CREDIT SUISSE

Asian Daily (Asia Edition)

Korea Internet Sector, Macau Gaming Sector

13 July 2021
Asia Equity Research

Top of the Pack

Korea Internet Sector 5
Digital advertising: Rising visibility on accelerated marketing budget shift to digital platforms; NAVER to benefit
Soyun Shin

Macau Gaming Sector 6
2Q21 preview: weak result expected; outlook is key
Kenneth Fong

CS Pic of the Day

Macau Gaming Sector: 2Q21 preview: weak result expected; outlook is key

Summary of 2Q21 EBITDA forecast

Operator	Currency	2Q19	2Q20	1Q21	2Q21E	YoY% chg	QoQ% chg
Property EBITDA							
Sands China	USD'mn	765	(312)	100	132	142%	32%
Wynn Macau	USD'mn	343	(194)	44	65	134%	49%
MGM Macau	USD'mn	188	(114)	11	13	112%	22%
Group EBITDA							
Melco Resorts	USD'mn	417	(180)	10	21	112%	111%
SJM	HKD'mn	1,003	(784)	(319)	(282)	64%	12%
Galaxy	HKD'mn	4,332	(1,370)	859	986	172%	15%
Sector	**HKD'mn**	**18,626**	**(8,356)**	**1,819**	**2,506**	**130%**	**38%**

Source: Credit Suisse estimates, Company data

2Q21 GGR +7% QoQ, or reached 35% of 2019's level (1Q's 31%). We estimate mass GGR at +14% QoQ driven by the mid-end and leisure demand during the holiday and VIP at -11% QoQ. VIP luck was ~3.4% (1Q's 3.5%). Sector EBITDA should improve +39% QoQ off a low base to 13% of 2019's level. Post 2Q21, we fine tune our GGR assumption and slightly adjust earnings by -4% to +4% for 2021-2023E, with TPs by -1% to +1% for the sector. We caution that the recovery hopes have already been baked in at the current valuation. Retain our cautious sector view.

Regional

Asia Pacific Strategy 7
Credit Suisse GEM valuation snapshot
Kin Nang Chik

Asia Pacific Strategy 8
Credit Suisse valuation snapshot
Kin Nang Chik

Research by Markets

China

China Internet Sector 9
Investors' key questions
Kenneth Fong

China Internet Sector 10
Online game industry update: Key trends and outlook
Kenneth Fong

Beijing Easpring Material Technology [300073.SZ] 11
1H21 prelim results up by 181-208% YoY, beat on strong volume
Peter Li — Upgrade to NEUTRAL

JD.com [JD.OQ] 12
2Q21 preview: Top-line growth remains healthy; margin and regulatory outlook are the focus
Kenneth Fong — Maintain OUTPERFORM

Shandong Nanshan Aluminium Co.,Ltd. [600219.SS] 13
1H21 preliminary results in line with market expectation
Yang Luo — Maintain OUTPERFORM

Shanghai Fosun Pharmaceutical (Group) Co., Ltd. [2196.HK] 14
Taiwan vaccine order could generate sales of US$300 mn in 2021
Yang Huang — Maintain OUTPERFORM

TBEA Co Ltd [600089.SS] 15
Positive 1H21 profit alert likely driven by price rally in polysilicon
Sabrina Shao — Maintain OUTPERFORM

Zhongsheng Group Holding limited [0881.HK] 16
1H21 profit guidance beat expectation
Bin Wang — Maintain OUTPERFORM

India

India Market Strategy 17
182 bp of Headline CPI from edible oils/fats and fuels; some moderation ahead
Neelkanth Mishra

Avenue Supermarts [AVEU.BO] 18
1Q FY22: Gross margins below expectations, gradual recovery in revenues underway
Arnab Mitra — Maintain UNDERPERFORM

Malaysia

Malaysia Market Strategy 19
New report: 27W21—political uncertainty led to institutional investor outflows
Danny Goh

Airasia Group [AIRA.KL] 20
Launches RM1 bn rights issue to strengthen near-term liquidity
Danny Chan — Maintain NEUTRAL

Philippines

Philippine Market Strategy 21
Peso swings
Hazel Tanedo

Philippine Retail Sector 22
Finding Alpha - Vaccine and Mobility
Hazel Tanedo

Singapore

Singapore Healthcare Sector 23
COVID-19 update: Heading out of the woods
Amanda Foo

Raffles Medical Group [RAFG.SI] 24
Beneficiary of Singapore's pandemic strategy
Amanda Foo — Maintain OUTPERFORM

Taiwan

Taiwan Downstream Sector 25
June sales below seasonal on supply constraints
Pauline Chen

Taiwan Health Food Sector 26
2Q21 sales ahead mainly on better diversification efforts outside of China
Harvie Chou

Topoint Technology Co Ltd [8021.TW] 27
Still undervalued in the PCB upcycle
Pauline Chen — Maintain OUTPERFORM

Vanguard International Semiconductor [5347.TWO] 28
8" expansion addresses upside at a manageable cost
Randy Abrams — Maintain OUTPERFORM

Thailand

PTT Global Chemical [PTTGC.BK] 29
M&A deal announcement: Full price payment leaves little room for upside surprise
Paworamon (Poom) Suvarnatemee — Maintain OUTPERFORM

Vietnam

Vinhomes Joint Stock Company [VHM.HM] 30
Prime beneficiary of rising property prices; strong pipeline to support long-term growth
Farhan Rizvi — Maintain OUTPERFORM

Connecting clients to corporates

APAC Conference Calls

Modern Dental Group (3600.HK) Business Update
Date: 13 July, 16:00 HKT
Info: Please email Hao Wu

All about the pre-owned cars market, the difference in Cars24's approach to it and read across for new vehicle sales
Date: 13 July, 18:00 HKT
Info: Please email Gisele Castelino

Shuanghuan Driveline (002472.SZ) – Company update and business outlook (Mandarin)
Date: 14 July, 16:00 HKT
Info: Please email Ting Zhang

Latest sales trend update with Xpeng dealer general manager (Mandarin)
Date: 15 July, 16:00 HKT
Info: Please email Ting Zhang

Dial in/passcode will be given upon registration; *Only for calls with replays (available 4 hours after live call);
Hong Kong: 800963117; Singapore: 8006162305;
China Mainland: 4006322162; UK: 8082340072;
US: 18554525696; Australia: 1800153898;
India: 180030000542; Japan: 120390774;
Philippines: 180016120166; South Korea: 079861361602

Corporate Days / Conferences

Korea Company Insights - Semiconductor / Display Equipment Day
Date: 15 July
Info: Virtual Event

Malaysia ESG Day
Date: 27 - 28 July
Info: Virtual Event

India Consumer Day
Date: 10 - 12 August
Info: Virtual Event

Indonesia Day
Date: 12 - 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

Key Changes

	EPS		TP		
(% change)	T+1	T+2	Chg	Up/ Dn	Rating
Zhongsheng	1.9	1.8	9.8	22.1	O
Vanguard	5.4	6.1	(2.8)	20.7	O
PTTGC	0.0	0.0	(21.3)	15.1	O
Sands China	(1.7)	(0.2)	0.0	8.5	N
SJM	(3.8)	(0.8)	(1.1)	15.9	N
Galaxy	1.1	1.2	0.5	10.8	N
MLCO	(3.8)	0.3	(0.7)	(11.0)	U
Melco	(3.3)	(0.5)	0.0	(12.5)	U
MGM China	(2.2)	(2.6)	(1.1)	(13.2)	U
Wynn Macau	3.8	0.5	0.0	(18.0)	U
DMART	(2.0)	(17.2)	9.0	(21.9)	U
Topoint	4.5	6.0	4.0	20.1	O
GPK	2.6	0.2	0.0	25.6	O
TCI	9.9	6.0	8.3	0.6	N
Nanshan Aluminium	9.8	7.4	3.5	48.6	O
Vinhomes	5.5	12.8	28.4	26.0	O
JD	7.6	(0.1)	0.0	43.5	O
JD (H)	7.6	(0.1)	0.0	45.0	O
Raffles Medical	5.6	1.7	16.7	14.8	O
Easpring	87.5	42.9	77.8	6.8	N (U)
TBEA	29.3	9.1	29.3	41.5	O

Asian Indices - Performance

% change	Latest	1D %	1W %	3M %	YTD %
ASX300	7,325	0.8	0.2	5.1	11.4
CSEALL	7,866	0.2	0.9	4.1	16.1
Hang Seng	27,515	0.6	(2.2)	(3.4)	1.0
HS H-Share	9,946	0.6	(3.2)	(8.3)	(7.4)
HS Red Chip	3,850	0.5	(2.6)	(5.3)	1.3
JCI	6,079	0.6	1.2	2.5	1.7
KLSE	1,513	(0.5)	(1.3)	(5.3)	(7.0)
KOSPI	3,246	0.9	(1.4)	2.4	13.0
KSE100	47,443	(0.3)	0.0	5.3	8.4
NIFTY 50	15,690	0.0	(0.9)	8.2	12.2
NIKKEI	28,569	2.2	(0.1)	(4.0)	4.1
TOPIX	1,953	2.1	0.2	(0.3)	8.2
PCOMP	6,914	1.2	(1.7)	7.1	(3.2)
SET	1,550	(0.1)	(1.9)	0.6	6.9
STI	3,147	0.5	0.2	(1.3)	10.7
TWSE	17,814	0.9	(0.6)	5.9	20.9
VNINDEX	1,296	(3.8)	(8.1)	3.8	17.4

Source: Credit Suisse Rave

Global Indices

%change	Latest	1D %	1W %	3M %	YTD %
DJIA	34,870	1.3	0.2	3.2	13.9
S&P 500	4,370	1.1	0.4	5.8	16.3
NASDAQ	14,702	1.0	0.4	5.8	14.1
SOX	3,278	1.7	(1.1)	(0.5)	17.3
EU-STOX	3,536	(0.2)	(0.1)	5.5	13.8
FTSE	7,072	(0.7)	(1.3)	2.6	9.5
DAX	15,650	(0.2)	(0.1)	2.7	14.1
CAC-40	6,497	(0.5)	(1.1)	5.1	17.0
10 YR LB	1.336	(1.8)	(7.0)	(17.7)	46.6
2 YR LB	0.211	(1.9)	(7.3)	28.0	80.1
US$:E	1.186	(0.1)	0.0	(0.7)	(2.9)
US$:Y	110.2	0.0	(0.7)	1.0	6.7
GOLD	1,808	0.3	1.2	3.7	(4.7)
VIX	16.18	(14.8)	7.4	(3.1)	(28.9)

Source: Credit Suisse Rave

Asian currencies (vs US$)

% change	Latest	1D %	1W %	3M %	YTD %	Target 3M	Target 12M
A$	0.747	(0.1)	(0.8)	(2.2)	(2.9)	0.79	0.8
Bt	32.6	0.2	1.5	3.4	8.5	30.9	30.5
D	23,003	0.0	0.0	(0.3)	(0.3)	n.a.	n.a.
HK$	7.77	(0.0)	0.0	(0.1)	0.2	7.76	7.8
JPY	110.2	0.0	(0.7)	1.0	6.7	109.0	107.0
NT$	28.01	0.2	0.4	(1.4)	(0.2)	31.0	31.0
P	50.08	0.2	1.5	3.1	4.3	47.2	47.0
PRs	159.4	0.3	1.1	4.5	(0.2)	n.a.	n.a.
RM	4.19	(0.0)	0.8	1.3	4.2	4.08	4.05
Rmb	6.47	(0.1)	0.2	(1.1)	(0.8)	6.3	6.29
Rp	14,485	(0.3)	0.1	(0.8)	3.2	14,100	14,000
Rs	74.44	(0.1)	0.2	(1.1)	1.9	74.0	73.5
S$	1.35	0.0	0.5	0.8	2.3	1.31	1.29
W	1,147	0.3	1.4	2.3	5.7	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	37.3	12.2	15.9	14.2	0.0	(3.7)	1.0
Asia Pac x JP	38.7	11.3	16.2	14.6	(0.0)	(3.7)	1.8
Australia	29.5	16.5	19.9	17.1	0.9	(0.1)	11.8
China	16.7	18.5	16.2	13.7	1.0	(5.6)	(6.1)
Hong Kong	32.1	13.2	18.4	16.3	(0.0)	(2.1)	6.9
India	33.4	16.7	23.2	19.9	(0.1)	0.1	13.7
Indonesia	28.2	20.5	15.7	13.0	0.1	(7.0)	(11.4)
Japan	20.8	11.5	16.3	14.6	(0.5)	(2.0)	6.2
Korea	98.0	5.3	11.8	11.2	(1.1)	0.2	6.8
Malaysia	107.9	(6.0)	12.5	13.3	0.8	(4.5)	(8.5)
Pakistan	26.2	28.1	8.1	6.3	(1.1)	(3.3)	(10.0)
Philippines	52.1	25.7	20.4	16.2	(1.4)	(1.5)	(4.1)
Singapore	44.8	13.6	15.0	13.2	1.0	(0.9)	9.6
Taiwan	42.0	2.7	16.2	15.7	(1.1)	1.9	16.1
Thailand	58.8	14.7	19.6	17.1	0.4	(4.2)	2.6

Source: Credit Suisse Rave

Asian Daily

12 July 2021

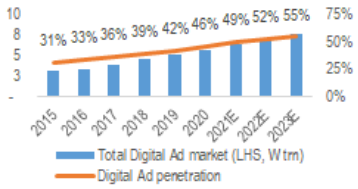
Korea Internet Sector

Digital advertising: Rising visibility on accelerated marketing budget shift to digital platforms; NAVER to benefit

- Our checks with digital ad agencies indicate that digital ad industry growth will accelerate in 2021E. Marketing campaigns, which had been postponed due to the pandemic, have started to ramp up this year.
- Digital ad segment is under-penetrated in Korea compared with other markets. On the back of high online shopping penetration and large network coverage, digitalisation of the marketing budget will continue in the next three years.
- Key drivers of rising ad budget shift to digital include: (1) rising time spent on newly launched applications; (2) evolvement of ad products which can deliver more sophisticated targeting/customisation to meet diversified demands of marketers; and (3) large brands increasingly adoption of digital solutions.
- We believe NAVER should benefit from this trend, and its 2Q21 top-line growth should remain at over 25% YoY.

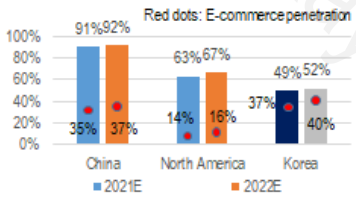
Strong growth momentum of digital ad industry in 2021E. Based on our channel checks with digital ad supply chain (media reps, digital marketing solution providers, and digital agencies), digital ad market growth is likely to accelerate in 2021. We estimate digital ad sales at W6.3 bn, up by 12% YoY in 2021, compared with 9% on an annual growth basis in the previous year. Industry participants indicated that advertisers across e-commerce, mobile games, education solution, and others have started to ramp-up marketing activities which had been postponed due to the pandemic. For example, major game developers are scheduled to launch blockbuster games in 2H21.

Figure 1: Korea's digital ad penetration should keep growing



Source: KOCCA, Credit Suisse estimates

Figure 2: We see further upside to digital ad penetration in the domestic market



Source: KOCCA, Credit Suisse estimates

Not only the strong initiatives from sellers to market their products, but also structural developments in the digital ad industry would contribute to faster ad budget shift to digital platforms.

Rising eyeballs for a larger number of applications. Not only for dominant apps (NAVER for search, the largest chatting app and video for Youtube), but traffic for newly launched applications across digital content, e-payment, and food delivery segments has also increased to a certain extent that enables to attract advertising slots. By accessing a larger number of diversified applications, marketers can also send messages to more targeted customers. We have witnessed an increasing number of ad slots on NAVER Webtoon, ride-hailing as well as education services platform (I Am School, Kidsnote, etc.).

Evolvement of digital ad products. Given the rising demand due to subsequent conversion of ad dollars into transactions, platforms are increasingly offering new types of advertising products such as 'reward marketing for users to grant e-money' or 'CPS products so that both platforms and merchants share the performance of actual spending'. Performance of newly-developed marketing solutions is improving on the back of better utilisation of AI and targeting technology. Better accessibility also helps SMEs to easily market their products on online platforms.

Figure 3: Banner Ad on Kakao Page

Source: Company data, Credit Suisse

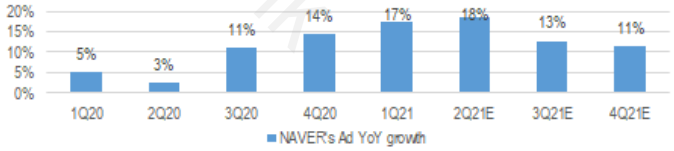
Figure 4: Reward type of advertising slots on NAVER webtoon

Source: Company data, Credit Suisse

Acquisition of new advertisers. Digital marketing is no longer a frequently-used tool on game developers/e-commerce platforms. Our checks indicated that major sellers in the traditional segments across electronics appliances, furniture, health-care supplement products, and autos have started to shift their ad budget to digitalised platforms. We think it is not surprising given that more than half of the transactions for electronics appliances and furniture is executed online. Particularly, we have noticed that luxury brands have increased their marketing activities on digital platforms. For example, Louis Vuitton's Men Fall-Winter 2021 Fashion Show starring BTS was available on NAVER's Live Commerce tab on 7 July. On Top 10 selling products on Live Commerce tab on NAVER, we noticed major brands such as Samsung Electronics, Livart Kitchen, and Estee Lauder actively utilising this emerging function to market their products.

NAVER to benefit from the structural growth of digital ad industry. As a dominant search platform in Korea, NAVER should benefit from this trend. The company continues to add the revamped ad slots by utilising the rising number of products sold on its platform. Recently-added offerings include brand search ads targeting conglomerates or luxury brands, place search ads, content search ads, and performance-based display ads. Also, the company continues to expand ad offerings for relatively under-monetised applications, such as NAVER Webtoon, Series, SNOW, and BAND applications.

Figure 5: YoY growth of NAVER's ad sales



Source: Company data, Credit Suisse estimates

Research Analysts
Soyun Shin / 82 2 3707 3736
soyun.shin@credit-suisse.com

Asian Daily

12 July 2021

Macau Gaming Sector

2Q21 preview: weak result expected; outlook is key

- 2Q21 GGR +7% QoQ, or reached 35% of 2019's level (1Q's 31%). We estimate mass GGR at +14% QoQ driven by the mid-end and leisure demand during the holiday and VIP at -11% QoQ. VIP luck was ~3.4% (1Q's 3.5%). Sector EBITDA should improve +39% QoQ off a low base to 13% of 2019's level.
- By operator, Sands should gain most share on improving leisure mass demand. Wynn would also gain share likely on mass hold, but offset by the weak VIP. While SJM should see share largely steady, MGM, Melco and Galaxy might see some share loss on weakened premium demand.
- While 2Q has again been hurt by the outbreaks, the key focus of the result will be on managements outlook, cost controls and project updates. We are not surprised that the prolonged travel restrictions in HK would be gradually relaxed, but the benefits are unlikely to be very meaningful with various rules still in place.
- Post 2Q21, we fine tune our GGR assumption and slightly adjust earnings by -4% to +4% for 2021-2023E, with TPs by -1% to +1% for the sector. We caution that the recovery hopes have already been baked in at the current valuation. Retain our cautious sector view.

Key trends for 2Q21: (1) 2Q21 GGR was +7.4% QoQ to MOP25.4 bn, recovering to 35% of pre-pandemic 2019's level (vs 1Q21's 31%). 2Q was hurt by the outbreak in Guangdong in June. The recurring small outbreaks in 1H21 shows the recovery ahead would never be smooth. (2) Mass GGR should come in at MOP17.5 bn, +14% QoQ or 45% of 2019's level (vs 1Q21's 38%). Based on our estimates, among April to June, May has the highest mass GGR of MOP7 bn due to May holiday. Even with this number, we are only reaching 52% of 2019 average monthly mass GGR. Looking ahead, with half of the top premium mass players (25% of mass GGR) structurally reduced on regulatory controls and mass hosts finding it harder to source new players (due to new criminal law), the mid-end mass and leisure players have become the key driver. These players not only mostly visit Macau during holidays/ weekends, but spend less and have lower margins as well (3) VIP GGR declined 11% QoQ to less than MOP6.0 bn on weak demand, at 20% of 2019's level (1Q21 at 21%), in our view. (4) VIP luck should remain high at ~3.4% (vs 1Q21's 3.5%). From our checks, the junket luck factors were over 3.7% both for April and June. Luck factor has been volatile due to the low volume.

(5) Market share: Consistent with our previous preliminary checks, Sands is likely to have sequentially gained most market share, benefiting from the strong leisure mass demand during the May holiday. Wynn should see mass share gain likely on mass hold but offset by the weak VIP. In our view, SJM has largely maintained its share, MGM, Melco and Galaxy have lost share on the mass side, as a result of the player mix shifting from premium towards leisure end. (6) Sector EBITDA is likely to grow 39% QoQ from a low base, but reach only 13% of 2019's level. Daily opex should have slightly increased on normalisation of staff costs and bonus.

Figure 1: Summary of 2Q21 EBITDA forecast

Operator	Currency	2Q19	2Q20	1Q21	2Q21E	YoY% chg	QoQ% chg
Property EBITDA							
Sands China	USD'mn	765	(312)	100	132	142%	32%
Wynn Macau	USD'mn	343	(194)	44	65	134%	49%
MGM Macau	USD'mn	188	(114)	11	13	112%	22%
Group EBITDA							
Melco Resorts	USD'mn	417	(180)	10	21	112%	111%
SJM	HKD'mn	1,003	(784)	(319)	(282)	64%	12%
Galaxy	HKD'mn	4,332	(1,370)	859	986	172%	15%
Sector	**HKD'mn**	**18,626**	**(8,356)**	**1,819**	**2,506**	**130%**	**38%**

Source: Credit Suisse estimates, Company data

2Q21 earnings preview: Sands China should see its property EBITDA increasing from US$100 mn in 1Q21 to US$132 mn in 2Q21, with market share gain both in mass and VIP segments. The strong May performance, with the new product offerings of Londoner and newly renovated Four Seasons, has offset the impact from the Guangdong outbreak in June. Wynn Macau property EBITDA will likely improve from US$44 mn in 1Q21 to US$65 mn in 2Q21, mainly driven by the mass share gain that offset the weak VIP demand. VIP luck should also normalise from 3.9% in 1Q21 to around 3.4% in 2Q21. SJM will likely remain loss making, but see its LBITDA of HK$319mn in 1Q21 slightly narrowing to HK$286mn in 2Q21. The timing of its Grand Lisboa Palace opening remains the key. Melco Resorts should see its group EBITDA improving from US$10mn in 1Q21 to US$21mn in 2Q21, with a slight market share loss in mass and VIP luck staying low (1Q21 at 2.0%) for its Macau operations. Overseas operation will also stay weak on pandemic controls, in our view. MGM China property EBITDA should improve from US$11mn in 1Q21 to US$13mn in 2Q21. Its Peninsula property will likely see stronger mass performance. Galaxy should see its EBITDA growing from HK$859mn in 1Q21 to HK$986mn, given the seasonally stronger construction material. Core operation would be largely flat QoQ.

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
Sands China	1928.HK	N	30.7	33.3	0.0	8.5	12/20	(1.7)	(0.2)	(0.03)	0.16	n.m	n.m	n.m.	24.3	0.0	18.6	43.3	23.3
SJM	0880.HK	N	8.11	9.4 (9.5)	(1.1)	15.9	12/20	(3.8)	(0.8)	(0.41)	0.2	n.m	n.m	n.m.	39.8	0.0	2.0	12.2	6.6
Galaxy	0027.HK	N	59.3	65.7 (65.4)	0.5	10.8	12/20	1.1	1.2	0.63	2.03	n.m	222.3	94.4	29.3	0.0	3.7	85.4	46.0
MLCO	MLCO.OQ	U	16.12	14.3 (14.4)	(0.7)	(11.3)	12/20	(3.8)	0.3	(1.39)	(0.3)	n.m	n.m	n.m.	n.m.	0.0	19.1	18.6	10.0
Melco	0200.HK	U	13.26	11.6	0.0	(12.5)	12/20	(3.3)	(0.5)	(1.16)	0.38	n.m	n.m	n.m.	34.9	0.0	2.3	15.08	8.12
MGM China	2282.HK	U	10.48	9.1 (9.2)	(1.1)	(13.2)	12/20	(2.2)	(2.6)	(0.73)	(0.12)	n.m	n.m	n.m.	n.m.	0.0	17.8	11.8	6.4
Wynn Macau	1128.HK	U	11.58	9.5	0.0	(18.0)	12/20	3.8	0.5	(0.53)	0.15	n.m	n.m	n.m.	77.4	0.0	n.m.	13.3	6.7
Studio City	MSC.N	U	10.61	8.6	0.0	(18.9)	12/20	(0.0)	(0.0)	(4.1)	(3.05)	n.m	n.m	n.m.	n.m.	0.0	1.1	11.2	6.0

Source: Refinitiv, Credit Suisse estimates

Research Analysts
Kenneth Fong / 852 2101 6395
kenneth.kc.fong@credit-suisse.com

Lok Kan Chan / 852 2101 6390
lokkan.chan@credit-suisse.com

Asian Daily

12 July 2021

Asia Pacific Strategy

Credit Suisse GEM valuation snapshot

Figure 1: Historical valuations

9-Jul-21	12m fwd PE		Trailing P/B (x)		Trailing Div. Yield (%)	
	Current	5Y avg	Current	5Y avg	Current	5Y avg
Brazil	9.0	12.0	2.3	1.9	3.1	3.2
Chile	13.8	15.9	1.4	1.6	2.3	3.0
China	14.7	12.8	2.1	1.9	1.5	1.9
Colombia	11.2	11.6	1.1	1.3	2.1	3.2
Czech Republic	14.3	13.5	1.3	1.3	5.1	6.3
Egypt	7.0	9.3	1.6	2.7	1.6	2.4
Greece	12.5	13.1	1.5	1.0	3.0	2.5
Hungary	9.5	10.0	1.3	1.5	0.5	1.6
India	22.0	18.9	3.5	3.0	1.0	1.3
Indonesia	14.3	15.3	2.2	2.6	2.6	2.7
Korea	11.4	10.4	1.5	1.1	1.5	2.0
Malaysia	13.5	15.8	1.6	1.7	3.5	3.1
Mexico	14.3	15.0	2.1	2.2	2.4	2.6
Pakistan	6.5	7.6	1.2	1.3	4.2	6.0
Peru	11.2	13.5	1.8	2.2	1.2	2.4
Philippines	17.7	16.7	1.9	2.1	1.3	1.6
Poland	12.9	11.7	1.4	1.3	1.1	2.0
Qatar	12.9	12.5	2.0	1.8	2.7	3.8
Russia	6.6	6.1	1.1	0.9	4.7	5.6
South Africa	9.7	13.2	2.0	2.1	2.0	2.8
Taiwan	15.8	14.8	2.8	2.0	2.5	3.6
Thailand	17.9	15.6	2.0	2.0	2.3	2.9
Turkey	5.3	6.8	1.1	1.1	4.0	3.2
UAE	13.2	10.4	1.5	1.4	3.9	4.7
Con Discretionary	24.5	19.1	3.3	2.6	0.4	1.0
Con Staples	23.0	22.3	3.8	3.7	1.9	2.1
Energy	8.1	9.2	1.0	0.9	3.4	3.9
Financials	8.5	8.8	1.1	1.2	3.1	3.6
Health Care	37.9	26.6	5.7	4.2	0.7	0.9
Industrials	13.6	12.7	1.8	1.4	1.4	2.0
Info Technology	16.0	14.9	3.2	2.5	1.8	2.1
Materials	9.1	11.1	2.0	1.5	3.1	3.2
Real Estate	6.3	7.9	1.0	1.2	4.2	4.0
Communication Services	21.2	18.6	3.7	2.7	1.0	2.5
Utilities	10.8	10.7	1.2	1.1	3.5	3.4
EMF	13.5	12.6	2.0	1.7	1.9	2.5
EM Asia	14.7	13.2	2.1	1.8	1.7	2.2
EM Europe	7.4	7.3	1.2	1.0	4.0	4.5
EM Latin America	9.8	12.9	2.1	1.9	2.9	3.0

Source: Refinitiv Datastream, MSCI

Figure 2: Forecast valuations

9-Jul-21	EPS Growth (%)			3M chg in EPS est (%)		P/E (x)		
	2020	2021	2022	2021	2022	2020	2021	2022
Brazil	-27.9	176.8	-3.6	19.9	17.7	24.5	8.8	9.2
Chile	-42.3	97.1	12.6	6.2	3.9	29.2	14.8	13.2
China	4.0	16.8	18.5	-2.6	-2.7	18.8	16.1	13.6
Colombia	-74.0	162.4	39.8	9.4	5.2	36.2	13.8	9.9
Czech Republic	-8.8	-2.3	18.8	0.7	6.3	15.5	15.9	13.4
Egypt	-10.6	22.4	12.5	-3.8	-6.5	9.2	7.5	6.7
Greece	-6.2	24.2	14.9	-2.5	0.4	17.1	13.8	12.0
Hungary	-38.8	66.8	11.9	15.2	9.2	17.0	10.2	9.1
India	11.8	33.3	16.6	4.5	2.9	31.0	23.2	19.9
Indonesia	-23.8	27.6	20.7	-0.9	-2.0	20.1	16.0	13.3
Korea	17.3	99.3	5.0	22.2	5.1	23.4	11.7	11.2
Malaysia	-34.6	107.4	-6.0	-1.7	-0.6	26.0	12.5	13.3
Mexico	-42.2	132.5	5.7	4.4	-0.3	34.4	14.8	14.0
Pakistan	32.0	26.3	28.1	4.4	1.3	10.2	8.1	6.3
Peru	-87.6	814.3	19.8	6.2	4.9	212.5	23.2	19.4
Philippines	-47.6	53.4	24.6	-5.6	-4.5	31.0	20.2	16.2
Poland	-6.4	31.9	0.6	16.1	8.2	17.1	13.0	12.9
Qatar	-16.3	22.8	12.2	1.5	1.9	17.0	13.8	12.3
Russia	-47.5	122.1	2.4	22.1	9.8	29.5	13.3	13.0
South Africa	5.8	55.0	13.0	0.0	-0.1	16.4	10.5	9.3
Taiwan	26.8	43.4	2.2	17.7	9.6	23.0	16.0	15.7
Thailand	-44.9	60.2	14.1	6.7	1.8	31.1	19.4	17.0
Turkey	16.0	50.8	20.4	11.0	5.1	8.9	5.9	4.9
UAE	-28.4	9.8	16.7	-1.0	-1.5	15.9	14.5	12.4

Source: Refinitiv Datastream

Figure 3: Forecast valuations (continued)

9-Jul-21	EPS Growth (%)			3M chg in EPS est (%)		P/E (x)		
	2020	2021	2022	2021	2022	2020	2021	2022
Con Discretionary	1.7	33.0	39.3	-13.9	-9.1	38.4	28.9	20.7
Con Staples	7.2	23.2	13.2	0.3	0.4	30.5	24.8	21.9
Energy	-55.4	173.6	6.4	25.6	13.9	22.8	8.3	7.8
Financials	-9.1	18.7	11.1	4.0	2.5	10.7	9.0	8.1
Health Care	38.9	64.6	4.6	-0.1	-1.8	61.9	37.5	35.9
Industrials	-15.3	94.8	1.3	19.3	6.9	26.9	13.8	13.5
Info Technology	41.3	43.2	18.4	8.1	4.4	25.4	17.7	15.0
Materials	-5.0	199.7	-6.9	21.9	15.9	26.1	8.7	9.4
Real Estate	-2.6	11.4	15.3	-3.3	-2.7	7.7	6.9	6.0
Communication Services	12.0	60.9	-7.2	25.3	-3.7	32.5	20.2	21.8
Utilities	9.3	8.1	11.3	-5.4	-4.1	12.4	11.4	10.3
EMF	-3.3	50.6	9.9	8.0	2.9	21.3	14.2	12.9
EM Asia	6.6	38.0	11.9	6.3	1.4	21.6	15.6	14.0
EM Europe	-38.7	94.2	4.4	19.6	9.0	14.7	7.6	7.3
EM Latin America	-35.8	173.4	-0.2	16.2	12.9	26.9	9.8	9.9

Source: Refinitiv Datastream

Figure 4: Index - absolute performance in US$ (%)

9-Jul-21	MSCI Index performance in US$				
	1W	1M	3M	YTD	12M
Brazil	-5.4	-7.1	13.8	2.0	23.5
Chile	-3.5	-4.8	-20.1	-5.0	8.5
China	-4.6	-5.9	-6.1	-6.2	1.7
Colombia	-1.1	-2.5	-3.1	-18.3	11.8
Czech Republic	0.1	-6.9	9.4	17.4	44.8
Egypt	1.4	3.8	-5.0	-11.8	-16.0
Greece	-0.7	-7.0	2.0	8.2	24.6
Hungary	0.5	-6.3	13.3	15.5	45.9
India	0.0	-2.1	6.2	11.3	46.1
Indonesia	-1.5	-8.7	-7.0	-14.3	0.8
Korea	-2.9	-2.7	-2.9	1.0	51.9
Malaysia	-1.5	-6.1	-7.9	-12.2	-7.7
Mexico	-0.9	-3.8	4.9	11.6	51.8
Pakistan	0.0	-5.5	-6.2	-9.7	1.5
Peru	-0.7	-5.9	-16.3	-19.7	11.0
Philippines	-4.4	-6.1	1.6	-8.0	8.7
Poland	-0.5	-3.2	13.7	10.3	24.9
Qatar	0.1	1.7	2.4	2.4	8.8
Russia	-1.6	-2.5	15.6	15.9	26.4
South Africa	-0.8	-8.6	-4.1	7.9	26.7
Taiwan	-0.7	0.7	2.0	16.2	54.3
Thailand	-2.7	-8.4	-6.6	-5.7	0.3
Turkey	1.1	-2.5	-0.4	-21.6	-11.9
UAE	-1.1	-2.4	9.3	22.2	42.4
Con Discretionary	-5.2	-4.2	-5.5	-8.1	8.2
Con Staples	-2.0	-5.2	0.4	-2.2	13.1
Energy	-3.0	-4.8	10.2	10.0	18.6
Financials	-2.3	-6.0	0.9	2.9	16.1
Health Care	-4.0	-3.0	5.7	2.6	18.3
Industrials	-2.4	0.2	8.3	12.1	32.2
Info Technology	-1.1	-1.2	-2.7	4.7	55.6
Materials	-0.3	-2.6	3.9	15.5	55.8
Real Estate	-3.7	-9.1	-10.4	-6.6	-10.3
Communication Services	-4.4	-5.8	-5.9	1.0	4.7
Utilities	-1.5	-8.3	-2.1	-1.3	7.3
EMF	-2.7	-4.0	-0.9	2.1	22.1
EM Asia	-2.9	-3.8	-2.7	0.4	20.6
EM Europe	-1.1	-3.0	13.7	11.8	24.4
EM Latin America	-4.1	-6.0	7.5	2.4	27.5

Source: Refinitiv Datastream, MSCI

Research Analysts
Kin Nang Chik / 852 2101 7482
kinnang.chik@credit-suisse.com

Asian Daily

12 July 2021

Asia Pacific Strategy

Credit Suisse valuation snapshot

Figure 1: Country - DDM based valuations

9-Jul-21	Implied Discount Rate (%)			Equity Risk Premium (%)				Implied Discount Rate (%)			Equity Risk Premium (%)		
	Current	5Y avg	Std Dev	Current	5Y avg	Std Dev		Current	5Y avg	Std Dev	Current	5Y avg	Std Dev
Australia	9.4	9.9	0.3	8.0	8.0	0.7	Malaysia	10.1	9.9	0.2	6.9	6.3	0.5
China	7.5	7.9	0.4	4.5	4.6	0.5	Philippines	9.2	9.5	0.4	5.4	4.7	1.4
Hong Kong	7.6	7.9	0.3	6.6	6.5	0.6	Singapore	9.7	10.0	0.3	8.3	8.1	0.7
India	10.2	11.1	0.4	4.0	4.3	0.6	Taiwan	10.2	10.8	0.5	9.8	10.0	0.4
Indonesia	11.0	11.1	0.4	4.5	3.9	0.5	Thailand	9.9	10.7	0.4	8.3	8.7	0.5
Korea	10.1	11.1	0.7	8.0	9.2	0.7	Asia ex Japan	10.0	10.6	0.4	8.7	8.6	0.6

Source: Refinitiv Datastream, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Figure 2: Historical valuations

9-Jul-21	12m fwd PE		Trailing P/B (x)		Trailing Div. Yield (%)	
	Current	5Y avg	Current	5Y avg	Current	5Y avg
Australia	16.9	16.4	2.4	2.0	3.0	4.1
China	14.7	12.8	2.1	1.9	1.5	1.9
Hong Kong	17.0	15.6	1.4	1.3	2.5	2.9
India	22.0	18.9	3.5	3.0	1.0	1.3
Indonesia	14.3	15.3	2.2	2.6	2.6	2.7
Japan	15.6	14.4	1.5	1.3	2.0	2.2
Korea	11.4	10.4	1.5	1.1	1.5	2.0
Malaysia	13.5	15.8	1.6	1.7	3.5	3.1
Philippines	17.7	16.7	1.9	2.1	1.3	1.6
Singapore	14.0	13.2	1.3	1.2	2.9	4.0
Taiwan	15.8	14.8	2.8	2.0	2.5	3.6
Thailand	17.9	15.6	2.0	2.0	2.3	2.9
Asia Pac ex JP sectors						
Cons. Discretionary	25.3	18.8	3.4	2.5	0.5	1.3
Consumer Staples	23.7	22.1	4.1	3.5	1.9	2.2
Energy	12.1	12.5	1.2	1.2	2.7	3.3
Financials	10.1	10.3	1.2	1.3	3.1	3.8
Health Care	39.0	30.9	6.5	5.6	0.8	1.0
Industrials	14.3	13.4	1.7	1.3	1.7	2.5
Information Tech	16.3	15.0	3.2	2.5	1.8	2.1
Materials	10.9	12.9	2.0	1.6	3.0	3.4
Real Estate	9.4	10.7	0.9	0.9	3.9	3.8
Communication Services	22.8	19.5	3.9	2.7	0.9	2.5
Utilities	14.0	13.6	1.4	1.4	3.6	3.5
Asia Pacific	15.3	14.1	1.8	1.6	1.9	2.5
Asia ex Japan	14.9	13.4	2.0	1.7	1.8	2.3
Asia Pac ex JP	15.2	13.9	2.1	1.7	1.9	2.6

Source: Refinitiv Datastream, MSCI

Figure 3: Index - absolute performance in US$ (%)

9-Jul-21	MSCI Index performance in US$					
	1W	1M	3M	6M	12M	YTD
Australia	-0.6	-3.7	2.1	3.5	31.6	7.5
China	-4.6	-5.9	-6.1	-9.6	1.7	-6.2
Hong Kong	-0.6	-2.2	-1.7	2.9	19.4	6.7
India	0.0	-2.1	6.2	7.7	46.1	11.3
Indonesia	-1.5	-8.7	-7.0	-18.1	0.8	-14.3
Japan	-1.1	-2.5	-2.5	-2.7	20.6	-0.4
Korea	-2.9	-2.7	-2.9	-8.2	51.9	1.0
Malaysia	-1.5	-6.1	-7.9	-12.1	-7.7	-12.2
Philippines	-4.4	-6.1	1.6	-10.1	8.7	-8.0
Singapore	-0.2	-2.8	-2.2	1.4	20.0	7.2
Taiwan	-0.7	0.7	2.0	8.5	54.3	16.2
Thailand	-2.7	-8.4	-6.6	-10.8	0.3	-5.7
Asia Pac ex JP sectors						
Cons. Discretionary	-5.1	-3.7	-5.1	-12.0	10.8	-7.4
Consumer Staples	-1.7	-4.7	-1.5	-8.0	8.1	-4.4
Energy	-2.2	-7.3	1.7	-0.6	12.8	3.7
Financials	-1.7	-5.4	-1.5	1.1	19.7	4.6
Health Care	-3.7	-3.8	4.2	-0.6	15.6	0.6
Industrials	-1.6	0.1	5.6	6.8	30.5	12.5
Information Tech	-1.1	-1.1	-2.8	-3.5	55.3	4.5
Materials	1.0	-1.3	4.0	2.7	46.1	11.4
Real Estate	-2.2	-6.2	-5.3	-0.9	3.5	-0.5
Communication Services	-4.7	-5.6	-7.4	-4.0	3.4	0.0
Utilities	-0.6	-6.8	-1.9	-4.4	5.8	-0.2
Asia Pacific	-2.0	-3.3	-2.2	-3.0	21.4	1.0
Asia ex Japan	-2.7	-3.7	-2.6	-4.0	20.5	1.0
Asia Pac ex JP	-2.4	-3.7	-2.0	-3.1	21.8	1.8

Source: Refinitiv Datastream, MSCI

Figure 4: Forecast valuations

9-Jul-21	EPS Growth (%)			P/E (x)			3M chg in EPS est (%)		P/B (x)			Dividend Yield (%)		
	2020	2021	2022	2020	2021	2022	2021	2022	2020	2021	2022	2020	2021	2022
Australia	-20.1	29.8	17.3	25.4	19.5	16.7	5.3	10.9	2.37	2.27	2.21	2.7	3.7	4.2
China	4.0	16.8	18.5	18.8	16.1	13.6	-2.6	-2.7	2.08	1.93	1.74	1.5	1.6	1.8
Hong Kong	-25.6	32.1	13.5	24.3	18.4	16.2	-1.3	0.2	1.40	1.33	1.26	2.4	2.7	3.0
India	11.8	33.3	16.6	31.0	23.2	19.9	4.5	2.9	3.68	3.35	3.00	1.1	1.3	1.5
Indonesia	-23.8	27.6	20.7	20.1	16.0	13.3	-0.9	-2.0	2.32	2.14	1.98	2.8	3.1	3.7
Japan	-28.5	21.5	21.3	23.8	19.7	16.2	6.1	3.7	1.57	1.47	1.38	2.0	2.0	2.2
Korea	17.3	99.3	5.0	23.4	11.7	11.2	22.2	5.1	1.39	1.34	1.22	2.2	1.8	1.9
Malaysia	-34.6	107.4	-6.0	26.0	12.5	13.3	-1.7	-0.6	1.58	1.50	1.43	3.0	4.8	4.2
Philippines	-47.6	53.4	24.6	31.0	20.2	16.2	-5.6	-4.5	1.83	1.74	1.61	1.5	1.5	1.8
Singapore	-34.1	45.0	13.4	21.7	15.0	13.2	3.6	1.3	1.29	1.22	1.17	2.9	3.8	4.3
Taiwan	26.8	43.4	2.2	23.0	16.0	15.7	17.7	9.6	2.91	2.63	2.44	2.4	3.3	3.5
Thailand	-44.9	60.2	14.1	31.1	19.4	17.0	6.7	1.8	2.12	1.95	1.85	2.2	2.8	3.0
Asia Pac ex JP sectors														
Cons. Discretionary	-11.5	41.6	41.8	42.9	30.3	21.4	-14.0	-8.6	3.49	3.23	2.88	0.5	0.6	0.8
Consumer Staples	6.9	13.8	11.1	28.7	25.2	22.7	-1.9	-2.0	4.12	3.85	3.58	1.9	2.1	2.3
Energy	-37.7	93.1	11.3	24.5	12.7	11.4	8.2	5.8	1.20	1.15	1.08	2.6	3.3	3.5
Financials	-11.1	22.2	8.9	12.9	10.6	9.7	4.1	3.0	1.18	1.12	1.04	3.0	3.7	4.1
Health Care	24.8	55.1	1.1	59.0	37.9	37.5	-0.5	-1.9	6.88	6.02	5.38	0.7	1.0	0.9
Industrials	-22.7	83.8	5.3	27.7	15.1	14.2	14.9	5.0	1.64	1.50	1.39	1.8	2.2	2.4
Information Tech	40.5	42.9	18.4	25.7	18.0	15.2	8.0	4.4	3.09	2.92	2.60	2.2	2.2	2.4
Materials	1.7	95.5	-0.2	21.4	11.0	11.0	20.8	22.0	2.06	1.88	1.75	2.6	4.8	4.6
Real Estate	-9.9	13.9	12.9	11.6	10.2	9.0	-1.9	-1.5	0.86	0.81	0.76	4.0	4.4	4.8
Communication Services	12.7	64.6	-9.6	35.3	21.5	23.7	31.2	-4.1	4.14	3.60	3.23	0.8	0.9	1.0
Utilities	14.9	-3.3	10.9	14.4	14.8	13.4	-5.4	-3.9	1.32	1.25	1.20	3.9	3.8	4.1
Asia Pacific	4.7	33.2	11.2	21.5	16.2	14.5	5.9	2.7	1.83	1.71	1.59	2.0	2.3	2.5
Asia ex Japan	2.0	37.8	12.0	21.7	15.8	14.1	5.8	1.3	2.00	1.87	1.71	1.9	2.1	2.3
Asia Pac ex JP	-2.1	39.2	11.2	22.4	16.1	14.5	5.8	2.3	2.05	1.92	1.77	2.0	2.4	2.6

Source: Refinitiv Datastream. Note: PE and EPS growth numbers for Australia and Japan corresponds to Jun 20-22 and Mar 20-22; EPS change numbers correspond to Jun 21-22 and Mar 22-23, respectively.

Research Analysts
Kin Nang Chik / 852 2101 7482
kinnang.chik@credit-suisse.com

Asian Daily

13 July 2021

China Internet Sector

Investors' key questions

- Below is the summary of the three key questions from investors recently amid share price correction and regulatory headwind.
- Earnings. We believe street to have factored in conservative earnings expectation for 2021, but we see downside risk in late 3Q for 2022 numbers; Bloomberg consensus estimates +23% revenue and +36% earnings for Top 5 internet companies, appears optimistic, in our view.
- Regulation. We believe the central government wants internet giants to stay competitive globally and grow in an orderly manner, but the government's aim is not to curb the industry's development. The recent actions are meant to establish rules for a pro-competition environment and to align people's interest and national security.
- Positioning. We sense that some long-only investors have also started to cut core holding. While it is hard to predict the next policy move, but we suggest names with moats that lower competitive risk, and upside in monetisation potential, which provide earnings visibility over the next few years despite the volatility in share price. We suggest gradually accumulating on dip: Tencent, Meituan, PDD, and Bili.

Earnings: Has street factored in all the risks into the numbers?

In 1H, the internet giants guided down 2021 expectations, citing increased investments for growth and social responsibilities (e.g., supporting SMEs). For example, BABA guided no earnings growth for the upcoming fiscal year, and Tencent would reinvest part of its earnings growth to capture structural opportunities (game, To-B and short video). So, we believe 2021 earnings have adequately factored in rather conservative expectations, but we do see risks for 2022.

If we were to look at the aggregate numbers for the Top 5 internet companies by market cap (Tencent, BABA, Meituan, JD, and PDD), Bloomberg consensus estimates 23% revenue growth for 2022 and a stronger +36% earnings, which may look optimistic given the current regulatory and market conditions. From a timing prospective, we see risk for street to adjust down 2022 earnings expectation around late 3Q given (1) by late 3Q, street could have better clarity on results and the financial implications of recent cases (e.g., Didi cyber security, Meituan Anti-trust), (2) 1H21 YoY comp is somehow distorted by COVID last year, 3Q would give a better sense for street to assess the true underlying momentum. 3Q-4Q is also a time when analysts roll forward their earnings estimates for the next year, (3) Over few months, the platforms have been adjusting their take rate to enhance transparency or support SMEs, including BABA waiving some technology fee, Meituan changing commission rate calculation, and payment platforms lowering the take rate for small merchants. The impact on topline and margin would be better reflected in 3Q numbers and beyond.

Regulation: What does the central government want to achieve?

We believe the recent comments from the Editor-in-Chief of The Global Times, a state-backed newspaper, could shed some light on the government's opinion.

Overall, he believes that the recent actions by the central government should not be regarded as signals that the Chinese government is going to take down private internet enterprises. Instead, it shows the government's determination to regulate the market after years of "wild growth" and prepare for an era of orderly and sustainable development. He highlighted a few public expectations on internet companies: (1) following the social ethic and legal framework, (2) helping the government to fill in the blanks in regulation and make contributions to building the regulation framework, not taking any regulatory arbitrage, (3) amid heightened geopolitical tension, high-tech, internet companies should be more mindful of national security than ever, and (4) become the role model in setting the right values for the young generation.

In conclusion, he believes the actions are meant to establish rules for a pro-competition environment to help internet companies accelerate development and to align people's interest and national security.

Our view: The government hopes to safeguard data security, promote fair competition and social consideration, while continuing to encourage innovation for global competitiveness. Afterall, we believe the central government wants internet giants to stay competitive globally and grow in an orderly manner, but the government does not aim to curb their development.

Positioning: What to accumulate? From our discussion with investors, they generally agreed that valuation looks more attractive, for example, Tencent 24x 2022E P/E is at its historical low-end; BABA's core e-commerce already implies a 10x P/E. That said, they were hesitant to cite the unpredictability of regulatory moves. We sense that some long-only investors have started to cut core holding, this includes consensus long such as Tencent and Meituan.

While it is hard to predict the next policy move, we suggest to gradually accumulate on dip for names with higher growth ceiling in their respective sectors, moats that lower competition risk, and upside in monetisation potential, which provide earnings visibility over the next few years despite the volatility in share price. Our pecking order still is Tencent, Meituan, and PDD for the big caps. We also like Bili's under-monetised traffic, moat in content, and its thriving community.

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
Alibaba	BABA.N	O	205.94	253.0	0.0	22.9	03/21	0.0	0.0	61.01	76.32	(6.3)	25.1	21.9	17.5	0.0	3.2	380.0	200.0
Tencent	0700.HK	O	534.5	750.0	0.0	40.3	12/20	0.0	0.0	14.93	18.72	16.6	25.3	29.8	23.8	0.0	5.0	850.0	550.0
Meituan	3690.HK	O	285.2	374.0	0.0	31.1	12/20	0.0	0.0	(1.62)	1.73	n.m	n.m	n.m.	137.5	0.0	11.1	460.0	240.0
JD	JD.OQ	O	73.56	105.0	0.0	42.7	12/20	0.0	0.0	7.86	14.07	(25.6)	79.0	60.6	33.9	0.0	3.3	130.0	65.0
Pinduoduo	PDD.OQ	O	111.07	210.0	0.0	89.1	12/20	0.0	0.0	(8.99)	(4.0)	n.m	n.m	n.m.	n.m.	0.0	18.3	220.0	80.0

Source: Refinitiv, Credit Suisse estimates

Research Analysts

Kenneth Fong / 852 2101 6395
kenneth.kc.fong@credit-suisse.com

Ivy Ji / 852 2101 7951
ivy.ji@credit-suisse.com

Jasmine Wang / 852 2101 7181
jasmine.wang@credit-suisse.com

Ashley Xu / 852 2101 7153
ashley.xu@credit-suisse.com

Asian Daily

13 July 2021

China Internet Sector

Online game industry update: Key trends and outlook

- Despite a tough comp and lack of any major launches, the online game industry is expected to grow 8% YoY in 2Q21. Below, we highlight key trends based on research and discussion with industry participants.
- (1) Tencent flagship games, Honor of Kings (HoK) and Peacekeeper Elite (PE), remained steady, but PE saw higher-than-seasonal sequential user decline, according to QuestMobile. NetEase's grossing for legacy titles was also stable, except for Invincible, which saw a slip in June; (2) Pay ratio is structurally higher post-Covid. Gamers are increasingly willing to pay for cosmetics rather than to win.
- (3) User acquisition cost has been steady despite reduced marketing demand from education. SLG games have been aggressive in traffic acquisition; (4) The tightening of monetisation approval has led developers to focus on quality titles. R&D cost has seen meaningful increase; (5) Metaverse is still in the conceptual phase due to insufficient hardware support; (6) Key titles to watch out for: LoL and Harry Potter, likely to be launched during the summer holiday. Diablo Immortal will also be launched for domestic testing in July.
- Pecking order: Tencent (strong pipeline with rich IPs), NetEase (proven content track record and multiple new launches), and Bilibili.

Growth: Industry growth estimated at 8% YoY in 2Q21: According to Gamma data, mobile industry revenue growth slowed to 3% YoY in May due to the lacklustre performance of new launches (none made it to the Top 20 for the first month). June saw better performance from new titles such as Mole's World by G-bits and Fantasy New Jade Dynasty by Perfect World. Thus, we expect a slight sequential pick-up in industry revenue growth in June vs May. For the full quarter, we estimate industry revenue to be at 8% YoY, roughly in line with the growth through April-May.

Key observations for key games: By key operators, neither Tencent nor NetEase has seen major new launches in 2Q, so growth will be mainly driven by existing titles. For Tencent, we expect its flagship titles, Honor of Kings (HoK) and PeaceKeeper Elite (PE), to continue to grow steadily in 2Q. According to QuestMobile, PE has seen higher-than-seasonal sequential decline in MAU/DAU in recent months, which we believe could be due to lack of major map updates. We believe near-term grossing can still be supported by stepping up monetisation efforts, but its scope for monetisation may be narrower than for MOBA game like HoK, which can constantly introduce new characters. For NetEase, grossing for legacy titles has been largely stable, except for Invincible, which saw volatility in June.

Paying habit: Post Covid, we continue to notice structurally higher paying propensity, and we remain constructive on the growth outlook for the industry. Growth for 2H would be underpinned by several key launches. Besides, players, especially those from the younger generations, are increasingly willing to pay for unique game play or high-quality games. Increasingly, gamers are willing to pay for cosmetics of the character (e.g., skin) than the just pay-to-win (e.g., power and skills).

Traffic acquisition: Short-video platforms and game verticals such as Taptap and BILI have remained key channels for user acquisition. Despite the reduced marketing demand from certain industries such as online education, so far there has been no immediate impact on user acquisition cost observed for games, according to our discussion with industry participants. Meanwhile, although leading players such as Tencent and NetEase have also increased their focus on user acquisition through above-mentioned channels, they remain disciplined in ROI to protect profitability. By genre, SLG games have been relatively more aggressive in traffic acquisition.

Development cost: The tightening of monetisation approval has led developers to focus on high-quality titles. The success of Genshin Impact, a high-quality title with multi-year development cycle, in 2H20 also demonstrates that high development cost can be paid back in the form of significantly reduced user acquisition cost after launch. These combined have led to intensified competition for talent in the industry in recent months. According to Gama data, salary for core R&D positions in key cities have seen 25-50% increase in 2018-21.

Metaverse: Based on our discussion with industry participants, Metaverse remains in the conceptual stage currently. Commercialisation of Metaverse requires support from AR/VR technology and hardware, which will still take time to mature. Industry participants also mentioned that due to the cultural differences between Asian and Western gamers, sandbox games such as Roblox will likely be less popular in China.

New game expectation: For Tencent: *League of Legends Mobile,* one of the highly anticipated titles by Tencent, could be scheduled for the summer, and we expect grossing for the first month to be ~Rmb1bn. *DnF Mobile*, which so far has had less visible launch time, we tentatively put in a late 4Q launch. **For NetEase**, *Harry Potter: Magic Awakens* conducted a late-stage paid test recently and may be launched in August. We expect domestic grossing in the first month to be Rmb300-500 mn. We believe the more important implication for this IP is for NetEase to demonstrate its R&D capability and expand globally. *Diablo: Immortal* will launch its domestic testing in July and may be released by year-end. Testing feedback will be closely followed, and we estimate the first-month domestic grossing to be ~Rmb700 mn. Lastly, the upcoming launch of *Undawn*, a survival game from Tencent, which is similar to NetEase's *Life After,* is also worth monitoring.

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
Tencent	0700.HK	O	534.5	750.0	0.0	40.3	12/20	0.0	0.0	14.93	18.72	16.6	25.3	29.8	23.8	0.0	5.0	850.0	550.0
Netease	NTES.OQ	O	108.33	145.0	0.0	33.9	12/20	0.0	0.0	28.27	33.88	27.9	19.9	24.8	20.7	1.0	5.2	166.75	108.75
Bilibili	BILI.OQ	O	106.74	139.0	0.0	30.2	12/20	0.0	0.0	(13.8)	(6.3)	n.m	n.m	n.m.	n.m.	0.0	41.1	180.7	83.4

Source: Refinitiv, Credit Suisse estimates

Research Analysts
Kenneth Fong / 852 2101 6395
kenneth.kc.fong@credit-suisse.com

Ivy Ji / 852 2101 7951
ivy.ji@credit-suisse.com

Asian Daily

13 July 2021

Beijing Easpring Material Technology (300073.SZ)

1H21 prelim results up by 181-208% YoY, beat on strong volume

Upgrade to NEUTRAL

Previous Rating: UNDERPERFORM

Target price (Rmb): 80.00

Previous target price (Rmb): 45.00

- Easpring announced 1H21 prelim results could reach Rmb410mn-450mn, (up 181-208% YoY), attributing the growth to (1) growth in sales volume and (2) increase in equity investments. We believe most positives are priced in. Increase earnings estimates, lift TP to Rmb80 from Rmb45. Upgrade to NEUTRAL.
- Cathode has seen strong demand growth. China Jun-2021 xEV battery installation reached 11.1GWh, up 136%. We expect xEV battery installation to continue lending support to cathode demand, and Easpring is one of the top beneficiaries.
- We increase Easpring 2021E-23E earnings by 88%/43%/16% to reflect higher sales volume assumptions. Our new TP of Rmb80.0 (from Rmb45.0) is based on the average of (1) 35.0x 2021E-23E average EV/EBITDA and (2) 5.5x 2021E P/B.
- Valuation: Easpring shares are currently trading at 38x/34x 2021E/22E P/E and 7.6x/6.5x 2021E/22E P/B, over 2x SD above mean.

Price (12-Jul-21, Rmb)	**74.93**	Est. pot. % chg. to TP			6.8
Mkt cap (Rmb/US$ mn)	33,990 / 5,251	Blue sky scenario (Rmb)			120.0
Number of shares (mn)	453.62	Grey sky scenario (Rmb)			5.0
Free float (%)	72.9	**Performance**	**1M**	**3M**	**12M**
52-wk range (Rmb)	74.93 - 30.84	Absolute (%)	30.1	64.0	119.7
ADTO-6M (US$ mn)	118.3	Relative (%)	31.9	60.1	111.7

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	3,183.3	9,143.6	10,669.1	14,403.4
EBITDA (Rmb mn)	416.2	1,142.1	1,320.8	1,504.6
EBIT (Rmb mn)	338.0	948.1	1,061.3	1,182.6
Net profit (Rmb mn)	384.9	900.0	1,000.0	1,100.0
EPS (CS adj.) (Rmb)	0.85	1.98	2.2	2.42
Chg. from prev. EPS (%)	n.a.	87.5	42.9	15.8
Consensus EPS (Rmb)	n.a.	1.38	1.8	2.34
EPS growth (%)	n.m.	133.8	11.1	10.0
P/E (x)	88.3	37.8	34.0	30.9
Dividend yield (%)	0.2	0.5	0.6	0.6
EV/EBITDA (x)	79.8	30.1	25.7	22.8
P/B (x)	9.1	7.62	6.46	5.53
ROE (%)	11.5	22.0	20.6	19.3
Net debt/equity (%)	(20.2)	7.3	(0.8)	4.8

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 1: Easpring earnings forecasts revision

Easpring (300073.SZ)		New			Old			Chg%		
P&L accounts	**Unit**	**2021E**	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**
Revenue	**Rmb mn**	**9,144**	**10,669**	**14,403**	**5,923**	**8,677**	**11,543**	**54%**	**23%**	**25%**
COGS	Rmb mn	(7,729)	(9,221)	(12,813)	(5,167)	(7,654)	(10,211)	50%	20%	25%
Gross profit	**Rmb mn**	**1,414**	**1,449**	**1,590**	**756**	**1,023**	**1,333**	**87%**	**42%**	**19%**
EBIT	Rmb mn	948	1,061	1,183	454	708	1,006	109%	50%	18%
EBITDA	Rmb mn	1,142	1,321	1,505	648	968	1,328	76%	36%	13%
Net Profit	**Rmb mn**	**900**	**1,000**	**1,100**	**480**	**700**	**950**	**87%**	**43%**	**16%**
EPS	Rmb/sh	1.98	2.20	2.42	1.06	1.54	2.09	87%	43%	16%
CS NP vs. Consensus	%	46%	23%	4%	-22%	-14%	-10%	68pps	37pps	14pps
CS EPS vs. Consensus	%	44%	23%	4%	-23%	-14%	-10%	67pps	37pps	14pps
BS & CF	**Unit**	**2021E**	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**
Cash	Rmb mn	1,283	1,968	2,376	1,492	1,646	1,934	-14%	20%	23%
Total debt	Rmb mn	-	-	-	-	-	-	-	-	-
Net debt	Rmb mn	(1,283)	(1,968)	(2,376)	(1,492)	(1,646)	(1,934)	-14%	20%	23%
Equity	Rmb mn	4,545	5,360	6,257	4,202	4,773	5,547	8%	12%	13%
Net debt/equity	**%**	**-28%**	**-37%**	**-38%**	**-36%**	**-34%**	**-35%**	**7pps**	**-2pps**	**-3pps**
ROE	%	20%	19%	18%	11%	15%	17%	8pps	4pps	0pps
OCF	Rmb mn	287	1,479	1,322	414	889	1,173	-31%	66%	13%
Capex	Rmb mn	(550)	(600)	(700)	(550)	(600)	(700)	0%	0%	0%
FCF	**Rmb mn**	**(263)**	**879**	**622**	**(136)**	**289**	**473**	**94%**	**204%**	**32%**
Operation data	**Unit**	**2021E**	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**
Sales volume	kt	49	55	75	34	47	66	46%	17%	14%
ASP	Rmb/t	181,969	188,455	186,615	169,477	177,950	169,053	7%	6%	10%
Unit COGS	Rmb/t	(155,163)	(164,628)	(167,920)	(149,991)	(159,140)	(151,676)	3%	3%	11%
Unit GP	**Rmb/t**	**26,806**	**23,827**	**18,695**	**19,486**	**18,810**	**17,376**	**38%**	**27%**	**8%**
Unit GP Margin	%	15%	13%	10%	11%	11%	10%	3pps	2pps	0pps

Source: Credit Suisse estimates

Prelim 1H21 beat on strong volume

Easpring announced preliminary 1H21 net income could reach Rmb410mn-450mn, or up 181-208% YoY. The company attributes the strong growth to (1) strong growth in sales volume and (2) increase in equity investments. The prelim 1H21 results imply 2Q21 NP of Rmb261mn (+130% YoY) to Rmb301mn (+166% YoY). We expect the electric vehicle value chain to see continuous strong volume growth on the back of rising xEV production and sales. Easpring, as a leading cathode maker, is one of the top beneficiaries. In the near term, we believe most of the positives are priced in. We revise up earnings estimates, lift TP to Rmb80.0 from Rmb45.0. Upgrade to NEUTRAL.

Solid battery installation to lend support to cathode demand

Cathode, Easpring's major products, has seen strong downstream demand growth. China Jun-2021 xEV battery installation reached 11.1GWh, up 136% YoY and up 13.8% MoM. 6M21 battery installation reached 52.5GWh, up by 200% YoY. With xEV production and sales still on the rise, we expect xEV battery installation to continue lending support to cathode demand.

Earnings forecasts revision

We increase Easpring 2021E-23E earnings by 88%/43%/16% to reflect higher cathode sales volume assumptions (+46/+17/+14%). We rate Easpring NEUTRAL as we believe positives are mostly priced in now, including the positive outlook for volume growth and the company's expansion. Our new TP of Rmb80.0 (from Rmb45.0) is based on the average of (1) 35.0x 2021E-23E average EV/EBITDA, close to 0.5x SD above historical average; and (2) 5.5x 2021E P/B, close to 1.5x SD above mean.

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
Easpring	300073.SZ	N (U)	74.93	80.0 (45.0)	77.8	6.8	12/20	87.5	42.9	1.98	2.2	133.8	11.1	37.8	34.0	0.5	7.6	120.0	5.0

Source: Refinitiv, Credit Suisse estimates

Research Analysts

Peter Li / 852 2101 6320
peter.li@credit-suisse.com

Yang Luo / 852 2101 6328
yang.luo@credit-suisse.com

Jocelyn Zhang / 852 2101 6312
jocelyn.zhang@credit-suisse.com

Asian Daily | Focus List Stock

12 July 2021

JD.com (JD.OQ)

2Q21 preview: Top-line growth remains healthy; margin and regulatory outlook are the focus

Maintain OUTPERFORM
Previous Rating: OUTPERFORM

Target price (US$): 105.00
Previous target price (US$): 105.00

- Revenue is projected to grow by 24.2% to Rmb250 bn (was 22.5%), as the 618 performance exceeded expectation (GMV +27.7% YoY). Non-GAAP OPM might tick down 1.5 pp YoY to 1.25% on strategic investments in JX and JDL.
- Key focus of investors: (1) Growth outlook: 1H21 revenue growth so far is slightly ahead of expectation. Focus would be management tone and growth outlook into 2H, especially for lower-tier cities and product diversification; (2) Margin: While JD remains committed to invest in new businesses (community group purchase), tighter regulation on excessive subsidies could also affect investment level (i.e., lower margin drag) for the year.
- (3) Potential impact of regulations covers pricing (i.e., selling products below cost), take rate outlook and data privacy; we see low risk for these.
- We lift our 2021E by 8% to reflect strong performance in June and lower-than-expected investments in CGP. We keep our SOTP-based TPs for ADR/H-share stocks unchanged at US$105.00/HK$408.00. JD is currently trading at a 27x 2022E core P/E, excl. JDL and new businesses investments. We expect more clarity on the scale of investment as re-rating drivers over the next few quarters. Maintain OUTPERFORM.

Price (09-Jul-21, US$)	**73.56**	Est. pot. % chg. to TP			42.7
Mkt cap (US$ mn)	114,396	Blue sky scenario (US$)			130.0
Number of shares (mn)	1,555	Grey sky scenario (US$)			65.0
Free float (%)	69.0	**Performance**	**1M**	**3M**	**12M**
52-wk range (US$)	107 - 60.52	Absolute (%)	1.3	(8.5)	9.2
ADTO-6M (US$ mn)	294.2	Relative (%)	7.1	(2.3)	7.3

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	745,802	957,055	1,182,950	1,395,182
EBITDA (Rmb mn)	15,763.1	9,356.2	19,399.2	28,486.6
EBIT (Rmb mn)	12,342.8	5,163.5	13,839.2	22,658.6
Net profit (Rmb mn)	16,827.6	12,587.3	22,637.8	31,570.0
EPS (CS adj.) (Rmb)	10.56	7.86	14.07	19.52
Chg. from prev. EPS (%)	n.a.	7.6	(0.1)	(0.5)
Consensus EPS (Rmb)	n.a.	9.74	15.38	20.84
EPS growth (%)	45.7	(25.6)	79.0	38.8
P/E (x)	45.1	60.6	33.9	24.4
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	42.3	75.3	35.5	23.5
P/B (x)	3.42	3.25	3.0	2.7
ROE (%)	10.4	5.5	9.2	11.7
Net debt/equity (%)	(33.2)	(15.5)	(20.4)	(25.3)

Source: Company data, Refinitiv, Credit Suisse estimates

2Q preview: We expect 24.2% YoY revenue growth to Rmb250 bn (was +22.5%), as the 618 performed better than expected (GMV +27.7% YoY), in spite of soft Apr/May. By category, we expect electronics and home appliances to decelerate (+18% YoY) on a high base driven by pent-up demand last year, and general merchandise products to grow 25% YoY. Services revenue is projected to post 53% growth, largely driven by logistics and other services revenue.

Non-GAAP OPM might tick down 1.5 pp YoY to 1.25% on a high base and strategic investments: (1) JD Retail adj. OPM to fall slightly to 2.5% (was 2.4%) as the 618 came in better than expected and merchants participated actively in promotions; (2) losses from new businesses would be Rmb2.5 bn (was Rmb2.8 bn), as overall industry is slowing down in volume and subsidies amid tightening regulations; and (3) JDL loss likely to narrow sequentially to Rmb200 mn (was Rmb700 mn) as utilisation ramps up.

Figure 1: 2Q21 preview table

RMB m	2Q20	1Q21	2Q21E	QoQ (%)	YoY (%)	BBG	+/-
Total revenues	**201,054**	**203,176**	**249,702**	23%	24.2%	248,091	1%
Net product revenue	178,187	175,282	214,715	22%	21%		
Net service revenue	22,867	27,894	34,987	25%	53%		
Gross profit	28,635	29,122	33,681	16%	18%	34,723	-3%
GP margin	14.2%	14.3%	13.5%	-0.84 ppt	-0.75 ppt	14.0%	-0.51 ppt
Non-GAAP operating income	5,594	3,502	3,111	-11%	-44%		
Non-GAAP OP margin	2.78%	1.72%	1.25%	-0.48 ppt	-1.54 ppt		
Non-GAAP net income	5,911	3,968	3,479	-12%	-41%	3,993	-13%
Non-GAAP net margin	2.9%	2.0%	1.4%	-0.56 ppt	-1.55 ppt	1.6%	
Non-GAAP dil. EPS	3.51	2.47	2.17	-12%	-38%		

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

Key focus of investors:(1) Growth outlook: 1H21 revenue growth so far is slightly ahead of expectation. With that, the market could seek guidance on management tone and growth outlook into 2H. Its user growth momentum for lower-tier cities and the trend of diversification from 3C products would also be the focus. Longer term, JD's strategy is to leverage its offline presence (e.g., JD appliance stores) as well as online channels to acquire users and beef up content (e.g., livestreaming) to improve stickiness. (2) Margin trend: The company remains committed to invest in new businesses and expect similar investment level with industry leaders in 2H. That said, regulation on excessive subsidies since end-May might slow down industry growth and investment level for the year. We currently project Rmb4/5 bn losses for new businesses during 3Q/4Q, and see upside risk, if the industry continues to slow down with less subsidies. (3) Impact of new regulations: This covers (1) whether the new regulation of prohibiting selling below cost would affect JD's regular promotion strategy, which is unlikely, in our view; (2) take rate outlook, as peers have been lowering take rate to support merchants. JD's take rate is lower compared with peers, hence, sees less pressure; (3) Data protection, JD is not involved in sensitive information collection, hence, less vulnerable to regulatory risk, in our view.

Maintain OUTPERFORM with TP unchanged. We lift our 2021E by 8% to reflect strong performance in June and lower-than- expected investments in CGP. We keep our SOTP-based TPs for ADR/H-share stocks unchanged at US$105.00/HK$408.00. Maintain OUTPERFORM.

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
JD	JD.OQ	O	73.56	105.0	0.0	42.7	12/20	7.6	(0.1)	7.86	14.07	(25.6)	79.0	60.6	33.9	0.0	3.3	130.0	65.0
JD (H)	9618.HK	O	281.4	408.0	0.0	45.0	12/20	7.6	(0.1)	3.93	7.03	(25.6)	79.0	59.7	33.3	0.0	3.2	503.75	251.88

Source: Refinitiv, Credit Suisse estimates

Research Analysts
Kenneth Fong / 852 2101 6395
kenneth.kc.fong@credit-suisse.com

Ashley Xu / 852 2101 7153
ashley.xu@credit-suisse.com

Asian Daily

13 July 2021

Shandong Nanshan Aluminium Co.,Ltd. (600219.SS)

1H21 preliminary results in line with market expectation

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (Rmb): 5.90

Previous target price (Rmb): 5.70

- In-line 1H21 prelim results. Nanshan Aluminium released its 1H21 preliminary results in the range of Rmb1.4-1.6 bn, +66.9-85.6% YoY. The company attributed earnings growth to (1) higher margins of aluminium products; and (2) sales volume increase, especially for auto sheets.
- Margins to remain healthy in 2H21. We expect the supply constraint to continue to benefit aluminium middle stream. The capped supply (at ~45 mtpa) of aluminium and oversupply of alumina will continue to ensure pricing power for aluminium manufacturers along with higher profitability. Inventory continued to drop by 2.9% WoW to 834 kt as of 12 July, indicating solid demand.
- Fine-tune earnings estimates, maintain OUTPERFORM rating. We slightly revise up our 2021-23 earnings estimates for Yunnan Aluminium by 9.8%/7.4%/7.7 % to reflect higher aluminium margins and volume sales assumption. We derive a new target price of Rmb5.90 (from Rmb5.70).
- Yunnan Aluminium is currently trading at 1.5x/1.4x 2021E/22E P/B and 16.9x/16.4x 2021E/22E P/E.

Price (12-Jul-21, Rmb)	**3.97**	Est. pot. % chg. to TP			48.6
Mkt cap (Rmb/US$ mn)	47,443 / 7,329	Blue sky scenario (Rmb)			8.5
Number of shares (mn)	11,950	Grey sky scenario (Rmb)			2.5
Free float (%)	77.0	**Performance**	**1M**	**3M**	**12M**
52-wk range (Rmb)	4.67 - 2.28	Absolute (%)	2.8	10.9	70.4
ADTO-6M (US$ mn)	120.0	Relative (%)	4.6	7.0	62.4

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	22,299.0	23,741.7	24,596.0	25,414.8
EBITDA (Rmb mn)	4,534.0	5,297.6	5,384.5	5,411.1
EBIT (Rmb mn)	2,584.4	3,458.3	3,568.4	3,616.4
Net profit (Rmb mn)	2,049.4	2,800.0	2,900.0	2,950.0
EPS (CS adj.) (Rmb)	0.17	0.23	0.24	0.25
Chg. from prev. EPS (%)	n.a.	9.8	7.4	7.7
Consensus EPS (Rmb)	n.a.	0.26	0.32	0.36
EPS growth (%)	26.3	36.6	3.6	1.7
P/E (x)	23.1	16.9	16.4	16.1
Dividend yield (%)	1.4	1.9	2.0	2.0
EV/EBITDA (x)	8.7	7.1	6.5	6.1
P/B (x)	1.59	1.5	1.41	1.33
ROE (%)	6.9	9.1	8.9	8.5
Net debt/equity (%)	(17.6)	(21.5)	(25.2)	(28.7)

Source: Company data, Refinitiv, Credit Suisse estimates

1H21 preliminary results in line with market expectation

Shandong Nanshan Aluminium released its 1H21 preliminary results. Net profit attributable to equity holders is estimated in the range of Rmb1.416-1.550 bn, +66.85-82.64% YoY (up by Rmb567-701 mn compared with the corresponding period last year). According to the company, YoY earnings growth was mainly due to (1) the company's efforts to optimise the products' structure, and the release of auto sheet capacity helped improve sales volume; and (2) higher aluminium products margins due to price increase.

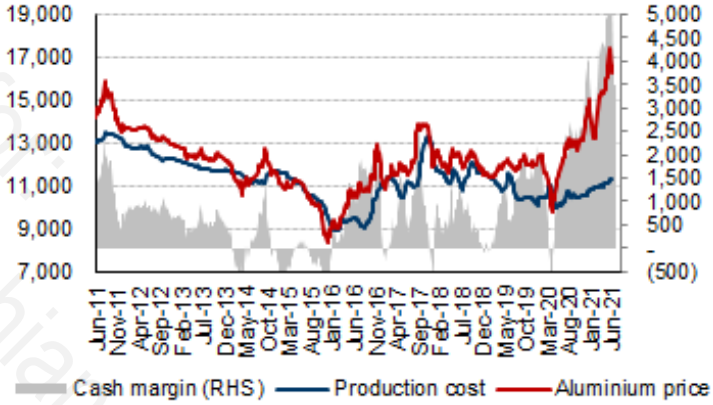
Aluminium margins to remain healthy

We expect solid downstream demand, especially from global markets, to support metals prices and margins. The supply constraints will continue to benefit aluminium middle stream. We expect the capped supply (at 45 mtpa) of aluminium and oversupply of alumina to continue to ensure midstream manufacturers' pricing power. Aluminium manufacturers should enjoy much higher profitability amid improving pricing power. Currently, despite the price fluctuation in the slow season, aluminium cash margins remain at ~R3,500/t. Jun-2021 aluminium production increased by 8.2% YoY to 3.27mt, with alumina production up 12.2% YoY. Currently the aluminium utilisation rate remains above 90%.

Fine-tune earnings estimates, maintain OUTPERFORM rating

We slightly revise up Yunnan Aluminium's 2021/22/23 earnings estimates by 9.8%/7.4%/7.7% to Rmb2.8/2.9/2.95 bn to reflect higher aluminium margins and volume sales assumption. We derive a new target price of Rmb5.90 (from Rmb5.70). We derive the new target price and OUTPERFORM rating based on the average of (1) 1.6x 2021E P/B; and (2) 12.5x 2021E-23E EV/EBITDA.

Figure 1: Aluminium cash margin at ~Rmb3,500/t



Source: SMM, Wind, Credit Suisse estimates

Research Analysts

Yang Luo / 852 2101 6328
yang.luo@credit-suisse.com

Peter Li / 852 2101 6320
peter.li@credit-suisse.com

Jocelyn Zhang / 852 2101 6312
jocelyn.zhang@credit-suisse.com

Asian Daily

12 July 2021

Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (2196.HK)

Taiwan vaccine order could generate sales of US$300 mn in 2021

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (HK$): 68.00

Previous target price (HK$): 68.00

- New orders for mRNA vaccine from Taiwan tech companies potentially totalled US$300 mn.
- We expect Fosun's mRNA vaccine to be approved in China in 3Q21.
- BNT162b2 demonstrated strong effectiveness in the real world, including against the Delta variant.
- We think Fosun's vaccine could be administered to both seniors and children and used as booster-shot once approved.

New orders for mRNA vaccine from Taiwan tech companies potentially totalled US$300 mn. Fosun announced on Monday that it will sell 10 mn shots of mRNA COVID-19 vaccine to Taiwan Semiconductor Manufacturing Co., Hon Hai Precision Industry Co. (better known as the iPhone assembler Foxconn), and a private charity controlled by Foxconn founder Terry Guo. The vaccine purchased will then be donated to the Taiwan Disease Control Centers for public vaccination. Given that each person will take two shots to get fully vaccinated, the batch will supply for about 5 mn people, or roughly 21% of Taiwan's population.

According to a Taiwan media report (source: www.taiwannews.com), the price of each dose is US$30, lower than our assumed price per shot of Rmb250 in mainland China. So the total order value from Taiwan for Fosun Pharma would be US$300 mn, about Rmb1.9 bn. The report estimated that once additional costs, such as cold chain storage, are factored in, each dose could cost Taiwan purchasers US$31-34 to acquire and deliver to Taiwan.

So far, Taiwan has imported vaccines mainly from AstraZeneca and Moderna. According to COVID-19 Global Dashboard, only 0.3% of Taiwan residents were fully vaccinated with two doses as of 9 Jul.

We expect Fosun's mRNA vaccine to be approved in China in 3Q21. Fosun obtained the exclusive rights to develop and commercialize BioNTech's mRNA COVID-19 vaccine in PRC, Hong Kong, Taiwan and Macau in Mar-2020. The in-licensed mRNA vaccine BNT162b2 was approved for emergency use in Hong Kong in Jan-2021, and was approved by the Macau government in Feb-2021. The vaccination with BNT162b2 was initiated in Hong Kong and Macau in Mar. Fosun completed subject enrollment for its Ph2 study in China in Dec-2020 and should have 6-month follow-up data for the vaccine. As per the company, it has submitted all available data to the NMPA and we believe NMPA's review could be in the final stage, but its progress was slower than we expected. Though the company has not provided approval timing update, we expect China approval in 3Q this year.

BNT162b2 demonstrated strong real-world effectiveness. BNT162b2 demonstrated 95% efficacy against the COVID-19 original strain and had similar serious adverse events (sAE) with placebo arm in an earlier published paper (2020). A recent study (15-Apr) evaluates BNT162b2 in a nationwide vaccination setting, and data from Israel's largest healthcare organization was used to evaluate its effectiveness. According to this study, the estimated vaccine effectiveness starting 7 days post the second dose was 92% for documented infection, 94% for symptomatic COVID-19, 87% for hospitalisation, and 92% for severe COVID-19, which is comparable with the efficacy reported in earlier trials. Even for the Delta variant, it still demonstrated good real-world efficacy against infection ranging from 64% (Israel) to 88% (the UK).

Price (09-Jul-21, HK$)	**54.75**	Est. pot. % chg. to TP			24.2
Mkt cap (HK$/US$ mn)	183,673 / 23,648	Blue sky scenario (HK$)			81.6
Number of shares (mn)	2,563	Grey sky scenario (HK$)			51.0
Free float (%)	52.6	**Performance**	**1M**	**3M**	**12M**
52-wk range (HK$)	64.70 - 30.60	Absolute (%)	(8.1)	58.5	94.8
ADTO-6M (US$ mn)	54.0	Relative (%)	(2.3)	64.7	92.9

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	30,163.3	55,990.0	55,988.6	43,429.1
EBITDA (Rmb mn)	4,164.7	6,800.6	5,937.8	6,714.6
EBIT (Rmb mn)	2,436.5	4,835.4	3,956.6	4,702.0
Net profit (Rmb mn)	3,662.8	4,096.5	5,136.3	7,300.1
EPS (CS adj.) (Rmb)	1.43	1.6	2.0	2.85
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	1.71	2.06	2.44
EPS growth (%)	10.3	11.8	25.4	42.1
P/E (x)	31.9	28.5	22.8	16.0
Dividend yield (%)	0.7	1.1	1.3	1.9
EV/EBITDA (x)	39.9	26.4	29.9	26.2
P/B (x)	3.17	3.39	3.4	3.49
ROE (%)	10.7	11.5	14.9	21.5
Net debt/equity (%)	28.3	58.8	54.3	50.9

Source: Company data, Refinitiv, Credit Suisse estimates

Chinese population that could be vaccinated with Fosun's vaccine. As currently nearly 1.4 bn vaccine shots have been administered in mainland China, we think there could be ~2 bn shots administered in China by end-3Q21, covering most adults. We think BNT162b2 could be administered to seniors and adolescents aged 12-15, and as booster-shots this year once approved. As BNT162b2 Ph3 trial enrolled more seniors vs China vaccines' Ph3 trials and had a good efficacy/safety profile in seniors, some seniors might prefer to take BNT162b2. It demonstrated efficacy in a Ph3 study (n=2,260) in adolescents aged 12-15, while Sinovac's vaccine has not conducted Ph3 trials in subjects below 18. Additionally, Pfizer and BioNTech are conducting Ph1/2/3 study in children 6 months to 11 years old, which could expand its approved age groups if data are positive. Last week, Pfizer and BioNTech announced that they will publish more definitive data soon for a third BNT162b2 booster dose given 6 months after the second dose, and they plan to submit the data to the regulatory agencies. Though the FDA and CDC indicated no third vaccine dose is needed, based on current evidence, we think a booster dose could become necessary eventually. Under such a scenario, BNT162b2 could be used as a booster dose in China.

Eric Zhao of Credit Suisse Securities (China) Limited ("CSS") provided administrative and other support in the preparation of this research report that do not require a license. CSS is a Sino-foreign joint venture between Founder Securities Co., Ltd. and Credit Suisse AG. CSS is not licensed to provide securities investment advisory service by the China Securities Regulatory Commission in the People's Republic of China.

Research Analysts

Yang Huang, CFA / 852 2101 6435
yang.huang@credit-suisse.com

Jason Liu / 852 2101 6465
jason.j.liu@credit-suisse.com

Jing Yang / 852 2101 6437
jing.yang@credit-suisse.com

Shirley Chen / 852 2101 6462
shirley.chen@credit-suisse.com

Asian Daily

12 July 2021

TBEA Co Ltd (600089.SS)

Positive 1H21 profit alert likely driven by price rally in polysilicon

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (Rmb): 18.70

Previous target price (Rmb): 14.46

- After market close on 12 July, TBEA issued positive 1H21 preliminary results. Recurring net profit increased by 130%-150% YoY to Rmb1.842-Rmb2bn. This implies that 2Q21 recurring net profit may reach Rmb1.31-Rmb1.47 bn.
- The company attributed the earnings increase to (1) profit growth from its subsidiary Xinte, which also issued preliminary results and expected net profit to be no less than Rmb1.15bn in 1H21. The earnings growth was driven by a price rally in polysilicon, as well as increased amount of power generation from its wind and PV projects;
- (2) positive growth in transmission and energy segments; (3) Xinjiang Joinworld Company Limited (600888.SS), in which TBEA holds 31% controlling stake, also achieved 166%-185% growth in recurring net profit and reached Rmb175-Rmb195mn.
- We increase FY21-23E EPS by 9-30% as we mark to market higher-than-expected poly price year-to-date, as well as higher output after Xinte announced capacity expansion plan. Our TP is increased to Rmb18.7 (from Rmb14.46). Maintain OUTPERFORM.

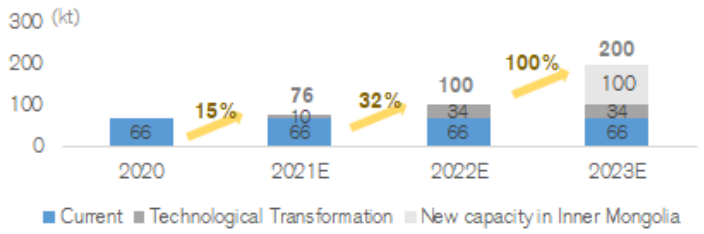
Price (12-Jul-21, Rmb)	**13.22**	Est. pot. % chg. to TP			41.5
Mkt cap (Rmb/US$ mn)	49,103 / 7,585	Blue sky scenario (Rmb)			20.0
Number of shares (mn)	3,714	Grey sky scenario (Rmb)			8.0
Free float (%)	79.3	**Performance**	**1M**	**3M**	**12M**
52-wk range (Rmb)	14.16 - 7.10	Absolute (%)	11.9	23.1	80.6
ADTO-6M (US$ mn)	225.5	Relative (%)	14.9	20.5	73.9

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	43,586.1	49,806.7	48,674.6	54,965.9
EBITDA (Rmb mn)	5,818.1	10,364.7	8,789.4	10,004.3
EBIT (Rmb mn)	3,240.7	7,821.5	6,122.2	7,099.0
Net profit (Rmb mn)	2,487.8	4,755.5	4,088.5	4,723.4
EPS (CS adj.) (Rmb)	0.67	1.28	1.1	1.27
Chg. from prev. EPS (%)	n.a.	29.3	9.1	24.2
Consensus EPS (Rmb)	n.a.	0.84	0.92	0.89
EPS growth (%)	23.3	91.2	(14.0)	15.5
P/E (x)	19.7	10.3	12.0	10.4
Dividend yield (%)	1.6	3.9	3.3	3.8
EV/EBITDA (x)	10.1	5.6	6.2	5.4
P/B (x)	1.31	1.21	1.14	1.07
ROE (%)	6.9	12.2	9.8	10.7
Net debt/equity (%)	20.9	16.2	9.7	8.4

Source: Company data, Refinitiv, Credit Suisse estimates

Positive 1H21 profit alert. After market close on 12 July, TBEA issued positive 1H21 preliminary results. Recurring net profit increased by 130%-150% YoY to Rmb1.842-Rmb2bn. The company attributed the earnings increase to (1) increase in sales volume and selling price of polysilicon, as well as the increase in the scale and power generation volume of its self-operated wind power and PV power plants from Xinte Energy (Xinte), a subsidiary owned by TBEA with 65% controlling stake. Xinte also issued preliminary results expecting net profit to be no less than Rmb1.15bn in 1H21 (vs. Rmb242mn in 1Q21); (2) Optimization of TBEA's product structure and strengthened cost control, and positive growth was achieved in transmission and energy businesses (mainly coal and power plants); (3) Xinjiang Joinworld Company Limited (600888.SS), in which TBEA holds 31% controlling stake, also achieved significant earnings growth, with recurring net profit increased by Rmb175mn-Rmb195mn, up 166%-185%.

Figure 1: Xinte: capacity expansion schedule (year-end)

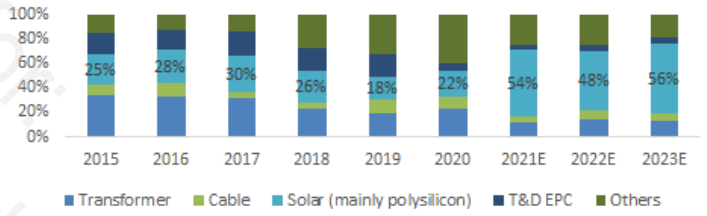


Source: Company data, Credit Suisse estimates

Polysilicon capacity to expand further in 2021-23. Xinte is implementing technology transformation on its existing capacity and plans to add another 34ktons by 1Q22. For its 100kt capacity expansion project in Inner Mongolia which will be put into production by 2023, the company recently introduced downstream players Jinko Energy and JA Solar as investors, and each will hold 9% equity interests in Inner Mongolia Xinte. We expect Xinte's total polysilicon production capacity to reach 76kt/100kt/200kt respectively in 2021/22/23E, which implies 15%/32%/100% YoY growth.

Increased revenue contribution from BOO stations. Xinte had 830MW of BOO projects which had realised revenue by the end of 2020. As per management's earlier guidance, it currently has 1.4GW of wind projects under construction, which will be connected to the grid by 2021 and realise revenue from power generation.

Figure 2: Gross profit breakdown of TBEA



Source: Company data, Credit Suisse estimates

Valuation. We revise up FY21-23E EPS by 9-30% as we mark to market higher-than-expected poly price year-to-date, as well as higher output after Xinte announced capacity expansion plan. Our TP is raised to Rmb18.7 (from Rmb14.46). Maintain OUTPERFORM.

Figure 3: TBEA: One-year forward P/E band

Source: Company data, Credit Suisse estimates

Research Analysts

Sabrina Shao, CFA / 852 2101 6305
sabrina.shao@credit-suisse.com

Gary Zhou, CFA / 852 2101 6648
gary.zhou@credit-suisse.com

Asian Daily

12 July 2021

Zhongsheng Group Holding limited (0881.HK)

1H21 profit guidance beat expectation

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

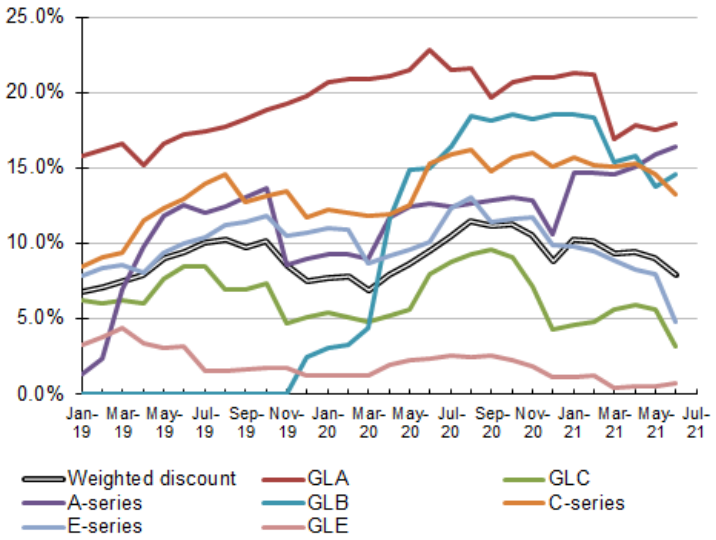
Target price (HK$): 90.00

Previous target price (HK$): 82.00

- Above expectation, Zhongsheng's positive profit alert guided its 1H21 net profit to increase >60% YoY to >Rmb 3.67 bn. We attribute the key surprise to its better than gross margin in both new car sales operation and aftersales operation, as previously the company had disclosed most information on its top line, such as new car sales volume and used-car sales volume in the first half.
- We expected share price to react positively on this result beat. We revise up 2021-23 profit estimates by 1.8%-1.9% with higher margin assumption, resulting in a higher target price of HK$90 (from HK$82).
- The company provided three reasons for the strong earnings growth in 1H21, as (1) 40% / 45% YoY total new car / luxury brand new car volume growth along with improving new car margin on tight supply; (2) after-sales service's solid growth and improving gross margin and (3) increasing commission income from auto finance and used car sales.
- In the first half, overall Mercedes-Benz brand's China market 1H21 average discount declined 1.3 pp HoH, along with 3% HoH / 28% YoY sales volume growth. The strong Mercedes-Benz brand had offset Lexus brand's slightly rising price discount (up 0.4 pp HoH).

Zhongsheng's 2Q21 luxury new car sales volume increased 21% YoY/ 8% QoQ to 83,985 units, accounting for 25% of full-year 2021 volume target of 330k units (up 20% YoY). Overall, 2Q21 new car sales volume rose 15% YoY/9% QoQ to 143,650 units, implying mass-market brand sales volume up 9% YoY/10% QoQ to 59,665 units. Zhongsheng's 2Q21 used-car sales increased 37% YoY/23% QoQ to 26,789 units, accounting for ~25% of its full-year 2021 used-car volume target of 150k units (up 40% YoY).

Figure 1: Mercedes-Benz brand retail price discount trend



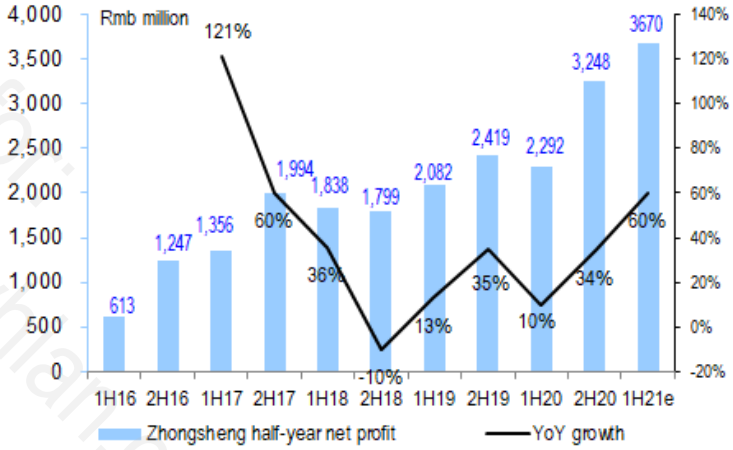
Source: Thinkercar

Price (09-Jul-21, HK$)	**75.45**	Est. pot. % chg. to TP			19.3
Mkt cap (HK$/US$ mn)	174,696 / 22,491	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$)	75.65 - 44.85	Absolute (%)	18.4	37.7	59.7
ADTO-6M (US$ mn)	34.7	Relative (%)	24.1	43.9	57.7

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	13,062.3	15,863.3	18,000.9
EBIT (Rmb mn)	8,853.7	11,143.4	13,520.7	15,481.8
Net profit (Rmb mn)	5,537.8	7,355.2	9,040.4	10,618.5
EPS (CS adj.) (Rmb)	2.28	2.93	3.6	4.23
Chg. from prev. EPS (%)	n.a.	1.9	1.8	1.8
Consensus EPS (Rmb)	n.a.	3.08	3.87	4.77
EPS growth (%)	23.1	28.4	22.9	17.5
P/E (x)	27.6	21.5	17.5	14.9
Dividend yield (%)	0.8	1.0	1.2	1.4
EV/EBITDA (x)	15.0	12.6	10.1	8.5
P/B (x)	5.4	4.31	3.55	2.94
ROE (%)	23.0	23.9	23.2	22.5
Net debt/equity (%)	60.4	53.6	32.8	13.9

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 2: Zhongsheng's half year net profit trend



Source: Company data, Credit Suisse estimates

Research Analysts

Bin Wang / 852 2101 6702
bin.wang@credit-suisse.com

Scarlett Ge / 852 2101 6760
scarlett.ge@credit-suisse.com

Asian Daily

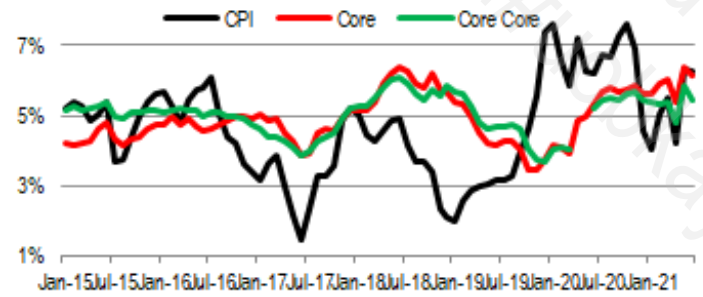
12 July 2021

India Market Strategy

182 bp of Headline CPI from edible oils/fats and fuels; some moderation ahead

- Headline CPI remained largely unchanged MoM in June, as it recorded 6.26% vs 6.3% in May (Fig 1). This was however 32bp lower than consensus expectations. Unlike May, seasonally adjusted MoM momentum in June was lower by 0.3pp vs last 10Y avg. (Fig 2).
- Fall in core CPI was broad based but led by personal care and pan, tobacco (high base in Jun-20, Fig 3). Petrol/diesel added 58bp to CPI (high base to kick in from Jul, Jul-20 saw 5%/8% MoM rise, Fig 4). Surprisingly, education rose sharply, despite being affected by lockdowns. Clothing saw minor rise, and housing stayed unchanged.
- Food inflation rose by 34bp MoM, driven by the sharp rise in oils and fats but offset by the fall in eggs, meat and fish (Fig 5). Vegetable prices continued to rise in July after a 5% rise in June (not unusual seasonally), but Jul-20 saw a bigger rise, implying lower YoY print.
- At current prices and lower duty on palm oil, food CPI can ease to 4.5% in July and headline can fall to 5.3%. Despite the 70bp higher CPI in 1Q21 (1Q Avg. 5.9% vs MPC est. of 5.2%), MPC is likely to look beyond the 1Q data, disrupted by lockdowns and distorted base. YoY trends should moderate going forward as high base kicks in.

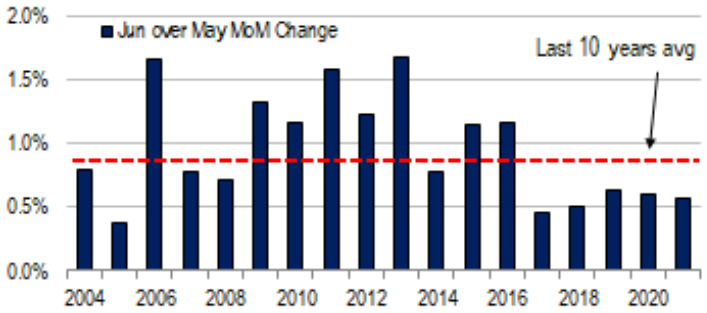
Figure 1: Headline CPI remained unchanged MoM; 32bp lower than consensus



Source: CMIE, Credit Suisse

Core CPI fell by 24bp MoM to 6.16%, led by the sharp YoY fall in personal care and pan, tobacco (helped by high base of Jun-20, Fig 3). Petrol/diesel price hike (will show up in base from July) adds 58bp to CPI (highest in 10 years, Fig 4). Education and HH goods saw sharp rise, while health, housing and clothing remained unchanged.

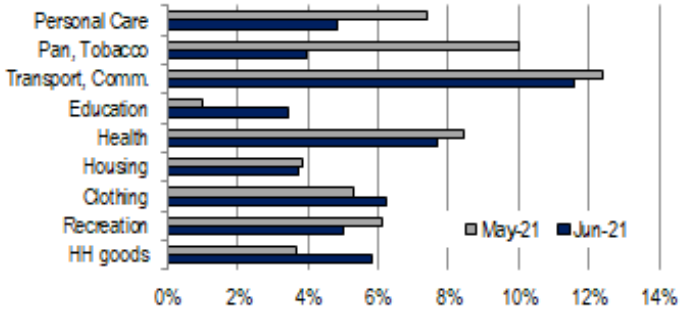
Figure 2: Sequential momentum in June lower compared to last 10 years



Source: CMIE, Credit Suisse

Unlike May, which saw unusually high sequential momentum in MoM CPI rise, Jun-21 saw a below normal sequential rise. Compared to the 10-year average of 0.9% MoM rise in June, Jun-21 saw just 0.6% rise.

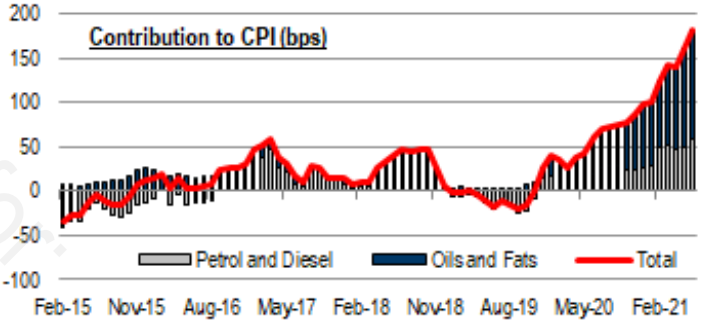
Figure 3: Broad based fall in core CPI, but led by personal care, pan, tobacco



Source: CMIE, Credit Suisse

Fuels (Petrol and Diesel) and edible oils and fats combine to add 182bp to the headline CPI (Fig 4),the highest in at least 5 years.

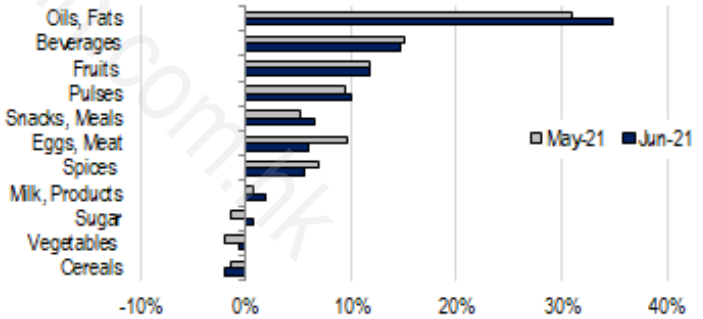
Figure 4: Fuels adding 58 bp to Headline CPI



Source: CMIE, Credit Suisse

Food CPI in Jun-21 was droven by oils and fats, offset by fall in eggs, fish, and meat and spices.

Figure 5: Oils and Fats led the rise in Food CPI



Source: CMIE, Credit Suisse

Research Analysts

Neelkanth Mishra / 91 22 6777 3716
neelkanth.mishra@credit-suisse.com

Abhay Khaitan / 91 22 6777 3747
abhay.khaitan@credit-suisse.com

Prateek Singh / 91 22 6777 3894
prateek.singh@credit-suisse.com

Asian Daily

12 July 2021

Avenue Supermarts (AVEU.BO)

1Q FY22: Gross margins below expectations, gradual recovery in revenues underway

Maintain UNDERPERFORM

Previous Rating: UNDERPERFORM

Target price (Rs): 2,615

Previous target price (Rs): 2,400

- Avenue's 1Q FY22 results were below expectations, largely on account of a disappointment in gross margins.
- Revenues declined 31% QoQ due to the effect of the COVID second wave, but were up 31% YoY on the low base of the first COVID wave. Store restrictions were greater in the second COVID wave, but consumer mobility restrictions were much much lower.
- Gross margin declined 129 bp YoY, which was a disappointment. The restriction on sales of non-essentials was greater in 1Q FY21, and thus we expected higher revenue mix from non-essentials in 1Q FY22 vs 1Q FY21, leading to better gross margins. The gross margin decline is likely due to higher promotions due to competitive intensity.
- We lower FY22 estimates by 17% due to the 1Q FY22 hit from the COVID second wave, but keep FY23 unchanged. Our TP increases to Rs2,615 on roll forward to Mar-2023. We maintain UNDERPERFORM on stretched valuations.

Price (09-Jul-21, Rs)	**3,379**	Est. pot. % chg. to TP			(22.6)
Mkt cap (Rs/US$ mn)	2,188,798 / 29,386	Blue sky scenario (Rs)			3,138
Number of shares (mn)	647.77	Grey sky scenario (Rs)			2,092
Free float (%)	22.4	**Performance**	**1M**	**3M**	**12M**
52-wk range (Rs)	3,395 - 1,974	Absolute (%)	5.8	14.6	45.6
ADTO-6M (US$ mn)	19.7	Relative (%)	5.0	9.0	3.0

Year	**3/20A**	**3/21E**	**3/22E**	**3/23E**
Revenue (Rs mn)	248,702	241,431	312,809	411,006
EBITDA (Rs mn)	21,283.1	17,430.5	24,673.8	36,893.5
EBIT (Rs mn)	17,539.0	13,288.9	20,293.5	31,517.4
Net profit (Rs mn)	13,010.8	10,994.9	15,990.9	24,418.3
EPS (CS adj.) (Rs)	20.09	16.97	24.69	37.7
Chg. from prev. EPS (%)	n.a.	(2.0)	(17.2)	0.1
Consensus EPS (Rs)	n.a.	16.85	25.31	38.11
EPS growth (%)	38.9	(15.5)	45.4	52.7
P/E (x)	168.2	199.1	136.9	89.6
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	101.4	123.5	87.6	58.6
P/B (x)	19.75	17.97	15.89	13.49
ROE (%)	15.6	9.5	12.3	16.3
Net debt/equity (%)	(28.6)	(29.4)	(20.3)	(16.5)

Source: Company data, Refinitiv, Credit Suisse estimates

1Q FY22 revenue declines 31% QoQ due to the COVID second wave impact, but impact lower than first wave: Avenue's 1Q FY22 revenues declined 31% QoQ due to the effect of the COVID second wave, which led to restricted store operations and lower consumer footfalls. The revenues were however up 31% YoY despite more restrictions on store operations in terms of days lost or hours restricted. This was because consumer mobility restrictions were much lower in the second COVID wave, and thus footfalls were better in the time the stores were open. Also there has been an addition of ~12% to retail space YoY which would be a factor when comparing YoY revenues.

Recovery underway, 45 days unrestricted opening to return to pre-COVID revenues: The management stated that based on their experience across different cities, a store needs at least 45 days of unhindered operational time to get back to pre-Covid sales momentum. As the reopening now takes effect across states, this means we should expect near normalcy of revenues in 2Q FY22.

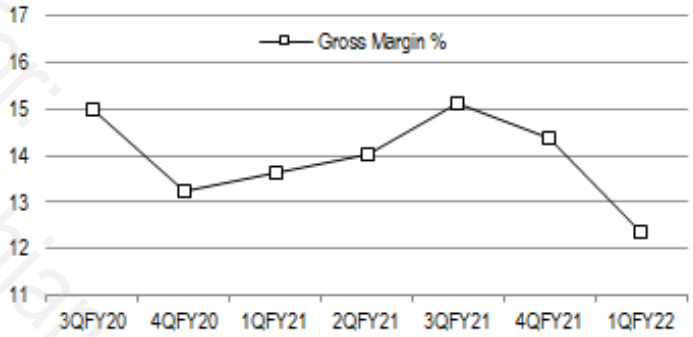
Figure 1: Avenue 1Q FY22 standalone results

	1QFY21	4QFY21	1QFY22	% YoY	% QoQ
Sales	**38,332**	**73,031**	**50,318**	**31%**	**-31%**
RM costs	33,099	62,518	44,097	33%	-29%
RM % sales	*86.3%*	*85.6%*	*87.6%*	*129bps*	*203bps*
Staff costs	1,212	1,243	1,346	11%	8%
Staff % sales	*3.2%*	*1.7%*	*2.7%*	*-49bps*	*97bps*
Other expenses	2,933	3,104	2,663	-9%	-14%
Others % sales	*7.7%*	*4.3%*	*5.3%*	*-236bps*	*104bps*
EBITDA	**1,089**	**6,166**	**2,212**	**103%**	**-64%**
% margin	*2.8%*	*8.4%*	*4.4%*	*156bps*	*-405bps*
PBT	**666**	**5,642**	**1,563**	**135%**	**-72%**
% sales	*1.7%*	*7.7%*	*3.1%*	*137bps*	*-462bps*
PAT	**496**	**4,349**	**1,151**	**132%**	**-74%**
% margin	*1.3%*	*6.0%*	*2.3%*	*100bps*	*-367bps*

Source: Company data, Credit Suisse estimates

Gross margin declines 129 bp YoY despite a low base, likely due to higher promotions: Gross margin declined 129 bp YoY, which was a disappointment. The restrictions on sales of non-essentials was much larger in 1Q FY21 during the first COVID wave, and Avenue makes high margins in non-essentials. Thus we would have expected higher revenue mix from non-essentials in 1Q FY22 vs 1Q FY21, leading to better gross margins. However gross margins were down 129 bp YoY, in our view due to higher promotions as the competitive intensity was higher YoY.

Figure 2: Gross margins declined YoY even on the low base of 1Q FY21



Source: Company data, Credit Suisse estimates

Store expansion slowed down in 1Q, but is now back on track: Due to the restrictions from the second COVID wave in 1Q FY22, there was a slowdown in new store additions. Avenue added 4 new stores in 1Q FY22, compared to our full year FY22 estimates of 40 new stores. However the restrictions have now been largely lifted and we expect the company to catch up on store additions in 2H FY22.

Rollout of D-Mart Ready continues: Avenue continues to gradually roll out D-Mart Ready in Mumbai, Ahmedabad, Pune, Bangalore and Hyderabad. The revenues outside the standalone business were up 203% YoY aided by the COVID second wave. However D-Mart Ready is still small and is only ~3% of consolidated revenues.

Research Analysts
Arnab Mitra / 91 22 6777 3806
arnab.mitra@credit-suisse.com

Pratik Rangnekar / 91 22 6777 3899
pratik.rangnekar@credit-suisse.com

Asian Daily

12 July 2021

Malaysia Market Strategy

New report: 27W21—political uncertainty led to institutional investor outflows

- With heightened political uncertainty coupled with elevated daily new COVID-19 infections, both foreign (-RM324.0 mn) and local (-RM100.5 mn) institutions turned net sellers last week (5-9 July). Local retailers remain net buyers with net inflows of RM317.0 mn.
- Top 5 sells by local institutions: TOPG (-RM73.3 mn), CMSB (-RM54.7 mn), HART (-RM43.4 mn), MYEG (-RM33.6 mn), and CIMB (-RM32.2 mn). Top 5 buys by local institutions: PBK (+RM38.9 mn), MAY (+RM30.3 mn), PMAH (+RM20.6 mn), DLG (+RM13.2 mn), and MISC (+RM13.0 mn).
- Short-selling activity +6% WoW with value rising to RM122.5 mn. The healthcare sector made up 31.2% of total short positions.
- Key events that could drive flows: (1) COVID-19 cases and vaccination; and (2) political developments. Heightened concerns over political instability since UMNO announced its withdrawal from the ruling coalition late last week has weighed on investors' sentiment. Any developments to reassure investors of stable political leadership and continuity of economic policy roll-out should bode well for market sentiment.

Institutional investors were net sellers. With heightened political uncertainty coupled with elevated daily new COVID-19 infections, both foreign and local institutions turned net sellers last week. Foreigners remain net sellers during the week in review (from 5 to 9 July) with net outflows of RM324.0 mn (-RM499.3 mn a week earlier, June 2021's -RM1.17 bn vs May 2021's –RM161.4 mn). Local institutions returned to net selling last week with net outflows of RM100.5 mn (vs 26W21: +RM117.9 mn, June 2021: -RM1.19 bn vs May 2021: -RM231.7 mn). Local institutions' YTD net outflow amounts to some RM6.28 bn. Local retailers were again net buyers, with net inflows of RM317.0 mn (vs 26W21's +RM311.4 mn, June 2021's +RM1.69 bn vs May 2021's +RM485.0 mn). Cumulatively, local retailers' net inflows amounted to RM8.57 bn YTD (2020's +RM15.6 bn).

- **Foreign institutions**: Foreigners were net sellers across the board, except in the healthcare (+RM76.7 mn), property (+RM2.6 mn), and technology (+RM0.7 mn) sectors. While foreign institutions were net sellers of banks in 27W21 (-RM143.0 mn), they remained positive on CIMB, net purchasing RM46.8 mn worth of shares. The sectors that suffered most foreign institutional outflows were: (1) financial services (-RM143.0 mn), (2) consumer (-RM88.2 mn), and (3) industrial (-RM52.4 mn).

- **Local institutions**: Local institutions were mainly net sellers of healthcare (-RM110.0 mn), construction (-RM28.2 mn), industrial (-RM19.9 mn), and utilities (-RM12.8 mn). Sectors that benefited from local institutional inflows were consumer (+RM57.7 mn), financial services (+RM18.1 mn), telco & media (+RM7.3mn), and transport & logistics (+RM5.0 mn).

- **Local retailers**: In 27W21, local retailers' net buying was mainly in the financial services (+RM68.7 mn), healthcare (+RM45.7 mn), and utilities (+RM41.5 mn) sectors, while they disposed of shares in telco & media (-RM12.7 mn).

Short-selling higher WoW. Short-selling activity was 6% higher WoW in 27W21, with the total value of short-selling increasing to RM122.5 mn (from RM115.1 mn in 26W21, but well below the levels in 1-2W21 (1W = RM1.8 bn, 2W = RM392 mn). The healthcare sector remains the focus of short-sellers during the week, constituting 31.2% or 16.3 mn shares of the total short positions. This was followed by the energy and consumer sectors, at 18.9% (9.9 mn shares) and 8.3% (4.4 mn shares), respectively. Short-sellers increased their short position on Supermax (9 July: 66.0 mn vs 2 July: 61.9 mn) and Maxis (9 July: 70.6 mn vs 2 July: 69.8 mn), while net short positions on Top Glove (9 July: 217.9 mn vs 2 July: 242.0 mn), Hartalega (9 July: 56.4 mn vs 2 July: 58.5 mn) and Kossan (9 July: 22.3 mn vs 2 July: 22.7 mn) were reduced WoW.

Market activity rebounded WoW. Market activity was higher WoW, with market average daily value (ADV) increasing by 17% WoW to RM3.28 bn. ADV by local institutions and local retailers were up by 19% and 22%, respectively, WoW. On the other hand, foreign institutional ADV was flat WoW at RM508 mn. Local institutions and local retail participation improved WoW to 44% (26W21: 43%) and 40% (26W21: 39%), respectively, while foreign institutions' participation was lower at 15% (26W21: 18%).

Technology sector outperformed amid heightened political uncertainty. On the back of renewed political uncertainty and increasing new daily COVID-19 infections, the benchmark KLCI index was weaker WoW at 1,521 points (-0.8%), with most sectors in the red. The best performing sectors were technology (+2.6% WoW) and industrial products (+0.3%). Construction was the worst-performing sector during the week (-3.1%), followed by energy (-2.1%), and transport & logistics (-2.0%). YTD, the KLCI index is 6.6% lower, with the top performing sector being technology, having gained 16.8% YTD. The worst performing sectors YTD are healthcare (-21.5%), plantation (-13.9%), and construction (-13.5%).

Figure 1: Net buying/(selling) by sectors - 27W21 (RM' mn)

	Local Institution	Local Retail	Foreign	Others
Construction	(28.2)	23.7	(2.7)	7.3
Consumer	57.7	25.8	(88.2)	4.9
Energy	2.7	22.6	(24.8)	(0.5)
Financial Services	18.1	68.7	(143.0)	56.0
Healthcare	(110.0)	45.7	76.7	(12.8)
Industrial	(19.9)	40.4	(52.4)	31.8
Plantation	(2.7)	18.5	(23.7)	7.9
Property	(1.4)	4.4	2.6	(5.5)
REIT	(0.5)	2.8	(2.8)	0.5
Technology	0.2	30.2	0.7	(31.0)
Telco & Media	7.3	(12.7)	(3.5)	9.0
Transport & Logistic	5.0	10.5	(14.1)	(1.4)
Utilities	(12.8)	41.5	(45.2)	16.7
Market	**(100.5)**	**317.0**	**(324.0)**	**107.4**

Source: DiBots

Research Analysts
Danny Goh / 60 3 2723 2083
danny.goh@credit-suisse.com

Jae Ang / 6 03 2723 2095
jae.ang@credit-suisse.com

Asian Daily

13 July 2021

Airasia Group (AIRA.KL)

Launches RM1 bn rights issue to strengthen near-term liquidity

Maintain NEUTRAL
Previous Rating: NEUTRAL

Target price (RM): 0.92
Previous target price (RM): 0.92

- AirAsia has announced a RM1 bn rights issue exercise to recapitalise the company; it will raise RM616 mn in the Minimum Scenario (its co-founders have agreed to subscribe in full for their direct entitlements, and a portion of the exercise will be underwritten), and RM1.0 bn, if its plan is fully subscribed (Maximum Scenario).
- The company will issue up to RM1.0 bn in nominal value of 7-year redeemable convertible unsecured Islamic debt securities (RCUIDS) on the basis of two RCUIDS, with one free detachable warrant for every 6 ordinary shares in AirAsia.
- Dilution-wise, we calculate that the existing shareholders will be diluted by 50% in the Minimum Scenario and 57.6% in the Maximum Scenario.
- Utilisation-wise, AirAsia will allocate 10-12% of the proceeds into its digital division, though bulk of it will be allocated to working capital. AirAsia will probably still need to raise ~RM1-1.5 bn in the near term to sail through the COVID-19 situation (likely via debt). Maintain NEUTRAL.

Price (12-Jul-21, RM)	**0.89**	Est. pot. % chg. to TP			4.0
Mkt cap (RM/US$ mn)	3,450 / 824	Blue sky scenario (RM)			1.7
Number of shares (mn)	3,898	Grey sky scenario (RM)			0.5
Free float (%)	60.7	**Performance**	**1M**	**3M**	**12M**
52-wk range (RM)	1.21 - 0.52	Absolute (%)	(6.8)	(10.2)	13.5
ADTO-6M (US$ mn)	7.5	Relative (%)	(2.9)	(4.8)	18.4

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (RM mn)	2,844.4	1,850.7	4,217.5	8,810.6
EBITDA (RM mn)	(4,731.8)	(1,936.5)	(1,040.3)	806.5
EBIT (RM mn)	(4,882.7)	(2,445.6)	(1,667.0)	83.2
Net profit (RM mn)	(3,979.0)	(2,592.0)	(1,650.7)	384.2
EPS (CS adj.) (RM)	(1.19)	(0.66)	(0.42)	0.1
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (RM)	n.a.	(0.47)	(0.09)	0.02
EPS growth (%)	n.m.	n.m.	n.m.	n.m.
P/E (x)	n.m.	n.m.	n.m.	9.0
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	n.m.	n.m.	n.m.	6.3
P/B (x)	0.65	1.77	11.76	5.09
ROE (%)	(55.3)	(80.0)	(147.5)	79.1
Net debt/equity (%)	n.m.	n.m.	n.m.	n.m.

Source: Company data, Refinitiv, Credit Suisse estimates

Launches RM1 bn rights issue. AirAsia has announced a RM1 bn rights issue exercise to recapitalise the company. The company will issue of up to RM1.0 bn in nominal value of 7-year redeemable convertible unsecured Islamic debt securities (RCUIDS) on the basis of two RCUIDS, with one free detachable warrant for every 6 ordinary shares in AirAsia. Salient key terms of the RCUIDS and Warrants are in Figure 1, but it is worth noting that both instruments can be converted into AirAsia shares on a one-to-one basis.

Figure 1: Salient key terms of RCUIDS and Warrants

Instrument	RCUIDS	Warrants
Issue size	RM1.02 bn in nominal value	Up to 682.7 mn Warrants
Basis of allotment	Two RCUIDS for every six AAGB shares held	1 for every 2 RCUIDS subscribed
Issue Price	100% of nominal value of RM0.75	Free
Tenure	7 years	7 years
Profit rate	8.0% per annum, payable quarterly	not applicable
Exercise/Conversion price	RM0.75 for one new AAGB share	To be determined, but to fix at lower of: - RM1.00; or - 20% premium to trailing 30-day VWAP of AAGB shares
Exercise/Conversion rights	- Surrender at any time during Conversion Period for conversion into new AAGB shares - Able to convert all or part of RCUIDS at any time during Conversion Period	- Each Warrant entitles registered holder to subscribe for 1 new AAGB share
Redemption schedule	- 25% per year between Year 4 to Year 7 of remaining RCUIDS in issue	not applicable
Redemption rate	100% of the nominal value of the RCUIDS	not applicable
Listing	To be listed on Main Market of Bursa Securities	To be listed on Main Market of Bursa Securities

Source: Company data

RM616 mn secured via pledge by founder and underwriting. AirAsia will raise RM616 mn in the Minimum Scenario, and RM1.0 bn, if its plan is fully subscribed (Maximum Scenario).

Figure 2: Effects of proposed rights issue

	Min Scenario		Max Scenario	
	Shr (mn)	RMmn	Shr (mn)	RMmn
Existing share cpaital	3,898.1	8,462.8	3,898.1	8,462.8
New shares issued upon Private Placement	-	-	198.2	176.6
New shares issued upon RCUIDS conversion	1,299.4	887.5	1,365.4	932.6
New shares issued upon Warrant exercise	649.7	693.1	682.7	728.3
Enlarged share capital	**5,847.1**	**10,043.4**	**6,144.4**	**10,300.3**
Dilution to existing shareholders (%)	50.0%		57.6%	

Source: Company data

Importantly, its co-founders have agreed to subscribe in full for their direct entitlements, a symbolic move as it shows their commitment towards the company; most importantly, when AirAsia's co-founders injected RM1 bn into AirAsia in 2017 via private placement, they managed to drive significant shareholder value via market share gains and sale-and-leaseback of its fleet. Half of the transaction (excluding the co-founders' portion) will also be underwritten in the Minimum Scenario.

Dilution-wise, we calculate that existing shareholders will be diluted by 50% in the Minimum Scenario and 57.6% in the Maximum Scenario.

50-53% of proceeds to be parked under working capital. The utilisation of proceeds from AirAsia's fund raising exercise is listed in Figure 3, but it is worth noting that between 31-42% of its total proceeds will be used for fuel hedging settlement and aircraft lease and maintenance payments.

Figure 3: Utilisation of proceeds

RMmn	Min Subscription	Full subscription	Timeframe
Utilisation purposes			
Fuel hedging settlement	96.7	226.7	Within 5 mths
Aircraft lease and maintenance payment	121.0	153.6	Within 12 mths
Air Asia Digital	60.5	122.9	Within 12 mths
Working capital	325.9	508.5	Within 12 mths
Expenses of Rights Issue	11.7	12.3	Within 3 mths
Total	**615.9**	**1,024.1**	

Source: Company data

Maintain NEUTRAL. This exercise, we believe, should remove the dilution uncertainty that has been weighing down AirAsia's share price. Importantly, this should also help boost the bank's confidence towards AirAsia, allowing it to seek more financing via debt; we estimate that AirAsia would still need to raise another RM1.5-2.0 bn to repay its deferred financial commitments (predominantly related to aircraft leases). Our valuation of RM0.92 would be reduced to RM0.58 in the Maximum Scenario (note that our blue-sky scenario valuation would then be adjusted to RM0.92 from RM1.70, and our grey-sky scenario valuation from RM0.50 to RM0.27).

Research Analysts
Danny Chan / 60 3 2723 2082
danny.chan@credit-suisse.com

Asian Daily

12 July 2021

Philippine Market Strategy

Peso swings

- The peso last week hit the P50.19/US$1 against the US dollar. The peso notched its weakest close in a year after dropping for five consecutive days.
- This was partly attributed to the failure of the Organization of Petroleum Exporting Countries and its allies (OPEC+) to reach a consensus on oil output. This has further contributed to the tightness in the global oil market and is seen as detrimental for oil-importing economies such as the Philippines.
- The weakness of the peso was also in part due to the presence of the more infectious delta COVID-19 variant, which has resulted in the re-imposition of strict lockdowns in some parts of the country. Historically, the strength of the peso has tended to correlate with that of the market.
- Market returns in both absolute terms and relative to the region have correlated closely with the peso in the past decade, meaning stocks suffer even before taking into account currency losses, and stocks tend to perform in relation to currency gains.

Peso hits P50/US$1

The peso last week hit the P50.19/US$1 against the US dollar. The peso notched its weakest close in a year after dropping for five consecutive days. Week on week, the peso weakened by 88 centavos from P49.20 per dollar on 2 July. This was partly attributed to the failure of the Organization of Petroleum Exporting Countries and its allies (OPEC+) to reach a consensus on oil output. This has further contributed to the tightness in the global oil market and is seen as detrimental for oil-importing economies such as the Philippines. The weakness of the peso was also in part due to the presence of the more infectious delta COVID-19 variant, which has resulted in the re-imposition of strict lockdowns in some parts of the country. Historically, the strength of the peso has tended to correlate with that of the market. Market returns in both absolute terms and relative to the region have correlated closely with the peso in the past decade, meaning stocks suffer even before taking into account currency losses, and stocks tend to perform in relation to currency gains. The weaker peso should bode well for recipients of remittances from Filipinos overseas, exporters and business process outsourcing firms due to higher peso translation of their dollar receipts. However, it should take a further toll on importers.

Peso remains vulnerable

Despite easing inflation in June, the peso remains vulnerable to major risks such as the continued rise in global oil prices and the rebound of the US dollar on the back of a gradual tightening by the Fed. While the accommodative policy of the Bangko Sentral ng Pilpinas (BSP) should support the economic recovery, keeping interest rates low would result in a narrowing interest rate differential that may induce further peso weakness. Considering this, it may be possible for the BSP to contemplate an earlier policy tightening in order to prevent excessive peso weakness, but contingent on the rebound of the economy.

Balanced operational forex exposure for most

Listed companies under our coverage have a more balanced operational exposure to forex at this point. BSP requires banks to square their non-market making forex positions. Certain companies that took advantage of lower rates and strong peso last year and availed of dollar loans to refinance existing dollar-denominated debt may be vulnerable due to the peso weakness. While this could inflate their interest costs in peso terms, we note that telcos such as PLDT Inc (TEL) and Globe Telecom Inc (GLO), International Container Terminal Services Inc (ICT), and consumer firms with operations abroad (JFC, URC) or exporting their products (CNPF, DNL) should find some protection from their foreign currency revenues and other hedging instruments. Utilities have pass-throughs or have the dollar as their functional currency.

Slightly negative for Consumer, Property and some Conglomerates

Our sensitivities show that on the negative side, Consumer, Property and Conglomerates would have a 2.2-2.3% impact to earnings for every 10% appreciation in peso, while on the positive side, power would take a 2% impact for every 10% appreciation of peso. For consumer, the weaker peso can take a momentary toll on Puregold Price Club Inc's (PGOLD) subsidiary S&R which imports about 70% of its merchandise. S&R has, however, historically shown that it is able to pass on these added costs to consumers through price increases, similar to Robinsons Retail (RRHI). Among conglomerates, JGS and GTCAP have the most dollar-exposed top line and costs due to their businesses in auto, petrochem and airline. Specifically, JGS's cyclical businesses take up only 14% of NAV but due to the dollar-exposed costs and revenues through fuel, naphtha and polymer prices, earnings from these businesses could contract to as much as 20% of its earnings on a downcycle and contribute to as much as 40% of its earnings during an upcycle. The weaker peso is also negative for Cebu Air Inc (CEB) which has ~2/3 of its debt in US dollars. Moreover, about 60% of its cash costs are denominated in US dollars, while revenues currently are primarily all in pesos as the pandemic has significantly reduced demand for international travel. GTCAP, on the other hand, has dollar exposure through the cost side of Toyota. Given that 65% of Toyota's cost is dollar exposed, and noting that Toyota is 22% and 35% of GTCAP's NAV and earnings, respectively, a 10% peso appreciation could impact GTCAP's earnings negatively by as much as 6%.

Figure 1: Peso-Dollar exchange rate

Source: BSP

Research Analysts
Hazel Tanedo / 63 2 885 87757
hazel.tanedo@credit-suisse.com

Asian Daily

12 July 2021

Philippine Retail Sector

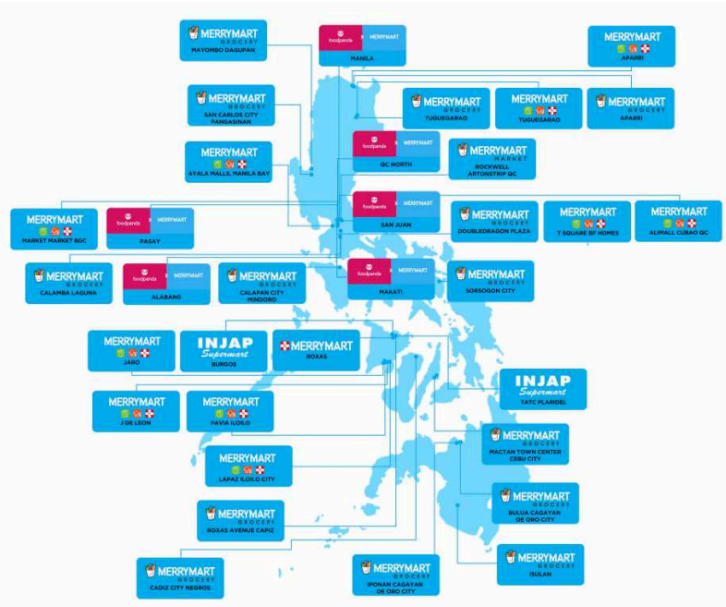
Finding Alpha - Vaccine and Mobility

- Merrymart is engaged in retail operations in the grocery, personal care and pharmacy essentials categories. The company plans to roll out three retail formats nationwide under a new brand, MerryMart.
- Metromart plans to expand its 3-in-1 format stores given its potential for scalability. As per management, the rollout of these 3-in-1 stores would play a significant role in allowing the company to reach its goal of having 1,200 stores by 2030.
- MerryMart currently has a total of 34 operational branches. Management aims to actively pursue its 2030 Vision of having 200 MerryMart Groceries and Markets, and 1,000 MerryMart stores nationwide.
- This will translate to 1,200 branches, with system-wide sales of P120 bn by 2030.

Merrymart, new kid on the block

We hosted MerryMart Consumer Corp. (MerryMart) at the Credit Suisse Finding Alpha - Vaccines and Mobility series, with Edgar Sia II (Chief Executive Officer) and Hannah Yulo-Luccini (CFO and CIO) as speakers. Merrymart is the supermarket operator led by DoubleDragon Properties Corp.'s Edgar "Injap" J. Sia II. MerryMart, which opened its first store in April 2019. The company is engaged in retail operations in the grocery, personal care and pharmacy essentials categories. The company plans to roll out three retail formats nationwide under a new brand, MerryMart. The three retail formats will vary in sizes and will target different income classes. The three formats include: (1) MerryMart Grocery; (2) MerryMart Market and (3) MerryMart store. MerryMart currently has a total of 34 operational branches. Mgmt aims to actively pursue its 2030 Vision of having 200 MerryMart Groceries and Markets, and 1,000 MerryMart stores nationwide. This will translate to 1,200 branches, with system-wide sales of P120 bn by 2030.

Figure 1: Geographical presence (34 branches)



Source: Company data

As per management, 1Q21 profits were up by 13.3% YoY to P9.5 mn. MM's 1Q21 net income increased by 13.3% YoY to P9.5 mn from P8.4 mn during the same period of the previous year. The increase was mainly attributable to the lower tax rate of 25% under the CREATE law, which offset the higher operating expenses during the period. 1Q21 revenues grew by 15.2% YoY to P915 mn from P795 mn, primarily driven by the 27 store openings. MM ended 1Q21 with 34 branches, much larger than its seven-store network as of end-1Q20. Nonetheless, compared to 4Q20, revenues were 12.3% lower QoQ, despite the nine new store openings in 1Q21 as Metro Manila and other neighbouring provinces shifted back to stricter lockdown measures during the period. Meanwhile, GPM saw a significant improvement of 430 bp to 12.1% from 7.8% in 1Q20 due to the additional trade discounts and promos given by their suppliers. Growth of its stores and lower direct costs brought gross profit in 1Q21 up by 79.7% YoY to P111mn. Operating expenses doubled YoY to P96 mn due to higher store expansion-related costs and head office expenses. Despite the lower tax rate, net margin contracted by 100 bp to 1.0% due to the higher operating expenses.

3-1 concept for expansion

The group plans to grow its store network through store franchising. Metro Manila stores will only comprise 26% of the total, while Luzon (ex-MM), Visayas, and Mindanao will contribute 26%, 42%, and 16%, respectively. Metromart plans to expand its 3-in-1 format stores, given its potential for scalability. The company expects the rollout of these 3-in-1 stores would play a significant role in allowing the company to reach its goal of having 1,200 stores by 2030. Despite the delays in construction and store openings from the Luzon-wide enhanced community quarantine (ECQ), the company is maintaining its goal of opening 100 branches by 4Q21. It is also targeting 600 branches by 2025 and 1,200 branches by 2030, where 1,000 branches are expected to be small format stores and a majority of these are expected to be franchised branches.

100 stores by end-2021

On top of the nine new stores opened in 1Q21, MM plans to open 66 more stores by the end of the year as restrictions further loosen. The company is targeting to have 100 branches by end 2021, which will mostly be its small MM store format (3-in-1 household essentials store). MM also plans to continue its dark store operations so that customers can order their groceries online during the lockdown.

1Q21 trends show resilience

Research Analysts
Hazel Tanedo / 63 2 885 87757
hazel.tanedo@credit-suisse.com

Asian Daily

12 July 2021

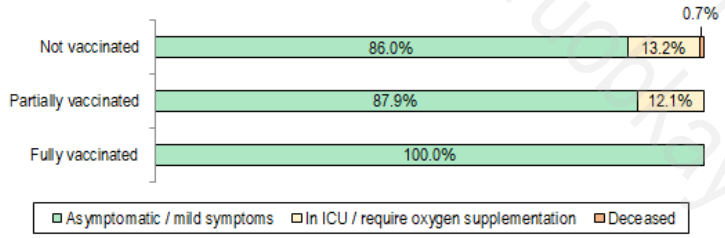
Singapore Healthcare Sector

COVID-19 update: Heading out of the woods

- Singapore is pursuing a phased reopening strategy, backed by mass vaccination and frequent mass testing as its new pandemic strategy.
- Singapore's vaccination rate currently stands at 40%, with 69% of population having received at least one vaccine dose. Full vaccination rate of 75% (targeted by early-Oct) is the threshold for easing border restrictions into Singapore.
- We expect local healthcare providers to benefit from additional testing and vaccination revenues, while they await the return of foreign patients. YTD private hospitals admission volumes, while 9% lower than pre-COVID levels, are 10% higher YoY.
- We maintain our OUTPERFORM rating on Raffles Med with a new TP of S$1.40. We expect it to benefit from higher COVID-19 testing volumes and the accelerated vaccination programme in Singapore.

Change in pandemic strategy. On 29 June, Singapore announced its intention to move towards a new phase in battling the COVID-19 pandemic. It is looking to abandon the "zero transmission" model, and instead, pursue a phased reopening strategy, backed by mass vaccination. This would allow for a quicker return to normalcy, and at the same time, reduce the risk of the healthcare system being overwhelmed.

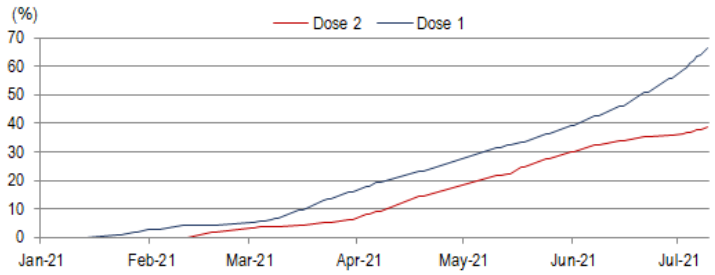
Figure 1: Local COVID-19 cases in the last 28 days by vaccination status & severity of condition



Source: MoH

So far, Singapore's COVID-19 vaccination rate stands at 40% (as of 10 July), with 69% of Singapore's population having received at least one dose of the vaccine. Singapore targets to reach full vaccination rate of 75% by early-Oct (at least two-third by 9-Aug), and plans to achieve this by accelerating its daily dose administration to 80k (from 47k in June). There are plans for booster shots to be given in Feb next year, according to the Health Minister, Mr Ong Ye Kung.

Figure 2: Singapore's COVID-19 vaccination progress



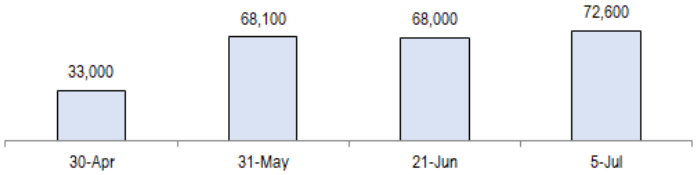
Source: Our World In Data, *Vaccination tally does not include Sinovac

Extended runway for COVID-19 testing. In addition to the mandatory rostered routine testing for high-risk workplace settings, the government has enforced the "Fast and Easy Testing" (FET) regime for those who work with unmasked clients and patrons (i.e., higher-risk settings), such as dine-in F&B outlets, personal care services, gyms & fitness studios.

Beginning 15 July, workers in higher-risk settings will have to undergo a COVID-19 test every 14 days, either at assigned Quick Test Centres (five centres nationwide), or undergo self-swabs under the supervision of a trained staff member from their workplace. As restriction on larger-scale events and gatherings ease, we foresee continued and frequent COVID-19 testing until Singapore reaches herd immunity.

Based on latest data from MoH, ~72,600 swab tests are being carried out daily, more than double the rate in April. Testing volumes are currently being limited by system capacity, which is slowly expanding. Our channel checks suggest that the current capacity lies between 80k and 90k, vs 70k in end-May.

Figure 3: Avg. daily number of swabs tested over the past week

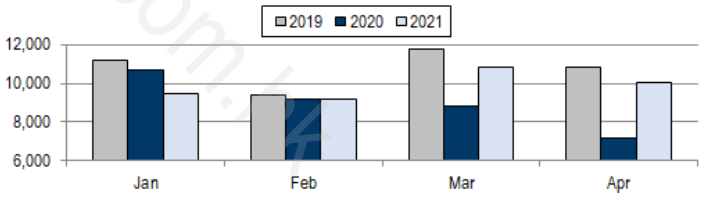


Source: MoH

Implications for the sector. We expect the ongoing frequent COVID-19 testing and accelerated vaccination programme to provide additional revenues for local healthcare providers, as they await the return of foreign patients. While ARTs are being used primarily for mass testing, we understand that healthcare groups run more PCR tests in general, implying higher margins.

In terms of private hospital admissions, we note that monthly inpatient volumes have crossed the 10,000 threshold since March. As of end-April, YTD private hospital inpatient volumes are 10% higher YoY at 39,516 persons. Though still 9% lower than pre-COVID (2019) levels, we are encouraged by the smaller-than-expected drop in patient volumes.

Figure 4: Singapore private hospital inpatient admissions (persons)



Source: MoH

Raise Raffles Med TP by 16%. We expect Raffles Medical to be a beneficiary of Singapore's routine mass testing and accelerated vaccination strategy, given its active partnership with the government. We raise our FY21-23E earnings estimates by 1-6%, and maintain our OUTPERFORM rating.

Research Analysts
Amanda Foo / 603 2723 2089
amanda.foo@credit-suisse.com

Asian Daily

12 July 2021

Raffles Medical Group (RAFG.SI)

Beneficiary of Singapore's pandemic strategy

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (S$): 1.40

Previous target price (S$): 1.20

- Singapore is pursuing a phased reopening approach, backed by mass vaccination and frequent testing as its new pandemic strategy. There are talks of easing travel restrictions once full vaccination rate crosses 75% (targeted by early-Oct).
- Apart from running 15 of the 40 centres under the national vaccination programme, Raffles Med is the sole PCR test provider for Changi Airport Terminals 1 & 3. Should travel borders open up, we foresee Raffles Med benefiting from higher PCR test volumes (from tourist arrivals) as well as pent-up medical tourism demand.
- We raise our FY21-23E EPS by 1-6% after incorporating higher COVID-19 testing and vaccination contributions. Our TP increases to S$1.40 (from S$1.20).
- Maintain OUTPERFORM. We expect Raffles Med to be among the healthcare players in ASEAN to recover earlier from the pandemic. It trades at 33.1x P/E, roughly in line with its pre-COVID 5Y average.

Price (12-Jul-21, S$)	**1.22**	Est. pot. % chg. to TP			14.8
Mkt cap (S$/US$ mn)	2,278 / 1,686	Blue sky scenario (S$)			1.8
Number of shares (mn)	1,868	Grey sky scenario (S$)			0.8
Free float (%)	47.8	**Performance**	**1M**	**3M**	**12M**
52-wk range (S$)	1.22 - 0.76	Absolute (%)	6.1	5.2	31.2
ADTO-6M (US$ mn)	1.7	Relative (%)	6.4	6.5	12.5

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (S$ mn)	568.2	635.9	644.5	669.7
EBITDA (S$ mn)	123.9	126.8	128.5	137.8
EBIT (S$ mn)	88.4	88.8	90.4	100.1
Net profit (S$ mn)	65.9	66.6	69.5	78.9
EPS (CS adj.) (S$)	0.04	0.04	0.04	0.04
Chg. from prev. EPS (%)	n.a.	5.6	1.7	1.3
Consensus EPS (S$)	n.a.	0.03	0.04	0.04
EPS growth (%)	7.9	1.0	4.4	13.6
P/E (x)	34.1	33.7	32.3	28.4
Dividend yield (%)	2.0	2.0	1.5	1.8
EV/EBITDA (x)	18.1	17.6	17.0	15.5
P/B (x)	2.5	2.44	2.35	2.26
ROE (%)	7.6	7.3	7.4	8.1
Net debt/equity (%)	(3.5)	(5.5)	(9.7)	(14.2)

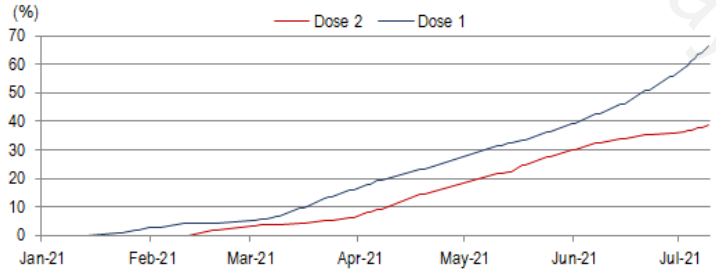
Source: Company data, Refinitiv, Credit Suisse estimates

Singapore's new pandemic strategy: Mass vaccination and frequent testing

Singapore is looking to abandon the "zero transmission" model, and instead, pursue a phased reopening strategy, backed by mass vaccination and extensive testing.

So far, Singapore's COVID-19 vaccination rate stands at 40% (as of 10 July), with 69% of Singapore's population having received at least one dose of the vaccine. Singapore plans to accelerate its daily dose administration to 80k (from 47k in June). It targets to reach full vaccination rate of 75% by early-Oct, and at least two-third by 9-Aug.

Figure 1: Singapore's COVID-19 vaccination progress



Source: Our World in Data

In addition to the mandatory rostered routine testing for high-risk workplace settings, the "Fast and Easy Testing" (FET) regime will be enforced for those who work in higher-risk settings, i.e., with unmasked clients and patrons (such as dine-in F&B outlets, personal care services, gyms & fitness studios), beginning 15 July.

As restriction on larger-scale events and gatherings ease, we foresee continued and frequent COVID-19 testing until Singapore reaches herd immunity. Currently, ~72,600 swab tests are being carried out daily, more than double the rate in April.

Beneficiary on both fronts

Raffles Medical currently has the largest share of vaccination centres under the national COVID-19 vaccination programme, running 15 of the 40 centres. This compares with Fullerton's 10, IHH's 5, and Thomson Medical's 3 centres. Vaccination activities are likely to extend beyond this year as the Health Minister, Mr Ong Ye Kung, has said that booster shots for COVID-19 vaccine may begin around the Chinese New Year next year.

At the same time, Raffles Med is also involved in COVID-19 mass swabbing activities (e.g., at airport and cruise centres). We estimate COVID-19 testing revenues to have accounted for >10% of group revenue in FY20. While ART is the primary method for mass testing, we understand that PCR tests make up for the majority of Raffles Med's COVID-19 test volumes, implying higher margins.

We also note that Raffles Med is the only approved PCR test provider listed by MoH for Changi Airport Terminals 1 & 3. Should travel borders open up, we foresee Raffles Med benefiting from higher PCR test volumes from tourist arrivals as well as pent-up medical tourism demand (foreign patient return with higher revenue intensity).

Maintain OUTPERFORM; new TP of S$1.40

Thus, we incorporate higher COVID-19 testing and vaccination revenues, though we trim our FY21E foreign patient revenue expectation given ongoing travel restrictions. The delayed opening of Raffles Shanghai implies lower gestation losses in FY21, which we have also reflected in our model. Overall, our EPS is raised by +6%/+2%/+1% in FY21/22/23E.

At the same time, we lower WACC to 6.4%, taking into account the group's resilience in managing the pandemic. Despite COVID-19 disruptions, the group managed to record 8% profit growth in FY20. Our TP thus increases by 16% to S$1.40.

Given Singapore's vaccination progress and Raffles Med's active partnership with the government, we expect it to be one of the healthcare players within ASEAN to emerge from the pandemic earlier.

Research Analysts
Amanda Foo / 603 2723 2089
amanda.foo@credit-suisse.com

Asian Daily

12 July 2021

Taiwan Downstream Sector

June sales below seasonal on supply constraints

- Taiwan downstream components' June sales were flat MoM vs seasonal +4%. Sub-seasonal sales were found in the NB/PC supply chain (hurt by supply constraints and customers fading urgency in procurement), and in handsets (hurt by Android production cuts and iPhone's heavy pricing pressure).
- 12-month YoY growth acceleration was found in IPC (easing supply constraints after placing LT NC PO with a premium), auto (strong restocking and faster EV adoption offset by supply constraints), CCL (material upgrade) and acoustic. BT substrates outperformed ABF in June, on stronger ASP hikes in 2Q21, but unlikely to sustain in 2H21.
- Apple EMS saw MoM decline on iPhone seasonal adjustments before new model ramp, overshadowing cloud strength, mini-LED ramp and computing (device) recovery. Wind power softness was deeper.
- We expect downstream to suffer from margin pressure (given time lag to fully pass on cost inflation). We prefer Delta (multi-drivers to mitigate WHF uncertainty), Hulane (best auto play), Advantech (accelerating earnings momenutm), Topoint (hidden beneficiary of the PCB upcycle), and see value emerging in ZDT/Largan.

Taiwan components reported sub-seasonal June sales

Taiwan downstream components' June sales were flat MoM vs seasonal +4%. Sub-seasonal sales were found in NB/PC supply chain, hurt by supply constraints and customers fading urgency in procurement; Handset's June sales were down 1% MoM vs seasonal +4%, hurt by Android production cuts and iPhone's heavy pricing pressure. Among all sub-sectors, Casing and Cooling were below seasonal the most, with June sales -1%/-8% MoM vs seasonality of +12%/+1% MoM.

Figure 1: Component reported sub-seasonal Jun sales

	2021 Jun sales			Jun seasonality		2Q21 sales			2Q seasonality		YTD sales
(TWD mn; %)	Sales	MoM	YoY	MoM	YoY	Sales	QoQ	YoY	QoQ	YoY	YoY
Casing	16,990	-2%	-22%	+12%	+7%	51,244	+2%	-22%	+20%	+3%	-0%
Handset	21,350	-1%	-2%	+4%	+0%	66,411	-4%	-2%	+16%	+2%	+8%
Passive components	14,698	-0%	+61%	+3%	+34%	44,027	+14%	+65%	+21%	+26%	+77%
Power supply	53,309	+1%	+5%	+5%	+2%	159,419	+7%	+5%	+16%	+3%	+14%
PCB	61,681	+2%	+16%	+2%	+5%	182,939	+7%	+14%	+7%	+5%	+20%
Connectors	12,923	+1%	+20%	+3%	+10%	39,049	+11%	+19%	+16%	+11%	+27%
Cooling	8,705	-8%	+8%	+1%	+12%	27,577	+9%	+3%	+17%	+15%	+18%
Battery	11,526	+5%	+18%	+2%	+7%	33,552	+6%	+16%	+17%	+7%	+34%
Hinge	2,580	-1%	-6%	+1%	+9%	8,005	+4%	-7%	+26%	+9%	+9%
PC components	4,825	+2%	+17%	+4%	-1%	14,583	+19%	+23%	+26%	+6%	+40%
AutoTech	12,758	+0%	+28%	+2%	-0%	38,680	+1%	+41%	-3%	-2%	+32%
Downstream	**1,028,637**	**-2%**	**+3%**	**+5%**	**+4%**	**3,191,560**	**+4%**	**+6%**	**+9%**	**+5%**	**+16%**
Component	**219,409**	**+0%**	**+9%**	**+4%**	**+4%**	**659,788**	**+6%**	**+9%**	**+13%**	**+4%**	**+20%**
EMS	**785,531**	**-3%**	**+1%**	**+5%**	**+4%**	**2,466,742**	**+3%**	**+5%**	**+8%**	**+5%**	**+15%**
IPC	**23,697**	**+12%**	**+14%**	**+14%**	**+12%**	**65,029**	**+15%**	**+15%**	**+9%**	**+11%**	**+10%**

Source: Company data

IPC/auto/CCL/acoustic saw 12M YoY acceleration; EMS shadowed by iPhone seasonal adjustments

12-month YoY growth acceleration was found in IPC (easing supply constraints after placing LT NC PO with a premium), auto (strong restocking and faster EV adoption offset by supply constraints), CCL (material upgrade) and acoustic. BT substrates outperformed ABF in June, on stronger ASP hikes in 2Q21, but unlikely to sustain in 2H21.

Apple EMS saw MoM decline on iPhone seasonal adjustments before new model ramp, overshadowing cloud strength, mini-LED ramp and computing (device) recovery. Wind power softness was deeper.

Figure 2: Stocks under our coverage

Company Name	Jun sales			2Q21 sales			2Q21 sales QoQ			YTD sales
(NT$mn; %)	Sales	MoM	YoY	Actual	vs. CS	vs. Street	Actual	CS	Street	YoY
Casing										
Catcher	3,335	+2%	-55%	10,403	87%	93%	-18%	-5%	-11%	-43%
FTC	7,404	-10%	-20%	22,502	80%	87%	+11%	+38%	+28%	+25%
Handset										
Largan	3,371	+0%	-19%	10,128	100%	97%	-14%	-14%	-12%	-15%
Merry	2,595	-5%	+18%	8,171	99%	100%	+6%	+6%	+5%	+37%
TXC	1,316	-8%	+61%	4,341	97%	101%	+31%	+35%	n/a	+64%
Power supply										
Delta	26,204	+0%	+10%	78,770	97%	98%	+9%	+13%	+11%	+20%
LOT	13,480	-1%	-6%	40,677	102%	98%	+8%	+6%	+10%	+5%
Chicony	8,866	+5%	+11%	25,293	97%	98%	+1%	+4%	+3%	+17%
PCB										
Kinsus	3,119	+8%	+31%	8,725	111%	108%	+21%	+9%	+14%	+26%
Tripod	5,159	+9%	+13%	15,043	97%	98%	-0%	+3%	+2%	+22%
Unimicron	8,138	+1%	+16%	24,031	104%	102%	+10%	+6%	+8%	+8%
NYPCB	4,246	+4%	+31%	12,485	102%	102%	+15%	+13%	+12%	+37%
Topoint	332	+10%	+31%	934	100%	105%	+20%	+20%	+14%	+29%
ZDT	10,303	+4%	+20%	29,784	102%	111%	+10%	+7%	-1%	+29%
Chin Poon	1,489	+5%	+27%	4,308	104%	98%	+1%	-3%	+3%	+19%
Connector										
BizLink	2,408	+4%	+37%	7,041	113%	107%	+15%	+1%	+7%	+29%
Sinbon	2,180	+1%	+19%	6,505	100%	100%	+9%	+9%	+8%	+27%
Hu Lane	374	-6%	+59%	1,173	100%	102%	+1%	+1%	-1%	+58%
EMS/IPC										
Hon Hai	401,617	-12%	+11%	1,357,142	105%	101%	+1%	-4%	-0%	+31%
Pegatron	88,869	-2%	-19%	272,244	100%	105%	+26%	+26%	+20%	-19%
Advantech	5,047	+12%	-1%	14,210	100%	101%	+8%	+8%	+7%	+8%

Source: Credit Suisse estimates

Stocks under our coverage

Within our coverage, **Catcher** reported weaker-than-expected 2Q21 sales due to material supply constraint, while management guided 3Q21 sales to be flattish to QoQ growth, still depending on the status material supply. **Largan**'s weak 2Q21 sales reflected supply constraints at top Chinese customer. 2H21 recovery is on track but still-heavy iPhone pressure remains a concern. We remain positive on the stock as we see bigger TAM for its integrated solution and a more balanced resource allocation to non-smartphones. **Kinsus** delivered better-than-expected 2Q21 sales, thanks to favourable pricing in both BT and ABF. However, with BT mix shifting to Apple and deteriorating YoY growth in China smartphones in 2H21, we expect BT pricing strength to soften in 2H21 compared with 2Q21. Overall we still expect bigger downside risks on BT substrates, compared with ABF. **Topoint** also reported above-seasonal 2Q21 sales, while the company has also expanded its capacity for the coming peak season in 2H. **ZDT**'s June sales outperformed Flexium's (+7% YoY/-6% MoM), which reflects strength in mini-LED and substrates, despite still competitive pricing in FPC. We think sales YoY could accelerate in 3Q on earlier smartphone ramp. For **BizLink**, strength from datacentres, EV, semi-cap and EA in June outgrew the pressure from IC shortages and Malaysia lockdown impact. **Pegatron**'s 2Q21 sales is above seasonal, thanks to stronger performance in computing and communication segment. We still expect its earnings momentum to stay lukewarm, given intensifying competition landscape in smartphones and mix shift in computing.

We expect downstream to suffer from margin pressure (given time lag to fully pass on cost inflation). We prefer Delta (multi-drivers to mitigate WHF uncertainty), Hulane (best auto play), Advantech (accelerating earnings momenutm), Topoint (hidden beneficiary of PCB upcycle), and see value emerging in ZDT/Largan.

Research Analysts
Pauline Chen / 886 2 2715 6323
pauline.chen@credit-suisse.com

Asian Daily

12 July 2021

Taiwan Health Food Sector

2Q21 sales ahead mainly on better diversification efforts outside of China

- TCI's 2Q21 sales ahead on better non-China. 2Q sales of NT$2.34 bn grew 20% QoQ, 2% ahead of Street mainly on better US/EU ramp, and more gradual China recovery. We expect its GM to normalize to 43.2% (-1.7 pp QoQ) on 23.8% (+1.8 pp) OPM.
- Grape King: 2Q21 sales also ahead. 2Q sales of NT$2,504 mn rebounded 27% QoQ, 5% ahead of CSe, despite tightening pandemic control in Taiwan, on more online sales by Pro Partner, while China recovery was also better leveraging probiotic leadership. We forecast GM of 78.1% (-2.1 pp QoQ) with 22.0% (+1 pp) OPM.
- China remains ex-growth. Despite more positive market expectations on demand recovery in China, we see no meaningful changes in the lead time at 45-60 days, while branded customers also prefer making more frequent orders amid high outlook uncertainty. We thus expect Grape King to outperform on its unique leadership in probiotic.
- We tweak 2021-22E for TCI on better non-China, and raise TP to NT$260 (from NT$240) on 15x fwd P/E, while keeping Grape King at NT$218 on 19x fwd P/E. We prefer Grape King with multiple drivers in the pipeline fuelled by UPEC partnership. Introduced 2023E.

TCI: Better top-line support near-term from US/EU ramp. June sales of NT$807 mn rebounded 10% MoM on timing of customers' pull-in, and +8% YoY along with better progress in US/EU, as well as more gradual end-demand recovery in China, concluding 2Q21 sales at NT$2.34 bn for +20% QoQ on seasonality, and slightly ahead of market expectation by 2%. We believe TCI continues to see better ramp of US/EU business potentially supporting higher mix contribution QoQ from 19% in 1Q21, vs 12% in 2020, as it benefits from economies reopening along with increasing vaccination, while China market sentiment remains more subdued post pandemic and government clamp-down the past couple years. We expect its GM in 2Q to normalize to 43.2% for -1.7 pp QoQ, but improving scale economies should drive its OPM to rebound to 23.8% for +1.8 pp QoQ.

Figure 1: TCI's quarterly P/L

NT$ mn	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2020	2021E	2022E
Revenue	2,157	2,055	1,946	2,340	2,450	2,524	8,224	9,260	10,355
GP	980	845	873	1,011	1,066	1,083	3,590	4,032	4,515
OP	533	496	428	557	594	596	2,018	2,175	2,533
Net profit	494	448	381	474	508	506	1,839	1,869	2,153
EPS (NT$)	4.23	3.82	3.25	4.04	4.33	4.32	15.67	15.94	18.37
GM (%)	45.4	41.1	44.9	43.2	43.5	42.9	43.7	43.5	43.6
OPM (%)	24.7	24.2	22.0	23.8	24.3	23.6	24.5	23.5	24.5

Source: Company data, Credit Suisse estimates

Grape King: 2Q21 sales also ahead mainly on China outperformance. June sales of NT$821 mn declined 11% MoM but up 3% YoY, concluding 2Q21 sales at NT$2,504 mn for +27% QoQ, despite tightening pandemic control in Taiwan from mid-May, as impact to Pro Partner was much mitigated on increasing online sales ramp past years (i.e. 1H21 at 75-80%, vs 2018 of 9%), delivering 23% QoQ growth, vs seasonality of +15-20% QoQ. Comparatively, Taiwan branded sales were slower for merely +1.5% QoQ, but we remain positive for the Taiwan outlook near-term, as restriction gradually loosens potentially from August, driven by latest partnership with UPEC, as well as continued ramp of ODM business (~3% of its sales now). Notably, its China entity sales also saw better rebound in 2Q for +86.5% QoQ, exceeding NT$300 mn mark for the first time since 2018, on leadership in probiotics as well as gradual market recovery. We expect its GM in 2Q to come down to 78.1% for -2.1 pp QoQ on mix, but its OPM should still grow 1 pp QoQ to 22.0% on better scale.

Figure 2: Grape King's quarterly P/L

NT$ mn	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2020	2021E	2022E
Revenue	2,168	2,743	1,972	2,504	2,488	3,056	9,168	10,020	10,829
GP	1,778	2,263	1,582	1,955	1,926	2,440	7,536	7,903	8,405
OP	562	764	414	552	663	874	2,304	2,503	2,776
Net profit	303	421	233	319	411	512	1,272	1,474	1,694
EPS (NT$)	2.23	3.09	1.60	2.19	2.82	3.51	9.34	10.12	11.62
GM (%)	82.0	82.5	80.2	78.1	77.4	79.8	82.2	78.9	77.6
OPM (%)	25.9	27.8	21.0	22.0	26.7	28.6	25.1	25.0	25.6

Source: Company data, Credit Suisse estimates

End-demand in China remains ex-growth. Despite more optimistic market expectations for better momentum recovery in China from 2H21, we continue to hold our view that it requires extended time for the normalization of end-demand, considering health food as a discretionary line, which is more likely to see budget squeeze by consumers in the current state of recovery. Consistently, based on our check, the general lead time in China continues to stay at around 45-60 days, while branded customers also tend to place more frequent orders in smaller quantities amid period of high uncertainty, supporting lower inventories risk in the channel. In addition, following the health food clamp down prior to the pandemic outbreak, we believe China market remains in midst of consolidation leading to increasing competition in the space, as more contenders aiming to further enlarge its addressable audience by incorporating other sales and promotion mechanism including e-commerce, live streaming, etc., from prior focus on closer groups at WeChat. We have also noted the increasing roll-out of more budgeted products, vs premium differentiation, which may come at the expense of profitability for Taiwan ODMs including TCI and Grape King depending on extent of in-house ingredient adoption, while Taiwan ODMs both resort non-China markets to support its near-term growth.

Prefer Grape King to TCI. We tweak our 2021-22E for TCI and Grape King reflecting better non-China momentum. We keep TP for Grape King unchanged at NT$218 on 19x fwd P/E. We raise TP for TCI to NT$260 (from NT$240) as we roll forward our 15x forward P/E. We prefer Grape King to TCI with multiple drivers in the pipeline particularly fuelled by the latest UPEC partnership.

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
GPK	1707.TW	O	175.0	218.0	0.0	24.6	12/20	2.6	0.2	10.12	11.62	8.3	14.9	17.3	15.1	4.0	2.4	250.0	170.0
TCI	8436.TWO	N	254.0	260.0 (240.0)	8.3	2.4	12/20	9.9	6.0	15.94	18.37	1.8	15.2	15.9	13.8	3.1	3.5	400.0	200.0

Source: Refinitiv, Credit Suisse estimates

Research Analysts
Harvie Chou / 886 2 2715 6364
harvie.chou@credit-suisse.com

Jerry Su / 886 2 2715 6361
jerry.su@credit-suisse.com

Asian Daily

12 July 2021

Topoint Technology Co Ltd (8021.TW)

Still undervalued in the PCB upcycle

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (NT$): 52.00

Previous target price (NT$): 50.00

- We raise our FY21-23E EPS by 5-6%, factoring in stronger revenue growth driven by (1) new customer wins; (2) continued strength from PCB design change to higher density on top of higher layer count and bigger area; and (3) its PCB customers' aggressive capex plans. We raise our TP to NT$52.00 (from NT$50.00), at 1.7x P/B (+0.5 SD) vs Taiwan substrates (3.3x-7.8x P/B).
- 2Q21 revenue grew 20% QoQ, above seasonal (+8%), thanks to solid demand in both drillers and drilling, and its new customer wins in server, networking, and auto. A more favourable mix could keep GM relatively stable QoQ, above expectations.
- 3Q21 revenue growth could be capped by full capacity. The company targets to further expand capacity in drillers/drilling in year-end/ 2022E. Nevertheless, we still expect better operational efficiency through its more focused customer mix (to global leaders) to drive margin resilience above 30% level.
- Topoint remains a hidden beneficiary of the PCB upcycle, given bigger operating leverage, a more benign/stable pricing environment, and more compelling valuation. Reiterate OUTPERFORM.

Price (12-Jul-21, NT$)	**43.30**	Est. pot. % chg. to TP			20.1
Mkt cap (NT$/US$ mn)	6,098 / 218	Blue sky scenario (NT$)			64.5
Number of shares (mn)	140.83	Grey sky scenario (NT$)			16.0
Free float (%)	89.8	**Performance**	**1M**	**3M**	**12M**
52-wk range (NT$)	44.20 - 20.45	Absolute (%)	11.0	2.9	84.3
ADTO-6M (US$ mn)	7.7	Relative (%)	7.5	(3.0)	36.7

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (NT$ mn)	2,973.4	3,647.0	3,969.8	4,210.1
EBITDA (NT$ mn)	779.0	896.3	972.3	1,031.3
EBIT (NT$ mn)	468.3	578.4	631.0	676.3
Net profit (NT$ mn)	282.0	399.0	451.5	484.4
EPS (CS adj.) (NT$)	1.98	2.81	3.18	3.41
Chg. from prev. EPS (%)	n.a.	4.5	6.0	6.4
Consensus EPS (NT$)	n.a.	3.01	2.99	3.2
EPS growth (%)	48.2	41.5	13.1	7.3
P/E (x)	21.8	15.4	13.6	12.7
Dividend yield (%)	3.6	5.2	5.8	0.0
EV/EBITDA (x)	4.6	4.5	3.9	3.5
P/B (x)	1.39	1.34	1.27	1.21
ROE (%)	6.5	8.8	9.6	9.8
Net debt/equity (%)	(52.4)	(39.7)	(42.8)	(44.0)

Source: Company data, Refinitiv, Credit Suisse estimates

Raise earnings and TP

We raise our FY21-23E EPS by 5-6%, factoring in stronger revenue growth driven by (1) new customer wins; (2) continued strength from PCB design change to higher density on top of higher layer count and bigger area; and (3) its PCB customers' aggressive capex plans. We raise our TP to NT$52.00 (from NT$50.00), at 1.7x P/B (+0.5 SD) vs Taiwan substrates (3.3x-7.8x P/B).

Figure 1: PCB peer comparison

Ticker	Company	Mkt Cap (US$mn)	21E GM	21E OPM	21E P/E (x)	P/B (x)	ROE
8021.TW	Topoint	218	31.6%	15.9%	15.4	1.4	7.7%
3037.TW	Unimicron	7,362	19.2%	8.4%	26.9	4.1	13.6%
8046.TW	NYPCB	9,875	23.8%	19.7%	34.2	7.8	17.7%
3189.TW	Kinsus	3,034	25.0%	9.1%	46.0	3.3	4.8%
4958.TW	ZDT	3,551	20.4%	9.8%	10.8	1.2	11.2%

Source: Credit Suisse estimates

Figure 2: Topoint's 2Q/3Q/2021 outlook

	2Q21E			3Q21E			2021E		
(NT$mn)	CS (new)	CS (old)	Street	CS (new)	CS (old)	Street	CS (new)	CS (old)	Street
Revenue	934	855	887	985	883	958	3,647	3,429	3,601
QoQ change	20	10	14	5	3	8			
GM (%)	31.7	32.3	32.6	31.0	33.6	35.3	31.6	32.4	34.3
OPM (%)	16.2	15.9	16.3	15.7	17.1	19.7	15.9	16.0	17.7
Net income	87	84	97	119	115	131	399	382	439
EPS (NT$)	**0.61**	**0.59**	**0.68**	**0.84**	**0.81**	**0.92**	**2.81**	**2.69**	**3.08**

Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

2Q21 result preview - above-seasonal revenue

June sales grew 10% MoM/31% YoY, leading to 20% QoQ growth in 2Q21 sales to NT$934 mn, above seasonal (+8%). Topoint attributed 2Q strength to solid demand in both drillers and drilling, and its new customer wins in server, networking, and auto. A more favourable mix could keep GM relatively stable QoQ, above expectations.

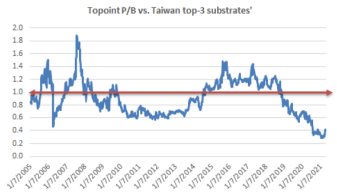
3Q21 growth capped by full capacity

3Q21 revenue growth could be capped by full capacity, with drillers already running at ~90% utilisation rates in 1Q21. The company still targets a better mix to drive revenue growth in the near term, but new capacity might not be added until end of 2021. For drilling, new capacity came on stream in late 2Q21, but long lead time for laser drilling machines will make new capacity a 2022 story. Nevertheless, we still expect better operational efficiency through its more focused customer mix (to global leaders) to drive margin resilience above 30% level.

A hidden beneficiary in the PCB upcycle

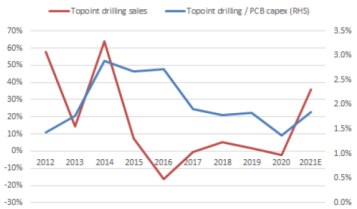
Drillers (56% of 1Q21 sales) are expected to benefit from PCB design change to higher density on top of higher layer count and bigger area size. The growing server/5G base station demand also drives higher ASP in drillers, by adding special coating to enhance overall strength. Drilling (44% of 1Q21 sales) is expected to benefit from its PCB customers' aggressive capacity expansion. Its more focused customer base (to global leaders) should provide better operational efficiency. Overall, we believe Topoint remains a hidden beneficiary of the PCB upcycle, given bigger operating leverage, a more benign/stable pricing environment, and more compelling valuation. Reiterate OUTPERFORM.

Figure 3: Topoint trading at a discount to Taiwan substrate sector, vs at a premium in the prior cycle



Source: Credit Suisse estimates

Figure 4: Topoint's drilling to benefit from PCB sector's aggressive capex



Source: Credit Suisse estimates

Research Analysts

Pauline Chen / 886 2 2715 6323
pauline.chen@credit-suisse.com

Carol Hu / 886 2 2715 6352
rung.hu@credit-suisse.com

Asian Daily

12 July 2021

Vanguard International Semiconductor (5347.TWO)

8" expansion addresses upside at a manageable cost

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (NT$): 140.00

Previous target price (NT$): 144.00

- **2Q21 upside from pricing/units**. 2Q21 grew +10.6% QoQ, vs +7-11% QoQ guidance led by driver ICs and price hikes. We expect GMs/OpM at the high-end of 39-41%/27.5-29.5% guidance.
- **2H21 seeing another raise, full year up ~25%**. We lift 3Q21 sales +8% vs. street +4% and 2021 sales from +23% to +25% vs. street +21.6% factoring +5% ASPs for 2H21 and growth in drivers/PMIC.
- **Further headroom for another 30% capacity growth**. The new 40k 8" WPM AUO fab purchase along with existing space can grow capacity 75k over its 243k 4Q20 base (+31% for Vanguard and 3% of the industry) raising EPS power from NT$7 to NT$8.
- **Capacity for upside, 8" model weathers the cycle well**. We lift 2021/22E EPS from NT$5.95/NT$6.60 to NT$6.25/NT$6.97, add 2023E EPS of NT$7.23 and stay OUTPERFORM but trimmed target from NT$144 to NT$140 (20x 22 EPS) as earnings growth moderates in 22-23.

2Q21 upside from pricing/unit strength. June sales grew 5% MoM to lift 2Q21 to NT$10.2bn, +10.6% QoQ and high-end of +7-11% QoQ guidance, above CS +7% QoQ and street +6% QoQ led by growth in large panel driver (28% of sales), small panel 8% of sales) followed by power management (58% of sales) also with 10k additional capacity ramp in Singapore and continued price uplift on 8" from the tight supply. Driver IC pricing has improved and is not too dilutive to corporate margins relative to PMIC. On strong units and pricing, we expect GMs/OpM at the upper half of 39-41%/27.5-29.5%, and lift EPS from NT$1.52 to NT$1.55 vs. street NT$1.50.

Figure 1: CS/Street estimates for 2Q21 and 2021-22

	2Q21				3Q21			4Q21		
(NT$ mn)	(New)	CS(Old)	Street	Guidance	CS	CS Old	Street	CS	CS(Old)	Street
Sales	10,156	10,040	10,022	NT$9.8-10.2bn	11,007	10,743	10,527	10,930	10,667	10,532
QoQ (%)	*10.6%*	*9.4%*	*9.2%*	+6.8 to +11.1% QoQ	*8.4%*	*7.0%*	*3.7%*	*-0.7%*	*-0.7%*	*-2.0%*
GM (%)	40.4%	40.2%	40.1%	39-41%	42.0%	40.6%	40.8%	41.5%	39.6%	40.7%
OpM (%)	29.4%	29.0%	28.8%	27.5-29.5%	31.5%	29.8%	30.0%	30.7%	28.5%	29.4%
Net Inc:	2,553	2,499	2,468	FX: 28:1	2,826	2,610	2,526	2,737	2,480	2,490
EPS (NT$)	1.55	1.52	1.50		1.71	1.58	1.54	1.66	1.51	1.52

Source: Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

2H21 seeing another raise, full year up ~25%. We lift 3Q21 sales +8% QoQ vs. street +4% and 2021 sales from +23% to +25% vs. street +21.6% factoring a 5% price raise into 3Q21 and continued growth in driver IC and PMIC. The company is moving in 8k in Taiwan to offset wafer loss migrating to 0.18 micron. 2021 capex should stay NT$8.5bn in 2021 and reach NT$10bn in 2022 for 2022 expansion of 16x + 2-3% productivity for 10% further capacity growth, taking '21/22 depreciation up to NT$4bn/NT$5.4bn. With optimization of capacity to better mix and pricing from shift to 0.18 and below, we project teens sales growth in 2022 at similar GMs/OpM of 41%/30%.

Further headroom for another 30% capacity growth. The new 40k 8" WPM AUO fab purchase along with existing space in Taiwan and Singapore can grow capacity 75k over its 243k 4Q20 base (+31% for Vanguard and 3% of the industry). We estimate the fab producing most advanced 0.11-0.18 can yield US$600 wafer price, low-mid 30% GMs/low-mid 20% OpM and generate incremental 14% EPS / NT$1.00, to raise the company's fully built out earnings power from NT$7 to NT$8.

Price (09-Jul-21, NT$)	**113.50**	Est. pot. % chg. to TP			23.3
Mkt cap (NT$/US$ mn)	185,846 / 6,649	Blue sky scenario (NT$)			160.0
Number of shares (mn)	1,637	Grey sky scenario (NT$)			100.0
Free float (%)	40.4	**Performance**	**1M**	**3M**	**12M**
52-wk range (NT$)	130 - 81.20	Absolute (%)	(0.4)	(2.6)	40.1
ADTO-6M (US$ mn)	30.7	Relative (%)	(4.5)	(7.4)	(4.7)

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (NT$ mn)	33,132.0	41,273.2	46,823.0	49,901.4
EBITDA (NT$ mn)	10,927.5	16,261.3	19,507.0	21,121.0
EBIT (NT$ mn)	7,415.8	12,253.4	14,147.3	14,666.6
Net profit (NT$ mn)	6,293.3	10,300.9	11,491.9	11,901.6
EPS (CS adj.) (NT$)	3.81	6.25	6.97	7.22
Chg. from prev. EPS (%)	n.a.	5.4	6.1	n.a.
Consensus EPS (NT$)	n.a.	5.92	6.39	7.04
EPS growth (%)	7.5	64.0	11.6	3.6
P/E (x)	29.8	18.2	16.3	15.7
Dividend yield (%)	3.1	3.1	3.1	3.1
EV/EBITDA (x)	17.0	11.4	9.5	8.8
P/B (x)	6.34	5.25	4.8	4.48
ROE (%)	21.3	31.6	30.8	29.5
Net debt/equity (%)	0.0	0.0	0.0	0.0

Source: Company data, Refinitiv, Credit Suisse estimates

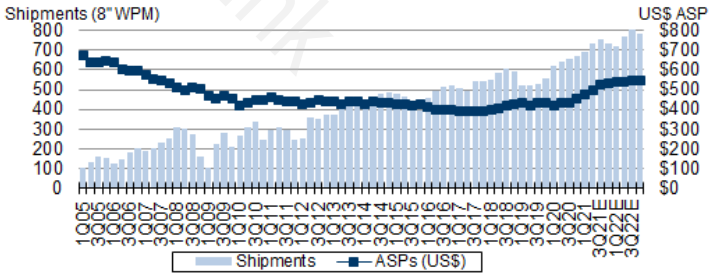
Figure 2: CS/Street estimates for 2021-23

	2021			2022			2023	
(NT$ mn)	CS	CS Old	Street	CS	CS Old	Street	CS	Street
Sales	41,273	40,630	40,283	46,823	45,899	44,566	49,901	48,207
QoQ (%)	*24.6%*	*22.6%*	*21.6%*	*13.4%*	*13.0%*	*10.6%*	*6.6%*	*8.2%*
GM (%)	40.6%	39.7%	39.9%	40.7%	40.0%	39.3%	39.9%	38.1%
OpM (%)	29.7%	28.6%	28.7%	30.2%	29.1%	28.2%	29.4%	25.1%
Net Inc:	10,329	9,802	2,490	11,533	10,875	2,490	11,954	2,490
EPS (NT$)	6.27	5.95	5.91	7.00	6.60	6.43	7.25	7.11

Source: Credit Suisse estimates

Capacity for upside, 8" model weathers downcycles well. Following the better sales and higher price into 2H, we lifted our 2021/22 EPS from NT$5.95/NT$6.60 to NT$6.25/NT$6.97 and added 2023 EPS of NT$7.22. We stay OUTPERFORM but recently trimmed target slightly from NT$144 to NT$140 TP (moving from 20x ex-cash to 20x 2022 EPS). We view the business model positively and expect the rising power management at higher ASPs and limited 8" supply could allow a YoY price increase for 2022 contracts for the new capacity.

Figure 3: Vanguard ASPs rising from mix and higher pricing



Source: Credit Suisse estimates

Research Analysts

Randy Abrams, CFA / 886 2 2715 6366
randy.abrams@credit-suisse.com

Haas Liu / 886 2 2715 6365
haas.liu@credit-suisse.com

Asian Daily

12 July 2021

PTT Global Chemical (PTTGC.BK)

M&A deal announcement: Full price payment leaves little room for upside surprise

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (Bt): 63.00

Previous target price (Bt): 80.00

- PTTGC announced the acquisition of Allnex, a chemical company in coating value chain, for US$4.8 bn. The transaction will be funded by cash on and and debt without the need for equity raising, according to PTTGC.
- The deal is priced at 12.2x EV/EBITDA LTM end 1Q21, 9.8x EV/EBITDA based on FY21E provided by the company. On P/E, the valuation is at 45x in LTM earnings.
- We are surprised by the size as well as valuation of the deal, especially considering the risk aspects since the coating value chain and operations with global geographical exposure are both new to PTTGC.
- We cut our TP to Bt63.00 (from Bt80.00) or at P/B of 0.9x in FY22E. We expect the transaction to leave PTTGC with little balance sheet flexibility to further enhance its ROE. We maintain OUTPERFORM as we believe the share price has factored in the negative surprises, while earnings is on the path to recover in 2022.

Price tag at full valuation, with little room for upside surprise. PTTGC announced the acquisition of Allnex for US$4.8 bn. The deal is priced at 12.2x EV/EBITDA LTM end 1Q21, 9.8x EV/EBITDA based on FY21E provided by the company. On P/E, the valuation is at 45x (PTTGC said that EBITDA is a better valuation parameter because there is significant amount of amortisation and depreciation). We see limited synergy between PTTGC and Allnex. PTTGC produces a small amount of raw materials which is used by Allnex. We think 12.2x EV/EBITDA for LTM is already at full valuation with little room for upside surprise.

Allnex—a supplier of coating resin. Allnex is a supplier of resins and additives for architectural, industrial, protective, automotive, and special purpose coatings and inks. According to PTTGC, Allnex is not the top player in many markets where it has a presence, and with a global market share of 8%. Competitors are operating more diversified product portfolios (names include BASF, Arkema, and Covestro). In addition to global names, there are local and regional players as well. Raw materials include MMA, BPA, Phenol, etc. PTTGC expects the business to generate more stable EBITDA margins (compared with its existing portfolio) of ~17%. Products are used in industrial metals (27%), auto (19%), packaging & inks (11%), and others. Geographically, revenue breakdown includes 40% in EMEA, 36% in APAC, and 24% in the Americas. Allnex's operations are in 14 countries with 3,844 employees. Its existing management has been retained to manage the company after the transaction is completed at year end.

Figure 1: Allnex's financial performance

Mn Euro	2019	2020	LTM Mar-21
Revenue	2,000	1,800	1,900
EBITDA	270	316	328
EBITDA margins	14%	18%	17%
Net income	39	71	88
ROA	2%	3%	4%

Source: Company data

PTTGC views the transaction as a strategic fit. PTTGC views that the transaction will help enhance its Performance Chemical & Green Chemicals to the 2030 goal of 25% (vs 10% 2020) and its international exposure to 30% (vs 16% in 2020). PTTGC sees that ~40% of Allnex's product mix is specialty with product customisation.

Price (12-Jul-21, Bt)	**54.75**	Est. pot. % chg. to TP			15.1
Mkt cap (Bt/US$ mn)	246,859 / 7,575	Blue sky scenario (Bt)			83.0
Number of shares (mn)	4,509	Grey sky scenario (Bt)			48.0
Free float (%)	51.0	**Performance**	**1M**	**3M**	**12M**
52-wk range (Bt)	69.50 - 38.50	Absolute (%)	(10.6)	(10.2)	19.0
ADTO-6M (US$ mn)	39.3	Relative (%)	(5.4)	(10.9)	4.2

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Bt mn)	329,291	441,341	459,623	435,757
EBITDA (Bt mn)	21,059.8	54,485.9	52,481.2	57,550.0
EBIT (Bt mn)	768.0	32,334.0	30,081.3	34,926.2
Net profit (Bt mn)	236.4	30,553.6	28,235.1	32,853.6
EPS (CS adj.) (Bt)	0.05	6.78	6.26	7.29
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Bt)	n.a.	6.71	5.56	5.63
EPS growth (%)	(97.6)	12,822.2	(7.6)	16.4
P/E (x)	1,044.1	8.1	8.7	7.5
Dividend yield (%)	1.8	8.7	5.7	6.7
EV/EBITDA (x)	15.9	5.9	5.8	4.8
P/B (x)	0.86	0.81	0.79	0.75
ROE (%)	0.1	10.4	9.2	10.2
Net debt/equity (%)	30.7	23.7	18.6	9.2

Source: Company data, Refinitiv, Credit Suisse estimates

Balance sheet can fund the deal without capital raising

The price tag is Bt148 bn. As at end of 1Q21, its net DER was 31% with cash at hand of Bt100 bn and net debt of Bt90 bn. PTTGC is to receive cash from disposal of GPSC shares of Bt25 bn. PTT will also lend up to Bt70 bn as bridge financing. PTTGC has Bt50 bn in bonds due in the next 12 months. This combined would be sufficient to fund the deal. We estimate that its net DER at end of 2021 would increase from 31% to 72% and will decline over time, which means that equity raising is unnecessary.

If we assume that half of the acquisition cost is financed by debt, we estimate earnings accretion of 8% by generously assuming that half of the funding will be from borrowing, and we ignore the cost of existing bond issued earlier in the year. PTTGC's valuation would become more expensive with EV/EBITDA increasing from 6x to 7.2x.

Figure 2: Valuation after the transaction

Bt mn	PTTGC	Allnex	Conso	Accretion	EV/EBITDA, P/E
EBITDA	52,481	15,200	67,681	29%	7.2
Net profit	28,235	3,800	30,355	8%	8.7

Source: Credit Suisse estimates

We cut TP to Bt63.00 at P/B of 0.9x. We cut our TP to Bt63.00, with P/B of 0.9x in FY22E, more in line with its peers. We expect the transaction to weigh down its ROA and leave PTTGC with little balance sheet flexibility to fund any future opportunities. We maintain OUTPERFORM with expectations of earnings strengths from higher oil prices in 2H21 and recovery of non-olefins business in 2022.

Research Analysts
Paworamon (Poom) Suvarnatemee, CFA / 66 2 614 6210
paworamon.suvarnatemee@credit-suisse.com
Kwanwaree Apichartsataporn / 66 2 614 6215
kwanwaree.apichartsataporn@credit-suisse.com

Asian Daily

12 July 2021

Vinhomes Joint Stock Company (VHM.HM)

Prime beneficiary of rising property prices; strong pipeline to support long-term growth

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (D): 136,100

Previous target price (D): 106,000

- We raise estimates for VHM by 6-13% and target price to D136,100 (from D106,000) on robust revenues and higher margins following upbeat guidance at the recent AGM and continued uptrend in property prices. VHM targets 26% revenue and 24% PAT growth in 2021E.
- Condominium prices have continued their uptrend up 6%/8% on average in HCMC/Hanoi in 1H21 amid strong demand. Management remains confident of launching three new projects, Dream City, Wonder Park and Co Loa in 3Q/4Q with a D 91 tn (+41%) presales target for 2021E. This should be achieved due to high proportion of bulk sales for newer launches, given upbeat demand and limited new supply.
- Green Ha Long and Long Beach Can Gio mega projects will be launched in phases from 2023, with bulk sales contributing 30-40% of pre-sales. VHM also plans to accelerate the development of its first IP project in Hai Phong in 2H with a target completion by year end.
- We expect the fourth COVID-19 wave to be controlled by end July, with an acceleration of new launches from 4Q. Amid healthy demand and strong pipeline, we expect 2020-23E EPS CAGR of 16%. Valuations (2022E P/E of 9.7x/29% discount to RNAV) also appear attractive.

Price (09-Jul-21, D)	**112,500**	Est. pot. % chg. to TP			21.0
Mkt cap (D bn/US$ mn)	370,070 / 16,090	Blue sky scenario (D)			179,000
Number of shares (mn)	3,290	Grey sky scenario (D)			57,000
Free float (%)	30.0	**Performance**	**1M**	**3M**	**12M**
52-wk range (D)	118,600 - 70,900	Absolute (%)	6.0	13.8	39.2
ADTO-6M (US$ mn)	16.9	Relative (%)	5.0	4.4	(14.5)

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (D bn)	95,208.6	100,220	112,105	130,561
EBITDA (D bn)	37,806.9	43,806.0	49,607.1	57,156.3
EBIT (D bn)	37,394.7	42,578.5	47,685.1	54,729.7
Net attributable profit (D bn)	27,489.9	33,400.8	37,885.4	42,950.4
EPS (CS adj.) (D)	8,357	10,154	11,517	13,057
Chg. from prev. EPS (%)	n.a.	5.5	12.8	5.9
Consensus EPS (D)	n.a.	9,238	11,020	13,155
EPS growth (%)	28.7	21.5	13.4	13.4
P/E (x)	13.5	11.1	9.8	8.6
Dividend yield (%)	0.0	1.3	0.0	0.0
EV/EBITDA (x)	10.1	8.9	7.8	6.4
ROE (%)	38.7	33.3	28.4	24.7
Net debt/equity (%)	13.9	15.8	9.6	(2.4)
NAV per share (D)	-	-	-	-
Disc./(prem.) to NAV (%)	-	-	-	-

Source: Company data, Refinitiv, Credit Suisse estimates

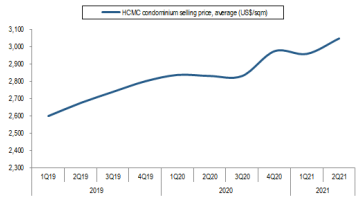
Strong guidance for 2021 amid higher bulk sales target. VHM set an aggressive 2021 target of 26%/24% revenue/PAT growth at the recent AGM, driven by the delivery of three existing mega projects VHM Ocean Park, Smart City and Grand Park, as well as bulk sales from new launches. According to management, despite the impact of COVID-19, VHM has sold ~66% units in Ocean Park, 57% in Smart City and 86% of Grand Park, with delivery rates at 61%, 46% and 67%, respectively, as of 1Q21. The company also continues to seek for potential buyers for bulk sales transaction, and expects bulk sales to contribute 30-40% of the total revenue in 2021 (2020: D 23.9 tn, ~25% of revenue).

Rising price trend continues, confident on D 91 tn pre-sales target. Condominium prices have continued their uptrend YTD despite the fourth COVID-19 wave, with average prices up 8%/6% in Hanoi and HCMC in 1H21amid strong demand and limited supply. Management remains confident of launching three new projects VHM Dream City (Ocean Park 2, Hung Yen, 460 ha), Wonder Park (Dan Phuong, 133 ha) and Co Loa (Dong Anh, 297 ha) in 3Q/4Q with a D 91 tn (+41%) pre-sales target for 2021E. This should be achieved due to high proportion of bulk sales for newer launches, given upbeat demand and limited new supply.

Figure 1: Condo prices rose 8% YoY in Hanoi in 1H...

Source: CBRE Vietnam

Figure 2: ...and 6% YoY in HCMC



Source: CBRE Vietnam

Green Ha Long and Long Beach to be launched in 2023, accelerated development for Hai Phong IP complex in 2H. In principal approvals for the two super mega developments VHM Green Ha Long (4110 ha) and Long Beach Can Gio (2870 ha) have been obtained by the company, with the projects to be launched in phases within two years. Moreover, VHM plans to accelerate development of its first IP complex in Hai Phong in 2H following COVID-19 related disruptions in 1H, with a target completion by year end. Management expects the IP to contribute 10-15% of sales over the long term.

Figure 3: VHM's key pipeline projects

Pipeline projects	Location	Total area	Key Components
To be launched in 2021			
VHM Dream City (Ocean Park 2)	Van Giang, Hung Yen	460 ha	Apartments / Villas / Shophouses / Schools /Hospitals / Shopping Malls
VHM Wonder Park	Dan Phuong, Hanoi	133 ha	Apartments / Villas / Townhouses / Schools / Shopping Mall / Eco-parks / Swimming Complex
VHM Co Loa	Dong Anh, Hanoi	297 ha	Apartments / Villas / Shophouses / Schools /Hospitals / Shopping Malls
To be launched in 2023			
VHM Green Ha Long Project	Ha Long City & Quang Yen District	4,110 ha	Apartments / Villas / Shophouses / Schools / Shopping
VHM Long Beach Can Gio	Can Gio District, HCMC	2,870 ha	Villas / Townhouses / Schools / Hospitals / Hospitality

Source: Company data

Promoting the use of O2O model and launch of a new secondary sales platform. VHM will continue to upgrade and promote its online sales platform (launched in Apr-2020) to reach a wide range of customers through a variety of interactive channels, as customers now can gain access to product information and consultation through both online and in-house offline sales team. Additionally, VHM will deploy a new secondary sales platform later this year to provide investors and homebuyers a transparent and convenient trading platform.

Research Analysts
Farhan Rizvi, CFA / 65 6212 3036
farhan.rizvi@credit-suisse.com

Ha Ngo / 65 6212 8456
ha.ngo@credit-suisse.com