

Market Overview

Last Friday, Hong Kong stocks markets advanced after the market reopened for a two-day pause, with China Auto players took the lead. China's NEV production volume grew by 148% YoY in Sept 2021 (vs. overall industry average of 16.5% decline). BYD Co (1211 HK) and Geely Auto (175 HK) surged 7.5% and 7.9% last Friday. Most Chinese tech names rose too, with Tencent (700 HK) and Meituan-W (3690 HK) climbing 2.5% and 4.3% on optimism that the worst for the regulatory onslaught is already over. The Hang Seng Index advanced 368pts to 25,330pts with a daily turnover of HKD179.6b. Today, a series of China economic will be released (3Q21 GDP (consensus forecast of 5.2%), Sept industrial production (consensus forecast of 4.5%), Sept retail sales (consensus forecast of 3.3%).

Sector News

China Sportswear

Market observed that divergent retail sales trends between distributors, meanwhile, the sector experiencing slowdown in 3Q21 growth compared with 2Q21 and national holiday growth was fairly sluggish. Market explained the weakness in consumption was due to (1) disappearing impact of Xinjiang cotton; (2) COVID-19 resurgence; (3) warm weather; and (4) lack of travel during the mid-autumn festival. Some start to change cautious tone on the sportswear sector reflecting concerns on a sluggish demand environment, risk of earnings cuts and high base effect.

China Auto

According to CAAM, PV sales for Sept were down 16.5% YoY but up by 12.8% MoM to 1,751k units. For 9M21, China's PV sales decreased by 2.6% vs. that of 2019 to 14,862k units. China's NEV production volume grew by 148% YoY in Sept 2021 to 353k units. According to the China Automotive Battery Innovation Alliance (CABIA), China's EV battery production in Sept 2021 was up 169% YoY to 23.2GWh. Market expects the strong EV battery installation growth to continue in 2021E due to a robust NEV sales volume outlook. Hence, leading battery makers and material providers should benefit from this situation, such as BYD Co. (1211 HK).

China Solar

According to Silicon Industry of China Nonferrous Metals Industry Association's data disclosed on 13 Oct, the average selling price of mono polysilicon rose by 13.7% WoW to RMB268/kg, likely due to the impact of surging silicon powder cost on electricity consumption control aided by tight supply amid rising downstream demand. Looking forward, market expects solar-poly prices to remain strong in 4Q21E and likely start to ease over 2Q22 with the improvement in power outage as well as the ramping-up of new poly capacities from Tongwei, Daqo and Xinte.

Company News

CGN New Energy (1811 HK)

CGN New Energy's Sept power generation amounted to 1,368.9GWh (+11.4% YoY). In particular, power generation of PRC wind projects increased by 67.8%, power generation of PRC solar projects increased by 8.6%, power generation of PRC cogen and gas-fired projects decreased by 64.3%, power generation of PRC hydro projects decreased by 30.7% and power generation of Korea projects decreased by 2.9%. For 9M21, the accumulated power

generation amounted to 13,590.7GWh (+32.3% YoY). In particular, power generation of PRC wind projects recorded the highest increase of 72%, followed by solar projects.

ZTE (763 HK)

ZTE announced its preliminary results for 3Q21, indicating that its 3Q21 net profit range of RMB1.5b-1.9b (implying a 78%-125% YoY growth). ZTE stated that the earnings growth was driven by (1) YoY growth of operating revenue; (2) continuous recovery in gross margin; (3) the contribution from Caltt Tech, which ZTE transferred 90% Equity Interests in Caltt Tech, Ltd., which record profit before taxation of c.RMB800m. Going into 4Q21, market expects its gross margin will continue to improve, which should be driven by higher margin in telecom segment due to cost reduction. This will continue to support a robust net profit in 4Q21.

Tencent (700 HK)

Tencent will release its 3Q21 results on 10 Nov. Market starts to release Tencent 3Q21 preview reports and some expect Tencent 3Q21 results to be weak, reflecting slowdown in mobile games and advertising revenue. Due to high base in 3Q20 and reduced promotions this summer amid a tighter regulatory environment with, its gaming revenue is expected to record high single digit growth total revenues. Advertising revenue may also be hit by new regulations, reduced education ad demand, and slower macro growth. Meanwhile, Tencent has raised investments in new growth drivers, enterprise software, global games expansion, and original IP cultivation.

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