UOBKayHian

Greater China Daily

Thursday, 05 October 2023

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KEY HIGHLIGHTS

Sector

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Shipment on track for sequential recovery. Remain cautious on 2024's growth. Maintain MARKET WEIGHT.

Shipping and Ports Page 4

Outlook still largely cautious despite some early signs of stabilisation; sector valuation very attractive. Maintain MARKET WEIGHT. Top picks: CSH and CSP.

TRADERS' CORNER Page 7

Chinasoft International Limited (354 HK): Trading Buy range: HK$5.40-5.60

Luk Fook Holdings (590 HK): Trading Buy range: HK$20.10-20.60

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	33129.6	0.4	(1.3)	(4.9)	(0.1)
S&P 500	4263.8	0.8	(0.3)	(5.6)	11.0
FTSE 100	7412.5	(0.8)	(2.4)	(0.5)	(0.5)
AS30	7082.2	(0.8)	(2.0)	(5.8)	(1.9)
CSI 300	3689.5	(0.3)	0.5	(2.7)	(4.7)
FSSTI	3147.4	(1.4)	(1.6)	(2.5)	(3.2)
HSCEI	5882.7	(1.1)	(2.5)	(8.0)	(12.3)
HSI	17195.8	(0.8)	(1.6)	(6.8)	(13.1)
JCI	6886.6	(0.8)	(0.5)	(1.5)	0.5
KLCI	1415.8	(0.3)	(2.1)	(2.7)	(5.3)
KOSPI	2405.7	(2.4)	(4.3)	(6.8)	7.6
Nikkei 225	30526.9	(2.3)	(5.7)	(7.6)	17.0
SET	1451.3	0.3	(3.1)	(6.2)	(13.0)
TWSE	16273.4	(1.1)	(0.0)	(3.1)	15.1
BDI	1778	(0.1)	1.5	67.3	17.4
CPO (RM/mt)	3673	0.4	0.8	(5.9)	(9.3)
Brent Crude (US$/bbl)	86	(5.6)	(11.1)	(3.6)	(0.1)

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (HK$)	Chg (%)	5-day ADT (HK$m)
JD-SW	110.30	(1.0)	1,276.2
HKEX	285.40	(0.1)	1,228.3
LI AUTO INC-A	133.30	(0.6)	1,062.0
WUXI BIOLOGICS C	43.65	(1.8)	770.5
KUAISHOU-W	61.25	(2.2)	679.3

TOP GAINERS

Company	Price (HK$)	Chg (%)	5-day ADT (HK$m)
NEW WORLD DEV	14.84	2.8	170.0
SHK PPT	82.95	2.0	407.0
HENDERSON LAND D	19.92	1.6	81.2
MENGNIU DAIRY	25.30	1.4	215.3
BRILLIANCE CHINA	3.84	1.3	43.3

TOP LOSERS

Company	Price (HK$)	Chg (%)	5-day ADT (HK$m)
KINGDEE INTL SFT	8.92	(5.4)	94.8
BIDU-SW	124.10	(4.1)	641.0
XPENG INC-A SHRS	66.80	(3.9)	517.0
GDS HOLDING-CL A	9.77	(3.8)	17.0
TRIP.COM GROUP L	259.00	(3.8)	281.7

**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

SECTOR UPDATE

IT Hardware – China

Shipment On Track For Sequential Recovery; Remain Cautious On 2024's Growth

We believe the smartphone market is on track for a sequential recovery from 3Q23, driven by restocking demand and new model launches. Latest checks show that the reception to the new iPhone 15 series and Huawei Mate 60 series was exceptional, and may lead to short-term pressure for other competing brands. We are also turning more cautious on the recovery in 2024, and we trim our ASP and margins assumption for the suppliers due to the slower-than-expected recovery in the macro environment. Maintain MARKET WEIGHT.

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
Sunny Optical	2382 HK	BUY	51.65	79.50
Xiaomi	1810 HK	BUY	11.86	15.30

Source: UOB Kay Hian

WHAT'S NEW

- **Smartphone market on track for sequential recovery in 3Q23.** While the end-demand remains relatively sluggish, we believe the sell-in data should start to recover sequentially from 3Q23 onwards (albeit still decline yoy), and return to yoy expansion territory from 4Q23. The growth will be primarily driven by restocking demand in 3Q23, as most smartphone brands had finalised their inventory clearance process in mid-23. From 4Q23 onwards, the sales recovery will be driven by new product launches and a gradual pick-up of consumption appetite from a low base. For the global smartphone shipment, we are now expecting 290m (-4.0% yoy and +9.2% qoq) and 312m (+4.0% yoy and +7.7% qoq) for 3Q23 and 4Q23 respectively. The implied full-year 2023 shipment is 1,135m units (-5.8% yoy).

- **Checking in with iPhone 15 series' lead-time.** During the pre-sales period, iPhone 15 series' wait time was stretched to a new high at an average of 28/36/9 days for the Pro/Pro Max/Base models, which is significantly higher vs iPhone 14 series' 19/23/7 days. Some 12 days after the official launch, the order lead time had shifted slightly to 27/39/10 days, vs iPhone 14's 30/38/2 days. However, note that some colours are in significantly higher demand, eg in China the wait time for the white and natural colour of the Pro Max model is significantly higher at 6-7 weeks, whereas the other two colours' wait time is only 4-5 weeks. Also, the reception for the base model is a lot stronger vs iPhone 14, which is reasonable as Apple resumed specification upgrades for iPhone 15. Overall, we believe the initial data indicates that demand is better-than-feared, and we are now expecting a slight 1% yoy shipment growth for iPhones to 73m units in shipment in 4Q23 despite a high-base.

- **Implication of Huawei's re-entry.** Huawei is making waves in China's smartphone market after its Mate 60 series' launch. The performance provided by its new SoC Kirin 9000S is better than what we expected from SMIC's N+2 (equivalent to 7nm process node), as the performance it provided is closer to Qualcomm's Snapdragon 888, which is fabricated based on 5nm process nodes. Its performance is not comparable with Apple's A17 Bionic chip and Qualcomm's Snapdragon 8 gen 2, but this will not deter Chinese consumers as their buying incentives are not driven by specs.

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PEER COMPARISON

Company	Ticker	Rec	Price @ 4 Oct 23 (HK$)	Target Price (HK$)	Upside/ (Downside) to TP (%)	Market Cap (HK$ m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)	Net Gearing (%)
Sunny Optical	2382 HK	BUY	51.65	79.50	53.9	56,660	44.9	25.6	3.3	3.1	14.8	10.8	6.4	(8.2)
Xiaomi	1810 HK	BUY	11.86	15.30	29.0	296,512	17.1	18.0	1.8	1.8	12.9	10.2	10.0	(45.4)
Q Tech	1478 HK	HOLD	2.97	3.40	14.5	3,511	30.4	10.4	0.6	0.6	7.8	6.0	2.1	14.3
AAC	2018 HK	HOLD	13.08	14.50	10.9	15,829	22.4	13.4	0.6	0.6	4.1	3.1	4.1	6.6

Source: Bloomberg, UOB Kay Hian

As such, if the US sanctions towards China's access to semi equipment and Huawei remains unchanged, we expect Huawei to regain a significant amount of market share by year-end in China. The local Android brands had been more impacted by Huawei's share gains – Honor was most impacted with market share in China down by 3.1ppt in 2Q23, followed by Xiaomi (-2.5ppt yoy) and Vivo (-2.0ppt yoy). In the longer term, we believe Huawei will be constrained in China as it lacks access to Google Services, as such Xiaomi (with 26% shipment exposure to China as of 2Q23) will be best positioned to weather through the impact from Huawei's share gains compared with Oppo (70% from China), Vivo (86% from China) and Honor (86% from China). For 2023, we expect Huawei to ship 36m smartphones (+43% yoy), implying a market share of 13.3%.

- **Profitability of the value chain will depend on rate of spec upgrades, but we see near-term fluctuations.** As more consumers spending habits are switching to high-end phones, almost all brands are trying to expand into the premium smartphone market. We expect the trend to continue to forward, however with the strong reception of Huawei's Mate 60 series, we understand that the Android competitors had turned more conservative on their near term high-end smartphone shipment targets, which may impact the shipment of high-end products and hence the recovery of profitability across the supply chain in the near term.

ACTION

- **Sunny Optical (2382 HK/BUY/Target: HK$79.50).** Sunny's share price was under severe pressure recently due to two main reasons: a) funds outflow from both foreign investors (due to the US' rate hikes) and Chinese investors (likely reduced exposure prior to the Golden Week holiday); and b) the ongoing US autoworker strike as the US is a key region for Sunny's vehicle business. While we believe the liquidity issue should start to improve after China's Golden Week holiday, we believe a prolonged US autoworker strike may act as an ongoing overhang to the company's share price. However, we would like to highlight that the strike will not impact Sunny's shipment in the near term as according to our understanding, its US clients have yet to adjust shipment orders.

  We are also generally more conservative regarding the recovery of the smartphone market from 2024, and expect slower ASP/margins growth/expansion. We fine-tune our assumptions and our earnings estimates are adjusted down by ~1% for 2024-25. Our target price is adjusted to HK$79.50, still based on 31.5x 2024F PE. Maintain BUY.

- **Q Tech (1478 HK/HOLD/Target: HK$3.40).** Similar to Sunny, we cut our Q Tech's 2024-25 earnings estimates by 8-13% to factor in a more cautious outlook on the smartphone market's recovery. We also factored in the renminbi depreciation into our model, and our target price is adjusted to HK$3.40, still based on 12x 2024F PE. Maintain HOLD.

  Note that we are closely monitoring the Android market's recovery, and Q Tech's share gains in Huawei's supply chain. Historically, Q Tech's financial performance is closely correlated to Huawei's smartphone development cycle, and it should benefit greatly from Huawei's re-entry into the smartphone market. Nevertheless, we believe OFilm (and potentially Luxshare) could be the biggest beneficiary in the Mate 60 product cycle.

- **Xiaomi (1810 HK/BUY/Target: HK$15.30).** We like Xiaomi for its diversified geographic exposure, its strong presence in the higher growth emerging markets such as Latin America and South East Asia, the stringent cost control measures which can be a key bottom line driver in the coming quarters, as well as the improving visibility of its EV business. However, we are closely monitoring the potential impact from Huawei in China, as strong performance from Huawei may erode its market share particularly in China's high-end smartphone market. Maintain BUY and keep target price at HK$15.30, based on 23.5x 2024F PE.

SECTOR UPDATE

Shipping And Ports – China

Outlook Still Largely Cautious Despite Some Early Signs Of Stabilisation

Most recent economic indicators still indicate a cautious near-term outlook for global trade despite some signs of stabilisation. For container shipping, freight rates have retraced after a short-lived rebound between July and mid-August, implying earnings pressure for container shipping plays in 2H23. For ports, overall container volume of Chinese ports has been largely stable with low-to-mid single-digit growth ytd. Maintain MARKET WEIGHT given the sector's cheap valuation. Top picks: CSP and CSH.

WHAT'S NEW

- Update on several economic indicators for global trade outlook and sector statistics.

ESSENTIALS

- **Despite some signs of stabilisation, most of the recent economic indicators are still indicating a largely cautious global trade outlook in the near term.**
  - For the first time in six months, China's official manufacturing PMI recovered to above 50 to 50.2 in Sep 23 (Aug 23: 49.7), a sign of stabilising manufacturing activities. However, the new export order sub-index, which is a more direct indicator for export activities, remained in the contractionary territory at 47.8 in Sep 23. On a positive note, this was an improvement over Aug 23's 46.7 and Jul 23's 46.3, indicating a slower rate of contraction in export activities of China's manufacturing enterprises. Import sub-index stood at 47.6 in Sep 23, deteriorating slightly from Aug 23's 48.9.
  - Global manufacturing PMI, a composite index compiled by S&P Global and JP Morgan tracking 29 major manufacturing economies, improved marginally to 49.1 in Sep 23 (Aug 23: 49.0), still implying a slow global manufacturing outlook. The new export orders sub-index of 47.7 in Sep 23 was still in the contractionary territory, but an improvement over Aug 23's 47.0 and Jul 23's 46.4, indicating a slower contraction in global trade activities.
  - Retail confidence in the EU has remained weak in recent months, with a rising number of retailers surveyed indicating that they have sufficient inventory stocks and hence less urgent needs to place new orders with their suppliers.
  - After hitting a recent high in Jul 23, US consumer sentiment slowed down slightly in the past two months, as concerns remain over the Fed's hawkish stance on interest rates to tame inflation. On the positive side, the US economy has demonstrated some robustness, with Aug 23 job openings of 9.6m beating market expectations of 8.8m. The inventory destocking is taking longer than expected, with Jul 23 wholesale (1.39) and retail (1.30) inventory-to-sales ratios still on the high side compared with similar periods of the past three years.

MARKET WEIGHT

(Maintained)

SEGMENTAL RATING

Segment	Rating
Port	OVERWEIGHT
Container Shipping	MARKET WEIGHT

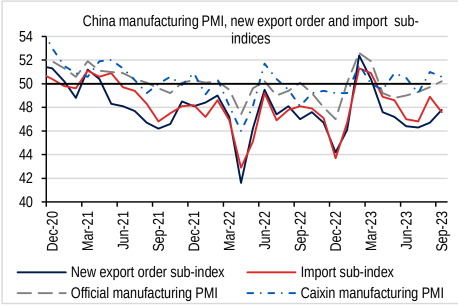
Source: UOB Kay Hian

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
CSP	1199 HK	BUY	4.75	6.00
CSH	1919 HK	BUY	7.66	9.71

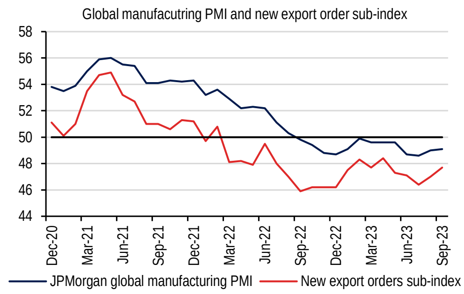
Source: UOB Kay Hian

CHINA MANUFACTURING PMI NEW EXPORT ORDERS INDEX IMPROVED TO 47.8 IN SEP 23



Source: China National Bureau of Statistics, Caixin

GLOBAL MANUFACTURING PMI NEW EXPORT ORDERS INDEX IMPROVED TO 47.7 IN SEP 23



Source: JP Morgan, S&P Global

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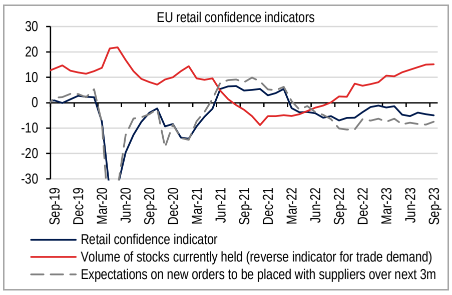
PEER COMPARISON

Segment	Company	Ticker	Rec	Price @ 4 Oct 23 (HK$)	Target Price (HK$)	Upside to TP (%)	Market Cap (US$m)	PE 2023F (x)	PE 2024F (x)	Yield 2023F (x)	Yield 2024F (x)	P/B FY23F (x)	ROE 2023F (%)	ROE 2024F (%)	Net Gearing (%)
Port	COSCO SHIPPING Ports	1199 HK	BUY	4.75	6.00	26.3	2,124	7.3	8.2	5.5	5.0	0.37	5.1	4.5	31.8
	China Merchants Port	144 HK	BUY	9.41	13.33	41.6%	4,965	6.1	7.3	7.4	6.2	0.38	6.3	5.1	26.4
Container Shipping	COSCO SHIPPING Hldg	1919 HK	BUY	7.66	9.71	26.8	15,821	3.8	8.8	13.2	5.7	0.57	15.0	6.4	(44.1)
	Orient Overseas Intl	316 HK	HOLD	101.60	95.40	(6.1)	8,569	4.5	11.1	11.0	4.5	0.73	14.9	6.5	(53.5)

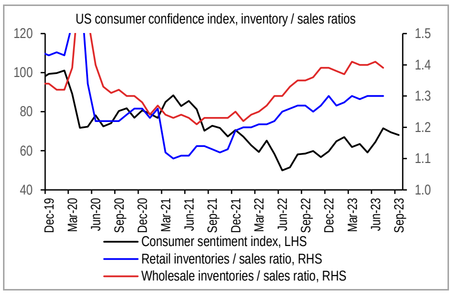
Source: Bloomberg, UOB Kay Hian

EU RETAIL CONFIDENCE STILL WEAK IN SEP 23 WITH RISING INVENTORY STOCK



Source: Eurostat

US WHOLESALE AND RETAIL INVENTORY-TO-SALES LEVEL STILL ON THE HIGH SIDE IN JUL 23



Source: US Census Bureau, University of Michigan

- **Port: China port container throughput grew 6.7% yoy in Aug 23,** faster than the 2.6% yoy growth in Jul 23. For 8M23, container throughput of Chinese ports rose 4.8% yoy. The growth was led by ports/terminals with more domestic and RCEP exposure, including those ports in the Bohai Rim cluster (Qingdao, Tianjin, Dalian, etc). Ports that have relatively higher exposure to US and Europe trades saw more moderate container throughput growth (Shanghai, Ningbo, Guangzhou, Xiamen, etc), or even yoy decline (Shenzhen). Within our coverage, gross container throughput of COSCO SHIPPING Ports (CSP) and China Merchants Port (CMP) grew 2.2% and 1.5% respectively on a yoy comparable basis (ie excluding the impacts from disposals/acquisitions) in Jan-Aug 23, on track to meeting guidance of low-single-digit container throughput growth for the full year.

- **Container shipping: Freight rates have retraced in the past few weeks.** After a short-lived rebound in July and early-August, container freight rates have retraced in the past 1.5 months. Both Shanghai Containerised Freight Index (SCFI), a proxy for spot container freight rates, and China Containerised Freight Index (CCFI), a proxy reflecting both spot and contract freight rates, have reached new lows of the year, standing at 887 and 852 respectively as of 28 Sep 23. As: a) we are already passing the traditional peak period (Aug-Sep) for ocean freights, and b) the effective supply of container shipping capacity is likely to outpace the global trade growth in the rest of the year (and likely 2024), we expect container freight rates to remain under pressure in the near-to-medium term. For container shipping plays COSCO SHIPPING Holdings (CSH) and Orient Overseas International (OOIL), we forecast their 2H23 net profits to decline 19% and 33% hoh, respectively.

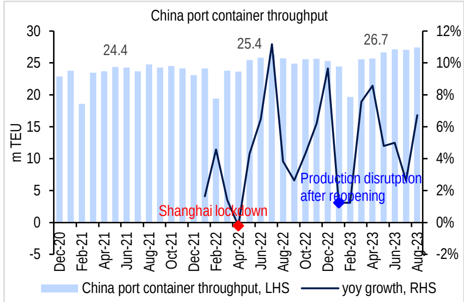
ACTION

- **Maintain MARKET WEIGHT with CSH and CSP being our top picks.** Despite the largely cautious near-term outlook, valuations of shipping and port companies are cheap enough, rewarding their investors with attractive dividends while awaiting a re-acceleration of global trade.

- **CSP (1199 HK/BUY/Target: HK$6.00) is our top pick for ports.** We like CSP for its: a) global market leadership (one of the global top five port/terminal operators by container throughput), b) well-diversified investment portfolio across Asia, the Middle East and Europe with good asset quality, c) strong backing from its parent company COSCO SHIPPING Holdings (CSH, 1919 HK), which is China's largest and a globally leading container shipping company with large cargo flow. CSP currently trades at only 0.37x 2023F P/B and 7.4x/8.2x 2023F/24F PE, while offering sustainable dividend yields of over 5%.

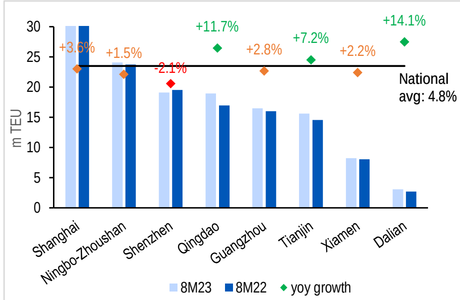
- **Major shareholder purchase limits share price downside.** We note that CSP's parent company CSH has been proactively purchasing CSP shares in the open market for the past one year. As a result, CSH's shareholding in CSP has risen from 51% in Sep 22 to 61% in Sep 23. CSH's purchase prices for CSP ranged between HK$4.74-6.39/share. Given CSH's huge cash pile and its investment/acquisition strategy focusing on network assets (based on our channel check with CSH), we believe that CSH would continue accumulating CSP's shares going forward. This makes CSP an attractive investment as: a) its share price downside being limited by major shareholder, b) it offers stable yields of over 5%, and c) it presents decent valuation upside once the global trade outlook turns around.

CHINA PORT CONTAINER VOLUME GROWTH PICKED UP IN AUG 23



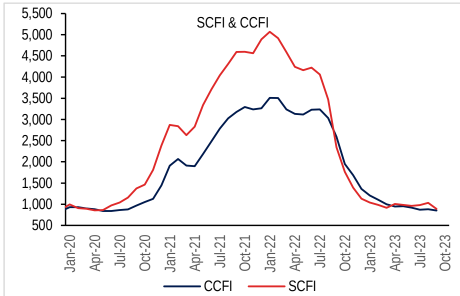
Source: China Ministry of Transport

8M23 CONTAINER VOLUME GROWTH OF EIGHT REGIONAL HUB PORTS IN CHINA



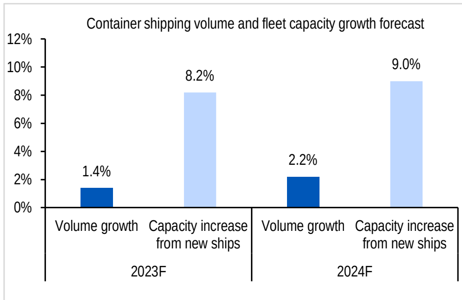
Source: China Ministry of Transport

FREIGHT RATES HAVE RETRACED SINCE MID-AUG 23 AND HIT NEW LOWS OF THE YEAR



Source: Shanghai Shipping Exchange

SHIPPING CAPACITY SUPPLY GROWTH TO OUTPACE DEMAND GROWTH IN 2023-24



Source: Alphaliner

- **CSH (1919 HK/BUY/Target: HK$9.71) is our top pick for container shipping.** Despite the lacklustre earnings outlook for its core container shipping business, CSH's valuation is too cheap to be ignored. Adjusted for upcoming interim dividend payment of Rmb0.51 per share, CSH currently trades at 0.52x 2023F P/B, 2.9SD below the sector's historical mean. Based on our earnings projections and a 50% payout ratio, CSH offers an outsized dividend yield of 13.5% in 2023 and a decent 5.7% yield in 2024. Its huge net cash position of Rmb97b (by our estimate based on CSH's effective ownership) is equivalent to over 80% of CSH's market cap. The huge net cash position would allow CSH to navigate the container shipping downcycle with flexibility while eyeing M&A opportunities that can bolster its earnings and strengthen its position in the logistics ecosystem.

UOBKayHian

TRADERS' CORNER

Chart by TradingView

Chinasoft International Limited (354 HK)

Trading Buy range: HK$5.40-5.60

Last price: HK$5.63

Target price: HK$5.80/HK$6.00

Protective stop: Breaks below HK$5.10

Stock Highlights:

The group in cooperation with Shenzhen Kaihong Digital Industry Development Co. launched a new generation of Innovative Connect series products. These include Leize Connect all-in-one machine (gateway type, calculation type, control type), Yiwang Connect Companion (data mining type, waterproof type), Suiming Connect Perception Platform, and Full-Scene Smart Water Conservation Solution, etc.

Technical View:

Share price formed a double bottom pattern in July and August, and then rose to a high around HK$6.09. Recently, it retreated to around its 10-day (light blue), 20-day (orange) and 200-day (purple) moving averages. The 14-day RSI is higher than the midline level of 50, indicating that momentum is moderately strong. Although the MACD line is lower than the signal line, both lines are in the bullish zone. Therefore, the uptrend of the share price remains unchanged for the time being.

Average timeframe: Around two weeks.

Chart by TradingView

Luk Fook Holdings (International) Limited (590 HK)

Trading Buy range: HK$20.10-20.60

Last price: HK$20.65

Target price: HK$21.30/HK$21.80

Protective stop: Breaks below HK$19.00

Stock Highlights:

The group expanded its North American retail network by opening a new shop in Milpitas Ulferts Centre in the US. The move will help expand the group's retail footprint in North America and further enhance the popularity of the Lukfook jewellery brand in overseas markets. Currently, the group has more than 3,180 shops around the world.

Technical View:

Share price has been on an uptrend since July, and was supported by a bullish trendline. It is now higher than its 10-day (light blue), 20-day (orange) and 50-day (red) moving averages. The above moving averages are pointing upwards. The 14-day RSI is above 60, indicating a strong momentum. The MACD line is higher than the signal line, showing a double bullish signal. If share price continues to rise, it could challenge its 200-day moving average.

Average timeframe: Around two weeks.

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