



# KGI

CHINA  
DEVELOPMENT  
FINANCIAL

# Investment Daily

27 June 2019

## Major Market Indicators

	26 Jun	25 Jun	24 Jun
Mkt. Turn.(mn)	64,800	82,400	69,782
Stock Advances	839	544	855
Stock Declines	771	1,183	791
HSI	28,221	28,183	28,513
Change	+36	-327	+39
HSI Turn.(\$bn)	23.45	28.18	24.38
HSCEI	10,766	10,742	10,952
Change	+23	-210	+31
HSCEI Turn.(\$bn)	21.33	29.00	20.70

## HSI Technical Indicators

10-days MA	27,929
50-days MA	28,371
250-days MA	27,618
14-days RSI	55.73
Primary resistance	28,371
Primary support	27,929

## HSCEI Technical Indicators

10-days MA	10,690
50-days MA	10,925
250-days MA	10,808
14-days RSI	52.95
Primary resistance	10,808
Primary support	10,690

## HSI Futures

	26 Jun	25 Jun	24 Jun
Jun	28,190	28,156	28,423
Volume	167,654	237,299	186,686
Open interests	57,192	99,074	111,774
Jul	28,148	28,113	28,372
Volume	93,979	74,186	43,142
Open interests	119,683	82,221	39,112

## HSCEI Futures

	26 Jun	25 Jun	24 Jun
Jun	10,745	10,737	10,877
Volume	143,588	206,382	138,091
Open interests	122,023	196,968	193,644
Jul	10,701	10,689	10,826
Volume	124,072	129,315	75,833
Open interests	202,573	163,974	81,323

## Market Overview

### The Hang Seng Index is expected to trade at 28,000-28,400 today

The Chairman of U.S. Fed, Jerome Powell, delivered a speech, emphasizing a prudent attitude toward monetary policy, cooling down expectations for interest rate cuts. US stocks fell overnight. Hong Kong stocks opened lower on Wednesday, once lower than 28,000 points, but then rose to close. The Hang Seng Index rose 36 points to close at 28,221 points. The H-Share Index rose 23 points to 10,766 points. The market turnover was HK\$ 64.8 billion. Pharmaceutical stocks ran out, and CSPC Pharma (1093) rose 3.5%, making it the best blue chip. Hong Kong property stocks were under pressure, and SHK PPT (16) fell 1.7%, being the worst blue chip.

The U.S. Treasury Secretary Mnuchin said he was "hopeful" that a China US trade deal could be struck, provided an early lift to markets. Besides, Micron shares shot up after the chipmaker said it could lawfully resume shipments to Chinese telecom giant Huawei as well as a boost from better-than-expected quarterly results. The Dow once rose 110 points on early Wednesday. However, President Trump said he was happy to collect China tariffs if talks broke down. Investors turned skeptical on President Xi Jinping and President Trump meeting outcome, US stock erased most of its early gain. The Dow fell 11 points (to 26,537) while the Nasdaq rose 25 points (to 7,910).

Local blue chips rebounded in the US ADR market last night. Given the uncertain outlook of President Xi Jinping and President Trump meeting at G20 meeting later this week, investors are likely to stay sideline in the near term. However, window dress activities before the half year end might provide some support to the stock market. Hang Seng Index is expected to continue range trade above 28,000 today.

### Technical Analysis

The Hang Seng Index opened lower on Wednesday, once fell below the support at 28,000, but rebounded with a candlestick afterward, while it still closed below the 50 Day SMA (28,371). On the other hand, MACD remained in the positive territory, its positive trend started to decelerate. Hang Seng Index first support is at 10 Day SMA(27,929) while second support is 250 Day SMA (27,618). On the other hand, first resistance is 50 Day SMA(28,371), while second resistance is at 100 Day SMA(28,558).

### HSI Chart



Sources : Google

## Daily Focus

### Zhongliang Holdings Group(2772):IPO Brief

- The company is a fast-growing large-scale comprehensive real estate developer in China, As of March 31,2019, its property projects were located in 124 cities in 23 with 353 projects. It has land bank of 38,860,993 sq.m. in which Yangtze River Delta Economic Region accounted for 37.9% and Midwest China Economic Region accounted for 28.6%. And for the breakdown of property portfolio, Residential accounted for more than 60%.
- According to the prospectus, the market share of the company in China in terms of total contracted sales increased from 0.25% in 2016 to 0.49% in 2017, and further to 0.68% in 2018, while its ranking also increase from 41st in 2016 to 33rd in 2017 and 30th in 2018. And for the industrial front, the increased in population in urban areas as well as the per capita disposable income of urban households have set the solid foundation for the development of the real estate industry in China.
- For the operating data, the aggregate contracted sales for the first four months in 2019 reached RMB 29,978millions, which is more than 35% of the contracted sales in FY 2018, while the aggregate contracted sales that had not been delivered also reached RMB 141,637millions, and is expected to support future revenue performance. In addition, during the period from January 1, 2019 up to the Latest Practicable Date, its subsidiaries had won bids for 51 new land parcels with a total site area of approximately 2.6 million sq.m. for the development of projects. These new land parcels are located in 43 cities, including 15 cities newly entered into, such as Dalian and Tianjin.
- For the result performance the company's revenue and gross profit continued to rise. However the gross profit margin and the equity attributable to owners of the parent company were volatile, moreover the company also recorded a net outflow of cash flow from operating activities.in FY2016 and FY2017, primarily as a result of significant net cash used in operations due to the continued increase in property development activities and strengthened land acquisition efforts. Besides, the company also has historical safety accident and regulatory non-compliances, and worth investors to pay attention. The company also intend to pay approximately 40% of consolidated profit attributable to Shareholders (excluding net fair value gains/losses and net foreign exchange difference (if any)) as dividends from the year ending December 31, 2019. But there is no assurance that dividends will be declared or distributed each year or in any year. In terms of valuation, the company's FY18 P/E ratio is 8.4-10.8 times, and the P/B ratio is about 3.3-3.75 times, and is a bit higher than peer's average, we recommended "Neutral".

IPO Info	
Industry sector	Real estate developer
Issue price (HK\$)	5.2-6.68
Total share offer size (HK\$ Mn)	2,756-3,540.4
FY18 P/E(x)	8.4-10.8
Sponsor	CCB International
Dealing of shares	16-Jul

Analyst: Ken Li Kam Ming, CFA, FRM

## Hevol Services Group(6093):IPO Brief

- The company is a reputable market player in the property management industry in China. The company managed a total of 34 property management projects, including high-end residential communities with ancillary commercial properties, as well as other types of public facilities, located in 11 cities and as of 31 December 2018, it has total contracted GFA of 8.2 million sq.m while the revenue-bearing GFA was 6.34 million sq.m. . According to the China Index Academy, the company ranked 58th, 48th and 44th among the China Top 100 Property Management Companies (中國物業服務百強企業) in terms of overall strength of property management (中國物業管理綜合實力) in 2017, 2018 and 2019, respectively, and were considered as a growing China Top 100 Property Management Company from 2017 to 2019 in terms of overall strength of property management based on certain key factors such as property management scale, business performance, service quality, development potential and social responsibility.
- Property management services, Community-related services and Property developer-related services were the major income source, which accounted for 39.2%, 24.6% and 6.2% respectively. Breakdown by revenue model, Lump sum basis accounted for 99.7% while Commission basis accounted for 0.3%. While by type of properties, Residential properties accounted for 91.3% and Non-residential properties accounted for 8.7%. Through long-standing and continuous cooperation with Hevol Real Estate Group, the company have obtained a variety of quality projects, and the revenue from Hevol Real Estate Group contributed about 13% of total revenue. For the industry front, according to CIA , the market volume of community value added services is expected to reach 16 trillion in 2022 with the CAGR of 8.8% during 2019-2022. Together with growth in urbanization and capita disposable income, it is expected to support the needs of the industry.
- For the result performance the company's revenue and gross profit margin continued to rise. At the same time, it also recorded a net inflow of cash from operating activities. However, the profit for the year FY2018 recorded YoY decrease. Although the company stated that its revenue for the first 2 months increased, and it will also continue to utilise their strong and long-standing relationship with Hevol Real Estate Group for future growth, the company also has historical non-compliance incidents, which may affect future performance. In terms of valuation, the company's FY18 P/E ratio is 26.7-32.5 times, and the P/B ratio is about 2.84-3 times, we recommended "Neutral".

IPO Info	
Industry sector	Property management
Issue price (HK\$)	1.28-1.56
Total share offer size (HK\$ Mn)	128-156
FY18 P/E(x)	26.7-32.5
Sponsor	Southwest Securities
Dealing of shares	12-Jul

Analyst: Ken Li Kam Ming, CFA, FRM

## CIMC Vehicles(1839):IPO Brief

- CIMC Vehicles is a leader in the global semi-trailer industry with well-recognized brands in the principal markets where they operate. They began to manufacture and sell semi-trailers in 2002. According to Frost & Sullivan, they have been the world's largest semi-trailer manufacturer for five consecutive years since 2013, with a 10.3% market share in 2017 by sales volume of semi-trailers.
- In China, they ranked first in the semi-trailer industry by sales volume of semi-trailers, with a market share of 15.7% in 2017; and in North America, their principal overseas market, they ranked among the top five semi-trailer manufacturers in 2017 in terms of sales volume of semi-trailers, according to Frost & Sullivan. China accounted for 57.5% of FY18 revenue while North America contributed 27.5%.
- Their five product lines comprise chassis and flatbed trailers, fence trailers, tank trailers, refrigerated trailers and van trailers. In 2017, they launched their center-axle car carriers in China. Their truck body products include dump beds for dump trucks, mixers for mixer trucks and a wide range of other truck bodies for specialty vehicles. They market and sell an extensive range of semi-trailers and truck bodies in China, North America, Europe and other regions, covering over 40 countries.
- Regarding financial performance, revenue and profit growth both slowed down. FY18 revenue rose 25% YoY while FY17 revenue increased 33%. FY18 profit rose 22% YoY while FY17 profit increased 34%. Overall gross profit margin dropped from FY16 15.2% to FY18 13.1%. The company said that it is mainly due to market competition, RMB appreciation and US tariff on Chinese goods.
- For recent development, revenue increased YoY in the four months ended April 30 2019. It was primarily due to the continued growth of sales of vehicles (i) increased market demand for construction vehicles driven by active infrastructure development in China, and (ii) in North America, mainly as a result of increased market demand for dry van trailers, refrigerated trailers and chassis trailers. Gross margin increased slightly as gross margin in the North American market increased due to the appreciation of the US dollar against the Renminbi, which was partially offset by the decreased gross margin in the PRC market, primarily due to increased sales of truck chassis, which have relatively low gross margins.
- In terms of valuation, CIMC Vehicles FY18 historical P/E was 8.6-10.9x. The company is expected to be a beneficiary of China faster infrastructure investment. But the PRC government encourages the railway transportation for bulk commodities in lieu of road transportation. It could have an adverse effect on the demand for their products, particularly fence trailers. Moreover, China and US trade relationship remains uncertain. Tariff issue has already driven gross profit margin down. Profit outlook will be a concern. Neutral.

IPO Info	
Industry sector	Automobile
Issue price (HK\$)	6.38-8.08
Total share offer size (HK\$ Mn)	1,691-2,141
FY18 P/E(x)	8.6-10.9
Sponsor	Haitong
Dealing of shares	11-Jul

Analyst: Tracy Chan Lok Yee

## ManpowerGroup GRC(2180) :IPO Brief

- ManpowerGroup Greater China is the largest workforce solutions provider in the Greater China region by revenue in 2018, according to CIC. ManpowerGroup Greater China provides comprehensive workforce solutions and other HR services to clients located in each market in Greater China, namely, the PRC, Hong Kong, Macau and Taiwan. ManpowerGroup Greater China's largest stakeholder, ManpowerGroup Inc., is a New York Stock Exchange-listed (NYSE: MAN) world leader in workforce solutions and services.
- Today, ManpowerGroup Greater China serves a broad range of corporate and government clients in over 130 cities in the Greater China markets, operating more than 20 offices as of December 31, 2018. Leveraging MAN's global reputation, as of December 31, 2018, ManpowerGroup Greater China had served over 22,500 clients, including over 260 Fortune 500 companies and prominent local public and private employers.
- ManpowerGroup Greater China provides the following HR services in each of the PRC, Hong Kong, Macau and Taiwan: 1) Flexible staffing; 2) Headhunting; 3) Recruitment process outsourcing (RPO); 4) Other HR services. The major operating income is from flexible staffing services, accounting for approximately 85%. However, the gross profit margin of flexible staffing services is the lowest among the above four types of services, which are 11.7%, 11.4% and 12.0% from 2016 to 2018, respectively. The gross profit margin of the major business is much lower than other business lines, affecting the overall gross profit margin of the company. In addition, in the past three years, the company's gross profit margin has declined slightly.
- According to CIC, the workforce solutions market in the Greater China region is fragmented, with a total of over 20,000 service providers as of December 31, 2018. The top five participants account for 5.14% of the market by revenue in 2018. ManpowerGroup Greater China is the largest workforce solutions provider in Greater China, with a market share of 1.74% by revenue in 2018, according to CIC. Moreover, The entry barrier to setting up an HR service company is considered low as no substantial capital investment is required. ManpowerGroup Greater China may face competition from smaller or newly established professional service providers which often compete on price.
- In terms of valuation, the P/E ratio is 15.4-19.6x, and the valuation is not attractive. Considering industry conditions, company's profit margin .Neutral.

IPO Info	
Industry sector	HR Services
Issue price (HK\$)	9.9-12.6
Total share offer size (HK\$ Mn)	498-630
Adjusted FY18 P/E(x)	15.4-19.6
Sponsor	Huatai
Dealing of shares	10-Jul

Analyst: ZHU Luying, Laurel



## Shanghai/Shenzhen-Hong Kong Stock Connect Statistics

	SH Connect	SZ Connect	Combined Southbound
Balance (RMB bn)	52.81	52.14	82.01
Balance as % of Quota Amount	101.6	100.3	97.7

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

Stock Name	Stock code	Buy Trades (HKD)	Sell Trades (HKD)	Turnover (HKD)
CCB	939	540,862,420	53,910,790	594,773,210
ICBC	1398	521,205,880	52,585,010	573,790,890
TENCENT	700	109,207,440	93,492,840	202,700,280
CHINA SHENHUA	1088	159,302,130	31,786,230	191,088,360
CHINA LIFE	2628	833,740	170,820,540	171,654,280
PING AN	2318	11,210,725	130,041,200	141,251,925
CSPC PHARMA	1093	80,486,440	54,561,760	135,048,200
CHINA TAIPING	966	5,991,520	89,737,420	95,728,940
SD GOLD	1787	69,678,525	21,382,037	91,060,562
VITASOY INT'L	345	85,515,000	1,456,100	86,971,100

Sources: HKEx

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

Stock Name	Stock code	Buy Trades (HKD)	Sell Trades (HKD)	Turnover (HKD)
BOSIDENG	3998	74,546,200	60,184,380	134,730,580
CCB	939	108,279,490	2,082,620	110,362,110
CM BANK	3968	35,860,825	47,393,050	83,253,875
CHINA VANKE	2202	62,024,750	5,909,675	67,934,425
SD GOLD	1787	37,169,012	20,520,175	57,689,187
SINO BIOPHARM	1177	44,757,470	7,338,590	52,096,060
CHINA LIFE	2628	473,240	49,656,642	50,129,882
GF SEC	1776	32,060,304	13,004,280	45,064,584
GENSCRIPT BIO	1548	20,657,800	23,448,600	44,106,400
TENCENT	700	24,932,140	18,821,940	43,754,080

Sources: HKEx

## Other Statistics

## Ten Most Actively Traded Stocks

Stock Name	Code	Change	Closed Price	Turnover(Million)
TENCENT	700	-0.11%	349.00	3714.3
CCB	939	0.92%	6.57	2205.5
ICBC	1398	-0.18%	5.60	1881.3
CM BANK	3968	0.39%	38.65	1843.2
PING AN	2318	0.65%	93.25	1743.5
AIA	1299	0.24%	82.60	1255.8
MEITUAN-W	3690	1.18%	64.35	920.5
JXR	1951	5.39%	9.78	787.6
CHINA MOBILE	941	0.14%	70.30	758.3
HKEX	388	0.37%	273.20	657.2

## Ten Short Sell Stocks

Stock Name	Code	Short Sell	Turnover	Short Sell Ratio
TRACKER FUND	02800.HK	748.69M	1.60B	46.83%
CCB	00939.HK	634.14M	2.21B	28.75%
PING AN	02318.HK	466.61M	1.74B	26.76%
TENCENT	00700.HK	355.53M	3.71B	9.57%
ISHARES A50	02823.HK	346.16M	508.75M	68.04%
CSOP A50 ETF	02822.HK	291.72M	379.33M	76.91%
CAM CSI300	03188.HK	269.57M	409.30M	65.86%
ICBC	01398.HK	251.65M	1.88B	13.38%
AIA	01299.HK	224.91M	1.26B	17.91%
CM BANK	03968.HK	147.90M	1.84B	8.02%

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%

**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 KGIWORLD.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.