Report Review of June 2022

Hong Kong | INVESTNOTES REPORTS REVIEW

PhillipCapital
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Phillip Securities (Hong Kong) Ltd

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

Automobile & Air (ZhangJing)

This month I released 2 updated reports of Yongda (3669.HK)，and Great Wall Motor (2333.HK) which got attention by their unique Competitive edge. Among them, we prefer 2333.HK first.

In 2021, Great Wall Motor reported operating revenue of RMB132.17 billion, up 32% yoy. The net profit attributable to the parent company was RMB6.73 billion, up 25.4% yoy. The earnings per share was RMB0.73, and the cash dividend per share was RMB0.07 (tax-inclusive). Including a mid-term dividend of RMB0.3 in 2021, the dividend payout ratio reached 51%. The gross margin in 2021 was 16.16%, down 1.05 ppts yoy. Due to stock option expenses and increased investment in intelligence, electrification and new model R&D, administration expenses and R&D expenses surged to RMB4.04 billion and RMB4.49 billion, respectively, up 58.4% and 46.4% yoy, respectively. Eventually, the net profit margin fell 0.26 ppts to 4.93%.

Last year's results were slightly lower than we expected, mainly due to the serious chip shortage in the automotive industry in H2. The production and delivery pace of vehicle factories was interrupted, while the continuous price rise of raw materials affected the gross margin.

In Q1 2022, Great Wall Motor's operating revenue was RMB33.6 billion, up 8% yoy. The net profit attributable to the parent company was RMB1.63 billion, down 0.3% yoy, basically flat. In Q1, the Company's gross margin was 17.2%, up 2.1 ppts yoy and up 1.9 ppts qoq, mainly due to the product structure optimization and the reduction of one-off factors such as expense accruals, which offset the impact of rising raw material prices and chip shortage.

Since the beginning of 2022, vehicle factories have raised the selling price of products to hedge against the rising cost of raw materials, and Great Wall Motors is no exception. The Company has raised the minimum selling price of Ora Good Cat and Wey by approximately RMB1, 600-12,000. On the other hand, under the premise of short supply, the Company has prioritized the resource allocation for high-value models such as Tank, and discontinued some low-priced models such as Ora Black Cat and White Cat. In terms of the average price of single vehicles, the average price of single vehicles of Great Wall Motor in 2021 was RMB106 thousand, a year-on-year increase of RMB13 thousand. In Q1 2022, the average price of single vehicles was RMB119 thousand, a year-on-year increase of RMB27 thousand, a record high.

Great Wall Motor previously announced the 2025 Strategy - "Green Intelligent Future Technology": The Company plans to achieve the global annual sales target of 4,000 thousand vehicles by 2025, 80% of which are new energy vehicles, with operating revenue exceeding RMB600 billion. In the future, the accumulated R&D investment will reach RMB100 billion. We believe that the core technologies including cobalt-free batteries, hybrid DHT technology, 3.0T+9AT/9HATP2 powertrain, wire-control chassis and smart cockpit, and the Coffee Intelligence platform, is expected to continuously strengthen the Company's strength in new energy vehicles and intelligence in the future, and open up the future valuation space.

In 2022, Great Wall Motor will still usher in an enhanced new product cycle. Wey, Tank and Ora brands will launch multiple new models. Meanwhile, an abundant order in hand is also a strong guarantee for the rapid growth of sales volume and operating revenue after the pandemic.

TMT, Semiconductors, Consumer, Healthcare (Eric Li)

This month I released two reports of 361 DEGREES INT. (1361) & ASM PACIFIC (522).

During 2021FY, 361 Degrees International Limited (361 Degrees) recorded a revenue of RMB5,933.5mn (2020: RMB5,127mn), increasing 15.7% YoY, slightly below our estimates of RMB6,040mn but roughly in line with consensus estimates RMB5,922mn. Profit attributable to the equity shareholders of the Company was RMB601.7 million, increase of 45% and 39.2% by compared with 2020 and 2019 respectively, above our and consensus estimates of RMB507.4mn and RMB549.0mn respectively. Net margin was up by 2ppt YoY to 10.1%.

The revenue of footwear products and clothing products were RMB2,532mn (accounting for 42.7% of the overall revenue) and RMB2,147mn (accounting for 36.2% of the overall revenue), an increase of 21.7% and 7.3% YoY. By adjusted the upgrade of product mix by launching a variety of new products with a higher average wholesale price (AWP) and drove the revenue growth from the e-commerce business, the AWP of footwear and apparel products are back to pre-epidemic levels, increased by 4.4% and 2.3% YoY. In addition, the sales volume of footwear and apparel products increased by 16.6% and 4.8% YoY, respectively. This was mainly due to the recovery in the market and continuous brand image enhancement as well as introducing high-quality new products. The sales volume of the accessories edged down by 0.8% YoY but the AWP of the accessories increased by 31.2% YoY which led to a YoY increase of 30.3% in the revenue to RMB69mn from the sales of accessories. Also benefited from the recovery of the market, the revenue from 361 Degrees Kids for the year continued to grow, recording a YoY increase of 18.7% to RMB1,107mn, and accounted for approximately 18.7% of the total revenue during the year. The growth was attributable to a YoY increase of 18.4% in the sale volume of products and a YoY increase of 0.2% in AWP.

Cost of sales was increased by 8.7% YoY, in which, the cost of internal production and outsourced products increased by 16.9% and 2.9% YoY, respectively. The increase in cost of internal production was attributable to the increase in raw materials consumed by 19.7% and labour cost by 31.8% YoY. Gross profit of RMB2,472.4mn for the year of 2021, representing an increase of 3.8 percentage points in the gross profit margin to 41.7%. The gross profit margins of footwear, apparel, accessories and 361 Degrees Kids increased by 4.5ppt, 4.7ppt, 10.0ppt and 0.2ppt to 43.1%, 41.4%, 38.4% and 41.2% respectively. The gross profit margin improved, mainly due to an upward adjustment of the AWP charged to distributors back to the normal level in the situation before the pandemic happened in early 2020 in view of the improved market environment in China and the increase in proportion of sales revenue generated from its e-commence platform. In addition, Other factors that contributed to an increase in the profit margin also included the decrease in production cost because of the improved production efficiency and effective cost control over the subcontractors. Overall operational efficiency has also improved, with the average trade and bills receivable cycle was 149 days a 10-day decrease from 2020; the average inventory turnover cycle was decreasing by 24 days to 87 days.

For the 1Q2022, the retail sales (in terms of the retail value) of core branded products recorded high teens growth compared to the same period of 2021. The retail sales (in terms of the retail value) of kids branded products recorded 20-25% growth compared to the same period of 2021. Meanwhile, overall e-commerce products recorded approximately 50% growth compared to the same period of 2021, which accelerated from the 35-40% YoY growth in 4Q2021.

Since nearly 80% of the company's stores are located in third- and lower-tier cities in China, in addition to being relatively less affected by this round of epidemic, the growth of the domestic retail market is also more prominent than that in first- and second-tier cities. The company's products are positioned at high cost performance, “specialised, youthful and internationalised”, and e-commerce channels increases the coverage of markets, which will help enhance brand competitiveness and drive sales recovery. Management indicated that sales turnover growth in the 2Q2022 could still reach about 20% and maintained low double-digit growth guidance for the full year.

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
20220606	3669 HK	Yongda	ZJ	Buy	8.79	11	25.14%	7.42	-15.59%	7.597	-2.33%
20220617	2333 HK	GWM	ZJ	Buy	16.44	24.7	50.24%	16.14	-1.82%	14.12	14.31%
20220607	522 HK	ASM Pacific	EL	Accumulate	71.5	85.25	19.23%	66.65	-6.78%	71.50	-6.78%
20220614	1361 HK	361 DEGREES INT.	EL	Accumulate	4.01	4.43	10.47%	4.24	5.74%	3.93	7.89%

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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