

29 September 2017

Report Review of September. 2017

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air, Automobiles (ZhangJing)
Environmental protection (Wang Yannan)
Property Development & Investment (John Wong)

Automobile & Air (ZhangJing)

This month I released 4 equity reports including Fuyao (3606 HK), Dongfeng (489 HK), BAIC (1958 HK) and GAC (2238 HK). Among which, we prefer the GAC first. GAC's 17H1 net profit attributable to shareholders amounted to RMB6.27 billion, with a yoy increase of 57%; the EPS was RMB0.97. The Company sold 964,000 vehicles in H1, up 31.7% yoy. Among other things, the five major increment contributors were GAC's self-owned brand (+91586), GAC Honda (+47297), GAC Fait (+47229), GAC Mitsubishi (+34969), GAC Toyota (+10704), by increment contribution, respectively, among which, GAC Mitsubishi rose by 182% yoy, GAC Fait 77% yoy, GAC's self-developed brands 57% yoy, GAC Honda 17% yoy, and 5% yoy GAC Toyota. We believe that the excellent sales result has set the tone of high-growth result for GAC in this year and we expect that under the protection of a variety of strong models, the Company's profitability still has a large upwards elastic space.

Environmental protection & consumption (Wang Yannan)

In Sep I released 4 equity reports, including ZFET(002479.SZ), LK(600388.SH), Grandblue ENV (600323.SH), Dynagreen (1330.HK). According to the result report in the first half of 2017, the revenue of Longking increased slightly by 1% yoy to RMB2,958 million, net profit attributable to the parent company increased by 14.66%yoy to RMB226 million, and net profit attributable to the parent company after the deduction of extraordinary items increased by 17.89% yoy to RMB205 million, equivalent to the EPS of RMB0.21, compared with RMB0.18in the same period of last year. In general, the result in the first half of the year grew steadily, and the second half will witness more growth of the company. With the implementation of air governance plan and stricter environmental supervision, the air governance industry booms significantly, which continues to benefit our company as a leading enterprise. Based on the above-mentioned information, we forecast that the net profits in 2017 and 2018 are RMB730 million and RMB 814 million, respectively; the EPS, RMB0.68 and RMB0.76, respectively; equivalent to the P/E ratio23.6/21.2 in 2017 and 2018, we give a target price of RMB18.4 and the rating of "Accumulate"..

Property Development & Investment (John Wong)

In September, I have issued 3 research reports on KWG Property (1813.HK), K. Wah International (173.HK) and Times Property (1233.HK). In 1H2017, K. Wah International has a slight decline in its revenue and profit, primarily caused by the reduction in property development revenue. According to the development pipeline of the company, the company's projects in 2017 will be completed mainly in 1H2017. Therefore, we believe that the decline in profit is only temporary. Although the result declines, the contracted sales was strong throughout 1H2017. Contracted sales rose from HK\$6.7Bn in 1H2016 to HK\$10.3Bn in 1H2017, a YoY increase of 54%, vastly contributed by the sales of The Spectra, K City and The Peak. In particular, The Spectra was originally set to complete in 1H2017. However, there was a delay and the company successfully obtained the occupation permit for The Spectra. The Spectra is jointly developed by K. Wah International (60% Interest) and Sino Land (40% Interest) and has a GFA of 49,000 square metres. The price per square foot exceeds HK\$120,000. According to the company data, more than 95% of the units have been sold. Conservatively speaking, The Spectra is expected to bring at least HK\$6Bn revenue to the company (Calculate using 100% Interest). Along with the other projects such as Azure, J Metropolis Phase IV and Silve Cove Phase III, The Spectra will bring large stream of revenue and cash flow to the company. The development pipeline of the company is sustainable, with about 100,000 square metres of GFA being completed in almost every year. In each year, there is a star project, namely The Spectra in 2017, K City in 2018, Pak Shek Kok project in 2019, and Kam Sheung Road Station project and New Kai Tak project in 2021. Because of the large GFA being completed and recognised in almost every year and the sustainable development pipeline, we are optimistic to the future revenue and profit of the company. Therefore, we have valued the company at HK\$5.90, with a `Buy` rating assigned.

Fig 1. Performance of Recommended Stocks

Date	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1 M Price Chg
2017/9/4	3606.HK	Fuyao	ZH	Accumulate	24.95	27.35	9.62%	28.25	13.23%	24.95	(5.85%)
2017/9/5	002479.SZ	ZFET	YN	Buy	11.97	15.6	30.32%	11.51	(3.68%)	11.95	5.66%
2017/9/11	489.HK	Dongfeng	ZH	Accumulate	9.90	11.65	17.68%	10.26	2.19%	10.04	5.13%
2017/9/12	600388.SH	LK	YN	Accumulate	16.13	18.40	14.07%	17.07	12.67%	15.15	5.35%
2017/9/14	1813.HK	KWG Property	JW	Neutral	8.47	8.40	(0.83%)	8.40	17.98%	7.12	23.18%
2017/9/18	1958.HK	BAIC	ZH	Accumulate	6.95	7.62	9.64%	7.08	1.58%	6.97	(0.43%)
2017/9/19	600323.SH	Grandblue ENV	YN	Accumulate	14.83	17.40	17.33%	14.48	(0.41%)	14.54	4.68%
2017/9/21	173.HK	K. Wah International	JW	Buy	4.85	5.90	21.65%	4.69	3.53%	4.53	(3.62%)
2017/9/25	2238.HK	GAC	ZH	Buy	19.06	24.6	29.33%	18.20	18.80%	15.32	(8.81%)
2017/9/26	1330.HK	Dynagreen	YN	Buy	4.32	6.40	48.15%	4.25	3.66%	4.10	6.22%
2017/9/27	1233.HK	Times Property	JW	No Rating	7.56	--	--	8.00	19.94%	6.67	1.06%

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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