Hot on the plate

❖ **China Real Estate Sector 2H2018 Investment Strategy: Sustained business climate – OUTPERFORM (Reiterate)**

We predict China's commodity housing sales to increase by 4.8% YoY in 2018, as the housing price caps objectively extend the sales momentum in core cities. In the context of stable operation, the real estate sector still presents attractive investment opportunities. We are upbeat on the companies that are able to maintain stable profit margins in the markets that implement price caps, including those that effectively control the land cost in tier-1/2 cities and those that are able to maintain a widespread presence across the tier-3/4 cities. Reiterate the OUTPERFORM rating, and recommend China Merchants Shekou Industrial Zone (001979), Future Land Holdings (601155), Overseas Chinese Town (000069) and Zhongnan Construction Group (000961).

❖ **China Insurance Sector 2H2018 Investment Strategy: Duplication of AIA's sustained rally rationale – OUTPERFORM (Reiterate)**

We see limited downside for the long-term interest rates for the forthcoming twelve months. This, coupled with the rising proportion of mortality profit, is expected to lift insurers' ROA. Besides, long-term savings and protection demand should drive ahead the premium growth. As insurance sales recover, insurers are expected to duplicate the sustained rally rationale of AIA (i.e. the EV growth-driven capitalization expansion). We reiterate the OUTPERFORM rating, and recommend the companies with great growth visibility on the back of a strong sales team and gradual sales data improvement, such as China Taiping Insurance (00966.HK) and China Pacific Insurance (601601; 02601.HK). Besides, the property & casualty insurance leader, PICC P&C (02328.HK), is also expected to tamp down its market leadership in the backdrop of regulatory tightening.

❖ **China Electronics Sector 2H2018 Investment Strategy: Keep hold of the value stocks; handpick growth names – OUTPERFORM (Reiterate)**

Reforms on the smartphone industry chain, accelerating capex in the semiconductor space and the sustained upbeat sales of electronic components are expected to continue fueling growth of the electronics sector in 2H2018. We recommend investors to keep close watch over the white-horse names and the undemanding growth plays from the consumer electronics, semiconductor and automotive electronics fields. Our white-horse portfolio is comprised of Luxshare Precision Industry (002475), O-film Tech (002456), Sunny Optical (02382.HK), Sanan Optoelectronics (600703) and Hikvision Digital Technology (002415); and our aggressive portfolio includes GigaDevice Semiconductor (603986), NINESTAR (002180), Yangjie Electronic Technology (300373) and Zhiyun Automation (300097).

❖ **China Construction Sector 2H2018 Investment Strategy: Gold emerges after the tides wash sands away – OUTPERFORM (Reiterate)**

We believe infrastructure construction investment will grow stably by 10%~12% YoY in 2018, with ecological environment, cultural tourism and rural construction being the new powerhouses. The PPP scrutiny requires enterprises to focus on the life-cycle management strength. We continue to recommend the central SOEs and leading private players as market concentration grows. Besides, the public building decoration market is expected to continue recovering, with hotels and livelihood projects continuously outrunning the average. Among others, we see Rmb1.4trn potential for the hotel decoration market over the next 5 years. Investors are advised to keep an eye on Gold Mantis Construction Decoration (002081) and Grandland Group (002482).

❖ **Comments on the April 2018 Import & Export Data: External demand-dominated export growth will continue**

In April 2018, China's export (expressed in US dollars) went up 12.9% YoY, up 15.6pcts compared to -2.7% in March 2018 and notably beating the 7.3% market estimates. We believe the warming global demand will continue underpinning China's export during the forthcoming second half year of 2018, and project 8~10% export growth for 2018. China's April import (expressed in US dollars) went up 21.5% with the help of upbeat domestic demand, up 7.1pcts from March 2018. We still maintain the annual import growth rate estimate at 10%.

- **Food & Beverage Sector Report: Broad-based opportunities in the mass-market liquor segment – OUTPERFORM (Reiterate)**
  Mass-market liquor makers mostly reported better than expected 2017 and 1Q18 results, which reflect the turnaround trend for their profits. The turnaround has been mainly driven by recovering consumption in lower-tier cities, consumption upgrade, leading players' focusing on channels and expansion outside their home markets. The market hadn't expected too much from mass-market liquor segment. It current trades at 2018E PE of 23x while the entire liquor sector trades at 27x 2018E PE now. We suggest keeping a close eye on broad-based opportunities across the mass-market liquor segment. We recommend Yanghe Brewery (002304), Kouzi Distillery (603589), Shunxin Agriculture (000860), Gujing Distillery (000596), King's Luck Brewery (603369).

- **Tongwei (600438): Profit could be boosted faster with ESOP executed swiftly – BUY (Reiterate)**
  The Company announced 1) its ESOP bought 44,444,700 shares or 1.14% stake of the Company via auction and investors bought c. Rmb373mn worth of its shares via block trade. The Company has yet to buy Rmb374mn worth of shares to complete its ESOP going ahead and the buy-in via block trade indicates investors' confidence in its profit growth in future. We expect the Company's profit from PV business to keep growing swiftly on continued cost reduction and sales volume expansion. We reiterate our 2018-2020E EPS estimates of Rmb0.71/1.05/1.39 (3-yr PE of 19/13/10x). We apply 24x 2018E PE to it, lift our TP for it to Rmb17 and retain our BUY rating.

- **BYD (002594; 01211.HK): Apr sales volume commentary: NEV sales volume soared on solid new model sales volumes – BUY (Reiterate)**
  The Company announced on 8 May 2018 that it sold 37,363 vehicles in Apr, including 13,918 NEVs (+ over 110% YoY) and 23,445 oil-burning vehicles (-4% YoY). The sharp YoY growth in NEV sales volume was mainly thanks to ramp-up of its new model sales volumes. Its EV battery business boasts huge headroom for expansion given its strategy to supply EV batteries to other auto makers. Its profit, which was under downward pressure during 1H18, is expected to bottom out during 2H18. We retain our BUY rating for its A and H shares.

Other recommendations

- **Apr 2018 Import and Export Data Commentary and its Influence on the Bond Market: Export growth swung up into the positive territory, import growth beat**
  China's Apr import growth beat expectation, which reflects domestic demand which is anything but weak. Due to the robust demand from the emerging market, the continued recovery of the global economy and the slightly eased tension between China and the US about trade, China's export growth swung up into the positive territory in Apr, turning around the trade deficit saw in Mar. The trade negotiation between China and the US has gained close attention recently. There are still huge uncertainties over the negotiation given the requirements raised by the US albeit the mitigation of the trade frictions. Such uncertainties will reduce Chinese investors' risk appetite to some extent. We expect 10-y government bond yield to swing in the range of 3.4%~3.6%.

- **Bond Market Daily (20180509): At what position is the Chinese economy in a business cycle currently?**
  In this note, we reviewed the three business cycles starting from 1990s till now and conclude that 1) the swings of CPI growth narrow gradually and 2) YoY growth of CPI lags behind that of GDP by c. a year. We thoroughly looked at the current business cycle and believe that the moderate economic recovery in 2017 was over and GDP growth may have peaked with Chinese economy having entered the second half of the current business cycle. We view the rise in average CPI growth in 2018 is the lagging effect from (or a catch-up with) the GPD growth in 2017 rather than the start of a fresh business cycle. We thus expect the average CPI growth to rise to 2%-3% for 2018.

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	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%

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