CHINA DEVELOPMENT FINANCIAL

Market Strategy

Tactical plays – The last stretch of 2020

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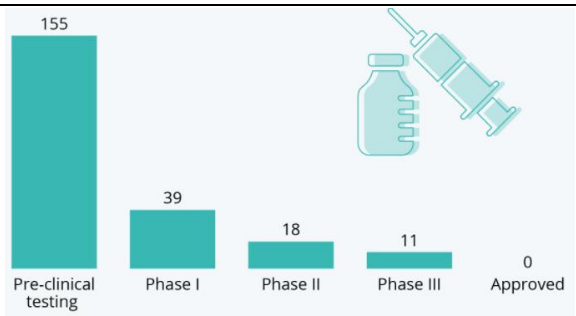
- We highlight a few tactical equity picks in Hong Kong and Singapore going into the final stretch of 2020.
- Among Singapore stocks, rotational interest could continue to pick up in the transportation and industrial sectors.
- We also like HK-listed industrial commodity plays in copper (industrial recovery theme) and lithium (electric vehicle play).
- While tech-related companies have taken a beating, we see the recent sell-off as buying opportunities for selective names.

Figure 1: Covid-19 Vaccine candidates by development phase



Source: World Health Organisation, Statista

Rotation into Value Stocks

We think there will likely be more news of vaccine development over the coming quarter (see figure 1), which will benefit those sectors that have been hit hard by the pandemic. We highlight our list of stocks to play the rotation going into the end of the year. These stocks have a great combination of attractive valuations (still below historical averages even after the recent rally) and earnings recovery in 2021 (from a low base this year).

Transportation sector

ComfortDelGro (CD SP; OUTPERFORM TP S$1.63)

A play on Singapore's Phase 3 re-opening, which will likely continue the trend of rising ridership over the next few months. Google's Mobility Report showed that visits to workplaces in Singapore is now down only 18% compared to the baseline level. Australia is also reopening, but in a more cautious note. Overall, we like the direction of CD's main businesses going into the final stretch of 2020.

SATS (SATS SP; NOT-RATED)

Just as CD is a play on Singapore's Phase 3 re-opening, SATS is a play on Singapore's re-opening to the world. While international travel may take a hit in Europe due to the recent lockdowns in Germany, France and the UK, Asia, meanwhile, is leading the global recovery. In addition, further developments of a vaccine and rapid testing should help the aviation sector get back on its feet.

Table 1: Tactical plays going into the final stretch of 2020

Rotational play	Sector
ComfortDelGro	Transportation
SATS	Transportation
Keppel Corp	Industrial, Property
Sunpower Group	Industrial
ThaiBev	Consumer Discretionary
Industrial Commodities	
Jiangxi Copper	Copper
Ganfeng Lithium	Lithium (Electric Vehicle)
Buy the Dip in Tech	
ISDN	Industrial Automation
UMS	Semiconductor

Industrial plays

Keppel Corp (KEP SP; OUTPERFORM TP S$6.34)

KEP is taking concrete steps to achieve its Vision 2030 plan. In September 2020, the group initiated a strategic review of Keppel Offshore & Marine (KOM), looking at both organic and inorganic options. In addition, the group also aims to sell S$3-5 billion of assets over the next three years, out of a total of S$17.5 billion that KEP has identified that can be monetised over time. In a nutshell, the group aims to be asset light as it taps on partnerships and third party funds to expand its capital base for investments. We believe that a sale of its KOM division would help catalyse KEP's share price, just as the demerger of Sembcorp Marine has helped lift Sembcorp Industries' market valuations.

Sunpower Group (SPWG SP; OUTPERFORM TP S$0.91)

SPWG is riding high this year as China leads the economic recovery in Asia. Asia is expected to be the world's fastest growing region in 2020 and going into 2021. The group has been resilient in the face of the lockdowns in China in 1Q20, and even has a record high order book of RMB2.8 billion as at end July 2020. The group's Green Investment segment is its key value creator and growth driver, building on the accelerating momentum of the world's changing energy and environmental policies. While SPWG is more like a growth stock, we include it here as valuations are attractive.

Consumer Discretionary

ThaiBev (THBEV SP; OUTPERFORM TP S$0.93)

Total beer volume in Thailand has continued to flow smoothly, and was up 6% YoY in September 2020, an improvement from +4% in August 2020. Although, Vietnam beer production has been a drag, registering -3% YoY in October and -4% YoY in September, it was an improvement from -16% YoY in August. ThaiBev currently trades at attractive valuations, with current EV/EBITDA and P/B multiples below the 5-year average.

Industrial Commodities

HK-listed companies in copper (industrial recovery) and lithium (electric vehicles).

Jiangxi Copper (358 HK; NOT-RATED)

Macro tailwinds: China has been rolling out the new infrastructure (5G network, renewable energy, artificial intelligence, and industrial networks) expansion plan since May this year. Each of the segment will directly and indirectly benefit copper demand. In China, the downstream copper structure is 46% of the power sector, 18% for construction sector, 16% for home appliance manufacturing sector, 9% for transportation sector, and 11% for the others. Global copper supply growth has stabilised at 2% to 5% annually due to lower production capacity and limited new copper mines discovery. China heavily relies on copper import of more than 5mn tonnes. The global copper price has recovered back to the highs in mid-2018. Next year, global economy will have a substantial recovery with available vaccine for COVID-19. Copper price is expected to stay healthy.

Jiangxi Copper is the one of the largest copper supplier which owns the full supply chain from mining to end-product sales. This market leader offers investors full exposure to the copper market. The company is undervalued as it trades at only 0.6x P/B and 18x P/E.

Ganfeng Lithium (1772 HK; NOT-RATED)

Macro tailwinds: Electric vehicle has been incorporated into the 14th-Five-Year development plan in China. Meanwhile, the state council released the EV sector development plan in October, stating that EV sales are targeted to account for 25% of total auto sales by 2025. The core technology of EV is the battery whose main raw material is lithium. EV producers have been accelerating the sourcing of lithium supply. At the moment, lithium prices have topped the highs reached in 2018 when the EV hype started. But for now, more EV producers have increasingly mature technology, and have shown higher than expected sales figures. Traditional auto makers are also showing intention to enter the blue sea market. In the foreseeable future, the demand for lithium will likely continue to grow.

Ganfeng is the global largest lithium and related compound product supplier. There are limited lithium counters in China, and Ganfeng is the benchmark for the sector. While valuations are moderately overvalued, trading at 6.5x P/B and 298x P/E, it is riding on strong demand growth.

Buy the dips

There are also buying opportunities among those sold down counters due to the vaccine news.

ISDN Holdings (ISDN SP; OUTPERFORM TP S$0.42)

ISDN produced their highest ever sales results in 3Q20, as the industrial automation sector in China continues its rebound. 9M20 PATMI has already exceeded our full-year expectations, and we think this momentum is likely to continue as China ramps up its ambition on reaching semiconductor self-sufficiency, in addition to prior Industry 4.0 goals.

UMS Holdings (UMSH SP; OUTPERFORM TP S$1.17)

At the cusp of a Biden victory in the US elections, the US markets have turned fairly buoyant on semiconductor capital equipment players, as US-China tensions are expected to ease under the Democrats. This bodes well for UMS's key customer, Applied Materials (AMAT), which has ~30% sales to China. AMAT expects the upcoming 4Q FY20's results to be the best ever quarter for the company with ~US4.6bn sales, while tailwinds are still expected into 2021 as fab equipment spending is expected to hit a record high of US68bn, up 24% YoY, according to SEMI. We expect these tailwinds to materialise through UMS results, which will be reported Thursday evening.

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