

## Texhong Textile

2678 HK

Target (HKD): 5.50 → 8.10

Upside: 2.1%

16 Mar price (HKD): 7.93

- 1 Buy
- 2 Outperform
- 3 Hold (unchanged)
- 4 Underperform
- 5 Sell

# Awaiting more visibility

### John Choi

(852) 2773 8730

john.choi@hk.daiwacm.com

### Carlton Lai

(852) 2532 4349

carlton.lai@hk.daiwacm.com

- Revenue and sales volume at a record high in 2014
- But we remain on the sidelines until greater cotton price visibility
- Raising target price to HKD8.10, reaffirm Hold (3)

### ■ What's new

Texhong reported 2014 results above our expectations. Revenue rose 27% YoY to CNY10.5bn (our estimate: CNY9.3bn) on stronger-than-expected sales volume, while net profit fell 73% YoY to CNY307m (our estimate: CNY284m). The gross and net profit margins both dropped substantially by 6.9pp YoY and 10.8pp YoY, respectively, but this was expected given the steep drop in global cotton prices in 2014.

While we are impressed by management's ability to consistently lift sales volumes to record levels, we remain concerned over the poor visibility in cotton prices, which largely determines Texhong's yarn ASPs and gross margins. Management mentioned that there were recent signs of cotton prices stabilizing, but we believe Texhong's recent share-price rally has already priced this in. We suggest investors remain on the sidelines until we see more evidence of yarn price stability.

Year-to-date, yarn prices have continued their decline, falling by a double-digit percentage YoY, according to the Cotlook Yarn Index.

### ■ What's the impact

In 2014, the sales volume of yarn increased by 52% YoY to a record high of 432,000 tonnes. Since utilization rate remains at 100% and the 260,000 newly installed spindles in Vietnam only reached optimal capacity in September 2014, we expect sales volume to surpass 500,000 tonnes in 2015.

The company is also planning to add an additional 250,000 spindles in Vietnam during 2015, targeting to commence commercial production in 1Q16. This should add about 11% in incremental capacity, bringing the total spindle count to 2.4m, and could make Vietnam Texhong's largest production base in 2016. The capex of this is pegged at CNY600m.

Near term, we believe there is little that management can do to improve net margins, given the unfavourable supply-demand dynamics of cotton. However, management did reveal its long-term plan to diversify towards midstream and downstream businesses, which should gradually make its net margins more defensive.

We revise our estimates to reflect a slightly milder gross margin recovery for 2015-16 and introduce our 2017 revenue estimate of CNY15.5bn and EPS of CNY1.46.

### ■ What we recommend

We raise our 12-month target price to HKD8.10 (from HKD5.50), based on an 8x PER (from 7x, via an unchanged 20% discount to the regional peer average PER due to recent sector-wide multiple

expansion) and an average of our revised 2015-16 EPS estimates (previously 2015 EPS). We reiterate our Hold (3) rating amid ongoing uncertainty in cotton prices. Nevertheless, we are biased to the upside, as the magnitude of any further decline in cotton prices should be limited. The main downside risk is a further drop in cotton prices, while a sudden cotton price rebound is the key upside risk.

### ■ How we differ

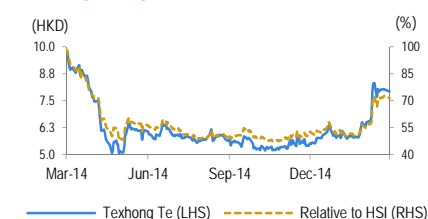
We are more bullish than consensus regarding a potential cotton price recovery in 2016.

#### Forecast revisions (%)

Year to 31 Dec	15E	16E	17E
Revenue change	(1.0)	0.1	n.a.
Net profit change	3.4	(1.3)	n.a.
Core EPS (FD) change	3.4	(1.3)	n.a.

Source: Daiwa forecasts

#### Share price performance



12-month range	5.05-9.79
Market cap (USDbn)	0.90
3m avg daily turnover (USDm)	0.64
Shares outstanding (m)	885
Major shareholder	Mr Hong Tianzhu (60.7%)

#### Financial summary (CNY)

Year to 31 Dec	15E	16E	17E
Revenue (m)	11,407	13,413	15,525
Operating profit (m)	804	1,144	1,626
Net profit (m)	572	861	1,287
Core EPS (fully-diluted)	0.647	0.973	1.455
EPS change (%)	86.5	50.5	49.4
Daiwa vs Cons. EPS (%)	(5.2)	6.0	n.a.
PER (x)	9.9	6.6	4.4
Dividend yield (%)	3.0	4.6	6.8
DPS	0.194	0.292	0.436
PBR (x)	1.5	1.3	1.1
EV/EBITDA (x)	6.2	4.6	3.2
ROE (%)	15.7	20.7	26.2

Source: FactSet, Daiwa forecasts

## Financial summary

### ■ Key assumptions

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Sales volume growth - stretchable core-spun yarns (YoY %)	(0.1)	3.0	44.8	12.2	19.8	8.8	11.3	10.0
Sales volume growth - other yarns (YoY %)	13.2	9.8	2.3	27.1	113.0	25.0	10.0	5.0
Sales volume growth - fabrics (YoY %)	(1.6)	(15.8)	16.7	(5.8)	(13.3)	2.8	3.0	2.5
Sales growth by products -stretchable core-spun yarns (YoY %)	36.4	24.3	18.9	12.5	8.2	3.4	19.7	19.1
Sales growth by products -other yarns (YoY %)	41.1	45.8	(16.2)	29.5	88.3	16.3	17.1	13.4
Sales growth by products -fabrics (YoY %)	19.2	2.0	10.3	(14.9)	(16.4)	7.0	7.6	7.0

### ■ Profit and loss (CNYm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Stretchable core-spun yarns	2,972	3,693	4,391	4,938	5,342	5,522	6,609	7,872
Other yarns	1,438	2,096	1,756	2,274	4,281	4,977	5,826	6,606
Other Revenue	1,062	1,083	1,195	1,017	847	909	978	1,047
<b>Total Revenue</b>	<b>5,472</b>	<b>6,873</b>	<b>7,341</b>	<b>8,229</b>	<b>10,470</b>	<b>11,407</b>	<b>13,413</b>	<b>15,525</b>
Other income	50	22	6	31	16	17	20	23
COGS	(4,163)	(6,317)	(6,217)	(6,645)	(9,176)	(9,856)	(11,390)	(12,883)
SG&A	(334)	(361)	(430)	(542)	(680)	(764)	(899)	(1,040)
Other op.expenses	0	0	0	0	0	0	0	0
<b>Operating profit</b>	<b>1,024</b>	<b>217</b>	<b>699</b>	<b>1,072</b>	<b>630</b>	<b>804</b>	<b>1,144</b>	<b>1,626</b>
Net-interest inc./(exp.)	(44)	(78)	(123)	(122)	(249)	(150)	(146)	(115)
Assoc/forex/extraord./others	(31)	(56)	(19)	290	(26)	4	5	6
<b>Pre-tax profit</b>	<b>950</b>	<b>83</b>	<b>557</b>	<b>1,240</b>	<b>355</b>	<b>659</b>	<b>1,003</b>	<b>1,517</b>
Tax	(109)	(22)	(71)	(114)	(48)	(86)	(140)	(227)
Min. int./pref. div./others	0	(0)	0	(0)	0	(1)	(1)	(2)
<b>Net profit (reported)</b>	<b>841</b>	<b>61</b>	<b>487</b>	<b>1,126</b>	<b>307</b>	<b>572</b>	<b>861</b>	<b>1,287</b>
<b>Net profit (adjusted)</b>	<b>841</b>	<b>61</b>	<b>487</b>	<b>861</b>	<b>307</b>	<b>572</b>	<b>861</b>	<b>1,287</b>
EPS (reported)(CNY)	0.951	0.069	0.550	1.273	0.347	0.647	0.973	1.455
EPS (adjusted)(CNY)	0.951	0.069	0.550	0.974	0.347	0.647	0.973	1.455
EPS (adjusted fully-diluted)(CNY)	0.951	0.069	0.550	0.974	0.347	0.647	0.973	1.455
DPS (CNY)	0.239	0.082	0.219	0.374	0.103	0.194	0.292	0.436
EBIT	1,024	217	699	1,072	630	804	1,144	1,626
EBITDA	1,169	393	904	1,340	1,068	1,197	1,566	2,071

### ■ Cash flow (CNYm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profit before tax	950	83	557	1,240	355	659	1,003	1,517
Depreciation and amortisation	144	176	205	268	438	393	422	446
Tax paid	(81)	(100)	(55)	(88)	(65)	(86)	(140)	(227)
Change in working capital	(619)	(292)	63	(531)	34	(146)	(458)	(275)
Other operational CF items	75	96	154	(161)	284	145	141	109
<b>Cash flow from operations</b>	<b>470</b>	<b>(36)</b>	<b>924</b>	<b>729</b>	<b>1,045</b>	<b>965</b>	<b>968</b>	<b>1,569</b>
Capex	(349)	(460)	(656)	(968)	(765)	(600)	(400)	(400)
Net (acquisitions)/disposals	9	19	11	26	180	0	0	0
Other investing CF items	0	0	0	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(340)</b>	<b>(441)</b>	<b>(645)</b>	<b>(942)</b>	<b>(585)</b>	<b>(600)</b>	<b>(400)</b>	<b>(400)</b>
Change in debt	279	692	(81)	1,096	226	0	0	0
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(143)	(199)	0	(326)	(91)	(172)	(258)	(386)
Other financing CF items	(88)	(123)	(131)	(168)	(420)	(150)	(146)	(115)
<b>Cash flow from financing</b>	<b>47</b>	<b>371</b>	<b>(212)</b>	<b>601</b>	<b>(285)</b>	<b>(321)</b>	<b>(405)</b>	<b>(501)</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>177</b>	<b>(106)</b>	<b>67</b>	<b>389</b>	<b>175</b>	<b>43</b>	<b>163</b>	<b>668</b>
Free cash flow	121	(496)	268	(239)	280	365	568	1,169

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### ■ Balance sheet (CNYm)

As at 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Cash & short-term investment	605	495	552	946	1,138	1,182	1,345	2,013
Inventory	1,387	1,289	1,422	2,280	1,636	2,267	2,620	2,963
Accounts receivable	900	873	1,049	1,315	1,320	1,483	1,744	2,018
Other current assets	0	0	0	13	291	0	0	0
<b>Total current assets</b>	<b>2,891</b>	<b>2,657</b>	<b>3,023</b>	<b>4,555</b>	<b>4,385</b>	<b>4,931</b>	<b>5,708</b>	<b>6,994</b>
Fixed assets	1,950	2,177	2,494	4,199	4,542	4,750	4,727	4,682
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	68	96	108	190	211	216	221	227
<b>Total assets</b>	<b>4,909</b>	<b>4,930</b>	<b>5,625</b>	<b>8,944</b>	<b>9,139</b>	<b>9,897</b>	<b>10,657</b>	<b>11,903</b>
Short-term debt	610	144	206	166	236	236	236	236
Accounts payable	1,336	920	1,174	2,405	2,107	2,464	2,620	2,963
Other current liabilities	75	31	64	115	147	147	147	147
<b>Total current liabilities</b>	<b>2,021</b>	<b>1,094</b>	<b>1,444</b>	<b>2,686</b>	<b>2,491</b>	<b>2,848</b>	<b>3,004</b>	<b>3,347</b>
Long-term debt	630	1,712	1,564	2,623	2,779	2,779	2,779	2,779
Other non-current liabilities	49	52	59	254	414	414	414	414
<b>Total liabilities</b>	<b>2,700</b>	<b>2,858</b>	<b>3,067</b>	<b>5,564</b>	<b>5,684</b>	<b>6,041</b>	<b>6,196</b>	<b>6,540</b>
Share capital	283	283	283	283	283	283	283	283
Reserves/R.E./others	1,926	1,789	2,275	3,097	3,171	3,572	4,175	5,075
<b>Shareholders' equity</b>	<b>2,209</b>	<b>2,072</b>	<b>2,558</b>	<b>3,380</b>	<b>3,455</b>	<b>3,855</b>	<b>4,458</b>	<b>5,359</b>
Minority interests	0	0	(0)	0	0	1	2	5
<b>Total equity &amp; liabilities</b>	<b>4,909</b>	<b>4,930</b>	<b>5,625</b>	<b>8,944</b>	<b>9,139</b>	<b>9,897</b>	<b>10,657</b>	<b>11,903</b>
EV	6,244	6,966	6,819	7,441	7,470	7,423	7,256	6,584
Net debt/(cash)	635	1,360	1,218	1,844	1,877	1,834	1,670	1,002
BVPS (CNY)	2.497	2.342	2.892	3.821	3.905	4.358	5.039	6.057

### ■ Key ratios (%)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Sales (YoY)	33.8	25.6	6.8	12.1	27.2	9.0	17.6	15.7
EBITDA (YoY)	140.0	(66.3)	129.9	48.2	(20.3)	12.1	30.9	32.2
Operating profit (YoY)	181.6	(78.8)	222.4	53.2	(41.2)	27.6	42.3	42.1
Net profit (YoY)	194.6	(92.7)	694.3	77.0	(64.4)	86.5	50.5	49.4
Core EPS (fully-diluted) (YoY)	194.6	(92.7)	694.3	77.0	(64.4)	86.5	50.5	49.4
Gross-profit margin	23.9	8.1	15.3	19.2	12.4	13.6	15.1	17.0
EBITDA margin	21.4	5.7	12.3	16.3	10.2	10.5	11.7	13.3
Operating-profit margin	18.7	3.2	9.5	13.0	6.0	7.0	8.5	10.5
Net profit margin	15.4	0.9	6.6	10.5	2.9	5.0	6.4	8.3
ROAE	45.5	2.9	21.0	29.0	9.0	15.7	20.7	26.2
ROAA	20.5	1.2	9.2	11.8	3.4	6.0	8.4	11.4
ROCE	34.6	5.9	16.9	20.4	10.0	12.1	15.9	20.5
ROIC	37.0	5.1	16.9	21.6	10.3	12.7	16.6	22.1
Net debt to equity	28.7	65.7	47.6	54.5	54.3	47.6	37.5	18.7
Effective tax rate	11.5	26.6	12.8	9.2	13.6	13.0	14.0	15.0
Accounts receivable (days)	48.3	47.1	47.8	52.4	45.9	44.8	43.9	44.2
Current ratio (x)	1.4	2.4	2.1	1.7	1.8	1.7	1.9	2.1
Net interest cover (x)	23.5	2.8	5.7	8.8	2.5	5.4	7.8	14.1
Net dividend payout	25.1	118.0	39.8	29.3	29.7	30.0	30.0	30.0
Free cash flow yield	2.1	n.a.	4.7	n.a.	5.0	6.5	10.1	20.7

Source: FactSet, Daiwa forecasts

### ■ Company profile

Texhong Textile Group Limited (Texhong) manufactures yarns and grey fabrics, especially high value-added core-spun yarn textiles. The company's sales network includes Mainland China, Brazil, Turkey, South Korea and Bangladesh, and it had more than 1,600 customers as at end-2013. Texhong operates 12 production plants in China and three in Vietnam, with a total production capacity at end-2013 of over 1.84m spindles and 764 air-jet looms.

## Disclaimer

This publication is produced by Daiwa Securities Group Inc. and/or its non-U.S. affiliates, and distributed by Daiwa Securities Group Inc. and/or its non-U.S. affiliates, except to the extent expressly provided herein. This publication and the contents hereof are intended for information purposes only, and may be subject to change without further notice. Any use, disclosure, distribution, dissemination, copying, printing or reliance on this publication for any other purpose without our prior consent or approval is strictly prohibited. Neither Daiwa Securities Group Inc. nor any of its respective parent, holding, subsidiaries or affiliates, nor any of its respective directors, officers, servants and employees, represent nor warrant the accuracy or completeness of the information contained herein or as to the existence of other facts which might be significant, and will not accept any responsibility or liability whatsoever for any use of or reliance upon this publication or any of the contents hereof. Neither this publication, nor any content hereof, constitute, or are to be construed as, an offer or solicitation of an offer to buy or sell any of the securities or investments mentioned herein in any country or jurisdiction nor, unless expressly provided, any recommendation or investment opinion or advice. Any view, recommendation, opinion or advice expressed in this publication may not necessarily reflect those of Daiwa Securities Capital Markets Co. Ltd., and/or its affiliates nor any of its respective directors, officers, servants and employees except where the publication states otherwise. This research report is not to be relied upon by any person in making any investment decision or otherwise advising with respect to, or dealing in, the securities mentioned, as it does not take into account the specific investment objectives, financial situation and particular needs of any person.

Daiwa Securities Group Inc., its subsidiaries or affiliates, or its or their respective directors, officers and employees from time to time have trades as principals, or have positions in, or have other interests in the securities of the company under research including derivatives in respect of such securities or may have also performed investment banking and other services for the issuer of such securities. The following are additional disclosures.

### Japan

Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.  
Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.  
Investment Banking Relationship

Within the preceding 12 months, The subsidiaries and/or affiliates of Daiwa Securities Group Inc. \* has lead-managed public offerings and/or secondary offerings (excluding straight bonds) of the securities of the following companies: Modern Land (China) Co. Ltd (1107 HK); econtex Asia Ltd (1390 HK); Lotte Shopping Co (023530 KS); Rexlot Holdings Ltd (555 HK); Neo Solar Power Corp (3576 TT); Accordia Golf Trust (AGT SP); Hua Hong Semiconductor Ltd (1347 HK).

\*Subsidiaries of Daiwa Securities Group Inc. for the purposes of this section shall mean any one or more of: Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司), Daiwa Capital Markets Singapore Limited, Daiwa Capital Markets Australia Limited, Daiwa Capital Markets India Private Limited, Daiwa-Cathay Capital Markets Co., Ltd., Daiwa Securities Capital Markets Korea Co., Ltd.

### Hong Kong

This research is distributed in Hong Kong by Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司) ("DHK") which is regulated by the Hong Kong Securities and Futures Commission. Recipients of this research in Hong Kong may contact DHK in respect of any matter arising from or in connection with this research.

#### Ownership of Securities

For "Ownership of Securities" information, please visit BlueMatrix disclosure Link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### Investment Banking Relationship

For "Investment Banking Relationship", please visit BlueMatrix disclosure Link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### Relevant Relationship (DHK)

DHK may from time to time have an individual employed by or associated with it serves as an officer of any of the companies under its research coverage.

#### DHK market making

DHK may from time to time make a market in securities covered by this research.

### Singapore

This research is distributed in Singapore by Daiwa Capital Markets Singapore Limited and it may only be distributed in Singapore to accredited investors, expert investors and institutional investors as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time. By virtue of distribution to these category of investors, Daiwa Capital Markets Singapore Limited and its representatives are not required to comply with Section 36 of the Financial Advisers Act (Chapter 110) (Section 36 relates to disclosure of Daiwa Capital Markets Singapore Limited's interest and/or its representative's interest in securities). Recipients of this research in Singapore may contact Daiwa Capital Markets Singapore Limited in respect of any matter arising from or in connection with the research.

### Australia

This research is distributed in Australia by Daiwa Capital Markets Stockbroking Limited and it may only be distributed in Australia to wholesale investors within the meaning of the Corporations Act. Recipients of this research in Australia may contact Daiwa Capital Markets Stockbroking Limited in respect of any matter arising from or in connection with the research.

#### Ownership of Securities

For "Ownership of Securities" information, please visit BlueMatrix disclosure Link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

### India

This research is distributed by Daiwa Capital Markets India Private Limited (DAIWA) which is an intermediary registered with Securities & Exchange Board of India. This report is not to be considered as an offer or solicitation for any dealings in securities. While the information in this report has been compiled by DAIWA in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made or given as to its accuracy, completeness or correctness. DAIWA its officers, employees, representatives and agents accept no liability whatsoever for any loss or damage whether direct, indirect, consequential or otherwise howsoever arising (whether in negligence or otherwise) out of or in connection with or from any use of or reliance on the contents of and/or omissions from this document. Consequently DAIWA expressly disclaims any and all liability for, or based on or relating to any such information contained in or errors in or omissions in this report. Accordingly, you are recommended to seek your own legal, tax or other advice and should rely solely on your own judgment, review and analysis, in evaluating the information in this document. The data contained in this document is subject to change without any prior notice DAIWA reserves its right to modify this report as maybe required from time to time. DAIWA is committed to providing independent recommendations to its Clients and would be happy to provide any information in response to any query from its Clients. This report is strictly confidential and is being furnished to you solely for your information. The information contained in this document should not be reproduced (in whole or in part) or redistributed in any form to any other person. We and our group companies, affiliates, officers, directors and employees may from time to time, have long or short positions, in and buy sell the securities thereof, of company(ies) mentioned herein or be engaged in any other transactions involving such securities and earn brokerage or other compensation or act as advisor or have the potential conflict of interest with respect to any recommendation and related information or opinion. DAIWA prohibits its analyst and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analyst cover. This report is not intended or directed for distribution to, or use by any person, citizen or entity which is resident or located in any state or country or jurisdiction where such publication, distribution or use would be contrary to any statutory legislation, or regulation which would require DAIWA and its affiliates/ group companies to any registration or licensing requirements. The views expressed in the report accurately reflect the analyst's personal views about the securities and issuers that are subject of the Report, and that no part of the analyst's compensation was, is or will be directly or indirectly, related to the recommendations or views expressed in the Report. This report does not recommend to US recipients the use of Daiwa Capital Markets India Private Limited or any of its non – US affiliates to effect trades in any securities and is not supplied with any understanding that US recipients will direct commission business to Daiwa Capital Markets India Private Limited.

### Taiwan

This research is distributed in Taiwan by Daiwa-Cathay Capital Markets Co., Ltd and it may only be distributed in Taiwan to institutional investors or specific investors who have signed recommendation contracts with Daiwa-Cathay Capital Markets Co., Ltd in accordance with the Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers. Recipients of this research in Taiwan may contact Daiwa-Cathay Capital Markets Co., Ltd in respect of any matter arising from or in connection with the research.

### Philippines

This research is distributed in the Philippines by DBP-Daiwa Capital Markets Philippines, Inc. which is regulated by the Philippines Securities and Exchange Commission and the Philippines Stock Exchange, Inc. Recipients of this research in the Philippines may contact DBP-Daiwa Capital Markets Philippines, Inc. in respect of any matter arising from or in connection with the research. DBP-Daiwa Capital Markets Philippines, Inc. recommends that investors independently assess, with a professional advisor, the specific financial risks as well as the legal, regulatory, tax, accounting, and other consequences of a proposed transaction. DBP-Daiwa Capital Markets Philippines, Inc. may have positions or may be materially interested in the securities in any of the markets mentioned in the publication or may have performed other services for the issuers of such securities.

For relevant securities and trading rules please visit SEC and PSE Link at <http://www.sec.gov.ph/irr/AmendedIRRFinalversion.pdf> and <http://www.pse.com.ph/> respectively.

### Thailand

This research is distributed to only institutional investors in Thailand primarily by Thanachart Securities Public Company Limited ("TNS").

This report is prepared by analysts who are employed by Daiwa Securities Group Inc. and/or its non-U.S. affiliates. While the information is from sources believed to be reliable, neither the information nor the forecasts shall be taken as a representation or warranty for which Thanachart Securities Public Company Limited, Daiwa Securities Group Inc. nor any of their respective parent, holding, subsidiaries or affiliates, nor any of their respective directors, officers, servants and employees incur any responsibility. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither Thanachart Securities Public Company Limited, Daiwa Securities Group Inc. nor any of their respective parent, holding, subsidiaries or affiliates, nor any of their respective directors, officers, servants and employees accept any liability whatsoever for any

direct or consequential loss arising from any use of this research or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable. However, Thanachart Securities Public Company Limited, Daiwa Securities Group Inc. nor any of their respective parent, holding, subsidiaries or affiliates, nor any of their respective directors, officers, servants and employees make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

Daiwa Securities Group Inc. and/or its non-U.S. affiliates perform and seek to perform business with companies covered in this research. Thanachart Securities Public Company Limited, Daiwa Securities Group Inc., their respective parent, holding, subsidiaries or affiliates, their respective directors, officers, servants and employees may have positions and financial interest in securities mentioned in this research. Thanachart Securities Public Company Limited, Daiwa Securities Group Inc., their respective parent, holding, subsidiaries or affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this research. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this research.

#### **United Kingdom**

This research report is produced by Daiwa Capital Markets Europe Limited and/or its affiliates and is distributed in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority ("FCA") and is a member of the London Stock Exchange, Eurex and NYSE Liffe. Daiwa Capital Markets Europe Limited and/or its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and/or its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### **Germany**

This document is distributed in Germany by Daiwa Capital Markets Europe Limited, Niederlassung Frankfurt which is regulated by BaFin (Bundesanstalt fuer Finanzdienstleistungsaufsicht) for the conduct of business in Germany.

#### **Bahrain**

This research material is distributed by Daiwa Capital Markets Europe Limited, Bahrain Branch, regulated by The Central Bank of Bahrain and holds Investment Business Firm – Category 2 license and having its official place of business at the Bahrain World Trade Centre, South Tower, 7th floor, P.O. Box 30069, Manama, Kingdom of Bahrain. Tel No. +973 17534452 Fax No. +973 535113

This material is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Accordingly, no representation or warranty, express or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. Content herein is based on information available at the time the research material was prepared and may be amended or otherwise changed in the future without notice. All information is intended for the private use of the person to whom it is provided without any liability whatsoever on the part of Daiwa Capital Markets Europe Limited, Bahrain Branch, any associated company or the employees thereof. If you are in doubt about the suitability of the product or the research material itself, please consult your own financial adviser. Daiwa Capital Markets Europe Limited, Bahrain Branch retains all rights related to the content of this material, which may not be redistributed or otherwise transmitted without prior consent.

#### **United States**

This report is distributed in the U.S. by Daiwa Capital Markets America Inc. (DCMA). It may not be accurate or complete and should not be relied upon as such. It reflects the preparer's views at the time of its preparation, but may not reflect events occurring after its preparation; nor does it reflect DCMA's views at any time. Neither DCMA nor the preparer has any obligation to update this report or to continue to prepare research on this subject. This report is not an offer to sell or the solicitation of any offer to buy securities. Unless this report says otherwise, any recommendation it makes is risky and appropriate only for sophisticated speculative investors able to incur significant losses. Readers should consult their financial advisors to determine whether any such recommendation is consistent with their own investment objectives, financial situation and needs. This report does not recommend to U.S. recipients the use of any of DCMA's non-U.S. affiliates to effect trades in any security and is not supplied with any understanding that U.S. recipients of this report will direct commission business to such non-U.S. entities. Unless applicable law permits otherwise, non-U.S. customers wishing to effect a transaction in any securities referenced in this material should contact a Daiwa entity in their local jurisdiction. Most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as a process for doing so. As a result, the securities discussed in this report may not be eligible for sales in some jurisdictions. Customers wishing to obtain further information about this report should contact DCMA: Daiwa Capital Markets America Inc., Financial Square, 32 Old Slip, New York, New York 10005 (telephone 212-612-7000).

#### Ownership of Securities

For "Ownership of Securities" information please visit BlueMatrix disclosure Link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### Investment Banking Relationships

For "Investment Banking Relationships" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### DCMA Market Making

For "DCMA Market Making" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### Research Analyst Conflicts

For updates on "Research Analyst Conflicts" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>. The principal research analysts who prepared this report have no financial interest in securities of the issuers covered in the report, are not (nor are any members of their household) an officer, director or advisory board member of the issuer(s) covered in the report, and are not aware of any material relevant conflict of interest involving the analyst or DCMA, and did not receive any compensation from the issuer during the past 12 months except as noted: no exceptions.

#### Research Analyst Certification

For updates on "Research Analyst Certification" and "Rating System" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>. The views about any and all of the subject securities and issuers expressed in this Research Report accurately reflect the personal views of the research analyst(s) primarily responsible for this report (or the views of the firm producing the report if no individual analysts[s] is named on the report); and no part of the compensation of such analyst(s) (or no part of the compensation of the firm if no individual analyst[s] is named on the report) was, is, or will be directly or indirectly related to the specific recommendations or views contained in this Research Report.

The following explains the rating system in the report as compared to relevant local indices, unless otherwise stated, based on the beliefs of the author of the report.

- "1": the security could outperform the local index by more than 15% over the next 12 months.
- "2": the security is expected to outperform the local index by 5-15% over the next 12 months.
- "3": the security is expected to perform within 5% of the local index (better or worse) over the next 12 months.
- "4": the security is expected to underperform the local index by 5-15% over the next 12 months.
- "5": the security could underperform the local index by more than 15% over the next 12 months.

**Additional information may be available upon request.**

#### **Japan - additional notification items pursuant to Article 37 of the Financial Instruments and Exchange Law**

(This Notification is only applicable where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission\* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
- In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.

- For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.  
\*The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name: Daiwa Securities Co. Ltd.  
Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108  
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan  
Japan Securities Investment Advisers Association  
Type II Financial Instruments Firms Association