Report Review of Sept. 2021

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Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:
Air & Automobiles (Zhang Jing),
Consumer & Property Management (Timothy Chong)
TMT (Samuel Sung)
TMT & Education (Research Department)

Automobile & Air (ZhangJing)

This month I released 3 updated reports of HASCO(600741.CH), SAIC (600104.CH) and Spring Airlines (601021.CH), which got success by their unique Competitive edge. Among them, we highly recommend SAIC .

In the first half of 2021, SAIC Motor reported revenue of RMB366,096 million, up by 29% Y-o-Y. The net profit attributable to the parent company was RMB13,314 million, up by 59% Y-o-Y. In H1, the gross margin was 11.44%, up by 1.19 ppts Y-o-Y. The period expense ratio was 10.2%, down by 0.3 ppts Y-o-Y. The net profit margin was 5.34%, up by 1.34 ppts Y-o-Y. By quarters, the gross margin in Q1 and Q2 was 11.1% and 11.8%, respectively, up by 0.22 ppts and 1.92 ppts Y-o-Y, respectively. It reflected the enhancing effect on gross profit brought by priority shipments of high-unit-price models amid tight chip supply. The Company's wholesale sales volume of finished vehicles in H1 was 2297 thousand units, up by 12.1% Y-o-Y. The Company sold more than 280 thousand new energy vehicles, a year-on-year increase of more than 400%. Approximately 260,000 vehicles were exported and sold overseas in H1. The sales volume nearly doubled Y-o-Y.

Faced with the restructuring of the automotive industry's boundaries, in recent years, the Company has been undergoing transformation. It has continued to make efforts in electrification and intelligence, and promoted the implementation of strategic projects. At the technical level, the Company promoted the R&D and application of a new pure electric vehicle architecture and a new generation of "EIC" system, and actively arranged the next-generation battery technology jointly with innovative solid-state battery companies such as QuantumScape and Qingtao. It has initially developed an integrated full-stack intelligent vehicle solutions consisting of centralized integrated and domain control electronic architecture, SOA software platform, intelligent vehicle data factory, artificial intelligence algorithms and smart chips, as well as full-stack OTA and network security solutions. At the product level, IM's first product, L7, has begun the reservation and is scheduled to be delivered in 2022. A new model will be launched per annum in the next three years. R Auto launches the "R-Tech" intelligent driving platform. The B-class SUV ES33 equipped with such technology platform will be launched in 2022. With the gradual easing of global chips and the launch of new models, the results are expected to continue to rally.

Consumer & Property Management (Timothy Chong)

I have released three update reports covering LiNing (2331.HK) Anta Sport (2020.HK) and Xtep Intl' (1368.HK) this month. Among them, we highly recommend LiNing (2331.HK).

Li Ning announced the company's interim results as of June 30, 2021. During the period, revenue increased by 65% Yoy to CNY 10.20 billion, overall GPM increased by 6.4 ppts to 55.9%, and net profit attributable to the parent recorded CNY 1.96 billion, a Yoy increase 187%, mainly due to the company's increased operating leverage, OPM increased by 10.4 ppts to 24.9%. The overall performance is better than the profit alert announcement. The company's operating performance continues to improve, and the cash cycle is further shortened by 17 days to 13 days.

In terms of POS, the company's total number of POS decreased by 188 from the previous month to 6,745, among which Li-Ning brand POS decreased by 208, from 5,912 at the end of last year to 5,704 at the end of June. Li-Ning brand wholesale/direct-operated stores decreased by 147/61 respectively. Channels continued to optimize through opening large stores and closing low-efficiency stores, the overall store area still recorded a low double-digit increase despite the decrease in the total number of stores. During the period, the company's sales efficiency improved, and the overall inventory turnover months improved from 4.2 months at the end of last year to 3.1 months. In the inventory structure, new products with an age of 6 months or less accounted for 83% of the inventory at the end of the period. An increase of 5ppts from 78% at the end of last year; Among them, the proportion of inventories older than 12 months fell to 7%, an improvement of 2ppts from the end of last year, mainly due to the company's adjustment of new product handling policies, and the new products began to be cleared 3 months after they were put on the shelves. For promotion, the overall discount is controlled in the middle of 10%-20% off, and the 3-month sales rate of new products is mid-sixties.

The management updated the FY21 guidance. The management raised the revenue growth to more than 40%. If calculated based on the revenue growth of 65% in the first half of the year, the revenue growth in the second half of the year is expected to be no less than 20%. The annual NPM was 16% to 17.5%. The revenue growth in the next 2 to 3 years is expected to exceed a CAGR of 20%. We believe that the updated guidelines are in line with our previous expectations. The excellent performance in the first half of the year is not expected to continue throughout the year, but the overall performance will still be improved compared to last year.

TMT (Samuel Sung)

This month I released 2 updated reports of AAC Technologies (2018.HK) and Q Technology (1478.HK). Among them, we highly recommend Q Technologies.

Q Technology announced the company’s interim results as of 30 June 2021. During the period, the revenue was approximately RMB 9.336 billion (+6.1% yoy), the gross profit was approximately RMB 1.083 billion (+47.9%), the gross profit margin was approximately 11.6%, an increase of about 3.3 ppts compared with about 8.3% in the same period. The company’s net profit was about RMB 571 million (+70.1% yoy), which was higher than the 40%-60% guidance range of the company’s positive profit forecast. In addition, excluding the company’s initiative to impair the goodwill of Newmax Technology and the asset restructuring costs arising from the spon-off of Kunshan Q Technology China to A- share listing, the company’s net profit will increase by 82.9% yoy. The company’s net profit growth was mainly attributable to steady growth in the company’s camera module sales, continuous improvement of its customer structure and the optimization of its camera module product structure.

The company’s 1H21 camera module shipments were approximately 224 million units (+24.2% yoy). The company lowered the camera shipment target for 2021 given at the beginning of the year, from a yoy growth of not less than 30% to 25%, mainly due to insufficient supply of key components in the smartphone supply chain. For 2H21, the company remains optimistic, given camera module shipments a growth rate of 25.7% yoy and 19.2% mom growth. In terms of production capacity, the company maintains its monthly production target of 65kk at the end of 2021.

In terms of product structure, the company’s sales of 32 megapixel and above camera module products accounted for an increase of about 4.2 ppts to 32.4% of the total sales, which was slightly higher than the company’s target of its shipment volume for the year not less than 30% of the total sales. However, the sales ratio of camera module products with 10 megapixel and above dropped by about 2.7 ppts yoy to about 70.8%. As a result, the company's average unit price of camera modules in the first half of the year fell by approximately 12.4% yoy from approximately RMB 42.8 in the same period to RMB 37.5 but it has increased by 6.5% from the average unit price of RMB 35.2 in the second half of 2020, reflecting a mom increase of camera module products. The unit price has returned to the upgrade track. We believe that the trend of lowering regulations and allocations of mobile phones in the second half of the year still exists, and the company is still under pressure to increase unit prices. However, the second half of the year is expected to enter the peak season of the traditional mobile phone supply chain and drive the sales of camera module products to increase mom. In addition, the unit price of the module continues to be close to the average unit price of the industry leader Sunny Optical (approximately RMB 39.2) and the industry recognition has been verified.

For the next five-year plan, the company has put forward three strategic goals in terms of industry positioning, new segments and vertical integration: 1) To rank top 2 in terms of sales volume of CCm and FPM as well as top 5 in terms of sales volume in automotive CCM. 2) To pursue progress in the new segments such as automotive, AR/VR, smart home and target a quarter of revenue contribution coming from these new segments. 3) With module packaging and testing as the cornerstone, reach out and further integrate with upstream supply chain for the purpose to provide leading total intelligent vision system solution. We believe that the company's short-, medium-, and long-term customer marketing goals are clear. In addition, the smart phone camera upgrade logic remains unchanged, and the company continues to optimize the camera module product structure. Car cameras with high ASP are in the incremental market and are expected to replicate the mobile phone sales logic. Car camera modules have been certified by many car companies, including Geely automobile, BGMW, XPENG Motors. The company is also actively deploying in the IoT field and cultivating 6 types of segmented application, including drones, wearables, smart home, smart panel, laptop, AR/VR.

Renewable Energy (Stanley IP)

This month, I have released an initiation report on China Resource Power Group (HK:836) with a buy rating and price target of $33.4 HKD.

CRP aims to build 40GW renewable power capacity during the 14th fifth five year planning period, around 3.57x times of the 11.2GW attributable capacity in operation at the end of 2020. Renewable segment would contribute over 75% of the earning by 2025E, a meaningful transformation to renewable energy from just 38.9% contribution in 2020. We issue a price target of $33.4 HKD for CRP, with the consideration of 1) Earning growth forecast of 13.6% CAGR during the 14th fifth period 2). P/E rerating as renewable companies listed in the HKEX market have a higher multiple. Positive factors not reflected into our target price include 1) Potential pricing premium on renewable electricity through the Green Energy Trading Pilot Scheme, 2). Electricity price differential widening during peak demand hours potentially drive higher revenue on thermal power electricity, & 3). A-share listing prospect.

We expect CRP to spend over $150 - $175 billion HKD during the 14th fifth period to meet the 40GW renewable target, an estimated 43% to 67% increase over $104.9 billion HKD spending during the 13th fifth period. We view the amount of spending is achievable without equity funding, an A-share listing is still possible if CRP plan to invest more aggressively. Equity financing in the HK market is unlikely in my view, given 1). A-share listing could raise fund with much lower share dilution. Peers listed on both HK and A shares market, Datang, Huaneng and Huadian, their average A/H share premium is 1.16x times based on close price on Sep 15, 2021. 2). CRP current P/B ratio is still just slightly above 1 even with the recent outperformance compare to the market of 157.32% return in the last 1-year. If the norm for equity funding at P/B > 1 do applied, share price fluctuation could be a big uncertainty. We view a HK market equity funding is not as practical as an A-share listing.

The three major segments: traditional thermal power, heat supply and renewable power generation accounted for 74%/8%/18% of total revenue respectively in 2020. Operating income in 1H21 was 42.23 billion HKD, a yoy increase of 35.4%. We expected thermal power will grow modestly, except for the short-term negative impact caused by the sharp spike on coal price. CAPEX spending on renewable projects will accelerate profit growth and reduce the impact of coal price movement on earnings. Our target price for CRP in 2021 is at $33.4 HKD, which corresponds to a P/E ratio of 24.5x/14.4x/ 12.5x for 2021/2022/2023 EPS. It is covered for the first time and is given a BUY rating.

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
20210908	600741 CH	HASCO	ZJ	Accumulate	23.04	27.50	19.36%	22.82	-0.95%	23.2	-1.64%
20210917	600104 CH	SAIC	ZJ	Buy	20.21	25.90	28.15%	19.08	-5.59%	19.32	-1.24%
20210929	601021 CH	Spring Airlines	ZJ	Buy	53.01	66.70	25.83%	54.58	2.96%	53.18	2.63%
20210906	2331.HK	Li Ning	TC	Accumulate	104.5	118.45	13.35%	90.15	-13.73%	104.5	-13.73%
20210917	1368.HK	Xtep Int'l	TC	Buy	13.54	18.75	38.48%	10.9	-19.50%	13.15	-17.11%
20210924	2020.HK	Anta Sports	TC	Accumulate	148.7	178.89	20.30%	146	-1.82%	159.4	-8.41%
20210910	1478HK	Q Technology	SA	Buy	12.72	21.20	66.67%	11.22	-11.79%	13.64	-17.74%
20210927	2382.HK	AAC Technology	SA	Buy	38.55	49.95	29.57%	37.15	-3.63%	42.4	14.13%
20210929	836.HK	China Resource Power	SL	Buy	22.85	33.40	46.20%	22.4	17.15%	19.12	80.38%

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 ± 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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