

Report Review of December. 2020

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

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

Automobile & Air (ZhangJing)

This month I released 3 updated reports of BYD (1211.HK), GWM (2333.HK) and Geely (175.HK), which got success by their unique Competitive edge.

BYD has completed the introduction of strategic investment in the semiconductor business and the accelerated expansion of external supply customers for blade batteries. The spin-off listing of other sectors such as cloud rail, new energy commercial vehicles and photovoltaics may be successively achieved in the future. The improvement in operational efficiency and value reshaping brought about by the spin-off will push up the Company's current potential value. It is worth noted that the Company announced the manufacturing of the customized D1 model in cooperation with DiDi. If the product strength is recognized, the sales volume of the 2B end is expected to achieve a breakthrough, while opening up the Company's imagination of future in-depth participation in the field of shared travel. we given the target price of 241 HK\$ according to STOP valuation.

Great Wall Motors continued the rapid sales growth in November, which was stronger than market expectations. At the end of November and early December, the Company began to accept orders of the WEY Tank 300 officially. The order exceeded 10,000 vehicles in two weeks. The WEY Tank 300 is the first model of the Company's new modular vehicle platform "Tank". After the launch of several new models, we look forward to a boost in sales volume of the WEY brand in 2021.

Geely Xingrui, a new model that has attracted the attention of the market, recorded a sales volume of 7,017 units in the first month of its launch. As the first sedan model based on the new CMA platform, Geely Xingrui is the first representative of Geely to start the 4.0 era of brand upgrade. It is very competitive compared with competitive products in terms of technology configuration, space size and power system. We expect Geely Xingrui to become the Company's other main model. The follow-up sales volume is worth anticipating. In addition to the Lynk & Co Zero Concept, Geely Auto will launch at least five new models in the first half of 2021, including several new energy models. We believe that the successive launch of the new architecture models on the market will help change the current situation of tepid sales volume of the Company's new energy vehicles. The year 2021 will be the first year for Geely's technological transformation and the development of smart electric vehicles.

TMT & Education (Kevin Chiu)

This month, I have published 2 update reports, NetEase-S (9990.HK) and China Kepei (1890.HK), as well as an initiation report of Weimob Inc. (2013.HK). Among them, I highly recommend Weimob Inc. (2013.HK).

Weimob is a leading provider of SaaS services (e-commerce SaaS and offline store SaaS services) and targeted marketing services based on Tencent ecosystem for SMEs in China. We believe private traffic management is the main trend for merchants, hence social e-commerce SaaS providers have huge potential in the future. Take Tencent as an example. Tencent itself focuses more on WeChat payment and advertisement business, while its e-commerce SaaS services mainly choose to cooperate with third-party SaaS platforms. Therefore, the rapid

development of social e-commerce platforms has provided huge business opportunities for third-party SaaS platforms. The third-party e-commerce SaaS platforms help offline merchants to build their online stores on social platforms (such as WeChat) and provides services such as online commodity transactions, order management, online payment, and user management. We believe that for merchants who already have enough user traffic for repurchase, it is more appropriate to open an online store through a third-party SaaS platform for private traffic management. Effective private traffic management can increase customer repurchase rates and reduce customer acquisition cost.

We believe that for a SaaS service provider, it is especially important to have a strong sales channel. The sales channel connects the company's products with its customers, and a professional sales team can clearly understand customer needs, so as to ensure that the company's products can meet customer needs. Currently, the company mainly sells through two major channels, 1) its own direct sales team and 2) channel partners. When the company was founded, its sales were mainly relying on the channel partners. In recent years, the company has actively expanded the size of its direct sales team. According to the management of the company, the company currently has approximately 1,600 direct sales personnel. In recent year, the revenue proportion of the company's SaaS direct sales has increased, from 29% in 2016 to roughly 40% in 2019. It is expected that the direct sales revenue for the whole year of 2020 will reach 50%. We believe that the company's future increase in the proportion of direct sales revenue can reduce the channel partner share expense ratio of the SaaS business (reflected in the sales and sharing expenses), thereby increasing the profit margin of the SaaS business.

In terms of the company's targeted marketing business, we believe its future advertising cooperation with Bytedance can be another growth driver for the company. In recent years, Bytedance's advertising business has grown rapidly. According to Juheng.com, the scale of Bytedance's advertising has risen from RMB 6 billion in 2016 to RMB 155 billion in 2020 (according to industry sources). At present, the company has cooperated with Bytedance to place advertisements on Bytedance's platforms (such as TikTok, Toutiao News, etc.) for its advertisers. Since the users of the Bytedance platform are known for their youth. Hence, for some businesses (such as industries that with mainly young customers), placing advertisements on the Bytedance platform can enjoy a higher advertising conversion rate. According to the management, about 80% of the company's targeted marketing business's gross billing comes from Tencent, and 20% comes from ByteDance. The proportion of gross billing contributed by ByteDance is still at a low level and we believe it can be greatly increased in the future. We believe that Bytedance will become a major driving force of growth for the company's targeted marketing business in the future, and we look forward to tighter cooperation between the two parties in the future.

Consumer & Property Management (Timothy Chong)

In this month, I published a total of four research reports, two of which are the initiation coverage reports of Nissin Foods (1475.HK) and Li Ning (2331.HK), and the other two are Bosideng (3998.HK) and Times Neighborhood (9928.HK) update report. Among them, we highly recommend Nissin Foods (1475.HK).

The main business of Nissin Foods is the production and sale of instant noodles in Hong Kong and Mainland China. The company's products are mainly positioned in the segment of high-end instant noodle markets. The parent company Nissin Japan Group was established in 1948 by Mr. Momofuku Ando, with a market share of over 70% in the Japanese instant noodle market. Nissin Foods was incorporated in Hong Kong in 1984 and expanded its business to the Mainland in 1994.

Since 1994, he began to expand the huge market in Mainland China, and successively established Nissin in Guangdong, Nissin Shanghai, Nissin Fujian and Nissin Zhejiang

to manage its business in Mainland China. The company is also actively expanding its product matrix. In addition to self-developing new products, the company acquired the Hong Kong instant noodle brand "Fuku" in 2012. In the same year, "Cup Noodle" and mini cup noodles were launched under the brand "Cup Noodle" to meet the needs of different consumers. The company also acquired Winner Food from Nissin Japan in 2014. Winner Food mainly produces and sells instant noodles and frozen food products under the "Doll" brand. Listed on the main board of the Hong Kong Stock Exchange in 2017. During the period, the non-instant noodle business was expanded through research and development, acquisitions and joint ventures, such as MCMS, Kagome brand and Granola cereal products.

In terms of product portfolio, different from other domestic instant noodle manufacturers who mainly focus on low-end instant noodles and seize market share through low-price strategies, the company's brand's main high-end product positioning helps the company differentiate itself. It helps avoid direct competition with other domestic brands when expanding the mainland market and enter the red sea market.

Telecommunication & Technology hardware (Parker Chan)

I have released one initiation report covering Hua Hong Semi-Conductor (1347.HK) and one update report covering Razer(01337.HK) this month. Among them, I highly recommend Hua-Hong Semi(001347.HK).

The Chinese government are giving huge policy support to the semiconductor industry. The Chinese government has set the "14th Five-Year Plan" (2021-2025) for national development, for the first time clarifying the core position of "innovation" in modernization and emphasizing technology self-reliance and self-reliance are the strategic support for national development and point out the direction for development in the next 15 years. This means that the Chinese government will fully support the development of the semiconductor industry. In addition, the National Integrated Circuit Industry Investment Fund of Mainland China takes long-term investment, and has invested in many leading semiconductor companies including Hua Hong Semiconductor. Moreover, the launch of the Sci-Tech Innovation Board also strengthened the participation of social funds in semiconductor industry investment.

From the perspective of the market scale of power semiconductors in different industries, automotive electronics is the field with the highest growth in the semiconductor market. Hua Hong Semiconductor is a leader in the field of power semiconductors, and its performance has reached the international leading level. In addition to pursuing higher power density and lower loss required by high-voltage power devices, the Company is developing intelligent IGBT process technology with integrated sensors on chip and high-reliability new heat dissipation IGBT technology to better meet the explosive growth period of new energy vehicles.

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
20201211	1211 HK	BYD	ZJ	Buy	179	241	34.64%	203.2	13.52%	182.1	11.59%
20201222	2333 HK	GWM	ZJ	Accumulate	17.24	19.7	14.27%	26.6	54.29%	15.7	69.43%
20201230	175 HK	GEELY	ZJ	Buy	24.50	31.00	26.53%	26.5	8.16%	15.7	68.79%
20201204	9999 HK	NetEase - S	KC	Buy	141.8	172.8	21.86%	147.6	4.09%	144.5	2.15%
20201209	1890 HK	China Kepei	KC	Buy	5.84	7.5	28.42%	5.4	-7.53%	6	-10.00%
20201228	2013 HK	Weimob Inc.	KC	Buy	12.28	15.04	22.48%	13.94	13.52%	10.66	30.77%
20201201	1475.HK	Nissin Food	TC	Buy	6.71	8.73	30.10%	6.38	-4.92%	6.55	-2.60%
20201208	3998.HK	Bosideng	TC	Buy	3.40	4.50	32.35%	3.95	16.18%	3.365	17.38%
20201216	2331.HK	Li Ning	TC	Accumulate	45.90	48.55	5.77%	53.3	16.12%	42	26.90%
20201229	9928.HK	Time Neighborhood	TC	Buy	7.52	14.91	98.27%	7.26	-7.53%	7.75	-10.00%
20201214	1337 HK	Razer	PC	BUY	2.37	3.27	37.97%	2.38	0.42%	2.58	-7.75%
20201218	1347 HK	Hua Hong Semi	PC	Accumulate	41.45	49.1	18.46%	44	6.15%	38.45	14.43%

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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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

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

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

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

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

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

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

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

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

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 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