



Market Overview

Yesterday, the Hong Kong stocks markets advanced on the rally of Hong Kong property developers. The Hong Kong property rallied after the release of Hong Kong Policy Address 2021 given that there is no obvious cooling measure or major increase in near term housing supply. On the other hand, oil companies declined after Russia's president Vladimir Putin said his country was prepared to stabilise the soaring global energy prices. The Hang Seng Index surged 735pts to 24,701pts with a daily turnover of HKD105.3b. Today, investors have to keep an eye on the flow of Southbound capital and the performance of China stocks markets, which both resume trading after National Day Holiday. Companies-news: AAC Tech (2018 HK) released profit warnings for its 3Q21 results, watch out any selling pressure on smartphone players.

Sector News

China Industrial

China's heavy-duty truck (HDT) sales dropped 60% YoY to 60k units in Sept (+17% MoM), after -61% YoY in Aug and -45% YoY in July, according to CV World. Dragged by third quarter's 55% YoY decline, total HDT sales in 9M21 were flattish YoY at 1.2m units. By player, FAW remained the best seller at 318k units in 9M21 (-3% YoY). Sinotruk (3808 HK) surged 26% YoY with 4.1ppt YoY market share expansion to 19.6% as of 9M21. Dongfeng and ShaanQi's growth were nearly in-line with the industry. Market expects sales in 4Q21 to be down c.40% YoY due to weak logistic demand and slow construction activities, which implying full-year sales to fall 10% YoY to 1.46m units.

Hong Kong Property

Summarize analysts overview towards Hong Kong Policy Address as follow: (1) latest land supply policies are to help finding more land for residential units in 2030-48 (long term); (2) may not address the city's near-term housing needs and lacks details; (3) farmland can be converted faster, which should benefit developers owning more agricultural land bank over the long term. Market believes the absence of a major increase in near term supply or cooling measures is positive. Developers with farmland could see faster conversion, including New World Dev (17 HK), Henderson Land (12 HK). Valuation-wise, the sector is trading at c.55% discount to NAV and 5% dividend yield.

Company News

AAC Tech (2018 HK)

AAC Tech released a profit warning for 3Q21, expecting its net profit to decline at the range of 51%-61% YoY. In 3Q21, the company expects to report an exchange loss or a much less exchange gain as compared to the substantial exchange gain in Q3 2020, which to a large extent, contributed to the decrease in its 3Q21 net profit. Furthermore, the disrupted global supply chain due to COVID-19, the increase in operation costs in China, and weaker demand from PRC domestic customers on the back of chip shortage resulting in delays and cancellation of certain phone models, also cause the material adverse impact on its 3Q21 net profit.

SITC (1308 HK)

Its management expects 3Q21 gross margin to be largely in line with the high level in 1H21, on the back of the continued solid freight rates and cost advantages entailed by its high proportion of self-owned vessels. Most of the major ports in Vietnam are operating normally, but at lower efficiency. As hundreds of factories are scheduled to reopen, the pent-up shipping demand should fuel SITC's volume growth in 4Q21E. Market expects port congestion

and container shortages to persist within this year, and regional competition to ease further compared with 1H21. Since SITC's share price has corrected >25% from the peak, the current level may act as a good entry point given the intact outlook and further intra-Asia freight rate strength.

Fuyao Glass (3606 HK)

Its share price weakness was mainly due to (1) global auto production cuts amid a chip crunch; (2) power shortage; (3) soaring materials/energy costs. Market recent checks indicated no disruption to production at Fuyao's mega sites from power shortage. Production of upstream float glass is energy-intensive, yet, it relies mainly on natural gas rather than electricity. Some analysts believe there are potential for lingering concerns about Fuyao's profitability to lead to underperformance in the stock before the 3Q21 results announcement (due 28 Oct).

NetEase-S (9999 HK)

Market expects NetEase upcoming gaming revenue is boosted by fruitful gaming pipeline launches. NetEase's global mobile grossing grew c.15% QoQ in 3Q21 driven by c.50% MoM in Sept, which in turn was driven by Harry Potter (grossing of c.RMB2b in first 22 days), driving 3Q21 deferred revenue. PC games are also strong driven by Naraka Bladepoint (8 Jul) and Nightmare Breaker (17 Sept). Grossing in 4Q21 should be further helped by the release of Lord of the Rings on 23 Sept and other titles in 4Q21.

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