

Markets at a Glance

Indices	Closing	DoD%
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

Date	Key Data
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Source: Bloomberg
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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-seller is that Xinyi Glass' unmatched cash flow and net profit as dividends appear to have been funded by HKD debt and offshore asset sales. Xinyi Glass released an announcement last night that the Company's directors and all members of the board vigorously deny the conclusions in the short-seller's report. The Company said it will not entertain the baseless accusations in the report. Xinyi Glass's directors emphasised that its sales to customers in more than 130 countries and territories and available banking facilities provide sufficient financial resources for the Company's business operations outside China. The directors noted that unlike companies with business operations primarily in China referred to in the short-seller's 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 that Xinyi Glass's audited financial statements are prepared in strict compliance with the applicable Hong Kong Financial Reporting Standards. Xinyi Glass's directors said that the contents and title of the short-seller's report were misleading and that the information presented in 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-seller's report and the implication that there has been any possible misconduct on the part of the company. According to the announcement, the Company's profit was confirmed in the audited financial statements.

The short-seller report doesn't really present hard evidence showing that Xinyi Glass has 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-seller also used the reason: "Xinyi operates in a sector prone to fraud and is incorporated in a different country from domicile" to suggest accounting issues with Xinyi Glass. 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 years, and PWC didn't issue any opinions on Xinyi Glass's financial statements. The operations 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)

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 products and b) RMB depreciation vs. the USD. Ju Teng didn't specifically mention its operating performance in 1H 2019. However, the turnaround in 1H 2019 was somewhat expected, as we already highlighted that Ju Teng's order visibility had improved and that the metal 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)

China

Highlighted companies

Inspur International
 ADD, TP HK\$5.840, HK\$3.860 close

Kingdee
 ADD, TP HK\$11.970, HK\$8.260 close

O-Net
 ADD, TP HK\$5.633, HK\$4.280 close

Summary valuation metrics

P/E (x)	Dec-19F	Dec-20F	Dec-21F
Inspur International	13.21	10.98	
Kingdee	46.23	35.52	
O-Net	11.40	9.23	
P/BV (x)	Dec-19F	Dec-20F	Dec-21F
Inspur International	1.88	1.64	
Kingdee	4.02	3.70	
O-Net	1.38	1.22	
Dividend Yield	Dec-19F	Dec-20F	Dec-21F
Inspur International	1.51%	1.82%	
Kingdee	0.65%	0.84%	
O-Net	1.32%	1.62%	

Technology - Overall

Connecting the world

- 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.

Speeding-up Industrial Internet development

Earlier this week, the Ministry of Industry and Information Technology of China (MIIT) issued the "Working Plan for the Industrial Internet Special Task Force 2019" (Working Plan) which aims to complete the establishment of the China Industrial Internet Research Institute (CIIRI) by Dec 2019. The CIIRI will form a comprehensive list of duties and capabilities and coordinate the work, research and formation of the Industrial Internet industry monitoring system; explore the promotion and application mode of commercial passwords in monitoring technology; carry out Industrial Internet monitoring of pilot programs; and build up 5 or more enterprise-based network technology verification application testing units and 10 leading enterprises in the industrial internet. The Working Plan also proposes to further accelerate the research on the 5G industrial Internet spectrum utilization plan; propose the usage of millimeter wave spectrum for the 5G network; study and formulate guidance on the use of the Industrial Internet spectrum; strengthen the top-level design of military applications related to the Industrial Internet; study and formulate a Digital Military Action Plan; and promote the popularization and application of Industrial Internet platforms. MIIT released the Industrial Internet Development Plan 2018–2020 and the Industrial Internet Special Working Group 2018 Work Plan in Aug 2018. The recent Work Plan, in our view, aims to speed up Industrial Internet development, which is part of the strategy to support the 5G roll-out in China. The key points in Industrial Internet development in China are using 5G as infrastructure for connecting all terminals through platforms using IPv6, and running applications like NB-IoT, SDN and NFV on the platforms. All the plans encourage industries such as auto, aircraft & aerospace, oil & gas, machinery & equipment, home appliances and electronics to adopt the Industrial Internet.

What is the Industrial Internet in China?

Broadly, the Industrial Internet is defined as a network of combined, advanced machines with internet-connected sensors and big-data analytics. The Industrial Internet aims to boost the productivity, efficiency and reliability of industrial production. It will change the basis of competition, redraw industry boundaries, and create a new wave of disruptive companies. We maintain the view that currently, there is no standard definition of the Industrial Internet and that oversea investors are vague about the definition of the Industrial Internet in China. We highlight some key focus areas that are critical to the development of the Industrial Internet in China. Under our definition (a bit more detailed than that of the Chinese government), the Industrial Internet consists of several major segments: a) high-precision equipment; b) sensor technology; c) platforms (cloud computing such as IaaS & PaaS edge computing); d) networking (5G); e) analytical tools (Big Data); f) applications (AI and SaaS); and g) security.

Which companies will be the main beneficiaries?

Even though it is a later CAPEX play, we believe the Industrial Internet will attract more attention since operators has been stepping up regarding formulating new models during the process of the 5G roll-out. The Chinese government has continuously released supportive documents for the development of the Industrial Internet, and the internet giants have shifted their strategy from the toC to the toB segment. We believe that Industrial Internet-related areas include software developers, industrial cloud platforms, big data analysis and AI providers, which will be the key focus areas. In the HK market, we expect the following types of companies to benefit from the development of the Industrial Internet in China: a) high-end machine makers, such as Pentamaster [1665.HK]; b) solutions providers, such as O-Net [0877.HK]; c) IT solutions and cloud computing providers, such as AsiaInfo [1675.HK], Inspur [0596.HK], Kingdee [0268.HK], Kingsoft [3888.HK] and DC Holdings [0861.HK]; d) communications equipment providers, such as O-Net [0877.HK] and ZTE [0763.HK]; and e) operators, such as China Mobile [0941.HK].

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MIIT's definition of the Industrial Internet, and A-share names

Based on the definition used by the MIIT, the Industrial Internet can be grouped into three major segments: networks, platforms and security. a) Networks, which are a fundamental component of the Industrial Internet, connect machines, people and different functional departments, such as R&D and manufacturing. Major network technologies used in the Industrial Internet are 5G, IPV6 and NB-IoT. According to the “Intelligent Manufacturing Development Plan (2016–2020)”, 5G will cover all public networks to satisfy the needs of the Industrial Internet. IPV6 stands for “Internet Protocol Version 6”, which is a network layer protocol that enables data communications over a packet-switched network. b) Platforms are the core of the Industrial Internet and are responsible for data collection and analysis, applications development, and management and surveillance. The Industrial Internet platform consists mainly of three major parts: i) edge computing, which refers to data processing power at the edge of a network and is responsible mainly for data collection, storage and pre-analysis; ii) platforms, which are operation systems based on Platform as a Service (PaaS) and focus mainly on big data analysis; and iii) applications, which include customized SaaS and apps for clients to optimize business value. c) Security is responsible for recognizing, preventing and solving risks. The security of the Industrial Internet is focused mainly on manufacturing security, equipment reliability, and network and data security. Network security can be divided into border protection systems and network isolation systems. Network border protection includes mainly fire walls, VPN and access restrictions; and network isolation can be achieved using ERP and CRM systems.

Companies focusing mainly on high-precision equipment include CNC machine and production automation equipment manufacturers. Shenyang Machine Tool [000410.CH] has been actively promoting its i5 machine platform, which is based on a CNC controller + network based interconnection, which allows data exchange between machines through internet technology.

Industrial software is a collection of programs, processes and information that can aid in collection, manipulation and management of information on an industrial scale. Overall, industrial software can be grouped into three categories: operation management; production control; and research and development and design. Operation management industrial software aims to improve organizations' operation efficiency and management quality, and includes Enterprise Resource Planning (ERP), Supply Chain Management (SCM), Client Relation Management (CRM), Human Resource Management (HRM) and Enterprise Asset Management (EAM). Yonyou [600588.CH] is one of the leading players in industry software development, which will benefit from the development of the Industrial Internet. Shanghai Baosight [600845.CH] is engaged primarily in the business of software development, outsourcing services, and system integration. Shanghai Baosight's major products include ERP and MES, which can be applied in steel, transportation, service outsourcing, mining, equipment manufacturing, finance, and other industries. Hand Enterprise Solutions [300170.CH] is engaged mainly in the provision of enterprise resource planning solutions. Its major product is MES, which can provide integrated solutions. Digiwin Software [300378.CH] is one of the major industry-specific solutions providers in the Greater China and South East Asia area.

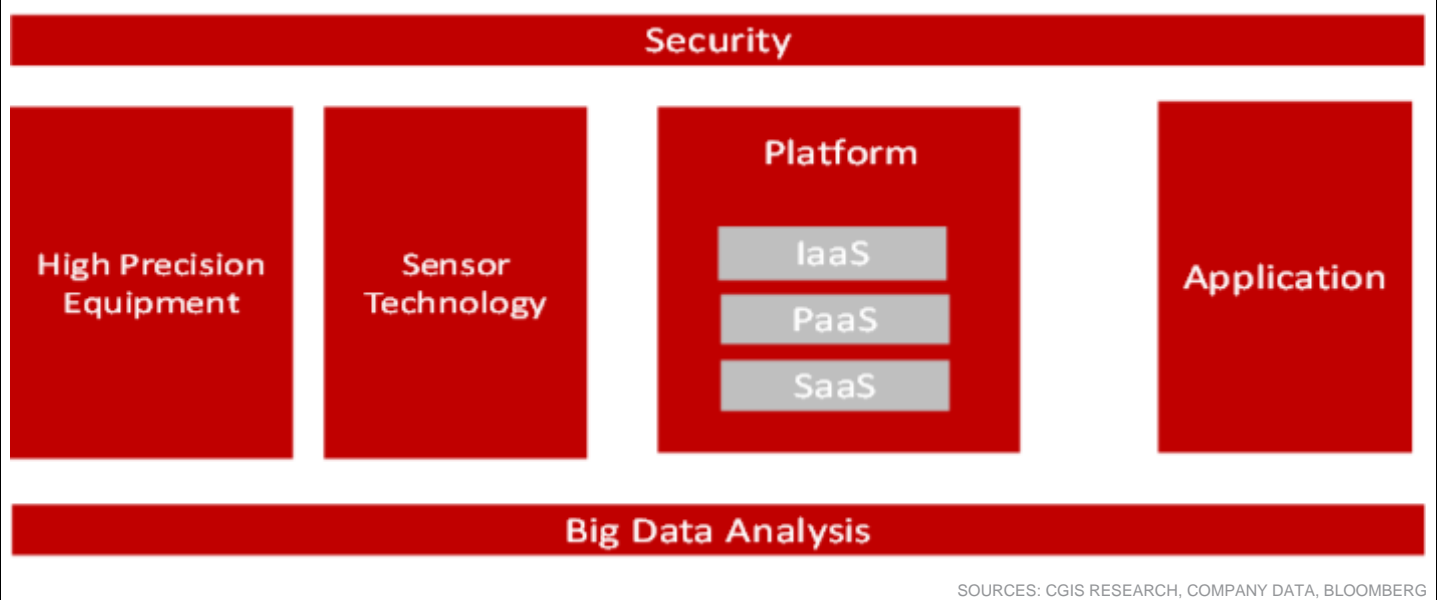
Industry cloud platforms are cloud-based platforms that are customized to fit a specific industry to accommodate the business, operations, legal, regulatory and security needs, and others. The major functions of industry cloud platforms are a) connecting equipment, manufacturing process and system data to provide high quality resource management solutions; and b) connecting big data analytic tools to provide customized solutions, equipment management and quality control. Currently, there are five groups of participants in the Industrial Internet platform market: a) cloud computing service providers; b) big data analysis

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.

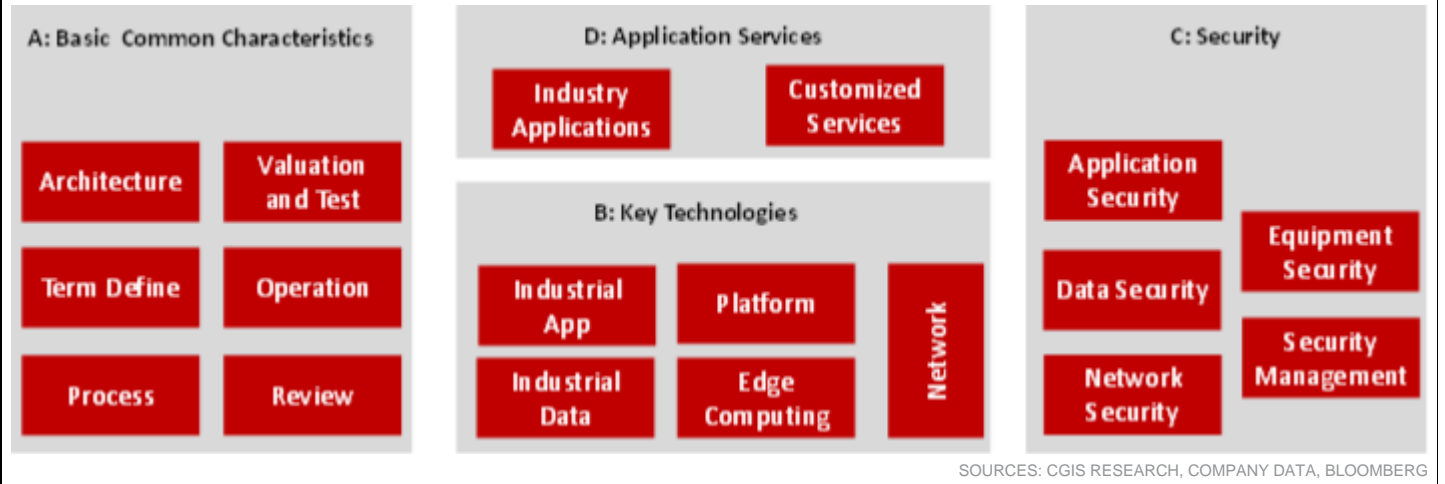
Industrial big data analysis involves using a common data model to combine structured business system data, structured operational system data, and unstructured internal and external data to uncover new insights. In general, there are three major kinds of big data in the industrial sector: a) operation 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.

Explanation on Equity Ratings (Existing mechanism (will be replaced by new mechanism by 01/09/19))

- 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

Explanation on Equity Ratings (New mechanism)

- 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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