

Market Overview

Yesterday, stimulated by less-than-expected Anti-Monopoly penalty verdict on Meituan-W (3690 HK) and a series of administrative measures in an attempt to alleviate power shortage in China, Hong Kong stocks market gained with the support of "ATMX" names. Meituan-W (3690 HK) and Alibaba-SW (9988 HK) climbed 8.3% and 7.9%, respectively. The Hang Seng Index advanced 487pts to 25,325pts with a daily turnover of HKD162.9b. Market keep an eye on (1) U.S. Sept CPI data (will be released on 13 Oct (UST)); (2) 3Q21 results announcements, with banks kicks off earnings seasons. Companies-news: (1) Geely Auto (175 HK) Sept wholesales volume declined 18% YoY to c.103k units; (2) Great Wall Motor (2333 HK) Sept wholesales volume decreased 15% YoY to c.100k units.

Sector News

China Power

A series of administrative measures and guidance in an attempt to alleviate power shortage was released by central government. The measures include (1) increasing near-term coal production from existing coal mines and accelerating commissioning of mine-month coal, with suspended mines to resume production after rectification; (2) further liberalizing power tariffs to allow price premium of market-based power (to widen from previously no more than 10% above benchmark tariffs, to up to 20% above benchmark). For market-based power tariffs for high-energy-intensive sectors (including chemicals, building materials, ferrous and nonferrous metal) would not be limited to 20% price hike; and (3) improving energy consumption control policies, with additional renewable power consumption exempted from inclusion in total local energy consumption.

With the policies to focus more on securing the supply than price stabilization, on top of trending up demand amid extremely low inventory, market expects coal price to remain resilient in the short term. Investment strategy: prefer coal-fired IPPs over coal miners from the perspective of policy changes, with Huaneng Power (902 HK) and Huadian Power (1071 HK) (>90% capacity exposure to coal-fired power) benefiting the most from upcoming power tariff hikes. Long term will still prefer to renewable IPP, including CR Power (836 HK), China Longyuan (916 HK).

Macau Gaming

At the 7-day October Golden Week holiday ended on 7 Oct, Macau only reported 1,166 average daily visitors during the 7-day holiday (-93.7% YoY), as the ongoing border restrictions with Zhuhai (negative NAT issued within 24 hours of leaving Macau) decimated travel plans. The 3rd round of city-wide mass testing in Macau has further curtailed the visitor arrival numbers by approximately half between 5 and 7 Oct. Yet, with all Macau residents returning negative results, market believes the reopening of Macau-Zhuhai borders may take place sooner than expected. It is believed that investors to start accumulating quality Macau names, including Galaxy Ent (27 HK).

Company News

AAC Tech (2018 HK)

Last week, the company released profit warning on its 3Q21E results with net income to down 51%-61% YoY. Market believes the fall was caused by soft Android smartphone shipments, lower FX gains and Vietnam factories impacted by COVID-19. For FY21E, its earnings is likely to be affected by the above reasons. Yet, looking into FY22E, its business is expected to be driven by handset lens (with both strong shipment growth and pixel mix upgrade), better cost control and new products launches (standardized small cavity speaker modules).

LK Tech (558 HK)

LK Tech targets 30% revenue CAGR over FY22-24E on the back of an increase in the delivery of mega die-casting machines and ASP growth. The company mentioned that currently it receives orders of HKD1.8b to be delivered in the next 3 months. In addition to Tesla, another US major OEM, competing with Tesla and set to launch a hybrid electric pick-up, has approached LK for mega die-casting machines. Some Chinese OEMs have also ordered mega die-casting machines. In addition to potential volume growth, market expects there will be an obvious increase in ASP of 8,000-tonne die-casting machines, reaching HKD6,000-7,000 per unit upon delivery, 2x of that of a 6,000-tonne machine currently.

Samsonite (1910 HK)

Samsonite has seen improving trends in all regions. For Europe, which has shown the most promising trend, market is expecting a 3Q21 revenue decline of less than 40% as compared to 3Q19 (vs. 2Q21 -60.4%), followed by Latin America with revenue down less than 20% (vs. 2Q21 -48.9%), .U.S with revenue down c.30% (vs. 2Q21 -44.3%), and Asia with revenue down c.50% (vs. 2Q21 -56%). In addition, the company maintains its target for a GPM of c.55% by year-end. In order to combat rising input costs and a delayed GSP tariff agreement, the company began raising product prices by 7-10% in Sept/Oct and has tightened retail promotional activities. Market believes Samsonite should stand out in the competitive landscape given that its pace of new product launches. The “BTS x Samsonite Red” that launched in South Korea has seen good feedback and will roll out gradually in other countries.

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