Hot on the plate (A-share)

- **Home Appliance Sector 2018 Investment Strategy: China's home appliance industry over the next 10 years – OUTPERFORM (Reiterate)**
  In 2018, cost advantages are expected to replace volume growth as the new factor dictating growth of the home appliance sector. Given the expectations for stable business fundamentals, we project that weaker risk appetite due to deleveraging efforts and increased investment from global capital market in China's best equity assets will lift valuation multiples of the quality home appliance names close to the international level. We recommend (i) white appliance leaders with solid competitive edges and visible profit growth: Midea Group (000333), Qingdao Haier (600690), Gree Electric Appliances (000651) and Wuxi Little Swan (000418); 2) selected growth names: Opple Lighting (603515), Hangzhou Robam Appliances (002508), Vatti (002035) and Zhejiang Sanhua Intelligent Controls (002050); 3) bottom-up selection: the small appliance leader Zhejiang Super (002032), the segment leader Shanghai FLyco Electrical Appliance (603868) which has a large brown goods industry chain platform.

- **Aviation Sector In-depth Research: Back and forward – OUTPERFORM (Reiterate)**
  The punctuality policy is tipped to work on supply and change the "higher volume but lower price" landscape that has been bothering the aviation market over the past few years. Also taking into account the expected progress of price marketization, we upgrade the aviation sector to OUTPERFORM, and continue to recommend Spring Airlines (601021) and Air China (601111) for their growth visibility as well as China Southern Airlines (600029) and China Eastern Airlines (600115) for their great growth elasticity.

- **Telecom Sector: Focus on optical communication/IDC amidst continued fast traffic growth – OUTPERFORM (Reiterate)**
  Per data unveiled by the MIIT on 23 Nov, China's per household mobile Internet traffic hit 2.25G in Oct 2017, up 147.8% YoY. The growing traffic stands to boost the demand for upgrading infrastructures such as traffic transmission, storage and regional traffic network facilities. We forecast the 5G trial commercialization tendering to be launched in mid-2018 to prop up valuation of the telecom sector. From the business fundamentals perspective, investors are advised to keep eyes on the optical communications, data center and private network segments, given that the growing traffic offers a strong support to relevant segment's profit growth.

- **China International Travel Service (601888): Limited impact from import tax cut over the short term**
  The Ministry of Finance announced on 24 Nov 2017 to further slash the import tariff on many consumer products to 7.7% from 17.3% starting on 1 Dec 2017. We foresee limited impact on the Company's duty-free business over the short term, but the landscape of the channels will likely be affected over the long term. We forecast CITS' 2017-19E EPS to be Rmb1.20/1.37/1.72 ignoring additional policy tailwinds and new duty-free concessions. We expect the Company to grow into a world-class tourism and retail group with huge upside for its market cap and continue recommending this name.

Other recommendations

- **Bond Enlightenment Series (20171127): This year's land supply is crucial to future investment scale**
  In 2017, many Chinese cities ramp up the supply of construction land. This report aims to explore the contribution of land procurement in 2017 to the future real estate development investment through analysis of the correlations between the two. Overall, as land acquisition, land turnover and land available for development grow and alongside effective implementation of the destocking measures in the real estate market, China's real estate development investment is expected to see a wave of notable increase.

- **Bank Sector Hotspot (20171126): More regulatory rules**
  CBRC released the *Guidance on Managing the Risks for Trading Book Interest Rates of Commercial Banks* (Revised Draft for exposure) last Friday after a string of regulatory rules. This revision is aimed to make up for the regulatory weakness and make the risk management regime fully-fledged. It will have little impact on banks' short-term financial statements but help stabilize risk expectations for banks over the long term.

- **Non-ferrous Metal Sector Weekly (20171127): Looking for names delivering profit continually**
  Considering the fundamentals, we reiterate our OUTPERFORM rating for the non-ferrous metal sector. We strongly suggest eyeing 1) the cobalt and lithium segments as high prices will shore up of players in these two segments, and 2) disruption in copper supply will give a boost to earnings of copper producers. We recommend Zhejiang Huayou Cobalt (603799), China Molybdenum (603993), Nanjing Hanrui Cobalt (300618), Tianqi Lithium Industries (002466), Ganfeng Lithium (002460), Xiamen Tungsten (600549), Minmetals Resources (01208.HK) and Zijin Mining (02899.HK).

- **The Coal Sector Weekly (46th issue in 2017): Expected to rebound gradually thanks to restocking – OUTPERFORM (Reiterate)**
  Recovery of fundamentals is expected to drive the coal sector to pick up as the pessimistic sentiment has already been unleashed over time. The continual correction of coal price starting from Oct 2017 has subdued performance of the entire coal sector. Currently, coal price is expected to rebound gradually driven by the peak season and restocking demand. The pricing mechanism for long-term coal supply during 2018 has been becoming more and more visible, which is also expected to stabilize the long-term expectation of coal prices. We suggest picking leading coal names boasting high visibility in profit which are beneficiaries of SOE reform or policy tailwind for the coal sector. Our recommendations include Shaanxi Coal Industry (601225), Shanxi Xishan Coal and Electricity Power (000983), Shanxi Lu'an Environmental Energy Development (601699)、Yang Quan Coal Industry (600348), Shanxi Coal International Energy (600546).

- **Apeloa Pharmaceutical (000739): The controlling shareholders subscribed to shares at a 20% premium – OVERWEIGHT (Reiterate)**
  The Company announced it had completed the private placement, via which it offered c. 31.60mn shares and raised net proceeds of c. Rmb242mn (equivalent to an offering price of Rmb8.01/share). Its controlling shareholder, Hengdian Group Co., Ltd., subscribed at a 20% premium, boosting its holding to 26.74%. Such a move underscores the majority shareholder's strong confidence in the prospect for the Company. The proceeds will be used to finance the production for solid formulation, repay bank loans and replenish working capital. Considering the private placement just completed, we revise our 2017/2018/2019E EPS estimates to Rmb0.24/0.33/0.42 (diluted 2016A EPS at Rmb0.22). We apply 32x 2017E PE to the Company after looking at comparables in the CMO subsector and considering its prospective exposure to overseas market and innovation drugs, revise our TP to Rmb7.68 and reiterate our OVERWEIGHT rating.

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	Ratings	Description
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	OVERWEIGHT	Increase relative to market representative index between 5% and 20%
	HOLD	Increase relative to market representative index between -10% and 5%
	SELL	Decrease relative to market representative index over 10%
Industry ratings	OUTPERFORM	Increase relative to market representative index over10%
	NEUTRAL	Increase relative to market representative index between -10% and 10%
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