

HONG KONG | INVESTNOTES REPORTS REVIEW

Industry:

Software (Kay Ng), Mainland financial, Utilities (Xingyu Chen), Mainland Telecom (Fanguohe), Mainland property, Oil and gas service (Chengeng), Air, Automobiles, Infrastructure (ZhangJing), New energy & Environmental Goods (Zhang Kun)

Software (Kay Ng)

With the listing of Alibaba on the New York Stock Exchange in mid-Sep, and the listing price soared 38% on the first day, the falling rate of software sector was speeded up in September, and capital outflow pace seemed accelerated.

In the weekend before the end of September, the HK Occupy Central action officially began, dragging the Hang Seng Index once plunged more than 500 points in a single day after market opened. Non-essential consumer goods, such as luxury goods, Macao gambling, information consumption goods etc. became the poorest victims, which fell 3-5 percentage points after market opened.

After the record high last month, Tencent has been suffered from Interval fall under selling pressure. This was more obvious after the listing of Alibaba that the stock price almost glided at the bottom of the bounded range.

The movements of software stocks were still weak, but already better than that of the mobile gaming stocks, which was under huge pressure. Actually, there was more good news for the software sector also. In addition to the good half-year results released last month, there were also various cooperation programs between companies, such as the collaboration of Kingdee with Inspur to expand cloud-computing market, and the PRC government has repeatedly indicated to support the development of local information software houses.

In fact, we already mentioned last month that the investors were losing their attentions to this sector, coupled with the concerns on Occupy Central, which funds were expected to transfer to the defensive stocks, the sector is expected to keep its interval fall in the short run. While when the recovery begins is depended on the risk appetite of investors, to turn from the risk off to risk on.

Mainland Financial (Xingyu Chen)

The market continued to adjust after August, HSI dropped largely from 25,360 at the beginning of this month to 23,680 currently in September, down 6.6% approximately. The main reason is the large amount of hot money flowed into Hong Kong in recent months, which caused HSI to increase rapidly due to the rich liquidity in the market. Additionally, the investors' investment strategies trend to be conservative after the complementation of the companies' interim results.

According to the banks' interim results, there are two major points: one is the slow-down of the banks' profit growth due to the decrease of the growth of net interest incomes. But on the other hand, intermediate business maintained the fast growth, net commission income and fee of both CITIC Bank and CMB increased by over 60% y-y. Two is the continued deterioration of the listed banks' asset quality. The amount and ratio of most banks' NPLs increased in varying degree. As at the end of 2Q2014, ABC gained the highest NPL ratio as 1.24% among the middle and large-sized banks, while CMBC had the lowest one as 0.93%. The main reason of the growth of the NPL ratio is the large growth of NPLs in many industries with excess capacity, especially in steel trade industry in developed areas such as Jiangxi and Zhejiang. Moreover, the NPLs in wholesale and retail industry also increased.

However, we believe currently the listed banks' profit growth maintain stable, and the risks are still under control in the short run although the asset quality decreases. According to the share price, most banks' prices dropped to the varying degrees this month and we expect they are still facing the pressure of adjustment in October, however, as the large-cap companies, the banks' share prices will trend to increase slowly because the banks will become more attractive for investors when Shanghai-Hong Kong Stock Connect is launched officially. In all, we maintain the banking sector on Buy rating.

Mainland Telecom (Fan guohe)

The three big operators initially appears the differentiation tendency. China Mobile's 4G business is accelerating. In August the newly-increased users is 9.131 million, increased forty percent compared with 6.5 million newly-increased users in July, and the accumulating number of 4G users reaches to 29.568 million. In contrast, the increasing of China Telecom users heavily falls down. With increased 4G demand, China Mobile thereby declares that it shall build up 700 thousand 4G base stations at the end of 2014, compared with the previous target of 500 thousand. In addition, China Unicom and China Telecom got the 4G test run license of 16 cities at the end of June, and then have expanded to 40 cities recently. In the future, it is anticipated that the 4G networks build-up shall be speeded up.

However, the mainland downstream terminal business situation is comparatively tough. Under the impact of the famous overseas brand focusly listed on the market, the smart mobile phone market appears the sign of price battle. What's more, the subsidy of operators is cut, the mobile phone companies, which always rely on the operator as the main selling channel starts to face the comparatively big existing crisis. For example, Coolpad Group even spread the news of dismissing the staffs in special ways.

Generally speaking, we expect that 4G supports shall help to build up the positive environment for the communication industry. We suggest to keep paying attention actively to the middle and upstream manufacturers, such as ZTE, Mobi Development, Tongda Group, Trigiant Group, etc., and adopt the careful attitude to the downstream terminal.

Mainland Property & Oil/Gas service (Chen Geng)

In September, 2014 I wrote four research reports on Jutal, Samsonite, Color Life and Wanda Commercial, which got success by unique operation model. We recommend "Color Life". Relying on rapid growth of property management area and enhanced management efficiency, property management service will promote the net profit of Color Life to achieve an explosive growth from 2013 to 2016. It is expected that the compound growth of the performance to exceed 100% from 2013 to 2015. Fundamental property service has been the key to the leap-forward growth of the performance of Color Life in recent years. In the future, the performance growth will focus on the community operation service. We expect that larger area of property management, higher commission ratio of service and more revenue of maintenance will promote CAGR of the revenue and profit to reach 78% and 137% in 2013-2015. To sum up, we give Color Life "Buy" rating, with the target price of 8 HKD for 12 months, amounting to 25 times of the expected P/E ratio in 2015.

Automobile & Air (Zhang Jing)

This month we released 3 updated equity reports: BYD(1211.HK), Travelsky(696.HK), and CSA (1055.HK). We prefer Travelsky with the more attractive expected growth room.

As of the end of June, the number of "Umetrip" team increased from more than 10 to 40, the registered users was still 1 million, but the number of activated users increased dramatically, rising from 5-6 million at the end of last year to 9 million now. According to the plan of the Company, the number of users will surpass 10 million at the end of 2014. The construction of the Company's new operation center in Shunyi District, Beijing is proceeding well but lags than expected in 1H2014; the work is expected to be accelerated in 2H2014. We change the Company's estimated adjusted EPS to RMB0.42 and 0.48 in 2014 and 2015 respectively. According to the current situation of industry and the Company's comprehensive, based on 2015 EPS and 14.2 x P/E, we give the 12-month target price of 8.73 HK\$, 10.5% higher than the last close, and we maintain the rating at Accumulate.

New energy & Environmental Goods (Zhang Kun)

We recommended CT Environmental (1363.HK) and Huaneng Renewables (958.HK) in this month. The operation scale of CT Environmental has sharp increase and BOO operation mode provides very high profitability. We are bullish on the company's long term development, but the stock price is really high and we recommend wait for the price adjustment to look for buy opportunities. The wind farm installed quantity of Huaneng Renewables will have 1 to 2 GW rise in the further years, the grid condition is in the process of improvement. As the investors have negative attitude to wind power price downwards, the valuation level of company is relative low. We predict that the power generation efficiency will increase in the 2nd half and the power price will decline not by much, the performance will enter the stable increase period. We give the target price of the company 3.54 HKD, is 'Buy' rate.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
2014-9-2	3328	HK Equity BoCom	XY	Buy	5.63	7.2	27.89%	5.52	-1.95%	5.66	-2.47%
2014-9-3	3303	HK Equity JUTAL	CG	Buy	3.04	3.8	25.00%	2.59	-14.80%	3	-13.67%
2014-9-4	1211	HK Equity BYD	ZJ	Accumulat	57	60	5.26%	50.65	-11.14%	55.05	-7.99%
2014-9-5	1363	HK Equity CT Environmental	ZK	Accumulat	6.53	7.8	19.45%	6.57	0.61%	6.3	4.29%
2014-9-8	327	HK Equity PAX globale tech	KN	Buy	7.88	9.55	21.19%	6.38	-19.04%	7.05	-9.50%
2014-9-10	2369	HK Equity Coolpad	GH	Accumulat	1.68	1.96	16.67%	1.48	-11.90%	1.67	-11.38%
2014-9-11	6837	HK Equity Haitong Securities	XY	Buy	12.85	16.4	27.63%	12.18	-5.21%	12.38	-1.62%
2014-9-12	1910	HK Equity Samsonite	CG	Accumulat	26.55	31	16.76%	25	-5.84%	26.75	-6.54%
2014-9-15	696	HK Equity Travelsky	ZJ	Accumulat	7.9	8.73	10.51%	8.22	4.05%	7.62	7.87%
2014-9-16	178	HK Equity Sa Sa	KN	Reduce	5.81	5.07	-12.74%	5.31	-8.61%	6.05	-12.23%
2014-9-17	958	HK Equity Huaneng Renewabl	ZK	Buy	2.7	3.54	31.11%	2.54	-5.93%	2.85	-10.88%
2014-9-18	1339	HK Equity PICC	XY	Buy	3.35	4.09	22.09%	3.22	-3.88%	3.24	-0.62%
2014-9-19	1300	HK Equity Trigiant	GH	Buy	2.18	3	37.61%	2.17	-0.46%	2.044	6.16%
2014-9-22	1778	HK Equity Color life	CG	Buy	6.58	8	21.58%	6.66	1.22%	6.94	-4.03%
2014-9-23	1055	HK Equity CSA	ZJ	Neutral	2.69	2.78	3.35%	2.58	-4.09%	2.61	-1.15%
2014-9-24	268	HK Equity Kingdee	KN	Buy	2.46	3.05	23.98%	2.33	-5.28%	2.5	-6.80%
2014-9-25	981	HK Equity SMIC	GH	Buy	0.78	1	28.21%	0.82	5.13%	0.73	12.33%
2014-9-29	169	HK Equity WCPG	CG	Accumulat	1.73	2	15.61%	1.56	-9.83%	2.22	-29.73%

Source: Company, Phillip Securities Research

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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