



Company Report: COSCO Shipping Ports (01199 HK)

公司报告: 中远海运港口 (01199 HK)

Kevin Zhuo 卓仕凯

(86755)2397 6725

shikai.zhuo@gtjas.com.hk

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Looking Forward to Profitability Improvement, "Accumulate"

看好未来盈利能力提升, “收集”

- CSP's 3Q20 net profit to shareholders beat our expectation.** Despite YoY decline in throughput from controlling terminals, the Company's 3Q20 revenue increased by 6.0% YoY due to favorable exchange rate and box volume structure improvement, slightly beating our expectation. Driven by increase in equity throughput from non-controlling terminals, profit from associates and joint ventures increased by 12.3% YoY. In addition, given a higher operating profit margin with lower administration costs, net profit to shareholders increased by 19.7% YoY to US\$85.9 million, beating our expectation and market consensus.
- CSP's refined management is expected to improve the Company's gross profit margin.** We believe that the Company's gross profit margin has potential to improve through (1) increasing throughput in its newly operating terminals and (2) refinery management. Meanwhile, CSP aims to increase its box volume proportion from third-party customers, which is expected to benefit its revenue per TEU. Looking forward, we think CSP's overseas container throughput is still at risk of resurgence of COVID-19, while we expect throughput growth in the Greater China region to be persistent in 4Q20. In addition, investment in Guangxi Beibu Gulf International Container Terminal is expected to drive the Company's future throughput growth.
- Reiterate "Accumulate" rating given attractive valuation and reliable dividend policy and revise up TP to HK\$5.35.** CSP currently has a strong position in cash which helps effectively resist the changing environment given the pandemic, and provides flexibility for potential acquisition. Reliable dividend policy given the background of the pandemic should be attractive. Our TP represents 7.0x, 7.3x and 6.5x 2020-2022 PER.
- 中远海运港口2020年第三季度股东净利润好于我们预期。**虽然来自控股码头吞吐量同比下滑,但由于有利的汇率和箱量结构的改善,公司2020年第三季度收入仍同比上升6.0%,略好于我们预期。受非控股码头权益吞吐量上升的拉动,来自合营及联营公司的利润同比上升12.3%。同时,因管理成本下降带动经营利润率上升,公司股东净利润同比上升19.7%至85.9百万美元,优于我们及市场预期。
- 中远海运港口的精细化管理有望提升公司毛利率。**我们认为,通过(1)新运营码头吞吐量的增长和(2)精细化经营,公司毛利率有望提升。同时,公司设立提高第三方客户箱量比例的目标,这预计将有利于单箱收入的提升。展望未来,我们认为公司海外集装箱吞吐量仍面临新冠疫情反复的风险,但我们预计大中华区吞吐量将在2020年第四季度持续增长。此外,对广西北部湾国际集装箱码头的投资预计将推动公司未来吞吐量的增长。
- 考虑到估值吸引和可靠的派息政策,重申“收集”评级,并上调目标价至5.35港元。**公司目前现金充裕,有利于抵御疫情下多变的环境及为潜在收购提供灵活性。疫情环境下可靠的股息政策应具有吸引力。我们的目标价对应7.0倍、7.3倍及6.5倍2020-2022年市盈率。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$5.35

Revised from 原目标价:

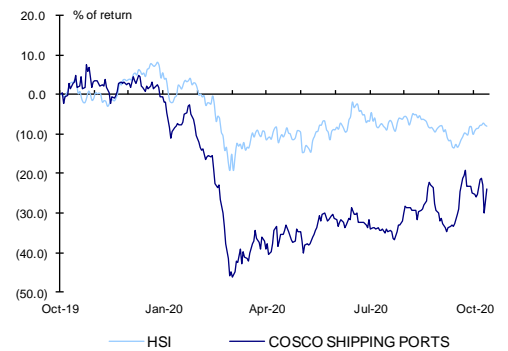
HK\$5.20

Share price 股价:

HK\$4.720

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 %	12.6	16.0	(24.0)
Rel. % to HS Index 相对恒指变动 %	7.4	16.2	(15.9)
Avg. Share price(HK\$) 平均股价 (港元)	3.9	4.2	6.0

Source: Bloomberg, Guotai Junan International.

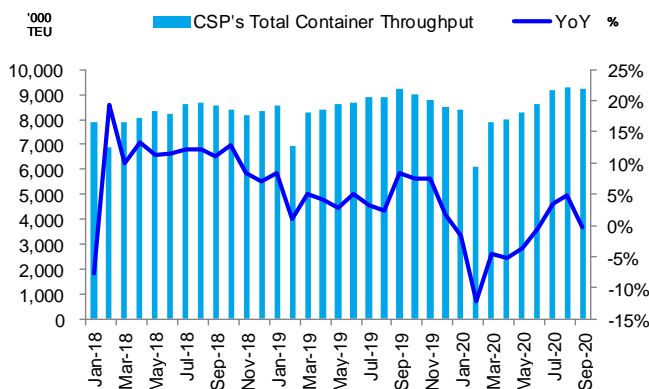
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2018A	1,000	325	0.106	(37.3)	5.7	1.659	0.4	0.042	7.0	6.3
2019A	1,028	308	0.098	(7.5)	6.2	1.580	0.4	0.039	6.5	6.1
2020F	978	319	0.098	0.0	6.2	1.565	0.4	0.039	6.5	6.3
2021F	1,046	313	0.094	(4.1)	6.5	1.621	0.4	0.038	6.2	5.9
2022F	1,105	352	0.106	12.8	5.7	1.688	0.4	0.043	7.0	6.4
Shares in issue (m) 总股数 (m)				3,315.3	Major shareholder 大股东				COSCO SHIPPING Holdings	50.0%
Market cap. (HK\$ m) 市值 (HK\$ m)				15,648.2	Free float (%) 自由流通比率 (%)					50.0
3 month average vol. 3 个月平均成交股数 (*000)				4,290.8	FY20 Net gearing (%) FY20 净负债/股东资金 (%)					37.0
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				6.700 / 3.300	FY20 Est. NAV (HK\$) FY20 每股估值 (港元)					10.1

Source: the Company, Guotai Junan International.

COSCO Shipping Ports' ("CSP" or the "Company") 3Q20 net profit to shareholders beat our expectation. Despite 9.1% YoY decline in container throughput from controlling terminals, the Company's 3Q20 revenue increased by 6.0% YoY to US\$270.0 million due to the appreciation of the euro and box volume structure improvement, slightly beating our expectations. In 3Q20, the Company's gross profit margin was 26.1%, staying flat compared with 3Q19 and recovering from the COVID-19 pandemic. Driven by 5.7% YoY increase in equity throughput of non-controlling terminals, profit from associates and joint ventures increased by 12.3% YoY. In addition, given a higher operating profit margin with lower administration costs, net profit to shareholders increased by 19.7% YoY to US\$85.9 million, beating our expectation and market consensus. Excluding the impact of the recently sold terminals including Nanjing Longtan, Zhangjiagang, Yangzhou and Jiangsu Yangtze Petrochemical terminals, the Company's organic net profit to shareholders rose 22.2% YoY. During 1-3Q20, affected by the pandemic, CSP recorded a 15.9% YoY decrease in net profit to shareholders, excluding one-off net gain from the disposals of Yangzhou Terminal, Zhangjiagang Terminal and Jiangsu Yangtze Petrochemical Terminal.

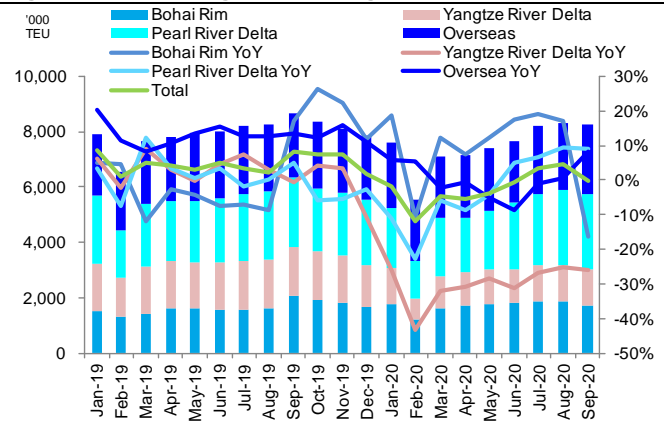
CSP's overseas container throughput is still at risk from resurgence of COVID-19. CSP's total container throughput increased by 3.3% YoY in 3Q20. Of which, along with China's strong foreign trade, container throughput in Greater China region increased by 3.4% to 26,069,126 TEUs. Excluding throughput from disposed terminals including Yangzhou Yuanyang Terminal, Zhangjiagang Terminal and Nanjing Longtan Terminal, container throughput in Greater China increased by 8.0% YoY. Given the current global condition of the pandemic, prompt recovery of manufacturing operation is expected to support China's imports and exports. We expect China's foreign trade momentum to remain in the coming few months, which benefits the Company's throughput growth in Greater China region. In addition, foreign trade oriented terminals such as CSP's terminals in Pearl River Delta are expected to enjoy a higher growth rate in throughput for 4Q20. On the other hand, CSP's overseas container throughput increased by 2.7% YoY to 7,392,960 TEUs, up 7.6 ppt QoQ, representing recovery from the pandemic. However, we think the resurgence of COVID-19 in Europe may weigh on the growth of CSP's overseas throughput in 4Q20.

Figure-1: CSP's Monthly Throughput and YoY Growth



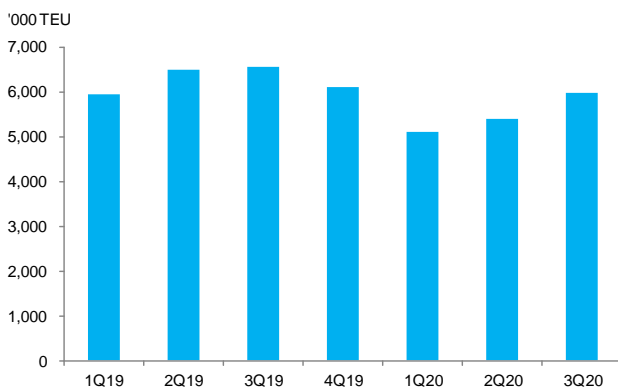
Source: the Company, Guotai Junan International.

Figure-2: CSP's Regional Throughput and YoY Growth



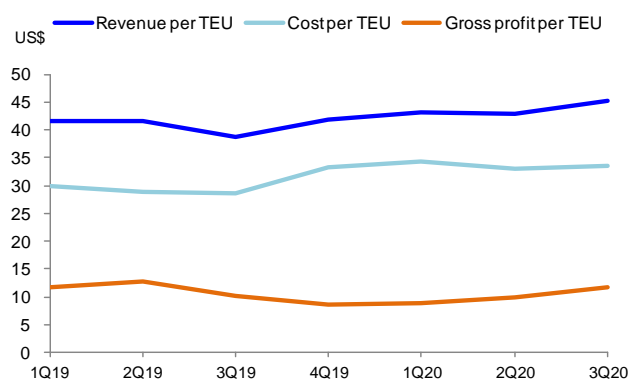
Source: the Company, Guotai Junan International.

Figure-3: CSP's Throughput From Subsidiaries



Source: the Company, Guotai Junan International.

Figure-4: CSP's Revenue/ Cost/ Gross Profit Per TEU



Source: the Company, Guotai Junan International.

We expect refined management to gradually improve the Company's gross profit margin. Based on our calculation, CSP's revenue per TEU was US\$45.2 in 3Q20, while cost per TEU was US\$33.4, representing a gross profit margin of 26.1%. As a container terminal operator, we believe that the Company's gross profit margin has potential to improve through (1) increasing throughput in its newly operating terminals and (2) refinery management. The concept of "cost per TEU" was introduced by the Company to establish operating cost control goals within its subsidiaries. In addition, CSP set a goal to increase its revenue per TEU of its subsidiary by around 4.5% YoY and 2.7% YoY in 2020 and 2021, respectively. CSP aims to increase its box volume proportion from third-party customers (apart from its parent company and OOCL), which is expected to benefit its revenue per TEU. We think that the driven force of CSP has changed from rapid throughput growth to refined operation, thus, we expect a higher gross profit margin going forward.

Increasing investment in Guangxi Beibu Gulf International Container Terminal is expected to drive the Company's future throughput growth. CSP has entered into a capital increase agreement through China Shipping Terminal Development (a wholly-owned subsidiary of the Company) and agreed to subscribe for 26% equity interest in Guangxi Beibu Gulf International Container Terminal through injection of its 40% equity interests in Guangxi Qinzhou International Container Terminal (attributed value of RMB389,062,800) and a cash consideration of RMB486,824,000. After the acquisition, CSP became the second largest shareholder of Guangxi Beibu Gulf International Container Terminal. The acquisition price indicates a PB ratio of approximately 1.96x. Given the high growth of container throughput in the area and trade perspective between China and ASEAN, we think the acquisition price was reasonable. Facing Southeast Asia, Guangxi Beibu Gulf International Container Terminal provides convenient sea gateway in Southern China, in which we believed that it could benefit from "Western New Land and Marine Routes" and "Western China Development" strategy. According to the Ministry of Transport, container throughput in Qinzhou reached 2.7 million TEUs during Jan.-Sep. 2020, representing YoY increase of 32.6%. On the other hand, CSP is expected to record pre-tax gain of approximately US\$8,440,000 from giving its equity interest in Guangxi Qinzhou International Container Terminal as consideration.

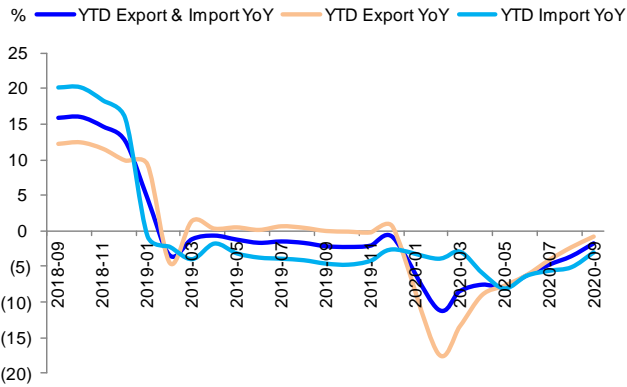
Given CSP's throughput recovery from the pandemic and its strategy to improve efficiency, we revise up earnings forecasts of its net profit to shareholders in 2020. We estimate CSP's revenue to be US\$978 mn, US\$1,046 mn and US\$1,105 mn for 2020-2022, respectively, representing changes of 1.7%, 1.2% and 1.8%. Moreover, we estimate CSP's gross profit margin to be 24.2% in 2020. Given relatively strong growth in throughput from CSP's non-controlling terminals in 3Q20, we expect its profit from associates and joint ventures to stay flat in 2020. Including one-off gains from the disposal of CSP's interests in Yangzhou Yuanyang Terminal, Zhangjiagang Terminal and Jiangsu Yangtze Petrochemical Terminal, we forecast 2020-2022 shareholders' profit of US\$319mn, US\$313 mn and US\$352 mn, respectively. Correspondingly, our forecasted 2020-2022 EPS is US\$0.098, US\$0.094 and US\$0.106, respectively, representing changes of 10.0%, 1.8% and 1.9% in 2020-2022 from our previous estimates. Adjusting for factors including one-off impacts of fair value gain on financial assets, gain on investment remeasurement, and gain on disposals (including the one-off dilution effect of equity interest in QPI in 2019), our forecasted 2020-2022 adjusted shareholders' profit is US\$234 mn, US\$313 million and US\$352 million, respectively, representing YoY growth of -17.1%, 33.6% and 12.5%. In addition, given a strong balance sheet and CSP's strong operating cash flow, the Company should be able to maintain a dividend payout ratio of around 40% in 2020.

Table-1: Earnings Estimates for CSP

US\$ mn	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
	Previous Estimates			New Estimates			Changes		
Revenue	961	1,034	1,086	978	1,046	1,105	1.7%	1.2%	1.8%
Net Profit	290	301	339	319	313	352	10.0%	4.0%	4.1%
EPS (US\$)	0.089	0.093	0.104	0.098	0.094	0.106	10.0%	1.8%	1.9%
Adj. Net Profit	221	301	339	234	313	352	6.1%	4.0%	4.1%

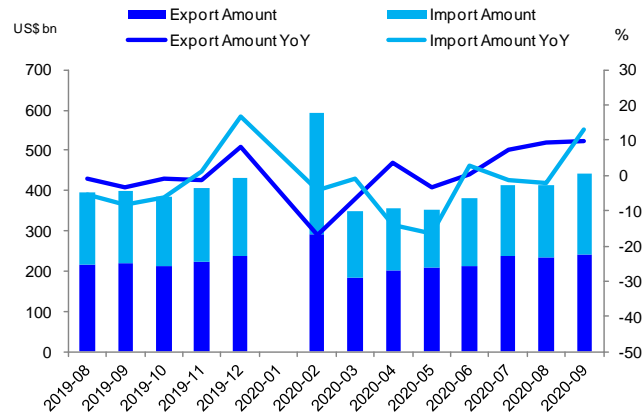
Source: Guotai Junan International.

Figure-5: China Imports and Exports YTD YoY Growth



Source: China Customs.

Figure-6: China Monthly Imports and Exports



Source: China Customs.

Reiterate our "Accumulate" rating given attractive valuation and high dividend yield; revise up TP to HK\$5.35. Prompt recovery of China's manufacturing operations drove Chinese foreign trade to beat expectations for the third quarter, favoring the Company's fundamentals. Given the current condition of the pandemic, China's imports and exports are expected to maintain its momentum in the coming few months, which we think may lead the industry valuation to recover. Given uncertainties regarding COVID-19 resurgence and international trade structure, we think high resilience of the Company's operation is valuable. CSP currently has a strong position in cash which helps effectively resist the changing environment given the pandemic, and prepare for potential value-added acquisitions. As profit contribution from new operating terminals increases and implementation of cost control strategy, the Company's operating profit margin is expected to improve. In addition, reliable high dividend yield of the Company given the background of the COVID-19 pandemic should be attractive. We reiterate our "Accumulate" rating and revise up our TP to HK\$5.35, representing 7.0x/ 7.3x/ 6.5x 2020-2022 PER and 0.4x/ 0.4x/ 0.4x 2020-2022 PBR.

Table-2: Peers Comparison

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)	D/Y(%)	EV/EBITDA	ROA(%)
				19A	20F	21F	22F	19A	20F	21F	22F	20F	20F	20F	20F
HK - Listed Companies															
China Merchants Port Holding	144 HK	HKD	8.19	3.3	8.1	6.8	6.3	0.3	0.4	0.4	0.3	4.5	6.2	10.1	2.4
Cosco Shipping Ports Ltd	1199 HK	HKD	4.72	6.1	6.8	6.7	6.2	0.4	0.4	0.4	0.4	5.3	6.4	15.9	2.9
Dalian Port (Pda) Co Ltd-H	2880 HK	HKD	0.68	10.0	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tianjin Port Dvlp Hlds Ltd	3382 HK	HKD	0.53	8.4	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Qingdao Port International-H	6198 HK	HKD	4.50	6.7	7.1	6.3	5.9	0.9	0.8	0.7	0.7	11.5	5.4	9.0	n.a.
Xiamen International Port-H	3378 HK	HKD	0.65	5.6	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				6.7	7.3	6.6	6.2	0.4	0.5	0.5	0.5	7.1	6.0	11.7	2.7
Weighted Average				6.4	7.4	6.6	6.1	0.5	0.6	0.5	0.5	8.0	5.9	10.6	2.6
China - Listed Companies															
Dalian Port Pda Co Ltd-A	601880 CH	CNY	1.95	32.5	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tianjin Port Co Ltd-A	600717 CH	CNY	4.58	15.3	n.a.	n.a.	n.a.	0.6	0.6	0.6	0.6	3.8	2.0	n.a.	1.7
Rizhao Port Co Ltd -A	600017 CH	CNY	2.72	13.0	9.4	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tangshan Port Group Co Ltd-A	601000 CH	CNY	2.45	8.2	7.7	7.1	6.7	0.8	0.8	0.7	0.7	10.0	3.5	n.a.	7.8
China Merchants Port Group-A	001872 CH	CNY	15.44	9.7	24.5	19.8	17.2	0.8	0.8	0.8	0.8	3.3	n.a.	n.a.	n.a.
Xiamen Port Development Co-A	000905 CH	CNY	6.61	41.0	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jinzhou Port Co Ltd-B	900952 CH	USD	0.25	20.5	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yingkou Port Liability Co-A	600317 CH	CNY	2.57	16.4	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ningbo Zhoushan Port Co Lt-A	601018 CH	CNY	3.71	14.3	16.1	17.7	16.9	1.2	n.a.	n.a.	n.a.	7.2	2.4	n.a.	4.1
Jiangsu Lianyungang Port -A	601008 CH	CNY	3.33	475.7	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				19.0	14.4	14.8	13.6	0.9	0.7	0.7	0.7	6.1	2.6	n.a.	4.5
Weighted Average				15.7	16.6	16.7	15.5	1.0	0.8	0.7	0.7	6.2	2.5	n.a.	4.4
Other Area - Listed Companies															
Piraeus Port Authority Sa	PPA GA	EUR	17.16	12.1	14.0	10.9	10.2	1.8	n.a.	n.a.	n.a.	n.a.	2.7	n.a.	n.a.
Eurokai Kгаа	EUK2 GR	EUR	30.00	9.6	n.a.	30.9	19.1	1.0	1.1	1.1	1.1	(3.4)	n.a.	9.4	(2.4)
Hamburger Hafen Und Logistik	HHFA GR	EUR	14.34	10.1	39.0	14.4	11.3	1.8	1.9	1.8	1.7	4.5	1.7	6.7	0.9
Simple Average				10.6	26.5	18.8	13.5	1.5	1.5	1.4	1.4	0.5	2.2	8.1	(0.8)
Weighted Average				10.5	31.8	16.7	12.5	1.6	1.7	1.6	1.5	2.5	2.0	7.4	0.1

Source: Bloomberg.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (US\$ m)	2018A	2019A	2020F	2021F	2022F	Year end 31 Dec (US\$ m)	2018A	2019A	2020F	2021F	2022F
Total Revenue	1,000	1,028	978	1,046	1,105	Property, plant and equipment	3,057	3,125	3,353	3,545	3,731
Cost of sales	(707)	(755)	(741)	(743)	(774)	Investment in associates	2,579	2,753	2,858	2,879	2,901
Gross profit	294	273	237	303	332	Investment in JVs	1,269	1,278	1,289	1,302	1,315
Administrative expenses	(111)	(124)	(118)	(115)	(113)	Right of use assets	0	938	931	925	918
Other operating income	37	94	119	22	23	Other non-current assets	1,284	910	929	910	892
Other operating expenses	(7)	(31)	(14)	(8)	(8)	Total Non-current Assets	8,189	9,004	9,360	9,560	9,758
Operating Profit	213	213	223	203	234	Cash & Cash Equivalents	543	927	980	774	802
Share of profit of associates and JVs	292	267	268	284	301	Trade and other receivables	235	227	266	234	242
Finance income	12	12	16	14	12	Inventories	14	12	12	13	13
Finance costs	(78)	(109)	(115)	(118)	(110)	Other current assets	64	306	32	33	33
Profit Before Tax	440	384	392	383	437	Total Current Assets	856	1,472	1,291	1,054	1,089
Income Tax	(66)	(34)	(37)	(25)	(34)	Total Assets	9,045	10,477	10,651	10,614	10,848
Profit After Tax	374	350	355	358	403	Short-term bank borrowings	196	509	338	259	305
Non-controlling Interest	(49)	(42)	(35)	(45)	(50)	Trade and other payables	565	587	571	569	568
Shareholders' Profit / Loss	325	308	319	313	352	Other current liabilities	19	77	78	77	77
Basic EPS	0.106	0.098	0.098	0.094	0.106	Total Current Liabilities	781	1,173	986	905	950
						Long-term bank borrowings	2,284	2,408	2,564	2,370	2,281
						Other non-current liabilities	161	1,131	1,138	1,145	1,153
						Total Non-current Liabilities	2,445	3,539	3,702	3,515	3,434
						Total Liabilities	3,226	4,711	4,689	4,420	4,384
						Share capital	40	41	41	41	41
						Reserves	5,125	4,955	5,148	5,335	5,554
						Total Shareholders' Equity	5,165	4,995	5,189	5,375	5,595
						Minority Interest	654	770	773	818	868
						Total Equity	5,820	5,765	5,962	6,194	6,463
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (US\$ m)	2018A	2019A	2020F	2021F	2022F		2018A	2019A	2020F	2021F	2022F
Profit before income tax	440	384	392	383	437	Gross margin (%)	29.4	26.5	24.2	29.0	30.0
Depreciation and amortization	147	190	153	165	177	SG&A ratio (%)	11.1	12.1	12.1	11.0	10.2
Other gain/loss	(232)	(208)	(238)	(180)	(203)	Net income margin (%)	32.4	30.0	32.6	29.9	31.9
Change in working capital	(49)	23	(54)	29	(9)	ROA (%)	3.6	3.2	3.0	2.9	3.3
Interest received	16	17	16	14	12	ROE (%)	6.3	6.1	6.3	5.9	6.4
Tax paid	(56)	(52)	(39)	(23)	(34)	Fixed asset turnover (x)	0.3	0.3	0.3	0.3	0.3
Cash from Operating Activities	266	353	229	388	379	A/R turnover (x)	3.9	4.4	4.0	4.2	4.6
Purchases of fixed assets	(313)	(256)	(366)	(337)	(340)	Current ratio (x)	1.1	1.3	1.3	1.2	1.1
Investment in joint ventures	(60)	0	0	0	0	Quick ratio (x)	1.0	1.0	1.3	1.1	1.1
Investment in associates	0	(81)	(108)	0	0	Total debt / EBITDA (x)	3.6	3.9	4.2	3.9	3.5
Proceeds on disposal of assets	0	52	275	0	0	Net gearing ratio (%)	37.5	39.8	37.0	34.5	31.9
Dividends from associates and JVs	167	235	236	250	265	Interest coverage ratio (x)	8.5	6.3	5.7	5.7	6.6
Others	(25)	(123)	3	3	4						
Cash from Investing Activities	(230)	(172)	39	(84)	(71)						
Change in bank loans	207	462	(6)	(265)	(36)						
Dividends paid	(102)	(106)	(126)	(126)	(133)						
Others	(146)	(134)	(82)	(119)	(112)						
Cash from Financing Activities	(40)	221	(215)	(511)	(280)						
Cash at Beg of Year	560	543	927	980	774						
Effects of changes in exchange rates	(12)	(18)	0	0	0						
Net Changes in Cash	(5)	403	53	(207)	28						
Cash at End of Year	543	927	980	774	802						

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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 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