

Report Review of August. 2020

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air & Automobiles (Zhang Jing),

TMT & Education (Kevin Chiu)

Consumer & Property Management (Timothy Chong)

Automobile & Air (ZhangJing)

This month I released 4 updated reports of FLAT (6865.HK), BYD (1211.HK), CATL (300750.CH) and Fuyao Glass (3606.HK), which got success by their unique Competitive edge. Among them, we highly recommend CATL (300750.CH).

CATL began to supply domestic Tesla from July, and as the domestic pandemic was first brought under control, industry supply and demand will gradually be improved. In November last year, BMW announced an additional order of EUR7.3 billion for the Company. In August this year, Mercedes-Benz announced that it will deepen its cooperation with the Company. CATL will become the head supplier of Mercedes-Benz's passenger vehicles. At present, CATL has the most extensive customer base among the peers, and the investment and construction of overseas factories will further open up overseas markets. With the successive launching of supporting models, the Company will gradually enter the order fulfilment period in the next few years.

In July, the Company completed RMB19.7 billion of private placement, which was mainly used for the expansion of the Huxi Base Project (RMB4 billion), the Phase III of Jiangsu Times Power and Energy Storage Project (RMB5.5 billion), Phase I of Sichuan Base Project (RMB3 billion), R&D projects of electrochemical energy storage frontier technology reserves (RMB2 billion) and supplementary working capital (RMB5.2 billion). At present, the Company's battery production capacity is about 53GWh, and the capacity under construction is 22GWh. It is estimated that the Company's total production capacity will exceed 200GWh in 2023, and its leading position will be further consolidated. In August, the Company issued an announcement stating that it intends to invest in high-quality listed companies in the upstream and downstream industry chain at home and abroad by means of securities investment, with an amount not exceeding RMB19.067 billion. We expect this will further strengthen the Company's collaboration with core equipment vendors, material vendors, and upstream and downstream core companies, ensure the supply of key resources, reduce costs, provide more opportunities for growth, and enhance the Company's global competitiveness.

TMT & Education (Kevin Chiu)

This month, I have released 2 initiation reports, China Kepei (1890.HK) and XD Inc. (2400.HK). Between them, we highly recommend China Kepei (1890.HK).

China Kepei's Self-built Schools are located in Guangdong Province and the Guangdong's higher education market has obvious advantages. According to the Guangdong Provincial Bureau of Statistics, Guangdong Province has become China's most populous province in 2019, accounting for 8.23% of China's total population. At the end of 2019, the permanent population of Guangdong was 115 million, a year-on-year increase of 1.75 million, of which the natural growth population was 923,800, and the net inflow population from other places was 826,200. This huge population growth also means that the people of Guangdong Province demand higher education resources. On the other hand, the gross enrollment rate of higher education in Guangdong Province is currently lower than the average of all provinces in China. According to the Guangdong Academy of Education, the gross enrollment rate of higher education in Guangdong Province in 2019 was only 46%, while the average

gross enrollment rate of higher education in China in 2019 was about 52%. Given the increasing demand for higher education in Guangdong Province, this gross enrollment rate gap reflects the current shortage of higher education market in Guangdong Province.

Out of the market's recognition of the quality of education provided by the company and the outstanding results of students, the company has won many awards since its establishment. On the other hand, the initial employment rate of the Guangdong Polytechnic College is among the best in Guangdong Province. According to the Guangdong Provincial Department of Education, the average initial employment rate for undergraduate degree graduate in Guangdong Province in 2018 and 2019 was 93.8% and 93.4%, respectively. In the 2017/2018 academic year and the 2018/2019 academic year, Guangdong Polytechnic College had 1,023 and 3,196 undergraduate degree graduates. The initial employment rates were 96.8% and 97.8%, respectively, which were 3.0 ppt and 4.4 ppt higher than the average of Guangdong Province. It highlights the broad market recognition of the undergraduates of the company's colleges.

The company acquired 100% of Harbin Institute of Petroleum in January 2020. The school has a total of 31 undergraduate courses. There are 9,366 undergraduate students in the 2019/2020 academic year, an increase of 5% year-on-year. The school's education quality is high. In 2019, the registration rate and employment rate were 97.1% and 96.2%, ranking first and second among private colleges in Heilongjiang Province. Harbin Institute of Petroleum's 2019 net profit is approximately RMB 68 million, up by 88% yoy. The school's current net profit margin is at a low level comparing to the company's self-built schools, about 44%, and it is expected to be further improved through collaboration with Guangdong Polytechnic College. At present, the company has completed the school takeover, and the net profit of the school can be consolidated. But the assets of Harbin Institute of Petroleum can only be consolidated after the change of the organizer is completed (It is expected to be completed by the end of the year). We believe that the Harbin Institute of Petroleum is definitely a quality asset, and it is expected to create synergy effect with other colleges under the company. Looking forward, we believe the company will continue to acquire high quality schools in the future in order to achieve a high growth.

Consumer & Property Management (Timothy Chong)

I have released one update a report covering Aoyuan Healthy (3662.HK) and an initiation report covering Topsports INTL(6110.HK) this month. Between them, we highly recommend Aoyuan Healthy(3662.HK).

Aoyuan Health Life's revenue grew rapidly in 1H20. It recorded approximately RMB 547 million, an increase of 39.5% from approximately RMB 392 million in the same period last year, of which approximately 75.4% came from revenue from the property management service segment, an increase of 43.4% YoY, and another 24.6% of revenue came from the business management services segment, an increase of 28.8% YoY. The company's current total construction area under management is approximately 16.1 million square meters, an increase of approximately 1 million square meters from the end of last year. In addition to the two acquisitions in the first half of the year, EASY LIFE SMART COMMUNITY SERVICES GROUP CO. (樂生活) and Ningbo Hongjian, the GFA under management is expected to reach 45 million square meters. The data for the 1H shows the company's revenue before consolidation which new acquisitions are not included. Revenue growth reflects the continued good rate of company's organic growth. The company's performance in the first half of the year was in line with our expectations. In the past six months, the company's two acquisitions have effectively expanded the company's residential management services. After Easy Life's consolidation, the company's revenue will rise.

The company's GPM in 1H further improved compared with the same period last year, and the overall GPM reached 40.1%, an increase of 0.5 percentage points from 39.6% in the same period last year. In terms of segments, the property management service segment and the commercial management property segment accounted for 75.4% and 24.6% of revenue, respectively. Compared with the same period last year, the revenue share of the property management segment increased. Look more detail to the business segment, the GPM of the property management segment improved significantly compared with last year, reaching 39.7%, mainly due to the significant increase in revenue from Major owners value-added services (formerly known as sales assistance services), which increased by approximately 55.27%, accounting for approximately 22.1% of the company's total revenue in 1H. The GPM of this business is higher in the residential property management sector. But on the other hand, the company's commercial management services segment's GPM has declined, from 46.1% in the same period last year, down 4.6% to 41.5%, mainly due to the decrease in revenue from Market positioning and business tenant sourcing services.

In the commercial operation segment, the growth rate slowed down in 1H, with an overall increase of approximately 28.8%. The revenue from commercial operations and management services increased by 44.6% compared with last year, while the revenue from Market positioning and business tenant sourcing services decreased by approximately 12.1%. The epidemic has delayed malls that were originally scheduled to open in the 1H to the end of the year. The company expects that six new malls will open in the 2H. Nearly 80% of the company's malls have resumed, and some of them have returned to pre-epidemic levels.

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
20200811	6865 HK	FLAT	ZJ	Accumulate	12.84	15.00	16.82%	11.78	-8.26%	12.08	-2.48%
20200819	1211 HK	BYD	ZJ	Accumulate	72.15	79.00	9.49%	77.00	6.72%	74.05	3.98%
20200825	300750	CHCATL	ZJ	Accumulate	192.23	226.00	17.57%	206.35	7.35%	212.17	-2.74%
20200901	3606 HK	Fuyao	ZJ	Accumulate	25.20	29.00	15.08%	24.95	-0.99%	21.65	15.24%
20200806	1890 HK	China Kepei	KC	Accumulate	6.25	7.20	15.20%	6.85	9.60%	5.95	15.13%
20200820	2400 HK	XD Inc.	KC	Neutral	40.35	41.20	2.11%	42.75	5.95%	41.40	3.26%
20200814	6110 HK	Topsports INTL	TC	Accumulate	10.06	11.61	15.41%	9.59	-4.67%	9.32	2.90%
20200828	3662 HK	Aoyuan Healthy	TC	Buy	7.03	9.60	36.56%	7.21	2.56%	8.15	-11.53%

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2020 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
Number 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Heng Feng Road,
Green Tech Tower Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 60911155
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005

AUSTRALIA

PhillipCapital Australia
Level 10, 330 Collins Street
Melbourne VIC 3000
Tel (+61) 3 8633 9803
Fax (+61) 3 8633 9899
Website: www.phillipcapital.com.au