 pre-IPO prospectus that central state-owned parent China National Machinery Industry Corp (Sinomach) intended to inject assets from three unlisted subsidiaries into CMEC by end-2015. As the deals have yet to be completed, we do not factor in additional revenues that may accrue as a result, but note that the three firms' combined revenue may enlarge CMEC revenue by 20-40%. Meanwhile, since government officials began attaching a greater policy priority in speeches to the "One Belt, One Road" Central and South Asia investment strategy, the company's stock has gained c.76%; however, we caution that benefits are unlikely within the next two-to-three years given the political agreements necessary before works can start.

Downgrade from BUY to Hold. To factor in lower than expected new orders, the impact of the Iraq project, and lower margins, we lower our EPS forecasts from Rmb0.53 to Rmb0.49 in 14E, from Rmb0.78 to Rmb0.59 in 15E and from Rmb0.84 to Rmb0.68 in 16E. We lower our target price from HK\$7.12 to HK\$6.80. Due to the recent surge in share price with limited fundamental support, particularly given our weaker earnings outlook, we see no further upside to the company's valuation from current levels and downgrade our rating from BUY to Hold.

New contract value

Based on our monitoring of CMEC project announcements over the past year, we found a significant shortfall compared with its initial full year target. We note that the company does not publicise details of all of its smaller projects, for which we make allowance. Nonetheless, we see little likelihood that the company secured more than US\$2.8bn in new contracts, representing a shortfall of c.30% from its original target of US\$4bn.

Fig1: New contracts summary 2014

Date of announcement	Project location	Project details	Project value	Project duration
1H14		Newly effective contract total value of 1H14	US\$197.2m	
14 December 2014	Argentina	1,500km stretch of the Belgrano cargo railway and equipment supply	US\$2.47bn	48mths
14 December 2014	Thailand	Construction of broadband network	US\$120m	12mths
2014 total			US2.79bn	

Source: Company data, SWS Research

Iraqi power plant

CMEC signed a US\$1.19bn contract to construct a 2x 630MW Power Plant in the Iraqi governorate of Salah Al-din on 15 December 2011. The project covers geographical surveys, design, equipment and material supply, performance testing of the units, training of staff on behalf of the owner and operating guidance during the one-year warranty period for the units. CMEC, as the general contractor, subcontracted most of the construction to suppliers. As a result, we do not expect the project to occur further costs prior to resumption of works. In addition, we estimate that the company had received c.40% of the contract value by the time it evacuated its staff.

Given the complexities of the situation and the high degree of uncertainty over how long it will take to retake the region from Islamic State control, we assume for the purpose of our three-year forecasts that the project has been written off, although the company's low level of equipment and other fixed asset investments, we assume almost zero impairment costs associated with such a write-off.

Argentine railway

The company broke ground on its US\$2.47bn two-year Argentine railway project as of end-2014. We forecast a c.10% gross margin for the project, a relatively low level compared with its typical margins of 12%-15%, as the project also includes trains and equipment procurement (a lower-margin business than construction). We expect the project to contribute to earnings growth over the coming four years.

Asset injection

CMEC parent China National Machinery Industry Corporation (SINOMACH), a central state-owned enterprise (SOE), intends to list several subsidiaries through an asset injection into CEMC. According to CMEC's pre-IPO prospectus, SINOMACH planned to transfer three companies to CMEC within three years of CMEC going public.

China National Electric Engineering Corporation (CNEEC) is focused on international engineering services, ranging from consultation, engineering, procurement & construction (EPC) and financing to maintenance. The company has economic and trade links in over 70 countries. The company generated revenue of Rmb3.75bn in 2011, the most recent full year of publicly available data.

China National Complete Engineering Corporation (CMCEC) provides project contracting services on civil construction, agricultural development, energy and environmental protection projects both domestically and overseas. The company booked revenue of Rmb1.46bn in 2011.

China National Automatic Control System Corporation (CACS) is mainly focused on industrial automation, intelligent building technology, the integration of computer management system, R&D, manufacture and marketing of mechanical and electrical products. The company also offers transportation and insurance services, generating revenue of Rmb1.53bn in 2011.

The three companies booked a combined revenue of Rmb6.74bn in 2011, equivalent to 32% of CMEC's total revenue in the same year.

Fig2: CNEEC, CMCEC and CACS revenue, 2011-1H2012

(Rmbm)	2011	1H2012
CNEEC	3,754	2,434
CMCEC	1,457	828
CACS	1,526	582
Total	6,737	3,844

Source: Company data, SWS Research

Given the similar business lines and mix of international and domestic projects among the three companies and CMEC, we believe it is reasonable to assume a relatively similar rate of revenue growth for the three companies since the most recent data was released in 2011 as CMEC.

We believe the three subsidiaries are likely to operate at a slightly lower net margin than CMEC, of c.5%, based on our assumption that management at these firms is less well incentivized to ensure costs are controlled. However, given the lack of publicly available information around the target companies' project roster or profitability, we conduct a scenario analysis using a range of net margins, with an upper limit at close to CMEC's net margin in 2011, of 10%. We found that, assuming a base case net profitability of 5% among all three companies, CMEC's net profit line would have received a bump of c.27.4%; a more negative assumption of an average net margin of 2% across all three companies would yield a 10.9% increase in CMEC's net profit for the year, while at the high-end, assuming all three companies achieved a similar net margin as CMEC of c.10%, the result would be a 54.7% increase to CMEC's 2011 bottom line. As a result, while we do not factor in any contribution from the companies as yet, we note the significant impact likely as and when any announcement regarding completion of the asset injection is made.

Fig3: Scenario analysis of contribution from acquisition targets to CMEC 2011 net profit

Net margin	Net profit contribution to CMEC (Rmbm)	CMEC 2011 net increase
2%	161.43	10.9%
5%	403.58	27.4%
10%	807.16	54.7%

Source: Company data, SWS Research

Adjusting forecasts

We cut our 15E revenue forecast from Rmb34.12bn to Rmb28.62bn, and downgraded our 16E revenue forecast from Rmb38.27bn to Rmb34.27bn, to remove assumptions of revenue from the company's Iraqi project and to account for the lower-than-expected 2014 new order book.

Fig4: Revenue forecast adjustments

(Rmbm)	2015E	2016E
Previous revenue forecast	34,124	38,277
Less: forecast revenue from Iraq project	4,318	801
Less: forecast revenue from new orders that have yet to materialize	1,182	3,200
Current revenue forecast	28,624	34,276

Source: Company data, SWS Research

We also cut our 15E and 16E gross and net profit line forecasts by a larger amounts than our revenue adjustments. We believe the company's Argentine project, which will contribute significant earnings over the coming years and which we expect to carry a lower-than-average gross margin, will weigh on the company's overall gross margin. Additionally, we see a higher expense ratio as likely in 2014 on the impact of the evacuation of personnel in Iraq, which likely drove the SG&A expenses line higher in 2014. We cut our 14E net profit forecast from Rmb2.17bn to Rmb2.03bn to factor in higher than expected expense ratio in 2H14.

Fig5: Key forecast adjustments

(Rmbm)	Revenue			Gross profit			Net profit		
	Previous	Current	Chg (%)	Previous	Current	Chg (%)	Previous	Current	Chg (%)
14E	22,509	22,509	0.0%	3,693	3,693	0.0%	2,170	2,030	-6.5%
15E	34,124	28,624	-16.1%	5,748	4,593	-20.1%	3,230	2,458	-23.9%
16E	38,277	34,276	-10.5%	6,218	5,377	-13.5%	3,474	2,823	-18.7%

Source: Company data, SWS Research

We cut our forecast cash flow from operations in 15E from Rmb10.01bn to Rmb5.86bn, due largely to the effects of our revenue forecast revision. We also expect a lower financing cost as a result in 15E, lowering from Rmb932m to Rmb674m due to declining cash flow and the influence of interest rate cuts likely in 15E. Declining net profit depressed the company's dividend payout, further reducing financing cost.

APPENDIX

Consolidated Income Statement

(Rmbm)	2012	2013	2014E	2015E	2016E
Revenue	21,296	21,426	22,509	28,624	34,276
CostofSales	17,565	17,684	18,816	24,031	28,899
GrossProfit	3,732	3,743	3,693	4,593	5,377
OtherIncome	10	353	353	353	353
SG&AExpenses	1,565	1,715	1,801	2,004	2,399
Ebitda	2,162	2,432	2,232	2,793	3,171
Ebit	2,063	2,328	2,108	2,661	3,034
FinanceCosts	553	336	646	667	796
ProfitBeforeTax	2,616	2,664	2,754	3,327	3,830
IncomeTaxExpense	688	704	724	875	1,007
MinorityInterests	0	1	0	0	0
ProfitfortheYear	1,928	1,960	2,030	2,452	2,823

Consolidated Cash Flow Statement

(Rmbm)	2012	2013	2014E	2015E	2016E
ProfitBeforeTaxation	2,616	2,664	2,754	3,327	3,830
DeprAndAmortisation	99	104	124	132	137
FinancingCost	553	336	646	667	796
LossesFromInvestments	0	0	0	0	0
ChangeInWorkingCapital	2,017	1,886	549	2,271	2,133
Others	5,692	(1,327)	4,391	6,773	6,850
CFFromOperatingActivities	6,972	(2,195)	2,192	5,945	5,426
Capex	(99)	(38)	(15)	(31)	(27)
OtherCFFromInvestingActivities	(2,501)	777	(36)	376	826
CFFromInvestingActivities	(2,597)	739	(51)	345	799
EquityFinancing	3,012	0	0	0	0
NetChangeInLiabilities	(98)	100	0	0	0
DividendAndInterestPaid	(365)	(795)	(722)	(869)	(999)
OtherCFFromFinancingActivities	0	0	0	0	0
CFFromFinancingActivities	2,549	(694)	(722)	(869)	(999)
NetCashFlow	6,924	(2,150)	1,419	5,420	5,226
FCFF	3,393	3,576	2,042	4,159	4,270
FCFE	2,742	3,340	1,396	3,492	3,474

Consolidated Balance Sheet

(Rmbm)	2012	2013	2014E	2015E	2016E
CurrentAssets	27,936	25,904	27,584	34,463	41,514
BankBalancesAndCash	12,089	14,550	15,969	21,389	26,615
TradeAndOtherReceivables	5,510	4,895	5,142	6,539	7,830
Inventories	226	213	226	289	348
OtherCurrentAssets	10,111	6,246	6,246	6,246	6,721
LongTermInvestment	0	0	0	0	0
PP&E	444	485	523	538	569
IntangibleAndOtherAssets	6,389	5,564	6,300	6,644	6,668
TotalAssets	34,770	31,953	34,407	41,646	48,751
CurrentLiabilities	24,271	19,790	20,936	26,604	31,874
Borrowings	134	234	234	234	234
TradeAndOtherPayables	10,943	12,227	13,010	16,615	19,981
OtherCurrentLiabilities	13,193	7,329	7,691	9,754	11,658
LongTermLiabilities	581	407	421	401	401
TotalLiabilities	24,852	20,197	21,357	27,005	32,275
MinorityInterests	(3)	16	(9)	(12)	(12)
ShareholderEquity	9,920	11,740	13,059	14,653	16,487
ShareCapital	4,018	4,126	4,126	4,126	4,126
Reserves	5,902	7,614	8,933	10,527	12,362
EquityAttributable	9,920	11,740	13,059	14,653	16,487
TotalLiabilitiesAndEquity	34,770	31,953	34,407	41,646	48,751

Key Financial Ratios

	2012	2013	2014E	2015E	2016E
Per share ratios (Rmb)					
Earnings per share	0.48	0.48	0.49	0.59	0.68
OperatingCFPerShare	1.74	(0.53)	0.53	1.44	1.32
DividendPerShare	0.20	0.19	0.17	0.21	0.24
NetAssetsPerShare	2.47	2.85	3.16	3.55	3.99
Key Operating Ratios(%)					
ROIC	14.90	14.19	11.63	13.11	13.32
ROE	19.44	16.67	15.56	16.75	17.14
GrossMargin	17.52	17.47	16.41	16.05	15.69
Ebitda Margin	10.15	11.35	9.92	9.76	9.25
Ebit Margin	9.69	10.87	9.37	9.29	8.85
GrowthRateOfRevenue	3.79	0.61	5.05	27.17	19.75
GrowthRateOfProfit	30.96	1.67	3.57	20.78	15.12
DebtToAssetRatio	71.48	63.21	62.07	64.85	66.21
TurnoverRateOfNetAssets	2.15	1.82	1.72	1.96	2.08
TurnoverRateOfTotalAssets	0.61	0.67	0.65	0.69	0.70
EffectiveTaxRate	26.29	26.42	26.29	26.29	26.29
DividendYield	3.60	3.34	3.03	3.66	4.21
Valuation Ratios (x)					
PE	11.85	11.96	11.55	9.56	8.31
PB	2.30	2.00	1.80	1.60	1.42
EV/Sale	1.11	1.11	1.06	0.83	0.69
EV/Ebitda	10.98	9.77	10.65	8.51	7.50

Information Disclosure:

The views expressed in this report accurately reflect the personal views of the analyst. The analyst declares that neither he/she nor his/her associate serves as an officer of nor has any financial interests in relation to the listed corporation reviewed by the analyst. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this report to any of the analyst, the Company or the group company(ies). A group company(ies) of the Company confirm that they, whether individually or as a group (i) are not involved in any market making activities for any of the listed corporation reviewed; or (ii) do not have any individual employed by or associated with any group company(ies) of the Company serving as an officer of any of the listed corporation reviewed; or (iii) do not have any financial interest in relation to the listed corporation reviewed or (iv) do not, presently or within the last 12 months, have any investment banking relationship with the listed corporation reviewed.

Undertakings of the Analyst

I (We) am (are) conferred the Professional Quality of Securities Investment Consulting Industry by the Securities Association of China and have registered as the Securities Analyst. I hereby issue this report independently and objectively with due diligence, professional and prudent research methods and only legitimate information is used in this report. I am also responsible for the content and opinions of this report. I have never been, am not, and will not be compensated directly or indirectly in any form for the specific recommendations or opinions herein.

Disclosure with respect to the Company

The company is a subsidiary of Shenwan Hongyuan Securities. The company is a qualified securities investment consulting institute approved by China Securities Regulatory Commission with the code number ZX0065.

Releasing securities research reports is the basic form of the securities investment consulting services. The company may analyze the values or market trends of securities and related products or other relevant affecting factors, provide investment analysis advice on securities valuation/ investment rating, etc. by issuing securities research reports solely to its clients.

The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for the relevant disclosure materials or log into www.swsresearch.com for the analysts' qualifications, the arrangement of the quiet period and the affiliates' shareholdings.

Introduction of Share Investment Rating

Security Investment Rating :

When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight : Industry performs better than that of the whole market ;

Equal weight : Industry performs about the same as that of the whole market ;

Underweight : Industry performs worse than that of the whole market.

We would like to remind you that different security research institutions adopt different rating terminologies and rating standards. We adopt the relative rating method to recommend the relative weightings of investment. The clients' decisions to buy or sell securities shall be based on their actual situation, such as their portfolio structures and other necessary factors. The clients shall read through the whole report so as to obtain the complete opinions and information and shall not rely solely on the investment ratings to reach a conclusion. The Company employs its own industry classification system. The industry classification is available at our sales personnel if you are interested.

HSCEI is the benchmark employed in this report.

Disclaimer :

This report is to be used solely by the clients of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities, hereinafter referred to as the "Company"). The Company will not deem any other person as its client notwithstanding his receipt of this report.

This report is based on public information, however, the authenticity, accuracy or completeness of such information is not warranted by the Company. The materials, tools, opinions and speculations contained herein are for the clients' reference only, and are not to be regarded or deemed as an invitation for the sale or purchase of any security or other investment instruments.

The clients understand that the text message reminder and telephone recommendation are no more than a brief communication of the research opinions, which are subject to the complete report released on the Company's website (<http://www.swsresearch.com>). The clients may ask for follow-up explanations if they so wish.

The materials, opinions and estimates contained herein only reflect the judgment of the Company on the day this report is released. The prices, values and investment returns of the securities or investment instruments referred to herein may fluctuate. At different periods, the Company may release reports which are inconsistent with the materials, opinions and estimates contained herein.

Save and except as otherwise stipulated in this report, the contactor upon the first page of the report only acts as the liaison who shall not provide any consulting services.

The clients shall consider the Company's possible conflict of interests which may affect the objectivity of this report, and shall not base their investment decisions solely on this report. The clients should make investment decisions independently and solely at your own risk. Please be reminded that in any event, the company will not share gains or losses of any securities investment with the clients. Whether written or oral, any commitment to share gains or losses of securities investment is invalid. The investment and services referred to herein may not be suitable for certain clients and shall not constitute personal advice for individual clients. The Company does not ensure that this report fully takes into consideration of the particular investment objectives, financial situations or needs of individual clients. The Company strongly suggests the clients to consider themselves whether the opinions or suggestions herein are suitable for the clients' particular situations; and to consult an independent investment consultant if necessary.

Under no circumstances shall the information contained herein or the opinions expressed herein forms an investment recommendation to anyone. Under no circumstances shall the Company be held responsible for any loss caused by the use of any contents herein by anyone. Please be particularly cautious to the risks and exposures of the market via investment.

Independent investment consultant should be consulted before any investment decision is rendered based on this report or at any request of explanation for this report where the receiver of this report is not a client of the Company.

The Company possesses all copyrights of this report which shall be treated as non-public information. The Company reserves all rights related to this report. Unless otherwise indicated in writing, all the copyrights of all the materials herein belong to the Company. In the absence of any prior authorization by the Company in writing, no part of this report shall be copied, photocopied, replicated or redistributed to any other person in any form by any means, or be used in any other ways which will infringe upon the copyrights of the Company. All the trademarks, service marks and marks used herein are trademarks, service marks or marks of the Company, and no one shall have the right to use them at any circumstances without the prior consent of the Company.

This report may be translated into different languages. The Company does not warrant that the translations are free from errors or discrepancies.

This report is for distribution in Hong Kong only to persons who fall within the definition of professional investors whether under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") or the Securities and Futures (Professional Investor) Rules (Chapter 571D of the laws of the Hong Kong under the SFO).

This report is for distribution in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) order 2001 (as amended) (the "Order") or (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc") of the Order (All such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons. Other Persons who are not Relevant Persons must not act or rely upon this document or any of its contents.

Disclaimer

This report was prepared, approved, published and distributed by the SWS Research Co., Ltd (subsidiary of Shenwan Hongyuan Securities) located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by Enclave Capital LLC, a U.S. registered broker dealer, on behalf of SWS Research Co., Ltd only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital LLC (19 West 44th Street, suite 1700, New York, NY 10036).

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. The information has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. SWS Research Co., Ltd has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such Information or (iv) any action resulting there from. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) provides the information for the purpose of the intended recipient's analysis and review. Accordingly you are advised to verify the factual accuracy, assumptions, calculations or completeness of the information.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Important US Regulatory Disclosures on Subject Companies

This material was produced by SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by Enclave Capital LLC and elsewhere in the world by SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or an authorized affiliate of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities). This document does not constitute an offer of, or an invitation by or on behalf of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates consider to be reliable. None of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

1. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more person of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. As of the publication of this report Enclave Capital LLC, does not make a market in the subject securities.
6. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report

Distribution in Singapore

If distributed in Singapore, this report is meant only for Accredited Investors and Institutional Investors as defined under Section 4A of the Securities and Futures Act of Singapore. If you are not an Accredited Investor or an Institutional Investor, you shall ignore the report and its contents. The Singapore recipients of the report are to contact the Singapore office of Shenyin Wanguo Singapore Private Limited at 65-6323-5208, or 65-6323-5209 in respect of any matters arising from, or in connection with, the report.