

Report Review of October. 2020

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air & Automobiles (Zhang Jing),
TMT & Education (Kevin Chiu)
Consumer & Property Management (Timothy Chong)
Telecommunication & Technology hardware (Phillip Research)

Automobile & Air (ZhangJing)

This month I released 3 updated reports of SIA (600009.CH), Yongda (3669.HK) and Great Wall Motor (2333.HK), which got success by their unique Competitive edge. Among them, we highly recommend Great Wall Motor (2333.HK).

Great Wall Motors (GWM) issued the 2020 Third Quarterly Report. Its revenue amounted to RMB26,214 million, up by 23.64% yoy. The net profit attributable to the parent company reached RMB1,441 million, increasing by 2.93% yoy. Its exchange loss of RMB510 million was primarily attributable to the depreciation of the ruble. GWM's actual net profit would have been RMB1.95 billion with strong yoy growth of 39%, if the adverse factor was excluded. The Company's total sales in Q3 were 286,000 units, which climbed by 24% yoy, higher than the industry average.

The gross margin increased by 1.5 ppts QoQ and 0.5% yoy to 19%, because of the constantly optimized sales structure and further strengthened business indicators. The actual ASP in Q3 grew QoQ, less the adverse influence of lags by the financial statistical standard. A net outflow occurred regarding the operational cash flow, as affected by the epidemic in Q1. It is estimated that the figure will turn positive in Q4. 3-generation H6 and BIGDOG are accumulating strengths after launch; WEY TANK 300 and ORA Good Cat will be introduced in Q4. Their sales volume contributions are promising in the future.

More new models (approximately ten models) equipped with new technologies and new power are also planned to be launched in 2021, including fuel vehicles, hybrid power vehicles and EV models. The year 2021 will be the start year of new products-cycle for GWM. With the opening of the new model cycle, we expect that new platforms and new models will facilitate the Company to further enhance its competitiveness. With the constant increase of platform-based products, the Company will shorten the model development cycle and weaken the generalization of parts in the future to increase the product competitiveness. As a result, its profitability is expected to continue to increase.

TMT & Education (Kevin Chiu)

This month, I have released 2 initiation reports, namely Archosaur Games (9990.HK) and Friendtimes (6820.HK). Between them, I highly recommend Archosaur Games.

The company has strong game development capabilities, especially in MMORPG games. According to Frost and Sullivan, the company is the 5th largest Chinese mobile game developer in China in terms of total gross billings from self-developed games in mainland China in 2019, with market share of 1.6%. However, in terms of the total gross billings from self-developed MMORPGs in mainland China in 2019, the company actually ranks 3rd in the country, with market share of 5.6%. It is only slightly behind Netease's 11.7% market share and is higher than Tencent's market share of 4.0%. On the other hand, in terms of the total gross billings from self-developed MMORPGs on iOS App Store and Google Play in markets outside of mainland China from 2017 to 2019, the company ranks 3rd as well in the country,

with market share of 8.1%, just slightly behind Netease and Tencent. The company's hit game Dragon Raja (龍族幻想) also has the highest MAUs in China among all other MMORPG games in 2019. The above data and figures can clearly show that the company is one of the market leader in the MMORPG game sector.

The company has ample reserves of game projects, and currently there are 8 games in the development stage. Among them, 3 of them are SLG strategic games. The growth potential of SLG genre game market is huge. The company's business expansion to SLG game genre can potentially become a huge growth driven in the future and can also enrich the game categories of the company's game portfolio for new user expansion. We believe that MMORPG games are more difficult to develop than SLG games as well as there are many similarities between two game genres from the R&D perspective. Therefore, we expect that the company's professional R&D team to be competent in the development of SLG games.

Consumer & Property Management (Timothy Chong)

I have released two update reports covering Aoyuan Healthy (3662.HK) and Anta Sports(2020.HK) and one initiation report covering Times Neighbor (9928.HK) this month. Among them, we highly recommend Anta Sports (2020.HK).

The company announced its operating performance for the 3Q20 on October 15th. As the epidemic situation eases, the company's operating conditions continue to improve. With the exception of AMER, the sales of all brands have recorded positive growth compared with the same period in 2019, which is in line with our expectations. The Anta brand recorded a low single-digit positive growth YoY. The FILA brand recorded a positive growth of 20%-25% YoY. Other brands recorded a positive growth of 50%-55% YoY.

The overall turnover of the Anta brand recorded a positive single-digit growth. In terms of channels, the Anta brand's online sales growth has been impressive, with an increase of nearly 50% in Q3, and the growth rate has increased. In terms of discounts and inventory sale rate, affected by the epidemic and DTC transformation, the Anta brand discount rate increased by 2-3 ppt compared with the same period last year, and the discount rate was about 30% off. The inventory sale rate was unchanged MoM, approximately 6 times, and is expected to be controlled at approximately 5 times at the end of the year. FILA's online and offline are developing simultaneously. FILA's online sale growth rate reached 90%, and the overall growth in Q3 was 20%-25%. Among them, FILA Fusion grew significantly, recording double-digit growth compared YoY, and offline growth was about 50%. %, and the online gross billing amount of Kid's clothing also increased by about 30%. In terms of discount and inventory-sales ratio, FILA discount is about 80%, and inventory-sales ratio is about 8 times. Other brands recorded a 50%-55% increase in overall sales in Q3. Among them, the sales from the Descente increased by nearly 90% YoY, while Kolon Sport also recorded a YoY growth of 20%-25%. Winter products account for the majority of the product matrix of the two brands, and it is expected that the growth in Q4 will further increase.

The Q3 operating data reflects the company's operating capabilities and resilience as a leader in the industry, and the overall performance is in line with our previous forecast. The transformation of the DTC model of Anta's main brand is progressing smoothly. As of 3Q20, the company has collected nearly 800 stores and change it to direct operation. In the short term, the transformation will incur additional costs for the company, but in the long term, flat and direct sales channels will help the company better grasp the retail data and market conditions. After the integration is completed, it is expected to further accelerate the destocking. During the National Day and Mid-Autumn Festival this year, the company's entire brand recorded a growth of more than 40%, and its performance was better than that of the Labour Day Golden Week after the lockdown release, mainly because the overall consumption environment continued to pick up. At the same time, the cold winter

came earlier this year, and demand for seasonal changes drives consumption. It is expected that Q4 will further improve operating data.

Telecommunication & Technology hardware (Research Department)

China Tower is the world's largest telecommunications tower infrastructure service provider. According to the Frost & Sullivan Report (F&S Report), in and as of December 31, 2017, the Company ranked first among the global telecommunications tower infrastructure service providers in terms of number of sites, number of tenants and revenue. As of December 31, 2017, the Company's market share in China's telecommunications tower infrastructure market was 96.3% and 97.3% in terms of revenue. In other words, the Company is a monopoly of the industry leader to enjoy a unique advantage.

By the end of June 2020, the Company had 2.015 million tower sites and 3.124 million carrier tower tenants. The average number of tenants for tower stations is only 1.64. As the industry enjoys a very high renewal rate (primarily due to (i) the difficulties faced by customers in securing alternative sites (ii) the additional costs and expenses to be incurred for replacing the occupied sites, (iii) the potential impact on quality of network coverage during the relocation from the occupied sites.); as a results, companies can find more tenants over time, increasing sharing rates. Furthermore, the marginal cost of additional tenant to the firm is low, by increasing one additional tenant to the same site typically requires only a relatively simple retrofit of the site, which requires lower capital expenditure than building a new site, from a single tenant to a multi-tenants at a site increases the Company marginal profit, even after the co-location discounts; Therefore, Co-location by TSP could allow the Company to enhance profitability.

Fig 1. Performance of Recommended Stocks

Date	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
20201019	9990 HK	Archosaur Games	KC	Buy	24.00	33.60	40.00%	18.26	-23.92%	23.3	-21.63%
20201028	6820 HK	Friendtimes	KC	Buy	2.39	3.20	33.89%	2.30	-3.77%	2.54	-9.45%
20201014	600009 CHSIA		ZJ	Accumulate	69.42	81	16.68%	66.1	-4.78%	68.78	-3.90%
20201022	3669 HK	Yongda	ZJ	Buy	9.97	12.5	25.38%	10.96	9.93%	9.17	19.52%
20201030	2333 HK	GWM	ZJ	Accumulate	12.9	15.2	17.83%	12.54	-2.79%	9.83	27.57%
20201015	788 HK	China Tower	PSR	Accumulate	1.39	1.54	10.79%	1.21	-12.95%	1.34	-9.70%
20201007	9928 HK	TIMES NEIGHBOR	TC	Buy	10.02	14.25	42.22%	7.85	-21.66%	10.24	-23.34%
20201012	3662 HK	AOYUAN HEALTHY	TC	Buy	6.21	10.72	72.62%	5.16	-16.91%	6.24	-17.31%
20201023	2020HK	ANTASPORTS	TC	Accumulate	88.90	94.90	6.75%	85.3	-4.05%	80.1	6.49%

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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