



Market Overview

Last Thursday, Hong Kong stocks markets slipped on a mixed China economic data with Sept official manufacturing PMI missed. Tech names also fall with Alibaba-SW (9988 HK) slumped 4.1%. On the other hand, China property sector gained after numbers of acquisition announced and Shenzhen recorded 45% premium in land tender transaction. The Hang Seng Index was down 87pts to 24,575pts with a decline in daily turnover of HKD115.1b. Note that (1) Evergrande (3333 HK) and Everg Services (6666 HK) suspended trading; (2) China stocks markets will be closed for National Day Holiday; (3) Southbound capital flow will be resumed this Friday (8 Oct).

Sector News

China Marco

China's official and Caixin manufacturing purchasing managers' index (PMI) had a mixed performance. Sept official PMI unexpectedly fell for the sixth consecutive month, reaching 49.6, the lowest point since Feb 2020 against the backdrop of the COVID-19 epidemic. The low reading was due to weak growth in high-energy consumption sectors, while the non-manufacturing PMI climbed back to expansion territory with a reading of 53.2, said the NBS. On the other hand, reflecting small and medium size enterprise, the Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) rose to 50.0 in Sept (vs. Aug of 49.2) and higher than consensus forecast of 49.5. Considering recent COVID-19 outbreaks, higher basic material costs, production bottlenecks, and power control impact, China manufacturing activities are expected to slowdown in the upcoming months.

Company News

GS (6098 HK)

CGS announced to acquire core asset of Color Life Services (1778 HK), including Wanxiangmei Property and Kaiyuan International. Based on the consideration of RMB3.3b and 2020 net profit of RMB309m, this acquisition implies a valuation of 2020 PER of 10.7x. This is the third acquisition by CGS in 2021; given continuous credit tightening in the property sector, some small-mid-sized developers are facing severe liquidity issues and have to sell their property management companies for financing.

Sunny Optical (2382 HK)

Sunny Optical has started mass production of 8MP vehicle modules in 1H21, and three more projects will kick in in during 2H21E alongside >10 design wins in the next 1-2 years. In the longer term, it aims to become a major vehicle module supplier. For vehicle modules, it is now covering most new EV players in China and overseas markets. In terms of MIIT's potential regulation of EV data privacy, its management believes more transparent regulatory requirements will set a barrier to entry, which could benefit the leaders and make industry growth more sustainable. In addition, Sunny believes AR/VR segment could become the key growth driver after vehicles, with VR shipments is expected to reach a new stage (c.10m units) in 2021E. Sunny's strategy in AR/VR is to partner with industry leaders from a very early stage, thus securing leading market share and capturing the growth opportunity.

BYD Co. (1211 HK)

BYDs' DM-i models have gained in popularity since their launch. Its three DM-i models (Qin Plus DM-i, Tang DM-i and Song Plus DM-i) have received orders of more than 150k units. According to its management, the shortcoming for DM-i supply is the battery, which is a blade battery specifically designed for hybrid EVs. Currently, BYD has battery capacity of 53GWh, including NCM and LFP (14GWh for blade battery), and plans to expand to 100GWh by

2022E. Its management has confidence its EV sales volume target to reach 500,000 units this year and 1.5m units next year given that its battery capacity is under active expansion and its auto manufacturing factories in Xi'an and Shenzhen have not been impacted by the recent power-restriction policy. For chip supply, BYD has reached 80% self-sufficiency in IGBT and MCU; hence, having advantage compared with other OEMs.

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