



Company Report: Baidu (BIDU US)

公司报告: 百度 (BIDU US)

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Healthcare Search Reform and Macroeconomy Negative, But AI Development Positive, "Accumulate"

医疗搜索改革与宏观负面影响，但人工智能发展看好，“收集”

- **3Q18 results were better than expectations with non-GAAP net profit up 46.8% yoy**, driven by news feeds and search marketing business alongside AI-powered monetization capability. Because of increasing investment in traffic acquisition and content development, gross margin reached 49.6% in 3Q18, down 3.1 ppt yoy.
- **We cut FY18-FY20 online marketing revenue estimates by 2.5%/ 12.6%/ 18.0%, respectively, due to 1) regulation impact on industries, such as the games industry and financial services, and 2) healthcare search results structure reform.** However, we expect that revenue impact from the games industry will not be as strong as other industries.
- **We revise down FY18-FY20 operating margin estimates by 2.6 ppt/ 7.0 ppt/ 4.1 ppt, respectively, due to the expected continuing investment in traffic acquisition, content purchases and marketing expense.** However, we believe the increasing investment could amplify Baidu's ecosystem and increase user loyalty.
- **We maintain the investment rating as "Accumulate" but lower TP to US\$210.00.** In view of expected regulation impact, the healthcare search reform and increasing investments, we cut FY18-FY20 non-GAAP earnings per ADS by 10.8%/ 24.7%/ 18.3%, respectively. However, we still maintain a positive outlook on its AI development. The new TP represents 21.0x/ 22.5x/ 18.1x non-GAAP PER from FY18-FY20, respectively.
- 在信息流和搜索引擎以及人工智能赋能货币化的贡献下，**2018 财年第三季度非 GAAP 盈利同比增长 46.8%，业绩好于预期。**2018 财年第三季度毛利率达 49.6%，同比下降 3.1 个百分点，因对流量获取和内容建设而上升的投资支出。
- **我们分别下调 2018-2020 年的在线营销收入 2.5%/12.6%/18.0%，由于 1) 政策对游戏与金融服务等行业的影响与 2) 医疗广告搜索结果的结构化改革。**然而，我们预计游戏行业对百度的广告收入影响将不如其他行业显著。
- **我们分别下调 2018-2020 年营业利润率 2.6 百分点/7.0 百分点/4.1 百分点，由于百度预期加大对流量获取，内容购买投资与市场营销方面的支出力度。**然而我们认为，不断加大的投资可以丰富百度的生态内容并且增加用户黏性。
- **我们维持投资评级为“收集”但下调目标价至 210.00 美元。**由于预计受到政策与医疗搜索改革的影响和不断上涨的投资支出，我们分别下调 2018-2020 年的非 GAAP 每份 ADS 盈利预测 10.8%/24.7%/18.3%。但我们仍然维持对其未来人工智能发展的看好。新目标价分别相当于 21.0 倍/22.5 倍/18.1 倍 2018 年至 2020 年非 GAAP 市盈率。

Rating: **Accumulate**
Maintained
评级: **收集 (维持)**

6-18m TP 目标价: **US\$210.00**
Revised from 原目标价: US\$246.00
ADS price ADS价格: **US\$185.190**

Stock performance



Change in ADS Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(1.8)	(17.5)	(25.8)
Rel. % to NASDAQ Index 相对纳指变动 %	(0.6)	(5.8)	(28.7)
Avg. ADS price(US\$) 平均股价 (美元)	186.9	204.9	233.9

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	Earnings/ADS	Earnings/ADS	PER	BV/ADS	PBR	DP ADS	Yield	ROE
年结	收入	股东净利	每份 ADS 净利	每份 ADS 净利变动	市盈率	每份 ADS 净资产	市净率	每份 ADS 股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	70,549	11,632	31.950	(39.4)	40.3	266.186	4.8	0.000	0.0	13.5
2017A	84,809	18,301	52.751	65.1	22.8	332.169	3.6	0.000	0.0	17.6
2018F	101,312	29,213	83.886	59.0	15.2	407.666	3.1	0.000	0.0	22.1
2019F	117,189	19,875	56.909	(32.2)	22.5	458.338	2.8	0.000	0.0	12.6
2020F	138,371	24,599	70.233	23.4	18.2	524.608	2.4	0.000	0.0	13.7

ADS in issue (m) 总 ADS 数 (m)	348.2	Major shareholder 大股东	Robin Li 16.1%
Market cap. (US\$ m) 市值 (US\$ m)	64,483.2	Free float (%) 自由流通比率 (%)	80.0
3 month average vol. 3 个月平均成交股数 ('000)	2,895.3	FY18 Net gearing (%) FY18 净负债/股东资金 (%)	20.0
52 Weeks high/low (US\$) 52 周高/低 (US\$)	284.220 / 175.320		

Source: the Company, Guotai Junan International.

3Q18 Results Review

Baidu's (the "Company") 3Q18 results were better than the market and our expectations, driven by AI-powered search functions, feeds and new AI business. Total revenue grew 27.2% yoy in 3Q18, driven by news feed advertising and search marketing business alongside AI-powered monetization capability. Gross margin dropped to 49.6% in 3Q18, down 3.1 ppt yoy, due to both relative heavy investment on traffic acquisition and content acquisition. SG&A surged by 50.6% yoy compared to 4.2% in 3Q17. Due to increasing spending on SG&A for the purpose of promoting of both Baidu APP and Baidu Haokan, operating margin dropped by 5.5 ppts to 15.7%. However, due to the disposal of Du Xiaoman and Global Du business, other income grew by 107.6% yoy. Under the disposal, Baidu's 3Q shareholder's net income recorded 55.9% yoy growth to RMB12.4 billion, which was better than market and our expectation by 162.2% and 134.7%, respectively. Non-GAAP net profit grew 46.8% yoy to 6.7 billion, better than market and our expectation by 13.6% and 23.9%, respectively. Because of the policy impact on certain vertical industries, such as gaming, financial industry, real estate, plus the reform of healthcare search system, Baidu announced its revenue guidance for 4Q18 to be between RMB25.48 billion and RMB26.72 billion, representing 15%-20% yoy growth, respectively, which is lower than market and our expectation. Excluding revenues from announced divestures, the guidance represents 20%-26% yoy growth.

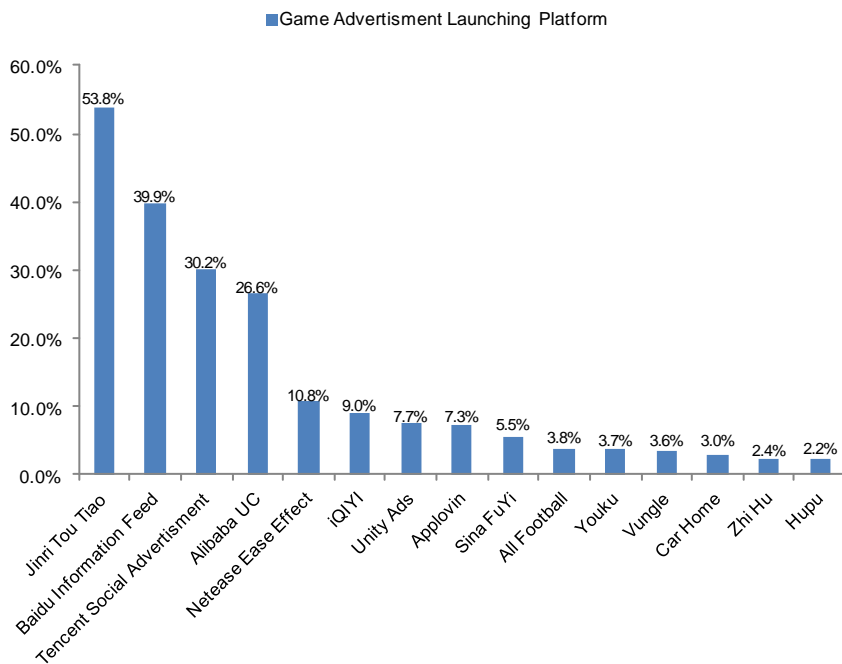
Table-1: Baidu's Income Statement Analysis

RMB (Million)	3Q18	3Q17	YoY	1-3Q18	1-3Q17	YoY	Comments
Total revenue	28,203	22,169	27.2%	75,082	57,813	29.9%	1) Driven by the AI-powered search, feed and new AI business. 2) Due to the robust growth in iQIYI membership
Gross profit	13,985	11,688	19.7%	38,949	29,638	31.4%	
SG&A	(5,641)	(3,746)	50.6%	(13,288)	(9,497)	39.9%	Due to the increased investment in channel and promotional marketing
R&D	(3,916)	(3,242)	20.8%	(11,243)	(9,225)	21.9%	Due to the growth of personnel-related costs
Operating profit	4,428	4,700	-5.8%	14,418	10,916	32.1%	Due to the relative high SG&A expense
Non-GAAP operating profit	5,667	5,541	2.3%	17,552	13,184	33.1%	
Other income	9,021	4,345	107.6%	11,855	5,279	124.6%	Gains from the disposal of Du Xiaoman, the Company's financial
Net profit to Shareholders	12,396	7,949	55.9%	25,492	14,141	80.3%	
Non-GAAP net profit	6,685	4,553	46.8%	18,703	12,514	49.5%	
EPADS (RMB)	35.5	24.3	46.5%	72.7	40.3	80.4%	
Gross profit margin	49.6%	52.7%	-3.1ppt	51.9%	51.3%	0.6ppt	Due to both relative heavy investment on traffic acquisition and content
Non-GAAP operating profit margin	20.1%	25.0%	-4.9ppt	23.4%	22.8%	0.6ppt	
Non-GAAP net margin	23.7%	20.5%	3.2ppt	24.9%	21.6%	3.3ppt	

Source: the Company, Guotai Junan International.

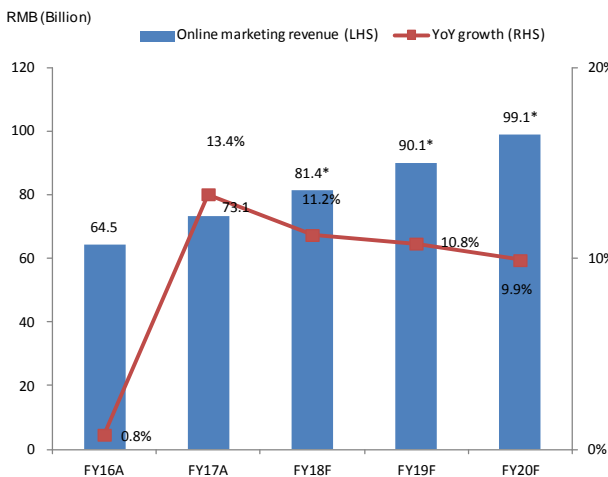
With certain impact from regulations on sectors such as games and financial services, as well as the healthcare search reform by Baidu, we revise down FY18-FY20 online marketing revenue estimates by 2.5%/ 12.6%/ 18.0%, respectively. We believe that the effect of policies on Baidu's game advertisement business has not been as strong as in other sectors in view of the following two aspects: 1) Baidu information feeds make up the second largest game advertisement launching platform, with advertising penetration rate of 39.9% in 3Q18. Under the uncertainty of the reissuance of game licenses, we believe the amount of new releasing games should decrease in 18Q4 and the game advertisers would cut the budget of their advertisement. However, we believe the impact would be much more focused on the tail platforms. 2) Revenue contribution from the gaming sector is limited. With Medical healthcare advertisement, which is around 30% of search top up basis according to the analyst presentation, we expect it would have a negative impact on search advertisement revenue in the short to medium term, but will be positive in the long run. In order to improve the users' experience on medical search and increase conversion rate of health care providers, Baidu has developed a search solution to organize healthcare information into a structured format. Based on the impact of the online marketing revenue, we drive down FY18-FY20 revenue estimates by 2.0%/ 7.6% 8.3%, respectively.

Figure-1: 18Q3 Game Advertisement Launching Platform

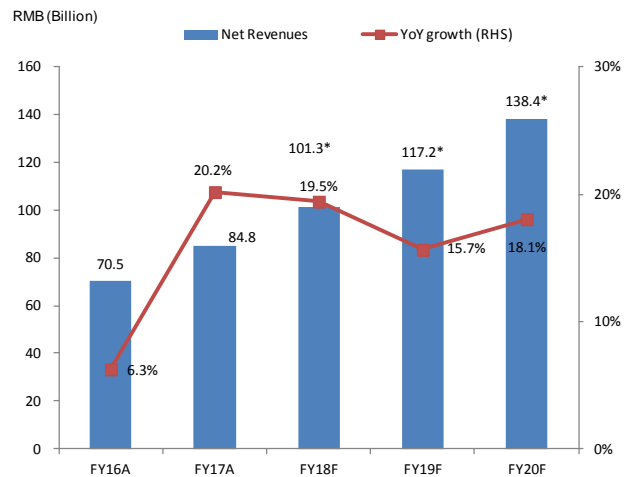


Source: App Growing, Guotai Junan International.

Figure-2: Baidu's Online Marketing Revenue Estimations and YoY Growth Figure-3: Baidu's Revenue Estimations and YoY Growth



Source: the Company, Guotai Junan International.
Notes *: FY18F – FY20F figures are estimated in adjusted Online Marketing Revenue.



Source: the Company, Guotai Junan International.
Notes *: FY18F – FY20F figures are estimated in adjusted revenue

We have revised down FY18-FY20 operating margin estimates by 2.6ppt/7.0ppt/4.1ppt, respectively, due to the estimated continuing investments on traffic acquisition, content purchase and marketing expense. Traffic acquisition cost as a percentage of revenue was 11.0% in 3Q18, up 0.6 ppt qoq. Content costs as a percentage of revenue surged to 23.9% in 3Q18, up 3.8 ppt qoq. Super App is expected to become much favorable by both users and app developers under the background of constant decline of smart phones shipments in China as well as the relative slow growth rate of Chinese Internet user. Baidu is expected to further increase its active users via the following four ways: 1) continue to invest in channel of pre-installation; 2) amply the ecosystem by increasing the investment in the content development, such as BJH; 3) further solidify the position of Baidu app as a supper app; 4) increase the promotion of new Baidu app, such as Hao Kan. Under the expected further investment, we revised down FY18-FY20 gross profit margin by 1.1%/3.9%/1.0%, respectively. Baidu is also expected to transfer from a search platform to a platform synergetic with content and service. We believe the further investment could amplify Baidu's ecosystem and increase users' loyalty, which could further increase Baidu's apps monetization potential.

27 November 2018

Figure-4: Baidu's Operating Costs Analysis

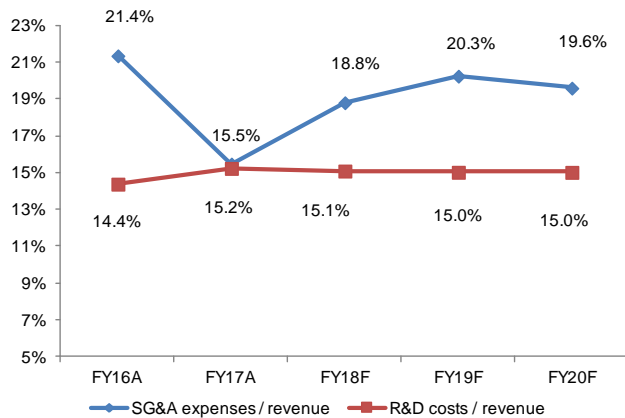
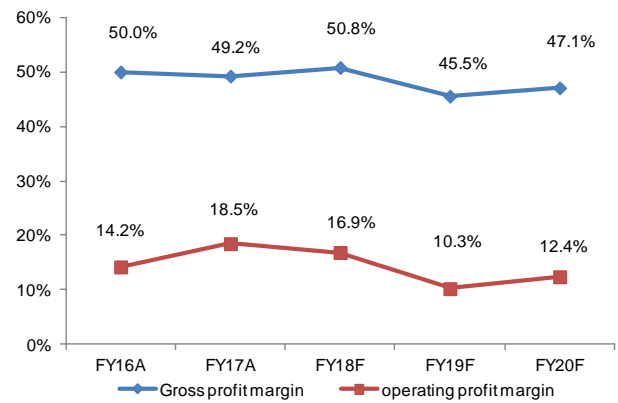


Figure-5: Baidu's Gross Margin and Operating Margin



Source: the Company, Guotai Junan International.

Source: the Company, Guotai Junan International.

Meaningful monetization of DuerOS is expected to start from 2020 by the Company and we estimate more users can be reached by Baidu in the AI era. DuerOS installed base recorded 41.0% qoq growth, reached 141 million in September, while the voice queries on DuerOS surpassed 800 million. The market share of shipment of DuerOS powered smart speaker reach 24% in 3Q18 which is the top in China. DuerOS continued to have collaborations with many different hardware companies, such as Sony, TCL and Skyworth, which would jointly produce DuerOS equipped smart products, such as Sony A9F and Z9F. Besides, as to Apollo, Baidu and First Automobile Workshop (FAW) jointly announced the launch of the new L4 Hongqi autonomous SUV. Baidu and FAW plan to have small batch production at the end of 2019 and mass production in 2020. Baidu also announced to have a deep collaboration with Volvo and would jointly develop L4 autonomous driving passenger cars aiming at mass production. With the increasing user base of DuerOS, increasing multi-scenario application of DuerOS and the collaboration of Apollo system, we estimate that Baidu can expand its ecosystem beyond the mobile bases.

Figure-6: Baidu Business Structure

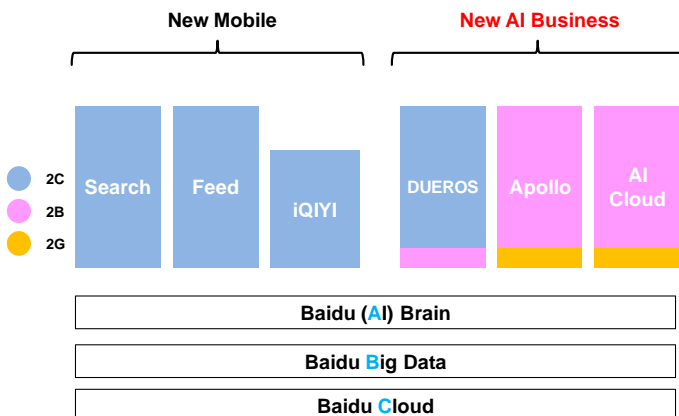
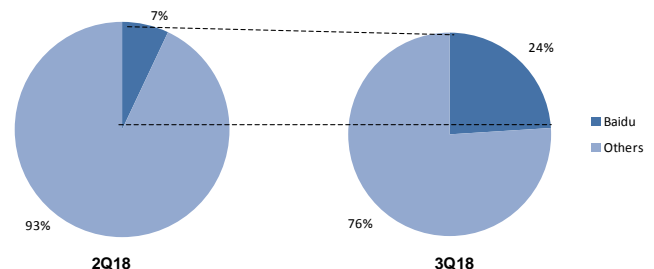


Figure-7: DuerOS – Powered Speakers Shipment Market Share in China



Source: the Company, Guotai Junan International.

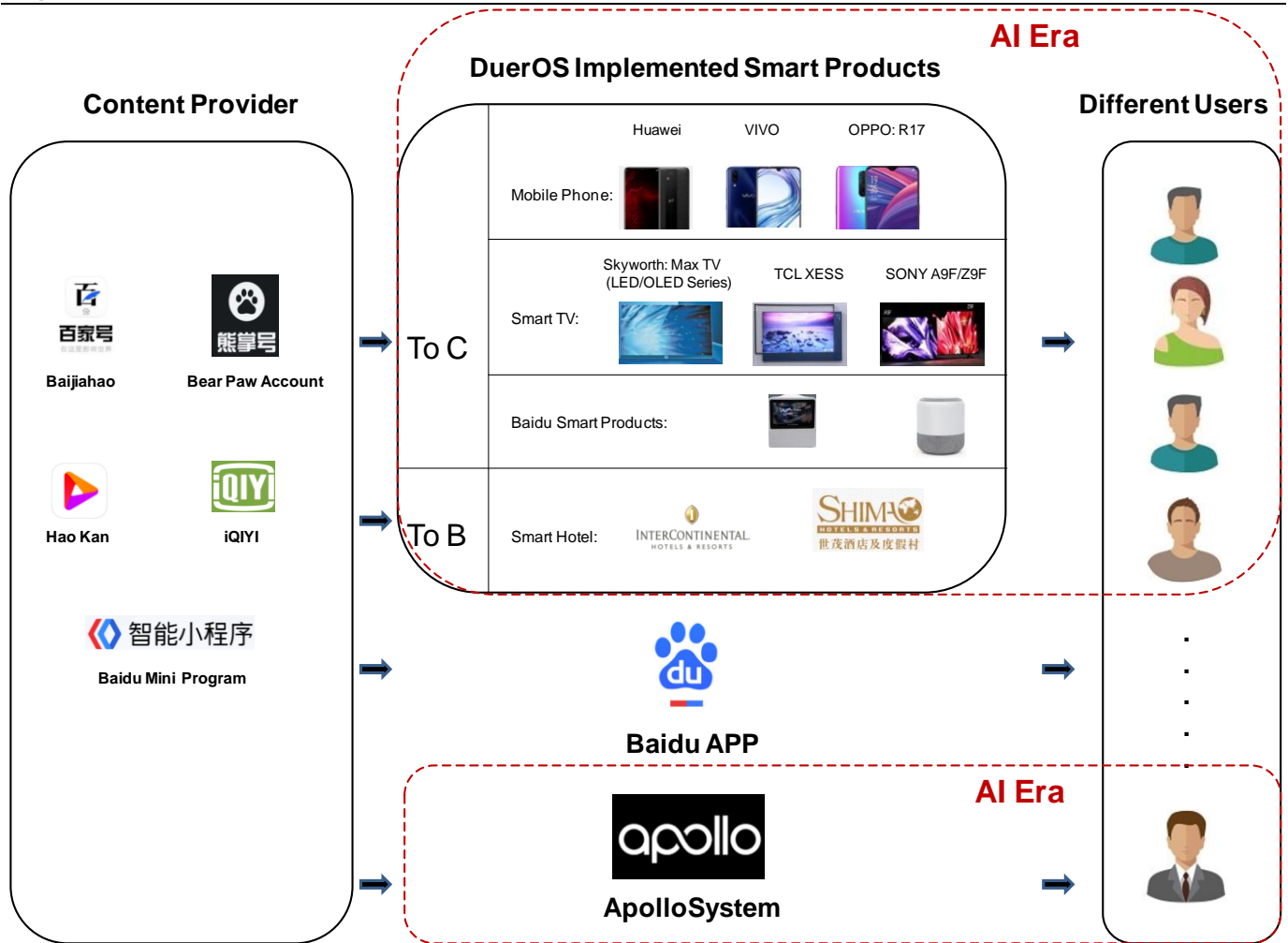
Source: the Company, Guotai Junan International.

See the last page for disclaimer

Baidu 百度 (BIDU US)

Company Report

Figure-8: Baidu User Graph in AI Era



Source: the Company, Guotai Junan International.

Baidu adopted a 2018 share incentive plan, or the 2018 Plan, in third quarter to motivate, attract, and retain the services of the Company's employees and link their personal interests to those of the Company's shareholders. The 2018 Plan has a ten-year term and a maximum number of 3,443,950 Class A-shares, accounted to 8.7% of total ADS, available for issuance pursuant to all awards under the 2018 Plan. The Company may grant options, restricted shares, restricted shares units, and other forms of awards pursuant to 2018 Plan. We believe the share incentive plan has had a positive effect on Baidu's talent management, which further developments are important for AI.

Profit Revision

We cut FY18-20 non-GAAP EPADS by 10.8%/ 24.7%/ 18.3%. With the impact of regulation on certain sectors and the reform of medical healthcare advertisement structure, we revise down the FY18-FY20 online marketing revenue by 2.5%/ 11.2%/ 18.0%, respectively. Due to expected increasing investment on traffic acquisition, content development and promotional marketing expense, we cut operating margin by 2.6 ppt/ 7.0 ppt/ 4.1 ppt, respectively. Baidu is expected to have meaningful monetization of DuerOS on 2020, and we expect that Baidu AI-powered products can reach more users in the AI era.

Table-2: Financial Estimations Revisions

RMB (Million)	OLD			NEW			CHANGE		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total revenue	103,376	126,842	150,942	101,312	117,190	138,372	(2.0%)	(7.6%)	(8.3%)
- Online marketing	83,464	101,480	120,761	81,358	90,126	99,057	(2.5%)	(12.6%)	(18.0%)
- Other services	19,916	25,368	30,189	19,954	27,063	39,315	0.2%	6.7%	30.2%
Non-GAAP Net profit	26,853	29,848	34,393	23,969	22,483	28,099	(10.7%)	(24.7%)	(18.3%)
Non-GAAP EPADS (RMB)	77.1	85.5	98.2	68.8	64.4	80.2	(10.8%)	(24.7%)	(18.3%)

Source: Guotai Junan International.

Valuation

We maintain the investment rating as "Accumulate" but lower down TP to US\$ 210.00. Baidu's online marketing revenue is expected to be effected by the regulation impact on certain industries. The new TP represents 21.0x FY18 non-GAAP PER, 22.5x FY19 non-GAAP PER and 18.1x FY20 non-GAAP PER.

Table-3: Peers Comparison

Company	Ticker	Currency	Price	PER (x)			PBR (x)			P/S	PEG	Market Cap
				18F	19F	20F	18F	19F	20F			
US Online Game Companies												
Changyou	CYOU US	USD	18.210	10.3	9.2	8.9	1.3	1.2	1.1	2.0	1.4	960
Electronic Arts Inc	EA US	USD	84.930	25.1	18.6	16.4	5.7	4.8	4.2	7.3	1.5	25,660
Activision Blizzard Inc	ATVI US	USD	50.910	19.5	18.0	15.9	3.4	2.9	2.6	5.2	1.8	38,847
Netease	NTES US	USD	229.980	24.5	19.7	16.8	4.0	3.4	3.0	3.1	1.2	30,203
Simple Average				19.8	16.4	14.5	3.6	3.1	2.7	4.4	1.5	
Weighted Average				22.5	18.6	16.2	4.2	3.6	3.1	5.1	1.5	
HK Online Game Companies												
Tencent	00700 HK	HKD	298.000	31.7	26.4	20.5	7.5	5.9	4.7	8.0	1.3	2,837,029
Boyya Interactive Int.	00434 HK	HKD	1.640	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,188
IGG	00799 HK	HKD	9.420	7.7	7.0	6.7	4.1	3.0	2.4	1.9	1.0	12,080
Netdragon	00777 HK	HKD	13.780	n.a.	23.2	21.5	1.4	1.3	1.3	1.4	1.1	7,319
Simple Average				19.7	18.9	16.2	4.3	3.4	2.8	3.8	1.1	
Weighted Average				31.6	26.3	20.5	7.4	5.9	4.7	8.0	1.3	
Advertising Companies												
Momo Inc-Spon Adr	MOMO US	USD	30.040	12.4	9.7	7.7	5.4	3.7	2.8	3.1	0.5	6,143
Bilibili Inc-Sponsored Adr	BILI US	USD	14.940	n.a.	n.a.	61.2	4.5	5.2	4.6	7.2	n.a.	4,161
Sohu.Com Inc	SOHU US	USD	20.670	n.a.	n.a.	n.a.	1.5	1.9	2.1	0.4	1.8	805
Weibo	WB US	USD	59.250	22.3	17.1	12.9	6.7	4.8	3.6	7.5	0.7	13,222
Bitauto	BITA US	USD	18.540	13.9	12.8	8.2	0.7	0.7	0.7	0.9	0.5	1,349
Cheetah Mobile	CMCM US	USD	8.160	n.a.	10.7	n.a.	1.6	1.4	1.2	1.6	n.a.	1,160
58.com	WUBA US	USD	55.250	22.7	18.5	13.4	2.6	2.3	2.0	4.3	0.8	8,185
Soufun	SFUN US	USD	1.610	107.3	7.5	5.5	0.9	0.8	0.7	2.1	0.3	716
Phoenix New Media	FENG US	USD	3.510	702.0	48.1	27.9	0.7	0.7	0.7	1.2	1.7	254
Sina	SINA US	USD	62.450	21.1	14.7	10.9	1.4	1.3	1.1	2.1	0.5	4,463
Facebook	FB US	USD	136.380	16.3	16.0	14.1	4.5	3.6	2.9	7.1	2.1	392,502
Simple Average				114.8	17.2	18.0	2.8	2.4	2.0	3.4	1.0	
Weighted Average				17.1	15.9	14.3	4.5	3.6	2.9	6.9	2.0	
E-commerce Companies												
Pinduoduo Inc-Adr	PDD US	USD	21.220	(41.8)	(5,305.0)	21.0	33.9	31.4	15.2	13.5	n.a.	23,507
Alibaba*	BABA US	USD	156.010	29.7	31.0	23.8	6.9	5.9	4.9	11.8	1.0	404,407
VIPSHOP	VIPS US	USD	5.370	9.6	8.5	6.9	1.4	1.2	1.0	0.3	0.5	3,560
EBay	EBAY US	USD	28.800	12.5	11.1	9.8	4.5	4.6	3.2	2.6	1.0	27,729
JD.com	JD US	USD	20.460	88.6	43.6	22.6	3.9	3.7	3.4	0.5	0.9	29,346
AMAZON	MZN US	USD	1581.330	58.1	44.4	32.9	17.7	12.5	8.7	3.3	1.8	773,221
Simple Average				39.7	27.7	19.2	6.9	5.6	4.2	3.7	1.0	
Weighted Average				48.4	39.2	29.1	13.5	9.9	7.2	6.0	1.5	
Search Engine Companies												
Sogou Inc-Adr	SOGO US	USD	5.990	25.5	22.0	16.5	2.3	2.1	1.9	2.1	1.0	2,379
Alphabet Inc-CIA	GOOGL US	USD	1055.940	19.3	18.6	15.2	4.2	3.5	2.9	6.7	1.5	731,640
Baidu Inc - Spon Adr	BIDU US	USD	185.190	18.7	17.5	14.2	2.8	2.4	2.1	4.4	1.3	64,550
Simple Average				21.2	19.4	15.3	3.1	2.7	2.3	4.4	1.3	
Weighted Average				19.3	18.5	15.1	4.1	3.4	2.8	6.5	1.5	
Overall Average				43.0	19.9	16.6	4.1	3.4	2.8	3.9	1.2	
Overall Weighted Average				27.8	23.7	19.0	6.7	5.3	4.1	6.5	1.6	

Source: Bloomberg.

Notes: * represents figures of FY19/FY20/FY21

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
Online marketing services	64,525	73,146	81,358	90,126	99,057	Fixed assets, net	11,294	12,475	13,800	15,216	16,861
Other services	6,024	11,663	19,954	27,063	39,315	Intangible assets, net	3,872	5,467	6,848	8,878	11,284
Total Revenue	70,549	84,809	101,312	117,189	138,371	Investments, net	45,690	56,283	67,540	81,048	97,257
Cost of revenue	(35,279)	(43,062)	(49,845)	(63,814)	(73,233)	Deferred tax assets, net	1,100	1,532	1,925	2,344	2,767
Gross profit	35,270	41,747	51,467	53,376	65,138	Other non-current assets	20,281	24,802	27,294	29,663	32,601
SG&A	(15,071)	(13,128)	(19,059)	(23,738)	(27,130)	Total Non-current Assets	82,237	100,559	117,407	137,148	160,770
R&D	(10,151)	(12,928)	(15,298)	(17,617)	(20,795)	Short-term investments	71,196	89,381	106,774	123,507	145,831
Operating profit	10,049	15,691	17,111	12,021	17,214	Account Receivable	4,109	4,571	5,460	6,316	7,458
Interest income, net	1,184	1,539	1,894	2,855	3,009	Prepaid expenses	3,345	3,425	4,091	4,733	5,588
FX loss, net	508	(482)	(521)	(562)	(607)	Cash & Cash Equivalents	10,898	11,084	31,647	28,897	23,312
Other income, net	4,460	5,592	13,167	8,578	9,833	Others	10,212	42,708	48,037	53,509	60,536
Loss from investment	(1,026)	(63)	(66)	(68)	(71)	Total Current Assets	99,760	151,169	196,010	216,962	242,725
Profit Before Tax	14,509	21,283	30,277	20,599	27,047	Total Assets	181,997	251,728	313,417	354,110	403,496
Income Tax	(2,914)	(2,995)	(4,542)	(3,090)	(4,057)	Accrued expenses & other liabilities	28,655	66,009	75,782	84,135	84,810
Profit After Tax	11,596	18,288	25,735	17,509	22,990	Customers' advances & deposits	6,032	6,785	8,105	9,376	11,070
Non-controlling Interest	37	13	3,478	2,366	1,609	Short-term loans payable	4,583	1,254	3,512	4,063	4,797
Shareholders' Profit / Loss	11,632	18,301	29,213	19,875	24,599	Others	6,832	8,009	9,266	11,604	13,346
Basic EPADS	31,950	52,751	83,886	56,909	70,233	Total Current Liabilities	46,102	82,057	96,665	109,177	114,024
						Change in long term notes	27,648	29,111	33,696	43,140	49,507
						Others	15,996	21,210	24,869	27,515	43,290
						Total Non-current Liabilities	43,644	50,321	58,566	70,655	92,797
						Total Liabilities	89,746	132,378	155,231	179,832	206,821
						Share capital	6,540	13,018	13,907	14,857	15,873
						Reserves	85,734	102,328	134,810	152,319	175,309
						Total Shareholders' Equity	92,274	115,346	148,717	167,176	191,182
						Minority Interest	(23)	4,004	9,469	7,102	5,493
						Total Equity	92,251	119,350	158,185	174,278	196,675
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Profit After Tax	11,596	18,288	25,735	17,509	22,990	Gross margin (%)	50.0	49.2	50.8	45.5	47.1
D&A	3,368	3,775	3,710	4,413	5,244	Operating margin (%)	14.2	18.5	16.9	10.3	12.4
Deferred income tax, net	(14)	(756)	(1,925)	(2,344)	(2,767)	Net margin (%)	16.5	21.6	28.8	17.0	17.8
Share-based compensation	1,760	3,244	2,856	2,199	3,194	ROE (%)	13.5	17.6	22.1	12.6	13.7
Gain on investments	(4,971)	(3,244)	(5,493)	(6,354)	(7,502)	ROA (%)	6.5	7.5	6.4	4.0	5.1
Changes of working capital	5,638	5,812	3,804	3,745	(5,472)	Net gearing (%)	30.5	21.8	8.5	15.9	21.4
Others	4,882	5,761	13,005	15,857	18,977	Debt/equity ratio (%)	42.3	32.1	30.3	33.8	34.2
Cash from Operating Activities	22,258	32,880	41,693	35,026	34,663						
Investing activities											
CAPEX	(4,189)	(4,779)	(5,066)	(5,859)	(6,919)						
Changes of held-to-maturities investments	(1,491)	(6,570)	(7,848)	(9,078)	(10,719)						
Changes of short-term investments	(8,522)	(11,111)	(12,778)	(14,694)	(16,898)						
Changes of other investments	(4,005)	(12,499)	(14,931)	(17,271)	(20,393)						
Changes of micro loans	(4,365)	(23,522)	9,235	16,170	25,000						
Others	(13,340)	(18,454)	(10,690)	(17,777)	(25,633)						
Cash from Investing Activities	(35,911)	(76,935)	(42,078)	(48,511)	(55,562)						
Financing activities											
Changes of loans	3,650	6,069	1,206	1,423	1,679						
Issuance of subsidiaries' shares	661	4,046	15,689	4,680	5,526						
Change of sale of financial products	6,759	18,202	0	0	0						
Change of issuance of convertible notes	0	8,463	0	0	0						
Others	3,376	7,777	5,963	5,969	9,045						
Cash from Financing Activities	14,446	44,557	22,858	12,073	16,251						
Net Changes in Cash	794	502	22,474	(1,412)	(4,648)						
Cash at Beg of Year	9,960	10,898	11,084	31,647	28,897						
FX change	144	(316)	(1,911)	(1,338)	(936)						
Cash at End of Year	10,898	11,084	31,647	28,897	23,312						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: NASDAQ Composite 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: NASDAQ Composite 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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