



Market Overview

Yesterday, Hong Kong stocks markets advanced on the rally of technology companies, which gained 1-4% on average. HBSC (5 HK) and Chinese financial sector also gained. The Hang Seng Index came in at 24,289pts (+46pts) with a daily turnover of HKD132.1b. Overnight, U.S. markets gave up sizable gains after Fed Chairman Powell backed a March liftoff for rates and didn't rule out a hike at every meeting if inflation continues to run well above its 2% target.

Sector News

China Basic Material

On the ground demand was mostly stable sequentially in Jan amid the weak season. On a relative basis, steel, copper and paper are presenting a weaker trend than past seasonality, while aluminium, glass, and cement are mostly stabilized. Construction demand remained weak at 10-20% below the normal level for most regions, yet, there is muted growth in auto and appliances. The early Chinese New Year Holiday and abnormal earlier break taken by workers in selected downstream sectors also added more weakness in industrial metals such as copper. market remain positive sentiment on infrastructure emerging among most cement and steel producers and traders.

Company News

L'Occitane (973 HK)

L'Occitane released 3Q operating data with 3QFY22 net sales growth of 13.5% YoY to EUR650m (+9.5% at constant rates). By brand, net sales of L'Occitane, ELEMIS and others grew by 8%, 39% and 18% YoY, respectively, at constant rates, while those of LimeLife fell by 32% YoY due to a high base. By geography, the UK, France and China recorded constant-currency net sales growth of 22%, 14% and 14% YoY, respectively. Overall, 3QFY22 saw a strong recovery in the all retail, wholesale and online channels. Looking into FY22E, its management provided a slightly soft forecast with net sales growth of 15-16%, while operating margin at 15-16%.

Fuyao Glass (3606 HK)

Its share price slumped on a downgrade report. In the report, the analyst reduce EPS estimates to reflect lower-than-expected volume forecasts for the Chinese passenger vehicle industry and the potential impact on Fuyao's forward growth. It highlights there is a downside risk to current consensus forecasts with 2022/23E earnings growth of 31/18% YoY. In addition, the stock is trading at a relatively high valuation of 19x forward PER, which is higher than its historical average of 15x and its peers of 9x.

COSCO Shipping (1919 HK)

The company announced its 2021 preliminary results, expecting its earnings to grow by c.800% YoY to RMB89.2b. This indicates 4Q21 earning to record QoQ decline to RMB22b, which was lower than the market's expectation. Its management highlighted that 4Q21 revenue continued to grow slightly QoQ, yet, the decline in earnings was due to cost increases, esp. for fuel, chartering and container box-related expenses. Its management also highlights: (1) the expected earnings growth in 2021 will lead to dividend resumption; (2) positive view on shipping rates on the back of high volumes and tight supply (esp. in Europe and the US); (3) forwarders' freight rates have a limited impact on the company (esp. speculative activities) given increasing direct clients.

Pou Sheng (3813 HK)

Pou Sheng's 4Q21 sales were down by 27% YoY, or achieving c.74% of 4Q19's level. Looking ahead, although there is still a high base in 1Q22, its management saw some encouragement in early Jan with the help of better product supplies and an earlier Chinese New Year. Market estimate its 4Q21 operating margin to remain at similar level as 3Q21 (1.3%) given that the deleveraging impact dragged by the sales decline was the biggest near-term overhang on margins.

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