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Not out of the woods.

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Ausnutria Dairy (1717 HK/BUY/HK\$12.18/Target: HK\$16.00)

1H19: Results in line with profit alert.

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HONG KONG

Results

Champion REIT (2778 HK/HOLD/HK\$5.30/Target: HK\$6.15)

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Zhenro Properties (6158 HK): Trading Buy Range

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KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	25479.4	(3.0)	(2.0)	(6.9)	9.2
S&P 500	2840.6	(2.9)	(1.5)	(5.8)	13.3
FTSE 100	7147.9	(1.4)	(0.7)	(5.1)	6.2
AS30	6677.5	0.4	1.4	(1.0)	17.0
CSI 300	3682.4	0.5	1.7	(3.7)	22.3
FSSTI	3147.6	0.0	(1.5)	(6.0)	2.6
HSCEI	9866.2	0.2	(1.3)	(9.0)	(2.6)
HSI	25302.3	0.1	(2.7)	(11.4)	(2.1)
JCI	6267.3	0.9	1.0	(2.4)	1.2
KLCI	1600.3	0.5	(0.7)	(4.3)	(5.3)
KOSPI	1938.4	0.7	1.5	(6.9)	(5.0)
Nikkei 225	20655.1	1.0	0.3	(4.8)	3.2
SET	1619.5	(0.0)	(3.1)	(6.3)	3.6
TWSE	10427.7	0.6	0.3	(4.1)	7.2

BDI	1864	5.1	8.9	(0.1)	46.7
CPO (RM/mt)	2123	1.8	5.5	13.5	8.7
Brent Crude (US\$/bbl)	59	(3.0)	5.8	(10.9)	10.6

Source: Bloomberg

TOP VOLUME

Company	Price (HK\$)	Chg (%)	Volume ('000)
CHINA TOWER CO-H	1.87	(1.1)	363,248
CCB-H	5.64	0.0	344,386
ICBC-H	4.91	0.6	251,132
ABC-H	2.99	0.3	226,504
BANK OF CHINA-H	2.98	0.3	223,337

TOP GAINERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
SUNNY OPTICAL	93.95	8.7	28,766
SWIRE PACIFIC-A	78.25	3.8	4,996
LONGFOR GROUP	27.40	2.6	5,446
ANTA SPORTS	58.10	2.2	8,158
TECHTRONIC IND	54.95	1.9	4,505

TOP LOSERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
WH GROUP	6.36	(5.4)	98,218
HANG LUNG PPT	17.18	(3.2)	19,012
WANT WANT CHINA	5.87	(2.7)	15,702
SINOPHARM-H	27.30	(2.5)	5,118
CK ASSET HOLD	50.15	(2.4)	9,585

KEY ASSUMPTIONS

GDP (% yoy)	2018	2019F	2020F
US	2.9	2.3	1.3
Euro Zone	1.9	1.2	1.3
Japan	0.8	0.5	(0.8)
Singapore	3.1	2.0	2.0
Malaysia	4.7	4.6	4.7
Thailand	4.1	3.5	3.8
Indonesia	5.3	5.2	5.4
Hong Kong	3.0	2.1	2.0
China	6.6	6.2	6.0

CPO (RM/mt)	2,233	2,100	2,250
Brent (Average) (US\$/bbl)	71.69	69.33	71.65

Source: Bloomberg, UOB ETR, UOB Kay Hian

ECONOMICS – CHINA

Economic Activity

Not Out Of The Woods

China's IP growth tumbled to a fresh low since Feb 02 of 4.8% yoy while retail sales growth came in at a modest 7.6% yoy in Jul 19 as automobile sales dipped. On the back of subdued private and infrastructure FAI, FAI growth slowed to 5.7% yoy in 7M19. Taking into consideration the weak monetary data released on 12 August, risk to 2H19 economic growth remains on the downside.

CHINESE ECONOMIC ACTIVITY DATA

(yoy % chg)	Reported	Consensus	Previous
FAI (7M19)	5.7	5.8	5.8
FAI* (Jul 19)	5.1	-	6.8
IP (Jul 19)	4.8	6.0	6.3
Retail Sales (Jul 19)	7.6	8.6	9.8

* UOB Kay Hian estimates

Source: NBS, Wind, UOB Kay Hian

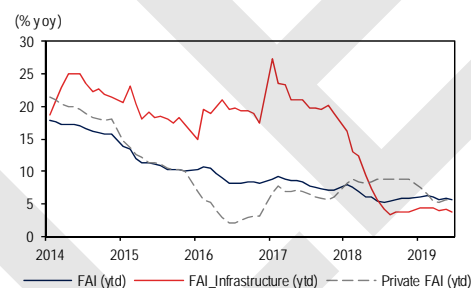
WHAT'S NEW

- No signs of rebound in private investments amid poor sentiment.** Fixed asset investment (FAI) growth edged down to 5.7% yoy in 7M19, falling short of 6M19's level and Bloomberg consensus estimate of 5.8% yoy. This implies that FAI growth slowed to 5.1% yoy in Jul 19 from 6.8% yoy in Jun 19. Despite the government's efforts at infrastructure pump-priming, infrastructure FAI growth fell to 3.8% yoy in 7M19 from 4.1% yoy in 6M19 as railway and highway FAI growth moderated to 12.7% yoy and 6.9% yoy respectively in 7M19 (6M19: 14.1% yoy and 8.1% yoy). Private FAI growth remained subdued and deteriorated to 5.4% yoy in 7M19 from 5.7% yoy in 6M19 but manufacturing FAI growth sped up for the third consecutive month to 3.3% yoy in 7M19.
- IP growth slipped to 17-year low again.** Industrial production (IP) growth slumped to 4.8% yoy in Jul 19 from 6.3% yoy in Jun 19, missing Bloomberg consensus estimate of 6.0% yoy. Notably, growth of electronic equipment value-add fell to a multi-year low of 6.1% yoy in Jul 19 from 10.4% yoy in Jun 19 while growth of steel value-add declined to 9.6% yoy from 12.6% yoy over the same period. Automobile value-add contracted for the fourth month, and the rate of decline accelerated to 4.4% yoy in Jul 19 from 2.5% yoy in Jun 19. On the other hand, growth of railway, ship and aerospace manufacturing value-add rose to 15.7% yoy while growth of utilities value-add inched up to 6.9% yoy in Jul 19 (Jun 19: 14.5% yoy and 6.6% yoy respectively).
- Retail sales growth slumped as automobile sales dipped.** Retail sales growth tumbled to 7.6% yoy in Jul 19 from 9.8% yoy in Jun 19, missing Bloomberg consensus estimate of 8.6% yoy. Retail sales were lacklustre due to subpar automobile sales growth, which fell to -2.6% yoy in Jul 19 from an eight-year high of +17.2% yoy in Jun 19. Meanwhile, sales growth of petroleum and related products as well as jewellery declined to three-year lows of -1.1% yoy and -1.6% yoy in Jul 19 from +3.5% yoy and +7.8% yoy respectively in Jun 19. Sales of communication appliances also registered a lower growth of 1.0% yoy in Jul 19 (Jun 19: 5.9% yoy).

OUR VIEWS

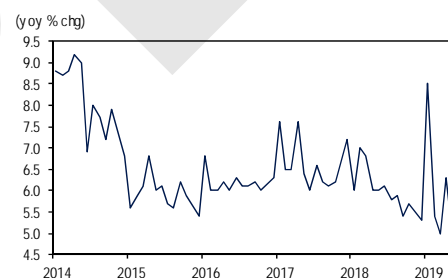
- Not out of the woods.** Muted manufacturing activities led to the slump in IP growth to a 17-year low of 4.8% yoy in Jul 19. Meanwhile, growth of retail sales and FAI also moderated in Jul 19 as individuals held back consumption and investment activities amid poor sentiment. Taking into consideration the weak monetary data released on 12 August, risk to 2H19 economic growth remains on the downside.

FIXED ASSET INVESTMENT



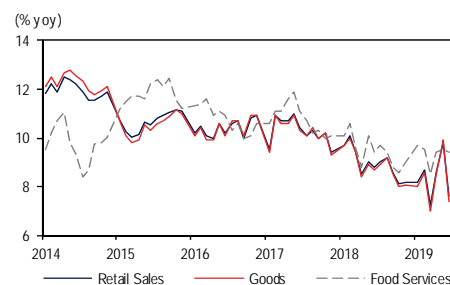
Source: NBS, Wind, UOB Kay Hian

INDUSTRIAL PRODUCTION



Source: NBS, Wind, UOB Kay Hian

RETAIL SALES



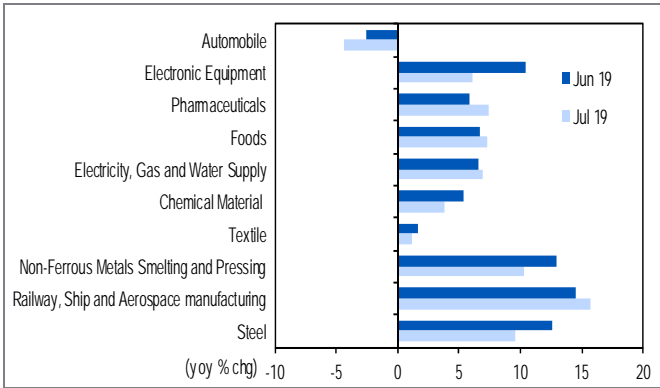
Source: NBS, Wind, UOB Kay Hian

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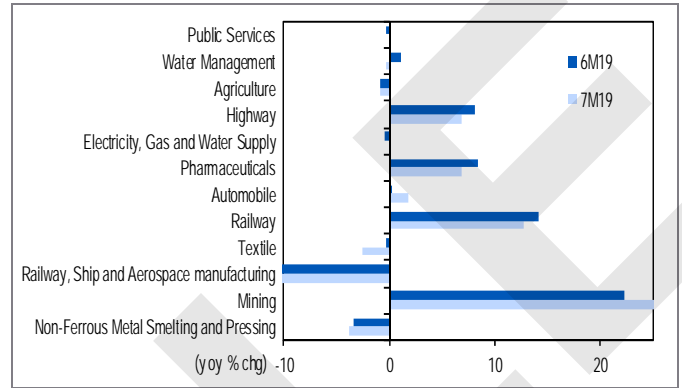
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IP BY SECTOR



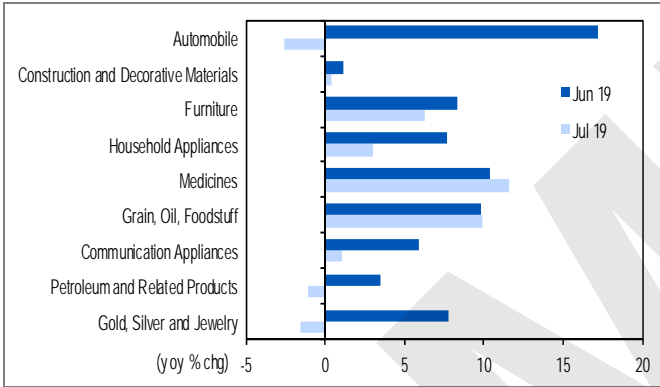
Source: NBS, Wind, UOB Kay Hian

FAI BY SECTOR



Source: NBS, Wind, UOB Kay Hian

RETAIL SALES BY MERCHANDISE



Source: NBS, Wind, UOB Kay Hian

COMPANY RESULTS

Ausnutria Dairy (1717 HK)

1H19: Results In Line With Profit Alert

Ausnutria announced 1H19 results that matched its profit alert. During the analyst briefing, the company's clarification of its sales and net profit guidance improved investors' confidence that 2H19 would see a re-acceleration in top-line as its core business remains robust. 3Q19 will likely show blockbuster sales growth due to delayed 2Q19 shipments. Maintain BUY with a lower target price of HK\$16.00 (from HK\$17.00).

1H19 RESULTS

Year to 31 Dec (Rmbm)	2Q18	1Q19	2Q19	yoy % chg	qoq % chg	1H19	yoy % chg
Total Revenue	1,405	1,519	1,628	15.9	7	3,148	21.9
Own-branded formula milk	1,144	1,250	1,480	29.3	18	2,730	31.4
Nutrition products	30	18	35	16.4	91	53	0.8
Private Labels and others	230	251	114	-50.4	-55	365	-19.5
Gross profit	652	748	892	36.6	19	1,639	36.9
Selling and distribution expenses	(369)	(394)	(469)	27.1	19	(863)	23.9
Administrative expenses	(87)	(124)	(121)	39.9	-2	(246)	39.2
SG&A	(456)	(518)	(591)	29.6	14	(1,109)	27.0
EBIT	278	188	184	-34.0	-2	371	-10.0
Net Profit to Equity (Reported)	223	152	109	-51.2	-28	260	-20.4
less: One-Off gains/(loss)	0	(43)	(131)			(174)	
Adj. EBIT	216	230	315	45.6	37	545	55.7
Adj. EBITDA	243	266	350	43.9	32	616	49.4
Adj Net Profit	162	195	240	48.8	24	435	63.8
Margins (%)							
Gross	46.5	49.2	54.8	8.3ppt	5.5ppt	52.1	5.7ppt
EBIT	19.8	12.3	11.3	-8.5ppt	-1.1ppt	11.8	-4.2ppt
Adj. EBIT	15.4	15.2	19.3	3.9ppt	4.2ppt	17.3	3.8ppt
Adj. EBITDA	17.3	17.5	21.5	4.2ppt	4.0ppt	19.6	3.6ppt
Adj. Net Profit	11.5	12.8	14.8	3.3ppt	2.0ppt	13.8	3.5ppt

Source: Ausnutria, UOB Kay Hian

RESULTS

- In line with profit alert.** Ausnutria Dairy's (Ausnutria) 1H19 revenue increased 21.9% yoy to Rmb3148m, in line with the profit alert of +21.9% growth. Net profit increased 63.8% yoy to Rmb435m, in line with the profit alert of 63.8% growth.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2017	2018	2019F	2020F	2021F
Net turnover	3,926	5,390	6,795	8,547	10,394
EBITDA	529	895	1,050	1,557	1,911
Operating profit	452	809	969	1,474	1,825
Net profit (rep./act.)	308	635	698	1,142	1,420
Net profit (adj.)	308	578	872	1,142	1,420
EPS (fen)	24.4	42.4	54.8	71.8	89.3
PE (x)	44.7	25.7	19.9	15.2	12.2
P/B (x)	7.8	4.5	4.7	3.9	3.2
EV/EBITDA (x)	32.6	19.2	16.4	11.1	9.0
Dividend yield (%)	0.8	1.4	1.3	2.2	2.7
Net margin (%)	7.8	11.8	10.3	13.4	13.7
Net debt/(cash) to equity (%)	76.8	(11.5)	(12.4)	(24.4)	(35.2)
Interest cover (x)	23.9	30.1	27.1	40.2	49.4
ROE (%)	19.2	25.4	20.0	27.8	28.6
Consensus net profit	-	-	841	1,182	1,507
UOBKH/Consensus (x)	-	-	1.04	0.97	0.94

Source: Ausnutria, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	HK\$12.18
Target Price	HK\$16.00
Upside	+31.4%
(Previous TP)	HK\$17.00

COMPANY DESCRIPTION

Ausnutria Dairy Corporation is a paediatric milk formula company. The company is engaged in the dairy industry with production facilities based in the Netherlands.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	1717 HK
Shares issued (m):	1,608.0
Market cap (HK\$m):	19,585.3
Market cap (US\$m):	2,496.5
3-mth avg daily t'over (US\$m):	6.7

Price Performance (%)

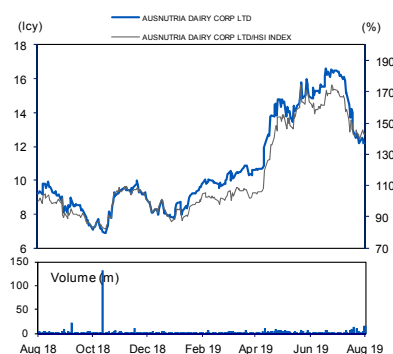
52-week high/low HK\$16.64/HK\$6.87

1mth	3mth	6mth	1yr	YTD
(26.1)	(14.2)	25.9	27.8	39.8

Major Shareholders

	%
FY19 NAV/Share (Rmb)	2.34
FY19 Net Cash/Share (Rmb)	0.29

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Kabrita outlook remains strong.** Business unit CEO Helen Li said the goat milk business remains strong with store network increasing by 6,000 (+32% yoy) to 25,000 points-of-sale as of end-1H19, while Kabrita is best positioned in the shift from cow to goat infant milk formula as it is the market leader in this niche. However, she suggested the company is likely to rationalise the store network by 10% by shutting poor-performing stores (those that sell 1-2 cans per month) so that marketing resources can be better utilised. There would be no material impact on sales as those purged stores would be low-hanging fruit.
- Higher inventory days only a short-term issue.** Management reassures that the optimal inventory days will go back to 170-180 days after it shot up by 59 days to 214 days as of 1H19. Short-term reasons include a delay in the release of finished products (Rmb234.5m worth of inventory) due to technical difficulties experienced by its product testing vendor in May, so this subsequently led to higher inventories in transit at end-1H19. However, the optimal level has increased from the past years because Ausnutria: a) has utilised more shipping by rail (cheaper); and b) more IMF products have obtained infant milk formula registration.
- SG&A expense under control.** Overheads increased 1.4ppt to 35.2% of total revenue after the company ramped up R&D costs and share-based options. However, we do note Ausnutria has improved transportation efficiency as its shift to more rail-based transport reduced S&D expense by Rmb35m (1.6% of sales) yoy in 1H19, as air-freight charges were only Rmb29m (1H18: Rmb64m).
- Guidance clarified.** The company now guides:
 - sales of cow-milk infant milk formula to grow 30-35% yoy in 2H19;
 - sales of goat-milk infant milk formula to grow 35-40% yoy in 2H19;
 - sales of private label will be stable (2H19: +10% hoh);
 - the butter business has been discontinued, but there is some residual revenue in 2H19.
 - operating margin (recurring) is guided to be slightly lower hoh as the company will need to air-freight about a portion of Rmb234.5m worth of inventory after Eurofins Scientific (ERF FP) - a third-party food safety testing vendor - experienced technical difficulty in May and delayed the testing of Ausnutria's products by two months. However, this is viewed as a one-off incident.

EARNINGS REVISION/RISK

- Fine-tune guidance.** We trim our net profit forecasts by 4%, 3% and 3% for 2019-21 respectively. We reduce top-line by 4%, 5% and 5% respectively to account for the reduced private label business, discontinuation of the butter business, and the revised guidance for cow and goat infant milk formula products. We now expect revenue to increase only 26% yoy in 2019 (previously 31%). While gross margins have improved slightly vs our earlier assumptions due to product mix (major reduction in non-core business), we note the higher-than-expected shipping expenses in 3Q19 should partially offset the margin gains at EBIT level.

VALUATION/RECOMMENDATION

- Maintain BUY.** We trim our DCF-based target price to HK\$16.00 (from HK\$17.00), implying 20x 2020F PE (from 26x 2019F PE) after we incorporate our latest forecasts and a lower renminbi assumption of 0.89 (from 0.85) against the HK dollar. Given recurring revenue CAGR of 21% and net profit CAGR of 25% from 2019 to 2022, implying target PEG of 0.8x, we view the stock offers deep value, given Ausnutria's industry-outperforming growth outlook. We believe 3Q19 operating results would be a positive catalyst as product shipment delays from 2Q19 will have likely shifted revenue from 2Q19 to be recognised in 3Q19.

RISKS

- Slowing birth rate.** A weaker economy may dampen consumer confidence and further discourage young couples from having children.

NEW ESTIMATES

	2019F	2020F	2021F
Revenue	6,795	8,547	10,394
Gross profit	3,665	4,679	5,748
S&D exp.	(1,888)	(2,409)	(2,958)
Admin exp.	(623)	(784)	(953)
EBIT (reported)	969	1,474	1,825
Net Profit - Reported	698	1,142	1,420
less: One-off gains/(losses)	(174)	-	-
Net Profit - Recurring	872	1,142	1,420
Adj. EBITDA	1,265	1,597	1,950
Gross margin	53.9%	54.7%	55.3%
Adj EBITDA margin	18.6%	18.7%	18.8%
Net (Recurring) margin	12.8%	13.4%	13.7%

Source: Ausnutria, UOB Kay Hian

PREVIOUS ESTIMATES

	2019F	2020F	2021F
Revenue	7,066	8,948	10,904
Gross profit	3,767	4,843	5,962
S&D exp.	(1,941)	(2,494)	(3,070)
Admin exp.	(648)	(820)	(1,000)
EBIT (reported)	1,124	1,515	1,881
Net Profit - Reported	866	1,175	1,464
Less: One-off gains/(losses)	(43)	-	-
Net Profit - Recurring	909	1,175	1,464
Adj. EBITDA	1,288	1,638	2,006
Gross margin	53.3%	54.1%	54.7%
Adj EBITDA margin	18.2%	18.3%	18.4%
Net (Recurring) margin	12.9%	13.1%	13.4%

Source: Ausnutria, UOB Kay Hian

CHANGE IN ESTIMATES

	2019F	2020F	2021F
Revenue	-3.8%	-4.5%	-4.7%
Gross profit	-2.7%	-3.4%	-3.6%
S&D exp.	-2.8%	-3.4%	-3.6%
Admin exp.	-3.8%	-4.5%	-4.7%
EBIT (reported)	-13.7%	-2.8%	-3.0%
Net Profit - Reported	-19.4%	-2.8%	-3.0%
Less: One-off gains/(losses)	-	-	-
Net Profit - Recurring	-4.0%	-2.8%	-3.0%
Adj. EBITDA	-1.8%	-2.5%	-2.8%
Gross margin	0.6%	0.6%	0.6%
Adj EBITDA margin	0.4%	0.4%	0.4%
Net (Recurring) margin	0.0%	0.2%	0.2%

Source: Ausnutria, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2018	2019F	2020F	2021F
Net turnover	5,389.6	6,795.1	8,546.6	10,394.2
EBITDA	895.5	1,050.3	1,557.2	1,911.2
Deprec. & amort.	86.4	81.1	83.6	86.1
EBIT	809.0	969.2	1,473.5	1,825.1
Associate contributions	12.7	13.3	14.0	14.7
Net interest income/(expense)	(29.8)	(38.7)	(38.7)	(38.7)
Pre-tax profit	792.0	943.9	1,448.9	1,801.1
Tax	(147.4)	(236.0)	(289.8)	(360.2)
Minorities	(9.5)	(10.4)	(17.0)	(21.1)
Net profit	635.1	697.5	1,142.1	1,419.8
Net profit (adj.)	577.8	871.9	1,142.1	1,419.8

CASH FLOW

Year to 31 Dec (Rmbm)	2018	2019F	2020F	2021F
Operating	552.2	837.2	1,160.2	1,437.3
Pre-tax profit	792.0	943.9	1,448.9	1,801.1
Deprec. & amort.	153.3	121.3	123.2	125.0
Associates	(12.7)	(13.3)	(14.0)	(14.7)
Working capital changes	(265.1)	21.4	(108.0)	(113.9)
Non-cash items	61.9	0.0	0.0	0.0
Other operating cashflows	(177.2)	(236.0)	(289.8)	(360.2)
Investing	(818.9)	(200.0)	(150.0)	(150.0)
Capex (growth)	(300.0)	(200.0)	(150.0)	(150.0)
Investments	(518.9)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	1,080.9	(228.4)	(373.9)	(464.9)
Dividend payments	(207.9)	(228.4)	(373.9)	(464.9)
Issue of shares	1,288.8	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	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	814.2	408.9	636.3	822.4
Beginning cash & cash equivalent	635.7	1,449.9	1,858.7	2,495.0
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	1,449.9	1,858.7	2,495.0	3,317.4

BALANCE SHEET

Year to 31 Dec (Rmbm)	2018	2019F	2020F	2021F
Other LT assets	2,690.5	2,835.2	2,876.1	2,915.8
Cash/ST investment	1,449.9	1,858.7	2,495.0	3,317.4
Other current assets	2,688.7	2,721.0	3,278.9	3,867.5
Total assets	6,829.0	7,415.0	8,650.0	10,100.8
ST debt	659.0	659.0	659.0	659.0
Other current liabilities	1,994.1	2,047.9	2,497.7	2,972.4
LT debt	416.4	739.5	739.5	739.5
Other LT liabilities	364.9	94.5	94.5	94.5
Shareholders' equity	3,253.7	3,722.9	4,491.0	5,446.0
Minority interest	140.8	151.2	168.2	189.3
Total liabilities & equity	6,829.0	7,415.0	8,650.0	10,100.8

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	16.6	15.5	18.2	18.4
Pre-tax margin	14.7	13.9	17.0	17.3
Net margin	11.8	10.3	13.4	13.7
ROA	10.2	9.8	14.2	15.1
ROE	25.4	20.0	27.8	28.6
Growth				
Turnover	37.3	26.1	25.8	21.6
EBITDA	69.4	17.3	48.3	22.7
Pre-tax profit	80.6	19.2	53.5	24.3
Net profit	106.1	9.8	63.7	24.3
Net profit (adj.)	87.5	50.9	31.0	24.3
EPS	74.1	29.2	31.0	24.3
Leverage				
Debt to total capital	24.1	26.5	23.1	19.9
Debt to equity	33.1	37.6	31.1	25.7
Net debt/(cash) to equity	(11.5)	(12.4)	(24.4)	(35.2)
Interest cover (x)	30.1	27.1	40.2	49.4

COMPANY RESULTS

JD.com (JD US)

2Q19: Earnings Beat; Lifts 2019 Bottom-line Guidance

JD.com reported stronger-than-expected 2Q results with a solid beat on earnings. 2Q19 revenue was Rmb150.3b, up 23% yoy, in line with consensus. Non-GAAP net profit surged 643% yoy to Rmb3,559m (EPS: Rmb2.40), beating our and consensus estimates on improving margins, VAT reform and narrowed JD Logistics losses. 2Q19 net revenue growth is guided at 23-24% yoy, in line with consensus. Maintain HOLD and raise target price to US\$33.00 from US\$27.00. Entry price: US\$27.00.

2Q19 RESULTS

(RMB m)	2Q18	1Q19	2Q19	UOBKH	QoQ	YoY	Var	Cons	Var
Total Net revenue	122,291	121,081	150,281	147,302	24%	23%	2%	147,448	2%
Online direct sales	110,489	108,651	133,516	131,651	23%	21%	1%		
Services and Others	11,802	12,430	16,764	15,650	35%	42%	7%		
COGS	(105,777)	(102,897)	(128,156)	(126,348)	25%	21%	-1%		
Gross profits	16,514	18,184	22,125	20,953	22%	34%	6%	20,920	6%
GPM	13.5%	15.0%	14.7%	14.2%	(30 bps)	122 bps	50 bps	14.2%	53 bps
Operating expenses	(17,548)	(17,041)	(19,858)	(21,488)	17%	13%	8%		
Non-GAAP operating income	113	1,972	3,217	715	63%	2741%	350%		
Non-GAAP net income	479	3,294	3,559	974	8%	643%	265%	721	394%
GAAP EPS (RMB)*	-1.54	4.96	0.42	-0.29	-92%	NM	NM	-0.13	NM
Non-GAAP EPS (RMB)	0.33	2.23	2.40	0.66	8%	618%	263%	0.49	388%
Non-GAAP Net Margin	0.4%	2.7%	2.4%	0.7%	(35 bps)	198 bps	258%	0.5%	188 bps

Source: JD.com, UOB Kay Hian

RESULTS

• **2Q19 revenue in line; 3Q19 revenue guidance meets street.** JD.com delivered direct online sales of Rmb133.5b for 2Q19, up 21% yoy (2Q18: 29% yoy, 1Q19: 19% yoy), in line with China online retail sales growth of 20% in 2Q19. Service and other revenues grew by 42% yoy to Rmb16.8b, accounting for 11% of total revenue. Annual active customer accounts totalled 321.3m, up 3.5% qoq. JD.com had guided for 2Q19 net revenue to grow by 20-24% yoy to Rmb126b-130b, vs consensus' estimate of Rmb126b.

• **Earnings beat on continuous improving margin and narrowed JD Logistics losses.** 2Q19 non-GAAP net profit jumped 643% yoy to Rmb3,559m and net margin was at 2.4%, beating our and consensus estimates thanks to economies of scale, one-off benefits from VAT reform and improving profitability of JD Logistics. Gross profit margin was at 14.7% in 2Q19, up 122bp yoy and 2Q19 non-GAAP operating profit margin was 2.14% vs 1.63%/0.09% in 1Q19/2Q18 respectively. The company also lifted its guidance for 2019 non-GAAP net profit to Rmb8.0b-9.6b, implying a 1.4-1.7% non-GAAP net margin. However, in 1H19 the company had already achieved bottom-line of Rmb6.8b, with around Rmb1.8b non-recurring incomes. We expect heavier investment in 2H19 on user experience and logistics.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2017	2018	2019F	2020F	2021F
Net turnover	362,332	462,020	565,545	662,305	743,342
EBITDA	5,353	10,242	12,714	19,032	26,734
Operating profit	(836)	(2,619)	3,202	8,586	15,183
Net profit (rep./act.)	117	(2,489)	7,864	7,573	11,867
Net profit (adj.)	5,237	3,461	9,843	12,463	18,133
EPS (Fen)	359.8	240.5	665.5	820.5	1,174.4
PE (x)	59.8	89.4	32.3	26.2	18.3
P/B (x)	5.9	4.1	3.8	3.5	3.2
EV/EBITDA (x)	53.5	28.0	22.5	15.0	10.7
Dividend yield (%)	0.0	n.a.	n.a.	n.a.	n.a.
Net margin (%)	0.0	(0.5)	1.4	1.1	1.6
Net debt/(cash) to equity (%)	(25.6)	(30.5)	(33.0)	(43.1)	(52.0)
ROE (%)	0.3	n.a.	9.9	8.7	12.2
Consensus net profit	-	-	7,695	11,113	15,959
UOBKH/Consensus (x)	-	-	1.28	1.12	1.14

Source: JD.com, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	US\$30.66
Target Price	US\$33.00
Upside	+7.6%
(Previous TP)	US\$27.00

COMPANY DESCRIPTION

JD.com is the leading online direct sales player in China.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	JD US EQUITY
Shares issued (m):	1,225.4
Market cap (US\$m):	44,578.7
Market cap (US\$m):	44,578.7
3-mth avg daily t'over (US\$m):	375.6

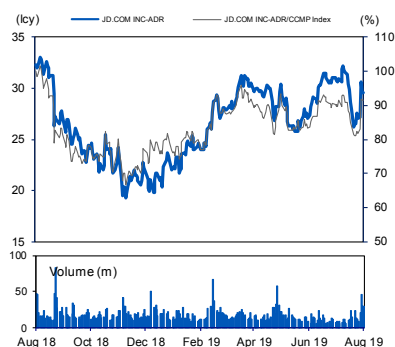
Price Performance (%)

52-week high/low	US\$33.04/US\$19.27
1mth	(1.4)
3mth	3.3
6mth	26.0
1yr	(9.5)
YTD	46.5

Major Shareholders

Huanghe Investment	18.0
Qiangdong Liu	15.5
Walmart	10.1
FY19 NAV/Share (Rmb)	57.00
FY19 Net Cash/Share (Rmb)	18.79

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Active customer accounts growth accelerated.** JD.com recorded annual active customer accounts of 321.3m in 2Q19, adding 10.8m vs 5.8m in 1Q19, thanks to contribution from lower tier cities and group buying. According to management, 70% of new users were from lower tier cities, and 20% are from Wechat access. JD will revamp its Level 1 WeChat shopping access, and will focus on lower-tier cities and offline-to-online initiatives.
- **JD Logistics achieved breakeven on gross level,** with third-party customers contributing around 40% of JD Logistics' revenues. In 2Q19, JD Logistics recorded revenue of Rmb5,687m, up 98% yoy. Third-party business reached breakeven in operating profit level in 2Q19 through better scale and capacity utilisation. JD.com recorded positive free cash flow of Rmb7.4b in 2Q19, compared with Rmb5.8b in 2Q18, mainly due to improving operation cash flow and less capex.
- **Expanding operational map.** As of 30 Jun 19, there were over 600 warehouses spanning ~15m sqm in China under JD.com's operations. Meanwhile, it had 220,000 merchants as of 30 Jun 19, the same as 1Q19.

EARNINGS REVISION/RISK

- We lift our 2019 top-line forecast by 1.5% and increase our 2019-20 net profit estimates by 17-22% on improving margins. However, in 1H19, the company had already achieved Rmb6.8b for non-GAAP net income, leaving a Rmb1.2b-2.8b range for 2H, below consensus estimates of Rmb3b.

VALUATION/RECOMMENDATION

- **We maintain HOLD and raise our target price to US\$33.00 from US\$27.00.** We roll over our valuation estimate to 2020F and apply 13x EV/EBITDA, vs Amazon's 22x EV/EBITDA 2019F, Alibaba's 14x EV/EBITDA 2019F and Vipshop's 4.5x EV/EBITDA 2020F. We are cautious on margin improvement in 2H19 due to the heavy investment and potential slowdown in revenue growth due to the macro impact.

VALUATION

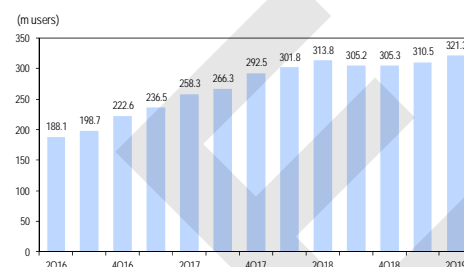
Premium/discount to Amazon/MIPS EV to 2020E EBITDA	JD.com's EV to 2020E EBITDA	Mcap (USD bn)	Fair value per ADS	Upside/downside to current share price
-15%	11	43	28	-8%
-10%	12	45	30	-3%
-5%	12	47	31	2%
0%	13	49	33	6%
5%	14	52	34	11%
10%	14	54	35	15%
15%	15	56	37	20%

Source: JD.COM

SHARE PRICE CATALYST

- a) Better-than-expected margin expansion, b) further extension of logistics services to internal and external customers; and c) potential listing of JD Logistics.

ANNUAL ACTIVE CUSTOMER ACCOUNTS (M)



Source: JD.COM, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2018	2019F	2020F	2021F
Net turnover	462,020	565,545	662,305	743,342
EBITDA	10,242	12,714	19,032	26,734
Deprec. & amort.	12,861	9,512	10,446	11,551
EBIT	(2,619)	3,202	8,586	15,183
Total other non-operating income	(1,018)	4,749	0	0
Net interest income/(expense)	1,263	481	323	639
Pre-tax profit	(2,374)	8,432	8,909	15,822
Tax	(427)	(722)	(1,336)	(3,956)
Minorities	311	154	0	0
Net profit	(2,489)	7,864	7,573	11,867
Net profit (adj.)	3,461	9,843	12,463	18,133

CASH FLOW

Year to 31 Dec (Rmbm)	2018	2019F	2020F	2021F
Operating	20,881	21,366	24,952	29,163
Pre-tax profit	(2,374)	8,432	8,909	15,822
Tax	(427)	(722)	(1,336)	(3,956)
Deprec. & amort.	12,861	9,512	10,446	11,551
Associates	0	0	0	0
Working capital changes	13,988	4,144	6,933	5,745
Other operating cashflows	(3,167)	0	0	0
Investing	(26,079)	(16,966)	(13,246)	(14,867)
Capex (growth)	(21,369)	(16,966)	(13,246)	(14,867)
Capex (maintenance)	0	0	0	0
Investments	(6,391)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	1,681	0	0	0
Financing	11,220	(11,012)	0	0
Dividend payments	0	0	0	0
Issue of shares	7,730	0	0	0
Proceeds from borrowings	(1,994)	(11,012)	0	0
Loan repayment	0	0	0	0
Others/interest paid	5,483	0	0	0
Net cash inflow (outflow)	6,022	(6,612)	11,706	14,296
Beginning cash & cash equivalent	25,688	34,262	27,651	39,356
Changes due to forex impact	2,552	0	0	0
Ending cash & cash equivalent	34,262	27,651	39,356	53,652

BALANCE SHEET

Year to 31 Dec (Rmbm)	2018	2019F	2020F	2021F
Fixed assets	21,083	28,537	31,337	34,653
Other LT assets	83,226	83,226	83,226	83,226
Cash/ST investment	34,262	27,651	39,356	53,652
Other current assets	70,593	85,368	99,377	111,289
Total assets	209,165	224,782	253,297	282,820
ST debt	147	147	147	147
Other current liabilities	120,715	139,633	160,576	178,232
LT debt	11,012	0	0	0
Other LT liabilities	463	463	463	463
Shareholders' equity	75,732	83,442	91,015	102,882
Minority interest	1,096	1,096	1,096	1,096
Total liabilities & equity	209,165	224,782	253,297	282,820

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	2.2	2.2	2.9	3.6
Pre-tax margin	(0.5)	1.5	1.3	2.1
Net margin	(0.5)	1.4	1.1	1.6
ROA	n.a.	3.6	3.2	4.4
ROE	n.a.	9.9	8.7	12.2
Growth				
Turnover	27.5	22.4	17.1	12.2
EBITDA	91.3	24.1	49.7	40.5
Pre-tax profit	(2,063.1)	n.a.	5.7	77.6
Net profit	(2,231.6)	n.a.	(3.7)	56.7
Net profit (adj.)	(33.9)	184.4	26.6	45.5
EPS	(33.2)	176.7	23.3	43.1
Leverage				
Debt to total capital	12.7	0.2	0.2	0.1
Debt to equity	14.7	0.2	0.2	0.1
Net debt/(cash) to equity	(30.5)	(33.0)	(43.1)	(52.0)

COMPANY RESULTS

Sunny Optical (2382 HK)

1H19: Better-than-consensus Results; Rosy Growth Prospects

Sunny Optical's 1H19 net profit soared 21% yoy to Rmb1,431m on an upbeat 30% yoy leap in revenue. Blended gross margin dipped 1ppt yoy to 18.4%, due mainly to margin contraction in handset camera module, partially offset by optical component's margin expansion. Management lifts handset lens sets' shipment growth target to 30% and boosts capex budget to Rmb4b from Rmb3b. We expect gross margin to recover in 2H19 on improving production and yield rate. Maintain HOLD and raise target price to HK\$104.00. Entry price: HK\$84.00.

1H19 RESULTS

Year to Dec 31 (Rmbm)	1H19	1H18	yoy % chg	Consensus	vs Consensus	UOBKH	vs UOBKH
Revenue	15,575	11,976	30.0	14,475	7.6%	14,603	6.7%
Optical component	3,774	2,656	42.1				
Optoelectronic	11,680	9,187	27.1				
Optical instrument	122	133	(8.6)				
Gross profit	2,864	2,320	23.4				
Operating profits	1,789	1,513	18.3				
Net profit	1,431	1,180	21.3	1,369	4.5%	1,466	(2.4%)
Margin (%)							
GPM	18.4%	19.4%	-1.0pp				
OPM	11.5%	12.6%	-1.1pp				
NPM	9.2%	9.9%	-0.7pp				
Volume (m unit)							
Optical components	615	454	35.5				
Optoelectronic products	237	183	29.9				
ASP (Rmb/unit)							
Optical components	6.1	5.8	4.9				
Optoelectronic products	49.2	50.3	(2.1)				

Source: Sunny, UOB Kay Hian

RESULTS

- **Slightly better-than-consensus results.** Sunny Optical's (Sunny) 1H19 net profit grew 21% yoy to Rmb1,431m, in line with ours but 4.5% above consensus estimate. 1H19 revenue soared 30% yoy to Rmb 15,575m, 7% and 8% above our and consensus estimate. Stripping out extraordinary items including forex loss of Rmb201m in 1H18, net profit should have grown by single-digit in 1H19.
- **Segmental revenue growth.** Revenue growth of optical components (+42% yoy) was driven by sustained shipment growth of both handset lens sets (HLS) of 38% yoy and vehicle lens sets (VLS) of 25% yoy, and a mild blended ASP hike (+4.9% yoy based on our estimate). Revenue of optoelectronic segment increased 27% yoy, mainly on volume growth of handset camera module (HCM) of 21% yoy.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2017	2018	2019F	2020F	2021F
Net turnover	22,366.3	25,931.9	35,062.7	42,268.2	49,003.2
EBITDA	3,918.0	3,896.6	5,344.9	6,842.7	8,319.9
Operating profit	3,383.2	3,077.2	4,256.3	5,501.5	6,725.3
Net profit (rep./act.)	2,901.6	2,490.9	3,485.3	4,576.1	5,648.1
Net profit (adj.)	2,901.6	2,490.9	3,485.3	4,576.1	5,648.1
EPS (fen)	265.6	227.2	318.0	417.5	515.3
PE (x)	31.6	37.0	26.4	20.1	16.3
P/B (x)	12.2	9.9	7.8	6.0	4.7
EV/EBITDA (x)	24.1	24.3	17.7	13.8	11.4
Dividend yield (%)	0.8	0.7	0.9	1.2	1.5
Net margin (%)	13.0	9.6	9.9	10.8	11.5
Net debt/(cash) to equity (%)	6.8	39.5	19.7	3.6	(10.4)
Interest cover (x)	80.3	19.3	21.1	27.0	32.8
ROE (%)	46.9	29.8	33.1	33.7	32.5
Consensus net profit	-	-	3,393	4,501	5,452
UOBKH/Consensus (x)	-	-	1.03	1.02	1.04

Source: Sunny, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	HK\$93.95
Target Price	HK\$104.00
Upside	+10.7%
(Previous TP)	HK\$89.59

COMPANY DESCRIPTION

Sunny Optical is engaged in the design, manufacturing and sales of optical and optical-related products. These products include glass/plastic lenses, lens sets, camera modules for mobile phones and digital cameras, microscopes and other analytical instrument.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	2382 HK
Shares issued (m):	1,096.9
Market cap (HK\$m):	103,049.0
Market cap (US\$m):	13,135.3
3-mth avg daily t'over (US\$m):	88.2

Price Performance (%)

52-week high/low HK\$107.70/HK\$61.40

1mth	3mth	6mth	1yr	YTD
9.2	6.6	6.0	2.2	35.0

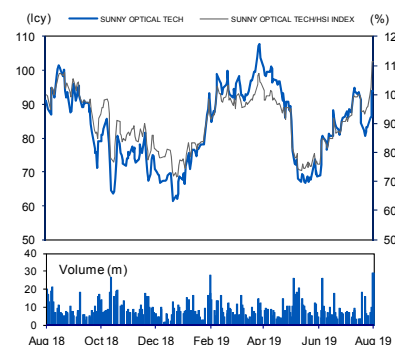
Major Shareholders

Shareholder	%
Sun Xu Ltd.	35.47

FY19 NAV/Share (Rmb) 10.84

FY19 Net Debt/Share (Rmb) 2.14

PRICE CHART



Source: Bloomberg

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- **Blended gross margin dipped 1ppt yoy to 18.4%**, mainly due to margin erosion in the HCM business. Gross margin in HCM dropped 3.5 ppt yoy to 5.9%, the lowest since 2010, owing to: a) production efficiency issue during the process of optimization and automation; and b) yield rate and efficiency hurdle in the initial early mass production phase of new high-end products. Thankfully, gross margins of optical components and optical instruments expanded 2.1ppt and 2.9ppt yoy to 44.1% and 41.2% respectively in 1H19. In the optical component segment, gross margin of HLS rose on product mix upgrade and scale effect while that of VLS remained stable.

STOCK IMPACT

- **Upward HLS shipment guidance for 2019.** Sunny revises up its 2019 HLS shipment growth target to 30% yoy, or the upper end of its earlier guidance of 25-30% yoy in Mar 19. Guidance for VLS and HCM shipment growth remains unchanged at 25% and 20-25% yoy respectively for 2019. On the back of 1H19's 14% shipment volume contribution from ≥20MP HLS, the company reiterates its full-year volume mix guidance of 10-20%.
- **Capex increase.** Sunny will boost its 2019 planned capex from Rmb3b to Rmb4b (Rmb2b for HLS, Rmb1b for HCM, Rmb1b for the new production base for automotive camera module and infra-red products). With the capex increase, its end-19 target monthly capacity of HLS will rise to 150m pieces from 140m pieces, and that of HCM will also rise to 75m units from 65m units. We deem the more aggressive capex plan as a positive, reflecting management's confidence in order outlook.
- **Margin recovery in sight.** Management hints that gross margin of HCM to recover in 2H19 from the current trough, thanks to on-track production line optimisation and automation as well as improving yield rate for new products. With regard to optimisation and automation, Sunny has developed an on-line assembly (OLA) production line and ultra-thin semiconductor packaging technology (IOM). Its new periscope-style products also attracted the interest of a leading Korean smartphone brand. For HLS, management highlights there is further room for margin improvement on yield rate enhancement for high-end new products and product spec upgrade in the form of larger aperture with 7 pieces (7P) plastic lenses, ultra-miniaturisation and ultra-wide angle.
- **Less impact from renminbi depreciation.** Thanks to the increasing US\$ revenue stream, mainly from Samsung, management expects more natural hedging against the renminbi depreciation for its US-dollar raw material costs for the HCM business, which should mitigate the margin pressure from forex fluctuation. Its lens sets segment should have less forex exposure as most of the external sales are for exports.

EARNINGS REVISION/RISK

EARNINGS FORECAST

Year to 31 Dec (Rmbm)	2019F			2020F			2021F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	32,452	35,063	8%	39,377	42,268	7%	47,098	49,003	4%
Gross profit	6,233	6,711	8%	7,692	8,503	11%	9,297	10,254	10%
Operating profits	4,221	4,256	1%	5,172	5,502	6%	6,236	6,725	8%
Net profit	3,490	3,485	0%	4,321	4,576	6%	5,250	5,648	8%
Margins (%)									
GPM	19.2	19.1	-0.1pt	19.5	20.1	0.6pt	19.7	20.9	1.2pt
OPM	13.0	12.1	-0.9pt	13.1	13.0	-0.1pt	13.2	13.7	0.5pt
NPM	10.8	9.9	-0.8pt	11.0	10.8	-0.1pt	11.1	11.5	0.4pt
Volume (m pieces)									
Optical component	1,419	1,410	-1%	1,808	1,783	-1%	2,279	2,214	-3%
Optoelectronic	554	575	4%	658	681	3%	773	782	1%
ASP (Rmb)									
Optical component	5.4	6.0	13%	5.1	6.1	18%	4.9	6.0	23%
Optoelectronic	44.3	45.7	3%	45.2	45.7	1%	46.1	45.2	-2%

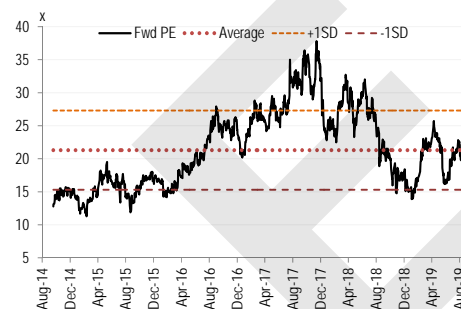
Source: Sunny, UOB Kay Hian

- **Earnings forecast revisions.** Our key assumption changes are: a) higher revenue forecasts primarily driven by higher HLS ASP and HCM volume; b) higher gross margins for all segments; and c) higher opex ratio due to higher R&D expenses. Hence, our 2019 net profit forecast is unchanged but 2020-21 net profit forecasts are raised by 6% and 8% respectively.

VALUATION/RECOMMENDATION

- **Improving company fundamentals largely priced in, maintain HOLD.** We lift target price to HK\$104.00, pegged to a higher 22x 2020F PE (equivalent to five-year historical average), up from 20x, to reflect Sunny's improving fundamentals (such as product ASP and margins). Recent share price rally should have largely priced in these positives and valuations have become fair. The haunting macro and trade war uncertainties should cap further share price upside. Entry price is HK\$84.00.

SUNNY: FORWARD PE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2018	2019F	2020F	2021F
Net turnover	25,931.9	35,062.7	42,268.2	49,003.2
EBITDA	3,896.6	5,344.9	6,842.7	8,319.9
Deprec. & amort.	819.4	1,088.7	1,341.2	1,594.6
EBIT	3,077.2	4,256.3	5,501.5	6,725.3
Associate contributions	(23.8)	(23.8)	(23.8)	(23.8)
Net interest income/(expense)	(202.1)	(253.9)	(253.9)	(253.9)
Pre-tax profit	2,851.3	3,978.6	5,223.9	6,447.6
Tax	(338.6)	(477.4)	(626.9)	(773.7)
Minorities	(21.8)	(15.9)	(20.9)	(25.8)
Net profit	2,490.9	3,485.3	4,576.1	5,648.1
Net profit (adj.)	2,490.9	3,485.3	4,576.1	5,648.1

CASH FLOW

Year to 31 Dec (Rmbm)	2018	2019F	2020F	2021F
Operating	3,567.9	3,950.1	4,663.7	5,722.4
Pre-tax profit	2,851.3	3,978.6	5,223.9	6,447.6
Tax	(262.5)	(477.4)	(626.9)	(773.7)
Deprec. & amort.	819.4	1,088.7	1,341.2	1,594.6
Associates	23.8	23.8	23.8	23.8
Working capital changes	(202.9)	(722.3)	(1,279.8)	(1,544.7)
Other operating cashflows	338.8	58.8	(18.5)	(25.2)
Investing	(5,499.3)	(2,035.5)	(2,028.0)	(2,026.2)
Capex (growth)	(2,134.1)	(2,000.0)	(2,000.0)	(2,000.0)
Investments	0.0	(35.5)	(28.0)	(26.2)
Proceeds from sale of assets	54.9	0.0	0.0	0.0
Others	(3,420.1)	0.0	0.0	0.0
Financing	2,956.8	(598.8)	(847.4)	(1,120.0)
Dividend payments	(725.1)	(622.6)	(871.1)	(1,143.8)
Issue of shares	(86.6)	0.0	0.0	0.0
Proceeds from borrowings	3,893.1	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(124.5)	23.8	23.8	23.8
Net cash inflow (outflow)	1,025.4	1,315.8	1,788.3	2,576.2
Beginning cash & cash equivalent	1,226.9	2,254.3	3,570.1	5,358.5
Changes due to forex impact	2.0	0.0	0.0	0.0
Ending cash & cash equivalent	2,254.3	3,570.1	5,358.5	7,934.7

BALANCE SHEET

Year to 31 Dec (Rmbm)	2018	2019F	2020F	2021F
Fixed assets	4,522.7	5,671.3	6,285.4	6,646.0
Other LT assets	1,561.0	1,250.8	1,351.0	1,444.8
Cash/ST investment	2,254.3	3,570.1	5,358.5	7,934.7
Other current assets	14,514.1	16,541.1	18,315.6	20,033.3
Total assets	22,852.1	27,033.3	31,310.4	36,058.7
ST debt	1,493.6	1,493.6	1,493.6	1,493.6
Other current liabilities	7,183.9	8,608.9	9,341.6	9,748.8
LT debt	4,410.4	4,410.4	4,410.4	4,410.4
Other LT liabilities	476.1	618.1	730.2	835.0
Shareholders' equity	9,234.1	11,848.2	15,280.5	19,516.9
Minority interest	54.0	54.0	54.0	54.0
Total liabilities & equity	22,852.1	27,033.3	31,310.4	36,058.7

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	15.0	15.2	16.2	17.0
Pre-tax margin	11.0	11.3	12.4	13.2
Net margin	9.6	9.9	10.8	11.5
ROA	12.9	14.0	15.7	16.8
ROE	29.8	33.1	33.7	32.5
Growth				
Turnover	15.9	35.2	20.6	15.9
EBITDA	(0.5)	37.2	28.0	21.6
Pre-tax profit	(14.1)	39.5	31.3	23.4
Net profit	(14.2)	39.9	31.3	23.4
Net profit (adj.)	(14.2)	39.9	31.3	23.4
EPS	(14.4)	39.9	31.3	23.4
Leverage				
Debt to total capital	38.9	33.2	27.8	23.2
Debt to equity	63.9	49.8	38.6	30.3
Net debt/(cash) to equity	39.5	19.7	3.6	(10.4)
Interest cover (x)	19.3	21.1	27.0	32.8

COMPANY RESULTS

Tencent Holdings (700 HK)

2Q19: Soft top-line Growth; Margins Continued To Recover, Strong Deferred revenue growth

Tencent reported mixed 2Q19 results. Revenue grew 21% yoy, missing consensus by 5%. Non-GAAP net income increased 19% yoy, 3% ahead of consensus. Gross margin shrank 2.7ppt yoy to 44.1% due to higher contribution from FinTech and cloud business, and is in line with consensus estimates of 44.6%. Non-GAAP EPS of Rmb2.46 was up 19% yoy. We maintain BUY, with a lower target price of HK\$423.00 (from HK\$437.00).

2Q19 RESULTS OVERVIEW

(Rmbm)	2Q18A	1Q19A	2Q19A	QoQ	YoY	Cons	Variance
Revenue	73,675	85,465	88,821	4%	21%	93,409	-5%
Social networking	16,867	20,461	20,773	2%	23%		
Online games	25,202	28,513	27,307	-4%	8%		
Online ads	14,110	13,377	16,409	23%	16%		
FinTech and Cloud and others	17,496	23,114	24,332	5%	39%		
Cost of sales	-39,229	-45,645	-49,695	9%	27%	41,646	-6%
Gross profit	34,446	39,820	39,126	-2%	14%		
Operating expenses	-16,217	-15,575	-17,295	11%	7%		
Non-GAAP Operating profit	22,258	28,470	27,281	-4%	23%		
Non-GAAP net income	19,716	20,930	23,525	12%	19%	22,940	3%
Non-GAAP diluted EPS (RMB)	2.06	2.19	2.46	12%	19%	2.39	3%
GPM	46.8%	46.6%	44.1%	-2.5 ppts	-2.7 ppts	44.6%	-0.5 ppts
GAAP OPM	29.6%	43.0%	31.0%	-12.0 ppts	1.4 ppts		
Non-GAAP NPM	26.8%	24.5%	26.5%	2.0 ppts	-0.3 ppts	24.6%	1.9 ppts

Source: Tencent Holdings Limited, UOB Kay Hian

RESULTS

- Online games revenue increased 8% yoy to Rmb27.3b.** Mobile games revenues was up 26% yoy to Rmb22.2b in 2Q19, thanks to the growth of existing titles such as PUBG MOBILE, as well as recently-launched titles like Perfect World Mobile, Catchya and Peacekeeper Elites. PC client games revenue dropped 9% yoy to Rmb11.7b despite increased cash receipts, and was down 15% qoq due to it being the weak season. Deferred revenue recorded strong growth of 25% yoy in 2Q19 (1Q19: 9%; 2Q18: -5%). We maintain positive on mobile game revenue growth throughout 3Q19 due to the strong performance of newly-released games including KartRider Rush and Game of Thrones.
- Online advertising revenue growth was lower than expected.** This increased 16% yoy (1Q19:25%; 2Q18:39%) to Rmb16.4b. Social advertising grew by 28% yoy, driven by Weixin Moments ads, Mini Programs, QQ KanDian and Tencent Video. Media advertising dropped 7% yoy (1Q19:5%; 2Q18:26%), due to delays in airing certain top-tier drama series and the absence of the FIFA World Cup tournament. The company expects the negative impact from the current business environment to persist in 2H19 and potentially into 2020.
- FinTech and Business Services revenue was Rmb22.9b, up 37% yoy.** Excluding interest income on custodian cash balances, revenues were up 57% yoy, driven by commercial payment, other FinTech services such as micro-loan products. Gross margin was recorded at 24.0% (1Q19: 28.5%; 2Q18: 26%) due to the absence of interest income.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2016	2017	2018	2019F	2020F
Net turnover	237,760	312,694	385,601	469,117	560,815
EBITDA	112,031	129,376	156,299	167,434	186,335
Operating profit	90,302	97,648	123,971	134,506	152,807
Net profit (rep./act.)	71,510	78,719	100,648	115,158	127,981
Net profit (adj.)	65,126	77,469	94,283	117,232	127,981
EPS (Fen)	682.9	809.7	984.7	1,224.9	1,334.6
PE (x)	44.5	37.6	30.9	24.8	22.8
P/B (x)	11.2	8.9	6.9	5.5	4.5
EV/EBITDA (x)	25.6	22.2	18.4	17.1	15.4
Dividend yield (%)	0.3	0.3	0.4	0.5	0.5
Net margin (%)	30.1	25.2	26.1	24.5	22.8
Net debt/(cash) to equity (%)	(6.6)	0.7	(16.4)	(29.1)	(37.1)
Interest cover (x)	38.5	27.7	22.1	33.4	51.1
ROE (%)	33.2	27.2	27.2	24.5	22.0
Consensus net profit	-	-	94,569	117,991	142,847
UOBKH/Consensus (x)	-	-	1.00	0.99	0.90

Source: Tencent Holdings Limited, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$340.00
Target Price	HK\$423.00
Upside	+24.4%
(Previous TP)	HK\$437.00

COMPANY DESCRIPTION

The company is one of the largest comprehensive internet service providers.

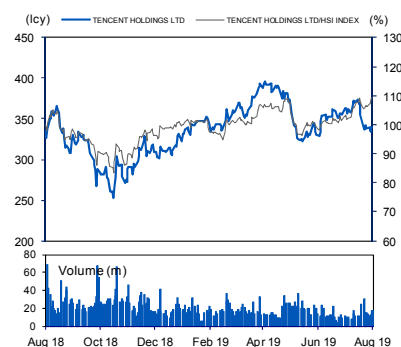
STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	700 HK
Shares issued (m):	9,555.2
Market cap (HK\$m):	3,248,757.3
Market cap (US\$m):	414,134.0
3-mth avg daily t'over (US\$m):	711.8

Price Performance (%)

52-week high/low	HK\$395.60/HK\$252.18			
1mth (4.2)	3mth (8.3)	6mth (0.5)	1yr (2.5)	YTD 8.3
Major Shareholders				
				%
MIH TC Holdings Ltd				31.10
Advance Data Services Ltd				8.61
-				-
FY19 NAV/Share (Rmb)				44.08
FY19 Net Cash/Share (Rmb)				7.22

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Social network VAS revenue** growth accelerated to 23% yoy vs (13% yoy in 1Q19) to Rmb20.8b in 2Q19. Fee-based VAS subscriptions revenue was up by 9.7% yoy to 168.9m as of end-Mar 19, with video subscriptions growing 30% yoy and 2% qoq to 96.9m.
- **Margin performance.** Gross margin shrank 2.7ppt yoy to 44.0% due to higher contribution from FinTech and cloud business, slight lower than consensus estimates of 44.6%. Non-GAAP operating profit grew 22.6% yoy to Rmb27.3b, vs 12.7%/11.1% yoy growth in 1Q19/1Q18. Non-GAAP net profit margin improved 0.5ppt yoy, due to constraints in marketing investment.
- **Operating metric.** QQ's MAU dropped 2% qoq to 808m in 2Q19, while the MAU from smart devices increase 0.9% yoy to 706.7m, thanks to the expansion in young user base. Combined MAU of Weixin and WeChat grew 7.1% yoy to 1,132.7m, with increasing use cases offered by Weixin Pay and Mini Programs.

EARNINGS REVISION/RISK

- We cut our revenue forecast for 2019/2020 by 4%/4% to reflect the weaker-than-expected 2Q19 revenue growth. However, we maintain our EPS estimates largely unchanged, due to the improving margins.
- Risks: Uncertainty in timeline of gaming approvals and increasing competition in video content industry.

VALUATION/RECOMMENDATION

- We maintain **BUY** on the company with a lower target price of **HK\$423.00** (from **HK\$437.00**). The company is trading at 26.8x 12-month forward PE, slightly lower than its historical mean of 28.x.

SHARE PRICE CATALYST

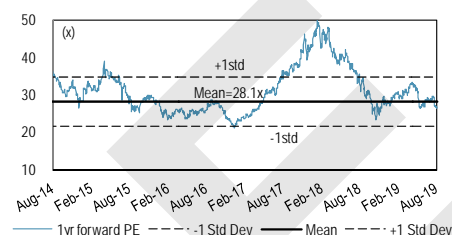
- a) Game approval recovery, margin recovery, newly-launched content platform to boost media-related subscription revenue and advertising revenue, b) higher-than-expected social network penetration into lower-tier cities, and c) better-than-expected demand for mobile advertising.

SOTP DETAILS

(Rmbm)	2019/2020 revenue	2019/2020F non-GAAP earnings	Valuation (2019/20F)	Est. fair value to Tencent (Rmbb)	Fair value to Tencent (US\$b)	Fair value/ share (HK\$)
Online game (PC + Mobile game)	122,742	39,904	18x PE	718	104	85
Social networking (QQ + Weixin VAS)	98,277	31,166	18x PE	561	82	67
Online ads (Portal + Video + Social ads)	79,647	17,425	18x PE	314	46	37
Payment	97,122		12x PE	1,122	163	138
Cloud	29,572		10x PS	296	43	35
Total EV	300,665	88,495	34x PE	3010	438	357
Investees						48
2019F cash per share (HK\$)						13
Target price (HK\$)						423

Source: UOB Kay Hian

TENCENT PE BAND



Source: Bloomberg, Tencent, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2017	2018	2019F	2020F
Net turnover	312,694	385,601	469,117	560,815
EBITDA	129,376	156,299	167,434	186,335
Deprec. & amort.	31,728	32,328	32,928	33,528
EBIT	97,648	123,971	134,506	152,807
Associate contributions	1,487	(587)	704	6,917
Net interest income/(expense)	(4,669)	(7,063)	(5,006)	(3,650)
Pre-tax profit	94,466	116,321	130,204	156,075
Tax	(14,482)	(14,478)	(15,046)	(28,093)
Minorities	(1,265)	(1,194)	0	0
Net profit	78,719	100,648	115,158	127,981
Net profit (adj.)	77,469	94,283	117,232	127,981

CASH FLOW

Year to 31 Dec (Rmbm)	2,018	2019F	2020F	2021F
Operating	125,996	142,711	169,620	185,478
Pre-tax profit	94,466	116,321	130,204	156,075
Tax	(14,482)	(14,478)	(15,046)	(28,093)
Deprec. & amort.	31,728	32,328	32,928	33,528
Working capital changes	20,218	16,797	26,540	27,618
Other operating cashflows	(5,934)	(8,257)	(5,006)	(3,650)
Investing	(152,762)	(72,121)	(81,886)	(92,681)
Capex (growth)	(19,743)	(24,346)	(29,619)	(35,409)
Others	(133,019)	(47,775)	(52,267)	(57,272)
Financing	46,061	(16,110)	(6,265)	(9,813)
Dividend payments	(7,107)	(8,454)	(10,289)	(12,793)
Issue of shares	(4,176)	1,365	1,433	1,505
Proceeds from borrowings	4,669	7,063	5,006	3,650
Others/interest paid	52,675	(16,083)	(2,415)	(2,174)
Net cash inflow (outflow)	19,295	54,480	81,469	82,984
Beginning cash & cash equivalent	144,027	163,322	217,802	299,271
Ending cash & cash equivalent	163,322	217,802	299,271	382,255

BALANCE SHEET

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
Fixed assets	40,695	57,511	79,101	105,980
Other LT assets	465,746	488,723	516,092	548,365
Cash/ST investment	163,322	217,802	299,271	382,255
Other current assets	53,758	62,763	73,106	84,468
Total assets	723,521	826,798	967,569	1,121,068
ST debt	26,834	24,151	21,736	19,562
Other current liabilities	175,601	201,403	238,286	277,267
LT debt	138,735	125,335	125,335	125,335
Other LT liabilities	26,144	26,144	26,144	26,144
Shareholders' equity	323,510	417,069	523,371	640,064
Minority interest	32,697	32,697	32,697	32,697
Total liabilities & equity	723,521	826,798	967,569	1,121,068

KEY METRICS

Year to 31 Dec (%)	2017	2018	2019F	2020F
Profitability				
EBITDA margin	41.4	40.5	35.7	33.2
Pre-tax margin	30.2	30.2	27.8	27.8
Net margin	25.2	26.1	24.5	22.8
ROA	12.3	13.0	12.8	12.3
ROE	27.2	27.2	24.5	22.0
Growth				
Turnover	31.5	23.3	21.7	19.5
EBITDA	15.5	20.8	7.1	11.3
Pre-tax profit	7.1	23.1	11.9	19.9
Net profit	10.1	27.9	14.4	11.1
Net profit (adj.)	19.0	21.7	24.3	9.2
EPS	18.6	21.6	24.4	9.0
Leverage				
Debt to total capital	31.7	24.9	20.9	17.7
Debt to equity	51.2	35.8	28.1	22.6
Net debt/(cash) to equity	0.7	(16.4)	(29.1)	(37.1)
Interest cover (x)	27.7	22.1	33.4	51.1

COMPANY RESULTS

Champion REIT (2778 HK)

1H19: In Line; Growth For 2019 Locked In But Outlook Remains Uncertain

Champion announced a 1H19 DPU of 13.35 HK cents (+6.5% yoy), which is in line with our and consensus expectations. In the reporting period, all of Champion's assets recorded positive growth in rental income. TGR saw positive rental reversion as its office rents continue to catch up with the average of the industry's Central office segment. The performance of the retail segment at LP was satisfactory but the outlook remains uncertain. Maintain HOLD with a new target price of HK\$6.15. Entry price HK\$5.80.

1H18 RESULTS

Year to 31 Dec (HK\$m)	1H18	1H19	yoy % chg	Remarks
Total Rental Income	1,303	1,400	7.4%	
-Three Garden Road	672	738	9.9%	Driven by positive rental reversion
-Langham Place Mall	464	477	2.8%	
-Langham Place Office	167	185	10.8%	
Net Property Income (NPI)	1,177	1,263	7.3%	
Distributable Income	812	869	7.0%	
Distribution Amount	731	782	7.0%	
DPU (HK cent)	12.53	13.35	6.5%	
	2H18	1H19	hoh % chg	
NAV per unit (HK\$)	11.42	11.82	3.5%	
Property valuation (HK\$m)	83,135	85,616	3.0%	
Gearing (%)	17.6	17.1	-0.5ppt	
Cost of debt (%)	3.1	2.9*	-0.2ppt	
Fixed debt ratio (%)	54.2	54.2	0.0	Further increased to 58.2% after Jun 19

Source: Champion, UOB Kay Hian

RESULTS

• **1H19 results in line.** Champion REIT (Champion) registered a 1H19 DPU of 13.35 HK cents, up 6.5% yoy. This is in line with our and consensus' expectations, at 48% and 47% of our and consensus' full-year 2019 DPU forecasts. In the reporting period, all of Champion's assets, Three Garden Road (TGR), Langham Place (LP) Mall and LP Office, posted positive rental income growth. Total revenue grew 7.5% yoy, while the NPI margin remained flat at 81%.

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2017	2018	2019F	2020F	2021F
Net turnover	2,700	2,965	3,094	3,217	3,302
EBITDA	1,886	2,089	2,184	2,271	2,331
Operating profit	1,886	2,089	2,184	2,271	2,331
Net profit (rep./act.)	11,140	7,812	1,442	1,502	1,554
Net profit (adj.)	1,487	1,611	1,660	1,725	1,781
EPU (HK\$ cent)	25.6	27.6	28.3	29.2	30.0
DPU (HK\$ cent)	24.2	26.2	26.8	27.8	28.5
PE (x)	20.7	19.2	18.8	18.1	17.6
P/B (x)	0.5	0.5	0.5	0.5	0.5
DPU Yld (%)	4.6	4.9	5.1	5.2	5.4
Net margin (%)	412.6	263.5	46.6	46.7	47.1
Net debt/(cash) to equity (%)	22.5	14.8	19.9	19.7	19.5
Interest cover (x)	5.7	5.2	4.9	4.9	5.1
ROE (%)	20.1	12.3	2.2	2.2	2.3
Consensus DPU (HK\$ cent)	n.a.	n.a.	28.3	29.8	31.1
UOBKH/Consensus (x)	-	-	0.95	0.93	0.92

Source: Champion, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	HK\$5.30
Target Price	HK\$6.15
Upside	+16.0%
(Previous TP)	HK\$6.10)

COMPANY DESCRIPTION

Champion REIT's portfolio focuses on commercial properties and currently offers investors direct exposure to 2.93m sf of prime office and retail floor area by way of two landmark properties in Hong Kong – Three Garden Rd in Central and Langham Place in Mongkok

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	2778 HK
Shares issued (m):	5,858.5
Market cap (HK\$m):	31,050.1
Market cap (US\$m):	3,958.1
3-mth avg daily t'over (US\$m):	3.3

Price Performance (%)

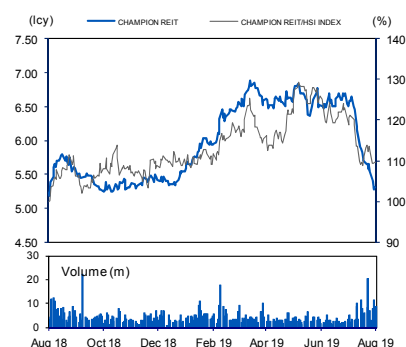
52-week high/low HK\$6.89/HK\$5.18

1mth	3mth	6mth	1yr	YTD
(20.8)	(19.6)	(10.6)	0.6	(1.1)

Major Shareholders

	%
Great Eagle Holdings Ltd	65.7
FY18 NAV/Share (HK\$)	11.37
FY18 Net Debt/Share (HK\$)	2.26

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Central office rental income growth locked-in at TGR for 2019; more room for rent hikes.** Rental income from Champion's largest asset, TGR, grew 10% yoy as the gap between TGR office rents and the average Central office rents narrowed – average passing office rents at TGR were up 9.9% yoy to HK\$105.35psf. Given that most of the rent negotiations due in 2019 have already been completed, the growth from this asset in 2019 has been locked-in. As of end-Jun 19, only 4.5% of office space at TGR was due for expiry in 2019. Currently, the spot rent for TGR is around HK\$130 psf, still offering a 15% discount to average rents in neighbouring office spaces. Hence, we expect that Champion will be able to be flexible in its leasing strategy to maintain a positive trajectory despite potential weakness in the Central office segment.
- LP Mall outperformed overall Hong Kong retail; outlook uncertain.** Retail sales at LP Mall appeared to be relatively resilient as retail sales fell 0.6% yoy in 1H19 (vs Hong Kong retail: -2.6% yoy). Total rental income at LP Mall rose 2.7% yoy, but turnover rent as a percentage of total rental income declined from 22% in 1H18 to 20% in 1H19, reflecting softness in the retail sector. For LP Mall, most of the rent negotiations have been completed for the year. Overall, the 1H19 performance at the mall was satisfactory but the outlook in 2H19 remains uncertain as the negative impact from the political unrest would start to show in 2H19's retail figures.
- Positive growth from non-core asset.** Champion has achieved great success from its non-core asset, LP Office, through repositioning it as a lifestyle hub. Passing rents grew 8.5% yoy, as office tenants were swapped for lifestyle tenants who could commit to higher rents. Lifestyle-related tenants, consisting of healthcare and medical, beauty, and fitness centres, now make up 56% of the leases. Management expects that the healthcare and medical trades will be resilient amid an uncertain environment.
- Gearing improved but not much update on acquisitions.** Gearing ratio fell 5ppt from 17.6% in 2H18 to 17.1% in 1H19. However, there was not much update from management on potential acquisitions, except that they prefer assets in Shenzhen or other tier-1 cities and/or in the UK.

OPERATING METRICS

(HK\$m)	1H18	2H18	1H19	yoy % chg	hoh % chg
TGR Office Occ. (%)	98.8	99.1	95.8	-3.0ppt	-3.3ppt
TGR Office Passing Rent (HK\$psf)	95.87	98.61	105.35	9.9	6.8
LP Mall Occ. (%)	100	100	98.8	-1.2ppt	-1.2ppt
LP Mall Passing Rent (HK\$psf)	177.56	184.28	186.55	5.1%	1.2%
LP Office Occ. (%)	98.3	100	100	1.7ppt	0.0ppt
LP Office Passing Rent (HK\$psf)	41.24	42.68	44.73	8.5	4.8

**UOB Kay Hian estimate*

Source: Champion, UOB Kay Hian

EARNINGS REVISION/RISK

- We lower our 2019/2021 DPU forecasts** by 4/5/6%, as we factor in the weaker performance in the retail segment and overall weaker leasing activity.

VALUATION/RECOMMENDATION

- Maintain HOLD with a new target price of HK\$6.15** (previously HK\$6.10); entry price HK\$5.80. Our valuation is based on DDM with a required rate of 6.8% and terminal growth rate of 2.0%. Given the huge disparity in office rents at TGR vs that of the average in the Central segment, we think Champion's DPU trend will maintain a positive trajectory.

SHARE PRICE CATALYST

- Positive newsflow on new acquisition or disposal/sustained growth in retail sales.
- Easing of the political situation in Hong Kong.

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2018	2019F	2020F	2021F
Net turnover	2,965.0	3,094.2	3,216.8	3,302.2
EBITDA	2,089.3	2,183.8	2,270.7	2,330.8
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	2,089.3	2,183.8	2,270.7	2,330.8
Total other non-operating income	6,411.6	0.0	0.0	0.0
Net interest income/(expense)	(400.0)	(444.4)	(459.0)	(456.4)
Pre-tax profit	8,100.9	1,739.4	1,811.7	1,874.4
Tax	(288.8)	(297.4)	(309.7)	(320.5)
Net profit	7,812.1	1,442.0	1,501.9	1,553.9
Net profit (adj.)	1,610.6	1,659.6	1,725.0	1,781.4

CASH FLOW

Year to 31 Dec (HK\$m)	2018	2019F	2020F	2021F
Operating	1,622.3	1,635.7	1,697.2	1,728.0
Pre-tax profit	8,100.9	1,739.4	1,811.7	1,874.4
Tax	(288.8)	(297.4)	(309.7)	(320.5)
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	105.7	78.5	74.5	51.9
Non-cash items	(6,267.3)	150.8	156.8	161.0
Other operating cashflows	(28.2)	(35.7)	(36.1)	(38.8)
Investing	(171.8)	235.7	36.1	38.8
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	0.0	0.0	0.0	0.0
Investments	(200.0)	200.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	28.2	35.7	36.1	38.8
Financing	(1,242.6)	(1,552.3)	(1,606.3)	(1,664.4)
Distribution to unitholders	(1,462.0)	(1,552.3)	(1,606.3)	(1,664.4)
Proceeds from borrowings	219.4	0.0	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	207.9	319.1	127.0	102.4
Beginning cash & cash equivalent	1,190.4	1,399.5	1,718.6	1,845.6
Changes due to forex impact	1.3	0.0	0.0	0.0
Ending cash & cash equivalent	1,399.5	1,718.6	1,845.6	1,948.0

BALANCE SHEET

Year to 31 Dec (HK\$m)	2018	2019F	2020F	2021F
Other LT assets	83,393.1	83,393.1	83,393.1	83,393.1
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	1,399.5	1,718.6	1,845.6	1,948.0
Other current assets	497.9	310.8	323.1	331.6
Total assets	85,290.5	85,422.6	85,561.8	85,672.8
Other current liabilities	6,624.4	3,043.5	3,162.7	3,251.1
LT debt	11,307.4	15,004.1	15,004.1	15,004.1
Other LT liabilities	597.7	597.7	597.7	597.7
Shareholders' equity	66,760.9	66,777.2	66,797.2	66,819.8
Total liabilities & equity	85,290.5	85,422.6	85,561.8	85,672.8

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	70.5	70.6	70.6	70.6
Pre-tax margin	273.2	56.2	56.3	56.8
Net margin	263.5	46.6	46.7	47.1
ROA	9.5	1.7	1.8	1.8
ROE	12.3	2.2	2.2	2.3
Growth				
Turnover	9.8	4.4	4.0	2.7
EBITDA	10.8	4.5	4.0	2.6
Pre-tax profit	(29.0)	(78.5)	4.2	3.5
Net profit	(29.9)	(81.5)	4.2	3.5
Net profit (adj.)	8.3	3.0	3.9	3.3
EPU	7.8	2.4	3.4	2.8
Leverage				
Debt to total capital	14.5	18.3	18.3	18.3
Debt to equity	16.9	22.5	22.5	22.5
Net debt/(cash) to equity	14.8	19.9	19.7	19.5
Interest cover (x)	5.2	4.9	4.9	5.1

TRADERS' CORNER



Zhenro Properties (6158 HK)

Trading Buy Range: HK\$4.67-4.70

Last price: HK\$4.67

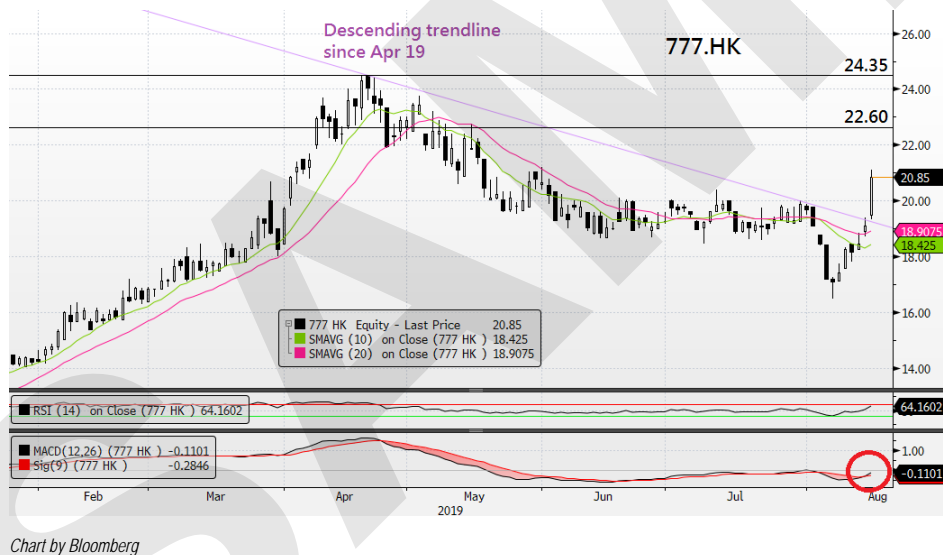
Target price: HK\$4.98/ HK\$5.20

Protective stop: Breaks below HK\$4.40

The stock rose above the 20-day moving average in a larger candle. The MACD crossed above its signal line and is heading upwards. Meanwhile, the 10-day moving average has flattened out and is playing a support role.

As long as HK\$4.40 is not broken, look for further upside towards HK\$4.98 and HK\$5.20. A break below HK\$4.40 would indicate that the upward breakout is false, and investors should close their positions to control risk.

Average time frame: Around 2 weeks.



NetDragon (777 HK)

Trading Buy Range: HK\$20.40-20.85

Last price: HK\$20.85

Target price: HK\$22.60/ HK\$24.35

Protective stop: Breaks below HK\$18.40

The stock has just broken above a descending trendline (formed since Apr 19) and major resistance at HK\$20.00 in a larger candle. The MACD has crossed above its signal line and is approaching 0-level. The daily RSI is above its neutrality level at 50% and is heading upwards. Meanwhile, the 10-day and 20-day moving averages have flattened out and are playing support roles.

As long as HK\$18.40 is not broken, look for further upside towards HK\$22.60 and HK\$24.35. A break below HK\$18.40 would indicate that the upward breakout is false, and investors should close their positions to control risk.

Average time frame: Around 2 weeks.

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