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### KEY HIGHLIGHTS

#### Sector

#### Aviation

Page 2

Airlines Sep 23 operating data: pax load performance below expectations; overcapacity issue remains. Maintain UNDERWEIGHT.

#### Macau Gaming

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Marketing feedback: Be selective; eyes on cost management amid intensified competition. Maintain MARKET WEIGHT.

#### Initiate Coverage

#### Ningbo Tuopu Group Co (601689 CH/BUY/Rmb66.49/Target: Rmb105.00)

Page 7

Leading intelligent lightweight chassis solution provider in China. Initiate coverage with BUY. Target price: Rmb105.00.

#### Results

#### Fuyao Glass Industry Group (3606 HK/BUY/HK\$37.25/Target: HK\$45.00)

Page 10

3Q23: Core earnings up 61% yoy and 28% qoq, beating estimate on margins. Maintain BUY. Raise target price to HK\$45.00.

#### Update

#### Anta Sports (2020 HK/BUY/HK\$91.50/Target: HK\$128.00)

Page 13

Aiming to become global leader; conservative guidance on new brands.

#### Baidu Inc (9888 HK/BUY/HK\$119.40/Target: HK\$183.00)

Page 16

ERNIE Bot 4.0 unveiled at Baidu World Conference 2023 with 10 practical applications.

#### TRADERS' CORNER

Page 19

**AIA Group Limited (1299 HK):** Trading Buy range: HK\$68.50-69.30

**Luye Pharma Group Ltd. (2186 HK):** Trading Buy range: HK\$3.40-3.45

### UOBKH EVENTS

Date	Corporate/Stock Code	Event
18 Oct	China Overseas Land & Investment Ltd (688 HK)	Virtual Meeting @ 4:30pm HKT

### CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
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	34086.5	0.3	1.0	(1.5)	2.8
S&P 500	4385.9	0.3	0.6	(1.4)	14.2
FTSE 100	7675.2	0.6	0.6	(0.5)	3.0
AS30	7244.4	0.4	0.2	(2.5)	0.3
CSI 300	3639.4	0.4	(0.5)	(2.4)	(6.0)
FSSTI	3171.8	0.3	(0.9)	(2.8)	(2.4)
HSCEI	6092.6	0.7	0.7	(1.9)	(9.1)
HSI	17773.3	0.8	0.6	(0.9)	(10.2)
JCI	6939.6	0.6	0.3	0.1	1.3
KLCI	1444.1	0.4	0.6	(1.0)	(3.4)
KOSPI	2460.2	1.0	2.4	(4.4)	10.0
Nikkei 225	32040.3	1.2	0.9	(4.5)	22.8
SET	1433.4	0.4	0.1	(6.2)	(14.1)
TWSE	16642.6	(0.1)	0.7	(0.3)	17.7
BDI	2058	4.4	3.8	49.0	35.8
CPO (RM/mt)	3709	1.9	2.6	(0.5)	(8.4)
Brent Crude (US\$/bbl)	89	(0.4)	1.9	(4.9)	4.0

Source: Bloomberg

### TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
JD-SW	106.00	2.2	1,797.4
WUXI BIOLOGICS C	50.05	2.1	1,223.9
SUNNY OPTICAL	60.00	(2.2)	1,049.0
HKEX	292.00	1.5	1,034.3
XIAOMI CORP-W	13.04	4.0	1,020.5

### TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
XIAOMI CORP-W	13.04	4.0	1,020.5
CHINA RES GAS	23.65	3.7	54.3
SHENZHO INTL GP	78.80	3.6	234.0
LENOVO GROUP	8.60	3.2	251.5
EAST BUY HOLDING	36.40	3.1	210.6

### TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
CHINA RES CEMENT	1.98	(3.9)	39.7
XPENG INC-A SHRS	59.60	(3.2)	587.0
BRILLIANCE CHINA	3.67	(2.4)	32.6
SUNNY OPTICAL	60.00	(2.2)	1,049.0
CHINA JINMAO HOL	0.93	(2.1)	26.8

\*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

## Aviation – China

Airlines Sep 23 Operating Data: Pax Load Performance Below Expectations

**Sep 23 pax loads of the three Chinese airlines came in below our expectations, at 88-92% of their pre-pandemic levels, having retraced slightly from Aug 23's 92-93%. Pax load factors were 3.0-6.8ppt below pre-pandemic levels, signalling an overcapacity situation. This may continue to put pressure on airfare levels and hence pax yields, undermining airlines' earnings recovery prospects. Maintain UNDERWEIGHT as we believe the recovery is well expected and likely priced in. Upgrade CSA to HOLD.**

### WHAT'S NEW

- The three major Chinese airlines released their Sep 23 operation data on 16 Oct 23.
- Upgrade China Southern Airlines (CSA) to HOLD after a steep 36.4% share price since our re-initiation report (with a SELL rating) in Apr 23.

### ESSENTIALS

- Sep 23 data below expectations; overall pax load recovery retraced from Aug 23.**
  - Weaker-than-expected pax loads.** Overall pax loads for the three airlines fell 12.7-14.7% mom due to September being a seasonally weaker month than August. Seasonality factors aside, Sep 23 overall pax load recovery at 88-92% of pre-pandemic levels was still a retracement from Aug 23's 92-93%. The retracement was mainly due to weaker-than-expected domestic loads (down 14.8-16.7% mom), standing at 107-108% of pre-pandemic levels (Aug 23: 111-116%). International and regional pax loads recovered to 54-59% of pre-pandemic levels in Sep 23, an improvement over Aug 23's 51-55%.
  - Pax capacity reduction mom.** Sep 23 overall pax capacities of the three airlines dropped 9.1-11.9% mom, due to airlines reducing flight frequencies for domestic routes (capacities down 11.8-14.9% mom) in the off-peak period. Sep 23 overall pax capacities stood at 96-98% of pre-pandemic levels, lower than Aug 23's 98-103%. International and regional pax capacities improved to 58-61% of pre-pandemic levels in Sep 23, from Aug 23's 54-59%.
  - Pax load factors still below pre-pandemic levels, ...** The three airlines' overall pax load factors stood at 73.6-78.7%, 3.0-6.8ppt below their respective pre-pandemic levels. Among the three, CSA has the highest domestic and international load factors, thanks to its more rationed capacity supply and higher exposure to Southeast Asian markets.
  - ...implying an overcapacity situation, not helpful for airlines' profitability recovery.** The overcapacity situation, as reflected by the weak pax load factors, may add further pressure on airfare levels (pax yields), undermining airlines' earnings recovery prospects.

### SEP 23 PAX OPERATION DATA OF THE THREE MAJOR CHINESE AIRLINES

	Overall			Domestic			International & Regional		
	Air China	CSA	CEA	Air China	CSA	CEA	Air China	CSA	CEA
Pax capacity (m seat-km)	26,365	27,717	22,019	20,375	22,453	16,951	5,990	5,264	5,068
mom change	-11.9%	-10.3%	-9.1%	-14.9%	-12.6%	-11.8%	-0.0%	+1.4%	+1.5%
as % of pre-pandemic	96%	96%	98%	117%	113%	119%	60%	58%	61%
% recovery mom change	-6.6ppt	-2.2ppt	-4.2ppt	-14.2ppt	-6.6ppt	-7.4ppt	+4.7ppt	+6.3ppt	+2.7ppt
Pax load (m pax-km)	19,561	21,815	16,209	15,326	17,512	12,490	4,234	4,303	3,719
mom change	-14.7%	-12.7%	-13.7%	-16.7%	-14.8%	-16.2%	-6.6%	-3.0%	-4.4%
as % of pre-pandemic	88%	92%	90%	107%	107%	108%	54%	59%	58%
recovery % mom change	-4.5ppt	+0.1ppt	-2.6ppt	-9.4ppt	-3.8ppt	-5.6ppt	+3.0ppt	+7.3ppt	+3.6ppt
Pax load factors	74.2%	78.7%	73.6%	75.2%	78.0%	73.7%	70.7%	81.7%	73.4%
mom change	-2.4ppt	-2.2ppt	-4.0ppt	-1.6ppt	-2.0ppt	-3.8ppt	-5.0ppt	-3.7ppt	-4.5ppt
diff. vs pre-pandemic	-6.8ppt	-3.0ppt	-6.2ppt	-7.0ppt	-4.3ppt	-7.8ppt	-8.1ppt	+1.1ppt	-3.8ppt

Source: Respective companies, UOB Kay Hian

### PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Upside	Market	PE*			EV/EBIT			P/B	Yield	Net Gearing
			17 Oct 23	Price	To TP	Cap	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2023-25F	End-1H23
			(HK\$)	(HK\$)	(%)	(US\$m)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)
Air China	753 HK	BUY	5.12	5.92	15.6	10,594	58.5	11.9	11.3	16.8	9.9	9.6	1.9	0.0	361.9
CSA	1055 HK	HOLD	3.62	3.45	(4.8)	8,378	21.3	14.5	13.0	14.1	12.8	12.0	1.4	0.0	185.0
CEA	670 HK	SELL	2.59	2.20	(15.0)	7,373	n.a.	16.2	14.8	33.2	13.3	12.7	1.8	0.0	420.8
<b>Average</b>							<b>39.9</b>	<b>14.2</b>	<b>13.0</b>	<b>21.4</b>	<b>12.0</b>	<b>11.4</b>	<b>1.7</b>	<b>0.0</b>	<b>322.6</b>

\*PE estimates were adjusted for potential dilutions from new equity raisings

Source: Bloomberg, UOB Kay Hian

## UNDERWEIGHT

(Maintained)

### SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Air China	753 HK	BUY	5.12	5.92
China Southern Airlines	1055 HK	HOLD	3.62	3.45
China Eastern Airlines	670 HK	SELL	2.59	2.20

Source: UOB Kay Hian

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• **Rising fuel cost pressure.** In a press release published on 11 Oct 23, the US Energy Information Administration (EIA) raised its 2024 Brent Crude Oil price forecast to US\$95/bbl (previously US\$88/bbl), higher than 2023 ytd average of US\$82/bbl and the latest Brent Crude Oil price at US\$90, due to production cuts by OPEC+. In addition, International Air Transport Association (IATA), in a press release on 13 Oct 23, noted that the eruption of war in the Middle East and resultant higher oil price and price volatility may post challenges to airlines' financial health.

• **Expecting a turnaround in 3Q23.** Despite the misses in operation data, we still expect all three airlines to make a turnaround into profitability in the upcoming 3Q23 results, helped by strong seasonality. While it is difficult to pin down accurate quarterly earnings estimates due to airlines' high operating leverage and high sensitivity to yield levels, we expect CSA to record a relatively stronger 3Q23 performance compared to Air China and China Eastern Airlines (CEA), thanks to its relatively faster recovery and healthier load factors.

**EARNINGS REVISION**

• **Cut 2023 earnings forecasts.** We cut our 2023 earnings forecasts for all three airlines, as we fine-tune the capacity recovery projection and reduce our overall load factor assumptions for the rest of the year after two consecutive months (Aug 23 and Sep 23) of misses in operating data vs our projections. We retain our 2024-25 earnings forecasts for now.

**UPDATED 2023 EARNINGS FORECASTS FOR THE THREE AIRLINES**

(Rmbm)	Air China			CSA			CEA		
	Old	New	change	Old	New	change	Old	New	change
2023F earnings	3,069	1,672	-45%	4,453	3,605	-19%	-435	-1,627	n.m.

Source: UOB Kay Hian

**ACTION**

• **Maintain UNDERWEIGHT.** We believe that the airline sector's recovery is well expected by the market and largely priced in. The three airlines' earnings in the next few years are likely to be fully retained to repair their balance sheets (reducing gearings and making up for the huge negative earnings reserves before a dividend can be paid) and provide for their lifted capex plans.

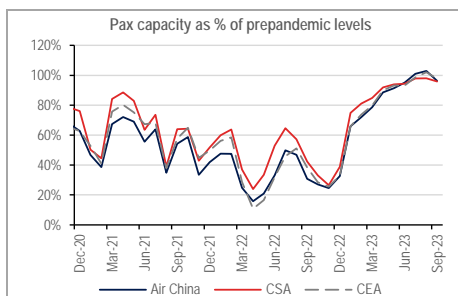
• **Reducing target prices for the three airlines.** Our target prices for Air China, CSA and CEA, though still pegged to 13.8x 2024F PE, have been trimmed lower to HK\$5.92, HK\$3.45 and HK\$2.20, respectively (from HK\$6.32, HK\$3.68 and HK\$2.35 previously), reflecting unfavourable forex translation of weakened renminbi (the three airlines functional and reporting currency) against HK\$ (the three airlines' H-share trading currency).

• **Upgrade CSA to HOLD.** Since our initiation with a SELL rating in Apr 23, CSA's share price has dropped 36.4%, underperforming Air China's 30.3% decline and CEA's 20.1% fall (CEA share price was helped by its major shareholder's share purchase and the weak liquidity of CEA H-share). On account of CSA's relatively faster recovery and reduced valuation downside after the steep share price decline, we upgrade CSA to HOLD.

**RISKS**

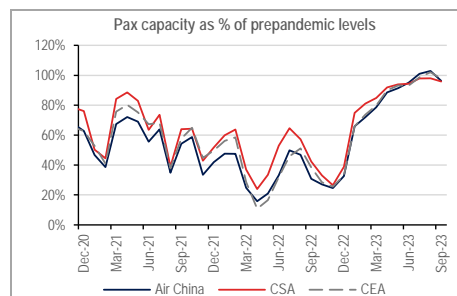
• a) Slower-than-expected earnings recovery due to macroeconomic headwinds damping demand, higher fuel cost and/or weak renminbi (rendering overseas travel more expensive), b) EPS-dilutive equity-raising, and c) dissipation of the market's excitement about the airlines' recovery story.

**OVERALL PAX CAPACITY RECOVERY**



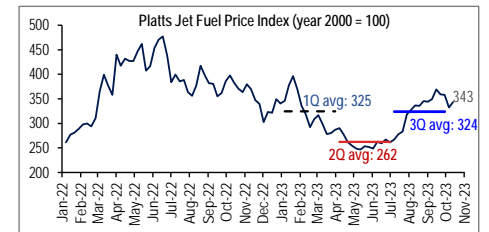
Source: Respective companies, UOB Kay Hian

**OVERALL PAX LOAD RECOVERY**



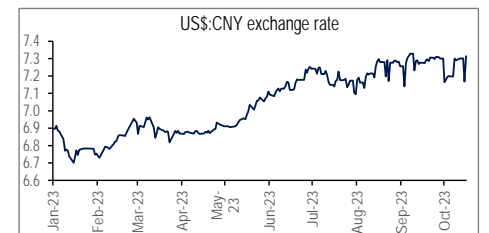
Source: Respective companies, UOB Kay Hian

**JET FUEL PRICES ROSE 40% SINCE END-JUN 23**



Source: S&P Global

**WEAKENED RENMINBI AGAINST US\$**



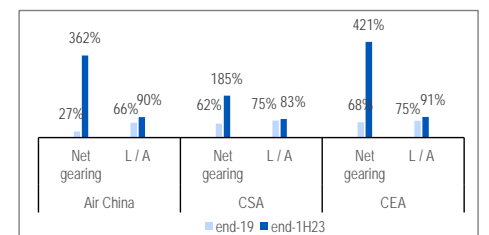
Source: Bloomberg

**2023-25 EARNINGS NOT ENOUGH TO MAKE UP FOR THE HUGE NEGATIVE EARNINGS RESERVES**



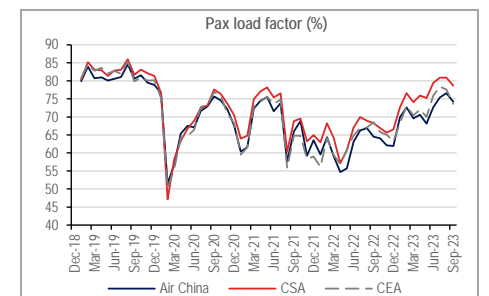
Source: Respective companies, UOB Kay Hian

**LOFTY GEARINGS OF THE THREE AIRLINES**



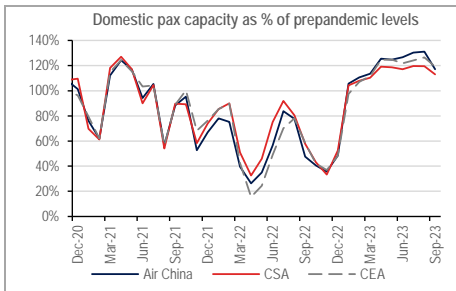
Source: Respective companies, UOB Kay Hian

**OVERALL PAX LOAD FACTORS**

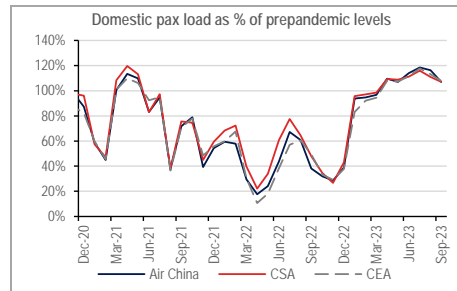


Source: Respective companies, UOB Kay Hian

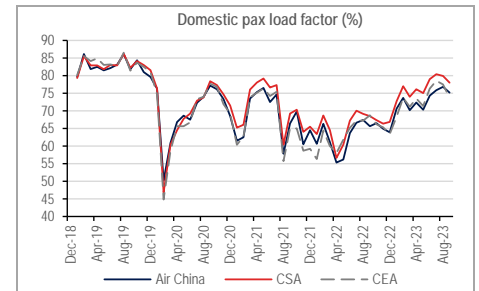
### DOMESTIC PAX CAPACITY RECOVERY



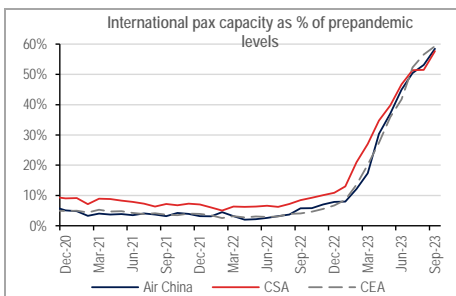
### DOMESTIC PAX LOAD RECOVERY



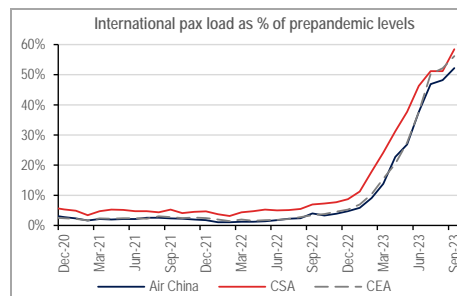
### DOMESTIC PAX LOAD FACTOR



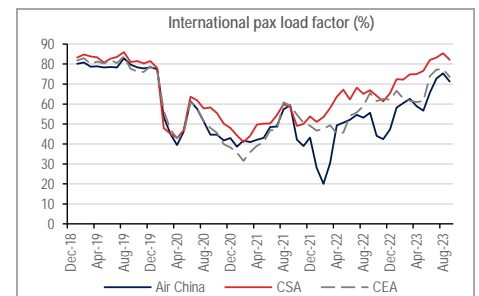
### INTERNATIONAL PAX CAPACITY RECOVERY



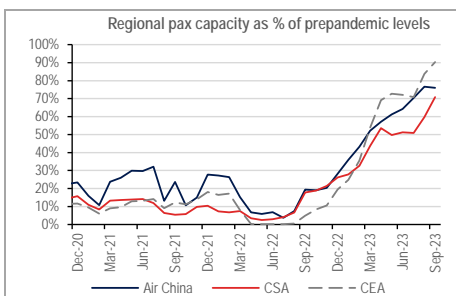
### INTERNATIONAL PAX LOAD RECOVERY



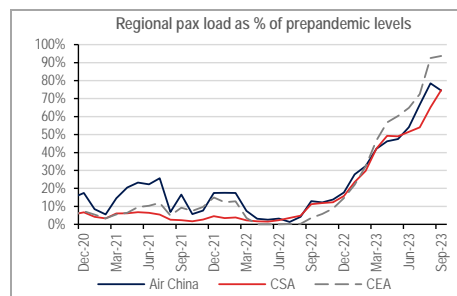
### INTERNATIONAL PAX LOAD FACTOR



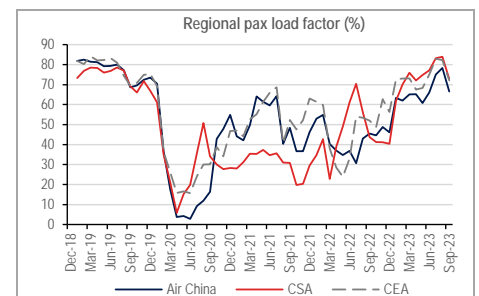
### REGIONAL PAX CAPACITY RECOVERY



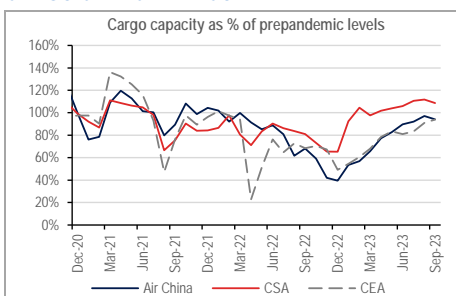
### REGIONAL PAX LOAD RECOVERY



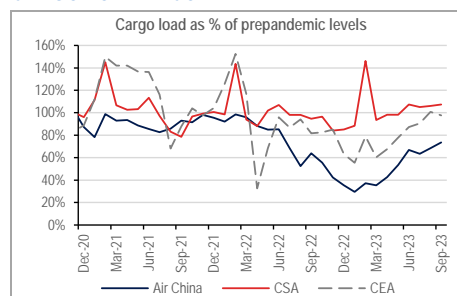
### REGIONAL PAX LOAD FACTOR



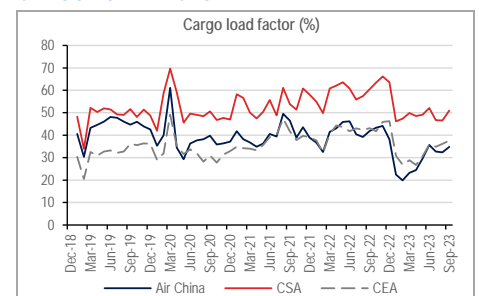
### CARGO CAPACITY RECOVERY



### CARGO LOAD RECOVERY



### CARGO LOAD FACTOR



SECTOR UPDATE

Gaming – Macau

Marketing Feedback: Be Selective; Eyes On Cost Management Amid Intensified Competition

We met with some long-only investors recently and their key focuses were on Golden Week performance, labour costs, and impact of non-gaming amenities (such as concerts). The market has concerns on the EBITDA recovery pace in 3Q23 given the increasing labour market competition in Macau, and we believe further share price retreats could be a good entry point for Galaxy and Sands China. Our top pick is Galaxy. Maintain MARKET WEIGHT.

WHAT'S NEW

- **LO: Remain selective on sector.** Recently, we met with some long-only (LO) clients, and their key focuses include: Gross gaming revenue (GGR) and EBITDA recovery, Golden Week performance, labour costs, illicit money exchange impact, ESG topics, impact of new non-gaming amenities, etc. Overall, these LO investors remain selective on the Macau Gaming sector, preferably on companies that have strong expansion potential (Galaxy is the only company with new land developments) and strong moat around mass and non-gaming markets (Sands China has the largest market share at around 32% and hotel room inventory in 2Q23).
- **Mass GGR grew 11% qoq in 3Q23 (95% of 3Q19).** The sector's GGR was up 7% qoq to MOP48.8b in 3Q23. Per latest figures released from the Gaming Inspection and Coordination Bureau (DICJ), VIP, mass and slot revenue were -3%, +11%, and +8% qoq, recovering to 38%/95%/75% of 3Q19's levels (vs 2Q23: 35%/88%/71% of 2Q19). We expect mass GGR to sequentially improve in 4Q23, boosted by the Golden Week holidays, the line-up of concerts, Macau Grand Prix in Nov 23, and year-end holidays. For 2024, we forecast the industry mass GGR to reach 115% of 2019's level, as: a) international airline capacity will improve (Macau/Hong Kong's international flight capacity has only recovered to around 70%/75% of 2019's level, per media report), b) base mass and group tours will recover, and c) visit frequency per player will normalise.
- **Labour costs as key concern.** Given the increasing competition in Macau's labour market and the minimum wage hike, investors have been concerned over the rise in labour costs. However, we think that the minimum wage hike does not have an impact on the operators as the staff are paid far above the minimum wage. By end-2Q23, the number of employees of Sands China and Galaxy were 11% and 16% lower vs end-19's level. Although the companies will continue to ramp up the workers to cater for the growing demand, the number of workers will still stay below the pre-pandemic level due to permanent cost savings. Specifically, Galaxy expects the number of workers to rise to 19,500 by end-23, which is 11% lower than 2019's level. For 3Q23, we expect Galaxy's EBITDA to grow by 16% qoq (about 70% of 3Q19's level) while we forecast Sands China's EBITDA to grow by 12% qoq (about 81% of 3Q19's level).
- **Limited concern on illicit money exchange.** Some investors think that the market has overreacted to the "potential criminalisation of illegal money exchange" article, with the sector's share price dropping by 5-7% vs. HSI's -2% on 25 Sep 23. The impact is limited at the current stage as these activities only represent a minimal percentage of total betting amount, in our view.

ACTION

- **Maintain MARKET WEIGHT.** Share prices of the companies under our coverage have pulled back by 16-19% since early-Sep 23 (vs HSI: -4%) on weak investor sentiment. The sector currently trades at 9.4x 12-month forward EV/EBITDA, which is quite attractive, in our view. Galaxy is our top pick as we expect a market share expansion in 3Q23, amid the slower recovery pace of group tours, and weaker spending willingness of the base mass market.

PEER COMPARISON

Company	Ticker	Rec	Price @ 16 Oct 23 (HK\$)	Target Price (HK\$)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)	Dividend Yield 2023F (%)
Sands China	1928 HK	BUY	21.00	36.00	71.4	21,724.1	22.9	10.7	86.8	9.6	12.4	9.1	n.m.	0.0
Galaxy	27 HK	BUY	43.80	60.50	38.1	24,485.3	22.7	13.6	2.7	2.4	15.7	10.3	12.6	1.3

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Sands China	1928 HK	BUY	21.00	36.00
Galaxy	27 HK	BUY	43.80	60.50

Source: UOB Kay Hian

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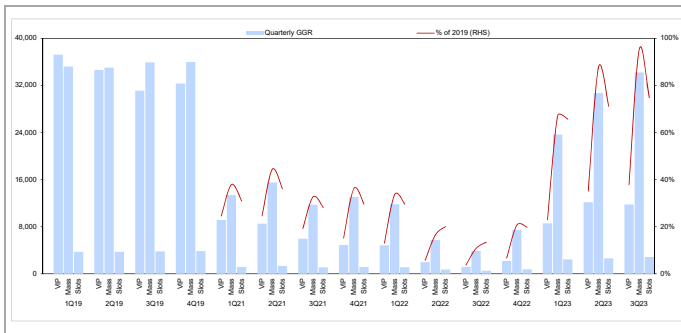
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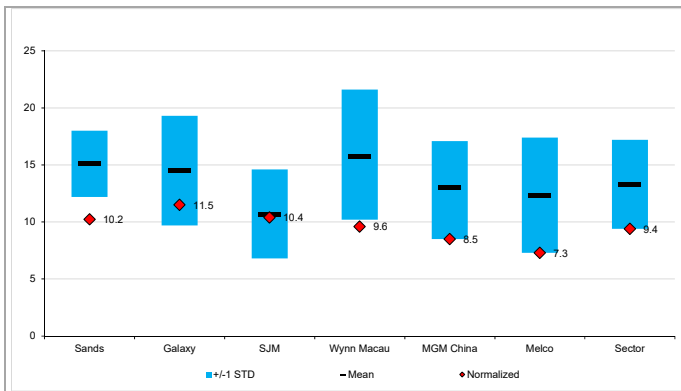
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QUARTERLY GGR TREND



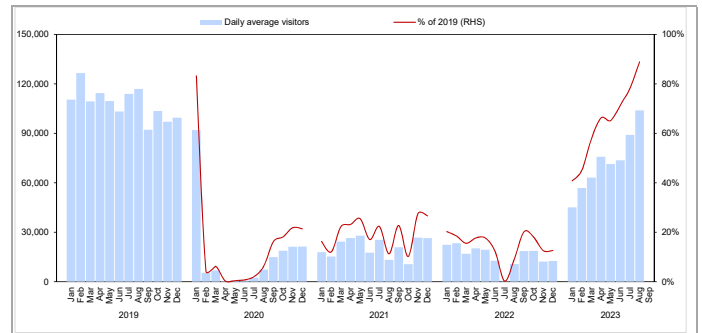
Source: DICJ, UOB Kay Hian

12-MONTH FORWARD EV/EBITDA



Source: Bloomberg, UOB Kay Hian

DAILY AVERAGE VISITATION TREND



Source: Macao Tourism, UOB Kay Hian

UPCOMING MAJOR CONCERTS

Upcoming Concerts	Date	Properties
Eason Chan - Fear and Dreams World Tour	Oct.13-15, 20-22, 27-29, 2023 (9 days)	Cotai Arena, The Venetian Macao
KoolTai MACAO MUSIC FES.2023	Nov. 11-12, 2023 (2 days)	Cotai Expo Hall D, The Venetian Macao
Westlife - The Wild Dreams Tour	Nov. 18-19, 2023 (2 days)	The Londoner Macao Arena
Jeff Chang - "Continuum 2.0" Live Concert Macau	Dec. 2, 2023	Galaxy Arena
OneRepublic - The Artificial Paradise Tour in Macao	Jan. 21, 2024	Galaxy Arena

Source: Public Information, UOB Kay Hian

### INITIATE COVERAGE

## Ningbo Tuopu Group Co (601689 CH)

Leading Intelligent Lightweight Chassis Solution Provider In China

We initiate coverage on Tuopu, a total solution provider for intelligent lightweight chassis systems, with a BUY call due to: a) the burgeoning growth in China's intelligent lightweight chassis market, b) Tuopu's rapid product line expansion based on a platformisation strategy, and c) close partnerships with a wide spectrum of leading EV companies built on close collaborations and their strong R&D capabilities. Our target price of Rmb105.00 is based on 10-year DCF.

### INVESTMENT HIGHLIGHTS

- **Trends of lightweighting, cost reduction and intelligentisation along with vehicle electrification create colossal market potential for Tuopu.** Lightweighting, cost reduction and intelligentisation are the three key themes amid the vehicle electrification trend. The market size for lightweighting of pure passenger electric vehicles (PEV), integrally casted components of PEVs, and intelligent chassis electronics in China are expected to grow at a CAGR of over 40%/100%/36% respectively from 2022-25.
- **Rapid expansion of product portfolio based on platformisation strategy, capturing increasing value added.** Based on chassis, Ningbo Tuopu Group (Tuopu) has been expanding its product portfolio of noise, vibration and harshness (NVH) shock absorbers and interior/exterior decorative parts to include lightweight chassis and body parts, advanced driver assistance systems, smart cockpits, air suspension, thermal management systems and even robotic motion actuators to capture the highest value added for a vehicle.
- **Expansion of clientele based on close collaborations with strategic customers.** Tuopu collaborates closely with strategic customers in a proactive and fast-response way. As such, the company has established stable partnerships with a wide spectrum of carmakers worldwide, including Tesla, Geely, BYD and other Chinese EV companies like Li Auto, Nio, Xpeng, Huawei-Jinkang, Hycan, HiPhi, IM Motors and Xiaomi.
- **Rapid capacity expansion to fuel earnings growth.** In order to fulfil strong demand from customers, Tuopu has been embarking on aggressive capacity expansion projects, including: a) an air suspension plant, seven new plants for lightweight chassis systems, interior functional components and thermal management systems; and b) four production lines for robotic motion actuators at the Mexico plant. All in, these projects could bring in a total of Rmb38b in annual revenue, four times the revenue in 2022.

Click [here](#) for Blue Top dated 17 Oct 23

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	11,463	15,993	21,727	32,048	44,058
EBITDA	1,893	2,892	4,119	5,884	7,889
Operating profit	1,289	2,031	2,998	4,423	6,080
Net profit (rep./act.)	1,017	1,700	2,440	3,651	5,063
Net profit (adj.)	1,004	1,539	2,440	3,651	5,063
EPS (fen)	92.3	154.3	210.2	314.5	436.1
PE (x)	72.0	43.1	31.6	21.1	15.2
P/B (x)	6.9	6.0	4.3	3.7	3.1
EV/EBITDA (x)	41.4	27.1	19.0	13.3	9.9
Dividend yield (%)	0.4	0.7	0.9	1.4	2.0
Net margin (%)	8.8	9.6	11.2	11.4	11.5
Net debt/(cash) to equity (%)	3.0	29.8	6.1	7.2	2.5
Interest cover (x)	36.2	(169.2)	18.0	26.6	37.3
ROE (%)	10.9	13.6	16.2	18.7	22.0
Consensus net profit	-	-	2,400	3,261	4,380
UOBKH/Consensus (x)	-	-	1.02	1.12	1.16

Source: Tuopu, Bloomberg, UOB Kay Hian

### BUY

Share Price	Rmb66.49
Target Price	Rmb105.00
Upside	+58.3%

### COMPANY DESCRIPTION

Ningbo Tuopu Group Co is an automotive parts manufacturer of noise, vibration and harshness shock absorbers; interior/exterior decorative parts; chassis and body parts; chassis electronics; smart cockpit parts; and thermal management systems.

### STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	601689 CH
Shares issued (m):	1,102
Market cap (Rmbm):	73,275
Market cap (US\$m):	10,038
3-mth avg daily t'over (US\$m):	114.5

### Price Performance (%)

52-week high/low	Rmb84.82/Rmb48.90			
1mth	3mth	6mth	1yr	YTD
(7.9)	(10.1)	12.5	(11.1)	13.5

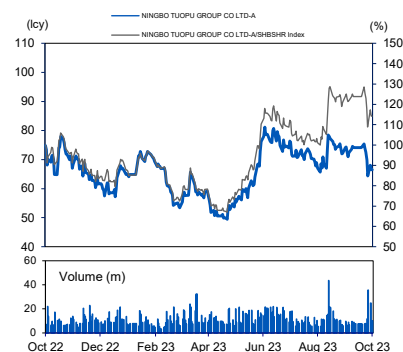
### Major Shareholders

Mr. Wu Jianshu	64.09%
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FY23 NAV/Share (Rmb) 14.05

FY23 Net Cash/Share (Rmb) 0.95

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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**EARNINGS REVISION/RISK**

- **Earnings to grow at 44% CAGR from 2022-25.** We expect Tuopu's net profit to grow at a 44% CAGR from 2022 to Rmb2,440m/Rmb3,651m/Rmb5,063m in 2023-25 respectively, based on the burgeoning growth of the intelligent lightweight chassis market in China and the company's launches of multiple new projects.
- **Risks.** Earnings risks will mainly come from: a) the US' restriction on chip supplies to China, b) cyclicity of China's automobile industry, c) competition from foreign and local competitors like Bosch, Continental, Denso, Ningbo Xusheng, Minth and Sanhua, and d) fluctuations in raw material prices such as aluminum, magnesium and steel.

**VALUATION/RECOMMENDATION**

- **Initiate coverage with BUY and Rmb105.00 target price,** based on 10-year DCF (WACC: 10%, terminal growth: 4%). Our target price implies 33.4x 2024F PE, roughly on a par with the historical mean one-year forward PE.



### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	15,993	21,727	32,048	44,058
EBITDA	2,892	4,119	5,884	7,889
Depreciation & amortization	(861)	(1,121)	(1,461)	(1,809)
EBIT	2,031	2,998	4,423	6,080
Total other non-operating income	(122)	-	-	-
Associate contributions	39	39	39	39
Net interest income/(expense)	12	(167)	(166)	(163)
<b>Pre-tax profit</b>	<b>1,960</b>	<b>2,871</b>	<b>4,295</b>	<b>5,956</b>
Tax	(261)	(431)	(644)	(893)
Minorities	1	-	-	-
<b>Net profit</b>	<b>1,700</b>	<b>2,440</b>	<b>3,651</b>	<b>5,063</b>
Net profit (recurrent)	1,539	2,440	3,651	5,063

### CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>2,284</b>	<b>3,244</b>	<b>4,558</b>	<b>6,202</b>
Pre-tax profit	1,960	2,871	4,295	5,956
Tax	(261)	(431)	(644)	(893)
Depreciation/amortization	861	1,121	1,461	1,809
Associates	(39)	(39)	(39)	(39)
Working capital changes	(323)	(445)	(682)	(793)
Non-cash items	86	167	166	163
Other operating cashflows	-	-	-	-
<b>Investing</b>	<b>(5,106)</b>	<b>(3,993)</b>	<b>(3,968)</b>	<b>(3,964)</b>
Capex (growth)	(5,426)	(4,060)	(4,060)	(4,060)
Investments	(540)	-	-	-
Proceeds from sale of assets	893	-	-	-
Others	(34)	67	92	96
<b>Financing</b>	<b>4,297</b>	<b>4,756</b>	<b>(991)</b>	<b>(1,354)</b>
Dividend payments	(397)	(744)	(991)	(1,354)
Issue of shares	-	4,000	-	-
Proceeds from borrowings	6,802	3,000	1,000	500
Loan repayment	(1,880)	(1,500)	(1,000)	(500)
Others/interest paid	(229)	-	-	-
<b>Net cash inflow (outflow)</b>	<b>1,475</b>	<b>4,007</b>	<b>(401)</b>	<b>884</b>
<b>Beginning cash &amp; cash</b>	<b>936</b>	<b>2,410</b>	<b>6,417</b>	<b>6,016</b>
Changes due to forex impact	(0)	-	-	-
<b>Ending cash &amp; cash equivalent</b>	<b>2,410</b>	<b>6,417</b>	<b>6,016</b>	<b>6,900</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	1,218	1,423	1,591	1,724
Other LT assets	1,265	1,219	1,205	1,245
Cash/ST investment	1,129	1,882	2,180	2,813
Other current assets	6,540	8,792	11,912	15,938
<b>Total assets</b>	<b>10,152</b>	<b>13,316</b>	<b>16,889</b>	<b>21,720</b>
ST debt	317	600	600	600
Other current liabilities	3,971	5,524	7,596	10,268
LT debt	-	400	400	400
Other LT liabilities	447	514	608	730
Shareholders' equity	5,339	6,200	7,606	9,645
Minority interest	78	78	78	78
<b>Total liabilities &amp; equity</b>	<b>10,152</b>	<b>13,316</b>	<b>16,889</b>	<b>21,720</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	18.1	19.0	18.4	17.9
Pretax margin	12.3	13.2	13.4	13.5
Net margin	9.6	11.2	11.4	11.5
ROA	6.7	7.5	8.7	9.9
ROE	13.6	16.2	18.7	22.0
<b>Growth</b>				
Turnover	39.5	35.9	47.5	37.5
EBITDA	52.8	42.4	42.8	34.1
Pre-tax profit	71.0	46.5	49.6	38.7
Net profit	67.1	43.5	49.6	38.7
Net profit (adj)	53.3	58.5	49.6	38.7
EPS	67.1	36.2	49.6	38.7
<b>Leverage</b>				
Debt to total capital	23.3	20.9	17.2	14.1
Debt to equity	52.8	43.8	37.7	31.7
Net debt to equity	29.8	6.1	7.2	2.5
Interest cover (x)	(169.2)	18.0	26.6	37.3

COMPANY RESULTS

**Fuyao Glass Industry Group (3606 HK)**

3Q23: Core Earnings Up 61% yoy And 28% qoq, Beating Estimates On Margins

**FYG's 3Q23 core net profit came in 18% above consensus at Rmb1,533m (+61% yoy/+28% qoq), due to margin beat. Looking ahead, FYG's margins will be boosted by a further decline in soda ash prices. Based on higher margins, we lift our 2023-25 net profit forecasts by 14%/13%/11% to Rmb5,648m/Rmb6,487m/Rmb7,686m respectively. Maintain BUY. Raise target price from HK\$42.00 to HK\$45.00.**

3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q23	yoy % chg	qoq % chg	9M23	yoy % chg
Revenue	8,795	16.7	10.2	23,826	16.6
Gross profit	3,194	21.3	14.4	8,325	18.1
Gross margin (%)	36.3	1.4	1.3	34.9	0.5
EBIT	1,762	27.6	17.0	4,424	22.1
EBIT margin (%)	20.0	1.7	1.2	18.6	0.8
Net profit	1,290	(15.1)	(32.9)	4,126	5.8
Net profit (adj)	1,533	60.6	28.1	3,727	35.2
Net margin (%)	17.4	4.8	2.4	15.6	2.2
Operating cash flow	2,325	79.8	35.4	5,449	27.3
Free cash flow	1,175	184.5	161.8	1,810	(10.2)

Source: FYG, UOB Kay Hian

RESULTS

• **3Q23 core net profit spiked 60.6% yoy and 28.1% qoq to Rmb1,533m, beating consensus by 18%.** Taking into account forex gains (losses) and other exceptional items, Fuyao Glass' (FYG) reported net profit declined by 15.1% yoy and 32.9% qoq to Rmb1,290m, mainly due to the Rmb264m in forex loss in 3Q23 vs forex gain of Rmb550m in 3Q22 and Rmb718m in 2Q23. Core net profit and reported net profit respectively grew 35.2% yoy and 5.8% yoy to Rmb4,126m and Rmb3,727m in 9M23, compared with our full-year 2023 net profit forecasts of Rmb4,950m and Rmb5,642m.

• **Revenue growth in line.** Revenue grew 16.7% yoy and 10.2% qoq to about Rmb8.8b in 3Q23, in line with estimates, mainly driven by the hike in ASP. In 9M23, revenue grew by 16.6% yoy to c. Rmb23.8b, of which Rmb21.4b came from automotive glass sales (+15.1% yoy). That was driven by a 6% hike in ASP, vs our estimated 9% for full-year 2023. The ASP increase in 9M23 was dragged by a lower share of the pricier overseas sales in revenue mix in 1H23 given destocking by the US customers (-1.0ppt) and the price cuts in 3Q23 (-0.8ppt).

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	23,603	28,099	32,546	38,499	44,985
EBITDA	6,671	7,156	8,692	9,997	11,379
Operating Profit	4,419	4,811	6,359	7,681	9,078
Net Profit (rep. / act.)	3,146	4,756	5,633	6,466	7,663
Net Profit (adj.)	3,344	3,620	5,349	6,466	7,663
EPS (fen)	120.6	182.2	215.9	247.8	293.6
P/E (x)	28.7	19.0	16.0	14.0	11.8
P/BV (x)	3.4	3.1	2.9	2.7	2.4
EV/EBITDA (x)	13.0	12.1	9.9	8.6	7.6
Dividend yield (%)	0.0	3.6	4.4	5.0	5.9
Net margin (%)	14.2	12.9	16.4	16.8	17.0
Net debt to equity (%)	(14.9)	(18.3)	(12.5)	(12.7)	(14.1)
Interest cover (x)	6.4	(4.8)	(24.3)	93.6	127.4
ROE (%)	14.0	13.1	17.7	19.8	21.6
Consensus net profit	-	-	5,642	6,198	7,142
UOBKH/Consensus (x)	-	-	1.00	1.04	1.07

Source: Fuyao Glass, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$37.25
Target Price	HK\$45.00
Upside	20.8%
(Previous TP)	HK\$42.00)

COMPANY DESCRIPTION

FYG manufactures and distributes automobile glass, decorated glassware and other industrial glassware. FYG sells to automakers in China, North America, Europe and other countries.

STOCK DATA

GICS sector	Industrial
Bloomberg ticker:	3606 HK
Shares issued (m):	607
Market cap (HK\$m):	22,602
Market cap (US\$m):	2,916
3-mth avg daily t'over (US\$m):	7.2

Price Performance (%)

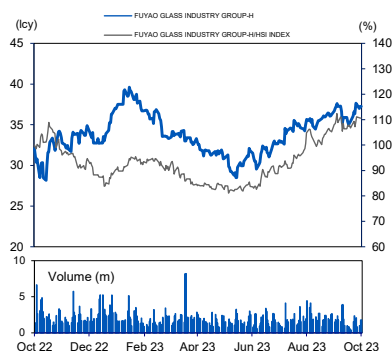
52-week high/low	HK\$39.85/HK\$27.85			
1mth	3mth	6mth	1yr	YTD
1.5	12.9	13.2	16.2	11.0

Major Shareholders

Chan Fung Ying	16.95
Heren Charitable Foundation	11.56

FY23 NAV/Share (HK\$)	12.04
FY23 Net Cash/Share (HK\$)	1.61

PRICE CHART



Source: Bloomberg

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- **The 3Q23 earnings beat lies in margins.** Gross margin and EBIT margin rose by 1.4ppt/1.7ppt yoy and 1.3ppt/1.2ppt qoq respectively to 36.3%/20.0% in 3Q23, vs our estimates of 35%/18% for full-year 2023. The gross margin improvement in 3Q23 can be attributable to an increase in capacity utilisation rate (CUR) and a decline in soda ash prices.

#### STOCK IMPACT

- **Maintain 2023-25 sales volume estimates at 32.9m/34.5m/36.2m sets respectively, implying yoy growth of 6%/5%/5% respectively,** based on 3% CAGR in global automobile sales volume and its higher-than-industry growth performance. The United Automotive Workers' (UAW) strike is not likely to have a significant impact on FYG's full-year 2023 sales and earnings. First, FYG's sales to the Big Three's (General Motors, Ford and Stellantis) plants in the US only account for 5-6% of its total sales volume. In addition, the strike would only cause a delay in the booking of revenue by one month, based on the previous similar incident in 2019.
- **Trim 2023-25 assumptions on ASP hike from 9% p.a. to 8% p.a.,** implying 2023-25 ASP of Rmb891/set, Rmb963/set and Rmb1,040/set respectively, vs 9M23's figure of Rmb840 and management's guidance of >Rmb1,500/set for 2025. This is based on the smaller-than-expected ASP increase in 9M23. Looking ahead, the ASP of automotive glass will be elevated by the increasing share of high value-added products in the revenue mix. These products include large sunroof glass, head-up display (HUD) glass, laminated glass, coated glass, etc. High value-added products as a percentage of revenue increased by 8.4ppt yoy to 51.9% in 9M23, boosting ASP by 6%. Stripping out the impact of the destocking by US customers and price cuts, ASP should have risen by 8%. Looking ahead, management targets c. 10% p.a. increase in ASP along with the increasing share of high value-added products and overseas sales in revenue mix
- **Lift 2023-25 gross margin assumptions from 35%/34.5%/34.6% to 35.3%/36.3%/36.3% respectively, vs 36.3% in 3Q23,** based on the higher-than-expected 3Q23 gross margin, decline in soda ash prices and stabilised natural gas prices in China. In particular, soda ash prices in China are expected to drop from Rmb3,000/tonne currently to Rmb2,100 by end-23 based on the easing supply-demand balance.

#### EARNINGS REVISION/RISK

- We raise our 2023-25 net profit forecasts by 14%/13%/11% to Rmb5,633m/Rmb6,466m/Rmb7,663m respectively, based on the combination of lower ASP growth rate and higher gross margin.
- Risks to our earnings estimates may come from the fluctuations in natural gas prices.

#### VALUATION/RECOMMENDATION

- **Maintain BUY and raise target price from HK\$42.00 to HK\$45.00,** based on an unchanged 17x 2024F target PE (on a par with historic mean one-year forward PE) and higher 2024F EPS.

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	28,099	32,546	38,499	44,985
EBITDA	7,156	8,692	9,997	11,379
Deprec. & amort.	(2,345)	(2,333)	(2,316)	(2,301)
EBIT	4,811	6,359	7,681	9,078
Total other non-operating income	(235)	-	-	-
Associate contributions	(8)	-	-	-
Net interest income/(expense)	1,011	261	(82)	(71)
<b>Pre-tax profit</b>	<b>5,579</b>	<b>6,621</b>	<b>7,599</b>	<b>9,007</b>
Tax	(826)	(993)	(1,140)	(1,351)
Minorities	3	6	6	8
<b>Net profit</b>	<b>4,756</b>	<b>5,633</b>	<b>6,466</b>	<b>7,663</b>
Net profit (adj.)	3,620	5,349	6,466	7,663

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>5,893</b>	<b>6,958</b>	<b>7,898</b>	<b>8,999</b>
Pre-tax profit	5,579	6,621	7,599	9,007
Tax	(826)	(993)	(1,140)	(1,351)
Depreciation/amortization	2,345	2,333	2,316	2,301
Associates	(5)	-	-	-
Working capital changes	(896)	(742)	(960)	(1,029)
Non-cash items	(304)	(261)	82	71
Other operating cashflows	-	-	-	-
<b>Investing</b>	<b>(7,656)</b>	<b>(4,722)</b>	<b>(3,231)</b>	<b>(3,220)</b>
Capex (growth)	(3,130)	(5,000)	(3,500)	(3,500)
Investments	-	-	-	-
Proceeds from sale of assets	229	-	-	-
Others	(4,754)	278	269	280
<b>Financing</b>	<b>(1,236)</b>	<b>(3,613)</b>	<b>(4,295)</b>	<b>(4,877)</b>
Dividend payments	(2,908)	(3,613)	(4,295)	(4,877)
Issue of shares	-	-	-	-
Proceeds from borrowings	11,577	12,000	12,000	12,000
Loan repayment	(13,043)	(12,000)	(12,000)	(12,000)
Others/interest paid	3,138	-	-	-
<b>Net cash inflow (outflow)</b>	<b>(2,999)</b>	<b>(1,378)</b>	<b>372</b>	<b>901</b>
<b>Beginning cash &amp; cash</b>	<b>14,325</b>	<b>12,238</b>	<b>10,860</b>	<b>11,232</b>
Changes due to forex impact	911	-	-	-
<b>Ending cash &amp; cash equivalent</b>	<b>12,238</b>	<b>10,860</b>	<b>11,232</b>	<b>12,133</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	17,579	20,500	21,942	23,404
Other LT assets	3,510	3,257	2,998	2,736
Cash/ST investment	12,238	10,860	11,232	12,133
Other current assets	17,440	19,272	21,729	24,514
<b>Total assets</b>	<b>50,767</b>	<b>53,888</b>	<b>57,901</b>	<b>62,787</b>
ST debt	8,222	8,222	8,222	8,222
Other current liabilities	9,139	10,229	11,726	13,482
LT debt	3,484	3,484	3,484	3,484
Other LT liabilities	935	935	935	935
Shareholders' equity	29,003	31,374	33,897	37,034
Minority interest	(15)	(20)	(27)	(34)
<b>Total liabilities &amp; equity</b>	<b>50,767</b>	<b>53,888</b>	<b>57,901</b>	<b>62,787</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	25.5	26.7	26.0	25.3
Pretax margin	19.9	20.3	19.7	20.0
Net margin	12.9	16.4	16.8	17.0
ROA	7.6	10.2	11.6	12.7
ROE	13.1	17.7	19.8	21.6
<b>Growth</b>				
Turnover	19.0	15.8	18.3	16.8
EBITDA	7.3	21.5	15.0	13.8
Pre-tax profit	46.1	18.7	14.8	18.5
Net profit	51.2	18.5	14.8	18.5
Net profit (adj)	8.3	47.7	20.9	18.5
EPS	51.2	18.5	14.8	18.5
<b>Leverage</b>				
Debt to total capital	23.1	21.7	20.2	18.6
Debt to equity	40.4	37.3	34.5	31.6
Net debt to equity	(18.3)	(12.5)	(12.7)	(14.1)
Interest cover (x)	(4.8)	(24.3)	93.6	127.4

COMPANY UPDATE

**Anta Sports (2020 HK)**

Aiming To Become Global Leader; Conservative Guidance On New Brands

Anta aims to become the global leader in the sportswear industry by 2030. For the Anta brand/Fila/Descente/KOLON, management guided retail sales CAGR of 10-15%/10-15%/20-25%/30-35% during 2023-26. However, we think the guidance for Descente and KOLON is conservative, and that it is possible for the company to beat expectations. We are positive on Anta's multi-brand and globalisation strategies. Maintain BUY and target price of HK\$128.00.

WHAT'S NEW

- Anta hosted an investor day on 17 Oct 23 in Beijing.

STOCK IMPACT

- **Globalisation the next step.** While targeting to maintain its top position in China's sportswear sector (top-1 player in China in 2022 with market share of 19.5%), Anta further aims to become the global leader in the sportswear industry by 2030. On one hand, the company will strengthen the North America and Europe markets with Amer through the penetration into niche segments. On the other hand, it will develop new markets with its main brands. The company has already set up its Southeast Asia business division, marking the first step of its globalisation and aiming to achieve retail sales of US\$1.5b (Anta & Amer) in five years (currently 220 stores vs 132 stores at end-22). Furthermore, to complete the brand matrix, management does not rule out the possibility of further M&As in segmental markets.
- **Anta brand – Mass-market positioning and brand upgrade.** Management emphasised that Anta brand will maintain its mass-market positioning and brand upgrade, targeting 10-15% retail sales CAGR in 2023-26. Specifically, for 2024, it aims to achieve a 5% increase in the number of transactions and raise the average ticket size to Rmb800 (vs Rmb670-680 by end-23), mainly through boosting sales of shoes and IP products. The company will also renovate sales channels to achieve Anta brand's retail sales target, strengthening its efforts on outlets (to open 10 superstores in 2024) and the private domain (retail sales to grow at 100%), while improving the store efficiency of brick and mortar stores at mid-teens.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	49,328	53,651	61,422	71,704	83,278
EBITDA	14,026	15,346	19,693	22,436	25,462
Operating profit	10,889	11,005	14,676	17,088	19,882
Net profit (rep./act.)	7,720	7,590	10,097	12,036	14,155
Net profit (adj.)	7,720	7,590	10,097	12,036	14,155
EPS (Fen)	278.1	276.0	364.1	424.9	492.3
PE (x)	30.7	30.9	23.4	20.1	17.3
P/B (x)	8.0	6.7	4.7	4.1	3.6
EV/EBITDA (x)	16.5	15.1	11.8	10.3	9.1
Dividend yield (%)	1.6	1.4	1.8	2.1	2.4
Net margin (%)	15.7	14.1	16.4	16.8	17.0
Net debt/(cash) to equity (%)	2.5	6.2	(27.8)	(36.6)	(44.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	29.2	24.0	23.5	21.7	22.1
Consensus net profit	-	-	9,770	11,705	13,750
UOBKH/Consensus (x)	-	-	1.03	1.03	1.03

Source: Anta Sports, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$91.50
Target Price	HK\$128.00
Upside	+39.9%

COMPANY DESCRIPTION

Anta is a leading sportswear company in China. It has the main brand - Anta, and has the brands - Fila, Descente, and Kolon. It also owns more than 50% equity stake of Amer Sports, which has the brands of Arc'teryx, Salomon, and Wilson.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	2020 HK
Shares issued (m):	2,832.6
Market cap (HK\$m):	259,185.1
Market cap (US\$m):	33,136.7
3-mth avg daily t'over (US\$m):	69.1

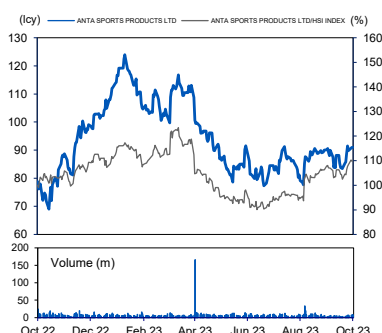
Price Performance (%)

52-week high/low	HK\$124.00/HK\$69.00			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
2.8	13.0	(18.4)	10.4	(10.6)

Major Shareholders

Anta International Limited	42.40
FY23 NAV/Share (Rmb)	18.26
FY23 Net Cash/Share (Rmb)	5.08

PRICE CHART



Source: Bloomberg

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- **Fila – High-quality growth.** Management targets 10-15% retail sales CAGR during 2023-26F for Fila, among which new retail channels will post faster growth at 15-20%, bringing Fila's overall retail sales to Rmb40-50b within three years. Management is confident that Fila will achieve the target, as the company has been making efforts on product designs and product innovations, especially for its shoe category, which recording >20%+ CAGR in the past three years. The company will stick to the high-quality development strategy for Fila, maintaining operating profit margin at 25-30% in the long-term (vs 29.7% in 1H23).
- **Other brands – Conservative guidance likely to be beaten.** Against the backdrop of the boom of outdoor activities, Descente and KOLON saw rapid growth in recent years. By end-23F, management expects retail sales of Descente to reach Rmb5b, with average monthly store efficiency at Rmb1.8m (vs retail sales of Rmb2.5b and average monthly store efficiency at Rmb1m in 2021). Management expects Descente to maintain 20-25% retail sales CAGR during 2024-26, achieving overall retail sales of Rmb10b by end-26F and becoming Anta's third ten-billion brand. For KOLON, it recorded 25% of retail sales CAGR during 2019-22, and in 1H23, its retail sales doubled yoy and average monthly store efficiency reached Rmb900,000 (vs retail sales of Rmb1.3b and average monthly store efficiency of Rmb550,000 in 2022). Management expects KOLON to maintain 30-35% retail sales CAGR during 2023-26F.

However, in our view, the guidance for Descente and KOLON is conservative, given the increasing popularity of outdoor activities and stronger spending willingness of the target consumers. Management believes that the two brands could beat expectations.

- **Amer Sports – More contribution from China.** Amer's business operation was well on track in China. Management expects Amer's China region to contribute 20% of total revenue in 2023F (vs 5% in 2019). Specifically, Arc'teryx is expected to achieve retail sales of Rmb6b in 2023 (vs Rmb800m in 2019).

#### EARNINGS REVISION/RISK

- **No earnings revisions.**
- **Risks:** a) Higher-than-expected A&P expenses, and b) lower contribution from Amer.

#### VALUATION/RECOMMENDATION

- **Maintain BUY and target price of HK\$128.00.** We are positive on Anta's multi-brand and globalisation strategies. Anta is our top pick in the sportswear sector. The stock currently trades at 23.4x 2023F PE, 0.75SD below its five-year historical average.

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>53,651.0</b>	<b>61,422.2</b>	<b>71,703.7</b>	<b>83,278.2</b>
EBITDA	15,346.0	19,692.8	22,435.8	25,462.2
Deprec. & amort.	4,341.0	5,017.3	5,347.4	5,579.8
EBIT	11,005.0	14,675.5	17,088.4	19,882.4
Associate contributions	28.0	28.0	28.0	28.0
Net interest income/(expense)	97.0	177.8	665.5	1,040.5
<b>Pre-tax profit</b>	<b>11,355.0</b>	<b>15,106.3</b>	<b>18,006.9</b>	<b>21,175.9</b>
Tax	(3,110.0)	(4,137.4)	(4,931.9)	(5,799.8)
Minorities	(655.0)	(871.4)	(1,038.7)	(1,221.5)
<b>Net profit</b>	<b>7,590.0</b>	<b>10,097.5</b>	<b>12,036.3</b>	<b>14,154.5</b>
Net profit (adj.)	7,590.0	10,097.5	12,036.3	14,154.5

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>12,147.0</b>	<b>15,416.5</b>	<b>17,785.6</b>	<b>20,206.5</b>
Pre-tax profit	11,355.0	15,106.3	18,006.9	21,175.9
Tax	(3,046.0)	(4,137.4)	(4,931.9)	(5,799.8)
Deprec. & amort.	4,464.0	5,017.3	5,347.4	5,579.8
Working capital changes	(1,598.0)	(569.7)	(636.8)	(749.4)
Non-cash items	383.0	0.0	0.0	0.0
Other operating cashflows	589.0	0.0	0.0	0.0
<b>Investing</b>	<b>(4,774.0)</b>	<b>(6,133.0)</b>	<b>(6,133.0)</b>	<b>(6,133.0)</b>
Capex (growth)	(1,621.0)	(1,000.0)	(1,000.0)	(1,000.0)
Investments	(321.0)	(5,133.0)	(5,133.0)	(5,133.0)
Proceeds from sale of assets	6.0	0.0	0.0	0.0
Others	(2,838.0)	0.0	0.0	0.0
<b>Financing</b>	<b>(7,841.0)</b>	<b>2,370.5</b>	<b>(3,793.6)</b>	<b>(11,937.8)</b>
Dividend payments	(3,950.0)	(3,214.7)	(4,274.7)	(5,096.3)
Issue of shares	0.0	10,438.2	0.0	0.0
Proceeds from borrowings	3,305.0	3,000.0	3,000.0	3,000.0
Loan repayment	(4,208.0)	(7,853.0)	(2,518.9)	(9,841.6)
Others/interest paid	(2,988.0)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>(468.0)</b>	<b>11,654.0</b>	<b>7,859.0</b>	<b>2,135.7</b>
<b>Beginning cash &amp; cash</b>	<b>17,592.0</b>	<b>17,378.0</b>	<b>29,032.0</b>	<b>36,891.0</b>
Changes due to forex impact	254.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>17,378.0</b>	<b>29,032.0</b>	<b>36,891.0</b>	<b>39,026.7</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>3,716.0</b>	<b>3,595.9</b>	<b>3,511.9</b>	<b>3,453.3</b>
Other LT assets	22,883.0	24,118.8	24,988.4	25,600.2
Cash/ST investment	17,378.0	29,032.0	36,891.0	39,026.7
Other current assets	25,218.0	26,679.8	28,844.1	31,280.6
<b>Total assets</b>	<b>69,195.0</b>	<b>83,426.5</b>	<b>94,235.4</b>	<b>99,360.8</b>
ST debt	15,065.0	9,730.9	9,841.6	2,714.8
Other current liabilities	11,142.0	12,039.4	13,576.0	15,273.2
LT debt	4,430.0	4,911.1	5,281.5	5,566.8
Other LT liabilities	719.0	719.0	719.0	719.0
Shareholders' equity	34,400.0	51,715.7	59,468.2	68,516.5
Minority interest	3,439.0	4,310.4	5,349.1	6,570.6
<b>Total liabilities &amp; equity</b>	<b>69,195.0</b>	<b>83,426.5</b>	<b>94,235.4</b>	<b>99,360.8</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	28.6	32.1	31.3	30.6
Pre-tax margin	21.2	24.6	25.1	25.4
Net margin	14.1	16.4	16.8	17.0
ROA	11.5	13.2	13.5	14.6
ROE	24.0	23.5	21.7	22.1
<b>Growth</b>				
Turnover	8.8	14.5	16.7	16.1
EBITDA	9.4	28.3	13.9	13.5
Pre-tax profit	1.0	33.0	19.2	17.6
Net profit	(1.7)	33.0	19.2	17.6
Net profit (adj.)	(1.7)	33.0	19.2	17.6
EPS	(0.8)	31.9	16.7	15.9
<b>Leverage</b>				
Debt to total capital	34.0	20.7	18.9	9.9
Debt to equity	56.7	28.3	25.4	12.1
Net debt/(cash) to equity	6.2	(27.8)	(36.6)	(44.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

COMPANY UPDATE

**Baidu Inc (9888 HK)**

ERNIE Bot 4.0 Unveiled At Baidu World Conference 2023 With 10 Practical Applications

On 17 October, the Baidu World Conference 2023 themed "Creating the Future: PROMPT THE WORLD" was held in Beijing. CEO Robin Li demonstrated four core capabilities of the upgraded ERNIE 4.0 – understanding, generation, logic, and memory. After being made available to the public for 1.5 months, ERNIE Bot has accumulated 45m users and 54,000 developers. Maintain BUY with a lower target price of HK\$183.00 (US\$189.00).

WHAT'S NEW

- **Upgraded ERNIE 4.0 officially launched for testing.** ERNIE 4.0 has been made available for attendees to experience through the ERNIE app. In addition, enterprise customers can also apply for testing ERNIE 4.0 API through Baidu's Intelligent Cloud Qianfan large model platform. Baidu's CEO, Robin Li demonstrated ERNIE 4.0's four core capabilities during the conference. a) Understanding: ERNIE's ability to understand complex prompts such as words that are out of order, have vague intent, or have implicit meanings; b) Generation: ERNIE 4.0 has the ability to rapidly generate a set of advertising posters, five ad copies, and a marketing video based on a source image within a few minutes. Baidu has introduced the AIGC Marketing Creative Platform, enabling individuals to work as an entire AI marketing team to finish the entire complicated ad creation process; c) Logic: Capability in solving math problems and summarising knowledge points; d) Memory: ERNIE is able to write multi-thousand-word novel, create characters, and have plot development.
- **More practical AI-native applications powered by ERNIE LLM.** Robin Li conducted hands-on sessions for over 10 AI-native applications that incorporated ERNIE LLM, including the existing applications include Baidu Wenku, Baidu Maps, and new applications introduced are Baidu Ruliu and Baidu Wangpan's Yun Yiduo (云一朵) etc. a) The new version of document assistant, Baidu Wenku attracted over 2m people to try out the AI's new functions on its opening day. This reconstruction has rapidly evolved various features, including understanding materials, generating articles, intelligent creation of PowerPoint presentations, style switching, and so on. This transformation turns Baidu Wenku from a "content tool" into a "productivity tool," providing users with more practical and clearer document outputs; b) Baidu Wangpan's intelligent assistant, Yun Yiduo reached 20m users, and enables a shift from graphical interface interaction to natural language interaction, enhancing multimodal information understanding, allowing precise video time-point positioning, and extraction essential content; c) The new generation of intelligent work platform, Baidu Ruliu is designed to build an AI-driven workflow pipeline. It has three primary functions: intelligent knowledge management, smart meetings, and intelligent workstations.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	124,493	123,221	138,010	150,766	162,884
EBITDA	16,402	21,934	27,565	27,021	28,492
Operating profit	10,518	15,457	20,672	20,128	21,705
Net profit (rep./act.)	7,591	7,534	21,528	20,238	22,074
Net profit (adj.)	18,830	20,680	26,136	28,876	31,488
EPS (Fen)	676.7	728.0	893.3	958.2	1,024.4
PE (x)	16.5	15.3	12.5	11.6	10.9
P/B (x)	1.4	1.4	1.3	1.2	1.1
EV/EBITDA (x)	12.8	9.6	7.6	7.8	7.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	6.1	6.1	15.6	13.4	13.6
Net debt/(cash) to equity (%)	(20.6)	(26.5)	(43.6)	(47.3)	(50.3)
ROE (%)	3.9	3.5	9.0	7.5	7.3
Consensus net profit	-	-	25,645	26,825	30,301
UOBKH/Consensus (x)	-	-	1.02	1.08	1.04

Source: Baidu Inc, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$119.40
Target Price	HK\$183.00
Upside	+53.3%
(Previous TP	HK\$192.00)

COMPANY DESCRIPTION

Baidu Inc is a leading internet company that offers algorithmic search, enterprise search, news, voice assistance, online storage and navigation services.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	9888 HK
Shares issued (m):	2,255.4
Market cap (HK\$m):	333,935.3
Market cap (US\$m):	42,682.5
3-mth avg daily t'over (US\$m):	98.4

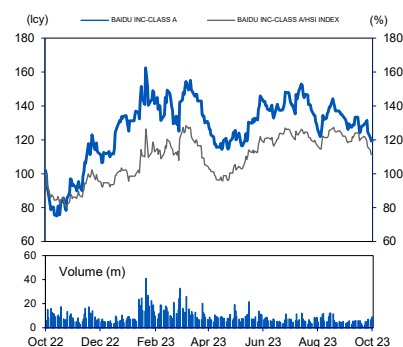
Price Performance (%)

52-week high/low	HK\$162.50/HK\$75.10			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(11.0)	(19.3)	(8.9)	20.8	6.9

Major Shareholders

	%
BlackRock Inc	6.7
BBH & CO	4.9
Vanguard Group Inc	3.3
FY23 NAV/Share (Rmb)	88.26
FY23 Net Cash/Share (Rmb)	38.48

PRICE CHART



Source: Bloomberg

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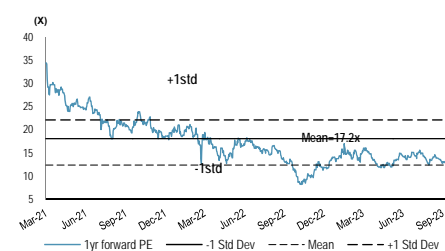
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### STOCK IMPACT

- AIGC monetisation pace of Baidu's online marketing to outstrip AI Cloud.** Baidu has embedded LLM in multiple verticals including education, legal and tourism, which saw a 100% increase revenue conversion after the upgrade. The key focus going forward will be the key revenue contribution verticals such as healthcare and e-commerce, and management plans to adopt the cost-per-sale (CPS) model over the current cost-per-click (CPC) model once the enhanced LLM usefully improves sales for clients. We expect the computing unit renting (Rmb350/day) to be an emerging revenue stream and solid driving force for AI Cloud's revenue growth. Meanwhile, we expect Ernie-Qianfan LLM platform TAM (MaaS) to contribute LLM training revenue in the near term. Despite being the key beneficiary of AIGC initiatives, online marketing revenue might deliver only 11% yoy growth in 3Q23 (vs 15% yoy in 2Q23) due to the lukewarm macro recovery in Jul and Aug 23.

### 12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### EARNINGS REVISION/RISK

- We trim 3Q23/2023 revenue forecasts by 2%/1%, as we expect online marketing revenue growth to be muted in view of the soft macro backdrop in Jul/Aug 23.** We lower non-GAAP net profit forecasts by 11%/6% for 3Q23/2023 after factoring in heavy R&D investment on AIGC initiatives. We expect Baidu to deliver adjusted net profit of Rmb6.4m in 3Q23, which should translate into net margin of 17.8%.
- Risks:** a) Weaker advertising business due to the slower-than-expected macro economy recovery and fierce competition, b) uncertainties facing the advertising segment and Robotaxi launch, c) shrinking government budget, and d) the US' ban on the supply of high-end chips to Chinese tech giants.

### VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$183.00 (US\$189.00).** We remain optimistic on Baidu's growth trajectory as we expect encouraging visibility in 2H23 given solid recovery in ad revenue and re-acceleration of AI Cloud revenue growth. We forecast 12% yoy growth in revenue and 26% yoy growth in net profit for 2023, and we expect Baidu to deliver 15% core operating profit CAGR for 2023-25F compared with the 8% decline over 2017-22.
- We remain optimistic due to Baidu's early-mover advantage on AIGC and assign 10x 12-month forward PE for the core adverting business.** We adopt 6x PS multiple for AI Cloud on the back of: a) tempered cloud revenue growth in the near term due to the delay in government projects, and b) slower AIGC monetisation pace on AI Cloud, which will offset the slower demand. The company is currently trading at 12x 12-month forward PE, below its historical mean of 17.2x. Our target price implies 16.7x 2023F PE against 32% EPS CAGR over the next three years.

### SHARE PRICE CATALYST

- a) Market share expansion in the AI Cloud and Autonomous driving segments, b) higher monetisation rates across all business units, and c) synergies between Baidu's core business and new initiatives.**

### SOTP VALUATION

Segment (US\$m)	Revenue 23-24F	NOPAT 23-24F	P/E (x) 23-24F	EV/S (x) 23-24F	Valuation (Rmbm)	Valuation (US\$m)	Baidu's stake	To Baidu	\$/share	% of
Core, Advertising	78,987	23,760	10	0	237,605	34,942	100%	34,942	94.1	50%
Cloud (ex ACE)	1,816			8	98,816	14,532	100%	14,532	39.1	21%
iQiyi, long form video	4,800	414		1	21,419	3,150	56%	1,770	4.8	3%
Autos	2,476			4	93,946	13,816	82%	11,277	30.4	16%
- Apollo (ACE, Robotaxi)	1,549			4	55,587	8,175	100%	8,175	22.0	12%
- Intelligent EV	927			4	38,359	5,641	55%	3,103	8.4	4%
Xiaodu	862			2	13,600	2,000	60%	1,200	3.2	2%
<b>Subtotal</b>								<b>63,721</b>	<b>172</b>	<b>91%</b>
Investments										
Total investments								4,595	12.4	7%
Core op. + investments								68,316	184.0	98%
Net cash								24,994	67.3	36%
NAV	21,234	3,858	23.0x	22.0x	4.2x			93,310	251.4	133%
less holdco discount							25%	(23,327)	(62.8)	-33%
Total, in US\$m	21,234		18.2x	16.5x	3.2x			69,982	189	
Total, in HK\$m								542,364	183	

Source: Baidu, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	123,221	138,010	150,766	162,884
EBITDA	21,934	27,565	27,021	28,492
Deprec. & amort.	6,477	6,893	6,893	6,787
EBIT	15,457	20,672	20,128	21,705
Total other non-operating income	(6,527)	1,981	(427)	(603)
Associate contributions	(2,150)	(993)	(510)	(184)
Net interest income/(expense)	3,332	5,061	7,660	8,344
<b>Pre-tax profit</b>	<b>10,112</b>	<b>26,722</b>	<b>26,851</b>	<b>29,262</b>
Tax	(2,578)	(5,194)	(6,613)	(7,188)
Minorities	(25)	1,307	970	970
<b>Net profit</b>	<b>7,534</b>	<b>21,528</b>	<b>20,238</b>	<b>22,074</b>
Net profit (adj.)	20,680	26,136	28,876	31,488

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>22,213</b>	<b>44,853</b>	<b>40,807</b>	<b>44,123</b>
Pre-tax profit	10,112	26,722	26,851	29,262
Tax	(2,578)	(5,194)	(6,613)	(7,188)
Deprec. & amort.	6,477	6,893	6,893	6,787
Working capital changes	(10,893)	(8,635)	(12,573)	(14,589)
Other operating cashflows	19,095	25,067	26,249	29,851
<b>Investing</b>	<b>6,087</b>	<b>(16,093)</b>	<b>(16,867)</b>	<b>(18,894)</b>
Capex (growth)	(9,915)	(11,403)	(13,113)	(15,080)
Others	16,002	(4,690)	(3,754)	(3,814)
<b>Financing</b>	<b>10,906</b>	<b>(1,992)</b>	<b>335</b>	<b>335</b>
Dividend payments	335	335	335	335
Issue of shares	0	335	335	335
Loan repayment	0	0	0	0
Others/interest paid	10,571	(2,662)	(335)	(335)
<b>Net cash inflow (outflow)</b>	<b>39,206</b>	<b>26,768</b>	<b>24,275</b>	<b>25,564</b>
<b>Beginning cash &amp; cash</b>	<b>47,671</b>	<b>86,877</b>	<b>113,645</b>	<b>137,920</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>64,486</b>	<b>113,645</b>	<b>137,920</b>	<b>163,483</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	23,973	23,373	23,275	22,928
Other LT assets	154,150	156,694	161,370	166,100
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	64,486	113,645	137,920	163,483
Other current assets	148,364	151,346	153,965	156,517
<b>Total assets</b>	<b>390,973</b>	<b>445,059</b>	<b>476,530</b>	<b>509,028</b>
ST debt	5,343	3,016	3,016	3,016
Other current liabilities	74,287	71,298	71,390	69,800
Other LT liabilities	73,538	73,538	73,538	73,538
Shareholders' equity	223,478	253,715	285,094	319,181
Minority interest	8,393	8,393	8,393	8,393
<b>Total liabilities &amp; equity</b>	<b>390,973</b>	<b>445,059</b>	<b>476,530</b>	<b>509,028</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	17.8	20.0	17.9	17.5
Pre-tax margin	8.2	19.4	17.8	18.0
Net margin	6.1	15.6	13.4	13.6
ROA	2.0	5.2	4.4	4.5
ROE	3.5	9.0	7.5	7.3
<b>Growth</b>				
Turnover	(1.0)	12.0	9.2	8.0
EBITDA	33.7	25.7	(2.0)	5.4
Pre-tax profit	(6.2)	164.3	0.5	9.0
Net profit	(0.8)	185.7	(6.0)	9.1
Net profit (adj.)	9.8	26.4	10.5	9.0
EPS	7.6	22.7	7.3	6.9
<b>Leverage</b>				
Debt to total capital	2.3	1.1	1.0	0.9
Debt to equity	2.4	1.2	1.1	0.9
Net debt/(cash) to equity	(26.5)	(43.6)	(47.3)	(50.3)
Interest cover (x)			44.0	91.1

TRADERS' CORNER



Chart by bloomberg

**AIA Group Limited (1299 HK)**

Trading Buy range: HK\$68.50-69.30

Last price: HK\$69.40

Target price: HK\$71.50/HK\$73.40

Protective stop: Breaks below HK\$65.00

**Stock Highlights:**

In 1H23, value of new business (VONB) grew by 37% to US\$2,029m.

**Technical View:**

Stock price rallied at end-Sep 23 and recently rallied above the 10-day line (light blue), 20-day line (orange) and 50-day line (red), with the 10-day line and 20-day line heading upwards. The 14-day RSI is higher than the midline level of 50 and now is around 57, showing a strong performance. The MACD line is above the signal line and is a bullish signal. If the stock can hold above the 50-day line, it may challenge the 100-day line (pink).

**Average timeframe: Around two weeks.**



Chart by bloomberg

**Luye Pharma Group Ltd. (2186 HK)**

Trading Buy range: HK\$3.40-3.45

Last price: HK\$3.49

Target price: HK\$3.60/HK\$3.78

Protective stop: Breaks below HK\$3.25

**Stock Highlights:**

The Group submitted its new drug application to the U.S. Food and Drug Administration (FDA) for Paliperidone Palmitate Extended-release Injectable Suspension (LY03010) for the treatment of schizophrenia and schizoaffective disorder.

**Technical View:**

Stock price has been on an uptrend recently, consolidating around the 10-day (light blue) and 20-day (orange) lines, and is temporarily restrained by the 200-day (purple) line. The 14-day RSI is higher than the midline level of 50 and now is at around 57, which is a strong performance. MACD line and the signal line are flat, with both lines in the bullish zone, and the uptrend is still intact for the time being.

**Average timeframe: Around two weeks.**

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