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KEY HIGHLIGHTS

CHINA

Sector

Cement

1H18 results preview: Record-high earnings ahead. Upgrade to OVERWEIGHT. Page 2

YiChang HEC ChangJiang Pharmaceutical

(1558 HK/BUY/HK\$41.40/Target:HK\$68.99) Page 5

Deeping hospital penetration drives fast-growth of Kewei; expect more drug asset injections in 2019-20.

TRADERS' CORNER

Fairwood Holdings (52 HK): Trading Buy Range Page 8

Chow Tai Fook (1929 HK): Trading Buy Range

KEY INDICES

| | Prev Close | 1D % | 1W % | 1M % | YTD % |
|------------------------|------------|-------|-------|--------|--------|
| DJIA | 24919.7 | 0.6 | 2.5 | (1.6) | 0.8 |
| S&P 500 | 2793.8 | 0.3 | 2.5 | 0.4 | 4.5 |
| FTSE 100 | 7692.0 | 0.1 | 1.3 | (0.6) | 0.1 |
| AS30 | 6342.8 | (0.4) | 0.6 | 3.0 | 2.8 |
| CSI 300 | 3467.5 | 0.2 | 1.7 | (8.3) | (14.0) |
| FSSTI | 3274.8 | 1.4 | 1.2 | (4.8) | (3.8) |
| HSCEI | 10825.0 | 0.5 | (0.4) | (11.1) | (7.6) |
| HSI | 28682.3 | (0.0) | 0.5 | (7.7) | (4.1) |
| JCI | 5881.8 | 1.3 | 4.4 | (1.9) | (7.5) |
| KLCI | 1687.1 | 0.9 | 0.4 | (5.0) | (6.1) |
| KOSPI | 2294.2 | 0.4 | 0.9 | (7.1) | (7.0) |
| Nikkei 225 | 22196.9 | 0.7 | 1.9 | (2.7) | (2.5) |
| SET | 1643.6 | 1.3 | 1.0 | (4.6) | (6.3) |
| TWSE | 10756.9 | 0.3 | 0.4 | (3.5) | 1.1 |
| BDI | 1609 | (0.8) | 9.0 | 15.7 | 17.8 |
| CPO (RM/mt) | 2263 | (0.6) | (2.5) | (3.9) | (5.3) |
| Brent Crude (US\$/bbl) | 79 | 1.0 | 1.4 | 3.1 | 17.9 |

Source: Bloomberg

TOP VOLUME

| Company | Price (HK\$) | Chg (%) | Volume ('000) |
|-----------------|--------------|---------|---------------|
| BANK OF CHINA-H | 3.71 | 0.5 | 327,048 |
| ICBC-H | 5.65 | 0.7 | 283,708 |
| CCB-H | 6.99 | 0.7 | 277,025 |
| ABC-H | 3.68 | 1.7 | 179,502 |
| PETROCHINA | 5.86 | 2.3 | 129,360 |

TOP GAINERS

| Company | Price (HK\$) | Chg (%) | Volume ('000) |
|------------------|--------------|---------|---------------|
| CONCH CEMENT-H | 44.75 | 3.1 | 18,598 |
| POSTAL SAVINGS-H | 5.08 | 2.8 | 24,122 |
| CNOOC | 13.04 | 2.5 | 58,280 |
| CHINA TAIPING | 25.60 | 2.4 | 8,343 |
| PETROCHINA | 5.86 | 2.3 | 129,360 |

TOP LOSERS

| Company | Price (HK\$) | Chg (%) | Volume ('000) |
|---------------------|--------------|---------|---------------|
| GREAT WALL MOTOR | 5.31 | (4.8) | 72,094 |
| MENGIU DAIRY | 25.70 | (3.9) | 16,065 |
| GUANGDONG INV | 12.76 | (3.8) | 4,119 |
| CHINA GAS HOLD | 31.85 | (3.6) | 6,692 |
| CSPC PHARMACEUTICAL | 22.20 | (3.1) | 25,409 |

KEY ASSUMPTIONS

| GDP (% yoy) | 2017 | 2018F | 2019F |
|-------------|------|-------|-------|
| US | 2.3 | 2.5 | 2.3 |
| Euro Zone | 2.4 | 2.3 | 1.9 |
| Japan | 1.7 | 1.8 | 1.9 |
| Singapore | 3.6 | 2.8 | 3.0 |
| Malaysia | 5.9 | 5.0 | 5.3 |
| Thailand | 3.9 | 4.2 | 4.2 |
| Indonesia | 5.1 | 5.3 | 5.4 |
| Hong Kong | 3.8 | 3.8 | 2.8 |
| China | 6.9 | 6.4 | 6.2 |

| | | | | |
|-----------------|------------|-------|-------|-------|
| CPO | (RM/mt) | 2,783 | 2,400 | 2,500 |
| Brent (Average) | (US\$/bbl) | 55.00 | 67.00 | 66.50 |

Source: Bloomberg, UOB ETR, UOB Kay Hian

SECTOR UPDATE

Cement – China

1H18 Results Preview: Record-High Earnings Ahead

We expect the sector to deliver decent 1H18 results in a strong cement market. In our view, infrastructure demand might pick up with potential acceleration of fiscal spending in 2H18, thus benefitting the cement sector. We believe the recent sell-off in the market has created a good opportunity to accumulate quality cement names. Upgrade the China cement sector to **OVERWEIGHT**. Maintain **BUY** on Anhui Conch, CNBM, and CR Cement with new target prices.

WHAT'S NEW

- As at 10 Jul 18, eight (out of 26) A/H-listed cement producers have announced positive 1H18 profit alerts, with record-high net profit growth ranging from 80-622% yoy (see Figure 4). Within our coverage, CR Cement (1313 HK/BUY) announced on 11 June that it expects its net profit to grow significantly in 1H18, while Anhui Conch (914 HK/600585 CH/BUY) announced on 9 July that its 1H18 net profit would grow by 80-100% yoy thanks to the strong cement price. We expect CNBM (3323 HK/BUY) to post a positive profit alert as well.
- Cement ASP well supported in 1H18.** Cement ASP has been staying at high levels since the beginning of 2018 and averaged at about Rmb432/tonnes in 1H18, up 22.5% yoy. This nationwide improvement was led by East China (up 37% yoy) while the worst performer - North China - also recorded 14% yoy growth. We expect cement ASP to see only a minor fall in 3Q18 (traditional low season) and rebound in 4Q18 on tight supply.

ESSENTIALS

- Sector profitability reached all-time historical high.** According to Digital Cement, China's cement sector recorded a sector net profit of Rmb17.7b in May, up 76% yoy, with 5M18 net profit surging 163.9% yoy to Rmb51.4b, surpassing the second-highest level ever recorded in history (2011) by 46%. Looking ahead, we expect the sector to sustain the superior profitability under tighter supply and potential easing of coal cost pressure.
- Supply: Tight supply under stricter production curbs and environmental checks.** China cement production recorded a 0.8% yoy decline in the first 5 months of 2018 thanks to the well-implemented production curb nationwide. Entering into the low season from June, we see more provinces in the southern part of China implementing stricter production curbs. Coupled with the newly announced Three-year Blue Sky Plan to fight against pollution, we expect cement supply to remain tight and market to be more consolidated.
- Demand: More optimistic about demand from infrastructure than property in 2H18.** We share our strategy team's view that China is likely to implement targeted liquidity injections and accelerate fiscal spending in 2H18 to moderate the impact of deleveraging. Thus, we believe that infrastructure FAI would benefit from the move and support the cement demand as a major downstream of cement sector (about 40% of total demand). On the other hand, we are concerned about demand from property sector (about 30% of total demand) with the further tightening of shanty town renovation approvals in 2H18.
- Upgrade China cement sector to OVERWEIGHT.** We believe the recent sell-off in the market has created good buying opportunity for cement names. The cement names under our coverage are trading at only 6-8x 2018F PE and 0.7-1.8x 2018F P/B. We thus upgrade the sector to OVERWEIGHT on earnings visibility and attractive valuation.

PEER COMPARISON

| Company | Ticker | Rec | Price @ 10 Jul 18 (lcu) | Target Price (lcu) | Upside/ Downside to TP (%) | Market Cap (US\$m) | PE | | P/B | | EV/EBITDA | | ROE (%) |
|-----------------|-----------|-----|-------------------------------|--------------------------|-------------------------------------|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|
| | | | | | | | 2018F (x) | 2019F (x) | 2018F (x) | 2019F (x) | 2018F (x) | 2019F (x) | |
| Anhui Conch - A | 600585 CH | BUY | 33.75 | 46.70 | 38.4 | 20,360 | 8.0 | 7.7 | 1.7 | 1.5 | 5.0 | 4.9 | 26.6 |
| CNBM | 3323 HK | BUY | 7.67 | 10.98 | 43.2 | 3,781 | 5.6 | 5.0 | 0.7 | 0.6 | 5.8 | 5.3 | 12.6 |
| Anhui Conch - H | 914 HK | BUY | 44.75 | 58.45 | 30.6 | 7,410 | 7.6 | 8.3 | 1.8 | 1.6 | 4.6 | 4.9 | 26.6 |
| CR Cement | 1313 HK | BUY | 8.09 | 10.00 | 23.6 | 7,198 | 7.3 | 7.7 | 1.3 | 1.2 | 4.4 | 4.5 | 21.0 |

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Upgraded)

SECTOR PICKS

| Company | Ticker | Rec | Share Price (HK\$) | Target Price (HK\$) |
|---------------|-----------|-----|--------------------|---------------------|
| CNBM | 3323 HK | BUY | 7.67 | 10.00 |
| Anhui Conch-A | 600585 CH | BUY | 33.75* | 46.70* |
| Anhui Conch | 914 HK | BUY | 44.75 | 58.45 |
| CR Cement | 1313 HK | BUY | 8.09 | 10.00 |

* In Rmb

Source: Bloomberg, UOB Kay Hian

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• CNBM (3323 HK/BUY/Target: HK\$10.98)

We expect the company to post positive profit alert for 1H18 soon given the nationwide improvement ytd in the cement market. We believe the company's liquidity risk is manageable given its Central SOE background, sufficient unused loan quota, reduced capex plan, improving working capital management and on-going deleveraging efforts. Currently the stock is trading at only 5.6x 2018F PE, indicating 43% upside and deep discount to its peers (A-share average: 12.5x 2018F PE, H-share: 6.4x)

Maintain BUY. We maintain our revenue forecast unchanged for CNBM and lower our net profit forecast by 3% for 2018F/19F/20F to factor in higher finance cost in rising interest rate environment. We maintain our BUY rating for CNBM but lower our target price to HK\$10.98 (previously: HK\$13.40) based on unchanged 8.0x 2018 PE and new RMB/HKD exchange rate assumption of 0.85 (from previous 0.80).

EARNINGS FORECAST CHANGE - CNBM

| (Rmbm) | ----- Old ----- | | ----- New ----- | | ----- chg% ----- | |
|-----------|-----------------|---------|-----------------|---------|------------------|-------|
| | 2018F | 2019F | 2018F | 2019F | 2018F | 2019F |
| Rev | 204,138 | 208,364 | 204,138 | 208,364 | 0 | 0 |
| NI | 10,112 | 11,327 | 9,844 | 11,010 | -3 | -3 |
| EPS (fen) | 119.9 | 134.3 | 116.7 | 130.5 | -3 | -3 |

Source: UOB Kay Hian

• Anhui Conch (914 HK/BUY/Target: HK\$58.45) (600585 CH/BUY/Target: Rmb46.70)

Positive 1H18 profit alert. Anhui Conch announced on 9 July that its 1H18 net profit would grow by 80-100%yoy (about Rmb12.1b-13.4b), which suggests a much better-than-expected set of results for 2Q18 amid a strong market. To factor in better-than-expected cement ASP and gross profit/tonne performance, we revise up our 2018/2019 earnings forecasts by 11%/5% respectively. We expect Anhui Conch to continue to be outperformed among peers, given: a) its core businesses are in the east and south regions, which are expected to continue enjoying fast economic growth, b) its above-peers cost control. c) its net cash position enables the company to grasp good M&A opportunities and avoid funding cost rising pressure.

Maintain BUY, with target price raised on the back of higher earnings forecasts. Our target price for Conch-H is HK\$58.45 (previously HK\$55.40), based on 10x 2018F PE (historical average). Our target price for Conch-A is Rmb46.70, based on 9.4x 2018F PE (historical average, equals to 6% discount to H-share price). With Conch-A being included as a target stock in the MSCI Emerging Markets Index, combined with our overall positive view of the cement market and Conch, there is a high possibility of Conch A/H discount being narrowed down. Maintain BUY.

EARNINGS FORECAST CHANGE - ANHUI CONCH

| (Rmbm) | ----- Old ----- | | ----- New ----- | | ----- chg% ----- | |
|-----------|-----------------|--------|-----------------|--------|------------------|-------|
| | 2018E | 2019E | 2018E | 2019E | 2018E | 2019E |
| Rev | 91,972 | 89,544 | 95,568 | 93,028 | 4 | 4 |
| NI | 23,718 | 23,011 | 26,327 | 24,185 | 11 | 5 |
| EPS (fen) | 447.6 | 434.2 | 496.8 | 456.4 | 11 | 5 |

Source: UOB Kay Hian

• CR Cement (1313 HK/BUY/Target: HK\$10.00)

Private placement leads to EPS dilution. CR Cement announced a placement of 450m shares (6.89% of issued share capital) at HK\$9.30 on 12 June. We calculated that 2018/2019 EPS will be diluted by 3.5% and 7% respectively due to the share placement. As such, share price came off sharply from its all-time high (HK\$10.38) by almost 30% within one month after the announcement. However, we think the market has overreacted to the negative news associated with EPS dilution and property sector slowdown.

Raising earnings forecasts. CR Cement has guided for cement ASP of HK\$387.4/tonne in 5M18 (ASP in 1Q18 was HK\$383/tonne, which means ASP was higher at about HK\$394/tonne in April and May). We expect cement prices to hold up well in the traditional low weak season in July-August due to low inventory and strict implementation of the off-peak production halt. Thus, we revise up our 2018/2019 net profit forecasts by 15%/9% respectively, translating to EPS change of 11%/2% accordingly.

Maintain BUY. Our target price is HK\$10.00 (previously HK\$10.50), based on 9x 2018F PE (previous 10x PE). The new target price implies 23.6% upsides. Maintain BUY.

EARNINGS FORECAST CHANGE – CR CEMENT

| (HK\$m) | ----- Old ----- | | ----- New ----- | | ----- chg% ----- | |
|-----------------|-----------------|--------|-----------------|--------|------------------|-------|
| | 2018E | 2019E | 2018E | 2019E | 2018E | 2019E |
| Rev | 37,255 | 38,021 | 38,552 | 38,802 | 3 | 2 |
| NI | 6,536 | 6,751 | 7,499 | 7,326 | 15 | 9 |
| EPS (HK\$ cent) | 100.0 | 103.3 | 111.0 | 104.9 | 11 | 2 |

Source: UOB Kay Hian

CEMENT PEER COMPARISON

| Stocks | Market Cap (US\$m) | Price @ 10 Jul 18 (LC) | ----- PE ----- 2018F (x) | 2019F (x) | ----- P/B ----- 2018F (x) | 2019F (x) | ----- ROE ----- 2018F (%) | 2019F (%) | Remark | |
|------------------|----------------------|------------------------|-----------------------------|-------------|------------------------------|------------|------------------------------|-------------|-------------|--|
| A-share | | | | | | | | | | |
| 600585 CH | Anhui Conch-A | 20,360 | 33.75 | 8.0 | 7.7 | 1.7 | 1.5 | 22.3 | 20.3 | 1H18 net profit up 80%-100% yoy |
| 000401 CH | Tangshan Jidong | 1,988 | 9.78 | 19.7 | 15.0 | 1.2 | 1.1 | 8.3 | 8.8 | 1H18 net profit: Rmb480-530m vs. Net loss: Rmb111m in 1H17 |
| 600801 CH | Huaxin Cement | 2,433 | 16.58 | 7.5 | 6.5 | 1.7 | 1.4 | 23.9 | 21.7 | 1H18 net profit up 180%-192% yoy |
| 600970 CH | Sinoma International | 1,678 | 6.34 | 8.1 | 6.6 | 1.3 | 1.1 | 16.0 | 16.8 | |
| 600881 CH | Jilin Yatai | 1,877 | 3.83 | 13.4 | n.a | n.a | n.a | n.a | n.a | |
| 002233 CH | Guangdong Tapai | 1,992 | 11.08 | 11.1 | 9.0 | 1.4 | 1.3 | 14.0 | 13.9 | 1H18 net profit up 130%-180% yoy |
| 002302 CH | China West Cons | 2,193 | 11.52 | 33.4 | 32.0 | 2.2 | 2.2 | 4.4 | 6.8 | |
| 000877 CH | Xinjiang Tianshan | 1,156 | 7.31 | 12.4 | 6.5 | 0.9 | 0.8 | 10.8 | 13.0 | |
| 600720 CH | Gansu Qilian | 814 | 6.95 | 6.4 | 5.4 | 0.9 | 0.9 | 15.0 | 16.1 | |
| 000789 CH | Jiangxi wann | 1,079 | 11.66 | 8.9 | 7.5 | 1.9 | 1.7 | 22.6 | 21.3 | 1H18 net profit up 440%-490% yoy |
| 002398 CH | Xiamen Academy | 545 | 5.22 | 14.3 | 10.3 | 1.4 | 1.3 | 10.6 | 12.6 | |
| 000935 CH | Sichuan Shuangma | 1,888 | 16.40 | n.a | n.a | n.a | n.a | n.a | n.a | 1H18 net profit up 470%-510% yoy |
| 000885 CH | Henan Tongli | 773 | 10.33 | n.a | n.a | n.a | n.a | n.a | n.a | |
| 000672 CH | Gansu Shangfen | 1,080 | 8.80 | 5.3 | 5.0 | 2.1 | 1.5 | 35.5 | 29.1 | |
| 000546 CH | Jinyuan | 1,467 | 13.61 | 16.7 | 11.7 | 2.5 | 2.0 | 15.3 | 18.2 | |
| 600802 CH | Fujian Cement | 446 | 7.74 | n.a | n.a | n.a | n.a | n.a | n.a | 1H18 net profit: Rmb225m vs. Net loss: Rmb43m in 1H17 |
| 601992 CH | BBMG-A | 4,276 | 3.40 | 9.4 | 8.4 | 0.7 | 0.6 | 6.9 | 8.2 | |
| A-Shr Avg | | | | 12.5 | 10.1 | 1.5 | 1.3 | 15.8 | 15.9 | |
| H-share | | | | | | | | | | |
| 914 HK | Anhui Conch-H | 7,410 | 44.75 | 8.8 | 8.6 | 1.9 | 1.7 | 22.9 | 21.2 | 1H18 net profit up 80%-100% yoy |
| 3323 HK | CNBM | 3,781 | 7.67 | 6.0 | 5.5 | 0.7 | 0.6 | 11.6 | 11.3 | |
| 1313 HK | CR Cement | 7,198 | 8.09 | 7.7 | 7.6 | 1.5 | 1.3 | 20.6 | 19.0 | Positive 1H18 profit alert |
| 743 HK | Asia Cement CH | 972 | 4.87 | 4.4 | 4.2 | 0.6 | 0.5 | 14.1 | 13.3 | |
| 2233 HK | West China Cemen | 873 | 1.26 | 5.0 | 4.8 | 0.7 | 0.7 | 14.8 | 13.6 | |
| 1252 HK | China Tianrui | 2,527 | 6.75 | n.a | n.a | n.a | n.a | n.a | n.a | |
| 2009 HK | BBMG-H | 828 | 2.78 | 6.5 | 5.8 | 0.5 | 0.4 | 7.0 | 8.1 | |
| H-Shr Avg | | | | 6.4 | 6.1 | 1.0 | 0.9 | 15.2 | 14.4 | |

Source: Bloomberg, UOB Kay Hian

COMPANY UPDATE

YiChang HEC ChangJiang Pharmaceutical (1558 HK)

Deeping Hospital Penetration Drives Fast-growth At Kewei; Expect More Drug Asset Injections In 2019-20

Despite a high base in 1H18, we believe the company will sustain the strong growth in 2H18 and 2019, given deepening hospital penetration at Kewei and rapid sales expansion of Ertongshu. In 2019-21, we expect continuous drug asset injections from HEC R&D centre, which include 20-30 US/EU-qualified generics and 3-5 self-developed innovative drugs. Current valuation includes zero value for the company's drug pipeline. Maintain BUY and target price of HK\$68.99.

WHAT'S NEW

- **Asset injection.** YiChang HEC ChangJiang Pharmaceutical (HEC Pharma) has proposed to buy drug assets, which include six generic drugs, from HEC R&D centre for Rmb505.2m.
- **Profit alert.** HEC Pharma announced a positive profit alert with over 110% yoy growth in 1H18.

STOCK IMPACT

- **Injection of six US and EU-qualified drugs just the start.** The total payment process is divided into two stages: a) prepayment of Rmb252m after closing the deal; and b) milestone payment of Rmb252m (Rmb42m for each drug) upon receiving CFDA approval. The six generic drugs are Esomeprazole Enteric-coated capsules, Olmesartan tablets, Clarithromycin (tablets and sustained release), Levofloxacin tablets and Moxifloxacin tablets. The six drugs were previously approved by the US or EU FDA. Therefore, these drugs are waiting for marketing approvals in China under the fast track review channel.
- **US and EU ANDA-approved drugs are regarded as BE-equivalents** once they are approved by the CFDA. This means that they will be treated as having the same quality and pricing levels as the originator's products. Although there are many drugs in the Levofloxacin, Moxifloxacin and Clarithromycin markets, the market size at Rmb1.5b-3.0b each provides enough room for more entrants. Riding on its superior quality and supportive policy tailwind, we expect HEC will gradually take market share from foreign originators and domestic players.
- **HEC Pharma targets to gain 100 generics approvals in China and overseas by 2020.** We expect 20-30 generic to be successfully registered in China through "export drug conversion", and be injected into HEC Pharma thereafter.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2016 | 2017 | 2018F | 2019F | 2020F |
|-------------------------------|--------|---------|---------|---------|---------|
| Net turnover | 941.5 | 1,601.6 | 2,448.5 | 2,956.4 | 3,505.0 |
| EBITDA | 487.7 | 778.3 | 1,174.3 | 1,394.8 | 1,663.8 |
| Operating profit | 460.3 | 752.5 | 1,125.4 | 1,335.7 | 1,593.7 |
| Net profit (rep./act.) | 380.6 | 647.1 | 962.6 | 1,142.2 | 1,362.4 |
| Net profit (adj.) | 380.6 | 647.1 | 962.6 | 1,142.2 | 1,362.4 |
| EPS (fen) | 84.4 | 143.2 | 213.0 | 252.8 | 301.5 |
| PE (x) | 41.4 | 24.4 | 16.4 | 13.8 | 11.6 |
| P/B (x) | 6.4 | 5.6 | 4.5 | 3.6 | 2.9 |
| EV/EBITDA (x) | 31.0 | 19.4 | 12.9 | 10.8 | 9.1 |
| Dividend yield (%) | 0.9 | 2.0 | 2.7 | 3.4 | 4.1 |
| Net margin (%) | 40.4 | 40.4 | 39.3 | 38.6 | 38.9 |
| Net debt/(cash) to equity (%) | (45.7) | (30.9) | (26.4) | (46.3) | (47.8) |
| Interest cover (x) | 67.4 | 181.5 | 293.6 | 348.7 | 416.0 |
| ROE (%) | 16.5 | 24.6 | 30.4 | 28.8 | 27.7 |
| Consensus net profit | - | - | 848 | 997 | 1,226 |
| UOBKH/Consensus (x) | - | - | 1.14 | 1.15 | 1.11 |

Source: HEC Pharma, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|-----------|
| Share Price | HK\$41.40 |
| Target Price | HK\$68.99 |
| Upside | +66.6% |
| (Previous TP) | HK\$64.47 |

COMPANY DESCRIPTION

Chinese pharmaceutical company focusing on the manufacture and sales of anti-influenza drug Kewei, the dominant efficacy of which makes HEC the largest influenza drug seller in China's prescription market. In addition, HEC holds a highly underrated pipeline covering both generics and innovative drugs, from hepatitis to diabetes and oncology. Covering both generics and innovative drugs, from hepatitis to diabetes and oncology.

STOCK DATA

| | |
|---------------------------------|-------------|
| GICS sector | Health Care |
| Bloomberg ticker: | 1558 HK |
| Shares issued (m): | 225.8 |
| Market cap (HK\$m): | 18,713.7 |
| Market cap (US\$m): | 2,384.5 |
| 3-mth avg daily t'over (US\$m): | 13.2 |

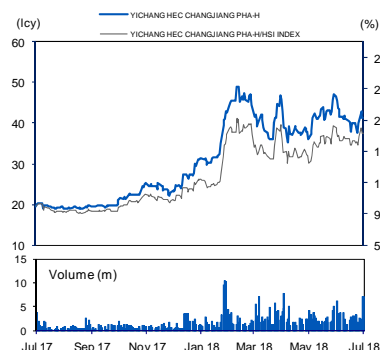
Price Performance (%)

| | | | | |
|------------------|---------------------|-------------|------------|------------|
| 52-week high/low | HK\$49.05/HK\$18.88 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (11.9) | (11.7) | 31.8 | 128.7 | 51.4 |

Major Shareholders

| | |
|---------------------------|-------|
| HEC Pharma Co. | 50.04 |
| FY18 NAV/Share (Rmb) | 7.82 |
| FY18 Net Cash/Share (Rmb) | 2.07 |

PRICE CHART



Source: Bloomberg

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- Esomeprazole enteric-coated capsules (埃索美拉唑镁肠溶胶囊).** HEC Pharma has obtained marketing approval (NDA) for the injection formulation in May. The company will further add the oral-taken formulation to complete its gastrointestinal drug portfolio.
- Esomeprazole is a second-generation proton pump inhibitor (质子泵抑制剂), targeting gastroesophageal reflux disease and peptic ulcer.** As per XianDa, Esomeprazole reported sample-hospital sales of Rmb3.2b in 2017 with a CAGR of 10% in 2015-17. AstraZeneca (the originator Nexium) is the market leader with over 80% share, while Sino Biopharma is second with a 12% share. We expect HEC Pharma's Esomeprazole capsule and injection to achieve peak sales of Rmb1.0b in total.
- Olmesartan (奥美沙坦酯片)** is an angiotensin II receptor blocker (血管紧张素 II 受体阻滞剂) to treat hypertension. This drug is developed by Daiichi Sankyo under the "Benicar" trade name. Xianda reported sample-hospital sales of Rmb368m in 2017, with CAGR of 21% in 2015-17. The Olmesartan market is dominated by Daiishi and Beijing Wansheng, with market share of 74% and 20% respectively.
- Clarithromycin (克拉霉素)** is a macrolide antimicrobial to treat mild to moderate bacterial infections. Xianda reported sample-hospital sales of Rmb765m in 2017, with flat revenue growth in the past three years. The market is evenly controlled by three participants, namely Abbott (28%), BaiSaiLuo (30%) and Hengrui (27%).
- Levofloxacin (左氧氟沙星),** founded by Daiishi, is a leading fluoroquinolone (喹诺酮类) antibacterial used for treatment of bacterial infections. According to sample-hospital sales data, the product recorded sales of Rmb3b in 2017 (tablet: Rmb700m; solutions: Rmb2.3b). The Levofloxacin market is led by Daiichi Sankyo and YangZiJiang, with a 30% market share each.
- Moxifloxacin (盐酸莫西沙星),** founded by Bayer, is another leading fluoroquinolone antibacterial used for treatment of bacterial infections. The product reported sales of Rmb3.8b in 2017 (tablet: Rmb 600m; injection: Rmb3.2b), with a remarkable CAGR of 20% in 2015-17. The originator Bayer is the largest player with 64% market share, while NanJing Youke is second with a 30% share.
- Kewei and Ertongshu will maintain strong growth in 2018-20.** The outstanding 1H18 net profit (over 110% yoy growth) was mainly due to strong Kewei sales riding on the influenza outbreak in 1Q18. In 2019-20, we expect HEC Pharma to maintain ~20% net profit CAGR on the back of: a) Kewei's deepening penetration into tier II and III hospitals, on top of the newly-developed OTC sales channel; b) Er Tong Shu sales to reach Rmb330m in 2020 (2017: Rmb40m) thanks to a new endocrine sales team and the drug passing BE qualification.

EARNINGS REVISION

- We raise our 2018-19 net profit forecasts by 10% and 4.4% respectively, given better-than-expected Kewei sales in 1H18.

VALUATION/RECOMMENDATION

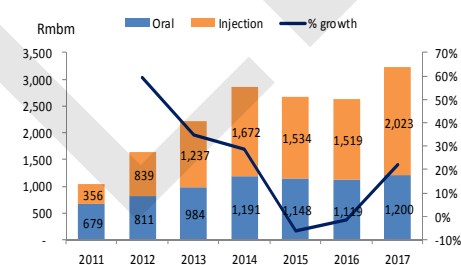
- Maintain BUY.** Our new target price of HK\$68.99 is based on SOTP valuation, comprising: a) 15x 2019F PE for existing drugs, representing 0.54x PEG (net profit CAGR of 28% in 2017-20); and b) HK\$22.4 per share for its near-term drug pipeline.

TENDER PRICE FOR ORIGINATORS AND GENERICS

| (Rmb) | Original | Generics | Diff+/- |
|---|----------|----------|---------|
| Clarithromycin Sustained-release/tablets (0.25g*8) | 55.34 | 4.65 | 50.69 |
| Levofloxacin tablets(0.1g*10) | 31.6 | 3 | 28.6 |
| Moxifloxacin injection (400mg) | 246 | 214 | 32 |
| Olmesartan medoxomil tablets(20mg*7) | 45.4 | 32.61 | 12.79 |
| Esomeprazole Magnesium Enteric-coated Capsules (20mg*7) | 76 | 65 | 11 |

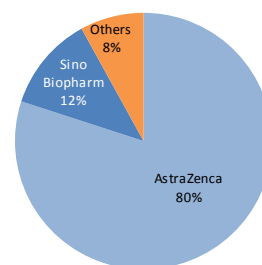
Source: XianDa, UOB Kay Hian

ESOMEPRAZOLE SALES



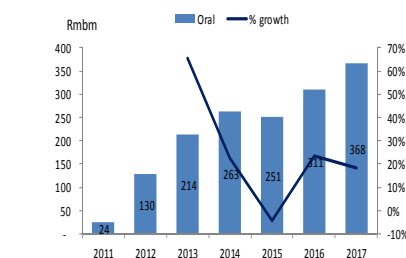
Source: XianDa, UOB Kay Hian

ESOMEPRAZOLE MARKET COMPOSITION (2017)



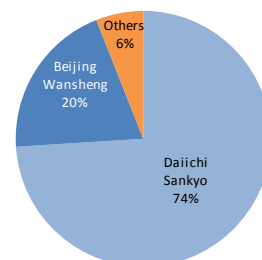
Source: XianDa, UOB Kay Hian

OLMESARTAN SALES



Source: XianDa, UOB Kay Hian

OLMESARTAN MARKET COMPOSITION (2017)



Source: XianDa, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2017 | 2018F | 2019F | 2020F |
|-------------------------------|----------------|----------------|----------------|----------------|
| Net turnover | 1,601.6 | 2,448.5 | 2,956.4 | 3,505.0 |
| EBITDA | 778.3 | 1,174.3 | 1,394.8 | 1,663.8 |
| Deprec. & amort. | 25.8 | 49.0 | 59.1 | 70.1 |
| EBIT | 752.5 | 1,125.4 | 1,335.7 | 1,593.7 |
| Net interest income/(expense) | (4.3) | (4.0) | (4.0) | (4.0) |
| Pre-tax profit | 748.2 | 1,121.4 | 1,331.7 | 1,589.7 |
| Tax | (121.8) | (182.6) | (216.9) | (258.9) |
| Minorities | 20.7 | 23.9 | 27.4 | 31.5 |
| Net profit | 647.1 | 962.6 | 1,142.2 | 1,362.4 |
| Net profit (adj.) | 647.1 | 962.6 | 1,142.2 | 1,362.4 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2017 | 2018F | 2019F | 2020F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 670.2 | 821.3 | 912.1 | 992.0 |
| Other LT assets | 1,037.1 | 1,000.4 | 956.0 | 903.5 |
| Cash/ST investment | 887.2 | 954.1 | 2,058.2 | 2,615.8 |
| Other current assets | 1,181.4 | 1,525.5 | 1,644.7 | 1,938.6 |
| Total assets | 3,776.0 | 4,301.3 | 5,571.0 | 6,449.9 |
| ST debt | 10.0 | 10.0 | 10.0 | 10.0 |
| Other current liabilities | 630.7 | 452.7 | 886.9 | 768.0 |
| LT debt | 10.0 | 10.0 | 10.0 | 10.0 |
| Other LT liabilities | 64.6 | 64.6 | 64.6 | 64.6 |
| Shareholders' equity | 2,807.8 | 3,535.1 | 4,398.1 | 5,427.4 |
| Minority interest | 252.8 | 228.9 | 201.5 | 169.9 |
| Total liabilities & equity | 3,776.0 | 4,301.3 | 5,571.0 | 6,449.9 |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2017 | 2018F | 2019F | 2020F |
|---|----------------|----------------|----------------|----------------|
| Operating | 640.1 | 492.9 | 1,537.3 | 1,044.7 |
| Pre-tax profit | 748.2 | 1,121.4 | 1,331.7 | 1,589.7 |
| Tax | (121.8) | (182.6) | (216.9) | (258.9) |
| Deprec. & amort. | 43.8 | 85.7 | 103.5 | 122.7 |
| Working capital changes | (30.1) | (531.5) | 319.1 | (408.8) |
| Other operating cashflows | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing | (779.9) | (186.6) | (150.0) | (150.0) |
| Capex (growth) | (200.4) | (200.0) | (150.0) | (150.0) |
| Investments | (107.5) | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | (472.0) | 13.4 | 0.0 | 0.0 |
| Financing | (185.1) | (239.3) | (283.3) | (337.1) |
| Dividend payments | (180.8) | (235.3) | (279.3) | (333.1) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 0.0 | 0.0 | 0.0 | 0.0 |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (4.3) | (4.0) | (4.0) | (4.0) |
| Net cash inflow (outflow) | (324.9) | 67.0 | 1,104.1 | 557.6 |
| Beginning cash & cash equivalent | 1,212.1 | 887.2 | 954.1 | 2,058.2 |
| Changes due to forex impact (Rmbm) | 0.0 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 887.2 | 954.1 | 2,058.2 | 2,615.8 |

KEY METRICS

| Year to 31 Dec (%) | 2017 | 2018F | 2019F | 2020F |
|---------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 48.6 | 48.0 | 47.2 | 47.5 |
| Pre-tax margin | 46.7 | 45.8 | 45.0 | 45.4 |
| Net margin | 40.4 | 39.3 | 38.6 | 38.9 |
| ROA | 19.6 | 23.8 | 23.1 | 22.7 |
| ROE | 24.6 | 30.4 | 28.8 | 27.7 |
| Growth | | | | |
| Turnover | 70.1 | 52.9 | 20.7 | 18.6 |
| EBITDA | 59.6 | 50.9 | 18.8 | 19.3 |
| Pre-tax profit | 65.1 | 49.9 | 18.8 | 19.4 |
| Net profit | 70.0 | 48.8 | 18.7 | 19.3 |
| Net profit (adj.) | 70.0 | 48.8 | 18.7 | 19.3 |
| EPS | 69.6 | 48.8 | 18.7 | 19.3 |
| Leverage | | | | |
| Debt to total capital | 0.6 | 0.5 | 0.4 | 0.4 |
| Debt to equity | 0.7 | 0.6 | 0.5 | 0.4 |
| Net debt/(cash) to equity | (30.9) | (26.4) | (46.3) | (47.8) |
| Interest cover (x) | 181.5 | 293.6 | 348.7 | 416.0 |

TRADERS' CORNER



Chart by MataStock

Fairwood Holdings (52 HK)

Trading Buy Range: HK\$29.75-29.80

Last price: HK\$29.55

Target price: HK\$30.50 / HK\$31.45

Protective stop: Breaks below HK\$28.90

The stock posted a technical rebound from the lower boundary of a long-term declining channel with a bullish kicker pattern on Tuesday. The daily RSI broke above its 30% level and is heading upwards. The MACD histogram is narrowing.

As long as HK\$28.90 is not broken, look for a technical rebound towards HK\$30.50 and HK\$31.45. A breach below HK\$28.90 would also break below its previous low, and investors should close their positions to control risk.

Average time frame: 2 months (abort this trade idea if the stock cannot hit the entry price range within four trading days).

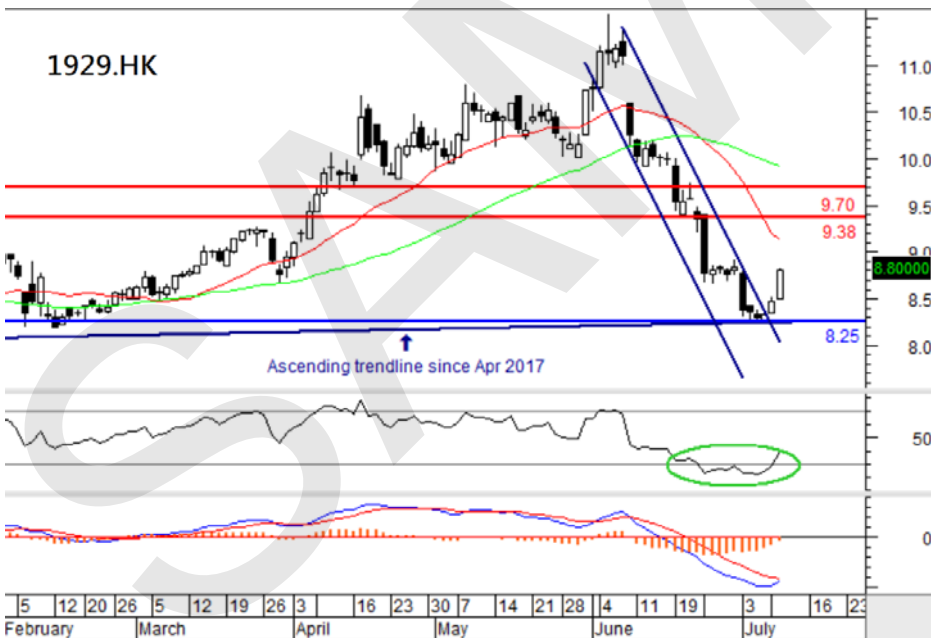


Chart by MataStock

Chow Tai Fook (1929 HK)

Trading Buy Range: HK\$8.85-8.87

Last price: HK\$8.80

Target price: HK\$9.38 / HK\$9.70

Protective stop: Breaks below HK\$8.25

The stock post a rebound from a long-term rising trendline (formed since Apr 2017). In addition, the prices broke above a bearish channel, which is a positive signal. The daily RSI above its 30% level and is heading upwards. The MACD is turning up and is likely to cross above its signal line in sight.

As long as HK\$8.25 is not broken, look for a further upside towards HK\$9.38 and even HK\$9.70 in extension. A break below HK\$8.25 would turn the outlook to negative, and investors should close their positons to control risk.

Average time frame: 2 months (abort this trade idea if the stock cannot hit the entry price within four trading days).

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