CMBI Research Focus List

Our best high conviction ideas

9 Aug 2021

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) FY21E	P/E (x) FY22E	P/B (x) FY21E	ROE FY21E	Yield FY21E	Analyst
Long Ideas														
BYD – H	1211 HK	NEV	BUY	117.7	345.3	263.6	315.0	19%	93.4	72.0	9.8	11.4	0.1%	Jack Bai/ Robin Xiao
Zhejiang Jingsheng	300316 CH	Capital Goods	BUY	12.3	134.5	61.8	77.5	26%	56.4	37.6	12.8	25.2	0.4%	Wayne Fung
SANY International	631 HK	Capital Goods	BUY	3.9	9.2	9.6	11.9	24%	18.2	14.7	2.7	15.7	2.5%	Wayne Fung
Li Ning	2331 HK	Consumer Disc.	BUY	26.3	180.2	81.9	103.8	27%	53.4	44.1	14.9	28.5	0.6%	Walter Woo
Prada	1913 HK	Consumer Disc.	BUY	18.7	5.9	57.0	68.1	20%	65.4	47.7	5.5	8.6	0.9%	Walter Woo
WH	288 HK	Consumer Staples	BUY	12.2	31.8	6.5	8.9	38%	9.3	8.4	1.1	12.5	4.3%	Albert Yip
Hope Education	1765 HK	Education	BUY	1.5	13.0	1.5	3.5	144%	10.9	9.2	1.2	11.9	2.8%	Albert Yip
Innovent Biologics	1801 HK	Healthcare	BUY	13.9	69.5	74.3	120.9	63%	NA	NA	8.9	-12.0	0.0%	Jill Wu/ Sam Hu/ Jonathan Zhao
China Pacific Insurance	2601 HK	Insurance	BUY	37.3	42.4	23.0	36.0	57%	0.4	0.3	0.8	12.4	7.6%	Gigi Chen
Meituan	3690 HK	Internet	BUY	173.6	995.9	220.4	383.0	74%	NA	NA	NA	-42.1	0.0%	Sophie Huang/ Miriam Lu
Bilibili	BILI US	Internet	BUY	30.2	483.9	78.7	142.0	80%	NA	NA	NA	-22.0	0.0%	Sophie Huang/ Miriam Lu
CR Land	1109 HK	Property	BUY	24.9	50.8	27.2	44.8	65%	4.8	4.4	1.1	14.6	4.6%	Jeffrey Zeng
CG Services	6098 HK	Property	BUY	24.5	114.5	59.2	91.2	54%	30.0	21.4	32.9	25.8	0.7%	Jeffrey Zeng
China Hongqiao	1378 HK	Materials	BUY	11.5	34.1	9.8	15.0	53%	4.9	4.7	0.7	19.5	9.6%	Robin Xiao
BYDE	285 HK	Technology	BUY	11.5	61.8	39.6	55.0	39%	13.1	11.8	4.0	21.3	0.8%	Alex Ng/ Lily Yang
ZTE	763 HK	Technology	BUY	26.8	35.6	30.7	28.14*	-8%	14.6	12.7	1.9	13.5	1.1%	Lily Yang/ Alex Ng
Hikvision	002415 CH	Software & IT services	BUY	85.8	342.4	59.5	80.0	34%	33.9	27.7	9.1	29.0	0.0%	Marley Ngan

Source: Bloomberg, CMBIS, Price as of 9/8/2021, *TP under review

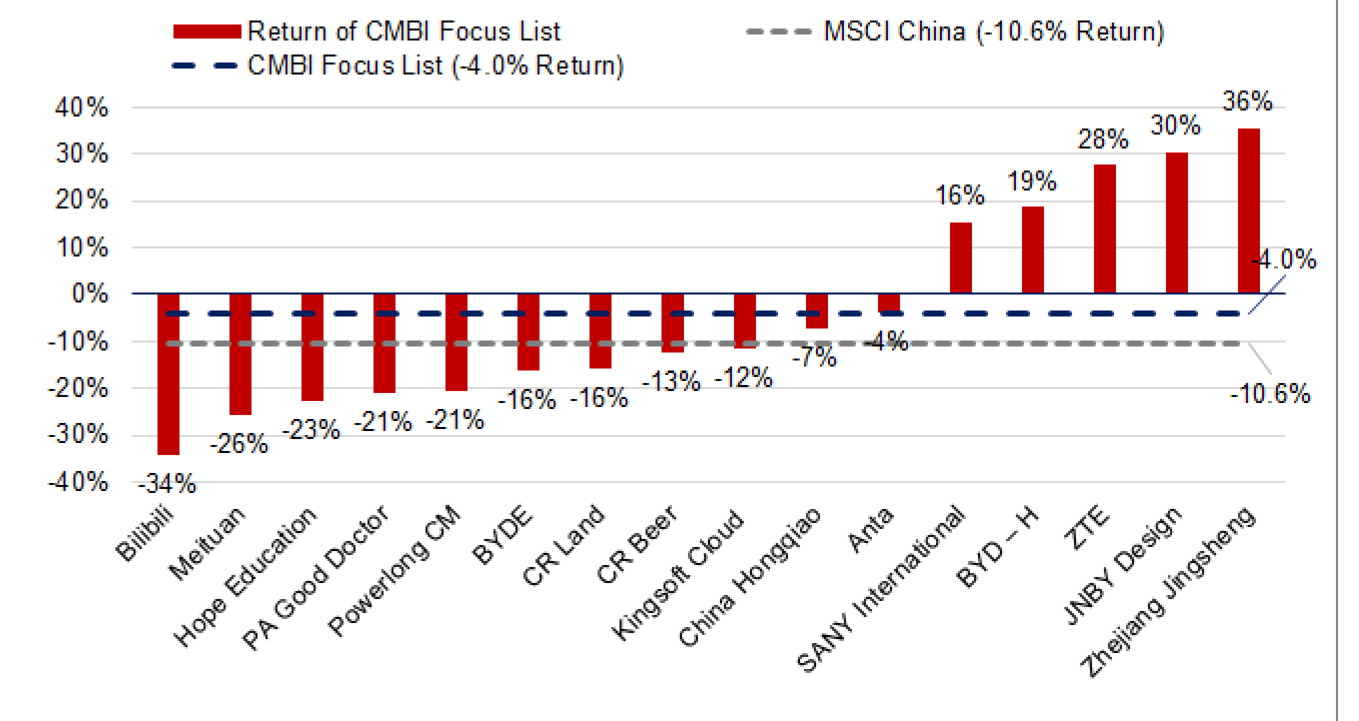
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
Li Ning	2331 HK	Consumer Disc.	BUY	Walter Woo	Despite recent COVID-19 outbreak, we think Li Ning's growth momentum (by domestic fashion mania) and surge in profit margins (aided by higher ASP, reduced retail discounts) can still guarantee its performance in 2H21E.
Prada	1913 HK	Consumer Disc.	BUY	Walter Woo	We believe recent 1H21 result beat of Prada can help boost investor sentiment and drive further re-rating. If sales growth continues to be strong, EBIT margin improvement can be even more surprising.
WH	288 HK	Consumer Staples	BUY	Albert Yip	We expect the share buyback offer would be approved on 16 Aug. This should provide share price support and could enhance FY22E EPS by 9%.
Innovent Biologics	1801 HK	Healthcare	BUY	Jill Wu/ Sam Hu/ Jonathan Zhao	Innovent is one of our top picks now with a initiation report two weeks ago (22 Jul 2021). With more and more products launch in the near future (2022-23E) and the NDRL inclusion of Tyvyt's large indications in 2021E, the Company's profitability is expectable, in our view.
China Pacific Insurance	2601 HK	Insurance	BUY	Gigi Chen	We expect CPIC to report better-than-peers VNB momentum and improved agent productivity of 1H21 in late Aug.
CG Services	6098 HK	Property	BUY	Jeffrey Zeng	We add CGS in due to its potential better-than-pre-announced 1H21 results and attractive valuation after the recent industry correction.
Hikvision	002415 CH	Software & IT services	BUY	Marley Ngan	Hikvision faces limited policy risk as customer mix is highly diversified. Also, surveillance is not a targeted industry by Chinese government with monopoly/ data security concerns.
Deletions					
JNBY Design	3306 HK	Consumer Disc.	BUY	Walter Woo	We are still optimistic on JNBY's 3-4 years growth target and the recent appointments of brand ambassadors, but the recent rally after its positive profit alert might limit its short term upside.
Anta	2020 HK	Consumer Disc.	BUY	Walter Woo	Even though we are still highly positively on its mid-term outlook, recent COVID-19 outbreak (both China and overseas) may lead to softened retail sales for Anta and Amer.
CR Beer	291 HK	Consumer Staples	BUY	Albert Yip	The recent spread of COVID-19 could affect sales volume in 3Q21E.
PA Good Doctor	1833 HK	Healthcare	BUY	Jill Wu/ Sam Hu/ Jonathan Zhao	We remove this stock as we see a lack of catalysts in the near term.
Powerlong CM	9909 HK	Property	BUY	Jeffrey Zeng	We remove Powerlong CM from our Aug focus list due to uncertainties in 1H21 results.
Kingsoft Cloud	KC US	Software & IT services	BUY	Marley Ngan	Kingsoft Cloud key customers are internet companies which face mounting policy-related uncertainty. Also, US-listed Chinese stocks face tightening disclosure rules set by US SEC and this could weigh on sentiment.

Source: CMBIS

Performance of our recommendations

- In our last report dated 6 Jul, we highlighted a list of 16 long ideas.
- The performance of the basket (equal weighted) with these 16 stocks outperformed MSCI China index by 6.7ppt, delivering -4.0% return (vs MSCI China -10.6%).
- Zhejiang Jingsheng, JNBY Design, ZTE, BYD-H and SANY International delivered 16% or above return, and 7 of our 16 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIS; Note: Stock performance from 5 Jul 2021 to 6 Aug 2021

Long Ideas

BYD – H (1211 HK): Bottom fishing on auto sales rebound from Apr

Rating: BUY **| TP:** HK$315 (19% upside)

Analysts: Jack Bai/ Robin Xiao

- **Investment Thesis:** BYD's Apr auto sales volume was 45,234 units, exhibiting a strong rebound MoM by 40.4%. NEV sales volume accounted for 56.7%, and we think PHEV sales was a highlight in Apr. On the back of strong DM-I series PHEV orders and production ramp up pace, we still expect BYD's performance to improve MoM from Apr and the trend will continue in the remaining months in 2021E. We maintain BYD as our top pick for NEV sector, and our TP remains unchanged at HK$282.0.

- **Auto sales to pick up from Apr.** DM-i series to become hit product. DM-i series equip with 1.5L Xiaoyun engine, with 43.4% thermal efficiency and running with less than 3.8L fuel consumption per 100km. Whole DM-i series are equipped with dedicated high power blade battery, and have same price as ICE vehicles with extraordinary using experience as EV. We think the high cost performance of DM-I will drive strong retail demand growth. Mgmt. disclosed Qin Plus DM-i has accumulated orders of more than 50K units. We expect cumulative orders to be delivered gradually in 2Q-4Q21E as the dedicated blade battery release capacity output.

- **Suggest to buy on dips.** We think recent share price retreat offer good opportunities to accumulate the stock, as we expect market sentiment will be boosted on 1) auto sales volume boom as DM-I capacity release, and 2) BYD to launch more cooperation for external power battery supply. BYD's current valuation is significantly lower than peers (3x P/S on NEV sales vs. NEV new forces 6x – 12x P/S). We expect BYD's valuation will re-rate with increasing NEV sales proportion and earnings release.

- **Future catalyst:** 1) NEV sales growth to accelerate; 2) power battery to realize external shipment; 3) Semiconductor business to have new update.

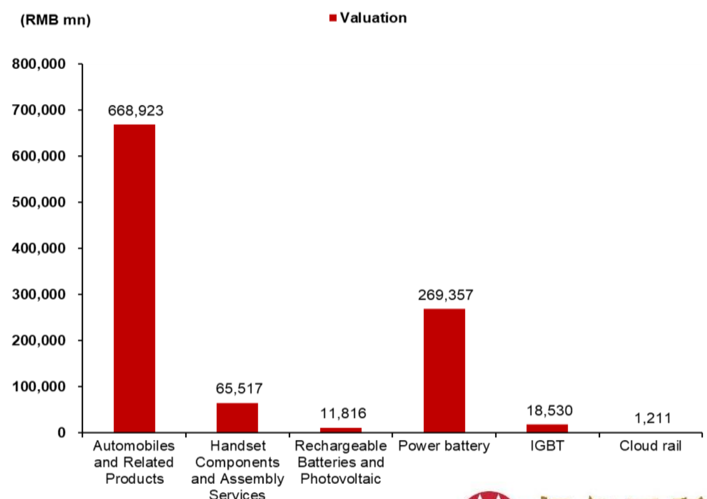
Link to latest report: BYD - H (1211 HK) – Strong DM-i growth ahead

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	127,739	156,598	200,833	270,896
YoY growth (%)	(1.78)	22.59	28.25	34.89
Net income (RMB mn)	1,614	4,234	6,919	8,928
EPS (RMB)	0.50	1.47	2.36	3.06
YoY growth (%)	(47)	196	60	30
Consensus EPS (RMB)	N/A	0.97	1.12	1.47
P/E (x)	443.33	149.69	93.37	71.97
P/B (x)	10.60	11.09	9.75	8.46
Yield (%)	0.03	0.07	0.11	0.14
ROE (%)	2.88	7.45	11.38	12.82
Net gearing (%)	79.2	39.7	42.9	41.3

Source: Company data, Bloomberg, CMBIS estimates

Fig: Valuation by business segment



Source: Company data, CMBIS estimates

Zhejiang Jingsheng (300316 CH): Robust solar capex

Rating: BUY **| TP:** RMB77.5 (26% upside)

Analyst: Wayne Fung

- **Investment Thesis:** We believe Jingsheng, as a dominant crystal growing equipment manufacturer, is set to capture the strong capex growth of wafer manufacturers. More importantly, the structural shift to large size wafer will help speed up the equipment replacement cycle. Besides, Jingsheng is on good progress to introduce silicon carbide (SiC) equipment, which will serve as a new growth driver over the coming years.

- **Our View.** Based on our project-by-project calculation, major solar wafer makers have announced in 1H21 a total of 184GW of wafer capacity construction plan with total capex of RMB55bn. Majority of these new capacities are scheduled to put into operation in 2022-23E. Such expansion is faster than our expectation and we believe Jingsheng will benefit from the strong spending growth.

- **Why do we differ vs consensus:** Our earnings forecast in 2022E/23E is 5%/11% above consensus, as we have incorporated the latest wafer capacity spending into Jingsheng's revenue forecast.

- **Catalysts:** (1) More announcements of wafer capacity expansion plan; (2) breakthrough in Jingsheng's SiC equipment development.

- **Valuation:** We set our TP at RMB77.5, based on 67x FY21E P/E, equivalent to 1.4x PEG (48% EPS CAGR in 2021E-23E).

Link to latest report:

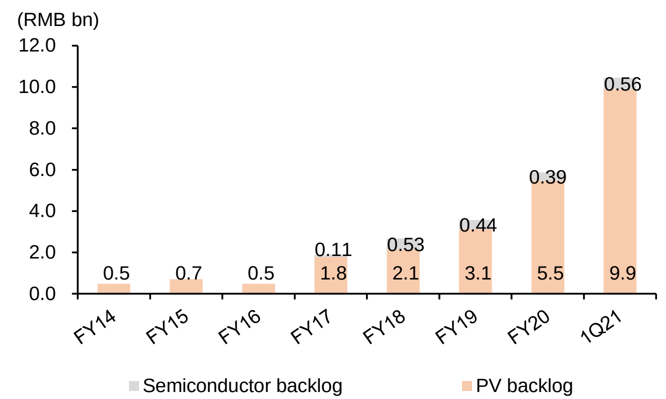
Zhejiang Jingsheng (300316 CH) – Acquisition to help tap into solar cell equipment

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,811	7,008	10,280	12,776
YoY growth (%)	23	84	47	24
Net income (RMB mn)	858	1,486	2,230	2,779
EPS (RMB)	0.67	1.16	1.73	2.16
YoY growth (%)	35	73	50	25
Consensus EPS (RMB)	N/A	1.16	1.64	1.95
P/E (x)	97.6	56.4	37.6	30.1
P/B (x)	16.0	12.8	9.9	7.7
Yield (%)	0.2	0.4	0.5	0.7
ROE (%)	17.5	25.2	29.7	28.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Jingsheng's backlog trend



Source: Company data, CMBIS

SANY International (631 HK): Benefit from the policy to speed up coal supply

Rating: BUY **| TP:** HK$11.9 (24% upside)

Analyst: Wayne Fung

- **Investment Thesis:** The ongoing development of intelligent coal mines and ports will continue to offer opportunity for SANYI to gain market share through the launch of the intelligent machinery products. Besides, we believe the fast-growing mining trucks sales will enable SANYI to benefit from the high metal prices. What's more, new business development such as industrial robot and crusher will serve as new growth drivers for SANYI. The gradual commencement of lighthouse plants will enhance SANYI's competitive edge.

- **Our View:** The recent government measures to relax the restriction of coal mining capacity swap scheme will likely boost coal mining machine demand in 2H21E. Besides, we believe potential M&A this year will enlarge the scale of the Company in a short period of time.

- **Why do we differ vs consensus:** Our earnings forecast in 2021E-22E is 0-4% below consensus estimates. There is only a limited number of analysts covering the stock.

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

- **Valuation:** Since early this year, SANYI's share price has re-rated from the previous four-year valuation range of 8-13x. We believe the breakthrough was driven by (1) strong coal and metal prices; and (2) the Company's new business initiative. We expect the valuation premium to maintain as we forecast SANYI's earnings growth to accelerate in 2021E/22E. Our TP is HK$11.90, based on 24x 2021E P/E, on the back of 24% earnings CAGR.

Link to latest report:

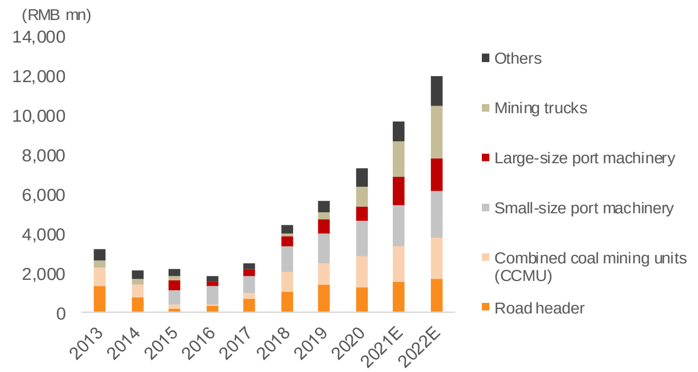
SANY International (631 HK) – Robotic business a surprise; More growth drivers ahead

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	7,364	9,950	12,289	13,455
YoY growth (%)	30.2	35.1	23.5	9.5
Net income (RMB mn)	1,045	1,298	1,602	1,859
EPS (RMB)	0.34	0.41	0.51	0.59
YoY growth (%)	12.5	23.5	23.5	16.0
Consensus EPS (RMB)	-	0.44	0.57	0.67
EV/EBITDA (x)	14.8	12.1	10.0	8.7
P/E (x)	23.5	18.2	14.7	12.7
P/B (x)	3.1	2.7	2.4	2.2
Yield (%)	1.7	2.5	3.1	3.5
ROE (%)	14.0	15.7	17.3	18.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: SANYI's revenue breakdown



Source: Company data, CMBIS estimates

Li Ning (2331 HK): Continuing to leverage on domestic fashion

Rating: BUY **|** **TP:** HK$103.82 (27% upside)

Analyst: Walter Woo

- **Investment Thesis:** We continue to like the mania of domestic fashion and believe Li Ning, with the best brand elevation under this regime should be the major beneficiary. Li Ning is a leading sportswear brand in China with RMB 14.6bn sales and around 7,000 stores in FY20. Growth drivers include 1) premiumization and better product mix, 2) ramp up of E-commerce and direct retail, and 3) larger sized stores with better productivity.

- **Our View:** Even though the recent COVID-19 outbreak has certain drags on retail sales, still we are confident on its outlook in 2H21E and 1H22E, thanks to: 1) remarkable momentum in early Jul 2021, 2) healthy channel inventory level and robust FY22E trade fair sales growth, 3) potential surprise on the GP margin, driven by ASP increase and reduced retail discounts and 4) boost in operational efficiency under the new CEO, etc.

- **Why do we differ vs consensus:** For FY21E/ 22E, our net profit forecasts are higher than the street by 8%/ 3%, while our FY23E forecasts is lower by 6%, as we are more aggressive on FY21E OP margin due to operating leverage but more conservative on FY23E sales, in terms of forecasts.

- **Catalysts:** 1) robust 2H21E retail sales data point, 2) upward revisions of guidance 3) stronger-than-expected retail discounts and operating leverage and 4) better-than-expected marketing events.

- **Valuation:** We derived our 12m TP of HK$103.82 based on 55x FY22E P/E. We believe brand elevation and upgrade on store productivity can all drive decent growth onwards. The stock is not demanding at all, at 44x FY22E P/E, with 40% adj. NP CAGR during FY20-23E.

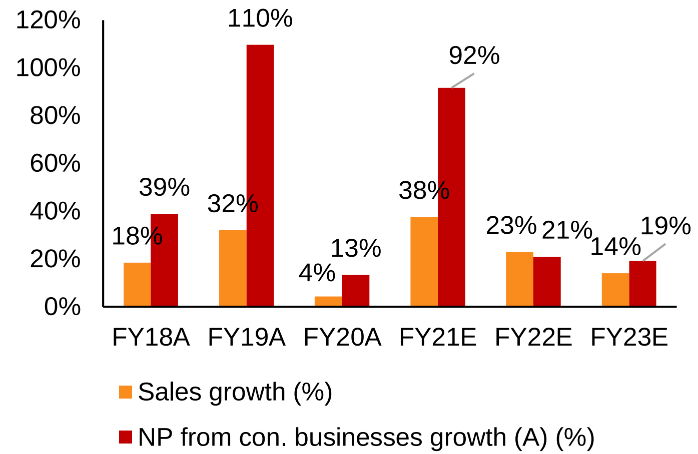
Link to latest report: Li Ning (2331 HK) – Continuing to leverage on domestic fashion

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Sales (RMB mn)	14,457	19,884	24,432	27,846
YoY change (%)	4.2	37.5	22.9	14.0
Adj. Net profit (RMB mn)	1,698	3,255	3,935	4,687
Adj. EPS - Fully diluted (RMB)	0.68	1.30	1.57	1.87
YoY change (%)	12.5	91.6	20.9	19.1
Consensus EPS (RMB)	N/A	1.21	1.52	1.98
Adj. P/E (x)	103.7	53.4	44.1	37.0
P/B (x)	19.8	14.9	11.8	9.5
Yield (%)	0.3	0.6	0.7	0.8
ROE (%)	19.5	28.5	27.3	29.0
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Sales and net profit growth



Source: Company data, CMBIS estimates

Prada (1913 HK): Turnaround confirmed after the strong beat

Rating: BUY **| TP:** HK$68.09 (20% upside)

Analyst: Walter Woo

- **Investment Thesis:** The remarkable 1H21 result beat is certainly a confirmation of Prada's long-awaited turnaround. Prada is one of the most prestige luxury brands in the world with EUR 2.4bn sales and 659 stores in FY20. Growth drivers include: 1) better store productivity, 2) ramp up of e-commerce sales and 3) ASP increases by brand elevation.

- **Our View:** We believe it is still at the early stage of a brand cycle and our view for 2H21E and FY22E is highly positive, thanks to: 1) accelerating retail sales growth in Jul 2021, even faster than 12-13% in 2Q21 (vs 2019 level), 2) excellent new product reception in Greater China and US, 3) meaningful wealth effect and demand for luxury products, and 4) interesting and effective marketing, e.g. fashion shows, sponsorships, crossovers, etc. With such a strong sales per store in 1H21 and momentum onwards, we believe its EBIT margin can recover quickly to 15%+ by FY23E.

- **Why do we differ vs consensus:** For FY21E/ 22E, our net profit forecasts are 13%/ 3% higher than the street but for FY23E, our forecast is 5% lower given a faster sales growth, better GP margin and operating leverage.

- **Catalysts:** 1) better guidance, 2) strong 3Q21E data points, 3) positive peers and industry data points, and 4) positive feedback on its marketing.

- **Valuation:** We derived our 12m TP of HK$68.09 based on 55x FY22E P/E. We believe Prada can continue to outperform industry (unlike FY14 -18), and sentiment can stay positive and support its relatively high valuation. The stock is trading at 48x FY22E.

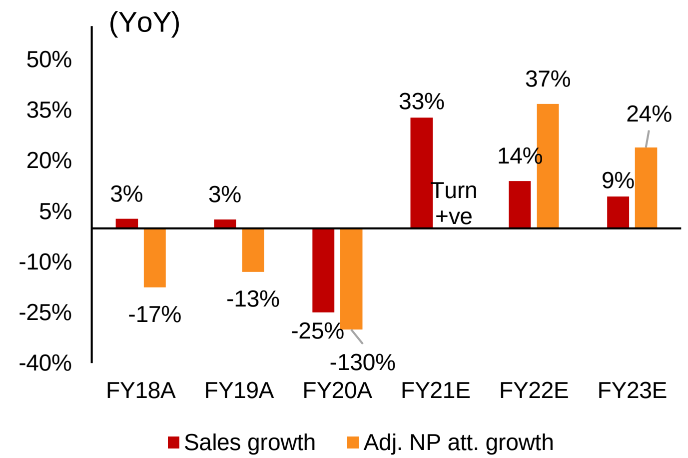
Link to latest report: Prada (1913 HK) – Turnaround confirmed after the strong beat

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Sales (RMB mn)	2,423	3,218	3,669	4,015
YoY change (%)	(24.9)	32.8	14.0	9.4
Net profit (RMB mn)	(54)	254	347	431
EPS - Fully diluted (RMB)	(0.021)	0.099	0.136	0.168
YoY change (%)	N/A	N/A	36.9	24.0
Consensus EPS (RMB)	N/A	0.088	0.132	0.177
P/E (x)	N/A	65.4	47.7	38.5
P/B (x)	5.9	5.5	5.1	4.8
Yield (%)	0.5	0.9	1.7	2.1
ROE (%)	(1.9)	8.6	11.0	12.7
Net debt/ equity (%)	10.9	6.0	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Sales and net profit growth



Source: Company data, CMBIS estimates

招銀国际 CMB INTERNATIONAL

WH (288 HK): Share buyback offer is catalyst

Rating: BUY | **TP:** HK$8.90 (38% upside)

Analyst: Albert Yip

- **Investment Thesis:** We forecast 1H21E NP to drop by 12% YoY to US$481mn led by lower China OP and US$83mn litigation expense. 2H21E NP is estimated to jump 95% YoY to US$827mn driven by US market recovery. We think the weaker-than-expected 2Q21E operation was priced in. The stock trades at 9.3x FY21E P/E, below historical average of 11.1x. We expect a better 3Q21E. **Catalyst:** If the share buyback offer (13% of issued shares) is approved, we estimate it could enhance FY22E EPS by ~9%. FY22E P/E would be more attractive at 7.7x, which is at the trough of its PE band. Maintain Buy on undemanding valuation.

- **1H21E NP to drop by 12%.** (1) US: We estimate OP to drop 8% YoY. If US$83mn litigation settlement is excluded, OP would increase 22%. (2) China: we forecast OP to fall by 8% YoY. The decline was due to a high sd drop of packaged meat sales volume in 2Q21E on high base and inventory impairment of frozen pork arising from plunge of pork price in 2Q21.

- **Expect a better 3Q21E.** (1) US: We expect packaged meat profitability would improve QoQ given that the increase of product price already caught up with hog price increase. (2) China: Hog price usually increases from 2Q to 3Q historically because pork demand usually increases when Mid-Autumn Festival is approaching. Inventory impairment of frozen pork could be reversed in 3Q21E.

- **Share buyback offer.** We expect the EGM of shareholders would approve the offer on 16 Aug. We estimate the buyback of 13% of issued shares at HK$7.80/share could enhance FY22E EPS by ~9%.

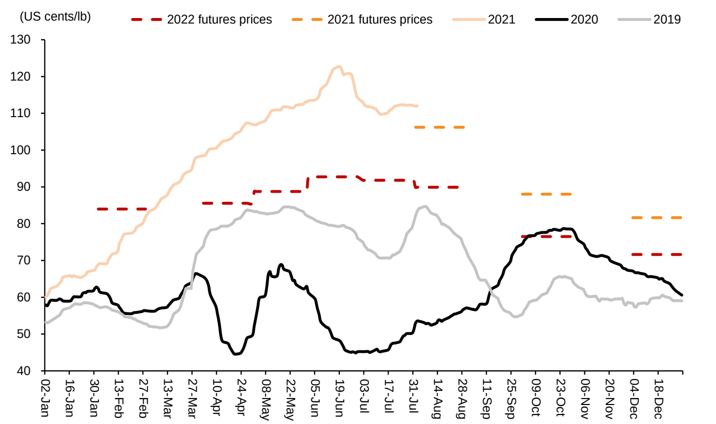
Link to latest report: WH (288 HK) – Estimate 12% NP decline in 1H21E; 2H21E NP to rebound strongly

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (US$ mn)	25,589	26,999	27,994	29,268
YoY growth (%)	6	6	4	5
Net profit (US$ mn)	973	1,308	1,446	1,557
Adj. net profit (US$ mn)	973	1,308	1,446	1,557
YoY growth (%)	(29.4)	34.4	10.6	7.6
Adj. EPS (US$)	0.066	0.089	0.098	0.106
YoY growth (%)	(29.5)	34.3	10.6	7.6
Consensus EPS (US$)	N/A	0.092	0.100	0.107
Adj. P/E (x)	12.5	9.3	8.4	7.8
P/B (x)	1.2	1.1	1.0	0.9
Yield (%)	2.7	4.3	4.8	5.1

Source: Company data, Bloomberg, CMBIS estimates

Fig: 2022E US hog future prices trade above 2019 level



Source: Bloomberg, CMBIS estimates

Hope Education (1765 HK): FY21E guidance maintained; more catalysts to come

Rating: BUY **| TP:** HK$3.54 (144% upside)

Analyst: Albert Yip

- **Investment Thesis:** We see several positive catalysts ahead as the progress of independent colleges conversion is earlier than expectation and the Company plans to acquire four private universities in 1-2 years. Management maintains FY21E adj. NP guidance of RMB800-850mn. We forecast the Company to deliver 21% EPS CAGR in FY20-23E. If the above catalysts materialize, the EPS CAGR should be even stronger. Trading at 10.9x FY21E P/E, valuation is attractive compared to its 21% EPS CAGR. Maintain Buy.
- **Conversion of independent colleges ahead of schedule.** Management thinks its four original independent colleges can be converted by 2021. The conversion can enhance earnings and the colleges' admission quotas.
- **M&A pipelines.** The Company recently announced to acquire Inner Mongolia College, Jinken vocational college and Shinawatra University. Furthermore, the Company had secured four domestic private university targets for potential acquisitions in 1-2 years. The Company had RMB2.5bn cash as at 28 Fen 2021.
- **Strong overseas study demand.** The Company admitted 18,000 students in 2020-21 school year for studying degree and master abroad in future, and targets to admit 30,000 students in 2021-22 school year. This should strongly supply Chinese students to Inti Education and Shinawatra University in future.
- **Valuation:** Our TP of HK$3.54 is based on 21.0x FY22E P/E or 1x FY22E PEG. **Catalysts:** (1) M&A; (2) conversion of independent colleges.

Link to latest report: Hope Education (1765 HK) – FY21E guidance maintained; more catalysts to come

Financials and Valuations

(YE 31 Aug)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,568	2,241	3,140	3,607
YoY growth (%)	N/A	43	40	15
Net profit (RMB mn)	456	720	918	1,117
Adj. NP (RMB mn)	576	811	1,010	1,209
Adj. EPS (RMB)	0.086	0.107	0.127	0.152
YoY growth (%)	N/A	25	19	20
Consensus EPS (RMB)	N/A	0.104	0.131	0.162
Adj. P/E (x)	14.8	10.9	9.2	7.7
P/B (x)	1.6	1.2	1.1	1.0
Adj. ROE (%)	11.5	11.9	12.2	13.4

Source: Company data, Bloomberg, CMBIS estimates

Fig: Peers' valuation table

		Mkt Cap		Year		P/E (x)	
	Ticker	(US$ m)	Price	end	FY1	FY2	FY3
Higher Education services providers							
China Education	839 HK	4,110	14.06	Aug-20	18.0	14.7	12.6
Yuhua Education	6169 HK	1,989	4.61	Aug-20	9.7	8.4	7.6
Hope Education	1765 HK	1,437	1.40	Aug-20	10.9	9.2	7.7
Kepei Education	1890 HK	1,138	4.39	Dec-20	9.5	7.7	6.6
Cahtay Media	1981 HK	807	3.78	Dec-20	12.1	9.2	7.6
Edvantage	382 HK	815	5.91	Aug-20	11.7	8.4	6.7
New Higher Education	2001 HK	857	4.20	Aug-20	9.2	7.0	5.9
JH Educational Tech	1935 HK	412	2.00	Dec-20	8.8	7.9	na
Neusoft Education	9616 HK	454	5.30	Dec-20	10.9	8.3	7.0
Minsheng Education	1569 HK	645	1.19	Dec-20	6.9	5.8	4.8
Xinhua Education	2779 HK	372	1.80	Dec-20	6.3	5.0	4.3
Huali University	1756 HK	267	1.73	Aug-20	5.1	4.1	3.3
Average					**9.9**	**8.0**	**6.7**

Source: Bloomberg estimates, Company data, CMBIS estimates

Innovent Biologics (1801 HK): Growing into a global biopharma company

Rating: BUY **| TP:** HK$120.91 (63% upside)   Analysts: Jill Wu/ Sam Hu/ Jonathan Zhao

- **Investment Thesis:** Innovent is a leading integrated biopharma company with comprehensive innovative pipelines including mAbs, bsAbs, small molecules and CAR-Ts, covering oncology, autoimmune and metabolic diseases. Besides 5 marketed products (sintilimab, three biosimilars and pemigatinib), Innovent has 6 innovative drugs in pivotal clinical stage, including IBI306 (PCSK9 mAb), IBI310 (CTLA-4 mAb), IBI376 (PI3Kδ inhibitor), IBI326 (BCMA-CART), taletrectinib (ROS1/NTRK inhibitor) and HQP1351 (olverembatinib, 3rd-generation BCR-ABL TKI). In addition, Innovent has established a comprehensive innovative portfolio covering next-generation I/O targets, including CD47/SIRPα, TIGT, LAG3, 4-1BB, etc. It's worth noting that Innovent is an early mover in CD47-SIRPα pathway with three assets under development, including clinical-stage IBI188 (CD47 mAb) and IBI322 (PD-L1/CD47 bsAb), and preclinical stage IBI397 (AL008, SIRPα mAb). As the Company's major source of revenue during recent years, we expect Tyvyt to realize RMB5,974mn and US$1,565mn of peak sales in China and overseas markets, respectively.

- **Our View:** We expect Tyvyt, Byvasda (bevacizumab biosimilar), Sulinno (adalimumab biosimilar) and Halpryza (rituximab biosimilar) will contribute the majority of revenue in the near future. We forecast total revenue to reach RMB3,579mn/ RMB5,747mn/ RMB8,192mn in FY2021E/22E/23E, representing a YoY change of -7%/61%/43%, respectively. We forecast Tyvyt to contribute 80% of Innovent's total revenue in FY21E while the three biosimilars accounting for 20% of the total revenue.

- **Why do we differ vs consensus:** Although our FY21E/22E/23E revenue are -19%/-17%/-10% different from consensus, we are positive on the Company's growth, especially in its fast-growing sales from I/O therapies. With more and more products launch in the near future (commercialization of IBI375, IBI306, IBI310 and IBI376 in China during 2022-23E) and the NDRL inclusion of Tyvyt's large indications in 2021E, we are very optimistic on the Company's profitability.

- **Valuation:** We derive our target price of HK$120.91 based on a 15-year DCF valuation (WACC: 9.05%, terminal growth rate: 4.0%).

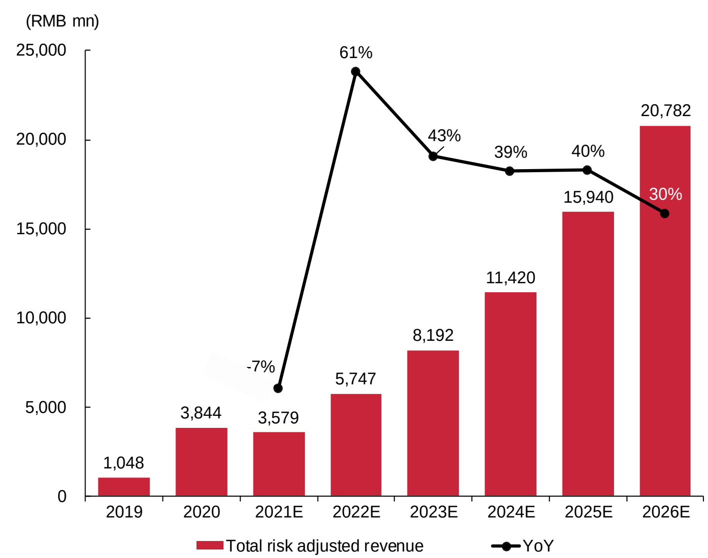
Link to latest report: Innovent Biologics (1801 HK) – Growing into a global biopharma company

Financials and Valuations

(YE 31 Dec)	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,579	5,747	8,192
YoY growth (%)	(7)	(61)	(43)
Net profit (RMB mn)	(1,399)	(857)	(125)
EPS (RMB)	(0.96)	(0.59)	(0.09)
Consensus EPS (RMB)	(0.84)	(0.22)	0.45
P/S (x)	8.0	8.2	7.8
ROE (%)	(12)	(7)	(1)
Net gearing (%)	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Revenue trend



Source: Company data, CMBIS estimates

China Pacific Insurance (2601 HK): Expect better-than-peers VNB momentum in 1H21

Rating: BUY **| TP:** HK$35.96 (57% upside)

Analyst: Gigi Chen

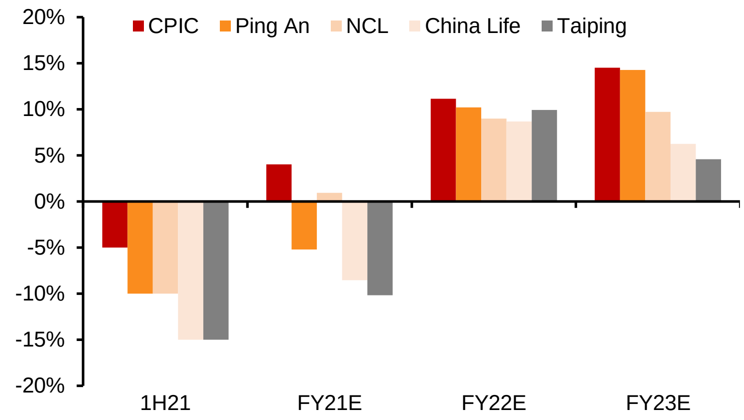
- **Investment Thesis:** We expect CPIC to report better-than-peers VNB (value of new business) momentum of 1H21 in late Aug, underpinned by improvement in agent productivity. We like CPIC for its continual focus on long-term regular pay business and agency force upgrade. We expect to see a recovery in new business growth into 2H21 and FY22, as (1) the agency force get trained to sell new critical illness products, (2) the higher capital requirement for short-term health insurance business under the upcoming C-ROSS 2.0 is likely to ease the pricing war in health insurance segment, (3) consumers gradually realize the insufficiency in health protection provided by Hui Min Bao and (4) a low base of 2H20. We also notice the insurer is progressing in technology deployment and innovation which will support growth and improve efficiency, in our view.
- **Long-term growth outlook remains intact:** The falling birth rate in China and the government's recent attention on demographic issues reconfirm our view that the long-term growth outlook of commercial life insurance remains intact. And we believe insurers with consistent focus on productivity and value will outperform amid the industry-wide agency transformation.
- **Catalysts:** (1) We expect CPIC to report better-than-peers VNB momentum of 1H21 on 29 Aug; (2) the new CEO of CPIC Life, Mr. John CAI has conducted his field research over the past months, and we expect to see new strategic initiatives from the management in 2H21.
- **Valuation:** Our PO is based on adjusted appraisal value under the assumptions of (1) 3.0% long-term investment return, (2) 11% risk discount rate, (3) 35% write-down of corporate bonds and non-standard debt investments and (4) 15x NB multiple. The stock is trading at 0.4x/0.3x FY21/22E P/EV or 0.8x/0.7x FY21/22E P/B, with attractive yield at above 7.5%. We believe the current valuation already priced in a worst case scenario, and the downside risk from here is low.

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
GWP (RMB mn)	362,064	379,880	404,464	428,514
YoY growth (%)	4.2	4.9	6.5	5.9
Total income (RMB mn)	418,964	422,765	451,759	480,925
Net profit (RMB mn)	24,584	27,441	30,243	32,957
EPS (RMB)	2.63	2.93	3.23	3.52
YoY Growth (%)	(14.14)	11.62	10.21	8.97
Consensus EPS (RMB)	N/A	2.88	3.30	3.79
P/B (x)	0.81	0.77	0.71	0.65
P/EV (x)	0.39	0.37	0.34	0.31
Yield (%)	6.95	7.62	8.40	9.15
ROE (%)	12.49	12.39	12.72	12.76

Source: Company data, Bloomberg, CMBIS estimates

Fig: Chinese insurers VNB growth forecasts



Source: Company data, Bloomberg, CMBIS estimates

Link to latest report: China Insurance – Transfer of Coverage; 1H21 preview: Worst case already priced in

Meituan (3690 HK): Investment on groceries to step up

Rating: BUY **| TP:** HK$383 (74% upside)

Analysts: Sophie Huang/ Miriam Lu

- **Investment Thesis:** We keep positive on Meituan Dianping ("MD")'s secular growth, and see high visibility for MD to continuously strengthen its local life leadership. **Our bear case analysis (excl. new biz valuation) indicates HK$180 as fundamental price floor, suggesting only 10%-15% downside.** Multiples might bear temporary pressure for sector de-rating amid new regulation environment, but we believe MD is well-positioned to capture long-term opportunities from rising online consumption, new initiatives benefits (e.g. community ecommerce), and digital operation.

- **Our View:** We expect Meituan to delivered in-line 2Q21 (rev +67% YoY, bottom line at RMB4.5bn) with full-year financials intact. We expect Food deliver on track, with rev +54% YoY and adj. OPM at 9%. 2H21 prudent monetization and profitability has been well guided, for its rider insurance cost. In-store rev +88% YoY in 2Q21E, while adj. OPM at 39%. One-off impact from Zhenzhou flooding and COVID uncertainty would be manageable. Groceries net loss to widen in 2Q21E, but well priced in recent price.

- **Why do we differ vs consensus:** Market concern lies on anti-trust law, social insurance impact, and potential threat from Douyin. We believe near-term concern have been priced in and more prudent monetization outlook was well-guided.

- **Catalysts:** 1) upcoming better-than-feared 2Q21 results ; 2) new initiatives to expand TAM (e.g. ride hailing); and 3) regulations overhang to lift.

- **Valuation:** Maintain BUY with SOTP-based TP of HK$383, implying 8x FY22E P/S. Valuation is attractive, given its 41% FY20- 23E rev CAGR and expanding TAM, in our view.

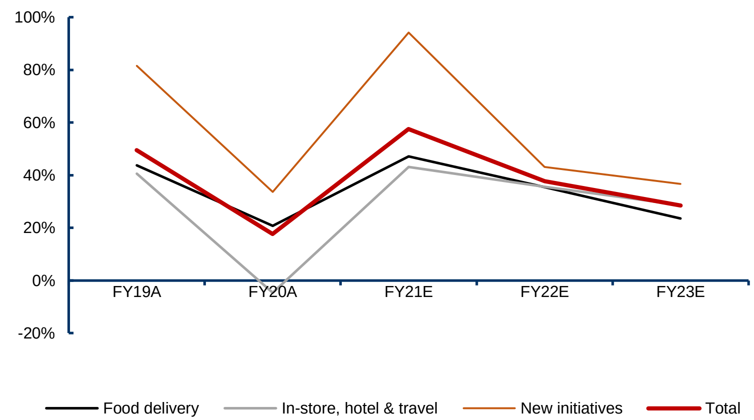
Link to latest report: Meituan (3690 HK) – Investment on groceries to step up

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	114,795	180,899	249,250	320,130
YoY growth (%)	18	58	38	28
Net income (RMB mn)	3,305	(20,285)	(1,237)	14,820
EPS (RMB)	0.52	(3.29)	(0.20)	2.27
YoY growth (%)	(34)	(733)	(94)	(1,264)
Consensus EPS (RMB)	N/A	(1.07)	1.38	4.12
P/E (x)	342	N/A	N/A	78
P/S (x)	9.8	6.1	4.4	3.6
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.0	(42.1)	(13.0)	11.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: MD's revenue growth estimates



Source: Company data, CMBIS estimates

Bilibili (BILI US): Users on track while investment continues

Rating: BUY **| TP:** US$142 (80% upside)

Analysts: Sophie Huang/ Miriam Lu

- **Investment Thesis:** We keep bullish on BILI's user expansion and monetization enhancement in the long run, backed by its vibrant & engaging community, unique PUGC content, strong user stickiness and enriched offerings. FY23E MAU target of 400mn intact, with all-age user group expansion and rising TAM. We expect ads momentum to continue in 2Q21E (+155% YoY), and new games to boost 2H21E game rev .

- **Our View:** Looking ahead, we expect MAU +1% QoQ in 2Q21E. BILI will see 2Q21E rev +63% YoY, in which game flat QoQ, ads/ VAS/ ecommerce & others +155%/102%/161% YoY. The delay of Artery Gear and Sword Art would negatively affect 2Q21 game momentum, but boost 2H21 grossing. We keep positive on its ads potential, backed by rising eCPM with integrated marketing efficiencies. Given its relatively low ads exposure in K12 education vertical, BILI's ads should be more defensive, in our view. GPM would decline 2ppts to 22% in 2Q21E for rev mix and content incentives, while opex ratio would be in-line.

- **Why do we differ vs consensus:** Market concern lies on regulations and rising content cost. BILI's stock price might see continuous volatility for sector de-rating, protection for young gamers, and live streaming regulation headwinds, but we are positive on its long-term topline outlook and user trend.

- **Catalysts:** 1) solid user metrics and topline in 2Q21E; and 2) new games to further boosting 3Q21E game rev.

- **Valuation:** Maintain BUY with TP of US$142, implying 11x FY22E P/S, backed by 26%/43% FY20- 23E MAU/rev CAGR.

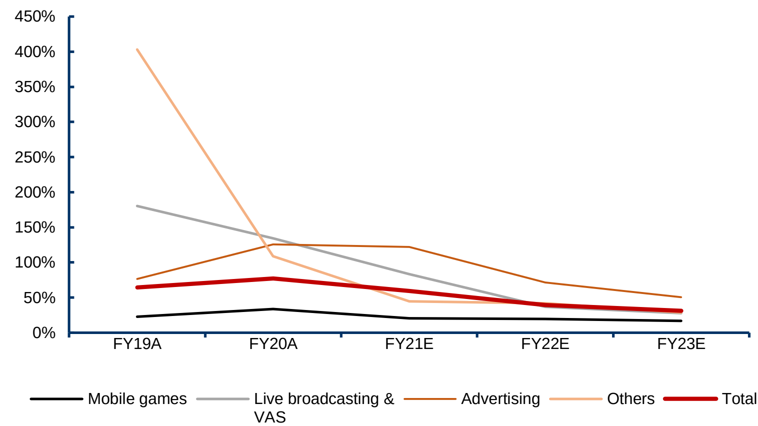
Link to latest report: Bilibili (BILI US) – Users on track while investment continues

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	11,999	19,100	26,627	34,862
YoY growth (%)	64	77	59	39
Net income (RMB mn)	(2,622)	(4,376)	(5,260)	(4,661)
EPS (RMB)	(7.46)	(13.71)	(15.26)	(13.39)
YoY growth (%)	N/A	N/A	N/A	N/A
Consensus EPS (RMB)	N/A	(10.85)	(7.71)	(3.23)
P/E (x)	N/A	N/A	N/A	N/A
P/S (x)	15.8	9.0	7.0	5.4
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	(38.56)	(22.01)	N/A	N/A
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: BILI's revenue growth estimates



Source: Company data, CMBIS estimates

CR Land (1109 HK): Rental income to ride on consumption recovery

Rating: BUY | **TP:** HK$44.79 (65% upside)

Analysts: Jeffrey Zeng

- **Investment Thesis:** In 2021, we favor 1) Names with high % of rent-bearing mall property: We expect a personal spending boom in 2021 on a) high deposit rate (1 - expenditure-to-income ratio) in 2020, b) wealth effect of the stock market, and c) the gradual distribution of COVID-19 vaccines. 2) "Borderline green-zone" names: Under current tight policy and stable market, sales growth depends on an increase in goods value, which in turn depends on an increase in corresponding debt. "Green-zone" (those meeting all three red lines) and "borderline green-zone" (those that can meet all three by YE20) names will have 5-10% edge in debt growth. Such a gap could widen given restricted land cost and rising sales GP margin.

- **Our View:** Investment highlights for CR Land are 1) 30%+ growth in mall rent collection in 2021, 2) CR City Phase IV boosting Shenzhen's sales share and overall GPM. 3) Spin-off of rent collection business to generate value. We see the promotion of CR City Phase IV in Dec 2020 and upcoming results announcement as major catalysts.

- **How do we differ:** Overall, we see the market as over-concerned on 1) further policy tightening and 2) decline in property demand. We think the high saving rate and wealth effect of 2020 would help drive consumption recovery, which would benefit major shopping mall runners in the property space (i.e. CR Land) to accelerate rental income growth.

- **Valuation:** The Company currently trades at 4.8x 2021E P/E vs. historical average of 9x. Moreover, the increase in revenue share of rent collection business could trigger re-rating: see Longfor (960 HK) which currently trades close to 10x 2021E P/E.

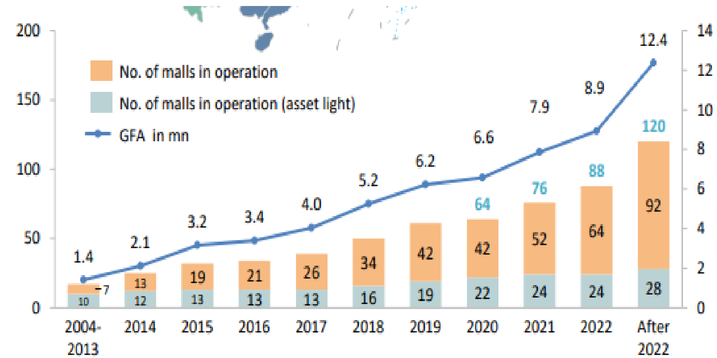
Link to latest report: China Property Sector – Better wait until 4Q to position the sector

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	147,736	179,587	242,568	271,335
YoY growth (%)	21.9	21.2	35.1	11.9
Net income (RMB mn)	28,672	29,810	31,809	34,666
EPS (RMB)	4.12	4.18	4.46	4.86
YoY growth (%)	17.7	1.5	6.7	9.0
Consensus EPS (RMB)	N/A	N/A	4.05	4.63
P/E (x)	5.2	5.1	4.8	4.4
P/B (x)	1.1	1.2	1.1	1.0
Yield (%)	4.0	3.8	4.6	5.1
ROE (%)	16.5	13.7	14.6	14.3
Net gearing (%)	30.3	32.1	31.6	34.4

Source: Company data, Bloomberg, CMBIS estimates

Fig: CR Land's opening plan



Source: Company data, CMBIS

CG Services (6098 HK): 13-20% earnings boost from Languang acquisition

Rating: BUY | **TP:** HK$91.2 (54% upside)

Analysts: Jeffrey Zeng

- **Investment Thesis:** We are very confident on its >RMB100bn revenue target by 2025E (50% CAGR) as 1) contracted GFA to exceed 1.3bn sq m in 2021E after acquiring Languang; 2) step into commercial property managements which is another blue sea; 3) fast-growing VAS via offering more comprehensive services (e.g. community group shopping, insurance) to increase VAS/sq m to RMB30; and 4) city services to further widen BtoG and BtoB business connection. As a result, we revise up 2021/22E earnings by 10-17% and lift TP to HK$91.2. Reiterate CGS as our Top Pick on growth visibility and VAS. **Catalysts**: 1H21 results beat

- **Our View:** We with high visibility as its parentco could achieve >70mn GFA sales per year. Unlike most players, CGS has turned its M&A focus to community VAS expansion, reflected in City-Media (elevator ads), Hopefluent (real estate agency) and Wenjin International (insurance) acquisitions. Together with CGS' own booming retail business (with the help of its Parentco sourcing), we believe expect managed GFA to grow at a stable 30% CAGR in 2019-2022E the Company would be the key winner in VAS growth.

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

- **Valuation:** We derive the target price of HK$91.2/share by using 35x 2022E PE based on the score card. It's currently trading at 21x 2022E PE and looks attractive. We think it will rerate after better-than-expected 1H21 results.

Link to latest report:

China Property Service Sector – Long-term thesis stays unchanged; Pair trade opportunities amid macro and parentco risks

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	9,645	15,600	27,265	39,683
YoY growth (%)	106.3	61.7	74.8	45.5
Net income (RMB mn)	1,671	2,686	4,649	6,479
EPS (RMB)	0.63	0.98	1.57	2.20
YoY growth (%)	69.8	55.7	61.3	39.4
Consensus EPS (RMB)	N/A	N/A	1.28	1,75
P/E (x)	74.7	48.0	30.0	21.4
P/B (x)	N/A	23.1	32.9	20.9
Yield (%)	N/A	0.3	0.7	1.0
ROE (%)	31.1	18.4	25.8	28.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: CGS has first-move advantage in VAS acquisitions

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

Source: Company data, CMBIS estimates

China Hongqiao (1378 HK): Waiting for 1H21 results

Rating: BUY **| TP:** HK$15.0 (53% upside)

Analyst: Robin Xiao

- **Investment Thesis:** CHQ was trading in range bound in Jul, despite the fact that aluminum price was approaching year high close to RMB20,000/tonne again. We still believe the strong aluminum pricing performance will sustain in 2H21E and 2022E, on the back of limited supply growth facing increasing demand. We think 1H21E results could be a near-term catalyst, and interim dividend yield will be attractive in view of recent market fluctuation. Key risk of our recommendation would be economy slow down, while could bring potential weakness in demand from real estate and transportation market. We maintain BUY rating with TP unchanged at HK$15.0.

- **Strong aluminum cycle to extend on tighten carbon emission.** We think primary aluminum supply will be tighten in 2021-23E, due to Chinese tightened carbon emission. We expect a capacity cap will sustain aluminum price to stay strong. We lift our FY21E ASP by 8.0% to RMB17,600/tonne.

- **Favorable position in green development**. We think CHQ is leading in the sector to shift 2.03mtpa from Shandong to Yunnan, making green electricity supply accounting for 31.4% of the Company's total capacity. We expect CHQ will be more comfortable than peers in responding to tightening environmental requirement in view for low carbon development in China in the coming few years.

- **Lifting FY21E earnings by 16.6% to RMB16.3bn.** Based on revised ASP and costs outlook, we lift our FY21-23E earnings projection by 16.6%-19.4% to RMB16.3/17.0/18.0bn respectively. We suggest investors not to over focus on short-term commodity pricing movement, but to pay more attention to longer term supply-demand and future growth logic. Trading at 5.0x FY21E P/E, we still see CHQ's valuation very attractive with potential dividend yield of 9.5%. Maintain BUY with TP unchanged at HK$15.0.

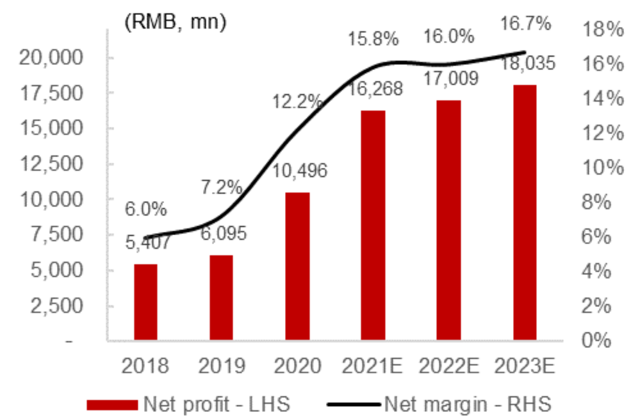
Link to latest report: China Hongqiao (1378 HK) – Aiming for long term growth

Financials and Valuations

(YE 31 Mar)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	86,145	102,925	106,455	108,185
YoY Growth （%）	2.33	19.48	3.43	1.62
Net Income (RMB mn)	10,496	16,268	17,009	18,035
EPS (RMB)	1.22	1.81	1.86	1.98
EPS CHG (%)	72.3	48.0	3.2	6.0
Consensus EPS (RMB)	1.12	1.60	1.77	2.26
PE (x)	6.6	4.9	4.7	4.5
PB (x)	0.80	0.69	0.62	0.56
Yield (%)	6.66	9.57	10.14	10.76
ROE (%)	15.2	19.5	18.1	17.4
Net gearing (%)	39.7	21.2	7.1	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: CHQ's net profit vs. net margin



Source: Company data, CMBIS estimates

BYDE (285 HK): Strong outlook with multiple drivers ahead

Rating: BUY | **TP:** HK$55.0 (39% upside)

Analysts: Alex Ng/ Lily Yang

- **Investment Thesis:** BYDE is the leading vertically integrated handset assembly/component supplier in China. Its major clients include Xiaomi, Apple, Oppo and other handset/PC brands. We believe BYDE will benefit from OEM industry consolidation, Apple/Xiaomi's supplier diversification strategy and strong demand from medical products in 2021-23E.

- **Our View:** We are positive on BYDE's product roadmap, share gain in major brands and expansion into medical segment (e-cigarette). 1) Xiaomi: We expect BYDE's EMS share allocation from Xiaomi to increase to 40% in FY21E from 10-20% in FY20E, and its revenue from Xiaomi will jump almost 3 times to RMB20bn in FY21E. 2) Apple: We believe BYDE will expand its iPad share allocation to 30-40% in 2021 (vs 20-30% for one model in FY20, and we estimate Apple revenue will jump 3 times in FY21E. As we believe Apple will continue to diversify component suppliers, we expect BYDE to gain share in iPhone/Watch ceramic products and also penetrate into iPad metal casing and front glass. We forecast Apple revenue will reach RMB50bn in FY23E.

- **Why do we differ vs consensus:** Our FY21-22E EPS are 17%/5% above consensus given faster share gain and better margin.

- **Catalysts:** Near-term catalysts include faster share gain and Xiaomi/Apple product launches.

- **Valuation:** Our prior SOTP-based TP of HK$55.0 implies 17.9x FY21E P/E, which reflect BYDE's business diversification with different growth profiles and visibility.

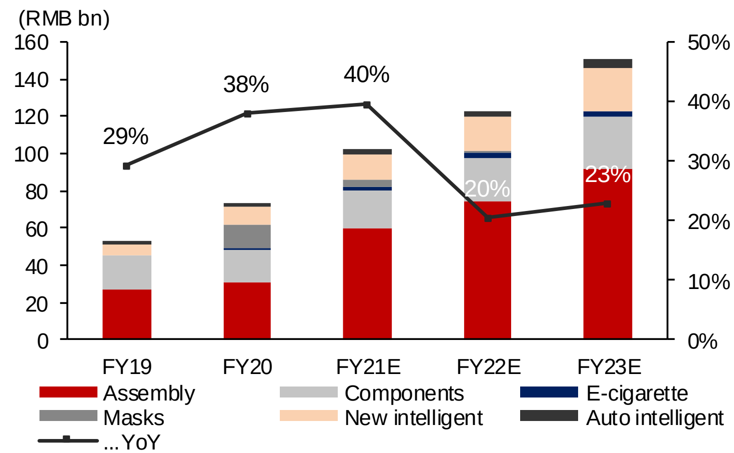
Link to latest report: BYDE (285 HK) – Expect margin pressure to ease ahead; Maintain BUY

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	73,121	102,033	122,932	151,077
YoY growth (%)	37.9	39.5	20.5	22.9
Net profit(RMB mn)	5,441	5,756	6,404	7,448
EPS (RMB)	2.41	2.55	2.84	3.31
YoY growth (%)	240.6	5.8	11.3	16.3
Consensus EPS (RMB)	2.45	2.19	2.71	3.19
P/E (x)	13.9	13.1	11.8	10.1
P/B (x)	5.0	4.0	3.3	2.8
Yield (%)	0.7	0.8	0.8	1.0
ROE (%)	24.9	21.3	19.5	18.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: BYDE Revenue trend



Source: Company data, CMBIS estimates

ZTE (763 HK): Best proxy of global 5G momentum

Rating: BUY **| TP:** HK$28.14*

Analysts: Lily Yang/ Alex Ng

- **Investment Thesis:** We believe global 5G deployment will accelerate in FY21-22E following COVID-19 delay, and ZTE is well leveraged to benefit from multi-year 5G investment cycle. We are positive on ZTE's outlook driven by strong 5G product portfolio, global share gain, solid R&D capability and improving profitability.

- **Our View:** ZTE is our top pick for telco supply chain. For 2021, we expect ZTE to continue to benefit from share gain/5G rollout in China, 4G upgrade in Asia and optical network upgrade in Europe. We expect revenue to grow 15% YoY in FY21E, driven by domestic carrier business (+16%) and gov./enterprise business (+24%). We expect GPM to improve to 33.9% vs. 31.6% in FY20, thanks to improving cost structure and self-developed chips from Sanechip. We expect next batch of 5G BTS tender to kick off in late March/April, and we estimate China telco capex in 2021 will grow at mid-to-low single digit. We think ZTE's 5G market share in China will expand to 35% in 2021/22 (vs 31% in 2020), given ZTE's stronger product positioning and cost advantage for 5G network rollout in 2nd/3rd tier cities. In addition, on the back of global tech decoupling and localization in China, we are positive on Sanechips (中兴微电子)'s self-developed chips to help improve technology sufficiency and optimize cost structure in the long term.

- **Why do we differ vs consensus:** Our FY20-22E EPS is slightly higher than consensus and we think upcoming catalysts of 5G BTS tenders and rapid overseas recovery will boost share price in near term.

- **Catalysts:** Near-term catalysts include China 5G BTS tenders.

- **Valuation:** Our TP of HK$28.14 is based on 17.5x FY21E P/E, in-line with 2-year historical forward P/E.

Link to latest report: ZTE-H (763 HK) – 1Q21 confirmed GPM recovery on track; Reiterate BUY

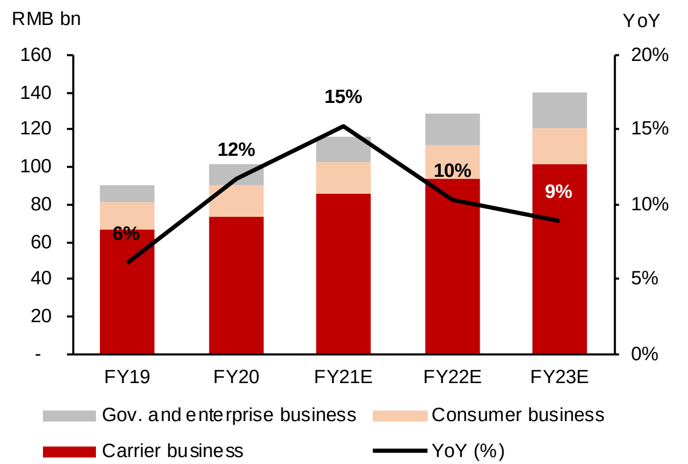
*TP under review

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	101,451	116,995	129,070	140,524
YoY growth (%)	11.8	15.3	10.3	8.9
Adj. Net profit(RMB mn)	4,260	6,181	7,097	8,903
Adj. EPS (RMB)	0.92	1.34	1.54	1.93
YoY growth (%)	(24.8)	45.6	14.8	25.4
Consensus EPS (RMB)	0.99	1.28	1.55	1.79
P/E (x)	21.2	14.6	12.7	10.1
P/B (x)	2.1	1.9	1.7	1.5
Yield (%)	0.8	1.1	1.3	1.6
ROE (%)	11.8	13.5	13.9	15.6
Net gearing (%)	43.8	50.1	50.5	41.8

Source: Company data, Bloomberg, CMBIS estimates

Fig: ZTE Revenue trend



Source: Company data, CMBIS estimates

Hikvision (002415 CH): Intelligent camera leader

Rating: BUY **| TP:** RMB80.00 (34% upside)

Analyst: Marley Ngan

- **Investment Thesis:** Hivision is more than a surveillance camera provider as camera applications are expanded by embedding AI/ sensor technology. Hikvision products cover 70 industries and EBG (enterprise) is replacing PBG (public security) as the new growth driver. We expect Hikvision to deliver 22% net profit CAGR in FY20-23E.

- **Our View:** We like Hikvision for its camera technology leadership and continuous margin improvement. Given diversified customer mix, Hikvision can achieve stable growth and face less policy risk. Hikvision Innovative business segments (smart home products/ robotics/ thermal/ x-ray products etc.) is gaining traction, revenue was up +122% YoY to RMB5.6bn in FY1H21 and contributed 16% of total revenue. Gross margin is also improving (+3.1 pct pts to 41.6% in FY1H21), narrowing the gap with core surveillance GPM of 47.2%.

- **Why do we differ vs consensus:** Hikvision has adopted high inventory level strategy since Hisilicon ban in 2019. This helps secure customers and gain market share amid global raw material shortage, especially for SMBG (SME customers) and overseas business.

- **Catalysts:** Accelerating enterprise digitalization, public security projects bidding grow faster than expected.

- **Valuation:** We derive our target price of RMB80.00 on 36x FY22E P/E, 50% above its 3-year mean. Hikvision deserves re-rating as 1) supply chain risk is mitigated after two years of product re-design and 2) strong growth in innovative business proves Hikvision transformation to an intelligent camera solution provider.

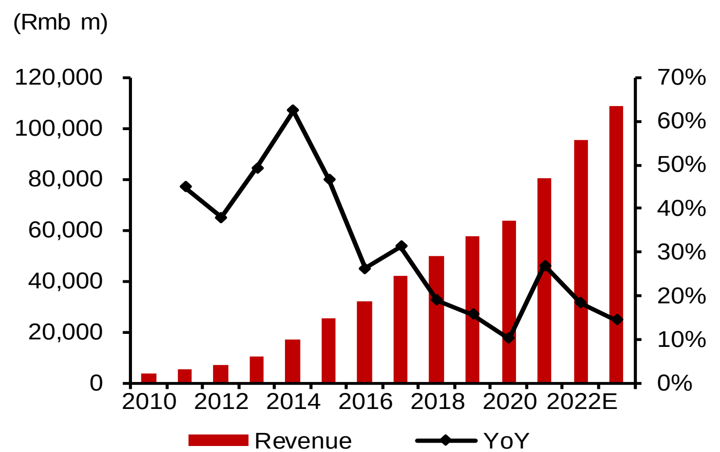
Link to latest report: Hikvision (002415 CH) – Innovative business gaining momentum

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	63,503	80,603	95,313	109,022
YoY growth (%)	10	27	18	14
Net profit (RMB mn)	13,386	16,969	20,747	24,187
EPS (RMB)	1.43	1.82	2.22	2.59
YoY growth (%)	8	27	22	17
Consensus EPS (RMB)	1.43	1.79	2.16	2.55
PE (x)	43.0	33.9	27.7	23.8
PB (x)	10.7	9.1	7.7	6.6
Dividend Yield (%)	0.01	0.01	0.02	0.02
ROE (%)	27	29	30	30
Net debt to equity	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Hikvision revenue and YoY growth



Source: Company data, CMBIS estimates

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