STRATEGY – CHINA

Alpha Picks: November Conviction Calls

Chinese equities should remain volatile in November as we see hopes of easing pandemic control measures playing out against a backdrop of falling global dollar liquidity. We add a combination of defensive plays and beneficiaries of reopening. We add CR Beer, CSPC, Meituan, PICC P&C, and WuXi AppTec to our BUY list; and add MicroPort Scientific to our SELL list.

WHAT'S NEW

- **Review of October.** The MSCI China and HSI dropped 16.8% and 14.7% respectively in October, contrary to our expectations of a possible rally. Tighter global dollar liquidity and no immediate announcement of any easing of pandemic restrictions by the government have dampened market sentiment. Shenzhen Inovance (300124 CH/BUY) was the best performer among our stock picks, having increased 17.4% in Oct 22.
- **For November,** Chinese equities are likely to stay volatile. Investors have been cheered by market talk of the government looking into easing the pandemic prevention measures. However, the near-term upside could be capped by the ongoing reduction in global dollar liquidity. Investors should stay nimble, and we are keeping both BUY and SELL calls on our list.

ACTION

- **Add CR Beer (291 HK) to our BUY list** as we expect material costs to continue declining, while the drop in marketing expenditure and the push of up-market will contribute more to earnings growth.
- **Add CSPC (1093 HK) to our BUY list,** new products will be launched in the short term and accelerate on company's pace of business development.
- **Add Meituan (3690 HK) to our BUY list** as it sees continued market share expansion in the food delivery segment, with an increase in penetration rate in the fresh groceries segment.
- **Add MicroPort Scientific (853 HK) to our SELL list** as ongoing COVID-19 outbreaks and the weakening global economic conditions to dampen its growth.
- **Add PICC P&C (2328 HK) to our BUY list** as it continues to benefit from increased underwriting profitability amid ongoing stringent COVID-19 restrictions.
- **Add WuXi AppTec (2359 HK) to our BUY list** as we expect strong demand for CRDMO services with new project numbers to increase.
- **CR Land (1109 HK), Kweichow Moutai (600519 CH), LINK REIT (823 HK) and Mindray (300760 CH), Pinduoduo (PDD US) are on our BUY list but we recommend that investors cut losses on these five companies.**
- **Take profit on Shenzhen Inovance (300124 CH), as well as Ganfeng Lithium (1772 HK) which is on our SELL list.**
- **Maintain BUY on CATL (300750 CH), CTGDF (601888 CH), SHKP (0016 HK) and Trip.com (9961 HK).**
- **Maintain SELL on Sinopharm (1099 HK) and Tinci Materials (002709 CH).**

KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
CATL	BUY	386.20	640.00	65.7
CR Beer	BUY	40.80	73.00	78.9
CSPC	BUY	8.80	10.00	13.6
CTGDF	BUY	176.40	223.00	26.4
Meituan	BUY	139.60	225.00	61.2
MicroPort Scientific	SELL	17.10	11.50	-32.7
PICC P&C	BUY	7.41	11.38	53.6
SHKP	BUY	85.90	123.53	43.9
Sinopharm	SELL	15.24	12.00	-21.3
Tinci Materials	SELL	44.26	31.00	-30.0
Trip.com	BUY	193.90	305.00	57.3
WuXi AppTec	BUY	68.80	90.00	30.8

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Oct 22 (%)	To-Date* (%)
CATL	BUY	-3.7	-3.7
CR Land	BUY	-23.7	-18.1
CTGDF	BUY	-11.0	-11.8
Ganfeng Lithium	SELL	2.4	-16.9
Kweichow Moutai	BUY	-21.9	-22.4
LINK REIT	BUY	-14.5	-14.5
Mindray	BUY	9.0	-15.5
Pinduoduo	BUY	-17.1	-17.1
Shenzhen Inovance	BUY	17.4	17.4
SHKP	BUY	-4.9	-4.9
Sinopharm	SELL	-2.7	-12.5
Tinci Materials	SELL	-15.8	-15.8
Trip.com	BUY	0.5	-14.2
Hang Seng Index		-14.7	

**Share price change since stock was selected as alpha pick*
Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	2020	2021	1Q22	2Q22	3Q22
HSI return	-3.4	-14.1	-6.0	-0.6	-21.2
Alpha Picks Return					
- Price-weighted	12.0	-2.4	-8.7	1.5	-5.7
- Market cap-weighted	10.5	-3.6	-7.9	3.1	-8.8
- Equal-weighted	4.7	-1.5	-8.8	0.6	-2.5

Assumptions for the 3 methodologies:
1) *Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.*
2) *Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.*
3) *Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.*

Source: UOB Kay Hian

ANALYST(S)

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

VALUATION OF ANALYSTS' ALPHA PICKS

Company	Ticker	Rec	Price 1 Nov 22 (lcy)	Target Price (lcy)	Last Year End	PE 2022F (x)	PE 2023F (x)	PE 2024F (x)	Yield 2022F (%)	ROE 2022F (%)	Market Cap. (LC$m)	Price/ NTA ps (x)
BUY												
CATL	300750 CH	BUY	386.20	640.00	Dec 21	36.4	25.9	18.7	0.3	18.7	942,563	6.3
CR Beer	291 HK	BUY	40.80	73.00	Dec-21	26.6	21.8	17.9	1.5	17.0	132,362	n.a
CSPC	1093 HK	BUY	8.80	10.00	Dec-21	16.0	14.0	12.5	1.9	28.1	105,012	3.7
CTGDF	601888 CH	BUY	176.40	223.00	Dec-21	53.5	27.9	21.0	0.5	20.8	362,067	n.a.
Meituan	3690 HK	BUY	139.60	225.00	Dec-21	n.a.	73.6	31.3	0	-17.1	859,019	5.8
PICC P&C	2328 HK	BUY	7.41	11.38	Dec-21	0.72	0.67	0.67	8.1	14.3	164,818.9	0.72
SHKP	0016 HK	BUY	85.90	123.53	Jun-22	8.7	8.0	7.7	5.8	4.3	248,919.3	0.42
Trip.com	9961 HK	BUY	193.90	305.00	Dec-21	111.6	24.4	15.6	0	-2.4	123,538	1.0
WuXi AppTec	2359 HK	BUY	68.80	90.00	Dec-21	20.9	16.5	13.2	1.4	28.5	25,478	4.3
SELL												
MicroPort Scientific	853 HK	SELL	17.10	11.50	Dec 21	n.a	n.a	n.a	0.3	n.a	31,135	5.8
Sinopharm	1099 HK	SELL	15.24	12.00	Dec 21	5.6	5.3	5.0	5.5	13.0	47,559	0.9
Tinci Materials	002709 CH	SELL	44.26	31.00	Dec 21	7.9	10.5	11.3	2.5	56.1	42,482	3.7

Source: Bloomberg, UOB Kay Hian

ESSENTIALS

CATL – BUY (Ken Lee/Yuting Guo)

- CATL's earnings have started to recover since 2Q22 due to the hike in battery prices. In the longer term, we expect EV battery sales volume to grow at 60% CAGR from 116.7GWh in 2021 to 480GWh in 2024, driven by: a) strong demand from Tesla and other EV companies, and b) the debut of new battery products. CATL will launch Qilin battery – the third generation of cell-to-pack (CTP) battery with energy density of 255Wh/kg (vs 190Wh/kg of current generation) in 2023. Additionally, we expect energy storage system (ESS) battery sales volume to grow at 73% CAGR from 16.7GWh in 2021 to 86GWh in 2024.
- Maintain BUY with a target price of Rmb640.00 based on 10-year DCF (WACC: 10%/2024-31 FCF growth: 25%/terminal growth: 4%).

SHARE PRICE CATALYST

- **Event:** Growth in monthly EV battery shipments; signing battery supply contracts with global OEMs.
- **Timeline:** Nov-Dec 22.

CR Beer – BUY (Shen Zhifeng/Ng Jo Yee/Jiang Xin)

- As the packaging materials costs have continued to decline in the past few months, we expect more contribution from the easing of materials costs pressure in 4Q22. Also, we expect the up-market push and the savings in marketing expenditures to also contribute to CR Beer's earnings growth. In 3Q22, its total shipments grew by mid-single-digits yoy with about 30% growth for its Heineken portfolio. It is trading at about 20x 2023F PE, which we are not pessimistic about given: a) the expectation of >20% earnings CAGR by 2024; and b) its acquisition of Jinsha, a sauce aromatic baijiu company, will enhance its earnings in the future.
- Maintain BUY with a target price of HK$73.00.

SHARE PRICE CATALYST

- **Event:** Declining material costs; savings in marketing expenditure; continuous up-market push.
- **Timeline:** 4Q22.

CSPC - BUY (Carol Dou/Sunny Chen)

- CSPC reported stronger-than-expected 1H22 results despite the impact of the COVID-19 outbreak in 2Q22, and expects steady revenue and earnings growth in 2H22.

- Supported by the company's superior sales and marketing capabilities, management is confident that NBP will continue to generate revenue growth in 2022 and 2023. CSPC also sees no threat of potential generic competition for NBP in the next two years. Meanwhile, the company saw its newly-launched innovative products (Duvelisib, Duoenda, Mingfule, Anfulike, etc.) become new growth drivers, which are expected to bring in significant revenue contribution from 2023.
- Pursuing EUA for its COVID-19 mRNA vaccine by end-22, CSPC also expects to launch about eight innovative products in 2023. Moreover, CSPC has accelerated its pace of BD in an effort to further enrich its innovative R&D pipeline and enhance its global reach by collaborating with international partners.
- The company guides double-digit revenue growth for 2022. We expect CSPC to report satisfactory 2022 results, with 10% yoy increases in revenue and earnings.
- Maintain BUY and target price of HK$10.00, based on: a) HK$5.50/share or 9x 2023F PE for existing drugs, and b) NAV-derived pipeline value of HK$4.50/share (WACC: 11.0%, perpetual growth rate: 3.5%).

SHARE PRICE CATALYST

- Event: **a) Satisfactory results for 2022, b) smooth R&D and new product launches, ie mRNA COVID-19 vaccine, c) smooth BD progress, d) attractive valuation.**
- Timeline: **2H22.**

CTGDF – BUY (Shen Zhifeng/Ng Jo Yee/Jiang Xin)

- We believe the market is focusing more on the company's performance in 2023 and thereafter. Although there are still uncertainties on the duty-free sales performance in 4Q22 and 2023 given currently the slower-than-expected traffic flow recovery, we reckon that its share price is not very likely to drop below its bottom level seen in Apr 22. This is because the market is still upbeat on the strong growth potential of China's duty-free market in the next few years. The opening of Haikou International Duty-free Mall should help in boosting CTGDF's sales performance in 4Q22.
- Maintain BUY with a target price of Rmb223.00.

SHARE PRICE CATALYST

- **Event:** Recovery of traffic flow in Hainan; the opening of Haikou International Duty-free mall.
- **Timeline:** 4Q22.

Meituan – BUY (Julia Pan/Soong Ming San)

- Consumption data during the Golden Week released by Meituan shows that local consumption accounted for 77.4%, which became the key driver in stimulating domestic tourism recovery. Average daily local consumption (ie food delivery, movie ticketing, etc.) increased by 52% as compared with pre-pandemic levels.
- For 3Q22, Meituan guided that food delivery daily order volume in the first three weeks of Aug 22 recovered to 20% yoy growth, with peak daily volume at 60m, accelerating from low-teens growth yoy in July, vs 4.8% in 2Q22.
- Management has seen solid recovery momentum since June for particular in-store segment, which recovered better than hotel and travel.
- Management expects a smaller operating loss margin qoq with improved user engagement from Meituan Grocery and Meituan Select.
- We forecast 2023 revenue and adjusted net profit to grow by 27% and 3.6% yoy respectively. Meituan is currently trading at 5.1x 12-month forward EV sales,1SD below its historical mean.

- We maintain BUY with a target price of HK$225.00.

SHARE PRICE CATALYST

- **Event:** a) Continued market share expansion in the food delivery segment, b) increase in penetration rate in the fresh groceries segment, and c) increase in synergies with core businesses and new initiatives.
- **Timeline:** 2H22.

MicroPort Scientific – SELL (Carol Dou/Sunny Chen)

- MicroPort reported slower-than-expected revenue growth in 1H22. Excluding the forex impact, revenue would have grown 10.1% yoy in 1H22. MicroPort has guided revenue growth of over 20% yoy for 2022, while we believe that the potential COVID-19 outbreaks and weakening global economic condition could cloud its growth outlook for the next few years. We forecast the reported 2022 revenue growth to remain modest at about 8% yoy.
- Meanwhile, MicroPort's R&D expense/revenue ratio is expected to remain at approximately 40% in 2022. MicroPort expects to become a one-stop medical solutions provider by gradually expanding its presence in an increasing number of new therapeutic areas. Management indicates that the company is unlikely to achieve cash flow breakeven in the next two years.
- Maintain SELL and target price of HK$11.50, based on SOTP, by applying: a) 8x 2023F PE to the company's cardio-cerebral vascular (CCV)/endovascular stent segment at HK$2.00/share, b) DCF-based valuation of HK$2.76/share for the orthopaedic business, c) HK$2.55/share for pacemakers, d) HK$1.16/share for TAVI, and e) HK$3.03/share for the surgical robot business.

SHARE PRICE CATALYST

- **Event:** a) 1H22 results coming in below expectation, b) potential COVID-19 outbreaks and weakening global economic condition could cloud its growth outlook for the next few years, c) unlikely to turn profitable in the next two years.
- **Timeline:** 2H22.

PICC P&C – BUY (Sabrina Soh)

- PICC's 9M22 results came as a surprise, with net profit and CoR improving by 29.8% yoy and 1.2ppt yoy respectively. We attribute the better-than-expected results to: a) higher underwriting profit. Strict COVID-19 restrictions reduced road transport activities and accidents and thus resulted in a decline in auto insurance claims, b) adjustment of high-paying businesses. The construction of a risk R&D centre and a catastrophe risk reduction platform play a role in risk and loss reduction and disaster prevention. Management guided that the proportion of total compensation as of end-Sep 22 had decreased by 35% yoy, and c) fewer natural catastrophes this year. China's direct economic loss from natural disasters was reduced by 51% yoy in 3Q22.
- Although the pandemic has affected new-car sales in China, we deem the impact not significant as 17% of PICC's total insurance premiums are premiums for new automobiles, while 63% (+14% yoy) and 20% (+7.1% yoy)are renewal and reinsurance premiums. Also, the government has gradually implemented policies to stimulate the sluggish auto sales, and with the reopening of Shanghai on Jul-Aug 22, PICC's new-car insurance premiums growth had narrowed from -22% yoy in 1H22 to -11.9% yoy in 9M22. Overall, we believe that PICC is set for better growth despite the difficult situation in China.
- Maintain BUY with a target price of HK$11.38.

SHARE PRICE CATALYST

- **Event:** As there are no signs of COVID-19 restrictions being relaxed over the next three months, we continue to favour P&C over life insurance as P&C insurers are likely to benefit from increased underwriting profitability amid the ongoing stringent COVID-19 restrictions.

- **Timeline:** 2H22.

SHKP- BUY (Jieqi Liu/Damon Shen)

- Both China's and Hong Kong's economies are facing downward pressure. However, the Hong Kong government's policies to attract talents and ease COVID-restrictions will help support the property and retail market of Hong Kong. SHKP has over 50% of profit contributed by property rental, and is better positioned in mass market of property sales; thus we expect the company to be more resilient to ab economic downturn. In FY22, 38%/33.9% of the profit was contributed by property sales/property rental in Hong Kong and 2.6%/14.1% of the profit was contributed by property sales/property rental in China respectively. Management's commitment to maintain a high dividend payout ratio of 40-50% provides downside protection.
- Maintain BUY and target price of HK$123.53, based on a 40% discount to NAV of HK$205.90/share.

SHARE PRICE CATALYST

- **Event:** a) the Hong Kong government further easing COVID-19 restriction measures; b) the Kwok family increasing its shareholding.
- **Timeline:** 4Q22-1Q23.

Sinopharm – SELL (Carol Dou/Sunny Chen)

- Sinopharm's 9M22 earnings growth is weaker than our full-year estimates. Management has put in continued efforts to improve operating efficiency. However, we believe that COVID-19 outbreaks in China could disrupt supply chain and negatively impact the revenue growth of the company in the next few months. The continuous expansion of GPO programmes covering an increasing number of drugs and medical consumables could also depress profit margins in the next few years.
- Meanwhile, Sinopharm's accounts receivables surged by 34.6% as at end-Sep 22 vs end-Dec 21. It also recorded increased AR days and net cash used in operating activities in 9M22 vs 9M21. We note the significant increase in accounts receivables has also led to a surge in credit impairment losses in 9M22. According to management, the industry still faces increasing financial pressure and tightening cash flow. We believe this could continue to weaken the company's earnings growth outlook in the next few years.
- Maintain SELL and target price to HK$12.00, based on 4.1x 2023F PE, or 0.8x PEG.

SHARE PRICE CATALYST

- **Event:** a) 9M22 earnings growth coming in below expectation, b) facing continued financial pressure and tightening cash flow, c) continuous impact from the GPO programmes and potential COVID-19 outbreaks in China.
- **Timeline:** 2H22.

Tinci Materials – SELL (Ken Lee/Yuting Guo)

- We expect Tinci's earnings to be dragged by the prospective drop in electrolyte prices since 2H22 amid the emerging oversupplies. Since 180,000 tonnes per annum (tpa) in new $LiPF_6$ capacity will come on-stream in 2H22-23, the industry-wide capacity utilisation rate of electrolytes will probably drop from a peak of over 100% in 2021 to below 80%/70%/60% in 2022/23/24.
- We expect net profit to drop from Rmb5.394b in 2022 to Rmb4.065b/Rmb3.753b in 2023/24 respectively based on 2022-24 electrolyte ASP of Rmb78,000/tonne, Rmb47,000/tonne and Rmb37,500/tonne.
- Maintain SELL and target price of Rmb31.00 is based on 10-year DCF model (WACC: 11.5%; long-term electrolyte ASP: Rmb37,500/tonne; terminal growth: 4%).

SHARE PRICE CATALYST

- **Event:** Drop in electrolyte prices; 4Q22 earnings.
- **Timeline:** 1Q23

Trip.com – BUY (Julia Pan/Soong Ming San)

- Trip.com is our top pick in the OTA sector due to its higher exposure to international business, which saw positive recovery as compared to domestic tourism. The commendable 2Q22 result were anchored by solid recovery from overseas market as international ticketing revenue saw a 100% yoy growth, with its global brand Trip.com's air-ticketing reservation coming in 300% above pre-COVID19 levels in 2Q22.
- There were no obvious signs of recovery for domestic travel during the Golden Week as lingering uncertainties of China's Zero-Covid policy still persist. Amid challenging macro environment, the company saw positive contribution from short-haul travel which accounts for 65% of its total bookings, while tourists per capita increased by 30% yoy due to strong pent up demand.
- Management has guided for 3Q22 revenue to rebound to Rmb6.6b, up 23% yoy, which implies a 37% decline vs 3Q19. The company guided gross margin at 79-80% due to a change in business mix, which is above our expectations. Non-GAAP operating margin is guided at 15%, while 3Q22 EBITDA is expected to come in at Rmb1.1b-1.2b as domestic travel rebounded strongly in the summer while international travel continues to recover.
- We maintain BUY on the company with a target price of HK$305.00 (US$37.00) implies 4.2x 2023F EV/sales, vs its historical mean of 6.7x.

SHARE PRICE CATALYST

- **Event:** Relaxation of lockdown measures in China, continued penetration of OTA platforms into domestic offline and lower-tier cities travel market, implementation of travel bubbles and easing of overseas travel restrictions.
- **Timeline:** 2H22.

WuXi AppTec – BUY (Carol Dou/Sunny Chen)

- WuXi AppTec released outstanding 3Q22 results with revenue and adjusted net profit growing 77.8% yoy and 81.9% yoy respectively. The robust revenue growth was mainly due to a large COVID-19-related commercial project. Excluding the single large COVID-19 project, its WuXi Chemistry business remained strong, growing 38.3% yoy in 9M22.
- The company has raised its 2022 revenue growth guidance from 68-72% yoy to 70-72% yoy and maintains its estimate of 34% revenue CAGR in 2021-24 unchanged, based on the increasing backlogs and strong demand for CRDMO (contract research, development, and manufacturing organisation) service across all segments.
- It cancelled the previously proposed H share issuance given its ample cash flow generated from its steady strong business operation. It also continues to expand operating capacity globally. The estimated total capex of Rmb9b-10b in 2022 remains unchanged (vs Rmb6.9b in 2021). Of this amount, 60-70% will be used to expand global manufacturing capacity while the remaining will be used for the expansion of research labs.
- Maintain BUY and target price of HK$90.00 (603259 CH/BUY/Target: Rmb81.00), based on 21x 2023F PE, or 1.0x PEG.

SHARE PRICE CATALYST

- **Event:** a) Robust 9M22 results and highly achievable revenue growth target of 70-72% yoy for 2022, b) strong demand for CRDMO services as evidenced by the increasing number of new projects.
- **Timeline:** 2H22.

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