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### KEY HIGHLIGHTS

#### Economics

##### Inflation

CPI inflation back in positive territory.

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#### Sector

##### Automobile

Weekly: Not all companies benefit from falling material prices. UNDERWEIGHT. Top BUYs: BYD, CATL and Li Auto.

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##### Industrial Automation

2Q23 results wrap-up: Robust share gains offset by slow recovery.

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#### Results

##### Cutia Therapeutics (2487 HK/NOT RATED/HK\$20.80)

1H23: Revenue up by 5,119% yoy, stronger than expected.

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##### Sun Hung Kai Properties (16 HK/BUY/HK\$88.30/Target: HK\$112.64)

FY23: Hong Kong DP results below expectations; being more prudent in 2024.

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#### HSI AND HS TECH INDEX OUTLOOK

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### UOBKH EVENTS

Date	Corporate/Stock Code	Event
14 Sep	China Overseas Property Holdings Limited (2669 HK)	Virtual Meeting at 4:30pm HKT

### CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
09-15 Sep	China	Aug Money Supply And Credit
15 Sep	China	Aug Economic Activities
20 Sep	China	Sep Loan Prime Rate
27 Sep	China	Aug Industrial Profits

### KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34576.6	0.2	(0.4)	(2.0)	4.3
S&P 500	4457.5	0.1	(1.1)	(0.1)	16.1
FTSE 100	7478.2	0.5	0.2	(0.6)	0.4
AS30	7358.1	(0.2)	(1.8)	(2.6)	1.9
CSI 300	3740.0	(0.5)	(1.4)	(3.7)	(3.4)
FSSTI	3207.8	(0.6)	(0.8)	(2.6)	(1.3)
HSCEI	6314.7	(1.4)	(0.7)	(4.1)	(5.8)
HSI	18202.1	(1.3)	(1.5)	(5.1)	(8.0)
JCI	6924.8	(0.4)	(0.8)	0.7	1.1
KLCI	1455.0	(0.4)	(0.6)	(0.2)	(2.7)
KOSPI	2547.7	(0.0)	(0.6)	(1.7)	13.9
Nikkei 225	32606.8	(1.2)	(0.3)	0.4	25.0
SET	1547.2	(0.2)	(0.9)	0.8	(7.3)
TWSE	16576.0	(0.3)	(0.4)	(0.2)	17.2
BDI	1186	3.9	11.4	5.0	(21.7)
CPO (RM/mt)	3754	(1.4)	(1.2)	(1.2)	(7.3)
Brent Crude (US\$/bbl)	90	(0.4)	1.5	4.1	5.1

Source: Bloomberg

### TOP VOLUME

Company	Price (HK\$)	Chg (%)	Volume ('000)
SENSETIME-W	1.51	(5.0)	131,681
SMIC	19.82	(7.6)	100,508
XIAOMI CORP-W	11.90	1.2	81,913
CHINA JINMAO HOL	1.18	(2.5)	47,821
COUNTRY GARDEN S	9.93	(2.1)	47,352

### TOP GAINERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
ENN ENERGY	57.40	4.5	11,944
EAST BUY HOLDING	37.00	2.1	12,392
CHINA MERCHANTS	9.57	1.7	4,527
XIAOMI CORP-W	11.90	1.2	81,913
KUNLUN ENERGY	6.21	1.0	16,506

### TOP LOSERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
SMIC	19.82	(7.6)	100,508
HUA HONG SEMI	19.84	(5.7)	11,332
SENSETIME-W	1.51	(5.0)	131,681
SUNNY OPTICAL	61.70	(4.3)	10,065
ALIBABA HEALTH	4.46	(3.9)	31,351

### 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

## ECONOMICS – CHINA

### Inflation

#### CPI Inflation Back In Positive Territory

CPI inflation edged higher to 0.1% yoy in Aug 23, as the fall in CPI goods prices moderated, while core CPI held steady at 0.8% yoy and services CPI was higher at 1.3% yoy. The fall in PPI narrowed to 3.0% yoy, in line with the moderation in the declines of global commodity prices over the past few months. The latter however fell by a greater extent in August (down 5.5% yoy) compared with July and could lead to renewed concerns of deflation.

#### OUR VIEWS

- **August consumer price inflation came in at 0.1% yoy**, in line with Bloomberg consensus forecast and above July's -0.3% yoy. Both food and core inflation held steady while the decline in goods CPI narrowed to -0.7% yoy and services CPI edged higher, rising 1.3% yoy. The decline in food price was mainly due to the 17.9% yoy decline in pork prices and 3.3% decline in vegetable prices. Among the sub-categories, the strongest inflation was seen in recreational, educational and cultural articles, which came in at 2.5% yoy, consistent with the better retail sales in this sub-segment.
- **PPI fell 3.0% yoy in August**, slightly below Bloomberg consensus forecast of -2.9% yoy, but better than July's -4.4% yoy. Both producer goods PPI and consumer goods PPI saw their yoy declines moderate, in line with the moderation in declines of global commodity prices over the past few months. The latter however fell 5.5% yoy in August compared to the 3.2% decline the month before. This could limit further moderation in the PPI declines and lead to renewed concerns of deflation in the coming months.

#### CPI

(yoy % chg)	Aug 23	ppt chg	Jul 23	Jun 23
Headline CPI	0.1	0.4	-0.3	0.0
Food	-1.7	0.0	-1.7	2.3
Core CPI	0.8	0.0	0.8	0.4
Goods	-0.7	0.6	-1.3	-0.5
Services	1.3	0.1	1.2	0.7
Food, Tobacco And Liquor	-0.5	0.0	-0.5	2.0
Clothing	1.1	0.1	1.0	0.9
Residence	0.1	0.0	0.1	0.0
Daily Necessities And Services	-0.5	-0.3	-0.2	-0.5
Transportation And Communication	-2.1	2.6	-4.7	-6.5
Recreational, Educational And Cultural Articles	2.5	0.1	2.4	1.5
Medical-Related Articles	1.2	0.0	1.2	1.1
Other Products And Services	3.8	-0.3	4.1	2.4

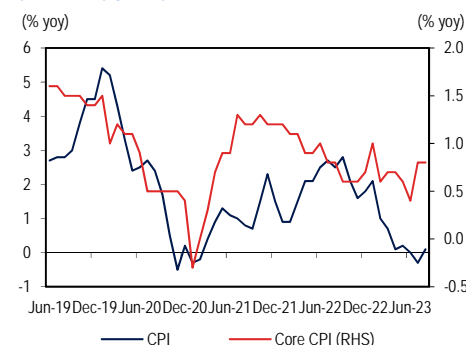
Source: NBS, Wind, UOB Kay Hian

#### PPI

(yoy % chg)	Aug 23	ppt chg	Jul 23	Jun 23
Headline PPI	-3.0	1.4	-4.4	-5.4
Producer Goods	-3.7	1.8	-5.5	-6.8
Mining And Quarrying	-9.9	4.8	-14.7	-16.2
Raw Materials	-4.0	3.6	-7.6	-9.5
Processing	-3.1	0.7	-3.8	-4.7
Consumer Goods	-0.2	0.2	-0.4	-0.5
Food	-0.2	0.7	-0.9	-0.6
Clothing	1.0	-0.5	1.5	1.0
Articles For Daily Use	0.6	-0.2	0.8	0.3
Durable Consumer Goods	-1.2	0.3	-1.5	-1.5
Purchasing Price Index	-4.6	1.5	-6.1	-6.5
Fuel And Power	-9.1	3.1	-12.2	-11.1
Ferrous Metal Materials	-5.6	2.5	-8.1	-11.2
Non-Ferrous Metal Materials And Wires	2.6	2.7	-0.1	-4.9
Chemical Raw Materials	-10.4	2.9	-13.3	-13.0
Wood And Pulp	-6.6	-0.7	-5.9	-4.4
Building Materials And Non-Metallic	-6.0	-0.4	-5.6	-5.5
Other Industrial Raw Materials And Semi-Products	-1.8	0.0	-1.8	-2.1
Agricultural And Sideline Products	-3.7	1.9	-5.6	-3.6
Textile Raw Materials	-2.4	1.4	-3.8	-4.9

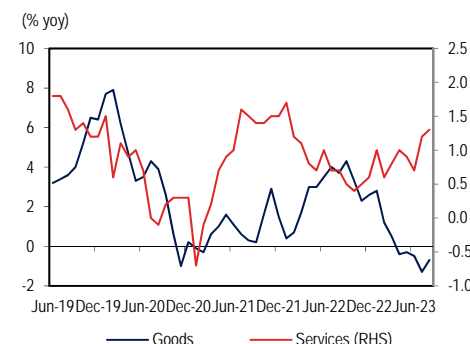
Source: NBS, Wind, UOB Kay Hian

#### CPI AND CORE CPI



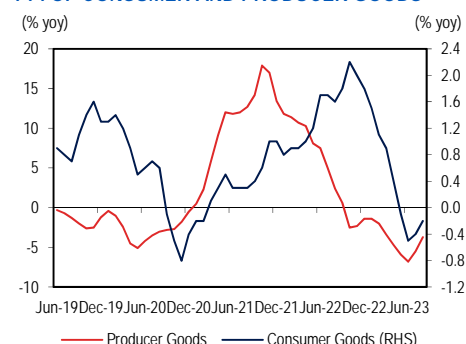
Source: National Bureau of Statistics of China (NBS), Wind, UOB Kay Hian

#### GOODS AND SERVICES INFLATION



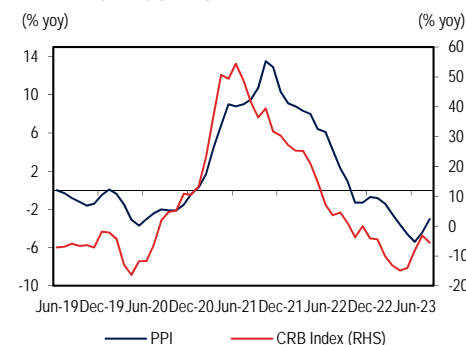
Source: NBS, Wind, UOB Kay Hian

#### PPI OF CONSUMER AND PRODUCER GOODS



Source: NBS, Wind, UOB Kay Hian

#### PPI AND CRB COMMODITY INDEX



Source: NBS, Wind, UOB Kay Hian

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## SECTOR UPDATE

### Automobile – China

Weekly: Not All Companies Will Benefit From Falling Material Prices

Lithium carbonate price fell 3% wow to below Rmb200,000/tonne this week. Despite the decline in raw material prices, nearly half of the automobile companies under our coverage reported lower-than-expected 2Q23/1H23 earnings, as not all benefitted from lower input cost, given competition. China's August passenger EV sales grew c. 30% yoy/9% mom, in line with estimates. Chinese EV battery makers continued to take market share globally in July. Maintain UNDERWEIGHT. Top picks: BYD, CATL and Li Auto.

#### WHAT'S NEW

- Nearly half of the companies under our coverage reported lower-than-expected 2Q23 earnings, despite the decline in raw material prices. For most of them, the earnings miss lies in margins, except Ningbo Xusheng (603305 CH), whose earnings miss was due to revenue. Not all companies benefitted from lower raw material prices given competition. Our expectations of raw material prices peaking in 2022 and the subsequent declines in 2023 have realised, eg lithium carbonate and other battery materials, aluminium, steel and other metals. However, except for a few leading players, eg BYD, CATL, Li Auto and Fuyao Glass, most automobile companies did not benefit much from the drop in raw material prices, due to stiffening competition in China's automobile industry ytd.
- Many players along the automobile supply chain had to pass on the benefit from lower raw material prices to downstream players and end-customers, leading to margin erosion in 2Q23. These include automobile dealer Zhongsheng, carmakers like Geely and XPeng, automobile part manufacturers like Minth, Nexteer and Desay SV, battery manufacturers like EVE Energy, and battery material suppliers. Among them, battery material suppliers, Ganfeng Lithium, GEM and Tinci Materials, saw the sharpest margin squeeze, as they have low value-added technology along the supply chain.
- China's passenger EV retail sales up c. 30% yoy/9% mom in Aug 23, in line; market share soared to above 36%. China's passenger electric vehicle (EV) sales for Aug 23 came in as expected with retail sales of 698,000 units (+32% yoy/+9% mom) and wholesale shipment of 805,000 units (+28% yoy/+9% mom). The discrepancy between retail sales and wholesale shipment mainly lay in export. Passenger EVs' share in China's passenger vehicle (PV) retail sales volume and wholesale shipment reached a record 36.7% and 36.2% respectively in Aug 23. 8M23 retail sales and wholesale shipment of passenger EVs reached 4.424m units (+36% yoy) and 5.086m units (+39% yoy). We maintain our estimate on 2023 China wholesale shipment of passenger EVs at 8.5m units (+30% yoy), including ~7m units of domestic sales and ~1.5m units of export.

#### PEER COMPARISON

Company	Ticker	Rec	Price @ 7 Sep 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	PE 2023F (x)	2024F (x)	P/B 2023F (x)	2024F (x)	ROE (%)	Net Gearing (Cash) (%)
BYD	1211 HK	BUY	247.20	590.00	138.7	91,626	27.5	17.4	5.0	4.0	19.6	(26.7)
Geely Automobile	175 HK	SELL	9.66	6.50	(32.7)	12,345	22.9	19.2	1.1	1.1	5.0	(26.9)
Great Wall Motors	2333 HK	SELL	9.37	5.20	(44.5)	10,476	20.6	20.9	1.1	1.1	5.3	(7.7)
Guangzhou Auto	2238 HK	SELL	4.06	3.20	(21.2)	5,379	8.3	10.0	0.3	0.3	4.1	(14.9)
Li Auto Inc	2015 HK	BUY	154.60	312.00	101.8	41,111	33.7	20.0	5.5	4.3	17.7	(103.0)
XPeng	9868 HK	SELL	73.10	18.00	(75.4)	17,212	Loss	Loss	4.8	7.2	(43.3)	(58.3)
Weichai Power	2338 HK	BUY	10.62	16.00	50.7	11,704	9.9	8.5	1.6	1.4	11.0	(51.1)
Fuyao Glass	3606 HK	BUY	35.95	42.00	16.8	11,968	17.2	14.8	2.8	2.6	16.6	(18.3)
Desay SV	002920 CH	HOLD	137.00	135.00	(1.5)	10,381	51.9	39.4	10.0	8.3	20.8	0.5
Nexteer	1316 HK	SELL	4.94	2.70	(45.3)	1,582	15.0	16.3	0.8	0.8	5.4	(10.1)
Minth	425 HK	BUY	21.95	33.00	50.3	3,253	11.8	9.8	1.3	1.2	11.0	17.9
Ningbo Xusheng	603305 CH	BUY	22.26	36.00	61.7	2,025	23.9	19.2	3.2	2.8	16.9	(9.9)
CATL	300750 CH	BUY	226.51	410.00	81.0	75,278	23.4	15.1	5.0	3.9	21.9	(46.1)
EVE Energy	300014 CH	BUY	47.71	92.00	92.8	13,281	21.4	15.9	2.8	2.4	10.5	37.2
Ganfeng Lithium	1772 HK	SELL	37.50	33.00	(12.0)	9,638	7.4	9.7	1.3	1.2	14.8	6.5
GEM	002340 CH	SELL	6.26	4.00	(36.1)	4,351	66.6	77.6	1.7	1.7	2.6	53.0
Tinci Materials	002709 CH	SELL	31.58	20.00	(36.7)	8,238	22.7	25.8	5.1	4.8	21.9	2.3
Zhongsheng Group	881 HK	SELL	23.00	14.00	(39.1)	7,075	8.8	10.0	1.1	1.0	13.0	38.8
Yadea Group	1585 HK	BUY	15.16	20.00	31.9	5,792	16.4	14.0	5.2	4.2	34.7	(139.1)

Source: Bloomberg, UOB Kay Hian

## UNDERWEIGHT

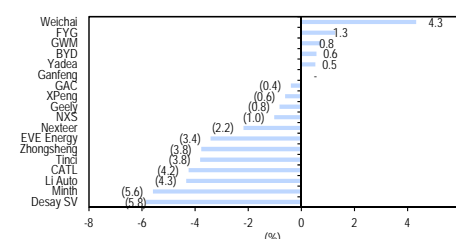
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#### TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
BYD	1211 HK	BUY	247.20	590.00
Li Auto	2015 HK	BUY	154.60	312.00
CATL	300750 CH	BUY	226.51	410.00

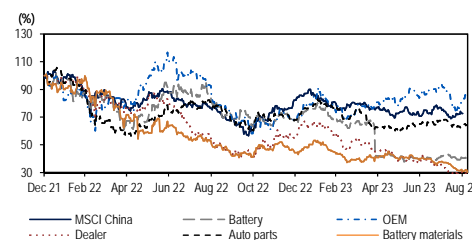
Source: UOB Kay Hian

#### WEEKLY STOCK PERFORMANCE



Source: Bloomberg

#### RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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- **Most carmakers posted positive mom sales growths in August, except Nio, Leapmotor and GWM's EV division.** BYD remained the largest manufacturer of both PVs and EVs with wholesale shipment reaching a record 274,386 units (+57% yoy/+5% mom) in Aug 23 and totalling 1.792m units (+82% yoy) in 8M23, on track to meeting its target of 3m units (+61% yoy). As the second largest EV company in China, Tesla saw a 9% yoy/31% mom growth in deliveries to 84,159 units in August, despite the imminent launch of the revamped Model 3 in September. Aion and Li Auto remained the third- and fourth largest EV makers in China with deliveries staying relatively flat mom at 45,029 units and 34,914 units. Li Auto is facing capacity bottleneck, and deliveries will spike from 4Q23 when capacity bottleneck eases along with the ramp-up of new capacity at its Changzhou Plant. Geely's EV sales grew by 26% yoy/15% mom in August, driven by Zeekr and Galaxy.

- **China reiterates support for EV industry with a target to sell 9m EVs in 2023.** On 1 Sep 23, seven ministries, including the Ministry of Industry and Information Technology (MIIT), issued the Automobile Industry's Stable Growth Work Plan (2023-2024), supporting the expansion of new energy vehicle consumption. The plan aims to achieve an annual automobile sales volume of approximately 27m vehicles (+3% yoy) in 2023, with new energy vehicle sales of around 9m vehicles (+30% yoy). The added value of the automobile manufacturing industry is expected to grow by about 5% yoy. In 2024, the automobile industry is expected to run steadily with further improvements in quality and efficiency.

The seven ministries have introduced measures in seven areas to support the expansion of new energy vehicle consumption. The relevant measures include government procurements and the "EVs Going Rural" campaign involving subsidies for EV purchases and trade-in. We believe these measures, coupled with the progressive rollback of the EV purchase tax exemption, will spur EV sales in 2023-25.

- **BYD is aggressively penetrating into global EV market on all fronts with brand new models.** In the China market, BYD recently cut the price of the entry version of Qin Plus DM-i by Rmb5,000 from Rmb99,800 to Rmb94,800. Additionally, BYD officially launched the Seal DM-i at an event yesterday evening, with a starting price range of Rmb166,800-236,800, Rmb10,000 lower than the pre-sale price range during the Chengdu Auto Show at the end of last month.

According to our channel check, the price cut on Qin Plus DM-i has not only stimulated sales of the model but also drawn foot traffic into its stores, spurring BYD's overall sales. For the B-segment sedan market, we believe Seal DM-i at this price range will be a game changer, as the Qin Plus DM-i disrupts the A-segment sedan market. With better energy efficiency and competitive prices, Seal DM-i will take a chunk of market share from JV-branded mid-sized sedans like GAC Toyota Camry and GAC Honda Accord.

As the largest players, BYD has the unrivalled advantages in technology, scale, cost and financial resources. BYD, for example, maintained an 18.3% gross margin (+4.8ppt yoy) and 4.9% EBIT margin (+1.9ppt yoy) in 1H23 despite the price cuts during the period. We expect BYD to edge out marginal players via cost reduction and price cut over the next 2-3 years. Chairman Wang Chuan Fu recently said BYD will go ahead with the price war in 2023-25. The price cuts have been factored in by our assumed 0.9ppt yoy drop in EBIT margin to 4.1% in 2023, vs 4.9% in 1H23. We keep 2023-25 earnings estimates unchanged.

For the overseas markets, BYD presented the Seal, Song Plus EV, Atto 3 (the overseas version of Yuan Plus), Dolphin, Han, Denza D9 at the Munich Auto Show and made the Seal officially available locally. Additionally, BYD is launching Seal in Southeast Asia, Australia and Japan. Due to the launches of more models in multiple overseas markets, eg Seal and Seagull, BYD's export volume jumped from 10,000-20,000 units in 7M23 to over 25,000 units in Aug 23. BYD targets to grow export volume from 56,000 units in 2022 to over 200,000 units in 2023, vs targeted 2023 total sales volume of 3m units.

- **XPeng may launch the revamped G9 SUV at a cheaper price by 4Q23.** The company recently unveiled the new facelift of its full-sized SUV G9 on social media platforms, and said that the model is already available at stores. Xpeng launched G9 in Sep 22 with a starting price of Rmb309,900. However, the sales of G9 turned out much less than expected, with monthly deliveries plunging from a peak of over 4,000 units in Dec 22 to c. 1,000 units in Feb-Aug 23, well below the company's target of 10,000 units. The P7i launched in Mar 23 also registered less than expected sales. We expect XPeng to slash the prices of G9 and P7i to stimulate sales, further pressuring margins.

## 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

## CHINA PV SALES (AUG 23)

	Aug 23	yoy % chg	mom % chg	8M23	yoy % chg
<b>Wholesale shipment</b>					
EV	805	26.6	9.1	5,091	39.3
ICE-car	1,418	(2.9)	6.8	10,265	(4.6)
Total	2,223	6.0	7.6	15,356	6.5
EV share (%)	36.2	5.9	0.5	33.2	7.8
<b>Retail sales</b>					
EV	698	31.0	8.9	4,427	31.9
ICE-car	1,204	(10.0)	6.2	8,785	(8.5)
Total	1,902	1.7	7.2	13,212	2.0
EV share (%)	36.7	8.2	0.6	33.5	7.6

Source: CPCA

## SALES BY OEM (AUG 23)

	Aug 23	yoy % chg	mom % chg	8M23	yoy % chg
BYD	274,386	56.9	4.7	1,792,184	82.2
Geely	152,626	24.5	10.5	984,805	14.6
- EV	47,299	26.1	15.3	246,202	37.4
- Zeekr	12,303	71.7	2.2	66,975	114.7
- Galaxy	11,117	n.a.	10.5	30,848	n.a.
GWM	114,096	29.3	4.6	742,239	4.7
- EV	26,301	119.8	(9.1)	148,316	71.4
Tesla	84,159	9.3	30.9	624,983	56.3
Aion	45,029	79.9	0.0	256,361	100.0
Li Auto	34,914	663.8	2.3	208,165	176.1
Nio	19,329	81.0	(5.5)	94,352	31.9
Leapmotor	14,190	13.3	(1.0)	72,982	(4.7)
XPeng	13,690	42.9	24.4	66,133	(26.6)
Neta	12,103	(24.4)	20.6	84,559	(9.3)

Source: Respective companies

## GLOBAL EV BATTERY USAGE

		Installation (GWh)		yoy % chg	Market share (%)	
Rank	Company	7M22	7M23		7M22	7M23
1	CATL	86.1	132.9	54.3	35.4	36.6
2	BYD	29.9	58.1	94.1	12.3	16.0
3	LG Energy	33.6	51.4	53.2	13.8	14.2
4	Panasonic	19.2	26.6	38.2	7.9	7.3
5	SK On	16.3	19.0	16.3	6.7	5.2
6	CALB	9.9	16.4	65.4	4.1	4.5
7	Samsung SDI	11.4	15.0	32.0	4.7	4.1
8	EVE Energy	3.2	8.0	150.9	1.3	2.2
9	Gotion	7.0	7.8	10.6	2.9	2.1
10	Sunwoda	3.9	5.4	37.4	1.6	1.5
Others		22.7	22.4	(1.1)	9.3	6.2
Total		243.2	362.9	49.2	100.0	100.0

Source: SNE Research



Chinese power battery companies continued to take market share globally in July.

Global EV battery installation volume totalled 362.9GWh in 7M23, up 49.2% yoy, according to data released yesterday by South Korean market researcher SNE Research. Chinese power battery manufacturers like CATL and BYD have been taking market share in recent years from Korean peers with their brand-new lithium iron-phosphate (LFP) batteries - cell-to-pack (CTP) battery and blade battery. These batteries are increasingly installed in both Chinese-branded EVs and EVs of other brands, eg Tesla, due to their decent energy density, better value for money and margin of safety.

CATL saw a 54.3% growth in installation volume to 132.9GWh in 7M23, outpacing the overall industry, and thus its global market share increased by 1.2ppt yoy to 36.6% in 7M23. CATL's market share gain is driven by overseas market expansion and new products. CATL is rolling out multiple new battery products this year, eg Qilin Battery, Shenxing Battery, M3P Battery, sodium-ion battery (SIB). In addition to exports, CATL is going to produce batteries in overseas plants. CATL will produce Shenxing Battery in Germany and Hungary, a new lithium iron phosphate (LFP)-based battery supporting ultra-fast charging that the Chinese power battery giant announced last month. CATL launched the Shenxing Battery in China on 16 August, saying it can get 400km of range on a 10-minute charge.

BYD's power battery installations in 7M23 amounted to 58.1GWh (+94.1% yoy). BYD ranked second with a 16% market share in 7M23, up from 12.3% in 7M22 and 15.7% in the 1H23. BYD's power battery installation growth is being driven by both in-house EV production and external sales, given the escalating orders from carmakers like Tesla, and demand for energy storage systems (ESS) from renewable energy companies.

ACTIONS

• **Maintain UNDERWEIGHT on China's auto 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 auto 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\$246.00).** 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.

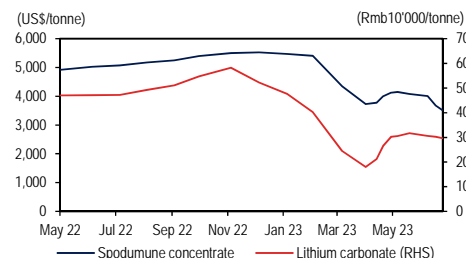
EARNINGS REVISION

Company	Ticker	Reporting Currency	2023	yoy	qoq	UOBKH	Diff	1H23	yoy	UOBKH	Diff	Earnings revision		
			Net profit (m)	chg (%)	chg (%)	estimate (m)		Net profit (m)	chg (%)	estimate (m)		2023F (%)	2024F (%)	2025F (%)
BYD	1211 HK	Rmb	6,824	144.9	65.2	6,800	0.4	10,954	204.7	10,930	0.2	no chg	no chg	no chg
Geely Automobile	175 HK	Rmb	n.a.	n.a.	n.a.	n.a.	n.a.	1,571	1.2	2,600	(39.6)	- 27	- 24	- 23
Great Wall Motors	2333 HK	Rmb	1,187	-70.1	581.3	1,190	(0.3)	1,361	(75.7)	1,364	(0.2)	no chg	no chg	no chg
Guangzhou Auto	2238 HK	Rmb	1,428	(47.9)	(7.1)	1,600	(10.8)	2,966	(48.4)	3,138	(5.5)	- 23	- 17	- 10
Li Auto Inc	2015 HK	Rmb	2,310	n.a.	147.4	1,470	57.1	3,244	n.a.	2,404	34.9	+ 108	+ 60	+ 34
XPeng	9868 HK	Rmb	(2,805)	3.8	20.0	(2,800)	0.2	(5,142)	16.8	(5,137)	0.1	+ 1	+ 5	+ 13
Weichai Power	2338 HK	Rmb	2,043	53.0	10.1	2,000	2.2	3,899	63.4	3,856	1.1	no chg	no chg	no chg
Fuyao Glass	3606 HK	Rmb	1,197	47.6	20.0	1,050	14.0	2,194	21.8	1,965	11.7	- 1.3	- 3.2	- 5.1
Desay SV	002920 CH	Rmb	277	36.2	(16.3)	350	(20.9)	607	16.5	681	(10.9)	- 11	- 18	- 18
Nexteer	1316 HK	US\$	n.a.	n.a.	n.a.	n.a.	n.a.	34	33.6	70	(51.4)	- 30	- 51	- 62
Minth	425 HK	Rmb	n.a.	n.a.	n.a.	n.a.	n.a.	887	34.9	800	10.9	+ 8	+ 9	+ 10
Ningbo Xusheng	603305 CH	Rmb	201	29.9	4.3	250	(19.6)	394	43.4	443	(11.1)	- 16	- 22	- 22
CATL	300750 CH	Rmb	10,895	63.2	10.9	10,000	8.9	20,717	153.6	19,822	4.5	+ 4	+ 20	+ 28
EVE Energy	300014 CH	Rmb	1,011	20.7	(11.3)	1,100	(8.1)	2,151	58.3	2,240	(4.0)	- 11	- 9	- 9
Ganfeng Lithium	1772 HK	Rmb	1,975	(59.9)	(7.7)	2,000	(1.3)	4,113	(48.8)	4,138	(0.6)	- 3	- 1	- 2
GEM	002340 CH	Rmb	72	(76.0)	(17.0)	120	(40.0)	159	(72.2)	292	(45.5)	no chg	no chg	no chg
Tinci Materials	002709 CH	Rmb	594	(57.9)	(14.6)	665	(10.7)	1,288	(55.7)	1,360	(5.3)	- 28	- 30	- 32
Zhongsheng Group	881 HK	Rmb	n.a.	n.a.	n.a.	n.a.	n.a.	3,009	(12.2)	3,000	0.3	- 11	- 19	- 25
Yadea Group	1585 HK	Rmb	n.a.	n.a.	n.a.	n.a.	n.a.	1,188	32.1	1,300	(8.6)	- 15	- 20	- 24

\* We increase our estimates on 2023-25 net loss for XPeng, so that the positive signs in the earnings revision columns are actually considered as earnings downgrades.

Source: Bloomberg, UOB Kay Hian

SPODUMENE CONCENTRATE PRICES VS LITHIUM CARBONATE PRICES



Source: OilChem.net

## SECTOR UPDATE

### Industrial Automation – China

2Q23 Results Wrap-up: Robust Share Gains Offset By Slow Recovery

As foreign brands struggled to destock amid a tough macro environment, domestic automation names maintained the robust momentum in market share gains, with both Inovance and Estun seeing record-high market shares during 2Q23. The market's recovery is slower than expected, but we are starting to see more positive signs, such as a pick-up in demand from cyclical end-markets, and slightly better sentiments from consumer electronic names. Maintain OVERWEIGHT.

#### WHAT'S NEW

- **2Q23 results wrap-up: Domestic names outperformed on share gains; market conditions below expectations.** Names under our coverage delivered results ranging from in-line to below expectations. Shuanghuan Driveline (Shuanghuan) remained the best performer under our coverage with a 47% yoy net profit growth thanks to a much better-than-expected recovery in its commercial vehicle business, although the slowdown in EV gear business in 2Q was worse than our expectations. Inovance reported an in-line 6% yoy net profit growth, driven by strong share gains in general automation business, and a recovery in its EV business. Estun's earnings surged by 2.4x yoy from a low base, but still missed our and market expectations due to a lower-than-expected growth in its core automation business. Han's Laser remained the worst performer under our coverage due to its large exposure to consumer electronics and cyclical with earnings declining 6% yoy to Rmb281m, but still saw a strong 98% qoq recovery by a very low base in 1Q23.
- **Domestic brands registered robust share gains in 2Q23...** Estun continued the trend of robust share gains in 2Q23, with market share expanding to 9% (+2ppt yoy and 1ppt qoq), surpassing Epson, ABB and Yaskawa to become the second largest industrial robot name in China for the first time. Inovance also registered share gains across all key products, with servo/inverter/small-sized programmable logic controllers (PLC) share expanding to 17.5%/24.3%/15.4% (+2.6ppt/2.8ppt/3.5ppt vs 2022) respectively in 1H23.
- **...and foreign brands were the losers again.** Foreign brands were plagued by share loss amid an on-going import substitution trend, a weaker-than-expected recovery, and the subsequent inventory destocking throughout 2Q. For the June quarter, FANUC was among the worst performers due to its exposure to machine tools and robots, and reported a whopping 41% yoy decline in new orders from China. Yaskawa and Omron were much better off thanks to their exposure to upstream components, with Omron reporting a flattish qoq orders growth in China for the i-automation business, and Yaskawa registering a strong 36% yoy and 97% qoq growth in its AC servo motor business primarily thanks to strong order flow from the solar industry. However, Yaskawa's robotics orders from China still registered a sharp 48% yoy decline. ABB's overall orders growth remained strong at +2% yoy thanks to its exposure to process automation, but its global robotics and China orders still registered a 22% and 9% yoy decline respectively during the period.

#### PEER COMPARISON

Company	Ticker	Rec	Price @ 8 Sep 23 (Rmb)	Target Price (Rmb)	Upside/(Downside) to TP (%)	Market Cap (Rmbm)	PE 2023F (x)	2024F (x)	P/B 2023F (x)	2024F (x)	ROE (%)	Net Gearing (Cash) (%)
Inovance	300124 CH	BUY	70.11	82.00	17.0	185,511	38.8	32.7	7.9	6.6	19.2	(23.1)
Estun	002747 CH	BUY	22.60	31.50	39.4	19,585	83.5	61.8	6.5	5.9	8.1	81.9
Shuanghuan Driveline	002472 CH	HOLD	33.29	36.20	8.7	28,393	36.2	27.8	3.5	3.1	10.2	1.2
Han's Laser	002008 CH	HOLD	23.71	25.50	7.5	24,937	24.8	20.0	1.9	1.8	5.6	(23.1)

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

(Maintained)

#### SECTOR PICKS

Company	Ticker	Rec	Share Price (Rmb)	Target Price (Rmb)
Inovance	300124 CH	BUY	70.11	82.00
Estun	002747 CH	BUY	22.60	31.50

Source: UOB Kay Hian

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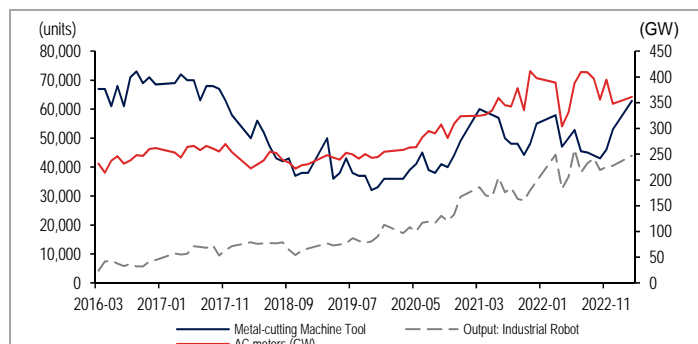
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- **Guidance has turned more cautious for 2H23.** Progress of inventory destocking for foreign brands has been slower than expected, and it may take another quarter before inventory levels return to a more normal level. Demand recovery is also rather weak, as the slowdown in EV/Li-ion battery capex was sharper than we had anticipated at the beginning of the year. Domestic names have mostly kept or revised down their full-year guidances – Inovance and Shuanghuan have mostly kept full-year guidance unchanged, while Estun has a more cautious tone on top-line growth due to ASP competition for the robotics business and a weaker-than-expected growth in its core component business. **Opt Machine Vision** (688686 CH/Not rated), a leading domestic machine vision solutions provider, also revised down its full-year top-line growth guidance from 30% to 10% due to a slowdown in both the EV and semiconductor end-markets. **Leader Drive** (688017 CH/Not rated) was among the worst performers in the A share automation space due to its big exposure to light-payload robots and share loss. Most foreign players have turned cautious on China's recovery due to the lack of solid government stimulus, and they are now guiding for a recovery in the China market in 1H24 (vs previous guidance of end-2023)..
- **Humanoid robot exposure under our coverage.** For our coverage, we believe Shuanghuan has the biggest exposure to humanoid robots, as the company should be cooperating with a key North American client on the development of a new planetary reducer for its humanoid robot product. We believe Inovance has also approached the same client for the cooperation of core components. We note that humanoid robots' actual contribution to top-/bottom lines will remain minimal in the coming 1-2 years. Nevertheless, share prices of key stocks may react strongly to newsflow related to the development of humanoid robots.

#### ACTION

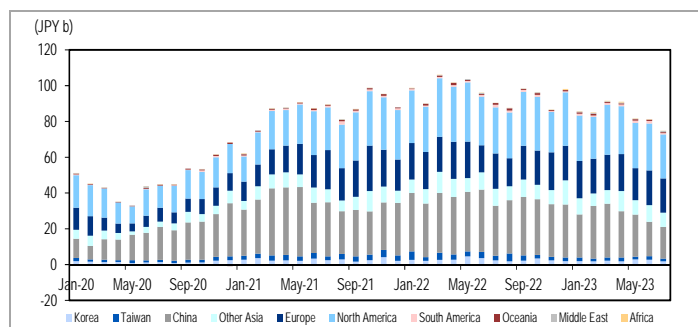
- **Maintain OVERWEIGHT.** Despite a weaker-than-expected recovery, we believe the direction of the overall automation market in China is largely in line with our previous expectations (a slow recovery towards year-end), even though the shipment numbers for industrial robots have been slightly disappointing given the worse-than-expected slowdown in capex in the EV supply chain. As such, we trim our full-year growth estimates for China's industrial robot shipment from +5% to +3% yoy. Our estimates for automation demand remain largely unchanged at -1.4% yoy. Maintain OVERWEIGHT as we expect domestic players to benefit from robust share gains.
- **Inovance (300124 CH/BUY/Target: Rmb82.00).** We believe Inovance as the leader among domestic automation player will benefit the most from the on-going import substitution trend. We also expect Inovance to benefit more from the recovery in broader economy, given their larger exposure to end-markets such as property, semi and consumer electronics. Maintain BUY and keep our target price of Rmb82.00 unchanged, now pegged to 38.3x 2024F PE, on a par with its historical forward mean.
- **Estun (002747 CH/BUY/Target: Rmb31.50).** Despite a worse-than-expected pick-up in industrial robot sales, Estun's share gains have already surpassed our expectations at 9% in 2Q23 (vs our full-year estimates of 8%), primarily driven by its dominance in the solar robotics market. As such, we remain confident in Estun achieving its full-year sales target of >25,000 industrial robots for 2023. From 2024 onwards, growth will be supported by the development of new end-markets and applications, penetration into the automobile value chain, as well as the recovery in consumer electronics as demand growth from solar will likely slow from a high-base. Maintain BUY and keep target price at Rmb31.50, based on 86.1x 2024F PE, which is now based on 0.5SD below historical forward mean.

### SALES VOLUME BASED ON MACHINE TYPES



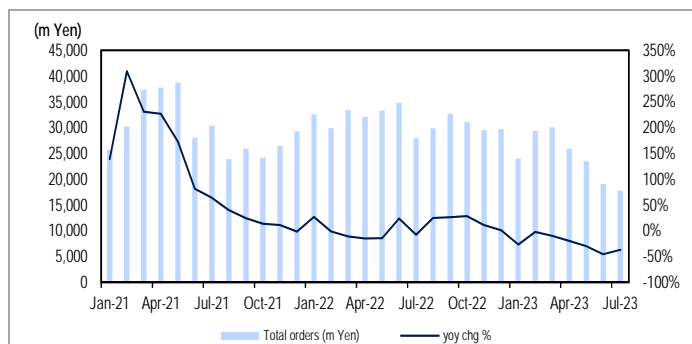
Source: National Bureau of Statistics of China, UOB Kay Hian

### JAPANESE MACHINE TOOLS SALES VOLUME GEOGRAPHICAL BREAKDOWN



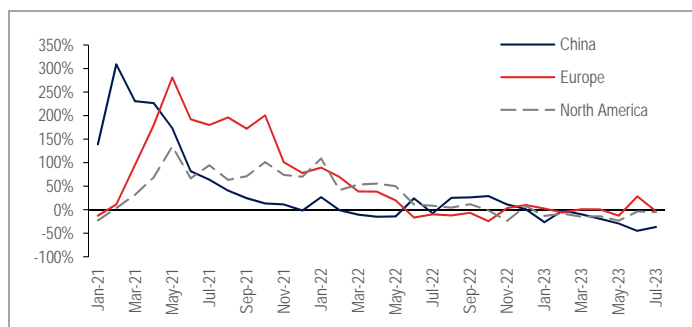
Source: JMTBA, UOB Kay Hian

### JAPANESE MACHINE TOOLS ORDER FROM CHINA



Source: JMTBA, UOB Kay Hian

### JAPANESE MACHINE TOOLS YOY GROWTH BASED ON REGION



Source: JMTBA, UOB Kay Hian



## COMPANY RESULTS

### Cutia Therapeutics (2487 HK)

1H23: Revenue Surges By 5,119% yoy, Stronger Than Expected

Cutia reported robust revenue growth of 5,119.3% yoy to Rmb34.3m in 1H23. The results are significantly higher than the company's previous revenue guidance of about Rmb30m for the full year of 2023. Tapping into the huge and fast-growing broader dermatology treatment and care market in China, Cutia expects to continue to enrich its product offerings and experience strong revenue expansion in the years ahead.

#### 1H23 RESULTS

Year to 31 Dec (Rmbm)	1H22	1H23	yoy % chg
Revenue	0.7	34.3	5,119.3%
Gross profit	0.5	21.3	4,593.2%
Selling expenses	(6.0)	(58.0)	871.1%
G&A	(41.1)	(87.9)	113.7%
R&D	(83.5)	(90.1)	8.0%
Operating profit (EBIT)	(79.2)	(196.4)	148.0%
Finance income (cost), net	2.2	10.3	362.5%
Profit attributed to shareholders	(251.6)	(1,640.3)	551.9%
Adjusted Net Profit	(72.3)	(162.7)	125.1%
Ratios (%)	1H22	1H23	yoy ppt chg
GP margin	68.8%	61.9%	(6.9)
Selling expense	908.2%	169.0%	(739.2)
Admin expense	6,253.3%	256.0%	(5,997.3)
R&D expense	12,684.5%	262.5%	(12,422.0)
EBIT Margin	-12,036.0%	-571.9%	11,464.1
Net margin	-38,239.1%	-4,776.3%	33,462.7
Adj. Net Margin	-10,987.2%	-473.8%	10,513.4

Source: Cutia, UOB Kay Hian

#### RESULTS

- Stronger-than-expected 1H23 results.** Cutia Therapeutics' (Cutia) revenue growth expanded by 5,119.3% yoy to Rmb34.3m in 1H23. Net loss attributable to shareholders increased by 551.9% yoy to Rmb1,640m in 1H23. Adjusted net earnings (excluding the one-off fair value losses on convertible redeemable preferred shares of Rmb1,454.3m and listing expenses of Rmb23.3m) rose 125.1% yoy to Rmb162.7m in 1H23. Top-line was stronger than the company's previously guided full-year revenue of approximately Rmb30m for 2023.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2018	2019	2020	2021	2022
Net turnover	n.a.	n.a.	n.a.	2.0	11.4
EBITDA	n.a.	n.a.	n.a.	(182.5)	(254.5)
Operating profit	n.a.	n.a.	n.a.	(176.5)	(243.5)
Net profit (rep./act.)	n.a.	n.a.	n.a.	(319.6)	(555.8)
Net profit (adj.)	n.a.	n.a.	n.a.	(199.3)	(205.2)
EPS (Fen)	n.a.	n.a.	n.a.	(65.5)	(67.5)
PE (x)	n.a.	n.a.	n.a.	n.m.	n.m.
P/B (x)	n.a.	n.a.	n.a.	n.m.	n.m.
EV/EBITDA (x)	n.a.	n.a.	n.a.	n.m.	n.m.
Dividend yield (%)	n.a.	n.a.	n.a.	0.0	0.0
Net margin (%)	n.a.	n.a.	n.a.	(15,681.1)	(4,890.3)
Net debt/(cash) to equity (%)	n.a.	n.a.	n.a.	25.7	37.4
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	n.a.	25.2	20.2

Source: Cutia Therapeutics, Bloomberg, UOB Kay Hian

## NOT RATED

Share Price	HK\$20.80
Target Price	n.a.
Upside	n.a.

#### COMPANY DESCRIPTION

Cutia Therapeutics is an R&D-driven, dermatology-focused biopharmaceutical company focused on the broader dermatology treatment and care area in China.

#### STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	2487 HK
Shares issued (m):	304.0
Market cap (HK\$m):	6,323.7
Market cap (US\$m):	806.6
3-mth avg daily t'over (US\$m):	n.a.

#### Price Performance (%)

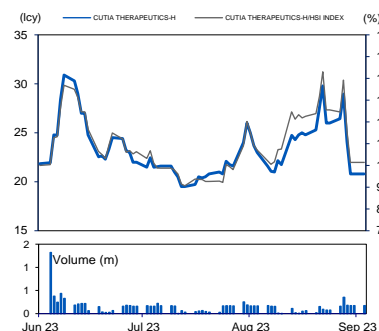
52-week high/low HK\$32.6/HK\$18.2

1mth	3mth	6mth	1yr	YTD
(13.3)	n.a.	n.a.	n.a.	n.a.

#### Major Shareholders

	%
6 Dimensions Entities	49.82
YF Dermatology Limited	13.16

#### PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

- **Robust revenue growth in 1H23.** Revenue was generated from sales of in-licensed and distributed scalp diseases and care products: CU-40102 (topical finasteride spray), CUP-MNDE (Bailleur®米諾地爾噴霧劑, minoxidil spray) and CUP-SFJH (ESTHECIN® hair growth serum), skin diseases and care products (ie CU-10201, topical 4% minocycline foam), certain scalp diseases and care products and certain skin care products in China. Cutia focuses on China's fast-growing broader dermatology treatment and care market.

With a prioritised marketing strategy of developing e-commerce platforms and social media platforms, such as Tmall, JD, Bilibili, Douyin, Zhihu and Xiaohongshu, etc, Cutia has continued to achieve successful commercialisation. During the "6.18 campaign", gross merchandise value (GMV) of its scalp diseases and care products exceeded Rmb9.4m, surging by 4,348% yoy. Sales volume of CUP-MNDE (Bailleur, minoxidil spray) ranked first on both Tmall and JD platforms in the category of cross-border minoxidil single SKU (stock keeping unit). Revenue rose by 5,119.3% yoy from Rmb0.7m in 1H22 to Rmb34.3m in 1H23, which was primarily due to the increase in sales of scalp diseases and care products, and certain skincare products.

- **Three drug production lines commenced production, supporting robust revenue expansion in 2022-25.** The company is constructing its manufacturing capacity and has completed the construction of its three drug production lines (covering topical cream, ointment, aerosol and foam products) in Jiangsu province in Feb 23. These three drug production lines have commenced operation with an annual production capacity of about 5m doses. We believe the production facilities will support the clinical trials and near-term commercialisation plans for Cutia. Together with its well-established marketing strategy, management expects to achieve revenue of over Rmb70m in 2023.

- **R&D progress well on track.** Cutia has established a broad portfolio of nine products and product candidates with significant market potential. It has five clinical-stage and four pre-clinical-stage drug candidates. In 1H23, its R&D progress was well on track:

- a) Cutia has completed a database lock for the phase III trial for CU-40102 in Mainland China. The clinical data shows that CU-40102 can significantly improve total hair count and terminal hair count in targeted bald areas in the 24-week study, reaching primary endpoint and key secondary endpoint with efficacy beginning to show from week 12, with a favourable safety profile. Cutia expects to submit a new drug application (NDA) in 4Q23.
- b) It completed phase I trial for CU-20401 for submental adipose accumulation and is conducting another phase I clinical trial for abdominal adipose accumulation, and expects to initiate a phase II trial on submental adipose accumulation in 3Q23.
- c) The company is also working on phase III trial for CU-10201 for the treatment of moderate to severe acne vulgaris and has completed Phase III primary endpoint read-out in Feb 23. With significant efficacy and a favourable safety profile of CU-10201, the company expects to submit NDA to NMPA in 2024.
- d) It completed patient enrolment for the phase III trial of CU-30101 on localised topical lidocaine and tetracaine in Aug 23 and expects to submit the NDA to NMPA in 2025.

## EARNING REVISION/RISK

- **Risks:** a) Possible failure in R&D, new product launches, and commercialisation; b) obstacles to business expansion and collaboration; c) intensifying competition; and d) changing macroeconomic conditions.

## VALUATION/RECOMMENDATION

- **The company is trading at 7.79x 2023F P/B, according to Bloomberg.**

## STOCK PRICE CATALYSTS

- Strong revenue growth in 2023 and the years ahead.
- Continuous market launch of new products.

## MAJOR NEAR-TERM R&D CATALYSTS

Year	Product	R&D Catalyst	Est. Time Frame
2023	CU-40102 (Androgenic Alopecia)	Phase III primary data readout	4Q2023
		NDA submission to NMPA	4Q2023
	CU-10201 (Acne Vulgaris)	NDA submission to NMPA	4Q2023
	CU-20401 (Adipose Accumulation)	Initiate Phase II trial for submental adipose accumulation	3Q2023
2024	CU-40101 (Androgenic Alopecia)	Complete Phase I trial	4Q2023
	CU-40102 (Androgenic Alopecia)	Market launch	4Q2024
	CU-40103 (Alopecia)	ANDA submission to NMPA	3Q2024
	CU-40104 (Androgenic Alopecia)	IND submission to NMPA	4Q2024
	CU-10101 (Atopic Dermatitis)	IND submission to NMPA	2Q2024
	CU-10201 (Acne Vulgaris)	Market launch	4Q2024
2025+	CU-10401 (Psoriasis)	ANDA submission to NMPA	2026
	CU-30101 (Surface Dermatologic Operations)	NDA submission to NMPA	2025

Source: Cutia, UOB Kay Hian

## PROFIT & LOSS

Year to 31 Dec (Rmbm)	2019	2020	2021	2022
Net turnover	n.a.	n.a.	2.0	11.4
EBITDA	n.a.	n.a.	(182.5)	(254.5)
Deprec. & amort.	n.a.	n.a.	(6.0)	(11.0)
EBIT	n.a.	n.a.	(176.5)	(243.5)
Total other non-operating income	n.a.	n.a.	(142.9)	(310.5)
Net interest income/(expense)	n.a.	n.a.	(0.2)	(1.9)
Pre-tax profit	n.a.	n.a.	(319.6)	(555.8)
Tax	n.a.	n.a.	0.0	0.0
Minorities	n.a.	n.a.	0.0	0.0
Net profit	n.a.	n.a.	(319.6)	(555.8)
Net profit (adj.)	n.a.	n.a.	(199.3)	(205.2)

## BALANCE SHEET

Year to 31 Dec (Rmbm)	2019	2020	2021	2022
Fixed assets	n.a.	n.a.	26.2	179.4
Other LT assets	n.a.	n.a.	66.9	122.0
Cash/ST investment	n.a.	n.a.	203.1	465.9
Other current assets	n.a.	n.a.	1,198.6	679.6
<b>Total assets</b>	<b>n.a.</b>	<b>n.a.</b>	<b>1,494.9</b>	<b>1,446.8</b>
ST debt	n.a.	n.a.	0.0	0.0
Other current liabilities	n.a.	n.a.	19.3	77.4
LT debt	n.a.	n.a.	0.0	0.0
Other LT liabilities	n.a.	n.a.	2,266.1	2,615.7
Shareholders' equity	n.a.	n.a.	(790.5)	(1,246.3)
Minority interest	n.a.	n.a.	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>n.a.</b>	<b>n.a.</b>	<b>1,494.9</b>	<b>1,446.8</b>

## CASH FLOW

Year to 31 Dec (Rmbm)	2019	2020	2021	2022
<b>Operating</b>	<b>n.a.</b>	<b>n.a.</b>	<b>(159.9)</b>	<b>(236.2)</b>
Pre-tax profit	n.a.	n.a.	(319.6)	(555.8)
Tax	n.a.	n.a.	0.0	0.0
Deprec. & amort.	n.a.	n.a.	5.8	10.8
Working capital changes	n.a.	n.a.	(29.5)	(21.1)
Other operating cashflows	n.a.	n.a.	183.4	330.0
<b>Investing</b>	<b>n.a.</b>	<b>n.a.</b>	<b>(410.7)</b>	<b>462.1</b>
Capex (growth)	n.a.	n.a.	(16.6)	(163.9)
Investments	n.a.	n.a.	(272.1)	369.7
Proceeds from sale of assets	n.a.	n.a.	1.5	6.5
Others	n.a.	n.a.	(123.5)	249.9
<b>Financing</b>	<b>n.a.</b>	<b>n.a.</b>	<b>480.8</b>	<b>(10.2)</b>
Dividend payments	n.a.	n.a.	0.0	0.0
Issue of shares	n.a.	n.a.	0.0	0.0
Proceeds from borrowings	n.a.	n.a.	0.0	0.0
Loan repayment	n.a.	n.a.	484.0	0.0
Others/interest paid	n.a.	n.a.	(3.2)	(10.2)
<b>Net cash inflow (outflow)</b>	<b>n.a.</b>	<b>n.a.</b>	<b>(89.8)</b>	<b>215.6</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>n.a.</b>	<b>n.a.</b>	<b>300.2</b>	<b>203.1</b>
Changes due to forex impact	n.a.	n.a.	(7.3)	47.1
<b>Ending cash &amp; cash equivalent</b>	<b>n.a.</b>	<b>n.a.</b>	<b>203.1</b>	<b>465.9</b>

## KEY METRICS

Year to 31 Dec (%)	2019	2020	2021	2022
<b>Profitability</b>				
EBITDA margin	n.a.	n.a.	(8,953.6)	(2,238.8)
Pre-tax margin	n.a.	n.a.	(15,681.1)	(4,890.3)
Adjusted net margin	n.a.	n.a.	(15,681.1)	(4,890.3)
ROA	n.a.	n.a.	n.a.	n.a.
ROE	n.a.	n.a.	25.2	20.2
<b>Growth</b>				
Turnover	n.a.	n.a.	n.a.	457.7
EBITDA	n.a.	n.a.	(4.2)	39.5
Pre-tax profit	n.a.	n.a.	59.8	73.9
Net profit	n.a.	n.a.	204.0	73.9
Net profit (adj.)	n.a.	n.a.	89.5	3.0
EPS	n.a.	n.a.	n.a.	n.a.
<b>Leverage</b>				
Debt to total capital	n.a.	n.a.	0.0	0.0
Debt to equity	n.a.	n.a.	0.0	0.0
Net debt/(cash) to equity	n.a.	n.a.	25.7	37.4
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

## COMPANY RESULTS

### Sun Hung Kai Properties (16 HK)

FY23: Hong Kong DP Results Below Expectations; Being More Prudent In 2024

FY23 underlying profit declined by 16.9% yoy, dragged by the lower-than-expected contribution from Hong Kong property development (DP). Annual DPS of HK\$4.95/share (flat yoy). Contracted sales are satisfactory thanks to balanced product mix. Excluding exchange rate impact, retail portfolio in Hong Kong and mainland is resilient. SHKP targets HK\$33b sales in Hong Kong and below 20% gearing. DPS payout ratio will be normalised to 40-50%. Maintain BUY. Target price: HK\$112.64.

#### FY23 RESULTS

Year to 30 Jun (HK\$m)	FY23	FY22	yoy	vs consensus	vs UOBKH forecast
Revenue	71,195	77,747	-8.4%	-13.3%	-12.7%
EBIT	29,023	34,595	-16.1%		
Attributable Net profit	23,907	25,560	-6.5%		
IP revaluation (net of tax)	-593	-2,619			
Underlying profit	23,885	28,729	-16.9%	-13.5%	-18.0%
EPS (HK\$)	8.25	9.91	-16.8%		
DPS (HK\$)	4.95	4.95	0.0%		
<b>Profit by segment:</b>					
HK DP	8,474	14,832	-42.9%		
PRC DP	2,825	1,015	178.3%		
HK IP	13,249	13,207	0.3%		
PRC IP	4,648	5,515	-15.7%		
Singapore IP	564	528	6.8%		
Hotel	161	-429	137.5%		
Other businesses	4,768	4,342	9.8%		

Source: SHKP, UOB Kay Hian

#### RESULTS

- **Underlying profit below market expectation; stable DPS.** Sun Hung Kai Properties' (SHKP) FY23 underlying profit (excluding fair value changes on investment properties) declined by 16.9% yoy to HK\$23.885b, below our and market expectations, mainly dragged by a 42.9% yoy fall in segmental profit from Hong Kong property development. Final DPS is maintained at HK\$ 3.70/share, bring annual DPS to HK\$4.95/share, flat yoy. Its balance sheet remained strong with net gearing ratio slightly increasing to 18.2% as of Jun 23 from 17.4% as of Jun 22.

#### KEY FINANCIALS

Year to 30 Jun (HK\$m)	2022	2023	2024F	2025F	2026F
Net turnover	77,747.0	71,195.0	79,388.6	85,597.7	87,285.2
EBITDA	38,804.2	33,259.3	36,770.6	39,571.8	37,117.4
Operating profit	33,362.0	27,545.0	30,770.6	33,271.8	37,117.4
Net profit (rep./act.)	25,560.0	23,907.0	25,477.0	26,575.4	29,563.4
Net profit (adj.)	28,729.0	23,907.0	25,477.0	26,575.4	29,563.4
EPS (HK\$ cent)	991.4	825.0	879.2	917.1	1,020.2
PE (x)	8.9	10.7	10.0	9.6	8.7
P/B (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	9.5	11.1	10.1	9.4	10.0
Dividend yield (%)	5.6	5.6	5.0	5.2	5.8
Net margin (%)	32.9	33.6	32.1	31.0	33.9
Net debt/(cash) to equity (%)	17.4	18.2	18.6	19.9	25.0
Interest cover (x)	22.2	13.3	13.9	13.5	11.6
ROE (%)	4.3	4.0	4.2	4.3	4.7
Consensus net profit	-	-	30,173	32,043	-
UOBKH/Consensus (x)	-	-	0.84	0.83	-

Source: Sun Hung Kai Properties, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$88.30
Target Price	HK\$112.64
Upside	+27.6%
(Previous TP)	HK\$128.73)

#### COMPANY DESCRIPTION

Sun Hung Kai Properties, through its subsidiaries, develops and invests in properties. The company also operates hotels, manages properties, car parking, and transportation infrastructure. In addition, Sun Hung Kai operates logistics business, construction.

#### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	16 HK
Shares issued (m):	2,897.8
Market cap (HK\$m):	255,874.0
Market cap (US\$m):	32,639.5
3-mth avg daily t'over (US\$m):	31.6

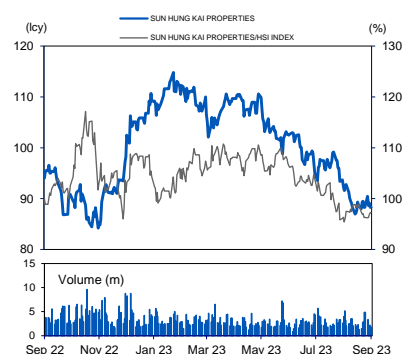
#### Price Performance (%)

52-week high/low		HK\$114.80/HK\$84.20		
1mth	3mth	6mth	1yr	YTD
(5.8)	(14.0)	(19.7)	(5.7)	(17.3)

#### Major Shareholders

	%
The Kwok Family	42.1
-	-
-	-
FY24 NAV/Share (HK\$)	212.20
FY24 Net Debt/Share (HK\$)	39.37

#### PRICE CHART



Source: Bloomberg

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- **Completing 95%/90% of sales target in Hong Kong/Mainland China.** SHKP achieved HK\$33.4b in attributable contracted sales in FY23, of which: a) 20% were derived from sales of completed inventory, and b) 68% were contributed by newly-launched mass market projects, namely Novoland and University Hill. Attributable contracted sales on the Mainland amounted to HK\$4.5b (vs target of HK\$5b), mainly contributed by Hangzhou IFC (residential portion).
- **Resilient performance of Hong Kong investment properties.** Gross rental income of shopping centres increased by 2.2% yoy to HK\$9,055m in FY23 (-0.9%yoy in 1HFY23; +5.5% in 2HFY23), supported by continued improvement in 1H23. Gross rental income of offices dropped by 1.6% yoy to HK\$6,213m, mainly dragged by negative rental reversion. Average occupancy of retail and office portfolio stayed at approximately 95% and 92% respectively.
- **Rental income of mainland portfolio decreased by 11.1% yoy.** RMB depreciation (-8%) and rental relief to retail tenants are major draggers. Excluding rental relief, rental income from the retail portfolio was almost flat yoy, while income from offices dropped by 2% yoy in RMB terms.

#### STOCK IMPACT

- **Being more prudent in 2024.** SHKP targets HK\$33b/HK\$5b attributable contracted sales in Hong Kong/Mainland China in 2024. Management will focus on financial safety in 2024: a) keeping net gearing below 20% and selling non-core assets, b) dividend payout ratio will normalise to 40-50% on underlying profit going forward, and c) will strictly control capital expenditure.
- **Growing IP portfolio to drive growth in the medium term.** In Hong Kong, West Kowloon commercial cluster, ie High Speed Rail West Kowloon Terminus Development and Artist Square Towers Project, is scheduled to complete in 2026 and will enlarge Hong Kong's IP portfolio by approximately 10%. In Mainland China, the three International Trade City (ITC) projects in Shanghai are scheduled to open in phases from 2025, and will expand its China IP portfolio by over 30%. The leasing requiring of West Kowloon and ITC is satisfactory, welcomed by top multinational firms for highest green grade.

#### EARNINGS REVISION/RISK

- **Lower earnings forecast.** We lower our FY24/25 earnings forecast by 16.8%/17.5% respectively to factor in a more conservative assumption of inventory sales. We also introduce earnings forecast for FY26.

#### VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK\$112.64 (from HK\$128.73 previously),** based on a 45% discount (from 37.5%) to NAV of HK\$205.90/share. The widening NAV discount reflects weak buyers' sentiment and tighter overall financing conditions. Note that normalised dividend policy may lead to violability of DPS in FY24, but we expect the enlarged IP portfolio to support DPS growth since FY25. We think SHKP will outperform the market in property sales and investment, thanks to: a) abundant land bank (5-6 years' sales), b) balanced product mix, and c) strong brand name and relationship with top tenants. SHKP remains our top pick in the Hong Kong property sector.

#### SHARE PRICE CATALYST

- Mainland government removes price cap on luxury residential projects in Tier 1 cities.
- Hong Kong removes special stamp duty on property purchase for non-permanent-resident buyers.
- Share purchase by the Kwok family.

#### SALABLE RESOURCES FOR NEXT NINE MONTHS – HONG KONG

Project	Stake	Total. Res. GFA (sq.ft)
Cullinan Sky Phase 1, Kai Tak	100%	571,000
Cullinan Harbour Phase 1, Kai Tak	100%	380,000
YOHU WEST, Yuen Long	JV	706,000
Yoho Hub Phase 2	JV	627,000
233 Prince Edward Road West	58%	42,000

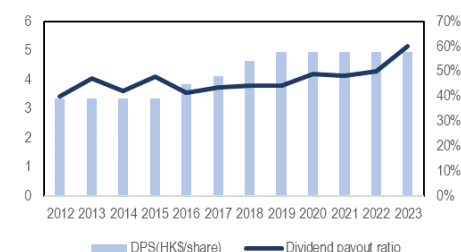
Source: SHKP, UOB Kay Hian

#### SALABLE RESOURCES FOR NEX 9 MONTHS – MAINLAND CHINA

Project	Stake	Attri. Res. GFA
Shanghai Arch Phase 3	100%	438,000
Hangzhou IFC	JV	115,000
Oriental Bund	50%	350,000

Source: SHKP, UOB Kay Hian

#### SHKP DIVIDEND PAYOUT RATIO HISTORY



Source: SHKP, UOB Kay Hian



## PROFIT & LOSS

Year to 30 Jun (HK\$m)	2023	2024F	2025F	2026F
Net turnover	71,195.0	79,388.6	85,597.7	87,285.2
EBITDA	33,259.3	36,770.6	39,571.8	37,117.4
Deprec. & amort.	5,714.3	6,000.0	6,300.0	0.0
EBIT	27,545.0	30,770.6	33,271.8	37,117.4
Total other non-operating income	(593.0)	0.0	0.0	0.0
Associate contributions	4,069.0	3,688.9	2,966.6	3,073.9
Net interest income/(expense)	(2,499.0)	(2,653.1)	(2,923.8)	(3,194.3)
<b>Pre-tax profit</b>	<b>28,522.0</b>	<b>31,806.5</b>	<b>33,314.7</b>	<b>36,997.0</b>
Tax	(3,947.0)	(5,623.5)	(6,069.6)	(6,784.6)
Minorities	(668.0)	(706.0)	(669.7)	(649.0)
<b>Net profit</b>	<b>23,907.0</b>	<b>25,477.0</b>	<b>26,575.4</b>	<b>29,563.4</b>
Net profit (adj.)	23,907.0	25,477.0	26,575.4	29,563.4

## CASH FLOW

Year to 30 Jun (HK\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>28,387.3</b>	<b>14,422.1</b>	<b>15,328.1</b>	<b>17,252.6</b>
Pre-tax profit	27,545.0	30,770.6	33,271.8	37,117.4
Tax	(3,947.0)	(5,623.5)	(6,069.6)	(6,784.6)
Deprec. & amort.	5,714.3	6,000.0	6,300.0	6,615.0
Working capital changes	775.0	(14,606.6)	(15,633.3)	(16,732.0)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(1,700.0)	(2,118.3)	(2,540.9)	(2,963.2)
<b>Investing</b>	<b>(12,223.3)</b>	<b>(12,388.9)</b>	<b>(12,808.3)</b>	<b>(13,248.7)</b>
Capex (growth)	(13,350.3)	(12,358.4)	(12,776.3)	(13,215.1)
Investments	1,127.0	(30.5)	(32.0)	(33.6)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>Financing</b>	<b>(14,222.0)</b>	<b>(860.5)</b>	<b>(1,287.7)</b>	<b>(2,781.7)</b>
Dividend payments	(14,344.0)	(12,738.5)	(13,287.7)	(14,781.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	122.0	11,878.0	12,000.0	12,000.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>1,942.0</b>	<b>1,172.8</b>	<b>1,232.0</b>	<b>1,222.2</b>
<b>Beginning cash &amp; cash</b>	<b>19,751.0</b>	<b>21,693.0</b>	<b>22,865.8</b>	<b>24,097.8</b>
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>21,693.0</b>	<b>22,865.8</b>	<b>24,097.8</b>	<b>25,320.0</b>

## BALANCE SHEET

Year to 30 Jun (HK\$m)	2023	2024F	2025F	2026F
Fixed assets	450,727.0	457,085.4	463,561.7	470,161.9
Other LT assets	112,481.0	114,633.8	116,834.9	119,085.7
Cash/ST investment	15,280.0	22,865.8	24,097.8	0.0
Other current assets	227,503.0	242,348.2	258,232.0	296,110.0
<b>Total assets</b>	<b>805,991.0</b>	<b>836,933.2</b>	<b>862,726.5</b>	<b>885,357.6</b>
ST debt	7,508.0	21,857.0	27,857.0	33,857.0
Other current liabilities	45,906.0	51,525.7	51,361.6	46,562.0
LT debt	117,545.0	115,074.0	121,074.0	127,074.0
Other LT liabilities	28,236.0	28,236.0	28,236.0	28,236.0
Shareholders' equity	602,055.0	614,793.5	628,081.2	642,862.9
Minority interest	4,741.0	5,447.0	6,116.7	6,765.7
<b>Total liabilities &amp; equity</b>	<b>805,991.0</b>	<b>836,933.2</b>	<b>862,726.5</b>	<b>885,357.6</b>

## KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	46.7	46.3	46.2	42.5
Pre-tax margin	40.1	40.1	38.9	42.4
Net margin	33.6	32.1	31.0	33.9
ROA	3.0	3.1	3.1	3.4
ROE	4.0	4.2	4.3	4.7
<b>Growth</b>				
Turnover	(8.4)	11.5	7.8	2.0
EBITDA	(14.3)	10.6	7.6	(6.2)
Pre-tax profit	(10.3)	11.5	4.7	11.1
Net profit	(6.5)	6.6	4.3	11.2
Net profit (adj.)	(16.8)	6.6	4.3	11.2
EPS	(16.8)	6.6	4.3	11.2
<b>Leverage</b>				
Debt to total capital	17.1	18.1	19.0	19.9
Debt to equity	20.8	22.3	23.7	25.0
Net debt/(cash) to equity	18.2	18.6	19.9	25.0
Interest cover (x)	13.3	13.9	13.5	11.6

## HANG SENG INDEX AND HANG SENG TECH INDEX OUTLOOK

### WEEKLY CHART



### Hang Seng Index

Last Close: 18,202.07

Expected moving range: 17,600 – 19,000

#### Technical View:

Weekly chart: The Hang Seng Index fluctuated within the downtrend channel and closed with black candles for two consecutive weeks. The index started last week with a high, but then dropped to a low for the rest of the week. It ended the week near the weekly low, with a high of 18,899 and a low of 18,173, with a range of 726 points. Key resistance level is around 19,000.

Daily chart: Last week, the index closed below major averages again, including the 10-day (light blue), 20-day (orange), 50-day (red), 200-day (purple) and 250-day (pink) moving averages, with the 20-day and 50-day moving averages heading downwards. The 14-day RSI is now below the mid-50s level at around 43, which is relatively weak. The MACD indicator, which is the MACD line, is higher than the signal line, showing a bullish signal. The VStop signal is green, showing a preliminary bullish signal. There is no clear direction at this moment as the directions of the indicators are not consistent. Major resistance at 19,000 and 18,000 is a critical point.

### DAILY CHART



## WEEKLY CHART



Chart by TradingView

## DAILY CHART



Chart by TradingView

## Hang Seng Tech Index

Last Close: 4,091.65

Expected moving range: 3,800 – 4,360

### Technical View:

Weekly chart: The Hang Seng Tech Index fluctuated within a sideways zone (green box) for most of last week, moving higher and then lower. It closed near the weekly low, with a high of 4,309 and a low of 4,082; the range is 227 points. The major resistance level is around 4,360.

Daily chart: Last week, the index closed below 10-day (light blue), 20-day (orange), 50-day (red) and 200-day (purple) moving averages, with 20-day moving average is heading down. The 14-day RSI is below the mid-50s level at around 45, which is relatively weak. The MACD indicator, MACD line and signal line are flat. The VStop signal is green, showing a preliminary bullish signal. There is no clear direction at this moment as the directions of the indicators are not consistent. The major resistance at 4,360, while 4,000 is the key level.

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