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# Report Review of October 2023

Hong Kong | INVESTNOTES REPORTS REVIEW

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Sectors:

Air & Automobiles (Zhang Jing)

TMT, Semiconductors, Consumer & Healthcare (Eric Li)

## Automobile & Air (ZhangJing)

This month I released updated reports of Fuyao Glass(3606.HK) and BYD(1211.HK)

Fuyao released its FY2023Q3, with a revenue of RMB23.826 billion yuan in the first three quarters of 2023, a yoy increase of 16.6%; The net profit attributable to the parent company was 4.126 billion yuan, a yoy increase of +5.8%. Among them, the company achieved a revenue of 8.795 billion yuan in the third quarter, +16.7% yoy; net profit attributable to the parent company of 1.290 billion yuan, a yoy decrease of 15.1%. The decline in performance in the third quarter was mainly due to a exchange loss of 264 million yuan, compared to a exchange gain of 550 million yuan in the same period of 2022. Otherwise, the net profit will be 1.554 billion yuan, representing a yoy increase of +61.10%. The gross profit margin performed well in Q3 2023, at 36.31%, with a yoy increase of 1.39 pct, the main reasons include the continuous improvement in the product structure, scale effect, and the decreased ocean freight/soda price. The Company maintained high R&D input to push forward the upgrade of product technology and the added value of products. The adoption of new energy and smart solutions in the automotive industry has further raised the glass ratio per vehicle. Therefore, Fuyao Glass' average sales price (ASP) continues rising. In the first half of the year, the proportion of high-value-added products, including ceiling glass, HUD, camera glass, coated glass, and tempered soundproof car door glass, grew by approximately 10.1 ppts to 52.4%. The ASP of automobile glass increased by approximately 10%. The future trend of automobile glass to be safe, comfortable, energy-saving, environmentally friendly, intelligent, and integrated will bring structured opportunities for the Company regarding the sales of automobile glass.

According to BYD's third quarter report, in the first three quarters, it reported revenue of RMB 422.3 billion, an increase of 58% yoy, and net profit attributable to the parent company of 21.4 billion, an increase of 129%. Among them, Q3 revenue was 162.2 billion, a yoy increase of 38%; The net profit attributable to the parent company was 10.4 billion yuan, a yoy increase of +82%. In 9M 2023, the industry of new energy vehicle in China maintained rapid growth, with sales volume increasing by 37.5% yoy. BYD's sales volume of new energy vehicles robustly increased by 76% from the high base (1,180 thousand units) of 9M last year to 2,079.6 thousand units, with a market share in the market of new energy vehicles reaching 40%, increasing by 11.4 ppts from the level of 2022. In 2023, BYD owned constantly boosted brand strength, the scale advantage of continuously expanded sales volume, the cost-control capabilities of industrial chains, and the dropping prices of upstream raw materials. Due to these strong points, in the auto industry with intensified competition during H1, BYD continued to maintain good profitability, giving it a markedly rising single vehicle profit. In H1, BYD had a net single vehicle profit of approximately RMB 11,600, which increased by near 30% qoq. By proactively expanding the distribution in the overseas market, since the start of H2 2022, BYD has enabled its new energy passenger vehicles to successively enter 53 countries and regions, such as Japan, Germany, Australia, Singapore, Thailand, Brazil, and New Zealand, with overseas sales volume rising rapidly. In Sep., BYD exported new energy passenger vehicles of 28,039 units, up 12% mom, accounting for 9.75% of the total; from Jan to Sep, BYD cumulatively exported such vehicles of approximately 145.5 thousand units, with the proportion of the total increased to 7%. It is predicted that, supported by its highly competitive and abundant product lines, BYD has enormous potential in the overseas market, so BYD is expected to break through the sales volume of exported passenger vehicles of 200 thousand in 2023.

### TMT, Semiconductors, Consumer, Healthcare (Eric Li)

This month I released reports of Alibaba (9988).

In the quarter ended June 30, 2023 (1QFY2024), Alibaba (NYSE: BABA and HKEX: 9988) revenue was RMB234,156 million, an increase of 14% YoY, which was better than the consensus. Adjusted EBITA increased 32% YoY to RMB45,371 million. Net income attributable to ordinary shareholders was RMB34,332 million, an increase of 51 YoY. Non-GAAP net income was RMB44,922 million, an increase of 48% year-over-year, which was also better than the consensus.

In 1QFY2024, Revenue from Taobao and Tmall Group was RMB114,953 million, an increase of 12% YoY. Among, revenue from China commerce retail business was RMB109,828 million, an increase of 13% YoY. Customer management revenue increased by 10% year-over-year, primarily due to the increase in merchant's willingness to invest in advertising and increase in online physical goods GMV generated on Taobao and Tmall, excluding unpaid order. The growth also reflected a successful 6.18 Shopping Festival that generated solid growth in order volume and average order value. Direct sales and others revenue was RMB30,167 million, an increase of 21% YoY, primarily due to strong sales driven by the consumer electronics category. Revenue from China commerce wholesale business was RMB5,125 million, an increase of 1% YoY. Taobao and Tmall Group adjusted EBITA increased by 9% to RMB49,319 million. Adjusted EBITA margin fell 1.2 percentage points to 42.9%. Taobao app grew average daily active users (DAU) by 6.5% YoY, resulting from effective user acquisition programs and improving retention of Taobao app users during the quarter.

Income from operations was RMB42,490 million, an increase of 70% YoY; operating margin 18%, improved 6 percentage points. Excluding the reversal of share-based compensation expense, income from operations would have increased by 43% year-over-year to RMB35,589 million. Free cash flow was RMB39,089 million, an increase of 76% compared to the same quarter of 2022. Company repurchased 35.6 million ADSs (the equivalent of 284.4 million ordinary shares) for US\$3.1 billion under the share repurchase program, and US\$16.3 billion remained under the current share buyback program which is effective through March 2025.

Since Alibaba announced major changes under the "1+6+N" group organization and governance structure, better than expected results achieved this quarter have also initially reflected the results of this change. Alibaba completed the handover of group management responsibilities in September, but Daniel Zhang Yong left Alibaba Cloud just as the appointment took effect, which inevitably surprised the market. However, Alibaba's new CEO Eddie Yongming Wu acts as his deputy. He holds important positions in multiple consumer-related business groups and has deep insights into Alibaba's core commercial business. At the same time, he has a strong technical background, which may help Alibaba in technology. Discover new opportunities in the field, especially Alibaba Cloud's development in AIGC (generative artificial intelligence). In addition, although Alibaba's retail business Freshippo has suspended its listing plan in Hong Kong, Cainiao, which operates the express delivery business, has taken the lead in announcing a spin-off and listing in Hong Kong. In addition, the market also believes that management will once again focus on the growth momentum of Alibaba's various businesses. We believe it will better reflect the value of Alibaba. Of course, the valuation level may depend on the market's views on China's geopolitical risks, domestic consumption recovery risks and profitability risks, so it will be difficult to fully reflect the company's fundamentals in the long term.

**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
20231019	3606 HK	Fuyao	ZJ	BUY	37.25	45.7	22.68%	35.65	-4.30%	35.9	-0.70%
20231024	1211 HK	BYD	ZJ	BUY	248.00	321.00	29.4%	237.40	-4.27%	242.00	-1.90%
20231025	09988.HK	Alibaba	EL	BUY	81.45	118.95	0.46	80.05	-0.0172	85.6	-0.0648

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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