CMBI Research Focus List

Our best high conviction ideas

16 May 2023

CMBI Focus List – Long and short ideas

Company	Ticker	Sector	Rating	M cap (US$ bn)	3M ADTV (US$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY23E	P/E (x) FY24E	P/B (x) FY23E	ROE FY23E	Yield FY23E	Analyst
Long Ideas														
Li Auto Inc.	LI US	Auto	BUY	30.7	168.4	29.4	44.0	49%	N/A	N/A	4.0	7.6	N/A	Shi Ji/ Dou Wenjing
Great Wall Motor	2333 HK	Auto	BUY	27.9	61.8	10.0	12.0	20%	13.7	12.9	1.1	8.5	2.8%	Shi Ji/ Dou Wenjing
Zoomlion Heavy Industry	1157 HK	Capital Goods	BUY	7.4	4.6	4.3	6.4	46%	9.0	7.6	0.6	6.7	5.6%	Wayne Fung/ Katherine Ng
Yancoal Australia	3668 HK	Coal	BUY	4.8	8.6	28.3	48.0	70%	2.0	2.3	0.7	40.0	25.2%	Wayne Fung
CR Gas	1193 HK	Gas	BUY	8.4	14.9	28.5	39.0	37%	9.7	8.6	1.5	12.3	N/A	Megan Xia/ Jack Bai
Xtep	1368 HK	Consumer Discretionary	BUY	3.1	11.8	9.1	11.8	30%	17.5	14.2	2.4	13.9	3.4%	Walter Woo
Yum China	9987 HK	Consumer Discretionary	BUY	25.7	17.4	482.8	595.2	23%	28.0	22.5	N/A	12.0	1.1%	Walter Woo
XBXB	520 HK	Consumer Discretionary	BUY	0.7	10.9	5.1	11.2	118%	12.3	7.6	N/A	11.9	2.8%	Walter Woo
CR Beer	291 HK	Consumer Staples	BUY	23.4	57.5	56.6	77.4	37%	30.2	27.2	5.4	18.5	1.3%	Joseph Wong
Tsingtao	168 HK	Consumer Staples	BUY	17.3	29.7	76.9	92.9	21%	19.5	16.8	3.1	16.0	3.4%	Joseph Wong
Prada SpA	1913 HK	Consumer Staples	BUY	19.5	8.0	59.9	72.1	20%	27.2	24.4	4.2	16.0	2.2%	Joseph Wong
Kweichow Moutai	600519 CH	Consumer Staples	BUY	310.0	578.8	1716.3	2440.0	42%	32.1	28.7	10.2	31.9	1.3%	Joseph Wong
Innovent Biologics	1801 HK	Healthcare	BUY	7.8	37.0	40.1	50.3	26%	N/A	N/A	N/A	N/A	N/A	Jill Wu/ Andy Wang
AK Medical	1789 HK	Healthcare	BUY	1.2	3.6	8.6	12.3	43%	32.1	23.8	N/A	11.1	80.0%	Jill Wu/ Cathy Wang
AIA	1299 HK	Insurance	BUY	121.7	212.2	82.1	118.0	44%	N/A	N/A	N/A	18.2	2.1%	Gigi Chen
Tencent	700 HK	Internet	BUY	417.1	966.7	341.0	455.0	33%	N/A	N/A	N/A	N/A	N/A	Saiyi He/ Wentao Lu/ Frank Tao
Pinduoduo	PDD US	Internet	BUY	80.1	722.0	63.3	106.0	67%	24.4	17.4	4.9	23.4	N/A	Saiyi He/ Frank Tao/ Wentao Lu
NetEase	NTES US	Internet	BUY	54.9	110.9	85.2	116.0	36%	20.0	18.0	N/A	N/A	N/A	Saiyi He/ Wentao Lu/ Frank Tao
Kuaishou	1024 HK	Internet	BUY	29.1	146.9	52.7	94.0	79%	158.0	34.0	N/A	N/A	0.0%	Sophie Huang
CR Land	1109 HK	Property	BUY	31.2	46.1	34.3	45.1	32%	8.2	7.4	1.1	13.3	3.8%	Jeffrey Zeng/ Miao Zhang
BOE Varitronix	710 HK	Technology	BUY	1.2	3.6	11.9	23.7	99%	12.3	9.6	1.0	16.6	2.4%	Alex Ng/ Lily Yang
Wingtech	600745 CH	Technology	BUY	9.7	239.4	54.3	88.6	63%	14.3	10.6	N/A	10.6	0.7%	Lily Yang/ Alex Ng
Kingdee	268 HK	Software & IT services	BUY	5.2	38.5	11.6	23.3	100%	N/A	N/A	N/A	-4.0	0.0%	Marley Ngan

Source: Bloomberg, CMBIGM, Price as of 15/5/2023

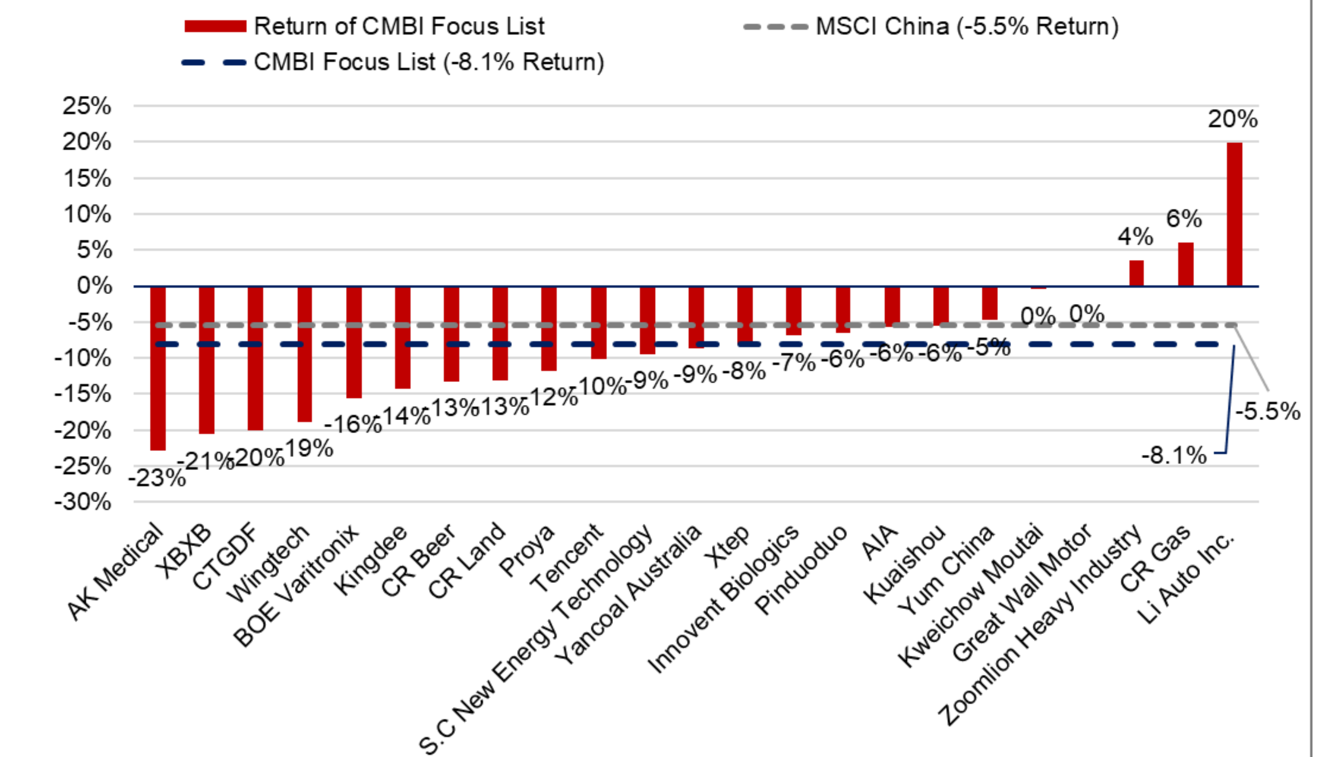
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
Tsingtao	168 HK	Consumer Staples	BUY	Joseph Wong	Coming peak beer season
Prada SpA	1913 HK	Consumer Staples	BUY	Joseph Wong	Solid earnings growth post mgt rotations
NetEase	NTES US	Internet	BUY	Saiyi He/ Wentao Lu/ Frank Tao	Business and stock price performance of online game stocks are usually resilient amid macro headwind. We view NetEase as a hedge against current macro and market uncertainty. NetEase's quality game pipeline will create additional support to its current valuation.
Deletions					
S.C New Energy Technology	300724 CH	Capital Goods	BUY	Wayne Fung/ Katherine Ng	The sharp decline in solar supply chain pricing as a result of rising supply will potentially put pressure on equipment capex going forward. We see a lack of catalyst in the near term.
Proya	603605 CH	Consumer Staples	BUY	Joseph Wong	Valuation
CTGDF	601888 CH	Consumer Staples	BUY	Joseph Wong	Valuation

Source: CMBIGM

Performance of our recommendations

- In our last report dated 14 April, we highlighted a list of 23 long ideas.
- The basket (equal weighted) of these 23 stocks underperformed MSCI China index by 2.6ppt, delivering -8.1% return (vs MSCI China -5.5%).
- 3 of these stocks delivered positive return, and 8 of our 23 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIGM; Note: Stock performance from 14 Apr 2023 to 12 May 2023

Long Ideas

Li Auto Inc. (LI US): 1Q23 beat with sustainable profitability ahead

Rating: BUY **|** TP: US$ 44.00 (49% upside)

Analysts: Shi Ji/ Dou Wenjing

- **Investment Thesis:** China's auto industry has been experiencing drastic changes as consumers pursue new values from vehicles, which needs pioneers but not followers, in our view. We are pessimistic about most incumbent automakers' tech transformation. We are still of the view that Li Auto is best positioned among Chinese NEV start-ups, with the highest chance to become a long-term winner. Apart from its products, we like the company's high self-discipline in costs and business expansion even as it is much more resourceful than before.

- **Our View:** The automaker targets to double its market share to 20% in the SUV segment priced between RMB 300,000-500,000 in FY23E, which translates into about 280,000-300,000 units. We believe Li Auto is on track to its full-year sales target, which is rare in 2023 amid intensifying price war.

- Management targets a monthly sales volume of 30,000 units by the end of 2Q23. We maintain our FY23E sales volume forecast of 285,000 units. We expect Li Auto to continue leading FY23E sales volume among the NEV trio. Li Auto is also well on track to become the first Chinese NEV start-up to make profit, and we keep our FY23E net profit forecast of RMB 3.6bn.

- **Catalysts:** 1) Strong sales volume YoY growth in May-Jun; 2) Possible milder sales cannibalization between the *L7, L8* and *L9* than some investors' expectation; 3) first BEV (battery electric vehicle) model with HPC (high power charging) to be introduced in 4Q23.

- **Valuation:** Our target price of US$ 44.00 is based on 3.0x FY23E P/S.

Link to latest reports:

Li Auto Inc. (LI US) – 1Q23 beat with sustainable profitability ahead

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

Financials and Valuations

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E
Revenue (RMB mn)	27,010	45,287	97,900	126,850
YoY growth (%)	186	68	116	30
Net income (RMB mn)	(321)	(2,012)	3,603	5,248
EPS (RMB)	(0.2)	(1.0)	1.8	2.7
YoY growth (%)	N/A	N/A	N/A	45.6
P/S (x)	6.4	4.3	2.0	1.6
P/B (x)	4.2	4.4	4.0	3.6
Yield (%)	N/A	N/A	N/A	N/A
ROE (%)	(0.9)	(4.7)	7.6	9.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Great Wall Motor (2333 HK): New PHEV models appears to be more exciting

Rating: BUY **|** TP: HK$ 12.00 (20% upside)

Analysts: Shi Ji/ Dou Wenjing

- **Investment Thesis:** We believe management has probably learnt some lessons from its previous PHEV failure and will prioritize its NEV market share over profitability as we had expected before. Investors would also pay more attention to its NEV sales growth than profitability this year. In our view, the key still lies in the competitiveness of Great Wall's new PHEV models this year.

- **Our View:** The company plans to introduce over 10 new NEV models this year, with an independent sales channel for Haval's PHEV products. We believe the six-seat mid-to-large-size SUV WEY *Lanshan* PHEV has been well received, partially due to its lower-than-peer pricing. That could make management follow the same pricing strategy for the upcoming Haval *Xiaolong*. We believe the *Xiaolong* shares a large amount of components with Great Wall's existing models to lower costs, based on our observation from the Shanghai Auto Show. That provides room for its competitive pricing strategy.

- We forecast Great Wall's sales volume to rise 12% YoY to 1.2mn units in FY23E, with NEVs accounting for 25%. We project net profit to drop 31% YoY to RMB 5.7bn in FY23E, given intensified competition, as well as higher marketing and R&D expenses forecasts.

- **Valuation and Catalyst:** We maintain our BUY rating and target price of HK$12.00, based on 16x our FY23E P/E. We assign a slightly higher target valuation, as a plethora of upcoming new NEV models at Great Wall could be more exciting than investors had expected.

Link to our report: Great Wall Motor (2333 HK) – New PHEV models appears to be more exciting

Financials and Valuations

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

Source: Company data, Bloomberg, CMBIGM estimates

Zoomlion Heavy Industry (1157 HK): Surprise on dividend; Recovery in sight

Rating: BUY **| TP:** HK$6.35 (46% upside)

Analysts: Wayne Fung/ Katherine Ng

- **Investment Thesis:** Zoomlion is a major construction machinery manufacturer in China. The Company has identified construction machinery, agricultural machinery + intelligent agriculture, and materials as the key business lines. The diversification strategy on both product level (AWP & excavator) and industry level (materials) will help smoothen the revenue stream. Zoomlion has also achieved strong breakthrough in the overseas market.

- **Our View.** Zoomlion's net profit in 1Q23 dropped 11% YoY to RMB810mn, below our expectation but due largely to fx loss. On the positive side, Zoomlion delivered revenue growth of 4% in 1Q23, the first YoY growth since 2Q21, driven by 123% YoY increase in overseas revenue. Besides, gross margin expanded 6.3ppt YoY and 2.2ppt QoQ to 26.3%. We expect a gradual recovery of construction machinery demand over the coming months. We view Zoomlion as a recovery play in 2023E following the earnings decline in 2021 & 2022.

- **Why do we differ vs consensus:** Our 2023E/24E earnings forecast is 6%/3% above consensus.

- **Catalysts:** (1) Stabilization of property sector (+ve to tower crane & concrete machinery demand), (2) Stronger-than-expected overseas demand.

- **Valuation:** Our TP of HK$6.35 is based on 13x 2023E P/E (1SD above the average of 9.5x since the upcycle starting 2019). We believe our target valuation is not excessive given (1) the potential earnings recovery; (2) the peak valuation of 18x.

Link to latest report:

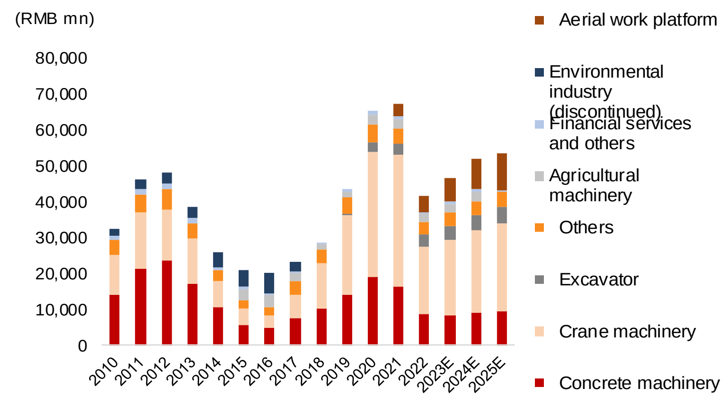
Zoomlion-H – 1Q23 earnings slightly below expectation but recovery trend largely on track

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	41,631	46,363	51,798	56,953
YoY growth (%)	(38.0)	11.4	11.7	10.0
Net income (RMB mn)	2,347	3,719	4,404	4,748
EPS (RMB)	0.28	0.43	0.51	0.55
YoY growth (%)	(63.3)	54.2	18.4	7.8
Consensus EPS (RMB)	N/A	0.40	0.49	N/A
EV/EBIDTA (x)	11.1	6.7	5.7	5.3
P/E (x)	13.9	9.0	7.6	7.1
P/B (x)	0.6	0.6	0.6	0.6
Yield (%)	8.0	5.6	6.6	7.1
ROE (%)	4.2	6.7	7.7	8.0
Net gearing (%)	7.1	10.7	11.7	11.1

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Zoomlion's revenue breakdown



Source: Company data, CMBIGM estimates

Yancoal Australia (3668 HK) – Inclusion in Stock Connect a re-rating driver

Rating: BUY | **TP:** HK$48 (70% upside)

Analyst: Wayne Fung

- **Investment Thesis:** We expect a resilient demand for seaborne coal as many countries have put energy security top of the priority, while the coal supply has remained tight due to miners' capex discipline. The strong coal price helped Yancoal Australia (YAL), the largest pure coal producer in Australia, turn the net gearing dramatically from 69% in 2020 to a net cash position in Jul 2022, which paved the way for generous dividend distribution going forward.

- **Our View:** HKEx announced earlier the updated list of stock eligible for the Stock Connect. For the first time, foreign companies are included and YAL is one of them. The inclusion came into effect on 13 Mar. We expect it will boost the trading volume and potentially trigger a re-rating, given that YAL offers scarcity value for Mainland investors who are looking for opportunities in seaborne coal sector, high yield and low multiple. Going forward, we expect the re-opening of China will continue to lend support to the regional coal price. Besides, we expect the improved relations between China and Australia (resumption of the import of Australian coal) will help Australian coal miners to gain market share.

- **Why do we differ vs consensus:** There is only limited number of analysts covering the stock. We believe the market has yet to realize the potential of the Company.

- **Catalysts:** (1) Recovery of coal production as a result of improved weather; (2) Recovery of China economy to support an increase in regional price; (3) Continuous buying from Southbound (2% at present).

- **Valuation**. The stock is attractively trading at 25% 2023E yield, or 2x 2023E P/E. Maintain **BUY** with NPV-based TP of HK$48.

Link to latest report: Yancoal Australia – ASP offset the decline in sales volume in 1Q23; Expect improvement in volume

Financials and Valuations

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E
Revenue (A$ mn)	5,403	10,548	10,386	9,576
YoY growth (%)	55.6	95.2	(1.5)	(7.8)
Net income (A$ mn)	791	3,587	3,576	3,143
EPS (A$)	0.60	2.72	2.71	2.38
YoY growth (%)	N/A	355.0	(0.3)	(12.1)
Consensus EPS (A$)	N/A	N/A	N/A	N/A
EV/EBITDA (x)	2.3	0.8	0.8	0.9
P/E (x)	8.1	1.9	2.0	2.3
P/B (x)	1.0	0.9	0.7	0.6
Yield (%)	10.1	23.2	25.2	22.2
ROE (%)	13.9	50.6	40.0	29.6
Net gearing (%)	31.6	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates
Note: Thermal coal price assumptions: A$300/250 per tonne in FY23E/24E.

Fig: NPV sensitivity to LT coal price and WACC

WACC	LT coal thermal coal price (A$/t)				
	80	100	**120**	140	160
4.6%	20	35	50	65	80
5.6%	22	36	49	63	76
6.6%	24	36	**48**	61	73
7.6%	25	36	47	59	70
8.6%	26	36	47	57	68

Note: Assuming LT thermal coal price = A$120/t

WACC	LT metallurgical coal price (A$/t)				
	120	140	**160**	180	200
4.6%	45	47	50	53	56
5.6%	44	47	49	52	54
6.6%	44	46	**48**	51	53
7.6%	43	45	47	50	52
8.6%	43	45	47	49	50

Note: Assuming LT metallurgical coal price = A$160/t
Source: CMBIGM estimates

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

Rating: BUY **|** **TP:** HK$39.00 (37% upside)

Analysts: Megan Xia/ Jack Bai

- **Investment Thesis:** CRG is now trading at around 8.5x FY23E PE, and the valuation is attractive. We are still optimistic in 2023 about CRG, considering: 1) better C&I gas sales volume; 2) positive residential cost-cross policies release successively will favorable for CRG's dollar margin improvement;3) sustained M&A provides great support for the business scale; 4) robust growth momentum of CRG's value-added services and comprehensive energy segment continues; and 5) superior financial resilience. Maintain BUY.

- **Our View:** CRG's 2023 guidance is relatively conservative but optimistic as it expects gas demand recovery and better gas cost-cross progress ahead. The improvement will mainly driven by: 1) The growth of overall gas sales volume is expected to rebound to the low-mid double digits as the C&I gas sales volume will recover, and we expect the total gas sales volume will achieve 12.6% YoY in 2023. 2) For dollar margin, the positive policies of residential cost-cross measure is actively releasing (CRG's residential clients base is huge), and the total dollar margin is expected to improve to RMB0.5/cbm in 2023; 3) The guidance for new residential users is relatively conservative but inline, with an expectation of 3.5mn new household users; 4) The comprehensive service business maintains rapid growth; 5) CRG actively develops the comprehensive energy business. Thus, we stay optimistic on CRG and regard the valuation as attractive.

- **Valuation:** For 2023, considering economic recovery and lower gas cost, we forecast the total gas sales volume will achieve low-double-digit growth and dollar margin will rebound to RMB0.5/cbm. Additionally, we expect CRG's comprehensive service to continue solid growth. CRG is trading at around 8.5x PE in FY23E, close to -1SD of its 3-year historical average PE. The valuation is attractive. We maintain our TP at HK$39, based on 13x FY23E PE (~close to 3-year avg.PE) and rolling FY23E EPS of HK$2.99/share. Reiterate a BUY rating.

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

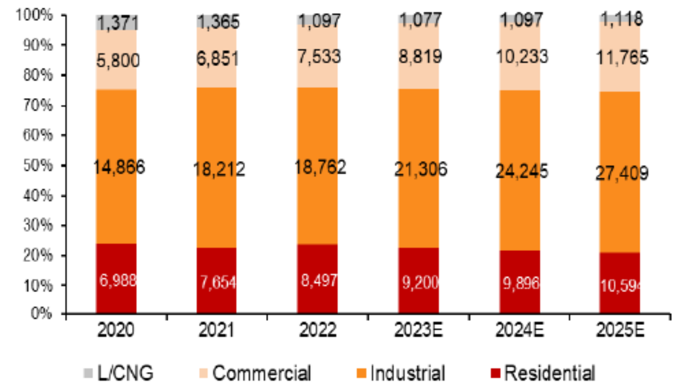
- **Link to latest report**: CR Gas (1193 HK) – Expect 2023 profit rebound ahead; attractive valuation

Financials and Valuations

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

Source: Company data, Bloomberg, CMBIGM estimates

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



Source: Company data, CMBIGM

Xtep (1368 HK): Strong 1Q23 with retail sales guidance raised

Rating: BUY **| TP:** HK$11.76 (30% upside)

Analyst: Walter Woo

- **Investment Thesis:** We believe Xtep can continue to outperform, thanks to its leadership in running and its expansion into the domestic fashion. Also, the partnership with Hillhouse could still provide them with more meaningful industry connections and resources. It has the 3rd largest domestic sportswear brand (Xtep) in China with RMB 12.9bn sales and around 6,300 stores and other brands (K-Swiss, Saucony, etc.) in FY22.

- **Our View:** Firstly, we are impressed by Xtep's 1Q23 (20% YoY retail sales growth vs Anta and Li Ning's single digit), esp. when it faced increased competition in running and a high base last year. Secondly, we believe the positives like: 1) individual sports like running, have gained more market shares during the pandemic, could still see huge growth in FY23E, thanks to re-opening of many marathons, 2) Xtep's products are awards winning, record breakings and value for money (priced at RMB 1299 vs Li Ning's 1699 and Anta's 1299), 3) Xtep kid to take more group orders (as it is more value for money), shall continue to 2Q23E with an easier base. Thirdly, its multi-brand strategy is about to bear fruit, e.g. Sauncony selling good online is an important indicator for its offline store potential

- **Why do we differ vs consensus:** For FY23E/ 24E/ 25E, our net profit forecasts are +1%/ -1%/ 3% vs the street, as we are more optimistic about its sales growth and OP margins in FY23E but conservative in FY24E-25E.

- **Catalysts:** 1) acceleration to continue in 2Q23E, 2) higher than expected popularity for its running products or Saucony and 3) potential consumption stimulus from government.

- **Valuation:** We derived our 12m TP of HK$11.76 based on a 23x FY23E P/E. We believe consistent outperformance can boost investors confidence. The stock is not expensive, at 18x FY23E P/E.

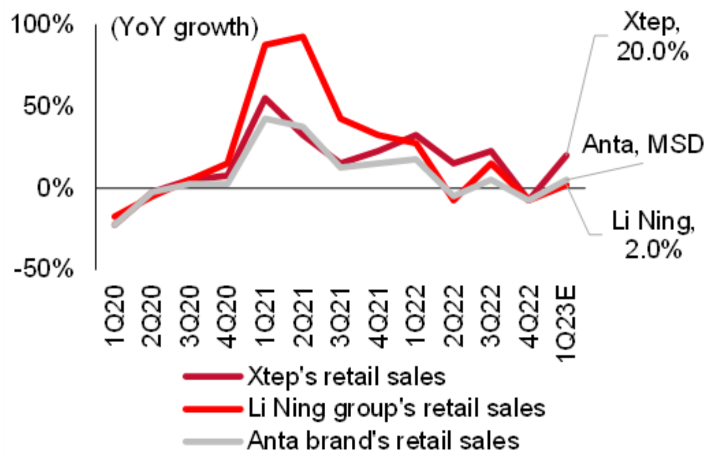
- **Link to latest report:** Xtep (1368 HK) – Strong 1Q23 with retail sales guidance raised

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Sales (RMBmn)	12,930	15,187	17,629	20,093
YoY change (%)	29.1	17.5	16.1	14.0
Adj. Net profit (RMBmn)	922	1,192	1,474	1,803
Adj. EPS - Fully diluted (RMB)	0.357	0.453	0.559	0.684
YoY change (%)	0.6	26.7	23.6	22.3
Consensus EPS (RMB)	N/A	0.440	0.547	0.677
Adj. P/E (x)	22.2	17.5	14.2	11.6
P/B (x)	2.5	2.4	2.2	2.0
Yield (%)	2.2	3.4	4.2	5.2
ROE (%)	11.3	13.9	16.0	18.2
Net debt/ equity (%)	Net cash	Net cash	4.7	9.2

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Retail sales growth, by domestic brands



Source: Company data, CMBIGM estimates

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

Rating: BUY **| TP:** HK$595.15 (23% upside)

Analyst: Walter Woo

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

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

- **Why do we differ vs consensus:** For FY23E/ 24E/ 25E, our net profit forecasts are 0%/ 5%/ 12% above street as we are more confident on its operational competitiveness and OP margin expansion.

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

- **Valuation:** Our new TP of HK$ 595.15 is based on 35x FY23E P/E (up from 33x), about 2 s.d. above 5 years average of 27x, given the upcycle and 48% NP CAGR in FY22-25E. The stock is trading at ~28x FY23E P/E.

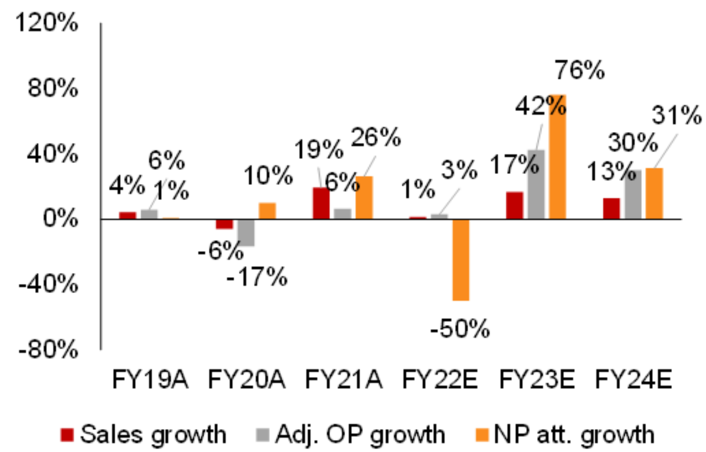
Link to latest report: Yum China (9987 HK) – Confidence increases after upbeat 1Q23 result

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Sales (RMB mn)	9,569	11,072	12,414	13,938
YoY change (%)	(2.9)	15.7	12.1	12.3
Adj. net profit (RMB mn)	442	881	1,087	1,363
EPS - fully diluted (RMB)	1.04	2.17	2.68	3.36
YoY change (%)	(54.4)	108.6	23.4	25.4
Consensus EPS (RMB)	N/A	1.98	2.47	3.87
P/E (x)	58.9	28.0	22.5	18.2
P/S (x)	3.4	3.3	2.9	2.57
Yield (%)	0.8	1.1	1.3	1.7
ROE (%)	5.9	12.0	13.8	15.2
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales and net profit growth



Source: Company data, CMBIGM estimates

XBXB (520 HK): Both sales and margin recovery are on track

Rating: BUY **| TP:** HK$11.21 (118% upside)

Analyst: Walter Woo

- **Investment Thesis:** Xiabu Xiabu Catering is the 2nd largest hotpot restaurant group in China, with ~1.2% market shares in 2021. It has three brands (Xiabu Xiabu (“XBXB”), Cou Cou and Shao Hot). As at FY22, it had 801 XBXB/ 224 Cou Cou restaurants and generated RMB 4.7bn sales and RMB 353mn net loss. We believe it has multiple growth drivers such as: 1) transformation of XBXB brand, 2) margin improvements through better store economics and new incentive scheme, 3) store expansion to the Southern China and even overseas, 4) ramp up of the new brand Shao Hot.
- **Our View:** Sales did miss a bit in FY22E, but we do think it was more like one-off and the outlook in FY23E is still good. While sales was not too good (For XBXB/ Cou Cou, recovery rate were ~90%/ ~76% and SSSG were ~25%/ ~9%) in Jan-Mar 2023, but we do think that was at least inline with management’s expectation. And the margin expansion story is still intact (we may refer to significant improvement in 2H22). Especially after the recent share price retreat, it is fairly attractive at just 16x P/E.
- **Why do we differ vs consensus:** For FY23-25E, our sales forecasts are 5%-7% higher than consensus and our net profit forecasts are 40%-50% above street as we are more confident on its 1) SSSG recovery, 2) GP margin as well as 3) store productivity improvement.
- **Catalysts:** 1) better than expected SSS recovery, 2) better than expected reforms, 3) faster than expected store openings and 4) successful expansion for Shao Hot.
- **Valuation:** We derived our 12m TP of HK$11.21 based on SOTP valuation (21x/ 35x for XBXB/ Cou Cou), also implied a 27x FY23E P/E, ~22% discount to industry average. We believe its current valuation at ~12x FY23E P/E is still cheap given the various reforms and recovery.

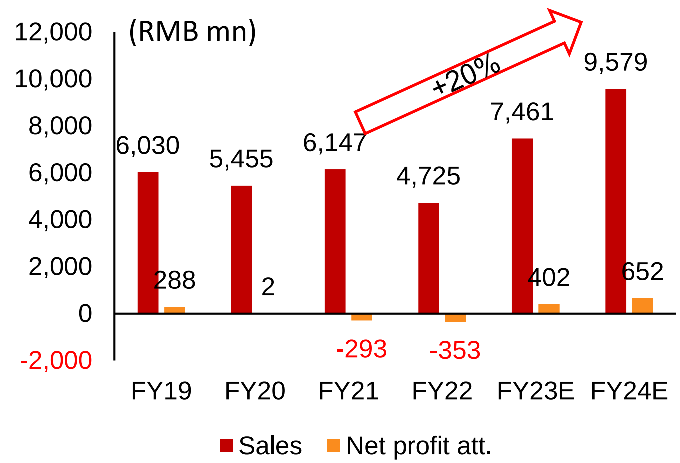
Link to latest report: XBXB (520 HK) – Both sales and margin recovery are on track

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Sales (RMB mn)	4,725	7,461	9,579	11,441
YoY change (%)	(23.1)	57.9	28.4	19.4
Adj. Net profit (RMB mn)	(353)	402	652	837
EPS - Fully diluted (RMB)	(0.334)	0.370	0.600	0.771
YoY change (%)	11.8	(210.8)	62.1	28.3
Consensus EPS (RMB)	N/A	0.272	0.438	0.610
P/E (x)	(13.6)	12.3	7.6	5.9
P/S (x)	3.2	2.7	2.1	1.8
Yield (%)	1.2	2.8	5.3	7.6
ROE (%)	8.9	11.9	31.2	32.5
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales and net profit



Source: Company data, CMBIGM estimates

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

Rating: BUY | **TP:** HK$77.4 (37% upside)

Analyst: Joseph Wong

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

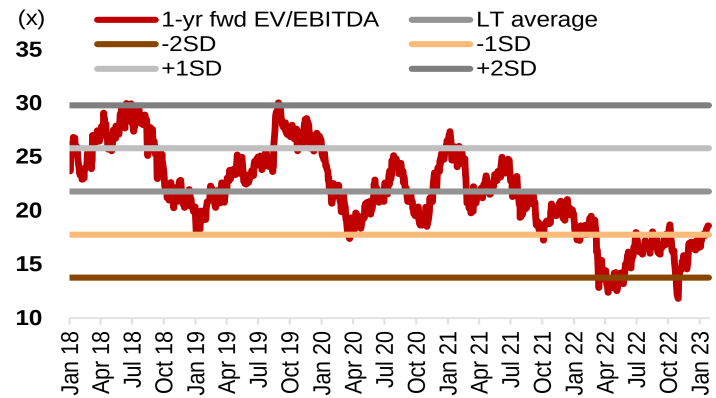
Link to latest report: CR Beer (291 HK) – Another positive year for 2023; our preferred pick for China's re-opening

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	33,387	35,617	38,825	42,619
YoY growth (%)	6.2	6.7	9.0	9.8
Net income (RMB mn)	4,587	4,299	5,024	5,736
EPS (RMB)	1.0	1.3	1.5	1.8
YoY growth (%)	21.0	20.0	16.9	14.2
Consensus EPS (RMB)	N/A	1.3	1.6	1.9
P/E (x)	N/A	36.1	30.2	27.2
P/B (x)	N/A	5.9	5.4	4.4
Div yield (%)	N/A	1.1	1.3	1.5
ROE (%)	14.1	17.2	18.5	18.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward EV/EBITDA



Source: Company data, CMBIGM estimates

Tsingtao (168 HK) – Stronger ahead

Rating: BUY | **TP:** HK$ 92.9 (21% upside)

Analyst: Joseph Wong

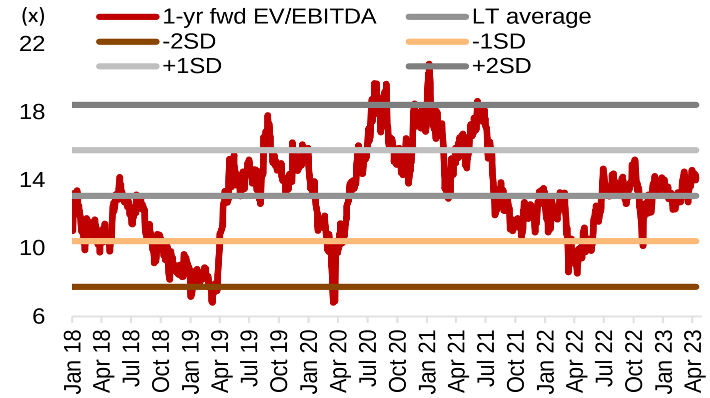
- Tsingtao's solid 1Q and takeaway from briefing again convinced us that the Company is dedicated to its premiumization effort along with a more cost-effective operation. Despite market talks about soft beer sales in April, Tsingtao's low-teen sales growth of the month was encouraging, considering also the mid-double-digit volume growth in Classic & above. Looking ahead, 2Q is an important quarter for beer consumption, as the quarter's restocking momentum typically provides a good gauge to peak season demand, and therefore any earnings upside for Tsingtao.
- **2Q outlook.** 1Q momentum has largely extended into April with low-teen sales growth. Approaching the end of May, we should be able to obtain incremental information about the demand for Dragon Boat Festival and more importantly, for the upcoming summer strong season. For now, we assert a similar, if not better, growth trajectory for the quarter as our base case scenario. Long term, Tsingtao's management targets to maintain double-digit sales growth thanks to sustainable drivers such as price hike, mix upgrade and cost initiatives.
- **A re-ramped product/ regional strategy.** Tsingtao plans to reshape its product structure to diamond-shaped, having mass market products (mainly Classic) contributing a large part of the mix, followed by that of super-premium. Low end SKUs will represent the smallest shares. By region, Tsingtao will maintain its lead in Shangdong, Shaanxi, Gansu, and will look for regaining market share in weaker regions such as Guangdong.
- **Valuation.** Our revised TP is still based on 15.0x roll-forward end-23E EV/EBITDA which still represents +1sd above long term average since 2018.
- **Link to latest report:** Tsingtao Brewery (168 HK) – Stronger ahead

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	32,172	35,852	39,475	43,570
YoY growth (%)	6.6	11.4	10.1	10.4
Net income (RMB mn)	3,711	4,398	5,081	5,861
EPS (US$)	2.7	3.2	3.7	4.3
YoY growth (%)	17.4	18.5	15.5	15.3
Consensus EPS (RMB)	N/A	3.3	3.6	4.0
P/E (x)	N/A	19.5	16.8	14.6
P/B (x)	N/A	3.1	2.9	2.7
Div yield (%)	N/A	3.4	3.9	4.5
ROE (%)	14.6	16.0	17.2	18.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E



Source: Company data, CMBIGM estimates

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

Rating: BUY | **TP:** HK$72.1 (20% upside)

Analyst: Joseph Wong

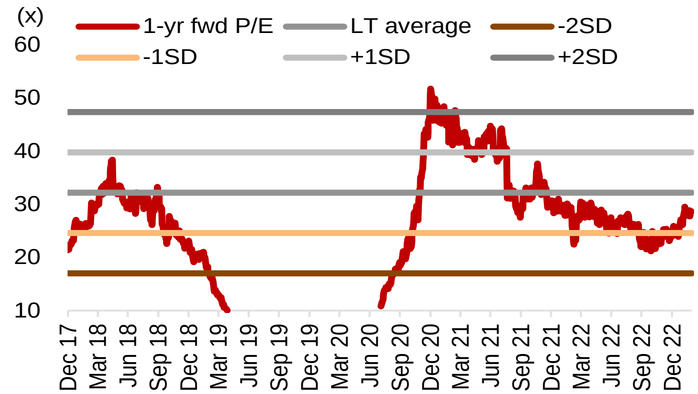
- Subsequent to top management rotations in the last three years, which included personnel changes in the creative team (2020), Head of Miu Miu (2020), Head of Fine Jewelry (2021), a new CFO (2022) and lastly a new Prada brand/ Prada Group CEO (2023), Prada is back to shape and has made every right decision to fuel a neat business turnaround. The refocusing of retail business, termination of in-store discount, and increasing efficiency of marketing campaigns etc., in our view, have begun to manifest into strong financial metrics with 4Q22 probably just being one of the milestones of this upcycle. Prada's re-rating has yet to be over. Comparing to its soft luxury peers, Prada's sales is just 10% of LVMH and approximately <50% of Hermes and Gucci etc. Given a parallel reputation and brand appeal, we still see room for Prada to catch up globally.
- Beyond the strong performance in ready-to-wear and footwear, we expect leather goods (c.50% of sales) to catch up based on management's vision of having a balanced growth portfolio. Prada is also looking into entering new categories in fine jewelry (debuted in 4Q22) and personal beauty (first fragrance launched in 4Q22). We think the new initiatives should act as emerging drivers by creating synergy with existing business lines in promoting customer loyalty. Prada is the only global luxury play listed in HK. With its investment scarcity and ongoing turnaround, we initiate Prada at BUY.
- **Management guidance.** Prada's management targets to reach EUR4.5bn revenue with a 20% adjusted EBIT margin (attained already) in the medium term. Considering a strong start for 2023, thanks to China's reopening, we envisage Prada to reach the revenue target this year, and extent the momentum to 2025E at a cFX 10% 3-year CAGR.
- **Link to latest report:** Prada SpA (1913 HK) – Re-rating is not over when Prada remains hugely sub-scale to its global peers; initiate at Buy

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (EUR mn)	4,201	4,599	5,046	5,552
YoY growth (%)	24.8	9.5	9.7	10.0
Net income (EUR mn)	465.2	562.2	624.7	695.8
EPS (EUR)	58.1	20.9	11.1	11.4
YoY growth (%)	58.1	20.9	11.1	11.4
Consensus EPS (EUR)	0.18	0.22	0.24	0.27
P/E (x)	29.2	30.2	27.2	24.4
P/B (x)	3.9	4.5	4.2	3.9
Div yield (%)	2.1	2.0	2.2	2.5
ROE (%)	14.1	15.5	16.0	16.5
Net gearing (%)	(15.4)	(19.6)	(23.2)	(26.6)

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E



Source: Company data, CMBIGM estimates

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

Rating: BUY | **TP:** RMB2,440 (42% upside)

Analyst: Joseph Wong

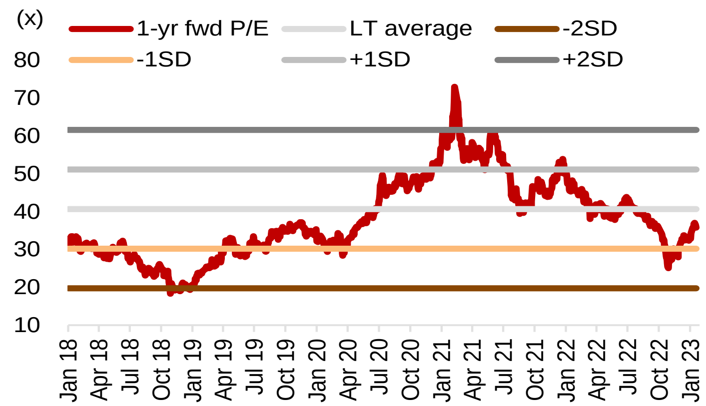
- As the proxy of China consumption, we think Moutai is undoubtedly well-positioned to benefit from the current consumption-driven recovery. This will not only be underpinned by reopening of restaurants and resumption of social events, but also company specific catalysts. These include 1) platform extension through i-Moutai (with the launch of 100ml “Flying Fairy” a.k.a “Feitian” SKU) registering RMB15bn 2022 revenue (~16% of total) with 30mn active users, and 2) a more diversified sales mix from Series baijiu with core products such as Moutai 1935, Moutai Prince Classics (茅台王子酒酱香经典), Moutai Prince Gold (茅台金王子) etc. Meanwhile, we are wary of the capacity bottleneck of both Moutai/ Series baijiu, which has been a known drag to growth. That said, without a legit substitute, we view this an ongoing opportunity for Moutai to monetize this excess demand through gradual price hike, until the announced capacity expansion (Moutai/ Series baijiu to 71k/ 56k ton) completes. Compounding with our reopening thesis, this happening expansion improvises a multi-year growth story (in both price and volume) in which we project 16%/ 17% 3-year revenue/ net profits CARG between 2022-25E, respectively, with a steadily improving GPM. We are buy-rated with a refreshed TP at RMB2,440 upon coverage transfer. We think shares could take a breather after the bull-run but we would recommend buying into any weakness for the next recovery wave in which growth likely to re-accelerate from 2Q onwards.
- Moutai released its 1Q preliminary financial data that beat expectation with revenue/ net profits growing by 18/19%, respectively. The data tracked above the 15% management guidance given for the numbers for the full year of 2023. We attribute the strength mainly to the incremental sales growth from iMoutai and a strong premiumization effort.
- **Link to latest report:** <u>**Kweichow Moutai (600519 CH) – 1Q came in slightly higher than we expected**</u>

Financials and Valuations

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	109,464	127,215	149,786	172,710
YoY growth (%)	11.7	16.2	17.7	15.3
Net income (RMB mn)	52,460	62,593	74,579	86,626
EPS (RMB)	41.8	49.8	59.4	69.0
YoY growth (%)	12.3	19.3	19.1	16.2
Consensus EPS (RMB)	N/A	50.0	62.0	70.0
P/E (x)	N/A	35.4	32.1	28.7
P/B (x)	N/A	10.8	10.2	8.4
Div Yield (%)	N/A	2.4	1.3	1.8
ROE (%)	27.7	27.9	31.9	30.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E



Source: Company data, CMBIGM estimates

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

Rating: BUY | **TP:** HK$50.34 (26% upside)

Analysts: Jill Wu/ Andy Wang

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

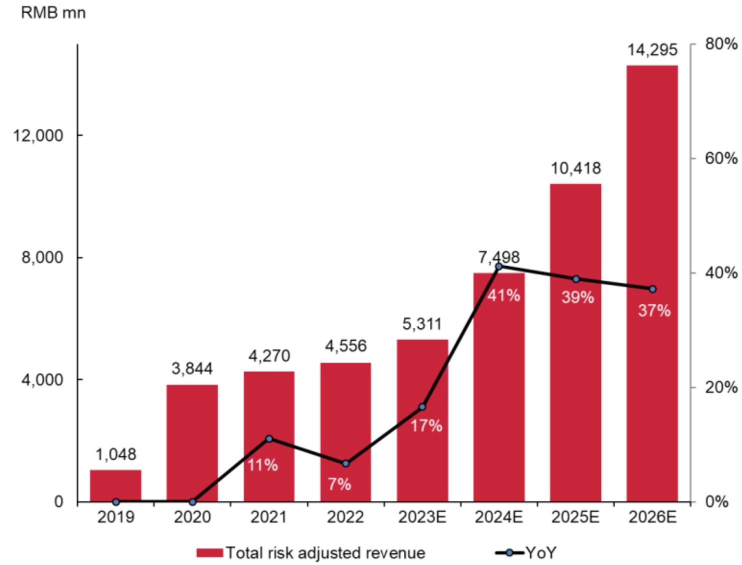
Link to latest report: Mazdutide (IBI362) to become the best GLP-1 drug for obesity in China

Financials and Valuations

(YE 31 Dec)	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,311	7,498	10,418
YoY growth (%)	17	41	39
Net loss (RMB mn)	(2,788)	(1,924)	(479)
EPS (RMB)	(1.82)	(1.25)	(0.31)
Consensus EPS (RMB)	(1.15)	(0.60)	0.10
R&D expenses (RMB mn)	(3,000)	(2,999)	(2,917)
Capex (RMB mn)	(500)	(400)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Revenue trend



Source: Company data, CMBIGM estimates

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

Rating: BUY | **TP:** HK$12.31 (43% upside)

Analysts: Jill Wu/ Cathy Wang

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

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

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

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

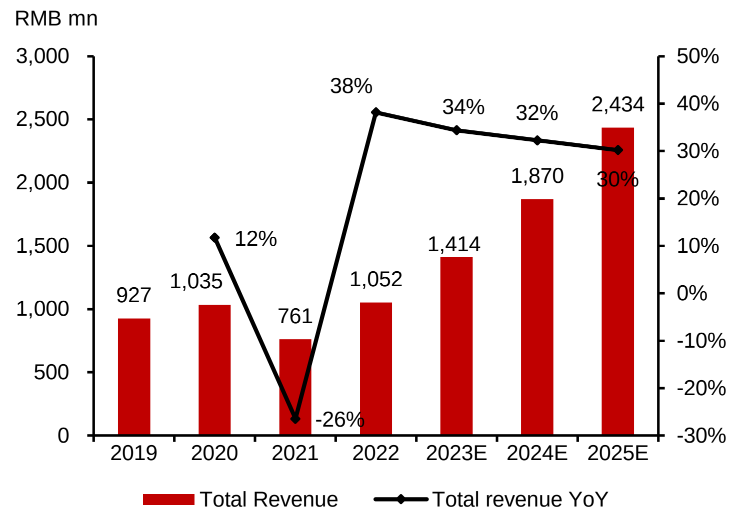
Link to latest report: AK Medical - Higher growth certainty in 2023E

Financials and Valuations

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

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Revenue trend



Source: Company data, CMBIGM estimates

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

Rating: BUY | **TP:** HK$118 (44% upside)

Analyst: Gigi Chen

- **Investment Thesis:** Following the mild recovery in 2H22, we expect the VNB growth of the group will rebound to ~20% in FY23E, primarily driven by 1) the recovery of MCV (mainland visitors) business in HK on the back of pent-up demand post border reopening, and 2) robust growth of AIA China fueled by geographical expansion. The management indicated that the VNB from MCV business in HK more than trebled in 2022, with strong momentum sustained into 2M23, as AIA has retained its premier agency with a MCV-specialized team of 6,800 agents, similar in scale to that of 2018, which enabled it to well capture the pent-up demands post the border reopening. In Mainland China, AIA saw double-digit VNB growth in Jul-Nov 2022. Despite an occasional interruption given resurgence of COVID cases in Dec 2022-Jan 2023, the new business momentum of AIA China immediately bounced back to double digit once again in Feb, turning the 2M23 VNB growth to positive. With smooth transition to IFRS 9&17 and sound capital position under PCR basis, we expect the recovery of VNB growth will drive a upward re-rating of AIA.
- **Catalysts:** AIA will report 1Q23 operating performance in late April. We expect to see strong quarterly VNB growth in HK/China markets.
- **Valuation:** The stock is trading at 1.5x P/EV FY24E, below a 2-year/5-year historical average P/EV at 1.7x/1.9x. Looking forward, we expect the uptick in HK and mainland China business will continue underpin a strong VNB growth for AIA throughout FY23. Reiterate BUY.

Links to latest report:

AIA Group Ltd. (1299 HK) – 2H22 recovery in line; Upbeat trend in HK and China in 2M23 (13 Mar 2023)

AIA Group Ltd. (1299 HK) – Pent-up demands to boost HK growth; Raise TP (1 Jan 2023)

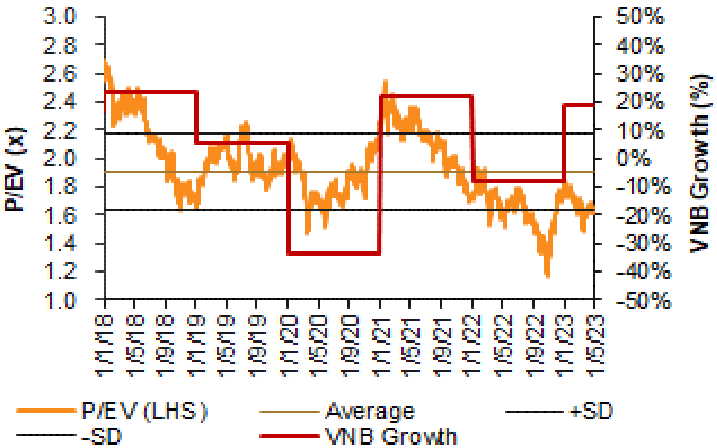
AIA Group Ltd. (1299 HK) – Initiation: Long-term growth intact, expect 2H22 recovery (2 Nov 2022)

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
VNB/share (US$)	0.26	0.32	0.38	0.45
YoY growth (%)	(18.5)	22.6	20.2	18.7
Group embedded value / share (US$)	5.9	6.3	6.9	7.8
Net profit (US$ mn)	282	7,442	8,266	9,198
EPS (Reported)(US$)	0.02	0.64	0.73	0.83
Consensus EPS (US$)	N/A	0.59	0.67	0.76
P/BV (x)	3.1	2.6	2.4	2.1
P/EV (x)	1.7	1.6	1.5	1.3
Yield (%)	1.9	2.1	2.4	2.7
ROE (%)	0.6	18.2	18.4	18.7

Source: Company data, Bloomberg, CMBIGM estimates

Fig: AIA VNB growth driving valuation multiples



Source: CMBIGM estimates

Tencent (700 HK): Steady ship and aim for sustainable growth

Rating: BUY **| TP:** HK$455.0 (33% upside)

Analysts: Saiyi He/ Wentao Lu/ Frank Tao

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

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

- **Why do we differ:** Some investors are overconcerned on the recent development of Prosus disposal of Tencent's share, which remains consistent with Prosus' disposal program announced in June 2022 (sales of Tencent share shares will represent less than 3-5% daily traded volume of Tencent). ST share price correction shall offer additional value.

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

- **Valuation:** Our SOTP-derived target price of HK$455.0 comprises: HK$184/29/40/102/24 for gaming/SNS/advertising/fintech/cloud business and HK$62/15 for strategic investment/net cash.

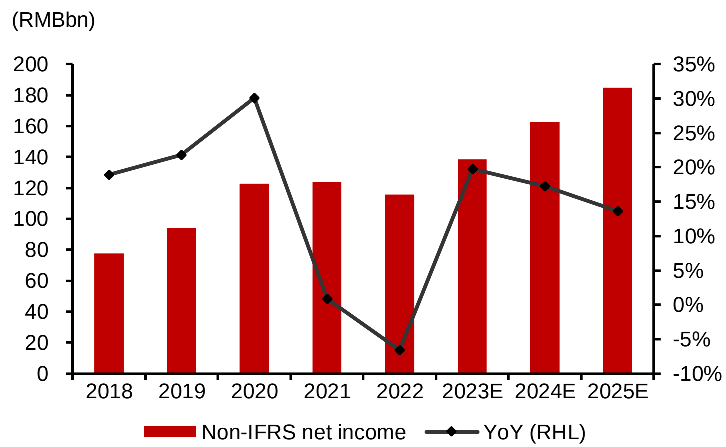
- **Link to latest report:** Tencent (700 HK) - Steady ship and aim for sustainable growth

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	554,552	615,381	669,040	721,216
YoY growth (%)	(1.0)	11.0	8.7	7.8
Gross margin (%)	43.1	43.7	44.5	45.5
Adj. net profit (RMB mn)	115,649	138,541	162,485	184,624
YoY growth (%)	(6.6)	19.8	17.3	13.6
EPS (Adjusted) (RMB)	12.13	14.31	16.78	19.06
Consensus EPS (RMB)	12.13	14.57	17.10	21.62
P/S (x)	5.0	4.5	4.1	3.8
Non-GAAP P/E (x)	23.8	19.9	16.9	14.9

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Non-IFRS net income growth



Source: Company data, CMBIGM estimates

Pinduoduo (PDD US): Investment to enhance long-term development prospect

Rating: BUY **|** **TP:** US$106.0 (67% upside)

Analysts: Saiyi He/ Frank Tao/ Wentao Lu

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

- **Our View:** Maintain BUY as we remain positive on PDD's established consumer mindshare in domestic market, which should aid steady GMV growth in 2023 and international expansion potential over the long run.

- **Why do we differ vs consensus:** market has been concerned on the pace and potential of PDD's monetization rate expansion, we think it is more a proactive move for PDD to control the pace of expansion for the near term to cope with intensified competition, while the long-term expansion potential remains unchanged. We are also more positive than consensus on PDD's GMV growth potential supported by its well established consumer mindshare on value for money products.

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

- **Valuation:** DCF based valuation of US$106.0, which translates into 26x 2023E PE.

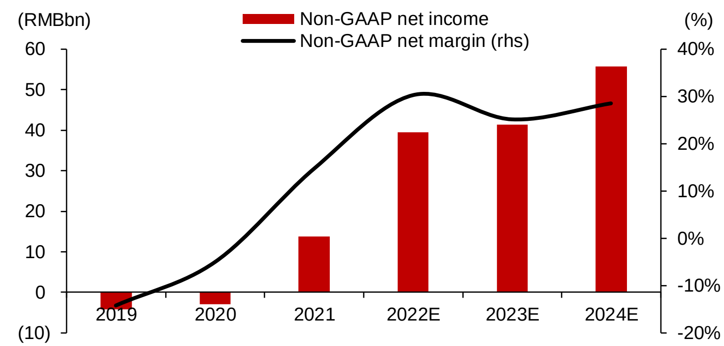
- **Link to latest report**: [Pinduoduo (PDD US) :Investment to enhance long-term development prospect]

Financials and Valuations

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

Source: Company data, Bloomberg, CMBIGM estimates

Fig: PDD's adjusted net profit and adjusted NPM



Source: Company data, CMBIGM estimates

NetEase (NTES US): Aiming for long-term growth

Rating: BUY **|** **TP:** US$116.0 (36% upside) Analysts: Saiyi He/Wentao LU/Frank Tao

- **Investment Thesis:** With the normalization of domestic game license approval and a clearer timeline for the new game launches, we are upbeat on NetEase's games revenue growth in FY23/24. Key title Eggy Party's monthly revenue continued to grow and reached a record high in March 2023, with its MAUs already ranking the second among all domestic mobile games. Several highly-anticipated games are lined up for launch and will drive revenue growth in 2023, including *Justice Mobile* (30 Jun), *Racing Master, Badlanders* and *Mission Zero.*

- **Our View:** We are positive on the game pipeline and the performance of NetEase's legacy games in FY23, and forecast total revenue/operating income 11% YoY in FY23. We expect NetEase games revenue YoY growth to gradually accelerate from 1Q23 to 4Q23 on a easier base and more games launch. Maintain BUY.

- **Why do we differ:** Business and stock price performance of online game stocks are usually resilient amid macro headwind. We view NetEase as an hedge against current macro and market uncertainty. NetEase's quality game pipeline will create additional support to its current valuation.

- **Catalysts:** 1) stronger-than-expected 1Q23 games revenue and earnings growth; 2) faster-than-expected game approvals; 3) Justice Mobile is well-received by players.

- **Valuation:** Our SOTP derived target price is US$116.0, comprising: US$106.3/1.1/4.1/2.7/1.7 for online game/Youdao/Cloud Music/innovative business/net cash.

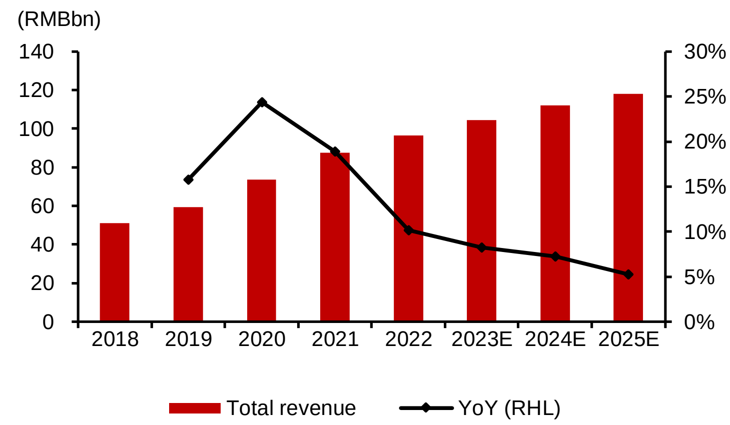
- **Link to latest report:** [NetEase (NTES US) - Aiming for long-term growth]

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	96,496	104,473	112,024	117,924
Gross margin (%)	54.7	54.7	55.1	55.6
Adjusted net profit (RMB mn)	22,808.4	22,708.0	25,221.3	27,244.6
EPS (Adjusted) (RMB)	34.95	34.79	38.64	41.74
Consensus EPS (RMB)	34.95	35.61	39.66	44.96
P/S (x)	4.1	3.7	3.5	3.3
P/E (x)	19	20	18	16

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Total revenue growth



Source: Company data, CMBIGM estimates

Kuaishou (1024 HK): Stronger 1Q23E on better ecommerce & LS

Rating: BUY | **TP:** HK$94 (79% upside)

Analyst: Sophie Huang

- **Investment Thesis:** We are confident on KS's ads recovery, and share gain in ecommerce and livestreaming. After price correction, it would be a good time to accumulate, for: 1) stronger-than-expected 1Q23E (forecasting rev +17% YoY, vs. prior +15%), with better ecommerce and livestreaming; 2) external ads demand to recover from Apr; and 3) group breakeven in 2Q23E. We believe its solid guidance in FY23E would alleviate market concern on ecommerce slowdown and ads recovery pace.

- **Our View:** Despite macro challenges and competition, Kuaishou would deliver upbeat 1Q23E, with stronger ecommerce & livestreaming (LS) and better bottom line. LS would continuously gain share (rev +14% YoY), boosted by faster engagement with top agencies and hosts. We expect its other rev (ecommerce) +41% YoY, with GMV largely in line (+28% YoY) and higher take rate. Ads recovery kept on track, and we expect external ads to pick up from Apr with rising budget from offline biz and ecommerce & game segment. Tencent ownership in KS was unchanged, and more catalysts would come.

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

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

- **Valuation:** Maintain BUY with SOTP-based TP at HK$94 (implying 3.3x FY23E P/S), by assigning 1x/2x FY23E EV/sales to livestreaming/ad biz, and 0.16x P/GMV to ecommerce biz. Valuation is not demanding.

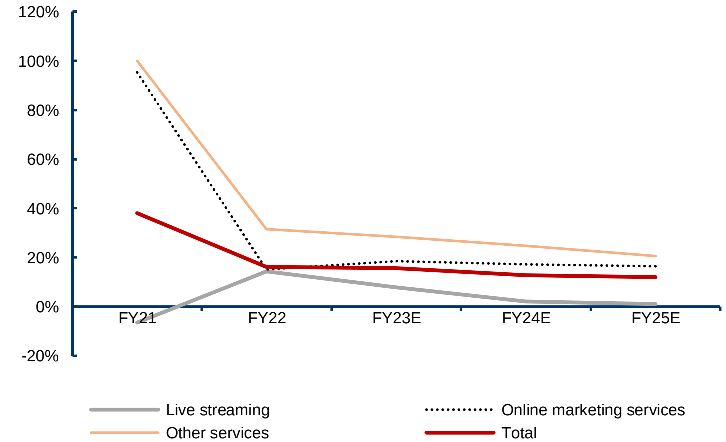
- **Link to latest report**: Kuaishou (1024 HK) – Stronger 1Q23E on better ecommerce & LS

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	94,183	108,779	122,593	137,267
YoY growth (%)	16.2	15.5	12.7	12.0
Net income (RMB mn)	(5,751)	1,245	5,857	12,599
EPS (RMB)	(1.3)	0.3	1.3	2.7
YoY growth (%)	N/A	N/A	371	115
Consensus EPS (RMB)	N/A	0.2	2.0	3.9
P/E (x)	N/A	158	34	16
P/S (x)	2.1	1.8	1.6	1.4
Yield (%)	0.0	0.0	0.0	0.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: KS's revenue growth estimates



Source: Company data, CMBIGM estimates

CR Land (1109 HK): Outperforming FY22E, promising FY23E and not-far-fetching FY25E target

Rating: BUY **| TP:** HK$45.10 (32% upside)

Analysts: Jeffrey Zeng/ Miao Zhang

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

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

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

- **Valuation:** The Company currently trades at 6.9x 2023E P/E vs. historical 5-YR average of 8x. We raised TP by 1% to reflect the ASP increase (mixed change) in our NAV calculation with target discount unchanged at 50%.

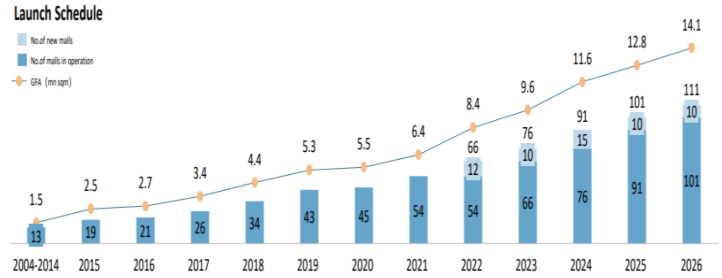
Link to latest report: CR Land (1109 HK) – Outperforming FY22E, promising FY23E and not-far-fetching FY25E target

Financials and Valuations

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E
Revenue (RMB mn)	212,108	207,061	235,314	264,990
YoY growth (%)	18.1	(2.4)	8.0	12.6
Net income (RMB mn)	32,401	28,092	29,826	34,959
EPS (RMB)	4.54	3.94	4.18	4.90
YoY growth (%)	8.69	(13.30)	5.0%	10.13
Consensus EPS (RMB)	N/A	N/A	4.2	4.5
P/E (x)	8.1	9.4	8.2	7.4
P/B (x)	1.2	1.1	1.1	1.0
Yield (%)	3.7	3.7	3.8	4.3
ROE (%)	14.3	11.5	13.3	13.8
Net gearing (%)	24.4	35.0	38.6	47.3

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CR Land's malls opening plan



Source: Company data, CMBIGM

BOE Varitronix (710 HK): Beneficiary of smart-cockpit and auto intelligence

Rating: BUY **| TP:** HK$23.7 (99% upside)

Analysts: Alex Ng/ Lily Yang

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

- **Our View:** We like BOEVx for the secular trend of auto display upgrade, its Chengdu plant capacity expansion and client base expansion. Mgmt. are positive on automotive intelligence and smart-cockpit, and expected limited impact from China NEV subsidy expiry and Tesla price cut, thanks to its focus on both traditional and NEV customers, pricing strategy and cost advantage. We estimate revenue/ earnings to grow at 21%/25% CAGR over 2022-25E, driven by 23% CAGR in automotive display.

- **Why do we differ vs consensus:** Our FY22-24E EPS are 5-8% above consensus, and current valuation of 12.3x/9.6x FY23/24E is attractive, compared to 21%/29% EPS growth in FY23/24E.

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

- **Valuation:** We derived our 12m TP of HK$23.7 based on 25x FY23E P/E, given 25% 2021-24E EPS CAGR and improving ROE to 19% in 2024E (vs 16% in 2022).

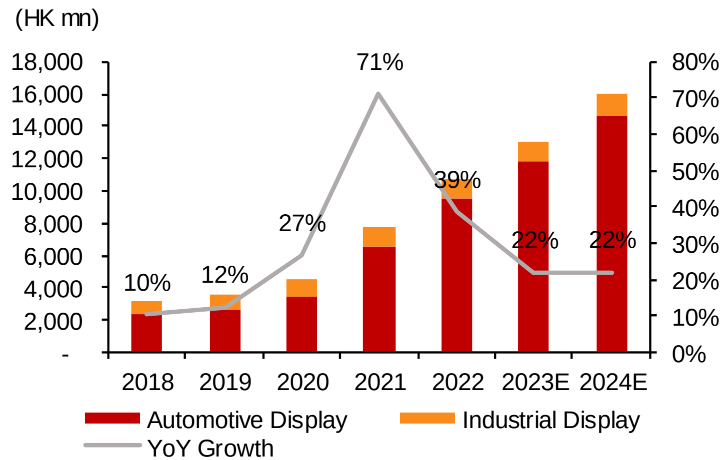
Link to latest report: BOE Varitronix (710 HK) - Strong FY22 results; Multiple drivers from Chengdu expansion, CMS and US market

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (HK$ mn)	10,722	13,078	15,977	19,117
YoY growth (%)	38.6	22.0	22.2	19.7
Net income (HK$ mn)	582.5	703.9	904.8	1,129.7
EPS (HK$)	0.78	0.95	1.22	1.52
YoY growth (%)	77.7	20.9	28.5	24.9
Consensus EPS (HK$)	N/A	0.99	1.35	1.98
P/E (x)	14.9	12.3	9.6	7.7
P/B (x)	1.0	1.0	0.8	0.7
Yield (%)	2.1	2.4	3.1	3.9
ROE (%)	15.6	16.6	19.3	21.0
Net gearing (%)	1.3	5.4	15.7	11.6

Source: Company data, Bloomberg, CMBIGM estimates

Fig: BOEVx Revenue trend



Source: Company data, CMBIGM estimates

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

Rating: BUY **| TP:** RMB88.6 (63% upside)

Analysts: Lily Yang/ Alex Ng

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

Link to latest reports:

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

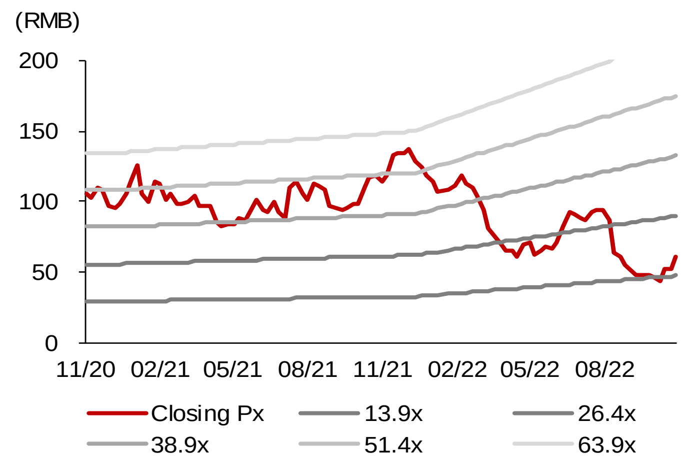
Wingtech (600745 CH) – NWF divesture order will have trivial impact on operation; Will reinforce self-sufficiency trend

Financials and Valuations

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E
Revenue (RMB mn)	52,729	56,400	70,609	88,943
YoY growth (%)	2.0	7.0	25.2	26.0
Gross margin (%)	16.2	18.9	19.0	19.2
Net profit (RMB mn)	2,612	2,926	4,416	5,892
EPS (RMB)	2.11	2.35	3.54	4.73
YoY growth (%)	2.4	11.3	50.9	33.4
Consensus EPS (RMB)	N/A	2.83	4.01	4.92
P/E (x)	24.0	21.6	14.3	10.6
Yield (%)	0.4	0.5	0.7	0.9
ROE (%)	7.7	7.9	10.6	12.3
Net gearing (%)	Net cash	5.6	9.2	9.4

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E band



Source: Company data, CMBIGM estimates

Kingdee (268 HK): Domestic ERP SaaS leader

Rating: BUY **| TP:** HK$23.28 (100% upside)

Analyst: Marley Ngan

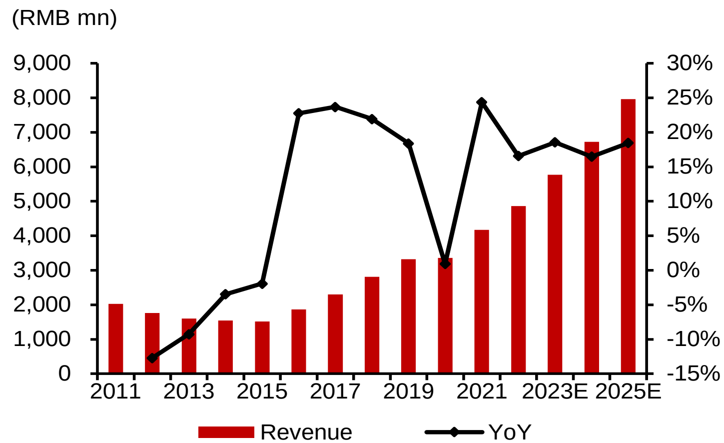
- **Investment Thesis:** Kingdee is the largest enterprise resource management (ERM) vendor in China with 14.26% market share in 1H21, according to IDC. We like Kingdee for its continuous SaaS transition in SME market while new opportunities in large enterprise market are emerging with domestic substitution trend. We expect Kingdee to deliver 18% revenue CAGR in FY22-25E reaching RMB7,962mn.
- **Our View:** Kingdee reported in-line FY22 results with strong growth in subscription ARR (+31.2% YoY). Compared to Yonyou's weaker than expected performance, we are encouraged to see Kingdee's better SaaS migration progress. This reaffirmed our view that Kingdee's SaaS product is more standardized and earnings visibility (and thus valuation) should be higher than Yonyou.
- **Why do we differ vs consensus:** Media reported that Huawei may launch self-developed ERP (MetaERP) in Apr. This is negative to the China ERP market as competition heats up but the impacts to Yonyou and Inspur will be larger than Kingdee as the formers are more large-enterprises/ SOEs focused. Also, Huawei has to consider the potential implications to its Cloud business as Kingdee/ Yonyou/ Inspur may scale down their cloud resources usage with Huawei Cloud given direct competition in ERP.
- **Catalysts:** 1Q SaaS operating data, Winning large SOEs Xinchuang bidding. Supportive policies related to "Xinchuang" implementation.
- **Valuation:** We derive our target price of HK$23.28 on 11.0x FY23E EV/sales, in-line with its 3-year mean.
- **Link to latest report:** Kingdee (268 HK) – SaaS and Xinchuang both in good shape

Financials and Valuations

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,866	5,769	6,720	7,962
YoY growth (%)	17%	19%	16%	18%
Net profit (RMB mn)	(389)	(257)	(174)	(3)
EPS (RMB)	(0.11)	(0.07)	(0.05)	0.00
YoY growth (%)	34	(33)	(32)	(98)
Consensus EPS (RMB)	(0.11)	(0.08)	0.00	0.00
EV/sales (x)	6.6	5.5	4.7	3.9
P/E (x)	(86.1)	(130.4)	(193.1)	(12377.3)
Dividend Yield (%)	0.00	0.00	0.00	0.00
ROE (%)	(5)	(4)	(3)	0
Net debt to equity	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Kingdee revenue and YoY



Source: Company data, CMBIGM estimates

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