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Report Review of January 2023

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Air & Automobiles (Zhang Jing),

TMT, Semiconductors, Consumer & Healthcare (Eric Li)

TMT, Food (Elvis Kwok)

Automobile & Air (ZhangJing)

This month I released updated reports of BYD(1211.HK) and initiation report of Bethel (603596.CH).

For 2022, BYD's new energy passenger vehicles reported a cumulative sales volume of 1,863 thousand units, +208.64% yoy, exceeding its annual sales target of 1,500 thousand units. On a closer look, the cumulative growth rate of pure electric vehicles was 184%, and that of plug-in hybrid electric vehicles was 247%. On the basis of the blade battery, the DM-i super hybrid technology, the e-platform 3.0 and the CTB battery body integration technology, new products constantly launched by the Company were significant in the competitive strength, showing a pattern of prosperous supply and demand in the terminal market.

In order to obtain broader market space, BYD has increased its efforts to develop the overseas markets since this year. In addition to vehicle exports, the Company currently has six overseas plants in Japan, the United States, Brazil, Hungary, Thailand (under construction), and France (planned), respectively. The Company is developing the overseas new energy passenger vehicle market with the good product reputation that it has previously gained through the export of electric buses. In the short term, the Yuan PLUS, Dolphin and Seal will be successively released in the Oceania countries and the Asian countries such as Japan, Singapore and Thailand, and the Yuan PLUS, Han and Tang will be launched in the European countries such as Germany, Sweden, and Norway, and the Latin American countries such as Brazil and Mexico. In the medium and long term, the export models will also be expanded. We expect the overseas sales volume to continue to grow rapidly from less than 10 thousand units in 2021 to more than 500 thousand units in 2024 with the network expansion and successful cooperation with local dealers.

Since its establishment, Bethel has been constantly upgrading its business with a focus on the automotive braking field and has continued to make breakthroughs in product lines, ranging from basic mechanical brake products, lightweight parts, and electrical control brake products such as electronic parking brake (EPB), anti-lock braking system (ABS), and electronic stability control (ESC), to wire-controlled brake system (WCBS). In addition, it owns industry-leading independent forward development capacity. From 2022, the Company expanded the major business from fields including automotive braking systems and intelligent automotive drive systems to the business field of automotive steering systems. The Company has implemented equity incentives and employee stock ownership plans many times, covering senior executives and technical elites in different departments, so as to promote the enthusiasm and stability of the core talent. Besides, a relatively long restricted trade period also displays the Company's firm determination to achieve long-term development, which helps stabilize investors' confidence in the Company. We estimate that the scale of disc brakes, which is one of mechanical brake business, will keep a two-digit steady growth and provide stable sources of cash flows; the growth rate of the Company's lightweighting products, another mechanical brake business, will reach 30% in the next three years. Automotive intelligence is a long-term trend in the industry, in which the intelligent electrical control brake field plays an important role. Under the trend of reduced costs of parts, high-quality domestic manufacturers are gradually infiltrating from low-end models to high-end models and are continuously narrowing their gaps with international giants. Once the maturity of technologies and manufacturing process exceeds the tipping point, they are expected to successfully achieve domestic substitution based on cost advantages. As one of a few local enterprises that own independent intellectual property rights and can realize the mass production of EPB, ESC, ABS, and WCBS products, the Company is expected to

Review report

achieve domestic substitution by expanding customer groups. The intelligent electrical control business is creating a second growth curve for the Company.

TMT, Semiconductors, Consumer, Healthcare (Eric Li)

This month I released the report of Chow Tai Fook Jewellery (01929.HK).

Chow Tai Fook Jewellery (CTF) revenue grew 5.3% to HK\$46,535mn in 1HFY2023. Revenue growth was driven by the steady expansion of retail network and robust demand for gold jewellery and products in the Mainland. Gross profit increased 1.6% to HK\$10,962mn. Adjusted gross profit margin declined to 22.4% from 23.5% in the same period last year, mainly attributable to a higher share of our wholesale business and gold jewellery and products. Core operating profit was down by 2.7% to 4,349mn due to the flourishing wholesale business and a higher contribution from gold jewellery and products. Profit attributable to shareholders decreased by 6.8% to HK\$3,336mn, mainly due to a net foreign exchange loss 268.9mn (1HFY2022: net gain of 46.6mn) arising from the weakening of RMB. EPS was HK\$0.33, with an interim dividend of HK\$0.22 per share in 1HFY2023, representing a payout ratio of approximately 66.0% (1HFY2022: 61.4%).

Revenue in the Mainland was up 6.2% to HK\$40,927mn in 1HFY2023. On a constant exchange rate basis, revenue increased by 9.3% in the period. Same Store Sales (SSS) dropped by 7.8% YoY (SSSG turned positive in 2QFY2023, and RSV increased by 28.0% YoY). SSS of gold jewellery and products was down 3.3% YoY. ASP of the product category increased to about HK\$5,500 during the period (1HFY2022: HK\$5,200). SSS of gem-set, platinum and k-gold jewellery dropped 13.9% during the period. Gem-set jewellery ASP climbed to approximately HK\$7,500 (1HFY2022: HK\$7,200).

Revenue in Hong Kong, Macau and other markets was down by 0.5% to HK\$5,608mn. Share to the Group's revenue amounted to 12.1%. Although retail revenue was improving in Hong Kong, wholesale revenue decreased by 25.1% mainly due to the pandemic-control measures in Hainan Province, which constrained the sales from duty-free business. SSSG increased by 1.3% YoY, while SSS volume growth was down by 8.7%. SSS of gold jewellery and products was up 6.1% in 1HFY2023, outperforming other product categories. ASP of the product category enjoyed an upward trend and reached about HK\$7,000. SSS of gem-set, platinum and k-gold jewellery dropped 6.9% in the period. Yet, on a quarterly basis, it rebounded to positive growth in the second quarter. ASP of gem-set jewellery also increased by about 18% to HK\$16,400. 89 POS in Hong Kong & Macau of China, closed a net of 3 POS. 43 POS in Other markets, while opened a net of 2 POS.

Management expected that 3QFY2023 performance to continue subdued as it was in 1QFY2023, mainly due to the prolonged impact of COVID in mainland China, and guided a high single digit sales decline in mainland China during 2HFY2023. However, some new products would be launched in during peak periods of consumption in Q4, and expect to help stabilize the sales. Management guided SSS growth of low-single-digit to mid-single-digit in mainland China, and teens growth in Hong Kong & Macau in FY2024. As the company expected to focus on improving store efficiency and growth quality, the number of net store openings will slow down to 600 to 800, and it is expected that FY2024 sales growth will be low-to-mid-teens. In addition, the company targeted to increase the proportion of self-operated stores in next year (higher gross profit margin than franchised), and with the help of product upgrade (the launch of the new Wonderful Life Collection) and reduced discounts, it is expected that there would be continued improvement of the overall core operating profit margin.

TMT, Food (Elvis Kwok)

This month I released one report, Kuaishou (1024.HK).

Kuaishou (1024.HK) main business includes online marketing services, live streaming and other services (including e-commerce). Online marketing business income mainly comes from short video and live broadcast advertisements, live stream business income mainly comes from paid content and the revenue sharing of users buying virtual items as gifts to anchors, other service income mainly comes from e-commerce.

Kuaishou (1024.HK) has announced the Q3 report ended September 30, 2022. The company's revenue amounted to RMB 23.1 billion, increasing 12.9% YoY. Gross profit amounted to RMB 10.7 billion, increasing 25.8%. Gross profit margin was 46.3%, increasing 4.8 percentage point YoY. Operating loss was RMB 2.6 billion, loss narrowed by 64.7% YoY. The loss for the period was RMB 2.7 billion, loss narrowed by 61.7% YoY. Adjusted net loss amounted to RMB 671.9 million, loss narrowed by 85.4% YoY. Adjusted EBITDA amounted to RMB 1.02 billion, out of the red YoY.

The company's three main businesses are all developed around user traffic. The traffic brought by live stream and short video business attracts advertisers to place advertisements on the platform and increase e-commerce revenue, while advertising and e-commerce revenue can provide creators engaged in live stream and short video bring in more revenue and attract more creators to join Kuaishou. For example, Kuaishou guides live stream e-commerce advertisers to invest resources in short video platforms, and at the same time encourages short video advertisers to participate in live stream, bringing more marketing opportunities to advertisers. Overall, the three main businesses can add value to each other.

Positive factors

China's relaxation of anti-epidemic measure boosts business activity. Under the impact of policies. Chinese users' entertainment patterns have changed. Reorganization of overseas markets is expected to become a growth driver. Cost control performed well.

Risk factors

Regulatory risk from China. Tencent dividend risk.

Overall, we believe that the e-commerce business and overseas business will become the biggest growth drivers of Kuaishou in the future. Also, the company has performed well in controlling costs and expenses. However, the competition in the overseas market is fierce, and the management of the overseas business has been changed many times, which brings uncertainties. Investors need to continue to pay attention to the development of Kuaishou's overseas market, including whether the cost of publicity will be too much, the average daily usage time of overseas users and user growth data. We expect Kuaishou's net sales amount to RMB 91.4 billion, 105.9 billion and 125.6 billion in FY2022-2024 respectively, CAGR is 11.15%. Corresponding P/S ratio are 3.50/3.02/2.55x. We give Kuaishou 3.2x P/S in FY2023 and a target price of \$91.3 HKD. (Calculated at the exchange rate of RMB to HKD 1.16), with a "buy" rating. (Current price as of January 13)

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
202330131	01929.HK	Chow Tai Fook Jewellery	EL	Accumulate	15.800	17.220	8.99%	16.740	5.95%	15.920	5.15%
20230120	603596 CH	Bethel	ZJ	Buy	82.74	107	29.32%	86.51	4.56%	79.8	8.41%
20230117	1024.HK	Kuaishou	EK	Buy	74.400	91.300	22.70%	68.650	-7.73%	71.050	-3.38%
20230109	1211 HK	BYD	ZJ	Buy	207.8	328	57.84%	245	17.90%	192.6	27.21%

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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