

Report Review of Feb. 2021

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 2 updated reports of Wanfeng (002085.SZ), and Tianqi Lithium (002466.SZ) which got success by their unique Competitive edge.

The Company is leading in many sub-industry fields: The scale of aluminum alloy automobile wheels is the second largest in China with a leading position in the world, accounting for approximately 10% of the global market; the output of aluminum alloy motorcycle wheels accounts for approximately 35% of the global market, the largest in the world; the subsidiary Wuxi Xiongwei Precision-Machinery Sci-Tech Co., Ltd. is a domestic leader in high-strength steel stamping parts; its subsidiary Wanfeng MLTH Holdings Co., Ltd. is a global leader in magnesium alloys, accounting for approximately 65% of the North American market; the subsidiary Diamond Aircraft, a manufacturer of general aviation aircraft, is the top three general fixed-wing aircraft manufacturer in the world and a global leader in general aviation aircraft. In the next phase, the Company will focus on the in-depth expansion of European market customers and new energy vehicle customers. Its initial goal is to double the scale of automobile wheels within five years and improve the quality and guarantee the quantity of motorcycle wheels. Due to the COVID-19 pandemic this year, the domestic flight training market will usher in an explosion of demand in the short term. It is expected that the domestic market will grow at a compound annual growth rate of 110% from 2020 to 2022. With the mass construction of China's general aviation airports and the gradual opening of the low-altitude fields, the subsequent rapid development of the private sector of general aviation is worth looking forward to. The Company, as a global leader in the general aviation aircraft manufacturing, will benefit first.

Tianqi Lithium announced on December 8, 2020 that its wholly-owned subsidiary TLEA intends to introduce strategic investor IGO, an Australian listed company, through capital increase and share expansion of USD1.4 billion in cash. If the deal goes well, the Company's debt will significantly drop by nearly 40%, and the asset-liability ratio will drop from 81% to approximately 63%. The debt burden will be greatly eased. In terms of the price trends, due to seasonal restrictions on supply-side capacity, the growth momentum for lithium salt prices is still quite strong. The price is expected to rise to RMB75,000 per ton in the short term. With the support of strong demand, it is expected that lithium salt products will be in a tight supply this year. The price is expected to remain above RMB75,000 per ton. We believe that in the subsequent development, the Company's resource advantages will become increasingly prominent. With the gradual resolution of the debt problem, there is a high probability of result turnaround and there is room for an expected upward flexibility.

TMT & Education (Kevin Chiu)

This month, I have released two update reports, China Youzan (8083.HK) and Archosaur Games (9990.HK). Between them, I highly recommend China Youzan (8083.HK).

The company announced on its official website at the beginning of the year that starting from 2021, the annual price of the Youzan Weimall professional and flagship versions will increase. The annual price of the professional version will increase from RMB 12,800 per year to RMB 14,800 per year, while the annual price of the flagship version will increase from RMB 26,800 per year to RMB 28,800 per year. The price of the basic version Youzan Weimall will remain unchanged. On the other hand, the price of Youzan Retail professional version will increase from RMB 12,800/year to RMB 14,800/year, and the price of the basic version will remain unchanged.

The main reason for this price increase is that the company has added "new store setup service" (新店上線服務) to its professional and flagship products. The "new store setup service" (新店上線服務) used to be a service package that required additional charge. However, the company has realized that merchants tend to be less active and have low SaaS product renewal rate if they have encountered problems in the stage of store initiation and set-up. Therefore, the company has included the "new store setup service" (新店上線服務) to the professional and flagship version with the aim to assist merchants in completing store decoration and online store opening. We believe that this product upgrade and price increase are logical. The product upgrade is expected to enhance the product experience of merchants and is expected to increase the merchant renewal rate. On the other hand, the price increase of the product is carried out on the basis of the improvement of function. Considering the price increase of its peer Weimob almost at the same time period and the higher paying ability of mid-to-high-end merchants, we believe that the price increase of products will not have a great impact on the company's ability to acquire merchants in the future, and it is expected to accelerate the company's ARPU growth.

Consumer & Property Management (Timothy Chong)

I have released two reports covering Ever Sunshine LS (1995.HK) and Xtep Int'l(1368) this month. Among them, we highly recommend Ever Sunshine LS (1995.HK)

Yongsheng Property, the predecessor of EVER SUNSHINE LIFESTYLE SERVICES GROUP, was established in 2002. Since 2003, it has provided property management services for properties developed by CIFI Holdings, mainly in Beijing and Shanghai, and continues to develop the eastern region. Since 2013, the company has begun to manage properties developed by third-party property developers. As of the end of 2016, the company's GFA under management has exceeded 10 million square meters, and the total number of property management services projects has exceeded one hundred. In the industry, it is a company that started expanding outward earlier. According to the "China Top 100 Property Management Companies Research Report" released by China Index Academy, the company ranks 12th among the top 100 property management services companies in China.

In 2019, the company's revenue recorded approximately RMB 1.88 billion, a year-on-year increase of approximately 74.5%. The CAGR reached 54% from 2015 to 2019. The company is mainly divided into three major businesses, 1) property management services, 2) community VAS and 3) VAS to non-property owners. In 2019, property management services, community VAS and VAS to non-property owners recorded RMB 1.07 billion, RMB 480 million and RMB 320 million, respectively, accounting for 56.98%, 25.73% and 17.29% of the company's revenue. In the first half of 2020, under the influence of the epidemic, the company still maintained high growth in property management services, community VAS and VAS to non-property owners, increasing by 83.7%, 84.6% and 117.1% year-on-year respectively, accounting for the company's revenue of 59.6%, 19.4% and 21.0%.

The revenue of property management services companies from value-added services has increased year-on-year in recent years. Unlike basic property management services, which rely on cost control to obtain profit, the profitability of value-added

services is more focused on the quality of services, and it will be more important in the future. Large room for improvement is the second growth driver for property management companies. Company's development in community VAS is at the forefront of the industry, and the gross profit contribution from community VAS surpassed basic property management services in 2019 and gradually become a home life service provider.

Telecommunication & Technology hardware (Parker)

I have released one update report covering Razer (01337.HK).

RAZER("The Company") has issued a positive profit alert, expecting a breakeven profit or loss on a GAAP basis for the financial year ended December 31, 2020 as compared to a loss of US\$83.5 million for the financial year ended December 31, 2019.

According to the notices, the Company revenue growth is expected to be at least 40% year-on-year for the financial year ended December 31,2020, with broad-based growth across the Razer ecosystem of hardware, software and services. In particular, Razer's peripheral equipment and computer system products have grown more than expected due to the holiday effect. For example, during the "11-11 Shopping Festival" last year, the network-wide turnover increased by as much as 45% year-on-year, and the cumulative number of visitors exceeded 4.8 million. Among them, the sales of wireless mouse products increased by 210% year-on-year, and the sales of DeathAdder series mice exceeded 260,000; the sales of Razer Viper Ultimate gaming mouse exceeded 60,000, and it ranked first in the sales charts of Tmall and JD.com. In terms of gaming keyboards, sales of Razer BlackWidow series gaming keyboards exceeded 18,000, and sales of Razer Huntsman series gaming keyboards exceeded 8,000. For gaming headsets, the sales of Kraken series gaming headsets exceeded 30,000, and the sales of Hammerhead True Wireless Earbuds exceeded 5,000. The company's gaming notebooks ranked second in the top-end gaming notebook turnover rankings of JD.com. We expect its hardware revenue to reach US\$994 million in 2020, a year-on-year increase of 39.25%. But next year (2021) due to the high base effect, we expect hardware revenue next year (2021) to reach 1.017 billion US dollars, an increase of 2.31% year-on-year.

Fig 1. Performance of Recommended Stocks

Date	Ticker	Company	Analyst	Rating	Price on Recommendation		Expected Return	Last Month		Closing Price 2M	
					Date	Target Price		Closing Price	Last Month Return	Price 2M ago	1M Price Chg
20210208	002085 SZ	Wanfeng	ZJ	NA	5.44	NA	NA	5.69	NA	5.51	3.27%
20210223	002466 SZ	Tianqi Lithium	ZJ	Accumulate	52.7	62	12.68%	44.92	-9.58%	59.95	-25.07%
20210210	1337 HK	Razer	PC	Accumulate	2.94	3.36	14.29%	2.57	-12.59%	2.43	5.76%
20210205	1368 HK	Xtep Int	TC	Buy	3.38	4.25	25.74%	3.70	9.47%	3.48	6.32%
20200224	1995 HK	Eversunshine LS	TC	Maintain	21.55	24.38	13.13%	19.1	-11.37%	22.35	-14.54%
20210203	8083 HK	China Youzan	KC	Buy	3.45	4.23	22.61%	3.32	-3.77%	3.35	-0.90%
20200216	9990 HK	Archosaur Games	KC	Buy	20.55	30.10	46.47%	17.12	-16.69%	20.2	-15.25%

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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