8 March 2024

Report Review of February. 2024

Phillip Capital
Your Partner In Finance
Phillip Securities (Hong Kong) Ltd

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 Sinotruk (3808.HK), and Cathay Pacific (293.HK).
According to Sinotruk's positive profit alert which, the Company expect its NP will grow by 200-240% from RMB1.67 billion in 2022 to approximately RMB5.01 billion - RMB5,678 million in 2023, exceeding the market expectation. This growth was mainly attributed by the management to demand recovery in the heavy duty truck industry along with considerable momentum of exports. Meanwhile, by seizing opportunities on the market, and continuously adjusting the product and business structures, the Company achieved a massive growth in product sales, with the proportion of high-end products continuously growing and the profitability significantly enhanced. Our analysis shows that the massive growth in sales drove an increase in the capacity utilization rate, and the growth in net profit was tremendously higher than the growth in sales.

The heavy duty truck market generally showed a slowly upward trend in 2023, as the sales began to rise slowly in the second quarter, and ten YoY positive increases were recorded in monthly sales from February on. According to CAAM's statistics, the total sales for China's heavy duty truck industry reported 910 thousand in 2023, representing an YoY increase of 36% or 239 thousand. Specifically, the cumulative sales of new energy heavy duty trucks grew by 31.5% to 33 thousand, the cumulative sales of exported heavy duty trucks grew by 60% to 275 thousand, and the cumulative sales of LNG heavy duty trucks grew by 310.8% to 152 thousand. Obviously, the market increase was mainly attributed to the export market and the booming sales of LNG heavy duty trucks.

Sinotruk sold 234 thousand heavy duty trucks in 2023, a number that was better than the industry's average. Meanwhile, the YoY increase reached 47.5%, which was significantly higher than the industry's average (36%). Furthermore, Sinotruk's share in the domestic heavy duty truck market was 25.74%, up 2.2 ppts over the same period last year and remaining to rank first. Sinotruk also delivered an impressive performance in both the export market and the sub-market of LNG heavy duty trucks: On the one hand, relying on Sinotruk International's network layout, the Company's exported sales exceeded 130 thousand, accounting for more than half of the total sales; on the other hand, in the sub-market of LNG heavy duty trucks, the Company ranked second among industry peers in terms of sales and had a market share of 17.7%. As the ASP of LNG heavy duty trucks was RMB80 thousand - RMB100 thousand higher than that of normal heavy duty trucks, the Company's sale structure and profitability significantly improved. For 2024, we expect that continuous recovery will remain to be the main trend of the heavy duty truck market, and the total sales will reach one million - 1.1 million.

At the same time, Sinotruk released its share incentive scheme, according to which, the Company intends to grant approximately 1% of the total share capital in the form of restricted shares to no more than 194 employees at the price of RMB6.896 per share.

As for the granting criteria, 30%/30%/40% of the restricted shares will be granted for 2024/2025/2026, respectively, if the income is no less than RMB94.8 billion/RMB109.1 billion/RMB125.5 billion and the return on sales ratio is no less than 7.5%/8%/8.5% (namely, the profit from sales is no less than RMB7.11 billion/RMB8.73 billion/RMB106.7 billion), respectively. Sufficient incentives have further improved the Company's mechanism for income distribution, and conduce to the enthusiasm of key employees and the continuous growths in Sinotruk 's future business performance. Additionally, an average annual profit growth rate of approximately 20% also reflects the management's strong confidence in the future business development of the Company.

In terms of the domestic economic situation, China needs to boost its economy after the pandemic. With the further implementation of the government's policies to stabilize the economy, infrastructure investment and logistics demand will maintain the momentum of rally, which will provide a foundation for the recovery of the heavy truck market. Secondly, since the implementation of the National VI emission standard in July 2021, the heavy truck industry has fallen into a downturn for one and a half year. While, the heavy trucks in the previous round of peak consumption have gradually entered the replacement period. In addition, the stricter emission regulations of the industry, the overload transportation governance, and the elimination of backward and old models will play a positive role in the recovery of the industry.
We expect Sinotruk to continue to benefit from the recovery of the domestic heavy truck industry and the growth trend of the export market.

Acoording to Cathay Pacific Airways Limited ("Cathay Pacific" or the "Company") FY2023H result: the Company recorded revenue of HK$43,593 million, up by 135% yoy, which recovered to 81.4% of that in the same period of 2019 (specifically, passenger revenue and cargo revenue recovered to 73.6% and 108% of those in the same period of 2019, respectively). Operating costs stood at HK$36,957 million, accounting for 72.4% of that in the first half of 2019. The attributable profit amounted to HK$4,268 million, which significantly made good a deficit (the loss in the same period of 2022 was HK$4,999 million), and was substantially greater than the figure of HK$1,347 million in the first half of 2019. The corresponding basic earnings per share were approximately HK61.5 cents.

Specifically, a portion of the attributable profit came from a one-off non-cash gain of HK$1.9 billion recognized in the current period: Air China completed A-share seasoned equity offering in January 2023, thus diluting the shareholding of Cathay Pacific in Air China (down from 18.13% to 16.26%), which was regarded as a sale of some shares in Air China.

The passenger load factor of Cathay Pacific in the Reporting Period jumped by 28 percentage points yoy to 87.2%, higher than the figure of 84.2% in the same period before the pandemic (i.e. the first half of 2019, the same below), as driven by the increase in transfer passengers after the resumption of normal traveler clearance between Hong Kong and the Chinese Mainland as well as the surge in demand of flights to Europe and America. Due to the growth of transport capacity, ticket rates fell from the historic high. Meanwhile, the passenger yield declined by 32% yoy to HK77.4 cents, which still greatly exceeded that of HK54.9 cents in the same period before the pandemic. However, the cargo load factor and the cargo yield decreased, as the boom in the pandemic period waned, by 12 percentage points and 51.7% yoy to 63.8% and HK$2.76, respectively, which were 0.4 ppts and HK$0.88 higher than the pre-pandemic levels.

For transport capacity, the Group's passenger flight capacity had a sharp rise of more than 11 times in the first half of the year and recovered to 46% of the pre-pandemic level. The Management plans that the figure will reach 70% and 100% of the pre-pandemic level by the ends of 2023 and 2024, respectively. The passenger flight capacity grew by 118% from the same period of last year, and recovered to 70% of the pre-pandemic figure.

Cathay Pacific has maintained positive operating cash flow since the beginning of 2023. Moreover, it has redeemed 50% of preference shares recently, and plans to redeem the rest 50% by the end of July 2024. Then, the Company will hopefully restore dividend distribution.

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
20240207	3808 HK	Sinotruk	ZJ	買入	17.46	24.1	38.03%	20.7	18.56%	17.76	16.55%
20240227	293 HK	Cathay	ZJ	買入	8.15	10	22.70%	8.48	4.05%	7.97	6.40%

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

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.

PhillipCapital
Your Partner In Finance
Phillip Securities (Hong Kong) Ltd

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