CMBI Research Focus List

Our best high conviction ideas

8 Mar 2022

CMBI Focus List – Long and short ideas

Company	Ticker	Sector	Rating	M cap (US$ bn)	3M ADTV (US$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY21E	P/E (x) FY22E	P/B (x) FY21E	ROE FY21E	Yield FY21E	Analyst
Long Ideas														
Li Auto Inc.	LI US	Auto	BUY	26.5	230.2	25.7	48.0	87%	N/A	N/A	3.9	-0.9	N/A	Shi Ji/ Dou Wenjing
Zhejiang Dingli	603338 CH	Capital Goods	BUY	4.1	42.5	51.3	77.0	50%	27.9	22.9	4.5	19.1	0.7%	Wayne Fung
Zhejiang Jingsheng	300316 CH	Capital Goods	BUY	12.4	118.5	60.7	93.0	53%	47.5	30.0	11.8	28.1	0.4%	Wayne Fung
SF Holding	002352 CH	Express Delivery	BUY	43.5	164.7	56.1	94.0	68%	96.7	38.0	3.6	4.1	0.2%	Wayne Fung
Xtep	1368 HK	Consumer Disc.	BUY	3.9	23.0	11.6	16.4	42%	27.9	21.0	3.4	11.7	2.2%	Walter Woo
Jiumaojiu	9922 HK	Consumer Disc.	BUY	2.9	25.7	15.7	19.7	25%	52.4	32.1	5.5	11.2	0.4%	Walter Woo
CR Beer	291 HK	Consumer Staples	BUY	24.5	58.0	59.0	80.0	36%	53.2	39.7	6.9	14.0	0.8%	Joseph Wong
Mengniu	2319 HK	Consumer Staples	BUY	23.3	56.0	46.2	57.0	24%	30.7	26.3	4.3	11.8	0.9%	Joseph Wong
Innovent Biologics	1801 HK	Healthcare	BUY	5.8	57.5	30.9	75.5	144%	N/A	N/A	N/A	-20.0	N/A	Jill Wu/ Andy Wang
PSBC	1658 HK	Banking	BUY	82.0	41.5	6.4	7.7	21%	N/A	N/A	0.9	9.6	4.1%	Eric Wang
PICC P&C	2328 HK	Insurance	BUY	21.8	27.9	7.7	11.5	50%	N/A	N/A	0.7	11.4	6.0%	Gigi Chen
Kuaishou	1024 HK	Internet	BUY	41.1	226.6	75.5	136.0	80%	N/A	N/A	N/A	55.0	0.0%	Sophie Huang
CR Land	1109 HK	Property	BUY	34.5	54.1	37.8	44.8	18%	7.2	6.6	1.0	14.6	4.7%	Jeffrey Zeng/ Xiao Xiao
CG Services	6098 HK	Property	BUY	19.2	95.2	44.7	91.2	104%	20.8	14.8	18.6	25.8	1.2%	Jeffrey Zeng/ Xiao Xiao
Xiaomi	1810 HK	Technology	BUY	43.8	161.5	13.7	31.3	1.3	14.5	11.3	2.8	12.6	N/A	Alex Ng/ Lily Yang
Willsemi	603501 CH	Technology	BUY	30.6	261.6	221.0	346.6	57%	50.3	37.9	14.9	29.1	N/A	Lily Yang/ Alex Ng
Hikvision	002415 CH	Software & IT services	BUY	65.5	200.2	43.9	62.1	41%	25.5	21.4	6.8	28.0	0.0%	Marley Ngan

Source: Bloomberg, CMBIGM, Price as of 7/3/2022

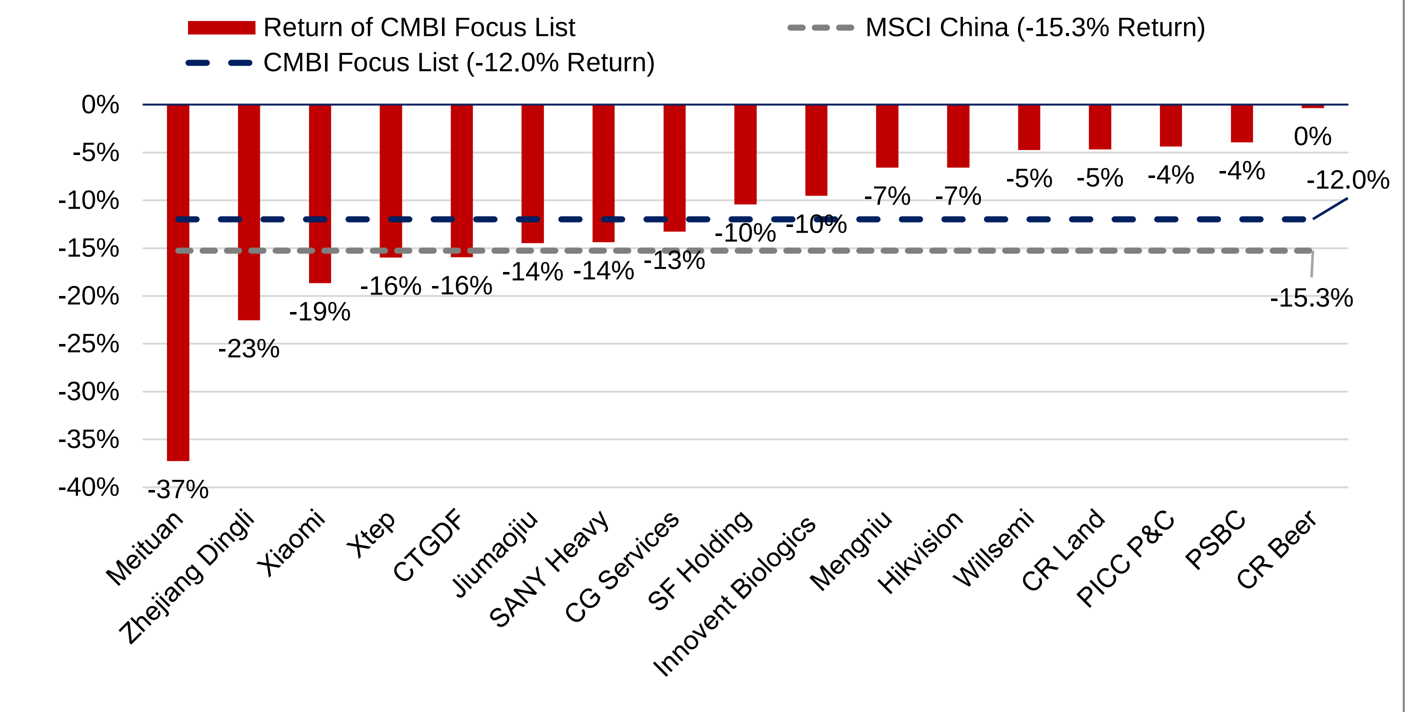
Latest additions/deletions from CMBI Focus List

Company	Ticker	Sector	Rating	Analyst	Rationale
Additions					
Li Auto Inc.	LI US	Auto	BUY	Shi Ji/ Dou Wenjing	As supply chain challenges linger, investors' key focus on autos could shift to operational efficiency and supply chain management.
Zhejiang Jingsheng	300316 CH	Capital Goods	BUY	Wayne Fung	More positive on solar power due to the potential shift of energy policy.
Kuaishou	1024 HK	Internet	BUY	Sophie Huang	Kuaishou would be more resilient at this moment given its solid growth, clear margin improvement and limited regulation impact.
Deletions					
SANY Heavy	600031 CH	Capital Goods	BUY	Wayne Fung	Lack of near-term catalyst due to the slow recovery of construction machinery demand.
CTGDF	601888 CH	Consumer Staples	HOLD	Joseph Wong	We downgrade CTGDF to HOLD considering its margins cut amid Hainan's aggressive target and sales mix change.
Meituan	3690 HK	Internet	BUY	Sophie Huang	We remain positive on Meituan's long-term potential, but it will face short-term challenges from regulatory risks and food delivery slowdown.

Source: CMBIGM

Performance of our recommendations

- In our last report dated 11 Feb, we highlighted a list of 17 long ideas.
- The basket (equal weighted) of these 17 stocks outperformed MSCI China index by 3.3ppt, delivering -12.0% return (vs MSCI China -15.3%).
- 12 of our 17 long ideas outperformed the benchmark.



Source: Bloomberg, CMBIGM; Note: Stock performance from 10 Feb 2022 to 7 Mar 2022

Long Ideas

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

Rating: BUY **| TP:** US$48 (87% upside)

Analysts: Shi Ji/ Dou Wenjing

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

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

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

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

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

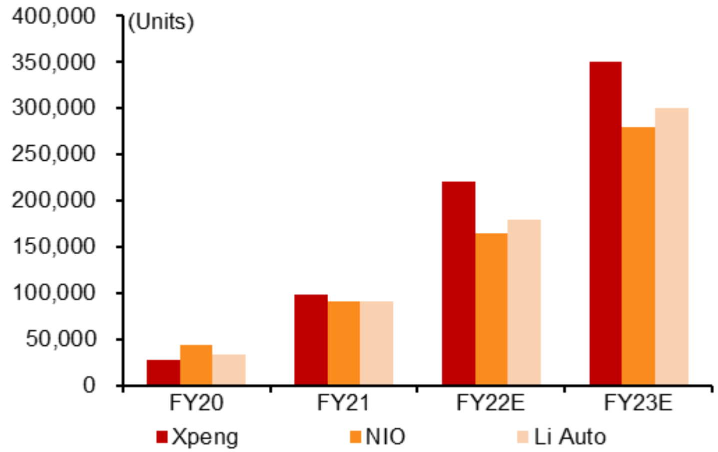
Link to latest report: [Li Auto Inc. (LI US) – Less is more]

Financials and Valuations

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

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales volume comparison of NEV trio



Source: Company data, CMBIGM estimates

Zhejiang Dingli (603338 CH): Higher-than-expected anti-dumping duties but overhang largely removed

Rating: BUY | **TP:** RMB77 (50% 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. Besides, overseas demand is currently very strong. We believe Zhejiang Dingli remains a major beneficiary given its global presence, cost competitiveness, brand recognition and strong management execution.

- **Our View.** The anti-dumping duties (AD) decided by the US department of Commerce of 31.54% is higher than the 17.78% set in the initial decision, which will likely affect Dingli's AWP sales in the US. On the positive side, we believe the decision has helped remove the overhang and enable Dingli to formulate its medium-term strategy: (1) Dingli will continue to offer differentiated products in the US; (2) Dingli is managed to sell vertical lifts (free from any duties) in the US; (3) Dingli will likely shift more capacity to fulfil the demand in the Europe and other regions.

- **Why do we differ vs consensus:** Our earnings forecast in 2022E/23E is 5%/8% below consensus, as we incorporated the latest anti-dumping duties in our estimates.

- **Catalysts:** We see several positive drivers going forward: (1) Successful spin-off of equipment leasing unit by Far East Horizon; (2) Strong demand in the overseas; (3) Speed-up of the domestic demand.

- **Valuation:** We set our TP at RMB77, based on 33x 2021E target P/E (equivalent to the historical average).

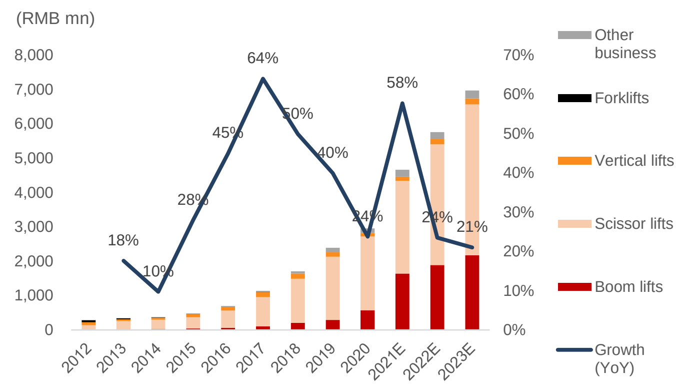
Link to latest report:
Zhejiang Dingli (603338 CH) – Higher-than-expected anti-dumping duties but overhang largely removed

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	2,957	4,664	5,761	6,971
YoY growth (%)	23.7	57.7	23.5	21.0
Net income (RMB mn)	664	933	1,183	1,446
EPS (RMB)	1.37	1.92	2.34	2.86
YoY growth (%)	(4.3)	40.5	21.5	22.3
Consensus EPS (RMB)	N/A	1.86	2.44	3.12
EV/EBIDTA (x)	30.8	24.5	18.4	14.6
P/E (x)	39.2	27.9	22.9	18.8
P/B (x)	7.0	4.5	3.8	3.3
Yield (%)	0.5	0.7	0.8	1.0
ROE (%)	19.1	19.1	18.0	18.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Dingli's revenue breakdown



Source: Company data, CMBIGM estimates

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

Rating: BUY **| TP:** RMB93 (53% upside)

Analyst: Wayne Fung

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

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

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

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

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

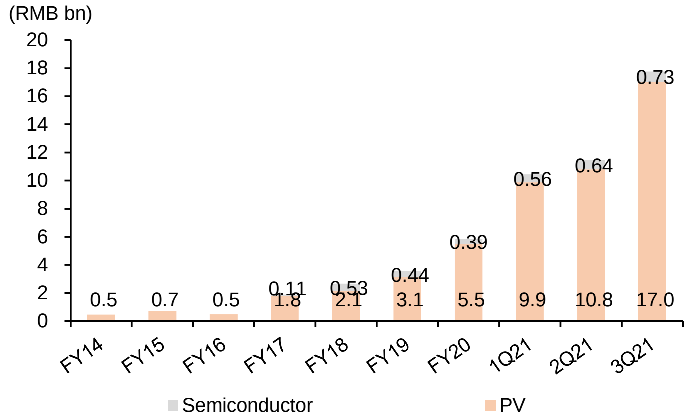
Link to latest report:
Zhejiang Jingsheng (300316 CH) – Solid growth of solar equipment; SiC gaining traction

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,811	7,239	11,941	14,673
YoY growth (%)	23	90	65	23
Net income (RMB mn)	858	1,683	2,662	3,292
EPS (RMB)	0.67	1.31	2.07	2.56
YoY growth (%)	35	96	58	24
Consensus EPS (RMB)	N/A	1.25	1.80	2.26
P/E (x)	93.1	47.5	30.0	24.3
P/B (x)	15.3	11.8	8.8	6.8
Yield (%)	0.2	0.4	0.7	0.8
ROE (%)	17.5	28.1	33.7	31.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Jingsheng's backlog



Source: Company data, CMBIGM estimates

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

Rating: BUY | **TP:** RMB94 (68% upside)

Analyst: Wayne Fung

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

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

- **Why do we differ vs consensus:** Our earnings forecast in 2022E-23E is 4-6% above consensus estimates, due to higher ASP assumptions.

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

- **Valuation:** Our new TP of RMB94 is based on 61x 2022E P/E, 1SD above the historical average of 44x. We believe SF deserves a valuation premium, given the strong earnings recovery in 2022E-23E.

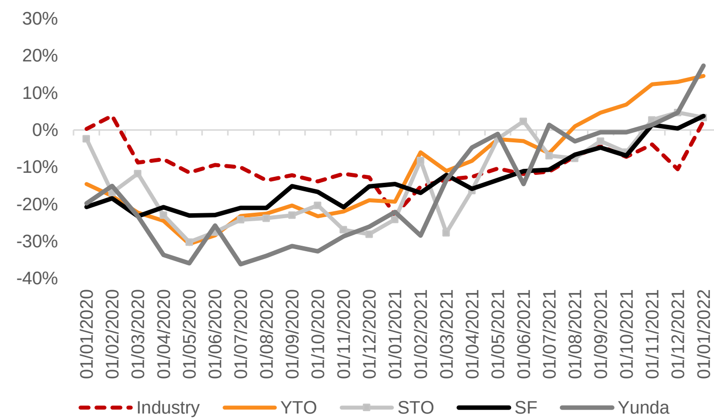
Link to latest report: SF Holding (002352 CH) – Core net profit in 4Q21 below expectation but recovery trend will continue

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	153,987	216,220	279,808	320,407
YoY growth (%)	37	40	29	15
Net income (RMB mn)	6,883	2,785	7,594	11,081
EPS (RMB)	1.54	0.61	1.55	2.26
YoY growth (%)	37.2	(60.6)	154.9	45.9
Consensus EPS (RMB)	N/A	0.76	1.48	2.13
EV/EBITDA (x)	22.0	24.0	14.9	11.4
P/E (x)	38.1	96.7	38.0	26.0
P/B (x)	4.7	3.6	3.3	3.0
Yield (%)	0.6	0.2	0.5	0.8
ROE (%)	13.9	4.1	9.2	12.2
Net gearing (%)	Net cash	2.1	5.8	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: ASP trend for major express delivery players



Source: The State Post Bureau, Company data, CMBIGM

Xtep (1368 HK): Upbeat guidance with multiple growth drivers

Rating: BUY **| TP:** HK$16.43 (42% upside)

Analyst: Walter Woo

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

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

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

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

- **Valuation:** We derived our 12m TP of HK$16.43 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 25x FY22E P/E, with 43% adj. NP CAGR during FY20-23E.

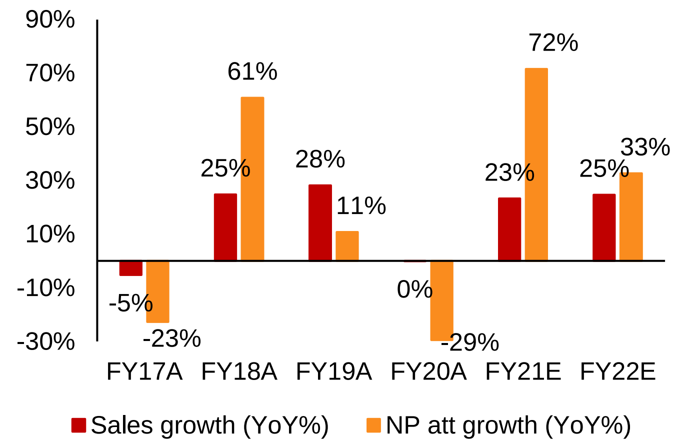
Link to latest report: Xtep (1368 HK) – Upbeat guidance with multiple growth drivers

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Sales (RMB mn)	8,172	10,070	12,558	14,567
YoY change (%)	(0.1)	23.2	24.7	16.0
Adj. Net profit (RMB mn)	513	880	1,168	1,509
Adj. EPS - Fully diluted (RMB)	0.206	0.346	0.459	0.592
YoY change (%)	(31.6)	67.5	32.7	29.2
Consensus EPS (RMB)	N/A	0.343	0.449	0.559
Adj. P/E (x)	47.3	27.9	21.0	16.3
P/B (x)	3.7	3.4	3.2	2.9
Yield (%)	1.2	2.2	2.9	3.7
ROE (%)	7.2	11.7	14.5	17.4
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales and net profit growth



Source: Company data, CMBIGM estimates

Jiumaojiu (9922 HK): Still hindered by industry down-cycle

Rating: BUY **| TP:** HK$19.67 (25% upside)

Analyst: Walter Woo

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

- **Our View:** Tai Er's same store sales recovery rate had improved to ~95% during CNY, improved sequentially from 80% in Dec 2021, which is also better than industry. While costs on promotions and operating deleverage could still exists, but for other expenses like raw material and staff costs, Jiumaojiu should handle better than its peers. Also, investors are looking more ahead into 2H22 for potential turnaround. Moreover, we believe store model for Song hotpot has become more mature and its stores in SH and GZ all performed very well recently.

- **Why do we differ vs consensus:** For FY21E/ 22E/ 23E, our sales forecasts are 8%/ 10%/ 14% below consensus and our net profit forecasts are also 4%/ 4%/ 7% lower than street as we are more conservative on its 1) sales per store and 2) GP margin.

- **Catalysts:** 1) better than expected numbers in Feb and Mar 2021 (industry peers' data); 2) more stimulus (e.g. consumption coupons or relax of restrictions) by government; 3) faster than expected store openings.

- **Valuation:** We derived our 12m TP of HK$19.67 based on 40x FY22E P/E. We see Jiumaojiu as the leading brand to play once the catering industry recover, hence driving re-rating. The stock is trading at 35x FY21E P/E.

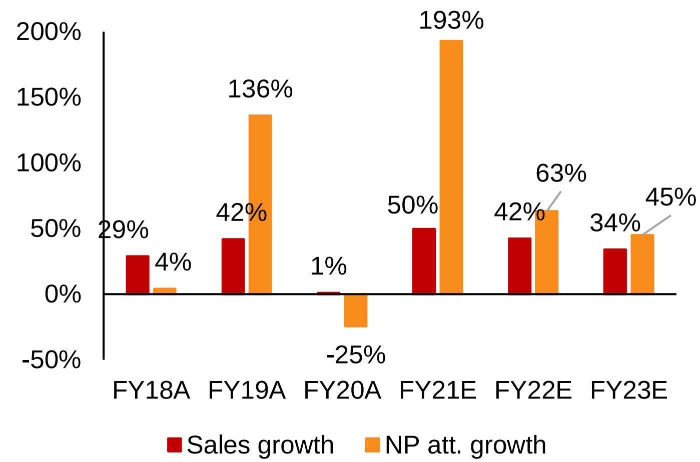
Link to latest report: Jiumaojiu (9922 HK) – Still hindered by industry down-cycle

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Sales (RMB mn)	2,715	4,066	5,790	7,761
YoY change (%)	1.0	49.8	42.4	34.0
Net profit (RMB mn)	124	364	593	860
EPS - Fully diluted (RMB)	0.090	0.250	0.408	0.592
YoY change (%)	(24.5)	178.9	63.2	45.0
Consensus EPS (RMB)	N/A	0.259	0.426	0.635
P/E (x)	148.3	52.4	32.1	22.2
P/B (x)	6.0	5.5	4.6	3.7
Yield (%)	0.1	0.4	0.6	0.9
ROE (%)	7.7	11.2	15.6	18.6
Net debt/ equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Sales/ NP att. growth, full year



Source: Company data, CMBIGM estimates

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

Rating: BUY | **TP:** HK$80.0 (36% upside)

Analyst: Joseph Wong

- **Investment Thesis:** We slightly revised down our 2021E volume growth by 0.4pp to -0.7% to factor in a slower 2H volume growth of -7.5% (from -6.5% previously). Despite this, we maintain our ~21% recurring EBIT growth (vs consensus 25%+) for 2021E. Factoring also a ~3% higher SG&A for 2022E, we cut our 2021/22E revenue and EBITDA forecasts by ~1%/ 5%, and hence our new TP HK$ 80.0 (from HK$ 88.0). The volume hiccup has not altered our positive view on CR Beer, however, as we believe the company is set to deliver the highest margins expansion potential, among its peers, thanks to a unique blend of product premiumization and capacity optimization. We are buy-rated. CR Beer is our sector top pick along with Mengniu (2319HK, Buy).

- **Our view:** We see window for CR Beer to further lift price in 2Q22E ahead of the upcoming peak season. We forecast a 6.5% ASP uptake for 2022E, and such will boost gross margins by 1.5pp, according to our sensitivity analysis. We assume gross margins to reach 43% by 2023E (1.5pp expansion p.a.).

- We forecast 2021/22E premium/ sub-premium volume growth to maintain at 30%/ 20%, respectively, while we forecast mainstream products to record a corresponding 5.5%/ 5.0% decline. The rotation will also drive up 2022E premium/ sub-premium volume contribution to 21.4% (from 17.3%).

- **Valuation:** Our new TP is still based on 29.0x end-22E EV/EBITDA, which represents 3-year average. We set our target multiple at LT average to reflect any mean reversion once investors look past the current volume hiccup, and upon the realization of gross margins expansion as market consensus now expects.

Link to latest report:

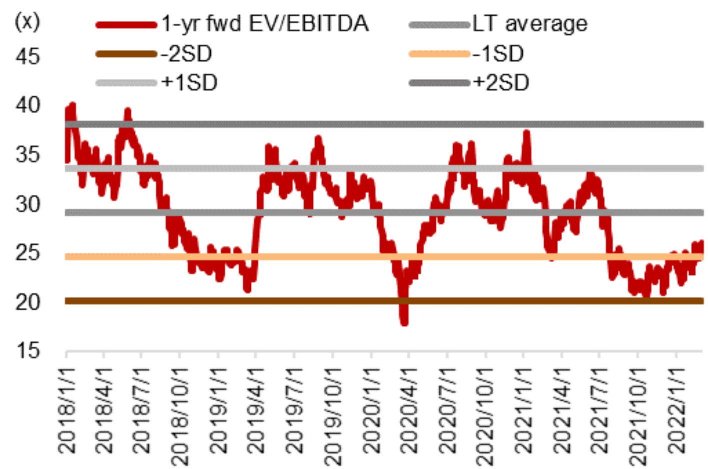
- Consumer Staples – Cherry-picking winners amid a de-risking mentality
- CR Beer (291 HK) – 4Q likely in line with on track premiumization progress; our sector top pick

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	31,448	33,092	35,216	37,401
YoY growth (%)	(5.2)	5.2	6.4	6.2
Net income (RMB mn)	2,094	4,406	4,337	5,235
EPS (RMB)	0.8	1.0	1.3	1.6
YoY growth (%)	32.6	21.4	33.9	20.7
Consensus EPS (RMB)	N/A	0.9	1.3	1.7
P/E (x)	N/A	53.2	39.7	32.9
P/B (x)	N/A	6.9	6.3	5.6
Div Yield (%)	N/A	0.8	1.0	1.2
ROE (%)	13.0	14.0	16.6	17.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward EV/EBITDA



Source: Company data, CMBIGM estimates

Mengniu (2319 HK): Earnings risk looks well-contained on relieving 2H guidance; 2022E outlook is solid

Rating: BUY **| TP:** HK$57.0 (24% upside)

Analyst: Joseph Wong

- **Investment Thesis:** We maintain our recurring OPM of 5.4% for 2H21 (reporting OPM of 5.9%) as a result of an effective cost control that was well executed over the period. A lower opex ratio should 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 LSD/MSD in 2H21E, resulting a ~36% 2H gross margins (2H19: 36.3%). On top of that, we look for an 8.5% 2H top line growth, on the back of a ~8% increase in liquid milk revenue. Into 2022E, our forecast of a 13% top line growth will be driven by 1) low teen growth in liquid milk revenue, in which we assume LSD growth in UHT yoghurt, and low-teen growth in UHT milk beverage SKU, 2) high-teen growth in milk formula revenue thanks to the contribution of Bellamy and adult milk formula SKU, and 3) high-teen growth in ice cream revenue. After all, we largely maintain our 2021/22E earnings assumption despite small changes in house-keeping items. We are buy-rated and we slightly twist our TP to HK$57.0 (from HK$58.0).

- **Our view:** premiumization continues. Mengniu levied price hikes for selective SKUs by MSD over 2H21 and January 2022. Meanwhile, we forecast the company's high-end Milk Delux delivered ~30% shipment growth in 2021 and ~20% in 2022.

- **The issuance of a HK$4.86b worth of Convertible Bonds under the employee incentive scheme will bring up RMB1.5bn expense in total**. Of note, the expense is non-cash and is one-off. The booking of the expense will be spread over the next 5 years with RMB50mn to be booked in 2021.

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

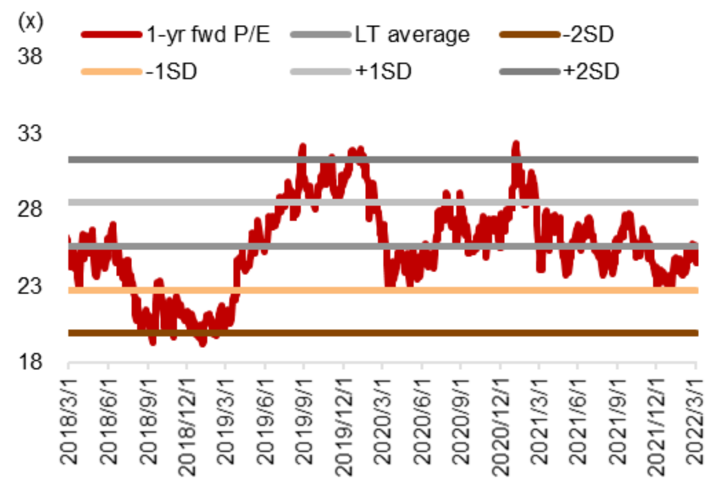
Link to latest report:
Consumer Staples – Cherry-picking winners amid a de-risking mentality

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,035	87,352	98,165	109,924
YoY growth (%)	(3.8)	14.9	12.4	12.0
Net income (RMB mn)	3,525	4,876	6,119	7,359
EPS (RMB)	0.9	1.3	1.6	1.9
YoY growth (%)	8.6	48.5	16.9	20.3
Consensus EPS (RMB)	N/A	1.3	1.7	2.2
P/E (x)	N/A	30.7	26.3	21.8
P/B (x)	N/A	4.3	3.8	3.4
Div Yield (%)	N/A	0.9	1.1	1.4
ROE (%)	9.5	11.8	13.2	14.1
Net gearing (%)	19.0	7.5	(6.5)	(20.3)

Source: Company data, Bloomberg, CMBIGM estimates

Fig: 1-year forward P/E



Source: Company data, CMBIGM estimates

Innovent Biologics (1801 HK): Temporary setback paves the way for future success

Rating: BUY | **TP:** HK$75.45 (144% 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 RMB3,667mn peak sales in 2025E in China.

- **Our View:** We expect the Company's rich innovative pipelines to deliver multiple catalysts in 2022E. IBI188 (CD47) may start a pivotal study in MDS in 1H22E. IBI363 (PD-1/IL-2) and IBI395 (PD-1/IL-21/IL-2) may enter clinical stage in 2022E. We also expect PoC readouts for IBI110 (LAG3), IBI322 (CD47/PDL1), IBI351 (KRAS), IBI939 (TIGIT) and IBI323 (PD-L1/LAG3) in 2022E. Innovent aims to file BLAs to the NMPA for IBI376 (PI3Kδ), IBI326 (BCMA CART), IBI306 (PCSK9), IBI344 (ROS1/NTRK) and IBI310 (CTLA4) in 2022E.

- **Why do we differ vs consensus:** Although our FY22E/23E/24E revenue are -7%/-6%/-19% 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$75.45 based on DCF valuation (WACC: 9.9%, terminal growth rate: 4.0%).

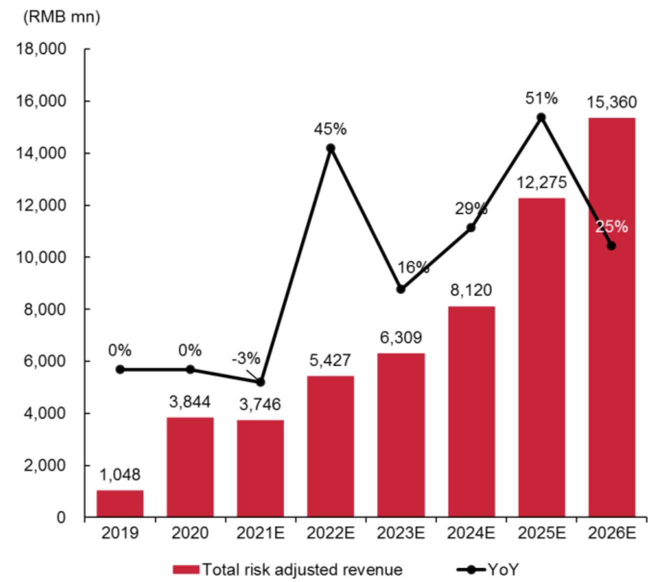
Link to latest report: Innovent Biologics (1801 HK) – Temporary setback paves the way for future success

Financials and Valuations

(YE 31 Dec)	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,746	5,427	6,309
YoY growth (%)	(3)	45	16
Net profit (RMB mn)	(2,199)	(1,334)	(867)
EPS (RMB)	(1.50)	(0.91)	(0.59)
Consensus EPS (RMB)	(1.31)	(0.89)	(0.33)
P/S (x)	10.4	7.2	6.2
ROE (%)	(20)	(13)	(8)
Net gearing (%)	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Revenue trend



Source: Company data, CMBIGM estimates

招銀国际 CMB INTERNATIONAL

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

Rating: BUY | **TP:** HK$7.70 (21% 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:** Government Work Report indicates that more liquidity injection in 2022, banks' asset quality will be benefited because of less pressure on borrowers' cash flow. In addition, default risk from property sector is priced in, expected less default case on property sector after 1Q22.
- **Valuation:** Based on Gordon Growth Model, our target price on PSBC is HK$7.70, implying 0.85x 2022E P/B. During last 3 years, PSBC is trading at 0.72x P/B, while currently it is trading at 0.71x P/B, almost equivalent to historical mean.

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

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, CMBIGM estimates

Fig: Risk exposure on property developers (property development loan as % of total loan in 1H21)

	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, CMBIGM estimates

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

Rating: BUY | **TP:** HK$11.53 (50% upside)

Analyst: Gigi Chen

- **Investment Thesis:** Into 2022, we think the turnaround of P&C business will come ahead of life insurance recovery. PICC P&C reported 13.8% YoY premium growth in Jan, with auto insurance +14.5% YoY (vs. 10.3% in Dec, 9.5% in Nov) and non-auto +13.2% YoY. PICC outperformed major peers and recorded double-digit growth of auto insurance, as 1) the insurer has fully digested impacts of the comprehensive auto insurance reform; 2) NEV insurance policies were repriced based on the claims data. Given historically a better combined ratio of auto insurance than that of non-auto business, we believe the strong recovery of auto momentum will help improve the underwriting margins. The accelerating auto growth also allowed PICC to prioritize profitability over growth in non-auto business lines, 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 4Q21.
  - 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 0.7x P/BV FY22E, with about 7% dividend yield and 12%-13% ROE, well below historical average valuation. We peg our TP at HK$11.53, implying 1.0x P/BV FY22E, reiterate Buy.

Link to latest report:

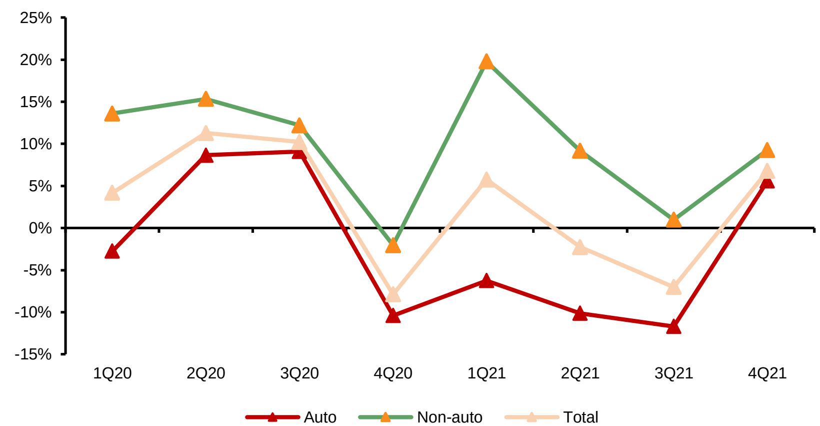
- PICC P&C (2328 HK) – Auto growth pick up; Non-auto UW to improve
- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22
- CMBI Financials Weekly: Strong P&C momentum in Jan

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)	0.8	0.7	0.7	0.6
PER (x)	7.0	6.6	5.8	4.9
Yield (%)	5.7	6.0	6.9	8.2
ROE (%)	11.7	11.4	12.2	13.3

Source: Company data, Bloomberg, CMBIGM estimates

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



Source: Company data, Bloomberg, CMBIGM estimates

Kuaishou (1024 HK): Resilient growth with narrowing loss ahead

Rating: BUY **| TP:** HK$136 (80% upside)

Analyst: Sophie Huang

- **Investment Thesis:** Despite soft macro and epidemic resurgence, we expect Kuaishou to be relatively resilient (vs. peers) on its ads and ecommerce share gain (ads rev/ecommerce GMV +32%/39% YoY). We are more positive on its operating leverage and disciplined cost in FY22E (forecasting adj. NPM at -15%). Kuaishou would deliver better-than-expected 4Q21, with stable DAU, solid topline and narrowing loss. Suggest to buy the dips for attractive valuation and regulatory overhang to lift.

- **Our View:** We expect its 4Q21E DAU to stay stable QoQ (+18% YoY), with solid time spent. In 4Q21E all biz line would trend well and outperform vs. peers. Looking ahead, we expect resilient growth with improving efficiency in FY22E. Ads would grow 32% YoY in FY22E, driven by: 1) ecommerce ads momentum to continue (+40% YoY, ~30% of total ads); 2) ramp-up of brand ads; and 3) non-ecommerce ads to gain share (forecasting +28% YoY). Kuaishou is also well-positioned to outperform in ecommerce, with estimated GMV over RMB900bn in FY22E (+39% YoY, vs +14% on industry average). We expect better margin outlook ahead, with adj. NPM at -15% in FY22E and GPM +1ppts YoY.

- **Why do we differ vs consensus:** Market concern lies on ads growth and pressure from Douyin. We believe near-term concern have been priced in and its financials outlook was well-guided. Downside risk of earnings and multiple are limited.

- **Catalysts:** 1) potential upbeat 4Q21E; 2) Meituan synergies to expand TAM; 3) ecommerce to outperform.

- **Valuation:** Maintain BUY with SOTP-based TP of HK$136. Valuation is attractive, given its 20% FY20-23E rev CAGR and narrowing loss, in our view.

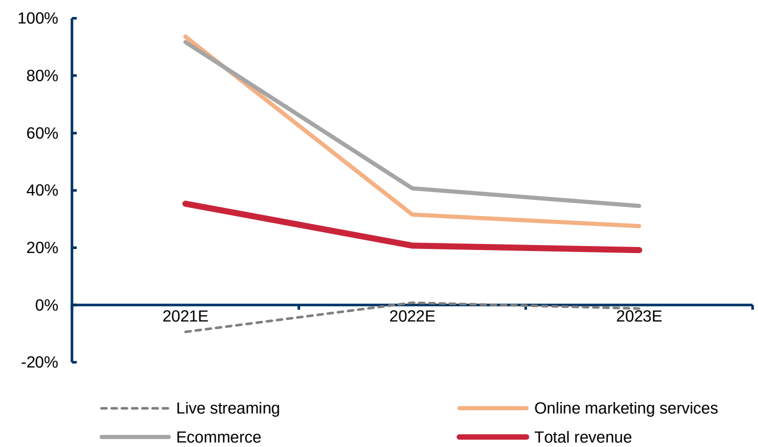
Link to latest report: Kuaishou (1024 HK) – Resilient growth with narrowing loss ahead

Financials and Valuations

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	58,776	79,539	96,052	114,462
YoY growth (%)	50.2	35.3	20.8	19.2
Net income (RMB mn)	(7,949)	(18,268)	(14,573)	(11,631)
EPS (RMB)	N/A	(4.1)	(3.3)	(2.6)
YoY growth (%)	N/A	N/A	N/A	N/A
Consensus EPS (RMB)	N/A	(5.1)	(3.6)	(1.2)
P/E (x)	N/A	N/A	N/A	N/A
P/S (x)	4.5	3.3	2.7	2.3
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	73	55	12	10
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: KS's revenue growth estimates



Source: Company data, CMBIGM estimates

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

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

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

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

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

- **Valuation:** The Company currently trades at 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.

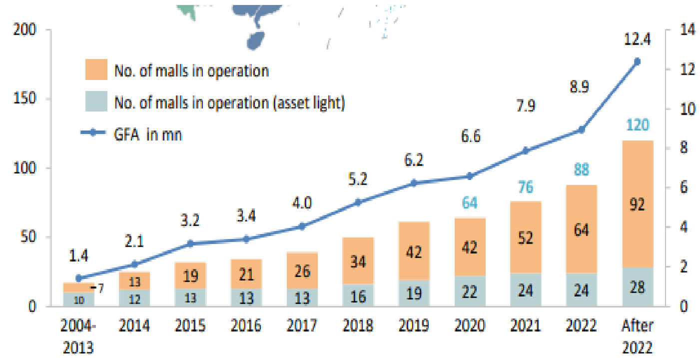
Link to latest report: China Property Sector – Loan relaxation for affordable rental housing positive for property investments

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

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CR Land’s opening plan



Source: Company data, CMBIGM

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

Rating: BUY | TP: HK$91.2 (104% 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. **Catalyst**: 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)	N/A	32.7	20.8	14.8
P/B (x)	N/A	11.2	18.6	11.8
Yield (%)	N/A	0.2	1.2	1.7
ROE (%)	31.1	18.4	25.8	28.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: CGS has first-move advantage in VAS acquisitions

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

Source: Company data, CMBIGM estimates

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

Rating: BUY **| TP:** HK$31.34 (129% 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. As we expect smartphone chip shortage is easing in 1H22E, we believe Xiaomi's market share expansion will continue and shipment mix improvement will boost ASP/margin into FY22E. In addition, we believe internet revenue will maintain solid growth due to premium smartphone models and overseas user growth, while AIoT margin will recover 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.

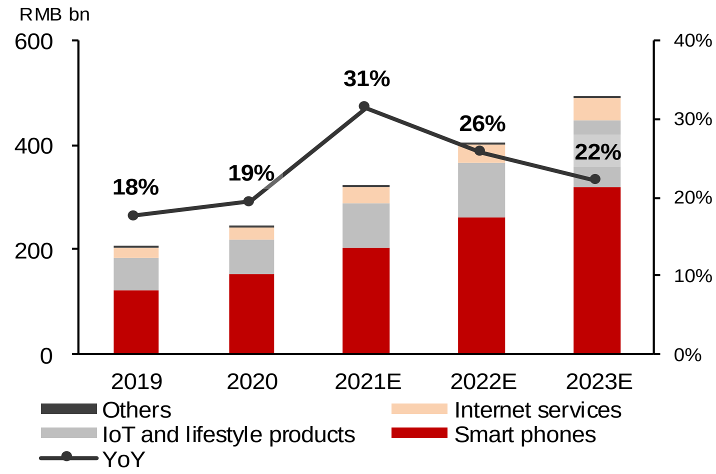
Link to latest report: Xiaomi (1810 HK) – Solid 3Q21 despite supply chain challenge; Reiterate BUY

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)	N/A	0.86	0.96	1.13
P/E (x)	22.6	14.5	11.3	9.4
P/B (x)	2.9	2.8	2.4	2.0
Yield (%)	N/A	N/A	N/A	N/A
ROE (%)	16.4	12.6	15.5	15.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Xiaomi revenue trend



Source: Company data, CMBIGM estimates

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

Rating: BUY **| TP:** RMB346.60 (57% 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:

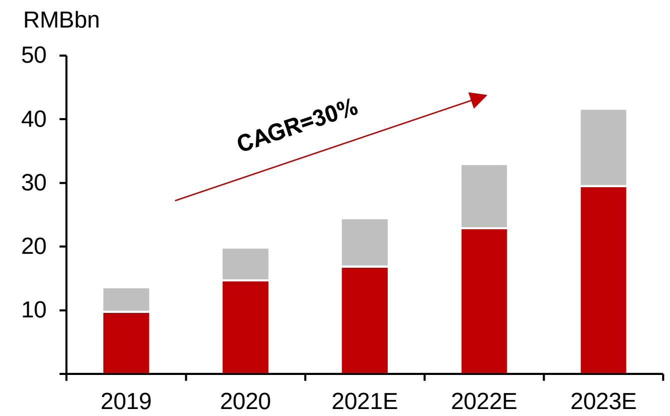
- Willsemi (603501 CH) – Long-term positive view unchanged with non-mobile CIS to power future growth
- Willsemi (603501 CH) – The next chapter beyond mobile CIS is coming
- China CIS market – Beginning of multi-year growth cycle; Initiate BUY

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	5.35	6.89	8.80
PE (x)	81.8	50.3	37.9	29.1
PB (x)	19.7	14.9	10.0	7.2
ROE (%)	23.5	29.1	26.0	24.4
Net gearing (%)	6.7	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Fig: Willsemi revenue trend



Source: Company data, CMBIGM estimates

Hikvision (002415 CH): Intelligent camera leader

Rating: BUY **| TP:** RMB62.06 (41% 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 20% 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 RMB62.06 on 29x FY22E P/E, 1-SD 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: China AI – AI leaders taking different expansion paths

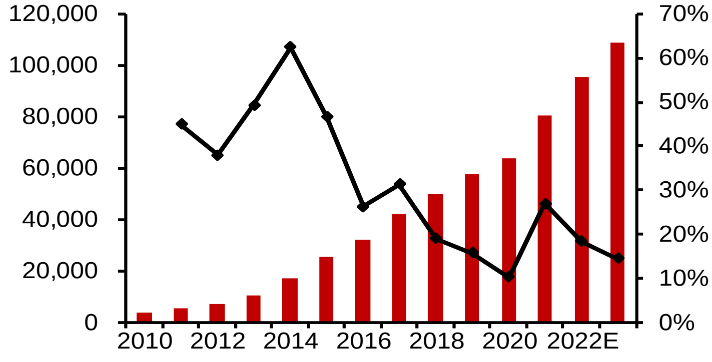
Financials and Valuations

(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)	32.0	25.5	21.4	18.4
PB (x)	8.0	6.8	5.8	5.0
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, CMBIGM estimates

Fig: Hikvision revenue and YoY growth

(Rmb m)



Source: Company data, CMBIGM estimates

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