

## Hong Kong | INVESTNOTES REPORTS REVIEW

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### Sectors:

Air, Automobiles (Zhang Jing),

TMT& Education (Terry Li)

Retail & Property (Tracy Ku)

### Automobile & Air (ZhangJing)

This month I released 3 updated reports of BYD (1211.HK), Joyson (600699.HK), and Cathay Pacific (293.HK), which got success by their unique Competitive edge. With the introduction of the domestic new subsidy policy for new-energy vehicles in 2019, the direction has been transferred from policy-oriented guidance to market-oriented guidance on the basis of higher subsidy threshold and decreased subsidy amount. We believed that a large scale of restructuring and industrial selection will occur in the industry chain, while the market share of industry leading enterprises which are well familiar with market-oriented operation will increase, demonstrating the phenomenon of survival of the fittest. In addition to high-end vehicles, BYD has already prepared with several new-energy vehicles that remain competitive in terms of price regardless of subsidy. Its long-term performance promises well.

Joyson's 2018 net profit will be RMB1.25 billion to RMB1.45 billion, up by about 216%-266% yoy. Prospective global merger and acquisition layout and sustained large-scale R&D investment ensure the company's competitiveness and leadership in the subdivision industry. At present, Joyson has more than 5,000 technical patents, covering all fields of active and passive safety, intelligent driving, vehicle networking and power management of new energy vehicles. The company's Joyson Preh has been the exclusive contractor of BMS systems for BMW's new energy vehicles since 2008 and started to develop 48V-BMS system with Mercedes-Benz in 2017. In addition, the company began to supply Tesla in 2014. We anticipate that the company will gain more new orders in the new energy vehicle market with the competitive advantage in technology and market. Cathay is stepping out the mire of the previous huge loss of fuel hedging, and now enjoying continuous improvement of passenger yield and vigorous cargo demand.

### TMT& Education (Terry Li)

I released four reports on Travelsky Technology (696.HK), Perfect World (002624.SZ), Kingdee International (268.HK) and ChinaSoft International (354.HK). We highly recommend ChinaSoft International. The total revenue in 2018 reached RMB 10.6 billion, increased by 14.5% YoY; the net profit attributable to the shareholders was RMB 715.8 million, up by 26.6% YoY. The gross profit margin improved from 29.8% to 30.7%, thanks the increasing portion of emerging business that has higher gross profit margin. The revenue was generally in line with our expectation, just 0.9% lower, but the gross profit margin was slightly lower than expected, 0.3%. The net profit was above our estimate, about 7%, thanks to the lower administration cost and tax expenses that are deducted on certain research and development expenses. The revenue from Technology Professional Services Group (TPG) grew by 16.7% to RMB 9.2 billion, thanks to the strong demand from large-sized customers. The revenue from the largest customers (Huawei) increased by 15.3% to RMB 5.6 billion, accounted for 53.1% of the total revenue. Meanwhile, the revenue growth from HSBC and Ping An were around 47% and 40% respectively. We believe it shows the fact that the large-sized customers are less sensitive to the economic cycle, which will remain the main driver of the Group during the economic downturn.

### **Retail & Consuming (Tracy Ku)**

This month I released the first coverage report of China Resources Beer (291.HK) and Vitasoy (345.HK). I highly recommend Vitasoy. Revenue increased 22% to HK\$4448million, compared to 23% of last year's growth. As the main contributor to the company, revenue of Vitasoy China increased 33%, whereas Hong Kong Operation increased 4%. Vitasoy China experienced strong growth in recently years, we believe the reasons behind include the recognition of its soya milk and lemon tea products has been improved. At the same time, deepening of the sales channels in South China market, and the opening up of new markets. Besides, in the more mature Hong Kong market, the annual intake of soy milk is 12 kilograms per person, which is only 1 kilogram in China, reflecting the huge room of development. Vitasoy currently owns and runs four production plants in China, and the production capacity has reached 100%. The company has kept upgrading the machinery every year to improve production efficiency. It also plans to build 20 new production lines in Dongguan, and expects to go into operation in 2021. With the capacity expansion, improvements of channels and branding, we expect that the Vitasoy's China business and overall revenue to maintain mid-teens growth in the next three to five years, which will be mainly driven by sales volume. If raw material costs can maintain stable and the gross profit margin can also be further improved. At the same time, Hong Kong business is expected to maintain relatively stable growth due to its maturity.

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
20180312	1211 HK	BYD	ZJ	Accumulate	47.35	56.3	18.90%	47.3	-0.11%	50.2	-5.78%
20180319	600699 CH	Joyson	ZJ	Accumulate	27.22	31.5	15.72%	26.66	-2.06%	25.99	2.58%
20180326	293 HK	CX	ZJ	Accumulate	13.7	15.7	14.60%	13.74	0.29%	13.2	4.09%
2019/3/11	696.HK	Travelsky Technology	TE	Accumulate	23.1	27.18	17.66%	20.75	-10.17%	22.75	-8.79%
2019/3/18	002624.SZ	Perfect World	TE	Accumulate	33.89	37.67	11.15%	31.92	-5.81%	29.76	7.26%
2019/3/25	268.HK	Kingdee International	TE	Neutral	9.17	9.21	0.44%	9.08	-0.98%	8.5	6.82%
2019/3/29	354.HK	ChinaSoft International	TE	Buy	4.66	6.57	40.99%	4.85	4.08%	4.83	0.41%
2019/3/14	291.HK	China Resources Beer	TA	Neutral	30.05	30.3	0.83%	33.05	9.98%	29.25	12.99%
2019/3/21	345.HK	Vitasoy	TA	Accumulate	35.95	38.5	7.09%	36.53	1.61%	33.9	7.76%

A stock is calculated by RMB yuan.

Source: 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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