



Daily Market Watch

Hang Seng Index Performance



Source: Bloomberg

Major Market Indicators

		% Change			
		1- Day	1- Mth	6- Mth	12- Mth
Hong Kong					
Hang Seng Index	Close 30,760.41	0.3%	1.4%	3.0%	20.0%
HSCEI (H- Shares)	12,152.62	0.5%	0.5%	2.1%	15.0%
Mkt T/O (\$ Mn)	89,877.41	-22.1%	-7.8%	-14.1%	28.3%
Oversea					
DJIA	24,811.76	-0.3%	3.0%	5.3%	17.7%
NASDAQ	7,424.43	0.0%	6.0%	7.8%	19.6%
Shanghai SE Composite	3,154.65	-0.5%	1.2%	-5.9%	1.5%
Shenzhen Component	10,564.13	-0.6%	0.2%	-5.4%	6.8%
Commodities and FX					
Crude Oil Futures (US\$)	70.67	-0.1%	3.9%	19.9%	44.5%
Gold Futures (US\$)	1,302.90	-0.1%	-1.5%	1.2%	3.7%
Baltic Dry Index	1,162.00	-3.1%	-15.6%	-20.3%	26.6%
USD / Euro	1.17	-0.1%	-3.8%	-1.5%	4.5%
Yen / USD	109.51	-0.2%	-0.2%	1.4%	2.0%
CNH / USD	6.38	0.0%	-0.9%	3.3%	7.3%

Market Overview

Hang Seng Index closed up 0.3% at 30,760. HSCEI added 0.5%. Heavily weighted AIA Group (1299) climbed 0.5%. Tencent (700) and HSBC (5) had little change. Telecom, railway and pharmaceutical stocks outperformed the market. Three largest telecom operators surged 1.1%-2.4%. China Railway Group (390) and Zhuzhou CRRC Times (3898) advanced 1.0%-2.1%. Sinopharm (1099) and CSPC Pharmaceutical (1093) rose 0.9%-1.6%. Gaming and insurance stocks' performance were in line with the market.

Consumption, technology, energy, property, banking, security and automobile stocks lacked clear direction. Hengan Int'l (1044) surged 2.5%, making it the best performing stock in HSI, while WH Group (288) tumbled 3.2%, making it the worst in HSI. AAC Technologies (2018) soared 1.2% while Sunny Optical (2382) dropped 0.7%. Longfor Properties (960) jumped 2.6% while Logan Property (3380) retreated 2.4%. Hang Lung Properties (101) advanced 1.3% while Wharf REIC (1997) lost 1.1%. PetroChina (857) and Sinopec (386) elevated 1.5%-2.5% while CNOOC (883) slid 0.3%. China Minsheng Bank (1988), China Galaxy Securities (6881) and HTSC (6886) grew 1.1%-1.2% while CMB (3968) and Haitong Securities (6837) cut 0.2%-0.3%. Guangzhou Automobile (2238) and Great Wall Motor (2333) increased 0.7%-0.9% while Dongfeng Motor (489) and BYD (1211) plunged 1.9%-2.0%. We expect Hang Seng Index to move within the range of 29,500 and 31,500 in near term.

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Market in Focus

Name	Kingsoft Corp	MKT Cap (\$Bn)	32.6
Bloomberg Ticker	3888 HK Equity	52-week High/Low (\$)	17.5 - 31.1
Rating	Buy	Free Float (%)	55.3%
Target Price	\$30.80	3M Avg Turnover (\$, Mn)	277.5

Promising earnings outlook for gaming and cloud businesses – Maintain Buy on Kingsoft (3888)

Kingsoft (3888, \$23.75) is a leading software and Internet services provider in China. Its core businesses include (i) research and development of games, (ii) sales of office software products and services of WPS Office, and (iii) provision of cloud storage and cloud computation services. Since the release of financial results on March 21 to Q1 result in May 23, Kingsoft's share price has dropped 21.2% and underperformed the Hang Seng Index by 18.4%. We believe the underperformance is mainly due to the decline of old PC and mobile games life cycle and the delay of launch for new mobile games.

For the quarter ended 31 Mar 2018, Kingsoft's revenue increased 4.1% yoy to RMB1.26bn, profit attributable to owners of the parent tumbled 50.3% yoy to RMB118mn (EPS is RMB0.09), which is slightly lower than expectation. Revenue from online games(-22.6% YoY, -15.8% QoQ), cloud services(+56.3% YoY, +4% QoQ) and office software(+65.6% YoY, -7% QoQ) accounts for approximately 50%, 33.2% and 16.8% of total revenue. Due to the increase in the proportion of cloud service business with lower gross profit margin and the decline in gaming business with higher gross profit margin, the total gross profit margin decreased from 58.1% in 2017 to 48.7% in Q1 2018. We expect the financial performance is still under pressure in Q2 2018. However, we are bullish on company's revenue outlook for 2018 due to the launch of new mobile games in H2, fast growing demand for cloud service and sustainable improvement of the office software business.

The monthly average paying accounts (APA) of online games fell 22% YoY and 17% QoQ. Affected by the popularity of PUBG games taking up more users, the revenue of the PC game "JX Online III", which accounted for approximately 60% of the total game revenue, fell by 10% yoy. Meanwhile, the mobile game "JX Online I" launched in May 2017 experienced the natural decline in revenue. Kingsoft plans to launch four major JX series this year, and management confirmed that the "YSYY" and "JX Online III" will be launched respectively at the end of June and Sep. Currently these two mobile games have attracted 618,000 and 1.36mn potential players in Tencent Game platform. We expect these two mobile games to generate revenue of RMB540mn in 2018 representing around 17% of the company's online games revenue in 2017.

Kingsoft Cloud was ranked top 3 in the IaaS public cloud service market with a strong competitive advantage in video and gaming cloud areas.

Fig1: 1 Year Share Price



Source: Bloomberg, Mason Securities

From September 2017 to January 2018, Kingsoft Cloud had raised a total of US\$720mn from the issue of preferred shares that should be sufficient to meet development needs over the next few years. We estimate that segment revenue from cloud service will increase by 60% in 2018 after a growth of 81% in 2017 and 191% in 2016. As the cloud service business is still at the early stage of development, we expect the corresponding segment loss to enlarge from RMB576mn in 2017 to RMB940mn in 2018.

The WPS PC and Mobile started to generate revenue in 2013 and 2016 respectively. Kingsoft released "WPS+Cloud Office" in 2015 and believe this value-added services (normally have high retention rate) will be the engine of revenue growth in future. In Q1 2018, the value-added service revenue from WPS Office personal edition increased by three digits YoY. Meanwhile, Kingsoft is planning to spin off the WPS business in A-share market this year and expect revenue growth of 40% in 2018 from this segment.

Based on valuation of online gaming business at historical P/E of 15x, cloud business at historical price-to-sales ratio of 6x and WPS business at historical P/E of 25x, we estimate the fair value of Kingsoft at RMB33.9bn or \$30.8 per share. Our earnings forecast for 2018 is RMB1.43bn or equivalent to \$1.29 per share. Traded at 2018 P/E of 18.9x, the Kingsoft is undervalued in our view. We therefore initiate a BUY on Kingsoft with a 6-month price target of \$30.8.



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Technical Ideas



Name		TCL Multimedia Technology	
Stock Code		1070 HK Equity	
Rating / Last Closing Price		BUY	\$4.18
Our TP / Bloomberg TP		\$4.60	\$4.72
Cut Loss		\$3.97	
MKT Cap (\$Bn) / Free Float		9.7	48.7%
Turnover / 30D Avg (\$Mn)		45	10
Turnover vs 5D & 30D Avg		421%	455%
Forward PER / PBR		12.1X	1.04X
Net Debt (Cash) / Equity		-39%	
Technical Indicator			
SMA10	3.88	RSI (14)	72.6
SMA20	3.76	BB (Upper)	4.06
SMA100	3.74	BB (Lower)	3.47



Name		Yongda Automobiles	
Stock Code		3669 HK Equity	
Rating / Last Closing Price		BUY	\$9.39
Our TP / Bloomberg TP		\$10.33	\$14.33
Cut Loss		\$8.92	
MKT Cap (\$Bn) / Free Float		17.2	55.5%
Turnover / 30D Avg (\$Mn)		134	61
Turnover vs 5D & 30D Avg		93%	221%
Forward PER / PBR		7.1X	1.35X
Net Debt (Cash) / Equity		113%	
Technical Indicator			
SMA10	8.52	RSI (14)	60.4
SMA20	8.57	BB (Upper)	9.05
SMA100	9.02	BB (Lower)	8.09

Source: Bloomberg, Mason Securities



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Recent Recommendations

Date of Issue	Stock Pick	Recommendation Highlights	Rating (TP)
10/5/2018	COSL (2883)	Capture the upcycle of CNOOC's capex: BUY China Oilfield Services (2883) <ul style="list-style-type: none"> Higher margins over the next three quarters given the increase of CNOOC's capex in E&P A good proxy to capture the upcycle of CNOOC's capex in coming years 	BUY (\$9.90)
11/5/2018	CSCI (3311)	New contract growth for 4M18 remains satisfactory – Maintain BUY China State Construction (3311) <ul style="list-style-type: none"> Value of new contracts rose 20.4% yoy to \$42.09bn in the first four months of 2018 Traded at 2018 P/E of 7.2x with EPS growth of 12%, CSCI looks cheap compared with its historical valuation at 5-year average forward P/E of 11.2x 	BUY (\$12.0)
14/5/2018	Suntien Green Energy (956)	Focus on long-term prospect, Maintain BUY China Suntien Green Energy (956) <ul style="list-style-type: none"> Suntien remains undervalued despite a more-than-40% strong rally since March Suntien deserves 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 (\$3.10)
15/5/2018	HHS (1347)	Unattractive valuation after a strong rally - Downgrade Hua Hong Semiconductor (1347) to HOLD <ul style="list-style-type: none"> Strong financial results for 1Q18 and both revenue and gross margin were better than management guidance Valuation of HHS is no longer attractive to short term investors although we remain bullish on company's earnings growth prospects in the long term 	HOLD (\$20.0)
16/5/2018	Skyworth Digital (1347)	Recovery on track, maintain BUY Skyworth Digital (751) <ul style="list-style-type: none"> Inclusion into MSCI China attracts capital inflow into Skyworth in short-term Skyworth's year-to-April sales volume in China returned to positive growth, growing 2.5% vs -21.4% in 2017 	BUY (\$4.40)
17/5/2018	CLS (1778)	Strong earnings growth with a cheap valuation compared to peers – Maintain BUY CLS (1778) <ul style="list-style-type: none"> Strong earnings growth for 2018 fueled by M&A and upcoming IPO of Country Garden's (2007) property management business could be potential share price catalyst Organic growth in existing business and maiden contribution from WXM will ensure strong earnings growth for 2018 	BUY (\$7.85)
18/5/2018	Tencent (700)	Strong gaming performance and higher potential for Mini Program, advertising & payment services– BUY Tencent (700) <ul style="list-style-type: none"> Better than expected 1Q18 results driven by strong growth of smart mobile games, digital content subscriptions, payment-related services and cloud services Combined MAU of Weixin and Wechat arrived 1.04bn, up 10.9% yoy and 5.2% qoq 	BUY (\$460.0)
21/5/2018	HNR (958)	Higher and sustainable wind farm utilization and profitability – Maintain BUY HNR (958) <ul style="list-style-type: none"> Renewable energy quotas will help improve wind farms' utilization hour if the proposed scheme is implemented in the future We expect the improvement in utilization hours to sustain in 2018 and 2019 	BUY (\$3.60)
23/5/2018	CEG (1257)	China Everbright Greentech (1257): Bullish on the industry growth, initiate BUY <ul style="list-style-type: none"> China biomass power operating capacity is expected to reach 13,442MW in 2020, growing at a CAGR of 19% from 2016-2020 CEG will outperform the market growth given its strong pipeline and potential project wins supported by China Everbright International (257) which holds 69.7% of CEG's stake 	BUY (\$9.60)
24/5/2018	A-Living Services (3319)	Strong parent support and high earnings growth visibility – Maintain BUY A-Living Services (3319) <ul style="list-style-type: none"> Together with net proceeds of RMB3.2bn from the IPO, ALS is expected to have net cash of approximately RMB4.0bn at present that will allow it to expand aggressively this year through M&A Traded at forward P/E of 17.1x in 2018 and 11.2x in 2019 with a 2-year EPS CAGR of 51%, valuation of ALS is undervalued in our view 	BUY (\$15.0)



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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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