Report Review of February. 2022

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Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:
Air & Automobiles (Zhang Jing),
TMT, Semiconductors, Consumer & Healthcare （Eric Li）

Automobile & Air (ZhangJing)

This month I released 2 updated reports of Wanfeng (002085.CH), and Weichai (2338.HK) which got success by their unique Competitive edge. Among them, we highly recommend Weichai.

In 2021, China's heavy truck industry showed an obvious trend of highs and lows. There was a high growth rate in H1. The sales volume grew by 27.7% yoy; "eight consecutive declines" were seen from May to December. In particular, the year-on-year decline from August to December exceeded 50%. The cumulative sales volume for 2021 reached 1,391 thousand units, down 14.1% yoy, the first decline in the past six years, but still the second highest in history, second only to 2020. The main reasons are due to:1) the base number; 2) The policy transfer overdrafted demand; 3) The demand for construction of real estate and infrastructure, logistics and transportation weakened in H2.

However, we think that the worst period of the heavy truck industry has passed. In 2022, the sales of heavy trucks is expected to gradually increase, mainly due to:

1) Amid the enhanced environmental protection policies, Shandong, Shanxi, Hebei and Henan provinces have announced policies for the elimination of trucks with China IV Emission Standards, which is expected to support the demand;

2) The government has repeatedly emphasized that "steady growth should be placed in a more prominent place". RRR and interest rate cuts, early issuance of special bonds, and real estate financing corrections and other relevant measures have all been secured. As at January 9, the total investment of major projects started in many places across China exceeded RMB3 trillion, which significantly outstripped that of the same period last year. In 2022, there is a high possibility that the growth of infrastructure construction will rally. The heavy trucks will benefit;

3) With the passage of time, the cumulative inventory of trucks with China V Emission Standards in H2 of 2021 will be gradually consumed. The sales volume of trucks with China VI Emission Standards is expected to return to the normal level. The negative impact of the upgrade of China VI Emission Standards will gradually be eliminated.

The market concentration of the heavy truck industry further increased in 2021. The total market share of the top five heavy truck manufacturers rose from 84.2% in 2020 to 85.6%. Specifically, Sinotruk and other leading enterprises continued to expand their market share, which is conducive to the steady growth of the Weichai's supporting heavy truck engine business.

In May 2021, Weichai, through private placement, raised RMB13 billion to invest in construction projects of multiple key new businesses, including projects of fuel cell, hydraulic powertrain and CVT powertrain, large-bore engine, and road engine. With years of R&D investment and layout in these fields, the Company has gained certain advantages in the core technology, channel and brand. In addition to obvious cost and after-services advantages, the Company has begun to enter the high-end market. The private placement project helped the Company continuously accumulate technological advantages and better seize the opportunities in the localization substitution of high-end products. In the medium term, the Company has a clear strategic framework of "power engine + hydraulics + new energy", with the domestic and overseas markets. The space for future development may be expected.

TMT, Semiconductors, Consumer, Healthcare (Eric Li)

This month I released an updated report of 361 Degrees Int. (01361.HK).

Established in 2003, 361 Degrees International Limited (361 Degrees) is an integrated sportswear enterprise which principally engages in brand management, research and development, design, manufacturing and distribution in China and across the globe. Its comprehensive product portfolio comprises footwear, apparel, accessories under the 361° Core brand, 361° kids brand, and ONE WAY, an authentic Finnish brand focuses on higher functional and more specialized outdoor products. operates a distributorship business model through the first-tier exclusive distributors and second-tier authorized retailers to manage an extensive distribution network of over 6,000 retail stores across China and the world. It has established a leading position in third-tier and lower-tier cities in China.

The retail sales (in terms of the retail value) of 361 Degrees core branded products for the 4Q21 recorded high teens growth compared to the same period of 2020. The retail sales (in terms of the retail value) of kids branded products for the 4Q21 recorded 25 to 30% growth compared to the same period of 2020. Compared with the 3Q21, the retail sales core branded products and kids branded products for the 3Q21 recorded low teens and 15 to 20% YoY growth respectively, reflecting a further improvement in operations in the Q4. Meanwhile, the overall retail sales of E-commerce products for the 4Q21 recorded 35 to 40% growth compared to the same period of 2020.

Geographically, approximately 76.26% of the stores were located in third- and lower-tier cities in China, while 23.7% were located respectively in first-and second-tier cities in the country. Geographically, approximately 70.77% of the POS offering 361 Degrees Kids products were located in third-tier and lower-tier cities in China. Over the past years, the growth of China's retail market is especially contributed by the lower-tier retail market, whose market size has grown from RMB9.9 trillion in 2015 to RMB15.1 trillion in 2020, representing a CAGR of 8.8% (overall retail market increasing by a CAGR of 8.6%). Meanwhile, benefiting from a large population, rising income level, as well as favorable policy trends, China's lower-tier retail market has increasingly contributed to the overall retail market with huge growth potential.

According to the Frost & Sullivan Report, the permanent resident population in China's lower-tier market reached 1.23 billion by the end of 2020, accounting for over 87% of China's total population. With the continued improvement in living standards and support from local governments, the GDP of China's lower-tier market has grown from RMB53.0 trillion in 2015 to RMB78.8 trillion in 2020, which accounted for 77.6% of China's total GDP in 2020, and is expected to further increase to RMB109.9 trillion by 2025. The annual per capita disposable income in China's lower-tier market is expected to grow at a CAGR of 7.2% from approximately RMB29,000 in 2020 to approximately RMB40,000 in 2025, higher than the growth of 6.3% in the tier-one and -two market. The increasing household income level is expected to lead to stronger consumer spending power in the lower-tier market. The market size of China's lower-tier retail market is also expected to increase from RMB15.1 trillion in 2020 to RMB20.6 trillion in 2025..

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing	Last Month Return	Closing Price 2M ago	1M Price Chg
20220209	002085 CH	Wanfeng	ZJ	Buy	4.91	6	22.20%	4.85	-1.22%	4.87	-0.41%
20220214	2338 HK	Weichai	ZJ	Buy	14.5	22	51.72%	13.2	-8.97%	14.04	-5.98%
20220223	1361 HK	361 Degree	EL	Buy	3.83	5.29	38.12%	3.83	0.00%	4.5	-14.89%

A stock is calculated by RMB yuan.

Source: Phillip Securities Research

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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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