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### KEY HIGHLIGHTS

#### Sector

#### Automobile

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Weekly: Passenger EV retail sales up 40% yoy/9% mom, beating estimates. Maintain UNDERWEIGHT. Top BUYs: BYD, CATL and Li Auto.

#### Healthcare

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Easing pressure from anti-corruption campaign, long-term growth outlook remains intact.

#### Update

#### Link REIT (823 HK/BUY/HK\$37.30/Target: HK\$50.70)

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Key DPU drivers remain intact; yield at historical high.

#### TRADERS' CORNER

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**Huadian Power International (1071 HK):** Trading Buy range: HK\$3.25-3.35

**Travelsky Technology Ltd. (696 HK):** Trading Buy range: HK\$14.50-14.80

### CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
15 Sep	China	Aug Economic Activities
20 Sep	China	Sep Loan Prime Rate
27 Sep	China	Aug Industrial Profits

### KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34907.1	1.0	1.2	(1.1)	5.3
S&P 500	4505.1	0.8	1.2	0.3	17.3
FTSE 100	7673.1	2.0	3.1	2.2	3.0
AS30	7382.7	0.5	0.1	(1.8)	2.2
CSI 300	3733.5	(0.1)	(0.7)	(2.9)	(3.6)
FSSTI	3249.5	1.0	0.7	0.5	(0.1)
HSCEI	6275.2	0.6	(2.0)	(1.4)	(6.4)
HSI	18047.9	0.2	(2.2)	(2.9)	(8.8)
JCI	6959.3	0.3	0.1	0.6	1.6
KLCI	1449.6	(0.3)	(0.7)	(0.7)	(3.1)
KOSPI	2572.9	1.5	1.0	0.1	15.0
Nikkei 225	33168.1	1.4	0.5	2.9	27.1
SET	1545.1	0.6	(0.3)	1.6	(7.4)
TWSE	16807.6	1.4	1.1	2.1	18.9
BDI	1340	3.9	17.4	14.9	(11.6)
CPO (RM/mt)	3644	(0.2)	(4.2)	(2.4)	(10.0)
Brent Crude (US\$/bbl)	94	2.0	4.2	8.7	9.1

Source: Bloomberg

### TOP VOLUME

Company	Price (HK\$)	Chg (%)	Volume ('000)
XIAOMI CORP-W	12.24	2.7	81,192
SENSETIME-W	1.48	0.0	55,785
COUNTRY GARDEN S	9.25	(5.9)	51,201
CHINA JINMAO HOL	1.17	(2.5)	41,717
CHINA POWER INTE	3.00	0.3	40,860

### TOP GAINERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
EAST BUY HOLDING	39.60	5.7	16,773
ORIENT OVERSEAS	102.70	4.6	983
BRILLIANCE CHINA	3.44	4.2	21,836
CHINA SHENHUA-H	24.65	3.8	32,929
CHINA UNICOM	5.77	3.6	40,776

### TOP LOSERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
COUNTRY GARDEN S	9.25	(5.9)	51,201
SINOTRUK HK LTD	14.20	(3.7)	6,552
CHINA RES CEMENT	2.20	(3.5)	16,345
CHINA STATE CONS	8.44	(3.4)	3,095
LI NING CO LTD	35.80	(2.8)	28,574

### 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

### SECTOR UPDATE

## Automobile – China

Weekly: Passenger EV Retail Sales Up 40% yoy/9% mom, Beating Estimates

**China's passenger EV retail sales grew 31% yoy/8.9% mom to 698,000 units in Aug 23, in line with estimates, and spiked by 40% yoy/9% mom to 172,000 units in 1-10 Sep 23, beating estimates. We keep our estimate on 2023 China's passenger EV sales at 8.5m units (+30% yoy). BYD saw accelerating pile-up of inventories from Jun 23 to Aug 23, as dealers stocked up on new models in anticipation of strong sales in Sep-Dec 23. Maintain UNDERWEIGHT. Top picks: BYD, CATL and Li Auto.**

### WHAT'S NEW

- August passenger EV retail sales up 31% yoy/8.9% mom, in line; but wholesale shipment up only 25.6% yoy/8.3% mom, slightly below estimates.** According to China Passenger Car Association (CPCA), China's retail sales volume of passenger electric vehicles (EV) grew 31% yoy/8.9% mom to 698,000 units, in line with estimates. However, wholesale shipment of passenger EVs only grew 25.6% yoy/8.3% mom to 799,000 units, slightly below the preliminary number of 805,000 units.
- Inventories drawn down in August.** In general, China's automobile industry saw a drawdown in channel inventories in August. Based on the wholesale shipment and retail sales figures from CPCA, the number of PV inventories in channel decreased by 13,000 units/157,000 units in Aug 23 and 8M23 respectively, representing 0.7%/1.2% of total retail sales volume during the periods. According to China Automobile Dealer Association (CADA), inventory-to-sales ratio at the dealer level fell from 1.7 months as of end-Jul 23 to 1.54 months as of end-Aug 23, albeit still above alert threshold of 1.5 months.
- 1-10 Sep 23 retail sales of passenger EVs grew 40% yoy/9% mom, beating estimates.** China's PV retail sales volume reached 439,000 units in 1-10 Sep 23, up 14% yoy and flat mom. The growth in PV retail sales was primarily driven by EVs. Passenger EV retail sales volume grew 40% yoy/9% mom to 172,000 units in 1-10 Sep 23, representing 39.2% of total PV retail sales volume during the period, up from 35.9% in the same period last month and 31.9% in the same period last year.
- 1-10 Sep 23 wholesale shipment of passenger EVs slowed due to destocking.** China's passenger EV wholesale shipment reached 172,000 units (+12% yoy/+13% mom), on a par with the retail sales volume. Taking into consideration export volume, the number of channel inventories should have decreased by 20,000-30,000 units in 1-10 Sep 23.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 14 Sep 23 (lcy)	Target Price (lcy)	Upside/(Downside) to TP (%)	Market Cap (US\$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	ROE (%)	Net Gearing (Cash) (%)
BYD	1211 HK	BUY	244.80	590.00	141.0	90,882	27.2	17.2	4.9	3.9	19.6	(26.7)
Geely Automobile	175 HK	SELL	9.65	6.50	(32.6)	12,352	22.8	19.2	1.1	1.1	5.0	(26.9)
Great Wall Motors	2333 HK	SELL	9.70	5.20	(46.4)	10,862	21.4	21.6	1.1	1.1	5.3	(7.7)
Guangzhou Auto	2238 HK	SELL	4.01	3.20	(20.2)	5,321	8.2	9.9	0.3	0.3	4.1	(14.9)
Li Auto Inc	2015 HK	BUY	159.00	312.00	96.2	42,349	34.6	20.6	5.6	4.4	17.7	(103.0)
XPeng	9868 HK	SELL	71.25	18.00	(74.7)	16,894	Loss	Loss	4.7	7.0	(43.3)	(58.3)
Weichai Power	2338 HK	BUY	10.78	16.00	48.4	11,899	10.1	8.7	1.6	1.4	11.0	(51.1)
Fuyao Glass	3606 HK	BUY	36.10	42.00	16.3	12,037	17.3	14.9	2.8	2.6	16.6	(18.3)
Desay SV	002920 CH	HOLD	138.04	135.00	(2.2)	10,533	52.3	39.7	10.0	8.4	20.8	0.5
Nexteer	1316 HK	SELL	4.57	2.70	(40.9)	1,466	13.9	15.1	0.7	0.7	5.4	(10.1)
Minh	425 HK	BUY	21.35	33.00	54.6	3,169	11.5	9.5	1.2	1.1	11.0	17.9
Ningbo Xusheng	603305 CH	BUY	22.36	36.00	61.0	2,048	24.0	19.3	3.3	2.8	16.9	(9.9)
CATL	300750 CH	BUY	214.93	410.00	90.8	71,931	22.2	14.4	4.7	3.7	21.9	(46.1)
EVE Energy	300014 CH	BUY	46.56	92.00	97.6	13,052	20.9	15.5	2.7	2.4	10.5	37.2
Ganfeng Lithium	1772 HK	SELL	36.30	33.00	(9.1)	9,345	7.1	9.4	1.2	1.1	14.8	6.5
GEM	002340 CH	SELL	6.24	4.00	(35.9)	4,368	66.4	77.4	1.7	1.7	2.6	53.0
Tinci Materials	002709 CH	SELL	28.20	20.00	(29.1)	7,408	20.3	23.1	4.5	4.2	21.9	2.3
Zhongsheng Group	881 HK	SELL	22.75	14.00	(38.5)	7,010	8.7	9.9	1.0	1.0	13.0	38.8
Yadea Group	1585 HK	BUY	15.64	20.00	27.9	5,985	17.0	14.4	5.3	4.4	34.7	(139.1)

Source: Bloomberg, UOB Kay Hian

## UNDERWEIGHT

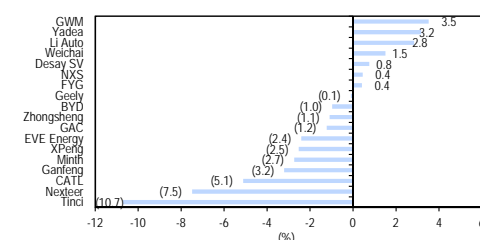
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### TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
BYD	1211 HK	BUY	244.80	590.00
Li Auto	2015 HK	BUY	159.00	312.00
CATL	300750 CH	BUY	214.93	410.00

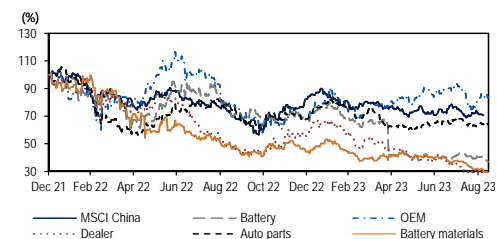
Source: UOB Kay Hian

### WEEKLY STOCK PERFORMANCE



Source: Bloomberg

### RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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• **We keep our estimates on China's 2023 PV sales and passenger EV sales at 23.8m units (+1% yoy) and 8.5m units (+30% yoy) respectively, implying 36% EV penetration.** We expect China's EV sales to be driven by the country's supportive policies, plug-in hybrid electric vehicles (PHEV) continuously taking market share from ICE-cars, and burgeoning exports. Our estimated 8.5m units of China's 2023 passenger EV wholesale shipment comprises 7.5m units of domestic sales and 1m units of exports.

• **BYD saw accelerating inventory pile-up in Jul-Aug 23, as dealers stocked up in anticipation of strong sales in the high season during Sep-Dec 23.** BYD's wholesale shipment remained well above the summation of its retail sales volume (as measured by insurance registrations) and export volume ytd. The combined number of retail sales and export volume of BYD (including Denza) remained at 230,000-250,000 in Jun-Aug 23, while wholesale shipment grew from 251,685 units in Jun 23 to 274,086 units in Aug 23. In 8M23, BYD recorded 1.78m units in wholesale shipment (+83% yoy), vs around 1.52m units in retail sales volume and 117,481 units in export volume during the period. That implies an increase of about 142,000 units in inventories in channel or 0.65 months of monthly retail sales volume.

It seems that BYD's dealers stocked up (especially on new models such as Seal DM-i, Song L, Bao 5 and Yangwang U8) in anticipation of strong sales during the high season in Sep-Dec 23. We expect BYD's retail sales to catch up with wholesale shipment in Sep-Dec 23. We maintain our 2023-25 sales estimates for BYD at 3m units/4m units/5.2m units respectively.

• **China's power battery installation volume grew 25.8% yoy/8.3% mom to 34.9GWh; CATL's market share rebounded 2.5ppt mom to 44.3%, albeit still down 2.5ppt yoy.** Ytd, the largest player CATL has lost market share to Chinese power battery manufacturing peers like BYD. On the other hand, CATL is capturing market share from Korean battery manufacturers like LG Energy and Samsung SDI. Overall, CATL's global market share increased by 1.2ppt yoy to 36.6% in 7M23. BYD remained the second largest power battery manufacturer in China with market share spiking by 5.1ppt yoy and falling 2.0ppt mom to 27% in Aug 23, by virtue of the buoyant growth of its in-house EV production and growing external sales to Tesla and other OEMs.

• **China export topped record 408,000 units in August, up 32.1% yoy and 3.9% mom,** bringing 8M23 vehicle export to 2.941m units (+61.9% yoy). Since Aug 22, China has surpassed Japan as the largest vehicle exporting country. China's EV export grew 8.1% yoy and dropped 11.2% mom to 90,000 units in Aug 23 and doubled yoy to 727,000 units in 8M23. In 2023, China's vehicle exports will probably reach 4m-5m units, with new energy vehicles contributing significantly to export growth. These vehicles have already been sold in over 160 countries and regions, with countries along the "Belt and Road" accounting for nearly half of the export volume.

• **The EU starts anti-dumping probe on China-made EVs - we see limited impact on China's automobile industry for now.** The European Union (EU) announced yesterday that it had launched an anti-subsidy investigation into electric vehicles (EVs) from China, claiming that prices are artificially low due to huge state subsidies. We see the EU's dumping accusation against China-made cars is not valid, and even if the EU goes ahead with the restriction, the impact would be limited.

For example, the BYD Atto 3 and Seal sell for Eur38,000 and Eur44,990 respectively, or roughly Rmb295,000 and Rmb350,000, in Europe, well above the two models' starting prices of Rmb139,800 and Rmb189,800 in China. The Chinese government has expressed objection to the EU's accusation and called for collaboration in the EV development.

Chinese auto exports to Europe are currently still small, though their share in the European market has risen fast. The share of Chinese cars in the total European car market has risen from 0.1% in 2019 to 2.8% in the 7M23. The share of the market for pure battery electric cars spiked from 0.5% in 2019 to 8.2% in 7M23, selling 86,000 battery electric cars. However these 86,000 BEVs only accounted for 1.9% of total wholesale shipments of 4.53m units in 7M23. BYD, for example, only sold 2,492 EVs in Europe in 7M23, representing 0.16% of its total sales during the period.

**UOBK's FORECASTS ON CHINA AUTO SALES**

(m units)	2022	2023F	yoy % chg
EV	6.9	9.0	30.9
- PV	6.5	8.5	30.0
- CV	0.3	0.5	48.4
ICE-car	20.0	18.6	(6.9)
- PV	17.0	15.3	(10.1)
- CV	3.0	3.3	11.4
Total auto	26.9	27.6	2.8
- PV	23.6	23.8	1.0
- CV	3.3	3.8	15.2
EVs' share (%)			
PV	27.8	35.7	8.0
CV	10.2	13.2	2.9
Overall	25.6	32.6	7.0

Source: CAAM, CPCA, UOB Kay Hian

**MONTHLY PV SALES IN CHINA (AUG 23)**

	Aug 23	yoy % chg	mom % chg	8M23	yoy % chg
Wholesale shipment					
EV	799	25.6	8.3	5,078	38.5
- BEV	551	11.8	11.1	3,564	24.3
- PHEV	248	73.4	2.5	1,514	89.3
ICE-car	1,438	(1.8)	8.6	10,294	(4.3)
Total	2,237	6.5	8.5	15,372	6.6
EV share (%)	35.7	5.4	(0.1)	33.0	7.6
Retail sales					
EV	698	31.0	8.9	4,441	35.9
- BEV	491	22.8	16.6	3,001	19.7
- PHEV	226	69.9	2.7	1,440	89.5
ICE-car	1,222	(8.9)	8.5	8,779	(9.4)
Total	1,920	2.5	8.7	13,220	2.0
EV share (%)	36.4	7.9	0.1	33.6	8.4
Export					
EV	79	2.9	(8.8)	651	108.7
ICE-car	251	43.3	12.4	1,651	59.2
Total	330	31.0	6.5	2,302	81.0
EVs' share (%)	24.0	(6.6)	(4.0)	28.3	5.2
Chg in inventories					
EV	22	(16.2)	113.7	7	n.a.
ICE-car	(35)	(31.8)	38.1	(164)	n.a.
Total	(13)	(48.0)	(13.3)	(157)	n.a.

Source: CPCA

**MONTHLY SALES BY OEM (AUG 23)**

	Aug 23	yoy % chg	mom % chg	8M23	yoy % chg
BYD	274,386	56.9	4.7	1,792,184	82.2
GAC	196,761	(9.7)	4.0	1,548,864	(2.5)
- EV	49,526	62.7	(0.8)	335,772	96.5
- Aion	45,026	66.6	0.0	299,268	99.0
Geely	152,626	24.5	10.5	984,805	14.6
- EV	47,299	26.1	15.3	246,202	37.4
- Zeekr	12,303	71.7	2.2	66,975	114.7
- Galaxy	11,117	n.a.	10.5	30,848	n.a.
GWM	114,096	29.3	4.6	742,239	4.7
- EV	26,301	119.8	(9.1)	148,316	71.4
Tesla	84,159	9.3	30.9	624,983	56.3
Li Auto	34,914	663.8	2.3	208,165	176.1
Nio	19,329	81.0	(5.5)	94,352	31.9
Leapmotor	14,190	13.3	(1.0)	72,982	(4.7)
XPeng	13,690	42.9	24.4	66,133	(26.6)
Neta	12,103	(24.4)	20.6	84,559	(9.3)

Source: CPCA

Last but not least, Chinese carmakers, eg BYD, Geely, have been planning to build plants in Europe to penetrate into the continent. This enables them to bypass the potential trade restrictions that will be imposed by the EU.

### ACTIONS

- **Maintain UNDERWEIGHT on China's automobile sector, with a preference for the EV segment.** Based on the expected decline in China's ICE-car sales and intensifying price war in the ICE-car market, we maintain UNDERWEIGHT on China's automobile sector. However, based on the expected faster EV sales CAGR of 30% in 2023-25, we still like the EV segment. Given the declines in battery material prices due to increasing supply, we prefer the leading midstream and downstream EV plays with strong capabilities in cost control.

- **Our top BUYs include BYD (1211 HK/BUY/Target: HK\$590.00), CATL (300750 CH/BUY/ Target: Rmb390.00) and Li Auto (2015 HK/BUY/Target: HK\$246.00).** Our BUY calls are in order of preference: BYD, CATL, Li Auto, Yadea, Fuyao Glass, Minth, Ningbo Xusheng, EVE Energy, Weichai Power. Maintain SELL on Great Wall Motor, Guangzhou Auto, Nexteer, Ganfeng Lithium, GEM, Tinci Materials, and Zhongsheng.

### CHINA PASSENGER EV SALES

('000 units)	2022	8M23	yoy %								yoy % chg	mom % chg	
			chg	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23			Aug 23
Industry													
Wholesales	6,488	5,078	38.5	389	496	617	607	678	761	738	799	25.6	8.3
Retail sales volume	5,765	4,441	35.9	331	440	543	527	581	666	641	698	31.0	8.9
Export volume	615	651	108.7	76	78	70	90	91	81	87	79	2.9	(8.8)
Chg in inventories	108	(14)	n.a.	(18)	(22)	4	(10)	6	14	10	22	(16.2)	113.7
BYD													
Wholesales	1,851	1,783	83.0	150	192	206	209	239	252	261	274	57.5	5.0
Retail sales volume	1,593	1,523	n.a.	124	147	194	178	216	233	211	220	n.a.	4.1
Export volume	56	117	702.4	10	15	13	15	10	11	18	25	391.4	37.7
Chg in inventories	202	142	n.a.	15	30	(1)	16	13	8	32	29	n.a.	(8.0)

Note: Change in inventories is estimated by subtracting retail sales volume and export volume from wholesale shipment.

Source: Bloomberg, UOB Kay Hian

### WEEKLY PV SALES VOLUME IN CHINA

('000 units)	----- Retail sales -----			-- Wholesale shipment --		
	Total	EV	ICE	Total	EV	ICE
Sales volume						
1-10 Sep 23	439	172	267	460	172	288
yoy chg (%)	14	40	2	9	12	7
mom chg (%)	-	9	(5)	13	13	13

Source: CPCA

### WEEKLY RETAIL SALES VOLUME BY BRAND

	14-20 Aug	21-27 Aug	28 Aug-3 Sep	4-10 Sep	mom % chg	wow % chg
BYD	48.3	51.7	50.8	45.9	3.1	(9.6)
Denza	2.4	2.3	2.5	2.5	(3.8)	-
Tesla	13.8	16.9	11.7	10.6	(23.2)	(9.4)
Li Auto	8.0	7.7	7.4	8.5	18.1	14.9
Aion	10.5	12.5	14.5	8.2	(18.0)	(43.4)
Wuling	7.1	7.8	8.9	7.5	15.4	(15.7)
VW	3.3	4.9	5.1	4.4	29.4	(13.7)
NIO	4.1	5.0	5.0	3.8	15.2	(24.0)
Changan	3.9	4.3	4.3	3.7	8.8	(14.0)
Deepal	3.3	2.9	3.2	2.9	-	(9.4)
Leapmotor	2.9	3.1	2.9	2.7	3.8	(6.9)
XPeng	3.2	3.3	3.1	2.5	(10.7)	(19.4)
Neta	2.0	2.3	3.3	1.7	(10.5)	(48.5)
Zeekr	1.5	3.1	3.1	1.8	5.9	(41.9)

Source: Dongchedi

### CHINA EV BATTERY INSTALLATION VOLUME

	Aug 23	yoy % chg	mom % chg	8M23	yoy % chg
CATL	15.45	18.9	14.7	95.0	23.5
BYD	9.41	54.8	0.6	64.2	78.5
CALB	3.38	116.7	5.6	19.1	68.2
EVE	1.22	84.8	(7.6)	9.2	148.0
Gotion	1.24	(6.1)	(0.8)	8.5	7.0
Others	4.20	(18.3)	15.1	23.3	(11.0)
Total	34.90	25.8	8.3	219.3	35.3

Source: China Automotive Battery Innovation Alliance

SECTOR UPDATE

Healthcare – China

Easing Pressure From Anti-corruption Campaign, Long-term Growth Outlook Remains Intact

Most healthcare companies reported satisfactory 1H23 results while revising down revenue growth to factor in delays in some academic conferences and hospital procurement in 3Q23. As pressure from the anti-corruption campaign is easing, we believe sales activities of medical products will resume soon and that long-term growth outlook remains intact. We prefer companies with positive long-term outlooks and attractive valuations. Maintain OVERWEIGHT.

WHAT'S NEW

- Most healthcare companies reported satisfactory 1H23 results.
- Impact from anti-corruption campaign is a main concern for the industry growth outlook in 3Q23.
- China Daily news: NHC official: Anti-corruption campaign must not impact regular academic conferences, and more academic conferences to resume in September.

ESSENTIALS

- **Anti-corruption campaign has caused delays in hospital procurement.** Most healthcare companies have indicated that the heightened anti-corruption campaign will impact revenue growth in the short term but will be positive for long-term outlook as it promotes a healthy business environment by encouraging medical institutions and healthcare companies to adopt strict measures when carrying out future procurement and marketing activities. The campaign has resulted in delays in marketing activities of medical products previously scheduled in 3Q23. Newly-launched medical products, in particular, could face difficulties in marketing and academic promotion in the next few months. We believe this may lead to relatively slower yoy revenue growth or even a decrease for medical device and pharmaceutical companies in 3Q23.
- **NHC to correct campaign direction.** Market news indicated that National Health Commission (NHC) official, Mr Yanming Guo, has said that the anti-corruption campaign focuses on key minorities (ie, leading officials in administrative departments in the medical fields and public hospitals), and must not discourage medical staff from participating in regular academic conferences, and the scope of the centralised rectification work must not be expanded arbitrarily. NHC also noted that some of the conferences have resumed in Sep 23. We believe that the regular academic conferences will be back to normal which will support a strong momentum of revenue growth for healthcare products from 4Q23.

PEER COMPARISON

Company	Ticker	Rec	Price @ 14-Sep-23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (LCYm)	P/E		P/B		EV/EBITDA		ROE (%)	Net Gearing (%)	EPS			CAGR 2-yrs (%)	PEG 2023F (x)
							2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)			2022 (lcy)	2023F (lcy)	2024F (lcy)		
Aier Eye Hospital	300015 CH	BUY	17.93	26.00	45.0	167,258.4	43.1	34.6	7.8	6.8	26.2	20.9	18.3	(35.6)	0.3	0.4	0.5	28.6	1.5
Shenzhen Mindray	300760 CH	BUY	266.58	320.00	20.0	323,212.6	28.7	24.0	8.8	7.6	24.4	20.2	32.7	(60.0)	7.9	9.3	11.1	18.9	1.5
CSPC	1093 HK	BUY	5.73	8.00	39.6	68,205.4	9.9	8.8	1.9	1.7	6.4	5.7	20.5	(22.5)	0.5	0.5	0.6	9.4	1.1
Sinopharm Group	1099 HK	BUY	21.40	30.00	40.2	66,782.0	6.5	6.0	0.8	0.8	4.9	4.5	13.4	47.6	2.7	3.1	3.3	10.5	0.6
Sino Biopharmaceutical	1177 HK	HOLD	2.92	3.00	2.7	54,899.6	16.7	15.5	1.7	1.6	9.6	8.9	8.4	(0.2)	0.2	0.2	0.2	4.6	3.6
Frontage	1521 HK	SELL	2.16	1.50	-30.6	4,447.0	20.0	15.4	1.6	1.5	16.4	12.5	6.1	7.9	0.02	0.01	0.02	2.9	6.9
Innovent Biologics	1801 HK	BUY	35.80	43.00	20.1	55,159.1	n.a.	n.a.	4.1	3.5	n.a.	n.a.	n.a.	18.8	(1.7)	(0.7)	(0.4)	-51.9	n.a.
Ping An Good Doctor	1833 HK	HOLD	18.84	18.00	-4.5	21,078.4	n.a.	n.a.	1.5	1.5	n.a.	n.a.	n.a.	(25.4)	(0.5)	(0.5)	(0.3)	-28.4	n.a.
WuXi Biologics	2269 HK	HOLD	41.90	47.00	12.2	178,107.1	28.7	22.5	4.0	3.4	23.7	17.8	13.6	(11.8)	1.1	1.4	1.7	24.1	1.2
WuXi AppTec	2359 HK	BUY	81.60	92.70	13.6	246,093.2	20.3	16.5	4.1	3.5	15.0	12.1	20.8	(4.6)	3.2	3.7	4.6	20.1	1.0
Ali Health	241 HK	BUY	4.60	6.50	41.3	62,253.3	62.3	51.5	3.8	3.7	456.5	171.5	3.7	(79.0)	0.06	0.07	0.08	22.8	2.7
Venus MedTech	2500 HK	HOLD	4.91	5.00	1.8	2,165.4	n.a.	n.a.	0.6	0.7	n.a.	66.3	n.a.	(16.9)	(2.4)	(1.0)	(0.3)	-62.8	n.a.
Shanghai Henlius	2696 HK	SELL	11.86	9.00	-24.1	6,445.8	13.3	9.9	2.9	2.2	10.6	7.7	23.5	130.0	(1.3)	0.8	1.1	n.a.	n.a.
China Shineway	2877 HK	BUY	7.10	10.00	40.8	5,871.7	5.3	4.4	0.7	0.6	0.0	0.0	14.0	(78.0)	1.0	1.2	1.5	25.1	0.2
Hansoh Pharma	3692 HK	BUY	10.04	13.00	29.5	59,570.8	20.4	16.8	2.2	2.0	13.0	10.9	11.4	(35.0)	0.44	0.46	0.56	12.8	1.6
TUL	3933 HK	BUY	7.48	8.50	13.6	13,591.4	6.2	5.7	1.1	1.0	2.8	2.6	18.4	(33.5)	0.87	1.13	1.22	18.6	0.3
MicroPort Scientific	853 HK	SELL	12.54	9.50	-24.2	22,994.5	n.a.	n.a.	2.5	2.4	n.a.	n.a.	n.a.	(38.6)	(0.24)	(0.15)	(0.15)	-20.9	n.a.
Average							21.6	17.8	2.9	2.6	13.9	11.3	15.8					16.5	1.9

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

TOP PICKS

Company	Rec	Share Price (lcy)	Target Price (lcy)
Aier Eye Hospital (300015 CH)	BUY	17.93	26.00
Mindray (300760 CH)	BUY	266.58	320.00
CSPC (1093 HK)	BUY	5.73	8.00
Innovent (1801 HK)	BUY	35.80	43.00
TUL (3933 HK)	BUY	7.48	8.50
Shineway (2877 HK)	BUY	7.10	10.00
Henlius (2696 HK)	SELL	11.86	9.00
MicroPort (853 HK)	SELL	12.54	9.50

Source: UOB Kay Hian

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- **GPO tenders on medical devices and drugs will continue to foster innovation.** The 9th round of drug group purchasing organisation (GPO) tenders is expected to kick start in Oct 23. There are 44 products (including 195 specifications) included in this round of tender programme. Led by Shandong Province, the purchasing alliance of 15 provinces has also released the “Centralised Procurement Document of Purchasing Alliance for Traditional Chinese Medicine Formula Granules (for consultation)” which requires over 40% price cuts on 200 types of TCM granules. Moreover, the volume-based procurement programmes on various medical consumables (including certain central nervous system (CNS) devices, in vitro diagnostics (IVD) reagents, and minimally invasive surgical products, etc) are also taking place in 2H23. We view the GPO policy as positive for promoting innovation in China.
- **Remain cautiously positive on CRO/CDMO service providers.** All three CRO/CDMO companies under our coverage have reported significantly slower revenue and earnings growth in 1H23. WuXi AppTec and WuXi Bio still see satisfactory non-COVID-19 revenue growth in 1H23. However, given intensifying market competition and weak market conditions, Frontage faced considerable challenges in maintaining growth momentum. We remain cautiously positive on the CRO/CDMO sector due to the slow recovery of biotech funding environment. According to HSBC Innovation Banking, investment in early-stage biotech fell 40% yoy in 1H23. In 1H23, investors put US\$2b into 81 seed and Series A deals for biotech companies, well below each of the last three years. Venture investment in the biotech sector totalled US\$10.6b over 320 deals, also significantly lower than previous years.
- **Accumulate stocks with positive long-term outlooks and attractive valuations.** As the NHC corrects the direction of the anti-corruption campaign, we believe academic promotional activities will resume and sales growth will also regain pace in 4Q23. The long-term outlook of the healthcare industry remains stable. Among the companies under our coverage, we prefer companies with positive outlooks in the long term and attractive valuations, such as Aier Eye Hospital (300015 CH), Mindray (300760 CH), Innovent (1801 HK), TUL (3933 HK), CSPC (1093 HK), and Shineway (2877 HK).

#### ACTION

- **Aier's (300015 CH) strong service demand continues to drive growth.** Aier Eye Hospital Group (Aier) achieved satisfactory results with over 32% yoy growth in both revenue and adjusted earnings in 1H23. According to management, although the relatively weak economic condition may have impacted the growth of certain high-end businesses to some extent, the company's market penetration strategy via acquisitions and steady organic growth will enable Aier to expand market reach and continue to support a brighter revenue growth outlook. We believe the strong service demand for eye care and Aier's business expansion strategies will continue to drive the company's growth in 2H23 and for the next few years.
- **Innovent (1801 HK) experienced robust progress in commercial portfolio expansion and R&D.** It expanded its commercial product portfolio from eight to 10 products and experienced robust pharmaceutical product revenue growth of over 35.0% in 2Q23 vs just 6.7% yoy in 1Q23. The robust product revenue growth was mainly due to: a) the continued diversification of product portfolio, and b) an enhanced commercial team and improved sales strategy. Its pipelines are also well on track. It submitted new drug applications (NDA) for one product, namely IBI-376 (PI3K $\delta$  inhibitor, for relapsed or refractory follicular lymphoma (r/r FL) and has progressed seven assets in pivotal or registration trials, including IBI-362 (GLP-1R, for obesity), IBI-351 (KRAS inhibitor for NSCLC), IBI-344 (taletrectinib), IBI-126, IBI-112, IBI-311 and IBI-302 in 1H23. The robust and diversified pipeline of its over 30 innovative drug candidates will yield continuous R&D and commercial achievement in the longer term.
- **Mindray (300760 CH) reported steady results** with over 20% yoy growth for both revenue and earnings in 1H23, supported by accelerated domestic business expansion of 27.0% yoy. The company guided for slower revenue expansion in 3Q23 the anti-corruption campaign has led to 30-40% delays in purchase activities for medical equipment, especially for ultrasound & life information and support equipment. We anticipate the purchase activities for medical equipment will regain pace in the next few months given the rigid demand for medical products. We forecast Mindray to deliver relatively slower revenue growth at about 15% yoy in 2023 to reflect delays in hospital procurement activities in the 3Q23.

- **TUL (3933 HK) reported stronger-than-expected results** with revenue and adjusted net profit growth of 33.3% yoy and 104.0% yoy respectively in 1H23. Management expects possible ASP hikes to continue supporting strong momentum of bulk medicines in 2H23. Its insulin products and veterinary drugs will see stronger growth in the next few quarters. Pursuing sustainable growth, it continues to enrich its R&D pipeline covering diabetes drugs, internal secretion, autoimmune disease, ophthalmology and weight management, and has achieved smooth progress.

**Shineway (2877 HK) reported stronger-than-expected results** with revenue and net earnings growing 32.1% and 48.4% yoy respectively in 1H23. It expects its TCM formula granules revenue growth to remain robust in 2H23. The company believes that the GPO tender will bring relatively mild price pressure to its TCM granules in Hebei and market expansion opportunities in other provinces. Moreover, its innovative TCM compound Sailuotong capsule is under phase III trials in China and Australia, and is expected to be launched in 2025. We expect revenue CAGR of 20.6% for Shineway in 2023-25, supported by strong TCM formula granules and injections business expansion.

#### RISKS

- Risks include: a) worse-than-expected risks in anti-corruption campaign; b) intensifying competition; c) possible failure in development of new products and market launches; and d) other policy risks, such as GPO/volume-based procurement (VBP) tenders, and medical insurance payment reform programmes, such as diagnosis-related group (DRG) and diagnosis-intervention packet (DIP).

#### VALUATION/RECOMMENDATION

- **Maintain OVERWEIGHT on China's healthcare sector.** We adjusted PE multiples or market risk premium to reflect significant policy risk from the anti-corruption campaign. Our top picks are Aier Eye Hospital (300015 CH), Mindray (300760 CH), CSPC (1093 HK), Innovent (1801 HK), TUL (3933 HK) and Shineway (2877 HK). Most of these stocks are trading at 0.5-2.2 SD below average forward PE, which is attractive in our view. Our top SELL picks are MicroPort (853 HK) and Henlius (2696 HK).

COMPANY UPDATE

Link REIT (823 HK)

Key DPU Drivers Remain Intact; Yield At Historical High

We had a con-call with Link REIT on 12 September. Key takeaways are: a) management remains upbeat on its Hong Kong retail portfolio; b) car parks are noteworthy growth drivers with 4-5% rental escalation; and c) acquisitions should be yield accretive. Its operations remain well on track. We lower FY24 DPU by 3.0% to factor in weaker China recovery. Maintain BUY. Target price: HK\$50.70. Current yield of 6.8% offers a good entry point.

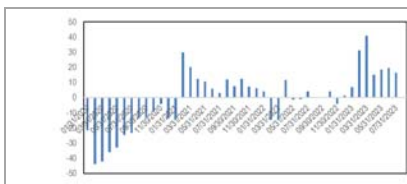
WHAT'S NEW

- We held a conference call with Link REIT on 12 September. The key takeaways are highlighted below.

STOCK IMPACT

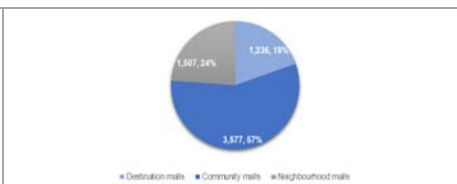
- Hong Kong retail portfolio remains resilient.** According to government data, Hong Kong retail sales grew by 17.7% in 2Q23. Management stays upbeat on Link REIT's Hong Kong retail portfolio and reiterated its target of mid-to-high single-digit rental reversion, which is expected to be underpinned by a continuous upgrade of its tenant mix.

HONG KONG RETAIL SALES - YOY



Source: Bloomberg, UOB Kay Hian

BREAKDOWN OF HONG KONG RETAIL RENTALS



Source: Bloomberg, UOB Kay Hian

- Car park business a noteworthy growth driver.** Hong Kong has been facing an undersupply of car parks. After consolidating the two car park/car service centres and godown buildings in Hung Hom and Chai Wan, revenue contribution from car parks rose to 19.5% in FY23. Hong Kong will continue to face an undersupply of car parks in the medium term, and management expects organic growth in car park income (+5.3% yoy in FY23) to be underpinned by an annual rental escalation of 4-5%.

- Stay selective on new acquisitions.** Link REIT has HK\$9b cash on hand, after paying down the HK\$4b bank loan due in Apr 23. Management reiterated that acquisitions, if any, should be yield accretive. At the moment, the gap between bidding and asking price remains wide in its target markets (ie Australia and Singapore) while Australia is likely to start the repricing process sooner. The high interest rate on cash (>4%) will help to lower the opportunity cost of Link REIT.

KEY FINANCIALS

Year to 31 Mar (HK\$m)	2022	2023	2024F	2025F	2026F
Net turnover	11,602	12,234	13,225	13,975	14,737
EBITDA	8,348	8,634	9,287	9,814	10,349
Operating profit	8,264	8,545	9,191	9,713	10,242
Net profit (rep./act.)	6,894	15,451	6,581	7,105	7,733
Net profit (adj.)	6,479	6,134	6,581	7,105	7,733
EPS (HK cent)	307.0	240.2	254.7	271.9	292.6
PE (x)	305.7	274.3	254.7	271.9	292.6
P/B (x)	12.1	15.5	14.6	13.7	12.7
EV/EBITDA (x)	0.5	0.5	0.5	0.5	0.5
Dividend yield (%)	8.2	7.4	6.8	7.3	7.8
Net margin (%)	59.4	126.3	49.8	50.8	52.5
Net debt/(cash) to equity (%)	28.9	27.0	28.5	28.6	28.6
Interest cover (x)	9.2	5.2	5.2	5.8	7.0
ROE (%)	4.3	8.8	3.6	4.0	4.3
Consensus DPU (HK cent)	n.a.	n.a.	266.2	281.4	297.4
UOBKH/Consensus (x)	-	-	0.96	0.97	0.98

Source: MicroPort Scientific Corporation, Bloomberg, UOB Kay Hian

BUY  
(Maintained)

Share Price	HK\$37.30
Target Price	HK\$50.70
Upside	+35.9%
(Previous TP)	HK\$58.68)

COMPANY DESCRIPTION

Link REIT is the first REIT in Hong Kong and currently the largest in Asia in terms of market capitalisation. Spanning Hong Kong, Beijing, Shanghai, Shenzhen, Guangzhou, Sydney and London, its portfolio comprises mostly retail and office properties.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	823 HK
Shares issued (m):	2,553.8
Market cap (HK\$m):	95,258.4
Market cap (US\$m):	12,171.1
3-mth avg daily t'over (US\$m):	34.4

Price Performance (%)

52-week high/low HK\$62.83/HK\$37.30

1mth	3mth	6mth	1yr	YTD
(2.7)	(20.2)	(23.3)	(37.5)	(33.0)

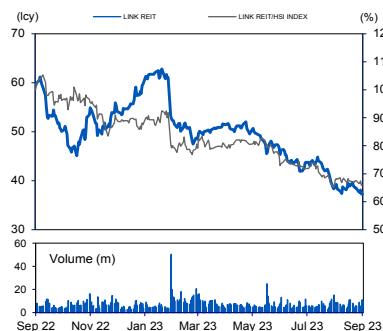
Major Shareholders

%

FY24 NAV/Share (HK\$) 69.25

FY24 Net Debt/Share (HK\$) 19.74

PRICE CHART



Source: Bloomberg

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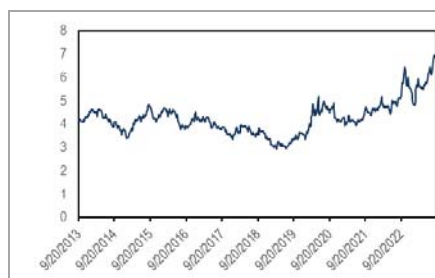
### EARNINGS REVISION/RISK

- **Trim DPU forecast.** We slightly lower our assumption of rental reversion of Link REIT's China portfolio to reflect the impact of a weaker-than-expected recovery of the macro economy. Consequently, our FY24/FY25/FY26 DPU forecasts are lowered by 3.0%/2.4%/0.4% respectively to HK\$2.547/HK\$2.719/HK\$2.926.

### VALUATION/RECOMMENDATION

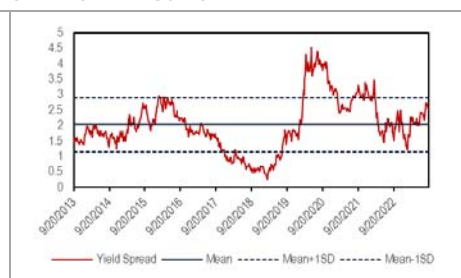
- **Maintain BUY with lower target price of HK\$50.70.** We lower target price to HK\$50.70 on higher risk premium. Our target price implies 5.0% FY24 dividend yield. Link REIT is currently trading at 6.8% FY23 dividend yield, which: a) hits a historical high; and b) implies 2.5% yield spread over 10-year US Government Bond yield. Its current price offers a good entry point. Looking forward, we see a higher possibility of re-rating LINK REIT, as in a challenging macro environment: a) its high exposure to community and neighbourhood malls makes it defensive; and b) companies with stable cash flow and earnings growth will attract more investor interest.

LINK REIT-1FY DPU YIELD (2013-23)



Source: Bloomberg, UOB Kay Hian

LINK REIT - 1FY DPU YIELD SPREAD OVER 10-YEAR US BOND YIELD



Source: Bloomberg, UOB Kay Hian

### SHARE PRICE CATALYST

- Stronger-than-expected recovery of Hong Kong and China economies.
- China and Hong Kong governments introducing stimulus measures to boost consumption.

### PROFIT & LOSS

Year to 31 Mar (HK\$m)	2023	2024F	2025F	2026F
<b>Net turnover</b>	12,234.0	13,224.6	13,975.1	14,737.4
EBITDA	8,633.6	9,286.8	9,813.9	10,349.2
Deprec. & amort.	88.6	95.7	101.2	106.7
EBIT	8,545.0	9,191.1	9,712.7	10,242.5
Total other non-operating income	9,317.0	0.0	0.0	0.0
Associate contributions	85.0	150.0	150.0	150.0
Net interest income/(expense)	(1,648.0)	(1,774.8)	(1,680.7)	(1,471.4)
<b>Pre-tax profit</b>	<b>16,299.0</b>	<b>7,566.2</b>	<b>8,181.9</b>	<b>8,921.1</b>
Tax	(1,006.0)	(1,134.9)	(1,227.3)	(1,338.2)
Minorities	158.0	150.0	150.0	150.0
<b>Net profit</b>	<b>15,451.0</b>	<b>6,581.3</b>	<b>7,104.6</b>	<b>7,732.9</b>

### CASH FLOW

Year to 31 Mar (HK\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>7,934.6</b>	<b>9,200.4</b>	<b>9,024.9</b>	<b>9,459.1</b>
Pre-tax profit	16,299.0	7,566.2	8,181.9	8,921.1
Tax	(1,006.0)	(1,134.9)	(1,227.3)	(1,338.2)
Deprec. & amort.	88.6	95.7	101.2	106.7
Associates	n.a.	n.a.	n.a.	n.a.
Working capital changes	156.0	806.6	209.3	212.6
Non-cash items	(9,251.0)	92.0	79.0	85.5
Other operating cashflows	1,648.0	1,774.8	1,680.7	1,471.4
<b>Investing</b>	<b>(923.5)</b>	<b>(674.8)</b>	<b>(765.3)</b>	<b>(679.6)</b>
Capex (growth)	(29.5)	(31.9)	(33.7)	(35.6)
Investments	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	106.0	357.1	268.5	356.0
<b>Financing</b>	<b>4,197.0</b>	<b>(12,586.3)</b>	<b>(8,802.5)</b>	<b>(9,258.5)</b>
Distribution to unitholders	(6,360.0)	(6,454.3)	(6,853.3)	(7,431.2)
Issue of shares	12,049.0	0.0	0.0	0.0
Proceeds from borrowings	262.0	(4,000.0)	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(1,754.0)	(2,132.0)	(1,949.2)	(1,827.4)
<b>Net cash inflow (outflow)</b>	<b>11,208.1</b>	<b>(4,060.7)</b>	<b>(542.8)</b>	<b>(479.0)</b>

### BALANCE SHEET

Year to 31 Mar (HK\$m)	2023	2024F	2025F	2026F
<b>Fixed assets</b>	<b>1,463.0</b>	<b>1,125.1</b>	<b>1,057.7</b>	<b>986.5</b>
Other LT assets	246,622.0	237,642.3	239,642.3	241,642.3
Cash/ST investment	13,987.0	9,926.4	9,383.5	8,904.5
Other current assets	5,847.0	5,141.6	5,231.1	5,322.0
<b>Total assets</b>	<b>267,919.0</b>	<b>253,835.4</b>	<b>255,314.6</b>	<b>256,855.4</b>
ST debt	4,133.0	4,133.0	4,133.0	4,133.0
Other current liabilities	5,618.0	5,719.1	6,018.0	6,321.5
LT debt	60,780.0	56,780.0	56,780.0	56,780.0
Other LT liabilities	8,213.0	8,213.0	8,213.0	8,213.0
Shareholders' equity	188,940.0	178,905.2	180,235.6	181,622.9
Minority interest	120.0	(30.0)	(180.0)	(330.0)
<b>Total liabilities &amp; equity</b>	<b>267,919.0</b>	<b>253,835.4</b>	<b>255,314.6</b>	<b>256,855.4</b>

### KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	70.6	70.2	70.2	70.2
Pre-tax margin	133.2	57.2	58.5	60.5
Net margin	126.3	49.8	50.8	52.5
ROA	6.3	2.5	2.8	3.0
ROE	8.8	3.6	4.0	4.3
<b>Growth</b>				
Turnover	5.4	8.1	5.7	5.5
EBITDA	3.4	7.6	5.7	5.5
Pre-tax profit	100.3	(53.6)	8.1	9.0
Net profit	124.1	(57.4)	8.0	8.8
Net profit (adj.)	(5.3)	7.3	8.0	8.8
EPU	(21.8)	6.1	6.7	7.6
<b>Leverage</b>				
Debt to total capital	25.6	25.4	25.3	25.1
Debt to equity	34.4	34.0	33.8	33.5
Net debt/(cash) to equity	27.0	28.5	28.6	28.6
Interest cover (x)	5.2	5.2	5.8	7.0

TRADERS' CORNER



Chart by TradingView

**Huadian Power International Corporation Ltd. (1071 HK)**

Trading Buy range: HK\$3.25-3.35

Last price: HK\$3.39

Target price: HK\$3.48/HK\$3.60

Protective stop: Breaks below HK\$3.00

**Stock Highlights:**

In 1H23, the turnover of the Group increased 20.7% to Rmb59,053m. The profit for the period attributable to equity holders of the company increased 80.9% to Rmb2,877m.

**Technical View:**

Share price formed a round bottom pattern in early September, and recently rebounded to near its 200-day moving average (purple). The price is also higher than the 10-day (light blue) and 20-day (orange) moving averages, but is restricted by the 50-day moving average (red) at the moment. The 14-day RSI is above the midline level of 50 and is currently around 56, indicating strong momentum. The MACD line is higher than the signal line, showing a bullish crossover.

**Average timeframe: Around two weeks.**



Chart by TradingView

**Travelsky Technology Ltd. (696 HK)**

Trading Buy range: HK\$14.50-14.80

Last price: HK\$14.84

Target price: HK\$15.30/HK\$15.50

Protective stop: Breaks below HK\$14.00

**Stock Highlights:**

In 1H23, total operating income increased 45.6% to Rmb3,308b. Total comprehensive income attributable to shareholders of the company increased 171% to Rmb1,20b.

**Technical View:**

Share price fell to around HK\$14.00 several times in August and was supported at this level. The price is currently higher than its 10-day (light blue), 20-day (orange) and 50-day (red) moving averages, but is restricted by the 200-day moving average (purple) at the moment. 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, showing a bullish crossover.

**Average timeframe: Around two weeks.**

**ANALYST(S)**

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