Dim Sum Express

**A-Share Market**

Property: WoW transaction recovery continues

Primary area sold in first-tier cities picked up 8% WoW last week, while second-tier cities tracked saw a 5% increase. Sector fundamentals have strengthened further as market expectations improve on continued policy relaxation. Apr 1-23 new home transactions in 50 large cities tracked increased 17.9% YoY, while existing home transactions in 19 large cities rose by as much as 50.9% YoY. We believe medium and large cities are very likely to see YoY transaction growth of more than 20% in May given the favorable policy environment and sector peak season.

**Hong Kong Market**

Retail: China to lower import tariff and enhance consumption tax policy

The State Council has announced several policy measures aimed at boosting domestic consumption. We believe these measures will gradually narrow the retail price gap between China and HK, and offer more destinations for duty-free shopping, which should have a positive impact on the HK retail sector. Meanwhile, China department stores are expected to benefit from the policies. We believe HK jewelry retailers will be least affected, and that these policies will put pressure on HK shop rental and benefit HK retailers in the mid-long-term.

Baiyunshan (874 HK, Hold): 1Q15 net profit in line

We believe the company’s proposed new A-share issuance will dilute 2015E EPS by 32.5%. Factoring in this dilution effect, we expect 2015/16 EPS growth of 4/21%. The stock is trading at a fair valuation of 25.0x 2015E P/E, in line with China pharmaceutical sector’s annual revenue growth of 20-25%. We maintain our Hold rating on the stock. Given the considerable market potential of the company’s internet-based OTC drug sales model, we upgrade our target price by 23% from HK$36.00 to HK$47.00, equal to 25.0x 2015E P/E.

Q Tech (1478 HK, NR): A mid-to-high end handset camera module specialist

Q Tech is the third largest HCM maker in China and focuses on the mid/high-end market. Its top five customers collectively accounted for 72% of sales in 2014. Management plans to expand capacity further to as high as 18m units per month, and targets capex of Rmb200-300m for 2015. The company has offset declining ASP with volume growth and product mix improvement. The stock has now accounting for 29% of group sales, exceeded Europe to become Apple’s second largest market. AAC Tech (2014 HK, Hold) is the only HK-listed stock with meaningful exposure to Apple (more than 50% of sales), and is trading at 15x 2015E P/E based on Bloomberg consensus.

**Other Markets**

Apple (AAPL US): 2QFY15 results beat

2QFY2015 net profit rose 33% to US$13.6bn, which was 8% above street estimate of US$12.6bn. iPhone shipments remained strong on continued replacement towards the larger-screen iPhone 6/6+, while iPad was the weakest performing product line. Greater China, now accounting for 29% of group sales, exceeded Europe to become Apple’s second largest market. AAC Tech (2018 HK, Hold) is the only HK-listed stock with meaningful exposure to Apple (more than 50% of sales), and is trading at 15x 2015E P/E based on Bloomberg consensus.

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**Property: WoW transaction recovery continues**

**WoW transaction recovery continues** Primary area sold in first-tier cities picked up 8% WoW last week. Beijing and Shanghai led with significant growth, while Guangzhou remained flat WoW and Shenzhen posting a decline. Second-tier cities tracked saw a 5% increase from the previous week.

**20% YoY growth expected in May** Sector fundamentals have strengthened further as market expectations improve on continued policy relaxation. Apr 1-23 new home transactions in 50 large cities we track represented YoY increase of 17.9%, while existing home transactions in 19 large cities rose by as much as 50.9% YoY. We believe medium and large cities are very likely to see YoY transaction growth of more than 20% in May given the favorable policy environment and sector peak season.

Our top picks for the week are China Merchants Property (000024 CH), Jinfeng Investment (600606 CH), Zhongnan Construction (000961 CH), Oceanwide Holdings (000046 CH), Citychamp Dartong (600067 CH) and Binjiang Real Estate (002244 CH).

**Retail: China to lower import tariff and enhance consumption tax policy**

**Key policy measures** The State Council has announced several policy measures aimed at boosting domestic consumption, including: 1) a reduction in import tariff for certain daily-use goods beginning from end-Jun; 2) enhanced consumption tax policy for mass market consumer goods such as apparel and cosmetics; 3) an increase in duty-free shops and diversification of duty-free goods.

**HK cosmetics retailers to suffer most** We believe these policies will gradually narrow the retail price gap between China and HK, and offer more destinations for duty-free shopping, which should have a negative impact on the HK retail sector. Meanwhile, China department stores are expected to benefit from the policies. Given that cosmetics are subject to a 50% tariff and a 30% consumption tax in China, we believe Sa Sa (178HK) and Bonjour (653 HK) will be the key losers. That said, we believe jewelry retailers will be least affected, as jewelry is not a daily-use/mass market consumer good and as jewelry retailers tend to have a large proportion of their profit coming from the China market (CTF 49%, CSS 38%, LF 36%). In addition, we believe these policies will put pressure on HK shop rental and benefit HK retailers in the mid-to-long term.

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**Baiyunshan (874 HK, Hold): 1Q15 net profit in line**

**What's new?** 1Q15 revenue grew 1% YoY to Rmb4.7bn with a gross margin of 26%. Net profit rose 15% YoY to Rmb365m, in line with our estimate.

**EPS to be diluted by new share issuance** The company previously announced that it will issue 419m new A shares before Jun 2015, raising an estimated Rmb10bn. Rmb9bn of the proceeds will come from institutions under the Guangzhou government, while YF Capital, which is controlled by Alibaba’s Jack Ma, will also subscribe for shares worth Rmb500m. We calculate that this proposed issuance will dilute 2015E EPS by 32.5%. Factoring in the dilution effect of the issuance, we expect 2015/16 EPS growth of 4/21%.

**TP raised** The stock is trading at a fair valuation of 25.0x 2015E P/E, in line with China pharmaceutical sector’s annual revenue growth of 20-25%. We maintain our Hold rating on the stock. Given the considerable market potential of the company’s internet-based OTC drug sales model, we raise our target price by 23% from HK$26.00 to HK$32.00, equal to 25.0x 2015E P/E.

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**Q Tech (1478 HK, NR): A mid-to-high end handset camera module specialist**

**Third largest handset camera module maker in China** Q Tech was established by Ningning He in 2007 and has gradually grown to become the third largest manufacturer of handset camera modules (HCM) in China by sales volume, just behind Sunny Optical (2382 HK, Buy) and A-share...
listed Shenzhen O-Film (002456 CH). Q Tech saw HCM shipment of 83m units in 2014 (+73% YoY), compared with Sunny Optical’s 187m units (+42% YoY). Q Tech went public in Dec 2014 and raised HK$678m of capital from its IPO (issuing 250m shares at HK$2.79 per share).

**Focusing on mid-to-high end market segment** Q Tech focuses on the mid-to-high end segment of the HCM market for domestic smartphone makers. VIVO, which is Q Tech’s largest customer, accounted for 24% of the company’s sales in 2014. Other major customers include ZTE (763 HK, NR), TCL Comm (2618 HK, Buy), Coolpad (2369 HK, Underperform) and Lenovo (992 HK, NR). These top five customers collectively accounted for 72% of sales in 2014. With regard to new customers, Q Tech has been a qualified supplier for OPPO since Aug 2014, and management expects to see meaningful sales contribution from OPPO in 2015.

**Over 10% capacity expansion so far in 2015** Monthly HCM production capacity reached 13m units in 1Q15, up 13% from 11.5m units at end-2014. Management plans to expand production capacity further to as high as 18m units per month depending on end demand. 2015 total capex will be around Rmb200-300m, according to management.

**Megapixel upgrade to offset ASP decline** The average selling price of HCM of the same megapixels has continued to fall year by year. In 2014, the ASP of the core 5MP and 8MP HCM dropped 20% and 26% YoY to Rmb24 and Rmb43 respectively. However, Q Tech offset the ASP decline with volume growth and product mix improvement (i.e. stronger sales of higher-megapixel HCM). The company saw sales pick up 53% YoY in 2014, driven by 72% YoY volume growth and increased sales of 8MP HCM which accounted for 17% of volume shipment, up from 10% in 2013.

**R&D investment in new product feature development** Q Tech invests 3.4-3.6% of sales in R&D to develop new product features to help support its gross profit margin. Some new features that the company is currently working on include optical image stabilization (OIS), dual camera and optical zoom, which are likely to be commercialized in late 2015 or 2016.

**Valuation – trading at over 40% discount to Sunny Optical** The stock has risen 43% YTD and is trading at 10.9x 2015E P/E based on Bloomberg consensus, compared with Sunny Optical’s 18.7x. Q Tech’s 2015 net profit is expected to grow 16% YoY to Rmb227m according to Bloomberg consensus estimates.

**Risks** Key risks include: 1) a potential sell-down by strategic investors upon the expiry of the 180-day IPO lock-up period in early June (Q Tech was listed on Dec 2, 2014); 2) a slowdown in China’s smartphone market.

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**ChinaSoft (354 HK, Buy): Trading suspended Monday afternoon due to new share issuance**

**What’s new?** ChinaSoft suspended trading from Monday afternoon pending an announcement regarding new share issuance.

**Issuance price estimate** We believe the issuance price might represent a 10-20% discount to last Friday’s close (HK$4.19), and is possible to be lower than the price at which former major shareholder Hony Capital sold all of its stake last Thursday. We expect the company’s outlook to improve further on the funds raised from equity financing. That said, we also see short-term selling pressure if the issuance price is too low.

**Potential benefits of the new share issuance** include more resources to fund business development and a reduction in financial cost. We find equity financing to be necessary for the company as its net gearing ratio reached ~20% at end-2014.

**Possible adverse impacts of the new share issuance** include short-term selling pressure arising from a lower-than-expected issuance price, and a dilution effect on its EPS estimates.

**Valuation** The stock is trading at 22x FY15E P/E.

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Apple (AAPL US): 2QFY15 results beat

What's new? Apple reported better-than-expected results for the three months ended Mar 28, 2015 (2QFY2015). Net profit rose 33% to US$13.6bn, which was 8% above street estimate of US$12.6bn.

iPhone shipments remain strong iPhone shipments grew 40% YoY to 61m units during the quarter driven by continued momentum from iPhone replacement towards the larger-screen iPhone 6/6+.

Growing significance of China market Greater China sales grew 71% YoY and exceeded Europe to become Apple’s second largest market just next to the Americas. Greater China accounted for 29% of group sales during the quarter, up from 21% a year ago. Japan was the weakest link with a 15% YoY sales decline during the quarter.

iPad the weakest product line iPad shipments fell 23% YoY to 12.6m units, with its sales contribution dropping to just 9% of quarterly group revenue.

Apple-related stock pick AAC Tech (2018 HK, Hold) is the only HK-listed stock with meaningful exposure to Apple (more than 50% of sales), and is trading at 15x 2015E P/E based on Bloomberg consensus.

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Rating Definitions

Benchmark: Hong Kong Hang Seng Index
Time horizon: 12 months

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