

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

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)

Mainland Financial (Xingyu Chen)

In Oct, HSI rebounded obviously after the national holiday, from 21,500 at the beginning of this month to 23,000 currently, up 7% approximately. According to the performance, the banks' share prices were better than the market, and most of banks' share prices started to be increase after the large adjustment, up 10% on average.

We believe the banks' operating performance faces many challenges in 3Q, the banks' profit growth slows down, and the asset quality continues to deteriorate, however, considering the large decrease of the banks' valuation currently, and meanwhile, the Chinese government makes the active fiscal and monetary policies, the demand of banks' loans is large in future, and the foundation of the income growth is also strong, therefore we still hold the cautiously optimistic view on the banks' prices in future. Maintain the banking sector on Buy rating.

Mainland Telecom (Fan guohe)

This month I released 3 equity reports including, Chinasoft International (0354.HK), NetDragon(0777.HK) and Tongda Group(0698.HK). We prefer Chinasoft International with the more attractive future. The Company has acquired 40% equity of Chinasoft International Service owned by Huawei, and Huawei has become a strategic shareholder of the Company, but no longer an ordinary business partner, after the issuance of new shares. The strategic operation between Huawei and the Company is expected to be consolidated and enhanced. In the future, more of the outsourcing services of Huawei would be allocated to Chinasoft. Moreover, the cooperation field will develop into new services including cloud computing, big data, industry 4.0 etc. What's more, Joint Force platform transforms human resources, from a management system to interest relations: IT operators, teams and enterprises gain income based on the jobs acquired. The Company then collects fixed commission in the due course. With the Company's business gradually transiting to the Joint Force platform, the overall cost of human resources would become stable. The business of the platform can enhance the gross profit margin, and boost up the profitability of the Company. In addition, the platform would also serve long tail markets of small-scaled IT projects, and accumulate data for systems, and then access the exchange volume, credit and cash flow etc of new enterprises and micro enterprises. Big data analysis could help lower the credit risk. The Company would plan to provide capital in the future, for provision of high-quality supply chain financial services to small and micro enterprise, nurturing new momentum for profit growth.

Mainland Property & Oil/Gas service (Chen geng)

In October, 2015, I wrote four research reports on CWTC, CSCI, Country Garden and GEG, which got success by unique operation model. We recommend "CSCI". The organic growth of CSCI will benefit from a strong growth in new orders and stable operation. Besides, the PPP model and asset injections from the parent company will lead to a new operating model, better asset quality and an increase in asset size. The company has upgraded the full-year new contract values by HKD2 billion to HKD70 billion, indicating that the main business of the company is still seeing a solid growth trend. Short-term impacts from the "lead-contaminated water" issue and the devaluation of RMB will be limited. We expect the profit growth of CSCI can be maintained at 20% per annum for the next two years and its net gearing ratio will continue to be lower than 40%. We maintain our "BUY" rating on CSCI, with a 12-month target price of HKD15.8, which is equivalent to prospective 2015/2016 PE ratios of 14.7x and 12.6x.

Automobile & Air (ZhangJing)

This month I released 4 equity reports including Geely (175 HK), GAC (2238 HK), Caeri (601965 CH), and Dongfeng (489 HK). We prefer the Geely. In 2015H1, Geely recorded growth in revenue of 36% to RMB13.8 billion; while net profit grew 26% yoy to RMB1.4 billion. The higher rate of growth reflected the trend of sale turnover recovery and it may also related to lower comparison benchmark last year. Business result in 2015H1 was similar to the year before last year. Operation efficiency has been improved. The gross profit margin dropped 2.7 ppts yoy, to 17.6%. Benefitted from the launch of higher-priced vehicles, the average unit price in H1 increased 10%. The Company has promised to introduce 5 new vehicle models in the coming 12 months, including two models of SUVs, one cross section vehicle and new energy vehicle. We think the competitiveness of the Company's vehicles has apparently improved, and the Company has been fully equipped in the aspect of new energy, therefore we are optimistic on the expansion of the Company's market share in the future.

New energy & Environmental protection (ZhangKun)

We update four reports in this month, they are Singyes Solar (750.HK), Grandblue ENV (600323.SH), Kangda ENV (6136.HK) and Dynagreen ENV (1330.HK). We recommend Singyes Solar. Since 2015, the share price of the company has dropped significantly, which has mainly reflected over pessimism of the market towards the company's curtain wall business as well as issues related to the solar EPC industry, such as a possible increase in grid curtailment and uncertainties over subsidy of solar energy. We have downgraded our target price to HKD8, which is equivalent to a prospective 2016 P/E ratio of 8x. We recommend a "BUY" rating.

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
2015-10-5	175 HK	Geely	ZJ	Buy	3.69	4.45	20.60%	4.17	13.01%	3.69	13.01%
2015-10-6	600007 SH	CWTC	CG	Accum	13.7	15.5	13.14%	14.62	6.72%	13.7	6.72%
2015-10-7	750 HK	Singyes Solar	ZK	Buy	5.45	8	46.79%	6.47	18.72%	5.23	23.71%
2015-10-8	354 HK	Chinasoft Intern	GH	Buy	2.97	4.35	46.46%	3.46	16.50%	2.97	16.50%
2015-10-9	1288 HK	ABC	XY	Buy	3.09	4	29.45%	3.16	2.27%	2.93	7.85%
2015-10-12	2238 HK	GAC	ZJ	Buy	6.31	8	26.78%	6.72	6.50%	6.31	6.50%
2015-10-13	600323 SH	Grandblue ENV	ZK	Buy	12.89	17.5	35.76%	13.67	6.05%	12.07	13.26%
2015-10-14	3311 HK	CSCI	CG	Buy	11.48	15.8	37.63%	11.72	2.09%	11.08	5.78%
2015-10-15	777 HK	NetDragon	GH	Buy	20.85	26.04	24.89%	21.7	4.08%	19.4	11.86%
2015-10-16	756 HK	China Tianyi	XY	Buy	0.97	2	106.19%	0.9	-7.22%	0.87	3.45%
2015-10-19	6136 HK	Kangda ENV	ZK	Buy	2.63	4.05	53.99%	2.35	-10.65%	2.04	15.20%
2015-10-20	601965 SH	Caeri	ZJ	Buy	9.12	11.4	25.00%	10	9.65%	8.16	22.55%
2015-10-22	2007 HK	COUNTRY GAF	CG	Accum	3.04	3.5	15.13%	2.97	-2.30%	2.79	6.45%
2015-10-23	698 HK	Tongda Group	GH	Buy	1.58	1.9	20.25%	1.59	0.63%	1.34	18.66%
2015-10-26	1330 HK	Dyna Green	ZK	Buy	4.51	5.44	20.62%	4.4	-2.44%	4.01	9.73%
2015-10-27	601318 SH	China Pingan	XY	Buy	33.73	65	92.71%	33.55	-0.53%	29.86	12.36%
2015-10-28	489 HK	Dongfeng	ZJ	Accum	11.2	12.59	12.41%	10.82	-3.39%	9.65	12.12%
2015-10-29	27 HK	GEG	CG	Buy	26.8	35	30.60%	26.65	-0.56%	19.7	35.28%

A stock is calculated by RMB yuan.

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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