

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air & Automobiles (ZhangJing)

Environmental protection & New energy(Wangyannan)

Healthcare & Consumer (Eurus Zhou)

Automobile & Air (ZhangJing)

This month I released 1 macro strategy report and 2 equity reports including China Southern Airline CSA (1055 HK) and Air China AC(753 HK), which got success by their unique Competitive edge.

In 2017, the world economy showed a steady recovery. We expect the U.S. economy to continue recovering steadily in 2018 and normalize its monetary policy. After the better-than-expected 2017, the European economy will continue its steady recovery and gradually withdraw from its QE. Japan will still maintain a loose monetary tone. In emerging markets, there will be differentiation and China's economy will continue to progress steadily.

On the premise of the improvement of the supply and demand pattern, we expressed cautious optimism for the promotion of the industry next year. In August, CSA raised H-shares and introduced U.S. airline strategy investors, which was expected to help to develop the company's Euro-American flight. At the same time, the company's project of raising RMB13.3 billion is moving forward, which will further increase assets when finished. The "accumulate" rating is given.

Environmental protection (Wang Yannan)

This month, I have issued 4 research reports, namely LK(600388.SH), BGE(603588.SH),WEIMING(603568.SH),CEB(1257.HK). We tend to highly recommend BGE(603588.SH). Beijing GeoEnviron Engineering & Technology has strong overall strength in the soil remediation field, and at the same time, has accelerated its layouts in the dangerous wastes disposal and garbage burning fields, bringing sufficient momentum for continuous result growth. A few days ago, after the Company resumed trading by terminating its purchasing Shenzhen Shentou Environmental Technology Co, Ltd., the risk of falling short of expectations has been released to a large extent, and the controlling shareholders, supervisors and senior executives successively held more shares to show to the market their confidence in the long-term development of the company.

Healthcare & Consumer (Eurus Zhou)

This month I released 3 equity reports, including Shanghai Pharma (2607.HK), Yunnan Baiyao (000538.CH) and Anta Sports (2020.HK). We tend to highly recommend Shanghai Pharma (2607.HK) and Yunnan Baiyao (000538.CH). As up to end of Sep, Shanghai Pharma reported revenue/net profit YoY growth of 9.41/9.42%, and we see improving operation with rising net operating cash inflow of RMB1.85bn (+0.54bn YoY). In Nov 2017, the company announced that its subsidiary would acquire 100% of Cardinal China (a foreign-capital pharmaceutical distributor in China). We estimate that inclusion of Cardinal business will enlarge the distribution revenue by c.15% in 18E. We see that distribution business turnover grew at 8.33% YoY in 9M17 and the company continues to expand the hospital supply chain innovation services. Manufacturing business grew at 18.7% YoY as up to end of Sep. We expect the manufacturing business to maintain quick growth as the company adheres to focus on key products and to strengthen the academic marketing-oriented strategy. 26 key products are expected to achieve more than 100mn sales in 17E. After the composite ownership reform, Yunnan Baiyao introduces more market-oriented decision making system and raises compensation to management. Manufacturing business reported FY11-16 CAGR 15.68% with average GPM 61.8%, while distribution segment recorded FY11-16 CAGR 14.8% with average GPM 6.81%. During the first half, manufacturing business grew at 9.5% YoY with GPM 66% (+4.79ppts) and distribution business achieved 17.5% YoY growth with increasing GPM 7.07% (+1.07ppts). We expect the topline to grow at 15.5%/13.4% in 17E/18E.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Recomm endation Date	Target Price	Expected Return	Month Closing Price	Month Return	Closing Price 2M ago	1M Price Chg
12/4/2017	600388.SH	LK	YN	BUY	15.75	20	26.98%	17.17	9.02%	15.75	9.02%
12/6/2017	1055 HK	CSA	ZJ	Accumulate	7.15	8.45	18.18%	7.85	9.79%	6.98	12.46%
12/11/2017	2607.HK	Shanghai Pharma	Eurus	BUY	19.42	25.2	29.80%	20.85	7.36%	19.78	5.41%
12/12/2017	603588.SH	BGE	YN	BUY	12.52	18	43.77%	12.74	1.76%	11.87	7.33%
12/14/2017	753 HK	AC	ZJ	Accumulate	8.06	8.67	7.57%	9.18	13.90%	8.38	9.55%
12/18/2017	000538.CH	Yunnan Baiyao	Eurus	Accumulate	99.34	117.7	18.50%	101.66	2.34%	103.4	-1.68%
12/20/2017	603568.SH	WEIMING	YN	BUY	20.8	25.5	22.60%	21.03	1.11%	20.47	2.74%
12/22/2017	2020.HK	Anta Sports	Eurus	Accumulate	31.75	36.6	15.30%	35.4	11.50%	36.45	-2.88%
12/28/2017	1257.HK	CEB	YN	BUY	6.95	8.84	27.19%	7.01	0.86%	6.67	5.10%

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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