

Hong Kong | INVESTNOTES REPORTS REVIEW

Industry:

Mainland financial, Utilities (Xingyu Chen), Mainland Telecom (Fanguohe), Mainland property, Oil and gas service (Chengeng), Air, Automobiles, Infrastructure (ZhangJing), New energy & Environmental Goods (Zhang Kun)

Mainland Financial (Xingyu Chen)

The market was adjusted largely in Dec, HSI once decreased to 22,500, and was rebounded at the level of 23,500 by the end of this month. Investors' investment strategy still trended to be conservative because of Christmas and New Year Holiday in Dec, and financial sectors such as the banking and securities sectors were popular.

According to the banks' performance, banks were better than that of HSI, two key points: one is the market appeared to be cautious when the holidays came by the end of the year, and due to the uncertainty of the market, investors still preferred to large cap blue chips like banks, because their operating model was transparent, with the stable profit growth, and lower risks, in line with our previous expectation. The other is most banks' prices increased significantly by the end of this month benefited from the policy support. In Dec, ABC was the first domestic listed company to issue the preferred stocks in the market. It issued 400 million shares at the face value of RMB100/share, with the total amount of RMB40 billion, and the dividend yield of 6.00%. The raised fund will be used for increasing ABC's tier-1 capital. Meanwhile, CCB also announced the plan of the issuance of the preferred stocks. It will issue no more than 600 million domestic preferred stocks at the face value of RMB100/share, with the amount of RMB60 billion in total to increase the bank's capital. Currently, four stated-owned banks and CMBC had announced the plan of the issuance of preferred stocks. The issuance of preferred stocks will be useful for increasing the banks' capital effectively, and supporting the businesses with the large capital consumption such as loans, therefore we expect there are more banks will announce the plan of the issuance of preferred stocks in future.

According to share prices, as at the end of 30 Dec, domestic banks' prices grew 11.6% approximately in average, while HSI only increased by 0.6%. Joint-stock commercial banks had the stronger performance, the prices of both CMBC and CMB increased by over 20%, around 23.7% and 22.5% respectively. State-owned banks' prices grew between 7% and 13%, and the city commercial banks recorded the weaker performance, HSB only increased by 3.6% approximately during the period, the lowest among the peers, but was still better than HSI obviously.

In all, the banks' current performance meet our expectation, and therefore we still hold the cautiously optimistic view on the banks' prices in future. Maintain the banking sector on Buy rating.

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Mainland Telecom (Fan guohe)

It is expected that 4G users in China would be more than 90 million in 2014, among which the users of China Mobile would hold 90%. In November, newly added 4G users of China Mobile increased rapidly, reaching as many as 16.78 million only in that month. Under the competitive edge of 4G, the company regained its advantage with newly added 4G users accounting for 63% of the market. Meanwhile, there was an obvious decrease in monthly newly added uses of China Unicom and China Telecom. However, Ministry of Industry and Information Technology declared that when conditions permitted in 2015, LTE-FDD License would be researched and issued. That is to say the FDD License could not be issued in the short run. The issuing time would be slightly later than market expectation.

We think that although national FDD License would be issued later than expectation, with rapid expansion of 4G, it is maybe indicated that 4G consumption era would come earlier. Next year, 4G users may be more than 300 million, reaching the level of 3G popularized for 3 years. Then, flow operation, big data and cloud computing may become the major trend within the industry.

However, recent market performance of communication industry has been encumbered by the weak market and scarcity of catalyst. But after this retracement, the industry as a whole would be more attractive in terms of valuation. Besides, under the circumstance of information security, telecommunication equipment domestication becomes a tendency. It is predicted that market shares of ZTE and Huawei will keep growing. With the addition of price competition below market expectation, their performance could still maintain high growth. Furthermore, based on rapid promotion of the networking of 4G, demand for network optimization will start. It is suggested to positively focus on Comba Telecom and other leading manufacturers. Meanwhile, thanks to new technique adoption and overseas application expansion of mobile terminal, we are also optimistic to Tongda Group, TCL Communication, etc.

Mainland Property & Oil/Gas service (Chen geng)

In December, 2014 I wrote four research reports on Poly, CSCI, Color Life and BBMG, which got success by unique operation model. We recommend "CSCI". The endogenous growth of CSCI benefits from the robust new orders and adequate uncompleted contract amount, while the assets injection from the parent company helps increase the assets scale and improve the profit level, which serves as an extension guarantee of growth. We expect that CSCI' EPS in the next two years will keep more than 35%. We maintain "Buy" rating to CSCI, with the 12-month TP at HKD 15.8, corresponding to 17x and 15x forward P/E in 2014 and 2015.

Automobile & Air (ZhangJing)

In October, most passenger-vehicle stocks underperformed with the HSI index, except some outperformed HSI like GWM (2333.HK), which we recommended just last month. While most commercial-vehicle stocks outperformed the HSI index, such as sinotruk (3808.HK) and weichai (2338.HK).

This month we updated 3 equity reports and a sector report: Daqin (601006.CH), Weichai (2338.HK), and Baoxin (1293.HK). We prefer Daqin and Weichai with the more attractive future. Under the background of the continuous promotion of freight price rise and railway reform, as a high-quality asset of China railway, Daqin has sufficient future development impetus. In addition, Daqin has extremely appealing dividend payout rate. The latter is expected to benefit from the concept of China's "Economic Belt and Silk Road".

New energy & Environmental protection (ZhangKun)

This month, we've renewed three corporate reports, which respectively are "Sound Global Limited (967.HK)", "Beijing Enterprises Water Group (371.HK)" and "Beijing Jingneng Clean Energy Company (579.HK)". We reassert Sound Environmental is our industrial object of choice. County effluent disposals and ppp-mode operation involved with corporate business are all included in the main content of the policy "Ten Articles for Water" that is to be issued, and the mode is also the business mode that is to be vigorously promoted by the government. The company has a rather low valuation at present, yet new projects give more elasticity to future performances, and we're optimistic about future development of the company.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
2014-12-3	600276 CH Equity	Hengrui	GH	Accum	36.75	43.04	17.12%	37.48	1.99%	35.67	5.07%
2014-12-4	600519 CH Equity	Kweichow Moutai	XY	Buy	164.88	205	24.33%	189.62	15.00%	155.84	21.68%
2014-12-5	600048 CH Equity	Poly	CG	Accum	7.95	8.8	10.69%	10.82	36.10%	7.2	50.28%
2014-12-8	601006 CH Equity	Daqin	ZJ	Buy	9.48	11.3	24.50%	10.66	12.45%	9.58	11.27%
2014-12-9	967 HK Equity	Sound Global	ZK	Buy	7.54	10.25	35.94%	8.98	19.10%	8.7	3.22%
2014-12-10	2369 HK Equity	Coolpad	GH	Buy	1.59	1.92	20.75%	1.53	-3.77%	1.74	-12.07%
2014-12-11	1288 HK Equity	ABC	XY	Buy	3.75	4.4	17.33%	3.92	4.53%	3.68	6.52%
2014-12-12	3311 HK Equity	CSCI	CG	Buy	11.36	15.8	39.08%	10.9	-4.05%	11.78	-7.47%
2014-12-15	2338 HK Equity	Weichai	ZJ	Accum	31.85	35	11.40%	32.7	2.67%	29.4	11.22%
2014-12-16	2618 HK Equity	TCL Comm	GH	Buy	7.5	10.13	35.07%	7.21	-3.87%	7.54	-4.38%
2014-12-17	939 HK Equity	CCB	XY	Accum	5.98	6.9	15.38%	6.37	6.52%	5.88	8.33%
2014-12-18	1778 HK Equity	Color Life	CG	Buy	6.08	8	31.58%	6.74	10.86%	6.23	8.19%
2014-12-19	371 HK Equity	Beijing Ent Water	ZK	Buy	5.13	6.45	25.73%	5.29	3.12%	5.33	-0.75%
2014-12-23	600518 CH Equity	Kangmei	GH	Buy	16.22	19.8	22.07%	15.72	-3.08%	15.6	0.77%
2014-12-24	6837 HK Equity	Haitong Securities	XY	Buy	18.74	23.9	27.53%	19.52	4.16%	16.5	18.30%
2014-12-29	601992 CH Equity	BBMG	CG	Accum	9.41	10.8	14.77%	10.14	7.76%	8.89	14.06%
2014-12-30	1293 HK Equity	Baoxin	ZJ	Buy	4.48	5.49	22.54%	4.48	0.00%	5.29	-15.31%
2014-12-31	579 HK Equity	Jingneng Clean Energy	ZK	Buy	3.14	4.24	35.03%	3.37	7.32%	3.82	-11.78%

A stock is calculated by RMB yuan.

Source: Company, Phillip Securities Research

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