

Keep in touch

Rating	Buy	Initiation
Target Price	HKD 6.60	
Current price	HKD 4.91	Upside +34%

China's largest handset display supplier

Established in 1978, Truly is the largest handset display and second capacitive touch panel supplier, with a diversified clientele focusing on the PRC brands and Samsung. We believe Truly is competitive on the back of its all-in-one solution (from handset LCDs to capacitive touch panels), comprehensive technologies and strong production yield.

Supply constraints favor touch industry

We believe touch panel area to grow 77% in 2013, on the main technology themes including smartphones, tablets, and touch adoption by notebooks. On the supply side, there is bottleneck in OGS yield rate. We believe Truly, as one of the leaders in OGS touch panels should have the good opportunity to gain share or pick orders with better margins in the market with supply constraints.

Product mix shift positive to margins

Riding on the booming touch panel market, this segment will outgrow other segment. The GPM of touch panel segment is ~21.0%, above 12.6% of company average, supported by the high requirements of lamination in preventing air bubbles and contamination. Following the increase in proportion of touch panel segment from 15.1% in FY12 to 45.3% in FY15E, the overall GPM will be pulled up.

We initiate coverage on Truly with BUY

The company is trading at 12.8x FY13E PER, which is 49.8% lower than the average 25.5x (17.2x if excluding A-share with high valuation) of the peers. With the dominant industry position in China, we believe Truly's valuation will at least rise to near the average of the peers. We initiate coverage on the stock with target price of HK\$6.60, based on 17.2x FY13E PER.

HKD million	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	10,503	12,374	17,560	21,264	24,093
Operating profit	736	1,056	1,568	1,997	2,334
Net Profit	381	710	1,062	1,357	1,586
Consensus NP			989	1,139	1,475
EPS (HKD)	0.14	0.26	0.38	0.49	0.57
P/E (x)	35.7	19.1	12.8	10.0	8.6
Dividend yield (%)	1.1	2.0	3.0	3.9	4.5

Sources: Bloomberg, CIRC estimates

29 May 2013

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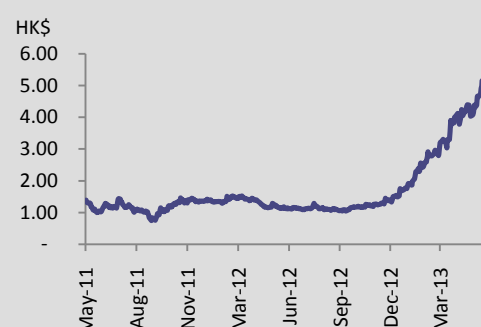
Trading data

52-Week Range (HK\$)	1.02/5.37
3 Mth Avg Daily Vol (m)	15.10
No of Shares (m)	2,812.49
Market Cap (HK\$m)	13,809.32
Major Shareholders (%)	Lam Wai Wah (45%)
Auditors	Deloitte
Result Due	1H13: Aug

Company description

Established in 1978, Truly is largest handset display and second capacitive touch panel supplier in China, with a diversified clientele focusing on the domestic brands (BBK, China Wireless (2369.HK), Gionee, Huawei, K-touch, Samsung (5930.KS), TCL Communication (2618.HK), and ZTE (763.HK). Besides, It also supplies camera modules and automotive LCDs.

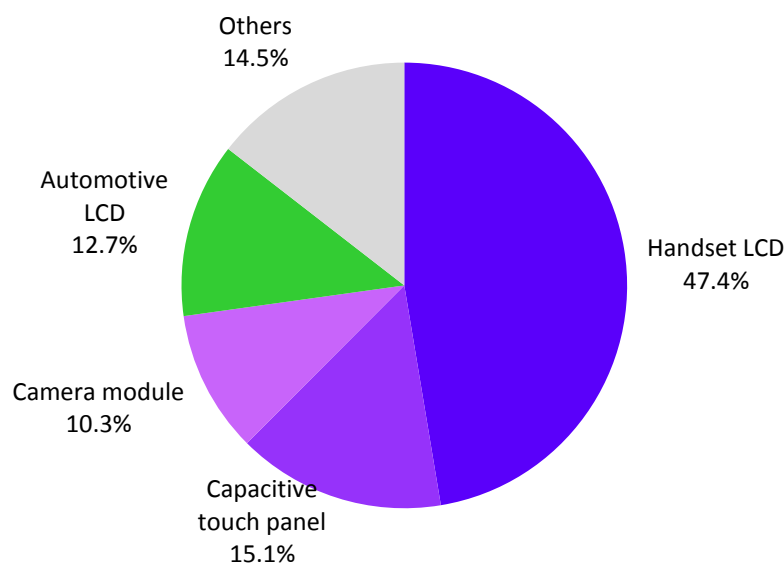
Price chart



China's largest handset display supplier

Established in 1978, Truly is the largest handset display and second capacitive touch panel supplier in China, with a diversified clientele focusing on the PRC brands (BBK, China Wireless (2369.HK), Gionee, Huawei, K-touch, TCL Communication (2618.HK), and ZTE (763.HK)) and Samsung (5930.KS). Besides, it also supplies camera modules and automotive LCDs.

Exhibit 1: FY12 product mix



Source: Company data, CIRC

Exhibit 2: Major customers and competitors

Ranking		Major Customers		Major Competitors	
Handset LCD	- No. 1 in China and No. 5 in the world	- BBK, China Wireless (2369.HK), Gionee, Huawei, K-touch, Samsung (5930.KS), TCL Communication (2618.HK), and ZTE (763.HK)	-	- Tianma (000050.CH), BOE (000725.CH), Innolux (2481.TT)	-
Capacitive touch panel	- No. 2 in China	-	-	- O-film (002456.CH), Laibao (002106.CH)	-
Camera module	- No. 2 in China	-	-	- Sunny Optical (2382.HK)	-
Automotive LCD	- Black-and-white display: No. 1 in the world; TFT display: No. 8 in the world	- Calsonic Kansei, Continental, Delphi, Denso, Nippon Seiki, Panasonic, Valeo	-	- Sharp (6753.JT), JDI, LGD (034220.KR)	-

Source: Company data, CIRC

Exhibit 3: LCD and touch panel projects
BBK Vivo Xplay
ZTE Grand Memo
**Samsung Galaxy
Grand**
Sony Xperia Z

Screen Size (inch)

5.7

5.7

5.0

5.0

Resolution (pixel)

1920x1080

1280x720

800x480

1920x1080

Touch panel technologies

Film

OGS

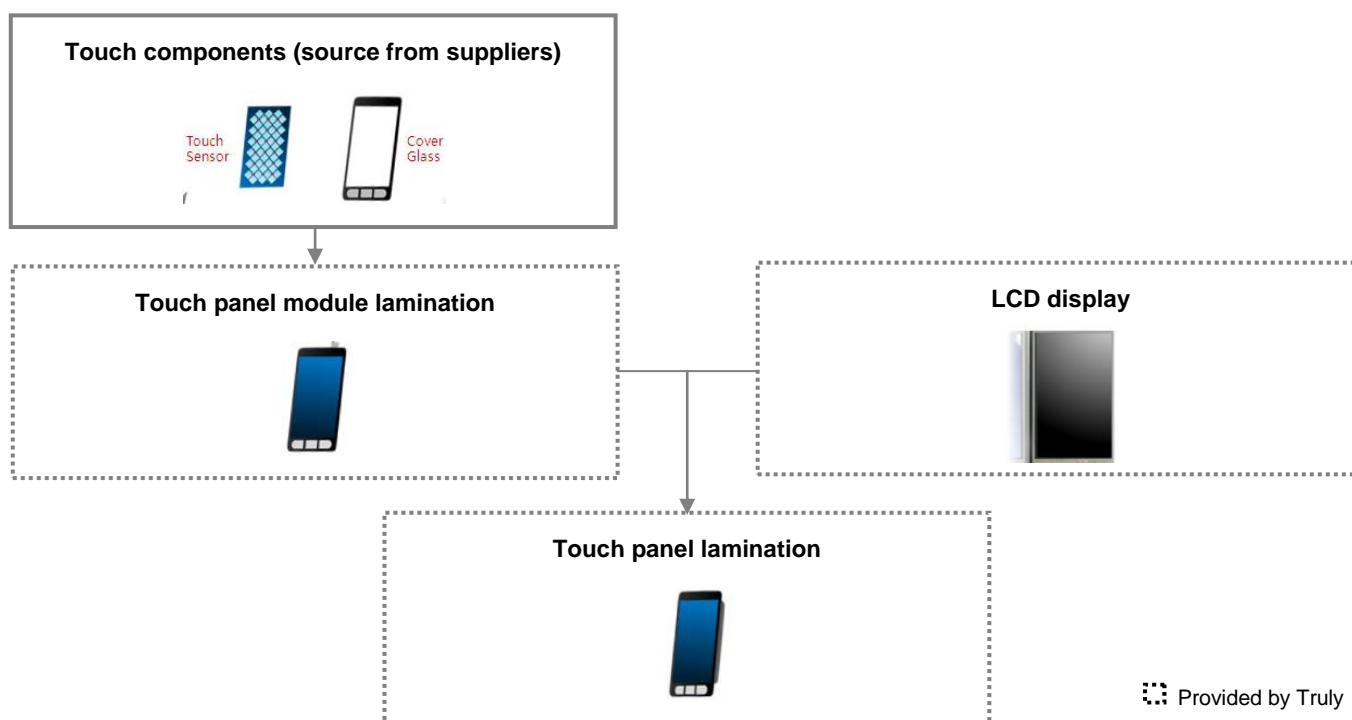
N/A

Film

Source: Company data, CIRL

What make Truly differentiate from competitors?

Truly's handset LCDs are primarily for PRC customers and Samsung, competing with Tianma (000050.CH), BOE (000725.CH) and Innolux (2481.TT). As for touch panel, its major competitors are O-film (002456.CH) and Laibao (002106.CH). We believe what make Truly differentiate from competitors are:

Exhibit 4: Truly's supply chain in LCD panels and touch modules


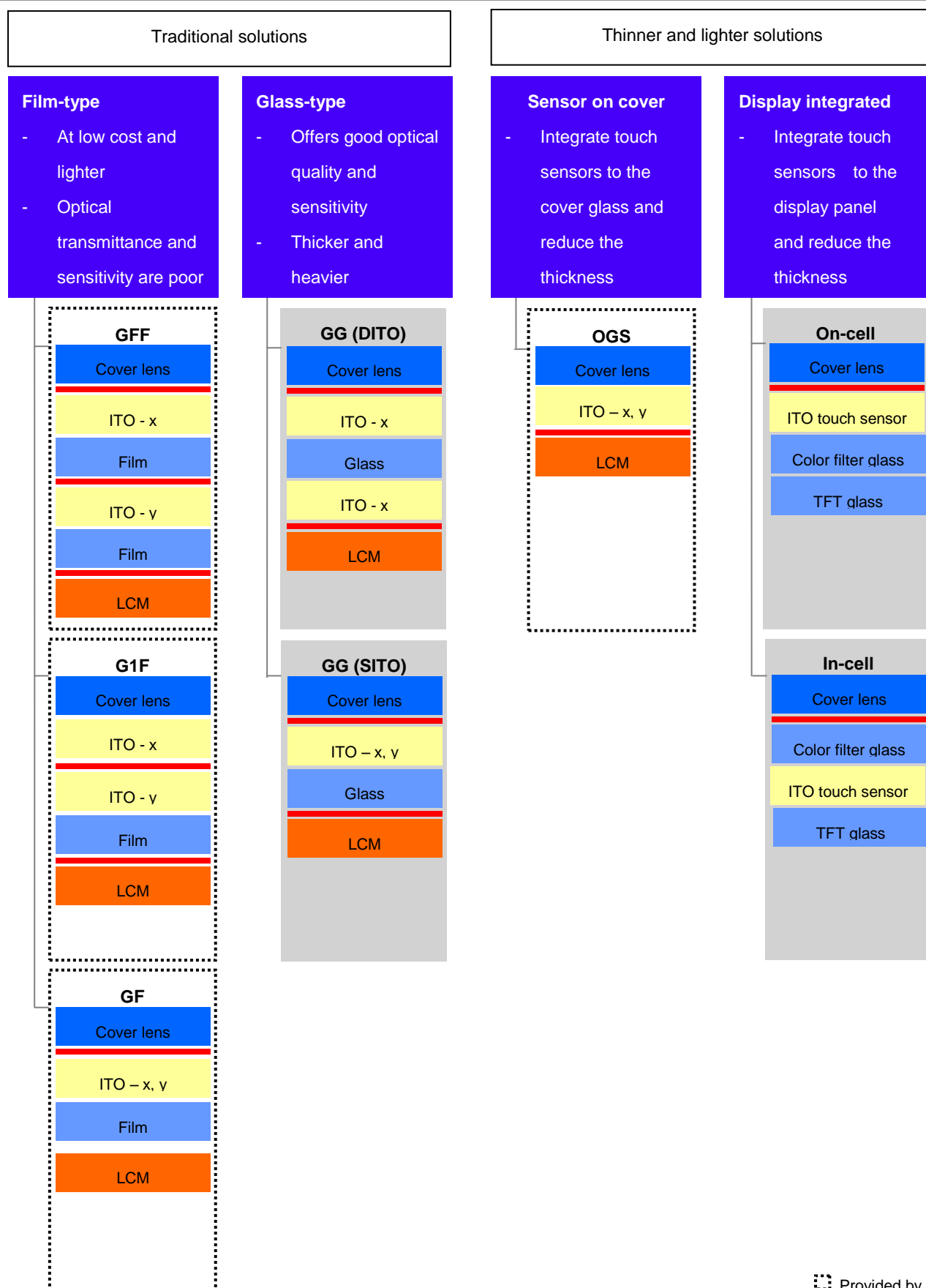
Source: TPK, CIRL

- **All-in-one solution:** Truly is one of the few companies having a diversified product range, from handset LCDs to capacitive touch panels. It can provide customers a total solution and save assembly costs in the short lead time so that China handset vendors, would prefer to procure from such an all-in-one company.
- **Comprehensive technologies:** The company provides customers comprehensive technologies.
 - LCD technologies: TN, STN, TFT and OLED.
 - Touch panel technologies: Glass-Film-Film (GFF, film type 4-layer structure), Glass-Film (G1F/GF, film type, 3-layer structure) and One Glass Solution (OGS, glass type, 2-layer structure) technologies.

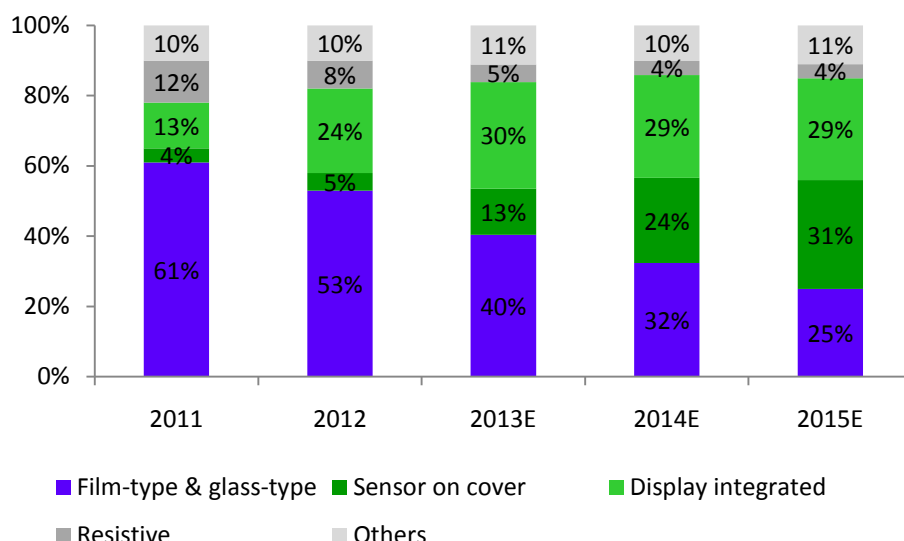
Under the different touch technologies, traditional GFF or Glass-Glass (GG, glass type, 3-layer structure) are mature solutions. GFF's optical transmittance and sensitivity is poor. But it dominates the low-end devices mainly due to its cost advantage. As for GG, it offers optical quality and good sensitivity, but is thicker and heavier.

The best way to reduce the thickness with optical transmittance and sensitivity is to remove the sensor layers (film or glass):

- G1F/GF (film type, 3-layer structure): They use one less film and are thus thinner/lighter than GFF with better optical transmittance and sensitivity. And theoretically they cost less as it uses less material. Therefore, if the yield rate reaches optimal level, we will see a significant GFF to G1F/GF.
- Sensor on cover/ display integrated: They integrate the touch sensors to the cover glass (OGS, 2-layer structure) or the display panel (in-cell or on-cell, 2-layer structure). Among the different touch technologies, sensor on cover and display integrated technology are superior in terms of the thickness, optical transmittance and sensitivity. We believe they will become the mainstream touch technologies. Truly, as one of the leaders in OGS touch panels, with a good yield rate (sheet-type OGS: >80%, piece-type OGS: ~70%), should have the good opportunity to gain market share.

Exhibit 5: Truly's various touch panel technologies for handsets

 Provided by Truly

Source: Company data, CIRL

Exhibit 6: Touch module revenue share by technology


Source: DisplaySearch, CIRL

- **Strong production yield:** Along touch panel production process (cover glass production, touch sensor production, LCD production and lamination), lamination (assemble cover glasses, touch sensors and LCDs by optical adhesives (i.e. OCA) shown in Exhibit 4) is one of the most-challenging step. It is mainly due to high requirements of preventing air bubbles and contamination. The cost of yield lost is very high because the cover glasses and touch sensors and LCDs would need to be scrapped under a poor yield. Truly differentiates itself in know-how on the lamination process and thus enjoys the high yield rate (film type: >90%, sheet-type OGS: >80%, piece-type OGS: ~70%).

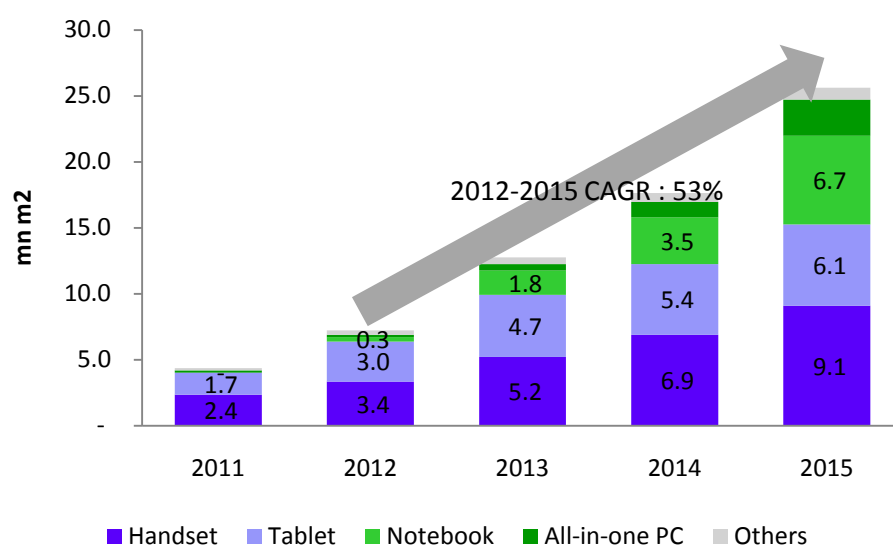
Automotive LCDs to be a new growth driver

Truly is diversifying towards non-handset applications to industries, such as automotive LCDs. Truly is currently a leading LCD supplier to nearly all car makers around the world (black-and-white display: no. 1; and TFT display: no. 8). We believe the replacement from black-and-white display to color TFT display and US's requirement to have rearview camera on all cars by 2014, will drive a strong growth to automotive LCD segment.

Supply constraints favor touch industry

We believe touch panel area to grow 77% in 2013, on the main technology themes including smartphones, tablets, and touch adoption by notebooks. On the supply side, there is bottleneck in OGS yield rate. We believe Truly, as one of the leaders in OGS touch panels, who enjoys a good yield rate (film type: >90%, sheet-type OGS: >80%, piece-type OGS: ~70%), should have the good opportunity to take advantage of the market with supply constraints.

Exhibit 7: Touch panel area demand by application



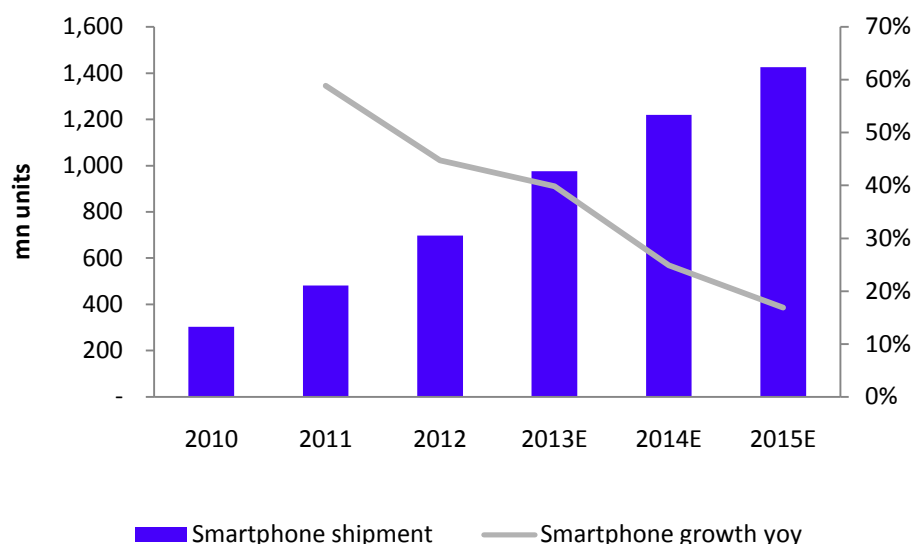
Source: CIRL

More larger touch panels required by smartphones, tablets and notebooks

Smartphone, the first widely adopted application, is currently the largest market for touch panel. We see 2013 as another strong growth year for smartphones, with shipment growth rate of 40%.

Chinese smartphone market will grow 47%, with 26% of tier one global brands, 44% of tier one Chinese brands (such as Huawei and ZTE) and 77% of other brands/whitebox (such as BBK, Gionee, K-touch). We believe Truly is in an attractive position to capitalise on the fast-growing Chinese smartphone market, especially for tier one Chinese brands and other brands/whitebox.

The continuous shipment growth momentum and trends towards larger displays (ie, from 4-inch to 5-inch) will drive touch panel area demand in smartphones to grow 55% in 2013.

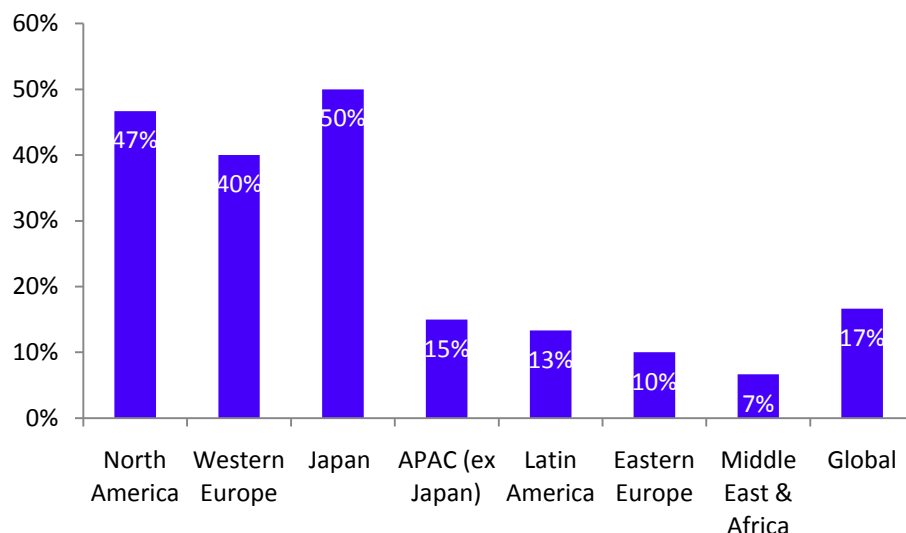
Exhibit 8: Global smartphone shipment


Source: IDC, CIRL

Exhibit 9: Global smartphone shipment

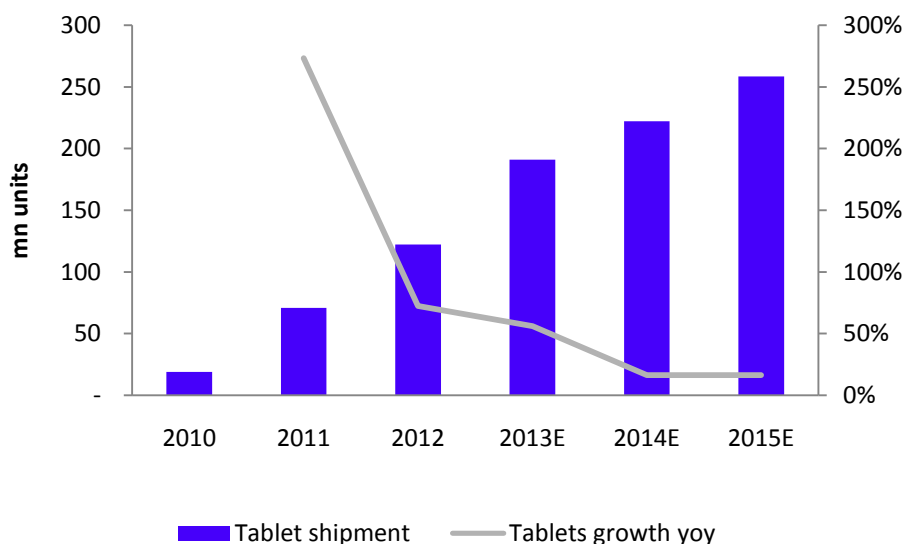
	2011	2012	2013E	2014E	2015E
Samsung	14.4	30.3	42	50	65
Apple	7.7	18.1	25	31	36
Nokia	22.2	8.2	5	6	7
HTC	2.3	7	9.5	11	13
Motorola	4.7	4.7	4.7	4.7	4.7
Sony Mobile	3	2.4	2.4	2.4	2.4
Research In Motion	0.3	0.1	0.2	0.2	0.2
Tier one global brands	54.6	70.8	88.8	105.3	128.3
yoy growth		29.7%	25.4%	18.6%	21.8%
Huawei	7.9	17.8	22.5	30	36
Lenovo	1.7	21.8	29.8	36	40.5
ZTE	6.1	14.7	20	24.8	26.4
Coolpad	3.4	14.9	27.2	32	36
Tier one Chinese brands	19.1	69.2	99.5	122.8	138.9
yoy growth		262.3%	43.8%	23.4%	13.1%
Other brands/ whitebox	3.9	56.6	100.2	135.6	154
yoy growth		1351.3%	77.0%	35.3%	13.6%
Total	77.6	196.6	288.5	363.7	421.2
yoy growth		153.4%	46.7%	26.1%	15.8%

Source: Company data, CIRL

Exhibit 10: 2012 smartphones penetration is still low


Source: IDC, CIRL

As for **tablets**, we continue to expect a very strong volume growth, with shipment growth rate of 49% in 2013. Tablet penetration rates will accelerate, because Apple steps down the price curve with iPad Mini. We believe touch panel area demand in tablets will grow 56% in 2013.

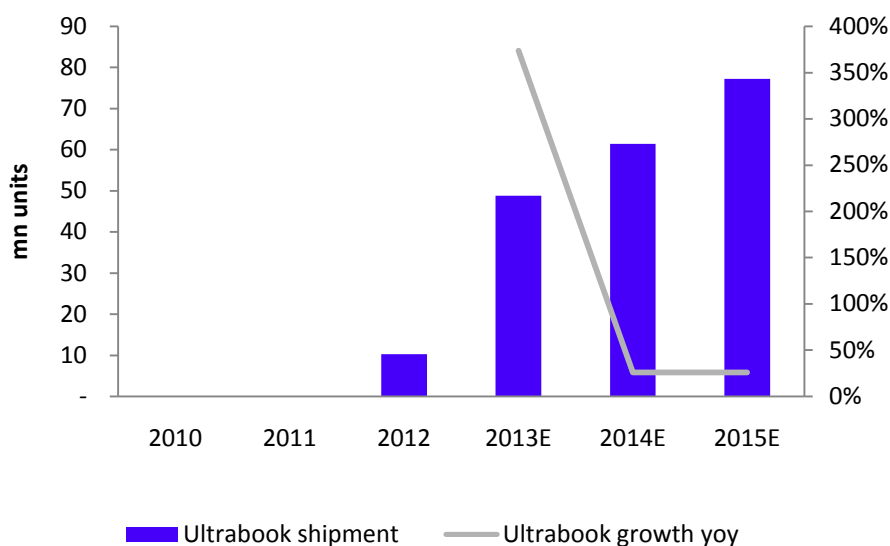
Exhibit 11: Global tablet shipment


Source: IDC, CIRL

Last but not least, **notebooks** should be also a very important driver for touch panel demand. After the introduction of Microsoft's Windows 8 (first touch-capable OS unified across mobile and PC), we saw increasing adoption of touch panels in notebooks in 4Q12. Among the leading PC brands, Lenovo and Acer target 20% touch penetration in notebook shipments in 2013, whereas Asustek has the highest

25% target. We believe touch panel area demand in notebooks will deliver explosive growth at 450% in 2013.

Exhibit 12: Global ultrabook shipment



Source: IDC, CIRL

Supply constraints favor leaders in OGS

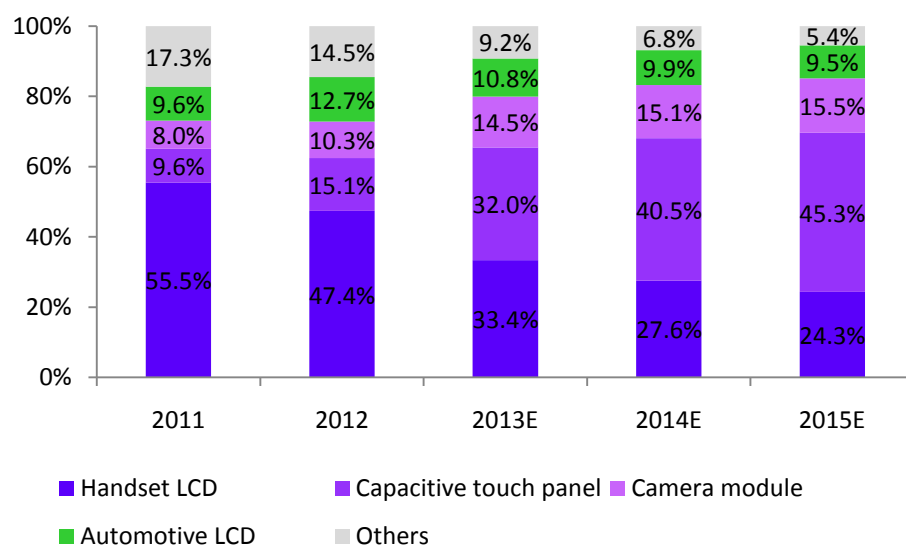
On the supply side, there is bottleneck in OGS production quantity. Though many suppliers also eye OGS market and expand capacity, production yield is the key limiting factor. There are 30-40 major steps in OGS production. Per industry checks, average OGS production yield is at ~60%. The cover glasses and touch sensors and LCDs may need to be scrapped in any mistakes.

Therefore, we believe Truly, as one of the leaders in OGS touch panels, which enjoy a good yield rate (film type: >90%, sheet-type OGS: >80%, piece-type OGS: ~70%), should have the good opportunity to gain share or pick orders with better margins, in the market with supply constraints.

Product mix shift positive to margins

Riding on the booming touch panel market, this segment will outgrow other segment. Following the increase in proportion of touch panel segment from 15.1% in FY12 to 45.3% in FY15E, the overall GPM will be pulled up. The GPM of touch panel segment is ~21.0%, above 12.6% of company average, supported by the high requirements of lamination in preventing air bubbles and contamination.

Exhibit 13: Truly's product mix



Source: Company data, CIRL

Exhibit 14: Truly's margins

	GPM
Handset LCD	~8.0%
Capacitive touch panel	~21.0%
Camera module	13.0%-15.0%
Automotive	~20.0%

Source: Company data, CIRL

Financial analysis and valuation

We forecast revenue to grow by 41.9%/21.1%/13.3% for FY13E/FY14E/FY15E mainly driven by the growth of touch panel segments.

GPM keeps uptrend at ~13.0% because the GPM of fast-growing touch panel segment is 21.0%, above 12.6% of company average in FY12, supported by the high requirements of lamination in preventing air bubbles and contamination.

SG&A expense will decrease to 3.7%-4.0% in FY13E-FY15E, on the back of economies of scale. We expect that net profit will rise 49.5%/27.8%/16.9% to HKD1,061.8m/ HKD1,356.9mn/ HKD1,586.3mn in FY13E/FY14E/FY15E.

Payout will maintain a ~40.0% of net profit in FY13E-FY15E representing 3.3% of FY13E dividend yield.

We initiate coverage on Truly with BUY. The company is trading at 12.8x FY13E PER, which is 49.8% lower than the average 25.5x (17.2x if excluding A-share with high valuation) of the peers. With the dominant industry position in China, we believe Truly's valuation will at least rise to near the average of the peers. We initiate coverage on the stock with target price of HK\$6.60, based on 17.2x FY13E PER.

Risk Factors

Downside risks include: 1) slower than expected growth of smartphones; 2) slower than expected growth of its clients; 3) more-than-expected competition; and 4) rapidly changing technology trends.

Exhibit 15: Key assumptions

	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue					
Handset LCD	5,824.00	5,862.00	5,862.00	5,862.00	5,862.00
Capacitive touch panel	1,012.00	1,869.00	5,624.05	8,619.03	10,913.05
Camera module	845.00	1,277.00	2,554.00	3,219.95	3,730.04
Automotive LCD	1,008.00	1,571.00	1,904.80	2,108.89	2,278.96
Others	1,814.00	1,795.00	1,615.50	1,453.95	1,308.56
Total	10,503.00	12,374.00	17,560.35	21,263.81	24,092.61
Growth					
Handset LCD		0.7%	0.0%	0.0%	0.0%
Capacitive touch panel		84.7%	200.9%	53.3%	26.6%
Camera module		51.1%	100.0%	26.1%	15.8%
Automotive LCD		55.9%	21.2%	10.7%	8.1%
Others		-1.0%	-10.0%	-10.0%	-10.0%
Total		17.8%	41.9%	21.1%	13.3%
GPM					
Handset LCD		8.0%	7.7%	7.3%	7.0%
Capacitive touch panel		21.0%	16.4%	16.2%	16.3%
Camera module		14.0%	13.7%	13.3%	13.0%
Automotive LCD		20.0%	19.3%	18.6%	18.0%
Others		11.5%	11.3%	11.2%	11.0%
Total		12.6%	12.9%	13.2%	13.4%

Source: Company data, CIRC

Exhibit 16: Financial statement

Income statement					
Year to Dec (HKD mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	10,503	12,374	17,560	21,264	24,093
Gross profit (reported)	1,310	1,557	2,271	2,810	3,231
EBITDA	1,242	1,618	2,189	2,740	3,233
Depreciation	(506)	(562)	(621)	(743)	(899)
EBIT	736	1,056	1,568	1,997	2,334
Net interest income (exp.)	(65)	(73)	(97)	(117)	(137)
Associates	0	0	0	0	0
Exceptionals/others	0	0	0	0	0
Profit before tax	671	984	1,471	1,879	2,197
Tax expenses	(291)	(268)	(400)	(512)	(598)
Minority interest	0	(6)	(9)	(11)	(13)
Net profit	381	710	1,062	1,357	1,586

Balance sheet					
Year to Dec (HKD mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Cash & equiv	1,106	1,439	2,513	3,601	4,893
Trade receivables	3,291	4,009	5,709	6,936	7,886
Other receivables	0	0	0	0	0
Inventories	883	1,016	1,433	1,726	1,947
Other current assets	4	4	4	4	4
Fixed assets	4,560	4,893	5,674	6,663	7,748
Intangible assets	1	1	1	1	1
Investment, associates etc	255	225	225	225	225
Total assets	10,099	11,587	15,559	19,156	22,704
Account payables	2,357	3,092	4,420	5,396	6,170
Other payables	0	0	0	0	0
Short-term debt	2,234	2,249	3,036	3,535	3,916
Other current liabs	274	164	400	512	598
Long-term debts	798	906	906	906	906
Deferred tax and others	39	36	36	36	36
Other long-term liabs	0	0	0	0	0
Total liabilities	5,702	6,447	8,799	10,385	11,626
Share capital	55	55	55	55	55
Reserves	4,341	4,922	6,534	8,534	10,827
Shareholders' equity	4,397	4,977	6,589	8,589	10,883
Minorities	0	163	172	182	195
Total equity	4,397	5,140	6,761	8,772	11,078
Net cash (debt)	(1,927)	(1,716)	(1,429)	(840)	71

Cash flow					
Year to Dec (HKD mn)	FY11A	FY12A	FY13E	FY14E	FY15E
Pre-tax profit	671	984	1,471	1,879	2,197
Taxes paid	(110)	(381)	(164)	(400)	(512)
Depreciation	567	536	621	743	899
Associates	0	0	0	0	0
CFO bef. WC change	1,128	1,139	1,928	2,222	2,584
Change in working cap	(771)	(117)	(788)	(544)	(397)
Cashflow from operation	357	1,022	1,140	1,677	2,188
CAPEX	(898)	(869)	(1,403)	(1,732)	(1,983)
Free cash flow	(540)	153	(263)	(55)	204
Dividends	152	277	413	528	618
Balance sheet adj.	(40)	30	0	0	0
Share issued	(87)	(249)	0	0	0
Others	0	0	137	115	89
Net cash flow	(515)	210	287	589	911
Net cash (debt) start	(1,412)	(1,927)	(1,716)	(1,429)	(840)
Net cash (debt) at year-end	(1,927)	(1,716)	(1,429)	(840)	71

Ratios					
Year to Dec	FY11A	FY12A	FY13E	FY14E	FY15E
Growth rate (%)					
Revenue	35.8	17.8	41.9	21.1	13.3
EBITDA	26.3	30.3	35.3	25.1	18.0
EBIT	38.3	43.4	48.4	27.4	16.9
Net profit	20.9	86.5	49.5	27.8	16.9
EPS	20.1	86.6	49.5	27.8	16.9
Margins (%)					
Gross margin (reported)	12.5	12.6	12.9	13.2	13.4
EBITDA	11.8	13.1	12.5	12.9	13.4
EBIT	7.0	8.5	8.9	9.4	9.7
Net margin	3.6	5.7	6.0	6.4	6.6
Other ratios					
ROE (%)	8.7	13.8	15.7	15.5	14.3
ROA (%)	3.8	6.1	6.8	7.1	7.0
Net gearing (%)	43.8	33.4	21.1	9.6	(0.6)
Interest coverage (x)	11.3	14.5	16.1	17.0	17.1
Receivables days	114.4	118.3	118.7	119.1	119.5
Payables days	93.6	104.3	105.5	106.7	107.9
Inventory days	35.0	34.3	34.2	34.1	34.1
Effective tax rate (%)	43.3	27.2	27.2	27.2	27.2

Source: Company data, CIRC

Exhibit 17: Peer comparison

	Ticker	Market cap (HKD mn)	FY12A	PE (x) FY13E	FY14E	FY12A	PB (x) FY13E	FY14E	Dividend yield (%)		
									FY12A	FY13E	FY14E
LCD panel suppliers											
Samsung Electron	005930 KS	1,505,499	12.8	6.9	6.2	1.7	1.6	1.3	0.0	0.0	0.0
Lg Display Co Lt	034220 KS	73,685	373.6	10.7	8.9	1.0	1.0	0.9	0.0	0.0	0.0
Au Optonics Cor	2409 TT	34,235	(2.2)	44.7	15.4	0.8	0.8	0.7	0.0	0.0	0.0
Innolux Corp	3481 TT	47,195	(5.1)	11.7	10.5	0.9	0.9	0.8	0.0	0.0	0.0
Sharp Corp	6753 JT	48,111	(1.2)	(1.4)	8,177.9	0.8	2.7	3.8	0.0	0.0	0.0
Tianma-A	000050 CH	13,386	200.0	52.6	39.2	7.8	6.6	5.6	0.0	0.0	0.0
Boe Technology-A	000725 CH	44,945	147.7	28.0	18.6	1.4	1.4	1.3	0.0	0.0	0.0
Average			183.5	25.8	1,182.4	2.1	2.1	2.0	0.0	0.0	0.0
Touch panel suppliers											
Tpk Holding Co L	3673 TT	51,833	0.0	10.7	9.5	-	3.5	2.9	0.0	0.0	0.0
Wintek Corp	2384 TT	7,499	(9.4)	(17.1)	1,352.7	0.8	0.9	0.9	0.0	0.0	0.0
Young Fast Opto	3622 TT	2,266	(24.3)	19.5	23.6	0.9	0.8	0.8	0.0	0.0	0.0
Elk Corp	094190 KS	1,480	110.0	8.6	5.6	1.7	1.7	1.3	0.0	0.0	0.0
Nissha Printing	7915 JT	6,270	(2.1)	(11.0)	13.5	1.3	1.9	1.6	0.0	0.0	0.0
Shenzhen O-Fil-A	002456 CH	31,905	66.8	51.6	39.2	16.4	9.2	7.0	0.0	0.0	0.0
Shenzhen Laiba-A	002106 CH	20,947	105.0	44.5	28.9	5.8	4.7	4.1	0.0	0.0	0.0
Average			93.9	27.0	210.4	4.5	3.2	2.7	0.0	0.0	0.0
Camera module suppliers											
Largan Precision	3008 TT	34,783	23.8	17.9	16.1	5.7	4.8	4.0	0.0	0.0	0.0
Sunny Optical	2382 HK	10,880	39.0	23.9	18.8	5.0	4.4	3.9	1.2	1.7	2.2
Average			31.4	20.9	17.4	5.3	4.6	3.9	1.2	0.9	1.1
Truly Intl Hldgs	732 HK	13,809	19.1	12.8	10.0	2.7	2.1	1.6	2.0	3.0	3.9

Source: Bloomberg, CIRC

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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Analyst Certification

I, Susanna Chui hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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