

## Market Overview

The Hong Kong stock market opened higher on Monday, as optimism rose among investors after US President Donald Trump did not extend his threat of punitive actions beyond the city to mainland China. The Hang Seng Index was up 3.4x% (+771pts) to 23,732, with blue chips, property and consumer stocks leading the gains. Daily turnover increased to HKD150.8b. In addition, the sentiment was also boosted by better-than-expected PMI data. The Caixin/Markit Manufacturing Purchasing Manager's Index came in at 50.7 for May, higher than consensus forecast of 49.6 and April reading of 49.4. Data suggested that production recovered faster than demand, and the rate of expansion for output was at its fastest since Jan 2011. Meanwhile, demand was subdued with total new work falling in May. May data signalled a further increase in output following Feb's record decline, with firms widely mentioning the resumption of works due to an easing of COVID-19 related measures.

## Sector News

### Macau Gaming

According to DICJ, Macau gross gaming revenue declined by 93.2% YoY to MOP1.76b in May. Demand for both VIP/mass segment remains weak given Macau's entry ban for overseas/HK visitors since Mar 25 and Guangdong's extension of the 14-day quarantine requirement to include those who visited HK/Macau since Mar 27. Macau has not had a Covid-19 case since early April. Market believes the industry is a step closer to the gradual relaxation of travel restrictions, which initially could be the formation of "travel bubble" between HK, Macau and Guangdong allowing certain groups of people to commute more freely within the zone. This should be followed by gradual easing for the rest of China, which may kick in during late July or August.

### China Steel

China Steel PMI in May was up by 5ppts to 50.9%. Production continues to trend up. The growth was driven by: (1) higher supply (production PMI: 56.4%, + 3ppts MoM), (2) strong demand (new orders PMI: 52.9%, +13ppts MoM), and (3) trending down inventory. Demand is strong demand, with accelerating destocking both at traders and steel mills. Raw material price remains resilient. According to CISA, accumulated average daily crude steel production of steel mills arrived at 2.06m tons (+1.2% YoY). With higher operation rate, raw material consumption accelerates (raw material purchase index was up 2.2ppts MoM to 51.0%).

## Company News

### NetEase (9999 HK :IPO)

NetEase launches its IPO today (2 June) with the aim of raising up to HKD21.5b. The company is offering 171m shares at an IPO price, capping at HKD126 per share. The investment is estimated to be c.HKD12,726 per board lot of 100 shares. CICC, Credit Suisse and J.P. Morgan are the joint sponsors of the Hong Kong listing. For the three months ended March, NetEase's net income from continuing operations was up 30% YoY to USD501.5m, while revenue increased 18% YoY to USD2.4b.

### Link REIT (823 HK)

The company released its final results for the year ended 31 Mar 2020. Its revenue and net property income increased by 6.8% YoY and 6.9% YoY to HKD10.7b and HKD8.2b, respectively. Its valuation of the

investment properties portfolio declined by 11.6% to HKD193.2b. Net asset value per unit fell by 13.3% to HKD77.6. Distribution per unit for the year increased by 5.9% to HKD287.19 cents, comprising an interim DPU of HKD141.47 cents and final DPU of HKD145.72 cents. This offers c.4.7% dividend yield. Looking ahead, its management estimates that Hong Kong retail rental to remain stable in 2020/2021 while Mainland China retail portfolio should maintain positive reversion.

### **Meituan-W (3690 HK)**

In its food delivery business, Meituan sees a good possibility for average order value (AOV) to stay above the pre-epidemic level going forward, driven by the increased number of higher-end and chain restaurants on the platform and higher user willingness to order full meals or cuisines for delivery. As recovery appears well on the way, the company plans to increase subsidies to capture demand. Delivery capacities recovered in late Mar, restaurant merchants recovered in late Apr, while demand is now >90% of normal levels. In addition, the company continues to invest in new opportunities and sees structural changes brought by the outbreak in areas such as grocery and fresh produce delivery. It expects the recovery of food and in-store/travel to support investment in new initiatives including new bikes.

### **CIFI (884 HK)**

CIFI announced to acquire a 5% stake of EverSunshine (1995 HK, the property management arm of the CIFI Group) from their common controlling shareholder at HKD10.19/share (16% discount to its latest closing price, and implying c.38x acquisition PER). After the transactions, CIFI would consolidate EverSunshine going forward (starting from 2H20). Market believes this would benefit CIFI in several aspects: (1) Gross margin. c.30% GPM of EverSunshine would lift CIFI's c.25% GPM; (2) Earnings. Owning an additional 5% stake of EverSunshine would lift CIFI's FY20-22E earnings slightly by c.0.3%; (3) Financial status. EverSunshine's net cash position would lower CIFI's current net gearing ratio by c.4ppt.

#### **DISCLAIMERS**

This Dim Sum Daily is prepared for general circulation and for information purposes only. It is not an investment research or a research recommendation, as it does not constitute substantive research or analysis. The material contained herein is intended as a general market commentary. Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources believed to be reliable. However, Kim Eng Securities (HK) Ltd, its subsidiary and affiliates (collectively, "Kim Eng (HK)") do not independently verify such information and consequently no representation is made as to the accuracy or completeness of such information. Kim Eng (HK) does not take responsibility for any loss occasioned by reliance placed upon the contents hereof. Any statements nonfactual in nature constitute only current opinions, which are subject to change at any time without prior notice. Kim Eng (HK) or its officers, directors, analysts, or employees may, to the extent permitted by law, from time to time participate or invest in financing transaction with any company mentioned herein; may have positions in securities or commodities referred to herein, and may, as principal or agent, buy and sell such securities or commodities. An employee, analyst, officer, or a director of Kim Eng (HK) may serve as a director for companies mentioned in this email. Neither the information nor opinion expressed in this email shall constitute a solicitation to buy or sell any securities. There may be instances when fundamental, technical, and quantitative opinions may not be in concert. Kim Eng (HK) may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this email. This Dim Sum Daily is prepared for the use of Kim Eng (HK)'s clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Kim Eng (HK) and Kim Eng (HK) accepts no liability whatsoever for the actions of third parties in this respect. There are risks inherent in international investments, which may make such investments unsuitable for certain clients. These include, for example, economic, political, currency exchange rate fluctuations, and limited availability of information on international securities. Kim Eng (HK) recommends that you obtain the advice of your Financial Advisor regarding this or other investment in order to confirm to your financial resources and risk preference.