CMBI Research Focus List

Our best high conviction ideas

11 July 2023

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) FY23E	P/E (x) FY24E	P/B (x) FY23E	ROE FY23E	Yield FY23E	Analyst
Long Ideas														
Li Auto Inc.	LI US	Auto	BUY	37.4	212.9	35.9	44.0	23%	44.9	24.6	N/A	10.4	N/A	Shi Ji/ Dou Wenjing
Great Wall Motor	2333 HK	Auto	BUY	24.8	38.8	9.5	12.0	27%	13.7	12.9	1.1	8.5	2.8%	Shi Ji/ Dou Wenjing
SANY International	631 HK	Capital Goods	BUY	4.2	7.3	10.3	16.2	58%	11.9	9.0	2.5	22.1	2.6%	Wayne Fung/ Katherine Ng
Zhejiang Dingli	603338 CH	Capital Goods	BUY	4.0	24.8	57.0	67.0	18%	19.6	15.9	3.5	19.2	1.0%	Wayne Fung
CR Power	836 HK	Energy	BUY	11.0	29.8	18.0	23.2	29%	7.0	5.9	0.9	14.1	N/A	Megan Xia/ Jack Bai
CR Gas	1193 HK	Gas	BUY	7.4	14.6	25.1	39.0	56%	9.7	8.6	1.5	12.3	N/A	Megan Xia/ Jack Bai
Atour	ATAT US	Consumer Discretionary	BUY	2.4	6.6	18.1	21.8	21%	27.8	17.2	8.9	38.3	0.0%	Walter Woo
Midea	000333 CH	Consumer Discretionary	BUY	55.0	214.7	56.6	66.7	18%	12.0	11.0	2.4	21.8	3.4%	Walter Woo
Yum China	9987 HK	Consumer Discretionary	BUY	23.8	15.8	446.4	595.2	33%	25.6	20.6	N/A	12.0	1.2%	Walter Woo
CR Beer	291 HK	Consumer Staples	BUY	20.1	51.2	48.5	77.4	60%	27.0	24.1	4.9	18.5	1.5%	Joseph Wong
Tsingtao	168 HK	Consumer Staples	BUY	15.8	29.7	69.0	92.9	35%	17.3	14.4	2.8	16.0	3.7%	Joseph Wong
Prada SpA	1913 HK	Consumer Staples	BUY	18.6	7.4	57.0	72.1	27%	26.0	23.7	4.0	16.0	2.3%	Joseph Wong
Kweichow Moutai	600519 CH	Consumer Staples	BUY	297.0	548.7	1709.0	2440.0	43%	32.1	28.7	10.2	31.9	1.3%	Joseph Wong
Innovent Biologics	1801 HK	Healthcare	BUY	6.0	29.6	30.4	50.3	66%	N/A	N/A	N/A	N/A	N/A	Jill Wu/ Andy Wang
AK Medical	1789 HK	Healthcare	BUY	1.0	3.5	7.1	12.3	73%	32.1	23.8	N/A	11.1	80.0%	Jill Wu/ Cathy Wang
AIA	1299 HK	Insurance	BUY	115.2	186.5	78.1	118.0	51%	N/A	N/A	N/A	18.2	2.3%	Gigi Chen/ Nika Ma
Tencent	700 HK	Internet	BUY	407.3	821.7	333.0	455.0	37%	N/A	N/A	N/A	N/A	N/A	Saiyi He/ Wentao Lu/ Frank Tao
Pinduoduo	PDD US	Internet	BUY	88.7	609.0	70.1	109.0	55%	24.4	17.4	4.9	23.4	N/A	Saiyi He/ Frank Tao/ Wentao Lu
NetEase	NTES US	Internet	BUY	62.8	108.5	97.4	123.0	26%	17.9	16.3	N/A	N/A	N/A	Saiyi He/ Wentao Lu/ Frank Tao
Alibaba	BABA US	Internet	BUY	234.1	1729.9	90.6	156.6	73%	23.0	14.1	N/A	7.4	N/A	Saiyi He/ Frank Tao/ Wentao Lu
Kuaishou	1024 HK	Entertainment	BUY	30.0	138.0	54.1	97.0	79%	54.0	23.0	N/A	N/A	0.0%	Sophie Huang
CR Land	1109 HK	Property	BUY	29.2	44.4	32.1	45.1	40%	7.1	6.1	0.9	13.3	4.3%	Miao Zhang/ Nika Ma
BOE Varitronix	710 HK	Technology	BUY	1.2	2.9	12.1	23.7	96%	15.0	11.7	1.2	16.1	2.0%	Alex Ng/ Lily Yang
Wingtech	600745 CH	Technology	BUY	8.5	193.7	49.7	88.6	78%	17.4	13.2	N/A	8.6	0.7%	Lily Yang/ Alex Ng
Kingdee	268 HK	Software & IT services	BUY	4.7	20.0	10.7	23.3	118%	N/A	N/A	N/A	N/A	0.0%	Marley Ngan

Source: Bloomberg, CMBIGM, Price as of 11/7/2023, 10:30 am

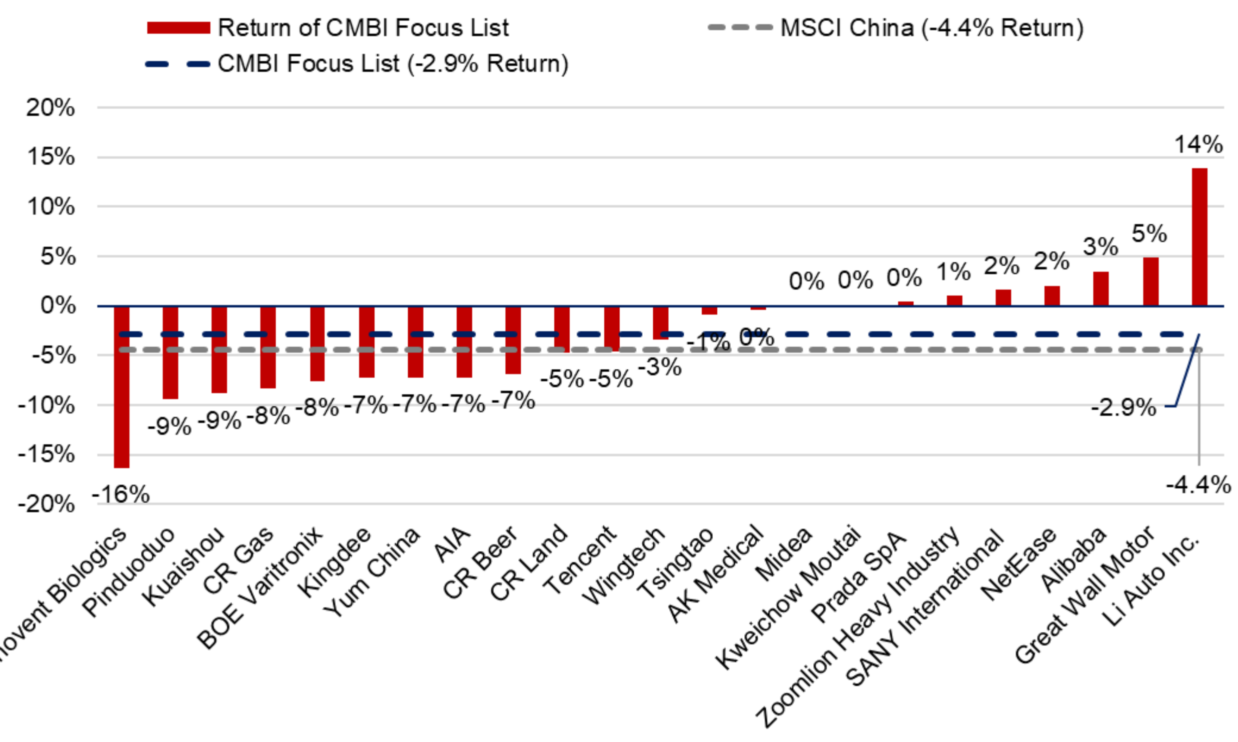
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
Zhejiang Dingli	603338 CH	Capital Goods	BUY	Wayne Fung/ Katherine Ng	We expect the listing of Horizon Construction, Dingli's major customer, will boost upcoming orders on AWPs. Besides, we expect meaningful improvement of gross margin in overseas.
CR Power	836 HK	Energy	BUY	Megan Xia/ Jack Bai	Electricity sales volume may rise in summer. We expect the electricity demand in China will rebound significantly in 2023. The drop in domestic and imported thermal coal prices will be favorable for the thermal power segment's profit improvement. Spin-off of new-energy segment and A-share listing will unleash potential value in the long term. The valuation is attractive.
Atour	ATAT US	Consumer Discretionary	BUY	Walter Woo	We are cautious about 2H23E, but peak season tourism demand could still be strong, and Atour should outperform due to its leading customer satisfaction. Moreover, its guidance and valuation are both conservative enough.
Deletions					
Zoomlion Heavy Industry	1157 HK	Capital Goods	BUY	Wayne Fung	We see a lack of catalysts in the near term.

Source: CMBIGM

Performance of our recommendations

- In our last report dated 13 June, we highlighted a list of 23 long ideas.
- The basket (equal weighted) of these 23 stocks outperformed MSCI China index by 1.5ppt, delivering -2.9% return (vs MSCI China -4.4%).
- 6 of these stocks delivered positive return, and 12 of our 23 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIGM; Note: Stock performance from 13 Jun 2023 to 10 Jul 2023

Long Ideas

Li Auto Inc. (LI US): NP to rise QoQ in FY23E

Rating: BUY | **TP:** US$44.00 (23% upside)

Analysts: Shi Ji/ Dou Wenjing

- **Investment Thesis.** We project Li Auto's net profit to rise 27% QoQ to RMB 1.2bn in 2Q23E. Profitability in FY24E could also beat expectation on greater economies of scale. Apart from its products, we like the Company's high self-discipline in costs and business expansion even as it is much more resourceful than before.

- **2Q23E preview.** We project Li Auto's 2Q23E revenue to more than triple YoY to RMB 27.9bn, as its sales volume beat guidance. We expect its gross margin to widen QoQ and SG&A ratio to decline QoQ amid greater economies of scale, which result in an operating margin of 2.6% in 2Q23E (vs. 2.2% in 1Q23). Accordingly, we estimate its net profit to rise 27% QoQ to RMB 1.2bn in 2Q23E.

- **2H23E outlook**. Our FY23E sales-volume forecast of 0.33mn units implies an average monthly sales of about 32,000 units in 2H23E. Greater economies of scale and the phase-out of the aging Li One could lead to a better gross margin in 2H23E, in our view. We project Li Auto's FY23E operating and net margins to be 3.3% and 4.5%, respectively. We expect Li Auto's FY23E net profit to be RMB 5.0bn, or RMB 2.9bn for 2H23E.

- **FY24E earnings could beat, should BEVs be well received.** We expect 6-7 models on sale for Li Auto in 2024, up from three now. Although the key differentiation between its EREV and BEV models is still unclear, we are of view that the pricing for the Mega (the first BEV) and daily commute NOA are good strategies. We project FY24E sales volume to rise 36% YoY to 0.45mn units, taking rising competition, product cannibalization from the L6 EREV and BEV uncertainties into consideration.

- **Valuation.** We maintain our BUY rating and target price of US$ 44.00, based on 35x FY24E P/E. We believe such valuation is justified given that Tesla (TSLA US, NR) now trades at 50x FY24E consensus P/E and BYD-H (1211 HK, HOLD) trades at 30x our FY24E P/E. We expect Li Auto to enjoy the highest sales-volume growth rate among the three.

Link to latest report:

Li Auto Inc. (LI US) – 2Q23 earnings preview: NP to rise QoQ in FY23E

China Auto Sector - 2023 Outlook: A critical year for long-term survival

Financials and Valuations

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E
Revenue (RMB mn)	27,010	45,287	111,870	150,800
YoY growth (%)	186	68	147	35
Net income (RMB mn)	(321)	(2,012)	5,011	9,216
EPS (RMB)	(0.2)	(1.0)	2.6	4.7
YoY growth (%)	N/A	N/A	N/A	83.9
P/S (x)	7.2	4.9	2.0	1.5
P/E (x)	(608.7)	(110.5)	44.9	24.6
Yield (%)	N/A	N/A	N/A	N/A
ROE (%)	(0.9)	(4.7)	10.4	16.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Great Wall Motor (2333 HK): Surging PHEV sales at cost of FY23E net profit

Rating: BUY **| TP:** HK$12.00 (27% upside)

Analysts: Shi Ji/ Dou Wenjing

- **Investment Thesis.** We expect Great Wall's FY23E net profit to be significantly lower than current consensus, dragged by rising PHEV sales starting from 2Q23. However, Investors would pay more attention to its NEV sales growth than profitability this year. We expect its NEV market share to surpass the industry average in 4Q23E, which could be a positive catalyst for its share price.

- **2Q23E preview.** We project 2Q23E net profit to be RMB 67mn. We project Great Wall's revenue to rise 45% YoY in 2Q23E, driven by 27% YoY sales-volume growth and 12% YoY ASP increase. We expect 2Q23E GPM to narrow by 2.4 ppts QoQ to 13.7% amid higher PHEV sales and wider discounts. Therefore, SG&A cost reduction would be a key to Great Wall's net profit in 2Q23. We project its R&D, SG&A and business tax combined to be 14.4% of revenue, significantly lower than 17.2% in 1Q23, due to higher revenue and cost control. Accordingly, we estimate Great Wall's 2Q23E net profit to fall 61% QoQ to RMB 67mn.

- **Rising NEV penetration at a cost of FY23E net profit.** Our FY23E net profit of RMB 1.6bn, implies 2H23E NP of RMB 1.4bn, as we project 2H23E GPM to be at a similar level as 2Q23E, assuming little pricing deterioration and PHEV sales ramp-up to lift GPM in 2H23E. We also expect the automaker to cut its SG&A and even R&D expenses for better profitability. We estimate Great Wall's NEV sales volume in FY23E to more than double YoY to 0.32mn units, or 26% of our projected total sales volume (1.25mn units), or 31% of its total passenger-vehicle (PV) sales volume. We expect Great Wall's NEV market share to surpass the industry average in 4Q23E, which could be a positive catalyst for its share price.

- **Valuation.** We maintain our BUY rating and target price of HK$12.00, based on 20x our FY24E P/E. We believe FY23 could be a transition period for Great Wall's electrification especially for PHEVs, and a higher valuation is justified, should Great Wall succeed in EV transformation.

Link to latest report:

Great Wall Motor (2333 HK) – Surging PHEV sales at cost of FY23E net profit

China Auto Sector – When will discounts peak after rising for 8 months

Financials and Valuations

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E
Revenue (RMB mn)	136,405	137,340	176,585	200,446
YoY growth (%)	32.0	0.7	28.6	13.5
Net income (RMB mn)	6,726	8,266	5,728	6,140
EPS (RMB)	0.73	0.91	0.65	0.69
YoY growth (%)	25.4	22.9	(30.7)	7.2
P/E (x)	11.3	9.8	13.7	12.9
P/B (x)	1.2	1.2	1.1	1.1
Yield (%)	1.6	2.5	2.8	2.9
ROE (%)	11.3	13.0	8.5	8.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

SANY International (631 HK): Firing on all cylinders

Rating: BUY **| TP:** HK$16.2 (58% upside)

Analysts: Wayne Fung/ Katherine Ng

- **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, the expansion in lithium battery equipment and oil & gas equipment will serve as new growth drivers. We expect SANYI will further tap into solar and hydrogen equipment starting in 2H23E.

- **Our View:** We expect a strong year in 2023E: (1) Surprising demand for new mining trucks with diesel-electric hybrid power which we expect will generate RMB0.8bn/RMB1.5bn in 2023E/24E; (2) Wide-body mining truck to see both volume and ASP growth; (3) Earnings contribution from the completion of oil & gas equipment starting 2H23E (deal approved last week by shareholders).

- **Why do we differ vs consensus:** Our earnings forecast in 2023E/24E is 8%/11% above consensus. We see further upside to our forecast given the strong backlog and cost reduction.

- **Catalysts:** (1) Launch of new products; (2) potential announcement of new business in solar and hydrogen equipment segments

- **Valuation:** Our TP is HK$16.2 (based on 19x 2023E P/E, equivalent to high end of the trading range since the upcycle starting in 2017).

Link to latest report:

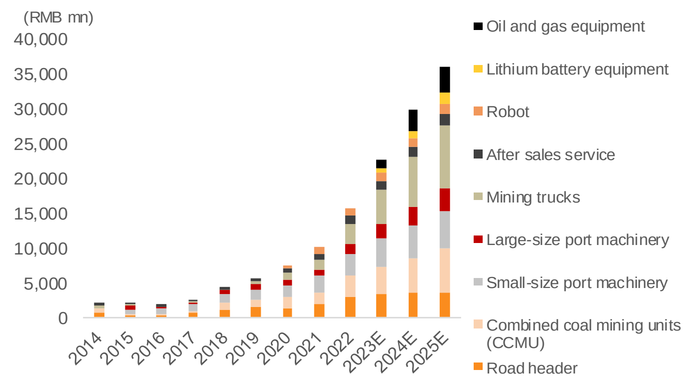
SANY International (631 HK) – Firing on all cylinders

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	15,537	22,695	29,924	35,935
YoY growth (%)	52.4	46.1	31.9	20.1
Core net income (RMB mn)	1,665	2,434	3,227	3,875
Core EPS (RMB)	0.53	0.77	1.03	1.23
YoY growth (%)	53.2	46.2	32.6	20.1
Consensus EPS (RMB)	N/A	0.71	0.92	1.23
EV/EBITDA (x)	11.3	7.6	5.8	4.9
P/E (x)	16.7	11.9	9.0	7.5
P/B (x)	2.8	2.5	2.0	1.7
Yield (%)	1.9	2.6	3.4	4.1
ROE (%)	17.8	22.1	24.5	24.4
Net gearing (%)	Net cash	16.3	12.7	0.3

Source: Company data, Bloomberg, CMBIGM estimates

Fig: SANYI's revenue breakdown



Source: Company data, CMBIGM estimates

Zhejiang Dingli (603338 CH): Margin expansion in 23E;Volume growth in 24E

Rating: BUY **| TP:** RMB67.0 (18% upside)

Analyst: Wayne Fung

- **Investment Thesis:** We believe aerial work platform (AWP) is in a structural growth trajectory as the rising labor cost in China will make AWPs incrementally cost competitive compared with the traditional scaffolding. Besides, overseas demand is very strong at present, driven by replacement demand and new factories construction. We believe Zhejiang Dingli remains a major beneficiary given its global presence, cost competitiveness, brand recognition and strong management execution.

- **Our View.** We believe the listing of **Horizon Construction (9930 HK, BUY)**, the major customer of Dingli in China market, will enhance the visibility of Dingli's AWP orders over the coming 1-2 years. Besides, we expect Dingli to deliver accelerating sales volume growth in 2024E upon the commencement of smart factory with annual capacity of 4,000 units of AWP. On the margin side, given the high overseas revenue (>50%), we expect Dingli to deliver meaningful gross margin expansion driven by the decline in freight rate and steel cost, as well as the appreciation of foreign currency against RMB.

- **Why do we differ vs consensus:** Our earnings forecast in 2023E/24E is -2%/2% versus consensus, as we expect growth to accelerate in 2024E given by new capacity.

- **Catalysts:** (1) The release of 1H23E results; (3) recovery of China demand.

- **Valuation:** We set our TP at RMB67, based on 23x 2023E P/E (on the back of 23% earnings growth in 2024E). Our target multiple remains well below the historical average of 31x.

Link to latest report:

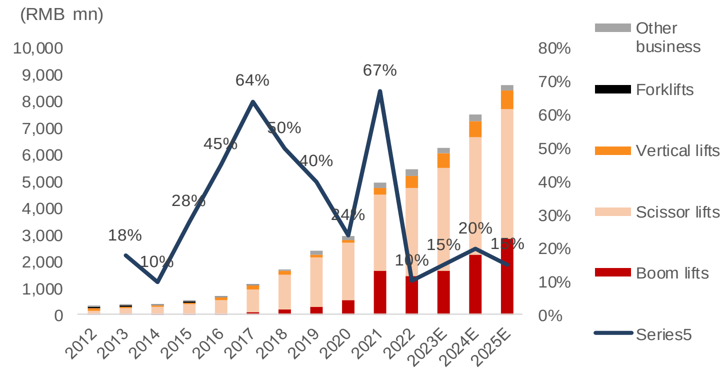
Zhejiang Dingli – Margin expansion in 23E; Volume growth in 24E

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,445	6,251	7,488	8,620
YoY growth (%)	10.2	14.8	19.8	15.1
Net income (RMB mn)	1,257	1,472	1,814	2,136
EPS (RMB)	2.48	2.91	3.58	4.22
YoY growth (%)	36.3	17.0	23.3	17.7
Consensus EPS (RMB)	N/A	1.86	2.44	3.12
EV/EBIDTA (x)	21.6	15.8	12.6	10.8
P/E (x)	22.9	19.6	15.9	13.5
P/B (x)	4.1	3.5	2.9	2.5
Yield (%)	0.9	1.0	1.3	1.5
ROE (%)	19.3	19.2	20.1	20.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Dingli's revenue breakdown



Source: Company data, CMBIGM estimates

CR Power (836 HK): Unlock potential value

Rating: BUY **| TP:** HK$23.2 (29% upside)

Analysts: Megan Xia/ Jack Bai

- **Investment Thesis**: CRP is now trading at around 0.9x FY23E PB. We stay optimistic about CRP's profit improvement of thermal power business and the new energy business, considering: 1) active signing of long-term coal contracts with higher implementation rate; 2) lower domestic thermal coal cost and imported coal prices;3) better thermal power tariff based on electricity market reforms; 4) resilient growth momentum of CRP's new energy segment and strengthen installation willingness as lower upstream cost of wind and solar power; and 5) spin-off of its new energy business to A shares will unlock the CR Power's valuation. **Maintain BUY.**

- **Our View:** We estimate the total domestic electricity consumption will rebound and the lower upstream cost of thermal power and new energy power will benefit power operators profit. For CR power, we think the valuation is still attractive based on the optimistic fundamentals as follows: 1) New energy business: CR Power targets to have 7,000 MW of newly-added installed capacity of wind and solar power in 2023. Lower upstream wind and solar power enables CRP to have higher installation willingness. In addition, CR Power has announced a spin-off of its new energy business to A shares and unleash potential value. 2) Thermal power segment: The recent drop in thermal coal prices is expected to improve the company's thermal power business profits and lower costs. Besides, flexible thermal power tariff policy enables power operators to better reflect and digest the changes of thermal coal cost.

- **Valuation:** CR power is trading at 0.90x/0.81x PB for FY23/24E, which is lower than its peers' avg. PB of 1.4x/1.2x. The valuation is attractive. We arrive at a SOTP-based TP of HK$23.2 with BUY rating, based on 1.4x FY23E PB of renewable segment (~peers avg.PB of 1.4x in FY23E) and 0.7x FY23 forward PB of thermal segment (~peers avg.PB of around 0.8x in FY23E). **Risks:** 1）the progress of cost-cross measures are slower-than-expected; 2) fluctuation of upstream gas cost.

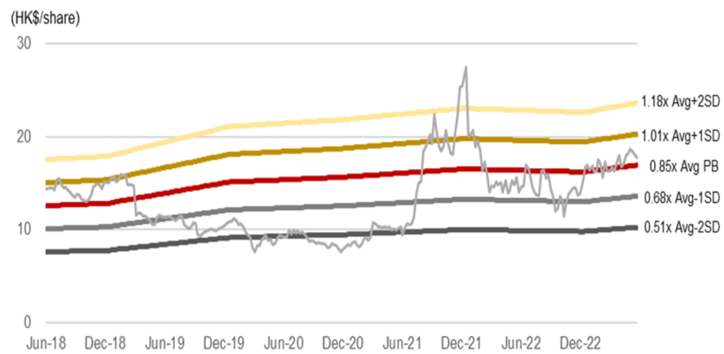
- **Link to latest report**: CR Power (836 HK) – Unlock potential value

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (HK$ mn)	103,305	112,940	121,074	129,603
Net profit (HK$ mn)	7,042.5	12,299.3	14,803.9	17,634.0
EPS (Reported) (HK$)	1.46	2.56	3.08	3.67
YoY growth (%)	342.2	74.6	20.4	19.1
Consensus EPS (HK$)	1.46	2.45	2.94	3.31
P/E (x)	5.4	7.0	5.9	5.1
P/B (x)	0.7	0.9	0.8	0.7
ROE (%)	8.3	14.1	15.3	16.4

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CRP's PB band



Source: Company data, CMBIGM

CR Gas (1193 HK): Attractive valuation

Rating: BUY **| TP:** HK$39.00 (56% upside)

Analysts: Megan Xia/ Jack Bai

- **Investment Thesis:** CRG is now trading at around 10x FY23E PE, and the valuation is still attractive. Despite market slightly worry about the domestic apparent gas consumption of Jan-May was lower-than-expected, we stay neutrally optimistic about CRG based on the recent data : 1) the commercial gas sales of Apr-May rebound to around 20% YoY; 2) CRG's dollar margin improved to RMB0.52/cbm in May, while the accumulated dollar margin of Jan-May achieved RMB0.47-0.48/cbm;3) solid growth momentum of CRG's value-added services and comprehensive energy segment continues; and 5) superior financial resilience. Maintain BUY.

- **Our View:** We stay optimistic about CR Power's profit improvement：1）The commercial gas sales growth of Apr and May improved to high double digit growth respectively; 2) For dollar margin, the positive residential cost-cross policies are actively releasing(CRG's residential clients base is huge), and its total dollar margin is expected to improve to RMB0.5/cbm in 2023; 3) We expected CRG's new residential users will be 3.5mn; 4) The comprehensive service business maintains robust growth. 5) CRG actively develops the comprehensive energy business. Thus, we regard the valuation as attractive.

- **Valuation:** For 2023, considering the gas demand recovery and lower gas cost, we forecast CRG's total gas sales volume will achieve low-double-digit growth and dollar margin will rebound to RMB0.5/cbm. Additionally, we expect CRG's comprehensive service to continue resilient growth. CRG is trading at around 10x PE in FY23E, close to -1SD of its 3-year historical average PE. The valuation is still attractive. We maintain our TP at HK$39, based on 13x FY23E PE (~close to 3-year avg.PE) and FY23E EPS of HK$2.99/share. Reiterate a BUY rating.

- **Risks:** 1) the progress of cost-cross measures are slower-than-expected; 2) fluctuation of upstream gas cost.

Link to latest report:

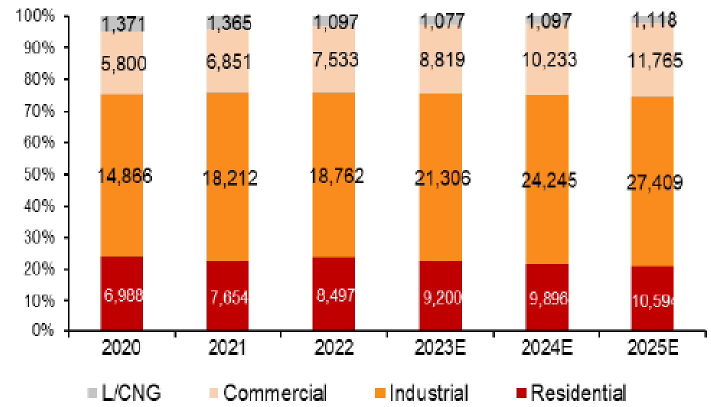
CR Gas (1193 HK) – Expect 2023 profit rebound ahead; attractive valuation

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (HK$ mn)	94,338	102,389	108,317	116,640
Net profit (HK$ mn)	4,733.5	6,775.4	7,661.9	8,384.5
EPS (Reported) (HK$)	2.09	2.99	3.38	3.70
Diluted EPS (HK$)	2.09	2.99	3.38	3.70
Consensus EPS (HK$)	2.77	3.03	3.39	3.61
P/E (x)	15.2	9.7	8.6	7.8
P/B (x)	1.8	1.5	1.4	1.3
ROE (%)	8.9	12.3	12.5	12.4

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CRG's gas sales volume mix (2020-25E)



Source: Company data, CMBIGM

Atour (ATAT US): Top-rated & fast-growing with the right strategy

Rating: BUY **| TP:** HK$21.83 (21% upside)

Analyst: Walter Woo

- **Investment Thesis:** We still believe hotel industry (esp. mid to upscale segment) is in the upcycle (despite high base and weakening demand in near term), because of its structurally limited supply. Atour is the largest hotel group in upper midscale hotel group in China with ~10% market shares in 2021. It has six brands (A.T. House/ Atour S/ Z Hotel/ Atour/ Atour X/ Atour Light), 932 hotels with over 100K rooms in FY22.

- **Our View:** We believe 1) China manufacturing PMI contraction (below 50) in 2Q23 vs 1Q23 and 2) RevPAR recovery slowdown in Jun 2023 (CMBI est. of 100%+) vs ~130% during Labour day 2023 had led to recent retreat in share prices (earning cuts and de-rating). But we are still cautiously positive about 2H23E, as we expect Atour to deliver YoY improvement in recovery rate (CMBI est. at ~100% vs 84% in 2H22), supported by its 1)"standardized" approach to personalized services, 2) younger focus and customer-centric culture and 3) localization strategy. We also think its guidance is conservative enough so further cut in earnings is unlikely.

- **Why do we differ vs consensus:** For FY23E/ 24E/ 25E, our net profit forecasts are 9%/ 17%/ 1% lower than street due to slightly weaker than expected recovery trend and higher than expected incentive expenses.

- **Catalysts:** 1) stronger than expected tourism data during summer, 2) better than expected peers' result, 3) faster than expected new store opening, 5) stronger than expected PMI and 6) sector re-rating.

- **Valuation:** We derived our 12m TP of HK$21.83 based on 35x FY23E P/E. We think that is well justified by its faster than peers sales and EBITDA growth, plus its higher mix from manachised hotels. Atour is trading at 28x FY23E P/E, which is not demanding in our view.

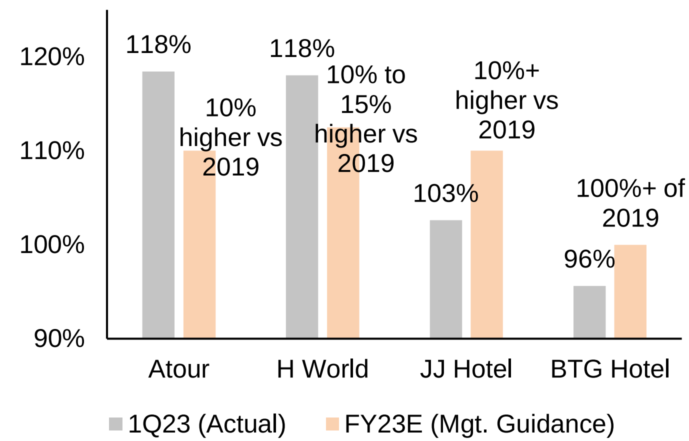
- **Link to latest report:** Atour Lifestyle (ATAT US) – Top-rated & fast-growing with the right strategy

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Sales (RMB mn)	2,263	3,681	4,736	6,017
YoY change (%)	5.4	62.7	28.6	27.1
Net profit (RMB mn)	98	562	910	1,314
EPS - Fully diluted (RMB)	0.771	4.307	6.980	10.073
YoY change (%)	58.1	458.5	62.1	44.3
Consensus EPS (RMB)	N/A	6.100	8.233	10.070
P/E (x)	155.4	27.8	17.2	11.9
P/B (x)	13.2	8.9	5.9	3.9
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	11.2	38.3	41.3	39.6
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: RevPAR recovery rate, by company



Source: Company data, CMBIGM estimates

Midea (000333 CH): Favourable weather and industry dynamics

Rating: BUY **|** **TP:** RMB66.68 (18% upside)

Analyst: Walter Woo

- **Investment Thesis:** Home appliances sector was suffering in the last few years but Midea is still well positioned to take market share. It owns the MIDEA, LITTLE SWAN, TOSHIBA, KUKA brands, etc., with over 15 overseas manufacturing bases and covering businesses in more than 200 countries and regions. Growth drivers include: 1) market share gains through more competitive and innovative products, 2) more premium, self-owned brand and overseas sales, and 3) ToB businesses expansion.

- **Our View:** We believe there are upside risks for air-con sales in 2Q23E and 2H23E, thanks to industry factors like: 1) exceptionally hot weather (already 0.5/ 1.2 degrees hotter than last year in Apr/ May), 2) low chance for aggressive price war (even though the tier 2 brands are offering more discounts) given the fairly healthy inventory level, 3) potential GP margin boosts as a result of low declining raw material prices but a stable ASP; and 4) export sales to further improve under the hot weather. Midea should benefit meaningfully, thanks to: 1) value for money price positioning, 2) large air-con sales and overseas sales mix, 3) even faster growth from the ToB businesses driven by various initiatives and 4) GP margin improvements ahead, as efficiency gain becomes one of key focuses since FY22.

- **Why do we differ vs consensus:** For FY23E/ 24E/ 25E, our sales forecasts are 1%/ 2%/ 3% lower than consensus and our net profit forecasts are 0%/ 1%/ 2% lower than street as we are more conservative on industry sales growth and GP/ OP margin.

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

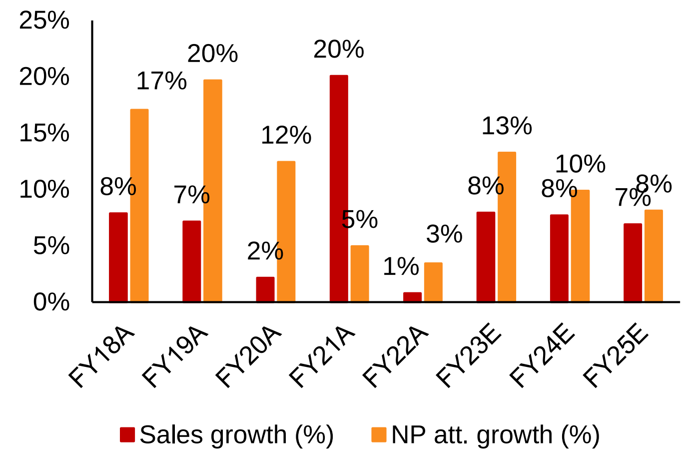
- **Valuation:** We derived our 12m TP of HK$66.68 based on 15x FY23E P/E. We believe continual sector improvement and Midea's outperformance will drive certain re-rating. The stock is trading at 12.0x FY23E.

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Sales (RMB mn)	343,918	371,216	399,783	427,414
YoY change (%)	0.8	7.9	7.7	6.9
Net profit (RMB mn)	29,554	33,473	36,779	39,758
EPS - Fully diluted (RMB)	4.24	4.75	5.17	5.53
YoY change (%)	2.4	12.1	8.8	7.0
Consensus EPS (RMB)	N/A	4.78	5.28	5.81
P/E (x)	13.4	12.0	11.0	10.3
P/B (x)	2.8	2.4	2.2	1.9
Yield (%)	3.0	3.4	3.7	4.0
ROE (%)	22.1	21.8	20.9	19.9
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales and net profit growth



Source: Company data, CMBIGM estimates

Yum China (9987 HK): Confidence increases after upbeat 1Q23

Rating: BUY **| TP:** HK$595.15 (33% upside)

Analyst: Walter Woo

- **Investment Thesis:** YUMC is the largest restaurant group in China by sales. It owns 11,788 stores in FY21 (8,168 KFC/ 2,590 Pizza Hut/ 1,030 other brands) and generated US$ 9.8bn sales and US$ 990mn net profit in FY21. In our view, it is even benefiting from pandemic, thru market share gains and structural margin improvements, driven by: 1) innovative and successful product launches, 2) more automations and efficient use of labour, 3) smaller-sized stores and 4) less depreciation due to lower capex.

- **Our View:** 1Q23 result was tremendous, both sales recovery and margins are better than expected. We are also confident about its 2Q23E, because of: 1) strong sales growth momentum during the 5-1 Golden Week (SSS narrowed to just LSD below 2019, far better than teens level below 2019 during CNY), 2) heavy promotions (value campaigns like Crazy Thursday/ Scream Wednesday for KFC/ Pizza Hut), 3) further improvement in tourist attractions and transportation hubs (SSS still 20-30% below 2019, hence huge room for catch up) and 4) solid pipeline of high-quality new products. Moreover, greater buying power from 1) the stock connect programme (as it had competed its primary listing in HKEX) and 2) potential inclusion into the stock indices are all meaningful supports.

- **Why do we differ vs consensus:** For FY23E/ 24E/ 25E, our net profit forecasts are -1%/ 5%/ 9% differ from street as we are more conservative in sales in FY23E but more confident on GP and OP margin in FY24E-25E.

- **Catalysts:** 1) better than expected product launches, 2) further improvement in store economics and 3) more policy relaxations.

- **Valuation:** Our new TP of HK$ 595.15 is based on 35x FY23E P/E (up from 33x), about 2 s.d. above 5 years average of 27x, given the upcycle and 48% NP CAGR in FY22-25E. The stock is trading at ~26x FY23E P/E.

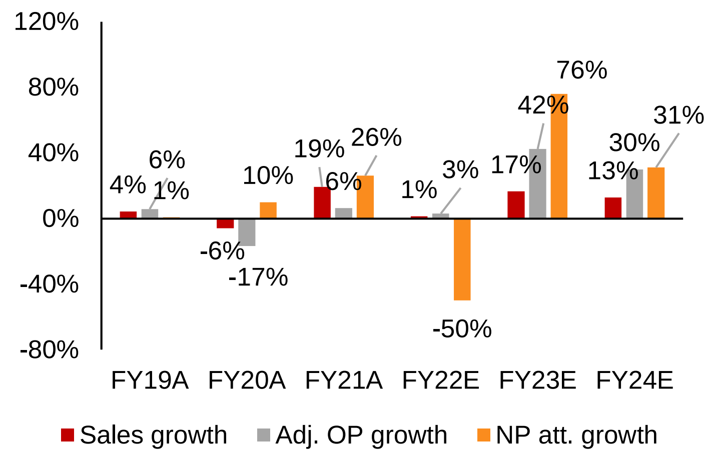
Link to latest report: Yum China (9987 HK) – Confidence increases after upbeat 1Q23 result

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Sales (RMB mn)	9,569	11,072	12,414	13,938
YoY change (%)	(2.9)	15.7	12.1	12.3
Adj. net profit (RMB mn)	442	881	1,087	1,363
EPS - fully diluted (RMB)	1.04	2.17	2.68	3.36
YoY change (%)	(54.4)	108.6	23.4	25.4
Consensus EPS (RMB)	N/A	1.98	2.47	3.87
P/E (x)	53.8	25.6	20.6	16.6
P/S (x)	3.1	3.0	2.7	2.35
Yield (%)	0.9	1.2	1.5	1.8
ROE (%)	5.9	12.0	13.8	15.2
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales and net profit growth



Source: Company data, CMBIGM estimates

CR Beer (291 HK): Another positive year for 2023; our preferred pick for China's re-opening

Rating: BUY **| TP:** HK$77.4 (60% upside)

Analyst: Joseph Wong

- Initial 2023 outlook. Management remains confident in 2023, and guides for HSD growth in revenue, contributed by 1) LSD volume growth driven by ~20% sub-premium/ premium SKUs that accelerate from mid-teen growth in 2022, 2) MSD to HSD ASP growth thanks to regional price hike and product mix upgrade. Meanwhile, input cost pressure is easing (~RMB500mn increase vs RMB1bn+ in 2022) and should fuel GPM to expand further from 2022. Opex ratio will continue to decline, as the company will continue to optimize production structure and focus on premium SKUs. More exercises on capacity optimization, in our view, is reasonable and looks to be ongoing within 2023.
- A lackluster 4Q22. Subsequent to a strong 3Q, 4Q volume has been unexciting partly due to slow season and lockdowns. Compared to a 0.7% YoY decline in 1H, management expects FY volume to hover at break-even. Premium/ sub-premium growth continued to outperform group average at ~10% within 2H (and hence FY) thanks to Heineken. ASP-wise, management expected a FY MSD increase YoY and this came in consistent to our expectation. The growth should also lead to a stable GPM for the period, when cost hike should have largely been mitigated, in our view. SG&A continued to decline in 2H, but at a slower pace than what we saw in 1H, due to expense incurred for capacity optimization.
- Earnings change and valuation. To reflect the above, we raise our 2022/23E revenue by 3.2/ 6.6%, GPM by 0.0/ 0.4pp, and these lead to a 2.6/ 8.1% increase in our net profits assumptions, respectively. Our new TP is based on an updated 26.0x (from previous 27.0x) roll-forward end-23E P/E which still represents +1sd above long-term average since 2018.

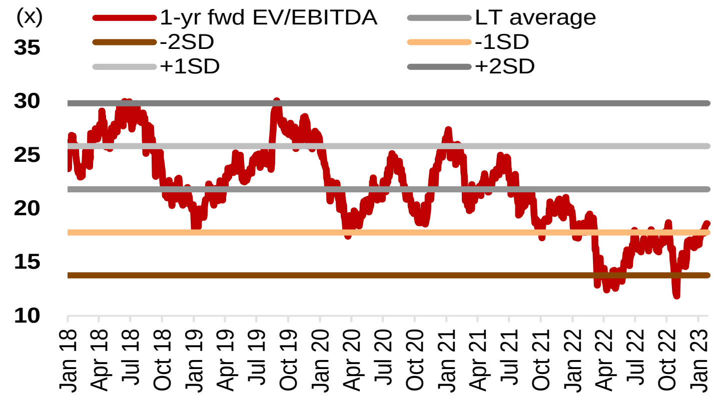
Link to latest report: CR Beer (291 HK) – Another positive year for 2023; our preferred pick for China's re-opening

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	33,387	35,617	38,825	42,619
YoY growth (%)	6.2	6.7	9.0	9.8
Net income (RMB mn)	4,587	4,299	5,024	5,736
EPS (RMB)	1.0	1.3	1.5	1.8
YoY growth (%)	21.0	20.0	16.9	14.2
Consensus EPS (RMB)	N/A	N/A	1.6	1.9
P/E (x)	N/A	N/A	27.0	24.1
P/B (x)	N/A	N/A	4.9	3.9
Div yield (%)	N/A	N/A	1.5	1.8
ROE (%)	14.1	17.2	18.5	18.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward EV/EBITDA



Source: Company data, CMBIGM estimates

Tsingtao (168 HK) – Stronger ahead

Rating: BUY **| TP:** HK$ 92.9 (35% upside)

Analyst: Joseph Wong

- Tsingtao's solid 1Q and takeaway from briefing again convinced us that the Company is dedicated to its premiumization effort along with a more cost-effective operation. Despite market talks about soft beer sales in April, Tsingtao's low-teen sales growth of the month was encouraging, considering also the mid-double-digit volume growth in Classic & above. Looking ahead, 2Q is an important quarter for beer consumption, as the quarter's restocking momentum typically provides a good gauge to peak season demand, and therefore any earnings upside for Tsingtao.

- **2Q outlook.** 1Q momentum has largely extended into April with low-teen sales growth. Approaching the end of May, we should be able to obtain incremental information about the demand for Dragon Boat Festival and more importantly, for the upcoming summer strong season. For now, we assert a similar, if not better, growth trajectory for the quarter as our base case scenario. Long term, Tsingtao's management targets to maintain double-digit sales growth thanks to sustainable drivers such as price hike, mix upgrade and cost initiatives.

- **A re-ramped product/ regional strategy.** Tsingtao plans to reshape its product structure to diamond-shaped, having mass market products (mainly Classic) contributing a large part of the mix, followed by that of super-premium. Low end SKUs will represent the smallest shares. By region, Tsingtao will maintain its lead in Shangdong, Shaanxi, Gansu, and will look for regaining market share in weaker regions such as Guangdong.

- **Valuation.** Our revised TP is still based on 15.0x roll-forward end-23E EV/EBITDA which still represents +1sd above long term average since 2018.

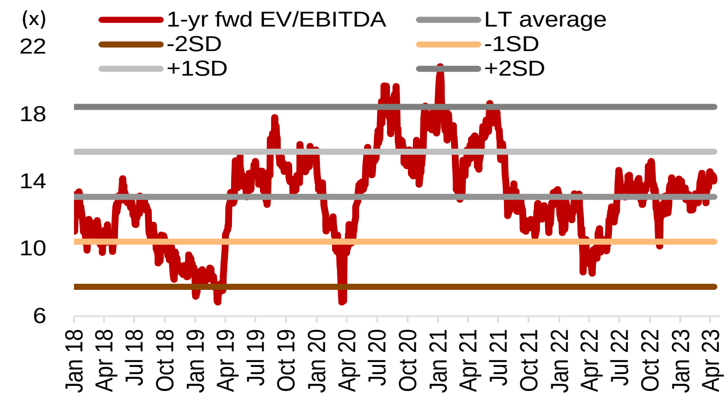
Link to latest report: Tsingtao Brewery (168 HK) – Stronger ahead

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	32,172	35,852	39,475	43,570
YoY growth (%)	6.6	11.4	10.1	10.4
Net income (RMB mn)	3,711	4,398	5,081	5,861
EPS (US$)	2.7	3.2	3.7	4.3
YoY growth (%)	17.4	18.5	15.5	15.3
Consensus EPS (RMB)	N/A	3.3	3.6	4.0
P/E (x)	N/A	17.3	14.4	12.6
P/B (x)	N/A	2.8	2.6	2.5
Div yield (%)	N/A	3.7	4.1	4.8
ROE (%)	14.6	16.0	17.2	18.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E



Source: Company data, CMBIGM estimates

Prada SpA (1913 HK): Re-rating is not over when Prada remains hugely sub-scale to its global peers; initiate at Buy

Rating: BUY **| TP:** HK$72.1 (27% upside)

Analyst: Joseph Wong

- Subsequent to top management rotations in the last three years, which included personnel changes in the creative team (2020), Head of Miu Miu (2020), Head of Fine Jewelry (2021), a new CFO (2022) and lastly a new Prada brand/ Prada Group CEO (2023), Prada is back to shape and has made every right decision to fuel a neat business turnaround. The refocusing of retail business, termination of in-store discount, and increasing efficiency of marketing campaigns etc., in our view, have begun to manifest into strong financial metrics with 4Q22 probably just being one of the milestones of this upcycle. Prada's re-rating has yet to be over. Comparing to its soft luxury peers, Prada's sales is just 10% of LVMH and approximately <50% of Hermes and Gucci etc. Given a parallel reputation and brand appeal, we still see room for Prada to catch up globally.

- Beyond the strong performance in ready-to-wear and footwear, we expect leather goods (c.50% of sales) to catch up based on management's vision of having a balanced growth portfolio. Prada is also looking into entering new categories in fine jewelry (debuted in 4Q22) and personal beauty (first fragrance launched in 4Q22). We think the new initiatives should act as emerging drivers by creating synergy with existing business lines in promoting customer loyalty. Prada is the only global luxury play listed in HK. With its investment scarcity and ongoing turnaround, we initiate Prada at BUY.

- **Management guidance.** Prada's management targets to reach EUR4.5bn revenue with a 20% adjusted EBIT margin (attained already) in the medium term. Considering a strong start for 2023, thanks to China's reopening, we envisage Prada to reach the revenue target this year, and extent the momentum to 2025E at a cFX 10% 3-year CAGR.

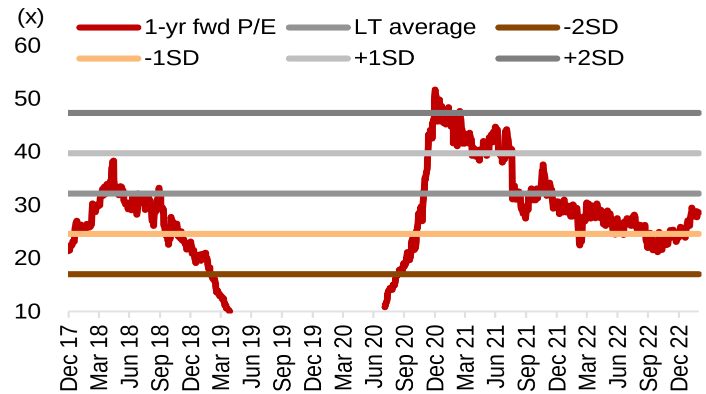
Link to latest report: Prada SpA (1913 HK) – Re-rating is not over when Prada remains hugely sub-scale to its global peers; initiate at Buy

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (EUR mn)	4,201	4,599	5,046	5,552
YoY growth (%)	24.8	9.5	9.7	10.0
Net income (EUR mn)	465.2	562.2	624.7	695.8
EPS (EUR)	58.1	20.9	11.1	11.4
YoY growth (%)	58.1	20.9	11.1	11.4
Consensus EPS (EUR)	N/A	N/A	0.24	0.27
P/E (x)	N/A	N/A	26.0	23.7
P/B (x)	N/A	N/A	4.0	3.7
Div yield (%)	N/A	N/A	2.3	2.6
ROE (%)	14.1	15.5	16.0	16.5
Net gearing (%)	(15.4)	(19.6)	(23.2)	(26.6)

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E



Source: Company data, CMBIGM estimates

Kweichow Moutai (600519 CH): 1Q came in higher than we expected

Rating: BUY | **TP:** RMB2,440 (43% upside)

Analyst: Joseph Wong

- As the proxy of China consumption, we think Moutai is undoubtedly well-positioned to benefit from the current consumption-driven recovery. This will not only be underpinned by reopening of restaurants and resumption of social events, but also company specific catalysts. These include 1) platform extension through i-Moutai (with the launch of 100ml “Flying Fairy” a.k.a “Feitian” SKU) registering RMB15bn 2022 revenue (~16% of total) with 30mn active users, and 2) a more diversified sales mix from Series baijiu with core products such as Moutai 1935, Moutai Prince Classics (茅台王子酒酱香经典), Moutai Prince Gold (茅台金王子) etc. Meanwhile, we are wary of the capacity bottleneck of both Moutai/ Series baijiu, which has been a known drag to growth. That said, without a legit substitute, we view this an ongoing opportunity for Moutai to monetize this excess demand through gradual price hike, until the announced capacity expansion (Moutai/ Series baijiu to 71k/ 56k ton) completes. Compounding with our reopening thesis, this happening expansion improvises a multi-year growth story (in both price and volume) in which we project 16%/ 17% 3-year revenue/ net profits CARG between 2022-25E, respectively, with a steadily improving GPM. We are buy-rated with a refreshed TP at RMB2,440 upon coverage transfer. We think shares could take a breather after the bull-run but we would recommend buying into any weakness for the next recovery wave in which growth is likely to re-accelerate from 2Q onwards.

- Moutai released its 1Q preliminary financial data that beat expectation with revenue/ net profits growing by 18/19%, respectively. The data tracked above the 15% management guidance given for the numbers for the full year of 2023. We attribute the strength mainly to the incremental sales growth from iMoutai and a strong premiumization effort.

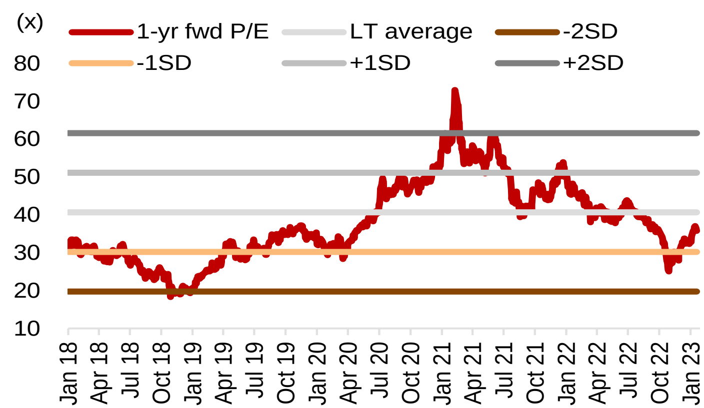
Link to latest report: Kweichow Moutai (600519 CH) – 1Q came in slightly higher than we expected

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	109,464	127,215	149,786	172,710
YoY growth (%)	11.7	16.2	17.7	15.3
Net income (RMB mn)	52,460	62,593	74,579	86,626
EPS (RMB)	41.8	49.8	59.4	69.0
YoY growth (%)	12.3	19.3	19.1	16.2
Consensus EPS (RMB)	N/A	N/A	62.0	70.0
P/E (x)	N/A	N/A	32.1	28.7
P/B (x)	N/A	N/A	10.2	8.4
Div Yield (%)	N/A	N/A	1.3	1.8
ROE (%)	27.7	27.9	31.9	30.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E



Source: Company data, CMBIGM estimates

Innovent Biologics (1801 HK): Best-in-class of IBI362 for obesity in China

Rating: BUY **| TP:** HK$50.34 (66% upside) Analysts: Jill Wu/ Andy Wang

- **Investment Thesis:** To resume strong product sales growth from 2023E. Sintilimab has additional large indications (1L GC and 1L ESCC) added to the NRDL since Mar 2023. With stable pricing and better NRDL coverage, we expect sales of sintilimab to resume healthy growth in 2023E (+20% YoY). Innovent's three biosimilars contributed a significant proportion of total product revenue in FY22 (approximately 50%). We do not expect nationwide volume-based procurement (VBP) for biosimilars in 2023, while provincial VBP could lead to moderate price cuts. With COVID-19 impact diminishing and contribution from new products such as cyramza, pemigatinib and olverembatinib, we expect Innovent to regain solid sales growth in 2023 and beyond.
- **Our View:** IBI362 to become the best GLP-1 drug for obesity in China. Ph2 study of IBI362 (9mg) for obesity met primary endpoint at 24 weeks of treatment with 15.4% (P<0.0001) or 14.7kg (P<0.0001) placebo-adjusted weight loss, which was much better than other weekly administrated GLP-1 targeted peers. In cross-trial comparisons, tirzepatide achieved 9.0%, 11.5% and 12.0% placebo-adjusted weight loss (or 7.1kg, 13.0kg and 13.0kg in weight loss) in the 5mg, 10mg and 15mg treatment groups in its Ph3 SURMOUNT-1 trial at week 24; semaglutide demonstrated 8.0% weight loss versus placebo (or 7.7kg) in its Ph3 STEP-1 trial. The 15.4% weight loss of IBI362 (9mg) demonstrated its BIC potential for obesity, in our view. The Ph2 obesity study of IBI362 (9mg) is still in progress with detailed safety data to be disclosed, while IBI362 (9mg) is overall well-tolerable. In the Ph2 study, the drop-out rate of the IBI362 group was lower than the placebo group, and there was no subject in the IBI362 group discontinued due to AE. However, in cross-trial comparison, in the Ph3 studies of tirzepatide (15mg) and semaglutide, 6.2% and 7.0% of subjects discontinued due to AE. Additionally, there was no SAE in the Ph2 trial of IBI362 (9mg), while the rates of SAE were 5.1% and 9.8% for tirzepatide (15mg) and semaglutide.
- **Why do we differ:** We see the BIC potential of IBI362 for the treatment of obesity, and look forward to the revenue growth recovery of Innovent.
- **Valuation:** we derive our target price of HK$50.34 based on DCF valuation (WACC: 10.0%, terminal growth rate: 3.0%).

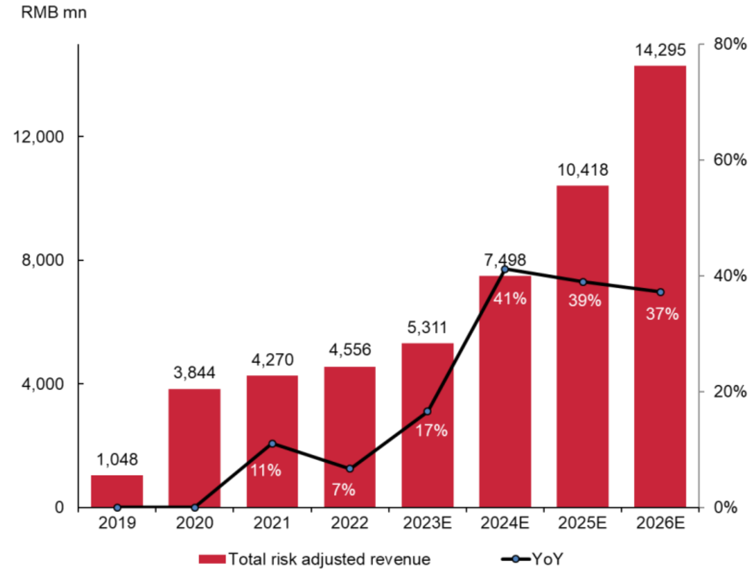
Link to latest report: Innovent Biologics (1801 HK) – Mazdutide (IBI362) to become the best GLP-1 drug for obesity in China

Financials and Valuations

(YE 31 Dec)	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,311	7,498	10,418
YoY growth (%)	17	41	39
Net loss (RMB mn)	(2,788)	(1,924)	(479)
EPS (RMB)	(1.82)	(1.25)	(0.31)
Consensus EPS (RMB)	(1.26)	(0.73)	0.10
R&D expenses (RMB mn)	(3,000)	(2,999)	(2,917)
Capex (RMB mn)	(500)	(400)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Revenue trend



Source: Company data, CMBIGM estimates

AK Medical (1789 HK): Higher growth certainty in 2023E

Rating: BUY **| TP:** HK$12.31 (73% upside)

Analysts: Jill Wu/ Cathy Wang

- **Investment Thesis:** AK Medical is the leading orthopedic joint manufacturer and the first mover in the 3D-printed orthopedic implant market in China. As the big winner of the national VBP of joint implants which was implemented in April 2022, AK Medical ranked first among all brands with an allocation of approximately 81,000 pieces, accounting for 15.1% of the total purchase volume of VBP. The tender wins lead to the expansion of hospital coverage and drive strong volume growth after VBP. In 2022, sales volume of primary hip system and primary knee system increased by 80% and 130% YoY respectively. The 2rd-year procedure volumes submission is still in progress. According to the VBP rules, the 2rd-year volumes of each brand submitted by hospitals should not less than the 1st-year; hence, we expect AK Medical to maintain its leading position in 2023E.

- **Our View:** AK Medical has demonstrated that the strong volume growth after VBP has more than offset the negative impact of price cuts. Driven by the strong demand of artificial joint after VBP, the revenue growth of AK Medical reached RMB1,052.0mn, up 38% YoY in 2022 and the attributable net profit increased by 101.3% YoY. In 2023E, we believe the pent-up surgery demand due to the COVID-19 would be unleashed and lead to a rapid recovery of China's orthopedic implant market. Besides, since the gap of joint implant penetration rate between China and developed countries is still large, we think the price cut after VBP would accelerate the market growth. Moreover, the high-margin 3D-printed products, such as ICOS customized products, are safe from VBP and are expected to gradually unleash their growth potential. Therefore, we think AK Medical has high growth certainty in 2023E.

- **Why do we differ vs consensus:** Our FY23E/24E/25E revenue forecasts are largely in-line with consensus. We expect the VBP to boost AK Medical's market share. As market expands and share gains, we expect a solid growth of AK Medcal's revenue at a CAGR of 31.2% from 2023E to 2025E.

- **Valuation:** We derive our target price of HK$12.31 based on a 9-year DCF model (WACC: 10.73%, terminal growth rate: 3.0%) .

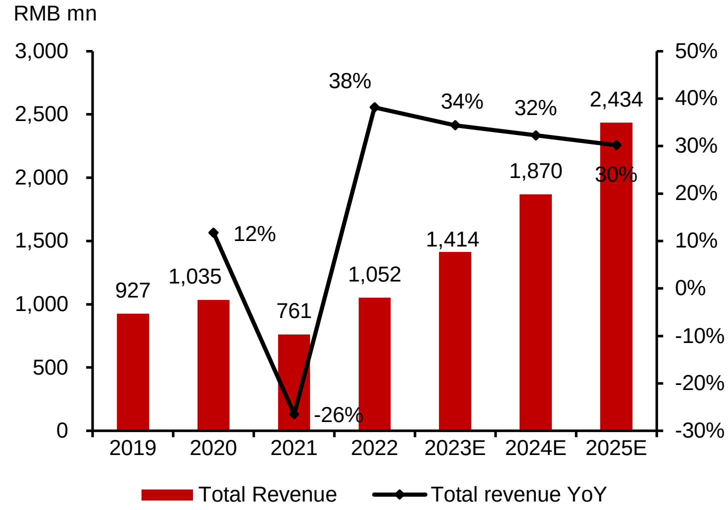
Link to latest report: AK Medical (1789 HK) – Higher growth certainty in 2023E

Financials and Valuations

(YE 31 Dec)	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,414	1,870	2,434
YoY growth (%)	34.4	32.3	30.2
Net profit (RMB mn)	272	367	491
YoY growth (%)	32.7	35.1	33.7
EPS (Reported) (RMB)	0.24	0.33	0.44
YoY growth (%)	32.0	35.1	33.7
P/E (x)	32.1	23.8	17.8
Yield (%)	0.8	1.1	1.4
ROE (%)	11.1	13.5	15.9
Net gearing (%)	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Revenue trend



Source: Company data, CMBIGM estimates

CMB INTERNATIONAL

AIA (1299 HK): Upbeat trend in HK and mainland China

Rating: BUY **| TP:** HK$118 (51% upside)

Analyst: Gigi Chen/ Nika Ma

- **Investment Thesis:** Following the mild recovery in 2H22, we expect the VNB growth of the group will rebound to ~20% in FY23E, primarily driven by 1) the recovery of MCV (mainland visitors) business in HK on the back of pent-up demand post border reopening, and 2) robust growth of AIA China fueled by geographical expansion. The management indicated that the VNB from MCV business in HK more than trebled in 2022, with strong momentum sustained into 2M23, as AIA has retained its premier agency with a MCV-specialized team of 6,800 agents, similar in scale to that of 2018, which enabled it to well capture the pent-up demands post the border reopening. In Mainland China, AIA saw double-digit VNB growth in Jul-Nov 2022. Despite an occasional interruption given resurgence of COVID cases in Dec 2022-Jan 2023, the new business momentum of AIA China immediately bounced back to double digit once again in Feb, turning the 2M23 VNB growth to positive. With smooth transition to IFRS 9&17 and sound capital position under PCR basis, we expect the recovery of VNB growth will drive a upward re-rating of AIA.
- **Catalysts:** continued strong demand-driven sales growth of life insurance after the HK/China border-reopening; new accounting rules of IFRS 9 &17.
- **Valuation:** The stock is trading at 1.3x P/EV FY24E, below a 2-year/5-year historical average P/EV at 1.6x/1.8x. Looking forward, we expect the uptick in HK and mainland China business will continue to underpin strong VNB growth for AIA throughout FY23. Reiterate BUY.

Links to latest reports:

AIA Group Ltd. (1299 HK) – 2H22 recovery in line; Upbeat trend in HK and China in 2M23

AIA Group Ltd. (1299 HK) – Pent-up demands to boost HK growth; Raise TP

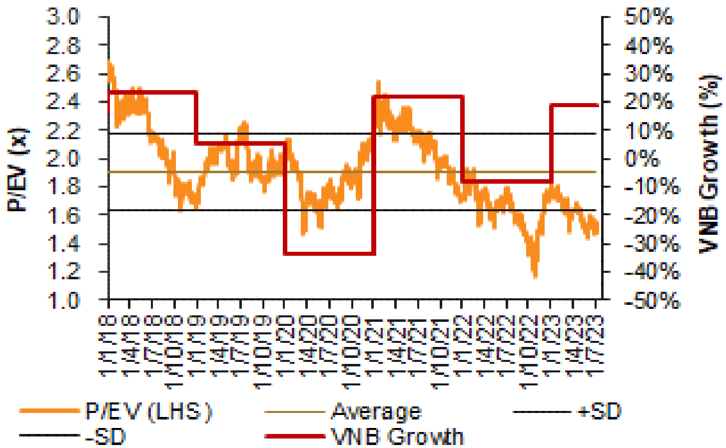
AIA Group Ltd. (1299 HK) – Initiation: Long-term growth intact, expect 2H22 recovery

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
VNB/share (US$)	0.26	0.32	0.38	0.45
YoY growth (%)	(18.5)	22.6	20.2	18.7
Group embedded value / share (US$)	5.9	6.3	6.9	7.8
Net profit (US$ mn)	282	7,442	8,266	9,198
EPS (Reported)(US$)	0.02	0.64	0.73	0.83
Consensus EPS (US$)	N/A	0.59	0.67	0.76
P/BV (x)	2.8	2.4	2.2	1.9
P/EV (x)	1.6	1.5	1.3	1.2
Yield (%)	2.1	2.3	2.7	3.0
ROE (%)	0.6	18.2	18.4	18.7

Source: Company data, Bloomberg, CMBIGM estimates

Fig: AIA VNB growth driving valuation multiples



Source: CMBIGM estimates

Tencent (700 HK): Solid recovery across all business lines

Rating: BUY | **TP:** HK$455.0 (37% upside) Analysts: Saiyi He/ Wentao Lu/ Frank Tao

- **Investment Thesis:** We are upbeat on Tencent's earnings rebound in FY23 driven by improved fundamental of its core business lines: 1) recovering gaming business on resilient performance of legacy titles and strong game pipeline (15+ titles with licenses approved); 2) 14% online ad revenue growth supported by enhanced Video Account monetization and macro tailwind; 3) reaccelerating revenue growth and expanding margin of FBS segment thanks to improved consumption sentiment and strategic adjustment of cloud business.

- **Our View:** We forecast Tencent's FY23 non-IFRS net income to grow 23% YoY (FY22: -7% YoY) driven by reacceleration of revenue growth and optimized operating efficiency. Its current valuation of 20x FY23 PE (or 16x FY23 PE if excluding strategic investment) offers attractive risk-reward given its robust earnings growth. Maintain BUY.

- **Catalysts:** 1) accelerating monetization of Weixin Video Account; 2) normalization of Banhao approval accelerates game revenue growth; 3) macro recovery supports rebound of ad, fintech and enterprise services businesses; 4) re-rating of fintech business under normalized regulatory environment; 5) stronger than expected operating leverage;

- **Valuation:** Our SOTP-derived target price of HK$455.0 comprises: HK$188/29/40/100/23 for gaming/SNS/advertising/fintech/cloud business and HK$58/15 for strategic investment/net cash.

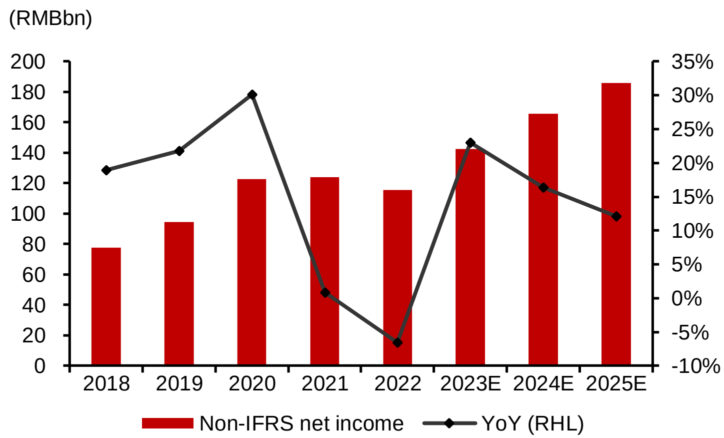
Link to latest report: Tencent (700 HK) – Solid recovery across all business lines

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	554,552	615,381	669,040	721,216
YoY growth (%)	(1.0)	11.0	8.7	7.8
Gross margin (%)	43.1	43.7	44.5	45.5
Adj. net profit (RMB mn)	115,649	138,541	162,485	184,624
YoY growth (%)	(6.6)	19.8	17.3	13.6
EPS (Adjusted) (RMB)	12.13	14.31	16.78	19.06
Consensus EPS (RMB)	12.13	14.57	17.10	21.62
P/S (x)	5.2	4.7	4.3	4.0
Non-GAAP P/E (x)	25.2	20.4	17.6	15.7

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Non-IFRS net income growth



Source: Company data, CMBIGM estimates

Pinduoduo (PDD US): Core business delivered quality growth

Rating: BUY **| TP:** US$109.0 (55% upside)

Analysts: Saiyi He/ Frank Tao/ Wentao Lu

- **Investment Thesis:** 1) PDD has established strong consumer mindshare in FMCG and fresh grocery categories, and is expanding its branded products pool, which could drive resilient GMV growth in 2023; 2) strong user stickiness could support optimization in operating expenses and aid margin expansion; 3) leveraging strong domestic supply chain, overseas expansion is on track to support PDD's long-term revenue and earnings growth.

- **Our View:** The strong beat in 1Q23 results echoed our view that PDD still has the potential to drive robust GMV growth through incorporation of branded products and high ASP products, and PDD's monetization has potential to further increase given its relatively better ROI compared with peers. PDD is entering a growth stage that focuses more on growth quality, which in our view indicating a more stable margin profile for PDD's domestic business, while overseas expansion of Temu could help unlock long-term development potential.

- **Where do we differ vs consensus:** market has been concerned on the pace and potential of PDD's monetization rate expansion, we think incremental monetization potential unleashed from commission revenue can aid further increase of monetization rate. We are also more positive than consensus on PDD's GMV growth potential supported by its well established consumer mindshare on value for money products.

- **Catalysts:** 1) stronger-than-expected GMV and earnings growth driven by enhanced user stickiness; 2) more rapid than expected ramp-up of international business.

- **Valuation:** DCF based valuation of US$109.0, which translates into 22x 2023E PE.

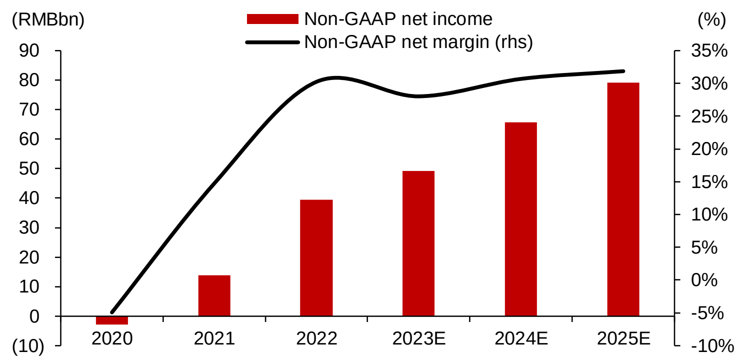
Link to latest report: Pinduoduo (PDD US) – Core business delivered quality growth

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	130,558	164,496	195,189	223,878
YoY growth (%)	39.0	26.0	18.7	14.7
Net profit (RMB mn)	31,538.1	32,788.9	45,911.2	55,936.0
Adjusted net profit (RMB mn)	39,529.7	41,394.4	55,722.3	66,733.9
EPS (Adjusted) (RMB)	N/A	28.74	38.69	46.33
Consensus EPS (RMB)	N/A	29.35	36.49	43.14
P/E (x)	15.4	24.4	17.4	14.3
P/B (x)	4.1	4.9	3.7	2.8
ROE (%)	32.7	23.4	24.1	22.3

Source: Company data, Bloomberg, CMBIGM estimates

Fig: PDD's adjusted net profit and adjusted NPM



Source: Company data, CMBIGM estimates

NetEase (NTES US): Strong mobile games and margin improvement

Rating: BUY **| TP:** US$123.0 (26% upside) Analysts: Saiyi He/Wentao LU/Frank Tao

- **Investment Thesis:** With the normalization of domestic game license approval and a clearer timeline for the new game launches, we are upbeat on NetEase's games revenue growth in FY23/24. Several highly-anticipated games are lined up for launch in June and will drive revenue growth in 2023, including *Justice Mobile*, *Racing Master, and Badlanders.* We also expect improved profitability due to the optimized game channel costs.
- **Our View:** We are positive on the game pipeline and the performance of NetEase's legacy games in FY23, and forecast total revenue/operating income to grow 9/10% YoY in FY23. We expect NetEase's games revenue YoY growth to accelerate in 2H23 on a easier base and more games launch. Maintain BUY.
- **Why do we differ:** Business and stock price performance of online game stocks are usually resilient amid macro headwinds. We view NetEase as a hedge against current macro and market uncertainty. NetEase's quality game pipeline will create additional support to its current valuation.
- **Catalysts:** 1) stronger-than-expected games revenue and earnings growth; 2) faster-than-expected game approvals; 3) robust grossing performance of Justice Mobile.
- **Valuation:** Our SOTP derived target price is US$123.0, comprising: US$116.6/0.4/2.4/1.9/1.7 for online game/Youdao/Cloud Music/innovative business/net cash.

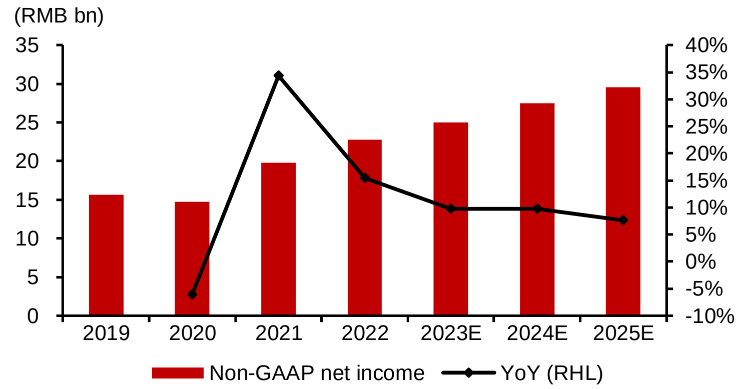
Link to latest report: NetEase (NTES US) – Solid mobile games and margin improvement support strong 1Q23 results

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	96,496	104,992	112,612	118,105
Gross margin (%)	54.7	57.8	58.3	58.6
Adjusted net profit (RMB mn)	22,808	25,025	27,460	29,556
EPS (Adjusted) (RMB)	35.0	38.4	42.2	45.4
Consensus EPS (RMB)	35.0	33.8	37.4	41.9
P/S (x)	4.4	4.3	4.0	3.8
P/E (x)	19.6	17.9	16.3	15.2

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Non-GAAP net income growth



Source: Company data, CMBIGM estimates

Alibaba (BABA US): In progress to enhance shareholder value

Rating: BUY **| TP:** US$156.60 (73% upside)

Analysts: Saiyi He/Frank Tao/Wentao LU

- **Investment Thesis:** 1) "1+6+N" reorganization will improve overall business agility and innovation capability, therefore enhancing shareholder value in the long run; 2) potential full spin-off of Cloud intelligence group, as well as other capital market activities of different business units likely to give more information on business development and propel a valuation rerating when market sentiment recovers; 3) Alibaba is likely to benefit from the ongoing consumption recovery throughout the year; and 4) valuation is not demanding.

- **Our View:** Alibaba is in progress to enhance shareholder value through "1+6+N" reorganization and share buyback. Core Taobao and Tmall businesses are strong cash cow business, the investment to enhance merchant ROI and consumer experience shall gradually pay off, while capital market activities of other business units likely propel valuation rerating.

- **Where do we differ vs consensus:** We are expecting both better than expected revenue growth and earnings growth in FY24, which we believe can be driven by the reorganization, and Alibaba's cost optimization initiatives.

- **Catalysts:** 1) more business development update for each of the business units post reorganization, especially for those that are seeking for external financing or IPO; 2) better-than-expected consumption recovery.

- **Valuation:** SOTP based valuation of US$156.6, which translates into 17.5x FY24E PE.

Link to latest report: Alibaba (BABA US) – In progress to enhance shareholder value.

Financials and Valuations

(YE 31 Dec)	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	868,687	963,125	1,048,813	1,122,311
YoY growth (%)	1.8	10.9	8.9	7.0
Net profit (RMB mn)	72,509.0	119,042.2	128,332.7	137,864.7
Adjusted net profit (RMB mn)	143,991.0	163,345.9	175,529.3	187,246.4
EPS (Adjusted) (RMB)	54.91	62.22	66.80	71.19
Consensus EPS (RMB)	53.41	59.11	66.51	79.96
P/E (x)	23.0	14.1	13.1	12.2
ROE (%)	7.4	10.4	9.4	9.0

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Alibaba: SOTP valuation

Business	Method	Target PS	Valuation (USDmn)	Valuation per ADS (USD)	As % of total valuation
Core business (ex-cloud, Cainiao, and local consumer services)	DCF		276,521	104.7	66.8
Cainiao	Last round financing valuation, 63% shareholding		17,664	6.7	4.3
Local consumer services	PS, based on FY24 revenue	1.7	14,468	5.5	3.5
Alibaba Cloud	PS, based on FY24 revenue	5.2	66,309	25.1	16.0
Strategic investments	Market valuation, 30% holding discount applied to all investment		38,856	14.7	9.4
Total			**413,818**	**156.6**	

Source: Company data, CMBIGM estimates

Kuaishou (1024 HK): More bullish on 2Q23E momentum

Rating: BUY **| TP:** HK$97 (79% upside)

Analyst: Sophie Huang

- **Investment Thesis:** We are confident on KS's ads recovery, and share gain in ecommerce and livestreaming. We are more bullish on its 2Q23E momentum (forecasting rev +25% YoY), supported by: 1) resilient livestreaming to continue; 2) ads acceleration with external ads resuming growth; and 3) ecommerce share gain with higher take rate (GMV/rev +30%/50% YoY). After recent price correction for weak market sentiment, we suggest to buy on dips, for its stronger LS & ecommerce and better margin outlook.

- **Our View:** Despite macro challenges, KS would deliver upbeat 2Q23E, with stronger ecommerce & livestreaming and better bottom line. LS would continuously gain share (rev +20% YoY), boosted by faster engagement with top agencies and hosts. We expect its other rev (ecommerce) +50% YoY, with GMV largely in line (+30% YoY) with apparels recovery, mechanism enhancement and KOL commission charging. Ads recovery kept on track, and we expect external ads to resume growth with rising budget from offline biz and ecommerce & game segment.

- **Why do we differ vs consensus:** Market concern lies on e-commerce slowdown after China reopening and Tencent Video Accounts threat on ads. We think short-term impact from Tencent Video would be limited, as KS focuses more on performance-based ads with high ROI, while Tencent Video Accounts prioritize on brands ads. Ecommerce momentum would be resilient, and may see upside from shopping mall function.

- **Catalysts:** 1) upside from online shopping mall, 2) strong 2Q23E results, and 3) external ads recovery.

- **Valuation:** Maintain BUY with SOTP-based TP at HK$97 (implying 3.3x FY23E P/S), by assigning 1x/2x FY23E EV/sales to livestreaming/ad biz, and 0.16x P/GMV to ecommerce biz. Valuation is not demanding.

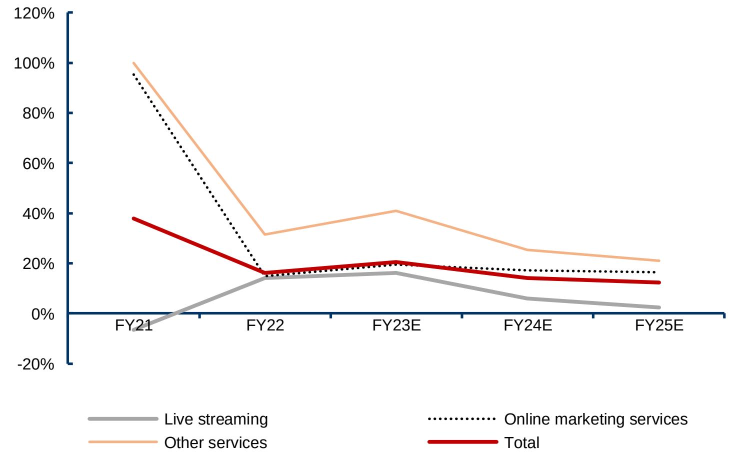
Link to latest report: Kuaishou (1024 HK) – More bullish on 2Q23E momentum

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	**94,183**	**113,461**	**129,466**	**145,390**
YoY growth (%)	16.2	20.5	14.1	12.3
Net income (RMB mn)	**(5,751)**	**3,822**	**8,929**	**15,985**
EPS (RMB)	**(1.3)**	**0.8**	**1.9**	**3.4**
YoY growth (%)	N/A	N/A	134	79
Consensus EPS (RMB)	N/A	0.4	2.1	4.0
P/E (x)	N/A	54	23	13
P/S (x)	**2.2**	**1.8**	**1.6**	**1.4**
Yield (%)	**0.0**	**0.0**	**0.0**	**0.0**
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Kuaishou's revenue growth estimates



Source: Company data, CMBIGM estimates

CR Land (1109 HK): Promising FY23E and not-far-fetching FY25E target

Rating: BUY | **TP:** HK$45.10 (40% upside)

Analyst: Miao Zhang/ Nika Ma

- **Investment Thesis:** We like CR Land as its visible earnings growth acceleration (8%/11%/12.8% YoY in 2023-25E) driven by robust rental income (20-30% CAGR) and sales back to teens growth in 2023E. This would help not only widen its gap with others (FY22 -20% YoY on average), but also make its 14th Five Year target closer to reach on the contracted sales side (+15% 2020-2025E CAGR), especially with the chance of policy relaxation in more tier 1&2 cities. If so, it may further drive its valuation to 8-10x long-term PE range as the clear winner of this crisis.

- **Our View:** We expect CR Land to deliver double digit growth in 2023 sales: CR Land finished 2022 with only 5% sales YoY decline, the second best among all major developers. This is mainly attributed to 85% of its sellable resources in tier 1-2 cities. Looking into 2023E, we expect 10-15% YoY gross sales growth to reach RMB330-350bn due to 1) strong anti-land acquisitions in 2022 with land/sales at 42%, one of the highest in the industry to provide enough sellable resources in high-tier cities; 2) gradually recovering market sentiment; and 3) potential policy relaxation in tier 1 cities to benefit CR Land most.

- **How do we differ:** ST risks include:1) liability/asset ratio is slightly over SASAC's redline of 70%; 2) oversea traveling and Daigo to bring impacts on high-end malls development.

- **Valuation:** The company currently trades at 7.1x 2023E P/E vs. historical 5-YR average of 8x. Our TP stays unchanged at HK$45.10, reflecting 50% discount to NAV.

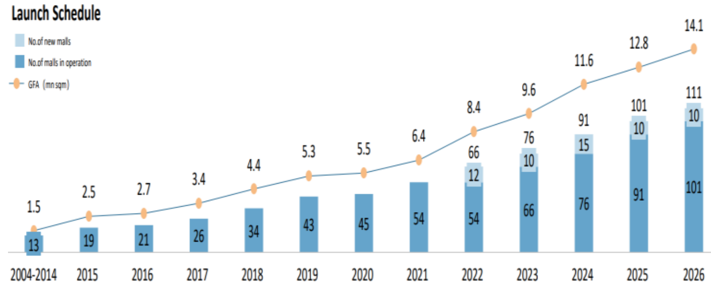
Link to latest report: [CR Land (1109 HK) – Outperforming FY22E, promising FY23E and not-far-fetching FY25E target]

Financials and Valuations

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E
Revenue (RMB mn)	212,108	207,061	235,314	264,990
YoY growth (%)	18.1	(2.4)	13.6	12.6
Net income (RMB mn)	32,401	28,092	29,826	34,959
EPS (RMB)	4.54	3.94	4.18	4.90
YoY growth (%)	8.69	(13.30)	6.1	17.2
Consensus EPS (RMB)	N/A	N/A	4.1	4.5
P/E (x)	6.6	7.6	7.1	6.1
P/B (x)	0.9	0.8	0.9	0.8
Yield (%)	4.3	4.3	4.3	5.0
ROE (%)	14.3	11.5	13.3	13.8
Net gearing (%)	24.4	35.0	38.6	47.3

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CR Land's malls opening plan



Source: Company data, CMBIGM

BOE Varitronix (710 HK): A clear 2025 strategic roadmap; Reiterate BUY

Rating: BUY | **TP:** HK$23.7 (96% upside)

Analysts: Alex Ng/ Lily Yang

- **Investment Thesis:** BOE Varitronix (BOEVx) is the global largest automotive display leader capturing 18% market share in 1H22 (by shipment area). Leveraging BOE Group's leading technology and strong client base, BOEVx is rapidly transforming into an integrated automotive smart cockpit display solution provider. Backed by its industry leadership and solid product roadmap, we believe BOEVx is well positioned to benefit from upgrade trend in the booming smart cockpit market.

- **Our View:** We like BOEVx for the secular trend of auto display upgrade, its Chengdu capacity expansion and client base expansion. Mgmt. is confident on its 2025 strategic roadmap and guidance: 1) revenue target of HK$20bn in 2025 (23% FY22-25E CAGR), 2) global market share to reach 25% in 2025 (vs ~20% in 2022), 3) Overseas sales mix of 50% by 2025 (vs 30% in FY23E), and 4) new technology (OLED/mini/LTOP) sales mix to target 50% in 2025. In near term, despite margin pressure on auto price cut and Chengdu new capacity in 1Q23, mgmt. expects strong new orders and Chengdu UTR ramp-up (100% in 3Q23E) will drive margin recovery in 2H23E. We estimate revenue/ earnings to grow at 21%/25% CAGR over 2022-25E, driven by 23% CAGR in automotive display.

- **Why do we differ vs consensus:** Our FY22-24E EPS are slightly below consensus, and current valuation of 15.0x/11.7x FY23/24E is attractive, compared to 21%/29% EPS growth in FY23/24E.

- **Catalysts:** Upcoming catalysts include capacity expansion, technology upgrade and product penetration.

- **Valuation:** We derived our 12m TP of HK$23.7 based on 25x FY23E P/E, given 25% 2021-24E EPS CAGR and improving ROE to 18% in 2024E (vs 16% in 2022).

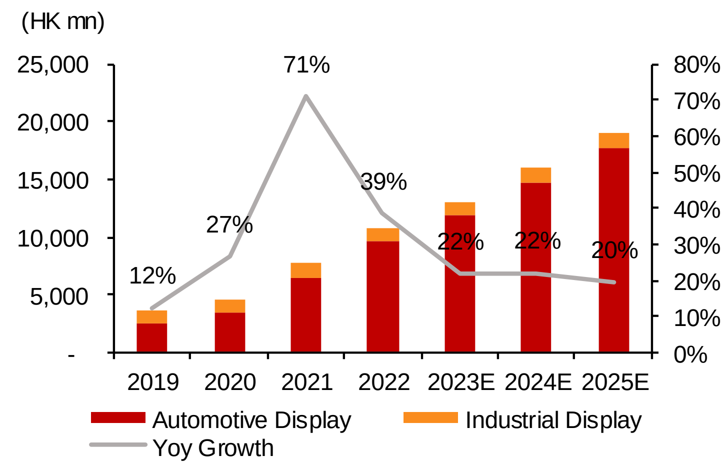
Link to latest report: BOE Varitronix (710 HK) – A clear 2025 strategic roadmap; Reiterate BUY on recent correction

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (HK$ mn)	10,722	13,078	15,977	19,117
YoY growth (%)	38.6	22.0	22.2	19.7
Net income (HK$ mn)	582.5	703.9	904.8	1,129.7
EPS (HK$)	0.78	0.95	1.22	1.52
YoY growth (%)	77.7	20.9	28.5	24.9
Consensus EPS (HK$)	N/A	0.96	1.31	1.67
P/E (x)	18.1	15.0	11.7	9.3
P/B (x)	1.3	1.2	1.0	0.9
Yield (%)	1.7	2.0	2.6	3.2
ROE (%)	14.2	16.1	18.1	19.6
Net gearing (%)	32.8	34.0	70.9	67.3

Source: Company data, Bloomberg, CMBIGM estimates

Fig: BOEVx Revenue trend



Source: Company data, CMBIGM estimates

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

Rating: BUY **| TP:** RMB88.6 (78% upside)

Analysts: Lily Yang/ Alex Ng

- **Investment Thesis:** We hold an optimistic view as Wingtech has expanded into the semi IDM and optical imaging module market successfully in recent years, transitioning from a top ODM manufacturer. Wingtech emerges as a more resilient hardware play with more diversified and lucrative businesses. We believe Wingtech can enjoy synergies created from integration of three business segments (Semi IDM, optical imaging module and ODM).
- **Our View:** 3Q22 results confirmed the resilience of Wingtech's power semi business. Riding the tailwind of vehicle electrification, the Company's power semi unit will continue to be the growth engine in 2023.
- The latest NWF divesture order will have trivial impact on operation. The order would reinforce China's semiconductor self-sufficiency trend, which makes Wingtech's semi IDM business more valuable as future acquisitions of global semi assets by Chinese companies seem impossible. Following the localization trend, we think Wingtech's semi IDM business is more valuable due to supply chain security and resource scarcity.
- **Why do we differ vs consensus:** In our Oct. report (link), we have pointed out that "the market is overly concerned on Wingtech's performance, which is valid and understandable given some of its business units are still in transition…the share is mispriced at 12.1x 2023E P/E, significantly low compared to its peers. This represents attractive buying opportunity."
- **Catalysts:** 1) new 12-inch factory to begin production; 2) ODM and optical modules' new projects to begin mass production.
- **Valuation:** Our TP is RMB88.6, based on 25x 2023E P/E, close to 1-SD below its 2-year mean.

Link to latest reports:

Wingtech (600745 CH) – Mispriced business represents attractive buying opportunity

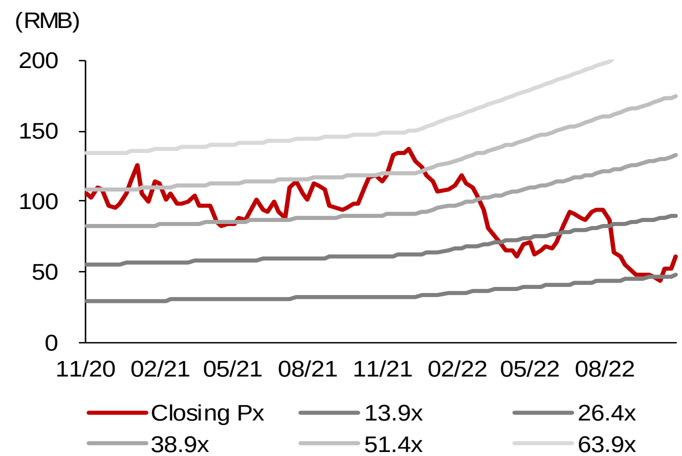
Wingtech (600745 CH) – NWF divesture order will have trivial impact on operation; Will reinforce self-sufficiency trend

Financials and Valuations

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E
Revenue (RMB mn)	52,729	58,078	69,173	83,563
YoY growth (%)	2.0	10%	19%	21%
Gross margin (%)	16.2	18.9%	17.55	17.46
Net profit (RMB mn)	2,612	3,414	4,678	4,929
EPS (RMB)	2.11	1.18	2.81	3.71
YoY growth (%)	2.4	(44)	138	32
Consensus EPS (RMB)	N/A	N/A	2.81	3.71
P/E (x)	61.3	44.6	17.4	13.2
Yield (%)	0.4	0.5	0.7	0.9
ROE (%)	7.7	4.2	8.6	10.7
Net gearing	Net cash	5.6%	9.2%	9.4%

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E band



Source: Company data, CMBIGM estimates

Kingdee (268 HK): Domestic ERP SaaS leader

Rating: BUY **| TP:** HK$23.28 (118% upside)

Analyst: Marley Ngan

- **Investment Thesis:** Kingdee is the largest enterprise resource management (ERM) vendor in China with 14.26% market share in 1H21, according to IDC. We like Kingdee for its continuous SaaS transition in SME market while new opportunities in large enterprise market are emerging with domestic substitution trend. We expect Kingdee to deliver 18% revenue CAGR in FY22-25E reaching RMB7,962mn.

- **Our View:** Kingdee reported in-line FY22 results with strong growth in subscription ARR (+31.2% YoY). Compared to Yonyou's weaker than expected performance, we are encouraged to see Kingdee's better SaaS migration progress. This reaffirmed our view that Kingdee's SaaS product is more standardized and earnings visibility (and thus valuation) should be higher than Yonyou.

- **Why do we differ vs consensus:** Huawei's self-developed ERP (MetaERP) could be negative to the China ERP market as competition heats up but the impacts to Yonyou and Inspur will be larger than Kingdee as the formers are more large-enterprises/ SOEs focused. Also, Huawei has to consider the potential implications to its Cloud business as Kingdee/ Yonyou/ Inspur may scale down their cloud resources usage with Huawei Cloud given direct competition in ERP.

- **Catalysts:** 2Q SaaS operating data, Winning large SOEs Xinchuang bidding. Supportive policies related to "Xinchuang" implementation.

- **Valuation:** We derive our target price of HK$23.28 on 11.0x FY23E EV/sales, in-line with its 3-year mean.

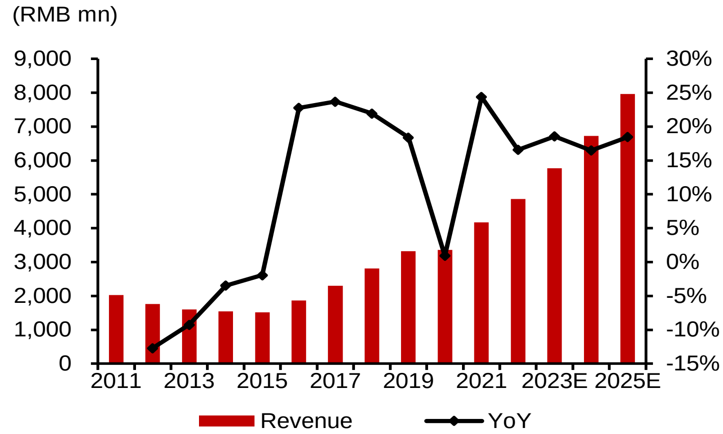
Link to latest report: [Kingdee (268 HK) – SaaS and Xinchuang both in good shape]

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,866	5,769	6,720	7,962
YoY growth (%)	17	19	16	(18)
Net profit (RMB mn)	(389)	(257)	(174)	(3)
EPS (RMB)	(0.11)	(0.07)	(0.05)	0.00
YoY growth (%)	34	(33)	(32)	(98)
Consensus EPS (RMB)	(0.11)	(0.08)	0.00	0.00
EV/sales (x)	6.0	5.1	4.3	3.6
P/E (x)	(79.3)	(155.1)	(281.9)	450.4
Dividend Yield (%)	0.00	0.00	0.00	0.00
ROE (%)	(5)	(4)	(3)	0
Net debt to equity	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Kingdee revenue and YoY



Source: Company data, CMBIGM estimates

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