

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 Fuyao (3606.HK), JOYSON (600699.CH), Great Wall Motor (2333.HK) and Sanhua (002050.CH), which got success by their unique Competitive edge. Among them, we highly recommend JOYSON (600699.CH).

In H1 of 2020, Joyson recorded revenue of RMB20.53 billion, down by 33.4% yoy. Profit attributable to shareholders changed from a profit of RMB514 million in the same period last year to a loss of RMB539 million. Net loss attributable to the parent company excluding non-recurring items was RMB55 million, compared with a profit of RMB572 million in the same period last year.

Joyson has operations all over the world. Since the end of January, factories in Asia, Europe and North America have ceased production. At the same time, fixed expenses such as labour, depreciation and amortization are inevitable. The Company recognized the fixed expenses of labour, depreciation and amortization during the shutdown period as non-recurring losses of RMB668 million. In addition, the low operating rate also dragged down the Company's gross margin in H1, down by 3.1 pts to 14.2% yoy.

We expect that as the COVID-19 pandemic in various regions is gradually controlled and downstream customers resume work and production in an orderly manner, the Company's result will be significantly improved from Q3 of 2020. As the number of customer models continues to increase in the next few years, the Company's business related to new energy vehicle will benefit significantly, and the business scale and profitability will show a significant increase..

In H1 of 2020, the Company's new orders were RMB25.3 billion, of which Joyson Safety's global new vehicle customer orders were in good condition, including but not limited to Tesla, Honda, Volvo, Volkswagen and Toyota. Up to now, new orders were RMB16.4 billion, and the amount of orders in hand (the full life cycle of orders that have been received but not produced) reached RMB210.7 billion, and the business development trend is good. There were new orders of RMB4.7 billion for automotive electronics business, RMB3.5 billion for functional parts business, and RMB700 million for intelligent vehicle linkage business. Although the domestic car market will be affected by the epidemic, we are optimistic about the firm leading position of the Company and the broad development space for new businesses. By the way, the Company expressed its intention to list the above-mentioned automotive electronics businesses to support further development of new businesses.

TMT & Education (Kevin Chiu)

This month, I have released 4 update reports, Maoyan Entertainment (1896.HK), CMGE (302.HK), China Kepei (1890.HK) and XD Inc. (2400.HK). Among them, we highly recommend XD Inc. (2400.HK).

The 1H20 Revenue of XD Inc. was RMB 1.44 billion (+10.0% yoy). The revenue contributed by game operating business was RMB 1.19 billion (+8.1% yoy). Within the game operating business, the revenue of online game operating business was RMB 1.11 billion (+3.8% yoy). The rise was mainly attributed to the solid performance of Sausage Man (香腸派對) in 1H20. But the solid performance of Sausage Man (香腸派對) was partly offset by decreases of revenue from games under maturity stage, such as Ragnarok M (仙境傳說). In addition, the revenue contributed by premium game operation was RMB 50.5 million (+98.4% yoy), mainly attributed by the solid performance of new game Juicy Realm (惡果之地) and old game Muse Dash (喵斯快跑).

On the other hand, the company's revenue from information services in 1H20 was RMB 252 million (+19.9% yoy), and contributed 17.6% of the company's total revenue. The yoy increase was mainly attributed by the huge increase in MAUs of TapTap platform in 1H20. As affected by the quarantine, the MAUs of TapTap platform in 1H20 was 24.8 million (+51.9% yoy).

The MAUs of TapTap platform in 1H20 was 24.8 million (+51.9% yoy). The huge increase was mainly attributed by 1) the improving exclusive content on TapTap platform 2) the increasing time spent online by netizens during the quarantine 1H20. The company has launched many exclusive contents on TapTap in 1H20, including "Pasical's Wager" (帕斯卡契約), which is a Chinese game appeared at the Apple Conference. In July 2020, TapTap also exclusively released a free-to-play game "Canal Towns" (江南百景圖) on PRC Android platform. The game has more than 5 million downloads on the platform in the first month since launched. We believe "Canal Towns" (江南百景圖) will be served as a great Case study for TapTap platform and help attract more exclusive distribution rights of third party quality games for TapTap platform. With the increase of more high quality content on the platform, the MAUs and advertisement revenue of TapTap will also likely to rise. The number of downloads and TapTap posts in 1H20 also increased by 26.4%/143.0% yoy. The number of TapTap posts grew faster than the MAUs' growth, which indicates that the degree of user participation of users from TapTap has also increased in 1H20. In 2H20, it is expected that the user accounts of Sausage Man (香腸派對) will be connected with the TapTap accounts. The user accounts of Human Fall Flat (人類跌落夢境), a highly anticipated game planned to be issued in 2H20, will also be connected with the TapTap accounts. We strongly believe this will further increase the degree of user participations of TapTap Platform.

Consumer & Property Management (Timothy Chong)

I have released two initiation reports covering Anta Sports (2020.HK) and Xtep INTL(1368.HK) this month. Between them, we highly recommend Anta Sports (2020.HK). In the past 20 years, Anta's main brand business has been developed in the Chinese market under a wholesale distribution model. Under this model, distributors with a strong regional network and local resources can meet different local business cultures and consumer preferences in various regions, so that the Anta brand can achieve national coverage, thereby effectively promoting the Anta brand business. In recent years, market consumption habits have changed rapidly, and companies need to take a more proactive transformation and change to cope with the uncertainty of the external environment so as to achieve sustainable high-quality growth. In mid-2020, the company proposed to transform the business model of the Anta brand from a wholesale distribution model to a direct-to-consumer model (DTC), enabling the company to mobilize resources more flexibly in retail, channel, merchandise, finance, and human resources, and improve operational efficiency.

A consortium led by Anta Sports (2020) acquired Finnish sports brand Amer Sports at the end of 2018. The purchase price is 40 euros per share, which is a 39% premium to the closing price of Amer Sports shares on the Nasdaq Helsinki Stock Exchange, involving approximately 4.6 billion euros (about 40.86 billion Hong Kong dollars). The consortium's acquisition of all shares in Amer Group is the largest merger and acquisition in the history of China's apparel industry. At the end of 2017, Anta became the official sports product partner of the 2022 Beijing Winter Olympics. This means that the company needs to provide snow sports/ice sports equipment support to the national team for many years. It is expected that in 2022, Anta will receive large orders for outdoor sports products. In the field of outdoor sports, on the one hand, industry leaders such as Nike and adidas pay less attention. On the other hand, Anta has acquired Amer Sports by acquiring the opportunity of cooperation with the Winter Olympics to win an entire top brand management group, which can improve its own Product quality will help the company develop the outdoor sports market in the next few years in China.

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
20200901	3606 HK	Fuyao	ZJ	Accumulate	25.2	29	15.08%	27.2	7.94%	24.95	9.02%
20200911	600699 CH	Joyson	ZJ	Buy	22.08	28	26.81%	22.23	0.68%	22.96	-3.18%
20200921	2333 HK	GWM	ZJ	Accumulate	10.3	11.7	13.59%	9.43	-8.45%	8.41	12.13%
20200929	002050 CH	Sanhua	ZJ	Accumulate	21.75	24	10.34%	22.18	1.98%	22.49	-1.38%
20200908	1896 HK	Maoyan Ent	KC	Accumulate	15.22	16.86	10.78%	13	-14.59%	15.44	-15.80%
20200915	302 HK	CMGE	KC	Buy	3.26	4.7	44.17%	3.51	7.67%	3.49	0.57%
20200917	1890 HK	China Kepei	KC	Buy	6.16	7.67	24.51%	6.04	-1.95%	6.85	-11.82%
20200925	2400 HK	XD Inc	KC	Accumulate	39.85	43.25	8.53%	39.05	-2.01%	42.75	-8.65%
20200910	2020 HK	Anta Sports	TC	Buy	75.1	94.9	26.36%	78.6	4.66%	76.55	2.68%
20200923	1368 HK	Xtep Int'l	TC	Buy	2.33	2.92	25.32%	2.29	-1.72%	2.58	-11.24%

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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