STRATEGY – CHINA

Alpha Picks: April Conviction Calls

MSCI China Index rose 4.5% in March after policy support from the Fed and SNB prevented financial contagion. Some investors also regard the resultant liquidity injection as a return to QE. With expectations that the Chinese economy will show further improvement in April, we believe that Chinese equities will have a positive bias. Hence, we add Alibaba, Anta, BYD, COLI, Shuanghuan Driveline, Tencent and Trip.com to our BUY list and Weimob to our SELL list.

WHAT'S NEW

- **Review of March.** It was relatively choppy trading in March as global equity markets were rocked by troubling developments of Silicon Valley Bank (SVB) and Credit Suisse. But the liquidity support from the Fed via the Bank Term Funding Program (BTFP) and rescue efforts organised by Swiss National Bank (SNB) helped save the day. The resultant rise in the Fed's balance sheet was also viewed by some investors as a return to Quantitative easing (QE) by the Fed, though technically it is not. Nevertheless MSCI China and HSI rose 4.5% and 3.1% respectively in March. For the month, Zhongsheng Group (881 HK/SELL) was the best performer among our stock picks, having decreased 7.4% in Mar 23.

  With recent macro data pointing further economic rebound, investors are generally expecting a better 2Q23. As such, we expect Chinese equities to see a positive bias in April. We are thus adding Alibaba, Anta, BYD, COLI, Shuanghuan Driveline, Tencent, and Trip.com to our BUY list and Weimob to our SELL list.

ACTION

- **Add Alibaba (9988 HK) to our BUY list** as we expect continued recovery of demand from infrastructure projects.
- **Add Anta (2020 HK) to our BUY list** as the Fila brand will have robust sales performance in the near future.
- **Add BYD (1211 HK) to our BUY list** as we expect further growth of monthly EV sales volume from the recent rebound from trough.
- **Add COLI (688 HK) to our BUY list** as we expect further easing of policies in the property industry.
- **Add Shuanghuan Driveline (002472 CH) to our BUY list** for the solid guidance on ASP trend after FY22/1Q23 results announcement.
- **Add Tencent (700 HK) to our BUY list** for the encouraging trend in online games approval.
- **Add Trip.com (9961 HK) to our BUY list** as we expect continuous penetration of OTA platforms into domestic offline and lower-tier cities travel market.
- **Add Weimob (2013 HK) to our SELL list** as we expect revenue recovery in 2023.
- **Take profit on Baidu (9888 HK)** from our BUY list; and Zhongsheng Group (881 HK) from our SELL list.
- **Cut losses** on China Merchant Bank (3968 HK), CR Gas (1193 HK), CR Land (1109 HK), Desay SV (002920 CH), Prudential (2378 HK), Sunny Optical (2382 HK) and Xpeng (9868 HK).
- **Maintain BUY** on Aier Eye Hospital (300015 CH), Anhui Conch (914 HK), CR Beer (291 HK), CTGDF (601888 CH), Fenjiu (600809 CH) and Link REIT (823 HK).
- **Maintain SELL** on OOIL (316 HK).

KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
Aier Eye Hospital	BUY	30.05	42.00	39.8
Alibaba	BUY	98.55	151.00	53.0
Anhui Conch	BUY	27.00	33.80	25.2
Anta	BUY	112.00	134.00	19.6
BYD	BUY	231.40	590.00	155.0
COLI	BUY	20.20	27.14	34.4
CR Beer	BUY	63.25	77.00	21.7
CTGDF	BUY	184.39	222.00	20.4
Fenjiu	BUY	267.82	345.00	28.8
Link REIT	BUY	50.80	61.71	21.5
OOIL	SELL	147.20	140.50	-5.6
Shuanghuan Driveline	BUY	26.25	33.00	25.7
Tencent	BUY	388.20	435.00	12.0
Trip.com	BUY	294.60	453.00	53.8
Weimob	SELL	4.78	3.60	-25.0

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Mar 23 (%)	To-Date* (%)
Aier Eye Hospital	BUY	-2.9	-11.2
Anhui Conch	BUY	-9.2	-9.2
Baidu	BUY	0.4	17.2
CR Beer	BUY	1.0	55.0
CR Land	BUY	2.4	-4.3
CR Gas	BUY	-20.4	-19.0
China Merchant Bank	BUY	-11.6	-11.6
CTGDF	BUY	-6.3	-13.4
Desay SV	BUY	-2.2	-2.2
Fenjiu	BUY	-5.8	-5.8
Link REIT	BUY	-1.9	-19.2
OOIL	SELL	14.3	4.8
Prudential	BUY	-11.7	-17.2
Sunny Optical	BUY	-3.2	-3.2
XPeng	SELL	17.8	1.4
Zhongsheng Group	SELL	-7.4	-7.4
Hang Seng Index		3.1	

**Share price change since stock was selected as alpha pick*
Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	2Q22	3Q22	4Q22	2022	1Q23
HSI return	-0.6	-21.2	14.9	-15.5	3.1
Alpha Picks Return					
- Price-weighted	1.5	-5.7	-9.7	-9.4	1.4
- Market cap-weighted	3.1	-8.8	-1.9	-6.6	2.0
- Equal-weighted	0.6	-2.5	1.5	-3.8	0.3

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

Source: UOB Kay Hian

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VALUATION OF ANALYSTS' ALPHA PICKS

Company	Ticker	Rec	Price 3 Apr 23 (lcy)	Price (lcy)	Year End	---- PE ---- 2023F (x)	2024F (x)	2025F (x)	Yield 2023F (%)	ROE 2023F (%)	Market Cap. (LC$m)	Price/ NTA ps (x)
BUY												
Aier Eye Hospital	300015 CH	BUY	30.05	42.00	Dec-21	65.9	51.5	42.6	0.5	25.3	215,655	49.0
Alibaba	9988 HK	BUY	98.55	151.00	Mar-22	13.2	11.8	11.6	0	9.3	2,039,985	1.6
Anhui Conch	914 HK	BUY	27.00	33.80	Dec 22	6.6	6.2	5.6	6.1	10.1	164,249.3	0.6
Anta	2020 HK	BUY	112.00	134.00	Dec-22	35.3	28.4	23.5	1.4	25.4	303,926	n.a.
BYD	1211 HK	BUY	231.40	590.00	Dec 22	24.6	15.6	11.0	0.8	19.6	254,077	5.7
China Overseas Land	688 HK	BUY	20.20	27.14	Dec-22	7.4	6.8	5.7	4.4	7.3	207,515.0	0.5
CR Beer	291 HK	BUY	63.25	77.00	Dec-22	30.7	24.8	20.1	1.4	20.1	205,194.2	7.4
CTGDF	601888 CH	BUY	184.39	222.00	Dec-22	72.9	32.4	26.2	0.9	22.0	379,812	n.a.
Fenjiu	600809 CH	BUY	267.82	345.00	Dec-22	43.3	31.9	25.3	1.3	42.2	326,760	n.a.
Link REIT	823 HK	BUY	50.80	61.71	Dec-22	16.4	19.8	17.7	5.1	3.8	128,969.2	0.7
Shuanghuan Driveline	002472 CH	BUY	26.25	33.00	Dec-21	28.6	23.0	n.a.	0.5	10.2	22,3223	0.56
Tencent Holdings Ltd	700 HK	BUY	388.20	435.00	Dec-22	28.2	22.9	19.3	0	18.9	3,714,502	3.6
Trip.com Group Ltd	9961 HK	BUY	294.60	453.00	Dec-22	n.a.	31.6	20.7	0	4.0	190,356	1.3
SELL												
OOIL	316 HK	SELL	147.20	140.50	Dec-22	13.1x	35.8x	37.3x	5.3%	7.9	97,207	0.92x
Weimob	2013 HK	SELL	4.78	3.60	Dec-22	n.a.	n.a.	n.a.	0	n.a.	13,291	n.a.

Source: Bloomberg, UOB Kay Hian

Aier Eye Hospital – BUY (Carol Dou/Sunny Chen)

- We expect modest revenue and adjusted net earnings growth for Aier in 2022 due to the COVID-19 outbreak in 4Q22, but believe the resilient demand for eye care services will support a robust recovery for the company in both revenue and earnings from 1Q23. We forecast total revenue and adjusted net earnings to increase 25.0% yoy and 27.9% yoy in 2023 respectively. Meanwhile, its effective organic growth and M&A strategy will continue to fuel growth in China and overseas. After completing its acquisition of 26 hospitals in Nov 22, Aier acquired 14 more hospitals through its M&A funds on 3 Jan 23. Most of these newly-acquired hospitals are prefecture- or county-level hospitals, indicating Aier's continued penetration effort in the lower-tier markets. We believe these fast-growing hospitals will allow the company to form economies of scale and fuel growth in the next 2-3 years. Moreover, Aier expects limited risk from GPO tenders on Orthokeratology (OK) lenses. It indicates that the possible tender on Orthokeratology (OK) lenses may boost service demand and benefit service providers in the longer term. The increasing economies of scale will also help the company to improve profitability. In addition, the company continues enhancing quality of service and product offerings to reduce regulatory risks.
- Maintain BUY and DCF-based target price of Rmb42.00, assuming WACC of 10.0% and terminal growth rate of 4.6%.

SHARE PRICE CATALYST

- **Event:** a) Strong market demand for ophthalmic medical services, b) the normalisation of business environment to support a robust recovery of Aier's revenue and earnings growth from 1Q23, and c) effective growth strategy and business model supports business expansion in China and overseas.
- **Timeline:** 1H23.

Alibaba – BUY (Julia Pan/Soong Ming San)

- Alibaba is our top pick from the e-commerce sector as we are optimistic on the recently-announced reorganisation of its businesses into six independently-run entities. According to Alibaba, under the new "1+6+N" organisation structure, each of the business units will face the market forces and seek external financing avenues including potential spin-offs and IPOs. We believe this change will lower costs for the group due to the slimmed down middle and back office functions at Alibaba. For fundamentals, management commented that the core commerce platform have seen improving consumer sentiment with positive growth trends since early-Feb 23, and the recovery is expected to continue. Alibaba Group and each of its holdco units was valued at a steep discount and with ex-cash PE of 9x and core commerce Taobao + Tmall businesses at 9x FY24F, depressing the value for the rest of Alibaba's other five businesses and its investments such as Ant Financial (with 33% stake). We believe the reorganisation will unlock value for each business unit and repair its PE multiples. The potentially faster profit turnaround of the loss-making segment such at Cainiao, Local Services, DME and Global digital will also bring upside surprise for the value.

- We maintain BUY on Alibaba with an SOTP-based target price of HK$151.00, implying 18.6x FY23F PE, below its historical mean of 24x on the back of a 36% EPS CAGR from FY23-26.

SHARE PRICE CATALYST

- **Event:** a) Reorganisation unlocking value for each business unit and repairing its PE multiples, b) better-than-expected recovery in China commerce, and c) potential listing of Ant Financial.
- **Timeline:** 1H23.

Anhui Conch – BUY (Ziv Ang)

- Cement demand has shown signs of recovery after the Chinese New Year holidays. Sector fundamentals have been improving, cement prices in Eastern and Southern region have rebounded by over Rmb40/tonne since early-Feb 23 while cement storage capacity ratio have now returned to reasonable levels.
- We like the company for its peer-leading profitability and cement sales volume. We are optimistic that it will be able to continue expanding its domestic market share, after a 0.5ppt expansion to 13% in 2022, through more M&A activities. With the company's high exposure to the Yangtze River Delta region and Greater Bay Area, it should be among the key beneficiaries in capturing the high-pace demand recovery in these regions.
- Anhui Conch is also proactive in carrying out energy savings and emission reduction efforts, including technological modification to its existing production facilities, to better prepare the company for the upcoming inclusion of the cement industry in the national emission trading scheme.
- Maintain BUY with a target price of HK$33.80, pegged to 8.3x 2023F PE (+0.5SD).

SHARE PRICE CATALYST

- **Event:** Continued recovery of demand from infrastructure projects.
- **Timeline:** 2Q23.

Anta – BUY (Shen Zhifeng/Ng Jo Yee/Jiang Xin)

- We expect the Fila brand to regain growth momentum after the adjustment in 2022, which was partly reflected by the robust sales performance ytd that exceeded management's expectation. Therefore, the three growth engines (Anta, Fila and outdoor sports brands) are all activated with solid growth ahead as: a) Anta brand will continue to ride on the domestic brand revival, especially after the company reviews and upgrades the "lead-to-win" strategy, with the upgraded strategy to be launched in 3Q23, and b) the outdoor sports brands would likely keep growing fast amid the outdoor sports wave in China.
- Maintain BUY with a target price of HK$134.00, which implies 33.9x 2023F PE.

SHARE PRICE CATALYST

- **Event:** Fila brand's robust sales performance in the near future.
- **Timeline:** 1H23.

BYD Company – BUY (Ken Lee/Yuting Guo)

- BYD Company (BYD) saw a 19% qoq decline in sales to c.552,000 units in 1Q23 due to seasonality, the front-loading effect from expiry of EV subsidies and product transition. Based on 552,000 units in sales, we estimate 1Q23 net profit at c.Rmb5b (+519% yoy/-32% qoq). On a monthly basis, BYD's sales have rebounded from a recent trough of 151,300 units in Jan 23 to 193,655 units/207,080 units in Feb 23/Mar 23. Going forward, BYD's monthly sales will likely grow further to over 250,000 units from 2Q23, driven by the ramp-up of the new models launched in Feb-Mar 23 and the debuts of more new models. BYD targets EV sales to grow by 60-100% to 3.0m-3.6m units in 2023 based on strong product pipelines and overseas expansion. Earnings will also likely to recover along with sales from 2Q23. Maintain 2023-25 net profit forecasts at Rmb23.8b/Rmb37.6b/Rmb53.4b based on EV sales of 3.0m units/4.0m units/5.2m units. Maintain BUY with a target price of HK$590.00 based on 10-year DCF (WACC: 8%/10-year FCF growth: 12%/terminal growth: 4%).
- Maintain BUY with target price of HK$590.00 based on 10-year DCF (WACC: 8%/10-year FCF growth: 12%/terminal growth: 4%).

SHARE PRICE CATALYST

- **Event:** Growth of monthly EV sales volume; signing battery supply contracts with global OEMs.
- **Timeline:** 2Q23.

COLI – BUY (Jieqi Liu/Damon Shen)

- COLI's 2022 results are below expectation with: a) revenue down by 26% to Rmb180b, mainly due to project delay caused by COVID-19 restrictions in 1H22 and spread in 4Q22, b) gross profit margin falling 2.2pp to 21.3%, c) core net profit down by 28% to Rmb24.b, 16.7%/26% below our/consensus estimate, and d) annual DPS of HK$0.8/share, implying payout ratio of 30.1%, stable yoy. For 2023, COLI targets to achieve: a) 20% growth of contracted sales, which is so far the highest sales growth target among top 10 developers, b) 30% growth of rental income, and c) positive growth of attributable net profit. With Rmb790b saleable resource on hand, we think COLI is well-positioned to capture the sales recovery. The removal of COVID-19 restrictions will also ensure the construction and project deliveries in 2023. According to latest data of CREIS, COLI registered Rmb83.5b of contracted sales in 1Q23, increasing by 73% yoy. Currently, COLI is trading at 0.5x P/B, close to 1.5SD below 10-year mean.
- We maintain BUY on COLI with a target price of HK$27.14.

SHARE PRICE CATALYST

- **Event:** a) further easing of policies in the property industry; b) continuous recovery of the company's property sales.
- **Timeline:** 2Q23.

CR Beer – BUY (Shen Zhifeng/Ng Jo Yee/Jiang Xin)

- In 1Q23, management expects a record-high beer sales volume growth as well as high-end beer profit growth due to the low base. The company guided for a mid-single-digit revenue growth, positive volume growth and double-digit net profit growth in 2023. We expect shipment from the sub-premium and above segment growth to accelerate in 2023 to more than 20% yoy from 12.6% in 2022, further upgrading its product mix. The product mix upgrade, direct price hikes and declining packaging costs should boost its bottom line margins in 2023.

- Maintain BUY with a target price of HK$77.00, which implies 37.4x 2023F PE.

SHARE PRICE CATALYST

- **Event:** Stiffer-than-expected competition, and higher-than-expected marketing expense.
- **Timeline:** 1H23.

CTGDF – BUY (Shen Zhifeng/Ng Jo Yee/Jiang Xin)

- We are confident on: a) the continuous recovery of tourism as people's travelling needs had been severely depressed in the past three years due to the pandemic, and b) the expansion of domestic luxury sales as the relatively wealthy group will likely keep growing with an increasing demand for luxury goods. We believe the company's operational capability is increasing in both the retailing and supply chain side. Besides the potential margin recovery this year, the upcoming Haitang Bay Phase I Land II project, which will be put into operation by end-Sep 23, and the further expansion in the downtown duty-free segment, would effectively facilitate the sales growth. Maintain BUY with a target price of Rmb222.00, which implies 39.0x 2023F PE.
- Maintain BUY with a target price of Rmb244.00, which implies 38.0x 2023F PE.

SHARE PRICE CATALYST

- **Event:** Potential sales hike during the Labour Day holiday, recovery in international flights.
- **Timeline:** 1H23.

Fenjiu – BUY (Shen Zhifeng/Ng Jo Yee/Jiang Xin)

- We reiterate that Fenjiu will benefit from the sub-premium baijiu consumption recovery thanks to the solid recovery of economic activities and the banquets demand. In the near term and medium-to-long term, its comprehensive product mix, such as Qinghua 20/30, Laobaifen, and Panama, will help the company capture the different levels of banquets demand. We are also quite confident on the sustainability of its brand revival in the future thanks to the company's successful restructure in the past years and Fenjiu's increasing popularity among consumers. After the share price correction during mid-Feb 23 and early-Mar 23, Fenjiu is still trading at around the relatively lower level, which we think still offers a good entry point.
- Maintain BUY with a target price of Rmb345.00, which implies 41.1x 2023F PE.

SHARE PRICE CATALYST

- **Event:** Expecting robust sales growth amid the recovery of sub-premium baijiu demand.
- **Timeline:** 1H23.

Link REIT – BUY (Jieqi Liu/Damon Shen)

- LINK REIT successfully completed its rights issue, with the rights unit receiving 240% subscription. Via the rights issue, LINK REIT raised HK$18.8b and brought its gearing ratio to below 20%. After paying debt, LINK REIT: a) still has HK$9.5b additional cash, and b) does not have any financing need for the next 12-18 months. With strengthened capital base, we believe LINK REIT is well-positioned to capture any investment opportunities. Sooner-than-expected interest rate cut will ease the pressure of rising interest expenses on its DPU. Currently, LINK REIT is trading at 5.1% 2023 dividend yield, which implies 1.5% yield spread over 10-year US government bond yield (vs 10-year mean of yield spread of 1.75%).

- We maintain BUY on LINK REIT with a target price of HK$61.71.

SHARE PRICE CATALYST

- **Event:** a) Recovery of retail sales; b) further softening of tones on US interest rate hike.
- **Timeline:** 2Q23.

OOIL – SELL (Roy Chen)

- Orient Overseas' (OOIL) net profit is likely to have peaked in 2022 and we expect OOIL's profitability to see two consecutive years of sharp profit declines of 90%/63% yoy in 2023/24, driven by the significantly lower sea freight rates and high operating leverage. Drewry World Container Index, a volume-weighted composite of the actual spot container freight rates of eight major East-West trade routes, which stood at 1,717 as of 30 Mar 23, was about 83% lower than the peak of 10,377 during the peak of the pandemic. Demand for sea freight is likely to remain lacklustre in 1H23 due to subdued global trade volume amid an uncertain macroeconomic outlook. While 2H23 may see a rebound in volume, we still do not foresee a meaningful improvement in freight rates due to sector-wide overcapacity issue, as the new supply of container shipping capacity is expected to hit record levels in 2023/24 at about 8.2%/8.9% of the sector's existing capacity supply whereas demand is expected to grow by only 1.4%/2.2%.
- Excluding the one-time outsized 2022 final dividend of US$4.56 (HK$35.80) which the company recently declared, OOIL is trading at 0.86x FY23F P/B (1SD below sector historical mean). While this is not very expensive, we do not see meaningful upward re-rating catalyst given the subdued near- to medium-term earnings outlook. Furthermore, OOIL is trading at a more than 60% premium over its parent company's (COSCO Shipping Holdings, or CSH, 1919 HK) FY23F P/B of 0.52x (2.9SD below sector historical mean), even though CSH is our preferred pick between the two due to its: a) market leadership position, b) more diversified business profile (with exposure to the more stable port business), c) stronger balance sheet, and d) better value-unlocking prospects through potential M&As. As such, we expect the valuation of OOIL and CSH to gradually converge. This will add gravity to OOIL's share price performance, in our view.
- We have a trading SELL call on OOIL (target price: HK$140.5), based on 0.76x 2023F P/B (pegged to 1.5SD below the sector historical mean).

SHARE PRICE CATALYST

- **Event:** a) potential earnings decline, and b) dividend cuts.
- **Timeline:** 1Q23-2Q23.

Shuanghuan Driveline – BUY (Johnny Yum/Ariel Poh)

- Shuanghuan Driveline (SHD) is one of the largest third-party EV gear manufacturer globally, with exposure to all key EV OEMs such as Tesla, BYD, Nio, Xpeng and Li Auto and captured. Due to SHD's first mover advantage, and the high entry barrier to the manufacturing of high-end precision gears, there are very limited third-party competitors in the market at the moment, and SHD took more than 68% market share in China's >A class BEV EV reducer gear segment according to our estimates. Thanks to SHD's global leading capacity, its production cost is also significantly cheaper vs auto OEM and Tier 1 manufacturers' in-house capacity. Given the intensifying price war among EV makers, we believe the EV OEMs will expand the outsourcing of non-core technology/components of both BEVs and PHEVs to a third-party manufacturer for further cost cuts, making SHD a key beneficiary of the ongoing EV price war.
- We have a BUY recommendation on SHD with a target price of Rmb33.00, based on 36x 2023F PE. This implies 1x PEG vs our assumption of 35.5% net profit growth for 2023, and also 0.5SD above its historical mean PE.

SHARE PRICE CATALYST

- **Event:** Solid guidance on ASP trend after the FY22/1Q23 results announcement.
- **Timeline:** April 2023.

Tencent – BUY (Julia Pan/Soong Ming San)

- In Mar 23, National Press and Publication Administration (NPPA) granted licences to 86 domestic games and 27 imported games. We believe the core driver of online games is bolstered by the encouraging trend in online games approval, facilitating the accelerated pace of new launches. The online ads revenue growth will be stimulated by Tencent's new plans in its Super App, WeChat, leading to incremental contribution from video accounts. Overall, Tencent's high growth potential is propelled by significant progress in strategy implementation including: a) expanding opportunities in advertising, fintech, services and games which bode well with the gradual improvement in the macro environment, b) capturing monetisation opportunities in video accounts by leveraging the rapid expansion instruction videos and live streaming to foster new revenue streams, and c) optimising operational efficiency and resource allocation. In addition, Tencent also views AI as the growth multiplier, anchored by the continuous advancement of the foundation model HunYuan. Tencent's businesses benefit from the recent industry breakthrough in foundation models and consequently in generative AI applications. HunYuan also helps Tencent in introducing users to machine services like Digital Assistants and Search. We forecast revenue and adjusted net profit of 2023 to grow by 12.7% and 19% yoy respectively.
- We maintain BUY for the company with a target price of HK$435.00, which implies 26.7x PE based on 2023 EPS vs its historical mean of 28x.

SHARE PRICE CATALYST

- **Event:** a) Improving online advertising from Wechat video account, b) game licence approval, and c) collaboration with various internet platform operators on Tencent's WeChat ecosystem.
- **Timeline:** 1H23.

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

- TCOM is well-positioned to benefit from continuous strong pent-up demand for outbound travel. For China's domestic market, TCOM will continuously expand its customer base, especially in the lower-tier cities given the high growth potential. In addition, comprehensive content platforms help to provide users with inspiration and planning, while opening the door for travel advertisements. For international brands, TCOM made significant progress in unifying its back-end operating systems, standardising the international front-end products, and aligning the services without domestic standards. TCOM expects 1Q23 revenue to grow at 90-100% yoy or 3% below 4Q19 levels. Looking into 2023, management guided revenue for Trip.com and Skyscanner to grow by 60-70% yoy and 6-7% yoy respectively. Non-GAAP operating profit and adjusted EBITDA were guided at Rmb1.5b and Rmb1.7b-1.8b for 1Q23, translating to non-GAAP operating margin of 19%.
- We maintain BUY for the company with a target price of HK$453.00 (US$58.00), implying 0.9x/0.7x 2023/24F PEG over the next three years, and compares with 1.2x before the pandemic.

SHARE PRICE CATALYST

- **Event:** Continuous penetration of OTA platforms into domestic offline and lower-tier cities travel market, implementation of travel bubbles and easing of overseas travel restrictions.
- **Timeline:** 1H23.

Weimob – SELL (Julia Pan/Soong Ming San)

- Weimob's 2H22 results were disappointing. Revenue fell short of the street's estimate, declining 7% yoy to Rmb939m, due to the impact of the pandemic and the macro economy, tightened advertising budgets of merchants, and intensified competition. The company decided to discontinue its digital media business segment in 2H22. Moving into 2023, Weimob expects its subscription solutions (SS) revenue to achieve 20% yoy growth. The company forecasts gross margin to improve slightly yoy, and staff optimisation savings of Rmb390m should help to improve net margin. Net loss in 1H23 is expected to be around Rmb300m, higher than 2H23's, as the company might achieve a smaller net loss or even a positive turnaround in 2H23. Overall, the company expects to realise the benefits of its cost control efforts in 2023, combined with improvements in the external environment. We are concerned on the competitive environment, the near-term challenges in SME merchant recovery, and Weimob's pricing power in 2023. The company currently trades at 4.6x 12-month forward EV sales, 0.8SD below its historical mean.
- We downgrade the company to SELL from HOLD with a target price of HK$3.60, implying 4.4x EV/Sales 2023 against its historical average of 8.2x.

SHARE PRICE CATALYST

- **Event:** Fierce competitive environment from Meituan/Douyin/Kuaishou in O2O commerce, increasing new user acquisitions from marketing activity, and near-term challenges in SME merchant recovery.
- **Timeline:** 1H23.

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