

China Maple Leaf Educational Systems

Version 1 | Bloomberg: 1317 HK Equity | Reuters: 1317.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Jul 2017

BUY (Initiate Coverage)

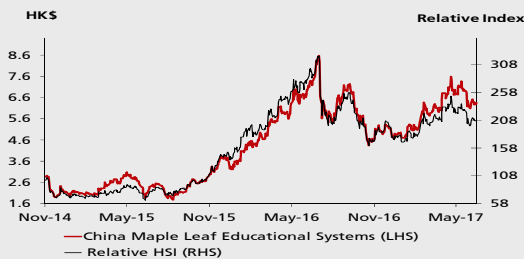
Last Traded Price (11 Jul 2017): HK\$6.36 (HSI : 25,878)

Price Target 12-mth: HK\$7.73 (22% upside)

Analyst

Manyi LU
manyilu@db.comDennis Lam +852 2971 1922
dennis_lam@db.com

Price Relative



Forecasts and Valuation

| FY Aug (RMB m) | 2016A | 2017F | 2018F | 2019F |
|--------------------------------|-------|-------|-------|-------|
| Turnover | 830 | 1,014 | 1,356 | 1,628 |
| EBITDA | 298 | 359 | 473 | 580 |
| Pre-tax Profit | 326 | 394 | 474 | 585 |
| Net Profit | 308 | 371 | 446 | 538 |
| Net Pft (Pre Ex) (core profit) | 308 | 371 | 446 | 538 |
| Net Profit Gth (Pre-ex) (%) | 49.6 | 20.5 | 20.3 | 20.6 |
| EPS (RMB) | 0.23 | 0.28 | 0.33 | 0.40 |
| EPS (HK\$) | 0.27 | 0.32 | 0.38 | 0.46 |
| EPS Gth (%) | 35.3 | 20.1 | 20.3 | 20.6 |
| Diluted EPS (HK\$) | 0.27 | 0.32 | 0.38 | 0.46 |
| DPS (HK\$) | 0.11 | 0.14 | 0.17 | 0.20 |
| BV Per Share (HK\$) | 1.71 | 1.88 | 2.09 | 2.33 |
| PE (X) | 23.9 | 19.9 | 16.5 | 13.7 |
| P/Cash Flow (X) | 13.8 | 10.5 | 7.1 | 6.8 |
| P/Free CF (X) | 0.5 | 0.0 | 0.0 | 0.0 |
| EV/EBITDA (X) | 20.5 | 17.3 | 12.2 | 9.3 |
| Net Div Yield (%) | 1.7 | 2.2 | 2.7 | 3.2 |
| P/Book Value (X) | 3.7 | 3.4 | 3.1 | 2.7 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH |
| ROAE (%) | 16.0 | 17.4 | 19.0 | 20.5 |
| Earnings Rev (%): | | New | New | New |
| Consensus EPS (RMB) | | 0.28 | 0.35 | 0.42 |
| Other Broker Recs: | | B: 12 | S: 0 | H: 2 |

Source of all data on this page: Company, DBSV, Thomson Reuters, HKEX

Growth of international pathways

- **Enhanced international exposure and focus on kindergartens to capture new opportunities**
- **Valuation is reasonable at 16x FY18F with room to further re-rate supported by strong earnings growth momentum of c.20%.**
- **Initiating coverage with BUY and HK\$7.73 TP**

Strong growth to continue with nationwide and overseas expansion.

China Maple Leaf Educational Systems (Maple Leaf) operates the largest network of private international schools in China. We are positive on the company's ability to expand into the international education market. Its strategy is (i) to increase international exposure to enhance its school network; and (ii) focus in Tier 2 cities. The first enables it to catch the trend of students going overseas at a younger age while the second helps it to avoid the weakness of the British Columbia ("BC") curriculum in Tier 1 cities where International Baccalaureate ("IB") and Advanced Placement ("AP") curriculums are more popular.

Where we differ: Our FY18-20F revenue estimates are slightly more bullish than consensus while EPS projections are in line with the market. We are more optimistic about its future expansion and growth potential driven by its (i) expansion strategy and exposure to the international school market; (ii) easy-to-scale business model with its own logistic supply chain. We are more cautious on the growth in 'other income' including rent from the school acquired in Singapore.

Critical share price driver: We believe revenues will be boosted by growth in overseas schools, junior level schools and non-tuition related segments. Maple Leaf's 1H17 revenue grew 27.1% y-o-y to RMB 483m, driven by strong growth in these non-traditional core revenue generators in the past. We expect the company's growth momentum to continue and forecast 24% CAGR in 2016-2020 revenue led by an increasing focus on kindergartens.

Valuation:

Our TP of HK\$7.73 is based on DCF valuation assuming 12.7% WACC, and 3% terminal growth. Our TP implies 20.4x FY18F PE while the stock is currently trading at 16.6x FY18F compared with the peer average of 17.6x FY18F.

Key Risks to Our View:

Weaker-than-expected increase in student numbers and tuition; legal risk of lawsuit with its consultant Zhixin

At A Glance

| | |
|--|---------------|
| Issued Capital (m shrs) | 1,379 |
| Mkt. Cap (HK\$/US\$m) | 8,774 / 1,123 |
| Major Shareholders | |
| Jen Shu Liang Sherman (%) | 53.8 |
| Buena Vista Fund Management, LLC (%) | 7.2 |
| Free Float (%) | 39.0 |
| 3m Avg. Daily Val. (US\$m) | 5.2 |
| ICB Industry : Consumer Services / General Retailers | |

CRITICAL FACTORS TO WATCH

Critical Factors

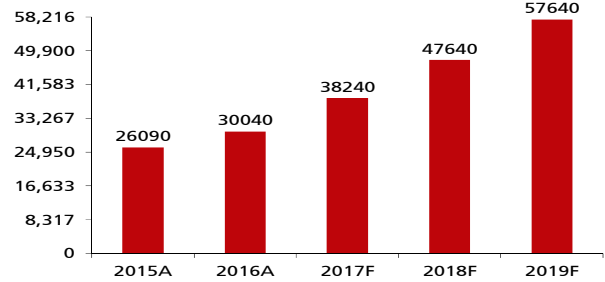
Raising capacity by proactively expanding its footprint in new cities. By 1H17, the company has 56 schools and 22,693 students in total. By September 2017, Maple Leaf will open 14 new schools in Tier 2 cities in China such as Yancheng, Weifang and Chongqing. The main deciding factor is the local disposable income level. Maple Leaf schools are currently located in Tier 2 and Tier 3 cities and the company has plans to take advantage of the economic growth in Tier 1 cities like Beijing and Shenzhen in the longer term. Meanwhile, Maple Leaf plans to expand its current campus in Chongqing and Tianjin in FY17/18, adding another 2,100 in capacity, or 5.5% of FY17 level.

Acquisitions have accelerated in recent years. Besides building new schools and enlarging existing schools, Maple Leaf completed the acquisition of a 47.5% stake in Hainan National Science Park Experimental School in Haikou city, the capital of Hainan Island, in May 2017. This has increased Maple Leaf's student numbers by more than 3,000 with a potential for further capacity expansion. Aside from domestic opportunities, Maple Leaf is also proactively seeking overseas expansion opportunities. In August 2016, the company acquired a school in Singapore, with an initial capacity of up to 600 students. The acquired school students will account for 10.6% of total students in FY18.

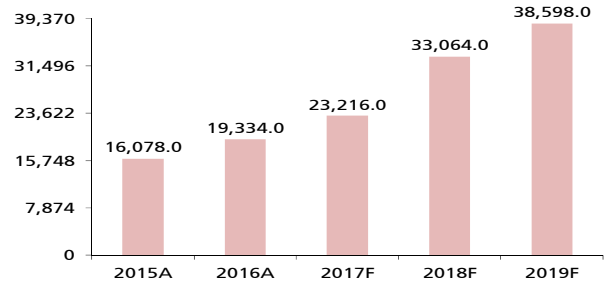
Utilisation to improve from established international curriculum and strengths in dual diploma programs. Student enrolments are fast increasing driven by capacity expansion, which has helped to improve utilisation. As at Mar 31, 2017, student enrolments reached 22,693, representing 17.4% growth from 2016. The company's rapid capacity expansion did not lower Maple Leaf's utilisation rate. Though Maple Leaf's utilisation rate of 60-65% in recent years is relatively low compared to some other schools, it has been improving. Maple Leaf's competitive advantage lies in bilingual education and dual diplomas offered by its high schools. Students are able to obtain high school diplomas from both the PRC and British Columbia in Canada upon completing their programs.

Tuition level to rise as the average tuition level is low versus the industry. In 2016, the average tuition level at all schools was RMB 39,240 per year, 5% higher than RMB 37,483 in 2015. The tuition fee is affordable for middle class families. To compare, 80% of international schools in China charged more than RMB 50,000 per year in 2016. The non-tuition revenues including revenue from uniforms, books, and summer camps etc, have also been growing rapidly by 8% CAGR during 2011 to 2016. In the longer term, there is little pricing pressure even if the company raises high school tuition fees to between RMB 80k to 100k per year. We expect the average tuition level to slightly drop in FY18 as a result of low tuition in new acquired schools, but to pick up gradually afterwards.

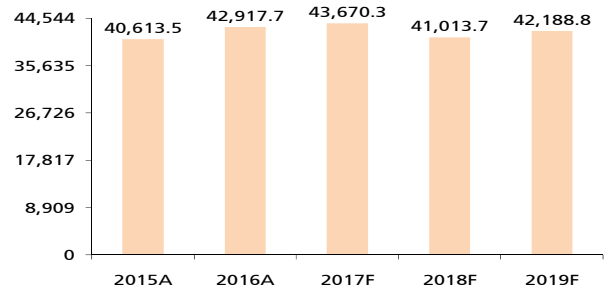
Total Capacity



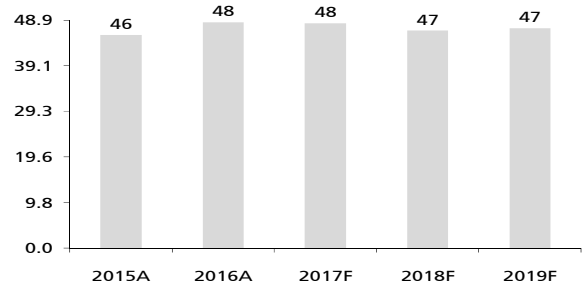
Number of students



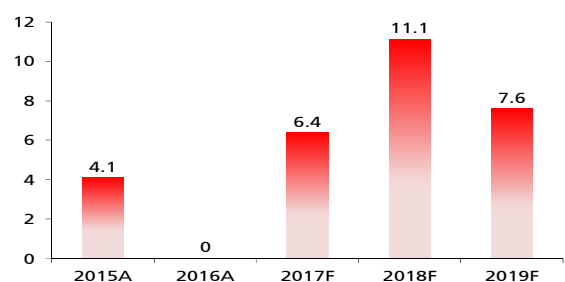
ASP



Gross margin (%)



Financing costs



Source: Company, DBS Vickers

China Maple Leaf Educational Systems

Balance Sheet:

Balance sheet is healthy with low leverage and light asset model. In 2015 and 2016, the leverage ratio was near or equal to zero. As at the end of 1H17, the company had a total of RMB 433m in bank borrowings (gross gearing: 20%), mainly to finance its acquisition in Singapore. We expect gross gearing be lower than 20% in the coming years, at 15%/10% in FY17/18.

Capital expenditure driven up by acquisition costs while capex per-unit of capacity is low. 1H17 saw a significant increase in capex to around RMB 400m compared with 1H16's RMB 76.3m. The increase was mainly due to the RMB 330 m purchase of the campus in Singapore. We forecast capex levels to be around RMB 500m each year from FY17 to FY19 to support capacity expansion and potential acquisitions.

Share Price Drivers:

International education becoming more and more popular in China. As a leading player in the international school market, Maple Leaf is ready to leverage on the future boom of international education with its wide presence in China, well-established brand and affordable tuition fees.

Potential M&A opportunities. It is likely that more acquisitions will happen in the future as the company has an ambitious expansion plan supported by strong operating cash flows.

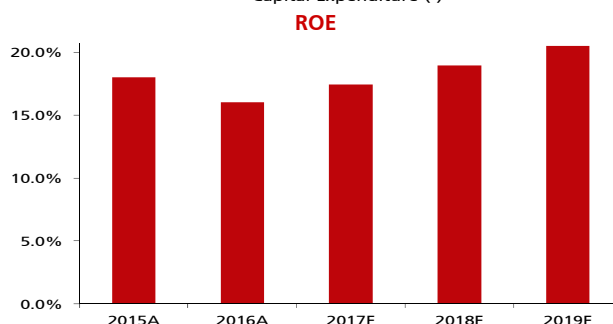
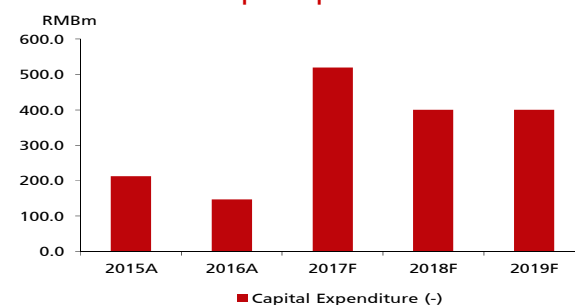
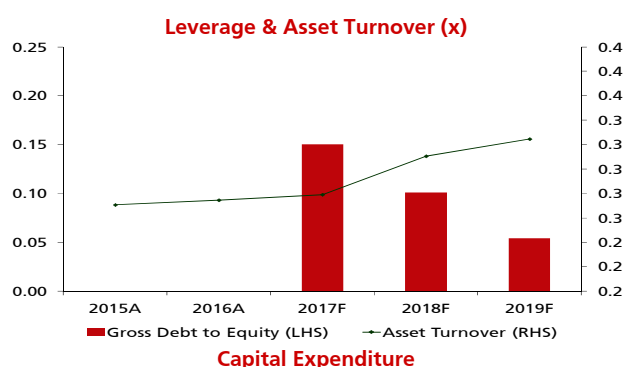
Key Risks:

1. Weaker-than-expected growth in student numbers and tuition fees
2. Legal risk with Zhixin

Maple Leaf has a dispute with its two consultants, Diangxianghui and Zhixin, on execution of options held by them. This dispute caused a sudden collapse in Maple Leaf's share price in July 2016. The dispute has been resolved with Dingxianghui, however, the lawsuit with Zhixin is still in progress and Maple Leaf may have to pay for legal expenses. The potential expense is not disclosed but the management believe that the impact would not be material to the company.

Company Background

Established in 1995 in Dalian, Maple Leaf operates China's leading independent, international school system and offers international education for students from preschool to high school. It operates the largest network of private international schools in China and is also Canada's first and largest offshore school system. Its schools provide a western academic orientation and preparation for admission to western universities, especially the Canadian ones, blended with Chinese educational traditions and culture.



Source: Company, DBS Vickers

China Maple Leaf Educational Systems

Key Assumptions

| FY Aug | 2015A | 2016A | 2017F | 2018F | 2019F |
|--------------------|----------|----------|----------|----------|----------|
| Total Capacity | 26,090.0 | 30,040.0 | 38,240.0 | 47,640.0 | 57,640.0 |
| Number of students | 16,078.0 | 19,334.0 | 23,216.0 | 33,064.0 | 38,598.0 |
| ASP | 40,613.5 | 42,917.7 | 43,670.3 | 41,013.7 | 42,188.8 |

Source: Company, DBS Vickers

Segmental Breakdown (RMB m)

| FY Aug | 2015A | 2016A | 2017F | 2018F | 2019F |
|----------------------------|------------|------------|--------------|--------------|--------------|
| Revenues (RMB m) | | | | | |
| Tuition fees | 555 | 695 | 852 | 1,177 | 1,406 |
| Textbook | 28 | 34 | 43 | 55 | 67 |
| Summer and winter camps | 35 | 39 | 51 | 66 | 86 |
| Other Educational Services | 31 | 36 | 13 | 58 | 69 |
| Others | 4 | 26 | 55 | 0 | 0 |
| Total | 653 | 830 | 1,014 | 1,356 | 1,628 |

Source: Company, DBS Vickers

Income Statement (RMB m)

| FY Aug | 2015A | 2016A | 2017F | 2018F | 2019F |
|----------------------------|------------|------------|------------|------------|------------|
| Revenue | 653 | 830 | 1,014 | 1,356 | 1,628 |
| Cost of Goods Sold | (354) | (428) | (524) | (723) | (859) |
| Gross Profit | 299 | 402 | 489 | 633 | 769 |
| Other Opng (Exp)/Inc | (132) | (149) | (178) | (237) | (277) |
| Operating Profit | 166 | 253 | 311 | 396 | 492 |
| Other Non Opng (Exp)/Inc | 45 | 52 | 73 | 70 | 76 |
| Associates & JV Inc | 0 | 0 | 0 | 0 | 0 |
| Net Interest (Exp)/Inc | 5 | 18 | 10 | 9 | 16 |
| Dividend Income | 0 | 3 | 0 | 0 | 0 |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 217 | 326 | 394 | 474 | 585 |
| Tax | (11) | (18) | (24) | (28) | (47) |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Preference Dividend | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 206 | 308 | 371 | 446 | 538 |
| Net Profit before Except. | 206 | 308 | 371 | 446 | 538 |
| EBITDA | 213 | 298 | 359 | 473 | 580 |
| Growth | | | | | |
| Revenue Gth (%) | 20.9 | 27.1 | 22.2 | 33.8 | 20.1 |
| EBITDA Gth (%) | 38.3 | 40.2 | 20.4 | 31.7 | 22.5 |
| Opg Profit Gth (%) | 45.1 | 51.8 | 23.1 | 27.2 | 24.5 |
| Net Profit Gth (%) | 413.4 | 49.6 | 20.5 | 20.3 | 20.6 |
| Margins & Ratio | | | | | |
| Gross Margins (%) | 45.7 | 48.4 | 48.3 | 46.7 | 47.2 |
| Opg Profit Margin (%) | 25.5 | 30.5 | 30.7 | 29.2 | 30.2 |
| Net Profit Margin (%) | 31.5 | 37.1 | 36.6 | 32.9 | 33.0 |
| ROAE (%) | 18.0 | 16.0 | 17.4 | 19.0 | 20.5 |
| ROA (%) | 8.5 | 10.2 | 10.2 | 10.2 | 10.7 |
| ROCE (%) | 10.2 | 12.3 | 12.6 | 13.9 | 15.7 |
| Div Payout Ratio (%) | 13.0 | 41.6 | 44.0 | 45.0 | 45.0 |
| Net Interest Cover (x) | NM | NM | NM | NM | NM |

Source: Company, DBS Vickers

Interim Income Statement (RMB m)

| FY Aug | 1H2015 | 2H2015 | 1H2016 | 2H2016 | 1H2017 |
|-------------------------|------------|------------|------------|------------|------------|
| Revenue | 300 | 353 | 380 | 450 | 483 |
| Cost of Goods Sold | (176) | (178) | (201) | (227) | (256) |
| Gross Profit | 124 | 175 | 179 | 223 | 227 |
| Other Oper. (Exp)/Inc | (66) | (66) | (65) | (84) | (84) |
| Operating Profit | 57 | 109 | 115 | 138 | 143 |
| Other Non Opg (Exp)/Inc | N/A | N/A | N/A | N/A | N/A |
| Associates & JV Inc | N/A | N/A | N/A | N/A | N/A |
| Net Interest (Exp)/Inc | 0 | 0 | 0 | 0 | 0 |
| Exceptional Gain/(Loss) | 0 | 0 | 0 | 0 | 0 |
| Pre-tax Profit | 57 | 109 | 115 | 138 | 143 |
| Tax | N/A | N/A | N/A | N/A | N/A |
| Minority Interest | N/A | N/A | N/A | N/A | N/A |
| Net Profit | 57 | 109 | 115 | 138 | 143 |
| Net profit bef Except. | 57 | 109 | 115 | 138 | 143 |

Growth

| | | | | | |
|--------------------|------|------|------|------|------|
| Revenue Gth (%) | 23.5 | 18.7 | 26.7 | 27.4 | 27.1 |
| Opg Profit Gth (%) | 4.6 | 82.1 | 99.7 | 26.6 | 25.1 |
| Net Profit Gth (%) | 4.6 | 82.1 | 99.7 | 26.6 | 25.1 |

Margins

| | | | | | |
|------------------------|------|------|------|------|------|
| Gross Margins (%) | 41.2 | 49.6 | 47.1 | 49.5 | 47.0 |
| Opg Profit Margins (%) | 19.1 | 30.9 | 30.1 | 30.7 | 29.6 |
| Net Profit Margins (%) | 19.1 | 30.9 | 30.1 | 30.7 | 29.6 |

Source: Company, DBS Vickers

Balance Sheet (RMB m)

| FY Aug | 2015A | 2016A | 2017F | 2018F | 2019F |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Fixed Assets | 1,398 | 1,506 | 1,980 | 2,320 | 2,651 |
| Invts in Associates & JVs | 0 | 0 | 0 | 0 | 0 |
| Other LT Assets | 263 | 436 | 521 | 501 | 481 |
| Cash & ST Invts | 1,122 | 1,238 | 1,495 | 1,827 | 2,157 |
| Inventory | 1 | 9 | 10 | 14 | 16 |
| Debtors | 32 | 37 | 32 | 32 | 32 |
| Other Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 2,816 | 3,226 | 4,038 | 4,694 | 5,338 |
| ST Debt | 0 | 0 | 0 | 0 | 0 |
| Creditors | 982 | 1,184 | 1,439 | 1,929 | 2,337 |
| Other Current Liab | 0 | 0 | 0 | 0 | 0 |
| LT Debt | 0 | 0 | 335 | 250 | 150 |
| Other LT Liabilities | 22 | 21 | 34 | 40 | 80 |
| Shareholder's Equity | 1,812 | 2,021 | 2,229 | 2,474 | 2,770 |
| Minority Interests | 0 | 0 | 0 | 0 | 0 |
| Total Cap. & Liab. | 2,816 | 3,226 | 4,038 | 4,694 | 5,338 |
| Non-Cash Wkg. Capital | (949) | (1,137) | (1,397) | (1,884) | (2,289) |
| Net Cash/(Debt) | 1,122 | 1,238 | 1,160 | 1,577 | 2,007 |
| Debtors Turn (avg days) | 15.9 | 15.3 | 12.5 | 8.6 | 7.2 |
| Creditors Turn (avg days) | N/A | N/A | N/A | N/A | N/A |
| Inventory Turn (avg days) | 0.8 | 5.2 | 7.5 | 6.7 | 7.1 |
| Asset Turnover (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Current Ratio (x) | 1.2 | 1.1 | 1.1 | 1.0 | 0.9 |
| Quick Ratio (x) | 1.2 | 1.1 | 1.1 | 1.0 | 0.9 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH | CASH |
| Net Debt/Equity ex MI (X) | CASH | CASH | CASH | CASH | CASH |
| Capex to Debt (%) | N/A | N/A | 119.4 | 160.0 | 400.0 |
| Z-Score (X) | NA | NA | NA | NA | NA |

Source: Company, DBS Vickers

Cash Flow Statement (RMB m)

| FY Aug | 2015A | 2016A | 2017F | 2018F | 2019F |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Pre-Tax Profit | 217 | 326 | 394 | 474 | 585 |
| Dep. & Amort. | 46 | 46 | 48 | 78 | 87 |
| Tax Paid | (1) | (2) | (11) | (23) | (6) |
| Assoc. & JV Inc/(loss) | 0 | 0 | 0 | 0 | 0 |
| (Pft)/ Loss on disposal of FAs | (4) | (30) | 0 | 0 | 0 |
| Chg in Wkg.Cap. | 205 | 165 | 261 | 487 | 405 |
| Other Operating CF | (18) | 27 | 11 | 15 | 12 |
| Net Operating CF | 444 | 533 | 703 | 1,031 | 1,083 |
| Capital Exp.(net) | (212) | (147) | (519) | (400) | (400) |
| Other Invts.(net) | 169 | 186 | (3) | (3) | (3) |
| Invts in Assoc. & JV | 0 | 0 | 0 | 0 | 0 |
| Div from Assoc & JV | 0 | 0 | 0 | 0 | 0 |
| Other Investing CF | (196) | (6) | (331) | 0 | 0 |
| Net Investing CF | (240) | 33 | (853) | (403) | (403) |
| Div Paid | (27) | (125) | (163) | (201) | (242) |
| Chg in Gross Debt | (224) | 0 | 335 | (85) | (100) |
| Capital Issues | 761 | 0 | 0 | 0 | 0 |
| Other Financing CF | (77) | (240) | 234 | (10) | (8) |
| Net Financing CF | 434 | (366) | 406 | (296) | (350) |
| Currency Adjustments | 4 | 15 | 0 | 0 | 0 |
| Chg in Cash | 642 | 216 | 257 | 333 | 330 |
| Opg CFPS (RMB) | 152.65 | 34.84 | 223.61 | 447.35 | 811.98 |
| Free CFPS (RMB) | 247.28 | 10.44 | 227.46 | 473.67 | 361.93 |

Source: Company, DBS Vickers

DBSVHK recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 12 Jul 2017 10:21:44 (HKT)

Dissemination Date: 12 Jul 2017 19:06:13 (HKT)

Sources for all charts and tables are DBS Vickers unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Vickers (Hong Kong) Limited ("**DBSV HK**"). This report is solely intended for the clients of DBS Bank Ltd., DBS Bank (Hong Kong) Limited (DBS HK), DBSV HK, and DBS Vickers Securities (Singapore) Pte Ltd. ("**DBSVS**"), its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSV HK.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., DBS HK, DBSV HK, DBSVS, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets. Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate¹ does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests² in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.


COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBSVS, DBSV HK or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 10 Jul 2017.
2. Neither DBS Bank Ltd, DBS HK nor DBSV HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.
3. **Compensation for investment banking services:**
DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.
4. **Disclosure of previous investment recommendation produced:**
DBS Bank Ltd, DBSVS, DBSVHK, their subsidiaries and/or other affiliates of DBSVUSA may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBSVHK, their subsidiaries and/or other affiliates of DBSVUSA in the preceding 12 months.

¹ An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

² Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

| | |
|---|---|
| General | This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. |
| Australia | This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"). DBS holds Australian Financial Services Licence no. 475946. DBSVS is exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSVHK is regulated by the Securities and Futures Commission of Hong Kong under the laws of Hong Kong, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA. |
| Hong Kong | This report is being distributed in Hong Kong by DBS Bank Ltd, DBS Bank (Hong Kong) Limited and DBS Vickers (Hong Kong) Limited, all of which are registered with or licensed by the Hong Kong Securities and Futures Commission to carry out the regulated activity of advising on securities. |
| Indonesia | This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia. |
| Malaysia | This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.  Wong Ming Tek, Executive Director, ADBSR |
| Singapore | This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report. |
| Thailand | This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd. Research reports distributed are only intended for institutional clients only and no other person may act upon it. |
| United Kingdom | This report is produced by DBSVHK which is regulated by the Hong Kong Securities and Futures Commission This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication. |
| Dubai International Financial Centre | This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3 rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it. |
| United Arab Emirates | This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent. |

| | |
|----------------------------|--|
| United States | This report was prepared by DBSVHK. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate. |
| Other jurisdictions | In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions. |

DBS Vickers (Hong Kong) Limited

18th Floor Man Yee building, 68 Des Voeux Road Central, Central, Hong Kong

Tel: (852) 2820-4888, Fax: (852) 2868-1523

Company Regn. No. 31758