招银国际
CMB INTERNATIONAL

CMBI Research Focus List

Our best high conviction ideas

12 August 2022

CMBI Focus List – Long and short ideas

Company	Ticker	Sector	Rating	M cap (US$ bn)	3M ADTV (US$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY22E	P/E (x) FY23E	P/B (x) FY22E	ROE FY22E	Yield FY22E	Analyst
Long Ideas														
NIO Inc.	NIO US	Auto	BUY	33.5	1138.4	20.1	35.0	75%	N/A	N/A	7.6	-26.4	N/A	Shi Ji/ Dou Wenjing
EVA Holdings	838 HK	Auto	BUY	13.6	87.3	1.8	3.0	66%	6.9	4.3	0.7	11.5	4.4%	Shi Ji/ Dou Wenjing
Zhejiang Jingsheng	300316 CH	Capital Goods	BUY	3.4	2.0	70.0	93.0	33%	33.7	27.5	9.8	33.4	0.6%	Wayne Fung
SANY International	631 HK	Capital Goods	BUY	35.9	167.0	8.4	14.6	75%	13.0	10.8	2.2	17.7	2.4%	Wayne Fung
SF Holding	002352 CH	Express Delivery	BUY	35.9	167.0	49.5	94.0	90%	32.0	21.9	2.8	9.2	0.6%	Wayne Fung
Xtep	1368 HK	Consumer Disc.	BUY	4.2	25.5	12.5	17.0	36%	23.1	19.3	3.1	13.9	2.6%	Walter Woo
Midea	000333 CH	Consumer Disc.	BUY	54.9	266.9	52.9	67.8	28%	11.7	10.3	2.6	23.4	3.5%	Walter Woo
CR Beer	291 HK	Consumer Staples	BUY	22.6	60.7	54.6	71.0	30%	31.0	27.8	4.5	15.0	1.3%	Joseph Wong
Budweiser APAC	1876 HK	Consumer Staples	BUY	38.8	21.5	23.0	28.4	23%	38.7	32.4	3.5	9.2	1.1%	Joseph Wong
Innovent Biologics	1801 HK	Healthcare	BUY	6.9	50.5	36.8	55.3	51%	N/A	N/A	N/A	N/A	N/A	Jill Wu/ Andy Wang
WuXi Biologics	2269 HK	Healthcare	BUY	6.9	50.5	72.0	146.1	103%	60.0	43.8	7.2	12.7	N/A	Jill Wu/Benchen Huang
PICC P&C	2328 HK	Insurance	BUY	39.1	202.7	7.6	11.6	53%	N/A	N/A	0.6	12.0	7.1%	Gigi Chen
Kuaishou	1024 HK	Internet	BUY	21.5	22.4	75.6	120.0	59%	N/A	N/A	N/A	N/A	0.0%	Sophie Huang
CR Land	1109 HK	Property	BUY	41.3	282.6	30.5	44.8	47%	6.6	N/A	0.9	14.3	5.3%	Jeffrey Zeng/ Miao Zhang
CG Services	6098 HK	Property	BUY	27.7	44.4	14.2	47.6	236%	6.7	5.0	3.8	30.2	3.7%	Jeffrey Zeng/ Miao Zhang
Goertek	002241 CH	Technology	BUY	6.1	77.2	35.4	48.0	36%	18.8	15.5	3.8	18.1	0.8%	Alex Ng/ Lily Yang
Wingtech	600745 CH	Technology	BUY	17.9	340.9	74.6	93.1	25%	31.1	20.3	N/A	8.1	0.3%	Lily Yang/ Alex Ng
Kingdee	268 HK	Software & IT services	BUY	13.8	294.7	17.1	24.4	42%	N/A	N/A	N/A	-5.0	0.0%	Marley Ngan

Source: Bloomberg, CMBIGM, Price as of 11/8/2022, 6:00pm

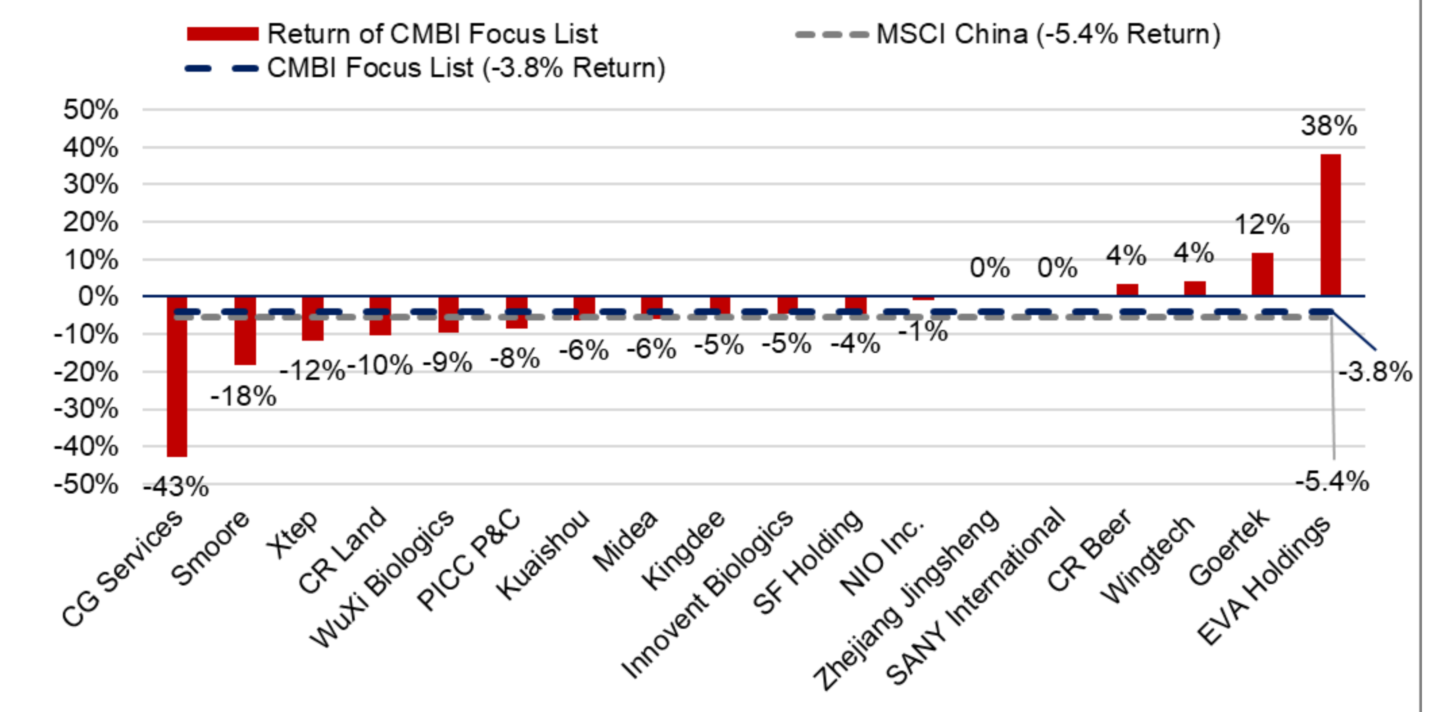
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
Budweiser APAC	1876 HK	Consumer Staples	BUY	Joseph Wong	Solid 2Q and July beer sales momentum
Deletions					
Smoore	6969 HK	Consumer Staples	BUY	Joseph Wong	Soft management 2H guidance

Source: CMBIGM

Performance of our recommendations

- In our last report dated 14 July, we highlighted a list of 18 long ideas.
- The basket (equal weighted) of these 18 stocks outperformed MSCI China index by 1.6ppt, delivering -3.8% return (vs MSCI China -5.4%).
- EVA Holdings delivered over 30% of return, and 8 of our 18 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIGM; Note: Stock performance from 14 July 2022 to 11 Aug 2022

Long Ideas

NIO Inc. (NIO US): NEV trio laggard with strong sequential sales improvement potential

Rating: BUY **| TP:** US$35.00 (75% upside) Analysts: Shi Ji/ Dou Wenjing

- **Investment Thesis:** We are of the view that China's auto industry has been experiencing drastic changes as consumers pursue new values from vehicles, which needs pioneers but not followers. We are pessimistic about most incumbent automakers' tech transformation. As pioneers, the NEV trio has their advantages and disadvantages. At this point, Li Auto's share price has factored in much of the market expectation of the L9, whereas NIO, as a share price laggard, probably has the strongest sequential sales-volume improvement potential in the following few months.
- **Our View:** While we prefer NEV trio over traditional automakers in the long term, we are of the view that NIO now is set to enjoy the highest sequential sales volume growth in 3Q22, aided by the new *ET7*, *ES7* and *ET5*. We also believe that the market has priced in NIO's possible earnings weakness in 2Q22. The share price could also be oversold by investors, triggered by Grizzly's short report, which, in our view, has little understanding of how BaaS works.
- **Catalysts:** 1) sales volume MoM improvement; 2) strong 3Q22 sales volume guidance.
- **Why do we differ vs consensus:** NIO's sales volume in the first five months of 2022 has made investors concerned about its demand amid the intensifying NEV competition. We are of the view that the three new models could lift its sales volume at least in the short term.
- **Valuation:** Our target price of US$ 35.00 is based on 7x FY22E P/S. NIO's current FY22E P/S valuation is lower than Li Auto's on our estimates.

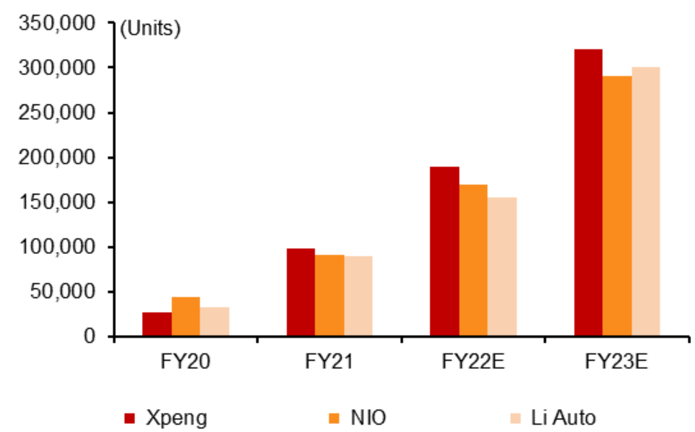
Link to our report: NIO Inc. (NIO US) – 1Q22 slight miss; 2Q guidance implies strong 3Q

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	36,136	56,464	101,595	127,965
YoY growth (%)	122.3	56.3	79.9	26.0
Net income (RMB mn)	(10,572)	(8,531)	(3,270)	(483)
EPS (RMB)	(6.72)	(5.10)	(1.93)	(0.28)
YoY growth (%)	N/A	N/A	N/A	N/A
P/S (x)	5.6	4.0	2.3	1.8
P/B (x)	5.9	7.6	8.0	7.5
Yield (%)	N/A	N/A	N/A	N/A
ROE (%)	(34.2)	(26.4)	(11.2)	(1.6)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales volume comparison of NEV trio



Source: Company data, CMBIGM estimates

EVA Holdings (838 HK): Auto parts' inflection point has arrived

Rating: BUY **| TP:** HK$3.00 (66% upside)

Analysts: Shi Ji/ Dou Wenjing

- **Investment Thesis:** We are of the view that EVA's penetration into Tesla and Great Wall Motor could lift its revenue and margins. We see an inflection point for EVA especially its auto components business, which could be overlooked by investors. Its key growth engine from Tesla is immune to potential supply chain disruptions caused by lockdowns in China, as such business is in North America.
- **Our View:** EVA has become Tesla's supplier for its front-seat frames of all the models produced in North America since Jul 2021. We expect EVA's revenue from Tesla to rise 5x to HK$ 150mn in FY22E and 77% YoY in FY23E amid Tesla's strong sales growth. EVA also benefits from Tesla's strong growth as a tier-2 supplier through Faurecia, as Faurecia is the sole supplier of the rear seat assembly for the *Model Y* in North America, and EVA is the sole supplier for Faurecia in such business. EVA's revenue from Great Wall could also rise significantly in 2H22-FY23, as its Jingmen plant ramps up and a new plant in Daye may start production in 2023. EVA's new businesses, including components for new OEMs and for data server, energy storage etc., may start to bear fruit from 2H22.
- **Catalysts:** 1) Supplier nominations from new OEMs; 2) Tesla US sales ramp-up, especially in the Austin plant.
- **Why do we differ vs consensus:** We are now the only broker to provide data for Bloomberg consensus.
- **Valuation:** Our target price of HK$ 3.00 is based on sum-of-the-parts valuation, as we value HK$ 2.34 per share for its auto components business, based on 20x our FY22E P/E; and HK$ 0.66 per share for its office automation equipment, based on 8.5x of our FY22E P/E.

Link to our report: EVA Holdings (838 HK) – Auto components inflection point has arrived

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (HK$ mn)	5,109	6,353	8,238	9,777
YoY growth (%)	27.4	24.4	29.7	18.7
Net income (HK$ mn)	155	340	545	787
EPS (HK$)	0.09	0.19	0.30	0.43
YoY growth (%)	N/A	119.0	60.4	44.4
P/E (x)	14.7	6.9	4.3	3.1
P/B (x)	0.8	0.7	0.6	0.5
Yield (%)	2.0	4.4	6.9	9.8
ROE (%)	5.7	11.5	16.3	20.2
Net gearing (%)	17.5	5.9	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Our estimated revenue from major auto clients

Client	FY21A (HK$ mn)	FY22E (HK$ mn)	YoY
Faurecia	~400	540	35.0%
Great Wall	~290	600	106.9%
Tesla	~30	150	400.0%

Source: Company data, CMBIGM estimates

Zhejiang Jingsheng (300316 CH): Solid growth of solar equipment; SiC gaining traction

Rating: BUY **| TP:** RMB93 (33% upside)

Analyst: Wayne Fung

- **Investment Thesis:** Zhejiang Jingsheng is a leading supplier of crystal growing and processing equipment in solar power and semiconductor industry. The Company also offers sapphire products in the LED industry. Jingsheng is the key beneficiary of the capex growth of wafer makers, such as Zhonghuan (002129 CH, NR).

- **Our View:** We expect major wafer makers' continuous transformation to large-size wafer will boost the replacement demand, which offers further growth opportunity for Jingsheng. Besides, the war in Ukraine has continued to boost the export of solar products to the EU countries. On the other hand, the breakthrough on SiC will serve as a new growth engine for Jingsheng starting from this year.

- **Why do we differ vs consensus:** Our earnings forecast in 2022E/23E is 4%/-4% versus consensus estimates. We see upside to our earnings estimates given the aggressive capacity expansion plan of customers such as Shangji Automation (603185 CH, NR).

- **Catalysts:** (1) More favorable policies to support solar power in Europe; (2) Upside on China solar installation; (3) further breakthrough on SiC.

- **Valuation:** Our TP is RMB93, based on 45x 2022E P/E. We applied a 20% discount to target P/E of 56x (1SD above historical average), as we expect Jingsheng is likely to complete the share placement this year (max: 20% of enlarged share capital).

Link to latest report:

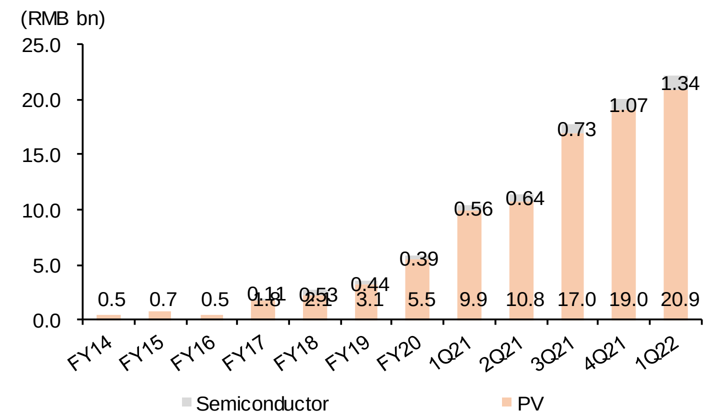
Zhejiang Jingsheng (300316 CH) – High visibility with backlog covering >80% of revenue in 2022E-23E

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,961	11,830	14,731	17,546
YoY growth (%)	56	98	25	19
Net income (RMB mn)	1,712	2,671	3,276	3,908
EPS (RMB)	1.33	2.08	2.55	3.04
YoY growth (%)	99	56	23	19
Consensus EPS (RMB)	N/A	2.00	2.66	3.19
P/E (x)	52.6	33.7	27.5	23.0
P/B (x)	13.2	9.8	7.6	5.9
Yield (%)	0.4	0.6	0.7	0.9
ROE (%)	28.4	33.4	31.2	28.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Jingsheng's backlog



Source: Company data, CMBIGM estimates

SANY International (631 HK): Strong performance across all segments

Rating: BUY **|** **TP:** HK$14.6 (75% upside)

Analyst: Wayne Fung

- **Investment Thesis:** The ongoing development of intelligent coal mines and ports will continue to offer opportunity for SANYI to gain market share through the launch of the intelligent machinery products. Besides, industrial robot and smart mining will serve as new growth drivers.

- **Our View:** We expect a strong year in 2022E: (1) Tight supply of coal will continue to attract higher spending on coal mines; (2) SANYI is confident of delivering 50%/100% revenue growth of mining equipment/logistics equipment in the overseas market; (3) Intelligent and electric products are gaining traction and the ratio is expected to further increase this year (2021: 15%), which will help improve gross margin; (4) Expansion into new energy business through potential M&A. All these reaffirm our positive stance on SANYI's structural growth story. .

- **Why do we differ vs consensus:** Our earnings forecast in 2021E/22E is 4%/3% versus consensus. We see upside to our earnings forecast given the strong backlog and material cost reduction.

- **Catalysts:** (1) Increase in coal mining capex; (2) Launch of new products; (3) potential M&A

- **Valuation:** Our TP of HK$14.6 (based on 23x 2022E P/E, on the back of 23% earnings CAGR in 2022E-24E).

Link to latest report:

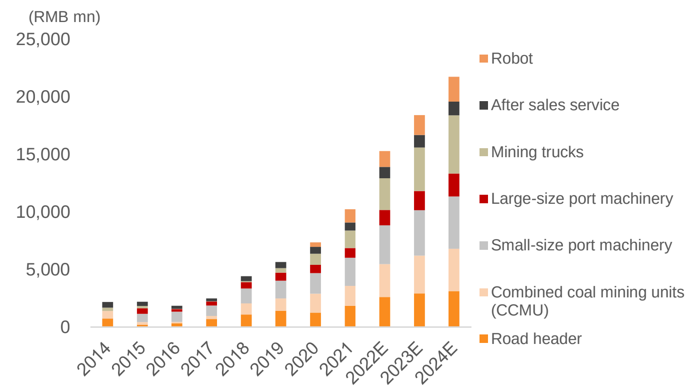
SANY International (631 HK) – Post-results and NDR takeaways: Expect a strong year in 2022E

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	10,195	15,293	18,403	21,739
YoY growth (%)	38.4	50.0	20.3	18.1
Net income (RMB mn)	1,259	1,655	1,992	2,327
EPS (RMB)	0.40	0.53	0.63	0.74
YoY growth (%)	19.3	31.5	20.3	16.8
Consensus EPS (RMB)	N/A	0.50	0.61	0.74
EV/EBIDTA (x)	11.9	8.8	7.5	6.6
P/E (x)	16.9	13.0	10.8	9.2
P/B (x)	2.5	2.2	1.9	1.6
Yield (%)	1.8	2.4	2.9	3.4
ROE (%)	15.2	17.7	18.6	18.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: SANYI's revenue breakdown



Source: Company data, CMBIGM estimates

SF Holding (002352 CH): Set to deliver strong earnings recovery in 2022E

Rating: BUY **| TP:** RMB94 (90% upside)

Analyst: Wayne Fung

- **Investment Thesis:** The Chinese government's strong intervention in the express delivery industry through policies and regulations in 2021 successfully put the bloody price war to an end and brought the industry development back to the right track. From corporate perspective, major players have already shifted from pricing to capex optimization, quality service and profit oriented strategy. Looking ahead, we expect ASP increase will continue to serve as a sector catalyst in 2022E. In addition, we expect expansion to integrated logistics model, will become a trend over the medium term.

- **Our View:** Following the completion of share placement and the spin-off of **SF REIT (2191 HK, NR)** and the intra-city business unit, SF completed the major fund-raising exercise in 2021. Going forward, with a focus on premium delivery service, SF is set to become a major beneficiary given that the industry focus has already moved from pricing to service quality. Meanwhile, SF's strategic shift from scale to profitability, together with the consolidation of **Kerry Logistics (636 HK, NR),** will boost significant earnings recovery in 2022E. What is more, the potential market share gain in the premium e-commerce delivery segment will boost SF's economy express volume.

- **Why do we differ vs consensus:** Our earnings forecast in 2022E-23E is 9-12% above consensus estimates, due to higher ASP assumptions.

- **Catalysts:** (1) further increase in ASP, and (2) efficiency enhancement through network integration.

- **Valuation:** Our TP of RMB94 is based on 61x 2022E P/E, 1SD above the historical average of 44x. We believe SF deserves a valuation premium, given the strong earnings recovery in 2022E-23E.

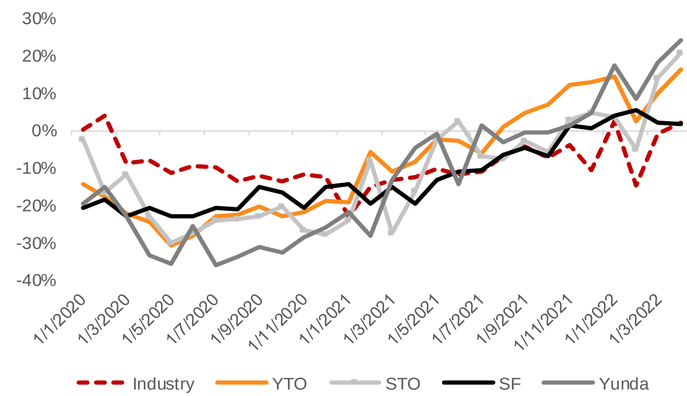
Link to latest report: SF Holding (002352 CH) – Core net profit in 4Q21 below expectation but recovery trend will continue

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	153,987	216,220	279,808	320,407
YoY growth (%)	37	40	29	15
Net income (RMB mn)	6,883	2,785	7,594	11,081
EPS (RMB)	1.54	0.61	1.55	2.26
YoY growth (%)	37.2	(60.6)	154.9	45.9
Consensus EPS (RMB)	N/A	N/A	1.45	1.99
EV/EBITDA (x)	18.6	20.2	12.6	9.6
P/E (x)	32.1	81.5	32.0	21.9
P/B (x)	4.0	3.1	2.8	2.5
Yield (%)	0.7	0.2	0.6	0.9
ROE (%)	13.9	4.1	9.2	12.2
Net gearing (%)	Net cash	2.1	5.8	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: ASP trend for major express delivery players



Source: The State Post Bureau, Company data, CMBIGM

Xtep (1368 HK): A resilient 2Q22 and FY22E guidance upheld

Rating: BUY **| TP:** HK$17.04 (36% upside)

Analyst: Walter Woo

- **Investment Thesis:** We believe Xtep is another key company to enjoy the domestic fashion mania in the next few years. Also, the partnership with Hillhouse since mid-2021 would provide them with more meaningful industry connections and resources. It has the third largest domestic sportswear brand (Xtep) in China with RMB 10.0bn sales and around 6,000 stores and other brands (K-Swiss, Saucony, etc.) in FY21. Growth drivers include 1) premiumization and better product mix, 2) larger sized stores with better productivity and 3) multi-brands expansion.

- **Our View:** 2Q22 retail sales growth was at mid-teens, far better than Anta/ FILA/ Pou Sheng, thanks to strong come back in Jun, kids and online. Even though Xtep did revise down certain trade fair orders in 2H22E, management had reiterated their FY22E guidance, we are also positive, due to: 1) excellent momentum MTD in Jul (30%+) and 2) potential beat in store openings (already opened 100+ vs targets of 200+ in FY22E) and partnership with Pou Sheng. Also, we are not worried about risks of inventory clearance in 2H22E due to Xtep's wholesale business model.

- **Why do we differ vs consensus:** For FY22E/ 23E/ 24E, our net profit forecasts are lower than the street by 1%/ 3%/ 2%, as we are more pessimistic about its sales growth and GP margins.

- **Catalysts:** 1) strong recovery in 3Q22E, 2) higher than expected popularity for products and brands (esp. the newly acquired K-Swiss and Saucony) and 3) potential consumption stimulus from government.

- **Valuation:** We derived our 12m TP of HK$17.04 based on SOTP valuation, also implying a 26x FY23E P/E. We believe resilient sales growth during tough time can boost investors' confidence. The stock is not expensive, at 19x FY23E P/E, with 25% adj. NP CAGR during FY21-24E.

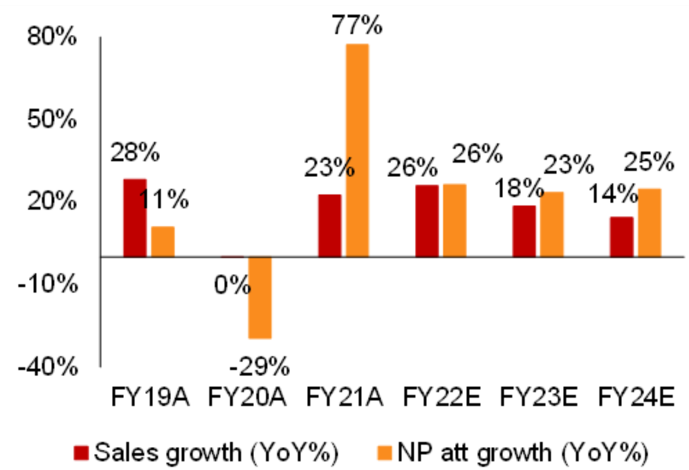
Link to latest report: Xtep (1368 HK) – A resilient 2Q22 and FY22E guidance upheld

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Sales (RMB mn)	10,013	12,615	14,941	17,069
YoY change (%)	22.5	26.0	18.4	14.2
Adj. net profit (RMB mn)	908	1,148	1,416	1,766
Adj. EPS - fully diluted (RMB)	0.355	0.451	0.556	0.693
YoY change (%)	72.1	26.9	23.4	24.7
Consensus EPS (RMB)	N/A	0.445	0.560	0.690
Adj. P/E (x)	29.2	23.1	19.3	15.5
P/B (x)	3.3	3.1	3.0	2.7
Yield (%)	2.1	2.6	3.1	3.9
ROE (%)	11.9	13.9	16.0	18.4
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales and net profit growth



Source: Company data, CMBIGM estimates

Midea (000333 CH): 1Q22 beat and an excellent ToB game plan

Rating: BUY | **TP:** RMB67.79 (28% upside)

Analyst: Walter Woo

- **Investment Thesis:** Home appliances sales were suffering in the last 1.5 years; however, Midea is still well positioned to take market shares. Midea is one of the largest in the world, by revenue. It owns MIDEA, LITTLE SWAN, TOSHIBA, KUKA brands, etc. and has over 15 overseas manufacturing bases, over 33,000 employees and covering businesses in more than 200 countries and regions. Growth drivers include: 1) market shares gains through more competitive and innovative products, 2) more self-owned brands, direct retail and overseas sales, 3) product category expansion and 4) ToB businesses expansion.

- **Our View:** We believe the air-con sales could turnaround in 3Q22E, thanks to extremely hot weather this year and so as the sector in general, due to recovery in property sales and government's policies to relax the housing market and boost consumptions. Moreover, the CNY deprecation and declines in raw material and transportation costs could fuel better GP margins. Lastly, Midea's strategy to focus on ToB business and profitability would certainly lead to better than industry growth.

- **Why do we differ vs consensus:** For FY22E/ 23E/ 24E, our sales forecasts are 1%/ 2%/ 3% lower than consensus and our net profit forecasts are 1%/ 0%/ 2% lower than street as we are more conservative on industry sales growth and GP/ OP margin.

- **Catalysts:** 1) strong come back during the summer, 2) potential turnaround in exports, 3) favorable FX, 4) further decline in raw material costs, 5) property sales recovery and 6) sector re-rating.

- **Valuation:** We derived our 12m TP of RMB67.79 based on 15x FY22E P/E. We believe continual sector improvement and Midea's outperformance will drive certain re-rating. The stock is trading at 11.7x FY22E.

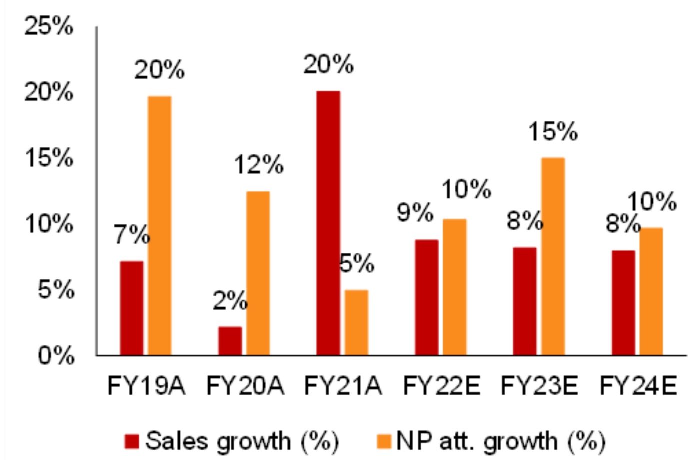
Link to latest report: Midea (000333 CH) – 1Q22 beat and an excellent ToB game plan

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Sales (RMB mn)	341,233	371,143	401,494	433,369
YoY change (%)	20.1	8.8	8.2	7.9
Net profit (RMB mn)	28,574	31,523	36,249	39,752
EPS - fully diluted (RMB)	4.14	4.52	5.15	5.59
YoY change (%)	6.0	9.2	13.9	8.6
Consensus EPS (RMB)	N/A	4.58	5.21	5.84
P/E (x)	12.8	11.7	10.3	9.5
P/B (x)	2.9	2.6	2.2	2.0
Yield (%)	3.2	3.5	4.0	4.3
ROE (%)	23.6	23.4	23.2	22.0
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Domestic and export sales growth



Source: Company data, CMBIGM estimates

CR Beer (291 HK): We cut 2.5% of our 2022E shipment forecast to factor-in the current pandemic impact

Rating: BUY | **TP:** HK$71.0 (30% upside)

Analyst: Joseph Wong

- **Investment Thesis:** Our channel check suggested that CRB's 1Q22 revenue was up by high-single-digit growth thanks to a mid-single-digit ASP uptick and low-single-digit volume growth. Subpremium+ sales was up by 20%+, in line with our expectation. Despite this, fragile market confidence continued to weigh on the company's share price, as the market attempted to factor-in a weakening 2Q22 outlook due to the concurrent wave of the pandemic outbreak. Of note, the quarter anecdotally contributed to c.35% of the full-year volume. Assuming one-third of the quarter's shipment to be stake, we cut 2.5% of our 2022E shipment to 10.7mnL (-2.7% YoY). Compounding with other earnings revisions below, we cut our 2022/23E net profits by 8.7%/15.7%, respectively. The viral pandemic situation should continue to be a near term drag, however, we are convinced CRB's premiumization progress still have legs when management reassured us its 4mnL sub-premium+ shipment target by 2025E.

Other major revisions:

- We cut our 2022E revenue by 2% and that corresponds to a 2.5% reduction of the year's shipment, while we largely maintain a 6.5% ASP uptick as we believe price hikes from last Sep and earlier this year should have a full-scale impact to CRB's pricing momentum throughout 2022.

- **Valuation:** In view of our earnings change, we lower our TP to HK$71.0. Our TP is still based on 29.0x 2022E EV/ EBITDA which represents an average valuation since 2018.

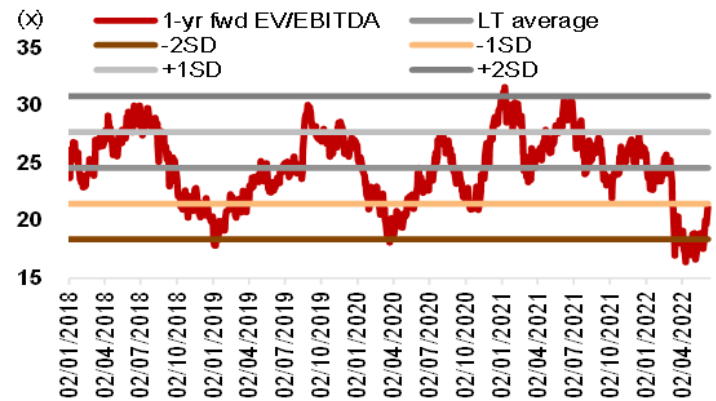
Link to latest report: CR Beer (291 HK) – We cut 2.5% of our 2022E shipment forecast to factor-in the current pandemic impact

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	33,387	34,494	35,849	38,426
YoY growth (%)	6.2	3.3	3.9	7.2
Net income (RMB mn)	4,587	3,832	4,281	5,042
EPS (RMB)	1.0	1.2	1.3	1.6
YoY growth (%)	21.0	18.7	11.7	17.8
Consensus EPS (RMB)	N/A	1.3	1.6	1.9
P/E (x)	N/A	31.0	27.8	23.6
P/B (x)	N/A	4.5	4.1	3.7
Div yield (%)	N/A	1.3	1.4	1.7
ROE (%)	14.1	15.0	15.4	16.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward EV/EBITDA



Source: Company data, CMBIGM estimates

Budweiser APAC (1876 HK): 2Q results largely in line; solid premiumization efforts mitigated volume headwind

Rating: BUY **| TP:** HK$28.4 (23% upside)

Analyst: Joseph Wong

- **Investment Thesis:** Budweiser reported 2Q normalised EBITDA at US$569mn, down 5.6% YoY, along with a 5% decline in revenue to US$1.8bn, despite the challenging operation environment for its China business. City-wise lockdown has weighed on the region's sales volume with a 6.5% decline in 2Q, which translated to a 13.7% organic decrease in EBITDA, considering rising raw material costs and operation deleverage. Despite that, Bud APAC remained capable of delivering double-digit growth for its super-premium/ premium SKUs for non-Covid area in June. We still look for 2H China volume to revive to positive LSD growth with a steady 2%+ ASP uptick, and these would bring the region's FY revenue flattish YoY with slightly lower normalised EBITDA margins at 35-36%. Meanwhile, we continue to expect the company's APAC business to recover, especially that in Korea, where all lockdown restrictions in on-premise channels now lifted.

- **China:** Volumes and revenue declined by 5.5% and 3.2% in 1H22 (2Q: -6.5% and -4.9%), dragged by channel disruptions and an unfavorable geographic mix amid heightened lockdown measures across various cities. However, performance has been improving MoM according to management. Channel disruptions peaked in Apr and gradually eased since May with the reopening of Covid cities. ASP still grew 2.4% YoY in 1H22, and volumes recovered to HSD growth in Jun, with premium and super premium portfolios bouncing back to DD growth. Management expected the trend to continue in 2H, supported by consumer demand which remained strong and steady premiumization momentum.

- **Valuation:** Our new TP of HK$28.4 is based on an updated 20.0x (from previously 22.0x) roll-forward end-23E EV/ EBITDA which still represents 3-year average.

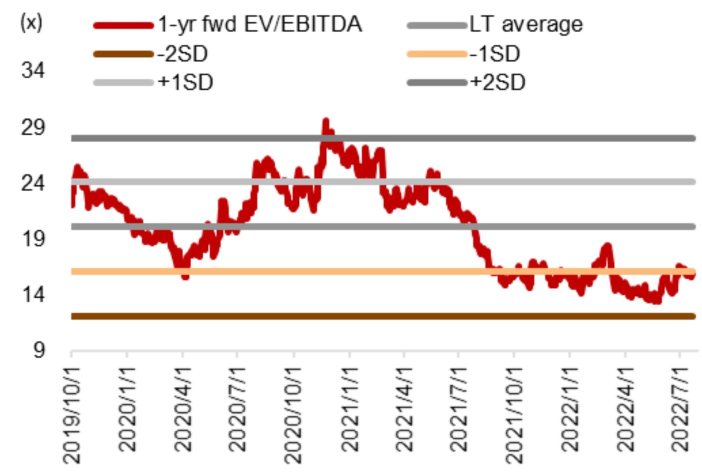
Link to latest report: Budweiser APAC (1876 HK) – 2Q results largely in line; solid premiumization efforts mitigated volume headwind

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (US$ mn)	6,788	6,865	7,595	8,111
YoY growth (%)	21.5	1.1	10.6	6.8
Net income (US$ mn)	950	1,047	1,251	1,357
EPS (US$)	0.07	0.08	0.09	0.10
YoY growth (%)	84.7	10.2	19.5	8.5
Consensus EPS (US$)	N/A	0.08	0.10	0.12
P/E (x)	N/A	38.7	32.4	29.9
P/B (x)	N/A	3.5	3.2	3.0
Div yield (%)	N/A	1.1	1.3	1.4
ROE (%)	8.7	9.2	10.3	10.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E



Source: Company data, CMBIGM estimates

Innovent Biologics (1801 HK): Expanding portfolio of commercial products

Rating: BUY **| TP:** HK$55.33 (51% upside)

Analysts: Jill Wu/ Andy Wang

- **Investment Thesis:** besides seven marketed products, namely sintilimab, three biosimilars, pemigatinib (FGFR), olverembatinib (BCR-ABL), and ramucirumab (VEGFR2), Innovent has three assets under NDA review in China, including selpercatinib (RET), IBI-326 (BCMA CAR-T) and IBI-306 (PCSK9). Given the comprehensive and fast-growing commercial product portfolio, the management targets to realize over RMB20bn annual sales within the next five years.

- **Our View:** Innovent recently announced to license in two oncology assets from Sanofi, including tusamitamab ravtansine (tusa; anti-CEACAM5 ADC) and SAR444245 (non-alpha IL-2), with no upfront payments. Globally, tusa is the most advanced anti-CEACAM5 ADC with FIC potentials (Gilead's IMMU130 in Ph2; Merck's M9140 in Ph1). With different technology for specificity, Innovent is developing its two internal IL-2 assets, Ph1 IBI-363 (PD-1/IL-2 fused BsAb) and preclinical IBI-395 (PD-1/IL-2/IL-21 fusion protein). The addition of SAR444245 will enhance Innovent's presence in the IL-2 space. In parallel, Sanofi will make an initial equity investment of EUR300mn (c. HK$2.42bn) in Innovent, at a price of HK$42.42 per share, which represented a 29% premium to Innovent's closing price as of 4 Aug. We believe the two companies will be open to further collaborations in R&D and commercialization, which will enhance Innovent's presence in oncology and potentially other therapeutic areas.

- **Why do we differ vs consensus:** we expect the company to have better sales performance in 2H22. In 2Q22, Innovent generated over RMB1.0bn product revenue. Eli Lilly reported US$73.6mn sales from sintilimab in 2Q22, down 14% QoQ. The sales performance was temporarily impacted by the Covid-19 lockdown and restructuring of the commercial team. With the completion of commercial team reorganization, we expect product sales to regain strong momentum in 2H22.

- **Valuation:** we derive our target price of HK$55.33 based on DCF valuation (WACC: 10.6%, terminal growth rate: 3.0%).

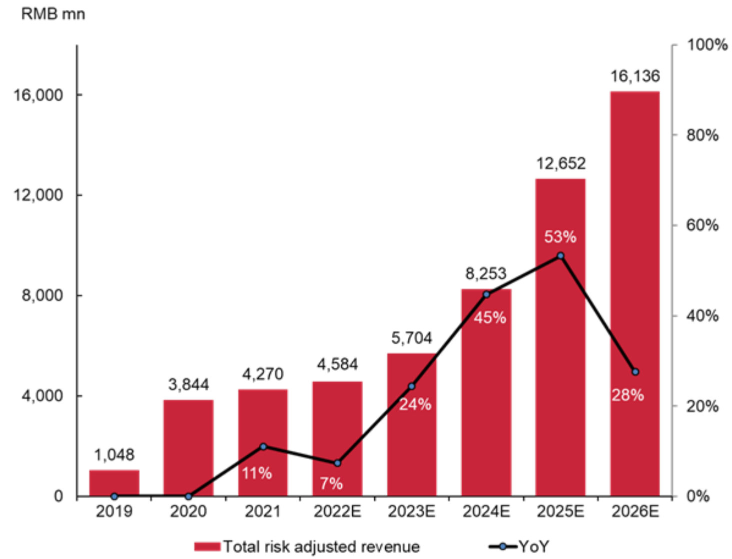
Link to latest report: Innovent Biologics (1801 HK) – Strategic cooperation with Sanofi to strengthen presence in oncology

Financials and Valuations

(YE 31 Dec)	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,584	5,704	8,253
YoY growth (%)	7	24	45
Net profit (RMB mn)	(2,037)	(1,446)	212
EPS (RMB)	(1.39)	(0.98)	0.14
Consensus EPS (RMB)	(1.36)	(0.74)	(0.04)
R&D expenses (RMB mn)	(2,500)	(2,500)	(1,816)
Capex (RMB mn)	(300)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Revenue trend



Source: Company data, CMBIGM estimates

WuXi Biologics (2269 HK): Growth momentum intact

Rating: BUY **| TP:** HK$146.12 (103% upside)

Analysts: Jill Wu/Benchen Huang

- **Investment Thesis:** WuXi Bio is a world leading biologics CDMO which provides one-stop services of biologics discovery, development and manufacturing for global clients. With capabilities covering mAB, BsAB, ADC, fusion protein and vaccines, WuXi Bio has built a rich pipeline containing a total of 526 projects (as of Apr 2022), including 297 in preclinical stage, 32 in Ph3 stage and 9 in commercial stage. The Company adopts a "Follow-the-molecule" strategy to attract and foster early-stage projects and a "Win-the-Molecule" Strategy to win valuable late-stage projects. As a result of pipeline expansion, WuXi Bio's backlog reached to US$17.3bn as of Apr 2022, a guarantee for future revenue growth.

- **Our View:** WuXi Bio has well demonstrated its all-round service quality and speed amid the Covid-19 pandemic. Covid-19 projects (vaccine + neutralizing mAb) contributed ~30% or ~RMB3bn of WuXi Bio's total revenue in 2021, and are expected to generate more than RMB2bn/ RMB800mn revenue in 2022/23E. However, we see stronger revenue growth from its non-Covid projects. We expect WuXi Bio's non-Covid revenue will grow by 78%/54% YoY in 2022E/23E (vs 46%/39% YoY for total revenue), respectively, mainly driven by CMO (commercial) projects. The Company expects 1H22 revenue to increase by 61-63% YoY. We also note that 7 of the Company's 9 commercial projects were added in 2021, marking the banner year of its commercial manufacturing business. Revenue from Phase III and commercial stage projects accounted for 48% of 2021 total revenue.

- **Why do we differ vs consensus:** Our FY22E/23E/24E revenue forecasts are in-line with consensus and we are positive on the Company's non-Covid related projects besides its strong capability to win new Covid-19 contracts. We also think that WuXi Bio will largely mitigate geopolitical risks on its business with its global manufacturing network covering the US, Ireland, Germany and Singapore.

- **Valuation:** We derive our target price of HK$146.12 based on DCF valuation (WACC: 10.17%, terminal growth rate: 4.0%).

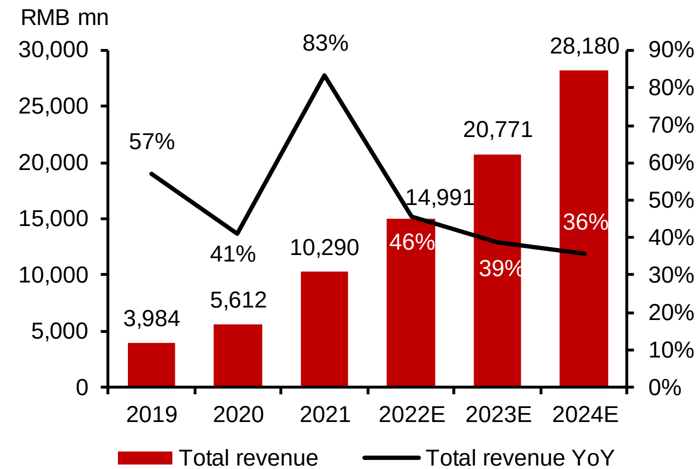
Link to latest report: WuXi Biologics (2269 HK) – Growth momentum intact

Financials and Valuations

(YE 31 Dec)	FY22E	FY23E	FY24E
Revenue (RMB mn)	14,991	20,771	28,180
Revenue YoY growth (%)	46	39	36
Net income (RMB mn)	4,448	6,095	8,296
Adjusted net income (RMB mn)	4,984	7,041	9,772
EPS (RMB)	1.06	1.45	1.97
EPS YoY growth (%)	30	37	36
Consensus EPS (RMB)	1.10	1.51	2.03
P/E (x)	60.0	43.8	32.2
P/B (x)	7.2	6.1	5.1
ROE (%)	12.7	15.1	17.3
Net gearing (%)	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Revenue trend



Source: Company data, CMBIGM estimates

PICC P&C (2328 HK): Expect double digit UW profit growth for 1H22

Rating: BUY **| TP:** HK$11.64 (53% upside)

Analyst: Gigi Chen

- **Investment Thesis:** PICC P&C will report its 1H22 results on 26 Aug after market close. We expect to see double digit growth of underwriting profits in 1H22, driven by YoY improvement in combined ratio and 10% premium growth. Premium income growth picked up since 2Q due to 1) a recovery in new car sales on the back of purchase-tax cut and subsidies and 2) higher pricing of NEV insurance. Our channel checks show that P&C insurers saw a substantial reduction in loss ratio during Covid lockdowns in 2Q22, similar to the situation of the first wave of Covid outbreak in 1H20. We believe the improvement of auto insurance combined ratio and growth will sustain into 2H22, and we expect double-digit growth for underwriting profit in FY22. Reiterate BUY.
- **Catalysts:**
  - PICC P&C will report 1H22 results on 26 Aug after market close.
  - We expect the recent policy incentives, i.e. purchase-tax cut and subsidies for new cars, along with easing lockdown measures will increase auto sales and boost auto insurance premiums growth starting from June 2022.
- **Valuation:** The stock is trading at 0.6x P/BV FY22E or 5.9x P/E FY22E, with over 7% dividend yield and 12%-14% ROE, well below historical average valuation. Reiterate BUY.

Link to latest report:

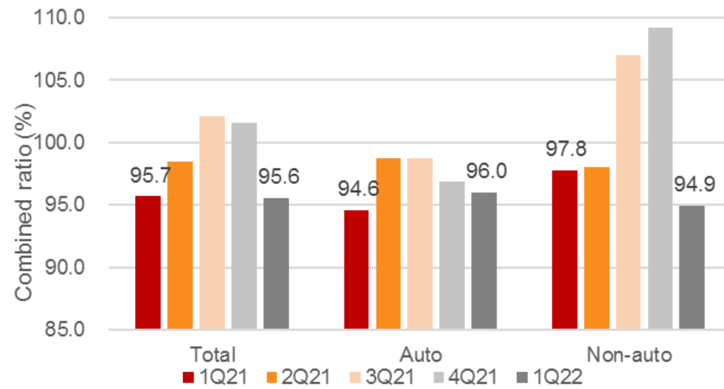
- PICC P&C (2328 HK) – CoR improvement in 1Q22
- PICC P&C (2328 HK) – Expect CoR improvement in FY22
- PICC P&C (2328 HK) – Auto growth pick up; Non-auto UW to improve
- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
GWP (RMB mn)	449,533	494,486	543,935	598,328
YoY growth (%)	3.8	10.0	10.0	10.0
UW profit (RMB mn)	1,521	4,422	6,760	7,436
Net profit (RMB mn)	21,652	25,268	30,093	3,914
EPS (RMB)	1.0	1.1	1.4	1.5
YoY growth (%)	3.8	16.7	19.1	12.7
Consensus EPS (RMB)	N/A	1.2	1.3	1.5
P/B (x)	0.7	0.6	0.6	0.6
PER (x)	6.4	5.9	4.9	4.3
Yield (%)	6.5	7.1	8.5	9.6
ROE (%)	11.1	12.0	13.3	13.8

Source: Company data, Bloomberg, CMBIGM estimates

Fig: PICC combined ratio quarterly 1Q21-1Q22



Source: Company data, Bloomberg, CMBIGM estimates

Kuaishou (1024 HK): Stronger DAU and ecommerce ahead

Rating: BUY | TP: HK$120 (59% upside)

Analyst: Sophie Huang

- **Investment Thesis:** Despite soft macro and epidemic resurgence, we expect Kuaishou to be relatively resilient on its ads and ecommerce share gain. We are more positive on its operating leverage and disciplined cost in FY22E (forecasting adj. NPM at -10%). 2Q22E guidance was better-than-feared, and we suggest to look into ads and ecommerce rebound in 2H22E after lockdown relaxation. We reiterate our confidence in its resilient growth, share gain and narrowing loss in the long run.

- **Our View:** We expect better-than-expected 2Q22 results ahead, with DAU/rev +18%/8% YoY (vs. prior +15%/8%), and bottom line at -RMB2.5bn (vs. consensus at -RMB3.1bn). DAU momentum and GMV would beat previous guidance, while others were on a good track. We forecast its GMV +25% YoY (high end), and are impressed by its Jul momentum (>30% YoY) and GMV further acceleration in early Jul. We forecast ads +7% YoY (in line), in which internal ecommerce ads & brand ads trend healthy while external ads still declined YoY in Jun. We expect ads to grow 18% YoY in 2H22E, with algorithm optimization and vertical recovery. We suggest to move beyond weakest 2Q22E, and look into ads & ecommerce rebound in 2H22E and domestic biz breakeven in 4Q22E.

- **Why do we differ vs consensus:** Market concern lies on epidemic resurgence, livestreaming policy and pressure from Douyin. We believe near-term concerns have been priced in and its financials outlook was well-guided and relatively defensive. Downside risk is limited.

- **Catalysts:** 1) potential upbeat 2Q22E; 2) Meituan synergies to expand TAM; and 3) ecommerce to outperform.

- **Valuation:** Maintain BUY with SOTP-based TP of HK$120. Valuation is attractive, given its resilient growth and narrowing loss, in our view.

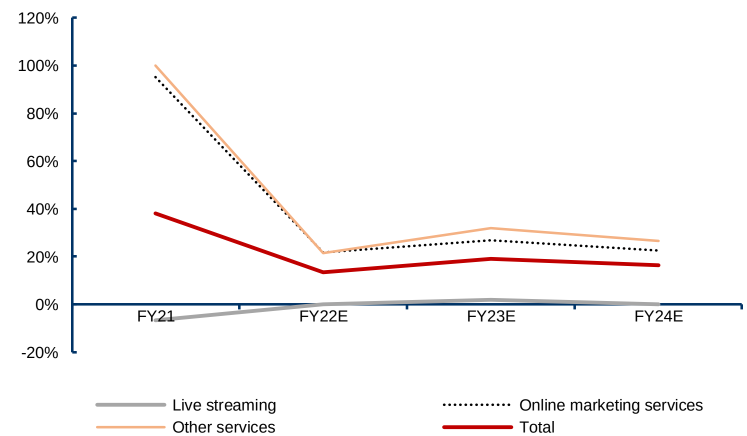
- **Link to latest report**: Kuaishou (1024 HK) – Stronger DAU and ecommerce ahead

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	81,082	92,761	110,119	127,311
YoY growth (%)	37.9	14.4	18.7	15.6
Net income (RMB mn)	(18,852)	(9,504)	(4,207)	3,085
EPS (RMB)	(4.6)	(2.1)	(0.9)	0.7
YoY growth (%)	N/A	N/A	N/A	N/A
Consensus EPS (RMB)	N/A	(2.9)	(0.6)	2.2
P/E (x)	N/A	N/A	N/A	N/A
P/S (x)	3.6	3.2	2.7	2.3
Yield (%)	0.0	0.0	0.0	0.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: KS's revenue growth estimates



Source: Company data, CMBIGM estimates

CR Land (1109 HK): Rental income to ride on consumption V-shape

Rating: BUY | **TP:** HK$44.79 (47% upside)

Analysts: Jeffrey Zeng/ Miao Zhang

- **Investment Thesis:** We still expect CR Land to deliver double digit growth in 2022E earnings, especially as the pandemic measures have eased significantly which may drive the rental income growth back to 15% YoY. For the property development, its sales are currently outperforming the peers and we expect the booking of CR City this year to support earnings and margin as well.
- **Our View:** We see the promotion of CR City Phase IV in Dec 2020 to support 2022E earnings. Also, rental income could bottom out after the easing of pandemic.
- **How do we differ:** Overall, we see the market as over-concerned on 1) further policy tightening and 2) decline in property demand. We think the high saving rate and wealth effect of 2020 would help drive consumption recovery, which would benefit major shopping mall runners in the property space (i.e. CR Land) to accelerate rental income growth.
- **Valuation:** The Company currently trades at 6x 2022E P/E vs. historical average of 9x. Moreover, the increase in revenue share of rent collection business could trigger re-rating.

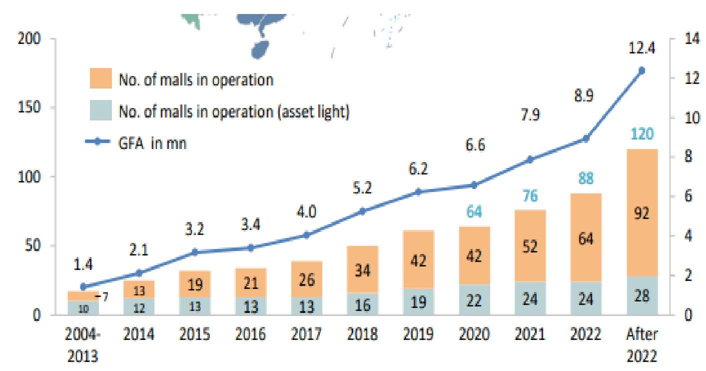
Link to latest report: China Property Sector – Bumpy road ahead despite better-than-feared 2M22 data

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21A	FY22E
Revenue (RMB mn)	147,736	179,587	242,568	271,335
YoY growth (%)	21.9	21.2	35.1	11.9
Net income (RMB mn)	28,672	29,810	31,809	34,666
EPS (RMB)	4.12	4.18	4.46	4.86
YoY growth (%)	17.7	1.5	6.7	9.0
Consensus EPS (RMB)	N/A	N/A	4.05	4.63
P/E (x)	7.7	7.6	7.1	6.6
P/B (x)	1.3	1.2	1.0	0.9
Yield (%)	3.3	3.9	4.7	5.3
ROE (%)	16.5	13.7	14.6	14.3
Net gearing (%)	30.3	32.1	31.6	34.4

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CR Land's opening plan



Source: Company data, CMBIGM

CG Services (6098 HK): Strong beneficiary of eased pandemic on Community VAS

Rating: BUY | **TP:** HK$47.6 (236% upside)

Analysts: Jeffrey Zeng/Miao Zhang

- **Investment Thesis:** CGS may face short-term volatility after adjusting down its 2022E NP growth to 40% from 50%, together with declining margin and high trade receivables. However, we think the downside is limited given the attractive valuation at 14x 2022E and benefits from eased lockdown. Also, the management promised not to do placement for M&A and margin/receivables will improve in 2022E after the M&A dilution was mainly reflected in 2021.

- **Our View:** Unlike most players, CGS has turned its M&A focus to community VAS expansion, as reflected in City-Media (elevator ads), Hopefluent (real estate agency) and Wenjin International (insurance) acquisitions. Together with CGS' own booming retail business (with the help of its Parentco sourcing), we expect managed GFA to grow at a stable 30% CAGR in 2019-2022E and the Company would be the key winner in VAS growth.

- **How do we differ:** We value CGS' potential in VAS which the market has not yet recognized. With CGS' strong capital and execution, we think the Company can improve its VAS per sq m from current RMB3/sq m to RMB30/sq m in the future, getting closer to the level of RMB50-56 in the US and Japan. We think its Community VAS could contribute as much as RMB5bn net income in the mid-to-long run, and may be worth RMB150bn valuation alone by assigning 30x PE.

- **Valuation:** It is currently trading at 7x 2022E PE and looks attractive.

Link to latest report: CG Service (6098 HK) – Keeping low for its second takeoff

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	15,600	28,843	44,337	56,977
YoY growth (%)	61.7	84.9	53.7	28.5
Net income (RMB mn)	2,686	4,033	5,747	7,600
EPS (RMB)	0.98	1.28	1.72	2.27
YoY growth (%)	55.7	31.1	34.2	32.2
Consensus EPS (RMB)	N/A	N/A	1.75	2.75
P/E (x)	N/A	8.9	6.7	5.0
P/B (x)	N/A	4.7	3.8	2.8
Yield (%)	N/A	2.6	3.7	5.0
ROE (%)	18.4	11.1	30.2	30.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CGS has first-mover advantage in VAS acquisitions

Date	Target company	Business	Stake	Consideration (RMB mn)
Apr-20	Wenjin Insurance I	Insurance	100%	84
Apr-20	Hopefluent	Property agency	100%	92
Jul-20	City Media	Elevator ads	100%	1,500

Source: Company data, CMBIGM estimates

Goertek (002241 CH): Strong VR momentum into 2H22E; Maintain BUY

Rating: BUY | **TP:** RMB48.0 (36% upside)

Analysts: Alex Ng/ Lily Yang

- **Investment Thesis:** Goertek is a global leader in precision components (acoustics, microelectronic), wearables products (Airpods) and AR/VR products (Oculus, Pico, Sony VR). We believe it is well-positioned to capture growth opportunities backed by solid product roadmap and market share gain in key products, such as AR/VR, gaming console, smart watch.

- **Our View:** We are positive on Goertek's product portfolio and strong momentum in VR/gaming console in FY22-23E. For 1H22E, company pre-announced net profit of RMB2.08-2.42bn, up 20-40% YoY, implying 2Q22 NP growth of 59-99% YoY. We think the profit alert alleviated market concerns on AirPods weakness, Covid-19 impact and VR momentum in 2022. Looking into 2H22E, we believe Goertek's growth momentum will continue with multiple product launches from new-gen AirPods, Quest 2 Pro and PS VR2. Overall, we expect Goertek's earnings to grow 33%/21% in FY22/23E, backed by 62%/26% growth in smart product segment (VR, gaming console, smart watch). We believe recent pullback provides good buying opportunity, given its solid product roadmap and high earnings visibility in AR/VR and gaming console biz.

- **Why do we differ vs consensus:** Our FY22-24E EPS are largely in-line with consensus, but we expect AR/VR recovery will drive re-rating.

- **Catalysts:** Near-term catalysts include product launches, China demand recovery and client order wins.

- **Valuation:** Our TP of RMB48.0 is based on 28x FY22E P/E, based on 7-year historical avg. P/E.

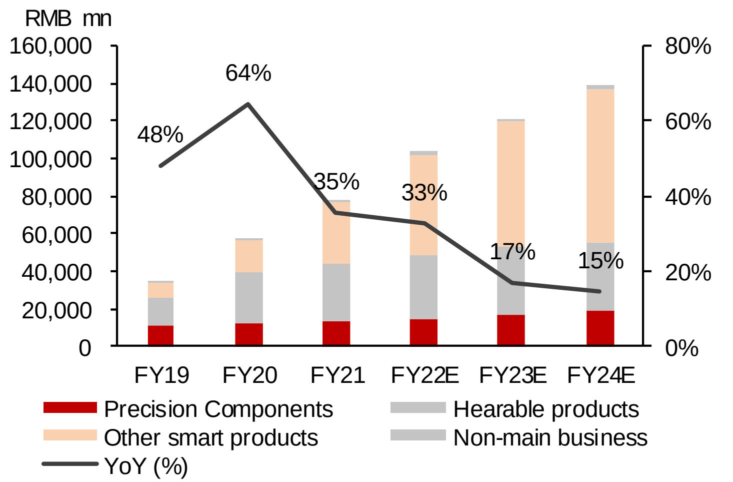
Link to latest report: Goertek (002241 CH) – Strong VR momentum into 2H22E; Maintain BUY

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	78,221	103,687	121,268	138,872
YoY growth (%)	35.5	32.6	17.0	14.5
Net profit (RMB mn)	4,275	5,853	7,086	8,610
EPS (RMB)	1.29	1.71	2.07	2.52
YoY growth (%)	44.9	32.8	21.1	21.5
Consensus EPS (RMB)	1.29	1.66	2.10	2.59
P/E (x)	24.9	18.8	15.5	12.8
P/B (x)	3.9	3.8	3.2	2.7
Yield (%)	0.6	0.8	1.0	1.2
ROE (%)	15.3	18.1	18.5	18.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Goertek revenue trend



Source: Company data, CMBIGM estimates

Wingtech (600745 CH): Diversified hardware play with bright outlook

Rating: BUY | **TP:** RMB93.12 (25% upside)

Analysts: Lily Yang/ Alex Ng

- **Investment Thesis:** We hold an optimistic view as Wingtech has expanded into the semi IDM and optical imaging module market successfully in recent years, transitioning from a top ODM manufacturer. Wingtech emerges as a more resilient hardware play with more diversified and lucrative businesses. We believe Wingtech can enjoy synergies created from integration of three business segments (Semi IDM, optical imaging module and ODM).
- **Our View:** Wingtech successfully enters new markets with big TAMs and better growth outlook. 1) Riding on the localization tailwind in China with a global footprint of factories and diversified client base, we expect the semi IDM business will continue to deliver stellar results (semi IDM rev CAGR of 41.6% in 2022-2024E). 2) For optical module business, Wingtech has shipped products to tier-1 clients and passed its rigorous verification process in 2021. We expect this segment will return to profitability in 2022. 3) The Company also reduces its reliance on smartphone ODM and moves to other diversified ODM markets (e.g. AIoT, auto). We expect revenue to have a rebound with higher growth starting from 2022 as contributions from new BUs will grow faster.
- **Why do we differ vs consensus:** Share price looks attractive as most bad news are priced in. Wingtech's share price has been corrected by 41.9% YTD vs CSI300 down by 9.6%. We talked to mgmt. recently and believe the Company's operation remains normal. In our view, the current share price has already factored in many uncertainties and looks attractive with forward P/E at 2SD below its historical mean.
- **Catalysts:** 1) Better-than-expected earnings result; 2) new 12-inch factory to begin production in 2H; 3) ODM's new projects to contribute in 2H.
- **Valuation:** Our TP is RMB93.12, implying ~25x 2023E P/E, which looks attractive.

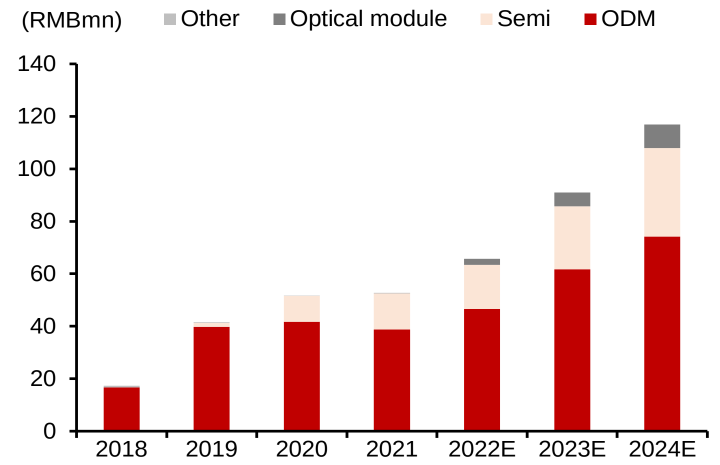
Link to latest report: [Wingtech (600745 CH) – Diversified hardware play with bright outlook]

Financials and Valuations

(YE 31 Dec)	FY21A	FY22	FY23E	FY24E
Revenue (RMB mn)	52,729	65,658	90,941	116,979
YoY growth (%)	2.0	24.5	38.5	28.6
Gross margin (%)	16.2	17.2	17.2	17.5
Net profit (RMB mn)	2,612	3,024	4,642	6,512
EPS (RMB)	2.11	2.43	3.72	5.23
YoY growth (%)	2.4	15.0	53.5	40.3
Consensus EPS (RMB)	N/A	3.08	4.19	5.30
PE (x)	35.8	31.1	20.3	14.4
Yield (%)	0.3	0.3	0.5	0.7
ROE (%)	7.7	8.1	11.5	13.9
Net gearing (%)	Net cash	Net cash	13.5	16.2

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Wingtech revenue trend



Source: Company data, CMBIGM estimates

Kingdee (268 HK): Domestic ERP SaaS leader

Rating: BUY | **TP:** HK$24.37 (42% upside)

Analyst: Marley Ngan

- **Investment Thesis:** Kingdee is the largest enterprise application SaaS vendor in China with 5.8% market share in 1H20, according to IDC. We like Kingdee for its continuous SaaS transition in SME market while new opportunities in large enterprise market are emerging with domestic substitution trend. We expect Kingdee to deliver 20% revenue CAGR in FY21-24E reaching RMB7,207mn.

- **Our View:** We think it is a good time now to compare the cloud transition performance among domestic ERP leaders – Kingdee, Yonyou and Inspur as each of them has accumulated three years of SaaS data. Kingdee launched first cloud-native platform Cloud Galaxy in 2014 while Yonyou/ Inspur are late joiners in 2019. We like Kingdee most given its strong footprint in medium-sized enterprise market where customers have higher acceptance level to standardized SaaS/ subscription model. ARR accounted for 38% of Kingdee FY21 revenue, vs. 18% for Yonyou, although Yonyou reported a 2x larger cloud revenue.

- **Why do we differ vs consensus:** Domestic substitution has helped Kingdee penetrate into large corporates such as Huawei, Vanke, China Merchants Group. Meanwhile, it will be difficult for Yonyou, who launched first cloud-native platform 5 years later than Kingdee, to gain share in the medium-sized enterprise market.

- **Catalysts:** Better than expected cloud revenue growth in 1H22. Supportive policies related to "Xinchuang" implementation.

- **Valuation:** We derive our target price of HK$24.37 on 11.0x FY23E EV/sales, in-line with its 3-year mean. Kingdee deserves re-rating given increasing subscription revenue and hence better cash flow visibility.

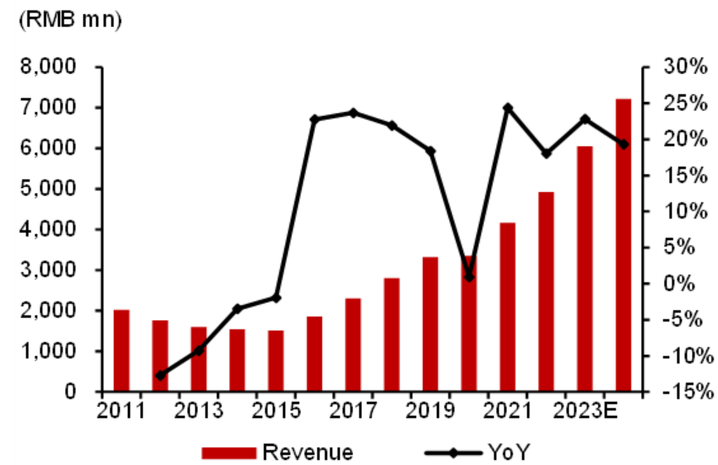
Link to latest report: China Software & IT Services – Higher visibility in SaaS along China cloud value chain

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,174	4,927	6,050	7,218
YoY growth (%)	24	18	23	19
Net profit (RMB mn)	(302)	(380)	(128)	193
EPS (RMB)	(0.09)	(0.11)	(0.04)	0.06
YoY growth (%)	(1)	(18)	(66)	(250)
Consensus EPS (RMB)	(0.09)	(0.08)	(0.03)	0.04
EV/sales (x)	11.4	9.7	7.8	6.5
PE (x)	N/A	N/A	N/A	N/A
Dividend yield (%)	0.00	0.00	0.00	0.00
ROE (%)	(4)	(5)	(2)	3
Net debt to equity	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Kingdee revenue and YoY



Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months

HOLD : Stock with potential return of +15% to -10% over next 12 months

SELL : Stock with potential loss of over 10% over next 12 months

NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months

MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months

UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Disclosures & Disclaimers

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this document may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This document has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this document. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this document and CMBIGM will not assume any responsibility in respect thereof. This document is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.

CMBIGM or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.