

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air & Automobiles (Zhang Jing),

Automobile & Air (ZhangJing)

This month I released 3 updated reports of BYD (1211.HK), Weifu (000581.CH), and Spring Airlines (601021.CH), which got success by their unique Competitive edge. Among them, we highly recommend Spring Airlines.

Spring Airlines, the leader of the low-cost airlines in China, is the first private low-cost airlines in China. No matter in terms of the size of the fleet and the number of routes, or of the passenger traffic, Spring Airlines is far ahead in the domestic low-cost airline market. The unit operating cost of the company is 32%-37% lower than that of the other three major airlines. With a significant cost advantage, the company is able to launch products at lower prices. The company provided tickets with prices 30-45% lower than that of full-service airlines. Such advantage in cost effectiveness attracts numerous self-paying passengers who are more sensitive to prices as well as business travellers pursuing high cost effectiveness, Maximizing the use of existing assets has recorded efficient production operations. The company's yield and P L/ F are much higher than that of other domestic airlines, which reflects its excellent capabilities for operations. China's low-cost airlines started developing late and are still in the early stages of development, with a low penetration rate. The company has vast development space, and has the first-mover advantages and a "barrier", which help it to fully enjoy the industry dividend. We believe that short-term impact caused by the epidemic does not change the long-term investment value of the company. As for valuation, we expected diluted EPS of the Company to RMB 0.42/2.56 of 2020/2021. And we accordingly gave the target price to RMB47, respectively 2.8/2.3x P/B for 2020/2021. "Buy" rating.

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
20200511	1211 HK	BYD	ZJ	Accumulate	47.5	53	11.58%	43.5	-8.42%	48.8	-10.86%
20200518	000581 CH	Weifu	ZJ	Accumulate	21.2	25	17.92%	19.67	-7.22%	20.2	-2.62%
20200525	601021 CH	Spring Air	ZJ	Buy	33.3	47	41.14%	35.85	7.66%	37.15	-3.50%

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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