Hot on the plate

- **H-share Investment Strategy: Southbound investors bought over Rmb10bn**
  Affected by slumping equity and bond markets in the US, the Hang Seng Index closed 1.1% lower on 05 Feb, but it is worth mentioning that southbound investors bought over Rmb10bn today. The tumbles in the US capital market were mainly attributable to investors' concerns about monetary tightening. In Mainland China, the macroeconomic growth remains steady. We believe structural CPI inflation is a large-probability event in the context of stabilizing economic growth. In the early stage of CPI inflation, daily staples are expected to present the most investment opportunities alongside increase of the profit and gross margin. Besides, we are also positive on the broad financial sectors, expecting the H-share securities firms to deliver stronger profit growth on increased IPOs in the H-share market. The traditional cyclical sectors are expected to continue benefiting from the difference between expectation and reality and the ongoing supply-side reform.

- **Hotels Sector Tracker: Experience of the US: cyclical upturn and structural optimization**
  Through analysis of the three business cycles in the US since 1980s, we believe this round of buoyant business climate for China's hotel operators are driven by the cyclical upturn and optimization of offering structure. At present, the upturn is expected to last for 2~3 years on rising room rate and stable occupancy. We project the 2018 RevPAR growth at 3~6%. Structurally, leading hotel operators are better positioned to benefit from the customers' rising brand awareness and hotel upgrade. We recommend BTG Hotels (Group) (600258) and Jin Jiang International Hotels Development (600754).

Other recommendations

- **Bond Market Thematic Research: Why "the strong gets stronger"?**
  An important reason behind this phenomenon is the changes of comparative advantages between China's industries/companies. Factor flows and spill-over effect are two factors to balance the overly tilt of comparative advantages. Migration of the comparative advantages is generally accompanied by factor concentration and redistribution. We believe the market style will only change after the direction of factor flows changes, the regulatory objectives are periodically achieved, and the liquidity stratification issue was resolved.

- **Interest Rate Bonds Weekly (20180205): Outlook on the post-wealth management product age**
  On 2 Feb 2018, the Wealth Management Market Report in China Banking Industry (2017) was released. According to it, growth of the outstanding wealth management products issued by banks feel steeply by 21.94pcts from 2016, the balance of inter-bank products tumbled by 51.13% from the year beginning, and standard assets including bonds became the major target assets of wealth management money. As the government endorsement is gradually broken, conservative investors are expected to move their eyes from off-balance-sheet wealth management products to on-balance-sheet assets; while aggressive investors will possibly shift attentions to equities, property and overseas assets. This encourages development of customized asset management assets to meet the demand of various investors.

- **The Basic Research on Convertible Bond (15th): Build the CB "yield curve"**
  The foremost difference between CBs and their underlying stocks lies in the conversion premium. We build the tool of "premium curve" by drawing on the yield curve from the perspective of conventional fixed income research. With this tool, we look for the stage when coefficient between CBs and their underlying stocks is relatively high (or in other words, when CBs can benefit greatly from the rally of their underlying stocks but incur less losses than the latter in extreme cases), namely, when the CB premium curve is extremely flat. We believe that the premium curve is a more instrumental tool under two circumstances. 1) When the investor sentiment is pessimistic. If the premium curve is relatively flat and close to the horizontal axis. 2) When the investor sentiment is optimistic, the premium curve may flatten and then steepen.

- **The Bond Market Series (20180206): The coupling effect between the US and Chinese bond markets in the context of a dire global bond market**
  Bond yields worldwide have been trending up. After looking at their movements retrospectively, we expect the long term yields to stay sideways in the current band. Under the conditions that the US Fed hiked rate and the US Dollar Index has kept falling, the prices for imported goods may rise, which could push up the inflation rate in the US and further drive up the yields on its treasury bonds. The US bond market will thus see a dire picture. Considering the lagging correlation between the Chinese and US bond markets, these effects may be transmitted to China going ahead, driving up the government bond yields continuously. However, one cannot figure out the continuity of such as trend currently. We thus reiterate our projection that the YTMs on 10-yr government bonds will swing in the range of 3.8% and 4.0%.

- **The Global Retailer Research Series (VIII): ASOS: The fashion e-commerce giant closely following the trends**
  ASOS, a UK-based fast-moving fashion e-commerce giant, has been committed to retail of fashion and beauty products under proprietary or other brands on its website. It offers diversified products by precision profiling of customer groups, optimizes online shopping experience based on advanced back-office technologies and has built mature logistical and warehousing system by ongoing inputs. In addition, it has closely followed fashion trends via a professional buyer team. It thus expanded its operating revenue and operating profit by CAGR of 41% and 33% respectively (to GBP1.88bn and GBP800mn) during 2007-2017.

- **Amazon (AMZN.O): 4QFY17 results commentary: Results beat consensus expectations**
  Amazon reported 4QFY17 results, including net sales revenue of US$60.45bn (+38% YoY) and operating profit of US$2.13bn (+69% YoY). Sales revenues of its three types of businesses (retail in the North America and the rest of the world and AWS) all beat consensus expectations. We expect Amazon to make more innovative headways in the emerging businesses over longer time horizon, supported by the effects of a strong platform based on its core businesses, further cementing its leadership in diversified businesses.

Analyst Certification: The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Investment rating system

Rating standard for Investment Recommendations

Investment ratings are divided into stock rating and sector rating (unless stated otherwise). Rating standard is based on the relative performance with market in 6 to 12 months from the report issuance date, i.e. Performance of company stock price (or sector index) over the 6-to-12-month period from report issuance day is benchmarked against the change in market representative index in the same period. CSI 300 Index will be the benchmark index for A-share market; the NEEQ Component Index (stocks subject to negotiated transfer) or the NEEQ Market Making Index (stocks subject to market making) will be the benchmark index for the NNEQ board; MSCI-China Index will be the benchmark index for Hong Kong market; and NASDAQ Composite Index or Standard & Poor's 500 Index will be the benchmark indices for U.S. market.

	Ratings	Description
Stock ratings	BUY	Increase relative to market representative index over 20%
	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%
	UNDERPERFORM	Decrease relative to market representative index over 10%

Other Disclosures

This research report has been prepared by CITIC Securities Company Limited ("CS") or an affiliate thereof. CS, its subsidiaries, branches and affiliates are referred to herein as" CITIC Securities".

Legal Entities Disclosures

Hong Kong: This material is issued and distributed in Hong Kong through CITIC Securities Brokerage (HK) Limited ("CSBHK", CE Number AAE879) which is regulated by the Securities and Futures Commission in Hong Kong.

Singapore: This material is distributed in Singapore through CLSA Singapore Pte Limited ("CLSA Singapore") and may only be provided to Institutional Investors, Accredited Investors and Expert Investors, as defined in s.4A(1) of the Securities and Futures Act. Any such investor wishing to discuss this material or effect transactions in any security discussed herein should do so with or through MAS licensed representatives of CLSA Singapore. If you are an accredited investor or expert investor, please be informed that in CLSA Singapore's dealings with you, it is relying on certain exemptions to the Financial Advisers Act ("FAA") - (1) the exemption in Regulation 33 of the Financial Advisers Regulations ("FAR"), which exempts it from complying with Section 25 of the FAA on disclosure of product information to clients; (2) the exemption set out in Regulation 34 of the FAR, which exempts it from complying with Section 27 of the FAA on recommendations; and (3) the exemption set out in Regulation 35 of the FAA, which exempts it from complying with Section 36 of the FAA on disclosure of certain interests in securities.

Jurisdiction Specific Disclosures

Hong Kong: Subject to any applicable laws and regulations at any given time, CITIC Securities, their respective affiliates or companies or individuals connected with CITIC Securities may have used the information contained herein before publication and may have positions in, may from time to time purchase or sell or have a material interest in any of the securities mentioned or related securities, or may currently or in future have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. As a result, investors should be aware that CITIC Securities, and/or their respective affiliates or companies or such individuals may have one or more conflicts of interest.

Singapore: Regulations or exchange rules prescribe certain disclosures to be made for certain actual, potential or perceived conflicts of interests relating to research reports. Details of the disclosable interest can be found in certain reports as required by the relevant rules and regulation and the full details are available at https://www.clsa.com/disclosures/ . Disclosures therein include the position of CLSA group, CLSA Americas and CA Taiwan only and do not reflect those of CITIC Securities, Credit Agricole Corporate & Investment Bank and/or their respective affiliates. If investors have any difficulty accessing this website or require disclosure information on previous dates, please contact compliance_hk@clsa.com.

United States: This research report has been produced in its entirety by CITIC Securities. This research report is distributed into the United States by CITIC Securities (excluding CITIC Securities International USA, LLC ("CSI-USA")) and CLSA group of companies (excluding CLSA Americas, LLC ("CLSA Americas")) solely to persons who qualify as "major U.S. institutional investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934 and who deal with CSI-USA and CLSA Americas respectively. However, the delivery of this research report to any person in the United States shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. Any recipient of this research report from CITIC Securities and CLSA group of companies in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting CSI-USA and CLSA Americas respectively.

United Kingdom: The disclosures contained in this part of "United Kingdom" shall be governed by and interpreted in accordance with British law. This research is a marketing communication. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research as defined in the Financial Conduct Authority Handbook, and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The research is disseminated in the EU by CLSA (UK), which is authorized and regulated by the Financial Conduct Authority. This document is directed at persons having professional experience in matters relating to investments as defined in Article 19 of the FSMA 2000 (Financial Promotion) Order 2005. Any investment activity to which it relates is only available to such persons. If you do not have professional experience in matters relating to investments you should not rely on this document.

General

This research report is strictly confidential to the recipient and provided only for the use of the recipient and it is not intended for persons in places where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such places. This research report is for information purposes only and should not be construed as an offer to buy or sell or the solicitation of an offer to buy or sell any securities or financial instruments in any jurisdiction. CITIC Securities will not deem the recipient as its clients by reason of their receiving this report. The opinions and recommendations herein do not take into account individual client circumstances, objectives or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make his own independent decisions regarding any securities or financial instruments mentioned herein.

Information has been obtained from sources believed to be reliable but CITIC Securities do not warrant its accuracy or completeness. CITIC Securities assumes no liability whatsoever for any direct or consequential loss arising from any use of material contained in this research report or otherwise arising in connection therewith. Any securities referred to herein may involve significant risk, may be illiquid and may not be suitable for all investors. The prices, values and income of the securities or financial instruments referred to herein may fluctuate and be affected by changes in exchange rates. Past performance is not indicative of future results.

Information, opinions and estimates contained herein reflect the judgment of analyst(s) of CITIC Securities at the date of its original publication and are subject to changes without notification.They also may be different from or contrary to the opinions presented by other business departments, units or affiliates of CITIC Securities, as different assumptions, standards, views and analytical methods may be adopted in the preparation of such other materials, and CITIC Securities has no obligation to bring such other materials to the attention of any recipient of this report. CITIC Securities relies on information barriers to control the flow of information contained in one or more areas within CITIC Securities, into other areas, units, groups or affiliates of CITIC Securities. The compensation of analysts who prepared this research report is determined solely by the management of Research Department and senior management of CITIC Securities. Analysts' compensation is not decided based on revenue of CITIC Securities' investment banking business but may be linked with overall revenue of its investment banking business as a whole, of which investment banking, sales and trading are a part.

If this research report is distributed by a financial institution other than CITIC Securities, that financial institution is solely responsible for its distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this research report or if they require further information. This research report does not constitute investment advice by CITIC Securities to the clients of the distributing financial institution, and neither CITIC Securities nor its respective officers, directors and employees will accept any liability whatsoever for any direct or consequential loss arising from their use of this research report or its content.