Market Overview

Hang Seng Index closed up 0.4% at 32,254 last Friday. Market turnover decreased to $162.6 billion. Heavily weighted Tencent (700) and AIA Group (1299) climbed 1.0% and 0.2% respectively. HSBC (5) was almost unchanged. Technology and Chinese property stocks ended higher. Sunny Optical (2382) and AAC Technologies (2018) climbed 4.2% and 1.0% respectively. Eight largest Chinese property developers grew an average 4.6% among which China Resources Land (1109) jumped 7.4%. Oil, consumption, local banking and property stocks were mixed. CK Asset (1113) surged 2.2% whilst Wharf (4) tumbled 1.6%. Bank of East Asia (23) soared 0.6% while Hang Seng Bank (11) retreated 0.8%. Sinopec (386) rose 0.9% but CNOOC (883) slid 1.0%. Want Want China (151) and WH Group (288) rose 4.1% and 2.6% respectively. Hengan Int'l (1044) was the worst performing index stock, down 3.3%.

HSCEI advanced 0.6% led by airline, cement and securities stocks. Air China (753) and Anhui Conch (914) added 3.8%-4.1%. China Shenhua (1088) rose 2.0%. Securities and banking shares in HSCEI grew an average 2.5% and 0.7% respectively, among which Huatai Securities (6881) surged 3.5%-3.7%. CITIC Bank (998), CMB (3968) and ABC (1288) all increased 1.1%. Insurance, automobile, railway related stocks lacked clear direction. Zhuzhou CRRC Times Electric (3898) climbed 2.9% while CRRC Corporation (1766) dropped 1.1%. PICC Group (1339) went up 2.8%. China Life (2628) and New China Life (1336) were the worst performing HSCEI stocks, down 1.7% and 3.4% respectively. We expect Hang Seng Index to decline in near term due to profit taking with a technical support at 30,000.

22 January 2018
Sector Rotation Continues to Support F&B Sector, Maintain Buy Mengniu Dairy (2319)

Sector Outperformed HSI Index
Driven by expectations of average selling price hike, the share prices of nine selected F&B stocks with market capitalization between $19 billion and $132 billion posted an average gain of 16.2% in the past one month compared with a 10.3% rise for Hang Seng Index over the same period. Top performers were Mengniu Dairy (2319, $26.35), Tingyi (322) and China Resources Beer (291), up 21.7%, 17.4% and 16.8% respectively. We believe the speculation on ASP hike will continue to support share prices in the short term.

More Upsides in 2018
Since our BUY commentary “Recent share price weakness offers a buying opportunity” dated December 5, the share price of Mengniu had surged 30.8%. We continue to take a positive view on Mengniu given 1) better competitive dynamics that the leading players’ strategies are more focusing on key-product upgrade and differentiated products rather than grabbing market share by keeping price low, 2) more room for net margin improvement arising from higher ASP, favorable raw material costs and product mix upgrades, and 3) losses in Yashili (1230) and China Modern Dairy (1117) are expected to narrow with improved operation in 2018.

As a recap, Mengniu’s revenue, gross profit and net profit increased by 8.1%, 14.4% and 4.7% yoy to RMB29.5bn, RMB10.5bn and RMB1.1bn respectively in 1H17. Gross margin added 2.0ppts to 35.6%. Overall SG&A ratio increased slightly by 0.4ppt and A&P ratio was down 1.4ppts to 9.0%. Operating margin improved 1.6ppts to 6.6%. Excluding the RMB362mn non-cash loss from China Modern Dairy and RMB125mn loss from disposal of partial interests in associates, Mengniu’s core earnings for 1H17 should have increased by 20% yoy to RMB1.60bn with a core profit margin improvement from 4.0% to 5.3%.

Valuation
According to Bloomberg estimates, Mengniu’s revenue will reach RMB58.6bn in 2017 and RMB63.6bn in 2018 representing an increase of 8.9% and 8.7% yoy respectively. Net profits are expected to grow 17.7% to RMB2.4bn (EPS RMB0.622) in 2017 and 35.7% to RMB3.3bn (EPS RMB0.844) in 2018. Traded at 2017 and 2018 PER of 34.7x and 25.6x with 2-year EPS CAGR of 26%, valuation of Mengniu remains attractive to long term investors in our view.
## Technical Ideas

### SSY Group

<table>
<thead>
<tr>
<th>Name</th>
<th>Rating / Last Closing Price</th>
<th>Our TP / Bloomberg TP</th>
<th>Market Capital ($Bn) / Free Float</th>
<th>Turnover / 30D Avg ($Mn)</th>
<th>Our TP / Bloomberg TP</th>
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<td>Turnover vs 5D &amp; 30D Avg</td>
<td>154%</td>
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Source: Bloomberg, Mason Securities
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<th>Date of Issue</th>
<th>Stock Pick</th>
<th>Recommendation Highlights</th>
<th>Rating (TP)</th>
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</table>
| 5/1/2018      | China State Construction (3311) | New contracts growth exceeded management expectation – Maintain BUY CSCI(3311)  
- Accumulated new contract value of $99.0bn in 1H2017, up 25% yoy  
- Attractive valuation at 2018 P/E of 8.1x with EPS growth of 12% | BUY ($12.3) |
| 9/1/2018      | Colour Life Services (1778) | High earnings growth visibility fuelled by asset injection - Initiated BUY Colour Life Services (1778)  
- Proposed acquisition will enhance earnings growth momentum of CLS in 2018  
- Traded at 2018 P/E of 17.5x and 2018 P/B of 2.1x, valuation of CLS is relatively cheap compared with its peers | BUY ($6.35) |
- LT Catalyst – Higher Penetration Rate of Motion Recliner in China  
- ST Catalyst – Continuous Southbound Funds Inflow in Short-term  
- Attractive valuation at FY19 PER of 13.6x with 2-year EPS CAGR of 11.7% | BUY ($8.80) |
| 11/1/2018     | Shimao Property (813) | Downgrade Shimao Property (813) to HOLD after a strong rally  
- Contracted sales growth improved to 91% yoy in 4Q17 and 48% yoy in 2017  
- Current valuation of Shimao Property is no longer undervalued compared to peers | HOLD ($21.0) |
| 12/1/2018     | Xingyi Glass (868) | Sustainable Profitability in 1H18 given Tight Float Glass Supply, Maintain BUY Xingyi Glass (868)  
- Improving supply and demand dynamics will be more favorable to the leading glass manufacturers in next two years  
- 50% capacity growth by 2020E, which is led by overseas expansion with higher and stable margin than China. XYG deserves to further re-rate | BUY ($13.3) |
| 15/1/2018     | China Education Group (839) | China Education Group (839) had the highest margins than its peers – Initiate BUY  
- Any acquisition of new school will be earning accretive and positive share price catalyst  
- Traded at 2018 P/E of 22.6x, valuation of CES is attractive to long term investors | BUY ($8.25) |
| 16/1/2018     | Suntien Green Energy (956) | Top Pick in Wind Power Sector; Maintain BUY Suntien Green Energy (956)  
- Investors have been too pessimistic on wind power sector and overlooked the positive factors  
- Deserve a re-rating on the back of a strong pipeline of wind power projects, lower wind curtailment in 2018 and rebound in its gas business | BUY ($2.48) |
| 17/1/2018     | Hua Hong Semiconductor (1347) | The US$2.5bn JV project will improve earnings prospects –BUY Hua Hong Semiconductor (1347)  
- Rapid development in China relating to cloud computation, IoT, big data, wisdom city and 5G boost demand for semiconductor products in long term  
- Valuation of HHS is attractive to long term investors given a promising outlook for China’s semiconductor industry. | BUY ($20.0) |
- Incremental earnings generated by the share placements will gradually roll out in the second quarter this year resulting in earnings upgrades by analysts.  
- Current valuation of ZTA has not factored in the potential of auto finance business | BUY ($9.85) |
| 19/1/2018     | CCCC (1800) | Share price saw a technical breakout – Maintain BUY CCCC (1800)  
- Negative concerns have been discounted in share price. A rebound in yesterday’s share price with an unusually high trading volume is technically positive  
- Traded at 2017 PER of 6.8x and 2018 PER of 6.1x compared to 5-year average forward PER of 6.6x, valuation of CCCC remains undervalued in our view | BUY ($10.40) |
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Guide to stock ratings
Note: Newly issued research recommendations and target prices supersede previously published research.

BUY
Based on a current 12-month view of total shareholder return (change in share price from current price + projected dividend yield), we expect a positive return of over 10%.

HOLD
Based on a current 12-month view of total shareholder return, we expect the return to range between +10% to -10%.

SELL
Based on a current 12-month view of total shareholder return we expect a negative return of over 10%.

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