

ENN Natural Gas - A (600803 CH)

 Target price: **CNY22.50** (from CNY22.00)

 Share price (23 Aug): **CNY19.47** | Up/downside: **+15.6%**

5 4 3 2 1


Buy
 (unchanged)

1H21 review: in-line recurring net profit of CNY1,727m

- 1H21 recurring net profit in line with profit alert of CNY1.66-1.86bn
- 1H21 direct gas sales gross profit drove net profit growth
- Reaffirming our Buy (1) rating; lifting 12-month TP to CNY22.50

Dennis Ip, CFA
 (852) 2848 4068
 dennis.ip@hk.daiwacm.com

Leo Ho
 (852) 2848 4469
 leo.ho@hk.daiwacm.com


What's new: On 23 August, ENNNG released its 1H21 results with recurring net profit of CNY1,727m (up from a net loss of CNY191m in 1H20), in line with its positive profit alert of CNY1.66-1.86bn (see [our Flash, 6 July](#)). Reported net profit came in at CNY2,078m (+186% YoY), also in line with the company's guidance of CNY1,964-2,110m.

What's the impact: Riding on 18.4% YoY core profit growth of ENN (2688 HK, HKD162.20, Outperform [2]). ENNNG's 32.8%-owned ENN reported 1H21 core profit of CNY3.69bn, up 18.4% YoY (see [our Memo, 23 August](#)), serving as the foundation for ENNNG's YoY net profit growth.

Direct gas sales as accelerator of YoY profit growth. ENNNG witnessed 1H21 gross profit of CNY270m from direct gas sales, which was another key YoY net profit growth driver as ENNNG did not engage in direct gas sales in 1H20. Yet, the market should have priced in ENNNG's benefits from direct gas sales, in our view, as ENNNG had announced a 1H21 net profit of CNY218.5m from this business in its positive profit alert.

In-line recovery of underlying segments. In 1H21, the coal segment booked revenue of CNY554m (-5% YoY) and gross profit of CNY355m (+44% YoY) on the back of a 21.6ppt GPM expansion thanks to a YoY coal price hike. The coal segmental performance is in line with our 2021 forecasts of CNY1,579m in revenue and CNY947m in gross profit. The energy chemical segment recorded revenue of CNY1,211m (+28% YoY) and gross profit of CNY97m (+118% YoY), also in line with our 2021 forecasts of CNY2,636m for revenue and CNY484m for gross profit.

Sharp fall in financing cost after repayment of USD debt. ENNNG saw finance expenses decline by 81% YoY to CNY134m, attributable to the repayment of USD500m of debt in 1Q21. We see a structural decline in its financing cost after the completion of CNY3,073m of share placements (see [our Memo, 2 February](#)) and repayment of USD debt as likely to contribute to strong earnings growth over the remaining 2 quarters of 2021.

What we recommend: We reaffirm our Buy (1) rating and lift our 12-month TP to CNY22.5 (from CNY22) after rolling over our SOTP valuation on unchanged 12-month forward PER targets, amongst which is 18.5x for ENN which is undemanding in our view compared with the 2021E PER of 21.8x and 2022E PER of 18.3x at which ENN is trading now, per our forecasts. **Key risk:** weaker-than-expected results for ENN Energy.

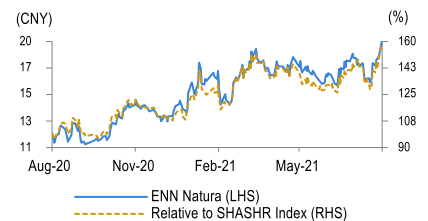
How we differ: Our 2021-23E EPS are 9-13% above the consensus, likely due to our bullish view on ENN's growth and commodity prices.

Forecast revisions (%)

Year to 31 Dec	21E	22E	23E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	11.21-19.47
Market cap (USDbn)	8.52
3m avg daily turnover (USDm)	28.23
Shares outstanding (m)	2,846
Major shareholder	Wang Yusuo (48.4%)

Financial summary (CNY)

Year to 31 Dec	21E	22E	23E
Revenue (m)	105,397	119,948	136,219
Operating profit (m)	12,140	14,203	16,742
Net profit (m)	3,494	4,055	4,750
Core EPS (fully-diluted)	1.228	1.425	1.669
EPS change (%)	51.5	16.1	17.1
Daiwa vs Cons. EPS (%)	12.5	8.7	9.5
PER (x)	15.9	13.7	11.7
Dividend yield (%)	1.6	1.9	2.3
DPS	0.307	0.370	0.451
PBR (x)	4.0	3.3	2.7
EV/EBITDA (x)	7.0	6.4	5.7
ROE (%)	31.8	26.5	25.6

Source: FactSet, Daiwa forecasts

ENNG: 1H21 results

Profit and Loss (CNYm)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	YoY	QoQ	1H21	1H20	YoY
Revenue	17,467	20,980	21,091	28,562	25,849	25,987	24%	1%	51,836	38,446	35%
Cost of sales	(14,646)	(16,338)	(17,101)	(23,697)	(21,914)	(20,725)	27%	-5%	(42,640)	(30,984)	38%
Gross profit	2,821	4,642	3,989	4,865	3,934	5,262	13%	34%	9,196	7,462	23%
Distribution and selling expenses	(290)	(279)	(278)	(363)	(353)	(359)	28%	2%	(711)	(569)	25%
Administrative expenses	(695)	(910)	(650)	(1,055)	(884)	(859)	-6%	-3%	(1,742)	(1,605)	9%
Sales tax and associate charge	(77)	(145)	(162)	(185)	(102)	(133)	-8%	30%	(235)	(222)	6%
R&D expenses	(48)	(72)	(108)	(357)	(124)	(201)	177%	62%	(325)	(120)	170%
Other income	59	99	79	153	84	96	-3%	14%	181	158	15%
One-off Items	(103)	22	(12)	(379)	37	490	2167%	1218%	527	(81)	-751%
Losses on asset impairment	(34)	(14)	-	(15)	(9)	6	-141%	-167%	(3)	(48)	-94%
Other investment income	(1)	172	29	(48)	37	292	70%	682%	330	171	93%
Gain/(loss) on disposal of assets	(18)	(29)	(28)	(51)	(19)	(32)	10%	65%	(51)	(46)	9%
Gain on changes in fair value	27	(97)	3	(14)	54	188	-294%	248%	243	(70)	-448%
Credit gain (loss)	(83)	(2)	(24)	(96)	(46)	59	-2706%	-228%	13	(85)	-115%
Non-operating income	29	19	28	7	28	25	33%	-11%	53	47	12%
Non-operating expenses	(24)	(26)	(21)	(162)	(8)	(49)	87%	484%	(58)	(50)	15%
EBIT	1,666	3,356	2,859	2,678	2,593	4,297	28%	66%	6,890	5,023	37%
Finance expenses	(441)	(268)	(19)	351	(173)	39	-114%	-122%	(134)	(709)	-81%
Income from JV/associate	189	(123)	96	90	107	168	-237%	57%	275	66	314%
PBT	1,415	2,965	2,936	3,119	2,528	4,504	52%	78%	7,031	4,380	61%
Income tax expense	(391)	(689)	(756)	(765)	(693)	(859)	25%	24%	(1,552)	(1,080)	44%
PAT	1,023	2,277	2,180	2,353	1,835	3,644	60%	99%	5,479	3,300	66%
Minority interest	720	1,853	1,655	1,498	1,232	2,169	17%	76%	3,401	2,572	32%
Net profit attributable to shareholders	304	424	524	855	603	1,475	248%	145%	2,078	728	186%
Recurring Net profit attributable to shareholders (reported)	62	(253)	507	989	561	1,166	-561%	108%	1,727	(191)	-1004%
EPS (Basic)	0.12	0.16	0.20	0.33	0.21	0.52	218%	145%	0.73	0.28	
Adj EPS (Basic)	0.02	(0.10)	0.19	0.38	0.20	0.41	-521%	108%	0.61	(0.07)	
Weighted average number of shares	2,600	2,600	2,600	2,600	2,846	2,846			2,846	2,600	

Source: Company, Daiwa

ENNG: 1H21 segmental results

	1H21	1H20	YoY
Natural Gas Retail			
Revenue	26,907	20,604	-78.18%
Gross profit	3,713	3,464	7.18%
GPM	13.8%	16.8%	-3.0ppt
Natural Gas Wholesale			
Revenue	9,313	7,922	17.56%
Gross profit	603	303	98.74%
GPM	6.5%	3.8%	+2.7ppt
Natural Gas Direct Sales			
Revenue	3,009	/	n.a.
Gross profit	270	/	n.a.
GPM	9.0%	/	n.a.
Installation			
Revenue	4,896	4,291	14.10%
Gross profit	2,527	1,577	60.23%
GPM	51.6%	36.8%	+14.9ppt
Integrated Energy Sales & Services			
Revenue	4,084	2,660	53.54%
Gross profit	709	533	32.89%
GPM	17.4%	20.1%	+2.7ppt

Source: Company, Daiwa

ENNG: 1H21 segmental results (continued)

	1H21	1H20	YoY
Extended Businesses			
Revenue	840	597	40.74%
Gross profit	814	1,978	-58.83%
GPM	97.0%	331.5%	n.a.
Coal			
Revenue	554	581	-4.73%
Gross profit	355	247	43.58%
GPM	64.1%	42.6%	+21.6ppt
Energy Chemical			
Revenue	1,211	944	28.37%
Gross profit	97	45	117.61%
GPM	8.0%	4.7%	+3.3ppt
Trading			
Revenue	771	583	32.22%
Gross profit	25	7	251.30%
GPM	3.2%	1.2%	+2.7ppt

Source: Company, Daiwa

ENNG: SOTP valuation

Segments	Target PER	Net Profit Contribution in 2021-22E
ENN Energy	18.5x	73%
Coal Chemical	8.0x	4%
Energy Engineering	14.5x	9%
Coal	9.5x	11%
LNG	9.0x	2%
Others	7.0x	1%
Blended PER	16.4x	
12-month forward EPS	1.346	
Target price (CNY)	22.5	

Source: Company, Daiwa estimates

Financial summary

Key assumptions

Year to 31 Dec	2016	2017	2018	2019	2020	2021E	2022E	2023E
Natural Gas Segmental Profit (Reclassified)	0	0	0	0	14,788	16,105	19,003	22,501
Coal-chemical Segmental Profit	377	471	597	322	91	484	312	697
Energy Engineering Segmental Profit	546	588	750	811	0	0	0	0
Coal Segmental Profit	513	1,032	969	874	834	947	989	686
LNG Segmental Profit	17	92	92	46	0	0	0	0

Profit and loss (CNYm)

Year to 31 Dec	2016	2017	2018	2019	2020	2021E	2022E	2023E
Natural Gas Segment (mainly ENN Energy)	0	0	0	0	80,400	91,905	105,882	121,385
Coal-chemical Segment	1,842	3,193	1,880	2,393	1,923	2,636	2,852	2,944
Other Revenue	4,554	6,843	11,752	11,151	5,776	10,856	11,215	11,889
Total Revenue	6,396	10,036	13,632	13,544	88,099	105,397	119,948	136,219
Other income	229	(120)	(329)	174	579	466	531	603
COGS	(4,688)	(7,537)	(10,697)	(11,162)	(71,782)	(87,258)	(99,038)	(111,723)
SG&A	(667)	(784)	(957)	(970)	(5,089)	(5,712)	(6,381)	(7,383)
Other op. expenses	(0)	(55)	(146)	(128)	(585)	(753)	(857)	(973)
Operating profit	1,269	1,540	1,504	1,458	11,222	12,140	14,203	16,742
Net-interest inc./(exp.)	(360)	(424)	(467)	(575)	(1,039)	(996)	(944)	(906)
Assoc/forex/extraord./others	(189)	(194)	584	514	252	2,067	2,070	2,073
Pre-tax profit	720	923	1,621	1,397	10,435	13,211	15,329	17,909
Tax	(150)	(230)	(215)	(213)	(2,602)	(3,376)	(3,917)	(4,576)
Min. int./pref. div./others	(52)	(61)	(84)	21	(5,726)	(6,342)	(7,358)	(8,583)
Net profit (reported)	519	631	1,321	1,205	2,107	3,494	4,055	4,750
Net profit (adjusted)	190	593	1,315	967	2,107	3,494	4,055	4,750
EPS (reported)(CNY)	0.526	0.640	1.075	0.980	0.810	1.228	1.425	1.669
EPS (adjusted)(CNY)	0.192	0.602	1.070	0.786	0.810	1.228	1.425	1.669
EPS (adjusted fully-diluted)(CNY)	0.192	0.602	1.070	0.786	0.810	1.228	1.425	1.669
DPS (CNY)	0.100	0.125	0.207	0.207	0.194	0.307	0.370	0.451
EBIT	1,269	1,540	1,504	1,458	11,222	12,140	14,203	16,742
EBITDA	1,543	1,851	1,879	1,625	13,269	14,986	17,419	20,329

Cash flow (CNYm)

Year to 31 Dec	2016	2017	2018	2019	2020	2021E	2022E	2023E
Profit before tax	720	923	1,621	1,397	10,435	13,211	15,329	17,909
Depreciation and amortisation	274	311	375	167	2,047	2,846	3,216	3,586
Tax paid	(150)	(230)	(215)	(213)	(2,602)	(3,376)	(3,917)	(4,576)
Change in working capital	(2)	47	(409)	553	256	(685)	(968)	(1,277)
Other operational CF items	138	(55)	(95)	(199)	2,312	(254)	(309)	(349)
Cash flow from operations	980	995	1,276	1,705	12,448	11,742	13,351	15,293
Capex	(979)	(1,075)	(1,342)	(593)	(6,922)	(9,500)	(9,500)	(9,500)
Net (acquisitions)/disposals	(4,921)	(2)	15	0	0	0	0	0
Other investing CF items	264	(25)	0	0	0	0	0	0
Cash flow from investing	(5,636)	(1,101)	(1,327)	(593)	(6,922)	(9,500)	(9,500)	(9,500)
Change in debt	3,469	622	(1,928)	518	3,462	(1,000)	(500)	(500)
Net share issues/(repurchases)	0	0	2,243	0	0	3,073	0	0
Dividends paid	(47)	(170)	(134)	(202)	(506)	(873)	(1,054)	(1,282)
Other financing CF items	1,909	(262)	(587)	(1,457)	(7,166)	(996)	(944)	(906)
Cash flow from financing	5,331	190	(406)	(1,142)	(4,210)	204	(2,498)	(2,689)
Forex effect/others	(19)	(5)	(14)	15	25	0	0	0
Change in cash	656	79	(472)	(15)	1,341	2,446	1,353	3,104
Free cash flow	1	(80)	(66)	1,112	5,526	2,242	3,851	5,793

Source: FactSet, Daiwa forecasts

Financial summary continued ...

Balance sheet (CNYm)

Year to 31 Dec	2016	2017	2018	2019	2020	2021E	2022E	2023E
Cash & short-term investment	2,416	2,427	1,957	2,495	12,629	15,075	16,428	19,532
Inventory	750	1,615	1,775	1,835	1,999	3,108	3,799	4,591
Accounts receivable	954	1,117	1,638	1,545	5,016	6,064	7,230	8,584
Other current assets	616	958	914	1,119	11,299	12,755	13,641	14,683
Total current assets	4,736	6,117	6,285	6,994	30,943	37,001	41,098	47,390
Fixed assets	6,126	8,268	9,772	9,700	56,030	62,876	69,316	75,385
Goodwill & intangibles	1,043	1,062	1,050	1,023	8,145	7,890	7,635	7,379
Other non-current assets	6,472	6,107	6,408	6,635	14,406	15,774	17,078	18,386
Total assets	18,376	21,555	23,514	24,353	109,524	123,541	135,126	148,540
Short-term debt	4,038	5,674	4,733	3,260	16,687	8,605	8,105	7,605
Accounts payable	1,543	2,645	2,979	3,674	10,221	13,149	14,924	16,835
Other current liabilities	1,837	2,111	1,610	1,252	24,146	24,146	24,146	24,146
Total current liabilities	7,418	10,430	9,323	8,186	51,055	45,900	47,175	48,586
Long-term debt	5,484	5,025	4,628	5,944	15,647	22,729	22,729	22,729
Other non-current liabilities	213	199	227	94	7,550	7,605	7,556	7,507
Total liabilities	13,115	15,653	14,178	14,225	74,252	76,234	77,460	78,823
Share capital	986	986	1,229	1,229	2,600	2,846	2,846	2,846
Reserves/R.E./others	3,558	4,167	7,313	8,124	5,532	10,980	13,981	17,448
Shareholders' equity	4,544	5,153	8,542	9,354	8,132	13,826	16,827	20,294
Minority interests	716	748	795	774	27,140	33,482	40,840	49,423
Total equity & liabilities	18,376	21,555	23,514	24,353	109,524	123,541	135,126	148,540
EV	63,231	64,429	63,607	62,892	102,254	105,150	110,655	115,634
Net debt/(cash)	7,106	8,272	7,403	6,709	19,706	16,259	14,406	10,802
BVPS (CNY)	4.610	5.227	6.948	7.608	3.128	4.858	5.913	7.131

Key ratios (%)

Year to 31 Dec	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales (YoY)	13.0	56.9	35.8	(0.6)	550.5	19.6	13.8	13.6
EBITDA (YoY)	1.7	19.9	1.5	(13.5)	716.3	12.9	16.2	16.7
Operating profit (YoY)	5.0	21.3	(2.4)	(3.0)	669.4	8.2	17.0	17.9
Net profit (YoY)	(74.1)	212.6	121.7	(26.5)	118.0	65.8	16.1	17.1
Core EPS (fully-diluted) (YoY)	(74.1)	212.6	77.8	(26.5)	3.1	51.5	16.1	17.1
Gross-profit margin	26.7	24.9	21.5	17.6	18.5	17.2	17.4	18.0
EBITDA margin	24.1	18.4	13.8	12.0	15.1	14.2	14.5	14.9
Operating-profit margin	19.8	15.3	11.0	10.8	12.7	11.5	11.8	12.3
Net profit margin	3.0	5.9	9.6	7.1	2.4	3.3	3.4	3.5
ROAE	4.3	12.2	19.2	10.8	24.1	31.8	26.5	25.6
ROAA	1.3	3.0	5.8	4.0	3.1	3.0	3.1	3.3
ROCE	10.7	9.8	8.5	7.7	25.8	16.6	17.0	17.8
ROIC	10.4	8.7	8.4	7.4	23.5	15.2	15.6	16.3
Net debt to equity	156.4	160.5	86.7	71.7	242.3	117.6	85.6	53.2
Effective tax rate	20.8	24.9	13.3	15.3	24.9	25.6	25.6	25.6
Accounts receivable (days)	51.5	37.7	36.9	42.9	13.6	19.2	20.2	21.2
Current ratio (x)	0.6	0.6	0.7	0.9	0.6	0.8	0.9	1.0
Net interest cover (x)	3.5	3.6	3.2	2.5	10.8	12.2	15.1	18.5
Net dividend payout	19.0	19.5	19.2	21.1	24.0	25.0	26.0	27.0
Free cash flow yield	0.0	n.a.	n.a.	2.0	10.0	4.0	7.0	10.5

Source: FactSet, Daiwa forecasts

Company profile

ENN Natural Gas (ENNNG) is currently engaged in the upstream energy business in China with a focus on coal mining, coal chemicals, and natural gas engineering, procurement, and construction (EPC) services (LNG and city-gas). After the proposed restructuring with ENN Energy, ENNNG will become the sole national city-gas company on the A-share market, deriving c.85% of its gross profit from ENN Energy.

Important Disclosures and Disclaimer

This publication is produced by Daiwa Securities Group Inc. and/or its non-U.S. affiliates, and distributed by Daiwa Securities Group Inc. and/or its non-U.S. affiliates, except to the extent expressly provided herein. This publication and the contents hereof are intended for information purposes only, and may be subject to change without further notice. Any use, disclosure, distribution, dissemination, copying, printing or reliance on this publication for any other purpose without our prior consent or approval is strictly prohibited. Neither Daiwa Securities Group Inc. nor any of its respective parent, holding, subsidiaries or affiliates, nor any of its respective directors, officers, servants and employees, represent nor warrant the accuracy or completeness of the information contained herein or as to the existence of other facts which might be significant, and will not accept any responsibility or liability whatsoever for any use of or reliance upon this publication or any of the contents hereof. Neither this publication, nor any content hereof, constitute, or are to be construed as, an offer or solicitation of an offer to buy or sell any of the securities or investments mentioned herein in any country or jurisdiction nor, unless expressly provided, any recommendation or investment opinion or advice. Any view, recommendation, opinion or advice expressed in this publication may not necessarily reflect those of Daiwa Securities Group Inc., and/or its affiliates nor any of its respective directors, officers, servants and employees except where the publication states otherwise. This research report is not to be relied upon by any person in making any investment decision or otherwise advising with respect to, or dealing in, the securities mentioned, as it does not take into account the specific investment objectives, financial situation and particular needs of any person.

Daiwa Securities Group Inc., its subsidiaries or affiliates, or its or their respective directors, officers and employees from time to time have trades as principals, or have positions in, or have other interests in the securities of the company under research including market making activities, derivatives in respect of such securities or may have also performed investment banking and other services for the issuer of such securities. Daiwa Securities Group Inc., its subsidiaries or affiliates do and seek to do business with the company(s) covered in this research report. Therefore, investors should be aware that a conflict of interest may exist. The following are additional disclosures.

Ownership of Securities

For "Ownership of Securities" information, please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Investment Banking Relationship

For "Investment Banking Relationship", please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.

Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

Investment Banking Relationship

Within the preceding 12 months, the subsidiaries and/or affiliates of Daiwa Securities Group Inc. * has lead-managed public offerings and/or secondary offerings of the equities or relevant securities of the following companies: New Horizon Health Limited (6606 HK) and Bairong Inc. (6608 HK).

*Subsidiaries of Daiwa Securities Group Inc. for the purposes of this section shall mean any one or more of: Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司), Daiwa Capital Markets Singapore Limited, Daiwa Capital Markets Australia Limited, Daiwa Capital Markets India Private Limited, Daiwa-Cathay Capital Markets Co., Ltd., Daiwa Securities Capital Markets Korea Co., Ltd.

Within the last 12 months, the subsidiaries and/or affiliates of Daiwa Securities Group Inc. * has received compensation for investment banking services from Bank of China Ltd (3988 HK).

Hong Kong

This research is distributed in Hong Kong by Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司) ("DHK") which is regulated by the Hong Kong Securities and Futures Commission. Recipients of this research in Hong Kong may contact DHK in respect of any matter arising from or in connection with this research.

Investment Banking Relationship

Within the preceding 12 months, Daiwa Capital Markets Hong Kong Limited has lead-managed public offerings and/or secondary offerings of the equities or relevant securities of the following companies: New Horizon Health Limited (6606 HK) and Bairong Inc. (6608 HK).

Relevant Relationship (DHK)

DHK may from time to time have an individual employed by or associated with it serves as an officer of any of the companies under its research coverage.

Singapore

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

Australia

This research is distributed in Australia by Daiwa Capital Markets Australia Limited and it may only be distributed in Australia to wholesale investors within the meaning of the Corporations Act. Recipients of this research in Australia may contact Daiwa Capital Markets Stockbroking Limited in respect of any matter arising from or in connection with the research.

India

This research is distributed in India to Institutional Clients only by Daiwa Capital Markets India Private Limited (Daiwa India) which is an intermediary registered with Securities & Exchange Board of India as a Stock Broker, Merchant Bank and Research Analyst. Daiwa India, its Research Analyst and their family members and its associates do not have any financial interest save as disclosed or other undisclosed material conflict of interest in the securities or derivatives of any companies under coverage. Daiwa India and its associates, may have received compensation for any products other than Investment Banking (as disclosed) or brokerage services from the subject company in this report or from any third party during the past 12 months. Daiwa India and its associates may have debt holdings in the subject company. For information on ownership of equity, please visit BlueMatrix disclosure Link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

There is no material disciplinary action against Daiwa India by any regulatory authority impacting equity research analysis activities as of the date of this report.

Associates of Daiwa India, registered with Indian regulators, include Daiwa Capital Markets Singapore Limited and Daiwa Portfolio Advisory (India) Private Limited and Associates of Daiwa India having office in India but not registered with any Indian regulators include Daiwa Corporate Advisory India Private Limited.

Taiwan

This research is solely for reference and not intended to provide tailored investment recommendations. This research is distributed in Taiwan by Daiwa-Cathay Capital Markets Co., Ltd. and it may only be distributed in Taiwan to specific customers who have signed recommendation contracts with Daiwa-Cathay Capital Markets Co., Ltd. and non-customers including (i) professional institutional investors, (ii) TWSE or TPEX listed companies, upstream and downstream vendors, and specialists that offer or seek advice, and (iii) potential customers with an actual need for business development in accordance with the Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers. Recipients of this research including non-customer recipients of this research shall not provide it to others or engage in any activities in connection with this research which may involve conflicts of interests. Neither Daiwa-Cathay Capital Markets Co., Ltd. nor its personnel who writes or reviews the research report has any conflict of interest in this research. Since Daiwa-Cathay Capital Markets Co., Ltd. does not operate brokerage trading business in foreign markets, **this research is prepared on a "without recommendation" to any foreign securities basis** and Daiwa-Cathay Capital Markets Co., Ltd. does not accept orders from customers to trade in such foreign securities. Recipients of this research shall carefully judge their own investment risk and take full responsibility for the results of any resulting investments in the companies and/or sectors featured in this research. Without the prior written permission of Daiwa-Cathay Capital Markets Co., Ltd., recipients of this research are prohibited from disclosing the research to the media, reprinting the research, or quoting from the research to other parties. Recipients of this research in Taiwan may contact Daiwa-Cathay Capital Markets Co., Ltd. in respect of any matter arising from or in connection with the research.

Philippines

This research is distributed in the Philippines by DBP-Daiwa Capital Markets Philippines, Inc. which is regulated by the Philippines Securities and Exchange Commission and the Philippines Stock Exchange, Inc. Recipients of this research in the Philippines may contact DBP-Daiwa Capital Markets Philippines, Inc. in respect of any matter arising from or in connection with the research. DBP-Daiwa Capital Markets Philippines, Inc. recommends that investors independently assess, with a professional advisor, the specific financial risks as well as the legal, regulatory, tax, accounting, and other consequences of a proposed transaction. DBP-Daiwa Capital Markets Philippines, Inc. may have positions or may be materially interested in the securities in any of the markets mentioned in the publication or may have performed other services for the issuers of such securities.

For relevant securities and trading rules please visit SEC and PSE links at <http://www.sec.gov.ph> and <http://www.pse.com.ph> respectively.

Thailand

This research is distributed to only institutional investors in Thailand primarily by Thanachart Securities Public Company Limited ("TNS").

This report is prepared by analysts who are employed by Daiwa Securities Group Inc. and/or its non-U.S. affiliates. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither TNS, Daiwa Securities Group Inc. nor any of their respective parent, holding, subsidiaries or affiliates, nor any of their respective directors, officers, servants and employees accept any liability whatsoever for any direct or consequential loss arising from any use of this research or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed to be reliable. However, TNS, Daiwa Securities Group Inc. nor any of their respective parent, holding, subsidiaries or affiliates, nor any of their respective directors, officers, servants and employees make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

TNS, Daiwa Securities Group Inc., their respective parent, holding, subsidiaries or affiliates, their respective directors, officers, servants and employees may have positions and financial interest in securities mentioned in this research. Thanachart Securities Public Company Limited, Daiwa Securities Group Inc., their respective parent, holding, subsidiaries or affiliates may from time to

time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this research. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this research.

United Kingdom

This research report is produced by Daiwa Securities Co. Ltd. and/or its affiliates and is distributed in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority ("FCA") and is a member of the London Stock Exchange and Eurex. This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>.

Germany

This document is distributed in Germany by Daiwa Capital Markets Europe Limited, Niederlassung Frankfurt which is regulated by BaFin (Bundesanstalt fuer Finanzdienstleistungsaufsicht) for the conduct of business in Germany.

Bahrain

This research material is distributed in Bahrain by Daiwa Capital Markets Europe Limited, Bahrain Branch, regulated by The Central Bank of Bahrain and holds Investment Business Firm – Category 2 license and having its official place of business at the Bahrain World Trade Centre, South Tower, 7th floor, P.O. Box 30069, Manama, Kingdom of Bahrain. Tel No. +973 17534452 Fax No. +973 535113

United States

This research is distributed into the United States directly by Daiwa Capital Markets Hong Kong Limited (DCMHK) and in certain cases indirectly by Daiwa Capital Markets America Inc. (DCMA), a U.S. Securities and Exchange Commission registered broker-dealer and FINRA member firm, exclusively to "major U.S. institutional investors", as defined under Rule 15a-6 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission (SEC). Where this is co-branded research published by Daiwa's partners in collaboration with other parties not affiliated with Daiwa, this research is distributed in the United States by DCMHK only. This report is not an offer to sell or the solicitation of any offer to buy securities. U.S. customers wishing to effect transactions in any designated investment discussed in this report should do so through a qualified salesperson of DCMA. Non-U.S. customers wishing to effect transactions in any designated investment discussed in this report should contact a Daiwa entity in their local jurisdiction. The securities or other investment products discussed in this report may not be eligible for sale in some jurisdictions.

Analysts employed outside the U.S., as specifically indicated elsewhere in this report, are not registered as research analysts with FINRA. These analysts may not be associated persons of DCMA, and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

ADDITIONAL IMPORTANT DISCLOSURES CAN BE FOUND AT:

<https://daiwa3.bluematrix.com/sellside/Disclosures.action>

Ownership of Securities

For "Ownership of Securities" information please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Investment Banking Relationships

For "Investment Banking Relationships" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

DCMA Market Making

For "DCMA Market Making" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Research Analyst Conflicts

For updates on "Research Analyst Conflicts" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>. The principal research analysts who prepared this report have no financial interest in securities of the issuers covered in the report, are not (nor are any members of their household) an officer, director or advisory board member of the issuer(s) covered in the report, and are not aware of any material relevant conflict of interest involving the analyst or DCMA, and did not receive any compensation from the issuer during the past 12 months except as noted: no exceptions.

Research Analyst Certification

For updates on "Research Analyst Certification" and "Rating System" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>. The views about any and all of the subject securities and issuers expressed in this Research Report accurately reflect the personal views of the research analyst(s) primarily responsible for this report (or the views of the firm producing the report if no individual analyst is named on the report); and no part of the compensation of such analyst (or no part of the compensation of the firm if no individual analyst is named on the report) was, is, or will be directly or indirectly related to the specific recommendations or views contained in this Research Report.

The following explains the rating system in the report as compared to relevant local indices, unless otherwise stated, based on the beliefs of the author of the report.

- "1": the security could outperform the local index by more than 15% over the next 12 months.
- "2": the security is expected to outperform the local index by 5-15% over the next 12 months.
- "3": the security is expected to perform within 5% of the local index (better or worse) over the next 12 months.
- "4": the security is expected to underperform the local index by 5-15% over the next 12 months.
- "5": the security could underperform the local index by more than 15% over the next 12 months.

Disclosure of investment ratings

Rating	Percentage of total
Buy*	80.07%
Hold**	16.23%
Sell***	3.70%

Source: Daiwa

Notes: data is for single-branded Daiwa research in Asia (ex Japan) and correct as of 30 June 2021.

* comprised of Daiwa's Buy and Outperform ratings.

** comprised of Daiwa's Hold ratings.

*** comprised of Daiwa's Underperform and Sell ratings.

Additional information may be available upon request.

Japan - additional notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
- In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
- For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants. *The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name: Daiwa Securities Co. Ltd.
 Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108
 Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan
 Japan Securities Investment Advisers Association
 Type II Financial Instruments Firms Association