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Economics

PMI

A mixed bag despite negative headlines.

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Sector

Automobile

Weekly: EV sales fell and inventories piled up during 20-26 Nov 23. Maintain UNDERWEIGHT. Top SELLS: BYD and Ganfeng Lithium.

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Results

CSPC Pharmaceutical Group (1093 HK/BUY/HK\$7.05/Target: HK\$9.20)

9M23: Results in line; new products to support double-digit revenue growth in 2024.

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Update

PDD Holdings (PDD US/BUY/US\$141.73/Target: US\$173.00)

Poised for a new cycle of revitalised growth propelled by Temu.

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TRADERS' CORNER

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Sunny Optical Technology (2382 HK): Trading Buy range: HK\$72.00-74.00

China Telecom Corporation Ltd (728 HK): Trading Buy range: HK\$3.52-3.60

CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
01 Dec	China	Caixin Nov Manufacturing PMI
07 Dec	China	Nov Trade
09 Dec	China	Nov Inflation
09-15 Dec	China	Nov Money Supply And Credit
15 Dec	China	Nov Economic Activities
20 Dec	China	Dec Loan Prime Rate
27 Dec	China	Nov Industrial Profits
30 Dec	China	Dec NBS PMI

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	35950.9	1.5	1.9	8.8	8.5
S&P 500	4567.8	0.4	0.2	8.9	19.0
FTSE 100	7453.8	0.4	(0.4)	1.8	0.0
AS30	7297.7	0.7	0.9	3.9	1.1
CSI 300	3496.2	0.2	(1.8)	(2.1)	(9.7)
FSSTI	3073.0	(0.4)	(1.2)	(0.1)	(5.5)
HSCEI	5857.5	0.7	(5.1)	(0.0)	(12.6)
HSI	17042.9	0.3	(4.8)	(0.3)	(13.8)
JCI	7080.7	0.6	1.1	6.6	3.4
KLCI	1452.7	0.5	(0.0)	1.2	(2.9)
KOSPI	2535.3	0.6	0.8	10.2	13.4
Nikkei 225	33486.9	0.5	0.1	6.0	28.3
SET	1380.2	(0.5)	(1.9)	0.0	(17.3)
TWSE	17433.9	0.4	0.8	8.7	23.3
BDI	2937	8.9	58.3	101.3	93.9
CPO (RM/mt)	3719	(0.8)	(3.2)	2.2	(8.1)
Brent Crude (US\$/bbl)	83	(0.3)	1.7	(5.2)	(3.6)

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
MEITUAN-W	90.60	0.2	7,281.5
XIAOMI CORP-W	15.62	0.9	1,768.6
LI AUTO INC-A	145.80	(4.4)	1,214.0
NETEASE INC	176.30	(0.3)	1,202.0
BIDU-SW	116.10	0.9	1,057.9

TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
HANSOH PHARMACEU	15.82	4.6	136.4
TRAD CHI MED	4.00	3.9	124.5
ZHONGSHENG GROUP	18.70	3.2	63.7
CHINA HONGQIAO	6.37	3.1	136.8
BRILLIANCE CHINA	4.19	2.9	284.0

TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
BILIBILI INC-Z	89.90	(11.0)	362.4
KINGDEE INTL SFT	10.86	(7.2)	150.2
LI AUTO INC-A	145.80	(4.4)	1,214.0
ALIBABA HEALTH	4.44	(3.9)	209.0
WEIBO CORP-CL A	87.00	(2.9)	4.4

*ADT: Average daily turnover

KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	2.1	2.0	1.0
Euro Zone	3.5	0.5	0.8
Japan	1.0	1.5	1.0
Singapore	3.6	0.7	3.0
Malaysia	8.7	4.0	4.6
Thailand	2.6	3.1	3.5
Indonesia	5.4	5.1	5.2
Hong Kong	-3.5	4.6	3.0
China	3.0	5.0	4.6
CPO (RM/mt)	5,088	4,000	4,200
Brent (Average) (US\$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

ECONOMICS – CHINA

PMI

A Mixed Bag Despite Negative Headlines

PMI weakened for a second consecutive month, as November manufacturing PMI dipped 49.4%, while non-manufacturing fell to 50.2%. Manufacturing activities were weighed by weaker production and new orders, while weaker selling prices affected non-manufacturing business conditions. Despite the weaker headline numbers, we see an improvement in employment sub-indices for both sectors as well as a pick-up in construction activities. Hence, the data release should be market neutral.

WHAT'S NEW

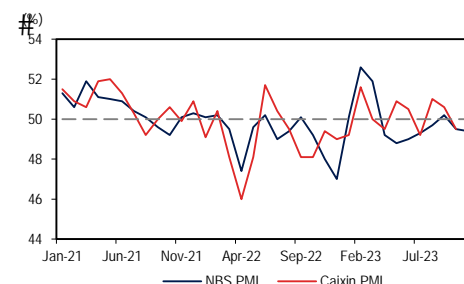
- **Manufacturing PMI edged lower to 49.4% in Nov 23** from 49.5% the month before and was below Bloomberg consensus estimate of 49.8%. Weaker production, new orders and raw material inventory all contributed to the decline. New export orders also remained weak, falling 0.5ppt to 46.3%, which implies that imports and inventory of finished goods were also lower. In line with the weak global manufacturing cycle, Chinese manufacturers have again taken a more cautious stance, lowering production and clearing inventory.
- **Non-manufacturing PMI dropped to 50.2% in Nov 23** from 50.6% in Oct 23 and is below market expectations of 50.9%. This was mainly due to weaker services activities, which fell 0.8ppt to 49.3%. Construction rebounded 1.5ppt to 55.0% as the government accelerated bond issuance to support FAI.
- **Employment in both sectors stabilised** which is a positive; in fact, for non-manufacturing, the sub-index improved 0.4ppt mom. If sustained, this bodes well for domestic demand recovery going forward. Thus, despite the headline numbers coming in below expectations and falling mom, Nov 23's data is a mixed bag and should be market neutral.

MANUFACTURING PMI

	Nov 23 (%)	mom ppt chg	Oct 23 (%)	Sep 23 (%)
Manufacturing PMI	49.4	-0.1	49.5	50.2
Composite Indices				
Manufacturing output	50.7	-0.2	50.9	52.7
New orders	49.4	-0.1	49.5	50.5
Raw material inventory	48.0	-0.2	48.2	48.5
Employment	48.1	0.1	48.0	48.1
Suppliers' delivery time	50.3	0.1	50.2	50.8
Relevant Indices				
New export orders	46.3	-0.5	46.8	47.8
Imports	47.3	-0.2	47.5	47.6
Purchases	49.6	-0.2	49.8	50.7
Purchase prices	50.7	-1.9	52.6	59.4
Outdoor prices	48.2	0.5	47.7	53.5
Inventory of finished goods	48.2	-0.3	48.5	46.7
Backlog orders	44.4	0.2	44.2	45.3
Business expectations	55.8	0.2	55.6	55.5

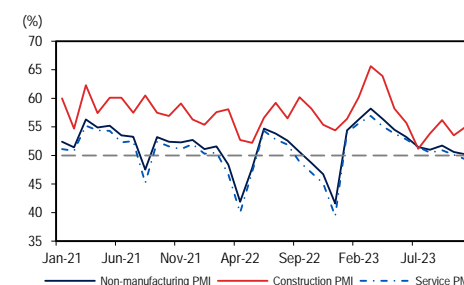
Source: NBS, Wind, UOB Kay Hian

MANUFACTURING PMI



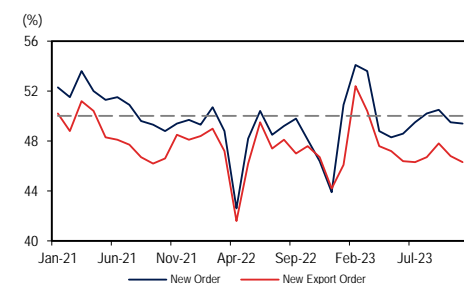
Source: NBS, Wind, UOB Kay Hian

NON-MANUFACTURING PMI



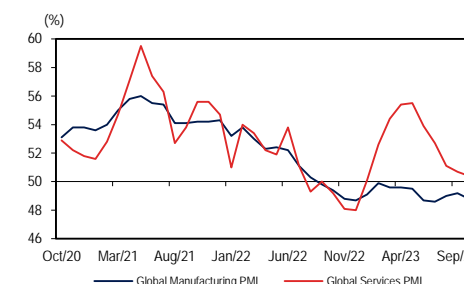
Source: NBS, Wind, UOB Kay Hian

NEW ORDERS AND NEW EXPORT ORDERS SUB-INDICES OF MANUFACTURING PMI



Source: NBS, Wind, UOB Kay Hian

GLOBAL PMI



Source: NBS, Wind, UOB Kay Hian

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NON-MANUFACTURING PMI

		Oct 23 (%)	mom ppt chg	Oct 23 (%)	Sep 23 (%)
Non-manufacturing PMI		50.2	-0.4	50.6	51.7
Composite Indices	New orders	47.2	0.5	46.7	47.8
	Input prices	49.8	0.1	49.7	52.5
	Selling prices	48.3	-0.3	48.6	50.3
	Employment	46.9	0.4	46.5	46.8
	Business expectations	59.8	1.7	58.1	58.7
Relevant Indices	New export orders	46.8	-2.3	49.1	49.4
	Backlog orders	43.0	-0.1	43.1	43.3
	Inventory	46.7	0.5	46.2	46.9
	Suppliers' delivery time	51.8	-0.2	52.0	51.3
Industry Indices	Construction	55.0	1.5	53.5	56.2
	Services	49.3	-0.8	50.1	50.9

Source: NBS, Wind, UOB Kay Hian

PMI BY CORPORATE SIZE

		Nov 23 (%)	mom ppt chg	Oct 23 (%)	Sep 23 (%)
Composite Indices	Large-sized enterprise	50.5	-0.2	50.7	51.6
	Mid-sized enterprise	48.8	0.1	48.7	49.6
	Small-sized enterprise	47.8	-0.1	47.9	48.0

Source: NBS, Wind, UOB Kay Hian

SECTOR UPDATE

Automobile – China

Weekly: EV Sales Fell And Inventories Piled Up During 20-26 Nov 23

China PEV retail sales fell 24% mom/11% wow in the week ending 26 Nov 23, but wholesale shipments grew 21% wow, due to OEMs' channel stuffing. Tesla and Changan outperformed, growing sales by 55%/123% mom respectively during the week. BYD and XPeng continued to underperform with weekly sales falling 8%/24% mom. Li Auto's retail sales also dropped 6% mom during the week. Maintain UNDERWEIGHT. Remove Li Auto and CATL from our top picks list. Top SELLS: BYD and Ganfeng Lithium.

WHAT'S NEW

- **CPCA: China PEV retail sales plummeted by 24% mom and 11% wow during 20-26 Nov 23, missing expectations.** Passenger electric vehicles' (PEV) share of China's passenger vehicle (PV) retail sales volume dropped 2.5ppt wow from a record-high of 41.3% in the week ending 19 Nov 23 to 38.8% in the week ending 26 Nov 23, according to data from China Passenger Car Association (CPCA). In 1-26 Nov 23, retail sales volume of PEVs in China grew 33% yoy but fell 7% mom to 563,000 units, representing 40.5% of the country's PV retail sales volume.
- **CPCA: China PEV wholesale shipments dropped 8% mom but grew 21% wow during 20-26 Nov 23 due to channel stuffing.** During 1-26 Nov 23, China's PEV wholesale shipment remained flat mom at 679,000 units, up 42% yoy. PEV wholesale shipments outpaced retail sales volume, as OEMs (eg BYD) continued to push excessive inventories to dealers in an attempt to attain their full-year sales targets. Inventories further piled up in channel during the week. We expect channel inventory-to-sales ratio for PEVs to rise from 51 days as of 31 Oct 23 to 60 days as of 30 Nov 23.
- **Top 12 EV companies in China jointly posted 5% mom growth and 2.4% wow drop in insurance registrations in the week ending 26 Nov 23, outperforming the overall market.** Insurance registration is a more precise gauge of vehicle retail sales volume. Among the 12 OEMs, Tesla and Changan were the outperformers, while BYD and XPeng continued to underperform. Even Li Auto saw its sales decline during the week.
- **BYD's insurance registrations tumbled by 6.3% mom and 7.7% wow to 50,500 units during 20-26 Nov 23, as we had expected.** Despite the kick-start of the deliveries of Yuan Plus Champion Version on 10 Nov 23, BYD's insurance registrations (including the BYD brand and Denza brand) started to drop in the week ending 26 Nov 23 after a brief rebound in the previous week. During 1-26 Nov 23, BYD's insurance registration only reached 204,500 units, down 6% mom.

PEER COMPARISON

Company	Ticker	Rec	Price @ 30 Nov 23 (lcy)	Target Price (lcy)	Upside/(Downside) to TP (%)	Market Cap (US\$m)	PE 2023F (x)	2024F (x)	P/B 2023F (x)	2024F (x)	ROE 2024F (%)	Net Gearing (Cash) (%)
BYD	1211 HK	SELL	210.00	140.00	(33.3)	610,183	18.2	19.6	4.0	3.5	17.5	(25.3)
Geely Automobile	175 HK	SELL	8.51	6.50	(23.6)	85,257	20.1	21.0	1.0	0.9	4.6	(26.9)
Great Wall Motors	2333 HK	BUY	11.26	13.50	19.9	98,688	14.5	9.9	1.2	1.1	11.5	(0.4)
Guangzhou Auto	2238 HK	SELL	3.62	3.20	(11.6)	37,594	7.4	9.0	0.3	0.3	3.3	(14.9)
Li Auto Inc	2015 HK	BUY	145.80	312.00	114.0	303,931	31.8	18.9	5.2	4.1	17.7	(103.0)
XPeng	9868 HK	SELL	67.20	18.00	(73.2)	115,947	Loss	Loss	4.4	6.6	(43.3)	(58.3)
Weichai Power	2338 HK	BUY	14.36	17.00	18.4	124,060	12.7	10.9	1.4	1.3	11.7	(57.1)
Fuyao Glass	3606 HK	BUY	36.65	45.00	22.8	95,647	15.4	13.4	2.8	2.6	17.7	(18.3)
Desay SV	002920 CH	HOLD	129.83	135.00	4.0	72,091	49.2	37.4	9.4	7.9	20.8	0.5
Nexteer	1316 HK	SELL	5.04	2.70	(46.4)	12,650	15.3	16.7	0.8	0.8	5.4	(10.1)
Mintech	425 HK	BUY	16.92	33.00	95.0	19,658	9.1	7.6	1.0	0.9	11.0	17.9
Ningbo Tuopu	601689 CH	BUY	73.69	105.00	42.5	81,210	38.2	23.4	4.8	4.1	14.9	6.7
Ningbo Xusheng	603305 CH	HOLD	20.72	18.00	(13.1)	13,812	26.3	22.8	3.1	2.7	12.4	(9.9)
CATL	300750 CH	BUY	167.00	410.00	145.5	406,700	19.6	15.5	3.8	3.1	20.9	(46.1)
EVE Energy	300014 CH	SELL	42.19	92.00	118.1	86,062	18.9	14.0	2.5	2.3	10.5	37.2
Ganfeng Lithium	1772 HK	SELL	25.00	20.00	(20.0)	50,371	6.6	12.8	0.9	0.9	10.7	7.1
GEM	002340 CH	SELL	5.64	4.40	(22.0)	28,728	45.9	56.6	1.5	1.5	3.4	53.0
Tinci Materials	002709 CH	SELL	24.20	20.00	(17.4)	46,260	17.4	19.8	3.9	3.6	21.9	2.3
Zhongsheng Group	881 HK	SELL	18.70	14.00	(25.1)	45,096	7.2	8.1	0.9	0.8	13.0	38.8
Yadea Group	1585 HK	BUY	14.66	20.00	36.4	43,907	15.9	13.5	5.0	4.1	33.3	(139.1)

Source: Bloomberg, UOB Kay Hian

UNDERWEIGHT

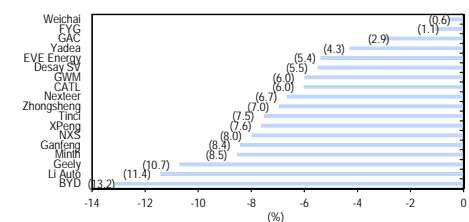
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TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
BYD	1211 HK	SELL	210.00	140.00
Ganfeng Lithium	1772 HK	SELL	25.00	20.00

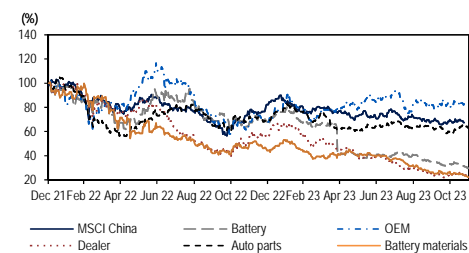
Source: UOB Kay Hian

WEEKLY STOCK PERFORMANCE



Source: Bloomberg

RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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In order to attain its full-year 2023 sales target of 3m units, BYD will need to sell over 300,000 PEVs to dealers in each of Nov 23 and Dec 23, adding to the inventory pressure on dealers. We estimate the channel inventory-to-sales ratio for BYD at nearly 80 days as of 30 Nov 23. To clear inventories, BYD offered an additional 5-10% in discounts for the Dynasty Series from 24-30 Nov 23. In fact, BYD has started to cut prices aggressively since Sep 23, but this has not boosted sales. We expect BYD to cut prices further over the next few months.

- **Tesla's insurance registrations edged up 2.5% wow to a 13-week high of 16,700 units during the week ending 26 Nov 23, only 11% lower than the record of 18,700 units.** This was due to the ramp-up of the deliveries of the new Model 3 and Model Y. Going forward, we expect Tesla's sales in China to grow further in Dec 23 along with the production ramp-up of the two new models.
- **Li Auto's insurance registrations declined 6% mom/wow to 9,400 units in the week ending 26 Nov 23.** Li Auto's weekly insurance registrations have hovered around 10,000 units since the week ending 15 Oct 23. On the other hand, Aito's insurance registration spiked from 2,400 units in the week ending 15 Oct 23 to a recent peak of 4,700 units in the week ending 26 Nov 23 (+20.5% mom/+9.3% wow). Aito's new model M7 should have taken some market share from Li L7 and other peers. Going forward, further sales growth of Li Auto will hinge on the upcoming new models in 2024, including the company's first battery electric vehicle (BEV) models Mega MPV and L6. Li Auto kick-started the presale of Mega on 17 Nov 23 and received over 10,000 orders within two hours. We maintain our 2023-25 delivery estimates for Li Auto at 370,000 units/580,000 units/840,000 units respectively
- **XPeng's insurance registration grew 4.8% wow but plummeted 24.1% mom to 4,400 units during the week ending 26 Nov 23.** We remain pessimistic on XPeng's earnings outlook, based on the weakening sales momentum, negative gross margin and aggressive price cuts. Additionally, XPeng's brand equity has been tarnished by its failure to deliver on its promise of providing Navigation Guided Pilot (NGP) for the old models and the unsatisfactory results in the recent Autonomous Emergency Braking (AEB) test conducted by Dongchedi.
- **Zeekr's insurance registrations fell 4.3% mom and 8.3% wow to 2,200 units, missing estimates.** This can be attributed to the drop in sales of the flagship model Zeekr 001 and the disappointing sales of the new models Zeekr 009 and Zeekr X. Zeekr is under pressure to attain its full-year 2023 sales target of 140,000 units.
- **Huawei is forming pacts with seven big Chinese carmakers on intelligent driving, reshaping the industry landscape.** Huawei and Changan on 26 Nov 23 jointly announced to form a JV to engage in the development of intelligent connected vehicle (ICV) systems and autonomous driving (AD) systems. Pursuant to the agreement, Changan and its parent company would take 35%/5% stake in the JV respectively. Since 2019, Changan has formed a partnership with Huawei. Changan, Huawei and CATL also jointly own an auto brand Avatar that uses Huawei ICV and AD systems. In addition to Changan, Huawei is also inviting six other Chinese carmakers to invest in the newly-formed JV, which are BAIC, Dongfeng Motor, SAIC, FAW, JAC and Chery. Among these, BAIC's Arcfox and Dongfeng Motor's Seres (which owns the Aito brand) already have partnerships with Huawei.

We believe intelligentisation is an up-and-coming theme for China's auto sector, due to the escalating penetrations of the smart features such as intelligent connectivity and autonomous driving in EVs. With the proliferation of the electric powertrain technologies (battery system, motor, motor control system, 800V high-voltage charging platform) across various OEMs, EVs would be increasingly defined by intelligent features. The emerging alliance led by Huawei, the unrivalled leader in ICV and AD technologies in China, will constitute a formidable threat to the established incumbent BYD.

- **Nio forms alliances with Changan and Geely on battery swap in November.** Pursuant to the agreements, Nio will cooperate with Changan and Geely respectively for the formation of the battery standard and the development of new models for battery swap, and the construction and operations of battery swap stations. We believe the battery swap model is backed by the state as an alternative business model to the charging model for EVs, as EV charging represents an increasing burden on power grids in China along with the rising penetration of EVs. In future, both the charging model and battery swap model will prevail in

CHINA WEEKLY PV SALES VOLUME (NOV 23)

('000 units)	----- Retail sales -----			-- Wholesale shipment --		
	Total	PEV	ICE-car	Total	PEV	ICE-car
<i>Daily average</i>						
1-12 Nov 23	45	19	26	48	20	28
13-19 Nov 23	62	26	37	69	28	41
20-26 Nov 23	59	23	36	76	34	42
yoy % chg	13	24	6	15	46	(2)
mom % chg	(23)	(24)	(23)	(30)	(8)	(41)
wow % chg	(5)	(11)	(1)	10	21	2
<i>Total</i>						
1-26 Nov 23	1,389	563	826	1,596	679	917
yoy % chg	17	33	8	19	42	6
mom % chg	(12)	(7)	(15)	(9)	-	(15)

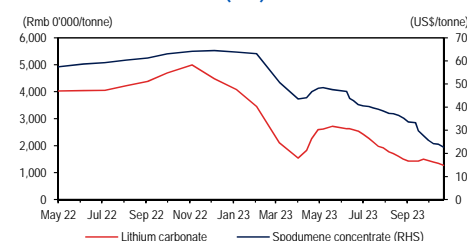
Source: CPCA

WEEKLY INSURANCE REGISTRATIONS BY BRAND

	20-26 Nov	mom % chg	wow % chg	30 Oct-26 Nov	mom % chg
BYD (excl Denza)	48.3	(6.8)	(8.7)	196.7	(5.9)
Denza	2.2	4.8	22.2	7.8	(0.0)
BYD (incl Denza)	50.5	(6.3)	(7.7)	204.5	(5.7)
Tesla	16.7	54.6	2.5	59.5	116.4
Wuling	11.5	13.9	(6.5)	44.5	10.1
Changan	9.6	123.3	37.1	27.7	65.9
Li Auto	9.4	(6.0)	(6.0)	38.0	3.8
Volkswagen	5.6	(11.1)	3.7	21.5	4.9
Aito	4.7	20.5	9.3	16.7	60.6
XPeng	4.4	(24.1)	4.8	17.2	14.7
Leapmotor	4.1	2.5	(8.9)	16.9	35.2
Nio	3.3	(28.3)	(10.8)	14.1	2.2
Deepal	3.2	-	(8.6)	12.8	(5.9)
Zeekr	2.2	(4.3)	(8.3)	10.6	34.2
Sub-total	125.2	5.0	(2.4)	484.0	109.8

Source: cnevpost.com, Dongchedi

LITHIUM CARBONATE PRICE AND SPODUMENE CONCENTRATE PRICE (CIF)



Source: oilchem.net

China. This is why more carmakers have formed alliances with Nio for battery swaps. Nio, as a pioneer of the battery swap model in China, will go ahead with the battery swap business in collaboration with other carmakers. In so doing, Nio would hopefully continue to obtain financing supports from Chinese banks. Having said that, this will not improve Nio's financial condition much given its falling sales. Nio's insurance registrations plummeted by 28.3% mom and 10.8% wow to 3,300 units in the week ending 26 Nov 23.

- **Lithium carbonate prices and imported spodumene concentrate prices dropped to two-year lows of Rmb131,000/tonne and US\$1,800/tonne respectively.** Lithium carbonate price and imported spodumene concentrate price have plummeted by 22%/18% over the past month and 75%/67% ytd, due to the slowdown in EV battery production volume and increasing oversupplies. Currently, lithium carbonate price in China has fallen to below our expected level of Rmb150,000/tonne for 2024. We are reviewing our earnings estimates on Ganfeng Lithium.

ACTIONS

- **Maintain UNDERWEIGHT on China's automobile sector**, based on the expected decline in China's ICE-car sales, slowdown in EV sales, and the intensifying price war.
- **We remove CATL (300750 CH/BUY/Target: Rmb410.00) and Li Auto (2015 HK/BUY/Target: HK\$312.00) from our top picks list.**
- **Our top SELLS are BYD (1211 HK/SELL/Target: HK\$140.00) and Ganfeng Lithium (1772 HK/SELL/Target: HK\$20.00).** We have a contrarian SELL call on BYD on the back of peaking retail sales volume, mounting inventory pressure, falling capacity utilisation rate and further price cuts. Its 4Q23 earnings will probably disappoint the market, as the company is slashing prices to clear inventories. Going into 2024, the upcoming destocking will likely drag on wholesale shipments in 1H24, taking the market by surprise. Our target price of HK\$140.00 is based on our 10-year DCF (WACC: 19.6%/terminal growth: 4%). As for Ganfeng Lithium, we maintain our SELL rating based on the cyclical downturn of lithium carbonate prices over the next 1-2 years.
- **Our BUY calls are in the following order of preference:** CATL, Li Auto, Ningbo Tuopu, Great Wall Motor, Fuyao Glass, Minth, Weichai Power, Yadea, EVE Energy.

COMPANY RESULTS

CSPC Pharmaceutical Group (1093 HK)

9M23: Results In Line; New Products To Support Double-digit Revenue Growth In 2024

CSPC's revenue rose 1.6% yoy while adjusted net profit grew 2.0% yoy in 9M23. The results are in line. CSPC maintained its positive revenue growth guidance for 2023, but believes that its newly-launched innovative products will support double-digit revenue growth in 2024. With a robust pipeline, we believe CSPC has entered into a harvest season of innovation. Maintain BUY with a higher target price of HK\$9.20.

9M23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	3Q23	yoy %	9M22	9M23	yoy %
Revenue	7,885	7,785	-1.3%	23,496	23,865	1.6%
<i>Finished drugs</i>	6,320	6,404	1.3%	18,613	19,338	3.9%
<i>Antibiotics</i>	374	432	15.5%	1,155	1,362	17.9%
<i>Vitamin C</i>	579	473	-18.3%	1,978	1,513	-23.5%
<i>Functional food and others</i>	613	475	-22.5%	1,750	1,652	-5.6%
Gross profit	5,744	5,554	-3.3%	17,082	16,792	-1.7%
Selling expense	-2,704	-2,129	-21.2%	-8,114	-7,032	-13.3%
Admin expense	-309	-320	3.6%	-874	-856	-2.1%
R&D expense	-1,036	-1,374	32.6%	-2,920	-3,678	25.9%
Operating profit	1,889	1,921	1.7%	5,617	5,632	0.3%
Finance expense	-5	-6	16.6%	-15	-17	12.5%
Net profit to shareholders	1,502	1,528	1.7%	4,468	4,495	0.6%
Adjusted net profit	1,555	1,553	-0.1%	4,624	4,715	2.0%
Adjusted EPS (diluted, Fen)	13.05	13.08	0.2%	38.80	39.70	2.3%
Ratios (%)	3Q22	3Q23	ppt chg yoy	9M22	9M23	ppt chg yoy
GP margin %	72.8%	71.4%	-1.5ppt	72.7%	70.4%	-2.3ppt
Selling expense %	34.3%	27.4%	-6.9ppt	34.5%	29.5%	-5.1ppt
Admin expense %	3.9%	4.1%	0.2ppt	3.7%	3.6%	-0.1ppt
R&D expense/Finished drug revenue	16.4%	21.5%	5.1ppt	15.7%	19.0%	3.3ppt
OP margin %	24.0%	24.7%	0.7ppt	23.9%	23.6%	-0.3ppt
Adjusted net profit margin%	19.7%	20.0%	0.2ppt	19.7%	19.8%	0.1ppt

Source: CSPC, UOB Kay Hian

RESULTS

- **9M23 results in line.** CSPC Pharmaceutical Group's (CSPC) 9M23 revenue grew 1.6% yoy to Rmb23.9b. Adjusted net earnings increased by 2.0% yoy to Rmb4.7b in 9M23. The results are in line. 3Q23 revenue experienced a minor decrease of 1.3% yoy, due to slower growth of finished drugs and lower ASP of vitamin C bulk medicines.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	27,866.9	30,936.9	31,697.8	35,300.3	39,534.8
EBITDA	7,660.4	8,403.2	8,642.9	9,731.2	11,001.4
Operating profit	6,795.0	7,574.5	7,698.1	8,669.9	9,823.7
Net profit (rep./act.)	5,567.8	6,043.3	6,171.5	6,954.7	7,884.5
Net profit (adj.)	5,380.5	6,057.7	6,171.5	6,954.7	7,884.5
EPS (Fen)	45.0	50.8	51.8	58.4	66.2
PE (x)	14.3	12.7	12.4	11.0	9.7
P/B (x)	3.0	2.5	2.4	2.1	1.8
EV/EBITDA (x)	9.3	8.4	8.2	7.3	6.4
Dividend yield (%)	2.3	2.9	4.0	3.3	3.7
Net margin (%)	20.0	19.5	19.5	19.7	19.9
Net debt/(cash) to equity (%)	(34.9)	(25.9)	(23.0)	(28.9)	(36.1)
Interest cover (x)	999.5	337.6	347.2	391.0	442.0
ROE (%)	23.0	21.5	19.7	20.3	20.3
Consensus net profit	-	-	6,220	6,768	7,269
UOBKH/Consensus (x)	-	-	0.99	1.03	1.08

Source: CSPC, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$7.05
Target Price	HK\$9.20
Upside	+30.5%
(Previous TP)	HK\$8.00)

COMPANY DESCRIPTION

CSPC Pharmaceutical Group switched its core business focus from bulk medicine manufacturing to innovative drug manufacturing in 2012. It has become a leading pharmaceutical player in China.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	1093 HK
Shares issued (m):	11,903.2
Market cap (HK\$m):	83,917.7
Market cap (US\$m):	10,745.3
3-mth avg daily t'over (US\$m):	39.1

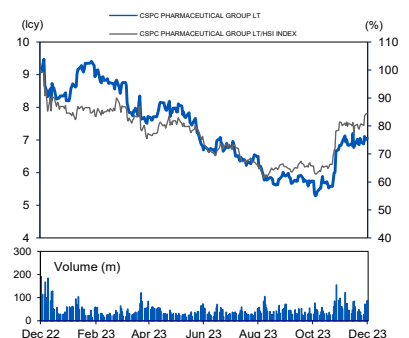
Price Performance (%)

52-week high/low	HK\$9.48/HK\$5.29
1mth	3.2
3mth	19.5
6mth	3.4
1yr	(29.4)
YTD	(14.0)

Major Shareholders

	%
Cai Dongchen	23.7
FY23 NAV/Share (HK\$)	2.71
FY23 Net Cash/Share (HK\$)	0.62

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Finished drug revenue grew 3.9% yoy in 9M23.** Finished drug revenue saw a slower growth of 1.3% yoy in 3Q23 (vs 1H23: 5.2% yoy), leading to a 3.9% yoy increase in 9M23 revenue to Rmb19.3b. We believe the sluggish revenue growth in 3Q23 was mainly due to the disruption caused by the anti-corruption campaign. Nervous system product revenue amounted to Rmb6.9b, up 15.2% yoy. Oncology product revenue declined 21.2% yoy to Rmb4.6b, impacted by the significant price cuts on Keaili due to the contract renewal of group purchasing organisation (GPO) tenders. Cardiovascular product revenue declined 15.5% yoy to Rmb1.8m. Sales of anti-infective, respiratory, and digestion & metabolism products surged by 18.8% yoy, 163.5% yoy and 17.4% yoy respectively. Vitamin C revenue decreased 23.5% yoy, mainly due to the downward trend in prices since 3Q22. Antibiotics recorded steady revenue growth of 17.9% yoy, driven by an increase in sales volume. Functional food and others reported a revenue decline of 5.6% yoy due to a decrease in caffeine prices.
- Enhanced cost control efforts for SG&A; increased R&D investment.** Gross margin decreased by 2.3ppt yoy to 70.4% in 9M23, due to the price cuts on Keaili, and lower prices of vitamin C products. Moreover, CSPC has enhanced cost control and market penetration efforts by more precisely allocating resources. Its selling expenses and G&A expenses fell by 13.3% yoy and 2.1% yoy respectively in 9M23. However, its R&D expenses expanded further by 25.9% yoy to Rmb3.7b, accounting for 19.0% of finished drug revenue in 9M23. As a result, adjusted net margin improved slightly to 19.8% in 9M23. We believe that profit margin will improve further gradually as CSPC will launch an increasing number of innovative products and continue to enhance operating efficiency.
- Newly-launched products to become new revenue drivers and support double-digit revenue growth in 2024.** CSPC indicates that academic promotion activities have resumed. It continues to guide for positive growth in revenue and net earnings in 2023, and expects double-digit revenue growth in 2024. Due to continued efforts, all four of CSPC's drug candidates have been successfully included in the 2023 NRDL. It expects the sales growth of NBP to remain resilient in the next two years, and its new innovative products - Duoenda (mitoxantrone hydrochloride liposome injection), Mingfule, Duvelisib (PI3K inhibitor), Anfulike (amphotericin B cholesteryl sulfate complex for injection), Irinotecan hydrochloride liposome injection, and Desvenlafaxine succinate extended-release tablets - will become new growth drivers, bringing in over Rmb3b sales revenue in 2024.
- Enters harvest season for innovation.** With its extensive R&D pipeline rolling out an increasing number of innovative products, CSPC has entered the harvest season of innovation. The company has obtained five new product approvals in 2023 and targets to achieve six and 10 in 2024 and 2025 respectively, followed by 12 per year from 2026 onwards. We expect the new product launches to support double-digit revenue and earnings growth for the company from 2024 onwards.
- Rewards investors with over 50% payout ratio in 2023.** Despite the challenging business environment, CSPC sees a bright long-term outlook. To reward investors, it expects around 50% dividend payout in 2023, and no less than 30% for the next few years.

EARNINGS REVISION/RISKS

- Risks:** a) Policy risks, eg, worse-than-expected impact from anti-corruption campaign and GPO tenders, b) intensifying competition, and c) risks in R&D and new product launches.

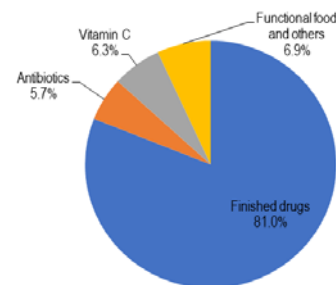
VALUATION/RECOMMENDATION

- Maintain BUY and raise target price to HK\$9.20,** based on: a) HK\$4.79/share or 6x 2024F PE for existing drugs, and b) NAV-derived pipeline value of HK\$4.41/share (WACC: 11.0%, perpetual growth rate: 3.5%). CSPC is now trading at an attractive valuation of 11.0x 2024F PE.

STOCK PRICE CATALYSTS

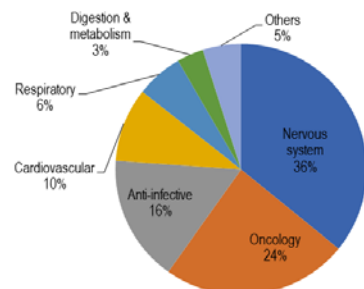
- a) Smooth R&D and new product launches, b) smooth BD progress, and c) attractive valuation.

SEGMENTAL REVENUE (9M23)



Source: CSPC, UOB Kay Hian

FINISHED DRUG SALES BREAKDOWN (9M23)



Source: CSPC, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	30,936.9	31,697.8	35,300.3	39,534.8
EBITDA	8,403.2	8,642.9	9,731.2	11,001.4
Deprec. & amort.	828.7	944.8	1,061.2	1,177.7
EBIT	7,574.5	7,698.1	8,669.9	9,823.7
Associate contributions	(15.4)	(15.4)	(15.4)	(15.4)
Net interest income/(expense)	(24.9)	(24.9)	(24.9)	(24.9)
Pre-tax profit	7,534.2	7,657.8	8,629.7	9,783.4
Tax	(1,350.2)	(1,296.9)	(1,461.5)	(1,656.9)
Minorities	(140.7)	(189.4)	(213.4)	(242.0)
Net profit	6,043.3	6,171.5	6,954.7	7,884.5
Net profit (adj.)	6,057.7	6,171.5	6,954.7	7,884.5

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	9,582.1	10,538.0	11,326.2	11,997.9
Other LT assets	8,230.6	9,254.4	9,254.4	9,254.4
Cash/ST investment	8,000.9	7,506.0	10,530.9	15,087.6
Other current assets	15,956.3	16,417.3	17,434.4	18,626.7
Total assets	41,769.8	43,715.7	48,546.0	54,966.7
ST debt	153.5	55.4	55.4	55.4
Other current liabilities	8,804.5	8,535.9	9,283.8	10,081.7
LT debt	29.0	19.9	19.9	19.9
Other LT liabilities	1,140.9	1,115.8	1,115.8	1,115.8
Shareholders' equity	30,197.5	32,355.0	36,223.9	41,604.7
Minority interest	1,444.3	1,633.7	1,847.2	2,089.1
Total liabilities & equity	41,769.8	43,715.7	48,546.0	54,966.7

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	7,627.1	6,523.1	7,850.7	8,751.5
Pre-tax profit	7,582.3	7,657.8	8,629.7	9,783.4
Tax	(1,334.6)	(1,296.9)	(1,461.5)	(1,656.9)
Deprec. & amort.	828.7	944.8	1,061.2	1,177.7
Working capital changes	798.1	(707.0)	(269.3)	(394.3)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(247.5)	(75.6)	(109.3)	(158.3)
Investing	(6,796.0)	(4,217.2)	(1,823.3)	(1,823.3)
Capex (growth)	(1,816.0)	(1,823.3)	(1,823.3)	(1,823.3)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(4,980.0)	(2,393.9)	0.0	0.0
Financing	(1,904.1)	(2,800.8)	(3,002.6)	(2,371.5)
Dividend payments	(1,745.8)	(2,202.3)	(3,085.7)	(2,503.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	371.1	(565.9)	0.0	0.0
Others/interest paid	(529.4)	(32.5)	83.2	132.2
Net cash inflow (outflow)	(1,073.0)	(494.9)	3,024.9	4,556.7
Beginning cash & cash equivalent	9,059.7	8,000.9	7,506.0	10,530.9
Changes due to forex impact	14.1	0.0	0.0	0.0
Ending cash & cash equivalent	8,000.9	7,506.0	10,530.9	15,087.6

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	27.2	27.3	27.6	27.8
Pre-tax margin	24.4	24.2	24.4	24.7
Net margin	19.5	19.5	19.7	19.9
ROA	15.8	14.4	15.1	15.2
ROE	21.5	19.7	20.3	20.3
Growth				
Turnover	11.0	2.5	11.4	12.0
EBITDA	9.7	2.9	12.6	13.1
Pre-tax profit	10.6	1.6	12.7	13.4
Net profit	8.5	2.1	12.7	13.4
Net profit (adj.)	12.6	1.9	12.7	13.4
EPS	12.9	1.9	12.7	13.4
Leverage				
Debt to total capital	0.6	0.2	0.2	0.2
Debt to equity	0.6	0.2	0.2	0.2
Net debt/(cash) to equity	(25.9)	(23.0)	(28.9)	(36.1)
Interest cover (x)	337.6	347.2	391.0	442.0

COMPANY UPDATE

PDD Holdings (PDD US)

Poised For A New Cycle Of Revitalised Growth Propelled By Temu

With swift progress in GMV growth and market expansion, PDD is ramping up its efforts to develop Temu's supply chain network. Nevertheless, its rapid expansion has also caused increasing concerns, mainly on Temu's profitability and political risks that may potentially arise. Given Temu's impressive performance in 3Q23, we have included Temu's contribution in PDD's valuation and conducted a scenario analysis of Temu's impact on PDD's valuation. Maintain BUY with a higher target price of US\$173.00.

WHAT'S NEW

- **Temu's 3Q23 revenue growth beat our expectation.** PDD delivered strong revenue growth of 94% yoy in 3Q23, with transaction commission revenue soaring 315% yoy to Rmb29.2b. Of this, we estimate 65% was contributed by Temu, exceeding our previous estimate of 10%. Gross margin dropped 18ppt yoy to 61% in 3Q23, led by heightened investments to develop Temu's cross-border supply chain given its "Fully-Entrusted" e-commerce model. We estimate Temu generated GMV of US\$6.5b in 3Q23 with a mark-up rate of 40% and loss of Rmb8.1b (lower than our estimate of Rmb9.2b). We forecast Temu GMV to reach US\$8.3b in 4Q23 with Rmb8.5b EBIT loss.
- **Temu has set an annual GMV target of US\$30b for 2024**, on the back of rapid overseas expansion, double the US\$15b annual GMV target set for 2023. It was reported that Temu's GMV for 1H23/3Q23 reached US\$3b/US\$5b respectively. With the robust growth trajectory, we estimate Temu achieved a monthly run rate of US\$5b in Oct 23, and will well surpass its annual GMV target of US\$15b. We forecast Temu GMV to reach US\$34.5b GMV in 2024 with revenue to contribute 31% of PDD's group revenue, and we estimate an EBIT loss of Rmb32b in FY24 which will drag the group.
- **Scenario analysis.** We conducted a scenario analysis for Temu based on our 2024 forecasts. In the base-case scenario, supported by smooth progress of expansion and limited political risks, we expect Temu to deliver a 90% yoy growth in GMV to US\$34.5b in 2024. This would contribute to 5% and 31% of PDD's total GMV and revenue respectively in 2024. In a bull-case scenario, we expect Temu to undergo faster-than-expected expansion with limited impact from political risks. In a for bear-case scenario, we assume US accounts for 50% of total GMV and factor in the potential policy ban which may lead to the halt of Temu's app in the US or Southeast Asia countries. We estimate GMV margin of 12%/8%/5% for the bull/base/bear case, and derive Temu's net profit from forecasted 2024 GMV of US\$44.9b/US\$34.5b/US\$17.3b respectively. By adopting 2024F implied P/E of 28x/22x/20x for three respective scenarios, this translates to valuation per share of US\$93/US\$37/US\$11 for Temu and US\$228/US\$173/US\$146 for PDD.
- **Potential geopolitical risks.** Specific risks associated with Temu include policy and regulatory challenges, particularly those related to potential regulations aimed at protecting SMEs and retailers. In addition, changes in import duties, such as alterations to the current US will diminish benefits enjoyed by cross-border players and pose potential risks. Another area of concern is Temu's exposure to sensitive personal data.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	93,949.9	130,557.6	235,682.3	337,858.3	449,379.2
EBITDA	63,757.9	101,358.2	153,944.1	212,648.4	293,123.3
Operating profit	62,258.5	99,129.1	152,715.3	210,993.3	291,296.1
Net profit (rep./act.)	63,134.4	100,270.2	149,818.4	199,636.2	279,752.4
Net profit (adj.)	13,829.5	39,529.7	59,086.8	70,443.0	98,704.8
EPS (Fen)	10.8	30.0	41.6	49.3	53.8
PE (x)	91.8	34.8	23.8	20.3	14.8
P/B (x)	67.6	46.8	31.9	23.2	16.9
EV/EBITDA (x)	99.7	34.0	22.5	17.8	13.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	67.2	76.8	63.6	59.1	62.3
Net debt/(cash) to equity (%)	(87.2)	(77.6)	(103.1)	(114.6)	(115.6)
Consensus net profit	-	-	57,191.6	74,538	96,464
UOBKH/Consensus (x)	-	-	1.03	0.95	1.02

Source: Pinduoduo, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$141.73
Target Price	US\$173.00
Upside	+22.1%
(Previous TP)	US\$150.00)

COMPANY DESCRIPTION

PDD Holdings operates as an e-commerce platform. The Company offers a wide range of merchandise online including groceries, fashion, beauty, and electronics. Pinduoduo serves customers worldwide.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	PDD US
Shares issued (m):	1,328.6
Market cap (US\$m):	188,300.6
Market cap (US\$m):	188,300.6
3-mth avg daily t'over (US\$m):	961.3

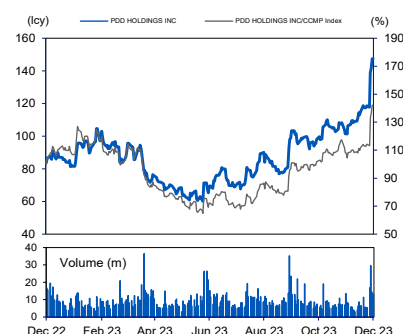
Price Performance (%)

52-week high/low			US\$141.73/US\$60.02	
1mth	3mth	6mth	1yr	YTD
39.7	43.2	117.0	72.8	73.8

Major Shareholders

	%
Sequoia Capital Operations	3.8
Baillie Gifford & Co	2.8
BlackRock Inc	2.0
FY23 NAV/Share (RMB)	33.29
FY23 Net Cash/Share (RMB)	38.31

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Continuous expansion of global footprint to mitigate single country risk.** With its “fully-entrusted” e-commerce model, the lower prices and blockbuster SKU-focused strategy have enabled its swift expansion outside of China. Leveraging its sufficient experience, source of supply chain and China’s strong manufacturing capacity, PDD is able to quickly increase the range of value-for-money merchandise via its “fully-entrusted” model. With PDD’s strong cash flow generation from the main platform (2023 net profit of Rmb60b) and net cash of US\$23b in funding for Temu, Temu is able to continue achieving rapid global expansion in 2024. Thus far, Temu has been rolled out in multiple markets, including the US, Canada, Mexico, Australia, the UK, Europe, Japan, and South Korea. Following Temu’s entry into the UK, various performance indicators have experienced a remarkable surge. In Oct 23, daily active users (DAU) reached 5.4m, up 20% from July. Monthly active users (MAU) for Temu reached a record high of 15.2m in Oct 23.
- **Potential impact on PDD’s performance.** We reckon Temu will contribute 5% and 31% to PDD’s total GMV and revenue in 2024 respectively, translating to GMV margin of 8%. However, there will be near-term margin pressure given elevated investment in Temu coupled with the nature of its “fully-entrusted” model. According to Sensor Tower, Temu had doubled its advertising spending in the first two weeks of November vs the same period last year to boost order conversion rates.

EARNINGS REVISION/RISK

- We raise our 2023/2024 revenue estimates by 10%/10% respectively in view of rapidly elevating revenue contribution from Temu. We forecast 2024 revenue to surge 43% yoy. We estimate 2024 net profit at Rmb70b, translating to net margin of 21%.
- **Risks:** a) Potential heavy investment may weigh on margins, and b) policy risks like a potential ban of Temu by the US and Southeast Asian countries.

VALUATION/RECOMMENDATION

- **We maintain BUY with a higher target price of US\$173.00.** Our target price implies a 5x EV sales ratio based on 2024 revenue, below its historical mean of 6.2x. We cross-checked with our 2024F SOTP valuation and derive value of US\$173 and US\$32 per share for PDD and Temu respectively. Our target price also implies 25x 2024F PE against a 21% EPS CAGR over 2024-27. PDD is now trading at 22x 2024F PE and 4.5x EV/Sales based on 2024 revenue, below its historical mean of 6x.

SHARE PRICE CATALYST

- a) New initiatives in the manufacturing sector and overseas expansion, b) continued gain in consumer mindshare on higher purchase frequency and value-for-money products, c) strong sales of agriculture products on a higher growth of online grocery categories, and d) improved monetisation rates.

SCENARIO ANALYSIS

Valuation methodology	Bullcase 2024E P/E based (normalized GMV margin of 12%)	Base case 2024E P/E based (normalized GMV margin of 8%)	Bear case 2024E P/E based (normalized GMV margin of 5%)
Valuation breakdown	US\$45b GMV in 2024E 15% tax rate 28x P/E 30% premium	US\$34b GMV in 2024E 15% tax rate 22x P/E	US\$17b GMV ex-US 20x P/E 50% discount

Temu 2024F (US\$ m n)				PDD 2024F (US\$ m n)			
		Scenario Analysis				Scenario Analysis	
	Bullcase	Base case	Bear case		Bullcase	Base case	Bear case
GMV	44,858	34,506	17,253	GMV	637,742	627,391	610,137
Premium/discount	30%	-	-50%	Premium/discount	2%	-	-3%
P/E (x)	28	22	20	Implied P/E (x)	26	24	24
Normalized GMV margin	12%	8%	5%	PBT	13,905	11,341	9,486
PBT	5,383	2,760	863	Net profit	12,091	9,862	8,249
Net profit	4,576	2,346	733	Market cap/Valuation	315,275	238,782	201,826
Temu valuation	128,114	51,621	14,665	Number of shares	1,383	1,383	1,383
Number of shares	1,383	1,383	1,383	Valuation per share (US\$)	228	173	146
Valuation per share (US\$)	93	37	11				

Source: Pinduoduo, UOB Kay Hian

FORWARD EV/SALES BAND



Source: Bloomberg, UOB Kay Hian

BABA VS PDD

	2023		2024	
	BABA	PDD	BABA	PDD
GMV size (Rmb mn)	9,735,609	3,825,194	11,042,975	4,481,361
Revenue size (Rmb mn)	941,703	235,682	1,021,854	337,858
International Revenue	94,677	49,109	122,067	105,604
% of Total Revenue	10%	21%	12%	31%
Market cap	US\$188b	US\$188.3b	US\$356b	US\$237.6b
Overseas market cap/valuation (mn)	-	-	US\$22b	US\$52b

Source: Alibaba, Pinduoduo, UOB Kay Hian

SOTP VALUATION

SOTP Valuation	2024F Rev (US\$m)	2024E NOPAT (US\$m)	Implied EV/Rev.	P/E	Valuation to PDD 2024E (US\$m)	2024F Per share (US\$)
Main business	26,226	11,397	7.6x	16x	182,344	132
Temu	14,466		3.6x		51,621	37
Duoduo Grocery	5,590	622	1.7x	13x	8,084	6
Net cash					23,389	17
NAV					265,439	192
Less: holdco discount			10%		26,544	19
TP					238,895	173

Source: Pinduoduo, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Net turnover	130,558	235,682	337,858	449,379
EBITDA	101,358	153,944	212,648	293,123
Deprec. & amort.	2,229	1,229	1,655	1,827
EBIT	99,129	152,715	210,993	291,296
Total other non-operating income	2,072	2,859	2,624	2,624
Associate contributions	(155)	10	0	0
Net interest income/(expense)	3,945	5,843	0	0
Pre-tax profit	104,991	161,427	213,618	293,920
Tax	(4,726)	(11,615)	(13,988)	(14,176)
Minorities	5	6	7	8
Preferred dividends	0	0	0	0
Net profit	100,270	149,818	199,636	279,752
Net profit (adj.)	39,530	59,087	70,443	98,705

CASH FLOW

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Operating	48,508	91,488	103,188	119,444
Pre-tax profit	104,991	161,427	213,618	293,920
Tax	(4,726)	(11,615)	(13,988)	(14,176)
Deprec. & amort.	2,229	1,229	1,655	1,827
Working capital changes	7,423	31,961	31,097	18,920
Other operating cashflows	(61,410)	(91,514)	(129,193)	(181,048)
Investing	(22,362)	(1,336)	(2,186)	(2,907)
Capex (growth)	(636)	(1,336)	(2,186)	(2,907)
Investments	(58,003)	(25,282)	0	0
Proceeds from sale of assets	0	0	0	0
Others	36,277	25,282	0	0
Financing	10	0	0	0
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	4	5	6	7
Others/interest paid	6	(5)	(6)	(7)
Net cash inflow (outflow)	26,156	90,152	101,002	116,537
Beginning cash & cash equivalent	66,044	92,300	182,452	283,454
Changes due to forex impact	100	0	0	0
Ending cash & cash equivalent	92,300	182,452	283,454	399,991

BALANCE SHEET

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Fixed assets	1,045	1,219	1,811	2,905
Other LT assets	19,457	19,396	19,342	19,336
Cash/ST investment	92,300	182,452	283,454	399,991
Other current assets	124,317	128,678	130,222	132,577
Total assets	237,120	331,746	434,829	554,809
ST debt	0	0	0	0
Other current liabilities	116,889	153,211	185,851	207,127
LT debt	871	871	871	871
Other LT liabilities	1,589	1,589	1,589	1,589
Shareholders' equity	117,771	176,075	246,518	345,223
Minority interest	0	0	0	0
Total liabilities & equity	237,120	331,746	434,829	554,809

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	77.6	65.3	62.9	65.2
Pre-tax margin	80.4	68.5	63.2	65.4
Net margin	76.8	63.6	59.1	62.3
Growth				
Turnover	39.0	80.5	43.4	33.0
EBITDA	59.0	51.9	38.1	37.8
Pre-tax profit	61.4	53.8	32.3	37.6
Net profit	58.8	49.4	33.3	40.1
Net profit (adj.)	185.8	49.5	19.2	40.1
EPS	175.4	46.6	16.9	37.4
Leverage				
Debt to total capital	0.7	0.5	0.4	0.3
Debt to equity	0.7	0.5	0.4	0.3
Net debt/(cash) to equity	(77.6)	(103.1)	(114.6)	(115.6)

TRADERS' CORNER



Chart by Bloomberg

Sunny Optical Technology (Group) Co., Ltd. (2382 HK)

Trading Buy range: HK\$72.00-74.00

Last price: HK\$74.15

Target price: HK\$76.50/HK\$80.00

Protective stop: Breaks below HK\$67.00

Stock Highlights:

In Oct 23, the shipment volume of handset lens sets increased 17.5% yoy to 117.8m units. Handset camera modules increased 23.1% yoy to 54.1m units.

Technical View:

Share price rebounded after hitting a low in early-October. It has now risen above its 10-day (light blue), 20-day (orange), 50-day (red) and 100-day (pink) moving averages but is restricted by the 200-day moving average (purple). The 10-day, 20-day and 50-day moving averages are pointing upwards. The 14-day RSI is higher than the midline level of 50 and is now around 58, indicating that momentum is moderately strong. Although the MACD line is slightly lower than the signal line, both lines are in the bullish zone. Therefore, the uptrend of the share price remains unchanged for the time being.

Average timeframe: Around two weeks.



Chart by Bloomberg

China Telecom Corporation Ltd (728)

Trading Buy range: HK\$3.52-3.60

Last price: HK\$3.62

Target price: HK\$3.72/HK\$3.82

Protective stop: Breaks below HK\$3.46

Stock Highlights:

According to Tianyancha, the group has established China Telecom Digital Governance Technology Company Limited, engaging in businesses like software development, big data services, basic software development for artificial intelligence, cloud computing equipment technology services, network technology services, electronic products sales, and network connection services.

Technical View:

Share price formed a double bottom pattern in early-November, and then rose above its 10-day (light blue) and 20-day (orange) moving averages. On 30 Nov 23, it rose with a long white candlestick and high trading volume, reflecting the increasing momentum of the share price. The 14-day RSI is higher than the midline level of 50 and is now around 57, indicating that momentum is moderately strong. The MACD indicator released a bullish crossover signal earlier, and it continues to move up towards the zero level. If share price breaks through its 50-day moving average (red), the uptrend may continue.

Average timeframe: Around two weeks.

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