

EQUITIES D.E.L.T.A.H

Digital Transformation, Energy Transition, Lifestyle,
Technology, Automation & Mobility, Health

China Emerging Thematics: Policy blueprint driven ideas

Key sectors favoured on the government agenda:

- **EV Charging:** downstream opportunities
- **TCM:** uncorrelated policy backed growth
- **Semi upstream:** fab slowdowns, possible headwind

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Thematic Dashboard

Tracking the fast-moving data points in China

EQUITIES

China Thematic Dashboard: Macquarie's quantamental views on fast moving thematic sector trends and policy flows

MQ China Momentum Score (Apr 23)



MQ CN Micro-policy Net Positive Count (Apr 23)



Source: Gov't filings, Macquarie Research, May 2023

MQ Power Ranking – HK/CN #1 picks by upside

Ticker	Mk cap (US b)	3m ATV (US m)	TP (LC)	Price Upside (LC)
Tiang Lina	9696 HK	16.3	17.0	123.40 50.75 143%
COOL	2883 HK	9.2	9.4	19.80 8.86 123%
Alibaba	9988 HK	216.3	632.1	152.60 81.65 87%
Haribell	002158 CH	1.8	16.7	41.50 23.33 78%
WuXi Bio	2269 HK	25.4	150.2	82.00 47.45 73%

Source: Wind, Macquarie Research, 5 May 2023

China Thematic Dashboard

Bottom-up is the new top-down

Key points

- April Politburo meeting produced another goldilocks moment, leading us to look away from stimulus hopes and refocus on company-specific growth.
- Our micro-data tracking saw a fall-off MoM both in momentum (47 vs 60) and policies (136 vs 218) in April, reinforcing the cautious market mood.
- With a hazy and binary backdrop on macro events, we look to a reversion of growth and profit factors in 2H23 supporting more bottom-up stock picking.

April Politburo meeting shifts focus away from policy stimulus

The quarterly Politburo meeting held on 28 April sustained the pro-growth/pro-business tone from the December meeting, but seemed to tread the line between optimism and caution. Policymakers were clear that domestic demand remains insufficient yet did not give any indication as to specific stimulus to lift broader consumption or property markets that we think would provide the biggest boost to market sentiment. A focus on "high quality development" remained top of mind with support for EV, charging stations, energy storage, and AI. Also saw "two unwavering" support for SOEs as well as private enterprises.

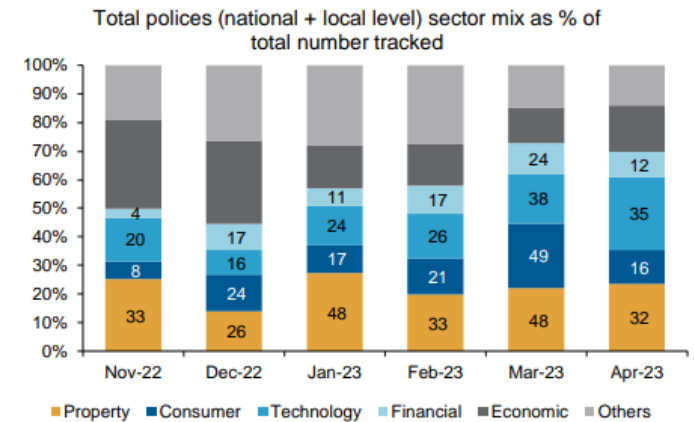
The real economy remains mixed. April Caixin mfg PMI dropped below the 50 baseline to 49.5 alongside official NBS PMI at 49.2. But services remained strong, with April at 56.4, a continued expansion over the last four months. MSCI China is now near flat YTD with NTM P/E at 9.9x still below the 10-year avg of 11.3x. We still expect to see value factors lose momentum over the next few months and see a pick-up in growth and profit factors that have been tepid.

A-share momentum correlation by MQ factor



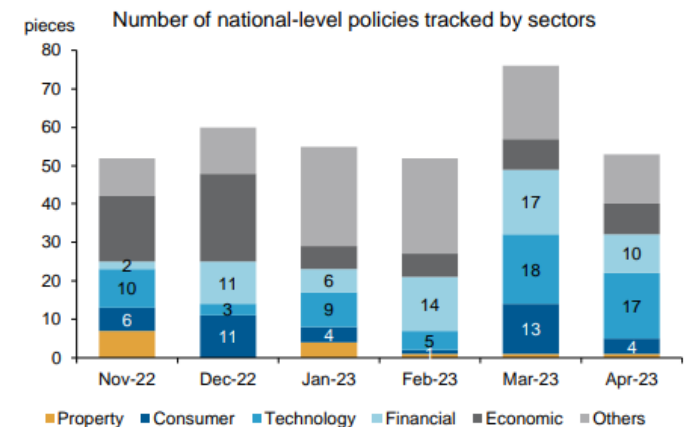
Source: Datastream, FactSet, Macquarie Research, May 2023

Fig 19 Rising Technology share of all policies in April



Source: Govt filings, Macquarie Research, May 2023; positive policies

Fig 20 National policies also overweight Tech in April



Source: Govt filings, Macquarie Research, May 2023; positive policies

China Resources Sanjiu (000999 CH) - Outperform

Market Cap: US\$8.4bn; 3mth vol: US\$47mn

Investment highlights

- China's largest OTC drugmaker with flagship brand "999" featuring famous stomach and flu meds. Defensive name driven by stable consumer demand with additional growth from M&A and a TCM granules rebound.

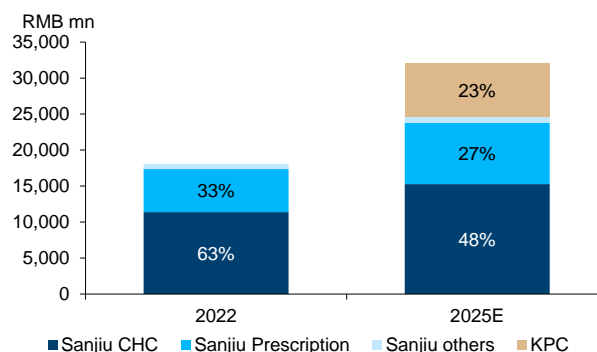
Branded OTC leader

- Owns 23 out of 140 bestselling TCM OTC medications that sell >RMB100 mn per year and 2 out of 5 selling >RMB1 bn in China.
- Cold/flu meds business driven by top selling Ganmaoling TCM with 28% mkt share; accounts for 24% of group sales.
- Strong cashflow generation with >RMB1bn FCF over past 5 years leveraging brand bargaining power over distributors.

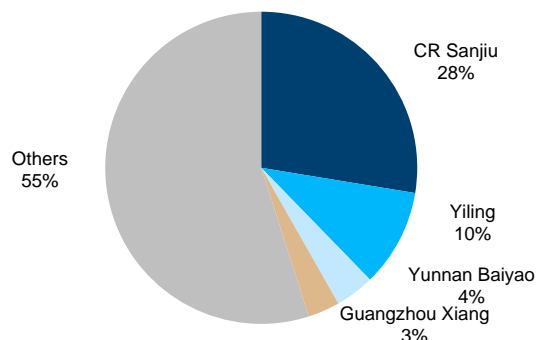
TCM platform upside

- Successful M&A track record via brand acquisition and expansion in areas like Rx (prescription) and nutrients.
- Recent KPC (600422 CH) stake can drive synergies in upstream material sourcing and expanding KPC's renowned branded cardiovascular TCM drugs nationwide.
- Third largest TCM granule player with 10% mkt share; growth to resume as industry bottlenecks phase out in FY23.

FY22/FY25E revenue mix shift



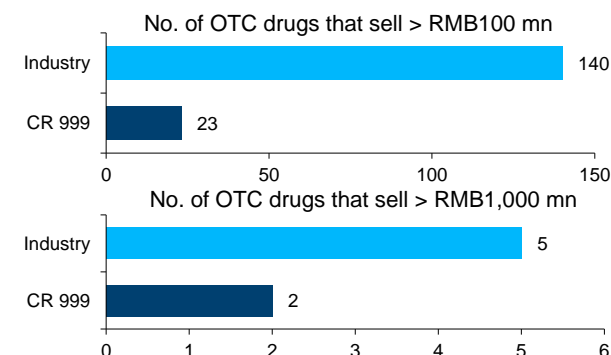
TCM cold/flu retail market share (2021)



Core branded products

Category	TCM - flu	Nutrients	TCM - CVD
Photo			
Name	Ganmaoling	Aonuo	Lixuwang
Type	OTC	OTC	RX
Price (RMB)	15.5	26.8	33.8
Price/g	0.2	0.2	5.1
Weight(g,ml)	90.0	120.0	6.6

The top OTC player in China



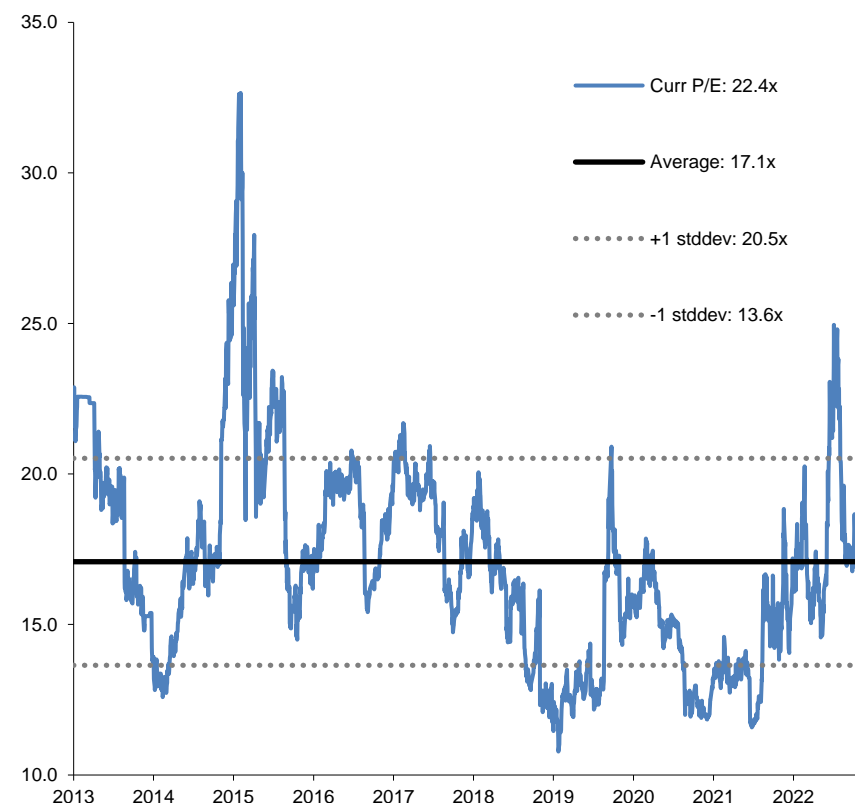
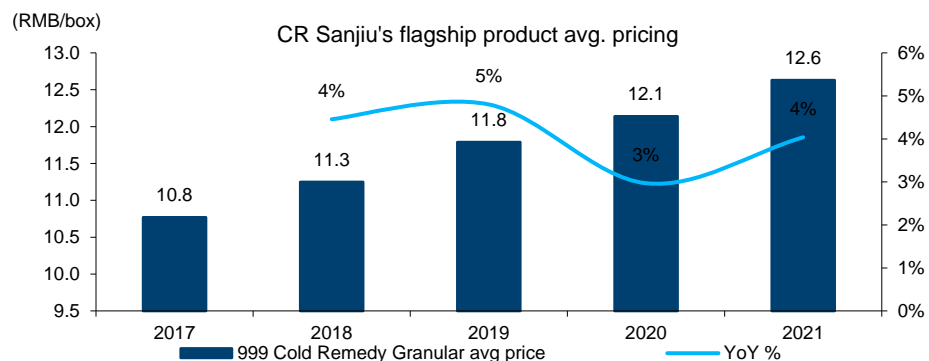
China Resources Sanjiu (000999 CH) - Outperform

Growth drivers - 1) stable demand for core branded retail medications; 2) leverage distribution to expand brand platforms; 3) future growth upside TCM granule standardization

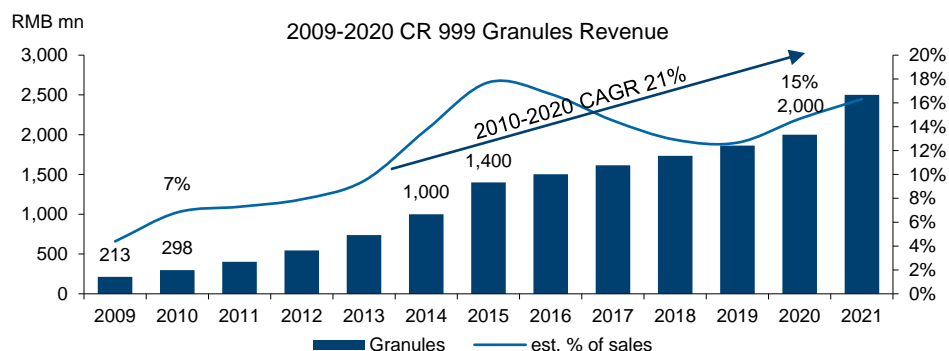
Valuation - Outperform rating based on 18x P/E on our FY24E EPS forecast, based on higher sentiment around TCM policy; trading levels have been stable with potential re-rating as we forecast returns to steadily improve over next 3 years

Pricing has been able to increase over time due to retail rather than hospital channel sales

CR Sanjiu forward P/E typically between 14x - 21x



Granules expansion expected to continue at rapid pace over the medium-term after growing est. 21% CAGR since 2010



Sources: Company data and Macquarie estimates, Wind, Bloomberg, Menet, Macquarie Research, as of 09 May 2023

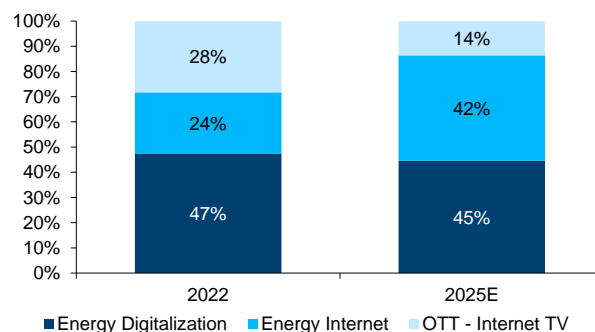
Longshine Technology (300682 CH) - Outperform

Market Cap: US\$3.4bn; 3mth vol: US\$41mn

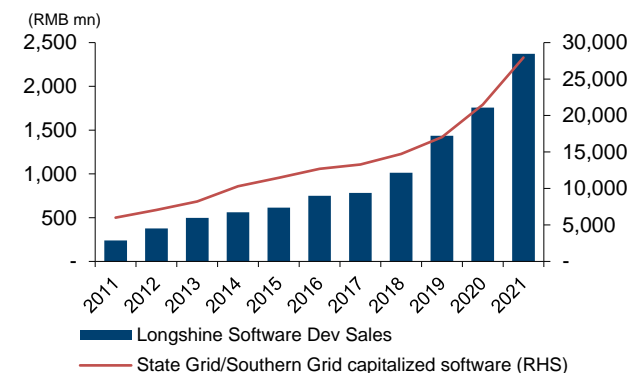
Investment highlights

- Longshine is a leading energy software company with largest market share (est. 40%) in State Grid's marketing platform projects.
- Company has strong ties with Alipay as the main online utilities payment partner since 2014. Ant Financial holds a 17% stake in the company.
- The company is growing its EV charging aggregator platform Xindiantu with an asset-light business model, rapid market share gains and a roadmap towards profitability over the next 2-3 years.
- With exclusive direct scan access on Alipay, Xindiantu provides a one-stop-shop, user friendly interface compared to peers. The company targets 30% market share over the coming years from ~10% currently.
- Core energy software development business to see faster growth due to State Grid's Marketing 2.0 project through 2025. Longshine expects a 50% higher project budget compared to previous cycle and is confident to secure market share.
- We have an Outperform rating and TP of Rmb35/share based on 1x PEG (23x FY24E P/E).

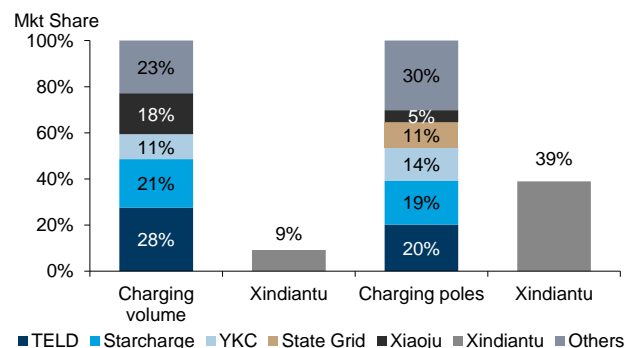
FY22/FY25E revenue mix shift



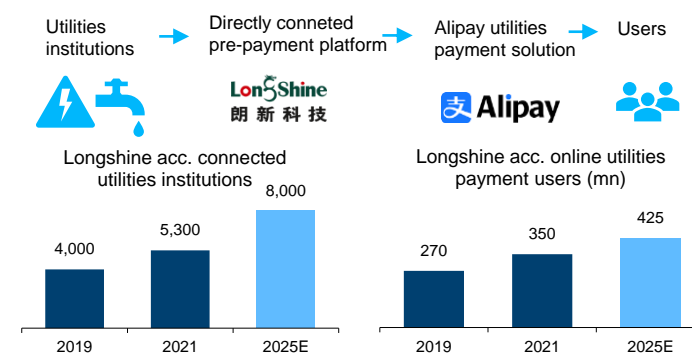
Longshine software sales vs grid spend



China public EV charging coverage



Utilities payment platform on Alipay

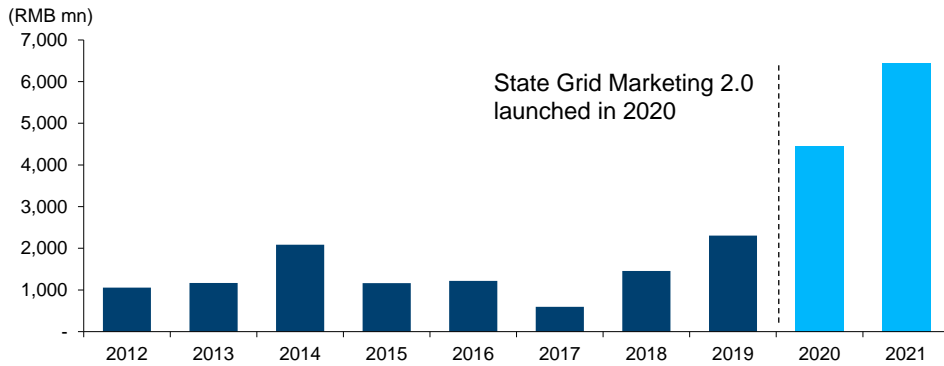


Longshine Technology (300682 CH) - Outperform

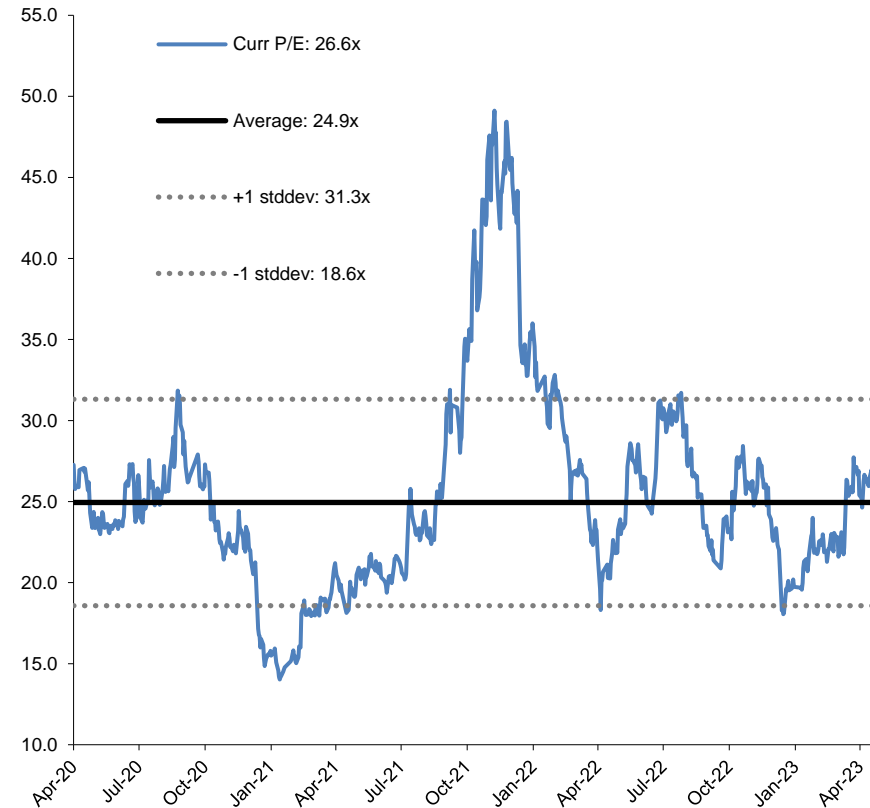
Growth drivers - 1) energy software orders to rise with State Grid's increased Marketing 2.0 budget; 2) fast growing EV charging integrated platform may reach breakeven in 2-3 years

Valuation - we apply a 23x P/E on our FY24E EPS forecast, vs our 3-year EPS forecast for 23% CAGR. Historically trades between 18-32x 1-yr forward P/E.

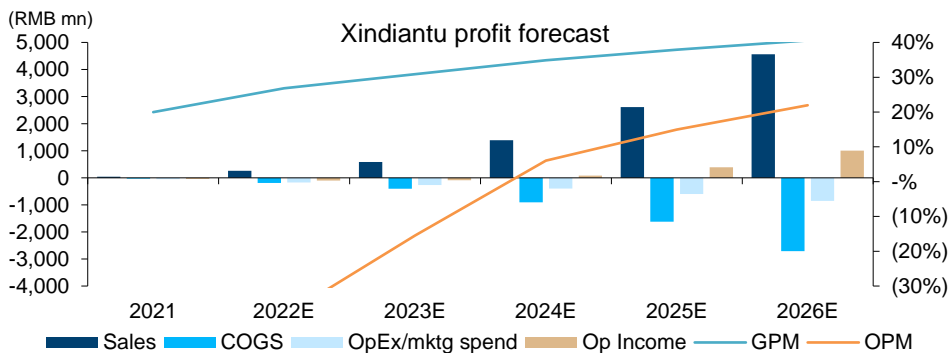
Implied net software spend at grid companies increased sharply since launch of Marketing 2.0 initiative...



Historic 1-yr forward P/E trading range



Xindiantu (EV charging platform) profit turn around roadmap



Sources: Company data, Wind, Bloomberg, Macquarie Research, as of 09 May 2023

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<p>Recommendation definitions</p> <p>Macquarie – Asia and USA Outperform – expected return >10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – Australia/New Zealand Outperform – expected return >10% Neutral – expected return from 0% to 10% Underperform – expected return <0%</p> <p>Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk</p>	<p>Volatility index definition*</p> <p>This is calculated from the volatility of historic price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60-100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40-60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30-40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25-30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15-25% in a year. * Applicable to select stocks in Asia/Australia/NZ</p> <p>Recommendation – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>Financial definitions</p> <p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>
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	AU/NZ	Asia	USA	
Outperform	55.17%	62.10%	68.04%	(for global coverage by Macquarie, 2.41% of stocks followed are investment banking clients)
Neutral	37.59%	25.07%	28.87%	(for global coverage by Macquarie, 2.52% of stocks followed are investment banking clients)
Underperform	7.24%	12.82%	3.09%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

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