

Report Review of April. 2021

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air & Automobiles (Zhang Jing),

TMT & Education (Kevin Chiu)

Consumer & Property Management (Timothy Chong)

Automobile & Air (ZhangJing)

This month I released 3 updated reports of China Southern Airlines (1055.HK), GAC (2238.HK) and Geely (175.HK), which got success by their unique Competitive edge. Among them, we prefer GAC and Geely.

In the first quarter of 2021, GAC recorded a sales volume of 497,000 units, which was basically the same as in 2019. The sales volume of GAC Toyota, GAC Hongda and self-owned brands increased by 25% and decreased by 12% and 22%, respectively compared with that in 2019. In the first quarter, the sales volume of its new energy vehicles increased by 103% to 21,576 units Y-o-Y, of which 17,649 units were contributed by GAC Aion. As a high-end new energy sub-brand, GAC Aion will enter its first year of development in the true sense this year. In addition to accelerating the promotion of new iterations of products, GAC Aion will start to carry multiple important technological achievements such as sponge silicon negative plate battery technology, super-fast charging battery technology, and ADiGO4.0 intelligent driving interconnected ecosystem in mass production vehicles. Its future performance is anticipating.

On the new energy vehicle track, as the Blue Geely Action Plan II, Geely launched the 001, the first model of the brand-new pure electric vehicle sub-brand Zeekr, at the 2021 Auto Shanghai, empowering the high-end intelligent pure electric vehicles. Judging from the latest orders, the pre-sales of new models were hot due to its advantages in technology configuration, space, interior, appearance, power system, and endurance mileage. We believe that the successive launch of the models of new architecture (SEA and SPA), new brand (Zeekr) and new cycle (4.0 era) on the market will help the Company change the current situation of tepid sales volume of new energy vehicles, make up for the shortcomings in its new energy models and increase brand premiums. The year 2021 will be the first year for Geely's technological upgrade and the development of intelligent electric vehicles. The improvement in results is anticipating.

TMT & Education (Kevin Chiu)

This month, I have released 2 update reports, China Youzan (8083.HK) and Friendtimes (6820.HK). Between them, we highly recommend Friendtimes (6820.HK).

The company's 2020 result meets our previous expectation. The revenue for 2020 was RMB 2.18 billion (+29.2% YoY). The YoY rise was mainly driven by the strong performance of The Fate of the Empress (浮生為卿歌). In terms of the geographical breakdown, the revenue generated from China region and overseas region were RMB 1.71 billion (+53.0% YoY)/RMB 0.47 billion (-17.7% YoY), respectively. As at 31 December 2020, the company has released and is operating 34 mobile games in different languages worldwide, and the accumulated total number of registered users reached 130.8 million (+21.2% YoY). Further, the company has strengthened its monetization ability in 2020, the monthly average revenue per paying user (ARPPU) in 2020 was RMB 715.5 (+34.6% YoY).

The company's 2020 GP was 1.47 billion (+33.2% YoY), with a GPM of 67.3% (+2.0ppts YoY). The 2020 S&M expense was RMB 0.61 billion (+55.7% YoY), with expense ratio of 28.1% (+4.8ppts YoY). The increase in both S&M expense and

expense ratio in 2020 was mainly attributable to the fact that the 1) the company had no new title launched in 2019, hence the 2019 S&M expense was at a low cardinal number 2) the company has invested a lot on the promotion of The Fate of the Empress (浮生為卿歌) in 1H20. The 2020 R&D expense was RMB 0.26 billion (+18.4% YoY), with respective expense ratio at 12.1% (-1.1ppts YoY). The 2020 admin expense was RMB 46.33 million (-25.4% YoY), with respective expense ratio at 2.1% (-1.6ppts YoY). The drop in both admin expense and admin expense ratio YoY were because the admin expense in 2019 included some one off items such as listing expenses. The company recorded a NP of RMB 0.50 billion (+21.2% YoY), which is in line with our forecast of RMB 0.52 billion.

The company has a strong pipeline. Fate: The Loved Journey (此生無白), a Chinese-style fairy social mobile game will be launched on all platforms in China on 28 April 2021. As of 16th April, the game had a TapTap score of 8.8, with over 57k game reservations. Further, the company's pipeline also included Promise of Lingyun (凌雲諾), a glamorous Chinese-style social mobile game with modern art, and A Story of Lala's: Rising Star (杜拉拉升職記), an authentic inspirational female-oriented stimulation mobile game. Both of the games are expected to be launched in 2021. We continue to be optimistic about the potential of the female-oriented game sector and the company's leading position in the sector.

Consumer & Property Management (Timothy Chong)

In this month, I published a total of two research reports, which are update reports of Nissin Foods (1475.HK) and Li Ning (2331.HK). Among them, we highly recommend Nissin Foods (2331.HK).

Li Ning's annual revenue was RMB 14.46 billion, an increase of 4.2% year-on-year. In terms of distribution channels, the company's revenue from retail/wholesale/e-commerce changed by 0.9%/-9.7%/29.9% year-on-year, accounting for 48%/23%/29%, respectively, and the proportion of revenue from e-commerce increased by 5 ppts to 29%. From the perspective of core categories, in terms of retail sell-through, the overall increase was 1% year-on-year compared to last year, but only sports casual recorded a positive growth, an increase of 23% year-on-year, accounting for 39%, and an increase of 7 ppts. Other core categories such as running/training/basketball/non-core are reduced by 9%/16%/4%/9% respectively, and the proportion of retail turnover is 17%/16%/26%/2%.

The company's net profit for the year was CNY 1.70 billion, a year-on-year increase of 34.2% based on core net profit, and a NPM of 11.7%, an increase of 0.9 ppts. The GPM was the same as last year, at 49.1%, mainly due to the company's adjustment of the wholesale business price increase during the year, which increased the GPM and offset the negative impact of increased discounts on the GPM due to the epidemic. During the year, the company controlled expenses appropriately, research expenses, advertising and market promotion expenses, and staff costs, accounting for 2.2%, 8.9%, and 9.1% of revenue, respectively, representing a year-on-year decrease of 0.4/0.7/ 1.8 ppts. From the perspective of operating, the company's inventory turnover days were 68 days, same as FY19, reflecting that the inventory of channels affected by the epidemic during the year has also been digested. During the year, the company also adjusted its channels and reduced its low-efficiency offline franchise stores. The total number of stores decreased by 617 year-on-year to 6,933 as of December 31, 2020.

For the FY21, the company expects sales growth of 20%-25%, while retail sell-through in various channels will increase by 18%-23%. On the profit side, the company expects to increase its NPM by 1 ppts in 2021. We believe that the company's guidance is relatively conservative. The company's offline retail sales from January to mid-March increased by about 70% year-on-year, compared to a 30% increase in 2019, and the recovery of offline channels is progressing well. As the brand image improves, the room for price increases on products will also be further expanded in the future.

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
20210412	1055 HK	CSA	ZJ	Accumulate	5.85	6.3	7.69%	5.29	-9.57%	5.76	-8.16%
20210420	2238 HK	GAC	ZJ	BUY	7.17	9.5	32.50%	6.63	-7.53%	6.53	1.53%
20210428	175 HK	Geely	ZJ	BUY	21.55	26	20.65%	20.10	-6.73%	19.78	1.62%
20210414	8083 HK	China Youzan	KC	Buy	2.37	3.94	66.24%	2.51	5.91%	2.54	-1.18%
20210426	6820 HK	Friendtimes	KC	Buy	2.63	3.53	34.22%	3.09	17.49%	2.8	11.15%
20200413	1475 HK	Nissin Food	TC	Buy	6.03	7.54	25.04%	5.90	-2.16%	5.92	-0.34%
20200419	2331 HK	Li Ning	TC	Accumulate	57.8	66.11	14.38%	63.40	9.69%	50.50	25.54%

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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