CMBI Research Focus List

Our best high conviction ideas

8 Jun 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	Auto	BUY	79.6	221.8	189.7	282.0	49%	47.6	33.7	5.2	12.0	0.2%	Jack Bai/ Robin Xiao
Lonking	3339 HK	Capital Goods	BUY	1.5	4.9	2.7	4.3	57%	5.8	5.7	0.9	16.5	10.3%	Wayne Fung
SANY International	631 HK	Capital Goods	BUY	3.6	10.3	8.9	11.9	34%	17.6	14.3	2.6	15.7	2.6%	Wayne Fung
Haier SH	6690 HK	Consumer Disc.	BUY	40.9	45.2	31.8	47.3	49%	17.6	15.6	3.2	19.2	2.3%	Walter Woo
Anta	2020 HK	Consumer Disc.	BUY	55.7	165.4	159.7	150.66*	-6%	46.1	35.5	11.7	29.2	0.6%	Walter Woo
CR Beer	291 HK	Consumer Staples	BUY	30.8	63.9	73.8	91.9	25%	51.1	40.5	9.0	18.4	0.7%	Albert Yip
Hope Education	1765 HK	Education	BUY	2.3	18.0	2.2	3.5	59%	17.3	14.6	1.7	11.9	1.8%	Albert Yip
PA Good Doctor	1833 HK	Healthcare	BUY	13.2	59.8	89.5	142.8	60%	NA	NA	6.2	-8.3	0.0%	Jill Wu/ Sam Hu/ Jonathan Zhao
China Pacific Insurance	2601 HK	Insurance	BUY	45.9	58.0	26.9	39.2	46%	0.5	0.4	1.0	12.5	6.2%	Wenjie Ding
Bilibili	BILI US	Internet	BUY	41.9	529.0	108.9	154.0	41%	NA	NA	NA	-101.5	0.0%	Sophie Huang/ Miriam Lu
Meituan	3690 HK	Internet	BUY	236.3	1128.2	300.0	383.0	28%	NA	NA	NA	-42.1	0.0%	Sophie Huang/ Miriam Lu
CR Land	1109 HK	Property	BUY	32.7	50.1	35.6	44.8	26%	7.3	6.7	1.1	14.6	4.6%	Jeffrey Zeng/ Bowen Li
Powerlong CM	9909 HK	Property	BUY	2.4	5.0	28.8	33.2	15%	42.7	30.3	38.2	25.3	0.6%	Jeffrey Zeng/ Bowen Li
China Gas Holdings	384 HK	Renewables	BUY	21.4	71.9	29.7	34.8	17%	14.0	11.6	3.1	22.4	2.1%	Robin Xiao
China Hongqiao	1378 HK	Renewables	BUY	13.1	53.6	11.2	15.0	34%	5.0	4.8	0.7	19.5	9.5%	Robin Xiao
BYDE	285 HK	Technology	BUY	15.6	72.5	53.7	55.0	2%	17.0	15.3	5.3	21.3	0.6%	Alex Ng/ Lily Yang
ZTE	763 HK	Technology	BUY	22.5	22.0	22.3	28.1	26%	13.3	11.5	1.7	13.5	1.1%	Alex Ng/ Lily Yang
Kingsoft Cloud	KC US	Software & IT services	BUY	8.7	64.9	39.1	49.1	25%	NA	NA	7.6	-13.0	0.0%	Marley Ngan

Source: Bloomberg, CMBIS, Price as of 7/6/2021, *TP under review

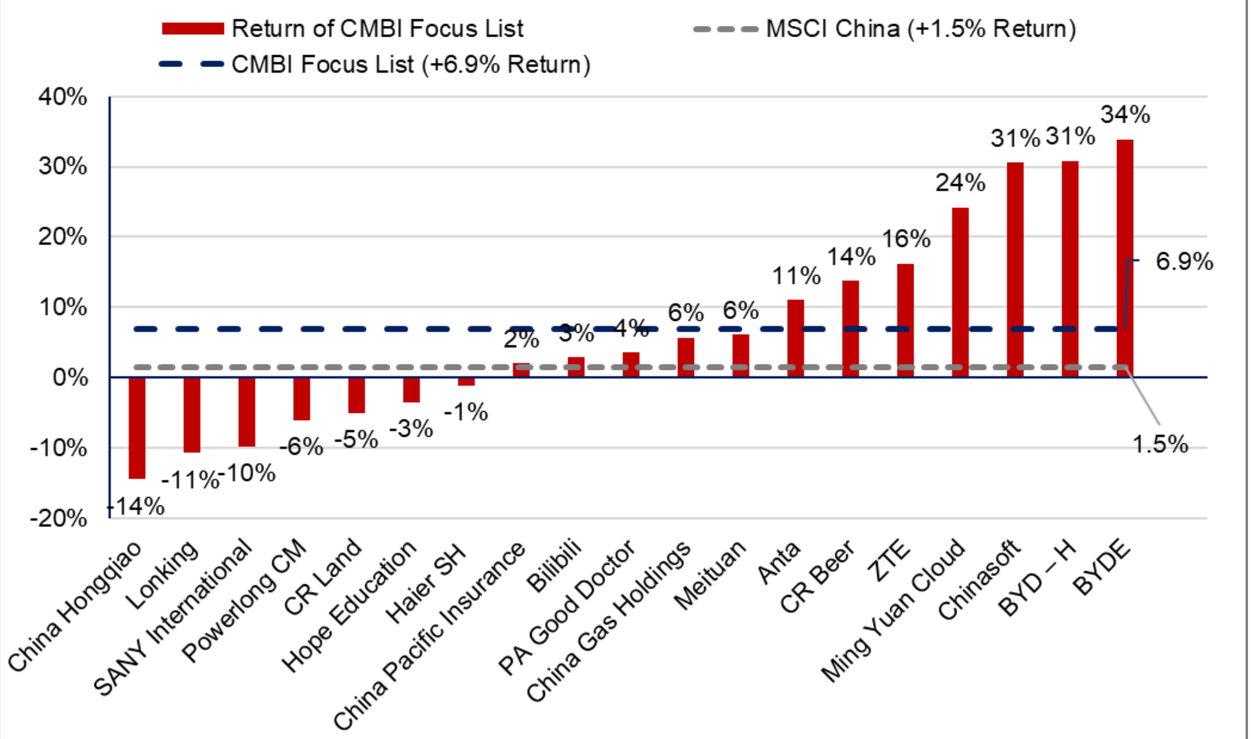
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
Kingsoft Cloud	KC US	Software & IT services	BUY	Marley Ngan	Stock price down 50% from its peak in Feb and current valuation is attractive. KC is set to benefit from internet companies adopting multi-cloud strategy to reduce reliance on single cloud service provider.
Deletions					
Ming Yuan Cloud	909 HK	Software & IT services	BUY	Marley Ngan	Stock price up +27% in a month and it lacks further rerating catalyst in the near term.
Chinasoft	354 HK	Software & IT services	BUY	Marley Ngan	Stock price up +29% in a month and lacks further re-rating catalyst before 1H results.

Source: CMBIS

Performance of our recommendations

- In our last report dated 10 May, we highlighted a list of 19 long ideas.
- The performance of the basket (equal weighted) with these 19 stocks outperformed MSCI China index by 5.3ppt, delivering +6.9% return (vs MSCI China +1.5%).
- BYDE, BYD-H, Chinasoft and Ming Yuan Cloud delivered 20%+ return, and 12 of our 19 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIS; Note: Stock performance from 7 May 2021 to 7 Jun 2021

Long Ideas

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

Rating: BUY | **TP:** HK$282 (49% 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.

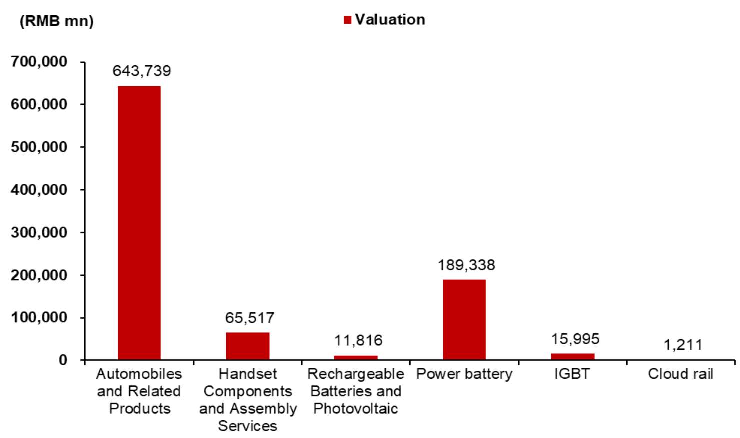
Link to latest report: BYD - H (1211 HK) – Strong DM-i growth ahead

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	127,739	156,598	193,400	245,620
YoY growth (%)	-1.78%	22.59%	23.50%	27.00%
Net income (RMB mn)	1,614	4,234	7,337	10,310
EPS (RMB)	0.50	1.47	2.51	3.55
YoY growth (%)	-47%	196%	70%	41%
Consensus EPS (RMB)	N/A	0.97	1.12	1.47
P/E (x)	319.64	107.93	47.61	33.66
P/B (x)	7.64	8.00	5.24	4.45
Yield (%)	0.04%	0.09%	0.21%	0.30%
ROE (%)	2.88%	7.45%	12.02%	14.53%
Net gearing (%)	79%	40%	42%	38%

Source: Company data, Bloomberg, CMBIS estimates

Fig: Valuation by business segment



Source: Company data, CMBIS estimates

Lonking (3339 HK): Recovery of wheel loader sales; Proxy of metal prices

Rating: BUY | **TP:** HK$4.29 (57% upside)

Analyst: Wayne Fung

- **Investment Thesis:** Lonking is the largest wheel loader manufacturer with ~22% market share in China in 2020. Lonking is improving its product mix through expanding large-size models in wheel loader, excavator and forklift. Besides, Lonking is expanding its overseas distribution network and targets to achieve 50% YoY sales growth in the overseas market in 2021E.

- **Our View.** We are positive on Lonking as: (1) The Company is switching to a more proactive approach to gain market share after years of conservative strategy; (2) potential recovery of mining capex driven by strong metal price will likely offer upside surprise to wheel loader sales in 2021E.

- **Why do we differ vs consensus:** We have higher assumptions on the sales volume projection. Our net profit forecast for 2021E/22E are 3%/9% above consensus.

- **Catalysts:** (1) Strong metal price; (2) better-than-expected wheel loader sales data.

- **Valuation:** Stock is attractively trading at ~6x 2021E P/E (ex-dividend of HK$0.33 per share on 28 May). Our TP of HK$4.29 is based on SOTP valuation (9x 2021E P/E for core business and 1.1x P/B for investment portfolio). The recent strong non-ferrous metal prices will boost Lonking's valuation as Lonking's share price has historically been correlated with base metal prices.

Link to latest report:

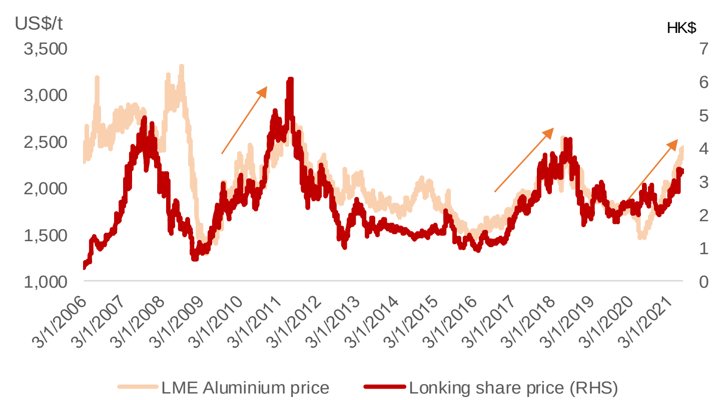
Lonking (3339 HK) – Strong beat on 2020 results; Attractive yield of 12%

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	11,744	12,880	14,018	14,313
YoY growth (%)	-1.0	9.7	8.8	2.1
Net income (RMB mn)	1,643	1,959	1,713	1,755
EPS (RMB)	0.384	0.458	0.400	0.410
YoY growth (%)	43.7	19.2	-12.6	2.5
Consensus EPS (RMB)	-	N/A	0.39	0.38
EV/EBITDA (x)	3.2	2.8	3.1	3.1
P/E (x)	6.5	5.1	5.8	5.7
P/B (x)	1.2	1.0	0.9	0.9
Yield (%)	9.1	11.8	10.3	10.6
ROE (%)	19.0	20.4	16.5	16.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Note: We expect core profit growth in 2021E if investment gains are excluded.
Source: Company data, Bloomberg, CMBIS estimates

Fig: Lonking share price vs LME aluminium price (15-year correlation: 0.6)



Source: Company data, CMBIS estimates

SANY International (631 HK): Product mix enhancement to support the premium valuation

Rating: BUY | **TP:** HK$11.9 (34% 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 rising 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:** We believe the continuous introduction of new products will help SANYI achieve sustainable growth which will lift valuation. 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:** While our earnings forecast in 2021E-22E is 6-10% below consensus estimates, we believe market has already priced in that to a certain extent given the limited number of analysts covering the stock.

- **Catalysts:** (1) Launch of new products; (2) Strong recovery of 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:

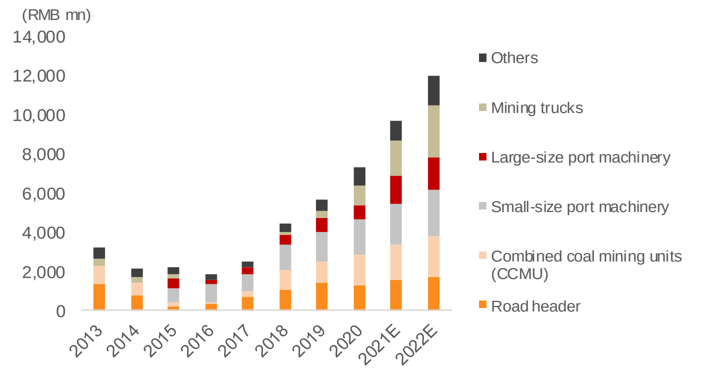
SANY International (631 HK) – Robotic business a surprise; More growth drivers ahead

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	5,656	7,364	9,950	12,289
YoY growth (%)	28.1	30.2	35.1	23.5
Net income (RMB mn)	920	1,045	1,298	1,602
EPS (RMB)	0.30	0.34	0.41	0.51
YoY growth (%)	51.3	12.5	23.5	23.5
Consensus EPS (RMB)	N/A	N/A	0.44	0.57
EV/EBITDA (x)	16.2	14.2	11.6	9.6
P/E (x)	26.7	22.7	17.6	14.3
P/B (x)	3.5	3.0	2.6	2.3
Yield (%)	1.4	1.7	2.6	3.2
ROE (%)	13.6	14.0	15.7	17.3
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

Haier SH (6690 HK): Outperforming by various self-upgrades

Rating: BUY **|** **TP:** HK$47.26 (49% upside)

Analyst: Walter Woo

- **Investment Thesis:** Haier has been consistently gaining market shares in the past 10 years and thanks to recent M&A, there should be a meaningful boost in competitiveness and efficiency to drive a faster NP CAGR in FY20-23E. It is a global leader in home appliances, owning 7 major brands (Haier, Casarte, Leader, GE Appliances, Fisher & Paykel, Aqua and Candy) and ranked #1 in market shares for fridges, washing machines and water heaters in the world. Growth drivers includes premiumization (selling more high end products) and category expansions (e.g. AC, kitchen appliances).

- **Our View:** We are confident on its strong growth momentum for both domestic and overseas in 1Q20 to sustain into FY21E, thanks to: 1) healthy channel inventory level with ample room for ASP growth, 2) more high-tech products launches, 3) more promotion of the “three winged bird” brand to push more sales of smart home system and categories cross-selling and 4) robust orders backlog in US and Europe. We also expect efficiency gains through digitalization of services, management system and use of super factory to offset the raw material prices pressure.

- **Why do we differ vs consensus:** For FY21E/ 22E/ 22E, our NP forecasts is 2% lower / 2% higher/ 3% higher than street as we are more conservative in GP margin in FY21E-22E but a better opex in FY23E.

- **Catalysts:** 1) robust 1H21E data points, 2) stronger than expected exports, 3) better than expected ASP increases and 4) better than expected raw material costs.

- **Valuation:** We derived our 12m TP of HK$47.26 based on 23x FY22E P/E. We believe premiumization, product and services upgrades, efficiency gains from digitalization and synergies can drive decent growth onwards. The stock is only trading at 16x FY22E P/E.

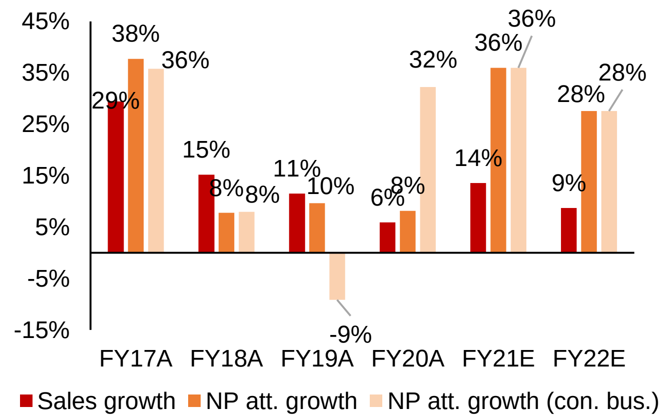
Link to latest report: Haier Smart Home (6690 HK) – Positive outlook for 2Q21E, after a strong 1Q21

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Sales (RMBmn)	209,703	238,192	258,886	274,348
YoY change (%)	5.9	13.6	8.7	6.0
Adj. Net profit (RMBmn)	8,877	12,070	15,396	18,323
Adj. EPS - Fully diluted (RMB)	1.335	1.516	1.705	2.030
YoY change (%)	8.2	15.5	12.5	19.0
Consensus EPS (RMB)	N/A	1.348	1.642	1.949
Adj. P/E (x)	20.3	17.6	15.6	13.1
P/B (x)	2.9	3.2	2.7	2.3
Yield (%)	1.8	2.3	2.6	3.1
ROE (%)	16.3	19.2	20.9	22.8
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

招銀国际 CMB INTERNATIONAL

Anta (2020 HK): Multiple short and long-term growth drivers

Rating: BUY | **TP:** HK$150.66*

Analyst: Walter Woo

- **Investment Thesis:** We believed china sportswear sector could rebound meaningfully in FY21E, after a low base in FY20E due to COVID-19 and consolidation shall accelerate (ample support for distributors, optimizing trade fair orders and inventory, shifting sales to online, etc.). It is the owner of many top tier sports brands, such as Anta, FILA, Solomon and Arc'teryx (through Amer Sports), etc. Growth drivers includes: 1) sales per store growth via area and item per tickets growth, 2) more online and direct retail sales, 3) news brands (mainly those under Amer) penetrating into China.
- **Our View:** We turned more positive on FY21E, as 1) Anta is benefiting from the Xinjiang cotton incident, and may resume its industry leading growth by its rebranding project (DTC development, 10th generation stores, new high-end sub brand, further online penetration, sales mix to reach 40% in 5 years from ~25% in FY20), 2) FILA's GP margin improves as retail discounts gradually normalize (still MSD higher currently), and 3) decent profit growth from Descente begins to kick in (sales +60% with a higher than 8% OP margin achieved in FY20). Moreover, holding on with Amer's 5 years target is highly encouraging.
- **Why do we differ vs consensus:** For FY21E/ 22E, our net profit forecasts are 1%/ 2% higher than street as given a better GP margin and operating leverage, but 3% lower in FY23E due to a more prudent sales growth.
- **Catalysts:** 1) strong 2Q21E data points, 2) better than expected peers and industry data points, 3) sector-wise recovery and re-rating.
- **Valuation:** We derived our 12m TP of HK$150.66 based on 36x FY22E P/E. We believe recovery (both China and overseas) could be better than expected and also the improved sentiment may drive further re-rating. The stock is trading at 36x FY22E.

Link to latest report: Anta (2020 HK) – Multiple short and long-term growth drivers

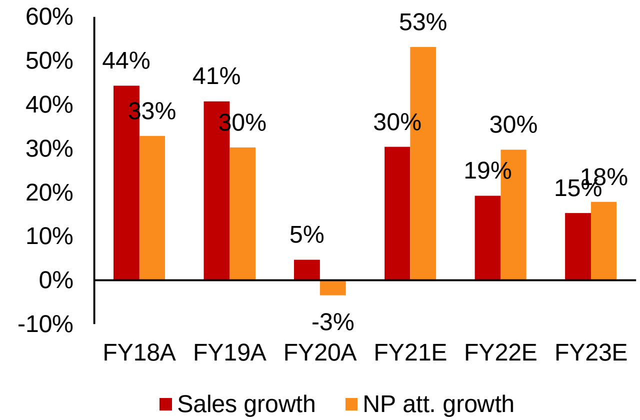
*TP under review

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Sales (RMB mn)	35,512	46,308	55,242	63,705
YoY change (%)	4.7	30.4	19.3	15.3
Net profit (RMB mn)	5,162	7,905	10,260	12,094
EPS - Fully diluted (RMB)	1.850	2.834	3.678	4.335
YoY change (%)	(3.5)	53.1	29.8	17.9
Consensus EPS (RMB)	n/a	2.850	3.649	4.520
P/E (x)	71.6	46.1	35.5	30.2
P/B (x)	14.9	11.7	9.5	8.2
Yield (%)	0.4	0.6	1.7	2.0
ROE (%)	23.4	29.2	30.4	30.2
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

CR Beer (291 HK): 2025E premiumization target lifted

Rating: BUY **| TP:** HK$91.90 (25% upside)

Analyst: Albert Yip

- **Investment Thesis:** The Company lifted 2025E premiumization volume target from 3.16mn kL to 4.0mn kL. 2020-25E sub-premium or above beer volume CAGR is also raised from 16.7% to 22.3%. Accelerating premiumization and production efficiency enhancement would drive 21.9% adj. EPS CAGR in FY19-23E. CR Beer's 1.8x FY22E PEG is lower than international peers' 2.6x and Bud APAC's 4.6x. Maintain Buy. 2020 European Cup may boost Heineiken China sales given that Heineiken is an official sponsor. Our TP of HK$91.90 represents 50.4x FY22E P/E, still at 2.3x FY22E PEG.
- **Raised 2025E premiumization target.** The Company becomes more confident on premiumization trend because (1) the Company has executed its premiumization strategies well; (2) competitors have not competed heavily; (3) recent appointment of new spokespersons (Wang Yibo for Super X and Gong Jun for Marrsgreen); and (4) Heineiken's global sports IPs (European Cup, European Champions League, F1 etc) could boost Heineiken China sales
- **YTD 30%+ volume growth of sub-premium or above beer.** Among the brands in its sub-premium or above portfolio, the Company will focus on growing Super X, Snow Draft and Heineiken in 2021E, and then Marrsgreen, Snow Draft, Lowen White Beer, Heineiken and Amstel in 2022E. YTD volume growth of Super X has been strong. Moreover, the impact on Super X by the endorsement of Wang Yibo has been encouraging. First-day sales on Super X Tmall Flagship Store increased by 1790% vs 2020 Singles' Day. Management targets almost double of Super X sales volume in FY21E.

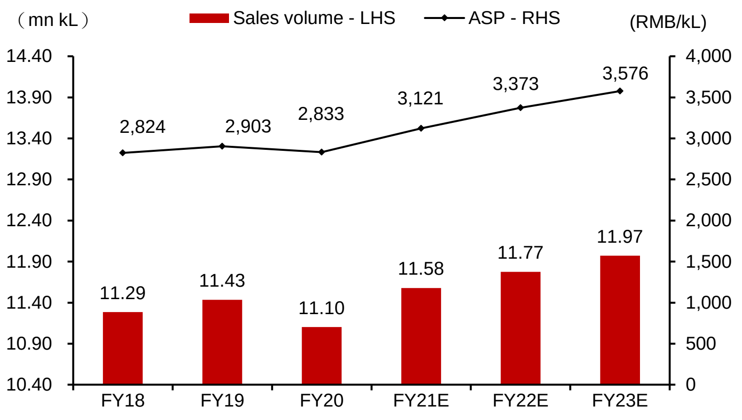
Link to latest report: CR Beer (291 HK) – 2025E premiumization target lifted; raise TP to HK$91.90

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	31,448	36,134	39,713	42,806
YoY growth (%)	(5)	15	10	8
Net profit (RMB mn)	2,094	3,765	4,877	5,915
Adj. net profit (RMB mn)	2,967	4,140	5,227	6,265
YoY growth (%)	5	40	26	20
Adj. EPS (RMB)	0.915	1.276	1.611	1.931
YoY growth (%)	5	40	26	20
Consensus EPS (RMB)	N/A	1.083	1.400	1.693
Adj. P/E (x)	71.7	51.1	40.5	33.8
P/B (x)	10.0	9.0	7.9	6.6
Yield (%)	0.4	0.7	0.9	1.1

Source: Company data, Bloomberg, CMBIS estimates

Fig: Sales volume and ASP forecast in FY20-22E



Source: Company data, CMBIS estimates

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

Rating: BUY | **TP:** HK$3.54 (59% 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 14.6x FY22E 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	0.113	0.140	0.178
Adj. P/E (x)	23.5	17.3	14.6	12.2
Yield (%)	0.4	1.8	2.2	2.6
Net cash (RMB mn)	11.5	11.9	12.2	13.4

Source: Company data, Bloomberg, CMBIS estimates

Fig: Peers' valuation table

			Year		P/E (x)	
	Ticker	Price	end	FY1	FY2	FY3
China Education	839 HK	19.60	Aug-20	24.7	20.5	17.6
Yuhua Education	6169 HK	7.84	Aug-20	16.3	14.2	12.9
Hope Education	1765 HK	2.22	Aug-20	17.3	14.6	12.2
Kepei Education	1890 HK	5.90	Dec-20	12.8	10.4	8.8
Cahtay Media	1981 HK	6.82	Dec-20	21.5	16.0	13.2
Edvantage	382 HK	8.15	Aug-20	16.0	11.5	9.1
New Higher Education	2001 HK	5.84	Aug-20	12.5	9.6	8.2
JH Educational Tech	1935 HK	5.00	Dec-20	21.7	19.6	na
Neusoft Education	9616 HK	6.70	Dec-20	14.4	11.1	9.0
Minsheng Education	1569 HK	1.35	Dec-20	7.8	6.5	5.5
Xinhua Education	2779 HK	2.23	Dec-20	7.5	6.1	5.2
Huali University	1756 HK	2.61	Aug-20	7.3	5.8	4.6
Average				**15.0**	**12.2**	**9.7**

Source: Bloomberg estimates, Company data, CMBIS estimates

PA Good Doctor (1833 HK): Building comprehensive healthcare ecosystem

Rating: BUY | **TP:** HK$142.77 (60% upside) Analysts: Jill Wu/ Sam Hu/ Jonathan Zhao

- **Investment Thesis:** PA Good Doctor is one of the leading Chinese internet healthcare players that provide online medical services, consumer healthcare services, and operates an online health mall offering drugs, medical devices and other health-related products. As of 2020, PA Good Doctor recorded 372.8mn registered users (+18.3% YoY), generated 1,004.2mn consultation records (+49.0% YoY). And its MAUs (monthly active users) reached 72.6mn in 2020 (8.5% YoY), which is the largest mobile medical application in China in terms of coverage.

- **Our View:** We expect total revenue to grow 36%/ 38%/ 39% YoY to RMB9.35bn/ RMB12.93bn/RMB18.03bn in FY21E/22E/23E, mainly driven by the fast-growing online medical services, which is believed that will become the major revenue source and contribute 32%/ 41%/ 50% of the Company's total revenue in FY21E/22E/23E and the proportion of revenue from health mall business to be 46%/ 38%/ 31% in FY21E/22E/23E. On 2 Nov 2020, National Healthcare Security Administration (NHSA) released detailed policies on allowing reimbursement for online medical services. This is the first detailed guideline with a specific timeline about implementing the reimbursement policies for online services. As a first-mover benefiting from regulatory loosening, the Company has successfully received medical reimbursement qualifications in seven cities/ provinces. The Company will continue to benefit from the gradually-expanding reimbursement coverage for online medical services, in our view.

- **Why do we differ vs consensus:** Our FY21E/22E/23E revenue are +5.7%/7.1%/13.0% different from consensus, as we are positive on the Company's growth, especially in its fast-growing online medical services, under the background of gradually-loosening policies and -expanding reimbursement coverage for that, in our view.

- **Catalysts:** Faster-than-expected user growth; regulatory loosening.

- **Valuation:** We maintain TP of HK$142.77 based on a 10-year DCF model (WACC:9.3%, terminal growth rate: 4.0%).

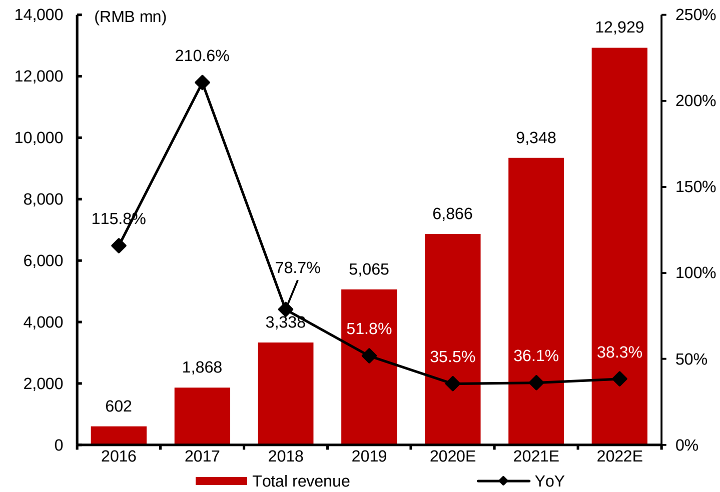
Link to latest report: PA Good Doctor (1833 HK) – Emphasis on its core online medical service capabilities

Financials and Valuations

(YE 31 Dec)	FY21E	FY22E	FY23E
Revenue (RMB mn)	9,348	12,929	18,029
YoY growth (%)	36	38	39
Net profit (RMB mn)	(1,261)	(1,016)	(730)
EPS (RMB)	(1.10)	(0.89)	(0.64)
Consensus EPS (RMB)	(0.82)	(0.60)	0.11
P/S (x)	9.8	7.1	5.1
ROE (%)	(8.3)	(7.1)	(5.4)
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): Fostering new growth engines

Rating: BUY **| TP:** HK$39.21 (46% upside)

Analyst: Wenjie Ding

- **Investment Thesis.** While COVID-19 weighed particularly on life insurance business growth, CPIC exhibited overall resilience and embarked on long-term endeavors regarding health insurance, technology deployment and corporate governance.
- **CPIC reported in-line 2020 results. Results positives. 1)** Operating profit increased 11.7% to RMB31.14bn, excluding short-term volatility and one-off items. **2)** Maintained P&C underwriting profitability. Combined ratio of CPIC P/C was 99%, up only 0.6ppt and better than industry average. Auto insurance combined ratio remained stable at 97.9%, although some non-auto business lines recorded temporary underwriting loss during the pandemic. **3)** The Company raised dividend payout ratio to 50.9% to share growth of the Company with shareholders.
- **Results negatives. 1)** Amid aftershocks of COVID-19, NBV of life insurance business declined 27.5% YoY to RMB17.8bn. NBV margin went down 4.4ppt to 38.9% whereas FYAP decreased 19.1% YoY. **2)** Persistency ratio of life insurance customers declined more abruptly in 2020, with 13-month and 25-month persistency ratios down 4.6/4.1ppt to 85.7%/85.1%, respectively.
- **Fostering new drivers for long-term growth. 1)** Deepening participation in the Healthy China Initiative. **2)** Progressing in technology deployment and innovation. **3)** Optimizing shareholder structure via GDR and paving way for better corporate governance. **4)** The Company elected former CEO of AIA China, Mr. John CAI as CEO of CPIC Life during the 26 Mar Board meeting. We expect Mr. CAI will contribute to improving the sales agent force and overall enhancement of CPIC Life.
- **Valuation.** We roll over valuation basis to YE21 and lift target price to HK$39.21 accordingly. The stock is trading at 0.41x/0.38x FY21/22E P/EV, with attractive yield at above 6%. CPIC remains our sector top pick.

Link to latest report: China Pacific Insurance (2601 HK) – Fostering new growth drivers

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
GWP (RMB mn)	362,064	378,388	401,670	423,736
YoY growth (%)	4.2	4.5	6.2	5.5
Total income (RMB mn)	418,964	421,245	448,841	475,861
Net profit (RMB mn)	24,584	27,648	30,598	33,554
EPS (RMB)	2.63	2.96	3.27	3.59
YoY Growth (%)	(14.14)	12.46	10.67	9.66
Consensus EPS (RMB)	n.a.	2.92	3.28	3.72
P/B (x)	1.01	0.96	0.88	0.81
P/EV (x)	0.49	0.45	0.41	0.38
Yield (%)	5.58	6.17	6.83	7.49
ROE (%)	12.31	12.48	12.86	12.96

Source: Company data, Bloomberg, CMBIS estimates

Bilibili (BILI US): A strong start in FY21E

Rating: BUY **| TP:** US$154 (41% 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 (+153% YoY), and new games to boost 3Q21E game rev .

- **Our View:** Looking ahead, we expect MAU +3% QoQ in 2Q21E. BILI will see 2Q21E rev + 64% YoY, in which game flat QoQ, ads/ VAS/ ecommerce & others + 153%/100%/156% 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 increasing brand perception, better targeting and higher adaption of Huahuo platform. Mgmt guided stable ad loads in 2021 (~5%), while prioritizing on middle platform strategy, scenario enrichment, and integrated marketing efficiencies across verticals. Content cost guided up, but partly priced in recent price.

- **Why do we differ vs consensus:** Market concern lies on video copyright, Japan anime regulations and rising content cost. We believe near-term concern have been priced in recent soft stock price, and 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 lunch in Jun, further boosting 3Q21E game rev.

- **Valuation:** Maintain BUY with TP of US$154, implying 12x FY22E P/S, backed by 26%/43% FY20- 23E MAU/rev CAGR.

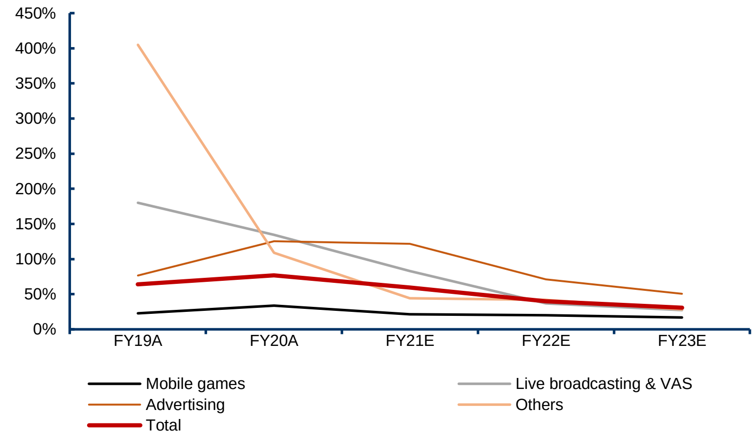
Link to latest report: Bilibili (BILI US) – A strong start in FY21E

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	11,999	19,113	26,706	34,960
YoY growth (%)	64	77	59	40
Net income (RMB mn)	(2,622)	(3,680)	(4,529)	(3,781)
EPS (RMB)	(7.46)	(11.64)	(13.27)	(10.97)
YoY growth (%)	NA	NA	NA	NA
Consensus EPS (RMB)	NA	(9.00)	(5.91)	(1.03)
P/E (x)	NA	NA	NA	NA
P/S (x)	18.4	11.5	8.3	6.3
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	(38.6)	(101.5)	NA	NA
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

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

Rating: BUY | **TP:** HK$383 (28% 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. Given its better-than-expected recovery pace and above-peer performance, we keep confident on its secular growth and expanding TAM. 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:** Meituan delivered solid 1Q21 with upbeat topline & better-than-feared bottom line. Food deliver performed well with higher take rate, and rider insurance cost seems to be more manageable (operational injury protection suggests cost of RMB0.05 per order for MD; insurance to be covered by multiple parties). Looking ahead, we expect food delivery & in-store rev +54%/90% YoY in 2Q21E. Groceries net loss to widen in 2Q21E, but well priced in recent price. With regulations overhang & social insurance concern to relieve, we believe the stock price would see upside given its solid fundamentals and attractive valuation.

- **Why do we differ vs consensus:** Market concern lies on groceries investment, competition landscape, Anti-trust law and social insurance impact. We believe near-term concern have been priced in, and we expect it to continuously gain share in local life and size the booming demand of community ecommerce.

- **Catalysts:** 1) in-store & hotel decent recovery; 2) new initiatives to expand TAM; and 3) regulations overhang to lift.

- **Valuation:** Maintain BUY with SOTP-based TP of HK$383, implying 8x FY22E P/S. With 41% FY20- 23E revenue CAGR and expanding TAM, MD deserves higher P/S multiple than most of peers, 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)	NA	(1.07)	1.38	4.12
P/E (x)	428	NA	NA	98
P/S (x)	11.9	7.5	5.5	4.3
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

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

Rating: BUY | **TP:** HK$44.79 (26% upside)

Analysts: Jeffrey Zeng/ Bowen Li

- **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 7x 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 13x 2021E P/E.

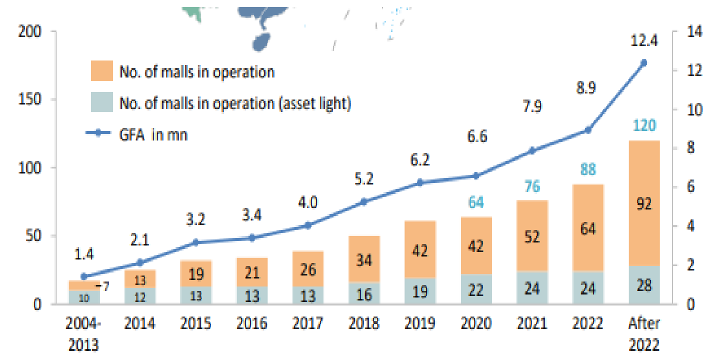
Link to latest report:
China Property Sector – A good entry point after market over-reaction on property loan cap

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)	6.5	8.8	7.3	6.7
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

Powerlong CM (9909 HK): New openings bring more assurance for 2021

Rating: BUY **| TP:** HK$33.2 (15% upside)

Analysts: Bowen Li/ Jeffrey Zeng

- **Investment Thesis:** As the key shopping mall service provider in YRD, we expect Powerlong to benefit from consumption boom and gain market share in the region via 1) parentco's fast growth as major competitors in the region have relatively slowed down; 2) active M&A and asset light model. Therefore, we think the number of managed malls can reach 160 by 2025 (~20 malls/year) . **Catalysts**: 1) better-than-expected rental income; 2) Potential M&A.

- **Our View:** We think the Company's guidance of 40% NP CAGR is achievable given that 1) Powerlong's parentco is set to deliver avg. 10+ malls per year given 100 mall contracts secured vs. 60 in operation, parentco's 35% YoY growth in FY20 contract sales, and recent openings from last year's delay (not counted toward 2021 plan); 2) has shown evidence it can reach ~95% occupancy in LT with FY20 occupancy up 2ppt from 1H20, and ~100% occupancy in recent openings. We estimate earnings to be RMB459mn/592mn to reflect confidence under new assurances.

- **How do we differ:** We believe Powerlong RE (1238 HK, NR) has the potential to gain market share in the YRD region. It currently ranks No.5 among major YRD-based developers focusing mainly on lower-tier cities. As top competitors like Wanda and Seazen have slowed down in land acquisition, and CR Land (1109 HK, BUY, TP: HK$44.79) focuses more on tier 1 and 2 cities, we see room for Powerlong RE to climb up the ranks, and consequently, better likelihood for Powerlong to deliver its GFA target.

- **Valuation:** We derive the target price of HK$33.2/share by using 30x 2022E PE based on the score card.

Link to latest report: Powerlong Commercial (9909 HK) – Visibility enhanced for 2021 target with on-track rental/sales growth and more reasonable opening schedule

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	9,645	15,600	22,361	29,790
YoY growth (%)	106.3	61.7	34.1	33.2
Net income (RMB mn)	1,671	2,686	4,143	5,440
EPS (RMB)	0.63	0.98	1.53	2.01
YoY growth (%)	69.8	55.7	71.4	31.3
Consensus EPS (RMB)	N/A	N/A	1.39	1,98
P/E (x)	N/A	67.2	42.7	30.3
P/B (x)	N/A	23.1	38.2	24.3
Yield (%)	N/A	0.3	0.6	0.8
ROE (%)	31.1	18.4	25.3	28.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Powerlong RE's rental income guidance

Source: Company data, CMBIS estimates

China Gas Holdings (384 HK): Earnings growth to accelerate with extensive M&A and southern heating projects

Rating: BUY **|** **TP:** HK$34.82 (17% upside) Analyst: Robin Xiao

Investment Thesis: CGH is going to announce its annual result in late Jun. We expect FY21E results will be in line with management guidance, and we think market will place focus on mgmt. guidance for FY22E. We expect CGH to spurt for the earning condition(first exercise window in FY22), supported by abundant funding, and opportunities from project acquisition, LPG Smart MicroGrid, and distributed heating business. We remain positive on CGH, and believe the recent share price retreat created good timing to accumulate the share.

- **Acquiring Beijing Huayou at 7x FY20 PER.** CGH announced to indirectly acquire 49% shares of Beijing Huayou United Gas Development Co., Ltd. (Beijing Huayou, 北京华油联合燃气开发有限公司) for consideration of RMB484mn. The consideration represents 7.1x FY22E PER, less than CGH's current valuation (11.4x FY22E PER), which will enhance CGH's EPS and boost overall valuation, in our view. We expect more acquisition announcements in the coming 6-12 months.

- **Distributed heating: a new growth engine.** We observed that CGH had accelerated distributed gas heating development in Central and Eastern China from 2021E. CGH aims at distributed heating connection market and VAS opportunities through heating radiator sales. CGH intends to develop 20-30mn sq m distributed gas heating areas in FY22E. We believe the fundraising through placement will help CGH seize the market.

- **TP trimmed slightly to HK$34.82.** We cut CGH's TP slightly by 6.2% to HK$34.82 to reflect dilution impact from the placement. We think market had overacted to the placement which creates good entry point. We think coming FY21 results announcement in Mar will be a catalyst.

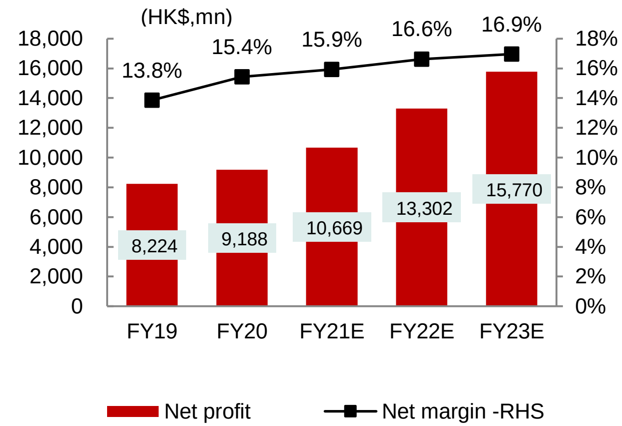
Link to latest report: China Gas Holdings (384 HK) – Earnings growth to accelerate with extensive M&A and southern heating projects

Financials and Valuations

(YE 31 Mar)	FY20A	FY21E	FY22E	FY23E
Revenue (HK$ mn)	59,540	66,999	80,020	93,045
YoY growth (%)	0.3	12.5	19.4	16.3
Net income (HK$ mn)	9,188	10,669	13,302	15,770
EPS (HK$)	1.76	2.05	2.46	2.75
YoY growth (%)	8.2	16.2	20.2	11.9
Consensus	N/A	2.06	2.38	2.65
P/E (x)	16.3	14.0	11.6	10.4
P/B (x)	3.8	3.1	2.3	2.1
Yield (%)	1.8	2.1	2.5	2.8
ROE (%)	23.2	22.4	20.0	20.0
Net gearing (%)	81.5	68.9	21.6	10.1

Source: Company data, Bloomberg, CMBIS estimates

Fig: CGH's net profit and net profit margin



Source: Company data, CMBIS estimates

China Hongqiao (1378 HK): Aiming for long term growth

Rating: BUY | **TP:** HK$15.0 (34% upside)

Analyst: Robin Xiao

- **Investment Thesis:** CHQ experienced range-bound trading in Mar – May. Share price has been largely fluctuating based on aluminum spot price in China, while investors paid explicated attentions on government's counter inflation pricing controls. We suggest investors to shift focus on longer term growth, since we believe 1) Chinese government's carbon emission control likely to extend aluminum strong cycle; 2) CHQ is in favorable position for tighten environmental controls; 3) CHQc is accumulating future growth potential through light-weight product and secondary aluminum; and 4) short term financial pressures is largely released.

- **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.

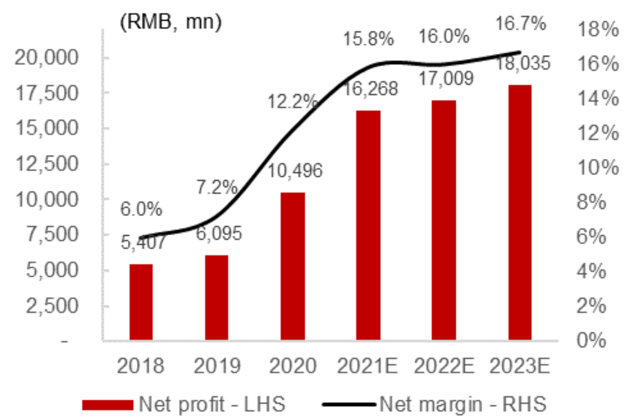
Link to latest report: China Hongqiao (1378 HK) – Aiming for long term growth

Financials and Valuations

(YE 31 Mar)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	86,145	96,259	100,974	102,602
YoY Growth（%）	2.33	11.74	4.90	1.61
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)	7.8	5.0	4.8	4.5
PB (x)	0.80	0.69	0.62	0.56
Yield (%)	5.62	9.45	10.01	10.62
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 (2% 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.

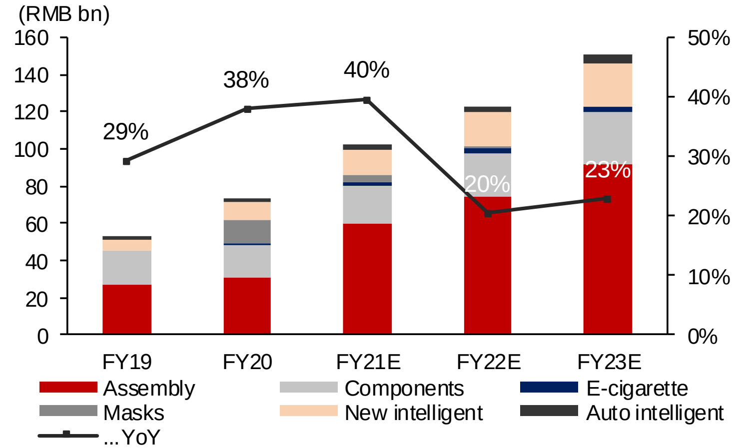
Link to latest report: BYDE (285 HK) – Expect margin pressure to ease ahead; Maintain BUY

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)	18.0	17.0	15.3	13.2
P/B (x)	6.5	5.3	4.3	3.6
Yield (%)	0.6	0.6	0.7	0.8
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 (26% upside)

Analysts: Alex Ng/ Lily Yang

- **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.

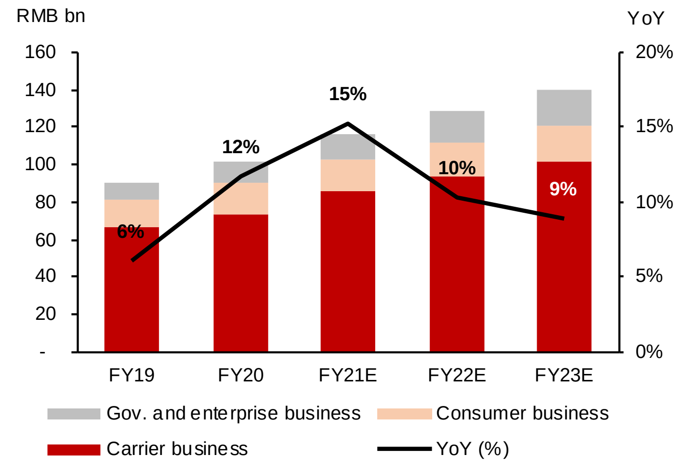
Link to latest report: ZTE-H (763 HK) – 1Q21 confirmed GPM recovery on track; Reiterate BUY

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)	19.3	13.3	11.5	9.2
P/B (x)	1.9	1.7	1.5	1.4
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

Kingsoft Cloud (KC US): Riding on multi-cloud adoption

Rating: BUY | **TP:** US$49.08 (25% upside)   Analyst: Marley Ngan

- **Investment Thesis:** Kingsoft Cloud (KC) is a rare cloud service provider in China that focuses on IaaS/PaaS purely. KC has 3% market share in China with ByteDance being its largest single customer (28% of FY20 revenue). KC derived 79% of FY20 revenue from Public Cloud Services and 21% from Enterprise Cloud Services. We expect KC to deliver 42% revenue CAGR in FY20-23E.

- **Our View:** China public cloud market is expected to grow at 33% CAGR from 2020 to 2023E reaching RMB231bn, according to CAICT. Although AliCloud is undoubtedly a leader but KC can achieve robust growth as internet companies are adoption multi-cloud strategy to lower reliance on single cloud provider. We expect KC public cloud to deliver 36% revenue CAGR in FY20-23E and reach RMB13.1bn by FY23E. Meanwhile, KC is ramping up enterprise cloud solutions from low base. We expect KC enterprise cloud solution revenue to grow at 59% CAGR in FY20-23E to reach RMB5.5bn (5% market share).

- **Why do we differ vs consensus:** We believe KC is reducing reliance on Kingsoft Group. Kingsoft Group revenue contribution declined from 34% in FY17 to 12% in FY20 as KC penetrated into fast-growing customers including ByteDance, Zhihu, Agora, Huya etc. This proves KC cloud service capability.

- **Catalysts:** Provincial project wins for enterprise cloud, penetrate into more large internet customers for public cloud.

- **Valuation:** We derive our target price of US$49.08 on 5x FY22E P/S, 10% discount to global peers having IaaS business exposure given smaller revenue size despite higher growth.

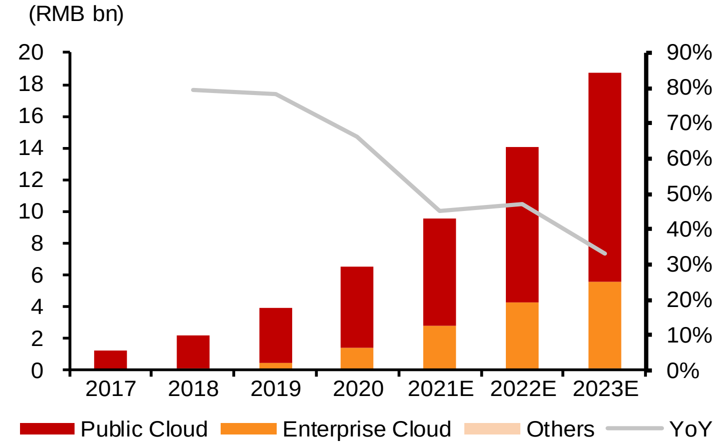
Link to latest report: Kingsoft Cloud (KC US) – Riding on multi-cloud adoption

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	6,577	9,541	14,054	18,733
YoY growth (%)	66%	45%	47%	33%
Adj. EBITDA (RMB mn)	(119)	85	770	2,088
YoY growth (%)	N/A	N/A	810%	171%
Net income (RMB mn)	(982)	(930)	(607)	211
EPS (RMB)	(6.14)	(4.18)	(2.73)	0.95
YoY growth (%)	N/A	N/A	-35%	-135%
Consensus EPS (RMB)	(6.14)	(3.53)	(1.11)	4.75
P/S	8.5	5.8	4.0	3.0
ROE (%)	-12%	-13%	-9%	3%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: KC revenue and YoY growth



Source: Company data, CMBIS estimates

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