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### KEY HIGHLIGHTS

#### Sector

#### Insurance

1H23 results wrap-up: Delivering impressive NBV growth as expected.

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#### Internet

Strong growth in online ads and OTA likely to continue; poised for improving growth fuelled by AIGC.

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#### TRADERS' CORNER

**China Traditional Chinese Medicine (570 HK):** Trading Buy range: HK\$3.10-3.22

**China Longyuan Power Group (916 HK):** Trading Buy range: HK\$6.20-6.40

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### CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
27 Sep	China	Aug Industrial Profits
29 Sep	China	Caixin Sep PMI
30 Sep	China	Sep NBS PMI
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	34381.6	(0.7)	(0.8)	(0.3)	3.7
S&P 500	4423.8	(0.7)	(0.9)	1.2	15.2
FTSE 100	7651.6	(0.0)	1.6	5.4	2.7
AS30	7395.0	(0.4)	(0.1)	0.4	2.4
CSI 300	3720.5	(0.2)	(1.1)	(1.7)	(3.9)
FSSTI	3240.8	(0.7)	0.8	2.1	(0.3)
HSCEI	6235.7	0.4	(0.4)	1.4	(7.0)
HSI	17997.2	0.4	(0.2)	0.3	(9.0)
JCI	6980.3	0.6	0.7	1.8	1.9
KLCI	1457.7	(0.0)	0.3	0.8	(2.5)
KOSPI	2559.2	(0.6)	0.9	2.2	14.4
Nikkei 225	33242.6	(0.9)	2.4	5.7	27.4
SET	1523.0	(0.3)	(1.5)	0.3	(8.7)
TWSE	16636.3	(0.4)	0.4	1.6	17.7
BDI	1526	6.0	23.6	23.4	0.7
CPO (RM/mt)	3694	(0.9)	(0.3)	(4.7)	(8.7)
Brent Crude (US\$/bbl)	95	1.0	3.6	12.5	11.0

Source: Bloomberg

### TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
JD-SW	118.00	(1.3)	1,150.4
HKEX	286.60	(1.5)	977.5
LI AUTO INC-A	152.10	1.2	817.0
KUAISHOU-W	61.90	(2.7)	760.3
SMIC	19.06	(1.2)	709.0

### TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
TRAD CHI MED	3.26	3.2	88.2
ORIENT OVERSEAS	108.00	2.8	94.4
ENN ENERGY	63.40	1.8	326.4
CHINA RES GAS	23.40	1.5	101.3
LI AUTO INC-A	152.10	1.2	817.0

### TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
NIO INC-CLASS A	69.10	(11.9)	223.5
XPENG INC-A SHRS	68.10	(5.6)	492.7
SUNNY OPTICAL	58.00	(5.5)	349.2
EAST BUY HOLDING	36.95	(5.0)	349.9
GUANGDONG INVEST	5.67	(3.9)	60.8

\*ADT: Average daily turnover

### KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	2.1	0.8	1.2
Euro Zone	3.5	0.1	1.0
Japan	1.0	1.0	1.5
Singapore	3.6	0.7	3.0
Malaysia	8.7	4.4	4.6
Thailand	2.6	3.1	3.5
Indonesia	5.4	4.9	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

## Insurance – China

1H23 Results Wrap-up: Delivering Impressive NBV Growth As Expected

Both domestic and regional life insurers delivered strong NBV growth in 1H23 after China's reopening. P&C insurers continued their sustained premium growth with a slight increase in CoR. We expect domestic and regional life insurers' NBV growth to diverge in 2H23 due to the suspension of higher-rate products in China and the attractive yield in Hong Kong, which is leading to higher growth in the MCV segment. Maintain OVERWEIGHT. Top picks: PICC P&C and Prudential.

### WHAT'S NEW

- Life insurers regained strong NBV growth momentum after reopening.** As China lifted its pandemic measures in late-22, the pent-up demand for insurance products fuelled the new business value (NBV) growth of both domestic and regional life insurers in 1H23 after three years of sluggish performance.
  - Domestic life insurers:** The total premium income and NBV of domestic life insurers grew by 13% and 28% respectively in 1H23. The robust NBV recovery was underpinned by: a) vast demand of life insurance products with 3.5% rate, b) improving agent productivity after the initial success of life reform, and c) rapid growth of the bancassurance channel.
  - Regional life insurers:** After the removal of cross-border restrictions, Mainland Chinese visitors (MCV) have gradually returned to Hong Kong, leading to a significant increase in life insurance sales to mainlanders, reaching HK\$31.9b in 1H23 – a 59-fold increase from the previous year and surpassing the pre-pandemic level of HK\$26.3b in 1H19. As a result, regional insurers AIA and Prudential reported NBV growth of 111% and 218%, respectively, in Hong Kong. Additionally, these regional insurers have also benefitted from their diversification strategy, with both AIA and Prudential posting double-digit NBV growth in emerging countries such as ASEAN and the India markets.
- P&C insurers maintain robust premium growth of 9.7% yoy** on commendable non-auto growth (17.3% yoy). Auto premium growth moderated in 1H23 (+5.5% yoy), due to the relatively slow growth in new auto sales on a high-base basis. The property and casualty (P&C) players continue to focus on product structure optimisation while the proportion of non-auto insurance premium expanded by 2.5ppt to 38.2% of total premium.
- Life insurers' mom premium growth turned negative in August after end of 3.5% rate party.** As per our expectations, the suspension of life products with 3.5% rate in July has significantly hindered life insurance sales in August. Most life insurers experienced a negative double-digit mom growth in premium income, with Ping An Life at -15% mom, New China Life at -29% mom, PICC Life at -11% mom, and CPIC Life at -31% mom. The exception was China Life, which achieved a 2.6% mom premium growth. On a yoy basis, only Ping An Life, PICC Life, and CPIC Life reported positive yoy growth at 2%, 3%, and 71%, respectively.

### PEER COMPARISON

Company	Ticker	Rec	Current Price (HK\$)	Target Price (HK\$)	Market Cap (1cy m)	Upside/Downside to TP (%)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	P/EV 2023F (x)	P/EV 2024F (x)	Yield 2023F (%)	Yield 2024F (%)	ROE 2023F (%)	ROE 2024F (%)
AIA	1299 HK	BUY	65.55	95.00	754.9	44.9	12.9	12.0	n.a	n.a	1.4	1.4	2.4	2.5	15.1	14.6
Prudential	2378 HK	BUY	89.05	150.00	245.2	68.4	15.1	11.8	n.a	n.a	0.7	0.7	1.3	1.7	10.5	12.2
Ping An	2318 HK	BUY	46.20	73.00	908.2	58.0	5.4	4.8	n.a	n.a	0.5	0.5	6.1	6.7	14.9	14.8
PICC P&C	2328 HK	BUY	9.75	11.00	216.9	12.8	6.2	5.5	0.8	0.7	n.a	n.a	5.7	6.4	13.6	14.1

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

(Maintained)

### SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
PICC P&C	2328 HK	BUY	9.75	11.00
Prudential	2378 HK	BUY	89.05	150.00

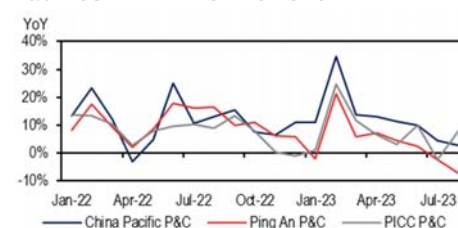
Source: UOB Kay Hian

### LIFE INSURER PREMIUM YOY GROWTH



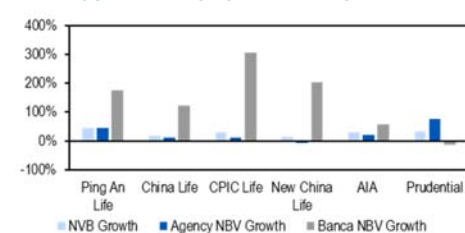
Source: Life Insurers, UOB Kay Hian

### P&C INSURER PREMIUM YOY GROWTH



Source: P&C Insurers, UOB Kay Hian

### LIFE INSURER NBV GROWTH IN 1H23



Source: Life insurers, UOB Kay Hian

### ANALYST(S)

**Greater China Research Team**  
 +852 2236 6799  
 reseachhk@uobkayhian.com.hk

### ESSENTIALS

- NBV margin compressed due to changes in product mix.** Life insurers' 1H23 NBV margin slipped by 0.7ppt yoy to 26.9% on average due to a shift in product mix towards low-margin savings products. Regional insurers experienced a more significant margin dilution, with AIA at -4.4 ppt yoy and Prudential at -1.6 ppt yoy, primarily leading to the interest rate gap between Hong Kong and Mainland China, which led many MCVs to rush to Hong Kong to purchase higher-yield savings products. Domestic insurers faced a similar situation but saw a partial offset from margin improvements in the bancassurance channel, driven by an increasing proportion of regular premiums. We anticipate that the NBV margin of life insurers will improve in the coming quarters, driven by: a) the gradual uptick in traditional protection product sales, and b) a reduction in commissions paid to banks in the bancassurance channel.
- We see upside potential in the MCV segment.** Although 1H23 insurance sales to MCVs surpassed the pre-pandemic level, the number of MCV arrivals in 2Q23 was just around 50% of the figures seen in 2019. Additionally, MCV arrivals in July and August reached 70% of the 2019 level and we anticipate this percentage to get higher in September and October due to the Golden Week holiday. Hence, we expect the strong growth momentum from MCVs to prevail for the rest of the year, continuing to boost the NBV growth of regional insurers.
- Expect normalisation in 2H23 for domestic life insurers.** Although the premium income growth of life insurers experienced a significant decline in August on a mom basis due to the suspension of life products with a 3.5% rate, we maintain a cautious optimism regarding the sustained growth momentum of domestic life insurers in 2H23. Our view is supported by the resilient demand for savings insurance products, driven by their relatively higher yields and the guarantee of returns. These factors make savings insurance products more attractive than the alternative options such as fixed deposits and wealth management products, especially in the context of the low interest rate environment and volatile equity market.
- Higher combined ratio after travel demand recovery.** The combined ratio (CoR) of P&C insurers in 1H23 increased by 0.6ppt yoy to 97.3%, mainly due to a 0.5 ppt deterioration in the claim ratio. The underwriting CoR of auto insurance, on average, rose by 1.6 ppt yoy to 97.3% due to an increase in the claim ratio following the economic reopening and the subsequent growth in traffic. However, the market leader, PICC Property & Casualty (PICC P&C) outperformed its peers with just a marginal increase in CoR (+0.1ppt yoy vs Ping An P&C: +0.9ppt yoy, CPIC P&C: +0.6ppt yoy), thanks to its refined risk management and optimised business structure to stabilise its auto claim ratio.

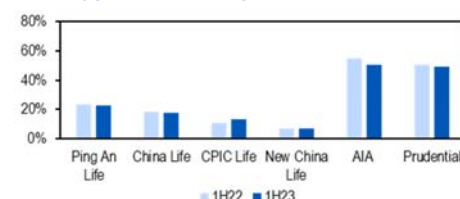
### ACTION

- Maintain OVERWEIGHT on the insurance sector.** We prefer P&C players and regional life insurers over the domestic life insurers for now as the NBV growth of domestic life insurers may encounter a bottleneck in 2H23 since some insurance sales demand has been frontloaded into 1H23. Our top picks are PICC P&C and Prudential.

After the recent price correction, the valuation of life insurers is approaching its five-year historical low level as of Oct 22, which we deem very attractive after pencilling in the strong NBV recovery in 1H23.

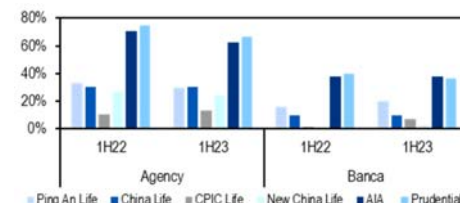
- PICC Property & Casualty (2328 HK/BUY/Target: HK\$11.00).** We prefer PICC among domestic P&C insurers due to: a) its market leading position with 34.3% of market share in China market, and b) it optimising its business structure and strengthening risk control capabilities have led to a more sustainable CoR. Maintain BUY with a higher target price of HK\$11.00, pegging to 0.88x 2024F P/B to reflect robust premium growth in August.
- Prudential PLC (2378 HK/BUY/Target: HK\$150.00).** We like Prudential for: a) its diversified business portfolio in different countries, b) its sustainable margin and balanced product mix due to the strategy chosen, c) the pick-up in MCV arrivals in 3Q23 which continues to boost NBV growth in Hong Kong, and d) its impressive growth in ASEAN and India. Maintain BUY with a higher target price of HK\$150.00, implying 2024F 1.16x P/EV.

### LIFE INSURER NBV MARGIN TREND



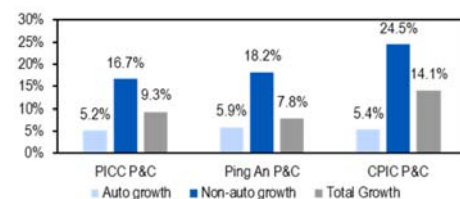
Source: Life insurers, UOB Kay Hian

### LIFE INSURER NBV MARGIN BY DISTRIBUTION CHANNEL



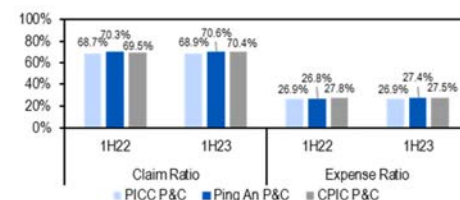
Source: Life insurers, UOB Kay Hian

### P&C INSURER INSURANCE REVENUE GROWTH



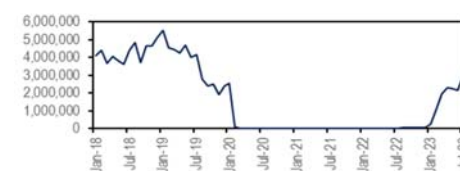
Source: P&C insurers, UOB Kay Hian

### P&C INSURER COMBINED RATIO TREND



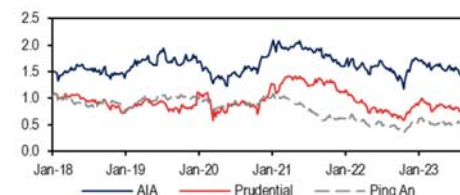
Source: P&C insurers, UOB Kay Hian

### MAINLAND CHINA VISITORS TO HONG KONG (MONTHLY)



Source: Hong Kong Immigration Department, UOB Kay Hian

### LIFE INSURERS P/EV TREND



Source: Bloomberg, UOB Kay Hian

### RISKS

- Investment risks under volatile market and trending down market rate in China.
- Life reform misses expectations in China.
- MCV arrivals slowdown in Hong Kong.
- Natural catastrophe in 3Q causes the surge in CoR.

SECTOR UPDATE

Internet – China

Strong Growth In Online Ads And OTA Likely To Continue; Poised For Improving Growth Fuelled By AIGC

China’s internet sector delivered solid 2Q23 results with an earnings beat but this was followed by lukewarm 3Q23 guidance from most companies navigating macro uncertainty. In view of the intense competition and saturated growth, internet companies are ramping up AIGC investment and cross border expansion against a favourable regulatory backdrop. Maintain MARKET WEIGHT on the internet sector due to heavy investment in new initiatives leading to margin erosion.

WHAT’S NEW

- E-commerce:** Lukewarm 3Q23 as evidenced by subdued July/August consumer sentiment. August national online physical goods gross merchandise value (GMV) grew 6.1% (vs July growth of 5%), softer than our expectation, two-year CAGR was 6.3% (vs 5.7% in July). Online penetration sequentially edged up 0.4ppt yoy to 26%. Lately, e-commerce companies shared that qtd they have not seen a significant sequentially worsened macro environment, and expect more supportive policies on consumption stimulation into the rest of the year. 3Q is a traditional low season for e-commerce companies and we expect a potential re-acceleration in 4Q23 from the increasing consumption demand for upcoming Singles' day (late-October to 11 November) and a relatively low base from 4Q22.
- Advertising/e-commerce ads:** 2Q/3Q advertising growth trend has outpaced the other verticals, with e-commerce ads being the main driving force. The companies have upgraded the ads technology and embedded into the e-commerce platforms which we believe will further improve merchants' ROI and bring upside to advertising take rate. Alibaba/Tencent/Baidu/Kuaishou’s online marketing delivered accelerated revenue growth of 10%/34%/15%/30% yoy in 2Q23. For 3Q23, we expect resilient ads performance. Tencent’s increased ad inventory from its video accounts and improved monetisation will continue to drive the cost per mile (eCPM) growth. Meanwhile, Baidu also saw encouraging revenue conversion from some advertising verticals with embedded AI with search. Kuaishou guided for ads revenue to grow 21% yoy in 3Q23, bolstered by solid brand advertising revenue recovery and mid-thirties yoy growth in e-commerce GMV.
- Online games:** The game sector faced limited impact from the soft macro environment. China’s August mobile games grossing grew 9% yoy, outperforming the other regions globally. This is mainly driven by an acceleration in the number of games launched given increasing online game licence approvals and strengthening monetisation capabilities. For 3Q23, we expect Tencent game to report a growth of 7% yoy, driven by domestic Honor of Kings (HoK) grossing growth and line-up of 10 domestic titles scheduled for release in 3Q23. We expect NetEase game revenue to post a growth of 17% yoy, driven by the strong momentum of Justice (we estimate monthly grossing of Rmb2b) and Eggy Party during the summer holiday.

PEER COMPARISON

Company	Tickers	Rating	Current Price (lcy)	Target Price (lcy)	Market Cap (lcy m)	Upside/ (Downside) to TP (%)	P/E			EV/EBITDA			EV/Sales			ROE (%)
							2023F (x)	2024F (x)	2025F (x)	2023F (x)	2024F (x)	2025F (x)	2023F (x)	2024F (x)	2025F (x)	
Alibaba	9988 HK	BUY	84.80	133.00	1,725,459	56.8	9.9	8.8	7.9	5.7	5.2	4.7	1.2	1.1	1.0	8.5
JD.com	9618 HK	BUY	119.60	199.00	422,472	66.4	10.8	7.9	6.8	6.9	5.8	5.0	0.3	0.2	0.2	10.3
Meituan	3690 HK	BUY	125.00	210.00	780,355	68.0	34.8	23.1	15.4	25.2	16.2	11.3	2.4	1.9	1.6	6.2
Pinduoduo	PDD US	BUY	99.80	120.00	126,198	20.2	21.2	17.1	13.5	16.4	12.2	9.3	3.7	2.9	2.4	34.9
Baidu	9888 HK	BUY	130.90	192.00	366,098	46.7	13.6	13.0	11.6	7.7	6.0	5.1	1.9	1.7	1.6	7.0
Kuaishou	1024 HK	BUY	63.60	100.00	277,072	57.2	33.5	18.5	12.0	17.6	11.3	8.1	2.1	1.9	1.6	-8.8
Tencent	700 HK	BUY	312.40	433.00	2,985,396	38.6	18.9	16.1	14.1	13.6	12.3	11.1	4.7	4.2	3.7	26.2
NetEase	9999 HK	BUY	160.10	190.00	516,284	18.7	17.4	17.8	18.1	12.7	11.6	10.3	3.7	3.4	3.0	23.8
KE Holdings	2423 HK	BUY	41.00	64.00	154,124	42.1	12.9	11.6	11.2	12.1	10.3	9.2	1.3	1.1	1.0	7.4
Trip.com	9961 HK	BUY	283.20	418.00	182,990	47.6	18.7	16.2	13.8	14.3	12.7	10.8	3.8	3.2	2.8	5.6
Tongcheng	780 HK	BUY	17.40	22.00	39,098	26.7	19.9	16.0	13.6	11.6	9.7	8.1	2.7	2.2	1.9	3.8

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Baidu	9888 HK	BUY	130.90	192.00
Kuaishou	1024 HK	BUY	63.60	100.00
Trip.com	9961 HK	BUY	283.20	418.00
KE Holdings	2423 HK	BUY	41.00	64.00

Source: UOB Kay Hian

ANALYST(S)

**Julia Pan**  
+86 21 5404 7225 ext.808  
juliapan@uobkayhian.com

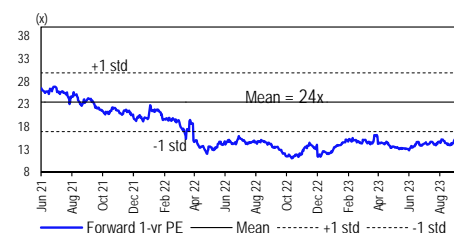
**Soong Ming San**  
+603 21471912  
mingsan@uobkayhian.com

- OTA: Paving the way for travel boom during Golden Week.** We saw a tremendous surge in cross-province travel for the Mid-Autumn Festival and National Day as observed from the train tickets sales (100m ticket booked so far). According to Ctrip's data, domestic travel bookings for the National Day holiday has surged by 88% wow and over 4x yoy. According to Ctrip, as of 13 September, flight bookings rose 5x yoy, while hotel bookings soared more than 8x yoy.
- Strong 2Q23 underpinned by stable consumption recovery; 3Q23 outlook overshadowed by macro uncertainty and weak seasonality.** Most e-commerce companies under our coverage remain cautiously optimistic and guided for a soft demand momentum in 3Q23. During 2Q23, Alibaba (Baba)/JD.com (JD)/Pinduoduo (PDD)/Kuaishou delivered e-commerce revenue growth of 13%/8%/66%/61% yoy respectively vs a 12% yoy growth generated by NBS' physical goods. JD's top-line performance remains weaker than overall industry, mainly dampened by the supermarket category and adverse impact from reorganisation. However for 3Q23, JD expects to achieve a positive turnaround for the supermarket category, with a more favourable growth in 2H23 than in 1H23. Meanwhile, PDD's rapid top-line growth outperformed peers and beat consensus estimates by 16.5%. We expect the fast overseas expansion of TEMU to bring significant opportunities in revenue growth and eventually bring upside in valuation for PDD.
- Online games: Lacklustre top-line growth momentum.** 2Q23 domestic game performance was lacklustre due to less time spent along with China's reopening. Game margins also expanded, attributable to the extension of lifecycle of existing legacy games. Tencent/Netease/Kingsoft's online game revenue growth during 2Q23 was registered at 5%/4%/18%, largely within expectations while non-GAAP net margin improved to 25%/38%/11%. Tencent posted decelerated online game revenue growth as due to fewer commercial contents released in 2Q23 after a strong 1Q23 rather than lack of licences released, partially offset by the solid international games (28.5% of game revenue) growth. Tencent's online games segment is poised for enhancements with a lineup of 10 domestic titles scheduled for release in 3Q23, with particular excitement surrounding the potential launch of the highly anticipated game, HoK Dawn Breaking. We believe user experience across Tencent's ecosystem would improve meaningfully by leveraging Hunyuan Large Language Model (LLM), thus generating ample monetisation opportunities.
- Home transactions services: Tempered 2Q23 performance; regulatory support as a temporary booster.** KE Holdings' (Beike) 2Q23 revenue reported a positive growth of 41% yoy (1Q23: +62%). Existing home transaction revenue growth decelerated to 16% yoy (1Q23: +49%), supported by a 16% yoy increase in gross transaction value (GTV) served by connected agents on the Beike platform. New home transaction services revenue growth remained intact at 45% yoy to Rmb8.7b.
- Local consumer service.** Meituan continued to deliver an accelerated top-line growth for core local commerce as well as operating margin of 8% vs 3% in 2Q23. Meituan is positive on its market leadership with its food delivery (FD) market share back to 3:1 vs Douyin, given the stronger mindshare in higher-tier cities with increased merchant supplies.

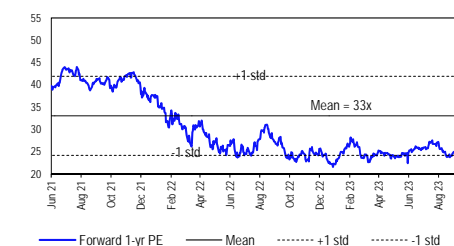
### ESSENTIALS

- 3Q23 guidance and outlook remain intact.**
- JD:** Management guided for a cautiously optimistic tone for 3Q23's top-line growth at 8% yoy as we believe the reinvestment in merchant ecosystem and new user acquisition will contribute to top-line growth in 2H23. We estimate revenue growth of 7% yoy in 2023, with JD Retail posting revenue growth of 2.5% yoy. Management expects the improvement of 2H23 net margin to be better than of 1H23.
- Meituan:** In 3Q23, core local commerce revenue is guided to surge 22-23% yoy to Rmb56.5b-57.0b, while operating margin of its core local commerce segment should be at 17-18%, primarily attributable to a decline in delivery costs. Food delivery/in-store, hotel and travel/new initiatives and others revenue growth is guided at high-teens/low-thirties/18% yoy for 3Q23. Meituan Instashopping revenue and order volume growth is guided to remain flattish yoy in 3Q23.

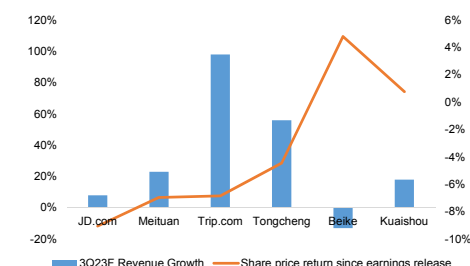
### MSCI CHINA INTERNET INDEX



### NASDAQ INTERNET INDEX



### 3Q23 REVENUE GUIDANCE VS SHARE PRICE PERFORMANCE SINCE 2023 RELEASE



- **Baidu:** Looking into 2H23, Baidu's advertising revenue is guided to grow sequentially in 3Q23 and 4Q23. The advertising revenue growth vs 2021's level is projected to accelerate in 2H23. In 3Q23, Baidu Core's non-GAAP operating profit and non-GAAP operating margin are expected to sustain positive yoy growth. Baidu AI Cloud from all sectors excluding intelligent transportation delivered double-digit growth in 2Q23 and the accelerated growth trend is expected to continue in 2H23.
- **Kuaishou:** Looking into 3Q23, management guided for revenue to grow by the high-teens to twenties, with online marketing/live-streaming/other services forecasted to grow at about 21%/mid-single digit/30% yoy respectively. The strong online marketing revenue is bolstered by solid brand advertising revenue recovery (10% in 2Q23) and mid-thirties yoy growth in e-commerce GMV. Operating profit is expected to remain stable sequentially, while net profit is guided to be around Rmb2b.
- **TCOM:** 3Q23 revenue is guided at Rmb5.6b, representing yoy growth of 95-100% or growth of 33-38% vs 2019. Gross margin is guided at 80-81%, edging up marginally from 2019. Non-GAAP operating profit is guided at Rmb4.2b in 3Q23, translating to non-GAAP operating margin of 30%. Alongside rapid international expansion, outbound air passenger volume on Trip.com platform has recovered to over 80% qtd with ticketing prices 30% above 2019's level.
- **Tongcheng (TT):** In view of the positive sentiment brought about by the release of pent-up demand, TT's top-line is estimated to surge 53-58% in 3Q23 compared with 2019's level, and 2023 full-year revenue should come in at Rmb11.2b-11.8b, or 50-60% higher than 2019, 2% higher than our previous estimate. For full-year 2023, non-GAAP net profit is guided to be Rmb2b-2.2b, translating to net margin of 17-18% for 3Q23 and full-year 2023.
- **Beike:** For 3Q23, total revenue is guided to drop 10-15% yoy to Rmb16b, while GTV is forecasted to decline 20% yoy. This is primarily pressured by a revenue drop of 10-15% qoq/40% qoq from existing home and new home transaction services respectively. The home renovation business is guided to ramp up 10-15% qoq. The company expects 3Q23 to be the bottom and expects the Beike housing transaction business to benefit from the recent policy easing on the property market.

### VALUATION/RECOMMENDATION

- **Baidu (9888 HK).** Maintain BUY with a target price of HK\$192.00 (US\$198.00). We remain optimistic on Baidu's growth trajectory given its continuous resilient ad recovery and the ongoing investment in growth initiatives which it believes its leading AI technology can empower. Our target price implies 3.4x 2023F P/S and 16.5x 2023F PE. The company is currently trading at 13x 12-month forward PE, below its historical mean of 17.3x.
- **Kuaishou (1024 HK).** Maintain BUY with a target price of HK\$100.00 on lower multiples due to weak market sentiment. We remain optimistic on the company due to resilient growth in live-streaming and ad recovery momentum. Our target price implies 3x 2023F PS. Kuaishou is trading at 2x 12-month forward EV/sales, below its historical mean of 4x.
- **TCOM (9961 HK).** Maintain BUY with a higher target price of HK\$418.00 (US\$56.00). TCOM has benefitted from the release of pent-up demand for outbound travel and growth momentum in international travel amid the normalised pace in domestic travel activities. Our new target price implies 1.3x/1.1x 2023/2024F PEG over the next three years, compared with 1.2x before the pandemic.
- **Beike (2423 HK).** Maintain BUY with a slightly higher target price of HK\$64.00 (US\$23.00), using 20x PE against average earnings of 2023/24, implying 1.7x 2023 EV/Sales. Beike is trading at 1.3x 12-month forward EV/Sales, 0.7SD below its historical mean of 2.2x.

### SECTOR CATALYST AND RISK

- **Catalysts.** Supportive government policies, increasing online retail penetration driven by less developed areas and younger generations, continuous improvement in technology and e-commerce infrastructure, commitment to artificial intelligence generated content (AIGC) development to boost efficiency.

- **Risks:** High user acquisition expense and increased competition as multiple players are looking to expand their market share, heavy investment in new retail and local services strategy to drag down e-commerce companies' margins and ROE, and slower-than-expected top-line growth.

### CHINA INTERNET SECTOR RESULTS REVIEW (2023)

	Revenue growth (yoy %)						Adjusted net profit growth (yoy %)					
	2Q23	2Q23 actual vs estimates	3Q23F	3Q23F Revision	2023F	2024F	2Q23	2Q23 vs estimates	3Q23F	3Q23F Revision	2023F	2024F
Alibaba	13.9	4.0	8.1	+1.1	8.6	10.6	48.5	30.0	11.9	+5.5	22.5	17.9
JD.com	7.6	2.9	8.1	+2.0	6.5	8.4	31.9	12.3	1.1	-0.9	20.3	11.9
Tencent	11.3	-2.6	14.8	-0.5	13.3	11.7	33.4	4.4	22.5	+0.8	29.3	18.2
NetEase	3.7	-4.1	12.6	+2.2	9.8	12.0	66.7	43.7	-4.7	+0.4	35.5	5.7
Pinduoduo	66.3	17.0	44.8	+9.7	51.5	22.5	41.7	28.0	20.0	+16.4	35.8	27.9
Meituan	33.4	-2.6	24.6	-1.6	23.3	25.1	272.2	48.5	143.2	+69.0	213.9	34.6
Trip.com	180.4	4.4	97.6	+3.7	121.9	19.7	1791.6	43.7	196.1	+29.2	*669.6	17.2
Tongcheng	117.4	5.9	58.5	+4.6	73.3	23.0	428.9	27.0	125.9	+7.0	*230.0	17.1
Baidu	14.9	0.2	13.0	+0.6	13.1	10.5	44.3	18.5	22.9	+5.7	34.4	14.8
Beike	41.4	4.0	-1.3	-15.9	27.0	15.7	481.9	47.2	-21.3	-42.7	*306.9	5.7
Kuaishou	27.9	0.6	23.6	+0.8	22.9	14.2	305.3	-2.1	401.9	+3.5	*235.8	79.1
Kingsoft	19.6	-0.2	18.4	+3.1	15.6	22.9	-401.6	-8.1	-52.1	+14.9	44.8	50.6
Weimob	34.5	21.0	26.2	+0.9	30.2	22.0	55.2	32.0	82.8	+25.3	72.6	77.4

\* Due to low base 2022

Source: Respective companies, UOB Kay Hian



TRADERS' CORNER



Chart by TradingView

**China Traditional Chinese Medicine Holdings Co. Limited (570 HK)**

Trading Buy range: HK\$3.10-3.22  
 Last price: HK\$3.26  
 Target price: HK\$3.35/HK\$3.48  
 Protective stop: Breaks below HK\$2.90

**Stock Highlights:**

In 1H23, revenue increased 57.4% yoy to Rmb9.3b. Profit for the period attributable to owners of the company increased 39.9% yoy to Rmb578.7m.

**Technical View:**

Share price tested its support at around HK\$2.90 in Aug and Sep 23. Price has since risen above its 10-day (light blue) and 20-day (orange) moving averages and is near the 50-day moving average (red). The 10-day and 20-day moving averages are pointing upwards. The 14-day RSI is above the midline level of 50 and is currently around 59, indicating strong momentum. The MACD line is higher than the signal line, showing a bullish crossover. If the share price stays above its 50-day moving average, it could rise further.

**Average timeframe: Around two weeks.**



Chart by TradingView

**China Longyuan Power Group Corporation Limited (916 HK)**

Trading Buy range: HK\$6.20-6.40  
 Last price: HK\$6.48  
 Target price: HK\$6.62/HK\$6.90  
 Protective stop: Breaks below HK\$6.00

**Stock Highlights:**

As of 31 Aug 23, the total power generation of the group for 8M23 increased 9.53% yoy to 50,722,939 MWh.

**Technical View:**

Share price broke through the bearish trendline in early September and its decline subsequently slowed, releasing a potential rebound signal. Price is currently hovering around its 10-day (light blue) and 20-day (orange) moving averages. The 14-day RSI has rebounded from the oversold zone (below 30) and is now around 47, indicating an improvement in momentum. The MACD line is higher than the signal line, showing a bullish crossover.

**Average timeframe: Around two weeks.**

**ANALYST(S)**

**Terence Chiu**  
 +852 2236 6716  
 terence.chiu@uobkayhian.com.hk

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