

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY HIGHLIGHTS

Sector

Aviation

Page 2

Airlines' Oct 23 operational data: Recovery continued at a moderate pace; overcapacity issue remains. Maintain UNDERWEIGHT.

Initiate Coverage

Longi Green Energy Technology

Page 5

(601012 CH/BUY/Rmb23.71/Target: Rmb27.39)

Solar modules: China's dominance to persist; riding on the installation boom.

Results

Alibaba Group (9988 HK/BUY/HK\$81.35/Target: HK\$115.00)

Page 8

2QFY24: Strong AIDC growth; cloud distribution cancelled due to chip restrictions.

Lenovo Group (992 HK/BUY/HK\$9.52/Target: HK\$11.50)

Page 11

2QFY24: Results beat thanks to strong recovery in IDG operating margin.

NetEase (9999 HK/BUY/HK\$175.70/Target: HK\$204.00)

Page 14

3Q23: Earnings beat on continuous optimisation of game distribution channels.

TRADERS' CORNER

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COSCO Shipping Ports Limited (1199 HK): Trading Buy range: HK\$4.85-5.00

China Shenhua Energy Co. Ltd (1088 HK): Trading Buy range: HK\$24.60-25.00

CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
20 Nov	China	Nov Loan Prime Rate
27 Nov	China	Oct Industrial Profits

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34945.5	(0.1)	3.1	2.8	5.4
S&P 500	4508.2	0.1	3.7	3.1	17.4
FTSE 100	7411.0	(1.0)	(0.6)	(2.9)	(0.5)
AS30	7269.5	(0.6)	0.8	0.3	0.7
CSI 300	3572.4	(1.0)	(1.1)	(1.8)	(7.7)
FSSTI	3133.1	0.0	0.1	(1.2)	(3.6)
HSCEI	6116.7	(1.4)	1.4	0.4	(8.8)
HSI	17832.8	(1.4)	1.8	0.3	(9.9)
JCI	6958.0	(0.0)	1.8	0.3	1.6
KLCI	1464.7	(0.1)	0.5	1.4	(2.1)
KOSPI	2488.2	0.1	2.5	1.1	11.3
Nikkei 225	33424.4	(0.3)	2.4	4.3	28.1
SET	1415.3	0.0	0.7	(1.3)	(15.2)
TWSE	17171.2	0.2	2.5	3.2	21.5
BDI	1758	4.1	10.0	(10.9)	16.0
CPO (RM/mt)	3806	1.9	4.2	4.5	(6.0)
Brent Crude (US\$/bbl)	78	(4.5)	(3.1)	(13.6)	(9.8)

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
XIAOMI CORP-W	15.70	(6.5)	2,556.3
SMIC	21.85	(2.2)	1,306.4
WUXI BIOLOGICS C	47.75	(5.8)	975.3
LI AUTO INC-A	152.30	(4.2)	963.7
KUAISHOU-W	60.00	3.0	935.9

TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
BRILLIANCE CHINA	4.28	5.4	73.6
KUAISHOU-W	60.00	3.0	935.9
CHINA LITERATURE	29.20	2.5	112.1
WEIBO CORP-CL A	92.45	2.2	3.1
JD-SW	108.00	2.0	836.7

TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
XIAOMI CORP-W	15.70	(6.5)	2,556.3
CSPC PHARMACEUTI	6.77	(6.0)	338.9
WUXI BIOLOGICS C	47.75	(5.8)	975.3
LI NING CO LTD	23.60	(5.0)	512.0
CHINA HONGQIAO	6.98	(4.8)	103.6

*ADT: Average daily turnover

KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	2.1	2.0	1.0
Euro Zone	3.5	0.5	0.8
Japan	1.0	1.5	1.0
Singapore	3.6	0.7	3.0
Malaysia	8.7	4.0	4.6
Thailand	2.6	3.1	3.5
Indonesia	5.4	5.1	5.2
Hong Kong	-3.5	4.6	3.0
China	3.0	5.0	4.6
CPO (RM/mt)	5,088	4,000	4,200
Brent (Average) (US\$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

SECTOR UPDATE

Aviation – China

Airlines: Recovery Continued At A Moderate Pace; Overcapacity Issue Remains

Pax load recovery of the three major airlines saw a moderate pick-up in Oct 23, rising to 90-95% of their respective pre-pandemic levels (Sep 23: 88-92%). Pax load factors, though improved mom, were still 2.0-5.3ppt below their pre-pandemic levels, indicating an overcapacity situation. We expect the overcapacity issue to persist in the near term, as the sector enters the 2023/24 spring-winter flight season with lifted international route capacity supply. Maintain UNDERWEIGHT. Top pick: Air China.

WHAT'S NEW

- The three major Chinese airlines released their Oct 23 operation data on 15 Nov 23.
- The Chinese airlines have entered 2023/24 spring-winter flight season from 29 Oct 23.

ESSENTIALS

- Pax load recovery saw a moderate pick-up in Oct 23; pax load factors still weak.**
- Pax load recovery continued at a moderate pace.** Overall pax loads of the three airlines recovered to 90-95% of their respective pre-pandemic levels in Oct 23, a moderate pick-up from Sep 23's 88-92%. The mom improvement was driven by recoveries in both domestic and international & regional pax loads. Domestic pax loads were at 108-110% of the pre-pandemic levels (Sep 23: 107-108%). International & regional pax loads, though improved mom, were still subdued, at 55-60% of the pre-pandemic levels (Sep 23: 54-59%).
- Pax capacity recovery largely qoq, with airlines adjusting their capacity deployment.** Overall pax capacities of the three airlines stayed at 96-98% of pre-pandemic levels in Oct 23, largely flat mom. We note that the airlines have been fine-tuning their capacity deployment, shifting more domestic-route capacity to international & regional routes. Oct 23 domestic pax capacities were at 113-117% of their pre-pandemic levels, a slight reduction from Sep 23's 113-119%. International & regional capacities recovered to 61-64% of pre-pandemic levels, an increase from Sep 23's 58-61%.
- Pax load factors, though improved mom, were still below pre-pandemic levels...** With the largely flat overall pax capacity and moderate improvement in overall pax loads, pax load factors of three airlines improved 2.4-3.5ppt mom to 76.7-81.1% in Oct 23. Despite the mom improvement, Oct 23 overall pax load factors were still 2.0-5.3ppt below pre-pandemic levels, indicating an oversupply situation of pax capacity.
- ...implying an overcapacity situation, not helpful for airlines' profitability recovery.** The overcapacity situation, as reflected by the suboptimal pax load factors, may continue to put pressure on pax yields, undermining airlines' earnings recovery prospects.

OCT 23 PAX OPERATION DATA OF THE THREE MAJOR CHINESE AIRLINES

	Overall			Domestic			International & Regional		
	Air China	CSA	CEA	Air China	CSA	CEA	Air China	CSA	CEA
Pax capacity (m seat-km)	26,828	28,653	22,576	20,641	23,144	17,134	6,187	5,509	5,442
mom change	+1.8%	+3.4%	+2.5%	+1.3%	+3.1%	+1.1%	+3.3%	+4.6%	+7.4%
as % of pre-pandemic	96%	98%	98%	116%	113%	117%	61%	62%	64%
% recovery mom change	-0.0ppt	+1.8ppt	+0.0ppt	-1.1ppt	-0.0ppt	-2.0ppt	+1.3ppt	+4.0ppt	+3.2ppt
Pax load (m pax-km)	20,584	23,251	17,401	16,273	18,964	13,512	4,311	4,287	3,888
mom change	+5.2%	+6.6%	+7.4%	+6.2%	+8.3%	+8.2%	+1.8%	-0.4%	+4.6%
as % of pre-pandemic	90%	95%	93%	108%	110%	110%	55%	60%	60%
recovery % mom change	+1.8ppt	+3.0ppt	+3.1ppt	+0.7ppt	+2.9ppt	+2.6ppt	+1.2ppt	+0.8ppt	+2.4ppt
Pax load factors	76.7%	81.1%	77.1%	78.8%	81.9%	78.9%	69.7%	77.8%	71.4%
mom change	+2.5ppt	+2.4ppt	+3.5ppt	+3.6ppt	+3.9ppt	+5.2ppt	-1.0ppt	-3.9ppt	-1.9ppt
diff. vs pre-pandemic	-5.3ppt	-2.0ppt	-3.8ppt	-6.0ppt	-2.2ppt	-4.8ppt	-7.9ppt	-3.1ppt	-4.5ppt

Source: Respective companies, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 16 Nov 23 (HK\$)	Target Price (HK\$)	Upside To TP (%)	Market Cap (US\$m)	PE* 2023F (x)	PE* 2024F (x)	PE* 2025F (x)	EV/EBIT 2023F (x)	EV/EBIT 2024F (x)	EV/EBIT 2025F (x)	P/B 2023F (x)	Yield 2023-25F (%)	Net Gearing End-1H23 (%)
Air China	753 HK	BUY	5.30	5.92	11.7	11,008	60.6	12.4	11.7	17.1	10.0	9.7	2.0	0.0	265
CSA	1055 HK	HOLD	3.80	3.45	(9.3)	8,828	35.9	15.2	13.6	17.7	13.1	12.3	1.5	0.0	155
CEA	670 HK	SELL	2.65	2.20	(16.9)	7,573	n.a.	16.6	15.2	36.5	13.4	12.8	1.9	0.0	319
Average							48.2	14.7	13.5	23.8	12.2	11.6	1.8	0.0	246

*PE estimates were adjusted for potential dilutions from new equity raisings

Source: Bloomberg, UOB Kay Hian

UNDERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Air China	753 HK	BUY	5.30	5.92
China Southern Airlines	1055 HK	HOLD	3.80	3.45
China Eastern Airlines	670 HK	SELL	2.65	2.20

Source: Bloomberg, UOB Kay Hian

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- Further capacity recovery in 2023/24 winter-spring flight season, with international capacity supply set to increase to 70% of pre-pandemic levels.** According to China Aviation Administration of China (CAAC), 2023/24 winter-spring flight season commenced from 29 Oct 23 and will last until 30 Mar 24. Based on the 2023/24 winter-spring flight season schedule, the weekly number of domestic passenger flights planned by Chinese airlines is projected to grow 1.2% yoy (a substantial 33.2% increase from pre-pandemic levels). The weekly number of international flights would recover to about 71% of pre-pandemic levels, an immediate step-up from about 60% in Oct 23. Given the increased flight plan for the new flight season, we expect the sector's overall capacity supply to stay ahead of demand recovery in the near term, driving further pax yield normalisation. Within our coverage, international capacities of Air China, China Southern Airlines (CSA) and China Eastern Airlines (CEA) should see a surge in the next two months to meet their guidance of 70%, 80% and 80% of international pax capacity recovery by end-23.
- Fuel cost pressure somewhat easing.** We note that Platts' global jet fuel price index has come off the recent high of 370 in mid-Sep 23, with the most recent reading standing at 321 (as of 15 Nov 23), largely in line with the 3Q23 average level of 324. This should have somewhat alleviated concerns of high fuel cost eroding airlines' profitability.
- Expecting a seasonally weaker 4Q23.** To recap, all three major Chinese saw their earnings turn around in the seasonally strong 3Q23, with Air China, CSA and CEA recording core net profits of Rmb4.0b, Rmb3.6b and Rmb3.3b respectively. 4Q is the seasonally weaker quarter for Chinese airlines and our best guesstimates are that the three Chinese airlines will stay thinly profitable in 4Q23.

EARNINGS REVISION

- No change.**

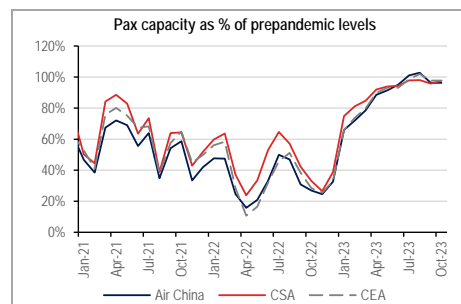
ACTION

- Maintain UNDERWEIGHT on Chinese airlines.** We believe that the airlines' recovery is well expected by the market and hence largely priced in. Given the three airlines' very lofty gearings, we expect their earnings in the next few years to be fully retained to repair their balance sheets (reducing gearings and making up for the huge negative earnings reserves before a dividend can be paid) and to provide for their lifted capex plans.
- Air China (753 HK/BUY/Target: HK\$5.92)** remains our preferred pick among the three major Chinese airlines for its national flag carrier status and relatively cheaper valuation against its steady-state profit potential. We have a HOLD rating for CSA and SELL rating for CEA.

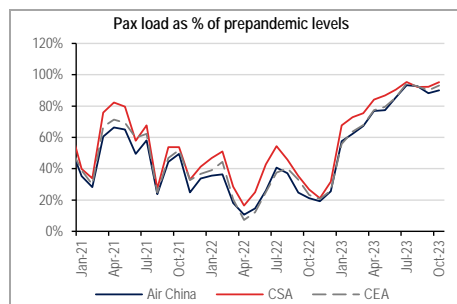
RISKS

- a) Weaker-than-expected earnings recovery due to a sluggish macroeconomy damping air travel and cargo demand, unfavourable fluctuation of fuel cost and/or renminbi staying weak (rendering overseas travel more expensive for Chinese), b) EPS-dilutive equity-raising, and c) dissipation of the market's excitement about the airlines' recovery story.

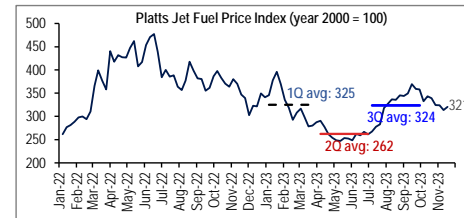
OVERALL PAX CAPACITY RECOVERY



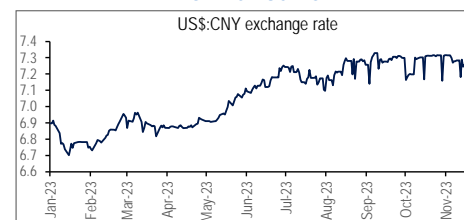
OVERALL PAX LOAD RECOVERY



JET FUEL PRICE HAS COME OFF FROM RECENT HIGH IN SEP 23



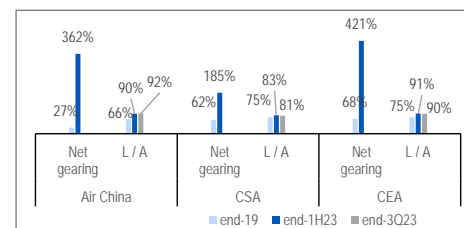
WEAK RENMINBI AGAINST US DOLLAR



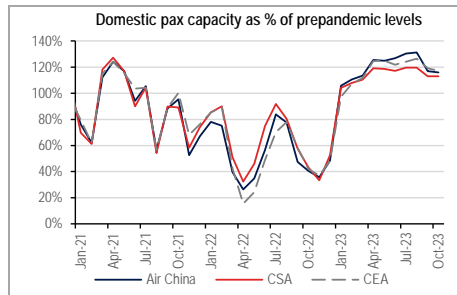
2024-26 EARNINGS NOT ENOUGH TO MAKE UP FOR THE HUGE NEGATIVE EARNINGS RESERVES



LOFTY GEARINGS OF THE THREE AIRLINES

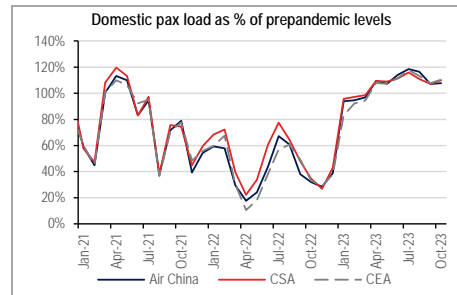


DOMESTIC PAX CAPACITY RECOVERY



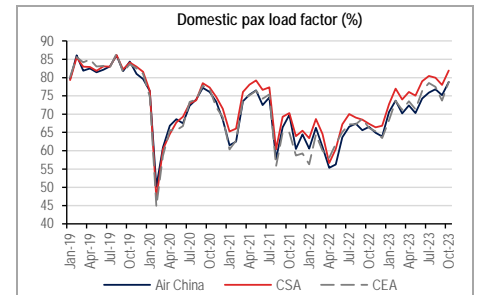
Source: Respective companies, UOB Kay Hian

DOMESTIC PAX LOAD RECOVERY



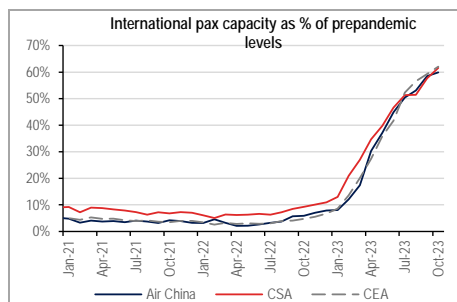
Source: Respective companies, UOB Kay Hian

DOMESTIC PAX LOAD FACTOR



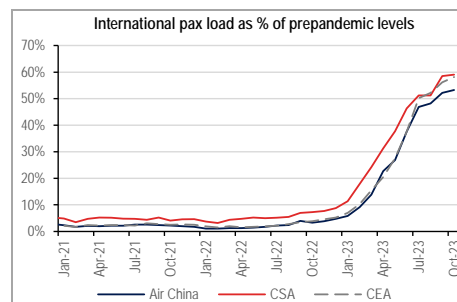
Source: Respective companies, UOB Kay Hian

INTERNATIONAL PAX CAPACITY RECOVERY



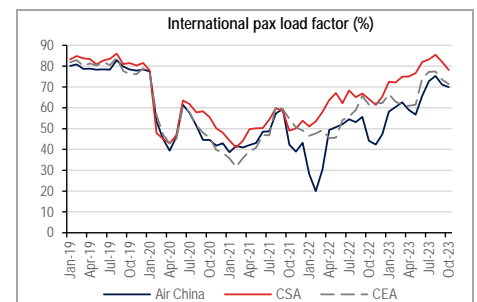
Source: Respective companies, UOB Kay Hian

INTERNATIONAL PAX LOAD RECOVERY



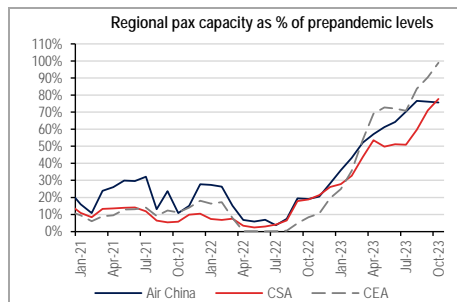
Source: Respective companies, UOB Kay Hian

INTERNATIONAL PAX LOAD FACTOR



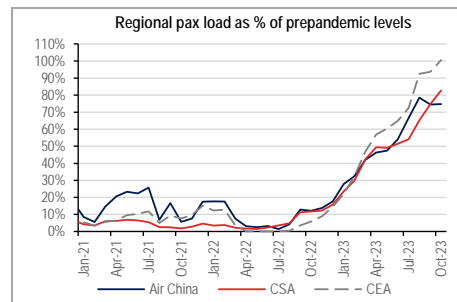
Source: Respective companies, UOB Kay Hian

REGIONAL PAX CAPACITY RECOVERY



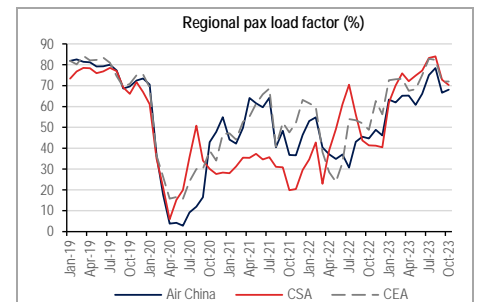
Source: Respective companies, UOB Kay Hian

REGIONAL PAX LOAD RECOVERY



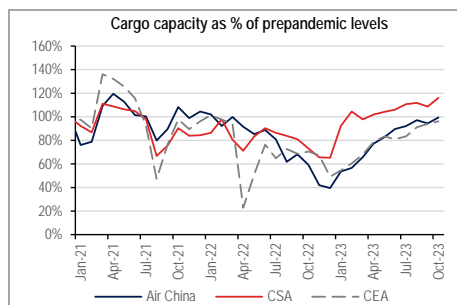
Source: Respective companies, UOB Kay Hian

REGIONAL PAX LOAD FACTOR



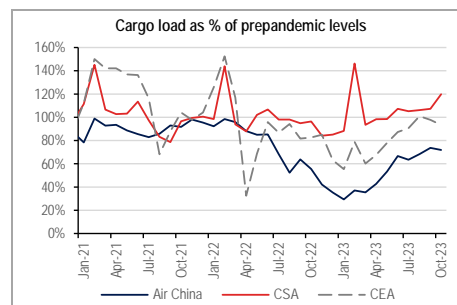
Source: Respective companies, UOB Kay Hian

CARGO CAPACITY RECOVERY



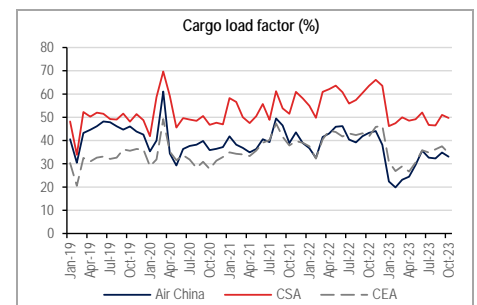
Source: Respective companies, UOB Kay Hian

CARGO LOAD RECOVERY



Source: Respective companies, UOB Kay Hian

CARGO LOAD FACTOR



Source: Respective companies, UOB Kay Hian

INITIATE COVERAGE

Longi Green Energy Technology (601012 CH)

Solar Modules: China's Dominance To Persist; Riding On The Installation Boom

The gradual commencement of new polysilicon production plants is likely to remove the lingering overhang of the solar module supply chain. Global solar module installation is expected to accelerate in 2023 (+31% yoy). China's domination of the global solar module supply chain is set to persist through 2025. Vertical integration will likely raise entry barriers and accelerate industry consolidation. Initiate coverage on Longi with a BUY rating and target price of Rmb27.39.

INVESTMENT HIGHLIGHTS

- **Debottlenecking of supply chain.** The gradual commencement of new polysilicon production plants is expected to remove the lingering overhang of the global solar module supply chain. The global annual effective polysilicon production capacity is expected to hit 2.36m tonnes by end-23 (end-22: ~1.25m tonnes), with global output expected to reach 1.46m tonnes in 2023 (2022: ~0.92m tonnes). Global solar module installation in 2023 is expected to hit 330GW (2022: 240GW), and the estimated polysilicon output of 1.46m tonnes in 2023 will be sufficient for the production of around 511GW of solar modules.
- **Global installation to accelerate from 2023, up 31% yoy.** Global solar installation is expected to surge in 2023 with the removal of key constraints limiting the pace of installation in recent years, namely high solar module prices and COVID-19 lockdowns. China is expected to remain as the key source of demand for Chinese-manufactured solar panels, followed by the EU and US. Our base-case assumptions for global solar module installation are 330GW in 2023 and 400GW in 2024.
- **China's domination of global supply chain to persist through 2025.** According to the International Energy Agency, China's share of all the key manufacturing stages of solar panels exceeded 80% in 2022. Based on the manufacturing capacity under construction, China's share of global polysilicon, ingot and wafer production will soon reach about 95%. The world will almost completely rely on China to supply the key building blocks for solar panel production through 2025. However, the IEA expects China's share of solar module production capacity/volume to fall 5/15ppt by 2027, as countries heavily dependent on solar module imports are accelerating the localisation of solar module supply chains.

Click [here](#) for Blue Top dated 16 Nov 23

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	80,608	128,998	137,236	162,717	167,632
EBITDA	14,989	15,366	18,514	22,927	25,578
Operating profit	11,530	11,486	14,270	17,880	19,951
Net profit (rep./act.)	10,713	14,812	14,891	18,091	20,163
Net profit (adj.)	10,713	14,812	14,891	18,091	20,163
EPS (sen)	169.0	195.0	196.0	238.2	265.5
PE (x)	14.0	12.2	12.1	10.0	8.9
P/B (x)	3.2	2.9	2.5	2.0	1.7
EV/EBITDA (x)	9.1	8.8	7.3	5.9	5.3
Dividend yield (%)	1.1	1.7	1.7	2.1	2.3
Net margin (%)	13.3	11.5	10.9	11.1	12.0
Net debt/(cash) to equity (%)	(37.5)	(61.0)	(59.5)	(67.8)	(72.3)
Interest cover (x)	162.3	n.a.	n.a.	n.a.	n.a.
ROE (%)	45.2	27.0	21.9	22.2	20.7
Consensus net profit	-	-	15,249	16,022	19,267
UOBKH/Consensus (x)	-	-	0.98	1.13	1.05

Source: LONGi Green Energy Technology, Bloomberg, UOB Kay Hian

BUY

Share Price	Rmb23.71
Target Price	Rmb27.39
Upside	+15.5%

COMPANY DESCRIPTION

LONGi Green Energy Technology is a China-based company founded in 2000, currently the largest manufacturer solar module globally. They mainly engage in the production and sales of monocrystalline silicon wafers and monocrystalline modules.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	601012 CH
Shares issued (m):	7,578.0
Market cap (Rmbm):	179,675.4
Market cap (US\$m):	24,787.3
3-mth avg daily t'over (US\$m):	389.0

Price Performance (%)

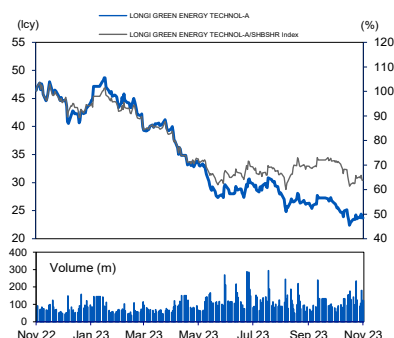
52-week high/low		Rmb48.69/Rmb22.41		
1mth	3mth	1mth	3mth	1mth
(10.0)	(15.1)	(29.5)	(49.2)	(43.9)

Major Shareholders

	%
Li Zhenguo	14.08
Li Xiyan	5.02

FY23 NAV/Share (Rmb)	9.67
FY23 Net Debt/Share (Rmb)	5.79

PRICE CHART



Source: Bloomberg

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- **Vertical integration trend to raise entry barriers and accelerate industry consolidation.** Leading Chinese industry players have been aggressively diversifying their operations vertically into other segments of the supply chain, establishing independence by reducing reliance on external parties for parts supply. We should see greater distinctions between industry leaders as they gradually build their core competencies. The current vertical integration trend should enable existing players to balance out the impacts of market volatility and cyclicalities of a particular segment, thus enhancing earnings resilience.

ESSENTIALS

- **Largest vertically-integrated solar module manufacturer in the world.** LONGi Green Energy Technology (Longi) is expected to remain as the largest vertically-integrated solar module manufacturer globally by end-23, backed by its considerable scale of projects in the pipeline. The company has guided 43%/120%/53% yoy capacity growth for wafer/battery cell/module production, with the respective capacities poised to reach 190GW/110GW/130GW by end-23.
- **Targeting 55% yoy growth in module shipment volume growth for 2023.** The company held the top spot in terms of shipment volume for wafers and modules for nine and three consecutive years respectively. Longi recorded wafer and module shipment volume totalling 85.06GW and 46.76GW respectively in 2022, and is targeting module shipment volume growth of 55% to 72.3GW in 2023. As one of the world's top two wafer manufacturers, it is also targeting a wafer shipment of 117GW for 2023.
- **Leading R&D capabilities.** Longi holds conversion efficiency records for crystalline silicon single-junction cells and crystalline silicon-perovskite tandem solar cells at 26.81% and 33.9% respectively. Longi has also been named 2023 overall highest achiever in the RETC PV Module Index for the fifth consecutive year, and is also the only company to be recognised as the overall highest achiever in every edition.

VALUATION/RECOMMENDATION

- **Rock-bottom sector valuation.** The sector's valuation has slid to -2SD levels and is trading at around 7.3x 12-month forward PE, down from the peak of around 30x 12-month forward PE last seen in early-22. The sector is still searching for a new equilibrium amid many moving parts, and high-paced expansion of production capacity remains a major concern as it would eventually lead to margin erosion. However, we believe large-scale vertically-integrated players with a strong cost advantage and leading R&D capabilities will eventually stand out from peers as the industry starts to consolidate amid intensifying competition.
- **Initiate coverage on Longi with a BUY rating and target price of Rmb27.39,** pegged to 11.5x 2024F PE (-1SD). Longi, with its scale benefits, leading R&D capabilities and industry-leading margins, should be among the first to capture the installation pick-up and valuation recovery.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	128,998.1	137,235.8	162,716.5	167,632.0
EBITDA	15,365.8	18,514.2	22,926.7	25,578.3
Deprec. & amort.	3,879.9	4,244.6	5,046.3	5,627.2
EBIT	11,485.9	14,269.6	17,880.4	19,951.1
Total other non-operating income	(253.1)	(100.0)	(100.0)	(100.0)
Associate contributions	4,931.2	2,000.0	1,860.0	1,767.0
Net interest income/(expense)	240.5	326.3	400.7	718.5
Pre-tax profit	16,404.6	16,495.9	20,041.1	22,336.6
Tax	(1,641.8)	(1,649.6)	(2,004.1)	(2,233.7)
Minorities	48.7	44.5	54.1	60.3
Net profit	14,811.6	14,890.8	18,091.1	20,163.2
Net profit (adj.)	14,811.6	14,890.8	18,091.1	20,163.2

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	24,370.1	19,755.2	27,314.8	24,539.7
Pre-tax profit	14,762.8	16,495.9	20,041.1	22,336.6
Tax	(1,641.8)	(1,649.6)	(2,004.1)	(2,233.7)
Deprec. & amort.	3,461.1	3,788.7	4,569.1	5,132.2
Associates	0.0	(2,000.0)	(1,860.0)	(1,767.0)
Working capital changes	8,826.3	8,997.2	4,741.1	1,705.8
Non-cash items	(1,038.3)	(5,876.9)	1,827.6	(634.2)
Other operating cashflows	(5,051.4)	(9,472.7)	(7,579.8)	(5,208.8)
Investing	(5,007.7)	(9,000.0)	(6,500.0)	(4,500.0)
Capex (growth)	(58,005.6)	(1,362.0)	(2,116.9)	(2,116.9)
Investments	57,437.6	0.0	0.0	0.0
Proceeds from sale of assets	524.4	889.3	1,037.1	1,408.1
Others	4,299.9	(2,305.0)	(1,685.9)	(2,393.7)
Financing	(1,497.3)	(3,032.7)	(3,048.9)	(3,704.1)
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	10,017.5	3,050.7	2,550.0	2,550.0
Proceeds from borrowings	(3,003.0)	(758.0)	(550.7)	(550.0)
Loan repayment	(1,217.3)	(1,565.0)	(636.4)	(689.6)
Others/interest paid	23,618.7	7,977.5	18,049.0	16,937.1
Net cash inflow (outflow)	26,483.1	51,102.7	59,080.2	77,129.3
Beginning cash & cash equivalent	1,000.9	0.0	0.0	0.0
Changes due to forex impact	51,102.7	59,080.2	77,129.3	94,066.4
Ending cash & cash equivalent	24,370.1	19,755.2	27,314.8	24,539.7

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	30,514.8	42,284.7	43,459.8	42,960.7
Other LT assets	18,224.2	19,627.3	23,386.3	26,710.5
Cash/ST investment	51,102.7	59,080.2	77,129.3	94,066.4
Other current assets	39,713.9	43,206.5	50,356.6	51,499.8
Total assets	139,555.6	164,198.7	194,332.0	215,237.5
ST debt	758.0	550.7	550.0	550.0
Other current liabilities	59,771.2	70,376.8	83,369.3	86,494.6
LT debt	12,414.3	14,527.9	16,190.0	17,190.0
Other LT liabilities	4,357.8	4,586.3	4,969.4	5,230.1
Shareholders' equity	62,146.8	74,004.9	89,047.1	105,506.2
Minority interest	107.5	152.1	206.2	266.5
Total liabilities & equity	139,555.6	164,198.7	194,332.0	215,237.5

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	11.9	13.5	14.1	15.3
Pre-tax margin	12.7	12.0	12.3	13.3
Net margin	11.5	10.9	11.1	12.0
ROA	12.5	9.8	10.1	9.8
ROE	27.0	21.9	22.2	20.7
Growth				
Turnover	60.0	6.4	18.6	3.0
EBITDA	2.5	20.5	23.8	11.6
Pre-tax profit	38.3	0.6	21.5	11.5
Net profit	38.3	0.5	21.5	11.5
Net profit (adj.)	38.3	0.5	21.5	11.5
EPS	15.4	0.5	21.5	11.5
Leverage				
Debt to total capital	17.5	16.9	15.8	14.4
Debt to equity	21.2	20.4	18.8	16.8
Net debt/(cash) to equity	(61.0)	(59.5)	(67.8)	(72.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

COMPANY RESULTS

Alibaba Group (9988 HK)

2QFY24: Strong AIDC Growth; Cloud Distribution Cancelled Due To Chip Restrictions

Alibaba delivered in-line 2QFY24 results. Revenue grew 9% yoy to Rmb224.8b, in line with street estimates. Non-GAAP net profit was Rmb40.2b, up 19% yoy and in line with street estimates, with net margin of 18%. We believe the market is now concerned about: a) the soft cloud revenue growth of 2% yoy, b) the termination of the full spin-off of the cloud business segment due to US restrictions on the export of high-end computing chips to China, and c) a planned share reduction by its key founder. Maintain BUY. Target: HK\$115.00 (US\$115.00).

2QFY24 RESULTS

Year to 31 Mar (Rmbm)	2QFY23	1QFY23	2QFY24	QoQ	YoY	UOBKH	Var	Cons	Var
Revenue	207,176	234,156	224,790	-4%	9%	221,964	1%	223,996	0.4%
- China retail	89,436	109,828	92,560	-16%	3%				
- China wholesale	4,299	5,125	5,094	-1%	18%				
- International ecommerce	16,046	22,123	24,511	11%	53%				
- Cainiao	18,282	23,164	22,823	-1%	25%				
- Cloud	27,035	25,123	27,648	10%	2%				
- Digital media	5,228	5,381	5,779	7%	11%				
Cost of sales	-131,210	-142,347	-139,664	-2%	6%	-138,356	1%		
Gross profit	75,966	91,809	85,126	-7%	12%	83,608	2%	85,078	0.1%
GPM	36.7%	39.2%	37.9%	(1 ppt)	1 ppt	37.7%	0 ppt	38.0%	-11.3%
Non-GAAP Operating profit	32,924	40,861	40,414	-1%	23%	39,586	2%		
Non-GAAP OPM	15.9%	17.5%	18.0%	1 ppt	2 ppt	17.8%	14 bps		
Non-GAAP net profit	33,820	44,922	40,188	-11%	19%	38,421	5%	40,042	0.4%
Non-GAAP NPM	16.3%	19.2%	17.9%	(1 ppt)	2 ppt	17.3%	57 bps	17.9%	0.2%

Source: Alibaba, UOB Kay Hian

RESULTS

- Taobao Tmall Group revenue growth momentum remains intact.** Taobao and Tmall Group revenue ramped up 4% yoy to Rmb97.7b while Customer Management Revenue (CMR) rose 3% yoy to Rmb49.3b, mainly bolstered by strengthened merchant willingness to invest in advertising but partially offset by a modest decline in Taobao and Tmall Online Pay GMV. China commerce EBITA increased 3% yoy to Rmb47b and adjusted EBITA margin narrowed 0.5ppt yoy but improved sequentially to 48%, driven by optimised profitability in customer management service. Direct sales and other revenue grew 6% yoy to Rmb24b, thanks to robust sales in the consumer electronics category despite weak seasonality.
- Soft AliCloud revenue growth.** Cloud Intelligence Group revenue growth decelerated to 2% yoy, due to the scaling back of project-based contracts with lower margin. However, due to the continuous increase in revenue from public cloud, EBITA margin increased to 5% from 1.6% in 2QFY23. Management announced that it will be cancelling its previous proposed Alibaba Cloud's full spin-off due to uncertainties on chip restrictions. The new AliCloud management team stated that they will re-focus on investing for growth and capturing opportunities from AI transformation, and announced an US\$2.5b annual dividend for FY23.

KEY FINANCIALS

Year to 31 Mar (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	853,062.0	868,950.0	964,336.3	1,037,874.1	1,121,559.3
EBITDA	110,207.0	142,137.0	201,396.2	217,452.4	245,336.8
Operating profit	69,638.0	100,614.0	157,062.9	177,195.1	208,770.3
Net profit (rep./act.)	61,959.0	72,772.0	129,464.8	146,296.3	174,884.1
Net profit (adj.)	136,388.0	141,642.0	162,302.1	194,304.5	218,842.9
EPS (Fen)	636.2	654.2	742.1	879.7	976.1
PE (x)	11.9	11.6	10.2	8.6	7.7
P/B (x)	1.7	1.7	1.4	1.2	1.1
EV/EBITDA (x)	13.9	10.7	7.6	7.0	6.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	7.3	8.4	13.4	14.1	15.6
Net debt/(cash) to equity (%)	(14.9)	(13.4)	(24.5)	(32.0)	(38.9)
Interest cover (x)	5.3	8.4	54.4	15.2	28.1
ROE (%)	6.5	7.4	11.8	11.4	11.7
Consensus net profit	-	-	169,055	181,100	203,486
UOBKH/Consensus (x)	-	-	0.96	1.07	1.08

Source: Alibaba Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$81.35
Target Price	HK\$115.00
Upside	+41.4%
(Previous TP)	HK\$120.00)

COMPANY DESCRIPTION

Alibaba Group is the largest e-commerce marketplace operator in China.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9988 HK
Shares issued (m):	20,347.4
Market cap (HK\$m):	1,655,260.4
Market cap (US\$m):	212,093.2
3-mth avg daily t'over (US\$m):	363.8

Price Performance (%)

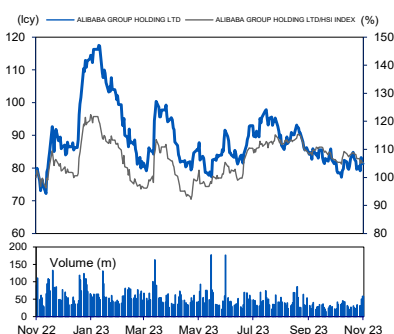
52-week high/low HK\$117.50/HK\$72.20

1mth	3mth	6mth	1yr	YTD
0.1	(8.9)	(5.1)	3.2	(5.7)

Major Shareholders

	%
Soft Bank Group Corp	14.0
Vanguard Group Inc	3.6
Ma Jack Yun	3.3
FY24 NAV/Share (Rmb)	53.35
FY24 Net Cash/Share (Rmb)	13.15

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Alibaba International Digital Commerce Group revenue soared 53% yoy**, propelled by the 73%/9% yoy growths in International retail/International wholesale revenues, primarily due to strong combined order growth of 28% yoy retail businesses from Lazada, AliExpress and Trendyol platforms as well as improvements in monetisation. Adjusted EBITA margin improved to -2%, from -5% in 2QFY23. The company targets to achieve double-digit growth in ROIC through its three key strategic focuses.
- **Local Services Group revenue rose 16% yoy to Rmb15.6b** with adjusted EBITA loss sequentially narrowing to -Rmb2.6b from -Rmb3.3b in 2QFY23, due to Ele.me's improving overall business scale and efficiency. Annual active consumers continued to sustain its growth trajectory due to more efficient consumer acquisition and retention as well as heightening user demand.
- **Targeting double-digit growth in return on invested capital (ROIC)** by focusing on three key strategies which encompass user-centric approaches, building a thriving ecosystem for brands and merchants, and fostering AI-driven innovation. During 2QFY24, Lazada delivered double-digit yoy order volume growth and achieved unit economics (UE) improvement for both yoy and qoq; AliExpress's mature marketplace model recorded double-digit order volume growth with its new model "Choice" order volume growing quickly, thanks to the upgraded logistics capabilities through cooperation with Cainiao. Trendyol also achieved robust growth with expansion in more regions beyond Turkey.
- **Key highlights during 11.11 this year.** In terms of everyday low price, Alibaba achieved explosive growth with both the Taobao Good Price Festival and the Rmb10b subsidy programmes. For live-streaming content-driven sales model, merchant-operated live-streaming accounted for close to 70% of all live-streaming rooms that generated over Rmb1b in sales.
- **Share repurchase and dividends.** Alibaba's board of directors has approved an annual cash dividend for FY2023 in the amount of US\$0.125 per ordinary share or US\$1.00 per American Depositary Share (ADS), to holders of ordinary shares and holders of ADSs on 21 Dec 23. The aggregate amount of the dividend will be approximately US\$2.5b. Alibaba dedicated US\$1.7b for share repurchases in 2QFY24. It has US\$63b net cash on hand.

EARNINGS REVISION/RISK

- We have lowered our 3QFY24/FY24 revenue by 2%/2%, in view of the soft e-commerce growth momentum. We lowered our FY24 non-GAAP net profit by 5% due to higher investment in low-price strategy to capture market share during 11.11 as well as reinvestment in AliCloud.
- **Risks.** a) Slowing GMV and growth in new user numbers, b) continued investment in new initiatives may drag on margin, and c) increasing merchants' acquisition channel competition with Tencent.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK\$115.00 (US\$115.00)** that implies 13x FY24F PE, below its historical mean of 24x, against a 14% EPS CAGR from FY24-27. We adopt only 4x EV/Revenue on AliCloud in view of the soft revenue growth. Alibaba is trading at 8.7x 12-month forward PE, 1.7SD below its historical mean.

SHARE PRICE CATALYST

- a) Successful listing of business groups b) continued improvement in profitability of its cloud business, and c) strong user growth.

SOTP VALUATION (BASED ON 12-MONTH FORWARD)

Description	Business Unit	FY24 Revenue (HK\$b)	EBITA (HK\$b)	EV/ Revenue	EV/ EBITA	Value (HK\$b)	% BABA holding	Value to BABA (HK\$b)	(HK\$) per share
Core+initiatives									
Core commerce business	Taobao Tmall Commerce Group	338	203	4	6	1,216	100%	1,216	55
Online marketing service		240					100%		
Commission		98					100%		
International commerce	Global Digital Commerce Group	114		2		172	100%	172	8
Cainiao	Cainiao Smart Logistics	107		2		160	51%	82	4
Ele.me+ Amap	Local Services Group	67		2		100	100%	100	5
Cloud Computing, other	Cloud Intelligence Group	117	4	2		234	100%	234	11
Youku Tudou	Digital Media and Entertainment Group	243		1		243	100%	243	11
Other initiatives		97		1		97	100%	97	4
Total Core+initiatives valuation								2,144	98
Investees									
Net cash								231	11
Total								2,524	115
# of shares								21,991	

Source: UOB Kay Hian

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (Rmbm)	2023	2024F	2025F	2026F
Net turnover	868,950	964,336	1,037,874	1,121,559
EBITDA	142,137	201,396	217,452	245,337
Deprec. & amort.	41,523	44,333	40,257	36,566
EBIT	100,614	157,063	177,195	208,770
Total other non-operating income	5,823	2,755	0	0
Associate contributions	(8,063)	1,066	19,142	14,441
Net interest income/(expense)	(16,989)	(3,700)	(14,300)	(8,738)
Pre-tax profit	81,385	157,184	182,037	214,474
Tax	(15,549)	(32,369)	(39,898)	(44,910)
Minorities	7,210	4,927	4,434	5,321
Preferred dividends	(274)	(277)	(277)	0
Net profit	72,772	129,465	146,296	174,884
Net profit (adj.)	141,642	162,302	194,304	218,843

BALANCE SHEET

Year to 31 Mar (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	176,031	172,556	167,114	159,569
Other LT assets	879,047	923,479	976,606	1,038,214
Cash/ST investment	193,086	356,856	513,322	700,748
Other current assets	504,880	538,609	569,677	603,354
Total assets	1,753,044	1,991,500	2,226,719	2,501,885
ST debt	7,466	7,466	7,466	7,466
Other current liabilities	377,885	416,903	458,403	507,269
LT debt	52,023	57,225	62,948	69,243
Other LT liabilities	192,749	192,749	192,749	192,749
Shareholders' equity	999,515	1,194,781	1,382,778	1,602,784
Minority interest	123,406	123,406	123,406	123,406
Total liabilities & equity	1,753,044	1,991,500	2,226,719	2,501,885

CASH FLOW

Year to 31 Mar (Rmbm)	2023	2024F	2025F	2026F
Operating	199,752	174,437	192,830	221,318
Pre-tax profit	81,385	157,184	182,037	214,474
Tax	(15,549)	(32,369)	(39,898)	(44,910)
Deprec. & amort.	41,523	44,333	40,257	36,566
Associates	(5,518)	549	(3,282)	(14,344)
Working capital changes	(54,676)	5,289	10,433	15,188
Non-cash items	0	0	0	0
Other operating cashflows	152,587	(549)	3,282	14,344
Investing	(135,506)	(85,290)	(87,944)	(90,628)
Capex (growth)	(30,373)	(28,885)	(25,899)	(22,379)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(105,133)	(56,404)	(62,045)	(68,249)
Financing	(65,619)	75,653	51,579	56,737
Dividend payments	n.a.	n.a.	n.a.	n.a.
Issue of shares	5,054	70,451	45,857	50,442
Proceeds from borrowings	15,399	5,202	5,723	6,295
Loan repayment	0	0	0	0
Others/interest paid	(86,072)	0	0	0
Net cash inflow (outflow)	(1,373)	164,801	156,466	187,427
Beginning cash & cash equivalent	189,898	192,055	356,856	513,322
Changes due to forex impact	3,530	0	0	0
Ending cash & cash equivalent	193,086	356,856	513,322	700,748

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	16.4	20.9	21.0	21.9
Pre-tax margin	9.4	16.3	17.5	19.1
Net margin	8.4	13.4	14.1	15.6
ROA	4.2	6.9	6.9	7.4
ROE	7.4	11.8	11.4	11.7
Growth				
Turnover	1.9	11.0	7.6	8.1
EBITDA	29.0	41.7	8.0	12.8
Pre-tax profit	10.1	93.1	15.8	17.8
Net profit	17.5	77.9	13.0	19.5
Net profit (adj.)	3.9	14.6	19.7	12.6
EPS	2.8	13.5	18.5	11.0
Leverage				
Debt to total capital	5.0	4.7	4.5	4.3
Debt to equity	6.0	5.4	5.1	4.8
Net debt/(cash) to equity	(13.4)	(24.5)	(32.0)	(38.9)
Interest cover (x)	8.4	54.4	15.2	28.1

COMPANY RESULTS

Lenovo Group (992 HK)

2QFY24: Results Beat Thanks To Strong Recovery In IDG Operating Margin

Lenovo's revenue was in line with our estimates, but net profit ended 8% above at US\$249m on better-than-expected improvements in the IDG business' margins. Going forward, we expect a sustained recovery in the IDG and ISG businesses, but the ISG business' recovery may turn out slower than expected, especially on the profitability side. That said, the upcoming Windows update and AI PC may drive a strong demand upcycle for its PC business from 2024. Maintain BUY. Target price: HK\$11.50.

2QFY24 RESULTS

Year to 31 Mar	2QFY23	1QFY24	2QFY24	yoy%	qoq %	1HFY23	1HFY24	yoy%
Revenue (US\$m)	17,090	12,900	14,410	(15.7)	11.7	34,045	27,310	(19.8)
Intelligent Devices Group (IDG)	13,716	10,261	11,515	(16.0)	12.2	27,990	21,775	(22.2)
Infrastructure Solutions Group (ISG)	2,614	1,914	2,002	(23.4)	4.6	4,700	3,916	(16.7)
Solutions and Services Group (SSG)	1,721	1,713	1,918	11.4	12.0	3,177	3,631	14.3
Gross profit	2,877	2,252	2,522	(12.3)	12.0	5,745	4,774	(16.9)
Net profit	541	177	249	(53.9)	41.2	1,057	426	(59.7)
Operating margin (OPM) (%)	5.0	3.0	3.6	(1.4)	0.5	4.8	3.3	(1.5)
Intelligent Devices Group (IDG)	7.4	6.3	7.4	(0.1)	1.0	7.5	6.9	(0.6)
Infrastructure Solutions Group (ISG)	1.4	(3.2)	(2.7)	(4.0)	0.5	1.0	(2.9)	(3.9)
Solutions and Services Group (SSG)	21.4	21.1	20.0	(1.4)	(1.1)	21.9	20.5	(1.4)

Source: Lenovo Group, UOB Kay Hian

RESULTS

• **2QFY24 revenue in line; IDG operating margin beat partially offset by weak ISG operating margin.** By segment, both IDG (-16.0% yoy and +12.2% qoq to US\$11.5b), ISG (-23.4% yoy and +4.6% qoq to US\$2b) and SSG (+11.4% yoy and +12.0% qoq to US\$1.9b) arrived in line with our estimates. However, operating margins were better than expected at 3.6% (-1.4ppt yoy and +0.5% qoq) as the strong sequential recovery in the IDG business (-0.1ppt yoy and +1.0ppt qoq to 7.4%) had more than offset the weaker-than-expected ISG' operating margin (-4.0ppt yoy and +0.5ppt qoq to -2.7%). Net profit ended up better than expected at US\$249m, representing a robust 41% sequential recovery.

STOCK IMPACT

IDG should continue to recover in 2HFY24; Windows update and AI PC to facilitate the replacement cycle. With the inventory destock with PC and smartphone completed, management now expects a more meaningful sequential recovery in shipment for both products, and operating margin could remain elevated at 2QFY24's level (7.4%) as there are less requirements for promotions. In 2024, management expects the commercial PC's replacement cycle to pick up along with Window's update cycle, while the launch of AI PCs will start contributing more meaningfully from 2H24 onwards.

KEY FINANCIALS

Year to 31 Mar (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	71,618	61,947	57,215	63,665	70,167
EBITDA	4,357	4,027	3,399	4,396	5,063
Operating profit	3,081	2,669	1,988	2,897	3,438
Net profit (rep./act.)	2,037	1,608	1,095	1,866	2,428
Net profit (adj.)	2,037	1,608	1,095	1,866	2,428
EPS (Fen)	17.5	13.5	9.2	15.7	20.4
PE (x)	7.0	9.0	13.3	7.8	6.0
P/B (x)	2.8	2.6	2.4	2.0	1.6
EV/EBITDA (x)	3.3	3.6	4.3	3.3	2.9
Dividend yield (%)	4.1	4.0	4.1	4.1	4.1
Net margin (%)	2.8	2.6	1.9	2.9	3.5
Net debt/(cash) to equity (%)	(12.1)	(6.6)	(1.6)	(8.8)	(19.8)
Interest cover (x)	10.1	5.2	3.9	7.4	19.3
ROE (%)	47.6	30.4	18.7	27.7	29.3
Consensus net profit	-	-	1,234	1,707	2,004
UOBKH/Consensus (x)	-	-	0.89	1.09	1.21

Source: Lenovo Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$9.52
Target Price	HK\$11.50
Upside	+20.8%
(Previous TP)	HK\$10.60

COMPANY DESCRIPTION

Lenovo Group develops, manufactures and distributes intelligent devices. The company provides laptops, desktops, table PCs, accessories, and data centre equipment such as servers and storage devices, as well as infrastructure solutions and software services. Lenovo Group serves customers worldwide.

STOCK DATA

GICS sector	Computer Hardware & Storage
Bloomberg ticker:	992 HK
Shares issued (m):	24,951
Market cap (HK\$m):	237,537
Market cap (US\$m):	34,932
3-mth avg daily t'over (US\$m):	50.1

Price Performance (%)

52-week high/low HK\$9.8/HK\$5.9

1mth	3mth	6mth	1yr	YTD
14.3	20.4	22.5	42.1	48.5

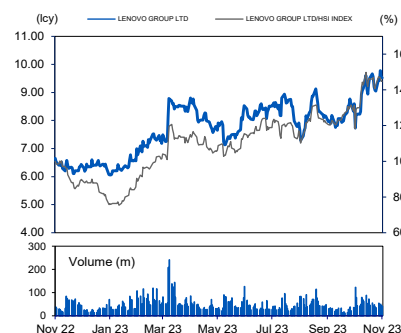
Major Shareholders

	%
Legend Holdings Corp	29.73

FY24 NAV/Share (RMB) 4.33

FY24 Net Cash/Share (RMB) 0.06

PRICE CHART



Source: Bloomberg

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- **AI PC will likely drive a super cycle in 2025-26.** Lenovo is planning to launch the first AI PC product in Jan 24, and the second AI PC in Jun 24. The first AI PC product will utilise Intel's Meteor Lake "AI Ready" CPU, while the second product will utilise Qualcomm's NPU with even richer AI functions vs the first PC. The common AI applications in these AI PCs will be AI twin, or a personalised AI assistant which will greatly bolster productivity and working efficiency, and will revolutionise the way consumers/corporates utilise electronic devices. The AI PCs will have higher specification requirements on its hardware (ie memory, CPU), such that these AI PCs will be priced as mid- to high-end products marketed towards the commercial market in the earlier stages of adopting AI PCs. Management expects AI PCs to start contributing to single-digit share of the PC market by 2024, before accelerating in 2025-26 with contribution surging to 50% of the PC market by 2026.
- **ISG business is recovering at a slow rate.** Management is guiding for a more meaningful recovery from 4Q23 onwards, as both Cloud service providers and enterprise clients had started to allocate more capex into general purpose (GP) servers, although the rate of recovery (especially on the profitability front) may remain slow. Nevertheless, management remains confident in the AI-related ISG business. Their Microsoft Digital Twin business is progressing smoothly, and with the increased adoption of AI among enterprises, Lenovo expects the demand for L40s inference servers to pick up going forward. There will be some impact from the US export rules as the H800 server orders were written off as a result, but given that the H800 server volume was minimal, management believes the actual impact to the ISG business' revenue will be limited.
- **Guidance for the December quarter.** Lenovo guided revenue to reach US\$15.2b, and net profit to reach US\$310m. These numbers are below our previous estimates, as the ISG business will remain a drag to operating margin. The SSG business' revenue growth will likely slightly fall short of our expectations as well. The guidance for IDG remains largely in line with our expectations.

EARNINGS REVISION/RISKS

- **We factored in the September quarter results and December quarter guidance,** adjusting our FY24-26 earnings estimates by -10.3%/-2.0%/-1.3% to US\$1,095m/1,866m/2,428m. We factored in: a) a 2.2%/2.7%/3.7% higher PC shipment assumption in FY24-26; b) a 6.8%/10.2%/10.7% lower ISG revenue assumption in FY24-26 given the slower-than-expected recovery, and c) a lower operating margin assumption for the ISG business.

VALUATION/RECOMMENDATION

- **Maintain BUY and raise target price to HK\$11.50,** based on a higher PE of 9.4x FY25F PE, which is still based on peers' average.

SHARE PRICE CATALYST

- Launch of AI PC and key order wins in AI servers.

PROFIT & LOSS

Year to 31 Mar (US\$m)	2023	2024F	2025F	2026F
Net turnover	61,947	57,215	63,665	70,167
EBITDA	4,027	3,399	4,396	5,063
Deprec. & amort.	(1,359)	(1,411)	(1,499)	(1,625)
EBIT	2,669	1,988	2,897	3,438
Associate contributions	-	-	-	-
Net interest income/(expense)	(17)	-	-	-
Pre-tax profit	(516)	(508)	(392)	(178)
Tax	2,136	1,481	2,505	3,260
Minorities	(455)	(326)	(551)	(717)
Net profit	(73)	(60)	(88)	(114)
Net profit (adj.)	1,608	1,095	1,866	2,428

BALANCE SHEET

Year to 31 Mar (US\$m)	2023	2024F	2025F	2026F
Fixed assets	2,006	2,401	2,771	3,598
Other LT assets	13,973	13,716	13,417	12,524
Cash/ST investment	4,250	3,981	4,535	5,702
Other current assets	18,691	19,081	22,375	22,806
Total assets	38,920	39,180	43,098	44,631
ST debt	272	272	272	272
Other current liabilities	25,822	25,516	28,070	27,652
LT debt	3,683	3,683	3,683	3,683
Other LT liabilities	3,097	3,097	3,097	3,097
Shareholders' equity	3,559	4,991	5,588	6,093
Minority interest	459	519	607	722
Total liabilities & equity	38,920	39,180	43,098	44,631

CASH FLOW

Year to 31 Mar (US\$m)	2023	2024F	2025F	2026F
Operating	3,407	2,377	3,106	3,496
Pre-tax profit	2,136	1,481	2,505	3,260
Tax	(528)	(326)	(551)	(717)
Deprec. & amort.	1,359	1,411	1,499	1,625
Associates	17	-	-	-
Working capital changes	1,914	(697)	(739)	(850)
Other operating cashflows	(1,491)	508	392	178
Investing	-	-	-	-
Capex (growth)	(1,915)	(1,411)	(1,446)	(1,422)
Investments	(428)	(420)	(420)	(420)
Proceeds from sale of assets	(507)	-	-	-
Others	265	-	-	-
Financing	(1,245)	(991)	(1,026)	(1,002)
Dividend payments	(1,019)	(1,234)	(1,106)	(907)
Issue of shares	(579)	(589)	(590)	(591)
Proceeds from borrowings	-	-	-	-
Loan repayment	10,980	10,646	10,813	10,730
Others/interest paid	(10,980)	(10,646)	(10,813)	(10,730)
Net cash inflow (outflow)	(441)	(645)	(516)	(316)
Beginning cash & cash equivalent	473	(269)	554	1,167
Changes due to forex impact	3,930	4,250	3,981	4,535
Ending cash & cash equivalent	(153)	-	-	-

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	17.0	17.5	17.7	17.8
Pre-tax margin	3.4	2.6	3.9	4.6
Net margin	2.6	1.9	2.9	3.5
ROA	3.9	2.8	4.5	5.5
ROE	30.4	18.7	27.7	29.3
Growth				
Turnover	(13.5)	(7.6)	11.3	10.2
EBITDA	(12.8)	(4.7)	12.5	10.8
Pre-tax profit	(23.0)	(30.7)	69.2	30.1
Net profit	(21.1)	(31.9)	70.4	30.1
Net profit (adj.)	(21.1)	(31.9)	70.4	30.1
EPS	(22.9)	(31.9)	70.4	30.1
Leverage				
Debt to total capital	10.2	10.1	9.2	8.9
Debt to equity	70.8	64.9	53.7	43.0
Net debt/(cash) to equity	(6.6)	(1.6)	(8.8)	(19.8)
Interest cover (x)	5.2	3.9	7.4	19.3

COMPANY RESULTS

NetEase (9999 HK)

3Q23: Earnings Beat On Continuous Optimisation Of Game Distribution Channels

NetEase's 3Q23 earnings beat street estimates. Revenue grew 11.6% yoy to Rmb27.3b. Net profit increased 15.7% yoy to Rmb8.6, 21% above consensus estimates. We foresee several catalysts for 4Q23's top-line growth: a) strong seasonality during the winter holidays, b) encouraging progress of Banhao approval in 2023, c) resilient performance delivered by new games launched. Maintain BUY with a higher target price of HK\$204.00 (US\$127.00).

3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	2Q23	3Q23	QoQ	YoY	UOBKH	Variance	Cons	Var
Net revenue	24,427	24,011	27,270	13.6%	11.6%	27,924	(2.3%)	27,304	(0.1%)
Online games	18,699	18,799	21,780	15.9%	16.5%	21,642	0.6%		
PC games	5,872	4,963	4,879	(1.7%)	(16.9%)	5,223	(6.6%)		
Mobile games	12,828	13,836	16,901	22.2%	31.8%	16,419	2.9%		
Cloud Music	2,357	1,949	1,973	1.3%	(16.3%)	2,338	(15.6%)		
Youdao	1,402	1,207	1,539	27.5%	9.7%	1,753	(12.2%)		
Innovative business	1,968	2,057	1,979	(3.8%)	0.5%	2,191	(9.7%)		
COGS	-10,683	-9,636	-10,304	6.9%	(3.5%)	-11,088	(7.1%)	-11,040	(6.7%)
Gross profit	13,744	14,375	16,966	18.0%	23.4%	16,836	0.8%	16,264	4.3%
Non-GAAP OP	5,512	6,837	8,366	22.4%	51.8%	7,710	8.5%	6,957	20.3%
Non-GAAP OPM	22.6%	28.5%	30.7%	2.2 ppts	8.1 ppts	27.6%	3.1 ppts		
Non-GAAP NP	7,470	9,017	8,645	(4.1%)	15.7%	7,281	18.7%	7,118	21.4%
Non-GAAP NPM	31%	38%	32%	-5.9 ppts	1.1 ppts	26%	5.6 ppts		

Source: NetEase, UOB Kay Hian

RESULTS

- **Tempered top-line growth momentum.** NetEase's online game revenue delivered accelerated growth of 16.5% yoy (2Q23: +4%, 3Q22: +9%) to Rmb21.8b, in line with our expectations, primarily driven by: a) PC game revenue declining 17% yoy (2Q23: -19%, 3Q22: +11%) to Rmb4.9b. The moderated decline was due to ongoing popularity of Naraka: Bladepoint and Racing Master, and b) mobile game revenue growing 32% yoy, vs 8%/15% in 3Q22/2Q23 respectively, contributed by strong grossing of legacy titles such as Fantasy Westward Journey Online and hit games including Eggy Party, Identity V and Justice. Gross margin for online games rose 4ppt yoy to 69%, the highest since 1Q15. Deferred revenue (excluding Youdao) grew 3% yoy and 13 % qoq, driven by the incremental grossing contribution from new game titles but partly offset by moderating legacy names.
- **Significant margin improvement.** Gross margin expanded 4ppt to 60%. Adjusted operating profit surged 52% yoy to Rmb8.4b, 8% above our estimates, while non-GAAP operating margin expanded 8ppt yoy to 31%, mainly supported by the expansion of game gross profit margin. S&M spending as a % of total revenue contracted 2ppt yoy to 13% a result of stringent cost control and optimised revenue-sharing strategy. R&D expenses rose 10% yoy, primarily attributed to higher staff-related costs. Non-GAAP net profit increased 16% yoy to Rmb8.6b, which translated to net margin expanding 1ppt yoy to 32%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	90,247	96,496	105,572	119,920	131,092
EBITDA	20,822	30,137	37,617	43,476	39,763
Operating profit	18,013	27,328	34,342	40,908	37,229
Net profit (rep./act.)	18,453	27,412	36,308	36,514	31,709
Net profit (adj.)	17,470	22,808	32,945	33,219	35,981
EPS (Fen)	518.8	692.0	1,013.3	1,021.8	1,106.7
PE (x)	31.5	23.6	16.1	16.0	14.7
P/B (x)	5.7	5.1	4.2	3.6	3.1
EV/EBITDA (x)	24.1	16.6	13.3	11.5	12.6
Dividend yield (%)	0.8	1.1	1.6	6.9	7.5
Net margin (%)	20.4	28.4	34.4	30.4	24.2
Net debt/(cash) to equity (%)	2.1	(3.5)	(22.8)	(34.1)	(42.3)
ROE (%)	19.6	27.4	31.5	26.9	20.2
Consensus net profit	-	-	29,872	30,662	33,961
UOBKH/Consensus (x)	-	-	1.10	1.08	1.06

Source: NetEase, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$175.70
Target Price	HK\$204.00
Upside	+16.1%
(Previous TP	HK\$190.00)

COMPANY DESCRIPTION

NetEase, Inc. is a Chinese Internet technology company providing online services centered on content, community, communications, and commerce.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	9999 HK
Shares issued (m):	3,224.8
Market cap (HK\$m):	566,590.4
Market cap (US\$m):	72,598.8
3-mth avg daily t'over (US\$m):	89.2

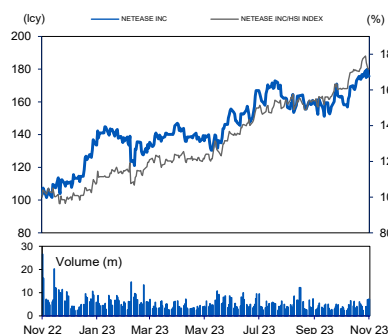
Price Performance (%)

52-week high/low	HK\$180.00/HK\$101.50
1mth	7.9
3mth	8.2
6mth	25.9
1yr	54.4
YTD	53.4

Major Shareholders

	%
Lei Ding	43.6
JPMorgan Chase & Co	3.4
BlackRock Inc	2.5
FY23 NAV/Share (Rmb)	39.01
FY23 Net Cash/Share (Rmb)	8.91

PRICE CHART



Source: Bloomberg

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• **Lacklustre cloud music; resilient Youdao growth.** Cloud music revenue declined 16% yoy to Rmb2b, dragged by a yoy decline in paying users of social entertainment service. Gross profit margin of the cloud music segment was 14% during 3Q23 (+13ppt yoy) as a result of an increase in net revenue from the sales of membership subscriptions and continued improvement in cost control measures. Youdao's revenue rose by 10% yoy in 3Q23 (3Q22: +1%; 2Q23: +26%) to Rmb1,539m, driven by increased contribution from online marketing services and learning services. Gross margin expanded by 2ppt yoy to 56%, with gross profit coming in at Rmb860m in 3Q23. This can be mainly attributed to the implementation of Zi Yue LLM on multiple AI products. Revenue of innovative business and others edged up by 1% yoy to Rmb2b.

STOCK IMPACT

- **Encouraging visibility on 4Q23.** We expect revenue growth to be driven by: a) payment channel migration to NetEase's proprietary channel, b) higher user retention from three new titles released since June, and c) better visibility on its self-developed mobile games pipeline. Looking into 4Q23, we forecast a 19% yoy growth in online games revenue, propelled by newly launched games Racing Master and Dunk City Dynasty as well as Justice Mobile which has accumulated over 50m registered users.
- **Progress of the upcoming highly anticipated titles.** Management highlighted that Condor Heroes is currently in the final stage of preparation and targets to officially launch this no later than 2Q24. The preparations for Naraka Bladepoint Mobile are fully completed and will be launched upon the receipt of licence approval. As Project Mugen is a highly anticipated game, NetEase plans to continue investing additional resources in the development of the game to ensure it delivers next-generation quality content.
- **Significant progress in AI implementation.** NetEase Youdao is accelerating the application and implementation of Zi-Yue Education LLM. Thanks to the landing of AI products, sales revenue of digital content services exceeded Rmb400m, with gross margin reaching the company's historical high. Youdao Dictionary and Youdao Translation membership fees surged over 160% yoy in 3Q23, while online marketing service net revenue grew by 113.5% yoy. During this year's 11.11, Youdao's intelligent hardware performed exceptionally well, with the Dictionary Pen ranking first in sales on JD.com and Tmall for the fourth consecutive year.

EARNINGS REVISION/RISK

- Our 4Q23 revenue forecast remains largely unchanged and we keep our 2023 revenue forecast. We raise our earnings forecasts by 5%/6% for 4Q23/2023 on better margin expectations. We expect the company's 4Q23/2023 adjusted net margin to be 27%/31% respectively, which we deem strong given prudent cost control measures for the rest of the year. For full-year 2024, we forecast revenue to grow 14% yoy while non-GAAP net profit should edge up 15% yoy, translating to net margin of 28%.
- **Risks include** weaker-than-expected performance from new games, and lack of new game approvals for NetEase.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of HK\$204.00 (US\$127.00), as we roll our valuation forecast base to 2024 and factor in the solid online games growth with promising pipeline. Our target price implies 18x 2023F PE. The company is currently trading at 14x 12-month forward PE, lower than its historical mean of 15.6x.

SHARE PRICE CATALYST

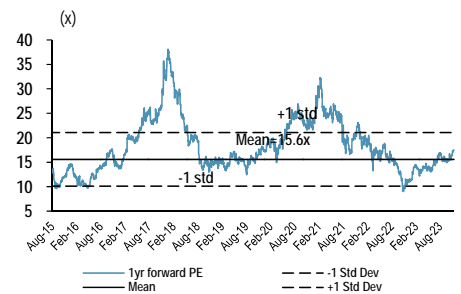
- a) Strong performance of games pipeline, and b) improving profitability of NetEase Cloud Music.

SOTP VALUATION

	FY2024E revenue (Rmbb)	FY2024E non-GAAP earnings	Valuation (2024) PE/PS	Est fair value (Rmbb)	Fair values (HK\$)	Fair value per share (HK\$)
Online games	100	26	18x	464	506	156
Cloud music	11		3x	32	31	10
Youdao	7		3x	12	12	4
Innovative and others	10		1x	10	10	3
Total EV				519	509	156
Net Cash				141	153	47
Target price (HK\$)						204.00

Source: UOB Kay Hian

12-MONTH FORWARD PE BAND



PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	96,496	105,572	119,920	131,092
EBITDA	30,137	37,617	43,476	39,763
Deprec. & amort.	2,809	3,275	2,568	2,534
EBIT	27,328	34,342	40,908	37,229
Total other non-operating income	2,418	1,537	0	0
Associate contributions	54	1,316	0	0
Net interest income/(expense)	2,150	4,006	3,104	3,124
Pre-tax profit	31,949	41,200	44,012	40,353
Tax	(5,032)	(5,121)	(7,734)	(8,878)
Minorities	494	228	236	233
Net profit	27,412	36,308	36,514	31,709
Net profit (adj.)	22,808	32,945	33,219	35,981

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	6,342	5,179	5,008	5,096
Other LT assets	34,815	34,815	34,815	34,815
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	27,588	52,551	73,618	95,054
Other current assets	104,015	104,615	105,934	108,860
Total assets	172,761	197,159	219,375	243,825
ST debt	23,876	23,876	23,876	23,876
Other current liabilities	32,953	34,025	36,015	37,831
Other LT liabilities	7,059	7,059	7,059	7,059
Shareholders' equity	104,868	125,495	145,721	168,356
Minority interest	4,006	4,006	4,006	4,006
Total liabilities & equity	172,761	197,159	219,375	243,825

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	27,709	33,216	32,306	32,899
Pre-tax profit	31,949	41,200	44,012	40,353
Tax	(5,032)	(5,121)	(7,734)	(8,878)
Deprec. & amort.	2,809	3,275	2,568	2,534
Working capital changes	3,068	473	671	(1,111)
Other operating cashflows	(5,086)	(6,611)	(7,211)	0
Investing	3,551	(2,111)	(2,398)	(2,622)
Capex (growth)	(1,383)	(2,111)	(2,398)	(2,622)
Others	4,933	0	0	0
Financing	(15,192)	(8,841)	(8,841)	(8,841)
Dividend payments	(8,841)	(8,841)	(8,841)	(8,841)
Issue of shares	3,606	0	0	0
Loan repayment	4,236	0	0	0
Others/interest paid	(14,193)	0	0	0
Net cash inflow (outflow)	16,068	22,264	21,067	21,436
Beginning cash & cash equivalent	17,375	27,588	49,852	70,919
Changes due to forex impact	111	0	0	0
Ending cash & cash equivalent	27,588	52,551	73,618	95,054

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	31.2	35.6	36.3	30.3
Pre-tax margin	33.1	39.0	36.7	30.8
Net margin	28.4	34.4	30.4	24.2
ROA	16.8	19.6	17.5	13.7
ROE	27.4	31.5	26.9	20.2
Growth				
Turnover	6.9	9.4	13.6	9.3
EBITDA	44.7	24.8	15.6	(8.5)
Pre-tax profit	40.7	29.0	6.8	(8.3)
Net profit	48.6	32.5	0.6	(13.2)
Net profit (adj.)	30.6	44.4	0.8	8.3
EPS	33.4	46.4	0.8	8.3
Leverage				
Debt to total capital	18.0	15.6	13.8	12.2
Debt to equity	22.8	19.0	16.4	14.2
Net debt/(cash) to equity	(3.5)	(22.8)	(34.1)	(42.3)

TRADERS' CORNER



Chart by Bloomberg

COSCO Shipping Ports Limited (1199 HK)

Trading Buy range: HK\$4.85-5.00

Last price: HK\$5.05

Target price: HK\$5.25/HK\$5.35

Protective stop: Breaks below HK\$4.60

Stock Highlights:

The group's throughput in Oct 23 was 9.2947m TEUs, representing an increase of 7.1% yoy. In 10M23, aggregate throughput increased 1.2% yoy to 87.1307m TEUs.

Technical View:

Share price has formed a triple-bottom pattern since July. It has risen above its 10-day (light blue), 20-day (orange), 50-day (red) and 100-day (pink) moving averages, but is restricted by the 200-day moving average (purple). The 14-day RSI is above the midline level of 50 and is currently around 67, indicating strong momentum. The MACD line is higher than the signal line, showing a double bullish signal.

Average timeframe: Around two weeks.



Chart by Bloomberg

China Shenhua Energy Co. Ltd (1088 HK)

Trading Buy range: HK\$24.60-25.00

Last price: HK\$25.20

Target price: HK\$25.80/HK\$26.10

Protective stop: Breaks below HK\$23.80

Stock Highlights:

In Oct 23, commercial coal production increased 9.1% yoy to 27.5m tonnes. Coal sales increased 8.4% yoy to 37.5m tonnes.

Technical View:

The share price showed a correction trend in October and has shown signs of rebounding recently. It has now risen above its 10-day (light blue), 20-day (orange), 50-day (red), 100-day (pink), and 200-day (purple) moving averages. The 14-day RSI is above the midline level of 50 and is currently around 63, indicating strong momentum. The MACD line is higher than the signal line, showing a bullish crossover.

Average timeframe: Around two weeks.

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Disclosures/Disclaimers

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