

Tingyi (322 HK)

Upgrade to Hold: Better margin outlook but slow top line growth

Hold

Target price (HKD)	16.70
Share price (HKD)	18.50
Upside/Downside (%)	-9.7

Dec	2014 a	2015 e	2016 e
HSBC EPS	0.07	0.08	0.10
HSBC PE	33.4	28.4	23.6
Performance	1M	3M	12M
Absolute (%)	-3.6	7.1	-11.5
Relative ^A (%)	-4.4	3.4	-31.4

24 March 2015

Christopher K Leung*

Analyst

The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6531
christopher.k.leung@hsbc.com.hk

Alice Chan*

Analyst

The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6535
aliceptchan@hsbc.com.hk

Erwan Rambourg*

Analyst

The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6572
erwanrambourg@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

- **2014 results were 10% below consensus estimates, mainly due to weaker-than-expected instant noodle and juice sales**
- **Management remains cautious on the near-term sales outlook, but margins should improve on lower input cost, more benign competitive landscape, and higher efficiency**
- **We upgrade to Hold and set a fair value TP of HKD16.70**

What's new? 2014 net profit came in at USD400m, down 2% yoy on the back of a 6% decline in revenue. The results were 10% and 6% below consensus and our forecast, respectively. Weakness was mainly due to lower-than-expected instant noodle and juice sales in Q414, which were down 18% yoy and 41% yoy, respectively. For instant noodles, management believes the sales decline was mainly due to the food safety issue in Taiwan and weaker consumption. Demand for traditional juice drinks was exceptionally weak in 2014 as there was a shift in consumer preference from traditional juice drinks to other juice beverages and functional drinks.

Better margin outlook but slow top-line growth. The beverage business recorded a loss of USD43m in 2H14, and this was mainly due to volume de-leveraging and extra trade promotion, as well as extra operating expenses of USD73m related to the dismissal of Pepsi bottling employees. Management indicated that the integration process with the Pepsi business is ongoing, and there could still be some one-off charges over the next two years. Having said that, management believes the margin outlook should be more favourable in 2015 given the sharp decline in PET prices, lower A&P due to easing competition after the removal of sausage promotion, and higher efficiency from integration of the food and beverage business. We project its net margin to improve from 3.9% in 2014 to 4.6% in 2015e and 5.2% in 2016e. Despite better margin outlook, near term sales momentum is still lacklustre, and management does not expect a meaningful sales recovery in the short term. Capex for 2015 is expected to be 20-30% and Tingyi will also be more selective on their capex spend.

Earnings, valuation and risks. We have revised down 2015-16 earnings estimates by 2%, and our new 2015-16 earnings estimates are 7-13% below consensus. We set a fair value target price at HKD16.70 based on DCF. This is lower than our prior 12-month TP of HKD17.00 mostly due to lower earnings estimates and shift to new ratings system, and implies a 25.5x 2015e PE. Key upside risks include faster-than-expected sales recovery and margin improvement. Key downside include more intense competition and weak volume growth.

Index ^A	HSCEI
Index level	12,156
RIC	0322.HK
Bloomberg	322 HK

Source: HSBC

Enterprise value (USDm)	15385
Free float (%)	33
Market cap (USDm)	13,358
Market cap (HKDm)	103,675

Source: HSBC

Financials & valuation

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (USDm)				
Revenue	10,238	10,408	11,137	12,042
EBITDA	1,197	1,356	1,545	1,699
Depreciation & amortisation	-463	-515	-532	-546
Operating profit/EBIT	733	841	1,012	1,153
Net interest	-47	-39	-39	-39
PBT	694	811	983	1,126
HSBC PBT	694	811	983	1,126
Taxation	-209	-243	-295	-338
Net profit	400	476	575	660
HSBC net profit	400	476	575	660

Cash flow summary (USDm)

Cash flow from operations	670	1,404	1,258	1,386
Capex	-1,480	-700	-700	-700
Cash flow from investment	-1,480	-700	-700	-700
Dividends	-200	-238	-287	-330
Change in net debt	1,019	-466	-271	-356
FCF equity	-817	695	547	673

Balance sheet summary (USDm)

Intangible fixed assets	897	897	897	897
Tangible fixed assets	5,860	6,045	6,213	6,366
Current assets	2,343	2,860	3,176	3,590
Cash & others	1,183	1,649	1,920	2,276
Total assets	9,206	9,907	10,391	10,960
Operating liabilities	2,283	2,655	2,738	2,847
Gross debt	2,629	2,629	2,629	2,629
Net debt	1,446	979	709	353
Shareholders funds	3,034	3,272	3,560	3,890
Invested capital	5,634	5,497	5,628	5,730

Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Y-o-y % change				
Revenue	-6.4	1.7	7.0	8.1
EBITDA	0.0	13.3	13.9	10.0
Operating profit	-1.5	14.7	20.3	13.9
PBT	-4.1	16.9	21.3	14.5
HSBC EPS	-2.0	17.6	20.6	14.9

Ratios (%)

Revenue/IC (x)	2.0	1.9	2.0	2.1
ROIC	10.2	10.6	12.7	14.2
ROE	13.5	15.1	16.8	17.7
ROA	5.9	6.2	7.1	7.6
EBITDA margin	11.7	13.0	13.9	14.1
Operating profit margin	7.2	8.1	9.1	9.6
EBITDA/net interest (x)	25.4	34.4	39.2	43.1
Net debt/equity	35.3	22.1	14.7	6.7
Net debt/EBITDA (x)	1.2	0.7	0.5	0.2
CF from operations/net debt	46.4	143.4	177.4	393.0

Per share data (USD)

EPS reported (fully diluted)	0.07	0.08	0.10	0.12
HSBC EPS (fully diluted)	0.07	0.08	0.10	0.12
DPS	0.36	0.04	0.05	0.06
Book value	0.53	0.58	0.63	0.68

Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	1.5	1.5	1.4	1.2
EV/EBITDA	13.2	11.3	9.9	8.8
EV/IC	2.8	2.8	2.7	2.6
PE*	33.4	28.4	23.6	20.5
P/Book value	4.5	4.1	3.8	3.5
FCF yield (%)	-5.7	4.8	3.8	4.6
Dividend yield (%)	15.0	1.8	2.1	2.4

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 20 Mar 2015

Results Review

- ▶ 2014 net profit was down 2% yoy to USD400m and revenue dropped by 6% to USD10.2bn
- ▶ On a semi-annual basis, net profit was down 20% yoy in 2H14 on the back of 14% drop in revenue
- ▶ Management declared a final DPS of USD3.57cents, and the dividend payout for 2014 was unchanged at 50%

Tingyi - 2014 results summary

Year to 31 Dec (USDm)	2013	2014	% YoY	1H14	% YoY	2H14	% YoY
Sales	10,941	10,238	-6%	5,504	2%	4,734	-14%
COGS	(7,631)	(7,120)	-7%	(3,794)	0%	(3,326)	-13%
Gross profit	3,310	3,118	-6%	1,710	6%	1,408	-17%
Other net income	216	209	-3%	110	2%	100	-8%
Distribution costs	(2,313)	(2,139)	-8%	(1,105)	-2%	(1,033)	-13%
Admin expenses	(351)	(300)	-15%	(169)	-3%	(131)	-26%
Other operating expenses	(118)	(156)	32%	(70)	51%	(86)	20%
EBIT	744	733	-1%	476	26%	257	-30%
Finance costs	(37)	(47)	26%	(21)	9%	(26)	44%
Share of results of associates	16	7	-55%	9	64%	(2)	-121%
PBT	723	694	-4%	465	28%	229	-36%
Tax	(229)	(209)	-9%	(128)	7%	(81)	-26%
PAT	494	485	-2%	337	38%	148	-41%
Minority	(86)	(84)	-2%	(105)	119%	21	-155%
Net profit	409	400	-2%	232	18%	169	-20%
Margins							
Gross margin	30.3%	30.5%	+0.2ppt	29.9%	+0.1ppt	30.6%	+0.6ppt
EBITDA margin	10.9%	11.7%	+0.8ppt	11.0%	-5.5ppt	10.8%	+0.1ppt
Core EBIT margin	4.8%	5.1%	+0.3ppt	5.0%	-1.7ppt	4.7%	+0.1ppt
Core net margin	3.7%	3.9%	+0.2ppt	3.6%	-0.6ppt	3.8%	+0.2ppt
Key ratios							
Distribution costs as % of sales	21.1%	20.9%	-0.2ppt	20.8%	+1.8ppt	21.4%	-0.0ppt
Adm exp as % of sales	3.2%	2.9%	-0.3ppt	3.2%	+0.1ppt	3.2%	-0.1ppt
Effective tax rate	31.6%	30.1%	-1.5ppt	32.7%	+9.9ppt	30.5%	-5.5ppt

Source: Company data, HSBC

Instant noodle

Instant noodle sales dropped 10% yoy in 2H14, and the decline was much steeper than Uni-President China's -1%. On a quarterly basis, instant noodle revenue was down 18% yoy to USD972m, and management attributed the poor performance to the weak consumption environment and negative impact from the food safety issue in Taiwan, which affected the sell-in and sell-through in the past quarter. As a result, Tingyi's market share decreased slightly from 47.2% in 3Q14 to 46.3% in volume terms, and from 56.4% to 55.6% in value terms. By noodle type, higher-priced bowl noodle declined by 11% yoy in 2H14, which is higher than the decline in the high-end packet noodles (-9%) and mid-end packet noodles (-7%).

Tingyi - Instant noodle sales breakdown

Revenue (USDm)	2013	2014	1Q14	2Q14	3Q14	4Q14
Bowl	2,066	1,960	568	423	520	449
yoy	10%	-5%	3%	0%	-3%	-19%
High-end packet	1,693	1,601	425	334	452	390
yoy	5%	-5%	0%	-2%	-2%	-17%
Mid-end packet	469	470	127	99	130	114
yoy	17%	0%	17%	1%	2%	-16%
Others	104	107	30	28	30	19
yoy	60%	3%	50%	12%	3%	-37%
Total	4,332	4,138	1,150	884	1,132	972
yoy	9%	-4%	4%	0%	-2%	-18%

Source: Company data, HSBC

Instant noodle gross margin was unchanged at 29.3% in 2H14, but net margin saw a more evident improvement, up 1.7ppt to 9.5% due to cost savings from the removal of the free sausage promotion. This was mirrored in Uni-President China's 2014 results, where instant noodle turned to a small operating profit in 2H from an operating loss in 2013 and 1H14.

Tingyi - Instant noodles income statement, 1Q13-4Q14

Year to 31 Dec (USDm)	2013	2014	1Q14	2Q14	3Q14	4Q14
Revenue	4,332	4,138	1,150	884	1,132	972
COGS	(3,065)	(2,965)	(828)	(651)	(795)	(692)
Gross profit	1,267	1,172	322	233	337	280
Opex	(776)	(688)	(184)	(151)	(170)	(184)
EBIT	491	484	139	82	167	96
Tax	(154)	(124)	(36)	(24)	(48)	(16)
Net profit	337	360	103	58	119	80
%yoy						
Sales	9.4%	-4.5%	4.1%	-0.5%	-1.8%	-18.1%
EBIT	5.8%	-1.4%	-0.9%	4.1%	10.0%	-20.0%
Net profit	4.1%	7.0%	5.1%	2.8%	10.1%	8.2%
Margins						
Gross margin	29.2%	28.3%	29.5%	26.3%	29.8%	28.8%
Operating margin	11.3%	11.7%	12.1%	9.3%	14.8%	9.9%
Net margin	7.8%	8.7%	9.0%	6.6%	10.5%	8.2%
Key ratios						
Opex to sales ratio	17.9%	16.6%	18.5%	17.0%	15.0%	18.9%
Effective tax rate	31.4%	25.6%	25.7%	29.3%	28.7%	16.8%

Source: Company data, HSBC

Beverage

Beverage revenue declined by 18% yoy in 2H14, and this is largely in-line with our expectations. Despite lower PET and costs, Tingyi posted a loss of USD43m for the beverage business in 2H14 due to volume de-leveraging and extra trade promotion, as well as extra operating expenses of USD73m related to the dismissal of Pepsi bottling employees. All four categories (tea, water, juice and carbonated drinks) posted sales decline for 2H14. Among them, juice saw the biggest drop of 40% yoy, compared to UPC which had a sales decrease of 4%. Tingyi's market share in juice has declined in 2014, especially in 3Q and 4Q when it was down around 5ppt yoy to 28.4% and 26.1% respectively, according to Nielsen. For bottled water, sales were down 24% in 2H14 and down 0.6% for the full year, compared to the industry growth of 15% (by value) or 6% (by volume). On a yoy basis, Tingyi's market share decreased by about 4ppt in 3Q14 and 4Q14 to 21.9% and 19.1%, despite remaining the largest player in the market.

Tingyi - Beverage sales breakdown

Year to 31 Dec (USDm)	2013	2014	1Q14	2Q14	3Q14	4Q14
Tea	2,292	2,330	723	662	626	319
yoy	25%	2%	26%	1%	-17%	2%
Water	1,141	1,134	207	443	350	134
yoy	27%	-1%	34%	25%	-26%	-16%
Juice	1,340	964	316	303	248	97
yoy	13%	-28%	-8%	-29%	-40%	-41%
Carbonated drinks	1,495	1,373	308	370	505	190
yoy	47%	-8%	-22%	4%	-4%	-14%
Total	6,268	5,801	1,554	1,778	1,729	740
yoy	27%	-7%	6%	-1%	-20%	-14%

Source: Company data, HSBC

Tingyi - Beverages income statement, 1Q13-4Q14

Year to 31 Dec (USDm)	2013	2014	1Q14	2Q14	3Q14	4Q14
Revenue	6,268	5,800	1,554	1,778	1,729	739
COGS	(4,340)	(3,949)	(1,056)	(1,162)	(1,151)	(580)
Gross profit	1,927	1,851	499	616	578	159
Opex	(1,729)	(1,631)	(384)	(479)	(475)	(293)
Core EBIT	199	221	115	136	102	(133)
Associates	19	18	5	10	7	(4)
Tax	(63)	(85)	(36)	(33)	(27)	12
Net profit before MI	155	154	84	113	83	(126)
%yoy						
Sales	27.1%	-7.5%	6.3%	-0.5%	-19.9%	-13.8%
EBIT	17.7%	11.1%	150.2%	68.1%	-48.3%	5.2%
Net profit	-46.0%	-0.6%	319.7%	67.9%	-52.0%	20.2%
Margins						
Gross margin	30.8%	31.9%	32.1%	34.6%	33.4%	21.5%
Operating margin	3.2%	3.8%	7.4%	7.7%	5.9%	-18.0%
Net margin	2.5%	2.7%	5.4%	6.4%	4.8%	-17.0%
Key ratios						
Opex to sales ratio	27.6%	28.1%	25.0%	27.0%	27.5%	39.6%
Effective tax rate	31.7%	38.3%	31.6%	24.3%	26.3%	9.0%

Source: Company data, HSBC

PET prices, Jan-10 to Present



Source: Thomson Reuters Datastream

China sugar price, Jan-10 to Present



Source: Bloomberg

Balance sheet

Balance sheet deteriorated in 2H14, with net gearing increased to 12% in Jun-2014 to 48% in Dec-2014. The increase in gearing was mainly used for acquisition of properties for the group's Shanghai operation center and production facilities. Note that Tingyi announced in April 2014 that it would acquire a property company from the younger brother of Tingyi's Chairman (Mr. Wei) at a consideration of USD542m, including USD406m cash and USD136m assumed liability. Despite higher gearing, working capital remained solid with both inventory and receivable turnover unchanged at less than 12 days.

Tingyi – Key liquidity ratios, 2013-14

Year to 31 Dec (USDm)	2013	2014
Total debt	1,676	2,629
Cash and cash equivalents	1,250	1,183
Net cash/(debt)	(426)	(1,446)
Net debt/equity	15%	48%
Inventory days (average)	23	22
Receivable days (average)	8	9
Payable days (average)	55	55
Cash conversion cycle	(24)	(24)

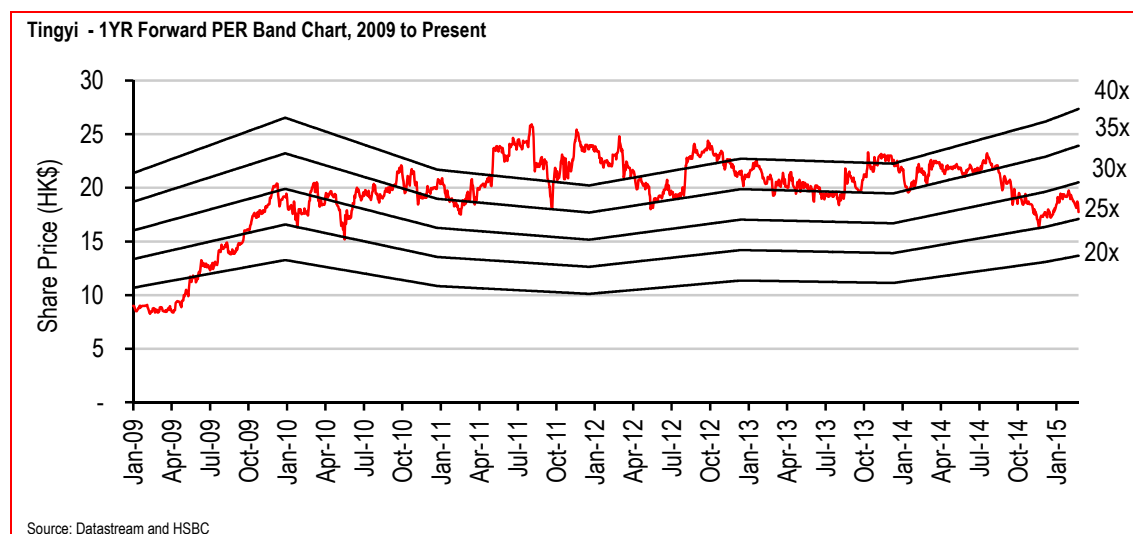
Source: Company data, HSBC

Valuation and risks

We use DCF to value Tingyi as we believe its strong brand positioning and large distribution network should allow the company to generate steady cash flow and returns. For the DCF valuation, we assume beta to be 0.9, with a risk-free rate of 3.5% and risk premium of 6.0%, resulting in a WACC of 8.9%. We set a fair value target price at HKD16.70 based on DCF. This is lower than our prior 12-month TP of HKD17.00 due to lower earnings estimates, and implies a 25.5x 2015e PE. Our target price now represents our assessment of the stock's actual current value.

Risks

Key upside risks to our rating and estimates include: (1) higher-than-expected sales volume or market share gains, (2) a fast turnaround in the Pepsi business, and (3) lower than expected effective tax rate. Key downside risks include: (1) more intense competition which result higher-than-expected A&P spending, (2) weak volume growth, and (3) a sharp recovery in raw material prices.



Tingyi - Earnings revision, 2015-16e

Year to 31 Dec	2015e	2016e
Sales	-4.6%	-6.0%
EBIT	1.3%	-2.7%
NI	-2.0%	-2.3%

Source: HSBC research

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: Christopher Leung, Alice Chan and Erwan Rambourg

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied 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 target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 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, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was 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 had 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

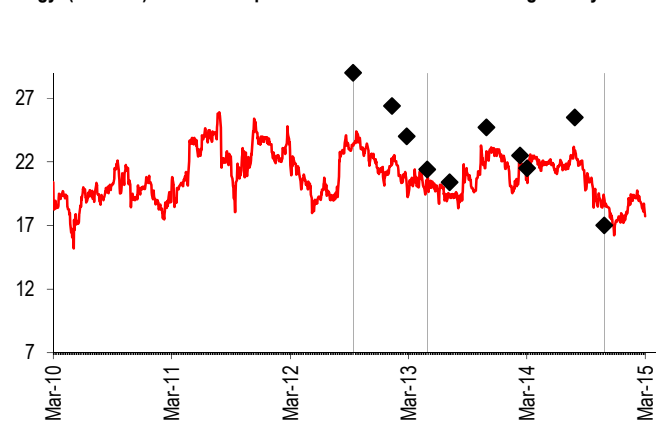
As of 23 March 2015, the distribution of all ratings published is as follows:

Buy	41%	(30% of these provided with Investment Banking Services)
Hold	40%	(28% of these provided with Investment Banking Services)
Sell	19%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities

Tingyi (0322.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight	03 October 2012
Overweight	Neutral	20 May 2013
Neutral	Underweight	17 November 2014
Target Price	Value	Date
Price 1	29.00	03 October 2012
Price 2	26.40	31 January 2013
Price 3	24.00	18 March 2013
Price 4	21.40	20 May 2013
Price 5	20.40	28 July 2013
Price 6	24.70	18 November 2013
Price 7	22.50	02 March 2014
Price 8	21.50	24 March 2014
Price 9	25.50	18 August 2014
Price 10	17.00	17 November 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
TINGYI	0322.HK	17.74	23-Mar-2015	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 28 February 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 24 March 2015.
- 2 All market data included in this report are dated as at close 20 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 Consumer Brands & Retail Research Team

Europe

Consumer Brands & Retail

Antoine Belge
Head of Consumer Brands and Retail Equity Research
+33 1 56 52 43 47 antoine.belge@hsbc.com

Anne-Laure Jamain
Analyst
+44 207 991 6587 annelaure.jamain@hsbcib.com

David McCarthy
Head of Consumer Retail, Europe
+44 207 992 1326 david1.mccarthy@hsbcib.com

Andrew Porteous
Analyst
+44 20 7992 4647 andrew.porteous@hsbc.com

Jérôme Samuel
Analyst
+33 1 56 52 44 23 jerome.samuel@hsbc.com

Emmanuelle Vigneron
Analyst
+33 1 56 52 43 19 emmanuelle.vigneron@hsbc.com

Paul Rossington
Analyst
+44 20 7991 6734 paul.rossington@hsbcib.com

Graham Jones
Analyst
+44 20 7992 5347 graham.jones@hsbc.com

Damian McNeela
Analyst
+44 20 7992 4223 damian.mcneela@hsbc.com

CEEMEA

Consumer Brands & Retail

Bulent Yurdagul
Analyst
+90 212 3764612 bulentyurdagul@hsbc.com.tr

Jeanine Womersley
Analyst
+27 21 6741082 jeanine.womersley@za.hsbc.com

Specialist Sales

David Harrington
+44 20 7991 5389 david.harrington@hsbcib.com

Asia

Consumer Brands & Retail

Erwan Rambourg
Head of Consumer Brands and Retail Equity Research
+852 2996 6572 erwanrambourg@hsbc.com.hk

Christopher Leung
Analyst
+852 2996 6531 christopher.k.leung@hsbc.com.hk

Lina Yan
Analyst
+852 2822 4344 linayjyan@hsbc.com.hk

Catherine Chao
Analyst
+852 2996 6570 catherinefchao@hsbc.com.hk

Charlene Liu
+852 2822 4398 charlenerliu@hsbc.com.hk

Alice Chan
+852 2996 6535 aliceptchan@hsbc.com.hk

Karen Choi
Analyst
+822 3706 8781 karen.choi@kr.hsbc.com

Jena Han
Analyst
+822 3706 8772 jenahan@kr.hsbc.com

Permada (Mada) Darmono
Analyst
+65 6658 0613 permada.w.darmono@hsbc.com.sg

Ananita M Kusumaningsih
Analyst
+65 6658 0610 ananita.m.kusumaningsih@hsbc.com.sg

Thilan Wickramasinghe
Analyst
+65 6658 0609 thilanw@hsbc.com.sg

Amit Sachdeva
Analyst
+91 22 2268 1240 amit1sachdeva@hsbc.co.in

Chloe Wu
Analyst
+ 8862 6631 2866 chloe.c.wu@hsbc.com.tw

North & Latin America

Consumer & Retail

Richard Cathcart
Analyst
+55 11 2169 4429 richard.cathcart@hsbc.com

Stewart Ragar
Analyst
+55 11 3847 9342 stewart.h.ragar@us.hsbc.com

Ruben Couto
Associate
+ 55 11 2169 4615 ruben.c.couto@hsbc.com.br

Food & Beverage
James Watson
Analyst
+1 212 525 4905 james.c.watson@us.hsbc.com

Agricultural Products
Alexandre Falcao
Analyst
+55 11 3371 8203 alexander.p.falcao@hsbc.com.br

Ravi Jain
Analyst
+1 212 525 3442 ravijain@us.hsbc.com

Gustavo Gregori
Analyst
+55 11 3847 9881 gustavo.h.gregori@hsbc.com.br