

STRATEGY – GREATER CHINA

Alpha Picks: December Conviction Calls

MSCI China rose only 2.3% mom in November while the HSI shed 0.4% mom over the same period, despite positive newsflow for the real estate sector. Investors preferred to sell into strength, as concerns over China’s slow economic growth remain. Looking ahead, the mid-Dec 23 Economic Work Conference may provide positive surprises and with MSCI China trading at 12-month forward PE of 9.3x, risk is skewed to the upside. We add CSPC, HKEX, Lenovo, Longfor, Pinduoduo and Sunny Optical to our BUY list.

WHAT’S NEW

- **Review of November.** The MSCI China gained 2.3%, but the HSI slipped 0.4% in November, bringing ytd declines to 10.9% and 13.8% respectively. Concerns on weaker growth momentum continue to weigh on the market and news of additional funding support for Chinese developers failed to see a sustained market rally. Within our stock picks, Kuaishou was the best performer of the month, with a 14.6% return over this period.
- **Risk is skewed to the upside** as the MSCI China index is now trading at only 9.3x 12-month forward PE, pricing in most negatives. Thus, the Economic Work Conference in mid-December may provide upside surprises, if the government steps up on near-term policy support. As such, we are adding a mix of turnaround stocks and beneficiaries of policy support; namely CSPC (1093 HK), HKEX (388 HK), Lenovo (992 HK), Longfor (960 HK), Pinduoduo (PDD US) and Sunny Optical (2382 HK) to our BUY list.

ACTION

- **Add CSPC (1093 HK) to our BUY list** as we expect the new product launches to support double-digit revenue and earnings growth for the company from 2024 onwards.
- **Add HKEX (388 HK) to our BUY list** for beta plays in anticipation of a year-end rally and the favourable outcomes from the LME nickel lawsuit.
- **Add Lenovo (992 HK) to our BUY list** as we see improvements in PC shipment and some positive takeaways from the CES event.
- **Add Longfor (960 HK) to our BUY list** as its contracted sales has outperformed and its debt servicing record is decent despite the challenging environment.
- **Add Pinduoduo (PDD US) to our BUY list** due to its strong revenue growth in 3Q23
- **Add Sunny Optical (2382 HK) to our BUY list**, mainly due to strong shipment data in November and we expect a sustained recovery in December
- **Take profit** on Link REIT (823 HK).
- **Cut losses** on BYD (1211 HK) and CATL (300750 CH).
- **Maintain BUY** on Anta (2020 HK), COSCO Shipping Port (1199 HK), CR Mixc (1209 HK), Great Wall Motor (2333 HK), Innovent (1801 HK), Kuaishou (1024 HK), Moutai (600519 CH) and NetEase (9999 HK)

KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
Anta	BUY	78.9	128.00	62.2
COSCO Shipping Port	BUY	5.29	6.00	13.4
CR Mixc	BUY	28.5	49.69	74.3
CSPC	BUY	7.16	9.20	28.5
Great Wall Motor	BUY	10.98	13.50	23.0
HKEX	BUY	279.80	370.00	32.2
Innovent	BUY	44.00	60.00	36.4
Kuaishou	BUY	57.20	97.00	69.6
Lenovo	BUY	9.59	11.50	19.9
Longfor	BUY	13.70	17.68	29.1
Moutai	BUY	1760.28	2,488.00	41.3
NetEase	BUY	175.80	204.00	16.0
Pinduoduo	BUY	147.4	173.00	17.4
Sunny Optical	BUY	72.45	87.00	20.1

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Nov 23 (%)	To-Date* (%)
Anta	BUY	-7.8	-7.6
BYD	BUY	-11.5	-8.6
CATL	BUY	-10.0	-27.7
COSCO Shipping Port	BUY	11.5	11.5
CR Mixc	BUY	-3.1	-3.1
Great Wall Motor	BUY	3.1	3.1
Innovent	BUY	-0.5	-0.5
Kuaishou	BUY	14.6	8.9
Link REIT	BUY	7.5	7.5
Moutai	BUY	6.7	11.8
NetEase	BUY	4.8	4.8
Hang Seng Index		-0.4	-13.8

*Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	4Q22	2022	1Q23	2Q23	3Q23
HSI return	14.9	-15.5	3.1	-7.3	-5.9
Alpha Picks Return					
- Price-weighted	-9.7	-9.4	1.4	-5.5	-0.2
- Market cap-weighted	-1.9	-6.6	2.0	-8.6	-2.1
- Equal-weighted	1.5	-3.8	0.3	-5.9	-2.5

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 1 Dec 23 (lcy)	Target Price (lcy)	Last Year End	PE			Yield 2023F (%)	ROE 2023F (%)	Market Cap. (lcy m)	Price/ NTA ps (x)
						2023F (x)	2024F (x)	2025F (x)				
BUY												
Anta	2020 HK	BUY	78.90	128.00	Dec-22	19.8	17.0	14.6	2.1	23.5	223,494	3.9
COSCO Shipping Port	1199 HK	BUY	5.29	6.00	Dec-22	8.1	9.1	8.5	4.9	5.1	18,851	0.5
CR Mixc	1209 HK	BUY	28.50	49.69	Dec-22	21.4	16.9	14.2	2.4	20.7	65,051	3.3
CSPC	1093 HK	BUY	7.16	9.20	Dec-22	12.6	11.2	9.9	4.0	19.7	85,227	2.9
Great Wall Motor	2333 HK	BUY	10.98	13.50	Dec-22	14.5	10.0	8.9	6.5	11.5	27,573	2.0
HKEX	388 HK	BUY	279.80	370.00	Dec-22	28.9	26.6	24.7	3.1	24.4	354,741	12.6
Innovent	1801 HK	BUY	44.00	60.00	Dec-22	n.a	n.a	83.8	0.0	n.a	71,126	5.1
Kuaishou	1024 HK	BUY	57.2	97.00	Dec-22	26.7	16.1	10.7	0.0	2.9	249,188	4.7
Lenovo	992 HK	BUY	9.59	11.50	Mar-23	9.1	13.4	7.8	4.0	18.7	116,309	2.2
Longfor	960 HK	BUY	13.70	17.68	Dec-22	4.0	4.3	4.3	6.9	11.2	90,307	0.4
Moutai	600519 CH	BUY	1760.28	2,488.00	Dec-22	30.1	25.3	21.5	1.7	33.7	2,211,259	9.3
NetEase	9999 HK	BUY	175.8	204.00	Dec-22	18.6	17.8	16.3	0.0	23.8	541,115	4.1
Pinduoduo	PDD US	BUY	147.4	173.00	Dec-22	26.5	20.8	15.9	0.0	34.3	195,887	9.7
Sunny Optical	2382 HK	BUY	72.45	87.00	Dec-22	29.4	46.1	25.6	0.7	6.9	79,461	3.4

Source: Bloomberg, UOB Kay Hian

Anta – BUY (Stella Guo/Ng Jo Yee/Shirley Wang)

- Although there were industry headwinds in the form of deepening discounts in 3Q23 that triggered investors' concerns over China sportswear companies' deteriorating profitability, we are still confident that Anta's profitability should be stable, as: a) Anta's discounts should be manageable in 4Q23, thanks to the decent sales momentum seen during the 11.11 campaign, with the Filafila and Anta brands ranking second and third respectively in the sportswear category on Tmall; and b) Anta follows disciplined operation strategies with strict inventory management and expense control. We remain bullish on Anta given: a) the improving brand equity supported by high exposure of direct to customer (DTC), and b) the company's multi-brand strategy, which allows it to cater to customers' demands from different sporting segments and income groups.
- **Maintain BUY** and target price of HK\$128.00, which implies 31.2x 2023F PE.

Share Price Catalyst

- Event: Better inventory turnover in 4Q23.
- Timeline: 4Q23.

COSCO SHIPPING Ports – BUY (Roy Chen)

- COSCO SHIPPING Ports (CSP) is our top pick for the regional transportation sector. We like CSP for its: a) global market leadership (one of the global top five port/terminal operators by container throughput), b) well-diversified investment portfolio across Asia, Middle East and Europe with good asset quality, c) strong backing from its parent company COSCO SHIPPING Holdings (CSH, 1919 HK), which is China's largest and a globally leading container shipping company with large cargo flow.
- Despite the macro uncertainties, CSP's high-grade port/terminal portfolio has shown reasonable resilience, with 3Q23 gross container throughput rising 4.1% yoy and 3Q23 earnings dropping only by a tad 4% yoy (due to higher interest costs yoy, which should stabilise going forward). Although global trade outlook is not out of woods yet, CSP's container volume growth figure should pick up further in the next two quarters, given the low base of 4Q22 and 1Q23.
- CSP also provides cheap valuation with good dividend. Major shareholder purchases are bolstering share price. Its current price implies PE of 8.1x/9.0x on our conservative 2023F/24F earnings estimates, which implies decent yields of 4.5-5%. CSP's cash-rich parent CSH's has been aggressively accumulating CSP shares in the past one year. Its stake in CSP has risen 12% from 51% as of Sep 22 to 63% as of Nov 23, mostly due to share purchases in the open market at prices ranging between HK\$4.73 and HK\$6.49. We expect CSH's purchase of CSP shares will continue. With CSP's stable fundamentals and potential share price support/boost from major shareholder purchases, we see CSP as a safe bet which can reward shareholders nicely with decent dividends while waiting for a turnaround in global trade outlook.

- **Maintain BUY and target price of HK\$6.00.** Our target price is pegged to 10.3x 2024F PE, matching sector historical mean. CSP offers yields of 5.2-5.8% in 2023-25.

Share Price Catalyst

- Event: a) Further earnings improvement; b) major shareholder purchases in the open market.
- Timeline: 4Q23-1Q24.

CR Mixc Lifestyle Services (Jieqi Liu/Damon Shen)

- For CR Mixc malls, same-store retail sales grew by 26%/24% in Sep 23/9M23 respectively. For 2024, the company targets to achieve 10% same-store sales growth and open 18-20 new malls. Overall, management is confident of achieving its earnings growth target of 40% CAGR in 14th Five-Year Plan (FYP), underpinned by its resilient commercial portfolio and strong competitiveness in the property management segment. The company's cash generating capability remained very strong, with net operating cash flows/core net profit ratio at 1.60x in 2022. We have a BUY rating with target price of HK\$49.69, derived from the DCM model with a WACC of 12.0%.

Share Price Catalyst

- Event: Better-than-expected 2023 results.
- Timeline: 4Q23-1Q24.

CSPC – BUY (Carol Dou/Sunny Chen)

- CSPC indicates that academic promotion activities have resumed. It continues to guide for positive growth in revenue and net earnings in 2023, and expects double-digit revenue growth in 2024. Due to continued efforts, all four of CSPC's drug candidates have been included in the 2023 National Reimbursement Drug List (NRDL). It expects the sales growth of NBP to remain resilient in the next two years, and its new innovative products – Duoenda (mitoxantrone hydrochloride liposome injection), Mingfule, Duvelisib (PI3K inhibitor), Anfulike (amphotericin B cholesteryl sulfate complex for injection), Irinotecan hydrochloride liposome injection, and Desvenlafaxine succinate extended-release tablets – will become new growth drivers, bringing in over Rmb3b sales revenue in 2024. With the extensive R&D pipeline rolling out a rising number of innovative products, CSPC has entered the harvest season of innovation. It has obtained five new product approvals in 2023 and targets to achieve 6 and 10 in 2024 and 2025 respectively, followed by approximately 12 per year from 2026 onwards. We expect the new product launches to support double-digit revenue and earnings growth for the company from 2024 onwards.

Despite the challenging business environment, CSPC sees a bright long-term outlook, and expects to reward investors with over 50% dividend payout ratio in 2023 and no less than 30% for the next few years.

- **Maintain BUY and target price of HK\$9.20**, based on: a) HK\$4.79/share, or 7x 2024F PE, for existing drugs, and b) NAV-derived pipeline value of HK\$4.41/share (WACC: 11.0%, perpetual growth rate: 3.5%).

Share Price Catalyst

- Event: a) Expecting double-digit revenue and earnings growth in 2024, b) continuous new product launches, and c) strong R&D performance and continuous business development efforts
- Timeline: 2H23.

Great Wall Motor (Ken Lee)

- Great Wall Motor (GWM) posted upbeat 3Q23 earnings of Rmb3.63b (+42%yoy/+206% qoq), with the launches of new models and slump in lithium carbonate prices boosting ASP and margins despite price competition. We believe GWM should have passed

through the toughest period and is set to stage a strong earnings recovery along with the kickstart of a new product cycle.

- **Maintain BUY with target price of HK\$13.50** pegged to 12x 2024F PE, on a par with historic mean one-year forward PE.

Share Price Catalyst

- Event: a) Growth in monthly sales, and b) 4Q23 results.
- Timeline: 4Q23-1Q24.

Hong Kong Stock Exchange (Greater China Research Team)

- Hong Kong Stock Exchange (HKEX) headline ADT rebounded 21.2% mom from the lowest level in four years in October to HK\$95.5b, and recorded turnover of HK\$139.2b in the last trading day of November. Although the HSI fell 0.4% mom in November, but the turnover data is encouraging due to the lower stamp duty for stock trading that was announced by Hong Kong government in October taking effect in mid-November. Despite the cautious market sentiment due to rising headwinds facing China's economic outlook, we believe that HKEX may serve as a proxy for beta plays in December, underpinned by the expectations of a potential year-end rally and bets for an earlier Fed rate cut. Moreover, the favourable outcome of the nickel litigation involving HKEX's subsidiary, the London Metal Exchange (LME), will likely boost market sentiment toward HKEX, as concerns regarding potential legal provisions have been alleviated.
- **Maintain BUY with target price of HK\$370.00**, implying 2024F PE of 36.6x, on a par with its historical mean.

Share Price Catalyst

- Event: a) Year-end rally expectations, b) falling US treasury yield, and c) winning the lawsuit over cancelled nickel trades.
- Timeline: Dec 23

Innovent – BUY (Carol Dou/Sunny Chen)

- Innovent experienced robust drug sales growth of over 45% yoy in 3Q23, as well as smooth progress in commercial portfolio expansion and R&D. It now has ten commercialised products. Our industry check indicates that the company has successfully added the seventh indication of TYVYT to the 2023 NRDL. We forecast revenue to expand at about 26.6% CAGR yoy in 2023-25. With its continuous efforts to improve operating efficiency, the company will likely break even in 2025. Moreover, R&D projects in its pipelines are also well on track. Aside from receiving marketing approval for TYVYT's seventh indication of EGFR-mutated non-squamous non-small cell lung cancer (NSCLC), it also obtained market approval for Equecabtagene Autoleucl (FUCASO, a BMCA-directed CAR-T cell therapy) and tafolecimab injection (SINTBLO, the first domestic anti-PCSK9 monoclonal antibody) in 1H23, and NAILIKE's new indication of TKI-resistant CML in Nov 23.

Innovent continues to nurture next-generation blockbusters, such as Mazdutide (GLP-1/GCGR dual agonist for obesity and type II diabetes) and aims to launch another 10 innovative products in the next five years. It expects to achieve targeted drug sales of Rmb20b in 2027.

- **Maintain BUY and target price of HK\$60.00**, based on the DCF model with WACC of 11.0% and terminal growth rate of 4%.

Share Price Catalyst

- Event: a) Stronger-than-expected 1H23 results; expecting steady revenue growth in 2023, b) strong R&D performance and continuous business development efforts, and c) new product launches continue to boost revenue growth.

- Timeline: 2H23.

Kuaishou Technology – BUY (Julia Pan/Ming San Soong)

- Kuaishou Technology (Kuaishou) guided a strong 4Q23 top-line growth momentum on the back of better-than-expected 11.11 performance. Total revenue is projected to grow by mid-teens, with online marketing/live-streaming/other services revenue are guided to grow by 20%/flattish/40% yoy respectively. The strong online marketing revenue will be bolstered by solid internal advertising revenue growth and 30% yoy growth in e-commerce GMV. Live-streaming revenue growth will continue to be dragged by enhanced governance of the live-streaming ecosystem. S&M expense ratio is projected at 31.6% in 4Q23, improving from 34.4% in 4Q22. In 4Q23, management targets to achieve low-to-mid single-digit yoy growth in DAU, with average daily time spent per DAU to be over 120 minutes. Gross margin is expected to remain above 50%. Operating profit will remain stable thanks to a drop in marketing expense and continuous narrowing in overseas loss. Adjusted net profit is guided to be Rmb2.8b-2.9b, which implies net margin of 8.8%. We forecast 4Q23/2024 revenue growth to be at 17%/24% yoy.

During 11.11 this year, Kuaishou achieved a larger presale scale with a broader array of participating merchants and more extensive categories and SKUs. According to management, Kuaishou's presale GMV soared by 84% yoy. Through strategies such as "Stream Initiatives", "Fuyao Plan", and "Bestseller Plan", Kuaishou E-commerce is proactively addressing user shopping needs, thus enhancing user experience.

- **Maintain BUY on the company with a target price of HK\$97.00.** Our target price implies 3x 2024F P/S. The company is currently trading at 3x 12-month forward EV/Sales (23x 2024F PE), below its historical mean of 4x.

Share Price Catalyst

- Event: a) Higher monetisation rates across all categories, b) less competition from peers, c) positive government policies to stimulate consumption, and d) lifting of regulations on internet platforms.
- Timeline: 2H23.

Lenovo (Johnny Yum)

- The Consumer Electronics Show (CES) will be hosted in Jan 24, which will be a positive event for the PC industry as we should see the unveiling of more AI-enabled devices (such as PCs) during the event. As AI PCs can greatly enhance the user's convenience and productivity, we believe it will bolster the replacement demand (especially for commercial segment) from 2024 onwards. Coupled with a pent-up replacement demand from commercial segment prior to the discontinuation of Windows 10, we are now expecting the global PC shipment to recover by 7.6% yoy in 2024. Lenovo as the biggest PC brand globally with 60% PC business exposure to commercial segment will be one of the biggest beneficiaries of the coming demand upcycle.
- **Maintain BUY and target price of HK\$11.50**, based on 9.4x FY25F PE, on a par with its peers (Dell+HP)'s average valuation.

Share Price Catalyst

- Events: a) Improvements in PC shipment, and b) positive takeaways from the CES event.
- Timeline: Dec 23-Jan 24.

Longfor – BUY (Jieqi Liu/Damon Shen)

- In 10M23, Longfor reported Rmb152.2b worth of contracted sales, down 8.2% yoy, outperforming most POE developers. Despite the very challenging financing environment, Longfor has kept a decent debt servicing record. Looking forward, we like Longfor because: a) we think Longfor's bond maturity in the coming one year is manageable; and b) policy easing in 4Q23-1Q24 will be key catalysts for Longfor.

- **We have a BUY rating on Longfor with a target price of HK\$17.68**, derived from SOTP model. We apply a target PE of 9x/3x to FY24 recurring earnings and property development earnings. Our target price implies 5.5x 2024F PE, a 5.6% 2024 dividend yield and a 48% NAV discount.

Share Price Catalyst

- Event: Stronger-than-expected policy easing.
- Timeline: 4Q23-1Q24.

Moutai – BUY (Ng Jo Yee/Stella Guo/Shirley Wang)

- We are confident on Moutai's full-year revenue growth target of 15% yoy and improving profitability with a net margin expansion of 0.5ppt yoy, driven by: a) rising sales volume of Moutai products from capacity expansion, b) product line extension (such as Moutai 24 Solar Term series and Moutai Chinese Zodiac series), and c) expansion in direct sales channels. Its recent ex-factory price hike reflected its strong pricing power over distributors, and is expected to further lift 2024 earnings by low-to-mid-single digits. With the large-scale brand advertisements planned for 2024, we see a further strengthening of Moutai's branding power.
- Our DCF-based target price of Rmb2,488 implies 42.6x 2023F PE.
- **Maintain BUY with a target price of Rmb2,488.00.** Our DCF-based target price implies 42.6x 2023F PE and 35.8x 2024F PE.

Share Price Catalyst

- Event: Strong 4Q23 results.
- Timeline: 4Q23-1Q24.

NetEase – BUY (Julia Pan/Ming San Soong)

- We expect 2024 revenue growth and net margin expansion to be propelled by: a) improved monetisation given lower channel fees and zero loyalty upon payment channel migration to NetEase's proprietary channel, b) higher user retention from three new titles released since June, and c) solid self-developed mobile games pipeline. In addition, we believe margin expansion will be facilitated by disciplined S&M spending as it relies on KOL advertising rather than traffic acquisition.

Looking into 2024, we forecast a 19% yoy growth in online games revenue, boosted by newly-launched games Racing Master and Eggy Party as well as Justice Mobile which has accumulated over 50m registered users as of 3Q23. There is also solid progress underway for the upcoming highly-anticipated titles in 2024. Management highlighted that Condor Heroes is in the final stage of preparation and targets to officially launch this game no later than 2Q24. Preparations for Naraka Bladepoint Mobile are fully completed and will be launched upon the receipt of licence approval. As Project Mugen is a highly anticipated game, NetEase plans to continue investing additional resources in the development of the game to ensure it delivers next-generation quality content. Leveraging Eggy Party's established reputation in domestic markets, NetEase successfully introduced Eggy Party in Southeast Asia in 3Q23, where it consistently achieved prominent positions on Google Play download charts for several weeks, notably in Indonesia and Thailand.

- **We maintain BUY on the company with target price of HK\$204.00 (US\$127.00)**, factoring in the solid online games growth and promising pipeline in the upcoming months. Our target price implies 18x 2024F PE. The company is trading at 14x 12-month forward PE, against its historical mean of 16x.

Share Price Catalyst

- Event: a) Strong performance of games pipeline, and b) improving profitability of NetEase Cloud Music.

- Timeline: 2H23.

Pinduoduo – BUY (Julia Pan/Ming San Soong)

- PDD Holdings' (PDD) revenue grew by a strong 94% yoy in 3Q23 (accelerating from 66% in 2Q23) to Rmb68.8b, exceeding growth in NBS' physical goods/Alibaba's/JD's/Vipshop/Kuaishou's group e-commerce revenue growth of 7.0%/3.0%/1.7%/5.3%/37.0% yoy during the same period. This was mainly due to favourable consumption recovery in 3Q23 and positive results from the execution of high-quality development strategy. Online marketing services revenue grew rapidly by 39.3% yoy, moderating slightly from 2Q23's 50.4% and 3Q22's 58.7%. Transaction commission revenue growth remained intact and soared 315% yoy to Rmb29.2b, likely due to strong revenue contribution from Temu.

Temu's GMV for 1H23/3Q23 reportedly reached US\$3b/US\$5b respectively. With the robust growth trajectory, we opine Temu is well on track to achieve its 2023 annual GMV target of US\$15b, especially with Black Friday sales and Christmas sales in December. In addition, Temu has set a 2024 GMV target of US\$30b, on the back of rapid overseas expansion, double the US\$15b annual GMV target for 2023. With PDD's strong cash flow generation from the main platform (2023F net profit of Rmb60b) and net cash of US\$23b in funding for Temu, Temu is able to continue achieving rapid global expansion in 2024.

By leveraging on the ROI-based "blackbox" advertisement solutions, PDD is expected to achieve improvement in its ads take rate amid the current industry-wide adtech upgrade. In addition, PDD has established its large language model which will serve its e-commerce system, including applications in AI shopping guides and intelligent generation of product images. We believe this will optimise efficiency and productivity, leading to incremental revenue contribution in 2024.

- **Maintain BUY with target price of US\$173.00**, which implies 25x 2024F PE against a 21% EPS CAGR over 2024-27. PDD is now trading at 22x 2024F PE and 4.5x EV/Sales based on 2024 revenue, below its historical mean of 6x.

Share Price Catalyst

- Event: a) Initiate dual listing plan in HKEX, b) continued gain in consumer mindshare on higher purchase frequency and value-for-money products, c) strong sales of agriculture products on a higher growth of online grocery categories, and d) improved monetisation rates.
- Timeline: 2H23.

Sunny Optical (Johnny Yum)

- We see several positive developments for the smartphone sector: a) China/global smartphone demand continued to register positive yoy growth through Oct and Nov 23, b) the restocking demand for components may turn out better than expected with the peak season extending into Nov 23 (historically Nov and Dec 23 is a low season), c) the competition landscape is improving, with key players such as AAC and Sunny started to raise prices for new projects; and d) the resilient pricing of Huawei's Mate 60 and Xiaomi 14 series (no discounts since launch in Sep/Oct 23) indicate strong demand for high-end domestic brand smartphones, implying a sustainable product mix improvement for component suppliers. We are now more optimistic on Sunny Optical's handset business, and expect the specs upgrades, better competition landscape, and shipment recovery to bolster its earnings growth from 2H23-2024. As such, we factor in a higher shipment, ASP and margins assumption and raise our 2023-25 earnings estimates by 7%-10% to Rmb1.5b/2.8b/3.9b respectively.
- **We recommend BUY on Sunny Optical with a target price of HK\$87.00**, based on 30.7x 2024F PE, equivalent to 0.5SD below its 5-year historical forward mean PE.

Share Price Catalyst

- Event: a) Strong Nov 23 shipment data, and b) sustained recovery in December.
- Timeline: Dec 23.

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