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KEY HIGHLIGHTS

Sector

Automobile

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Weekly: Lithium prices fell below breakeven point, despite buoyant EV sales. Maintain UNDERWEIGHT. Top BUYs: BYD, CATL and Li Auto.

Update

Kuaishou Technology (1024 HK/BUY/HK\$60.40/Target: HK\$100.00)

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Key takeaways from Kuaishou Investor Day 2023.

TRADERS' CORNER

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First Tractor Company Limited (38 HK): Trading Buy range: HK\$3.80-3.90

BYD Electronic (International) (285 HK): Trading Buy range: HK\$34.00-35.20

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 | 34440.9 | (0.2) | (0.4) | (0.1) | 3.9 |
| S&P 500 | 4402.2 | (0.9) | (1.5) | 0.1 | 14.7 |
| FTSE 100 | 7705.5 | (0.3) | 0.4 | 6.2 | 3.4 |
| AS30 | 7266.6 | (1.3) | (1.6) | (1.1) | 0.6 |
| CSI 300 | 3672.5 | (0.9) | (1.6) | (2.3) | (5.1) |
| FSSTI | 3202.8 | (1.2) | (1.4) | 1.4 | (1.5) |
| HSCEI | 6099.3 | (1.3) | (2.8) | 0.0 | (9.0) |
| HSI | 17655.4 | (1.3) | (2.2) | (0.8) | (10.7) |
| JCI | 6991.5 | (0.3) | 0.5 | 1.1 | 2.1 |
| KLCI | 1448.2 | (0.2) | (0.1) | (0.2) | (3.2) |
| KOSPI | 2515.0 | (1.7) | (2.3) | (0.0) | 12.5 |
| Nikkei 225 | 32571.0 | (1.4) | (0.4) | 2.2 | 24.8 |
| SET | 1514.3 | 0.4 | (2.0) | (2.0) | (9.3) |
| TWSE | 16316.7 | (1.3) | (2.9) | (0.7) | 15.4 |
| BDI | 1569 | (0.9) | 17.1 | 28.3 | 3.6 |
| CPO (RM/mt) | 3690 | 1.6 | 1.2 | (4.8) | (8.9) |
| Brent Crude (US\$/bbl) | 94 | 0.3 | 0.2 | 11.1 | 9.2 |

Source: Bloomberg

TOP TRADING TURNOVER

| Company | Price (HK\$) | Chg (%) | 5-day ADT (HK\$m) |
|---------------|--------------|---------|-------------------|
| JD-SW | 116.70 | (1.1) | 1,177.1 |
| HKEX | 287.00 | 0.1 | 1,160.7 |
| KUAISHOU-W | 60.40 | (2.4) | 883.7 |
| LI AUTO INC-A | 150.70 | (0.9) | 819.5 |
| SMIC | 19.08 | 0.1 | 666.2 |

TOP GAINERS

| Company | Price (HK\$) | Chg (%) | 5-day ADT (HK\$m) |
|------------------|--------------|---------|-------------------|
| CHOW TAI FOOK JE | 11.10 | 1.1 | 72.8 |
| KINGSOFT CORP | 28.30 | 1.1 | 108.2 |
| NIO INC-CLASS A | 69.80 | 1.0 | 275.2 |
| MENGNIU DAIRY | 26.10 | 1.0 | 285.3 |
| POSTAL SAVINGS-H | 3.99 | 0.8 | 171.3 |

TOP LOSERS

| Company | Price (HK\$) | Chg (%) | 5-day ADT (HK\$m) |
|------------------|--------------|---------|-------------------|
| XPENG INC-A SHRS | 63.40 | (6.9) | 642.6 |
| ALIBABA HEALTH | 4.50 | (4.9) | 104.5 |
| GDS HOLDING-CL A | 9.84 | (3.9) | 22.3 |
| CHINA RES MIXC | 32.45 | (3.9) | 71.0 |
| CHINA RES GAS | 22.50 | (3.8) | 98.2 |

*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

Automobile – China

Weekly: Lithium Prices Fall Below Breakeven Point Despite Buoyant EV Sales

China's PEV wholesale shipment grew 34% yoy/17% mom during 11-17 Sep 23, in line with estimates. We keep our estimate of China's 2023 PEV sales at 8.5m units (+30% yoy). Almost all EV companies in China saw positive wow growth in retail sales volume, except Tesla whose sales were impacted by the generation transition of Model 3. Despite strong EV sales, lithium carbonate prices fell 7% wow to a ytd low of Rmb175,000/tonne, below breakeven point. Maintain UNDERWEIGHT. Top picks: BYD, CATL and Li Auto.

WHAT'S NEW

- **China's EV sales growth remained at over 30% yoy, but EV market share dipped wow as ICE-car sales surged on price cuts.** According to China Passenger Car Association (CPCA), China's wholesale shipment of passenger vehicles (PV) grew 22% yoy/26% mom to 467,000 units during 11-17 Sep 23, of which 174,000 units were passenger electric vehicles (PEV) (+34% yoy/+17% mom) and 293,000 units ICE-cars (+15% yoy/+31% mom). On a weekly basis, daily average wholesale shipment and retail sales of PVs spiked 19%/45% wow during 11-17 Sep 23. PEVs' share in China's PV retail sales dipped 0.5ppt wow to 38.6% during 11-17 Sep 23, still up 4.0ppt yoy and 0.8ppt mom.
- **Growth in PEV wholesale shipment driven by retail sales and exports.** Retail sales volume of PEVs in China grew 18% yoy/7% mom to 141,000 units during 11-17 Sep 23. Meanwhile China's weekly PEV export is estimated at 25,000-30,000 units in the first half of Sep 23. As such, China's PEV wholesale shipment should have been matched by retail sales and exports. And this was the same case for ICE-cars. Retail sales of ICE-cars dipped 1% yoy but grew 3% mom to 224,000 units, which coupled with the estimated 60,000-70,000 units in weekly exports, matched the wholesale shipment. However, the growth in ICE-car sales was mainly driven by big discounts, amid the stiffening competition from EVs. Dongfeng Nissan Sylphy, for example, offered 20-25% discount in Sep 23.
- **We keep our estimates of China's 2023 PV sales and passenger EV sales at 23.8m units (+1% yoy) and 8.5m units (+30% yoy) respectively, implying 36% EV penetration.** We expect China's EV sales to be driven by the country's supportive policies, plug-in hybrid electric vehicles (PHEV) continuously taking market share from ICE-cars, and burgeoning exports. Shenzhen, for example, has given out Rmb10,000/vehicle in EV purchase subsidies effective from this week through year end. Our estimated 8.5m units of China's 2023 passenger EV wholesale shipment comprises 7.5m units of domestic sales and 1m units of exports.

PEER COMPARISON

| Company | Ticker | Rec | Price @ 21 Sep 23 (lcy) | Target Price (lcy) | Upside/ (Downside) to TP (%) | Market Cap (US\$m) | PE 20232F (x) | PE 2024F (x) | P/B 2023F (x) | P/B 2024F (x) | ROE (%) | Net Gearing (Cash) (%) |
|-------------------|-----------|------|-------------------------|--------------------|------------------------------|--------------------|---------------|--------------|---------------|---------------|---------|------------------------|
| BYD | 1211 HK | BUY | 240.40 | 590.00 | 145.4 | 89,313 | 26.7 | 16.9 | 4.8 | 3.9 | 19.6 | (26.7) |
| Geely Automobile | 175 HK | SELL | 9.36 | 6.50 | (30.6) | 11,990 | 22.1 | 18.6 | 1.1 | 1.0 | 5.0 | (26.9) |
| Great Wall Motors | 2333 HK | SELL | 9.18 | 5.20 | (43.4) | 10,287 | 20.2 | 20.5 | 1.1 | 1.0 | 5.3 | (7.7) |
| Guangzhou Auto | 2238 HK | SELL | 3.82 | 3.20 | (16.2) | 5,072 | 7.8 | 9.4 | 0.3 | 0.3 | 4.1 | (14.9) |
| Li Auto Inc | 2015 HK | BUY | 150.70 | 312.00 | 107.0 | 40,167 | 32.8 | 19.5 | 5.3 | 4.2 | 17.7 | (103.0) |
| XPeng | 9868 HK | SELL | 63.40 | 18.00 | (71.6) | 14,973 | Loss | Loss | 4.2 | 6.2 | (43.3) | (58.3) |
| Weichai Power | 2338 HK | BUY | 10.56 | 16.00 | 51.5 | 11,665 | 9.9 | 8.5 | 1.6 | 1.4 | 11.0 | (51.1) |
| Fuyao Glass | 3606 HK | BUY | 37.60 | 42.00 | 11.7 | 12,547 | 18.0 | 15.5 | 2.9 | 2.7 | 16.6 | (18.3) |
| Desay SV | 002920 CH | HOLD | 136.67 | 135.00 | (1.2) | 10,387 | 51.8 | 39.3 | 9.9 | 8.3 | 20.8 | 0.5 |
| Nexteer | 1316 HK | SELL | 4.42 | 2.70 | (38.9) | 1,418 | 13.4 | 14.6 | 0.7 | 0.7 | 5.4 | (10.1) |
| Mintech | 425 HK | BUY | 20.45 | 33.00 | 61.4 | 3,038 | 11.0 | 9.1 | 1.2 | 1.1 | 11.0 | 17.9 |
| Ningbo Xusheng | 603305 CH | BUY | 23.13 | 36.00 | 55.6 | 2,110 | 24.9 | 19.9 | 3.4 | 2.9 | 16.9 | (9.9) |
| CATL | 300750 CH | BUY | 206.73 | 410.00 | 98.3 | 68,911 | 21.4 | 13.8 | 4.5 | 3.5 | 21.9 | (46.1) |
| EVE Energy | 300014 CH | BUY | 44.61 | 92.00 | 106.2 | 12,456 | 20.0 | 14.8 | 2.6 | 2.3 | 10.5 | 37.2 |
| Ganfeng Lithium | 1772 HK | SELL | 34.30 | 33.00 | (3.8) | 8,836 | 6.8 | 8.9 | 1.2 | 1.1 | 14.8 | 6.5 |
| GEM | 002340 CH | SELL | 6.09 | 4.00 | (34.3) | 4,246 | 64.8 | 75.5 | 1.7 | 1.6 | 2.6 | 53.0 |
| Tinci Materials | 002709 CH | SELL | 27.75 | 20.00 | (27.9) | 7,261 | 20.0 | 22.7 | 4.5 | 4.2 | 21.9 | 2.3 |
| Zhongsheng Group | 881 HK | SELL | 21.15 | 14.00 | (33.8) | 6,521 | 8.1 | 9.2 | 1.0 | 0.9 | 13.0 | 38.8 |
| Yadea Group | 1585 HK | BUY | 15.22 | 20.00 | 31.4 | 5,828 | 16.5 | 14.0 | 5.2 | 4.3 | 34.7 | (139.1) |

Source: Bloomberg, UOB Kay Hian

UNDERWEIGHT

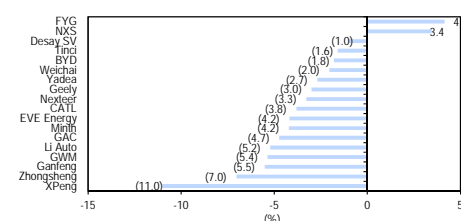
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TOP PICKS

| Company | Ticker | Rec | Share Price (lcy) | Target Price (lcy) |
|---------|-----------|-----|-------------------|--------------------|
| BYD | 1211 HK | BUY | 240.40 | 590.00 |
| Li Auto | 2015 HK | BUY | 150.70 | 312.00 |
| CATL | 300750 CH | BUY | 206.73 | 410.00 |

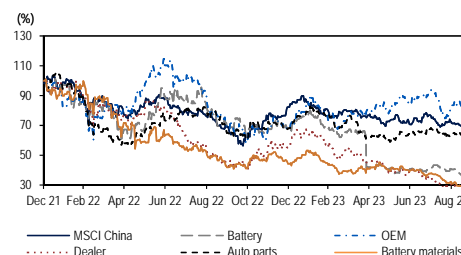
Source: UOB Kay Hian

WEEKLY STOCK PERFORMANCE



Source: Bloomberg

RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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- **EV companies in China generally saw mom and wow sales growth in the second week of September, except Tesla.** The decline in Tesla's insurance registration during 11-17 Sep 23 was due to the generation transition of Model 3. Tesla's sales will probably recover over the next few weeks with the production ramp-up of the revamped Model 3.

BYD remained the biggest EV manufacturer in China with insurance registrations (a proxy to retail sales volume) growing 5.8% mom and 11.3% wow to 51,100 units during 11-17 Sep 23. Together with Denza, BYD's insurance registrations grew 5.7% mom/10.7% wow to 53,600 units during 11-17 Sep 23. We keep our estimates on BYD's 2023-25 sales at 3m units/4m units/5.2m units, including 250,000 units/0.5m units/1m units of overseas sales.

Li Auto saw 13.8% yoy/7.1% wow growth in insurance registrations to a record-high of 9,100 units during 11-17 Sep 23, due to increasing capacity and an implicit 2-3% price cut. Recently, Li Auto has started to offer Rmb10,000 in insurance subsidies for customers. We believe the modest discount would be mitigated by the growing volume. We maintain our estimates on Li Auto's 2023-25 sales at 350,000/580,000/840,000 units respectively.

XPeng's insurance registration grew 12.5% mom and 44% wow to 3,600 units during 11-17 Sep 23, due to the ramp-up of G6's sales and price cut. For example, XPeng is offering a 7-11% discount for its new model P7i. Also, it will launch the new G9 at Rmb263,900-359,900, 13-19% below the prices of the existing G9, by end-23. XPeng's gross margin already turned negative in 2Q23, and the substantial price cuts will further squeeze its margins.

- **Lithium carbonate prices plunged 7% to Rmb175,000/tonne this week, below the breakeven point.** Despite the strong growth in EV production in China, the battery-grade lithium carbonate prices in the country plummeted 7% wow and 22% mom to Rmb175,000/tonne, breaking through the previous ytd low of Rmb180,000/tonne seen in end-April. On the other hand, the CIF prices of spodumene concentrate 6% (SC6) from Australia only dipped 3% yoy and 8% mom to US\$3,025/tonne, implying Rmb176,660 in spodumene concentrate cost per tonne lithium carbonate equivalent (LCE), even higher than the lithium carbonate price of Rmb175,000/tonne. Taking into consideration the processing cost, the cost of lithium carbonate would be even higher. That implies loss of lithium carbonate producers.

Based on the increasing supply of upstream lithium mineral supplies, we expect spodumene prices to drop more going forward, catching up with the decline in lithium carbonate prices. The global supply-demand of lithium will probably turn from >10% deficit in 2022 to not more than 10% surplus in 2023 and over 10% surplus in 2024-25, due to the expected nearly tripling of lithium supplies from 737,000 tonnes LCE in 2022 to 2m tonnes in 2025. In anticipation of the plentiful lithium supplies going forward, battery manufacturers are not in a rush to accumulate lithium inventories in the upcoming high season as they did in 4Q22. All these will pressure lithium carbonate prices over the next 2-3 years.

The prospective decline in lithium carbonate prices will transfer the profit from lithium compound producers like Ganfeng Lithium to battery manufacturers like CATL and EV companies like BYD. Take BYD Han EV Extra Long Range Version (605km) as an example, the 76.9kWh battery pack uses around 57.7kg of lithium carbonate, which cost about Rmb12,925 based on lithium carbonate price of Rmb224,000/tonne a month ago, representing 5.4% of the price of Rmb239,800 and 6.6% of the estimated unit COGS of about Rmb195,000. With all else equal, the 22% mom drop in lithium carbonate prices should have boosted gross profit per vehicle and gross margin by 6.3% and 1.2ppt to Rmb47,627 and 19.9% respectively over the past month.

- **BYD on 20 Sep 23 officially launched the first production vehicle under its premium brand Yangqiang, the U8, in China, with a starting price of Rmb1.098m** as pre-sale and deliveries are set to begin in October. Yangqiang U8 is equipped with e² technology, China's first mass-produced quad-motor independent drive technology platform, capable of precisely controlling the vehicle's four-wheel dynamics thanks to quad-motor independent vector control technology. As such, U8 can turn around on the spot and handle tough road conditions with ease.

UOBKH'S FORECASTS ON CHINA AUTO SALES

| (m units) | 2022 | 2023F | yoy % chg |
|----------------|------|-------|-----------|
| EV | 6.9 | 9.0 | 30.9 |
| - PV | 6.5 | 8.5 | 30.0 |
| - CV | 0.3 | 0.5 | 48.4 |
| ICE-car | 20.0 | 18.6 | (6.9) |
| - PV | 17.0 | 15.3 | (10.1) |
| - CV | 3.0 | 3.3 | 11.4 |
| Total auto | 26.9 | 27.6 | 2.8 |
| - PV | 23.6 | 23.8 | 1.0 |
| - CV | 3.3 | 3.8 | 15.2 |
| EVs' share (%) | | | |
| PV | 27.8 | 35.7 | 8.0 |
| CV | 10.2 | 13.2 | 2.9 |
| Overall | 25.6 | 32.6 | 7.0 |

Source: CAAM, CPCA, UOB Kay Hian

WEEKLY PV SALES VOLUME IN CHINA

| ('000 units) | ----- Retail sales ----- | | | Wholesale shipment | | |
|------------------------|--------------------------|-----|-----|--------------------|-----|-----|
| | Total | EV | ICE | Total | EV | ICE |
| <u>Daily avg sales</u> | | | | | | |
| 1-10 Sep 23 | 44 | 17 | 27 | 46 | 17 | 29 |
| 11-17 Sep 23 | 52 | 20 | 32 | 67 | 25 | 42 |
| yoy % chg | 6 | 18 | (1) | 22 | 34 | 15 |
| mom % chg | 5 | 7 | 3 | 26 | 17 | 31 |
| wow % chg | 19 | 17 | 20 | 45 | 45 | 45 |
| <u>Sales volume</u> | | | | | | |
| 11-17 Sep 23 | 365 | 141 | 224 | 467 | 174 | 293 |
| yoy chg (%) | 6 | 18 | (1) | 22 | 34 | 15 |
| mom chg (%) | 5 | 7 | 3 | 26 | 17 | 31 |
| 1-17 Sep 23 | 804 | 313 | 491 | 927 | 346 | 581 |
| yoy chg (%) | 10 | 29 | 1 | 15 | 22 | 11 |
| mom chg (%) | 2 | 8 | (1) | 19 | 15 | 22 |

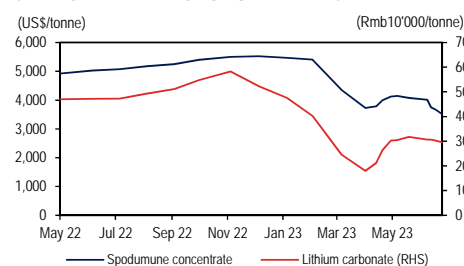
Source: CPCA

WEEKLY INSURANCE REGISTRATIONS BY BRAND

| | 14-20 Aug | 4-10 Sep | 11-17 Sep | mom % chg | wow % chg |
|-----------|-----------|----------|-----------|-----------|-----------|
| BYD | 48.3 | 45.9 | 51.1 | 5.8 | 11.3 |
| Aion | 10.5 | 8.2 | 9.8 | (6.7) | 19.5 |
| Li Auto | 8.0 | 8.5 | 9.1 | 13.8 | 7.1 |
| Tesla | 13.8 | 10.6 | 8.4 | (39.1) | (20.8) |
| Wuling | 7.1 | 7.5 | 8.0 | 12.7 | 6.7 |
| VW | 3.3 | 4.4 | 4.6 | 39.4 | 4.5 |
| Changan | 3.9 | 3.7 | 4.1 | 5.1 | 10.8 |
| NIO | 4.1 | 3.8 | 3.9 | (4.9) | 2.6 |
| XPeng | 3.2 | 2.5 | 3.6 | 12.5 | 44.0 |
| Leapmotor | 2.9 | 2.7 | 3.4 | 17.2 | 25.9 |
| Deepal | 3.3 | 2.9 | 3.2 | (3.0) | 10.3 |
| Denza | 2.4 | 2.5 | 2.5 | 4.2 | - |
| Zeekr | 1.5 | 1.8 | 2.4 | 60.0 | 33.3 |
| Neta | 2.0 | 1.7 | 2.0 | - | 17.6 |

Source: Respective companies

PRICES OF BATTERY-GRADE LITHIUM CARBONATE AND SPODUMENE IN CHINA



Source: Oilchem.net

Additionally, U8 is the first mass produced car model in China that can drive on water due to its e³ quad-motor independent drive technology and body sealing technology. This feature preserves the safety of drivers and passengers in extreme situations like flooding. We believe the debut of Yangwang U8 would strengthen BYD's brand equity as a world-class prestigious EV company given the cutting-edge technologies demonstrated by the model.

- **NIO's stock slumped 11% right after issuing US\$1b in CBs; XPeng to be next to raise capital.** On 19 Sep 23, NIO issued US\$1b in convertible bonds (CB) with an initial conversion price of US\$11.12 per ADS, 8% above the closing price of US\$10.31 per ADS on 18 Sep 23. NIO's ADS price slumped 17% on 19 Sep 23, triggered by hedging activities.

Going forward, we see XPeng as the next candidate to raise capital, given its tough financials. As of 30 Jun 23, XPeng had Rmb11.7b in net cash. This, coupled with the US\$700m in capital XPeng raised from selling shares to Volkswagen AG, arrives at a total net cash of around Rmb17b. On the other hand, XPeng is expected to register Rmb3b-4b in negative FCF every quarter. As such, it will take only 1-1.5 years for net cash to be depleted.

ACTIONS

- **Maintain UNDERWEIGHT on China's automobile sector**, with a preference for the EV segment. Based on the expected decline in China's ICE-car sales and intensifying price war in the ICE-car market, we maintain UNDERWEIGHT on China's automobile sector. However, based on the expected faster EV sales CAGR of 30% in 2023-25, we still like the EV segment. Given the declines in battery material prices due to increasing supply, we prefer the leading midstream and downstream EV plays with strong capabilities in cost control.
- **Our top BUYs include BYD (1211 HK/BUY/Target: HK\$590.00), CATL (300750 CH/BUY/Target: Rmb390.00), and Li Auto (2015 HK/BUY/Target: HK\$312.00).** Our BUY calls are in the following order of preference: BYD, CATL, Li Auto, Yadea, Fuyao Glass, Minth, Ningbo Xusheng, EVE Energy, Weichai Power. Maintain SELL on Great Wall Motor, Guangzhou Auto, Nexteer, Ganfeng Lithium, GEM, Tinci Materials, and Zhongsheng.

SCENARIO ANALYSIS – LITHIUM CARBONATE PRICES AND BYD HAN EV GROSS MARGIN

| | A month ago | Current | % chg |
|---------------------------|-------------|---------|--------|
| Lithium price (Rmb/tonne) | 224,000 | 175,000 | (21.9) |
| Car price (Rmb) | 239,800 | 239,800 | - |
| COGS (Rmb) | 195,000 | 192,173 | (1.4) |
| - Battery cost | 12,925 | 10,098 | (21.9) |
| - Other costs | 182,075 | 182,075 | - |
| Gross profit (Rmb) | 44,800 | 47,627 | 6.3 |
| Gross margin (%) | 18.7 | 19.9 | 1.2 |

Source: UOB Kay Hian

YANGWANG U8



Source: BYD

COMPANY UPDATE

Kuaishou Technology (1024 HK)

Key Takeaways From Kuaishou Investor Day 2023

On 21 September, Kuaishou organised Kuaishou Investor Day and shared management's strategies and outlook in each business line, including live-streaming, e-commerce, commercialisation, local consumer services and international expansion. We believe continuous exploration of new business and applications of AGI should be the company's new growth catalysts. Maintain BUY. Target price: HK\$100.00.

WHAT'S NEW

- Strategic initiatives to facilitate traffic growth.** Yu Yue, Head of Kuaishou Main Site Business and Community Science Division shared the strategic initiatives for Kuaishou Technology (Kuaishou) to achieve its 400m DAUs target, which include: a) assisting merchants and KOLs to better grow their markets and improve gross merchandise value (GMV) by providing traffic support and incentives; b) stream initiatives. Traffic grew organically to 300m per day from 200m per day with 90% of brands participating in stream initiatives. This has resulted in a 40% surge in brand self-operated GMV, along with a corresponding rise in advertising; c) leveraging the short video initiative; with this, average daily GMV of short videos with shopping links soared by 124% yoy. Average daily number of merchants posting short videos with shopping links increased by 53% yoy. GMV of short videos generated from live streaming rooms surged by 124% yoy.
- E-commerce segment presented by Yi Xiao, CEO of Kuaishou.** Kuaishou positions itself as a value-for-money platform and generates unique content and social value for users. The company believes the pan-shelf based e-commerce, which accounted for 15% of the total GMV in 2Q23, is crucial in stimulating GMV of standardised products which experienced robust growth in 1H23. Kuaishou also adopted traffic allocation principles that balance transaction efficiency and content attractiveness.
- Progress on AIGC and LLM.** Kuaishou is planning to introduce its upgraded KwaiYii large language model (LLM) (with 66b LLM parameters recently and 70b LLM parameters by the end of the year, which is equivalent in scale to GPT-3.5). Kuaishou will focus on using its short-form video (SFV) database to train this LLM, while the company's competitive edge in AI lies in industry-leading recommendation technology. Kuaishou has developed the SL200 chip, a smart video system-on-chips (SOC) chip, with intelligent video processing cloud infrastructure built in the chip. Kuaishou has built an industry-leading single-index model (SIM) estimation model, which supports modelling of user lifelong behaviour sequences. SIM has cumulatively increased the average time spent per user by 11.8%, and the expected customer spending on ads by 39%.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|------------|------------|-----------|-----------|-----------|
| Net turnover | 81,081.5 | 94,182.5 | 115,731.7 | 132,143.6 | 155,298.1 |
| EBITDA | (20,816.3) | (6,072.3) | 10,868.9 | 19,210.2 | 27,355.1 |
| Operating profit | (27,701.3) | (12,558.0) | 3,564.9 | 11,541.5 | 19,349.8 |
| Net profit (rep./act.) | (78,077.1) | (13,689.4) | 3,097.3 | 10,424.2 | 16,372.6 |
| Net profit (adj.) | (18,851.8) | (5,751.4) | 7,811.6 | 15,181.4 | 21,963.3 |
| EPS (Fen) | (491.8) | (135.2) | 180.7 | 347.7 | 498.0 |
| PE (x) | n.m. | n.m. | 32.2 | 16.7 | 11.7 |
| P/B (x) | 4.9 | 6.2 | 5.5 | 4.2 | 3.1 |
| EV/EBITDA (x) | n.m. | n.m. | 20.9 | 11.8 | 8.3 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net margin (%) | (96.3) | (14.5) | 2.7 | 7.9 | 10.5 |
| Net debt/(cash) to equity (%) | (72.3) | (33.3) | (55.3) | (71.5) | (83.8) |
| Interest cover (x) | (540.2) | n.a. | n.a. | n.a. | n.a. |
| ROE (%) | n.a. | n.a. | 7.3 | 19.7 | 22.9 |
| Consensus net profit | - | - | 4,768 | 11,932 | 20,153 |
| UOBKH/Consensus (x) | - | - | 1.64 | 1.27 | 1.09 |

Source: Kuaishou, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

| | |
|--------------|------------|
| Share Price | HK\$60.40 |
| Target Price | HK\$100.00 |
| Upside | +57.2% |

COMPANY DESCRIPTION

Kuaishou Technology operates as a content community and social platform. The company helps users create, upload and watch short videos on mobile devices. Kuaishou Technology offers services worldwide.

STOCK DATA

| | |
|---------------------------------|------------------------|
| GICS sector | Communication Services |
| Bloomberg ticker: | 1024 HK |
| Shares issued (m): | 3,570.0 |
| Market cap (HK\$m): | 247,146.9 |
| Market cap (US\$m): | 31,632.4 |
| 3-mth avg daily t'over (US\$m): | 139.5 |

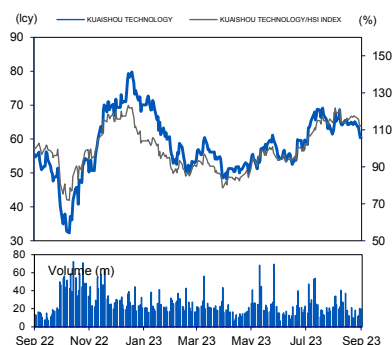
Price Performance (%)

| | |
|------------------|---------------------|
| 52-week high/low | HK\$85.10/HK\$32.30 |
| 1mth | 0.6 |
| 3mth | 16.3 |
| 6mth | (18.7) |
| 1yr | (30.0) |
| YTD | (19.8) |

Major Shareholders

| | |
|---------------------------------|-------|
| Tencent Holdings Ltd | 19% |
| Morningside Venture Capital Ltd | 15.8% |
| DCM | 5% |
| FY23 NAV/Share (RMB) | 9.70 |
| FY23 Net Cash/Share (RMB) | 7.41 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

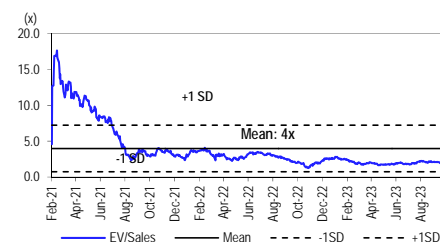
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STOCK IMPACT

- Developing a positive cycle for live-streaming ecosystem.** The high-quality and newly-cooperated talent agency could receive a maximum of 37% rebate of gross revenue. Meanwhile, management operations assist in quality development of new streamers managed by talent agency, with up to 20% of gross revenue as streamers' bonus. Ultimately, gross revenue generated will be used to support the quantity and quality of high-quality streamers to lead the operation of talent agencies in a positive way, with up to 39% of gross revenue as streamers' bonus.
- International business.** Kuaishou aims to establish a useful content ecosystem and dive into vertical categories opportunities in the e-commerce systems of different regions. Meanwhile, the three core strategies include: a) regional focus: to be a market leader in LATAM, b) deep localisation: remain as a key player in Middle East and North Africa, and c) cultivation of ecosystem: remain as a key player in SEA. In Brazil, time spent ranked 7th, with a 4% share, as compared with time spent in China which ranked 3rd with a 3% share.
- Local consumer services segment presented by Xiao Gu, Head of Kuaishou Local Life Business.** In 2023, the local service is expected to generate gross transaction value (GTV) in the range of high-single digits to Rmb10b. This growth will be primarily driven by Kuaishou's self-operated models, with additional contributions coming from its collaboration with Meituan.
- Paving the way for resilient Double 11.** On 15 September, Kuaishou's e-commerce platform announced its platform policies for the Double 11 promotion, along with the corresponding marketing strategies, and merchant support policies. For Double 11 this year, Kuaishou's e-commerce platform declared an investment of Rmb18b in traffic flow and Rmb2b in subsidies.

12-MONTH EV/SALES BAND



Source: Bloomberg, UOB Kay Hian

SOTP VALUATION

| 2023 12-mon Forward | Revenue (Rmb,m) | GMV (Rmb,m) | Net profit |
|---------------------|-----------------|-------------|------------|
| Live streaming | 41,839 | | 4,184 |
| Online marketing | 64,358 | | 13,515 |
| E-commerce | 17,741 | 1,337,534 | 2,484 |

Source: UOB Kay Hian

SOTP VALUE

| PS | PE | To Kuaishou (HK\$) | HK\$/share |
|----|----|--------------------|------------|
| 1x | 10 | 44,767 | 10 |
| 4x | 18 | 260,301 | 60 |
| | 18 | 128,805 | 30 |
| | | 433,873 | 100 |

Source: UOB Kay Hian

Q&A

| | |
|---|--|
| Q: What is the market outlook for 3Q23? A: The domestic market experienced a decline in 2Q23, but has seen a positive trend in the domestic market for 3Q23. The average daily time spent per DAU accounts for over 120 minutes, but might be disrupted by market competition. | Q: Brand advertising has seen significant reductions in companies amid a weak macro environment. How has Kuaishou achieved a 30% yoy growth? A: The advertising base is relatively small. As the business scale is growing, growth rate will normalise and be in par with industry's growth rate. The strong growth is driven by diverse content and creator ecosystem. |
| Q: What are the local services' core KPI and development goals? A: In 2023, the local consumer service is expected to generate GTV in the range of high-single digits to Rmb10b. Different sub-segments in local services will have different KPI. Local consumer services ultimately aim to supplement user traffic growth on content platforms. | Q: What are the business scenarios for chips? A: The primary application of chips are mainly in live streaming platforms with larger scale. The combined live streaming duration of these two companies constitutes 75% of China's total, and demand for chips outside both platforms is not notably substantial. In the future, as video resolutions like 4k and 8k become mainstream, video processing will increasingly rely on chips. |
| Q: As Kuaishou is on track to achieve the goal of 400m DAUs, is there room for growth in this 400m target? A: Currently, we see that reaching 400m DAUs is achievable. As the market competition is quite intense, there will be adjustments in the growth strategy. The company will be focusing more on the growth of high-quality users and user stickiness, instead of growth in business scale. | Q: For local consumer services, how does Kuaishou leverage its competitive edge in lower-tier cities? A: For now, Kuaishou does not have competitive advantages in particular areas and is still in exploration phase. |
| Q: How do you understand the user value and monetisation potential in Kuaishou's overseas regions? A: Per capita GDP is the key metric in determining monetisation rates and scale of expansion. | |

Source: Kuaishou, UOB Kay Hian

EARNINGS REVISION/RISK

- We leave our revenue forecasts for Kuaishou largely unchanged.**
- Risks:** a) Weaker advertisement demand due to the weak macro environment, b) increasing competition from Douyin, c) minor protection restrain on short form video time spent, and d) expanding loss from the overseas business and local life services initiatives.

VALUATION/RECOMMENDATION

- Maintain BUY with a target price of HK\$100.00.** We remain optimistic on the company due to the resilient growth momentum in e-commerce GMV and online advertising. Our target price implies 3x 2023F PS. The company is currently trading at 2x 12-month forward EV/Sales (17x 2024F PE), below its historical mean of 4x.

SHARE PRICE CATALYST

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

PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|-----------------|----------------|----------------|----------------|
| Net turnover | 94,183 | 115,732 | 132,144 | 155,298 |
| EBITDA | (6,072) | 10,869 | 19,210 | 27,355 |
| Deprec. & amort. | 6,486 | 7,304 | 7,669 | 8,005 |
| EBIT | (12,558) | 3,565 | 11,542 | 19,350 |
| Total other non-operating income | 0 | 0 | 0 | 0 |
| Associate contributions | (139) | (32) | 0 | 0 |
| Net interest income/(expense) | 166 | 432 | 569 | 899 |
| Pre-tax profit | (12,531) | 3,965 | 12,111 | 20,248 |
| Tax | (1,158) | (868) | (1,687) | (3,876) |
| Minorities | 0 | 0 | 0 | 0 |
| Net profit | (13,689) | 3,097 | 10,424 | 16,373 |
| Net profit (adj.) | (5,751) | 7,812 | 15,181 | 21,963 |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|--|-----------------|----------------|----------------|----------------|
| Operating | 36 | 17,450 | 24,982 | 33,165 |
| Pre-tax profit | (12,531) | 3,965 | 12,111 | 20,248 |
| Tax | (1,158) | (868) | (1,687) | (3,876) |
| Deprec. & amort. | 6,295 | 7,070 | 7,402 | 7,692 |
| Associates | 0 | 0 | 0 | 0 |
| Working capital changes | (545) | 1,751 | 662 | (445) |
| Other operating cashflows | 7,975 | 5,531 | 6,494 | 9,546 |
| Investing | (17,542) | (7,155) | (6,848) | (7,292) |
| Capex (growth) | (4,934) | (7,155) | (6,848) | (7,292) |
| Capex (maintenance) | 0 | 0 | 0 | 0 |
| Investments | (4,245) | 0 | 0 | 0 |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Others | (8,363) | 0 | 0 | 0 |
| Financing | (1,405) | 1,135 | 66 | (13) |
| Dividend payments | 0 | 0 | 0 | 0 |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 0 | 0 | 0 | 0 |
| Loan repayment | 0 | 0 | 0 | 0 |
| Others/interest paid | (1,405) | 1,135 | 66 | (13) |
| Net cash inflow (outflow) | (18,910) | 11,430 | 18,200 | 25,861 |
| Beginning cash & cash | 32,612 | 13,702 | 25,132 | 43,332 |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 13,274 | 25,132 | 43,332 | 69,193 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|---------------|----------------|----------------|----------------|
| Fixed assets | 13,215 | 12,383 | 11,312 | 10,129 |
| Other LT assets | 29,965 | 30,815 | 31,282 | 31,987 |
| Cash/ST investment | 13,274 | 25,132 | 43,332 | 69,193 |
| Other current assets | 32,584 | 34,601 | 36,631 | 39,529 |
| Total assets | 89,039 | 102,931 | 122,558 | 150,837 |
| ST debt | 0 | 0 | 0 | 0 |
| Other current liabilities | 40,710 | 47,813 | 51,999 | 58,216 |
| LT debt | 0 | 0 | 0 | 0 |
| Other LT liabilities | 8,760 | 8,154 | 8,412 | 8,511 |
| Shareholders' equity | 39,830 | 45,441 | 60,622 | 82,586 |
| Minority interest | 8 | 8 | 8 | 8 |
| Total liabilities & equity | 89,039 | 102,931 | 122,558 | 150,837 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | (6.4) | 9.4 | 14.5 | 17.6 |
| Pre-tax margin | (13.3) | 3.4 | 9.2 | 13.0 |
| Net margin | (14.5) | 2.7 | 7.9 | 10.5 |
| ROA | n.a. | 3.2 | 9.2 | 12.0 |
| ROE | n.a. | 7.3 | 19.7 | 22.9 |
| Growth | | | | |
| Turnover | 16.2 | 22.9 | 14.2 | 17.5 |
| EBITDA | n.a. | n.a. | 76.7 | 42.4 |
| Pre-tax profit | n.a. | n.a. | 205.4 | 67.2 |
| Net profit | n.a. | n.a. | 236.6 | 57.1 |
| Net profit (adj.) | n.a. | n.a. | 94.3 | 44.7 |
| EPS | n.a. | n.a. | 92.4 | 43.2 |
| Leverage | | | | |
| Debt to total capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt to equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt/(cash) to equity | (33.3) | (55.3) | (71.5) | (83.8) |
| Interest cover (x) | n.a. | n.a. | n.a. | n.a. |

TRADERS' CORNER



Chart by TradingView

First Tractor Company Limited (38 HK)

Trading Buy range: HK\$3.80-3.90

Last price: HK\$3.91

Target price: HK\$4.05/HK\$4.12

Protective stop: Breaks below HK\$3.68

Stock Highlights:

In 1H23, total operating revenue increased 9.3% yoy to Rmb7.249b. Net profit attributable to shareholders of the company increased 29.7% to Rmb754.1m.

Technical View:

Share price rose with a long white candlestick and high trading volume on 29 Aug 23. Recently, it entered into in a sideways adjustment trend. Price is now near its 20-day moving average (orange) and higher than its 50-day (red) and 200-day (purple) moving averages. The 14-day RSI is higher than the midline level of 50 and is now around 53, indicating that momentum is a moderately strong. Although the MACD line is slightly lower than the signal line, both lines are in the bullish zone. Hence, the share price's uptrend remains unchanged for the time being. If share price stays above the 50-day moving average, it could then extend its uptrend.

Average timeframe: Around two weeks.



Chart by TradingView

BYD Electronic (International) Company Limited (285 HK)

Trading Buy range: HK\$34.00-35.20

Last price: HK\$35.70

Target price: HK\$36.50/HK\$38.00

Protective stop: Breaks below HK\$32.00

Stock Highlights:

In 1H23, the group's revenue reached a new high, increasing 28.6% yoy to Rmb56.18b.

Technical View:

Share price opened with an upside gap on 18 Jul 23, and then maintained an uptrend and moved upwards along the 10-day (light blue) and 20-day (orange) moving averages. Recently, it retreated to around the 10-day and 20-day moving averages. The 14-day RSI is above the midline level of 50 and is currently around 58, indicating strong momentum. Although the MACD line is lower than the signal line, both lines are in the bullish zone. Hence, the share price's uptrend remains unchanged for the time being.

Average timeframe: Around two weeks.

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