CMBI Research Focus List

Our best high conviction ideas

7 Jul 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. Please Vote Now.

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	12.9	26.7	6.80	8.60	26%	7.7	7.1	0.7	9.5	3.9%	Jack Bai
PAB	000001 CH	Banking	BUY	43.3	184.2	15.68	19.80	26%	8.5	7.8	0.9	10.8	1.8%	Terry Sun
Citics Securities	6030 HK	Brokerage	BUY	53.8	48.3	20.55	18.9*	NA	16.5	14.3	1.3	8.2	2.4%	Karen Sui
Sinotruk	3808 HK	Capital Goods	BUY	8.2	9.9	22.90	26.00	14%	10.1	9.8	1.8	18.7	3.5%	Wayne Fung
Anta	2020 HK	Consumer Disc.	BUY	25.2	77.7	72.15	77.39	7%	29.8	20.8	6.9	26.2	1.3%	Walter Woo
JS Global	1691 HK	Consumer Disc.	BUY	3.4	1.5	7.81	9.97	28%	19.4	14.7	1.8	4.1	4.1%	Walter Woo
Mengiu	2319 HK	Consumer Staple	BUY	16.6	47.6	32.60	37.90	16%	34.7	21.0	3.5	3.1	0.7%	Albert Yip
Hope Education	1765 HK	Education	BUY	2.2	9.4	2.55	3.17	24%	26.7	19.4	NA	13.1	1.1%	Albert Yip
Jinxin Fertility	1951 HK	Healthcare	BUY	3.9	16.4	12.50	14.40	15%	55.7	37.8	3.2	5.9	0.4%	Jill Wu/ Sam Hu
China Life	2628 HK	Insurance	BUY	127.1	113.1	20.15	24.95	24%	NA	NA	0.9	NA	4.6%	Wenjie Ding
Alibaba	BABA US	Internet	BUY	599.9	3850.7	223.6	252.0	13%	23.7	19.6	NA	15.9	0.0%	Sophie Huang
Tongcheng-eLong	780 HK	Internet	BUY	4.1	14.2	14.92	17.0	14%	21.3	11.5	NA	4.6	0.0%	Sophie Huang
China Aoyuan	3883 HK	Property	BUY	4.1	11.7	11.72	15.5	32%	3.3	2.8	1.1	33.8	12.2%	Samson Man
Ever Sunshine	1995 HK	Property	BUY	2.6	16.8	11.92	14.00	17%	47.9	33.2	6.9	11.4	0.6%	Samson Man
Suntien	956 HK	Renewables	BUY	2.6	2.9	2.20	2.84	29%	4.0	3.7	0.4	11.0	10.0%	Robin Xiao
VPower	1608 HK	Renewables	BUY	1.4	1.1	4.26	4.80	13%	14.5	18.4	2.9	101	1.4%	Robin Xiao
Xiaomi	1810 HK	Technology	BUY	46.5	283.6	14.98	15.70	5%	25.8	18.2	4.1	11.5	0.0%	Alex Ng
Short Ideas														
AAC Tech	2018 HK	Technology	SELL	9.0	84.0	57.50	36.00	-37%	33.7	26.2	2.8	8.4	2.6%	Alex Ng

Source: Bloomberg, CMBIS, Price as of 6/7/2020, * TP under review

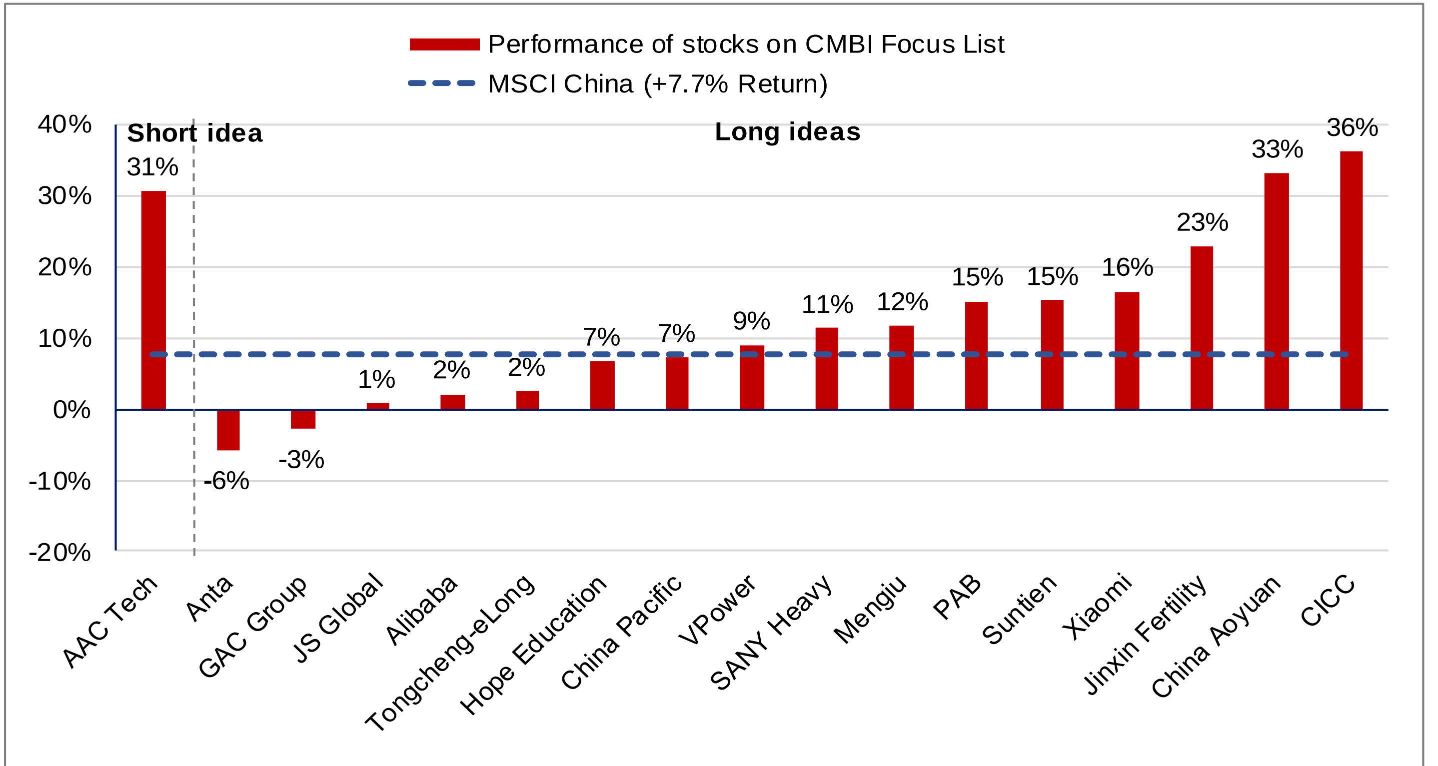
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
Sinotruk	3808 HK	Capital Goods	BUY	Wayne Fung	We believe Sinotruk's sales recovery and strong operating leverage are substantially underestimated by the market. Our 2020E-22E earnings forecast is 27-29% above consensus.
Ever Sunshine	1995 HK	Property	BUY	Samson Man	After the recent share placement, it is cash rich enough to have further M&A.
China Life	2628 HK	Insurance	BUY	Wenjie Ding	Greater boost on net profit following A share stock market sentiment recovery.
Citics Securities	6030 HK	Brokerage	BUY	Karen Sui	Relative underperformance in recent rally. We expect back-loaded IPO underwriting performance given its strong STAR Market and ChiNext pipeline.
Deletions					
SANY Heavy	600031 CH	Capital Goods	BUY	Wayne Fung	We switch our sector top pick to Sinotruk. That said, we still have BUY rating on SANY Heavy and see it as a major beneficiary of infrastructure spending growth.
China Pacific	2601 HK	Insurance	BUY	Wenjie Ding	We believe China Life have larger upside.
CICC	3908 HK	Brokerage	BUY	Karen Sui	CICC rebounded 68% since we added it to Focus List and most catalysts have materialized. We suggest to switch to some laggards.

Source: CMBIS

Performance of our recommendations

- In our last report dated 8 June (link), we highlighted a list of 16 long and 1 short ideas.
- The basket (equal weighted) of these 17 stocks have outperformed MSCI China index by 113bps, delivering +8.9% return (vs MSCI China +7.7%).
- CICC, China Aoyuan and Jinxin Fertility delivered +20% return, and 9 of our 16 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIS; Note: Stock performance from 8 Jun to 6 Jul 2020

Long Ideas

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

Rating: BUY | **TP:** HK$8.6 (26% upside)

Analyst: Jack Bai

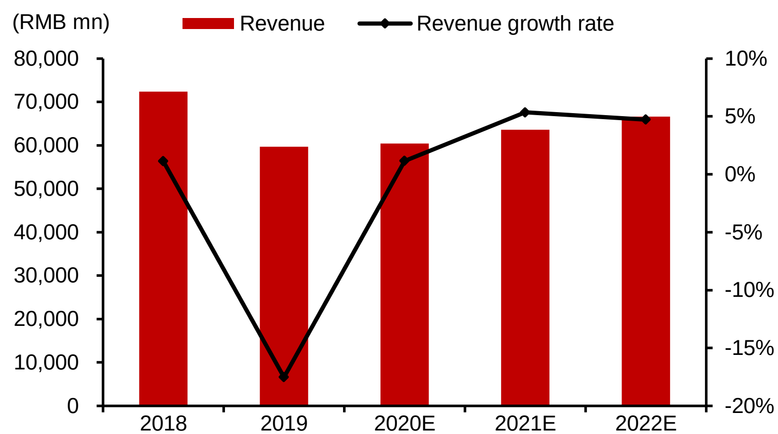
- **Investment Thesis:** GAC Group has good product quality and excellent supply chain management capability, which will lead to further market share expansion. Its three pillars, namely GAMC/Japanese JVs/GAC NEV, will support the sales recovery after COVID-19.
- **Our View:** We believe that delayed 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)	9.3	7.7	7.1	6.2
P/B (x)	0.7	0.7	0.7	0.6
Dividend yield (%)	3.3	3.9	4.2	4.9
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 (26% 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 15.3% YTD, the Bank appeared over-penalized for above-peers exposure to consumption related loans.

- **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 lays 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.

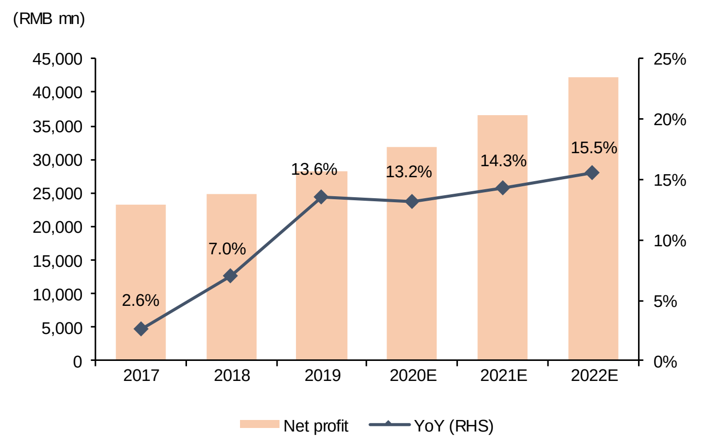
Link to latest report: PAB (000001 CH) - Solid earnings momentum; Asset quality trend is key to watch

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$ 18.90*

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 one of our top picks in China brokerage sector, due to its strong franchise in investment banking (#1/1 in domestic equity/debt underwriting amount in 1H20) and institutionalization. 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.
- **Why do we differ vs consensus:** Our FY20E/21E EPS estimates are 3%/3% below consensus, likely as we have a more cautious view on the Company's prop-trading gains growth.
- **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 derive TPs for China brokers from a 3-stage DDM. Following the recent rally, CITICS has already reached our previous TP of HK$18.90. We are reviewing our earnings and TPs now. The Company now trades at 1.27x 1-year forward P/B, close to 5-year high of 1.34x.

Link to latest report:

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

China Brokerage Sector – Reform acceleration could drive further divergence

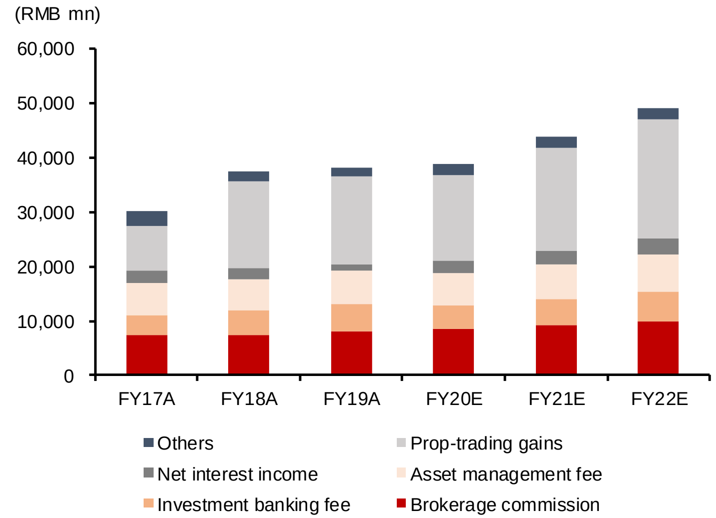
Remarks: * TP under review

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Adj. op. revenue (RMB mn)	37,440	38,846	43,899	48,790
Net income (RMB mn)	12,229	14,263	16,712	19,232
EPS (RMB)	1.01	1.12	1.29	1.47
YoY growth (%)	30	11	16	13
Consensus EPS (RMB)	N/A	1.16	1.33	1.47
P/E (x)	18.3	16.5	14.3	12.4
P/B (x)	1.38	1.29	1.22	1.14
Yield (%)	2.9	2.4	2.8	3.2
ROE (%)	7.8	8.2	8.8	9.5
Adj. financial leverage (%)	4.1	4.0	4.2	4.3

Source: Company data, Bloomberg, CMBIS estimates

Fig: CITICS revenue trend



Source: Company data, CMBIS estimates

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

Rating: BUY | **TP:** HK$26.0 (14% 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 and 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) turnaround of LDT sales; (2) fast recovery of HDT demand.

- **Why do we differ vs consensus:** We have higher sales volume and margin assumptions. Our 2020E-22E earnings forecast is 27-29% above consensus.

- **Catalysts:** (1) Strong monthly HDT sales data in 3Q20E; (2) Earnings surprise in 1H20E.

- **Valuation:** We expect further upside despite the strong rally over the past few months. Stock is attractively trading at 5x 2020E EV/EBITDA. Our TP of HK$26 is based on 6x 2020E EV/EBITDA.

Link to latest report:

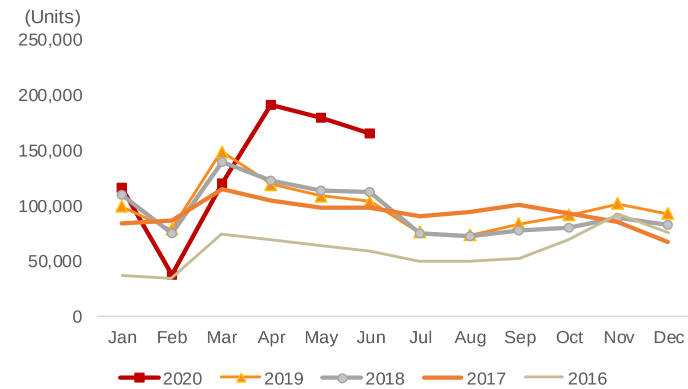
China Construction Machinery & HDT Sector – Raise industry sales forecast in 2020E-21E; Solid upcycle

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)	-	1.57	1.63	1.64
P/E (x)	17.8	10.1	9.8	9.5
EV/EBITDA (x)	6.9	5.0	4.8	4.7
P/B (x)	2.0	1.8	1.6	1.4
Yield (%)	1.9	3.5	3.6	3.7
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$77.39 (7% 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:** We did see strong recovery momentum (such as positive offline retail sales growth for Anta and robust e-commerce growth for FILA in Jun) follows. Thanks to Anta's prompt and successful actions (e.g. live streaming promotions and aggressive discounting to clear inventory) in this post-virus period. We believe Amer sports may face certain pressure overseas in 2Q20, but the losses can still be offset by outperformances from Anta and FILA in China and its cash flow to remain sustainable.

- **Why do we differ vs consensus:** For FY20E/ 21E, our sales forecasts are 5%/ 1% higher than consensus and our net profit forecasts are 2%/ 3% higher than street as we are more optimistic on FILA's sales growth, Anta's GP margin but 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$77.39 based on 33x FY21E P/E. We believe sales recovery in China will help improving sentiment, hence driving re-rating. The stock is trading at 30x FY20E and 21x FY21E P/E.

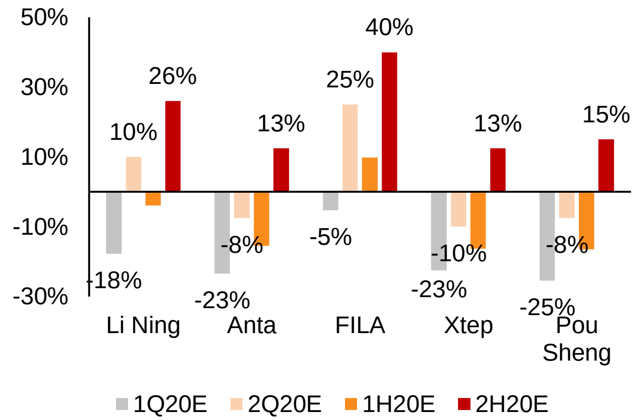
Link to latest report: Anta (2020 HK) - Strong beat in 1Q and likely turnaround in 2Q

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Sales (RMB mn)	33,928	38,586	46,504	52,698
YoY change (%)	40.8	13.7	20.5	13.3
Net profit (RMB mn)	5,344	5,754	8,246	9,845
EPS - Fully diluted (RMB)	1.917	2.064	2.958	3.531
YoY change (%)	25.7	7.7	43.3	19.4
Consensus EPS (RMB)	n/a	2.119	2.940	3.602
P/E (x)	32.1	29.8	20.8	17.4
P/B (x)	8.3	6.9	5.9	5.2
Yield (%)	1.0	1.3	3.4	4.0
ROE (%)	29.8	26.2	31.5	32.6
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 (28% 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 enhance efficiency while new product launches (more mass market and innovative products) will continue to fuel growth in FY20E. Drags in US market shall be temporary and an excellent opportunity for SharkNinja to further gain market shares.

- **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.

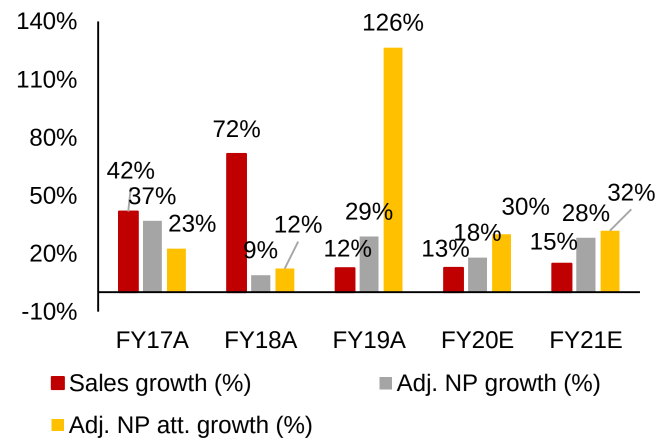
Link to latest report: JS Global (1691 HK) - Industry leading performance to drive re-rating

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 dil. (USD)	0.039	0.051	0.067	0.072
YoY change (%)	121.6	30.0	31.8	7.3
Consensus EPS (USD)	n/a	0.050	0.065	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 (16% 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 increases to ~RMB49.9 currently from 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.

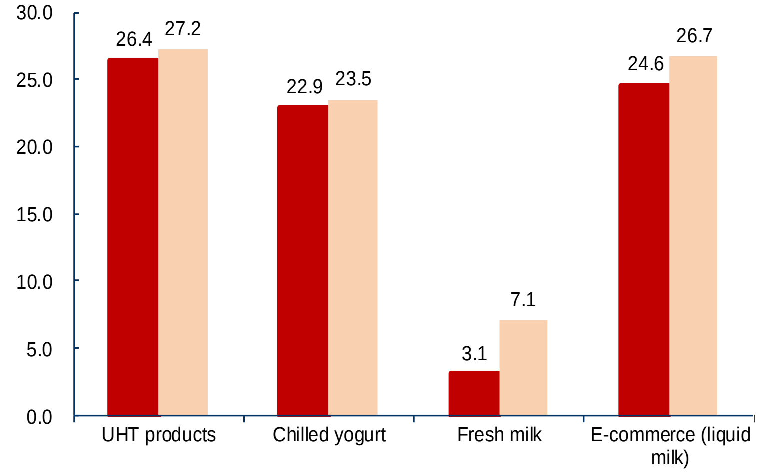
- **Link to latest report:** Profit warning removes overhang; recovery ahead of guidance

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)	28.4	34.7	21.0	17.4
P/B (x)	3.8	3.5	3.1	2.7
Yield (%)	0.6	0.7	1.1	1.3
ROE (%)	14.2	10.5	15.5	16.4

Source: Company, Bloomberg, CMBIS

Fig: Increasing market shares



Source: Company, Nielsen

Hope Education (1765 HK): Strong growth of admission quota

Rating: BUY **| TP:** HK$3.17 (24% upside)

Analyst: Albert Yip

- **Investment Thesis:** Hope Education has strong organic and M&A growth drivers. The Company made five acquisitions over the past twelve months. . Because it had solid track record in improving performance of acquired colleges, we expect the Company to deliver above peers' growth. We think MOE's accelerating conversion of independent colleges is a re-rating catalyst of higher education sector.

- **Strong organic and M&A growth drivers.** For organic growth, it will benefit from (1) growing admission quotas of vocational colleges and diploma-to-degree; (2) synergies and cost savings from acquisitions of Yichuan schools and Inti Education; (3) unpeg of independent colleges; and (4) three self-built vocational colleges to be opened in Sep 2021 as long-term drivers. For M&A, it plans to acquire universities (RMB2.3bn cash on hand).

- **Admission quota strong growth:** For the two Guizhou universities, growth of degree quotas (incl. diploma to degree) rose 30-35%. Self-admission quota of the seven vocational colleges increased 30%+. For quotas of newly acquired colleges, University of Energy/Hebi/Suzhou saw 100%/260%/243% growth. It showed the Company's strong capabilities to improve growth outlook of acquired targets.

- **Four independent colleges submitted conversion applications.** We think Jinci College and College of Science and Technology of Guizhou University (jointly sponsored with a 985 & 211 public university) could become the first two independent colleges to be converted. We estimate the mgmt. fees of these two universities represents 6% of FY22E adj. NP.

- **Valuation:** Our TP of HK$3.17 is based on 32.4x FY20E P/E. We forecast the Company to post 32.4% EPS CAGR in FY20-22E, which is stronger than peers' average of 19%

Financials and Valuations

(YE 31 Dec/Aug)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,331	1,607	2,235	2,847
YoY growth (%)	29	na	39	27
Net profit (RMB mn)	490	528	731	950
Adj. net profit (RMB mn)	474	585	807	1,027
Adj. EPS (RMB)	0.071	0.088	0.121	0.154
YoY growth (%)	26	na	38	27
Consensus EPS (RMB)	Na	0.092	0.123	0.142
Adj. P/E (x)	32.4	26.7	19.4	15.2
Yield (%)	1.0	1.1	1.5	1.9
ROE (%)	10.9	13.1	16.5	18.5
Net cash (RMB mn)	255	1,147	935	1,317

Source: Company, Bloomberg, CMBIS

Fig: Peers' valuation table

	Ticker	Mkt Cap (US$ m)	Price	Year end	P/E (x) FY1	P/E (x) FY2	P/E (x) FY3	PEG (x) FY1
Higher Education services providers								
China Education	839 HK	3,191	12.24	Aug-19	24.4	20.3	17.0	1.23
Yuhua Education	6169 HK	2,870	6.66	Aug-19	24.4	16.7	14.6	0.83
Hope Education	1765 HK	2,260	2.61	Aug-19	26.7	19.4	15.2	0.82
Kepei Education	1890 HK	1,665	6.45	Dec-19	19.3	16.0	14.0	1.12
New Higher Education	2001 HK	994	5.00	Dec-19	13.8	11.5	9.8	0.75
Edvantage	382 HK	779	5.93	Aug-19	17.8	14.0	11.5	0.73
Minsheng Education	1569 HK	604	1.11	Dec-19	9.4	8.0	7.2	0.66
Xinhua Education	2779 HK	540	2.60	Dec-19	11.7	10.5	9.7	1.17
Huali University	1756 HK	554	3.58	Aug-19	12.9	10.0	8.0	0.47
Average					**17.8**	**14.0**	**11.9**	**0.86**

Source: Bloomberg estimates, Company, CMBIS

Link to latest report: More optimistic on FY21E student enrollment

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

Rating: BUY | **TP:** HK$14.4 (15% 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 -8%/2% different from consensus, and NP are -11%/3% 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 55.7x 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.

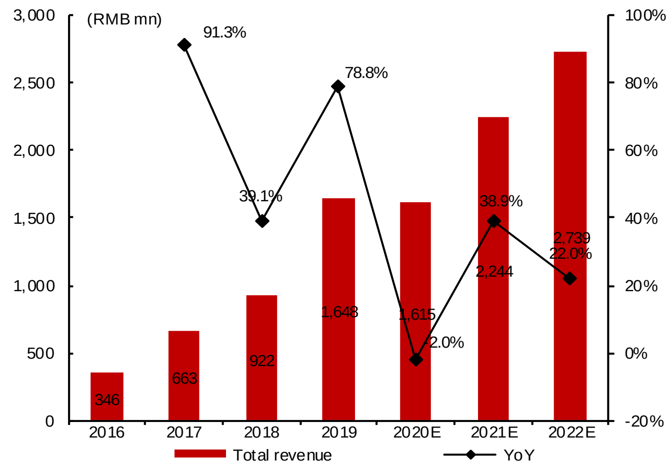
Link to latest report: Jinxin Fertility (1951 HK) – First domestic acquisition deal since IPO; Big step in domestic expansion

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)	0.22	0.27	0.33
P/E (x)	55.7	37.8	30.0
P/B (x)	3.2	3.0	2.7
Yield (%)	0.36	0.53	0.67
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 (24% 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)	0.99	0.87	0.80	0.73
P/EV (x)	0.55	0.50	0.34	0.31
Yield (%)	5.1	4.6	4.8	5.0
ROEV (%)	19.1	11.4	11.2	11.1

Source: Company data, Bloomberg, CMBIS estimates

Alibaba (BABA US): Better-than-expected ecommerce recovery

Rating: BUY | **TP:** US$252 (13% upside)

Analyst: Sophie Huang

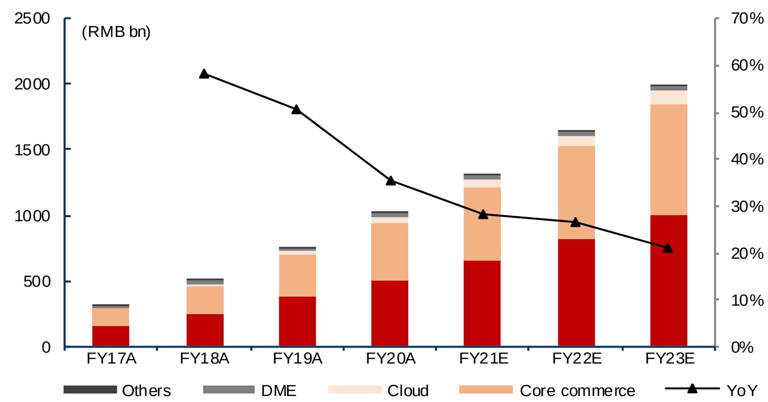
- **Investment Thesis:** Alibaba delivered strong 4QFY20 results, with revenue/non-GAAP net profit +22% YoY/+11% YoY, 7%/36% above consensus. Mgmt guided FY21E rev at >RMB650bn, +27.5% YoY (in line with consensus). Recovery path was better than expected, QTD GMV has recovered to 4Q19 level and seen obvious rebound since Apr. We slightly raised its adj. net profit by 4.9%/2.4% in FY21/22E. Maintain BUY with new SOTP-based TP up to US$251.6 (30x FY21E P/E).
- **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 upcoming 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$252, implying 30x FY21E P/E, in inline with industry average.
- **Link to latest report:** Alibaba (BABA US) – Better-than-expected ecommerce recovery

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	509,711	652,673	825,772	998,826
YoY growth (%)	35.3	28.0	26.5	21.0
Net income (RMB mn)	132,479	158,709	206,081	248,794
EPS (RMB)	53.0	58.6	70.6	84.9
YoY growth (%)	39.5	10.5	20.6	20.3
Consensus EPS (RMB)	NA	57.3	75.7	98.5
P/E (x)	26.2	23.7	19.6	16.3
P/S (x)	4.3	3.8	3.3	2.8
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	16.3	15.9	16.6	17.1
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

Tongcheng-eLong (780 HK): Moving to 2H20E recovery

Rating: BUY **| TP:** HK$17 (14% upside)

Analyst: Sophie Huang

- **Investment Thesis:** Tongcheng-Elong ("TC") delivered better-than-expected 1Q20 results, with revenue/ adj. net profit -44%/-83% YoY, 4%/177% above consensus. Despite 2Q20 guidance soft on government restrictions in Apr, we suggest investors to move into 2H20E recovery, with margin improvement. Mgmt guided TC's revenue drop to narrow to 10% YoY in Jun, and we expect both transportation/ hotel to achieve flat or positive growth in 3Q20E, backed by travel recovery in lower-tier cities and solid hotel.

- **Our View:** We keep positive on TC's recovery and cost saving in next few quarters. We expect its overall revenue to see positive YoY growth in 3Q20E. User metrics would see short-term fluctuation, but intact in the long run on cross selling and membership loyalty program. We think TC's worst time was over, and recovery in sight.

- **Why do we differ vs consensus:** Market concern lies on COVID-19 impact and competition landscape. We believe TC would see faster recovery than peers, mainly on: 1) lower exposure to international tourism (<5%); and 2) lower-tier cities to see faster recovery for less travel limitation.

- **Catalysts:** 1) transportation, hotel gradual recovery with stabilization of domestic market; 2) faster recovery in lower-tier cities; 3) policy support; and 4) cross-selling effect.

- **Valuation:** Maintain BUY with DCF-based TP of HK$17, implying 16x FY21E P/E, slightly lower than industry average. With COVID-19 headwinds priced in, we suggest to buy on dips.

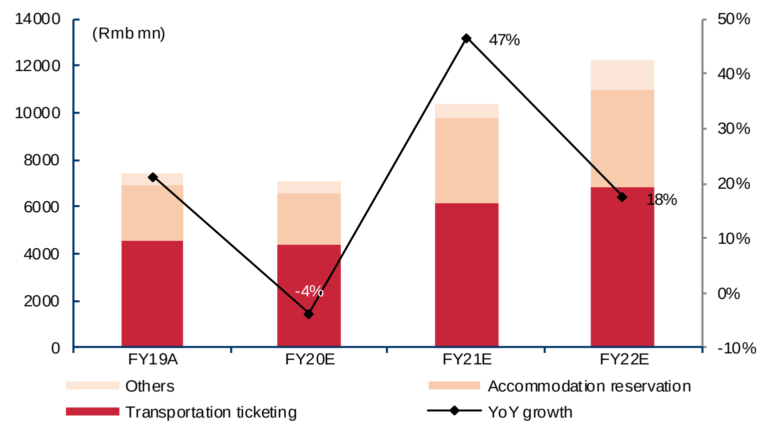
- **Link to latest report:** Tongcheng-Elong (780 HK) – Moving to 2H20E recovery

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,393	7,113	10,427	12,254
YoY growth (%)	NA	-3.8	46.6	17.5
Net income (RMB mn)	1,544	1,088	2,012	2,449
EPS (RMB)	0.74	0.52	0.97	1.18
YoY growth (%)	68.6	-29.5	84.9	21.7
Consensus EPS (RMB)	NA	0.66	1.00	1.05
P/E (x)	15.0	21.3	11.5	9.5
P/S (x)	0.9	0.9	0.8	0.7
Yield (%)	0.0	0.0	1.0	2.0
ROE (%)	5.6	4.6	8.2	10.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: TC'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 (32% 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.

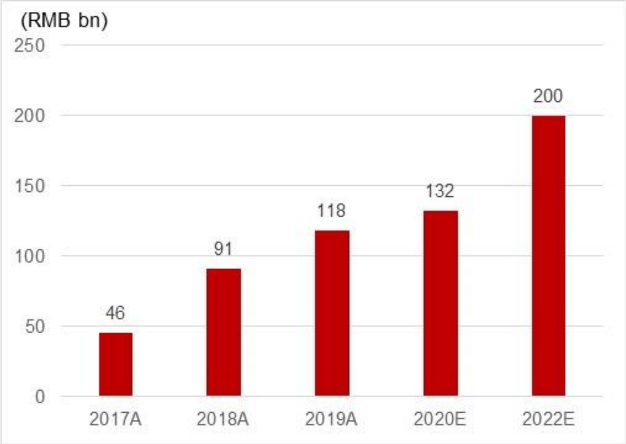
Link to latest report: China Aoyuan (3883 HK) – Aiming at RMB200bn sales in 2022

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)	N.A.	2.31	2.95	3.56
P/E (x)	5.0	3.3	2.8	2.4
P/B (x)	1.4	1.1	0.9	0.7
Yield (%)	7.1	12.2	14.2	16.7
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

Ever Sunshine (1995 HK): 10 folds in 5 years

Rating: BUY **| TP:** HK$14.00 (17% upside)

Analyst: Bowen Li/Samson Man

- **Investment Thesis:** During 2016-2019, revenue and net profit grew at CAGR of 57.6% to RMB1,878mn and 88.2% to RMB224mn, respectively. Ever Sunshine is confident about its future, driven not only by the parent company, but also by M&A, third parties and co-operation with independent regional property developers. The Company set its 5-year plan in 2018 to look for 10x growth from 2018 to 2023.
- **Our View:** CIFI Holdings (884 HK, NR) posted a 52% and 26% growth in contracted sales GFA in 2018 and 2019, respectively. This is an important asset for Ever Sunshine. As at Dec 2019, contracted GFA and GFA under management amounted to 110.6mn sq m and 65.2mn sq m, up 68.7% and 61.9% YoY, respectively. Through "5221" strategy, 50%/20%/20%/10% of future GFA will be acquired by third-parties/developer partners/CIFI/M&A.

- **How do we differ:** After the share placement for raising HK$1.56bn in Jun 2020, we believe the expansion plan should be accelerated. With more than RMB3bn cash on war chest, Ever Sunshine will accelerate its M&A plan as well as strengthen its VAS services.
- **Catalysts:** 1) the inclusion of HK Stock-connect ; 2) Rosy 1H20 results ;
- **Valuation:** Ever Sunshine is trading at 33.2x 2021E P/E. Valuation is demanding compared with peers. However, we believe Ever Sunshine as a long-term growth story in a rising property management industry. Our TP of HK$14.00 is equivalent to 40x 2021E P/E, which is closed to Poly PM (6049 HK, BUY).

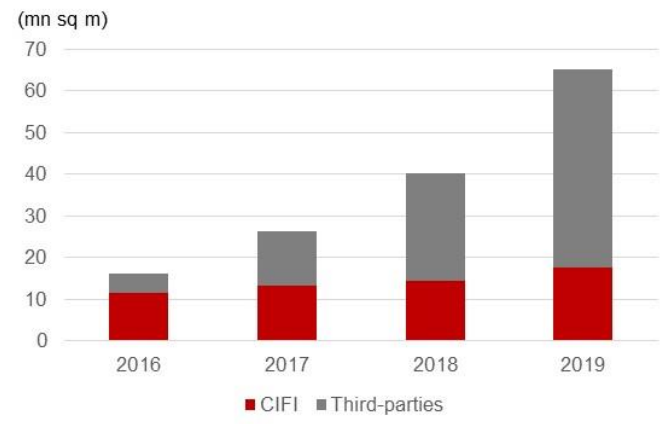
Link to latest report: Ever Sunshine (1995 HK) – 10 folds in 5 years

Financials and Valuations

(YE Dec 31)	FY19A	FY20E	FY21E	FY22E
Turnover (RMB mn)	1,878	3,068	4,558	6,302
YoY growth (%)	74.5	63.4	48.6	38.3
Net Income (RMB mn)	224	357	535	743
EPS (RMB)	0.15	0.22	0.32	0.45
EPS CHG (%)	64.7	52.0	44.5	39.0
Consensus EPS (RMB)	N.A.	0.24	0.36	0.53
PE (x)	72.8	47.9	33.2	23.9
PB (x)	26.5	6.9	6.0	5.1
Yield (%)	0.4	0.6	0.9	1.3
ROE (%)	19.5	11.4	15.3	18.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: GFA under management



Source: Company data, CMBIS

Suntien (956 HK): Southbound stock connect inclusion a re-rating catalyst

Rating: BUY **| TP:** HK$2.84 (29% upside)

Analyst: Robin Xiao

- **Investment Thesis:** Suntien-A (600956 CH) finally listed in A-share market on 29 Jun, with an IPO price at RMB3.18. Suntien-A's share price had reached 5 consecutive upside trading limits, and share priced had surged 110.7% since A-share listing. According to H+A share's common practice, we think Suntien-H will be included to stock-connect southbound from 13 Jul, and we expect that will be a short term catalyst to boost Suntien-H's price.

- **Our View:** We think Flat Glass (6865 HK / 601865 CH, NR) would be a close comparable. Suntien's share price had rebounded from a year low at HK$1.26 to HK$1.96 (+55.5%) on the back of A-share listing progress. We think southbound stock-connect inclusion as well as reissue of the FY19 dividends would be next wave catalyst to push share price upward.

- **Resilient FY20 outlook:** We expect Suntien's will have resilient earnings performance in 2020, albeit economy of Hebei may suffer quite severe impacts from COVID-19. We believe continues coal to gas conversion and new gas pipeline will boost gas sales and profit contribution.

- **Catalysts:** 1) Southbound stock-connect inclusion from 13 Jul; 2) FY19 dividend declaration likely to come with 1H20 results announcement (8.2% yield);

- **Valuation still low after 55% rebound:** Suntien is trading at FY20E 4.7x/0.49x PER/PBR, respectively. We raised TP to 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.

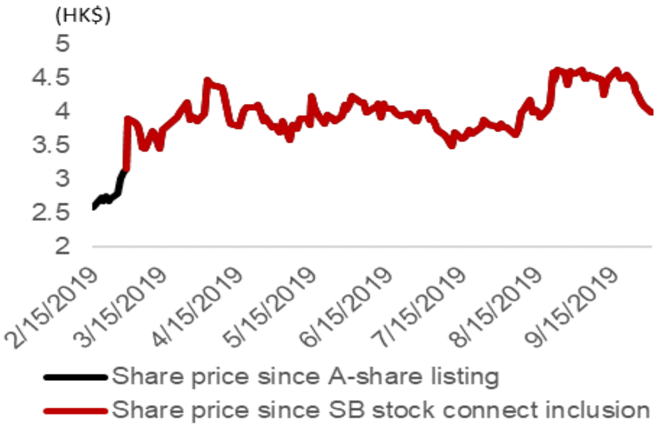
Link to latest report: Suntien (956 HK) – A-share listing is coming close

Financials and Valuations

(YE Dec 31)	FY19A	FY20E	FY21E	FY22E
Turnover (RMB mn)	11,943	13,130	15,124	17,326
YoY growth (%)	19.73	9.93	15.19	14.56
Net Income (RMB mn)	1,344	1,458	1,575	1,753
EPS (RMB)	0.36	0.39	0.42	0.47
EPS CHG (%)	8.39	8.51	7.99	11.30
Consensus EPS (RMB)	0.39	0.40	0.44	0.46
PE (x)	4.35	4.01	3.72	3.34
PB (x)	0.50	0.44	0.41	0.38
Yield (%)	0.00	9.97	10.76	11.98
ROE (%)	11.37	10.99	11.04	11.39
Net gearing (%)	199	216	251	275

Source: Company data, Bloomberg, CMBIS estimates

Fig: Flat Glass' H share experienced significant re-rating after stock connect inclusion



Source: Bloomberg, CMBIS

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

Rating: BUY **| TP:** HK$4.80 (13% upside)

Analyst: Robin Xiao

- **Investment Thesis:** VPower is on track to deliver several key projects through its JV partnership with CNTIC as Company guidance by 1H20we expect VPower will be able to enjoy considerable payoff from recent low LNG price environment. We project VPower to have earings growth of 138.4%/73.6% in FY20/21E. Based on recent market trades with increasing trading volume, we think the Company is gaining market recognition.
- **Our View:** We think the Company is at a strong momentum as share price surged more than 65% after releasing FY19 results in late Mar. Based on our revised model which incorporates contributions from Myanmar JV, our DCF TP is lifted by 47.7% to HK$4.80 per share, reflecting FY20/21E PER of 18.4x/10.6x respectively. Maintain BUY.
- **Myanmar projects are largely on track as guidance.** VPower announced its 23.2MW self-owned new project commenced operation on 3 Jun in Myanmar. According to recent news update and management comments, we think the Company's JV holding 900MW projects are also close to commercial operation. We expect PPA for those projects will likely be signed within Jun, which would be key milestone for those key JV projects.
- **Short-term catalysts:** 1we expect the Company to earn HK$178mn in 1H20, representing 24.8% growth YoY.; and 2) In 2H20, as we expect those newly added Myanmar projects and JV's contribution to kick in, we expect earnings growth to accelerate substantially.
- **Risks exposures:** IBO project delay; political risks; and foreign exchange exposures in South America countries.

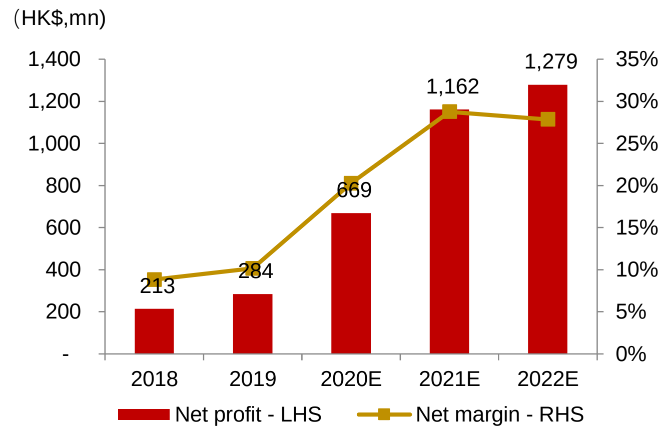
Link to latest report: VPower (1608 HK) – Myanmar JV on track to commercial operation

Financials and Valuations

(YE Dec 31)	FY19A	FY20E	FY21E	FY22E
Revenue (HK$ mn)	2,794	3,301	4,041	4,595
YoY growth （%）	284	669	1,162	1,279
Net Income (HK$.mn)	0.11	0.26	0.45	0.50
EPS (HK$)	31.2	138.4	73.6	10.1
EPS CHG (%)	N/A	0.21	0.38	0.46
Consensus EPS(HK$)	28.9	12.3	7.1	6.4
PE (x)	34.3	14.5	18.4	7.6
PB (x)	3.5	2.9	2.2	1.8
Yield (%)	0.6	1.4	2.4	2.6
ROE (%)	10.1	19.7	26.5	23.6
Net gearing (%)	112.7	100.6	73.5	55.3

Source: Company data, Bloomberg, CMBIS estimates

Fig: We expect VPower to deliver rapid earnings growth



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.

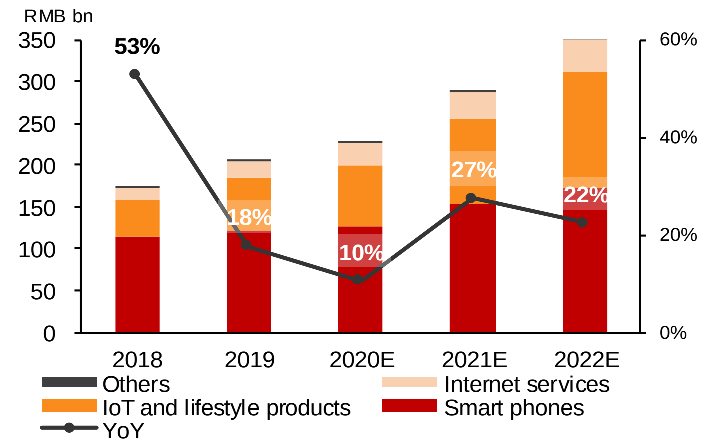
Link to latest report: Xiaomi (1810 HK) – Strong 5G momentum to outweigh India impact

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	0.47	0.62	0.76
P/E (x)	26.3	25.8	18.2	14.9
P/B (x)	4.6	4.1	3.5	3.0
Yield (%)	-	-	-	-
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

Short Ideas

AAC Tech (2018 HK): Worst is over but GPM pressure to persist

Rating: SELL **| TP:** HK$36.0 (37% downside)

Analyst: Alex Ng

- **Investment Thesis:** AAC is the global acoustics/haptics leader for both Apple/Android smartphone brands. It also offers handset casing, antennas and MEMs products. In order to expand into fast-growing optics industry, AAC launched plastic handset lens products in 2016 and WLG hybrid lens in 2017. AAC will benefit from 5G-driven smartphone cycle in 2020-23E.

- **Our View**: We remain cautious on AAC since overseas demand weakness, inferior product mix and margin pressure across all segments will continue to drag AAC's earnings in next few quarters. We also believe optics guidance (100kk/m in 3Q20) is too aggressive, given Xiaomi/Huawei pressure in 2Q20E (AAC's major optics clients) and limited WLG contribution on high-end smartphone weakness.

- **Why do we differ vs consensus:** Our FY20/21E net profit are 20%/26% below consensus, given 1) deteriorated landscape in acoustics/haptics, 2) slower optics ASP/shipment ramp, and 3) lack of major acoustics/haptics upgrade in 2H20 iPhone.

- **Catalysts:** 1) 2Q20 results miss, 2) iPhone launch delay, 3) soft guidance amid COVID-19 outbreak.

- **Valuation:** We derived our 12m TP of HK$36.0 based on 18x FY21E P/E, (15% below 5-yr avg). Since most positives from Apple recovery are reflected and we are conservative on optics guidance, we believe current valuation is too high compared to 21.0x 5-yr avg.

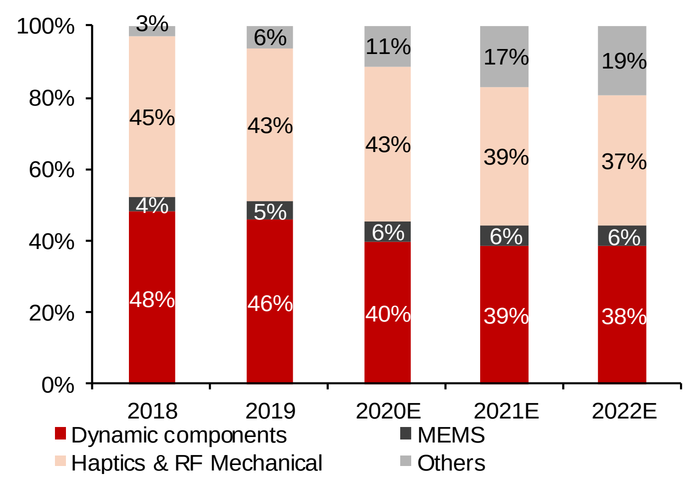
Link to latest report: AAC Tech (2018 HK) – worst is over but GPM pressure to persist; Maintain Sell

Financials and Valuations

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	17,884	18,134	19,453	20,350
YoY growth (%)	(1.4)	1.4	7.3	4.6
Net income (RMB mn)	2,222	1,685	2,171	2,474
EPS (RMB)	1.84	1.39	1.79	2.04
YoY growth (%)	(41.1)	(24.2)	28.8	13.9
Consensus EPS (RMB)	NA	1.73	2.43	2.85
P/E (x)	25.6	33.7	26.2	23.0
P/B (x)	2.9	2.8	2.6	2.5
Yield (%)	3.4	2.6	1.7	1.9
ROE (%)	11.3	8.4	10.1	10.7
Net gearing (%)	15	15	14	6

Source: Company data, Bloomberg, CMBIS estimates

Fig: AAC Revenue Breakdown



Source: Company data, CMBIS estimates

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NOT RATED	: Stock is not rated by CMBIS

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