



Company Report: Tencent (00700 HK)

公司报告: 腾讯控股 (00700 HK)

Ricky Lai 黎柏坚

(852) 2509 2603

ricky.lai@gjas.com.hk

9 April 2018

More Investment to Drive Revenue Growth, "Buy"

增加投资以助收入增长, "买入"

- **FY17 shareholders' profit beat expectations with 74.0% yoy growth due to better-than-expected investment gains.** Non-GAAP net profit grew 43% yoy in FY17. 4Q17 online game revenue growth slowed due to slower monetization rate of the newly launched battle royale games compared to previous game titles.
- **We lift FY18-FY19 VAS service revenue by 3.3%/ 3.8%, respectively,** to reflect better investment in content and services, through acquiring video content, the launch of AI technology for advertising, subsidized payment services and the launch of new game titles. Tencent will launch a number of new game titles such as FIFA Online 4, Rocket League and Fortnite, and ramp up the monetization of battle royale games (PUBG and Cross Fire) in FY18.
- **Profit margins are expected to be affected by more investment in video content acquisitions, traffic acquisition and payment services subsidies.** We expect FY18-FY20 gross margin to lower by 2.2 ppt/ 1.1 ppt/ 1.1 ppt to 47.0%/ 45.9%/ 44.8%, respectively.
- **Maintain the investment rating of "Buy" and lift TP from HK\$500.00 to HK\$520.00.** We revise up FY18-FY19 EPS by 3.3%/ 3.8%, respectively. The new TP implies 52.5x FY18 PER, 41.2x FY19 PER and 34.7x FY20 PER.
- 由于投资收益好于预期, 2017 财年的股东利润超出预期, 同比增长 74.0%。2017 财年非 GAAP 净利同比增长 43%。2017 第 4 季度在线游戏收入增长放缓, 因新推出的生存射击游戏货币化与之前的游戏相比较慢。
- 我们分别上调 2018-2019 财年增值服务收入 3.3%/ 3.8%, 以反映更好的内容及服务, 因公司加大投资以获取视频内容、于广告推出人工智能技术、补贴支付服务及推出新游戏。腾讯将推出一系列新游戏如 FIFA Online 4、火箭联盟、要塞英雄, 并在 2018 年加快生存游戏(绝地求生和穿越火线)的货币化。
- 预计利润率受到对视频内容购买、流量获取和支付服务补贴的投资增加的影响。我们预计 2018-2020 财年毛利率将分别下降 2.2 个百分点/1.1 个百分点/1.1 个百分点至 47.0%/ 45.9%/ 44.8%。
- 维持公司的投资评级为"买入"及目标价从 500.00 港元上调至 520.00 港元。我们分别上调 2018-2019 年每股盈利预测 3.3%/ 3.8%。新目标价相当于 52.5 倍 2018 年市盈率、41.2 倍 2019 年市盈率及 34.7 倍 2020 年市盈率。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$520.00

Revised from 原目标价:

HK\$500.00

Share price 股价:

HK\$405.800

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	0.2	10.3	98.7
Rel. % to HSI Index 相对恒指变动 %	(0.8)	4.5	70.1
Avg. Share price(HK\$) 平均股价 (港元)	450.6	438.5	344.3

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	151,938	41,095	4.383	41.5	82.9	18.625	19.5	0.395	0.1	27.9
2017A	237,760	71,510	7.599	73.4	43.3	27.210	12.1	0.537	0.2	33.2
2018F	338,322	80,026	8.424	10.9	39.0	33.112	9.9	0.595	0.2	28.0
2019F	459,877	102,200	10.726	27.3	30.6	38.354	8.6	0.758	0.2	30.1
2020F	582,800	121,669	12.732	18.7	25.8	42.219	7.8	0.899	0.3	31.6
Shares in issue (m) 总股数 (m)				9,499.0	Major shareholder 大股东			Naspers Ltd 31.2%		
Market cap. (HK\$ m) 市值 (HK\$ m)				3,854,694.2	Free float (%) 自由流通比率 (%)			68.8		
3 month average vol. 3 个月平均成交股数 ('000)				24,920.0	FY18 Net gearing (%) FY18 净负债/股东资金 (%)			Net cash		
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				476.600 / 218.200						

Source: the Company, Guotai Junan International.

FY17 Results Review
FY17 shareholders' profit beat expectations with 74.0% yoy growth due to better-than-expected investment gains.

Non-GAAP net profit grew 43% yoy in FY17. Online game revenue grew 38% yoy in FY17, driven by popular game titles including Honor of King and TLBB. Tencent will launch a number of new game titles such as FIFA Online 4, Rocket League and Fortnite, and start to monetize battle royale games (PUBG and Cross Fire) in FY18. Tencent has started to monetize mini programs by launching advertisements to mini games. There were over 580,000 mini programs launched with over 170 million DAU, covering different services and function such as e-commerce, online games and O2O services. Online advertising revenue grew 50% yoy in FY17, driven by the introduction of AI technology to launch more suitable advertisements to customers. Weixin Moments and video platforms also helped to propel advertising revenue growth with better video content and larger user base. Gross margin decreased by 6.4 ppt yoy to 49.2% due to revenue sharing costs with the app store, channel costs and video acquisition costs. Tencent's ("the Company") payment services revenue surged thanks to internet finance contributions with its wealth management platform LiCaiTong having an aggregate of over RMB300 billion in assets and unsecured consumer loans, with Weilidai (which is Tencent's loan services) with outstanding loans of over RMB100 billion. Tencent may subsidize merchants and users to boost payment services penetration in FY18.

Table-1: Tencent's Income Statement Analysis

RMB (Million)	FY17	FY16	YoY	Comments
Total revenue	237,760	151,938	56.5%	
- VAS revenue	153,983	107,810	42.8%	Driven by mobile games, content subscription services
- Online advertising revenue	40,439	26,970	49.9%	Due to the launch of AI technology to different platforms to improve effectiveness and better contributions from Weixin Moments and video platforms.
- Others revenue	43,338	17,158	152.6%	Strong growth from cloud and payment services with more varieties of customers.
Cost of revenue	(120,835)	(67,439)	79.2%	
Gross profit	116,925	84,499	38.4%	
Interest income	3,940	2,619	50.4%	
Other gains, net	20,140	3,594	460.4%	Disposal gains from the IPO of Yixin, Netmarble, Sea, ZhongAn Insurance and Sogou.
S&M expenses	(17,652)	(12,136)	45.5%	
G&A expenses	(33,051)	(22,459)	47.2%	Growing staff costs related to business expansion.
Operating profit	90,302	56,117	60.9%	
Finance costs, net	(2,908)	(1,955)	48.7%	
Share of (losses)/profits of associates and JV	821	(2,522)	n.a.	
Profit before tax	88,215	51,640	70.8%	
Income tax	(15,744)	(10,193)	54.5%	
Shareholders' profit	71,510	41,095	74.0%	
Non-GAAP Shareholders' profit	65,126	45,420	43.4%	
EPS (RMB)	7.598	4.383	73.4%	
Gross profit margin	49.2%	55.6%	(6.4ppt)	GPM affected by margin mobile games and cloud services contributions.
Non-GAAP net profit margin	38.0%	36.9%	1.0ppt	

Source: the Company, Guotai Junan International.

Online game revenue growth to be improved with the launch of new games, in-game advertisements, and more monetization measures. Online game revenue grew 38.2% yoy in FY17, driven by popular game titles including Honor of King, Contra Return, Dragon Nest Mobile and TLBB. Mobile game revenue showed a slower pace of growth in 4Q18 (down 7.1% QoQ) due to the slower pace of monetization of battle royale games contributions compared to previous game titles. There was weaker contribution from Honor of Kings in 4Q17 due to cannibalization effect from the launch of other new game titles. Arena of Valor, which is the overseas version of Honor of King, also received good response from South East Asia. Tencent launched the survival version of Cross Fire to meet market demand, but is yet to monetize and generate solid online game revenue. Tencent's battle royale game title "PlayerUnknown Battlegrounds" (PUBG) (绝地求生) ranked the top position in China's iOS chart, albeit a late comer compared to other competitors to the market, thanks to better graphics design, popular map and better interactive experience. Tencent monetized these battle royale game titles not only by charging virtual items but also introducing advertisements to boost game revenue growth. Tencent will launch a number of new game titles such as FIFA Online 4, Rocket League and Fortnite, and start to monetize battle royale games (PUBG and Cross Fire) in FY18. Tencent also launched some casual games such as QQ Speed, QQ Huaxia and QQ Dance, which received good responses from online gamers with high DAU. 4Q17 PC game revenue (down 12.3% yoy) was affected by the shift of gamers towards mobile platforms due to cannibalization. PC game revenue was mainly driven by DnF and LoL and is expected to further be affected by the shift of online gamers towards mobile platforms. Tencent has acquired some live broadcasting platforms recently to improve online experience and develop the eSports business. We expect that Tencent can ramp up its online game revenue growth in FY18 through the launch of new game titles and growing monetization rate. FY18-FY19 online game revenue has been revised up by 2.4%/ 3.6%, respectively.

Table-2: China's iOS Top 10 Free Online Games Chart

Ranking	Grossing Games	Game Distributors
1	PUBG: Exciting Battleground (绝地求生: 刺激战场)	Tencent
2	QQ Huaxia (QQ 华夏)	Tencent
3	QQ Dance (QQ 炫舞)	Tencent
4	PUBG: Full Ahead (绝地求生: 全军出击)	Tencent
5	Honour of Kings (王者荣耀)	Tencent
6	QQ Speed (QQ 飞车)	Tencent
7	Collection of Happy Mahjong (腾讯欢乐麻将全集)	Tencent
8	Happy Landlords (欢乐斗地主)	Tencent
9	Monster Chef (黑暗料理王)	Coconut Island
10	Anipop (开心消消乐)	Happy Elements

Source: App Annie.

Table-3: China's iOS Top 10 Online Grossing Games Chart

Ranking	Grossing Games	Game Distributors
1	QQ Huaxia (QQ 华夏)	Tencent
2	QQ Dance (QQ 炫舞)	Tencent
3	Honour of Kings (王者荣耀)	Tencent
4	QQ Speed (QQ 飞车)	Tencent
5	Collection of Happy Mahjong (腾讯欢乐麻将全集)	Tencent
6	Happy Landlords (欢乐斗地主)	Tencent
7	Monster Chef (黑暗料理王)	Coconut Island
8	Anipop (开心消消乐)	Happy Elements
9	Cang Zhi Ji Yuan (苍之纪元)	Teamtop
10	Knives Out (荒野行动)	NetEase

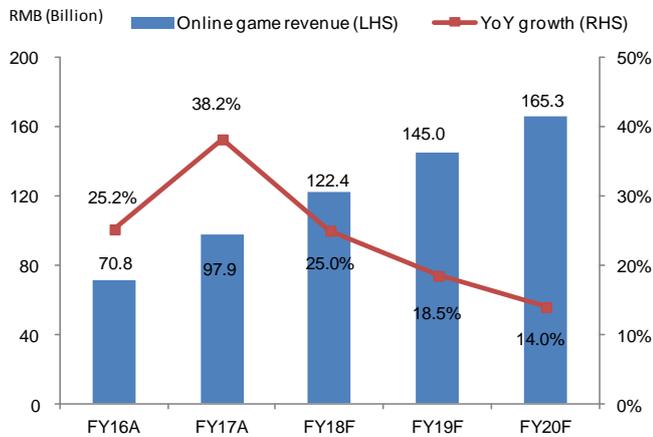
Source: App Annie.

Better subscription services with more investment. FY17 social networks revenue grew 51.8% yoy thanks to content subscription services, live broadcasting and virtual item sales contributions. Tencent provides a variety of content subscription

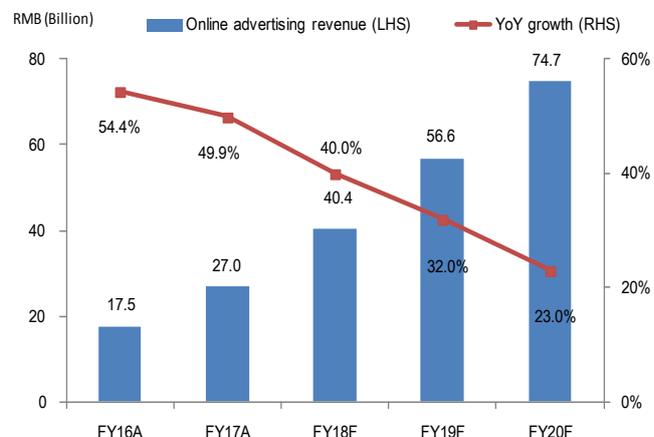
services (including music, video literature). Tencent Video DAU reached over 137 million in 4Q17 with 56 million subscriptions. Through partnerships, subsidiaries and content acquisitions, Tencent managed to bring domestic and overseas drama programs, movies and exclusive content to users. Tencent monetizes its video platforms through advertisements and subscriptions. We noticed that more viewers are more willing to pay membership fees to skip advertisements for video viewing. Tencent Music formed a strategic alliance with Spotify with reciprocal share swap to strengthen both music content bank and platform traffic. The large user base of Weixin (over 988 million) is expected to help Tencent to monetize more virtual item sales. We forecast social networks revenue in FY18-FY20 to grow yoy by 45.0%/ 37.0%/ 27.0%, respectively.

The introduction of AI technology, video content acquisitions and Weixin Moments contributions are expected to drive online advertising revenue growth in FY18. FY17 online advertising revenue grew 49.9% yoy, with 30% growth in media advertising and 65% growth in social advertising, driven by Weixin Moments, Weixin official accounts and video platforms. Tencent has launched AI technology to improve effectiveness by targeting customers with suitable advertisements. Thanks to its big data system, we expect that Tencent can further monetize by integrating AI technology. Although Tencent has limited advertising inventory in news apps in a system revamp, strong video platforms traffic has propelled growth of media advertising revenue. Tencent Video improved its traffic with better DAU thanks to the launch of popular drama shows, variety shows and singing contests. In FY18, we expect more quality video content to be launch through investment in acquisitions and self-producing content. Tencent has a large IP content bank from Chinese literature, which can help itself to produce more variety of drama programs. We expect media advertising can maintain solid growth in FY18 due to investment in acquiring video content with better traffic volume. Tencent expanded its advertiser base, which is expected to drive advertising revenue growth in FY18. Tencent consciously in launched advertisements in Weixin Moments and social platforms to prevent affecting user experience. AI technology can help to launch suitable content in a comfortable way to boost advertising revenue growth. Tencent is also undergoing linkage tests for CPC-based advertising through official accounts to mini programs, which has large potential for advertising business growth from its large Weixin user base.

Figure-1: Tencent's Online Game Revenue and YoY Growth **Figure-2: Tencent's Online Advertising Revenue and YoY Growth**



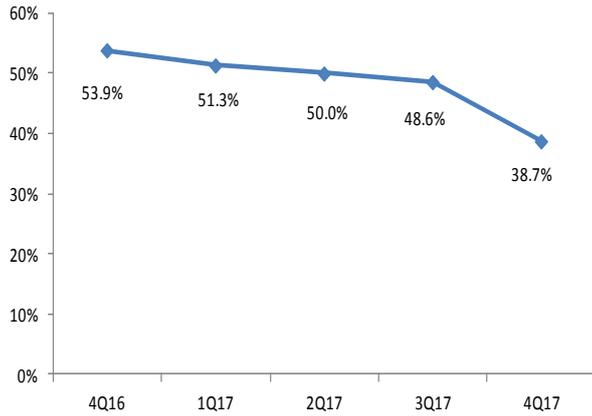
Source: the Company, Guotai Junan International.



Source: the Company, Guotai Junan International.

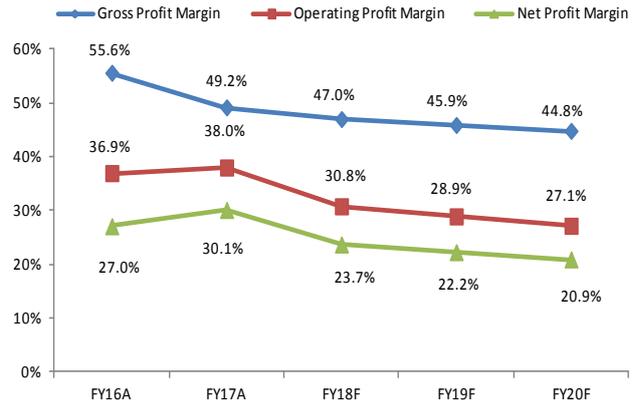
Gross margin to be affected by more investment. Gross margin decreased by 6.4 ppt yoy to 49.2% in FY17 due to revenue sharing costs with the app store, channel costs and video acquisition costs. Tencent is expected to launch more self-developed games to overseas markets to boost revenue growth, which may generate higher costs for mobile games. Mobile games and cloud services have lower gross margin than other businesses which will further affect Tencent's gross margin in FY18. VAS gross margin in FY17 was 60%, down 5 ppt yoy, due to content costs for subscription video streaming and live broadcast services, channel costs for mobile games and sharing costs to app stores. Online advertising gross margin lowered by 6 ppt yoy to 37% in FY17 due to higher video content costs and traffic acquisition costs. The gross margin of online advertising is set to further be affected by higher costs for acquiring quality content to improve platform traffic. We expect FY18-FY20 gross margin to lower by 2.2 ppt/ 1.1 ppt/ 1.1 ppt to 47.0%/ 45.9%/ 44.8%, respectively.

Figure-3: Tencent's Quarterly Gross Profit Margin



Source: the Company.

Figure-4: Tencent's Profit Margins Analysis



Source: the Company, Guotai Junan International.

Profit Revisions

We lift FY18-FY19 EPS by 2.2%/ 2.9%, respectively. We revise up FY18-FY19 VAS revenue by 3.3%/ 3.8%, respectively, to reflect better content subscription services and improving online game revenue. Online advertising revenue has been revised up by 2.8%/ 3.4% in FY18-FY19, respectively, driven by the launch of AI technology, better video content and Weixin contributions. Heavier investment in video content acquisitions, payment services subsidies and traffic improvement is set to impact profit margins. However, we think that investment is necessary to stay competitive in the market and it will be pay off with better user growth and ARPU.

Table-4: Financial Estimations Revisions

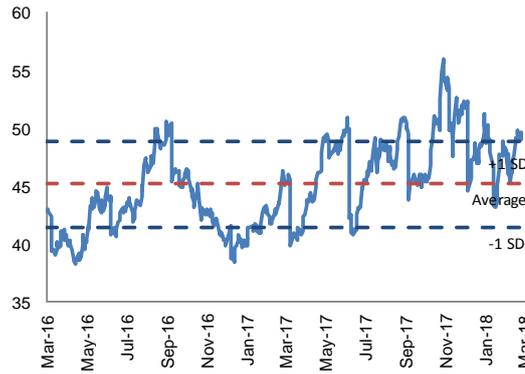
RMB (Million)	OLD			NEW			CHANGE		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total revenue	330,070	446,049	n.a.	338,322	459,877	582,800	2.5%	3.1%	n.a.
-VAS revenue	197,192	247,044	n.a.	203,699	256,432	306,820	3.3%	3.8%	n.a.
-Advertising revenue	55,073	72,274	n.a.	56,615	74,731	91,919	2.8%	3.4%	n.a.
-Others revenue	77,805	126,731	n.a.	78,008	128,714	184,061	0.3%	1.6%	n.a.
Net profit	78,303	99,320	n.a.	80,026	102,200	121,669	2.2%	2.9%	n.a.
EPS (RMB)	8.243	10.424	n.a.	8.424	10.726	12.732	2.2%	2.9%	n.a.

Source: Guotai Junan International.

Valuation

Maintain the investment rating of “Buy” and revise up the TP from HK\$500.00 to HK\$520.00. Although there was slower online game revenue growth in 4Q17 due to the launch of different game genres, Tencent can improve its online game growth in FY18 through launching advertisements within games and launching exclusive new game titles. Tencent will invest more in AI technology, payments and video content to improve revenue growth with a better ecosystem and services. Tencent may spin off more subsidiaries, such as videos and music, to improve its market valuation. We expect margins to be affected by more investments in FY18. The new TP implies 52.5x FY18 PER, 41.2x FY19 PER and 34.7x FY20 PER.

Figure-5: Tencent’s PE Graph



Source: Bloomberg.

Table-5: Peers Comparison

Company	Ticker	Currency	Price	PER (x)			PBR (x)			ROE(%)	ROA(%)
				18F	19F	20F	18F	19F	20F	18F	18F
US Online Game Companies											
Changyou	CYOU US	USD	29.970	14.5	11.9	12.4	1.2	1.3	1.2	10.6	14.3
Electronic Arts Inc	EA US	USD	121.230	38.0	28.3	24.2	9.2	8.7	7.0	30.6	21.7
Activision Blizzard Inc	ATVI US	USD	66.530	184.8	25.4	22.3	5.3	4.6	3.8	15.9	10.2
Netease	NTES US	USD	278.070	23.1	17.7	14.9	5.1	4.0	3.3	24.1	15.9
Simple Average				65.1	20.8	18.4	5.2	4.6	3.8	20.3	15.5
Weighted Average				92.5	23.9	20.6	6.4	5.6	4.6	22.6	15.3
HK Online Game Companies											
Tencent	00700 HK	HKD	405.800	46.3	36.4	27.5	12.5	9.2	7.0	28.5	14.0
Boyya Interactive Int.	00434 HK	HKD	3.200	7.8	6.4	6.3	0.9	0.6	0.6	10.7	8.7
IGG	00799 HK	HKD	10.640	11.6	8.2	7.5	7.9	4.6	3.5	66.2	50.5
Netdragon	00777 HK	HKD	18.400	n.a.	59.2	32.2	1.7	1.7	1.6	3.5	2.7
Simple Average				21.9	27.5	18.4	5.8	4.0	3.2	27.2	19.0
Weighted Average				46.1	36.3	27.4	12.5	9.2	7.0	28.5	14.1
Advertising Companies											
Sohu.Com Inc	SOHU US	USD	34.870	n.a.	n.a.	n.a.	1.8	2.5	2.4	(19.0)	(3.0)
Weibo	WB US	USD	116.130	72.6	41.4	28.2	21.3	13.7	9.3	40.6	27.9
Bitauto	BITA US	USD	22.050	n.a.	12.2	9.4	0.3	0.5	0.5	4.1	1.8
Cheetah Mobile	CMCM US	USD	13.500	12.3	21.6	19.2	2.9	2.4	2.0	10.4	8.5
58.com	WUBA US	USD	78.160	59.8	33.0	23.4	3.8	3.4	3.1	10.5	7.9
Soufun	SFUN US	USD	5.250	131.3	21.8	15.5	3.8	3.3	2.7	17.3	7.5
Phoenix New Media	FENG US	USD	4.260	55.1	38.4	21.4	0.8	0.8	0.8	2.1	1.3
Sina	SINA US	USD	99.310	45.1	30.4	20.3	2.5	2.1	1.9	7.7	6.4
Facebook	FB US	USD	159.340	29.0	19.0	15.6	6.2	5.0	3.9	23.9	21.5
Simple Average				57.9	27.2	19.1	4.8	3.7	2.9	10.8	8.9
Weighted Average				32.5	20.6	16.5	6.8	5.3	4.1	23.9	21.0
E-commerce Companies											
Alibaba	BABA US	USD	172.570	66.3	32.9	25.9	10.8	7.4	5.9	20.8	11.7
VIPSHOP	VIPS US	USD	16.440	33.4	19.4	14.8	4.9	4.7	3.5	21.2	6.6
EBay	EBAY US	USD	40.030	n.a.	17.4	15.1	5.1	6.0	5.6	27.7	8.7
JD.com	JD US	USD	40.190	n.a.	54.6	34.2	7.2	6.2	5.3	4.3	1.6
AMAZON	MZNS US	USD	1451.750	229.7	93.9	62.2	25.4	20.6	14.2	13.3	2.8
Simple Average				131.6	46.3	31.6	10.6	9.4	7.2	16.6	4.9
Weighted Average				226.7	86.4	57.3	22.8	18.7	13.0	13.4	3.0
Search Engine Companies											
Alphabet Inc	GOOG US	USD	1032.640	56.5	20.1	17.1	4.7	4.0	3.3	15.8	14.6
Baidu Inc - Spon ADR	BIDU US	USD	225.570	28.9	23.8	19.6	4.4	3.8	3.3	15.0	8.0
Simple Average				42.7	22.0	18.3	4.6	3.9	3.3	15.4	11.3
Weighted Average				53.8	20.5	17.4	4.7	3.9	3.3	15.7	13.9
Overall Average				63.8	28.8	21.2	6.2	5.1	4.1	18.1	11.9
Overall Weighted Average				90.3	37.5	27.8	10.6	8.5	6.4	20.8	13.5

Source: Bloomberg.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
VAS	107,810	153,983	203,699	256,432	306,820	PPE	13,900	23,597	33,145	43,068	56,533
Online advertising	26,970	40,439	56,615	74,731	91,919	Intangible assets	36,467	40,266	58,386	81,740	130,784
Others	17,158	43,338	78,008	128,714	184,061	Investment in JCE & associates	70,672	121,605	160,434	230,626	264,413
Total Revenue	151,938	237,760	338,322	459,877	582,800	Others	125,706	190,758	213,903	246,589	265,203
Cost of revenues	(67,439)	(120,835)	(179,311)	(248,793)	(321,706)	Total Non-current Assets	246,745	376,226	465,867	602,023	716,933
Gross profit	84,499	116,925	159,011	211,084	261,094	Accounts receivable	10,152	16,549	18,369	21,860	26,013
Interest Income	2,619	3,940	5,686	6,985	6,148	Other receivables	14,118	17,110	18,821	20,327	21,953
Other gains, net	3,594	20,140	10,070	8,560	6,848	Cash & Cash Equivalents	71,902	105,697	130,521	112,792	80,503
S&M	(12,136)	(17,652)	(24,359)	(32,191)	(39,630)	Others	52,982	39,090	31,924	26,354	21,904
G&A	(22,459)	(33,051)	(46,350)	(61,624)	(76,347)	Total Current Assets	149,154	178,446	199,635	181,332	150,373
Operating Profit	56,117	90,302	104,058	132,813	158,113	Total Assets	395,899	554,672	665,502	783,356	867,305
Finance cost, net	(1,955)	(2,908)	(3,543)	(4,574)	(5,318)	Accounts payable	27,413	50,085	57,598	63,358	66,525
Share of associate / JC	(2,522)	821	862	905	950	Deferred revenue, current portion	31,203	42,132	48,452	53,297	57,561
Profit Before Tax	51,640	88,215	101,377	129,144	153,745	Accrued expenses and other payables	24,339	34,185	38,706	42,853	45,364
Income Tax	(10,193)	(15,744)	(20,275)	(25,570)	(30,442)	Others	18,242	25,338	32,657	40,673	44,490
profit After Tax	41,447	72,471	81,102	103,573	123,304	Total Current Liabilities	101,197	151,740	177,412	200,181	213,940
Non-controlling Interest	(352)	(961)	(1,075)	(1,373)	(1,635)	Note payable	36,204	29,363	35,236	39,464	42,621
Shareholders' Profit / Loss	41,095	71,510	80,026	102,200	121,669	Long term borrowings	57,549	82,094	98,513	132,992	159,591
Basic EPS	4.383	7.599	8.424	10.726	12.732	Others	14,702	14,382	16,845	19,387	21,794
						Total Non-current Liabilities	108,455	125,839	150,593	191,843	224,006
Cash Flow Statement						Total Liabilities	209,652	277,579	328,006	392,024	437,946
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Share capital	14,188	18,234	21,168	23,036	25,060
Profit before taxation	41,447	72,471	81,102	103,573	123,304	Reserves	160,436	237,840	293,374	342,398	378,401
Depreciation & Amortisation of intangible assets	12,741	13,723	14,781	15,921	17,149	Total Shareholders' Equity	174,624	256,074	314,542	365,434	403,462
Changes in working capital	10,967	30,305	12,628	(56,809)	(63,874)	Minority Interest	11,623	21,019	22,955	25,898	25,898
Income tax paid	(10,516)	(11,244)	(17,912)	(23,586)	(29,175)	Total Equity	186,247	277,093	337,497	391,332	429,360
Others	686	(14,859)	2,089	1,535	1,548	Financial Ratios					
Cash from Operating Activities	65,518	106,140	112,963	66,205	79,393		2016A	2017A	2018F	2019F	2020F
CAPEX	(8,399)	(7,475)	(6,653)	(5,921)	(5,270)	Gross margin	55.6	49.2	47.0	45.9	44.8
Financial assets purchases	(33,556)	(41,686)	(43,353)	(45,088)	(46,891)	Operating margin	36.9	38.0	30.8	28.9	27.1
Associates & JV investments	(12,320)	(13,608)	(11,253)	(9,340)	(7,783)	Net margin	27.0	30.1	23.7	22.2	20.9
Others	(16,648)	(33,623)	(46,480)	(59,702)	(73,458)	Net gearing	Net cash	Net cash	Net cash	18.2	34.1
Cash from Investing Activities	(70,923)	(96,392)	(107,740)	(120,051)	(133,402)						
Dividends paid to the Company's shareholders	(4,606)	(3,884)	(5,305)	(5,936)	(7,581)						
Change in borrowings	42,090	37,614	21,912	40,836	29,353						
Others	(6,041)	(7,132)	5,646	3,975	2,817						
Cash from Financing Activities	31,443	26,598	22,254	38,876	24,589						
Net Changes in Cash	26,038	36,346	27,477	(14,970)	(29,420)						
Cash at Beg of Year	43,438	71,902	105,697	130,521	112,792						
FX change	2,426	(2,551)	(2,653)	(2,759)	(2,870)						
Cash at End of Year	71,902	105,697	130,521	112,792	80,503						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	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	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GREENLAND BROAD (01253 HK), KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), BINHAI INVESTMENT (02886 HK), GFI MSCI A I (03156 HK), ZHENRO PPT (06158 HK), LINK HOLDINGS (08237 HK), MR CSI300 ETF-R (CNY) (83127 HK), GFI MSCI A I-R (CNY) (83156 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2018 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk