Hot on the plate

- **A-share Market Strategy Express (20180329): Tax reform helps restore economic expectations**
  The executive meeting of the State Council held on 28 March 2018 unveiled a slew of VAT reform measures. The tax cut is clearly positive to the mid to long-term business fundamentals of China, and in the short term, the new policy is expected to save c.Rmb400bn tax for enterprises, which is able to effectively neutralize the negative impact of Sino-US trade disputes. We believe the tax cut policy is set to boost operating results of companies in the high-tech and high-end manufacturing sectors, while the Sino-US trade frictions mainly weigh down on investor sentiment. The tax policy helps to improve the economic expectations and market sentiment.

- **CRRC (601766): Order book expanded; lay-off improves efficiency – OVERWEIGHT (Reiterate)**
  The Company's 2017 results slightly missed our estimate because of a 1.83pcts increase in management expense ratio. We expect the Company's railway equipment revenue to continue growing steadily in 2018 and the urban rail business revenue to usher in a delivery peak in 2018~20. Besides, the organizational reform helps to enhance future growth momentum. On account of the increasing management expense, we lower our 2018/19E net profit estimates, and predicts 2018~20E EPS of Rmb0.41/0.46/0.52. OVERWEIGHT retained.

- **Weichai Power (000338): 2017 results commentary: Profit growth beat --BUY (Reiterate)**
  The Company reported 2017 net profit of Rmb6.80bn (+179% YoY, which beats market expectation and is above the high-end of the range it guided). The extremely robust profit growth was mainly thanks to the swift growth in its HDT engine sales volume. It is expected to deliver another beat in 2018 profit growth given the upgrade of its product mix. With its mid/long term strategy being unfolded, the Company has been committed to joining camps of the top-notch players in smart logistics and hydrogen cell. We lift our 2018/19/20E EPS estimates for it to Rmb0.94/1.01/1.08 (2017A EPS at Rmb0.85), equivalent to 3-yr PE of 8/8/7 based on its last price of Rmb8. We believe 15x 2018E PE for it is attractive and retain our BUY rating for it with target prices for its A and H shares at Rmb14.1 and HK$17.6.

- **Huayu Automotive Systems (600741): 2017 results commentary: Inline profit growth and rosy outlook --BUY (Reiterate)**
  The Company reported 2017 results. Its 2017 ANP posted a growth of 7.9% YoY (to Rmb6,554mn), which is in line with expectation, and its basic EPS came in at Rmb2.08. It declared a cash dividend of Rmb10.5 for every 10 shares held with the payout ratio at 50%, which is equivalent to a dividend yield of 4.5%. Such a dividend yield points to wide safety margin. It set sanguine revenue and gross margin targets for 2018. We reiterate our 2018/19E EPS estimates of Rmb2.26/2.49 (2-yr PE of 10/9x based on its last price of Rmb23.24). We believe 15x 2018E PE for the Company is attractive and retain our BUY rating.

- **Huatai Securities (601688): 2017 results commentary: Wealth management business has taken shape--OVERWEIGHT (Reiterate)**
  The Company reported 2017 results, including operating revenue of c.Rmb21bn (+24.8% YoY), ANP of Rmb9,277mn (+47.9% YoY) with its operating profit on comparable basis jumped by 14.45% YoY. Guided by clear-cut strategy, its distinct business model of wealth management has largely taken shape, supported by well-streamlined organizational structure and leading application of Internet technologies and based on two platforms, its own mobile APP and AssetMark. To avoid delay of its A share private placement, it decided to postpone the profit distribution. Its share of the traditional brokerage market edged down with stable commission rate. The Company aims to cement its competitive edges by ushering in strategic investor and putting in place market-oriented operating mechanism. We forecast the Company's 2018/19E BVPS to be Rmb13.87/15.03, equivalent to 2-yr PB of 1.20/1.11x based on its last price of A shares and 0.92/0.84x based on the last price of its H shares. We retain our OVERWEIGHT ratings for its A and H shares.

- **Luzhou Laojiao (000568): 2017 preannouncement 1Q2018 guidance commentary: 2017 revenue above Rmb10bn again, 1Q18 recurring ANP growth accelerated--BUY (Reiterate)**
  The Company preannounced its 2017 results, including operating revenue of Rmb10.39bn (+25% YOY) and ANP of Rmb2.56bn (+c. 31% YoY), which are in line with expectation. The swift profit growth was mainly thanks to expansion in sales revenue of liquor, especially up-market liquor. It guided a YoY recurring ANP growth in the range of 38%-48% for 1Q2018 thanks to the continuously healthy growth of its liquor business. We expect its profit growth to further accelerate in future as it targets to boost sales of National Cellar 1573 above Rmb10bn etc. The Company's 2017 operating revenue met the target it set early that year with EPS at Rmb1.75. We forecast 2018-2019E EPS of the Company to be Rmb2.30/2.94 (2-yr PE of 23/18x) and retain our BUY rating.

Other recommendations

- **"Back to China" Series Research (I): CDR – bracing for the wave of "new economy" IPOs**
  Since the beginning of March, the innovative CDR (China Depository Receipts) system that the Mainland investors have been talking about and the Consultation Paper on a Listing Regime for Companies from Emerging and Innovative Sectors published by HKEX earlier have stirred up high expectations for the US-listed Chinese stocks coming back to China. Return of relevant companies stands to anchor valuation for relevant sectors and change the pattern of listed companies.

- **Unicorn Series Research (I): Meituan-Dianping: developing to a super platform**
  Starting from "group purchase" business, Meituan-Dianping successfully extended its footprint to the restaurant, takeaway, hotel and travel services etc. Thanks to differentiated business positioning from the e-commerce operators, it jumped to a local service leader with Rmb360bn GMV in 2017. The local living service business positioning and the merchant/delivery/user-based scene expansion help the Company to compete with the e-commerce giants and boost customer loyalty. We expect the Company to expand business from information linkage to improvement of partners' operating efficiency going ahead.

- **Bond Market Series (20180329): The housing demand in 2018, a perspective from the talent scramble**
  At present, Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou etc. have still the best appeal for talents, but other regions may adopt extremely preferential measures to attract the high-tech talents in order to boost development of some industries. The favorable measures will underpin the local housing demand.

- **Glodon (002410):Cloud business deepened; BIM logged strong growth**
  The Company reported top line/bottom line of Rmb2,340mn/472mn, up 15.28%/11.62% YoY, respectively. Its cloud construction cost business developed smoothly during the reporting period, and the construction engineering business continued fast growth, with BIM business revenue doubling. We remain positive on development of the cloud business and accelerated growth of the BIM business, and maintain our 2018/19E EPS estimate at Rmb0.52/0.68. We also project 2020E EPS of Rmb0.92, and retain the OVERWEIGHT rating with a TP of Rmb27.13.

- **Shanghai Mechanical & Electrical Industry (600835): Solid core business – BUY (Reiterate)**
  Ex-one off net profit came in line with estimates. Gross margin of the elevator business declined due to price cut and rising raw material cost. We expect the gross margin to recover in 2018 as cost pressure eases. Besides, the RV decelerator business may become a new profit contributor in future. Given the stiff competition in the elevator market, we trim 2018/19E EPS estimates from Rmb15.72/16.83 to Rmb14.97/16.39 and project 2020E EPS of Rmb17.81. Retain TP of Rmb26.16 and BUY.

- **Beijing Enterprises Water Group (00371.HK): Weak results won't harm long-term growth – BUY (Reiterate)**
  Net profit went up 15% YoY, weaker than estimates because of notable decline in gross margin of the comprehensive environmental governance projects. Given the disappointing net profit and the temporary impact of PPP project library management, we lower 2018~19E net profit estimates and project 2018~20E EPS of HK$0.50/0.60/0.68. Considering the Company's ample project pipeline, the proven growth track record, the increasing processing capacity and the contribution of PPP projects, we value the Company at 13x 2018E PE, implying a TP of HK$6.50. BUY remains unchanged.

- **China Harmony New Energy Auto (03836.HK): Getting out of the red – BUY (Reiterate)**
  The Company recorded net profit of Rmb1,009mn, versus loss of Rmb371mn in the earlier year. It is steadily expanding its sales network and will benefit from BMW's new model cycle in the short term and consumption upgrade in the long run. Besides, Byton under the Company's subsidiary FMC showcased a SUV model in Jan 2018, which helps to eradicate investor concerns. We apply 15x 2018E PE on the Company to arrive at a TP of HK$7.0. BUY remains unchanged.

- **iFLYTEK (002230): 2017 results commentary: Swift growth driven by AI business strategy--BUY (Reiterate)**
  The Company disclosed its 2017 results, including operating revenue of c. Rmb5,445mn (+c. 64% YoY) and Rmb435mn (-10.27% YoY). Its recurring ANP (Rmb359mn) posted a growth of c. 41% YoY, which is in line with expectation. Its revenue and profit have started growing again on continuous input in R&D and channel. We revise our 2018-2020E EPS estimates for it to Rmb0.30/0.39/0.52 from Rmb0.43/0.58/NF given the progress in its business development and the share capital expansion with capital reserve. We remain bullish about the Company's leadership, prospective exposure and strength in the AI field. Continued inputs into R&D and marketing will further boost its intrinsic value over the mid-/long term. We retain our BUY rating.

- **Mengniu Dairy (02319.HK): 2017 results commentary: Ready for faster revenue growth--BUY (Reiterate)**
  The Company disclosed its 2017 results, including operating revenue of c. Rmb60.12bn (+c. 12% YoY) and Rmb2,048mn (vs a loss of Rmb751mn for 2016). Its core profit growth was c. 58% after deducting losses of Yashili and Modern Farming. We expect the Company's revenue to grow faster in 2018 given the remarkably marginal improvements in product, channel, marketing and business administration. In addition, we expect Yashili, in which it takes a controlling stake, and Modern Farming, one of its affiliates, to incur much less losses. Therefore, substantial drag on its profit will disappear. We cut our 2018-2019E EPS estimates to Rmb0.78/0.96 (or HK$0.97/1.20) from Rmb0.84/1.04 and forecast its 2020E EPS to be Rmb1.16 and retain our BUY rating.

- **Songcheng Performance Development (300144): 2017 results commentary: Profit growth accelerated with leadership cemented--BUY (Reiterate)**

- **Anzheng Fashion (603839): 2017 results commentary: Major brands all ramped with better operation--BUY (Reiterate)**

- **Daoming Optics and Chemical (002632): 1Q2018 preannouncement commentary: Rump-up in ANP on surge in core business revenue and consolidated profit--BUY (Reiterate)**

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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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