



Company Report: Samsonite (01910 HK)

公司报告: 新秀丽 (01910 HK)

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Weak 1Q19 Results but Valuation is Low, Upgrade to "Buy"

2019年1季度业绩疲弱但估值较低, 上调至“买入”

- 1Q19 results missed expectations.** Revenue dropped by 6.3% YoY to US\$832 million, mainly due to forex impact and sales decline in the US and China markets. Overall GPM improved by 0.1 ppt YoY to 56.6%. Marketing expenses ratio was basically flat YoY at 5.9% while distribution expenses ratio was up 3.3 ppt YoY to 36.7%. Effective tax rate dropped by 7.1 ppt YoY to 19.1%. Net profit plunged by 48.3% YoY to US\$22.7 million.
- Revise down 2019-2021 EPS forecasts by 18.8%, 23.7% and 26.0% to US\$0.161, US\$0.169 and US\$0.184, respectively.** Recovery was observed for the Company in April 2019 and revenue is expected to register low-single-digit percentage growth for the full year of 2019, lower than the previous guidance figure. Therefore, we revise down 2019-2021 revenue forecasts by 3.5%, 4.3% and 5.0%, respectively. Samsonite will try to raise its ASP (by high-single-digit percentage at most) to partially offset the negative impact from the US tariff raise and maintain stable margins, but we still expect margins to be negatively impacted by the US-Sino trade dispute.
- Cut TP to HK\$21.50 but upgrade to "Buy".** The Company's weak 1Q19 results indicated a more challenging business environment than we thought. Besides, the second round of US-Sino trade dispute has lead to even more uncertainty for the rest of 2019. Our new TP represents 17.0x, 16.2x and 14.9x 2019, 2020 and 2021 PER, respectively. The Company's stock is currently trading at only 14.2x 2019 PER, which we believe is undervalued. The TP reflects upside potential of 20.4%, so we upgrade rating to "Buy".
- 2019年1季度业绩差于预期。**收入同比下滑6.3%至8.32亿美元, 主要由于外汇汇率冲击以及美国和中国市场销售下滑。整体毛利率同比上升0.1个百分点至56.6%。市场推广费用率基本持平, 维持在5.9%, 而分销费用率则同比上升3.3个百分点至36.7%。有效税率同比下降7.1个百分点至19.1%。净利润同比下降48.3%至2,270万美元。
- 分别下调2019-2021年每股盈利预测18.8%、23.7%和26.0%至0.161美元、0.169美元和0.184美元。**公司已观察到2019年4月份业绩有所复苏, 并且预期2019年全年收入将录得低单位数增长, 低于此前的指引。因此我们分别下调2019-2021年收入预测3.5%、4.3%和5.0%。新秀丽将尝试提升平均产品价格(最多有高单位数提升空间)从而部分抵消美国提升关税的负面冲击并维持稳定的利润率水平, 但我们仍然预期利润率将受到中美贸易摩擦的负面影响。
- 下调目标价至21.50港元但上调评级至“买入”。**公司2019年1季度疲弱的业绩表明业务环境比我们所预料的更有挑战性。此外, 第二轮中美贸易摩擦使得在2019年接下来的时间中不确定性更大。我们的新目标价分别相当于17.0倍、16.2倍和14.9倍2019年、2020年和2021年市盈率。公司目前股价相当于14.2倍2019年市盈率, 我们认为被低估。我们的目标价反映了20.4%的上升空间, 因此我们上调评级至“买入”。

Rating:

Buy

Upgraded

评级:

买入 (上调)

6-18m TP 目标价:

HK\$21.50

Revised from 原目标价:

HK\$28.00

Share price 股价:

HK\$17.860

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 %	(22.3)	(29.5)	(45.7)
Rel. % to HS Index 相对恒指变动 %	(16.2)	(30.9)	(36.6)
Avg. Share price(HK\$) 平均股价 (港元)	21.7	23.6	25.8

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	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2017A	3,491	334	0.236	30.1	9.7	1.260	1.8	0.077	3.4	20.5
2018A	3,797	237	0.166	(29.7)	13.8	1.361	1.7	0.087	3.8	12.7
2019F	3,909	230	0.161	(3.1)	14.2	1.435	1.6	0.066	2.9	11.5
2020F	4,124	242	0.169	5.3	13.4	1.538	1.5	0.069	3.1	11.4
2021F	4,341	263	0.184	8.7	12.4	1.652	1.4	0.075	3.3	11.5

Shares in issue (m) 总股数 (m)	1,431.0	Major shareholder 大股东	The Capital Group 8.9%
Market cap. (HK\$ m) 市值 (HK\$ m)	25,557.7	Free float (%) 自由流通比率(%)	69.1
3 month average vol. 3 个月平均成交股数('000)	6,175.6	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	68.9
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	34.403 / 17.720	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)	25.7

Source: the Company, Guotai Junan International.

1Q19 results missed expectations. Samsonite's (the "Company") 1Q19 revenue dropped by 6.3% YoY to US\$832 million, which accounted for only 20.5% of our full-year forecast (23.4% in 1Q18), missing expectations. Revenue decline was mainly due to 1) a US\$35.2 million negative impact on reported revenue caused by FX change, 2) sales decline in the US and China markets due to the US-Sino trade dispute and 3) a high base in 1Q18. Revenue from the Samsonite and American Tourister brands both recorded YoY decline, while the Tumi brand registered revenue growth of 8.5% YoY on a constant currency basis and contributed 23.3% of total revenue, up from 21.9% in 1Q18. Revenue from wholesale channel dropped by 9.9% YoY in 1Q19 due to more cautious inventory control among US retailers and decline in B2B business in China. The direct-to-consumer (DTC) channel registered revenue growth of 0.5% YoY or 4.5% YoY on a constant currency basis, mainly driven by strong growth in DTC e-commerce business. Overall GPM improved by 0.1 ppt YoY to 56.6%, mainly driven by a higher proportion of revenue coming from direct-to-consumer (DTC) channels (up 2.4 ppt YoY to 36.3% in 1Q19) and partially offset by higher promotional activity in certain markets.

Net profit plunged by 48.3% YoY to US\$22.7 million in 1Q19. Despite improvement in GPM, 1Q19 operating margin dropped by 3.0 ppt YoY to 6.7%, mainly due to higher distribution expenses. Distribution expenses increased by 2.8% YoY and accounted for 36.7% of total revenue, up by 3.3 ppt YoY, mainly due to the store openings in 2H18 and strong sales growth in the DTC e-commerce channel. Marketing expenses ratio was basically flat YoY at 5.9% in 1Q19. Effective tax rate dropped by 7.1 ppt YoY to 19.1% in 1Q19. Net margin dropped by 2.2 ppt YoY to 2.7% in 1Q19.

Table-1: Samsonite's 1Q19 Results Analysis

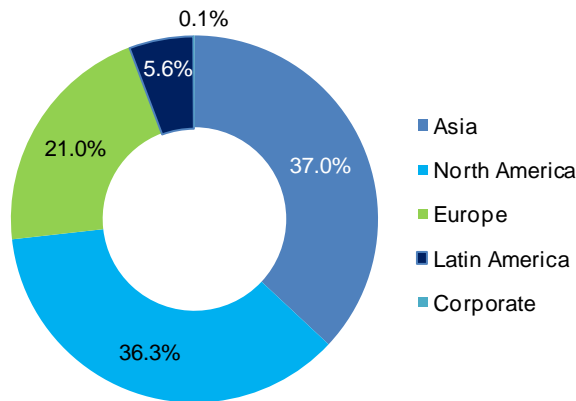
US\$ mn	1Q18	1Q19	YoY	% of full-year forecast
Turnover	888	832	(6.3%)	20.5%
Cost of sales	(387)	(361)	(6.6%)	20.7%
Gross profit	502	471	(6.1%)	20.4%
Distribution expenses	(297)	(305)	2.8%	23.3%
Marketing expenses	(53)	(50)	(6.5%)	20.8%
Administrative expenses	(64)	(57)	(9.9%)	23.5%
Other expenses	(2)	(3)	74.2%	21.3%
Profit from operations	87	56	(35.4%)	11.2%
Finance income (costs)	(20)	(24)	17.1%	27.0%
Profit before taxation	66	32	(51.6%)	7.8%
Income tax	(17)	(6)	(64.8%)	5.7%
Non-controlling interests	5	3	(33.6%)	15.8%
Net profit	44	23	(48.3%)	8.0%
Adjusted net profit	50	27	(45.7%)	8.8%
Adjusted EBITDA	123	92	(24.9%)	15.0%
Basic EPS (US\$)	0.031	0.016	(48.6%)	8.0%
Gross margin	56.5%	56.6%	0.1 ppt	
Operating margin	9.7%	6.7%	(3.0) ppt	
Net margin	4.9%	2.7%	(2.2) ppt	
EBITDA margin	13.8%	11.1%	(2.7) ppt	
Effective tax rate	26.2%	19.1%	(7.2) ppt	

Source: the Company, Guotai Junan International.

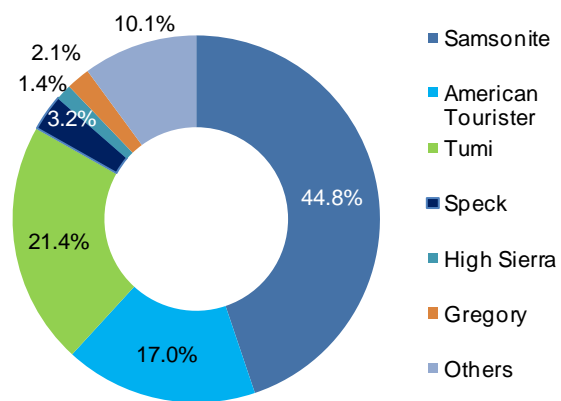
Table-2: Samsonite's 1Q19 Revenue Analysis

US\$ mn	1Q18	1Q19	YoY	Constant-currency YoY
Asia	325	308	(5.3%)	(1.2%)
North America	322	302	(6.4%)	(6.2%)
Europe	186	175	(6.1%)	2.3%
Latin America	54	47	(12.9%)	(2.8%)
Corporate	1	1	8.3%	10.3%
Total revenue	888	832	(6.3%)	(2.4%)

Source: the Company, Guotai Junan International.

Figure-1: Samsonite's Revenue by Region in 1Q19


Source: the Company, Guotai Junan International.

Figure-2: Samsonite's Revenue by Brand in 1Q19


Source: the Company, Guotai Junan International.

Revise down 2019-2021 EPS forecasts by 18.8%, 23.7% and 26.0% to US\$0.161, US\$0.169 and US\$0.184, respectively.

Even though we have lowered our expectation on 1Q19 performance, the Company's 1Q19 results still missed expectations, indicating a more challenging business environment than we thought. Besides, the second round of US-Sino trade dispute has led to even more uncertainty for the rest of 2019. A certain amount of recovery has already been observed for the Company in April 2019 and 2Q19 revenue is expected to register low-single-digit percentage growth. The Company guides low-single-digit percentage growth in 2019 full-year revenue, which is lower than the previous guidance of mid-single-digit percentage growth. Therefore we revise down 2019-2021 revenue forecasts by 3.5%, 4.3% and 5.0%, respectively. The potential US tariff raise may create pressure on consumer sentiment, which may further lead to higher discount rates. Samsonite will try to raise its ASP (by high-single-digit percentage at most) to partially offset the negative impact and maintain stable margins. We have slightly revised down GPM forecasts during 2019-2021 accordingly. Even though the Company intends to cut operating expenses, the slowdown in revenue growth may not be fully offset. Therefore we revise down 2019-2021 net margin by 1.1 ppt, 1.5 ppt and 1.7 ppt to 5.9%, 5.9% and 6.1%, respectively.

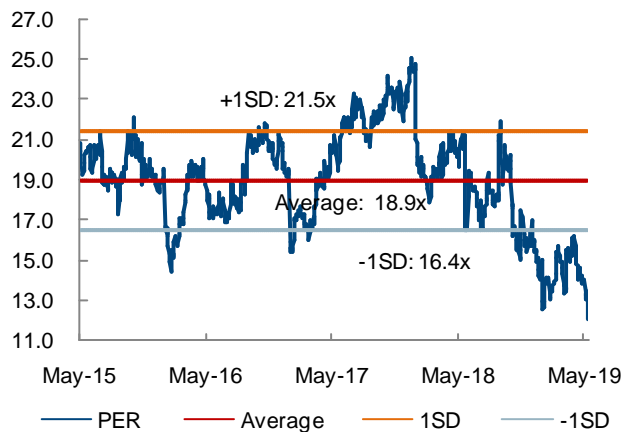
Table-3: Key Assumptions and Adjustments

US\$ mn	OLD			NEW			CHANGE		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	4,051	4,309	4,569	3,909	4,124	4,341	(3.5%)	(4.3%)	(5.0%)
Gross profit	2,304	2,477	2,653	2,216	2,358	2,508	(3.9%)	(4.8%)	(5.5%)
Operating profit	499	542	592	428	447	472	(14.1%)	(17.6%)	(20.2%)
Net profit	283	317	356	230	242	263	(18.8%)	(23.7%)	(26.0%)
EBITDA	617	673	734	547	576	613	(11.4%)	(14.3%)	(16.4%)
Basic EPS (US\$)	0.198	0.222	0.249	0.161	0.169	0.184	(18.8%)	(23.7%)	(26.0%)
Gross margin	56.9%	57.5%	58.1%	56.7%	57.2%	57.8%	(0.2) ppt	(0.3) ppt	(0.3) ppt
% SG&A of turnover	44.2%	44.5%	44.7%	45.4%	45.9%	46.4%	1.1 ppt	1.4 ppt	1.7 ppt
Operating margin	12.3%	12.6%	12.9%	11.0%	10.8%	10.9%	(1.4) ppt	(1.8) ppt	(2.1) ppt
Effective tax rate	26.0%	26.0%	26.0%	25.0%	26.0%	26.0%	(1.0) ppt	0.0 ppt	0.0 ppt
Net margin	7.0%	7.4%	7.8%	5.9%	5.9%	6.1%	(1.1) ppt	(1.5) ppt	(1.7) ppt
EBITDA margin	15.2%	15.6%	16.1%	14.0%	14.0%	14.1%	(1.2) ppt	(1.6) ppt	(1.9) ppt

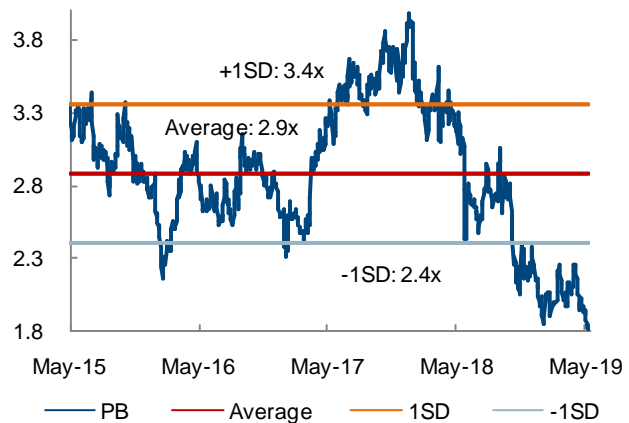
Source: the Company, Guotai Junan International.

Cut TP to HK\$21.50 but upgrade to "Buy". The relatively weak global economic environment, weak consumer sentiment in certain markets, the US-Sino trade dispute and terrorist attacks in certain regions in the world may continue to cast pressure on Samsonite for the rest of 2019. Although we remain confident in the Company's long-term growth driven by its multi-brand, multi-category and multi-channel strategy, our outlook on its business development in 2019 is more pessimistic than our previous forecasts. The management of Samsonite indicated that they will continue to look out for opportunities in acquiring new brands, especially brands in the non-travel category, which will become new growth drivers for the Company. We cut the Company's TP from HK\$28.00 to HK\$21.50 to reflect adjustments in our earnings forecasts. The new TP represents 17.0x, 16.2x and 14.9x 2019, 2020 and 2021 PER, respectively. The Company's stock is currently trading at only 14.2x 2019 PER, which we believe is undervalued. Our new TP reflects upside potential of 20.4%, and therefore we upgrade our investment rating from "Accumulate" to "Buy".

Risks: 1) unexpected appreciation of the US dollar against other currencies, 2) liquidity and solvency risks triggered by heavy debt obligations related to the Tumi acquisition, 3) a decline in the global tourism industry, and 4) potential impact from Sino-US trade friction.

Figure-3: Samsonite's PE Ratio (Next four Quarters)


Source: Bloomberg, Guotai Junan International.

Figure-4: Samsonite's PB Ratio (Current Annual)


Source: Bloomberg, Guotai Junan International.

Table-4: Peers Valuation Comparison Table

Company	Stock Code	Currency	Last price	Market Cap HKD mn	PE(x)				PB(x)				ROE(%) 19F	D/Y(%) 19F	EV/ EBITDA(x) 19F	Gross Margin(%) 19F	Operating Margin(%) 19F
					18A	19F	20F	21F	18A	19F	20F	21F					
Luggage & Luxury																	
SAMSONITE	1910 HK	HKD	17.86	25,558	13.8	14.2	13.4	12.4	1.7	1.6	1.5	1.4	11.5	2.9	8.6	56.7	11.0
PRADA	1913 HK	HKD	24.40	62,435	32.9	25.5	24.2	21.3	2.4	2.4	2.3	2.2	9.5	2.9	12.1	72.5	11.0
LVMH	MC FP	EUR	335.10	1,490,188	26.5	23.1	21.2	19.4	5.2	4.6	4.1	3.7	21.0	2.0	13.0	61.4	21.8
CHRISTIAN DIOR	CDI FP	EUR	429.60	682,819	30.0	n.a.	n.a.	n.a.	5.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
KERING	KER FP	EUR	512.70	569,754	17.4	19.5	17.1	15.8	6.5	5.6	4.8	4.2	29.7	2.3	12.5	74.3	29.7
CAPRI HOLDINGS*	CPRI US	USD	40.19	47,543	10.3	8.1	8.1	7.3	3.0	2.7	2.1	1.6	33.9	0.0	7.3	61.1	17.3
BURBERRY	BRBY LN	GBP	1,842.50	76,424	26.7	22.4	21.7	20.0	5.4	5.3	4.9	4.3	24.0	2.4	11.8	68.4	16.3
TAPESTRY*	TPR US	USD	31.08	70,780	22.4	12.0	10.9	9.8	2.8	2.5	2.3	2.1	22.2	4.3	7.6	67.9	16.0
HUGO BOSS	BOSS GY	EUR	56.74	35,185	16.6	15.0	13.5	12.3	4.0	3.8	3.4	3.1	25.1	5.1	7.2	65.6	12.8
SALVATORE FERRAGAMO	SFER IM	EUR	21.43	31,850	41.0	34.3	29.8	26.0	4.8	4.5	4.2	4.0	13.2	1.8	14.7	64.7	11.3
TOD'S	TOD IM	EUR	43.22	12,594	30.4	32.7	27.7	24.0	1.3	1.3	1.3	1.3	5.2	2.8	12.8	76.5	6.8
Simple Average					24.4	20.7	18.8	16.8	3.9	3.4	3.1	2.8	19.5	2.7	10.8	66.9	15.4
Weighted Average					25.4	21.6	19.7	18.0	5.3	4.7	4.1	3.7	22.9	2.2	12.4	65.3	22.5

Source: Bloomberg, Guotai Junan International.

* Note: The financial year end date of these companies is not 31st December. For easier comparison with peers, "18A" means "FY19A" and "19F" means FY20F and so on.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (US\$ m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (US\$ m)	2017A	2018A	2019F	2020F	2021F
Total Revenue	3,491	3,797	3,909	4,124	4,341	Property, Plant and Equipment	308	311	321	327	327
Cost of Sales	(1,531)	(1,652)	(1,693)	(1,766)	(1,833)	Goodwill	1,343	1,340	1,379	1,420	1,464
Gross Profit	1,960	2,145	2,216	2,358	2,508	Other Intangible Assets	1,793	1,771	1,783	1,796	1,811
						Others	131	102	97	94	91
Distribution Costs	(1,073)	(1,212)	(1,297)	(1,394)	(1,491)	Total Non-current Assets	3,575	3,524	3,581	3,637	3,693
Marketing Expenses	(206)	(221)	(233)	(246)	(260)	Inventory	583	623	610	647	679
Administrative & General Expenses	(240)	(233)	(243)	(254)	(264)	Trade and Bill Receivables	411	421	458	493	527
Other Expenses	(18)	(11)	(15)	(17)	(21)	Prepaid Expenses and Other Assets	156	147	152	158	165
Operating Profit	424	467	428	447	472	Cash & Cash Equivalents	344	428	424	371	339
						Total Current Assets	1,495	1,618	1,644	1,670	1,710
Net Finance Income (costs)	(93)	(124)	(97)	(94)	(90)	Total Assets	5,070	5,142	5,225	5,307	5,404
Profit Before Tax	331	344	331	353	382	Trade and Bill Payables	737	699	739	776	809
Income Tax	24	(87)	(83)	(92)	(99)	Bank Loans	153	81	74	68	62
Profit After Tax	355	257	248	261	283	Current Tax Liabilities	98	75	75	75	75
Non-controlling Interest	(21)	(21)	(18)	(19)	(19)	Employee Benefits	95	82	74	68	61
Shareholders' Profit / Loss	334	237	230	242	263	Total Current Liabilities	1,083	936	962	986	1,007
Basic EPS	0.236	0.166	0.161	0.169	0.184						
YoY	30.1%	(29.7%)	(3.1%)	5.3%	8.7%	Non-controlling Interest Put Options	56	56	53	51	48

Cash Flow Statement					
Year end 31 Dec (US\$ m)	2017A	2018A	2019F	2020F	2021F
Profit Before Taxation	355	257	248	261	283
D&A	118	121	119	130	141
Other Adjustments	75	219	163	169	173
Changes in Working Capital	(21)	(122)	10	(42)	(40)
Tax and Interest Paid	(186)	(167)	(174)	(180)	(183)
Cash from Operating Activities	341	307	365	339	375
Capital Expenditure	(95)	(101)	(102)	(107)	(113)
Acquisition of Businesses	(170)	0	(78)	(82)	(87)
Others	(13)	(17)	5	4	3
Cash from Investing Activities	(277)	(117)	(175)	(186)	(196)
Dividends Paid	(97)	(110)	(125)	(94)	(99)
Proceeds from Senior Credit Facilities	0	1,923	0	0	0
Others	(16)	(1,920)	(69)	(111)	(111)
Cash from Financing Activities	(113)	(107)	(194)	(205)	(210)
Net Changes in Cash	(49)	83	(4)	(53)	(32)
Cash at Beg of Year	369	344	428	424	371
Foreign Exchange Effect	25	1	0	0	0
Cash at End of Year	344	428	424	371	339

Financial Ratios					
	2017A	2018A	2019F	2020F	2021F
Gross Margin (%)	56.1	56.5	56.7	57.2	57.8
Operating Margin (%)	12.1	12.3	11.0	10.8	10.9
Net Margin (%)	9.6	6.2	5.9	5.9	6.1
ROE (%)	20.5	12.7	11.5	11.4	11.5
ROA (%)	6.9	4.6	4.4	4.6	4.9
ROCE (%)	5.2	3.6	3.4	3.6	3.9
Inventory Days	119.7	133.2	132.9	129.9	132.0
A/C Receivable Days	40.2	40.0	41.0	42.1	42.9
A/C Payable Days	112.1	119.2	116.7	118.0	118.8
Cash Conversion Cycle	47.8	53.9	57.2	54.0	56.1
Payout Ratio (%)	32.9	52.8	41.0	41.0	41.0
Net Gearing (%)	82.8	75.1	68.9	62.3	55.4
Current Ratio (x)	1.4	1.7	1.7	1.7	1.7

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.

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