

Report Review of September 2019

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

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

Automobile & Air (Zhang Jing)

This month I released 4 updated reports of SIA (600009.CH), Air China (753.HK), China South Air (1055.HK) and China East Air (670.HK), which got success by their unique Competitive edge. Among them, we recommend China East Air first.

In August, China East Air (CEA) completed its cross-shareholding with Juneyao Airlines in Hong Kong. After the A-share issuance is completed, CEA will hold 15% of Juneyao Airlines and Juneyao Airlines (JuneYao Group) will hold approximately 10% of CEA in total. Together, the two sides account for more than 50% of Shanghai's aviation market. Under a closer enterprise strategic cooperation model of cross-shareholding, they will fully integrate resources and bring into play synergies in the future. After the opening of the S1 satellite hall at Pudong International Airport in September, the improvement of the Company's transfer connection efficiency at Pudong International Airport will help enhance the Company's competitiveness in Shanghai's core hub.

TMT, Education & Finance (Terry Li)

I released four reports on Net Dragon (777.HK), Sunevision (1686.HK), Travelsky Technology (696.HK) and Chinasoft (354.HK). We highly recommend Net Dragon. In the first half of this year, the gaming business performed brilliantly, with revenue up by 51.6% YoY to RMB 1.58 billion; segment profit increased by 85.4% YoY to RMB 970 million. During the period, the revenue of the Group's three major IP "Eudemons", "Hero Evolved" and "Conquer Online" increased significantly, at 57%, 27% and 43% respectively. Regarding Eudemons, the Eudemons PC version launched a new expansion packs on June 30 this year. The group also said there will be two expansion packs every year, which will help maintain the popularity of the game. As for Hero Evolved, the group tried to cooperate with other IP to create IP crossover collaboration effect. This year, the group cooperated with the Japanese anime IP "Overlord" and domestic IP "Rakshasa Street" on Hero Evolved to maintain the driver for the revenue growth. In addition, the group also added a new leisure game mode - Auto Chess in "Hero Evolved Pocket Version", which helps keep the game fresh and attract new users. In the first half of this year, the revenue from education business decreased by 24.2% YoY to RMB 1.05 billion, due mainly to the tender business from Russia in the first half of last year, but not in the first half of this year. In addition, the segmental loss increased to RMB 310 million due to the cyclical nature of the Russian tender and the six-month performance of Edmodo (two months last year). If the Russian tender order is deducted, the education revenue will increase by 5% YoY. Currently, there are about 106 million registered users in Edmodo, an increase of about 500 million users compared with 101 million at the end of last year, implying its growth is slightly lower than the growth in the second half of 2018 where it added 1 million users monthly. The Group is preparing to launch a homework application "AskMo" in October this year to provide AI-assisted learning and live tutors. In addition, it will launch 1:4 and 1:1 online tutoring in December this year, trying to monetize platform users.

Retail & Manufacturing (Tracy Ku)

This month I released the report of China Resources Beer(291) and Ausnutria(1717). China Resources Beer`s interim revenue of FY 2019 increased by 7.2% y.o.y. to RMB18.825 billion , and net profit increased by 24.1% to RMB 1.871 billion. Although the gross profit margin facing the pressure of rising raw material costs, thanked to the optimization of product mix, it improved by 1.9ppt. y.o.y. to 37.8%.

The increase in revenue during the period was mainly due to the 7% increase in sales volume of the mid- to high-end beer, which drove the overall beer sales volume and average price to increase by 2.6% and 4.5% respectively. This was benefited from the brand repositioning strategy, further upgrade of product mix and contribution from the acquisition of Heineken China. CRB`s overall beer sales growth performance was better than the industry level, and better than the management`s original annual sales target which was to be flat y.o.y.

CRB`s acquisition of Heineken China was completed by the end of April. The contribution from such operation does not bring significant impact to the company`s financial performance for 1H of FY2019. This long-term strategic partnership will provide an important strategic opportunity for our development in China`s premium beer market.

According to the management team, the integration with Heineken China is going smoothly. The integration includes work teams, channels and markets. The existing channel networks in 26 provinces have launched Heineken beer products. It plans to accelerate the integration process. It is expected to complete the integration within this year and further improvement and optimization will be carried out next year.

We expect that with the acquisition, the share of mid- to high- end business i.e. selling price more than RMB5, will further increase, with the possibility of increasing to over 50% between 2020 and 2021. The company`s mid-to-high-end products accounted for 39% of the total revenue in FY2017, and increase to 43% in 2018. Heineken China recorded a total after-tax loss of RMB66.8 million in 2017. This was mainly due to the increase in marketing expenses as lacks the channels to digest or effectively reach the end market. With the cooperation of CRB, we believe this can be improved.

Pharmaceuticals, Energy & Environment (Leon Duan)

I released two reports on SinoPharm Accord (000028.SZ), BJ Ent Water (371.HK), CWA (855.HK), CEB Water (1857.HK). We highly recommend BJ Ent Water. For the six months ended 30 June 2019, the company`s revenue was HKD 12.829 billion (corresponding period in 2018: HKD 10.009 billion), representing an increase of 28.18%. The gross profit was HKD 4.771 billion (corresponding period in 2018: HKD 3.834 billion), representing an increase of 24.49%. The GP margin was 37.10%, decreasing by 1.1 ppt compared with 1H2018, which is mainly due to the change of revenue portfolios. Profit attributable to equity holders of the company was HKD 2.77 billion (corresponding period in 2018: HKD 2.366 billion), representing an increase of 17.06%. Basic and diluted earnings per share were HK28.68 cents and 28.25 cents respectively. The interim dividend of HK10.7 cents per ordinary share for the six months ended 30 June 2019 (six months ended 30 June 2018: HK9.5 cents per ordinary share), showing an increase of 12.63%, the payout ratio is 37%, same as 1H2018. The company`s performance of core business is basically consistent with our forecast, related performance increase in total revenue was mainly contributed from the increase of water treatment services

and construction services for the water environmental renovation. Total daily design capacity for new projects secured for the period was 1,355,925 ton, the net increase in total daily design capacity of the period was 936,925 tons, less than the company's guidance of 4 million tons additional for the full 2019. But the company maintain the above new capacity target, believing there will be more opportunities of M&A in 2H2019.

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
2/9/2019	600009.CH	SIA	ZJ	Accumulate	84.56	93	9.98%	79.78	-5.65%	84.05	-5.08%
16/9/2019	753.HK	AC	ZJ	Buy	7.41	8.9	20.11%	6.9	-6.88%	6.79	1.62%
23/9/2019	1055.HK	CSA	ZJ	Buy	4.85	6	23.71%	4.75	-2.06%	4.41	7.71%
30/9/2019	670.HK	CEA	ZJ	Accumulate	3.76	4.4	17.02%	3.81	1.33%	3.69	3.25%
2019/9/12	777.HK	Net Dragon	TE	Buy	18.82	29.75	58.08%	18.24	-3.08%	20.10	-9.25%
2019/9/19	1686.HK	Sunvision	TE	Accumulate	5.95	6.46	8.57%	5.86	-1.51%	5.29	10.78%
2019/9/27	696.HK	Travelsky Technology	TE	Buy	15.90	23.40	47.17%	16.28	2.39%	15.74	3.43%
2019/10/3	354.HK	Chinasoft	TE	Buy	3.46	5.01	44.80%	3.46	0.00%	3.26	6.13%
11/9/2019	291HK	China Resources Beer	TK	Neutral	42.4	42.7	0.70%	41.55	-2.70%	44.55	-6.70%
23/9/2019	1717HK	Ausnutria	TK	Buy	11	15.7	42.70%	10.24	-6.90%	11.12	-7.90%
2019/9/3	000028.SZ	SinoPharm Accord	LD	Accumulate	47.56	54.12	13.79%	43.49	-8.56%	47.56	-8.56%
10/9/2019	371.HK	BJ Ent Water	LD	Buy	4.26	5.83	36.85%	4.01	-5.87%	4.12	-2.67%
17/9/2019	855.HK	CWA	LD	Buy	6.27	10.33	64.75%	6.09	-2.87%	6.32	-3.64%
24/9/2019	1857.HK	CEB Water	LD	Buy	1.76	2.64	50.00%	1.75	-0.57%	1.79	-2.23%

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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