

Morning Notes

What's catching our eyes...

□ Cogobuy Group (0400 HK): A product of fruitful M&A

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What's new: Last Tuesday, Cogobuy Group ("Cogobuy") kicked off its IPO to be listed on the HK Exchange this Friday. The company is a leading e-commerce company dedicated to serving the electronics manufacturing industry in China. Their products include connectors, digital-to-analog converters (DACs), diodes and transistors, and other electronic components. As well, Cogobuy also operates the largest transaction-based e-commerce platform for electronic components in China

The company sells their products primarily through its direct sales platform, which accounts for nearly all of the company's revenue. In FY12/13, the company recorded revenue of RMB2,417.3m (of which 98.9% came from its direct sales online platform), a 1,112.9% YoY increase; gross profit of RMB202.1m, a 277.1% YoY increase with gross margin of 8.4%; and profit attributable to shareholders of RMB82.1m, a 177.4% YoY increase.

Cogobuy was established February 2012 and did not carry out any business activities before acquiring the subsidiaries from Viewtran on Nov 2012. At that time the company then acquired Total Dynamic Entities with its Cogobuy.com e-commerce platform on February 2013.

Therefore, its historical financial data cannot reflect all of its operating performance. Even though its operating history is less than three years, it still can be listed on the main board by passing the market capitalization test, given the fact that its market capitalization after its IPO will exceed HKD4.0b, exceeding the listing threshold of the HK Exchange.

Our views: The electronic components industry is dispersed around the globe. For high-end components manufacturing companies in the upstream, the market has been dominated by a few US and Europe-based players, like Xilinx, Intel, and Broadcom. These globally branded suppliers sell their products directly to manufacturers through a limited number of large distributors. But in terms of downstream players, the number of electronics manufacturers (buyers of electronic components) is around 3.0 million around the world but only approximately 3000 are blue-chip companies. Accordingly, SME electronic manufactures have played an important role in the sales of electronic components. For Cogobuy, it sources the components it uses from approximately 500 suppliers, including some of the top brand-name suppliers in their respective categories.

Cogobuy focuses itself on both blue-chip companies and SMEs. In FY12/13, approximately 51.0% of its Gross Merchandise Volume (GMV) came from blue-chip customers while 49.0% came from SME clients. For the online transaction-based electronic components industry in China, the market capitalization reached RMB7.1b in 2013, as measured by amount of sales. In 2013, Cogobuy, as the largest player in this industry, commanded market share of around 55.1%, compared with Alibaba, which accounted for only 6.1% of the market in the same period.

At a trading price of HKD4.00, the company is trading at a P/E of 53.5x for FY12/13. Approximately HKD1,309.0m will be raised from its IPO, of which 35.0% will be used to expand its marketing and promotion; 30.0% will be used to promote its e-commerce platform; and 25.0% will be used for potential M&As.

Macro

China announced that its GDP grew by 7.5% YoY in the second quarter this year, surpassing the market expectation of a 7.4% gain. Year-to-date, China GDP climbed 7.4% YoY, in line with the market expectation.

Corporate News (sourced from HKEx)...

Consumer

China Agroforestry Low-Carbon (1069 HK) – announced the company will place up to 94.1m new shares, which represents 20.0% of the existing share capital of the company, at a placing price of HKD1.65 per new share, which represents 10.8% discount to the last closing price. The company is expected to obtain net proceeds of HKD155.2m from the placing and the company intends to use the proceeds for the purpose of investment in biofuel projects, repayment of loans and general working capital

Financials

Simsen International (0993 HK) – announced its positive profit alert for FY04/14. During the period, the company is expected to record a net profit as compared to a net loss in FY04/13. The turnaround is primarily due to the increases in the revenue from its money lending, finance lease and pawn loan business segment and change in fair value on financial

assets held by the company. The company recorded net loss attributable to shareholders of HKD56.9m in FY04/13.

Property

Midland Holdings (1200 HK) – announced that the loss of the company in 1H FY12/14 may be reduced by more than 50.0% compared with 1H FY12/13. The reduce in loss is due to i) the increase in the primary residential sales transaction in HK; ii) its strengthened market position in the primary residential market in HK; and iii) effective cost control implemented by the company. The company recorded net loss attributable to shareholders of HKD88.7m in 1H FY12/13.

Other

Enterprise Development (1808 HK) – announced a positive profit alert for 1H FY12/14. During the period, the company is expected to record a net profit as compared to a net loss in 1H FY12/13. The turnaround was attributable to the unrealized gain on trading securities in an amount of approximately HKD36.0m during the period. The company recorded a net loss attributable to shareholders of RMB5.0m in 1H FY12/13.

Upcoming events

Date	Company	Ticker	Events
17/07/2014	China Bio-Med Regeneration Technology Ltd	8158 HK	Y 2014 result announcement
18/07/2014	Public Financial Holdings Ltd	626 HK	S1 2014 result announcement
	Vinda International Holdings Ltd	3331 HK	S1 2014 result announcement
21/07/2014	Pearl River Tyre Holdings Ltd	1187 HK	Y 2013 result announcement
	HK Electric Investments & HK Electric Investments Ltd	2638 HK	S1 2014 result announcement
22/07/2014	CK Life Sciences International Holdings Inc	775 HK	S1 2014 result announcement
23/07/2014	Xinyi Glass Holdings Ltd	868 HK	S1 2014 result announcement
	Hui Xian Real Estate Investment Trust	87001 HK	S1 2014 result announcement
	ASM Pacific Technology Ltd	522 HK	Q2 2014 result announcement
24/07/2014	Power Assets Holdings Ltd	6 HK	S1 2014 result announcement
	WLS Holdings Ltd/Hong Kong	8021 HK	Y 2014 result announcement
	Cheung Kong Infrastructure Holdings Ltd	1038 HK	S1 2014 result announcement
	International Housewares Retail Co Ltd	1373 HK	Y 2014 result announcement

Source: Bloomberg

Coverage Summary

Company	Ticker	Latest update	Rating	Target (HK\$)	Spot (HK\$)	Market cap (US\$m)	Fiscal year end	Target P/E (x) Current	1-Yr	2-Yr	Consensus P/E (x) Current	1-Yr	2-Yr	ROE (%)
China Huishan Dairy	6863 HK	8/7/2014	BUY	2.92	1.83	3401.8	03/2014	13.3	11.3	8.6	14.6	15.6	12.1	13.1
Oi Wah Pawnshop Credit Holdings	1319 HK	28/5/2014	BUY	3.10	1.45	84.2	02/2014	14.0	7.1	4.7	13.9	n.a.	7.3	13.8
China Everbright Int'	257 HK	11/3/2014	HOLD	10.80	11.28	6525.4	12/2013	37.6	30.5	24.0	34.6	28.7	22.4	12.2
Cortec Solar	712 HK	26/3/2013	HOLD	1.40	1.29	231.6	12/2013	11.9	8.1	6.4	n.a.	24.0	13.4	-8.9
Chu Kong Pipe	1938 HK	2/4/2013	BUY	5.49	2.67	348.3	12/2013	5.6	4.4	n.a.	52.4	23.5	11.2	1.4
IRC	1029 HK	14/3/2013	HOLD	1.26	0.68	426.4	12/2013	n.a.	n.a.	n.a.	n.a.	n.a.	17.5	-8.4
Larry Jew elry	8351 HK	9/11/2012	BUY	1.05	0.098	35.5	12/2013	1.4	1.4	1.4	n.a.	n.a.	n.a.	-42.0
Leoch Int'l	842 HK	5/2/2013	HOLD	1.03	1.89	326.2	12/2013	7.6	5.8	n.a.	n.a.	n.a.	n.a.	-5.7
Tongda	698 HK	18/3/2013	BUY	0.63	1.18	832.0	12/2013	14.0	9.8	7.6	15.8	12.7	10.0	15.8
Technovator	1206 HK	2/8/2013	BUY	2.80	3.79	265.0	12/2013	16.0	13.4	11.4	14.8	12.2	9.4	19.8

Source: Bloomberg, SBI China Capital

Research archive

Date	Company	Ticker	Rating	Report (click title to get full report)	Analyst
09/07/14	China Huishan Dairy	6863 HK	BUY	A ripe patch for China's vertically integrated dairy company	David Li
18/06/14	Town Health	3886 HK	Not rated	Expanding at full speed via M&A	SBI Research
30/05/14	China Huishan Dairy	6863 HK	Not rated	A shining beacon amongst its peers	David Li
27/05/14	Oi Wah Pawnshop	1319 HK	BUY	Delivered satisfactory FY02/14 results	SBI Research
23/05/14	TCEPG	1065 HK	Not rated	Adopting a conservative expansion plan	Nelson Lee
20/05/14	China Print Power Group	6828 HK	Not rated	Diversifying into the gas business in China	SBI Research
16/05/14	Renrendai	/	Not rated	P2P finance: Attracts both investors and fundraisers with its business model	David Li
07/05/14	Uni-President China Ltd.	220	Not Rated	A defensive stock that warrants our attention	David Li
28/04/14	CSR Corporation Ltd.	1766 HK	Not Rated	An opportunity along a risk in front	David Lee
14/04/14	Jiangnan Group	1366 HK	Not Rated	Benefitting from increased UHV power grid development in China	Nelson Lee
03/04/14	Tibet 5100 Water Resources	1115 HK	Not Rated	Concerns regarding renewal of contract with China Railway Express	Nelson Lee
11/03/14	China Everbright Int'	0257 HK	HOLD	Another fruitful year to come	Nelson Lee
07/03/14	Oi Wah Pawnshop	1319 HK	BUY	Prospects heating up for alternative lenders	David Lee
18/02/14	RM Group	8185 HK	Not Rated	Get Ready for a fruitful 2014!	Nelson Lee
19/12/13	China Print Power Group	6828 HK	Not Rated	Diversify into China gas business	SBI Research
20/11/13	Paradise Entertainment	1185 HK	Not Rated	Ruling Multiple Games	SBI Research
19/11/13	RM Group	8185 HK	Not Rated	Turning Health Supplements into Healthy Earnings	SBI Research
28/10/13	Ping Shan Tea Group	0364 HK	Not Rated	Diversify into tea business	Nelson Lee
25/09/13	CW Group	1322 HK	Not Rated	Setting its way to tap China market	Nelson Lee
06/09/13	China Everbright Int'	0257 HK	BUY	Turning Trash into Treasure	Nelson Lee
02/09/13	CITIC Telecom	1883 HK	Not Rated	Termination of coverage	Kant Leung
08/08/13	Pearl Oriental Oil	0632 HK	Not Rated	Earning accretive oilfield acquisition	SBI Research
02/08/13	Technovator	1206 HK	BUY	Energy-savings: Watt a deal!	Kant Leung
16/07/13	Zhongsheng	2623 HK	Not Rated	Strong reserve fogged by near-term uncertainty	Kant Leung
16/07/13	China Everbright Int'	0257 HK	Not Rated	Positive profit alert not a surprise	Nelson Lee
21/05/13	China Fiber Optic	3777 HK	Not Rated	Termination notice	Kevin Mak
10/05/13	CW Group	1322 HK	Not Rated	One-stop precision engineering solutions provider	Kevin Mak
23/04/13	M Dream Inworld	8100 HK	Not Rated	Web security software backed by IDG and Tencent	SBI Research

05/04/13	OTO Holdings	6880 HK	Not Rated	<u>Attractive valuation for entry</u>	Isaac Lau
05/04/13	SBI strategy 1Q13	--	--	<u>SBI strategy 2Q13</u>	SBI Research
02/04/13	China Fiber Optic	3777 HK	BUY	<u>Distressed valuation opportunity</u>	Kevin Mak
02/04/13	China Solar	0155 HK	Not Rated	<u>Green solution to food safety concern</u>	SBI Research
02/04/13	Chu Kong Pipe	1938 HK	BUY	<u>At the beginning of a bull market</u>	Isaac Lau
26/03/13	Comtec Solar	0712 HK	HOLD	<u>Concern over new leadership in China</u>	Kevin Mak
25/03/13	China Fiber Optic	3777 HK	BUY	<u>Clarification on media coverage</u>	Kevin Mak
22/03/13	Tontine	0389 HK	BUY	<u>Profit drop on weak ASP in 2H</u>	SBI Research
18/03/13	Tongda	0698 HK	BUY	<u>Margin expansion may continue</u>	Kevin Mak
14/03/13	Legend Strategy	8160 HK	Not Rated	<u>FY12/12A result update</u>	SBI Research
14/03/13	IRC	1029 HK	HOLD	<u>Operating loss in FY12/12A as expected</u>	Isaac Lau
08/03/13	Wealth Glory	8269 HK	Not Rated	<u>Strategic Resources Trading Hub</u>	SBI Research
04/03/13	Sun International	8029 HK	Not Rated	<u>Major technological breakthrough</u>	SBI Research
01/03/13	Hosa International	2200 HK	Not Rated	<u>Stand out from the sportswear industry strait</u>	SBI Research
15/02/13	CITIC Telecom	1883 HK	BUY	<u>Transformation to telecom service provider</u>	Kevin Mak
05/02/13	Leoch International	0842 HK	HOLD	<u>Anhui operation to be improved</u>	Kevin Mak
29/01/13	New Times Energy	0166 HK	Not Rated	<u>From exploration towards production in 2013</u>	SBI Research
24/01/13	Sunley Holdings	1240 HK	Not Rated	<u>Construction bloom ahead</u>	SBI Research
16/01/13	IRC	1029 HK	HOLD	<u>Rally in price is yet to form a turnaround in 13F result</u>	Isaac Lau
09/01/13	China Fiber Optic	3777 HK	BUY	<u>Recent pressure from export sales</u>	Kevin Mak
02/01/13	SBI strategy 1Q13	--	--	<u>SBI strategy 1Q13</u>	SBI Research
27/12/12	Tongda	698 HK	BUY	<u>Bringing in strategic investor</u>	Kevin Mak
30/11/12	Sunshine Paper	2002 HK	Not Rated	<u>Paper board supplier for F&B package manufacturer</u>	Isaac Lau
28/11/12	SBI strategy 4Q12	--	--	<u>SBI strategy 4Q12</u>	SBI Research
12/11/12	Comtec Solar	0712 HK	BUY	<u>Sufficient cash and cash flow to repurchase CB</u>	Kevin Mak
09/11/12	Larry Jewelry	8351 HK	BUY	<u>Shining luster in a raw stone</u>	SBI Research
09/11/12	Chiho-Tiande	0976 HK	Not Rated	<u>Copper recycler resuming profitability</u>	SBI Research
07/11/12	Legend Strategy	8160 HK	Not Rated	<u>Quality accommodation at an affordable rate</u>	Isaac Lau
26/10/12	China Oriental Culture	2371 HK	Not Rated	<u>Competitive solution to professional training</u>	SBI Research
18/10/12	Brilliant Circle	1008 HK	Not Rated	<u>Stand out from the crowd</u>	Isaac Lau
18/10/12	IRC	1029 HK	HOLD	<u>Rocky Mountain Way</u>	Isaac Lau
10/10/12	Singyes Solar	0750 HK	Not Rated	<u>BIPV construction engineering that matters</u>	Kevin Mak
27/09/12	NewOcean Energy	0342 HK	Not Rated	<u>Gas business continues to drive growth</u>	Kevin Mak
24/09/12	Asian Citrus	0073 HK	Not Rated	<u>12A year end result recorded solid core earnings growth</u>	SBI Research

Source: SBI China Capital

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BUY	: absolute upside of >10% over the next six months
HOLD	: absolute return of -10% to +10% over the next six months
SELL	: absolute downside of >10% over the next six months

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