

China Fiber Optic Network System

Termination notice

China Fiber Optic Network System (3777 HK) rebounded from HK\$0.85 in early Apr to close at HK\$1.14 yesterday. We believed it was a distressed valuation opportunity with proper capital intensiveness, auditable direct sales and understandable profit margin. Nevertheless, with Q1 results due earlier, shipment was not particularly strong partly due to seasonal low in Q1. Especially after the notable price rebound, we suggest conducting detailed site visit to look into production facilities, quality control procedures and logistics management before further accumulation / maintaining a long-position.

As a result of re-allocation of manpower, we may not have the resources to conduct further due diligence and will discontinue our research coverage on the company starting from the date of publication of this note. All previously published recommendation (BUY), target price and earnings forecasts of the stock will no longer be relied upon. We may or may not resume research coverage in the future.

Ticker	3777 HK
Rating	Not Rated (from BUY)
Price (HK\$)	1.14
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.85 - 1.68
Market cap. (US\$m)	177.9
Daily t/o (US\$m)	1.48
Free float (%)	42.7

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SBI E2-Capital stock ratings:

STRONG BUY : absolute upside of >50% over the next three months

BUY : absolute upside of >10% over the next six months

HOLD : absolute return of -10% to +10% over the next six months

SELL : absolute downside of >10% over the next six months

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