

Huatai Research

27 April 2018

Strategy | China

Huatai Best Ideas – May 2018

Market has yet to recover from weak sentiment

As at 27 April, the China/HK market registered small positive returns for the month, with the HSI and HSCEI edging up 0.62% and 0.57%, respectively. Among the four risks we highlighted in our [2Q outlook](#), concerns over rapid overseas interest rate rises and trade conflicts have become more threatening in the past few days. In addition, since late March, southbound fund flows turned to net sell, with rotation into defensive sectors (see [1Q mainland investor allocation review](#)). Overseas fund flows so far remain supportive, as indicated by resilient inflows into emerging market equities in April. We think a strong market rebound may not come in the near term, but we don't see a high probability of a massive sell-off either, because the market could be supported by sectors/companies with resilient growth, as proven by the strong positive price reaction of select companies after achieving solid 1Q results. We recommend sticking to companies and sectors with resilient earnings and that are less sensitive to rising overseas interest rates. Huatai Best Ideas for May are China National Building Materials, Anton Oilfield Services, TravelSky, CSA, Tencent, GWM, CSPC Pharma, Livzon, Chow Tai Fook, and Luk Fook.

Risks to our view

1) A sharp rise in US 10-year treasury bond yield and USD strengthening could reverse inflows from developed markets to emerging markets; and 2) evolution of the Sino-US trade conflict could dampen risk appetite and derail the global economic recovery.

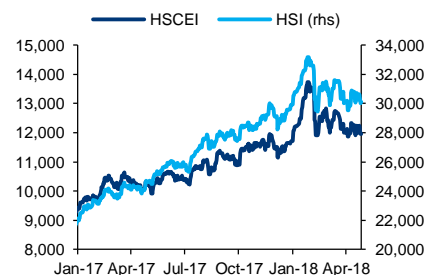
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Huatai Best Ideas

Company	Code	TP (HKD)	Rating
CNBM	3323 HK	11.30	BUY
Anton Oil	3337 HK	1.80	BUY
TravelSky	696 HK	27.20	BUY
CSA	1055 HK	11.20	BUY
Tencent	700 HK	498.50	BUY
GWM	2333 HK	11.00	BUY
CSPC	1093 HK	23.80	BUY
Livzon	1513 HK	78.60	BUY
Chow Tai Fook	1929 HK	10.60	BUY
Luk Fook	590 HK	35.00	BUY

Source: Huatai HK Research

Index Price Performance



Source: Huatai HK Research estimates

Recommendation rationales

China National Building Materials (3323 HK): 1) on-track demand recovery coupled with normal inventory level supports 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.

Anton Oilfield Services (3337 HK): 1) signed a milestone contract with Iraq National Oil Company by providing integrated field management services with per annum value of c. USD100mn, supporting revenue growth in 2018E-2020E; and 2) Sichuan shale gas market expected to boom in 2018, which should support Anton's China revenue.

TravelSky (696 HK): 1) natural monopoly worldwide; 2) robust air travel demand and airport expansion driving high growth; 3) three catalysts ahead: IDC, next-gen system and Umetrip monetization; and 4) unique names in both A and H markets, quite attractive to southbound investors.

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

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 laying foundation for long-term growth.

Great Wall Motors (2333 HK): overall profitability has recovered due to: 1) procurement cost reduction by leveraging bargaining power; 2) capitalization of around 50% of R&D expense; and 3) ramp-up of new models with higher margins.

CSPC Pharmaceutical Group (1093 HK): we see over 30% NP growth in 2018, given: 1) NBP reported 35% yoy revenue growth in 2017, and we expect over 35% yoy growth in 2018, given expansion of injection on National Reimbursement Drug List (NRDL) implementation; and penetration of capsules in prefecture-level cities; 2) oncology segment reported sales growth of 73% in 2017, and we expect this figure to double in 2018E, given sales team expansion and new approval of albumin bound paclitaxel; and 3) decent R&D pipeline, with at least two new molecular entities (NME) slated for launch in the next 2-3 years.

Livzon Pharma (1513 HK): we predict over 20% net profit growth in 2018, motivated by: 1) fueling up of ilaprazole (accelerated sales of tablets under NRDL implementation, and injections filing in nine provinces), and we see over 80% growth in 2018; 2) a sales boom in antiviral granules, spurred by nationwide influenza; and 3) potential blockbusters in 'MAb+microsphere' platform to emerge in 2019-2020.

Chow Tai Fook (1929 HK): recovering local retail sentiment, increasing PRC visitors and better operating leverage.

Luk Fook (590 HK): recovering local retail sentiment, with higher revenue contribution from HK/Macau market.

Fig.1. Huatai Best Ideas: May 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 (%)	2018E div yield (%)
3323 HK	CNBM	Materials	BUY	5,959	8.87	11.30	6.1	95.9	0.8	13.3	4.3
3337 HK	Anton Oilfield Services	Energy	BUY	353	1.08	1.80	15.0	158.5	0.9	6.2	2.0
696 HK	TravelSky	Software	BUY	8,260	22.45	27.20	19.0	24.1	3.0	17.0	1.6
1055 HK	CSA	Transport	BUY	14,473	8.08	11.20	6.6	64.5	1.1	18.3	2.5
700 HK	Tencent Holdings	Software	BUY	462,878	388.40	498.50	36.5	14.4	9.7	30.0	-
2333 HK	Great Wall Motor	Auto	BUY	13,582	8.17	11.00	7.2	66.5	1.1	16.0	4.2
1093.HK	CSPC Pharma	Healthcare	BUY	16,191	20.35	23.80	33.4	33.5	6.7	22.1	0.9
1513.HK	Livzon Pharma	Healthcare	BUY	5,208	57.75	78.60	21.7	(73.2)	2.4	10.1	1.1
1929 HK	Chow Tai Fook	Retailing	BUY	13,101	10.10	10.60	21.8	18.4	2.9	13.6	2.8
590 HK	Luk Fook	Retailing	BUY	2,507	33.35	35.00	16.0	12.1	2.0	12.8	3.3

Note: data as at 27 April market close

Source: Factset, Huatai HK Research estimates

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