

Sectors:

Air & Automobiles (Zhang Jing),

TMT, Semiconductors, Consumer & Healthcare (Eric Li)

Automobile & Air (ZhangJing)

This month I released 3 updated reports of Minth (425 HK), SIA (600009 CH) and CAERI (601965 CH), which got attention by their unique Competitive edge. Among them, we prefer CAERI.

CAERI is the only listed company in the A-share automotive industry that is engaged in automotive technology service business. It has strong automotive R&D and testing capabilities. In H1 of 2022, CAERI reported a revenue of RMB1,340 million, down 25.58% yoy. The decline in revenue was mainly due to the Company's initiative to control the scale of the equipment manufacturing business with declining market prosperity, resulting in a sharp decline in its revenue by nearly 80% yoy. However, the significant improvement of the sales structure led to a sharp increase in the gross margin during the reporting period, which greatly improved the profitability. The Company reported a net profit attributable to the parent company of RMB300 million, up 14.1% yoy, and a net profit attributable to the parent company excluding non-recurring items of RMB299 million, up 19.26% yoy.

On a closer look at the business segments, 1) the Company reported a revenue of RMB1,139 million in the automotive technical service business, up 30.16% yoy, mainly due to the effectiveness of the Company's strategy of strengthening market development, as well as the continuous optimization of the business structure, which led to a year-on-year improvement in the non-regulatory business such as wind tunnel, new energy and intelligent connected business; 2) the Company reported a revenue of RMB201 million in the equipment manufacturing business, down 78.27% yoy, mainly because under the impact of the market quotation on the SPV modification and sales business, the Company strengthened risk management and controlled the scale of the business, resulting in a year-on-year decrease in the revenue.

During the reporting period, the Company continued to make breakthrough in the innovative business, and the revenue proportion of the automotive technical service business with high gross margin (gross margin of 51%) expanded by 36.4 pts to 85%. A better sales structure has driven a sharp increase in the profitability: In H1, the Company's comprehensive gross margin reached 43.68%, up 14.69 pts yoy, and the net profit margin climbed to 23.4%, up 8.3 pts yoy.

With the entry of Internet companies and new car-making forces, the vehicle architecture has evolved to "intelligent cockpit + autonomous driving + skateboard chassis", and the integration of automotive technology and cross-sector technology has accelerated. The Company's high value-added business is expected to enter the fast lane, and its future results will also benefit from the rising proportion of high value-added business.

TMT, Semiconductors, Consumer, Healthcare (Eric Li)

This month I released 2 reports of L'OCCITANE (973.HK) & PRADA (1913.HK).

The Prada Group (1913) is a leading business in the luxury goods industry, where it operates with the Prada, Miu Miu, Church's and Car Shoe brands producing and distributing leather goods, footwear and apparel. It also operates in the food industry with Marchesi 1824, in the most prestigious sailing races with Luna Rossa and in the eyewear and fragrance industries under licensing agreements.

The Prada owns 23 manufacturing plants (20 in Italy, 1 in the United Kingdom, 1 in France and 1 in Romania) and its products are sold in 70 countries worldwide, primarily through directly operated stores. The Prada Group's products are also sold directly through the brands' e-commerce activity and indirectly by selected prestigious department stores, independent retailers in very exclusive locations, and important e-tailers.

For the 1H2022, Prada Group generated net revenues of EUR1,900.9mn, up by 22.5% at constant exchange rates from those of the 1H2021 and by 22.2% from 1H2019, exceeded pre-pandemic levels. At current exchange rates, the 2021 performance was boosted by 26.6% growth. The recurring operating result for the period, or EBIT Adjusted, was EUR331mn, whereas it increased by 99.4% compared to 1H2021 (EUR165.9mn). The EBIT Adjusted was also considerably higher than 119.8% that of the 1H2019 (EUR150.5mn). Profit attributable to shareholders was EUR188.3mn, an increase of 93.6% YoY. Basic EPS were EUR0.074 (1H2021: EUR0.038), an increase of 94.7%.

By brands segment, Prada brand retail net sales were 28.1% (at constant exchange rates) higher than in the first six months of 2021 and 45.5% (at constant exchange rates) above 1H2019. Miu Miu's sales increased by 13.6% (at constant exchange rates) from 1H2021 and by 5.3% (at constant exchange rates) from that of 1H2019. Miu Miu finds itself in a relaunch phase. Church's, the brand most affected by the geographical exposure to Europe, reported a gain of 28.7% (at constant exchange rates) on the 2021 sales. Royalty income, supported by the growth in the eyewear segment, rose by 22.2% YoY.

For the 1H2022, the gross margin corresponded to 77.7% of the net revenues, up substantially 340bps from the 74.3% of 2021. Despite cost inflation, for example in logistics costs, a higher average price, greater absorption of production overheads, a better sales mix in terms of distribution channels and a favorable exchange rate were behind the improvement of operation result. The increase is even more significant when comparing the 2022 margin with that of the 71.7% in 1H2019.

For 2H2022, management would benefit from further operating leverage and also remains optimistic on the underlying demand of the Chinese market. However, we believe that some concerns around the macro outlook remain, resulting in continued volatility in coming results.

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
20221024	00973.HK	L'OCCITANE	EL	Buy	20.20	25.89	28.17%	19.30	-4.46%	23.36	-17.38%
20221005	01913.HK	PRADA	EL	Buy	40.45	54.4	34.49%	35.75	-11.62%	36.40	-1.79%
20221007	425 HK	Minth	ZJ	Buy	18.2	31	70.33%	15.5	-14.84%	17.38	-10.82%
20221017	600009 CH	SIA	ZJ	Accumulate	56.21	64.5	14.75%	53.38	-5.03%	57.78	-7.62%
20221027	601965 CH	CAERI	ZJ	Accumulate	18.19	21.6	18.75%	18.85	3.63%	18.91	-0.32%

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2022 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
Number 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Heng Feng Road,
Green Tech Tower Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 60911155
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005

AUSTRALIA

PhillipCapital Australia

Level 10, 330 Collins Street

Melbourne VIC 3000

Tel (+61) 3 8633 9803

Fax (+61) 3 8633 9899

Website: www.phillipcapital.com.au