

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 GAC (2238 HK), SAIC (600104 CH), Dongfeng Group (489 HK) and Tianneng Power (819 HK), which got success by their unique Competitive edge. In 2018H1, Dongfeng reported a basically unchanged revenue, with better-than-expected EPS of RMB0.9364, representing a yoy increase of 14.9%. Sales expenses and financial costs decreased due to the lower advertising fee and exchange profit respectively. We expect Dongfeng Honda is recovering gradually in H2 and DF Nissan's capacity expansion planning is also about to be put on the agenda. Overall, we expect the Company's result will maintain steady. In accordance with the latest data, we adjust the company's EPS forecast, and target price to HKD10.6. The "Buy" rating is given. GAC's 2018H1 results were in line with expectations, and sales in July/August 2018 recovered well. It is expected that the Company will maintain steady growth this year under the strong product cycle of the joint venture car companies. We revised the Company's 2018 earnings forecast and introduce the predicted value of 2019. We reaffirm the "Buy" rating with the target price to HKD 11..

Healthcare & TMT (Eurus Zhou)

This month I released 4 equity reports, including CSPC (1093HK), CR Pharma (3320HK), Aier Eye Hospital (300015CH) and Kangmei (600518CH). We tend to highly recommend CR Pharma (3320HK). We tend to highly recommend CR Pharma (3320HK). 18H1 revenue recorded HKD93.7bn up by 13.3%. Gross profit reached HKD16.88bn up by 34.7% with GPM rising by 1ppt, which is mainly due to increasing shares of direct sales to medical institutions. We expect that after the effects of two invoice system fade in 18H2, the distribution business will further rebound. The company implements a number of M&A projects in the field of traditional Chinese medicine and chemical medicine treatment to enrich product mix and expand business layout. We expect Matthew effect in future competition, and the strong will always be strong. The company will continue to maintain its leading position in industry.

TMT & Education (Terry Li)

I released two reports including China Maple Leaf Education (1317.HK) and Wisdom Education (6068.HK). We highly recommend Wisdom Education. Wisdom is operating 7 schools in Dongguan, Huizhou, Jieyang, Weifang, and Panjin and providing private premium education for PRC curriculum programmes, including elementary, middle, high schools. The Group will focus on developing in the Guangdong province, so that it can be benefited from the Guangdong-Hong Kong-Macao Greater Bay Area. Besides, the rise of middle class in China is believed to bring demand for private premium education. Wisdom is able to cope with the upcoming demand, as there are still rooms to expand its schools. And, Wisdom has financed 500 million RMB from Ping An, making it capable of executing M&A in the future.

Retail, Property (Tracy Ku)

This month I released the first coverage report of Sasa(178.hk), and updated report of Mengniu(2319.hk). The former belongs to HK retail industry and the later is one of the market leaders of China`s dairy industry. Among the two, I recommend Mengniu. Mengniu`s interim revenue increased 17% y.o.y. to RMB34.474 billion. Gross profit margin(GPM) increased 3.6ppt y.o.y to 39.2%. Operating profit margin fell 0.5ppt y.o.y. to 5.6%, mainly due to the sponsorship of World Cup. Net profit increased 38.5% y.o.y. to RMB1.56 billion. Facing the economic slowdown in China, the management team still raised its full-year growth target from the previous low double digit to the medium double digit and revealed that the business performance from July to August was in line with expectations. Facing the risk of competitors launching promotions or increasing discounts, it emphasizes that it will respond to price wars through increasing innovation capabilities and brand investment. I believe that the dairy industry in China is with rigid demand and the impact from economic slowdown is limited. The double-digit growth target for the whole year is still able to meet. We believe that the recovery of raw milk prices in 2H will help its material associate China Modern Dairy (1117) to further reduce its loss. Sales and distribution expenses are expected to be lower than 1H.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing Price	Month Return	Closing Price 2M ago	1M Price Chg
2018/9/7	2238 HK	GAC	ZJ	Buy	7.64	11	43.98%	8.29	8.51%	8.39	-1.19%
2018/9/14	600104 CH	SAIC	ZJ	Accumulate	28.23	32.24	14.20%	31.31	10.91%	29.15	7.41%
2018/9/21	489 HK	Dongfeng	ZJ	Buy	7.64	10.6	38.74%	7.87	3.01%	8.64	-8.91%
2018/9/28	819 HK	Tianneng	ZJ	Buy	6.81	8.4	23.35%	6.51	-4.41%	9.75	-33.23%
2018/09/03	1093HK	CSPC	EZ	BUY	20.45	24.8	21.27%	16.62	-18.73%	19.80	19.13%
2018/09/06	3320HK	CR Pharma	EZ	BUY	12.72	15.2	19.50%	12.42	-2.36%	12.56	1.13%
2018/09/20	300015CH	Aier	EZ	BUY	29.07	35.2	21.09%	32.25	10.94%	31.37	-2.73%
2018/09/27	600518CH	Kangmei	EZ	BUY	20.83	26.0	24.68%	21.88	5.04%	20.83	-4.80%
2018/9/12	268.HK	Kingdee International	TE	Neutral	8.48	8.74	3.07%	8.52	0.47%	8.94	-4.70%
2018/9/26	2588.HK	BOC Aviation	TE	Accumulate	61.55	70.50	14.54%	60.50	-1.71%	57.50	5.22%
2018/9/14	178HK	Sasa	TK	Buy	3.89	4.74	21.85%	4.34	11.57%	4.199	3.36%
2018/9/28	2319HK	Mengniu	TK	Accumulate	25.45	28.5	12	26.05	2.16%	22.65	15.01%

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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