

Hot on the plate – China Connect

- ❖ **Policy Sand Table: Government Work Report in Focus: Tax and fee cuts exceed expectations, with revenue-boosting and expenditure-lowering measures to meet the deficit target**
Policy | In the Government Work Report delivered at the opening of the National People's Congress on 5 Mar 2019, the Chinese government proposed to cut taxes and fees by nearly Rmb2trn, which exceed market expectations. Estimates show that taxes will be cut by more than Rmb1.2trn, while fees will be lowered by over Rmb600bn, including Rmb600bn-700bn in VAT cuts and Rmb300bn reduction in social security payments. The large-scale tax and fee reductions are not in contradiction with the deficit target. The government work report called for scaling down general expenditures and increasing the profit surrender of state-owned enterprises, which is consistent with our previous judgment.

- ❖ **Comments on Alibaba's Share-Holding in STO Express (002468): Alibaba's Rmb4.7bn investment in STO catalyzes sector valuation**
Transportation | On 11 Mar, STO Express announced that Alibaba is to get a 14.7% stake in the company for Rmb4.7bn. The shareholding will not affect STO Express' cash, total equity and other financial indicators, while its contribution to the company's short-term profit will also be limited. However, it will help the strategic cooperation between the two sides in the long run. Alibaba's shareholding in STO Express not only confirms the strong recovery of the latter's earnings, but also helps to rebalance the competitive landscape among STO, YTO, ZTO, Best Express and Yunda, and boost the overall business layout of STO Express.

- ❖ **Power Equipment & New Energy Sector Update: Ubiquitous Power IoT springs into action, with distribution network construction going ahead**
Power Equipment & New Energy | State Grid Corporation of China will vigorously push forward the construction of ubiquitous power IoT, with building an energy Internet as the long-term goal. As smart grids provide a strong underpinning force, distribution network equipment enterprises are expected to fast pocket orders in key regions. Power automation information and telecommunication are the core technology of power IoT and in this segment, we mainly recommend Nari Technology (600406) which entered information and telecommunication business in 2017. Meanwhile, ubiquitous power IoT is a bullish factor for energy management solution providers and acquisition enterprises on the power use side.

- ❖ **Cloud Computing Sector Thematic Report No. 4: Ubiquitous Power IoT: a resonant theme to drive continuous earning growth**
Computer | Edge computing can bring computing capacity from the cloud down to the edges. Driven by State Grid Corporation's power IoT construction plan, data realization and business innovation will benefit core technical service providers. We recommend Nari Technology (600406) and Beijing Forever Technology (300365).

- ❖ **China Film (600977) Investment Value Analysis Report: Distribution and screening form a solid foundation, and film and television production braces for a new golden age**
Media | The Company enjoys an irreplaceable position in China's film industry. There are solid policy barriers for the Company's imported film distribution business, while premium cinema assets are expected to boost market shares for the Company in the course of its channel integration. Long-term accumulation and innovation will give extra value to its film and television production business platform, with a continuous release of profit potential. Driven by the four major segments of distribution marketing, film screening, film

and television production, and film and television services, the Company has the ability to mitigate the impact of earnings fluctuations in individual business segments, while sharing the growth dividends of the film industry. The Company's operating revenue is expected to hit Rmb13bn by 2020, with a CAGR of 13%. We give the Company a target price of Rmb18.2.

Other recommendations

- ❖ **Huolinhe Opencut Coal Industry Corporation (002128) Operating Environment Changes Announcement Commentary:** Rising coal prices to stabilize and drive up earnings

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	HOLD	Increase relative to market representative index between -10% and 5%
	SELL	Decrease relative to market representative index over 10%
	OUTPERFORM	Increase relative to market representative index over 10%
	NEUTRAL	Increase relative to market representative index between -10% and 10%
	UNDERPERFORM	Decrease relative to market representative index over 10%

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