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KEY HIGHLIGHTS

Strategy

Small-Mid Cap Biweekly

Eyeing fibre optic component suppliers.

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TRADERS' CORNER

Chinasoft International Ltd. (354 HK): Trading Buy range: HK\$6.10-6.30

China Longyuan Power Group (916 HK): Trading Buy range: HK\$5.60-5.70

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CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
09-15 Dec	China	Nov Money Supply And Credit
15 Dec	China	Nov Economic Activities
20 Dec	China	Dec Loan Prime Rate
27 Dec	China	Nov Industrial Profits
30 Dec	China	Dec NBS PMI

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	36404.9	0.4	0.6	6.2	9.8
S&P 500	4622.4	0.4	1.2	4.7	20.4
FTSE 100	7544.9	(0.1)	0.4	2.5	1.3
AS30	7409.2	(0.0)	1.9	3.2	2.6
CSI 300	3419.5	0.6	(1.2)	(4.7)	(11.7)
FSSTI	3090.2	(0.7)	0.2	(0.5)	(5.0)
HSCEI	5532.5	(1.2)	(3.0)	(6.2)	(17.5)
HSI	16201.5	(0.8)	(2.7)	(5.8)	(18.1)
JCI	7088.8	(1.0)	(0.1)	4.1	3.5
KLCI	1446.4	0.3	(0.3)	0.1	(3.3)
KOSPI	2525.4	0.3	0.4	4.8	12.9
Nikkei 225	32791.8	1.5	(1.3)	0.7	25.7
SET	1381.0	0.2	0.1	(0.6)	(17.2)
TWSE	17418.3	0.2	(0.0)	4.4	23.2
BDI	2509	1.0	(25.0)	52.7	65.6
CPO (RM/mt)	3607	0.9	(3.0)	(1.2)	(10.9)
Brent Crude (US\$/bbl)	76	0.3	(2.5)	(6.5)	(11.4)

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
WUXI BIOLOGICS C	28.60	(2.6)	2,947.9
HKEX	245.20	(1.3)	2,373.9
XIAOMI CORP-W	14.56	(0.4)	1,480.4
NETEASE INC	164.30	(0.4)	1,402.1
LI AUTO INC-A	137.40	1.3	1,313.1

TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
KINGDEE INTL SFT	11.22	8.1	133.6
LENOVO GROUP	9.86	3.1	710.8
CHINA RES GAS	25.10	2.2	51.6
HENDERSON LAND D	21.60	1.6	56.3
SINOPHARM-H	19.00	1.6	92.0

TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
LI NING CO LTD	18.30	(14.3)	398.3
EAST BUY HOLDING	31.25	(7.1)	408.4
JD-SW	98.25	(6.3)	956.3
ZHONGSHENG GROUP	16.48	(3.4)	47.9
GDS HOLDING-CL A	8.35	(3.4)	35.3

*ADT: Average daily turnover

KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	1.9	2.4	1.0
Euro Zone	3.5	0.5	0.6
Japan	0.9	1.5	1.0
Singapore	3.6	0.9	2.9
Malaysia	8.7	4.0	4.6
Thailand	2.6	2.3	3.6
Indonesia	5.3	5.1	5.2
Hong Kong	-3.5	4.6	3.0
China	3.0	5.0	4.6
CPO (RM/mt)	5,088	4,000	4,200
Brent (Average) (US\$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

KEY CALLS

AI Plays

- Google recently launched Gemini, its latest large language model (LLM). Gemini comes in three sizes: a) Gemini Nano, which is built-in on Google Pixel 8 Pro smartphones, b) Gemini Pro for the Bard chatbot, and c) Gemini Ultra for data centres.
- Gemini can work with different data types. It accommodates textual input interleaved with audio and visual inputs and is able to produce text and image outputs.
- Gemini is trained and served by Google's Cloud TPU v5p, the most powerful, scalable, and flexible AI accelerator thus far. Compared with TPU v4, TPU v5p can train LLM and embedding-dense models 2.8x/1.9x faster. TPU v5p continues to use optical circuit switches (OCS), which were previously deployed in TPU v4 to reduce congestion and improve scalability and performance.
- We believe fibre optic component manufacturers such as **Suzhou TFC Optical Communication (TFC) (300394 CH)** should benefit from the utilisation of optical switches for Gemini's training. TFC supplies fibre optic components to overseas clients including Mellanox (Nvidia's InfiniBand switch supplier) and Celestica (Google's supplier). Overseas sales contributed to 76% of its 1H23 revenue.
- TFC manufactures fibre optic components including 800G optical engines and data centre optical modules. It registered record-high revenue and net profit in 3Q23, with revenue of Rmb542m (up 74% yoy) and net profit of Rmb203m (up 95% yoy), thanks to rising demand for high-speed optical device products driven by AI. The market expects TFC's 4Q23 optical engine shipment to reach 80,000 units, up 33-60% qoq, and 2023 shipment to reach 250,000.
- Catalyst: Faster-than-expected LLM upgrades and stronger-than-expected 800G optical engine shipment.
- Risk: Delay in 800G adoption due to geopolitical tensions and intensifying competition.

UPDATES

Luk Fook Holdings (590 HK/NOT RATED/HK\$21.95)

- Luk Fook Holdings (Luk Fook) announced its 1HFY24 results. Revenue was up 34.3% yoy to HK\$7,486m, thanks to the reopening of borders and the retail recovery business in Hong Kong and Macau. Attributable net profit rose 43.3% yoy to HK\$943m, the second-best interim results in history.
- In 1HFY24, same-store sales growth (SSSG) was +44% yoy, vs +19% yoy in 1HFY23. By product, SSSG for gold and platinum products/fixed price jewellery was +44%/+45% yoy respectively, vs +35%/-14% yoy in 1HFY23. By market, SSSG in Hong Kong & Macau/Mainland China was +56%/-4% yoy respectively, vs +25%/-16% yoy in 1HFY23.
- Management maintains a positive tone on FY24 and targets a net addition of 365 shops in FY24, vs 3,289 shops worldwide as of Sep 23.
- Interim dividend was HK\$0.72, representing a dividend payout of 45%, in line with the company's dividend payout policy of 45%. Dividend yield in the past 12 months was 5.4% and Luk Fook guides for a 45% dividend payout in the future.
- Catalyst: Rising gold prices and consumption recovery in Mainland China.
- Valuation: Trading at 7.2x one-year forward PE, which is about 1.5SD below its five-year historical average of 10.7x PE

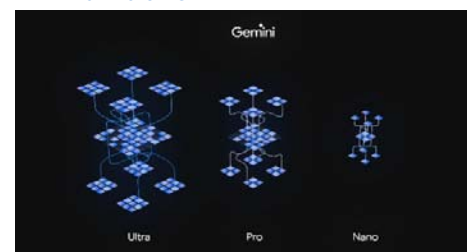
Click [here](#) for Blue Top dated 11 Dec 23

OPTICAL COMPONENT SUPPLIERS PEER COMPARISON

Ticker	Company	Market Cap (Rmbm)	Fwd PE (x)	Net Gearing (%)
300394 CH	Suzhou TFC Optical Communication	38,758	45.0	(57.3)
300308 CH	Zhongji Innolight	94,332	25.7	(14.0)
002281 CH	Accelink Technologies	25,238	31.5	(7.7)
300502 CH	Eoptolink Technology	38,478	29.7	(35.5)
301205 CH	Linkel Technologies	16,594	91.2	(47.6)
688205 CH	Wuxi Taclink Optoelectronics Technology	5,944	18.5	(59.7)
Average			40.3	(37.0)

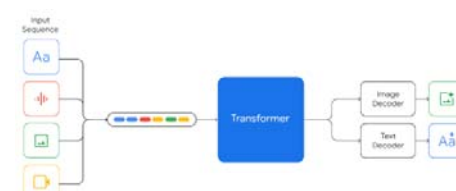
Source: Bloomberg, iFinD, UOB Kay Hian

THREE SIZES OF GEMINI



Source: Google

GEMINI'S MULTIMODALITY



Source: Google

GEMINI'S ABILITY TO PROCESS A SEQUENCE OF AUDIO AND IMAGES NATIVELY

Input Image	Input Audio (transcribed)	Model Response: Text
	What's the first step to make a veggie omelette with these ingredients?	Crack the eggs into a bowl and whisk them.
	Thank you for the instructions. I started making my omelette, does it look ready now?	It looks like it's almost ready. You can flip it over to cook the other side.
(No image - it's a follow up on the previous question)	Why is it not ready?	It's not ready because the eggs are still runny.
	What about now?	It looks ready now. You can take it off the heat and serve it.

Source: Google

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Playmates Toys (869 HK/NOT RATED/HK\$0.64)

- We held an update call with Playmates Toys (Playmates). Management notes that demand for Teenage Mutant Ninja Turtle (TMNT) toys began to pick up in November and Black Friday sales were strong. Playmates is eyeing stronger sales in December, especially 1-2 weeks before Christmas.
- The company has been introducing new toy accessories for the existing characters throughout the year. In fall 2024, it plans to present new characters from Tales of the TMNT, the upcoming TMNT animated TV series that is scheduled to be launched in summer 2024.
- Playmates maintains a positive tone on retail sales in 2023, which is largely in line with management's expectations. Management highlights that cash on hand remains healthy in 2023 (US\$116m as of Jun 23). The Board will determine the dividend payout in Mar 24 based on net profit in 2023, cash on hand and any potential licensing agreement Playmates may enter into.
- The reception to Tales of the TMNT and sequel to the 2023 TMNT movie are key to Playmates' earnings. During the last TMNT relaunch in 2012-17, its dividend payout ratio increased yoy from 33% in 2013 to a peak of 129% in 2017, translating to dividend yields of 5.1-11.2% in 2013-17. Per our previous updates, management foresees an earnings upcycle for the next 4-5 years from TMNT's relaunch in 2023 upon success at the box office for the movie TMNT: Mutant Mayhem, and guides for a similar payout ratio as the previous TMNT relaunch in 2012-17.
- Catalyst: Solid Christmas sales in 2023 and launch of Tales of the TMNT in summer 2024

TRADERS' CORNER

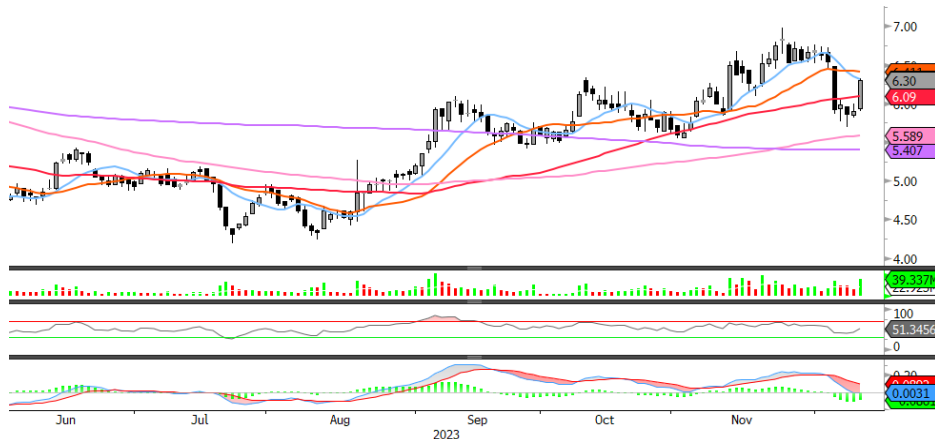


Chart by Bloomberg

Chinasoft International Ltd. (354 HK)

Trading Buy range: HK\$6.10-6.30

Last price: HK\$6.30

Target price: HK\$6.50/HK\$6.60

Protective stop: Breaks below HK\$5.55

Stock Highlights:

The company has signed an open-source harmony cooperation agreement with JWIPC Technology Co., Ltd to jointly develop open-source Harmony IoT (Internet of Things) terminal and computers. Based on their respective strengths, the parties have reached comprehensive strategic cooperation in joint product development, market expansion, and marketing.

Technical View:

Share price retreated after hitting a high in mid-November, and recently fell below its 50-day moving average (red). It rose above its 50-day moving average on 11 December, but is restricted by its 10-day (light blue) and 20-day (orange) moving averages. The 14-day RSI is slightly higher than the midline level of 50, indicating that upward momentum is still intact. Although the MACD line is lower than the signal line, both lines are in the bullish zone. Hence, the upward trend of the share price remains unchanged. If price breaks above its 10-day and 20-day moving averages, the uptrend may be extended.

Average timeframe: Around two weeks.



Chart by Bloomberg

China Longyuan Power Group Corporation Limited (916 HK)

Trading Buy range: HK\$5.60-5.70

Last price: HK\$5.70

Target price: HK\$5.90/HK\$6.10

Protective stop: Breaks below HK\$5.40

Stock Highlights:

In Nov 23, the company's power generation on a consolidated basis amounted to 7,531,024 MWh, representing a yoy increase of 24.93%. In particular, the wind power generation registered an increase of 22.73% yoy, the coal-fired power generation registered an increase of 2.67% yoy, and other renewable energy power generation registered an increase of 283.04% yoy.

Technical View:

Share price rose with a long white candlestick and with high trading volume on 11 Dec 23. It has currently risen to around its 10-day moving average (light blue). The 14-day RSI rebounded from the oversold zone (around 30) and is now around 38, indicating that momentum has strengthened. The difference between the MACD line and the signal line has narrowed, so the downward trend may be reversed. If share price breaks above its 10-day moving average, it may continue to rebound.

Average timeframe: Around two weeks.

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