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KEY HIGHLIGHTS

Strategy

Alpha Picks: October Conviction Calls

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We expect further downside pressure, so we add SELLS on Henlius and Xpeng to the list, on top of BUYs on Anta, Lenovo, PICC P&C and SHKP.

Small-Mid Cap Biweekly

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Major generative AI upgrades; Wondershare is the beneficiary.

TRADERS' CORNER

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Samsonite International S.A. (1910 HK): Trading Buy range: HK\$26.00-27.00

Vinda International Holdings (3331 HK): Trading Buy range: HK\$18.60-19.00

CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
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	33166.0	(0.8)	(1.3)	(4.8)	0.1
S&P 500	4258.9	(0.7)	(0.3)	(5.7)	10.9
FTSE 100	7495.8	(0.2)	(1.7)	0.4	0.6
AS30	7141.0	(1.3)	(1.3)	(5.1)	(1.1)
CSI 300	3689.5	(0.3)	0.5	(2.7)	(4.7)
FSSTI	3192.4	(0.5)	(0.7)	(1.4)	(1.8)
HSCEI	5949.2	(3.2)	(3.0)	(8.9)	(11.3)
HSI	17331.2	(2.7)	(2.2)	(8.0)	(12.4)
JCI	6940.9	(0.3)	(0.8)	(0.8)	1.3
KLCI	1420.0	0.1	(1.6)	(2.9)	(5.0)
KOSPI	2465.1	0.1	(3.7)	(3.1)	10.2
Nikkei 225	31237.9	(1.6)	(3.3)	(5.2)	19.7
SET	1447.3	(1.5)	(3.1)	(6.5)	(13.3)
TWSE	16454.3	(0.6)	0.0	(1.1)	16.4
BDI	1780	2.5	5.1	67.1	17.5
CPO (RM/mt)	3660	(0.8)	(0.5)	(6.2)	(9.6)
Brent Crude (US\$/bbl)	91	(0.1)	(3.6)	2.3	5.5

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
JD-SW	111.40	(3.2)	1,282.4
HKEX	285.80	(2.3)	1,254.5
LI AUTO INC-A	134.10	(3.0)	1,248.6
WUXI BIOLOGICS C	44.45	(2.6)	830.2
KUAISHOU-W	62.60	(0.4)	732.9

TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
BYD ELECTRONIC	36.00	0.8	135.8
CHINA POWER INTE	2.86	0.4	52.3
KUAISHOU-W	62.60	(0.4)	732.9
XPENG INC-A SHRS	69.50	(0.6)	640.8
KINGSOFT CORP	28.20	(0.7)	106.6

TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
ZHONGSHENG GROUP	20.30	(7.9)	93.1
COUNTRY GARDEN S	7.51	(7.1)	170.0
HANSOH PHARMACEU	9.94	(6.8)	90.4
JD LOGISTICS INC	9.29	(6.6)	31.5
LONGFOR GROUP HO	13.16	(6.5)	227.2

*ADT: Average daily turnover

KEY ASSUMPTIONS

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

Source: Bloomberg, UOB ETR, UOB Kay Hian

STRATEGY – GREATER CHINA

Alpha Picks: October Conviction Calls

MSCI China and HSI fell 1.2% and 1.4% respectively in September as investors' sentiment was dampened by the weaker macro data and renewed property sector woes. Moreover, higher US bond yields and US dollar strength added to the downside pressure. For October, we expect further downside pressure, so we add SELLS on Henlius and Xpeng to the list, on top of BUYs on Anta, Lenovo, PICC P&C and SHKP.

WHAT'S NEW

- **Review of September.** The MSCI China and HSI fell 1.2% and 1.4% respectively in September, bringing ytd declines to 8.9% and 10.0% respectively. Weaker macro data released during the month and the arrest of Evergrande's Chairman led to renewed concerns on the property sector, weighing on the broader market. The higher US interest rates and dollar strength were other negatives. In addition, Hong Kong developers (key index stocks) were dragged lower by the weak property sales momentum and higher mortgage rates.
- **October could see increased downside pressure,** as the per capita tourism spend during the first three days of the Golden Week is estimated to be down yoy. Moreover, the 3Q23 GDP data to be released later in the month is unlikely to provide upside surprises. We are adding Anta, Lenovo, PICC P&C and SHKP to our BUY list and also SELL calls on Henlius and Xpeng to our list.

ACTION

- **Add Anta (2020 HK) to our BUY list** as we expect to see decent retail sales momentum in Golden Week and more positive messages after the investor days.
- **Add Lenovo (992 HK) to our BUY list** as we saw improvement in PC shipment and received some positive takeaways from company events and results.
- **Add PICC P&C (2328 HK) to our BUY list** due to its robust premium growth in August as well as its market-leading CoR.
- **Add SHKP (16 HK) to our BUY list** as we expect SHKP to be a beneficiary of policy easing in Hong Kong's property market.
- **Add Henlius (2696 HK) to our SELL list** as its liquidity and audit issues remain unsolved. We also believe that the recent anti-corruption campaign and potential regional GPO tenders on biosimilars may lead to slower revenue growth.
- **Add Xpeng (9868 HK) to our SELL list** as the price cut strategy may further squeeze its margin and the company is also under pressure to raise capital.
- **Take profit** on Inovance (300124 CH) and KE Holdings (2423 HK) from our BUY list.
- **Cut losses** on COPH (2669 HK), Ping An Insurance (2318 HK), and Sands China (1928 HK).
- **Maintain BUY** on Baidu (9888 HK), BYD (1211 HK), CATL (300750 CH), CR Land (1109 HK), Giordano (709 HK), Kuaishou (1024 HK), Moutai (600519 CH) and Trip.com (9961 HK).

KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
Anta	BUY	85.30	128.00	50.1
Baidu	BUY	129.40	192.00	48.4
BYD	BUY	238.60	590.00	147.3
CATL	BUY	203.03	410.00	101.9
CR Land	BUY	30.55	47.48	55.4
Giordano Intl	BUY	2.66	3.89	46.1
Henlius	SELL	9.99	9.00	(9.9)
Kuaishou	BUY	62.60	100.00	59.7
Lenovo	BUY	7.93	10.60	33.7
Moutai	BUY	1798.55	2,520.00	40.1
PICC P&C	BUY	9.89	11.00	11.2
SHKP	BUY	81.30	112.64	38.5
Trip.com	BUY	269.20	418.00	55.3
Xpeng	SELL	69.50	18.00	(74.1)

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Sep 23 (%)	To-Date* (%)
Baidu	BUY	-4.3	-12.8
BYD	BUY	-1.5	5.3
CATL	BUY	-14.2	-12.1
COPH	BUY	-5.1	-2.4
CR Land	BUY	-5.3	-13.1
Giordano Intl	BUY	-12.3	-12.3
Inovance	BUY	-2.6	8.2
KE Holdings	BUY	3.7	3.7
Kuaishou	BUY	-4.4	18.1
Moutai	BUY	-2.6	12.2
Ping An Insurance	BUY	-2.4	-18.8
Sands China	BUY	-9.6	-19.3
Trip.com	BUY	-9.8	-9.8
Hang Seng Index		-1.4	

*Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	4Q22	2022	1Q23	2Q23	3Q23
HSI return	14.9	-15.5	3.1	-7.3	-5.9
Alpha Picks Return					
- Price-weighted	-9.7	-9.4	1.4	-5.5	-0.2
- Market cap-weighted	-1.9	-6.6	2.0	-8.6	-2.1
- Equal-weighted	1.5	-3.8	0.3	-5.9	-2.5

Assumptions for the 3 methodologies:

- 1) Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.
- 2) Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.
- 3) Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.

Source: UOB Kay Hian

ANALYST(S)

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VALUATION OF ANALYSTS' ALPHA PICKS

Company	Ticker	Rec	Price	Target	Last	PE			Yield	ROE	Market	Price/
			3 Oct 23 (lcy)	Price (lcy)	Year End	2023F (x)	2024F (x)	2025F (x)	2023F (%)	2023F (%)	Cap. (lcy m)	NTA ps (x)
BUY												
Anta	2020 HK	BUY	85.30	128.00	Dec 22	20.8	17.8	15.4	2.0	29.9	241,623	4.2
Baidu	9888 HK	BUY	129.40	192.00	Dec 22	13.7	13.0	11.7	0	7.0	361,903	1.3
BYD	1211 HK	BUY	238.60	590.00	Dec 22	27.7	17.5	12.3	0.7	19.6	722,064	6.4
CATL	300750 CH	BUY	203.03	410.00	Dec 22	21.0	13.6	9.6	1.0	21.9	892,267	5.5
CR Land	1109 HK	BUY	30.55	47.48	Dec 22	7.3	6.5	5.7	5.0	10.5	217,850	0.8
Giordano International	709 HK	BUY	2.66	3.89	Dec 22	11.2	10.0	8.9	12.0	16.6	4,288	1.2
Kuaishou	1024 HK	BUY	62.60	100.00	Dec 22	35.3	18.4	12.1	0	-8.8	272,569	5.5
Lenovo	992 HK	BUY	7.93	10.60	Mar 23	7.5	9.9	6.4	4.9	20.7	96,176	1.8
Moutai	600519 CH	BUY	1,798.55	2,520.00	Dec 22	30.9	26.5	22.4	1.7	41.7	2,259,335	9.5
PICC P&C	2328 HK	BUY	9.89	11.00	Dec 22	6.2	5.5	4.9	5.6	13.6	219,981	1.0
SHKP	16 HK	BUY	81.30	112.64	Jun 23	9.2	8.9	8.0	5.4	4.2	235,590	0.4
Trip.com	9961 HK	BUY	269.20	418.00	Dec 22	17.6	15.4	13.0	0	5.1	173,944	1.4
SELL												
Henlius	2696 HK	SELL	9.99	9.00	Dec 22	11.1	8.3	6.2	0.0	16.6	5,652	-1.7
Xpeng	9868 HK	SELL	69.50	18.00	Dec 22	n.a	n.a	n.a	n.a	-43.3	120,451	4.5

Source: Bloomberg, UOB Kay Hian

Anta – BUY (Stella Guo/Ng Jo Yee/Shirley Wang)

- Anta saw better sales momentum from August to early-September, thanks to back-to-school demand. Although Anta's management has not provided a clear forecast for retail sales in 3Q23, the company aims to meet its internal sales target, of which the company achieved only around 95% in August, and now pins its hopes on the Golden Week unleashing demand. We expect positive announcements from management at the upcoming investor day held on 17-18 Oct 23. We stay bullish on Anta given: a) the improving brand equity supported by high exposure of DTC, and b) the company's multi-brand strategy, which allows it to cater to customers' demands from different sporting segments and income groups.

SHARE PRICE CATALYST

- Event: a) Better sales momentum during the Golden Week holiday, and b) more positive sentiment after Anta's investor day.
- Timeline: 4Q23.

Baidu – BUY (Julia Pan/Ming San Soong)

- Looking to 2H23, Baidu's advertising revenue is guided to ramp up sequentially in 3Q23 and 4Q23. For 2H23, advertising revenue growth as compared to 2H21 is expected to surpass 3%. In 3Q23, Baidu Core's non-GAAP operating profit and non-GAAP operating margin are both expected to sustain positive yoy growth. In 2Q23, Baidu's core search revenue climbed 14% yoy to Rmb26.4b. Online marketing revenue growth continued to accelerate and increased 15% yoy compared to 6% in 1Q23, primarily contributed by macro recovery and continuous strong recovery in verticals with high offline exposure. In Jun 23, Baidu App's monthly active users reached 677m, up 8% yoy. Other revenue delivered 14% yoy growth in 2Q23, sustaining from 14.7% yoy in 1Q23, mainly due to the resilient AI-powered businesses and cloud business. AI Cloud delivered a decelerated growth of 13% yoy to Rmb4.8b, partially impacted by the delay in fee collection and cloud project completion. On 31 Aug 23, Baidu received approval to publicly launch its Ernie Bot which is supported by a large language model (LLM), and was among the first batch of eight companies to receive regulatory approval. On 16 Aug 23, Baidu updated its Ernie LLM 3.5 which is well-recognised by its cloud customers, AI developers and industry experts, as stated by the company. On 25 Sep 23, at the Global Sustainable Transportation Summit (2023), Baidu Intelligent Cloud showcased its intelligent traffic solution, ACE 3.0, based on a comprehensive reconstruction using large-scale models. ACE 3.0 leverages the powerful knowledge compression capabilities of large models to

aggregate and generalise the basic capabilities of vehicles, roads, cloud and maps. We maintain BUY on the company with a target price of HK\$192.00 as we remain optimistic on its significant progress in autonomous driving and first mover advantage to capture emerging AIGC-related opportunities in product and monetisation. The company is now trading at 13.3x 12-month PE, below its historical mean of 17.4x. Our target price implies 16.5x 2023F PE against 32% EPS CAGR over the next three years.

SHARE PRICE CATALYST

- Event: a) Market share expansion in the AI Cloud and Autonomous Driving (AD) segments, b) higher monetisation rates across all business units, and c) synergies between Baidu's core business and new initiatives.
- Timeline: 2H23.

BYD – BUY (Ken Lee)

- We expect BYD's 3Q23 core earnings to grow 31% yoy/15% qoq to Rmb7b in 3Q23. We expect sales and earnings to grow qoq in 3Q-4Q23 along with the sales ramp-up of the models launched in 2Q23; the debuts of new models in 2H23, including Seal DM-i, Song L, Denza N7/N8, Fang Cheng Bao 5, Yangwang U8/U9; and expansion in the overseas market. We maintain net profit forecasts for 2023-25 at Rmb23.81b/Rmb37.57b/Rmb53.36b respectively based on EV sales of 3m units/4m units/5.2m units. Maintain BUY with target price of HK\$590.00 based on 10-year DCF (WACC: 12%/terminal growth: 4%).

SHARE PRICE CATALYST

- Event: a) Growth of monthly EV sales volume, and b) upbeat 3Q23 results.
- Timeline: 4Q23.

CATL – BUY (Ken Lee)

- We expect CATL's 3Q23 earnings to grow 22% yoy/13% qoq to Rmb11b. Long-term, we maintain 2023-25 core net profit forecasts at Rmb40.07b/Rmb63.33b/Rmb90.66b respectively, based on lithium-ion battery sales volume of 430GWh/628GWh/1.08TWh. The earnings growth will be driven by 30% CAGR in global EV sales volume and the launches of new products. CATL is launching multiple brand-new battery products since 2023, including Qilin Battery, Shenxing Battery, M3P battery, condensed battery and sodium-ion battery. Gross profit per wh will likely remain steady at Rmb0.16-0.17, based on the plunge in the prices of lithium carbonate and other battery materials and the ramp-up of the company's upstream projects. Maintain BUY with target price of Rmb410.00 based on 10-year DCF (WACC: 12%/terminal growth: 4%).

SHARE PRICE CATALYST

- Event: a) Growth of monthly EV battery shipment, b) drop in lithium carbonate prices, and c) 3Q23 results.
- Timeline: 4Q23.

China Resources Land – BUY (Jieqi Liu/Damon Shen)

- In Aug 23/8M23, sales of new homes and second-hand homes in tier 1 cities have been picking up in Sep 23, thanks to stronger-than-expected policy easing. In the week of 18-24 Sep 23: a) the number of second-hand home units transacted in Beijing/Shanghai/Guangzhou/Shenzhen recorded wow growths of 6%/4%/9%/0% respectively, and mom growths of 46%/30%/25%/14% respectively, and b) the number of new home units transacted in Beijing/Shanghai/Guangzhou/Shenzhen recorded wow growths of 136%/139%/0%/8% and mom growths of 96%/40%/17%/-37% respectively. We expect property market sales recovery to continue into Oct 23. With strong presence in tier 1 and tier 2 cities, we expect that China Resources Land (CR Land) will be a key beneficiary of this round of policy easing.

SHARE PRICE CATALYST

- Event: Stronger-than-expected sales recovery.
- Timeline: 4Q23.

Giordano International – BUY (Kate Luang)

- We believe online sales and the addition of franchise stores will fuel the growth in Mainland China in 2H23, and we see proactive franchise expansion in emerging markets as the key growth driver going forward. We also noticed positive development on the restructuring in Singapore, evidenced by positive sales growth yoy after the reform, vs a double-digit yoy sales decline in 1H23. We like Giordano given: a) its improving global brand image, thanks to continuous product upgrades, localised marketing strategies and ongoing store optimisation, b) competitive advantage from nimble supply chain management that continues to support strong cash flow generation, and c) generous dividend payout policy that offers attractive dividend yield. Maintain BUY with target price of HK\$3.89 based on 10-year DCF, implying 8.2% dividend yield in 2023 and 16.4x 2023F PE. Giordano is currently trading at 11.2x 2023F PE, 1SD below its pre-pandemic historical mean of 15.6x in 2014-18. We believe that Giordano's valuation has not fully captured its growth momentum in emerging markets and strong cash flow generating capabilities.

SHARE PRICE CATALYST

- Event: a) 3Q23 operating results to be released in mid-October, b) franchise expansion in Mainland China, especially from October, and c) store relocation to prime locations in Hong Kong.
- Timeline: 2H23.

Henlius – SELL (Carol Dou/ Sunny Chen)

- Henlius reported satisfactory 1H23 results with revenue growth of 93.9% yoy and adjusted net profit of Rmb230m. It believes its HANQUYOU and HANSIZHUANG will continue to support rapid revenue growth. However, we remain concerned on the company's liquidity and audit issues, and continue to see risks in its investment with AMTD. It had approximately Rmb759.2m in cash and bank balance as at 30 Jun 23, while its bank borrowings stood at Rmb3.9b at end-Jun 23. It spent around Rmb673.8m in R&D in 1H23 and may have to continue investing significantly in its differentiated R&D pipeline. The timeline on when necessary supporting documents from AMTD on Henlius' financial investment with AMTD can be obtained also remains unknown. Meanwhile, we expect the heightened anti-corruption campaign to slow its revenue growth in the short term, with delays in some marketing activities previously scheduled in 3Q23. Moreover, Henlius expects to see no national group purchasing organisation (GPO) tenders on biosimilars in the near term, and indicates it will actively seize market expansion opportunities offered by possible regional GPO tenders on adalimumab and bevacizumab. The potential regional GPO tenders on biosimilars could still place some pressure on its revenue growth and margins. Maintain SELL and DCF-based target price of HK\$9.00, assuming WACC of 11.4% and terminal growth rate of 3%.

SHARE PRICE CATALYST

- Event: a) Liquidity and audit issues remain unsolved, b) anti-corruption campaign may lead to slower-than-expected revenue growth in the next few months, and c) potential regional GPO tenders on biosimilars could depress its revenue growth and margins.
- Timeline: 2H23.

Kuaishou – BUY (Julia Pan/ Ming San Soong)

- Kuaishou Technology (Kuaishou) guided for a better-than-expected 3Q23 and full-year 2023 outlook. Looking to 3Q23, management guided for revenue to ramp up by high teens to twenties, with online marketing/live-streaming/other services forecasted to grow at about 21%/mid-single-digit/30% yoy respectively. The strong online marketing revenue is bolstered by solid brand advertising revenue recovery (10+% in 2Q23) and mid-thirties yoy growth in e-commerce GMV. Operating profit is expected to remain stable sequentially, while net profit was guided to be around Rmb2b, thanks to lower marketing expenses and continuously narrowing overseas losses. For full-year 2023, the company expects yoy revenue growth of 20% and non-GAAP net profit of Rmb7b-7.5b. On 21 Sep 23, Kuaishou organised Kuaishou Investor Day and elaborated on the company's sustainable growth strategy and core competitive strengths to ignite commercial imagination, leveraging Kuaishou's ecosystem advantages and industry prospects. In the ecosystem aspect, the "Stream Initiatives" were launched over the past year, facilitating the integration of influencer distribution and merchants self-broadcasting GMV data. On the supply side, improved product infrastructure and the further promotion of "Stream Initiatives" and support for small- and medium-sized merchants led to greater diversification in Kuaishou's e-commerce supply. In anticipation of the upcoming Singles' Day shopping festival, Kuaishou recently introduced "Fuyao Plan", which optimises mechanisms for anchor-based live streaming and helps merchants to collaborate effectively with influencers to stimulate GMV growth. Maintain BUY on the company with a target price of HK\$100.00. Our target price implies 3x 2023F PS. The company is currently trading at 2x 12-month forward EV/Sales (15.6x 2024F PE), below its historical mean of 4x. Maintain BUY on the company with a target price of HK\$100.00. Our target price implies 3x 2023F PS. The company is currently trading at 2x 12-month forward EV/Sales (15.6x 2024F PE), below its historical mean of 4x.

SHARE PRICE CATALYST

- Event: a) Higher monetisation rates across all categories, b) less competition from peers, positive government policies to stimulate consumption, and c) lifting of regulations on internet platforms.
- Timeline: 2H23.

Moutai – BUY (Ng Jo Yee/Stella Guo/Shirley Wang)

- The industry's expectation for baijiu retail sales growth weakened ahead of the Mid-Autumn Festival and National Day holidays. Despite that, we are confident on Moutai's full-year revenue growth target of 15% yoy and improving profitability with a net margin expansion of 0.5ppt yoy, driven by: a) rising sales volume of Moutai products from capacity expansion, b) product line extension (such as Moutai 24 Solar Term series and Moutai Chinese Zodiac series), and c) expansion in direct sales channels. The company has launched a series of online and offline events (such as tasting events) and also increased the availability of non-Moutai series products in the market. Furthermore, the innovative collaborations of Moutai Latte and Mao Xiaoling liquor-filled chocolate, targeting the younger generation, have been well-received by the market. Moutai stands out with its strong brand reputation and earnings visibility. Our DCF-based target price of Rmb2,520 implies 43.4x 2023F PE.

SHARE PRICE CATALYST

- Event: Strong 3Q23 results.
- Timeline: 4Q23.

Lenovo – BUY (Johnny Yum)

- We are expecting the market's interest on AI investment to pick up in the coming months, as multiple AI developers (Google, Meta, Tesla, NVIDIA, OpenAI) will host their annual AI conference over Oct-Nov 23. We believe the key focuses of the coming events will be: a) the launch of new LLMs (such as Google's Gemini) and the development of new end-applications for AI. At the same time, we believe the market's interests on enterprise server providers such as Dell, HP and Lenovo will pick up, as NVIDIA's newly-launched L40S GPU is starting to gain momentum due to its competitive performance, as well as a much easier production ramp-up. For the PC business, we believe Lenovo is on track to conclude its inventory destocking in 3Q23, and its shipment growth had since recovered to positive territory in August, according to Digitimes Research. We are now expecting a sustained recovery in PC demand through 2024 driven by the replacement cycle of enterprise PCs. In the longer term, we expect the implementation of edge AI in personal PCs to bolster the demand for PCs in the next upcycle. Maintain BUY and target price of HK\$10.60, based on 8.5x FY2025F, on a par with its peers' (Dell and HP) average valuation.

SHARE PRICE CATALYST

- Event: a) Improvements in PC shipment, and b) positive takeaways from company events and results.
- Timeline: Oct-Dec 23.

PICC P&C – BUY (Greater China Research Team)

- In August, PICC Property & Casualty (PICC P&C) achieved a premium growth of 7.8% yoy, primarily driven by the recovery in auto insurance premium growth (5.7% yoy) and enhanced performance in non-auto premium growth (12.0% yoy). The companies are actively working to refine their business structure for more sustainable growth. They are achieving this by expanding the share of EV insurance within their auto segment and mitigating the long-term risks associated with their credit and liability insurance business. In terms of underwriting costs, PICC P&C outperformed its peers with just a marginal increase in combined ratio, CoR in 1H23 (+0.1ppt yoy vs Ping An P&C: +0.9ppt yoy, CPIC P&C: +0.6ppt yoy), thanks to its refined risk selection and pricing mechanism to stabilise its auto claim ratio against the backdrop of traffic growth after economic reopening. Despite there being few natural disasters in 3Q23, we believe the company is able to maintain its auto CoR under 97% and non-auto CoR under 100%. We continue to like PICC P&C due to: a) its market leading position with a 34.3% share of the China market, and b) its optimising business structure and strengthening risk control capabilities leading to a more sustainable CoR. Maintain BUY with a target price of HK\$11.00, pegging to 0.88x 2024F P/B, 0.5SD above its historical mean.

SHARE PRICE CATALYST

- Event: a) Robust auto insurance premium growth due to increasing auto sales volume in 2H23, b) better-than-expected CoR, and c) 3Q23 results.
- Timeline: 4Q23.

Sun Hung Kai Properties – BUY (Jieqi Liu/Damon Shen)

- On 27 Sep 23, Hong Kong Financial Secretary Paul Chan said, "We see that the current property market situation is different from that when we introduced the management measures. After all, different management measures have their goals and purposes in different scenarios. We will adopt a pragmatic attitude and continue our reviews". This is the first time Hong Kong government officials have given hints that they may ease cooling measures on the property market. Chan's latest comment concurs with XI's remarks on China's property industry in July's politburo meeting and reminds us of what happened in China's tier 1 cities afterwards. We think there is a high chance for the government to marginally lower stamp duty on property transaction for targeted groups. With a well-diversified land bank covering both luxury and mass market products, we expect Sun Hung Kai Properties (SHKP) to be key beneficiary of policy easing in Hong Kong.

SHARE PRICE CATALYST

- Event: Hong Kong Government announcing the easing of cooling measures on the property market.
- Timeline: 4Q23.

Trip.com – BUY (Julia Pan/Ming San Soong)

- Trip.com (TCOM) is well-positioned to benefit from strong pent-up demand for outbound travel and continuous domestic travel demand in 2H23 as evidenced by robust Mid-Autumn Festival and National Day pre-sales data. According to TCOM's data, domestic travel bookings for the National Day holiday has surged 88% wow and over 4x yoy. As of 13 Sep 23, flight bookings rose 5x yoy, while hotel bookings soared more than 8x yoy. TCOM's report indicates that overall outbound travel orders during the Golden Week jumped 20x yoy. The elevating consumer demand has led to higher booking prices, with the average domestic flight ticket prices for the Mid-Autumn and National Day holidays on the TCOM's platform further elevating 20% vs the summer holiday to Rmb1,293. According to TCOM's FlightAI data, the number of international passenger flights operated weekly has recovered to 52% of 2019's level, and the number of countries with open passenger flight routes has reached 90%, almost fully recovering to pre-pandemic levels. Outbound travel contributed 25-30% of TCOM's total revenue and about 40% of group EBIT before the pandemic. Therefore, the key share price driver for TCOM is still the outbound travel recovery after the border reopening. The current key concerns on TCOM remain the sustainability of its high profit growth after a normalised trajectory of travel demand over the next 12 months. However, as the company targets international travel to account for 50% revenue in the long run, we expect its revenue growth to remain solid at about 20% and profit margin to stabilise at 20-30% compared with the international players such as Booking.com and Expedia. For 2024, the full recovery in outbound travel will lift revenue growth to 15-20%, according to TCOM. The company also observed the divergent industry trends in per capita spending on its platform (grew 10% from pre-COVID-19 levels) due to increased frequency. We maintain BUY for the company with target price of HK\$418.00 (US\$56.00) implies 1.3x/1.1x 2023/24F PEG over the next three years, compared with 1.2x before the pandemic.

SHARE PRICE CATALYST

- Event: a) Continuous penetration of OTA platforms into domestic offline and lower-tier cities travel market, b) implementation of travel bubbles and c) capacity expansion of outbound flights.
- Timeline: 2H23.

XPeng – SELL (Ken Lee/Bella Lu)

- Though XPeng has seen delivery recovery since recent months, it is facing mounting earnings headwinds from stiffening price competition in China's premium EV market. Due to price cuts, XPeng's gross margin turned negative in 2Q23. The company is now cutting prices further. XPeng will launch the new G9 at Rmb263,900-359,900, 13-19% below the prices of the existing G9, by end-23. That will further squeeze XPeng's margins. Additionally, XPeng is under pressure to raise capital, as it is expected to register Rmb3b-4b in negative FCF every quarter, compared to the estimated net cash of not more than Rmb17b currently. We expect XPeng to incur net loss of Rmb13.14b/Rmb7.85b/Rmb6.17b in 2023/24/25 respectively based on sales volume of 140,000 units/200,000 units/230,000 units. Our target price of HK\$18.00 is based on DCF (WACC: 20.5%/terminal growth: 4%).

SHARE PRICE CATALYST

- Event: a) Price cuts, b) disappointing 3Q23 results, and c) fundraising.
- Timeline: 4Q23.

KEY CALLS

Major ChatGPT Upgrades

- On 27 Sep 23, OpenAI announced that ChatGPT has re-enabled the Browse with Bing feature to provide answers using the latest information instead of being limited to data available online before Sep 21. Currently, the feature is only available to premium subscribers of ChatGPT, but it will soon be open to all users.
- Open AI also unveiled DALL-E 3 recently, a text-to-image model built on DALL-E 2 and ChatGPT. When prompted with an idea, ChatGPT automatically generates tailored, detailed prompts for DALL-E 3 to bring the idea to life. Compared with previous systems, DALL-E 3 understands significantly more nuances and details, allowing users to easily translate ideas into exceptionally accurate images. DALL-E 3 will be available to ChatGPT Plus and enterprise customers in Oct 23.
- We see Wondershare (300624 CH) as a beneficiary of the recent upgrades in generative AI. Specialising in video creativity and graphics, the software development company can integrate AI technologies into its products and enable advanced features such as intelligent video editing and background noise cancelling.
- Wondershare has incorporated AI technologies into its products Filmora, PDFelement and Repairit to enhance the efficiency of video editing, summarise and proofread PDFs, and restore old photos effortlessly. More generative AI features in Filmora in 4Q23 are key points to watch out for.
- Catalyst: Nvidia AI Summit on 15-16 Oct 23; Google Gemini AI release in Dec 23.
- Risk: Slower-than-expected AI application in graphic and video editing.

UPDATES

Activation Group Holdings (9919 HK/NOT RATED/HK\$0.94)

- We attended the 2023 World Design Cities Conference (WDCC) on 28 Sep 23 in Shanghai, where Activation Group Holdings (AGH) was the main executive party responsible for venue design, content planning and conference operations.
- With the theme "Design Beyond Creativity", the 2023 WDCC gathered leading brands to create an innovative hub for showcasing new products. Design experts and entrepreneurs worldwide discussed how design enables global interconnection and how AI-generated content (AIGC) technology promotes high-quality development in the design industry.
- According to AGH's management, global luxury brands' marketing activities in 2023 have exceeded 2019 levels, especially for offline events. The company remains positive on the business environment in 2024, as it has sufficient projects in the pipeline for its experiential marketing segment.
- Catalyst: M&A for IP acquisition; positive reception to experiential marketing events and IP events.
- Valuation: Trading at 5.1x one-year forward PE, which is about 1SD below its historical mean of 12.5x.

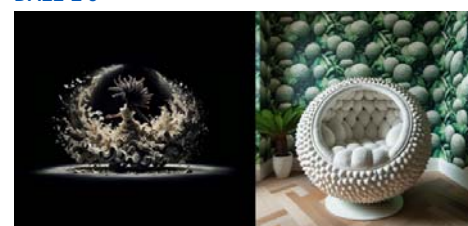
Click [here](#) for Blue Top dated 3 Oct 23

AI SECTOR PEER COMPARISON

Ticker	Company	Market Cap (Rmbm)	Fwd PE (x)	Net Gearing (%)
300624 CH	Wondershare	13,708	90.6	(18.3)
688787 CH	Ruisheng Science Tech	5,248	70.0	(57.2)
300394 CH	Suzhou TFC Optical Communication	37,514	49.1	(57.3)
000034 CH	Digital China Group	18,487	12.7	214.5
600498 CH	Fiberhome Telecommunication	23,197	31.5	69.9
Average			50.8	30.3

Source: Bloomberg, Wind, UOB Kay Hian

DALL-E 3






Source: Open AI

DALL-E 3 DELIVERS SIGNIFICANT IMPROVEMENTS OVER DALL-E 2



Source: Open AI

WONDERSHARE'S PRODUCT APPLICATIONS

Success Stories		
See More >		
 <p>Microsoft Xbox Research Team</p> <p>Microsoft Xbox Research team uses Filmora for a large group user study.</p>	 <p>Bose Automotive</p> <p>Bose Automotive reduces costs by 70% by replacing Adobe Acrobat with PDFelement.</p>	 <p>Puma Turkey</p> <p>Puma Turkey uses EdrawMind to digitize internal processes and structure project brainstorming.</p>

Source: Wondershare

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TRADERS' CORNER



Samsonite International S.A. (1910 HK)

Trading Buy range: HK\$26.00-27.00

Last price: HK\$27.00

Target price: HK\$28.00/HK\$29.30

Protective stop: Breaks below HK\$24.00

Stock Highlights:

In 1H23, net sales increased 39.8% yoy to US\$1,776.2m.

Technical View:

The share price has been trending upwards since June and is supported by an uptrend line. It is now above the 10-day (light blue), 20-day (orange), 50-day (red) and 200-day (purple) moving averages and showing in an ascending order. The 14-day RSI is above the 60 level, which is a strong indication. The MACD line has just risen through the signal line, and the two lines are in the bullish zone, which is a double-bull signal. If the stock can hold above the 10-day moving average, it may challenge the high in August of around HK\$28.00 again.

Average timeframe: Around two weeks.



Vinda International Holdings Limited (3331 HK)

Trading Buy range: HK\$18.60-19.00

Last price: HK\$19.12

Target price: HK\$19.80/HK\$20.30

Protective stop: Breaks below HK\$17.00

Stock Highlights:

In 1H23, total revenue increased 4.0% yoy to HK\$10.07b.

Technical View:

The stock price rose with a long white candle on 27 September, crossing the 10-day (light blue), 20-day (orange) and 50-day (red) moving averages, and is now under pressure at the 200-day (purple) moving average. The 14-day RSI is above the 60 level, which is a strong indication. The MACD line is higher than the signal line, which is a double-bull signal. If the price continues to move up, it may challenge the 200-day moving average.

Average timeframe: Around two weeks.

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