

HOLT – Market Commentary

# HOLT China A-share Insights

August 2017



Opportunities await in  
China-A share

[www.credit-suisse.com/holtmethodology](http://www.credit-suisse.com/holtmethodology)

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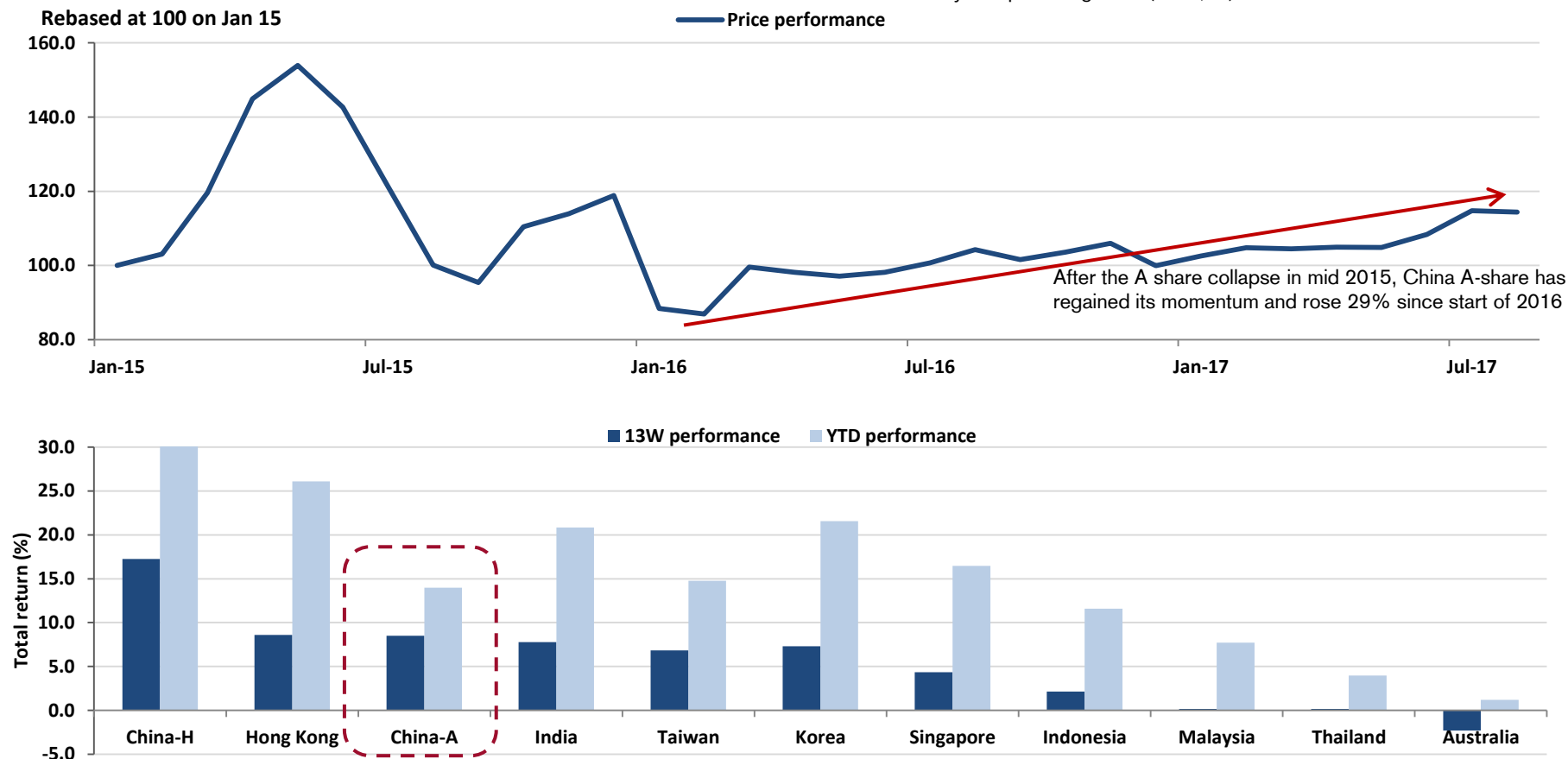
## Summary: Opportunities await in China-A share

- China A-share benefitted from positive news flow on MSCI Inclusion announcement and promising macro data and became one of the best performers in Asia during last few months and demonstrated one of the strongest magnitude and trend in positive earnings revisions across Asia.
- Continuous earnings upgrades translate to marked improvement in forecast returns to reach highest level since 2007. With the rally accompanied by fundamental improvements, current valuation from implied discount rate perspective is not excessive, especially in contrast to the steep decline in discount rates globally.
- As many well known names in China-A share have already rallied, where are the opportunities going forward?
  - **Who are the next Gree/Midea?** As the recent winners Materials, Tech and Industrials have stretched valuation on HOLT P/E compared to peers, investors who want to chase laggards could consider **Consumers** as they offer higher forecast returns with reasonable valuation. Page 10 screens for companies with strong wealth creation profile, namely **Huayu Automotive Systems, Wuhan Department Store, Zhejiang Hangmin**
  - **Time to switch to mid-cap?** After the blue chip rally, mid caps that also exhibit good fundamentals, growth potential with decent upside look particularly interesting, e.g. **Loncin Motor, Hubei Jumpcan, Hengtong Optic Electric**. Please refer to page 6 for full list of stocks
  - **What if investors want to seek shelter?** A major setback in investing in China-A share relates to rising leverage in China. For defensive ideas amid worries on decelerating China's economic growth due to deleveraging, investors would be better off holding onto names with strong balance sheet and high coverage ratio, e.g. **Beijing Orient Landscape, Yuto Packaging, Sanjiu Environmental**. Please refer to page 6 for full list of stocks

# China A-share reversed its status as a YTD laggard to one of the top performers in Asia during last three months

## Country Level Price Momentum Benchmarking

For the past few months, China A-share market benefited from various positive developments in the market and newsflow, including MSCI announcement of inclusion in May and positive growth (GDP, IP) data etc



Note: Respective MSCI Country indices dated 4 Aug 2017. Source: Credit Suisse HOLT, The BLOOMBERG PROFESSIONAL™ service

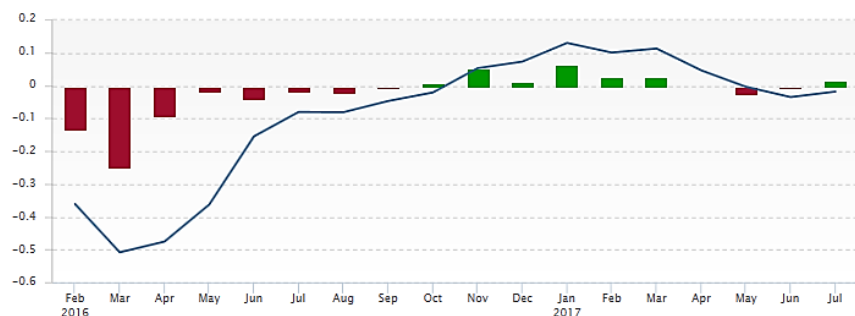
# The magnitude and trend of positive earnings upgrades observed in China A-share is also one of the strongest across Asia

## China A-share: Momentum

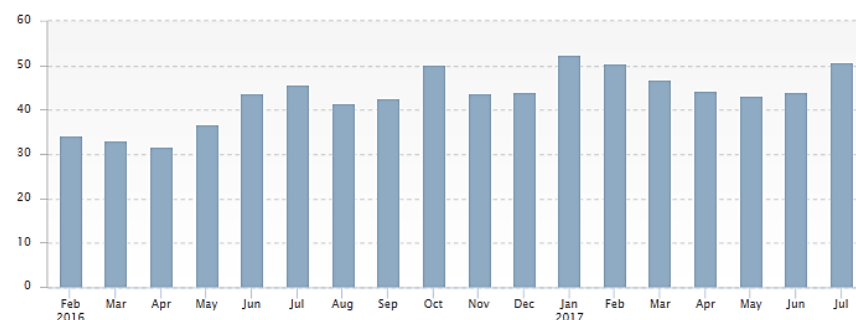
CFROI Revisions ①

■ 1 Month CFROI Revisions –3 Month CFROI Revisions

Peer Compare



CFROI Revision Breadth ①



Note: CFROI Revisions measure the changes in the firm's CFROI due to changes in consensus EPS estimates

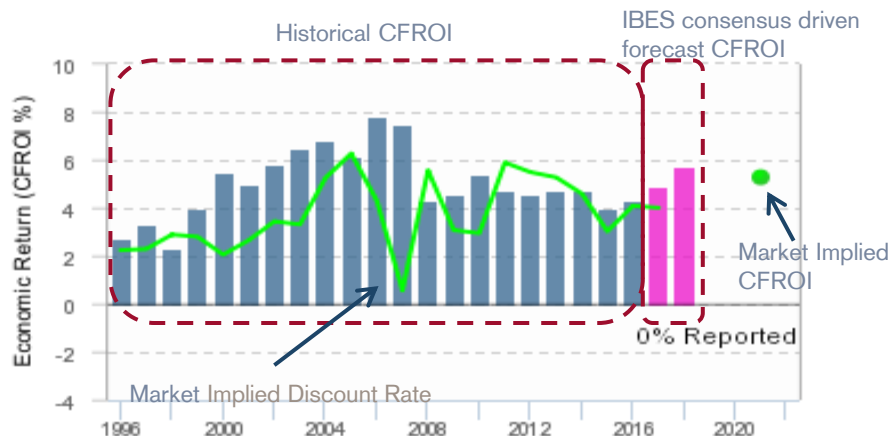
Note: Revisions breadth refers to the percentage of firms with positive CFROI® revisions

			STYLE								
Country	Previous 1 month return	Beta	Valuation		Cash-Flow Revisions Sentiment		Market Sentiment		Equal-weighted Rank	Previous Rank	Month on Month Change
			Intrinsic Value	Relative value	Cash Flow Revisions Ratio	Trend in Cash Flow Revisions Ratio	1-Month Stock Price, % Up	12-Month ex 1-Month Stock Price, % Up			
China H	8.0%	1.2	4	6	4	3	2	3	1	2	1
Japan	1.7%	1.0	3	5	2	5	8	1	2	3	1
Korea	2.6%	1.1	1	4	5	9	6	8	3	4	1
Taiwan	2.4%	1.0	2	9	12	7	3	6	4	1	-3
Singapore	5.3%	1.0	5	2	13	12	4	2	5	5	0
Hong Kong	2.8%	0.9	7	10	1	10	7	5	6	10	4
Malaysia	0.5%	0.8	8	3	6	6	13	4	7	8	1
Philippines	2.7%	0.7	13	7	3	1	5	12	8	13	5
China A	2.1%	0.7	9	1	8	2	10	13	9	6	-3
India	7.2%	0.9	11	13	11	4	1	7	10	11	1
Thailand	3.0%	0.7	6	11	7	11	12	10	11	7	-4
Australia	4.4%	1.1	10	8	9	13	11	9	12	12	0
Indonesia	-0.3%	0.8	12	12	10	8	9	11	13	9	-4

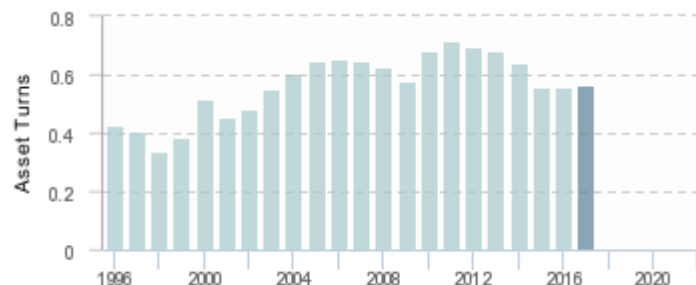
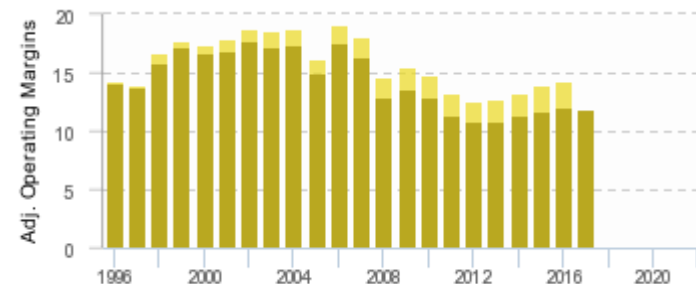
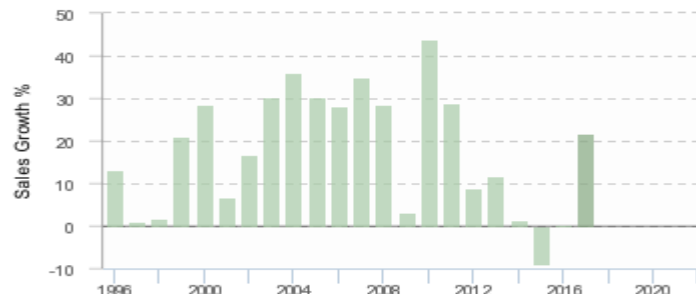
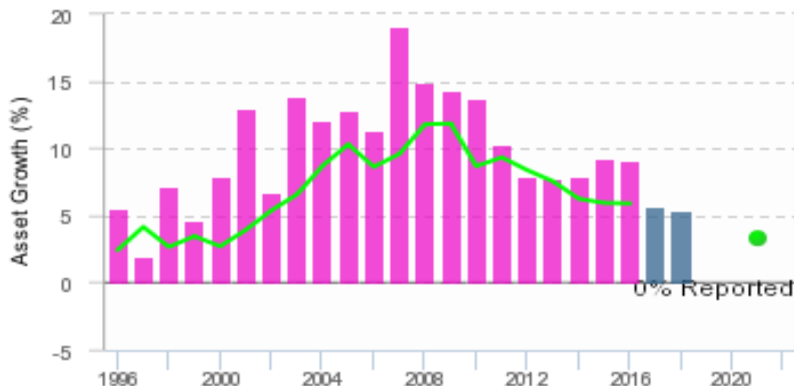
Universe: All sectors excluding Financials and Regulated Utilities. Source: Credit Suisse HOLT Lens™

# Continuous earnings upgrades translate to marked improvement in forecast returns to 5.7% by 2018, the highest level since GFC

China A-share Relative Wealth Chart



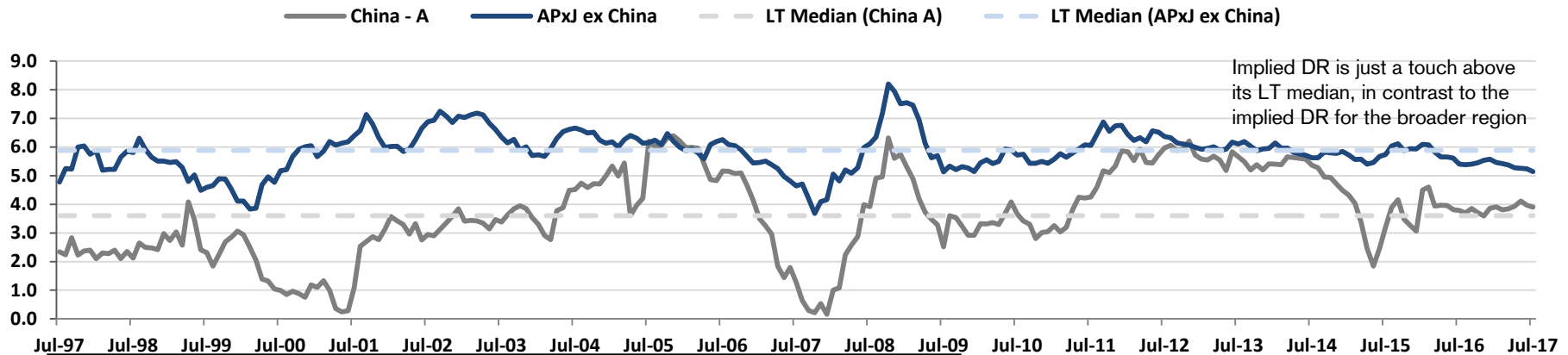
Massive overcapacity has weighed negatively on China A-share's CFROI profile in recent years. CFROI recovered in 2016 with resilient margins, which more than offset lackluster topline growth



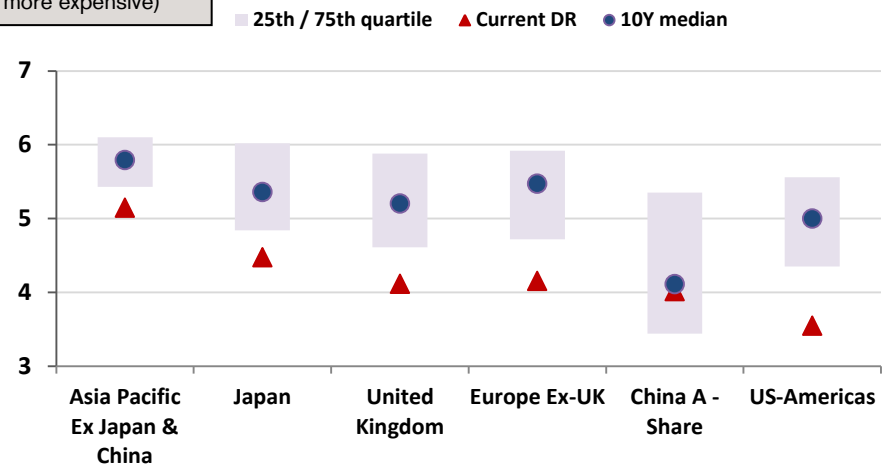
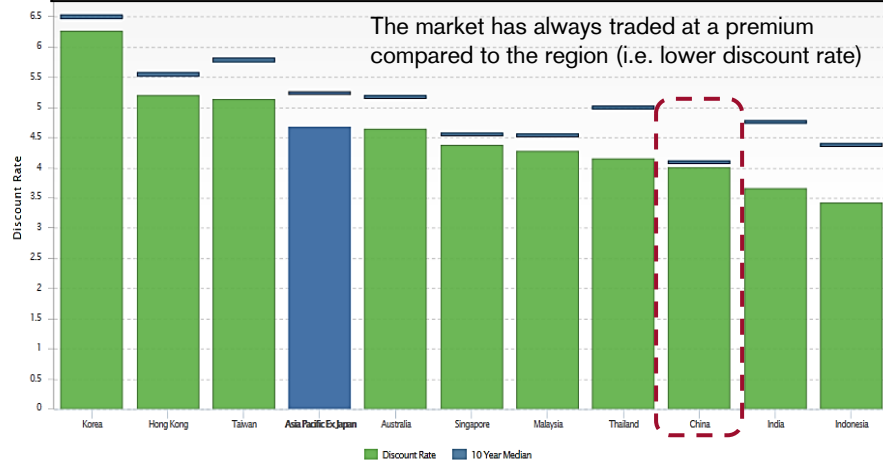
Universe: All sectors excluding Financials and Regulated Utilities. Source: Credit Suisse HOLT Lens™

# Supported by fundamental improvements, valuation does not look bubbly on aggregate level as implied discount rate remains near historical median

## Country Level Discount Rate Benchmarking



Note: HOLT derives discount rate by equating firms' enterprise values to the net present value of their forecasted free cash flows (i.e. assuming no change in forecasted FCF (driven by earnings upgrades/downgrades), a lower discount rate would imply that the firms/countries are more expensive)



Implied discount rates for most global regions have steeply declined, with China A-share being the only exception

Universe: All sectors excluding Financials and Regulated Utilities. Source: Credit Suisse HOLT Lens™

# What should investors look for in China A-Share?

Who are the next Gree/ Midea?

Given large cap stocks have run the hardest, are there alternative value + quality opportunities within the mid cap space?

If market becomes "risk-off" due to deleveraging, It is perhaps safer to stick with companies with sound balance sheet

	Wealth Compounders <a href="#">(Link)</a>	Quality growth mid-caps with decent DCF upside <a href="#">(Link)</a>	Solid balance sheet + High coverage <a href="#">(Link)</a>
Consumers (Staples, Discretionary)	Huayu Automotive Systems (600741) Wuhan Department Store (000501) Zhejiang Hangmin (600987)	Chinese Universe Publishing (600373) Loncin Motor (603766)	Joyoung (002242) Zhejiang Wanfeng Auto Wheel (002085)
Tech	Leyard Optoelectronic (300296)	Hengtong Optic Electric (600487) Wuxi Lead Intelligent Equipment (300450)	Longi Green Energy (601012) Shenzhen Sunway Communication (300136)
Health Care	Dong-E-E-Jiao (000423) Realcan Pharmaceutical (002589)	Hubei Jumpcan Pharmaceutical (600566)	Shenzhen Salubris Pharmaceuticals (002294)
Industrials/ Utilities		China CAMC Engineering (002051)	Beijing Orient Landscape & Environment (002310) XJ Electric (000400)
Cyclicals (Energy/Materials)		Beijing Oriental Yuhong Waterproof (002271) Tongkun Group (601233)	Beijing Sanju Environmental Protection (300072) Shenzhen Yuto Packaging (002831)

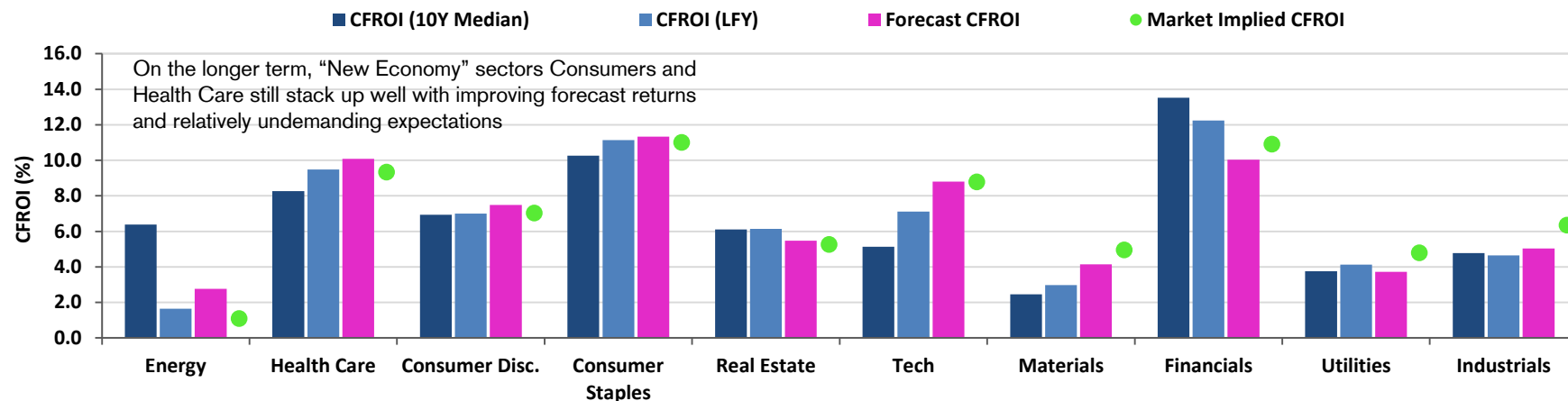
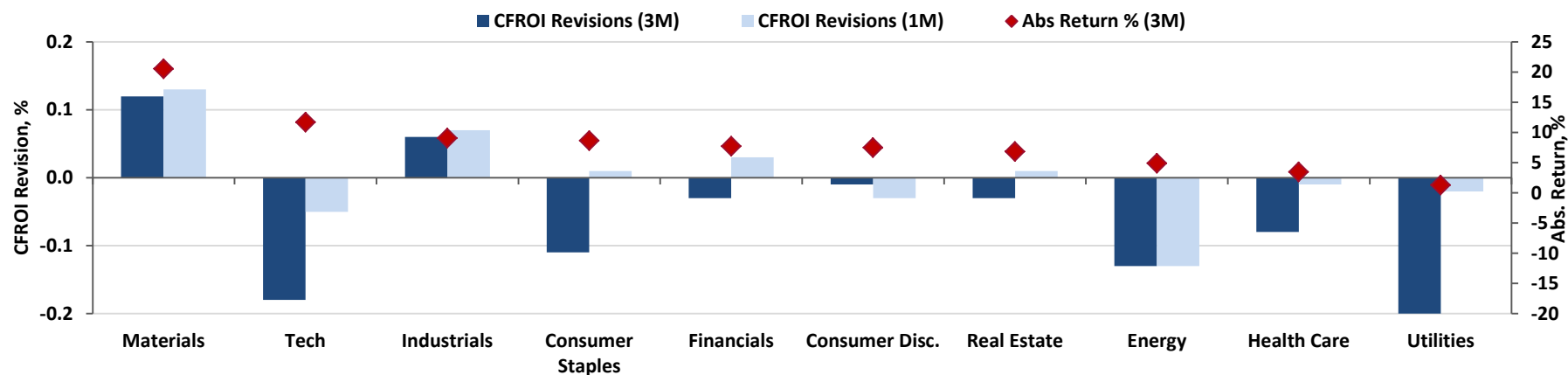
Source: Credit Suisse HOLT Lens™

**Who are the next Gree/ Midea?**



# Post rally, optimism on fundamental improvements of winners (Materials, Tech, Industrials) appear to baked-in already

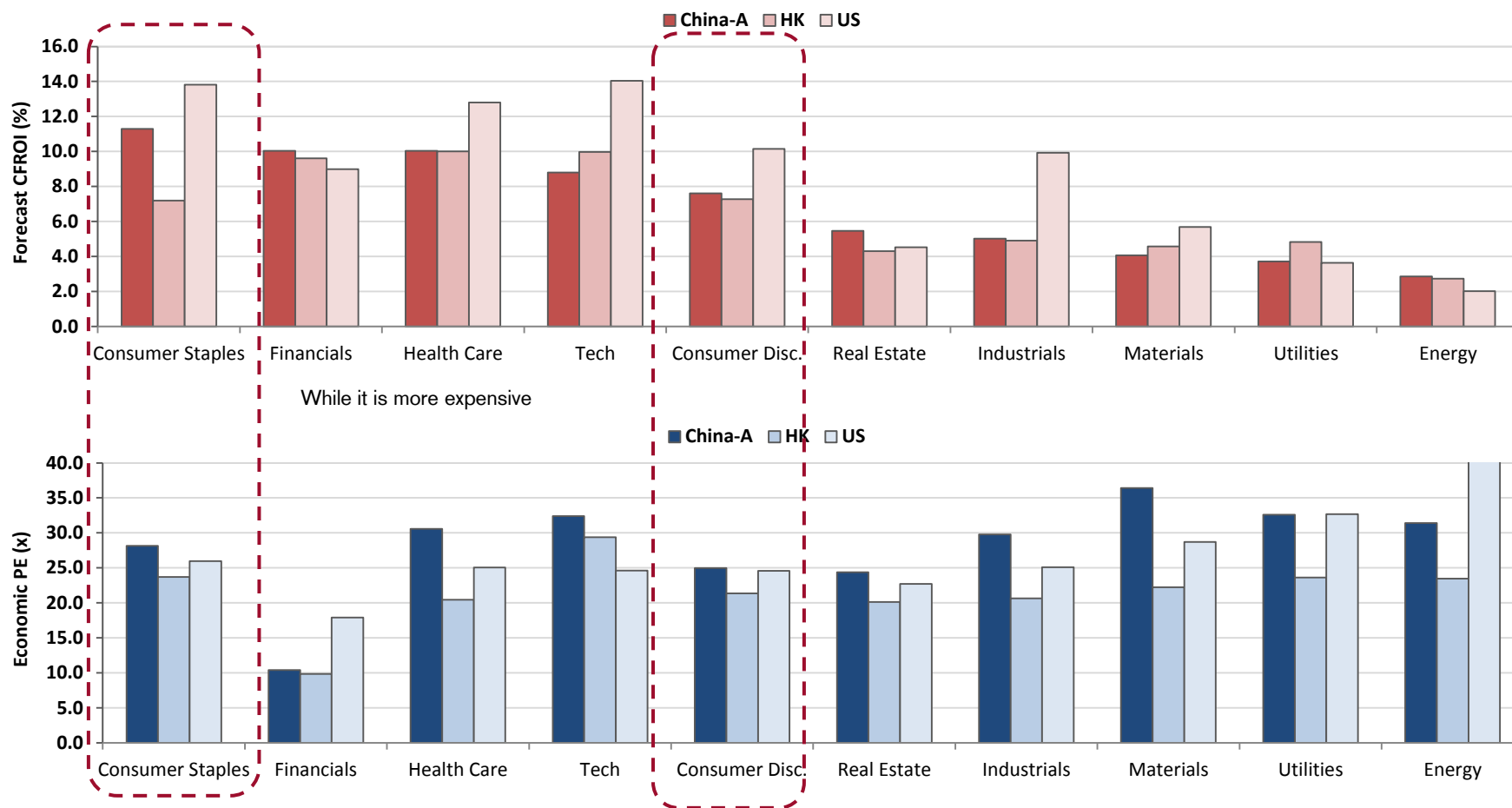
## China A-share CFROI & CFROI Revisions Benchmarking



Source: Credit Suisse HOLT Lens™

# With almost all sectors trading at higher valuation multiples than HK peers, sector laggards Consumers stand out as they combine higher economic returns with reasonable valuation

## China A-share Forecast Return & Economic PE Benchmarking

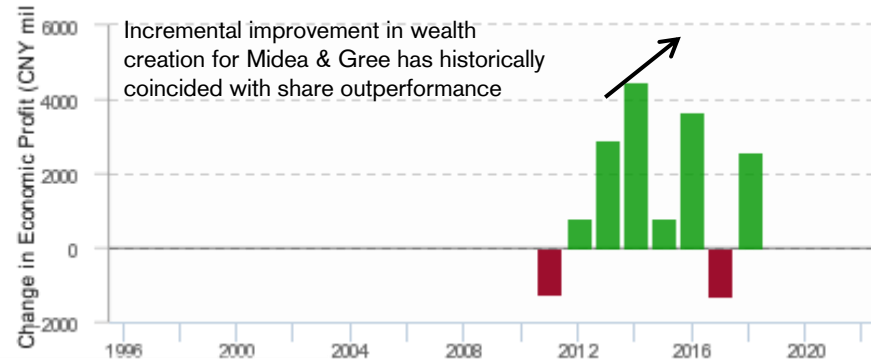
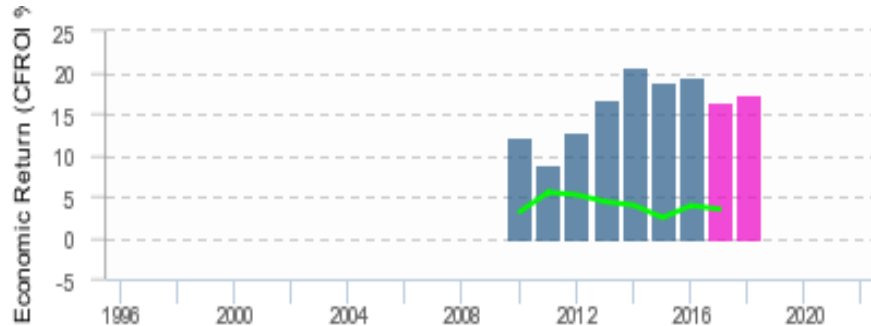


Interestingly, Consumer Discretionary is one of the few sectors with its HOLT PE still lower than US peers

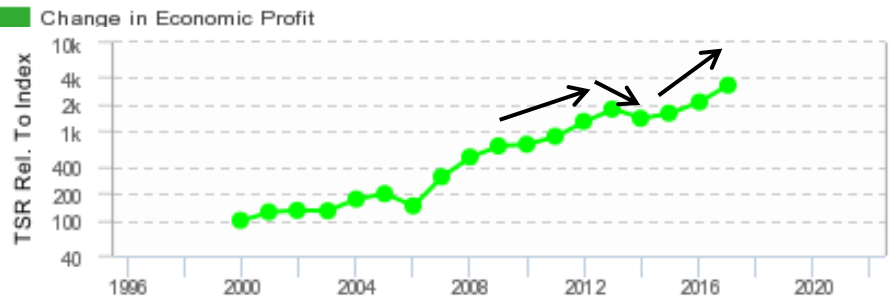
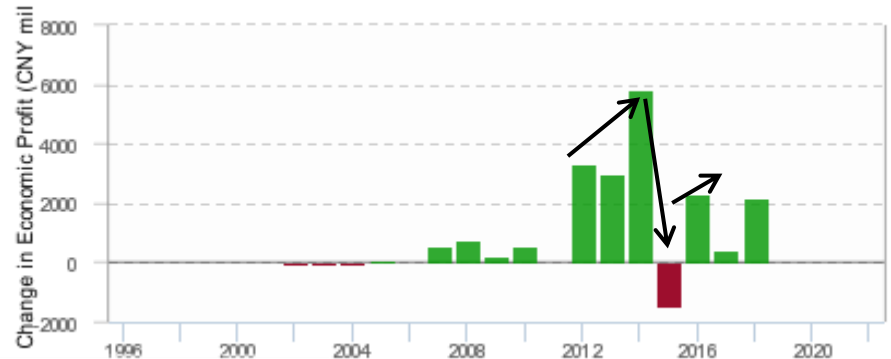
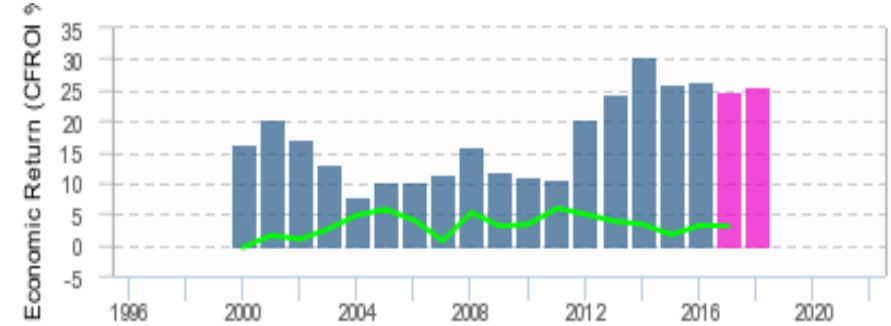
Source: Credit Suisse HOLT

# What can we learn from Midea/Gree's wealth creation profiles?

Midea (000333)



Gree (000651)



Source: Credit Suisse HOLT Lens™

# Screen #1: Wealth Compounders in Consumers

Name	Ticker	Market Cap, US\$bn	CFROI (FY-2)	CFROI (FY-1)	CFROI (LFY)	% Change in LFY EP	HOLT P/E	HOLT upside (%)	Overall Percentile	Investment Style
MIDEA GROUP CO LTD	000333	39.7	20.6	19.0	19.5	30.9	20.4	11	94	Best in Class
GREE ELECTRIC APPLIANCES, INC OF ZHUHAI	000651	35.3	30.5	26.2	26.7	17.8	15.2	40	100	Best in Class
JIANGSU YANGHE BREWERY JOINT STOCK CO LTD	002304	20.1	23.7	23.1	22.6	6.8	23.0	-6	99	Best in Class
INNER MONGOLIA YILI INDUSTRIAL GROUP COMP	600887	18.5	12.6	15.3	19.4	18.9	24.8	-17	86	Style Neutral
GREAT WALL MOTOR CO LTD	601633	17.8	20.3	17.0	18.1	31.3	13.8	122	87	Contrarian
GUANGDONG WENS FOODSTUFF GROUP CO LTD	300498	15.7	13.9	26.5	35.9	81.3	12.8	121	97	Contrarian
SHENZHEN OVERSEAS CHINESE TOWN COMPAN	000069	11.1	10.5	7.9	9.6	66.4	18.8	31	91	Style Neutral
HUAYU AUTOMOTIVE SYSTEMS CO LTD	600741	10.1	10.4	10.9	10.2	29.6	14.0	73	95	Best in Class
FUYAO GLASS INDUSTRY GROUP CO LTD	600660	8.7	13.7	10.6	9.9	11.3	21.4	40	59	Style Neutral
SHANGHAI ORIENTAL PEARL MEDIA CO LTD	600637	8.1	13.9	8.1	8.9	7.2	19.4	42	39	Style Neutral
CHINESE UNIVERSE PUBLISHING AND MEDIA CO	600373	4.6	9.7	10.5	13.5	54.2	20.4	33	70	Contrarian
NINGBO JOYSON ELECTRONIC CORP	600699	4.4	13.7	8.2	7.0	64.8	20.8	22	64	Style Neutral
ANHUI XINHUA MEDIA CO LTD	601801	3.8	10.9	10.6	8.0	6.1	23.1	28	71	Style Neutral
BEIJING DABEINONG TECHNOLOGY GROUP COMI	002385	3.7	12.4	9.1	9.0	8.5	22.6	19	75	Style Neutral
TONGWEI COMPANY LIMITED	600438	3.7	9.3	9.6	6.2	75.7	20.5	47	92	Style Neutral
ANHUI ZHONGDING SEALING PARTS COMPANY LI	000887	3.5	12.2	14.1	10.7	8.9	19.4	64	88	Style Neutral
ZHEJIANG SEMIR GARMENT CO LTD	002563	3.2	13.4	14.9	14.0	6.1	14.8	80	86	Contrarian
HISENSE ELECTRIC COMPANY LIMITED	600060	2.8	10.6	9.7	9.0	5.6	13.1	154	69	Style Neutral
HANGZHOU GREATSTAR INDUSTRIAL CO LTD	002444	2.4	11.8	12.4	12.6	52.4	23.7	5	51	Style Neutral
LONGCIN MOTOR CO LTD	603766	2.4	11.0	12.2	11.3	9.6	20.7	61	94	Best in Class
BRIGHT DAIRY AND FOOD CO LTD	600597	2.3	7.1	7.1	9.8	67.3	23.4	27	89	Best in Class
WUHAN DEPARTMENT STORE GROUP COMPANY	000501	2.0	9.1	9.0	9.7	25.7	16.9	112	97	Best in Class
GUANGDONG HOMA APPLIANCES CO LTD	002668	1.8	7.6	9.1	12.3	76.5	20.8	46	95	Best in Class
GUANGDONG ADVERTISING GROUP CO LTD	002400	1.7	22.0	19.9	14.3	14.6	19.5	40	78	Contrarian
LUTHAI TEXTILE CO LTD	000726	1.6	8.8	7.6	7.6	12.8	16.0	104	92	Style Neutral
CHINA AUTOMOTIVE ENGINEERING RESEARCH IN	601965	1.3	6.8	7.6	7.4	13.8	23.6	39	78	Style Neutral
LINGYUN INDUSTRIAL CORPORATION LIMITED	600480	1.3	7.6	7.0	8.5	63.7	19.7	64	97	Best in Class
JIANGSU KUANGDA AUTOMOBILE TEXTILE GROU	002516	1.2	6.9	7.0	8.6	127.1	23.3	48	69	Style Neutral
ZHEJIANG HANGMIN CO.,LTD.	600987	1.2	12.2	12.4	12.7	14.9	14.7	119	96	Best in Class
TECON BIOLOGY CO LTD	002100	1.2	11.3	9.9	10.6	32.0	23.6	54	70	Contrarian

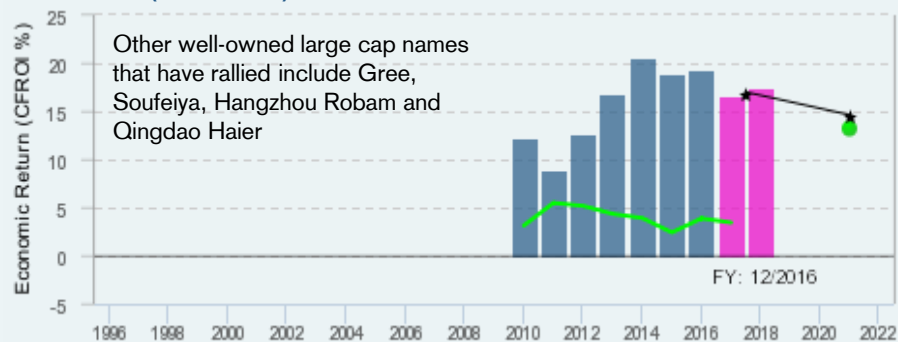
Universe: China: Screening Criteria: Market Capitalization (bil) >= 1.0 USD and CFROI LFY-2 >= 6.0 and CFROI LFY-1 >= 6.0 and CFROI LFY >= 6.0 and Economic Profit - % Change in Economic profit LFY >= 5.0 and Industry Code - GICS Sector in Consumer Discretionary, Consumer Staples and P/E Multiple, Economic (CFROI FY1) < 25.0. Link: <https://holtlens.credit-suisse.com/dal/TJSBGZcESfpAY00>

Source: Credit Suisse HOLT Lens™

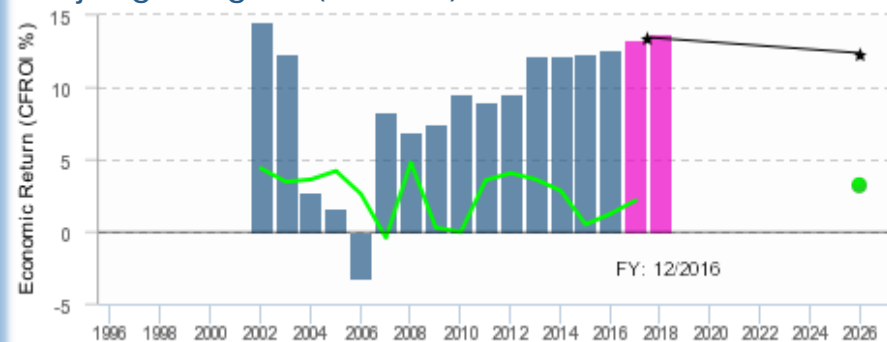
# Possible alternatives for well-owned large-cap names that have rallied

## Consumer Discretionary – Non Auto

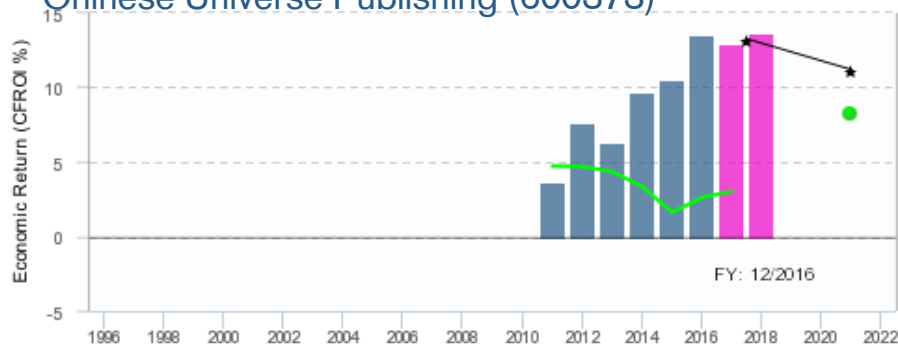
### Midea (000333)



### Zhejiang Hangmin (600987)



### Chinese Universe Publishing (600373)\*



### Wuhan Department Store (000501)



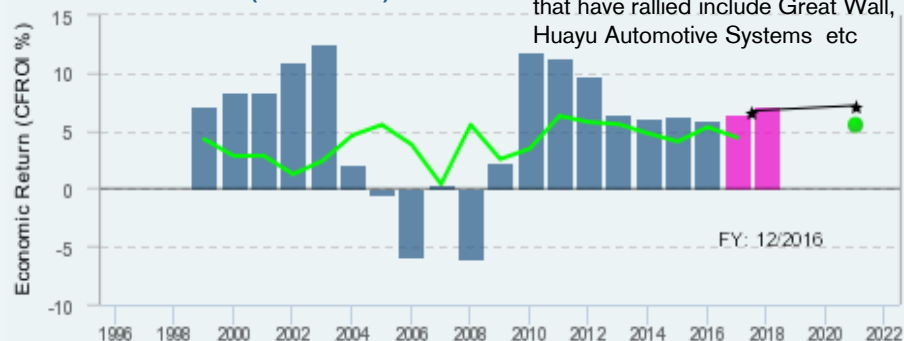
	Midea	Chinese Universe Publishing	Wuhan Department Store	Zhejiang Hangmin
Market Cap (US\$bn)	39.1	4.6	2.0	1.3
Sub-industry	Household Appliance	Publishing	Department Stores	Textiles
Accounting Quality	Average	Good	Above Average	Above Average
Probability of Default	0%	0%	0%	0%

Note: \* appear in multiple screens on page 11, 19-20, 25-26. Source: Credit Suisse HOLT Lens™

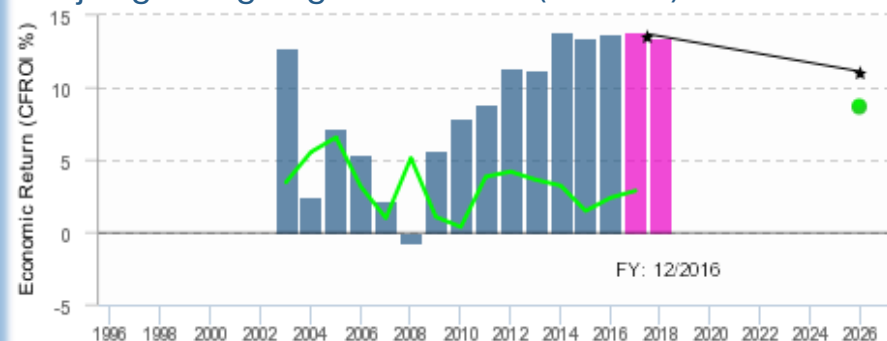
# Possible alternatives for well-owned large-cap names that have rallied

## Consumer Discretionary – Auto

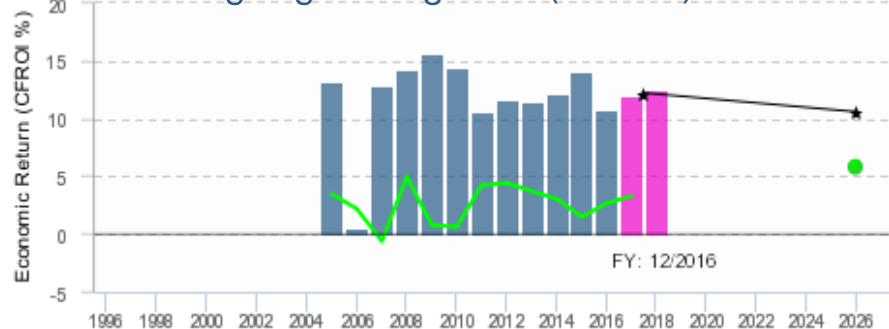
### SAIC Motor (600104)



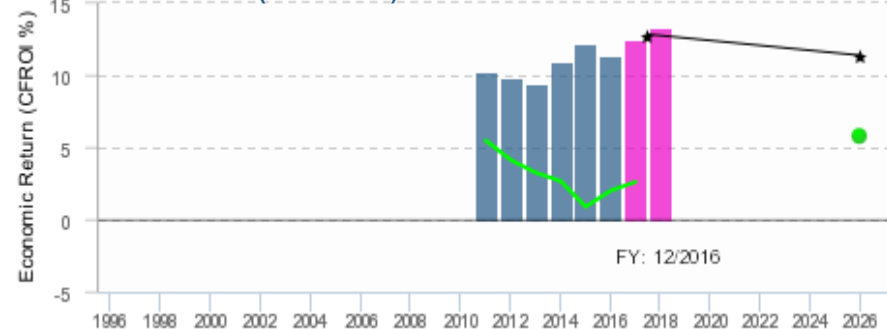
### Zhejiang Wangfeng Auto Wheel (002085)



### Anhui Zhongding Sealing Parts (000887)\*



### Loncin Motors (603766)\*



	SAIC Motor	Anhui Zhongding Sealing Parts	Loncin Motors	Zhejiang Wangfeng Auto Wheel
Market Cap (US\$bn)	51.0	3.5	2.4	5.5
Sub-industry	Automobile Manufacturers	Tires & Rubber	Motorcycle Manufacturers	Auto Parts & Equipment
Accounting Quality	Below Average	Above Average	Above Average	Above Average
Probability of Default	0%	0%	0%	0%

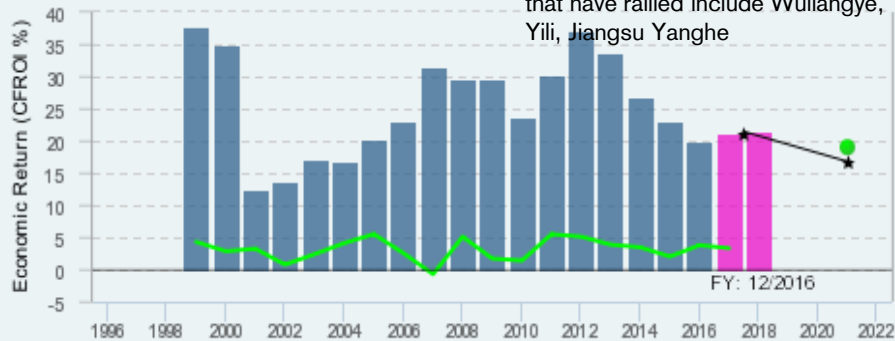
Note: \* appear in multiple screens on page 11, 19-20, 25-26. Source: Credit Suisse HOLT Lens™

# Possible alternatives for well-owned large-cap names that have rallied

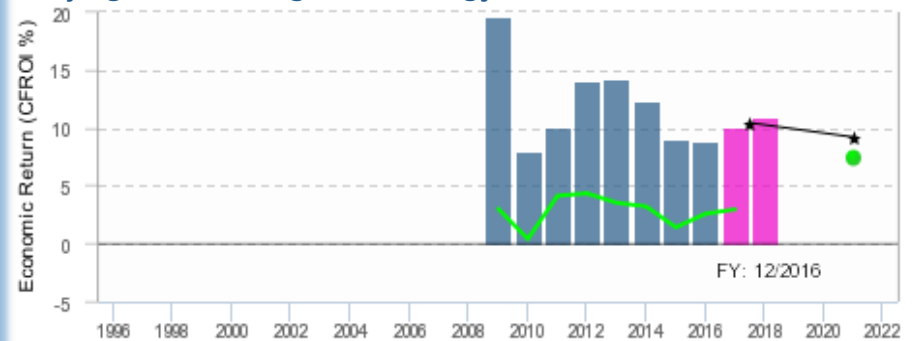
## Consumer Staples

### Kweichow Moutai (600519)

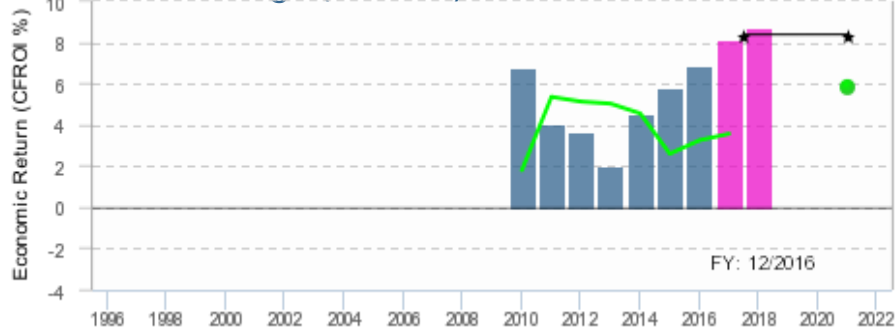
Other well-owned large cap names that have rallied include Wuliangye, Yili, Jiangsu Yanghe



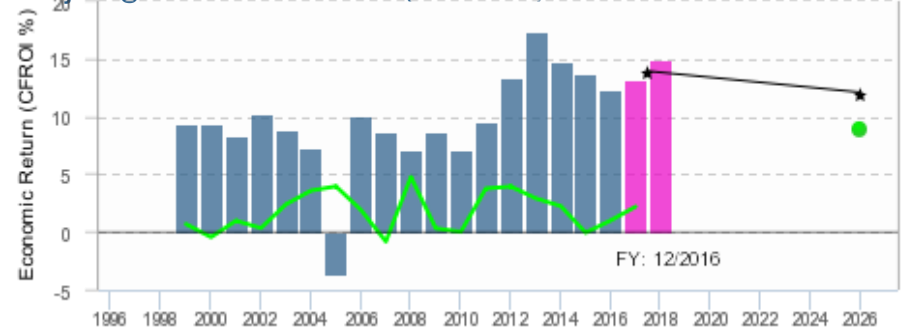
### Beijing Dabeinong Technology (002385)



### Meihua Holdings (600873)



### Xinjiang Yilite Industries (600197)



	Kweichow Moutai	Beijing Dabeinong Tech	Meihua Holdings	Xinjiang Yilite Industries
Market Cap (US\$bn)	90.0	3.7	2.8	1.3
Sub-industry	Distillers & Vintners	Agricultural Products	Packaged Foods & Meat	Distillers & Vintners
Accounting Quality	Good	Above Average	Above Average	Above Average
Probability of Default	0%	0%	0%	0%

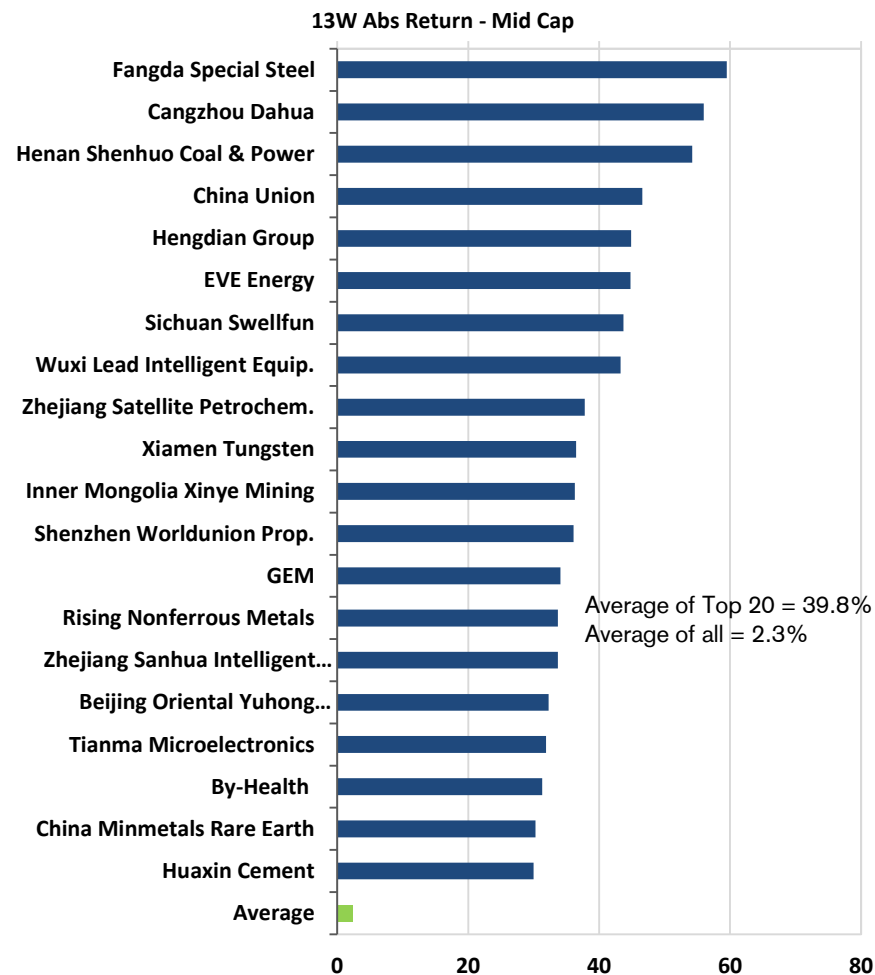
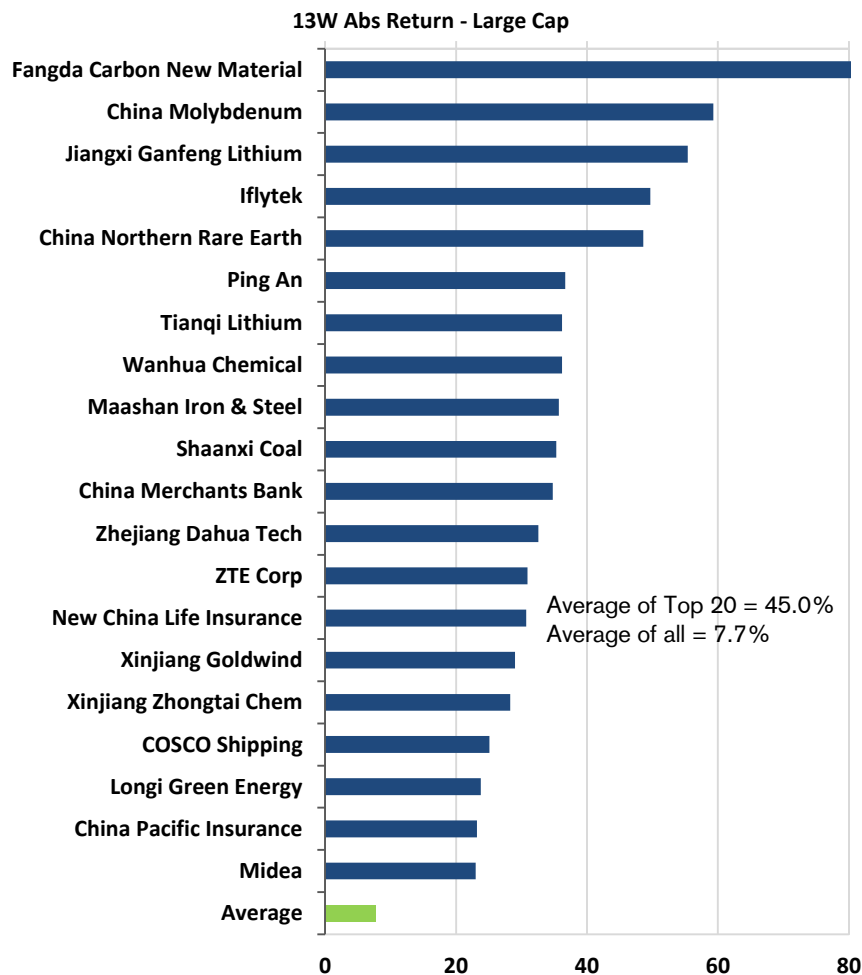
Source: Credit Suisse HOLT Lens™

**Time to switch to mid-cap?**



# The rotation to large caps in recent rally is evident as top 20 outperformers rose ~45% during last three months

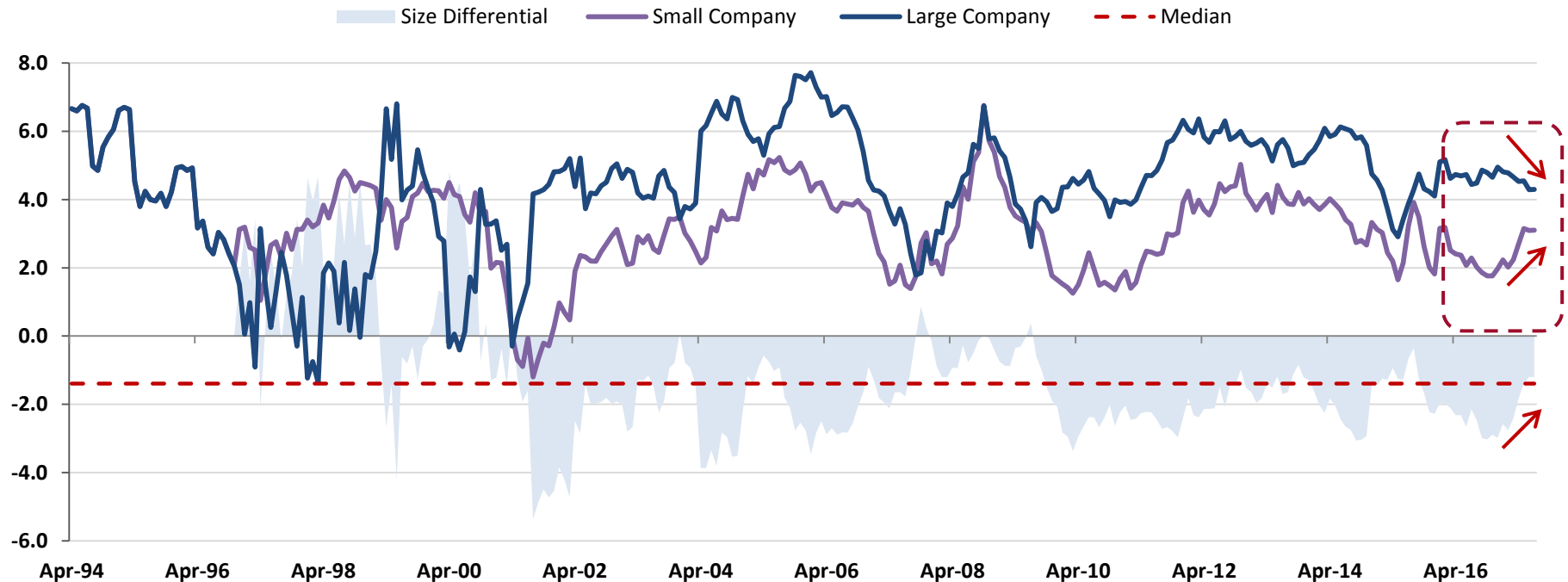
## China A-share Top Performers



Source: Credit Suisse HOLT

Notably, HOLT's discount rate size differential has reverted back to historical median, suggesting increasing value towards the small/mid cap space

China A-share Discount Rate Size Differential



Source: Credit Suisse HOLT Lens™

## Screen #2: Quality growth mid-caps with decent HOLT upside

Name	Ticker	Market Cap, US\$bn	Sector	CFROI	3M CFROI Revisions	3M Rel. Return	Operational Quality Percentile	Growth Percentile	HOLT upside (%)	Investment Style	Analyst coverage
ANHUI ZHONGDING SEALING PARTS COMPANY LIMITED	000887	3.4	Consumer Discretionary	10.7	0.1	-15.9	67	90	68	Style Neutral	4
LONGIN MOTOR CO LTD	603766	2.4	Consumer Discretionary	11.3	0.3	-9.6	75	60	64	Best in Class	4
CHINESE UNIVERSE PUBLISHING AND MEDIA COMPANY L	600373	4.7	Consumer Discretionary	13.5	-0.3	2.0	79	76	34	Contrarian	4
MUYUAN FOODS CO LTD	002714	4.9	Consumer Staples	22.9	-1.7	-0.7	96	79	112	Contrarian	9
AURORA OPTOELECTRONICS CO LTD	600666	3.2	Health Care	12.4	0.0	-3.1	91	100	208	Contrarian	1
HUNAN ER-KANG PHARMACEUTICAL CO LTD	300267	3.5	Health Care	20.2	-0.5	-15.5	93	93	75	Contrarian	4
SHENZHEN SALUBRIS PHARMACEUTICALS CO LTD	002294	5.0	Health Care	28.6	-0.3	8.4	95	61	48	Style Neutral	11
JINYU BIO-TECHNOLOGY CO LTD	600201	3.0	Health Care	16.5	-0.3	-7.0	93	93	46	Style Neutral	7
HUBEI JUMPCAN PHARMACEUTICAL CO LTD	600566	4.1	Health Care	20.9	0.4	-4.6	96	96	25	Best in Class	3
JIANGSU GUOTAI INTERNATIONAL GROUP GUOMAO CO., L	002091	2.5	Industrials	12.3	0.3	3.0	96	90	168	Best in Class	3
SHENWU ENVIRONMENTAL TECHNOLOGY CO LTD	300156	3.6	Industrials	19.7	0.0	-28.4	100	99	149	Best in Class	4
CHANGYUAN GROUP LIMITED	600525	3.0	Industrials	10.9	-0.3	0.1	86	91	79	Contrarian	10
CHINA CAMC ENGINEERING CO LTD	002051	3.6	Industrials	16.2	0.1	-12.0	94	68	76	Best in Class	7
NINGBO SANXING ELECTRIC COMPANY LIMITED	601567	2.2	Industrials	9.2	0.0	-8.8	87	71	72	Contrarian	3
HENAN PINGGAO ELECTRIC CO., LTD.	600312	2.7	Industrials	11.6	-0.1	-14.0	91	64	71	Contrarian	18
SHANDONG HIMILE MECHANICAL SCIENCE & TECHNOLOG	002595	2.5	Industrials	19.9	0.0	-7.0	92	80	68	Style Neutral	5
SUZHOU GOLD MANTIS CONSTRUCTION DECORATION CO.	002081	4.3	Industrials	11.0	-0.1	-3.7	81	61	66	Contrarian	9
TAIHAI MANOIR NUCLEAR EQUIPMENT CO LTD	002366	3.1	Industrials	12.6	-15.6	-3.0	92	100	63	Contrarian	5
ZHEJIANG WANLIYANG CO LTD	002434	2.9	Industrials	7.1	-0.1	-14.0	74	98	46	Best in Class	8
GUOXUAN HIGH-TECH CO LTD	002074	4.7	Industrials	17.2	-0.9	6.8	99	94	35	Contrarian	14
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT	000429	2.8	Industrials	5.5	1.2	4.0	63	72	31	Best in Class	2
SHANDONG HI-SPEED ROAD AND BRIDGE CO LTD	000498	2.1	Industrials	8.1	3.0	6.5	68	75	26	Best in Class	7
SUNWODA ELECTRONIC CO LTD	300207	2.2	Industrials	11.4	-0.4	-4.4	89	86	22	Style Neutral	7
SHENZHEN TECHAND ECOLOGY & ENVIRONMENT CO LTD	300197	2.9	Industrials	9.3	0.3	-16.4	85	94	21	Style Neutral	9

HOLT Growth Percentile: Forward-looking, multi-factor composite growth metric that measures the degree to which a company is likely to have higher or lower future cash flow growth than peers. Please refer to [HOLT Growth Percentile: Leveraging HOLT for Expected Growth](#) by HOLT Investment Strategy Team for more details

Universe: China: Screening Criteria: Market Capitalization (bil) between 2.0 and 5.0 and Warranted Upside - Downside (%) >= 20.0 and Growth Percentile >= 60.0 and Operational Quality Percentile >= 60.0 . Link: <https://holtlens.credit-suisse.com/dal/Ti4zyBr846oWTRX>

Source: Credit Suisse HOLT Lens™

## Screen #2: Quality growth mid-caps with decent HOLT upside (cont'd)

Name	Ticker	Market Cap, US\$bn	Sector	CFROI	3M CFROI Revisions	3M Rel. Return	Operational Quality Percentile	Growth Percentile	HOLT upside (%)	Investment Style	Analyst coverage
HANGZHOU SHUNWANG TECHNOLOGY CO LTD	300113	2.0	Information Technology	37.8	0.0	-25.7	100	85	337	Style Neutral	5
HITHINK FLUSH INFORMATION NETWORK CO LTD	300033	3.9	Information Technology	36.4	3.7	-14.9	97	89	146	Best in Class	7
BEIJING JETSEN TECHNOLOGY CO LTD	300182	3.6	Information Technology	26.2	0.0	-7.5	98	81	132	Contrarian	3
BEIJING ULTRAPOWER SOFTWARE CO LTD	300002	2.0	Information Technology	12.5	0.2	-18.9	74	89	96	Best in Class	2
JIANGSU TONGDING OPTIC-ELECTRONIC STOCK CO LTD	002491	2.4	Information Technology	11.8	-0.2	-10.0	79	96	88	Contrarian	3
HENG TONG OPTIC-ELECTRIC CO LTD	600487	5.0	Information Technology	12.2	-0.5	7.0	66	95	75	Style Neutral	9
LEYARD OPTOELECTRONIC CO LTD	300296	4.2	Information Technology	16.1	0.1	-16.0	77	99	59	Style Neutral	4
WANGSU SCIENCE & TECHNOLOGY CO LTD	300017	3.7	Information Technology	17.0	-3.1	-26.4	85	77	55	Contrarian	16
SHENZHEN EVERWIN PRECISION TECHNOLOGY COMPAN	300115	4.4	Information Technology	18.8	-0.1	8.3	82	96	48	Style Neutral	8
WUXI LEAD INTELLIGENT EQUIPMENT CO LTD	300450	4.0	Information Technology	23.9	0.6	40.1	99	100	24	Quality at any Price	12
SHENZHEN YUTO PACKAGING TECHNOLOGY CO LTD	002831	4.1	Materials	15.2	0.1	-6.3	96	95	59	Style Neutral	7
SHAN DONG SUN PAPER INDUSTRY JOINT STOCK CO LTD	002078	3.2	Materials	7.5	0.3	15.0	72	64	58	Best in Class	8
TONGKUN GROUP CO LTD	601233	2.8	Materials	6.0	0.2	2.2	72	62	51	Best in Class	7
TANGSHAN SANYOU CHEMICAL INDUSTRIES CO LTD	600409	3.4	Materials	7.5	0.3	17.6	65	70	47	Best in Class	8
HONGDA XINGYE CO LTD	002002	3.1	Materials	9.9	0.0	-2.4	90	94	44	Best in Class	4
CANGZHOU DAHUA CO LTD	600230	2.4	Materials	11.2	-3.6	52.9	77	96	36	Style Neutral	2
GUANGZHOU TINCI MATERIALS TECHNOLOGY CO LTD	002709	2.4	Materials	24.5	-0.6	19.7	100	98	31	Quality Trap	10
BEIJING ORIENTAL YUHONG WATERPROOF TECHNOLOGY	002271	4.8	Materials	16.8	0.1	29.1	96	93	21	Style Neutral	10
CHINA UNION HOLDINGS LTD	000036	2.2	Real Estate	13.3	0.5	43.5	95	100	71	Best in Class	2
SHANGHAI SMI HOLDING CO LTD	600649	4.0	Real Estate	7.7	0.0	-12.6	74	66	30	Contrarian	1
DR.PENG TELECOM & MEDIA GROUP CO LTD	600804	3.5	Telecommunication Serv	14.2	-0.4	-19.3	98	73	71	Contrarian	7
LUENMEI HOLDING CO LTD	600167	2.3	Utilities	13.2	-2.2	-6.2	100	95	88	Style Neutral	2

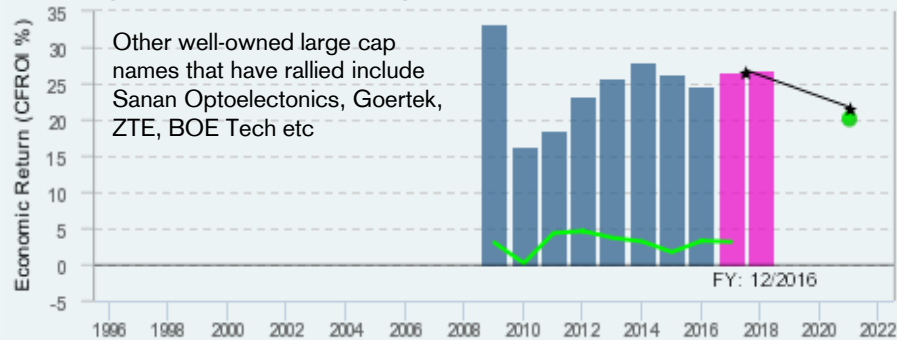
Universe: China: Screening Criteria: Market Capitalization (bil) between 2.0 and 5.0 and Warranted Upside - Downside (%) >= 20.0 and Growth Percentile >= 60.0 and Operational Quality Percentile >= 60.0 . Link: <https://holtlens.credit-suisse.com/dal/Ti4zyBr846oWTRX>

Source: Credit Suisse HOLT Lens™

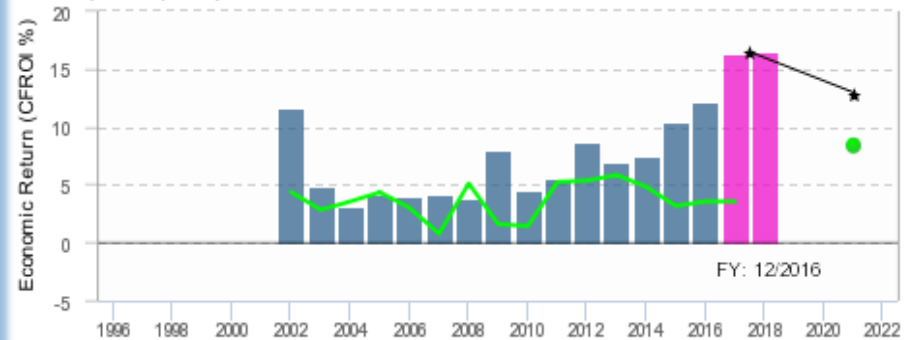
# Possible alternatives for well-owned large-cap names that have rallied

## Tech

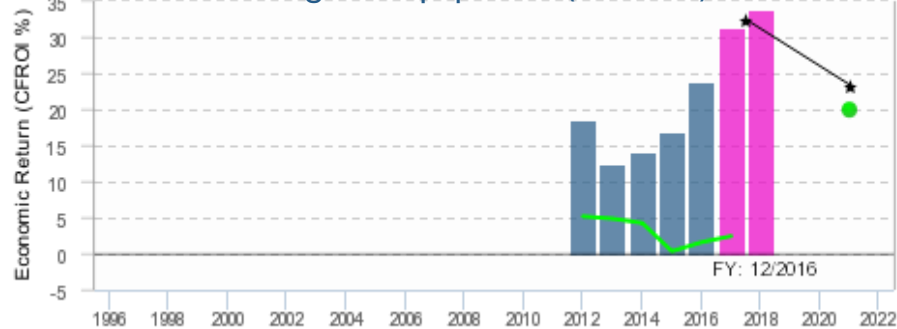
### Hangzhou Hikvision Digital (002415)



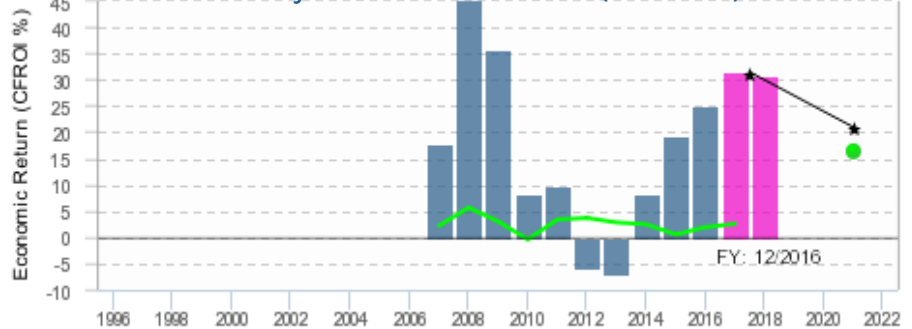
### Hengtong Optic-Electric (600487)



### Wuxi Lead Intelligent Equipment (300450)



### Shenzhen Sunway Communications (300136)



	Hangzhou Hikvision Digital	Hengtong Optic-Electric	Shenzhen Sunway Communications	Wuxi Lead Intelligent Equipment
Market Cap (US\$bn)	40.5	5.1	5.5	4.0
Sub-industry	Electronic Equipment	Communications Equipment	Electronic Manufacturing Services	Communications Equipment
Accounting Quality	Above Average	Average	Average	Below Average
Probability of Default	0%	0%	0%	0%

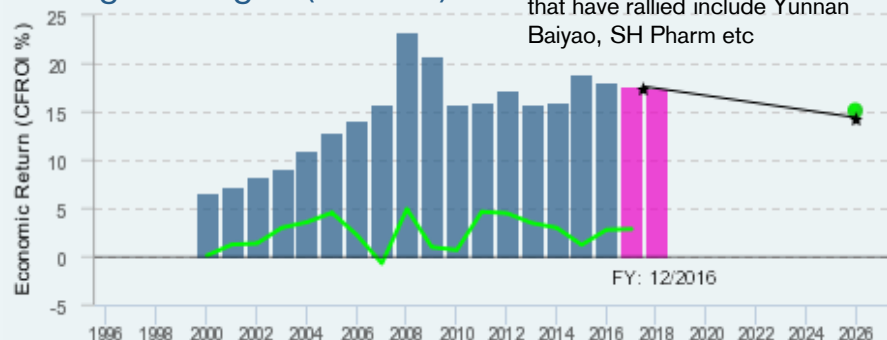
Source: Credit Suisse HOLT Lens™

# Possible alternatives for well-owned large-cap names that have rallied

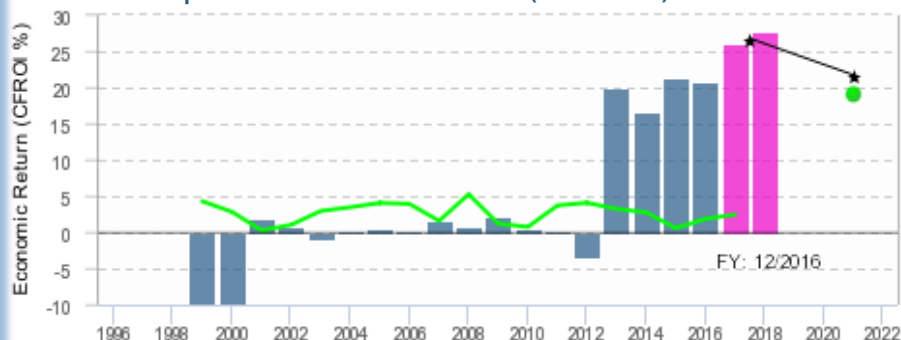
## Healthcare

### Jiangsu Hengrui (600276)

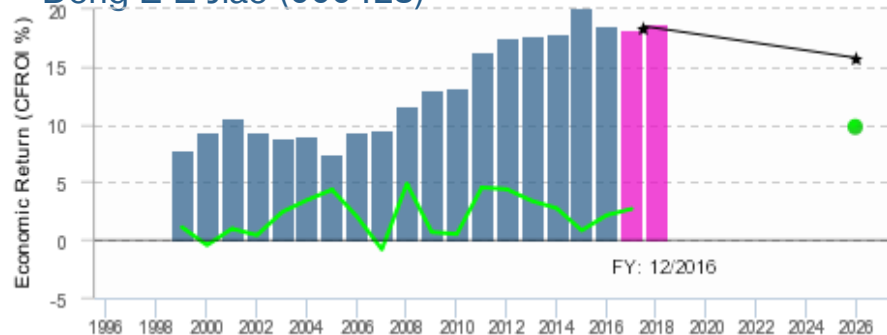
Other well-owned large cap names that have rallied include Yunnan Baiyao, SH Pharm etc



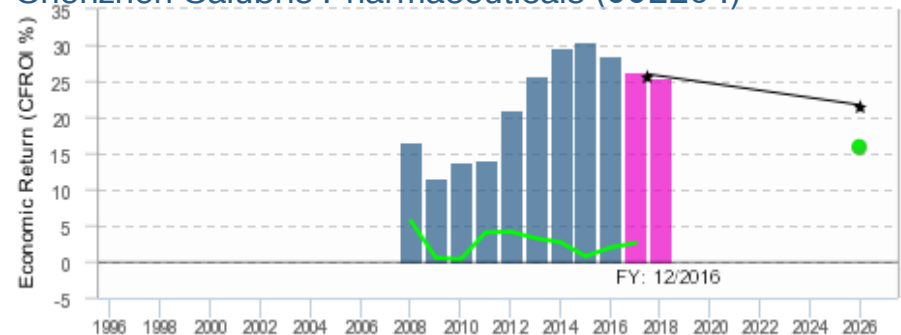
### Hubei Jumpcan Pharmaceutical (600566)



### Dong E-E-Jiao (000423)



### Shenzhen Salubris Pharmaceuticals (002294)\*



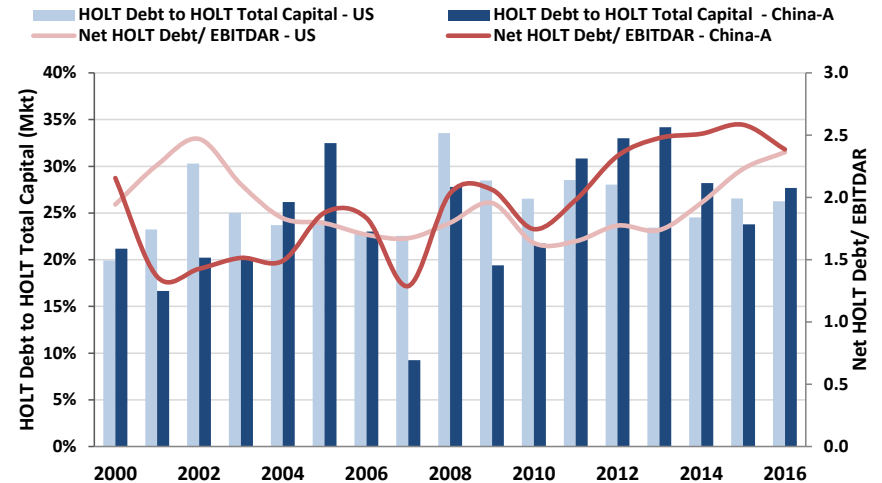
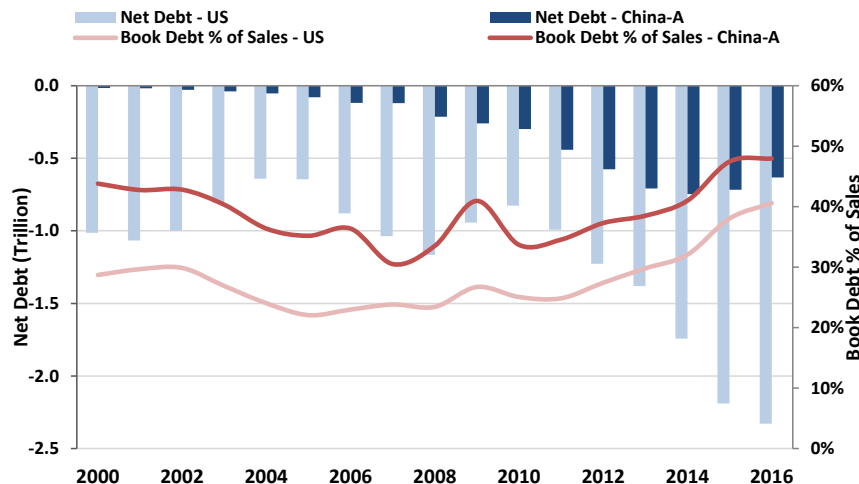
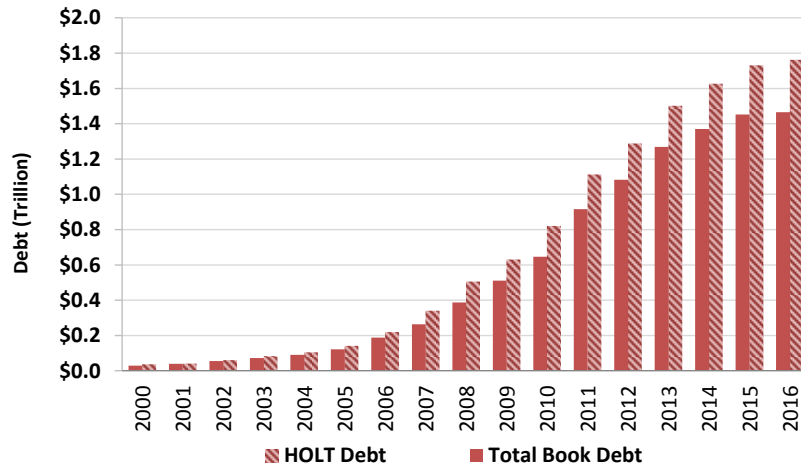
	Jiangsu Hengrui	Dong E-E-Jiao	Hubei Jumpcan Pharmaceutical	SZ Salubris Pharmaceutical
Market Cap (US\$bn)	21.0	6.2	4.1	5.0
Sub-industry	Pharmaceuticals	Pharmaceuticals	Pharmaceuticals	Pharmaceuticals
Accounting Quality	Good	Good	Good	Good
Probability of Default	0%	0%	0%	0%

Note: \* appear in multiple screens on page 11, 19-20, 25-26. Source: Credit Suisse HOLT Lens™

## **Shock absorbers with solid balance sheet**

# Net cash in China-A remains negative as aggregate debt grows at much faster pace than aggregate cash balances

China A-share Leverage Trend



HOLT's Debt & Equivalents is adjusted to include often overlooked obligations of a firm, such as pensions, off-balance sheet operating leases and stock option claim. Total Capital is market cap + debt + minority interest

While the absolute level of debt for China lags that of US, the proportion of debt in China's books is more alarming (higher book debt % of sales). Having said that, net debt level subsided in 2016 (in contrast to US/Europe), reaching \$631 mn in 2016



## Screen #3: Shock absorbers with solid balance sheet and high coverage ratio

Name	Ticker	Market Cap, US\$bn	Sector	CFROI	3M CFROI Revisions	3M Rel. Return	Leverage at Market (%)	Fixed Charge Coverage	HOLT upside (%)	Investment Style	Analyst coverage
WUHU SHUNRONG SANQI INTERACTIVE ENTERTAINMENT	002555	7.5	Consumer Discretionary	40.7	-0.3	7.2	1.3	3.8	211	Style Neutral	6
JOYOUNG COMPANY LIMITED	002242	2.0	Consumer Discretionary	19.1	0.0	-10.5	0.9	1.3	84	Style Neutral	9
LONCIN MOTOR CO LTD	603766	2.4	Consumer Discretionary	11.3	0.3	-9.6	6.6	1.6	64	Best in Class	4
HANGZHOU ROBAM APPLIANCES CO LTD	002508	5.7	Consumer Discretionary	26.8	0.7	-6.3	0.4	1.6	49	Best in Class	17
GREE ELECTRIC APPLIANCES, INC OF ZHUHAI	000651	35.0	Consumer Discretionary	26.7	0.9	16.8	1.1	1.2	43	Best in Class	18
ZHEJIANG WANFENG AUTO WHEEL CO LTD	002085	5.5	Consumer Discretionary	13.8	0.0	-3.2	5.5	1.3	30	Style Neutral	4
LEO GROUP CO LTD	002131	2.5	Consumer Discretionary	12.7	0.0	-15.6	8.0	2.4	18	Style Neutral	6
SONGCHENG PERFORMANCE DEVELOPMENT CO LTD	300144	4.2	Consumer Discretionary	19.4	0.2	-4.3	1.3	1.5	16	Style Neutral	13
MIDEA GROUP CO LTD	000333	39.5	Consumer Discretionary	19.5	0.0	19.9	8.5	1.8	13	Best in Class	24
GUANGDONG HAID GROUP CO LTD	002311	4.3	Consumer Staples	11.6	-0.4	2.3	6.0	1.3	-10	Style Neutral	7
WULIANGYE YIBIN CO LTD	000858	31.4	Consumer Staples	11.8	0.1	19.4	1.4	2.0	-20	Style Neutral	23
DONG-E-E-JIAO CO LTD	000423	6.2	Health Care	18.6	0.1	-7.5	0.8	1.8	58	Best in Class	17
HUADONG MEDICINE COMPANY LIMITED	000963	6.7	Health Care	17.0	0.1	1.3	4.8	1.3	49	Best in Class	12
SHENZHEN SALUBRIS PHARMACEUTICALS CO LTD	002294	5.0	Health Care	28.6	-0.3	8.4	0.2	1.5	48	Style Neutral	11
JINYU BIO-TECHNOLOGY CO LTD	600201	3.0	Health Care	16.5	-0.3	-7.0	0.0	4.5	46	Style Neutral	7
CHINA RESOURCES SANJIU MEDICAL & PHARMACEUTICALS	000999	4.2	Health Care	15.8	0.2	-1.3	3.9	2.1	34	Style Neutral	10
REALCAN PHARMACEUTICAL CO LTD	002589	3.4	Health Care	9.2	0.3	-19.7	14.4	1.5	28	Style Neutral	8
CHINA RESOURCES DOUBLE-CRANE PHARMACEUTICAL	600062	2.7	Health Care	10.0	-0.1	2.7	0.6	2.9	22	Style Neutral	9
CHANGCHUN HIGH NEW TECHNOLOGY INDUSTRIES (GROUP) CO LTD	000661	3.1	Health Care	14.1	0.2	5.6	0.8	1.7	19	Style Neutral	13
SHANGHAI PHARMACEUTICAL COMPANY LIMITED	601607	10.0	Health Care	8.1	0.1	2.3	18.7	1.3	14	Restructuring	13
YUNNAN BAIYAO GROUP CO., LTD.	000538	13.6	Health Care	15.4	-0.2	0.6	4.1	3.2	8	Style Neutral	11
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS	600332	6.5	Health Care	8.2	-0.1	-6.5	2.0	1.5	-6	Style Neutral	8
JIANGSU YUYUE MEDICAL EQUIPMENT & SUPPLY CO LTD	002223	2.8	Health Care	9.3	0.0	-19.5	2.7	1.4	-13	Style Neutral	17

Universe: China: Screening Criteria: Market Capitalization (bil)  $\geq$  2.0 USD and Leverage at Market (%) FY1  $<$  20.0 and Fixed Charge Coverage Ratio (HOLT) FY1  $\geq$  1.2 and Accounting Quality - Overall Rank not in Poor and Probability of Default Estimate FY1  $\leq$  0.0 and Momentum Percentile  $\geq$  40.0 and CFROI LFY  $\geq$  8.0 and Valuation Percentile  $\geq$  40.0 and EPS # of Analysts Coverage - FY1  $\geq$  3.0. Link: <https://holtlens.credit-suisse.com/dal/ThZ7NrTmG8i6ZR5>  
Source: Credit Suisse HOLT Lens™

## Screen #3: Shock absorbers with solid balance sheet and high coverage ratio

Name	Ticker	Market Cap, US\$bn	Sector	CFROI	3M CFROI Revisions	3M Rel. Return	Leverage at Market (%)	Fixed Charge Coverage	HOLT upside (%)	Investment Style	Analyst coverage
JIANGSU GUOTAI INTERNATIONAL GROUP GUOMAO CO., L	002091	2.5	Industrials	12.3	0.3	3.0	17.2	3.0	168	Best in Class	3
SHENWU ENVIRONMENTAL TECHNOLOGY CO LTD	300156	3.6	Industrials	19.7	0.0	-28.4	7.0	1.7	149	Best in Class	4
CHINA CAMC ENGINEERING CO LTD	002051	3.6	Industrials	16.2	0.1	-12.0	2.2	2.9	76	Best in Class	7
XJ ELECTRIC COMPANY LIMITED	000400	2.5	Industrials	9.6	-0.1	-7.0	7.1	2.1	75	Style Neutral	17
SHANDONG HIMILE MECHANICAL SCIENCE & TECHNOLOG	002595	2.5	Industrials	19.9	0.0	-7.0	0.1	1.6	68	Style Neutral	5
FUJIAN LONGKING CO LTD	600388	2.3	Industrials	15.9	0.1	-9.6	4.9	1.5	61	Best in Class	3
BEIJING ORIENT LANDSCAPE & ENVIRONMENT CO LTD	002310	6.8	Industrials	12.3	-0.3	-6.4	15.1	2.2	3	Style Neutral	6
CHINA MEDICINE HEALTH INDUSTRY CO LTD	600056	3.8	Industrials	11.6	0.0	-4.8	9.7	2.7	-12	Style Neutral	7
HANGZHOU SHUNWANG TECHNOLOGY CO LTD	300113	2.0	Information Technology	37.8	0.0	-25.7	0.4	2.3	337	Style Neutral	5
HITHINK FLUSH INFORMATION NETWORK CO LTD	300033	3.9	Information Technology	36.4	3.7	-14.9	0.3	1.8	146	Best in Class	7
SHENZHEN SUNWAY COMMUNICATION CO LTD	300136	5.6	Information Technology	25.2	0.3	4.8	1.9	3.2	79	Style Neutral	11
LEYARD OPTOELECTRONIC CO LTD	300296	4.2	Information Technology	16.1	0.1	-16.0	10.9	1.9	59	Style Neutral	4
FOCUS MEDIA INFORMATION TECHNOLOGY CO LTD	002027	16.1	Information Technology	41.0	0.1	-3.2	1.1	2.3	44	Style Neutral	10
HOLITECH TECHNOLOGY CO LTD	002217	4.4	Information Technology	10.0	0.0	-1.5	15.5	1.5	17	Style Neutral	3
LONGI GREEN ENERGY TECHNOLOGY CO LTD	601012	6.6	Information Technology	12.6	0.4	20.7	13.0	1.5	9	Style Neutral	18
ANHUI CONCH CEMENT COMPANY LIMITED	600585	19.1	Materials	8.6	0.4	9.5	11.8	1.3	97	Best in Class	21
SHENZHEN YUTO PACKAGING TECHNOLOGY CO LTD	002831	4.1	Materials	15.2	0.1	-6.3	7.7	1.5	59	Style Neutral	7
BEIJING SANJU ENVIRONMENTAL PROTECTION & NEW M	300072	8.2	Materials	16.0	0.0	-18.7	12.3	1.8	52	Best in Class	4
SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITE	600688	10.9	Materials	8.9	0.3	0.1	0.7	2.2	28	Style Neutral	14

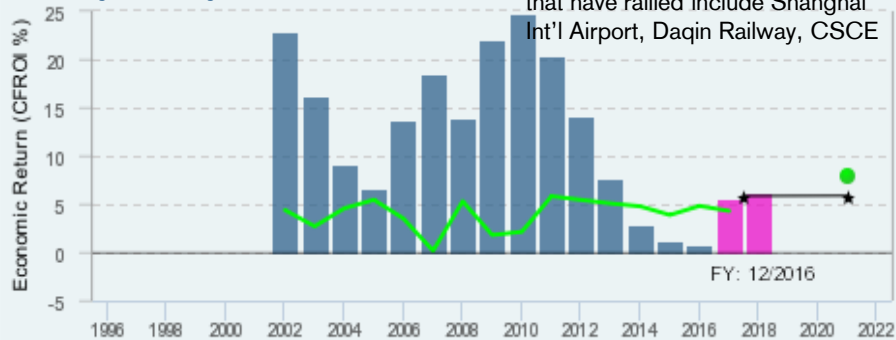
Universe: China: Screening Criteria: Market Capitalization (bil)  $\geq$  2.0 USD and Leverage at Market (%) FY1  $<$  20.0 and Fixed Charge Coverage Ratio (HOLT) FY1  $\geq$  1.2 and Accounting Quality - Overall Rank not in Poor and Probability of Default Estimate FY1  $\leq$  0.0 and Momentum Percentile  $\geq$  40.0 and CFROI LFY  $\geq$  8.0 and Valuation Percentile  $\geq$  40.0 and EPS # of Analysts Coverage - FY1  $\geq$  3.0. Link: <https://holtlens.credit-suisse.com/dal/ThZ7NrTmG8i6ZR5>  
Source: Credit Suisse HOLT Lens™

# Possible alternatives for well-owned large-cap names that have rallied

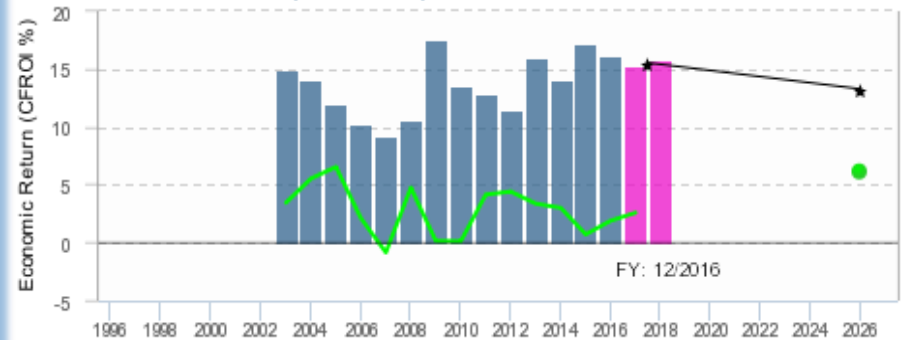
## Industrials

### Sany Heavy (600031)

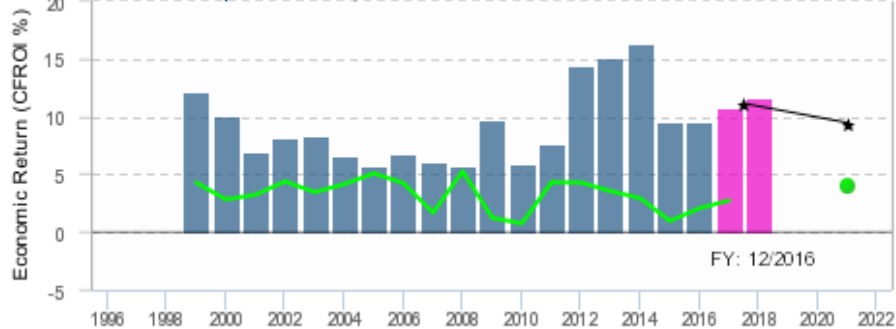
Other well-owned large cap names that have rallied include Shanghai Int'l Airport, Daqin Railway, CSCE



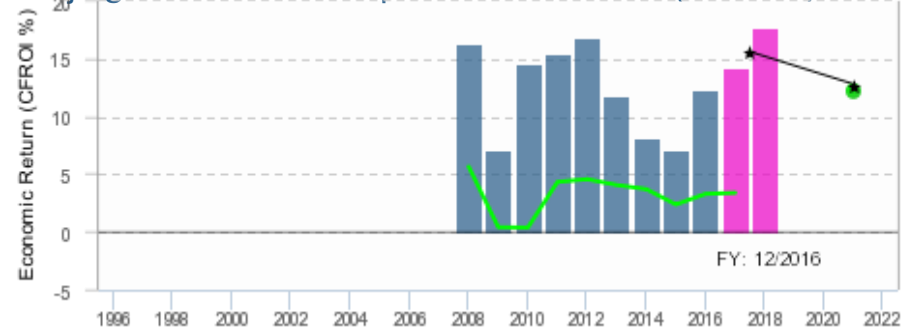
### China CAMC Engineering (002051)\*



### XJ Electric (000400)



### Beijing Orient Landscape & Environment (002310)



	Sany Heavy	Beijing Orient Landscape & Env.	China CAMC Engineering	XJ Electric
Market Cap (US\$bn)	10.0	6.5	3.5	7.3
Sub-industry	Construction Machinery	Research & Consulting Services	Construction & Engineering	Construction Machinery
Accounting Quality	Poor	Average	Good	Good
Probability of Default	0%	0%	0%	0%

Note: \* appear in multiple screens on page 11, 19-20, 25-26. Source: Credit Suisse HOLT Lens™

# Possible alternatives for well-owned large-cap names that have rallied

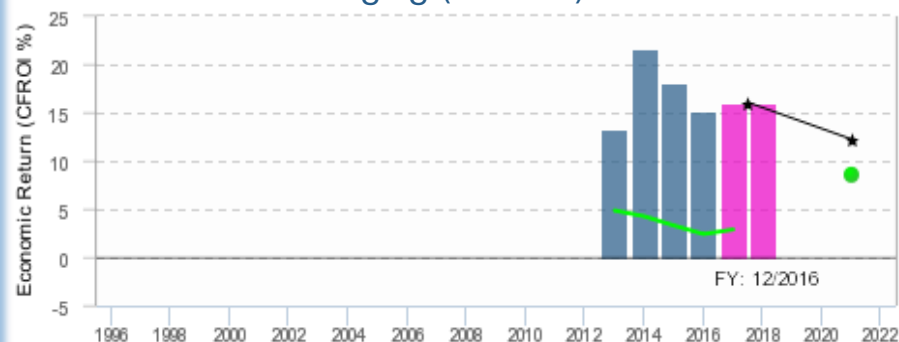
## Materials

### Wanhua Chemical (600309)

Other well-owned large cap names that have rallied include Baosteel, China Molybdenum, Maanshan Iron & Steel, Chalco



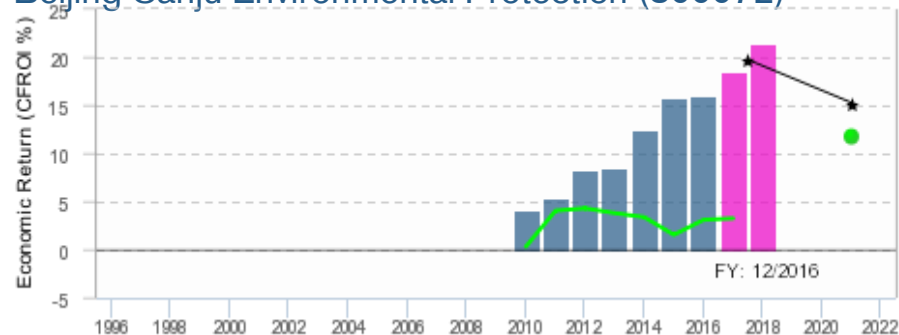
### Shenzhen Yuto Packaging (002831)\*



### Beijing Oriental Yuhong Waterproof (002271)



### Beijing Sanju Environmental Protection (300072)



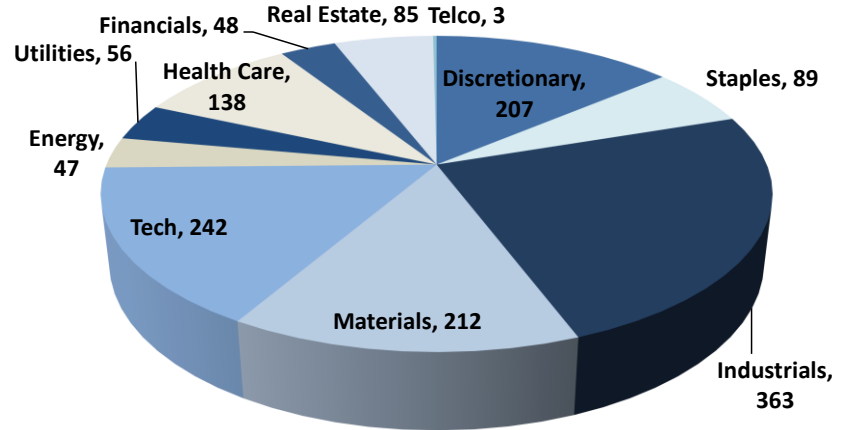
	Wanhua Chemical	BJ Oriental Yuhong Waterproof	BJ Sanju Environmental Protection	Shenzhen Yuto Packaging
Market Cap (US\$bn)	14.0	4.6	8.0	4.0
Sub-industry	Specialty Chemicals	Construction Materials	Commodity Chemicals	Paper Packaging
Accounting Quality	Good	Average	Above Average	Below Average
Probability of Default	0%	0%	0%	0%

Note: \* appear in multiple screens on page 11, 19-20, 25-26. Source: Credit Suisse HOLT Lens™

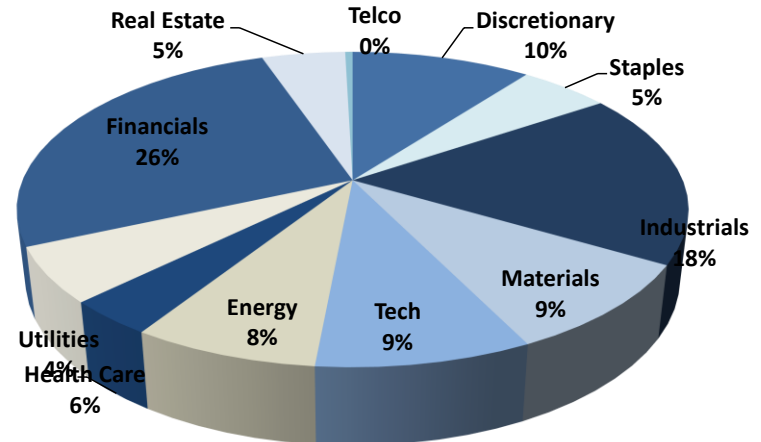
## Appendix 1: HOLT China A-share Current Coverage and Enhancements

- HOLT has maintained a China A-share database for over a decade. To address the Shanghai-Hong Kong Stock Connect and the upcoming Shenzhen-Hong Kong Stock Connect initiatives, HOLT has ramped up the coverage of A-share companies since 2014, bringing the total to over 1,500 companies and providing almost 100% coverage (by market cap) of the CSI 300, SSE 180, SSE 380, SICOM and SZSE 500 stock indices.
- Of the 1,500 companies, almost 650 of them are listed on the Shanghai Stock Exchange, while another 850 names are listed on Shenzhen Stock Exchange.
- Eligible stocks for northbound trade include the Shenzhen Stock Exchange Component Index (SICOM), and the SZSE Small/Mid Cap Innovation Index with market capitalisation greater than RMB6 bn.

HOLT China A-share Coverage (# of Companies)



HOLT China A-share Coverage (# of Companies)



## Appendix 2: HOLT Investment Styles

	Operational Quality	Momentum	Valuation
Best in Class	Good	Strong	Cheap
Contrarian	Good	Weak	Cheap
Restructuring	Poor	Strong	Cheap
Quality at Any Price	Good	Strong	Expensive
Value Trap	Poor	Weak	Cheap
Quality Trap	Good	Weak	Expensive
Momentum Trap	Poor	Strong	Expensive
Worst in Class	Poor	Weak	Expensive
<b>Key:</b>		Top 40 %	Bottom 40 %

### Operational Quality

#### CFROI®

Cash Flow Return on Investment for the last reported year. The ratio of gross cash flow to gross investments translated into an internal rate of return recognizing the finite economic life of depreciating assets and the residual value of non-depreciating assets. This screening item is the CFROI calculated for the last reported fiscal year. The better the Return on Investment, the higher the score.

#### Managing for Value

Managing For Value comprises the CFROI® – Discount Rate spread multiplied by the Real asset growth (inflation adjusted gross investments). The aim is to identify whether the company's growth is 'good' or sustainable growth. Companies score highly that are either growing real assets if the spread is positive, or shrinking assets if the spread is negative.

#### Change in Value Creation

Change in Value Creation measures the improvement in 'economic profit' in the last reported year compared with the previous year. A positive trend with low variation will get a higher score.

### Momentum

#### CFROI® Key Momentum, 13-wk

The CFROI® key momentum measures the improvement in CFROI® that follow any changes in underlying consensus earnings revisions. Higher percentage points receive a higher score.

#### Price Momentum (52-week)

Price Momentum (1 year) measures the percentage change in market value over past 52 weeks. Share price outperformance gets a higher score.

#### Daily Liquidity Average

Daily Liquidity Average measures the number of shares traded for the last quarter divided by 63 trading days multiplied by the current week-end price, divided by market cap. Increased trading volume can be an indicator of increased interest in the stock. The higher the number, the better the score.

### Valuation

#### % Change to Best Price

The percentage difference between the HOLT Default Forecast Warranted Value and the past week's closing share price. A high percentage upside improves the score.

#### Economic P/E

Enterprise Value over Net Assets, divided by CFROI®. A lower multiple achieves a higher score. Negative multiples receive a score of 1.

#### Value/Cost

Enterprise Value over Net Assets. A lower multiple achieves a higher score.

#### Dividend Yield (FY1E Div / Current Price)

Consensus mean dividend for the first forecast year, divided by the latest share price. The higher the yield, the higher the score.

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