

Company Report: CNOOC (00883 HK)

公司报告：中国海洋石油 (00883 HK)

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Oil Price Recovery Slower Than Expected, Maintain “Accumulate”

油价恢复慢于预期，维持“收集”

- The latest global supply and demand data suggests that the current oil market is largely in balance, despite a large stock overhang that has proven stubborn to reduce. **Our forecasts for Brent oil prices have been revised down to US\$53/bbl, US\$63/bbl, and US\$68/bbl for 2017-2019, as we expect oil prices to recover more slowly in 2017 and perform better in 2018.**
- CNOOC's earnings performance will continue to be sensitive to fluctuations in oil prices. The Company recorded a much improved 1Q2017 performance owing to a higher YoY realized average oil price. Earnings growth in 2H2017 may come under some pressure as the oil market recovers slower than expected, but CNOOC's share price will likely improve based on an optimistic outlook for 2018.
- Revise TP down to HK\$10.50 and maintain investment rating as “Accumulate”.** The downward revision is due to our lower oil price assumptions for 2017-2019. The TP corresponds to 30.0x/13.7x/10.6x FY17/FY18/FY19 PER, equivalent to 1.09x/1.06x/1.02x FY17/FY18/FY19 PBR, and is also equivalent to a 24.9% discount on our 2017E DCF valuation analysis.
- 虽然大量的过剩库存表现出难以消减，但最新的国际供需数据表明石油市场已经基本达到平衡状态。由于我们预计油价在 2017 年恢复更加缓慢，并在 2018 年表现更好，我们下调 2017-2019 年布伦特原油的假设至 53 美元/桶，63 美元/桶及 68 美元/桶。
- 中海油盈利表现依然将对油价敏感。由于平均实现油价同比走高，公司 2017 年第 1 季度的业绩录得显著提高。由于石油市场复苏慢于预期，公司 2017 年下半年的盈利增长或受压，但公司股价将反映对 2018 年更乐观的前景。
- 下调目标价至 10.50 港元和维持投资评级为“收集”。目标价的下调是出于我们对 2017-2019 年油价假设下调。目标价相当于 30.0 倍/13.7 倍/10.6 倍 2017-2019 财年市盈率，与 1.09 倍/1.06 倍/1.02 倍的 2017-2019 财年市净率，对我们做出的 2017 年 DCF 估值分析有 24.9% 的折让。

Rating:

Accumulate

Maintained

评级:

收集(维持)

6-18m TP 目标价:

HK\$10.50

Revised from 原目标价:

HK\$11.50

Share price 股价:

HK\$8.600

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(0.6)	(9.0)	(11.1)
Rel. % to HS index 相对恒指变动 %	(1.9)	(16.1)	(33.8)
Avg. share price(HK\$) 平均股价 (港元)	8.6	8.7	9.2

Source: Bloomberg, Guotai Junan International.

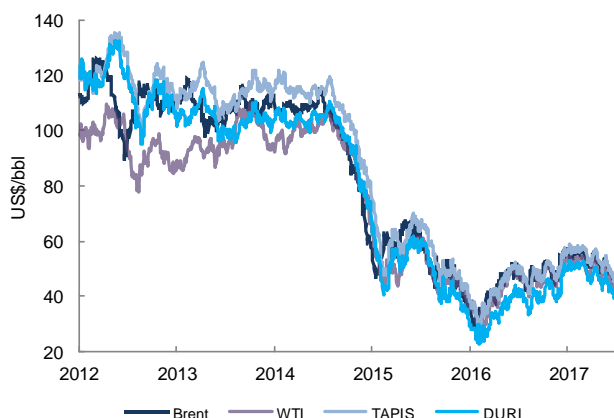
Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (△%)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2015A	171,437	20,246	0.450	(66.4)	16.6	8.646	0.9	0.457	7.0	5.3
2016A	146,490	637	0.014	(96.9)	523.8	8.564	0.9	0.330	3.8	0.2
2017F	184,135	13,660	0.306	2,044.5	24.5	8.440	0.9	0.430	5.8	3.6
2018F	217,711	29,965	0.671	119.4	11.2	8.609	0.9	0.503	6.7	7.9
2019F	235,364	38,566	0.864	28.7	8.7	8.949	0.8	0.523	7.0	9.8

Shares in issue (m) 总股数 (m)	44,647.5	Major shareholder 大股东	CNOOC 64.4%
Market cap. (HK\$ m) 市值 (HK\$ m)	383,968.1	Free float (%) 自由流通比率 (%)	35.6
3 month average vol. 3 个月平均成交股数 ('000)	65,001.5	FY17 Net gearing FY17 净负债/股东资金 (%)	29.1%
52 Weeks high/low (HK\$) 52 周高/低	10.426 / 8.500	FY17 Est. NAV (HK\$) FY17 每股估值 (港元)	14.0

Source: the Company, Guotai Junan International.

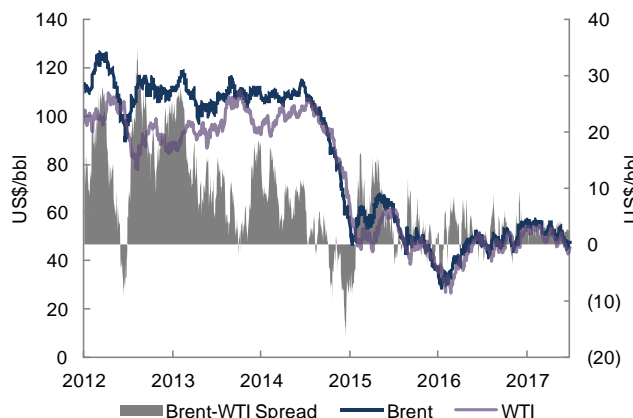
Brent oil prices averaged US\$52.7/bbl for the first half of 2017, where 1Q2017 and 2Q2017 oil prices averaged US\$54.6/bbl and US\$50.8/bbl, respectively, decreasing 7.0% QoQ. The primary reason for the relatively poor performance in 2Q2017 was due to the market losing faith in OPEC's ability to rebalance the market with its production cuts amidst persistent global oversupply. The IEA estimates global oil demand to grow 1.3% and 1.5% to 97.8 mb/d and 99.3 mb/d in 2017 and 2018, respectively. In May, global oil supply reached 96.69 mb/d, 1.3% higher YoY, primarily due to increases in production from the U.S., Libya, and Nigeria. In April, OECD industry stocks, which contain crude and oil products, remained high at 3,045 mn bbl, which is 292 mn bbl above the five-year average. Our forecasts for Brent oil prices have been revised downward to US\$53/bbl, US\$63/bbl, and US\$68/bbl for 2017-2019 as we expect a slower oil price recovery in 2017 and better performance in 2018. We still expect oil prices to trend upward for the remainder of the year due to stable demand growth under OPEC production cuts and limited room for U.S. oil production growth. The transportation, aviation, and petrochemical industries will be the primary drivers of growth in oil demand over the next few years.

Figure-1: Crude Oil Prices



Source: Bloomberg.

Figure-2: Brent vs. WTI Price Spread

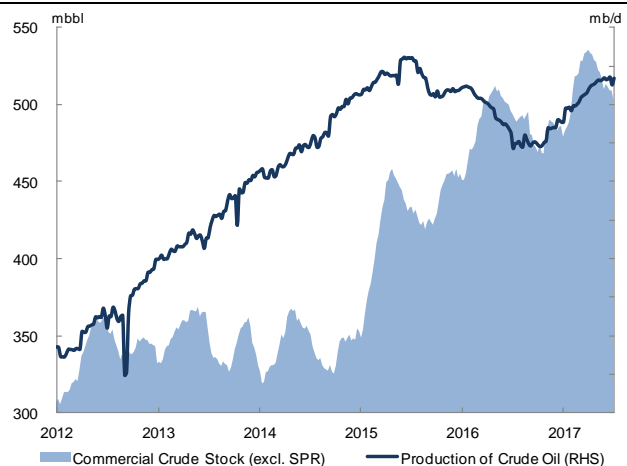


Source: Bloomberg.

OPEC's production cuts have been extended through March, 2018, with compliance being key towards sustaining market balance. Our analysis of the oil market suggests that OPEC's production cuts of 1.16 mb/d and non-OPEC production cuts of 558 kb/d should be sufficient given the time frame to rebalance the oil market by drawing down inventories to the 5-year average. However, this can only be achieved with a high level of compliance by participating members, especially as Libya and Nigeria, who are exempt from the cuts, continue to increase production. OPEC has a history of non-compliance, raising the risk of cartel members ramping up production as demand picks up later in the year, but we expect Saudi Arabia, accounting for over 30% of OPEC oil production, to remain diligent and pick up the slack in case other countries increase production.

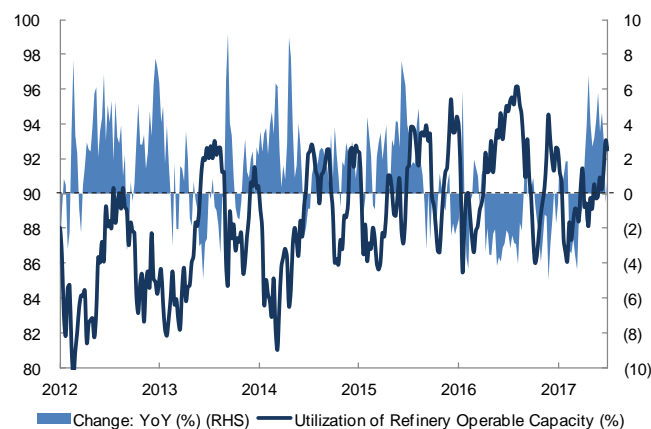
U.S. oil production growth is nearing its peak, with minimal growth to be expected beyond 2018. U.S. crude oil production averaged 9.167 mb/d for 1H2017, growing 2.1% YoY from an average of 8.976 mb/d in 1H2016. U.S. oil production peaked in June 2015 at 9.61 mb/d when WTI traded around US\$60/bbl before crashing. U.S. oil production has been rising steadily since hitting a trough in July 2016. According to Baker Hughes, active oil rigs in the U.S. reached 763 for the week ending July 7th, 412 more rigs YoY. The EIA forecasts in its latest Short-Term Energy Outlook that U.S. crude production will average 9.3 mb/d and 9.9 mb/d for 2017 and 2018, with a long-term production forecast to hover between 10-11 mb/d. Since 1H2017 U.S. oil production averaged 9.15 mb/d, EIA's forecasts imply that it expects the U.S.'s 2H2017 oil production will average 9.45 mb/d. U.S. commercial crude stocks (excl. SPR) stood at 502.9 mn bbl for the week ending June 30th, growing 5.0% YTD and 1.9% YoY. U.S. commercial crude stocks (excl. SPR) averaged 310.3 mn bbl from 1990 through to 2014, since then it has grown 15.2% p.a. and averaged 468.8 mn bbl due to increased domestic shale oil production. Utilization rates of refineries' operable capacity remained above 90% since the week ending March 31st, as refiners are expected to produce more oil products in expectation of higher demand for the rest of the year.

Figure-3: U.S. Crude Oil Production and Stocks



Source: EIA.

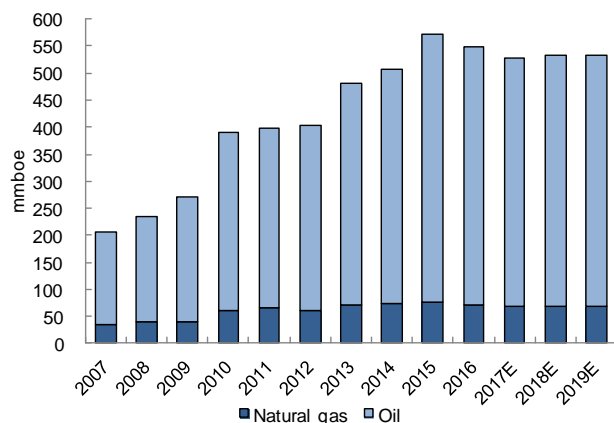
Figure-4: U.S. Utilization of Operable Refinery Capacity



Source: EIA.

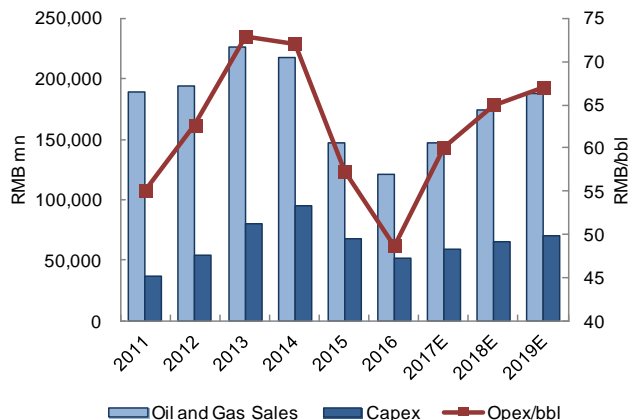
CNOOC's 1H2017 share price performance was depressed by lower oil prices in 2Q2017, but we expect an upward oil price trend in 2H2017 and a brighter outlook in 2018 for the oil market to provide support for share prices in 2H2017. The Company's 1Q2017 oil and gas sales rose 55.8% YoY to RMB38,393 mn, which is reflective of the Company's higher average realized oil price of US\$51.64/bbl, 58.7% higher YoY. As such, a relatively low oil price performance in 2Q2017 will be reflected with lower earnings for CNOOC. Looking forward, the Company's 2H2017 earnings will improve with the rise in oil prices and be in tandem with the seasonality of the market. It is important the stress the sensitivity of CNOOC's earnings to fluctuations in oil prices, therefore, due to our lower oil price assumptions, we have lowered our earnings forecasts for CNOOC accordingly.

Figure-5: CNOOC Total Oil & Gas Production



Source: the Company, Guotai Junan International.

Figure-6: CNOOC Oil and Gas Sales, CAPEX, and Operating Expenses per Barrel



Source: the Company, Guotai Junan International.

CNOOC's 2017 new projects are all on schedule. The Company's Weizhou 12-2 Phase 2 project is in the final stages prior to commencing production having concluded bidding in June for two pressurized water injection pumps for delivery in 4 months. According to a recent press release from Husky Energy, operator of the Madura Strait BD gas field in which CNOOC holds 40% interest, a ramp up to full sales gas rates is expected in 2H2017. Finally, Japan Petroleum Exploration Co. announced on May 2nd that it has begun steam injection for production start up utilizing SAGD at the oil sands in Hangingstone, Alberta, Canada. Nexen-CNOOC holds 25% non-operating interest in the Hangingstone joint venture, and resumption of work since being suspended in May 2016 due to wildfires and low oil prices suggests a brightening outlook for the oil market and the Company as Canada's oil sands are relatively expensive to develop when compared to conventional oilfields in the Middle-East and U.S. shale oil.

Table-1: CNOOC Development Projects 2016-2017

	Project	Production Commencement Date	Peak Production (boe/d)	Time to Peak Production
2017				
1	Penglai 19-9	Jan. 12th, 2017	13,000	2019
2	Enping 23-1	Jan. 17th, 2017	24,800	2018
3	Weizhou 12-2 Phase II	2H2017	11,800	n.a.
4	BD gas field	2H2017	25,500	<1 year
5	Hangingstone	2H2017	18,100	1 year
2016				
1	Kenli 10-4	Jan. 27th, 2016	9,600	Reached
2	Weizhou 11-4 North	Feb. 1st, 2016	8,000	<1 year
3	Weizhou 12-2	Feb. 1st, 2016	16,000	Reached
4	Panyu 11-5	Apr. 25th, 2016	3,900	Reached
5	Weizhou 6-9/6-10 comprehensive adjustment	Sep. 12th, 2016	3,800	2018
6	Enping 18-1	Sep. 21th, 2016	11,800	<1 year

Source: the Company.

Revise target price down from HK\$11.50 to HK\$10.50 and maintain investment rating “Accumulate”. The target price corresponds to 30.0x/13.7x/10.6x FY17/FY18/FY19 PER, equivalent to 1.09x/1.06x/1.02x FY17/FY18/FY19 PBR, and is also equivalent to a 24.9% discount on our 2017E DCF valuation analysis. The weighted average peers’ FY17 P/B is 1.3x compared to 1.1x for CNOOC. Despite the slower-than-expected recovery in oil prices, we remain optimistic that the market is trending upwards and will continue to do so over the next few years. CNOOC is a mature company and its improved operational efficiency and continued overseas development will drive growth, maintain “Accumulate”.

Table-2: Peers Comparison

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	EV/EBITDA
				16A	17F	18F	19F	16A	17F	18F	19F			
Peers														
Cnooc Ltd	883 HK	HKD	8.60	735.7	14.7	11.5	9.1	0.9	0.9	0.8	0.8	6.0	4.3	4.1
Kunlun Energy Co Ltd	135 HK	HKD	7.11	87.1	11.8	10.7	9.9	1.4	1.3	1.2	1.1	11.0	2.0	5.9
Petrochina Co Ltd-H	857 HK	HKD	4.79	102.4	22.8	16.0	11.6	0.7	0.6	0.6	0.6	2.8	1.8	6.4
China Petroleum & Chemical-H	386 HK	HKD	5.87	13.0	11.9	10.8	9.8	0.9	0.8	0.8	0.8	7.5	4.9	4.5
Occidental Petroleum Corp	OXY US	USD	58.94	n.a.	69.1	38.2	24.2	2.1	2.3	2.4	2.5	3.2	5.2	9.7
Encana Corp	ECA CN	CAD	11.48	n.a.	23.8	12.3	8.6	1.4	1.3	1.2	1.0	4.6	0.6	8.6
Eog Resources Inc	EOG US	USD	90.63	n.a.	88.0	44.3	25.5	3.7	3.7	3.5	3.2	3.7	0.7	11.6
Repsol Sa	REP SM	EUR	13.66	11.8	10.1	9.9	9.7	0.6	0.6	0.6	0.6	6.4	5.8	4.9
Canadian Natural Resources	CNQ CN	CAD	37.50	n.a.	26.9	15.7	12.5	1.6	1.5	1.4	1.3	5.5	2.9	8.5
Murphy Oil Corp	MUR US	USD	24.58	n.a.	599.5	40.2	27.8	0.9	0.9	0.9	0.9	2.0	4.2	4.5
Conocophillips	COP US	USD	43.35	n.a.	112.3	26.6	17.3	1.5	1.6	1.6	1.6	3.3	2.5	6.8
Anadarko Petroleum Corp	APC US	USD	43.64	n.a.	n.a.	184.9	26.0	2.0	1.6	1.5	1.4	(4.3)	0.5	6.8
Oil & Natural Gas Corp Ltd	ONGC IN	INR	165.00	15.0	10.3	8.6	7.7	1.1	1.0	1.0	0.9	10.1	4.1	6.7
Devon Energy Corp	DVN US	USD	30.53	n.a.	17.0	13.3	8.9	2.7	2.3	2.0	1.8	12.6	0.8	7.8
Apache Corp	APA US	USD	47.20	n.a.	74.4	42.3	26.3	2.9	2.9	2.9	2.9	2.4	2.1	6.9
Woodside Petroleum Ltd	WPL AU	AUD	29.30	20.9	18.0	16.0	13.2	1.2	1.3	1.2	1.2	6.7	4.4	8.1
Hess Corp	HES US	USD	43.06	n.a.	n.a.	n.a.	n.a.	1.0	1.0	1.1	0.9	(8.2)	2.4	9.6
Inpex Corp	1605 JP	JPY	1,073.50	93.4	34.0	26.0	16.6	0.5	0.5	0.5	0.5	1.6	1.6	4.4
Simple Average				134.9	71.5	31.0	15.6	1.5	1.4	1.4	1.3	4.3	2.8	7.0
Weighted Average				135.8	39.6	25.4	14.2	1.3	1.3	1.3	1.2	4.4	2.9	6.8

Source: Bloomberg.

Financial Statements, Ratios and Assumptions

Income Statement					
Year ended Dec 31 (RMB m)	2015A	2016A	2017F	2018F	2019F
Oil & Gas sales	146,597	121,325	147,308	174,169	188,291
Marketing & other revenues	24,840	25,165	36,827	43,542	47,073
REVENUE	171,437	146,490	184,135	217,711	235,364
Operating expenses	(28,372)	(23,211)	(27,501)	(30,017)	(31,105)
Exploration expenses	(9,900)	(7,359)	(8,732)	(10,771)	(11,126)
DD&A	(73,439)	(68,907)	(69,053)	(68,985)	(70,847)
Special oil gain levy	(59)	0	0	0	-
Crude oil and product purchases	(19,840)	(19,018)	(32,776)	(38,753)	(41,895)
SG&A, others	(5,705)	(6,493)	(7,973)	(9,427)	(10,191)
Impairment and provision	(2,746)	(12,171)	0	(27)	(24)
Other gains - net	(13,920)	(11,743)	(11,048)	(13,063)	(14,122)
EXPENSES	(153,981)	(148,902)	(157,083)	(171,041)	(179,310)
OPERATING PROFIT	17,456	(2,412)	27,052	46,670	56,054
Interest income	873	901	764	1,045	1,719
Finance income / (cost)	(6,118)	(6,246)	(5,267)	(5,284)	(5,324)
Exchange (losses)/gains, net	(143)	(790)	399	407	314
Investment income	2,398	2,774	2,413	2,208	3,361
Share of profit of associates	256	(609)	59	96	96
Share of profit of JV	1,647	533	544	555	566
Non-operating income, net	761	574	585	597	609
PROFIT BEFORE TAX	17,130	(5,275)	26,550	46,294	57,395
Income Tax	3,116	5,912	(12,889)	(16,328)	(18,829)
PROFIT FOR THE YEAR	20,246	637	13,660	29,965	38,566
Basic EPS, RMB	0.45	0.01	0.31	0.67	0.86
Diluted EPS, RMB	0.45	0.01	0.31	0.67	0.86

Balance Sheet					
Year end Dec 31 (RMB Mn)	2015A	2016A	2017F	2018F	2019F
PPE	454,141	432,465	423,624	421,259	422,434
Investments in JV/A	28,413	29,995	31,379	32,822	34,285
Intangibles	16,423	16,644	15,795	14,973	14,093
Other Non-Current Assets	25,174	36,532	33,533	31,407	29,429
NON-CURRENT ASSETS	524,151	515,636	504,332	500,461	500,241
Other Investments.(net)	71,827	53,332	55,240	54,428	58,841
Cash & Equivalents	11,867	13,735	37,282	54,488	69,371
Inventory	9,263	8,709	9,207	9,797	9,415
Trade Receivables	21,829	23,289	18,413	21,771	23,536
Other Current Assets	25,425	22,980	23,938	28,302	30,597
CURRENT ASSETS	140,211	122,045	144,080	168,787	191,760
TOTAL ASSETS	664,362	637,681	648,411	669,247	692,002
Short-Term Debt	33,585	19,678	15,742	14,955	14,208
Trade and Accrued Payables	32,614	25,345	33,002	36,020	37,326
Other Current Liabilities	18,181	22,067	25,509	30,161	32,606
CURRENT LIABILITIES	84,380	67,090	74,253	81,136	84,140
Long-Term Debt	131,060	130,798	132,106	133,097	133,762
Other Non-Current Liabilities	62,881	57,422	65,213	70,659	74,530
NON-CURRENT LIABILITIES	193,941	188,220	197,319	203,756	208,293
TOTAL LIABILITIES	278,321	255,310	271,573	284,892	292,433
Share capital	43,081	43,081	43,081	43,081	43,081
Reserves	342,960	339,290	333,758	341,274	356,488
TOTAL EQUITY	386,041	382,371	376,839	384,355	399,569
TOTAL EQUITY & LIABILITIES	664,362	637,681	648,411	669,247	692,002

Source: the Company, Guotai Junan International.
 Note: *adjusted for economic revisions (impairment).

Cash Flow Statement					
Year ended Dec 31 (RMB m)	2015A	2016A	2017F	2018F	2019F
Profit before tax	17,130	(5,275)	26,550	46,294	57,395
Adjustments for:					
Depreciation	72,293	68,303	67,764	67,678	69,435
Amortization	1,306	1,020	1,289	1,306	1,412
Tax Paid	3,116	5,912	(12,889)	(16,328)	(18,829)
JV/A Income/(loss) - net	(1,903)	76	(603)	(651)	(662)
Change in Working Capital	(14,281)	(13,113)	17,363	1,557	2,054
Other Operating Cash Flows	2,434	15,940	7,791	5,446	3,871
OPERATING CASH FLOW	80,095	72,863	107,265	105,302	114,676
Capital Expenditure	(67,674)	(51,347)	(58,923)	(65,313)	(70,609)
Investments in financial assets - net	(6,905)	25,541	(1,908)	813	(4,413)
Investments in JV/A	(1,456)	(1,865)	(1,000)	(1,020)	(1,040)
Other investments	(460)	(282)	(66)	(329)	(296)
INVESTMENT CASH FLOW	(76,495)	(27,953)	(61,898)	(65,850)	(76,359)
Dividends Paid	(20,419)	(14,755)	(19,193)	(22,449)	(23,353)
Change in Gross Debt	28,082	(14,169)	(2,628)	204	(82)
Other Financing Cash Flow	(14,556)	(14,316)	0	0	0
FINANCING CASH FLOW	(6,893)	(43,240)	(21,820)	(22,245)	(23,435)
Exchange Differences	242	198	0	0	0
Cash at Beginning of the Year	14,918	11,867	13,735	37,282	54,488
Net Change in Cash	(3,051)	1,868	23,547	17,207	14,883
CASH AT THE END OF THE YEAR	11,867	13,735	37,282	54,488	69,371

Financial Ratios and Assumptions					
Year ended Dec 31	2015A	2016A	2017F	2018F	2019F
Growth %:					
Oil & gas revenue	(32.8)%	(17.2)%	21.4%	18.2%	8.1%
Operating profit	(78.4)%	(113.8)%	1,021.6%	72.5%	20.1%
Net profit	(66.4)%	(96.9)%	2,044.5%	119.4%	28.7%
Margins:					
Operating margin	11.9%	(2.0)%	18.4%	26.8%	29.8%
Net profit margin	11.8%	0.4%	7.4%	13.8%	16.4%
Debt management:					
Net gearing	39.9%	35.6%	29.1%	24.6%	20.1%
Total debt to equity	42.6%	39.4%	39.2%	38.5%	37.0%
Valuation:					
BVPS (RMB)	8.646	8.564	8.440	8.609	8.949
P/E	16.9	533.6	24.5	11.2	8.7
P/B	0.9	0.9	0.9	0.9	0.8
P/CF	4.2	4.7	3.1	3.2	2.9
Assumptions & others:					
Brent oil price (US\$/bbl)	54.0	45.1	53.0	63.0	68.0
Realised oil price (US\$/bbl)	51.3	41.4	49.3	59.3	64.3
Production(mmbobe)	496	477	458	462	464
Production growth	14.6%	(3.8)%	(3.9)%	0.7%	0.5%
P/reserves(US\$/boe)	11.41	12.66			
RRR %	67%	145%*			

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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