

Markets at a Glance

Indices	Closing	DoD%
Hang Seng Index	25527.9	(0.4)
HSCEI	10035.8	(0.7)
Shanghai COMP	2930.2	0.2
Shenzhen COMP	1625.6	0.7
Gold	1547.1	1.2
BDIY	2442.0	2.7
Crude Oil, WTI (US\$/BBL)	53.9	(2.1)
Crude Oil, BRENT (US\$/BBL)	58.3	(0.7)
HIBOR, 3-M	2.3	0.1
SHIBOR, 3-M	2.7	0.0
RMB/USD	7.18	0.1

Source: Bloomberg

Upcoming Key Data Releases

Date	Key Data
4 th September	Caixin Services PMI AUG
4 th September	Caixin Composite PMI AUG
7 th September	Foreign Exchange Reserves AUG
8 th September	Balance of Trade AUG
8 th September	Exports YoY AUG
8 th September	Imports YoY AUG

Source: Bloomberg

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RESEARCH NOTES

SOUTHBOUND TRADING – Although the Hong Kong market was weak in August, southbound trading net fund inflows rose from HK\$19.7bn in July to HK\$58.6bn in August. A high A-share premium relative to H-shares may have been a key reason for the strong inflow. We saw huge net inflows to CCB (0939.HK) and Tencent (0700.HK) in August, reaching HK\$11.7bn and HK\$5.3bn, respectively. China Tower (788.HK) and Sun Art Retail (6808.HK) still ranked high in terms of net fund outflows in August, but the absolute amount was relatively modest. (Analyst: Wong Chi-man)

DC HOLDINGS [0861.HK; ADD; TP: HK\$5.15] – DC Holdings' 1H 2019 results were weaker than expected, given: a) its share of losses from HC Intl [2280.HK], b) DCITS's [000555.CH] projects delay, and c) lower other income. The Smart Industry Chain and Sm@rt City divisions showed improvement in profitability and will drive near-term growth for DC Holdings. We expect DCITS to report a HoH improvement in performance, given the pick-up in toB and toG business with clients such as telecom operators. DC Holdings and DCITS are well-recognized IT-related names and are expected to benefit from the decoupling from overseas suppliers. We cut our net profit forecasts for 2019F and 2020. But we maintain our ADD rating, with a new target price of HK\$5.15, based on 22x 2020 P/E (shift from 2019 P/E). (Analyst: Wong Chi-man)

Hong Kong

Hong Kong Strategy

Southbound Stock Connect: Net fund inflows surged 198% in August

- Although the Hong Kong market was weak in August, southbound trading net fund inflows rose from HK\$19.7bn in July to HK\$58.6bn in August.
- A high A-share premium relative to H-shares may have been a key reason for the strong inflow.
- We saw huge net inflows to CCB (0939.HK) and Tencent (0700.HK) in August, reaching HK\$11.7bn and HK\$5.3bn, respectively.
- China Tower (788.HK) and Sun Art Retail (6808.HK) still ranked high in terms of net fund outflows in August, but the absolute amount was relatively modest.

Strongest southbound net inflows since January 2018

Southbound net inflows jumped 198% from HK\$19.7bn in July 2019 to HK\$58.6bn in August 2019 (Figure 1). It is encouraging to see such a large inflow, because on a currency-adjusted basis, the Hang Seng Index was down 7.76% in August, whereas the CSI300 declined only 4.61%. The aggregate southbound net inflows reached HK\$149.61bn in the first eight months of 2019, higher than the aggregate northbound inflows during the same period by 12.9% (currency-adjusted).

The large A-share premium may be a key reason driving fund inflow

The Hang Seng AH Premium Index reached a 19-month high in mid-August, as the Hong Kong market was much weaker than the A-share market. The latest level of the index is 129.35, down slightly from the peak of 132.83 in mid-August. Figure 10 shows the A-share premium of the top 20 largest A-H dual listed companies. The A-share premium of many large cap financials is still well above the 3-year average. For example, for CCB, the hottest stock in August, its A-share premium of 31% is still far above the 3-year average of 17.1%.

Highest record of ADT in the past four months

Average daily turnover (ADT) of southbound trading was HK\$10.2bn (buy and sell) in August, rebounding from HK\$7.4bn in July. In fact, the monthly ADT maintained a downtrend from February 2019, when ADT was HK\$14.4bn, until August, when there was a major rebound.

CCB and Tencent continued to lead net fund inflows in August

The net fund inflows remained relatively diversified in terms of sectors last month (Figure 2). CCB recorded the highest net fund inflow in the past four months, with net fund inflow of HK\$3.44bn in May, HK\$7.8bn in June, HK\$3.48bn in July and HK\$11.7bn in August. CCB and Tencent ranked the highest in terms of net fund inflows in both July and August. For Tencent, the net fund inflow jumped from HK\$2.22bn in July to HK\$5.32bn in August. ICBC came third, with net fund inflow of HK\$3.75bn in August.

Smaller net outflows in general

The top 20 stock list of net fund outflows recorded smaller net fund outflows in August than that in July in general (Figure 3). China Tower and Sun Art Retail remained in the top 20 list in August, with net fund outflows of HK\$318m and HK\$330m, respectively. But the absolute amount looks relatively modest, in our view.

Strong net inflow to Sunny Optical

For other large caps, we believe Sunny Optical (2382.HK) deserves more attention (Figure 6). Southbound investors increased their stake in the Company by 56% within a month. They currently own 6.57% of the Company, and more than 10% of the free float.

Analysts

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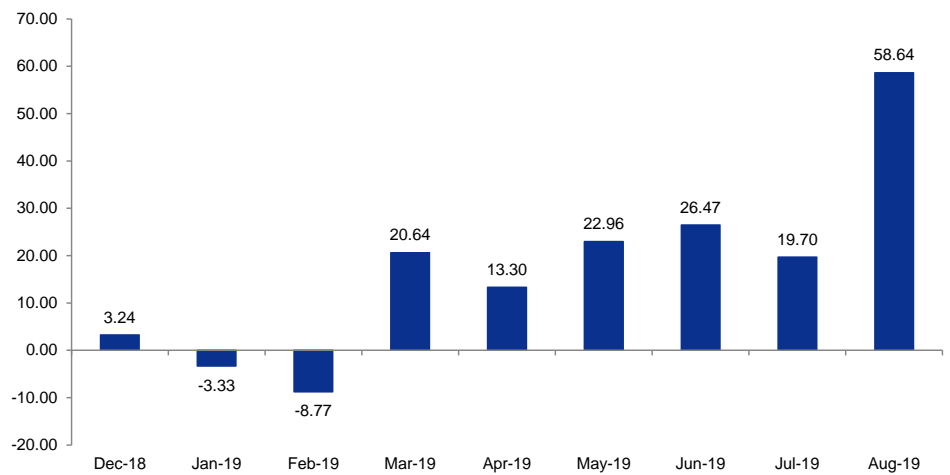
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Figure 1: Monthly net buy/sell of southbound investors (HK\$bn)


SOURCES: BLOOMBERG, CGIS RESEARCH

Figure 2: Top 20 net inflows in Stock Connect positions

Ticker	Company name	Share price (HK\$)	Market cap (HK\$M)	Stake owned by southbound investors	Net buy since (HK\$M)			2019F P/E (x)	2020E P/E (x)	P/BV (x)	2019E dividend yield (%)
					2 weeks ago	1 month ago	2 months ago				
939 HK Equity	China Construction Bank Corp	5.74	1,452,113	5.17%	6,315.07	11,694.96	15,563.50	4.96	4.70	0.66	6.11
700 HK Equity	Tencent Holdings Ltd	329.2	3,145,589	1.66%	2,509.95	5,318.99	7,899.25	30.39	25.02	7.42	0.34
1398 HK Equity	Industrial & Commercial Bank of China Ltd	4.92	2,017,779	5.14%	1,805.79	3,750.63	4,419.17	5.22	4.95	0.69	5.77
2382 HK Equity	Sunny Optical Technology Group Co Ltd	109.7	120,324	6.57%	1,481.57	2,488.63	2,501.58	32.41	23.89	11.02	0.91
1177 HK Equity	Sino Biopharmaceutical Ltd	11.68	147,031	6.58%	1,319.09	1,495.44	2,904.51	41.43	35.40	4.50	0.62
2318 HK Equity	Ping An Insurance Group Co of China Ltd	90.5	1,718,531	0.96%	1,160.72	2,292.24	2,928.05	10.02	9.58	2.42	2.78
2269 HK Equity	Wuxi Biologics Cayman Inc	80.7	100,194	3.71%	840.56	1,160.82	1,386.92	88.45	60.89	11.33	0.00
2319 HK Equity	China Mengniu Dairy Co Ltd	30.6	120,331	3.07%	703.63	799.98	837.98	25.46	23.59	4.12	0.96
1299 HK Equity	AIA Group Ltd	75	906,647	0.74%	646.67	1,698.90	2,123.35	18.25	15.86	2.32	1.79
2020 HK Equity	ANTA Sports Products Ltd	63.35	171,124	4.00%	552.47	354.21	1,320.53	28.00	22.53	8.64	1.20
1288 HK Equity	Agricultural Bank of China Ltd	3	1,281,667	1.25%	528.00	1,709.93	2,083.20	4.58	4.32	0.58	6.63
1787 HK Equity	Shandong Gold Mining Co Ltd	19.9	122,012	3.75%	473.68	795.17	980.38	29.05	21.94	2.60	0.82
388 HK Equity	Hong Kong Exchanges & Clearing Ltd	236.8	297,920	2.18%	472.39	1,365.62	1,881.18	30.87	27.72	6.75	2.89
3968 HK Equity	China Merchants Bank Co Ltd	35.85	934,311	2.06%	461.41	698.57	493.48	9.27	8.21	1.55	3.25
763 HK Equity	ZTE Corp	19.38	126,669	4.76%	433.91	504.10	461.15	16.83	13.26	3.03	1.32
1088 HK Equity	China Shenhua Energy Co Ltd	15.88	403,167	3.09%	428.43	1,041.79	1,523.34	6.81	6.94	0.85	5.96
941 HK Equity	China Mobile Ltd	64.75	1,325,788	0.17%	341.78	649.57	598.34	10.79	10.76	1.12	4.78
175 HK Equity	Geely Automobile Holdings Ltd	11.74	107,017	9.18%	339.20	721.04	1,112.96	11.03	8.81	2.10	2.08
1336 HK Equity	New China Life Insurance Co Ltd	31.35	146,098	10.27%	315.14	428.54	1,069.97	7.47	7.33	n.a.	3.51
3988 HK Equity	Bank of China Ltd	2.98	1,066,712	1.49%	304.66	958.39	1,185.60	4.41	4.21	0.51	7.04

SOURCES: HKEX, BLOOMBERG, CGIS RESEARCH

Figure 3: Top 20 net selling in Stock Connect positions

Ticker	Company name	Share price (HK\$)	Market cap (HK\$m)	Stake owned by southbound investors	Net buy since (HK\$m)			2019F P/E (x)	2020E P/E (x)	P/BV (x)	2019E dividend yield (%)
					2 weeks ago	1 month ago	2 months ago				
					3323 HK Equity	China National Building Material Co Ltd	6.68				
6808 HK Equity	Sun Art Retail Group Ltd	7.5	71,548	1.10%	(191.77)	(329.54)	(911.58)	24.17	22.14	2.86	1.73
12 HK Equity	Henderson Land Development Co Ltd	35.6	172,353	0.27%	(170.23)	(129.86)	(44.49)	10.77	10.40	0.55	5.03
788 HK Equity	China Tower Corp Ltd	1.78	313,295	0.62%	(162.29)	(318.38)	(786.44)	54.30	35.42	1.59	1.04
291 HK Equity	China Resources Beer Holdings Co Ltd	43.65	141,608	4.50%	(155.36)	72.80	429.83	60.44	41.79	6.28	0.60
6862 HK Equity	Haidilao International Holding Ltd	34.65	183,645	1.16%	(145.61)	(296.45)	(158.59)	65.25	45.30	19.49	0.32
586 HK Equity	China Conch Venture Holdings Ltd	25.85	46,653	8.01%	(143.10)	(142.82)	(145.87)	6.69	6.14	1.52	2.70
3328 HK Equity	Bank of Communications Co Ltd	5.1	411,862	0.47%	(133.96)	16.86	39.86	4.62	4.42	0.53	6.64
3883 HK Equity	China Aoyuan Group Ltd	9.14	24,590	7.80%	(105.11)	(147.67)	(422.63)	5.33	3.66	1.67	7.27
1813 HK Equity	KWG Group Holdings Ltd	6.88	21,843	7.22%	(104.96)	(102.11)	(178.90)	3.79	3.17	0.59	10.05
425 HK Equity	Minth Group Ltd	23.8	27,346	9.20%	(99.77)	(115.09)	(241.79)	13.65	11.70	1.86	2.85
506 HK Equity	China Foods Ltd	3.46	9,678	2.23%	(90.25)	(86.25)	(90.05)	20.72	17.47	1.93	1.62
1558 HK Equity	YiChang HEC ChangJiang Pharmaceutical Co Ltd	37.85	16,988	16.79%	(82.26)	15.56	169.26	12.01	10.29	3.85	3.79
992 HK Equity	Lenovo Group Ltd	5.17	62,116	0.21%	(69.12)	(71.96)	(52.89)	9.69	8.56	2.26	5.01
338 HK Equity	Sinopec Shanghai Petrochemical Co Ltd	2.24	41,781	1.02%	(63.68)	(80.06)	(205.53)	7.48	7.24	0.77	6.88
3 HK Equity	Hong Kong & China Gas Co Ltd	15	253,876	0.16%	(62.24)	(44.00)	(6.82)	30.36	28.36	4.04	2.42
1233 HK Equity	Times China Holdings Ltd	12.06	23,418	5.73%	(59.12)	5.66	111.38	3.95	3.15	1.17	7.55
3898 HK Equity	Zhuzhou CRRC Times Electric Co Ltd	30.8	36,205	1.50%	(58.17)	(125.77)	(248.93)	11.77	10.53	1.63	1.72
3808 HK Equity	Sinotruk Hong Kong Ltd	11.46	31,641	3.43%	(54.90)	(7.86)	(21.56)	6.82	6.64	1.14	5.71
1658 HK Equity	Postal Savings Bank of China Co Ltd	4.68	379,223	0.49%	(50.50)	(136.81)	(61.52)	6.21	5.58	0.78	4.74

SOURCES: HKEX, BLOOMBERG, CGIS RESEARCH

Figure 4: Top 20 net additions in Stock Connect positions

Ticker	Company name	Share price (HK\$)	Market cap (HK\$m)	Stake owned by southbound investors	Net buy since (% of market cap)			2019F P/E (x)	2020E P/E (x)	P/BV (x)	2019E dividend yield (%)
					2 weeks ago	1 month ago	2 months ago				
					3888 HK Equity	Kingsoft Corp Ltd	16.5				
2382 HK Equity	Sunny Optical Technology Group Co Ltd	109.7	120,324	6.57%	1.29%	2.37%	2.48%	32.41	23.89	11.02	0.91
285 HK Equity	BYD Electronic International Co Ltd	9.53	21,473	5.97%	1.00%	2.26%	2.42%	10.97	8.24	1.23	1.54
1177 HK Equity	Sino Biopharmaceutical Ltd	11.68	147,031	6.58%	0.96%	1.18%	2.43%	41.43	35.40	4.50	0.62
3800 HK Equity	GCL-Poly Energy Holdings Ltd	0.305	6,052	13.32%	0.93%	1.49%	1.86%	n.a.	8.21	0.26	0.00
268 HK Equity	Kingdee International Software Group Co Ltd	7.78	25,800	11.37%	0.87%	1.37%	3.36%	63.58	53.14	4.23	0.15
2269 HK Equity	Wuxi Biologics Cayman Inc	80.7	100,194	3.71%	0.82%	1.16%	1.41%	88.45	60.89	11.33	0.00
1717 HK Equity	Ausnutria Dairy Corp Ltd	11.14	17,913	1.86%	0.80%	0.86%	0.66%	18.67	13.87	4.80	1.83
1787 HK Equity	Shandong Gold Mining Co Ltd	19.9	122,012	3.75%	0.78%	1.37%	1.88%	29.05	21.94	2.60	0.82
607 HK Equity	Fullshare Holdings Ltd	0.21	4,143	28.19%	0.68%	1.22%	1.77%	n.a.	n.a.	0.21	n.a.
2051 HK Equity	51 Credit Card Inc	3.04	3,631	2.52%	0.67%	0.76%	1.21%	3.61	2.52	0.94	12.22
699 HK Equity	CAR Inc	5.6	11,870	8.44%	0.64%	0.94%	1.07%	13.74	12.98	1.32	0.00
6169 HK Equity	China Yuhua Education Corp Ltd	4	13,139	12.79%	0.64%	0.98%	1.51%	17.19	14.08	3.40	3.03
2186 HK Equity	Luye Pharma Group Ltd	6.19	20,235	20.02%	0.64%	0.86%	0.95%	11.80	10.55	2.38	1.38
1513 HK Equity	Livzon Pharmaceutical Group Inc	21.7	26,069	3.24%	0.61%	0.75%	1.40%	15.23	13.26	1.76	2.47
2319 HK Equity	China Mengniu Dairy Co Ltd	30.6	120,331	3.07%	0.56%	0.65%	0.68%	25.46	23.59	4.12	0.96
2669 HK Equity	China Overseas Property Holdings Ltd	3.98	13,082	5.09%	0.55%	1.28%	1.76%	25.68	20.20	10.06	1.23
631 HK Equity	Sany Heavy Equipment International Holdings Co Ltd	3.13	9,698	3.76%	0.53%	0.72%	1.06%	10.12	7.78	1.36	3.84
694 HK Equity	Beijing Capital International Airport Co Ltd	6.56	28,411	5.48%	0.53%	0.87%	1.39%	11.59	15.59	1.08	3.70
763 HK Equity	ZTE Corp	19.38	126,669	4.76%	0.52%	0.60%	0.51%	16.83	13.26	3.03	1.32

SOURCES: HKEX, BLOOMBERG, CGIS RESEARCH

Figure 5: Top 20 net reductions in Stock Connect positions

Ticker	Company name	Share price (HK\$)	Market cap (HK\$m)	Stake owned by southbound investors	Net buy since (% of market cap)			2019F P/E (x)	2020E P/E (x)	P/BV (x)	2019E dividend yield (%)
					2 weeks ago	1 month ago	2 months ago				
					506 HK Equity	China Foods Ltd	3.46				
6116 HK Equity	Shanghai La Chapelle Fashion Co Ltd	2.74	2,553	7.71%	-0.75%	-0.65%	-0.62%	n.a.	n.a.	0.40	17.55
1813 HK Equity	KWG Group Holdings Ltd	6.88	21,843	7.22%	-0.51%	-0.51%	-0.79%	3.79	3.17	0.59	10.05
3323 HK Equity	China National Building Material Co Ltd	6.68	56,344	7.40%	-0.48%	-0.41%	0.53%	4.96	5.10	0.67	4.35
1558 HK Equity	YiChang HEC ChangJiang Pharmaceutical Co Ltd	37.85	16,988	16.79%	-0.48%	0.09%	0.96%	12.01	10.29	3.85	3.79
751 HK Equity	Skyworth Group Ltd	1.76	5,387	6.84%	-0.44%	-0.57%	-0.84%	5.93	4.40	0.29	5.91
3933 HK Equity	United Laboratories International Holdings Ltd/The	4.54	7,444	6.09%	-0.42%	-0.83%	-1.17%	11.70	10.09	1.11	0.96
2001 HK Equity	China New Higher Education Group Ltd	3.34	5,147	10.32%	-0.40%	-0.45%	-0.67%	11.99	9.46	2.36	2.36
425 HK Equity	Minth Group Ltd	23.8	27,346	9.20%	-0.39%	-0.47%	-0.96%	13.65	11.70	1.86	2.85
3883 HK Equity	China Aoyuan Group Ltd	9.14	24,590	7.80%	-0.39%	-0.56%	-1.51%	5.33	3.66	1.67	7.27
1478 HK Equity	Q Technology Group Co Ltd	7.33	8,374	3.28%	-0.34%	-0.07%	0.55%	19.62	14.81	3.29	0.67
799 HK Equity	IGG Inc	5.21	6,594	8.22%	-0.33%	-0.09%	-0.23%	5.49	5.19	2.64	5.27
586 HK Equity	China Conch Venture Holdings Ltd	25.85	46,653	8.01%	-0.30%	-0.30%	-0.30%	6.69	6.14	1.52	2.70
6808 HK Equity	Sun Art Retail Group Ltd	7.5	71,548	1.10%	-0.26%	-0.44%	-1.24%	24.17	22.14	2.86	1.73
338 HK Equity	Sinopec Shanghai Petrochemical Co Ltd	2.24	41,781	1.02%	-0.25%	-0.31%	-0.71%	7.48	7.24	0.77	6.88
3899 HK Equity	CIMC Enric Holdings Ltd	4.44	8,876	4.11%	-0.25%	-0.37%	-0.12%	8.59	7.28	1.27	3.57
1233 HK Equity	Times China Holdings Ltd	12.06	23,418	5.73%	-0.24%	0.02%	0.42%	3.95	3.15	1.17	7.55
1966 HK Equity	China SCE Group Holdings Ltd	3.78	15,597	4.22%	-0.21%	-0.26%	0.01%	4.44	3.48	0.85	7.23
548 HK Equity	Shenzhen Expressway Co Ltd	9.68	22,411	5.88%	-0.21%	-0.27%	-0.44%	8.66	9.11	1.08	6.32
780 HK Equity	Tongcheng-Elong Holdings Ltd	12.5	26,382	0.53%	-0.19%	-0.06%	-0.12%	17.02	13.07	2.06	0.00

SOURCES: HKEX, BLOOMBERG, CGIS RESEARCH

Figure 6: Top 20 net additions in Stock Connect positions (in terms of % increase)

Ticker	Company name	Share price (HK\$)	Market cap (HK\$m)	Stake owned by southbound investors	% change in shareholding compared with			2019F P/E (x)	2020E P/E (x)	P/BV (x)	2019E dividend yield (%)
					2 weeks ago	1 month ago	2 months ago				
					1717 HK Equity	Ausnutria Dairy Corp Ltd	11.14				
762 HK Equity	China Unicom Hong Kong Ltd	7.75	237,135	0.37%	52.24%	44.05%	34.29%	16.61	12.15	0.69	2.38
2003 HK Equity	VCredit Holdings Ltd	8.85	4,420	0.75%	48.41%	58.09%	191.82%	6.04	4.29	1.45	n.a.
1992 HK Equity	Fosun Tourism Group	8.6	10,621	0.26%	43.44%	167.80%	342.54%	13.14	12.99	0.99	1.02
2051 HK Equity	51 Credit Card Inc	3.04	3,631	2.52%	36.43%	42.91%	92.17%	3.61	2.52	0.94	12.22
1099 HK Equity	Sinopharm Group Co Ltd	26.85	79,789	1.02%	33.86%	26.75%	35.74%	11.42	10.10	1.65	2.60
743 HK Equity	Asia Cement China Holdings Corp	9.09	14,243	0.06%	32.08%	35.63%	-39.30%	4.00	3.99	1.03	10.88
2269 HK Equity	Wuxi Biologics Cayman Inc	80.7	100,194	3.71%	29.07%	46.17%	62.42%	88.45	60.89	11.33	0.00
1208 HK Equity	MMG Ltd	1.67	13,451	0.97%	28.46%	22.89%	-0.79%	n.a.	19.36	1.36	0.00
1833 HK Equity	Ping An Healthcare and Technology Co Ltd	46.15	49,256	2.25%	27.45%	35.89%	41.27%	n.a.	n.a.	4.42	0.00
1929 HK Equity	Chow Tai Fook Jewellery Group Ltd	6.57	65,700	0.36%	27.25%	44.72%	136.13%	12.78	11.37	2.14	6.23
1888 HK Equity	Kingboard Laminates Holdings Ltd	6.17	19,010	0.59%	26.78%	22.64%	55.15%	7.57	7.62	1.09	5.02
2282 HK Equity	MGM China Holdings Ltd	11.48	43,624	0.32%	26.69%	14.74%	2.47%	17.72	13.98	4.42	2.22
1787 HK Equity	Shandong Gold Mining Co Ltd	19.9	122,012	3.75%	26.38%	57.60%	100.22%	29.05	21.94	2.60	0.82
3309 HK Equity	C-Mer Eye Care Holdings Ltd	4.71	4,952	1.34%	24.85%	34.02%	55.82%	44.86	39.25	5.88	n.a.
6198 HK Equity	Qingdao Port International Co Ltd	4.57	49,621	0.10%	24.75%	71.47%	14.29%	7.27	6.69	1.00	5.02
2382 HK Equity	Sunny Optical Technology Group Co Ltd	109.7	120,324	6.57%	24.32%	56.33%	60.74%	32.41	23.89	11.02	0.91
440 HK Equity	Dah Sing Financial Holdings Ltd	28.55	9,124	0.28%	24.16%	32.50%	49.55%	4.64	4.15	0.36	6.14
1896 HK Equity	Maoyan Entertainment	11.22	12,637	0.78%	23.96%	29.19%	157.00%	19.05	12.12	n.a.	0.07
1513 HK Equity	Livzon Pharmaceutical Group Inc	21.7	26,069	3.24%	23.40%	30.22%	76.14%	15.23	13.26	1.76	2.47

SOURCES: HKEX, BLOOMBERG, CGIS RESEARCH

Figure 7: Top 20 net reductions in Stock Connect positions (in terms of % decrease)

Ticker	Company name	Share price (HK\$)	Market cap (HK\$m)	Stake owned by southbound investors	% change in shareholding compared with			2019F P/E (x)	2020E P/E (x)	P/BV (x)	2019E dividend yield (%)
					2 weeks ago	1 month ago	2 months ago				
					992 HK Equity	Lenovo Group Ltd	5.17				
215 HK Equity	Hutchison Telecommunications Hong Kong Holdings Ltd	1.29	6,217	0.14%	-31.73%	-80.58%	-81.21%	16.75	17.43	0.52	4.65
506 HK Equity	China Foods Ltd	3.46	9,678	2.23%	-30.14%	-29.39%	-30.51%	20.72	17.47	1.93	1.62
1310 HK Equity	HKBN Ltd	14.24	18,677	0.42%	-28.58%	-45.07%	-42.53%	32.51	25.20	14.28	4.89
780 HK Equity	Tongcheng-Elong Holdings Ltd	12.5	26,382	0.53%	-26.49%	-9.74%	-18.36%	17.02	13.07	2.06	0.00
12 HK Equity	Henderson Land Development Co Ltd	35.6	172,353	0.27%	-25.96%	-21.03%	-7.86%	10.77	10.40	0.55	5.03
1212 HK Equity	Lifestyle International Holdings Ltd	8.61	12,931	0.07%	-20.75%	-33.65%	-41.41%	7.01	7.04	3.51	7.75
338 HK Equity	Sinopec Shanghai Petrochemical Co Ltd	2.24	41,781	1.02%	-19.92%	-23.09%	-41.09%	7.48	7.24	0.77	6.88
6808 HK Equity	Sun Art Retail Group Ltd	7.5	71,548	1.10%	-18.92%	-28.64%	-52.89%	24.17	22.14	2.86	1.73
1916 HK Equity	Jiangxi Bank Co Ltd	4.71	28,374	0.15%	-17.07%	-20.19%	142.87%	n.a.	n.a.	0.81	n.a.
20 HK Equity	Wheelock & Co Ltd	44.85	91,877	0.03%	-14.13%	-3.53%	8.24%	6.00	5.80	0.35	3.70
1883 HK Equity	CITIC Telecom International Holdings Ltd	2.98	10,896	0.43%	-13.82%	-15.51%	4.54%	10.38	9.83	1.21	6.48
3 HK Equity	Hong Kong & China Gas Co Ltd	15	253,876	0.16%	-12.71%	-9.07%	-1.46%	30.36	28.36	4.04	2.42
2066 HK Equity	Shengjing Bank Co Ltd	5.6	32,461	0.01%	-12.71%	-32.05%	-34.74%	n.a.	n.a.	0.51	n.a.
636 HK Equity	Kerry Logistics Network Ltd	12.04	20,645	0.04%	-11.45%	-48.40%	-19.76%	9.57	11.34	0.97	3.94
1860 HK Equity	Mobvista Inc	3.82	5,861	0.21%	-10.77%	-22.42%	-29.32%	16.23	10.15	3.23	n.a.
517 HK Equity	COSCO SHIPPING International Hong Kong Co Ltd	2.26	3,464	0.05%	-10.02%	-18.22%	-18.22%	n.a.	n.a.	0.44	n.a.
1610 HK Equity	COFCO Meat Holdings Ltd	2.35	9,170	1.36%	-9.97%	-11.95%	-14.68%	12.08	5.25	1.79	0.00
1478 HK Equity	Q Technology Group Co Ltd	7.33	8,374	3.28%	-9.40%	-2.12%	20.34%	19.62	14.81	3.29	0.67
3898 HK Equity	Zhuzhou CRRC Times Electric Co Ltd	30.8	36,205	1.50%	-9.29%	-17.53%	-27.93%	11.77	10.53	1.63	1.72

SOURCES: HKEX, BLOOMBERG, CGIS RESEARCH

Figure 8: Top 20 Stock Connect positions by value

Ticker	Company name	Share price (HK\$)	Market cap (HK\$m)	Stake owned by southbound investors	Stake owned by southbound investors (HK\$m)	2/9/2019			2019F P/E (x)	2020E P/E (x)	P/BV (x)	2019E dividend yield (%)
						2 weeks ago	1 month ago	2 months ago				
						1398 HK Equity	Industrial & Commercial Bank of China Ltd	4.92				
5 HK Equity	HSBC Holdings PLC	55.95	1,133,294	7.47%	83,781	84,574	86,435	91,694	9.92	9.85	0.85	7.16
939 HK Equity	China Construction Bank Corp	5.74	1,466,486	5.17%	74,191	68,381	62,660	61,767	4.96	4.70	0.66	6.11
700 HK Equity	Tencent Holdings Ltd	329.20	3,179,988	1.66%	51,969	49,376	47,345	47,058	30.39	25.02	7.42	0.34
1918 HK Equity	Sunac China Holdings Ltd	30.95	138,558	20.30%	27,686	29,753	29,476	32,543	4.97	3.86	1.71	4.42
3968 HK Equity	China Merchants Bank Co Ltd	35.85	932,878	2.06%	18,581	18,365	18,176	19,076	9.27	8.21	1.55	3.25
2601 HK Equity	China Pacific Insurance Group Co Ltd	31.60	347,989	6.24%	17,877	18,279	17,386	15,701	9.45	9.41	1.55	4.90
2318 HK Equity	Ping An Insurance Group Co of China Ltd	90.50	1,725,371	0.96%	15,946	14,773	13,452	13,306	10.02	9.58	2.42	2.78
1288 HK Equity	Agricultural Bank of China Ltd	3.00	1,281,119	1.25%	13,153	12,613	11,457	11,612	4.58	4.32	0.58	6.63
3988 HK Equity	Bank of China Ltd	2.98	1,066,123	1.49%	13,058	12,777	12,191	12,538	4.41	4.21	0.51	7.04
1336 HK Equity	New China Life Insurance Co Ltd	31.35	146,509	10.27%	10,043	10,497	10,560	10,546	7.47	7.33	1.12	3.51
1177 HK Equity	Sino Biopharmaceutical Ltd	11.68	151,060	6.58%	9,688	7,688	6,832	4,975	41.11	35.16	4.50	0.62
175 HK Equity	Geely Automobile Holdings Ltd	11.74	109,205	9.18%	9,676	9,337	8,643	8,660	11.03	8.81	2.10	2.08
1088 HK Equity	China Shenhua Energy Co Ltd	15.88	401,991	3.09%	9,744	9,037	8,325	8,118	6.81	6.94	0.85	5.96
998 HK Equity	China CITIC Bank Corp Ltd	4.08	272,124	4.60%	9,178	9,013	8,826	9,342	3.96	3.77	0.44	6.64
2382 HK Equity	Sunny Optical Technology Group Co Ltd	109.70	123,615	6.57%	7,907	6,092	4,418	4,118	32.41	23.89	11.02	0.91
288 HK Equity	WH Group Ltd	6.32	93,854	8.36%	7,748	7,754	7,534	8,164	10.33	9.16	1.43	5.58
981 HK Equity	Semiconductor Manufacturing International Cor	8.71	45,315	16.26%	7,138	7,177	7,156	7,193	79.33	55.53	0.93	-
902 HK Equity	Huaneng Power International Inc	4.20	96,392	10.40%	6,860	6,941	6,949	6,926	10.83	8.60	0.79	6.37
2020 HK Equity	ANTA Sports Products Ltd	63.35	174,096	4.00%	6,812	6,201	6,119	4,905	28.00	22.53	8.64	1.20

SOURCES: HKEX, BLOOMBERG, CGIS RESEARCH

Figure 9: Top 20 companies with the highest level of Stock Connect ownership

Ticker	Company name	Share price (HK\$)	Market cap (HK\$m)	Stake owned by southbound Investors	Stake owned by southbound investors			2019F P/E (x)	2020E P/E (x)	P/BV (x)	2019E dividend yield (%)
					2 weeks ago						
					2 weeks ago	1 month ago	2 months ago				
861 HK Equity	Digital China Holdings Ltd	4.05	6,767	45.33%	45.52%	45.29%	44.49%	17.61	13.50	0.77	1.06
3823 HK Equity	Tech Pro Technology Development Ltd	0.068	544	35.22%	30.18%	30.18%	30.18%	n.a.	n.a.	0.60	n.a.
996 HK Equity	Carnival Group International Holdings Ltd	0.026	616	30.55%	30.20%	29.59%	28.99%	n.a.	n.a.	0.09	n.a.
607 HK Equity	Fullshare Holdings Ltd	0.21	4,143	28.19%	27.50%	26.97%	26.42%	n.a.	n.a.	0.21	n.a.
1918 HK Equity	Sunac China Holdings Ltd	30.95	137,448	20.30%	23.43%	23.49%	24.10%	4.97	3.86	1.71	4.42
2186 HK Equity	Luye Pharma Group Ltd	6.19	20,235	20.02%	n.a.	n.a.	n.a.	11.80	10.55	2.38	1.38
3888 HK Equity	Kingsoft Corp Ltd	16.5	22,650	17.94%	16.44%	16.35%	14.45%	n.a.	33.04	1.80	0.23
1999 HK Equity	Man Wah Holdings Ltd	3.49	13,343	17.72%	17.72%	18.00%	17.91%	8.77	7.52	2.14	3.75
3900 HK Equity	Greentown China Holdings Ltd	6.42	13,937	17.59%	18.30%	17.23%	15.70%	4.85	4.61	0.44	4.60
1558 HK Equity	YiChang HEC Changjiang Pharmaceutical Co Ltd	37.85	16,988	16.79%	17.26%	16.69%	15.83%	12.01	10.29	3.85	3.79
1108 HK Equity	Luoyang Glass Co Ltd	1.62	3,915	16.74%	16.69%	16.46%	15.33%	n.a.	n.a.	0.67	n.a.
981 HK Equity	Semiconductor Manufacturing International Corp	8.71	44,002	16.26%	16.22%	16.33%	16.41%	79.32	55.52	0.93	0.00
2666 HK Equity	Genertec Universal Medical Group Co Ltd	5.54	9,508	15.81%	15.76%	15.31%	15.37%	5.49	4.69	0.83	5.62
976 HK Equity	Chiho Environmental Group Ltd	0.68	1,092	15.06%	n.a.	n.a.	n.a.	n.a.	n.a.	0.21	n.a.
658 HK Equity	China High Speed Transmission Equipment Group Co Ltd	4.23	6,917	14.49%	n.a.	n.a.	n.a.	13.12	18.44	0.58	3.49
968 HK Equity	Xinyi Solar Holdings Ltd	4.73	38,114	14.05%	13.23%	12.87%	12.87%	16.03	12.72	2.84	2.94
1302 HK Equity	Lifetech Scientific Corp	1.48	6,393	13.56%	n.a.	n.a.	n.a.	41.05	28.82	4.74	n.a.
719 HK Equity	Shandong Xinhua Pharmaceutical Co Ltd	3.7	4,080	13.52%	13.53%	13.35%	12.87%	n.a.	n.a.	0.75	n.a.
3800 HK Equity	GCL-Poly Energy Holdings Ltd	0.305	6,052	13.32%	11.38%	10.81%	10.45%	n.a.	8.21	0.26	0.00
2280 HK Equity	HC Group Inc	2.44	2,737	13.13%	13.28%	13.80%	9.49%	8.83	5.99	0.59	0.49

SOURCES: HKEX, BLOOMBERG, CGIS RESEARCH

Figure 10: A-share premium of top 20 largest A-H dual listing companies

Ticker	Company name	Share price (HK\$)	A-share premium	3-year average	3-year high	3-year low	Market cap (HK\$m)	2019F P/E (x)	2020E P/E (x)	P/BV (x)	Dividend yield (%)
1398 HK Equity	Industrial & Commercial Bank of China Ltd	4.92	19.9%	12.5%	36.5%	1.4%	2,018,219	5.22	4.95	0.69	5.78
2318 HK Equity	Ping An Insurance Group Co of China Ltd	90.5	6.6%	0.7%	12.7%	-10.4%	1,718,821	10.02	9.57	2.42	2.29
939 HK Equity	China Construction Bank Corp	5.74	31.0%	17.1%	40.6%	0.0%	1,452,133	4.96	4.70	0.66	6.05
1288 HK Equity	Agricultural Bank of China Ltd	3	24.2%	15.4%	34.6%	0.3%	1,281,997	4.58	4.32	0.58	6.57
857 HK Equity	PetroChina Co Ltd	3.87	73.7%	70.2%	97.1%	44.0%	1,170,008	11.50	10.57	0.53	3.82
3988 HK Equity	Bank of China Ltd	2.98	30.2%	17.7%	36.1%	3.1%	1,066,938	4.41	4.21	0.51	7.01
3968 HK Equity	China Merchants Bank Co Ltd	35.85	4.1%	7.4%	19.7%	-0.3%	934,524	9.27	8.21	1.55	2.97
2628 HK Equity	China Life Insurance Co Ltd	18	75.2%	41.0%	77.1%	12.5%	790,752	10.34	11.11	1.26	1.01
386 HK Equity	China Petroleum & Chemical Corp	4.58	19.7%	11.8%	43.0%	-5.0%	641,126	8.15	7.80	0.70	9.31
3328 HK Equity	Bank of Communications Co Ltd	5.1	16.5%	17.4%	40.8%	3.7%	411,926	4.62	4.41	0.53	6.68
1088 HK Equity	China Shenhua Energy Co Ltd	15.88	33.3%	26.6%	50.7%	8.0%	403,263	6.81	6.94	0.85	6.30
1339 HK Equity	People's Insurance Co Group of China Ltd/The	3.08	204.0%	185.0%	310.9%	6.2%	359,361	6.77	6.43	0.72	1.68
2601 HK Equity	China Pacific Insurance Group Co Ltd	31.6	30.1%	23.8%	45.8%	3.5%	346,182	9.44	9.41	1.55	3.58
2202 HK Equity	China Vanke Co Ltd	26.85	4.6%	15.4%	59.9%	-2.7%	315,502	6.70	5.81	1.72	4.42
1816 HK Equity	CGN Power Co Ltd	2.07	156.1%	124.6%	174.2%	29.2%	231,611	9.28	8.46	1.18	4.05
6030 HK Equity	CITIC Securities Co Ltd	14.14	76.5%	29.9%	78.0%	7.0%	277,810	12.10	11.12	1.00	2.80
998 HK Equity	China CITIC Bank Corp Ltd	4.08	52.1%	44.4%	63.5%	26.9%	272,111	3.96	3.77	0.44	6.40
1988 HK Equity	China Minsheng Banking Corp Ltd	5.16	25.0%	24.0%	38.7%	10.3%	271,601	3.95	3.77	0.43	7.59
914 HK Equity	Anhui Conch Cement Co Ltd	45.45	0.0%	-7.5%	6.5%	-12.7%	241,484	7.21	7.58	1.85	4.22
1766 HK Equity	CRRC Corp Ltd	5.29	52.9%	54.6%	97.5%	25.7%	219,877	10.45	9.13	1.08	3.23

SOURCES: HKEX, BLOOMBERG, CGIS RESEARCH

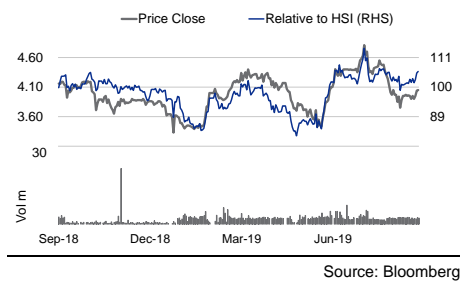
Hong Kong
ADD

Consensus ratings*: Buy 1 Hold 1 Sell 0

Current price:	HK\$4.05
Target price:	HK\$5.15
Previous target:	HK\$5.01
Up/downside:	27.2%
CGI / Consensus:	n/a
Reuters:	0861.HK
Bloomberg:	861 HK
Market cap:	US\$862.7m
	HK\$6,767m
Average daily turnover:	US\$1.50m
	HK\$11.74m
Current shares o/s:	1,677m
Free float:	45.2%
*Source: Bloomberg	

Key changes in this note

- FY19F and FY20F net profit decreased by 52.0% and 21.7%, respectively.



Price performance	1M	3M	12M
Absolute (%)	-4.5	5.2	-0.5
Relative (%)	0.7	10.3	7.4

Major shareholders	% held
GZ Construction Group	25.0
GRG Banking	18.0
Mr. Guo Wei	11.8

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Digital China

1H 2019 results impacted by different factors; inflection point reached

- DC Holdings' 1H 2019 results were weaker than expected, given: a) its share of losses from HC Intl [2280.HK], b) DCITS's [000555.CH] projects delay, and c) lower other income.
- The Smart Industry Chain and Sm@rt City divisions showed improvement in profitability and will drive near-term growth for DC Holdings.
- We expect DCITS to report a HoH improvement in performance, given the pick-up in toB and toG business with clients such as telecom operators.
- DC Holdings and DCITS are well-recognized IT-related names and are expected to benefit from the decoupling from overseas suppliers.
- We cut our net profit forecasts for 2019F and 2020. But we maintain our ADD rating, with a new target price of HK\$5.15, based on 22x 2020 P/E (shift from 2019 P/E).

Major improvement in Smart Industry Chain division

DC Holdings' Smart Industry Chain division reported a 43.9% YoY increase in turnover, from HK\$1,664m in 1H2018 to HK\$2,350m in 1H2019. The Smart Industry Chain division reported segment profit of HK\$43m in 1H2019, a turnaround from a segment loss of HK\$9m in 1H 2018. The OPEX ratio of Smart Industry Chain dropped from 13.4% in 1H2018 to 10.6% in 1H2019. IT Logistics (ITL), under Smart Industry Chain division, is one of the leading end-to-end warehousing solutions providers in China, especially in industries such as IT products, telecommunications and fast-moving consumer goods. ITL operates 231 warehouses across China, and its clients include telecom services providers Huawei, BYD and Geely. ITL is a strategic partner of the Cainiao Network. ITL has rapidly developed its overseas logistics business along the Belt & Road. We expect ITL's gross margin to improve in 2019F, 2020F and 2021F after the heavy investment phase in the past several years and improvement in utilization.

Sm@rt City business to make a positive contribution in 2019

Sm@rt City reported revenue of HK\$89m in 1H2019, up 38.3% YoY, and segment losses fell from HK\$70m in 1H 2018 to HK\$34m in 1H2019. According to management, the 'Yanyun DaaS' big data solution, recognized by the Central Government as a technological breakthrough, has been successful in gaining government orders, especially given current direction of decoupling from overseas suppliers. DC Holdings' Sm@rt City solutions have advantages over its competitors, as DC Holdings is a total solutions provider, not just a hardware provider or systems integrator. DC Holdings has a good track record, as it has implemented over 100 Sm@rt City projects.

DCITS to pick up in 2H2019

DC Holdings reported a net profit of about HK\$264,000 in 1H2019 vs. HK\$139m (a recurring loss of HK\$201m) in 1 2018. DCITS realized revenue of approximately HK\$4,831m in 1H2019, a decrease of 4.18% YoY from HK\$5,042m in 1H2018 because of the FX impact and delays in some projects. DCITS reported a 53.0% YoY drop in segment results, from HK\$329m in 1H2018 to HK\$155m in 1H2019, which was due to non-recurring gains of HK\$199m from the partial disposal of Digital China Financial Cloud Services in 1H2018. Excluding one-off gains, DCITS reported a 21.7% YoY increase in recurring profit in 1H2019. We expect DCITS to report improved HoH performance.

Net profit cut for 2019F and 2020F

We cut our net profit forecasts for 2019F and 2020F after factoring in slower turnover growth, lower other gains and income, and a loss from HC Intl. Maintain ADD.

Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (HK\$m)	13,247	15,254	17,248	19,995	23,502
Operating EBITDA (HK\$m)	(253)	65	719	968	1,251
Net Profit (HK\$m)	(413.0)	149.6	183.2	392.7	581.8
Core EPS (HK\$)	(0.25)	0.19	0.11	0.23	0.35
Core EPS Growth	143%		(43%)	114%	48%
FD Core P/E (x)	NA	21.07	37.08	17.30	11.68
DPS (HK\$)	-	0.031	0.038	0.053	0.074
Dividend Yield	0.00%	0.77%	0.94%	1.31%	1.84%
EV/EBITDA (x)	NA	221.7	19.0	14.0	11.0
P/FCFE (x)	26.37	15.09	4.55	8.84	9.72
Net Gearing	32.0%	32.2%	24.4%	21.1%	19.5%
P/BV (x)	0.75	0.77	0.76	0.73	0.69
ROE	(5.07%)	3.59%	2.05%	4.29%	6.09%
% Change In Core EPS Estimates					
CGI/consensus EPS (x)			0.47	0.78	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Assumptions

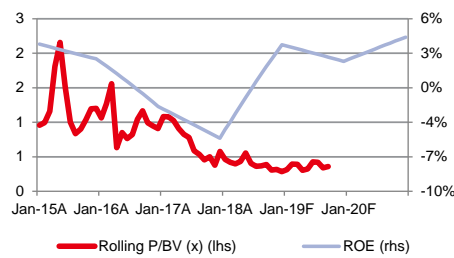
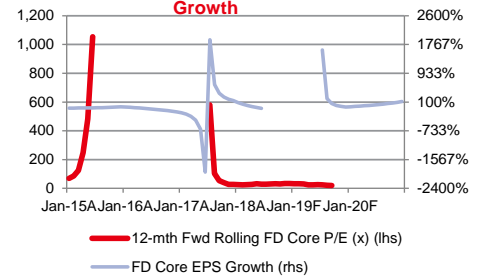
	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F
Turnover (HKD m)									
Distribution	26,254.1	0	0	n.a	n.a	n.a	n.a	n.a	n.a
Supply chain	1,064.6	3,959.5	2,080.1	2,251.9	2,703.6	3,777.4	5,099.5	6,477.7	8,231.5
Systems	17,638.4	0	0	n.a	n.a	n.a	n.a	n.a	n.a
IT services	7,306.7	8,135.8	8,156.5	9,208.6	9,414.5	10,522.4	10,840.5	11,722.3	12,751.2
Internet finance	0	60.9	328.1	650.9	257.4	120.4	120.4	120.4	120.4
Others	0	0	66.0	140.0	214.7	320.8	545.3	872.5	2,399.1
Total	52,263.8	12,156.2	10,630.7	12,251.4	12,590.2	14,740.9	16,605.6	19,192.8	23,502.2
YoY Change (%)									
Distribution		(100.0)	#DIV/0!	n.a	n.a	n.a	n.a	n.a	n.a
Supply chain		271.9	(47.5)	8.3	20.1	39.7	35.0	27.0	27.1
Systems		(100.0)	#DIV/0!	n.a	n.a	n.a	n.a	n.a	n.a
IT services		11.3	0.3	12.9	2.2	11.8	3.0	8.1	8.8
Internet finance		n.a	n.a	n.a	n.a	(53.2)	0	0	0
Others		n.a	n.a	n.a	n.a	49.4	70.0	60.0	175.0
Total		(76.7)	(12.5)	15.2	2.8	17.1	12.7	15.6	22.5
Gross margin (%)									
Distribution	6.5	15.2	20.8	20.4	20.1	19.1	18.3	18.5	18.6
Supply chain	3.3	2.0	3.0	n.a	n.a	n.a	n.a	n.a	n.a
Systems	8.4	16.6	15.9	10.4	14.6	16.1	17.6	18.6	0
IT services	9.5	9.4	9.5	n.a	n.a	n.a	n.a	n.a	n.a
Internet finance	18.0	20.2	19.1	20.6	18.4	18.4	18.4	18.4	0
Others	0	62.2	59.5	75.0	75.0	75.0	75.0	75.0	0
Net margin (%)	0	30.0	30.0	38.4	38.4	50.0	55.0	60.0	0
Net margin (%)	0.2	5.8	6.2	3.2	(3.1)	1.0	1.1	2.0	2.5
Cost (HKD m)									
Cost of Sales	(48,885.9)	(10,304)	(8,415)	(9,748)	(10,581)	(12,345)	(14,089)	(16,292)	(19,140)
S,G&A	(3,214.3)	(1,478.9)	(1,890.0)	(2,517.4)	(3,061.2)	(2,994.0)	(2,609.0)	(2,924.7)	(3,320.1)
Financial Expenses	(178.7)	(60.8)	(73.7)	(197.0)	(230.5)	(215.9)	(228.4)	(250.6)	(278.9)
YoY Change (%)									
Cost of Sales		(78.9)	(18.3)	15.8	n.a	16.7	14.1	15.6	17.5
R&D		(54.0)	27.8	33.2	n.a	(2.2)	(12.9)	12.1	13.5
Financial Expenses		(66.0)	21.2	167.3	n.a	(6.4)	5.8	9.7	11.3
CAPEX (HKD m)	139.9	167.5	138.6	1,173.9	1,082.7	100.2	300.0	300.0	300.0
Net Gearing (%)	27.7	46.6	36.5	69.3	45.0	45.1	34.6	30.1	27.9
Turnover breakdown of DCITS (DC's IT Services segment) (HKD m)									
System integration	6,559.0	6,923.4	7,150.3	9,208.6	9,414.5	10,522.4	10,840.5	11,722.3	12,751.2
Technology consultation	3,789.2	3,789.2	3,599.7	4,826.4	4,775.4	5,755.1	5,467.3	5,631.4	5,800.3
Software development	1,704.1	1,806.3	1,950.8	2,573.9	3,021.1	3,172.2	3,489.4	3,838.3	4,222.1
Financial IT	566.5	708.2	885.2	1,038.3	1,019.1	1,070.0	1,284.0	1,540.8	1,849.0
Agricultural informatization	469.4	399.0	379.0	445.8	357.9	375.8	375.8	375.8	375.8
Others	29.8	220.7	335.5	324.3	241.1	149.3	224.0	336.0	504.0
Turnover breakdown of Supply Chain Management (HKD m)									
E-commerce	0	1,920.0	953.9	894.9	1,322.7	1,531.5	2,067.6	2,687.9	3,494.2
Logistic	0	671.0	851.6	1,124.9	1,380.8	2,245.8	3,031.9	3,789.9	4,737.3

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 2: Earnings revision ←Stylename?

Revision (HKD m)	2019F forecasts			2020F forecasts		
	Old	New	change	Old	New	change
Revenue	17,479	17,248	-1.3%	20,259	19,995	-1.3%
Cost of sales and services	(14,270)	(14,089)	-1.3%	(16,504)	(16,292)	-1.3%
Gross profit	3,209	3,159	-1.5%	3,755	3,703	-1.4%
Other income and other gains and losses	678	149	-78.1%	703	163	-76.8%
S,G&A expenses	(3,221)	(2,609)	-19.0%	(3,632)	(2,925)	-19.5%
Finance costs	(197)	(228)	16.1%	(216)	(251)	16.1%
JV & Associates	92	28	-70.0%	108	83	-22.6%
Profit before tax	561	498	-11.2%	718	774	7.9%
Income tax expense	(102)	(102)	0.3%	(132)	(150)	13.3%
MI	(77)	(213)	175.2%	(84)	(232)	175.2%
Profit for the period	382	183	-52.0%	501	393	-21.7%
			ppt			ppt
Gross margin (%)	18.4	18.3	(0.0)	18.5	18.5	(0.0)
Operating margin (%)	4.3	4.2	(0.1)	4.6	5.1	0.5
Net Margin (%)	2.2	1.1	(1.1)	2.5	2.0	(0.5)
Turnover by products (HKDm)						
Supply chain	4,798	5,099	6.3%	6,097	6,478	6.2%
IT services	11,373	10,840	-4.7%	12,366	11,722	-5.2%
Others	1,308	1,308	0.0%	1,795	1,795	0.0%
	17,479	17,248		20,259	19,995	-1.3%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(HK\$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	13,247	15,254	17,248	19,995	23,502
Gross Profit	2,808	3,059	3,328	3,892	4,571
Operating EBITDA	(253)	65	719	968	1,251
Depreciation And Amortisation	(143)	(370)	(169)	(189)	(209)
Operating EBIT	(396)	(305)	550	779	1,042
Financial Income/(Expense)	(209)	(199)	(208)	(225)	(248)
Pretax Income/(Loss) from Assoc.	111	79	28	83	98
Non-Operating Income/(Expense)	446	707	128	137	147
Profit Before Tax (pre-EI)	(48)	502	498	774	1,038
Exceptional Items					
Pre-tax Profit	(48)	282	498	774	1,038
Taxation	(144)	(61)	(102)	(150)	(204)
Exceptional Income - post-tax					
Profit After Tax	(191)	220	396	624	834
Minority Interests	(222)	(71)	(213)	(232)	(253)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	(413)	150	183	393	582
Recurring Net Profit	(413)	322	183	393	582
Fully Diluted Recurring Net Profit	(413)	322	183	393	582

Cash Flow

(HK\$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	(253)	65	719	968	1,251
Cash Flow from Inv. & Assoc.					
Change In Working Capital	276	(72)	(199)	(305)	(412)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	410	673	149	163	178
Net Interest (Paid)/Received	(209)	(199)	(208)	(225)	(248)
Tax Paid					
Cashflow From Operations	224	467	461	601	769
Capex	(1,083)	(100)	(300)	(300)	(300)
Disposals Of FAs/subsidiaries	0	0	(52)	(64)	(89)
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,116	83	1,384	532	320
Cash Flow From Investing	34	(17)	1,032	168	(70)
Debt Raised/(repaid)	0	0	0	0	0
Proceeds From Issue Of Shares	1,530	0	0	0	0
Shares Repurchased					
Dividends Paid	0	0	(52)	(64)	(89)
Preferred Dividends					
Other Financing Cashflow	(369)	(1,806)	153	183	194
Cash Flow From Financing	1,161	(1,806)	101	119	105
Total Cash Generated	1,419	(1,355)	1,594	888	804
Free Cashflow To Equity	258	450	1,493	769	699
Free Cashflow To Firm	488	666	1,721	1,019	978

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(HK\$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	3,784	2,205	3,559	4,511	5,404
Total Debtors	7,159	6,114	6,912	8,014	9,419
Inventories	1,221	1,053	1,190	1,380	1,622
Total Other Current Assets	1,341	2,944	1,680	1,104	840
Total Current Assets	13,506	12,315	13,342	15,009	17,285
Fixed Assets	1,167	1,017	1,148	1,259	1,350
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	13,243	12,156	12,601	13,073	13,575
Total Non-current Assets	14,410	13,173	13,749	14,332	14,925
Short-term Debt	5,297	3,592	4,062	4,709	5,535
Current Portion of Long-Term Debt					
Total Creditors	6,778	4,869	5,505	6,382	7,501
Other Current Liabilities	145	1,656	1,773	1,899	2,033
Total Current Liabilities	12,221	10,117	11,340	12,990	15,069
Total Long-term Debt	2,584	2,606	2,606	2,606	2,606
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	43	29	31	34	36
Total Non-current Liabilities	2,627	2,635	2,638	2,640	2,643
Total Provisions	273	339	373	410	451
Total Liabilities	15,121	13,091	14,350	16,040	18,163
Shareholders' Equity	9,110	8,850	8,982	9,311	9,803
Minority Interests	3,685	3,546	3,759	3,991	4,243
Total Equity	12,795	12,397	12,741	13,301	14,047

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	8.1%	15.2%	13.1%	15.9%	17.5%
Operating EBITDA Growth	(451%)	N/A	1012%	35%	29%
Operating EBITDA Margin	(1.91%)	0.42%	4.17%	4.84%	5.32%
Net Cash Per Share (HK\$)	(2.44)	(2.38)	(1.85)	(1.67)	(1.63)
BVPS (HK\$)	5.43	5.28	5.35	5.55	5.84
Gross Interest Cover	(1.72)	(0.39)	2.41	3.11	3.74
Effective Tax Rate	0.0%	21.7%	20.5%	19.4%	19.6%
Net Dividend Payout Ratio	NA	14.0%	34.8%	22.7%	21.5%
Accounts Receivables Days	178.9	158.8	137.8	136.6	135.4
Inventory Days	35.13	34.03	29.41	29.21	28.94
Accounts Payables Days	209.4	174.3	136.0	135.1	133.8
ROIC (%)	(2.52%)	(0.49%)	3.28%	4.79%	6.30%
ROCE (%)	(1.90%)	(0.34%)	2.95%	3.94%	4.91%
Return On Average Assets	0.07%	2.40%	2.30%	3.01%	3.52%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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We are transferring the rating mechanism from “BUY, SELL, HOLD” to “ADD, REDUCE, HOLD”. Please refer to the definitions below.

Explanation on Equity Ratings (Existing mechanism (will be replaced by new mechanism by 01/09/19))

BUY : share price will increase by >20% within 12 months in absolute terms

SELL : share price will decrease by >20% within 12 months in absolute terms

HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

Explanation on Equity Ratings (New mechanism)

ADD : The stock’s total return is expected to exceed 10% over the next 12 months.

REDUCE : The stock’s total return is expected to fall below 0% or more over the next 12 months.

HOLD : The stock’s total return is expected to be between 0% and positive 10% over the next 12 months.

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