

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 FLAT Glass (6865.HK), Fuyao Glass (3606.HK) and Zhongsheng (881.HK) which got success by their unique Competitive edge. Among them, we highly recommend Zhongsheng.

The latest sales show that Zhongsheng's new-car-sales momentum continued to be strong in H2 of last year benefiting from the explosion of demand for premium cars after the COVID-19 pandemic. The Company achieved an approximately 20% growth rate in new car sales in 2020Q3. Amid the continuous prosperity of the auto market in 2020Q4, the Company's new car sales showed positive growth compared to Q3, with an estimated yoy growth rate of more than 30%. On the whole, new car sales are expected to achieve a yoy growth rate of 30% in 2020H2. Specifically, the sales of premium cars performed better than the overall. The yoy sales growth in Q3 and Q4 is expected to exceed 25% and 35%, respectively. The sales of premium cars will grow by more than 30% in 2020H2.

With a short supply of premium cars, the gross margin of new car sales continued to improve in Q4. Even though the period of promotion season is approaching, the price of new cars remains high, and discounts for some hot-selling models are very limited.

In terms of new orders, the momentum of new car sales has not diminished since January 2021, with a yoy increase of nearly 40%. Terminal discounts have also been very stable. The overall operation has improved significantly over the same period of last year. We expect the Company's profitability will significantly benefit from the further narrowing of price discounts and the continuous optimization of the sales structure.

After a brief slowdown during the pandemic period, after-sales business has rebounded rapidly since H2 of last year. The after-sales entrance and after-sales revenue recorded a yoy growth rate of 25-30%. We believe that the main reasons are the expansion of base customers of premium cars and the increase in the penetration of extended warranty. The Management offers an optimistic outlook for the after-sales business this year, with an expected growth of more than 20%. On the whole, we expect that network optimization and multi-business arrangements will become the new engines for the Company's future business growth..

TMT & Education (Kevin Chiu)

This month, I have released an initiation report of China Youzan (8083.HK), an update report of Archosaur Games (9990.HK) and an update report of Weimob Inc. (2013.HK). Among them, I highly recommend China Youzan (8083.HK).

We believe that for SaaS product providers, their future growth potential is closely tied to product R&D capabilities. Strong R&D capabilities are one of the main moats for SaaS product providers. The company clearly understands the importance of having a strong R&D system, so its investment in R&D is extremely high. The company's R&D expenses in 2019 were RMB 404 million, and the R&D expense ratio was 34.6%.

As the company has more and more SaaS products, the rapid increase in SaaS revenue can bring obvious marginal effects, and the R&D expense ratio is expected to gradually fall. Relying on a strong R&D system and investment, the company can continuously polish its products according to the merchants' feedback. Thereby, increasing the user experience and merchant's renewal rate. Further, the company's strategy of targeting mid-top tier merchants will also increase the company's future merchants' renewal rate. We believe that maintaining a high renewal rate is particularly important for SaaS product providers. The renewal rate has a critical impact on the company's revenue and profit ends. The continuous optimization of the renewal rate can effectively increase the company's SaaS business revenue and reduce the company's overall sales expense rate. The company's 2019 merchant renewal rate was 45%, with a huge upward potential in the future.

Further, we believe Private traffic management will become the main trend for offline merchants. 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. We believe that for merchants who already have enough user traffic of 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. At the same time, since the growth of traditional e-commerce users has obviously reached a bottleneck and the cost of public traffic is high, it is especially important for small and medium-sized businesses to have their own fixed customers and to manage them efficiently under private traffic management..

Consumer & Property Management (Timothy Chong)

I have released three update reports covering Anta Sport (2020.HK) and Bosideng (3998.HK) this month. Among them, we highly recommend Bosideng (3998.HK).

The company's main down apparel business GMV has grown faster than we expected. Under the influence of the epidemic at the beginning of the year, potential problems such as inventory backlogs have made us more reserved for the company's annual revenue. However, many places across the country entered the winter earlier this year, and the company's discount management controlled appropriately, the adverse effects of the epidemic have been digested in the first half of the fiscal year. In the Q3, the growth rate was significantly higher than that in the 1H21. The company's interim performance report showed that Bosideng/other brand down jacket revenue growth rates in the 1H of the fiscal year were 19.7%/ 2.58%. Based on this calculation, the company's revenue growth rate from down jackets in the Q3 increased significantly. Affected by the La Niña phenomenon this year, the country generally enters the winter earlier, and this year's Lunar New Year's date is later, the entire winter consumption period has been longer than before. In the first half of the year, the company developed self-operated channels under the epidemic situation, and this year's branded down sales started earlier. During the Double 11 event, the company made good use of publicity methods to showcase the brand new Bosideng to the target customer group, and continued to move forward on the road to brand upgrade. Taking the right time and place, Bosideng's operating performance this year has continued to beat market expectations. It is expected that under the cold winter environment this year, the company will continue to grow in the Q4.

Telecommunication & Technology hardware (Parker Chan)

I have released two initiation reports covering Midea (000333.SZ) and one initiation report covering Haier Smarthome (06690.HK) this month. Among them, I highly recommend Haier Smarthome (06690.HK).

Haier ("the Company") pursue a global multi-brand strategy featuring seven home appliance brands: Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. It's brand portfolio is strategically deployed across our markets to ensure broad and in-depth user coverage through it's usercentred, global differentiated multi-brand operations. They combine self-grown brands from our China operations, such as Haier, Casarte and Leader, with our acquired brands, such as GE Appliances, Candy, Fisher&Paykel and AQUA, in key markets in order to grow our global market share across different consumer groups.

The Company started to build a high-end brand Casarte in the Chinese market in 2006. In addition to focus, experience and patience, the creation of high-end brands also requires the technical ability for continuous innovation and differentiated service so to meet users' demand for high-quality experience. By combining its technical strengths, product development ability, manufacturing techniques and other advantages in the world as well as specialised marketing and differentiated services, Casarte brand has gradually gained the trust of users in China's high-end market. At present, Casarte has achieved development from single product to full-suite solutions and has the capability of providing users with a diversified product portfolio. During the Track Record Period, based on consolidating and improving revenue contributions from refrigeration appliances and laundry appliances, the percentage of revenue contributed by Casarte air-conditioners, water heaters and kitchen appliances also continued to increase.

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
20210111	6865 HK	FLAT	ZJ	BUY	37.75	45.4	20.26%	32	-15.23%	32.65	-1.99%
20210118	3606 HK	FUYAO	ZJ	BUY	48.8	59.4	21.72%	54	10.66%	42.6	26.76%
20210128	881 HK	Zhongsheng	ZJ	BUY	48.3	70	44.93%	45.55	-5.69%	55.25	-17.56%
20210108	8083 HK	China Youzan	KC	BUY	2.92	3.96	35.62%	3.35	14.73%	2.3	45.65%
20200113	9990 HK	Archosaur Games	KC	BUY	19.94	30.6	53.46%	20.2	1.30%	20.8	-2.88%
20200125	2013 HK	Weimob Inc.	KC	Accumulate	24.6	28.2	14.63%	22.35	-9.15%	13.96	60.10%
20210104	2020.HK	Anta Sports	TC	Accumulate	123.2	144.94	17.65%	128.3	4.14%	123	4.31%
20210115	3998.HK	Bosideng	TC	Accumulate	4.05	4.5	11.11%	3.44	-15.06%	3.94	-12.69%
20210129	2020.HK	Anta Sports	TC	Accumulate	130.6	144.94	10.98%	128.3	-1.76%	123	4.31%
20210106	333 SZ	Midea	PC	Neutral	99.01	102.8	3.83%	96.33	-2.71%	98.44	-2.14%
20210126	6690 HK	Haier Smarthome	PC	Accumulate	35.5	40	12.68%	32.1	-9.58%	N/A	N/A

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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