

Report Review of November 2018

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

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

Automobile & Air (ZhangJing)

This month I released 4 updated reports of Fuyao Glass (3606.HK) · Minth Group (425.HK) · Air China (753.HK) · and China Southern (1055.HK), which got success by their unique Competitive edge. Minth's 2018H result slightly lower than forecast, but the increasing trend of the topline and core profit still continue. In the near future, Minth's production structure are expected to continue improving, triggered by increased investment on technology upgrades and product optimization We maintain the opinion that Minth's existing businesses indicate a robust growth momentum, while great potential boom lies before the new ones, on the base of more input on R&D etc. The Company has a solid BS and it is believed that the high dividend payout ratio will maintain. We gave Buy rating.

Healthcare & TMT (Eurus Zhou)

This month I released 4 equity reports, including Universal Medical (2666HK), Netdragon (777.HK), CMS (867.HK) and CRSC (3969.HK). We tend to highly recommend Universal Medical (2666.HK). In 18H1, UM realized revenue of RMB2.09bn, up by 26.7% yoy, gross profit increased 22.9% to RMB13.27mn, and net profit increased 26.7% to RM73mn. ROE increased nearly 2 ppts to 19.17%. Its latest announcement shows that pre-tax profit growth was above 20% during previous three quarters. We highlight that the strong market demand, good asset quality, and appropriate risk control of financial leasing business, which is expected to maintain steady growth. In addition, we are optimistic about hospital investment management business. UM is expected to obtain more SOEs' hospital projects relying on the SOE shareholder's background and outstanding medical resources, also leveraging on potential purchase of private hospitals in future, to build a first-class medical management group. At the same time, hospital resources will feed back the company's original businesses like financial lease, medical digitalization, industry consultation and others, forming a virtuous circle.

TMT, Education & Finance (Terry Li)

I released two reports on HC Group (2280.HK) and Boc Aviation (2588.HK). We highly recommend HC Group. The Group started transiting in 2017, categorizing its business into transaction services, data services and information services, and creating "industrial internet". Since 2016, the Group creates three vertical B2B platforms by either themselves or acquisitions, which are Ibuychem, Union Cotton, and China Formwork. The revenue of transaction services for six months ended increased from RMB 506 million in 2017 to RMB 3.09 billion, demonstrating a strong growth. We expect the growth in the second half of 2018 and the full year of 2019 will remain strong, implying the revenue in 2018/19F to be RMB 9.27 billion/185.3 billion.

In addition, the subsidiary of the Group, PanPass, also has strong potential. It has successfully applied blockchain technology into the project of Tong Ren Tang, Hong Ji Tang, Dezhou Chicken and Lulu Group. In the upgrade project of Chinese herbal medicines in Shandong Province, the traceability upgrade systems of customers Dongya Ejiao, Fupai Ejiao and Hongjitang Ejiao were rated as excellent. Since the Group is very positive to its future, it has increased its holdings to 79.51% this year. The Group's current profit mainly comes from information services, but it will focus on transaction services segment in the future, in order to spread the ascendancy to the information and data services segment by bringing traffic and data through transactions. As the transaction volume gradually hiked, the B2B platform of the Group can capture enormous user and market data to develop advertising and data analysis services on the platform.

Retail, Property (Tracy Ku)

This month I released the first coverage report of Nine Dragon (2689.HK) and H&H(1112.HK). The former belongs to paper industry and the later belongs to healthcare and dairy industry. The State Council did not restart the cross-border e-commerce (CBEC) positive list policy at the end of the year, which is in line with our expectations. On this basis, it announced that from 1st January 2019, the current policy on CBEC retail imports will continue. No requirements of licensing, registration or record-filing for first-time imports shall apply to the retail imports through CBEC platforms, but receive regulation as personal use. This shows that the policy direction has been further relaxed. The State Council also extends the implementation of this policy from 15 cities such as Hangzhou to another 22 cities such as Beijing which have just established comprehensive CBEC pilot zones. Goods included in the CBEC retail imports list have so far enjoyed zero tariffs within a set quota and had their import VAT and consumer tax collected at 70% of the statutory taxable amount. Such preferential policies will be extended to another 63 tax categories of high-demand goods. The quota of goods eligible for these preferential policies will be raised from RMB 2,000 to RMB 5,000 per transaction and from RMB20,000 to RMB26,000 per head per year. We believe that the new measures show the Chinese government's positive stance on support and encouragement for the long-term and steady development of CBEC, eliminating the market's earlier concerns about the risk of policy changes in the industry. Moreover, under the current Sino-US trade war, it will also help to demonstrate China's determination to further open up the market, promote diversification and steady growth of imports, and stimulate domestic consumption and employment. At the same time, the first import of goods categories like cosmetics, nutritional supplements and infant formula through ECBC will no longer be subject to regulatory restrictions, which will help H&H's Swisse products that rely on ECBC entering China market, including non-vitamin SKUs which will be negatively affected under positive list. In the past 11th November, the company launched new products such as oral-intake hyaluronic acid and collagen jelly, and recorded good results. According to Tmall's statistics, Swisse is the number one brand in both imported and health care categories.

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
2018/11/8	3606.HK	Fuyao Glass	ZJ	Buy	25.00	31.15	24.60%	24.15	-3.40%	23.15	4.32%
2018/11/15	425.HK	Minth	ZJ	Buy	26.40	33.10	25.38%	26.25	-0.57%	25.4	3.35%
2018/11/22	753.HK	AC	ZJ	Hold	7.28	7.39	1.51%	7.57	3.98%	6.31	19.97%
2018/11/29	1055.HK	CSA	ZJ	Accumulate	5.30	6.07	14.53%	5.33	0.57%	4.24	25.71%
2018/11/6	2666.HK	UM	EZ	Buy	6.19	8.62	39.26%	6.30	1.78%	6.10	3.28%
2018/11/16	777.HK	Netdragon	EZ	Buy	14.28	26.00	82.07%	14.26	-0.14%	13.86	2.89%
2018/11/23	867.HK	CMS	EZ	Neutral	9.70	9.98	2.89%	8.53	-12.06%	9.33	-8.57%
2018/12/3	3969.HK	CRSC	EZ	Buy	5.53	7.10	28.39%	5.53	0.00%	5.26	5.13%
2018/11/14	2280.HK	HC Group	TE	Buy	4.88	6.58	34.84%	4.80	-1.64%	5.09	-5.70%
2018/11/27	2588.HK	Boc Aviation	TE	Accumulate	59.50	70.50	18.49%	60.30	1.34%	56.05	7.58%
2018/11/21	2689HK	Nine Dragon	TK	Buy	7.89	12.10	53.43%	7.93	0.50%	7.48	6.02%
2018/11/30	2319HK	H&H	TK	Accumulate	52.05	60.72	16.67%	50.30	-3.36%	40.70	23.59%

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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