



KGI

CHINA
DEVELOPMENT
FINANCIAL

Investment Daily

26 June 2019

Major Market Indicators

	25 Jun	24 Jun	21 Jun
Mkt. Turn.(mn)	82,400	69,782	118,600
Stock Advances	544	855	773
Stock Declines	1,183	791	916
HSI	28,183	28,513	28,473
Change	-327	+39	-76
HSI Turn.(\$bn)	28.18	24.38	44.47
HSCEI	10,742	10,952	10,921
Change	-210	+31	0
HSCEI Turn.(\$bn)	29.00	20.70	38.08

HSI Technical Indicators

10-days MA	27,837
50-days MA	28,409
250-days MA	27,623
14-days RSI	55.19
Primary resistance	28,409
Primary support	27,833

HSCEI Technical Indicators

10-days MA	10,663
50-days MA	10,945
250-days MA	10,811
14-days RSI	51.97
Primary resistance	10,811
Primary support	10,663

HSI Futures

	25 Jun	24 Jun	21 Jun
Jun	28,156	28,423	28,422
Volume	237,299	186,686	179,438
Open interests	99,074	111,774	137,509
Jul	28,113	28,372	28,377
Volume	74,186	43,142	5,592
Open interests	82,221	39,112	13,047

HSCEI Futures

	25 Jun	24 Jun	21 Jun
Jun	10,737	10,877	10,868
Volume	206,382	138,091	101,911
Open interests	196,968	193,644	213,843
Jul	10,689	10,826	10,824
Volume	129,315	75,833	7,210
Open interests	163,974	81,323	25,054

Market Overview

The Hang Seng Index is expected to trade at 27,900-28,300 today

Market awaits Donald Trump-Xi Jinping trade negotiation at G20 meeting. Overnight US equities mixed. But Chinese financial stocks fell which dragged both China and Hong Kong stock market. Hang Seng Index dropped 327 points to 28,183, which fell below 50-SMA(28,409). H-share Index dropped 210 points to 10,742. Market turnover was HK\$82.4 billion. It is reported that US judge holds three Chinese banks in contempt for refusing to comply with probes into violations of North Korea sanction. CM Bank(3968) and Bank of Communications(3328) were said to be involved in this case. Share price dropped 3.7-7.7%. Chinese insurance sector decreased. Ping An(2318) and China Life(2628) declined 1.3-1.4%.

Federal Reserve Chairman Powell said the central banks was still monitoring the economy for signs of weakness and would seek to avoid a knee-jerk reaction in terms of cutting benchmark interest rates, which cooled investor optimism on future rate cut pace. Besides, investors also turned cautious on the outcome of President Xi and President Trump at G20 meeting. US stock fell on Tuesday, of which, weakness of Microsoft and other software companies led technology stock decline. The Dow and the Nasdaq fell 179 points (to 26,548) and 121 points (to 7,885) respectively.

Owing to the weakness of Tencent, local blue chips fell in the US ADR market last night. Besides, US judge holds three Chinese banks in contempt for refusing to comply with probes into violations of North Korea sanction, also raised concerned that the recent China US conflicts will extend to financial sector. Investors are expected to stay sideline ahead of XI-Trump meeting at G20 later this week. Hang Seng Index support will be seen at 10 Day SMA(27,833).

Technical Analysis

The Hang Seng Index fell with a black candlestick on Tuesday, closing below the 50 Day SMA(28,409). On the other hand, MACD remained in the positive territory, its positive trend started to decelerate. Hang Seng Index recent positive technical trend has not been reversed. Hang Seng Index first support is at 10 Day SMA(27,833) while second support is 250 Day SMA (27,623). On the other hand, first resistance is 50 Day SMA(28,409), while second resistance is at 100 Day SMA(28,547).

HSI Chart



Sources : Google

Daily Focus

Regina (02199) net profit increased by 17.6% year-on-year, but still slightly lower than expectation

- Regina (02199) announced that its FY2019 revenue was HK\$6.26 billion, up 6.7% year-on-year. Gross profit increased 8.8% year-on-year to HK\$1.34 billion, while gross profit margin increased by 0.4 percentage points year-on-year to 21.4%. Net profit was HK\$282 million, up 17.6% year-on-year, but still slightly lower than expectation. The final dividend is 4 cents, together with an interim dividend of 3.6 cents, and a total dividend of 7.6 cents for the whole year.

- US orders accounted for 58% of Regina's overall sales. Regina currently has five plants in Vietnam, two of which will commence operation in June and September this year. The group expects that most of the orders shipping to the US can be transferred to Vietnam for production starting from Sep 2019.

Regina said that in the past, the construction of factories in Vietnam was at very fast pace. The investment in new plants and initial operating expenses drove down the gross profit margin. The Group will focus on improving operational efficiency and gross profit margin in the next two years.

- Regina's capital expenditure for fiscal year 2019 was HK\$1.21 billion. Net debt increased to HK\$2.55 billion. Due to investment cycle in Vietnam has passed the peak, it is expected that capital expenditures in FY2020 will be significantly reduced by 35% to 40%. It is expected that Regina's upcoming net debt growth will slow down.
- Owing to sharp rise of net debt, Regina financial expenses rose 81% yoy to HK\$90.2mn in FY19, Regina pre-tax profit only rose 5% yoy. However, thanks to tax benefit of Vietnam operation, its taxation expenses fell 58% yoy to HK\$19.6mn, which helped to boost its bottom line.
- Looking ahead, as most of its US export will shift to manufacturing in Vietnam, Regina will not suffer from recent China US trade war. Besides, gross margin improvement will also continue its earnings recovery. However, current valuation is at 19x prospective P/E, together with lower payout ratio due to high debt level, Regina is not attractive at current price level. Investors could wait for better buying opportunity.

Regina Miracle (2199) Info

Closed price	6.15
Expected P/E (X)	19.0
Dividend yield (%)	2.8
52 week high	6.78
52 week low	3.70
14RSI	49.3

Analyst: Samuel Chua Tit Hong, CFA

KWG(1813): Non-property development business is expected to maintain growth

- The overall property sales in May continued to pick up, according to market data, as of the end of May, Country Garden (2007), Vanke (2202), China Evergrande (3333), Sunac China (1918) etc had achieved contracted sales exceeded RMB 100 billion.
- The contracted sales of KWG (01813) in May reached RMB6.31 billion, up 12.7% YoY, and for the first 5 months, the contracted sales amounted to RMB 28.46 billion, up 11.2% YoY and completed more than 30% of its annual sales target.
- The share price showed signs of stabilization, while it also had a dividend payout ratio exceeded 40%. In addition, the company said that it will maintain a stable and relatively high dividend payout policy in the future, which is expected to increase the attractiveness of the equity.
- For the property development business, during 2019, the company's saleable value was about RMB\$ 150 billion, up 36% YoY, while the Yangtze River Delta and Greater Bay Area accounted for 35% and 37% respectively. As the saleable value in Greater Bay Area is about RMB\$ 200 billion and accounted for around 40% of the total value, it is expected to benefit from the development of the area.
- In addition, the company said that it has signed six urban redevelopment projects in Guangzhou last year. It is expected to be sold in 2021, together with other renovation projects, it is expected that the total saleable area from urban redevelopment projects can reach 10 million sqm which helped in replenishing the land bank.
- Although the company's non-property development income accounts for less than 20% of the total revenue, with the completion of investment properties such as shopping malls and office buildings, it is expected that the recurring income can increase from RMB 1.6 billion in FY2018 to RMB 2.5 billion to 3 billion in 2020, which can help to strengthen the cash flow performance.
- Following the opening of four shopping malls and two hotels last year, nine shopping malls will be opened this year, which are located in first- and second-tier cities such as Beijing, Guangzhou, Chongqing and Chengdu. In addition, the company also planned to open nine hotels and operate and promote the self-operated brand Mulian Hotels through a light asset expansion model, which will open about 30 to 40 hotels in the next three to five years, the revenue from recurring income may become another bright spot.
- The stock expected P/E is about 4.45X, P/B is about 0.67X, and the dividend yield is about 8.92%, recommend investors to accumulate when consolidate.

KWG(1813)Info	
Closed price	7.91
Expected P/E (X)	4.45
Dividend yield (%)	8.92
52 week high	9.64
52 week low	4.48
14RSI	50.7

Analyst: Li Kam Ming, CFA, FRM

CM Bank(3968): valuation is still at a high level

- Reported by "The Washington Post", A U.S. judge has found 3 large Chinese banks in contempt for refusing to comply with subpoenas in an investigation into North Korean sanctions violations. The order triggers for the first time a provision that could cut off one of China's largest banks from the U.S. financial system at the demand of the U.S. attorney general or treasury secretary. The 3 banks are not identified, but details in court rulings align with a 2017 civil forfeiture action in which the Justice Department alleged that Bank of Communications (3328), China Merchants Bank (3968) and Shanghai Pudong Development Bank (600000.SH) worked with a Hong Kong front company accused of laundering more than \$100 million for North Korea's sanctioned, state-run Foreign Trade Bank.

CM Bank(3968) Info	
Closed price	38.50
Expected P/E (X)	9.5
Dividend yield (%)	3.2
52 week high	42.75
52 week low	26.34
14RSI	42.9

- China Merchants Bank responded by saying that the bank had noticed relevant reports involving US courts to obtain customer information from Chinese commercial banks. This is a form of mutual legal assistance for cross-border investigation and evidence collection. China Merchants Bank stated that it has consistently and strictly complied with Chinese laws, relevant UN resolutions and other applicable sanctions laws, and has not been investigated for alleged violations of any sanctions laws.
- In addition, the other two banks involved in the report, Bank of Communications and Shanghai Pudong Development Bank also issued a statement that the bank was not investigated for suspected violation of any sanctions laws. The mainland media "Financial Times" quoted veterans in the industry as saying that the incidents reported by foreign media are still in the judicial process. There is no irrefutable information indicating that Chinese banks will be sanctioned.
- In early June, China Merchants Bank issued an announcement announcing that the board of directors passed the "Proposal regarding the General Mandate to Issue Write-down Undated Capital Bonds". The company will issue perpetual bonds of no more than RMB 50 billion, and the funds will be used for additional tier 1 capital of the bank.
- In fact, as of the 1Q 2019, China Merchants Bank had sufficient capital, capital adequacy ratio of 15.86%, Tier 1 capital adequacy ratio of 12.72%, and core Tier 1 capital adequacy ratio of 11.92%, which was 0.18/0.10/0.14 percentage points higher than the end of 2018. In addition, China Merchants Bank's deposit and loan business in the first quarter developed steadily, NIM continued to widen, and non-performing loan ratio remained healthy. The issuance of this perpetual bond will further enhance the capital level of China Merchants Bank, with the Sino-US trade relationship slowed down last week, the share price of China Merchants Bank has risen to HK\$42.75.
- On the other hand, China Merchants Bank was recently caught in negative news related to wealth management products, but the relevant incidents are still under investigation. Together with foreign media reports, the stock price of the bank declined. In terms of valuation, China Merchants Bank's P/B ratio is 1.6x, still at a high level in recent five years. The FY2019 expected P/B ratio is 1.5x and the dividend yield is 3.2%. Judging from the latest disclosed results, we believe that the fundamentals of China Merchants Bank are still good, but foreign media reports have once again triggered an increase in external macro uncertainty, and the valuation of China Merchants Bank is still at a high level. It is recommended that investors should wait and see.

Analyst: ZHU Luying, Laurel

Shanghai/Shenzhen-Hong Kong Stock Connect Statistics

	SH Connect	SZ Connect	Combined Southbound
Balance (RMB bn)	54.25	52.80	82.43
Balance as % of Quota Amount	104.3	101.5	98.1

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

Stock Name	Stock code	Buy Trades (HKD)	Sell Trades (HKD)	Turnover (HKD)
CM BANK	3968	468,764,625	127,103,400	595,868,025
ICBC	1398	480,982,270	46,253,720	527,235,990
CHINA SHENHUA	1088	436,585,240	46,937,670	483,522,910
PING AN	2318	151,201,725	175,741,350	326,943,075
SUNAC	1918	37,427,150	219,747,000	257,174,150
TENCENT	700	44,203,460	189,043,300	233,246,760
SD GOLD	1787	126,621,087	59,232,762	185,853,849
CHINA LIFE	2628	17,904,460	134,422,240	152,326,700
NCI	1336	66,930,000	84,384,965	151,314,965
CCB	939	48,168,840	86,769,520	134,938,360

Sources: HKEx

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

Stock Name	Stock code	Buy Trades (HKD)	Sell Trades (HKD)	Turnover (HKD)
CM BANK	3968	183,959,475	283,526,675	467,486,150
CCB	939	176,761,350	6,955,890	183,717,240
BOSIDENG	3998	120,488,140	57,328,220	177,816,360
SD GOLD	1787	81,684,037	46,002,062	127,686,099
TENCENT	700	59,343,580	58,013,840	117,357,420
SUNAC	1918	41,141,100	52,073,600	93,214,700
LI NING	2331	9,701,140	61,309,700	71,010,840
CHINA VANKE	2202	64,195,160	5,934,375	70,129,535
WUXI BIO	2269	17,254,075	51,185,950	68,440,025
ZHAOJIN MINING	1818	32,526,485	29,578,265	62,104,750

Sources: HKEx

Other Statistics

Ten Most Actively Traded Stocks

Stock Name	Code	Change	Closed Price	Turnover(Million)
CM BANK	3968	-7.67%	38.50	4756.7
TENCENT	700	-1.80%	349.40	4011.7
PING AN	2318	-1.33%	92.65	2875.0
CCB	939	-1.21%	6.51	2753.2
JXR	1951	0.00%	9.28	2239.7
ICBC	1398	-1.32%	5.61	1945.4
BANK OF CHINA	3988	-1.22%	3.23	1330.6
AIA	1299	-0.54%	82.40	1238.8
HKEX	388	-1.52%	272.20	1194.5
LI NING	2331	18.33%	18.08	770.1

Ten Short Sell Stocks

Stock Name	Code	Short Sell	Turnover	Short Sell Ratio
TRACKER FUND	02800.HK	882.53M	2.20B	40.10%
CCB	00939.HK	800.05M	2.75B	29.06%
ISHARES A50	02823.HK	679.52M	927.78M	73.24%
CSOP A50 ETF	02822.HK	673.61M	1.03B	65.67%
PING AN	02318.HK	617.73M	2.88B	21.49%
ICBC	01398.HK	511.92M	1.95B	26.31%
CAM CSI300	03188.HK	505.43M	982.05M	51.47%
TENCENT	00700.HK	472.89M	4.01B	11.79%
BANK OF CHINA	03988.HK	295.96M	1.33B	22.24%
AIA	01299.HK	281.32M	1.24B	22.71%

Source: AASocks

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		
		G20 Summit		
Fri	Japan	(28-29 June, US President Trump and China President Xi will have a meeting)		
	US	May. Real Personal Spending		0.0%
		May. PCE Core DeflatorYoY	1.6%	1.6%
	Euro Zone	Jun. CPI Core YoY	0.8%	0.8%

All the above named KGI analyst(s) is SFC licensed person accredited to KGI Asia Ltd to carry on the relevant regulated activities. Each of them and/or his/her associate(s) does not have any financial interest in the respectively covered stock, issuer and/or new listing applicant.

Disclaimer Some of KGI Asia Ltd. equity research and earnings estimates are available electronically on KGIEWORLD.COM. Please contact your KGI representative for information. The information and opinions in this report are those of KGI Asia Ltd. internal research activity. KGI Asia Ltd. does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be reproduced or published (in whole or in part) for any purpose without the prior written consent of KGI Asia Ltd.. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned herein.