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KEY HIGHLIGHTS

Strategy

Small-Mid Cap Biweekly

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Huawei Mate 60 introduces satellite calling; beneficiary: Zhejiang Chengchang Technology.

Sector

Commodities

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Weekly: Better-than-expected economic figures raise hopes of soft landing.

TRADERS' CORNER

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MGM China Holdings Limited (2282 HK): Trading Buy range: HK\$10.20-10.50

PetroChina Company Ltd (857 HK): Trading Buy range: HK\$5.50-5.70

CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
20 Sep	China	Sep Loan Prime Rate
27 Sep	China	Aug Industrial Profits
29 Sep	China	Caixin Sep PMI
30 Sep	China	Sep NBS PMI
09-15 Oct	China	Sep Money Supply And Credit
13 Oct	China	Sep Inflation
13 Oct	China	Sep Trade
18 Oct	China	3Q GDP and Sep Economic Activities
20 Oct	China	Oct Loan Prime Rate

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34691.0	0.2	0.1	0.6	4.7
S&P 500	4463.9	0.3	(0.5)	2.2	16.3
FTSE 100	7652.9	(0.8)	2.1	5.4	2.7
AS30	7428.1	(0.7)	0.5	0.8	2.9
CSI 300	3727.7	0.5	(1.1)	(1.5)	(3.7)
FSSTI	3263.4	(0.5)	1.4	2.8	0.4
HSCEI	6209.5	(1.6)	(1.4)	1.0	(7.4)
HSI	17930.6	(1.4)	(0.9)	(0.1)	(9.4)
JCI	6936.1	(0.7)	(0.4)	1.1	1.2
KLCI	1458.0	(0.1)	0.2	0.8	(2.5)
KOSPI	2574.7	(1.0)	0.7	2.8	15.1
Nikkei 225	33533.1	1.1	2.8	6.6	28.5
SET	1527.6	(0.9)	(0.9)	0.6	(8.5)
TWSE	16698.2	(1.3)	1.6	1.9	18.1
BDI	1439	4.2	19.0	16.3	(5.0)
CPO (RM/mt)	3728	0.7	(0.6)	(1.6)	(7.9)
Brent Crude (US\$/bbl)	95	0.8	4.5	11.7	10.2

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT* (HK\$m)
JD-SW	121.00	(2.9)	1,277.2
HKEX	292.20	(2.5)	1,236.1
XIAOMI CORP-W	11.92	(2.5)	995.7
SHK PPT	80.70	(1.8)	890.4
KUAIHOU-W	63.70	(2.2)	856.0

TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT* (HK\$m)
CHINA RES GAS	22.20	5.7	101.4
BRILLIANCE CHINA	3.76	2.5	74.4
SINOTRUK HK LTD	14.74	2.1	66.5
GALAXY ENTERTAIN	51.40	1.8	219.4
TRAD CHI MED	3.00	1.4	69.4

TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT* (HK\$m)
JD LOGISTICS INC	10.06	(5.5)	65.7
SMIC	18.88	(5.1)	665.3
ZHONGSHENG GROUP	21.90	(4.2)	68.2
CHINA OVERSEAS	15.84	(4.0)	253.8
LI AUTO INC-A	154.50	(3.9)	774.8

*ADT: Average daily turnover

KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	2.1	0.8	1.2
Euro Zone	3.5	0.1	1.0
Japan	1.0	1.0	1.5
Singapore	3.6	0.7	3.0
Malaysia	8.7	4.4	4.6
Thailand	2.6	3.1	3.5
Indonesia	5.4	4.9	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

KEY CALLS

Huawei Mate 60 Value Chain

- Huawei's Mate 60 Pro has become the first phone model with a satellite calling feature. The satellite calling feature is powered by Tiantong-1, China's first self-developed mobile communication satellite system, and China Telecom is the sole operator of Tiantong's mobile services.
- The Tiantong-1 mobile communication satellite system plays a crucial role in emergency communication and disaster rescues. The introduction of the satellite calling feature and two-way SMS communication on Mate 60 Pro has enabled easier and more affordable access for users.

We are positive on the accelerated construction of satellite internet assets in China as we see support for satellite connectivity on mobile phones. For instance, the Ministry of Industry and Information Technology on 14 Sep 23 highlighted the strategic planning and resource allocation for 6G and mobile satellite connectivity that aim to strengthen the development of the digital economy and national security.

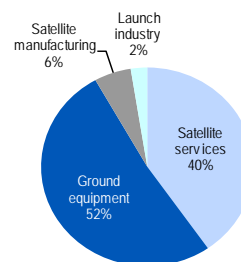
- We believe satellite manufacturing will be the first to benefit from the rising demand for satellite communication. The Satellite Industry Association valued the global satellite manufacturing market at US\$15.8b in 2022, equivalent to 6% of the global satellite industry.
- We believe Zhejiang Chengchang Technology (001270 CH) is a beneficiary. The company is a key supplier of T/R chips, a key component of a satellite's phased array radar and account for 14% of the total manufacturing cost of low earth orbit satellites. Its products are used in satellite manufacturing and ground equipment for detection, remote sensing, communication and navigation.

Management is positive on the company's outlook, as its T/R chips for satellite communications have been verified by leading research institutions in China. The company expects to deliver T/R chips to its key customers in 2H23.

- Catalyst: More satellite features unveiled during Huawei's new product launch on 25 Sep 23; further policy support from the government.
- Risk: Slower-than-expected penetration of satellite internet in China.

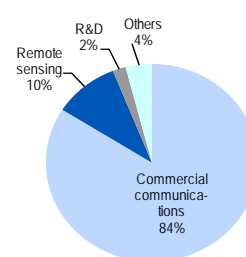
Click [here](#) for Blue Top dated 18 Sep 23

SATELLITE INDUSTRY BREAKDOWN



Source: Satellite Industry Association, UOB Kay Hian

SATELLITE MANUFACTURING MARKET BREAKDOWN



Source: Satellite Industry Association, UOB Kay Hian

SATELLITE INDUSTRY PEER COMPARISON

Ticker	Company Name	Market Cap (Rmbm)	Fwd PE (x)	Net Gearing (%)
001270 CH	Zhejiang Chengchang Tech	13,639	67.9	(50.4)
300762 CH	Jushri Technologies	9,650	38.4	(44.9)
600877 CH	CETC Chips Technology	15,738	n.a.	(11.1)
002465 CH	Haige Communication Group	25,072	31.6	(20.4)
Average			46.0	(31.7)

Source: Bloomberg, UOB Kay Hian

SATELLITE INDUSTRY PEER COMPARISON



Source: Huawei, UOB Kay Hian

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UPDATES

Giordano International (709 HK/BUY/HK\$2.78/Target: HK\$3.89)

- In a luncheon with Giordano International's (Giordano) management team, it highlights positive yoy revenue growth in Singapore after the recent reform, compared with a double-digit percentage revenue decline in 1H23. Going forward, Giordano targets to revitalise its regional teams to better execute its pricing strategy and further improve its global brand image.
- Giordano launched its Liquid Touch polos and T-shirts in 1H23. Liquid Touch products were first launched in Hong Kong and Singapore, and have since received a strong reception with their contributions rising to >10% of total sales in both markets. The company remains positive on sales momentum as the Liquid Touch products enter other key markets, such as Thailand.
- Management maintains a positive tone on same-store sales growth in 3Q23. However, total sales growth in 3Q23 may be flat yoy due to: a) seasonality, as the third quarter is usually a low season in Southeast Asia, and b) earlier Hajj this year in late Jun-23, which contributed to 2Q23 sales, compared with last year's Hajj in early-Jul 22 that drove 3Q22 sales.
- Management reiterates a generous dividend payout policy in the future based on operating cash flow. Giordano will return excess cash to shareholders as management continues to effectively manage working capital and improve operating cash flow.
- Catalyst: Faster-than-expected Mainland China franchised store additions in 4Q23, and higher-than-expected same-store sales growth in 2H23.
- Valuation: Trading at 11.8x 2023F PE, which is 1.2SD below its pre-pandemic historical mean of 15.6x in 2014-18.

Activation Group Holdings (9919 HK/NOT RATED/HK\$1.48)

- Activation Group Holdings (AGH) is the largest luxury experiential marketing agency in China with a 10% market share. It organises large-scale events, such as fashion shows and exhibitions, for its major customers such as LVMH, Hermes and Cartier.
- AGH generates revenue from experiential marketing (80% of 1H23 revenue) based on a cost-plus model and charges 25-30% mark-up on the actual cost of events. Management views the company's proven project track record and long-term relationships with key customers as its competitive advantages, as luxury brands demonstrate strong customer stickiness in terms of agency selection.
- AGH has the exclusive rights to organise events for Tour de France, Hongkong Land, and Shanghai Design Week. Management sees healthy growth potential for its IP development segment in 2024-25, as it plans for: a) Tour de France events in five major cities in Mainland China, and b) large-scale events for Hongkong Land, which will commence operation in late-23.
- It has been generating a positive free cash flow since 2021. As of Jun 23, the company held HK\$305m net cash (94% net cash to equity ratio). Dividend payout ratio was 35% in 2022 and 1H23, and dividend yield was 17% in the past 12 months (including a special dividend paid in Nov 22).
- Catalyst: M&A for IP acquisition, and positive reception of experiential marketing events and IP events.
- Valuation: Trading at 8.0x one-year forward PE, which is below its historical mean of 12.6x.

SECTOR UPDATE

Commodities – China

Weekly: Better-than-expected Economic Figures Raise Hopes Of Soft Landing

China's and the US' Aug 23 economic figures came in above expectations, raising hopes of a soft landing and boosting the demand outlook for base metals. Iron ore prices rallied 8.5% wov given steel mills' robust production activities and fresh stimulus announced, which further compressed steel mills' profitability. Cement prices' six-month downtrend reversed last week with average prices up 0.5% wov. Shipment has continued to pick up but the resumption of production contributed to inventory build-up.

WHAT'S NEW

- **Base metals (maintain MARKET WEIGHT):** Better-than-expected economic data raises hopes for a soft landing.
 - COMEX gold/LME copper three-month futures were up 0.2%/2.0% wov to US\$1,928 per t oz/US\$8,406 per mt.
 - Copper prices boosted by China's encouraging economic headline figures. China's Aug 23 industrial production and retail sales both beat expectations, coming in at +4.50%/+4.60% yoy (consensus: +3.90%/+3.00% yoy). The PBOC's decision to cut reserve requirement ratio for the second time this year has also lifted market sentiment on industrial metals. However, the continuous accumulation of copper inventories in LME has raised concerns on the weak downstream demand.
 - Market again pushed back expectations of the Fed's rate cut timeline. Gold prices were dragged by the US' sticky Aug 23 inflation data, which came in at +3.70%, slightly above consensus forecast of +3.60%, which has strengthened the USD with USD index edging up by 0.2% wov to 105.3 last week. However, according to CME FedWatch Tool, market still priced in 98.0% odds of the Fed maintaining interest rate at 5.25-5.50% on 21 Sep 23, but pushed back the expectation of the first rate cut to Jun 24 with a 36.2% probability.
 - The focus this week will be on the FOMC rate decision, announcing on 21 Sep 23.

MARKET WEIGHT

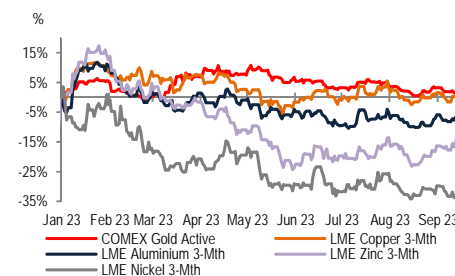
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
Anhui Conch	914 HK	BUY	21.00	28.30

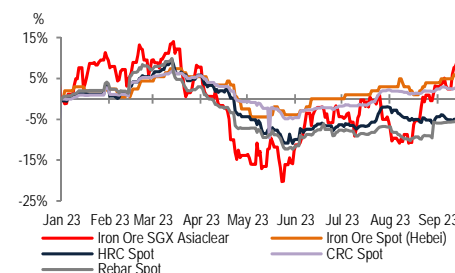
Source: UOB Kay Hian

METALS – YTD PRICE PERFORMANCE



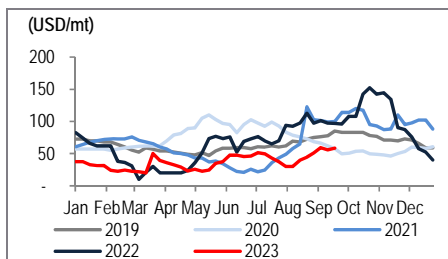
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



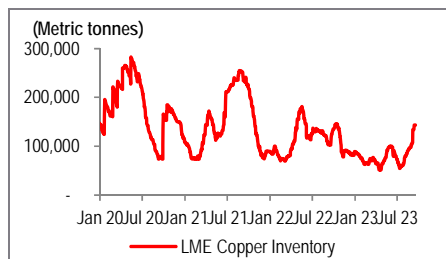
Source: Bloomberg, UOB Kay Hian

CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

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PEER COMPARISON

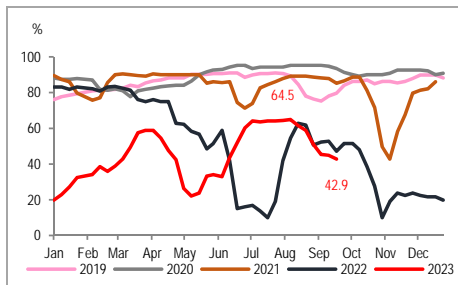
Company	Ticker	Rec	Price @ 18 Sep 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	21.00	28.30	34.8	138,431.3	8.7	8.1	0.6	0.5	8.1	7.3	6.4
Baosteel	600019 CH	BUY	6.21	7.10	14.3	138,248.3	13.3	9.9	0.7	0.7	5.6	4.8	5.2
CR Cement	1313 HK	HOLD	2.23	3.10	39.0	15,572.0	8.3	6.4	0.3	0.3	7.0	5.7	3.8
Zijin Mining	2899 HK	BUY	12.94	15.00	15.9	362,837.2	13.7	11.7	3.0	2.5	10.9	9.5	23.7

Source: Bloomberg, UOB Kay Hian

• **Steel (maintain UNDERWEIGHT):** Spike in iron ore prices weighs on steel mills' profitability.

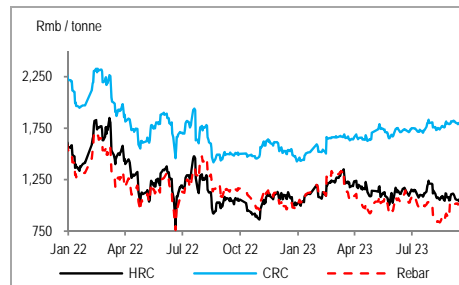
- **Iron ore prices spiked to the highest since mid-Mar 23.** A series of economic stimulus and robust steel mills' production activities supported the recent rally of iron ore futures. SGX iron ore futures spiked 8.5% wow (+24.6% mom) to US\$122.95 as at 18 September. Spot prices of domestic steel products all ticked up last week amid the seasonal pick-up in steel consumption; rebar/rot-rolled coil (HRC)/cold-rolled coil (CRC) was up 0.46%/0.48%/0.51% wow.

247 SAMPLED STEEL MILLS PROFIT-MAKING RATIO



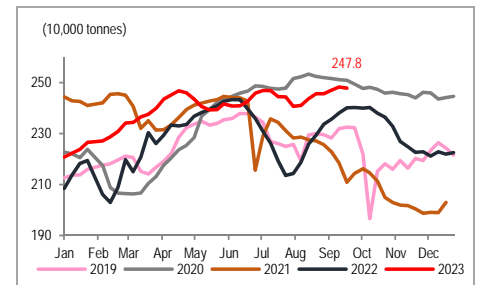
Source: Wind, UOB Kay Hian

STEEL-RAW MATERIAL SPREADS



Source: Bloomberg, UOB Kay Hian

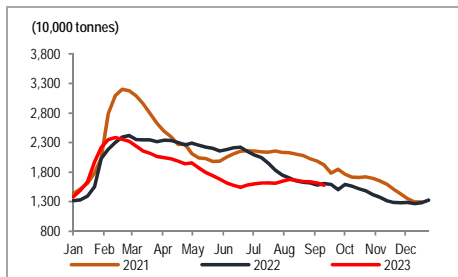
247 SAMPLED STEEL MILLS AVERAGE DAILY MOLTEN IRON PRODUCTION



Source: Wind, UOB Kay Hian

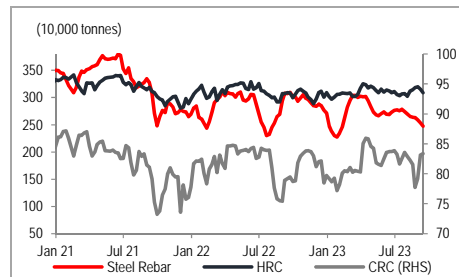
- **Iron ore price rally compressed steel mills' margins.** Although steel spot prices have remained resilient in recent weeks, but the spike in iron ore prices has weighed on margins. Weekly average of HRC steel-raw materials spread fell 3.42% wow. Mysteel's survey indicated that 42.86% of steel mills are currently profit-making (-2.16 ppt wow).
- **Slower production activities due to plant maintenance.** The blast furnace capacity utilisation rate of 247 domestic steel mills has expanded again to 92.65% (-0.11ppt wow) while the weekly average daily molten iron production slowed to the second highest of the year at 2.478m tonnes (-0.04m tonnes wow). Weekly output of five major steel products has slowed to 9.0382m tonnes (-7.5% wow) this week.
- **Steel inventory down for fifth consecutive week.** Overall steel inventory based on Mysteel's survey was down 2.29% wow to 15.79m tonnes (-1.66% yoy), partly due to the slower steel products output. Steel apparent consumption slowed 0.43% wow to 9.409m tonnes. Rebar/HRC/CRC's mtd apparent consumption was -9.0%/+0.5%/+5.8% yoy; flat products still outperformed long products.

INVENTORY OF FIVE MAJOR STEEL PRODUCTS (TRADERS & STEEL MILLS)



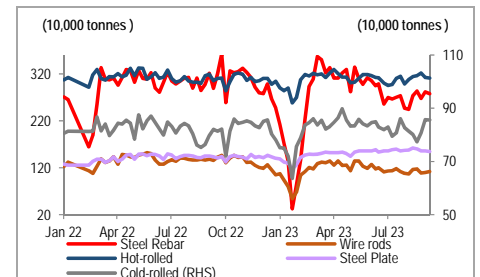
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION

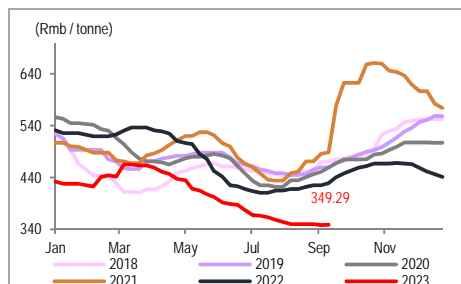


Source: Wind, UOB Kay Hian

• **Cement (maintain MARKET WEIGHT):** Production recovery adds to inventory pressure.

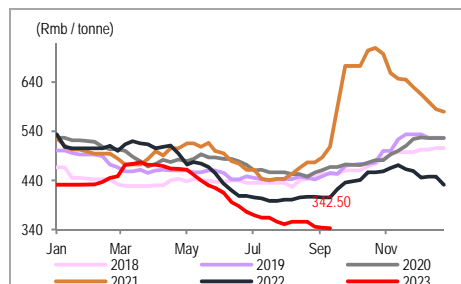
- **Cement prices' six-month downtrend reversed.** National average PO42.5 cement prices (bulk) have finally ended its declining trend since mid-Apr 23, last reported at Rmb355.33 per tonne, up 0.5% wow. Average cement prices for the eastern/central/southern regions saw changes of +0.2%/-1.0%/flat wow. Cement-coal spread has narrowed to Rmb249.25 per tonne (-0.4% wow/-6.5% yoy) on the rebound of Q5000 QHD thermal coal prices in recent weeks (+17.6% since mid-Aug 23).

AVERAGE CEMENT PRICES – EAST



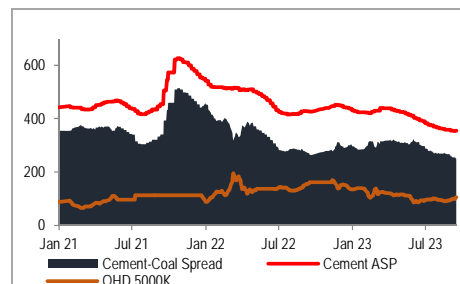
Source: CEIC, UOB Kay Hian

AVERAGE CEMENT PRICES – CENTRAL-SOUTH



Source: CEIC, UOB Kay Hian

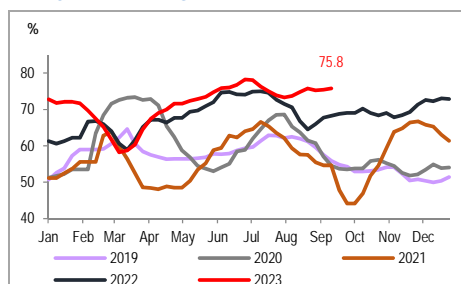
CEMENT-COAL SPREAD



Source: CEIC, Wind, UOB Kay Hian

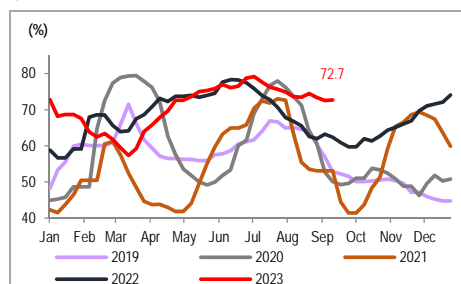
- **Shipment continued recovering; southern region still affected by rainy weather.** According to 100NJZ's survey of 250 cement enterprises, weekly cement shipment volume for 6-12 Sep 23 was 5.7965m tonnes (+1.1% w/w, -28.8% yoy). By region, the eastern/central/southern regions' shipment volume was +4.89%/+4.67%/-6.53% w/w (-33.68%/-32.03%/-42.73% yoy) respectively. Shipment for infrastructure projects was 2.25m tonnes (+1.35% w/w/-7.78% yoy), remaining as the key demand pillar.
- **Resumption of production adding to inventory pressure.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation rebounded to 64.52% last week (+7.75ppt w/w). National average cement storage capacity ratio was up 0.4ppt w/w to 75.8%. Eastern and southern regions saw inventory accumulating, up by 0.1ppt/0.4ppt to 72.7%/77.9% respectively.

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



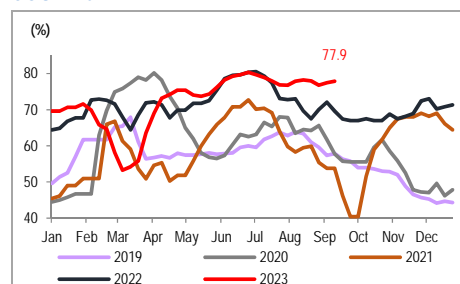
Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – EAST CHINA



Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



Source: CEIC, UOB Kay Hian

ESSENTIALS

- **Maintain MARKET WEIGHT on base metals sector.** The better-than-expected economic data from both China and the US have supported the outlook for base metals, raising hopes for a soft landing. However, the market has been pushing back its expected date of the Fed cutting interest rate given the resilient economic data, especially sticky inflation and prolonged duration of high interest rate which will weigh on gold's attractiveness.
- **Maintain MARKET WEIGHT on cement sector.** We expect construction activities to continue to normalise in the following weeks as the weather condition improves. We are still concerned on the high inventory level as it could cap the upside of price recovery. However, construction progress of infrastructure projects would largely still hinge on the pace of local government special purpose bond (LGSB) issuance. Aug 23's LGSB issuance was the highest of the year at Rmb2,945b, completing 77.5% of the annual quota, but still 16.3% lower yoy. The annual quota should be fully utilised by end-Sep 23.
- **Maintain UNDERWEIGHT on steel sector.** Iron ore prices were boosted by robust steel production activities, but the rally would not be sustainable without meaningful a recovery of the property sector. The better-than-expected industrial production in Aug 23 has been supporting consumption of flat products; a temporary pick-up in long products consumption is expected as construction for both infrastructure projects and property projects will resume after the rainy season. Downstream consumption in the following weeks is also expected to be supported by restocking demand prior to Mid-Autumn festival and Golden Week holiday; steel prices are forecast to remain resilient with an upside bias.

TRADERS' CORNER



Chart by TradingView

MGM China Holdings Limited (2282 HK)

Trading Buy range: HK\$10.20-10.50

Last price: HK\$10.54

Target price: HK\$11.00/HK\$11.20

Protective stop: Breaks below HK\$9.80

Stock Highlights:

Profit/loss attributable to owners of the company increased from a loss of HK\$2,404.2m for 1H22 to a profit of HK\$820.9m for 1H23. This increase was attributable to the significantly improved trading conditions in Macau following the relaxation of COVID-19-related travel restrictions effective from late-Dec 22.

Technical View:

Share price rebounded in mid-August and was supported by a bullish trendline. It has currently risen to above its 10-day (light blue), 20-day (orange) and 50-day (red) moving averages. The 14-day RSI is above the midline level of 50 and is currently around 60, indicating strong momentum. The MACD line is higher than the signal line, showing a bullish crossover. If the share price continues rising, it may challenge the high of about HK\$11.00 reached in early August.

Average timeframe: Around two weeks.



Chart by TradingView

PetroChina Company Ltd (857 HK)

Trading Buy range: HK\$5.50-5.70

Last price: HK\$5.75

Target price: HK\$5.90/HK\$6.10

Protective stop: Breaks below HK\$5.30

Stock Highlights:

China National Petroleum Corporation (CNPC) announced that its subsidiary PetroChina International (London) Co., Ltd. has sold blended sustainable aviation fuel to Europe for the first time. The NIKLAS tanker, carrying 7,000 tonnes of blended sustainable aviation fuel, has sailed from the Port of Rotterdam in the Netherlands to the unloading dock of KLM Royal Dutch Airlines in Amsterdam.

Technical View:

Share price has been on an upward trend since the beginning of this year, and has been supported near its 50-day moving average (red). Its 10-day (light blue), 20-day (orange), 50-day (red) and 200-day (purple) moving averages are aligning in order. The 14-day RSI is above the midline level of 50 and is currently around 58, indicating strong momentum. The MACD line is higher than the signal line and both lines are in the bullish zone, resulting in a double bullish signal.

Average timeframe: Around two weeks.

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