

## Company Report: AAC Tech (02018 HK)

公司报告: 瑞声科技 (02018 HK)

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# Revenue and Gross Margin to be Under Pressure, "Neutral"

收入和毛利率将承压, "中性"

- AAC Tech's 3Q18 results came in weaker than expected with 28.7% yoy decline in shareholders' net profit, mainly due to a decline in revenue and lower gross margin.** Revenue of the Company decreased by 8.5% yoy to RMB 4,869 million in 3Q2018, mainly due to the weak global smartphone market and intense market competition. Gross margin fell by 4.2 ppt yoy to 37.1% in 3Q2018 due to pressure on price of products as well as the slowdown of product upgrade cycle.
- We cut FY18-FY20 revenue forecast by 7.6%/ 5.9%/ 9.5%, respectively.** AAC is facing intense challenges from competitors in both acoustics and haptics business. Negative effects from intense competition will be partially mitigated by increased penetration of the Company's business in Android smartphones. However, the rising Android business will not completely offset the effects of decline from Apple business.
- We lower FY18-FY20 gross margin forecast by 1.2%/ 1.4%/ 0.4% to 37.1%/ 37.7%/ 38.7%, respectively,** to reflect the impact of pressure on product price and the reduced shipments. Intense market competition will put pressure on the Company's product prices, and less revenue contribution from Apple will also negatively affect gross profit margin recovery.
- We downgrade the Company's investment rating to "Neutral" and cut the TP from HK\$65.00 to HK\$58.00.** We lower FY18-FY20 EPS by 14.9%/ 13.9%/ 13.2%, respectively. The TP represents 14.8x, 12.9x and 11.0x FY18, FY19 and FY20 PER.
- 瑞声科技 2018 年第三季度业绩低于预期, 股东净利同比下降 28.7%, 主要是由于收入的降低和下降的毛利率。** 由于全球智能手机市场的疲弱以及激烈的市场竞争, 2018 年第三季度公司收入同比下降 8.5% 至 48.69 亿人民币。2018 第三季度毛利率同比下降 4.2 个百分点至 37.1%, 主要是由于产品的价格压力以及产品升级周期的放缓。
- 我们下调 2018-2020 财年收入预测 7.6%/ 5.9%/ 9.5%。** 瑞声科技正在面临竞争对手在声学 and 触控业务方面的激烈挑战。公司在安卓智能手机中的渗透率上升部分缓解了激烈的市场竞争带来的负面影响。然而, 安卓业务的增长并不能完全抵消苹果业务下滑的影响。
- 我们下调 2018-2020 财年毛利率预测 1.2%/ 1.4%/ 0.4% 至 37.1%/ 37.7%/ 38.7%,** 以反映产品价格的压力和出货量减少的影响。激烈的市场竞争将对公司的产品价格构成压力, 而苹果收入贡献的减少也会对毛利率的回升造成负面影响。
- 我们下调公司的投资评级为"中性", 目标从 65.00 港元下调为 58.00 港元。** 我们分别下调 2018-2020 财年的每股盈利 14.9%/ 13.9%/ 13.2%。目标价相当于 14.8 倍、12.9 倍和 11.0 倍 2018 - 2020 财年市盈率。

Rating:

**Neutral**

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

**HK\$58.00**

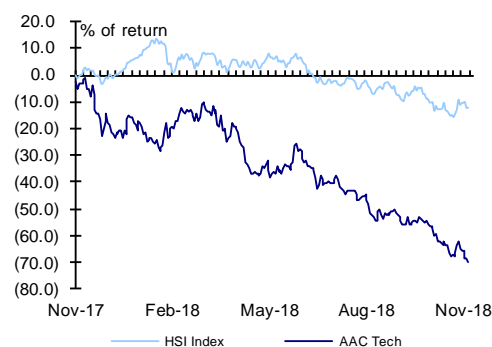
HK\$65.00

Share price 股价:

HK\$53.100

## Stock performance

股价表现



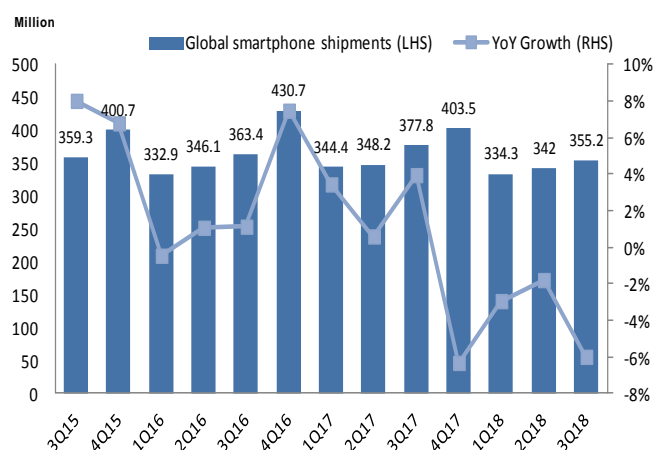
Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	-26.4	-42.6	-70.4
Rel. % to HS Index 相对恒指变动 %	-25.8	-34.4	-58.3
Avg. Share price(HK\$) 平均股价 (港元)	62.2	75.0	116.6

Source: Bloomberg, Guotai Junan International.

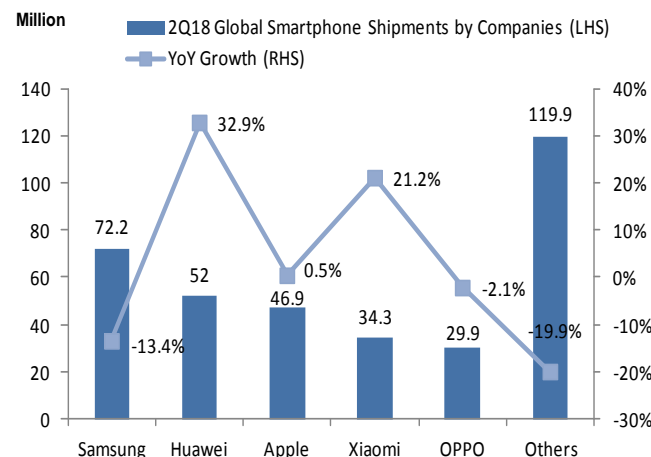
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	15,507	4,026	3.278	29.6	14.5	11.576	4.1	1.274	2.7	31.6
2017A	21,119	5,325	4.347	32.6	10.2	14.328	3.1	1.775	4.0	33.6
2018F	19,623	4,219	3.453	(20.6)	13.5	16.045	2.9	1.442	3.1	22.7
2019F	21,986	4,823	3.947	14.3	11.8	18.571	2.5	1.579	3.4	22.8
2020F	24,642	5,683	4.650	17.8	10.0	21.586	2.2	1.860	4.0	23.2
Shares in issue (m) 总股数 (m)				1,222.0	Major shareholder 大股东		Ms. Ingrid Chunyuan Wu 40.5%			
Market cap. (HK\$ m) 市值 (HK\$ m)				64,888.2	Free float (%) 自由流通比率 (%)		59.5			
3 month average vol. 3 个月平均成交股数 ('000)				7,765.2	FY18 Net gearing (%) FY18 净负债/股东资金 (%)		12.3			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				185.000 / 49.050	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)		68.0			

Source: the Company, Guotai Junan International.

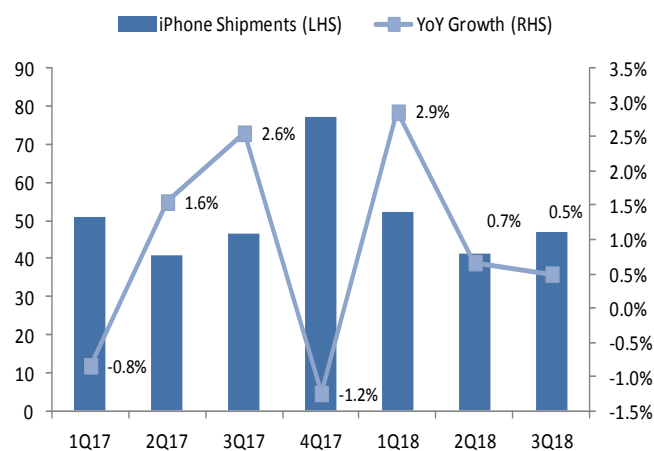
In 3Q2018, global smartphone shipments reached 355 million units, down by 6.0% yoy. Shipments for the global top 5 brands increased by 3.2% while market share increased by 5.9 ppt. Huawei and Xiaomi continued to maintain rapid growth in the third quarter. According to a report from Nikkei Asia Review, Apple told its smartphone assemblers Foxconn and Pegatron to halt plans for additional production lines for iPhone XR. Foxconn initially prepared nearly 60 assembly lines for iPhone XR, but recently only used about 45 production lines due to lower demand from Apple, thus, the Company will be negatively affected by the slowdown in iPhone shipments. However, this will be partially mitigated by rapid growth of Huawei and Xiaomi. In addition, IDC forecasted that the smartphone market will return to growth in 2019, which will benefit the Company's revenue growth.

**Figure-1: Global Smartphone Shipments**


Source: IDC, Guotai Junan International.

**Figure-2: Global Smartphone Shipments by Company**


Source: IDC, Guotai Junan International.

**Figure-3: iPhone Shipments**


Source: IDC, Guotai Junan International.

**AAC Tech's 3Q18 results came in weaker than expected with 28.7% yoy decline in shareholders' net profit, mainly due to a decline in revenue and lower gross margin.** Revenue decreased by 8.5% yoy to RMB 4,869 million in 3Q2018, mainly due to the weak global smartphone market, as well as intense market competition. Revenue from the acoustics segment decreased by 1.2% yoy, mainly due to weak demand from smartphone manufacturers but partially offset by product mix improvement (speaker modules increased by 19.8% yoy). Revenue from the haptics and precision components segment decreased by 21.3% yoy, since limited changes in functionality and design resulted in lower average selling prices and reduced shipments of products. Revenue from MEMS components segment decreased by 11.9% yoy. Optical business revenue grew about 2 times to RMB 174 million thanks to successful business from major Chinese customers and increase in production capacity.

**Gross margin in 3Q18 decreased by 4.2 ppt yoy to 37.1% in 3Q2018 due to pressure on price of products as well as the slowdown of product upgrade cycle.** But compared with 1H18, gross profit margin in 3Q18 slightly increased by 0.3 ppt. Gross margin for the acoustics segment decreased by 4.7 ppt to 38.6%; gross margin for haptics and precision components segment decreased by 3.5 ppt to 38.1%; but gross margin for MEMS components increased substantially by 8.2 ppt to 35.7%, due to the Company's strategy to utilize in-house MEMS and ASIC dies.

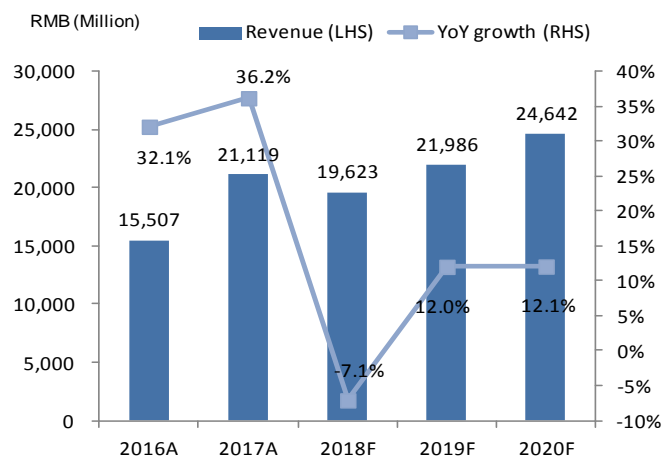
**Table-1: AAC Tech's Income Statement Analysis**

RMB (Million)	3Q18	3Q17	YoY	Comments
Total net revenue	4,869	5,324	(8.5%)	Due to weak market demand
Cost of goods sold	(3,065)	(3,124)	(1.9%)	
Gross profit	1,804	2,199	(18.0%)	
Other income	41	36	14.2%	
Fair value loss on financial assets at fair value	5	0	n.a.	
Distribution & selling expenses	(80)	(104)	(23.3%)	
Administrative expenses	(153)	(170)	(9.9%)	
R&D expenses	(397)	(411)	(3.4%)	
Share of results of associates	0	(2)	n.a	
Exchange gain(loss)	9	(4)	n.a	
Finance costs	(58)	(44)	30.9%	
Profit before tax	1,172	1,499	(21.8%)	
Tax	(198)	(133)	48.8%	
Shareholders' net profit	973	1,366	(28.7%)	
EPS (RMB)	0.796	1.117	(28.7%)	
Gross profit margin	37.1%	41.3%	(4.2ppt)	Due to price pressure and reduced shipments
Net profit margin	20.0%	25.7%	(5.7ppt)	Due to gross profit margin decline

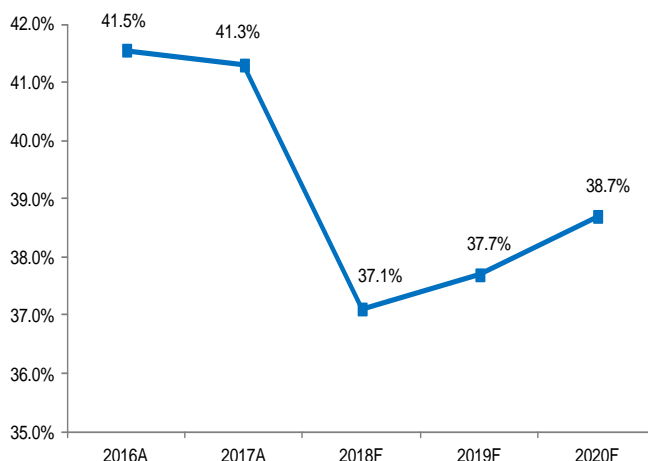
Source: the Company.

**We cut FY18-FY20 revenue forecasts by 7.6%/ 5.9%/ 9.5%, respectively,** to reflect the impact of the weaker global smartphone market and weaker iPhone shipments as well as pressure from competitors. AAC's market share in Apple's supply chain is facing challenges from Goertek and the joint venture company established by Luxshare and Merry. In particular, competition from Luxshare in acoustics and haptics is further intensifying. However, the impact was partially mitigated by increased adoption of innovative solutions from Android smartphones; revenue contribution from Android smartphones increased by 3.6% yoy. An increase in the proportion of speaker modules and wider adoption of Super Linear Structure ("SLS") are also conducive to the development of acoustics business. The Company will launch an upgraded version of SLS for Android flagship smartphone and launch a modified version of SLS for mid-end Android smartphones. Haptic solutions for under-screen-fingerprint and virtual side buttons, audio display, as well as stepping motor modules for new pop-up camera designs in Android smartphones are expected to be growth drivers for the Company. However, expected increased penetration in the Android smartphone market will not completely offset the decline of the Company's business due to Apple's supply chain in the short term. In 3Q18, the optics business still maintained rapid growth, and production capacity will reach 40 million by the end of 2018. However, the optics business accounts for only a small percentage of total revenue at the moment, thus we don't expect optics business to be a major growth engine for the Company's revenue in the short term.

**We lower FY18-FY20 gross margin forecast by 1.2%/ 1.4%/ 0.4% to 37.1%/ 37.7%/ 38.7%, respectively,** to reflect the impact of pressure on product price and reduced shipments. Depreciation of the RMB, more adoption of SLS, deployment in Vietnam, as well as the versatility of the Company's production platform and technology will help gross profit margin to rebound. However, intense competition will keep putting pressure on the Company's product price, which will adversely affect the Company's gross profit margin recovery. On the other hand, the decline in revenue contribution from Apple will also go against to the Company's gross margin recovery, because compared to Android, products sold to Apple generally have higher average selling prices as well as higher gross margin. Thus, we lower FY18-FY20 gross margin forecast by 1.2%/ 1.4%/ 0.4%.

**Figure-4: AAC Tech's Revenue and YoY Growth**


Source: the Company, Guotai Junan International.

**Figure-5: AAC Tech's Gross Margin and YoY Growth**


Source: the Company, Guotai Junan International.

**The Company repurchased 4 million shares.** The Company issued a statement on 11 September 2018 saying that it had repurchased 4 million shares at the price between 52.5 and 57.15 per share, accounting for 0.33% of the issued shares, with a total cost of HK\$223 million. The repurchase showed the confidence of the Company's management in the recovery of future earnings. But we remain conservative on the recovery of the Company's future earnings in the short term.

### Profit Revision

**We cut FY18-FY20 EPS forecast by 14.9%/ 13.9%/ 13.2%, respectively.** We lower FY18-FY20 revenue forecasts by 7.6%/ 5.9%/ 9.5%, respectively, due to weak smartphone market and weak iPhone shipments, as well as intense market competition. We trim FY18-FY20 gross margin forecasts by 1.2 ppt/ 1.4 ppt/ 0.4 ppt due to pressure on product prices. We lower FY18-FY20 shareholders' net profit forecasts by 14.9%/ 13.9%/ 13.2% to reflect pressure on revenue growth and gross margin.

**Table-2: Financial Estimations Revisions**

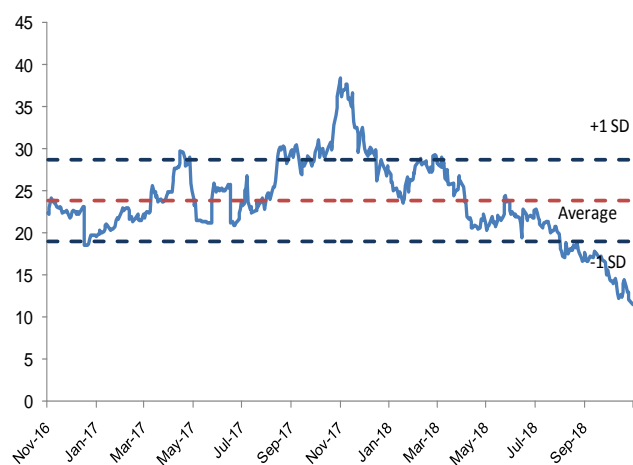
RMB (Million)	OLD			NEW			CHANGE		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total revenue	21,228	23,367	27,218	19,623	21,986	24,642	(7.6%)	(5.9%)	(9.5%)
Shareholders' net profit	4,955	5,601	6,548	4,219	4,823	5,683	(14.9%)	(13.9%)	(13.2%)
EPS (RMB)	4.055	4.583	5.359	3.453	3.947	4.650	(14.9%)	(13.9%)	(13.2%)

Source: the Company, Guotai Junan International.

### Valuation

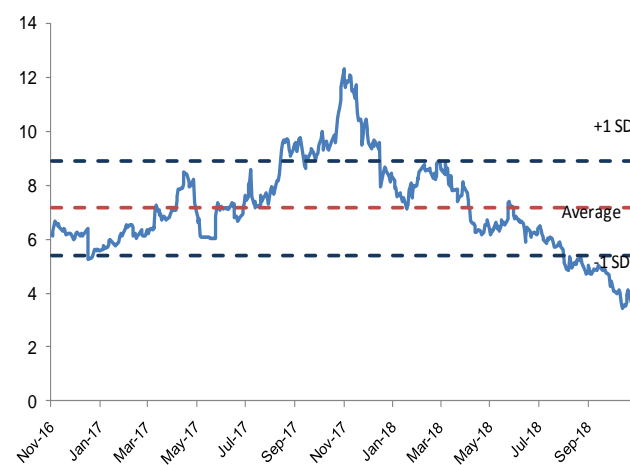
**We downgrade the investment rating to "Neutral" and cut target price from HK\$65.00 to HK\$58.00.** AAC Tech is expected to benefit from growing demand from Android smartphones but will be offset by slower shipments of iPhones. Intense market competition will put pressure on the Company's product prices, shipments, as well as the profitability of the Company. The new TP represents 14.8x FY18 PER, 12.9x FY19 PER and 11.0x FY20 PER.

Figure-6: AAC Tech's PE Graph



Source: Bloomberg, Guotai Junan International.

Figure-7: AAC Tech's PB Graph



Source: Bloomberg, Guotai Junan International.

13 November 2018

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Company Report

**Table-3: Peers Comparison**

Table 3: PRC vs US Comparison													
			Market Cap		PER			PBR			ROE (%)	D/Y (%)	EV/EBITDA
Company	Ticker	Currency	Price	(HKD Mil)	18F	19F	20F	18F	19F	20F	18F	18F	18F
HK Listed Companies													
AAC Techn	2018 HK	HKD	53.100	64,766	13.3	11.6	9.8	2.8	2.4	2.1	23.0	3.2	8.5
Sunny Optical Tech	2382 HK	HKD	71.900	79,960	22.5	16.0	12.3	7.0	5.2	3.9	35.4	1.2	15.9
Truly International Holdings	732 HK	HKD	1.200	3,947	8.4	5.0	4.7	0.4	0.4	0.4	2.6	3.1	4.0
Fit Hon Teng Ltd	6088 HK	HKD	3.640	24,479	13.9	11.9	11.9	1.5	1.4	1.3	11.9	1.9	6.0
Q Technology Group Co Ltd	1478 HK	HKD	4.920	5,444	82.0	15.4	11.2	2.2	1.9	1.6	4.0	0.3	16.3
Tongda Group Holdings Ltd	698 HK	HKD	0.970	6,045	5.2	4.4	3.8	0.9	0.8	0.7	18.1	6.1	4.8
Byd Electronic Intl Co Ltd	285 HK	HKD	10.460	23,839	8.7	7.7	6.9	1.3	1.1	1.0	15.1	1.9	3.9
Simple Average					22.0	10.3	8.7	2.3	1.9	1.6	15.7	2.5	8.5
Weighted Average					17.8	12.6	10.4	4.0	3.1	2.5	24.5	2.1	10.6
PRC Listed Companies													
Goertek Inc -A	002241 CH	CNY	7.540	27,632	15.5	13.1	11.3	1.5	1.4	1.2	10.0	1.2	7.9
Luxshare Precision Industr-A	002475 CH	CNY	15.690	70,535	25.1	18.4	14.4	4.1	3.4	2.8	17.3	0.5	16.2
Shenzhen Sunway Communicat-A	300136 CH	CNY	27.480	29,800	21.0	15.3	12.2	6.7	4.7	3.5	34.7	0.5	17.4
Shenzhen Everwin Precision-A	300115 CH	CNY	9.160	9,531	21.4	14.1	9.1	1.7	1.5	1.3	8.7	1.5	9.3
Lens Technology Co Ltd-A	300433 CH	CNY	8.570	38,030	14.0	11.4	9.6	1.8	1.6	1.4	13.0	1.6	7.4
Shenzhen Deren Electronic -A	002055 CH	CNY	10.300	5,624	35.5	32.2	19.1	2.4	2.3	2.1	6.6	0.5	13.9
O-Film Tech Co Ltd-A	002456 CH	CNY	12.910	38,195	17.7	12.6	9.8	3.2	2.6	2.1	19.2	0.6	9.8
Holitech Technology Co Ltd-A	002217 CH	CNY	4.960	17,410	8.8	6.3	4.9	1.3	1.1	0.9	14.9	1.4	n.a.
Foxconn Industrial Interne-A	601138 CH	CNY	12.590	279,507	14.7	12.9	11.3	4.3	3.3	2.6	34.9	1.8	10.3
Simple Average					19.3	15.2	11.3	3.0	2.4	2.0	17.7	1.1	11.5
Weighted Average					16.8	13.7	11.4	3.8	3.0	2.4	26.9	1.4	11.2
Japan Listed Companies													
Nec Corp	6701 JP	JPY	3,305.000	58,266	18.7	24.8	13.8	1.0	1.0	0.9	5.3	2.0	7.0
Fujitsu Ltd	6702 JP	JPY	7,086.000	97,959	8.6	11.5	11.4	1.3	1.2	1.1	17.2	1.7	4.0
Simple Average					13.7	18.1	12.6	1.2	1.1	1.0	11.2	1.8	5.5
Weighted Average					12.4	16.4	12.3	1.2	1.1	1.1	12.8	1.8	5.1
Taiwan Listed Companies													
Primax Electronics Ltd	4915 TT	TWD	37.500	4,542	8.8	7.8	6.5	1.3	1.1	1.0	15.2	7.4	3.4
Merry Electronics Co Ltd	2439 TT	TWD	123.000	6,006	12.1	9.7	8.6	2.4	2.1	2.0	18.0	8.4	8.1
Largan Precision Co Ltd	3008 TT	TWD	3,050.000	106,218	15.9	13.2	11.2	3.8	3.2	2.7	25.9	2.4	9.8
Simple Average					12.3	10.2	8.8	2.5	2.2	1.9	19.7	6.0	7.1
Weighted Average					15.4	12.8	10.9	3.6	3.1	2.6	25.1	2.9	9.5
US Listed Companies													
Jabil Inc	JBL US	USD	24.160	30,632	48.3	8.1	7.2	2.0	2.0	1.8	4.0	1.1	4.7
Turtle Beach Corp	HEAR US	USD	15.280	1,704	6.0	9.0	8.3	n.a.	n.a.	n.a.	29.0	n.a.	4.0
Knowles Corp	KN US	USD	14.060	9,934	14.3	12.6	10.9	n.a.	n.a.	n.a.	7.8	n.a.	8.0
Simple Average					22.9	9.9	8.8	2.0	2.0	1.8	13.6	1.1	5.5
Weighted Average					38.6	9.2	7.2	2.0	2.0	1.8	5.9	1.1	5.4
Overall Average					18.0	12.7	10.0	2.2	1.9	1.7	15.6	2.5	7.6
Overall Weighted Average					20.2	13.0	10.4	2.9	2.5	2.1	19.0	1.8	8.4

Source: Bloomberg.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Acoustics revenue	7,966	9,580	9,673	10,541	11,344	PP&E	9,494	13,526	15,911	18,366	21,336
Haptic & precision components revenue	6,940	10,496	8,278	9,257	10,432	prepay lease payments	340	538	554	571	588
MEMS components revenue	535	848	856	882	908	Intangible assets	167	256	440	598	719
Others products revenue	75	196	816	1,305	1,958	Others	1,427	1,795	1,854	1,856	1,859
Total Revenue	15,507	21,119	19,623	21,986	24,642	Total Non-current Assets	11,428	16,115	18,760	21,392	24,503
Cost of goods sold	(9,064)	(12,399)	(12,343)	(13,700)	(15,108)	Inventory	2,623	3,398	3,116	3,582	3,964
Gross profit	6,443	8,720	7,280	8,285	9,534	Trade and other receivables	6,156	7,155	7,064	7,695	8,625
Other income & gains	149	171	196	220	246	Cash & Cash Equivalents	3,864	4,034	4,451	4,557	4,759
Distribution & selling expenses	(291)	(365)	(314)	(330)	(345)	Others	186	20	21	22	23
Administrative expenses	(472)	(610)	(589)	(616)	(641)	Total Current Assets	12,829	14,607	14,652	15,857	17,371
R&D expenses	(1,166)	(1,664)	(1,589)	(1,803)	(2,045)	Total Assets	24,257	30,722	33,412	37,249	41,873
Others	37	(91)	72	0	0	Trade and note payables	5,346	6,369	6,418	6,850	7,554
Operating Profit	4,700	6,161	5,056	5,757	6,750	Short term loans	3,303	4,349	3,838	3,646	3,282
Finance costs	(67)	(165)	(206)	(213)	(218)	Others	476	379	396	441	508
Profit Before Tax	4,633	5,996	4,850	5,544	6,532	Total Current Liabilities	9,125	11,097	10,652	10,938	11,344
Income Tax	(609)	(671)	(630)	(721)	(849)	Long term loans	789	1,941	2,982	3,429	3,944
profit After Tax	4,024	5,325	4,219	4,823	5,683	Government grants	80	87	97	110	126
Non-controlling Interest	1	(1)	0	0	0	Others	48	46	74	78	82
Shareholders' Profit / Loss	4,026	5,325	4,219	4,823	5,683	Total Non-current Liabilities	917	2,074	3,153	3,618	4,151
Basic EPS	3.278	4.347	3.453	3.947	4.650	Total Liabilities	10,042	13,171	13,805	14,555	15,495
Cash Flow Statement						Share capital	100	99	99	99	99
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Reserves	14,089	17,452	19,507	22,594	26,279
Profit before tax	4,633	5,996	4,850	5,544	6,532	Total Shareholders' Equity	14,189	17,551	19,606	22,693	26,378
Interest income	(34)	(44)	(45)	(46)	(48)	Minority Interest	26	0	0	0	0
Interest expenses	67	165	206	213	218	Total Equity	14,215	17,551	19,606	22,693	26,378
D&A	962	1,307	1,668	2,009	2,402	Financial Ratios					
Others	(77)	161	215	418	494		2016A	2017A	2018F	2019F	2020F
Changes in working capital	(286)	(1,602)	417	(670)	(612)	Gross profit margin (%)	41.5	41.3	37.1	37.7	38.7
Taxes paid	(453)	(696)	(630)	(721)	(849)	Net profit margin (%)	26.0	25.2	21.5	21.9	23.1
Cash from Operating Activities	4,812	5,287	6,681	6,748	8,137	ROA (%)	19.8	19.4	13.2	13.7	14.4
CAPEX	(3,926)	(4,814)	(4,146)	(4,561)	(5,473)	ROE (%)	31.6	33.6	22.7	22.8	23.2
Others	(191)	(195)	(364)	(382)	(400)	Receivable days	121.8	115.0	132.2	122.5	120.9
Cash from Investing Activities	(4,117)	(5,009)	(4,510)	(4,943)	(5,873)	Inventory days	87.4	88.6	96.3	89.2	91.2
Bank loan change	2,201	2,362	530	255	150	Payable days	97.3	101.2	118.9	110.1	106.7
Dividend paid	(1,314)	(1,662)	(2,164)	(1,736)	(1,998)	Cash conversion cycle	112.0	102.4	109.6	101.6	105.3
Others	(90)	(714)	(206)	(213)	(218)	Current ratio (x)	1.4	1.3	1.4	1.4	1.5
Cash from Financing Activities	797	(14)	(1,839)	(1,694)	(2,066)	Quick ratio (x)	1.1	1.0	1.1	1.1	1.2
Net Changes in Cash	1,491	264	332	112	197	Debt to equity ratio (x)	0.3	0.4	0.4	0.3	0.3
Cash at Beg of Year	2,224	3,864	4,034	4,451	4,557	Net gearing (%)	1.2	13.1	12.3	11.2	9.4
FX change	149	(95)	85	(5)	4						
Cash at End of Year	3,864	4,034	4,451	4,557	4,759						

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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