



## Company Report: Jiangxi Copper (00358 HK)

公司报告: 江西铜业 (00358 HK)

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# Copper Price Under Pressure, Downgrade to "Reduce"

铜价承压, 下调至“减持”评级

- **The 2019 annual results of Jiangxi Copper were lower than market consensus and our estimations.** Total revenue of the Company increased 11.64% yoy to RMB240.36 billion, and net profit attributable to shareholders increased 0.77% yoy to RMB2.47 billion.
- **Copper price is expected to be badly hit by the COVID-19 pandemic around the world. We expect gold price to benefit from loose monetary policy and investor demand for safe haven assets.** We expect global metal consumption demand to contract and the average annual copper price to trade between US\$5,000/t-US\$5,500/t. We expect the annual average gold price to be around US\$1,550/oz-US\$1,650/oz in 2020.
- **In 2020, the Company plans to produce 1.65 million tons of refined copper, 0.21 million tons of mined copper, 77.0 tons of gold, 1,025 tons of silver and 1.63 million tons of copper products.**
- **Revise down the TP to HK\$7.05, and downgrade to "Reduce".**
- **江西铜业 2019 年年度业绩低于市场一致预期和我们的估计。** 公司收入同比增长 11.64% 至人民币 2,403.6 亿元, 股东净利同比增长 0.77% 至人民币 24.7 亿元。
- **铜价预计将受到新冠病毒疫情在全球爆发的沉重打击。我们预计金价将受益于宽松的货币政策和投资者对避险资产的需求。** 我们预计全球金属消费需求将萎缩, 年度铜均价在 5,000-5,500 美元/吨。我们预计 2020 年黄金年度均价在 1,550-1,650 美元/盎司。
- **在 2020 年, 公司计划生产 165 万吨冶炼铜, 21 万吨矿产铜, 77 吨黄金, 1,025 吨白银和 163 万吨铜材。**
- **下调公司目标价至 7.05 港元, 下调至“减持”评级。**

Rating:

**Reduce**  
Downgraded

评级:

**减持 (下调)**

6-18m TP 目标价:

**HK\$7.05**

Revised from 原目标价:

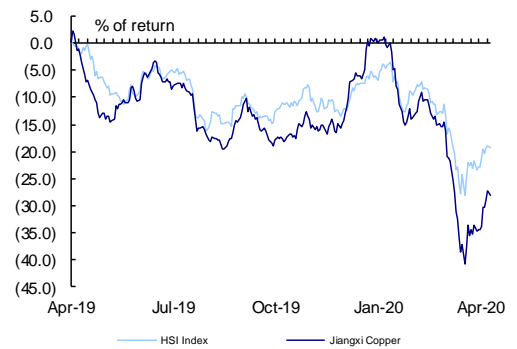
HK\$10.90

Share price 股价:

HK\$7.840

### Stock performance

股价表现



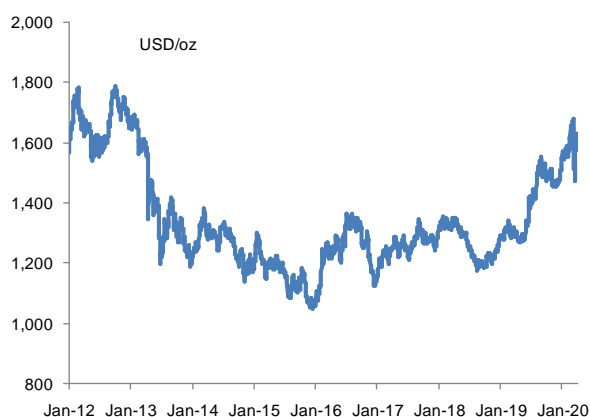
| Change in Share Price               | 1 M   | 3 M    | 1 Y    |
|-------------------------------------|-------|--------|--------|
| 股价变动                                | 1 个月  | 3 个月   | 1 年    |
| Abs. %<br>绝对变动 %                    | (0.9) | (28.2) | (28.8) |
| Rel. % to HS Index<br>相对恒指变动 %      | (2.3) | (12.8) | (10.5) |
| Avg. Share price(HK\$)<br>平均股价 (港元) | 7.1   | 8.6    | 9.3    |

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) | (%)   | (%)    |
| 2018A                    | 214,395           | 2,415      | 0.697          | 46.1   | 9.9                                    | 14.372 | 0.5                        | 0.200 | 2.9   | 5.0    |
| 2019A                    | 240,360           | 2,466      | 0.712          | 2.2    | 9.8                                    | 15.232 | 0.5                        | 0.100 | 1.4   | 4.8    |
| 2020F                    | 234,987           | 1,865      | 0.539          | (24.3) | 13.2                                   | 15.690 | 0.5                        | 0.081 | 1.1   | 3.5    |
| 2021F                    | 237,967           | 2,190      | 0.633          | 17.4   | 11.3                                   | 16.228 | 0.4                        | 0.095 | 1.3   | 4.0    |
| 2022F                    | 242,309           | 2,564      | 0.740          | 16.9   | 9.6                                    | 16.857 | 0.4                        | 0.111 | 1.6   | 4.5    |
| Shares in issue (m)      | 总股数 (m)           |            | 3,462.7        |        | Major shareholder 大股东                  |        | Jiangxi Copper Group 40.5% |       |       |        |
| Market cap. (HK\$ m)     | 市值 (HK\$ m)       |            | 27,147.6       |        | Free float (%) 自由流通比率 (%)              |        | 59.5%                      |       |       |        |
| 3 month average vol.     | 3 个月平均成交股数 ('000) |            | 5,531.9        |        | FY20 Net gearing (%) FY20 净负债/股东资金 (%) |        | 53.0                       |       |       |        |
| 52 Weeks high/low (HK\$) | 52 周高/低 (HK\$)    |            | 11.380 / 6.340 |        | FY20 Est. NAV (HK\$) FY20 每股估值 (港元)    |        | 10.8                       |       |       |        |

Source: the Company, Guotai Junan International.

The 2019 annual results of Jiangxi Copper (the "Company") were 7.8% and 18.2% lower than market consensus and our estimation, respectively. Total revenue of the Company increased 11.64% yoy to RMB240.36 billion, and net profit attributable to shareholders increased 0.77% yoy to RMB2.47 billion. The production of the Company was stable and the Company generally fulfilled its output target: the output of mined copper increased by 0.43% yoy to 209,200 tons; the output of refined copper increased by 6.26% yoy to 1.55 million tons; the output of gold increased by 96.09% yoy to 50.16 tons; the output of silver increased by 63.95% to 646.82 tons; the output of sulfur acid increased by 15.20% to 4.63 million tons; the output of copper products increased by 6.98% yoy to 1.20 million tons. The growth in the output of refined copper, gold and silver was mainly attributable to a smelting factory the Company acquired in 2019. Average LME copper price decreased by 7.96% yoy to US\$ 6,021.6/t in 2019 and average gold price increased by 9.80% yoy to US\$1,393.4/oz.

**Figure-1: Gold price**


Source: Bloomberg, Guotai Junan International.

**Figure-2: Copper price**


Source: Bloomberg, Guotai Junan International.

**Copper price is expected to be badly hit by the COVID-19 pandemic around the world. We expect gold price to benefit from loose monetary policy and investor demand for safe haven assets and the annual average gold price to be around US\$1,550/oz-US\$1,650/oz in 2020.** Copper is expected to be badly hit by the COVID-19 pandemic around the world. We expect global supply of copper to be stable in 2020 as the operation of global copper mining companies are stable. However, the COVID-19 pandemic around the world will hurt global copper demand badly. Although the COVID-19 outbreak has been successfully contained by the Chinese government and China's demand for metal is expected to be only slightly impacted, there are no signs that the COVID-19 pandemic will be under control in Europe and America in the short term. As more and more factories are shut down and commercial activity idles, global metal consumption demand will be severely hurt. We expect that copper price will be under great pressure in 2020 and is expected to drop. We expect copper price to trade between US\$4,500/t-US\$6,500/t in 2020, and the annual average copper price may be around US\$5,000/t-US\$5,500/t in 2020. We expect gold price to benefit greatly from the outbreak of COVID-19 and to rise in 2020. As the spread of COVID-19 accelerated in America, the U.S. Federal Reserve (the "Federal Reserve") cut interest rate two times in March, which exceeded the expectations of most investors. Additionally, the Federal Reserve also advised quantitative easing ("QE") plans, which will release US\$700 billion in liquidity to the market. Although gold price declined at the beginning of the COVID-19 outbreak with other assets as investors rushed for cash, it retrieved all the loss after the Federal Reserve released the QE plan. Besides, investor demand for safe haven assets will also support gold price. We expect gold price to continue to rise in 2020 and the annual average gold price to be around US\$1,550/oz-US\$1,650/oz.

**In 2020, the Company plans to produce 1.65 million tons of refined copper, 0.21 million tons of mined copper, 77.0 tons of gold, 1,025 tons of silver and 1.63 million tons of copper products.** The output growth of refined copper, gold and silver was mainly attributable to the newly acquired smelting factory. The Company acquired Shandong Hengbang in 2019, which brought smelting production capacity of 0.25 million tons of copper, 50 tons of gold and 700 tons of silver. The output target of mining products of the Company generally remained the same compared to that of 2019. The production of the Company was stable and the Company generally fulfilled its output target in 2019. Generally speaking, output of mined copper, which contributes most of the profit to the Company, has remained stable over the past several years as mining capacity of the Company has remained unchanged. Jiangxi Copper only acquired a partial stake in two copper mines with other companies in the past few years, and both of them are under construction and will take some time before production can start. On the other hand, expansion projects of domestic mines have almost all been completed. We expect the mining output of the Company to

remain unchanged over the next few years. The output of copper cathodes increased by 6.8% yoy in 2019 and is expected to grow slightly in 2020. The output of copper semi-fabricators is expected to grow sharply in 2020 mainly due to more output of copper rods. However, they are not expected to contribute much profit due to low gross margin of smelting and semi-fabricating businesses. The output of silver is expected to surge by 58.5% yoy in 2020, mainly due to newly acquired Shandong Hengbang.

**Table-1: Output of main products of Jiangxi Copper**

|                         | unit | 2015      | 2016      | 2017      | 2018      | 2019      | 2020F     | yoy   |
|-------------------------|------|-----------|-----------|-----------|-----------|-----------|-----------|-------|
| Copper cathode          | ton  | 1,250,000 | 1,211,000 | 1,370,000 | 1,463,700 | 1,550,000 | 1,650,000 | 6.5%  |
| Mined copper            | ton  | 209,000   | 209,900   | 209,600   | 208,300   | 209,200   | 207,500   | -0.8% |
| Copper semi-fabricators | ton  | 950,000   | 950,000   | 1,140,000 | 1,117,600 | 1,119,700 | 1,630,000 | 42.9% |
| Gold                    | ton  | 26.0      | 26.4      | 25.9      | 25.6      | 50.2      | 77.0      | 53.4% |
| Silver                  | ton  | 570       | 507       | 484       | 394.5     | 646.8     | 1,025     | 58.5% |
| Sulfuric acid           | ton  | 3,070,000 | 3,501,000 | 3,570,000 | 4,018,000 | 4,620,800 | 4,788,000 | 19.2% |

Source: the Company, Guotai Junan International.

**Revise down TP to HK\$7.05, and downgrade to "Reduce".** The output of mining products of the Company are expected to remain the same as that of previous years and growth prospect of the Company is expected to be limited in the next few years due to lackluster growth of mining products. The output growth of refined copper, gold and silver is mainly attributable to the newly acquired smelting factory. The fundamentals of the Company remain healthy and the change in profitability mainly came from fluctuation in metal prices. Copper prices are expected to be badly hit by the COVID-19 pandemic around the world. We expect global copper consumption demand to contract and the average annual copper price to trade between US\$5,000/t-US\$5,500/t. We expect gold price to benefit from loose monetary policy and investor demand for safe haven assets and the annual average gold price to be around US\$1,550/oz-US\$1,650/oz in 2020. As a result, we expect the profitability of the Company to deteriorate due to lower copper price. Jiangxi Copper is the largest copper producer in China and we believe that the Company will be badly hit if copper price drops. We revise down the TP to HK\$7.05, which is equivalent to 11.6x FY20 PE and 0.4x FY20 PB, and downgrade to "Reduce".

**Table-2: Peers Comparison**

| Company                      | Stock Code  | Currency | Last price | PE    |      |      |      | PB   |      |      |      | ROE(%) |
|------------------------------|-------------|----------|------------|-------|------|------|------|------|------|------|------|--------|
|                              |             |          |            | 19A   | 20F  | 21F  | 22F  | 19A  | 20F  | 21F  | 22F  | 20F    |
| Bhp Billiton Plc             | BLT LN      | GBP      | 939.80     | 18.2  | 6.0  | 6.2  | 6.9  | 1.2  | 1.2  | 1.2  | 1.2  | 18.6   |
| Vale Sa-Pref                 | VALE5 BZ    | BRL      | 35.35      | 7.1   | 9.1  | 5.1  | 5.2  | 1.1  | 1.0  | 0.9  | 0.8  | 6.8    |
| Rio Tinto Plc                | RIO LN      | GBP      | 2,968.00   | 5.0   | 6.1  | 7.0  | 8.5  | 1.4  | 1.5  | 1.5  | 1.4  | 23.5   |
| Anglo American Plc           | AAL LN      | GBP      | 1,234.40   | 5.9   | 5.7  | 6.0  | 6.1  | 0.8  | 0.8  | 0.8  | 0.7  | 14.3   |
| Grupo Mexico Sab De Cv-Ser B | GMEXICOB MM | MXN      | 44.06      | 13.5  | 10.9 | 9.7  | 8.9  | 1.4  | 1.5  | 1.4  | 1.4  | 14.4   |
| Simple Average               |             |          |            | 9.9   | 7.6  | 6.8  | 7.1  | 1.2  | 1.2  | 1.1  | 1.1  | 15.5   |
| Weighted Average             |             |          |            | 10.6  | 7.0  | 6.5  | 7.1  | 1.2  | 1.2  | 1.2  | 1.1  | 17.2   |
| Freeport-Mcmoran Inc         | FCX US      | USD      | 7.17       | 4.0   | n.a. | 20.5 | 6.1  | 1.1  | 1.1  | 1.1  | 1.0  | (0.8)  |
| Southern Copper Corp         | SCCO US     | USD      | 26.58      | 13.3  | 13.1 | 12.2 | 11.9 | 3.1  | 3.0  | 2.8  | 2.6  | 23.4   |
| Antofagasta Plc              | ANTO LN     | GBP      | 612.00     | 14.8  | 15.2 | 15.6 | 12.8 | 1.0  | 1.0  | 1.0  | 1.0  | 6.6    |
| Sociedad Minera Cerro Verde  | CVERDEC1 PE | USD      | 15.00      | 43.9  | 9.4  | 8.7  | 9.6  | 1.0  | 1.0  | 1.0  | 1.0  | 8.4    |
| Kazakhmys Plc                | KAZ LN      | GBP      | 269.10     | 3.1   | 3.4  | 3.5  | 3.4  | 1.5  | 0.8  | 0.7  | 0.6  | 29.1   |
| Kghm Polska Miedz Sa         | KGHP PW     | PLN      | 49.40      | 6.0   | 4.5  | 4.4  | 4.3  | 0.5  | 0.5  | 0.4  | 0.4  | 10.7   |
| Vedanta Resources Plc        | VED LN      | GBP      | n.a.       | n.a.  | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 392.9  |
| Simple Average               |             |          |            | 14.2  | 9.1  | 10.8 | 8.0  | 1.4  | 1.2  | 1.2  | 1.1  | 67.2   |
| Weighted Average             |             |          |            | 14.1  | 9.4  | 13.5 | 9.8  | 1.9  | 1.8  | 1.7  | 1.6  | 13.4   |
| Jiangxi Copper Co Ltd-A      | 600362 CH   | CNY      | 13.30      | 19.0  | 17.9 | 16.4 | 14.8 | 0.9  | 0.9  | 0.9  | 0.8  | 5.1    |
| Western Mining Co -A         | 601168 CH   | CNY      | 6.00       | n.a.  | 14.0 | 13.5 | 11.5 | 1.6  | 1.4  | 1.3  | 1.2  | 9.6    |
| Tongling Nonferrous Metals-A | 000630 CH   | CNY      | 2.04       | 29.1  | 23.2 | 19.8 | 15.7 | 1.2  | 1.5  | 1.4  | 1.3  | 5.2    |
| Yunnan Copper Industry Co-A  | 000878 CH   | CNY      | 10.10      | 115.0 | 23.7 | 18.5 | 16.2 | 2.2  | 2.0  | 1.8  | 1.6  | 8.8    |
| Shenzhen Zhongjin Lingnan-A  | 000060 CH   | CNY      | 3.67       | 14.1  | 16.5 | 17.2 | 15.8 | 1.3  | 1.1  | 1.1  | 1.1  | 7.9    |
| Simple Average               |             |          |            | 44.3  | 19.0 | 17.1 | 14.8 | 1.5  | 1.4  | 1.3  | 1.2  | 7.3    |
| Weighted Average             |             |          |            | 33.9  | 19.2 | 17.2 | 14.9 | 1.3  | 1.3  | 1.2  | 1.1  | 6.7    |
| China Zhongwang Holdings Ltd | 1333 HK     | HKD      | 2.44       | 3.5   | 4.0  | 3.5  | 3.2  | 0.4  | 0.4  | 0.4  | 0.4  | 9.7    |
| Jiangxi Copper Co Ltd-H      | 358 HK      | HKD      | 7.84       | 9.2   | 9.5  | 8.6  | 7.7  | 0.5  | 0.5  | 0.4  | 0.4  | 5.2    |
| Xinjiang Xinxin Mining Ind-H | 3833 HK     | HKD      | 0.35       | n.a.  | n.a. | n.a. | n.a. | 0.2  | n.a. | n.a. | n.a. | n.a.   |
| China Molybdenum Co Ltd-H    | 3993 HK     | HKD      | 2.45       | 9.8   | 26.9 | 19.0 | 16.2 | 1.1  | 1.2  | 1.1  | 1.1  | 4.4    |
| China Hongqiao Group Ltd     | 1378 HK     | HKD      | 3.38       | 4.6   | 4.5  | 3.6  | 3.3  | 0.4  | 0.4  | 0.4  | 0.4  | 9.6    |
| Simple Average               |             |          |            | 7.9   | 13.6 | 8.7  | 7.6  | 0.5  | 0.6  | 0.6  | 0.6  | 7.2    |
| Weighted Average             |             |          |            | 8.6   | 17.9 | 13.2 | 11.4 | 0.8  | 0.8  | 0.8  | 0.7  | 5.9    |

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

| Income Statement            |           |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|
| Year end 31 Dec (RMB m)     | 2018A     | 2019A     | 2020F     | 2021F     | 2022F     |
| Total Revenue               | 214,395   | 240,360   | 234,987   | 237,967   | 242,309   |
| Cost of Sales               | (207,552) | (231,168) | (227,360) | (229,741) | (233,638) |
| Gross Profit                | 6,843     | 9,193     | 7,627     | 8,226     | 8,670     |
| SG&A                        | (698)     | (3,066)   | (3,141)   | (3,146)   | (3,168)   |
| Operating Profit            | 4,776     | 6,127     | 4,486     | 5,079     | 5,503     |
| Finance Cost                | (1,409)   | (925)     | (1,702)   | (1,659)   | (1,653)   |
| Others                      | (105)     | (2,041)   | (564)     | (813)     | (798)     |
| Profit Before Tax           | 3,262     | 3,161     | 2,221     | 2,608     | 3,052     |
| Income Tax                  | (840)     | (982)     | (555)     | (652)     | (763)     |
| profit After Tax            | 2,423     | 2,178     | 1,665     | 1,956     | 2,289     |
| Non-controlling Interest    | (8)       | 288       | 200       | 235       | 275       |
| Shareholders' Profit / Loss | 2,415     | 2,466     | 1,865     | 2,190     | 2,564     |
| Basic EPS                   | 0.697     | 0.712     | 0.539     | 0.633     | 0.740     |

| Cash Flow Statement            |         |         |          |         |         |
|--------------------------------|---------|---------|----------|---------|---------|
| Year end 31 Dec (RMB m)        | 2018A   | 2019A   | 2020F    | 2021F   | 2022F   |
| Net Income                     | 2,415   | 2,466   | 1,865    | 2,190   | 2,564   |
| Working Capital Change         | 6,478   | (6,272) | 5,665    | 181     | (421)   |
| Dep.&Amortization              | 1,670   | 1,841   | 1,998    | 2,082   | 2,172   |
| Others                         | (7,288) | (2,346) | (901)    | 427     | 200     |
| Cash from Operating Activities | 3,276   | (4,310) | 8,627    | 4,880   | 4,515   |
| CAPEX                          | (2,700) | (5,650) | (2,000)  | (2,100) | (2,300) |
| Others                         | (62)    | (67)    | (72)     | (78)    | (84)    |
| Cash from Investing Activities | (2,762) | (5,717) | (2,072)  | (2,178) | (2,384) |
| New Bank Loans                 | 1,872   | 19,381  | (11,554) | (566)   | 124     |
| Dividend Paid                  | (693)   | (346)   | (280)    | (329)   | (385)   |
| Interest Paid                  | (1,409) | (925)   | (1,702)  | (1,659) | (1,653) |
| Cash from Financing Activities | (230)   | 18,110  | (13,536) | (2,553) | (1,914) |
| Net Changes in Cash            | 284     | 8,083   | (6,981)  | 149     | 217     |
| Cash at Beg of Year            | 10,363  | 10,647  | 18,730   | 11,749  | 11,898  |
| Foreign exchange rate changes  | 0       | 0       | 0        | 0       | 0       |
| Cash at End of Year            | 10,647  | 18,730  | 11,749   | 11,898  | 12,115  |

Source: the Company, Guotai Junan International.

| Balance Sheet                 |         |         |         |         |         |
|-------------------------------|---------|---------|---------|---------|---------|
| Year end 31 Dec (RMB m)       | 2018A   | 2019A   | 2020F   | 2021F   | 2022F   |
| PPE                           | 21,561  | 26,868  | 27,586  | 27,424  | 27,552  |
| Long-term equity investment   | 3,676   | 4,493   | 4,628   | 4,767   | 4,910   |
| Intangible assets             | 1,976   | 1,975   | 2,172   | 2,389   | 2,628   |
| Others                        | 6,091   | 17,534  | 18,410  | 19,331  | 20,297  |
| Total Non-current Assets      | 33,304  | 50,869  | 52,797  | 53,911  | 55,387  |
| Cash & Cash Equivalents       | 10,647  | 18,730  | 11,749  | 11,898  | 12,115  |
| Trade receivables             | 18,179  | 14,942  | 19,269  | 19,037  | 19,385  |
| Inventory                     | 17,259  | 26,923  | 19,269  | 19,513  | 19,869  |
| Other                         | 23,477  | 23,450  | 23,684  | 23,921  | 24,160  |
| Total Current Assets          | 69,562  | 84,045  | 73,971  | 74,370  | 75,530  |
| Total Assets                  | 102,866 | 134,914 | 126,768 | 128,281 | 130,917 |
| Short-term Loans              | 28,500  | 45,906  | 33,700  | 33,154  | 33,177  |
| Trade payables                | 12,782  | 12,937  | 15,274  | 15,468  | 15,750  |
| Others                        | 4,856   | 9,541   | 9,732   | 9,926   | 10,125  |
| Total Current Liabilities     | 46,138  | 68,383  | 58,706  | 58,548  | 59,052  |
| Long-term Loans               | 3,282   | 5,258   | 3,525   | 3,570   | 3,635   |
| Bond payable                  | 500     | 500     | 2,884   | 2,820   | 2,856   |
| Others                        | 919     | 1,740   | 1,235   | 1,298   | 1,425   |
| Total Non-current Liabilities | 4,701   | 7,498   | 7,644   | 7,688   | 7,915   |
| Total Liabilities             | 50,839  | 75,881  | 66,350  | 66,236  | 66,967  |
| Total Shareholders' Equity    | 49,766  | 52,746  | 54,331  | 56,193  | 58,372  |
| Minority Interest             | 2,260   | 6,287   | 6,087   | 5,852   | 5,578   |
| Total Equity                  | 52,027  | 59,033  | 60,418  | 62,045  | 63,950  |

| Financial Ratios |       |        |       |       |       |
|------------------|-------|--------|-------|-------|-------|
| Yr end Dec 31st  | 2018A | 2019A  | 2020F | 2021F | 2022F |
| Gross Margin     | 3.2%  | 3.8%   | 3.2%  | 3.5%  | 3.6%  |
| Net Margin       | 1.1%  | 1.0%   | 0.8%  | 0.9%  | 1.1%  |
| ROE              | 5.0%  | 4.8%   | 3.5%  | 4.0%  | 4.5%  |
| ROA              | 2.4%  | 2.1%   | 1.4%  | 1.7%  | 2.0%  |
| ROCE             | 8.2%  | 6.1%   | 5.8%  | 6.1%  | 6.5%  |
| Free CF(mn Rmb)  | 576   | -9,960 | 6,627 | 2,780 | 2,215 |
| Net Gearing      | 44.5% | 64.3%  | 53.0% | 50.0% | 48.1% |

**Company Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

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

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