招銀国际
CMB INTERNATIONAL

CMBI Research Focus List

Our best high conviction ideas

13 Jan 2022

CMBI Focus List – Long and short ideas

Company	Ticker	Sector	Rating	M cap (US$ bn)	3M ADTV (US$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY21E	P/E (x) FY22E	P/B (x) FY21E	ROE FY21E	Yield FY21E	Analyst
Long Ideas														
Zhejiang Dingli	603338 CH	Capital Goods	BUY	6.1	52.8	77.2	87.0	13%	40.9	31.7	8.6	23.1	0.5%	Wayne Fung
SANY Heavy	600031 CH	Capital Goods	BUY	31.9	460.0	23.9	30.0	25%	13.8	11.8	3.2	24.8	2.3%	Wayne Fung
SF Holding	002352 CH	Express Delivery	BUY	26.7	156.3	65.8	100.0	52%	82.5	41.2	4.2	5.5	0.2%	Wayne Fung
Xtep	1368 HK	Consumer Disc.	BUY	63.6	358.2	12.9	15.4	19%	28.5	23.1	3.2	11.7	2.1%	Walter Woo
Li Ning	2331 HK	Consumer Disc.	BUY	24.2	60.3	79.5	102.8	29%	46.7	38.1	13.7	30.0	0.7%	Walter Woo
CTGDF	601888 CH	Consumer Staples	BUY	63.6	358.2	207.0	350.0	69%	45.9	30.9	16.2	35.2	0.5%	Joseph Wong
CR Beer	291 HK	Consumer Staples	BUY	24.2	60.3	58.1	88.0	51%	39.7	38.3	7.1	13.9	0.7%	Joseph Wong
Mengniu	2319 HK	Consumer Staples	BUY	8.0	62.5	47.8	58.0	21%	44.2	37.2	6.3	11.9	1.0%	Joseph Wong
Innovent Biologics	1801 HK	Healthcare	BUY	8.0	62.5	42.8	116.9	173%	NA	NA	NA	-20.0	0.0%	Jill Wu/ Andy Wang
PSBC	1658 HK	Banking	BUY	8.0	62.5	6.3	7.2	16%	NA	NA	0.9	9.6	4.1%	Eric Wang
PICC P&C	2328 HK	Insurance	BUY	20.5	23.1	7.2	11.5	61%	NA	NA	0.6	11.4	6.8%	Gigi Chen
Meituan	3690 HK	Internet	BUY	178.2	649.4	226.2	332.0	47%	NA	NA	NA	-39.9	0.0%	Sophie Huang
CR Land	1109 HK	Property	BUY	32.8	62.1	35.9	44.8	25%	4.8	4.4	1.1	14.6	4.6%	Jeffrey Zeng/ Xiao Xiao
CG Services	6098 HK	Property	BUY	18.7	108.7	43.2	91.2	111%	30.0	21.4	32.9	25.8	0.7%	Jeffrey Zeng/ Xiao Xiao
Xiaomi	1810 HK	Technology	BUY	59.9	209.9	18.7	31.3	0.7	20.0	15.6	3.9	12.6	0.0%	Alex Ng/ Lily Yang
Willsemi	603501 CH	Technology	BUY	36.7	284.1	266.6	346.6	30%	59.4	44.7	17.6	29.1	0.0%	Lily Yang/ Alex Ng
Hikvision	002415 CH	Software & IT services	BUY	70.6	241.8	48.1	76.3	58%	28.2	23.5	7.4	28.0	0.0%	Marley Ngan

Source: Bloomberg, CMBIS, Price as of 13/1/2022

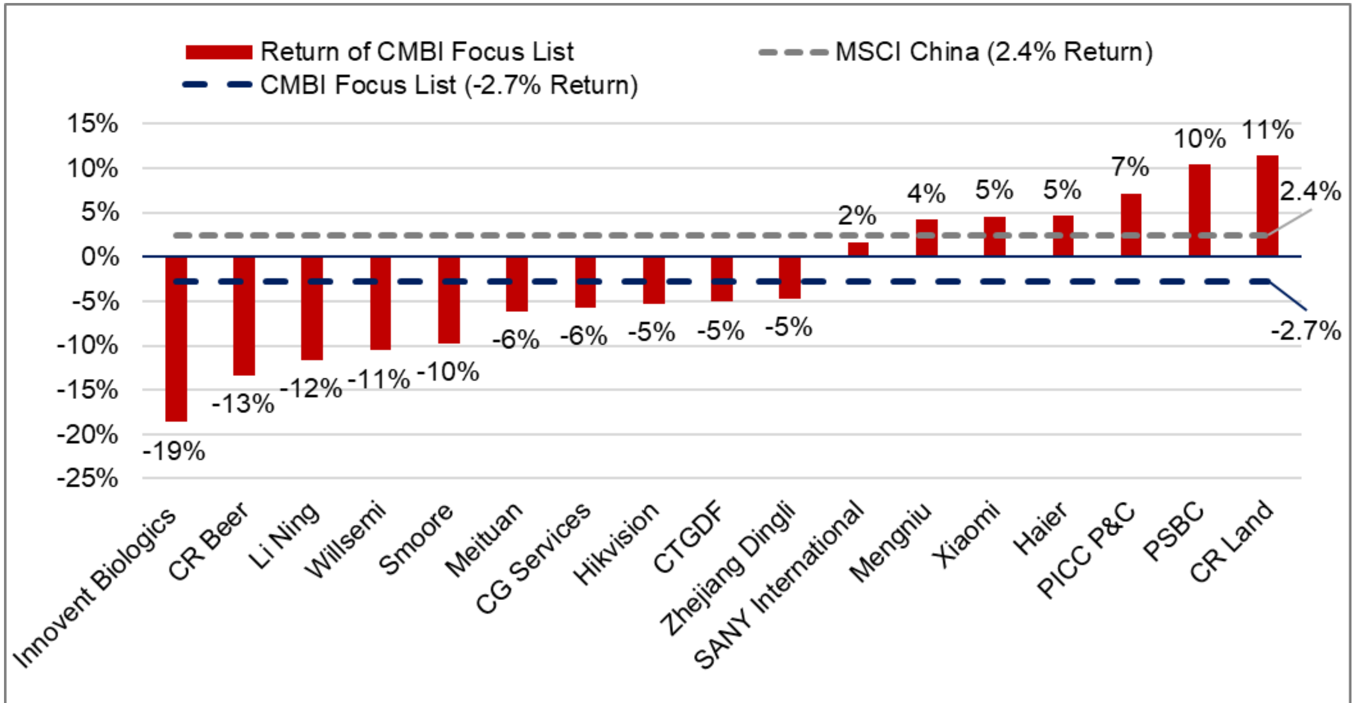
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
SANY Heavy	600031 CH	Capital Goods	BUY	Wayne Fung	Sequential improvement in construction machinery demand in 1Q22E to serve as near-term catalyst.
SF Holding	002352 CH	Express delivery	BUY	Wayne Fung	Expect strong earnings recovery in 2022E on the back of improvement in competitive landscape.
Xtep	1368 HK	Consumer Disc.	BUY	Walter Woo	Despite the recent COVID-19 outbreak, we think Xtep's excellent sales growth in Jan-to-date can provide meaningful insight on its 1Q22E performance, while its plan to expand into tier 1 cities and relaunch of K-swiss in FY22E are potential catalysts as well.
Deletions					
SANY International	631 HK	Capital Goods	BUY	Wayne Fung	Expect more upside in the near-term for infrastructure-related machinery names.
Haier	6690 HK	Consumer Disc.	BUY	Walter Woo	We turn more cautious about its 1Q22E performance after a meaningful slowdown in Dec sales growth in both domestic and overseas, even though the key positive in FY22E (raw material costs improvement) is still in place.
Smoore	6969 HK	Consumer Staples	BUY	Joseph Wong	Industry now expects the new national standard to come out by 3Q (vs previously 1Q).

Source: CMBIS

Performance of our recommendations

- In our last report dated 16 Dec, we highlighted a list of 17 long ideas.
- The basket (equal weighted) of these 17 stocks underperformed MSCI China index by 5.2ppt, delivering -2.7% return (vs MSCI China 2.4%).
- CR Land, PSBC, PICC P&C, Haier and Xiaomi delivered 5% or more return, and 6 of our 17 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIS; Note: Stock performance from 15 Dec 2021 to 12 Jan 2022

Long Ideas

Zhejiang Dingli (603338 CH): Beneficiary of strong downstream capex

Rating: BUY **| TP:** RMB87.0 (13% upside)

Analyst: Wayne Fung

- **Investment Thesis:** Aerial working platform (AWP) is entering a structural growth trajectory as the rising labor cost in China will make AWPs incrementally cost competitive compared with the traditional scaffolding. We believe Zhejiang Dingli, as a pure AWP manufacturer, remains a major beneficiary given its global presence, cost competitiveness, brand recognition and strong management execution.

- **Our View.** After around seven months of investigation, the US Department of Commerce has decided in mid-Oct that the countervailing duties and anti-dumping duties for Dingli will be 11.95% and 17.78%, respectively. Based on the current rates, we expect the impact on Dingli should be manageable given that Dingli will adopt differentiated products (less price sensitive) in the US market. In China, the ambitious AWP fleet size expansion by **Far East Horizon (3360 HK)**, the major customer of Dingli, will boost Dingli's AWP volume growth over the coming years.

- **Why do we differ vs consensus:** Our earnings forecast in 2021E/22E is 6%/5% above consensus.

- **Catalysts:** We see several positive drivers going forward: (1) Successful spin-off of equipment leasing unit by Far East Horizon; (2) Decrease in steel price and stabilization of freight cost will help improve gross margin.

- **Valuation:** We set our TP at RMB87, based on 44x 2021E target P/E (on the back of ~45% earnings growth in 2021E).

Link to latest report:

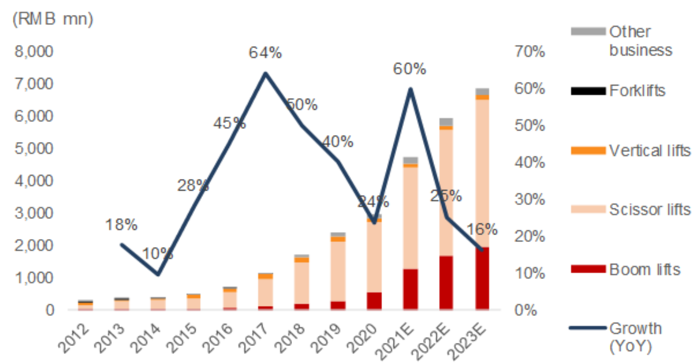
Zhejiang Dingli (603338 CH) – 3Q21 net profit +5.4% YoY; in line with expectation

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	2,957	4,721	5,908	6,868
YoY growth (%)	23.7	59.7	25.2	16.2
Net income (RMB mn)	664	963	1,243	1,487
EPS (RMB)	1.37	1.98	2.56	3.06
YoY growth (%)	-4.3	45.1	29.0	19.7
Consensus EPS (RMB)	N/A	1.86	2.44	3.02
EV/EBIDTA (x)	48.0	36.0	27.1	23.0
P/E (x)	59.4	40.9	31.7	26.5
P/B (x)	10.5	8.6	7.0	5.7
Yield (%)	0.3	0.5	0.6	0.7
ROE (%)	19.1	23.1	24.3	23.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Dingli's revenue breakdown



Source: Company data, CMBIS estimates

SANY Heavy (600031 CH): Sequential improvement in domestic demand; Electric products and export to serve as medium-term driver

Rating: BUY | **TP:** RMB30 (25% upside)

Analyst: Wayne Fung

- **Investment Thesis:** SANY Heavy is the largest excavator manufacturer in China with ~30% market share in 2021E. The Company also has the largest producing capacity of concrete pumps in China and has established itself as one of the major players in the world. On the back of fast-growing electric products, precise marketing strategy, commitment on R&D spending, intelligent production capability and excellent management execution, SANY has been increasing its market share and is set to emerge as a world class player to compete in the global market.

- **Our View:** We expect the construction machinery demand to see sequential recovery in 1Q22, driven by the speed-up of local government special bond issuance. Besides, we expect a stabilization of gross margin driven by the decline in steel price.

- **Why do we differ vs consensus:** Our earnings forecast in 2022E/23E is 8%/3% above the consensus estimates, as we are more positive on the pro-growth policy driven demand.

- **Catalysts:** (1) Sequential improvement in machinery demand in 1Q22E; (2) decrease in raw materials cost; (3) increase in the contribution of electric products.

- **Valuation:** Our TP of RMB30 is based on 14x 2022E P/E. Our target multiple is based on 20% premium to the average P/E of 11.6x since the sector upcycle starting 2017. The premium is to reflect the Company's strong overseas expansion that will help reduce the cyclical risk.

Link to latest report:

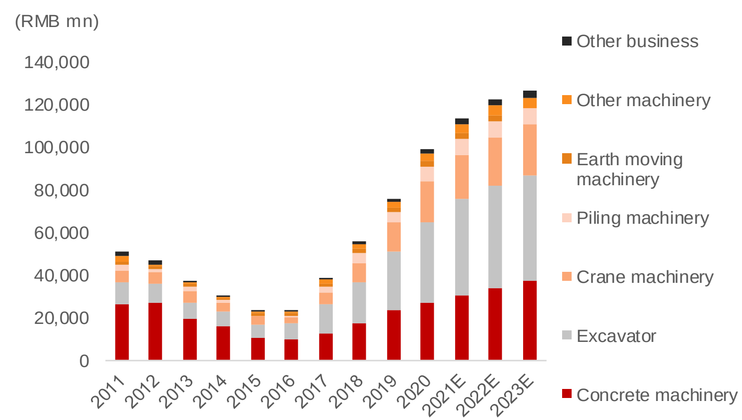
SANY Heavy (600031 CH) – Low expectation after 3Q21 results; Electric products and export to serve as medium term drivers

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	100,054	113,466	122,550	129,159
YoY growth (%)	31	13	8	5
Net income (RMB mn)	15,431	15,315	17,878	18,628
EPS (RMB)	1.82	1.81	2.11	2.20
YoY growth (%)	33.2	-0.8	16.7	4.2
Consensus EPS (RMB)	-	1.82	1.96	2.13
EV/EBITDA (x)	10.6	10.9	9.4	9.1
P/E (x)	13.7	13.8	11.8	11.3
P/B (x)	3.7	3.2	2.6	2.3
Yield (%)	2.4	2.3	2.7	2.8
ROE (%)	29.8	24.8	24.4	21.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: SANYI's revenue breakdown



Source: Company data, CMBIS estimates

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

Rating: BUY | TP: RMB100 (52% upside)

Analyst: Wayne Fung

- **Investment Thesis:** The Chinese government's strong intervention in the express delivery industry through policies and regulations in 2021 successfully put the bloody price war to an end and brought the industry development back to the right track. From corporate perspective, major players have already shifted from pricing to capex optimization, quality service and profit oriented strategy. Looking ahead, we expect ASP increase will continue to serve as sector catalyst in 2022E. In addition, we expect market share gain through M&A, as well as expansion to integrated logistics model, will become a trend over the medium term.

- **Our View:** Following the completion of share placement and the spin-off of **SF REIT (2191 HK, NR)** and the intra-city business unit, SF completed the major fund-raising exercise in 2021. Going forward, with a focus on premium delivery service, SF is set to become a major beneficiary given that the industry focus is moving away from pricing to service quality after the government's intervention. Meanwhile, SF's strategic shift from scale to profitability, together with the consolidation of **Kerry Logistics (636 HK, NR),** will boost significant earnings recovery in 2022E. What's more, the potential market share gain in the premium e-commerce delivery segment will boost SF's economy express volume.

- **Why do we differ vs consensus:** Our earnings forecast in 2021E-23E is 8-11% above consensus estimates, due to higher ASP assumptions.

- **Catalysts:** (1) Further increase in ASP; (3) Market share gain in high-end e-commerce express delivery.

- **Valuation:** Our new TP of RMB100 is based on 61x 2022E P/E, 1SD above the historical average of 44x. We believe SF deserves a valuation premium, given the strong earnings recovery in 2022E-23E.

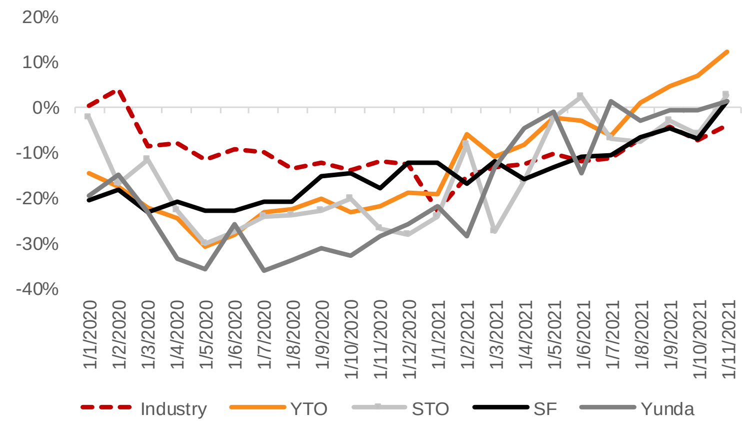
Link to latest report: SF Holding (002352 CH) – Set to deliver strong earnings recovery in 2022E; U/G to BUY

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	153,987	217,238	280,105	327,664
YoY growth (%)	37	41	29	17
Net income (RMB mn)	6,883	3,765	8,079	11,618
EPS (RMB)	1.54	0.82	1.65	2.37
YoY growth (%)	37.2	-46.7	100.6	43.8
Consensus EPS (RMB)	-	0.76	1.49	2.14
EV/EBITDA (x)	22.5	21.7	14.6	11.2
P/E (x)	44.0	82.5	41.2	28.6
P/B (x)	5.5	4.2	3.8	3.4
Yield (%)	0.5	0.2	0.5	0.7
ROE (%)	13.9	5.5	9.7	12.6
Net gearing (%)	Net cash	2.2	4.5	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: ASP trend for major express delivery players



Source: The State Post Bureau, Company data, CMBIS

Xtep (1368 HK): Slight beat in 3Q21 and guidance maintained

Rating: BUY **| TP:** HK$15.41 (19% upside)

Analyst: Walter Woo

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

- **Our View:** We are fairly confident about it in 1H22E and expect a 25%+ core brand retail sales growth, due to: 1) a resilient Dec 2021 and Jan 2021 performance, 2) step up in tier 1 cities and shopping malls expansion, and 3) ASP hike of 5-10% since 2Q22E. We are also excited about the re-launch of K-swiss brand in China in FY22E. Xtep enjoyed a massive re-rating in FY21E, as it had taken over Nike as the most popular brand for professional runners (after the launches of 160X series) and received great popularity for its domestic fashion products (e.g. XDNA series).

- **Why do we differ vs consensus:** For FY21E/ 22E/ 23E, our net profit forecasts are differ than the street by 2%/ -1%/ +4%, as we are more positive about its 4Q21E sales, more conservative in sales but more positive in margins during FY22E-23E.

- **Catalysts:** 1) robust 4Q21E retail sales data point, 2) raise in guidance and 3) higher than expected popularity for the products and brands.

- **Valuation:** We derived our 12m TP of HK$15.41 based on SOTP valuation , also implying a 30x FY22E P/E. We believe resilient sales growth during tough time can boost investors confident. The stock is not expensive, at 24x FY22E P/E, with 41% adj. NP CAGR during FY20-23E.

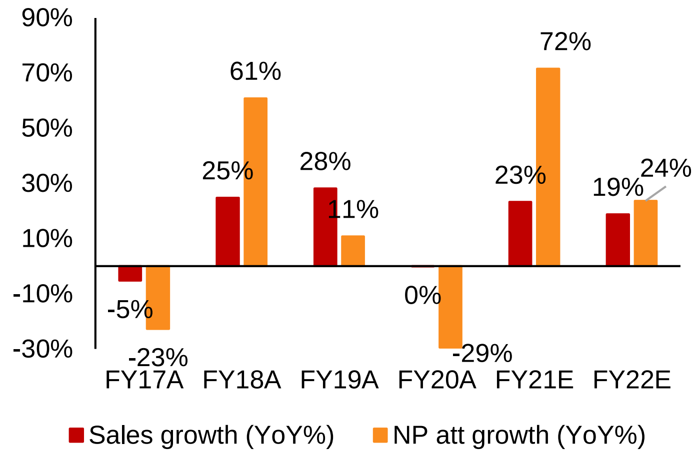
Link to latest report: Xtep (1368 HK) – Slight beat in 3Q21 and guidance maintained

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Sales (RMB mn)	8,172	10,070	11,967	13,888
YoY change (%)	(0.1)	23.2	18.8	16.1
Adj. Net profit (RMB mn)	513	880	1,089	1,431
Adj. EPS - Fully diluted (RMB)	0.206	0.346	0.428	0.562
YoY change (%)	(31.6)	67.5	23.7	31.4
Consensus EPS (RMB)	N/A	0.338	0.434	0.541
Adj. P/E (x)	48.4	28.5	23.1	17.6
P/B (x)	3.5	3.2	3.0	2.8
Yield (%)	1.2	2.1	2.6	3.4
ROE (%)	7.2	11.7	13.6	16.6
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Sales and net profit growth



Source: Company data, CMBIS estimates

Li Ning (2331 HK): Continuing to leverage on domestic fashion

Rating: BUY **|** **TP:** HK$102.84 (29% upside)

Analyst: Walter Woo

- **Investment Thesis:** We are highly impressed by margin expansions in 1H21 and continued to believe Li Ning to benefit the most under domestic fashion mania, even though its growth driver may shift from margins to sales in the next few years. It is a leading sportswear brand in China with RMB 14.6bn sales and around 7,000 stores in FY20. Growth drivers include 1) premiumization and better product mix, 2) ramp up of E-commerce and direct retail, 3) larger sized stores with better productivity.

- **Our View:** Even though there are many drags by covid-19 outbreak on retail sales since Jun 2021, but Li Ning still delivered an amazing 3Q21 growth, hence we remained positive on its outlook in 4Q21E and 1H22E, thanks to: 1) resilient momentum of 20%+ in Oct-Nov 2021, 2) healthy channel inventory level and robust FY22E trade fair sales growth, 3) GP margin expansion, by ASP increase and reduced retail discounts and 4) boost in operational efficiency under the new CEO, etc.

- **Why do we differ vs consensus:** For FY21E/ 22E/ 23E, our net profit forecasts are lower than the street by 4%/ 7%/ 14%, due to our more conservative view, as the base is getter higher and higher, which may result in slower sales growth and greater operating leverage.

- **Catalysts:** 1) robust 2H21E retail sales data point, 2) stronger than expected retail discounts and operating leverage and 3) better than expected marketing events.

- **Valuation:** We derived our 12m TP of HK$102.84 based on 50x FY22E P/E. We believe brand elevation and upgrade on store productivity, can all drive decent growth onwards. The stock is not demanding at all, at 38x FY22E P/E, with 43% adj. NP CAGR during FY20-23E.

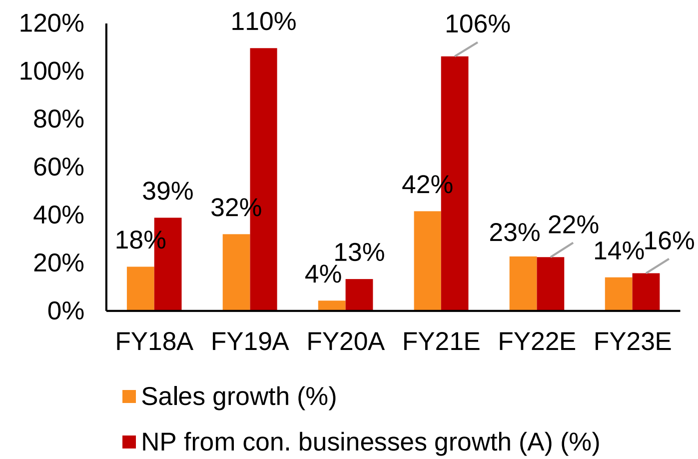
Link to latest report: Li Ning (2331 HK) – Shifting gears from margin to sales

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Sales (RMB mn)	14,457	20,466	25,128	28,628
YoY change (%)	4.2	41.6	22.8	13.9
Adj. Net profit (RMB mn)	1,698	3,502	4,288	4,963
Adj. EPS - Fully diluted (RMB)	0.68	1.39	1.71	1.98
YoY change (%)	12.5	106.2	22.4	15.7
Consensus EPS (RMB)	N/A	1.45	1.82	2.29
Adj. P/E (x)	97.6	46.7	38.1	33.0
P/B (x)	18.7	13.7	10.7	8.6
Yield (%)	0.3	0.7	0.8	0.9
ROE (%)	19.5	30.0	28.7	29.6
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Sales and net profit growth



Source: Company data, CMBIS estimates

CTGDF (601888 CH): Shares likely mean-revert on sequentially better 4Q tourist traffic

Rating: BUY **| TP:** RMB350.0 (69% upside)

Analyst: Joseph Wong

- **Investment Thesis:** Travel bans in view of the outbreak of Delta Variant in Guangzhou and Nanjing is likely to weigh on 3Q domestic travel momentum. That said, when the pandemic gradually dies down and when vaccination surpasses 2.1bn times, we see scope for domestic travel to normalize into 4Q, particularly when the quarter is clustered with various festivals and campaigns that catalyze leisure travelling and shopping.

- **Our View:** CTGDF is the largest domestic duty-free operator with 90%+ market share in 2020, and is therefore poised to be the major beneficiary of this recovery trajectory. The stock is trading at 30.9x end-22E P/E, at par to its 3-year average but -2sd below its 1-year average, when the stock was re-rated on policy tailwind. We argue shares mean-reversion is likely to take place towards 4Q, not to mention value to be unlocked through its secondary H share listing on an expanded shareholder base.

- **Catalysts:** Potential earnings upside on rental renegotiation and tax concession. We believe rental renegotiation for Beijing airport could enhance operating leverage, while Hainan's potential tax concession approval could boost 2021/22E net profits by approximately 8%, in our estimate. Separately, owing to a rising online/ lower-margins SKU mix, we expect pressure to gross margins to prevail until 2022E when a more centralized procurement strategy, recovering offline traffic and the SKU mix upgrade could revive the trend

- **Valuation:** Our target price of RMB350.0 is based on 43.0x end-22E P/E, which represents +1sd above the average of the last 3 years. Our multiple is also benchmarked to the average valuation of 44.0x since July 2020. This explains our near-term expectation for CTGDF's share price to mean-revert as if domestic travel and spending were to recover as we are heading to a more festive 4Q.

Link to latest report: CTGDF (601888 CH) – At near term trough; Shares likely mean-revert on sequentially better 4Q tourist traffic; Initiate at Buy

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	52,597	78,379	114,404	151,491
YoY growth (%)	9.7	49.0	46.0	32.4
Net income (RMB mn)	6,390	10,681	15,873	21,255
EPS (RMB)	3.3	5.5	8.1	10.9
YoY growth (%)	63.6	69.4	50.3	33.9
Consensus EPS (RMB)	N/A	5.6	7.8	10.1
P/E (x)	N/A	45.9	30.9	23.1
P/B (x)	N/A	16.2	11.5	8.3
Div Yield (%)	N/A	0.5	0.7	1.0
ROE (%)	28.6	35.2	37.2	35.9
Net gearing (%)	54.6	46.6	45.8	49.4

Source: Company data, Bloomberg, CMBIS estimates

Fig: 1-year forward P/E since Jun 2020

Source: Company data, CMBIS estimates

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CR Beer (291 HK): A mix-driven ASP boost to offset any volume hiccup over 2H; our sector top pick

Rating: BUY | **TP:** HK$88.0 (51% upside)

Analyst: Joseph Wong

- **Investment Thesis:** Despite an anticipated 3Q consumption disruption and a seasonally slower 4Q, CRB, in our view, remains a high-quality name to stand tall thanks to its undisrupted premiumization trajectory, underpinned by a ~2% sub-premium price hike and a ~5% from a higher premium mix, respectively. We envisage these should also mitigate any cost inflation (4-5%) to be materialized over 2H21. Looking into 2022E, barring any pandemic disruptions, we forecast CR Beer's shipment to recover to 11.5m kl, similar to that in 2019, driven by a 30% YoY sub-premium/ premium sales increase, with a slightly faster Heineken volume growth. The mix upgrade should translate to a net 1.5pp gross margins expansion p.a. CRB is our sector top pick, along with Mengniu, among our Consumer Staple coverages. We initiate CRB at Buy.
- **We estimate 2H volume to down ~6% YoY due to 3Q delta-variant outbreak.** In our view, the disruption will likely bring down full-year shipment growth to ~1%, from 4.9% growth in 1H21. That said, we still expect CRB to deliver a guided 30% premium/sub-premium shipment growth, given the mix upgrade as well as a more well-defined client tier-ing system.
- **The renewed "Snow Brave the World" likely to boost ASP by ~2% p.a.** The Company targets to fresh its pricing strategy (effectively a price hike) starting from this launch. Of note, the product roughly contributed to 20-25% of CRB's total shipment in 2020 (over half of sub-premium shipment), and we estimate a 10% price hike could imply a ~2% ASP boost per annum.
- **Valuation:** Our TP is based on 3-year average 29.0x end-22E EV/EBITDA. We set our target multiple at long term average to reflect any mean-reversion once investors look past the current volume hiccup, and upon the realization of gross margins expansion as market consensus now expects.

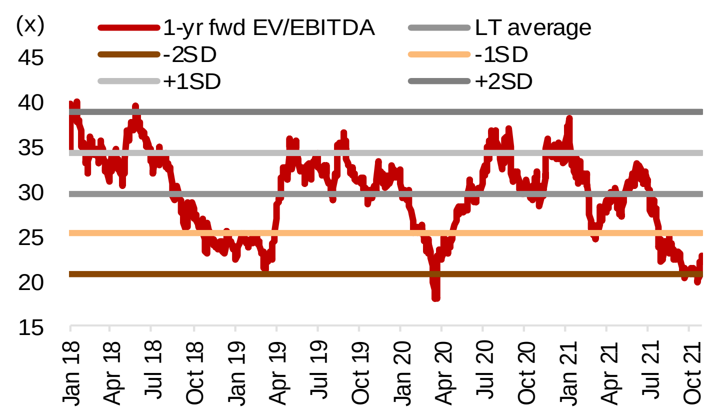
Link to latest report: CR Beer (291 HK) – 4Q likely in line with on track premiumization progress; our sector top pick

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	31,448	33,393	35,852	38,454
YoY growth (%)	(5.2)	6.2	7.4	7.3
Net income (RMB mn)	2,094	4,431	4,588	5,402
EPS (RMB)	0.6	1.4	1.4	1.7
YoY growth (%)	59.6	111.6	3.5	17.7
Consensus EPS (RMB)	N/A	1.3	1.3	1.7
P/E (x)	N/A	39.7	38.3	32.5
P/B (x)	N/A	7.1	6.4	5.6
Div Yield (%)	N/A	0.7	1.0	1.2
ROE (%)	13.0	13.9	17.5	18.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: 1-year forward EV/EBITDA



Source: Company data, CMBIS estimates

Mengniu (2319 HK): Raw milk price hike an overhang but cost control & mix upgrade are clear margins boosters

Rating: BUY | **TP:** HK$58.0 (21% upside)

Analyst: Joseph Wong

- **Investment Thesis:** Our 5.9% 2H EBIT margins stemmed from an effective cost control that was well proven in 1H. This efficiency gain should also suffice to mitigate the risks to our RMB2bn net profits assumption brought by the transitory raw milk price hike - we expect it to peak out and taper from 17% YoY in 1H to 5-6% YoY in 2H21E, resulting a ~36% 2H gross margins (2H19: 36.3%). On top of that, we look for a 10% 2H topline growth. A ~9% increase in liquid milk revenue looks to be a major driver, in which we combine a 7% volume growth with a 2% ASP accretion. Longer term, the margins hiccup does not prevent us from projecting a 21%/ 31% 3-year revenue/ EBIT CAGR for Mengniu. A raising consumer health awareness, an effective mix upgrade, an extending overseas footprint and a calculated 5-year revenue target altogether summarize this visible earnings trajectory. We initiate Mengniu at Buy, and Mengniu is our top Buy along with CR Beer (291HK, Buy).
- **Mengniu targets to double its 2020 sales revenue within five years, through its 'Creating a new Mengniu' ambition.** The company will execute the strategy through a boost to production capacity along with new and more high-end product launches including A2 fresh milk, and adult milk powder. 1H21 capex was RMB2.5b. We expect RMB6b for 2021E.
- **Business extension to Southeast Asia through the takeover of Aice.** The acquiree is a Southeast Asia ice cream brand with annual turnover of RMB2bn+. Mengniu intends to leverage on Aice's brand equity and distribution network to explore the Southeast Asia market. With a 20% 1H revenue growth, Aice was fully consolidated to Mengniu since 2Q.
- **Valuation:** Our TP is based on 29.8x end-22E P/E which represents +1sd above its 3-year average. Our multiple benchmarks to Yili's 29.0x.

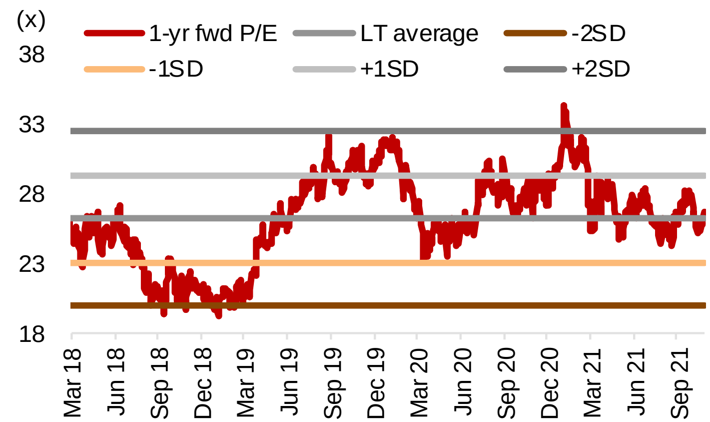
Link to latest report: China Consumer Staples – Structural merits look prominent amid transitory headwind and any stagflation expectation

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,035	88,152	99,327	112,079
YoY growth (%)	(3.8)	15.9	12.7	12.8
Net income (RMB mn)	3,525	4,919	6,270	7,586
EPS (RMB)	0.9	1.3	1.6	1.9
YoY growth (%)	8.6	49.7	18.8	21.0
Consensus EPS (RMB)	N/A	1.3	1.5	1.9
P/E (x)	N/A	44.2	37.2	30.8
P/B (x)	N/A	6.3	5.5	4.9
Div Yield (%)	N/A	1.0	1.2	1.5
ROE (%)	9.5	11.9	13.5	14.5
Net gearing (%)	19.0	13.1	(0.6)	(14.6)

Source: Company data, Bloomberg, CMBIS estimates

Fig: 1-year forward P/E



Source: Company data, CMBIS estimates

Innovent Biologics (1801 HK): Building world-leading innovation platform

Rating: BUY **| TP:** HK$116.89 (173% upside) Analysts: Jill Wu/ Andy Wang

- **Investment Thesis:** Innovent is a leading integrated biopharma company with comprehensive innovative pipelines including mAbs, bsAbs, small molecules and CAR-Ts, covering oncology, autoimmune and metabolic diseases. Besides 6 marketed products (sintilimab, three biosimilars, pemigatinib, and olverembatinib), Innovent has 5 innovative drugs in pivotal clinical stage, including IBI306 (PCSK9 mAb), IBI310 (CTLA-4 mAb), IBI376 (PI3Kδ inhibitor), IBI326 (BCMA-CART), and taletrectinib (ROS1/NTRK inhibitor). In addition, Innovent has established a comprehensive innovative portfolio covering next-generation I/O targets, including CD47/SIRPα, TIGIT, LAG3, 4-1BB, KRAS G12C, etc. It's worth noting that Innovent is an early mover in CD47-SIRPα pathway with three assets under development, including clinical-stage IBI188 (CD47 mAb) and IBI322 (PD-L1/CD47 bsAb), and preclinical stage IBI397 (AL008, SIRPα mAb). As the Company's major source of revenue during recent years, we expect sintilimab to realize RMB5,974mn and US$1,507mn of peak sales in China and overseas markets, respectively.

- **Our View:** We expect sintilimab, Byvasda (bevacizumab biosimilar), Sulinno (adalimumab biosimilar) and Halpryza (rituximab biosimilar) will contribute the majority of revenue in the near future. We forecast total revenue to reach RMB3,882mn/ RMB6,098mn/ RMB8,578mn in FY2021E/22E/23E, representing a YoY change of 1%/57%/41%, respectively. We forecast Tyvyt to contribute 74% of Innovent's total revenue in FY21E while the three biosimilars accounting for 26% of the total revenue.

- **Why do we differ vs consensus:** Although our FY21E/22E/23E revenue are -9%/-7%/-3% different from consensus, we are positive on the Company's growth, especially in its fast-growing sales from I/O therapies. With more and more products launch in the near future (commercialization of IBI375, IBI306, IBI310 and IBI376 in China during 2022-23E) and the NDRL inclusion of sintilimab's large indications effective in Jan 2022, we are very optimistic on the Company's profitability.

- **Valuation:** We derive our target price of HK$116.89 based on a 15-year DCF valuation (WACC: 9.30%, terminal growth rate: 4.0%).

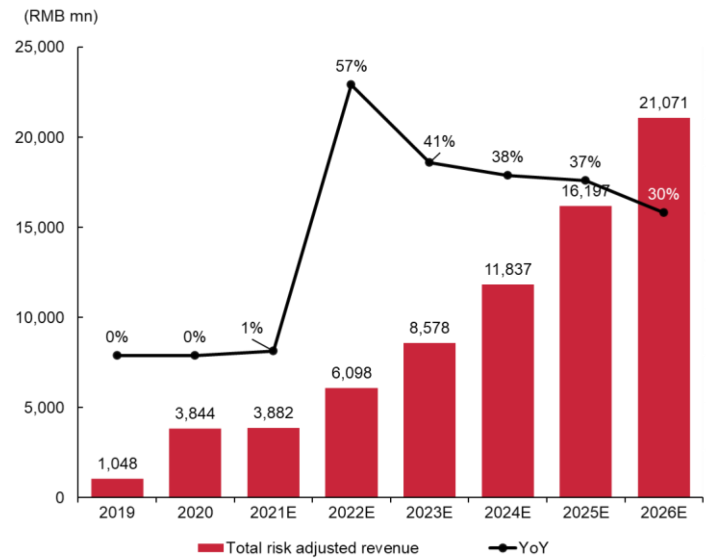
Link to latest report: Innovent Biologics (1801 HK) – Building world-leading innovation platform

Financials and Valuations

(YE 31 Dec)	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,882	6,098	8,578
YoY growth (%)	(1)	(57)	(41)
Net profit (RMB mn)	(2,177)	(1,225)	(307)
EPS (RMB)	(1.49)	(0.84)	(0.21)
Consensus EPS (RMB)	(1.13)	(0.59)	0.22
P/S (x)	6.8	7.1	6.8
ROE (%)	(20)	(12)	(3)
Net gearing (%)	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Revenue trend



Source: Company data, CMBIS estimates

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

Rating: BUY | **TP:** HK$7.20 (16% upside) Analyst: Eric Wang

- **Investment Thesis:** Sector-leading asset quality, as of end-3Q21, PSBC's NPL ratio was 0.82%, while the industry average was 1.75% and the SOE average was 1.37%. Moreover, in 1H21 PSBC's SML ratio was 0.48%, while the SOE averaged 1.62%. Another advantage of PSBC is that it has less risk exposure on property industry than any other large and mid-sized banks. Only 2.11% of its loan is property loan while SOEs' and JSBs' average is 5.2% and 8.7%, respectively.
- **Optimistic outlook on its long term growth:** Unlike the other 5 SOEs, we are confident that PSBC can maintain a 10% CAGR on net profit growth in next few years, because there is no TLAC influence on capital reserve and best capital management bank under D-SIBs regulation. In addition to a growing RWA, according to its managements, the Bank is planning to lift LDR 2-3% annually in next few years. The increasing LDR will optimize its efficiency on total assets and then result in a better return on interest bearing assets. New management from CM Bank will optimize PSBC's business strategy on retail banking business and we have already seen fast growth on its wealth management business. As of the end of 3Q21, fee & commission income grew 32.6% YoY, contributing 7.07% to revenue, +119 bps YoY. Retail AUM is RMB 12.2tn, up around RMB 1tn in 9M21.
- **Catalysts:** In addition to RRR cut, property developers' cash flow and solvency capacity also have a strong influence on banking sector valuation. Due to uncertainty of property developers' solvency capacity, we think Postal will outperform because it has less exposure on property development industry.
- **Valuation:** Based on Gordon Growth Model, our target price on PSBC is HK$7.20, implying 0.79x 2022E P/B. During last 3 years, PSBC is trading at 0.71x P/B, while currently it is trading at 0.62x P/B, below -1SD of historical mean (0.64x P/B).

Link to latest report: China Banking Sector Initiation - Looking for the safe harbor

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	286,202	315,680	346,442	378,590
Net profit	64,199	75,499	87,387	99,596
EPS (RMB)	0.71	0.82	0.95	1.08
EPS CHG (%)	-1%	15%	16%	14%
Consensus EPS (RMB)	0.71	0.83	0.93	1.06
P/B (x)	0.56	0.89	0.82	0.75
Dividend yield (%)	6.0%	4.1%	4.7%	5.3%
ROE (%)	11.8%	9.6%	10.4%	11.0%
NPL ratio (%)	0.88%	0.82%	0.81%	0.80%
Provision coverage (%)	408%	460%	484%	506%

Source: Company data, Bloomberg, CMBIS estimates

Fig: Risk exposure on property developers (property development loan as % of total loan)

	Postal	CCB	ICBC	ABC	BoComm	BOC	SOE avg
Risk exposure	2.1%	4.7%	5.0%	5.5%	6.0%	7.9%	5.2%

	Citic	HXB	CEB	SPDB	CMB	CIB	CBHB	PAB	CZB	CMBC	JSB avg
Risk exposure	6.3%	6.9%	7.0%	7.3%	7.5%	8.7%	9.6%	10.1%	13.5%	10.3%	8.7%

Source: WIND, CMBIS estimates

PICC P&C (2328 HK): Auto growth pick up; Non-auto UW to improve

Rating: BUY **|** **TP:** HK$11.53 (61% upside) Analyst: Gigi Chen

- **Investment Thesis:** Looking ahead into 2022, we think the turnaround of P&C business will come ahead of life insurance recovery. In Oct/Nov 2021, PICC's auto insurance premium income increased by 6.5%/9.5% YoY, ending months of auto premiums decline. It has been over 1 year since the launch of the Comprehensive Reform of Auto Insurance on 19 Sep 2020, and the low base effect kicked in. We expect the average auto premiums and auto comprehensive ratio year on year to stabilize starting from 4Q21. Moreover, this recovery of auto premium income growth will ease the competitions in non-auto space, and the top P&C insurers are able to pay more attentions on improving the non-auto underwriting profitability, in our view. We expect PICC P&C to deliver continual outperformance against industry average and improvement in underwriting margin in 2022.
- **Catalysts:**
  - Monthly auto premium growth pick up since Oct 2021.
  - Overhang of NEV auto insurance removed: On 14 Dec, the Insurance Association launched the standard policy clauses and pricing rate for commercial insurance coverage of new energy vehicles (NEVs) or electric vehicles (EVs). The premium rate is higher than the previous consultation version. And for used cars more than 1 year old, the NEV insurance premium rate will be higher than that of the traditional auto insurance.
- **Valuation:** The stock is trading at historical trough valuation at 0.6x P/BV FY22E, with over 8% dividend yield. We increased FY22E-FY23E earnings forecast and roll over TP to FY22E at HK$11.53, reiterate Buy.

Link to latest report:

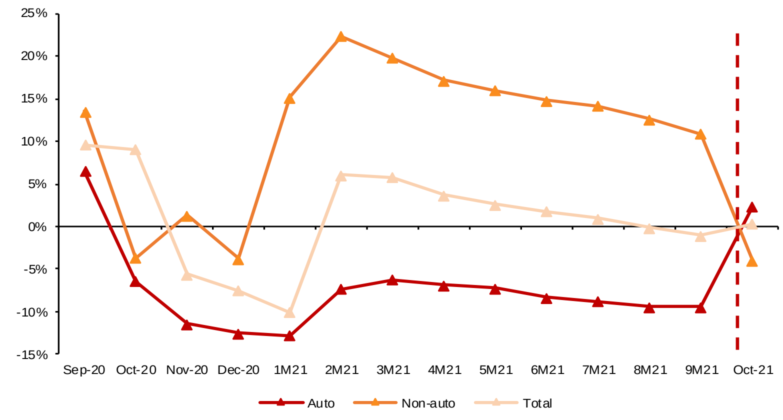
- PICC P&C (2328 HK) – Auto growth pick up; Non-auto UW to improve
- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
GWP (RMB mn)	433,187	437,519	481,271	529,398
YoY growth (%)	0.0	1.0	10.0	10.0
UW profit (RMB mn)	4,177	3,971	5,895	8,337
Net profit (RMB mn)	20,868	22,072	25,351	29,898
EPS (RMB)	0.9	1.0	1.1	1.3
YoY Growth (%)	(14.1)	5.8	14.9	17.9
Consensus EPS (RMB)	N/A	1.1	1.2	1.3
P/B (x)	0.7	0.6	0.6	0.6
PER (x)	6.2	5.9	5.1	4.3
Yield (%)	6.4	6.8	7.8	9.2
ROE (%)	11.7	11.4	12.2	13.3

Source: Company data, Bloomberg, CMBIS estimates

Fig: Auto & Non-auto premium growth YoY%



Source: Company data, Bloomberg, CMBIS estimates

Meituan (3690 HK): Moving into 2Q22E recovery

Rating: BUY | **TP:** HK$332 (47% upside)

Analyst: Sophie Huang

- **Investment Thesis:** We keep positive on Meituan Dianping's ("MD") secular growth, backed by rising online consumption, new initiatives (e.g., community e-commerce), and digital operation. Despite ST pressure from regulation and epidemic, Meituan could be relatively defensive with well-guided financials, optimized and compliant system, and limited exposure to upcoming content supervision. **Our bear case analysis (excl. new biz valuation) indicates HK$180 as fundamental price floor.** Suggest to buy the dips for attractive valuation and regulatory overhang to lift.

- **Our View:** Looking ahead, mgmt prioritized quality growth with improving efficiency to tackle epidemic and macro headwinds. We are conservative on its 4Q21 & 1Q22E outlook, forecasting food delivery/ In-store, hotel and travel/ new initiatives +19%/+22%/+57% YoY in 4Q21E. Stock price might see near-term volatility for tough 4Q21E and soft sector sentiment. In the long run, we keep confident on its organic growth, and expect gradual rebound from 2Q22E with travel limit relaxation after Olympics and Two Sessions.

- **Why do we differ vs consensus:** Market concern lies on anti-trust law, social insurance impact, and potential threat from Douyin. We believe near-term concern have been priced in and more prudent monetization outlook was well-guided.

- **Catalysts:** 1) regulation overhangs to lift ; 2) new initiatives to expand TAM; 3) food delivery growth to recover.

- **Valuation:** Maintain BUY with SOTP-based TP of HK$332, implying 7x FY22E P/S. Valuation is attractive, given its 37% FY20- 23E rev CAGR and expanding TAM, in our view.

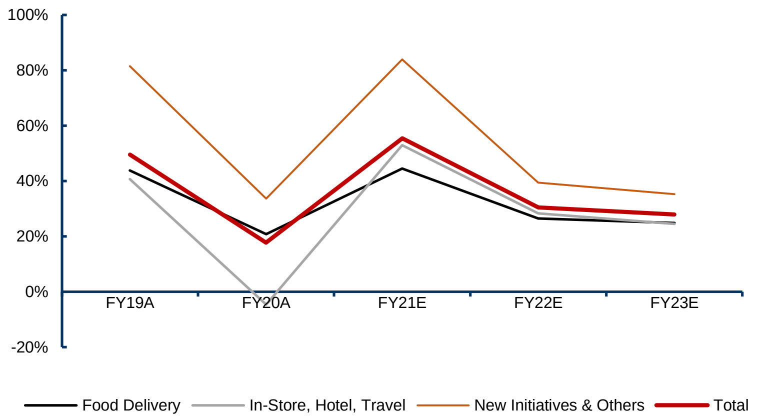
Link to latest report: Meituan (3690 HK) – Moving into 2Q22E recovery

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	114,795	178,388	232,676	297,613
YoY growth (%)	18	55	30	28
Net income (RMB mn)	3,121	(18,180)	(4,811)	13,698
EPS (RMB)	0.52	(2.94)	(0.76)	2.10
YoY growth (%)	(34)	N/A	N/A	N/A
Consensus EPS (RMB)	N/A	(2.6)	(0.10)	2.81
P/E (x)	364	NA	NA	90
P/S (x)	10.1	6.5	5.0	3.9
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.0	(39.9)	(22.5)	9.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: MD's revenue growth estimates



Source: Company data, CMBIS estimates

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

Rating: BUY **| TP:** HK$44.79 (25% upside) Analysts: Jeffrey Zeng/ Xiao Xiao

- **Investment Thesis:** In 2021, we favor 1) Names with high % of rent-bearing mall property: We expect a personal spending boom in 2021 on a) high deposit rate (1 - expenditure-to-income ratio) in 2020, b) wealth effect of the stock market, and c) the gradual distribution of COVID-19 vaccines. 2) "Borderline green-zone" names: Under current tight policy and stable market, sales growth depends on an increase in goods value, which in turn depends on an increase in corresponding debt. "Green-zone" (those meeting all three red lines) and "borderline green-zone" (those that can meet all three by YE20) names will have 5-10% edge in debt growth. Such a gap could widen given restricted land cost and rising sales GP margin.

- **Our View:** Investment highlights for CR Land are 1) 30%+ growth in mall rent collection in 2021, 2) CR City Phase IV boosting Shenzhen's sales share and overall GPM. 3) Spin-off of rent collection business to generate value. We see the promotion of CR City Phase IV in Dec 2020 and upcoming results announcement as major catalysts.

- **How do we differ:** Overall, we see the market as over-concerned on 1) further policy tightening and 2) decline in property demand. We think the high saving rate and wealth effect of 2020 would help drive consumption recovery, which would benefit major shopping mall runners in the property space (i.e. CR Land) to accelerate rental income growth.

- **Valuation:** The Company currently trades at 4.8x 2021E P/E vs. historical average of 9x. Moreover, the increase in revenue share of rent collection business could trigger re-rating: see Longfor (960 HK) which currently trades close to 10x 2021E P/E.

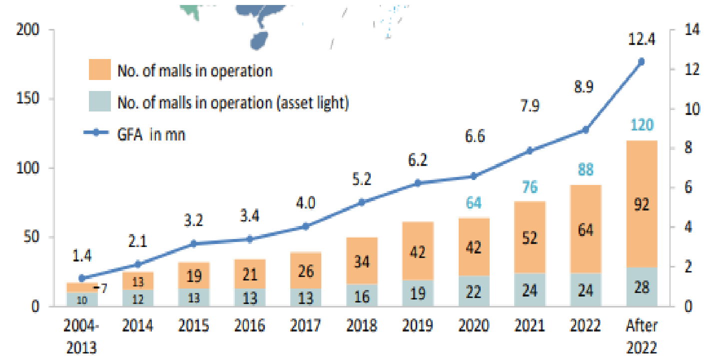
Link to latest report: China Property Sector – Mildly positive if M&A debt is excluded in "Three red line" calculation

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	147,736	179,587	242,568	271,335
YoY growth (%)	21.9	21.2	35.1	11.9
Net income (RMB mn)	28,672	29,810	31,809	34,666
EPS (RMB)	4.12	4.18	4.46	4.86
YoY growth (%)	17.7	1.5	6.7	9.0
Consensus EPS (RMB)	N/A	N/A	4.05	4.63
P/E (x)	5.2	5.1	4.8	4.4
P/B (x)	1.1	1.2	1.1	1.0
Yield (%)	4.0	3.8	4.6	5.1
ROE (%)	16.5	13.7	14.6	14.3
Net gearing (%)	30.3	32.1	31.6	34.4

Source: Company data, Bloomberg, CMBIS estimates

Fig: CR Land's opening plan



Source: Company data, CMBIS

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

Rating: BUY **| TP:** HK$91.2 (111% upside)

Analysts: Jeffrey Zeng/ Xiao Xiao

- **Investment Thesis:** we are very confident on its >RMB100bn revenue target by 2025E (50% CAGR) as 1) contracted GFA to exceed 1.3bn sq m in 2021E after acquiring Languang; 2) step into commercial property managements which is another blue sea; 3) fast-growing VAS via offering more comprehensive services (e.g. community group shopping, insurance) to increase VAS/sq m to RMB30; and 4) city services to further widen BtoG and BtoB business connection. As a result, we revise up 2021/22E earnings by 10-17% and lift TP to HK$91.2. Reiterate CGS as our Top Pick on growth visibility and VAS. **Catalysts**: 1H21 results beat

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

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

- **Valuation:** We derive the target price of HK$91.2/share by using 35x 2022E PE based on the score card. It's currently trading at 21x 2022E PE and looks attractive. We think it will rerate after better-than-expected 1H21 results.

Link to latest report:

China Property Service Sector – NDRC to support Community VAS segment via tax and social insurance reduction

Financials and Valuations

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	9,645	15,600	27,265	39,683
YoY growth (%)	106.3	61.7	74.8	45.5
Net income (RMB mn)	1,671	2,686	4,649	6,479
EPS (RMB)	0.63	0.98	1.57	2.20
YoY growth (%)	69.8	55.7	61.3	39.4
Consensus EPS (RMB)	N/A	N/A	1.28	1,75
P/E (x)	74.7	48.0	30.0	21.4
P/B (x)	N/A	23.1	32.9	20.9
Yield (%)	N/A	0.3	0.7	1.0
ROE (%)	31.1	18.4	25.8	28.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: CGS has first-move advantage in VAS acquisitions

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

Source: Company data, CMBIS estimates

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

Rating: BUY **| TP:** HK$31.34 (68% upside)

Analysts: Alex Ng/ Lily Yang

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

- **Our View:** We are positive on Xiaomi's comprehensive product portfolio and premium model strategy amid Huawei's weakness in high-end segment. Despite global chip shortage in near term, we expect Xiaomi's market share will continue to expand and improving ASP/margin will offset smartphone shipment softness in 4Q21E. We believe internet revenue will maintain solid growth due to premium smartphone models and overseas user growth, while AIoT margin will recover in 4Q on normalizing logistics costs. As for EV, mgmt. expected to commence mass production in 1H24E and we are positive on its progress backed by strong balance sheet, technology investment and talent acquisitions.

- **Why do we differ vs consensus:** Our FY22-23E EPS are 5-10% above consensus given better margins and share gain from overseas.

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

- **Valuation:** Our TP of HK$31.34 is based on 26x FY22E P/E. We think it is justified given share gain in smartphone market, product transition into AIoT, and resilient internet revenue.

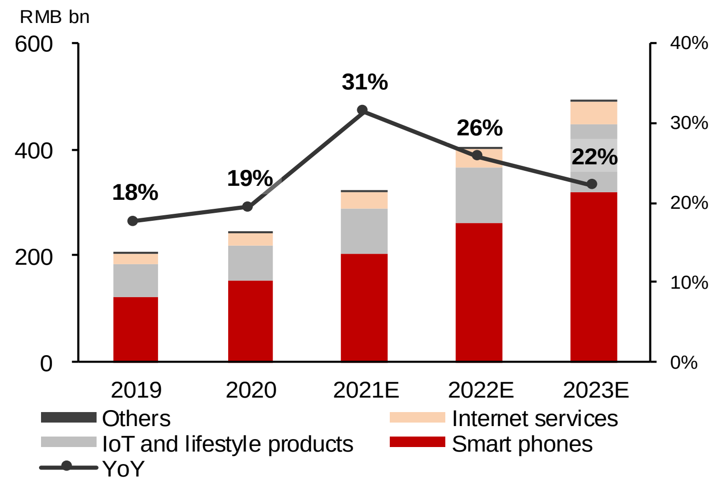
Link to latest report: Xiaomi (1810 HK) – Solid 3Q21 despite supply chain challenge; Reiterate BUY

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	245,866	323,220	406,429	496,369
YoY growth (%)	19.4	31.5	25.7	22.1
Adj. Net profit (RMB mn)	13,006	22,222	28,417	34,175
Adj. EPS (RMB)	0.54	0.85	1.08	1.30
YoY growth (%)	11.7	55.9	27.9	20.3
Consensus EPS (RMB)	-	0.86	1.00	1.19
P/E (x)	31.1	20.0	15.6	13.0
P/B (x)	4.1	3.9	3.3	2.8
Yield (%)	-	-	-	-
ROE (%)	16.4	12.6	15.5	15.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Xiaomi revenue trend



Source: Company data, CMBIS estimates

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

Rating: BUY **| TP:** RMB346.60 (30% upside) Analysts: Lily Yang/ Alex Ng

- **Investment Thesis:** Willsemi is a top 3 manufacturer in global CIS market. We forecast Willsemi's revenue/NP to grow at 30%/32% 2021-23E CAGR, driven by strong demand for CIS from automotive, VR/AR, security and other fast-growing end markets. We believe Chinese CIS players will be major beneficiaries of China semi localization and expanding global CIS market (7.2% 21E-26E CAGR).

- **Our View:** Although recent smartphone sales weakness and supply chain constrains has affected Q3 revenue, we remain positive on Willsemi and believe its non-mobile CIS business will maintain strong momentum and power the company's future growth. Considering underlying negative factors which would last longer, we revised down our FY21E-23E rev. forecasts, but raised margin est. due to improved product mix. We maintain BUY with 12m TP adjusted to RMB346.6.

- **Why do we differ vs consensus:** As emphasized before, we see greater potentials beyond mobile market, which has stronger demand and higher GPM. Rev. contribution from non-mobile CIS accounted for 50% of CIS sales in 3Q21. The market starts to agree with our view and weigh more on non-mobile CIS business now. Meanwhile, we are not that pessimistic on Willsemi's mobile CIS business as there is still room to gain market share.

- **Catalysts: C**ontinuous strong demand for auto CIS, release of VR/AR devices by leading names such as Metaverse, Nintendo, etc.

- **Valuation:** Our TP of RMB346.6 by applying 50x FY22E P/E, in-line with 1SD above 2-year historical forward P/E.

Link to latest report:

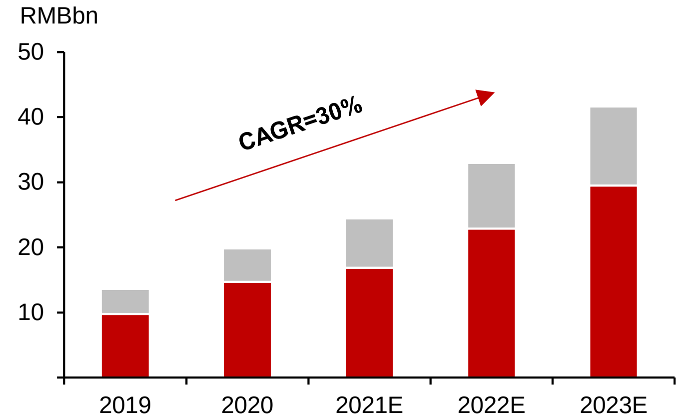
- Willsemi (603501 CH) – Long-term positive view unchanged with non-mobile CIS to power future growth
- Willsemi (603501 CH) – The next chapter beyond mobile CIS is coming
- China CIS market – Beginning of multi-year growth cycle; Initiate BUY

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (US$ mn)	19,824	24,470	32,968	41,635
YoY growth (%)	45.4%	23.4%	34.7%	26.3%
Gross margin (%)	29.9%	33.8%	34.2%	34.3%
Net profit (US$ mn)	2,706	4,656	6,180	8,056
EPS (US$)	3.21	5.22	6.93	9.04
YoY growth (%)	322.4%	62.7%	32.7%	30.3%
Consensus EPS (US$)	3.21	5.30	6.76	8.48
PE (x)	94.4	59.4	44.7	34.3
PB (x)	22.7	17.6	11.8	8.5
ROE (%)	23.5%	29.1%	26.0%	24.4%
Net gearing (%)	6.7%	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Willsemi revenue trend



Source: Company data, CMBIS estimates

Hikvision (002415 CH): Intelligent camera leader

Rating: BUY **| TP:** RMB76.25 (58% upside) Analyst: Marley Ngan

- **Investment Thesis:** Hivision is more than a surveillance camera provider as camera applications are expanded by embedding AI/ sensor technology. Hikvision products cover 70 industries and EBG (enterprise) is replacing PBG (public security) as the new growth driver. We expect Hikvision to deliver 19% net profit CAGR in FY20-23E.

- **Our View:** We like Hikvision for its camera technology leadership and continuous margin improvement. Given diversified customer mix, Hikvision can achieve stable growth and face less policy risk. Hikvision Innovative business segments (smart home products/ robotics/ thermal/ x-ray products etc.) is gaining traction, revenue was up +122% YoY to RMB5.6bn in FY1H21 and contributed 16% of total revenue. Gross margin is also improving (+3.1 pct pts to 41.6% in FY1H21), narrowing the gap with core surveillance GPM of 47.2%.

- **Why do we differ vs consensus:** Hikvision has adopted high inventory level strategy since Hisilicon ban in 2019. This helps secure customers and gain market share amid global raw material shortage, especially for SMBG (SME customers) and overseas business.

- **Catalysts:** Accelerating enterprise digitalization, public security projects bidding grow faster than expected.

- **Valuation:** We derive our target price of RMB76.25 on 36x FY22E P/E, 50% above its 3-year mean. Hikvision deserves re-rating as 1) supply chain risk is mitigated after two years of product re-design and 2) strong growth in innovative business proves Hikvision transformation to an intelligent camera solution provider.

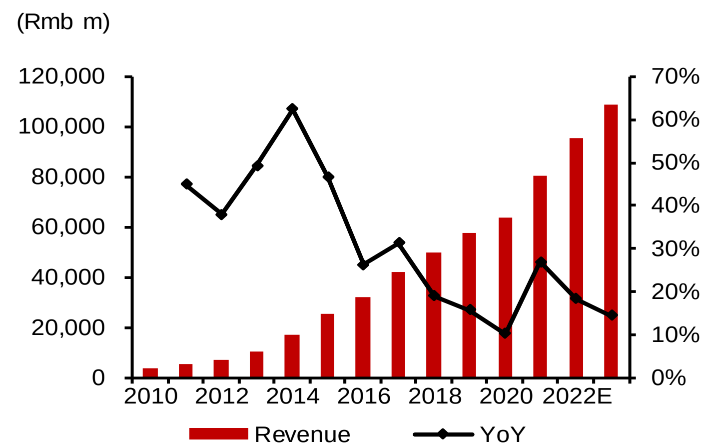
Link to latest report: Hikvision (002415 CH) – Resilient 3Q21 with high inventory buffer

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	63,503	80,796	94,686	63,503
YoY growth (%)	10%	27%	17%	10%
Net profit (RMB mn)	13,386	16,454	19,775	13,386
EPS (RMB)	1.43	1.76	2.12	1.43
YoY growth (%)	8%	23%	20%	8%
Consensus EPS (RMB)	1.43	1.81	2.26	1.43
PE (x)	34.7	28.2	23.5	34.7
PB (x)	8.6	7.4	7.2	8.6
Dividend Yield (%)	0.01	0.03	0.04	0.01
ROE (%)	27%	28%	31%	27%
Net debt to equity	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Fig: Hikvision revenue and YoY growth



Source: Company data, CMBIS estimates

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