

## COMPANY NOTE

Target | Estimate Change

China | Industrials | Chemicals

20 May 2015

# Jefferies

## Fufeng Group Limited (546 HK) Second Price Increase in Two Months

### Key Takeaway

**Fufeng has adjusted its MSG prices again, the second time since late April. Excluding VAT, the current price of MSG is now between Rmb7,300/t and Rmb7,500/t, some 2% to 3% higher than the previous ASP. Unlike last month, the price increase was not in response to rising costs, implying an expansion in margins. We have increased our net profit forecasts by 9.9%, 7.9% and 7.3% for 2015E, 2016E and 2017E, respectively. We raise our target price to HK\$7.75.**

Our recent discussion with Fufeng's management revealed that the company had just raised prices for MSG over the past couple of days. Excluding VAT, the current price of MSG is now between Rmb7,300/t and Rmb7,500/t. This compares to the previous range (set a month ago in April) of between Rmb7,180/t and Rmb7,265/t. In other words, the new ASP is some 2% to 3% higher than the previous ASP.

This is the second price increase in the past month, with the last increase occurring just a month ago. Previously, the company raised prices in line with the increase in the price of corn and hence the effect on margins was negligible. However, given that there was no large increase in corn prices recently (less than 0.5% increase over the last month), we believe this price increase would lift margins. Our 1H15 margin assumption is raised to 22.0% from 20.2%.

### Valuation/Risks

We have increased our net profit forecasts by 9.9%, 7.9% and 7.3% for 2015E, 2016E and 2017E respectively. We retain our target multiple of 13x 2015E EPS. This 13x target multiple reflects the top end of Fufeng's historical one year forward PE trading range. Our new target price is HK\$7.75 compared to our previous target price of HK\$7.10. We maintain our Buy recommendation. The biggest risk to our forecasts is if the price increase does not stick and falls back to the previous levels.

RMB	Prev.	2014A	Prev.	2015E	Prev.	2016E	Prev.	2017E
Rev. (MM)	--	11,297.7	12,863.7	12,963.5	13,420.2	13,513.9	13,835.2	13,934.5
EBITDA (MM)	--	1,882.5	2,412.5	2,534.4	2,690.1	2,806.5	2,887.3	3,009.4
Net Profit	--	626.4	999.9	1,098.6	1,199.3	1,293.5	1,347.7	1,446.5
Dividend	--	0.06	0.10	0.11	0.11	0.12	0.13	0.14
Div. Yield		1.14%		2.08%		2.27%		2.65%
<b>EPS</b>								
H1	--	0.13	0.23	0.26	0.28	0.32	0.32	0.35
H2	--	0.16	0.20	0.21	0.23	0.24	0.26	0.27
FY Dec	--	0.29	0.43	0.47	0.51	0.55	0.57	0.61
FY P/E		18.2x		11.2x		9.6x		8.6x

**BUY**

Bloomberg HKSE: 546 HK

Reuters: 0546.HK

Price target HK\$7.75

(from HK\$7.10)

Price HK\$6.59

### Financial Summary

Net Debt (MM): Rmb3,554

### Market Data

52 Week Range HK\$6.60 - HK\$2.63

546 HK:

Total Entprs. Value (MM) HK\$18,196.4

546 HK:

Market Cap. (MM) HK\$13,757.3

546 HK:

Shares Out. (MM) 2,087.6

546 HK:

**Johnny Kin Man Wong** \*  
Equity Analyst

+852 3743 8014 johnny.wong@jefferies.com

**Kevin Zhao** \*

Equity Analyst

+852 3743 8085 kzhao@jefferies.com

\* Jefferies Hong Kong Limited

**546 HK**

Target | Estimate Change

20 May 2015

**Fufeng Group****Buy: \$7.75 Price Target****THE LONG VIEW****Scenarios****Target Investment Thesis**

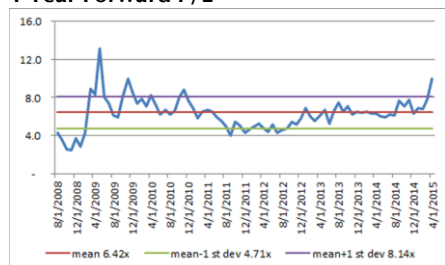
- Prices to remain at the current levels for the rest of the year. Selling volumes are forecast to grow at 7% YoY due to a low base in FY14 from plant relocation.
- Xanthan gum prices flat with current levels, with selling volumes falling 7% YoY
- Corn prices increasing by 5% YoY
- 2015FD EPS: Rmb0.47; Target Multiple: 13x; Target Price HK\$7.75

**Upside Scenario**

- In 2H15, the duopoly raises MSG prices by more than expected (5% from current levels) and Fufeng being able to produce 5% more MSG.
- In 2H15, xanthan gum prices increasing 5% from current levels and volumes flat with 2H14 levels
- Corn prices falling 20% YoY in 2H15.
- 2015 FD EPS: Rmb0.77; Target Multiple: 13x; Target Price: HK\$12.65

**Downside Scenario**

- Recent MSG price hike fails to stick and fall back to previous levels and Fufeng fails to regain the lost sales volumes from 2H14.
- Xanthan gum prices falling 10% from current levels but selling volumes falling 15% YoY.
- Corn prices increasing another 5% from current levels.
- 2015 FDEPS: Rmb0.27 Target Multiple: 13x Target Price: HK\$4.48

**Long Term Analysis****1 Year Forward P/E**

Source: Bloomberg, Jefferies estimates

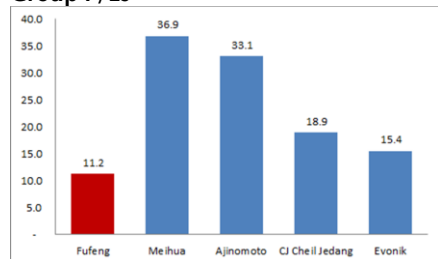
**Long Term Financial Model Drivers**

<b>LT Earnings CAGR</b>	<b>32.2%</b>
Organic Revenue Growth	<b>7.2%</b>
Acquisition Contribution	<b>0%</b>
Operating Margin Expansion	<b>5.6ppt</b>

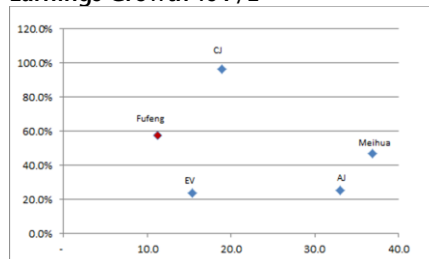
Note: our LT earnings CAGR & organic revenue growth and operating margin expansion figures are calculated from FY14-17E.

**Other Considerations**

Should the Chinese government change its corn reserve policy, we could expect Fufeng to benefit from the expansion of its gross margins. That said, a reduction in corn prices could also entice producers who have exited, back into the market, which could drive MSG prices down. However, Fufeng should have a window of 6-12 months of super normal margins as these producers ramp up production in old lines.

**Peer Group****Group P/Es**

Source: Bloomberg, Jefferies estimates

**Earnings Growth vs P/E**

Source: Bloomberg, Jefferies estimates

**Recommendation / Price Target**

Ticker	Rec.	PT
<b>546 HK</b>	<b>Buy</b>	<b>HK\$7.75</b>
600873 CH	Hold	Rmb9.90

**Catalysts**

- Another price hike, which may come in 3Q15
- 1H15 results announcement in April 2105 could draw market attention to the expansion in margins.
- The Chinese government may give more clarity to its corn reserve policy in 13Q15

**Company Description**

Fufeng is the world's largest manufacturer of monosodium glutamate (MSG). It is also diversifying into other biochemical products.

## Second price increase ahead of expectations

Our recent discussion with Fufeng's management revealed that the company had just raised prices for MSG over the past couple of days. Excluding VAT, the current price of MSG is now between Rmb7,300/t and Rmb7,500/t. This compares to the previous range (set a month ago in April) of between Rmb7,180/t and Rmb7,265/t. In other words, the new ASP is some 2% to 3% higher than the previous ASP.

This is the second price increase in the past month, with the last increase occurring just a month ago. Previously, the company had raised prices in line with the increase in the price of corn and hence the effect on margins was negligible. However, given that there was no large increase in corn prices recently (less than 0.5% increase over the last month), we believe this price increase would lift margins.

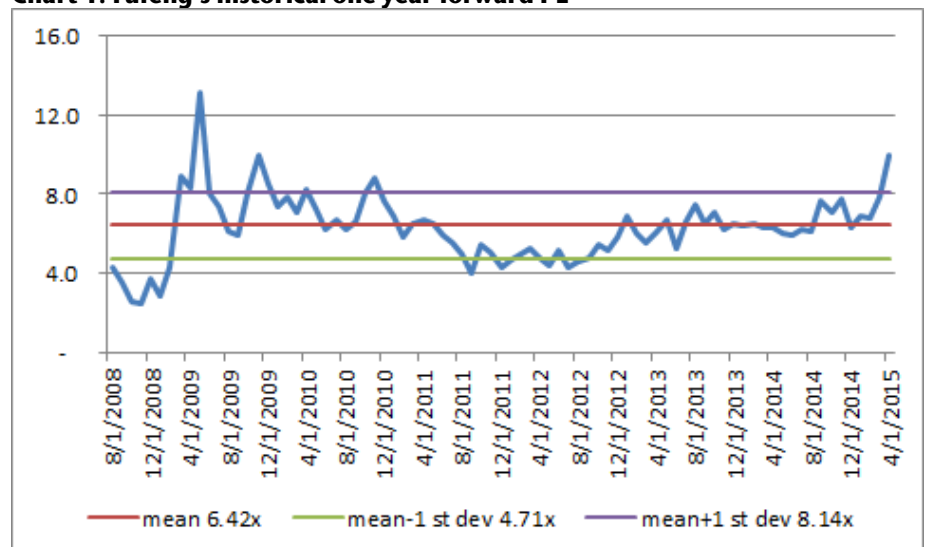
Our 1H15 ASP assumption for MSG had been Rmb7,015/t and our gross margin forecast was 20.2%. Our new 1H15 ASP assumption is Rmb7,294/t and our gross margin forecast increases to 22.0%. This is also keeping in line with management's guidance of gross margins at between 20% and 22% for 2015. We note that although there may be an opportunity for another price increase later this year, we are not building it into our forecasts. Our 2H15 ASP assumption for MSG is Rmb7,398/t.

The ASP for Xanthan gum was about Rmb18,000/t compared to our 1H15 forecast of Rmb19,568/t. We take this opportunity to adjust our ASP assumption.

## Increasing our earnings forecasts and TP

We have increased our net profit forecasts by 9.9%, 7.9% and 7.3% for 2015E, 2016E and 2017E respectively. We retain our target multiple of 13x 2015E EPS. This 13x target multiple reflects the top end of Fufeng's historical one year forward PE trading range which we felt was appropriate given the earnings growth (75.4% YoY growth in 2105E) and the increasing liquidity from Chinese investors. Our new target price is HK\$7.75 compared to our previous target price of HK\$7.10. We maintain our Buy recommendation.

**Chart 1: Fufeng's historical one year forward PE**



Source: Jefferies, Bloomberg

**Table 1: Summary of our earnings changes**

	FY15E			FY16E			FY17E		
	New	Previous	Chg	New	Previous	Chg	New	Previous	Chg
<b>Revenues</b>	12,964	12,864	0.8%	13,513.862	13,420	0.7%	13,935	13,835	0.7%
MSG	11,852	11,678	1.5%	12,397.164	12,210	1.5%	12,795	12,601	1.5%
Xanthan Gum	1,111	1,186	-6.3%	1,116.6986	1,210	-7.7%	1,139	1,234	-7.7%
<b>Gross profit</b>	2,860	2,729	4.8%	3,215	3,089	4.1%	3,447	3,315	4.0%
MSG	2,498	2,293	8.9%	2,859	2,641	8.2%	3,080	2,854	7.9%
Xanthan Gum	363	436	-16.8%	357	448	-20.4%	367	460	-20.3%
<b>Gross margin</b>	22.1%	21.2%		23.8%	23.0%		24.7%	24.0%	
MSG	21.1%	19.6%		23.1%	21.6%		24.1%	22.7%	
Xanthan Gum	32.6%	36.7%		31.9%	37.0%		32.2%	37.3%	
Other income	140	140	0.0%	140	140	0.0%	140	140	0.0%
Selling and distribution costs	(732)	(727)	0.8%	(784)	(778)	0.7%	(808)	(802)	0.7%
Gen and admin expenses	(480)	(476)	0.8%	(541)	(537)	0.7%	(557)	(553)	0.7%
Other expenses	(52)	(51)	0.8%	(54)	(54)	0.7%	(56)	(55)	0.7%
Operating profit	1,736	1,614	7.5%	1,977	1,861	6.3%	2,166	2,044	6.0%
Interest expense	(380)	(380)	0.0%	(380)	(380)	0.0%	(380)	(380)	0.0%
Pre-tax profit	1,356	1,234	9.9%	1,597	1,481	7.9%	1,786	1,664	7.3%
Tax	(258)	(235)	9.9%	(303)	(281)	7.9%	(339)	(316)	7.3%
<b>Net profit</b>	<b>1,099</b>	<b>1,000</b>	9.9%	<b>1,294</b>	<b>1,199</b>	7.9%	<b>1,447</b>	<b>1,348</b>	7.3%
FD EPS (Rmb)	0.472	0.431	9.4%	0.552	0.513	7.5%	0.614	0.574	7.1%

Source: Jefferies estimates

**Table 2: Summary of our key assumptions**

	FY15			FY16			FY16		
	New	Previous	Chg	New	Previous	Chg	New	Previous	Chg
MSG price (Rmb/t)	7,345	7,171	2.4%	7,621	7,438	2.5%	7,774	7,587	2.5%
MSG sales volumes (t)	994,745	994,745	0.0%	1,014,639	1,014,639	0.0%	1,034,932	1,034,932	0.0%
xanthan gum price (Rmb/t)	18,336	19,568	-6.3%	18,062	19,568	-7.7%	18,062	19,568	-7.7%
xanthan gum sales volumes (t)	60,612	60,612	0.0%	61,824	61,824	0.0%	63,061	63,061	0.0%

Source: Jefferies estimates

**Table 3: P&L statement year ending Dec 31)**

Rmb mn	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E
<b>Revenues</b>	<b>11,112</b>	<b>11,367</b>	<b>11,298</b>	<b>12,964</b>	<b>13,514</b>	<b>13,935</b>
MSG	10,046	9,912	9,950	11,852	12,397	12,795
Xantham Gum	1,066	1,454	1,348	1,111	1,117	1,139
Cost of sales	(9,474)	(9,267)	(9,131)	(10,103)	(10,298)	(10,487)
<b>Gross profits</b>	<b>1,637</b>	<b>2,099</b>	<b>2,167</b>	<b>2,860</b>	<b>3,215</b>	<b>3,447</b>
MSG	1,146	1,252	1,456	2,498	2,859	3,080
Xantham Gum	491	848	710	363	357	367
Gross margins	14.7%	18.5%	19.2%	22.1%	23.8%	24.7%
MSG	11.4%	12.6%	14.6%	21.1%	23.1%	24.1%
Xantham Gum	46.0%	58.3%	52.7%	32.6%	31.9%	32.2%
Other income	129	152	193	140	140	140
Sales of waste products	76	61	58	60	60	60
Amortization of deferred income	38	50	57	60	60	60
Government grants relating to expenses	2	18	3	-	-	-
Interest income	6	7	-	-	-	-
Gain of disposal	-	3	46	-	-	-
Foreign exchange	-	-	7	-	-	-
Others	8	14	22	20	20	20
Selling and marketing expenses	(570)	(710)	(706)	(732)	(784)	(808)
Administrative expenses	(440)	(541)	(458)	(480)	(541)	(557)
Other operating expenses	(37)	(76)	(75)	(52)	(54)	(56)
Other gain	16	1	-	-	-	-
Operating profit	735	925	1,120	1,736	1,977	2,166
OPM	6.6%	8.1%	9.9%	13.4%	14.6%	15.5%
EBITDA	1,230	1,574	1,882	2,534	2,807	3,009
EBITDA margins	11.1%	13.8%	16.7%	19.6%	20.8%	21.6%
Finance costs -net	(245)	(290)	(346)	(380)	(380)	(380)
Pretax income	490	635	774	1,356	1,597	1,786
Income tax expense	(64)	(129)	(148)	(258)	(303)	(339)
income tax rate	13.0%	20.3%	19.1%	19.0%	19.0%	19.0%
<b>Profit attributable to shareholders</b>	<b>427</b>	<b>506</b>	<b>626</b>	<b>1,099</b>	<b>1,294</b>	<b>1,447</b>
<b>YoY changes</b>	<b>-29.4%</b>	<b>18.7%</b>	<b>23.8%</b>	<b>75.4%</b>	<b>17.7%</b>	<b>11.8%</b>
Basic EPS	0.247	0.251	0.300	0.526	0.619	0.692
FD EPS	0.246	0.221	0.286	0.472	0.552	0.614
DPS	-	0.048	0.059	0.105	0.124	0.138

Source: Jefferies estimates, company data

## Company Description

Fufeng is the world's largest manufacturer of monosodium glutamate (MSG). It is also diversifying into other biochemical products.

## Analyst Certification:

I, Johnny Kin Man Wong, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Kevin Zhao, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

**Registration of non-US analysts:** Johnny Kin Man Wong is employed by Jefferies Hong Kong Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

**Registration of non-US analysts:** Kevin Zhao is employed by Jefferies Hong Kong Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgement.

## Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes securities whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

## Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

### Jefferies Franchise Picks

Jefferies Franchise Picks include stock selections from among the best stock ideas from our equity analysts over a 12 month period. Stock selection is based on fundamental analysis and may take into account other factors such as analyst conviction, differentiated analysis, a favorable risk/reward ratio and investment themes that Jefferies analysts are recommending. Jefferies Franchise Picks will include only Buy rated stocks and the number can vary depending on analyst recommendations for inclusion. Stocks will be added as new opportunities arise and removed when the reason for inclusion changes, the stock has met its desired return, if it is no longer rated Buy and/or if it triggers a stop loss. Stocks having 120 day volatility in the bottom quartile of S&P stocks will continue to have a 15% stop loss, and the remainder will have a 20% stop. Franchise Picks are not intended to represent a recommended portfolio of stocks and is not sector based, but we may note where we believe a Pick falls within an investment style such as growth or value.

## Risks which may impede the achievement of our Price Target

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of

**546 HK**

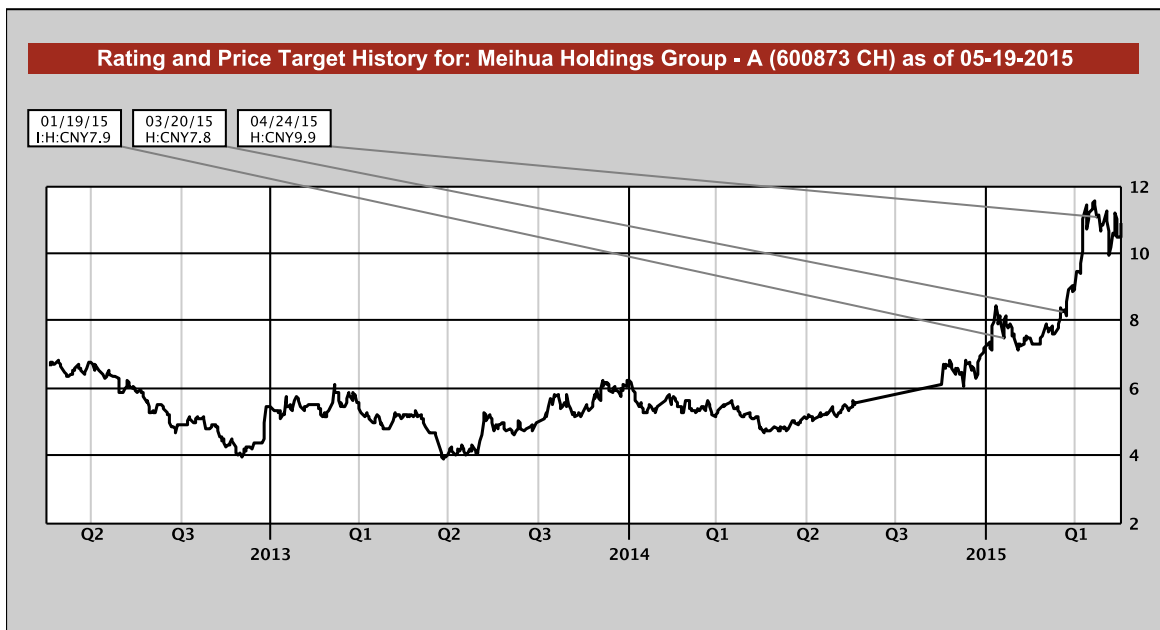
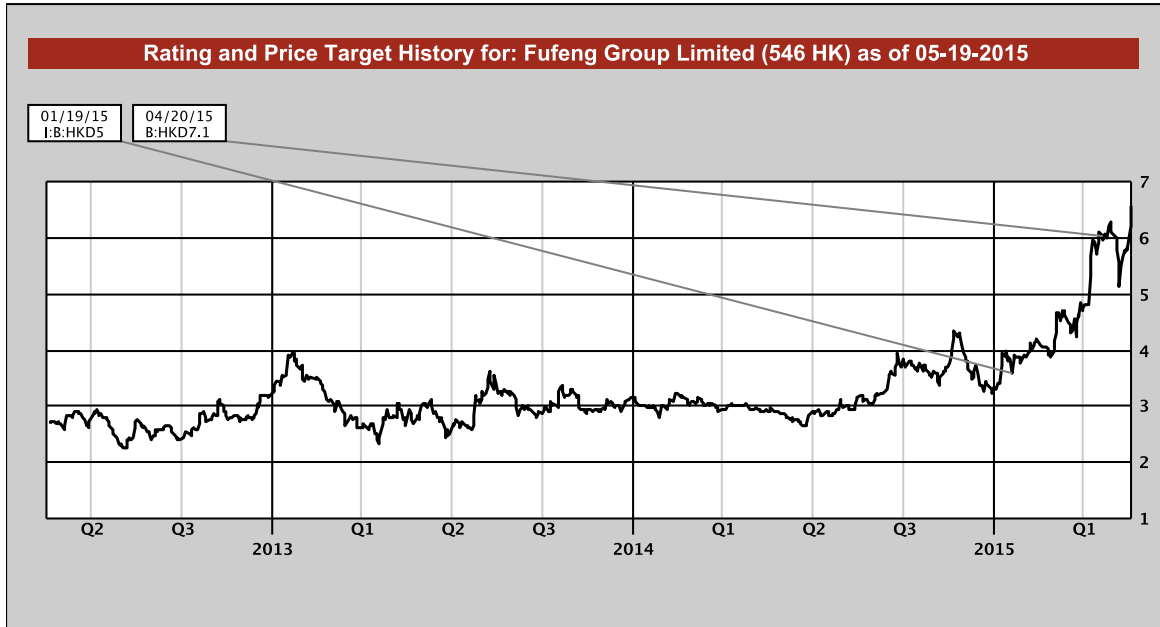
Target | Estimate Change

20 May 2015

the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.

## Other Companies Mentioned in This Report

- Meihua Holdings Group - A (600873 CH: CNY10.92, HOLD)



## Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1061	51.13%	288	27.14%
HOLD	843	40.63%	161	19.10%
UNDERPERFORM	171	8.24%	12	7.02%

## Other Important Disclosures

Jefferies Equity Research refers to research reports produced by analysts employed by one of the following Jefferies Group LLC ("Jefferies") group companies:

**United States:** Jefferies LLC which is an SEC registered firm and a member of FINRA.

**United Kingdom:** Jefferies International Limited, which is authorized and regulated by the Financial Conduct Authority; registered in England and Wales No. 1978621; registered office: Vintners Place, 68 Upper Thames Street, London EC4V 3B; telephone +44 (0)20 7029 8000; facsimile +44 (0)20 7029 8010.

**Hong Kong:** Jefferies Hong Kong Limited, which is licensed by the Securities and Futures Commission of Hong Kong with CE number AT5546; located at Suite 2201, 22nd Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

**Singapore:** Jefferies Singapore Limited, which is licensed by the Monetary Authority of Singapore; located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950.

**Japan:** Jefferies (Japan) Limited, Tokyo Branch, which is a securities company registered by the Financial Services Agency of Japan and is a member of the Japan Securities Dealers Association; located at Hibiya Marine Bldg, 3F, 1-5-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006; telephone +813 5251 6100; facsimile +813 5251 6101.

**India:** Jefferies India Private Limited (CIN - U74140MH2007PTC200509), which is licensed by the Securities and Exchange Board of India as a Merchant Banker (INM000011443) and a Stock Broker with Bombay Stock Exchange Limited (INB011491033) and National Stock Exchange of India Limited (INB231491037) in the Capital Market Segment; located at 42/43, 2 North Avenue, Maker Maxity, Bandra-Kurla Complex, Bandra (East) Mumbai 400 051, India; Tel +91 22 4356 6000.

This material has been prepared by Jefferies employing appropriate expertise, and in the belief that it is fair and not misleading. The information set forth herein was obtained from sources believed to be reliable, but has not been independently verified by Jefferies. Therefore, except for any obligation under applicable rules we do not guarantee its accuracy. Additional and supporting information is available upon request. Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, this material is distributed in the United States ("US"), by Jefferies LLC, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934. Transactions by or on behalf of any US person may only be effected through Jefferies LLC. In the United Kingdom and European Economic Area this report is issued and/or approved for distribution by Jefferies International Limited and is intended for use only by persons who have, or have been assessed as having, suitable professional experience and expertise, or by persons to whom it can be otherwise lawfully distributed. Jefferies International Limited has adopted a conflicts management policy in connection with the preparation and publication of research, the details of which are available upon request in writing to the Compliance Officer. Jefferies International Limited may allow its analysts to undertake private consultancy work. Jefferies International Limited's conflicts management policy sets out the arrangements Jefferies International Limited employs to manage any potential conflicts of interest that may arise as a result of such consultancy work. For Canadian investors, this material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "Designated Institution" as defined by the Securities Act (Ontario). In Singapore, Jefferies Singapore Limited is regulated by the Monetary Authority of Singapore. For investors in the Republic of Singapore, this material is provided by Jefferies Singapore Limited pursuant to Regulation 32C of the Financial Advisers Regulations. The material contained in this document is intended solely for accredited, expert or institutional investors, as defined under the Securities and Futures Act (Cap. 289 of Singapore). If there are any matters arising from, or in connection with this material, please contact Jefferies Singapore Limited, located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950. In Japan this material is issued and distributed by Jefferies (Japan) Limited to institutional investors only. In Hong Kong, this report is issued and approved by Jefferies Hong Kong Limited and is intended for use only by professional investors as defined in the Hong Kong Securities and Futures Ordinance and its subsidiary legislation. In the Republic of China (Taiwan), this report should not be distributed. The research in relation to this report is conducted outside the PRC. This report does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. In India this report is made available by Jefferies India Private Limited. In Australia this information is issued solely by Jefferies International Limited and is directed solely at wholesale clients within the meaning of the Corporations Act 2001 of Australia (the "Act") in connection with their consideration of any investment or investment service that is the subject of this document. Any offer or issue that is the subject of this document does not require, and this document is not, a disclosure document or product disclosure statement within the meaning of the Act. Jefferies International Limited is authorised and regulated by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws. Jefferies International Limited has obtained relief under Australian Securities and Investments Commission Class Order 03/1099, which conditionally exempts it from holding an Australian financial services licence under the Act in respect of the provision of certain financial services to wholesale clients. Recipients of this document in any other jurisdictions should inform themselves about and observe any applicable legal requirements in relation to the receipt of this document.

This report is not an offer or solicitation of an offer to buy or sell any security or derivative instrument, or to make any investment. Any opinion or estimate constitutes the preparer's best judgment as of the date of preparation, and is subject to change without notice. Jefferies assumes no obligation to maintain or update this report based on subsequent information and events. Jefferies, its associates or affiliates, and its respective officers, directors, and employees may have long or short positions in, or may buy or sell any of the securities, derivative instruments or other investments mentioned or described herein, either as agent or as principal for their own account. Upon request Jefferies may provide specialized research products or services to certain customers focusing on the prospects for individual covered stocks as compared to other covered stocks over varying time horizons or under differing market conditions. While the views expressed in these situations may not always be directionally consistent with the long-term views expressed in the analyst's published research, the analyst has a reasonable basis and any inconsistencies can be reasonably explained. This material does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to herein and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of securities. None of Jefferies, any of its affiliates or its research analysts has any authority whatsoever to make any representations or warranty on behalf of the issuer(s). Jefferies policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior



**546 HK**

Target | Estimate Change

20 May 2015

to the publication of a research report containing such rating, recommendation or investment thesis. Any comments or statements made herein are those of the author(s) and may differ from the views of Jefferies.

This report may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Jefferies research reports are disseminated and available primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Jefferies. Neither Jefferies nor any officer nor employee of Jefferies accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

For Important Disclosure information, please visit our website at <https://javatar.bluematrix.com/sellside/Disclosures.action> or call 1.888.JEFFERIES

© 2015 Jefferies Group LLC