

Financial sector

4Q23 FHC net worth up QoQ, boosting 2023 dividend payout ability & capital gains

Key message

1. Preliminary average 4Q23 net worth of 13 FHCs grew 8% QoQ on significantly higher 4Q23 earnings and unrealized gains on financial assets.
2. Fubon FHC's and Cathay FHC's 4Q23 net worth growth outpaced peers. CTBC FHC, Mega FHC and Yuanta FHC beat peers with 2023F cash dividend yields over 4%.
3. We favor the banking/ securities, life insurance and leasing segments, with positive views on CTBC FHC, Yuanta FHC, Cathay FHC and Fubon FHC.

Event

FHCs have released 4Q23 preliminary net worth, with the average reading up 8% QoQ. Cathay FHC (2882 TT, NT\$43.9, OP) topped peers in terms of 4Q23 net worth growth.

Analysis

Net worth of all FHCs up QoQ in 4Q23. The aggregate net profit of 14 FHCs declined 81% QoQ in 4Q23 to NT\$25.8bn, the lowest in 2023, due to net losses at life insurance-focused FHCs on NT dollar appreciation and higher credit costs and operating expenses at banks. However, the average 4Q23 preliminary net worth of 13 FHCs grew 8% QoQ, for a growth rate and amount second only to the 10% and NT\$396.2bn in 1Q23. The main drivers were 4Q23 net profit and valuation gains on stocks and overseas bonds under FVOCI and FVTPL. This was a reflection of a respective Taix and S&P 500 rise of 9.6% and 11.2% from 2Q23, and that US two- and ten-year Treasury yields, the benchmark interest rates of overseas corporate bonds, dropped by a respective 80bps and 70bps QoQ to 4.25% and 3.88%.

4Q23 net worth growth of Cathay FHC & Fubon FHC beat FHC peers. Cathay FHC's (2882 TT, NT\$43.90, OP) net worth grew by around NT\$116.2bn QoQ, up 17%, the highest among life insurance-focused FHCs, and other equity losses narrowed by NT\$124bn, potentially enabling Cathay FHC to pay a 2023F cash dividend of NT\$1.4-1.6 per share. Fubon FHC's (2881 TT, NT\$64.30, OP) net worth increased by around NT\$66.6bn QoQ in 4Q23, up 8.9%. We estimate other equity losses decreased by around NT\$68bn QoQ to a loss of NT\$33bn, implying potential capital gains on higher unrealized gains on financial assets and that 2023F distributable earnings are around NT\$285bn, boosting 2023F cash dividend to NT\$2.0-2.2 per share. In 4Q23, While Shin Kong FHC (2888 TT, NT\$8.52, NR) saw net worth and other equity pick up in 4Q23, we don't think it is able to pay a 2023F cash dividend. Among banking- and securities-focused FHCs, which posted 5% growth QoQ in 4Q23 net worth on average, CTBC FHC (2891 TT, NT\$28.40, OP) and Mega FHC (2886 TT, NT\$37.90, N) improved other equity by over NT\$20bn and NT\$10bn, respectively, higher than peers. On this, combined with earnings growth in 2023, we forecast CTBC FHC, Mega FHC and Yuanta FHC (2885 TT, NT\$26.85, OP) will distribute a 2023F cash dividend of a respective NT\$1.2, NT\$1.6 and NT\$1.25 per share, for a cash yield of over 4%, higher than FHC peers.

New FSC rules have little effect on 2023F FHC dividend payouts. On January 18, the Financial Supervisory Commission (FSC) promulgated rules governing cash dividend payouts based on the legal reserves and capital surplus of FHCs. Since the 2023F distributable earnings of most FHCs rebounded, the rules do not affect their 2023F cash dividend payouts. That said, if significant other equity losses are incurred going forward, FHCs must appropriate special reserves to bring distributable earnings to zero. If FHCs plan to pay cash dividends out of capital surplus under a more relaxed regulation in a bid to maintain a stable cash dividend payout policy, then they must comply with the following: (1) Article 241 of the Company Act; and (2) the FHC's BIS capital ratio must be 120% and its subsidiaries' BIS capital ratios must comply with requirements post-cash dividend payout. This means FHCs need to strengthen capital over the medium to long term, especially those with low distributable earnings or those easily affected by the volatility of unrealized gains/ losses on financial assets.

Stocks for Action

That FHCs grew net worth in 4Q23 suggests their 2023F dividend payout ability and potential capital gains were boosted. We forecast the average cash dividend per share of FHCs in our coverage will grow 50% in 2023 and that the average cash dividend yield of CTBC FHC, Yuanta FHC and Mega FHC will exceed 4%, compared with the average of 3.2% of FHC peers. Fubon FHC's and Cathay FHC's 2023F cash dividends will still be higher than in 2022 despite the fact that their life insurance subsidiaries are unable to pay dividends to them. As the Fed is expected to hold its benchmark interest rate in January, Fed members could discuss rate cuts and QT reduction in 2024, albeit depending on inflation and employment. We predict banks will see FX swap income flatten or drop a bit in 1Q24F, but stronger lending will help sustain NIM in 1H24F. Meanwhile, we expect life insurers' and banks' investments, banks' wealth management fee income and securities houses' business will benefit from Fed monetary policy becoming accommodative. We favor the banking/ securities, life insurance and leasing segments, with positive views on CTBC FHC, Yuanta FHC, Cathay FHC and Fubon FHC.

Risks

Weakening global financial markets; high credit costs for banks.

Figure 1: In 4Q23, preliminary net worth of 13 FHCs grew 8% QoQ, with life insurance-focused FHCs up 10.9% QoQ, compared to banking- & securities-focused FHCs' respective 4.7% and 6.4% QoQ

NT\$m	Ticker	Name	4Q23			3Q23			4Q23 QoQ			
			Equity attributable to parent company	BVPS (common shares) (NT\$)	Other equity interest*	Equity attributable to parent company	BVPS (common shares) (NT\$)	Other equity interest	Equity attributable to parent company	Net worth QoQ (%)	BVPS (common shares) (NT\$)	Other equity interest
	2882 TT	Cathay FHC	788,016	47.45	(78,121)	671,790	39.52	(202,099)	116,226	17.3%	7.92	123,978
	2881 TT	Fubon FHC	816,960	55.39	(33,286)	750,372	50.28	(101,546)	66,587	8.9%	5.12	68,260
	2888 TT	Shin Kong FHC	245,665	15.00	(17,971)	230,323	14.01	(39,845)	15,342	6.7%	0.99	21,874
	2891 TT	CTBC FHC	441,750	21.03	(37,071)	413,556	19.59	(57,770)	28,194	6.8%	1.44	20,699
	2886 TT	Mega FHC	334,843	23.83	2,901	318,371	22.66	(7,361)	16,472	5.2%	1.17	10,262
	5880 TT	Cooperative FHC	239,933	16.31	(8,373)	229,123	15.58	(15,834)	10,810	4.7%	0.73	7,461
	2880 TT	Hua Nan FHC	207,724	15.23	(10,283)	195,680	14.34	(17,593)	12,044	6.2%	0.88	7,310
	2890 TT	Sinopac FHC	188,355	15.22	(5,102)	178,223	14.40	(11,163)	10,132	5.7%	0.82	6,060
	2885 TT	Yuanta FHC	287,007	22.62	4,274	278,306	21.93	(1,393)	8,701	3.1%	0.69	5,667
	2887 TT	Taishin FHC	216,563	13.73	(798)	209,610	13.17	(5,253)	6,953	3.3%	0.56	4,455
	2889 TT	Waterland FHC	43,138	12.51	1,924	39,316	11.40	(1,492)	3,822	9.7%	1.11	3,417
	2892 TT	First FHC	248,446	18.24	17,008	242,009	17.77	14,005	6,437	2.7%	0.47	3,003
	2884 TT	E.Sun FHC	236,000	15.07	(2,216)	228,531	14.59	(3,807)	7,469	3.3%	0.48	1,591

Note: We assume changes in 4Q23 FHC net worth are determined only by (1) profits/ losses from other equity interest; and (2) 4Q23 net profit
 Source: Company data, TEJ, KGI Research

Figure 2: Based on 2023F earnings & 4Q23 net worth, Shin Kong FHC may not be able to pay a dividend, but other FHCs in our coverage will see cash dividend per share rise around 50% in 2023F, with yield over 4% at CTBC FHC, Yuanta FHC & Mega FHC, vs. FHC average of 3.2%

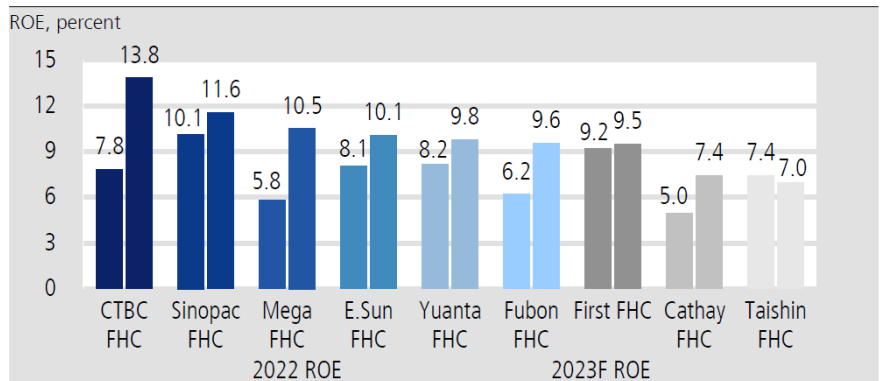
NT\$m	Ticker	Company	2022 undistributed earnings	4Q22 other equity interest	2023 net profit	4Q23F other equity interest	Changes in other equity in 2023F	2023F undistributed earnings**	2023F Cash dividend per share (NT\$) lower band	2023F Cash dividend per share (NT\$) upper band	vs.2022 Cash dividend per share (NT\$)	2023F Cash dividend growth rate	2023F Cash dividend yields
	2881 TT	Fubon FHC	101,690	(226,424)	66,140	(33,286)	193,138	284,353	2.00	2.20	1.50	33%	3.1%
	2891 TT	CTBC FHC	3,102	(74,208)	56,081	(37,071)	37,138	90,712	1.20	1.30	1.00	20%	4.2%
	2885 TT	Yuanta FHC	52,355	(6,968)	26,566	4,274	11,242	87,507	1.15	1.25	0.80	44%	4.3%
	2886 TT	Mega FHC	25,308	(15,326)	33,238	2,901	18,227	73,449	1.60	1.70	1.24	29%	4.2%
	2882 TT	Cathay FHC	-	(233,350)	51,500	(78,121)	155,229	46,350	1.40	1.60	0.90	56%	3.2%
	2892 TT	First FHC	17,368	4,630	22,461	17,008	12,378	37,583	0.90	0.95	0.80	13%	3.4%
	2890 TT	Sinopac FHC*	4,010	(14,200)	19,783	(5,102)	9,098	30,912	0.80	0.90	0.60	33%	4.2%
	2884 TT	E.Sun FHC	945	(5,367)	21,760	(2,216)	3,151	23,680	0.54	0.60	0.19	184%	2.2%
	5880 TT	Cooperative FHC*	117	(21,510)	17,863	(8,373)	13,137	29,331	0.75	0.80	0.50	50%	3.0%
	2880 TT	Hua Nan FHC*	50	(18,238)	21,626	(10,283)	7,954	27,467	0.69	0.75	0.59	17%	3.2%
	2887 TT	Taishin FHC	393	(7,294)	14,600	(798)	6,495	20,028	0.54	0.60	0.51	6%	3.1%
	2889 TT	Waterland FHC*	-	(2,463)	2,000	1,924	4,387	3,085	0.35	0.40	-	-	2.9%
	2888 TT	Shin Kong FHC*	-	(57,896)	(7,301)	(17,971)	39,925	-	-	-	-	-	0.0%

Note 1: Fubon FHC and First FHC are required to book special reserves of NT\$70bn and NT\$2.3bn, respectively, in 4Q23 as they reclassified part of their bond positions to the AC category from FVOCI in January 1, 2023

Note 2: * Indicates FHCs not within our coverage universe; 2023F payout forecasts for these FHCs are based on Bloomberg consensus or historical payout ratio

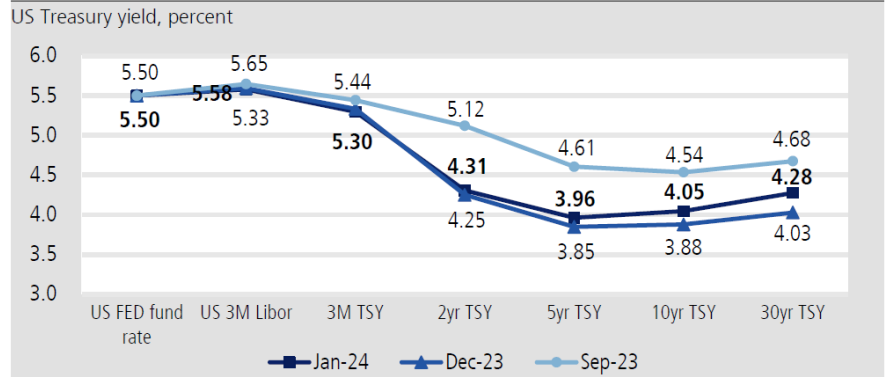
Source: Company data, KGI Research

Figure 3: 2023F FHC ROEs higher than in 2022, with CTBC FHC outperforming



Source: Company data, TEJ, KGI Research

Figure 4: In January, US 10- & 30-year Treasury yields rose to 4-4.3%, affecting 1Q24F bond valuations, but good for life insurers, banks & securities houses in building overseas bond positions pre-Fed cuts



Source: Bloomberg, KGI Research

Figure 5: Fubon FHC's 4Q23 share portfolio changes

Fubon FHC	4Q23				1Q24F
	Position (NTSmn)	Position QoQ (NTSmn)	Shares (mn shs)	Shares QoQ (mn shs)	Unrealized gain or loss on financial asset (NTSmn)
2330 TT TSMC	107,969	21,667	182	17	8,922
3034 TT Novatek	15,079	4,768	29	5	(262)
2301 TT LTC	6,954	4,003	59	35	(505)
3023 TT Sinbon	3,827	3,827	13	13	(512)
3293 TT IGS	3,605	3,605	5	5	533
2345 TT Accton	3,171	3,171	6	6	(49)
2885 TT Yuanta FHC	6,834	2,324	248	68	(186)
2308 TT DELTA	5,450	2,006	17	7	(478)
5483 TT SAS	4,524	1,977	23	7	(81)
1590 TT Airtac	6,595	1,875	7	2	(294)
2412 TT CHT	2,492	(697)	21	(7)	(10)
2382 TT QCI	8,067	(751)	36	(1)	1,024
2002 TT CSC	1,448	(910)	54	(40)	(105)
2408 TT NTC	2,390	(1,018)	31	(21)	(267)
2891 TT CTBC FHC	14,322	(1,113)	505	(125)	25
2303 TT UMC	19,373	(1,224)	368	(87)	(1,105)
3702 TT WPG	-	(1,295)	-	(21)	-
2886 TT Mega FHC	-	(1,659)	-	(44)	-
3231 TT Wistron	1,320	(2,603)	13	(25)	260
2454 TT MTK	5,922	(8,461)	6	(14)	(303)
	4Q23				1Q24F
	Position	Position QoQ			Unrealized gain or loss on financial asset
Technology	238,030	37,164			5,571
TSMC	107,969	21,667			8,922
Telecom	19,775	(41)			(28)
Financials	43,138	342			(1,059)
Non-tech	45,760	1,485			(2,340)
Total	346,702	38,950			2,144

Source: Company data, KGI Research

Figure 6: Cathay FHC's 4Q23 share portfolio

Cathay FHC	4Q23		1Q24F
	Position (NT\$mn)	Shares (mn shs)	Unrealized gain or loss on financial asset (NT\$mn)
2330 TT TSMC	71,363	120	5,897
2454 TT MTK	35,011	34	(1,794)
2412 TT CHT	27,815	232	(116)
1216 TT Uni-President	26,930	361	(1,084)
2382 TT QCI	25,427	113	3,228
4904 TT Far EasTone	25,281	317	95
2886 TT Mega FHC	22,571	576	(749)
3045 TT TWM	21,304	216	(22)
2881 TT Fubon FHC	16,242	251	(125)
2891 TT CTBC FHC	15,950	563	28
3711 TT ASEH	13,878	103	103
2324 TT Compal	12,496	314	(1,207)
2885 TT Yuanta FHC	12,323	446	(335)
2303 TT UMC	12,104	230	(690)
2892 TT First FHC	11,900	434	(391)
3702 TT WPG	11,344	139	848
2356 TT Inventec	10,726	203	670
2377 TT MSI	10,706	52	(1,050)
2379 TT RT	10,670	23	(407)
2301 TT LTC	10,370	89	(753)
	4Q23		1Q24F
	Position		Unrealized gain or loss on financial asset
Technology	293,245		5,030
TSMC	71,363		5,897
Telecom	74,401		(42)
Financials	99,156		(2,412)
Non-tech	58,205		(2,303)
Total	525,006		274

Source: Company data, KGI Research

Figure 7: CTBC FHC's 4Q23 share portfolio changes

CTBC FHC	4Q23				1Q24F
	Position (NT\$mn)	Position QoQ (NT\$mn)	Shares (mn shs)	Shares QoQ (mn shs)	Unrealized gain or loss on financial asset (NT\$mn)
1301 TT FPC	15,247	6,089	193	78	(1,386)
2317 TT Hon Hai	2,359	2,359	23	23	(56)
2892 TT First FHC	9,113	2,282	333	75	(299)
6592 TT Hotai Finance	15,078	1,365	118	14	(942)
5876 TT SCSB	15,104	798	323	(8)	(807)
2327 TT Yageo	1,142	194	2	0	(90)
3105 TT Win	172	172	1	1	(3)
2382 TT QCI	1,472	130	7	1	187
2303 TT UMC	10,691	108	203	(31)	(610)
2308 TT DELTA	676	44	2	0	(59)
2330 TT TSMC	21,304	(244)	36	(5)	1,760
2887 TT TAISHIN FHC	7,627	(398)	421	(27)	(400)
2886 TT Mega FHC	14,661	(456)	374	(27)	(486)
4904 TT Far EasTone	5,353	(542)	67	(14)	20
1101 TT TCC	7,374	(656)	212	(30)	(603)
1402 TT FENC	2,697	(1,959)	86	(75)	(48)
2882 TT Cathay FHC	11,636	(2,293)	254	(58)	(471)
2347 TT Synnex	-	(2,939)	-	(46)	0
2881 TT Fubon FHC	4,697	(3,270)	72	(59)	(36)
2002 TT CSC	14,020	(4,180)	519	(202)	(1,013)
	4Q23				1Q24F
	Position	Position QoQ			Unrealized gain or loss on financial asset
Technology	41,515	(208)			1,039
TSMC	21,304	(244)			1,760
Telecom	23,565	(632)			(30)
Financials	77,915	(6,074)			(3,442)
Non-tech	43,817	(772)			(3,250)
Total	186,812	(7,687)			(5,683)

Source: Company data, KGI Research

Figure 8: Shin Kong FHC's 4Q23 share portfolio changes

ShinKong FHC	4Q23				1Q24F
	Position (NT\$mn)	Position QoQ (NT\$mn)	Shares (mn shs)	Shares QoQ (mn shs)	Unrealized gain or loss on financial asset (NT\$mn)
2454 TT MTK	4,435	2,636	4	2	(227)
1402 TT FENC	10,789	1,695	346	29	(190)
2308 TT DELTA	4,456	1,075	14	4	(391)
1216 TT Uni-President	4,601	1,018	62	11	(185)
2303 TT UMC	7,859	286	149	(18)	(448)
2382 TT QCI	4,864	57	22	2	618
4938 TT Pegatron	4,188	7	48	(7)	(168)
5880 TT TCFHC	3,288	2	123	(5)	(160)
-	-	-	-	-	-
-	-	-	-	-	-
5876 TT SCSB	5,149	(269)	110	(15)	(275)
2881 TT Fubon FHC	18,481	(423)	285	(26)	(143)
2882 TT Cathay FHC	21,469	(538)	469	(25)	(868)
4904 TT Far EasTone	15,639	(774)	196	(30)	59
2886 TT Mega FHC	5,929	(869)	151	(29)	(197)
2317 TT Hon Hai	25,959	(1,271)	248	(13)	(621)
2412 TT CHT	44,721	(1,275)	373	(24)	(186)
3045 TT TWM	20,407	(1,647)	207	(26)	(21)
2891 TT CTBC FHC	10,433	(1,784)	368	(131)	18
2330 TT TSMC	69,028	(9,384)	116	(34)	5,704
	4Q23				1Q24F
	Position	Position QoQ			Unrealized gain or loss on financial asset
Technology	120,791	(6,594)			4,466
TSMC	69,028	(9,384)			5,704
Telecom	80,766	(3,697)			(148)
Financials	72,777	(4,006)			(1,880)
Non-tech	32,523	2,329			(1,597)
Total	306,858	(11,967)			841

Source: TEJ, KGI Research

Figure 9: Financial stock ups/ downs six months before & after Fed cuts on September 18, 2007

Average return rate, percent	Before interest rate cut date		After interest rate cut date	
	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
Financial	3.8%	0.4%	-11.5%	11.5%
Property Insurance	9.9%	-5.6%	-13.1%	7.3%
Brokerages	8.8%	4.7%	-10.3%	22.5%
Bank	0.7%	-1.4%	-11.1%	10.8%
Leasing	13.9%	-0.2%	-4.5%	9.0%

Ticker	FHC/Bank	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
2809 TT	King's Town Bank	10.2%	2.7%	-22.0%	7.3%
2891 TT	CTBC FHC	5.9%	-10.9%	-8.4%	21.3%
2890 TT	SinoPac FHC	5.3%	-5.6%	-22.7%	11.8%
2886 TT	Mega FHC	3.3%	-1.8%	-3.8%	13.6%
2834 TT	TBB	2.2%	-8.3%	5.5%	8.9%
2892 TT	First FHC	1.7%	1.5%	3.9%	23.0%
5880 TT	Cooperative FHC	1.7%	5.4%	-0.9%	20.0%
2801 TT	Changhwa Bank	0.5%	11.1%	-17.7%	7.5%
2887 TT	Taishin FHC	-0.3%	-4.9%	-26.7%	8.7%
2880 TT	Hua Nan FHC	-4.0%	-4.3%	-4.6%	21.3%
2884 TT	E.Sun FHC	-6.4%	-9.6%	-4.2%	3.4%
2845 TT	Far Eastern Bank	-11.3%	-6.0%	-31.6%	4.7%

Ticker	Life insurance	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
2888 TT	Shin Kong FHC	27.6%	-14.8%	-24.8%	-7.5%
2882 TT	Cathay FHC	10.9%	1.0%	-16.4%	13.6%
2881 TT	Fubon FHC	4.6%	-5.8%	-5.6%	21.0%

Ticker	Brokerages	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
2885 TT	Yuanta FHC	22.9%	0.7%	-3.5%	32.8%
2855 TT	President Securities	12.8%	11.5%	-17.2%	30.1%
6005 TT	Capital Securities	10.3%	13.1%	-20.7%	48.9%
2889 TT	Waterland FHC	7.0%	1.8%	-1.0%	13.8%

Ticker	Leasing	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
9941 TT	Yulon Finance	13.9%	-0.2%	-4.5%	9.0%

Source: TEJ, KGI Research

Figure 10: Financial stock ups/ downs six months before & after Fed cuts on July 31, 2019

Average return rate, percent	Before interest rate cut date		After interest rate cut date	
	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
Financial	7.2%	4.2%	2.6%	1.8%
Bank	10.6%	6.3%	2.5%	1.4%
Brokerages	4.5%	3.9%	3.4%	3.6%
Property Insurance	2.4%	-2.2%	4.1%	-1.0%
Leasing	0.0%	0.0%	0.0%	0.0%

Ticker	FHC/Bank	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
2884 TT	E.Sun FHC	19.4%	12.0%	3.5%	4.5%
2890 TT	SinoPac FHC	15.9%	8.7%	1.2%	2.0%
2834 TT	TBB	15.4%	5.1%	1.0%	-2.4%
2809 TT	King's Town Bank	15.1%	-0.6%	-0.6%	7.9%
5876 TT	SCSB	14.8%	5.7%	3.6%	-3.3%
2886 TT	Mega FHC	13.2%	6.6%	-2.1%	5.1%
2845 TT	Far Eastern Bank	11.9%	6.4%	1.9%	-0.8%
5880 TT	Cooperative FHC	10.8%	2.4%	5.9%	-1.0%
2892 TT	First FHC	7.8%	6.4%	0.7%	5.4%
2891 TT	CTBC FHC	3.9%	-1.0%	4.2%	4.0%
2887 TT	Taishin FHC	3.7%	3.5%	1.9%	0.4%
2880 TT	Hua Nan FHC	3.7%	3.5%	1.9%	0.4%
2801 TT	Changhwa Bank	3.4%	17.8%	9.8%	-4.8%

Ticker	Life insurance	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
2882 TT	Cathay FHC	4.7%	-7.4%	1.4%	-1.3%
2881 TT	Fubon FHC	4.2%	-2.7%	5.2%	-1.0%
2888 TT	Shin Kong FHC	1.5%	4.7%	7.4%	0.8%

Ticker	Brokerages	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
6023 TT	Yuanta Futures	5.6%	11.3%	12.8%	-3.6%
2889 TT	Waterland FHC	5.6%	6.2%	3.5%	6.4%
2885 TT	Yuanta FHC	4.4%	3.5%	8.6%	1.8%
6005 TT	Capital Securities	3.0%	0.9%	1.3%	10.3%
2855 TT	President Securities	2.3%	-0.9%	3.5%	6.8%
6024 TT	Capital Futures	0.8%	-1.9%	-2.3%	-0.6%

Ticker	Leasing	6-3 months	3 months - 1 day	1 day - 3 months	3-6 months
5871 TT	Chailase Finance	17.4%	6.1%	2.8%	5.6%
9941 TT	Yulon Finance	15.7%	15.8%	-3.0%	4.4%

Source: TEJ, KGI Research

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