

Two elections drive US-China re-engagement

- Presidents Xi and Biden will meet in tomorrow's APEC Summit, cumulating over 9 months of official and grass roots interactions since the balloon incident. We see intention to be real but impact to be small;
- We look at two issues to judge if there will be real progress made to benefit China's economy: (1) will key import tariffs be lifted; (2) will US dollar liquidity return. The answers to both are no. We notice pickup in regional tension in South China Sea and Taiwan Strait. We expect exchange of interests to be limited and tension to rise soon.

Why does US want to improve US-China relations?

In our view, it is the cave-in of Chinese economy that gives US administration a great opportunity to manoeuvre ahead of the 2024 election. Now is the best time to engage China for market opening concessions. Senator Schumer specifically mentioned semiconductor, financial and aerospace. We expect some exchanges.

Then why does China play along?

We believe the main reason is Taiwan, whose presidential election is in January and pro-independence candidates are leading the polls. China also needs US to help arresting the capital flight out of China and show endorsement to Xi's 3rd term.

Prevention of a Trump-Lai election victory a shared goal

Recent standoffs between coastal guards in Scarborough Shoal and between navies of three carrier strike groups near the Japan sea are escalation unseen before. The muted US reaction is also unseen before. This suggests the prevention of a Trump-Lai election victory has become a common ground for US and Chinese politicians.

Neither US nor China can back off from trade war promises

We don't think US will lift restrictive policies on solar PV, battery and EV as these initiatives are in place to encourage domestic investment and need 3-5 years to bear fruits. Similarly, we will see resistance from Chinese high-tech industries for lifting sanctions on firms like Micron, now that significant R&D has been spent. We see more concessions made by China as currently China needs US more than US needs China. We suggest investors to take profit ahead of the Taiwan election.

Key financial of stock mentioned

	Revenues			Non-GAAP op.profit			Non-GAAP NI		
	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E
Kanzhun(USD mn)	4,511	6,053	7,543	563	1,136	1,660	799	1,069	1,562
SMIC(USD mn)	7,273	6,358	8,881	1,500	103	624	1,836	743	891
Atour(RMB mn)	2,263	4,189	5,954	328	1,151	1,504	259	893	1,164
Luckin(RMB mn)	13,293	24,863	37,220	1,555	3,657	5,604	1,049	3,565	4,420

Source: Blue Lotus (as of November 14, 2023)

BUY

UR

SELL

Top picks

	Ticker	Rating	Target
SMIC	981 HK	BUY	HK\$24
Atour Lifestyle	ATAT US	BUY	US\$36.5

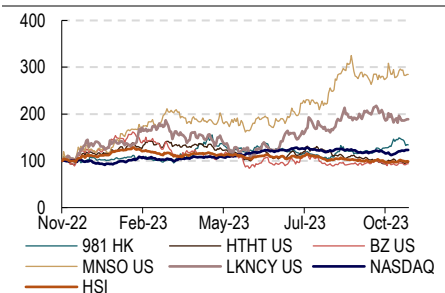
Source: Blue Lotus (as of November 14, 2023)

Stocks mentioned

Name	BBG Ticker	Rating	Target Price	Last Price	FY24 PE
Kanzhun	BZ US	SELL	US\$13.5	US\$15.0	45.1
Miniso	MNSO US	BUY	US\$31	US\$26.0	22.9
Luckin	LKNCY US	BUY	US\$42	US\$32.5	21.1

Source: Bloomberg, Blue Lotus (as of November 14, 2023)

Price performance and volume data



Source: Bloomberg (as of November 14, 2023)

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Blue Lotus Capital Advisors Limited

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Kanzhun Ltd.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(RMB mn)	2022A	2023E	2024E
Revenues	4,511	6,053	7,543
Cost of revenues	(755)	(1,122)	(1,622)
Gross profit	3,756	4,931	5,921
Gross margin	83%	81%	79%
Research and development expenses	(1,183)	(1,400)	(1,521)
Selling and marketing expenses	(2,001)	(2,476)	(2,756)
G&A expenses	(720)	(738)	(679)
Share-based compensation expense	(692)	(785)	(679)
Income from operations, GAAP	(130)	351	981
Operating margin, GAAP	(2.9%)	5.8%	13.0%
Income from operations, non-GAAP	563	1,136	1,660
Operating margin, non-GAAP	12.5%	18.8%	22.0%
Net income (loss), GAAP	107	284	883
Net margin, GAAP	2.4%	4.7%	11.7%
Net income (loss), non-GAAP	799	1,069	1,562
Net margin, non-GAAP	17.7%	17.7%	20.7%

Source: Kanzhun Ltd., Blue Lotus (as of November 14, 2023)

Exhibit 2. Balance sheet

(RMB mn)	2022A	2023E	2024E
Cash and cash equivalent	9,752	11,774	13,851
Short-term investments	3,458	3,458	3,458
Accounts receivable	10	1	2
Amounts due from related parties	6	9	12
Prepayments & other curr. assets	601	601	601
Non-current assets:	1,001	823	1,001
Property, equipment & software, net	691	529	707
Intangible assets, net	10	0	0
Right-of-use assets, net	290	290	290
Total Assets:	14,827	16,667	18,924
Accounts payable	185	(118)	(181)
Deferred revenue	2,061	2,736	3,111
Other payable and accr. liabilities	633	1,381	1,763
Operating lease liabilities, current	151	151	151
Non-current Liabilities:	155	144	144
Operating lease liabilities, non-current	144	144	144
Total Liabilities	3,186	4,294	4,989
Mezzanine equity:	0	0	0
Shareholders' deficit	11,641	12,373	13,935
Ordinary shares	1	1	1
Accumulated other comprehensive income/(loss)	695	75	754
Accumulated deficit	(3,586)	(3,153)	(2,270)
Total Liabilities, Mezzanine equity & shareholder deficit	14,827	16,667	18,924

Source: Kanzhun Ltd., Blue Lotus (as of November 14, 2023)

Company Description

Kanzhun Ltd. offers online recruitment service in China through its leading product Boss Zhipin that emphasizes two-way interactive communication between job seekers and employers. In 2022, we estimate Kanzhun's MAU to be 35-40% of total MAU of China's online job seeking segment and its revenue market share to be ~30%.

Industry View

We expect China's online recruiting service to grow from RMB80bn in 2022 to RMB135bn by 2025. Within online recruiting, we expect blue collar segment to grow from RMB38bn in 2022 to RMB72bn in 2025; White collar segment to grow from RMB37bn in 2022 to RMB54bn in 2025, and gold collar segment to grow from RMB4.7bn in 2022 to RMB9.1bn in 2025.

Exhibit 3. Cash flow statement

(RMB mn)	2022E	2023E	2024E
Net loss	107	284	883
Adjustment to net cash from operating activities			
Share-based compensation	692	785	679
Depreciation and amortization	140	125	185
Foreign exchange (gain)/loss	(9)	0	0
Amortization of right-of-use assets	147	0	0
Change in operating assets and liabilities:	(41)	1,124	692
Net cash from operating activities	1,003	2,319	2,439
Purchase of property, equipment & software	(340)	(297)	(362)
Proceeds from disposal of PP&E	0	0	0
Purchase of short-term investments	(5,213)	0	0
Proceeds from maturity of ST investments	2,746	0	0
Net cash from investing activities	(2,817)	(297)	(362)
Proceeds from issuance of preferred shares	0	0	0
Proceeds from issuance of Class A shares	250	0	0
Proceeds from borrowings	0	0	0
Repayment of borrowings	0	0	0
Repurchase of TECHWOLF shares	(919)	0	0
Net cash from financing activities	(669)	0	0
Effect of FX	893	0	0
Net (decrease)/increase in cash and cash equivalents	(1,590)	2,022	2,077
Cash and cash equal. at beginning of year	11,342	9,752	11,774
Cash and cash equivalents at end of year	9,752	11,774	13,851

Source: Kanzhun Ltd., Blue Lotus (as of November 14, 2023)

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Semiconductor Manufacturing Int'l: Financial Summary

Fiscal year ends 31-Dec.

Exhibit 4. Income statement

(US\$ mn)	2022A	2023E	2024E
Revenue	7,273	6,358	8,881
Cost of sales	(4,512)	(5,067)	(6,927)
Gross profit	2,762	1,291	1,954
Gross margin over net revenues	38.0%	20.3%	22.0%
Selling and marketing expenses	(733)	(712)	(799)
Administrative expenses	(494)	(440)	(488)
R&D	(34)	(36)	(41)
Operating profit, IFRS	1,836	381	1,015
Operating margin	25.2%	6.0%	11.4%
Operating profit, non-IFRS	1,500	103	624
Operating margin, non-IFRS	20.6%	1.6%	7.0%
Other income (expense), net	378	1,000	745
(Loss)/Profit before income tax	2,214	1,381	1,760
Income tax expense	(16)	(53)	(53)
Effective tax rate	(0.72%)	(3.81%)	(3.00%)
Profit for the year, IFRS	2,198	1,328	1,707
Profit for the year, non-IFRS	1,836	743	891
EBITDA	4,611	4,250	5,280

Source: Semiconductor Manufacturing Int'l, Blue Lotus (as of November 14, 2023)

Exhibit 5. Balance sheet

(US\$ mn)	2022A	2023E	2024E
NON-CURRENT ASSETS	27,915	33,403	41,750
Property, plant, and equipment	19,505	21,721	26,304
Land use right	654	754	854
Intangible assets	68	54	50
Investments in associates	1,859	2,045	2,250
Investments in joint ventures	20	23	27
CURRENT ASSETS	18,219	20,545	23,727
Inventories	1,181	1,451	2,101
Trade and other receivables	1,447	881	2,371
Cash and bank balances	10,955	13,181	13,989
TOTAL ASSETS	46,134	53,948	65,477
CURRENT LIABILITIES	3,932	3,366	5,631
Trade and other payables	58	51	71
Borrowings	1,447	881	2,371
Short-term notes	78	78	78
NON-CURRENT LIABILITIES	9,479	12,395	16,027
Total liabilities	13,411	15,762	21,657
Total equity	32,723	38,186	43,819
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	46,134	53,948	65,477

Source: Semiconductor Manufacturing Int'l, Blue Lotus (as of November 14, 2023)

Company Description

SMIC is Mainland China's most advanced and largest foundry. It provides integrated circuit (IC) foundry and technology services on process nodes from 0.35 micron to 7 nanometer. SMIC has five 300mm wafer fabrication facilities (fab) and two 200mm fabs, with 714K wafer/month capacity in 4Q22. SMIC is the world's 5th largest foundry by revenue, by our est., capturing 5% market share in 2022.

Industry View

We estimate that the global foundry industry will decline by 14% YoY to US\$ 105bn in 2023, of which we estimate SMIC's share will be 6%~. In 2022 the top five foundries, including SMIC, generated 92%~ of foundry revenues. Samsung and TSMC together generated 75%~ of global foundry revenues, per TrendForce.

Exhibit 6. Cash flow statement

(US\$ mn)	2022A	2023E	2024E
Profit for the year, IFRS	2,198	1,328	1,707
Adjustment	-	-	-
Depreciation	1,634	2,624	3,341
Amortization	34	36	38
Interest income	(349)	(775)	(310)
Finance costs	126	194	141
Other adjustments	(15)	7	(20)
Share based compensation	-	-	-
Working capital change	(1,613)	(431)	(529)
NET CASH FROM OPERATING	2,810	3,475	4,432
Capital expenditures	(5,985)	(4,904)	(8,021)
Change in investment	(189)	(208)	(228)
Change in LT investment	(192)	(202)	(212)
NET CASH USED IN INVESTING	(6,518)	(5,335)	(8,495)
Proceeds from borrowings	3,081	3,086	3,371
NET CASH FROM FINANCING	6,081	4,086	4,871
NET INCREASE IN CASH	2,373	2,225	808
Cash and equiv. at the beginning of the year	8,582	10,955	13,181
Cash and equiv. at the end of the year	10,955	13,181	13,989

Source: Semiconductor Manufacturing Int'l, Blue Lotus (as of November 14, 2023)

See the last page of the report for important disclosures

Atour Lifestyle Holdings Limited: Financial Summary

Fiscal year ends-31-Dec

Exhibit 7. Income statement

(RMB mn)	2022A	2023E	2024E
Net revenues	2,263	4,189	5,954
Total hotel operating costs	(1,393)	(2,007)	(3,562)
Other operating costs	(187)	(424)	(308)
Gross profit	683	1,759	2,084
Selling and marketing expenses	(140)	(336)	(330)
General and administrative expenses	(350)	(423)	(268)
Technology and development	(66)	(83)	(119)
Pre-opening expenses	0	0	0
Other operating income	38	60	77
Share based compensation	(163)	(175)	(60)
Operating profit, GAAP	165	977	1,444
Operating profit, non-GAAP	328	1,151	1,504
Interest income	14	18	33
Interest expense	(7)	(7)	(10)
Other income, net			
Gain from ST investment	(1)	(3)	0
Pre-tax profit	8	17	5
Income tax expense	181	1,004	1,472
Net income, GAAP	(84)	(285)	(368)
Net income attributable to shareholder, GAAP	96	719	1,104
Net income attributable to shareholder, Non-GAAP	98	717	1,104
GAAP diluted EPADS (RMB)	261	892	1,164
Non-GAAP diluted EPADS (RMB)	0.76	5.19	7.99

Source: Atour Lifestyle Holdings Limited, Blue Lotus (as of November 14, 2023)

Exhibit 8. Balance sheet

(RMB mn)	2022A	2023E	2024E
Cash and cash equivalents	1,590	3,405	5,273
Accounts receivable net	133	209	298
Prepayments and others	134	279	372
Amounts due from related parties	54	89	114
Inventories	57	135	213
Total current assets	2,125	4,117	6,270
Property and equipment net	360	340	343
Operating lease right-of-use assets	1,932	1,932	1,932
Other non-current assets	345	365	380
Total non-current assets	2,637	2,637	2,655
Total assets	4,762	6,754	8,924
Operating lease liabilities, current	320	346	346
Accounts payable	185	381	595
Deferred revenue	203	465	662
Salary and welfare payables	104	209	298
Accrued expenses	330	838	1,191
Other current liabilities	206	460	543
Total current liabilities	1,348	2,700	3,634
Total non-current liabilities	2,227	2,602	2,823
Total liabilities	3,575	5,302	6,457
Total equity	1,187	1,452	2,467
Total liabilities and equities	4,762	6,754	8,924

Source: Atour Lifestyle Holdings Limited, Blue Lotus (as of November 14, 2023)

Company Description

Atour Lifestyle Holdings Limited, which started operating in 2013, is the largest upper midscale hotel chain in China in terms of room number, operating 96% of hotel under manachised model and 4% as self-operated. As of June 30, 2023, it has operated 1,034 hotels with 120k rooms, covering 168 cities in China.

Industry View

We expect the lodging industry to grow at 5-yrs CAGR of 4.4% over 2022-2026E to reach RMB911bn, where the hotel industry to grow at 5-yrs CAGR at 5.6% to RMB749bn in 2026E. We expect the chain hotel ratio by room number to increase from 34% in 2021 to 48% in 2026E. We expect the hotel chains industry revenue to grow at 5-yrs CAGR of 10% to Rmb680bn in 2026E, where the upper midscale hotel chains to grow at 5-yrs CAGR of 22% to reach RMB170bn in 2026E, outpacing the overall hotel chains growth.

Exhibit 9. Cash flow statement

(RMB mn)	2022A	2023E	2024E
Net income	96	719	1,104
Adjustments:			
Depreciation and amortization	89	106	118
Gain from ST investment	(8)	0	0
Net loss on disposal of property and equipment	2	0	0
Net loss on disposal of intangible asset	0	0	0
Allowance for doubtful accounts	5	3	3
Deferred income tax expense (benefit)	10	0	0
Changes in working capital	(341)	1,113	826
Net cash used by operating activities	284	1,941	2,052
Net cash used in investing activities	(192)	(126)	(183)
Net cash used by financing activities	456	(0)	(0)
Net increase in cash	551	1,815	1,868
Cash at the beginning of the period	1,039	1,590	3,405
Cash at the end of the period	1,590	3,405	5,273

Source: Atour Lifestyle Holdings Limited, Blue Lotus (as of November 14, 2023)

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