

Morning Express

29 June 2018

Focus of the Day

Xiaomi Group

Optimizing strategic layout in smart home ecosystem; ready to seize further market share

Rating: **NR**

Connie Gu, CPA

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Xiaomi has confirmed its IPO schedule in Hong Kong. Its valuation of US\$55bn-70bn implies 67-85x 2017 P/E.

In our view, Xiaomi has certain edges in emerging market exposure, future growth potential, internet operation capability and smart home layout. In contrast to Apple's channel revenue-sharing model, Xiaomi's growth in internet services (ads and games) relies more on the platform's operation capability and user engagement & stickiness.

We consider Xiaomi's IoT ecosystem more open than Apple's. It has a broader layout in smart hardware used in household, auto, lifestyle and outdoor scenarios, which creates connection for "Xiao'ai". Once China's smart home market booms, Xiaomi could quickly seize market share on the back of good strategic positioning and execution.

China Property Sector

Further curbs on key tier-1/2 cities may hurt demand

Philip Tse, CFA, FRM

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Event: Media reported that a notice was jointly published by seven authorities to launch investigation and take regulatory actions in 30 major tier-1 and tier-2 cities in 2H18, in order to regulate the property market by curbing speculative demand and non-compliant intermediaries/agencies.

Our comments: We believe developers will slow down pre-sale launches in the near term before the rollout of local versions of the new policy, and expect a drop in total sales volume by 20%+ in July and August vs. May and June. The policy should also squeeze demand and lead to slower sector contracted sales growth in 2H18.

We maintain **Market Perform** rating for the China property sector and expect the further policy tightening to hit investment sentiment and drive further sector de-rating. We still prefer developers with fast asset turnover, solid earnings growth and higher credit rating to counter the worsening liquidity environment, including CR Land (1109 HK/**Buy**) and our 2H18 top pick Shimao (813 HK/**Buy**).

We would greatly appreciate your support in the 2018 Asiamoney Brokers Poll. Kindly vote for BOCOM Int'l sales and research teams at:

<https://euromoney.com/brokers>

Global Stock Indices

	Close	1D%	YTD%
HSI	28,497	0.50	-4.75
H shares	10,868	-0.10	-6.45
SH A	2,919	-0.94	-15.05
SH B	288	-0.04	-14.28
SZ A	1,628	-1.19	-17.39
SZ B	1,040	-0.70	-9.50
DJIA	24,216	0.41	-2.04
S&P 500	2,716	0.62	1.60
Nasdaq	7,504	0.79	8.70
FTSE	7,616	-0.08	-0.42
CAC	5,276	-0.97	-0.25
DAX	12,177	-1.39	-5.39

Source: FactSet

Key Commodity/Forex Indicators

	Close	3M%	YTD%
Brent	77.59	13.89	16.27
Gold	1,252.80	-5.39	-4.10
Silver	16.21	-1.49	-3.88
Copper	6,688.00	1.31	-6.55
JPY	110.38	-3.77	2.06
GBP	1.31	-7.15	-3.21
EUR	1.16	-6.26	-3.58

	bps change	3M	6M
HIBOR	2.09	74.89	59.79
US 10yr yield	2.85	2.37	17.30

Source: FactSet

HSI Technical

HSI	28,497.32
50D MA	30,457.43
200D MA	30,663.62
14D RSI	29.69
Short sell (HK\$m)	15,397

Source: FactSet

Hao Hong, CFA

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Morning Express**Property Sector Weekly****As of 28 Jun 2018**

Carmen Wong

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HK property: While we expect developers to speed up inventory clearance ahead of vacancy tax, we expect little impact on the overall market, as only ~2,000 units (~10% of full-year supply) fall into such category.

China property: The market is still skeptical if developers could benefit from the recent RRR cut, especially when banks are reluctant to issue development loans. China Development Bank (CDB) confirmed that urban renewal loans will be approved at the headquarters instead of local branches, causing market concerns about slowdown in monetized relocation, which may reduce liquidity and demand. Meanwhile, seven authorities jointly announced investigation on non-compliant sales activities in 30 major cities. Such investigation may extend to other cities, in our view.

Investment implications: For HK property, we expect minimal impact from vacancy tax. We continue to prefer SHKP (16 HK/**Buy**) and Link REIT (823 HK/**Buy**). For China property, we believe investors have turned very cautious on developers' liquidity risk. We believe developers with fast asset turnover and strong credit profile will be better positioned, including CR Land (1109 HK/**Buy**) and our 2H18 top **Buy** Shimaos (813 HK).

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Economic data releases for this week – US

Date	Event	Survey	Prior
25-Jun	New Home sales (k)	665	662
27-Jun	MBA mortgage applications (%)	--	5.10
27-Jun	Durable goods order (%)	-1.00	-1.60
28-Jun	Initial jobless claims (k)	--	218

Source: Bloomberg

Economic data releases for this week – China

Date	Event	Survey	Prior
30-Jun	Manufacturing PMI	51.8	51.9

Source: Bloomberg

BOCOM Research latest reports

Date	Report	Analyst
28 Jun	Xiaomi Group - Sound strategic layout in smart home ecosystem; seize opportunity for further market occupation	Connie Gu, CPA, Brandy Sun, Gigi Zhou
28 Jun	Renewable Energy Sector Weekly - As of 27 Jun 2018	Louis Sun, Bob Wen
28 Jun	Tian Lun Gas (1600 HK) - New catalyst from rural coal-to-gas conversion in Henan	Wallace Cheng, Spencer Luo
28 Jun	HNA Infrastructure (357 HK) - Non-aero revenue growth to remedy CADF revenue loss; maintain Buy	Luya You, Fay Zhou, Maggie Wang, Geoffrey Cheng, CFA
28 Jun	New Oriental Education (EDU US) - 4QFY18 preview: investment in online dragged margin	Connie Gu, CPA, Brandy Sun, Gigi Zhou
27 Jun	China CITIC Bank (998 HK) - Improving retail franchise and profitability	Jaclyn Wang, Hannah Han
27 Jun	Sinotrans Limited (598 HK) - 1H18 fundamentals solid; synergistic growth likely delayed	Fay Zhou, Geoffrey Cheng, CFA
27 Jun	Healthcare Sector Weekly - As of 26 June 2018	Lilian Wan, Mengmeng Xi
26 Jun	Transportation & Infrastructure Sector Weekly - As of 22 June 2018	Geoffrey Cheng, CFA, Fay Zhou, Luya You, Maggie Wang
26 Jun	ENN Energy (2688 HK) - Acquisition of IE solutions company a positive move	Wallace Cheng, Spencer Luo
25 Jun	Internet Sector Weekly - As of 22 Jun 2018	Gu Xinyu (Connie), CPA, Sun Mengqi (Brandy), Zhou Zhe (Gigi)
25 Jun	China Gas Holdings (384 HK) - Downgrade to Neutral on limited re-rating potential	Wallace Cheng, Spencer Luo
25 Jun	Banking Sector - Looser liquidity with RRR cut; supports to MSE & equity swap uncertain	Jaclyn Wang, Hannah Han
22 Jun	A-Living Services (3319 HK) - Takeaways from reverse roadshow	Philip Tse CFA, FRM, Alfred Lau, CFA, FRM, Steve Liu
22 Jun	Property Sector Weekly - As of 21 Jun 2018	Carmen Wong, Jennifer Zhang, Alfred Lau, CFA, FRM, Philip Tse, CFA, FRM
21 Jun	Insurance Sector Monthly - Life insurance continues to improve, P&C premium growth slows	Li Wan, CFA, FRM, Jennifer Zhang
21 Jun	Renewable Energy Sector Weekly - As of 20 Jun 2018	Louis Sun, Bob Wen
20 Jun	Transportation & Infrastructure Sector Weekly - As of 15 June 2018	Geoffrey Cheng, CFA, Fay Zhou, Luya You, Maggie Wang
20 Jun	Healthcare Sector Weekly - As of 19 Jun 2018	Lilian Wan, Mengmeng Xi
20 Jun	Beijing Capital Int'l Airport - CADF revenue to halt; downgrade to Neutral	Luya You, Fay Zhou, Maggie Wang, Geoffrey Cheng, CFA

Source: BOCOM Int'l

29 June 2018

Morning Express
HSI constituents

Company name	Stock code	Current price (HK\$)	Mkt cap (HK\$ m)	5D chg (%)	YTD chg (%)	-----52-week----- High (HK\$) Low (HK\$)		-----P/E----- 2017 (x) 2018E (x) 2019E (x)			Yield 2018E (%)	P/B 2018E (x)
CKH	1 HK	82.90	319,802	-2.24	-15.49	108.50	82.65	9.08	8.12	7.59	3.65	0.74
CLP	2 HK	84.55	213,611	5.42	5.82	84.55	75.35	14.80	15.24	16.57	3.59	1.94
HK & CHINA GAS	3 HK	15.08	232,027	0.94	8.99	15.76	13.15	28.32	29.49	27.96	2.31	3.85
HSBC	5 HK	72.90	1,457,784	-2.02	-8.88	85.85	67.80	13.13	12.49	12.00	5.52	1.12
POWER ASSETS	6 HK	54.90	117,171	0.55	-8.53	65.09	54.10	15.22	15.20	15.03	5.16	1.29
HANG SENG	11 HK	196.50	375,677	0.92	2.45	203.20	160.50	19.07	16.55	15.18	3.82	2.48
HLD	12 HK	41.90	184,413	-1.87	-10.50	50.27	39.45	9.47	10.38	12.41	3.82	0.63
SHKP	16 HK	118.60	343,584	-2.71	-9.05	138.30	114.00	13.55	11.60	10.62	3.71	0.71
NWD	17 HK	10.94	111,760	-3.19	-6.81	12.90	9.86	14.23	14.23	12.52	4.22	0.60
SWIRE PACIFIC	19 HK	84.25	76,264	-1.35	16.53	85.95	72.15	26.59	18.92	14.83	2.93	0.50
EAST ASIA BANK	23 HK	31.30	87,879	-2.03	-6.43	35.85	30.80	9.78	16.52	14.03	2.77	0.97
GEG	27 HK	59.10	255,221	-7.22	-5.74	73.20	44.70	24.36	19.24	17.67	1.47	4.64
MTRC	66 HK	43.50	261,412	0.12	-4.61	46.55	40.60	24.33	23.37	22.63	2.67	1.55
SINO	83 HK	12.70	83,859	-2.91	-8.24	14.86	12.60	14.27	7.22	16.28	7.72	0.62
HLP	101 HK	16.10	72,413	-3.13	-15.71	21.65	16.10	13.20	15.61	15.02	4.62	0.54
CM PORT	144 HK	15.68	51,393	-5.54	-20.97	27.05	15.68	8.61	9.78	9.19	7.07	0.71
WANT WANT	151 HK	6.91	86,025	-6.87	5.50	8.11	5.13	22.48	19.99	18.31	21.01	4.83
GEELY	175 HK	19.88	178,472	-8.39	-22.95	29.15	15.52	14.33	11.01	8.52	2.48	4.14
CITIC LTD	267 HK	10.88	316,502	-1.98	-1.81	12.72	10.78	7.18	6.55	5.83	3.51	0.58
WH GROUP	288 HK	6.25	91,721	-2.80	-29.62	9.74	6.04	10.21	8.93	8.10	40.74	1.51
SINOPEC	386 HK	6.98	178,084	-0.99	21.18	8.22	5.44	13.61	9.59	9.21	10.70	0.91
HKEX	388 HK	232.40	289,747	-4.05	-1.53	303.40	199.00	38.21	29.24	25.49	3.09	7.61
COLI	688 HK	24.65	270,070	-8.19	1.02	31.50	22.75	6.67	6.76	5.61	3.83	1.02
TENCENT	700 HK	379.00	3,602,050	-4.63	-6.65	474.60	269.00	43.00	36.11	27.95	0.36	11.54
UNICOM	762 HK	9.81	300,168	0.20	-6.57	12.36	9.32	116.81	30.85	18.17	1.74	0.79
LINK	823 HK	71.00	152,654	1.43	-2.00	74.25	58.85	30.87	28.22	26.09	3.54	1.13
CR POWER	836 HK	13.30	63,979	-6.60	-7.38	16.20	12.94	14.16	9.70	7.85	6.38	0.88
PETROCHINA	857 HK	5.86	123,640	2.63	6.74	6.59	4.77	40.06	15.63	14.60	4.10	0.71
CNOOC	883 HK	13.48	601,848	9.24	21.66	14.52	8.50	19.83	9.24	9.24	5.84	1.22
CCB	939 HK	7.08	1,702,155	-4.07	-1.67	9.12	5.93	5.93	5.49	5.04	5.42	0.84
CHINA MOBILE	941 HK	69.15	1,415,879	0.66	-11.35	88.35	68.55	10.36	10.13	9.78	5.92	1.15
CK INFRA	1038 HK	57.85	153,342	0.70	-12.81	73.50	57.35	14.13	12.90	12.39	4.42	1.35
HENGAN	1044 HK	75.90	91,555	-3.37	-12.51	88.25	57.60	20.28	19.59	17.61	4.22	4.58
SHENHUA	1088 HK	18.44	62,670	-11.35	-7.34	25.55	16.82	6.87	7.10	6.99	6.57	1.03
CSPC	1093 HK	22.55	140,780	-4.65	42.90	26.05	11.10	49.03	37.17	29.15	0.90	9.01
CR LAND	1109 HK	25.10	173,967	-8.89	9.13	32.35	21.45	9.08	7.19	6.06	4.80	1.22
CKA	1113 HK	62.60	231,464	-2.87	-8.35	75.00	58.75	11.56	7.31	9.05	3.02	0.79
AIA	1299 HK	68.10	822,390	-0.73	6.49	74.35	54.80	16.54	17.57	16.08	13.93	2.43
ICBC	1398 HK	5.74	498,198	-4.81	-8.74	7.44	4.87	6.15	5.71	5.28	6.59	0.81
SANDS	1928 HK	40.85	330,076	-7.05	1.24	48.55	34.10	26.43	19.61	17.22	39.23	9.40
WHARF REIC	1997 HK	56.50	171,547	-5.04	9.07	64.00	47.20	18.05	18.43	17.88	3.49	0.83
COUNTRY GARDEN	2007 HK	12.40	269,588	-20.72	10.16	16.80	7.32	9.37	7.08	5.37	5.69	2.50
AAC TECH	2018 HK	103.80	126,844	-10.36	-25.54	179.20	95.50	19.61	16.58	13.17	2.92	5.65
PING AN	2318 HK	71.25	530,640	-5.82	-14.05	96.40	51.45	12.09	10.99	9.27	3.45	2.24
MENGNIU	2319 HK	25.85	101,522	-7.68	11.18	29.80	14.50	41.70	26.42	21.36	1.07	3.61
SUNNY OPTICAL	2382 HK	139.10	152,593	-4.66	39.24	173.00	67.30	43.38	31.25	22.53	0.93	16.15
BOCHK	2388 HK	38.15	403,352	-0.65	-2.18	41.90	34.65	14.11	12.24	11.01	3.98	1.66
CHINA LIFE	2628 HK	19.98	148,675	-4.17	-18.62	27.70	19.98	14.95	11.72	10.28	3.57	1.43
BOCOM	3328 HK	5.93	207,620	-3.73	2.60	6.97	5.49	5.47	5.18	4.85	7.34	0.58
BOC	3988 HK	3.83	320,273	-1.79	0.79	4.80	3.59	5.69	5.22	4.75	7.35	0.64
HANG SENG INDEX		28,497.32	16,439,539	-2.87	-4.75	33,154.12	25,340.85	21.43	17.26	14.80	4.09	3.63

Source: FactSet

29 June 2018

Morning Express
HSCEI constituents

Company name	Stock code	Closing price (HK\$)	Mkt cap (HK\$ m)	5D chg (%)	YTD chg (%)	-----52-week-----		-----P/E-----			Yield	P/B
						High (HK\$)	Low (HK\$)	2017 (x)	2018E (x)	2019E (x)	2018E (%)	2018E (x)
CITIC LTD	267 HK	10.88	316,502	-1.98	-1.81	12.72	10.78	7.18	6.55	5.83	3.51	0.58
GDI	270 HK	12.36	80,807	-2.06	18.16	13.88	10.30	14.11	16.23	15.18	4.49	2.01
CGH	384 HK	30.15	149,801	-7.52	39.58	36.60	15.30	36.09	24.80	19.12	1.15	7.28
SINOPEC	386 HK	6.98	178,084	-0.99	21.18	8.22	5.44	13.61	9.59	9.21	10.70	0.91
CRG	390 HK	5.82	24,487	-4.28	0.69	6.81	5.34	7.32	6.28	5.63	3.02	0.69
DONGFENG	489 HK	8.29	23,674	-6.54	-12.37	11.14	8.07	4.15	4.13	4.00	4.72	0.51
TENCENT	700 HK	379.00	3,602,050	-4.63	-6.65	474.60	269.00	43.00	36.11	27.95	0.36	11.54
CHINA TELECOM	728 HK	3.67	50,930	4.86	-2.13	4.20	3.27	13.12	12.07	11.09	4.08	0.71
AIR CHINA	753 HK	7.36	33,581	-15.11	-22.36	12.58	6.43	11.58	9.06	7.40	2.41	1.00
PETROCHINA	857 HK	5.86	123,640	2.63	6.74	6.59	4.77	40.06	15.63	14.60	4.10	0.71
CNOOC	883 HK	13.48	601,848	9.24	21.66	14.52	8.50	19.83	9.24	9.24	5.84	1.22
HUANENG	902 HK	5.11	24,019	-4.31	3.23	6.06	4.61	43.36	15.71	10.40	4.99	0.77
CONCH	914 HK	43.50	56,533	-7.45	21.34	50.25	25.35	12.27	8.70	8.20	5.76	2.09
CCB	939 HK	7.08	1,702,155	-4.07	-1.67	9.12	5.93	5.93	5.49	5.04	5.42	0.84
CHINA MOBILE	941 HK	69.15	1,415,879	0.66	-11.35	88.35	68.55	10.36	10.13	9.78	5.92	1.15
CNCB	998 HK	4.80	71,434	-5.33	-1.64	6.71	4.75	4.80	4.43	4.12	8.00	0.52
HENGAN	1044 HK	75.90	91,555	-3.37	-12.51	88.25	57.60	20.28	19.59	17.61	4.22	4.58
SHENHUA	1088 HK	18.44	62,670	-11.35	-7.34	25.55	16.82	6.87	7.10	6.99	6.57	1.03
CSPC	1093 HK	22.55	140,780	-4.65	42.90	26.05	11.10	49.03	37.17	29.15	0.90	9.01
SINOPHARM	1099 HK	30.85	36,798	-5.08	-7.22	44.45	30.00	13.88	13.48	11.62	2.87	2.00
CR LAND	1109 HK	25.10	173,967	-8.89	9.13	32.35	21.45	9.08	7.19	6.06	4.80	1.22
BYD	1211 HK	45.95	42,044	-5.84	-28.81	80.45	45.95	27.61	23.43	18.23	0.48	1.82
ABC	1288 HK	3.60	110,660	-4.51	-1.10	4.90	3.41	5.20	4.85	4.44	7.76	0.69
NCI	1336 HK	32.15	33,247	-9.05	-38.59	56.25	32.15	15.71	11.14	9.09	3.25	1.28
PICC	1339 HK	3.59	31,327	-4.77	-7.71	4.72	3.26	7.94	7.30	6.62	1.63	0.89
CINDA	1359 HK	2.48	33,648	-7.81	-12.37	3.47	2.48	4.72	4.17	3.73	8.69	0.60
ICBC	1398 HK	5.74	498,198	-4.81	-8.74	7.44	4.87	6.15	5.71	5.28	6.59	0.81
PSBC	1658 HK	5.00	99,281	-4.40	22.25	5.59	4.04	7.14	6.10	5.38	4.62	0.85
CRRC	1766 HK	5.99	26,183	-4.62	-24.18	8.74	5.99	13.60	11.75	9.97	4.39	1.13
GF SEC	1776 HK	11.28	19,196	-2.76	-27.69	18.24	11.10	8.25	7.77	7.07	5.45	0.80
CCC	1800 HK	7.54	33,383	-7.37	-15.09	10.92	7.54	5.34	5.11	4.37	4.87	0.56
CGN POWER	1816 HK	2.00	22,327	-3.38	-6.54	2.29	2.00	8.20	8.86	8.34	4.81	1.14
MSB	1988 HK	5.48	45,595	-22.38	-16.02	7.60	5.43	3.22	3.19	3.14	3.68	0.43
VANKE	2202 HK	26.35	34,649	-9.91	-12.02	42.20	21.75	8.30	6.63	5.35	5.30	1.75
GAC	2238 HK	7.62	23,611	-7.52	-42.40	15.04	7.61	5.43	4.77	4.34	7.94	0.83
SHENZHOU	2313 HK	94.30	141,754	-2.68	29.98	99.50	49.95	32.14	26.40	22.21	2.36	5.76
PING AN	2318 HK	71.25	530,640	-5.82	-14.05	96.40	51.45	12.09	10.99	9.27	3.45	2.24
PICC P&C	2328 HK	8.26	56,988	-7.26	-17.84	11.48	8.26	7.85	7.00	6.34	4.38	1.12
GWM	2333 HK	5.93	18,380	-10.96	-31.52	11.30	5.93	9.31	6.06	5.28	6.25	0.91
CPIC	2601 HK	29.85	82,843	-6.72	-21.34	41.85	29.85	15.64	12.02	10.05	4.77	1.59
CHINA LIFE	2628 HK	19.98	148,675	-4.17	-18.62	27.70	19.98	14.95	11.72	10.28	3.57	1.43
HUARONG	2799 HK	2.22	55,597	-11.20	-39.84	4.09	2.22	3.48	3.20	2.95	11.37	0.57
BOCOM	3328 HK	5.93	207,620	-3.73	2.60	6.97	5.49	5.47	5.18	4.85	7.34	0.58
CMB	3968 HK	28.00	128,545	-6.04	-9.97	38.60	22.95	8.52	7.45	6.46	4.99	1.28
BOC	3988 HK	3.83	320,273	-1.79	0.79	4.80	3.59	5.69	5.22	4.75	7.35	0.64
CITIC SEC	6030 HK	15.50	35,314	-5.95	-3.61	22.90	15.44	13.24	11.63	10.18	3.42	1.01
ZA ONLINE	6060 HK	50.30	23,631	-3.92	-24.98	93.65	49.35	N/A	N/A	54.63	0.00	3.35
HAITONG SEC	6837 HK	7.76	26,458	-6.95	-31.57	13.50	7.74	8.79	7.93	7.07	4.73	0.60
GALAXY SEC	6881 HK	3.92	14,469	-7.55	-30.00	7.23	3.92	8.68	7.53	7.13	4.73	0.51
HTSC	6886 HK	12.38	21,282	-5.21	-20.13	19.40	12.26	7.56	9.15	8.27	4.13	0.81
HANG SENG CHINA ENT INDX		10,868.45	10,025,620	-4.16	-6.45	13,723.96	10,214.58	21.29	17.51	14.44	3.11	4.52

Source: FactSet

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Rating System

Analyst Stock Rating:

Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is the **Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

29 June 2018

Morning Express

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