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### KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	24667.8	1.3	(0.7)	2.1	(0.2)
S&P 500	2724.0	1.3	(0.0)	2.9	1.9
FTSE 100	7689.6	0.7	(2.4)	2.4	0.0
AS30	6093.8	(0.5)	(0.8)	0.4	(1.2)
CSI 300	3723.4	(2.1)	(3.4)	(0.9)	(7.6)
FSSTI	3444.0	(2.1)	(2.8)	(4.7)	1.2
HSCEI	11769.2	(1.6)	(2.7)	(4.6)	0.5
HSI	30056.8	(1.4)	(2.0)	(2.4)	0.5
JCI	6011.1	(0.9)	4.5	0.3	(5.4)
KLCI	1719.3	(3.2)	(6.8)	(7.7)	(4.3)
KOSPI	2409.0	(2.0)	(2.5)	(4.2)	(2.4)
Nikkei 225	22018.5	(1.5)	(3.0)	(2.0)	(3.3)
SET	1725.1	(0.5)	(2.0)	(3.1)	(1.6)
TWSE	10821.2	(1.3)	(0.6)	1.5	1.7
BDI	1057	(1.9)	(11.8)	(21.2)	(22.6)
CPO (RM/mt)	2372	(1.9)	(2.1)	(0.3)	(0.8)
Brent Crude (US\$/bbl)	78	2.8	(2.9)	3.1	15.9

Source: Bloomberg

### TOP VOLUME

Company	Price (HK\$)	Chg (%)	Volume ('000)
CCB-H	7.82	(2.0)	494,908
BANK OF CHINA-H	4.06	(1.7)	474,632
ICBC-H	6.41	(2.0)	378,330
SINOPEC CORP-H	7.23	(0.3)	158,051
ABC-H	3.99	(1.7)	155,961

### TOP GAINERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
BRILLIANCE CHINA	14.50	3.6	20,541
POSTAL SAVINGS-H	5.31	1.1	57,148
BJ ENT HLDGS	42.15	0.8	1,746
CNOOC	12.88	0.8	78,912
MENGENIU DAIRY	27.10	0.6	13,003

### TOP LOSERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
KUNLUN ENERGY	6.91	(4.7)	23,512
CHINA MERCHAN-H	10.90	(3.5)	1,008
CQRC BANK-H	5.21	(3.3)	16,283
WH GROUP	8.11	(3.0)	44,764
SINOPHARM-H	33.90	(2.7)	5,215

### KEY ASSUMPTIONS

GDP (% yoy)	2017	2018F	2019F
US	2.3	2.5	2.3
Euro Zone	2.3	2.3	1.9
Japan	1.7	1.8	1.9
Singapore	3.6	2.8	3.1
Malaysia	5.9	5.0	5.2
Thailand	3.9	4.0	4.2
Indonesia	5.1	5.3	5.4
Hong Kong	3.8	3.4	3.3
China	6.9	6.4	6.2
CPO (RM/mt)	2,783	2,400	2,500
Brent (Average) (US\$/bbl)	55.00	67.00	66.50

Source: Bloomberg, UOB ETR, UOB Kay Hian

### ECONOMICS – CHINA

## The Big Picture

Mixed Apr 18 Data; Stress Is Re-emerging

China's macro data for Apr 18 was mixed, with industrial production and industrial profits for larger firms notably stronger, while others were lacklustre. Overall, we opine that although the data still reflects the impact of ongoing deleveraging efforts, we also see early signs of stress re-emerging in the corporate sector. But monetary growth seems to have stabilised, and with recent moves to cut RRR, funding cost has fallen. As such, the authorities might still hold back on further easing for now.

### KEY ECONOMIC INDICATORS FOR APRIL

(yoy% chg)	Consensus	Actual	Prior
Retail Sales	10.0	9.4	10.1
Fixed Asset Investment	7.4	7.0	7.5
Industrial Production	6.4	7.0	6.0
PMI (index)	51.3	51.4	51.5
Export	8.0	12.9	-2.7
Import	16.0	21.5	14.4
Trade Balance (US\$b)	27.8	28.8	-5.0
CPI	1.9	1.8	2.1
PPI	3.4	3.4	3.1
Industrial Profits	-	21.9	3.1
M0	5.8	4.5	6.0
M1	7.0	7.2	7.1
M2	8.5	8.3	8.2
New Renminbi Loans (Rmbt)	1.1	1.2	1.1
New Total Social Financing (Rmbt)	1.4	1.6	1.3

Source: Wind, Bloomberg, UOB Kay Hian

### ESSENTIALS

- **Big is beautiful...** Chinese industrials performed better than expected in Apr 18, as industrial production growth came in above expectations at 7.0% yoy while industrial profit growth among larger firms surged significantly to a 6-month high of 21.9% yoy from 3.1% yoy a month ago. The acceleration in growth of industrial profits in Apr 18 was due to higher factory margins and output, as well as the low-base effect from a year ago. Sectors that saw particularly stronger growth were chemicals, steel processing and oil and gas exploration, with respective growths of 23.0% yoy, 95.4% yoy and 207.7% yoy in Apr 18.
- The April data also reflects the impact of supply-side reform which had led to industrial consolidation, benefitting sector leaders. However, there are signs of stress re-emerging in the rest of the corporate sector. In 1Q18, we have started to see mixed NPL data in the banking sector; 1Q18 NPL ratio of 1.75% was up 1bp from the previous quarter, driven by higher NPL ratio among city and rural banks, ending the declining trend seen in 2017. Corporate bond defaults have also picked up of late, with 11 defaults in Mar 18, 15 defaults in Apr 18 and 20 defaults in May 18.
- On industrial production growth, the rebound was supported by better activities out of the utilities sector. Power demand by industries grew at a faster clip in April after falling for the past two months. Over this period, freighting saw a 7.4% yoy jump as well. The April data could well be the inflection point for industrial production growth, but the weakness in the rest of the economy makes this a low probability event for now.
- **...but deceleration seen elsewhere.** Both retail sales and FAI growth slowed and came in below expectations at 9.4% yoy and 7.0% yoy respectively in Apr 18. Consumer inflation continued to ease to 1.8% yoy while PPI inflation edged up slightly to 3.4% yoy.
- **Funding cost has fallen.** New bank loans and TSF expanded above expectations in Apr 18 to Rmb1.2t and Rmb1.6t respectively; overall credit and money supply growth is only starting to stabilise as outstanding balance growth of loans and TSF remained largely flat at 12.7% yoy and 10.5% yoy respectively. M2 growth edged up slightly to 8.3% yoy in Apr 18, but was still lower than consensus estimates. However, funding cost has fallen, with the 3MSHIBOR hitting 4.0% at end-Apr 18, down from 4.9% in end-Dec 17. AAA corporate bond yields have fallen 37bp ytd while 10-year treasuries fell by 28bp over the same period.

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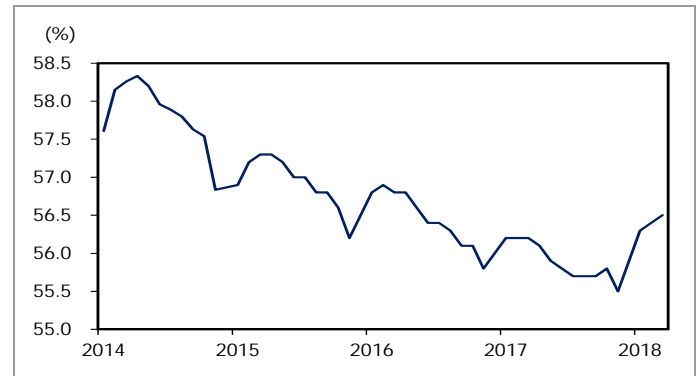
- External demand is a potential risk factor.** Although growth of exports and imports accelerated above expectations in Apr 18, outlook for trade growth remains clouded as ongoing trade frictions with the US remain a concern and the PMI new export order index points to weaker growth ahead. China's manufacturing PMI for new export orders fell to 50.7% in Apr 18, while the new export orders PMI for non-manufacturing fell to 50.0% – both are on the verge of contraction (a reading below 50).
- Better to keep the powder dry.** In spite of the better industrial data in Apr 18, we opine that the underlying trend still points to slowing economic growth in the coming months. While market talks suggest that another RRR cut may be in the offing, given the decline in funding costs of late, we expect the authorities to stand pat for now.

### LI KE QIANG INDEX



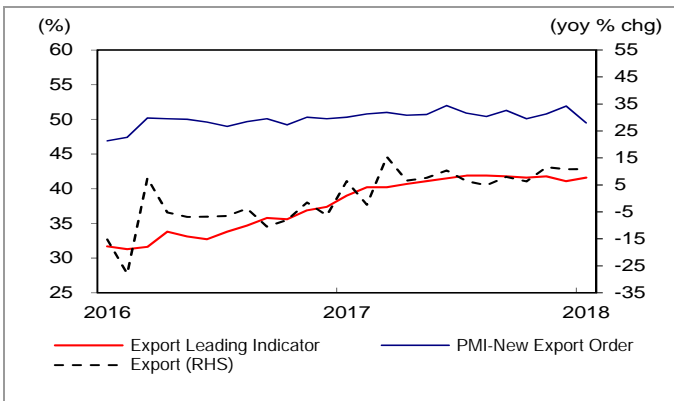
Source: Wind, Bloomberg, UOB Kay Hian

### TOTAL DEBT/ASSET OF INDUSTRIAL ENTERPRISES



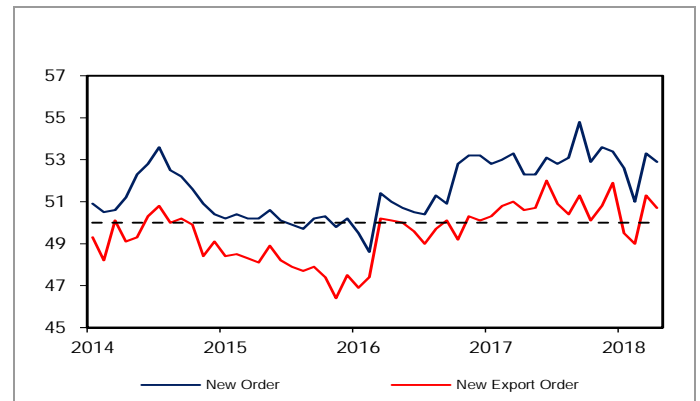
Source: Wind, Bloomberg, UOB Kay Hian

### LEADING EXPORT INDICATORS



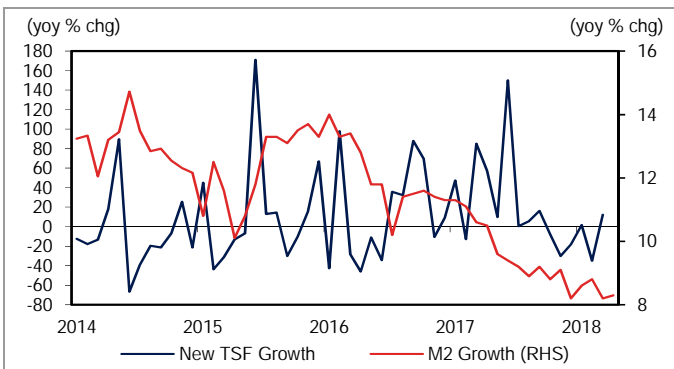
Source: Wind, Bloomberg, UOB Kay Hian

### PMI OF NEW ORDERS



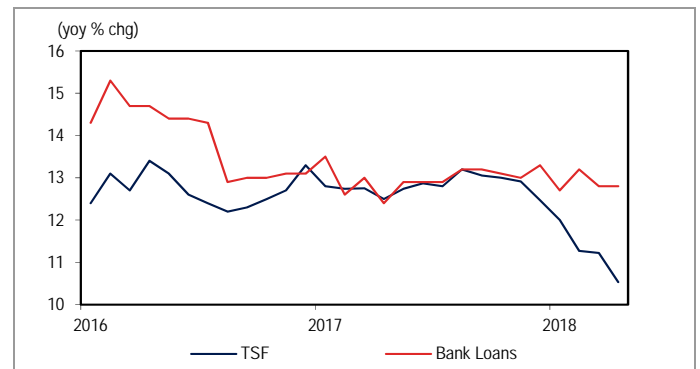
Source: Wind, Bloomberg, UOB Kay Hian

### MONEY SUPPLY



Source: Wind, Bloomberg, UOB Kay Hian

### OUTSTANDING BANK LOANS & TSF GROWTH



Source: Wind, Bloomberg, UOB Kay Hian

### COMPANY UPDATE

## Anta Sports (2020 HK)

Takeaways From Anta Meeting

**Anta Sports' IR Director Suki Wong shared the group's outlook and strategies for the next few years. Overall, guidance remains unchanged. Anta maintains its long-term target of 15-20% retail sales growth, driven by Fila, e-commerce and Descente. Kingkow and Kolon Sports remain in the restructuring phase this year. Maintain BUY. Target price: HK\$50.00.**

### WHAT'S NEW

- **Despite strong 1Q18 performance, guidance unchanged.** Group sales are expected to increase 15-20% yoy - "mid-teens" growth at core brands and 30% yoy growth at Fila. April sales looked "quite solid" with retail discount rate unchanged yoy. IR Director Suki Wong explained that the second quarter would normally not be a discount season since the inventories are still in demand in the third quarter. Going forward, Anta would put margins as priority and would strive to boost sales while keeping margins up at the same time.
- **Growth in e-commerce generally boosts margins.** About 60% of its e-commerce sales are sold via Anta's retail online store (Anta.com) with a higher "retail" e-commerce gross margin of 50%. However, to support its O2O brand platform, 40% of e-commerce sales are done via Anta's distribution partners (such as Anta Shanghai) which make the same margins as if they are sold at wholesale to their offline distributors. Thus, the "wholesale" e-commerce gross margin is slightly lower at about 40%.
- **The hot weather has little impact on business,** although traffic has heavily shifted to its shops in shopping malls. On a product level, the hot weather should have no impact on shoe sales. Generally speaking, a sudden cold spell would be positive to sales as customers buy more to keep warm; however, rainstorm, snowstorm and smog are negative to sales as customers do not come out to shop.

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2016	2017	2018F	2019F	2020F
Net turnover	13,346	16,692	22,014	26,669	32,177
EBITDA	3,170	3,781	5,005	6,148	7,692
Operating profit	2,944	3,531	4,755	5,898	7,442
Net profit (rep./act.)	2,386	3,087	3,887	4,739	5,893
Net profit (adj.)	2,386	3,087	3,887	4,739	5,893
EPS (Rmb cent)	95	117	145	176	219
PE (x)	35.3	28.8	23.2	19.1	15.3
P/B (x)	8.8	6.5	6.1	5.5	5.0
EV/EBITDA (x)	28.0	23.0	17.3	14.0	11.1
Dividend yield (%)	1.9	2.4	2.9	3.6	4.4
Net margin (%)	17.9	18.5	17.7	17.8	18.3
Net debt/(cash) to equity (%)	(50.8)	(49.8)	(48.6)	(48.9)	(49.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	26.3	26.6	27.2	30.4	34.3
Consensus net profit	-	-	3,706	4,495	5,435
UOBKH/Consensus (x)	-	-	1.05	1.05	1.08

Source: Anta, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	HK\$43.35
Target Price	HK\$50.00
Upside	+15.2%

### COMPANY DESCRIPTION

Anta is the leading domestic sportswear brand with store network of over 7000 stores in China. Based in Fujian, the company manufactures using a mix of OEM and self-owned factories, but relies on franchise distributors to sell at the retail level.

### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	2020 HK
Shares issued (m):	2,685
Market cap (HK\$m):	116,385
Market cap (US\$m):	14,832
3-mth avg daily t'over (US\$m):	25.6

### Price Performance (%)

52-week high/low HK\$47.80/HK\$22.20

1mth	3mth	6mth	1yr	YTD
4.7	13.4	27.3	103.6	28.4

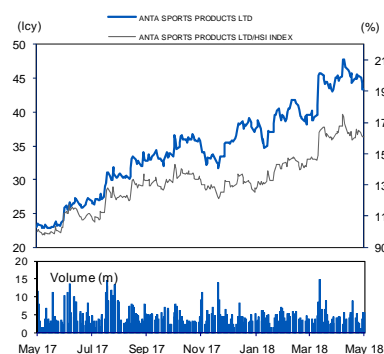
### Major Shareholders

	%
Anta Intl Group	51.2
Anda Holdings	6.0
Anda Investments	4.3

FY18 NAV/Share (Rmb) 5.54

FY18 Net Cash/Share (Rmb) 2.69

### PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

- **Products sold online comprise three categories:** a) 60-70% are online exclusive products that are more casual-focused, b) identical products with the same prices as with offline products, and c) out-of-season inventories. Going forward, Anta expects online sales to keep growing with the following target proportions: a) wholesale e-commerce accounts for 30% of total wholesale business, and b) retail e-commerce accounts for 20% of total retail business.
- **Replenishment rate at over 10% in 1Q18 vs 5% in 1Q17.** Replenishment orders generally have lower margins because they cost more and Anta does not pass the higher costs through to their distributors. However, having said that, the pressure on gross margins will be lower than that of last year as Anta has run the replenishment process smoother, resulting in better efficiency.
- **The ratio of self-manufactured goods declined** 5.1ppt to 37.8% and 1.2ppt to 15.5% for footwear and apparel respectively because Anta has stopped expanding its manufacturing capacity. Management claimed this is a better use of capital and management bandwidth to focus on brand building. Thus, it expects this ratio to further decline going forward as Anta will need to satisfy product demand via procuring finished goods from OEM partners. Also, Anta is cutting out the smallest suppliers from its supply chain, so supplier concentration is trending higher – this helps the group save costs via scaling up with the bigger OEMs. The benefit of higher concentration of suppliers can mitigate the extra costs associated with outsourcing to OEMs.
- **Advertising and promotions (A&P) will be higher this year** at 11-12% of sales for the group in 2018 (2017: 10.6%). As Anta's sponsorship of the China Olympic Committee (COC) was only renewed in end-Sep 17 (meaning no allocated cost for 1H17), its 1H18 A&P expenses will be higher yoy. For the full year, A&P costs for its core brands should easily rise by over 30% yoy since it also has sponsorships for the Winter Olympics in PyeongChang, 2018 Asian Games in Jakarta, Klay Thompson's China Tour as well as for the brand endorser, Filipino boxing champion, Manny Pacquiao. Other initiatives are crossover limited-edition campaigns including Fila x Super Mario and Fila x Bathing Ape, as well as sponsored sports events such as Colour Run and the Spartan race in China.
- **Open to acquisitions and JV negotiations.** For acquisition targets and/or JV negotiations, Anta is looking for the following elements: a) international appeal; b) higher-end in terms of product positioning; and c) strong exposure to the Chinese market.
- **The World Cup is not a big driver of revenue** as football remains a small part of Anta's business. It started selling football products in 2014 and has been pushing the development of China's youth football by cooperating with Guangzhou's Evergrande Football School (恒大足球學校). It also launched World Cup Memorial-style of soccer shoes that are sold at only Rmb199 per pair. Anta will spend more on A&P here as it takes the opportunity to build its branding off the event.

## EARNINGS REVISION/RISK

- **Maintain 2018-20 sales assumptions.** Our 2018-20 revenue assumptions of Rmb22.0b, Rmb26.7b and Rmb32.2b represent yoy growths of 32%, 21% and 21% respectively.
- **We maintain our 2018-20 net profit forecasts** at Rmb3,887m, Rmb4,739m and Rmb5,893m, which imply yoy core net profit growths of 26%, 22% and 24% respectively. Our net profit forecasts are 4.9-5.4% above consensus estimates.

## VALUATION/RECOMMENDATION

- **Maintain BUY** as we believe Anta is on a growth trajectory based on the development of its non-core brand business. We think management is opting to be conservative as it has not upgraded nor provided any 2018 guidance despite a stellar 1Q18 performance, although we note the company tends to "under-promise and over-deliver". Given the prospective higher-than-peers' average earnings growth in 2018-20, we believe Anta deserves an above-peer average PE multiple. Our target price is kept at HK\$50.00, based on 28x 2018F PE, or over 2SD above the stock's historical mean.

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
<b>Net turnover</b>	<b>16,692</b>	<b>22,014</b>	<b>26,669</b>	<b>32,177</b>
EBITDA	3,781	5,005	6,148	7,692
Deprec. & amort.	250	250	250	250
EBIT	3,531	4,755	5,898	7,442
Total other non-operating income	458	439	439	439
Net interest income/(expense)	321	155	163	178
<b>Pre-tax profit</b>	<b>4,310</b>	<b>5,349</b>	<b>6,500</b>	<b>8,060</b>
Tax	(1,152)	(1,391)	(1,690)	(2,096)
Minorities	(71)	(71)	(71)	(71)
<b>Net profit</b>	<b>3,087</b>	<b>3,887</b>	<b>4,739</b>	<b>5,893</b>
Net profit (adj.)	3,087	3,887	4,739	5,893

### CASH FLOW

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>3,181</b>	<b>3,492</b>	<b>4,421</b>	<b>5,482</b>
Pre-tax profit	4,311	5,349	6,500	8,060
Tax	(1,013)	(1,327)	(1,600)	(1,974)
Deprec. & amort.	250	250	250	250
Working capital changes	(227)	(625)	(566)	(676)
Non-cash items	34	0	0	0
Other operating cashflows	(173)	(155)	(163)	(178)
<b>Investing</b>	<b>(1,579)</b>	<b>(366)</b>	<b>(358)</b>	<b>(343)</b>
Capex (growth)	(534)	(415)	(415)	(415)
Investments	(1,002)	55	63	78
Proceeds from sale of assets	0	0	0	0
Others	(42)	(6)	(6)	(6)
<b>Financing</b>	<b>(2)</b>	<b>(2,721)</b>	<b>(3,318)</b>	<b>(4,125)</b>
Dividend payments	(1,937)	(2,721)	(3,318)	(4,125)
Issue of shares	2,835	0	0	0
Proceeds from borrowings	148	0	0	0
Loan repayment	(1,010)	0	0	0
Others/interest paid	(39)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>1,601</b>	<b>405</b>	<b>746</b>	<b>1,014</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>5,830</b>	<b>6,968</b>	<b>7,372</b>	<b>8,119</b>
Changes due to forex impact	(463)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>6,968</b>	<b>7,372</b>	<b>8,119</b>	<b>9,132</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
Fixed assets	1,909	2,111	2,313	2,515
Other LT assets	1,724	1,692	1,661	1,630
Cash/ST investment	6,968	7,372	8,119	9,132
Other current assets	8,474	10,432	12,135	14,123
<b>Total assets</b>	<b>19,074</b>	<b>21,607</b>	<b>24,227</b>	<b>27,400</b>
ST debt	148	148	148	148
Other current liabilities	4,350	5,646	6,773	8,107
LT debt	0	0	0	0
Other LT liabilities	215	215	215	215
Shareholders' equity	13,706	14,873	16,294	18,062
Minority interest	654	725	796	867
<b>Total liabilities &amp; equity</b>	<b>19,074</b>	<b>21,607</b>	<b>24,227</b>	<b>27,400</b>

### KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	22.7	22.7	23.1	23.9
Pre-tax margin	25.8	24.3	24.4	25.0
Net margin	18.5	17.7	17.8	18.3
ROA	18.5	19.1	20.7	22.8
ROE	26.6	27.2	30.4	34.3
<b>Growth</b>				
Turnover	25.1	31.9	21.1	20.7
EBITDA	19.3	32.4	22.8	25.1
Pre-tax profit	30.2	24.1	21.5	24.0
Net profit	29.4	25.9	21.9	24.3
Net profit (adj.)	29.4	25.9	21.9	24.3
EPS	22.8	23.8	21.9	24.3
<b>Leverage</b>				
Debt to total capital	1.0	0.9	0.9	0.8
Debt to equity	1.1	1.0	0.9	0.8
Net debt/(cash) to equity	(49.8)	(48.6)	(48.9)	(49.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

TRADERS' CORNER



Chart by MataStock

## CAM CSI300 (3188 HK)

Trading Sell Range: HK\$46.00-46.05

Last price: HK\$46.20

Target price: HK\$43.35 / HK\$41.20

Protective stop: Breaks above HK\$49.60

The stock is trading below a bearish trendline and just broke below its February and April bottom with a bearish gap. The declining Tenkan Sen (orange-coloured) just crossed below the Kijun Sen (green-coloured). The 50-day moving average (light-blue-coloured) is also turning down. The RSI also broke below a bullish trendline, while the MACD crossed below its signal line and is below its 0-level.

As long as HK\$49.60 (previous top) is not broken, look for further drop towards HK\$43.35 and HK\$41.20. A break above HK\$49.60 would also break above the declining trendline, and investors should close their positions to control risk.

**Average time frame: 2 months (abort this trade idea if the stock cannot hit the entry price range within four trading days).**



Chart by MataStock

## Evergrande (3333 HK)

Trading Sell Range: HK\$21.80-21.85

Last price: HK\$22.25

Target price: HK\$20.20 / HK\$17.75

Protective stop: Breaks above HK\$24.50

The stock broke below a triangle pattern (formed since Jun 16) with a bearish gap and increased volume on Wednesday. The Tenkan Sen (orange line) and Kijun Sen (green line) playing resistance roles. The daily RSI also broke below the bearish trendline and is heading downwards. The MACD crossed below its signal line.

As long as HK\$24.50 holds on the upside, look for further drop towards HK\$20.20 and even HK\$17.75 in extension. If prices break above HK\$24.50, investors should close their position to control risk.

**Average time frame: 2 months (abort this trade idea if the stock cannot hit the entry price range within four trading days).**

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