招銀国际
CMB INTERNATIONAL

# CMBI Research Focus List

## Our best high conviction ideas

14 February 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) FY22E | P/E (x) FY23E | P/B (x) FY22E | ROE FY22E | Yield FY22E | Analyst |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Long Ideas** | | | | | | | | | | | | | | |
| Li Auto Inc. | LI US | Auto | BUY | 26.0 | 213.8 | 25.0 | 44.0 | 76% | N/A | N/A | 3.2 | -5.2 | N/A | Shi Ji/ Dou Wenjing |
| Geely Automobile | 175 HK | Auto | BUY | 14.9 | 105.2 | 11.6 | 16.5 | 42% | 23.6 | 19.8 | 1.5 | 6.6 | 1.1% | Shi Ji/ Dou Wenjing |
| S.C New Energy Technology | 300724 CH | Capital Goods | BUY | 6.1 | 117.6 | 118.9 | 187.0 | 57% | 38.7 | 32.3 | 5.6 | 15.6 | 0.3% | Wayne Fung/ Katherine Ng |
| Zoomlion Heavy Industry | 1157 HK | Capital Goods | BUY | 7.6 | 5.8 | 4.6 | 5.2 | 13% | 11.9 | 9.4 | 0.6 | 5.0 | 3.7% | Wayne Fung/ Katherine Ng |
| Yancoal Australia | 3668 HK | Coal | BUY | 5.1 | 7.0 | 30.6 | 53.0 | 73% | 1.7 | 2.1 | 0.9 | 61.2 | 20.7% | Wayne Fung |
| CR Gas | 1193 HK | Gas | BUY | 10.0 | 14.2 | 33.9 | 39.1 | 16% | 8.6 | 7.8 | 1.3 | 11.9 | N/A | Megan Xia/ Jack Bai |
| CDC | 341 HK | Consumer Discretionary | BUY | 1.0 | 1.5 | 13.2 | 15.1 | 14% | 368.7 | 33.8 | N/A | 0.7 | 2.1% | Walter Woo |
| Yum China | 9987 HK | Consumer Discretionary | BUY | 25.7 | 26.0 | 482.2 | 554.6 | 15% | 59.5 | 28.5 | N/A | 5.9 | 0.8% | Walter Woo |
| JNBY | 3306 HK | Consumer Discretionary | BUY | 0.7 | 0.6 | 10.9 | 12.7 | 16% | 8.7 | 8.4 | N/A | 32.5 | 8.9% | Walter Woo |
| CR Beer | 291 HK | Consumer Staples | BUY | 25.0 | 54.7 | 60.4 | 77.4 | 28% | 38.1 | 32.6 | 6.4 | 17.2 | 1.0% | Joseph Wong |
| Budweiser APAC | 1876 HK | Consumer Staples | BUY | 39.6 | 24.8 | 23.5 | 27.2 | 16% | 32.2 | 27.8 | 2.9 | 9.2 | 1.2% | Joseph Wong |
| Kweichow Moutai | 600519 CH | Consumer Staples | BUY | 339.5 | 732.0 | 1842.0 | 2440.0 | 32% | 37.0 | 31.1 | 10.3 | 27.9 | 2.7% | Joseph Wong |
| CTGDF | 601888 CH | Consumer Staples | BUY | 61.8 | 354.4 | 204.5 | 255.0 | 25% | 58.6 | 40.1 | 11.7 | 20.0 | 0.5% | Joseph Wong |
| Proya | 603605 CH | Consumer Staples | BUY | 7.4 | 34.2 | 179.0 | 184.0 | 3% | 42.4 | 31.5 | 9.0 | 21.4 | 0.7% | Joseph Wong |
| Innovent Biologics | 1801 HK | Healthcare | BUY | 8.4 | 42.6 | 43.0 | 52.6 | 22% | N/A | N/A | N/A | N/A | N/A | Jill Wu/ Andy Wang |
| WuXi Biologics | 2269 HK | Healthcare | BUY | 8.4 | 42.6 | 61.4 | 120.4 | 96% | 53.3 | 39.9 | 6.5 | 12.9 | N/A | Jill Wu/Benchen Huang |
| China Life | 2628 HK | Insurance | BUY | 33.1 | 211.2 | 13.9 | 20.9 | 50% | N/A | N/A | N/A | 10.3 | 4.2% | Gigi Chen |
| Tencent | 700 HK | Internet | BUY | 118.6 | 64.0 | 381.6 | 381.6 | 0% | N/A | N/A | N/A | N/A | N/A | Saiyi He/ Wentao Lu/ Frank Tao |
| Pinduoduo | PDD US | Internet | BUY | 464.7 | 1262.9 | 96.1 | 92.9 | -3% | 24.7 | 19.4 | N/A | N/A | N/A | Saiyi He/ Frank Tao/ Wentao Lu |
| Kuaishou | 1024 HK | Internet | BUY | 118.6 | 64.0 | 62.1 | 94.0 | 51% | N/A | N/A | N/A | N/A | 0.0% | Sophie Huang |
| CR Land | 1109 HK | Property | BUY | 34.3 | 246.9 | 36.7 | 45.1 | 23% | 8.4 | 7.6 | 0.9 | 11.2 | 5.3% | Jeffrey Zeng/ Miao Zhang |
| BOE Varitronix | 710 HK | Technology | BUY | 33.3 | 52.6 | 19.1 | 26.0 | 36% | 25.2 | 18.5 | 2.3 | 14.7 | 2.0% | Alex Ng/ Lily Yang |
| Wingtech | 600745 CH | Technology | BUY | 1.9 | 3.1 | 60.5 | 88.6 | 46% | 25.9 | 17.2 | N/A | 7.9 | 0.4% | Lily Yang/ Alex Ng |
| Kingdee | 268 HK | Software & IT services | BUY | 11.1 | 156.8 | 16.6 | 23.8 | 43% | N/A | N/A | N/A | -7 | 0.0% | Marley Ngan |

Source: Bloomberg, CMBIGM, Price as of 14/2/2023 10am

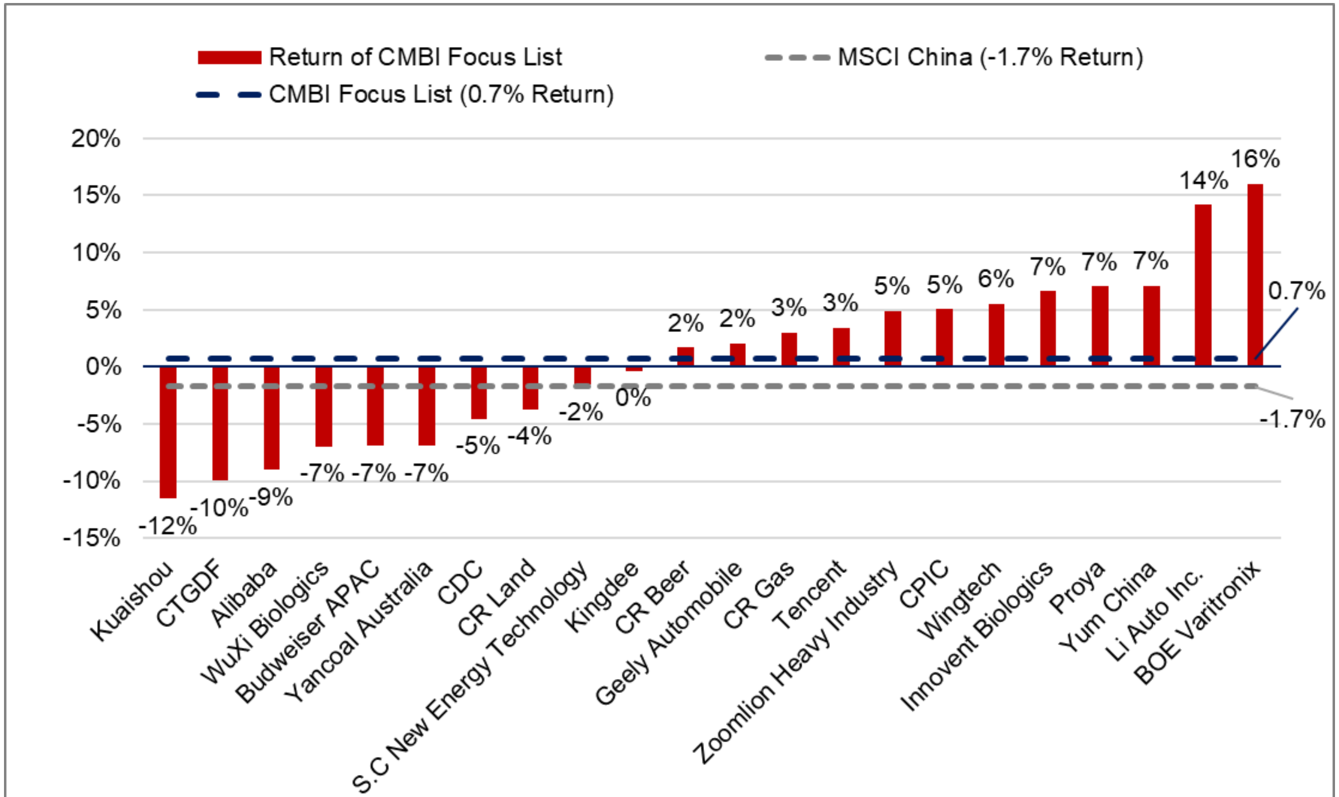
# Latest additions/deletions from CMBI Focus List

| Company | Ticker | Sector | Rating | Analyst | Rationale |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| JNBY | 3306 HK | Consumer Discretionary | BUY | Walter Woo | We believe JNBY could outperform during Oct-Dec 2022, thanks to low base (children clothing incident). We are more optimistic about its FY6/23E results, thanks to: 1) robust sales growth during Jan and CNY 2023, 2) low base in 2022 and 3) more branding and product upgrades. |
| Kweichow Moutai | 600519 CH | Consumer Staples | BUY | Joseph Wong | We think it's the best proxy to China's consumption-led recovery. |
| China Life | 2628 HK | Insurance | BUY | Gigi Chen | We add China Life-H (2628 HK) to our top pick, given (1) its outperformance on new business growth YTD, (2) a turnaround of 750-day moving avg. of 10-Yr government bond yields in 1H23 which will benefit the insurer's reserves balance, and (3) current undemanding valuation at 0.2x P/EV FY23E, below the 5-yr avg. P/EV at 0.4x. |
| Pinduoduo | PDD US | Internet | BUY | Saiyi He/ Frank Tao/ Wentao Lu | We add PDD into the list due to potentially better than street consensus GMV and revenue growth driven by its enhanced user stickiness and incorporation of more branded products. Core domestic business should maintain high profitability and provide strong support for overseas expansion. |
| **Deletions** | | | | | |
| CPIC | 2601 HK | Insurance | BUY | Gigi Chen | We remove CPIC-H (2601 HK) from our top pick as the stock has already risen by 22.3% YTD, substantially outperforming the HSI which rose by 5.2% YTD. China Life-H (2628 HK), however, with its lagged YTD performance against the market, we believe the elevated jumpstart sales will be priced in by market for another round of increase. |
| Alibaba | BABA US | Internet | BUY | Saiyi He/ Frank Tao/ Wei | We remove Alibaba from the focus list given that the investment thesis has played out (i.e. positive news regarding Fintech regulation, and short-term strong consumption recovery has been well expected by the market) and we think the stock price may take some time to regain growth momentum on mid-to-long term drivers. |

Source: CMBIGM

# Performance of our recommendations

- In our last report dated 17 January, we highlighted a list of 22 long ideas.
- The basket (equal weighted) of these 22 stocks outperformed MSCI China index by 2.4ppt, delivering 0.7% return (vs MSCI China -1.7%).
- 2 of these stocks delivered over 10% of return, and 13 of our 22 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIGM; Note: Stock performance from 17 Jan 2023 to 13 Feb 2023

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# Long Ideas

# Li Auto Inc. (LI US): Still best positioned among NEV trio

**Rating:** BUY **|** TP: US$ 44.00 (76% 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. Among NEV start-ups, despite higher sales volume from some tier-2 brands compared with the NEV trio, they still need time to build customer trust, in our view. As pioneers, the NEV trio has their advantages and disadvantages. While the NEV trio all has more than RMB 30bn net cash to support them throughout 2024, we are of the view that Li Auto probably has a higher chance to be a long-term winner, in terms of sales and profitability.

- **Our View:** Li Auto finished 2022 with the highest sales volume among the NEV trio only with two models. We expect Li Auto's 4Q22E GPM to beat management's guidance of 20%. We project the company to turn net profit in 4Q22E from net loss of RMB 1.6bn in 3Q22, despite higher R&D and SG&A expenses QoQ.

- We expect Li Auto to continue leading FY23E sales volume among the NEV trio. We project Li Auto's FY23E sales volume to be 0.25mn units, a bit more conservative than management's guidance of 0.3mn units amid the overall industry headwinds and potential product cannibalization. We still expect Li Auto to turn profitable in FY23E, the earliest among the NEV trio, thanks to the its superior product mix, cost control and management efficiency.

- **Catalysts:** 1) Strong sales volume YoY growth in 1H23; 2) Possible milder sales cannibalization between the *L7* (to be delivered in Mar 2023), *L8* and *L9* than some investors' expectation; 2) first BEV (battery electric vehicle) model to be launched in 2023.

- **Valuation:** Our target price of US$ 44.00 is based on 3.3x FY23E P/S.

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 27,010 | 45,170 | 90,650 | 129,950 |
| YoY growth (%) | 185.6 | 67.2 | 100.7 | 43.4 |
| Net income (RMB mn) | (321) | (2,084) | 517 | 2,730 |
| EPS (RMB) | (0.17) | (1.08) | 0.27 | 1.38 |
| YoY growth (%) | N/A | N/A | N/A | 428.2 |
| P/S (x) | 4.1 | 2.8 | 1.4 | 1.0 |
| P/B (x) | 2.7 | 3.2 | 3.1 | 3.0 |
| Yield (%) | N/A | N/A | N/A | N/A |
| ROE (%) | (0.9) | (5.2) | 1.3 | 6.5 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Link to latest reports:**

Li Auto Inc. (LI US) – Still best positioned among NEV trio

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

# Geely Automobile (175 HK): PHEV could be a positive surprise in FY23

**Rating:** BUY **|** TP: HK$ 16.50 (42% upside)

Analysts: Shi Ji/ Dou Wenjing

- **Investment Thesis:** Geely is our top pick among incumbent automakers, due to Zeekr's progressive improvement and possible PHEV sales boom. We expect Zeekr to almost double its sales volume in FY23E, aided by a compact SUV model. We are of the view that BYD's 2/3 market share in the PHEV segment is not sustainable and Geely is likely to be one of the automakers to grab market share from BYD. We project Geely's FY23 sales volume to rise 3% YoY to 1.5mn units, with almost 0.59mn units being NEVs. We expect Zeekr's net loss to narrow in FY23E.

- **Our View: Zeekr is on track for long-term development.** Zeekr ended the year of 2022 with sales volume of around 72,000 units, beating its sales target of 70,000 units, which exceeded many investors' initial expectation. We project Zeekr's sales volume to double in FY23E, aided by a new compact SUV. We value Zeekr 2.5x (the same as our target valuation for Xpeng) FY23E core revenue (excluding Viridi's battery pack sales and R&D services), which would result in HK$ 109bn for 100% Zeekr's valuation. Despite lagging autonomous driving technologies, Zeekr's recent sales momentum and price positioning are stronger than Xpeng. The gross margin improvement at Zeekr could also be key for valuation next year. **We project Geely's PHEV sales volume (incl. Lynk & Co) to reach 0.2mn units in FY23E.** With lessons learnt from the *Xingyue L* and *Emgrand L* PHEVs, we expect Geely's two new PHEVs in 1H23 to be more successful.

- **Valuation:** Despite tripled sales volume for Geometry in FY22E compared with FY21, its loss-making and high ratio of ride-hailing fleets make us value it the least among Geely's NEV businesses. We estimate profitability for Geely's other businesses, including internal-combustion engine (ICE) vehicles, Lynk & Co, IP licensing and R&D services, to be stable in FY23E, aided by a larger portion of more premium models. We value Geely's all other businesses excluding Zeekr at 15x (prior 10x) our revised FY23 P/E amid higher PHEV sales volume forecast.

**Link to latest report:** Geely Automobile (175 HK) – PHEV could be a positive surprise in FY23

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 101,611 | 143,630 | 157,650 | 167,000 |
| YoY growth (%) | 10.3 | 41.4 | 9.8 | 5.9 |
| Net income (RMB mn) | 4,847 | 4,708 | 5,567 | 7,027 |
| EPS (RMB) | 0.48 | 0.46 | 0.54 | 0.68 |
| YoY growth (%) | (12.4) | (2.9) | 18.2 | 26.2 |
| P/E (x) | 20.5 | 23.6 | 19.8 | 15.7 |
| P/B (x) | 1.4 | 1.5 | 1.4 | 1.3 |
| Yield (%) | 0.8 | 1.1 | 1.3 | 1.7 |
| ROE (%) | 7.3 | 6.6 | 7.4 | 8.6 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

# S.C New Energy Technology (300724 CH): A key beneficiary of the transformation of solar cell technology

**Rating:** BUY **| TP:** RMB187 (57% upside)

Analysts: Wayne Fung/ Katherine Ng

- **Investment Thesis:** SC is a leading solar power equipment supplier with a well-diversified product portfolio covering equipment with new technologies such as TOPCon, HJT and Perovskite solar cell (钙钛矿). Backed by the strong photovoltaics (PV) installation demand worldwide as well as the transformation from PERC technology, SC will continue to capture the capex up-cycle.

- **Our View:** SC won meaningful size of PE-poly route TOPCon turnkey contracts in overseas in 2022, which indicates that such technology has already gained client recognition. Key advantages of PE-Poly route include better solar cell efficiency, higher production efficiency and yield, which can help achieve mass scale production of TOPCon solar cell. Besides, we believe SC's early-mover advantage in developing HJT and Perovskite solar cell will enable it to enjoy the uptrend in equipment demand regardless of any potential change in technology.

- **Why do we differ vs consensus:** While our 2022E/23E/24E EPS estimates are 3%/-6%/-3% versus consensus, we see potential earnings upside given the faster-than-expected technological-driven equipment replacement.

- **Catalysts:** (1) Industry: Announcement of more solar cell capacity expansion plans; (2) Company: Breakthrough in HJT/ Perovskite solar cell technology.

- **Valuation:** Our TP of RMB187 is based on 52x P/E (1SD above the historical average of 36x to reflect the breakthroughs in the new equipment).

**Link to latest report:**

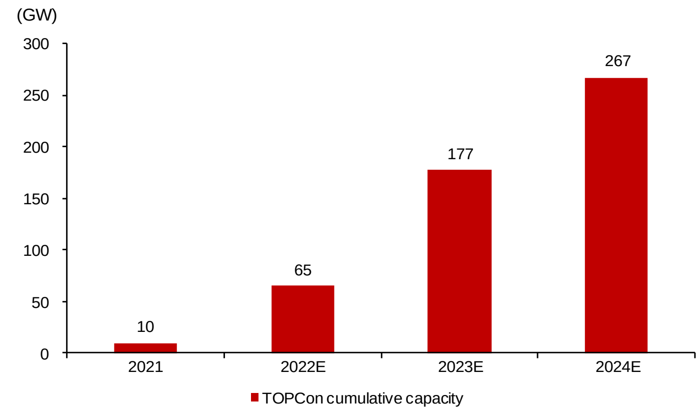
S.C New Energy Technology (300724 CH) – 3Q22 net profit +1.2x YoY; A clean beat

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 5,047 | 5,813 | 7,552 | 9,812 |
| YoY growth (%) | 25 | 15 | 30 | 30 |
| Net income (RMB mn) | 717 | 1,042 | 1,251 | 1,643 |
| EPS (RMB) | 2.14 | 2.99 | 3.59 | 4.72 |
| YoY growth (%) | 31 | 40 | 20 | 31 |
| Consensus EPS (RMB) | N/A | 2.91 | 3.83 | 4.88 |
| P/E (x) | 54.1 | 38.7 | 32.3 | 24.6 |
| P/B (x) | 6.5 | 5.6 | 4.8 | 4.1 |
| Yield (%) | 0.2 | 0.3 | 0.3 | 0.4 |
| ROE (%) | 15.5 | 15.6 | 16.1 | 18.1 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Planned TOPCon capacity in China (cumulative)**




Source: CMBIGM estimates

# Zoomlion Heavy Industry (1157 HK): Spin-off of AWP unit to unlock value

**Rating:** BUY **| TP:** HK$5.24 (13% upside)

Analysts: Wayne Fung/ Katherine Ng

- **Investment Thesis:** Zoomlion is leading 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 smooth the revenue stream.

- **Our View.** Zoomlion is set to benefit from the continuous growth of infrastructure spending and the reduction of property sector risk. We view Zoomlion as a strong recovery play in 2023E following the earnings decline in 2021 & 2022. . Besides, we believe the upcoming spin-off of Zoomlion Aerial Machinery, through asset injection into Shenzhen RoadRover Tech (002813 CH) can help Zoomlion unlock the value of the AWP business. Meanwhile, Zoomlion effectively implemented the share buyback scheme. In Aug-Dec 2022, Zoomlion spent RMB1.55bn to buyback ~260mn A-shares (~3% of total o/s shares; average price: ~RMB5.99/share). We note that Zoomlion has a good track record on share buyback in the past.

- **Why do we differ vs consensus:** Our 2022E/23E/24E earnings forecast is 4%/1%/7% below consensus. That said, we believe market will put the focus on the trend of earnings recovery in 2023E.

- **Catalysts:** (1) Stabilization of property sector (+ve to tower crane & concrete machinery demand), (2) Spin-off of AWP unit.

- **Valuation:** Our TP of HK$5.24 is based on 11.5x 2023E P/E (0.5 SD above the average of 10x since the upcycle starting 2019). Our above-average target valuation is to reflect the earnings recovery for the first time in two years. Stock is trading at ~10x 2023E P/E, the lowest among peers.

**Link to latest report:**

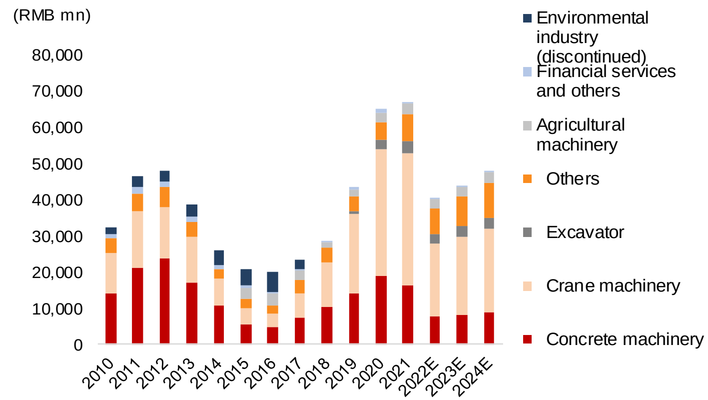
Zoomlion Heavy Industry (1157 HK) – Spin-off of AWP business to unlock value

### Financials and Valuations

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 67,132 | 40,419 | 43,970 | 47,885 |
| YoY growth (%) | 3.1 | (39.8) | 8.8 | 8.9 |
| Net income (RMB mn) | 6,303 | 2,824 | 3,598 | 4,118 |
| EPS (RMB) | 0.76 | 0.33 | 0.41 | 0.47 |
| YoY growth (%) | (21.7) | (57.1) | 27.4 | 14.5 |
| Consensus EPS (RMB) | N/A | 0.34 | 0.42 | 0.51 |
| EV/EBIDTA (x) | 4.2 | 8.7 | 6.7 | 6.0 |
| P/E (x) | 4.7 | 11.9 | 9.4 | 8.2 |
| P/B (x) | 0.5 | 0.6 | 0.6 | 0.6 |
| Yield (%) | 9.1 | 3.7 | 4.7 | 5.4 |
| ROE (%) | 12.2 | 5.0 | 6.4 | 7.0 |
| Net gearing (%) | Net cash | 6.8 | 6.9 | 5.0 |

Source: Company data, Bloomberg, CMBIGM estimates

### Fig: Zoomlion's revenue breakdown




Source: Company data, CMBIGM estimates

# Yancoal Australia (3668 HK) – Share price pullback offers buying opportunity

**Rating:** BUY **| TP:** HK$53 (73% 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:** Share price of Australian coal miners came under pressure last week, as the Newcastle coal price (6000kCal) has declined >30% since late Jan due to the warmer-than-expected winter in Europe and Adani's coal selling at discount price. That said, we believe this offers good buying opportunity on Yancoal. We understand that the recent API5 coal price (Yancoal's major benchmark) remained resilient at ~US$125-130/t, versus the average of US$141/t in 4Q22. Going forward, we expect the re-opening of China will continue to lend support to the regional coal price, in particular after CNY. Besides, we expect the improved relations between China and Australia (resumption of the import of Australian coal recently) will help Australian coal miners to gain share from the Russian miners.

- **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) Reopening of China to trigger an increase in regional price.

- **Valuation**. The stock is attractively trading at 21% yield (2022E) and 2x 2023E P/E. Reiterate **BUY** with NPV-based TP of HK$53.

**Link to latest report:** Yancoal Australia (3668 HK) – Thermal ASP in 4Q continued to beat benchmark

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (A$ mn) | 5,403 | 11,293 | 10,311 | 9,501 |
| YoY growth (%) | 55.6 | 109.0 | (8.7) | (7.9) |
| Net income (A$ mn) | 791 | 4,538 | 3,800 | 3,245 |
| EPS (A$) | 0.60 | 3.44 | 2.88 | 2.46 |
| YoY growth (%) | N/A | 475.7 | (16.3) | (14.6) |
| Consensus EPS (A$) | N/A | N/A | N/A | N/A |
| EV/EBITDA (x) | 3.5 | 1.0 | 1.2 | 1.3 |
| P/E (x) | 8.6 | 1.7 | 2.1 | 2.4 |
| P/B (x) | 1.1 | 0.9 | 0.8 | 0.7 |
| Yield (%) | 9.5 | 20.7 | 16.8 | 14.3 |
| ROE (%) | 13.9 | 61.2 | 38.5 | 28.9 |
| Net gearing (%) | 31.6 | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates
Note 1: Thermal coal price assumptions: A$300/250 per tonne in FY23E/24E.
Note 2: Dividend yield is net of dividend tax of 30%.

**Fig: NPV sensitivity to LT coal price and WACC**

| WACC | LT coal thermal coal price (A$/t) | | | | |
|---|---|---|---|---|---|
| | 80 | 100 | **120** | 140 | 160 |
| 3.9% | 22 | 38 | 53 | 68 | 83 |
| 4.9% | 26 | 40 | 53 | 66 | 80 |
| **5.9%** | 29 | 41 | **53** | 65 | 77 |
| 6.9% | 31 | 42 | 52 | 63 | 74 |
| 7.9% | 33 | 42 | 52 | 61 | 71 |

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

| WACC | LT metallurgical coal price (A$/t) | | | | |
|---|---|---|---|---|---|
| | 120 | 140 | **160** | 180 | 200 |
| 3.9% | 47 | 50 | 53 | 56 | 58 |
| 4.9% | 48 | 50 | 53 | 55 | 58 |
| **5.9%** | 48 | 51 | **53** | 55 | 57 |
| 6.9% | 48 | 50 | 52 | 54 | 56 |
| 7.9% | 48 | 50 | 52 | 54 | 55 |

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

# CR Gas (1193 HK): Oct-Nov 2022 dollar margin in line; optimistic gas sales outlook for 2023

**Rating:** BUY **| TP:** HK$39.13 (16% upside)

Analysts: Megan Xia/ Jack Bai

- **Investment Thesis:** CRG is now trading at 12x FY23 PE, its stock price has been up around 40% since we issued last report to the resume coverage. We are still optimistic about CRG, considering: 1) the optimization of pandemic control measures in 2023 is expected to boost domestic gas demand. Reflecting this situation, CRG's gas sale vol. growth and dollar margin management may improve afterwards; 2) sustained M&A provides great support for the stable development of CRG's gas connection business; 3) stick to "1+2+N" strategy, the robust growth momentum of CRG's value-added services continues; and 4) superior financial resilience. Maintain BUY.

- **Our View:** Two positive factors bolster the gas distributors sector in the past few months. First, China improves its pandemic control measures, bringing good signals to domestic economic growth and gas demand. Second, recent positive stimulus policy on property industry may benefit the gas connection business. For CRG, given the attractive valuation and improved dollar margin previously, its stock price has rebounded significantly. Next, we are optimistic about CRG, considering: 1) its better-than-peers' stable gas connection; 2) Q3 dollar margin improved to over RMB0.55/cbm, and dollar margin in Oct 2022 and Nov 2022 were inline (~RMB0.47/cbm and RMB0.48/cbm); and 3) robust comprehensive service growth. We believe CRG's stock price still has growth space, but need to be cautious as the valuation starts to look a bit rich.

- **Valuation:** Considering optimistic gas sales outlook for 2023, inline Oct-Nov 2022 dollar margin, and steady gas connection business and comprehensive services growth. We maintain our TP unchanged at HK$39.13 and give BUY rating, which is based on 12x FY23 forward PE (equivalent to around-1SD from its two-year historical average PE).

- **Risk:** 22Q4 gas sales growth may miss due to domestic weak economic data during the spread of the epidemic; Valuation looks a bit rich as a definitive re-opening is partly priced in.

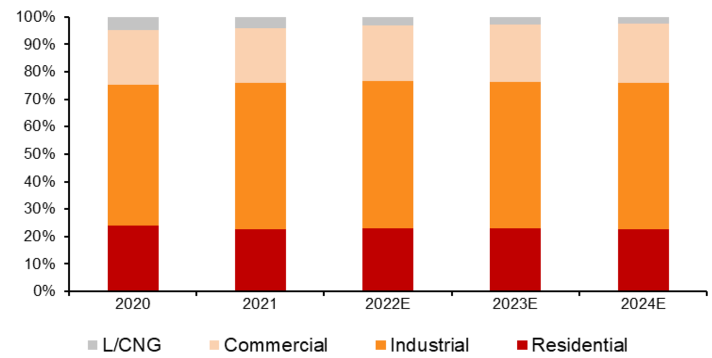
**Link to latest report:** CR Gas (1193 HK) – Eyes on 4Q gas dollar margin and solid comprehensive service growth

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (HK$ mn) | 78,175 | 102,507 | 110,986 | 121,343 |
| Net profit (HK$ mn) | 6,395.1 | 6,828.1 | 7,524.7 | 8,562.1 |
| EPS (Reported) (HK$) | 2.82 | 3.01 | 3.32 | 3.77 |
| Diluted EPS (HK$) | 2.82 | 3.01 | 3.32 | 3.77 |
| Consensus EPS (HK$) | N/A | 2.77 | 3.03 | 3.39 |
| P/E (x) | 8.78 | 8.60 | 7.82 | 7.7 |
| P/B (x) | 1.48 | 1.34 | 1.2 | 1.1 |
| ROE (%) | 12.7 | 11.9 | 11.7 | 11.9 |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: CRG's gas sales volume mix (2020-24E)**




Source: Company data, CMBIGM

# CDC (341 HK): Light at the end of the tunnel

**Rating:** BUY **| TP:** HK$15.12 (14% upside)

Analyst: Walter Woo

- **Investment Thesis:** CDC is the largest quick service restaurant group in HK. It owns 364/ 136 restaurants in HK/ China and generated HKD 7.5bn sales and HKD 21mn net profit in FY3/22. In our view, HK retail is likely to bottom out, thanks to the re-opening of HK-China border and the resumption of social activities and CDC is a major beneficiary. We also believe CDC's sales and net profit could recover faster than the industry, because of: 1) industry consolidation, 2) upgrades in products and branding, 3) more contracts won with schools, hospital and other public/ private institutions and 4) quick recovery in the southern China region.

- **Our View:** We believe the worst should be gone for CDC and its SSSG should turn positive to ~14% in 2H3/23E, thanks to: 1) low base in Jan-Mar 2022, 2) re-opening of HK-China border, 3) removal of all social distancing measures (benefit its institutional catering and fast-casual dining even more) and 4) more new product launches (more plant-based SKUs) and successful social media marketing campaign. We also believe the margin to continue to climb, driven by: 1) ASP hike, 2) ease in rental pressure and 3) operating leverage. Moreover, there are other positives like: 1) acceleration in store expansion and 2) turnaround in mainland China.

- **Why do we differ vs consensus:** For FY22E/ 23E/ 24E, our sales forecasts are 2%/ 3%/ 0% higher than consensus and our net profit forecasts are 6%/ 4%/ 0% above street as we are more confident on its SSSG and OP margin expansion.

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

- **Valuation:** We derived our 12m TP of HK$15.12 based on a 22x FY3/24E P/E. We believe it the positives from HK-China border re-opening were not fully priced in. The stock is trading at ~20x FY3/24E P/E.

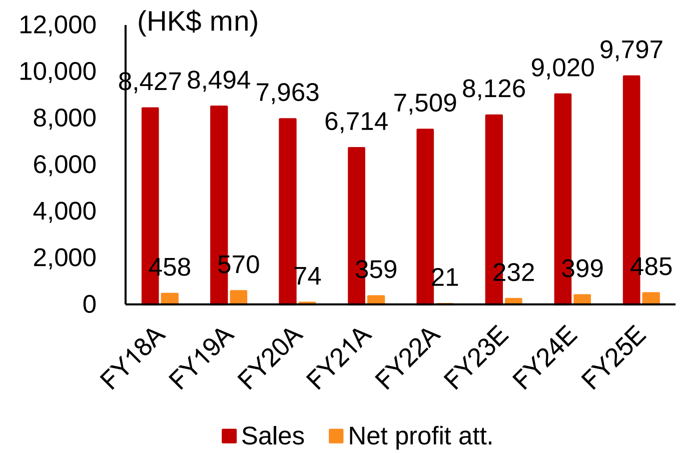
**Link to latest report:** CDC (341 HK) – Light at the end of the tunnel

**Financials and Valuations**

| (YE 31 Mar) | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|
| Sales (RMB mn) | 7,508.8 | 8,125.9 | 9,019.8 | 9,797.2 |
| YoY change (%) | 11.8 | 8.2 | 11.0 | 8.6 |
| Adj. Net profit (RMB mn) | 21.2 | 231.6 | 398.7 | 485.1 |
| EPS - Fully diluted (RMB) | 0.04 | 0.40 | 0.69 | 0.84 |
| YoY change (%) | (94.1) | 991.7 | 72.2 | 21.7 |
| Consensus EPS (RMB) | N/A | 0.38 | 0.66 | 0.84 |
| P/E (x) | 368.7 | 33.8 | 19.6 | 16.1 |
| P/S (x) | 2.7 | 2.7 | 2.4 | 2.3 |
| Yield (%) | 2.1 | 2.1 | 3.5 | 4.3 |
| ROE (%) | 0.7 | 8.0 | 13.0 | 14.6 |
| 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

# Yum China (9987 HK): Robust recovery and store expansion ahead

**Rating:** BUY **| TP:** HK$554.61 (15% upside)

Analyst: Walter Woo

- **Investment Thesis:** YUMC is the largest restaurant group in China by sales. It owns 11,788 stores in FY21 (8,168 KFC/ 2,590 Pizza Hut/ 1,030 other brands) and generated USD 9.8bn sales and USD 990mn net profit in FY21. In our view, it is even benefiting from pandemic, thru 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:** A soft 4Q22 was well expected and we are positive on FY23E outlook and turnaround, thanks to: 1) decent start in CNY (MSD SSSG) had by, better than Tai Er/ Cou Cou/ HDL's 3%/ 0%/ -10%, 2) refined store economics (can achieve breakeven even with just 80% of the same store sales in 2019 level, 2) decent room for upward revision on the opening plan (1,100 -1,300, implying 8% to 10% YoY growth, no acceleration from the 10% last year but many peers have already announced accelerated expansion plans). Moreover, greater buying power from 1) the stock connect programme (as it had competed its primary listing in HKEX) and 2) potential inclusion into the stock indices are all meaningful supports.

- **Why do we differ vs consensus:** For FY23E/ 24E/ 25E, our sales forecasts are 3%/ 4%/ 7% below consensus and our net profit forecasts are 6%/ 6%/ 14% 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 is based on 33x FY23E P/E (up from 30x), close to 2 s.d. above the 5 years average of 27x, given the upcycle and 32% NP CAGR during FY22-25E. The stock is trading at ~29x FY23E P/E.

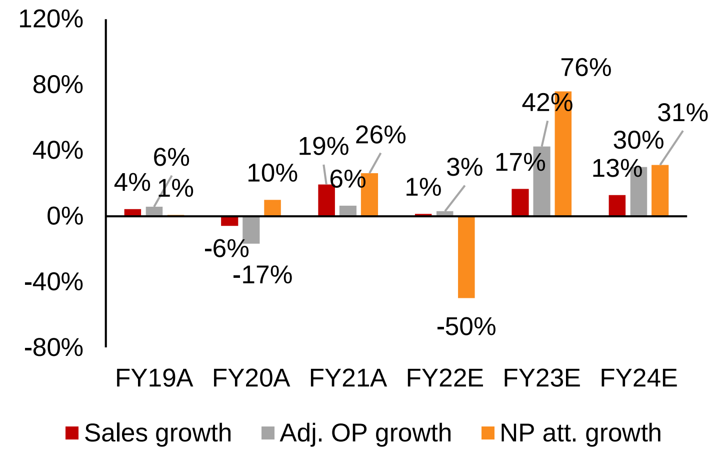
**Link to latest report:** Yum China (9987 HK) – Robust recovery and store expansion ahead

**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 | 1.91 | 2.36 | 3.06 |
| P/E (x) | 59.5 | 28.5 | 23.1 | 18.4 |
| P/S (x) | 3.5 | 3.2 | 2.9 | 2.56 |
| Yield (%) | 0.8 | 1.1 | 1.3 | 1.6 |
| ROE (%) | 5.9 | 11.7 | 13.2 | 14.8 |
| 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

# JNBY (3306 HK): Dividend play with long-term growth potential

**Rating:** BUY **| TP:** HK$12.67 (16% upside)

Analyst: Walter Woo

- **Investment Thesis:** JNBY is a leading designer brand in China, owning brands like JNBY, CROQUIS, less and jnby by JNBY, etc.. We believe its FY25E target of RMB 6.0bn/ RMB 900mn is robust (14%/ 17% sales/ NP CAGR) and achievable enough (we only priced in 90% of it). Growth drivers include: 1) industry consolidation, 2) upgrades in products and branding, 3) store revamps, 4) ramp up of its digital related and e-commerce sales, 5) store expansion and 6) development of new brands.
- **Our View:** Apparel sector was weak during Nov-Dec 2022, but JNBY should outperform due to its low base in Oct-Dec 2021 (affect by children clothing incident), hence, we think FY6/23E target (low-teen sales growth and MSD net profit growth) is relatively safe. And we are more optimistic on FY6/24E, because of: 1) excellent recovery in Jan 2023 and CNY (15%+ growth), boosted by improved demand for clothing after re-opening and cold weather, 2) low bases due to pandemic, 3) store productivity improvements (~60% of stores were revamped in the past few years), 4) step-up on its marketing activities (e.g. selection of actress Zhou Xun, and supermodel Xiao Wen Ju as brand ambassadors for JNBY and Less).
- **Why do we differ vs consensus:** For FY23E/ 24E/ 25E, our sales forecasts are 0%/ 3%/ 8% lower than consensus and our net profit forecasts are 1%/ 0%/ 2% below street as we are more conservative on its SSSG but more optimistic on its GP and OP margin expansion.
- **Catalysts:** 1) better than expected product and branding upgrades and 2) faster than expected store expansion.
- **Valuation:** We derived our 12m TP of HK$12.67 based on a 10x FY6/23E P/E. We believe JNBY can re-rate more once the growth accelerate further in 2023. The stock is trading at ~8x FY6/23E P/E and 9% FY6/23E yield

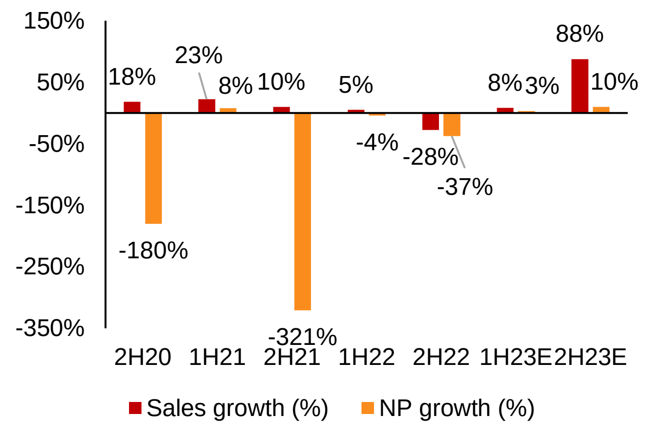
**Link to latest report:** JNBY Design (3306 HK) – Dividend play with long-term growth potential

**Financials and Valuations**

| (YE 30 Jun) | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|
| Sales (RMB mn) | 4,086 | 4,561 | 5,021 | 5,368 |
| YoY change (%) | (1.0) | 11.6 | 10.1 | 6.9 |
| Adj. Net profit (RMB mn) | 559 | 585 | 709 | 810 |
| EPS - Fully diluted (RMB) | 1.113 | 1.155 | 1.400 | 1.600 |
| YoY change (%) | (13.6) | 3.8 | 21.2 | 14.3 |
| Consensus EPS (RMB) | N/A | 1.210 | 1.403 | 1.641 |
| P/E (x) | 8.7 | 8.4 | 7.0 | 6.1 |
| P/S (x) | 2.9 | 2.7 | 2.5 | 2.3 |
| Yield (%) | 8.9 | 9.6 | 11.6 | 13.2 |
| ROE (%) | 32.5 | 32.7 | 36.4 | 37.9 |
| Net debt/ equity (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Sales and net profit growth, half-yearly**




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 (28% upside)

Analyst: Joseph Wong

- Initial 2023 outlook. Management remains confident in 2023, and guides for a HSD growth in revenue, contributed by 1) a LSD volume growth driven by ~20% sub-premium/ premium SKUs that accelerate from mid-teen growth in 2022, 2) a 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% y-y 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 y-y 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.

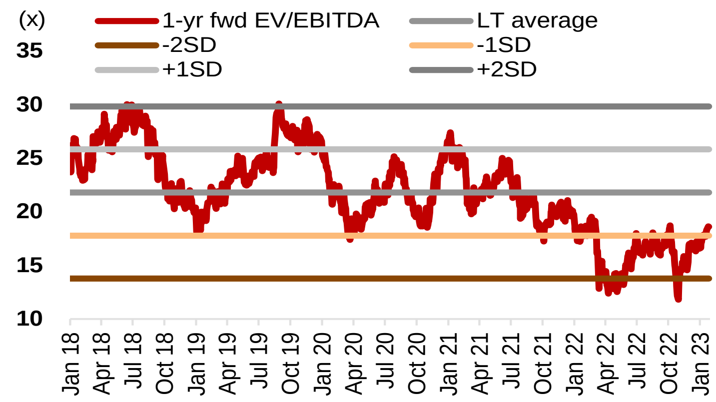
**Link to latest report:** CR Beer (291 HK) – Another positive year for 2023; our preferred pick for China's re-opening

**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 | 38.1 | 32.6 | 28.6 |
| P/B (x) | N/A | 6.4 | 5.7 | 5.0 |
| Div yield (%) | N/A | 1.0 | 1.2 | 1.4 |
| 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

# Budweiser APAC (1876 HK): A relieving 3Q; China's price hike and APAC East outperformance remain key growth drivers

**Rating:** BUY | **TP:** HK$27.2 (16% upside)

Analyst: Joseph Wong

- 3Q normalized EBITDA came in above consensus at US$593m, up 1.6% YoY. APAC East performance, especially which in South Korea, continued to surprise under a more liberal social distancing policy.
- September China nightlife opening ratio went further to the south to 60%/95%, respectively, from c.75%/ 95%+ in July. The restrictions were mostly concentrated in Bud APAC's premium footprints, especially in southeast Fujian, Zhejiang and North Beijing, Tianjin, and then the northwest area. Going forward, the Company continues to expect sporadic but shorter lockdowns with the current dynamic zero policy. To mitigate the impact, management developed digitalized tracking platform that enables quick calculation of channel impact by city and allocates inventory in a dynamic way.
- Bud APAC announced a price hike effective from 1 Nov for its premium and super premium SKU in China. The magnitude, according to the management, will benchmark to the country's CPI on an average level. While this is likely the first price hike announced for 4Q, we expect other brands to follow suit in the next few months, given slow sales season (during winter time) has been a good window for distributor to absorb the impact.
- Strong potential in India with its demographic advantage. The optimization progress has been satisfactory and management looks beyond DD growth but doubling of the total size of the market size for its brand. For instance, Corona is now available in over 15 states in India.
- **Valuation:** Upon changes in housekeeping items, our revised TP of HK$27.2 (from HK$28.0) is still based on 20.0x end-23E EV/ EBITDA, which represents 3-year average.

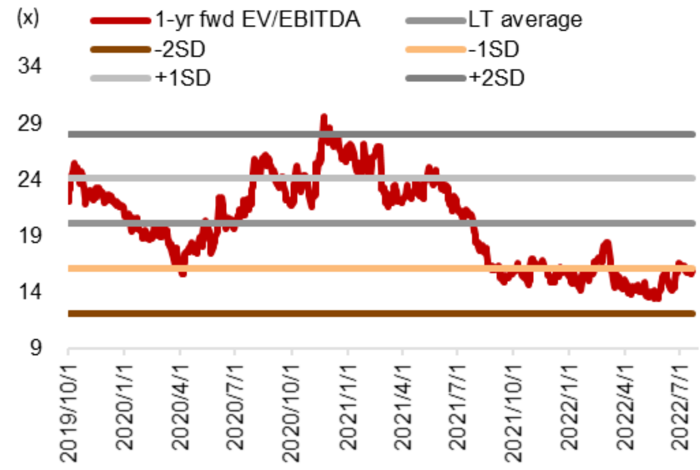
**Link to latest report:** [Budweiser APAC (1876 HK) – A relieving 3Q; China's price hike and APAC East outperformance remain key growth drivers]

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (US$ mn) | 6,788 | 6,865 | 7,595 | 8,111 |
| YoY growth (%) | 21.5 | 1.1 | 10.6 | 6.8 |
| Net income (US$ mn) | 950 | 1,047 | 1,251 | 1,357 |
| EPS (US$) | 0.07 | 0.08 | 0.09 | 0.10 |
| YoY growth (%) | 84.7 | 10.2 | 19.5 | 8.5 |
| Consensus EPS (US$) | N/A | 0.08 | 0.10 | 0.12 |
| P/E (x) | N/A | 32.2 | 27.8 | 24.7 |
| P/B (x) | N/A | 2.9 | 2.8 | 2.7 |
| Div yield (%) | N/A | 1.2 | 1.4 | 1.6 |
| ROE (%) | 8.7 | 9.2 | 10.3 | 10.4 |
| 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

# Kweichow Moutai (600519 CH): Proxy of China's consumption-led recovery; buying into any weakness for the next recovery wave

**Rating:** BUY **| TP:** RMB2,440 (32% 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.

- Valuation. Our TP is based on 41.0x end-23E P/E, which represents long-term average since 2019. Our methodology reflects our relative optimism (vis-a-vis other F&B diversified of which target multiples are based on -1sd below long term average) that Moutai is one of the core beneficiaries standing at the forefront of China's reopening with high certainty in earnings support.

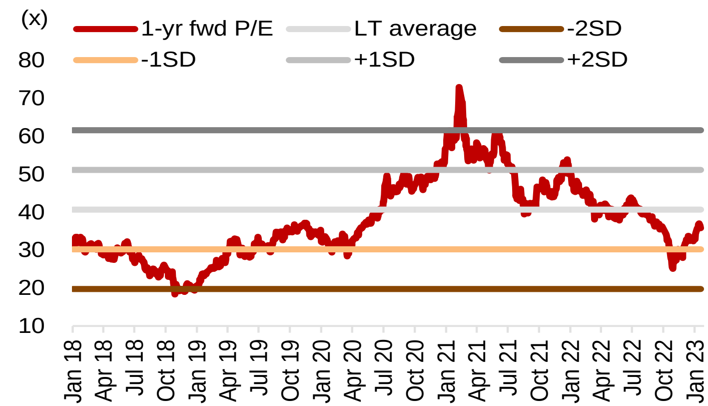
**Link to latest report:** Kweichow Moutai (600519 CH) – Proxy of China's consumption-led recovery; buying into any weakness for the next recovery wave

**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 | 37.0 | 31.1 | 26.7 |
| P/B (x) | N/A | 10.3 | 9.9 | 8.2 |
| Div Yield (%) | N/A | 2.7 | 1.6 | 1.9 |
| 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

招銀国际 CMB INTERNATIONAL

# CTGDF (601888 CH) – At the forefront of China's reopening

**Rating:** BUY | **TP:** RMB255 (25% upside)

Analyst: Joseph Wong

- Travel bans and any social distancing measures are likely to weigh on 4Q domestic travel momentum. That said, when the fatality rate associated with the pandemic gradually dies down and policy rhetoric is turning more liberal, we see scope for domestic travel to start normalizing into 1Q23, particularly when the quarter is clustered with the CNY break that catalyze family touristing. CTGDF is the largest domestic duty-free operator with c80% market share in 2022, and is therefore poised to be the major beneficiary of this recovery trajectory. The stock is trading at 40.0x end-23E P/E, still 25% below its 3-year average. We argue shares mean-reversion is likely to take place within 2023E, not to mention further value to be unlocked through its secondary H share listing on an expanded shareholder base. We maintain our Buy rating and CTGDF is our top pick for China's reopening along with CRB (291HK, Buy), and Proya (603605CH, Buy).
- The opening of the Haikou DFS mall on Oct 28. With a total of 280k sq m, the mall covers 800+ global luxury brands and 25 of them, including YSL, Prada, Burberry, BV, Moncler etc, had their first footstep in Hainan. On the other hand, according to our survey, customer could enjoy 20% for every 2 cosmetic items purchased. For other popular brands like Shisedo, La Mer, Dior, discount ranges from 28-32% off MSRP.
- Earnings change. Barring any fine-tune in housekeeping items, our forecasts are largely unchanged for now. Our current forecast implies 4Q22E revenue/ net profits to be RMB17.7bn/2.2bn, with a 37% GPM.
- Valuation. Our new TP of RMB255 is based on an updated 50.0x (from previously 45.0x) end-23E P/E, which still represents its average since June 2020, when market started to re-rate the stock for a series of policy tailwind. We believe our methodology has appropriately priced-in the recent market sentiment about China's gradual reopening progress.

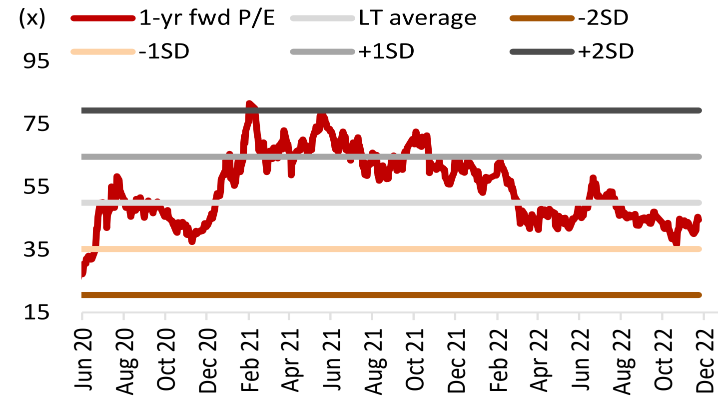
**Link to latest report:** CTGDF (601888 CH) – At the forefront of China's reopening

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 67,676 | 57,080 | 73,409 | 101,991 |
| YoY growth (%) | 28.7 | (15.7) | 28.6 | 38.9 |
| Net income (RMB mn) | 9,654 | 6,830 | 9,976 | 13,224 |
| EPS (US$) | 4.9 | 3.5 | 5.1 | 6.8 |
| YoY growth (%) | 57.2 | (29.3) | 44.7 | 32.5 |
| Consensus EPS (RMB) | N/A | 4.9 | 7.3 | 9.3 |
| P/E (x) | N/A | 58.6 | 40.1 | 30.3 |
| P/B (x) | N/A | 11.7 | 9.8 | 8.0 |
| Div yield (%) | N/A | 0.5 | 0.8 | 1.1 |
| ROE (%) | 32.6 | 20.0 | 24.3 | 26.4 |
| Net gearing (%) | 32.8 | 49.5 | 52.0 | 53.8 |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: 1-year forward P/E**




Source: Company data, CMBIGM estimates

# Proya (603605 CH) – 3Q a small beat; but the implied 4Q numbers look unexciting given the current guidance

**Rating:** BUY | **TP:** RMB184 (3% upside)

Analyst: Joseph Wong

- Proya pre-announced its 3Q operating data, with revenue and net profits growing at 14-23%/ 30-45% YoY to RMB1.25bn to RMB1.35bn/ RMB180mn to RMB200mn, respectively. The trajectory was in line with our expectation that 3Q sales moderate from 1H when part of July's demand has been pulled forward to 618, and momentum for Aug and Sep should have normalised to positive growth. On the other hand, net profits was a beat. Without much detail, and excluding any non-core items, we estimate this would likely be contributed by better margins, as a result of both mix upgrade and marketing cost savings.
- If 3Q22 results eventually kick-in at the high end of the announcement, 4Q revenue and net profit would grow at ~14% and ~7%, respectively, assuming management maintains its full year guidance (details see below). We consider this a bit low and we see possibilities that Proya could achieve higher growth, depending on the sales momentum of Double 11.
- Proya has announced 6 hero products during a top tier KOL live-streaming for the upcoming Double 11. Of note, the volume of gifts was comparable to that of last year, and we think the magnitude of discounts is unlikely to be undisciplined.
- During the 2Q earnings call, Proya management maintained its full-year guidance of 25% revenue/ net profits growth. Considering a 30-40% online sales growth for 2022E, the target implies offline sales growth would remain negative throughout 2H. Separately, Proya management has initiated a new ESOP plan in July this year with vesting condition stipulated to be no less than 25%/ 23%/ 22% revenue/ net profit growth YoY for 2022-24E. To-date, management remains confident to achieve the target.

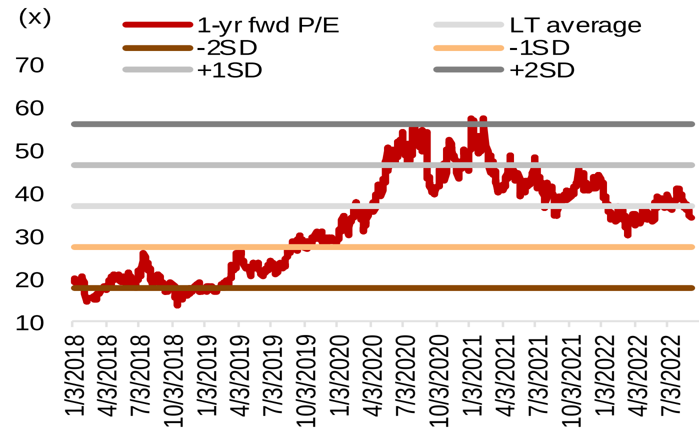
**Link to latest report:** Proya (603605 CH) – 3Q a small beat; but the implied 4Q looks unexciting given the current management guidance

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 4,633 | 5,812 | 7,337 | 9,181 |
| YoY growth (%) | 23.5 | 25.4 | 26.2 | 25.1 |
| Net income (RMB mn) | 627 | 724 | 976 | 1,249 |
| EPS (US$) | 2.9 | 3.6 | 4.9 | 6.2 |
| YoY growth (%) | 21.2 | 25.6 | 34.8 | 28.0 |
| Consensus EPS (RMB) | N/A | 2.6 | 3.5 | 4.4 |
| P/E (x) | N/A | 42.4 | 31.5 | 23.3 |
| P/B (x) | N/A | 9.0 | 7.4 | 6.1 |
| Div yield (%) | 0.5 | 0.7 | 0.9 | 1.2 |
| ROE (%) | 21.8 | 21.4 | 24.0 | 25.3 |
| 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

# Innovent Biologics (1801 HK): Fast expanding commercial product portfolio

**Rating:** BUY **| TP:** HK$52.59 (22% upside)

Analysts: Jill Wu/ Andy Wang

- **Investment Thesis:** Innovent currently has eight commercial products and is continuing to expand its product portfolio. Additional large indications of sintilimab (1L GC and 1L ESCC) was added to the NRDL at no price cut, which was a major catalyst for the drug's future sales ramp-up. Additionally, we expect the sNDA of sintilimab (2L EGFRm nsq-NSCLC) to be approved in 1H23E. Cyramza (VEGFR2) was officially launched in 4Q22 for 2L GC and 2L HCC. In Jun 2022, NDAs of IBI326 (BCMA CART) and IBI306 (PCSK9) was accepted by CDE, which are expected to be approved in 1H23E. In Jan 2023, IBI376 (PI3Kδ) was filed for marketing as well. IBI-362 (GLP-1/GCGR), another potential blockbuster, has started Ph3 studies for obesity and diabetes in Nov 2022. Within the next five years, Innovent targets to launch over 15 products in China which will support its RMB20bn annual product revenue target.

- **Our View:** Innovent has competitive early-stage pipelines with global rights. IBI-110 (LAG3) continues to demonstrate positive signals in 1L sq-NSCLC and 1L GC patients in Ph1b studies. IBI-939, a differentiated IgG4 mAb targeting TIGIT (vs IgG1 mAb for other TIGIT candidates), has shown promising benefits in ORR and PFS in combination with sintilimab in a randomized Ph1b study in PD-L1 TPS≥50% NSCLC. Additionally, IBI-322 (CD47/PD-L1) is expected to have PoC data in lymphoma in early 2023.

- **Why do we differ vs consensus:** Eli Lilly reported US$57.5mn (-25% QoQ) sales from sintilimab in 4Q22, which was largely impacted by the COVID situation in China, similar to the impact of COVID to other Chinese biopharma companies. With COVID being stabilized, due to the NRDL coverage extension and favorable NRDL price negotiation, we expect sales of sintilimab to ramp-up quickly in 2023.

- **Valuation:** we derive our target price of HK$52.59 based on DCF valuation (WACC: 9.9%, terminal growth rate: 3.0%).

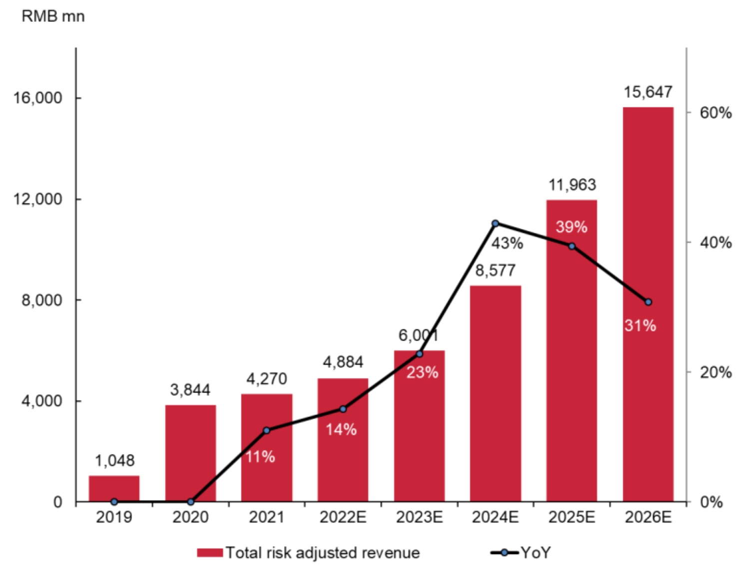
**Link to latest report:** Innovent Biologics (1801 HK) – Fast expanding commercial product portfolio

**Financials and Valuations**

| (YE 31 Dec) | FY22E | FY23E | FY24E |
|---|---|---|---|
| Revenue (RMB mn) | 4,884 | 6,001 | 8,577 |
| YoY growth (%) | 14 | 23 | 43 |
| Net loss (RMB mn) | (2,070) | (1,816) | (663) |
| EPS (RMB) | (1.35) | (1.19) | (0.43) |
| Consensus EPS (RMB) | (1.71) | (1.03) | (0.39) |
| R&D expenses (RMB mn) | (2,500) | (2,300) | (2,144) |
| Capex (RMB mn) | (300) | (300) | (300) |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Revenue trend**




Source: Company data, CMBIGM estimates

# WuXi Biologics (2269 HK): Non-COVID projects driving long-term growth

**Rating:** BUY **| TP:** HK$120.39 (96% 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 588 projects, including 300 in preclinical stage, 37 in Ph3 stage and 17 in commercial stage, as of Dec 2022 . 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$18.5bn as of Jun 2022, 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 revenue of ~RMB3bn/ RMB1bn in 2022/23E. However, we see stronger revenue growth from its non-COVID projects. We expect that WuXi Bio’s non-COVID revenue will grow by 67%/65% YoY in 2022E/23E (vs 48%/39% YoY for total revenue), respectively, mainly driven by CMO (commercial) projects. Note that non-COVID revenue increased by 73% YoY in 1H22 and is expected to increase by ~65%/60% YoY in 2022E/23E. Year 2021 marked the banner year of commercial manufacturing business for WuXi Bio. Revenue from Phase III and commercial stage projects accounted for only 22% of 2020 total revenue, which substantially increased to 48%/44% of 2021/1H22 total revenue.

- **Why do we differ vs consensus:** Our FY22E/23E/24E revenue forecasts are in-line with consensus and we are positive 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$120.39 based on DCF valuation (WACC: 10.17%, terminal growth rate: 3.0%).

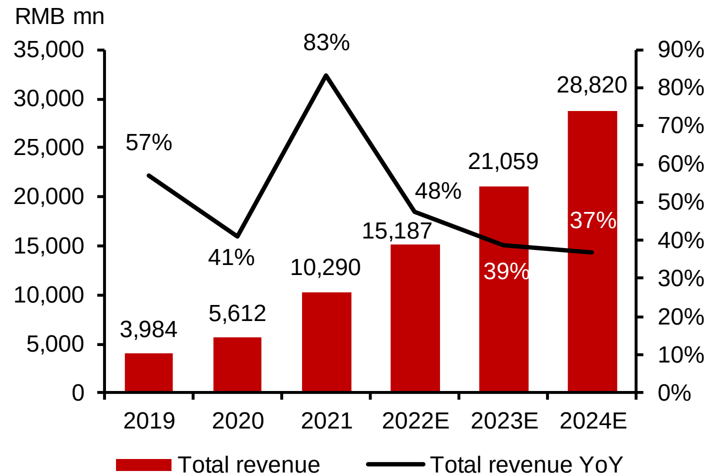
**Link to latest report:** WuXi Biologics (2269 HK) – Non-COVID projects driving long-term growth

**Financials and Valuations**

| (YE 31 Dec) | FY22E | FY23E | FY24E |
|---|---|---|---|
| Revenue (RMB mn) | 15,187 | 21,059 | 28,820 |
| Revenue YoY growth (%) | 48 | 39 | 37 |
| Net income (RMB mn) | 4,469 | 5,962 | 7,804 |
| Adjusted net income (RMB mn) | 4,963 | 6,822 | 9,168 |
| Adjusted EPS (RMB) | 1.16 | 1.60 | 2.15 |
| EPS YoY growth (%) | 46 | 37 | 34 |
| Consensus EPS (RMB) | 1.13 | 1.53 | 2.04 |
| P/E (x) | 53.3 | 39.9 | 30.5 |
| P/B (x) | 6.5 | 5.6 | 4.7 |
| ROE (%) | 12.9 | 15.0 | 16.7 |
| Net gearing (%) | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Revenue trend**




Source: Company data, CMBIGM estimates

# China Life (2628 HK): Outperformance in 2023 jumpstart

**Rating:** BUY | **TP:** HK$20.85 (50% upside)

Analyst: Gigi Chen

- **Investment Thesis:** The 2023 jumpstart performance YTD of Chinese life insurers are divergent according to our channel check. While most insurance companies continued suffering from new business declines given the weaker-than-expected pre-sale performance amid COVID outbreaks in Dec 2022, China Life recorded a decent FYP growth thanks to its early launch of pre-sale since Oct 2022. Our channel check also suggested that the agent headcount of China Life was more stabilized compared to industry trend in 2H22, signaling a earlier recovery. We add China Life-H (2628 HK) to our top picks, given its outperformance on new business growth YTD, a turnaround of 750-day moving avg. of 10-Yr government bond yields in 1H23, and the current undemanding valuation ( trading at 0.2x P/EV FY23E vs a 5-yr avg. P/EV at 0.4x). Reiterate Buy on China Life-H.
- **Catalysts:** China Life will report FY22 results on 30 March, 2023. We expect to see more disclosure of positive data points in the post-result briefing.
- **Valuation:** The stock is trading at 0.2x P/EV FY23E, far below the 5-year average 12-month forward valuation of 0.4x P/EV. We believe the rebound of VNB momentum will support share price performance. Reiterate BUY.

**Links to latest report:**

China Insurance – Divergent jumpstart performance among life insurers

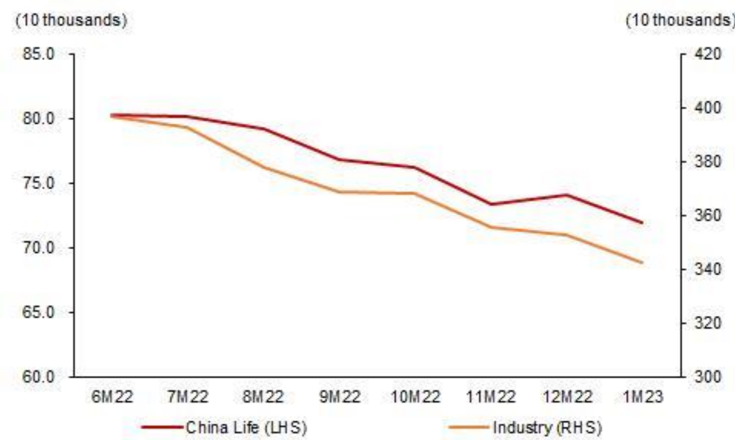
China insurance 2023 outlook

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| VNB (RMB mn) | 44,780 | 37,805 | 39,752 | 41,856 |
| YoY growth (%) | (23.3) | (15.6) | 5.2 | 5.3 |
| Group EV (RMB mn) | 1,203,007 | 1,309,126 | 1,432,587 | 1,566,377 |
| Net profit (RMB mn) | 50,921 | 38,503 | 50,752 | 58,129 |
| EPS (RMB) | 1.8 | 1.3 | 1.8 | 2.0 |
| YoY growth (%) | 1.7 | (25.5) | 31.9 | 14.6 |
| Consensus EPS (RMB) | N/A | 1.4 | 1.9 | 2.1 |
| P/BV (x) | 0.7 | 0.7 | 0.7 | 0.6 |
| P/EV (x) | 0.3 | 0.3 | 0.2 | 0.2 |
| Yield (%) | 5.5 | 4.2 | 5.5 | 6.3 |
| ROE (%) | 13.9 | 10.3 | 10.5 | 10.6 |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: China Life agent headcount gradually stabilized in 2H22**




Source: Pi Financial Services Intelligence

# Tencent (700 HK): Return to earnings growth track

**Rating:** BUY **| TP:** HK$381.6 Analysts: Saiyi He/ Wentao Lu/ Frank Tao

- **Investment Thesis:** Tencent is deploying its WeChat ecosystem, which we expect will disrupt consumer internet industry competition and partially offset slowing macro impact. Infrastructure to support real economy industries, such as enterprise and fintech services, overseas markets development will be Tencent's growth drivers for the long run. Due to revenue exposure to high ROE consumer internet business, revenue recovery coupled with Opex optimization will stabilize earning from 2023 onwards.

- **Our View:** 3Q22 non-IFRS net income grew 1.6% YoY after the decline for 4 consecutive quarters, and reached RMB32.3bn in 3Q22, beating consensus estimate by 7%. The earning beat was mostly helped by effective control in S&M expenses (-32% YoY) & staff costs (low single-digit YoY growth excl. one-off severance costs). We get more upbeat on the recovery of ad business (driven by deepening of video account and Wechat ecosystem monetization), and improving operating efficiency, which shall drive strong earnings rebound in 4Q22E and FY23E.

- **Why do we differ:** We see Tencent still has ample potential to unleash operating leverage via control in S&M expense and staff costs, which could support better-than-expected earnings growth.

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

- **Valuation:** Our SOTP-derived TP is HK$381.6. Tencent currently trades at 24x 2023E PE (or 19x 2023E PE if excluding strategic investment and net cash), vs. earnings growth of 14/13% in 2023/2024E.

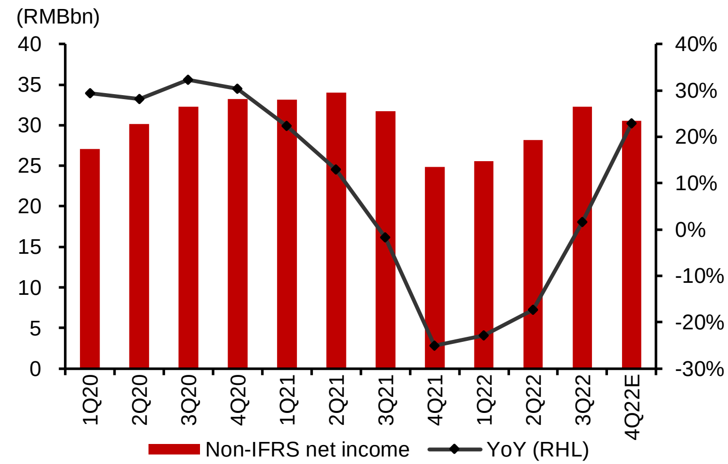
**Link to latest report:** Tencent (700 HK) – Return to earnings growth track

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 560,118 | 555,781 | 611,886 | 662,553 |
| YoY growth (%) | 16.2 | (0.8) | 10.1 | 8.3 |
| Gross margin (%) | 43.9 | 42.9 | 42.9 | 43.1 |
| Adj. net profit (RMB mn) | 123,788 | 116,501 | 132,904 | 149,933 |
| YoY growth (%) | 0.9 | (5.9) | 14.1 | 12.8 |
| EPS (Adjusted) (RMB) | 12.99 | 12.21 | 13.92 | 15.70 |
| Consensus EPS (RMB) | 12.99 | 11.89 | 14.26 | 17.05 |
| P/S (x) | 5.8 | 5.9 | 5.3 | 4.9 |
| Non-GAAP P/E (x) | 25.3 | 27.0 | 23.7 | 21.0 |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Non-IFRS net income growth**




Source: Company data, CMBIGM estimates

# Pinduoduo (PDD US): Strong revenue and earnings growth likely to sustain in 2023

**Rating:** BUY | **TP:** US$92.9 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:** We are positive on PDD's GMV and revenue growth in 2023, aided by established advantage in core categories and incorporation of more branded products. Core domestic business should maintain high profitability and provide strong support for overseas expansion.

- **Why do we differ vs consensus:** We are more positive on PDD's GMV growth supported by enhanced consumer mindshare gain, which could aid robust growth in order frequency.

- **Catalysts:** 1) 4Q22 results; 2) stronger than expected GMV and earnings growth driven by enhanced user stickiness; 3) more rapid than expected ramp up of international business.

- **Valuation:** DCF based valuation of US$92.9, which translates into 24x 2023E PE.

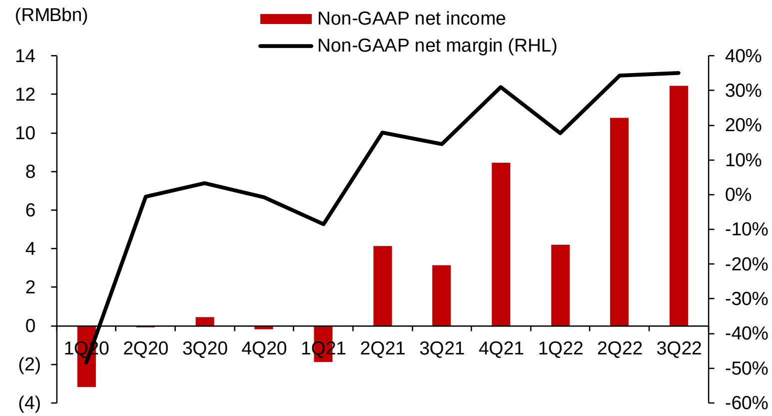
**Link to latest report**: Pinduoduo (PDD US) – Strong revenue and earnings growth

**Financials and Valuations**

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|
| Revenue (RMB mn) | 59,492 | 93,950 | 119,494 | 144,739 | 166,149 |
| YoY growth (%) | 97.4 | 57.9 | 27.2 | 21.1 | 14.8 |
| Net profit (RMB mn) | (7,179.7) | 7,768.7 | 23,866.8 | 30,496.6 | 37,113.1 |
| Adjusted net profit (RMB mn) | (2,965.0) | 13,829.5 | 30,915.4 | 37,930.3 | 44,974.1 |
| EPS (Adjusted) (RMB) | (2.49) | 9.56 | 21.64 | 26.55 | 31.48 |
| P/E (x) | N/A | 123.0 | 24.7 | 19.4 | 15.9 |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: PDD's adjusted net profit and adjusted NPM**




Source: Company data, CMBIGM estimates

# Kuaishou (1024 HK): Solid 4Q22E with better margin outlook

**Rating:** BUY **| TP:** HK$94 (51% upside)

Analyst: Sophie Huang

- **Investment Thesis:** We reiterate our confidence in its resilient growth, share gain and margin improvement in the long run. Kuaishou would deliver resilient 4Q22E, with upbeat ads & livestreaming and better margin (overseas narrowing loss to offset lower GPM and higher S&M). We are positive on its operating leverage and disciplined cost in FY23E (forecasting group breakeven in FY23E).

- **Our View:** We think KS is one of the few companies that would achieve rev acceleration and better margin in 4Q22E, as epidemic resurgence should dampen industrial growth. We expect rev +11% YoY in 4Q22E (in line with consensus, but above previous guidance), with stronger-than-expected ads and livestreaming to offset moderate ecommerce take rate. With effective cost control of overseas biz, we are more positive on its margin outlook. Looking into FY23E, we expect ads to recover to double-digit growth and ecommerce kept resilient momentum (forecasting GMV +25% YoY).

- **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) launch of online shopping mall, 2) FY23E group breakeven, and 3) better-than-expected ads recovery with reopening.

- **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.

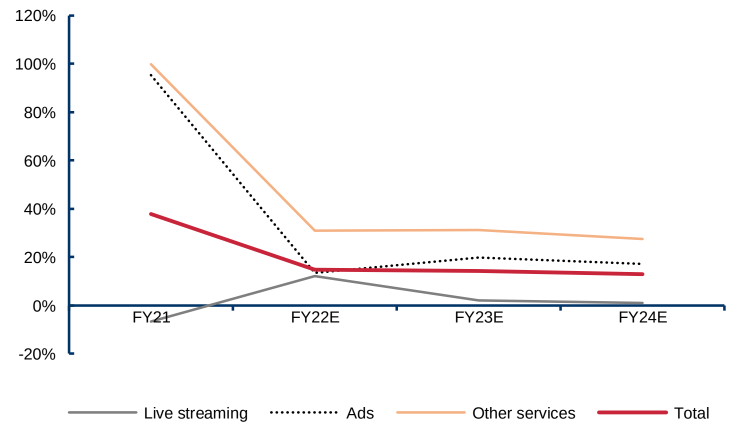
**Link to latest report**: Kuaishou (1024 HK) – Solid 4Q22E with better margin outlook

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 81,082 | 93,006 | 106,317 | 120,109 |
| YoY growth (%) | 37.9 | 14.7 | 14.3 | 13.0 |
| Net income (RMB mn) | (18,852) | (5,953) | 220 | 4,896 |
| EPS (RMB) | (4.6) | (1.3) | 0.0 | 1.1 |
| YoY growth (%) | N/A | N/A | N/A | 2,124 |
| Consensus EPS (RMB) | N/A | (1.9) | (0.1) | 1.9 |
| P/E (x) | N/A | N/A | N/A | 47 |
| P/S (x) | 2.8 | 2.5 | 2.2 | 1.9 |
| 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 (23% upside)

Analysts: Jeffrey Zeng/ Miao Zhang

- **Investment Thesis:** We suggest investors to accumulate CR Land after the recent pull back. its visible earnings growth acceleration (1%/11%/17% YoY in 2022-24E) 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 (FY22E -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 flattish FY22E and 2023E 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 2022E 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 7.5x 2022E 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%.

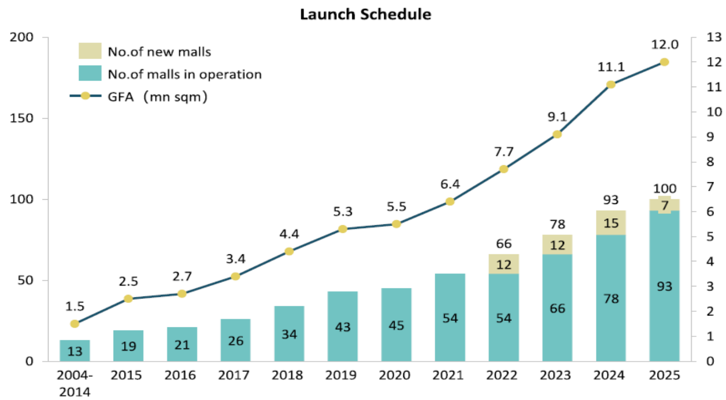
**Link to latest report:** CR Land (1109 HK) – Outperforming FY22E, promising FY23E and not-far-fetching FY25E target

**Financials and Valuations**

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E |
|---|---|---|---|---|
| Revenue (RMB mn) | 179,587 | 212,108 | 233,738 | 253,314 |
| YoY growth (%) | 21.2 | 18.1 | 10.2 | 0.7 |
| Net income (RMB mn) | 29,810 | 32,401 | 26,914 | 29,826 |
| EPS (RMB) | 3.39 | 3.73 | 4.18 | 4.90 |
| YoY growth (%) | N/A | 10.2 | 1.2 | 10.8 |
| Consensus EPS (RMB) | N/A | N/A | 3.89 | 4.22 |
| P/E (x) | 9.3 | 8.5 | 8.4 | 7.6 |
| P/B (x) | 1.1 | 0.99 | 0.94 | 0.87 |
| Yield (%) | 4.0 | 4.4 | 5.3 | 5.9 |
| ROE (%) | 14.7 | 14.3 | 11.2 | 11.5 |
| Net gearing (%) | 29.5 | 24.4 | 27.7 | 26.7 |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: CR Land's opening plan**




Source: Company data, CMBIGM

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

**Rating:** BUY **| TP:** HK$26.01 (36% 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:** BOEVx is our top pick for H-share tech sector, due to secular trend of auto display upgrade, 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 33%/47% CAGR over 2021-24E, driven by 37% CAGR in automotive display.

- **Why do we differ vs consensus:** Our FY22-24E EPS are 5-8% above consensus, and current valuation of 16.2x FY23E is attractive, compared to 37%/37% EPS growth in FY23/24E.

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

- **Valuation:** We derived our 12m TP of HK$26.01 based on 25x FY23E P/E, given 47% 2021-24E EPS CAGR and improving ROE to 22% in 2024E (vs 15% in 2022).

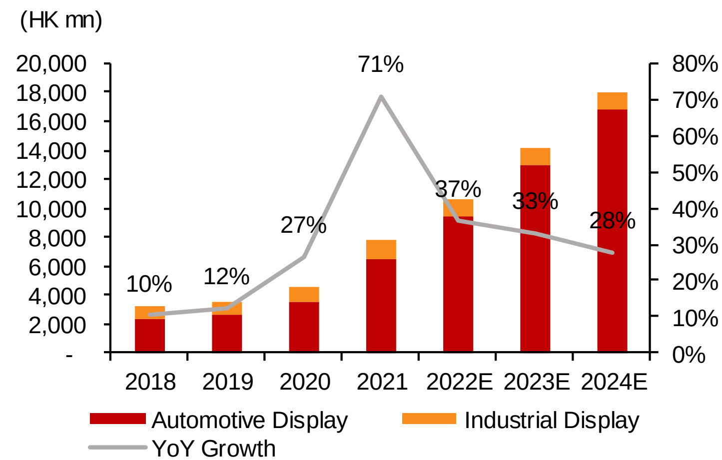
**Link to latest report:** BOE Varitronix (710 HK) – NDR Takeaways: Chengdu auto display capacity ramp-up on track; auto intelligence to drive growth

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (HK$ mn) | 7,738 | 10,565 | 14,081 | 18,011 |
| YoY growth (%) | 70.9 | 36.5 | 33.3 | 27.9 |
| Net income (HK$ mn) | 327.8 | 553.7 | 756.4 | 1,032.4 |
| EPS (HK$) | 0.45 | 0.76 | 1.04 | 1.42 |
| YoY growth (%) | 377.6 | 68.9 | 36.6 | 36.5 |
| Consensus EPS (HK$) | N/A | 0.72 | 0.98 | 1.36 |
| P/E (x) | 42.6 | 25.2 | 18.5 | 13.5 |
| P/B (x) | 2.5 | 2.3 | 1.8 | 1.6 |
| Yield (%) | 0.8 | 2.0 | 1.5 | 1.4 |
| ROE (%) | 9.8 | 14.7 | 17.7 | 20.8 |
| Net gearing (%) | (2.1) | 14.4 | 37.7 | 47.6 |

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 (46% 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

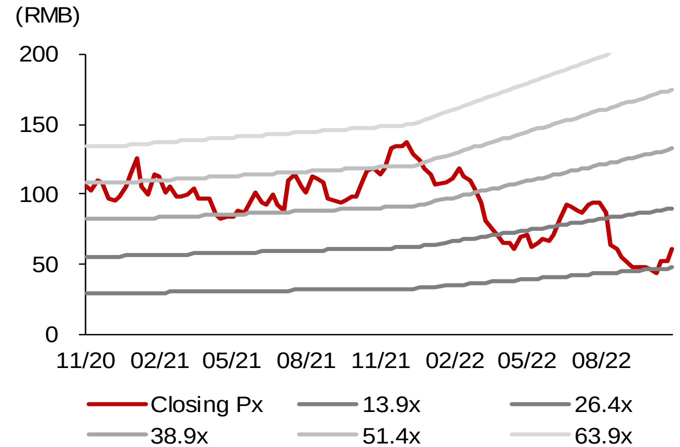
Wingtech (600745 CH) – NWF divesture order will have trivial impact on operation; Will reinforce self-sufficiency trend

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | 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) | 28.9 | 25.9 | 17.2 | 12.9 |
| Yield (%) | 0.3 | 0.4 | 0.6 | 0.8 |
| 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$23.83 (43% upside)

Analyst: Marley Ngan

- **Investment Thesis:** Kingdee is the largest enterprise application SaaS vendor in China with 5.8% market share in 1H20, 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 19% revenue CAGR in FY21-24E reaching RMB7,091mn.

- **Our View:** We think it is a good time now to compare the cloud transition performance among domestic ERP leaders – Kingdee, Yonyou and Inspur as each of them has accumulated 3 years of SaaS data. Kingdee launched first cloud-native platform Cloud Galaxy in 2014 while Yonyou/ Inspur are late joiners in 2019. We like Kingdee most given its strong footprint in medium-sized enterprise market where customers have higher acceptance level to standardized SaaS/ subscription model. ARR accounted for 38% of Kingdee FY21 revenue, vs. 18% for Yonyou, although Yonyou reported a 2x larger cloud revenue.

- **Why do we differ vs consensus:** Domestic substitution has helped Kingdee penetrate into large corporates such as Huawei, Vanke, China Merchants Group. Meanwhile, it will be difficult for Yonyou, who launched first cloud-native platform 5 years later than Kingdee, to gain share in the medium-sized enterprise market.

- **Catalysts:** Winning large SOEs Xinchuang bidding. Supportive policies related to "Xinchuang" implementation.

- **Valuation:** We derive our target price of HK$23.83 on 11.0x FY23E EV/sales, in-line with its 3-year mean. Kingdee deserves re-rating given increasing subscription revenue and hence better cash flow visibility.

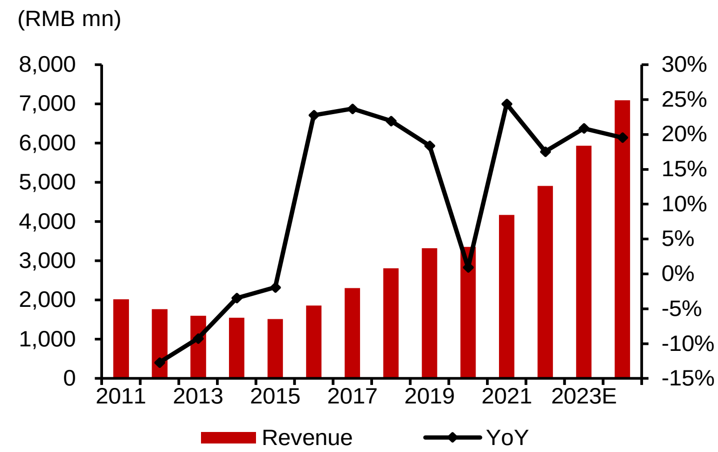
**Link to latest report:** Kingdee (268 HK) – Cloud on track with improved earnings quality

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 4,174 | 4,906 | 5,931 | 7,091 |
| YoY growth (%) | 24 | 18 | 21 | 20 |
| Net profit (RMB mn) | (302) | (513) | (237) | 32 |
| EPS (RMB) | (0.09) | (0.15) | (0.07) | 0.01 |
| YoY growth (%) | (1) | 64 | (55) | (113) |
| Consensus EPS (RMB) | (0.09) | (0.09) | (0.04) | 0.04 |
| EV/sales (x) | 12.0 | 10.2 | 8.4 | 7.0 |
| P/E (x) | (171.3) | (100.9) | (218.9) | 1637.8 |
| Dividend Yield (%) | 0.00 | 0.00 | 0.00 | 0.00 |
| ROE (%) | (4) | (7) | (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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