CMBI Research Focus List

Our best high conviction ideas

4 Aug 2020

Letter to investors

A year has passed. We are again running for Asiamoney Brokers Poll this year. For the past 12 months, we recommended many brilliant investment ideas, such as AK Medical (1789 HK), Meidong (1268 HK), Zhejiang Dingli Machinery (603338 CH), etc. Meanwhile, we organized numerous corporate access events to bring investors and corporate management together, and held expert calls to let investors have a quick channel check.

CMB International Securities Ltd achieved stellar results in Asiamoney Brokers Poll 2019, ranking Top 7 in Best Overall Country Research (HK local shares). 17 of our research teams entered Top 10 in Hong Kong (local shares) and China (H shares). We were ranked Top 1 in Best Team for Software Internet Services (HK local shares), Top 2 in Best Team for Software Internet Services (China H shares), and both Top 3 in Best Team for Non Bank Financials (HK local shares) and Transportation Logistics (HK local shares).

We would like to seek your continued support this year. Your valuable vote is important to us. It drives us on to provide the best possible advices and services. Asiamoney Broker Poll 2020 voting period is now extended to 21 Aug 2020. If you have not yet casted your vote, please go ahead and vote for us!

https://euromoney.com/brokers

Sincerely,

Samson Man, CFA

Head of Research

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) FY20E	P/E (x) FY21E	P/B (x) FY20E	ROE FY20E	Yield FY20E	Analyst
Long Ideas														
GAC Group	2238 HK	Auto	BUY	14.2	32.2	7.64	8.60	13%	8.5	8.0	0.8	9.5	3.5%	Jack Bai
PAB	000001 CH	Banking	BUY	37.8	255.4	13.59	19.80	46%	9.8	8.5	1.0	10.8	1.6%	Terry Sun
Citics Securities	6030 HK	Brokerage	BUY	51.8	74.8	18.30	24.60	34%	13.9	12.1	1.2	8.7	2.8%	Karen Sui
CICC	3908 HK	Brokerage	BUY	10.7	38.8	18.92	22.40	18%	13.7	12.7	1.4	10.8	1.1%	Karen Sui
Sinotruk	3808 HK	Capital Goods	BUY	8.6	8.9	24.10	26.00	8%	10.9	10.5	1.9	18.7	3.2%	Wayne Fung
Anta	2020 HK	Consumer Disc.	BUY	25.2	81.0	72.40	92.78	28%	34.0	23.4	7.2	23.8	0.8%	Walter Woo
JS Global	1691 HK	Consumer Disc.	BUY	3.5	1.4	7.90	9.97	26%	19.4	14.7	1.8	4.1	0.8%	Walter Woo
Mengiu	2319 HK	Consumer Staple	BUY	18.4	51.1	36.30	37.90	4%	40.3	24.5	4.1	10.5	0.6%	Albert Yip
Wisdom Education	6068 HK	Education	BUY	1.2	2.1	4.65	6.38	37%	17.4	12.7	3.3	-	2.3%	Albert Yip
Jinxin Fertility	1951 HK	Healthcare	BUY	3.4	31.1	10.90	14.40	32%	51.3	34.9	3.0	5.9	0.4%	Jill Wu/ Sam Hu
China Life	2628 HK	Insurance	BUY	128.8	156.5	17.9	24.95	39%	-	-	1.0	11.4	4.6%	Wenjie Ding
Alibaba	BABA US	Internet	BUY	694.0	4347.3	258.71	299.5	16%	32.1	28.3	-	16.3	0.0%	Sophie Huang
China Aoyuan	3883 HK	Property	BUY	3.3	12.1	9.43	15.48	64%	3.7	3.2	1.3	33.8	10.7%	Samson Man
A-Living	3319 HK	Property	BUY	8.0	26.3	46.45	60.70	31%	31.9	26.6	12.9	24.6	1.6%	Bowen Li
Suntien	956 HK	Renewables	BUY	3.9	6.0	2.25	2.84	26%	5.2	4.6	0.6	10.6	7.5%	Robin Xiao
VPower	1608 HK	Renewables	BUY	1.1	2.4	3.22	5.47	70%	10.9	6.8	2.1	0.2	1.8%	Robin Xiao
Luxshare	002475 CH	Technology	BUY	59.2	638.2	59.24	74.20	25%	44.4	33.5	11.2	25.3	0.3%	Alex Ng
Xiaomi	1810 HK	Technology	BUY	46.7	358.5	15.02	15.70	5%	27.2	19.1	4.3	11.5	0.0%	Alex Ng

Source: Bloomberg, CMBIS, Price as of 3/8/2020, * TP under review

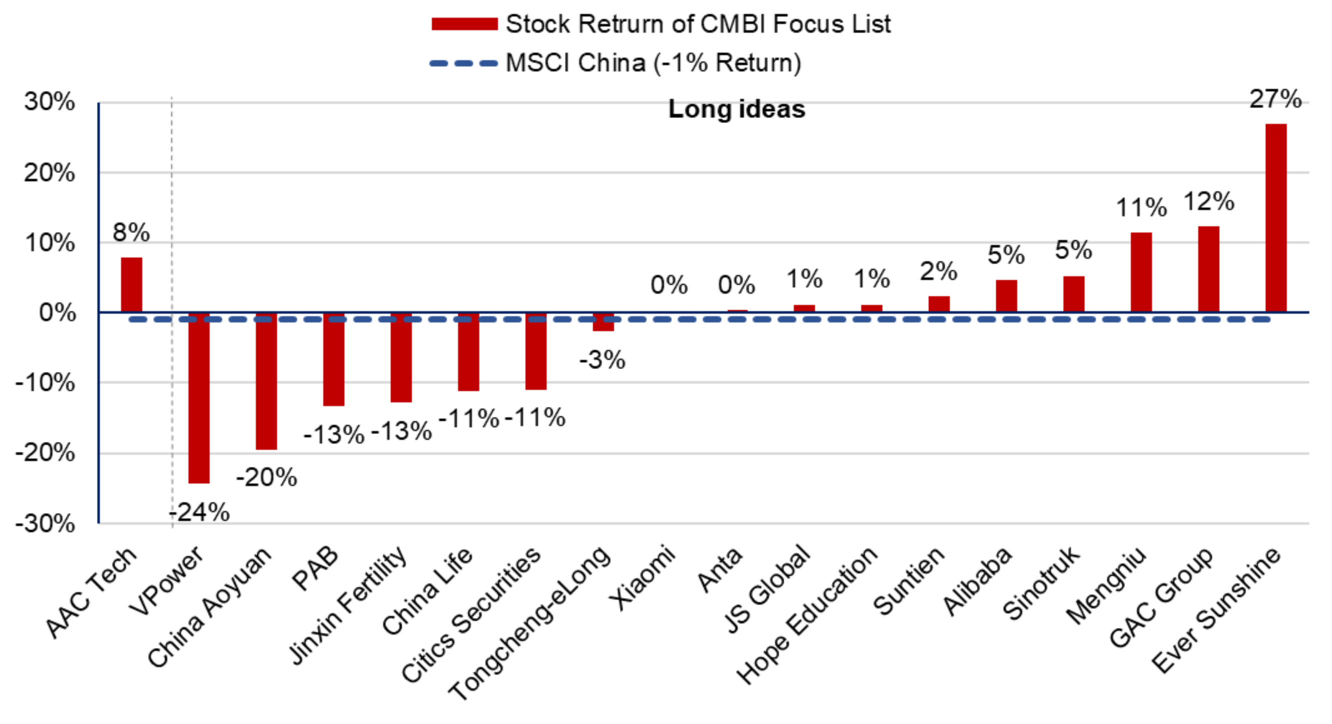
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
A-Living	3319 HK	Property	BUY	Bowen Li	We think the valuation is attractive after share price retreated.
Wisdom Education	6068 HK	Education	BUY	Albert Yip	Its FY20E P/E and PEG are 25% and 48% below K12 peers, respectively. We think its low valuation is attractive and unjustified.
Luxshare	002475 CH	Technology	BUY	Alex Ng	We believe Luxshare's invesment into Wistron will be positive in long term given greater synergy with Apple ecosystem and earnings upside after turning Wistron's OEM biz into profitability.
CICC	3908 HK	Brokerage	BUY	Karen Sui	We added CICC again as we see its enlarged A-share IPO (as early as 4Q20E) could support its H-share performance in near-term.
Deletions					
Tongcheng-eLong	780 HK	Internet	BUY	Sophie Huang	We removed Tongcheng-eLong from list for its limited upside with 3Q20E uncertainty and potential selling pressure from existing shareholders.
Ever Sunshine	1995 HK	Property	BUY	Samson Man	The stock price reached our TP.
Hope Education	1765 HK	Education	BUY	Albert Yip	We are still positive on Hope Education but we think Wisdom Education's undemanding valuation could provide bigger upside potential.
AAC Tech	2018 HK	Technology	HOLD	Alex Ng	We recently upgraded AAC to Hold (from Sell) on 23 July as we believe new strategic investors will boost synergy and unlock value of optics segment.

Source: CMBIS

Performance of our recommendations

- In our last report dated 7 July (link), we highlighted a list of 17 long and 1 short ideas.
- The basket (equal weighted) of these 18 stocks slightly underperformed MSCI China index by 106bps, delivering -2.1% return (vs MSCI China -1.0%).
- Ever Sunshine, GAC Group and Mengniu delivered +10% return, and 10 of our 17 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIS; Note: Stock performance from 6 Jul to 3 Aug 2020

Long Ideas

GAC Group (2238 HK): Promising performance after the epidemic

Rating: BUY | **TP:** HK$8.6 (13% upside)

Analyst: Jack Bai

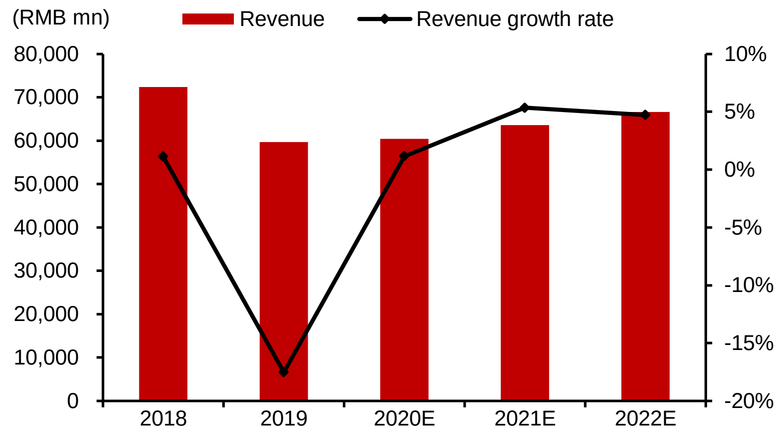
- **Investment Thesis:** GAC Group has good product quality and excellent supply chain management capability, which will lead to further market share expansion. Its three pillars, namely GAMC/Japanese JVs/GAC NEV, will support the sales recovery after COVID-19.
- **Our View:** We believe that delayed demand, strong product pipeline, and policy support will make GAC's sales volume soar after the epidemic.
- **Why do we differ vs consensus:** Our FY20 NP are 3% above consensus, as we believe the two Japanese JVs will continue to outperform overall markets. We also believe the GAMC will start to recover as the new generation of GS4 was rolled out recently.
- **Catalysts:** GAC Group has rolled out strong products in late 2019 and early 2020. A new generation of its star product GS4 was launched in Nov 2019. Breeze (皓影), the brand new vehicle of GAC Honda was launched in Nov 2019. Willander (威兰达), a new model of GAC Toyota, was officially launched online on 28 Feb 2020. In addition, Guangdong is one of the most advanced provinces in supporting auto consumption, which will benefit the GAC Group most.
- **Valuation:** We revised down our bottom-line forecast to RMB7.9bn (a 22% cut from previous forecast) in order to reflect the GPM drop from COVID-19 impact/operating deleverage. Therefore, we cut our TP to HK$8.6 (based on initial 9.6x 2020E P/E) with an upside of 25.4% from initial TP HK$10.9 (based on initial 9.6x 2020E P/E). The share price has a correction after GAC announced its FY19 results, providing a good entrance point given 1) local brand improvement and 2) swift recovery of two JVs. Reiterate BUY rating.
- **Link to latest report:** GAC Group (2238 HK) – Expect earnings rebound from 2Q20E

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	59,704	60,392	63,620	66,628
YoY growth (%)	-17.5	1.2	5.4	4.7
Net income (RMB mn)	6,616	7,913	8,485	9,853
YoY growth (%)	-39	21	7	16
EPS (RMB)	0.65	0.78	0.84	0.98
Consensus EPS (RMB)	0.75	0.77	0.95	1.02
P/E (x)	10.4	8.5	8.0	6.9
P/B (x)	0.83	0.79	0.74	0.68
Dividend yield (%)	3.0	3.5	3.8	4.4
ROE (%)	8.4	9.5	9.6	10.4
Net gearing (%)	38	32	39	47

Source: Company data, Bloomberg, CMBIS estimates

Fig: GAC Group Revenue trend



Source: Company data, CMBIS estimates

PAB (000001 CH): Positioning for retail credit recovery

Rating: BUY **| TP:** RMB19.80 (46% upside)

Analyst: Terry Sun

- **Investment Thesis:** PAB achieved fastest 1Q20 earnings growth of 14.8% YoY among China banks under our coverage. Both NIM and NPL ratio were largely stable amid COVID-19's shock, beating market expectation. Down 17.5% YTD, the Bank appeared over-penalized for above-peers exposure to credit card and personal consumption loans (hard-hit areas by the pandemic).

- **Our View:** We remain upbeat on PAB's mid-to-long term growth prospects, despite some near-term disruption from COVID-19. Successful retail transformation since 2016 laid a solid fundamental to withstand economic downturn and capture China's consumption upgrade cycle.

- **Why do we differ vs consensus:** Our FY20/21E NIM forecasts are 3-5bp higher than consensus, as we believe PAB's margin is more resilient on strong loan pricing and deposit mix optimization. Our net profit forecasts are in line with market expectation, but our credit cost estimates are higher, given that PAB would continue to strengthen provision buffer against potential macro uncertainty.

- **Catalysts:** 1) Continued recovery in retail credit growth after a 1Q20 slowdown due to COVID-19; 2) fast pick-up in corporate banking business, with support from Ping An Group; and 3) boost in wealth management business will make up the long-standing weakness in funding cost.

- **Valuation:** We derived our 12m TP of RMB19.80 based on 1.28x target P/B and FY20E BPS of RMB 15.5. We believe recent share price correction offers a good opportunity to accumulate the stock.

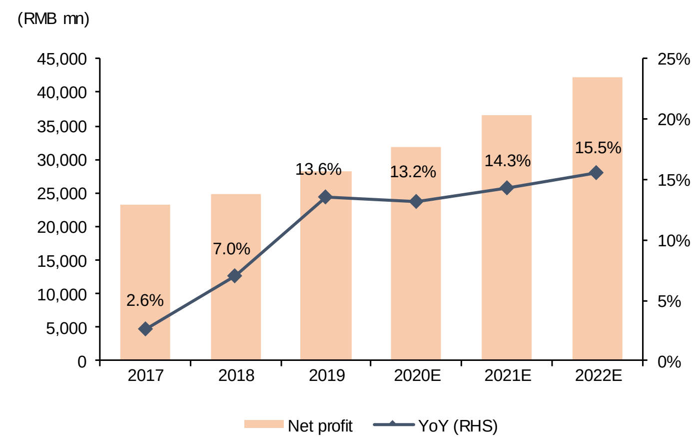
Link to latest report: PAB (000001 CH) - Solid earnings momentum; Asset quality trend is key to watch

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	137,958	155,587	171,115	189,191
Net profit (RMB mn)	28,195	31,918	36,485	42,151
EPS (RMB)	1.54	1.60	1.84	2.13
EPS CHG (%)	10.3	4.0	14.7	15.9
Consensus EPS (RMB)	NA	1.64	1.89	2.13
P/E (x)	10.2	9.8	8.5	7.4
P/B (x)	1.11	1.01	0.92	0.82
Dividend yield (%)	1.4	1.6	1.8	2.1
ROE (%)	11.1	10.8	11.2	11.8
NPL ratio (%)	1.65	1.58	1.46	1.36
Provision coverage (%)	183	203	223	238

Source: Company data, Bloomberg, CMBIS estimates

Fig: PAB's net profit forecasts



Source: Company data, CMBIS estimates

CITICS Securities (6030 HK): All-round market leadership

Rating: BUY **|** **TP:** HK$ 24.60 (34% upside)

Analyst: Karen Sui

- **Investment Thesis:** CITICS maintains market leading positions across almost every business lines and is a major beneficiary of capital market reform (esp. regarding investment banking and institutionalization) and market consolidation.
- **Our View:** CITICS is our long-term conviction BUY idea in China brokerage sector, due to its strong franchise in investment banking (#1/1 in domestic equity/debt underwriting amount in 1H20) and institutionalization. Its strong results in 1H20 (prelim NP +39% YoY to RMB 8.9bn, accounting for >10% of industry NP) reaffirms its industry leading position. Growth driver in 2H20E include: 1) back-loaded investment banking underwriting volumes primarily unlocked by STAR Market and ChiNext IPOs; 2) rebound in asset mgmt. fees as transformation of actively managed products advances and robust growth from mutual fund mgmt.; 3) more contribution from oversea platform as synergies gradually bear fruit.
- **Catalysts:** 1) More STAR Market and ChiNext IPO underwriting coming in 2H20E; 2) More revenue and cost synergies with CLSA; 3) progress in merger rumor with CSC (6066 HK, BUY).
- **Valuation:** We TP of HK$ 24.60 is derived from a 3-stage DDM. The Company now trades at 1.15x 1-year forward P/B (vs. its historical average of 1.14x).

Link to latest report:

China Brokerage Sector – Optimism & reform suggest more earnings upsides

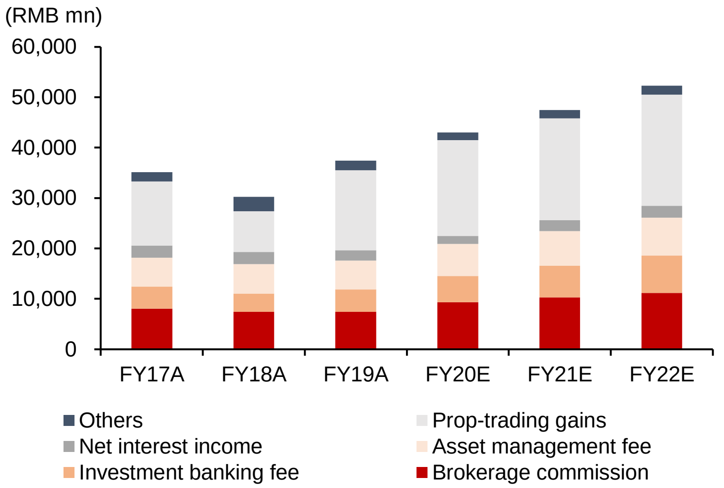
CITICS (6030 HK) – Provision dented robust top-line growth

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	37,440	42,973	47,424	52,261
Net income (RMB mn)	12,229	15,016	17,587	20,178
EPS (RMB)	1.01	1.18	1.36	1.56
YoY growth (%)	30	17	16	15
Consensus EPS (RMB)	N/A	1.16	1.33	1.47
P/E (x)	16.2	13.9	12.1	10.5
P/B (x)	1.23	1.15	1.08	1.02
Yield (%)	3.3	2.8	3.3	3.8
ROE (%)	7.8	8.7	9.3	10.0
Adj. financial leverage (%)	4.1	4.1	4.2	4.2

Source: Company data, Bloomberg, CMBIS estimates

Fig: CITICS revenue trend



Source: Company data, CMBIS estimates

CICC (3908 HK): A-share IPO in sight, a major near-term catalyst

Rating: BUY **| TP:** HK$ 22.40 (18% upside)

Analyst: Karen Sui

- **Investment Thesis:** CICC is well positioned to capture incremental business opportunities from China's capital market reforms for its leading position in investment banking and institutionalization, and we believe the Company has unique and incomparable strength in new economy companies' oversea listing and SOE giants' M&A.

- **Our View:** CICC announced to triple its A-share IPO size to issue max. 24.77% of its enlarged equity base. We believe this could greatly relieve its capital pressure and support its B/S expansion ahead. If we apply a 9.5% ROE (avg. over FY17-FY19) for the est. RMB 24bn fund raised through A-share IPO, this could bring about 30-40% earnings accretive for CICC in coming years. So even though the enlarged IPO size will dilute CICC's EPS/ROE in short-term, we are positive on its ROE rebound in mid-term thanks to its strong capability of capital utilization. In addition, CICC is in a predominant position in sponsoring Red-chips, pre-profit companies and mega deals and ADRs homecoming listings. We expect potential upcoming deals to further catalyze its near-term performance and earnings.

- **Catalysts:** 1) Progress and completion of A-share IPO; 2) Decent pipeline of mega IPOs in both oversea and domestic markets; 3) More fruit from wealth management transformation and cooperation with its strategic shareholder Tencent and Alibaba.

- **Valuation:** Our 3-stage DDM derived TP is HK$ 22.40, implying 1.67x FY20E P/B. CICC now trades at 1.4x 1-year forward P/B (vs. historical average +1SD of 1.29x). We expect its A-share IPO (likely to be completed in early 4Q20E) to fuel further upside potential for its H-share in near-term.

Link to latest report:

China Brokerage Sector – Optimism & reform suggest more earnings upsides

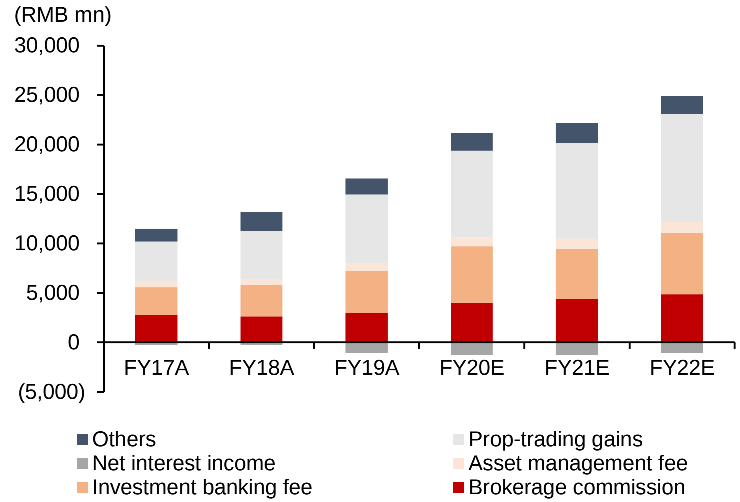
CICC (3908 HK) – Raises A-share IPO size; mega deals to help with ROE recovery

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	15,761	19,881	20,944	23,765
Net income (RMB mn)	4,182	5,404	5,838	6,773
EPS (RMB)	0.99	1.24	1.34	1.55
YoY growth (%)	19	25	8	16
Consensus EPS (RMB)	N/A	1.13	1.34	1.55
P/E (x)	17.1	13.7	12.7	10.9
P/B (x)	1.57	1.41	1.28	1.14
Yield (%)	0.0	1.1	1.2	1.4
ROE (%)	9.5	10.8	10.6	11.1
Adj. financial leverage (%)	6.0	6.2	6.2	6.0

Source: Company data, Bloomberg, CMBIS estimates

Fig: CICC's revenue trend



Source: Company data, CMBIS estimates

Sinotruk (Hong Kong) (3808 HK): Recovery underestimated by market

Rating: BUY | **TP:** HK$26.0 (8% upside)

Analyst: Wayne Fung

- **Investment Thesis:** Sinotruk is the 3rd largest heavy-duty truck (HDT) manufacturer in China. We expect more synergies between Sinotruk and **Weichai Power (2338 HK / 000338 CH, BUY)**, following the corporate restructuring. Continuous operating efficiency enhancement and the launch of more new models will boost significant recovery.

- **Our View:** We believe the timely issuance of local government bonds since early this year will continue to lend strong support to the infrastructure growth and HDT demand going forward. In addition, strict measures on emission control, anti-overloading policies, as well as market share gain remain the key positive factors for the industry leaders. We expect Sinotruk to deliver meaningful earnings recovery in 2020E from a low base in 2019, driven by: (1) explosive growth of HDT demand; (2) turnaround of LDT sales.

- **Why do we differ vs consensus:** We have higher assumptions on China HDT demand. Besides, we believe market has underestimated the recovery of Sinotruk's light-duty truck (LDT) sales. Our 2020E-22E earnings forecast is 13-14% above consensus.

- **Catalysts:** (1) Strong monthly HDT and LDT sales data in 3Q; (2) Earnings surprise in 1H20E.

- **Valuation:** We expect further upside despite the strong rally over the past few months. Stock is attractively trading at 5.5x 2020E EV/EBITDA. Our TP of HK$26 is based on 6x 2020E EV/EBITDA. We see further upside for our current TP.

Link to latest report:

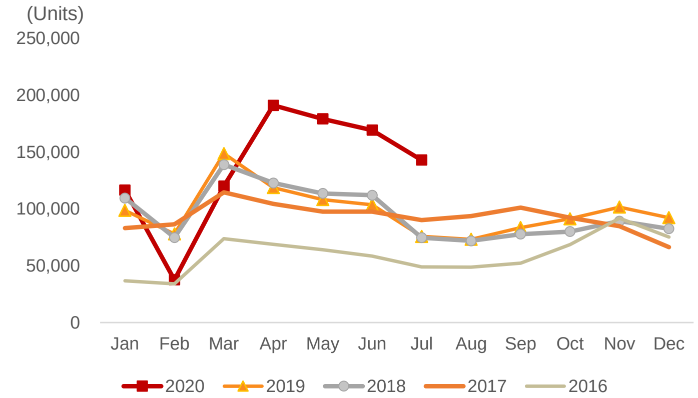
China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	62,227	69,111	72,032	74,134
YoY growth (%)	0.7	11.1	4.2	2.9
Net income (RMB mn)	3,334	5,523	5,709	5,869
EPS (RMB)	1.14	2.00	2.07	2.13
YoY growth (%)	(24.6)	76.2	3.4	2.8
Consensus EPS (RMB)	-	1.76	1.81	1.86
P/E (x)	19.2	10.9	10.5	10.2
EV/EBITDA (x)	7.6	5.5	5.3	5.2
P/B (x)	2.2	1.9	1.7	1.5
Yield (%)	1.8	3.2	3.3	3.4
ROE (%)	12.6	18.7	17.0	15.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

China HDT monthly sales volume



Source: Cvworld, CMBIS

Anta (2020 HK): Strong beat in 1Q and likely turnaround in 2Q

Rating: BUY **| TP:** HK$92.78 (28% upside)

Analyst: Walter Woo

- **Investment Thesis:** Despite short term disruptions from COVID-19 outbreak, the Company could actually gain more market shares from industry consolidation in the long run. Anta is the owner of various top tier sports brands, such as Anta, FILA, Solomon and Arc'teryx (through Amer Sports), etc. Growth drivers includes: 1) sales per store growth via area and item per tickets growth, 2) more online and direct retail sales, 3) news brands (mainly those under Amer) penetrating into China.

- **Our View:** Even though 2H20E guidance was revised down, but this could mean the overhang is now gone and we are still confident that turnaround in 3Q20 is insight and Anta/ FILA/ Amer will continue to outperform their peers. Strong recovery momentum in Jun 2020 (both offline retail sales and e-commerce growth) is likely to continue in Jul 2020. And we believe Amer sports may face certain pressure overseas in 2Q20, but this drag should now be well expected by investors and has been priced in.

- **Why do we differ vs consensus:** For FY20E/ 21E, our sales forecasts are 2%/ 5% lower than consensus and our net profit forecasts are 7%/ 6% below street as we are more conservative on FILA's sales growth, FILA's margin, and factored in more losses from Amer sports.

- **Catalysts:** 1) more stimulus (e.g. consumption coupons) by local and central government; 2) strong operating numbers (including industry and peers' data); and 3) low raw material costs environment to stay.

- **Valuation:** We derived our 12m TP of HK$92.78 based on 30x FY21E P/E. We believe sales recovery in China will help improving sentiment, hence driving re-rating. The stock is trading at 34x FY20E and 23x FY21E P/E.

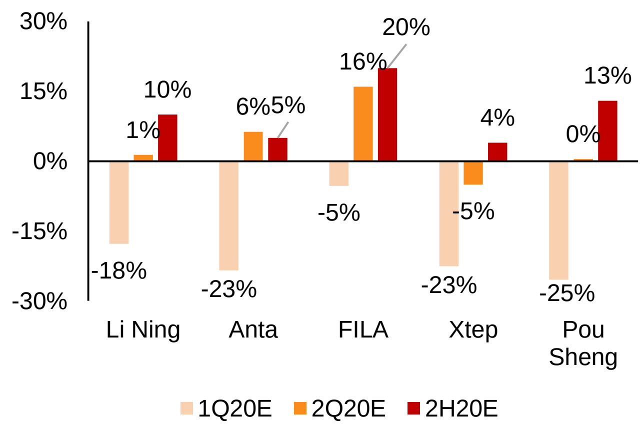
Link to latest report: Anta (2020 HK) - Prudent guidance as inventory issue lingers

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Sales (RMB mn)	33,928	36,831	44,906	52,399
YoY change (%)	40.8	8.6	21.9	16.7
Net profit (RMB mn)	5,344	5,230	7,588	9,408
EPS - Fully diluted (RMB)	1.917	1.876	2.722	3.374
YoY change (%)	25.7	(2.1)	45.1	24.0
Consensus EPS (RMB)	n/a	2.083	2.921	3.589
P/E (x)	33.2	34.0	23.4	18.9
P/B (x)	8.6	7.2	6.1	5.3
Yield (%)	1.0	0.8	2.7	3.4
ROE (%)	29.8	23.8	29.1	30.8
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Retail sales growth (CMBI est.) by brands



Source: Company data, CMBIS estimates

JS Global (1691 HK): Industry leading performance to drive re-rating

Rating: BUY | **TP:** HK$9.97 (26% upside)

Analyst: Walter Woo

- **Investment Thesis:** Both Joyoung and SharkNinja may be adversely affected amid the virus outbreak in the short term, but this crisis, in our view, will forece consumers switch more to online and build greater interest on home cooking. Therefore, in the longer run, the Company will benefit from industry consolidation. It is #3 and #2 small appliances brand owner in Mainland China and US, owing brands like Joyoung, Shark and Ninja. Growth drivers include ramp up of online sales and innovative products.

- **Our View:** Small appliances outperformed significantly during and after the virus, thanks to raising interest on Home cooking and cleaning, and since digital marketing is one of JS Global's strength, market shares were gained effectively. Joyoung's BU reforms shall further enhance efficiency while new product launches (more mass market and innovative products) will continue to fuel growth in FY20E. US market has been resilient thanks to government's stimulus package plus increased interest on home cooking.

- **Why do we differ vs consensus:** For FY20E/ 21E, our sales forecasts are 4%/ 4% above con. and our adj. NP forecasts are 26%/ 13% above street due to our optimism on SharkNinja's sales growth and OP margin.

- **Catalysts:** 1) longer than expected drags by COVID-19 in US and Europe; 2) potential price war in US, Europe or China due to excessive channel inventory in the industry; and 3) potential increase in export tariffs to US.

- **Valuation:** We derived our 12m TP of HK$9.97 based on 19x FY21E Adj. P/E. We believe sales growth recovery in China and US may help improve investors' sentiment. The stock is trading at 15x FY21E Adj. P/E.

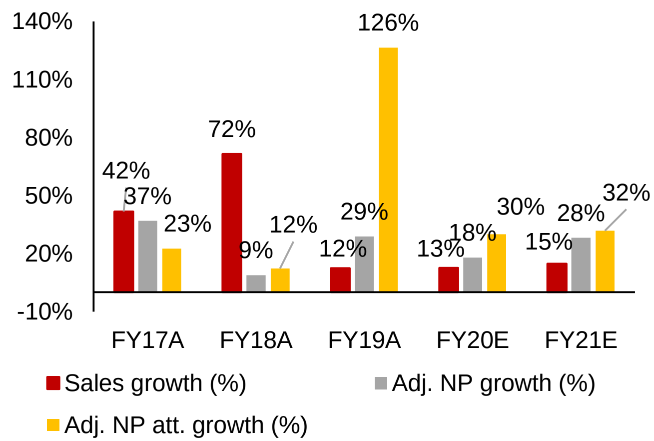
Link to latest report: JS Global (1691 HK) - Industry leading performance to drive re-rating

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Sales (USDmn)	3,016	3,394	3,894	4,303
YoY change (%)	12.5	12.5	14.7	10.5
Adj. Net profit (USDmn)	136	177	233	251
Adj. EPS - Fully diluted (USD)	0.039	0.051	0.067	0.072
YoY change (%)	121.6	30.0	31.8	7.3
Consensus EPS (USD)	n/a	0.052	0.066	0.070
Adj. P/E (x)	25.3	19.4	14.7	13.7
P/B (x)	2.2	1.8	1.6	1.4
Yield (%)	7.4	0.8	2.0	2.8
ROE (%)	2.7	4.1	8.3	9.1
Net debt/ equity (%)	39.1	14.7	2.9	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Sales and adj. net profit growth forecasts



Source: Company data, CMBIS estimates

Mengniu (2319 HK): Profit warning removes overhang; recovery ahead of guidance

Rating: BUY **| TP:** HK$37.90 (4% upside) Analyst: Albert Yip

- **Investment Thesis:** MN would benefit from continuing sector consolidation. We expect MN to deliver OPM expansion thanks to continuing momentum of high-margin products (Milk Deluxe and Just Yoghurt) and improvement of non-A&P selling expenses ratio. The recovery of dairy sector from epidemic is encouraging because milk is necessity good and consumers believe drinking milk could strengthen immunity.

- **Overhang is removed.** Management maintained its 2H20E guidance of low teens organic revenue growth and 30-50bps OPM expansion YoY. Based on 45-60% NP decline in 1H20, a low-teens organic revenue growth and a 0.5ppt YoY expansion of adjusted NPM in 2H20E, we estimate FY20E NP to be RMB2.9-3.2bn, which is in the high-end of consensus' lowest to mean estimate (RMB2.5-3.4bn). Hence, we think the 45-60% NP decline in 1H20E is largely priced in.

- **Channel inventory notably improved.** According to our source of channel checks in Hunan, retail price of Milk Deluxe (250mL * 12 packs) in KA channel further increases to RMB52.8 currently from RMB49.9 in July and RMB44.9 in late May. Marketing expenses in the channel could be reduced, which will improve Mengniu's profitability.

- **Valuation:** Our TP of HK$37.90 is based on 28.0x sum of 2HFY20E and 1HFY21E EPS, which is the high-end of 18-30x 1-yr forward P/E range since Mengniu resumed double-digit revenue growth in FY16. **Catalyst:** better-than-expected revenue and margins.

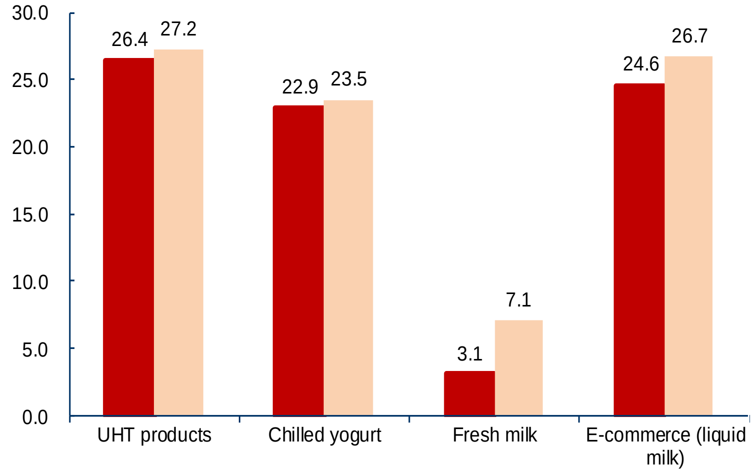
- **Link to latest report:** Profit warning removes overhang; recovery ahead of guidance

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	79,030	74,513	85,337	95,293
YoY growth (%)	15	(6)	15	12
Net profit (RMB mn)	4,105	3,184	5,247	6,348
Adj. net profit (RMB mn)	3,867	3,184	5,247	6,348
Adj. EPS (RMB)	0.988	0.809	1.333	1.613
YoY growth (%)	31	(18)	65	21
Consensus EPS (RMB)	na	0.836	1.258	1.516
Adj. P/E (x)	33.0	40.3	24.5	20.2
P/B (x)	4.4	4.1	3.6	3.1
Yield (%)	0.6	0.6	0.9	1.1
ROE (%)	14.2	10.5	15.5	16.4

Source: Company, Bloomberg, CMBIS

Fig: Increasing market shares



Source: Company, Nielsen

Wisdom Education (6068 HK): Tuition fees increase beat

Rating: BUY **| TP:** HK$6.38 (37% upside)

Analyst: Albert Yip

- **Undemanding valuation:** Trading at 17.4x FY20E P/E, the Company's valuation is lower than K12 peers' average of 23.2x. At 29.7% EPS CAGR from FY20E to FY22E (higher than peers' average of 17%), its 0.59x PEG is far below peers' average of 1.13x. We think the Company's low valuation is attractive and unjustified.

- **2020-21 school year tuition fees increases beat.** The Company will increase tuition and boarding fees of new students in 8 schools by 9-38%, better than our estimates of 10-15% increase in 5 schools. Key schools such as Dongguan Guangming, Dongguan Guangzheng and Huizhou school were covered. The fees increase was also stronger than previous big tuition fee year in FY19 (5-28% in 5 schools). We estimate avg. ASP to increase by low-teens in FY21E (vs +5% in 1H20), stronger than the 8% growth in FY19 when two Dongguan schools raised fees for all sections.

- **Entry to higher education a re-rating catalyst.** The Company plans to form a JV with HIT Big Data to be the sponsor of the Dongguan Guangzheng Institute of Technology ("DGIT"). The project is supported by Dongguan authority according to management. We think the stock deserves re-rating as the entry to higher education could diversify operation risks, lower policy risks (higher education institutes can choose for-profit). Companies operate both K12 and higher education (Yuhua (6169 HK) and Virscend (1565 HK)) trade at higher P/E and PEG than the Company.

- **Valuation:** Our TP of HK$6.38 is based on 18.4x FY21E P/E. We forecast the Company to post 29.7% EPS CAGR in FY20-22E, which is stronger than peers' average of 17%.

Link to latest report: Tuition fees increase beat; lift TP to HK$6.38

Financials and Valuations

(YE 31 Aug)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,682	1,799	2,381	2,846
YoY growth (%)	35	7	32	20
Net profit (RMB mn)	359	465	637	782
EPS (RMB)	0.172	0.227	0.311	0.382
YoY growth (%)	13	32	37	23
Consensus EPS (RMB)	na	0.237	0.289	0.339
P/E (x)	23.0	17.4	12.7	10.3
Yield (%)	2.2	2.3	3.2	3.9
P/B (x)	3.7	3.3	2.8	2.4
Net gearing (%)	66	58	48	40

Source: Company, Bloomberg, CMBIS

Fig: Peers' valuation table

		Mkt Cap		Year		P/E (x)		PEG (x)
	Ticker	(US$ m)	Price	end	FY1	FY2	FY3	FY1
K12 education services providers								
Tianli Education	1773 HK	2,169	8.10	Dec-19	42.9	33.6	26.5	1.58
Maple Leaf	1317 HK	1,036	2.68	Aug-19	11.4	9.6	8.5	0.73
Bright Scholar	BEDU US	863	7.18	Aug-19	18.4	12.8	11.1	0.64
Virscend Education	1565 HK	1,144	2.87	Dec-19	19.9	15.7	12.6	1.57
Wisdom Education	6068 HK	1,162	4.40	Aug-19	17.4	12.7	10.3	0.59
Average					**22.0**	**16.9**	**13.8**	**1.02**

Source: Bloomberg estimates, Company, CMBIS

Jinxin Fertility (1951 HK): To become a global leading ARS provider

Rating: BUY | **TP:** HK$14.4 (32% upside) Analyst: Jill Wu/ Sam Hu

- **Investment Thesis:** Jinxin Fertility is a leading player in assisted reproductive services (ARS) industry in China and the US with promising growth outlook thanks to strong organic growth momentum and abundant acquisition opportunities. In 2018, Jinxin ranked the first among non-state-owned assisted reproductive technology (ART) medical institutions in China and ranked the first in the western US ARS market.

- **Our View:** We expect Jinxin to deliver 19.5% CAGR in revenue FY19-22E, mainly thanks to solid organic growth and good integration of acquisition. By end-2019, Jinxin had RMB3.3bn cash on hand which provides sufficient capital for future acquisitions**.** Jinxin announced the acquisition of 75% stake in Wuhan Huangpu Hospital (武汉黄浦中西医结合妇产医院, Wuhan Hospital) at a cash consideration of approximately RMB320mn. We expect the deal to be closed by July 2020E. Leveraging its successful operating experiences, the Company will continue to expand its geographic network through acquisitions, in our view.

- **Why do we differ vs consensus:** Our FY20/21E revenue are -6%/2% different from consensus, and NP are -9%/5% different from consensus, as we are conservative on IVF cycle growth forecasts in 2020E compared to market in view of the impact from COVID-19 on US business operation, while remain positive on the Company considering better long-term growth prospects driven by both domestic and overseas acquisitions.

- **Catalysts:** Catalyst includes earlier than expected end of COVID-19 outbreak and acquisitions of more quality assets and hospitals.

- **Valuation:** We derived our 12m TP of HK$14.4 based on 68.2x FY20E P/E. We believe this is justified as Jinxin Fertility's leading position in ART market and high visibility growth in next 3-5 years.

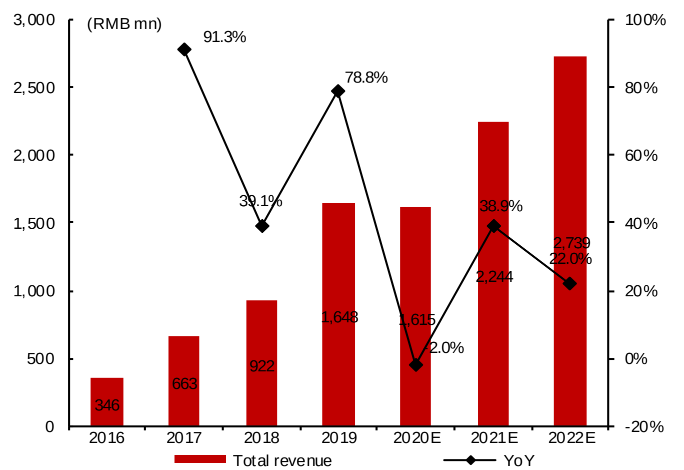
Link to latest report: Jinxin Fertility (1951 HK) – First domestic acquisition deal since IPO; Big step in domestic expansion

Financials and Valuations

(YE 31 Dec)	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,615	2,244	2,739
YoY growth (%)	-2	39	22
Net profit (RMB mn)	459	676	853
EPS (RMB)	0.19	0.28	0.35
YoY growth (%)	2	47	26
Consensus EPS (RMB)	0.21	0.27	0.32
P/E (x)	51.3	34.9	27.6
P/B (x)	3.0	2.8	2.5
Yield (%)	0.39	0.57	0.72
ROE (%)	5.9	8.2	9.5
Net gearing (%)	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Revenue trend



Source: Company data, CMBIS estimates

China Life (2628 HK): Resilient against headwinds and robust recovery

Rating: BUY | **TP:** HK$24.95 (39% upside) Analyst: Wenjie Ding

- **Investment Thesis.** China Life has been showing great resilience amid the COVID-19 and vigorous recovery in post-pandemic era, compared to major life insurance peers. In the Jan-May period, GWP increased 15% YoY whereas average GWP growth of major peers was 5.8%.

- **Our view.** 1) NBV rose 8.3% YoY in 1Q20, which was remarkable against the backdrop of COVID-19 and given last year's high base. Among the driving forces, first-year regular premiums rose 13.9% YoY. We believe NBV margin compressed a bit in 1Q due to difficulties in selling longer-term and higher margin products. 2) Investment assets increased 2.8% from YE19. Net investment yield in annualized term was 4.29%, which was down only 2bp YoY and remained steady growth in the environment of declining interest rate. 3) Agent team in good shape and achieved quality improvement – monthly average productive agents from strengthened sales force rose by 18.4% YoY. Total number of sales force from all channels was >2 million.

- **How do we differ?** We are more optimistic with respect to sustainability of the Company's outstanding performance, which not only is due to a relatively weak base, but also is a result of the Company's increasing level of business vitality following its reform initiatives. In terms of financials, our estimate of net profit and NBV growth likely exceeded market consensus.

- **Short-term catalysts.** 1) Sentiment recovery of the A share stock market, which is likely to substantially boost the Company's investment gains; 2) strong momentum of premium growth.

- **Valuation.** We peg target price at HK$24.95, which corresponds to 0.62x FY20E P/EV. The stock is currently trading at 0.5x FY20E P/EV. Attractive to accumulate and capture re-rating opportunities.

Link to latest report: China Life (2628 HK) – Resilient against headwinds

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	567,086	598,759	639,941	683,192
YoY growth (%)	5.8	5.6	6.9	6.8
Total income (RMB mn)	729,474	753,663	797,293	842,116
Net profit (RMB mn)	58,287	50,510	52,721	54,492
EPS (RMB)	2.05	1.76	1.84	1.90
YoY Growth (%)	421.2	-14.4	4.5	3.5
Consensus EPS (RMB)	2.07	1.63	1.80	n/a
P/B (x)	1.13	1.02	0.94	0.86
P/EV (x)	0.48	0.44	0.34	0.31
Yield (%)	4.5	4.6	4.8	5.0
ROEV (%)	19.1	11.4	11.2	11.1

Source: Company data, Bloomberg, CMBIS estimates

Alibaba (BABA US): More catalysts to come

Rating: BUY **| TP:** US$299.5 (16% upside)

Analyst: Sophie Huang

- **Investment Thesis:** We expect Alibaba to deliver solid 1QFY21E in mid-Aug, with revenue/Non GAAP net profit +30% YoY/+16% YoY, 1%/1% above consensus. NBS data showed strong momentum of online sales in Jun (+26% YoY, vs. +22% in May). We think BABA's recovery pace in domestic market would trend better with OMS up 20% YoY in 1QFY20E, backed by upbeat "618" performance and share regain. Given better outlook, we lifted its earnings by 4.9%/5.7/6.8% in FY21/22/23E, and raised its SOTP-based TP to US$299 from US$252.

- **Our View:** We think Alibaba is well positioned to capture online consumption recovery, policy support, and long term benefit from structural opportunities (e.g. cloud, online meeting). BABA would continuously strengthen its lower-tier cities penetration, with diversified products offerings, livestreaming, and partner cooperation. Backed by better-than-expected ecommerce recovery, we expect solid quarters ahead, coupled with ROI-driven investment.

- **Why do we differ vs consensus:** Market concern lies on margin pressure from investment and competition landscape. We believe BABA would see faster recovery, and still deliver solid growth with 618 shopping festival. Competition landscape has been well anticipated by the market.

- **Catalysts:** 1) decent ecommerce recovery; 2) shopping festival; 3) potential stock connect & Ant Financial listing; and 4) structural opportunities.

- **Valuation:** Maintain BUY with SOTP-based TP of US$299, implying 26.5x FY22E P/E, in inline with industry average.

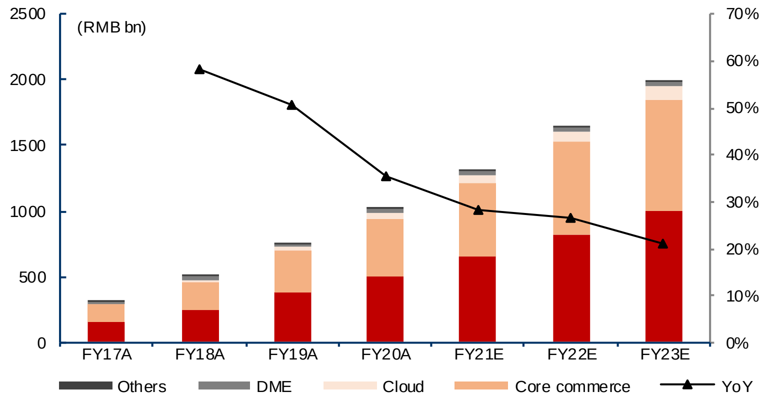
- **Link to latest report:** Alibaba (BABA US) – More catalysts to come

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	509,711	665,470	852,020	1,042,774
YoY growth (%)	35.3	30.6	28.0	22.4
Net income (RMB mn)	132,479	166,520	217,851	265,701
EPS (RMB)	53.9	61.2	79.3	95.7
YoY growth (%)	41.8	13.6	29.5	20.8
Consensus EPS (RMB)	NA	67.08	86.65	95.60
P/E (x)	32.1	28.3	21.8	18.1
P/S (x)	5.2	4.6	4.0	3.4
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	16.3	16.6	16.9	17.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: BABA's revenue growth estimates



Source: Company data, CMBIS estimates

China Aoyuan (3883 HK): Ambitious goal of RMB200.0bn in 2022

Rating: BUY **| TP:** HK$15.48 (64% upside)

Analyst: Samson Man/Bowen Li

- **Investment Thesis:** Contracted sales pace accelerated in Jun with 15% YoY growth. Contracted sales amounted reached RMB50.9bn in 1H20, representing a 39% hit rate. The Company has recently acquired 29.3% stake of Kinghand Industrial (000615 CH) that can help the Company penetrate Northern region. Furthermore, its 28% interest subsidiary, China Cultural Tourism, plans to list on HKEx that can enhance Aoyuan's value.

- **Our View:** Aoyuan is one of our top picks in Property sector for its undemanding valuation, competitive land bank, and national coverage with GBA focused layout. Saleable value of Tier 1 & 2 plus international cities together accounted for 55% of total value. Furthermore, with more high margin and GBA located urban redevelopment projects to be added to the pipeline and land bank in the future, the Company has a good positioning in GBA.

- **How do we differ:** The market sentiment is adversely affected by the allegation that the Company bears large hidden debt disguised by fake equity, and profit is inflated accordingly. Funding channel of Aoyuan is no difference with other peers. Instead of looking at the liabilities, we focus on the assets (land bank) and sales performance. We believe Aoyuan's land bank is genuine and appealing, which supports its sales performance and it meeting financial obligation. Its long successful land replenishment channel, M&A (accounts for 80% of new land), ensures a comfortable cost level. The Company's Average land cost/ FY19 ASP is 25.1%.

- **Valuation:** We derive our FY20-end NAV forecast at HK$30.95 per share. Given 50% discount, we raise our TP is HK$15.48.

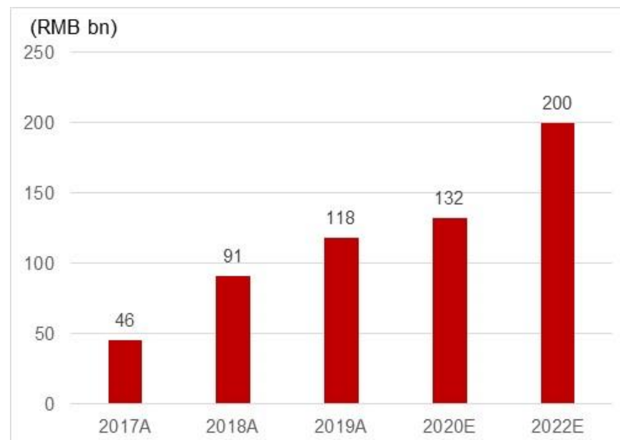
Link to latest report: China Aoyuan (3883 HK) – Aiming at RMB200bn sales in 2022

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	50,531	82,856	96,702	117,850
YoY growth (%)	63.0	64.0	16.7	21.9
Net income (RMB mn)	4,201	6,366	7,399	8,720
EPS (RMB)	1.56	2.37	2.75	3.24
YoY growth (%)	74.0	51.2	16.2	17.9
Consensus EPS (RMB)	NA	2.31	2.95	3.56
P/E (x)	5.6	3.7	3.2	2.7
P/B (x)	1.6	1.3	1.0	0.8
Yield (%)	6.2	10.7	12.5	14.7
ROE (%)	27.9	33.8	31.8	30.6
Net gearing (%)	74.9	73.7	78.3	72.5

Source: Company data, Bloomberg, CMBIS estimates

Fig: Aoyuan contracted sales



Source: Company data, CMBIS estimates

A-Living (3319 HK): Positive profit alert and new business

Rating: BUY **| TP:** HK$60.7 (31% upside)

Analyst: Bowen Li/ Samson Man

- **Investment Thesis:** A-Living announced that its profit after tax and net profit attributable to the shareholders are expected to increase more than 50% and 35% respectively in 1H20. Meanwhile, the Company also proposed to change the company name from "A-Living Services" to "A-Living Smart City Services". We maintain our profit forecast unchanged but lift TP from HK$41.53 to HK$60.7, which is equivalent to 34.7x 2021E P/E or average of Top 3. Maintain BUY recommendation.

- **Our View:** A-Living is our top pick for Property Management sector, due to its undemanding valuation, high earnings visibility and potential surprises from M&A consolidation in FY20. Being the Top 3 property management companies, A-Living's valuation is largely lagging behind due to its M&A emphasized expansion strategy. However, A-Living is switching to organic expansion strategy after the mega M&A deal. We expect A-Living to have a re-rating opportunity in FY20.

- **How do we differ:** We emphasized more on the immediate financial contribution from M&A of CMIG/New CMIG in FY20. We believe after the consolidation, the bottom line has a good chance to beat the current consensus, creating a catalyst for re-rating.

- **Valuation:** We derived our 12m TP of HK$60.7 based on 34.7x FY21E P/E, average of sector Top 3's P/E. With its scale continue to grow faster than peers, we expect a further re-rating in the future.

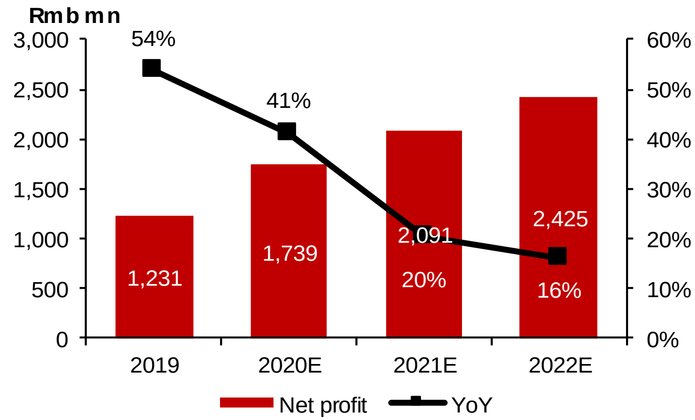
Link to latest report: A-Living (3319 HK) – Positive profit alert and new business

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	5,127	11,086	13,707	16,084
YoY growth (%)	51.8	116.2	23.7	17.3
Net income (RMB mn)	1,231	1,739	2,091	2,425
EPS (RMB)	0.92	1.30	1.57	1.82
YoY growth (%)	48.9	41.3	20.2	16.0
Consensus EPS (RMB)	NA	1.29	1.67	2.16
P/E (x)	45.1	31.9	26.6	22.9
P/B (x)	12.5	12.9	10.8	9.0
Yield (%)	1.1	1.6	1.3	2.2
ROE (%)	19.9	24.6	25.8	26.0
Net gearing (%)	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: A-Living profit trend



Source: Company data, CMBIS estimates

Suntien (956 HK): Wind sector facing opportunity on subsidy improvement

Rating: BUY **| TP:** HK$2.84 (26% upside)

Analyst: Robin Xiao

- **Investment Thesis:** Suntien's overall 1H20 operatin performance was stable, with retail gas rapid growth as a highlight in 1H20, demonstrating Suntien's operating resilience. Share price was quite volatile after Suntien-A's listing. However, we remain confident that southbound trading will stabilize share price and gradually boost valuation.

- **Our View:** We estimate Suntien's 1H20E earnings to decline 9.2% YoY, but we think market is aware of the potential earnings decline from the Company's preliminary earnings 1H20 projection after A-share listing. Considering the recovery outlook from wind curtailment rate and pipeline transmission fee, we expect Suntien's earnings to pick up growth in 2H20E.

- **Retail gas sales performed surprisingly good:** 1H20 gas sales volume reached 1,870mcbm, up 13.3% YoY. Retail gas volume was a highlight with a YoY increase of 29.7% in 1H20, and growth pace was accelerating as retail gas volume surged 34.3% in 2Q20. The outstanding retail gas performance was attributable to Suntien's gas pipeline extending service coverage to reach more industrial retail clients, in our view

- **Catalysts:** 1) Chinese Gov to solve subsidy shortfall through issuing special purpose bond; 2) FY19 dividend declaration likely to come with 1H20 results announcement (7.3% yield);

- **Valuation still low :** Suntien is trading at FY20E 4.2x/0.55x PER/PBR, respectively. We maintain TP at HK$2.84 in our latest report to reflect improving market sentiment on the stock after A-share listing. Our TP reflects conservative valuation at 6.8x FY20E PER only.

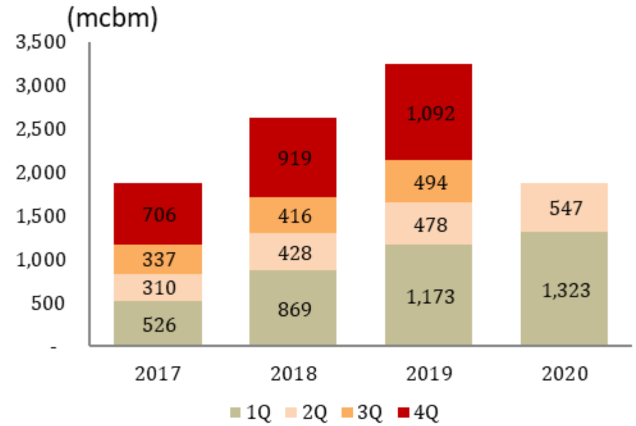
Link to latest report: Suntien (956 HK) – Stable operating performance in 1H20

Financials and Valuations

(YE Dec 31)	FY19A	FY20E	FY21E	FY22E
Turnover (RMB mn)	11,943	13,526	15,777	18,007
YoY growth (%)	19.7	13.3	16.6	14.1
Net Income (RMB mn)	1,344	1,436	1,648	1,806
EPS (RMB)	0.36	0.38	0.43	0.47
EPS CHG (%)	8.4	4.9	12.8	9.6
Consensus EPS (RMB)	N/A	0.41	0.44	0.46
PE (x)	5.5	5.2	4.6	4.2
PB (x)	0.6	0.6	0.5	0.5
Yield (%)	0.0	7.5	8.7	9.5
ROE (%)	11.4	10.6	11.1	11.3
Net gearing (%)	199	204	237	260

Source: Company data, Bloomberg, CMBIS estimates

Fig: Suntien's gas sales volume was resilient despite impacts from COVID-19



Source: Company data, CMBIS

VPower (1608 HK): Myanmar JV on track to commercial operation

Rating: BUY **| TP:** HK$5.47 (70% upside)

Analyst: Robin Xiao

- **Investment Thesis:** Vpower's share price experienced significant decline in Jul. We think the market had overreacted to its placement of 83mn shares. We see overall impacts very limited, as the share placement only brought 3.2% EPS dilution, which would be negligible comparing with 150.6%/64.5% earnings growth in FY20/21E.Under current LNG spot price, we think our earnings estimates remain intact, and we see potential upside from better-than-expected fuel costs realized. We maintain high conviction BUY rating with TP slightly trimmed to HK$ 5.47 to reflect EPS dilution.
- **Our View:** We expect Vpower's Myanmar JV has invested more than HK$5.5bn for a total installed capacity of 1.06GW. According to Myanmar Times, tariff of the JV would be ~US$0.12/KWh. In our base case estimates, we think the JV will generate more than 20% IRR, with superior profitability comparing with VPower's normal IBO projects.
- **Myanmar projects on track to operation.** VPower had announced all 3 JV projects in Myanmar had commenced operation. The Company expect to ramp up overall capacity utilization in phases. The JV's overall progress was on track to our estimates.
- **Short-term catalysts:** The Company had released positive profit alert with 1H20 earnings to increase by more than 70% YoY. We think 1H20 eanings announcement and management guidance for 2H20 would be short-term catalyst.
- **Risks exposures:** IBO project delay; political risks; and foreign exchange exposures in South America countries.

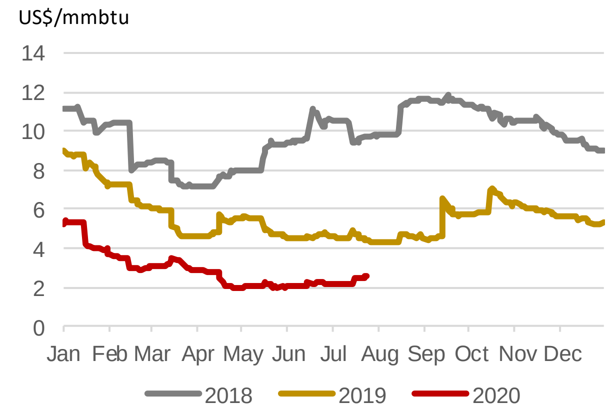
Link to latest report: VPower (1608 HK) – Myanmar JV on track to commercial operation

Financials and Valuations

(YE Dec 31)	FY19A	FY20E	FY21E	FY22E
Revenue (HK$ mn)	2,794	3,244	4,041	4,595
YoY growth（%）	15.4%	16.1%	24.5%	13.7%
Net Income (HK$.mn)	284	711	1,169	1,286
EPS (HK$)	0.11	0.27	0.44	0.49
EPS CHG (%)	32.4	146.9	61.6	10.0
Consensus EPS(HK$)	N/A	0.19	0.3	0.3
PE (x)	27.0	10.9	6.8	6.1
PB (x)	2.7	2.1	1.7	1.4
Yield (%)	0.7	1.8	2.9	3.2
ROE (%)	0.1	0.2	0.2	0.2
Net gearing (%)	112.7	81.8	61.0	46.0

Source: Company data, Bloomberg, CMBIS estimates

Fig: JKM future at 3-yr low favor VPower for its Myanmar JV fuel costs management



Source: Company data, CMBIS estimates

Luxshare (002475 CH): Expanding into iPhone assembly boost LT synergy

Rating: BUY **| TP:** RMB74.2 (25% upside)

Analyst: Alex Ng

- **Investment Thesis:** Luxshare is the major beneficiary of Apple's 5G product cycle and wireless strategy (Watch/AirPod). It is also well-placed to capture growth opportunities in 5G era backed by its solid product roadmap, including massive MIMO and compact filter-antenna and optical solutions in datacenter/telecom. We believe recent investment into Wistron will boost Luxshare's LT synergy with Apple ecosystem.

- **Our View:** Luxshare is our top pick for A-share tech sector, due to strong execution, high earnings visibility and beneficiary of 5G cycle. We see multiple growth drivers: 1) strong Airpods momentum, 2) SiP packaging in next-gen Airpods, 3) wireless charging adoption, 4) share gain in acoustics/haptic, 5) share/content gain in LCP/MPI antenna and 6) solid multi-year growth in communication/automobile segments.

- **Why do we differ vs consensus:** Our FY20/21E NP are 8%/1% above consensus, as we are more positive on AirPods demand in 2H20E given iPhone's gradual removal of built-in earphones and its capacity ramp in Vietnam plants.

- **Catalysts:** Despite iPhone launch delay in 2H20E, we expect Luxshare to outperform its peers, given AirPods upside and 5G iPhone cycle. Near-term catalysts include stronger AirPods shipment and launch of iPhone in 2H20E.

- **Valuation:** We derived our 12m TP of RMB74.2 based on 42x FY21E P/E. We believe this is justified as Luxshare continues to deliver strong earnings growth, market share gain and product expansion to capture 5G and wireless opportunities in next 3-5 years.

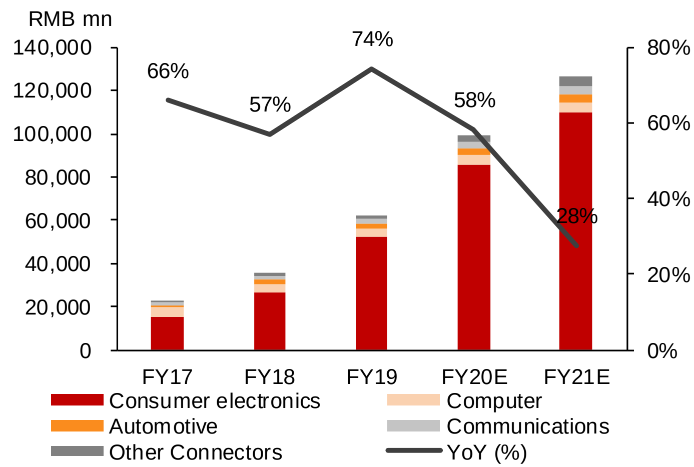
Link to latest report: Luxshare (002475 CH) – Expanding into iPhone assembly; Raise TP to RMB 74.2

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	62,516	98,936	126,353	146,236
YoY growth (%)	74.4	58.3	27.7	15.7
Net income (RMB mn)	4,714	7,139	9,446	11,724
EPS (RMB)	0.88	1.33	1.77	2.19
YoY growth (%)	72.9	51.7	32.3	24.1
Consensus EPS (RMB)	NA	NA	1.44	1.77
P/E (x)	67.3	44.4	33.5	27.0
P/B (x)	14.6	11.2	8.6	6.7
Yield (%)	0.2	0.3	0.4	0.5
ROE (%)	21.7	25.3	25.7	24.9
Net gearing (%)	Net cash	10	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Luxshare Revenue trend



Source: Company data, CMBIS estimates

Xiaomi (1810 HK): Strong 5G momentum to outweigh India impact

Rating: BUY **| TP:** HK$15.7 (5% upside)

Analyst: Alex Ng

- **Investment Thesis:** Xiaomi is global market leader in smartphones and IoT ecosystems, adopting an efficient business model to monetize through internet services. It is also well-positioned to capture growth opportunities in 5G backed by its solid product roadmap, including 1) fast-mover in 5G smartphones, 2) expanding IoT product offerings (wearables) and 3) more diversified internet service (games, fintech, ecommerce).

- **Our View:** Xiaomi is our top pick for H-share tech sector, as we are positive on Xiaomi's strong 5G product portfolio and potential share gain from Huawei in 2H20E. As an early mover in China 5G market, Xiaomi's two flagship 5G models in 1H20 (Mi 10, Redmi K30 Pro) were ranked Top 2 best-selling 5G phone on JD's 618 festival, surpassing Huawei's P40 Pro and Honor V30 Pro. Despite near-term impact on COVID-19 and China-India dispute, we believe Xiaomi is well-positioned to benefit from China 5G tailwinds and post-virus demand recovery in 2H20E. Overall, we expect its smartphone sales to decline -14% YoY in 2Q20E and recover with 2%/13% YoY in 3Q/4Q20E on China 5G demand and share gain from Huawei overseas.

- **Why do we differ vs consensus:** Our new FY20-22E EPS are 7-10% above consensus given better margins and share gain from overseas.

- **Catalysts:** Near-term catalysts include 5G product launches, India lockdown easing, and demand recovery.

- **Valuation:** Our TP of HK$15.7 is based on 20x FY21E P/E. We think it is justified given share gain in smartphone market, product transition into AIoT, and resilient internet revenue.

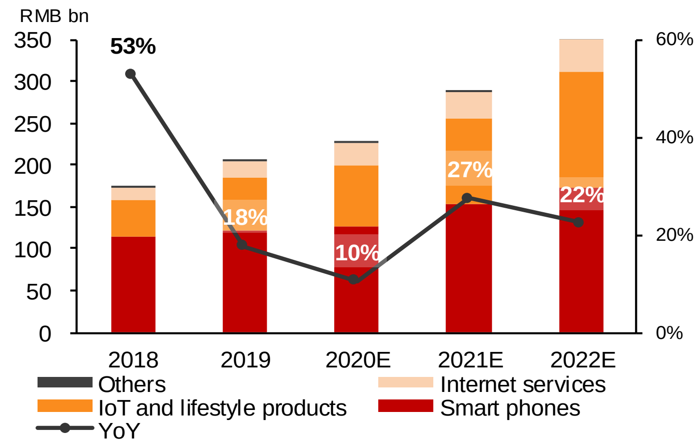
Link to latest report: Xiaomi (1810 HK) – Strong 5G momentum to outweigh India impact

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	205,839	227,404	289,848	354,633
YoY growth (%)	17.7	10.5	27.5	22.4
Adj. Net profit(RMB mn)	11,532	11,808	16,793	20,512
Adj. EPS (RMB)	0.49	0.50	0.70	0.86
YoY growth (%)	(10.7)	2.0	42.2	22.1
Consensus EPS (RMB)	NA	0.48	0.62	0.76
P/E (x)	27.7	27.2	19.1	15.7
P/B (x)	4.9	4.3	3.7	3.1
ROE (%)	12.3	11.5	14.4	15.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Xiaomi Revenue trend



Source: Company data, CMBIS estimates

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