Hot on the plate

- **Consumption in Lower-Tier Cities: Brand consumption, channel penetration, experience upgrade – OUTPERFORM (Reiterate)**

  We are upbeat on the mid-term consumption in lower-tier cities.

  - Retail: we like the B&M and eCommerce leaders that are stepping up expansion in lower-tier cities. Of stock picking, we prefer Jiajiayue Group (603708), Chow Tai Seng Jewellery (002867), Better Life Commercial Chain (002251), Suning.com (002024) and NanJi E-Commerce (002127) and advise to keep an eye on Pinduoduo.
  - Food & beverage: consumption in lower-tier cities improves the business climate for mass consumer products. We recommend the industry leaders Yili Industrial Group (600887), Mengniu (02319.HK), Shuanghui Investment & Development (000895), Toly Bread (603866) and H&H International Holding (01112.HK).
  - Textile & apparel: the leading brands with solid strength in end-market operation, supply chain integration and product innovation are expected to stand out. Our top picks are ANTA Sports (02020.HK), Heilan Home (600398), Semir Garment (002563), and Shuixing Home Textile (603365).
  - Transportation: express delivery companies are speeding up expansion in tier-3/4 cities thanks to the robust eCommerce consumption in lower-tier cities and the increased policy support. Recommend Deppon Logistics (603056), and S.F. Holding (002352).
  - Hotels: Given the strong business climate, unleashing demand in lower-tier cities and an improved competitive environment for leading players, we recommend the limited service hotels including BTG Hotels (Group) (600258) and Jin Jiang International Hotels Development (600754).
  - Insurance: Auto ownership is growing rapidly in China's counties and villages. We recommend PICC P&C (02328.HK) for its extensive sales network and in-depth business coverage, and China Pacific Insurance (601601, 02601.HK) for the growing penetration of protection insurance policies in county markets, increase of people's income and growth of the per customer price.

- **China Defense Sector: Networking of the Beidou navigation system speeds up – OUTPERFORM (Reiterate)**

  China plans to launch 18 Beidou-3 satellites in 2018 (6 have been launched to date), suggesting faster networking pace than in 2017. In the military field, the Beidou navigation equipment is expected to be used in armies, which should create sales of over Rmb10bn over the next 3~5 years. In the civil field, the downstream operation service market is expected to create 50% of the satellite navigation & location service industry's gross output by 2020, among which the potential size for location service, road navigation and industry application is projected to be Rmb130bn, Rmb230bn and Rmb20bn, respectively.

- **China Health Care Sector: The catalogue of large medical equipment is unveiled – OUTPERFOMR (Reiterate)**

  China published the catalogue of large medical equipment that is allowed to be installed in hospitals for 2018, which lowers the clinical value and administrative approval barriers for some high-end medical equipment. In the product field, PET-CT, Da Vinci Surgical System and gamma knife are directly downgraded from Grade A to Grade B, benefiting Yantai Dongcheng Biochemicals (002675), Shanghai Fosun Pharmaceutical (Group) (600196) and Starmap Medicine & Technology (300143) in the A-share market. We believe the medical equipment and consumable leaders with technology and innovation strength and vast headroom for import substitution will gain substantial development over the long run.

- **China Merchants Shekou Industrial Zone Holdings (001979): ）Steady sales growth, active land acquisition – BUY (Reiterate)**

  As a leading central SOE, the Company boasts notable funding cost advantage. Its unique Shekou business model warrants the resource advantage, and the Company has built up abundant lower-cost resources during the past development process and launched effective incentive mechanism to strengthen its development strength. We believe the Company offers visible investment value against the growing uncertainties in the real estate market. Retain BUY.

Other recommendations

- **Bond Market Series (20180410): Property demand is not weak**
  The property market in China's tier-2/3 cities diverged recently. Given the still consumption demand and the low inventory, property developers are still willing to beef up investment and build inventory. Besides, the real estate tax will unlikely be rolled out across all cities in 2018 and the nonstandard financing of local governments remains constrained, encouraging local governments to sell land slots. The government work report emphasizes to support the self-occupation housing demand of residents, and under the long-term real estate mechanism that aims to build a "multi-supplier, multi-channel rental + purchase" housing system, construction of the various welfare housing units is tipped to increase real estate investment.

- **Convertible Bond Fundamental Research Series (16): Alpha and beta of convertible bonds**
  In this report, we review the convertible bond investment methodology from the perspective of difference between convertible bond investment and stock investment.

- **China Construction Sector Thematic Series Report (5): A fund perspective on the infrastructure construction in 2018 – OUTPERFORM (Reiterate)**
  Growth of China's infrastructure construction investment is largely secured in 2018: the general expenditure and government fund of China's national budget both grow stably; the growth of loans lend to infrastructure construction projects remains well underpinned; and other channels including PPP, industry fund etc. will boost the private investment. We project the infrastructure construction investment to increase by 10~12% YoY in 2018 to hit Rmb19trn~20trn. In our opinion, the private companies have abundant orders on hand, and the central SOEs face little financing restrictions.

- **Beijing Enlight Media (300251): Investment return contributed the most profit – BUY (Reiterate)**
  Per the preannouncements, the Company predicted net profit of Rmb1,965mn~2,020mn for 1Q18, up 962%~992% YoY, among which the non-recurring profit amounted to Rmb1.85bn~1.95bn. We believe the Company's movie products remain expectable, and Maoyan Weiying will continue generating handsome investment returns for the Company. Maintain 2017~19E EPS estimates at Rmb0.28/0.98/0.45. Last share price of Rmb12.02 implies 42x/12x/27x 2017-2019E PE. Retain BUY.

- **Fenghuo Electronics (005661): 2017 results commentary: ANP shrank on more R&D input with telecom and electroacoustic businesses likely to turn around – OVERWEIGHT (Initial coverage)**
  The Company reported 2017 operating revenue of Rmb1,217mn (+8.72% YoY) and ANP of c. Rmb70mn (-21%) with EPS at Rmb0.12. The sharp decline in its ANP was mainly due to heavier input into R&D. We expect its profit to resume swift growth in future as more short-spectrum telecom products will be outfitted with the military and its R&D input bears fruits. We initiate coverage of the Company with an OVERWEIGHT rating and a TP of Rmb9.20.

- **Beijing Thunisoft (300271): 2017 results and 1Q2018 preannouncement commentary: Swift contractual revenue growth and accelerated application of IT in legal sphere – BUY (Reiterate)**
  The Company reported 2017 ANP of Rmb381mn (+c. 40% YoY) and preannounced 1Q2018 ANP in the range of c. Rmb47.57mn~Rmb51.37mn (+25%~35% YoY). Its 2017 profit was in line with expectation and thanks to swift expansion of new contractual value, which displays strong momentum for organic growth. Legal IT (IT application in judiciary authorities and commercial legal services) was the shiniest spot across its business portfolio in 2017 and remains promising in 2018. We reiterate our 2018-19E EPS estimates of Rmb0.67/0.87 and forecast the Company's 2020E EPS to be Rmb1.21 (3-yr PE of 29/22/16x). We retain our TP of Rmb23.45 and BUY rating.

- **Thunder Software Technology (300496): 1Q2018 preannouncement commentary: Firmly making exposure to sphere for long term development with profit growth recovering – OVERWEIGHT (Reiterate)**
  The Company preannounced its 1Q2018 results, including ANP in the range of Rmb38mn~Rmb42mn (+c. 43%~c. 59% YoY). Its profit growth picked up and consolidated profit met expectation during the reporting

period. Its smart terminal business grew steadily. The Company has joined hands with emerging local chip design houses to make exposure to AI-based smart phone business. Its smart infotainment business is expected to maintain swift growth. We reiterate our 2017-19E EPS estimates of Rmb0.22/0.40/0.63 (3-yr PE of 164/90/56x). Our OVERWEIGHT rating is retained given the exposure it made or will make during 2017-18 in new categories of product/service offerings, endorsement from big customers and expected acceleration in delivering profit.

- **Wen's Foodstuffs (300498): 2017 results commentary: Steady expansion on higher hog farming efficiency – OVERWEIGHT (Reiterate)**
  The Company reported 2017 ANP of Rmb6.70bn (-43.5% YoY, a movement in line with expectation) and declared a cash dividend (tax inclusive) of Rmb4 for every 10 shares held. The decline in its 2017 profit was mainly due to 1) the down-cycle for hog price and 2) weak chicken price during 1H2017. We expect the Company's profit to remain under downward pressure over the medium term as the hog price hasn't bottomed out yet. However, its leadership in the sector remains solid on much competitive cost and still steady expansion. We forecast its 2018-20E EPS to be Rmb1.06/0.78/1.72. Given its leadership and competitive cost, we apply 2018E PE of 23x to it and retain our TP of Rmb24.4 and OVERWEIGHT rating.

- **Eastsoft Communication Technology (300183): 1Q2018 preannouncement commentary: Recurring profit in line – BUY (Reiterate)**
  The Company preannounced its 1Q2018 results on 8 Apr 2018, including ANP in the range of c. Rmb42.89mn~c. Rmb47.66mn (down 0%~10% YoY). The 1Q2018 profit guided was in line with expectation due to postponed tenders for new products by the State Grid and the swift profit growth has yet to arrive. We reckon its underlying operating profit grew by 5.6%~15.6% based on its expenses for the reporting period. We expect its profit to turn around in future, driven by tender by State Grid, exploring of overseas markets and the established growth trend for its MCU business. We forecast the Company's 2017/18/19E EPS to be Rmb0.53/0.76/0.98 (3-yr PE of 35/25/19x) and retain our BUY rating and TP of Rmb22.8 (30x 2018E PE).

- **Sunsea Telecommunications (002313): 2018 results commentary: Inline profit, IoT driven swift revenue growth – BUY (Reiterate)**
  The Company disclosed its 1Q2018 results, including operating revenue of Rmb598mn (+c. 45% YoY) and ANP of -Rmb1.91mn (+ 73.54% YoY). Its operating revenue grew swiftly, driven by its IoT business and net profit was in line during the reporting period. We expect the Company to embrace the strong growth that its prospective exposure to IoT (module+platform) will bring in. The Company is expected to become a leader in IoT across China on first-mover advantages given the policy tailwinds and solid fundamentals of the sector in 2018. We reiterate our 2018~2020E EPS estimates of Rmb0.69/1.12/1.68 and BUY rating.

- **China Telecom Sector Watch (20180409): Spectrum goes first – comments on the 5G frequency spectrum auction in the UK – OUTPERFORM (Reiterate)**

- **Eastone Century Technology (300310): 1Q2018 preannouncement commentary: Steady profit growth with value of IoT platform likely to materialize gradually – BUY (Reiterate)**

- **Orient Overseas (International) (00316.HK): 2017 results commentary: Swung back in the black on container shipping recovery, concentrated launch of big vessels dragged profit – OVERWEIGHT (Reiterate)**

- **Yealink Network Technology (300628): 1Q18 preannouncement commentary: Rosy prospect on expanding profit and swift growth of new business – OVERWEIGHT (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%
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