

24 May 2018

Technology | Software & Services

Kingsoft

Buy (Maintained)

New Games To Boost Visibility

Maintain BUY, with a new HKD32.50 TP from HKD34.20 implying a 41% upside. Kingsoft's 1Q non-GAAP earnings plunged 52% YoY on weak online game revenue. While 2Q will be challenging for the same reason, we expect its new mobile games to drive a strong 2H. For the first time, management shared the launch period of a game – JX Online 3 Mobile will make its debut in early September, which gives us more confidence in Kingsoft's visibility in 2H. We also see strong growth ahead, for its office software businesses.

New mobile games to boost 2H earnings. Kingsoft aims to launch *JX Online 3 Mobile* in early September and *Yunshangyuyi* (YSYY) by end-June. We expect monthly gross billings for the former to be over CNY500m in the first month, before stabilising at >CNY300m. For YSYY, we expect monthly gross billings to be CNY100-200m in the first month, before settling at c.CNY100m for the remainder of this year. The date of *JX Online II Mobile*'s launch is still uncertain, but it is highly likely to be this year. As such, we forecast Kingsoft to book CNY1.8bn in revenue from its mobile games segment for FY18 (+64% YoY), with CNY1.35bn delivered in 2H.

PC games revenue should also improve in 2H as its flagship *JX Online III* PC game will have an extension pack and anniversary promotion in 2H. However we still expect its PC game revenue to decrease YoY in FY18, as we forecast that its major revenue contributor, *JX Online III* for PC, could record CNY1.6bn in revenue, compared with CNY1.8bn in FY17.

More foreseeable growth from office software business. Revenue contributions from value-added services have been increasing rapidly over the past two years. Value-added services now account for roughly 75% of Kingsoft's total office software business revenue, which are mainly advertising revenue and subscription revenues. These revenue streams are more recurring in nature, vs software sales – which makes its growth more visible. We expect its office software division's revenue to grow 49% YoY this year, following the strong 66% YoY spike in 1Q.

Guidance remains unchanged. Kingsoft still expects its online games, office software and cloud revenues to grow 25%, 40% and 60% YoY. It also expects GPM to widen from FY17's 15.7%. The fact that management is retaining its full-year guidance despite an anticipated weak 1H should lend investors some confidence that its performance will bounce back in 2H.

Financial outlook. We lower our revenue and earnings forecasts by roughly 7% pa for FY18-20, mainly to reflect lower PC game revenue and profit as a result of user time shifting to the mobile format. We remain bullish on its other business segments, especially mobile games and office software. We estimate its FY17-20 earnings CAGR at 34%.

Maintain BUY, with a lower TP of HKD32.5. Our SOP-derived TP implies 25x/17x FY18F/19F P/Es, and 0.7x PEG for FY18F. Downside risks include a more-severe-than-expected cloud price war and delays in game launches .

Target Price: HKD32.5
 Price: HKD23.1
 Market Cap: USD4,043m
 Bloomberg Ticker: 3888 HK

Share Data

Avg Daily Turnover (HKD/USD) 255m/31.9m
 52-wk Price low/high (HKD) 17.9 - 29.6
 Free Float (%) 55
 Shares outstanding (m) 1,299
 Estimated Return 41%

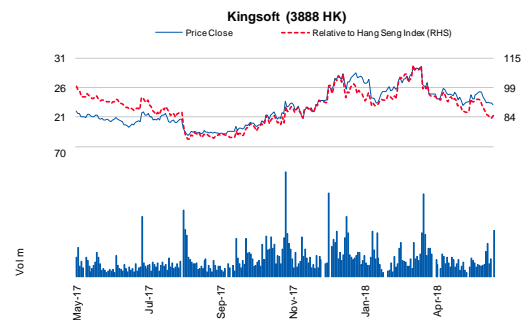
Shareholders (%)

Management 27.1
 Tencent 8.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.2)	(3.6)	(9.8)	1.5	5.0
Relative	(13.7)	(5.0)	(7.9)	(1.7)	(15.7)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (CNYm)	3,834	5,181	6,872	9,652	12,394
Reported net profit (CNYm)	(271)	978	1,228	1,990	2,720
Recurring net profit (CNYm)	954	1,213	1,502	2,170	2,900
Recurring net profit growth (%)	73.4	27.2	23.8	44.5	33.6
Recurring EPS (CNY)	0.74	0.91	1.10	1.59	2.12
DPS (CNY)	0.09	0.09	0.09	0.09	0.09
Recurring P/E (x)	25.3	20.5	17.1	11.8	8.8
P/B (x)	3.07	2.12	1.94	1.70	1.45
P/CF (x)	26.0	14.5	11.7	9.5	6.6
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	10.8	5.4	5.1	3.3	2.2
Return on average equity (%)	(3.4)	9.8	9.7	14.1	16.6
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(0.6)	5.8	13.9

Source: Company data, RHB

Analyst

Yujie Li
 +852 2103 5680
li.yu.jie@rhbgroup.com



Financial Exhibits

Financial model updated on : 2018-05-23.

Asia
 Hong Kong
 Technology
Kingsoft
 Bloomberg 3888 HK
Buy

Valuation basis

We use SOP to value Kingsoft, as its business is quite diverse and includes online games, software and Internet, and cloud services – which fits different valuation methodologies.

Key drivers

- Mobile games;
- Monetisation on WPS' mobile version;
- Cloud business further penetrating to other large clients and sector verticals.

Key risks

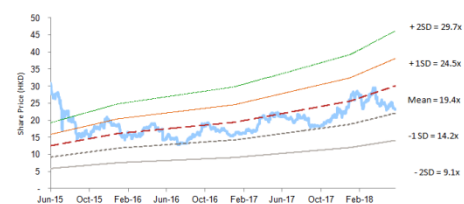
- Possible delay in launches of its new mobile games;
- A worse-than-expected reception to its new games;
- Cloud service providers engaging in a price war

Company Profile

Kingsoft is a well-established online PC games and software developer and operator. The company's major game, JX Online III, is an extension of its well-known JX series.

Meanwhile, its antivirus and internet security software solutions are popular with government bodies, corporations and individuals in China. Leveraging on its popular security software, Kingsoft has now expanded into mobile applications, which are highly ranked on both Apple's (APPL US, NR) and Google's (GOOG US, NR) app stores. The company also plans to build itself into a leading cloud service provider in China.

Kingsoft's past 3-year forward P/E band



Source: Bloomberg

Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring EPS (CNY)	0.74	0.91	1.10	1.59	2.12
EPS (CNY)	(0.21)	0.74	0.90	1.46	1.99
DPS (CNY)	0.09	0.09	0.09	0.09	0.09
BVPS (CNY)	6.1	8.8	9.7	11.0	12.9
Weighted avg adjusted shares (m)	1,288	1,328	1,367	1,367	1,367

Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring P/E (x)	25.3	20.5	17.1	11.8	8.8
P/E (x)	na	25.5	20.8	12.9	9.4
P/B (x)	3.07	2.12	1.94	1.70	1.45
FCF Yield (%)	1.5	3.6	5.6	6.4	10.0
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	10.8	5.4	5.1	3.3	2.2
EV/EBIT (x)	16.1	9.1	6.8	4.2	2.8

Income statement (CNYm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover	3,834	5,181	6,872	9,652	12,394
Gross profit	2,541	3,012	3,804	5,394	7,024
EBITDA	1,376	1,382	1,668	2,640	3,771
Depreciation and amortisation	(451)	(568)	(427)	(545)	(702)
Operating profit	925	814	1,242	2,095	3,069
Net interest	51	83	(12)	100	102
Income from associates & JVs	95	172	167	317	323
Exceptional income - net	(1,152)	(156)	0	0	0
Pre-tax profit	(82)	912	1,396	2,513	3,494
Taxation	(177)	(134)	(318)	(503)	(699)
Minority interests	(12)	199	150	(20)	(75)
Recurring net profit	954	1,213	1,502	2,170	2,900

Cash flow (CNYm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Change in working capital	(302)	243	349	(373)	(294)
Cash flow from operations	928	1,723	2,191	2,685	3,902
Capex	(578)	(821)	(745)	(1,037)	(1,330)
Cash flow from investing activities	(963)	364	(736)	(1,034)	(1,328)
Dividends paid	(116)	(120)	(125)	(125)	(125)
Cash flow from financing activities	1,244	(3,480)	(1,269)	(636)	(900)
Cash at beginning of period	8,783	9,993	8,599	8,785	9,799
Net change in cash	1,210	(1,394)	185	1,014	1,674
Ending balance cash	9,993	8,599	8,785	9,799	11,473

Balance sheet (CNYm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total cash and equivalents	10,198	8,687	8,785	9,799	11,473
Tangible fixed assets	1,366	1,619	1,938	2,430	3,058
Intangible assets	1,250	66	57	55	52
Total investments	1,694	5,388	5,388	5,388	5,388
Total other assets	163	144	315	402	501
Total assets	17,579	17,762	18,828	21,333	24,547
Short-term debt	380	374	374	374	374
Total long-term debt	438	288	288	288	288
Other liabilities	20	0	0	0	0
Total liabilities	7,577	5,209	5,152	5,792	6,412
Shareholders' equity	7,887	12,089	13,211	15,076	17,671
Minority interests	2,115	464	464	464	464
Total equity	10,002	12,553	13,676	15,541	18,136
Net debt	(6,152)	(7,037)	(7,135)	(8,149)	(9,823)
Total liabilities & equity	17,579	17,762	18,828	21,333	24,547

Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Revenue growth (%)	88.6	35.2	32.6	40.5	28.4
Recurrent EPS growth (%)	72.0	23.3	20.3	44.5	33.6
Gross margin (%)	66.3	58.1	55.4	55.9	56.7
Operating EBITDA margin (%)	35.9	26.7	24.3	27.3	30.4
Net profit margin (%)	(7.1)	18.9	17.9	20.6	21.9
Dividend payout ratio (%)	(42.7)	12.3	10.2	6.3	4.6
Capex/sales (%)	15.1	15.8	10.8	10.7	10.7
Interest cover (x)	8.64	7.24	5.01	16.79	24.97

Source: Company data, RHB

Figure 1: Quarterly results

FYE Dec 31 (CNYm)	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	1Q18		1Q18		1Q18	
	Actual	Actual	Actual	Actual	Actual	Actual	QoQ	YoY	RHB	Diff	Consensus	Diff
Online games	820.1	817.2	805.0	746.7	751.4	632.4	-15.8%	-22.6%	664.9			
Cloud	255.3	268.4	304.0	358.1	401.9	418.9	4.2%	56.1%	420.1			
Office software & others	217.6	127.8	175.4	198.3	227.2	212.4	-6.5%	66.3%	199.4			
Total revenue	1,292.9	1,213.4	1,284.4	1,303.0	1,380.5	1,263.7	-8.5%	4.2%	1,284.4	-1.6%	1,255.0	0.7%
YoY	-27.3%	82.1%	71.0%	16.0%	6.8%	4.2%			5.9%			
Cost of revenue	(427.3)	(509.4)	(488.9)	(558.7)	(611.8)	(648.1)	5.9%	27.2%	(633.7)			
Gross profit	865.6	703.9	795.5	744.3	768.7	615.6	-19.9%	-12.5%	650.7	-5.4%	639.1	-3.7%
YoY	-36.3%	48.2%	59.6%	6.0%	-11.2%	-12.5%						
Gross profit margin	66.9%	58.0%	61.9%	57.1%	55.7%	48.7%			50.7%		50.9%	
R&D costs	(310.1)	(321.4)	(368.3)	(355.0)	(401.3)	(380.3)	-5.2%	18.3%	(401.6)			
Selling expenses	(106.3)	(81.2)	(135.3)	(154.1)	(174.4)	(126.6)	-27.4%	56.0%	(167.0)			
Admin expenses	(50.1)	(56.1)	(58.6)	(63.0)	(79.1)	(82.9)	4.8%	47.8%	(77.5)			
Other op costs	(8.1)	(2.1)	(4.3)	(2.9)	(0.3)	(0.6)			(2.6)			
SBC	(6.6)	(48.7)	(61.1)	(74.3)	(51.1)	(58.1)			(56.0)			
Other income	22.4	70.8	92.8	55.5	75.0	58.9			66.8			
Operating profit	406.8	265.2	260.8	150.4	137.5	26.0	-81.1%	-90.2%	12.9	101.8%	27.2	-4.5%
YoY	61.8%	141.1%	102.2%	-46.2%	-66.2%	-90.2%						
Operating margin	31.5%	21.9%	20.3%	11.5%	10.0%	2.1%			1.0%		2.2%	
Net finance income	12.0	15.1	23.0	23.8	20.7	14.2			25.0			
JV & associates	44.5	36.4	29.6	7.7	98.4	37.1			38.0			
Gain on disposal&others	(140.5)	(92.3)	(42.3)	5.0	(26.9)	19.2						
PBT	322.8	224.5	271.0	186.9	229.7	96.5	-58.0%	-57.0%	75.9	27.2%	79.5	21.4%
Tax	(59.6)	(46.1)	(48.2)	(45.0)	5.5	(43.1)			(15.2)			
Effective tax rate (%)	18.5%	20.5%	17.8%	24.1%	-2.4%	44.7%			20.0%			
Profit from continuing operations	263.2	178.4	222.8	141.9	-	-			-			
Profit from a discontinued operation	69.9	101.9	61.8	130.3	-	-			-			
Gain on deemed disposal of a subsidi	-	-	-	-	2,224.3	-			-			
MI	71.8	41.8	34.6	33.7	(15.4)	(65.0)			(15.0)			
Net profit - reported	261.3	238.5	250.0	238.5	2,474.9	118.4	-95.2%	-50.4%	75.7	56.4%	45.8	158.7%
YoY	131.0%	78.2%	-131.0%	68.3%	847.0%	-50.4%						
NPM - reported	20.2%	19.7%	19.5%	18.3%	179.3%	9.4%			5.9%		3.6%	
Net Profit - non-GAAP	371.4	325.5	320.7	238.7	328.6	157.6	-52.0%	-51.6%	116.7	35.1%	110.0	43.2%
YoY	56.9%	173.7%	92.7%	-19.8%	-11.5%	-51.6%						
NPM - non-GAAP	28.7%	26.8%	25.0%	18.3%	23.8%	12.5%			9.1%		8.8%	

Source: RHB, Company data, Bloomberg

Figure 2: Changes to our earnings estimates

FYE Dec 31 (CNYm)	FY18F			FY19F			FY20F		
	Original	New	Change	Original	New	Change	Original	New	Change
Online games	3,920.6	3,588.7	-8.5%	5,250.2	4,877.6	-7.1%	6,187.1	5,765.2	-6.8%
Cloud	2,261.0	2,190.9	-3.1%	3,504.6	3,308.3	-5.6%	4,914.0	4,642.6	-5.5%
Office software and others	1,025.9	1,092.8	6.5%	1,392.7	1,466.5	5.3%	1,896.5	1,986.0	4.7%
Total revenue	7,207.6	6,872.4	-4.7%	10,147.5	9,652.5	-4.9%	12,997.6	12,393.7	-4.6%
Cost of Revenue	(3,123.9)	(3,068.2)	-1.8%	(4,429.9)	(4,258.6)	-3.9%	(5,611.2)	(5,369.8)	-4.3%
Gross profit	4,083.7	3,804.1	-6.8%	5,717.6	5,393.9	-5.7%	7,386.3	7,023.9	-4.9%
Gross profit margin	56.7%	55.4%		56.3%	55.9%		56.8%	56.7%	
R&D costs	(1,849.0)	(1,636.1)	-11.5%	(2,419.1)	(2,300.8)	-4.9%	(2,978.0)	(2,838.9)	-4.7%
Selling expenses	(776.1)	(621.6)	-19.9%	(918.4)	(861.4)	-6.2%	(1,104.2)	(1,042.2)	-5.6%
Admin expenses	(322.3)	(338.0)	4.9%	(418.5)	(369.5)	-11.7%	(458.8)	(434.4)	-5.3%
Other expenses	(13.8)	(11.1)	-18.9%	(20.6)	(19.6)	-4.9%	(26.3)	(25.1)	-4.6%
Share-based expenses	(204.0)	(227.2)	11.3%	(258.7)	(234.4)	-9.4%	(331.3)	(240.0)	-27.6%
Other income	372.8	271.8	-27.1%	512.1	487.0	-4.9%	655.8	625.2	-4.7%
Operating profit	1,291.4	1,241.8	-3.8%	2,194.3	2,095.3	-4.5%	3,143.6	3,068.5	-2.4%
Operating margin	17.9%	18.1%		21.6%	21.7%		24.2%	24.8%	
Fair value gains	-	-	N/A	-	-	N/A	-	-	N/A
Finance income	225.0	235.7	4.8%	225.0	225.0	0.0%	225.0	225.0	0.0%
Finance costs	(120.0)	(247.7)	106.4%	(124.8)	(124.8)	0.0%	(122.9)	(122.9)	0.0%
JC and associate	293.4	166.6	-43.2%	317.4	317.4	0.0%	323.0	323.0	0.0%
Gain on disposal/(Impairment)	-	19.2	N/A	-	-	N/A	-	-	N/A
PBT	1,689.8	1,415.6	-16.2%	2,611.9	2,512.8	-3.8%	3,568.7	3,493.6	-2.1%
Tax	(338.0)	(318.3)		(522.4)	(502.6)		(713.7)	(698.7)	
Effective tax rate	20.0%	22.5%		20.0%	20.0%		20.0%	20.0%	
Profit from continuing operations	1,351.8	1,097.4		2,089.5	2,010.3		2,855.0	2,794.9	
Profit from a discontinued operation	-	-		-	-		-	-	
Minority Interests	(63.0)	(150.2)		20.0	20.0		75.0	75.0	
Net profit - reported	1,414.8	1,247.6	-11.8%	2,069.5	1,990.3	-3.8%	2,780.0	2,719.9	-2.2%
NPM - reported (%)	19.6%	18.2%		20.4%	20.6%		21.4%	21.9%	
Net profit - non-GAAP	1,618.9	1,501.8	-7.2%	2,328.2	2,170.3	-6.8%	3,111.3	2,899.9	-6.8%
NPM - non-GAAP (%)	22.5%	21.9%		22.9%	22.5%		23.9%	23.4%	

Source: RHB

Figure 3: Annual P&L

FYE Dec 31 (CNYm)	FY12	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F	FY20F
Online games	851.4	1,095.9	1,252.8	1,368.8	2,545.7	3,120.2	3,588.7	4,877.6	5,765.2
Cloud	-	-	123.6	271.5	737.2	1,332.5	2,190.9	3,308.3	4,642.6
Office software	-	-	299.7	392.4	550.7	728.6	1,092.8	1,466.5	1,986.0
Total revenue	1,411.2	2,173.3	3,350.1	2,032.7	3,833.5	5,181.3	6,872.4	9,652.5	12,393.7
YoY	38.3%	54.0%	54.2%	-39.3%	88.6%	35.2%	32.6%	40.5%	28.4%
Cost of revenue	(186.9)	(297.1)	(589.7)	(512.7)	(1,292.4)	(2,168.9)	(3,068.2)	(4,258.6)	(5,369.8)
Gross profit	1,224.2	1,876.2	2,760.5	1,520.0	2,541.1	3,012.4	3,804.1	5,393.9	7,023.9
YoY	40.3%	53.3%	47.1%	-44.9%	67.2%	18.5%	26.3%	41.8%	30.2%
Gross profit margin	86.8%	86.3%	82.4%	74.8%	66.3%	58.1%	55.4%	55.9%	56.7%
R&D costs	(385.4)	(596.5)	(956.1)	(771.0)	(1,084.5)	(1,446.0)	(1,636.1)	(2,300.8)	(2,838.9)
Selling expenses	(234.1)	(382.8)	(797.4)	(250.0)	(323.3)	(545.0)	(621.6)	(861.4)	(1,042.2)
Admin expenses	(148.0)	(192.2)	(297.4)	(150.0)	(196.9)	(256.8)	(338.0)	(369.5)	(434.4)
Other op costs	(23.0)	(7.3)	(29.9)	(31.0)	(7.7)	(9.5)	(11.1)	(19.6)	(25.1)
SBC	(48.5)	(61.4)	(201.9)	(52.0)	(54.9)	(235.2)	(227.2)	(234.4)	(240.0)
Other gains	28.6	45.9	35.8	60.0	51.3	294.0	271.8	487.0	625.2
Operating profit	413.9	681.9	513.6	326.0	925.1	813.9	1,241.8	2,095.3	3,068.5
YoY	24.9%	64.7%	-24.7%	-36.5%	183.8%	-12.0%	52.6%	68.7%	46.4%
Operating margin	29.3%	31.4%	15.3%	16.0%	24.1%	15.7%	18.1%	21.7%	24.8%
Net finance income	89.3	105.0	163.0	116.4	50.9	82.6	(12.0)	100.2	102.1
JV & associates	8.6	1.1	(14.5)	(43.3)	94.6	172.1	166.6	317.4	323.0
Fair value gains	16.0	(10.4)	(6.4)	-	-	-	-	-	-
Gain on disposal and others	-	47.5	306.1	(75.5)	(1,152.2)	(156.5)	19.2	-	-
PBT	527.8	825.1	961.8	323.7	(81.6)	912.1	1,415.6	2,512.8	3,493.6
Tax	(61.4)	(71.2)	(95.2)	(140.0)	(177.2)	(133.8)	(318.3)	(502.6)	(698.7)
Effective tax rate (%)	11.6%	8.6%	9.9%	43.3%	-217.2%	14.7%	22.5%	20.0%	20.0%
Profit from continuing operations	-	-	-	183.7	(258.7)	778.3	1,097.4	2,010.3	2,794.9
Profit from a discontinued operation	-	-	-	158.1	(33.6)	294.1	-	-	-
Profit from a discontinued operation	-	-	-	-	-	2,224.3	-	-	-
MI	33.8	83.1	97.8	(27.5)	(21.5)	94.8	(150.2)	20.0	75.0
Net profit - reported	432.6	670.7	768.8	369.2	(270.7)	3,201.8	1,247.6	1,990.3	2,719.9
YoY	33.2%	55.1%	14.6%	-52.0%	-173.3%	-1282.7%	-61.0%	59.5%	36.7%
NPM - reported	30.7%	30.9%	22.9%	18.2%	-7.1%	61.8%	18.2%	20.6%	21.9%
Net Profit - non-GAAP	465.1	742.5	888.6	550.2	954.2	1,213.4	1,501.8	2,170.3	2,899.9
YoY	36.9%	59.7%	19.7%	-38.1%	73.4%	27.2%	23.8%	44.5%	33.6%
NPM - non-GAAP	33.0%	34.2%	26.5%	27.1%	24.9%	23.4%	21.9%	22.5%	23.4%

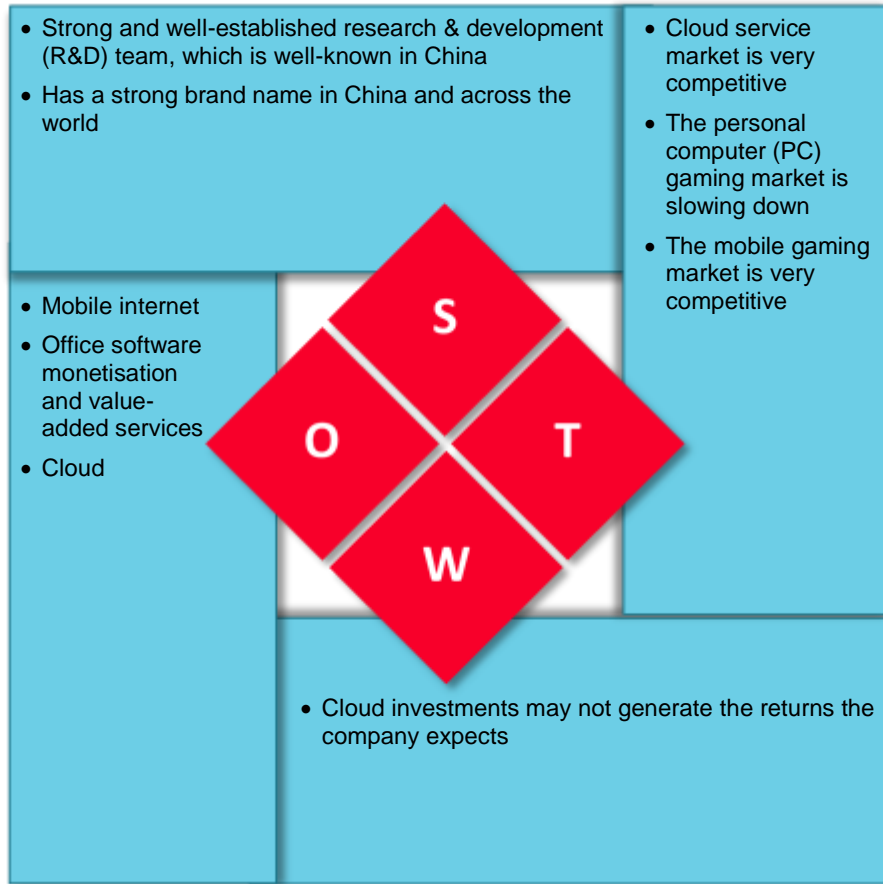
Source: RHB, Company

Figure 4: SOP valuation

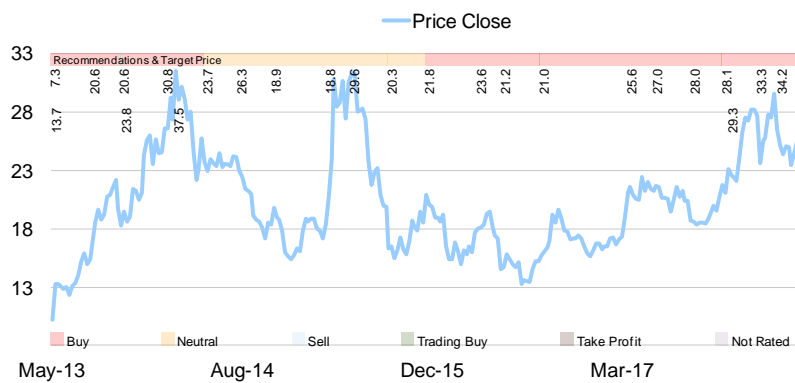
	FY18F EPS (CNY)	FY18F P/E target (x)	KS's Stake	NAV (CNY) /share	NAV (HKD)/share	Holding company discount	TP(HKD)
Games	1.169	12	73.00%	10.24	12.28		12.28
Office Software (Mainly WPS)	0.130	34.48	67.00%	2.99	3.59		3.59
	Ticker	Market Cap (USDm)		NAV (USD) /share			
CMI	CMCM US	2,580	47%	0.54	4.18	30%	2.93
		Market Cap (USDm)		NAV (USD) /share			
Xunlei	XNET US	810	10%	0.06	0.49	30%	0.34
21Vianet	VNET US	880	8%	0.05	0.42	30%	0.30
		Valuation (Series D) (USDm)		NAV (USD) /share			
Cloud		2373	52%	0.95	7.35		7.35
Net cash per share				4.75	5.70		5.70
Total					33.60		32.50

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-03-22	Buy	34.2	26.6
2018-01-31	Buy	33.3	26.8
2017-11-22	Buy	29.3	23.7
2017-11-08	Buy	28.1	20.7
2017-08-23	Buy	28.0	20.7
2017-05-24	Buy	27.0	21.6
2017-05-16	Buy	25.6	22.1
2017-03-22	Buy	25.6	20.9
2016-08-22	Buy	21.0	16.0
2016-05-20	Buy	21.2	14.3

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

Investment Research Disclaimers

RHB has issued this report for information purposes only. This report is intended for circulation amongst RHB and its affiliates' clients generally or such persons as may be deemed eligible by RHB to receive this report and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not intended, and should not under any circumstances be construed as, an offer or a solicitation of an offer to buy or sell the securities referred to herein or any related financial instruments.

This report may further consist of, whether in whole or in part, summaries, research, compilations, extracts or analysis that has been prepared by RHB's strategic, joint venture and/or business partners. No representation or warranty (express or implied) is given as to the accuracy or completeness of such information and accordingly investors should make their own informed decisions before relying on the same.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to the applicable laws or regulations. By accepting this report, the recipient hereof (i) represents and warrants that it is lawfully able to receive this document under the laws and regulations of the jurisdiction in which it is located or other applicable laws and (ii) acknowledges and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of applicable laws.

All the information contained herein is based upon publicly available information and has been obtained from sources that RHB believes to be reliable and correct at the time of issue of this report. However, such sources have not been independently verified by RHB and/or its affiliates and this report does not purport to contain all information that a prospective investor may require. The opinions expressed herein are RHB's present opinions only and are subject to change without prior notice. RHB is not under any obligation to update or keep current the information and opinions expressed herein or to provide the recipient with access to any additional information. Consequently, RHB does not guarantee, represent or warrant, expressly or impliedly, as to the adequacy, accuracy, reliability, fairness or completeness of the information and opinion contained in this report. Neither RHB (including its officers, directors, associates, connected parties, and/or employees) nor does any of its agents accept any liability for any direct, indirect or consequential losses, loss of profits and/or damages that may arise from the use or reliance of this research report and/or further communications given in relation to this report. Any such responsibility or liability is hereby expressly disclaimed.

Whilst every effort is made to ensure that statement of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable and must not be construed as a representation that the matters referred to therein will occur. Different assumptions by RHB or any other source may yield substantially different results and recommendations contained on one type of research product may differ from recommendations contained in other types of research. The performance of currencies may affect the value of, or income from, the securities or any other financial instruments referenced in this report. Holders of depositary receipts backed by the securities discussed in this report assume currency risk. Past performance is not a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors.

This report does not purport to be comprehensive or to contain all the information that a prospective investor may need in order to make an investment decision. The recipient of this report is making its own independent assessment and decisions regarding any securities or financial instruments referenced herein. Any investment discussed or recommended in this report may be unsuitable for an investor depending on the investor's specific investment objectives and financial position. The material in this report is general information intended for recipients who understand the risks of investing in financial instruments. This report does not take into account whether an investment or course of action and any associated risks are suitable for the recipient. Any recommendations contained in this report must therefore not be relied upon as investment advice based on the recipient's personal circumstances. Investors should make their own independent evaluation of the information contained herein, consider their own investment objective, financial situation and particular needs and seek their own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as "believe", "estimate", "intend" and "expect" and statements that an event or result "may", "will" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to RHB and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. RHB expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

The use of any website to access this report electronically is done at the recipient's own risk, and it is the recipient's sole responsibility to take precautions to ensure that it is free from viruses or other items of a destructive nature. This report may also provide the addresses of, or contain hyperlinks to, websites. RHB takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to RHB own website material) are provided solely for the recipient's convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or RHB website shall be at the recipient's own risk.

This report may contain information obtained from third parties. Third party content providers do not guarantee the accuracy, completeness, timeliness or

availability of any information and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content.

The research analysts responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. The research analysts that authored this report are precluded by RHB in all circumstances from trading in the securities or other financial instruments referenced in the report, or from having an interest in the company(ies) that they cover.

RHB and/or its affiliates and/or their directors, officers, associates, connected parties and/or employees, may have, or have had, interests in the securities or qualified holdings, in subject company(ies) mentioned in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, RHB and/or its affiliates may have, or have had, business relationships with the subject company(ies) mentioned in this report and may from time to time seek to provide investment banking or other services to the subject company(ies) referred to in this research report. As a result, investors should be aware that a conflict of interest may exist.

The contents of this report is strictly confidential and may not be copied, reproduced, published, distributed, transmitted or passed, in whole or in part, to any other person without the prior express written consent of RHB and/or its affiliates. This report has been delivered to RHB and its affiliates' clients for information purposes only and upon the express understanding that such parties will use it only for the purposes set forth above. By electing to view or accepting a copy of this report, the recipients have agreed that they will not print, copy, videotape, record, hyperlink, download, or otherwise attempt to reproduce or re-transmit (in any form including hard copy or electronic distribution format) the contents of this report. RHB and/or its affiliates accepts no liability whatsoever for the actions of third parties in this respect.

The contents of this report are subject to copyright. Please refer to Restrictions on Distribution below for information regarding the distributors of this report. Recipients must not reproduce or disseminate any content or findings of this report without the express permission of RHB and the distributors.

The securities mentioned in this publication may not be eligible for sale in some states or countries or certain categories of investors. The recipient of this report should have regard to the laws of the recipient's place of domicile when contemplating transactions in the securities or other financial instruments referred to herein. The securities discussed in this report may not have been registered in such jurisdiction. Without prejudice to the foregoing, the recipient is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

The term "RHB" shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case, RHB Investment Bank Berhad and its affiliates, subsidiaries and related companies.

RESTRICTIONS ON DISTRIBUTION

Malaysia

This report is issued and distributed in Malaysia by RHB Research Institute Sdn Bhd. The views and opinions in this report are our own as of the date hereof and is subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Conduct Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. RHB Research Institute Sdn Bhd has no obligation to update its opinion or the information in this report.

Thailand

This report is issued and distributed in the Kingdom of Thailand by RHB Securities (Thailand) PCL, a licensed securities company that is authorised by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is a member of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. RHB Securities (Thailand) PCL does not endorse, confirm nor certify the result of the Corporate Governance Report of Thai Listed Companies.

Indonesia

This report is issued and distributed in Indonesia by PT RHB Sekuritas Indonesia. This research does not constitute an offering document and it should not be construed as an offer of securities in Indonesia. Any securities offered or sold, directly or indirectly, in Indonesia or to any Indonesian citizen or corporation (wherever located) or to any Indonesian resident in a manner which constitutes a public offering under Indonesian laws and regulations must comply with the prevailing Indonesian laws and regulations.

Singapore

This report is issued and distributed in Singapore by RHB Research Institute Singapore Pte Ltd and it may only be distributed in Singapore to accredited investors, expert investors and institutional investors as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time. By virtue of distribution to these categories of investors, RHB Research Institute Singapore Pte Ltd and its representatives are not required to comply with Section 36 of the Financial Advisers Act (Chapter 110) (Section 36 relates to disclosure of RHB Research Institute Singapore Pte Ltd 's interest and/or its representative's interest in securities). Recipients of this report in Singapore may contact RHB Research Institute Singapore Pte Ltd in respect of any matter arising from or in connection with the report.

Hong Kong

This report is issued and distributed in Hong Kong by RHB Securities Hong Kong Limited (興業僑豐證券有限公司) (CE No.: ADU220) (“RHBSHK”) which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact RHBSHK. RHBSHK is a wholly owned subsidiary of RHB Hong Kong Limited; for the purposes of disclosure under the Hong Kong jurisdiction herein, please note that RHB Hong Kong Limited with its affiliates (including but not limited to RHBSHK) will collectively be referred to as “RHBHK.” RHBHK conducts a full-service, integrated investment banking, asset management, and brokerage business. RHBHK does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this research report. Investors should consider this report as only a single factor in making their investment decision. Importantly, please see the company-specific regulatory disclosures below for compliance with specific rules and regulations under the Hong Kong jurisdiction. Other than company-specific disclosures relating to RHBHK, this research report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such.

United States

This report was prepared by RHB and is being distributed solely and directly to “major” U.S. institutional investors as defined under, and pursuant to, the requirements of Rule 15a-6 under the U.S. Securities and Exchange Act of 1934, as amended (the “Exchange Act”). Accordingly, access to this report via Bursa Marketplace or any other Electronic Services Provider is not intended for any party other than “major” US institutional investors, nor shall be deemed as solicitation by RHB in any manner. RHB is not registered as a broker-dealer in the United States and does not offer brokerage services to U.S. persons. Any order for the purchase or sale of the securities discussed herein that are listed on Bursa Malaysia Securities Berhad must be placed with and through Auerbach Grayson (“AG”). Any order for the purchase or sale of all other securities discussed herein must be placed with and through such other registered U.S. broker-dealer as appointed by RHB from time to time as required by the Exchange Act Rule 15a-6. This report is confidential and not intended for distribution to, or use by, persons other than the recipient and its employees, agents and advisors, as applicable. Additionally, where research is distributed via Electronic Service Provider, the analysts whose names appear in this report are not registered or qualified as research analysts in the United States and are not associated persons of Auerbach Grayson AG or such other registered U.S. broker-dealer as appointed by RHB from time to time and therefore may not be subject to any applicable restrictions under Financial Industry Regulatory Authority (“FINRA”) rules on communications with a subject company, public appearances and personal trading. Investing in any non-U.S. securities or related financial instruments discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in the United States. The financial instruments discussed in this report may not be suitable for all investors. Transactions in foreign markets may be subject to regulations that differ from or offer less protection than those in the United States.

OWNERSHIP AND MATERIAL CONFLICTS OF INTEREST**Malaysia**

RHB does not have qualified shareholding (1% or more) in the subject company (ies) covered in this report except for:

a) -

RHB and/or its subsidiaries are not liquidity providers or market makers for the subject company (ies) covered in this report except for:

a) -

RHB and/or its subsidiaries have not participated as a syndicate member in share offerings and/or bond issues in securities covered in this report in the last 12 months except for:

a) -

RHB has not provided investment banking services to the company/companies covered in this report in the last 12 months except for:

a) -

Thailand

RHB Securities (Thailand) PCL and/or its directors, officers, associates, connected parties and/or employees, may have, or have had, interests and/or commitments in the securities in subject company(ies) mentioned in this report or any securities related thereto. Further, RHB Securities (Thailand) PCL may have, or have had, business relationships with the subject company(ies) mentioned in this report. As a result, investors should exercise their own judgment carefully before making any investment decisions.

Indonesia

PT RHB Sekuritas Indonesia is not affiliated with the subject company(ies) covered in this report both directly or indirectly as per the definitions of affiliation above. Pursuant to the Capital Market Law (Law Number 8 Year 1995) and the supporting regulations thereof, what constitutes as affiliated parties are as follows:

1. Familial relationship due to marriage or blood up to the second degree, both horizontally or vertically;
2. Affiliation between parties to the employees, Directors or Commissioners of the parties concerned;
3. Affiliation between 2 companies whereby one or more member of the Board of Directors or the Commissioners are the same;
4. Affiliation between the Company and the parties, both directly or indirectly, controlling or being controlled by the Company;
5. Affiliation between 2 companies which are controlled, directly or indirectly, by the same party; or

6. Affiliation between the Company and the main Shareholders.

PT RHB Sekuritas Indonesia is not an insider as defined in the Capital Market Law and the information contained in this report is not considered as insider information prohibited by law. Insider means:

- a commissioner, director or employee of an Issuer or Public Company;
- a substantial shareholder of an Issuer or Public Company;
- an individual, who because of his position or profession, or because of a business relationship with an Issuer or Public Company, has access to inside information; and
- an individual who within the last six months was a Person defined in letters a, b or c, above.

Singapore

RHB Research Institute Singapore Pte Ltd and/or its subsidiaries and/or associated companies do not make a market in any securities covered in this report, except for:

- (a) -

The staff of RHB Research Institute Singapore Pte Ltd and its subsidiaries and/or its associated companies do not serve on any board or trustee positions of any issuer whose securities are covered in this report, except for:

- (a) -

RHB Research Institute Singapore Pte Ltd and/or its subsidiaries and/or its associated companies do not have and have not within the last 12 months had any corporate finance advisory relationship with the issuer of the securities covered in this report or any other relationship (including a shareholding of 1% or more in the securities covered in this report) that may create a potential conflict of interest, except for:

- (a) -

Hong Kong

The following disclosures relate to relationships between RHBHK and companies covered by Research Department of RHBSHK and referred to in this research report:

RHBSHK hereby certifies that no part of RHBSHK analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

RHBHK had an investment banking services client relationships during the past 12 months with: -.

RHBHK has received compensation for investment banking services, during the past 12 months from: -.

RHBHK managed/co-managed public offerings, in the past 12 months for: -.

On a principal basis. RHBHK has a position of over 1% market capitalization of: -.

Additionally, please note the following:

Ownership and material conflicts of interest: RHBSHK policy prohibits its analysts and associates reporting to analysts from owning securities of any company covered by the analyst.

Analyst as officer or director: RHBSHK policy prohibits its analysts, and associates reporting to analysts from serving as an officer, director, advisory board member or employee of any company covered by the analyst.

RHBHK salespeople, traders, and other non-research professionals may provide oral or written market commentary or trading strategies to RHB clients that reflect opinions that are contrary to the opinions expressed in this research report.

This research report is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

Kuala Lumpur	Hong Kong	Singapore
RHB Research Institute Sdn Bhd Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur 50400 Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216	RHB Securities Hong Kong Ltd. 12 th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	RHB Research Institute Singapore Pte Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Bangkok
PT RHB Sekuritas Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777	RHB (China) Investment Advisory Co. Ltd. Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 088 9999 Fax : +(66) 2 088 9799