招銀国际
CMB INTERNATIONAL

# CMBI Research Focus List

## Our best high conviction ideas

10 June 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) FY22E | P/E (x) FY23E | P/B (x) FY22E | ROE FY22E | Yield FY22E | Analyst |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Long Ideas** | | | | | | | | | | | | | | |
| Li Auto Inc. | LI US | Auto | BUY | 30.5 | 246.0 | 29.5 | 48.0 | 63% | N/A | N/A | 2.8 | -1.4 | N/A | Shi Ji/ Dou Wenjing |
| EVA Holdings | 838 HK | Auto | BUY | 11.3 | 67.2 | 1.5 | 3.0 | 103% | 6.9 | 4.3 | 0.7 | 11.5 | 5.9% | Shi Ji/ Dou Wenjing |
| Zhejiang Jingsheng | 300316 CH | Capital Goods | BUY | 3.1 | 2.1 | 59.0 | 93.0 | 58% | 27.8 | 22.7 | 8.1 | 33.4 | 0.7% | Wayne Fung |
| SANY International | 631 HK | Capital Goods | BUY | 38.2 | 194.4 | 7.7 | 14.6 | 90% | 12.1 | 10.0 | 2.0 | 17.7 | 2.6% | Wayne Fung |
| SF Holding | 002352 CH | Express Delivery | BUY | 38.2 | 194.4 | 52.1 | 94.0 | 80% | 33.5 | 22.9 | 2.9 | 9.2 | 0.6% | Wayne Fung |
| Haier SH | 6690 HK | Consumer Disc. | BUY | 32.3 | 33.9 | 25.9 | 33.1 | 28% | 12.3 | 10.3 | 1.7 | 17.0 | 3.2% | Walter Woo |
| Xtep | 1368 HK | Consumer Disc. | BUY | 4.3 | 25.0 | 12.8 | 16.2 | 26% | 21.6 | 17.4 | 3.1 | 14.6 | 2.8% | Walter Woo |
| CR Beer | 291 HK | Consumer Staples | BUY | 20.9 | 75.2 | 50.7 | 71.0 | 40% | 31.0 | 27.8 | 4.5 | 15.0 | 1.3% | Joseph Wong |
| Smoore | 6969 HK | Consumer Staples | BUY | 15.7 | 50.6 | 20.5 | 25.2 | 23% | 26.9 | 18.9 | 4.6 | 24.6 | N/A | Joseph Wong |
| CTGDF | 601888 CH | Consumer Staples | BUY | 54.9 | 364.3 | 188.0 | 232.0 | 23% | 37.3 | 26.0 | 10.0 | 26.9 | 0.9% | Joseph Wong |
| WuXi Biologics | 2269 HK | Healthcare | BUY | 37.8 | 214.9 | 70.3 | 146.1 | 108% | 38.4 | 28.0 | 4.6 | 12.7 | N/A | Jill Wu/ Benchen Huang |
| Innovent Biologics | 1801 HK | Healthcare | BUY | 5.1 | 34.7 | 27.1 | 58.3 | 115% | N/A | N/A | N/A | N/A | N/A | Jill Wu/ Andy Wang |
| PSBC | 1658 HK | Banking | BUY | 5.1 | 34.7 | 5.9 | 8.4 | 42% | N/A | N/A | 0.7 | 10.5 | 5.2% | Eric Wang |
| PICC P&C | 2328 HK | Insurance | BUY | 71.7 | 44.7 | 8.0 | 11.6 | 45% | N/A | N/A | 0.7 | 12.0 | 7.3% | Gigi Chen |
| Kuaishou | 1024 HK | Internet | BUY | 22.8 | 26.9 | 88.5 | 120.0 | 0.4 | N/A | N/A | N/A | N/A | 0.0% | Sophie Huang |
| CR Land | 1109 HK | Property | BUY | 48.1 | 336.8 | 33.5 | 44.8 | 34% | 6.6 | N/A | 0.9 | 14.3 | 5.3% | Jeffrey Zeng/ Xiao Xiao |
| CG Services | 6098 HK | Property | BUY | 30.4 | 55.0 | 30.8 | 47.6 | 55% | 22.7 | 16.4 | 12.7 | 14.1 | 1.1% | Jeffrey Zeng/ Xiao Xiao |
| Goertek | 002241 CH | Technology | BUY | 13.2 | 91.2 | 38.8 | 40.8 | 0.1 | 22.4 | 18.5 | 3.8 | 18.1 | 0.7% | Alex Ng/ Lily Yang |
| Willsemi | 603501 CH | Technology | BUY | 19.8 | 290.8 | 164.7 | 200.0 | 21% | 23.6 | 19.3 | N/A | 22.5 | N/A | Lily Yang/ Alex Ng |
| Glodon | 002410 CH | Software & IT services | BUY | 21.6 | 262.4 | 52.1 | 72.0 | 38% | 70.1 | 60.4 | N/A | 17.0 | 0.0% | Marley Ngan |

Source: Bloomberg, CMBIGM, Price as of 10/6/2022, 2pm

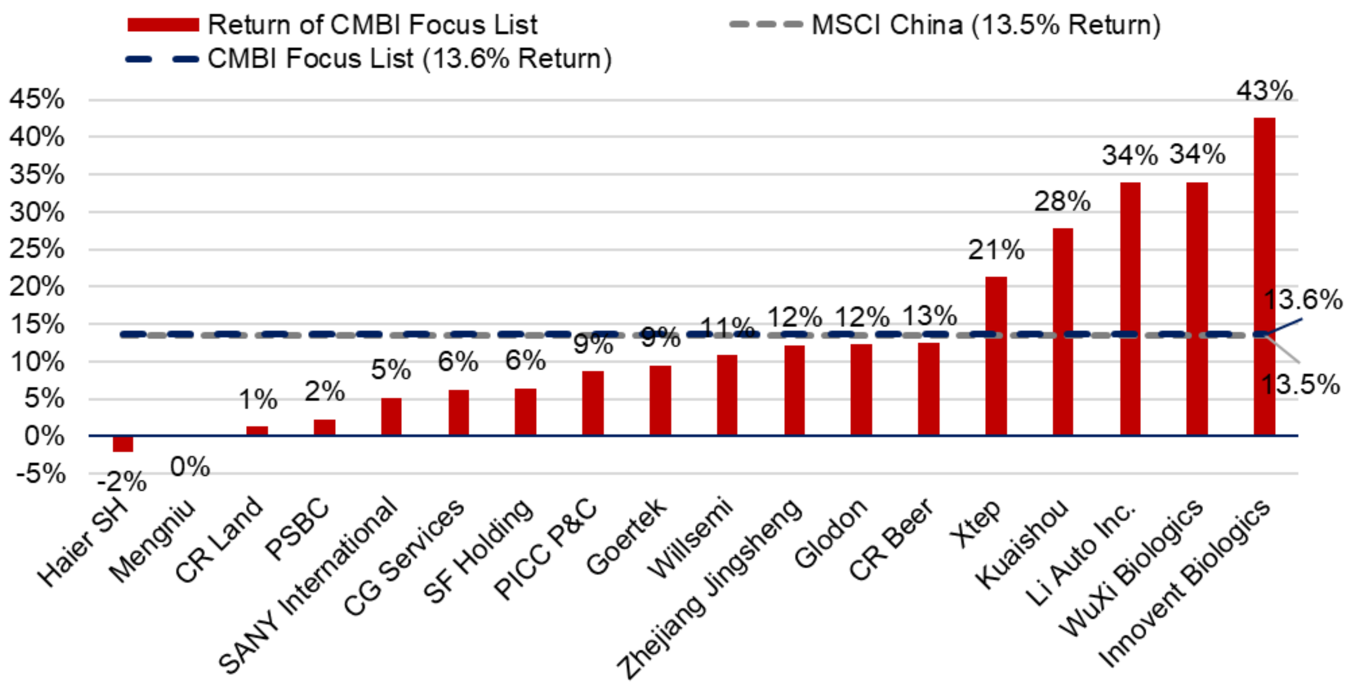
# Latest additions/deletions from CMBI Focus List

| Company | Ticker | Sector | Rating | Analyst | Rationale |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| EVA Holdings | 838 HK | Auto | BUY | Shi Ji | Its auto components' inflection point may have arrived, as it rides on Tesla's strong growth and penetrate into Great Wall Motor. Its key growth engine from Tesla is immune to potential supply chain disruptions caused by lockdowns in China, as such business is in North America. |
| Smoore | 6969 HK | Consumer Staples | BUY | Joseph Wong | New regulation settling and the worst likely over |
| CTGDF | 601888 CH | Consumer Staples | BUY | Joseph Wong | 2H touristism peak season plus earnings risks gradually priced in |
| **Deletions** | | | | | |
| Mengniu | 2319 HK | Consumer Staples | BUY | Joseph Wong | Sensitivity to re-opening is quite low |

Source: CMBIGM

# Performance of our recommendations

- In our last report dated 16 May, we highlighted a list of 18 long ideas.
- The basket (equal weighted) of these 18 stocks outperformed MSCI China index by 0.1ppt, delivering 13.6% return (vs MSCI China 13.5%).
- Innovent Biologics, WuXi Biologics and Li Auto delivered 30% or more return, and 5 of our 18 long ideas outperformed the benchmark.




Source: Bloomberg, CMBIGM; Note: Stock performance from 16 May 2022 to 9 Jun 2022

# Long Ideas

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

**Rating:** BUY **| TP:** US$48 (63% 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, amid its more solid financial performance. Battery price hike should also have a milder dent given its relatively lower battery capacity.

- **Catalysts:** 1) Order ramp-up of the upcoming *L9*; 2) 2Q22 sales volume to beat company guidance.

- **Why do we differ vs consensus:** We believe that Li Auto's profitability in 2Q22E could be more resilient than most of its peers amid the supply chain constraints, although its single-model portfolio and production base next to Shanghai made it suffer the most from the Shanghai lockdown.

- **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.

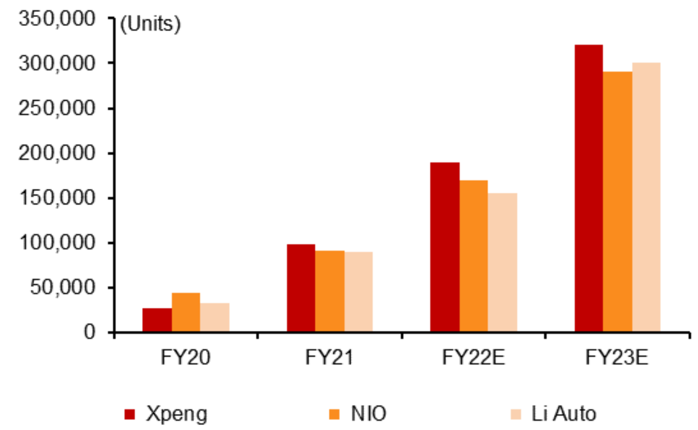
**Link to latest report:** Li Auto Inc. (LI US) – Less is more

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 27,010 | 48,502 | 90,324 | 142,805 |
| YoY growth (%) | 185.6 | 79.6 | 86.2 | 58.1 |
| Net income (RMB mn) | (321) | (596) | 332 | 1,726 |
| EPS (RMB) | (0.17) | (0.31) | 0.17 | 0.87 |
| YoY growth (%) | N/A | N/A | N/A | 420.3 |
| P/S (x) | 4.1 | 2.4 | 1.3 | 0.8 |
| P/B (x) | 2.7 | 2.8 | 2.8 | 2.7 |
| Yield (%) | N/A | N/A | N/A | N/A |
| ROE (%) | (0.9) | (1.4) | 0.8 | 4.0 |
| 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

# EVA Holdings (838 HK): Auto parts' inflection point has arrived

**Rating:** BUY **| TP:** HK$3.00 (103% upside)

Analysts: Shi Ji/ Dou Wenjing

- **Investment Thesis:** We are of the view that EVA's penetration into Tesla and Great Wall Motor could lift its revenue and margins. We see an inflection point for EVA especially its auto components business, which could be overlooked by investors. Its key growth engine from Tesla is immune to potential supply chain disruptions caused by lockdowns in China, as such business is in North America.

- **Our View:** EVA has become Tesla's supplier for its front-seat frames of all the models produced in North America since Jul 2021. We expect EVA's revenue from Tesla to rise 5x to HK$ 150mn in FY22E and 77% YoY in FY23E amid Tesla's strong sales growth. EVA also benefits from Tesla's strong growth as a tier-2 supplier through Faurecia, as Faurecia is the sole supplier of the rear seat assembly for the *Model Y* in North America, and EVA is the sole supplier for Faurecia in such business. Great Wall could become EVA's largest customer in the auto components segment in FY22E, as its Jingmen plant ramps up. We project EVA's revenue from Great Wall to rise 107% YoY to HK$ 600mn in FY22E.

- **Catalysts:** 1) 1H22 earnings; 2) Tesla US sales ramp-up, especially in the Austin plant.

- **Why do we differ vs consensus:** We are now the only broker to provide data for Bloomberg consensus.

- **Valuation:** Our target price of HK$3.00 is based on sum-of-the-parts valuation, as we value HK$ 2.34 per share for its auto components business, based on 20x our FY22E P/E; and HK$ 0.66 per share for its office automation equipment, based on 8.5x our FY22E P/E.

**Link to our report:** EVA Holdings (838 HK) – Auto components inflection point has arrived

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (HK$ mn) | 5,109 | 6,353 | 8,238 | 9,777 |
| YoY growth (%) | 27.4 | 24.4 | 29.7 | 18.7 |
| Net income (HK$ mn) | 155 | 340 | 545 | 787 |
| EPS (HK$) | 0.09 | 0.19 | 0.30 | 0.43 |
| YoY growth (%) | N/A | 119.0 | 60.4 | 44.4 |
| P/E (x) | 14.7 | 6.9 | 4.3 | 3.1 |
| P/B (x) | 0.8 | 0.7 | 0.6 | 0.5 |
| Yield (%) | 2.0 | 4.4 | 6.9 | 9.8 |
| ROE (%) | 5.7 | 11.5 | 16.3 | 20.2 |
| Net gearing (%) | 17.5 | 5.9 | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Our estimated revenue from major auto clients**

| Client | FY21A (HK$ mn) | FY22E (HK$ mn) | YoY |
|---|---|---|---|
| Faurecia | ~400 | 540 | 35.0% |
| Great Wall | ~290 | 600 | 106.9% |
| Tesla | ~30 | 150 | 400.0% |

Source: Company data, CMBIGM estimates

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

**Rating:** BUY **| TP:** RMB93 (58% 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 opportunities 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 sources such as solar, which will offer potential upside for Chinese solar product export. On the other hand, the breakthrough on SiC will serve as a new growth engine for Jingsheng starting from this year.

- **Why do we differ vs consensus:** Our earnings forecast in 2022E/23E is 8%/0% 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; and (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:**

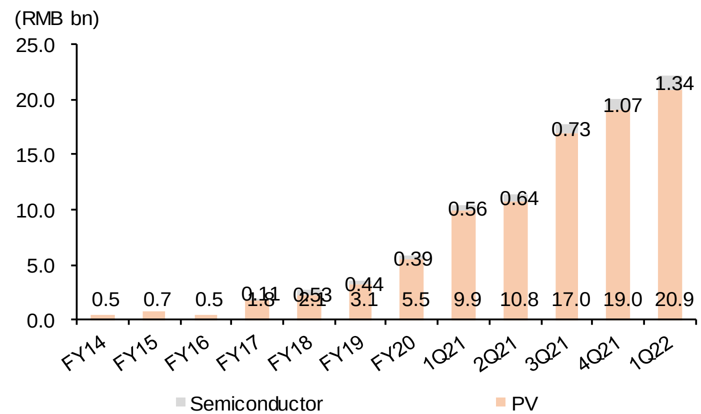
Zhejiang Jingsheng (300316 CH) – High visibility with backlog covering >80% of revenue in 2022E-23E

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 5,961 | 11,830 | 14,731 | 17,546 |
| YoY growth (%) | 56 | 98 | 25 | 19 |
| Net income (RMB mn) | 1,712 | 2,671 | 3,276 | 3,908 |
| EPS (RMB) | 1.33 | 2.08 | 2.55 | 3.04 |
| YoY growth (%) | 99 | 56 | 23 | 19 |
| Consensus EPS (RMB) | N/A | 1.91 | 2.53 | n/a |
| P/E (x) | 43.4 | 27.8 | 22.7 | 19.0 |
| P/B (x) | 10.9 | 8.1 | 6.3 | 4.9 |
| Yield (%) | 0.5 | 0.7 | 0.9 | 1.1 |
| ROE (%) | 28.4 | 33.4 | 31.2 | 28.9 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Jingsheng's backlog**




Source: Company data, CMBIGM estimates

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

**Rating:** BUY **| TP:** HK$14.6 (90% upside)

Analyst: Wayne Fung

- **Investment Thesis:** The ongoing development of intelligent coal mines and ports will continue to offer opportunities for SANYI to gain market share through the launch of the intelligent machinery products. Besides, industrial robot and smart mining will serve as new growth drivers.

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

- **Why do we differ vs consensus:** Our earnings forecast in 2021E/22E is 3%/-4% versus consensus. We see upside to our earnings forecast given the strong backlog.

- **Catalysts:** (1) increase in coal mining capex; (2) launch of new products; and (3) potential M&A

- **Valuation:** Our TP is HK$14.6 (based on 23x 2022E P/E, on the back of 23% earnings CAGR in 2022E-24E).

**Link to latest report:**

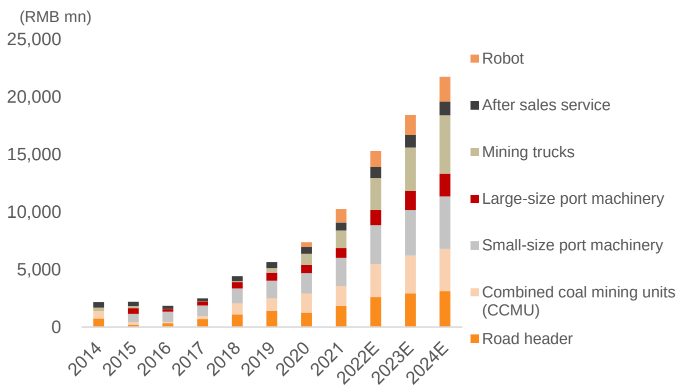
SANY International (631 HK) – Post-results and NDR takeaways: Expect a strong year in 2022E

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 10,195 | 15,293 | 18,403 | 21,739 |
| YoY growth (%) | 38.4 | 50.0 | 20.3 | 18.1 |
| Net income (RMB mn) | 1,259 | 1,655 | 1,992 | 2,327 |
| EPS (RMB) | 0.40 | 0.53 | 0.63 | 0.74 |
| YoY growth (%) | 19.3 | 31.5 | 20.3 | 16.8 |
| Consensus EPS (RMB) | N/A | 0.51 | 0.66 | N/A |
| EV/EBIDTA (x) | 11.0 | 8.2 | 6.9 | 6.1 |
| P/E (x) | 15.7 | 12.1 | 10.0 | 8.5 |
| P/B (x) | 2.3 | 2.0 | 1.7 | 1.5 |
| Yield (%) | 2.0 | 2.6 | 3.1 | 3.6 |
| ROE (%) | 15.2 | 17.7 | 18.6 | 18.9 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: SANYI's revenue breakdown**




Source: Company data, CMBIGM estimates

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

**Rating:** BUY | **TP:** RMB94 (80% 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 a 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 is more, the potential market share gain in the premium e-commerce delivery segment will boost SF's economy express volume.

- **Why do we differ vs consensus:** Our earnings forecast in 2022E-23E is 7-14% above consensus estimates, due to higher ASP assumptions.

- **Catalysts:** (1) further increase in ASP; and (2) market share gain in high-end e-commerce express delivery.

- **Valuation:** Our 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.

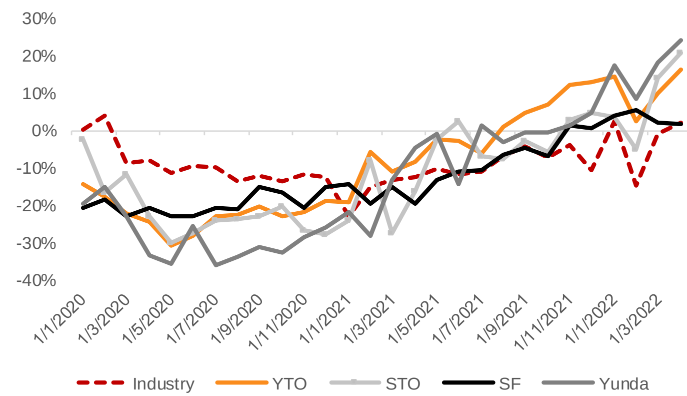
**Link to latest report:** SF Holding (002352 CH) – Core net profit in 4Q21 below expectation but recovery trend will continue

**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 | N/A | 1.45 | 1.99 |
| EV/EBITDA (x) | 19.5 | 21.2 | 13.1 | 10.0 |
| P/E (x) | 33.6 | 85.3 | 33.5 | 22.9 |
| P/B (x) | 4.2 | 3.2 | 2.9 | 2.6 |
| Yield (%) | 0.6 | 0.2 | 0.6 | 0.9 |
| 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

# Haier SH (6690 HK): Excellent 1Q22 and a brighter 2Q22E outlook

**Rating:** BUY **|** **TP:** HK$33.13 (28% upside)

Analyst: Walter Woo

- **Investment Thesis:** Haier has been consistently gaining market shares in the past 10 years and thanks to recent M&A, it is enjoying a meaningful boost in competitiveness and efficiency which drive a faster NP CAGR in FY21-24E. It is a global leader in home appliances, owning seven major brands (Haier, Casarte, Leader, GE Appliances, Fisher & Paykel, Aqua and Candy) and ranked #1 in market shares for fridges, washing machines and water heaters in the world. Growth drivers include premiumization (selling more high-end products) and category expansions (e.g. AC, kitchen appliances).

- **Our View:** We are confident that Haier will achieve its FY22E growth target, as it had already shown its first-class capability to navigate under the COVID-19 outbreaks in 1Q22. Even though the industry is suffering hard in 2Q22E and Haier fridges sales growth may fade out in May 2022, we still believe Haier can outperform the industry, due to 1) ASP increases thru greater sales of series of products/customized solutions, 2) CNY deprecation, and 3) government' policies to boosting consumptions.

- **Why do we differ vs consensus:** For FY22E/ 23E/ 24E, our NP forecasts are 2% higher/5% higher/5% lower than street as we are more optimistic on its operating efficiency in FY22E-23E but not in FY24E.

- **Catalysts:** 1) robust 2Q22E data points, 2) stronger than expected exports or better FX, 3) better than expected property sales and policies and 4) better than expected raw material costs.

- **Valuation:** We derived our 12m TP of HK$33.13 based on 16x FY22E P/E. We believe premiumization (both domestic and overseas), customized solutions, efficiency gains from digitalization and synergies can drive decent growth onwards. The stock is only trading at 12x FY22E P/E.

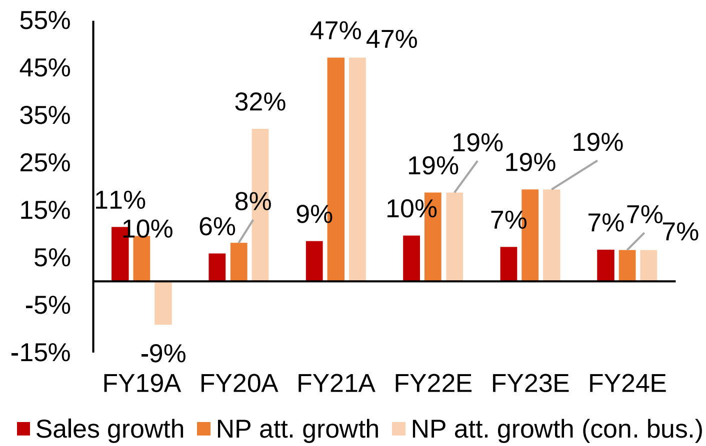
**Link to latest report:** Haier Smart Home (6690 HK) – Excellent 1Q22 and a brighter 2Q22E outlook

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Sales (RMB mn) | 227,531 | 249,556 | 267,757 | 285,696 |
| YoY change (%) | 8.5 | 9.7 | 7.3 | 6.7 |
| Adj. net profit (RMB mn) | 13,067 | 15,517 | 18,534 | 19,763 |
| Adj. EPS - fully diluted (RMB) | 1.390 | 1.719 | 2.053 | 2.189 |
| YoY change (%) | 6.3 | 23.3 | 19.4 | 6.6 |
| Consensus EPS (RMB) | N/A | 1.626 | 1.878 | 2.143 |
| Adj. P/E (x) | 15.2 | 12.3 | 10.3 | 9.7 |
| P/B (x) | 2.0 | 1.7 | 1.5 | 1.3 |
| Yield (%) | 2.3 | 3.2 | 3.9 | 4.1 |
| ROE (%) | 16.4 | 17.0 | 17.8 | 16.7 |
| Net debt/ equity (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Sales and net profit growth**




Source: Company data, CMBIGM estimates

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

**Rating:** BUY **| TP:** HK$16.21 (26% 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 with 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:** COVID-19 is hitting the sector hard in 2Q22E, but we believe Xtep is still the best performer in the sector given its LSD retail sales decline in Apr (far better than Pou Sheng's 38% drop) and HSD/ mid teens growth in May/ MTD in Jun, thanks to more trendy and innovative product launches since 2Q22E and its relatively lower exposure to tier-1 cities and shopping malls. More importantly, the guidance for listed co. is still be maintained, partly aided by its wholesale businesses model.

- **Why do we differ vs consensus:** For FY22E/ 23E/ 24E, our net profit forecasts are different from the street by 3%/ 3%/ 0%, as we are more optimistic about GP margins but more negative on sales growth.

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

- **Valuation:** We derived our 12m TP of HK$16.21 based on SOTP valuation, also implying a 28x FY22E P/E. We believe resilient sales growth during tough time can boost investors' confidence. The stock is not expensive, at 22x FY22E P/E, with 26% adj. NP CAGR during FY21-24E.

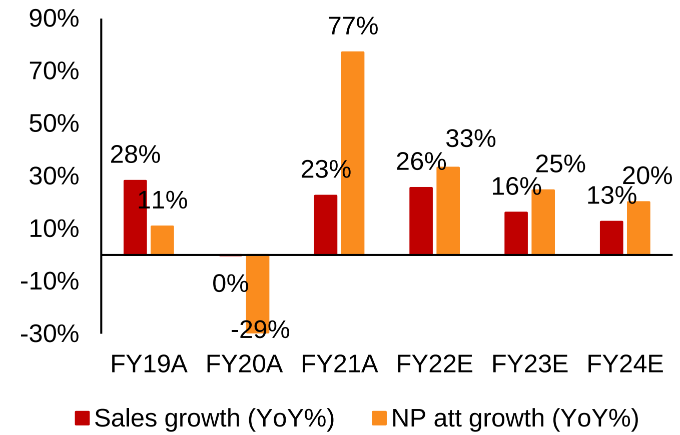
**Link to latest report:** Xtep (1368 HK) – Prudent on 2Q22 but guidance maintained

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Sales (RMB mn) | 10,013 | 12,568 | 14,587 | 16,430 |
| YoY change (%) | 22.5 | 25.5 | 16.1 | 12.6 |
| Adj. net profit (RMB mn) | 908 | 1,210 | 1,508 | 1,811 |
| Adj. EPS - fully diluted (RMB) | 0.355 | 0.475 | 0.592 | 0.711 |
| YoY change (%) | 72.1 | 33.8 | 24.6 | 20.1 |
| Consensus EPS (RMB) | N/A | 0.452 | 0.561 | 0.702 |
| Adj. P/E (x) | 28.9 | 21.6 | 17.4 | 14.5 |
| P/B (x) | 3.3 | 3.1 | 2.8 | 2.6 |
| Yield (%) | 2.1 | 2.8 | 3.5 | 4.2 |
| ROE (%) | 11.9 | 14.6 | 16.9 | 18.7 |
| Net debt/ equity (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Sales and net profit growth**




Source: Company data, CMBIGM estimates

# CR Beer (291 HK): We cut 2.5% of our 2022E shipment forecast to factor-in the current pandemic impact

**Rating:** BUY | **TP:** HK$71.0 (40% upside)

Analyst: Joseph Wong

- **Investment Thesis:** Our channel check suggested that CRB's 1Q22 revenue was up by a high-single-digit growth thanks to a mid-single-digit ASP uptick and a low-single-digit volume growth. Subpremium+ sales was up by 20%+, in line with our expectation. Despite this, fragile market confidence continued to weigh on the company's share price, as the market attempted to factor-in a weakening 2Q22 outlook due to the concurrent wave of the pandemic outbreak. Of note, the quarter anecdotally contributed to c.35% of the full-year volume. Assuming one-third of the quarter's shipment to be stake, we cut 2.5% of our 2022E shipment to 10.7mnL (-2.7% YoY). Compounding with other earnings revisions below, we cut our 2022/23E net profits by 8.7%/15.7%, respectively. The viral pandemic situation should continue to be a near term drag, however, we are convinced CRB's premiumization progress still have legs when management reassured us its 4mnL sub-premium+ shipment target by 2025E.

**Other major revisions:**

- We cut our 2022E revenue by 2% and that corresponds to a 2.5% reduction of the year's shipment, while we largely maintain a 6.5% ASP uptick as we believe price hikes from last Sep and earlier this year should have a full-scale impact to CRB's pricing momentum throughout 2022.

- **Valuation:** In view of our earnings change, we lower our TP to HK$71.0. Our TP is still based on 29.0x 2022E EV/ EBITDA which represents an average valuation since 2018.

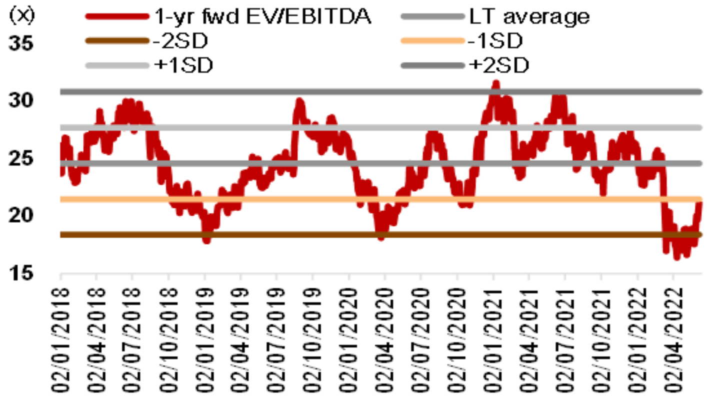
**Link to latest report:** CR Beer (291 HK) – We cut 2.5% of our 2022E shipment forecast to factor-in the current pandemic impact

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 33,387 | 34,494 | 35,849 | 38,426 |
| YoY growth (%) | 6.2 | 3.3 | 3.9 | 7.2 |
| Net income (RMB mn) | 4,587 | 3,832 | 4,281 | 5,042 |
| EPS (RMB) | 1.0 | 1.2 | 1.3 | 1.6 |
| YoY growth (%) | 21.0 | 18.7 | 11.7 | 17.8 |
| Consensus EPS (RMB) | N/A | 1.3 | 1.6 | 1.9 |
| P/E (x) | N/A | 31.0 | 27.8 | 23.6 |
| P/B (x) | N/A | 4.5 | 4.1 | 3.7 |
| Div yield (%) | N/A | 1.3 | 1.4 | 1.7 |
| ROE (%) | 14.1 | 15.0 | 15.4 | 16.3 |
| 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

# Smoore (6969 HK): Overseas order and the new disposable vape to sustain growth throughout 2022E

**Rating:** BUY | **TP:** HK$25.2 (23% upside)

Analyst: Joseph Wong

- **Investment Thesis:** We cut our 2022-23E net profits by 44.5%-47.1% to reflect the aggregate impact from the enactment of the new regulation that is set to become effective in October this year. In our view, this includes 1) almost a blank domestic sell-through of fruit-flavoured cartridges from March to October. We believe retailers would have to destock all relevant SKUs during the transition period. Of note, given a low demand visibility, Smoore would not proactively initiate production; 2) a RMB1.6bn R&D investment to research for new products that are compliant to the regulation. Of note, a few new products have already been submitted for approval; 3) a relatively weak 4Q given the uncertainty of consumer acceptance to the new products. Meanwhile, we are also aware of the impact from Shenzhen lockdown over Feb and Mar which resulted in a 2-to-3-week production halt. Altogether, we assume a 70% YoY decline in domestic revenue for 2022E. That said, we do look for a strong recovery for 2023E, driven not only by a low base, but also on a gradual and sustainable e-cigarette conversion upon a higher degree of product compliance. We remain Buy-rated.
- We still look for a 20-25% overseas revenue growth for 2022E despite the domestic hiccup. Overseas markets remain a sweetspot for Smoore with continuous new product launches. We expect Smoore to debut its first disposable vape and that will generate approximately RMB2bn revenue over 2H in our estimate.
- **Valuation:** Our new TP of HK$25.2 (from HK$32.1) is based on an updated 35.5x (from 32.0x) end-22E P/E, which still represents -1sd below its 2-year average of 49.0x (from 44.0x).

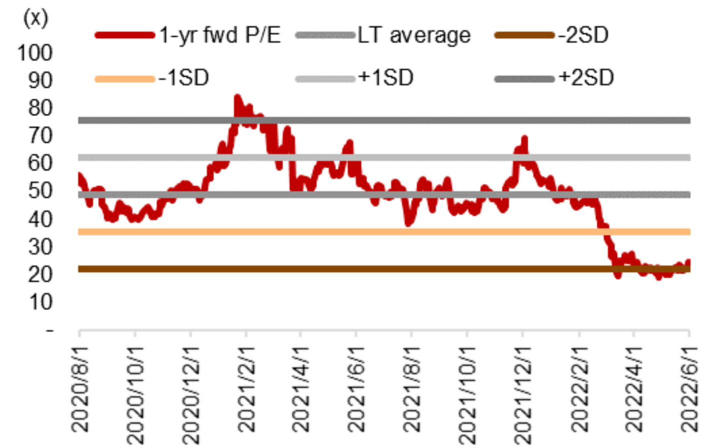
**Link to latest report:** Smoore Int'l (6969 HK) – Overseas order and the new disposable vape to sustain growth throughout 2022E

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22A | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 13,755 | 15,209 | 18,947 | 24,672 |
| YoY growth (%) | 37.4 | 10.6 | 24.6 | 30.2 |
| Net income (RMB mn) | 5,287 | 3,659 | 5,212 | 7,265 |
| EPS (RMB) | 0.9 | 0.6 | 0.8 | 1.2 |
| YoY growth (%) | 102.5 | (30.8) | 42.5 | 39.4 |
| Consensus EPS (RMB) | N/A | 0.73 | 0.93 | 1.14 |
| P/E (x) | 18.6 | 26.9 | 18.9 | 13.5 |
| P/B (x) | 5.1 | 4.6 | 4.0 | 3.3 |
| Div yield (%) | 2.0 | 1.4 | 2.0 | 2.8 |
| ROE (%) | 32.3 | 19.9 | 24.6 | 29.0 |
| Net gearing (%) | N/A | N/A | N/A | N/A |

Source: Company data, Bloomberg, CMBIGM estimates

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




Source: Company data, CMBIGM estimates

# CTGDF (601888 CH): Looking past the weak 2Q; earnings risk diminishing as consensus is subtly edging down; upgrade to BUY

**Rating:** BUY | **TP:** RMB232.0 (23% upside) Analyst: Joseph Wong

- **Investment Thesis:** We believe the worst for CTGDF is likely over, upon signs of re-opening in Shanghai from June onwards and the gradual rollout of pro-growth policies. While domestic travelling, in our view, might not stand at the forefront to see immediate benefits from the re-opening, expectation has been building up towards 3Q with reference to the cases over past few years. From here, we see scope for travelling demand to recover sequentially into 4Q, particularly when the quarter is seasonally clustered with festivals and shopping campaigns that catalyze leisure spending. Earnings-wise, 2Q should look dismal given a c.90% decline in airport traffic to Shanghai Airport and that to Hainan, in our view, unlikely to look significantly better. City-wise lockdown could also represent a temporary hiccup in delivery logistics for online sales. That said, our channel check suggested that margins have been holding relatively well during 5.1, as contrasted to our previous expectation that underpinned our HOLD rating. Consider also when consensus gradually edges towards our below-market estimates (we were 6%+ below), CTGDF's risk-reward is turning more favorable to us. We recommend investors to look past the weak 2Q, which is gradually being priced-in, and we upgrade CTGDF to BUY with a higher TP of RMB232 (from RMB192).

- **Valuation:** Our new TP is now based on 46.5x (up from 34.0x) end-22E P/E which represents 2-year average (up from -1sd below average) since mid-2020. We raise our target multiple to reflect the potential and imminent re-rating which will likely be fueled by the sequentially recovering, though bumpy, domestic tourist traffic.

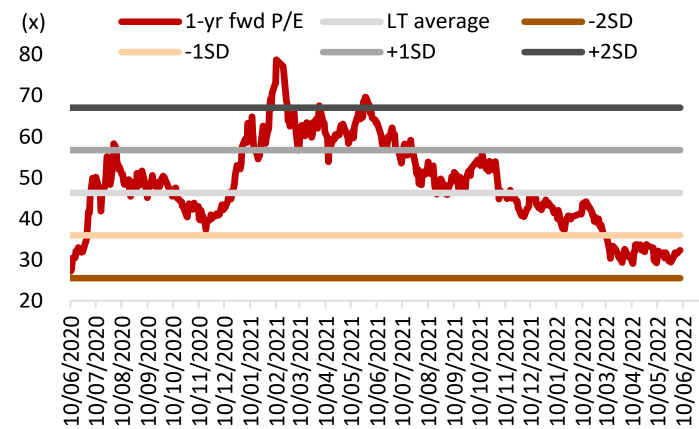
**Link to latest report:** CTGDF (601888 CH) – Looking past the weak 2Q; earnings risk diminishing as consensus is subtly edging down; upgrade to BUY

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 67,676 | 80,343 | 118,452 | 164,665 |
| YoY growth (%) | 28.7 | 18.7 | 47.4 | 39.0 |
| Net income (RMB mn) | 9,654 | 9,745 | 13,990 | 19,355 |
| EPS (RMB) | 4.9 | 5.0 | 7.2 | 9.9 |
| YoY growth (%) | 57.2 | 0.9 | 43.6 | 38.4 |
| Consensus EPS (RMB) | N/A | 5.4 | 7.5 | 9.5 |
| P/E (x) | 37.7 | 37.3 | 26.0 | 18.8 |
| P/B (x) | 12.3 | 10.0 | 7.9 | 6.2 |
| Div yield (%) | 0.8 | 0.9 | 1.2 | 1.7 |
| ROE (%) | 32.6 | 26.9 | 30.5 | 32.8 |
| Net gearing (%) | 32.8 | 44.6 | 45.3 | 49.5 |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: 1-year forward EV/EBITDA**




Source: Company data, CMBIGM estimates

# WuXi Biologics (2269 HK): Growth momentum intact

**Rating:** BUY **| TP:** HK$146.12 (108% upside)　　　Analysts: Jill Wu/Benchen Huang

- **Investment Thesis:** WuXi Bio is a world leading biologics CDMO which provides one-stop services of biologics discovery, development and manufacturing for global clients. With capabilities covering mAB, BsAB, ADC, fusion protein and vaccines, WuXi Bio has built a rich pipeline containing a total of 526 projects (as of Apr 2022), including 297 in preclinical stage, 32 in Ph3 stage and 9 in commercial stage. The Company adopts a “Follow-the-molecule” strategy to attract and foster early-stage projects and a “Win-the-Molecule” Strategy to win valuable late-stage projects. As a result of pipeline expansion, WuXi Bio’s backlog reached to US$13.6bn as of Dec 2021, a guarantee for future revenue growth.

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

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

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

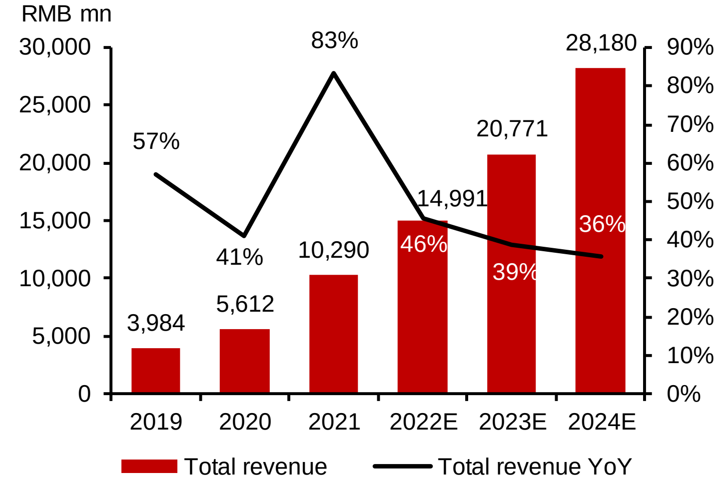
**Link to latest report:** WuXi Biologics (2269 HK) – Growth momentum intact

**Financials and Valuations**

| (YE 31 Dec) | FY22E | FY23E | FY24E |
|---|---|---|---|
| Revenue (RMB mn) | 14,991 | 20,771 | 28,180 |
| Revenue YoY growth (%) | 46 | 39 | 36 |
| Net income (RMB mn) | 4,448 | 6,095 | 8,296 |
| Adjusted net income (RMB mn) | 4,984 | 7,041 | 9,772 |
| EPS (RMB) | 1.06 | 1.45 | 1.97 |
| EPS YoY growth (%) | 30 | 37 | 36 |
| Consensus EPS (RMB) | 1.11 | 1.48 | 1.75 |
| P/E (x) | 38.4 | 28.0 | 20.6 |
| P/B (x) | 4.6 | 3.9 | 3.3 |
| ROE (%) | 12.7 | 15.1 | 17.3 |
| Net gearing (%) | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Revenue trend**




Source: Company data, CMBIGM estimates

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

**Rating:** BUY **| TP:** HK$58.32 (115% upside)

Analysts: Jill Wu/ Andy Wang

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

- **Our View:** In addition to the expanding portfolio of commercial products, Innovent has established a comprehensive portfolio covering next-generation I/O targets, and has advanced the self-developed global-right innovative drug candidates targeting LAG-3, CD47, TIGIT and VEGF/Complement to the PoC stage. At the 2022 ASCO Meeting, Innovent released promising preliminary data of IBI110, one of the most advanced LAG-3 mAbs in China, which demonstrated encouraging efficacy and safety profile in NSCLC and GC. It's worth noting that Innovent is an early mover in CD47-SIRPα pathway with three assets under development, including IBI188 (CD47 mAb) and IBI322 (PD-L1/CD47 BsAb), and IBI397 (SIRPα mAb). Innovent anticipates to have more data readout in 2022 for multiple global assets, including IBI-188, IBI-322, and IBI323 (LAG-3/PD-L1 BsAb). The Innovent Academy has established 80+ programs, with 7 molecules progressed into IND-enabling stage in 2021. The early stage global-right assets will serve as next wave of innovations for the Company.

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

- **Valuation:** We derive our target price of HK$58.32 based on DCF valuation (WACC: 10.6%, terminal growth rate: 3.0%).

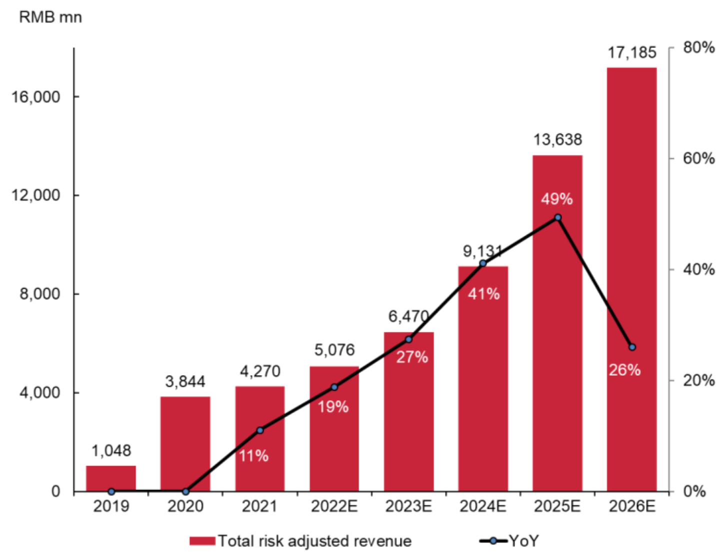
**Link to latest report:** Innovent Biologics (1801 HK) – Encouraging preliminary data on IBI110 (LAG-3 mAb) released at ASCO

**Financials and Valuations**

| (YE 31 Dec) | FY22E | FY23E | FY24E |
|---|---|---|---|
| Revenue (RMB mn) | 5,076 | 6,470 | 9,131 |
| YoY growth (%) | 19% | 27% | 41% |
| Net loss (RMB mn) | (1,999) | (1,316) | 227 |
| EPS (RMB) | (1.36) | (0.90) | 0.15 |
| Consensus EPS (RMB) | (1.29) | (0.61) | 0.03 |
| R&D expenses (RMB mn) | (2,500) | (2,500) | (2,009) |
| Capex (RMB mn) | (300) | (300) | (300) |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Revenue trend**




Source: Company data, CMBIGM estimates

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

**Rating:** BUY **| TP:** HK$8.40 (42% upside)

Analyst: Eric Wang

- **Investment Thesis:** Sector-leading asset quality, as of 1Q22, PSBC's NPL ratio stabilized at 0.82% while SOEs and JSBs' average were 1.31% and 1.36% respectively. On provisioning perspective, PSBC maintained a 3.35% allowance to total loan ratio and 414% provision coverage ratio while SOEs/JSBs' average were 3.17%/2.81% and 255%/224% respectively. Another advantage of PSBC is that it has less risk exposure on property industry than any other large and mid-sized banks. Only 2 % of its loan is property loan while sector average is above 6% and it almost have zero default on its property lending.
- **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 end-1Q22, fee & commission income grew 39.6% YoY.
- **Catalysts:** less risk exposure on property is the key. Less risk exposure on property sector and NPL ratio of property loan is quite low. With uncertainty on property market, PSBC will outperform on asset quality. In addition, with low valuation and 30% dividend payout, the downside is limited. In addition, because of its fast loan growth and sufficient CET-1 capital, it can maintain two-digit year-on -year growth on earnings.
- **Valuation:** Based on Gordon Growth Model, our target price on PSBC is HK$8.40, implies 0.91x 2022E and 0.85x 2023E P/B. The stock is trading at 0.66x/0.61x FY22/23E P/B, equivalent to +1SD of 3-yrs historical mean.
- **Link to latest report:** China Banking Sector – 4Q21 Quarterly Review

### Financials and Valuations

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

Source: Company data, Bloomberg, CMBIGM estimates

### Fig: Key indicators in 1Q22

| Bank | NIM | NPL ratio | Allowance to total loan | Provision coverage | Revenue YoY chg |
|---|---|---|---|---|---|
| ICBC | 2.10% | 1.42% | 2.98% | 210% | 6.5% |
| CCB | 2.15% | 1.40% | 3.45% | 246% | 7.3% |
| ABC | 2.82% | 1.41% | 4.34% | 308% | 5.9% |
| BOC | 1.74% | 1.31% | 2.46% | 188% | 2.1% |
| BoComm | 1.95% | 1.47% | 2.45% | 167% | 7.7% |
| PSBC | 2.40% | 0.82% | 3.35% | 414% | 10.1% |
| CMB | 2.51% | 0.94% | 4.35% | 463% | 8.5% |
| CIB | 1.80% | 1.10% | 2.95% | 269% | 6.7% |
| Citic | 1.87% | 1.35% | 2.49% | 184% | 4.1% |
| CEB | 2.55% | 1.24% | 2.33% | 188% | 0.2% |
| PAB | 2.80% | 1.02% | 2.94% | 289% | 10.6% |
| CMBC | 1.69% | 1.74% | 2.49% | 143% | -14.9% |
| CZB | 2.03% | 1.53% | 2.71% | 177% | 18.4% |
| SPDB | 1.73% | 1.58% | 2.32% | 147% | 1.0% |
| HXB | 2.13% | 1.75% | 2.68% | 153% | 1.6% |
| JSB average | 2.12% | 1.36% | 2.81% | 224% | 4.0% |
| SOE average | 2.19% | 1.31% | 3.17% | 255% | 6.6% |

Source: Company data, CMBIGM estimates

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

**Rating:** BUY **| TP:** HK$11.64 (45% upside) Analyst: Gigi Chen

- **Investment Thesis:** Our channel checks suggest that P&C insurers saw substantial reduction in loss ratio during COVID lockdowns in April-May 2022, similar to the situation of the first wave of COVID outbreak in 1H20. We believe the strong underwriting profit growth in 1Q22 will sustain into 2Q22 and 2H22. During the 1Q22 analyst briefing, the management reiterate the FY22 guidance of below 97% CoR of auto insurance and below 100% CoR of corporate business. We expect the double-digit premiums growth to sustain into FY22. Under C-ROSS 2.0, PICC P&C's core solvency margin remained high at 203% at end-1Q22 (vs 50% minimum requirement). And the insurer reiterated its progressive dividend policy. We believe the recovery of auto insurance and improvement in non-auto business will drive stock re-rating. Reiterate BUY.
- **Catalysts:** We expect the recent policy incentives, i.e. purchase-tax cut and subsidies for new cars, along with easing lockdown measures will increase auto sales and boost auto insurance premiums growth starting from June 2022.
- **Valuation:** The stock is trading at 0.7x P/BV FY22E or 6x P/E FY22E, with over 7% dividend yield and 12%-14% ROE, well below historical average valuation. Reiterate BUY.

**Link to latest report:**

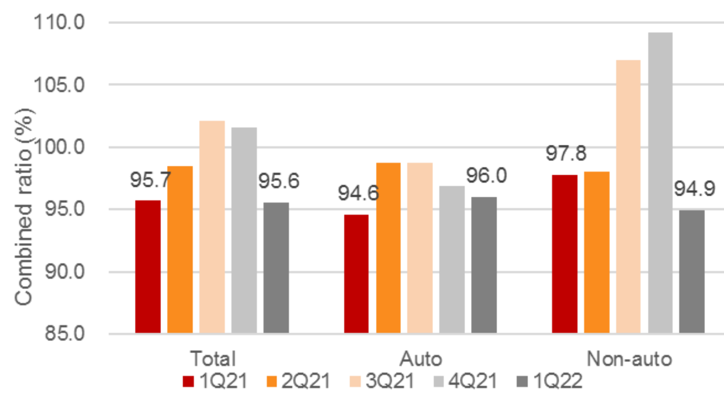
- PICC P&C (2328 HK) – CoR improvement in 1Q22
- PICC P&C (2328 HK) – Expect CoR improvement in FY22
- PICC P&C (2328 HK) – Auto growth pick up; Non-auto UW to improve
- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| GWP (RMB mn) | 449,533 | 494,486 | 543,935 | 598,328 |
| YoY growth (%) | 3.8 | 10.0 | 10.0 | 10.0 |
| UW profit (RMB mn) | 1,521 | 4,422 | 6,760 | 7,436 |
| Net profit (RMB mn) | 21,652 | 25,268 | 30,093 | 3,914 |
| EPS (RMB) | 1.0 | 1.1 | 1.4 | 1.5 |
| YoY growth (%) | 3.8 | 16.7 | 19.1 | 12.7 |
| Consensus EPS (RMB) | 1.1 | 1.2 | 1.3 | 1.4 |
| P/B (x) | 0.7 | 0.7 | 0.6 | 0.6 |
| PER (x) | 6.7 | 5.7 | 4.8 | 4.3 |
| Yield (%) | 6.2 | 7.3 | 8.7 | 9.8 |
| ROE (%) | 11.1 | 12.0 | 13.3 | 13.8 |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: PICC combined ratio quarterly 1Q21-1Q22**




Source: Company data, Bloomberg, CMBIGM estimates

# Kuaishou (1024 HK): Moving into 2H22E recovery

## **Rating:** BUY | **TP:** HK$120 (36% Upside) — Analyst: Sophie Huang

- **Investment Thesis:** Despite soft macro and epidemic resurgence, we expect Kuaishou to be relatively resilient on its ads and ecommerce share gain. We are more positive on its operating leverage and disciplined cost in FY22E (forecasting adj. NPM at -10%). 2Q22E guidance better-than-feared, and we suggest to look into ads and ecommerce rebound in 2H22E after lockdown relaxation. We reiterate our confidence in its resilient growth, share gain and narrowing loss in the long run.

- **Our View:** Given epidemic resurgence, we expect its 2Q22E rev +8% YoY. Ecommerce GMV would be resilient at +23% YoY in 2Q22E (with take rate at 1%), still outperforming peers. Livestreaming +11% YoY growth (in our estimate), given higher user engagement and rising MPU were partly offset by regulatory adjustment. Ads would be relatively affected by logistics (for internal ecommerce ads) and macro challenges (external ads), with estimated rev +7% YoY in 2Q22E. We think upcoming COVID stabilization & macro recovery matters more, as muted 2Q22E was well anticipated by the market. Suggest to look into ads & ecommerce rebound after lockdown relaxation, with potential positive regulation signals.

- **Why do we differ vs consensus:** Market concern lies on epidemic resurgence, livestreaming policy and pressure from Douyin. We believe near-term concern have been priced in and its financials outlook was well-guided and relatively defensive. Downside risks of earnings and multiple are limited.

- **Catalysts:** 1) potential upbeat 2Q22E; 2) Meituan synergies to expand TAM; and 3) ecommerce to outperform.

- **Valuation:** Maintain BUY with SOTP-based TP of HK$120. Valuation is attractive, given its resilient growth and narrowing loss, in our view.

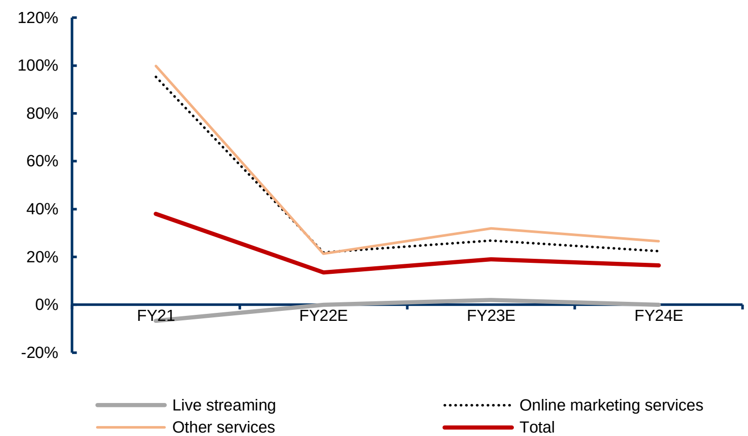
**Link to latest report**: Kuaishou (1024 HK) – Moving into 2H22E recovery

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 81,082 | 92,761 | 110,119 | 127,311 |
| YoY growth (%) | 37.9 | 14.4 | 18.7 | 15.6 |
| Net income (RMB mn) | (18,852) | (9,504) | (4,207) | 3,085 |
| EPS (RMB) | (4.6) | (2.1) | (0.9) | 0.7 |
| YoY growth (%) | N/A | N/A | N/A | N/A |
| Consensus EPS (RMB) | N/A | (2.9) | (0.6) | 2.2 |
| P/E (x) | N/A | N/A | N/A | N/A |
| P/S (x) | 3.9 | 3.4 | 2.9 | 2.5 |
| Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: KS's revenue growth estimates**




Source: Company data, CMBIGM estimates

# CR Land (1109 HK): Rental income to ride on consumption V-shape

**Rating:** BUY | **TP:** HK$44.79 (34% upside)

Analysts: Jeffrey Zeng/ Xiao Xiao

- **Investment Thesis:** We still expect CR Land to deliver double-digit growth in 2022E earnings, especially as the pandemic measures have eased significantly which may drive the rental income growth back to 20% YoY. For property development, its sales are currently outperforming the peers and we expect the booking of CR City this year to support earnings and margin as well.

- **Our View:** We see the promotion of CR City Phase IV in Dec 2020 to support 2022E earnings. Also rental income could bottom out after the pandemic eases.

- **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 6x 2022E P/E vs. historical average of 9x. Moreover, the increase in revenue share of rent collection business could trigger re-rating.

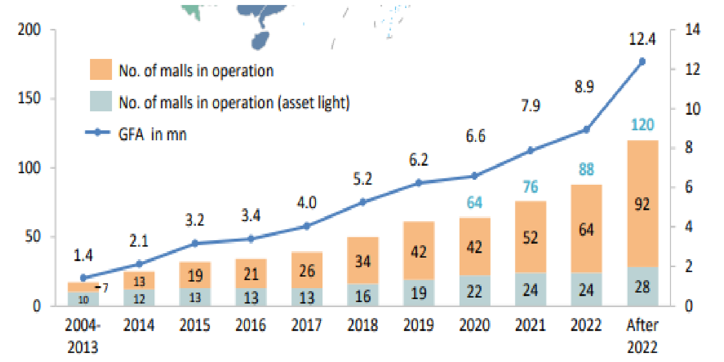
**Link to latest report:** China Property Sector – Bumpy road ahead despite better-than-feared 2M22 data

**Financials and Valuations**

| (YE 31 Dec) | FY19A | FY20A | FY21A | FY22E |
|---|---|---|---|---|
| Revenue (RMB mn) | 147,736 | 179,587 | 242,568 | 271,335 |
| YoY growth (%) | 21.9 | 21.2 | 35.1 | 11.9 |
| Net income (RMB mn) | 28,672 | 29,810 | 31,809 | 34,666 |
| EPS (RMB) | 4.12 | 4.18 | 4.46 | 4.86 |
| YoY growth (%) | 17.7 | 1.5 | 6.7 | 9.0 |
| Consensus EPS (RMB) | N/A | N/A | 4.05 | 4.63 |
| P/E (x) | 7.7 | 7.6 | 7.2 | 6.6 |
| P/B (x) | 1.3 | 1.2 | 1.0 | 0.9 |
| Yield (%) | 3.3 | 3.9 | 4.7 | 5.3 |
| ROE (%) | 16.5 | 13.7 | 14.6 | 14.3 |
| Net gearing (%) | 30.3 | 32.1 | 31.6 | 34.4 |

Source: Company data, Bloomberg, CMBIGM estimates

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




Source: Company data, CMBIGM

# CG Services (6098 HK): Strong beneficiary of eased pandemic on Community VAS

**Rating:** BUY | **TP:** HK$47.6 (55% upside)

Analysts: Jeffrey Zeng/ Xiao Xiao

- **Investment Thesis:** CGS may face short-term volatility after adjusting down its 2022E NP growth to 40% from 50%, together with declining margin and high trade receivables. However, we think the downside is limited given the attractive valuation at 14x 2022E and it benefits from eased lockdown. Also management promised not to do placement for M&A. and margin/receivables will improve in 2022E after the M&A dilution was mainly reflected in 2021.

- **Our View:** 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 expect managed GFA to grow at a stable 30% CAGR in 2019-2022E and the Company would be the key winner in VAS growth.

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

- **Valuation:** It is currently trading at 14x 2022E PE and looks attractive.

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

**Financials and Valuations**

| (YE 31 Dec) | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Revenue (RMB mn) | 15,600 | 28,843 | 43,303 | 61,955 |
| YoY growth (%) | 61.7 | 84.9 | 50.1 | 43.1 |
| Net income (RMB mn) | 2,686 | 4,033 | 5,662 | 7,863 |
| EPS (RMB) | 0.98 | 1.28 | 1.69 | 2.35 |
| YoY growth (%) | 55.7 | 31.1 | 32.2 | 38.9 |
| Consensus EPS (RMB) | N/A | N/A | 1.94 | 2.70 |
| P/E (x) | N/A | 30.1 | 22.7 | 16.4 |
| P/B (x) | N/A | 15.6 | 12.7 | 9.2 |
| Yield (%) | N/A | 0.8 | 1.1 | 1.5 |
| ROE (%) | 18.4 | 11.1 | 14.1 | 17.1 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: CGS has first-mover 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

# Goertek (002241 CH): Strong VR momentum into 2H22E; Maintain BUY

**Rating:** BUY **| TP:** RMB40.8 (5% upside)

Analysts: Alex Ng/ Lily Yang

- **Investment Thesis:** Goertek is a global leader in precision components (acoustics, microelectronic), wearables products (Airpods) and AR/VR products (Oculus, Pico, Sony VR). We believe it is well-positioned to capture growth opportunities backed by solid product roadmap and market share gain in key products, such as AR/VR, gaming console smart watch.

- **Our View:** We are positive on Goertek's product portfolio and strong momentum in VR/gaming console in FY22-23E. For 1H22E, company pre-announced net profit of RMB2.08-2.42bn, up 20-40% YoY, implying 2Q22 NP growth of 59-99% YoY. We think the profit alert alleviated market concerns on AirPods weakness, COVID-19 impact and VR momentum in 2022. Looking into 2H22E, we believe Goertek growth momentum will continue with multiple product launches from new-gen AirPods, Quest 2 Pro and PS VR2. Overall, we expect Goertek's earnings to grow 33%/21% in FY22/23E, backed by 62%/26% growth in smart product segment (VR, gaming console, smart watch). We believe recent pullback provides good buying opportunity, given its solid product roadmap and high earnings visibility in AR/VR and gaming console biz.

- **Why do we differ vs consensus:** Our FY22-24E EPS are largely in-line with consensus, but we expect AR/VR upside will drive re-rating.

- **Catalysts:** Near-term catalysts include product launches, China demand recovery and client order wins.

- **Valuation:** Our TP of RMB$48.0 is based on 28x FY22E P/E, based on 7-year historical avg. P/E.

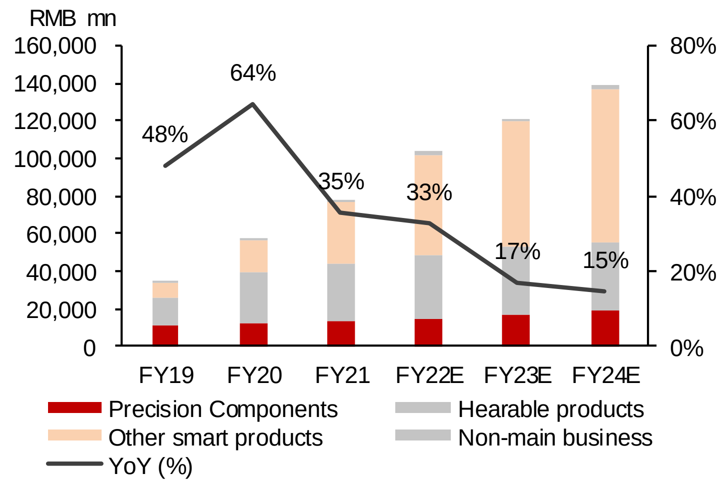
**Link to latest report:** Goertek (002241 CH) – Strong VR momentum into 2H22E; Maintain BUY

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 78,221 | 103,687 | 121,268 | 138,872 |
| YoY growth (%) | 35.5 | 32.6 | 17.0 | 14.5 |
| Net profit (RMB mn) | 4,275 | 5,853 | 7,086 | 8,610 |
| EPS (RMB) | 1.29 | 1.71 | 2.07 | 2.52 |
| YoY growth (%) | 44.9 | 32.8 | 21.1 | 21.5 |
| Consensus EPS (RMB) | 1.29 | 1.66 | 2.10 | 2.59 |
| P/E (x) | 29.7 | 22.4 | 18.5 | 15.2 |
| P/B (x) | 4.7 | 3.8 | 3.2 | 2.7 |
| Yield (%) | 0.5 | 0.7 | 0.8 | 1.0 |
| ROE (%) | 15.3 | 18.1 | 18.5 | 18.8 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Goertek revenue trend**




Source: Company data, CMBIGM estimates

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

**Rating:** BUY | **TP:** RMB200.00 (21% upside)

Analysts: Lily Yang/ Alex Ng

- **Investment Thesis:** Willsemi is a top 3 manufacturer in global CIS market. We expect auto/security CIS to maintain strong momentum, partially offset by a relatively weak mobile CIS segment. We hold a positive outlook and believe Willsemi's stock is attractive given current valuation.
- **Our View:** Although we think the short-term performance is challenging under current market environment, we still remain positive on Willsemi's long-term outlook. The mobile market weakness is likely to persist into 2Q22, which has been largely priced in. The Company's non-mobile business should remain largely intact and will be a key growth driver in the following years. Maintain BUY with a TP of RMB200.
- **Why do we differ vs consensus:** We derive Willsemi's revenue growth based on sub CIS market growth. We give lower than consensus mobile CIS growth & higher than consensus on auto, security & AR/VR growth.
- **Catalysts:** Favorable policies to support domestic economy, ease of pandemic, supply chain recovery and new products announcements.
- **Valuation:** Our new TP is RMB200.0. Current price at RMB152.57 implies ~22x 2023E P/E, which looks attractive.

**Link to latest report:**

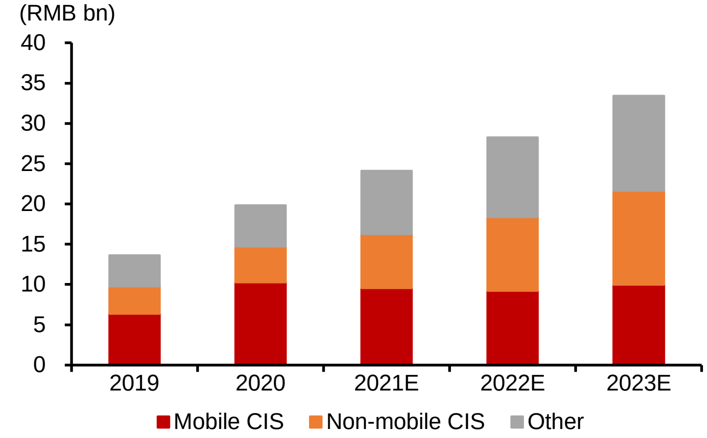
- Willsemi (603501 CH) – The feared bad 1Q22 is gone; All eyes on the recovery
- China CIS sector – Can non-mobile CIS strength offset handset weakness? We remain cautiously optimistic

**Financials and Valuations**

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E |
|---|---|---|---|---|
| Revenue (US$ mn) | 19,824 | 24,104 | 28,269 | 33,428 |
| YoY growth (%) | 45.4% | 21.6% | 17.3% | 18.2% |
| Gross margin (%) | 29.9% | 34.5% | 34.9% | 35.4% |
| Net profit (US$ mn) | 2,706 | 4,476 | 5,040 | 6,198 |
| EPS (US$) | 3.21 | 5.16 | 5.70 | 6.96 |
| YoY growth (%) | 322.4% | 60.7% | 10.4% | 22.2% |
| Consensus EPS (US$) | N/A | N/A | 6.44 | 8.23 |
| PE (x) | 42.0 | 26.1 | 23.6 | 19.3 |
| ROE (%) | 23.5% | 27.5% | 22.5% | 21.1% |
| Net gearing (%) | 6.7% | 10.9% | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Willsemi revenue trend**




Source: Company data, CMBIGM estimates

# Glodon (002410 CH): Bearing fruit from SaaS transformation

**Rating:** BUY **| TP:** RMB72.03 (38% upside)

Analyst: Marley Ngan

- **Investment Thesis:** Although property sector weakness persists, we think Glodon's cash flow is less fluctuated with macro environment as its core costing SaaS products have high user stickiness. We expect Glodon to deliver 24% net profit CAGR in FY21-24E and that cash flow will remain strong with FCF margin at 16-18% throughout FY21-24E.

- **Our View:** We like Glodon for its successful SaaS transition. Glodon delivered strong FY1Q21 with revenue growth of +33% YoY to RMB1,131mn. Even for project-based Construction Management business, Glodon delivered +29% YoY revenue growth in FY1Q21 despite property sector weakness. Looking into FY22E, Glodon gave upbeat guidance of 1) Costing SaaS newly signed contract amounts to RMB4bn (+26% YoY), 2) Construction Management revenue +30% YoY growth. Overall, we are encouraged to see 1) +36% YoY in SaaS contracted liabilities, 2) improving operating leverage and 3) strong free cash flow.

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

- **Catalysts:** Better than expected ARPU in Costing SaaS and improving net profit margin in 2Q22. Property sector recovery in 2H22.

- **Valuation:** We derive our target price of RMB72.03 on 12x FY22E EV/sales, in-line with its 3-year mean. Glodon deserves re-rating as 1) free cash flow continues to improve with increasing SaaS contribution and 2) operating leverage from SaaS transition is emerging.

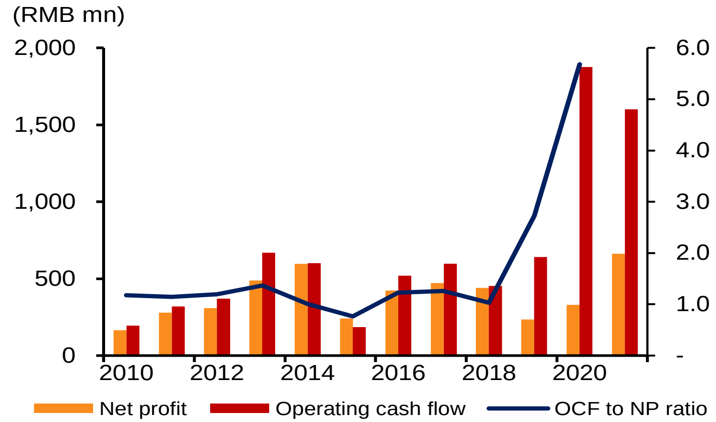
**Link to latest report:** Glodon (002410 CH) – 1Q22 beat, cash flow fluctuations manageable

**Financials and Valuations**

| (YE 31 Dec) | FY21A | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue (RMB mn) | 5,619 | 6,760 | 7,964 | 9,389 |
| YoY growth (%) | 40 | 20 | 18 | 18 |
| Net profit (RMB mn) | 661 | 904 | 1,050 | 1,261 |
| EPS (RMB) | 0.56 | 0.76 | 0.88 | 1.06 |
| YoY growth (%) | 99 | 37 | 16 | 20 |
| Consensus EPS (RMB) | 0.56 | 0.83 | 1.11 | 1.42 |
| PE (x) | 95.8 | 70.1 | 60.4 | 50.3 |
| EV/sales | 10.6 | 8.7 | 7.3 | 6.0 |
| Dividend yiled (%) | 0.01 | 0.00 | 0.00 | 0.00 |
| ROE (%) | 11 | 15 | 17 | 17 |
| Net debt to equity | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

**Fig: Glodon operating cash flow to net profit ratio**




Source: Company data, CMBIGM estimates

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| | |
|---|---|
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