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### KEY HIGHLIGHTS

#### Sector

#### Automobile

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Weekly: Destocking kicked off for EVs. Maintain UNDERWEIGHT. Top SELLS: BYD and Ganfeng Lithium.

#### Update

#### Giordano International (709 HK/BUY/HK\$2.60/Target: HK\$3.70)

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Store expansion remains on track.

#### Prudential (2378 HK/BUY/HK\$86.50/Target: HK\$140.00)

Page 8

More conservative on growth outlook.

### TRADERS' CORNER

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**Techtronic Industries (669 HK):** Trading Buy range: HK\$87.00-87.15

**CK Asset Holdings Limited (1113 HK):** Trading Buy range: HK\$37.50-38.00

### CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
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	37248.4	0.4	3.1	7.0	12.4
S&P 500	4719.6	0.3	2.9	5.0	22.9
FTSE 100	7649.0	1.3	1.8	2.8	2.6
AS30	7627.8	0.4	3.0	4.3	5.6
CSI 300	3352.0	(0.5)	(1.2)	(7.1)	(13.4)
FSSTI	3123.0	0.6	1.6	(0.3)	(3.9)
HSCEI	5573.5	0.4	(0.8)	(10.2)	(16.9)
HSI	16402.2	1.1	0.3	(9.3)	(17.1)
JCI	7176.0	1.4	0.6	3.1	4.7
KLCI	1456.3	0.6	0.9	(0.7)	(2.6)
KOSPI	2544.2	1.3	2.1	2.3	13.8
Nikkei 225	32686.3	(0.7)	(0.5)	(2.5)	25.3
SET	1378.9	1.5	(0.8)	(2.6)	(17.4)
TWSE	17653.1	1.1	2.2	3.1	24.9
BDI	2411	(1.1)	(3.4)	42.8	59.1
CPO (RM/mt)	3632	(0.6)	1.5	(1.1)	(10.3)
Brent Crude (US\$/bbl)	77	3.2	3.5	(7.1)	(10.8)

Source: Bloomberg

### TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
MEITUAN-W	81.75	(0.5)	3,274.6
XIAOMI CORP-W	15.96	2.7	1,454.5
HKEX	248.80	0.6	1,351.7
WUXI BIOLOGICS C	28.95	3.4	1,316.3
JD-SW	98.80	0.9	1,189.7

### TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
TECHTRONIC IND	87.15	10.0	190.3
GDS HOLDING-CL A	8.34	9.9	46.9
CKI HOLDINGS	43.20	8.7	71.1
ENN ENERGY	53.50	7.6	160.4
POWER ASSETS	44.10	6.3	154.4

### TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
BILIBILI INC-Z	91.35	(4.4)	189.3
HANSOH PHARMACEU	15.00	(2.7)	116.2
BIDU-SW	107.20	(2.0)	807.0
TRAD CHI MED	3.98	(1.7)	117.6
KUNLUN ENERGY	6.76	(1.6)	55.2

\*ADT: Average daily turnover

### KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	1.9	2.4	1.0
Euro Zone	3.5	0.5	0.6
Japan	0.9	1.5	1.0
Singapore	3.6	0.9	2.9
Malaysia	8.7	4.0	4.6
Thailand	2.6	2.3	3.6
Indonesia	5.3	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



Please note: This is the final release of the Country Daily for the year. Production will resume on 2 January 2024. UOB Kay Hian wishes you a blessed Christmas and bountiful New Year.



### SECTOR UPDATE

## Automobile – China

Weekly: Destocking Kicks Off For EVs

The yoy growth in China's PEV retail sales volume slowed from 40% in Nov 23 to only 8% in 1-10 Dec 23, while PEV wholesale shipment dropped 10% yoy mom during the period, due to destocking. Going into December, OEMs have started to cut production and slash prices further to clear inventories. BYD's retail sales volume fell 1% mom despite the 10% price cuts since 24 Nov 23. Maintain UNDERWEIGHT. Top SELLS: BYD and Ganfeng Lithium.

### WHAT'S NEW

- CPCA: China's PEV retail sales volume grew only 8% yoy in 1-10 Dec 23, vs 40% yoy in Nov 23.** According to China Passenger Car Association (CPCA), China's passenger electric vehicle (PEV) retail sales volume grew 8% yoy/3% mom to 187,000 units in 1-10 Dec 23. The slowdown in China's PEV sales growth was due to a high comparison base. PEVs as a percentage of China's passenger vehicle (PV) retail sales volume reached 39.4% (+0.4ppt yoy/-1.9ppt mom) in 1-10 Dec 23.
- PEV wholesale shipment plummeted 10% yoy due to destocking.** China's wholesale shipment of PEVs dropped by 10% yoy/2% mom to 194,000 units in 1-10 Dec 23, due to a slowdown in PEV retail sales and destocking. We estimate China's PEV inventory volume at 1.53m units as of 30 Nov 23, of which 1.25m units were in distribution channel and the remaining in factories. That implies nearly 80 days of inventories at dealer level, well above the alert threshold of 45 days. Given the wholesale shipment and retail sales volume as well as an estimated weekly PEV export volume of about 20,000 units in 1-10 Dec 23, PEV inventories in channel should have decreased by 13,000 units or 1%. There is still a long way to go on the road of destocking.
- Six of the top 15 EV companies in China posted mom sales decline in the week ending 10 Dec 23, including BYD, Wuling, Leapmotor, Deepal, XPeng and Zeekr.** The sales numbers are measured by insurance registrations. Among the 15 names, Tesla, Changan and Aito continued to outperform. On a weekly basis, most names saw wow sales decline during the week, as dealers generally book sales in the last week of every month.
- BYD's insurance registrations dropped 1% mom and 15% wow to 50,100 units in 4-10 Dec 23 despite the 5-10% price cuts since 24 Nov 23.** By brand, the BYD brand saw a 2.9% mom/13.5% wow decline in insurance registrations to 47,400 units during the week, representing 95% of the company's total insurance registration. Denza's insurance registration declined by 5.6% mom/51.4% wow to 1,700 units. Fang Cheng Bao and Yangwang posted a 38.8%/53.8% wow growth in insurance registration to 719 units/300 units respectively.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 14 Dec 23 (lcy)	Target Price (lcy)	Upside/(Downside) to TP (%)	Market Cap (US\$m)	PE	P/B	ROE	Net Gearing		
							2023F (x)	2024F (x)	2023F (x)	2024F (x)	2024F (%)	(Cash) (%)
BYD	1211 HK	SELL	205.20	140.00	(31.8)	596,236	17.8	19.2	3.9	3.4	17.5	(25.3)
Geely Automobile	175 HK	SELL	7.98	6.00	(24.8)	79,947	18.9	19.7	0.9	0.9	4.6	(26.9)
Great Wall Motors	2333 HK	BUY	10.38	13.50	30.1	90,976	13.3	9.2	1.1	1.0	11.5	(0.4)
Guangzhou Auto	2238 HK	SELL	3.43	3.20	(6.7)	35,621	7.0	8.5	0.3	0.3	3.3	(14.9)
Li Auto Inc	2015 HK	BUY	137.20	190.00	38.5	286,004	29.9	17.8	4.9	3.8	17.7	(103.0)
XPeng	9868 HK	SELL	58.85	18.00	(69.4)	101,540	Loss	Loss	3.9	5.8	(43.3)	(58.3)
Weichai Power	2338 HK	BUY	13.22	17.00	28.6	114,211	11.7	10.0	1.3	1.2	11.7	(57.1)
Fuyao Glass	3606 HK	BUY	36.75	45.00	22.4	95,908	15.5	13.5	2.8	2.6	17.7	(18.3)
Desay SV	002920 CH	HOLD	130.31	135.00	3.6	72,358	49.4	37.5	9.5	7.9	20.8	0.5
Nexteer	1316 HK	SELL	4.81	2.70	(43.9)	12,072	14.6	15.9	0.8	0.7	5.4	(10.1)
Minth	425 HK	BUY	15.32	33.00	115.4	17,799	8.2	6.8	0.9	0.8	11.0	17.9
Ningbo Tuopu	601689 CH	BUY	75.65	105.00	38.8	83,370	39.2	24.1	4.9	4.2	14.9	6.7
Ningbo Xusheng	603305 CH	HOLD	19.64	18.00	(8.4)	13,092	24.9	21.6	2.9	2.6	12.4	(9.9)
CATL	300750 CH	BUY	156.63	250.00	59.6	381,446	18.4	14.5	3.5	2.9	20.9	(46.1)
EVE Energy	300014 CH	SELL	39.35	36.00	(8.5)	80,269	19.6	19.7	2.4	2.1	10.5	37.2
Ganfeng Lithium	1772 HK	SELL	26.15	20.00	(23.5)	52,688	6.9	13.4	0.9	0.9	10.7	7.1
GEM	002340 CH	SELL	5.42	4.40	(18.8)	27,607	44.1	54.4	1.5	1.4	3.4	53.0
Tinci Materials	002709 CH	SELL	22.23	20.00	(10.0)	42,494	16.0	18.2	3.6	3.3	21.9	2.3
Zhongsheng Group	881 HK	SELL	16.76	14.00	(16.5)	40,418	6.4	7.3	0.8	0.7	13.0	38.8
Yadea Group	1585 HK	BUY	13.72	20.00	45.8	41,091	14.9	12.6	4.7	3.8	33.3	(139.1)

Source: Bloomberg, UOB Kay Hian

## UNDERWEIGHT

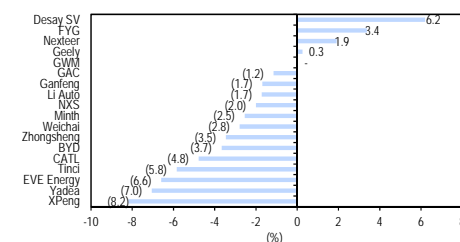
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### TOP PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
BYD	1211 HK	SELL	205.20	140.00
Ganfeng Lithium	1772 HK	SELL	26.15	20.00

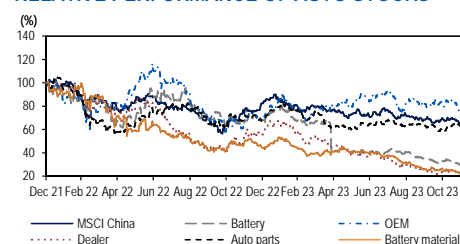
Source: UOB Kay Hian

### WEEKLY STOCK PERFORMANCE



Source: Bloomberg

### RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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BYD's monthly insurance registration has hovered around 50,000 units since Jun 23, and its market share by retail sales volume plummeted from a peak of 44% in the week ending 14 May 23 to below 30% since Nov 23. Even after the recent price cuts, retail sales did not rebound, due to the price competition from peers, eg Changan Qiyuan A5 and Wuling Xingguang, and the wait-and-see attitude of customers. Customers are waiting on the sideline for further price cuts. On the other hand, BYD kept pushing inventories to dealers. Monthly wholesale shipment will likely exceed 300,000 units in 4Q23. As a result, inventories are still piling up in distribution channel of BYD, though other OEMs have started to destock since the first week of Dec 23. According to channel checks, BYD's channel inventory-to-sales ratio reached 2.5-3.0 months as of 30 Nov 23, and is approaching three months toward end-23.

In order to clear inventories, BYD extended the promotion from 30 Nov 23 to Dec 23, and further cut prices. Qin Plus DM-i Champion Version, for example, is selling at Rmb89,800, 10% below the initial manufacturer's suggested retail price (MSRP) of Rmb99,800 set upon the debut of the model in Feb 23. In some regions, Qin Plus DM-i is even selling at nearly Rmb80,000. Given the drop in selling price from Rmb99,800 to Rmb89,800 and decline in lithium carbonate prices, the gross margin of Qin Plus DM-i would plunge from 22.0% to 13.5%. Besides, assuming a subsidy of Rmb5,000/vehicle for dealers in Dec 23, BYD would need to incur Rmb1.5b in additional sales and marketing expense in 4Q23, vs 3Q23 net profit of Rmb10.4b. Additionally, we expect wholesale shipment of BYD to drop from 1Q24 due to destocking. All-in, we expect BYD's net profit to drop by 12% qoq to Rmb9.17b in 4Q23 and fall 7% yoy to Rmb28.28b, 29% below consensus, based on lower sales volume estimate of 3m units (flat yoy) and lower margin assumptions.

- Tesla's insurance registrations fell 11.5% wow but grew 23% mom to 15,400 units during the week ending 10 Dec 23, missing estimates.** Tesla China is supposed to cut exports and allot more production capacity for domestic sales in the last month of every quarter (March, June, September and December). However, Tesla China saw a wow drop in domestic sales in the first week of Dec 23. Tesla's sales in China can be dampened by its newly-announced recall in the US. Tesla on 13 Dec 23 announced that it will recall 2m EVs in the US due to defects of the Fully Self-Driving (FSD) system, covering all its models (Model S, Model X, Model 3 and Model Y) produced from 2015. This can be related to the multiple sudden unintended acceleration (SUA) incidents of Tesla cars. It cannot be ruled out that Tesla will make a recall in China.
- Li Auto's insurance registrations grew 4% mom and 8% wow to 10,400 units in the week ending 10 Dec 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 registrations spiked from 2,400 units in the week ending 15 Oct 23 to a recent peak of 5,400 units in the week ending 10 Dec 23 (+46% mom/-4% 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.
- XPeng's insurance registrations plunged 33% mom/45% wow to 4,700 units during the week ending 10 Dec 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 Emergence Braking (AEB) test conducted by Dongchedi.
- Zeekr's insurance registration declined 5% mom/34.5% wow to 1,900 units in the week ending 10 Dec 23.** This can be attributed to the drop in sales of the flagship model Zeekr 001 under the increasing competition from Aito M7 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.
- China's installation volume of EV batteries grew 30.8% yoy/14.3% mom to 44.8GWh in Nov 23; CATL's market share rebounded by 1.2ppt mom to 44%.** According to China Power Battery Industry Innovation Alliance, installation volume of EV batteries in China grew 30.8% yoy/14.3% mom to 44.8GWh. Based on the estimated Nov 23 production volume of

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>						
1-10 Dec 23	48	19	29	46	19	26
yoy % chg	7	8	6	9	(10)	29
mom % chg	8	3	12	(4)	(2)	(5)
wow % chg	(72)	(66)	(75)	(81)	(71)	(85)
<i>Total</i>						
1-10 Dec 23	475	187	288	457	194	263
yoy % chg	7	8	6	9	(10)	29
mom % chg	8	3	12	(4)	(2)	(5)

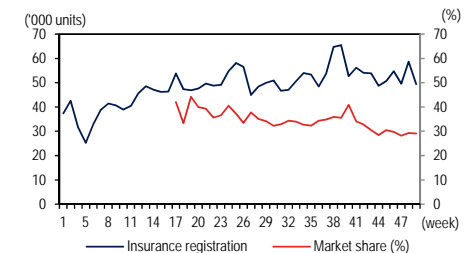
Source: CPCA

WEEKLY INSURANCE REGISTRATIONS BY BRAND

('000 units)	4-10 Dec 23			
	yoy % chg	mom % chg	wow % chg	
BYD brand	47.4	5.8	(2.9)	(13.5)
Denza brand	1.7	280.3	(5.6)	(51.4)
Fang Cheng Bao brand	0.7	n.a.	810.1	38.8
Yangwang brand	0.3	n.a.	1,900.0	53.8
BYD Company	50.1	10.8	(1.1)	(15.1)
Tesla	15.4	18.7	23.2	(11.5)
Wuling	10.4	9.7	(11.1)	(16.1)
Li Auto	10.4	245.2	4.0	8.3
Aion	8.6	n.a.	34.4	(11.3)
Changan	6.1	(27.8)	24.5	(35.8)
VW	5.4	n.a.	12.5	(19.4)
Aito	5.4	106.3	45.9	(3.6)
Leapmotor	3.7	84.3	(7.5)	(14.0)
Nio	2.9	(2.7)	-	(21.6)
Deepal	2.7	n.a.	(15.6)	(6.9)
XPeng	2.6	22.2	(33.3)	(44.7)
Neta	2.1	(27.4)	5.0	(32.3)

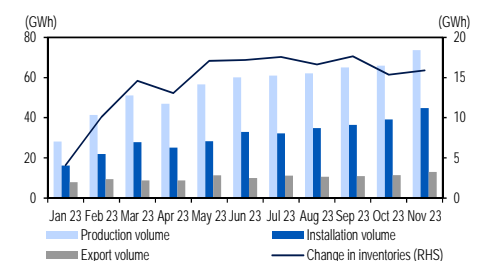
Note: Insurance registration is a gauge on vehicle retail sales volume. Source: cnevpost.com, Dongchedi

BYD'S WEEKLY INSURANCE REGISTRATION AND MARKET SHARE (2023)



Source: cnevpost.com, Dongchedi

CHANGE IN INVENTORIES OF EV BATTERIES IN CHINA



Source: China Power Battery Industry Innovation Alliance

73.7GWh and export volume of 13GWh for EV batteries, the inventories of EV batteries in China increased by 15.9GWh mom to 324.1GWh as of 30 Nov 23, equivalent to 7.2x of Nov 23 installation volume.

- **CATL remained the largest EV battery manufacturer in China** with installation volume growing 13.5% yoy/17.4% mom to 19.7GWh and market share rebounding 1.2ppt mom to 44% in Nov 23. BYD remained the second largest EV battery manufacturer with installation volume growing 14.1% yoy and falling 0.8% mom to 10.2GWh and market share dropping 3.5ppt mom to 22.8% in Nov 23.
- **Lithium carbonate and spodumene concentrate prices hit two-year lows again this week.** The spot price of lithium carbonate in China and the cost, insurance and freight (CIF) prices of imported spodumene concentrate with 6% lithium carbonate content (SC6) from Australia dropped by 11%/6% wow to two-year lows of Rmb108,000/tonne and US\$1,550/tonne respectively on 13 Dec 23. Lithium carbonate prices and imported spodumene concentrate prices have plummeted by 27%/21% over the past month and 79%/72% ytd, due to the slowdown in EV battery production volume and increasing oversupply.

The drop in lithium carbonate prices hammers the margins of lithium carbonate producers like Ganfeng Lithium and Tinci Lithium, while saving cost for EV companies. However, given that lithium carbonate prices have fallen to low levels, the marginal benefit from further drops in lithium carbonate prices is getting lesser. Given that 30kg of lithium carbonate is used in a 60kWh battery for a battery electric vehicle (BEV), the drop in lithium carbonate price from Rmb500,000/tonne at end-22 to nearly Rmb100,000/tonne currently would save Rmb12,000/vehicle in cost. However, the drop in lithium carbonate price from Rmb100,000/tonne to zero (which is impossible) would only save Rmb3,000/vehicle in cost.

**ACTIONS**

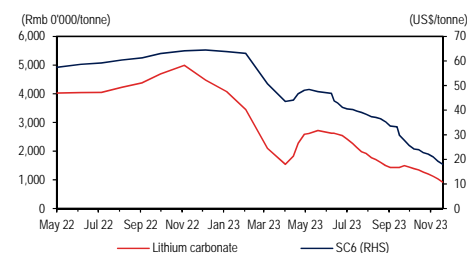
- **Maintain UNDERWEIGHT on China's automobile sector**, based on the expected decline in China's ICE-car sales, slowdown in EV sales, and the intensifying price war. We expect growth in China's EV sales volume to slow from over 30% in 2023 to 17% in 2024, based on the high comparison base and rollback of stimulus. OEMs will face looming margin pressure in 2024, due to stiffening price competition, falling capacity utilisation and lesser room for cost reduction from a further drop in lithium carbonate prices. Our top SELLS are BYD and Ganfeng Lithium.
- **We have a contrarian SELL call on BYD (1211 HK/SELL/Target: HK\$140.00)** 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%).
- **Maintain SELL on Ganfeng Lithium (1772 HK/SELL/Target: HK\$20.00)**, 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.

**EV BATTERY INSTALLATION VOLUME BY COMPANY**

('000 units)	Nov 23	yoy %chg	mom %chg	11M23	yoy %chg
<i>Installation volume (GWh)</i>					
CATL	19.70	13.5	17.4	145.8	17.4
BYD	10.20	14.1	(0.8)	94.5	58.2
CALB	3.24	62.0	(14.5)	29.8	71.5
EVE	2.05	153.1	0.5	15.1	154.7
Gotion	2.11	64.8	19.9	13.9	15.6
Others	7.50	93.2	64.8	40.6	3.2
Total	44.80	30.8	14.3	339.7	31.4
<i>Market share (%)</i>					
CATL	44.0	(6.7)	1.2	42.9	(5.1)
BYD	22.8	(3.3)	(3.5)	27.8	4.7
CALB	7.2	1.4	(2.4)	8.8	2.1
EVE	4.6	2.2	(0.6)	4.4	2.1
Gotion	4.7	1.0	0.2	4.1	(0.6)
Others	16.7	5.4	5.1	12.0	(3.3)
Total	100.0			100.0	

Source: China Power Battery Industry Innovation Alliance

**LITHIUM CARBONATE PRICE AND SPODUMENE CONCENTRATE PRICE (CIF)**



Source: oilchem.net

COMPANY UPDATE

**Giordano International (709 HK)**

Store Expansion Remains On Track

We held an update call with Giordano yesterday. Management team yesterday. Management notes that its store expansion in emerging markets and Mainland China remains on track, and it has also received some initial interest from traditionally developed markets. For 2024, management remains cautiously optimistic on the business environment and will work to maintain a relatively high net margin through ongoing pricing strategies and stringent cost control. Maintain BUY and a lower target price of HK\$3.70.

WHAT'S NEW

- We held an update call with Giordano's management team. Key takeaways are as follows:

STOCK IMPACT

- **Achieving its full-year expansion plan in India.** Giordano India recently achieved its full-year target of opening 50 points-of-sale in 2023 and also announced its expansion plan to double the number of stores to 100 by end-24. Going forward, Giordano will focus on store expansion in both metro and Tier 2-3 cities as well as online channels. Management notes that product offerings in India include slightly more flamboyant colours and patterns as they observe local customers tend to prefer casual wears with a mix of solid colors and more vibrant patterns.
- **Store expansion remains on track.** Management maintains a positive tone on its ongoing emerging markets development and is working to tap into several new markets. In addition, it has also received some initial interest from traditionally developed markets. As such, we expect Giordano's footprint in both emerging markets and developed countries in the future. On the other hand, management remains confident in achieving a net increase in the number of stores in Mainland China in 2H23.
- **4Q23 preview.** Management notes that SEA and Gulf Cooperation Council (GCC) markets are performing as Giordano continues to execute localised marketing strategies across different markets. Meanwhile, the sales of heavy merchandise and winter clothes in Greater China may be slightly impacted by the warmer weather in 2023.

On the other hand, management expects wholesale to overseas franchisees to slightly decrease yoy, mainly due to a high-base effect as Giordano shipped more products to overseas franchisees in end-22 in view of potential supply-chain disruptions. However, this should be partially offset by an earlier shipment to overseas franchisees to ensure adequate stocks for the Muslim festival of Ramadan in 2024, which begins in early-Mar 24. This is largely in line with our full-year estimate as we project a 3% yoy decline for revenue from wholesale to overseas franchisees in 2023 of HK\$291m.

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,380	3,799	4,085	4,555	5,018
EBITDA	745	853	1,005	1,123	1,249
Operating profit	251	413	528	599	673
Net profit (rep./act.)	190	268	367	413	461
Net profit (adj.)	190	268	367	413	461
EPS (cents)	12.0	17.0	23.2	26.1	29.2
PE (x)	21.6	15.3	11.2	9.9	8.9
P/B (x)	1.7	1.8	1.9	1.9	2.0
EV/EBITDA (x)	5.3	4.6	3.9	3.5	3.1
Dividend yield (%)	6.3	9.0	12.1	12.6	13.5
Net margin (%)	5.6	7.1	9.0	9.1	9.2
Net debt/(cash) to equity (%)	(9.3)	(13.3)	(11.5)	(12.9)	(12.1)
Interest cover (x)	14.8	31.8	38.4	40.6	42.0
ROE (%)	7.8	11.4	16.3	19.1	21.7
Consensus net profit	-	-	366	407	448
UOBKH/Consensus (x)	-	-	1.00	1.01	1.03

Source: Giordano International, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$2.60
Target Price	HK\$3.70
Upside	42.2%
(Previous TP)	HK\$3.89

COMPANY DESCRIPTION

Giordano International, through its subsidiaries, retails and distributes casual apparel and accessories under the Giordano, Giordano Ladies, Giordano Junior, and BSX brands.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	709 HK
Shares issued (m):	1,613
Market cap (Rmbm):	4,194
Market cap (US\$m):	538
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

52-week high/low 3.42/1.66

1mth	3mth	6mth	1yr	YTD
16.1	(4.4)	18.7	49.4	50.3

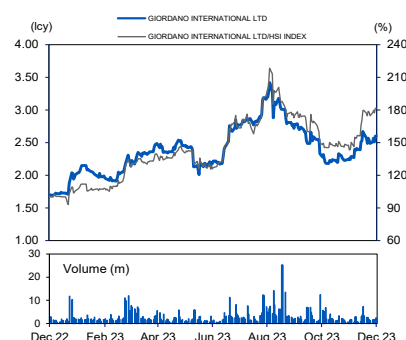
Major Shareholders

Sino Wealth International Limited	24.6%
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FY24 NAV/Share (HK\$) 1.58

FY24 Net Debt/Share (HK\$) (0.20)

PRICE CHART



Source: Bloomberg

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- **2024 outlook.** Management remains cautiously optimistic on the business environment in 2024. Looking ahead, Giordano will focus on: a) increasing product selling price as it continues to enhance product quality, b) implementing stringent cost control on rent and staff cost, and c) executing localised marketing campaigns to further upgrade its brand image globally. As such, management is confident in maintaining a relatively high profit margin. This is in line with our estimate of a relatively stable net margin of 9.0%/9.1%/9.2% in 2023-25, vs 9.6% in 1H23 and 7.1% in 2022.

#### EARNINGS REVISION/RISK

- We slightly lower our revenue forecast by 2%/2%/2% to HK\$4,085m/HK\$4,555m/HK\$5,018m in 2023-25 and lower net profit forecast by 2%/2%/2% to HK\$367m/HK\$413m/HK\$461m 2023-25 to reflect the negative impact of unpredictable warmer winter on Mainland China sales.

#### VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK\$3.70 based on 10-year DCF model.** We raise our WACC assumption from 12.0% to 12.5% to reflect a higher equity risk premium in view of a volatile business environment going forward. Giordano currently trades at 9.6x 2024F PE, which is about 1.3SD below its pre-pandemic historical mean at 15.6x in 2014-18. The current price implies 12.1%/12.6% dividend yield in 2023-24, assuming a generous dividend payout of 135%/125% respectively.

#### SHARE PRICE CATALYST

- Stronger-than-expected overseas expansion.
- Strong same-store sales growth across all regions.

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>3,799</b>	<b>4,085</b>	<b>4,555</b>	<b>5,018</b>
EBITDA	853	1,005	1,123	1,249
Deprec. & amort.	440	477	524	576
<b>EBIT</b>	<b>1,293</b>	<b>1,481</b>	<b>1,647</b>	<b>1,824</b>
Associate contributions	-	-	-	-
Net interest income/(expense)	(13)	(14)	(15)	(16)
<b>Pre-tax profit</b>	<b>436</b>	<b>550</b>	<b>620</b>	<b>693</b>
Tax	(107)	(118)	(134)	(151)
Minorities	61	65	73	81
<b>Net profit</b>	<b>268</b>	<b>367</b>	<b>413</b>	<b>461</b>
Net profit (adj.)	268	367	413	461

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>810</b>	<b>922</b>	<b>991</b>	<b>1,082</b>
Pre-tax profit	436	550	620	693
Tax	(107)	(118)	(134)	(151)
Deprec. & amort.	440	477	524	576
Working capital changes	92	36	2	(15)
Non-cash items	(51)	(22)	(21)	(20)
Other operating cashflows	-	-	-	-
<b>Investing</b>	<b>(76)</b>	<b>(69)</b>	<b>(73)</b>	<b>(76)</b>
Capex (growth)	(66)	(69)	(73)	(76)
Investments	-	-	-	-
Proceeds from sale of assets	1	-	-	-
Others	-	-	-	-
<b>Financing</b>	<b>(853)</b>	<b>(885)</b>	<b>(835)</b>	<b>(965)</b>
Dividend payments	(292)	(506)	(434)	(531)
Issue of shares	3	-	-	-
Proceeds from borrowings	44	-	-	-
Loan repayment	(199)	-	-	-
Others/interest paid	(409)	(379)	(401)	(434)
<b>Net cash inflow (outflow)</b>	<b>(119)</b>	<b>(32)</b>	<b>83</b>	<b>41</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,004</b>	<b>860</b>	<b>828</b>	<b>912</b>
Changes due to forex impact	(25)	-	-	-
<b>Ending cash &amp; cash equivalent</b>	<b>860</b>	<b>828</b>	<b>912</b>	<b>952</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>133</b>	<b>157</b>	<b>182</b>	<b>208</b>
Other LT assets	1,898	1,889	1,878	1,865
Cash/ST investment	960	928	1,012	1,052
Other current assets	1,017	1,036	1,104	1,187
<b>Total assets</b>	<b>4,008</b>	<b>4,011</b>	<b>4,176</b>	<b>4,313</b>
ST debt	12	12	12	12
Other current liabilities	1,075	1,152	1,265	1,390
LT debt	0	0	0	0
Other LT liabilities	399	399	399	399
Shareholders' equity	2,317	2,179	2,158	2,088
Minority interest	205	270	343	424
<b>Total liabilities &amp; equity</b>	<b>4,008</b>	<b>4,011</b>	<b>4,176</b>	<b>4,313</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
Gross margin	56.5	58.1	58.1	58.2
Pre-tax margin	11.5	13.5	13.6	13.8
Net margin	7.1	9.0	9.1	9.2
ROE	11.4	16.3	19.1	21.7
<b>Growth</b>				
Turnover	12.4	7.5	11.5	10.2
Gross profit	11.2	10.5	11.6	10.3
Pre-tax profit	58.5	26.2	12.8	11.7
Net profit	41.1	37.0	12.5	11.5
Net profit (adj.)	41.1	37.0	12.5	11.5
EPS	41.0	37.0	12.5	11.5
<b>Leverage</b>				
Debt to total capital	15.6	16.1	16.5	17.3
Debt to equity	24.8	26.4	27.6	29.8
Net debt/(cash) to equity	(13.3)	(11.5)	(12.9)	(12.1)
Interest cover (x)	31.8	38.4	40.6	42.0

### COMPANY UPDATE

## Prudential (2378 HK)

More Conservative On Growth Outlook

In the pre-blackout call, management indicated that there is no significant change in 4Q23 trend but it remains cautiously optimistic on Prudential's MCV segment and CPL growth outlook in 2024 following the moderation in MCV arrivals and continued sales disruption in China due to regulatory changes. Maintain BUY with a lower target price of HK\$140.00 after revising our NBP forecasts to reflect a slower growth trajectory in China.

### WHAT'S NEW

- We had a 2023 results pre-blackout call with Prudential this week. Here are the key takeaways from the call.

### STOCK IMPACT

- Banca headwinds persist in China.** The ongoing product mix adjustments and regulatory changes continue to dampen the CITIC Prudential Life's (CPL) annual premium equivalent (APE) sales via bancassurance channel in China. Despite actively negotiating contracts and leveraging long-term relationships with its strategic bank partners like CITIC Bank and Standard Chartered Bank to secure early contract renewals, management is expecting a significant rebound in CITIC Prudential Life's bancassurance sales only after several quarters. With the bancassurance channel contributing 50% of total APE sales in China, we are adopting a more conservative approach to CPL's growth trajectory. In light of the factors above, we cut our APE growth assumptions for CPL in 2024/25 to 10%/13%, from the earlier projections of 20%/20%.
- Hong Kong MCV segment is normalising.** Management saw insurance sales to mainland China visitors (MCV) continuing to normalise after peaking in April. However, it observed a sequential margin improvement in 2H23, thanks to a product shift towards health and protection products, which have a more favourable margin profile. According to our channel check, MCV arrivals have been reducing recently, reaching only 2.7m in October. This represents a 58.1% recovery compared with 2018 levels, falling short of the progress made in both July and August. Hence, we are now more cautious on the MCV segment's growth outlook in 2024.
- Domestic growth momentum slows down from a higher base.** Note that Prudential recorded a strong 68% yoy APE growth in 1H23 for the Hong Kong domestic market but management said that the demand has been cooling down and it expects to achieve only moderate growth in 2H23 due to the higher base effect. Despite that, management highlighted that it has significantly outperformed the market and managed to boost its market share to 8.6% as of 3Q23 (previously: 5-6%), driven by high performing distribution and innovative new products.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Gross written premiums	24,217	23,344	25,678	28,246	31,071
Net earned premiums	22,373	21,401	23,541	25,895	28,485
Underwriting profit/(loss)	23,014	21,940	24,134	26,547	29,202
Net profit (rep./act.)	(2,813)	1,007	2,066	2,654	3,011
Net profit (adj.)	2,214	1,007	2,066	2,654	3,011
EPS (US\$)	0.8	0.4	0.8	1.0	1.1
PE (x)	13.3	30.0	14.6	11.4	10.0
*P/EV (x)	0.7	0.7	0.7	0.6	0.6
Dividend yield (%)	1.5	1.7	1.4	1.8	0.0
ROE (%)	11.7	5.9	11.6	13.6	14.0
Consensus net profit	-	-	1,851	2,140	2,390
UOBKH/Consensus (x)	-	-	1.12	1.24	1.26

Source: Prudential PLC, Bloomberg, UOB Kay Hian  
\*P/EV: Price/Embedded Value

## BUY

(Maintained)

Share Price	HK\$86.50
Target Price	HK\$140.00
Upside	+61.8%
(Previous TP)	HK\$150.00

### COMPANY DESCRIPTION

Prudential Public Limited Company is an international company which provides a wide assortment of insurance and investment products and services. Insurance products include life, accident and health, and property and casualty, as well as fixed and variable

### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	2378 HK
Shares issued (m):	2,753.5
Market cap (HK\$m):	238,179.5
Market cap (US\$m):	30,500.3
3-mth avg daily t'over (US\$m):	1.0

### Price Performance (%)

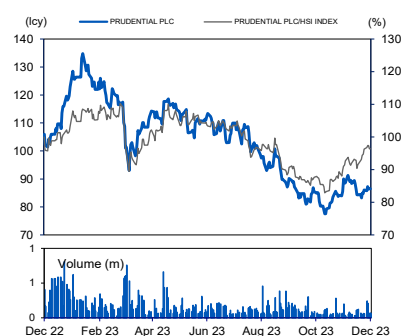
52-week high/low HK\$134.80/HK\$77.50

1mth	3mth	6mth	1yr	YTD
(3.9)	(1.6)	(23.2)	(18.4)	(19.9)

Major Shareholders %

FY23 NAV/Share (US\$) 7.46

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- ASEAN market performance.** Overall, the ASEAN market demonstrated resilience in 2H23. Singapore saw a turnaround in APE sales driven by successful new regular premium product launches and the reduced impact of higher interest rate on sales. Indonesia and Malaysia, meanwhile, sustained their growth momentum. Management also said that the consumer sentiment in Vietnam remains relatively depressed but Prudential managed to gain market share and retain its leadership position.
- More dovish Fed is expected to alleviate some margin pressure.** Prudential's new business profit (NBP) margin contracted by 11ppt to 49% in Sep 23 since the beginning of the rate hike cycle in 2021 due to a higher discount rate applied in new business measurement under European embedded value (EEV) methodology. With the Fed signalling more rate cuts in 2024 and pullback in treasury yield, we expect a gradual recovery in NBP margin, coupled with a more optimised product mix.

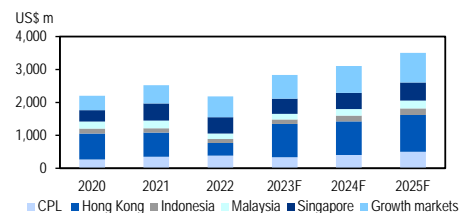
### EARNINGS REVISION/RISK

- We cut our 2023-25 NBP forecasts by 1.2%/9.5%/8.0% respectively** to reflect the lower growth assumption in China due to the sales disruptions in bancassurance channel following the regulatory tightening.

### VALUATION/RECOMMENDATION

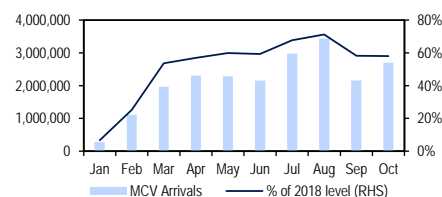
- Maintain BUY with a lower target price of HK\$140.00 to reflect the NBP adjustments.** Our target price implies 1.07x 2024F P/EV, 0.3SD above its historical mean. Although Prudential's current valuation (-1.6SD) still remains relatively attractive, we believe the regulatory headwind in China and lack of short-term catalysts continue to hinder the potential valuation re-rating.

### NBP BY GEOGRAPHICAL BREAKDOWN



Source: Prudential, UOB Kay Hian

### 2023 MCV ARRIVALS IN HONG KONG



Source: Hong Kong Immigration Department, UOB Kay Hian

### P/EV BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Gross written premiums	23,344	25,678	28,246	31,071
Chg in unearned prem reserves	(1,943)	(2,137)	(2,351)	(2,586)
<b>Net earned premiums</b>	<b>21,401</b>	<b>23,541</b>	<b>25,895</b>	<b>28,485</b>
Other exp of insurance opss	539	593	652	717
<b>Underwriting profit/(loss)</b>	<b>21,940</b>	<b>24,134</b>	<b>26,547</b>	<b>29,202</b>
Investment income	(30,159)	(33,175)	(36,492)	(40,142)
Interest inc. (Banking ops)	13,697	15,067	16,573	18,231
Other income	539	593	652	717
<b>Pre-tax profit</b>	<b>1,461</b>	<b>2,475</b>	<b>3,104</b>	<b>3,506</b>
Tax	(454)	(409)	(449)	(494)
<b>Net profit</b>	<b>1,007</b>	<b>2,066</b>	<b>2,654</b>	<b>3,011</b>
Net profit (adj.)	1,007	2,066	2,654	3,011
APE	4,393	5,516	5,886	6,387
NBP	2,184	2,835	3,089	3,494

### OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Capital-related</b>				
Shareholders' funds/total assets	10.2	10.2	10.2	10.2
Total Assets/equity (x)	9.8	9.8	9.8	9.8
<b>Liquidity</b>				
Liquid assets/short-term liabilities	713.3	713.3	713.3	713.3
Liquid assets/total assets	12.6	12.6	12.6	12.7
<b>Valuation (%)</b>				
P/EV (x)	0.7	0.7	0.6	0.6
NB multiple (x)	0.0	0.0	0.0	0.0
Adjusted P/E (x)	30.0	14.6	11.4	10.0
Dividend Yield	1.7	1.4	1.8	2.0

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Cash	5,514	6,065	6,672	7,339
Loans and advances	2,536	2,790	3,069	3,375
Investments (equity & fixed inc)	57,679	63,447	69,792	76,771
Reinsurers' share of ins liabilities	2,807	3,088	3,396	3,736
Associates & JVs	1,915	2,107	2,317	2,549
Fixed assets (incl prop)	419	461	507	558
Other assets	94,182	103,600	113,960	125,356
<b>Total assets</b>	<b>165,942</b>	<b>182,483</b>	<b>200,639</b>	<b>220,611</b>
Assets sold (repo agreement)	582	640	704	775
Insurance contract liabilities	122,263	134,489	147,938	162,732
Other liabilities	25,970	28,514	31,273	34,308
<b>Total liabilities</b>	<b>148,815</b>	<b>163,644</b>	<b>179,915</b>	<b>197,815</b>
Shareholders' funds	16,960	18,656	20,522	22,574
Minority interest - accumulated	167	184	202	222
<b>Total equity &amp; liabilities</b>	<b>165,942</b>	<b>182,483</b>	<b>200,639</b>	<b>220,611</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Growth</b>				
Gross premiums, yoy chg	(3.6)	10.0	10.0	10.0
Net profit, yoy chg	n.a.	105.2	28.5	13.4
ANP, yoy chg	(4.3)	25.6	6.7	8.5
VONB, yoy chg	(13.5)	29.8	8.9	13.1
<b>Profitability</b>				
Reported ROE	5.9	11.6	13.6	14.0
Adjusted ROE	5.9	11.6	13.6	14.0
NBP margin (%)	49.7	51.4	52.4	54.7

*Footnotes: FYP: first year premium; EV: embedded value; NB: new business; NBP: New business profit; APE: Annual premium equivalent*

TRADERS' CORNER



Chart by Bloomberg

**Techtronic Industries Company Limited (669 HK)**

Trading Buy range: HK\$87.00-87.15

Last price: HK\$87.15

Target price: HK\$94.55/HK\$98.35

Protective stop: Breaks below HK\$80.45

**Stock Highlights:**

The company's gross profit margin was 39.3% for 1H23, increasing by 22bp yoy. The free cash flow jumped by USD\$649m.

**Technical View:**

Share price reached its highest in more than four months. It broke through the bull-bear line represented by its 250-day moving average (approximately HK\$83.7) with high trading volume, indicating that the trend has strengthened. The fast line of the MACD broke above the slow line in the bullish zone above the zero line, emitting a double bullish signal. The share price is refilling the downside gap formed during the August decline, potentially rising to the top of the gap at about HK\$94.55.

**Average timeframe: Around two weeks.**



Chart by Bloomberg

**CK ASSET HOLDINGS LIMITED (1113 HK)**

Trading Buy range: HK\$37.50-38.00

Last price: HK\$38.05

Target price: HK\$40.10/HK\$42.10

Protective stop: Breaks below HK\$36.95

**Stock Highlights:**

The dividend yield is close to 6% at the current share price. The company maintained a stable dividend of HK\$0.43 per share in its interim results, the same as that in the prior year period.

**Technical View:**

Share price recently settled at around HK\$37.00, and gradually rebounded to above its 10-day moving average (approximately HK\$37.6). The 14-day RSI has formed a small bullish divergence pattern since the end of November, reflecting that the share price trend is poised to turn around. The fast line of the MACD rose above the slow line and emitted an initial buy signal. Investors can wait for the fast line to rise further and enter the bullish zone above the zero line.

**Average timeframe: Around two weeks.**

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