

## Hong Kong | INVESTNOTES REPORTS REVIEW

---

### Sectors:

Air, Automobiles (Zhang Jing),  
TMT& Education (Terry Li)  
Retail & Property (Tracy Ku)  
Pharmaceuticals, Energy & Environment (Leon Duan)

### Automobile & Air (ZhangJing)

This month I released 4 updated reports of Geely (175.HK), GAC (2238.HK), GWM (2333.HK) and Tuopu (601689.CH), which got success by their unique Competitive edge. Among them, we recommend GAC and Tuopu first.

In 2019 H1 GAC Toyota sold 311,200 vehicles, an increase of 21.68% yoy; and GAC Honda sold 394,500 vehicles, an increase of 16.41% yoy. GAC Toyota and GAC Honda grew against the trend of weak domestic demand, revealing a strong products competitiveness and good command of the market. GAC Honda has launched Odyssey Sport Hybrid, new Vezel and other new models in late April and mid-June, and GAC Toyota has launched officially the upgrading generation Levin in June, and will launch an EV model in 2019 H2 and withdraw CHR EV in 2020. As driven by new models, the growth is expected to remain strong in H2. Thanks to the strong momentum of GAC Toyota/GAC Honda, the Company's result safety mat is thicker; the self-owned brands are expected to gradually stabilize and rebound under the help of the new generation models and new energy models.

We believe that the declined performance of the Tuopu in short term was the result of disturbance factors in the industry, and in the long term, with its technical strength and customer relations in traditional businesses, the Company is expected to get new incremental orders from new energy vehicle enterprises in the field of emerging businesses (lightweight chassis and automotive electronics) in the future. Besides, the launch of Tesla's factory in Shanghai will bring a breakthrough for the Company.

### TMT& Education (Terry Li)

I released four reports on Hope Education (1765.HK), Perfect World (002624.SZ), Kingdee International (268.HK) and Yonyou (600588.SH). We highly recommend Hope Education.

The Group was one of the largest private higher education group in China, engaging in the bachelor program, junior college program and vocational education. The population of the relevant age group in higher education will drop since 2020, and stabilize in 2025. As the GDP per capita in China increases, we should see gross enrollment rate in China catches up with the developed countries in the future. The penetration rate of private education will increase thanks to the rising acceptance in private universities and the dependence on private education form local governments. The tuition fee should grow with the CPI in China. Regarding those four factors where three are rising, whereas one is dropping in the short term and will rebound in long term, we expect the growth rate of private higher education will decrease from 2018 to 2020E, and will reach a mid to high single-digit growth. As of 2018/19 school year, the capacity of the schools reached 125,096, implying a utilization rate of 76%. Even if there is no increase in capacity, the schools could still accommodate 30,000 more students.

As the junior college should be the beneficiary in this expansion, having a closer look at the utilization rate, the utilization rate of Jiaotong College, Tianyi College, Automotive Vocational College, Vocational Institute of Technology and Automotive Technical College which offers junior college educations (the beneficiary in this expansion) were all below 70% in the 2018/19 school year. As a result, the Group should be able to enjoy such enrollment expansion.

According to Chinese independent college and private university ranking (Wu Shulian) in 2018, Guizhou College and College of Technology are ranked the first and the second in Guizhou. the department of administration management of Jiaotong College ranked 10% - 20% out of 256 schools who offering administration management. The medical department of Shanxi College ranked 20% - 30% out of 62 schools providing medical study. The department of administration management and economics of Guizhou College both ranked 10% - 20% out of 256 and 215 schools. The department of economics of College of Technology ranked 20% - 30% out of 215 schools. We believe those schools are with a decent quality of teaching, giving their protection once the student enrollment decreases. Shanxi College, Tianyi College and College of Culture & Communication have shown how good the Group was in school integration. Shanxi College grew at a 5-year CAGR of 25.1%; Tianyi College grew at an 8-year CAGR of 5.7%; College of Culture & Communication grew at a 5-year CAGR of 30.6%.

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

This month I released the report of Hengan (1044.hk), Ausnutria (1717.hk) and Want Want China. Ausnutria ranked the ninth in infant milk formula market in China during 2018, with a market share of 3.9%. But it ranked the first in the imported goat milk formula with a market share up to 62.5%. The management team's target is to be among the top five players in China's overall infant milk market in the next three to five years. 1H of FY2019. Revenue increased by 21.9%y.o.y. and is mainly driven by the increase of 45.3% of its own-branded goat formula milk powder products. The percentage share of this business to revenue increased from 35.2% to 44.9% yoy. The own-branded goat formula milk powder also increased by 20.7%. The adjusted net profit increased by 63.8% yoy.

According to the F& S Report, the retail sales value of China's infant milk formula market increased at a CAGR of 11.2% from 2014 to 2018, and is expected to increase at a CAGR of 6.9% until 2023. The slow down is mainly due to the decreasing birth rate, but super-premium and premium infant milk formula products, is expected to continue as the driving force of the overall industry. This underpinned by accelerating urbanization, rising disposable income, increasingly educated and health conscious consumers and growing demand for high quality infant milk formula products. At the same time, with the gradual improvement of Chinese consumers' awareness of the goodness of goat milk, we are optimistic about the medium to long-term development of Ausnutria. It is expected that the own-branded goat milk infant formula products will maintain rapid growth, especially for higher-end products. Cow milk infant formula products will maintain a stable single digit growth.

The high-end segment of infant milk formula products increased at a CAGR of 27.3% from 2014 to 2018, which accounted for 22% of the overall market in 2014 and 37.9% in 2018. It is expected to grow at a CAGR of 16.6% until 2023, accounting for 58.3% of the overall market. In particular, the super-premium segment grew at a CAGR of 39.5% from 2014 to 2018 and is expected to grow at a CAGR of 16.9% until 2023. This segment accounted for 6.8% of the overall infant milk formula market in 2014, increasing to 16.9% in 2018, and is expected to increase to 26.4% by 2023. The company will continue its R&D projects and launch new products. The elderly goat milk formula product is expected to be launched in 2020.

The organic infant goat milk formula is still awaiting registration and is expected to be also launched in 2020. In terms of cow milk powder, it just got a new baby milk powder product registration in March this year, and began to have related promotion activities in June. There are still 3 brands that are still waiting to register at the New Zealand plant.

## Pharmaceuticals, Energy & Environment (Leon Duan)

I released three reports on CR Pharma (3320.HK) and Canvest Env (1381.HK). We highly recommend CR Pharma.

The company has a leading position in many segments in the China pharmaceutical industry. According to the revenue in 2018, the company is the fifth largest pharmaceutical manufacturer, the third largest pharmaceutical distributor, and the largest OTC drug manufacturer in China, through CR Sanjiu, Dong-E-E-Jiao, CR Zizhu and CR Double-Crane maintained its leading position in the market. The company also has a leading position in the market in nourishing TCM, cardiovascular medicine, cold and flu medicine, large-volume intravenous infusion and emergency contraception. The company's diversified business segments and product portfolio in the pharmaceutical industry, as well as extensive coverage of the medical industry chain, not only help to reduce risks and uncertainties associated with individual product, but also effectively leverage synergies between different platforms. As of the end of 2018, the company manufactured more than 430 pharmaceutical products, of which more than 260 are included in NRDL. The company continued focus on core products, and optimize product structure. In 2018, 49 products exceed HKD 100 million in revenue, an increase of 10 compared to 2017; among which 7 products achieved annual revenue over HKD 1 billion, same with 2017. By the end of 2018, the distribution network has covered 28 provinces, serving over 90,000 downstream customers, including 6,581 Class II&III hospitals, and 51,505 primary medical institutions, customer coverage further improved.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
2019/8/2	175 HK	Geely	ZJ	Hold	12.14	12.66	4.28%	12.12	-0.16%	12.14	-0.16%
2019/8/9	2238 HK	GAC	ZJ	Buy	7.21	9	24.83%	7.9	9.57%	8.05	-1.86%
2019/8/19	2333 HK	GWM	ZJ	Accumulate	4.85	5.42	11.75%	4.98	2.68%	5.37	-7.26%
2019/8/26	601689 CH	Tuopu	ZJ	Accumulate	10.9	12.7	16.51%	11.09	1.74%	10.18	8.94%
2019/8/8	1765.HK	Hope Education	TE	Buy	1.18	1.47	24.58%	1.35	14.41%	1.27	6.30%
2019/8/16	002624.SZ	Perfect World	TE	Buy	26.27	34.37	30.83%	26.8	2.02%	26.18	2.37%
2019/8/22	268.HK	Kingdee International	TE	Accumulate	7.75	8.55	10.32%	7.1	-8.39%	7.57	-6.21%
2019/8/29	600588.SH	Yonyou	TE	Neutral	33	30.64	-7.15%	32.07	-2.82%	28.75	11.55%
2018/8/6	1044HK	Hengan	TA	Buy	57.7	70.6	22.40%	51.6	-10.57%	59.25	-12.91%
2019/8/12	1717HK	Ausnutria	TA	Buy	12.58	15.7	24.80%	11.12	-11.61%	13.68	-18.71%
2019/8/30	151HK	WantWantChina	TA	Accumulate	5.97	6.71	12.40%	6.11	2.35%	6.094	0.26%
2019/8/5	3320.HK	CR Pharma	LD	Buy	8.39	11.31	34.80%	8.1	-3.46%	8.57	-5.48%
2019/8/20	1381.HK	Canvest Env	LD	Buy	3.54	5.08	43.50%	3.73	5.37%	4.07	-8.35%
2019/8/27	1381.HK	Canvest Env	LD	Buy	3.68	5.07	37.77%	3.73	1.36%	4.07	-8.35%

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

**GENERAL DISCLAIMER**

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

**Disclosure of Interest**

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

**Availability**

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2019 Phillip Securities (Hong Kong) Limited

**Contact Information (Regional Member Companies)**

---

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 10, 330 Collins Street  
Melbourne VIC 3000  
Tel (+61) 3 8633 9803  
Fax (+61) 3 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
Number 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 436 Heng Feng Road,  
Green Tech Tower Unit 604,  
Postal code 200070  
Tel (86-21) 51699400  
Fax (86-21) 60911155  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005