

Company Report: **VSTECs (00856 HK)**

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公司报告: 伟仕佳杰 (00856 HK)

25 March 2020

**Solid Long-Term IT Services Growth , Maintain "Buy"**

稳健的长期IT服务增长, 维持“买入”

- **VSTECs' shareholders' profit reached HK\$810 million in 2019, up 9.3% YoY.** Total revenue increased by 6.0% YoY to HK\$66,210 million and all segments recorded positive growth. Mobility & digital devices/ components/ cloud & big data analytics/ network & data security increased by 3.3%/ 11.8%/ 3.9%/ 10.1%, respectively. Gross margin remained flat as 4.5% while operating expenses have been well controlled and SG&A expenses to revenue ratio was slightly down 0.1 ppts YoY to 2.6%. The Company proposed final dividend of HK\$0.167 per share, up 10.0% YoY, maintaining dividend payout ratio at 30%.
- **Positive on the Company's long-term growth despite of turbulence in the near term.** According to the management, the Company's revenue was down by around 8% YoY to HK\$9.1 billion in Jan.-Feb. 2020 due to the impact of the COVID-19 outbreak. However, we believe that demand for IT devices and services will not disappear and is likely to be postponed to the rest of the year. In addition, rapid growth of Cloud Computing, big data and 5G will yield growth opportunities to the Company.
- **Maintain investment rating as "Buy" but revise down TP to HK\$4.50.** The new TP represents 7.3x, 6.4x and 5.6x 2020, 2021 and 2022 PER, respectively. Main risks include intense competition among the IT services industry and continuing spread of the COVID-19 virus.
- **伟仕佳杰 2019 年股东净利达到 810 百万港元, 同比上升 9.3%。** 总收入同比增长 6.0% 至 66,210 百万港元, 所有分部均录得正增长。移动终端/配件/云计算及大数据分析/网络及信息安全业务分别同比上升 3.3%/ 11.8%/ 3.9%/ 10.1%。毛利率同比持平为 4.5%, 经营费用管控良好且销售和行政管理占收入比同比下降 0.1 个百分点至 2.6%。公司宣派每股 0.167 港元的末期股息, 同比上升 10% 且派息率维持 30%。
- **尽管短期波动, 但长期增长看好。** 根据管理层, 受到新冠病毒爆发的影响, 公司 2020 年 1-2 月收入同比下降约 8% 至 91 亿港元。然而, 我们认为 IT 设备和服务的需求并不会消失并可能延后至今剩下时间。此外, 云计算、大数据及 5G 的快速发展会给公司带来增长机会。
- **维持投资评级为“买入”但下调目标价至 4.50 港元。** 新目标价分别相当于 7.3 倍/ 6.4 倍/ 5.6 倍 2020/ 2021/ 2022 年市盈率。主要风险包括 IT 服务行业竞争加剧和新冠病毒的持续传播。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**HK\$4.50**

Revised from 原目标价:

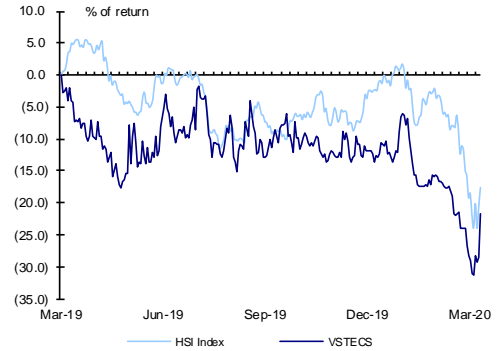
HK\$5.22

Share price 股价:

HK\$3.500

**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 %                    | (5.4) | (10.5) | (24.2) |
| Rel. % to HS Index 相对恒指变动 %      | 7.1   | 5.1    | (6.7)  |
| Avg. Share price(HK\$) 平均股价 (港元) | 3.4   | 3.7    | 3.9    |

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    | (HK\$ m) | (HK\$ m)   | (HK\$) | (Δ %)  | (x) | (HK\$) | (x) | (HK\$) | (%)   | (%)    |
| 2018A    | 62,482   | 741        | 0.516  | 2.6    | 6.8 | 3.462  | 1.0 | 0.155  | 4.4   | 15.0   |
| 2019A    | 66,210   | 810        | 0.570  | 10.5   | 6.1 | 3.981  | 0.9 | 0.167  | 4.8   | 15.1   |
| 2020F    | 70,602   | 882        | 0.621  | 8.9    | 5.6 | 4.416  | 0.8 | 0.186  | 5.3   | 14.8   |
| 2021F    | 77,158   | 994        | 0.700  | 12.7   | 5.0 | 4.906  | 0.7 | 0.210  | 6.0   | 15.0   |
| 2022F    | 84,573   | 1,150      | 0.810  | 15.7   | 4.3 | 5.473  | 0.6 | 0.243  | 6.9   | 15.6   |

|   |               |  |                 |
|---|---------------|--|-----------------|
| Shares in issue (m) 总股数 (m)             | 1,420.3       | Major shareholder 大股东                  | Li Jialin 41.0% |
| Market cap. (HK\$ m) 市值 (HK\$ m)        | 4,971.1       | Free float (%) 自由流通比率(%)               | 41.5            |
| 3 month average vol. 3 个月平均成交股数('000)   | 1,495.1       | FY20 Net gearing (%) FY20 净负债/股东资金 (%) | 84.5%           |
| 52 Weeks high/low (HK\$) 52 周高/低 (HK\$) | 4.790 / 2.750 | FY20 Est. NAV (HK\$) FY20 每股估值 (港元)    | 5.0             |

Source: the Company, Guotai Junan International.

**2019 Annual Results Review**

**VSTECs (the "Company") recorded revenue of HK\$66,210 million in 2019, up 6.0% YoY.** Revenue growth slightly missed our expectation and market consensus, partly due to negative impact from the China-U.S. trade war. By business, revenue of mobility & digital devices business increased by 3.3% YoY to HK\$26,981 million and accounted for 40.8% of total revenue. Revenue rose by 10.5% YoY in 2H2019, showing a rise in consumption demand for digital devices. Components business recorded sales of HK\$12,616 million, up 11.8%, contributing 19.1% of total revenue. Sales of storage devices became a main driver due to the fast growing monitoring devices market. In respect to IT services for enterprises, revenue of cloud and big data analytics business increased by 3.9% YoY to HK\$16,919 million, and network and data security was up by 10.1% YoY to HK\$9,694 million. In 2H2019, revenue from cloud and big data decreased by 1.0% on a high base while revenue from network and data security rose by 6.6% YoY. Broken down by region, revenue from North Asia increased 5.4% YoY and in Southeast Asia achieved YoY growth of 8.1%, thanks to the Company's overseas expansion strategy.

**Shareholders' profit increased 9.3% YoY to HK\$810 million in 2019.** Overall gross margin improved remained flat at 4.5%, as the proportion of the four segments was similar to that in 2018. S&D expenses increased by 3.5% YoY to HK\$1,125 million and administrative expenses increased by 4.2% YoY to HK\$618 million. Operating expenses have been well controlled and SG&A expenses to revenue ratio was slightly down 0.1 ppts YoY to 2.6%. By the end of Dec. 2019, total working capital days increased by 1 day YoY to 53 days, of which accounts receivables days and inventory days decreased by 1.6 days and 2.8 days, respectively. The Company proposed final dividend of HK\$0.167 per share, up 10.0% YoY and maintaining dividend payout ratio at 30%.

**Table-1: VSTECs's 2019 Revenue Breakdown**

| HK\$ million                 | 2018          |               | 2019          |               | YoY         |
|------------------------------|---------------|---------------|---------------|---------------|-------------|
|                              | Value         | % of total    | Value         | % of total    |             |
| <b>By business</b>           |               |               |               |               |             |
| Mobility & digital devices   | 26,114        | 41.8%         | 26,981        | 40.8%         | 3.3%        |
| Components products          | 11,287        | 18.1%         | 12,616        | 19.1%         | 11.8%       |
| Cloud and big data analytics | 16,279        | 26.1%         | 16,919        | 25.6%         | 3.9%        |
| Network and data security    | 8,802         | 14.1%         | 9,694         | 14.6%         | 10.1%       |
| <b>By region</b>             |               |               |               |               |             |
| North Asia                   | 49,379        | 79.0%         | 52,050        | 78.6%         | 5.4%        |
| Southeast Asia               | 13,103        | 21.0%         | 14,160        | 21.4%         | 8.1%        |
| <b>Total revenue</b>         | <b>62,482</b> | <b>100.0%</b> | <b>66,210</b> | <b>100.0%</b> | <b>6.0%</b> |

Source: the Company, Guotai Junan International.

**Table-2: VSTECs's 2019 Results Review**

| HK\$ million                      | 2018     | 2019     | YoY    | 2H18     | 2H19     | YoY    |
|-----------------------------------|----------|----------|--------|----------|----------|--------|
| Revenue                           | 62,482   | 66,210   | 6.0%   | 34,539   | 36,178   | 4.7%   |
| Cost of sales                     | (59,672) | (63,242) | 6.0%   | (32,983) | (34,641) | 5.0%   |
| Gross profit                      | 2,810    | 2,968    | 5.6%   | 1,556    | 1,537    | -1.2%  |
| Other income and gains            | 14       | 36       | 164.7% | 9        | 29       | 206.6% |
| Selling and distribution expenses | (1,087)  | (1,125)  | 3.5%   | (632)    | (612)    | -3.1%  |
| Administrative expenses           | (593)    | (618)    | 4.2%   | (336)    | (287)    | -14.6% |
| Operating profit                  | 1,143    | 1,260    | 10.2%  | 597      | 666      | 11.4%  |
| Finance costs                     | (240)    | (296)    | 23.0%  | (120)    | (164)    | 35.8%  |
| Share of associates' profits      | 50       | 50       | 0.5%   | 25       | 31       | 24.1%  |
| Share of JV's losses              | (6)      | (5)      | -9.1%  | (3)      | (2)      | -7.2%  |
| Profit before tax                 | 947      | 1,010    | 6.6%   | 499      | 530      | 6.3%   |

|                      |       |       |          |       |       |           |
|----------------------|-------|-------|----------|-------|-------|-----------|
| Income tax           | (206) | (200) | -3.2%    | (120) | (112) | -6.5%     |
| Shareholders' profit | 741   | 810   | 9.3%     | 379   | 418   | 10.3%     |
| Gross margin         | 4.5%  | 4.5%  | 0.0 ppt  | 4.5%  | 4.2%  | -0.3 ppts |
| Operating margin     | 1.8%  | 1.9%  | 0.1 ppts | 1.7%  | 1.8%  | 0.1 ppts  |
| Net margin           | 1.2%  | 1.2%  | 0.0 ppt  | 1.1%  | 1.2%  | 0.1 ppts  |

Source: the Company, Guotai Junan International.

### Earnings Forecasts Assumptions and Revisions

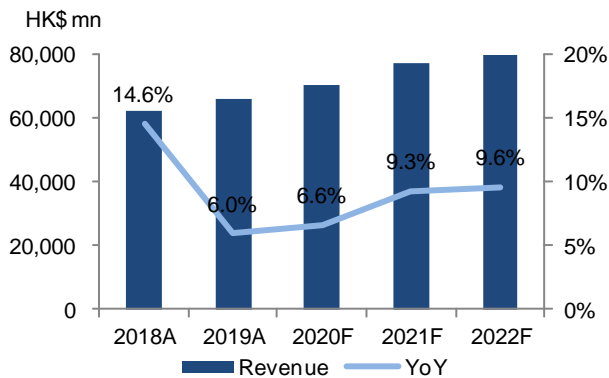
**Still positive on the Company's long-term growth.** VSTECs was negatively affected by the COVID-19 outbreak in Jan. and Feb. 2020. According to the management, the Company's revenue dropped by around 8% YoY to HK\$9.1 billion and revenue dropped by around 11% YoY in China during the period. The suspension of procurement by governments and enterprises, as well as limited logistics networks in China led to the sales decline. However, the Company's operations have started to gradually return back to normal from this week, and the domestic market is expected to grow in April. However, the Southeast Asia market may be affected by the spread of the pandemic in March and April as several cities have taken lockdown measures. In our view, the pandemic may impact the Company's business in the short term but demand for IT devices and services will not disappear. In the consumer market, rising demand to work from home and online education services is expected to support sales of mobility and digital devices. In the enterprise market, the rapid growth of cloud computing, big data and the AI market is expected to continue in the coming years and more enterprises will choose cloud and big data service and update their systems, which yields opportunities to the Company as a leading technology integration service provider in the Asia-Pacific region. In addition, we believe the upcoming era of 5G will provide a large market, with significant demand for device replacements and upgrades. Therefore we are positive on the Company's solid long-term growth trend despite turbulence in the near term.

**Revise earnings forecasts assumptions in 2020-2021.** We lower revenue forecasts by 7.2% and 9.1% to HK\$70,602 million and HK\$77,158 million in 2020 and 2021, respectively. Gross margin and operating margin has been stable but were lower than our previous expectation. We revise down shareholders' profit by 14.6% and 19.3% in 2020 and 2021, respectively. New shareholders' profit forecasts amounts to HK\$882 million, HK\$994 million and HK\$1,150 million in 2020-2022, respectively.

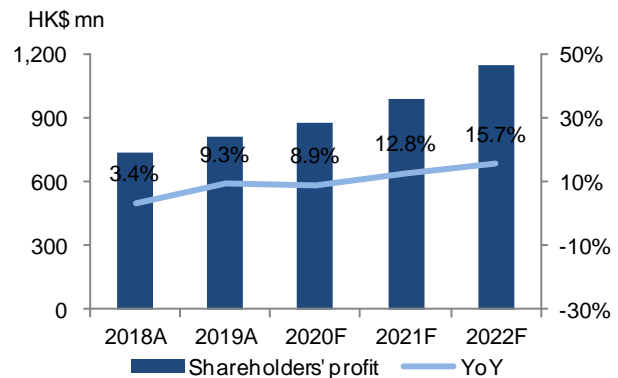
**Table-3: Key Figure Revisions for VSTECs**

| HK\$ million         | New    |        |        | Old    |        |       | Change    |           |       |
|----------------------|--------|--------|--------|--------|--------|-------|-----------|-----------|-------|
|                      | 2020F  | 2021F  | 2022F  | 2020F  | 2021F  | 2022F | 2020F     | 2021F     | 2022F |
| Revenue              | 70,602 | 77,158 | 84,573 | 76,089 | 84,856 | n.a.  | -7.2%     | -9.1%     | n.a.  |
| -Mobility digital    | 28,600 | 30,602 | 32,744 | 28,281 | 32,241 | n.a.  | 1.1%      | -5.1%     | n.a.  |
| -Components          | 12,994 | 13,514 | 13,973 | 14,478 | 14,623 | n.a.  | -10.2%    | -7.6%     | n.a.  |
| -Cloud and big data  | 18,441 | 21,208 | 24,601 | 22,091 | 25,405 | n.a.  | -16.5%    | -16.5%    | n.a.  |
| -Network and data    | 10,567 | 11,835 | 13,255 | 11,239 | 12,588 | n.a.  | -6.0%     | -6.0%     | n.a.  |
| Gross profit         | 3,248  | 3,549  | 3,975  | 3,728  | 4,243  | n.a.  | -12.9%    | -16.3%    | n.a.  |
| Operating profit     | 1,346  | 1,500  | 1,710  | 1,570  | 1,851  | n.a.  | -14.3%    | -19.0%    | n.a.  |
| Shareholders' profit | 882    | 994    | 1,150  | 1,032  | 1,232  | n.a.  | -14.6%    | -19.3%    | n.a.  |
| EPS (HK\$)           | 0.621  | 0.700  | 0.810  | 0.725  | 0.866  | n.a.  | -14.4%    | -19.2%    | n.a.  |
| Gross margin         | 4.6%   | 4.6%   | 4.7%   | 4.9%   | 5.0%   | n.a.  | -0.3 ppts | -0.4 ppts | n.a.  |
| % SG&A of turnover   | 2.7%   | 2.7%   | 2.7%   | 2.9%   | 2.8%   | n.a.  | -0.2 ppts | -0.1 ppts | n.a.  |
| Operating margin     | 1.9%   | 1.9%   | 2.0%   | 2.1%   | 2.2%   | n.a.  | -0.2 ppts | -0.3 ppts | n.a.  |
| Net margin           | 1.2%   | 1.3%   | 1.4%   | 1.4%   | 1.5%   | n.a.  | -0.2 ppts | -0.2 ppts | n.a.  |

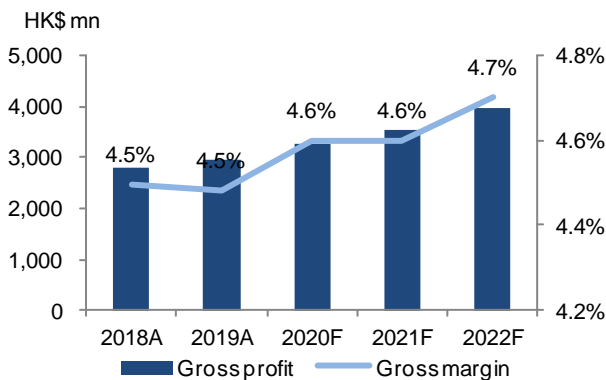
Source: Guotai Junan International.

**Figure-1: VSTECS's Revenue and YoY Growth**


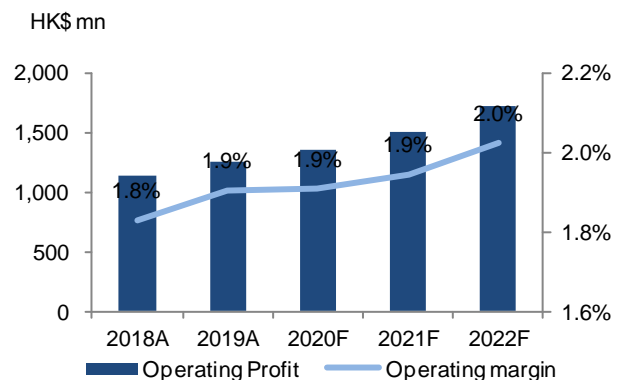
Source: the Company, Guotai Junan International.

**Figure-2: VSTECS' Shareholders' Profit and YoY Growth**


Source: the Company, Guotai Junan International.

**Figure-3: VSTECS's Gross Profit and Gross Margin**


Source: the Company, Guotai Junan International.

**Figure-4: VSTECS's Operating Profit and Operating Margin**


Source: the Company, Guotai Junan International.

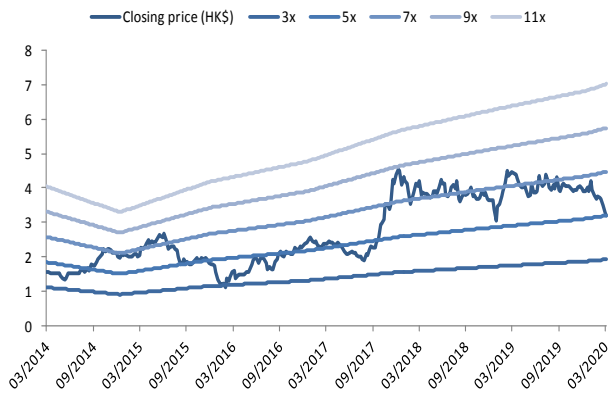
**Maintain investment rating as "Buy" but revise down target price to HK\$4.50.** VSTECS achieved resilient results in a challenging macro environment in 2019. We are positive on the Company's cloud and big data business growth despite challenges in 1Q2020. We maintain "Buy" rating and new TP is equivalent to 7.3x, 6.4x and 5.6x 2020, 2021 and 2022 PER, respectively. We believe that the Company's valuation is attractive compared with its peers. Major risks include intense competition among the IT services industry and continuing spread of the COVID-19 virus.

**Table-4: Peers Comparison Table**

| Company                               | Stock Code | Currency | Last price | PE(x) |      |      |      | PB(x) |      |      |      | ROE(%) | D/Y(%) | Gross Margin(%) | Market Cap |  |
|---------------------------------------|------------|----------|------------|-------|------|------|------|-------|------|------|------|--------|--------|-----------------|------------|--|
|                                       |            |          |            | 19A   | 20F  | 21F  | 22F  | 19A   | 20F  | 21F  | 22F  |        |        |                 |            |  |
| <b>IT distribution and IT service</b> |            |          |            |       |      |      |      |       |      |      |      |        |        |                 |            |  |
| Tech Data Corp                        | TECD US    | USD      | 122.260    | 13.7  | 11.8 | 10.2 | 9.5  | 1.5   | 1.4  | n.a. | n.a. | 12.4   | 0.0    | 6.2             | 33,580     |  |
| Synnex Technology                     | 2347 TT    | TWD      | 35.900     | 8.8   | 9.1  | 8.5  | n.a. | 1.2   | 1.0  | 1.0  | n.a. | 12.3   | 7.2    | 4.3             | 15,314     |  |
| Digital China Holdings                | 861 HK     | HKD      | 3.470      | 31.5  | 15.1 | 9.9  | n.a. | 0.6   | 0.6  | 0.6  | n.a. | 4.3    | 1.5    | 18.5            | 5,799      |  |
| Vsteecs Holdings                      | 856 HK     | HKD      | 3.500      | 6.1   | 5.6  | n.a. | n.a. | 0.9   | 0.8  | 0.7  | n.a. | n.a.   | n.a.   | n.a.            | 5,087      |  |
| Changhong Jiahua                      | 3991 HK    | HKD      | 0.840      | n.a.  | n.a. | n.a. | n.a. | n.a.  | n.a. | n.a. | n.a. | n.a.   | n.a.   | n.a.            | 1,222      |  |
| Simple Average                        |            |          |            | 15.0  | 10.4 | 9.5  | 9.5  | 1.1   | 1.0  | 0.8  | n.a. | 9.7    | 2.9    | 9.7             |            |  |
| Weighted Average                      |            |          |            | 13.5  | 10.9 | 9.7  | 9.5  | 1.3   | 1.2  | 0.9  | n.a. | 11.5   | 2.2    | 7.0             |            |  |

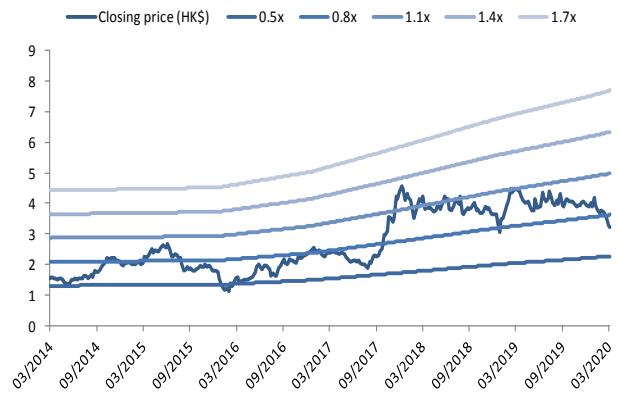
Source: Bloomberg, Guotai Junan International.

**Figure-5: VSTECs's Historical Forward PER**



Source: Bloomberg, Guotai Junan International.

**Figure-6: VSTECs's Historical Forward PBR**



Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

| Income Statement                |          |          |          |          |          | Balance Sheet                 |        |        |        |        |        |
|---------------------------------|----------|----------|----------|----------|----------|-------------------------------|--------|--------|--------|--------|--------|
| Year end 31 Dec (HK\$ m)        | 2018A    | 2019A    | 2020F    | 2021F    | 2022F    | Year end 31 Dec (HK\$ m)      | 2018A  | 2019A  | 2020F  | 2021F  | 2022F  |
| Total Revenue                   | 62,482   | 66,210   | 70,602   | 77,158   | 84,573   | Property, plant and equipment | 452    | 650    | 613    | 580    | 550    |
| Cost of sales                   | (59,672) | (63,242) | (67,355) | (73,609) | (80,599) | Goodwill                      | 320    | 324    | 324    | 324    | 324    |
| Gross profit                    | 2,810    | 2,968    | 3,248    | 3,549    | 3,975    | Interest in associates & JV   | 941    | 977    | 1,018  | 1,067  | 1,120  |
| Selling and distribution costs  | (1,087)  | (1,125)  | (1,236)  | (1,335)  | (1,472)  | Deferred tax assets           | 108    | 123    | 134    | 151    | 175    |
| Administrative expenses         | (593)    | (618)    | (685)    | (733)    | (812)    | Others                        | (5)    | (5)    | 1      | 1      | 1      |
| Other income and gains          | 14       | 36       | 18       | 19       | 19       | Total Non-current Assets      | 1,815  | 2,069  | 2,090  | 2,124  | 2,170  |
| Operating Profit                | 1,143    | 1,260    | 1,346    | 1,500    | 1,710    | Cash & Cash Equivalents       | 1,508  | 2,328  | 2,542  | 2,287  | 2,911  |
| Finance cost                    | (240)    | (296)    | (293)    | (310)    | (328)    | Inventories                   | 6,103  | 5,986  | 6,932  | 7,185  | 8,272  |
| Share of associates' profits    | 50       | 50       | 52       | 53       | 55       | Trade & other receivables     | 14,451 | 14,554 | 14,964 | 17,246 | 18,053 |
| Share of a joint venture's loss | (6)      | (5)      | (5)      | (4)      | (4)      | Total Current Assets          | 22,062 | 22,867 | 24,438 | 26,717 | 29,236 |
| Profit Before Tax               | 947      | 1,010    | 1,099    | 1,239    | 1,434    | Total Assets                  | 23,877 | 24,936 | 26,528 | 28,841 | 31,406 |
| Income Tax                      | (206)    | (200)    | (217)    | (245)    | (283)    | Trade & other payables        | 10,895 | 10,346 | 11,451 | 12,563 | 13,756 |
| profit After Tax                | 741      | 810      | 882      | 994      | 1,150    | Short-term borrowings         | 6,326  | 6,529  | 6,354  | 6,790  | 7,273  |
| Non-controlling Interest        | 0        | 0        | 0        | 0        | 0        | Taxation Payable              | 113    | 95     | 103    | 117    | 135    |
| Shareholders' Profit / Loss     | 741      | 810      | 882      | 994      | 1,150    | Total Current Liabilities     | 17,341 | 17,605 | 18,579 | 20,194 | 21,950 |
| Basic EPS                       | 0.516    | 0.570    | 0.621    | 0.700    | 0.810    | Long-term Borrowings          | 1,455  | 1,488  | 1,488  | 1,488  | 1,488  |
|                                 |          |          |          |          |          | Deferred tax liability        | 31     | 19     | 21     | 24     | 27     |
|                                 |          |          |          |          |          | Total Non-current Liabilities | 1,490  | 1,676  | 1,677  | 1,679  | 1,683  |
|                                 |          |          |          |          |          | Total Liabilities             | 18,831 | 19,282 | 20,256 | 21,873 | 23,633 |
|                                 |          |          |          |          |          | Total Shareholders' Equity    | 5,047  | 5,654  | 6,272  | 6,968  | 7,773  |
|                                 |          |          |          |          |          | Minority Interest             | 0      | 0      | 0      | 0      | 0      |
|                                 |          |          |          |          |          | Total Equity                  | 5,047  | 5,654  | 6,272  | 6,968  | 7,773  |
|                                 |          |          |          |          |          |                               |        |        |        |        |        |
| Cash Flow Statement             |          |          |          |          |          | Financial Ratios              |        |        |        |        |        |
| Year end 31 Dec (HK\$ m)        | 2018A    | 2019F    | 2020F    | 2021F    | 2022F    |                               | 2018A  | 2019A  | 2020F  | 2021F  | 2022F  |
| PBT                             | 947      | 1,010    | 1,099    | 1,239    | 1,434    | Gross margin                  | 4.5%   | 4.5%   | 4.6%   | 4.6%   | 4.7%   |
| Income tax                      | (255)    | (244)    | (218)    | (246)    | (285)    | Operating margin              | 1.8%   | 1.9%   | 1.9%   | 1.9%   | 2.0%   |
| Adjust for depre.&amort.        | 35       | 45       | 65       | 61       | 58       | Net margin                    | 1.2%   | 1.2%   | 1.2%   | 1.3%   | 1.4%   |
| Change in WC                    | (1,768)  | (535)    | (252)    | (1,423)  | (701)    | ROA                           | 3.3%   | 3.3%   | 3.4%   | 3.6%   | 3.8%   |
| Others                          | 188      | 1,075    | 240      | 261      | 270      | ROE                           | 15.0%  | 15.1%  | 14.8%  | 15.0%  | 15.6%  |
| Cash from Operating Activities  | (852)    | 1,350    | 934      | (108)    | 775      | Current Ratio (x)             | 1.3    | 1.3    | 1.3    | 1.3    | 1.3    |
| Interest received               | 9        | 8        | 12       | 12       | 13       | Net gearing (%)               | 124.3% | 100.6% | 84.5%  | 86.0%  | 75.3%  |
| Purchase of PPE                 | (40)     | (243)    | (28)     | (28)     | (28)     | Interest coverage (x)         | 4.9    | 4.3    | 4.7    | 4.9    | 5.3    |
| Others                          | 6        | 7        | 7        | 7        | 7        | Dividend payout ratio (%)     | 30.0%  | 30.0%  | 30.0%  | 30.0%  | 30.0%  |
| Cash from Investing Activities  | (26)     | (228)    | (9)      | (9)      | (8)      |                               |        |        |        |        |        |
| Net bank borrowings             | 1,143    | 236      | (175)    | 436      | 483      |                               |        |        |        |        |        |
| Interest paid                   | (240)    | (296)    | (293)    | (310)    | (328)    |                               |        |        |        |        |        |
| Dividend paid                   | (215)    | (222)    | (243)    | (265)    | (298)    |                               |        |        |        |        |        |
| Others                          | (25)     | (20)     | 0        | 0        | 0        |                               |        |        |        |        |        |
| Cash from Financing Activities  | 662      | (302)    | (712)    | (139)    | (143)    |                               |        |        |        |        |        |
| Net Changes in Cash             | (215)    | 820      | 214      | (255)    | 625      |                               |        |        |        |        |        |
| Cash at Beg of Year             | 1,981    | 1,508    | 2,328    | 2,542    | 2,287    |                               |        |        |        |        |        |
| Foreign exchange effect         | (258)    | 0        | 0        | 0        | 0        |                               |        |        |        |        |        |
| Cash at End of Year             | 1,508    | 2,328    | 2,542    | 2,287    | 2,911    |                               |        |        |        |        |        |

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%;<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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