

Report Review of December 2019

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air, Automobiles (Zhang Jing)
Pharmaceuticals, Technology, Environment (Leon Duan)

Automobile & Air (Zhang Jing)

This month I released 4 updated reports of Novinfo (002405.CH) · HASCO (600741.CH) · Weichai (2338.HK) and Tuopu Group(601689.CH), which got success by their unique Competitive edge. Among them, we recommend Tuopu Group first. The construction of Tesla's Shanghai plant was faster than expected. The trial production began in October and nearly 20,000 vehicles will be produced by the end of the year. As capacity climbs, production will reach 150,000 in 2020 and is expected to exceed 250,000 in 2021. Tuopu supplies Tesla with more than RMB5,000 for each vehicle, and it is estimated that the Model 3 vehicles will bring the company a net profit increment of RMB93 million and RMB180 million in the next two years, respectively, accounting for about 12% and 24% of the company's net profit in 2018. In the field of automotive electronics EVP and IBS, the company's visionary layout brings it a leading position among domestic manufacturers. Tuopu is expected to break through the technological monopoly of foreign giants and realize domestic substitution in the future.

Pharmaceuticals, Technology & Environment (Leon Duan)

I released four reports on CWA(855.HK), Canvest Env(1381.HK), CN Energy Eng(3996.HK) and SH Pharma(2607.HK). We highly recommend CWA. For the six months ended 30 September 2019, the company recorded a revenue of HKD 4,355 million, representing a steady increase of 5.14% YoY. Gross profit was HKD 1,862 million, representing an increase of 2.31% YoY. Gross profit margin was 42.76%, representing a decrease of 1.19 pts. Profit attributable to owners of the company was HKD 881million, representing a significant increase of 36.4% YoY. The interim dividend of the company was HK 14 cents per share, representing a steady increase of 16.7% YoY. It was mainly attributable to the successful strategy of the company through procurement of more construction and connection work, increase in operating efficiency and tariff of the water supply and sewage treatment plants and various mergers and acquisition. The core business of the company maintained stable development. The revenue from water supply business was 3.59 billion HKD, which increased by 17.4% year-on-year excluding the impact of fluctuations in RMB. The CAGR of the company's water supply business in the past 6 years has reached 20% to 30%. Rising prices and volumes brought stable growth to the company. As of September 2019, the company's comprehensive daily capacity was 14.81 million tons/day, of which the existing capacity was 8.92 million tons/day, 2.08 million tons/day under construction and 3.81 million tons/day planned. The increasing water supply capacity from M&A is 130,000 tons/day, and the organic growth water supply capacity is 165,000 tons/day. After the period, the newly acquired water supply capacity was 231,000 tons/day, and there will be multiple expansion projects. Regarding the increase in water price, the price of tap water in Jingzhou, Jiangling and Anxiang has been significantly increased, and the treatment price of four sewage treatment projects including Wannian and Fenyi have also been increased. The number of water supply units increased by 700,000, exceeding 5.4 million in total. In addition, the company cashed out

240 million HKD by disposing of non-core assets to further strengthen the development of its main business. It is expected that the disposable non-core assets will exceed 500 million HKD in the near future.

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
2/12/2019	002405 CH	Navinfo	ZJ	Buy	16.09	20.00	24.30%	16.10	0.06%	16.13	-0.19%
9/12/2019	600741 CH	HASCO	ZJ	Neutral	25.04	26.00	3.83%	25.99	3.79%	25.92	0.27%
16/12/2019	2338 HK	Weichai	ZJ	Accumulate	14.52	16.30	12.26%	16.44	13.22%	13.38	22.87%
17/12/2019	601689 CH	Tuopu	ZJ	Accumulate	17.44	19.00	8.94%	17.43	-0.06%	14.01	24.41%
3/12/2019	855.HK	CWA	LD	Buy	6.01	8.98	49.42%	5.83	-3.00%	6.01	-3.00%
10/12/2019	1381.HK	Canvest Env	LD	Buy	3.33	5.07	52.25%	3.60	8.11%	3.35	7.46%
17/12/2019	3996.HK	CN Energy Eng	LD	Accumulate	0.89	1.05	17.98%	0.94	5.62%	0.86	9.30%
31/12/2019	2607.HK	SH Pharma	LD	Accumulate	15.16	18.06	19.13%	15.16	0.00%	14.04	7.98%

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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