



Market Overview

Yesterday, Hong Kong stocks fell on concerns tighter rules to stem Omicron infections in the city, meanwhile, Omicron outbreaks in China hit garment maker Shenzhou Int'l (2313 HK) given some of its production sites in Beilun District, Ningbo will be affected by a short-term suspension of production. Chinese tech and healthcare slumped. The Hang Seng Index corrected 122pts to 23,274pts with a daily turnover of HKD69.9b.

Sector News

China New Energy Vehicle

In 2022E, the new energy vehicle (NEV) subsidy standards will be reduced by 30% on the basis of 2021. The NEV purchase subsidy will also be terminated on 31 Dec 2022E. Market does not expect the subsidy cut to have a major impact on the long-term growth prospects of NEVs in China given that the sector is supported by an improving acceptance of EVs, better infrastructure and more advanced EVs from OEMs as the major factors. While the chip shortage and raw material cost hike remain the major headwinds in the near term, this should favour the ones with chip supply, for example, BYD Co. (1211 HK).

China Tech

Tencent (700 HK) announced to distribute shares of JD-SW (9618 HK) as interim dividends, cutting down its shareholding in JD from 17% to 2.3%, and to exit from JD's board of directors. The payout is worth c.HKD127.7b, which is equivalent to c.3%/14% of Tencent/JD's market cap. Market expects business cooperation between Tencent and JD remains unchanged, and their strategic partnership is likely to continue. Tencent's historical dividend payout ratio is c.11% (c.8% in 2020). Looking ahead, market expects Tencent may gradually reduce its stake in mature companies, while continuing the business cooperation at all levels. Following significant correction caused by stepped-up regulation in 2021, Chinese tech sector valuation is now attractive.

Company News

Shenzhou Int'l (2313 HK)

Its share price slumped after the company announced that in view of the recent Epidemic in the area where its Ningbo production sites is located, the local government has immediately adopted control measures to the Epidemic and has announced a lockdown in some of its production sites' areas in Beilun District, Ningbo. It is expected that some of the production sites in Beilun District, Ningbo will be affected by a short-term suspension of production.

Sunny Optical (2382 HK)

On the rising EV trend, market expects a solid multi-cam adoption trend for autos with accelerated adoption in advanced driver assistance systems (ADAS). Being an industry leader in auto lenses, Sunny Optical is well-positioned to benefit from this trend. In addition, market expects spec upgrades in smartphones to resume in 2022E on an improving supply chain and a demand recovery post the pandemic, which should also benefit Sunny given its major vendor position in smartphone lenses and camera modules. Future positives include the intact multi-cam trend supported by strong ADAS/EV shipments given its leading position; resumption of spec upgrades (large sensors, MP migration); continuing share gains with Korean and China customers in high-end products; and new order wins in iPhone/ iPads after a muted 2H21E.

NetEase-S (9999 HK)

Its management mentioned that suspension of gaming approval in China is positive for the quality of games in the Industry, and NetEase will continue to adhere to the requirement set by the government. Although the number of games is likely to be reduced in the domestic market, NetEase will try to leverage its domestic and traditional Chinese IP to gain market share in the overseas market. In terms of overseas markets, while the U.S. market remains the largest potential market, its management noted that some of their games are also popular in Vietnam and other parts of Southeast Asia. For the new game launches pipeline, NetEase will launch Diablo Immortal (in China and international market with the last testing likely in 1Q22E), Harry Potter: Magic Awakened (international market) and Lord of the Rings in 1H22E. NetEase will also likely launch a new game developer platform (adult focused version of Roblox) in 1H22E.

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