

# Report Review of December 2018

## Hong Kong | INVESTNOTES REPORTS REVIEW

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Sectors:

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

### Automobile & Air (ZhangJing)

This month I released 3 updated reports of BYD (1211 HK), GAC(425 HK), and Flat Glass (6865 HK), which got success by their unique Competitive edge. The Q3 revenue of GAC was down about 3.3% Y-o-Y to RMB16.31 billion, net profit attributable to the parent company up by 6% Y-o-Y to RMB2.95 billion, equivalent to an EPS of RMB0.29. From the sales volumes of the first two months (October/November) in the Q4, sales volume of GAC Toyota improved, that of GAC Honda regained its momentum, that of GAC's independent brands continued to recover slightly, that of GAC FCA remained weak, and the sales growth of GAC Mitsubishi Motors slowed down, with their growth rates of 10.74%/65.8%/1.8%/-45.9%/-2%, respectively, sales volume increments of 14,723/46,074/1,558/-15,128/-462 vehicles, respectively. In terms of new cars, GAC Mitsubishi Motors will have its new model Eclipse Cross come out at the end of the year. In 2019, GAC Honda will put on the market Acura RDX, the new model of Vezel. GAC Toyota will have Levin PHEV, the new-generation RAV4. The Group's independent brand Trumpchi has new GS5, new GA6 and MPV GM6, as well as two 100% electric models based on an exclusive platform. It is expected that the Company will maintain steady growth in the future under the strong product cycle of the Japanese-brand JV.

### Healthcare & TMT (Eurus Zhou)

This month I released 3 equity reports, including Charmacy (2289HK), Kingsoft (3888HK), and China TCM (570HK). We tend to highly recommend China TCM (570HK). The company forms an integrated TCM industry chain, covering herb planting, warehousing, logistics and technology R&D, and evolving the production of TCM decoction pieces, CTCMG and finished TCM drugs. Centralized TCM granules business will maintain quick growth. The company is the market leader owning nearly half of the market share. At present, national production and marketing license has not been opened. We believe that whether the market is open will be beneficial to the company. Productive capacity of TCMDP is to ramp up, paving the way for future growth. TCM decoction pieces are main raw materials of finished drugs and CTCMG. It occupies 22% of market sales of TCM industry. In future, we expect that the industry will maintain relatively rapid growth, given the rising popularization of TCM healthcare, accelerated aging, rising public awareness. Finished drugs will develop steadily. The production and sale of finished drugs are the traditional business of the company, holding more than 500 pharmaceutical production approvals and over 60 exclusive drugs. It proactively develops OTC channel and we expect steady development of this segment.

### **TMT & Education (Terry Li)**

I released two reports on China Maple Leaf Education (1317.HK) and SUNeVision (1686.HK). We highly recommend SUNeVision. On December 12, the Group announced that it has successfully acquired a data center site in Tseung Kwan O for HK\$5.46 billion. The land area is approximately 295,407 square feet. The upper and lower limits of the total gross floor area are 1,212,457 and 727,474 square feet respectively, implying at HK 4,503 per sq. ft. Although the acquisition price is higher than the market expectation, we tend to believe that this expensive acquisition is a strategic move of the Group. It is because On 10 Sep 2018, the group applied for a judicial review, accusing Hong Kong Science & Technology Parks Corporation (HKSTP) of allowing its tenants subletting to a third party in the industrial estates, and asking for the enforcement of the lease terms. Currently, there are nine data center operators in the industrial estate, including: China Mobile, NTT Communications, HKCOLO and Digital Realty Trust. If the loophole is closed due to the success in judicial review, the operators in TKO industrial estate may be either slapped with penalties or forced to cease the lease agreement. This means that if the government stops looking for land supply in Tseung Kwan O and Tseung Kwan O industrial estate cease the lease with data center operators, the Group will monopolize the data center supply in Tseung Kwan O and become the only data center in the region that can sublet. However, it is believed that the debt ratio will rise substantially, but we think it is still acceptable as the business nature of data center is relatively stable.

### **Retail, Property (Tracy Ku)**

This month I released the first coverage report of Want Want China(151) and Hengan(1044). Hengan has recently been attacked by short-selling organization, alleging the fabrication of the profitability of sanitary napkins business, bank deposits and interest income, and the non-disclosure of connected deals from real estate project. Although the allegations have been clarified by Hengan one by one, we expect that the negative impacts on the overall image of the company will be difficult to be digested by the market in the short term and the stock price will be under pressure, which provides good opportunity to buy in.

In the first half of this year, the sanitary napkin business accounted for 31.8% of total revenue. According to the information given by the management, the sanitary napkins increased by less than 5% in the third quarter, but still maintained a market share of 27% and maintained the leading position in the industry. The recovery trend in the fourth quarter has been accelerated. Considering the low base factor last year, we expect that this year end's performance will be better. The management also maintains the guidance of overall sales revenue for the next three to five years with double-digit growth and same as its tissue business. Among them, the sanitary napkin business is expected to be difficult to achieve double-digit growth as the market is already saturated, so it will be repositioned as premium personal hygiene business. Hengan originally planned to launch new product categories such as cosmetics, cotton pads and facial care masks this year. As related R&D and registrations still need time, it is expected to be launched as soon as next year. We expect it will become a new growth driver of revenue.

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
7/12/2018	1211 HK	BYD	ZJ	Accumulate	57.35	63	9.85%	49.75	-13.25%	58.65	-15.17%
21/12/2018	2238 HK	GAC	ZJ	Buy	7.56	9.5	25.66%	7.8	3.17%	8.14	-4.18%
28/12/2018	6865 HK	FLAT GLASS	ZJ	NA	2.06	NA	NA	2.06	0.00%	1.98	4.04%
10/12/2018	2289HK	Charmacy	EZ	N/A	7.09	N/A	N/A	8.1	N/A	7.98	1.50%
20/12/2018	3888HK	Kingsoft	EZ	BUY	12.32	18.8	52.60%	11.28	-8.44%	13.08	-13.76%
27/12/2018	570HK	China TCM	EZ	BUY	4.73	6.54	38.27%	4.56	-3.59%	5.2	-12.31%
2018/12/12	1317.HK	China Maple Leaf Educaiton	TE	Neutral	3.35	3.38	0.90%	3.49	4.18%	3.40	2.65%
2018/12/24	1686.HK	SUNeVision	TE	Buy	4.68	5.67	21.15%	4.60	-1.71%	4.45	3.37%
14/9/2018	151HK	Want Want	TK	Accumulate	5.68	6.47	13.84%	5.48	-3.52%	5.77	-5.03%
28/9/2018	1044HK	Hangan	TK	Buy	56.8	77.5	36.40%	57	0.35%	63.95	-10.87%

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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