

## **Hong Kong | INVESTNOTES REPORTS REVIEW**

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**Sectors:**

Mainland Telecom (Fanguohe), Air, Automobiles, Infrastructure (ZhangJing), Real Estate & Multi-media (Wang Yannan)

### **Mainland Telecom (Fan guohe)**

In April I released 4 equity reports including, Humanwell Healthcare (600079 CH), KPC Pharmaceuticals (600422 CH), Guangdong Land Holdings (0124.HK), and ZTE (0763 HK). ZTE Corporation realized the revenues of RMB100.1 billion in 2015, a yoy increase of 23%; net profit stood at RMB 3.21million, a year-on-year increase of 21.8%. The export restrictions imposed on ZTE by the U.S. Department of Commerce cut net profit by about RMB0.57 billion. Excluding the factor, the net profit stood at RMB3.78 billion, a yoy increase of 43%. It plans to realize the revenue of RMB200 billion by 2020 with an annualized growth rate of about 15%. We hold estimation that the growth will keep high within the next two years. China Unicom and China Telecom have entered a period of rapid development in building the 4G network, which will sustain the steady development of domestic communications device market. Meanwhile, with rising 4G infrastructure in emerging markets, the Company, equipped with technological and branding advantages, will gain benefits in the mid and long term. In addition, the requirements of cloud computing, big data, the Internet of Things and so on for data flow is increasing by geometric progression and the construction of broadband and transmission networks is fastening, which will trigger demands for optical network products in an all-round manner. Regarding to the U.S. export restrictions on ZTE, an agreement is expected to be reached between ZTE and the U.S. administration, thus minimizing the negative influences. We give the Company an estimation of 15x EPS in 2016 and the target price is HK\$15.75, with the "Buy" rating maintained.

### **Automobile & Air (ZhangJing)**

This month I released 5 equity reports including CAR(699 HK), BCIA (1958 HK), Xinyi Glass(868 HK), Cathay Pacific (293 HK) and SIA (600009 CH). We prefer the SIA. The Company's net profit attributable to shareholders in 2015 increased by 20.8% yoy to RMB2.531 billion, With the expansion of commercial areas following T1's renovation and the long-term driving role of Shanghai Disneyland Resort, it is believed that the Company's non-aviation business will gain a momentum with strong revenue growth.

### **Real Estate & Multi-media (Wang Yannan)**

Evergrande Real Estate realized an operating revenue of RMB133.1 billion in 2015, a year-on-year increase of 19.5%, among which, the real estate business obtained a revenue of RMB126.4 billion, a year-on-year increase of 17.7%. The income growth is attributable mainly to an increase of 2.4% in the acreage of properties from which the sales income has been confirmed compared with that in 2014 and a year-on-year increase of 14.9% in the average unit price of properties. The Company achieved a net profit attributable to the parent company of RMB10.5 billion, a year-on-year decrease of 12.83% mainly due to the initial cost of non-operating businesses. In terms of profitability, the Company obtained a gross profit of RMB37.4 billion, increased by 17.7% compared with that of last year; the gross profit rate was 28.1%, dropping by 0.4 percentage points compared with that of last year. EPS realized RMB0.713. Continuing to uphold the policy of "cash is king", the Company maintained a cash balance of RMB164.02 billion, increased greatly by 175.7% compared with last year's RMB59.5 billion. The abundant cash flow served as solid backup for the Company's proceeding to carry out large-scale mergers and acquisitions. With leading ability of land reserve, strong ability of cost control and the ability of large-scale and rapid developing, the Company actively adjusts its strategy to the trends by further optimizing regional layouts of projects, continuing to uphold the prudent fiscal policies under continuously easing industrial policies and strengthened regional differentiation. As a result, steady growth of the major businesses and coordinated development of diversified businesses will bring sustained improvement to its performance. We estimate that the EPS (earnings per share) of the Company in 2016 and 2017 will be 0.76 RMB and 0.90 RMB respectively and give a target price of HKD 5.96, equivalent to 1.21X PB ratios in 2016 and 1.07X PB ratios in 2017, and with the rating is "Neutral"

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
2016-4-1	699 HK	CAR	ZJ	Accumulate	9.04	9.56	5.75%	8.75	-3.21%	9.1	-3.85%
2016-4-5	600079 CH	Humanwell Hea	GH	Buy	18.2	24.66	35.49%	16.2	-10.99%	18.6	-12.90%
2016-4-8	1958 HK	BAIC	ZJ	Buy	5.83	7.1	21.78%	5.94	1.89%	5.94	0.00%
2016-4-12	600422 CH	KPC Pharmace	GH	Buy	30.01	39.6	31.96%	28.5	-5.03%	29.91	-4.71%
2016-4-15	868 HK	XinyiG	ZJ	Accumulate	5.28	5.7	7.95%	5.39	2.08%	5.17	4.26%
2016-4-18	124 HK	GDL	GH	Buy	2.3	3.15	36.96%	2.2	-4.35%	2.21	-0.45%
2016-4-21	293 HK	CX	ZJ	Neutral	13.34	14.1	5.70%	12.82	-3.90%	13.15	-2.51%
2016-4-22	763 HK	ZTE	GH	Buy	12.12	15.75	29.95%	12.24	0.99%	14.16	-13.56%
2016-4-25	3333 HK	Evergrande Rea	WYN	Neutral	5.75	5.96	3.65%	5.87	2.09%	5.99	-2.00%
2016-4-26	600009 CH	SIA	ZJ	Buy	28.31	34.8	22.92%	28	-1.10%	30.09	-6.95%
2016-4-28	136 HK	Hengten	WYN	NA	0.35	NA	NA	0.355	1.43%	0.375	-5.33%

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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