

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air, Automobiles (ZhangJing),
Healthcare & TMT (Eurus Zhou),
TMT& Education (Terry Li)
Retail & Property (Tracy Ku)

Automobile & Air (ZhangJing)

This month I released 4 updated reports of BYD (1211 HK) FDG (729 HK) and Huazhong In-vehicle (6830 HK) and Cathay Pacific (293 HK), which got success by their unique Competitive edge.

BYD has actively opened up the supply chain system to promote the outside supply of power batteries and spare parts, thereby inspiring the vitality of enterprises and enhancing their competitiveness. With the breakthrough and accelerated implementation of the transformation project, the company's future development momentum is expected to be strengthened. We hold the judgement that 2018 H1 will be a low point for BYD's automotive business and the new energy vehicles and conventional fuel vehicles will exert their power in H2, which will help the company's profit bottom out. We give BYD BUY rating.

Sound demand rebound and mild cost growth make Cathay's 2018H1 loss shrinking by near 90% yoy. We believe that the Company's H2 result prospects are mixed with recovery of demand continually and the moderate cost growth. The positive factor is the gradually fading fuel hedging losses, and the negative factor is the shrink of share of profit from Air China due to the exchange losses. We temporarily maintain the financial forecast and target price unchanged at HK\$14.3 for the Company, reaffirming the accumulate rating.

Healthcare & TMT (Eurus Zhou)

This month I released 4 equity reports, including Yihai Int (1579HK), Anta Sports (2020HK), Fortune REITs (778HK) and CSPC (1093HK). We tend to highly recommend CSPC (1093HK) and Fortune REIT (778HK). On CSPC, total sales increased by 49.8% yoy to HK\$10.79bn in the first half, mainly due to the sustained strong growth of innovative drugs (now 45.2% in total revenue), and recovery of Vitamin C business which also drive the profitability of this business up. The profit attributable to shareholders increased by 41.1% yoy to HK\$1.85bn. Cash flows from operating activities climbed to HK\$2.18bn (HK\$1.27bn in 2017). Operation efficiency improves. Average turnover period of accounts receivable increased slightly from 40 days to 37 day, and inventory days dropped from 173 days to 150 days. Solid 18H1 results further prove its growth momentum that coming from expanding salesman team and newly-launched drugs. For Fortune REIT, we highlight as most of tenants are engaged in daily necessity business, the rental income is relatively stable and less impacted by any economic recession. Meanwhile AELs will be growth momentum to improve profitability and healthy financial condition and appealing yield underpins solid operation.

TMT& Education (Terry Li)

I released two reports on Perfect World (002624.SZ) and China New Higher Education (2001.HK). We highly recommend China New Higher Education (CNHEG). On Aug 10, after the announcement of the Revised Draft of Law for Promotion of Private Education from Ministry of Justice of the PRC, CNHEG has fallen by over 30%. However, we believe the impact from the revised draft for the group is not as large as to compulsory education. In the worst case, the group only needs to pay the tax and land transaction fees. As a result, the revised draft has no large impact on the group. Besides, the group decided to enter into the cooperation agreement with Lanzhou University of Technology to hold Gansu College, instead of establishing its own school in Gansu. It is believed that it can take less time required for cultivating the school and leverage on the brand name and teaching resources of Lanzhou University of Technology, creating larger value in long term.

Retail & Property (Tracy Ku)

This month I released the first coverage reports of two listed companies, namely Mengniu (2319.hk) and Nine Dragons(2689.hk). The two companies are the market leaders in mainland dairy and paper industries respectively. Among the two, I recommend Mengniu. China's dairy product consumption is still in a period of steady growth. With the increase in disposable income of households and individuals, relaxing of two-child policy, we are optimistic about the prospects of the dairy industry. With the new management team lead by CEO, Minfang Lu, actively investing resources to carry out product innovation and upgrading, its business recovery momentum is obvious, and the business in the third and fourth tier cities maintains rapid growth.

In addition to the domestic market, Mengniu is also actively engaged in the overseas market layout. It also proposes to achieve a target of RMB100 billion in sales by 2020. It is expected to achieve the target through promoting high-margin innovation products, and external mergers and acquisitions.

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
2018/8/1	002624.SZ	Perfect World	TE	Buy	28.1	31.19	11.00%	24.78	-11.81%	28.11	-11.85%
2018/8/15	2001.HK	China New High	TE	Neutral	4.7	5.05	7.45%	5.66	20.43%	7.6	-25.53%
2018/8/3	729 HK	FDG	ZJ	NA	0.099	NA	NA	0.097	-2.02%	0.101	-3.96%
2018/8/10	1211 HK	BYD	ZJ	Buy	41.95	52	23.96%	46.75	11.44%	44.4	5.29%
2018/8/17	6830 HK	Huazhong In-ve	ZJ	Accumulate	1.36	1.56	14.71%	1.38	1.47%	1.44	-4.17%
2018/8/24	293 HK	Cathay	ZJ	Accumulate	12.32	14.3	16.07%	11.68	-5.19%	12.12	-3.63%
2018/8/14	2319 HK	Mengniu	TA	Buy	23.4	28.5	21.79%	22.65	-3.21%	24.3	-6.79%
2018/8/28	2689 HK	Ninedragons	TA	Buy	9.07	14.6	60.97%	8.9	-1.87%	9.7	-8.25%
2018/8/8	1579HK	Yihai Int	EU	Neutral	15.88	16.5	3.90%	20.1	26.57%	18.32	9.72%
2018/8/21	2020HK	Anta	EU	Accumulate	39.65	47.3	19.29%	42.75	7.82%	39.52	8.17%
2018/8/23	778HK	Fortune REIT	EU	Accumulate	9.42	10.5	11.46%	9.4	-0.21%	9.53	-1.36%
2018/8/30	1093HK	CSPC	EU	Buy	20.45	24.8	21.27%	19.8	-3.18%	20.5	-3.41%

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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