

Huatai Research

28 March 2018

Strategy | China

Huatai Best Ideas – April 2018

Launch of monthly product – Huatai Best Ideas

We initiate our monthly product “Huatai Best Ideas” that aims to provide our near-term market view and to offer Huatai sector analysts’ best trading ideas for the month. We expect short-term market volatility to continue into April, but upcoming revival of economic activity and attractive valuation after the panic selling of the past few weeks could support the H-share market edging higher. The top recommended stocks from our sector analysts for April are China National Building Materials, Tencent, CSA, Li Ning, Chow Tai Fook, Anton Oilfield Services, Brilliance China, and China Longyuan.

Near-term market volatility likely to continue

We highlight four key risks that could extend market volatility in the near term. They are: 1) concerns on more aggressive interest rate increase and tighter liquidity; 2) a strong RMB coupled with market volatility; 3) HKD weakness; and 4) fears of a trade war (as detailed in our [2Q outlook](#)). With the US Federal Reserve announcing a 25bp interest rate hike on 21 March, and the PBoC following suit by lifting repo rate by 5bp and HKMA raising the base rate by 25bp, short-term overhang seems lower on this front. Meanwhile, Sino-US trade tension has become a more prominent tail risk recently (for overall market and sector by sector implications, see [Sino-US trade conflict: where to look for resilience](#)). Nonetheless, after a spate of panic selling in the market, and with economic activity likely starting to recover in April, we think the index could edge higher. Amid market turbulence, we like companies that have resilient growth prospects or that have low valuation and improving fundamentals.

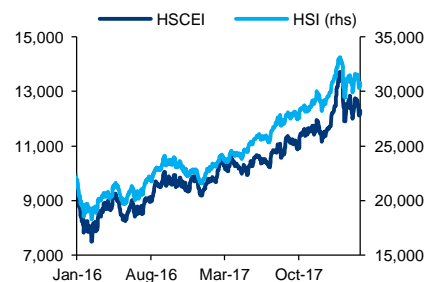
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Huatai Best Ideas

Company	Code	TP (HKD)	Rating
CNBM	3323 HK	11.30	BUY
Tencent	700 HK	498.50	BUY
CSA	1055 HK	11.20	BUY
Li Ning	2331 HK	9.90	BUY
Chow Tai Fook	1929 HK	10.60	BUY
Anton Oil	3337 HK	1.60	BUY
BCA	1114 HK	23.50	BUY
China Longyuan	916 HK	7.50	BUY

Source: Huatai HK Research estimates

Index



Source: Huatai HK Research estimates

Recommendation rationales

China National Building Materials (3323 HK): 1) on-track demand recovery coupled with normal inventory level support a near-term cement price hike, on top of already high profitability; 2) stable 2018E supply-demand outlook; profitability to stay at record-high level; 3) more potential synergies upon completion of CNBM-Sinoma merger (expected in May); 4) pressure on gearing ratio to ease, relieving market concerns; and 5) low valuation, with 2018E PE at 5.6x.

Tencent Holdings Ltd (700 HK): 1) certain and high earnings growth boosted by its gaming and digital media businesses; 2) further monetization potential in cloud, payment and advertising businesses; and 3) comprehensive online entertainment and social networking ecosystem lay foundation for long-term growth.

CSA (1055 HK): the greatest beneficiary of the industry upcycle supported by tightening supply and airfare deregulation.

Li Ning (2331 HK): 1) margin expansion due to enhanced efficiency; and 2) accelerating topline growth.

Chow Tai Fook (1929 HK): 1) we expect good performance in HK due to recovering retail sentiment, increasing numbers of PRC visitors, and RMB appreciation; 2) operating leverage in HK; and 3) better-than-expected expansion of Chow Tai Fook's business in China.

Anton Oilfield Services (3337 HK): 1) currently trading at 0.7x 2018E PB, lower than its historical average PB of 1.3x; 2) after buying back its 40% stake in its Iraq subsidiary, we expect Anton to fully benefit from the growing local market, where large order intake is expected in 2018; 3) the China market could be another unintended driver as we expect PetroChina/Sinopec to boost their 2018 upstream gas spending significantly to tackle the widespread gas shortage problem in north China; and 4) with its debt burden loosened and balance sheet risk reduced in late 2017 (we expect net gearing to decline to 70% in 2018 vs 109% in 2016), we think Anton is likely to shift its focus from pursuing debt refinancing to business growth and market expansion.

Brilliance China Automotive (1114 HK): 1) beneficiary of consumption upgrade and rising demand for premium autos; 2) strong new-model cycle and predictable earnings growth in 2018E-2020E; 3) attractive valuation; and 4) debut of BMW X3 at Beijing Auto Show in late April should be a major catalyst.

China Longyuan (916 HK): 1) the utilization hours for wind power in China will continue to rise in 2018, driven by lower curtailment rate; we expect Longyuan's utilization hours to reach 2,180 hours in 2018 and have already seen its wind power generation grow by 33.0% yoy in 2M18; and 2) downside risks from higher interest rates, and direct power sales dragging down ASP, are already priced in.

Fig.1. Huatai Best Ideas: April 2018

Ticker	Name	Industry Group	Rating	Total mkt cap (USDmn)	Price (HKD)	Target price (HKD)	2018E PE (x)	2018E EPS growth (%)	2018E PB (x)	2018E ROE (%)	2017E div yield (%)
3323 HK	CNBM	Materials	BUY	5,669	8.24	11.30	5.6	95.9	0.7	13.3	2.4
700 HK	Tencent Holdings	Software & Services	BUY	523,184	432.20	498.50	40.3	14.4	10.7	30.0	-
1055 HK	CSA	Transportation	BUY	14,762	8.57	11.20	6.9	64.5	1.2	18.3	1.4
2331 HK	Li Ning	Consumer Drbls & Appl	BUY	2,255	8.12	9.90	21.9	40.3	2.8	13.6	-
1929 HK	Chow Tai Fook	Retailing	BUY	11,341	8.90	10.60	19.2	18.4	2.5	13.6	3.5
3337 HK	Anton Oilfield Services	Energy	BUY	319	0.94	1.60	14.0	141.7	0.7	5.7	-
1114 HK	Brilliance China Auto	Auto & Components	BUY	11,573	18.00	23.50	8.5	78.4	2.2	28.3	1.5
916 HK	China Longyuan	Utilities	BUY	6,247	6.10	7.50	8.9	19.2	0.8	9.5	1.9

Note: data as at 27 March 2018 close

Source: FactSet, Huatai HK Research estimates

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