

Huatai Research

27 June 2018

Strategy | China

Huatai Best Ideas – July 2018

Remain cautious in short term; opportunities await in 2H

The HK market extended its losses in June, with HSI/HSCEI off 6.9/9.2% month to date. We warned of worsening liquidity condition at [end-April](#) and [19 June](#). The market has witnessed strong outflows from emerging markets and continuous capital withdrawal from southbound investors since then. We do not see a strong buying signal now because in the short term, this trend and sluggish risk appetite will not reverse. Nonetheless, we think the market is likely to recover as we enter the interim results season in August, when valuations become more attractive against the backdrop of growth quality improvement (see [where we are now vs historical troughs of valuations](#)). For 2H18, we see opportunities within broad consumption areas, banks, energy, internet leaders and select bottom-up picks in sectors with large valuation correction (see [2H strategy outlook](#)).

RMB devaluation adding to the market chaos

Amid a weak USD, we analyzed market implications of forex fluctuation and potential winners and losers (see [our note published on 2 Feb](#)). With USD regaining strength and RMB weakening, the impact on the HK market has reversed, ie, RMB assets' valuation attractiveness has been undermined. Potential beneficiaries of weak RMB include: 1) export-oriented companies; 2) marine transportation sector; and 3) companies with high exposure to USD-denominated assets. By contrast, airlines and property companies are the most prominent victims due to their large USD-denominated obligations. HK local retailers may also get hurt because of less attractive prices of goods and potential slowdown in growth of mainland travelers.

Huatai Best Ideas for July 2018

The bottom-up recommendations from Huatai sector analysts for July are Tencent, Weibo, Pacific Basin Shipping, Yanzhou Coal, CSPC Pharma and Brilliance China.

Risks to our view

1) Worse-than-expected interim results further rattle the market; and 2) continued credit default outbreak events spill over across mid and small companies and amplify domestic liquidity concerns.

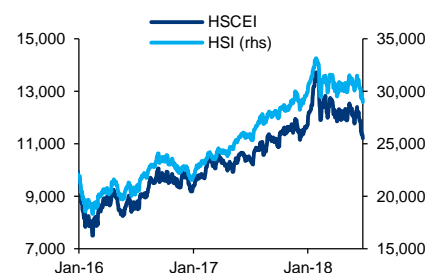
Cheng LV Strategist	+86 21 2897 2057 lvcheng@htsc.com
Zhixuan LIN Analyst	+86 21 2897 2090 zhixuan.lin@htsc.com
Bruce WANG Analyst	+86 21 2897 2099 bruce.wang@htsc.com
Wen DAI Analyst	+86 21 2897 2078 daiwen@htsc.com
Saiyi HE Analyst	+852 3658 6236 hesaiyi@htsc.com
Xiaofeng SHEN Analyst	+86 21 2897 2088 shenxiaofeng@htsc.com
Lisa LIN Analyst	+86 21 2897 2209 linshan@htsc.com

Huatai Best Ideas

Company	Code	TP (HKD)	Rating
Tencent	700 HK	498.50	BUY
Weibo	WB US	149.10	BUY
Pacific Basin	2343 HK	2.50	BUY
Yanzhou Coal	1171 HK	17.00	BUY
CSPC Pharma	1093 HK	29.00	BUY
BCA	1114 HK	25.00	BUY

Source: Huatai HK Research estimates

Index Price Performance



Source: Bloomberg, Huatai HK Research

Recommendation rationales

Tencent Holdings Ltd (700 HK): 1) high revenue growth supported by its mobile games, advertising and new business (cloud and payment related business); 2) comprehensive online entertainment and social networking ecosystem lay foundation for long-term growth; and 3) we believe Tencent still has high operating leverage to support new business growth and to continue to deliver margin expansions.

Weibo (WB US): 1) Weibo is becoming an agile partner in China's new media marketing industry, with a platform that can enhance the effectiveness of brand advertising and event promotions; 2) its comprehensive content and promotional channels should ensure high user engagement levels and support its commercialization potential; and 3) market concerns about user growth looks overdone; current valuation of 0.6x FY18 PEG looks attractive

Pacific Basin Shipping (1313 HK): 1) rising shipping rates starting from July driven by the peak season; 2) industry upcycle in 2018-2020 supported by tighter supply; and 3) strong earnings improvement of the company this year (2017: breakeven).

Yanzhou Coal Mining (1171 HK): 1) coal price to strengthen in the July-August consumption peak season and remain elevated in 2H18 given limited new capacity release and stringent environmental and safety inspections; 2) Yanzhou Coal stands out among industry peers given its larger presence in oversea market, lower exposure to contract volume and more favorable product structure; and 3) Yanzhou Coal's current low valuation of 4.4x 2018E PE.

CSPC Pharmaceutical Group (1093 HK): we look into over 40% NP growth in 2018E, given: 1) NBP's further penetration in prefecture-level cities and Xuanning's accelerated academic promotion; 2) oncology segment is expected to double sales in 2018E, given sales team expansion and albumin bound paclitaxel's sales boom (RMB200-300mn sales in 2018E); and 3) decent R&D pipeline, with Xuanning and Amphotericin B to submit NDA in 2018, clopidogrel slated for launch in 3Q18, and potential collaboration for PD-1 (as a combination with albumin bound paclitaxel).

Brilliance China Automotive (1114 HK): 1) major beneficiary of consumption upgrade and boom in premium brands in the China market; 2) high visibility of sales growth in 2018E-2019E based on strong model cycle; and 3) new BMW X3 to be domestically produced and launched in June, which will strongly drive up sales and margin.

Fig.1. Huatai Best Ideas: June 2018

Ticker	Name	Industry Group	Rating	Total mkt		Target			2018E	2018E	
				cap	Price	price	2018E	2018E EPS	2018E	ROE	2018E
				(USDmn)	(HKD)	(HKD)	PE (x)	growth (%)	PB (x)	(%)	div yield (%)
700 HK	Tencent Holdings Ltd	Software & Services	BUY	467,477	377.40	498.50	36.7	14.4	9.7	30.0	-
WB US	Weibo	Software & Services	BUY	20,549	92.27	149.10	35.8	59.3	12.0	40.1	-
2343 HK	Pacific Basin Shipping	Transportation	BUY	1,214	2.05	2.50	10.8	2631.6	0.9	8.3	-
1171 HK	Yanzhou Coal Mining	Energy	BUY	8,627	9.54	17.00	3.9	36.4	0.7	19.6	-
1093 HK	CSPC Pharma	Pharmaceuticals, Biotechnology	BUY	18,735	22.30	29.00	36.0	35.8	7.2	22.2	0.9
1114 HK	Brilliance China Automotive	Automobiles & Components	BUY	8,834	13.28	25.00	7.2	77.3	1.7	26.2	3.3

Note: data as at 27 June market close

Source: FactSet, Huatai HK Research estimates

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Unit 5808-12, 58/F, The Center, 99 Queens Road Central, Central, HONG KONG

Tel: +852 3658 6000

Fax: +852 2169 0770

Email: research@htsc.com

<http://www.htsc.com.hk/>