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Zall Smart Commerce Group Ltd. (2098_HK)

1HFY2020 Earnings Update Note

Supply Chain Management

Target Price	HK\$ 2.00
Current Price	HK\$ 0.77
Upside Potential	160%
Rating	BUY

Market Cap.	HK\$9.07 bn US\$1.18 bn
Shares Outstanding	11783 mn
Free Float (FF / %)	4902 mn / 41.61%
52 Week Range (HK\$)	0.61 / 0.77
Avg. Daily Value	HK\$45 bn US\$5.63 bn
HANG SENG Index Level	25,184
Insider Holding %	84.28%



Risk: Above Average

Forecasting and Valuations

(RMB mn except ratio)	FY2021E	FY2022E
Revenue	92493	106367
Net Income	345	383
EPS	0.04	0.05
EPS Growth	41%	8%
PE	16.0	14.9
P/S	0.09	0.07
P/B	0.44	0.42

Analyst :

Ketan Chaphalkar
ketan@evaluateresearch.com

Sandy Mehta, CFA
sandy@evaluateresearch.com

Resilient Revenues Despite Economy, Industrial Internet Model to the Rescue

Zall Smart Commerce Group reported marginal revenue growth which was ahead of our expectations. Revenue increased marginally from RMB34.7 billion in 1HFY2019 to RMB35.7 billion in 1HFY2020 despite operations getting impacted due to COVID-19 in the first half of FY2020. Despite the severe impact on the supply chain management industry globally, increasing revenue growth from sale of properties along with sustenance of growth from supply chain management, trading and construction contracts businesses, was commendable. Especially the Group's Commodities Intelligence Centre Pte. Ltd. (CIC) reported an increase of 20% in the number of customers with total revenues amounting to US\$1 billion in the first half of FY2020 which were higher than the total revenues from this business segment as compared to the full year 2019. As a matter of fact, the pandemic situation has brought to focus the importance of digital transformation in the bulk commodity sector paving the way for larger activity on the entire platform. The growth remained subdued for segments such as E-commerce and financial services.

The Group's gross profit margin slightly decreased from 1.8% in the first half of 2019 to 1.6% in the first half of 2020 mainly due to cancellation of certain commodity transactions with higher gross margins due to the short-term impact of the pandemic. We believe gross profit margins for the Group have bottomed out and it can only improve going forward with further recovery in the supply chain management business. Due to the pandemic, the Group also saw a significant decline of 32% in the selling and distribution expenses to RMB70 million in the first half of 2020 from RMB103 million in the same period last year. We expect continued focus on control and cash generation in the second half of this year, which will help margins and reported net income.

While the stock is cheap on its huge value of investment properties, and underlying revenue growth remains resilient, it now also appears that gross margins have bottomed out. This would be an inflection point for the stock. We expect the gross and net profit margins to gradually pick up going forward as the company would want to focus on growing its business profitably.

Zall Smart Commerce Group represents a rapidly growing company with a unique industrial internet B2B model that combines both an online and physical infrastructure for its customers. Importantly, and as detailed below, industrial internet is significantly more than just "ecommerce".

The revenue growth of 30% in the previous year was driven by an increase in the supply chain business and we expect growth momentum to continue once economic growth comes back on track as the global pandemic recedes. In fact growth has started to come back to decent levels as China's economic activity is returning to normal levels gradually.

Property > Market Cap: Supply Chain for "Free"

Zall's stock is in "deep value" territory, as the stock price does not even fully reflect the current value of hard property assets, so investors are effectively getting the company's RMB73 billion [US\$10.3 billion] in revenues for "free". The June 2020 balance sheet lists RMB30.5 billion [HK\$35 billion] in investment properties, which equates to HK\$2.98 per share.

Everything else, and the main Supply Chain business, which represents 97% of revenues, is thus effectively "free". Of the HK\$2.98 per share in investment properties, 85% are fully developed, and only 15% [predominantly Tianjin] are under development where the construction of the phase II has commenced in the first half of 2020.

The fact that vast majority of investment properties are already developed gives investors more confidence in the value and going-concern nature of these assets, as CAPX and development risk no longer exists.

For further clarification and details, and factoring in all property related debt, total property development segment assets as of December 2019 of RMB38.2 billion [HK\$42 billion] minus all liabilities/debt of RMB12.8 billion [HK\$14 billion] equated to RMB25.4 billion [HK\$28 billion, US\$3.6 billion], or HK\$2.38 per share. This figure is 209% higher than today's stock price!

Huge "Free" Call Option on Supply Chain

Put in another way, hard investment property assets, which contributes negligibly to the overall revenues of Zall but all of 2019 net income [but less of a percentage of going forward net income], fully explains the current stock price. This implies that small changes in the gross margin and net income contribution from the US\$11 billion in Supply Chain revenues can have a huge impact on the stock price going forward. Importantly, investors are not paying anything for this future "call option" on the likely success of the Supply Chain segment in generating positive net income and FCF. The optionality implied in Zall's stock price is huge, and it is effectively a "free option" given the stock price declines to the current levels.

Price to Book at Absolute Low Levels

On a price to book basis, Zall is trading at just 0.46x, and on a price to tangible book basis at 0.55x. Given that 95% of Zall's total assets are comprised of current assets plus investment properties, there is clearly a high percentage of hard property assets plus liquid current assets backing the book value of the company.

In addition, goodwill and intangibles, which is obviously excluded/deducted from the aforementioned tangible book value calculation mentioned, is relatively small for Zall, and comprises only 3% of total assets. In other words, there is strong asset backing for both the company's balance sheet stated assets and equity values. Trading at just 0.46x price/book, investors are valuing the company at less than liquidation value. The reality is that Zall generates US\$11 billion in technology driven Supply Chain revenues [which represents 98% of entire revenues] but only utilizes 10% of the firm's assets.

The price/book valuation further highlights that the Supply Chain business continues to be effectively ignored by investors, and is hardly reflected in the stock price. Our HK\$2.00 price target would suggest a P/B multiple of 1x on our 2021 estimate.

Attractive Price/Sales

For rapidly growing revenue companies [read: Tencent, Alibaba, Amazon, Uber, etc] that are still early in its lifecycle in terms of earnings/FCF, investors are focused on revenue growth and price/sales as the principal valuation metric which really determines stock price. The company is currently trading at a price/sales ratio of 0.09x based on our forward 2021 sales estimate, 0.07x on 2022 expected, and 0.11x on actual/trailing 2019 reported. The average 5 year actual price/sales for Zall, excluding the large spike in late 2016, has been 3.0x times. When looking at other rapidly growing revenue stocks in China and globally, which trade at many [2x – 5x price/sales] times sales, Zall's multiple of less than 1x is extremely low. Our HK\$2.00 price target would still suggest a 0.22x price/sales multiple based on our 2021 estimate.

Drastic Fall in Selling and Distribution Expenses; Increase in Short Term Borrowing

Selling and distribution expenses of the Group decreased by 32% from RMB103 million in the first half of FY2019 to RMB70 million in the first half of FY2020. The decrease was primarily due to decrease in staff costs by RMB8 million, reduction in advertising and promotion expenses by RMB10 million and logistics and handing expenses by RMB6.8 million. We expect the selling and distribution expenses to be in the similar range for the second half of 2020 which is positive for containing the expenses of the company in times of the pandemic.

Finance income of the Group increased by approximately 65.9% from RMB83 million in the first half of FY2019 to RMB137.6 million for the first half of FY2020. The increase was mainly due to the increase in interest income from pledged bank deposits of Shenzhen Sinoagri. Finance costs of the Group increased by 0.2% from RMB466.5 million in the first half of FY2019 to RMB467.6 million in the first half of FY2020. The Group's total borrowings increased by 29% from RMB18,490.6 million at the end of 2019 to RMB23,792.6 million on 30th June 2020. The Group's net gearing ratio increased from 65.8% at the end of 2019 to approximately 77.4% on 30th June 2020. The increase in net gearing ratio was mainly due to the increase in total amount of interest-bearing borrowings to strengthen the Group's operating capacity. We believe that the company is in a comfortable position with the

borrowing done in the first half of FY2020 and would not be required to borrow further in the remaining second half.

Opportunity in Disguise Amidst the pandemic

As China and Wuhan rapidly recover and rebound from the COVID-19, Zall Smart Commerce Group continues to see a recovery in revenues on its platforms. Its online industrial internet business has been developing steadily since the outbreak of the virus. The Group's offline flagship project – North Hankou International Trade Center has already resumed operations in the first half of FY2020. It was the first major business and trading market to resume operation in Wuhan and has attracted attention across the community. We believe that there is an opportunity in this crisis for the company just as the drastic changes that boosted e-commerce and changed the lifestyle of people amid “SARS” in 2003. The outbreak this time is beginning to result in explosive development of industrial internet which will change the trading and supply chain management systems of companies. The virus has forced people to adopt more contactless trading methods, and therefore more traditional companies will have a stronger focus on internet and information technology for supply chain management. It is expected that companies will actively implement these technologies in developing their businesses to improve their operating efficiency. Digital infrastructure such as artificial intelligence, big data management, industry 4.0 and blockchain will further improve the ability of businesses to survive online. Digital transformation is reshaping the supply chains across the world. We believe Zall has embraced the opportunity during these tough external market conditions to benefit from the implementation of industrial internet in its business in the global supply chain market and if they continue to do so then it will turn out to be a blessing in disguise for the Group.

Leveraging on its Core Business to Develop Industrial Internet

The Group has already established a solid foundation for its industrial internet business by leveraging its core business of offline market trading, logistics and properties. Industrial internet as a domain has considerably improved the trading size and value of the B2B platforms for consumer goods, agricultural products, chemicals, plastics, steel, non-ferrous metals and seafood for the Group. The services provided based on the trading environment and transaction data such as finance, logistics, cross-border trading and supply chain management have gradually established a sound supply chain management system. Zall has accumulated hundreds of thousands of customers in its ecosphere. Also it has expanded its business operations in upstream and downstream supply chains and has enriched its vertical offerings for continuous increase in its influence over industry chains.

In recent years, the Group has been actively developing intelligent trading platform of a new generation and has gained satisfactory results. Through actively applying new technologies including blockchain, Internet of Things (IoT), big data and artificial intelligence and promoting the exchange of information, goods and capital on its platforms, Zall Group has fully connected the sections of data, supply and demand matching, logistics, warehousing, finance and supply chain management in its ecosphere. It has utilized new technologies to empower the development of industrial internet, with an aim

to accomplish visualization, application of intelligence technology and digitization on trading.

Supply Chain Management Business Remains Resilient

During the COVID-19 pandemic, Shenzhen Sinoagri E-commerce Co., Ltd an e-commerce platform for the agricultural products of the Group, adjusted its operation strategy quickly and opened up new areas for growth. An online self-operating mall was set up to enhance the online capabilities and to further streamline operations. Shenzhen Sinoagri strategically positioned itself in the investment strategy for the entire industry chain, looking for opportunities to grow on the new track amidst changes.

In the first half of the year, as the lead investor, it completed the A+ round of investment in Chengdu Smart AHC Co., Ltd., officially opening up a new business in the smart breeding of live pigs, and accelerating the pace of extensional development. Despite the impact of the COVID-19 pandemic, the coffee business of the Group which operates through a joint venture with Marubeni Corporation of Japan, also entered a substantive operation stage by building a one-stop coffee intelligent supply chain service platform that offers selected quality raw/cooked coffee beans, coffee freeze-dried powder, etc.

Shenzhen Sinoagri has successfully expanded from the existing principal product categories to multiple categories with strong growth potential and continues to optimize the proportion of its product mix towards high margin products. It has established cooperation with 22 financial institutions in a proactive manner to promote the application of inclusive financial products to FinTech so as to empower upstream and downstream customers in the industry. As of 30 June 2020, Shenzhen Sinoagri had 15,361 new customers and a total of 127,535 registered users. Its operating income amounted to RMB18 billion in the first half of the year.

HSH International Inc., an e-commerce platform for chemical plastic products under the Group, aims to construct a new ecosystem for the entire industrial chain of chemical and plastic raw material industry through an innovative mode of distributed sharing platform. In the post-pandemic period of this year, financial institutions support the development of medium, small and micro enterprises on a targeted basis; the operation rate of downstream factories of HSH gradually recovered to around 90%. Stimulated by various economic policies such as the state's tax and fees reduction initiatives and new infrastructure, the overall demand of the chemical and plastics market has been effectively released, and the market continues to demonstrate stable growth. As of 30 June 2020, the accumulative number of customers of the HSH platform reached 44,774, and the operating revenue was RMB2.9 billion in the first half of the year.

Zall Steel E-commerce Co., Ltd. continued to build an Internet-based integrated service platform for the black bulk commodity industry. The platform integrated six services that comprise smart transactions, supply chain finance, SAAS cloud services, warehousing and IoT, smart logistics and data information to empower the upstream, midstream and downstream operations of the iron and steel industry chain. The COVID-19 pandemic has

accelerated the progress of online services and digitalization of Zall Steel platform. By employing its self-developed SAAS cloud services, a lightweight version of Zall Steel, it delivered integrated service solutions to the trading companies and terminal service providers in the iron and steel industry. Since its establishment, Zall Steel has built business partnerships with approximately 25,000 upstream and downstream customers. For the first half of FY2020, Zall Steel realized operating revenue of RMB6.1 billion.

The Group has acquired and established various companies in the industrial internet sector focusing on the construction and operation of intelligent trading and service platforms. The Group has established B2B trading platform matrix for agricultural products, chemicals, plastics, ferrous metals, non-ferrous metals and energy so far.

Gaining on Strength – North Hankou International Trade Center

In the first half of 2020, North Hankou International Trade Centre offered an area of 115,500 square meters to attract investment. By launching additional campaigns to attract investment, various types of business such as food and beverage, fashion, daily supplies, accommodation, entertainment, shopping, travel and exhibition were vigorously brought to the centre. As a result of the impact of the COVID-19 pandemic on the physical market, upon resumption of work and production, the North Hankou International Trade Centre tapped the potential and carried out innovative marketing with integrated online and offline efforts, and accelerated the launch of the “cloud market” plan to assist tenants to broaden their shipment channels through e-commerce live broadcast by organizing more than 100 e-commerce live broadcast training sessions for more than 12,000 attendants; conducting 54 live broadcasts on investment attraction; carrying out 2,841 live broadcast delivery activities; planning the “North Hankou Spring and Summer E-commerce Live Purchase Festival”; and arranging tenants from various sectors to roll out more online goods order fairs.

Tianjin E-commerce Mall Phase II Construction Commences

Tianjin E-commerce Mall is the Group’s flagship project in Northern China in which some of the commercial, trade and e-commerce zones of Phase I have gradually commenced operation. Since work and production were resumed following the COVID-19 pandemic in 2020, the Tianjin E-commerce Mall project has overcome difficulties and set a foothold on the local market of Tianjin by deeply exploring various market resources such as flower, bird, fish, pet, antiques as well as home decoration and building materials. Zall E-commerce Mall, a home decoration plaza, officially commenced operation on 28 May 2020 following the relocation of the old building materials market in Tianjin. More than 300 brand retail tenants from the old-brand decoration markets such as Houtai, Wangdingdi and Dengdian in Tianjin were relocated to the mall altogether, featuring various first-line brand retailers such as Nobel Ceramic Tile, Power Dekor, Oppl, Fotile Water Heater, Midea Integrated Ceiling etc. Moreover, Tianjin E-commerce Mall has commenced the development and construction of its Phase II project as well.

Business Aspirations for Industry Leader Zall, Focus on B2B and Supply Chain services

The company is involved in the business of Supply Chain Management and Trading, E-commerce and financial services and property development and related services for its suppliers and customers. The property segment develops, sells and operates large scale consumer product-focus wholesale shopping malls and provides related value-added business services such as warehousing and logistics to its suppliers and customers. The E-commerce and financial services provides financial services including supply chain finance, guarantees, financial leasing, factoring and assets management to suppliers and customers. The supply chain management and trading business segment operates trading of agricultural products, chemical materials, plastic raw materials, consumer goods, black and non-ferrous metals and provides trading related supply chain finance services. The business of Zall Smart Commerce Group basically originated from the offline wholesale market trading and has now transformed into an internet based ecosystem that consists of the integration of the online as well as the offline market place. The supporting business activities such as supply chain finance, guarantees, financial leasing, warehousing and logistics provide the much needed support to the customers and suppliers in order to conduct their business in an efficient and smooth manner. The scalability of this business model of the company is the highlight and this integration has endless possibilities in terms of the number of transactions that can happen. The online platform can propel the number of transactions in the offline platform, which in turn contributes to the flow and scale of the online platform. The increased number of transactions would have the potential to multiply revenues for the company along with reduction of costs as higher economies of scale are reached. The company's focus therefore continues to be in B2B and supply chain services to build an intelligent trading system with high efficiency and low cost in a win-win situation and connect global businesses intelligently.

Given that this industry which the company operates in, has other players focusing attention on a single commodity, Zall Smart Commerce Group has strategized to include multiple commodities and sectors that can scale the business to levels impossible for its competitors. The company plans to achieve this large scale business operations through organic as well as inorganic growth. For example, its Singapore based trading platform has increased business operations by three times in 2019 to RMB2.5 billion as compared to RMB821 million in 2018. As of June 2020, the CIC trading platform recorded accumulative transaction amount of nearly US\$12.9 billion, over 5,000 registered users from China, Singapore, Australia, India, Malaysia and various countries in Asia, focusing on transactions of ferrous and non-ferrous metals, chemicals and plastics, agricultural products, oil products etc. In fact what attracts customers and suppliers to Zall Smart Commerce Group is the integrated online and offline platform which also provides other supporting services to generate higher efficiency in transactions thereby yielding better price discovery for buyers and sellers in the process.

5-year Price Chart



Security Ownership

ZALL SMART COMMERCE GROUP LT ISIN KYG9888C1125

1) Current 2) Historical 3) Matrix 4) Ownership Summary 5) Insider Transactions 6) Options 7) Debt

Search Name All Holders, Sorted by Size 21) Save Search 22) Delete Search 23) Refine Search

Text Search Holder Group All Holders Investment Manager View

30) Further Details: Yan Zhi / Zhall Development Investment Co

24) Color Legend Shrs Out 11,782.8M % Out 65.42 Float/Shrs Out 38.59 SI % Out N.A.

Holder Name	Portfolio Name	Source	Opt	Position	% Out	Latest Chg
		All	All			
1. Yan Zhi		Annual Re...		6,976,517,268	59.21	0
2. Fullshare Holdings Ltd		ULT-AGG		587,453,000	4.99	0
3. Gang Yu		Annual Re...		112,890,840	0.96	0
4. EJC Group Ltd		Annual Re...		89,163,000	0.76	0
5. EJC Group Ltd		Short		-89,163,000	-0.76	0
6. Vision Knight Capital Management C...		Annual Re...		42,981,000	0.36	0
7. Vision Knight Capital Management C...		Short		-42,981,000	-0.36	0
8. Qi Zhiping		EXCH		9,966,097	0.08	0
9. Fortune SG Fund Management Co Lt...	Multiple Portfolios	MF-AGG		5,518,000	0.05	286,000
10. Allianz SE		ULT-AGG		4,712,000	0.04	0
11. State Street Corp		ULT-AGG		4,028,000	0.03	0
12. Cui Jinfeng		EXCH		3,612,500	0.03	0
13. FlexShares Trust	Multiple Portfolios	MF-AGG		2,117,000	0.02	0
14. Min Xueqin		EXCH		1,115,000	0.01	0
15. Neuberger Berman Group LLC	Multiple Portfolios	MF-AGG		571,000	0.00	0
16. Wells Fargo & Co		ULT-AGG		312,320	0.00	312,320
17. Invesco Ltd		ULT-AGG		12,000	0.00	-13,000
18. Guggenheim Partners LLC		ULT-AGG		0	0.00	-58,856

Income Statement (Renminbi million)	FY2014	FY2015	FY2016	FY2017	FY2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	CAGR 21 -24
Revenue	1,986.1	1,029.5	1,213.4	22,249.2	56,116.1	72,898.8	80,428.7	92,493.1	106,367.0	122,322.1	140,670.4	15%
y/y	25.6%	-48.2%	17.9%	1733.7%	152.2%	29.9%	10.3%	15.0%	15.0%	15.0%	15.0%	
Cost of Revenue	-1,010.0	-758.3	-852.1	-21,236.9	-54,556.5	-71,673.8	-79,166.2	-90,412.0	-103,601.5	-118,958.2	-136,450.3	
Gross Profit	976.1	271.2	361.3	1,012.3	1,559.6	1,224.9	1,262.6	2,081.1	2,765.5	3,363.9	4,220.1	
Gross margin (%)	49.1%	26.3%	29.8%	4.5%	2.8%	1.7%	1.6%	2.3%	2.6%	2.8%	3.0%	
Other Operating Revenue	8.3	972.2	1,130.5	-39.9	-530.5	-756.3	139.7	160.6	0.0	0.0	0.0	
as a % of sales	0.4%	94.4%	93.2%	-0.2%	-0.9%	-1.0%	0.2%	0.2%	0.0%	0.0%	0.0%	
Selling, General & Admin Expense	-321.6	-294.8	-301.6	-709.4	-974.4	-859.1	-795.7	-915.0	-1,329.6	-1,712.5	-2,110.1	
as a % of sales	16.2%	28.6%	24.9%	3.2%	1.7%	1.2%	1.0%	1.0%	1.3%	1.4%	1.5%	
Other Operating expenses	0.0	0.0	0.0	0.0	0.0	-524.9	-144.6	-166.3	0.0	0.0	0.0	
as a % of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.2%	0.2%	0.0%	0.0%	0.0%	
Operating Income	662.8	948.6	1,190.3	263.0	54.7	-915.3	462.0	1,160.4	1,436.0	1,651.3	2,110.1	22%
y/y	97.2%	43.1%	25.5%	-77.9%	-79.2%	-1774.0%	-150.5%	-151.2%	23.7%	15.0%	27.8%	
Operating margin (%)	33.4%	92.1%	98.1%	1.2%	0.1%	-1.3%	0.6%	1.3%	1.4%	1.4%	1.5%	
Increase in fair value of investment properties	2157.34	1237.74	1275.70	3021.33	3865.19	2533.08	701.07	200.00	100.00	100.00	100.00	
Interest Expense	-122.1	-264.9	-192.3	-534.4	-697.2	-1,112.5	-1097.4	-1144.8	-1225.5	-1248.8	-1250.8	
Interest income	22.3	5.7	3.6	89.0	206.0	175.4	237.6	300.0	200.0	200.0	200.0	
Equity in (losses)income of affiliates	46.8	364.0	-24.6	-35.3	-175.2	6.4	18.2	0.0	0.0	0.0	0.0	
Other recurring (expenses)/income	-9.3	-17.0	95.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Amortization of intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Goodwill impairment	0.0	0.0	0.0	0.0	-613.9	0.0	0.0	0.0	0.0	0.0	0.0	
Other non recurring (expenses) income	0.0	0.0	0.0	0.0	-291.6	0.0	0.0	0.0	0.0	0.0	0.0	
Pretax Income (reported)	2,757.9	2,274.1	2,348.2	2,803.6	2,348.1	687.1	321.5	515.6	510.5	702.5	1,159.3	31%
y/y	8.3%	-17.5%	3.3%	19.4%	-16.2%	-70.7%	-53.2%	-60.4%	-1.0%	37.6%	65.0%	
Pretax Income (adjusted)	2757.9	2274.1	2348.2	2803.6	2348.1	687.1	321.5	515.6	510.5	702.5	1159.3	31%
y/y	8.3%	-17.5%	3.3%	19.4%	-16.2%	-70.7%	-53.2%	60.4%	-1.0%	37.6%	65.0%	
- Income Tax Expense	-1147.1	-228.2	-291.6	-447.1	-1,074.2	-629.5	-80.4	-128.9	-127.6	-175.6	-289.8	
effective tax rate (%)	41.6%	10.0%	12.4%	15.9%	45.7%	91.6%	25.0%	25.0%	25.0%	25.0%	25.0%	
- Minority Interests	37.905	8.261	7.6	-22.6	-97.4	-35.3	-110.0	-110.0	-150.0	-200.0	-250.0	
Income Before XO Items	1610.7	2046.0	2,056.6	2,356.5	1,273.9	57.5	195.0	345.3	382.9	526.9	869.4	36%
y/y	-1.1%	27.0%	0.5%	14.6%	-45.9%	-95.5%	239.0%	77.1%	10.9%	37.6%	65.0%	
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Income (reported)	1610.7	2046.0	2056.6	2356.5	1273.9	57.5	195.0	345.3	382.9	526.9	869.4	36%
y/y	-1.1%	27.0%	0.5%	14.6%	-45.9%	-95.5%	239.0%	77.1%	10.9%	37.6%	65.0%	
Exceptional (L)G	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Income (adjusted)	1,610.7	2,046.0	2,056.6	2,356.5	1,273.9	57.5	351.1	496.7	532.9	726.9	1,119.4	31%
y/y	-1.1%	27.0%	0.5%	14.6%	-45.9%	-95.5%	510.4%	41.5%	7.3%	36.4%	54.0%	
Basic EPS (reported)	0.15	0.19	0.19	0.21	0.1096	0.0079	0.02	0.03	0.03	0.05	0.07	
Basic EPS (adjusted)	0.15	0.19	0.19	0.21	0.1096	0.0079	0.03	0.04	0.05	0.06	0.10	
Basic Weighted Avg Shares	10,500	10,574	10,746	11,204	11,628	11,696.78	11,696.78	11,696.78	11,696.78	11,696.78	11,696.78	
Diluted EPS (reported)	0.14	0.18	0.19	0.21	0.11	0.0079	0.02	0.03	0.03	0.04	0.07	36%
y/y	-68.3%	30.3%	4.0%	9.9%	-48.1%	-92.8%	110.1%	77.1%	10.9%	37.6%	65.0%	
Diluted EPS (adjusted)	0.14	0.18	0.19	0.21	0.11	0.0079	0.03	0.04	0.05	0.06	0.10	31%
y/y	-68.3%	30.3%	4.0%	9.9%	-48.1%	-92.8%	278.3%	41.5%	7.3%	36.4%	54.0%	
Diluted Weighted Avg Shares	11,411	11,123	10,746	11,207	11,665	11,729.02	11,729.02	11,729.02	11,729.02	11,729.02	11,729.02	

Reference Items	FY2014	FY2015	FY2016	FY2017	FY2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E
EBITDA	687.0	964.8	1218.8	314.3	154.2	-877.2	506.7	1206.7	1489.1	1712.5	2180.4
Dividends per Share	0.00	0.05	0.00	0.0004	0.02	0.0	0.0	0.00	0.00	0.00	0.00
Dividend payout ratio	0.0%	28.5%	0.0%	0.2%	20.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dep & Amor.	24.2	16.2	28.6	51.3	99.5	38.2	44.7	46.2	53.2	61.2	70.3
<i>as a % of sales</i>	<i>1.2%</i>	<i>1.6%</i>	<i>2.4%</i>	<i>0.2%</i>	<i>0.2%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>
Balance Sheet (Renminbi million)	FY2014	FY2015	FY2016	FY2017	FY2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E
Assets											
+ Cash & Near Cash Items	603.5	685.1	823.7	3,837.6	4,184.9	5,924.3	790.0	467.2	2,733.1	5,206.9	6,581.9
+ Short-Term Investments	0.0	0.0	0.0	132.6	203.3	30.0	400.0	450.0	450.0	450.0	450.0
+ Accounts & Notes Receivable	973.8	827.1	2,830.4	4,756.0	8,604.4	11,733.9	8,153.1	10,389.6	11,656.7	13,405.2	15,415.9
+ Inventories	0.003	0.0	7,837.9	7,162.5	6,277.1	5,833.6	6,506.8	7,431.1	8,515.2	8,147.8	12,710.4
+ Other Current Assets	6,342.0	8,859.4	2,243.9	7,515.5	4,990.7	5,680.6	6,816.7	8,520.9	8,520.9	8,520.9	8,520.9
Total Current Assets	7,919.4	10,371.7	13,736.0	23,404.1	24,260.3	29,202.5	22,666.6	27,258.9	31,875.9	35,730.7	43,679.2
+ Long-Term Investments	8,445.1	12,519.2	14,624.1	20,206.7	25,456.4	29,168.6	34,825.2	36,427.3	36,427.3	36,427.3	36,427.3
+ Gross Fixed Assets	162.7	276.1	177.3	373.4	509.1	539.8	700.6	885.6	992.0	1,114.3	1,255.0
- Accumulated Depreciation	-39.5	-51.7	-63.5	-156.4	-194.8	-208.3	-288.7	-334.9	-388.1	-449.3	-519.6
+ Net Fixed Assets	123.2	224.3	113.8	217.0	314.3	331.5	411.9	550.7	603.9	665.0	735.4
+ Other Long-Term Assets	5,682.6	654.4	1,258.0	1,010.3	1,042.7	1,080.9	1,343.6	1,409.6	1,409.6	1,409.6	1,409.6
+ Goodwill & other Intangible Assets	5.7	0.0	15.8	2,505.4	2,007.3	1,705.7	1,705.7	1,705.7	1,705.7	1,705.7	1,705.7
Total Long-Term Assets	14,256.6	13,397.9	16,011.7	23,939.5	28,820.8	32,286.8	38,286.5	40,093.3	40,146.5	40,207.7	40,278.0
Total Assets	22,176.0	23,769.6	29,747.7	47,343.6	53,081.1	61,489.2	60,953.1	67,352.2	72,022.4	75,938.4	83,957.2
Liabilities & Shareholders' Equity											
+ Accounts Payable	2,950.9	3,629.5	5,598.2	12,511.8	11,006.5	13,609.4	13,013.6	16,348.5	18,733.4	21,510.3	28,037.7
+ Short-Term Borrowings	997.2	1,682.1	2,332.7	5,572.1	9,255.1	14,017.1	14,717.9	16,189.7	16,513.5	16,513.5	16,513.5
+ Other Short-Term Liabilities	4,003.1	240.5	300.0	1,323.6	3,392.9	3,981.0	4,379.1	4,817.0	5,298.7	5,828.6	6,411.4
Total Current Liabilities	7,951.2	5,552.1	8,230.8	19,407.5	23,654.6	31,607.5	32,110.6	37,355.2	40,545.6	43,852.3	50,962.7
+ Long-Term Borrowings	3,424.5	4,712.7	6,061.3	5,422.4	4,970.8	4,473.5	3,373.0	3,879.0	4,266.9	4,333.0	4,333.0
+ Other Long-Term Liabilities	2,238.2	3,194.3	3,316.3	3,852.9	4,846.9	5,785.7	6,046.1	6,590.2	6,590.2	6,623.2	6,623.2
Total Liabilities	13,613.9	13,459.1	17,608.4	28,682.7	33,472.3	41,866.8	41,529.8	47,824.4	51,402.8	54,808.6	61,918.9
+ Total Preferred Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	29.1	29.7	29.7	32.3	32.4	32.7	32.7	32.7	32.7	32.7	32.7
+ Retained Earnings & Other Equity	7,888.8	9,438.7	12,074.8	17,748.9	18,747.2	19,046.3	19,397.4	19,894.1	20,426.9	21,153.8	22,273.3
Total Shareholders' Equity	7,917.9	9,468.5	12,104.5	17,781.2	18,779.6	19,079.0	19,430.1	19,926.8	20,459.7	21,186.6	22,306.0
+ Minority Interest	644.2	842.1	34.7	879.7	829.2	543.5	-6.8	-399.0	160.0	-56.7	-267.7
Total Liabilities & Equity	22,176.0	23,769.6	29,747.6	47,343.6	53,081.1	61,489.2	60,953.0	67,352.2	72,022.4	75,938.4	83,957.2

Cash Flow (Renminbi million)	FY2014	FY2015	FY2016	FY2017	FY2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E
+ Net Income	1,610.7	2,046.0	2,056.6	2,356.5	1,273.9	57.5	195.0	345.3	382.9	526.9	869.4
+ Depreciation & Amortization	24.2	16.2	28.6	51.3	99.5	38.2	44.7	46.2	53.2	61.2	70.3
+ Other Non-Cash Adjustments	-2,144.7	-2,257.7	-2,290.4	-2,385.8	-1,556.0	974	370	654	150	233	250
+ Changes in Non-Cash Capital	-1,955.8	-1,362.9	-307.4	-2,542.1	-1,259.1	-185.0	1,573.9	-1092.3	515.6	1,925.6	536.9
Cash From Operating Activities	-2,465.6	-1,558.4	-512.6	-2,520.1	-1,441.7	884.8	2,183.9	-46.6	1,101.6	2,746.6	1,726.7
+ Disposal of Fixed Assets	0.0	562.0	125.7	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0
+ Capital Expenditures	-10.0	-116.8	-16.2	-42.7	-152.0	-72.9	-80.4	-92.5	-106.4	-122.3	-140.7
+ Increase in Investments	0.0	-31.0	-1,715.7	-122.6	-193.3	271.0	-160.9	-185.0	-106.4	-122.3	-140.7
+ Decrease in Investments	150.0	0.0	0.0	0.0	122.6	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Investing Activities	22.3	-166.5	10.4	2,054.9	-656.9	-3,466.0	-5,999.7	-1,806.8	-53.2	-61.2	-70.3
Cash From Investing Activities	162.3	247.6	-1,595.8	1,890.8	-878.3	-3,267.9	-6,241.0	-2,084.3	-265.9	-305.8	-351.7
+ Dividends Paid	0.0	-583.3	0.0	-4.2	-260.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Change in Short-Term Borrowings	1,061.1	2,159.9	2,164.2	960.5	2,251.6	4,762.0	700.9	1,471.8	323.8	0.0	0.0
+ Increase in Long-Term Borrowing	0.0	0.0	0.0	0.0	0.0	938.8	260.4	544.1	0.0	33.0	0.0
+ Decrease in Long-term Borrowing	0.0	-60.3	-264.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Increase in Capital Stocks	19.6	123.3	0.0	1,306.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Decrease in Capital Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Financing Activities	-248.7	-414.2	92.4	-1,041.8	-868.4	0.0	0.0	-2,718.0	0.0	0.0	0.0
Cash from Financing Activities	832.0	1,225.5	1,992.0	1,221.0	1,123.2	5,700.8	961.2	-702.1	323.8	33.0	0.0
Net Changes in Cash	-1,471.3	-85.3	-116.4	591.7	-1,196.8	3,317.7	-3,095.9	-2,833.0	1,159.5	2,473.7	1,375.0
Opening cash	1,157.8	603.5	685.1	823.7	3,837.6	4,184.9	7,502.5	4,406.6	1,573.6	2,733.1	5,206.9
Closing cash	603.5	685.1	823.7	3,837.6	4,184.9	7,502.5	4,406.6	1,573.6	2,733.1	5,206.9	6,581.9

Ratio Analysis	FY2014	FY2015	FY2016	FY2017	FY2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E
Per Share Data (RMB)											
Basic EPS (adjusted)	0.15	0.19	0.19	0.21	0.11	0.01	0.03	0.04	0.05	0.06	0.10
Diluted EPS (adjusted)	0.14	0.18	0.19	0.21	0.11	0.01	0.03	0.04	0.05	0.06	0.10
Dividend per share (DPS)	0.00	0.05	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00
Book Value per share (BVPS)	0.69	0.85	1.12	1.36	1.44	1.48	1.51	1.55	1.60	1.66	1.76
Margins (%)											
Gross Margin	49.1%	26.3%	29.8%	4.5%	2.8%	1.7%	1.6%	2.3%	2.6%	2.8%	3.0%
Operating Margin	33.4%	92.1%	98.1%	1.2%	0.1%	-1.3%	0.6%	1.3%	1.4%	1.4%	1.5%
EBITDA Margin	34.6%	93.7%	100.5%	1.4%	0.3%	-1.2%	0.6%	1.3%	1.4%	1.4%	1.6%
Pre-Tax Margin (adjusted)	138.9%	220.9%	193.5%	12.6%	4.2%	0.9%	0.4%	0.6%	0.5%	0.6%	0.8%
Net Income Margin (adjusted)	81.1%	198.7%	169.5%	10.6%	2.3%	0.1%	0.4%	0.5%	0.5%	0.6%	0.8%
Growth (%)											
Sales growth	25.6%	-48.2%	17.9%	1733.7%	152.2%	29.9%	10.3%	15.0%	15.0%	15.0%	15.0%
EBIT growth	97.2%	43.1%	25.5%	-77.9%	-79.2%	-1774.0%	-150.5%	-151.2%	23.7%	15.0%	27.8%
Net Income (adjusted) growth	-1.1%	27.0%	0.5%	14.6%	-45.9%	-95.5%	510.4%	41.5%	7.3%	36.4%	54.0%
EPS (adjusted) growth	-68.3%	30.3%	4.0%	9.9%	-48.1%	-92.8%	278.3%	41.5%	7.3%	36.4%	54.0%
Accounts Receivables	-29.5%	-15.1%	242.2%	68.0%	80.9%	36.4%	-30.5%	27.4%	12.2%	15.0%	15.0%
Inventory	-98.1%	0.0%	0.0%	-8.6%	-12.4%	-7.1%	11.5%	14.2%	14.6%	-4.3%	56.0%
Fixed Assets	73.1%	-6.0%	19.5%	49.5%	20.4%	12.0%	18.6%	4.7%	0.1%	0.2%	0.2%
Total Assets	21.2%	7.2%	25.1%	59.2%	12.1%	15.8%	-0.9%	10.5%	6.9%	5.4%	10.6%
Working Capital	-101%	-15276%	14.2%	-27.4%	-84.8%	-497.0%	293%	6.9%	-14.1%	-6.3%	-10.3%
Accounts Payable	-17.2%	23.0%	54.2%	123.5%	-12.0%	23.6%	-4.4%	25.6%	14.6%	14.8%	30.3%
Short Term Debt	-50.5%	68.7%	38.7%	138.9%	66.1%	51.5%	5.0%	10.0%	2.0%	0.0%	0.0%
Long Term Debt	11.0%	37.6%	28.6%	-10.5%	-8.3%	-10.0%	-24.6%	15.0%	10.0%	1.6%	0.0%
Total Equity	25.6%	19.6%	27.8%	46.9%	5.6%	1.6%	1.8%	2.6%	2.7%	3.6%	5.3%
Free Cash Flow	-10.9%	32.3%	68.4%	-384.6%	37.8%	107.3%	159.1%	-106.6%	-815.5%	163.7%	-39.6%

Ratios	FY2014	FY2015	FY2016	FY2017	FY2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E
Dupont ROE (%)	20.3%	21.6%	17.0%	13.3%	6.8%	0.3%	1.8%	2.5%	2.6%	3.4%	5.0%
Margin (%)	81.1%	198.7%	169.5%	10.6%	2.3%	0.1%	0.4%	0.5%	0.5%	0.6%	0.8%
Turnover (x)	0.09	0.04	0.04	0.47	1.06	1.19	1.32	1.37	1.48	1.61	1.68
Leverage (x)	2.8	2.5	2.5	2.7	2.8	3.2	3.1	3.4	3.5	3.6	3.8
Return on Assets	7.3%	8.6%	6.9%	5.0%	2.4%	0.1%	0.6%	0.7%	0.7%	1.0%	1.3%
Return on Equity	20.3%	21.6%	17.0%	13.3%	6.8%	0.3%	1.8%	2.5%	2.6%	3.4%	5.0%
Return on Capital Employed	15.0%	14.8%	14.2%	2.4%	0.4%	-5.0%	2.6%	5.8%	6.9%	7.9%	10.1%
Net cash / equity	-48.2%	-60.3%	-62.5%	-39.5%	-52.4%	-65.7%	-87.0%	-96.1%	-86.0%	-71.7%	-61.9%
FCF Calculation											
Op. cash	-2,465.6	-1,558.4	-512.6	-2,520.1	-1,441.7	884.8	2,183.9	-46.6	1,101.6	2,746.6	1,726.7
capex	-10.0	-116.8	-16.2	-42.7	-152.0	-72.9	-80.4	-92.5	-106.4	-122.3	-140.7
FCF (RMB million)	-2,475.6	-1,675.2	-528.8	-2,562.8	-1,593.6	811.9	2,103.5	-139.1	995.2	2,624.3	1,586.1
FCF margin (%)	-124.6%	-162.7%	-43.6%	-11.5%	-2.8%	1.1%	2.6%	-0.2%	0.9%	2.1%	1.1%
FCF per share	-0.22	-0.15	-0.05	-0.23	-0.14	0.07	0.18	-0.01	0.08	0.22	0.14
Price/FCF per share	-3.57	-11.57	-107.29	-32.86	-27.31	9.79	3.78	-57.14	7.99	3.03	5.01
FCF Yield	-28.0%	-8.6%	-0.9%	-3.0%	-3.7%	10.2%	26.5%	-1.8%	12.5%	33.0%	20.0%
Net Cash calculation											
Cash + short term investments	603.5	685.1	823.7	3,970.2	4,388.1	5,954.3	1,190.0	917.2	3,183.1	5,656.9	7,031.9
Less: long term debt + Short Term Debt	-4,421.7	-6,394.8	-8,393.9	-10,994.4	-14,225.9	-18,490.6	-18,091.0	-20,068.7	-20,780.4	-20,846.6	-20,846.6
Net Cash	-3,818.1	-5,709.6	-7,570.2	-7,024.3	-9,837.8	-12,536.3	-16,901.0	-19,151.5	-17,597.3	-15,189.7	-13,814.7
Net cash per share	-0.3	-0.5	-0.7	-0.6	-0.8	-1.1	-1.4	-1.6	-1.5	-1.3	-1.2

Valuation ratio's	FY2014	FY2015	FY2016	FY2017	FY2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E
P/B	1.12	2.05	4.69	5.51	2.60	0.46	0.45	0.44	0.42	0.41	0.39
P/E	5.49	9.47	27.59	35.74	34.17	85.65	22.64	16.00	14.91	10.93	7.10
P/S	4.45	18.83	46.76	3.79	0.78	0.11	0.10	0.09	0.07	0.06	0.06
EV/sales	6.70	25.19	53.03	4.14	0.97	0.29	0.26	0.23	0.20	0.17	0.15
EV/EBITDA (on today's B/S)	19.36	26.88	52.79	293.12	351.46	-23.92	41.42	17.39	14.09	12.25	9.62
EV/EBITDA (on forward estimates)	19.36	26.88	52.79	293.12	351.46	-23.92	48.94	22.09	17.23	13.45	0.00
EV/EBIT	20.07	27.34	54.06	350.31	991.11	-22.93	45.42	18.08	14.61	12.71	9.94
EV/FCF	-5.37	-15.48	-121.67	-35.95	-34.01	25.85	9.98	-150.87	21.08	8.00	13.23
Dividend Yield (%)	0.00%	7.74%	0.00%	0.06%	3.29%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Div payout on FCF	0.0%	-34.8%	0.0%	-0.2%	-16.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Working Capital Ratios

Receivable days	216	319	550	62	43	51	37	41	40	40	40
Inventory days	0	0	1,679	129	45	31	30	30	30	25	34
payables days	1,177	1,584	1,976	156	79	63	60	66	66	66	75
Current ratio	1.0	1.9	1.7	1.2	1.0	0.9	0.7	0.7	0.8	0.8	0.9

Leverage Ratios

Debt / Equity	0.48	0.60	0.63	0.40	0.52	0.66	0.87	0.96	0.86	0.72	0.62
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Coverage Ratios

Interest coverage [EBIT]	5.4	3.6	6.2	0.5	0.1	-0.8	0.4	1.0	1.2	1.3	1.7
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Enterprise Value Calculation	FY2014	FY2015	FY2016	FY2017	FY2018	Current
Market Cap.	8,837.0	19,380.7	56,736.6518	84,220.0432	43,525.698	7,904.431
+ Minority Interest	644.2	842.1	34.7	879.7	829.2	543.5
+Total Debt (ST & LT Debt)	4,421.7	6,394.8	8,393.9	10,994.4	14,225.9	18,490.6
- Cash & Equivalents	604	685	824	3,970	4,388	5,954
Enterprise Value	13,299	25,932	64,342	92,124	54,193	20,984

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Evaluate Research Ltd.

30/F Singapore Land Tower
50 Raffles Place
SINGAPORE

Sai Capital Bldg – Suite 402
Opp. JW Marriott Hotel
SB RD, Pune 411 016
INDIA

Analyst:

Ketan Chaphalkar
ketan@evaluateresearch.com

Sandy Mehta, CFA
sandy@evaluateresearch.com

Client Servicing:

Pooja Burgul
pooja@evaluateresearch.com

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