

Morning Express

9 October 2020

Focus of the Day

Technology Sector

Largan's outlook remains soft due to weak high-end demand

Chris Yim christopher.yim@bocomgroup.com

Largan's earnings missed. Largan's (3008 TT/NR) 3Q20 GPM fell 3ppts QoQ to 65.7% (vs. 2Q20: 68.6%) mainly due to softer product mix driven by order stoppage from one of its core customers (Huawei) and the overall softness in high-end smartphone demand. 3Q20 EPS of TWD43.74 missed consensus estimate by 18%. The company expects Oct revenue to be similar to Sep (-22% YoY), suggesting Oct revenue will fall ~23% YoY, with limited visibility for November.

Our take: transitional period as expected. Our supply chain checks with camera module makers also suggest that Huawei's orders diminished significantly in 3Q20, which was as expected. For the overall camera module shipment outlook in 4Q20, we expect China's smartphone camera module shipment to rise slightly QoQ due to seasonality.

Maintain Buy on Sunny Optical (2382 HK) and Q Tech (1478 HK). We see the potential of Largan being more aggressive at the mid-range as a risk to the handset lens industry. On the Android side, we expect Sunny Optical lens business to outperform that of Largan in the near term due to its bigger mid-market exposure.

Property Sector Weekly

As of 8 October 2020

Philip Tse, CFA, FRM philip.tse@bocomgroup.com

Hong Kong Property: NWD expects to release the first price list of The Pavilia Farm this week, and CK Assets will offer 285 units at Sea to Sky this Saturday. In the secondary market, transactions at 50 major residential estates last week were up 11.9% WoW to 141 units. NWD won the compulsory sale of the State Theatre building at HK\$4.78bn.

China Property: ECM (6989 HK) plans to go public on HKEX on 19 Oct 2020. Justbon Service (2606 HK/NR) has acquired 2 companies in Shanghai. For the 25 major developers we track, 9M20 sales target lock-in ranged 46-91%, with average of 70%.

Investment implications: Driven by the pent-up demand for mass-market homes and the wave of new launches, we expect the primary market sentiment will stay

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Global Stock Indices

	Close	1D%	YTD%
HSI	24,193	-0.20	-13.72
HSCEI	9,624	-0.05	-13.82
SH A	3,373	0.00	5.53
SH B	248	0.00	-3.40
SZ A	2,250	0.00	24.82
SZ B	935	0.00	-2.75
DJIA	28,426	0.43	-0.40
S&P 500	3,447	0.80	6.69
Nasdaq	11,421	0.50	27.29
FTSE	5,978	0.53	-20.74
CAC	4,882	0.00	-18.33
DAX	13,042	0.88	-1.56

Source: FactSet

Key Commodity/Forex Indicators

	Close	3M%	YTD%
Brent	42.00	-3.02	-36.40
Gold	1,883.60	3.75	23.96
Silver	23.53	27.29	30.40
Copper	6,525.00	5.34	5.99
JPY	106.03	1.41	2.50
GBP	1.29	2.66	-2.40
EUR	1.17	3.72	4.66
bps change		3M	6M
HIBOR	0.56	-16.62	-70.94
US 10yr yield	0.77	17.01	0.24

Source: FactSet

HSI Technical

HSI	24,193.35
50D MA	24,478.74
200D MA	24,425.77
14D RSI	46.27
Short sell (HK\$ m)	11,425

Source: FactSet

Hao Hong, CFA

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strong. We thus still prefer developers with ample residential pipeline, including SHKP (16 HK/**Buy**) and New World (17 HK/**Buy**).

For China property, we expect developers will continue to adopt conservative project pricing to boost sales and recoup cash to bring down gearing in 4Q20E. We continue to suggest investors focus on developers' gearing ratio and potential spin-off in 2H20E. Top picks: Shimao (813 HK/**Buy**) and CGS (6098 HK/**Buy**).

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Economic data releases for this week – US

Date	Event	Survey	Prior
5 Oct	ISM non-manufacturing PMI	56.3	56.9
6 Oct	Trade balance (US\$ bn)	-66.20	-63.60
8 Oct	Initial jobless claims (k)	823	837

Source: Bloomberg

Economic data releases for this week – China

Date	Event	Survey	Prior
-	-	-	-

Source: Bloomberg

BOCOM Research latest reports

8 Oct	Technology Sector - Largan's outlook remains soft due to weak high-end demand	Chris Yim
7 Oct	Power Sector - Expect low-single-digit power consumption growth in 2020E	Spencer Luo
7 Oct	Lenovo Group (992 HK) - Growth momentum to continue; reiterate Buy	Chris Yim
7 Oct	Healthcare Sector Weekly - As of 6 October 2020	Li Zhao, PhD, Aiwei Li, PhD
6 Oct	China Property Sector - September truly "golden" as YTD sales growth sped up	Philip Tse, CFA, FRM
6 Oct	Transportation & Infrastructure Sector Weekly - As of 2 October 2020	Luya You, Maggie Wang
6 Oct	Consumer Sector Weekly - As of 5 October 2020	Edward Lui
5 Oct	China Power Int'l (2380 HK) - Prudent strategy a mid-to-long term positive	Spencer Luo, Wallace Cheng
5 Oct	Semiconductor Manufacturing Int (981 HK) - Export restrictions confirmed; severity of disruption remains to be seen	Chris Yim
5 Oct	China Macro Review - Data monitor: economy recovering; overnight rate rallied on quarter transition	Hanna Cai, Karen Tan
5 Oct	New World Development (17 HK) - FY20 results missed; stable DPS supported by non-core disposal	Philip Tse, CFA, FRM, Evangeline Luo
30 Sep	Flat Glass Group (6865 HK) - PV glass prices hit new high again, policy blessing to supercharge demand	Bob Wen, CPA, Louis Sun
30 Sep	Healthcare Sector Weekly - As of 29 September 2020	Li Zhao, PhD, Aiwei Li, PhD
29 Sep	Alibaba Group (BABA US) - Investor Day takeaways: Focus on merchant digitalization, meeting diverse needs	Connie Gu, CPA, Brandy Sun, Gigi Zhou, Li Zhao, CFA
29 Sep	China Macro Review - Quantitative Strategy XI: China market opportunities from FM behaviors	Karen Tan, Hao Hong, CFA, Hanna Cai
29 Sep	Transportation & Infrastructure Sector Weekly - As of 25 September 2020	Luya You, Maggie Wang
29 Sep	SINA Corp (SINA US) - Weibo recovered with market; KA continued to outperform SME	Brandy Sun, Connie Gu, CPA, Gigi Zhou, Li Zhao, CFA
28 Sep	Consumer Sector Weekly - As of 25 September 2020	Edward Lui
28 Sep	ZTO Express (ZTO US) - Entrenched leadership, expanding economic moat; initiate with Buy	Luya You, Maggie Wang
28 Sep	Internet Sector Weekly - As of 25 September 2020	Connie Gu, CPA, Brandy Sun, Gigi Zhou, Li Zhao, CFA

Source: BOCOM Int'l

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HSI constituents

Company name	Stock code	Current price (HK\$)	Mkt cap (HK\$ m)	5D chg (%)	YTD chg (%)	-----52-week-----		-----P/E-----			Yield 2020E (%)	P/B 2020E (x)
						High (HK\$)	Low (HK\$)	2019 (x)	2020E (x)	2021E (x)		
CKH	1 HK	47.60	183,557	2.15	-35.94	75.45	45.55	4.61	5.92	N/A	5.21	0.37
CLP	2 HK	73.30	185,189	1.81	-10.50	84.20	65.00	39.84	16.06	15.53	4.20	1.65
HK & CHINA GAS	3 HK	11.16	198,328	0.54	-23.01	15.14	10.86	28.44	31.00	27.90	3.14	3.05
HSBC	5 HK	31.40	639,542	5.37	-48.40	61.85	28.20	5.68	16.88	9.21	1.23	0.49
POWER ASSETS	6 HK	41.40	88,358	1.97	-27.37	58.50	40.55	12.40	14.36	13.27	6.76	1.03
HANG SENG	11 HK	115.90	221,582	1.58	-28.01	173.50	111.10	9.08	12.98	12.81	4.75	1.29
HENDERSON	12 HK	28.90	139,916	1.23	-24.44	40.55	26.95	9.57	9.53	10.07	6.23	0.43
SHKP	16 HK	99.15	287,315	0.35	-16.89	123.00	89.00	8.87	9.79	9.21	4.99	0.50
NEW WORLD	17 HK	38.80	98,907	3.47	-9.18	46.88	30.44	11.28	15.05	12.35	5.26	0.46
SWIRE PACIFIC	19 HK	38.00	34,398	2.15	-47.51	76.65	36.30	7.92	N/A	12.15	4.01	0.21
GEG	27 HK	52.80	229,294	1.64	-8.01	62.80	38.60	17.54	N/A	N/A	0.00	3.46
MTRC	66 HK	38.75	239,410	1.31	-15.85	47.80	36.85	22.53	41.44	23.41	3.17	1.30
SINO	83 HK	9.80	69,043	8.89	-13.43	12.40	8.18	14.20	14.87	N/A	5.61	0.46
HLP	101 HK	20.40	91,753	4.19	19.30	22.15	13.82	20.61	21.11	N/A	3.73	0.66
WANT WANT	151 HK	5.25	64,447	-2.42	-27.88	7.37	4.93	16.33	N/A	N/A	N/A	N/A
GEELY	175 HK	15.60	153,084	1.30	2.36	19.06	10.08	15.40	18.04	13.44	1.43	2.04
CITIC LTD	267 HK	5.71	166,105	0.35	-45.20	10.70	5.60	3.09	3.74	3.24	6.61	0.27
WH GROUP	288 HK	6.38	94,050	1.59	-20.75	8.78	5.96	8.79	9.27	8.23	4.27	1.29
SINOPEC	386 HK	3.17	80,878	1.93	-32.41	4.80	3.09	5.85	14.05	9.22	5.38	0.46
HKEX	388 HK	377.80	478,990	4.42	49.33	394.20	211.40	50.44	43.40	37.41	2.09	10.19
COLI	688 HK	19.78	216,691	1.96	-34.83	30.70	19.14	4.57	4.97	4.37	5.97	0.62
TENCENT	700 HK	535.00	5,126,761	4.59	42.44	564.00	316.20	48.75	37.49	31.47	0.26	8.09
UNICOM	762 HK	5.13	156,968	1.58	-30.11	8.68	3.90	12.18	10.73	9.49	3.77	0.42
LINK	823 HK	62.50	128,902	-0.79	-24.24	86.50	57.00	23.05	21.76	22.21	4.59	0.81
CR POWER	836 HK	8.60	41,370	0.58	-21.39	11.40	6.58	6.28	4.90	4.52	7.95	0.53
PETROCHINA	857 HK	2.27	47,895	0.00	-41.94	4.20	2.23	7.98	N/A	17.21	6.66	0.30
CNOOC	883 HK	7.65	341,553	2.68	-40.97	13.74	6.40	4.91	13.45	8.51	5.26	0.67
CCB	939 HK	5.02	1,274,035	0.00	-25.41	6.80	4.98	4.37	4.54	4.25	6.64	0.49
CHINA MOBILE	941 HK	50.35	1,030,940	1.82	-23.13	69.70	48.25	8.54	8.46	8.24	6.60	0.79
CK INFRA	1038 HK	36.85	97,678	1.94	-33.54	57.85	35.65	8.84	11.13	9.96	6.73	0.81
HENGAN	1044 HK	56.25	66,920	0.00	1.35	71.00	49.20	15.05	12.60	N/A	5.44	3.02
SHENHUA	1088 HK	13.40	45,541	-3.60	-17.69	16.62	12.06	5.62	5.98	5.89	8.36	0.63
CSPC	1093 HK	15.64	117,044	4.27	1.01	17.83	11.43	27.65	22.53	19.14	1.36	4.69
CR LAND	1109 HK	36.05	257,070	3.30	-7.09	39.40	28.00	10.19	9.22	7.99	3.90	1.18
CKA	1113 HK	38.65	142,750	2.38	-31.29	56.70	34.40	4.97	7.50	N/A	3.80	0.40
SBP	1177 HK	8.60	162,305	1.90	18.35	10.88	6.47	45.40	44.46	35.99	0.57	4.24
AIA	1299 HK	80.00	967,478	5.40	-2.20	87.35	60.70	18.70	23.76	17.82	1.65	2.06
ICBC	1398 HK	4.04	1,860,135	0.50	-32.67	6.05	3.99	4.13	4.52	4.23	6.67	0.47
SANDS	1928 HK	29.00	234,607	-2.85	-30.37	45.00	26.15	14.89	N/A	N/A	0.00	13.10
WHARF REIC	1997 HK	31.05	94,275	-1.43	-34.70	49.10	27.30	9.61	12.42	11.61	5.10	0.43
COUNTRY GARDEN	2007 HK	10.00	220,354	5.49	-19.87	12.88	7.88	4.91	4.47	3.94	6.83	1.06
AAC TECH	2018 HK	45.90	55,470	9.94	-32.50	70.00	35.85	21.92	28.51	18.56	0.90	2.35
SHENZHOU	2313 HK	134.60	202,333	3.14	18.17	134.60	73.15	34.89	33.13	28.20	1.56	6.35
PING AN	2318 HK	80.30	1,538,104	1.01	-12.81	99.55	70.90	8.40	9.64	8.10	3.12	1.69
MENGNIU	2319 HK	37.25	146,999	2.62	18.25	39.20	25.00	31.21	38.51	24.71	0.53	4.04
SUNNY OPTICAL	2382 HK	129.20	141,713	9.21	-4.23	149.50	92.40	31.12	29.18	21.88	0.71	7.76
BOCHK	2388 HK	21.25	224,672	4.17	-21.44	28.90	20.30	6.98	8.40	8.21	5.55	0.76
CHINA LIFE	2628 HK	18.06	1,187,211	4.15	-16.58	22.75	12.86	7.74	9.06	8.13	4.05	1.02
BOCOM	3328 HK	3.74	130,944	0.54	-32.49	5.61	3.66	3.29	3.57	3.46	8.22	0.33
BOC	3988 HK	2.41	969,022	0.42	-27.63	3.37	2.37	3.47	3.75	3.75	8.35	0.35
HANG SENG INDEX		24,193.35	18,002,858	3.13	-14.18	29,056.42	21,696.13	20.66	18.77	15.83	3.64	3.15

Source: FactSet

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HSCEI constituents

Company name	Stock code	Closing price (HK\$)	Mkt cap (HK\$ m)	5D chg (%)	YTD chg (%)	-----52-week-----		-----P/E-----			Yield 2020E (%)	P/B 2020E (x)
						High (HK\$)	Low (HK\$)	2019 (x)	2020E (x)	2021E (x)		
CITIC LTD	267 HK	5.71	166,105	0.35	-45.20	10.70	5.60	3.09	3.74	3.24	6.61	0.27
GDI	270 HK	12.30	80,415	0.33	-24.54	17.30	11.90	15.94	15.97	13.67	4.88	1.89
CGH	384 HK	22.15	115,591	0.68	-24.14	34.75	20.75	13.59	12.59	10.70	2.26	2.92
SINOPEC	386 HK	3.17	80,878	1.93	-32.41	4.80	3.09	5.85	14.05	9.22	5.38	0.46
CRG	390 HK	3.68	140,384	1.10	-23.49	5.03	3.47	3.40	3.40	3.14	5.24	0.33
DONGFENG	489 HK	5.00	14,279	3.95	-31.79	8.09	4.42	2.94	4.10	3.04	5.69	0.28
TENCENT	700 HK	535.00	5,126,761	4.59	42.44	564.00	316.20	48.75	37.49	31.47	0.26	8.09
CHINA TELECOM	728 HK	2.34	32,473	0.86	-27.10	3.67	2.06	8.23	7.91	7.61	5.47	0.46
AIR CHINA	753 HK	5.27	104,421	3.94	-33.38	8.26	4.60	9.91	N/A	14.94	0.00	0.81
CHINA TOWER	788 HK	1.74	N/A	0.00	1.16	1.78	1.56	40.50	29.82	23.86	1.68	1.13
PETROCHINA	857 HK	2.27	47,895	0.00	-41.94	4.20	2.23	7.98	N/A	17.21	6.66	0.30
CNOOC	883 HK	7.65	341,553	2.68	-40.97	13.74	6.40	4.91	13.45	8.51	5.26	0.67
HUANENG	902 HK	3.14	82,465	5.02	-20.30	4.11	2.24	275.93	6.00	5.31	10.33	0.40
CONCH	914 HK	53.15	69,074	-0.28	-6.43	61.05	45.95	7.57	7.01	6.82	4.57	1.53
CCB	939 HK	5.02	1,274,035	0.00	-25.41	6.80	4.98	4.37	4.54	4.25	6.64	0.49
CHINA MOBILE	941 HK	50.35	1,030,940	1.82	-23.13	69.70	48.25	8.54	8.46	8.24	6.60	0.79
CNCB	998 HK	2.97	239,889	-0.67	-36.40	4.77	2.96	2.93	3.11	2.87	8.21	0.27
HENGAN	1044 HK	56.25	66,920	0.00	1.35	71.00	49.20	15.05	12.60	N/A	5.44	3.02
SHENHUA	1088 HK	13.40	45,541	-3.60	-17.69	16.62	12.06	5.62	5.98	5.89	8.36	0.63
CSPC	1093 HK	15.64	117,044	4.27	1.01	17.83	11.43	27.65	22.53	19.14	1.36	4.69
SINOPHARM	1099 HK	16.96	22,757	4.31	-40.39	29.45	14.86	7.10	6.84	6.13	4.38	0.89
CR LAND	1109 HK	36.05	257,070	3.30	-7.09	39.40	28.00	10.19	9.22	7.99	3.90	1.18
BYD	1211 HK	128.40	357,321	5.77	230.50	128.40	33.55	225.67	83.58	71.64	0.12	5.14
ABC	1288 HK	2.43	1,226,310	0.41	-29.15	3.47	2.40	3.62	3.95	3.68	7.49	0.40
NCI	1336 HK	29.95	178,296	3.81	-10.60	35.95	20.65	5.64	6.08	5.56	4.52	0.87
PICC	1339 HK	2.29	19,983	0.00	-29.32	3.38	2.11	4.02	4.37	N/A	5.68	0.45
CINDA	1359 HK	1.49	20,216	2.76	-15.82	1.86	1.36	4.22	4.94	4.16	6.87	0.33
ICBC	1398 HK	4.04	1,860,135	0.50	-32.67	6.05	3.99	4.13	4.52	4.23	6.67	0.47
PSBC	1658 HK	3.26	64,731	0.31	-38.49	5.39	3.08	3.98	4.68	4.38	6.42	0.47
CRRC	1766 HK	3.29	166,366	6.82	-42.08	5.99	3.05	7.05	7.65	6.69	4.83	0.58
GF SEC	1776 HK	10.24	17,426	4.81	7.90	10.76	7.60	9.09	7.82	7.20	4.28	0.71
CCC	1800 HK	4.16	117,741	2.72	-34.49	6.55	4.01	3.15	3.36	2.95	5.96	0.24
CGN POWER	1816 HK	1.61	146,439	1.26	-22.60	2.12	1.52	7.04	7.24	7.07	5.65	0.74
MSB	1988 HK	3.86	245,994	-4.93	-34.47	5.99	3.86	2.90	3.10	2.89	9.27	0.31
VANKE	2202 HK	23.65	44,782	0.00	-28.87	34.35	23.00	6.16	5.49	4.79	5.47	1.08
GAC	2238 HK	6.70	98,103	3.88	-30.93	9.97	5.59	9.20	8.83	6.85	3.49	0.71
SHENZHO	2313 HK	134.60	202,333	3.14	18.17	134.60	73.15	34.89	33.13	28.20	1.56	6.35
PING AN	2318 HK	80.30	1,538,104	1.01	-12.81	99.55	70.90	8.40	9.64	8.10	3.12	1.69
PICC P&C	2328 HK	5.27	36,359	-2.23	-43.88	10.16	5.27	4.24	4.80	4.48	8.65	0.57
GWM	2333 HK	11.18	166,861	13.73	94.10	11.18	3.85	20.05	19.94	14.57	2.44	1.58
CPIC	2601 HK	22.10	304,439	0.91	-28.01	31.70	18.16	6.35	6.84	6.23	6.52	0.88
CHINA LIFE	2628 HK	18.06	1,187,211	4.15	-16.58	22.75	12.86	7.74	9.06	8.13	4.05	1.02
HUARONG	2799 HK	0.86	21,538	4.88	-30.08	1.33	0.77	18.89	18.89	10.80	1.32	0.24
BOCOM	3328 HK	3.74	130,944	0.54	-32.49	5.61	3.66	3.29	3.57	3.46	8.22	0.33
CMB	3968 HK	37.55	1,017,481	2.74	-6.24	42.00	31.45	9.12	9.06	8.07	3.57	1.30
BOC	3988 HK	2.41	969,022	0.42	-27.63	3.37	2.37	3.47	3.75	3.75	8.35	0.35
CITIC SEC	6030 HK	17.76	404,350	3.14	-0.11	20.75	13.00	16.02	12.00	10.63	3.91	1.13
ZA ONLINE	6060 HK	40.20	18,886	4.96	43.06	55.10	18.36	N/A	94.35	66.71	0.00	3.35
HAITONG SEC	6837 HK	6.67	178,201	1.68	-27.58	9.43	5.86	7.06	6.85	5.92	4.38	0.50
HTSC	6886 HK	12.88	194,031	1.74	-6.53	16.04	10.40	11.44	8.62	8.00	3.85	0.79
HANG SENG CHINA ENT INDX		9,624.48	17,941,967	2.42	-13.82	11,419.91	8,559.64	22.58	16.56	14.17	4.12	2.80

Source: FactSet

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Morning Express

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Rating System

Analyst Stock Rating:

Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is the **Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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Analyst certification

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