



Reiterating Buy on Sunny Optical and Longyuan; MTR; Consumer; Internet

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THEME OF THE DAY

Sunny Optical - Raising target price - not a re-rating, just beaten, again (2382.HK, Buy, Target Price: HKD 60.00, Closing Price: HKD 53.75, Birdy Lu)

Sunny Optical has continued to outstrip estimates over the past year – we had forecast 2016 EPS growth of 35% but were way too conservative as it delivered 69%. Today, we look at further upside, driven by better volume estimates (from vehicle lens), better pricing (dual cam), better market share and better earnings growth of 60% as we raise estimates by 32%/43% for this year and the next. With further potential from 3D-sensing modules, we are confident in our revised HKD60 valuation, still based on an unchanged 22x PER, using the same 0.7x PEG ratio and retain our Buy rating. (Birdy Lu - 886 2 2192 2822)

<http://pull.db-gmresearch.com/p/556-8723/239291002/0900b8c08c8d54da.pdf>

Longyuan Power - Strong wind output growth on curtailment reduction; Buy (0916.HK, Buy, Target Price: HKD 8.30, Closing Price: HKD 6.77, Michael Tong)

Longyuan resumed strong growth in wind output (+31% yoy) in Feb, with curtailment nearly halved yoy to around 17%. As we highlighted in "[2017 sector outlook report and top picks](#)" (15 Feb 2017), curtailment reduction trend from 4Q16 should be sustainable into 2017 and the visibility is turning clearer. Even after the outperformance over the past 3 months (+7% vs. HSCEI), Longyuan's valuation remains attractive at 11x FY17E PE against 24% earnings CAGR in 2016-18E. Reiterate Buy on Longyuan as one of 2017 top picks among utility/renewable/environment stocks under our coverage. (Michael Tong – 852 2203 6167)

<http://pull.db-gmresearch.com/p/520-6C09/239860385/0900b8c08c9b9d47.pdf>

MTR Corp - IP the only focus as property sales contribution to remain muted in 2017 (0066.HK, Hold, Target Price: HKD 42.70, Closing Price: HKD 41.45, Jason Ching)

The solid FY16 results demonstrated MTRC's strong defensive qualities, with steady growth even in soft economic conditions. However, we see a lack of near-term catalysts ahead as the profit contribution from HK development tenders scheduled for the next 12 months will be longer-dated. While two new investment properties in HK are expected to open in 2H17, they are small projects that will have no material impact on earnings. (Continue on next page)

HK/China sector analysts' top picks

Financials - CMB, ICBC, CTIH, China Life; **Telecom** - China Telecom; **Property** - CR Land, Longfor, R&F; **Auto** - BAIC Motor, Brilliance, Yutong Bus; **Transportation** - Sinotrans, CSD, Air China; **Industrial/Infrastructure** - AviChina, CCC, Inovance; **Consumer** - Moutai, Mengniu, Gree, Lifestyle; **Utilities/Renewables** - Longyuan Power, Huadian Fuxin, ENN, China Gas, Beijing Enterprise, China Everbright Int'l, SIIC Environment; **Basic Materials** - Chalco, Fushan, Conch Cement, Fuyao Glass; **Internet** - Alibaba, Ctrip, NetEase, YY; **Healthcare** - CBPO, Hengrui Medicine, Universal, THDB; **Leisure/Gaming** - TravelSky, Caissa, Sands China, MGM China, Wanda Cinema; **Tech** - Hikvision, Kstar, AAC Tech; **Energy** - Sinopec.

Daily Market Statistics 07/03/2017

Performance	Price	1D% chg	1M% chg
HSI	23,681	0.4	1.5
H-share	10,230	0.6	3.8
A300	3,454	0.2	2.6
Volume	Price	1D% chg	1M% chg
HIS	1,283	-12.5	-18.8
H-share	1,460	-14.7	-18.5
A300	8,033	-3.4	20.6

DB Economic forecasts

Hong Kong	2016	2017	2018
GDP (%)	1.6	2.5	3.5
Merch. Exp. (%)	-1.3	3.6	6.6
CPI (%)	2.4	0.8	2.7
China	2016	2017	2018
GDP (%)	6.7	6.5	6.0
Merch. Exp. (%)	-7.7	1.0	2.5
CPI (%)	2.0	2.5	2.6
FX rate (eop) CNY/USD	6.9	7.4	8.1

Source: Deutsche Bank AG estimates



DB EQUITY RESEARCH

Moreover, the stock's current valuation is close to its full value and the second special dividend has already been fully reflected in the share price, in our view. Maintaining Hold. (Jason Ching – 852 2203 6205)

<http://pull.db-gmresearch.com/p/380-F479/241361815/0900b8c08c99f3c7.pdf>

Greater China Consumer - Asia marketing feedback (Anne Ling)

Macro: 1) In 2017, some sub-segments (consumer electronics, dairy, QSR, hypermarkets) should benefit from CPI and will be able to pass on cost increase. Consumers will not defer spending like in the past (low inflation environment). This should benefit discretionary in general. 2) We have seen SSS in luxury recover since 2Q16 and there has been a recovery in the SSS trend in department stores (i.e. mass market). This is backed by recovery in the consumer confidence index in 4Q16, according to Nielsen. (Anne Ling – 852 2203 6177)

<http://pull.db-gmresearch.com/p/600-2B52/241904855/0900b8c08c99b51e.pdf>

Asia Internet - Shades of grey - China regulation on Korea mobile games (Han Joon Kim)

Multiple new sources across Korea and China (e.g. Keijixun, Yonhap), citing unidentified sources, claim China's State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) will suspend new approvals for Korea mobile games as of March 6, 2017. According to the articles, SAPPRFT has already suspended the approval for Korean games, or games using Korean IPs, although SAPPRFT has not formally announced any regulation. (Han Joon Kim - 82 2 316 8909)

<http://pull.db-gmresearch.com/p/1892-6E30/239471889/0900b8c08c9afd20.pdf>

Asian airports - Buy the FCF generators (Joe Liew)

Traffic growth at the four Asian airports we cover have been an encouraging 5- 11% in 2016. International Chinese air travel appeared to have slowed down in 2H 2016 but there are signs of that picking up. Malaysia seems to be the destination in SE Asia with the most compelling growth. In determining stock picks for the next 12 months we are looking for FCF, dividend and earnings growth. Our order of preference : MAHB, BCIA, SATS and AOT. (Joe Liew – 852 2203 6198)

<http://pull.db-gmresearch.com/p/514-25A9/239457141/0900b8c08c88b80b.pdf>

Jinjiang Hotels Develop - Take a break on expansion; maintaining Hold (600754.SS, Hold, Target Price: CNY 34.00, Closing Price: CNY 30.51, Tallan Zhou)

We reiterate HOLD on Jinjiang A on fair valuation and our moderate earnings growth expectation for 2016E. We believe the company will start to focus on internal consolidation of its current four hotel brands and that it is likely to halt further expansion through acquisitions. As of end-2016, Jinjiang A had 5,868 hotels in operation (vs. 2,223 hotels by end-2015), the jump mainly due to the acquisitions of Vienna and Plateno. We expect 2016 net profit to increase only 13% yoy despite contributions from Plateno and Vienna, due to 1) likely hikes in financial cost; 2) potential disappointment from Group de Louvre (terrorist attacks in 3Q16). (Tallan Zhou - 852 2203 6464)

<http://pull.db-gmresearch.com/p/1879-4B6C/239017148/0900b8c08c9a1bdd.pdf>

China Dairy Sector - Channel checks indicates a potential recovery in Guangdong (Mark Yuan)

We visited Mengniu and Yili liquid milk distributors in Shenzhen, Guangdong last Friday (Mar 3). Both distributors indicate good sales growth for their region, i.e. at 20%/10% for Mengniu/Yili liquid milk in their distributing regions in Jan-Feb 2017. They both expect the promoting expense ratio to decline in 2017. We think this could be an early sign of industry recovery, which is likely helped by mix upgrade, fewer price discounts and a low comparative base. We reiterate Buy on Mengniu and Yili, the two leading players in liquid milk. (Mark Yuan - 852 2203 6181)

<http://pull.db-gmresearch.com/p/405-6CD1/240381819/0900b8c08c9b6b92.pdf>

China Oil & Gas - FY16 earnings calendar for China Oil & Gas (Johnson Wan)

For the benefit of investors following FY16 earnings results of companies in China Oil & Gas, we organized the calendar table. (Johnson Wan – 852 2203 6163)

<http://pull.db-gmresearch.com/p/497-EE10/239034172/0900b8c08c9ae88e.pdf>



- [China Financial Daily – Debt-to-equity: BoCom entered its first Rmb10bn agreement](#)
- [Inside the Great Wall – Major cities’ weekly sales up 1.2% WoW, YTD ASP up 12.2% YoY](#)
- [Asia Consumer & Media Daily – Tsingtao Brewery – Discloses continuing connected transactions with Asahi Breweries and Asahi Beer \(China\)](#)

MARKET NEWS

- [China aims to boost tourism with information technology](#) – China plans to promote the use of information technology in tourism to boost the sector's growth by 2020, according to a government plan released. (Xinhuanet)
- [China's forex reserves rise for 1st time since June](#)– China's forex reserves rose slightly in February, expanding for the first time since June, official data showed. (Xinhuanet)
- [China's investment in Myanmar declines in 2016-2017 fiscal year](#) – China's investment in Myanmar reached 2.8 billion U.S. dollars in this fiscal year 2016-2017 , drastically down by nearly 500 million U.S. dollars as compared with the previous fiscal year, official media reported. (Xinhuanet)
- [China debt-to-GDP ratio at 36.7 pct, risks under control: minister](#) – China's finance minister reiterated confidence in controlling debt risks despite some irregularities in local governments' financing activities. (Xinhuanet)
- [China's fiscal deficit target proactive, prudent: minister](#) – China's fiscal deficit target this year is proactive and prudent, Finance Minister Xiao Jie said. (Xinhuanet)
- [Chinese commerce chamber concerned with brewing changes on German investment law](#) – The Chinese Chamber of Commerce in Germany (CHKD) expressed its concerns over the brewing changes on German foreign investment laws, saying it might block free trade and investment, thus harm Germany's economy. (Xinhuanet)
- [China, Philippines agree to deepen trade, investment](#) – China and the Philippines discussed ways to deepen trade and investment relations between the two neighboring countries. (China Daily)



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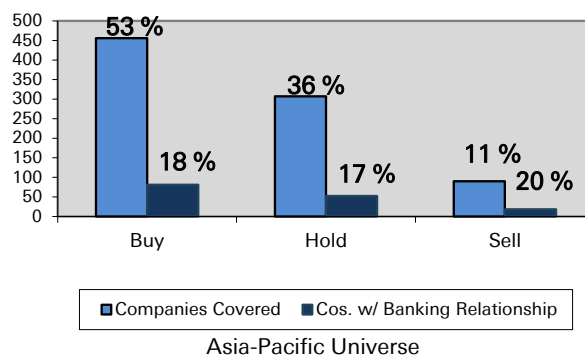
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