

Hot on the plate

❖ **CITICS Strategy Team: A-shares eligible for MSCI inclusion announced**

The index giant MSCI announced to add 234 A-shares to MSCI China Index and other global and regional indexes. We believe the rhythm of MSCI inclusion is in line with market estimates. Capital inflows benefit A-shares in short term, especially the financial and consumer plays that have a large proportion of large-cap companies. Investors shall take note of the impact of trading suspension on A-share MSCI inclusion.

❖ **China Petro & Petrochemical Sector 2H2018 Investment Strategy: Rising oil prices, industry upgrade – OUTPERFORM (Reiterate)**

We maintain the forecast of an increase in the international equilibrium oil price and raise the average Brent price forecast to US\$65~70/bbl and average WTI price to US\$58~63/bbl for 2018. We reiterate the “OUTPERFORM” rating on the oil & petrochemical sector, and advise investors to eye stocks which benefit from industry structural upgrade and headroom for valuation re-rating. They mainly include: 1) the top three polyester makers that have snatched first-mover advantages during the refining subsector’s structural upgrade: Hengli Petrochemical (600346) and Rongsheng Petrochemical (002493), and the leading acrylics producer, Zhejiang Satellite Petrochemical (002648), the trailblazer among private players in LNG receiving terminal market, Guanghui Energy (600256); and 2) companies boasting share price upside, PetroChina (00857.HK), SINOPEC (600028; 00386.HK), CNOOC (00883.HK) and COSL (02883.HK).

❖ **China Aerospace & Defense Sector 2H2018 Investment Strategy: Business fundamentals improved; focus on the reform theme – OUTPERFORM (Reiterate)**

In view of the accelerating growth in military spending as well as the gradual resumption of tendering and orders after the military reform, we see an impressive improvement in the aerospace & defense sector’s business fundamentals for 2018 and expect major companies’ military product business to resume 20%~30% growth during the year. In addition, pricing reform, SOE reform & integration and periodical progress of the research institute reform should present periodical opportunities. Investors are advised to keep an eye on the reform beneficiaries on top of increasing sector exposure. We retain the OUTPERFORM rating, and advise investors to watch over Avicopter (600038), AECC Aviation Power (600893), AVIC Aircraft (000768), AVIC Jonhon Optronics Technology (002179), AVIC Electromechanical Systems (002013), Anhui Sun Create Electronics (600990) etc.

❖ **Environment Protection Sector 2H18 Investment Strategy: Pick leaders with rich operation assets amid margin improvement of the sector--OUTPERFORM (Reiterate)**

We reiterate our OUTPERFORM rating for the sector given the continuous policy tailwinds from institutional reform in the sector, increasingly upbeat climate & optimizing landscape and orders full in ListCos’ hands & visible growth potential. We suggest picking leaders with an abundance of service operation assets, sufficient safety margin in valuations, comprehensive competitive edges and marginal improvement. We recommend Fujian Longma Environmental Sanitation Equipment (603686), Beijing Enterprises Water Group (00371.HK) and China Everbright International (00257.HK) and OriginWater (300070). In the industrial environment protection segment, we recommend SPC Environment Protection Tech (002573) in the air pollution control field, Guozhen Environment Protection (300388) in the industrial water treatment field, Dongjiang Environment (002672) in the hazardous waste treatment field, and Focused Photonics (300203) in the environment monitoring field given the segment’s headroom for growth, visibility in order inflow etc.

❖ **Restaurant & Tourism Sector 2H18 Investment Strategy: Allocate to leaders and undervalued names in multiple segments--OUTPERFORM (Reiterate)**

We suggested sticking with leaders and looking for undervalued names in 2018. YTD, the sector did see leaders maintaining strong momentum and undervalued names staging stellar performance. For 2H18, we maintain intact our views mentioned above. Leaders in relevant segments remain remarkably attractive on solid fundamentals and the expectation of highly visible growth. We suggest sticking with the following segment leaders, CITS (601888; Duty Free Leader), CYTS (600138; major leisure resort operator) and leading hotel operators (BTG Hotels (600258) and Jinjiang Hotels Develop (600754)). In addition, we still foresee solid opportunities from re-rating of undervalued names or segments, including Songcheng Performance (300144), the outbound tour segment (UTour (002707), Caissa Touristic (000796) and Tempus Global Business Service (300178)), and small cap Sante Cableways (002159), which is expected to see upward inflection point. We suggest allocating to those picks.

Other recommendations

❖ **Bond Market Series (20180516): Why did the economic growth of Europe soften in 1Q18?**

The economic data in Europe weakened recently. Externally, the recovery of the US economy failed to deliver a continual boost to the European economic development given the growing protectionism and the retrenchment strategy in the US. On the other hand, the shrinking export in the manufacturing industries implies softening global trade demand, suggesting that recovery of the global economy may miss estimates. Internally, the political turmoil in European countries is tipped to substantially undermine the local consumer demand and the willingness to invest.

❖ **AAC Technologies (02018.HK): 1Q18 results commentary: Profit under downward pressure, acoustics business growth still robust—BUY (Reiterate)**

The Company reported YoY growth of 6% in its 1Q18 net profit (Rmb1,126mn) on FX translation loss and change in product mix. However, its acoustics business expanded robustly with optical/structural part/MEMS projects well underway. It has made prospective exposure to emerging sectors such as 5G and smart loudspeaker. Given the translation loss and change in product mix, we cut our 2018-20E EPS estimates from Rmb5.42/6.51/7.92 to Rmb5.25/6.16/7.57 (or HK\$6.02/6.97/8.59). We apply 27x 2018E PE to it given the growth potential of its optical component business and the premium it enjoys as a leading maker of micro component, arrive at the TP of HK\$162.54 and retain our BUY rating.

❖ **Asymchem Laboratories (002821): Becoming a constituent of the MSCI China A Onshore Index--BUY (Reiterate)**

MSCI announced its semi-annual index rebalancing result on 15 May 2018. According to the result, Asymchem Laboratories will be included into MSCI China A Onshore Index for the first time. The inclusion marks the recognition of the Company by the International capital market, which is the first milestone for the Company to go global. We expect to see capital inflow into this stock over the short term, which implies positive influence for long term. We retain our BUY rating.

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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.	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%
	OUTPERFORM	Increase relative to market representative index over 10%
	NEUTRAL	Increase relative to market representative index between -10% and 10%
	UNDERPERFORM	Decrease relative to market representative index over 10%

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