STRATEGY – GREATER CHINA

Alpha Picks: October Conviction Calls

The HSI and MSCI China surged 17.5% and 23.1% mom respectively in September, buoyed by the PBOC's policy easing and supportive statements from the Politburo meeting. Looking ahead, we are keeping beneficiaries of an improved domestic consumption outlook in our stock picks and adding CATL, Geely and Plover Bay.

WHAT'S NEW

- **Review of September.** The HSI and MSCI China surged 17.5% and 23.1% mom respectively, as the policy easing by PBOC on 24 Sep 24 raised hopes of an end to deflationary pressures and weak growth in China. The Politburo meeting on 26 September also reiterated the commitment to support the economy, seen as a rare move by the authorities as the September meeting would normally not focus on economic matters. Within our stock picks, the best performer of the month was KE Holdings (2423 HK), which achieved a return of 56.0% over this period.
- **Following through on additional fiscal policy**? After the monetary easing, investors are looking for signs that it will be complemented by fiscal easing, targeting domestic consumption. So far, news of payments to families with more than one child and capital injection into the big six banks have not been officially confirmed. We are hence taking profit on some outperformers, removing SELL calls; keeping a focused list of beneficiaries of an improved domestic consumption outlook in our stock picks. Add CATL (300750 CH), Geely (175 HK) and Plover Bay (1523 HK) to our BUY list.

ACTION

- **Add CATL (300750 CH) to our BUY list** due to the strong growth in monthly EV battery shipments and drop in lithium carbonate prices which will lead to better 3Q24 earnings.
- **Add Geely (175 HK) to our BUY list** due to its upbeat monthly sales.
- **Add Plover Bay (1523 HK) to our BUY list** as its growth momentum has continued into 8M24, with revenue growth in July and August further accelerating from 28% yoy in 1H24, mainly driven by strong demand in the US and Australia.
- **Take profit** on COLI (688 HK), Desay (002920 CH) and KE Holdings (2423 HK).
- **Cut losses** on Li Auto (2015 HK) and Xpeng (9868 HK).
- **Maintain BUY** on AIA (1299 HK), Crystal (2232 HK), Galaxy (27 HK), Meituan (3690 HK), Ping An (2318 HK), Sunny Optical (2382 HK), Trip.com (9961 HK), Tencent (700 HK) and The United Lab (3933 HK).

KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
AIA	BUY	72.20	96.00	33.0
CATL	BUY	251.89	350.00	38.9
Crystal	BUY	3.68	4.92	33.7
Galaxy	BUY	41.50	48.00	15.7
Geely	BUY	13.06	21.50	64.6
Meituan	BUY	196.10	235.00	19.8
Ping An	BUY	56.60	64.00	13.1
Plover Bay	BUY	3.98	6.10	53.3
Sunny Optical	BUY	59.20	63.00	6.4
Tencent	BUY	469.00	570.00	21.5
The United Lab	BUY	10.56	13.00	23.1
Trip.com	BUY	510.50	630.00	23.4

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Sep 24 (%)	To-Date* (%)
AIA	BUY	26.4	26.4
COLI	BUY	34.9	34.9
Crystal	BUY	7.3	-2.6
Desay	BUY	35.0	35.0
Galaxy	BUY	30.2	30.2
KE Holdings	BUY	56.0	64.2
Li Auto	SELL	43.7	43.7
Meituan	BUY	47.9	47.9
Ping An	BUY	35.5	35.5
Sunny Optical	BUY	21.6	-22.2
Tencent	BUY	17.7	28.1
The United Lab	BUY	12.8	12.8
Trip.com	BUY	32.3	32.2
Xpeng	SELL	67.6	63.7
Hang Seng Index		17.5	

**Share price change since stock was selected as alpha pick*
Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	4Q23	2023	1Q24	2Q24	3Q24
HSI return	-4.3	-13.8	-3.0	7.1	19.3
Alpha Picks Return					
- Price-weighted	-4.6	-3.5	-2.1	1.7	12.4
- Market cap-weighted	-6.9	-6.3	1.8	2.4	18.2
- Equal-weighted	-4.4	-4.0	0.2	0.8	8.5

Assumptions for the 3 methodologies:
1) *Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.*
2) *Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.*
3) *Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.*

Source: UOB Kay Hian

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VALUATION OF ANALYSTS' ALPHA PICKS

Company	Ticker	Rec	Price 2 Oct 24 (lcy)	Target Price (lcy)	Last Year End	PE 2024F (x)	PE 2025F (x)	PE 2026F (x)	Yield 2024F (%)	ROE 2024F (%)	Market Cap. (lcy m)	Price/ NTA ps (x)
BUY												
AIA	1299 HK	BUY	72.20	96.00	Dec-23	17.0	15.9	14.9	2.4	14.4	791,377	1.4
CATL	300750 CH	BUY	251.89	350.00	Dec-23	23.2	18.8	15.5	2.2	21.5	1,108,074	6.7
Crystal	2232 HK	BUY	3.68	4.92	Dec-23	6.8	5.9	5.3	9.0	13.4	10,498	0.7
Galaxy	27 HK	BUY	41.50	48.00	Dec-23	18.3	14.8	12.5	1.6	13.7	180,613	2.4
Geely	175 HK	BUY	13.06	21.50	Dec-23	15.4	12.1	9.9	2.3	8.8	131,344	1.8
Meituan	3690 HK	BUY	196.10	235.00	Dec-23	26.9	21.5	17.0	0.0	14.9	1,199,909	6.0
Ping An	2318 HK	BUY	56.60	64.00	Dec-23	9.6	9.0	8.6	4.5	12.5	1,101,307	0.8
Plover Bay	1523 HK	BUY	3.98	6.10	Dec-23	14.8	12.1	10.1	7.2	69.1	4,381	9.7
Sunny Optical	2382 HK	BUY	59.20	63.00	Dec-23	25.7	20.0	18.1	0.7	9.8	64,929	2.7
Tencent	700 HK	BUY	469.00	570.00	Dec-23	19.1	17.2	15.5	1.0	18.6	4,391,123	4.1
The United Lab	3933 HK	BUY	10.56	13.00	Dec-23	5.4	5.0	4.7	0.7	22.5	19,199	1.1
Trip.com	9961 HK	BUY	510.50	630.00	Dec-23	19.2	17.8	15.8	0.0	11.3	332,444	2.3

Source: Bloomberg, UOB Kay Hian

AIA Group – BUY (Kenny Lim)

- AIA Group (AIA) delivered strong value of new business (VONB) growth of 25% in 1H24, ahead of our estimates of +20%. The strong VONB beat was underpinned by solid sales growth (ANP: +17% yoy) and margin expansion (+3.3ppt yoy) on the back of a favourable product mix shift and repricing in Hong Kong and Mainland China. Management mentioned that they continue to see resilient insurance sales in 3Q24, especially in mainland China and Hong Kong. The beginning of the Fed rate cut cycle will also benefit AIA as a 50bp decrease in interest rate and 5% depreciation in the greenback could boost its embedded value by 0.8% and 1.8% respectively. Furthermore, the recent strong performance in the China and Hong Kong stock markets could be also positive to AIA's investment return given that equities made up of 22% and 12% of its total invested assets and AIA China's investment portfolio respectively.
- Maintain BUY with a higher target price of HK$96.00, implying 1.9x 2024F P/EV after lowering the risk-free rate to 3.5% (previously: 4.0%). Despite its share price having surged 30% in the past one month, we believe that AIA's valuation is still relatively attractive as it is now trading at 1.4x 2024F P/EV (-1.SD) with a decent shareholder return yield of 7.2%.

SHARE PRICE CATALYST

- Event: Strong VONB growth in 2H24, supported by margin improvement.
- Timeline: 2H24.

CATL– BUY (Ken Lee/Bella Lu)

- CATL's earnings will be driven by the 20% CAGR in global EV sales volume from 2023 to 2030, the launches of brand-new battery products as well as a decline in lithium carbonate prices. The stock is trading at 19x 2025F PE, lower than three-year historic mean one-year forward PE of 27x.
- Maintain BUY and raise target price from Rmb250.00 to Rmb350.00, as we lower WACC from 14% to 11% in our 10-year DCF (WACC: 12%/terminal growth: 4%) given the lower market discount rate. Our new target price of Rmb350.00 implies 26x 2025F PE, roughly on a par with three-year historic mean one-year forward PE of 27x.

SHARE PRICE CATALYST

- Event: a) Growth in monthly EV battery shipments, b) drop in lithium carbonate prices, c) 3Q24 results
- Timeline: Oct-Nov 24.

Crystal International – BUY (Kate Luang)

- Management targets double-digit% sales growth for the full-year 2024 and has turned more positive on its 2024-25 outlook as it has almost doubled its labour addition target for 2024. It is confident in achieving a 20% gross margin in the coming years as it continues to enhance automation and improves production efficiency. We are positive on the sportswear restocking momentum continuing into 1H25 and believe Crystal's long-term share gains from key customers remain intact. We expect net profit to grow 22%/14%/13% in 2024-26 respectively and forecast a 60% dividend payout ratio in 2024-26, vs 40% in 2023. The company is trading at an attractive valuation of 6.8x 2024 PE and an 9.0%/10.1% dividend yield in 2024 and 2025 respectively.
- Maintain BUY with a target price of HK$4.92 based on 9.2x 2024F PE.

SHARE PRICE CATALYST

- Event: a) Fast Retailing raises its revenue guidance in Oct 24; b) stronger orderbook growth for 2024-25.

- Timeline: 2H24.

Galaxy Entertainment Group – BUY (Stella Guo/Shirley Wang)

- We are positive on Galaxy's continued market share gains, thanks to the initiatives it adopted, such as expansion of sales host team and introduction of entertainment events. The company is disciplined on cost control, which will drive its margin expansion further. On shareholder return, the company has the potential to raise its dividend payout ratio, with strong balance sheet and prudent capex, in our view.
- We maintain BUY on Galaxy with a target price of HK$48.00, based on 14.5x 2024F implied EV/EBITDA. Our target price implies 21.2x 2024F PE and 17.1x 2025F PE.

SHARE PRICE CATALYST

- Event: Performance during the National Day holidays.
- Timeline: 3Q24

Geely Automobile – BUY (Ken Lee/Bella Lu)

- Geely is entering into an inflection of earnings escalation on the back of the strong product line-ups and buoyant export growth. The newly launched EV models have received strong order flows, including Galaxy E5, Xingyuan and Zeekr 7X. Going forward, Geely will be launching more mass-market EV models, especially the plug-in hybrid electric vehicle (PHEV) to take market share from the established incumbents.
- We maintain BUY and raise target price from HK$13.00 to HK$21.50, as we lift target 2025F PE multiple from 12x (one-year historic mean one-year forward PE) to 20x (three-year historic mean one-year forward PE) given lower market discount rate.

SHARE PRICE CATALYST

- Event: Strong monthly sales and 3Q24 results.
- Timeline: Oct-Nov 24

Meituan– BUY (Julia Pan/Ming San Soong)

- We expect Meituan to benefit from easing competition which will lead to stabilising in-store, hotel and travel (ISHT) margin, as well as new investment in Pinhaofan to capture market shares amid cautious consumption backdrop. We forecast Meituan's 3Q24/2024 revenue to grow at a solid 22%/22% yoy respectively, driven by growth in core local commerce at 21%/22% yoy.
- Core local commerce EBIT is expected to see mid-high 30% yoy growth as the increase in unit economics (UE) for on-demand services will not be as significant as in 2Q24. For full-year 2024, core local commerce revenue and EBIT are forecasted to grow at 20%/25% yoy respectively. Meituan is pivoting its focus to overall core local commerce profitability, aiming to achieve its 2025 food delivery (FD) EBIT target of Rmb30b ahead of schedule.
- On-demand (FD + Meituan Instashopping) order volume growth should remain stable at 14-15% yoy in 3Q24, with FD order volume growth at low teens yoy. On-demand revenue growth in 3Q24 will outpace order volume growth by 3ppt yoy. Meituan Instashopping is projected to deliver a slight loss in 3Q24 and is expected to breakeven in full-year 2024 due to strong marketing demand from merchants. For the full year, on-demand revenue is expected to grow 18-20% yoy while order volume is estimated to grow in the mid-to-high teens, and EBIT is expected to grow by high-teens to 20% yoy.
- ISHT GTV and revenue are projected to grow at 40% yoy in 3Q24 and mid-20% yoy in 2H24, respectively, with encouraging momentum during the summer holidays. New initiatives revenue is projected to grow 25% yoy in 3Q24, while adjusted EBIT losses are

estimated at -Rm1.8b, narrowing meaningfully from -Rmb5.2b in 2Q23. In 2Q24, Meituan approved an additional US$1b share repurchase plan.

- We maintain BUY with a higher target price of HK$235.00, which implies 18.3x 2025F PE against 15% 2025-28F EPS CAGR. We assign 19x 2025F PE for the core local commerce segment and 16x 2025F PE for the new initiatives segment.

SHARE PRICE CATALYST

- Event: a) Continued market share expansion in the FD segment and increase in penetration rate in the fresh groceries segment, and b) synergies with core businesses and new initiatives.
- Timeline: 2H24.

Ping An Insurance Group – BUY (Kenny Lim)

- We are more optimistic about Ping An's new business value (NBV) growth outlook in 2H24, given the strong growth momentum in the bancassurance channel, coupled with margin recovery and also the buying spree in 3Q24 ahead of the upcoming pricing interest rate cuts for life insurance products. Ping An is one of the major beneficiaries of the recent China stock market stimulus package and property easing measures. The improved market sentiment can help the life insurer address investor concerns about its asset management business and the investment returns of its insurance funds.
- Maintain BUY with a higher target price of HK$64.00 after we assign a higher P/EV multiple of 0.85x (previously: 0.75x) to its life insurance business on a lower risk-free rate and equity risk premium. Our target price implies 0.75x of 2024F group EV and Ping An is now trading at 0.65x of 2024F P/EV, on par with five-year historical mean after the strong price performance (+31% mom) since the announcement of the policy stimulus package. Ping An's better business and earnings outlook could be key catalysts for a further valuation re-rating in 2H24.

SHARE PRICE CATALYST

- Event: a) Strong VONB growth, b) OPAT rebound in 2H24, and c) improved equity market sentiment which will improve its investment return.
- Timeline: 2H24.

Plover Bay Technologies – BUY (Kate Luang)

- Plover Bay's growth momentum continued into 8M24 with revenue growth in July and August further accelerating from 28% yoy in 1H24, mainly driven by strong demand in the US and Australia. Management is confident in achieving a 25% yoy revenue growth for full-year 2024 despite a relatively high base in 2H23 and is positive on achieving a higher gross margin in 2H24 (vs 55.4% in 1H24), backed by stable raw material costs and a favourable product mix.
- We remain positive on Plover Bay's growth potential and forecast net profit to grow 36%/22%/19% in 2024-26 respectively, thanks to: a) continuous demand from various verticals, in particular maritime and public safety, b) stringent cost controls, and c) operating leverage from its asset-light business model. The company is trading at 12.1x 2025F PE and 10.1x 2026F PE, which is below its historical mean of 12.6x in 2018-24.
- Maintain BUY with a target price of HK$6.10 based on 10-year DCF with a 10.1% WACC and 2% terminal growth rate.

SHARE PRICE CATALYST

- Event: Further collaborations with Starlink.
- Timeline: 2H24.

Sunny Optical – BUY (Johnny Yum/Colin Lee)

- Our recent industry checks show that the specs upgrade trend for high-end smartphones is very clear for the coming quarters. With the improvements in competition landscape, the ASP and margins of smartphone camera component suppliers will continue to improve through 2H24-1H25.
- Sunny now expects its compact camera modules (CCM) blended ASP to further improve by high single-digit hoh in 2H24, after a teens % recovery in 1H24, and this should more than offset the expected hoh decline in shipment volume. Meanwhile, its handset lens set (HLS) business should be supported by share gains in the iOS supply chain on both volume and profitability. Also note that we have yet to factor in any impact from China's upcoming stimulus package. Any potential cash/subsidy-based stimulus on consumer electronic purchases from the Chinese government can bring upside to smartphone consumption, and accelerates the pace of specs upgrades in 4Q24-1H25.
- Recommend BUY with a target price of HK$63.00, based on 21.2x 2025F PE, equivalent to 1SD below its five-year historical forward mean PE. While the current share price is already very close to our target price, we see further upside in the near term if the central/local government continues to roll out stimulus measures.

SHARE PRICE CATALYST

- Event: Stimulus measures targeting consumer electronic purchases.
- Timeline: Oct 24.

Tencent – BUY (Julia Pan/Ming San Soong)

- We remain optimistic on Tencent in view of the rebound in domestic games grossing thanks to the rejuvenation of evergreen games and incremental contribution from its newly-launched game, DnF mobile. Since its launch on 21 May, mDNF Mobile's domestic game revenue is estimated to have surpassed Rmb5b in its first month, contributing a solid incremental grossing in 2Q24. The resilient momentum of mDNF continues in 3Q24, as it is consistently among the top two bestselling iOS games (as of 3 July). As a result, we expect mDNF to contribute Rmb15b in incremental grossing or an 11% incremental mobile grossing contribution in the first 12 months of its launch date.
- In 2Q24, Tencent's deferred revenue rose 20% yoy to Rmb106.9b in 2Q24, implying a promising 2H24 momentum. Tencent's online games revenue grew 9% yoy to Rmb48.5b in 2Q24 (1Q24: flat yoy; 4Q23: 4.7% yoy). The domestic games revenue growth of 9% yoy was fuelled by increased grossing contribution from VALORANT, robust DnF Mobile and revitalised evergreen game titles. Meanwhile, international games delivered accelerated revenue growth of 9% yoy.
- Online advertising revenue growth moderated slightly to 19% yoy to Rmb29.9b, mainly supported by strong ad demand for video accounts and long-form video, partially offset by a decline in revenue from mobile ads. By balancing its commitment to invest in AI integration with margin expansion, Tencent expects full-year 2024 R&D expenses to grow by high single-digit yoy, while general & administration excluding R&D expenses should increase by single digits yoy. In 2Q24, Tencent has released its AI assistant application, Yuanbao which possesses accurate image understanding, advanced natural language processing, and AI search. Tencent is on track to repurchase an aggregate consideration of over HK$100b in 2024 (HK$49b in 2023).
- We maintain BUY with a higher target price of HK$570.00, which implies 21.5x 2025F PE. Tencent is currently trading at 17.7x 2025F PE, below its historical mean of 26x.

SHARE PRICE CATALYST

- Event: a) Improving online advertising from Wechat video account, b) game licence approval, and c) collaboration with various internet platform operators on Tencent's WeChat ecosystem.

- Timeline: 2H24.

TUL – BUY (Carol Dou/Sunny Chen)

- TUL reported strong-than-expected adjusted net profit growth of 16.1% yoy in 1H24, with its cost control efforts leading to improving profit margins. We expect steady 2024 revenue growth for the company, supported by relatively stable prices and increasing demand of intermediate products and bulk medicines.
- Its insulin products experienced price cuts in the new round of GPO tenders in Apr 24, while the basic purchase volume surged by 52.5%. We believe the overall insulin sales will see relatively mild impact from the GPO tenders.
- Meanwhile, TUL is making smooth progress in R&D, spending around 18.6% of its finished drug revenue in R&D in 1H24. It continues to enrich its R&D pipeline, covering diabetes, internal secretion, autoimmune disease, ophthalmology and weight management. It targets to launch Liraglutide in 2H24, as well as Semaglutide for T2D (recently completed phase III study) in 2025 and for obesity in 2027, respectively. These two potential blockbuster drugs will likely become TUL's new growth drivers in the next few years.
- In addition, its UBT251 is under clinical trials on type II diabetes, weight management and non-alcoholic steatohepatitis (NASH) in China. Moreover, the continuously improving funding environment could lower cost of R&D and accelerated innovation progress for the company as well. We believe its rich pipeline and continued cost control efforts bode well for stronger earnings growth in 2024-26.
- Maintain BUY and target price of HK$13.00, based on 6.4x 2025F PE, or 0.9x PEG.

SHARE PRICE CATALYST

- Event: a) Strong earnings growth in 2024; b) market launch of potential blockbuster drug Liraglutide; c) smooth R&D progress of Semaglutide and UBT251.
- Timeline: 2H24.

Trip.com – BUY (Julia Pan/Ming San Soong)

- We remain optimistic on Trip.com in view of continuous strong international and outbound travel demand fuelling 2H24 momentum amid the Mid-Autumn Festival and Golden Week. With this, 3Q24 revenue is guided to grow 11-16% yoy to Rmb15.3b-16b, bolstered by robust volume growth amid the summer holidays, partially dragged by a decline in domestic hotel average daily rate (ADR) and average airfares. Overall 2024 revenue growth target remains solid at 15-20% yoy. In view of the better-than-expected net margin expansion in 1H24, full-year 2024 operating margin is guided to remain stable yoy at 29-30%. Sales & marketing (S&M) ratio is projected at 23%, and the company remains committed to investing in Trip.com in 2H24.
- We forecast accommodation/transportation booking revenue to rise 23%/3% yoy to Rmb6.8b/Rmb5.5b respectively. Domestic hotel booking volume is projected to grow 15% yoy in 3Q24, while hotel ADR remains under pressure with a high single-digit yoy decline. Hotel take rate remains stable at 8-10% due to normalised subsidies given the stabilised competitive landscape. Domestic transportation booking is forecasted to grow at mid-to-high single digits yoy, outpacing mid-single-digit yoy growth in the number of passengers as reported by Civil Aviation Administration of China (CAAC). The gap between transportation ticketing volume and revenue is attributed to the normalised commission rate of 1-2% vs 3% in 2023 due to lower contribution from VAS revenue in 2Q/3Q24, with the impact to phase out in 4Q24.
- Gross margin is expected to improve sequentially to 83% thanks to strong seasonality in 3Q24. Non-GAAP operating margin is guided to remain flattish sequentially at 33%, with S&M ratio to remain stable at 23%.

- We maintain BUY with a higher SOTP-based target price of HK$630.00, implying 25.2x 2025F PE, in line with global peers.

SHARE PRICE CATALYST

- Event: a) Continuous penetration of OTA platforms into domestic offline and lower-tier cities travel market, b) implementation of travel bubbles and c) capacity expansion of outbound flights.
- Timeline: 2H24.

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