



Company Report: Xinyi Glass (00868 HK)

公司报告: 信义玻璃 (00868 HK)

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1H21 Results Beat on Hot Float Glass Market, "Accumulate"

浮法玻璃市场火爆，2021年上半年业绩超预期，“收集”

- **1H21 bottom line is expected to increase by 260%-290% YoY and slightly beat our expectation.** The significant improvement in the bottom line was principally due to 1) significant increase of ASP and sales volume of float glass as a result of strong float glass demand in the PRC construction sector, and 2) significant increase in profit contribution from Xinyi Solar.
- **Record-breaking profitability is expected to be maintained in 2H21 despite potential cost pressure.** Based on the recent rebound in inventory level, float glass price may face some short-term pressure after the surge in May. Profitability of the Company's float glass business is expected to stay high given that rising cost will be fully offset by surge in ASP of float glass.
- **We have raised EPS forecasts for 2021/ 2022/ 2023 by 12.0%/ 9.9%/ 8.9%, respectively.** We have mainly 1) lifted revenue and gross margin assumptions for float glass based on the greater-than-expected surge in float glass price, and 2) fine-tuned assumptions for share of results of associates from Xinyi Solar based on its positive profit alert.
- **Raise TP to HK\$34.30 and maintain "Accumulate".** Our SOTP-based TP represents 12.3x/ 11.6x/ 10.7x 2021-2023 PE ratio and 3.9x 2021 PB ratio. Despite cost pressure from rise in soda ash price in 2H21 and potential mid-to-long-term pressure on demand indicated by weak GFA new starts, we believe that the Company's excellent profitability will be maintained in 2H21 thanks to both rise in ASP and expansion of effective capacity.
- **2021 年上半年股东净利预计将同比增 260%-290%并略超我们的预期。** 股东净利大幅提升的主要原因是 1) 由于中国建筑行业对浮法玻璃的需求强劲，浮法玻璃平均售价和销量显著提升，以及 2) 信义光能盈利贡献的大幅增长。
- **尽管有潜在的成本压力，2021 年下半年的盈利能力预计将维持在创纪录的水平。** 基于近期库存水平的回升，浮法玻璃价格在 5 月的大涨后或将面临一定的短期压力。鉴于成本的上升将被浮法玻璃平均售价的上涨所完全抵消，公司浮法玻璃业务的盈利能力预计将保持高位。
- **我们将 2021/ 2022/ 2023 年的每股盈利预测分别上调 12.0%/ 9.9%/ 8.9%。** 我们主要 1) 基于浮法玻璃价格超出预期的大涨，上调了浮法玻璃收入和毛利率的假设，以及 2) 基于信义光能的正面盈利预告，微调了应占联营公司业绩的假设。
- **上调目标价至 34.30 港元并维持“收集”。** 我们基于分部加总估值法的目标价对应 12.3 倍/ 11.6 倍/ 10.7 倍的 2021-2023 年市盈率和 3.9 倍的 2021 年市净率。尽管纯碱价格的上涨将在 2021 年下半年带来成本压力，且新开工面积的疲软预示了需求方面中长期的潜在压力，我们认为得益于平均售价的上涨和有效产能的扩张，公司优秀的盈利能力将在 2021 年下半年维持。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$34.30

Revised from 原目标价:

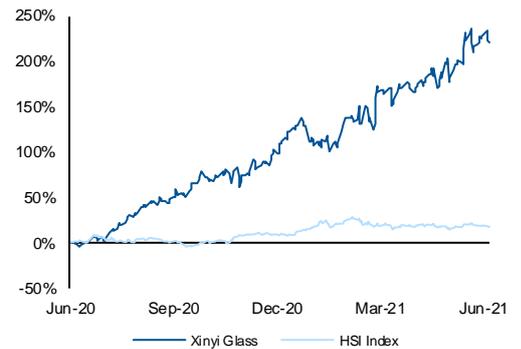
HK\$30.50

Share price 股价:

HK\$29.550

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 %	8.0	18.7	212.7
Rel. % to HS Index 相对恒指变动 %	6.8	20.3	196.0
Avg. Share price (HK\$) 平均股价 (港元)	29.3	26.8	18.8

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\$)	(%)	(%)
2019A	16,258	4,478	1.118	10.6	26.4	5.187	5.7	0.550	1.9	22.7
2020A	18,616	6,422	1.595	42.7	18.5	6.902	4.3	0.790	2.7	26.4
2021F	27,162	11,277	2.788	74.8	10.6	8.821	3.3	1.375	4.7	35.5
2022F	31,887	11,992	2.956	6.0	10.0	10.387	2.8	1.460	4.9	30.8
2023F	35,134	13,028	3.203	8.4	9.2	12.160	2.4	1.580	5.3	28.4
Shares in issue (m) 总股数 (m)			4,052.4		Major shareholder 大股东				LEE Yin Yee	22.5%
Market cap. (HK\$ m) 市值 (HK\$ m)			119,748.4		Free float (%) 自由流通比率 (%)					54.6
3 month average vol. 3 个月平均成交股数 ('000)			8,390.6		FY21 Net gearing (%) FY21 净负债/股东资金 (%)					7.3
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			31.400 / 9.060		FY21 Est. NAV (HK\$) FY21 每股估值 (港元)					36.3

Source: the Company, Guotai Junan International.

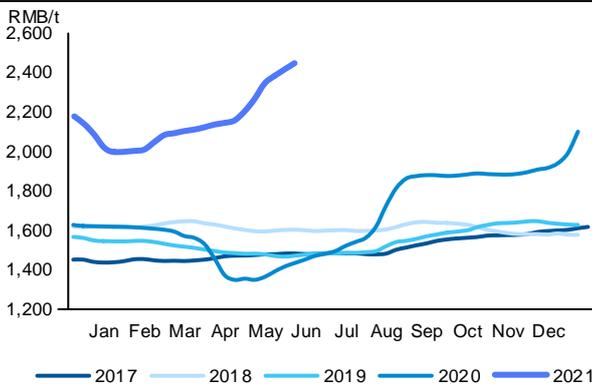
POSITIVE PROFIT ALERT

1H21 bottom line is expected to increase by 260%-290% YoY and slightly beat our expectation. Xinyi Glass (XYG or the "Company") announced a positive profit alert that its 1H21 bottom line is expected to increase by 260%-290% YoY to the range between HK\$4,976.6 million and HK\$5,391.4 million, which slightly beat our expectation. The significant improvement in the Company's 1H21 bottom line was principally due to 1) significant increase of ASP and sales volume of float glass as a result of strong float glass demand in the PRC construction sector, and 2) significant increase in profit contribution from Xinyi Solar (XYS, 00968 HK), the Company's associate company. Driven by increases in sales and profitability of solar glass, XYS expects its 1H21 bottom line to increase by 100%-120% YoY according to its positive profit alert.

MARKET ENVIRONMENT

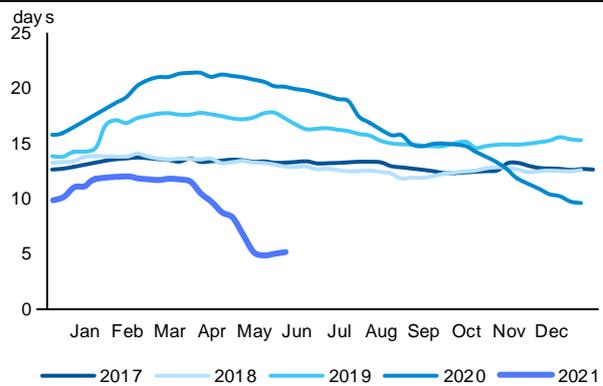
Record-breaking profitability is expected to be maintained in 2H21 despite potential cost pressure. We estimate that YTD national average float glass price in 1H21 will increase by more than 40% YoY. Coupled with RMB appreciation against HKD during the period, we expect XYG's ASP of float glass to increase by around 50% YoY in 1H21. Based on the recent rebound in inventory level, float glass price may face some short-term pressure after the surge in May. For the demand side in 2H21, we maintain our confidence in float glass demand based on steady growth in house sales and construction. However, weak GFA new starts may be a leading signal of a turning point of float glass demand to come in 2022-2023. On the other hand, as most ultra-clear float glass production lines, which had turned to supplying back glass for solar panels, has returned to produce common float glass in 1H21, no further significant supply increase is expected in 2H21. In terms of production cost, we believe that soda ash price will continue to rise in 2H21 due to expected demand shock from rapid capacity expansion of solar glass. However, as we expect the increase in natural gas cost to be relatively mild in 2H21, profitability of the Company's float glass business is expected to stay high given that rising cost will be fully offset by surge in ASP of float glass.

Figure-1: National Average Float Glass Price



Source: Glassinfo, Guotai Junan International.

Figure-2: National Float Glass Production Line Inventory



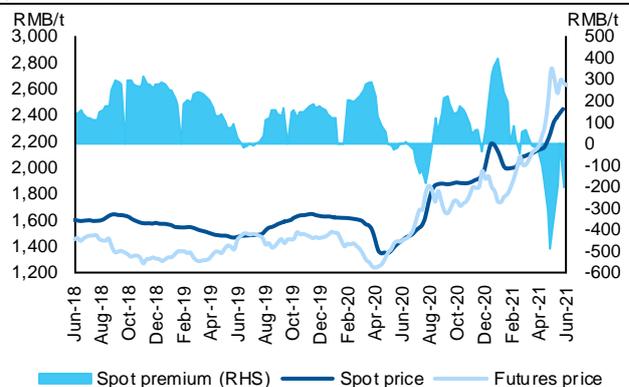
Source: Glassinfo, Guotai Junan International.

Figure-3: National Operating Capacity of Float Glass



Source: Glassinfo, Guotai Junan International.

Figure-4: Spot Premium of Flat Glass Futures



Source: Glassinfo, Zhengzhou Commodity Exchange, Guotai Junan International.

Figure-5: Glass-Natural Gas & Soda Ash Spread Index

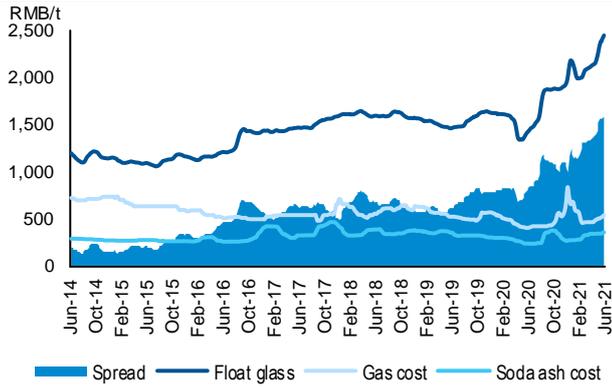
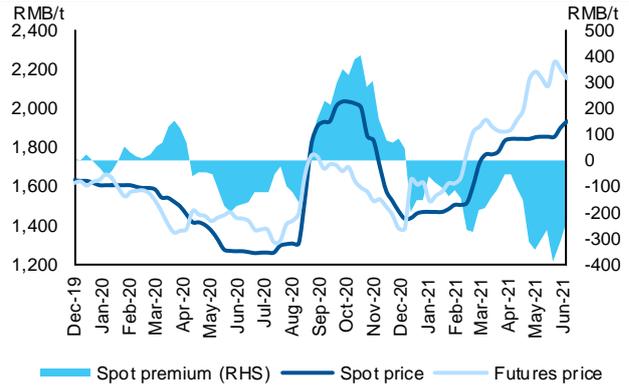


Figure-6: Spot Premium of Soda Ash Futures



Source: Glassinfo, JLC, CCAON, Guotai Junan International.

Source: CCAON, Zhengzhou Commodity Exchange, Guotai Junan International.

EARNINGS FORECASTS

We have raised our EPS forecasts for 2021/ 2022/ 2023 by 12.0%/ 9.9%/ 8.9%, respectively. Main revisions are as follows.

- We have lifted our revenue and gross margin assumptions for float glass based on the greater-than-expected surge in float glass price.
- We have fine-tuned our assumptions for share of results of associates from Xinyi Solar based on its positive profit alert.

Table-1: Changes in Key Assumptions for Financial Forecasts

	New			Old			Change		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Revenue by segment (HK\$ mn)									
Float glass	18,967	22,629	24,766	17,682	20,709	22,705	+7.3%	+9.3%	+9.1%
Automobile glass	5,184	5,671	6,134	5,184	5,671	6,134	-	-	-
Architectural glass	3,010	3,586	4,235	2,911	3,428	3,906	+3.4%	+4.6%	+8.4%
Gross margin by segment									
Float glass	51.9%	49.3%	47.4%	48.4%	47.7%	48.3%	+3.5 pts	+1.6 pts	-1.0 pts
Automobile glass	43.6%	43.6%	42.9%	43.2%	44.4%	45.6%	+0.3 pts	-0.8 pts	-2.7 pts
Architectural glass	42.1%	43.3%	44.9%	40.3%	41.2%	41.8%	+1.8 pts	+2.2 pts	+3.1 pts
Key financials (HK\$ mn)									
Revenue	27,162	31,887	35,134	25,778	29,809	32,745	+5.4%	+7.0%	+7.3%
Gross profit	13,363	15,171	16,261	11,966	13,798	15,404	+11.7%	+10.0%	+5.6%
Shareholders' net profit	11,277	11,992	13,028	10,065	10,910	11,965	+12.0%	+9.9%	+8.9%
Basic EPS (HK\$)	2.788	2.956	3.203	2.488	2.690	2.942	+12.0%	+9.9%	+8.9%

Source: Guotai Junan International.

Figure-7: XYG's Revenue by Segment

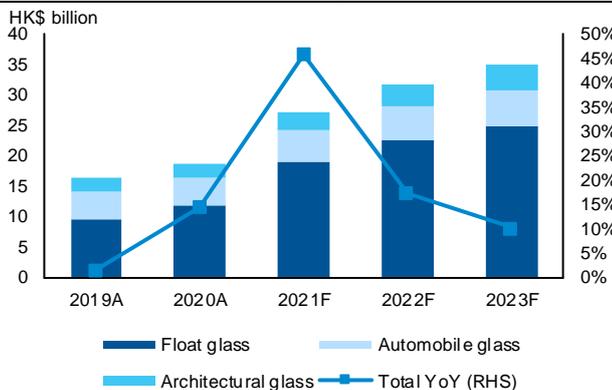
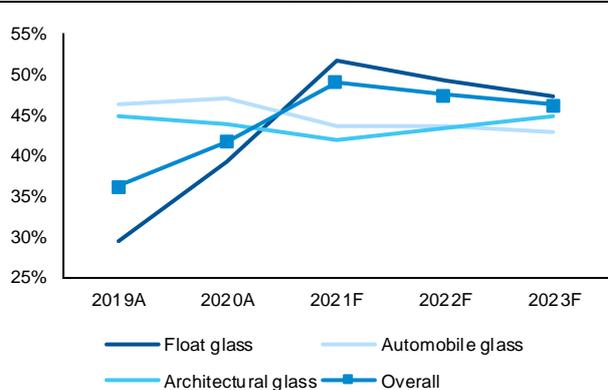


Figure-8: XYG's Gross Margin by Segment



Source: the Company, Guotai Junan International.

Source: the Company, Guotai Junan International.

VALUATION AND RECOMMENDATION

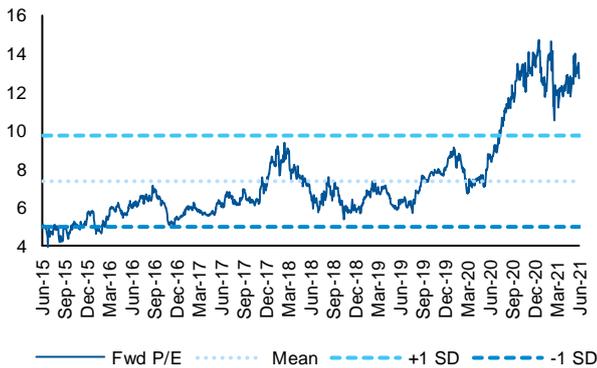
Raise target price to HK\$34.30 and maintain "Accumulate". We derived our target price of HK\$34.30 from sum-of-the-parts (SOTP) valuation. Our target price represents 12.3x/ 11.6x/ 10.7x 2021-2023 PE ratio and 3.9x 2021 PB ratio. Despite cost pressure from further rise in soda ash price in 2H21 and potential mid-to-long-term pressure on demand indicated by weak GFA new starts, we believe that the Company's excellent profitability will be maintained in 2H21 thanks to both rise in ASP and expansion of effective capacity. We maintain our investment rating of "Accumulate".

Table-2: SOTP Valuation for XYG

HK\$ million, unless specified	XYG (ex-XYG)	HK\$ million, unless specified	XYG
Valuation method	PE ratio	Valuation method	Mark to market
XYG's shareholders' profit (2021F)	11,277	XYG's market cap	121,063
(-) Share of profit from XYG (after tax) (2021F)	1,147	(x) XYG's shareholding ratio in XYG	22.86%
XYG's core net profit (ex-XYG) (2021F)	10,131	XYG's market cap attributable to XYG	27,675
(x) XYG's target core 2021 PE ratio	12.5x		
XYG's target core market cap	126,632		
XYG's total target NAV		154,307	
(x 1-) Conglomerate discount		10.0%	
XYG's discounted target NAV		138,876	
No. of shares outstanding (m)		4,052	
Target NAV per share (HK\$)		34.30	

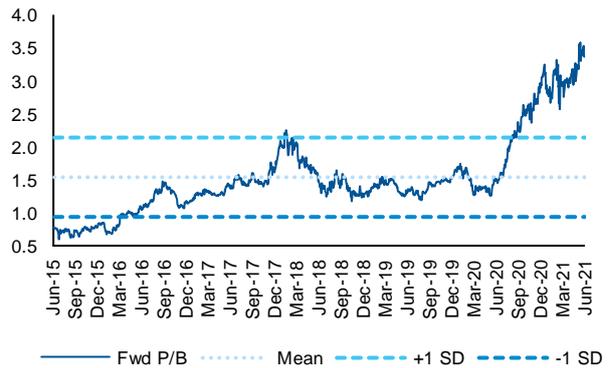
Source: the Company, Guotai Junan International.

Figure-9: XYG's 12-Month Forward PE Ratio



Source: Bloomberg, Guotai Junan International.

Figure-10: XYG's 12-Month Forward PB Ratio



Source: Bloomberg, Guotai Junan International.

Table-3: Peers Comparison

Company	Stock Code	Currency	Last Price	Market Cap (HKD mn)	PE (fiscal year)				PB (fiscal year)				ROE(%)		D/Y(%)		EV/EBITDA
					20A	21F	22F	23F	20A	21F	22F	23F	21F	21F	21F		
Hong Kong Listed Peers																	
Xinyi Glass Holdings Ltd	868 HK	HKD	29.550	119,748	18.5	13.3	12.1	11.6	4.3	3.7	3.1	2.7	29.8	3.7	11.9		
Fuyao Glass Industry Group-H	3606 HK	HKD	49.500	162,829	42.3	25.8	21.1	18.6	4.8	4.3	3.8	3.5	16.8	2.4	20.2		
Luoyang Glass Company Ltd-H	1108 HK	HKD	6.060	7,506	9.1	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
China Glass Holdings Ltd	3300 HK	HKD	1.630	2,951	n.a.	n.a.	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Flat Glass Group Co Ltd-H	6865 HK	HKD	24.350	72,172	26.1	20.5	17.7	13.2	5.8	4.1	3.3	2.8	22.2	1.1	19.3		
Xinyi Solar Holdings Ltd	968 HK	HKD	13.740	121,063	24.8	19.8	19.2	16.3	4.6	3.9	3.4	3.1	20.5	2.2	15.1		
Simple Average					24.2	19.9	17.6	14.9	3.7	4.0	3.4	3.0	22.3	2.3	16.6		
Weighted Average					29.1	20.3	17.9	15.4	4.7	4.0	3.5	3.1	21.8	2.5	16.6		
Mainland China Listed Peers																	
Fuyao Glass Industry Group-A	600660 CH	CNY	54.910	162,830	52.8	35.3	28.6	23.9	6.4	5.6	5.1	4.6	16.3	1.7	20.2		
Zhuzhou Kibing Group Co Ltd-A	601636 CH	CNY	17.030	55,234	24.5	11.8	10.6	9.3	4.8	3.8	3.2	2.7	31.6	4.5	n.a.		
CSG Holding Co Ltd- A	000012 CH	CNY	9.720	26,812	38.9	18.7	14.2	12.5	2.9	2.6	2.3	2.1	13.3	1.2	n.a.		
Luoyang Glass Company Ltd-A	600876 CH	CNY	16.620	7,506		n.a.	n.a.	n.a.	5.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Shandong Jinjing Science-A	600586 CH	CNY	6.600	11,386	28.5	9.3	7.6	6.1	2.2	2.7	2.3	1.8	29.4	4.2	n.a.		
Shanghai Yaohua Pilkington-A	600819 CH	CNY	5.040	5,192	26.5	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Jiangsu Xiuqiang Glasswork-A	300160 CH	CNY	6.090	4,548	30.5	n.a.	n.a.	n.a.	3.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Hubei Sanxia New Building-A	600293 CH	CNY	3.090	4,328		n.a.	n.a.	n.a.	1.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Flat Glass Group Co Ltd-A	601865 CH	CNY	29.890	72,172	36.0	28.1	23.7	17.4	8.4	6.4	4.9	3.8	23.8	0.6	18.9		
Simple Average					34.0	20.6	16.9	13.8	4.1	4.2	3.6	3.0	22.9	2.4	19.6		
Weighted Average					40.6	27.5	22.6	18.4	6.0	5.1	4.4	3.8	20.7	2.0	19.8		
Global Listed Peers																	
Taiwan Glass Industry Corp	1802 TT	TWD	33.350	27,123	39.2	10.8	10.1	n.a.	2.2	1.9	1.7	n.a.	16.1	4.2	7.2		
AGC Inc	5201 JP	JPY	4,900.000	78,198	33.1	11.9	10.9	9.9	1.0	0.9	0.9	0.8	7.9	2.8	5.6		
Central Glass Co Ltd	4044 JP	JPY	2,142.000	6,459	13.5	70.5	21.7	11.1	0.5	0.5	0.5	0.5	0.8	3.2	7.9		
Nippon Sheet Glass Co Ltd	5202 JP	JPY	664.000	4,232	n.a.	n.a.	6.7	7.1	1.4	1.8	1.7	1.4	-49.3	0.0	18.6		
Compagnie De Saint Gobain	SGO FP	EUR	56.410	279,941	66.4	13.4	12.3	11.5	1.7	1.5	1.4	1.3	12.1	2.7	6.6		
Turk Sise Ve Cam Fabrikalari	SISE TI	TRY	8.120	22,288	9.3	6.6	6.1	5.6	1.1	1.1	1.0	0.9	17.6	3.5	4.9		
Simple Average					32.3	22.6	11.3	9.0	1.3	1.3	1.2	1.0	0.8	2.7	8.5		
Weighted Average					54.4	13.5	11.6	10.8	1.5	1.4	1.3	1.2	11.0	2.8	6.5		

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (HK\$ m)	2019A	2020A	2021F	2022F	2023F	Year end 31 Dec (HK\$ m)	2019A	2020A	2021F	2022F	2023F
Total revenue	16,258	18,616	27,162	31,887	35,134	Property, plant and equipment	14,203	17,142	19,199	21,058	23,333
Cost of sales	(10,375)	(10,844)	(13,799)	(16,716)	(18,873)	Right-of-use assets	3,594	3,814	3,942	4,078	4,306
Gross profit	5,883	7,771	13,363	15,171	16,261	Investment properties	1,672	1,734	1,850	1,990	2,187
Other income & gains	1,307	1,353	1,868	983	1,131	Investments in associates	5,554	8,231	9,586	11,138	12,935
Selling & marketing costs	(940)	(959)	(1,244)	(1,410)	(1,533)	Others non-current assets	926	1,209	1,396	1,565	1,702
Administrative & other expenses	(1,692)	(1,805)	(2,029)	(2,153)	(2,272)	Total non-current assets	25,949	32,130	35,974	39,830	44,463
Operating profit	4,558	6,361	11,957	12,590	13,587	Inventories	2,045	2,496	3,322	4,161	4,754
Finance costs, net	(182)	(155)	(143)	(90)	(67)	Trade & other receivables	3,086	4,916	5,971	6,887	7,582
Share of results of associates	640	1,124	1,201	1,321	1,453	Cash & cash equivalents	5,098	5,245	8,900	11,638	15,271
Profit before tax	5,016	7,330	13,015	13,821	14,973	Other current assets	77	284	290	298	300
Income tax	(533)	(899)	(1,721)	(1,813)	(1,927)	Total current assets	10,305	12,941	18,483	22,984	27,907
Profit after tax	4,483	6,431	11,293	12,009	13,046	Total assets	36,254	45,071	54,457	62,813	72,370
Non-controlling interest	(5)	(9)	(16)	(17)	(18)	Trade & other payables	3,349	3,917	4,837	5,546	6,176
Shareholders' profit / loss	4,478	6,422	11,277	11,992	13,028	ST borrowings	4,459	3,779	3,871	4,206	4,681
Basic EPS	1.118	1.595	2.788	2.956	3.203	Other current liabilities	613	998	1,446	1,692	1,862
						Total current liabilities	8,422	8,694	10,153	11,444	12,718
						LT borrowings	6,350	7,795	7,722	8,199	9,040
						Other non-current liabilities	555	609	747	860	955
						Total non-current liabilities	6,905	8,403	8,469	9,059	9,995
						Total liabilities	15,327	17,098	18,621	20,503	22,713
						Share capital	402	404	405	406	407
						Reserves	20,444	27,478	35,324	41,783	49,112
						Total shareholders' equity	20,846	27,882	35,729	42,189	49,519
						Minority interest	81	92	106	121	137
						Total equity	20,927	27,973	35,835	42,310	49,657
						Total equity & liabilities	36,254	45,071	54,457	62,813	72,370
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (HK\$ m)	2019A	2020A	2021F	2022F	2023F		2019A	2020A	2021F	2022F	2023F
Profit before tax	5,016	7,330	13,015	13,821	14,973	Gross margin (%)	36.2	41.7	49.2	47.6	46.3
Depreciation & amortization	1,074	1,170	1,364	1,513	1,654	Operating margin (%)	28.0	34.2	44.0	39.5	38.7
Share of results of associates	(640)	(1,124)	(1,201)	(1,321)	(1,453)	Net margin (%)	27.5	34.5	41.5	37.6	37.1
Changes in working capital	(267)	(1,064)	(981)	(1,061)	(620)	ROE (%)	22.7	26.4	35.5	30.8	28.4
Interest and income tax paid	(910)	(844)	(1,432)	(1,734)	(1,973)	ROA (%)	13.7	16.2	23.0	20.8	19.6
Other adjustments	(494)	(963)	20	(58)	(93)	Net gearing ratio (%)	27.1	22.4	7.3	1.6	Net cash
Cash from operating activities	3,779	4,504	10,785	11,160	12,489	Interest coverage ratio (x)	19.3	39.0	65.6	69.0	68.9
Capital expenditure	(2,875)	(3,199)	(3,051)	(3,194)	(3,416)						
Other investing activities	816	(439)	(82)	(175)	(275)						
Cash from investing activities	(2,058)	(3,638)	(3,133)	(3,369)	(3,691)						
Net changes in borrowings	840	764	18	812	1,316						
Dividends paid	(2,084)	(1,892)	(3,930)	(5,800)	(6,172)						
Other financing activities	108	103	46	43	35						
Cash from financing activities	(1,136)	(1,025)	(3,866)	(4,945)	(4,821)						
Cash at beg of year	4,599	5,098	5,245	8,900	11,638						
Net changes in cash	585	(158)	3,786	2,846	3,977						
Effect of exchange rate changes	(85)	305	(131)	(108)	(344)						
Cash at end of year	5,098	5,245	8,900	11,638	15,271						

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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