CREDIT SUISSE

Asian Daily (Asia Edition)

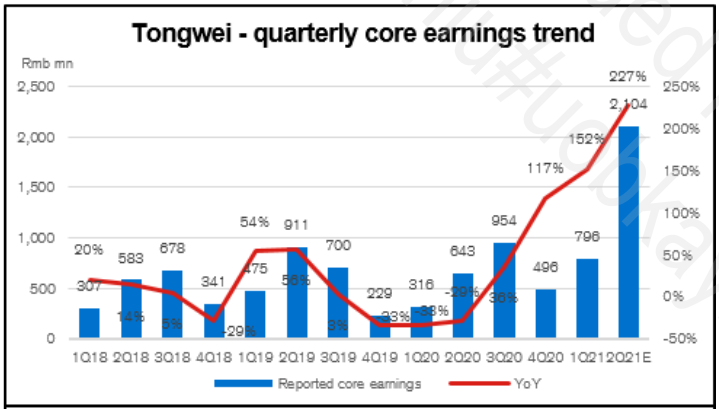
Tongwei, XPeng Inc, Korea Auto Sector

2 July 2021
Asia Equity Research

Top of the Pack

CS Pic of the Day

Tongwei: Positive 1H21 profit alert driven by polysilicon upcycle



Source: Company data

On June 30, Tongwei issued a positive profit alert, guiding 177-197% YoY growth in net profit in 1H21. The implication is that 2Q21 net profit may grow to reach Rmb2.0-2.1 bn, a rise of 193-208% YoY, given surging polysilicon price (spot price up 184% YoY to Rmb173/kg for mono-grade). We expect Tongwei to achieve ~Rmb150-160/kg blended polysilicon ASP in 1Q21, with sales volume largely flat YoY at >20kt. Net profit contribution from polysilicon could be around Rmb1.7 bn according to our calculation, contributing ~85% of total net profit in 2Q21.

Research by Markets

China

Indonesia

Philippines

Singapore

Thailand

Connecting clients to corporates

APAC Conference Calls

Honda Motorcycle & Scooter India - 2W market outlook – near and far; status check on trends like scooterization and premiumization; and Honda's views on Electrification
Date 02 July, 13:30 HKT
Info Please email Kaman Fung

Korea Company Insights - Semiconductor / Display Equipment Day - Hanmi Semi (042700.KS)
Date 15 July, 09:00 HKT
Info Please email Gisele Castelino

Korea Company Insights - Semiconductor / Display Equipment Day - Park Systems (140860.KS) (Korean-English translation)
Date 15 July, 13:00 HKT
Info Please email Chiyong Kwon

Korea Company Insights - Semiconductor / Display Equipment Day - Nextin (348210.KS) (Korean-English translation)
Date 15 July, 14:00 HKT
Info Please email Chiyong Kwon

Korea Company Insights - Semiconductor / Display Equipment Day - EO Technics (039030.KS) (Korean-English translation)
Date 15 July, 15:00 HKT
Info Please email Chiyong Kwon

Dial in/passcode will be given upon registration;
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Hong Kong: 800963117;
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US: 18554525696;
Australia: 1800153898;
India: 180030000542;
Japan: 120390774;
Philippines: 180016120166;
South Korea: 079861361602

Corporate Days / Conferences

Philippine Day – Finding Alpha 2 : Vaccines and mobility plays
Date 05 - 09 July
Info Virtual Event

India Consumer Day
Date 10- 12 August
Info Virtual Event

Indonesia Corporate Day
Date 11 - 13 August
Info Virtual Event

Taiwan Non-Tech Day
Date 16 - 18 August
Info Virtual Event

9th China Internet C-Level Virtual Conference
Date 30 August - 01 September
Info Hong Kong

6th Credit Suisse Japan Kyoto+ Conference
Date 01 - 03 September
Info Virtual Event

22nd Asian Technology Conference
Date 06 - 10 September
Info Taipei

2nd Japan New Economy Day
Date 28 - 30 September
Info Virtual Event

12th Annual China Investment Conference
Date 01 - 05 November
Info Shenzhen

Japan Corporate Day
Date 17 - 19 November
Info Virtual Event

Hong Kong / China (Non-deal roadshow)

China Gas Holdings (0384.HK)
Date 05 July, Hong Kong
Info Gary Zhou

Key Changes

	EPS		TP		
(% change)	T+1	T+2	Chg	Up/ Dn	Rating
DNL	25.9	18.2	35.6	26.8	O
Zhongsheng	5.4	7.0	7.9	26.9	O
Tower Bersama	0.1	0.1	0.0	(55.5)	N
Aoyuan	0.0	0.0	(20.0)	1.4	N
JCET	22.4	5.8	0.0	17.1	O
Tongwei	21.7	0.7	16.7	62.0	O
Times	0.0	0.0	(19.8)	4.7	N

Asian Indices - Performance

% change	Latest	1D %	1W %	3M %	YTD %
ASX300	7,261	(0.6)	(0.1)	6.5	10.4
CSEALL	7,729	(1.4)	(0.2)	7.4	14.1
Hang Seng	28,828	(0.6)	0.0	(0.4)	5.9
HS H-Share	10,663	(0.9)	(0.1)	(4.9)	(0.7)
HS Red Chip	3,992	(0.6)	(1.7)	(2.7)	5.1
JCI	6,006	0.3	(0.1)	(0.1)	0.4
KLSE	1,534	0.1	(1.4)	(3.2)	(5.7)
KOSPI	3,282	(0.4)	(0.1)	5.4	14.2
KSE100	47,821	1.0	(0.3)	7.9	9.3
NIFTY 50	15,722	0.0	(0.4)	5.7	12.4
NIKKEI	28,707	(0.3)	(0.6)	(3.8)	4.6
TOPIX	1,939	(0.2)	(0.4)	(1.6)	7.5
PCOMP	6,964	0.9	1.1	8.1	(2.5)
SET	1,595	0.4	0.6	(0.1)	10.0
STI	3,124	(0.2)	0.1	(1.8)	9.9
TWSE	17,714	(0.2)	1.8	6.9	20.2
VNINDEX	1,417	0.6	2.7	15.7	28.4

Source: Credit Suisse Rave

Global Indices

%change	Latest	1D %	1W %	3M %	YTD %
DJIA	34,503	0.6	1.9	4.1	12.7
S&P 500	4,298	0.1	1.3	6.9	14.4
NASDAQ	14,504	(0.2)	1.6	7.6	12.5
SOX	3,345	(0.1)	4.6	3.2	19.7
EU-STOX	3,529	0.5	(0.4)	5.8	13.5
FTSE	7,104	0.9	(0.1)	5.4	10.0
DAX	15,644	0.7	0.3	3.6	14.0
CAC-40	6,548	0.6	(1.3)	7.3	17.9
10 YR LB	1.471	0.2	(1.9)	(15.7)	61.4
2 YR LB	0.253	0.0	(6.3)	61.8	116.0
US$:E	1.184	(0.1)	(0.8)	0.7	(3.1)
US$:Y	111.2	0.0	0.3	0.4	7.7
GOLD	1,770	0.5	(0.5)	2.3	(6.7)
VIX	15.83	(1.2)	(3.0)	(8.7)	(30.4)

Source: Credit Suisse Rave

Asian currencies (vs US$)

% change	Latest	1D %	1W %	3M %	YTD %	Target 3M	Target 12M
A$	0.748	(0.3)	(1.4)	(1.7)	(2.8)	0.79	0.8
Bt	32.0	(0.1)	0.3	2.2	6.5	30.9	30.5
D	23,010	(0.0)	0.0	(0.3)	(0.3)	n.a.	n.a.
HK$	7.76	0.0	0.0	(0.1)	0.2	7.76	7.8
JPY	111.2	0.0	0.3	0.4	7.7	109.0	107.0
NT$	27.91	(0.0)	0.0	(2.2)	(0.6)	31.0	31.0
P	49.06	0.5	1.1	1.1	2.2	47.2	47.0
PRs	157.5	(0.4)	(0.2)	3.8	(1.4)	n.a.	n.a.
RM	4.15	0.1	(0.1)	0.4	3.3	4.08	4.05
Rmb	6.47	0.1	(0.1)	(1.5)	(0.9)	6.3	6.29
Rp	14,525	0.2	0.6	0.0	3.5	14,100	14,000
Rs	74.39	0.0	0.3	1.4	1.9	74.0	73.5
S$	1.35	0.1	0.2	0.0	1.9	1.31	1.29
W	1,133	0.2	0.2	0.4	4.5	1,090	1,080

Source: Credit Suisse Rave

Asian Indices

Index	EPS grth.(%)		P/E (x)		Performance		
	T+1	T+2	T+1	T+2	1D%	1M%	YTD%
Asia x Japan	37.0	12.4	16.4	14.6	(0.0)	(0.4)	5.5
Asia Pac x JP	38.3	11.4	16.6	14.9	(0.0)	(0.6)	5.8
Australia	28.9	14.4	20.0	17.5	(0.7)	1.2	10.8
China	16.3	18.5	17.1	14.5	(0.5)	(0.1)	1.1
Hong Kong	32.4	13.2	18.7	16.5	0.2	(2.0)	8.5
India	34.1	16.7	23.3	20.0	(0.2)	1.5	13.8
Indonesia	29.0	20.1	15.7	13.0	0.5	(5.2)	(10.9)
Japan	20.0	11.6	16.7	14.9	(0.3)	1.1	7.9
Korea	98.0	5.5	12.1	11.5	0.3	2.6	9.5
Malaysia	110.6	(7.4)	12.5	13.5	(1.0)	(3.5)	(7.6)
Pakistan	26.1	27.0	7.9	6.2	0.3	(7.2)	(12.2)
Philippines	51.5	27.4	20.7	16.3	(0.9)	4.4	(2.9)
Singapore	44.7	14.1	15.0	13.2	1.4	(0.9)	9.6
Taiwan	40.8	3.6	16.5	16.0	0.6	1.3	17.3
Thailand	58.8	15.0	20.0	17.4	(0.4)	(0.8)	4.5

Source: Credit Suisse Rave

Asian Daily

1 July 2021

Tongwei (600438.SS)

Positive 1H21 profit alert driven by polysilicon upcycle

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (Rmb): 70.00

Previous target price (Rmb): 60.00

- On June 30, Tongwei issued a positive profit alert, guiding 177-197% YoY growth in net profit in 1H21. The implication is that 2Q21 net profit may reach Rmb2.0-2.1 bn, a strong rise of 193-208% YoY, given the surge in polysilicon price (we estimate poly to present ~85% of total net profit).
- At the same time, the company also announced a 100kt (Phase I) polysilicon capacity expansion in Leshan, Sichuan, which is targeted to be completed before end-2022. Tongwei is a leader in the current round of polysilicon industry capacity expansion, and we estimate it to achieve 92%/62% YoY volume growth in FY22/23. The total polysilicon capacity of Tongwei may reach 330-380kt by end-2023 (vs the current 80kt), representing 25-30% of the global market share.
- Polysilicon price has risen by 275% YTD on supply shortage. Despite recent downstream price weakness in wafer/cell/module, polysilicon stayed resilient at ~Rmb210/kg (vs Rmb173/kg), suggesting further earnings upside for polysilicon companies in 2H21.
- We revised up FY21-23E EPS by 1-22% as we mark to market higher-than-expected poly price YTD and higher FY23 volume, with DCF-based TP increased to Rmb70 (from Rmb60). We also expect positive readthrough for other polysilicon names (Daqo and TBEA).

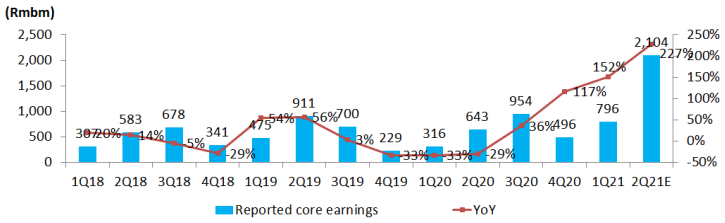
Price (30-Jun-21, Rmb)	**43.27**	Est. pot. % chg. to TP			61.8
Mkt cap (Rmb/US$ mn)	194,782 / 30,168	Blue sky scenario (Rmb)			105.0
Number of shares (mn)	4,502	Grey sky scenario (Rmb)			35.0
Free float (%)	56.5	**Performance**	**1M**	**3M**	**12M**
52-wk range (Rmb)	54.09 - 19.01	Absolute (%)	7.8	30.7	149.0
ADTO-6M (US$ mn)	622.0	Relative (%)	9.8	28.5	123.5

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	44,200.3	53,550.3	69,511.5	82,496.1
EBITDA (Rmb mn)	6,127.0	12,289.8	14,288.3	16,485.6
EBIT (Rmb mn)	3,795.9	9,135.1	10,353.2	11,743.9
Net profit (Rmb mn)	3,593.1	7,157.0	8,048.1	9,153.3
EPS (CS adj.) (Rmb)	0.86	1.67	1.88	2.13
Chg. from prev. EPS (%)	n.a.	21.7	0.7	4.6
Consensus EPS (Rmb)	n.a.	1.32	1.7	1.98
EPS growth (%)	26.5	94.5	12.5	13.7
P/E (x)	50.4	25.9	23.1	20.3
Dividend yield (%)	0.6	1.2	1.3	1.5
EV/EBITDA (x)	32.7	16.8	14.4	12.7
P/B (x)	5.93	5.22	4.51	3.9
ROE (%)	14.9	21.7	21.0	20.6
Net debt/equity (%)	16.9	31.9	24.8	29.1

Source: Company data, Refinitiv, Credit Suisse estimates

Positive 1H21 profit alert. On June 30, Tongwei issued a positive profit alert, guiding 177-197% YoY growth in net profit to Rmb28-30 bn in 1H21. The implication is that 2Q21 net profit may grow to reach Rmb2.0-2.1 bn, a rise of 193-208% YoY, given surging polysilicon price (spot price up 184% YoY to Rmb173/kg for mono-grade). We expect Tongwei to achieve ~Rmb150-160/kg blended polysilicon ASP in 1Q21, with sales volume largely flat YoY at >20kt. Net profit contribution from polysilicon could be around Rmb1.7 bn according to our calculation, contributing ~85% of total net profit in 2Q21. Cell business could be close to breakeven or a small profit, due to depressed cell margin as a result of industry oversupply. Animal feeds business could contribute Rmb0.2-0.3 bn net profit on seasonality (profits mainly in 2Q and 3Q every year).

Figure 1: Tongwei - quarterly core earnings trend

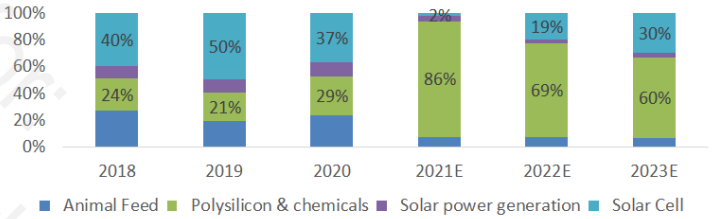


Source: Company data

Further polysilicon capacity expansion. At the same time, the company also announced further polysilicon capacity expansion in Leshan, Sichuan, where it currently has 50kt operating capacity and another 50kt under construction (to be commissioned before end-2021). The new expansion is planned at 200kt in total, with Phase I planned at 100kt. Phase I is targeted to be completed before end-2022, and we expect volume contribution is likely to start in 1H23. The planned capex for Phase I is Rmb7 bn.

Tongwei is a leader in the current round of polysilicon industry capacity expansion, and we estimate it to deliver 92%/62% YoY volume growth in FY22/23. The total polysilicon capacity of Tongwei may reach 330-380kt by end-2023 (vs the current 80kt), representing a 25-30% global market share.

Figure 2: Tongwei - net profit breakdown



Source: Credit Suisse estimates, Company data

Valuation. We revised up FY21-23E EPS by 1-22% as we mark to market higher-than-expected poly price YTD and factor in higher FY23 volume, with DCF-based TP revised to Rmb70 (from Rmb60). We expect Tongwei's profit alert may have positive readthrough for other polysilicon names (Daqo and TBEA) as well.

Figure 3: Solar sector - valuation comparison

Company	Ticker	Rat.	mkt cap (US$m)	TP	P/E 21E	P/E 22E	P/B 21E	P/B 22E	D/Y 21E	D/Y 22E	ROE 21E	ROE 22E	EPS CAGR 21-23E
Tongwei	600438.SS	O	30,168	70.0	25.9	23.1	5.2	4.5	1.2	1.3	21.7	21.0	35.5
Daqo	DQ	O	4,780	178.0	7.9	6.9	3.4	2.4	0.0	2.2	54.2	40.7	72.8
TBEA	600089.SS	O	7,392	14.5	13.0	12.7	1.2	1.1	3.1	3.1	9.5	9.2	15.2
LONGi	601012.SS	O	74,480	92.9	41.7	30.1	10.4	8.0	0.3	0.4	28.0	30.0	29.8
Xinyi Solar	0968.HK	O	19,020	19.0	27.6	20.6	5.0	4.5	1.7	2.3	19.2	23.0	28.4
Jinko Solar	JKS	O	2,506	61.0	14.6	10.4	1.5	1.3	0.0	0.0	13.0	13.6	25.9
GCL-Poly	3800.HK	N	6,391	2.2	13.7	13.1	1.3	1.2	0.0	0.0	11.0	9.7	n.a.

Source: Credit Suisse estimates, Company data

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Asian Daily

1 July 2021

XPeng Inc (XPEV.N)

June delivery number hit record high at 6,565 units - up 617% YoY / 15% MoM

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (US$): 70.00

Previous target price (US$): 70.00

- Above market expectation, Xpeng's June delivery volume hit a record high at 6,565 units (4,730 units P7 and 1,835s unit G3), up 617% YoY and 15% MoM despite the negative impact from sector-wide chip supply shortage and the Covid-19 outbreak in Guangdong province which contributed 28% to Xpeng's sales volume in YTD21.
- We highlight P7 large-size sedan deliveries continued record-breaking growth in June—up 25% MoM to 4,730 units, owing to: (1) the start of the lower-price-level LFP battery powered P7 sedan deliveries since May and (2) its Navigation Guided Pilot (NGP) highway solutions appealing to China's tech-savvy consumers.
- Overall, 2Q21 delivery also hit record high at 17,398 units (up 439% YoY / 30% QoQ), well above the company's guidance of 15.5k-16k units. Management guided to double-digit gross margin in 2Q21 due to: (1) further battery price reduction; (2) introducing higher-margin LFP battery products; (3) rising XPilot 3.0 software take rate; and (4) lower per-unit fixed cost on the back of 25% QoQ volume increase.
- Xpeng plans to launch the facelift G3i SUV in July (delivery in Sep) and P5 family-friendly smart sedan in 3Q21 (delivery in 4Q21).

Price (30-Jun-21, US$)	**44.42**	Est. pot. % chg. to TP			57.6
Mkt cap (US$ mn)	35,646	Blue sky scenario (US$)			100.0
Number of shares (mn)	802.47	Grey sky scenario (US$)			15.0
Free float (%)	15.6	**Performance**	**1M**	**3M**	**12M**
52-wk range (US$)	72.17 - 17.45	Absolute (%)	38.3	20.2	-
ADTO-6M (US$ mn)	164.3	Relative (%)	38.5	21.3	-

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	5,844.3	13,577.0	31,479.0	48,779.0
EBITDA (Rmb mn)	(3,942.6)	(4,067.8)	(1,708.5)	545.5
EBIT (Rmb mn)	(4,380.6)	(4,494.9)	(2,293.2)	(196.8)
Net profit (Rmb mn)	(2,732.0)	(3,103.3)	(1,144.2)	731.3
EPS (CS adj.) (Rmb)	(3.62)	(2.0)	(0.74)	0.47
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	(4.75)	(3.06)	(1.4)
EPS growth (%)	n.m.	n.m.	n.m.	n.m.
P/E (x)	n.m.	n.m.	n.m.	608.6
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	n.m.	n.m.	n.m.	382.2
P/B (x)	6.29	14.21	14.75	14.4
ROE (%)	(19.8)	(9.4)	(3.7)	2.4
Net debt/equity (%)	(86.3)	(70.7)	(68.7)	(71.1)

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 1: Xpeng G3i facelift SUV

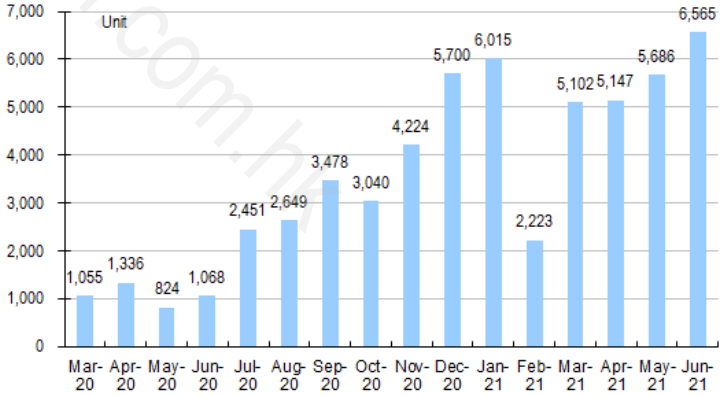
Source: Company data

Figure 2: Xpeng's P5 sedan

Source: Company data

The P5 mid-size sedan is expected to be the world's first mass-produced Smart EV equipped with auto-grade LiDAR technology. With 4,808 mm length and 2,768 mm wheelbase, this sedan is XPeng's latest effort to penetrate the mid-range price pure electric sedan segment (Rmb150k-250k), and P5 will compete with AION S, BYD Qin plus, Roewe ER6, as well as the upcoming Tesla Model 2. The implementation of two 'HAP' double-prism scanning Lidars in the vehicle should enhance the perception capability of the XPILOT architecture—XPeng's autonomous driving system. In other words, these Lidars can cover some complicated scenarios such as pedestrian, scooters, alternating light in tunnels and construction sites. Thus, P5's XPILOT 3.5 NGP will cover not only highways, but also city roads. The P5 sedan should start collecting orders in 3Q21 and start delivery in early 4Q21. We estimate P5 will sell 12k units in 2021, and 60k units in 2022 (average 5k units monthly).

Figure 3: Xpeng's monthly delivery trend



Source: Company data

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Asian Daily

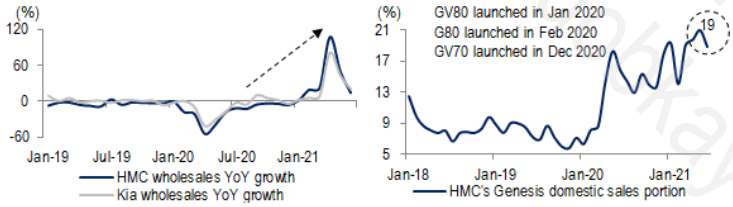
1 July 2021

Korea Auto Sector

Production recovery and better sales mix remain intact

- Despite chip shortages, which led production disruption, Korean automakers' June sales were up 15% YoY (to 658k units) with the Covid-19 low base (-19% YoY in Jun-2020); Hyundai Motor (HMC) and Kia's YoY sales were up 14%/20% respectively.
- HMC's domestic sales were down 18% YoY with chip shortage and the high base (+37% YoY in June/2020), yet new products remain solid including 'GV70' and 'Staria' (4k units each) with Genesis sales portion of 19% (up 3.0pp YoY). Overseas sales were up 26% YoY with export recovery and overseas plants' Covid-19 low base.
- Kia's domestic sales were down 18% YoY with chip shortage and the high base (+42% YoY in June/2020). Carnival (+104% YoY), Sorento, and K8 accounted 37% (+2.8 pp YoY) of domestic sales which reflects a better product mix. Overseas sales were up 35% YoY with export recovery and overseas plants' Covid-19 low base.
- OEMs expect gradual recovery of chip shortages from July. We remain positive on OEMs over parts makers as OEMs can improve product mix by prioritising chip allocation to more popular and profitable models while reducing incentive spending. HMC and Kia remain our top picks. Maintain sector Overweight.

Figure 1: HMC and Kia continue to show solid YoY growth recovery with Genesis sales portion at 19%



Source: Company data, Credit Suisse

Production recovery and better sales mix remain intact

(1) HMC's domestic sales were down 18% YoY with chip shortage and the high base (+37% YoY in Jun-2020), yet new products remain solid including 'GV70' and 'Staria' (4k units each) with Genesis sales portion of 19% (up 3.0 pp YoY). Overseas sales were up 26% YoY with export recovery and overseas plants' Covid-19 low base.

(2) Kia's domestic sales were down 18% YoY with chip shortage and the high base (+42% YoY in Jun-2020). Carnival (+104% YoY), Sorento, and K8 accounted 37% (+2.8 pp YoY) of domestic sales which reflects a better product mix. Overseas sales were up 35% YoY with export recovery and overseas plants' Covid-19 low base.

(3) Considering that HMC's/Kia's major new models are manufactured in Korea, their export sales and product mix improvement to overseas should lead to a sequential sales and earnings recovery in 2Q21 and after.

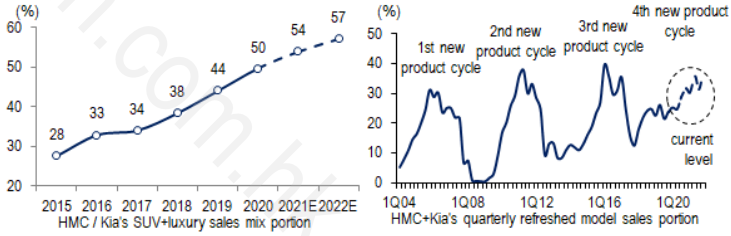
Figure 2: Korean automakers June sales result

(Units, %)		2021.06	2020.06	YoY	2021.05	MoM	2021.1-6	2020.1-6	YoY
Domestic	HMC	68,407	83,700	-18	62,056	10	386,095	384,613	0
(a)	Kia	49,280	60,005	-18	47,901	3	278,384	278,287	0
	Ssangyong	5,724	9,746	-41	4,956	15	26,625	40,855	-35
	GM Korea	5,740	9,349	-39	4,597	25	33,160	41,092	-19
	Renault Samsung	5,610	13,668	-59	4,635	21	28,840	55,242	-48
	Subtotal	134,761	176,468	-24	124,145	9	753,104	800,089	-6
Overseas	HMC	286,002	226,127	26	263,494	9	1,642,879	1,222,727	34
(b)	Kia	204,312	150,890	35	198,867	3	1,165,253	886,448	31
	Ssangyong	2,750	435	532	3,794	-28	13,509	8,532	58
	GM Korea	21,136	16,634	27	11,831	79	121,623	124,946	-3
	Renault Samsung	8,556	592	1,345	5,713	50	27,086	12,424	118
	Subtotal	522,756	394,678	32	483,699	8	2,970,350	2,255,077	32
Total	HMC	354,409	309,827	14	325,550	9	2,028,974	1,607,340	26
CBU	Kia	253,592	210,895	20	246,768	3	1,443,637	1,164,735	24
(a)+ (b)	Ssangyong	8,474	10,181	-17	8,750	-3	40,134	49,387	-19
	GM Korea	26,876	25,983	3	16,428	64	154,783	166,038	-7
	Renault Samsung	14,166	14,260	-1	10,348	37	55,926	67,666	-17
	Total	657,517	571,146	15	607,844	8	3,723,454	3,055,166	22
	HMC sales	354,409	309,827	14	325,550	9	2,028,974	1,607,340	26
	Kia sales	253,592	210,895	20	246,768	3	1,443,637	1,164,735	24

Source: Company data, Credit Suisse

Also, with E-GMP, we believe HMC's and Kia's successful profitability turnaround in EV will be the next catalyst. Chip shortage is an ongoing concern for the sector, yet both OEMs guided MoM recovery in July, indicating bottoming out signals. As OEMs have begun to allocate chips to more popular/profitable models, overall product mix may improve further, which can minimise impact along with reducing incentive spending. HMC and Kia remain our sector top-picks; we prefer Mobis among auto parts.

Figure 3: With rising SUV and luxury sales mix, HMG's new product sales portion will further rise in 2021E...



Source: Company data, Credit Suisse estimates

Valuation metrics

Company	Ticker	Rating	Price	Target	TP chg	Up/dn to TP	Year	EPS Chg(%)		EPS		EPS grth (%)		P/E (x)		DY (%)	P/B (x)	Scenario	
		(prev.)	Local	price (prev.)	(%)	(%)	T	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+1	Blue sky	Grey sky
HMC	005380.KS	O	242,000	300,000	0.0	24.0	12/20	0.0	0.0	23,873	25,307	364.1	6.0	10.1	9.6	1.7	0.9	340,000	200,000
Kia	000270.KS	O	90,500	120,000	0.0	32.6	12/20	0.0	0.0	10,048	10,720	173.8	6.7	9.0	8.4	1.2	1.1	142,000	71,000

Source: Refinitiv, Credit Suisse estimates

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1 July 2021

China Property Sector

Leading developers' sales declined by 4% YoY in Jun-2021

- The contracted sales of leading developers tracked by us declined by 4% YoY in Jun-2021 (source: CRIC), due to: (1) a high base and (2) a more balanced launching schedule so far in 2021. Sales growth of Sunac, Logan, KWG and CRL outperformed in Jun-2021. As such, the developers have achieved 48% of full-year targets on average, which was slightly ahead of schedule.
- Momentum in land sales moderated in Jun-2021 (i.e., largely flattish YoY) as the first batch of land supply largely came to an end. Momentum in tier-1 cities outperformed with land sales up 51% YoY, whereas tier-3 cities recorded a decline of 22% YoY.
- Policy environment remained largely stringent and the regulators are reported to include developers' issuance of commercial papers into the monthly monitor system. Regulators' tone in the upcoming Politburo meeting will likely be the focus of investors.
- Recent share price weakness has further widened the sector's NAV discount to 51% or 1.2 SD below the historical average. On the lack of positive catalysts, we see better risk-reward profile for CRL, Longfor, Sunac and COGO.

Leading developers' sales declined by 4% YoY in Jun-2021. According to CRIC preliminary data, the contracted sales of leading developers tracked by us declined by 4% YoY in Jun-2021. The decline was mainly due to: (1) a high comparison base and (2) a more balanced launching schedule so far in 2021. Among our covered names, Sunac, Logan, KWG and CRL performed the best with their sales up by 45%/37%/28%/22% YoY, respectively. In contrast, the contracted sales of Jinmao, Yuexiu and Poly-A recorded the largest sales declines in Jun-2021 (i.e., -47%/-34%/-25% YoY). Looking into 3Q21, we expect the sales growth to accelerate in Jul/Aug with a softer base.

Target achievement ratio in 1H21 ahead of schedule. The companies tracked by us have completed 48% of their full-year sales target on average in 1H21, which was slightly ahead of the schedule for them to achieve a full-year growth of 12% YoY. In particular, Logan outperformed with the target achievement ratio at 61%. Jinmao, CRL and CIFI have also completed over 50% of their original sales target in 1H21. On the other hand, Times China, Yuexiu, Sino-Ocean and R&F lagged behind their peers with target completion of below 45%.

Sentiment in top-tier cities remained resilient. The sell-through rate for 10 major cities further strengthened to 77% in Jun-2021, which was higher than the level in 2019/20, while below that in 2018. It seems the sentiment in physical housing market in the top-tier cities remained resilient despite the policy tightening. According to our high-frequency data, the sales volume in major cities we track increased by 19% YoY during the first four weeks of Jun-2021. Across different cities, sales volume increased by 35%/25% YoY in tier-1/2 cities but declined by 13% YoY in lower-tier cities.

More divergent performance in land market. According to CREIS, momentum in the land market moderated in Jun-2021, with total land sales value in 300 cities remaining flattish and the overall land premium rate lowering to 13% (vs 17% in May-2021). On the other hand, performance across different cities turned more divergent, with sentiment in top-tier cities outperforming that of lower-tier cities. In particular, land sales value increased by 51%/7% YoY in tier-1/2 cities. In comparison, lower-tier cities saw a decline of 22% YoY in their land sales value in Jun-2021. Regarding the land premium rate, it moderated to 13% in Jun-2021 (vs. 17% in May-2021). Looking forward, developers expect to reap more upside from the 2nd/3rd batches of 'two concentration' land supply in major cities and expect the competition to turn milder amid the launch of more land parcels.

Policy tone remained stringent. The policy tone towards the property sector remained stringent. It is reported that PBoC plans to include developers' issuance of commercial papers in its monthly monitoring system after more news flows on the default cases on the repayment of commercial papers. Regulators' tone in the upcoming Politburo meeting will likely be the focus of investors.

Valuation turned more attractive; limited positive catalysts in the short term. Recent share price weakness has further widened the sector's NAV discount to 51%, which was equivalent to 1.2 SD below the historical average. Looking into the interim results, the acceleration in booking is expected to offset the adverse impact of continued margin squeeze and drive the earnings growth. Nevertheless, the policy concern will likely continue. Hence, we see better profile for CRL, Longfor, Sunac and COGO.

Figure 1: Sales of leading developers in Jun-2021

	Monthly sales (Rmb bn)			YoY chg (Monthly)			MoM chg (Monthly)		Target hit
	Jun-21	May-21	Apr-21	Jun-21	May-21	Apr-21	Jun-21	May-21	6M21
Poly Prop	10.4	5.2	5.5	79%	0%	67%	100%	-5%	52%
Sunac	79.3	70.8	54.7	45%	57%	62%	12%	29%	46%
Logan	12.5	11.6	11.0	37%	0%	12%	8%	5%	61%
KWG	10.3	11.3	12.9	28%	23%	98%	-9%	-13%	45%
CRL	38.7	25.1	33.2	22%	18%	76%	54%	-24%	52%
Midea	13.5	16.1	13.9	15%	30%	58%	-16%	16%	55%
Sino-Ocean	11.5	10.3	9.5	14%	25%	18%	11%	8%	35%
Longfor	30.8	29.5	22.1	7%	33%	0%	4%	33%	46%
CIFI	26.1	26.9	26.5	4%	33%	104%	-3%	2%	51%
China SCE	12.4	10.5	10.1	4%	15%	66%	18%	3%	49%
Shimao	31.0	29.1	25.2	3%	32%	19%	7%	15%	46%
Powerlong	10.5	9.4	8.5	2%	28%	46%	12%	10%	51%
Times China	8.1	9.0	8.0	2%	20%	72%	-10%	12%	41%
Gemdale Co	34.0	28.5	31.7	1%	25%	89%	19%	-10%	N/A
Agile	14.4	10.1	11.3	-3%	-27%	6%	43%	-11%	50%
Seazen	24.5	24.2	20.8	-6%	8%	15%	1%	17%	46%
Vanke	67.6	57.6	49.8	-8%	-6%	4%	17%	16%	45%
Evergrande	69.4	63.9	68.1	-9%	6%	4%	9%	-6%	47%
Yuzhou	11.0	10.4	9.2	-9%	-4%	-4%	6%	12%	48%
CG	72.3	80.5	76.0	-11%	1%	10%	-10%	6%	N/A
Aoyuan	15.0	11.5	11.1	-15%	12%	27%	30%	4%	45%
R&F	12.3	12.2	9.7	-15%	15%	5%	1%	26%	43%
COLI	48.4	34.3	31.7	-16%	28%	14%	41%	8%	50%
Ronshine	14.9	13.9	14.4	-24%	9%	49%	6%	-3%	52%
Poly RE	51.5	59.4	51.2	-25%	26%	36%	-13%	16%	N/A
Yuexiu Prop	7.7	8.1	7.8	-34%	-28%	42%	-5%	4%	43%
Jinmao	20.0	23.3	24.0	-47%	16%	26%	-14%	-3%	52%
Total / avg	**758.0**	**702.5**	**658.0**	**-4%**	**15%**	**27%**	**8%**	**7%**	**48%**

Source: CRIC, Company data, Credit Suisse

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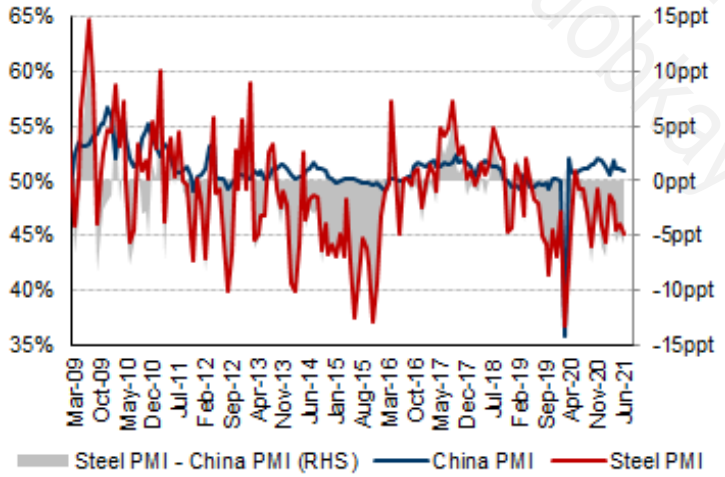
1 July 2021

China Steel Sector

June steel PMI remains weak amid slow season impact

- June steel PMI further edged down. China steel PMI dips by 1.0 pp to 45.1%, driven by less favourable supply-demand dynamic in slow season. Demand eased, with new orders PMI down 4.6 pp MoM to 34.8%. Despite down by 0.7 pp MoM, production PMI remains in expansion at 50.7%. Inventory trends up due to soft demand (inventory PMI: +3.7 pp MoM to 47.1%). Exports PMI stays below 45% for two consecutive months, may be dragged by tax rebate cut.
- Upside risks on steel prices in 2H21, after short-term fluctuation in slow demand season. In 2H21, we expect the govt's intention to rein in total production to continue, which is expected to further put downside pressure on total supply. Supported by resilient demand (construction and manufacturing), we are positive on steel price in 2H21.
- Margins to trend up from current break even level. Policy headwinds brought down steel price by ~20% from the historical high level in mid-May. However, iron ore and coke prices kept hovering at relative high. This shrank steel mills' margin to current breakeven level. As our global team expects iron price to turn soft in 2H21, we expect margins back to healthy amid positive outlook on steel price.
- Reiterate OUTPERFORM ratings on Baosteel and Angang (H).

Figure 1: June-21 China steel PMI dipped by 1.0 pp MoM



Source: CSLPC, Wind, Credit Suisse

June steel PMI further edged down

China June steel PMI remains in the contraction zone (<50%), dipping further by 1.0 pp to 45.1%. We believe this was driven by less favourable supply-demand dynamics in a slow demand season. The revisit of the pandemic in some provinces in June also put downside pressure on steel demand. New orders PMI was down 4.6 pp MoM to 34.8%. According to CSLPC, the Shanghai daily rebar volume purchase was down by 13% MoM. Overseas demand also turned soft. We believe this was mainly due to the tax rebate cut which slowed down the exports. Exports PMI stayed below 45% for two consecutive months and arrived at 42.3% in June.

Steel production remains at a relatively high level. Despite being down by 0.7 pp MoM, production PMI remains in the expansion zone (>50%) at 50.7%. Inventory trends up due to soft demand (inventory PMI: +3.7 pp MoM to 47.1%).

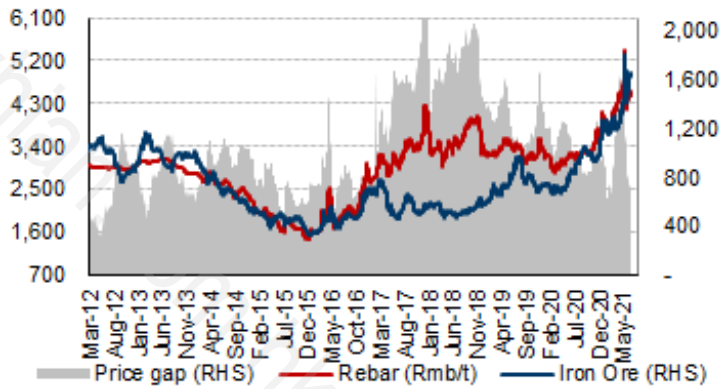
Upside risks on steel prices in 2H21, after short-term fluctuation in slow demand season

In 2H21, we expect the govt's intention to rein in total production to continue, which is expected to put further downside pressure on total supply. According to Mysteel, on 29 June, Anhui province held a meeting talking about the production cut in 2H21, to require the full year output no more than that of 2020. Anhui produced 36.97 mt crude steel in 2020. By 5M21, total production was at 17.58 mt. If the requirement of flattish production this year to be strictly implemented, Anhui should cut ~3.5 mt during July-Dec, with daily reduction at 19 kt/day.

Margins to trend up from current break even level

Policy headwinds bring down steel price by ~20% from the historical high level in mid-May, with iron ore and coke prices hovering at relative high. According to our calculation, as of 29 June, iron ore price was still hovering above US$200/t.

Figure 2: Steel mills' margins at break even level currently



Source: Mysteel, Wind, CEIC, Credit Suisse

Valuation metrics

Company	Ticker	Rating (prev.)	Price Local	Target price (prev.)	TP chg (%)	Up/dn to TP (%)	Year T	EPS Chg(%) T+1	EPS Chg(%) T+2	EPS T+1	EPS T+2	EPS grth (%) T+1	EPS grth (%) T+2	P/E (x) T+1	P/E (x) T+2	DY (%) T+1	P/B (x) T+1	Scenario Blue sky	Scenario Grey sky
Baosteel	600019.SS	O	7.73	10.0	0.0	29.4	12/20	0.0	0.0	0.83	0.85	46.0	2.7	9.3	9.1	5.9	0.9	13.5	5.0
Angang (H)	0347.HK	O	4.92	6.0	0.0	22.0	12/20	0.0	0.0	0.85	0.83	304.4	(2.5)	4.8	4.9	4.2	0.6	8.0	1.0
Magang (H)	0323.HK	N	3.37	3.8	0.0	12.8	12/20	0.0	0.0	0.58	0.57	127.0	(2.2)	4.8	4.9	10.5	0.7	6.0	1.0

Source: Refinitiv, Credit Suisse estimates

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1 July 2021

China Aoyuan Group Limited (3883.HK)

Progress in urban redevelopment is the key for sales growth

Maintain NEUTRAL

Previous Rating: NEUTRAL

Target price (HK$): 6.64

Previous target price (HK$): 8.30

- According to CRIC preliminary data, Aoyuan's contracted sales increased by 33% YoY to Rmb68 bn in 6M21 (or +26% YoY from 6M19), representing 45% of its 2021 sales target of Rmb150 bn (i.e., +13% YoY). Management is confident of completing its original target along with more saleable resources to be launched in 2H21.
- Aoyuan's shorter land bank duration (i.e., 2.5 years) implies higher pressure for land replenishment. Given the fierce competition in the land market, its progress in urban redevelopment plays a crucial role for sales growth. Management expects to release total saleable resources of Rmb40 bn in 2021 from the urban redevelopment project. In 1H21, it has completed one project with saleable value of Rmb3.5 bn.
- Positioned in the "Yellow Group" at the end of 2020, the company is focussing more on de-leveraging. Indeed, management guided to trim its total debt by 5% p.a. over the next three years.
- While the company has been well on track to achieve its full-year sales growth of 13%, we think its tighter land bank would make its medium-term sales growth rate more vulnerable to policy headwinds. We widen our assigned NAV discount to 60% to reflect the policy risk and tight control on liquidity. Maintain NEUTRAL at new TP of HK$6.64.

Price (30-Jun-21, HK$)	**6.55**	Est. pot. % chg. to TP			1.4
Mkt cap (HK$/US$ mn)	17,658 / 2,274	Blue sky scenario (HK$)			9.96
Number of shares (mn)	2,696	Grey sky scenario (HK$)			4.98
Free float (%)	44.3	**Performance**	**1M**	**3M**	**12M**
52-wk range (HK$)	11.55 - 6.55	Absolute (%)	(27.1)	(19.5)	(29.1)
ADTO-6M (US$ mn)	8.7	Relative (%)	(27.2)	(18.9)	(55.4)

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	67,793.8	84,176.8	96,653.5	108,836
EBITDA (Rmb mn)	11,715.1	14,275.6	16,514.9	18,645.6
EBIT (Rmb mn)	11,147.8	14,102.4	16,255.2	18,274.7
Net attributable profit (Rmb mn)	3,241.8	5,524.9	6,178.2	6,809.2
EPS (CS adj.) (Rmb)	1.2	2.04	2.29	2.52
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	2.43	2.9	3.23
EPS growth (%)	(17.1)	70.3	11.8	10.2
P/E (x)	4.5	2.7	2.4	2.2
Dividend yield (%)	14.1	15.0	16.0	17.1
EV/EBITDA (x)	5.1	4.4	3.9	3.2
ROE (%)	19.3	27.3	25.8	24.1
Net debt/equity (%)	82.7	80.8	76.2	62.8
NAV per share (Rmb)	16.17	13.83	-	-
Disc./(prem.) to NAV (%)	66.3	60.6	-	-

Source: Company data, Refinitiv, Credit Suisse estimates

Sales target hit rate amounted to 45% in 6M21. The contracted sales of Aoyuan increased by 33% YoY to Rmb68 bn in 6M21. Excluding the impact of COVID-19, its sales were still 26% higher than that in 6M19. The company has completed 45% of its full-year sales target of Rmb150 bn (i.e., +13% YoY) in 6M21, slightly lower than the average level of 48% for our tracked names. Looking into 2H21, management expects its sales performance to improve amid the launch of more new saleable resources.

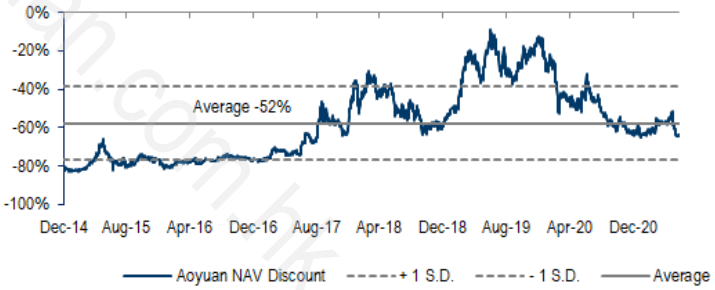
Urban redevelopment is the key for addressing its tight landb ank constraints. The company's land bank of 2.5 years is shorter than the sector's average level of 2.8 years. Indeed, its saleable resources are expected to stay tight given the de-leveraging pressure. Therefore, its progress for urban redevelopment plays a more crucial role for management to drive its sales growth. The company has just completed the transition of urban redevelopment projects with total saleable resources of Rmb38 bn in 2020. Looking forward, management expects its urban redevelopment projects to release saleable resources of Rmb40/52/68 bn in 2021/22/23E. In 1H21, it has completed the conversion for part of its Cuiwei project in Zhuhai with estimated saleable value of Rmb3.5 bn.

Focussing on de-leveraging. The company was positioned in the "Yellow Group" as at end of 2020 with its adjusted liability/asset ratio exceeding the regulator's cap (i.e., 79% as at end of 2020). Looking forward, management guided to focus more on de-leveraging and to trim its total debt by 5% p.a. over the next three years. Also, the company target to control its land purchase budget within 25% of its contracted sales value. To recap, it was quite conservative in land replenishment in 1Q21 and acquired only three projects with an attributable cost of Rmb1.9 bn.

More improvement in margin and delivery is required for a rerating. The company has accumulated unrecognised sales of Rmb156 bn as at end of 2020 (consol level). While this represented 194% of our estimated revenue for development property in FY21E, its ratio of unrecognised sales/advance from customers on balance sheet was only 0.44x (vs. sector average of 0.7x). This is to inevitably impair its revenue growth visibility. Meanwhile, we take a more conservative view about its gross margin given its higher exposure into lower-tier cities with lower affordability. To recap, the company's gross margin moderated by 4.6 pp YoY to 25.1% in FY20.

Maintain NEUTRAL. The stock is trading at 61% NAV discount. While the company has been well on track to achieve its full-year sales growth of 13%, we think its tighter land bank would make its medium term sales growth rate more vulnerable to the policy headwinds. We widen our assigned NAV discount by 10 pp to 60% to reflect the rising policy risk and tightening control on liquidity. We thus derive our new TP of HK$6.64.

Figure 1: The stock is trading at 61% NAV discount



Source: the BLOOMBERG PROFESSIONAL™ service, Company data, Credit Suisse estimates

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Asian Daily

1 July 2021

JCET (600584.SS)

2Q profit alert beat; record high quarterly earnings

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (Rmb): 44.00

Previous target price (Rmb): 44.00

- 2Q profit alert beat. 2Q NI is guided to grow 284% YoY to Rmb894 mn. Excluding non-recurring items, 2Q NI would grow 197% to Rmb562 mn, a record high quarterly earnings since 2003. 2Q NI excluding non-recurring items is 43%/32% above CSe/ consensus.
- The strong 2Q earnings are due to: (1) revenue growth with domestic and overseas customers; and (2) improved profitability with favourable product mix, better pricing and cost/opex control. Additionally, JCET disposed of its stake in SJ Semiconductor and recorded a disposal gain of Rmb286 mn.
- We expect JCET to continue high loading into 3Q-4Q, with demands across SiP (system-in-package), mmWave, RF, CIS, mobile and non-mobile applications.
- We raise 2021-23 earnings by 22%/6%/4%, mainly for better GM/ opex and also the SJ Semi disposal gain. Maintain OUTPERFORM with target price of Rmb44 (unchanged), based on 3.8x (from 3.9x) and 2021E BPS.

JCET issued a 1H21 profit alert on 1 July after market close.

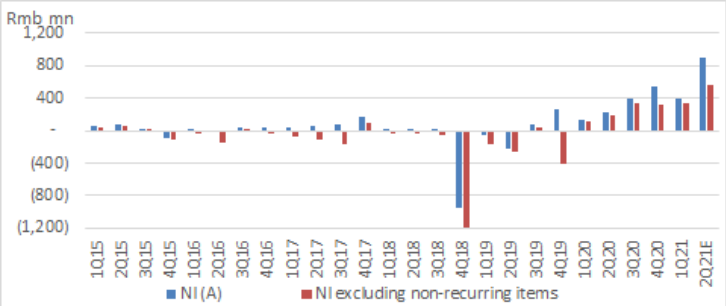
Figure 1: 2Q profit alert review

				2Q21		Var %		2021E		1H21 % of 2021	
Rmb mn	2Q profit alert	QoQ	YoY	CSe	Consensus	CSe	Consensus	CSe	Consensus	CSe	Consensus
1Q21 NI	894	131%	284%	393	425	127%	110%	1,835	1,868	70%	69%
1Q21 NI excluding non-recurring items	562	61%	197%			43%	32%			50%	49%

Source: Company data, Refinitiv Datastream, Credit Suisse estimates

For both NI to parent company's shareholders and NI excluding non-recurring items, 2Q21 recorded the highest NI since 2003. Besides growing business with domestic and overseas customers, the strong earnings are also as a result of better product mix, price hike, and cost/ opex control.

Figure 2: 2Q21 marks the highest quarter earnings since 2003



Source: Company data, Credit Suisse estimates

Price (01-Jul-21, Rmb)	**37.59**	Est. pot. % chg. to TP	17.1
Mkt cap (Rmb/US$ mn)	66,893 / 10,347	Blue sky scenario (Rmb)	48.6
Number of shares (mn)	1,780	Grey sky scenario (Rmb)	30.9
Free float (%)	91.7	**Performance**	**1M** / **3M** / **12M**
52-wk range (Rmb)	51.15 - 31.85	Absolute (%)	6.4 / (1.5) / 21.7
ADTO-6M (US$ mn)	307.4	Relative (%)	8.6 / (2.8) / (1.3)

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	26,464.0	30,283.5	33,728.1	35,850.4
EBITDA (Rmb mn)	5,139.8	5,962.4	6,570.4	6,897.7
EBIT (Rmb mn)	1,760.5	2,519.3	2,906.0	3,090.4
Net profit (Rmb mn)	1,304.4	2,246.4	2,356.3	2,587.2
EPS (CS adj.) (Rmb)	0.81	1.31	1.32	1.45
Chg. from prev. EPS (%)	n.a.	22.4	5.8	3.6
Consensus EPS (Rmb)	n.a.	1.1	1.32	1.48
EPS growth (%)	1,371.2	61.5	0.7	9.8
P/E (x)	46.2	28.6	28.4	25.9
Dividend yield (%)	0.1	0.2	0.2	0.2
EV/EBITDA (x)	14.8	11.6	10.3	9.5
P/B (x)	4.51	3.24	2.88	2.57
ROE (%)	10.2	13.2	10.7	10.5
Net debt/equity (%)	68.3	10.8	3.6	(4.6)

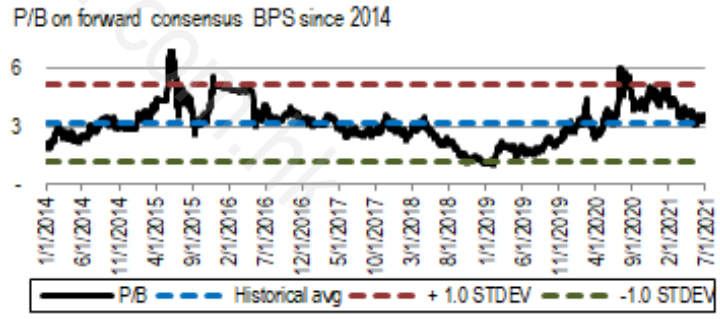
Source: Company data, Refinitiv, Credit Suisse estimates

Figure 3: Estimate change vs consensus

	2021E					2022E					2023E		
Rmb mn	Prior	New	Diff %	Street	Var %	Prior	New	Diff %	Street	Var %	Prior	New	Diff %
Revenue	30,107	30,284	1%	30,296	0%	33,357	33,728	1%	34,065	-1%	35,727	35,850	0%
Gross profit	4,941	5,041	2%	5,064	0%	5,584	5,730	3%	5,799	-1%	6,054	6,156	2%
GM %	16.4%	16.6%	0.2pp	16.7%	-0.1pp	16.7%	17.0%	0.3pp	17.0%	0.0pp	16.9%	17.2%	0.2pp
Opex	2,552	2,522	-1%	3,012	-16%	2,805	2,824	1%	3,310	-15%	3,047	3,066	1%
Opex % of Rev	8%	8%	-0.1pp	10%	-1.6pp	8%	8%	0.0pp	10%	-1.3pp	9%	9%	0.0pp
Operating profit	2,390	2,519	5%	2,052	23%	2,778	2,906	5%	2,489	17%	3,008	3,090	3%
OPM %	8%	8%	0.4pp	7%	1.5pp	8%	9%	0.3pp	7%	1.3pp	8%	9%	0.2pp
Net income (A)	1,835	2,246	22%	1,868	20%	2,227	2,356	6%	2,247	5%	2,497	2,587	4%
Net margin	6%	7%	1.3pp	6%	1.3pp	7%	7%	0.3pp	7%	0.4pp	7%	7%	0.2pp

Source: Refinitiv Datastream, Credit Suisse estimates

Figure 4: JCET P/B multiple on forward consensus BPS



Source: Refinitiv Datastream, Credit Suisse

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Asian Daily

1 July 2021

Nari Technology (600406.SS)

Profit alert on strong performance in 1H21

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (Rmb): 31.00

Previous target price (Rmb): 31.00

- After market close on 30 Jun, Nari issued positive 1H21 preliminary results. Recurring net profit increased by 33%-43% to Rmb1,691mn-Rmb1,819 mn, achieving 28-30%/29-31% of our/consensus full-year forecasts, slightly ahead of the historical run rate of 27-30%.
- The company attributed the earnings increase to expanding market and optimising product structure amid moving into a low carbon era, as well as improving the management of account receivables. No further details were provided.
- According to China Electric Council, accumulated grid capex increased by 8% as of May, indicating a slowdown in May after 27% YoY growth as of April. However, we think the structural changes of grid's investment focus during the 14th FYP would outweigh the increase in investment amount, making Nari a key beneficiary given its market leader position in grid automation.
- Nari currently trades at an undemanding valuation at 21x 21E P/E. slightly below its historical average at 22x. Maintain OUTPERFORM and TP at Rmb31 after it issued stock dividend recently. Nari is our top pick in the T&D space.

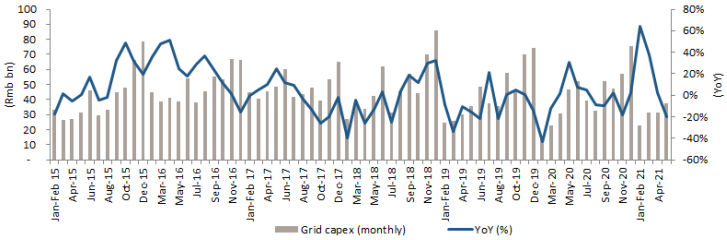
Price (30-Jun-21, Rmb)	**23.24**	Est. pot. % chg. to TP			33.4
Mkt cap (Rmb/US$ mn)	128,884 / 19,962	Blue sky scenario (Rmb)			37.67
Number of shares (mn)	5,546	Grey sky scenario (Rmb)			21.0
Free float (%)	90.8	**Performance**	**1M**	**3M**	**12M**
52-wk range (Rmb)	28.15 - 16.11	Absolute (%)	(10.4)	(12.2)	37.7
ADTO-6M (US$ mn)	91.3	Relative (%)	(8.3)	(14.4)	12.3

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	38,297.5	43,840.9	50,148.5	55,319.2
EBITDA (Rmb mn)	7,039.5	7,879.6	9,172.3	10,104.7
EBIT (Rmb mn)	5,919.3	6,914.5	8,092.2	8,910.4
Net profit (Rmb mn)	4,851.5	6,118.1	7,113.6	7,824.0
EPS (CS adj.) (Rmb)	0.88	1.11	1.29	1.42
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	1.06	1.23	1.42
EPS growth (%)	12.2	26.1	16.3	10.0
P/E (x)	26.3	20.9	18.0	16.3
Dividend yield (%)	1.5	1.9	2.2	2.4
EV/EBITDA (x)	17.1	14.5	12.1	10.7
P/B (x)	3.74	3.38	3.03	2.73
ROE (%)	15.0	17.0	17.8	17.6
Net debt/equity (%)	(24.0)	(35.5)	(38.8)	(41.0)

Source: Company data, Refinitiv, Credit Suisse estimates

Profit alert on a strong performance in 1H21. After market close on 30 Jun, Nari issued positive 1H21 preliminary results. Recurring net profit increased by 33%-43% to Rmb1,691 mn-Rmb1,819 mn, achieving 28-30%/29-31% of our/consensus full-year forecasts, slightly ahead of the historical run rate of 27-30%. The company attributed the earnings increase to expanding market and optimizing product structure amid moving into a low carbon era, as well as improving the management of account receivables. No further details are provided, while we believe the growth is largely driven by grid automation and automation IT communication, for which the company previously guided 8-10% and 20% revenue growth, respectively, with stable margins.

Figure 1: Monthly capex growth



Source: China Electric Council, Credit Suisse estimates

Structural changes of grid's investment focus would outweigh the increase in amount. According to China Electric Council, grid capex dropped by 20% in May, and accumulated grid capex increased by 8% as of May, reaching Rmb122.5 bn which tracks 25% of our FY21 full-year forecast at Rmb484 bn (vs. 24% in 2019 and 2020). Compared to the 13th Five-Year-Plan (FYP) when the construction of UHV (ultra-high-voltage) lines was a key focus, the grid's prioritized task during the 14th FYP is to improve the dispatching ability of power system and provide stronger peak shaving support to facilitate an increasing connected portion from renewables, as well as accelerate the upgrading of power grid to Internet of Energy. In our view, the structural changes of grid's investment focus would outweigh the increase in investment amount, given it's the first time for the central committee to identify the construction of a new power system centered on renewables as a key task.

Nari is best positioned in a few key areas. (1) As the grid improves dispatching ability of the power system, Nari is best positioned with over 70% market share in this segment. This could cover dispatching in renewables, generation-grid-load-storage, and monitoring & management; (2) The expenditure from State Grid on IT communication is likely to achieve double digit growth (vs. over Rmb20 bn in 2020), and Nari could be a key beneficiary with >30% of the total market share per our estimation; (3) Upgrade of smart meters which have significant price premium compared to the previous generation with grid's total bidding amount already picked up significantly in 1H21; (4) Planned trial production of IGBT in 2H21 which could be a near-term catalyst; (5) Potential launch of more new UHV lines (currently seven DC lines planned during 14th FYP) as the grid works to transmit more electricity generated from utility-scale renewables plants to power-load centers.

Valuation. Nari currently trades at an undemanding valuation at 21x 21E P/E. slightly below its historical average at 22x. Maintain OUTPERFORM and TP at Rmb31 after it issued stock dividend recently.

Figure 2: Nari Tech: one-year forward P/E band

Source: Credit Suisse estimates

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Asian Daily

1 July 2021

Nio Inc (NIO.N)

June delivery number hit record high to 8,083 units: up 116% YoY/20% MoM

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (US$): 75.00

Previous target price (US$): 75.00

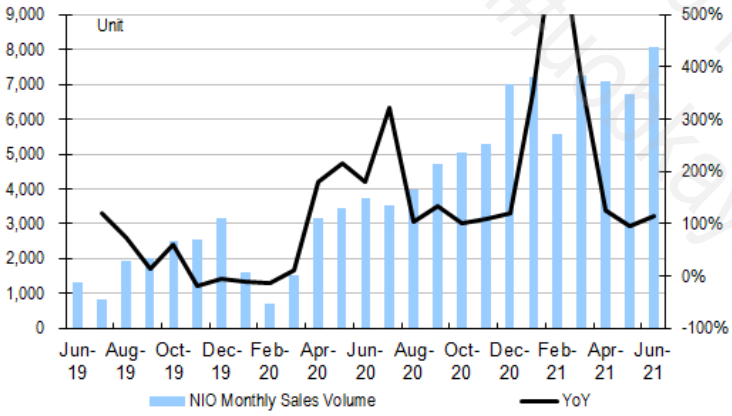
- Marginally above market expectation, NIO's June delivery volume rose to a record high of 8,083 units (2,830/ 3,755 /1,498 units of EC6/ ES6/ES8). Overall 2Q21 delivery hit a record high to 21,896 units (up 112% YoY/9% QoQ), which is at the high end of the company's guidance of 21,000-22,000 units.
- We attribute NIO's record high delivery in June to postponement of about ~500 units from May to June -2021. This was because China State Taxation Administration (STA) upgraded the vehicle sales invoice issuing system in May—to maintain consistency between vehicle identity number (VIN) and vehicle qualified certificate, which impacted auto makers with direct sales models, such as NIO.
- We expect NIO to sell 53k units in 2H21 (2021 at 95k units), implying average monthly volume of 8k /10k unit in 3Q21/4Q21. Key drivers are expanding: (1) offline sales network (NIO house and NIO space); (2) charging infrastructure, by adding ~50 battery swap stations/mth on average (from 300 stations on 30-Jun to 600 in end-2021).
- Meanwhile, NIO's president guided that there is a backlog of >10k unit orders on hand.

Price (30-Jun-21, US$)	**53.20**	Est. pot. % chg. to TP			41.0
Mkt cap (US$ mn)	83,675	Blue sky scenario (US$)			100.0
Number of shares (mn)	1,573	Grey sky scenario (US$)			10.0
Free float (%)	15.6	**Performance**	**1M**	**3M**	**12M**
52-wk range (US$)	62.84 - 9.38	Absolute (%)	37.8	34.1	589.1
ADTO-6M (US$ mn)	448.3	Relative (%)	38.0	35.2	563.4

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	16,257.9	37,249.6	55,475.8	69,831.6
EBITDA (Rmb mn)	(3,561.2)	(1,151.8)	3,338.6	5,494.7
EBIT (Rmb mn)	(4,607.6)	(2,325.0)	1,983.0	3,956.0
Net profit (Rmb mn)	(5,299.1)	(1,818.8)	2,362.9	4,151.7
EPS (CS adj.) (Rmb)	(3.73)	(1.17)	1.52	2.68
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	(3.42)	(0.6)	1.61
EPS growth (%)	n.m.	n.m.	n.m.	75.7
P/E (x)	n.m.	n.m.	225.9	128.6
Dividend yield (%)	0.0	0.0	0.0	0.2
EV/EBITDA (x)	n.m.	n.m.	150.6	90.2
P/B (x)	17.99	21.06	19.26	16.75
ROE (%)	(50.8)	(6.9)	8.9	13.9
Net debt/equity (%)	(96.1)	(109.1)	(118.2)	(124.6)

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 1: NIO monthly delivery volume trend



Source: Company data

Envision 'A' shape sector wide share price performance in 2H21. Due to a combination of strong liquidity in the auto sector and the expectation of an improvement in auto chips supply shortage, the China auto sector share price has broadly rallied in the past 45 days (up >30% on average), especially US-listed smart EV makers, such as NIO, Xpeng and Li auto. Looking ahead into 2H21, we expect an 'A' shape share price performance—a good performance in 3Q21, followed by share price decline in 4Q21. In another words, we expect the share price to continue to increase in the near term, thanks to the auto chip supply situation improvement. For example, Renesas Electronics, a key supplier of auto semiconductors, declared on 1 June that its fire-damaged N3 Building at its Naka factory will reach 100% capacity by 'mid-June' following the installation of new chemical mechanical polishing equipment. In March, an electrical failure caused a fire that destroyed 23 machines. This is largely in line with some Chinese auto makers' guidance. NIO guided the turning point will happen around the third quarter, Dongfeng and GAC also guided their Japanese JVs' auto semiconductor shortage will be resolved from July 2021. We believe the auto chip supply timeframe guidance should help investors to foresee a production recovery. Thus, we expect auto stock prices to further rally in 3Q21. We expect sector-wide share prices to begin to decline in 4Q21 mainly due to a combination of investors' concerns on market-wide liquidity tightening (due to inflation concerns) and deceleration in sales volume growth after the dealer level restocking is complete in 3Q21.

The four phases of disruption of the auto chip supply shortage : (1) Initially, share prices are likely to fall on low visibility of the duration of impact from the disruption and related reduction in production volume. Investors may focus on the impact's expansion (from certain location to other areas) and value chain penetration (from parts suppliers to carmakers and auto dealers). (2) In the second phase, carmakers' production gradually recovers to normalcy, while the impact from the disruption begins to find a bottom. In the second phase, we believe auto stock prices are likely to begin recovering, as investors generally look to the future and would likely regard the volume reduction in the first phase as a one-off. The share price rally in the second phase is likely to be driven by a combination of upward earnings revisions and valuation multiple rerating due to improving sentiment. (3) In the third phase, automakers' production and wholesales will exceed their normal rate as some are likely to try to make up for the supply reduction to meet their previous volume targets. Due to the likely higher-than-planned volume in the third phase, operating leverage and potentially better-than-expected ex-factory pricing may trigger further upward earnings revisions (which could exceed consensus' upward earning revisions). Share prices are likely to rise and inventory could also increase. (4) In the last phase (fourth phase), we expect investors to see the rise in dealer-level inventory along with better visibility on normalised demand level, and share prices to see slight correction due to falling sentiment. We are at a sweet spot—the end of above-mentioned second phase.

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Asian Daily

1 July 2021

Times China Holdings Limited (1233.HK)

Challenging operational environment

Maintain NEUTRAL

Previous Rating: NEUTRAL

Target price (HK$): 9.30

Previous target price (HK$): 11.60

- Times China has completed 41% of its 2021 sales target, with total sales of Rmb45 bn in 1H21 (source: CRIC). Management guided it will focus more on quality of growth in the future. Given its operational environment is more challenging (tighter land bank & higher MI), stronger execution is required to improve quality of growth.
- Its tighter land bank duration (2Y) implies more urgency for land replenishment and makes it more vulnerable to the competitive land market. Management focus is on its edge in urban redevelopment and it targets completing the transition for ~10 projects p.a. in the next 3Y. In 4M21, it converted two projects to be included in primary land sales.
- Times China's financing cost is likely to decline amid the improvement in its debt structure in 1H21. Management believes it has a chance to move into the 'Green Group' in end-2022.
- We appreciate the company's edge in urban redevelopment. However, its tighter-than-peers' land bank will make it more vulnerable to the tightening policy environment. We widen our assigned NAV discount to 60% on rising policy risk and tight liquidity control. We derive our new TP of HK$9.3 (from HK$11.6). Maintain NEUTRAL.

Price (30-Jun-21, HK$)	**8.88**	Est. pot. % chg. to TP			4.7
Mkt cap (HK$/US$ mn)	17,217 / 2,217	Blue sky scenario (HK$)			13.9
Number of shares (mn)	1,939	Grey sky scenario (HK$)			7.0
Free float (%)	33.4	**Performance**	**1M**	**3M**	**12M**
52-wk range (HK$)	16.32 - 8.78	Absolute (%)	(16.9)	(17.0)	(38.0)
ADTO-6M (US$ mn)	5.3	Relative (%)	(16.6)	(15.9)	(63.7)

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	38,576.7	46,676.1	53,917.9	62,511.7
EBITDA (Rmb mn)	9,280.2	10,086.3	11,701.6	13,250.3
EBIT (Rmb mn)	9,073.8	9,908.8	11,506.9	13,032.7
Net attributable profit (Rmb mn)	4,739.9	4,948.6	5,429.1	5,907.7
EPS (CS adj.) (Rmb)	2.44	2.55	2.8	3.04
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	2.84	3.25	3.75
EPS growth (%)	(16.6)	4.4	9.7	8.8
P/E (x)	3.0	2.9	2.6	2.4
Dividend yield (%)	10.4	10.4	11.4	12.4
EV/EBITDA (x)	4.1	3.9	3.6	3.4
ROE (%)	25.0	24.1	22.4	20.9
Net debt/equity (%)	65.6	62.6	60.2	60.6
NAV per share (Rmb)	24.42	19.33	-	-
Disc./(prem.) to NAV (%)	69.8	61.8	-	-

Source: Company data, Refinitiv, Credit Suisse estimates

Sales performance to improve in 2H21. According to CRIC preliminary data, the contracted sales of Times China increased by 39% YoY to Rmb45 bn in 6M21. Excluding the impact of COVID-19, its sales value was still 45% higher than that in 6M19. The company has completed 41% of its full-year sales target of Rmb110 bn in 6M21 (i.e., +10% YoY). While its target achievement ratio was slightly behind its peers (i.e., sector average of 48%), management is confident about completing the original sales target along with the launch of more saleable resources in 2H21.

Edge in urban redevelopment to partially ease the pressure for land acquisition. The company has a tighter landbank duration of two years (vs sector average of 2.8 years), implying higher urgency for land replenishment. Given the fierce competition among developers in the land market, management expects to reap more upside from its edge in urban redevelopment and expects to complete the transition for ~10 projects p.a. over the next three years so as to better support its sales growth. Looking into 2021, management guided that there would be ~10 projects to be converted with total GFA of ~3mn sqm and total saleable resources of ~Rmb80 bn, of which ~50% would be included in its land bank. Indeed, the company has completed the transition for two projects in Guangzhou and Foshan in 4M21. Both of these two projects are to be included in primary land sales, which is likely to provide more support to its earnings in 1H21.

Improving debt structure in 1H21. The company's debt structure improved in 1H21 amid the replacement of its maturing debt with new senior notes at lower interest rate. To recap, it has just issued two senior notes at cost of 5.3-5.55% in 1H21, which were far lower than that issued at 6.25-7.85% in 2018 (i.e., matured at 2021). Meanwhile, the company has partially redeemed the senior note issued at 7.625% in advance. We expect this should lower its blended financing cost to a large extent, and thus, provide more support to its earnings growth. Regarding the de-leveraging, management expects to move into the 'Green Group' as of end-2022 given its solid sales growth and prudent cash flow management.

Revenue growth to recover in FY21E. With total unrecognized sales of Rmb102 bn (i.e., ~60% for consol level as per management) as of end-2020, the company is confident of achieving a 30% growth in its revenue from development property in FY21 and maintain its revenue growth at ~20% in FY22/23. Meanwhile, management expects its revenue from primary land sale to maintain at the level in FY20. Looking forward, while its improvement in booking implies recovery in revenue growth, the potential increase in minority interests is to impair the company's earnings growth visibility, in our view.

Maintain NEUTRAL. The stock is trading at 61% NAV discount. We appreciate its edge in urban redevelopment and improving debt structure. On the other hand, we believe its operational environment is more challenging (i.e., tighter landbank & higher MI), and stronger execution capability is required to drive a quality growth. We take a more cautious view about its earnings growth visibility given the potential erosion from minority interests. We widen our assigned NAV discount by 10ppt to 60% to reflect the rising policy risk and tight liquidity control from government. We thus derive our new TP of HK$9.3 (from HK$11.6 previously).

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Asian Daily

1 July 2021

Will Semi (603501.SS)

Better automotive/surveillance/medical/PC offset 2Q mobile weakness

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (Rmb): 377.00

Previous target price (Rmb): 377.00

- Will Semi held a briefing call with a local broker on 1 July following 2Q profit alert (beat CSe/consensus by 6%). Key takeaways:
- (1) Will Semi's total addressable market expanding to US$130-150 bn; (2) Global smartphone market is expected to witness a small YoY growth in 2H21; (3) Smartphone CIS market share expansion with new products to address more serviceable markets; (4) Nearly doubled revenue from auto and surveillance CIS in 1H21;
- (5) 100%+ capacity growth expected for analog IC in 2022; (6) Low-/mid-voltage MOSFET R&D and supply chain are ready; (7) HD and Full HD TDDI shipped to major smartphone OEMs, but wafer capacity remains a bottleneck; and (8) Consumer electronics MCU to launch mass production by end-2021 and auto MCU under R&D.
- Maintain OUTPERFORM with TP of Rmb377. We believe Will Semi's expanding product portfolio and improving technology capabilities will provide long-term growth upside across imaging and non-imaging products.

Price (01-Jul-21, Rmb)	**326.00**	Est. pot. % chg. to TP			15.6
Mkt cap (Rmb/US$ mn)	283,157 / 43,796	Blue sky scenario (Rmb)			471.25
Number of shares (mn)	868.58	Grey sky scenario (Rmb)			263.9
Free float (%)	43.8	**Performance**	**1M**	**3M**	**12M**
52-wk range (Rmb)	326 - 168	Absolute (%)	8.3	13.6	57.0
ADTO-6M (US$ mn)	341.6	Relative (%)	10.5	12.4	34.0

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	19,824.0	27,503.0	34,010.8	39,738.5
EBITDA (Rmb mn)	3,623.8	6,620.1	8,660.9	9,889.3
EBIT (Rmb mn)	2,858.6	5,650.3	7,604.7	8,716.2
Net profit (Rmb mn)	2,706.1	4,964.6	6,486.0	7,508.9
EPS (CS adj.) (Rmb)	3.19	5.72	7.47	8.65
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	5.07	6.44	8.42
EPS growth (%)	324.0	79.3	30.6	15.8
P/E (x)	102.2	57.0	43.6	37.7
Dividend yield (%)	0.1	0.2	0.2	0.3
EV/EBITDA (x)	78.4	42.5	32.0	27.5
P/B (x)	24.06	16.61	11.78	8.94
ROE (%)	27.5	34.5	31.6	27.0
Net debt/equity (%)	6.9	(10.2)	(25.6)	(35.4)

Source: Company data, Refinitiv, Credit Suisse estimates

Key takeaways from the briefing call:

Total addressable market (TAM). Management believes the company's TAM could reach US$130-150 bn, with ~US$35 bn for CIS (CMOS image sensor), ~US$45 bn for analog and RF (radio frequency), US$20 bn for MCU and ASIC (application specific IC), ~US$20 bn for power semi, and US$10-15 bn for others including TDDI (touch and display integration), LCoS (liquid crystal on silicon), and so on. Management also expects the global smartphone market to achieve slight YoY growth in 2H21, in line with market consensus.

CIS. Management expects high-pixel CIS revenue mix to approach or exceed 50% in the near future. In 1H21, despite relatively weaker smartphone demand, orders from automotive, PC and surveillance applications grew significantly, with nearly doubled revenue from automobile and surveillance. Smartphone CIS still accounts for more than 50% of Will Semi's CIS business. CIS pipeline: (1) Management expects limited capacity expansion for low-pixel (5MP, 8MP and 13MP) CIS, but the company is taping out two low-pixel CIS products at a domestic foundry partner; (2) The company will use a new CIS of 50MP and 0.7µm pixel size to open up the main camera market for Rmb1,000-2,000 smartphones; (3) For the main camera market of Rmb3,000-4,000 smartphones, Will Semi is planning to launch new CIS of 50MP/1.0µm in 2H21 and 108MP/0.61µm in end-2021/1Q22; (4) CIS of 60MP/0.61µm targets either front camera or rear sub-camera. Management suggests growth in sub-camera (second main camera) market may be another momentum in 2H21, and the company may have some incremental capacity at a major foundry partner for high-pixel CIS; (5) For the automotive market, Will Semi will launch 8MP CIS in 2H21, with adoption on vehicles in 2021-22, and is developing 12MP+ CIS for L3+ autonomous driving. Management suggests the company has close cooperation with autonomous driving platforms, such as Nvidia, Mobileye and Qualcomm. It also expects ASP hike for auto CIS to continue in 2H21, especially in the overseas market.

Analog. The company's analog revenue grew ~50% in 1H21, and management expects 100%+ capacity growth for analog in 2022. For RF, the company's major focus now is still tuner, switch and LNA (low noise amplifier). Management believes Will Semi is the only local supplier in China, who can provide high-voltage tuner with comparable performance with global leading players. The company is considering using third-party filter to produce some RF modules going forward, and has invested strategically in some China PA companies.

Power semiconductor. Management suggests both R&D and supply chain are ready for its low-/mid-voltage MOSFET (metal–oxide–semiconductor field-effect transistor) products. Mid-voltage MOSFET applications include charging pile, smartphone fast charger, and so on. High-voltage MOSFET R&D is ready, but supply chain is under preparation. IGBT (insulated-gate bipolar transistor) is within Will Semi's product roadmap, but there is not yet any time table.

TDDI. The company has successfully launched its HD and Full HD TDDIs, according to management. Its HD TDDI has been shipped to most major smartphone OEMs (except one of them), and Full HD TDDI has been shipped to two to three customers. Capacity now remains a bottleneck for Will Semi to ship TDDI to more customers.

MCU (microcontroller unit). There are two MCUs under R&D for consumer electronics and automotive application. The consumer MCU should begin mass production by end-2021. The automotive MCU targets imaging applications and the engineering sample is expected in 1Q22. And, mass production of the automotive MCU may kick off in 2023. Notably, for both MCU projects, Will Semi works closely with the consumer/automotive customers to define, design and develop the new MCUs for specific applications. So the possibility for volume ramp is high. We believe these new consumer/automotive MCUs are opening another big market for Will Semi's next five-year growth.

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Asian Daily

2 July 2021

Zhongsheng Group Holding limited (0881.HK)

Positive read on acquiring Zung Fu – top Mercedes-Benz brand dealer group

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (HK$): 82.00

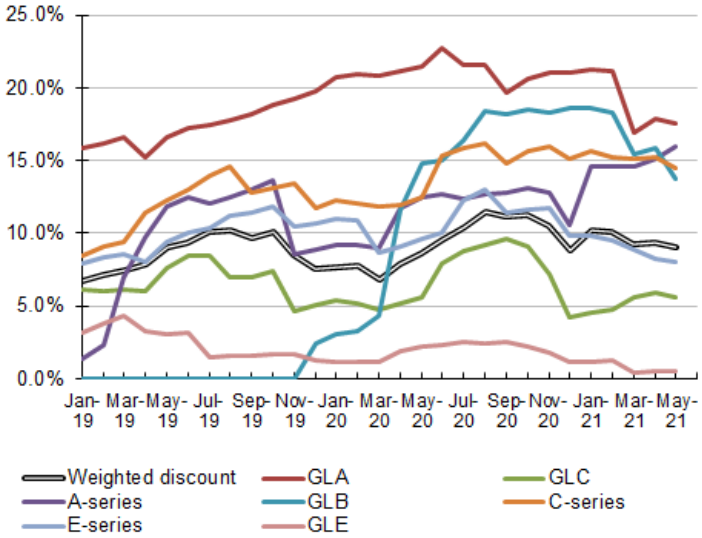
Previous target price (HK$): 76.00

- Zhongsheng announced it is to acquire Zung Fu China from Jardine group for a consideration of US$1.3 bn (Rmb8.4 bn). Zung Fu China is one of the largest dealership groups of Mercedes-Benz in Southern and Western China with 26 dealerships (total 37 outlets in 18 cities) along with ~10 planned outlets in the pipeline.
- Given Zung Fu China delivered Rmb600 mn (HK$719.4 mn) / Rmb207 mn (HK$249 mn) net profit in 2020 / 1Q21, this acquisition implies 14x 2020 P/E and 10x annualised 2021E P/E.
- Considering the cost reduction from streamlining Zung Fu's headquarter in Guangzhou post the acquisition and operation efficiency improvement via introducing Zhongsheng's knowhow, we estimate Zung Fu to book Rmb1.0-1.2 bn net profit in 2022, which implies a pro forma valuation multiple of 8.4x-7.0x 2022E P/E, which is well below Zhongsheng's current valuation of 22x 2022 P/E.
- Considering the EPS increase from this acquisition, we revise up our 2021-23 net profit estimates by 5.4%-7.9%, resulting in a higher target price of HK$82 (from HK$76).

Of Zung Fu China's existing 26 dealership stores, 26 are authorised for Mercedes-Benz passenger vehicles; 10 are authorised for Mercedes-Benz commercial vehicles; 17 are authorised for EQ series pure electric vehicles; eight are authorised for Denza brand pure electric vehicles; seven are authorised for Mercedes-Maybach; five are authorised for AMG; and eight are authorised for Mercedes-Benz imported G-Class SUV. Further, Zung Fu China has a strong pipeline of around 10 planned outlets, which is expected to bring future sales growth in the upcoming years.

Referring to the total consideration of US$1.3 bn (Rmb8.4 bn), Zhongsheng will pay US$0.9 bn (Rmb5.82 bn) in cash and the rest US$0.4 bn (Rmb2.59 bn) will be settled by the issuance of a total of 48,975,021 share at the issue price of HK$63.3964 per share.

Figure 1: Mercedes-Benz retail price discount trend



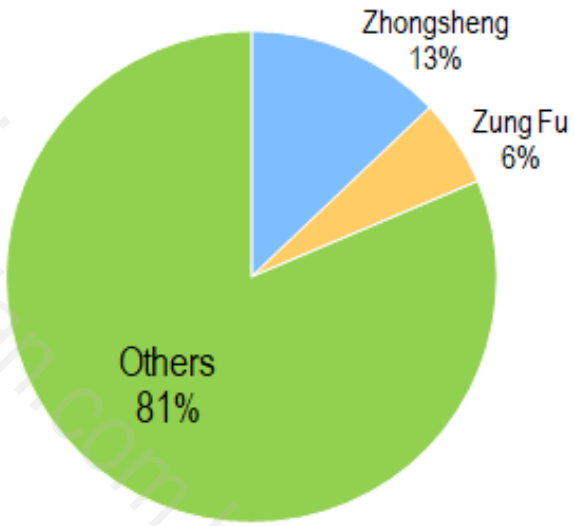
Source: Thinkercar

Price (30-Jun-21, HK$)	**64.60**	Est. pot. % chg. to TP			26.9
Mkt cap (HK$/US$ mn)	149,574 / 19,264	Blue sky scenario (HK$)			100.0
Number of shares (mn)	2,315	Grey sky scenario (HK$)			40.0
Free float (%)	25.9	**Performance**	**1M**	**3M**	**12M**
52-wk range (HK$)	68.20 - 44.85	Absolute (%)	(3.2)	15.4	50.6
ADTO-6M (US$ mn)	35.0	Relative (%)	(2.9)	16.4	24.8

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	148,348	172,339	194,604	211,133
EBITDA (Rmb mn)	10,793.3	12,867.2	15,638.0	17,750.1
EBIT (Rmb mn)	8,853.7	10,948.2	13,295.4	15,231.0
Net profit (Rmb mn)	5,537.8	7,083.6	8,645.0	10,231.6
EPS (CS adj.) (Rmb)	2.28	2.92	3.56	4.21
Chg. from prev. EPS (%)	n.a.	5.4	7.0	7.9
Consensus EPS (Rmb)	n.a.	3.05	3.74	4.54
EPS growth (%)	23.1	27.9	22.0	18.4
P/E (x)	23.6	18.4	15.1	12.8
Dividend yield (%)	0.9	1.1	1.4	1.6
EV/EBITDA (x)	13.0	11.4	9.1	7.6
P/B (x)	4.62	3.92	3.21	2.64
ROE (%)	23.0	24.1	24.0	23.3
Net debt/equity (%)	60.4	66.6	43.1	22.0

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 2: Mercedes-Benz China sales breakdown by dealer group (2020)



Source: Company data, Credit Suisse estimates

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Asian Daily

2 July 2021

Tower Bersama (TBIG.JK)

We expect strong 21E performance, but stock looks fairly priced

Maintain NEUTRAL

Previous Rating: NEUTRAL

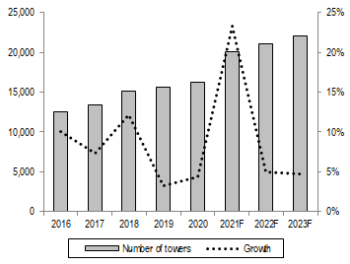
Target price (Rp): 3,420

Previous target price (Rp): 1,420

- We raise our TBIG's target price to Rp3,420 (from previously Rp1,420), while maintaining our Neutral rating, as we raise TBIG's EBITDA assumptions by 5%/9%/9% for 21E/22E/23E.
- We expect the company to post strong revenue/EBITDA/net profit growth of 15%/14%/50% in 2021E, driven by 3.8k new towers and 6.6k net tenant additions (3k towers and 4.2k tenants from IBST transaction, which was completed in April 2021).
- The significant increase in our target price is primarily driven by higher EBITDA estimates (10%) and change in DCF assumptions mainly from higher terminal growth (15%), higher gearing (25%), lower cost of debt (15%) and lower cost of equity (30%).
- TBIG's share price has performed very well (+96% YTD), likely due to the company's defensive nature (especially during COVID-19), lower interest rate environment and the recent change in the omnibus law. Consolidation in the telco space is also positive for the long term, in our view. However, we believe the stock is fairly priced as it is trading at 18.8x 21E EV/EBITDA (about +4 standard deviations above its historical average).

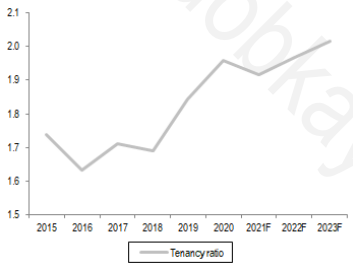
We expect TBIG to post strong revenue/EBITDA/net profit growth of 15%/14%/50% in 2021E, driven by 3.8k new towers and 6.6k net tenant additions (3k towers and 4.2k tenants from IBST transaction, which was completed in April 2021).

Figure 1: Number of towers



Source: Company data, Credit Suisse estimates

Figure 2: Tenancy ratio (x)



Source: Company data, Credit Suisse estimates

Figure 3: Key assumptions

	2018	2019	2020	2021F	2022F	2023F
Number of sites	**15,091**	**15,589**	**16,265**	**20,065**	**21,065**	**22,065**
Additions	1,630	498	676	3,800	1,000	1,000
Growth	12.1%	3.3%	4.3%	23.4%	5.0%	4.7%
Number of tenants	**25,518**	**28,740**	**31,850**	**38,450**	**41,450**	**44,450**
Net tenant addition	2,500	3,222	3,110	6,600	3,000	3,000
Growth	10.9%	12.6%	10.8%	20.7%	7.8%	7.2%
Tenancy ratio	**1.69**	**1.84**	**1.96**	**1.92**	**1.97**	**2.01**
Change	-0.02	0.15	0.11	-0.04	0.05	0.05

Source: Credit Suisse estimates, Company data

We raise our TBIG's target price to Rp3,420 (from previously Rp1,420), while maintaining our Neutral rating, as we raise TBIG's EBITDA assumptions by 5%/9%/9% for 21E/22E/23E.

Price (01-Jul-21, Rp)	**3,190**	Est. pot. % chg. to TP	7.2
Mkt cap (Rp bn/US$ mn)	72,276 / 4,976	Blue sky scenario (Rp)	3,970
Number of shares (mn)	22,657	Grey sky scenario (Rp)	2,330
Free float (%)	32.3	**Performance**	**1M / 3M / 12M**
52-wk range (Rp)	3,250 - 1,080	Absolute (%)	23.2 / 55.6 / 196.7
ADTO-6M (US$ mn)	10.9	Relative (%)	22.2 / 55.7 / 174.5

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rp bn)	5,327.7	6,119.7	6,885.8	7,328.9
EBITDA (Rp bn)	4,617.2	5,268.9	5,893.7	6,257.3
EBIT (Rp bn)	3,816.1	4,334.7	4,802.8	5,102.7
Net profit (Rp bn)	1,009.6	1,515.2	1,759.6	1,983.6
EPS (CS adj.) (Rp)	48.37	72.59	84.3	95.03
Chg. from prev. EPS (%)	n.a.	(5.4)	(7.2)	(8.2)
Consensus EPS (Rp)	n.a.	69.35	81.84	91.68
EPS growth (%)	23.2	50.1	16.1	12.7
P/E (x)	66.0	43.9	37.8	33.6
Dividend yield (%)	0.9	1.4	1.6	1.8
EV/EBITDA (x)	20.6	18.8	16.9	16.0
P/B (x)	7.65	7.15	6.65	6.16
ROE (%)	14.7	16.8	18.2	19.0
Net debt/equity (%)	246.1	270.9	255.1	238.9

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 4: TBIG's earnings revision

	Old			New			% Changes			As % to consensus		
in Rp bn	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue	5,821	6,288	6,672	6,120	6,886	7,329	5.1	9.5	9.9	0.3	2.5	-0.3
EBITDA	5,012	5,414	5,744	5,269	5,894	6,257	5.1	8.9	8.9	0.3	1.7	-1.7
Net profit	1,601	1,896	2,160	1,515	1,774	2,017	-5.4	-6.4	-6.6	2.7	-0.7	-0.6
Margins												
EBITDA	86.1	86.1	86.1	86.1	85.6	85.4	0.0	-0.5	-0.7			
Net profit	27.5	30.1	32.4	24.8	25.8	27.5	-2.7	-4.4	-4.9			

Source: Credit Suisse estimates

The significant increase in our TP is primarily driven by higher EBITDA estimates (10%) and change in DCF assumptions mainly from higher terminal growth (15%), higher gearing (25%), lower cost of debt (15%) and lower cost of equity (30%).

Figure 5: TBIG's EV/EBITDA

Source: Refinitiv Datastream

TBIG's share price has performed very well (+96% YTD), likely due to the company's defensive nature (especially during COVID-19), lower interest rate environment and the recent change in the omnibus law. Consolidation in the telco space is also positive for the long term, in our view. However, we believe the stock is fairly priced as it is trading at 18.8x 21E EV/EBITDA (about +4 standard deviations above its historical average).

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Asian Daily

1 July 2021

D&L Industries, Inc. (DNL.PS)

Beefing up

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (P): 10.56

Previous target price (P): 7.79

- Management said it targets profits this year to return to 2019 level of P2.6 bn or growth of 30%.
- Management sees demand and orders picking up, with various companies announcing higher capex budgets. DNL continues to believe that its long-term growth story remains intact and its prospects remain stable.
- The expansion plant in Batangas is on schedule, to be completed and operational in 2021 and support the company's long-term strategy.
- We fine-tune our estimates to factor in audited 2020 numbers and the impact of the CREATE law. We roll over our valuations and upgrade our target price to P10.56 (from P7.79). We have also factored in a faster recovery in 2H21 which impacts our earnings estimates by 26% in 2021 and 18% in 2022; introduce our 2023E. We reiterate our OUTPERFORM rating.

DOE mulls hike in biodiesel blend to 4%; positive for DNL. The Department of Energy (DoE) is reportedly considering to increase the coconut methyl ester (CME) blend in diesel to 4% from 2% currently. The DoE is currently seeking public comments until the end of the month on 4 draft Philippine National Quality Standards for biodiesel to increase the blend to 3% or 4%. According to a report by the United States Department of Agriculture Foreign Agricultural Service in Manila, the biodiesel blend has been kept at 2% in the past 15 years due to concerns by the DoE of the possible increase in pump prices, should the mandated blend beraised. Any increase in the biodiesel blend should bode well for D&L Industries (DNL). DNL is one of the largest producers of biodiesel in the country. Biodiesel sales account for ~9% of its total revenues.

DNL beefs up its capital position. DNL is looking to raise P3-5 bn in a maiden bond offering with a tenure of 3-5 years. Proceeds will be used primarily to fund its ongoing capacity expansion. Recall that DNL began construction of its plant facility in Batangas in 2018, and this is expected to be completed this year with P3.5 bn out of the P8 bn in capex remaining. Upon completion, the new plant will be instrumental in boosting DNL's ability to capitalise on strong growth opportunities in international markets. The plant expansion will also improve and increase flexibilities in packaging, among others. DNL believes that now is an opportune time to tap the debt market given the low interest rate environment.

Management targets 2019 level of profit this year despite potential 2Q dip . Management said it targets profits this year to return to 2019 level of P2.6 bn or growth of 30%. Management sees demand and orders picking up, with various companies announcing higher capex budgets. DNL continues to believe that its long-term growth story remains intact and its prospects remain stable. The expansion plant in Batangas is on schedule, to be completed and operational in 2021 and support the company's long-term strategy to: (1) add value to its current product line-up by offering more sophisticated and customised formulations; and (2) increase its export sales to 50% of total revenues. The company is also relatively resilient to rising input costs, thanks to its large portfolio of high-margin specialty products. DNL is also a beneficiary of the growing popularity of health, wellness, and sanitation trends brought about by the pandemic.

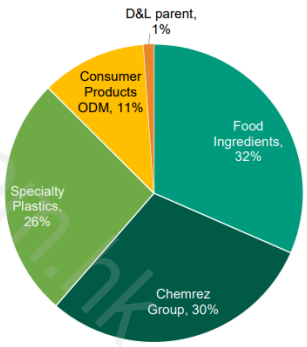
Maintain OUTPERFORM. We fine-tune our estimates to factor in audited 2020 numbers and the impact of the CREATE law. In particular, we reduce our tax expense estimate. We have also factored in a faster recovery in 2H21, which impacts our earnings estimates by 26% in 2021 and 18% in 2022. We roll over our valuations to take into account 2022 recovery, and increase our target price to P10.56 (from P7.79). We reiterate our OUTPERFORM rating on DNL as it remains in a prime position to capitalise on the recovery of the economy given its diversified portfolio of products catering to different consumer groups. The company is relatively resilient to rising input costs thanks to its large portfolio of high-margin specialty products. DNL is also a beneficiary of the growing popularity of health, wellness, and sanitation trends brought about by the pandemic.

Price (01-Jul-21, P)	**8.33**	Est. pot. % chg. to TP			26.8
Mkt cap (P/US$ mn)	59,500 / 1,213	Blue sky scenario (P)			18.0
Number of shares (mn)	7,143	Grey sky scenario (P)			5.5
Free float (%)	28.1	**Performance**	**1M**	**3M**	**12M**
52-wk range (P)	8.43 - 4.47	Absolute (%)	13.3	18.6	69.3
ADTO-6M (US$ mn)	0.5	Relative (%)	8.2	10.5	57.2

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (P mn)	21,739.0	22,832.3	26,042.6	30,601.7
EBITDA (P mn)	3,114.3	3,748.7	4,192.4	5,176.2
EBIT (P mn)	2,710.1	3,525.2	3,969.3	4,941.5
Net profit (P mn)	2,011.7	2,657.3	3,006.8	3,772.0
EPS (CS adj.) (P)	0.28	0.37	0.42	0.53
Chg. from prev. EPS (%)	n.a.	25.9	18.2	n.a.
Consensus EPS (P)	n.a.	0.36	0.43	0.56
EPS growth (%)	(23.2)	32.1	13.2	25.4
P/E (x)	29.6	22.4	19.8	15.8
Dividend yield (%)	2.2	1.7	2.2	2.5
EV/EBITDA (x)	20.2	14.9	12.9	10.4
P/B (x)	3.37	3.08	2.83	2.55
ROE (%)	11.6	14.4	14.9	17.0
Net debt/equity (%)	18.6	(18.7)	(25.7)	(23.6)

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 1: Net income breakdown (1Q21)



Source: Company data

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Asian Daily

1 July 2021

Singapore Property Sector

URA/HDB 2Q21 flash estimates: Private prices moderated to 0.9% QoQ

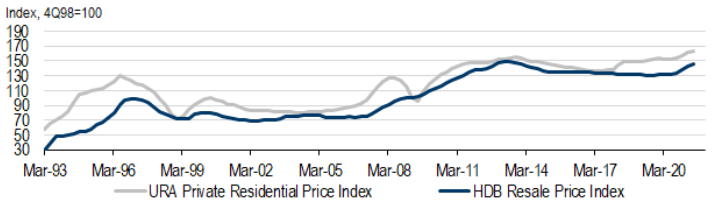
- URA private resi prices increased 0.9% QoQ in 2Q21, a slowdown vs 1Q21's 3.3% QoQ increase. HDB resale prices, however, increased 2.8% QoQ, in line with 1Q21's 3.0% QoQ increase.
- Within private, the QoQ price increase was broadly similar with landed and non-landed, increasing 0.8% and 0.9% QoQ, respectively. Within non-landed, stronger price increase at OCR (1.8% QoQ) was weighed down by CCR (0.6% QoQ) and RCR (0.3% QoQ).
- While expectations were rife on the likelihood of property cooling measures, that which has been priced into developer valuations, the moderation in price growth momentum and comments by MAS MD that the property market is "not overheated" are a welcome respite. With MAS expecting GDP growth to exceed the 4-6% range, amid signs of sustainability in local-led buying, we think the risks of cooling measures have moderated, with the market in a delicate sweet spot for private developers today, especially against a robust HDB market.
- Alongside improving economic conditions, at valuations of 0.72x P/B, we believe developer valuations still remain attractive. We maintain our OUTPERFORM ratings on UOL and CAPL.

Figure 1: URA and HDB flash estimates

	Index				% QoQ		
	2Q21	1Q21	4Q20	3Q20	2Q21	1Q21	4Q20
HDB resale prices	146.2	142.2	138.1	133.9	2.8	3.0	3.1
Overall resi prices	163.7	162.2	157.0	153.8	0.9	3.3	2.1
Landed resi prices	186.9	185.4	173.8	176.6	0.8	6.7	-1.6
Non-landed resi prices	158.5	157.1	153.3	148.8	0.9	2.5	3.0
(Non-landed, CCR)*	135.1	134.3	133.6	129.5	0.6	0.5	3.2
(Non-landed, RCR)*	170.9	170.4	160.6	153.8	0.3	6.1	4.4
(Non-landed, OCR)*	188.9	185.6	183.6	180.4	1.8	1.1	1.8

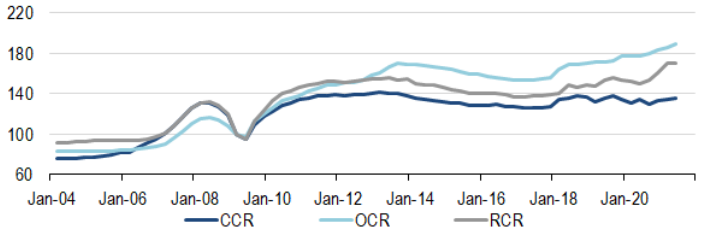
Source: HDB, URA. * Private homes

Figure 2: Private prices up 0.9% QoQ in 2Q21; HDB resale prices up 2.8% QoQ



Source: URA

Figure 3: QoQ non-landed prices led by OCR (1.8%), CCR (0.6%), RCR (0.3%)



Source: URA

Figure 4: URA Residential Price Index movement summary (% YoY)

(% YoY)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	1H21
Overall	**5.9**	**2.8**	**1.1**	**-4.0**	**-3.7**	**-3.1**	**1.1**	**7.9**	**2.5**	**2.2**	**4.3**
High-end (CCR)	4.0	0.8	-1.9	-4.1	-2.5	-1.2	0.6	6.2	-2.6	-0.4	1.1
Mid-market (RCR)	4.5	1.6	-0.1	-5.3	-4.3	-2.8	1.8	7.4	2.7	4.7	6.4
Mass-market (OCR)	7.6	6.5	6.5	-2.2	-3.7	-3.4	1.4	9.5	4.3	3.2	2.9

Source: URA, *1H21 reflects year-to-date change

Figure 5: Comparison of prices and rentals across property cycles

	1998-2000 (Post-AFC)	2004-08 (Post .com)	2009-13 (Post-GFC)	2013-1H17 (Pre-Enbloc)	2H17-2018 (Enbloc)	2019-Present (Post-cooling)
URA Residential Price Index						
- Trough	71.5 (4Q98)	80.3 (1Q04)	95.3 (2Q09)	136.6 (2Q17)	136.6 (2Q17)	148.6 (1Q19)
- Peak	100.4 (2Q00)	126.9 (2Q08)	154.6 (3Q13)	154.6 (3Q13)	149.7 (3Q18)	163.7 (2Q21)
- Trough to peak	40.4%	58.0%	62.2%	-11.6%	9.6%	10.2%
- Quarters of rise/decline	6	17	17	15	5	7
HDB Resale Price Index						
- Trough	71.2 (1Q99)	73.2 (3Q05)	100 (1Q09)	133.7 (2Q17)	131.4 (4Q18)	130.8 (2Q19)
- Peak	80.3 (1Q00)	100.8 (4Q08)	149.4 (2Q13)	149.4 (2Q13)	133.7 (2Q17)	146.2 (2Q21)
- Trough to peak	12.8%	37.7%	49.4%	-10.5%	-1.7%	11.8%
- Quarters of rise/decline	4	13	17	14	6	7

Source: URA, HDB *Based on 2Q21 flash estimates

2Q21 was characterised by resilient volumes across segments, despite enhanced safety management measures which commenced 16 May. Sales were largely focused on previous launches, given the slowdown in new launch units in 2Q21 (1,260 units across Apr-May, with no notable launch in June, vs 1Q21's 2,983 units). This had meant no new benchmark projects for RCR, following 1Q21's strong +6.1% QoQ increase. For CCR, we note that new launch Irwell Hill Residences was at 2Q21 ASP of S$2,637 psf, closer in line with Riviere's S$2,618 psf, indicative that pricing is largely in line with market and broadly explaining the only slight +0.6% QoQ increase. For OCR, the stronger +1.8% QoQ increase appears to be broad-based, with overall ASP of the segment increasing by +1.4% QoQ. Notably, the relatively stronger interest has also been felt by May's launch of Provence Residence (EC) at new EC benchmark ASP of S$1,155 psf on 229/413 units sold (55.4% take-up).

Figure 6: Top projects (ex-EC) by volume sold for 2Q21

	ASP (S$ psf)*				Volume*			
	3Q20	4Q20	1Q21	2Q21	3Q20	4Q20	1Q21	2Q21
Irwell Hill Residences	-	-	-	2,637	-	-	-	329
One Bernam	-	-	-	2,506	-	-	-	82
Leedon Green	2,603	2,689	2,652	2,648	15	28	23	47
Overall CCR*	**2,054**	**2,036**	**2,292**	**2,264**	**929**	**937**	**1,529**	**1,576**
Normanton Park	-	-	1,765	1,795	-	-	730	185
One-North Eden	-	-	-	1,994	-	-	-	150
Avenue South Residence	2,048	2,134	2,136	2,206	71	54	53	69
Overall RCR*	**1,671**	**1,681**	**1,748**	**1,730**	**2,700**	**2,131**	**3,123**	**2,097**
Treasure At Tampines	1,359	1,406	1,384	1,418	319	129	178	174
Midwood	-	1,625	1,645	1,652	-	60	64	98
The Florence Residences	1,558	1,611	1,633	1,648	166	52	54	93
Overall OCR*	**1,262**	**1,288**	**1,258**	**1,275**	**3,318**	**3,820**	**3,418**	**3,138**

Source: URA Realis *ASP calculated from caveats, incl. primary and secondary sales. 2Q21 caveat data up to 22 June 2021

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Asian Daily

1 July 2021

Thailand Bank Sector

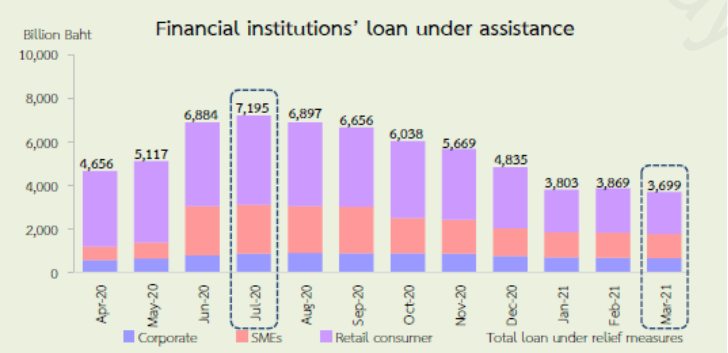
BOT investor session: provision likely to increase but in line with CS expectation

- The BOT held the second investor session of the year on 1 July, to provide a recap on the performance of the financial system as well as to answer investor questions regarding current policy and outlook. The performance in 1Q21 was satisfactory, with a significant fall in loans under the financial assistance program.
- Nonetheless, the BOT expects such loans to increase in light of the third wave impact on borrowers. BOT will likely encourage banks to be prudent on provisioning expenses, indicating a potential rise in provision in the next few quarters, which is in line with our expectation.
- There is also a potential pressure on NIM (due to likely increase in loans under financial assistance program). Nonetheless, any weaker-than-expected net interest income could be partially offset by lower-than-expected opex. We feel that bank underperformance over the past 3 months has somewhat reflected such risk.
- BOT said the proposal to lower interest rate ceilings (for consumption loans) is still under consideration, but from the tone of the meeting we feel that the probability is not high. BOT is concerned over access to financing if rates are cut further.

Strong readings for 1Q21

BOT is quite pleased with 1Q21 data points for financial institutions. Outstanding loans under the assistance program in the sector have fallen quite significantly from the peak in 2Q20 and 4Q20 (Figure 1). Loan growth has slowed down in 1Q21, due primarily to corporate loans, but SME and consumer loans (mortgage and unsecured personal consumption loans, in particular) have improved. BOT is also happy with banks' strong capital and LLR.

Figure 1: Financial institutions' loan under assistance program



Source: Bank of Thailand , Credit Suisse

Third wave impact may lead to a rise in loans under the assistance program

Because 1Q21 data points have not captured the potential impact from the third wave on the borrowers, BOT seems to expect an increase in loans under this program going forward. BOT will likely work closely with banks to ensure the borrowers' financial strength would not be seriously jeopardised. To enable banks to help borrowers, BOT will likely extend assistance measures for the banks, such as discount on FIDF fee and relaxed loan classification measure (so that NPL would not rise sharply).

However, BOT is likely to encourage banks to be prudent on loan loss provision to make sure they have enough buffer. We thus see a potential rise in provisioning expenses (from 1Q21, which fell a lot from previous quarters) in the next few quarters. This is in line with our current projections; our forecasts imply average loan loss provision expenses for the sector in the remaining three quarters of FY21 to be 25% higher than in 1Q21 level.

NIM pressure, but could be offset by potentially lower opex

The potential increase in the amount of loans under the assistance program also implies pressure on net interest income (and NIM) for the rest of this year, as banks usually offers lower interest rates to borrowers under such programs. Our sensitivity analysis indicates that for every 2% reduction in the sector net interest income for the rest of the year, the impact on the sector net profit would be 4%. Nonetheless, we believe that the slow economic activities (caused by the new pandemic wave) could allow banks to cut back on some of their opex (i.e. marketing expenses) like last year, thereby offering potential to offset impact on net interest income. The bank sector has also underperformed the SET index by 13% in the past three months, so we believe this risk could have been somewhat discounted by the market.

Proposal to lower interest rate ceilings under consideration

Regarding the Prime Minister's suggestion for a review of interest rate ceilings for consumer loans (i.e credit card, unsecured personal consumption loans and car title loans), the BOT said the matter is still under consideration. As credit costs for banks are likely to remain high, the main concern expressed by the BOT is if interest rate ceilings are lowered further, financial institutions may be less willing to lend and this would reduce access to funding for certain groups of borrowers (particularly, the lower income earners). From the tone of the meeting, we feel that the possibility of another cut in interest rate ceilings is not significant.

Valuation metrics

Company	Ticker	Rating	Price	Target	TP chg	Up/dn to TP	Year	EPS Chg(%)		EPS		EPS grth (%)		P/E (x)		DY (%)	P/B (x)	Scenario	
		(prev.)	Local	price (prev.)	(%)	(%)	T	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+1	Blue sky	Grey sky
BBL	BBL.BK	O	114.0	152.0	0.0	33.3	12/20	0.0	0.0	13.78	15.11	53.1	9.7	8.3	7.5	3.8	0.5	192.0	114.0
KBANK	KBANK.BK	O	122.0	178.0	0.0	45.9	12/20	0.0	0.0	14.08	16.04	13.7	14.0	8.7	7.6	3.7	0.6	195.0	128.0
SCB	SCB.BK	O	98.5	117.0	0.0	18.8	12/20	0.0	0.0	9.45	10.14	18.1	7.2	10.4	9.7	4.3	0.8	135.0	84.0
KTB	KTB.BK	N	10.7	12.0	0.0	12.1	12/20	0.0	0.0	1.07	1.29	(10.7)	20.7	10.0	8.3	3.5	0.4	12.3	6.3
TMB	TTB.BK	N	1.14	1.21	0.0	6.1	12/20	0.0	0.0	0.11	0.13	2.2	23.5	10.6	8.6	2.8	0.5	1.31	0.76
TISCO	TISCO.BK	O	92.5	104.0	0.0	12.4	12/20	0.0	0.0	8.4	9.02	10.9	7.5	11.0	10.2	7.6	1.8	131.0	82.0

Source: Refinitiv, Credit Suisse estimates

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Asian Daily

1 July 2021

Thailand Retail Sector

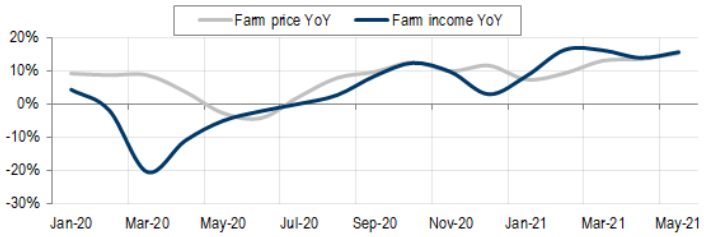
May farm income - positive for GLOBAL

- May farm income was released last week and showed a 16% YoY increase, the positive YoY improvement momentum that has been continuing since Jul-2020. Farm price was the main driver, up 15% YoY, while farm production marginally improved 1% YoY.
- Based on our observation, the major crop prices seemed to have softened MoM in Jun-2020 but remain healthy YoY and should deliver a decent farm income. The rubber price in particular went down 10-15% MoM but was still up 30-40% YoY in Jun-2021. We believe demand recovery in the China auto sector and rubber glove market should remain supportive at least in the next few months.
- With the decent farm income momentum, we expect a more resilient purchasing power in the upcountry space and highlight GLOBAL as our preferred choice for 2Q-3Q. All retailers' spending will be affected by the rising infection of COVID-19 but GLOBAL has no store in Bangkok (where the number of infections has been among the highest) and relies more on upcountry purchasing power.
- GLOBAL's share price weakened around 10% from the peak in May, which provides a good opportunity to accumulate. GLOBAL should see the strongest SSSG and earnings performance among peers in 2Q-3Q.

May farm income momentum looked healthy

May farm income was released last week and showed a 16% YoY increase, the positive YoY improvement momentum that has been continuing since Jul-2020. Farm price was the main driver, up 15% YoY, while farm production marginally improved 1% YoY. Despite a YoY softer rice price, the price of rubber, sugarcane and cassava and other fruit items continued to do well and, we believe, drove the positive performance.

Figure 1: Positive momentum in farm income

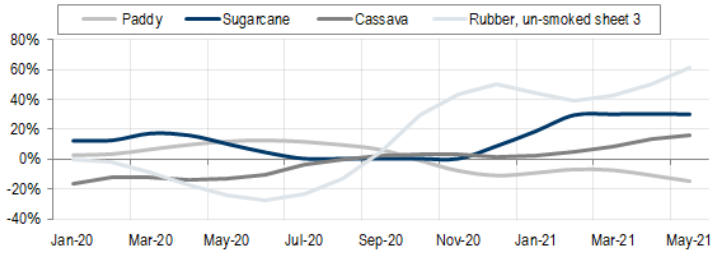


Source: Ministry of Agriculture and Cooperatives

Major crop price softened but still well above last year

Based on our observation, the major crop prices seemed to have softened MoM in Jun-2020 but should continue to contribute to a healthy YoY farm income performance. The rubber price in particular went down 10-15% MoM but was still up 30-40% YoY in Jun-2021. We believe better demand YoY in the China auto sector and rubber glove market should continue to support rubber price in the next few months as auto and gloves generally account for around 60% and 20% of natural rubber demand in Thailand, respectively.

Figure 2: Strong rubber price trend



Source: Ministry of Agriculture and Cooperatives

Resilient upcountry demand positive for GLOBAL

With the decent farm income momentum, we expect a more resilient purchasing power in the upcountry space and highlight GLOBAL as our preferred choice for 2Q-3Q. All retailers' spending will be affected by the rising infection of COVID-19 cases but GLOBAL has no store in Bangkok (where the number of infections has been among the highest) and relies more on upcountry purchasing power. GLOBAL's share price weakened around 10% from the peak in May, which we believe provides a good opportunity to accumulate. GLOBAL should see the strongest SSSG momentum and earnings performance among peers in 2Q-3Q, in our view. Other names we like in the sector are HMPRO for near-term resilient demand and CPALL and CRC for reopening play with 9-19 month timeframe.

Figure 3: Strongest 2Q21 SSSG likely for GLOBAL

	1Q20	2Q20	3Q20	4Q20	1Q21	Apr-May 21
BJC	-5.3%	-17.0%	-17.8%	-20.8%	-21.6%	-ve low teen
CPALL's CVS	-4.0%	-20.2%	-14.3%	-18.0%	-17.1%	+ve single digit
CRC	-13.0%	-36.0%	-15.0%	-20.0%	-13.0%	+ve double digit
GLOBAL	-7.0%	-20.0%	-5.6%	-3.1%	13.0%	+ve double digit
HMPRO	-6.1%	-17.0%	-3.7%	-6.3%	0.6%	+ve double digit
MAKRO	7.0%	-3.6%	3.9%	0.6%	-1.2%	+ve single digit

Source: Company data, Credit Suisse estimates

Valuation metrics

Company	Ticker	Rating	Price	Target	TP chg	Up/dn to TP	Year	EPS Chg(%)		EPS		EPS grth (%)		P/E (x)		DY (%)	P/B (x)	Scenario	
		(prev.)	Local	price (prev.)	(%)	(%)	T	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+1	Blue sky	Grey sky
C.P. ALL	CPALL.BK	O	59.75	76.0	0.0	27.2	12/20	0.0	0.0	1.52	2.43	(11.3)	60.1	39.3	24.6	1.3	6.3	100.0	52.0
Central Retail	CRC.BK	O	34.5	42.0	0.0	21.7	12/20	0.0	0.0	0.66	1.44	n.m	117.5	52.1	24.0	0.8	3.8	55.0	29.0
Siam Global	GLOBAL.BK	O	20.5	27.0	0.0	31.7	12/20	0.0	0.0	0.64	0.74	45.0	14.7	31.8	27.7	1.3	4.8	28.6	23.8
Home Pro	HMPRO.BK	O	14.4	18.0	0.0	25.0	12/20	0.0	0.0	0.47	0.54	20.5	14.7	30.5	26.6	2.8	8.2	21.0	16.5
Berli Jucker PLC.	BJC.BK	N	34.5	36.0	0.0	4.3	12/20	0.0	0.0	1.36	1.56	19.6	14.2	25.3	22.2	2.0	1.2	49.5	22.5
Siam Makro	MAKRO.BK	N	37.25	42.0	0.0	12.8	12/20	0.0	0.0	1.43	1.52	4.5	6.5	26.1	24.5	2.9	7.3	46.0	38.0

Source: Refinitiv, Credit Suisse estimates

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