CGIS Yum Cha Daily

RESEARCH NOTES

TMT INDUSTRIAL INTERNET - In this report, we discuss the Industrial Internet as an application, along with China' s 5G development. Under our definition, the Industrial Internet includes high-precision equipment, sensor technology, networking, platforms, analytical tools, applications and security. MIIT recently issued a notice speeding up the development of the Industrial Internet, which in our view, will be treated as part of 5G development in China. We believe that high-precision machine makers, such as Pentamaster [1665.HK], solutions providers, such as O-Net [0877.HK], IT solutions and cloud computing, such as Inspur [0596.HK], Kingdee [0268.HK], Kingsoft [3888.HK] and DC Holdings [0861.HK], communications equipment and operators will benefit from the development of the Industrial Internet. We also highlight some A-share names. (Analyst: Mark Po)

SNIPPETS

XINYI GLASS [0868.HK, HK$8.24, ADD] A short-seller report on Xinyi Glass was circulated in the market yesterday; the short seller recommended Avoid/Sell Xinyi Glass. The key point mentioned by the short- profit as dividends appear to have been funded by HKD debt and offshore asset sales. Xinyi Glass released an

deny the conclusions in the short- Company said it will not entertain the

in more than 130 countries and territories and available banking facilities provide sufficient financial resources fo
that unlike companies with business operations primarily in China referred to in the short-
report, Xinyi Glass does not need to remit a significant amount of cash outside China to fund its business operations in Hong Kong and pay interim and final dividends to shareholders. They said

applicable Hong Kong Financial Reporting Standards. Xiny
contents and title of the short-
the report was not only incorrect, but the unfounded conclusions were based on erroneous models or unsubstantiated information. They said Xinyi Glass completely disagrees with and rejects the conclusions in the short-

profit was confirmed in the audited financial statements.

The short-
engaged in wrongdoing; it mainly compares Xinyi Glass with other companies in HK and overseas. We would like to point out that the comparables and benchmarks quoted in the short-seller report are not particularly relevant, as the business nature and geographical coverage between Xinyi Glass and Fuyao Glass [0868.HK], Flat Glass [6865 HK] and Technoglass [TGLS.US] are different. The short-

However, it is quite common for HK companies to be incorporated in a different country from their domicile. Management pointed out that borrowing in HK is cheaper and that Xinyi Glass can remit money from China to HK or HK to China through its own funding pool, which is in compliance with the rules and regulations in HK and China. It said the high cash level in China is due to a corporate-level strategy and CAPEX plan, and that the cash flow from overseas sales can support dividend payments. The longer depreciation period is partly due to the fact that solar power generation assets depreciate over 20 years. PWC has been the auditor of Xinyi Glass for over 10

in China bear the corporate level expenses, so the reported profitability of the HK side is weakened vs. operations elsewhere. Xinyi Glass will hold a conference call at 8:30am today. The dial-in details are Tel: Hong Kong Access +852 2112 1800 and China Access 4008 423 888/ 4006 786 286; passcode: 5571027#. (Analyst: Mark Po)

Markets at a Glance

Hang Seng Index	28222.0	0.1
HSCEI	10766.1	0.2
Shanghai COMP	2976.3	(0.2)
Shenzhen COMP	1560.5	0.0
Gold	1409.1	(1.0)
BDIY	1280	1.7
Crude Oil, WTI (US$/BBL)	59.4	2.7
Crude Oil, BRENT (US$BBL)	66.5	2.2
HIBOR, 3-M	2.4	(0.1)
SHIBOR, 3-M	2.8	(1.8)
RMB/USD	6.9	0.0

Source: Bloomberg

Upcoming Key Data Releases

Source: Bloomberg

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SNIPPETS

JU TENG [3336.HK, HK$1.87, ADD] Ju Teng issued a positive profit alert yesterday. According to the announcement, Ju Teng will record a significant improvement in its financial results in 1H 2019 compared to a net loss of about HK$154m in 1H 2018. The reasons for the improvement are a) higher sales of metal casing product

specifically mention its operating performance in 1H 2019. However, the turnaround in 1H 2019 was somewhat expected, as we already highlighted that Ju

etal casing segment was

expected to be over 57% in 2019 vs. 54% in 2018 and lower than 50% before 2018. We previously expected Ju Teng to report a net profit of HK$355.5m in 2019, up from HK$138.7m in 2018 .We may see an upside surprise when Ju Teng reports its 1H 2019 results in Aug 2019. We currently have an ADD rating with a target price of HK$2.59. We believe that Ju Teng is one of the trade-sensitive names to consider if there is progress in trade talks between China and the US. (Analyst: Mark Po)

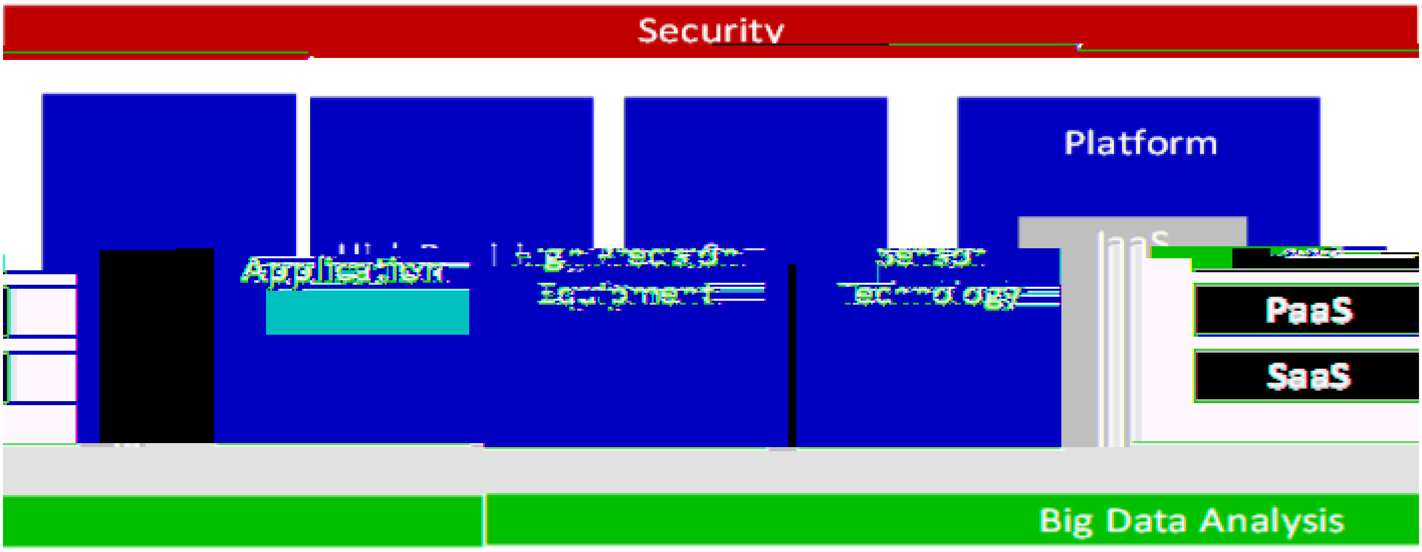
Technology - Overall

providers; c) edge computing services providers; d) data management houses; and e) data collectors. In the A-share market, related hot names are Yonyou Software, Shanghai Baosight, Beijing Orient National Communication Science & Technology Co Ltd [300166.CH], and Shenyang Machine Tool [000410.CH]. Beijing Orient National Communication Science & Technology Co Ltd is engaged in the business of data collection, management and analysis, and integrated intelligent manufacturing systems. Shenyang Machine Tool is actively promoting its i5 machine platform, which is based on CNC controller + network based interconnection. FII [601138.CH] focuses on Industrial Internet development, and based on our understating, FII can offer solutions in key areas in high end equipment, such as robotics, cloud platforms, and other solutions related to Industrial Internet development.

Networking is fundamental to the Industrial Internet and consists mainly of three major parts: a) network interconnections, b) identification analysis, and c) application support. Existing technologies used in networking include 4G, IPV4 and optical fibre; 5G and IPV6 will be used in the future.

Industrial big data analysis involves using a common data model to combine structured business system data, structured operational system data, and unstructured internal and external data to uncover new insights. In general, there are three major kinds of big data in the industrial sector: a) operation and manufacturing-related big data, which can be collected and managed by various software applications, such as ERP and Product Lifecycle Management (PLM); b) equipment-related big data, which is data collected through the IoT system; and c) external data, which is data collected from related parties outside the company. There are five stages in the industrial big data process: a) data collection, preparing and pre-processing; b) selecting an algorithm and training parameters; c) training and testing; d) evaluating the final model and gathering the analysis; and e) applying the final analysis to different situations and applications.

Figure 1: Industrial Internet value chain



SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 2: Industrial Internet Platform Standard System Structure

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We are transferring the rating mechanism from "BUY, SELL, HOLD" to "ADD, REDUCE, HOLD". Please refer to the definitions below.

BUY	share price will increase by >20% within 12 months in absolute terms
SELL	share price will decrease by >20% within 12 months in absolute terms
HOLD	no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

ADD	The stock's total return is expected to exceed 10% over the next 12 months.
REDUCE	The stock's total return is expected to fall below 0% or more over the next 12 months.
HOLD	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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