招銀国际
CMB INTERNATIONAL

CMBI Research Focus List

Our best high conviction ideas

12 Apr 2022

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														
Li Auto Inc.	LI US	Auto	BUY	26.7	268.8	25.9	48.0	86%	N/A	N/A	4.2	-0.8	N/A	Shi Ji/ Dou Wenjing
Zhejiang Jingsheng	300316 CH	Capital Goods	BUY	10.6	94.0	52.6	93.0	77%	30.0	24.3	8.8	33.7	0.7%	Wayne Fung
SANY International	631 HK	Capital Goods	BUY	38.0	169.1	8.0	14.6	83%	12.7	10.5	2.1	17.7	2.4%	Wayne Fung
SF Holding	002352 CH	Express Delivery	BUY	38.0	169.1	49.5	94.0	90%	31.2	21.4	2.7	9.2	0.7%	Wayne Fung
Xtep	1368 HK	Consumer Disc.	BUY	3.4	24.5	10.3	16.2	58%	19.9	16.0	2.8	14.6	3.0%	Walter Woo
Jiumaojiu	9922 HK	Consumer Disc.	BUY	2.5	32.9	13.7	17.8	30%	34.8	24.2	4.7	14.5	0.6%	Walter Woo
CR Beer	291 HK	Consumer Staples	BUY	17.4	78.7	42.0	80.0	90%	39.7	32.9	6.3	16.6	1.0%	Joseph Wong
Mengniu	2319 HK	Consumer Staples	BUY	21.0	64.9	41.7	57.0	37%	26.3	21.8	3.8	13.2	1.1%	Joseph Wong
WuXi Biologics	2269 HK	Healthcare	BUY	33.2	289.1	61.7	146.1	137%	50.5	36.9	6.0	12.7	N/A	Jill Wu/ Benchen Huang
Innovent Biologics	1801 HK	Healthcare	BUY	81.3	47.0	26.1	75.0	187%	N/A	N/A	N/A	N/A	N/A	Jill Wu/ Andy Wang
PSBC	1658 HK	Banking	BUY	81.3	47.0	6.6	8.4	27%	N/A	N/A	0.7	10.5	5.2%	Eric Wang
PICC P&C	2328 HK	Insurance	BUY	23.4	32.0	8.2	11.5	40%	N/A	N/A	0.7	12.0	7.0%	Gigi Chen
Kuaishou	1024 HK	Internet	BUY	35.6	298.0	65.4	136.0	108%	N/A	N/A	N/A	55.0	0.0%	Sophie Huang
CR Land	1109 HK	Property	BUY	34.7	63.9	38.1	44.8	18%	6.6	N/A	0.9	14.3	5.3%	Jeffrey Zeng/ Xiao Xiao
CG Services	6098 HK	Property	BUY	15.7	114.4	36.5	47.6	31%	22.7	16.4	12.7	14.1	1.1%	Jeffrey Zeng/ Xiao Xiao
Xiaomi	1810 HK	Technology	BUY	39.4	194.7	12.4	21.8	0.8	11.6	9.6	2.1	17.2	N/A	Alex Ng/ Lily Yang
Willsemi	603501 CH	Technology	BUY	23.5	250.8	170.5	292.0	71%	29.8	24.9	N/A	24.8	N/A	Lily Yang/ Alex Ng
Glodon	002410 CH	Software & IT services	BUY	8.7	45.4	46.8	82.8	77%	64.1	55.9	N/A	15.0	0.0%	Marley Ngan

Source: Bloomberg, CMBIGM, Price as of 11/4/2022

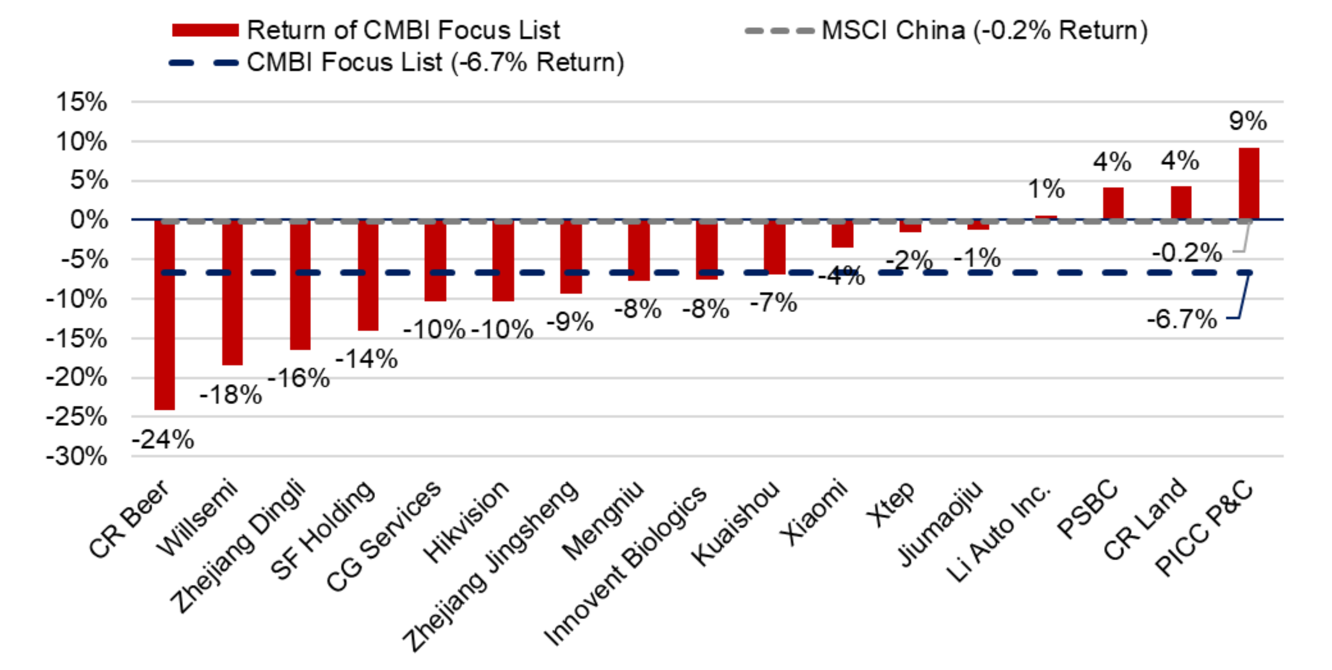
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
SANY International	631 HK	Capital Goods	BUY	Wayne Fung	Expect upside surprise in 1Q22E results given the strong performance across all segments.
WuXi Biologics	2269 HK	Healthcare	BUY	Jill Wu/ Benchen Huang	We add WuXi Bio due to high interest from investors.
Glodon	002410 CH	Software & IT services	BUY	Marley Ngan	Glodon costing SaaS has high user stickiness. Recurring revenue makes it less affected by macro fluctuations. Earnings/ cash flow visibility is higher than other project-based software peers.
Deletions					
Zhejiang Dingli	603338 CH	Capital Goods	BUY	Wayne Fung	We remain positive on Dingli but see more upside on energy and port equipment in the near term.
Hikvision	002415 CH	Software & IT services	BUY	Marley Ngan	Goverenment spending and project delivery will be affected by city-lockdown as Omicron spreads. Earnings visibility has decreased.

Source: CMBIGM

Performance of our recommendations

- In our last report dated 8 Mar, we highlighted a list of 17 long ideas.
- The basket (equal weighted) of these 17 stocks underperformed MSCI China index by 6.5ppt, delivering -6.7% return (vs MSCI China -0.2%).
- 4 of our 17 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIGM; Note: Stock performance from 7 Mar 2022 to 8 Apr 2022

Long Ideas

Li Auto Inc. (LI US): Less is more

Rating: BUY **| TP:** US$48 (86% upside)

Analysts: Shi Ji/ Dou Wenjing

- **Investment Thesis:** We are of the view that China's auto industry has been experiencing drastic changes as consumers pursue new values from vehicles, which needs pioneers but not followers. We are pessimistic about most incumbent automakers' tech transformation. As pioneers, the NEV trio has their advantages and disadvantages. Li Auto's operational efficiency and attention to details for consumers' in-car experience are key to its success and difficult to mimic. Such advantage could be pivotal in the short term when the industry faces supply chain challenges, economic pressure and negative investor sentiment.

- **Our View:** We are of the view that investors' key focus has been shifting from which Chinese EV brand could survive (in 2020) and which automaker has the highest cutting-edge technology barrier (in 2021) to which OEM is the most efficient to manage supply chain and deliver solid financials. Therefore, we think it is possible that Li Auto outperforms in the short term after NIO and Xpeng's outperformance in 2020 and 2021, respectively, as supply chain recovery appears to be slower than investors' prior expectation, based on our channel checks.

- **Catalysts:** We are of the view that the upcoming *L9* SUV could be a positive short-term catalyst for Li Auto's share price, especially as the new model is said to have unique features which cannot be found in any other rival models, according to management.

- **Why do we differ vs consensus:** Our FY22-23E revenue forecasts are about 13-16% higher than consensus. As investors have already raised their expectations for Xpeng's sales volume outlook in FY22E during the past few months, we believe Li Auto probably has the highest chance to beat consensus among the NEV trio in FY22E.

- **Valuation:** Our target price of US$ 48.00 is based on 6x FY22E P/S, in line with its forward 12-month P/S in the past 12 months. Li Auto's current P/S valuation is still the lowest among the NEV trio.

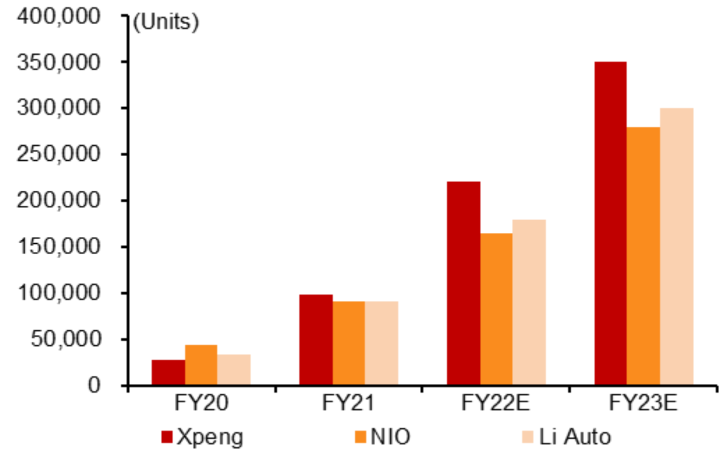
Link to latest report: Li Auto Inc. (LI US) – Less is more

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	27,010	54,727	90,430	142,859
YoY growth (%)	185.6	102.6	65.2	58.0
Net income (RMB mn)	(321)	(337)	388	1,887
EPS (RMB)	(0.17)	(0.16)	0.19	0.90
YoY growth (%)	N/A	N/A	N/A	386.8
P/S (x)	5.9	3.2	2.0	1.3
P/B (x)	3.9	4.2	4.1	3.9
Yield (%)	N/A	N/A	N/A	N/A
ROE (%)	(0.9)	(0.8)	0.9	4.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales volume comparison of NEV trio



Source: Company data, CMBIGM estimates

Zhejiang Jingsheng (300316 CH): Solid growth of solar equipment; SiC gaining traction

Rating: BUY **| TP:** RMB93 (77% upside)

Analyst: Wayne Fung

- **Investment Thesis:** Zhejiang Jingsheng is a leading supplier of crystal growing and processing equipment in solar power and semiconductor industry. The Company also offers sapphire products in the LED industry. Jingsheng is the key beneficiary of the capex growth of wafer makers, such as Zhonghuan (002129 CH, NR).

- **Our View:** While the recent expansion of solar wafer capacity in China will likely take the nameplate capacity to >500GW by end-2022E, we expect major wafer makers' continuous transformation to large-size wafer will boost the replacement demand, which offers further growth opportunity for Jingsheng. Besides, the war in Ukraine will likely trigger more EU countries to reduce the reliance on Russian gas and switch to other energy source such as solar, which will offer potential upside for Chinese solar product export. On the other hand, the breakthrough on SiC will serve as new growth engine for Jingsheng starting this year.

- **Why do we differ vs consensus:** Our earnings forecast in 2022E/23E is 15%/13% above the consensus estimates, as we are more positive on the solar capex spending.

- **Catalysts:** (1) More favorable policies to support solar power in Europe; (2) Upside on China solar installation; (3) further breakthrough on SiC.

- **Valuation:** Our TP is RMB93, based on 45x 2022E P/E. We applied a 20% discount to target P/E of 56x (1SD above historical average), as we expect Jingsheng is likely to complete the share placement this year (max: 20% of enlarged share capital).

Link to latest report:

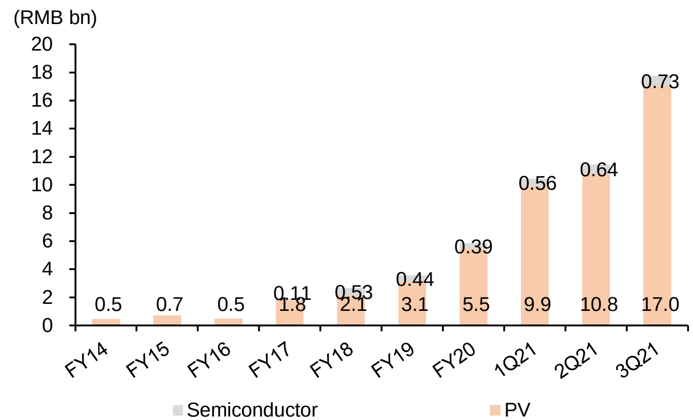
Zhejiang Jingsheng (300316 CH) – Solid growth of solar equipment; SiC gaining traction

Financials and Valuations

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E
Revenue (RMB mn)	3,811	7,239	11,941	14,673
YoY growth (%)	23	90	65	23
Net income (RMB mn)	858	1,683	2,662	3,292
EPS (RMB)	0.67	1.31	2.07	2.56
YoY growth (%)	35	96	58	24
Consensus EPS (RMB)	N/A	1.25	1.80	2.26
P/E (x)	93.1	47.5	30.0	24.3
P/B (x)	15.3	11.8	8.8	6.8
Yield (%)	0.2	0.4	0.7	0.8
ROE (%)	17.5	28.1	33.7	31.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Jingsheng's backlog



Source: Company data, CMBIGM estimates

SANY International (631 HK): Strong performance across all segments

Rating: BUY **| TP:** HK$14.6 (83% 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, industrial robot and smart mining will serve as new growth drivers.

- **Our View:** We expect a strong year in 2022E: (1) YTD, both mining and logistics equipment achieved higher revenue growth than the full year revenue growth of 38% in 2021; (2) SANYI is confident of delivering 50%/100% revenue growth of mining equipment/logistics equipment in the overseas market; (3) Intelligent and electric products are gaining traction and the ratio is expected to further increase this year (2021: 15%), which will help improve gross margin; (4) Expansion into new energy business through potential M&A. All these reaffirm our positive stance on SANYI's structural growth story. .

- **Why do we differ vs consensus:** Our earnings forecast in 2021E/22E is 5%3% above consensus. We have modelled strong revenue growth given the solid backlog.

- **Catalysts:** (1) The release in 1Q22E results; (2) Launch of new products; (3) potential M&A

- **Valuation:** Our TP of HK$14.6 (based on 23x 2022E P/E, on the back of 23% earnings CAGR in 2021E-23E).

Link to latest report:

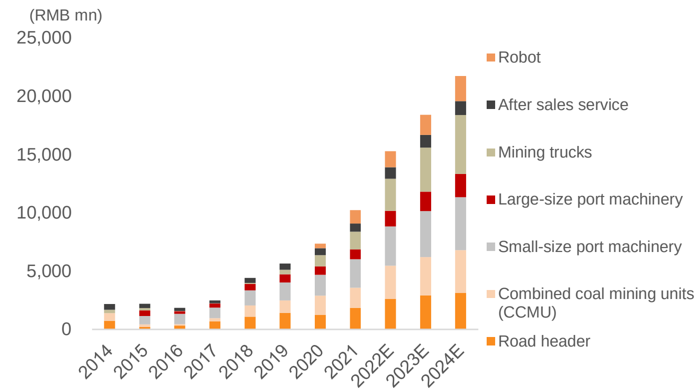
SANY International (631 HK) – Post-results and NDR takeaways: Expect a strong year in 2022E

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	10,195	15,293	18,403	21,739
YoY growth (%)	38.4	50.0	20.3	18.1
Net income (RMB mn)	1,259	1,655	1,992	2,327
EPS (RMB)	0.40	0.53	0.63	0.74
YoY growth (%)	19.3	31.5	20.3	16.8
Consensus EPS (RMB)	N/A	0.50	0.62	N/A
EV/EBIDTA (x)	11.6	8.6	7.3	6.4
P/E (x)	16.5	12.7	10.5	9.0
P/B (x)	2.4	2.1	1.8	1.6
Yield (%)	1.9	2.4	3.0	3.5
ROE (%)	15.2	17.7	18.6	18.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: SANYI's revenue breakdown



Source: Company data, CMBIGM estimates

SF Holding (002352 CH): Set to deliver strong earnings recovery in 2022E

Rating: BUY **| TP:** RMB94 (90% upside)

Analyst: Wayne Fung

- **Investment Thesis:** The Chinese government's strong intervention in the express delivery industry through policies and regulations in 2021 successfully put the bloody price war to an end and brought the industry development back to the right track. From corporate perspective, major players have already shifted from pricing to capex optimization, quality service and profit oriented strategy. Looking ahead, we expect ASP increase will continue to serve as sector catalyst in 2022E. In addition, we expect market share gain through M&A, as well as expansion to integrated logistics model, will become a trend over the medium term.
- **Our View:** Following the completion of share placement and the spin-off of **SF REIT (2191 HK, NR)** and the intra-city business unit, SF completed the major fund-raising exercise in 2021. Going forward, with a focus on premium delivery service, SF is set to become a major beneficiary given that the industry focus is moving away from pricing to service quality after the government's intervention. Meanwhile, SF's strategic shift from scale to profitability, together with the consolidation of **Kerry Logistics (636 HK, NR),** will boost significant earnings recovery in 2022E. What's more, the potential market share gain in the premium e-commerce delivery segment will boost SF's economy express volume.
- **Why do we differ vs consensus:** Our earnings forecast in 2022E-23E is 7-11% above consensus estimates, due to higher ASP assumptions.
- **Catalysts:** (1) Further increase in ASP; (3) Market share gain in high-end e-commerce express delivery.
- **Valuation:** Our new TP of RMB94 is based on 61x 2022E P/E, 1SD above the historical average of 44x. We believe SF deserves a valuation premium, given the strong earnings recovery in 2022E-23E.

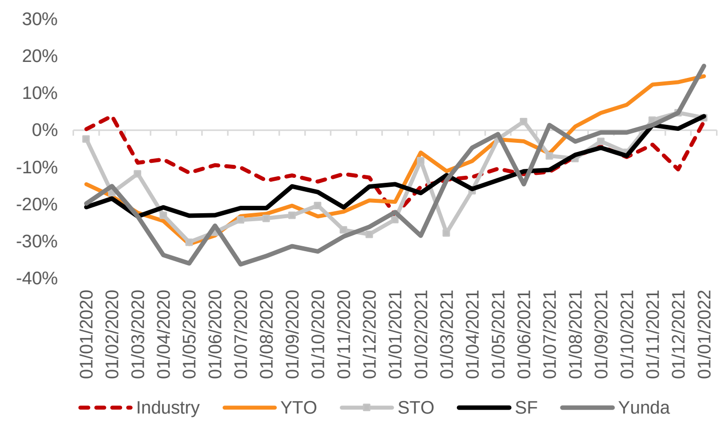
Link to latest report: SF Holding (002352 CH) – Core net profit in 4Q21 below expectation but recovery trend will continue

Financials and Valuations

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E
Revenue (RMB mn)	153,987	216,220	279,808	320,407
YoY growth (%)	37	40	29	15
Net income (RMB mn)	6,883	2,785	7,594	11,081
EPS (RMB)	1.54	0.61	1.55	2.26
YoY growth (%)	37.2	-60.6	154.9	45.9
Consensus EPS (RMB)	N/A	0.76	1.48	2.13
EV/EBITDA (x)	18.1	19.7	12.3	9.3
P/E (x)	31.3	79.5	31.2	21.4
P/B (x)	3.9	3.0	2.7	2.5
Yield (%)	0.7	0.2	0.7	1.0
ROE (%)	13.9	4.1	9.2	12.2
Net gearing (%)	Net cash	2.1	5.8	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: ASP trend for major express delivery players



Source: The State Post Bureau, Company data, CMBIGM

Xtep (1368 HK): Prudent on 2Q22 but guidance maintained

Rating: BUY **| TP:** HK$16.21 (58% upside)

Analyst: Walter Woo

- **Investment Thesis:** We believe Xtep is another key company to enjoy the domestic fashion mania in the next few years. Also, the partnership with Hillhouse since Mid 2021 would provide them more meaningful industry connections and resources. It has the third largest domestic sportswear brand (Xtep) in China with RMB 8.2bn sales and around 6,000 stores and other brands (K-Swiss, Sauncony, etc.) in FY20. Growth drivers include 1) premiumization and better product mix, 2) larger sized stores with better productivity and 3) multi-brands expansion.

- **Our View:** We are still confident on 1H22E and expect a 25%+ core brand retail sales growth, due to: 1) a resilient Jan-Feb and Mar 2022 performance, 2) ASP hike of 5-10% since 2Q22E with more trendy and innovative product launches and 3) step up in tier 1 cities and shopping malls expansion. We are also excited about the re-launch of K-swiss brand in China in FY22E. Xtep enjoyed a massive re-rating in FY21E, as it had taken over Nike as the most popular brand for professional runners (after the launches of 160X series) and received great popularity for its domestic fashion products (e.g. XDNA series).

- **Why do we differ vs consensus:** For FY22E/ 23E/ 24E, our net profit forecasts are differ than the street by 4%/ 5%/ -3%, as we are more optimistic about GP margins but more negative on sales growth.

- **Catalysts:** 1) resilient 2Q22E data point, 2) higher than expected popularity for products and brands and 3) potential stimulus from gov.

- **Valuation:** We derived our 12m TP of HK$16.21 based on SOTP valuation , also implying a 28x FY22E P/E. We believe resilient sales growth during tough time can boost investors confident. The stock is not expensive, at 20x FY22E P/E, with 26% adj. NP CAGR during FY21-24E.

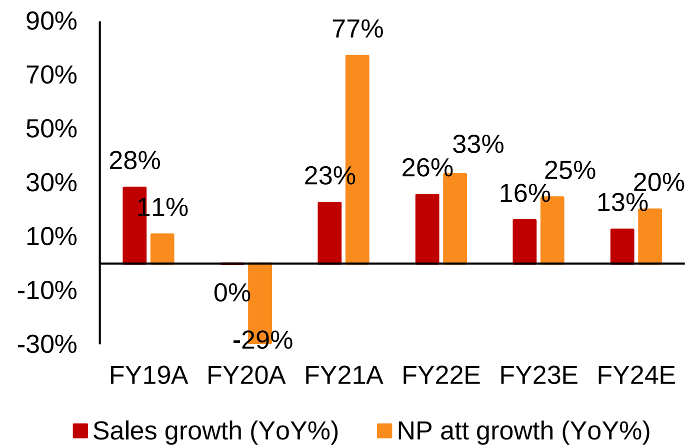
Link to latest report: Xtep (1368 HK) – Prudent on 2Q22 but guidance maintained

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Sales (RMB mn)	10,013	12,568	14,587	16,430
YoY change (%)	22.5	25.5	16.1	12.6
Adj. Net profit (RMB mn)	908	1,210	1,508	1,811
Adj. EPS - Fully diluted (RMB)	0.355	0.475	0.592	0.711
YoY change (%)	72.1	33.8	24.6	20.1
Consensus EPS (RMB)	N/A	0.452	0.561	0.702
Adj. P/E (x)	26.5	19.9	16.0	13.3
P/B (x)	3.0	2.8	2.6	2.4
Yield (%)	2.3	3.0	3.8	4.5
ROE (%)	11.9	14.6	16.9	18.7
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

Jiumaojiu (9922 HK): A resilient Tai Er and uprising Song Hot Pot

Rating: BUY **| TP:** HK$17.83 (30% upside)

Analyst: Walter Woo

- **Investment Thesis:** Catering sector is still under great pressure (COVID-19, economics slowdowns and inflation), but the room for consolidation and development is still huge. Top tier brands like Tai Er shall gain more market shares in the long run. Jiumaojiu has 98 Jiu Mao Jiu (Northwestern Chinese cuisine), 233 Tai Er (Sauerkraut fish cuisine) and 50 other restaurants (381 in total) in FY20. Growth drivers are: 1) Tai Er's rapid store expansion, 2) Ramp up of Tai Er's sales per stores and margins, and 3) successful scale up of Song hot pot.

- **Our View:** Tai Er's same store sales recovery rate was certainly bad at only ~60% in Mar2022, but we think that is still better than industry. And we are expecting a turnaround in Apr 2022, thanks to the recovery in Shenzhen. While operating deleverage could still exists, but for other expenses like raw material and staff costs, Jiumaojiu should handle much better than its peers. Also, investors are looking more ahead into 2H22 for potential turnaround. Moreover, we believe store model for Song hotpot has become more mature and its expansion could slowly accelerate.

- **Why do we differ vs consensus:** For FY22E/ 23E/ 24E, our sales forecasts are 4%/ 12%/ 16% below consensus and our net profit forecasts are also 5%/ 11%/ 11% lower than street as we are more conservative on its sales growth.

- **Catalysts:** 1) better than expected numbers in 2Q22E (industry peers' data); 2) more stimulus (e.g. consumption coupons or relax of restrictions) by government; 3) faster than expected store openings.

- **Valuation:** We derived our 12m TP of HK$17.83 based on 40x FY22E P/E. We see Jiumaojiu as the leading brand to play once the catering industry recover, hence driving re-rating. The stock is trading at 35x FY21E P/E.

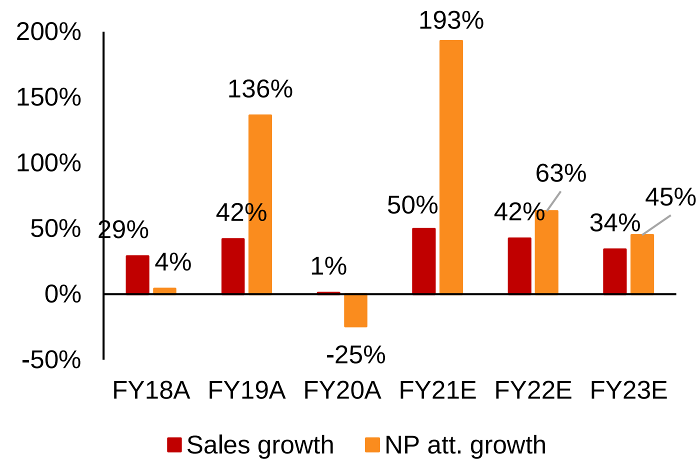
Link to latest report: Jiumaojiu (9922 HK) – A resilient Tai Er and an uprising Song Hot Pot

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Sales (RMB mn)	4,180	5,792	7,646	9,450
YoY change (%)	54.0	38.6	32.0	23.6
Net profit (RMB mn)	340	536	773	973
EPS - Fully diluted (RMB)	0.234	0.369	0.532	0.670
YoY change (%)	160.8	57.8	44.1	25.9
Consensus EPS (RMB)	N/A	0.365	0.582	0.784
P/E (x)	54.9	34.8	24.2	19.2
P/B (x)	5.5	4.7	3.8	3.1
Yield (%)	0.4	0.6	0.9	1.1
ROE (%)	10.5	14.5	17.4	17.9
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales/ NP att. growth, full year



Source: Company data, CMBIGM estimates

CR Beer (291 HK): An in-line 2H; all eyes on the next price hike and ongoing premiumization trajectory

Rating: BUY **| TP:** HK$80.0 (90% upside)

Analyst: Joseph Wong

- **Investment Thesis:** 2H21 net profits came in at RMB296mn, in line with the company's profit alert in which management indicated full year net profit to fall within RMB4.4-4.7bn, as a result of 1) a RMB1.3bn non-recurring gain on land transfer, 2) an expanding GPM driven by price hikes and premiumization, 3) a lower admin expense due to reduction of impairment loss and other one-off costs, and 4) a higher selling expense due to an increase in marketing spending.
- 2H21 shipment was 4.7mn kl, down 6.8% y-y, slightly ahead of our forecast at -7.5%. Despite the decline, we note a solid premiumization trend with a 28% growth in premium shipment to 1.87mn kl. Although this came in slightly below guidance at 30% (due to geographic mix subject to lockdowns), this effectively fueled a 5% ASP uptick, which not only neutralized a volume hiccup but also brought 2H revenue to RMB13.7bn.
- During the management call, management commented that they will not adjust their full-year and long term target owing to the pandemic. While focusing on a c.25% sub-premium/ premium shipment growth for 2022E, management still aims to achieve 4mn kl sub-premium+ shipment by 2025E. Separately, management expects a RMB1.5-1.6bn cost inflation for 2022 due mainly to price hikes from raw material and packaging costs. We will keep watching the trajectory.
- **Valuation:** Our new TP is still based on 29.0x end-22E EV/EBITDA, which represents 3-year average. We set our target multiple at LT average to reflect any mean reversion once investors look past the current volume hiccup, and upon the realization of gross margins expansion as market consensus now expects.

Link to latest report:

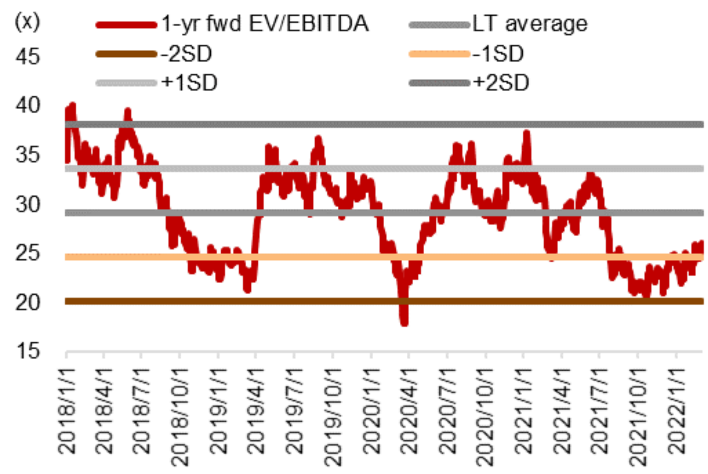
- Consumer Staples – Cherry-picking winners amid a de-risking mentality
- CR Beer (291 HK) – 2H21 results in-line; premiumization progress on track

Financials and Valuations

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E
Revenue (RMB mn)	31,448	33,092	35,216	37,401
YoY growth (%)	(5.2)	5.2	6.4	6.2
Net income (RMB mn)	2,094	4,406	4,337	5,235
EPS (RMB)	0.8	1.0	1.3	1.6
YoY growth (%)	32.6	21.4	33.9	20.7
Consensus EPS (RMB)	N/A	0.9	1.3	1.7
P/E (x)	N/A	53.2	39.7	32.9
P/B (x)	N/A	6.9	6.3	5.6
Div Yield (%)	N/A	0.8	1.0	1.2
ROE (%)	13.0	14.0	16.6	17.9
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

Mengniu (2319 HK): Raw milk price remained a lingering drag to 2H21 GPM; 2022E guidance maintained

Rating: BUY | **TP:** HK$57.0 (37% upside)

Analyst: Joseph Wong

- **Investment Thesis:** Recurring 2H21 net profit was flat YoY at RMB2bn, in line with our expectation. A 10% top line growth along with a 0.4pp operating cost savings was impressive, but both were in turn offset by a 35% GPM that came below our expectation.

- 2H21 revenue stood at RMB42bn, up 10% YoY, slightly ahead of our estimates, thanks to strong ice cream revenue which grew two-fold to RMB1.2bn. This is because milk formula revenue was slightly behind us at RMB2.4bn, while liquid milk revenue was in line at RMB37bn. New products contributed to a steady 15% to total revenue.

- By segment, on a full year basis, liquid milk revenue was up 13% YoY, of which UHT milk up 16% YoY while that of fresh milk was up 85% YoY. The latter snapped up another 2.3pp share to 13.4% of the market. Management reinforced that the business unit has turned profitable and foresee a betterthan-group-average profit margins in 3 years. Separately, ice cream revenue up 61% YoY with recurring domestic revenue going up by 19% YoY (excluding the acquisition of Aice by March 2021).

- Despite the strength in revenue, 2H21 GPM came in at 35.1% and was below our expectation of 36.1% on high milk cost. Management assured that raw milk price pressure has been easing and tapering from 15%+ over 1H21. For now, now, management still projects raw milk price to grow at HSD in 2022.

- **Valuation:** Our TP is still based on 30x end-22E P/E, which represents +1sd above its 3-year average. Our target multiple also benchmarks to Yili's.

Link to latest report:

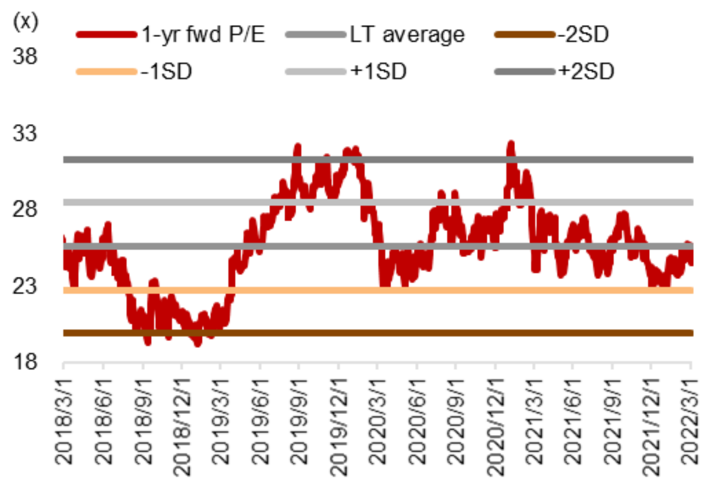
- ➢ Consumer Staples – Cherry-picking winners amid a de-risking mentality
- ➢ Mengniu (2319 HK) – Raw milk price remained a lingering drag to 2H21 GPM; 2022E guidance maintained

Financials and Valuations

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E
Revenue (RMB mn)	76,035	87,352	98,165	109,924
YoY growth (%)	(3.8)	14.9	12.4	12.0
Net income (RMB mn)	3,525	4,876	6,119	7,359
EPS (RMB)	0.9	1.3	1.6	1.9
YoY growth (%)	8.6	48.5	16.9	20.3
Consensus EPS (RMB)	N/A	1.3	1.7	2.2
P/E (x)	N/A	30.7	26.3	21.8
P/B (x)	N/A	4.3	3.8	3.4
Div Yield (%)	N/A	0.9	1.1	1.4
ROE (%)	9.5	11.8	13.2	14.1
Net gearing (%)	19.0	7.5	(6.5)	(20.3)

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E



Source: Company data, CMBIGM estimates

WuXi Biologics (2269 HK): Growth momentum intact

Rating: BUY **| TP:** HK$146.12 (137% upside)

Analysts: Jill Wu/Benchen Huang

- **Investment Thesis:** WuXi Bio is a world leading biologics CDMO which provides one-stop services of biologics discovery, development and manufacturing for global clients. With capabilities covering mAB, BsAB, ADC, fusion protein and vaccines, WuXi Bio has built a rich pipeline containing a total of 480 projects (as of Dec 2021), including 268 in preclinical stage, 32 in Ph3 stage and 9 in commercial stage. The Company adopts a “Follow-the-molecule” strategy to attract and foster early-stage projects and a “Win-the-Molecule” Strategy to win valuable late-stage projects. As a result of pipeline expansion, WuXi Bio’s backlog reached to US$13.6bn as of Dec 2021, a guarantee for future revenue growth.

- **Our View:** WuXi Bio has well demonstrated its all-round service quality and speed amid the COVID-19 pandemic. COVID-19 projects (vaccine + neutralizing mAb) contributed ~30% or ~RMB3bn of WuXi Bio’s total revenue in 2021, and are expected to generate more than RMB2bn/ RMB800mn revenue in 2022/23E. However, we see stronger revenue growth from its non-COVID projects. We expect WuXi Bio’s non-COVID revenue will grow by 78%/54% YoY in 2022E/23E (vs 46%/39% YoY for total revenue), respectively, mainly driven by CMO (commercial) projects. We note that 7 of the Company’s 9 commercial projects were added in 2021, marking the banner year of its commercial manufacturing business. Revenue from Phase III and commercial stage projects accounted for 48% of 2021 total revenue.

- **Why do we differ vs consensus:** Our FY22E/23E/24E revenue are +3%/+3%/+5% higher than consensus, reflecting our positive view on the Company’s non-COVID related projects besides its strong capability to win new COVID-19 contracts. We also think that WuXi Bio will largely mitigate geopolitical risks on its business with its global manufacturing network covering US, Ireland, Germany and Singapore.

- **Valuation:** We derive our target price of HK$146.12 based on DCF valuation (WACC: 10.17%, terminal growth rate: 4.0%).

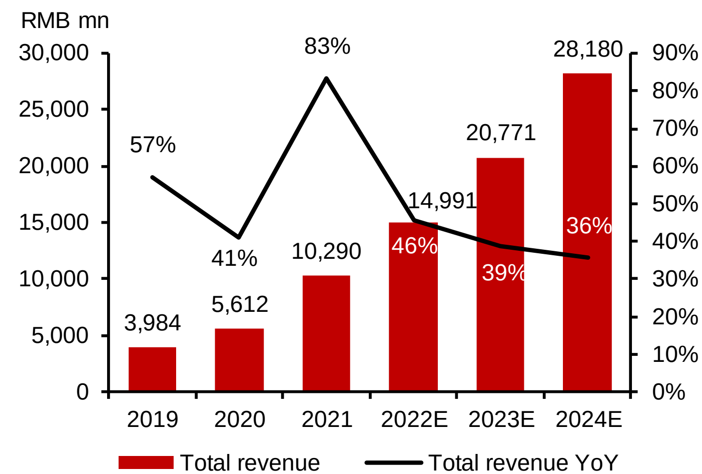
Link to latest report: WuXi Biologics (2269 HK) – Growth momentum intact

Financials and Valuations

(YE 31 Dec)	FY22E	FY23E	FY24E
Revenue (RMB mn)	14,991	20,771	28,180
Revenue YoY growth (%)	46	39	36
Net income (RMB mn)	4,448	6,095	8,296
Adjusted net income (RMB mn)	4,984	7,041	9,772
EPS (RMB)	1.06	1.45	1.97
EPS YoY growth (%)	30	37	36
Consensus EPS (RMB)	1.11	1.48	1.75
P/E (x)	50.5	36.9	27.1
P/B (x)	6.0	5.2	4.3
ROE (%)	12.7	15.1	17.3
Net gearing (%)	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Revenue trend



Source: Company data, CMBIGM estimates

Innovent Biologics (1801 HK): Expanding portfolio of commercial products

Rating: BUY | **TP:** HK$75.01 (187% upside)

Analysts: Jill Wu/ Andy Wang

- **Investment Thesis:** Besides the six marketed products, namely sintilimab, three biosimilars, pemigatinib (FGFR) and olverembatinib (BCR-ABL), Innovent further expanded the strategic partnership with Eli Lilly in Mar 2022, and added one newly approved oncology drug ramucirumab (VEGFR2) and one NDA stage asset selpercatinib (RET) to its portfolio. Selpercatinib may receive approval in China in 2022. Moreover, Innovent aims to submit at least three NDAs in 2022, including IBI-306 (PCSK9) for non-FH and HeFH in 1H22, IBI-326 (BCMA CAR-T) for r/r MM in 1H22, and IBI-310 (CTLA-4) in combo with sintilimab for 2L CC in 2H22. Given the comprehensive and fast growing commercial product portfolio, the management targets to realize over RMB20bn sales within the next 5 years.

- **Our View:** In addition to the above expanding portfolio of commercial products, Innovent also has established a comprehensive innovative portfolio covering next-generation I/O targets, including CD47/SIRPα, LAG3, TIGIT, KRAS G12C, etc. It's worth noting that Innovent is an early mover in CD47-SIRPα pathway with three assets under development, including clinical-stage IBI188 (CD47 mAb) and IBI322 (PD-L1/CD47 bsAb), and preclinical stage IBI397 (AL008, SIRPα mAb). Innovent anticipates to have more data readout in 2022 for multiple global assets currently at the PoC stage, including IBI-188(CD47), IBI-110 (LAG-3), and IBI-322 (CD47/PD-L1). The Innovent Academy has established over 80 research programs, with seven molecules progressed into IND-enabling stage in 2021, such as first-in-class IL-2 based bispecific antibodies and novel ophthalmology bispecific antibodies. The early stage global-right assets will serve as next wave of innovations for the Company.

- **Why do we differ vs consensus:** We are positive on the Company's growth thanks to more products launch in the near future (commercialization of selpercatinib, IBI-306, IBI-326, IBI310 and others in China during 2022-23E) and the NDRL inclusions of sintilimab's large indications effective from Jan 2022.

- **Valuation:** We derive our target price of HK$75.01 based on DCF valuation (WACC: 9.5%, terminal growth rate: 3.0%).

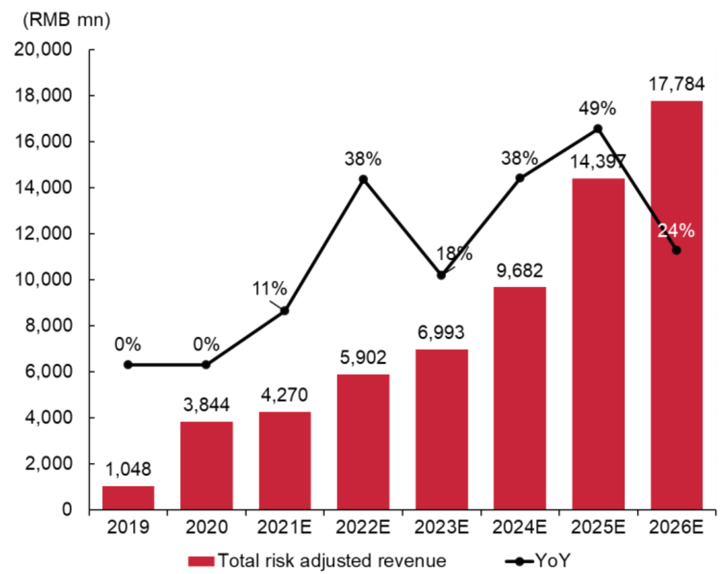
Link to latest report: Innovent Biologics (1801 HK) – Expanding portfolio of commercial products

Financials and Valuations

(YE 31 Dec)	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,902	6,993	9,682
YoY growth (%)	38	18	38
Net loss (RMB mn)	(1,934)	(1,230)	235
EPS (RMB)	(1.32)	(0.84)	0.16
Consensus EPS (RMB)	(0.93)	(0.43)	0.36
R&D expenses (RMB mn)	(2,500)	(2,500)	(2,130)
Capex (RMB mn)	(300)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Revenue trend



Source: Company data, CMBIGM estimates

Postal Savings Bank of China (1658 HK): Sector leading asset quality

Rating: BUY **| TP:** HK$8.40 (27% upside) Analyst: Eric Wang

- **Investment Thesis:** Sector-leading asset quality, as of end-2021, PSBC's NPL ratio improved 6 bps YoY to 0.82%, while the industry average was 1.73% and the SOE average was 1.32%. Moreover, in 2021 PSBC's SML ratio was 0.47%, while the SOE averaged 2.31%. Another advantage of PSBC is that it has less risk exposure on property industry than any other large and mid-sized banks. Only 2 % of its loan is property loan while sector average is 6.3%.
- **Optimistic outlook on its long term growth:** Unlike the other 5 SOEs, we are confident that PSBC can maintain a 10% CAGR on net profit growth in next few years, because there is no TLAC influence on capital reserve and best capital management bank under D-SIBs regulation. In addition to a growing RWA, according to its managements, the Bank is planning to lift LDR 2-3% annually in next few years. The increasing LDR will optimize its efficiency on total assets and then result in a better return on interest bearing assets. New management from CM Bank will optimize PSBC's business strategy on retail banking business and we have already seen fast growth on its wealth management business. As of the end of 2021, fee & commission income grew 33.4% YoY, contributing 6.9% to revenue, +114 bps YoY.
- **Catalysts:** less risk exposure on property is the key. Less risk exposure on property sector and NPL ratio of property loan is quite low. With uncertainty on property market, PSBC will outperform on asset quality. In addition, since its low valuation and 30% dividend payout, the downside is limited. In addition, because of its fast loan growth and sufficient CET-1 capital, it can maintain two-digit year-on -year growth on earnings.
- **Valuation:** Based on Gordon Growth Model, our target price on PSBC is HK$8.40, implies 0.91x 2022E and 0.85x 2023E P/B. The stock is trading at 0.72x/0.66x FY22/23E P/B, almost equivalent to -1SD of 3-yrs historical mean (0.82x P/B).

Link to latest report: China Banking Sector – 4Q21 Quarterly Review

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	318,762	346,050	381,008	425,213
Net profit	76,170	86,537	94,256	102,466
EPS (RMB)	0.78	0.94	1.02	1.11
Consensus EPS (RMB)	0.78	0.89	1.01	1.15
P/B (x)	0.65	0.72	0.66	0.61
Dividend yield (%)	5.6	5.2	5.7	6.2
ROE (%)	11.9	10.5	10.7	10.9
NPL ratio (%)	0.82	0.81	0.80	0.78
Provision coverage (%)	419	439	446	456

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Major banks' asset quality indicators

	NPL ratio	Allowance to total loan	Allowance to NPL	SML ratio
ICBC	1.42%	2.92%	206%	1.99%
CCB	1.42%	3.40%	240%	2.69%
ABC	1.43%	4.30%	300%	1.48%
BOC	1.33%	2.83%	187%	1.35%
BoComm	1.48%	2.46%	167%	1.35%
PSBC	0.82%	3.43%	419%	0.47%
CMB	0.91%	4.42%	484%	0.84%
CIB	1.10%	2.96%	269%	1.52%
Citic	1.39%	2.50%	180%	1.75%
CBHB	1.76%	2.39%	136%	2.83%
CEB	1.25%	2.34%	187%	1.86%
PAB	1.02%	2.94%	288%	1.42%
CMBC	1.79%	2.60%	145%	2.85%
CZB	1.53%	2.68%	175%	2.22%
JSB avg	1.34%	2.85%	233%	1.91%
SOE avg	1.32%	3.22%	253%	1.56%

Source: Company data, CMBIGM estimates

PICC P&C (2328 HK): Expect CoR improvement in FY22

Rating: BUY **| TP:** HK$11.54 (40% upside)

Analyst: Gigi Chen

- **Investment Thesis:** PICC P&C delivered decent FY21 results, continually outperforming industry average on both growth and underwriting margin. And the insurer continued to outperform major peers on auto insurance underwriting margin and growth. Looking into FY22, the management guided for below 97% CoR of auto insurance and below 100% CoR of corporate business. We expect strong premium income growth in 2M22 (+13.6% YoY) to sustain into the rest of 2022. And the insurer reiterated its progressive dividend policy, in spite of the upcoming C-ROSS 2.0 regime. The stock is trading at 6x P/E FY22E and 0.7x P/BV FY22E, with 7% dividend yield. We believe the recovery of auto insurance and improvement in non-auto business will drive stock re-rating. Reiterate Buy.
- **Catalysts:**
  - Strong monthly premium income momentum.
  - Overhang of NEV auto insurance removed: After the launch of new insurance clauses and pricing rate of new energy vehicles (NEVs) or electric vehicles (EVs) in Dec 2021, the combined ratio of NEV insurance improved to around 97% in 2M22 from the previous 100%+.
- **Valuation:** The stock is trading at 0.7x P/BV FY22E or 6x P/E FY22E, with about 7% dividend yield and 12%-14% ROE, well below historical average valuation. We peg our TP at HK$11.54, implying 1.0x P/BV FY22E or 8x P/E FY22E, reiterate Buy.

Link to latest report:

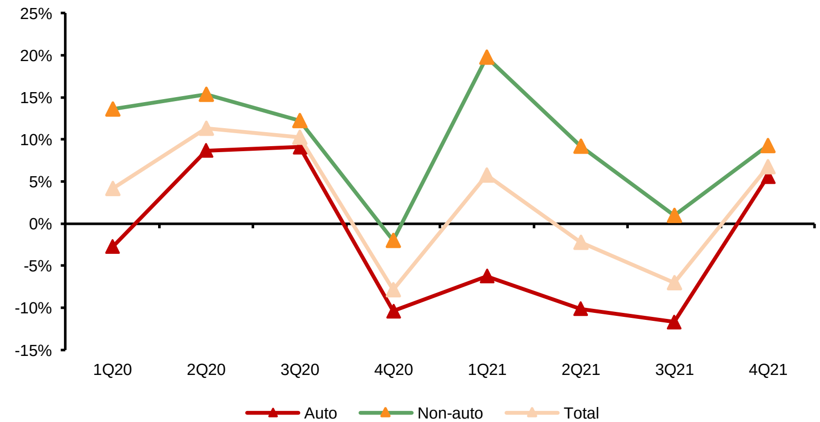
- PICC P&C (2328 HK) – Expect CoR improvement in FY22
- PICC P&C (2328 HK) – Auto growth pick up; Non-auto UW to improve
- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
GWP (RMB mn)	449,533	494,486	543,935	598,328
YoY growth (%)	3.8	10.0	10.0	10.0
UW profit (RMB mn)	1,521	4,422	6,760	7,436
Net profit (RMB mn)	21,652	25,268	30,093	3,914
EPS (RMB)	1.0	1.1	1.4	1.5
YoY Growth (%)	3.8	16.7	19.1	12.7
Consensus EPS (RMB)	1.1	1.2	1.3	1.4
P/B (x)	0.7	0.7	0.6	0.6
PER (x)	7.0	6.0	5.0	4.5
Yield (%)	6.0	7.0	8.3	9.4
ROE (%)	11.0	12.0	13.3	13.8

Source: Company data, Bloomberg, CMBIGM estimates

Fig: China P&C: Auto & Non-auto premium growth YoY%



Source: Company data, Bloomberg, CMBIGM estimates

Kuaishou (1024 HK): Expecting a solid start in FY22E

Rating: BUY **| TP:** HK$136 (108% upside)

Analyst: Sophie Huang

- **Investment Thesis:** Despite soft macro and epidemic resurgence, we expect Kuaishou to be relatively resilient (vs. peers) on its ads and ecommerce share gain (ads rev/ecommerce GMV +32%/37% YoY). We are more positive on its operating leverage and disciplined cost in FY22E (forecasting adj. NPM at -15%). Kuaishou would deliver better-than-expected 1Q22, with rising DAU, solid topline and narrowing loss. Suggest to buy the dips for attractive valuation.
- **Our View:** Given traffic strong seasonality, we expect DAU +15% YoY in 1Q22E, with rising time spent, backed by: 1) CNY & Olympics promotions and 2) structure adjustment. 1Q22E would see solid rev growth (forecasting +22% YoY), despite multiple headwinds. Looking ahead, we expect resilient growth with improving efficiency in FY22E. Ads would grow 32% YoY in FY22E, driven by: 1) ecommerce ads momentum to continue (+40% YoY, ~30% of total ads); 2) ramp-up of brand ads; and 3) non-ecommerce ads to gain share (forecasting +28% YoY). Kuaishou is also well-positioned to outperform in ecommerce, with estimated GMV over RMB900bn in FY22E. We expect better margin outlook ahead, with adj. NPM at -15% in FY22E and GPM +1ppts YoY.
- **Why do we differ vs consensus:** Market concern lies on ads growth, livestreaming policy and pressure from Douyin. We believe near-term concern have been priced in and its financials outlook was well-guided. Downside risk of earnings and multiple are limited.
- **Catalysts:** 1) potential upbeat 1Q22E; 2) Meituan synergies to expand TAM; 3) ecommerce to outperform.
- **Valuation:** Maintain BUY with SOTP-based TP of HK$136. Valuation is attractive, given its resilient growth and narrowing loss, in our view.

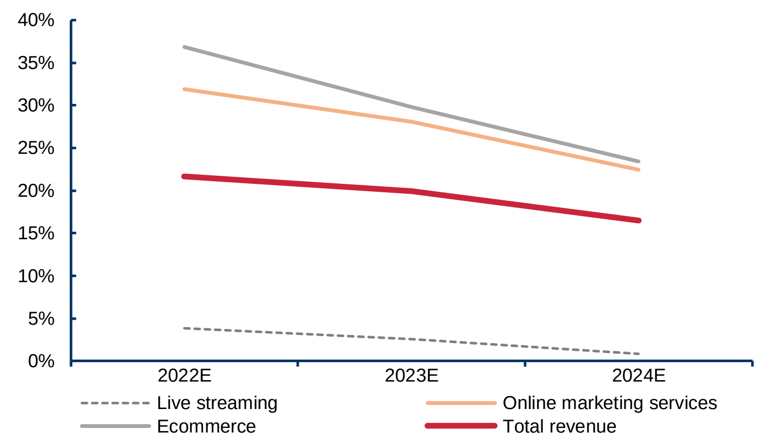
Link to latest report: Kuaishou (1024 HK) – Expecting a solid start in FY22E

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	81,082	98,614	118,281	137,795
YoY growth (%)	37.9	21.6	19.9	16.5
Net income (RMB mn)	(18,852)	(14,509)	(6,804)	884
EPS (RMB)	(4.3)	(3.3)	(1.5)	0.2
YoY growth (%)	NA	NA	NA	NA
Consensus EPS (RMB)	NA	(3.4)	(0.8)	1.6
P/E (x)	NA	NA	NA	NA
P/S (x)	3.1	2.5	2.1	1.9
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	73	55	12	10
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: KS's revenue growth estimates



Source: Company data, CMBIGM estimates

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

Rating: BUY **| TP:** HK$44.79 (18% upside) Analysts: Jeffrey Zeng/ Xiao Xiao

- **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 8x 2022E P/E vs. historical average of 9x. Moreover, the increase in revenue share of rent collection business could trigger re-rating.

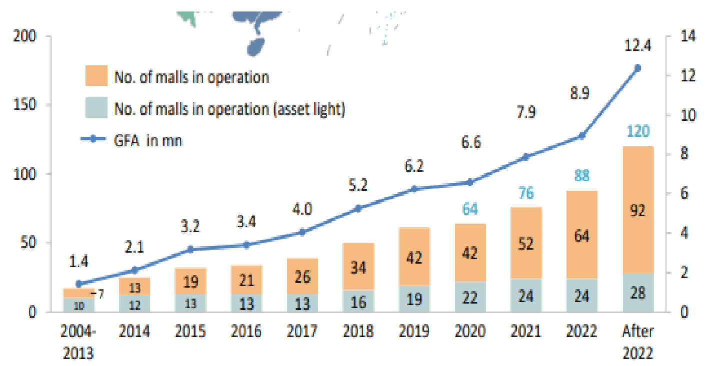
Link to latest report: China Property Sector – Bumpy road ahead despite better-than-feared 2M22 data

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21A	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)	7.7	7.6	7.2	6.6
P/B (x)	1.3	1.2	1.0	0.9
Yield (%)	3.3	3.9	4.7	5.3
ROE (%)	16.5	13.7	14.6	14.3
Net gearing (%)	30.3	32.1	31.6	34.4

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CR Land's opening plan



Source: Company data, CMBIGM

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

Rating: BUY **|** **TP:** HK$47.63 (31% upside) Analysts: Jeffrey Zeng/ Xiao Xiao

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

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

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

- **Valuation:** It's currently trading at 18x 2022E PE and looks attractive. We think it will rerate after better-than-expected 1H22 results.

Link to latest report: CG Service (6098 HK) – Keeping low for its second takeoff

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	28,843	43,303	61,955	86,155
YoY growth (%)	84.9	50.1	43.1	39.1
Net income (RMB mn)	4,033	5,662	7,863	10,899
EPS (RMB)	1.28	1.69	2.35	3.26
YoY growth (%)	31.1	32.2	38.9	38.6
Consensus EPS (RMB)	N/A	1.94	2.70	3.24
P/E (x)	30.1	22.7	16.4	11.8
P/B (x)	15.6	12.7	9.2	6.4
Yield (%)	0.8	1.1	1.5	2.1
ROE (%)	11.1	14.1	17.1	20.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CGS has first-move advantage in VAS acquisitions

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

Source: Company data, CMBIGM estimates

Xiaomi (1810 HK): Positive on global share gain and margin recovery

Rating: BUY | **TP:** HK$21.8 (76% upside)

Analysts: Alex Ng/ Lily Yang

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

- **Our View:** We are positive on Xiaomi's comprehensive product portfolio and premium model strategy amid Huawei's weakness in high-end segment. Mgmt. expected global chip shortage to remain challenging in 1Q22E but the situation will start to improve in 2Q22E. In China, Xiaomi will focus on efficiency enhancement in its 10k+ offline stores and boost upgrade for its mid/high-tier products. For overseas market, Xiaomi will boost expansion in Europe/LATAM carrier network given huge market share potential. For internet, we expect advertising momentum to continue backed by expansion of premium user base and overseas users. As for EV, we are positive on its progress backed by strong balance sheet, technology investment and talent acquisitions.

- **Why do we differ vs consensus:** Our FY22-23E EPS are 8-11% above consensus given better margins and share gain from overseas.

- **Catalysts:** Near-term catalysts include product launches, China demand recovery and EV progress.

- **Valuation:** Our TP of HK$21.8 is based on 20x FY22E P/E. We think it is justified given share gain in smartphone market, product transition into AIoT, and resilient internet revenue.

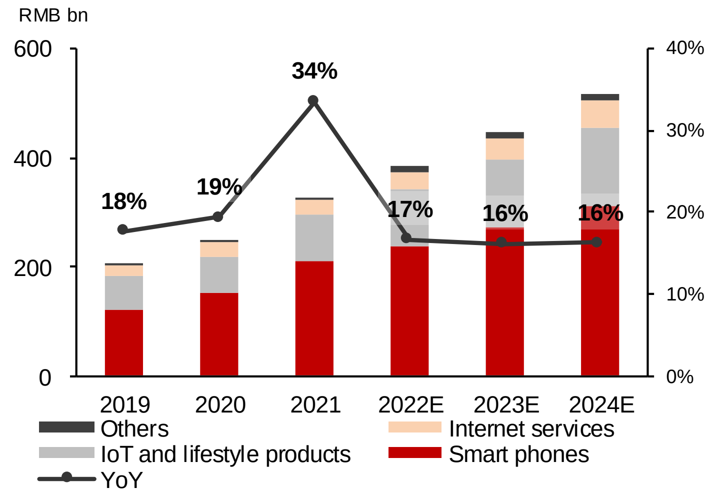
Link to latest report: Xiaomi (1810 HK) – Premium strategy bearing fruits; Reiterate BUY

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	328,309	383,207	445,272	517,843
YoY growth (%)	33.5	16.7	16.2	16.3
Adj. net profit (RMB mn)	22,039	25,427	30,668	37,214
Adj. EPS (RMB)	0.88	1.02	1.23	1.49
YoY growth (%)	63.1	15.4	20.6	21.3
Consensus EPS (RMB)	NA	0.95	1.11	1.24
P/E (x)	13.4	11.6	9.6	7.9
P/B (x)	2.6	2.1	1.8	1.5
Yield (%)	N/A	N/A	N/A	N/A
ROE (%)	13.5	17.2	16.8	16.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Xiaomi revenue trend



Source: Company data, CMBIGM estimates

Willsemi (603501 CH): A diversified & established global CIS player

Rating: BUY | **TP:** RMB292.00 (71% upside)

Analysts: Lily Yang/ Alex Ng

- **Investment Thesis:** Willsemi is a top 3 manufacturer in global CIS market. We expect auto/security CIS will maintain strong momentum, partially offset by a relative weak mobile CIS segment. We hold a positive outlook and believe Willsemi's stock is attractive. TP is RMB292. Maintain BUY.

- **Our View:** As we are moving into 2Q22, we would like to update our view on CIS sector and Willsemi's outlook, based on latest COVID-19 resurgence in China. We think the Company's operation will stay largely intact; however, China's zero-COVID policy will hurt consumer demand. Especially on the low-to-mid end consumer electronics, we believe domestic demand is likely to delay, if not disappearing. Although non-mobile CIS is expected to be the key driver going forward and offset some weakness from mobile CIS, we think the impact of recent partial lockdown on economics is bigger than our prev. estimation. Therefore, we trim our FY22/23E forecasts and lower target P/E multiple to 45x from 50x. TP revised to RMB292. Maintain BUY.

- **Why do we differ vs consensus:** We derive Willsemi's revenue growth based on sub CIS market growth. We give a lower than consensus mobile CIS growth & higher than consensus on auto, security & AR/VR growth.

- **Catalysts:** We are optimistic on CIS sector as security/auto CIS segments are expected to maintain healthy growth and applications in AR/VR are gaining momentum. Supply chain shows signs of recovery from pandemic.

- **Valuation:** Our TP of RMB292.0 by applying 45x FY22E P/E, reflects the impacts from recent partial lockdown on economics that is bigger than our prev. estimation.

Link to latest report:

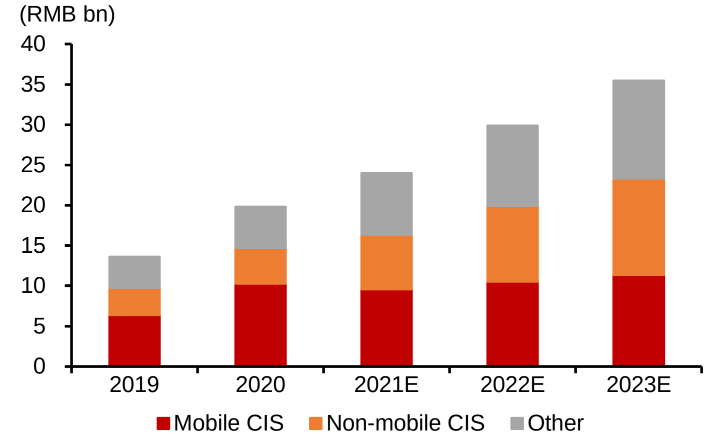
- China CIS Sector – Can non-mobile CIS strength offset handset weakness? We remain cautiously optimistic
- Willsemi (603501 CH) – FY21 revenue in line; Growth story stays intact

Financials and Valuations

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E
Revenue (US$ mn)	19,824	23,989	29,899	35,485
YoY growth (%)	45.4	21.0	24.6	18.7
Gross margin (%)	29.9	34.1	34.5	34.4
Net profit (US$ mn)	2,706	4,666	5,781	6,915
EPS (US$)	3.21	5.26	6.48	7.76
YoY growth (%)	322.4	63.7	23.4	19.6
Consensus EPS (US$)	3.21	5.34	6.77	8.62
PE (x)	60.2	36.8	29.8	24.9
ROE (%)	23.5	29.2	24.8	22.0
Net gearing (%)	6.7	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Willsemi revenue trend



Source: Company data, CMBIGM estimates

Glodon (002410 CH): Bearing fruits from SaaS transformation

Rating: BUY **| TP:** RMB82.75 (77% upside)

Analyst: Marley Ngan

- **Investment Thesis:** Although property sector weakness persists, we think Glodon's cash flow is less fluctuated with macro environment as its core costing SaaS products have high user stickiness. We expect Glodon to deliver 24% net profit CAGR in FY21-24E and that cash flow will remain strong with FCF margin at 16-19% throughout FY21-24E.

- **Our View:** We like Glodon for its successful SaaS transition. Glodon delivered strong FY4Q21 with revenue growth of +42% YoY to RMB2,018mn. Even for project-based Construction Management business, Glodon delivered +27% YoY revenue growth in FY4Q21 despite property sector weakness. Looking into FY22E, Glodon gave upbeat guidance of 1) Costing SaaS newly signed contract amounts to RMB4bn (+26% YoY), 2) Construction Management revenue +30% YoY growth. Overall, we are encouraged to see 1) +36% YoY in SaaS contracted liabilities, 2) improving operating leverage and 3) strong free cash flow.

- **Why do we differ vs consensus:** We think property SaaS players performance is diverging amid uncertain macro environment. Cash flow is important and that earnings/ cash flow visibility on Glodon is high.

- **Catalysts:** Better than expected net profit margin in 1Q22, improving property sector data in 2H22.

- **Valuation:** We derive our target price of RMB82.75 on 14x FY22E EV/sales, 1-SD above its 3-year mean. Glodon deserves re-rating as 1) free cash flow continues to improve with increasing SaaS contribution and 2) operating leverage from SaaS transition is emerging.

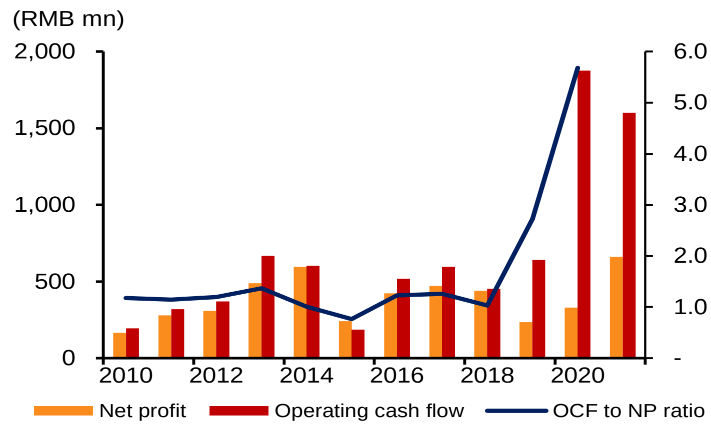
Link to latest report: China Software & IT Services – Diverging property SaaS outlook

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,619	6,698	7,770	9,060
YoY growth (%)	40	19	16	17
Net profit (RMB mn)	661	933	1,070	1,272
EPS (RMB)	0.56	0.78	0.90	1.07
YoY growth (%)	99	41	15	19
Consensus EPS (RMB)	0.56	0.84	1.11	N/A
PE (x)	90.5	64.1	55.9	47.0
EV/sales	9.9	8.2	7.0	5.8
Dividend Yiled (%)	0.01	0.00	0.00	0.00
ROE (%)	11	15	16	16
Net debt to equity	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Glodon operating cash flow to net profit ratio



Source: Company data, CMBIGM estimates

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