

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air & Automobiles (Zhang Jing),
Environment (Leon Duan)

Automobile & Air (ZhangJing)

This month I released 4 updated reports of Minth (425.HK), GAC (2238.HK), Sanhua (002050.CH), and Jonjee (600872.CH), which got success by their unique Competitive edge. Among them, we highly recommend Jonjee (600872.CH).

Jonjee Hi-Tech reported revenues of RMB4675 million in 2019, an increase of 12.20% yoy; a net profit attributable to the shareholders of the listed company of RMB718 million, an increase of 18.19% yoy, and an EPS of RMB0.9 compared with an EPS of RMB0.76 last year. The result was basically in line with our expectations at the beginning of last year. The result of company's condiment sector maintained a fast growth, the annual revenue of Meiweixian in 2019 was RMB4468 million, up by 15.98% yoy, an 6% increase in growth rate compared with last year; the company reported a net profit of RMB796 million, up 27.6% yoy.

The Company mentioned the 5-Year Goal of Double Hundred, which was to reach 1 million tons of output and RMB10 billion in revenue by 2023. In order to achieve this objective, the Company has not only steadily promoted the second-phase expansion project of the Yangxi Plant, but also planned to invest RMB1275 million to upgrade and expand the Zhongshan Plant to increase the production capacity from the current 314,300 tons to 584,200 tons. It is estimated that the project will bring in a revenue increase of RMB1575 million and net profit of RMB355 million. On the other hand, channel sinking and employee incentives will be enhanced. The development rate of prefecture-level cities will be increased to 87.83%, and the development rate at district and county level will reach 46.23%. We-Media and online advertising will continue to be strengthened.

After Baoneng taking over the company, the improvement of the incentive mechanism and management efficiency will lay a foundation for the Company's long-term development. The narrowing of the gap with the first-tier companies is also expected to open up space for the company's growth.

Environment (Leon Duan)

I released update reports on CEB WATER (1857.HK). In 2019, the company recorded revenue of HKD 5.55 billion, a year-on-year increase of 16%, an increase of 2.4 percentage points from the first three quarters of 2019. The increase in revenue was mainly due to an increase of HKD 300 million in construction revenue, an increase of HKD 300 million in operating income, an increase of HKD 76 million in financial revenue, and an increase of HKD 99 million in technical services revenue, representing year-on-year growth of 11%, 25%, 10% and 98%. The above-mentioned increase in revenue was mainly due to the increase in new projects, the operation of some new projects and the increase in water prices of some projects. The company's gross profit was HKD 1.89 billion, a year-on-year increase of 17%, which was 2.1 percentage points lower than the growth rate of gross profit in the first three quarters of 2019. The gross profit margin was maintained at 34% because the revenue share of construction business (about 24% gross profit margin) and operating services (about 47% gross profit margin) was similar to the previous year. Among them, construction revenue, construction contract revenue and technical service revenue totaled approximately 58%.

Profit attributable to equity holders of the company was HKD 830 million, an increase of 23% year-on-year, and an increase of 5.9 percentage points from the first three quarters of 2019. The company's various operating indicators exceeded our expectations, reflecting the company's good project growth and cost management capabilities.

We believe that the impact of the new pneumonia epidemic on the company is relatively limited. Although the shutdown of some industrial enterprises has affected the wastewater treatment capacity of the company's industrial park, a slight increase in municipal domestic sewage offsets this impact, and the industrial wastewater treatment capacity is expected to gradually recover in the near future, and I believe that it will soon return to normal levels. In terms of construction projects, the company's resumption of work after the holiday this year has been delayed compared to previous years, but it has gradually resumed work. I believe the government's encouragement of resumption of production will gradually ease the shutdown happening. In addition, the company's liability ratio increased slightly in 2019, an increase of 2.1 percentage points from last year to 57.9%. However, the return on shareholders' equity also increased by 1.4 percentage points to 9.9%, reflecting the improvement of the company's profitability. The dividend payout ratio increased slightly by 2 percentage points to 25%. The company's management believes that there is still room for improvement in the future dividend payout ratio. In addition, the company expects capital expenditure of approximately HKD 3 billion in 2020, which will maintain approximately the same growth rate as in 2019.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommen dation Date	Target Price	Expecte d Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
20200304	425 HK	Minth	ZJ	Buy	27.75	33.32	20.07%	17.32	-37.59%	27.4	-36.79%
20200305	1857 HK	CEB WATER	LD	Buy	1.7	2.5	47.06%	1.28	-24.71%	1.68	-23.81%
20200311	2238 HK	GAC	ZJ	Accumulate	8.66	9.5	9.70%	7.66	-11.55%	8.69	-11.85%
20200318	002050 CH	Sanhua	ZJ	Accumulate	18.84	22.4	18.90%	16.28	-13.59%	19.88	-18.11%
20200325	600872 CH	Jonjee	ZJ	Accumulate	41.5	45	8.43%	45.12	8.72%	37.8	19.37%

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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