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KEY HIGHLIGHTS

Sector

Property

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Property sales during National Day holiday weaker than expected; awaiting more stimuli in 4Q23 to restore confidence.

Update

Alibaba Group (9988 HK/BUY/HK\$82.10/Target: HK\$120.00)

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2QFY24 preview: Eyes on Taobao-Tmall's focus strategy; near-term growth to be spurred by Double 11.

Asian Gems Corporate Highlights

CSPC Pharmaceutical Group (1093 HK/BUY/HK\$5.52/Target: HK\$8.00)

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Innovative product launches to support double-digit revenue growth from 2024.

TRADERS' CORNER

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Xiaomi Corporation (1810 HK): Trading Buy range: HK\$12.00-12.20

Alibaba Health Information Technology (241 HK): Trading Buy range: HK\$4.60-4.70

UOBKH EVENTS

Date	Corporate/Stock Code	Event
11 Oct	Crystal International Group Limited (2232 HK)	Investor Luncheon @ 12:30pm HKT
18 Oct	China Overseas Land & Investment Ltd (688 HK)	Virtual Meeting @ 4:30pm HKT

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	33739.3	0.4	2.2	(2.4)	1.8
S&P 500	4358.2	0.5	3.0	(2.2)	13.5
FTSE 100	7628.2	1.8	2.1	2.0	2.4
AS30	7231.0	1.0	1.3	(2.1)	0.1
CSI 300	3657.1	(0.7)	(1.5)	(2.9)	(5.5)
FSSTI	3199.1	1.0	0.2	(0.6)	(1.6)
HSCEI	6052.5	0.9	1.7	(3.9)	(9.7)
HSI	17664.7	0.8	1.9	(2.4)	(10.7)
JCI	6922.2	0.4	(0.3)	(0.6)	1.0
KLCI	1435.2	1.3	1.1	(1.4)	(4.0)
KOSPI	2402.6	(0.3)	(2.5)	(6.0)	7.4
Nikkei 225	31746.5	2.4	(0.0)	(2.2)	21.7
SET	1434.5	0.2	(0.9)	(6.9)	(14.0)
TWSE	16520.6	0.4	1.0	(0.3)	16.9
BDI	1983	(0.4)	11.4	64.0	30.9
CPO (RM/mt)	3613	0.9	(1.3)	(3.7)	(10.7)
Brent Crude (US\$/bbl)	88	(0.6)	(3.6)	(3.3)	2.0

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
JD-SW	115.40	1.4	835.1
HKEX	289.40	0.2	687.1
SANDS CHINA LTD	22.70	0.7	492.7
LI AUTO INC-A	132.80	(0.8)	488.6
BIDU-SW	129.80	0.6	452.1

TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
KINGDEE INTL SFT	9.42	3.9	67.7
WEIBO CORP-CL A	99.70	3.3	1.2
NETEASE INC	165.40	3.2	423.9
CHINA JINMAO HOL	0.97	3.2	10.6
EAST BUY HOLDING	37.25	3.2	71.7

TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
ORIENT OVERSEAS	98.80	(6.1)	37.3
XPENG INC-A SHRS	64.45	(4.6)	388.2
COUNTRY GARDEN S	7.25	(4.5)	87.0
CHINA STATE CONS	7.65	(4.0)	16.2
CHINA HONGQIAO	7.12	(2.3)	46.4

*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

Property – China

Weaker-than-expected Property Sales; Awaiting More Stimuli In 4Q23 To Restore Confidence

Daily new home sales in 35 cities during the Golden Week dropped 17% yoy, with performance diverging between cities. Second-hand home sales did better, with 3% yoy growth in daily sales in 50 cities. We notice more signals that the government may ease control over property and land prices, which will help the market reach a new equilibrium. Maintain MARKET WEIGHT on the sector and BUY on CR Land and COLI.

WHAT'S NEW

- CREIS published new home sales data for the 2023 National Day Holiday.
- Beike published secondary home sales data for the 2023 National Day Holiday.

ESSENTIALS

- **New home sales during 2023 National Day holiday weaker than expected.** In the new home market, daily sales during the eight-day Golden Week holiday declined 17% from last year, and decreased 21% compared to 2019, according to data on 35 major cities tracked by CREIS. Performance varied across cities, with weak overall transaction volume performance except for the core cities where the property market was resilient, like Shanghai, Guangzhou, Wuhan, Suzhou, Qingdao and Dongguan.

2023 NATIONAL HOLIDAY NEW HOME TRANSACTION VOLUME IN 35 CITIES

Tier	Cities	2023 National Holiday Transaction volume (10,000sqm)	Change in average daily transaction over the 2022 National Holiday (10.1-10.7)	Change in average daily transaction over the 2019 National Holiday (10.1-10.7)
Tier 1	Shanghai	12.3	159%	745%
	Guangzhou	15.7	129%	122%
	Beijing	1.8	-31%	-27%
	ShenZhen	3.5	-46%	-25%
Sum of Tier 1		33.3	62%	113%
Tier 2	Wuhan	21.1	225%	-38%
	Suzhou	4.2	49%	-54%
	Qingdao	10.4	27%	-33%
	Hangzhou	4.7	-14%	5%
	Nanchang	2.2	-15%	-54%
	Nanjing	1.7	-16%	/
	Changsha	20.1	-19%	133%
	Jinan	7.3	-20%	-16%
	Beihai	0.5	-33%	77%
	Hefei	4.8	-54%	99%
	Shenyang	6.2	-57%	-27%
	Wenzhou	1.4	-60%	-83%
	Ningbo	1.5	-69%	/
	Xining	0.2	-95%	-98%
Sum of Tier 2		86.1	-14%	-28%
Tier 3&4	Ningde	0.4	112%	/
	Dongguan	3.1	63%	/
	Meizhou	2.5	33%	-50%
	Ganjiang	1.5	1%	-34%
	Weihai	0.3	-15%	/
	Heze	0.1	-18%	-92%
	Maoming	2.2	-33%	60%
	Xuzhou	12.3	-35%	-46%
	Putian	1.1	-39%	-82%
	Xiangyang	0.5	-40%	-51%
	Zibo	1.0	-41%	2%
	Jiangyin	0.2	-41%	-94%
	Hengyang	1.6	-54%	-73%
	Liuzhou	1.2	-64%	-75%
	Yangzhou	0.2	-70%	/
	Jinan	1.2	-87%	-67%
	Huangshi	0.5	-92%	-77%
Sum of Tier 3&4		28.2	-50%	-59%
Sum of 35 cities		147.6	-17%	-24%

Source: CREIS, UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
CR LAND	1109 HK	BUY	30.00	47.48
COLI	688 HK	BUY	15.92	25.86

Source: UOB Kay Hian

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PEER COMPARISON

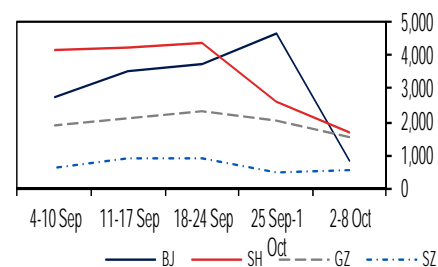
Company	Ticker	Rec	Price @	Target	Upside/(Downside)	Market Cap	PE		P/B		Yield	
			10 Oct 23 (HK\$)	Price (HK\$)	to TP (%)		2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)
China Resources Land Ltd	1109 HK	BUY	30.00	47.48	58.3	212,858.5	7.2	6.3	0.7	0.6	5.1	5.8
China Overseas Land	688 HK	BUY	15.92	25.86	62.4	172,929.2	6.0	5.1	0.4	0.4	5.0	5.9

Source: Bloomberg, UOB Kay Hian.

• **Second-hand home sales saw a better yoy performance.** In the second-hand home market, daily sales in 50 cities during the eight-day Golden Week holiday rose 3% yoy, and the number of showings by agencies increased 13% yoy, according to data by Beike Research Institute. However, on a wow basis, second-hand home transactions in Tier 1 cities weakened. In the week of 2-8 October, the number of second-hand home units transacted in Beijing/ Shanghai/Guangzhou/Shenzhen was -82%/-33%/-24%/+7% respectively. The weakening of sales momentum in the first week of October is partly due to the fact that sales and data registration were affected holiday travelling.

• **More signals that the government may ease control over property and land prices.** On 26 Sep 23 and 9 Oct 23, Hefei and Jinan revised the rules of upcoming land auctions, with the price cap removed and the highest bidder winning. This is the first time that the price cap policy for land auctions has been loosened. Beijing will also no longer publish a guidance price for 29 residential communities in school districts. Instead, the seller can offer a price based on market conditions. With the removal of the government cap, property/land prices of different regions are expected to further diverge in the short term, but will converge again to reach the new equilibrium. Besides, the transaction volume will also increase. Overall, we see a rising possibility that price caps may be removed for the primary market.

WEEKLY NUMBER OF SECOND-HAND HOME UNITS SOLD IN TIER 1 CITIES

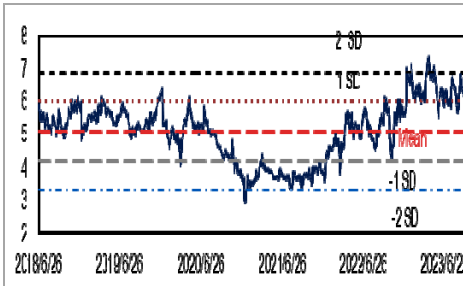


Source: Local government housing bureau, UOB Kay Hian

ACTIONS

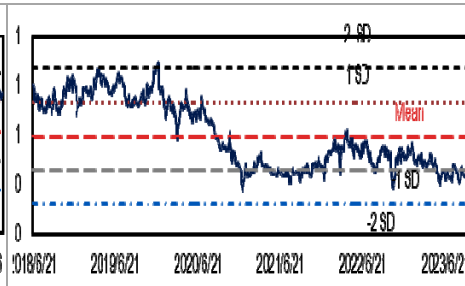
- **Maintain MARKET WEIGHT on China's property sector.** 4Q is a period for top leaders to discuss and make decisions for economic policies for the next year. Considering the greater downward pressure on the economy, we expect to see more stimuli to restore market confidence. Such stimuli will be positive catalysts for the property market and developers.
- **Our top picks remain COLI and CR Land.** As leading SOEs, COLI and CR Land have been reporting strong sales growth ytd, backed by abundant saleable resources and strong presence in T1 and core T2 cities. The potential easing of price caps will be a positive catalyst for the two names. In Sep 23/9M23, COLI's contracted sales increased 22.7%/18.7% yoy to Rmb28.0b/Rmb 239.0b respectively. COLI is trading at 0.43x 2023 P/B (mean -1.1SD), 6.2x 2023PE (mean +1.2SD) and with 2023 dividend yield of 5.2% (mean - 0.5SD). In Sep 23/9M23, CR Land's contracted sales decreased 1.9% and increased 17.7% yoy to Rmb30.1b/Rmb 227.8b respectively. CR Land is trading at 0.76x 2023F P/B (mean -1SD), 6.9x 2023F PE (nearly mean) and with 2023 dividend yield of 5.4% (nearly mean).

PE-COLI



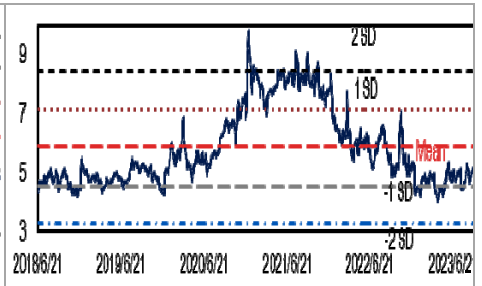
Source: UOB Kay Hian

PB-COLI



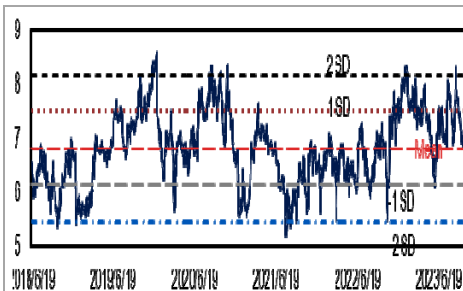
Source: UOB Kay Hian

DIVIDEND YIELD-COLI



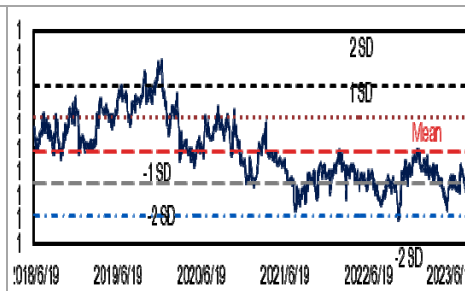
Source: UOB Kay Hian

PE-CR LAND



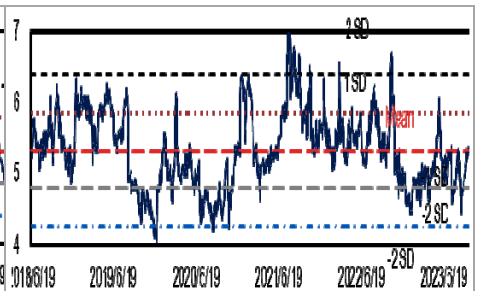
Source: NBS

PB-CR LAND



Source: NBS

DIVIDEND YIELD-CR LAND



Source: NBS

COMPANY UPDATE

Alibaba Group (9988 HK)

2QFY24 Preview: Eyes On Taobao-Tmall's Focus Strategy; Near-term Growth To Be Spurred By Double 11

Alibaba saw a gradual improvement in consumption recovery in September after a slowdown in July-August. We expect revenue to grow 7% yoy for 2QFY24, underpinned by merchant initiatives and offset by soft consumption demand. We reckon revenue growth should recover to high single digits in FY24. Alibaba still offers an attractive risk-reward opportunity on the back of its restructuring plan. Maintain BUY with a lower target price of HK\$120.00 (US\$120.00).

WHAT'S NEW

- Alleviated CMR growth performance in 2QFY24 stemming from a subdued macro backdrop.** Alibaba Group's (Alibaba) 2QFY24 total revenue is estimated to deliver a decelerated growth of 7% yoy, compared with 14% yoy in 1QFY24. We estimate customer management revenue (CMR) to sustain its positive growth of 4% yoy in 2QFY24 from 10% yoy growth in 1QFY24, mainly driven by higher adverting revenue growth from the Adtech (ROI-based cost per sales) product upgrades, and partially offsetting the soft GMV growth. Adjusted EBITA is projected to grow 18% yoy to Rmb42.6b in 2QFY24, translating to adjusted EBITA margin of 19%.
- Quick glimpse of NBS growth trajectory in the near term.** Based on NBS data, online physical retail goods GMV increased 5.0%/6.1% yoy in Jul/Aug 23, decelerating from 14.0% in 2Q23, representing a normalised period and weak seasonality. Alibaba's CMR grew 10% yoy in 1QFY24, and moderated during July/August, followed by a sequential improvement in September. With "user first" as the core strategy for the Taobao-Tmall business group, DAU saw a continuous improvement of 4% yoy in July-August, outpacing its peers. We expect Alibaba's GMV growth to continue to narrow the gap with the e-commerce industry, and we forecast Taobao-Tmall's GMV to grow at 1% yoy in 2QFY24.
- AliCloud: Persistent headwinds that hinder growth.** We estimate cloud revenue to deliver sluggish growth of 2%/3% yoy in 2QFY24/FY24 (vs 1QFY24: 4% yoy). This is mainly dampened by the price cut (by 10-40%) of some AliCloud products which lowered the average ARPU as well as changed the product mix by scaling back content delivery network. In 2QFY24, AliCloud's EBITA margin is guided to remain stable at 2%. Despite short-term headwinds, AliCloud remains dedicated and outlined "AI-driven" as the strategic growth pillar.
- Cainiao's application for Hong Kong Stock Exchange (HKEX) listing.** Alibaba plans to spin off Cainiao and list its shares on the HKEX while retaining over 50% ownership; the IPO planning process is well on track according to management. In 2QFY24, Cainiao is expected to deliver solid revenue growth of 21% to Rmb22.2b, largely anchored by rapid overseas expansion of AE Choice in Europe and resilient performance of domestic Alibaba refund logistics. Cainiao's adjusted EBITA is forecasted at Rmb500m, translating to adjusted EBITA margin of 2% in 2QFY24, improving from 1% a year ago.

KEY FINANCIALS

Year to 31 Mar (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	853,062.0	868,687.0	949,874.2	1,044,689.7	1,143,848.7
EBITDA	110,207.0	141,874.0	200,247.8	219,482.7	254,000.2
Operating profit	69,638.0	100,351.0	155,981.3	179,253.1	217,384.9
Net profit (rep.fact.)	61,959.0	72,509.0	132,323.2	154,941.0	187,380.7
Net profit (adj.)	136,388.0	141,379.0	165,213.6	202,571.2	231,274.1
EPS (Fen)	636.2	652.9	755.5	917.1	1,031.6
PE (x)	12.0	11.7	10.1	8.3	7.4
P/B (x)	1.8	1.7	1.4	1.2	1.1
EV/EBITDA (x)	14.0	10.9	7.7	7.0	6.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	7.3	8.3	13.9	14.8	16.4
Net debt/(cash) to equity (%)	(14.9)	(13.4)	(24.2)	(32.3)	(39.6)
Interest cover (x)	5.3	8.4	30.9	15.3	29.1
ROE (%)	6.5	7.4	12.0	12.0	12.4
Consensus net profit	-	-	171,225	183,275	205,014
UOBKH/Consensus (x)	-	-	0.96	1.11	1.13

Source: Alibaba Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$82.10
Target Price	HK\$120.00
Upside	+46.2%
(Previous TP)	HK\$133.00

COMPANY DESCRIPTION

Alibaba Group is the largest e-commerce marketplace operator in China.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9988 HK Equity
Shares issued (m):	20,347.4
Market cap (HK\$m):	1,670,521.0
Market cap (US\$m):	213,327.0
3-mth avg daily t'over (US\$m):	462.0

Price Performance (%)

52-week high/low	HK\$117.50/HK\$61.45			
1mth	3mth	1mth	3mth	1mth
(9.6)	(2.6)	(16.0)	0.9	(4.8)

Major Shareholders

	%
Softbank	13.73
Ma Jack Yun	3.24
Vanguard Group	2.79

FY24 NAV/Share (RMB)	53.45
FY24 Net Cash/Share (RMB)	13.03

PRICE CHART



Source: Bloomberg

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ESSENTIALS

- 2QFY24 outlook for DME and other segments.** Management guided for the revenue of digital media & entertainment (DME) to grow 19% yoy to Rmb6.2b in 2QFY24. Alibaba International Digital Commerce (AIDC) is guided to deliver robust revenue growth of 35% yoy, mainly boosted by the strong performance of AE Choice and Trendyol. Meanwhile, local consumer service group is guided to deliver a solid revenue growth of 20% yoy. China's wholesale, international retail and international wholesale are expected to deliver accelerated growths of 2%/55%/1% yoy respectively compared with 1%/3%/6% in the same period last year.
- Promising Singles Day outlook.** Taobao-Tmall's Singles Day festival is likely to kick off on 26 October. The strength of Singles Day 2023 is expected to align with promotions during Singles Day 2022 and the 6.18 festival in 2023. Alibaba will offer a discount of Rmb50 for every Rmb300 spent (equivalent to 17% off) on Tmall and Rmb30 off for every Rmb200 spent (equivalent to 15% off) on Taobao.
- Alibaba's Alimama and Tencent Advertising,** on 25 September announced a deeper collaboration to seize market shares during Singles Day. High-quality advertising traffic from platforms such as WeChat Video Accounts, Moments, and Mini Programs will be connected directly with Taobao and Tmall merchants' stores, product details, and Taobao Live broadcasts through Alimama's UD Effect Advertising. They plan to launch the "Double 11 Super Boost Plan" for this year's Tmall Single Days event, investing hundreds of millions in subsidies for merchants.

EARNINGS REVISION/RISK

- We trimmed our revenue estimates by 2%/2% for 2QFY24/FY24 respectively.** We forecast 7%/9% revenue growth and 17%/15% yoy net profit growth in 2QFY24/FY24. Our 2QFY24/FY24 net non-GAAP net margin forecasts are 18%/18% respectively vs 17% in FY23.
- Risks.** a) Intensified competition among e-commerce peers, and b) continued investment in new initiatives may drag on margin.

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$120.00 (US\$120.00).** We lower our EV/Sales for Alicloud to 4x from 6x due to the sluggish growth. We apply 5x EV/Sale to Cainiao's business. We believe Alibaba Group and each of its holding companies is valued at a steep discount and with ex-cash PE of 8x, with core commerce Taobao + Tmall businesses at 9x FY24F PE. Alibaba is trading at 9.2x 12-month forward PE, 2SD below its historical mean of 23x against 15% EPS CAGR from FY23-26.

SHARE PRICE CATALYST

- a) New retail segment to see profits and economies of scale, b) continued strong growth in the international business, c) potential listing of Ant Financial, and d) incoming spin-off events over the next 6-12 months.**

SOTP VALUATION (BASED ON 12-MONTH FORWARD)

Description	Business Unit	FY24 Revenue (HK\$b)	EBITA (HK\$b)	EV / Revenue	EV / EBITA	Value (HK\$b)	% BABA holding	Value to BABA (HK\$b)	(HK\$) per share
Core+initiatives									
Core commerce business		347	80	2	8	638	100%	638	29
Online marketing service	Taobao Tmall Commerce Group	246	86				100%		
Commission		100	35				100%		
Direct sales + Alihealth		51		1		51	100%	51	2
International commerce	Global Digital Commerce Group	106		3		319	100%	319	15
Cainiao	Cainiao Smart Logistics	109		5		547	51%	279	13
Ele.me+ Amap	Local Services Group	70		3		211	100%	211	10
Cloud Computing, other	Cloud Intelligence Group	117	4	4		468	100%	468	21
Youku Tudou and other initiatives	Digital Media and Entertainment Group	248		1		248	100%	248	11
Total Core+initiatives valuation								2,215	101
Investees									
Ant Financial	Internet finance					624	33%	206	9
Net cash								228	10
Total								2,634	120
# of shares								21,991	

Source: UOB Kay Hian

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (Rmbm)	2023	2024F	2025F	2026F
Net turnover	868,687	949,874	1,044,690	1,143,849
EBITDA	141,874	200,248	219,483	254,000
Deprec. & amort.	41,523	44,267	40,230	36,615
EBIT	100,351	155,981	179,253	217,385
Total other non-operating income	5,823	1,364	0	0
Associate contributions	(8,063)	10,453	25,537	19,261
Net interest income/(expense)	(16,989)	(6,482)	(14,300)	(8,738)
Pre-tax profit	81,122	161,317	190,491	227,909
Tax	(15,549)	(34,336)	(40,331)	(46,583)
Minorities	7,210	5,606	5,045	6,055
Preferred dividends	(274)	(264)	(264)	0
Net profit	72,509	132,323	154,941	187,381
Net profit (adj.)	141,379	165,214	202,571	231,274

CASH FLOW

Year to 31 Mar (Rmbm)	2023	2024F	2025F	2026F
Operating	199,752	171,306	203,331	233,280
Pre-tax profit	81,122	161,317	190,491	227,909
Tax	(15,549)	(34,336)	(40,331)	(46,583)
Deprec. & amort.	41,523	44,267	40,230	36,615
Associates	(5,518)	549	(3,282)	(14,344)
Working capital changes	(54,676)	58	12,942	15,339
Non-cash items	0	0	0	0
Other operating cashflows	152,850	(549)	3,282	14,344
Investing	(135,506)	(84,867)	(88,125)	(91,085)
Capex (growth)	(30,373)	(28,462)	(26,080)	(22,836)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(105,133)	(56,404)	(62,045)	(68,249)
Financing	(65,619)	75,653	51,579	56,737
Dividend payments	n.a.	n.a.	n.a.	n.a.
Issue of shares	5,054	70,451	45,857	50,442
Proceeds from borrowings	15,399	5,202	5,723	6,295
Loan repayment	0	0	0	0
Others/interest paid	(86,072)	0	0	0
Net cash inflow (outflow)	(1,373)	162,092	166,786	198,932
Beginning cash & cash equivalent	189,898	192,055	354,147	520,933
Changes due to forex impact	3,530	0	0	0
Ending cash & cash equivalent	193,086	354,147	520,933	719,866

BALANCE SHEET

Year to 31 Mar (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	176,031	172,199	166,967	159,829
Other LT assets	879,047	923,479	976,606	1,038,214
Cash/ST investment	193,086	354,147	520,933	719,866
Other current assets	504,880	536,294	570,842	607,053
Total assets	1,753,044	1,986,119	2,235,348	2,524,961
ST debt	7,466	7,466	7,466	7,466
Other current liabilities	377,885	409,357	456,847	508,397
LT debt	52,023	57,225	62,948	69,243
Other LT liabilities	192,749	192,749	192,749	192,749
Shareholders' equity	999,515	1,196,947	1,392,963	1,624,732
Minority interest	123,406	123,406	123,406	123,406
Total liabilities & equity	1,753,044	1,986,119	2,235,348	2,524,961

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	16.3	21.1	21.0	22.2
Pre-tax margin	9.3	17.0	18.2	19.9
Net margin	8.3	13.9	14.8	16.4
ROA	4.2	7.1	7.3	7.9
ROE	7.4	12.0	12.0	12.4
Growth				
Turnover	1.8	9.3	10.0	9.5
EBITDA	28.7	41.1	9.6	15.7
Pre-tax profit	9.8	98.9	18.1	19.6
Net profit	17.0	82.5	17.1	20.9
Net profit (adj.)	3.7	16.9	22.6	14.2
EPS	2.6	15.7	21.4	12.5
Leverage				
Debt to total capital	5.0	4.7	4.4	4.2
Debt to equity	6.0	5.4	5.1	4.7
Net debt/(cash) to equity	(13.4)	(24.2)	(32.3)	(39.6)
Interest cover (x)	8.4	30.9	15.3	29.1

ASIAN GEMS CORPORATE HIGHLIGHTS

CSPC Pharmaceutical Group (1093 HK)

Innovative Product Launches To Support Double-digit Revenue Growth From 2024

CSPC recently received approvals for two new products, namely Irinotecon Liposome Injection and Narlumosbart for Injection. With the extensive R&D pipeline rolling out an increasing number of innovative products, CSPC has entered the harvest season of innovation. We expect the new product launches to continue, supporting double-digit revenue and earnings growth for the company from 2024. Maintain BUY. Target price: HK\$8.00.

WHAT'S NEW

- CSPC Pharmaceutical Group (CSPC) attended the Asian Gems Virtual Conference 2023. Here are the key takeaways.

STOCK IMPACT

- Strong R&D platforms yield growing number of new products.** CSPC is a leading innovative pharmaceutical company in China. It has five R&D centres located in China and the US and established a strong R&D team consisting approximately 2,000 scientists and eight R&D platforms, ie Nano-formulation, mRNA vaccine, siRNA, ADC, BsAb, mAb, small molecule, and long-acting injections. Its extensive R&D pipeline covers approximately 300 R&D projects (including about 130 innovative projects).

The company has recently obtained market approvals for two innovative products, ie, Narlumosbart for Injection (津立生, JMT10, the first IgG4 subtype fully human monoclonal antibody against RANKL) for the treatment of giant cell tumour of bone, and Irinotecan Hydrochloride Liposome Injection (伊立替康脂质体, a class 4 drug approved in combination with 5-fluorouracil (5-FU) and leucovorin (LV) for the treatment of patients with metastatic pancreatic cancer. CSPC targets to receive seven and 10 product approvals in 2024 and 2025 respectively, and about 12 per year thereafter.

- Nurtures new blockbusters.** After receiving market approval in September, Irinotecon Liposome Injection and Narlumosbart for Injection are expected to deliver sales revenue of Rmb500m-1b and Rmb200-300m for the first full year, respectively and bring in peak sales of Rmb2b-3b after reaching maturity. CSPC currently has 10,000 sales personnel covering more than 35,000 medical institutions in China. The strong sales and marketing teams and extensive distribution network will provide solid support for steady sales growth of the newly launched products.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	27,866.9	30,936.9	32,120.8	35,772.4	40,080.1
EBITDA	7,660.4	8,403.2	8,963.7	10,091.1	11,411.1
Operating profit	6,795.0	7,574.5	8,019.0	9,029.9	10,233.3
Net profit (rep./act.)	5,567.8	6,043.3	6,430.1	7,244.8	8,214.7
Net profit (adj.)	5,380.5	6,057.7	6,430.1	7,244.8	8,214.7
EPS (Fen)	45.0	50.8	54.0	60.8	68.9
PE (x)	11.4	10.1	9.5	8.5	7.5
P/B (x)	2.4	2.0	1.9	1.7	1.5
EV/EBITDA (x)	7.3	6.6	6.2	5.5	4.9
Dividend yield (%)	2.8	3.6	5.2	4.2	4.8
Net margin (%)	20.0	19.5	20.0	20.3	20.5
Net debt/(cash) to equity (%)	(34.9)	(25.9)	(22.5)	(28.4)	(35.9)
Interest cover (x)	999.5	337.6	360.1	405.4	458.4
ROE (%)	23.0	21.5	20.5	20.9	20.8
Consensus net profit	-	-	6,276	6,829	7,390
UOBKH/Consensus (x)	-	-	1.02	1.06	1.11

Source: CSPC, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	HK\$5.52
Target Price	HK\$8.00
Upside	+45.0%

COMPANY DESCRIPTION

CSPC Pharmaceutical Group switched its core business focus from bulk medicine manufacturing to innovative drug manufacturing in 2012. It has become a leading pharmaceutical player in China.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	1093 HK
Shares issued (m):	11,903.2
Market cap (HK\$m):	65,705.8
Market cap (US\$m):	8,403.9
3-mth avg daily t'over (US\$m):	30.2

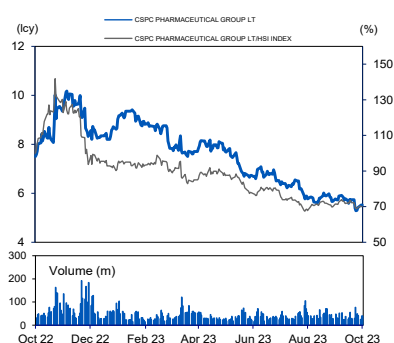
Price Performance (%)

52-week high/low	HK\$10.18/HK\$5.29			
1mth	3mth	6mth	1yr	YTD
(2.6)	(15.3)	(28.4)	(27.4)	(32.7)

Major Shareholders

	%
Cai Dongchen	23.7
FY23 NAV/Share (HK\$)	2.74
FY23 Net Cash/Share (HK\$)	0.62

PRICE CHART



Source: Bloomberg

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- **Actively participates in NRDL price negotiation in 2023.** CSPC expects to have four or five products participating in the new round of NRDL price negotiation in Nov 23, including Desvenlafaxine (for treatment of depression), Duvelisib (PI3K δ , for the treatment of Lymphoid Malignancies) Duoenda (mitoxantrone hydrochloride liposome injection) and Glumetinib (collaborated with Shanghai Haihe Biopharma Co, for the full-line treatment of non-small cell lung cancer). Management expects the drugs to experience mild price pressure in the NRDL price negotiations and potential NRDL inclusion will support sales growth for these products, especially when large indications are approved.
- **Expects double-digit revenue and earnings growth in 2024.** CSPC has seen limited impact from the anti-corruption campaign given its good anti-corruption system. By focusing on new product innovation and the market penetration of its existing products, it saw resilient revenue growth in August and the sales growth regained momentum in September. Management continues to guide for positive revenue growth for 2023, and a brighter outlook in 2024. Aside from the products (eg Duoenda, Mingfule and Anfulike) launched in the past two years, we anticipate the company's newly-launched products will bring in new revenue streams, which will support double-digit revenue and earnings growth in 2024.
- **Well prepared for future NBP market competition.** According to management, NBP will unlikely to face generic drug competition in the next two years. The company has also been well prepared for potential market competition once NBP's generics come into the market. It has extended R&D on NBP on new indication – vascular dementia (VaD) in both China and the US. Moreover, it has further enriched its central nervous system (CNS) drug pipeline by adding Mingfule (indicated for Acute ischemic stroke) and Batoclimab (for the treatment of myasthenia gravis (MG)) in its product pipeline/portfolio. The potential market approval of these two products/indications in 2024 will allow the company to fully utilise its extensive distribution network of NBP and generate potential peak sales of Rmb2b-3b from each them.
- **Transforming into a truly innovative drug producer.** CSPC further enhanced its R&D efforts by investing 17.8% of total finished drug revenue in R&D in 1H23 (2022: 16.4%). It expects the R&D/finished drug revenue to remain relatively stable at 17-18% in the next few years. The company has successfully obtained four new product approvals in 2023 and targets seven and 10 in 2024 and 2025, and approximately 12 per year from 2026 onwards. We believe the extensive pipeline of approximately 300 R&D projects will yield an increasing number of innovative drugs, and CSPC will soon transform into a true drug innovator.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of HK\$8.00** based on: a) HK\$3.93/share, or 6x 2024F PE, for existing drugs, and b) NAV-derived pipeline value of HK\$4.07/share (WACC: 11.4%, perpetual growth rate: 3.5%). CSPC is now trading at an attractive valuation of 8.5x 2024F PE.

SHARE PRICE CATALYST

- New product launches in 2024, eg Batoclimab for MG, Mingfule for acute ischemic stroke, DBPR108 (DPP4) for diabetes, and SYSA1802 (pd-1) for cervical cancer.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	30,936.9	32,120.8	35,772.4	40,080.1
EBITDA	8,403.2	8,963.7	10,091.1	11,411.1
Deprec. & amort.	828.7	944.8	1,061.2	1,177.7
EBIT	7,574.5	8,019.0	9,029.9	10,233.3
Associate contributions	(15.4)	(15.4)	(15.4)	(15.4)
Net interest income/(expense)	(24.9)	(24.9)	(24.9)	(24.9)
Pre-tax profit	7,534.2	7,978.7	8,989.6	10,193.1
Tax	(1,350.2)	(1,351.3)	(1,522.5)	(1,726.3)
Minorities	(140.7)	(197.3)	(222.3)	(252.1)
Net profit	6,043.3	6,430.1	7,244.8	8,214.7
Net profit (adj.)	6,057.7	6,430.1	7,244.8	8,214.7

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	7,627.1	6,442.2	8,020.2	9,031.3
Pre-tax profit	7,582.3	7,978.7	8,989.6	10,193.1
Tax	(1,334.6)	(1,351.3)	(1,522.5)	(1,726.3)
Deprec. & amort.	828.7	944.8	1,061.2	1,177.7
Working capital changes	798.1	(1,054.4)	(398.8)	(454.3)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(247.5)	(75.6)	(109.3)	(158.9)
Investing	(6,796.0)	(4,217.2)	(1,823.3)	(1,823.3)
Capex (growth)	(1,816.0)	(1,823.3)	(1,823.3)	(1,823.3)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(4,980.0)	(2,393.9)	0.0	0.0
Financing	(1,904.1)	(2,800.8)	(3,131.9)	(2,475.3)
Dividend payments	(1,745.8)	(2,202.3)	(3,215.0)	(2,608.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	371.1	(565.9)	0.0	0.0
Others/interest paid	(529.4)	(32.5)	83.1	132.8
Net cash inflow (outflow)	(1,073.0)	(575.7)	3,065.1	4,732.7
Beginning cash & cash equivalent	9,059.7	8,000.9	7,425.1	10,490.2
Changes due to forex impact	14.1	0.0	0.0	0.0
Ending cash & cash equivalent	8,000.9	7,425.1	10,490.2	15,222.8

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	9,582.1	10,538.0	11,326.2	11,997.9
Other LT assets	8,230.6	9,254.4	9,254.4	9,254.4
Cash/ST investment	8,000.9	7,425.1	10,490.2	15,222.8
Other current assets	15,956.3	16,353.7	17,310.6	18,492.0
Total assets	41,769.8	43,571.3	48,381.4	54,967.2
ST debt	153.5	55.4	55.4	55.4
Other current liabilities	8,804.5	8,125.0	8,683.1	9,410.2
LT debt	29.0	19.9	19.9	19.9
Other LT liabilities	1,140.9	1,115.8	1,115.8	1,115.8
Shareholders' equity	30,197.5	32,613.6	36,643.3	42,249.8
Minority interest	1,444.3	1,641.7	1,864.0	2,116.1
Total liabilities & equity	41,769.8	43,571.3	48,381.4	54,967.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	27.2	27.9	28.2	28.5
Pre-tax margin	24.4	24.8	25.1	25.4
Net margin	19.5	20.0	20.3	20.5
ROA	15.8	15.1	15.8	15.9
ROE	21.5	20.5	20.9	20.8
Growth				
Turnover	11.0	3.8	11.4	12.0
EBITDA	9.7	6.7	12.6	13.1
Pre-tax profit	10.6	5.9	12.7	13.4
Net profit	8.5	6.4	12.7	13.4
Net profit (adj.)	12.6	6.1	12.7	13.4
EPS	12.9	6.2	12.7	13.4
Leverage				
Debt to total capital	0.6	0.2	0.2	0.2
Debt to equity	0.6	0.2	0.2	0.2
Net debt/(cash) to equity	(25.9)	(22.5)	(28.4)	(35.9)
Interest cover (x)	337.6	360.1	405.4	458.4

TRADERS' CORNER



Chart by bloomberg

Xiaomi Corporation (1810 HK)

Trading Buy range: HK\$12.00-12.20

Last price: HK\$12.28

Target price: HK\$12.60/HK\$12.90

Protective stop: Breaks below HK\$11.40

Stock Highlights:

According to Xiaomi's AI personal assistant XiaoAi, there will be a dedicated car control app called Xiaomi Car launched this year. This app will allow users to control their vehicles remotely using their smartphones.

Technical View:

Share price has fluctuated mostly between HK\$11.40 and HK\$12.60 since July, and is now higher than its 10-day (light blue), 20-day (orange), 50-day (red), 100-day (pink) and 200-day (purple) moving averages. The 14-day RSI is higher than the midline level of 50 and is currently around 56, indicating strong momentum. The difference between the MACD line and the signal line has narrowed to be almost flat recently, and both lines were slightly higher than the zero axis. Therefore, the uptrend of the share price remains unchanged for the time being.

Average timeframe: Around two weeks.



Chart by bloomberg

Alibaba Health Information Technology Limited (241 HK)

Trading Buy range: HK\$4.60-4.70

Last price: HK\$4.74

Target price: HK\$4.90/HK\$5.08

Protective stop: Breaks below HK\$4.30

Stock Highlights:

The group has recently established a strategic partnership with the e-commerce platform Daiichi Sankyo. Building on their existing collaboration, the two parties will deepen their co-operation in disease disciplines such as cardiovascular, cerebrovascular and rheumatic orthopaedic surgery, and explore innovative medical and healthcare service models that are patient-oriented and digitally-driven.

Technical View:

Share price rose with a long white candlestick on 29 Sep 23, and has been consolidating sideways recently. Price is currently higher than its 10-day (light blue) and 20-day (orange) moving averages, but restricted by its 50-day (red) and 100-day (pink) moving averages at the moment. The 14-day RSI is slightly higher than the midline level of 50 and is now around 51, indicating that the momentum is moderately strong. The MACD line is higher than the signal line, showing a bullish crossover.

Average timeframe: Around two weeks.

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