

## The tide is still rising, upgrade China eCommerce to BUY

- We see more competition ahead in eCommerce and logistic sectors, including those between Ant/Baba and Meituan, social eCommerce and traditional eCommerce, Tongda Logistics, and new players like Zhongyou and J&T.
- But we suggest more competition is a positive sign because companies see potential growth opportunities. The whole China eCommerce sector is going to be benefited from: 1) Chinese consumers' resiliencies after the epidemic; 2) brand merchants moving business from offline to online; 3) continuous price war in logistic sector.
- We raise China eCommerce sector to BUY and suggest investors could consider owning all relevant stocks. We cut EPS estimation of Baba, JD, VIPS, Baozun, and ZTO because of the epidemic and competition. We raise PDD to HOLD because we see low ASP products are going to be more popular.

### Data Shows the resiliency of China eCommerce

We estimate that the China eCommerce sector could still have 19% YoY growth amid impact from the epidemic. Recent NBS data shows that China eCommerce outperformed total social retail: from Jan. to Feb., China's total social retail experienced 20.5% YoY decrease while online retail only has 3% YoY decrease. By March 8, total parcel volume of China logistics already reached about 160 mn per day, which is about 80% compared with the number before the epidemic, according to China's State Post Bureau. Our tracking data of 56 major brands on Tmall shows that most brands recorded their weakest weekly sales in the week of Feb. 3-9, and by the week of March 2-8, more than 60% of the brands had seen weekly sales rebound to the normal level in January.

### Online penetration continues to increase

We estimate that online sales penetration rate of total social retail will increase from 2019's 24.2% to 2020's 26.3%. 1) Some matured categories like apparel and footwear, beauty, and personal care still have further upside room because of the rapid growth of social eCommerce. **(to be continued)**

### Key financial of stock mentioned

(RMB mn)	Revenues			non-GAAP op.profit			non-GAAP NI		
	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
Alibaba	376,844	515,688	674,182	105,302	142,909	178,905	150,641	164,494	205,403
JD.com	576,888	709,046	835,300	5,067	15,015	22,930	9,887	13,687	22,058
Pinduoduo	30,142	49,193	74,346	(5,981)	(3,207)	7,024	(4,402)	(2,172)	8,749
Vipshop	92,994	97,041	111,095	5,754	8,231	10,132	4,900	6,558	8,544
Baozun	7,278	9,294	11,948	468	652	794	358	498	663
ZTO	22,110	25,999	30,480	5,463	6,134	7,373	5,983	6,181	7,965

Source: Bloomberg, Blue Lotus (as of Mar 26, 2020)

BUY

HOLD

SELL

### What has changed

Stocks	To	From
PDD	HOLD	SELL
BZUN	\$ 30	\$ 36

Source: Blue Lotus (as of Mar 26, 2020)

### Top pick

	Ticker	Rating	Target
Alibaba	BABA	BUY	US\$ 250
JD.com	JD	BUY	US\$ 48
Vipshop	VIPS	BUY	US\$ 19.4

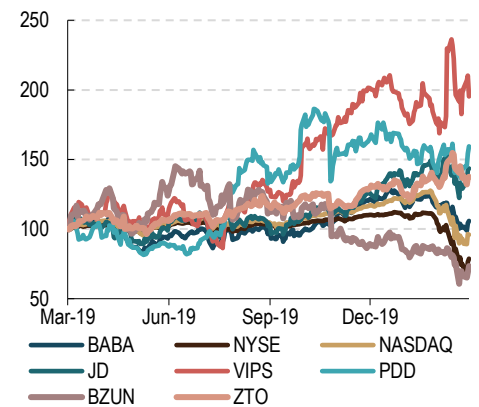
Source: Blue Lotus (as of June 17, 2019)

### Stocks mentioned

Name	BBG code	Rating	TP (US\$)	Curr. Price(US\$)	2020 PE
Pinduoduo	PDD	HOLD	35	36	N/A
Baozun	BZUN	HOLD	30	27.8	24.6
ZTO	ZTO	BUY	28	24.5	22.5

Source: Bloomberg, Blue Lotus (as of Mar 26, 2020)

### Price performance and volume data



Source: Bloomberg, Blue Lotus (as of Mar 26, 2020)

### Research team



Zixiao Yang

Managing Director

research@blue-lotus.cn

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Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

# Alibaba Group Holdings Limited: Financial Summary

## Fiscal year ends-31-Mar

### Exhibit 1. Income statement

(RMB mn)	F2019A	F2020E	F2021E
China retail marketplace GMV	5,726,856	6,388,272	7,167,244
Net revenues	376,844	515,688	674,182
Cost of revenues	(206,929)	(278,831)	(353,873)
Gross profit	169,915	236,857	320,309
Operating expenses, GAAP	(112,831)	(136,061)	(198,031)
R&D cost	(37,435)	(43,747)	(62,623)
Sales marketing cost	(39,780)	(51,831)	(77,561)
General administrative	(24,889)	(27,290)	(39,029)
Other items	(10,727)	(13,192)	(18,817)
Operating profit, GAAP	57,084	100,796	122,278
Share based compensation	37,491	28,921	37,810
Operating profit, non-GAAP	105,302	142,909	178,905
Interest income and inv. income, net	38,916	75,347	18,112
Other income/cost	221	7,708	-
Pre-tax profit, GAAP	96,221	183,851	140,390
Income tax	(16,553)	(22,081)	(29,482)
Net income, GAAP	80,234	151,892	107,867
Net income, non-GAAP	107,681	150,641	164,494
Number of ADS, diluted (mn)	2,523	2,523	2,533
EPADS, GAAP, diluted (RMB)	30.2	59.6	41.9
EPADS, non-GAAP, diluted (RMB)	37.3	45.7	64.9
Gross margin	45.1%	45.9%	47.5%
Operating margin, non-GAAP	27.9%	27.7%	26.5%
Net margin, GAAP	21.3%	29.5%	16.0%
Net margin, non-GAAP	28.6%	29.2%	24.4%

Source: Alibaba Group, Blue Lotus (as of Mar 26, 2020)

### Exhibit 2. Balance sheet

(RMB mn)	F2019A	F2020E	F2021E
Cash and restricted cash	198,494	212,830	246,150
Short-term invest. And inv in sec.	13,189	15,189	17,189
Prepayments and others	58,590	78,948	100,196
Total current asset	270,273	306,967	363,535
Property and equipment	67,907	192,884	235,569
Investment in securities, non-current	241,544	530,754	636,772
Land use rights	24,123	28,652	34,685
Intangibles, goodwill and others	333,211	341,172	346,163
Prepayments, non-current	28,018	37,753	47,914
Total assets	965,076	1,438,182	1,664,639
Bank borrowings	7,356	7,356	7,356
Income tax payable	17,685	23,943	30,965
Accrued expense	117,711	156,908	199,136
Deferred revenue	30,795	39,563	48,351
Merchant deposits	10,762	15,759	21,950
Total current liabilities	184,309	243,528	307,758
Long term debt	35,427	35,427	35,427
Deferred tax liabilities	30,171	38,467	47,937
Total non-current liabilities	65,598	73,894	83,364
Additional paid in capital	231,783	231,783	231,783
Retained earnings	257,886	437,193	581,225
Total equity	499,076	933,902	1,086,888
Total liabilities and equity	965,076	1,438,182	1,664,639

Source: Alibaba Group, Blue Lotus (as of Mar 26, 2020)

### Company Description

Since 2013, Alibaba Group has become the largest online mobile e-business company, by GMV, in the world. Alibaba operates several subsidiaries: Taobao Marketplace, the largest C2C platform in the world, whose GMV accounted for 61% of China's market share in 2019. Taobao Mall, the largest B2B2C platform in the world, its GMV accounted for 33% of China's market share in 2019. Alibaba Cloud Computing, the largest public cloud computing company in China, occupying 48% of China's market share in 2019, owns one-third of Ant Finance, including Alipay, which is the largest online payment platform in the world, occupying 54% of China's market share in 2019.

### Industry View

We estimate China's e-commerce market to grow by 19% in 2020, after growing 24.5% in 2019. We estimate traditional eCommerce, and social eCommerce sub-sectors to grow 13% and 45% in 2020, respectively, and we expect total online retail market to grow to RMB 13,488 bn in 2020.

### Exhibit 3. Cash flow statement

(RMB mn)	F2019A	F2020E	F2021E
Net income	80,234	151,892	107,867
Adjusted for			
Depreciation & amortization	14,962	30,668	49,063
Share based compensation	37,491	28,921	37,810
Amortization of intangible assets	22,118	17,820	18,817
Changes in			
Loan receivable	-	-	-
Restricted cash and escrow	(5,101)	(50.0)	(50.0)
Prepayments and others	(26,483)	(30,094)	(31,408)
Income tax payables	3,996	6,258	7,022
Merchant deposits	1,184	4,997	6,192
Accrued liabilities and deferred rev.	49,660	47,964	51,017
Cash from operations	146,800	257,180	246,132
Capex, PPE	(29,836)	(49,643)	(67,933)
Purchase of intangibles	(16,661)	(13,761)	(16,531)
Cash paid for equity investment	(81,017)	(102,406)	(122,887)
Acquisitions of AFS and HTM	(19,780)	(10,000)	(10,000)
Other cash paid in investing	183	(66,405)	5,150
Cash from Investing activities	(147,111)	(242,216)	(212,202)
Cash from financing activities	(7,166)	(628)	(610)
Change in cash	(4,232)	14,336	33,320
Cash at beginning	202,726	198,494	212,830
Cash at end	198,494	212,830	246,150

Source: Alibaba Group, Blue Lotus (as of Mar 26, 2020)

See the last page of the report for important disclosures

## JD.com, Inc.: Financial Summary

Fiscal year ends-31-Dec

### Exhibit 4. Income statement

(RMB mn)	2019A	2020E	2021E
Gross GMV	2,029,957	2,387,433	2,734,659
Net revenues	576,888	709,046	835,300
Cost of revenues	(492,467)	(601,416)	(706,201)
Gross profit	84,421	107,631	129,099
Fulfilment cost	(36,968)	(47,056)	(55,234)
Marketing cost	(22,234)	(27,010)	(31,686)
Technology & content	(14,619)	(16,529)	(19,353)
G&A cost	(5,490)	(5,911)	(6,225)
Operating profit GAAP	5,110	11,124	16,601
Share based compensation	3,612	4,000	5,230
Operating profit non-GAAP	5,067	15,015	22,930
Finance cost/income	1,061	330	1,868
Other income/cost	5,669	320	-
Pre-tax profit, GAAP	13,610	11,054	18,269
Income tax	(1,802)	(1,658)	(2,740)
Net income, GAAP	11,807	9,396	15,529
Net income, non-GAAP	9,887	13,687	22,058
Number of ADS, diluted (mn)	1,475	1,500	1,525
EPADS, GAAP (RMB)	8.01	6.27	10.19
Gross margin	14.6%	15.2%	15.5%
Operating margin, non-GAAP	0.88%	2.12%	2.75%
Net margin, GAAP	2.05%	1.33%	1.86%

Source: JD.com, Inc., Blue Lotus (as of Mar 26, 2020)

### Exhibit 5. Balance sheet

(RMB mn)	2019A	2020E	2021E
Cash and cash equivalent	51,292	73,817	107,873
Restricted cash	3,240	3,240	3,240
ST investment	2,036	2,036	2,036
Accounts receivable	12,644	15,541	18,308
Inventory, net	48,572	57,670	65,783
Prepayments and others	11,333	13,211	15,005
Total current asset	131,599	168,182	215,563
Property and equipment	23,334	27,673	32,537
Construction in progress	4,660	3,702	1,978
Land use rights	3,580	2,042	462
Intangibles, goodwill and others	64,599	72,826	80,537
Total assets	243,673	290,326	346,979
Account payables	93,184	111,145	130,573
Advance from customers	16,254	19,978	23,535
Accrued expense and others	29,414	38,272	47,588
Short term debt	4,545	4,545	4,545
Total current liabilities	143,397	173,939	206,241
Long term debt	11,955	12,722	10,151
Additional paid in capital	58,405	58,405	58,405
Statutory reserves	-	-	-
Accumulative deficit/loss	(13,307)	(3,912)	11,617
Accumulated other comprehensive loss	43,223	49,170	60,564
Total equity	88,321	103,664	130,587
Total liabilities and equity	243,673	290,326	346,979

Source: JD.com Inc., Blue Lotus (as of Mar 26, 2020)

### Company Description

JD.com is China's largest direct B2C retailer, second largest B2C retailer, and China's 2<sup>nd</sup> largest retailer by GMV. In 2019, 356mn (+57% YoY) customers placed 2,916mn orders (+6% YoY) on JD.com, generating gross GMV of RMB 1,198 bn (4% YoY).

### Industry View

We estimate China's e-commerce market to grow by 19% in 2020, after growing 24.5% in 2019. We estimate traditional eCommerce, and social eCommerce sub-sectors to grow 13% and 45% in 2020, respectively, and we expect total online retail market to grow to RMB 13,488 bn in 2020.

### Exhibit 6. Cash flow statement

(RMB mn)	2019A	2020E	2021E
Net income	11,807	9,396	15,529
Adjusted for			
Depreciation & amortization	7,086	9,299	12,018
Share based compensation	3,612	4,000	5,230
Allowance for doubtful accounts	2,110	2,664	3,222
One-time write-offs	-	-	-
Changes in			
Account receivable	(1,534)	(2,897)	(2,767)
Inventory	(4,542)	(9,098)	(8,113)
Account payables	13,199	17,961	19,429
Advance to customers and to suppliers	3,118	3,587	3,427
Accrued liabilities and deferred revenues	4,468	6,980	7,522
Cash from operations	39,323	41,892	55,497
Capex, PPE	(10,531)	(10,898)	(10,548)
Capex, land and bldg.	(1,000)	(1,000)	(500)
Purchase of intangibles	(14.0)	(17.2)	(20.2)
Purchase of short-term investments	-	-	-
Cash paid for equity investment	(7,000)	(7,000)	(7,000)
Purchase/issuance of company shares	-	-	-
Purchase/redemption of debt and others	500	500	(2,893)
Cash from financing	500	500	(2,893)
Change in cash	17,029	22,525	34,056
Cash, and restricted cash at beginning	37,502	51,292	73,817
Cash, and restricted cash at end	51,292	73,817	107,873

Source: JD.com Inc., Blue Lotus (as of Mar 26, 2020)

See the last page of the report for important disclosures

## Pinduoduo Inc.: Financial Summary

Fiscal year ends-31-Dec

### Exhibit 7. Income statement

(RMB mn)	2019A	2020E	2021E
Total GMV	1,006,600	1,628,180	2,307,945
Revenues	30,142	49,193	74,346
Online marketing services	26,814	43,591	66,406
Commission fees	3,328	5,601	7,940
Cost of products	(6,339)	(11,561)	(17,546)
Gross profit	23,803	37,632	56,800
Sales and marketing expenses	(27,174)	(36,926)	(44,656)
General and administrative expenses	(1,297)	(1,843)	(2,785)
Research and development expenses	(3,870)	(5,740)	(7,807)
Impairment of a long-term investment	-	-	-
Share-based compensation	2,558	3,670	5,472
Operating profit(loss), GAAP	(8,538)	(6,877)	1,552
Operating profit(loss), non-GAAP	(5,981)	(3,207)	7,024
Other income/(loss)	1,579	1,035	2,303
Pre-tax (Loss)/income, GAAP	(6,959)	(5,842)	3,855
Income taxes expenses	-	-	(578)
Net (loss)/income, GAAP	(6,959)	(5,842)	3,277
Net (loss)/income, non-GAAP	(4,402)	(2,172)	8,749
Number of ADS, diluted (mn)	1,162	1,290	1,295
EPADS (RMB), GAAP, diluted (RMB)	(5.99)	(4.53)	2.53
Gross margin	79.0%	76.5%	76.4%
EBIT margin, GAAP	(28.3)%	(14.0)%	2.09%
Net margin, GAAP	(23.1)%	(11.9)%	4.41%

Source: Pinduoduo Inc., Blue Lotus (as of Mar 26, 2020)

### Exhibit 8. Balance sheet

(RMB mn)	2019A	2020E	2021E
Cash and cash equivalents	23,186	27,383	43,533
Restricted cash	26,980	36,571	46,769
Receivables from online payment platforms	528	794	1,097
Short-term investments	7,931	8,231	8,531
Amounts due from related parties	2,341	3,821	5,775
Prepayments and other current assets	2,192	3,577	5,406
Total current assets	63,157	80,376	111,110
Long-term investment	-	-	-
Property and equipment, net	66.3	130	224
Intangible asset	6,092	10,050	13,805
Loan to a related party and others	-	-	-
Total non-current assets	6,159	10,180	14,030
Total asset	69,315	90,556	125,140
Amounts due to related parties	1,429	2,871	4,339
Customer advances	440	853	1,289
Payable to merchants	29,980	39,571	49,769
Accrued expenses and other	5,203	9,490	14,403
Merchant deposits	8,796	13,008	19,660
Total current liabilities	45,848	65,793	89,459
Total liabilities	45,848	65,793	89,459
Total shareholders' (deficits)/equity	23,467	24,763	35,680
Total liabilities, mezzanine equity and shareholders' (deficits)/equity	69,315	90,556	125,140

Source: Pinduoduo Inc., Blue Lotus (as of Mar 26, 2020)

### Company Description

PDD is China's 3rd largest online mobile e-business company in terms of GMV. In 2019, 561mn (+34% YoY) customers placed 17,993 mn orders (+62% YoY) on the PDD platform, which generated GMV of RMB 1,004 bn (+113% YoY), accounting for 9% of China e-commerce retail market shares.

### Industry View

We estimate China's e-commerce market to grow by 19% in 2020, after growing 24.5% in 2019. We estimate traditional eCommerce, and social e-commerce sub-sectors to grow 13% and 45% in 2020, respectively, and we expect total online retail market to grow to RMB 13,488 bn in 2020.

### Exhibit 9. Cash flow statement

(RMB mn)	2019A	2020E	2021E
Net income	(6,959)	(5,842)	3,277
Depreciation & amortization	202	377	575
Interest income	(1,396)	(831)	(2,100)
Share-based compensation	2,558	3,670	5,472
Restricted cash	(10,600)	(9,591)	(10,198)
Receivables from online payment platforms	(280)	(266)	(304)
Amounts due from related parties (current assets)	(1,322)	(1,480)	(1,954)
Prepayments and other current assets	(1,238)	(1,385)	(1,829)
Amounts due to related parties (current liabilities)	951	1,442	1,468
Customer advances	248	413	436
Payables to merchants	12,704	9,591	10,198
Accrued expenses and other liabilities	2,978	4,287	4,914
Merchant deposits	4,608	4,212	6,652
Net cash flow generated from operating activities	2,453	4,596	16,607
Proceeds from sales of short-term investments and others	(300)	(300)	(300)
Purchase of property and equipment	(57.7)	(99.1)	(157)
Net cash flow generated from (used in) investing activities	(358)	(399)	(457)
Net cash flow generated from financing activities	6,930	0	0
Exchange rate effect on cash and cash equivalents	-	-	-
Change in cash	9,025	4,197	16,150
Cash at beginning	14,160	23,186	27,383
Cash at end	23,186	27,383	43,533

Source: Pinduoduo Inc., Blue Lotus (as of Mar 26, 2020)

See the last page of the report for important disclosures

## Vipshop Holdings Limited: Financial Summary

Fiscal year ends-31-Dec

### Exhibit 10. Income statement

(RMB mn)	2019A	2020E	2021E
Net revenues	92,994	97,041	111,095
Cost of revenues	(72,314)	(74,177)	(84,664)
Gross profit	20,680	22,864	26,431
Fulfillment cost	(7,593)	(7,063)	(8,080)
Sales marketing cost	(3,324)	(3,173)	(3,743)
Tech & content cost	(1,568)	(1,553)	(1,889)
G&A cost	(3,789)	(3,372)	(3,861)
Other income/cost	367	385	1,111
Operating profit GAAP	4,773	8,089	9,969
Share based compensation	688	143	163
Operating profit non-GAAP	5,754	8,231	10,132
Finance income (cost)	131	0	458
Other income/cost	38	(320)	(200)
Pre-tax profit	4,943	7,769	10,226
Income tax	(984)	(1,554)	(2,045)
Net income, GAAP	3,959	6,215	8,181
Net income, non-GAAP	4,900	6,558	8,544
Number of ADS, diluted	680	680	685
EPADS, GAAP (RMB)	5.82	9.14	11.95
EPADS, non-GAAP (RMB)	7.21	9.65	12.48
Gross margin	22.2%	23.6%	23.8%
Operating margin, non-GAAP	6.19%	8.48%	9.12%
Net margin, GAAP	4.26%	6.40%	7.36%

Source: Vipshop Holdings Limited, Blue Lotus (as of Mar 26, 2020)

### Exhibit 11. Balance sheet

(RMB mn)	2019A	2020E	2021E
Cash and cash equivalent	12,389	17,800	25,274
Restricted cash & HTM securities	3,173	3,527	3,881
Account receivable	6,420	6,651	7,897
Inventory	4,871	4,291	4,620
Other receivables	4,112	3,882	5,017
Total current assets	30,965	36,151	46,690
Property and equipment	10,713	12,232	13,545
Deposit for PPE	419	622	827
Land use rights	3,936	3,956	3,976
Intangible assets	345	322	193
Other long-term assets	3,269	3,729	4,303
Total assets	49,645	57,012	69,533
Account payables	12,468	12,789	15,293
Advance from customers	1,084	807	921
Accrued liabilities	6,108	6,468	7,151
Short term debt	6,680	6,699	6,806
Total current liabilities	26,340	26,763	30,172
Convertible debt	0	0	0
Additional paid in capital	9,385	9,385	9,385
Treasury stock	0	0	0
Retailed earnings	11,867	18,082	26,263
Accumulative deficit/loss	1,699	2,427	3,358
Total equity	22,900	29,843	38,955
Total liabilities and equity	49,645	57,012	69,533

Source: Vipshop Holdings Limited, Blue Lotus (as of Mar 26, 2020)

### Company Description

Vipshop (VIPS) is China's leading online discount retailer and largest flash sale retail operator, occupying more than 50% market share in the flash sale market. The active customers of Vipshop exceeded 38.6 million by the end of 2019. More than 20,000 brands have sold their discounted products on Vipshop.

### Industry View

We estimate China's e-commerce market to grow by 19% in 2020, after growing 24.5% in 2019. We estimate traditional eCommerce, and social e-commerce sub-sectors to grow 13% and 45% in 2020, respectively, and we expect total online retail market to grow to RMB 13,488 bn in 2020.

### Exhibit 12. Cash flow statement

(RMB mn)	2019A	2020E	2021E
Net income	3,959	6,215	8,181
Adjusted for			
Share based compensation	688	143	163
Depreciation	1,568	2,158	2,922
Amortization	330	427	529
Inventory write-off	262	259	291
Changes in			
Account receivable	(745)	(231)	(1,246)
Other receivables	(75)	246	(1,069)
Inventory	497	580	(330)
Account payables	838	321	2,504
Advance from customers	(389)	(277)	114
Accrued liabilities	605	360	720
Cash from operations	7,538	10,200	12,780
Capex	(3,468)	(3,593)	(4,111)
Cash paid for land	(50.0)	(20.0)	(20.0)
Purchase of HTM securities	(375)	(375)	(375)
Cash from investing	(3,894)	(3,989)	(4,506)
Purchase/Repurchase of company shares	0	0	0
Issuance of convertible bond	(700)	(800)	(800)
Cash from financing	(700)	(800)	(800)
Change in cash	2,944	5,411	7,473
Cash at beginning	9,445	12,389	17,800
Cash at end	12,389	17,800	25,274

Source: Vipshop Holdings Limited, Blue Lotus (as of Mar 26, 2020)

See the last page of the report for important disclosures

## Baozun Inc.: Financial Summary

Fiscal year ends-31-Dec

### Exhibit 13. Income statement

(RMB mn)	2019A	2020E	2021E
Total GMV	44,410	58,349	78,146
Revenues	7,278	9,294	11,948
Cost of products	(2,774)	(3,419)	(4,183)
Gross profit	4,504	5,876	7,764
Fulfillment	(1,677)	(2,149)	(2,870)
Sales marketing	(1,816)	(2,398)	(3,211)
Technology and content	(393)	(505)	(664)
General and administrative	(216)	(245)	(305)
Other operating income (loss)	(17.7)	(18.4)	(38.2)
Operating profit, GAAP	385	560	676
Share-based compensation	(83)	(92)	(118)
Operating profit, non-GAAP	468	652	794
Other income/(cost)	(38.2)	(74.63)	5.1
Pre-tax (Loss)/income, GAAP	347	486	681
Income taxes expenses	(71.1)	(80)	(136)
Net (loss)/income, GAAP	276	405	545
Net (loss)/income, non-GAAP	358	498	663
Number of ADS, diluted	60.3	61.3	62.3
EPADS (RMB), GAAP, diluted	4.56	6.52	8.65
Gross margin	61.9%	63.2%	65.0%
EBIT margin, GAAP	5.29%	6.03%	5.66%
Net margin GAAP	3.79%	4.36%	4.56%

Source: Baozun Inc., Blue Lotus (as of Mar 26, 2020)

### Exhibit 14. Balance sheet

(RMB mn)	2019A	2020E	2021E
Cash	1,871	2,064	2,326
ST investment	56.5	56.5	56.5
Accounts receivable	1,775	2,112	2,542
Inventories	773	892	1,046
Advances to suppliers	172	231	269
Prepayments and others	514	733	993
Total current asset	5,217	6,144	7,289
Investment in equity investees	34.0	34.0	34.0
PPE	494	556	630
Intangible assets	215	312	429
Land use right, net	80.1	102.2	131.4
Goodwill	13.2	13.2	13.2
Other non-current assets	33.0	36.3	40.0
Deferred tax assets	38.1	38.1	38.1
Total asset	6,193	7,305	8,674
Short-term loans	36.2	36.2	36.2
Accounts payable	904	1,152	1,409
Notes payable	51.0	69.2	94.2
Income tax payable	82.8	103	123
Accrued expenses and others	439	550	684
Current liabilities	1,513	1,910	2,346
Total liabilities	3,404	3,803	4,242
Additional paid-in capital	1,904	1,904	1,904
Total equity	2,789	3,502	4,432
Total liabilities and equity	6,193	7,305	8,674

Source: Baozun Inc., Blue Lotus (as of Mar 26, 2020)

### Company Description

Baozun is the largest brand E-commerce business partner, and a leading digital technology and solution company in China. Baozun helps brands execute their E-commerce strategies in China by selling their goods directly to customers online or by providing services to assist with their E-commerce operations. The business scope includes IT solutions, store operations, digital marketing, customer services, warehousing, and fulfillment.

### Industry View

We estimate China's e-commerce market to grow by 19% in 2020, after growing 24.5% in 2019. We estimate traditional eCommerce, and social e-commerce sub-sectors to grow 13% and 45% in 2020, respectively, and we expect total online retail market to grow to RMB 13,488 bn in 2020.

### Exhibit 15. Cash flow statement

(RMB mn)	2019A	2020E	2021E
Net income	276	405	545
Adjusted for			
Depreciation & amortization	111	154	212
Share based compensation	83	92	118
Allowance of doubtful accounts	0.21	0.27	0.35
Inventory write down	77.8	89.8	105
Change in			
Accounts receivable	(227)	(337)	(430)
Inventories	(122)	(119)	(154)
Advance to suppliers	(5.96)	(58.6)	(38.9)
Prepayments and other current assets	(102.9)	(102)	(108.6)
Amounts due from related parties	(92.2)	(117.8)	(151.4)
Other non-current assets	(3.00)	(3.30)	(3.63)
Accounts payable	17.62	248	257.6
Notes payable	24.2	18.19	24.99
Income tax payable	20.0	20.0	20.0
Accrued expenses and other current liabilities	117	111	134
Cash from operations	175	403	533
Purchase of property and equipment	(130)	(166)	(213)
Addition of intangibles	(116)	(148)	(190)
Proceeds from ST investment	0	0	0
Cash from investing	(258)	(330)	(424)
Cash from financing	1,497	120	154.0
Cash at beginning	457	1,871	2,064
Cash at end	1,871	2,064	2,326

Source: Baozun Inc., Blue Lotus (as of Mar 26, 2020)

See the last page of the report for important disclosures

## ZTO Express: Financial Summary

### Fiscal year ends-31-Dec

#### Exhibit 16. Income statement

(RMB mn)	2019A	2020E	2021E
Revenues	22,110	25,999	30,480
Cost of revenues	(15,489)	(18,533)	(21,530)
Gross profit	6,621	7,466	8,950
Gross margin	29.9%	28.7%	29.4%
SG&A	(1,546)	(1,812)	(2,081)
EBIT, non-GAAP	5,779	6,479	7,777
EBIT margin, non-GAAP	26.1%	24.9%	25.5%
Interest income/expense	585	550	748
Non-operating income, net	5,779	6,479	7,777
Profit or loss from equity investments	(12.0)	(12.0)	(6.0)
Foreign currency adjustment	13.3	(20.0)	-
Pretax (Loss)/income	6,745	6,652	8,619
Income taxes expenses	(1,078)	(816)	(1,058)
Net income, GAAP	5,667	5,836	7,561
Net income, non-GAAP	5,983	6,181	7,965
Net margin, non-GAAP	27.1%	23.8%	26.1%
Number of ADS, diluted (mn)	790	792	796
EPADS, non-GAAP (RMB)	7.58	7.80	10.03

Source: ZTO Express, Blue Lotus (as of Mar 26, 2020)

#### Exhibit 17. Balance sheet

(RMB mn)	2019A	2020E	2021E
Cash and cash equivalents	9,817	12,262	16,138
Restricted cash	590	694	814
Accounts receivable	487	573	672
Inventories	61	73	85
Advances to suppliers	446	525	615
Prepayments and other current assets	1,219	1,433	1,680
Amounts due from related parties	18	21	24
Current assets	17,926	20,870	25,317
Investment in equity investees	610	610	610
PPE	9,786	11,397	12,487
Total assets	36,814	42,501	49,276
ST bank borrowing	250	250	250
Accounts payable	1,564	1,853	2,131
Advance from customers	457	543	626
Income tax payable	376	442	518
Amounts due to related parties	195	229	268
Current liabilities	7,340	8,840	10,392
Additional paid-in capital	16,776	17,176	17,576
Retained earnings	16,723	22,559	30,120
Accumulated other comprehensive loss	(13,487)	(17,414)	(21,834)
Total equity	29,228	33,415	38,638
Total liabilities and equity	36,814	42,501	49,276

Source: ZTO Express, Blue Lotus (as of Mar 26, 2020)

#### Company Description

ZTO Express is China's leading delivery operator using the franchise model. In 2019, ZTO had 30K pickup outlets, 4.8K self-operated line-haul trucks, and 91 self-operated sorting hubs. In 2019, delivery, freight forwarding, and sale of accessories contributed 88%, 7.0%, and 4.5% of revenues. In 2019, ZTO's delivery market share (parcel) was 19.1%.

#### Industry View

China delivery industry's parcel volume grew 24% YoY, reaching to 63 bn in 2019. We expect China's delivery industry's parcel volume to grow 21.0% YoY to 76.2bn in 2020, and CAGR from 2018-2020 is 22.3%.

#### Exhibit 18. Cash flow statement

(RMB mn)	2019A	2020E	2021E
Net income/(loss)	5,667	5,836	7,561
Adjustment			
Depreciation and amortization	1,494	2,092	2,797
Loss on disposal of PPE	36	43	50
Change in working capital	1,103	1,106	1,101
Net cash from operating activities	8,264	9,034	11,458
Purchase of property and equipment	(3,316)	(3,640)	(3,810)
Purchase of land use rights	(553)	(650)	(762)
Others	(1,686)	(2,115)	(2,654)
Net cash from investing activities	(5,555)	(6,404)	(7,226)
Proceeds from capital contribution from shareholders	400	400	400
Proceeds from ST borrowing	-	-	-
Repayment of ST borrowing	-	-	-
Payment of dividends	(567)	(584)	(756)
Purchase of ordinary shares	-	-	-
Net cash from financing activities	(167)	(184)	(356)
Net increase in cash and cash equivalents	2,542	2,446	3,876
Cash and cash equivalents, beginning of year	7,275	9,817	12,262
Cash and cash equivalents, end of year	9,817	12,262	16,138

Source: ZTO Express, Blue Lotus (as of Mar 26, 2020)

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**(Continued)** We estimate that online penetration of apparel, and footwear, and daily necessities will increase from 2019's 61%/44% to 2020's 63%/47%. 2) More customers chose to purchase FMCG products online during the epidemic to avoid going to offline supermarkets. We estimate that online penetration of snack and daily necessities will increase from 16.5%/56% to 19%/58%. 3) Fresh food is a very large market, with roughly RMB 4.4 trillion of total GMV as of 2019. Yet, the online penetration rate is low because of a series of constraints, like storage, logistics, and traffic acquisition. The epidemic also pushed the fresh food online sales to a high level. We expect more customers will be conditioned to purchase fresh food afterwards. So, we estimate that online penetration of fresh food will increase from 19's 6% to 20's 8.3%.

*Online penetration of fresh food is only 6% in 2019.*

### Chinese customers more prefer online shopping throughout 1H20

Although China is showing increasing positive signs to contain the coronavirus epidemic, Chinese customers may still feel hesitant to go to offline stores. According to a report by Amap, by March 16, traffic of major Chinese commercial areas reached to about 30% and traffic of transportation reached to about 95% compared with the number before epidemic. The report shows that Chinese people may go to work but avoid visiting offline merchants and we expect the situation will continue in coming months. Therefore, Chinese merchants are obliged to move their offline business to online eCommerce platforms. During the epidemic, we have seen brands making full use of different eCommerce platforms, including mini-programs, to reduce their losses.

### Macro could be a concern, but eCommerce is still rising

China's macro economy could be a concern given the impact from coronavirus. Some sectors, like dining, travel, and foreign trade have seen much losses because of the coronavirus. Yet, we argue that investors should be too pessimistic towards China's eCommerce: 1) comparing with other major economic stimulus like infrastructure projects or real estate, China's consumer market is one least relying on policy, and demonstrates most resiliency; 2) some categories may see slowdown growth. For example, we estimate YoY growth of online sales of apparel and home appliance will drop from 19's 20%/9% to 20's 8%/5%. But some categories are still going to see robust growth. For example, we forecast YoY growth of snack and fresh food are going to be 34%/66% in 2019 and 30%/51% in 2020; 3) online penetration is only 24% in 2019. The increase in online penetration could offset any unpromising performances of total physical goods sales.

### Social eCommerce is not a near-term threat

We estimate market share of social eCommerce in total eCommerce will increase from 2019's 19% to 2020's 22%, mainly driven by the rapid growth of PDD and live streaming eCommerce. Our forecast of GMV from Taobao live streaming/Douyin/Kuaishou are RMB 350/18/80 bn by 2020, representing 60%/80%/100% YoY growth. 1) Major eCommerce platforms could still gain growth by taking shares from offline retail and Wechat eCommerce. We estimate that GMV of Wechat eCommerce in 2019/2020 reached about RMB 645/650 bn, which means the incremental part of Wechat eCommerce is going to be cannibalized by other platforms, like PDD, Jinxi, and brands' mini programs. 2) Social eCommerce platforms are going to encounter more product-related issues in 2020, including supply and quality of products. For example, top KOLs like Li Jiaqi and Wei Ya on Taobao live streaming, and Xin Youzhi on Kuaishou all step into the supply chain. 3) Traditional

*Social eCommerce is still small comparing with the whole market, although it has more rapid growth.*



eCommerce platforms like Taobao and JD are learning from social platforms by launching their social eCommerce products like TaoXiaoPu and Jinxi.New

### New logistic companies are coming

There are three new players coming to compete for the eCommerce logistic market:

1) Zhongyou, which is under JD logistics, is now signing franchisees in Guangdong. It is reported that Zhongyou will first focus on key areas like Guangdong and Zhejiang, then gradually roll out its business in other provinces in the next three years, with potential investment as high as 10 bn RMB. We see Zhongyou serves several purposes:

- Jinxi's daily order already exceeded 1 mn by the end of 2019. To have a more costly logistic method, JD needs to have a separate logistic business.
- To prepare for its IPO, JD logistics needs to develop its new growth engine.
- A franchised logistic network like Zhongyou could make more use of the current infrastructure of JD logistics.

2) J&T logistics is now the No.1 logistic company in Indonesia, measured by daily volume. It is reported that J&T management has wide connections with Vivo, Oppo, and PDD. By late 2019, J&T start to launch business in China, and plans to establish a local network in provinces like Shanghai, Zhejiang, Jiangsu, Anhui, and Fujian before June 2020.

3) SF economy product for eCommerce. As a leading player in China's high-end logistic market, SF Express launched a special package for eCommerce merchants in May 2019, which has gone through rapid growth after that. SF's latest annual report shows that economy product already accounts for about 24% of its total revenue in 2019.

### Price war re-start in Yiwu

The logistic price trend in Yiwu, a manufacture and eCommerce hub in China, usually serves as an important figure to assess the overall price war situation. As of 2019, logistic companies in Yiwu sent out 4.7 bn parcels, or 7.5% of China's total parcels. Recent Chinese media report suggests that the price war is re-starting in Yiwu as the epidemic eased. According to data from Jinhua Postal Administration, ASP in Yiwu dropped to about RMB 3.41/3.51 in Jan./Feb. 20, vs the average price RMB 3.59 in 1Q19. Chinese media also report that some logistic franchisees would bid the price for less than RMB 1 Yuan per parcel to those merchants whose daily parcel number is more than 1K and average weight is less than 0.3 KG. The Chinese government waived the highway toll during the epidemic, which is expected to last from Feb.17 to end of April. Because the cost is reduced, Chinese logistic companies tend to cut the ASP to acquire more market share. More important, parcel volume in Yiwu saw a robust trend during the epidemic, which pushed logistic companies to refocus on market share.

*What happens in Yiwu usually presents the general trend of China eCommerce sector.*

### Baba: more pro-active in competition, maintain BUY

We see Baba is going to take a more pro-active position in 2020 to ensure its future growth. For long, Baba has been regarded as one of the Chinese internet companies eager to launch competitive campaign. In 2019, Baba took a more defensive position, and doesn't seem to create much pressure for its three competitors: Meituan, PDD and Shopee. In 2020, we expect Baba will take a more

*Investors tend to underestimate Baba's potential to embrace competition.*

proactive role in competing in local service and core eCommerce, which may drive up its GMV and revenue growth, but suffer some losses in margin. Ant Financial is now closely working with other Baba business segments in local service, including Eleme, Koubei, Feizhu, and Taopiaopiao, to launch more marketing campaigns to regain market share in local service markets. In March, Baba launched more products and marketing campaigns to compete with PDD, including a new social eCommerce product Taohua, leveraging more resources to Taobao Tejiaban (a separate app similar to PDD), sending out more coupons to help brands clean up inventory, etc. For both together, we raised our revenue forecast for FY21 from 669 bn to 674 bn and cut non-GAAP net income estimation from 169 bn to 164 bn. Our latest EPS in FY 21 is about USD 9.3 and we remain TP USD 250 unchanged.

### **JD: re-investment in logistics ensures future growth, maintain BUY**

Our BUY theory for JD is unchanged: JD is likely to be benefited from the increasing demand from low-tier cities. With the fewest buyer numbers among three major eCommerce platform, JD is going to be benefited most if it could attract more users from low-tier cities. Also, JD served as a pioneer force in the epidemic by delivering medical products to epidemic strike areas. JD's good reputation could help to win more orders from government and state-owned enterprises. The major shift element is JD's Zhongyou Logistics, which is about to launch a national logistic network within the next 3 years. We continue our 2020's revenue forecast unchanged, but cut our estimation of non-GAAP net income from RMB 16.6 bn to 13.7 bn to reflect the investment in Zhongyou. Our net income estimation in 2020 is still about 6% higher than consensus. Maintain BUY rating for JD with TP USD 48 unchanged.

### **PDD: upgrade to HOLD due to more demand in low ASP products**

We upgrade PDD to HOLD with TP USD 35, mainly because we see PDD could still maintain its GMV growth while spending less in sales and marketing in 1H20. Because of the impact from the epidemic, more brands are looking for online channels to clean up inventory. PDD, as a platform with a large user base, could have more authentic products supplies from brands and dealers. More customers will choose to buy low ASP products after the epidemic given the unpromising macro environment. The price war in the logistics sector helps PDD merchants to save cost.

*PDD is likely to have near term upside but we still have concerns in its long term performances.*

We didn't give PDD a BUY because: 1) current consensus suggests PDD could reach breakeven point in 2020, about which we don't agree. PDD is still in a high-growth period, as our forecast for 2020's GMV reach to RMB 1.63 trillion, or 62% YoY growth, so profitability isn't its key concern. We suggest PDD's sales and marketing expense as of total revenue could be reduced from 2019's 90% to 2020's 75%, yet the net income is still RMB (2.1) bn, vs cons 1.6 bn. 2) We have concerns in PDD's long term take rate. Currently only new merchants are more likely to spend in advertising on PDD, while veteran merchants tend to offer direct subsidy to buyers. For example, if a merchant spends 20%-25% of its total revenue on Taobao ads, it may only spend 5%-10% on PDD ads, but give out other 10%-15% to customers to attract traffic. There are several reasons behind such a difference: PDD uses a machine-learning technique to identify which products are trending higher, and push the product to a larger traffic pool. Under this algorithm, those products with lower ASP and more subsidy will attract users' attention and quickly become the hit product.

Besides, PDD is generally regarded as a platform looking for more costly products, so customers also tend to look for more bargains. That's why most veteran merchants on PDD would like to pay

more subsidy to customers directly rather than buying traffic from PDD. If the product is costly enough, then the system will automatically identify the product and reward it with greater traffic. 3) From a long-term perspective, such an algorithm-driven mechanism will not be friendly to brands.

Brands are more associated with traditional eCommerce platforms that are search-based, have long-tail customers, and have customers who have different interests. In general, we suggest there could be a large group of brands coming to PDD in 1H20 because of the epidemic and inventory issue, but how many will stay, and how many would like to be attached to PDD, remains an issue. In general, we don't think it's a very good time to short PDD in coming months.

### **VIPS: story unchanged, maintain BUY with TP USD 19.4**

We see the logic of VIPS is largely unchanged: 1) although more players coming into market of discount products, the demand is still going to be significantly increased after the epidemic. VIPS, as the leading player in online eCommerce platforms that focus on discount products is going benefit from the trend. 2) As the logistic sector falls into another round of price wars, we expect that SF may offer a more costly price for VIPS. We currently estimate that the fulfilment cost as of total revenue will decrease from 2019's 8.6% to 2020's 7.7%. Our latest forecast of 2020's revenue/net income are 1.5%/11.4% higher than cons.

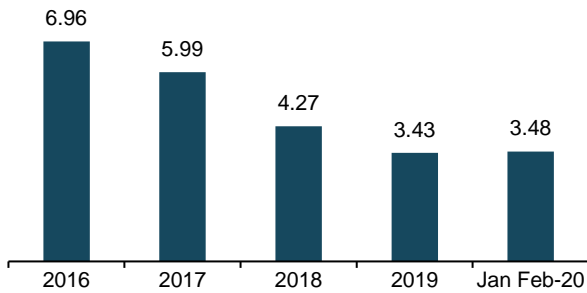
### **Baozun: maintain HOLD while update TP to USD 30**

We update our forecast of Baozun to reflect the weak 1Q trend. We estimate that Baozun's 1Q20 revenue to grow 10% YoY with non-GAAP operating margin of 2.2%. Our 2020 forecast suggests revenue beats cons 1.5% and net income misses cons by 9.5%. In the near term, Baozun might enjoy some sector-wise benefits, like closer cooperation with brands, and the reduced cost in logistic sector. Yet, we still see some challenges in 2020. Clothing and electronic devices take about 50%/30% of Baozun's total GMV, and these two categories are likely to show more losses during the epidemic. Because most brands on Baozun are high-end, we expect the GMV growth might not recover soon after the epidemic.

### **ZTO: new challengers unlikely to pose near-term threat, maintain BUY with TP USD 28**

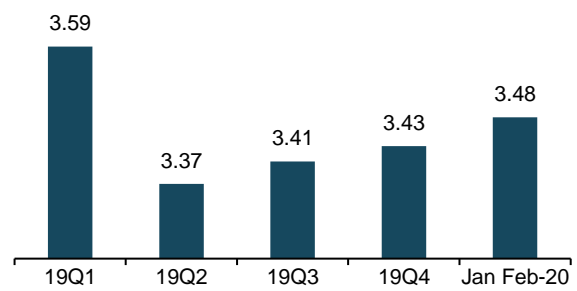
Our latest forecast of ZTO's 2020 revenue/net income is (1.5%)/7.0% vs consensus. We suggest newly arriving players need to at least take 2-3 years to ramp up a national logistic network. Also, as the No.1 player in China logistics sector, ZTO should be less likely to be impacted by the changing competitive landscape. ZTO is usually benefited from the ongoing price war because it could take more market share, and market share is more important than profitability at this stage. We cut ZTO's 2020 revenue/net income forecast from RMB 28 bn/6.3 bn to RMB 26 bn/6.2 bn to reflect the impact of the epidemic and extra cost of competition.

**Exhibit 19. Yiwu Delivery ASP (RMB), by Year**



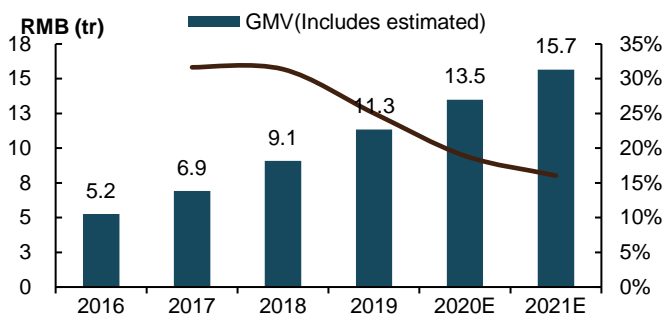
Source: Jinhua Postal Administration, Blue Lotus (as of Mar 26, 2020)

**Exhibit 20. Yiwu Delivery ASP(RMB), by Quarters**



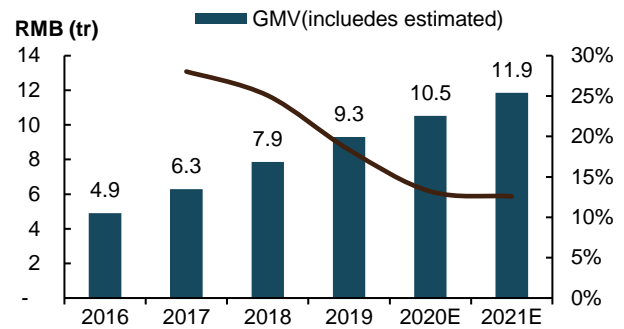
Source: Jinhua Postal Admin, Blue Lotus (as of Mar 26, 2020)

**Exhibit 21. Total eCommerce GMV and Growth**



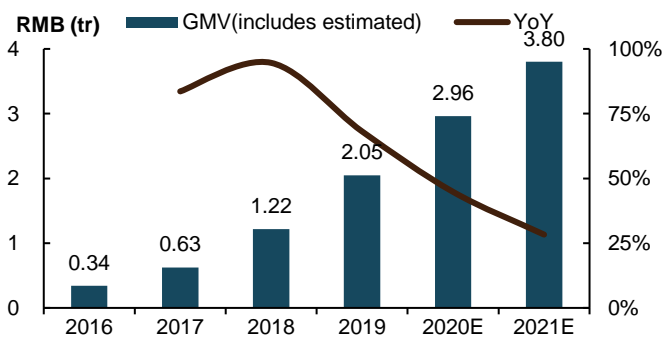
Source: Baba, JD, PDD, VIPS, Blue Lotus (as of Mar 26, 2020)

**Exhibit 22. Traditional eCommerce GMV and Growth**



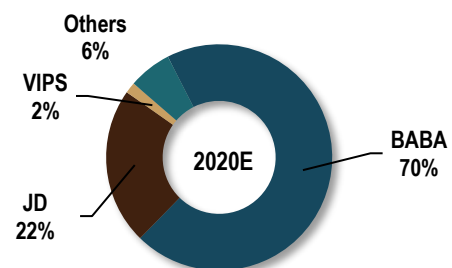
Source: Baba, JD, PDD, VIPS, Blue Lotus (as of Mar 26, 2020)

**Exhibit 23. Social eCommerce Retail GMV and Growth**



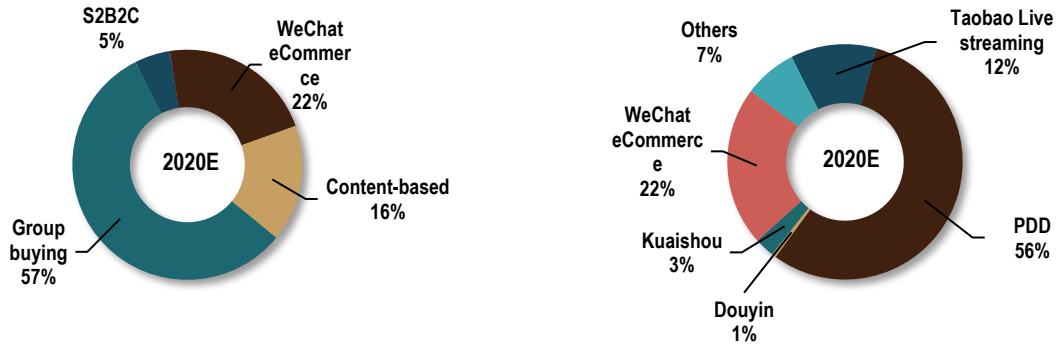
Source: Baba, JD, PDD, VIPS, Blue Lotus (as of Mar 26, 2020)

**Exhibit 24. Traditional eCommerce Breakdown, 2020**



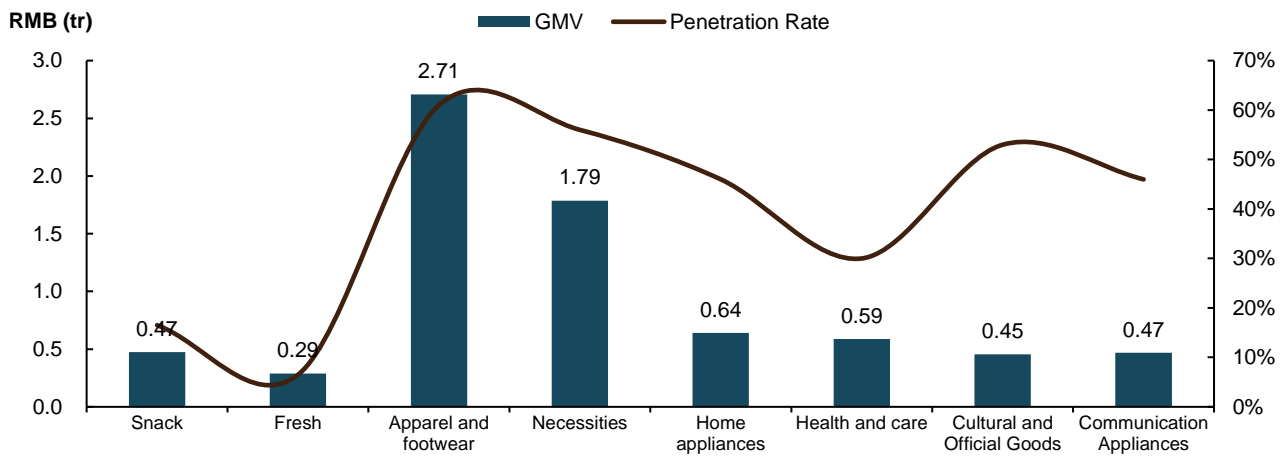
Source: Baba, JD, VIPS, Blue Lotus (as of Mar 26, 2020)

**Exhibit 25. Estimated Social eCommerce Breakdown in 2020, by business model and by company**



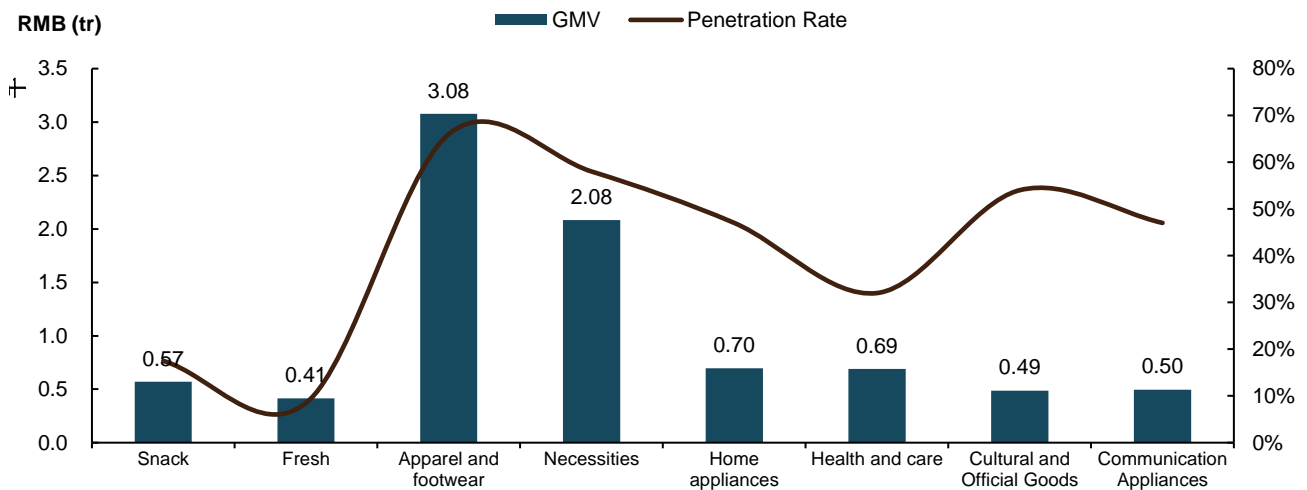
Source: Baba, JD, PDD, VIPS, Blue Lotus (as of Mar 26, 2020)

**Exhibit 26. 2019 eCommerce Breakdown, by key categories and online penetration rate**



Source: China National Statistic Bureau, Blue Lotus (as of Mar 26, 2020)

**Exhibit 27. 2020 eCommerce Breakdown, by key categories and Online penetration rate**



Source: China National Statistic Bureau, Blue Lotus (as of Mar 26, 2020)

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Buy : The stock is expected to have an absolute return of more than 15-20% within 12 months

Hold: The stock is expected to have an absolute return of between 0-15% within 12 months

Sell: The stock is expected to have negative absolute return within 12 months

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