



KGI

CHINA
DEVELOPMENT
FINANCIAL

Investment Daily

28 June 2019

Major Market Indicators

| | 27 Jun | 26 Jun | 25 Jun |
|-------------------|--------|--------|--------|
| Mkt. Turn.(mn) | 78,400 | 64,800 | 82,400 |
| Stock Advances | 1,101 | 839 | 544 |
| Stock Declines | 608 | 771 | 1,183 |
| HSI | 28,621 | 28,221 | 28,183 |
| Change | +399 | +36 | -327 |
| HSI Turn.(\$bn) | 29.63 | 23.45 | 28.18 |
| HSCEI | 10,897 | 10,766 | 10,742 |
| Change | +131 | +23 | -210 |
| HSCEI Turn.(\$bn) | 24.59 | 21.33 | 29.00 |

HSI Technical Indicators

| | |
|--------------------|--------|
| 10-days MA | 28,061 |
| 50-days MA | 28,347 |
| 250-days MA | 27,614 |
| 14-days RSI | 61.27 |
| Primary resistance | 29,000 |
| Primary support | 28,347 |

HSCEI Technical Indicators

| | |
|--------------------|--------|
| 10-days MA | 10,732 |
| 50-days MA | 10,911 |
| 250-days MA | 10,806 |
| 14-days RSI | 58.04 |
| Primary resistance | 10,911 |
| Primary support | 10,806 |

HSI Futures

| | 27 Jun | 26 Jun | 25 Jun |
|----------------|---------|---------|--------|
| Jul | 28,558 | 28,148 | 28,113 |
| Volume | 142,879 | 93,979 | 74,186 |
| Open interests | 130,265 | 119,683 | 82,221 |
| Aug | 28,535 | | |
| Volume | | | |
| Open interests | | | |

HSCEI Futures

| | 27 Jun | 26 Jun | 25 Jun |
|----------------|---------|---------|---------|
| Jul | 10,844 | 10,701 | 10,689 |
| Volume | 96,888 | 124,072 | 129,315 |
| Open interests | 198,351 | 202,573 | 163,974 |
| Aug | 10,857 | | |
| Volume | | | |
| Open interests | | | |

Market Overview

The Hang Seng Index is expected to trade at 28,400-28,800 today

There was news that China and the US initially agreed on giving a pause to further escalation of trade war, moreover US President Donald Trump will grant six-month deadline for a deal, which drove the investment sentiment. Hang Seng Index rose 399 points to 28,621 points, while H-Share Index up 131 points to 10,897 points. The market turnover was 78.43 billion. Sunny Optical(2382) up 4.03% and was the best performing blue chip.

The Wall Street Journal reported that President Xi will present President Trump terms to resolve a market-rattling trade confrontation. The demands raise some doubts that the two sides can achieve a détente. On the other hand, National Economic Council director Kudlow said that no preconditions were set ahead of President Trump's meeting with President Xi, added more uncertainty. US stock market volatile on Thursday. The Dow finally closed 10 points lower (to 26,527) but the Nasdaq rose 58 points (to 7,968).

Owing to uncertainties arose on the President Trump's meeting with President Xi meeting outcome, local blue chips fell in the US ADR market last night. Ahead of Trump-Xi meeting as well as long holiday, investors are likely to stay sideline today. Hang Seng Index support will be seen at 50 Day SMA (28,347).

Technical Analysis

The Hang Seng Index gapped opened higher on Thursday, and rose further with a white candlestick, closing above resistance level at 50 Day SMA (28,347) and 100 Day SMA (28,569). On the other hand, MACD remained in the positive territory, its positive trend re-accelerate again. However, market turnover remained weak. Hang Seng Index first support is at 50 Day SMA (28,347) while second support is 10 Day SMA(28,061). On the other hand, first resistance is 29,000 while second resistance is at 29,252.

HSI Chart



Sources : Google



Daily Focus

Luk Fook(590) FY19 Result Beats FY20 Cautious Guidance

- Luk Fook(590) announced annual result for the year ended 31 March 2019. Revenue increased by 8.8% to approximately HK\$15.9 billion, which was in line with market expectation. Net profit increased by 9.0% YoY and reached approximately HK\$1.5 billion, which was close to upper bound of market expectation. It was partially driven by higher-than-expected gross profit margin. It dropped 0.3 ppt to 25.4%. Operating profit was a bit surprise. It rose 14.3% YoY to HK\$1.85 billion. It was mainly driven by operating expense in relation to revenue declined 0.5 ppt. especially rental expense in relation to revenue dropped 0.8 ppt.
- But, inventory increased by 16.6% to approximately HK\$9.32 billion. Inventory turnover days also increased 16 days to 273. Sales performance is noteworthy. For financial position, the company turned into net debt. Management explained that it is due to purchase of headquarter premises and inventory. The company expects by the time 2HFY20 SSSG improves, it will return to net cash.
- Luk Fook FY19 SSSG increased 3.1%. Hong Kong and Macau SSSG rose 4.6% while China declined 2.6%. Operating performance deteriorated in second half of FY19 as Sino-US trade war brought adverse impact to overcall economy. 2HFY19 revenue dropped 4% while net profit decreased 2%. 1HFY19 revenue rose 25% while net profit increased 28%.
- And management mentioned that Hong Kong and Macau SSSG recorded low teens drop in SSSG between April and the third week of Jun. SSSG of China self-operating stores recorded mid-single digit drop while licensing stores recorded low single digit increase. Forward looking FY20, given high base in 1HFY19, 1HFY20 SSSG is expected to drop. 2HFY20 SSSG is expected to return to positive territory. Full year SSSG, revenue and profit are expected to be flattish. The company plans to net open at least 150 stores in China while Hong Kong and Macau net open 3 stores at max. The company plans to renew 22 stores in FY20. Renewal rental is expected to have low single digit drop.
- In terms of valuation, Luk Fook FY20 projected P/E is 9.7x which is close to lower bound of last three years average(8.3x). And it is a beneficiary of strong gold price which may provide support to near term share price. It is possible that share price may have slight rebound in near term. But FY20 revenue is expected to stay flat which implies pressure on FY20 profit. Short term trade is more suitable.

| Luk Fook (590) Info | |
|---------------------|--|
| Closed price | |
| Expected P/E (X) | |
| Dividend yield (%) | |
| 52 week high | |
| 52 week low | |
| 14RSI | |

Analyst: Tracy Chan Lok Yee

Jinshang Bank GRC(2558) :IPO Brief

- Jinshang Bank is the only provincial city commercial bank in Shanxi Province. In 2018, Jinshang Bank ranked 440th among the “Top 1000 World Banks” in terms of tier-1 capital as of December 31, 2017 by The Banker, moving up 136 places compared with its ranking in 2017. Jinshang Bank ranked first among all city commercial banks in Shanxi Province in terms of total assets, total deposits from customers and total loans to customers as of December 31, 2017.
- Jinshang Bank has established an extensive business network covering Shanxi Province that fully penetrated into regions with strong economic growth. As of December 31, 2018, they had a business network comprising 160 outlets that covered all 11 prefecture-level cities in Shanxi Province. The Bank’s principle business lines include corporate banking, retail banking and financial markets. As of December 31, 2018, revenues from corporate banking, retail banking and financial markets accounted for 72.7%, 22.6% and 4.6%, respectively. In recent years, the proportion of operating income from corporate banking revenue has remained at around 70%, proportion of operating income from retail banking has increased, and financial markets has declined.
- Jinshang Bank may face concentration risks from its credit exposure to certain industries. As of December 31, 2018, corporate loans represented 72.7% of total loans and advances to customers. Loans to the manufacturing, mining, real estate, wholesale and retail, and leasing and commercial services industries, which were the top 5 industries from which corporate loan customers are derived, represented 30.1%, 21.9%, 18.3%, 9.4% and 5.8% of total corporate loans, respectively. The NPL ratio for these 5 industries was 2.60%, 1.82%, 0.45%, 8.32% and 0.48%, respectively.
- In recent years, PRC Government has promulgated policies to restrict loans to industries with heavy pollution, high energy consumption or overcapacity. As of December 31, 2018, 17.5% of its corporate loans were granted to the iron and steel industry and the coking industry, which are commonly associated with heavy pollution, high energy consumption or overcapacity in China, and the NPL ratio of these loans was 1.81% as of the same date.
- Overall, the NPL ratio of Jinshang Bank is higher than average. At the end of 2017 and the end of 2018, China City Commercial Bank's NPL ratio was 1.52% and 1.79%, while Jinshang Bank was 1.64% and 1.87%. In addition, the NIM of Jinshang Bank in 2018 decreased significantly to 1.70% compared with 2017 (2.25%), which was lower than that of Bank of Jiujiang (6190) and Luzhou Bank (1983) in 2018, respectively 2.65% and 2.53%. Moreover, Jinshang Bank's 2018 net interest income and pre-tax profit both fell compared with 2017.
- In summary, we believe that the non-performing loan ratio of Jinshang Bank is higher than the average level of China's city commercial banks, and the net interest margin is lower than that of its peers. The P/B ratio is 1.0-1.1x, which is relatively higher. Neutral.

| IPO Info | |
|----------------------------------|---------------------|
| Industry sector | Bank |
| Issue price (HK\$) | 3.80-3.98 |
| Total share offer size (HK\$ Mn) | 3,268-3,423 |
| Adjusted FY18 P/B(x) | 1.0-1.1 |
| Sponsor | CCBI, CICC and CMBI |
| Dealing of shares | 18-Ju;-2019 |

Analyst: ZHU Luying, Laurel



Shanghai/Shenzhen-Hong Kong Stock Connect Statistics

| | SH Connect | SZ Connect | Combined Southbound |
|------------------------------|------------|------------|---------------------|
| Balance (RMB bn) | 50.92 | 48.96 | 81.89 |
| Balance as % of Quota Amount | 97.9 | 94.2 | 94.5 |

Top 10 Most Actively Traded Stocks(SH-HK Connect Southbound)

| Stock Name | Stock code | Buy Trades (HKD) | Sell Trades (HKD) | Turnover (HKD) |
|---------------|------------|------------------|-------------------|----------------|
| CCB | 939 | 932,671,060 | 33,811,280 | 966,482,340 |
| PING AN | 2318 | 135,756,575 | 450,882,450 | 586,639,025 |
| SUNAC | 1918 | 76,711,700 | 203,525,000 | 280,236,700 |
| CM BANK | 3968 | 214,772,700 | 34,602,200 | 249,374,900 |
| CHINA SHENHUA | 1088 | 128,315,210 | 86,341,170 | 214,656,380 |
| TENCENT | 700 | 94,565,180 | 106,519,460 | 201,084,640 |
| ICBC | 1398 | 162,481,820 | 34,503,310 | 196,985,130 |
| GEELY AUTO | 175 | 98,165,600 | 36,426,920 | 134,592,520 |
| WH GROUP | 288 | 18,602,525 | 99,776,665 | 118,379,190 |
| CHINA TAIPING | 966 | 15,880,640 | 101,373,200 | 117,253,840 |

Sources: HKEx

Top 10 Most Actively Traded Stocks(SZ-HK Connect Southbound)

| Stock Name | Stock code | Buy Trades (HKD) | Sell Trades (HKD) | Turnover (HKD) |
|---------------|------------|------------------|-------------------|----------------|
| SUNNY OPTICAL | 2382 | 48,703,145 | 128,112,950 | 176,816,095 |
| CM BANK | 3968 | 85,520,375 | 39,052,800 | 124,573,175 |
| ZTE | 763 | 59,051,870 | 53,912,030 | 112,963,900 |
| CCB | 939 | 93,633,150 | 3,441,620 | 97,074,770 |
| PING AN | 2318 | 52,180,250 | 20,186,550 | 72,366,800 |
| TENCENT | 700 | 26,620,040 | 45,643,360 | 72,263,400 |
| BOSIDENG | 3998 | 33,997,220 | 36,520,260 | 70,517,480 |
| YIHAI INTL | 1579 | 55,620,500 | 13,307,050 | 68,927,550 |
| SUNAC | 1918 | 22,008,850 | 45,960,250 | 67,969,100 |
| CHINA VANKE | 2202 | 64,287,820 | 2,167,185 | 66,455,005 |

Sources: HKEx

Other Statistics

Ten Most Actively Traded Stocks

| Stock Name | Code | Change | Closed Price | Turnover(Million) |
|-----------------|------|--------|--------------|-------------------|
| TENCENT | 700 | 1.09% | 352.80 | 3983.3 |
| CCB | 939 | 1.67% | 6.68 | 2998.1 |
| PING AN | 2318 | 0.86% | 94.05 | 2987.3 |
| MEITUAN-W | 3690 | 6.45% | 68.50 | 2392.4 |
| SANDS CHINA LTD | 1928 | 3.16% | 37.50 | 1857.1 |
| AIA | 1299 | 1.94% | 84.20 | 1670.6 |
| CM BANK | 3968 | 1.94% | 39.40 | 1425.3 |
| BANK OF CHINA | 3988 | 1.23% | 3.29 | 1162.3 |
| CTIHK | 6055 | 5.99% | 10.98 | 975.3 |
| ICBC | 1398 | 1.43% | 5.68 | 971.3 |

Ten Short Sell Stocks

| Stock Name | Code | Short Sell | Turnover | Short Sell Ratio |
|--------------|----------|------------|----------|------------------|
| TRACKER FUND | 02800.HK | 1.30B | 2.21B | 58.91% |
| PING AN | 02318.HK | 800.44M | 2.99B | 26.80% |
| CCB | 00939.HK | 535.73M | 3.00B | 17.87% |
| MEITUAN-W | 03690.HK | 513.44M | 2.39B | 21.46% |
| CAM CSI300 | 03188.HK | 442.35M | 854.80M | 51.75% |
| ISHARES A50 | 02823.HK | 381.84M | 550.33M | 69.39% |
| TENCENT | 00700.HK | 366.11M | 3.98B | 9.19% |
| AIA | 01299.HK | 302.55M | 1.67B | 18.11% |
| CSOP A50 ETF | 02822.HK | 271.47M | 456.91M | 59.42% |
| ICBC | 01398.HK | 223.15M | 971.25M | 22.98% |

Source: AASTocks

Economic Calendars

| Date | Country | Event | Survey | Prior |
|------|-----------|---|--------|-------|
| Tue | US | May. New Home Sales | 685k | 673k |
| Wed | US | May. Durable Goods Orders | 0.0% | -2.1% |
| | | May. Retail Inventories MoM | | 0.5% |
| | | May. Wholesale Inventories MoM | | 0.8% |
| | Hong Kong | BOSIDENG (3998) Result | | |
| Thur | US | May. Pending Home Sales MoM | 1.0% | -1.5% |
| | | Initial Jobless Claim (Till Jun 22) | | |
| | | Continuing Jobless Claim (Till Jun 15) | | |
| | China | May. Industrial Profits YoY | | -3.7% |
| | Hong Kong | LUK FOOK HOLD(590), CHINA WATER(855) Result | | |
| Fri | Japan | G20 Summit (28-29 June, US President Trump and China President Xi will have a meeting) | | |
| | US | May. Real Personal Spending | | 0.0% |
| | | May. PCE Core Deflator YoY | 1.6% | 1.6% |
| | Euro Zone | Jun. CPI Core YoY | 0.8% | 0.8% |

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