

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air & Automobiles (Zhang Jing)

TMT & Education (Kevin Chiu)

Consumer & Property Management (Research Department)

Automobile & Air (Zhang Jing)

This month I released 4 updated reports of Tuopu Group (601689.CH), SAIC (600104.CH), Great Wall Motor (2333.HK) and Weichai (2338.HK), which got success by their unique Competitive edge. Among them, we highly recommend Weichai (2338.HK).

In H1 of 2020, there was a V-shaped curve of China's heavy truck market: In January, the sales volume hit a record high with a growth of 18.2% yoy, which was a good start. In February and March, due to the impact of the COVID-19 pandemic, it plunged by 51.8% and 19.3%, respectively. In April, the sales volume showed a rapid recovery, setting a new record by reaching 191,000 units, up 61% yoy. In May, nearly 180,000 (179,000) heavy trucks were sold, up 66% yoy. In June, the heavy truck market continued to show a strong momentum of production and sales. Although the monthly sales volume declined slightly by 8% mom, it continued to grow by 59% yoy, reaching 165,000 units. In H1 of 2020, the total number of heavy truck reached about 816,200, up 24% yoy, which proves that the high prosperity of heavy truck industry continues.

Facing the grim economic situation after the pandemic, the government authorities have strengthened the countercyclical adjustment policies. The Ministry of Finance has expanded the issuance scale of local government special bonds, and multiple provinces and municipalities have introduced an intensive range of investment plans. According to the financing arrangements for government bonds of this year and the requirement of the executive meeting of the State Council on June 17 to "strengthen monetary and financial policies to support the real economy", it is expected that the growth rate of social financing will have further upward space in H2. Infrastructure investment growth is expected to pick up, and will boost the development of engineering heavy truck later.

From the perspective of the current heavy truck industry structure, Sinotruk Group, Shaanxi Heavy Duty, like other leading enterprises continue to expand their market share, the two accounting for 28% on aggregate in H1, which is conducive to the steady growth of heavy truck engine business of Weichai. From the middle term, the company has a clear strategic framework of "power engine+hydraulics+new energy" and the access to both the foreign and domestic market. Its profitability is expected to rise further.

TMT & Education (Kevin Chiu)

This month, I have released 2 initiation reports, CMGE (302.HK) and Maoyan Entertainment (1896.HK). Between them, we highly recommend CMGE (302.HK).

The potential growth of a mobile game company often depends on the company IP reserve and quality. According to Analysys, among all Chinese mobile game publisher, GMGE has the second largest IP reserve (99 IPs), just behind the market leader Tencent. Among all Chinese independent mobile game publishers, CMGE has the largest IP reserves. As at 31 December 2019, the Group had a vast IP reserve comprising 31 licensed IPs and 68 proprietary IPs. Among these IPs, majority of them are popular animations (ie Naruto and One Piece). These kind of IPs have a

huge fan base of the younger generation. Besides that, CMGE has already established a long term partnership with major IP owners across the world (ie SNK and Toei Animation). Therefore, it is likely that the IP reserve of the company will continue to grow in the future.

In 2018, the company has acquired Wenmai Hudong and Beijing Softstar, which has provided the company ability to develop games internally. The revenue from game development has increased by 137% and reached RMB 421 million in 2019. It is expected that the company will launch a total of 9 internally developed games in 2020, including the highly anticipated "Thunder Empire 2". Hence, we expect that the company's revenue from game development and the proportion of it to total revenue will increase in 2020. We also believe that through its continuous improvement of internal R&D capabilities, the company can increase its profit margin and obtain more high-quality IPs in the future.

Since 2018, ByteDance has entered the online game industry. Although ByteDance has abundant resources, nonetheless, it has entered the online game industry later than the other game giants (such as Tencent and Netease). As a result, the relatively bigger and more popular IPs has been already locked by these game giants. We believe that if ByteDance intends to continue its adventure in the online game sector, it will inevitably have to confront with these game giants in the future. Hence, the chance of ByteDance to cooperate with these game giants is very low. Rather, ByteDance would have to search for cooperation opportunities with the second tier game companies and would have to provide a very attractive offer to attract these companies. We think that what ByteDance is lacking the most right now is the resources of IPs. On the other hand, CMGE is known for its large and popular IP reserve. Further, CMGE has worked with ByteDance in the past and have achieved very impressive results together. As a consequence, we believe that CMGE is one of the obvious working partner choice for ByteDance and CMGE is likely to grow rapidly from the corporation by benefiting from the resources provided by ByteDance.

Consumer & Property Management (Research Department)

This month we have published two other research reports, Bosideng (3998.HK) and Aoyuan Healthy (3662.HK), and we highly recommend Aoyuan Healthy.

The company's revenue has increased year-on-year in the past five years, with a compound annual growth rate of 49.7%, from 180 million yuan in 2015 to 900 million yuan in 2019. In 2015, the distribution of property management services and business operation services accounted for 83.2% and 16.8% of total revenue, respectively. As the company began to provide market positioning and merchant solicitation services in 2017, the commercial operational services segment improved and accounted for 27.1% of the company's revenue. The income of property management services has also increased at a compound annual growth rate of 44.2% in the past five years. Among them, sales assistance services and community value-added services have increased significantly, with compound annual growth rates of 67.6% and 60.4% in the past five years.

On April 22 this year, the company announced the acquisition of an 80% stake in EASY LIFE SMART COMMUNITY SERVICES GROUP CO., LTD for CNY 240 million. The company also announced on May 11 that it had acquired a property management company in Ningbo for RMB 37 million. The two projects will bring a total of 25 million square meters of GFA under management to the company. It is expected that the company will reach its original two-year target of 45 million square meters, an increase of 200% over the same period last year. The company's two acquisitions in the past six months have effectively expanded the company's residential management services. If the company can effectively improve management, gross profit will be further improved in the future.

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 |
|----------|-----------|------------|---------|------------|------------------------------|--------------|-----------------|--------------------------|-------------------|----------------------|--------------|
| 20200707 | 601689 CH | Tuopu | ZJ | Accumulate | 28.3 | 30 | 6.01% | 34.01 | 20.18% | 27.9 | 21.90% |
| 20200714 | 600104 CH | SAIC | ZJ | Buy | 18.93 | 23 | 21.50% | 18.18 | -3.96% | 16.99 | 7.00% |
| 20200721 | 2333 HK | GWM | ZJ | Accumulate | 6.73 | 7.6 | 12.93% | 7.57 | 12.48% | 4.84 | 56.40% |
| 20200728 | 2338 HK | Weichai | ZJ | Accumulate | 16.9 | 20 | 18.34% | 16.72 | -1.07% | 14.319 | 16.77% |
| 20200708 | 302 HK | CMGE | KC | Buy | 3.49 | 4.45 | 27.51% | 3.32 | -4.87% | 3.57 | -7.00% |
| 20200723 | 1896 HK | Maoyan | KC | Accumulate | 14.32 | 16.6 | 15.92% | 12.94 | -9.64% | 11.82 | 9.48% |
| 20200720 | 3998 HK | Bosideng | PSR | Buy | 2.26 | 2.89 | 27.88% | 2.24 | -0.88% | 2.4 | -6.67% |
| 20200731 | 3662 HK | Aoyuen Hei | PSR | Accumulate | 8.29 | 9.6 | 15.80% | 8.15 | -1.69% | 7.93 | 2.77% |

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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