

珠江石油天然氣鋼管 (01938.HK)

高風險，高回報

我們認為阻礙珠江鋼管(“珠江”或“集團”)股價上升的主要原因其訂單不明朗，導致集團的盈利前景難以預測。為了克服此障礙，並為珠江鋼管訂定一個合理的未來 12 個月目標價，我們通過情景分析，假設三個不同的銷售訂單狀況，並進一步考慮賣地的可能性。上調至「買入」評級。

高度不明朗 儘管我們對油氣運輸鋼管需求將於 2014 年反彈的可能性保持樂觀，然而這預測的不明朗性極高。基於我們三個不同的情景(「普通」、「悲觀」及「最壞」情景)，預期市盈率將介乎 4.9 倍至 27.6 倍，差異極大。然而，當我們考慮到潛在的土地銷售，集團之估值顯得相當吸引，僅介乎 2.8 倍至 4.4。

計入土地銷售帶來的收益 由於珠江鋼管在賣地後需繳交國內的土地增值稅，相信集團不能把 20.10 億元的賣地收入全部化成盈利。假設 50% 的稅率，賣地的稅後盈利將為 10.05 億元或每股 0.9939 元。由於我們已假設集團於 2014 年成功賣地的機會率為 50%，故此僅 5.025 億元或每股 0.4970 元的盈利被計入我們的估值內。

估值 我們微調 2014 年「普通」情景的假設，從而降低 2014 年的核心每股盈利至每股 0.3974 元。我們把集團核心鋼管製造業務的估值方法由市淨率轉為 11 倍的預期市盈率(石油設備行業的平均值)。基綜合上述因素，我們得出每股 3.47 港元的目標價，這是來自於其核心業務每股 2.84 元(2.244 元)的估值，加上賣地帶來的預期收益 0.629 港元(0.497 元)。目標價較現價有 40% 上升空間，上調至「買入」。

盈利預測及估值

人民幣百萬元	2011	2012	2013E	2014E	2015E
營業額	3377	3926	2,520	5,471	7,345
同比增長(%)	101%	16%	-36%	117%	34%
淨利潤	231	310	111	402	553
同比增長(%)	228%	34%	-63%	262%	38%
每股盈利(元)	0.23	0.31	0.11	0.40	0.55
每股股息(元)	0.05	0.06	0.00	0.00	0.00
市盈率(X)	8.7	6.5	17.9	4.9	3.6
市淨率(X)	0.9	0.8	0.5	0.4	0.4
ROE(%)	10%	13%	3%	8%	10%

資料來源：招商證券(香港)預測

買入

(上次：中性)

目標價：HK\$ 3.47

現價：HK\$2.48

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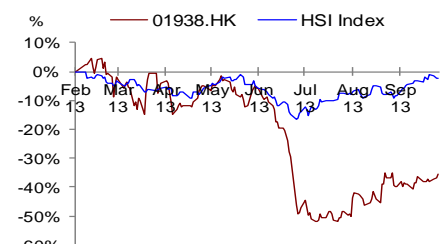
2013 年 10 月 4 日

基礎數據

恒生指數	22,984.48
H 股指數	10,333.59
總股數(百萬股)	
港股股數(百萬股)	1,011.14
港股市值(港元百萬)	2,517.74
每股淨資產(港元)	3.08
主要股東	持股(%)
陳昌	69.42%
自由流通量	30.40%
行業	石油燃氣設備

股價表現

%	1m	6m	12m
絕對表現	4.2	(29.9)	(13.5)
相對恒指表現	0.6	(33.7)	(24.6)



資料來源：彭博

相關報告

1. 珠江石油天然氣鋼管 (01938.HK) – 下半年展望仍然模糊 2013/8/27
2. 珠江石油天然氣鋼管 (01938.HK) – 基於訂單展望不明朗，下調至「中性」 2013/6/25

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (01938.HK)

High risk, high return

We believe that the key obstacle to a potential surge in Chu Kong's share price is the lack of earnings visibility due to sale orders uncertainty. To overcome this obstacle, we apply a scenario analysis, which takes into account three possible sales order outcomes while further incorporating the possibility of a land sale. Although risk still exists, there is tremendous reward given a likely rebound in steel pipe demand during FY14 and/or land sale. Upgrade to BUY.

High uncertainty Although we are optimistic that demand for steel pipes will rebound during FY14, there is still a high level of uncertainty. Based on our three scenarios ("base", "bear", & "worst" cases) forward P/E could range from as much as 4.9x to 27.6x. However, when we consider the land sale, Chu Kong's valuations looks very attractive with P/E ranging between just 2.8x to 4.4x.

Factoring in land sale Chu Kong would probably not be able to capture the full RMB2,010mn gains on the land sale due to the PRC land appreciation tax. If we assume a 50% tax rate, then the net after-tax benefit would be RMB1,005mn or RMB0.9939/share. With a 50% probability of the land sale occurring in FY14, we factor in an expected return of RMB502.5mn or RMB0.497/share in our valuation calculations.

Valuation We fine-tune our base case assumptions, which lowers our core FY14 EPS to RMB0.3974/share (from RMB0.4091/share) and change our valuation methodology from DCF to an 11x forward P/E (oil equipment industry average) for the company's core pipe manufacturing business. We derive Chu Kong's fair value at HK\$3.47/share, whereby its core pipe manufacturing business is worth HK\$2.84/share (RMB2.244/share) and the expected return from the land sale is HK\$0.629 (RMB0.497/share). Given the 40% upside from the current share price we upgrade the stock to BUY.

Financials

RMBmn	2011	2012	2013E	2014E	2015E
Revenue	3377	3926	2,520	5,471	7,345
Growth(%)	101%	16%	-36%	117%	34%
Net profit	231	310	111	402	553
Growth(%)	228%	34%	-63%	262%	38%
EPS(RMB)	0.23	0.31	0.11	0.40	0.55
DPS(RMB)	0.05	0.06	0.00	0.00	0.00
P/E(x)	8.7	6.5	17.9	4.9	3.6
P/B(x)	0.9	0.8	0.5	0.4	0.4
ROE(%)	10%	13%	3%	8%	10%

Source: Company data, CMS(HK) estimates

Buy

(Previous: Neutral)

Target Price: HK\$ 3.47

Current Price HK\$2.48

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4 Oct 2013

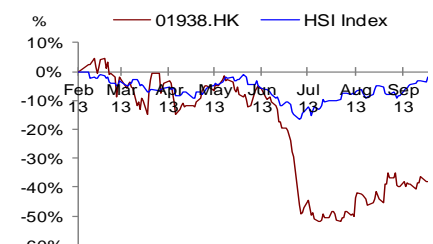
Key data

HSI Index	22,984.48
HSCEI Index	10,333.59
S/O (mn)	1,011.14
Mkt cap (HK\$m)	2,517.74
BVPS (HK\$)	3.08

Major shareholder	Holding (%)
CHEN Chang	69.42%
Free float	30.40%
Industry	Oil & Gas Equip.

Share performance

%	1m	6m	12m
Absolute	4.2	(29.9)	(13.5)
Relative	0.6	(33.7)	(24.6)



Source: Bloomberg

Related research

1. Chu Kong Steel Pipe (01938.HK) – 2H13 earnings visibility still clouded 2013/8/27
2. Chu Kong Steel Pipe (01938.HK) – Downgrade to "Neutral" on sales order uncertainty 2013/6/25

Valuation

Methodology

We believe that the key obstacle to a potential surge in Chu Kong's share price is the lack of earnings visibility due to sale orders uncertainty. In order to overcome this obstacle and determine an appropriate value for Chu Kong's stock over the next 12 months, we apply a scenario analysis that takes into account three possible sales order outcomes ("base", "bear", & "worst" cases) for FY14. Subsequently, we change our valuation methodology from DCF to an 11x forward P/E (oil equipment industry average) applied to the company's core pipe manufacturing business.

We then add the expected return from the sale of the company's 125,000 square-meter land-plot located in Panyu, Guangdong Province factoring a 50% probability of such a sale during FY14.

Although we derive the stock's fair value using an equally-weighted average EPS of RMB0.204/share from our three scenarios, when we look individually at our three cases, we can see there is a wide spectrum in core FY14 EPS (base case: RMB0.3974/share; bear case: RMB0.1435/share; worst case RMB0.0712/share), leading to forward P/E ranging from 4.9x to 27.6x. Hence, there still substantial risk and uncertainty in the stock. However, when we consider the land sale, Chu Kong's valuations looks very attractive with P/E ranging between just 2.8x to 4.4x.

Key assumptions

Base case

FY13 is a particularly bad year for Chu Kong as delays in the tendering of mainland pipeline projects significantly reduced sales for the company (1H13 sales volume dropped an estimated 30%YoY versus one year ago). Our full-year sales forecasts estimate a 35.6%YoY drop in total sales volume with manufacture and sales of the company's key LSAW steel pipes recording a 40%YoY decline to just 270,000 tonnes.

Theoretically, FY14 should see a strong rebound in sales volume since those pipeline projects that were delayed in FY13 would have to play "catchup" in order to meet completion deadlines. Orders from pipeline projects that have already been earmarked in the 12th Five Year Plan, like the China-Kazakhstan crude oil pipeline (Phase 2), the China-Myanmar oil and gas pipeline (domestic section), the Central Asia natural gas pipeline (Phase 2), and the West-to-East Gas Transmission Lines 3 and 4 would be key drivers in a demand resurgence for LSAW pipes. The inclusion of these and other oil & gas pipeline projects would see China's national pipelines reaching 150,000km by 2015 almost double that of 77,000km in 2010.

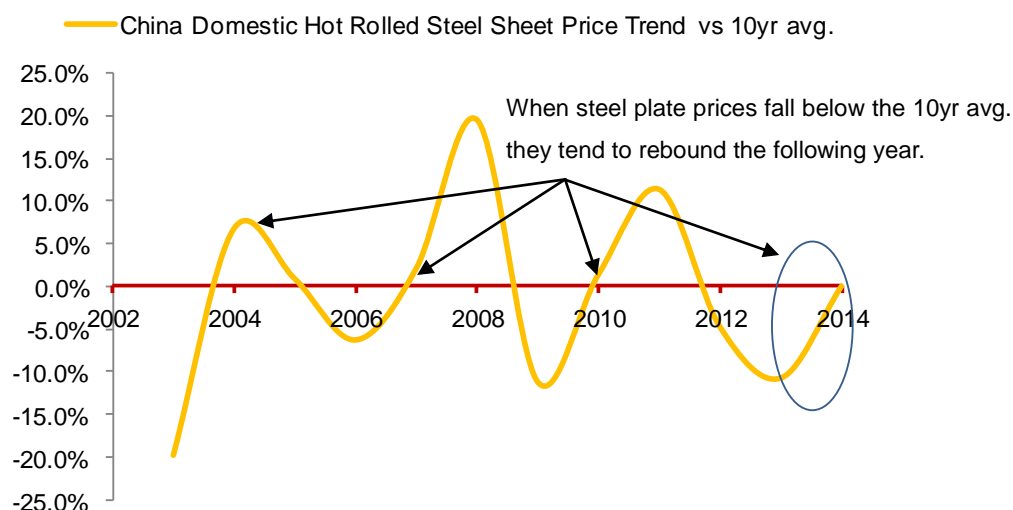
If LSAWs were used for just 20% of the total additional pipe length, it would equate to over 10.6 million tonnes of steel pipes (assuming 40"OD and 1" wall thickness). If Chu Kong has just 20% of the entire Chinese market for LSAW pipes, it would equate to 424,000 tonnes/year of LSAW sales from 2011-2015. This figure is actually consistent with Chu Kong's FY12 LSAW sales volume (448,656 tonnes) prior to any project delays. Hence, for our base case scenario, we fine-tune our previous assumptions such that FY14 LSAW sales will reach 578,000 tonnes (424,000 – 270,000 + 424,000 = 578,000 tonnes), this amount would make up for the FY13 production deficit and keep pipeline projects schedules on time for completion by 2015.

For manufacture and sales of ERW pipes, which are mainly used for city gas pipelines and have not been severely affected by project delays, we assume a 13%YoY increase versus FY13 levels, which follows the average growth in

length of city gas pipelines in China from 2001 to 2011. For manufacturing services for LSAW and ERW pipes, which would also benefit from a rebound in pipe demand, we assume that sales would return to about 90% of FY12 levels, as Chu Kong reduces the volume of third-party manufacturing services in preference of direct sales to end-customers.

In regard to ASP, we use the spot price for Chinese domestic hot rolled steel sheets as a proxy for Chu Kong's selling price. FY13 steel sheet prices are about 10% below the 10yr-average. For FY14 ASP, we assume that prices will rebound 10%YoY across the board from current levels, which should mirror the rebound in steel sheet prices.

Figure 1: Steel price trend



Source: CMS(HK)

Bear case

FY13 is a particularly bad year for Chu Kong, our bear case scenario assumes that the business environment in FY14 will remain the same as FY13, with neither a rebound nor a continual downturn in demand for steel pipes. Under this stagnant environment, our production and ASP assumptions have "no change" versus FY13 (see Fig2).

We believe that this scenario conservatively takes into account the current risks faced by the company by skewing Chu Kong's overall valuation more towards the lower end of the valuation spectrum.

Worst case

For our worst case, we have assumed that the market demand for steel pipes further deteriorates leading to another 30%YoY drop in sales volume during FY14. Furthermore, ASP drops another 10% across the board from FY13 levels due to poor market conditions. This is a particularly harsh scenario and would imply production and ASP reverting to levels not seen since FY10.

Figure 2: Production and ASP assumptions summary

	FY12A	FY13E	FY14E Scenarios		
			Worst	Bear	Base
<i>Sales (tonnes)</i>					
Manufacture and sales of steel pipes					
- LSAW steel pipes	448,656	270,000	189,000	270,000	578,000
- ERW steel pipes	57,650	58,000	40,600	58,000	65,540
Steel pipes manufacturing services					
- LSAW steel pipes	13,853	7,619	5,333	7,619	12,572
- ERW steel pipes	8,176	4,497	3,148	4,497	7,420
<i>ASP (RMB/tonne)</i>					
Manufacture and sales of steel pipes					
- LSAW steel pipes	7,791	7,791	7,012	7,791	8,570
- ERW steel pipes	5,542	5,542	4,988	5,542	6,096
Steel pipes manufacturing services					
- LSAW steel pipes	1,829	1,829	1,646	1,829	2,012
- ERW steel pipes	1,111	1,111	1,000	1,111	1,222

Source: CMS(HK)

Factoring in land sale

Chu Kong changed the use of a 125,000square-meter parcel of land (adjacent to its Panyu manufacturing plant) from industrial to commercial use back in May. The company has already booked a RMB1,538mn property revaluation gain on its unaudited 1H13 comprehensive income statement as well as booking land value of RMB2,010mn (which was determined by independent valuer, RHL) on its balance sheet.

Although management has stated that it currently has no plans to develop the converted site, we believe it's possible that the company may relocate the bulk, if not all, of its LSAW production lines from its Panyu site over to its newly completed manufacturing facilities in Zhuhai. The Zhuhai site, which is adjacent to the shoreline, will have its own berth giving it logistical advantages over the landlocked Panyu site, thus making it the preferred manufacturing facility for the company. Furthermore, if production does not rebound during FY14, it might accelerate a mothballing of the older Panyu site and quicken the plans for land development.

Hence, we have factored in a 50% chance that the company may sell the land during the FY14 financial year.

Putting it all together

If the land sale were to go through, Chu Kong would probably not be able to capture the full RMB2,010mn gain on the sale since there is a PRC land appreciation tax that is levied upon selling the land, set at a progressive rate ranging from 30% to 60% on the appreciated land value. If we assume a 50% tax rate is levied upon the land sale, then the net after-tax benefit to Chu Kong would be RMB1,005mn or RMB0.9939/share. Given that we have assumed only a 50% probability of the land sale occurring in FY14, we can only include an expected return of RMB502.5mn or RMB0.4970/share in our valuation calculations.

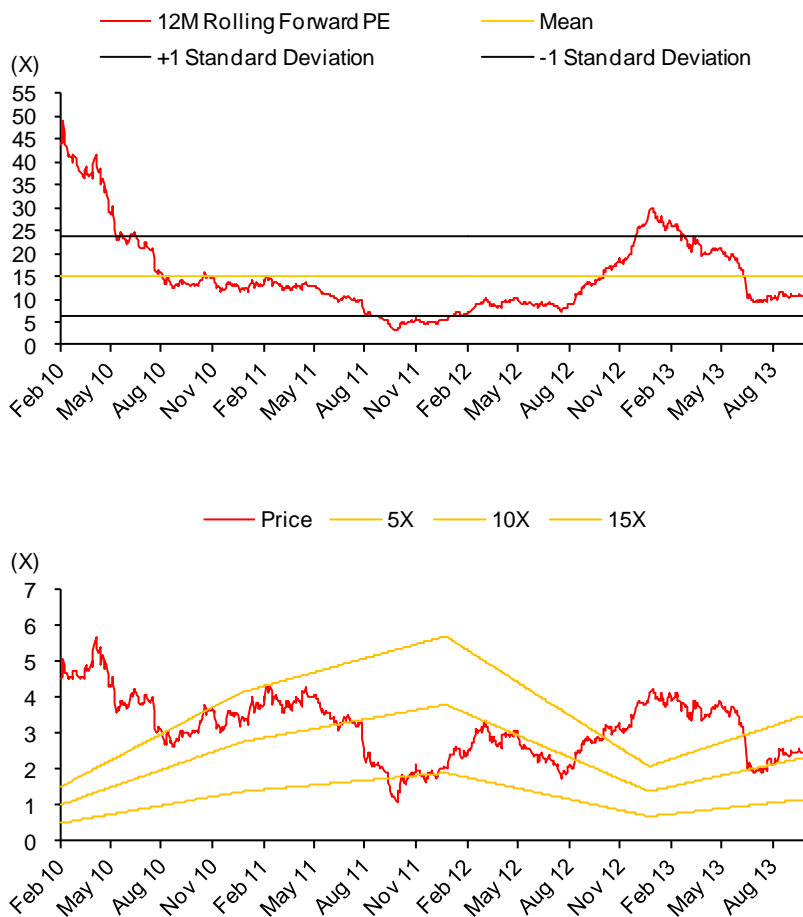
Putting it all together, we change our valuation methodology from DCF to an 11x forward P/E (oil equipment industry average) for the company's core pipe manufacturing business. We derive Chu Kong's fair value at HK\$3.47/share, whereby its core pipe manufacturing business is worth HK\$2.84/share (RMB2.244/share) based on the equal-weighted average EPS of all three cases and add the expected return from the land sale, HK\$0.629 (RMB0.497/share). Given the 40% upside from the current share price we upgrade the stock to BUY.

Figure 3: Results of each scenario

RMB '000	FY14E			Fair Value Calculations	
	Worst	Bear	Base		
Turnover	1,623,850	2,528,058	5,471,474		
Cost of sales	(1,367,020)	(2,125,345)	(4,570,923)		
Gross profit	256,830	402,712	900,552		
Gross margin (%)	15.8	15.9	16.5		
Other Income	15,857	16,623	19,125		
Operating expenses	(103,277)	(160,784)	(347,986)		
Operating profit	169,407	258,551	571,691		
Operating margin (%)	10.4	10.2	10.4		
Net finance costs	(81,642)	(81,642)	(81,642)		
Profit before taxation	87,765	176,908	490,048		
Income-tax expenses	(15,798)	(31,843)	(88,209)		
Tax rate (%)	18.0	18.0	18.0		
Profit attributable to equity shareholders	71,967	145,065	401,839		
Core business EPS (RMB)	0.0712	0.1435	0.3974	Equal-weighted avg. EPS (RMB/share)	0.204
P/E at current share price (x)	27.6	13.7	4.9	Fair value of core business at 11x fwd P/E (RMB/share)	2.244
Expected return from land sale (RMB/share)	0.497	0.497	0.497	Expected return from land sale (RMB/share)	0.497
EPS including land sale	0.568	0.640	0.894	Total fair value of the company (HK\$/share)	HK\$3.47 or (RMB2.741)
P/E (including land sale) at current share price (x)	4.4	3.9	2.8		

Source: CMS(HK)

Figure 4: Chu Kong forward P/E bands



Source: The Company and CMS(HK)

Figure 5: Peer Analysis

Company	Stock Code	Share price (LC\$)	Market cap (HK\$m)	Gross margin (%)	Operating margin (%)	Net margin (%)	ROAA (%)	ROAE (%)
HK-listed Oil Equipment Providers								
Shangdong Molong – H	00568 HK	2.44	7,031	10.9	5.5	4.6	1.8	3.6
Anhui Tianda Oil Pipe Co - H	00839 HK	1.29	1,290	6.0	1.0	0.89	1.1	1.5
Shengli Oil & Gas Pipe	01080 HK	0.42	1,017	3.7	2.8	3.27	1.6	3.0
Hilong Holding	01623 HK	4.62	7,806	39.5	22.3	15.2	7.9	14.7
Jutal Offshore Oil Service	03303 HK	1.55	1,118	21.7	4.1	6.80	4.0	5.6
Average				16.4	7.2	6.1	3.3	5.7
Chu Kong Steel Pipe	01938 HK	2.48	2,518	17.0	11.5	7.9	2.6	7.0

Company	Free cash flow yield (%)	Net Debt to Equity (%)	Div. yield (%)	FY1 P/E (X)	FY2 P/E (X)	P/B (X)	FY2 EPS growth (%)	2-yr forward EPS CAGR (%)
Shangdong Molong – H	(43.5)	38.9	2.6	N/A	N/A	0.5	N/A	N/A
Anhui Tianda Oil Pipe Co - H	N/A	(1.8)	3.1	N/A	N/A	0.4	N/A	N/A
Shengli Oil & Gas Pipe	N/A	36.3	2.1	14.1	13.5	0.4	4.3	(1.1)
Hilong Holding	(1.7)	28.9	1.6	15.2	11.3	2.5	35.1	23.9
Jutal Offshore Oil Service	(8.1)	2.1	1.3	11.1	8.2	0.9	34.9	51.1
Average	(17.8)	20.9	2.1	13.5	11.0	1.0	24.8	24.6
Chu Kong Steel Pipe	N/A	98.7	3.1	17.9	4.9	0.4	261.9	13.8

Sources: CMS(HK)

Appendix: Financial summary
Statement of financial position

RMBmn	2011	2012	2013E	2014E	2015E
Current Assets	3485	3834	2816	3849	4503
Cash & equivalents	982	1039	724	817	1267
Trading investments	0	0	0	0	0
Trade notes	0	0	0	0	0
Trade receivables	803	1386	898	1304	1207
Other receivables	0	0	0	0	0
Inventories	1190	808	593	1127	1428
Other current assets	510	601	601	601	601
Non-current assets	1946	2947	5254	5504	5604
Investment property	2	2	2016	2016	2016
PPE	1420	2211	3011	3261	3361
Intangible assets	4	4	4	4	4
Other non-current assets	519	730	223	223	223
Total assets	5431	6781	8070	9354	10108
Liquid Liabilities	2464	2586	2128	2866	2918
Bank loans	1435	1163	1163	1163	1163
Trade payables	667	864	563	1064	1176
Prepaid Accounts	0	0	0	0	0
Other liquid liabilities	363	559	401	638	579
Long term Liabilities	769	1734	1682	1630	1578
Loans	732	1636	1584	1532	1480
Others	36	98	98	98	98
Total Liabilities	3233	4321	3810	4497	4496
Issued capital	89	89	89	89	89
Retained Earnings	850	1131	1242	1644	2197
Reserves	2062	2309	4171	4768	5523
NCI	0	0	0	0	0
Parents	2198	2460	4260	4857	5612
Total equity and liabilities	5431	6781	8070	9354	10108

Statement of cash flows

RMBmn	2011	2012	2013E	2014E	2015E
CF from OA	1	587	536	389	614
PBT	280	381	135	504	694
D&A	42	61	181	196	202
Finance costs	7	8	(62)	(67)	(64)
Investment income	0	0	0	0	0
Changes of WC	(354)	106	245	(221)	(156)
Others	26	32	38	(24)	(61)
CF from IA	(686)	(1,022)	(800)	(250)	(100)
Capital expenditure	(461)	(844)	(800)	(250)	(100)
Other investments	(226)	(178)	0	0	0
CF from FA	1,071	493	(52)	(52)	(52)
Borrowings	1,071	665	(52)	(52)	(52)
Share capital	0	0	0	0	0
Changes of reserves	172	172	111	414	569
Dividends	(22)	(47)	0	0	0
Others	(151)	(297)	(111)	(414)	(569)
Net cash flow	386	58	(316)	87	462

Statement of comprehensive income

RMBmn	2011	2012	2013E	2014E	2015E
Revenues	3377	3926	2520	5471	7345
Cost of sales	(2867)	(3259)	(2165)	(4571)	(6130)
Sales taxes	0	0	0	0	0
Op expenses	(2)	20	(34)	(105)	(160)
Admin exp	(166)	(217)	(101)	(219)	(294)
Financial	(65)	(77)	(83)	(82)	(80)
Impairments	0	0	0	0	0
FV changes	0	0	0	0	0
Others	(3)	(6)	(2)	(5)	(7)
Op Profit	339	464	219	572	754
Non-op inc	0	0	0	0	0
Non-op exp	0	0	0	0	0
PBT	280	381	135	490	674
Taxes	(49)	(71)	(24)	(88)	(121)
Net Profit	231	310	111	402	553
NCI	0	0	0	0	0
Parents	231	310	111	402	553
EPS - (RMB)	0.23	0.31	0.11	0.40	0.55

Ratios

	2011	2012	2013E	2014E	2015E
YoY growth					
Revenue	100.8%	16.3%	-35.8%	117.1%	34.2%
Op profit	199.5%	170.4%	-53.7%	161.5%	31.9%
Net profit	228.5%	34.4%	-62.8%	261.9%	37.5%
Profitability					
Gross	15.1%	17.0%	14.1%	16.5%	16.5%
NP margin	6.8%	7.9%	4.4%	7.3%	7.5%
ROE	10.5%	12.6%	2.6%	8.3%	9.8%
ROIC	6.3%	6.9%	2.5%	6.1%	7.3%
Liquidity					
D/A	39.9%	41.3%	34.0%	28.8%	26.2%
ND/A	21.8%	24.2%	23.6%	18.8%	12.4%
Liquid ratio	1.4	1.5	1.3	1.3	1.5
Quick ratio	0.9	1.2	1.0	0.9	1.1
Operating efficiency					
Asset	0.6	0.6	0.3	0.6	0.7
Inventory	151.6	90.5	100.0	90.0	85.0
AR turnover	86.8	128.8	130.0	87.0	60.0
AP turnover	84.9	96.7	95.0	85.0	70.0
Per share ratios(RMB)					
EPS	0.23	0.31	0.11	0.40	0.55
CFS	(0.68)	(0.43)	(0.26)	0.14	0.50
BVPS	2.24	2.43	4.21	4.80	5.55
DPS	0.05	0.06	0.00	0.00	0.00
Valuation					
PE	8.6	6.4	17.9	4.9	3.6
PB	0.9	0.8	0.5	0.4	0.4
EV/EBITDA	6.5	4.9	6.3	3.3	2.6

Source: Company data, CMS(HK) estimates

RATING DEFINITION & DISCLAIMER

RATING	DEFINITION
BUY	Expected to outperform the market index by >10% over the next twelve months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next twelve months
SELL	Expected to underperform the market index by >10% over the next twelve months

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