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Report Review of Nov 2025

Hong Kong | INVESTNOTES REPORTS REVIEW

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Automobile & Air (Zhang Jing)

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Automobile & Air (Zhang Jing)

This month I released 3 updated reports of FLAT G (6865.HK), Baolong ((603197.CH), and Daimay(603730.CH). Among which, we prefer Baolong.

Shanghai Baolong Automotive Corporation(Baolong or the "Company") started with tire valves. Later, following the automobile development trend, the Company continuously expanded the product line, and successively engaged in wheel weights, exhaust pipes, lightweight structural parts, TPMS (tire pressure monitoring system), as well as the intelligent automotive field of sensors, ADAS (that is, advanced driver assistance systems, mainly based on vision products and millimeter-wave radars), and air suspension. After more than 20 years of development, the Company is at the forefront of the segment in terms of the market share of its traditional business, namely, tire valves, wheel weights, exhaust pipes, and TPMS, which is currently the main source of revenue and profit. The Company's emerging business covers intelligent drive solutions-related parts and hydraulic lightweight structural parts, such as sensors, air suspension, and ADAS. The emerging business is currently the core direction of the Company's vigorous development, and will be an important growth point for future revenue and profit.

In the first three quarters of 2025, Baolong achieved total revenue of RMB6.048 billion (RMB, the same below), representing a yoy increase of 20.32%. In terms of individual quarters, Q1/Q2/Q3 generated revenue of RMB1.905 billion, RMB2.045 billion, and RMB2.098 billion, respectively, reflecting yoy growth of 28.46%, 20.23%, and 13.85%. However, the company's net profit attributable to the parent in the first three quarters of the year was RMB198 million, a yoy decrease of 20.35%. The net profit after excluding non-recurring gains and losses stood at RMB132 million, a decline of 36.95%, indicating a clear squeeze on profitability. Specifically, the net profit attributable to the parent in Q1/Q2/Q3 was RMB95 million, RMB40 million, and RMB63 million, respectively, with yoy changes of +39.99%, -50.76%, and -36.92%. The pressure on net profit is primarily due to the impact of price wars in the automotive market, which have affected upstream parts suppliers, as well as the negative effects of tariffs imposed by the United States.

In the third quarter of 2025, the company's gross margin was 21.34%, a yoy decrease of 3.26 percentage points, but a quarter-on-quarter increase of 0.86 percentage points. This indicates that cost pressures are easing at the margin, primarily due to the recovery in the proportion of high-margin products, the reduced impact of price cuts and rebates by automakers, and the decline in shipping costs from the previous peak caused by "export rush" activities. The period expense ratio for the third quarter was 16.57%, a yoy decrease of 1.2 percentage points. With the upcoming agreements on tariff-sharing with customers, some tariff expenses may be backdated to revenue. Additionally, rebates for popular models are expected to be collected in due course, which is expected to drive further performance improvement in the coming quarters.

According to the company's official WeChat account, orders for its intelligent suspension business have exceeded expectations. As of the end of Q3, the cumulative orders for the intelligent suspension business surpassed RMB24.070 billion. With the strong sales of models such as the NIO ES8, ONVO L90, Li Auto i8, and BYD DENZA, the visibility for rapid growth in air suspension sales remains high.

Additionally, the expansion of the sensor business and emerging businesses such as ADAS is also accelerating: COB-packaged cameras have passed the AEC-Q certification,

and wheel speed sensors and height sensors have been selected by several leading domestic joint venture and independent brands as well as overseas brands, with mass production expected to start between Q4 2025 and 2027. As of the end of Q3, the cumulative orders for the ADAS business exceeded RMB6.870 billion.

The company's overseas expansion is progressing steadily: the Thai factory is expected to begin mass production in Q1 next year; the second phase of the Hungarian production line is scheduled for equipment installation and commissioning by mid-next year, with mass production starting in Q1 2027; new projects in the U.S. and Mexico are also being actively pursued. The establishment of a global production capacity supply chain provides strong support for the company's future development.

Overall, the company has strong growth momentum, but short-term profitability is impacted by disturbances from automotive price wars. In the medium to long term, benefiting from its forward-looking strategy and accumulated competitive advantages in emerging businesses, the company is expected to usher in a new growth cycle.

Utilities, Commodity, Consumer Discretionary (Margaret Li)

This month I released 2 initiation reports of BAGUIO GREEN (1397.HK) & CHINA RISUN GP (1907.HK).

As a leading player in Hong Kong's recycling services industry, Baguio Green is poised to continue benefiting from policy dividends, including the Plastic Beverage Container and Beverage Carton Producer Responsibility Scheme and the Northern Metropolis development. The government is advancing the Northern Metropolis initiative at full speed, with four new development areas---including Kwu Tung North/Fanling North, Hung Shui Kiu/Ha Tsuen, Yuen Long South, and the San Tin Technopole---already in the construction phase. Upon completion, all of Baguio's business segments are expected to benefit. As of June 30, 2025, the company's total contract value on hand amounted to approximately HK\$3.1 billion, of which about HK\$1.044 billion is expected to be recognized by the end of 2025. This indicates strong short-term earnings visibility and a solid foundation for long-term growth. Baguio's customer base primarily consists of government bodies, quasi-public organizations, and public utility providers, which collectively contribute 85% of the company's revenue. Demand from these clients is relatively resilient to economic cycles, underpinning stable and sustainable earnings. In addition, the company has maintained a consistent dividend policy, with a payout ratio of around 30% for five consecutive years. Baguio management expressed that it is actively seeking suitable merger and acquisition opportunities---such as property management-related companies---with the goal of achieving vertical integration across the entire industry chain. If successful, this could lead to economies of scale, further reducing costs, improving efficiency, and enhancing profitability. We forecast the company's EPS for 2025 to 2027 to be 29, 31, and 35 cents, respectively. Our target price is HK\$1.55, implying a forward P/E ratio of 5x for 2026. We assign a "Buy" rating.

CHINA RISUN GP (1907.HK), founded in 1995, has grown into a leading integrated producer, supplier, and service provider of coke, coking products, fine chemicals, and hydrogen energy products in China and globally. According to a 2024 industry report by Frost & Sullivan, the company is the world's largest independent coke producer and supplier; the world's largest processor of crude benzene from coking, the second-largest processor of high-temperature coal tar, and the second-largest producer of caprolactam by capacity. It is also China's largest producer of phthalic anhydride from industrial naphthalene and methanol from coke oven gas, as well as the largest supplier of high-purity hydrogen in the Beijing-Tianjin-Hebei region by output.

In H1 2025, the company's high-purity hydrogen sales volume reached 11.43 million cubic meters with a year-on-year increase of 22.9%, while revenue from the hydrogen segment was RMB 56 million, up 47.4% year-on-year. Since 2020, the company has

actively expanded into the hydrogen sector and has established a foundation for scaled production capacity. As of the end of March in 2025, the company operates five high-purity hydrogen production lines located in Dingzhou, Xingtai, Tangshan, and Hohhot (Inner Mongolia), with a total production capacity of 34 tonnes per day. It also operates four hydrogen refueling stations with a combined capacity of 5 tonnes per day, making it the second-largest high-purity hydrogen supplier in China and the largest in the Beijing-Tianjin-Hebei region. Guided by its core development strategy of "Production-Storage-Transportation-Refueling-Application + R&D," the company has built a comprehensive value chain covering hydrogen supply, storage and transportation technologies, and end-use applications. Additionally, the company plans to advance hydrogen industrialization projects in Hebei, Inner Mongolia, and other regions, gradually expanding into applications such as synthetic ammonia and hydrogen fuel. In September 2025, the company successfully launched the 5,000 Nm³/h hydrogen project at its Leting Park, achieving full operational status. The first shipment of high-purity hydrogen was loaded and dispatched, marking a significant milestone in scaling the company's hydrogen business and further enhancing its market share. This success solidifies the company's leading position in the Beijing-Tianjin-Hebei hydrogen market. The company has expressed its intention to continue exploring merger and acquisition opportunities in the hydrogen sector. A successful acquisition would help address technological gaps and accelerate the commercialization process.

As a global leader in coking and fine chemicals, CHINA RISUN GP leverages its scale advantages and integrated industrial chain capabilities, demonstrating resilience across industry cycles through its traditional businesses, while its fine chemical and hydrogen energy initiatives provide long-term growth potential. In the short term, the focus should be on the pace of coke profit recovery and the effectiveness of cost control measures; in the long term, performance will depend on the industrialization progress of its hydrogen energy business and the success of its international expansion. The company is currently trading at a historical low valuation, with a potential valuation rebound expected by year-end. We forecast the company's revenue for 2025-2027 to be RMB 43.563 billion, RMB 44.870 billion, and RMB 48.460 billion, respectively, with BVPS of RMB 2.9, RMB 3.0, and RMB 3.1. The target price is set at HKD 3.13, corresponding to a projected price-to-book (P/B) ratio of 0.96x for 2026, which is in line with the average P/B ratio over the past three years. The rating is "Buy."

TMT, Semiconductors (Megan Tao)

In this month, I published two research reports on NetDragon Websoft (0777.HK) and Vertiv (VRT.US).

In the first half of 2025, the company reported revenue of approximately RMB 2.4 billion, a decrease of 27.9% year-on-year, primarily due to business adjustments. Gross profit was RMB 1.7 billion, down 24.7% year-on-year, while the gross profit margin increased by 2.9 percentage points to 69.5%. Net profit attributable to owners was RMB 30 million, a decline of 92.5% year-on-year, mainly due to intangible asset impairment losses and one-time expenses.

NetDragon's gaming business maintains steady growth, with its Age of Armor series demonstrating exceptional long-term operational capabilities. AI technology is widely applied across business segments, effectively driving cost reduction and efficiency improvement. The education technology segment leads the industry in global expansion, with diverse investment project layouts and significant results.

Therefore, we forecast the company's revenue for 2025-2027 to be RMB 4,843/5,330/5,863 million, respectively, and net profit attributable to owners to be RMB 426/566/602 million, corresponding to EPS of RMB 0.81/1.07/1.14. The current stock price corresponds to a PE of 15/11/10x. Considering the significant results of the company's platform transformation, we assign a 16x PE ratio for the 2025 forecast,

corresponding to a target price of HKD 14.1 per share. We initiate coverage with a "Accumulate" rating.

Vertiv (VRT) designs, manufactures and services critical digital infrastructure for data centers (80% of net sales in 2024), communication networks (10%), and commercial and industrials (10%). Key products include critical infrastructure & solutions (AC & DC power management, integrated modular solutions, thermal management), integrated rack solutions (racks, rack power and power distribution, rack power distribution etc.), and management systems for monitoring and controlling digital infrastructure, integral to the technologies in services such as e-commerce, online banking, file sharing, video on-demand, energy storage, wireless communications, IoT and online gaming. The most prominent brands include Vertiv, Liebert, NetSure, Geist, Energy Labs, ERS, Albér, and Avocent. The company operates across three reportable segments: the Americas (56% of net sales in 2024); Asia Pacific (22%); and Europe, Middle East, & Africa (22%).

Although the growth in order volume has been accompanied by a narrowing incremental profit margin, reflecting a weakening pricing power since the second quarter of 2024, signs of easing pressure have emerged. In the third quarter of 2025, the Americas region contributed 40% of the incremental operating profit margin, marking a strong reversal from the declining trend in incremental margins in the first half of the year.

This was primarily due to the fading impact of raw material costs and tariffs. Management expects to largely offset the tariff impacts by the end of the first quarter of 2026. Accordingly, we set the incremental operating profit margin for the baseline 2025/2026 scenario at 23%/24%.

Key assumptions in the DCF analysis:

1. WACC: The capital structure consists of 67.6% debt and 32.4% equity, with a debt cost of 1.2%, an effective tax rate of 35.2%, and an equity cost of 27.2%.
2. The discount period is from the fourth quarter of 2025 to the fourth quarter of 2026, calculated on a quarterly basis.
3. The perpetual growth rate is 4.0%, based on the US GDP growth rate, converted to a quarterly growth rate of 1.0%.

Considering the limitations of the DCF model, we employed three valuation methods, comparing this result with EV/EBIT and P/E valuations, and ultimately derived a target price of \$188, initiating with an "Accumulate" rating.

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
20251104	1397.HK	BAGUIO GREEN	ML	Buy	1.20	1.55	29.17%	1.28	6.67%	1.20	6.67%
20251107	1907.HK	CHINA RISUN GP	ML	Buy	2.29	3.13	36.68%	2.22	-3.06%	2.34	-5.13%
20251112	0777.HK	NetDragon Websoft	MT	Accumulate	11.90	14.10	18.49%	11.34	-4.71%	12.14	-6.59%
20251117	6865.HK	FLAT G	ZJ	Accumulate	12.60	14.40	14.29%	10.45	-17.06%	12.22	-14.48%
20251121	VRT.US	Vertiv	MT	Accumulate	165.00	188.00	13.94%	179.73	8.93%	192.79	-6.77%
20251125	603197.CH	Baolong	ZJ	Accumulate	34.40	39.00	13.37%	35.39	2.88%	37.64	-5.98%
20251128	603730.CH	Daimay	ZJ	Accumulate	8.21	9.17	11.69%	8.18	-0.37%	7.63	7.21%

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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