Report Review of February 2025

Hong Kong | INVESTNOTES REPORTS REVIEW

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

Sectors:
TMT, Semiconductors, Consumer & Healthcare (Eric Li)
Automobile & Air (Zhang Jing)
TMT, Semiconductors (Megan Tao)
Utilities, Commodity, Shipping& Banking (Margaret Li)

TMT, Semiconductors, Consumer & Healthcare (Eric Li)

This month I released reports of Karrie International (01050)

Karrie International delivered solid growth in the 1H2025FY (For the six months ended September 30), with revenue reaching HK$1.53 billion, representing a 6% yoy increase. The company benefited from strong demand in the artificial intelligence (AI) server market, which drove steady growth in sales of server molds and enclosures. As a result, the gross profit margin improved by 0.5 percentage points to 13.2%, enhancing overall profitability. Net profit surged 39% yoy to HK$102 million, with the net profit margin increasing from 5.8% to 6.7%. Earnings per share (EPS) rose to HK5.0 cents (1H2024FY: HK3.6 cents), while an interim dividend of HK2.5 cents per share (1H2024FY: HK1.5 cents) was declared, amounting to a total payout of HK$50.53 million and a payout ratio of 50%.

The rapid development of AI is driving the expansion of data centers and cloud computing markets, leading to increased demand for high-performance servers. As a major supplier of server enclosures, Karrie International has benefited from this trend, with significant revenue growth in its metal and plastic business. The company offers comprehensive mechanical engineering solutions, including mold development, rapid prototyping, precision manufacturing, and automated production. Leveraging these technological advantages, Karrie has established a leading position in the market.

Driven by strong demand in the AI server market, Karrie International has delivered solid performance, with continuous improvements in gross margin and profitability. The company maintains a competitive edge in automated production and global supply chain management, particularly with the successful operation of its Thailand facility, which helps diversify geographical risks and flexibly meet the diverse needs of customers. However, challenges remain in the electronic manufacturing services (EMS) business, requiring ongoing product portfolio optimization to enhance segment profitability.

Automobile & Air (Zhang Jing)

This month I released an initiation report of Neway Valve(603699.CH) and an updated report of Fuyao (3606.HK).

Neway Valve is a leading domestic provider of middle-to-high-end industrial valves, specializing in comprehensive industrial valve solutions for petroleum, chemical, natural gas, electricity and other energy sectors. Currently, beyond traditional petroleum and natural gas projects, the Company's products are rapidly expanding into LNG, fine chemical and nuclear power markets, and are utilized in clean energy development projects such as offshore wind power, hydrogen energy, geothermal energy, bioenergy, solar energy, and carbon capture initiatives.

From 2016 to 2023, the Company experienced continuous growth in both revenue and net profit. Revenue increased from RMB2.05 billion to RMB5.54 billion, representing a compound annual growth rate (CAGR) of 15.3%. Net profit attributable to the parent company grew from RMB220 million to RMB720 million, with a CAGR of 18.5%. From Q1 to Q3 2024, the Company achieved operating income of RMB4,455 million (up 5.09% year-on-year) and net profit attributable to the parent company of RMB828 million (up 40.69% year-on-year). The Company's products are closely tied to oil prices. In 2023 and the first three quarters of 2024, the global demand for energy infrastructure increased significantly, driving strong growth in the Company's offshore business, leading to notable improvements in orders, sales, etc. Additionally, steel prices remain in a downward trend, and the decline in raw material prices has contributed to a significant increase in the Company's gross margin. In the first three quarters of 2024, the Company recorded a gross margin of sales of 36.72% (up 5.78pct year-on-year). The growth rate of profit significantly outpaced that of revenue, demonstrating the Company's strong profitability.

In recent years, industries such as oil and gas and nuclear power have experienced significant growth, with shipbuilding orders, capital expenditures on offshore oil and gas exploration, and LNG compression and transportation projects remaining at elevated levels, driving increased demand in the valve industry. The Company continues to expand its downstream presence, maintaining intensive strategic partnerships with global energy giants such as SHELL, TOTAL, PetroChina and Sinopec engaging in traditional oil and gas projects. At the same time, it is increasing its penetration into sectors such as natural gas, fine chemicals, marine engineering, power plans, long-distance pipelines, and new energy. In the first half of 2024, the Company successfully undertook several international FPSO projects and won domestic first-level certifications for packaged procurement of high-end nuclear power products such as gate valves, globe valves and check valves. The increases in the volume of new business and the market share are set to further drive the Company's performance growth.

As a leader in middle- and high-end industrial valves, the Company focuses on advancing technology and processes, continuously enhancing its R&D, production and supply capabilities across the upstream industrial chain. By fostering deep, mutual development with high-end users at home and abroad, the Company has established strong industry barriers, enabling it to benefit from both domestic import substitution with high-end products and the global industry boom, offering significant potential for growth. We are highly optimistic about the Company's development, as it demonstrates strong growth potential and robust industry barriers, positioning it to command a premium.

As for valuation, we expected diluted EPS of the Company to RMB 1.30/1.60/1.89 of 2024/2025/2026. And we accordingly gave the target price to RMB 30.5, respectively 19x P/E for 2025.

In the first three quarters of 2024, Fuyao Glass recorded total revenue of RMB28,314 million, up 18.84% yoy and its net profit attributable to the parent company was RMB5,479 million, up 32.79% yoy, both reaching record highs. In Q3, the operating revenue was RMB9.97 billion (RMB, the same below), up 13.4% yoy; the net profit attributable to the parent company was RMB1.98 billion, up 53.5% yoy.

The Chinese automobile market sold a total of 21.571 million vehicles in the first three quarters of 2024, up 2.4% yoy. The sales volume of new light vehicles in the US increased slightly by 0.7% yoy. In the first three quarters, Fuyao Glass's revenue growth far exceeded the industry average, demonstrating that as a leading company, Fuyao Glass has seen continuous enhancement of its overall competitiveness and siphon effect and further expansion of its market share.

The net profit growth significantly outpaced revenue growth, benefiting from a rapid increase in profitability, and driven primarily by the following factors:
1) The product mix continues to be optimized and upgraded, raising the proportion of high-value-added products. In the first three quarters, the proportion of the Company's high-value-added products reached 58.18%, up 5.25 ppts yoy, with an increase of 8.84% in the ASP.
2) The shipping cost has decreased, and the costs of raw materials such as soda ash and natural gas have experienced a further decline. The Company's gross profit margin for the first three quarters reached 37.82%, up by 2.88 ppts yoy. The gross profit margin for Q3 stood at 38.78%, up 2.47 ppts yoy and 1.05 ppts qoq, respectively.

3) The scale effect has amplified the operating leverage and increased capacity utilization, while advancing the process of automation and informatization, thereby improving operational efficiency and enhancing factory profitability. For example, the net profit margin of the US factory in H1 increased by 4.05 ppts yoy. In the first three quarters, the Company's sales expense ratio was 4.30%, down 0.27 ppts yoy; the administration expense ratio was 7.36%, down 0.06 ppts yoy.

To meet market development needs, the Company has been in the third round of accelerated capital expenditure in the past two years. Under the guidelines of the management, the capital expenditures for the 2025 plan are RMB7-7.5 billion, slightly lower than the RMB8 billion planned for 2024. The capital expenditure will be mainly used for the capacity expansion of new factories in Fuqing, Fujian and Hefei, Anhui, the expansion project in the second phase of the automotive glass in the US, and the aluminium trim project in Shanghai and Fuqing/Changchun, to further enhance global market share.

With the continuous advancement of automotive intelligence, the improvement of assisted driving levels, the application and development of various new technologies and scenarios, and the enhancement of user experience consumption, the trend towards high-end automotive glass is expected to continue. There is room for further increase in the proportion of high-value-added products in the Company's product mix. As a global leader in the automotive glass industry, the Company is expected to continue benefiting from its competitive advantages and maintain a high dividend payout ratio.

We forecast its EPS to be RMB 2.17/2.41/2.92 in 2024/2025/2026. We give a revised target price to be HK$59.3, equivalent to 19.6/17/14.9x P/E for 2024/2025/2026.

TMT, Semiconductors (Megan Tao)

In this month, I published two research reports on SMIC (0981.HK) and Hua Hong Semiconductor (1347.HK).

SMIC is one of the world's leading semiconductor foundries, as well as a leader in the semiconductor manufacturing industry in mainland China. It possesses advanced process manufacturing capabilities, production capacity advantages, and comprehensive service support, providing 8-inch and 12-inch wafer foundry and technical services to global customers. SMIC is headquartered in Shanghai, China, and has a global manufacturing and service base with multiple 8-inch and 12-inch wafer fabs in Shanghai, Beijing, Tianjin, and Shenzhen.

In the third quarter, the company's revenue increased by 14% QoQ to $2.2 billion, reaching a single-quarter milestone of $2 billion for the first time, hitting a historic high. This growth was mainly driven by the release of 12-inch production capacity, which promoted further optimization of the product structure. At the same time, accelerated localization demand led to an increase in average selling prices. The company's overall capacity utilization rate increased to 90.4%, a 5.2% QoQ increase, effectively diluting unit depreciation costs. The gross profit margin rose to 20.5%, an increase of 6.6 percentage points QoQ. The company's net profit in the third quarter reached $149 million, a 58.3% YoY increase but a 9.6% QoQ decrease. Looking at the application areas, management indicated that the proportions for smartphones, computers and tablets, consumer electronics, IoT and wearables, industrial and automotive were 25.0%, 16.0%, 43.0%, 8.0%, and 8.0%, respectively. Demand in the consumer market is gradually recovering, with upgraded features being implemented in consumer products and strong demand for exports. In terms of customer regions, the revenue share of some overseas customers decreased by 6.0% QoQ in the third quarter, mainly due to a certain level of pull-in during the second quarter. Revenue in China increased by 6.0% QoQ, primarily driven by the acceleration of local demand and the overall good export demand, enabling Chinese customers to gradually enter the mid-to-high-end product markets.

Taking into account the recovery in consumer electronics terminal demand, the management expects to drive revenue growth through the optimization of the product mix. We expect the company's revenue for the years 2024, 2025, and 2026 to be $7.6 billion, $8.8 billion, and $10.2 billion respectively. The net profit attributable to shareholders is estimated to be $66.3 million, $82.9 million, and $144.2 million respectively, corresponding to diluted EPS of $0.08, $0.10, and $0.18 respectively. Overall, as a leading company in the wafer foundry segment, we believe that the company's fair valuation slightly exceeds one standard deviation above the historical average NTM P/B ratio, at 2.1x 2025 PB, corresponding to a target price of HK$44.8 per share. We are initiating coverage with a "Neutral" rating.

Hua Hong Semiconductor is currently the second largest semiconductor foundry in mainland China and the sixth largest globally. It provides foundry services on 8-inch and 12-inch wafer platforms, offering embedded/independent non-volatile memory, power devices, analog and power management, logic, and RF on five distinct process platforms. It has become the most comprehensive semiconductor foundry with distinctive process platforms. According to TrendForce data, in the embedded non-volatile memory sector, the company is the world's largest smart card IC manufacturing foundry and the largest MCU manufacturing foundry domestically. In the power device sector, the company is the world's top-ranked power device wafer foundry in terms of capacity and the only enterprise with both 8-inch and 12-inch power device foundry capabilities.

The company's revenue for 3Q24 was $530 million, a year-on-year decrease of 7.4%, with a gross margin of 12.2%, down 3.9% year-on-year. This was primarily due to pressure on ASP, partially offset by increased wafer shipments and improved capacity utilization. The net profit attributable to the parent company was $44.8 million, up 222.6% year-on-year. In terms of application areas, management indicated that the consumer electronics sector remained strong as the largest end market, while the industrial and automotive products showed weakness, mainly due to declining average selling prices and demand for IGBT products. From a regional customer perspective, the company's overall demand from overseas customers remains stable. However, revenue in the China region decreased by 1.5% year-on-year, primarily due to declines in demand and average selling prices for IGBT, super junction, and flash memory products. This was partially offset by increased demand for CIS and other power management products.

Considering the recovery in consumer electronics terminal demand, the expected bottoming out and recovery of ASP, and the gradual release of capacity from the Wuxi Phase II project, it is anticipated that these factors will drive product portfolio optimization and promote revenue growth. We forecast the company's operating income for the years 2024, 2025, and 2026 to be $2.0 billion, $2.4 billion, and $2.5 billion respectively. We also anticipate the net profit attributable to the parent company to be $86 million, $285 million, and $299 million respectively, with corresponding diluted EPS of $0.05, $0.17, and $0.17. Overall, as a semiconductor foundry player with high capital investment, we believe the company's valuation is slightly below the industry average, at 1.0x the 2025E PB, corresponding to a target price of HK$30.30 per share. We are initiating coverage with an 'Accumulate' rating.

Review report

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

Utilities, Commodity, Shipping& Banking (Margaret Li)

This month I released 2 reports of LAOPU GOLD(6181.HK).& Zhaojin Mining (1818.HK).

Laopu Gold (6181.HK) is the top heritage gold jewelry brand in China. Based on data of Frost & Sullivan, Laopu Gold was the first brand in the industry to introduce diamond-inlaid pure gold jewelry, leading trends for the industry. As of June 30, 2024, it ranked first in terms of coverage rate of the top ten high-end shopping malls among all gold jewelry brands in the PRC and ranked first in terms of single-store sales among all gold jewelry brands in the PRC.

According to the World Gold Council's "2024 China Gold Jewelry Retail Market Insights", gold jewelry remains the main part of China's jewelry retail, with young consumers aged from 18 to 34 contributing more than one-third of sales. Gold's value-preserving properties have become more prominent, and it has become a common investment practice among all generations. Young people have also begun to invest in gold, but the difference is that young people are more concerned about the style and craftsmanship of gold jewelry. As a leading enterprise in heritage gold, Laopu Gold is positioned as a high-end brand. Its products have certain differentiated characteristics. Its profitability had increased significantly in the past two years and it had entered a period of performance growth.

We are optimistic about the company's future development in the field of heritage gold. The company continues to expand circle of the core business districts in the mainland and seize the opportunities in Hong Kong, Macao and overseas markets, the numbers of stores are expected to continue to increase and contribute to revenue growth.We predict that the company's revenue will be 7.24 billion yuan, 9.72 billion yuan and 12.60 billion yuan respectively in 2024-2026. EPS will be 7.12/8.97/10.57 yuan, corresponding to the P/E of 53.3x/42.4x/36.0x. The company is given a P/E of 60 times in 2024, with a short-term target price of HK$458.32, and our investment rating is " Accumulate ". (Current price as of Jan 27)

Zhaojin Mining (1818.HK) is a comprehensive gold producer and gold smelting enterprise that integrates exploration, mining, beneficiation and smelting operations and focuses on developing the gold industry. The company's main products are "9999 gold" and "9995 gold" standard gold ingots. As of December 31, 2023, the company has a total of approximately 38,10 million ounces of gold mineral resources and approximately 15.18 million ounces of mineable gold reserves. In the first half of 2024, a total of 14.31 tons of new gold was discovered through exploration.

Zhaojin Mining has strong competitiveness in the market with its strong industrial resource background and technological innovation capabilities. There is still uncertainty about how Trump will implement the tariff policy after taking office. The rising risk aversion sentiment has caused the gold price to break through the historical high again. The gold price will keep high in the short term and the company's gold production is expected to increase. So the company is expected to realize an increase in both sales and price and achieve revenue growth. We raise our revenue forecast for the company, we predict that the company's revenue will be 11.37 billion yuan, 13.65 billion yuan and 17.74 billion yuan respectively in 2024-2026. EPS will be 0.28/0.49/0.73 yuan. BVPS will be 6.09/6.65/7.57, corresponding to the P/B of 2.18x/1.99x/1.75x. The company is given a P/B of 2.4 times in 2024, with a short-term target price of HK$15.58, and our investment rating is " Accumulate ". (Current price as of Feb 12)

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

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
20250211	0981.HK	SMIC	MT	Neutral	44.70	44.80	0.22%	53.60	19.91%	38.00	41.05%
20250217	1347.HK	Hua Hong Semiconductor	MT	Acumulate	25.95	30.30	16.76%	34.30	32.18%	22.85	50.11%
20250212	603699 CH	Neway	ZJ	Accumulate	27.25	30.50	11.93%	24.42	-10.39%	27.44	-11.01%
20250212	3606 HK	Fuyao	ZJ	Accumulate	52.05	59.30	13.93%	52.90	1.63%	52.50	0.76%
20250218	01050 HK	Karrie International	EL	Buy	0.78	0.98	25.6%	0.87	11.54%	0.77	12.99%
20250203	6181 HK	LAOPU GOLD	ML	Accumulate	407.60	458.32	12.44%	498.80	22.37%	416.00	19.90%
20250214	1818 HK	Zhaojin Mining	ML	Accumulate	14.12	15.58	10.34%	13.00	-7.93%	12.14	7.08%

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.

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