

Company Report: Jinjiangcapital (02006 HK)

公司报告: 锦江资本 (02006 HK)

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Accelerated Expansion but Weak RevPAR, Maintain "Neutral"

扩张加快但是平均每间可供出租客房收入较弱, 维持“中性”

- **3Q2019 select-service hotel net revenue increased 3.0% yoy to RMB4,139 mn.** Adjusted net profit attributable to the Company's main operating subsidiary increased by 22.1% yoy to RMB441.5 mn, better than expected as operating expense to revenue ratio decreased 0.5 ppt yoy to 85.9%.
- **We increase our 2019-2021 total adjusted operating profit forecasts by 6.9%, 4.1% and 4.4%, respectively.** The Company has added more hotels this year than we had expected, and so we increase our 2019-2021 revenue forecasts by 1.2%, 1.8% and 2.0%, respectively. We forecast 2019-2021 total revenue of RMB21.0 bn, RMB21.8 bn and RMB23.0 bn, representing growth of 1.9%, 3.8% and 5.3%, respectively. We forecast 2019-2021 total adjusted operating profit of RMB1.93 bn, RMB1.95 bn and RMB2.0 bn, representing growth of 34.8%, 1.1% and 3.0%, respectively. We forecast 2019-2021 basic and fully diluted EPS of RMB0.135, RMB 0.139 and RMB0.143, representing growth of -1.1%, 2.3% and 3.2%, respectively.
- **We increase the Company's target price from HK\$1.20 to HK\$1.45 and maintain "Neutral" investment rating.** Our target price is equivalent to 5.1x 2019 EV/adjusted EBITDA. Our valuation is relatively low, but we think this is justified taking into account the Company's dependence on non-operating other income and gains to boost reported operating profit and shareholders' net profit. For example, in 2017 and 2018, the Company's other income and gains were RMB381 million and RMB433 million, equivalent to 50.1% and 56.8% of shareholders' net profit, respectively.
- **2019 年第 3 季度有限服务酒店净收入同比上升 3.0%至人民币 41.39 亿元。**公司主要运营子公司调整后净利润同比增长 22.1%至人民币 4.415 亿元, 好于我们的预期, 主要由于营业支出占收入比率同比下降 0.5 个百分点至 85.9%。
- **我们分别上调 2019 至 2021 年经调整总营业利润预测 6.9%、4.1%和 4.4%。**今年公司新增酒店数量高于我们预期, 因此我们分别上调 2019 至 2021 年收入预测 1.2%、1.8%和 2.0%。我们预计 2019 至 2021 年总收入分别为人民币 210 亿元、人民币 218 亿元和人民币 230 亿元, 分别对应 1.9%、3.8%和 5.3%的增长率。我们预计 2019 至 2021 年经调整总营业利润分别为人民币 19.3 亿元、人民币 19.5 亿元和人民币 20.0 亿元, 分别对应 34.8%、1.1%和 3.0%的增长率。我们预计 2019 至 2021 年基本每股收益与稀释后每股收益分别为人民币 0.135 元、人民币 0.139 元和人民币 0.143 元, 分别对应-1.1%、2.3%和 3.2%的增长率。
- **我们将公司的目标价由 1.20 港元上调至 1.45 港元, 并维持“中性”的投资评级。**我们的目标价相当于 5.1 倍 2019 年经调整 EV/EBITDA。我们的估值相对较低, 但考虑到公司依赖非经营性其他收入及收益来提高营业利润和股东净利润, 我们认为较低的估值是合理的。例如, 在 2017 年和 2018 年, 公司其他收入及收益为人民币 3.81 亿元和人民币 4.33 亿元, 分别相当于 50.1%和 56.8%的股东净利润。

Rating:

Neutral

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$1.45

Revised from 原目标价:

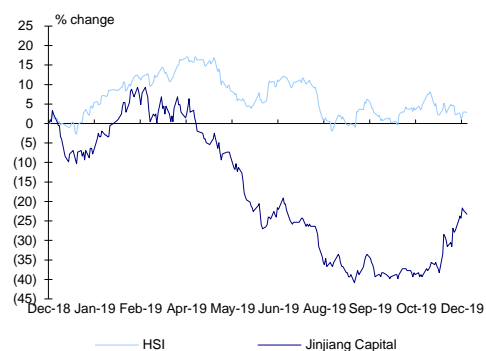
HK\$1.20

Share price 股价:

HK\$1.490

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 %	20.2	22.1	(27.0)
Rel. % to HS Index 相对恒指变动 %	24.6	23.1	(29.6)
Avg. share price (HK\$) 平均股价 (港元)	1.4	1.3	1.6

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)	(%)	(%)
2017A	19,759	761	0.137	0.3	9.1	1.700	0.8	0.080	6.0	8.1
2018A	20,631	762	0.137	0.1	9.6	3.962	0.3	0.080	6.0	4.8
2019F	21,027	754	0.135	(1.1)	9.9	1.153	1.2	0.079	5.9	5.3
2020F	21,829	771	0.139	2.3	9.7	1.094	1.2	0.081	6.0	12.3
2021F	22,997	796	0.143	3.2	9.4	1.071	1.3	0.084	6.2	13.2
Shares in issue (m) 总股数 (m)				5,566.0	Major shareholder 大股东				Jin Jiang International 75.0%	
Market cap. (HK\$ m) 市值 (HK\$ m)				8,293.3	Free float (%) 自由流通比率 (%)				25.0	
3 month average vol. 3 个月平均成交股数 ('000)				6,445.5	FY19 Net gearing (%) FY19 净负债/股东资金 (%)				22.9	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				2.320 / 1.130	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)				11.5	

Source: the Company, Guotai Junan International.

3Q2019 Partial Results

Shanghai Jin Jiang Capital Company Limited's (the "Company") select-service hotels operating subsidiary reported its 3Q2019 results. The Company does not directly report its first quarter results, however, its mainland China-listed select-service hotels operating subsidiary, Shanghai Jin Jiang International Hotels Development (600754/900934 CH, the "Subsidiary"), does. The Company holds 50.3% interest in the Subsidiary, whose results are consolidated into the Company's results. The Subsidiary accounts for all of the Company's select-service hotels operations and financial results. These are all of the Company's economy, midscale and upscale (but non-star rated) branded chain hotels. Revenue from select service hotels (in other words, revenue contribution from the Subsidiary) accounted for 70.1% of the Company's total revenue in 2018. In addition to select-service hotels, the Company's operations also include 1) vehicles & logistics, 2) full-service hotels, 3) travel agency, 4) food & restaurants, and 5) other operations, which each contributed 1) 11.8%, 2) 10.0%, 3) 5.8%, 4) 1.7%, and 5) 0.7% of the Company's total revenue in 2018.

3Q2019 select-service hotel net revenue increased 3.0% yoy to RMB4,139 mn. Revenue from select-service hotels (the Subsidiary's total net revenue) was in line with our expectations. However, mainly due to the yoy growth of operating income from Plateno Group and Vienna Hotel, adjusted operating profit increased by 5.6% yoy to RMB667 mn and adjusted operating margin increased by 0.4 ppt yoy to 16.1%, better than we expected.

During 3Q2019, the Subsidiary's revenue from select-service hotels in mainland China increased 3.9% yoy to RMB2,961.0 million. Pre-service fee income from select-service hotels in mainland China increased 52.3% to RMB236.4 million while the continuous franchise fee income increased 0.9% yoy to RMB401.8 million.

3Q2019 adjusted net profit attributable to the Subsidiary increased by 22.1% yoy to RMB441.5 mn, better than expected as operating expense to revenue ratio decreased 0.5 ppt yoy to 85.9%. Adjusted net profit excludes non-operating gains and losses and other non-operating items. Net profit attributable to the Subsidiary decreased by 17.1% yoy to RMB305.5 mn and basic EPS decreased 17.1% yoy to RMB0.3189. During 3Q2019, the Subsidiary's net profit was negatively affected by a loss of RMB214 mn resulted from the fair value change of equity investment.

Table-1: The Subsidiary's Quarterly Results

(RMB mn)	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	(% or ppt.)	
						yoy	qoq
Net revenue	4,017	3,741	3,337	3,806	4,139	3.0%	8.8%
Cost of goods & services	(427)	(400)	(389)	(358)	(412)	(3.6%)	15.1%
Gross profit	3,590	3,340	2,948	3,448	3,728	3.8%	8.1%
<i>Gross margin</i>	89.4%	89.3%	88.3%	90.6%	90.1%	0.7 ppt	(0.5) ppt
Selling expenses	(1,951)	(1,875)	(1,867)	(1,908)	(1,971)	1.0%	3.3%
General & administrative expenses	(970)	(1,288)	(939)	(919)	(1,014)	4.5%	10.3%
Other operating costs	(37)	(66)	(28)	(105)	(76)	103.8%	(27.2%)
Adjusted operating income*	632	111	115	516	667	5.6%	29.1%
<i>Adjusted operating margin</i>	15.7%	3.0%	3.4%	13.6%	16.1%	0.4 ppt	2.5 ppt
Profit attributable to shareholders of the Subsidiary	369	211	295	272	306	(17.1%)	12.2%
Adjusted net profit attributable to the shareholders of the Subsidiary**	362	62	71	287	442	22.1%	53.7%

Source: Shanghai Jin Jiang International Hotels Development (600754 CH), Guotai Junan International.

Note*: Adjusted operating income excludes non-operational gains and losses.

Note**: Adjusted net income attributable to shareholders of Jinjiang Hotel Development excludes non-recurring profit/loss.

The Subsidiary has continued to increase its proportion of midscale hotels, which supports higher RevPAR and better hotel portfolio performance. As of September 30, 2019, the Subsidiary had a total of 813,285 hotel rooms in 8,161 hotels in operation, of which 39.4% were midscale hotel brands, up from 30.5% in the prior year period. We think that the increasing proportion of midscale hotels is good for the Company, since midscale hotels tend to have higher RevPAR and better performance than lower-end hotels. During 3Q2019, the Subsidiary opened a total of 312 new hotels on a net basis. While 447 new hotels were opened during the quarter, 135 hotels were closed, leaving a net 312 hotel additions. The net number of direct-operated hotels decreased by 6 and the net number of franchised hotels increased by 318.

During the first three quarters of 2019, the Company opened 718 net new select-service hotels, more than expected. The Subsidiary opened 1,107 select-service hotels and closed 389 hotels, for a total of 718 net new hotels put into operation, including the deduction of 21 direct-operated hotels and the addition of 739 franchised hotels. As of 30 September 2019, the Subsidiary had 8,161 hotels with a total of 813,285 hotel rooms in operation. As of 30 September 2019, the Company had 12,390 select-service hotels with a total of 1,270,340 rooms contracted for development.

Table-2: The Company's Select-Service Hotels in Operation

	1-3Q2018		1-3Q2019		yoy (ppt)
	Number	Proportion	Number	Proportion	
Midscale Hotels	2,193	30.5%	3,218	39.4%	8.9 ppt
Economy Hotels	5,000	69.5%	4,943	60.6%	(8.9) ppt
Total	7,193	100%	8,161	100%	

Source: Shanghai Jin Jiang International Hotels Development (600754 CH), Guotai Junan International.

Select-service hotels RevPAR performance was worse than that of major competitor Huazhu Group (HTHT US, "Huazhu"). For select service mature hotels (hotels in operation 18 months or more), the Company's overall same-hotel RevPAR decreased by 3.6% yoy to RMB156 during 1-3Q2019. For comparison, this is worse than the approximately 2.1% decline of same period for Huazhu. During 1-3Q2019, the Subsidiary's (and hence, the Company's) midscale brands outperformed its economy brands. Mature midscale hotels' same-hotel RevPAR decreased 0.4% yoy to RMB220, while that of economy brands decreased 7.5% to RMB118. By comparison, Huazhu experienced similar decline in its mature hotels' same-hotel RevPAR for midscale brands (down approximately 2.5% yoy to RMB263), and its same-hotel RevPAR for matured economy hotels decreased 1.9% yoy to RMB167.

Table-3: The Company's Mature Select-Service Hotels Operational Performance

	ADR		Occupancy Rate		RevPAR		
	1-3Q2018	1-3Q2019	1-3Q2018	1-3Q2019	1-3Q2018	1-3Q2019	yoy %
Mainland Hotels							
Same Hotel Performance (Mature Hotels)							
Mature Midscale Hotels	265.1	269.1	83.4	81.9	221.0	220.2	(0.4%)
Mature Economy Hotels	162.1	160.7	78.6	73.4	127.4	117.9	(7.5%)
Aggregate Mature Hotels	201.4	204.0	80.4	76.5	161.8	156.1	(3.6%)

Source: Shanghai Jin Jiang International Hotels Development (600754 CH), Guotai Junan International.

Note: Mature hotels are hotels that have been in operation for 18 months or longer.

For select-service hotels, RevPAR of mainland China hotels fell while that of overseas hotels increased. During 1H2019, revenue from select service hotels in mainland China and overseas accounted for 49.7% and 20.3% of the Company's total revenue, respectively. During 3Q2019, for select service hotels in mainland China, RevPAR of midscale hotels decreased by 5.7% YoY, while that of economy hotels decreased by 8.1% YoY; the average decreased by only 1.5% due the 8.9 ppt yoy increase in the proportion of midscale hotels to 39.4%. RevPAR of overseas hotels increased by 2.1% yoy.

Table-4: The Company's Select Service Hotels Operational Performance

	ADR		Occupancy Rate		RevPAR		
	3Q2018	3Q2019	3Q2018	3Q2019	3Q2018	3Q2019	yoy %
Mainland Hotels							
Midscale Hotels	268.2	263.2	84.4	81.1	226.3	213.5	(5.7%)
Economy Hotels	168.2	165.9	81.5	75.9	137.1	126.0	(8.1%)
Total Mainland Hotels	207.7	215.4	82.7	78.5	171.6	169.1	(1.5%)
Overseas Hotels							
Midscale Hotels	66.8	68.0	62.0	62.9	41.4	42.8	3.3%
Economy Hotels	53.5	54.3	72.3	72.3	38.7	39.3	1.6%
Total Overseas Hotels	57.1	58.0	69.2	69.6	39.5	40.3	2.1%

Source: Shanghai Jin Jiang International Hotels Development (600754 CH), Guotai Junan International.

The Subsidiary's management guides for 4Q2019 select service hotel revenue in the range of RMB3.59 bn to RMB3.96 bn, implying yoy growth of -4.2% to 5.9%. For mainland China select-service hotels, the Subsidiary's management guides for revenue between RMB2.63 bn to RMB2.91 bn, representing -1.2% to 9.3% yoy growth. Revenue from select-service hotels overseas is expected to change by -4.6% to 5.4% yoy.

Forecast Revisions

We increase our 2019-2021 total adjusted operating profit forecasts by 6.9%, 4.1% and 4.4%, respectively. The Company has added more hotels this year than we had expected, and so we have increased our 2019-2021 revenue forecasts by 1.2%, 1.8% and 2.0%, respectively. The Subsidiary's 3Q2019 adjusted operating profit (which we define as gross profit after selling and marketing and administrative expenses) was better than expected as operating expense to revenue ratio decreased 0.5 ppt yoy to 85.9%. We forecast 2019-2021 total revenue of RMB21.0 bn, RMB21.8 bn and RMB23.0 bn, representing growth of 1.9%, 3.8% and 5.3%, respectively. We forecast 2019-2021 total adjusted operating profit of RMB1.93 bn, RMB1.95 bn and RMB2.00 bn, representing growth of 34.8%, 1.1% and 3.0%, respectively.

We forecast 2019-2021 shareholders' net profit of RMB754 mn, RMB771 mn and RMB796 mn, reflecting growth of -1.1%, 2.3% and 3.2%, respectively. We forecast 2019-2021 basic and fully diluted EPS of RMB0.135, RMB 0.139 and RMB0.143, representing growth of -1.1%, 2.3% and 3.2%, respectively.

Table-5: The Company Forecast Updates

RMB (million, except EPS)	Old			New			Change (% or ppt)		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Total Number of Hotels in Operation	8,345	9,065	9,765	8,557	9,377	10,177	2.5%	3.4%	4.2%
Total Revenue	20,787	21,441	22,543	21,027	21,829	22,997	1.2%	1.8%	2.0%
SG&A	(3,837)	(3,896)	(4,096)	(3,779)	(3,923)	(4,133)	(1.5%)	0.7%	0.9%
Adjusted Operating Profit	1,803	1,872	1,923	1,927	1,949	2,007	6.9%	4.1%	4.4%
Adjusted Operating Profit Margin	8.7%	8.7%	8.5%	9.2%	8.9%	8.7%	0.5 ppt	0.2 ppt	0.2 ppt
Other Income & Gains	946	943	880	792	719	626	(16.3%)	(23.7%)	(28.8%)
Other Expenses & Losses	(90)	(93)	(97)	(91)	(94)	(99)	1.2%	1.8%	2.0%
Operating Profit	2,660	2,721	2,706	2,628	2,574	2,534	(1.2%)	(5.4%)	(6.3%)
EBITDA	4,750	4,707	4,650	4,903	4,613	4,447	3.2%	(2.0%)	(4.4%)
- ForEx, Gains* & Others	700	730	660	462	401	293	(34.0%)	(45.1%)	(55.6%)
- Interest Income	117	101	103	131	134	140	12.3%	33.0%	35.6%
Adjusted EBITDA	3,933	3,876	3,887	4,310	4,078	4,014	9.6%	5.2%	3.3%
Adjusted EBITDA Margin	18.9%	18.1%	17.2%	20.5%	18.7%	17.5%	1.6 ppt	0.6 ppt	0.2 ppt
Shareholders' Net Profit	769	810	826	754	771	796	(2.0%)	(4.9%)	(3.6%)
Basic & Diluted EPS (RMB)	0.138	0.146	0.148	0.135	0.139	0.143	(2.0%)	(4.9%)	(3.6%)

Source: Guotai Junan International.

Note: historical gains have included unrealised and realized fair value gain on financial assets at FVPL, gains on disposal of PP&E, gains on disposal of investment in associates, revaluation gains from remeasuring equity interests previously held and gains on disposal of available-for-sale investment.

We increase the Company's target price from HK\$1.20 to HK\$1.45 and maintain "Neutral" investment rating. Our target price is equivalent to 5.1x 2019 EV/adjusted EBITDA. Our valuation is relatively low, but we think this is justified taking into account the Company's dependence on non-operating other income and gains to boost reported operating profit and shareholders' net profit. For example, in 2017 and 2018, the Company's other income and gains were RMB381 million and RMB433 million, equivalent to 50.1% and 56.8% of shareholders' net profit, respectively.

Table-6: Peers Comparison

Company	Stock Code	Currency	Last price	Market Cap	PE				EV/EBITDA				ROE (%)	BPS
					18A	19F	20F	21F	18A	19F	20F	21F	19F	
													19F	19F
HK - Listed				HK\$ mn										
Great Eagle	00041 HK	HKD	26.60	18,843	3.2	10.5	6.5	45.1	17.4	28.4	17.4	n.a.	2.6	n.a.
Hk&S Hotels	00045 HK	HKD	8.78	14,350	11.3	28.8	27.0	23.1	17.0	n.a.	n.a.	n.a.	1.2	n.a.
Shangri-La Asia	00069 HK	HKD	8.01	28,720	18.9	18.0	17.5	16.2	17.0	14.9	14.8	14.0	2.7	0.6
Miramar Hot &Inv	00071 HK	HKD	15.10	10,433	6.4	n.a.	n.a.	n.a.	5.3	n.a.	n.a.	n.a.	n.a.	n.a.
Magnificent Hote	00201 HK	HKD	0.16	1,423	5.5	n.a.	n.a.	n.a.	3.4	n.a.	n.a.	n.a.	n.a.	n.a.
Asia Standard	00292 HK	HKD	0.29	585	3.4	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.4	0.1
Fosun Tourism Gr	01992 HK	HKD	10.08	12,449	27.4	16.1	15.3	10.8	5.7	4.3	3.8	2.9	7.9	1.3
Shanghai Jin-H	02006 HK	HKD	1.49	8,293	9.2	10.2	9.6	8.1	8.5	5.4	5.0	3.9	7.7	0.8
Jinmao Hotel And	06139 HK	HKD	4.06	8,120	26.3	27.1	26.2	24.6	13.9	13.6	13.0	12.3	4.6	1.3
Simple Average					12.4	16.1	17.0	21.3	11.0	13.3	10.8	8.3	5.0	0.8
Weighted Average					14.3	17.9	16.5	22.6	14.0	15.3	12.4	9.9	3.8	0.9
U.S. Listed				US\$ mn										
Choice Hotels	CHH US	USD	97.42	5,429	25.4	22.9	22.2	20.8	16.3	17.1	16.0	14.9	(185.1)	(170.9)
Greentree Ho-Adr	GHG US	USD	11.52	1,170	19.2	17.7	14.5	12.6	12.7	11.3	8.6	6.8	25.2	4.1
Hyatt Hotels-A	H US	USD	80.12	8,232	11.8	44.0	43.0	37.8	12.0	12.5	12.1	11.9	4.6	2.3
Hilton Grand Vac	HGV US	USD	34.68	2,964	11.3	16.6	12.9	10.5	8.0	9.4	8.1	7.0	33.6	5.7
Hilton Worldwide	HLT US	USD	104.75	29,557	41.4	27.2	24.3	21.9	17.0	16.0	15.3	14.7	1,377.4	(71.7)
Host Hotels & Re	HST US	USD	17.95	12,873	12.2	13.9	20.5	23.8	10.4	10.2	11.1	11.0	14.1	1.8
Huazhu Group Ltd	HTHT US	USD	33.89	9,974	88.2	44.1	31.2	24.8	30.2	22.8	17.7	14.1	22.6	9.6
Intercontin-Adr	IHG US	USD	63.15	11,495	n.a.	n.a.	n.a.	n.a.	n.a.	14.4	13.4	12.3	(45.4)	n.a.
Marriott Intl-A	MAR US	USD	141.35	46,213	25.9	23.9	21.7	19.5	23.5	15.9	15.3	14.6	127.3	72.9
Playa Hotels & R	PLYA US	USD	7.53	974	47.1	n.a.	136.9	27.9	12.3	12.8	10.7	8.8	(0.1)	1.2
Sunstone Hotel	SHO US	USD	14.07	3,164	13.4	22.1	30.9	52.5	9.8	11.6	12.1	12.4	5.7	1.2
Extended Stay Am	STAY US	USD	14.33	2,620	12.8	14.7	14.7	14.6	8.9	9.0	9.2	9.3	8.1	0.8
Marriott Vacatio	VAC US	USD	123.66	5,199	75.4	15.5	13.5	11.5	16.3	9.4	8.2	7.5	20.1	1.8
Wyndham Hotels &	WH US	USD	57.96	5,516	35.8	17.8	16.2	14.7	18.8	12.2	11.6	11.2	17.7	n.a.
Wyndham Destinat	WYND US	USD	48.53	4,402	7.1	8.7	7.9	7.1	8.8	7.1	6.6	6.2	59.9	4.1
Simple Average					30.5	22.2	29.3	21.4	14.7	12.8	11.7	10.8	99.1	(10.5)
Weighted Average					32.5	24.8	23.8	21.5	17.0	14.6	13.8	13.0	308.1	3.9

Source: Bloomberg, Guotai Junan International.

11 December 2019

Jinjiangcapital 錦江資本 (02006 HK)

Company Report

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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