

# Xiaomi Corporation

## Redmi K30 5G – the game changer of 5G smartphone competition

### Reiterate Buy rating: Xiaomi poised to be 5G winner

On 10 Dec, Xiaomi officially launched the much-anticipated Redmi K30 5G smartphone. To our surprise, this flagship specs smartphone's retail price starts less than RMB2,000, 45% cheaper than the lowest price of 5G models on the market. This new 5G model will be available for sale in January 2020. We believe Redmi K30 5G model could be the game changer of 5G smartphone competition as the launch of a flagship specs 5G smartphone at such an affordable price has shown Xiaomi's leading edge in 5G competition:

- First mover advantage:** among those major smartphone manufacturers, Xiaomi was the one of earliest to launch 5G smartphone for commercial use. In Feb this year, Xiaomi launched its first ever 5G model – Mi MIX 3 in Europe with a starting price of EUR599. On the contrary, major rivals, such as Huawei, OPPO, Vivo, didn't launch their first 5G models until July. The feedback of daily use for more than half a year has helped Xiaomi improve the performance of its 5G models, and at the same time, helped Xiaomi optimize the 5G supply chain to support production ramp-up going forward.
- Proactive inventory management:** To prepare for 4G to 5G replacement next year, Xiaomi adopted proactive inventory management in the second half this year, in hope of paving the way for new 5G models' rollout next year. Compared to 4G models, smartphone buyers are more willing to buy 5G models given the acceleration of 5G deployment of telecom carriers. With less 4G inventory and strong 5G model pipeline, Xiaomi will be well positioned itself during the market transition. Xiaomi planned to launch more than 10 new 5G models in 2020.
- Competitive edge in supply chain:** due to the more detailed and complex design and more components used, 5G smartphone production places higher requirements on supply chain. A high efficient supply chain will effectively help company control costs and improve margins. The launch of a flagship specs 5G smartphone at such an affordable price proved Xiaomi's competitive edge in this area, which we believe will help Xiaomi to gain market share under a moderate margin, in particular, during the early 5G period when the production ramps up.

### Redmi K30 5G: flagship specs at low/mid-range price

The Redmi K30 5G is the first smartphone powered by the Snapdragon 765G SoC, which is built on a 7nm+ EUV process and has an integrated Snapdragon X52 modem that supports dual-mode 5G (SA and NSA) with MultiLink. The Redmi K30 5G is built around a 6.67" LCD with 120Hz refresh rate. The display also has a pill-shaped punch hole in the top-right corner for the 20MP selfie camera joined by a 2MP depth sensor. Coming to the back camera, it's a combination of 64MP main (Sony IMX686), 8MP ultrawide (120 degrees FOV), 5MP macro, and 2MP depth sensor modules. The Redmi K30 5G offers a 12-antenna design and includes dual-frequency GPS support. The Redmi K30 5G starts at a very attractive price of RMB1,999 (US\$284) for the 6GB/64GB model, making it the cheapest 5G phone around.

### Reiterate Buy rating with PT of HK\$22.0 (122% upside)

We projected Xiaomi's total smartphone shipment will reach 146mn units in 2020. Our HK\$22.0 per share Dec-20 price target is derived by using a discounted cash flow model, assuming a 13.4% cost of equity, 3% long-term growth rate.

Stock code: 1810.HK

Rating: Buy

|                                   |             |
|-----------------------------------|-------------|
| <b>Price target (HK\$)</b>        | <b>22.0</b> |
| Previous price target (HK\$)      | 22.0        |
| Current price (HK\$, 12 Dec 2019) | 9.9         |
| Upside/downside %                 | 122%        |
| Market cap (HK\$ m)               | 238,543     |
| Market cap (US\$ m)               | 30,557      |
| Avg daily turnover (HK\$ m)       | 872         |

Source: Bloomberg, AMTD Research

### Key forecasts

| (Rmb m)                 | 2018    | 2019e   | 2020e   |
|-------------------------|---------|---------|---------|
| Non-IFRS net profit     | 8,555   | 11,590  | 14,309  |
| yoy %                   | 60%     | 35%     | 23%     |
| Revenue                 | 174,915 | 206,939 | 255,457 |
| yoy %                   | 53%     | 18%     | 23%     |
| Smartphone shipment (m) | 119     | 128     | 146     |
| yoy %                   | 30%     | 8%      | 14%     |
| Gross margin            | 12.7%   | 13.8%   | 14.1%   |
| Non-IFRS net margin     | 4.9%    | 5.6%    | 5.6%    |
| EPS                     | 0.53    | 0.48    | 0.55    |

Source: Company data, AMTD Research

### Valuation

|                | 2018 | 2019e | 2020e |
|----------------|------|-------|-------|
| P/E (adjusted) | 24.8 | 18.3  | 14.8  |
| P/S            | 1.2  | 1.0   | 0.8   |
| ROE            | 8.6% | 14.9% | 15.6% |
| ROA            | 7.3% | 7.5%  | 7.9%  |

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 1: Redmi K30 5G



| Redmi K30 5G   |
|--|
| Qualcomm® Snapdragon™ 765G integrated 5G processor                       |
| 120Hz screen refresh rate, 6.67-inch DualDotDisplay                      |
| 64MP+2MP+5MP+8MP quad camera   |
| 20MP+2MP dual front camera   |
| 4500mAh  |
| 30W fast charge  |
| Multi-functional NFC, IR Blaster, 5G dual-band GPS, 3.5mm headphone jack |

Source: <http://blog.mi.com/>

Figure 2: Specs of 5G smartphone launched

| Manufacturer | Model       | Processor                  | 5G Modem        | Network | Launch date | Starting price  |
|--------------|-------------|----------------------------|-----------------|---------|-------------|-----------------|
| Xiaomi       | MIX 3       | Snapdragon 855             | X50             | NSA     | Feb-19      | EUR599          |
|              | 9 Pro       | Snapdragon 855+            | X50             | NSA     | Sep-19      | RMB3,699        |
|              | MIX Alpha   | Snapdragon 855+            | X50             | NSA     | Sep-19      | RMB19,999       |
|              | Redmi K30   | Snapdragon 765 SoC         |                 | NSA/SA  | Dec-19      | RMB1,999        |
| Huawei       | Mate20 X    | Hisilicon Kirin 980        | Balong 5000     | NSA/SA  | Jul-19      | RMB6,199        |
|              | Mate 30     | Hisilicon Kirin 990 5G SoC |                 | NSA/SA  | Sep-19      | RMB4,999        |
|              | Mate 30 Pro | Hisilicon Kirin 990 5G SoC |                 | NSA/SA  | Sep-19      | RMB6,899        |
|              | Mate X      | Hisilicon Kirin 980        | Balong 5000     | NSA/SA  | Oct-19      | RMB16,999       |
| Samsung      | S10         | Exynos 9820/Snapdragon 855 | Exynos 5100/X50 | NSA     | Feb-19      | RMB8,270        |
|              | Note10      | Exynos 9820/Snapdragon 855 | Exynos 5100/X50 | NSA     | Aug-19      | HK\$5,020       |
|              | Note10+     | Exynos 9820/Snapdragon 855 | Exynos 5100/X50 | NSA     | Aug-19      | RMB7,999        |
|              | A90         | Snapdragon 855             | X50             | NSA     | Sep-19      | RMB4,000        |
|              | W20         | Snapdragon 855+            | X50             | NSA     | Nov-19      | To be announced |
| OPPO         | Reno        | Snapdragon 855             | X50             | NSA     | Jul-19      | EUR899          |
| Vivo         | iQOO Pro    | Snapdragon 855+            | X50             | NSA     | Aug-19      | RMB3,798        |
|              | NEX3        | Snapdragon 855+            | X50             | NSA     | Sep-19      | RMB4,998        |
|              | X30         | Exynos 980 SoC             |                 | NSA/SA  | Dec-19      | To be announced |

Source: AMTD Research

Figure 3: Xiaomi's quarterly P&amp;L

| Rmb m                                 | 4Q17            | 1Q18            | 2Q18            | 3Q18            | 4Q18            | 1Q19            | 2Q19            | 3Q19            |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Profit &amp; loss</b>              |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Revenue</b>                        | <b>35,114</b>   | <b>34,412</b>   | <b>45,235</b>   | <b>50,846</b>   | <b>44,421</b>   | <b>43,757</b>   | <b>51,951</b>   | <b>53,661</b>   |
| Smartphones                           | 23,440          | 23,239          | 30,501          | 34,983          | 25,077          | 27,009          | 32,021          | 32,268          |
| IoT and lifestyle products            | 8,514           | 7,697           | 10,379          | 10,805          | 14,937          | 12,043          | 14,945          | 15,606          |
| Internet services                     | 2,898           | 3,231           | 3,958           | 4,729           | 4,037           | 4,257           | 4,580           | 5,309           |
| Advertising                           | 1,607           | 1,874           | 2,500           | 3,200           | 2,526           | 2,283           | 2,485           | 2,912           |
| IVAS                                  | 1,291           | 1,357           | 1,458           | 1,529           | 1,509           | 1,975           | 2,095           | 2,397           |
| Others                                | 262             | 245             | 397             | 330             | 370             | 448             | 405             | 477             |
| <b>Cost of sales</b>                  | <b>(31,474)</b> | <b>(30,111)</b> | <b>(39,584)</b> | <b>(44,269)</b> | <b>(38,760)</b> | <b>(38,541)</b> | <b>(44,692)</b> | <b>(45,425)</b> |
| <b>Gross profit</b>                   | <b>3,640</b>    | <b>4,301</b>    | <b>5,652</b>    | <b>6,578</b>    | <b>5,661</b>    | <b>5,216</b>    | <b>7,258</b>    | <b>8,236</b>    |
| <b>Gross margin</b>                   | <b>10.4%</b>    | <b>12.5%</b>    | <b>12.5%</b>    | <b>12.9%</b>    | <b>12.7%</b>    | <b>11.9%</b>    | <b>14.0%</b>    | <b>15.3%</b>    |
| <b>Operating expenses</b>             | <b>(3,399)</b>  | <b>(2,972)</b>  | <b>(13,896)</b> | <b>(4,305)</b>  | <b>(4,696)</b>  | <b>(4,127)</b>  | <b>(4,575)</b>  | <b>(5,414)</b>  |
| Selling and marketing expenses        | (1,914)         | (1,403)         | (2,076)         | (2,187)         | (2,328)         | (1,845)         | (2,295)         | (2,537)         |
| Administrative expenses               | (450)           | (465)           | (10,457)        | (583)           | (594)           | (632)           | (724)           | (844)           |
| R&D expenses                          | (1,035)         | (1,104)         | (1,364)         | (1,534)         | (1,775)         | (1,651)         | (1,556)         | (2,033)         |
| <b>EBIT</b>                           | <b>241</b>      | <b>1,330</b>    | <b>(8,244)</b>  | <b>2,273</b>    | <b>965</b>      | <b>1,088</b>    | <b>2,684</b>    | <b>2,823</b>    |
| Fair value changes on investments     | 3,453           | 1,763           | 527             | 65              | 2,075           | 2,633           | (671)           | 33              |
| Share of losses of investments        | (14)            | 16              | (129)           | (184)           | (318)           | (145)           | (12)            | (241)           |
| Other income                          | 146             | 158             | 207             | 259             | 220             | 60              | 406             | 448             |
| Other (losses)/gains, net             | (140)           | 98              | 47              | (202)           | 271             | (22)            | (71)            | 50              |
| <b>PBT</b>                            | <b>(12,703)</b> | <b>(6,689)</b>  | <b>14,908</b>   | <b>2,364</b>    | <b>3,344</b>    | <b>3,717</b>    | <b>2,336</b>    | <b>3,113</b>    |
| Income tax expenses                   | (360)           | (338)           | (276)           | 117             | 48              | (525)           | (479)           | (775)           |
| <b>(Loss)/profit for the year</b>     | <b>(13,063)</b> | <b>(7,027)</b>  | <b>14,633</b>   | <b>2,481</b>    | <b>3,392</b>    | <b>3,192</b>    | <b>1,955</b>    | <b>2,519</b>    |
| Minority interest                     | (33)            | (22)            | (19)            | (18)            | (17)            | 66              | 4               | (6)             |
| <b>Attributable profit</b>            | <b>(13,030)</b> | <b>(7,005)</b>  | <b>14,651</b>   | <b>2,499</b>    | <b>3,409</b>    | <b>3,126</b>    | <b>1,952</b>    | <b>2,525</b>    |
| <b>Adjusted net profit (non-IFRS)</b> | <b>550</b>      | <b>1,699</b>    | <b>2,117</b>    | <b>2,885</b>    | <b>1,853</b>    | <b>2,081</b>    | <b>3,635</b>    | <b>3,472</b>    |
| <b>Yoy growth %</b>                   |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Total revenue</b>                  |                 |                 | <b>68%</b>      | <b>49%</b>      | <b>27%</b>      | <b>27%</b>      | <b>15%</b>      | <b>6%</b>       |
| Smartphones                           |                 |                 | 59%             | 36%             | 7%              | 16%             | 5%              | -8%             |
| IoT and lifestyle products            |                 |                 | 104%            | 90%             | 75%             | 56%             | 44%             | 44%             |
| Internet services                     |                 |                 | 64%             | 85%             | 39%             | 32%             | 16%             | 12%             |
| Advertising                           |                 |                 | 70%             | 110%            | 57%             | 22%             | -1%             | -9%             |
| IVAS                                  |                 |                 | 54%             | 49%             | 17%             | 45%             | 44%             | 57%             |
| Others                                |                 |                 | 149%            | 125%            | 41%             | 83%             | 2%              | 45%             |
| <b>Gross profit</b>                   |                 |                 | <b>47%</b>      | <b>26%</b>      | <b>56%</b>      | <b>21%</b>      | <b>28%</b>      | <b>25%</b>      |
| <b>Adjusted net profit (non-IFRS)</b> |                 |                 | <b>25%</b>      | <b>17%</b>      | <b>237%</b>     | <b>22%</b>      | <b>72%</b>      | <b>20%</b>      |

Source: Company data; AMTD research

Figure 4: Xiaomi's P&amp;L forecast

| Rmb m  | 2016            | 2017            | 2018             | 2019E            | 2020E            |
|--|-----------------|-----------------|------------------|------------------|------------------|
| <b>Profit &amp; loss</b>                     |                 |                 |                  |                  |                  |
| <b>Revenue</b>                               | <b>68,434</b>   | <b>114,625</b>  | <b>174,915</b>   | <b>206,939</b>   | <b>255,457</b>   |
| Smartphones                                  | 48,764          | 80,564          | 113,800          | 124,471          | 146,980          |
| IoT and lifestyle products                   | 12,415          | 23,448          | 43,817           | 62,180           | 82,929           |
| Internet services                            | 6,538           | 9,896           | 15,956           | 18,811           | 23,997           |
| Advertising                                  | 3,838           | 5,614           | 10,100           | 10,302           | 12,363           |
| IVAS   | 2,699           | 4,282           | 5,853            | 8,509            | 11,635           |
| Others                                       | 717             | 717             | 1,343            | 1,477            | 1,551            |
| <b>Cost of sales</b>                         | <b>(61,185)</b> | <b>(99,471)</b> | <b>(152,723)</b> | <b>(178,465)</b> | <b>(219,344)</b> |
| <b>Gross profit</b>                          | <b>7,249</b>    | <b>15,154</b>   | <b>22,192</b>    | <b>28,474</b>    | <b>36,113</b>    |
| <b>Gross margin</b>                          | <b>10.6%</b>    | <b>13.2%</b>    | <b>12.7%</b>     | <b>13.8%</b>     | <b>14.1%</b>     |
| <b>Operating expenses</b>                    | <b>(6,053)</b>  | <b>(9,599)</b>  | <b>(25,869)</b>  | <b>(18,211)</b>  | <b>(23,502)</b>  |
| Selling and marketing expenses               | (3,022)         | (5,232)         | (7,993)          | (8,898)          | (11,240)         |
| Administrative expenses                      | (927)           | (1,216)         | (12,099)         | (2,276)          | (3,321)          |
| R&D expenses                                 | (2,104)         | (3,151)         | (5,777)          | (7,036)          | (8,941)          |
| <b>EBIT</b>                                  | <b>1,196</b>    | <b>5,555</b>    | <b>(3,677)</b>   | <b>10,263</b>    | <b>12,611</b>    |
| Fair value changes on investments            | 2,727           | 6,371           | 4,430            | 1,000            | 1,000            |
| Share of losses of investments               | (150)           | (231)           | (615)            | (200)            | (200)            |
| Other income                                 | 540             | 449             | 845              | 300              | 300              |
| Other (losses)/gains, net                    | (528)           | 72              | 213              | -                | -                |
| <b>PBT</b>                                   | <b>1,176</b>    | <b>(41,829)</b> | <b>13,927</b>    | <b>11,625</b>    | <b>14,063</b>    |
| Income tax expenses                          | (155)           | (684)           | (2,060)          | (449)            | (1,932)          |
| <b>(Loss)/profit for the year</b>            | <b>492</b>      | <b>(43,889)</b> | <b>13,478</b>    | <b>9,693</b>     | <b>11,732</b>    |
| Minority interest                            | (62)            | (63)            | (76)             | (84)             | (92)             |
| <b>Attributable profit</b>                   | <b>553</b>      | <b>(43,826)</b> | <b>13,554</b>    | <b>9,777</b>     | <b>11,824</b>    |
| <b>Adjusted net profit (non-IFRS)</b>        | <b>1,896</b>    | <b>5,362</b>    | <b>8,555</b>     | <b>11,590</b>    | <b>14,309</b>    |
| <b>Yoy growth %</b>                          |                 |                 |                  |                  |                  |
| <b>Total revenue</b>                         | <b>2%</b>       | <b>67%</b>      | <b>53%</b>       | <b>18%</b>       | <b>23%</b>       |
| Smartphones                                  | -9%             | 65%             | 41%              | 9%               | 18%              |
| IoT and lifestyle products                   | 43%             | 89%             | 87%              | 42%              | 33%              |
| Internet services                            | 102%            | 51%             | 61%              | 18%              | 28%              |
| Advertising                                  | 111%            | 46%             | 80%              | 2%               | 20%              |
| IVAS   | 90%             | 59%             | 37%              | 45%              | 37%              |
| Others                                       | -39%            | 0%              | 87%              | 10%              | 5%               |
| <b>Gross profit</b>                          | <b>169%</b>     | <b>109%</b>     | <b>46%</b>       | <b>28%</b>       | <b>27%</b>       |
| <b>(Loss)/profit for the year (reported)</b> | <b>na</b>       | <b>na</b>       | <b>na</b>        | <b>-28%</b>      | <b>21%</b>       |
| <b>Adjusted net profit (non-IFRS)</b>        | <b>na</b>       | <b>183%</b>     | <b>60%</b>       | <b>35%</b>       | <b>23%</b>       |

Source: Company data; AMTD estimates

Figure 5: Xiaomi key operating matrix

| Operating matrix                               | 2016  | 2017  | 2018   | 2019E  | 2020E  |
|--|-------|-------|--------|--------|--------|
| <b>Revenue mix</b>                             |       |       |        |        |        |
| Smartphones                                    | 71.3% | 70.3% | 65.1%  | 60.1%  | 57.5%  |
| IoT and lifestyle products                     | 18.1% | 20.5% | 25.1%  | 30.0%  | 32.5%  |
| Internet services                              | 9.6%  | 8.6%  | 9.1%   | 9.1%   | 9.4%   |
| Advertising                                    | 5.6%  | 4.9%  | 5.8%   | 5.0%   | 4.8%   |
| IVAS   | 3.9%  | 3.7%  | 3.3%   | 4.1%   | 4.6%   |
| Others   | 1.0%  | 0.6%  | 0.8%   | 0.7%   | 0.6%   |
| Smartphone shipment (million)                  | 55    | 91    | 119    | 128    | 146    |
| yoy %  | -17%  | 65%   | 30%    | 8%     | 14%    |
| Smartphone ASP (Rmb)                           | 880   | 881   | 959    | 974    | 1,008  |
| yoy %  | 9.0%  | 0.2%  | 8.8%   | 1.5%   | 3.6%   |
| IoT and lifestyle product sales per smartphone | 224   | 257   | 308    | 486    | 569    |
| yoy %  | 71.5% | 14.5% | 20.0%  | 58.0%  | 17.0%  |
| IoT and lifestyle product sales per MIUI MAU   | 92    | 137   | 181    | 215    | 234    |
| yoy %  | 18.9% | 49.1% | 31.8%  | 19%    | 9%     |
| End-of-the-period MIUI MAUs (millions)         | 135   | 171   | 242    | 289    | 355    |
| yoy %  | 20%   | 27%   | 42%    | 20%    | 23%    |
| Internet ARPU (Rmb)                            | 49    | 58    | 66     | 65     | 68     |
| yoy %  | 68%   | 19%   | 14%    | -1%    | 4%     |
| Gross margin for hardware (%)                  | 4.40% | 8.70% | 7.33%  | 8.7%   | 9.1%   |
| Gross margin for internet services segment (%) | 64%   | 60%   | 64%    | 63%    | 62%    |
| Advertising                                    | 86%   | 82%   | 82%    | 87%    | 87%    |
| IVAS   | 34%   | 32%   | 30%    | 35%    | 35%    |
| Non-IFRS net margin (%)                        | 2.8%  | 4.7%  | 4.9%   | 5.6%   | 5.6%   |
| Operating margin (reported)                    | 5.5%  | 10.7% | 0.7%   | 5.5%   | 5.4%   |
| Operating expense to revenue %                 | -35   | -38   | -36    | -35    | -35    |
| Cash conversion cycle (days)                   | 8.8%  | 8.4%  | 14.8%  | 8.8%   | 9.2%   |
| Net cash/ (net debt)                           | 9,663 | 8,986 | 28,794 | 40,681 | 24,784 |

Source: Company data; AMTD estimates

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## IMPORTANT DISCLOSURES

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**AMTD Investment Ratings**

| Industry Rating    |   |
|--------------------|---|
| <b>Overweight</b>  | Industry sector expected to outperform the market over the next 12 months           |
| <b>Neutral</b>     | Industry sector expected to perform in-line with the market over the next 12 months |
| <b>Underweight</b> | Industry sector expected to underperform the market over the next 12 months         |
| Stock Rating       |   |
| <b>Buy</b>         | Stock with potential return of over 20% over the next 12 months                     |
| <b>Hold</b>        | Stock with potential return of -20% to +20% over the next 12 months                 |
| <b>Sell</b>        | Stock with potential loss of over 20% over the next 12 months                       |

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## GENERAL DISCLOSURES

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