Report Review of November. 2017

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Phillip Securities (Hong Kong) Ltd

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:
Air, Automobiles (ZhangJing),
Environmental protection (Wang Yannan),
Healthcare & Consuming (Eurus Zhou)

Automobile & Air (ZhangJing)

This month I released 2 equity reports including Tianqi Lithium (002466 CH) and Geely (175 HK), which got success by their unique Competitive edge.

Tianqi Lithium not only holds shares of companies with the world`s largest scale and best lithium ore resources in production, but also has the world`s largest processing capacity on extracting lithium from ores. The advantages of unique resource conditions and pricing power make Tianqi Lithium the best investment object in upstream sectors of domestic new energy vehicle industry chains. We expected diluted EPS of the Company to RMB 2.19 and 2.69 of 2017/2018. And we accordingly gave the target price to 80.56, respectively 30x P/E for 2018. "Buy" rating.

The sales volume of Geely reached 125,100 units in October 2017, representing a vast increase of 30% yoy. In the first ten months, Geely Auto`s total sales volume reached 952,200 units, approximately up 72% yoy, already achieving 87% of its goal of annual sales volume. In view of this gratifying sales volume, we predict the annual sales volume will be much likely to exceed the set target of 1,100,000 units and even expect to achieve a higher result of 1,200,000 units, increasing over 50% yoy. It excels in the China`s auto industry as the average growth rate in the sector slowed down to single digit. The recent redemption of the notes lifts restrictions on the increase of the company`s existing dividend payout ratio of 15%; the dividend rate is expected to substantially increase in the future. We are optimistic about its steady growth in medium and long term sales. As for the valuation, considering the better sales momentum and higher dividend yield in the future, we lift target price to HK$ 33 on our revised forecast EPS, equivalent to 26.4/19.4/14.2x estimated P/E ratio of 2017/2018/2019.

Environmental protection (Wang Yannan)

In this month I released 4equity reports, including SPC(002573.SZ), Grandblue(600323.SH), ZFET(002479.SZ),Longma(603686.SH).

In the first three quarters of 2017, the revenue of Longma Environmental Sanitation reached RMB2.268 billion, up by 44.54% yoy, and the net profit of returns attributable to parent company was RMB191 million, up by 26.03% yoy and up by 26.41% after non-post deduction, equivalent to a basic EPS of RMB0.72 (+28.57%). The increase in revenue was mainly from the increase in equipment sales and environmental sanitation services. Specifically, Q1/Q2/Q3 contributed revenues of 6.66/7.98/8.04 and net profits of 0.644/0.63/0.64, respectively. The contribution of each quarter was stable.

We`re optimistic about the company`s integrated competitive advantage in the field of equipment + services and the breakthrough in the downstream sanitation industry chain. In 2017-2018, the company is expected to achieve a net profit of returns attributable to parent company of RMB 268 and RMB 355mn, and an EPS of 0.98, and RMB 1.3, which are equivalent to the PE of 28 and 21 times. The rating of "Buy" is given.

Healthcare & Consuming (Eurus Zhou)

This month I released 4 equity reports, including Universal Medical (2666.HK), Kangmei Pharma (600518.SH), CMS (867.HK) and CR Pharma (3320.HK). We tend to recommend CMS (867.HK) and CR Pharma (3320.HK). We see the two companies reported solid growth in 1H17.

CMS is a China-based pharmaceutical services company, engaged in the marketing, promotion and sale of prescription drugs of overseas and domestic specialty pharmaceutical companies. It now has 19 main products sold in PRC market. Its sales achieved FY12-16 CAGR of 28.9% with net profit recording FY12-16 CAGR of 26.6%. We expect future drivers coming from the increasing penetration of current products, expansion of distribution network and promising pipeline products (which may stimulate the market to give more favorable valuation).

As for CR Pharma, it is a leading pharmaceutical company in China committed to distribution, manufacturing and retail of pharmaceutical and healthcare products. CR Pharma achieved revenue/net profit FY13-16 CAGR of 10.25%/2.25%. We predict growth momentums arising from continuous external expansion, synergies among main subsidiaries and potential price premium given good performance of listed subsidiaries. In 2016, Distribution, Manufacturing and Retail businesses respectively accounted for 83.2%, 14.3% and 2.5% in 2016 revenue, with average gross profit margins of 6.61%, 58.33% and 21.21% respectively.

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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
2017-11-3	002573 CH	SPC	YN	Buy	23.74	30	26.37%	21.18	-10.78%	23.46	-9.72%
2017-11-8	2666.HK	Universal Medical	EZ	No Rating	8.2	NA	NA	7.32	NA	8.24	-11.17%
2017-11-9	600323 CH	Grandblue ENV	YN	Accumulate	16.11	18.4	14.21%	15.39	-4.47%	15.96	-3.57%
2017-11-14	600518 CH	Kangmei	EZ	Accumulate	22.65	25.2	11.26%	21.44	-5.34%	21.34	0.47%
2017-11-15	002479 CH	ZFET	YN	Buy	10.88	15	37.87%	9.83	-9.65%	11.18	-12.08%
2017-11-20	002466 CH	Tianqi Lithium	ZJ	Buy	64.87	80.56	24.19%	61	-5.97%	75.98	-19.72%
2017-11-22	603686 CH	Longma	YN	Buy	27.59	37.7	36.64%	27.51	-0.29%	31.06	-11.43%
2017-11-24	867.HK	CMS	EZ	Accumulate	16	17.93	12.06%	16.14	0.88%	14.42	11.93%
2017-11-27	175 HK	Geely	ZJ	Accumulate	28.35	33	16.40%	27.95	-1.41%	24.15	15.73%
2017-11-29	3320.HK	CR Pharma	EZ	Accumulate	10.08	11.22	11.31%	10.26	1.79%	9.5	8.00%

A stock is calculated by RMB yuan.
Source: Company, Phillip Securities Research

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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 ± 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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