

## Where should China growth investing go next?

- Investors must realize the old paradigm of US technology + USD capital + Chinese consumer has perished for good. In its place emerged two new paradigms: (1) US technology + USD capital + non-Chinese consumers; (2) Chinese technology + RMB capital + global consumers;
- While we remain closely observant on the first, we believe investors must pay due attention to the second paradigm. Our top picks are NetEase, Tencent, ACMR, Nio and RemeGen.

### In a global rivalry each will eventually play its part

The decoupling of US and China is about decoupling of US technology and US dollar capital from China's consumer market and labour force. Each party will eventually play its trump card, which means China's denial of US technology and US dollar capital will eventually occur, as the reverse is already occurring. For investors it is of no use to cry over spilt milk, but to embrace the new opportunities.

### The first steps are very difficult

Our coverage of SE Asia and Japan Internet revealed a painful fact, which is, a gigantic market of middle-class consumers like China is a once-in-a-life-time phenomenon. Similarly, our coverage of semiconductor and innovative drug industries also revealed a painful fact, which is, the difficulty of reinventing the wheel in global technology, financial and cultural states of the art is breath taking.

### But there are silver linings as we see even today

For the past decade Chinese Internet companies tried low-income emerging markets as their "preferred terrains" where they believe they can take on the US juggernauts and win. Such theory and practice are broken. The successes of TikTok, SHEIN, miHoYo and J&T Express showed alternative ways. Leveraging the hard target of Europe to achieve carbon neutrality, Chinese electronic vehicle (EV) makers are going for the European market. We also see China's size and sovereign control offering a consistent base for stable advancement in fields like innovative drugs and semiconductor.

### Chinese Internet will catch up with the US in globalization

Chinese Internet companies have severely lagged their US counterparts in globalizing their business in the past decade. (TBC)

#### Key financial of stock mentioned

(Rmb mn)	Revenues			Non-GAAP op.profit			Non-GAAP NI		
	2021	2022E	2023E	2021	2022E	2023E	2021	2022E	2023E
NetEase	87,607	97,333	107,058	19,325	26,629	32,889	16,978	22,772	25,167
Tencent	560,118	572,727	651,152	159,539	149,505	162,343	227,810	89,042	97,256
ACMR (USD mn)	260	393	545	44	45	55	43	38	55
Nio Motor	36,136	62,451	107,363	(3,638)	(6,342)	(7,360)	(3,128)	(5,157)	(2,446)
RemeGen	1,424	1,291	2,764	163	(592)	82	277	(599)	264

Source: Company data, Blue Lotus Research (as of August 22, 2022)

**BUY**
**HOLD**
**SELL**

#### Top picks

	Ticker	Rating	Target
NetEase	NTES US	BUY	US\$124
Tencent	700 HK	BUY	HK\$390
ACMR Research	ACMR US	BUY	US\$22
Nio Motors	NIO US	BUY	US\$30
RemeGen	9995 HK	BUY	HK\$102

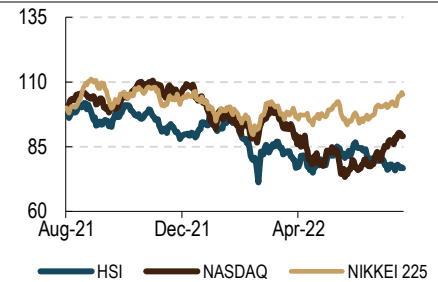
Source: Blue Lotus Research (as of August 22, 2022)

#### Stocks mentioned

Name	BBG code	Rating	TP	Curr. price	Next yr PE
Li Auto	LI US	BUY	USD 40	29.9	29.7
SEA Limited	SE US	HOLD	USD 83	67.7	NM
Z Holdings	4689JP	HOLD	JPY450	431	28.0
Pinduoduo	PDD US	BUY	USD 80	45.8	11.7
HHGrace	1347HK	BUY	USD 33	23.9	10.5
ACMR	ACMR US	BUY	USD 22	16.6	17.9
SMIC	981 HK	BUY	USD 22	15.9	18.4

Source: Blue Lotus Research (as of August 22, 2022)

#### Price performance and volume data



Source: Blue Lotus Research (as of August 22, 2022)

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Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

# NetEase, Inc.: Financial Summary

Fiscal year ends 31-Dec

## Exhibit 1. Income statement

RMB mn	F2021A	F2022A	F2023E
Revenues	87,607	97,333	107,058
Cost of revenues	(40,634)	(41,887)	(46,030)
Gross profit	46,973	55,446	61,028
Selling and marketing expenses	(12,215)	(12,752)	(12,623)
G&A expenses	(4,263)	(4,638)	(4,994)
Share based compensation	(2,906)	(2,987)	(3,747)
Operating profit non-GAAP	19,325	26,629	32,889
Interest income	1,520	1,589	1,621
Profit before taxation, GAAP	21,105	26,846	30,691
Income tax	(4,128)	(4,074)	(5,524)
NI GAAP from continuing operations	16,978	22,772	25,167
NI GAAP from discontinued operations	-	-	-
NI GAAP	16,978	22,772	25,167
Non-controlling interests	417.3	427.3	427.3
NI attributable to NetEase, GAAP	19,763	26,187	29,341
Number of ADS, diluted (mn)	670	671	671
EPADS, GAAP (RMB)	25.1	34.6	38.1
Gross margin	53.6%	57.0%	57.0%
Operating margin, non-GAAP	22.1%	27.4%	30.7%

Source: NetEase, Blue Lotus (as of Aug 22, 2022)

## Exhibit 2. Balance sheet

RMB mn	F2021E	F2022E	F2023E
Cash and equivalents	26,828	40,570	57,815
Restricted Cash	8,761	9,733	10,706
Accounts receivable, net	5,520	6,133	6,746
Inventories, net	4,453	4,590	5,044
Prepayments & other curr. assets	6,132	6,813	7,494
Short-term investments	26,282	29,200	32,117
Assets held for sale	0	0	0
Net PP&E	9,835	11,628	13,444
Long-term Investments	6,132	6,813	7,494
Other long-term assets	3,504	3,893	4,282
Total assets	153,686	180,292	210,737
Accounts payable	2,227	2,295	2,522
Salary and welfare payables	2,783	2,869	3,153
Taxes payable	4,633	4,776	5,248
Short-term loans	13,141	14,600	16,059
Deferred revenue	12,721	14,133	15,546
Total current liabilities	42,951	46,946	51,627
Non-current liabilities	526	584	642
Total liabilities	43,477	47,530	52,270
Total equity	99,831	122,810	148,944
Total liabilities and equity	153,686	180,292	210,737

Source: NetEase, Blue Lotus (as of Aug 22, 2022)

## Company Description

NetEase, Inc., through its subsidiaries, operates an interactive online community in China. The company operates in three segments: online game services; advertising services; and e-mail, e-commerce, and others, with online games contributing ~70% of total revenue. NetEase currently has more than a 15% share of the gaming market of China.

## Industry View

China's entertainment market has continued to grow in recent years. The online game market remains one of the most promising subsectors in the entertainment market. By June 2020, the number of mobile game players exceeded 650mn. In 2021, the total China mobile game market is expected to reach RMB 280bn.

## Exhibit 3. Cash flow statement

RMB mn	F2021E	F2022E	F2023E
Net income (loss)	16,978	22,772	25,167
Depreciation & Amort.	3,276	1,613	1,932
Share based compensation cost	2,906	2,987	3,747
Deferred income taxes	0	0	0
Change in acc. receivable	(944)	(613)	(613)
Change in inventory	(3,832)	(137)	(454)
Change in prepayments	(20)	(681)	(681)
Change in acc. payable	1,092	69	227
Change in salary and welfare payments	(756)	86	284
Change in taxes payable	350	143	472
Change in deferred revenue	1,776	1,412	1,412
Change in accrued liabilities	(427)	836	836
Net cash from operating activities	18,797	28,381	32,223
Purchase of PPE	(3,066)	(3,407)	(3,747)
Proceeds from sale of PPE	0	0	0
Purchase of short-term investments	(13,009)	(2,918)	(2,918)
Net cash from investing activities	10,987	(15,124)	(15,464)
Net cash from financing activities	(6,364)	1,459	1,459
Net increase in cash and cash equivalents	23,420	14,715	18,217
Balance b/f	12,168	35,588	50,303
Balance c/f	35,588	50,303	68,521

Source: NetEase, Blue Lotus (as of Aug 22, 2022)

See the last page of the report for important disclosures

# Tencent Holdings Limited: Financial Summary

Fiscal year ends-31-Dec

## Exhibit 1 . Income statement

RMB mn	2021A	2022E	2023E
Revenues	560,118	572,727	651,152
Cost of revenues	(314,174)	(331,886)	(380,588)
Gross profit	245,944	240,841	270,564
G&A cost	(89,847)	(106,828)	(123,409)
Marketing cost	(40,594)	(35,949)	(42,825)
Operating profit IFRS	271,620	132,017	138,715
Share based compensation	(28,946)	(27,447)	(31,205)
Operating profit non-IFRS	159,539	149,505	162,343
Finance cost/income	(7,114)	(7,389)	(6,412)
Other income/cost	156,117	33,953	34,385
Share of profits of asso. and JVs	(16,444)	(15,735)	(16,522)
Pre-tax profit, IFRS	248,062	108,893	115,781
Income tax	(20,252)	(19,851)	(18,525)
Net income, IFRS	227,810	89,042	97,256
Non-controlling interests	2,988	2,663	3,471
EPS, IFRS (RMB)	23.2	8.9	9.6
EPS, non-IFRS(RMB)	12.8	12.1	13.4
Gross margin	43.9%	42.1%	41.6%
Operating margin, non-IFRS	28.5%	26.1%	24.9%

Source: Tencent Holdings Limited, Blue Lotus (as of Aug 22, 2022)

## Exhibit 2 . Balance sheet

RMB mn	2021A	2022E	2023E
Cash and cash equivalent	117,876	191,197	312,288
Restricted cash and ST investment	3,024	3,629	4,355
Term deposits over three months	82,184	98,621	118,346
Accounts receivable	58,357	45,513	69,427
Prepayments and others	33,704	46,313	47,531
Inventory	2,470	1,235	617
Total current asset	297,615	386,508	552,563
Property and equipment	25,558	28,697	32,115
Construction in progress	2,470	1,235	617
Invest. in a jointly controlled entity	312,489	328,114	344,520
Intangibles, goodwill and others	20,557	23,674	23,073
Available-for-sale financial assets	444,036	488,439	563,968
Total non-current assets	903,527	977,537	1,081,840
Total assets	1,201,142	1,364,045	1,634,403
Account payables	108,590	110,909	147,056
Accrued expense and others	75,104	78,719	97,655
Deferred revenues	89,045	89,834	117,107
Short-term debt	14,954	15,702	16,487
Total current liabilities	287,693	295,164	378,305
Long-term debt	112,145	112,145	112,145
Other long-term liability	35,513	35,513	35,513
Total non-current liability	147,658	147,658	147,658
Total equity	689,231	842,088	1,026,651
Total liabilities and equity	1,201,142	1,364,045	1,634,403

Source: Tencent Holdings Limited, Blue Lotus (as of Aug 22, 2022)

## Company Description

Tencent is China's 2nd largest internet company by revenue and profits and the largest by traffic measures. Founded in 1998, Tencent dominates China's online game industry with more than 50% market share in 2020. Apart from online games, the company also has online advertising, fintech, and company services, and other revenue streams.

## Industry View

China's entertainment market has continued to grow in recent years. The online game market remains one of the most promising subsectors in the entertainment market. By Dec 2020, the number of mobile game players reached 654mn. In 2021, the total China mobile game market is expected to exceed RMB 240bn.

## Exhibit 3 . Cash flow statement

RMB mn	2021A	2022E	2023E
Net income	227,810	89,042	97,256
Adjusted for:			
Depreciation & amortization	40,920	50,544	61,147
Taxation	18,128	20,637	23,331
Net Interest	2,491	(937)	(1,338)
Changes in			
Account receivable	(13,376)	12,844	(23,914)
Inventory	814	2,470	1,235
Account payables	14,560	2,319	36,147
Short term deposit	(14,201)	(17,042)	(20,450)
Other assets	0	0	0
Accrued liabilities and deferred revenues	12,731	4,404	46,209
Cash from operations	174,754	190,338	278,622
Capex, PPE	(15,200)	(15,542)	(17,671)
Capex, land and bldg.	0	0	0
Purchase of intangibles	(37,879)	(41,258)	(46,293)
(Increase) /decrease in term deposits	(6,336)	(7,603)	(9,124)
Cash paid for equity investment	(40,367)	(44,404)	(75,529)
Payment for business combinations	0	0	0
Cash from investing	(109,566)	(118,478)	(158,317)
Cash from financing	(100,110)	1,461	785
Change in cash	(34,922)	73,321	121,091
Cash at beginning	152,798	117,876	191,197
Cash at end	117,876	191,197	312,288

Source: Tencent Holdings Limited, Blue Lotus (as of Aug 22, 2022)

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## ACM Research Inc.: Financial Summary

Fiscal year ends 31-Dec

### Exhibit 4. Income statement

(USD mn)	2021A	2022E	2023E
Revenue	260	393	545
Cost of sales	(145)	(235)	(334)
Gross profit	115	158	210
S&M	27	37	49
G&A	15	21	29
R&D	34	64	90
Operating income, GAAP	39	36	43
Operating income, non-GAAP	44	43	55
EBITDA	50	59	66
Interest expense, net	0	(7)	(7)
Non-operating income (loss)	4	9	12
Pre-tax income	43	45	55
Income tax (expense) benefit	(0)	(7)	-
Shareholder profit, GAAP	38	30	45
Shareholder profit, non-GAAP	42	42	58
Net profit, GAAP	43	38	55
EPS GAAP, Diluted (USD)	0.58	0.46	0.67
EPS non-GAAP, Diluted (USD)	0.65	0.63	0.86

Source: Company data, Blue Lotus (as of August 22, 2022)

### Exhibit 5. Balance sheet

(USD mn)	2021A	2022E	2023E
<b>CURRENT ASSETS</b>	953	1,035	1,196
Cash and equivalents	563	750	737
Accounts receivable	106	115	157
Other receivables	19	23	30
Inventories	218	107	227
<b>NON-CURRENT ASSETS</b>	99	112	128
Property, plant, and equipment	14	21	30
Other long-term assets	45	47	50
<b>TOTAL ASSETS</b>	1,052	1,147	1,324
<b>CURRENT LIABILITIES</b>	206	240	326
Short-term borrowings	10	59	84
Accounts payable	101	89	138
Advances from customers	53	44	52
<b>NON-CURRENT LIABILITIES</b>	35	45	42
Long-term borrowings	23	28	32
ACMR stockholders' equity	676	770	830
Paid in capital	595	659	674
Accumulated surplus	72	102	147
Non-controlling interests	135	92	126
<b>TOTAL STOCKHOLDERS' EQUITY</b>	812	862	956
<b>TOTAL LIABILITIES AND EQUITY</b>	1,052	1,147	1,324

Source: Company data, Blue Lotus (as of August 22, 2022)

### Company Description

ACMR was Mainland China's 4th largest semiconductor equipment manufacturer by revenue in 2021 with 15.8%, 15.1%, 5.7% share of the domestic wafer cleaning, electroplating (ECP) and packaging equipment market, respectively, by our estimates. We expect that localization tailwinds support ACMR's plan to grow its SPE portfolio.

### Industry View

In 2022, SEMI estimates the global semiconductor production equipment (SPE) market will grow 19.6% YoY to USD122.9bn. Globally, the top five SPE suppliers earned 52.4% of industry revenues in 2021. China's SPE suppliers are likely to benefit as domestic semiconductor manufacturers seek to localize their supply chain.

### Exhibit 6. Cash flow statement

(USD mn)	2021A	2022E	2023E
Net income	43	38	55
Depreciation and amortization	2	4	6
Deferred income taxes	(2)	(2)	(2)
Stock-based compensation	5	7	12
Accounts receivable	(48)	(10)	(42)
Inventory	(128)	111	(120)
Accounts payable	65	(12)	48
Advances from customers	35	(9)	9
Changes in working capital	(83)	82	(111)
<b>NET CASH FLOW (USED IN) OPERATING</b>	(40)	144	(36)
Purchase of property and equipment	(9)	(11)	(7)
Purchase of intangible assets	(1)	(1)	(0)
<b>NET CASH FLOW (USED IN) INVESTING</b>	(11)	(12)	(7)
Short-term borrowing proceeds	(17)	49	25
Long-term borrowing proceeds	5	6	6
Proceeds from subsidiary equity issuance	546	-	-
<b>NET CASH FLOW (USED IN) FINANCING</b>	539	55	30
Net increase (decrease) in cash	491	187	(13)
<b>CASH AT BEGINNING OF PERIOD</b>	72	563	750
<b>CASH AT END OF PERIOD</b>	563	750	737

Source: Company data, Blue Lotus (as of August 22, 2022)

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## NIO Inc.: Financial Summary

Fiscal year ends-31-Dec

### Exhibit 7. Income statement

RMB mn	2021A	2022E	2023E
Revenue	36,136	62,451	107,363
Cost of sales	(29,315)	(52,325)	(86,351)
Gross Profit (Loss)	6,821	10,126	21,012
Gross margin	18.9%	16.2%	19.6%
R&D expenses	(4,592)	(8,473)	(15,063)
SG&A expenses	(6,878)	(10,956)	(18,400)
Operating income - GAAP	(4,649)	(9,303)	(12,451)
Share-based compensation	(1,010)	(2,961)	(5,091)
Operating income - non-GAAP	(3,638)	(6,342)	(7,360)
Interest income	912	1,603	1,603
Interest expenses	(637)	(309)	(309)
Share of losses of equity investee	63	26	26
Investment income	0	0	0
Other loss, net	185	348	348
Loss before income tax expense	(4,127)	(7,636)	(10,784)
Income tax expense	(42)	(580)	854
Net income / (loss) - GAAP	(4,169)	(8,216)	(9,930)
Non-controlling interests	31	98	2,393
Net loss attributable to NIO Inc. - GAAP	(10,725)	(8,185)	(7,537)
Net loss attributable to NIO Inc. - non-GAAP	(3,128)	(5,157)	(2,446)

Source: NIO Inc., Blue Lotus (as of August 22, 2022)

### Exhibit 8. Balance sheet

RMB mn	2021A	2022E	2023E
Cash and cash equivalents	18,375	15,058	16,533
Short-term investment	37,058	37,058	37,058
Trade receivable	2,823	3,411	5,864
Amounts due from related parties	1,564	1,564	1,564
Inventories	2,056	2,800	4,622
Prepayments and other current assets	1,854	2,831	4,867
Total current assets	63,641	62,633	70,419
Long-term restricted cash	46	46	46
Property, plant and equipment, net	7,400	10,493	16,209
Intangible assets, net	0	(0)	(1)
Land use right, net	199	199	199
Long-term investments	3,059	3,086	3,112
Other non-current assets	5,599	5,599	5,599
Total assets	82,884	84,995	98,522
Short-term borrowings	5,230	5,230	5,230
Trade payable	12,639	16,963	27,994
Amounts due to related parties	687	687	687
Current portion of LT borrowings	2,813	2,813	2,813
Accruals and other liabilities	7,202	10,201	17,538
Long-term borrowings	9,739	9,739	9,739
Total non-current liabilities	15,622	15,664	15,664
Total liabilities	44,820	52,186	70,553
Total shareholders' (deficit)/equity	38,063	32,808	27,969
Total liabilities and equity(deficit)	82,884	84,995	98,522

Source: NIO Inc., Blue Lotus (as of August 22, 2022)

### Company Description

NIO, founded in 2014, designs, jointly manufactures, and sells smart premium electric vehicles. NIO is the first new EV company to achieve mass production and delivery. Moreover, NIO introduced a unique service-oriented model with innovative charging solutions, as well as a user-community concept.

### Industry View

China's new energy vehicle sales volume increased by 178% in 2021 due to stabilized government NEV subsidy, and we expect the growth to reach 86.4% in 2022, mainly driven by better market acceptance of EVs through years of technology improvement, charging infrastructure improvement, as well as favorable NEV policies.

### Exhibit 9. Cash flow statement

RMB mn	2021A	2022E	2023E
Net Loss	(4,169)	(8,216)	(9,930)
Adjustments to reconcile net loss to net cash used in operating activities:	0	0	1
Depreciation and amortization	2,352	2,528	3,947
Allowance against receivables	0	0	0
Net profit/loss on asset sales	(31)	(26)	(26)
Share-based compensation expenses	1,010	2,961	5,091
Changes in operating assets and liabilities:	2,739	5,057	12,057
Inventories	(991)	(744)	(1,821)
Accounts receivable	(3,201)	(1,565)	(4,489)
Accounts payable and accrued liabilities	9,535	7,324	18,367
Operating lease liabilities	(749)	0	0
Other non-current liabilities	(1,855)	42	0
Net cash used in operating activities	1,966	2,304	11,138
Addition to PPE	(4,079)	(5,621)	(9,663)
Total investments	(35,093)	0	0
Net cash provided by/(used in) investing activities	(39,765)	(5,621)	(9,663)
Share repurchase/issue	12,678	0	0
Proceeds from exercise of stock options	145	0	0
Increase/(decrease) in ST debt	5,565	0	0
Increase/(decrease) in LT debt	7,776	0	0
Others	(8,034)	0	0
Net cash provided by financing activities	18,129	0	0
Cash, cash equivalents and restricted cash at beginning of the year	38,545	18,375	15,058
Net increase in cash and cash equivalents	(20,171)	(3,317)	1,475
Cash, cash equivalents and restricted cash at end of the year	18,375	15,058	16,533

Source: NIO Inc., Blue Lotus (as of August 22, 2022)

See the last page of the report for important disclosures

## RemeGen Co., Ltd.: Financial Summary

Fiscal year ends-31-Dec

### Exhibit 10. Income statement

RMB mn	2021A	2022E	2023E
Revenue	1,424	1,291	2,764
Cost of sales	(67)	(161)	(219)
Gross Profit	1,357	1,130	2,545
Operating expense	(1,194)	(1,722)	(2,463)
Selling and distribution expense	(263)	(337)	(540)
Administrative expenses	(220)	(375)	(540)
Research and development expenses	(711)	(1,009)	(1,325)
Operating expenses (IFRS)	163	(592)	82
Other income and gains	186	89	347
Other expenses	(67)	(80)	(96)
Financial costs	(5)	(16)	(22)
Loss/Profit before income tax	277	(599)	311
Income tax expense	-	-	(47)
Profit/Loss for the year, IFRS	277	(599)	264
Loss/profit attr to SH	277	(599)	264
EPS	0.68	(1.33)	0.56

Source: RemeGen Co., Ltd., Blue Lotus Research (as of August 22, 2022)

### Company Description

RemeGen was cofounded by Mr. Weidong Wang and Dr. Jianmin Fang in 2008. RemeGen is committed to the discovery, development, and commercialization of innovative and differentiated biologic drugs for major diseases in the auto-immune, oncology, and ophthalmology spaces to fulfill the unmet medical needs of patients worldwide.

### Industry View

We estimate China's total biologics market to grow to US\$68 bn in 2021, and will grow to US\$200 bn by the end of 2030. We expect that the global total biologics market to grow to US\$345 bn in 2021 and will reach US\$768 mn in 2030.

### Exhibit 11. Balance sheet

RMB mn	2021A	2022E	2023E
Property, plant and equipment	1,578	1,897	2,125
Right-of-use assets	149	265	322
Other intangible assets	13	14	21
Equity investments	12	11	11
Other non-current assets	108	107	107
Inventories	280	482	328
Trade and bills receivables	7	33	59
Prepayments, other receivables and other assets	177	610	803
Pledged deposits	79	206	345
Cash and cash equivalents	1,757	5,179	5,418
Total assets	4,159	8,804	9,538
Trade and bills payables	159	305	332
Other payables and accruals	393	724	875
Interest-bearing bank borrowings	-	545	915
Lease liabilities	52	57	57
Total liabilities	713	1,752	2,299
Share capital	490	4,299	4,234
Treasury shares	(449)	-	-
Reserves	3,406	2,752	3,006
Total equities and liabilities	4,159	8,804	9,538

Source: RemeGen Co., Ltd., Blue Lotus Research (as of August 22, 2022)

### Exhibit 12. Cash flow statement

RMB mn	2021A	2022E	2023E
Pretax profit	277	(599)	311
Adjustments			
Finance costs	14	22	33
D&A	257	322	386
Share-based payment expenses	28	40	58
Increase in inventories	(214)	(202)	154
Decrease in bills receivable	-	(33)	(26)
Increase in prepayments, other receivables and other assets	(75)	(432)	(193)
Increase/(decrease) in trade and bills payables	97	146	27
Increase in other payables and accruals	182	330	151
(Increase)/decrease in pledged deposits	(38)	(127)	(139)
Others	76	2	2
Net cash used in operating activities	602	(532)	763
Purchases of items of PPE	(1,044)	(686)	(637)
Increase in pledged deposits	(38)	(127)	(139)
Others	(38)	(40)	(42)
Net cash used in investing activities	(1,121)	(853)	(818)
Net bank borrowings	179	258	369
Proceeds from issue of common shares	-	4,000	-
Interest paid for bank borrowings	(8)	(16)	(27)
Others	(48)	(50)	(49)
Net cash used in financing activities	123	4,192	293
Net change in Cash	(1,012)	2,807	238
Cash at beginning	2,769	1,757	5,179
Cash at end	1,757	5,179	5,418

Source: RemeGen Co., Ltd., Blue Lotus Research (as of August 22, 2022)

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## The recipe of Chinese globalization is no recipe

- **Chinese Internet companies vastly underperformed their US peers in terms of globalization:** As Exhibit 10 shows, the percentage of international revenue among China's top 10 Internet companies stood at 5.2% in 2021, behind 44% of the US. The ratio dipped in 2018 due to a slow down of Alibaba's international commerce business, which is the biggest contributor to international revenues of the Chinese Internet companies;
- **Chinese Internet companies vastly underperformed Japan and Korea peers, too, especially if we include the game industry:** As Exhibit 10 shows, Japan's game industry is highly global. The overseas contribution of Korea Internet companies declined after Naver spun off LINE to Z Holdings (4689 JP, HOLD, JPY450). We believe this points to an important lesson, which is non-US companies tend to succeed outside their home market in areas where explicit traffic rules are set, usually by US companies;
- **The global successes of TikTok and SHEIN had a lot to do with US rule setters, too:** It is without doubt that US Internet companies like Google, META and Apple control the majority of global Internet traffic, but this doesn't mean they don't need first class content to augment their platforms. Non-US companies can succeed by excelling in content, or secondary distribution of content. TikTok captured the market window of opportunity when there was a shortage of short video content in the market. It aggressively acquired traffic from META at a time when META dismissed short video for its low retention rate. SHEIN almost captured every step of social and video traffic evolution by acquiring traffic from Instagram, Youtube and META. We believe it will be hard to replicate TikTok and SHEIN's successes but it is fair to say that every success at this level of business has elements of luck and misjudgment;
- **US rule setters Apple and Amazon platforms are the foundation of success for a lot of game and e-commerce companies:** Currently in a lot of geographies, TikTok is challenging the dominance of META and Youtube. So far it isn't likely for a game developer to be big enough to threaten Apple. Neither is a cross-border e-commerce companies to be big enough to challenge Amazon. But never say never. Today Chinese mobile game developers contribute ~10%, and cross-border e-commerce companies contribute ~20% of gross billings and GMV's of Apple and Amazon outside of China. Their inter-dependence is real and here to stay. China's production prowess in both virtual and physical goods contribute to success of US Internet platforms globally;
- **Can Chinese producers move a step further?** We believe they can, because we see the gigantic market of Chinese consumers affording Chinese producers a constant ground for product development and cost sharing. It will be just a matter of time before some capture a market discontinuity to rise to be the next Globalization Four;
- **Game code approval step drives Chinese game developers overseas:** Before Chinese companies, Japanese and Korea game companies have already proved that online game is easier to make oversea inroads because it is content-driven. The advent of Internet further reduced the distribution barrier of games. Recently the freeze of game code approval serves as an impetus to drive a lot of Chinese gaming companies abroad. Tencent and NetEase already have about 25%/10% of its gaming revenue from overseas. Blue Lotus Head of

*Every success at the level of TikTok and SHEIN has elements of luck and misjudgment. But so is true in China.*

*US and China haven't decoupled in the global ecosystem of Internet. Chinese production of virtual and physical goods augmented the market share gain of US Internet platforms worldwide.*

*We are going to see more TikTok, SHEIN, miHoYo and J&T because Chinese market is a constant ground for their trials and errors.*

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Internet Shawn Yang pointed out that besides MiHoYo, middle-sized Chinese gaming companies like Funplus (趣加), Lilith (莉莉丝), 37.com (002555 CH, NR), Yostar (悠星) and Magic Tavern (麦吉太文), also have hit titles on global market;

*More Chinese fabs will be fitted by Chinese equipment as US CHIP4US Act stretching global capacity of semiconductor equipment makers.*

- **The US crackdown on semiconductor might serve the same purpose:** Blue Lotus Semiconductor Analyst Robert McKay hold positive views on Chinese semiconductor and equipment makers like SMIC (981 HK, BUY, US\$24.5), HHGrace (1346 HK, BUY, HK\$33) and ACM Research (ACMR US, BUY, US\$22). He believes capacity buildouts by <CHIPS for America Act> and <American Foundries Act> will lead to capacity constraints by global semiconductor equipment makers and therefore make room for Chinese domestic equipment makers to gain share in Chinese fabs;
- **Tightening of drug approval will benefit solid biopharmas:** Blue Lotus Innovative Drug Analyst Victor Yang also hold positive views on China's innovation drug development. After speeding up new drug approval to nurture the nascent industry for the last decade, he believes Chinese Center for Drug Evaluation (CDE) will increasingly align with global practices. This means development capability built on high quality global standards, from companies like BEIGENE (BNGE US, NR) and RemeGen (9995 HK, BUY, HK\$102) will benefit. Blue Lotus has long held the view that successful Chinese drug makers must be successful global drug makers. Given the omnipotent presence of China's national healthcare complex which controls 70-80% of China's hospitals, pharmacies and insurers, pricing pressure on medicine is here to stay;
- **European hard target and US new legislation benefit Chinese EV makers:** We are fully aware of the difficulty to penetration consumer markets in the developed countries. But we are not ready to write off Chinese EV makers' recent push to US and Europe. The European Parliament plans to (1) ban the sales of gasoline/diesel cars by 2035, (2) slash the average emission of cars by 55% by 2030. The resolution is still pending approval by the European Council. The US <Inflation Reduction Law> gives US\$7,500 credit for purchase of EV after 2022. Blue Lotus Transportation Analyst Simon Liu noted that BYD (1211 HK, NR) has been producing electronic buses and trucks in Lancaster, California since 2017;
- **Early expansion to developing market ran into a snafu:** Chinese Internet companies used to believe their first stop of globalization should mimic those of Huawei's and ZTE's to expand to developing markets with state subsidies from the Chinese government. This has now proven questionable at best and failures at worst. Global inflation depressed consumer's willingness to upgrade their smartphones, leading to weak demand for African smartphone leader Transsion (688036 CH, NR). Xiaomi's business in India has translated to neither profit nor stability. Three of the four succeeding in globalization, TikTok, SHEIN, miHaYo, derived their success from developed countries;
- **J&T Express so far is the only one spearheading China's e-commerce overseas:** This to us is an anomaly. The overseas expansion of Chinese logistics industry has been confined to forwarding and air freight. We attribute this phenomenon to two reasons: (1) cross-border e-commerce by Chinese e-commerce platforms are still at early stage. Some, like SEA (SE US, HOLD, US\$96), even built in-house capacity which we view as a sign of early stage, (2) domestic price war kept the industry inward looking at a time industry parcel growth was still

*PDD recently launched global business.*

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above 20%. J&T Express operates in an industry where the US rule setter, Amazon, built its own fulfilment facilities. We believe there is a chance exist for a low cost Chinese logistic network to develop to further the penetration of low priced Chinese manufacturing goods globally. PDD (PDD US, BUY, US\$80) recently launched its global site to try to mimic SHEIN's success.

**Exhibit 13. International revenue of Internet companies**

% of int'l rev.	2017	2018	2019	2020	2021
China top 10	4.6%	4.3%	4.6%	5.4%	5.2%
US top 10	45%	44%	44%	42%	44%
Japan top 10	55%	46%	42%	41%	43%
S. Korea top 10	25%	29%	18%	14%	12%

Source: Company data, Blue Lotus Research (as of August 22, 2022)

**Exhibit 14. Revenue distribution of China Internet's Global 4**

Company	Rev./GMV 22 E (US\$ bn) (growth)	Regional breakdown				
		NA & Europe	Japan	SE Asia	China	ROW
TikTok/ByteDance (ads only)	52 (25-30%)	14%	2%	1%	77%	6%
Shein	22 (25-30%)	75%	0%	5%	-	20%
Mihoyo	7 (20-25%)	25%	20%	5%	40%	10%
J&T	3 (70-100%)	-	-	50%	50%	-

Source: Blue Lotus Research estimate (as of August 22, 2022)

**Exhibit 15. Comparison table**

Sector	Ticker	Price (Local)	Market Cap. (US\$m)	PE (BLRI)			PEG 2022E	PS (BLRI)		EV/EBITDA (BLRI)	
				2022E	2023E	2024E		2022E	2023E	2022E	2023E
<b>Autos</b>											
NIO	NIO US	19.05	31,824	Negative	Negative	98.6	NM	3.5	2.0	Negative	Negative
Li Auto	LI US	29.94	31,206	473.4	29.7	13.6	1.0	5.0	2.6	Negative	25.1
Xpeng	XPEV US	21.24	18,281	Negative	Negative	22.5	NM	3.4	2.1	Negative	Negative
<b>Sector</b>			<b>49,488</b>	<b>473.4</b>	<b>29.7</b>	<b>16.9</b>	<b>1.0</b>	<b>4.4</b>	<b>2.4</b>	<b>NM</b>	<b>25.1</b>
<b>Consumer</b>											
MINISO	NMSO US	5.80	1,837	17.8	18.4	8.3	0.4	1.2	0.9	6.0	5.6
Nayuki	2150 HK	5.54	1,211	231.5	30.6	15.4	0.8	1.3	1.0	5.2	3.4
Yatsen	YSG US	1.02	644	Negative	Negative	Negative	NM	0.6	0.5	Negative	Negative
<b>Sector</b>			<b>3,692</b>	<b>102.8</b>	<b>23.3</b>	<b>11.1</b>	<b>0.5</b>	<b>1.1</b>	<b>0.9</b>	<b>5.7</b>	<b>4.7</b>
<b>Hardware</b>											
Xiaomi	1810 HK	11.66	37,087	36.7	22.3	18.9	0.9	0.8	0.8	17.3	11.6
SMIC	981 HK	15.86	23,709	11.9	18.4	13.3	(2.2)	3.1	2.8	7.3	6.5
Hua Hong Semi	1347 HK	23.90	3,966	9.0	10.5	12.0	(0.7)	1.6	1.5	4.9	4.1
ACM Research	ACMR US	16.57	982	25.7	17.9	12.8	0.6	2.5	1.8	12.4	11.0
<b>Sector</b>			<b>3,692</b>	<b>102.8</b>	<b>23.3</b>	<b>11.1</b>	<b>(0.3)</b>	<b>1.7</b>	<b>1.5</b>	<b>12.9</b>	<b>9.3</b>
<b>E-commerce</b>											
Alibaba	BABA US	89.63	237,299	8.5	7.7	7.5	1.3	1.6	1.4	6.5	6.1
Meituan	3690 HK	169.90	133,979	Negative	67.7	56.2	NM	4.2	3.0	105.7	34.6
JD.com	JD US	54.70	85,428	27.2	22.0	17.7	1.1	0.6	0.5	31.4	25.3
Pinduoduo	PDD US	45.76	57,858	15.8	11.7	9.3	0.5	3.5	3.0	15.5	9.7
Vipshop	VIPS US	9.99	6,350	8.2	8.2	7.8	3.2	0.4	0.4	3.0	2.9
<b>Sector</b>			<b>520,914</b>	<b>13.8</b>	<b>25.9</b>	<b>21.9</b>	<b>1.2</b>	<b>2.3</b>	<b>1.8</b>	<b>37.1</b>	<b>16.9</b>
<b>Software</b>											
KE Holdings	BEKE US	15.38	19,447	97.7	23.7	15.8	0.7	1.9	1.6	34.3	13.4
Kanzhun	BZ US	21.05	9,156	50.5	30.1	19.0	0.8	10.9	7.4	35.5	21.0
Huitongda	9878 HK	61.40	4,402	83.0	38.8	27.7	1.1	0.4	0.3	26.8	18.8
Agora	API US	4.20	487	Negative	Negative	243.7	NM	2.8	2.4	Negative	Negative
<b>Sector</b>			<b>33,491</b>	<b>82.7</b>	<b>27.5</b>	<b>21.6</b>	<b>0.8</b>	<b>4.2</b>	<b>3.0</b>	<b>33.6</b>	<b>16.2</b>
<b>Internet Finance</b>											
Lufax	LU US	3.96	9,052	4.7	4.3	3.6	0.3	3.6	3.6	3.0	3.0
Futu	FUTU US	38.37	5,640	15.0	11.2	8.7	0.5	6.2	4.7	12.2	9.2
<b>Sector</b>			<b>14,692</b>	<b>8.6</b>	<b>7.0</b>	<b>5.5</b>	<b>0.4</b>	<b>4.6</b>	<b>4.0</b>	<b>6.5</b>	<b>5.4</b>
<b>Logistics</b>											
SF Holding	002352 CH	49.88	35,815	32.9	27.1	18.9	1.0	0.9	0.7	17.7	14.4
ZTO Express	ZTO US	26.56	21,507	23.4	19.7	17.1	1.4	4.1	3.5	13.8	11.4
JD Logistics	2618 HK	14.3	12,022	Negative	Negative	59.0	NM	0.7	0.5	13.0	7.2
<b>Sector</b>			<b>69,343</b>	<b>29.3</b>	<b>24.4</b>	<b>25.3</b>	<b>1.2</b>	<b>1.8</b>	<b>1.5</b>	<b>15.7</b>	<b>12.2</b>
<b>Entertainment</b>											
Tencent	700 HK	315	386,130	30.5	28.1	27.6	6.1	4.6	4	13.8	12.4
NetEase	NTES US	84.7	55,631	14.5	12.9	11.3	1.1	3.9	3.5	19.4	19.4
Baidu	BIDU US	129.13	44,621	15.9	11.5	11.4	0.9	2.4	2.1	7.5	6.1
Kuaishou	1024 HK	74.00	40,497	Negative	25.1	13.0	NM	2.9	2.3	Negative	22.5
Bilibili	BILI US	22.56	8,812	Negative	Negative	Negative	NM	2.6	1.8	Negative	Negative
Tencent Music	TME US	4.46	7,560	12.7	11.7	10.0	1.0	1.9	1.5	9.7	9.4
Weibo	WB US	18.20	4,305	24.1	9.3	7.9	0.3	2.1	1.9	7.2	4.3
iQIYI	IQ US	3.59	3,092	Negative	21.3	9.6	NM	0.7	0.7	2.2	2.1
JOYY	YY US	27.02	1,916	25.4	15.9	9.3	0.4	0.7	0.6	Negative	Negative
Zhihu	ZH US	1.23	801	Negative	Negative	Negative	NM	1.4	1.0	Negative	Negative
<b>Sector</b>			<b>553,366</b>	<b>27.1</b>	<b>24.5</b>	<b>23.0</b>	<b>4.9</b>	<b>4.1</b>	<b>3.6</b>	<b>13.6</b>	<b>13.1</b>
<b>Healthcare</b>											
Wuxi Biologics	2269 HK	68.20	37,066	59.1	41.5	30.0	1.5	16.8	12.0	34.2	24.8
Pharmaron	3759 HK	55.00	11,815		40.5		30	23.0		1.2	8.0

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Sector	Ticker	Price	Market cap.	PE(BLRI)			PEG	PS (BLRI)		EV/EBITDA(BLRI)	
		(Local)	(US\$m)	2022E	2023E	2024E	2022E	2022E	2023E	2022E	2023E
Joynn	6127 HK	46.70	5,783	51.2	54.1	35.7	2.6	17.6	12.8	27.9	23.8
Remegen	9995 HK	49.60	4,538	Negative	113.8	73.0	NM	22.4	11.2	Negative	38.2
Zai Lab	ZLAB US	42.82	4,192	Negative	Negative	Negative	NM	19.3	8.5	Negative	Negative
MicroPort MedBot	2252 HK	30.25	3,696	Negative	Negative	Negative	NM	295.8	57.8	Negative	Negative
<b>Sector</b>			<b>63,394</b>	<b>54.3</b>	<b>45.9</b>	<b>32.5</b>	<b>1.5</b>	<b>15.8</b>	<b>10.6</b>	<b>32.4</b>	<b>25.0</b>
<b>Internet</b>											
<b>Healthcare</b>											
JD Health	6618 HK	59.55	24,122	91.0	65.3	43.1	2.0	3.5	2.7	79.5	42.8
Alibaba Health	241 HK	4.34	7,478	216.7	83.2	54.1	2.2	2.1	1.8	Negative	Negative
Ping An Health	1833 HK	19.76	2,818	Negative	Negative	Negative	NM	2.6	2.1	Negative	Negative
Yidu Tech	2158 HK	7.85	992	Negative	Negative	Negative	NM	5.5	3.8	Negative	Negative
<b>Sector</b>			<b>35,410</b>	<b>120.8</b>	<b>69.5</b>	<b>45.7</b>	<b>2.0</b>	<b>3.2</b>	<b>2.5</b>	<b>60.7</b>	<b>32.7</b>
<b>Non-China</b>											
<b>Internet</b>											
Sea	SE US	67.7	38,013	Negative	Negative	Negative	NM	3.1	2.6	Negative	Negative
Coupang	CPNG US	17.2	30,458	Negative	184.9	39.9	NM	1.4	1.2	238	37.0
Z Holdings	4689 JP	426	23,707	38.6	28.0	23.6	1.4	2.0	1.8	11.5	10.3
Grab	GRAB US	3.4	13,208	Negative	Negative	Negative	NM	10.8	8.2	Negative	34.6
Krafton	259960 KS	250,500	9,191	16.6	18.7	17.5	(6.1)	6.3	5.8	9.0	10.2
Mercari	4385 JP	2,405	2,821	Negative	405.3	141.0	NM	2.6	2.3	Negative	56.9
<b>Sector</b>			<b>117,398</b>	<b>32.4</b>	<b>115.0</b>	<b>35.3</b>	<b>(0.7)</b>	<b>3.6</b>	<b>3.0</b>	<b>120.0</b>	<b>26.2</b>

Source: Blue Lotus Research (as of August 22, 2022)

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