

## **Hong Kong | INVESTNOTES REPORTS REVIEW**

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Sectors:

Air & Automobiles (Zhang Jing)

TMT & Education (Kevin Chiu)

Consumer & Property Management (Timothy Chong)

### **Automobile & Air (Zhang Jing)**

This month I released 3 updated reports of Sanhua (002050.SZ), Great Wall Motor (2333.HK) and Yongda (3669.HK), which got success by their unique Competitive edge. Among them, we prefer Great Wall Motor.

Based on the company's performance bulletin of 2020, Great Wall Motors (GWM or the Company) reported revenue of RMB103.283 billion with a yoy growth of 7.35%, a net profit attributable to the parent company of RMB5.392 billion with a yoy rise of 19.9%, and a basic EPS of RMB0.59. This growth was mainly contributed by increases in whole vehicle sales volume, capacity efficiency, and gross margin. Especially when it comes to the fourth quarter which delivered a great result including revenue of RMB41.1 billion, the highest in company history, representing a yoy increase of 22.4%, and qoq 57%. Also, the net profit was RMB2.81 billion, indicating a yoy growth of 77.5%, a qoq surge of 95%, and bringing it to a second high in history. Sales in the fourth quarter became more and more extraordinary as the car sales volume reached around 430,000, marking a record high. Among them, the sales volume of Haval, WEY, Pickup, and ORA were 305,200, 28,200, 64,700, and 32,300, respectively. This represented a yoy growth of 22.98%, -6.50%, 27.87% and 284.32%, and a sales percentage of 71%, 7%, 15%, and 7%, respectively. It can be seen that with the benefit of new technological platform and strong car model cycle, GWM has extended its business to specific markets by consolidating and maintaining its steady growth of SUV business, and it has made breakthroughs as the new car models have clear competitive margin and may bring higher sales volume in the future.

The strong trend was maintained at the beginning of 2021 as the Company's car sales volume in January and February was 139,000 and 89,000, a yoy growth of 73.20% and 788%, respectively. Also, the total sales volume of the first two months rose 153% yoy, a growth of 26% compared to 2019 when there was no pandemic, and this accounted for 19% of the annual sales target. The accumulative sales volume of Haval, WEY, Pickup, and ORA was 155,500, 17,500, 37,400, and 17,600, with a sales percentage of 68%, 7.7%, 16.4%, and 7.7%, respectively.

In 2021, the Company will launch at least 10 new car models equipped with new technology and new power, including Haval Chitu, M6 PLUS, Dagou 2.0T, New generation F7, WEY Mocha, Latta, Macchiato, etc., and GWM POER Heidan and two MPVs. Sales effect brought by new platforms and increasing sharing of spare parts will continue to improve the Company's profitability.

### **TMT & Education (Kevin Chiu)**

This month, I have released 4 update reports, Maoyan Entertainment (1896.HK), China Youzan (8083.HK), Netease (9999.HK) and Weimob Inc. (2013.HK). Among them, we highly recommend Weimob Inc. (2013.HK).

The company's 2020 revenue was RMB 1.97 billion (+37.0% yoy), of which the revenue of the subscription solution was RMB 622 million (+22.8% yoy) and the adjusted revenue of the subscription solution (excluding the impact of the SaaS sabotage event) was RMB 718 million. The adjusted revenue beat our previous expectation. On the other hand, the 2020 revenue of the targeted marketing business (merchant solution + digital media) was RMB 1.35 billion (+44.8% yoy), which was slightly lower than our previous forecast. However, we believe that compared with the revenue, the gross revenue can more reflect the growth of the targeted marketing business. The 2020 gross revenue of targeted marketing business was RMB 10.68 billion (+102.2% yoy), which beat our previous forecast.

In terms of the GPM, the 2020 adjusted GPM/ GPM of subscription solutions was 74.5%/70.6% (-6.0ppts yoy / -9.9ppts yoy), both of which were lower than our previous expectation. The divergence between the actual GPM and our forecasted one was mainly due to the fact that the higher-than expected R&D investment caused higher amortization of intangible assets, which was recorded in the COGS. On the other hand, the 2020 GPM (comparing to the gross revenue) of the targeted marketing was 5.3% (-2.1ppts yoy), which is also lower than our previous expectation, since the lower rebate from the KAs (key accounts) customer has a greater downward impact to the GPM (comparing to the gross revenue) than we previously thought.

In terms of the operating expenses, the company's 2020 S&M expenses / admin expenses was RMB 919 million/RMB 261 million (+28.2% yoy / +100.7% yoy), respectively. The 2020 net loss attributable to parent was RMB 1.16 billion (RMB 311 million in 2019), and the 2020 adjusted net profit was RMB 108 million (+39.0% yoy).

We continue to be optimistic about the company's 1) the KA customer expansion in various vertical industries 2) three core strategies, 3) TSO (Traffic + SaaS + Operation) operation model. We believe that the TSO model is expected to further increase the ARPU of the KA customers, thereby uplifting the ceiling of the company's future growth.

### **Consumer & Property Management (Timothy Chong)**

I have released three update reports covering Semir Garment (002563.SZ), TIMES NEIGHBORHOOD (9928.HK) and Xtep Int'l(1368) this month. Among them, we highly recommend Xtep Int'l(1368).

Xtep Int'l announced on March 18 the company's annual results for the year ended December 31, 2020. The company's revenue in 2020 was basically flat at RMB 8.17 billion (2019: RMB 8.18 billion). In line with expectations, the full-year net profit was RMB 513 million, a YoY decrease of 29.5% (2019: RMB 728 million), which was approximately 13% higher than our expectation, mainly due to the reduction in promotion expenses during the period. Excluding the one-off gains from the disposal of subsidiaries in 2019 and the disposal of the Supra brand in 2020, the company's net profit in the 2H20 increased by 23.9% YoY. The company declared a final dividend of 7.5 HK cents per share. Together with the interim dividend, the dividend payout ratio for the year remained at 60.0%.

Affected by the epidemic, the development of the new brand has been postponed for more than half a year. On December 31, 2020, Saucony and Merrell have 32 and 6 self-operated stores in first- and second-tier cities in Mainland China respectively;

K-swiss has 43 self-operated stores in the Asia-Pacific Region and Palladium has 57 self-operated stores in Asia Pacific and Europe, of which 3 are located in Europe. Due to the continued epidemic in oversea, the business of K-swiss and Palladium in the Americas and Europe have been affected. The operating loss in 2020 will be RMB 104 million. It is expected that it will narrow in 2021 as the business resumes. The company plans to add 30-50 stores in professional sports and fashion sports in 2021, mainly Saucony and Palladium. The K-swiss store opening plan in China will start after the rebranding and is expected to be completed in 2022.

**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
20210309	002050 SZ	Sanhua	ZJ	Accumulate	23.34	26.70	14.40%	20.62	-11.65%	24.18	-14.72%
20210318	2333 HK	GWM	ZJ	Accumulate	22.15	26.00	17.38%	21.55	-2.71%	22.55	-4.43%
20210326	3669 HK	Yongda	ZJ	Accumulate	14.14	16.50	16.69%	14.20	0.42%	11.30	25.66%
20210305	1896 HK	Maoyan Ent.	KC	Buy	14.80	19.16	29.46%	12.92	-12.70%	14.80	-12.70%
20210312	8083 HK	China Youzan	KC	Buy	2.63	4.23	60.84%	2.54	-3.42%	3.32	-23.49%
20210316	9999 HK	Netease	KC	Buy	167.40	202.50	20.97%	158.20	-5.50%	166.00	-4.70%
20210330	2013 HK	Weimob Inc.	KC	Buy	17.80	26.70	50.00%	17.38	-2.36%	22.55	-22.93%
20210310	002563 SZ	Semir Garment	TC	Buy	9.85	11.96	21.42%	10.14	2.94%	9.23	9.86%
20210323	9928.HK	Times Neighborhood	TC	Buy	6.55	10.91	66.56%	5.87	-10.38%	6.69	-12.26%
20210325	1368 HK	Xtep INTL	TC	Accumulate	4.25	4.99	17.41%	4.55	7.06%	3.7	22.97%

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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