



December 10, 2024

China Internet|BUY

Sector Update

Invest in China growth equity in high-rate environment

- Given Trump's overhaul of US economy and world trade, US interest rate may stay at high levels and Chinese Renminbi might depreciate further, both negative for our sectors from a foreign investor perspective;
- We expect China to respond strongly to Trump Tariff 2.0, which will necessitate bigger stimulus, leading to a scenario of a policy overdose;
- We propose to look for: (1) high dividend yield, (2) US-dollar exposure, (3) policy overdose exposure in stock selection. We add TRIP and ATAT to our DMC (Despite Macro) and reiterate our MMC (Macro Mauled) portfolios.

A fragile bull market under the weight of rates and currency

Chinese equity picked up on hopes of government stimuli and the so-far-so-good impact on the economy. But this is overshadowed by the prospects of Rmb depreciation under (1) a pause or reversal of US rate cut and (2) a currency response to Trump's Tariff 2.0. Domestic A-shares can ignore but foreign investors must embrace another bout of Rmb depreciation which cuts into their returns.

US rates may stay high throughout 2025

As most Trump's policies are inflationary, the prospect of US rate cut is now substantially dimmed. The prospect of a strong dollar is gaining strength. If federal fund rate stays at today's level (4.58%) in 2025, instead of 3.75% as the current consensus goes, it would have cost US government US\$300bn of incremental interest payment, or ~4% of US annual government budget. However, if Elon Musk's Department of Government Efficiency (DOGE) successful cut spending by US\$500-1,000bn, high interest may not be an immediate issue.

Domestic liquidity favours A-and H-share over ADR

For domestic A-share investors, currency depreciation is not a direct concern. H-share can benefit from south-bound inflow of spill-over liquidities.

Buy high dividend stocks to offset the currency impact

Since HK dollar is pegged to the US dollar, HKSE stocks can mitigate the currency loss, but cannot offset the earnings risk of a weak functional currency. Investors can look for additional return of a high dividend yield and/or active buybacks to compensate. In our universe, Vipshop, Alibaba and JD.com are the top three high-dividend+active-buyback HKSE stocks to own. Exhibit 10 shows the ranks.

Key financial of stock mentioned

(RMB mn)	Revenues			Non-GAAP op.profit			Non-GAAP NI		
	2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025
Tencent Hldg.	609,015	658,328	747,595	187,592	239,583	259,798	124,778	190,944	206,11
Alibaba	941,168	1,014,312	1,130,993	164,009	177,973	192,125	80,009	167,726	123,99
Xiaomi	270,970	363,340	484,839	17,370	26,139	39,370	15,431	24,692	33,74
FUTU	10,008	11,533	12,892	5,298	5,922	6,658	4,583	5,090	5,69
Ctrip	44,562	53,156	63,700	13,158	16,343	20,534	13,071	18,527	22,01

Source: Bloomberg, Blue Lotus (as of December 20, 2024)

BUY

UR

SELL

Top picks

Name	BBG Ticker	Rating	Target Price
Atour	ATAT US	BUY	US\$37
Ctrip	TCOM US	BUY	US\$74
Meituan	3690 HK	BUY	HK\$165

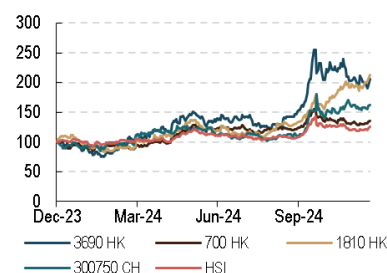
Source: Bloomberg, Blue Lotus (as of December 10, 2024)

Stocks mentioned

Name	BBG Ticker	Rating	Target Price
Alibaba	BABA US	BUY	US\$120
Tencent	700 HK	BUY	HK\$518
Xiaomi	1810 HK	BUY	HK\$33
JD.com	JD US	BUY	US\$50
Futu	FUTU US	BUY	UR
Beike	BEKE US	BUY	US\$25
Kanzhun	BZ US	BUY	US\$17
CATL	300750 CH	BUY	RMB301
Bilibili	BILI US	BUY	US\$22
Kuaishou	1024 HK	BUY	HK\$75

Source: Bloomberg, Blue Lotus (as of December 10, 2024)

Price performance and volume data



Source: Bloomberg, Blue Lotus (as of December 10, 2024)

Research team

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Blue Lotus Capital Advisors Limited

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Trip.com Group Ltd.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(RMB mn)	2023A	2024E	2025E
Revenues	44,562	53,156	63,700
biz tax and related surcharges	(52)	(69)	(50)
Net revenue	44,510	53,087	63,650
Cost of revenues	(8,121)	(9,607)	(11,457)
Gross profit	36,389	43,480	52,193
Product development	(12,120)	(13,252)	(15,288)
Sales and marketing	(9,202)	(11,789)	(14,014)
General and administrative	(3,743)	(4,119)	(4,905)
Share-based compensation	(1,834)	(2,022)	(2,548)
Operating profit, non-GAAP	13,158	16,343	20,534
Interest income	23	462	462
Other income	(667)	2,357	2,357
Equity in income of affiliates and minority interest	1,072	3,469	3,469
Profit before taxation, GAAP	11,752	20,609	24,274
Income tax	(1,750)	(2,478)	(4,671)
Profit for the year	10,002	18,131	19,604
Minority interests	(84)	(136)	(136)
Profit to shareholders	9,918	17,995	19,468
Profit to shareholders - Non GAAP	13,071	18,527	22,016
EPADS, diluted, GAAP (RMB)	14.84	26.92	29.13
EPADS, diluted, non-GAAP (RMB)	19.56	27.72	32.94

Source: Trip.com Group Ltd. (as of December 10, 2024)

Exhibit 2. Balance sheet

(RMB mn)	2023A	2024E	2025E
CURRENT ASSETS	88,732	108,105	131,344
Cash and cash equivalents	43,983	59,633	77,341
Short-term investments	17,748	17,748	17,748
Prepayments	12,749	14,272	17,103
Account receivables	11,410	13,610	16,310
NON-CURRENT ASSETS	130,405	131,288	131,376
PPE	5,142	6,112	6,357
Investments	49,342	49,342	49,342
Intangible and goodwill	71,936	71,849	71,692
Other non-current assets	3,985	3,985	3,985
TOTAL ASSETS	219,137	239,393	262,720
CURRENT LIABILITIES	72,411	73,810	78,455
Account payables	16,459	15,792	15,695
ST borrowings	25,857	25,857	25,857
Advance from customers	13,380	14,476	17,264
Other current liabilities	16,715	17,686	19,640
NON-CURRENT LIABILITIES	23,720	23,720	23,720
LT debt	19,099	19,099	19,099
TOTAL LIABILITIES	96,131	97,530	102,175
SHAREHOLDER'S EQUITY	122,184	141,176	159,995
Retained earnings	28,806	47,798	66,617
TOTAL LIABILITIES & EQUITY	219,137	239,393	262,720

Source: Trip.com Group Ltd. (as of December 10, 2024)

Company Description

Trip.com Group Limited is a leading one-stop travel platform globally, integrating a comprehensive suite of travel products and services and differentiated travel content. TCOM accounted for 55% of China's OTA market share in 2023. TCOM's revenue in 2Q24 reached 12.8bn, increased 13.5% YoY.

Industry View

China reopening in 2023 has effective boost travel market in China, we expect China travel GMV recovered to 82% of 2019 level in 2023, and further back to 92% in 2024E. We expect China travel market to increase at 12% 3 yrs CAGR in 23'-25'. The OTA market in China is highly concentrated with top 5 players contributed 95% of share.

Exhibit 3. Cash flow statement

(RMB mn)	2023A	2024E	2025E
Net income	10,002	18,131	19,604
Adjusted for			
Share based compensation	1,834	2,022	2,548
Equity income of affiliates	(1,072)	(3,469)	(3,469)
Depreciation	627	667	710
Amortization	190	173	158
Depreciation	190	173	158
Deferred income tax	(761)	0	0
Change in working capital	9,256	(2,324)	(886)
Cash flow from operations	22,004	15,200	18,664
Capex	(606)	(797)	(955)
Increased in restricted cash	0	0	0
Increase in ST investment	3,827	0	0
Cash from investing	5,919	(797)	(955)
Cash from financing	(2,547)	1,247	0
Net increase in cash	25,496	15,650	17,709
Cash at beginning of the year	18,487	43,983	59,633
Cash at end of the year	43,983	59,633	77,341

Source: Trip.com Group Ltd. (as of December 10, 2024)

See the last page of the report for important disclosures

Atour Lifestyle Holdings Limited: Financial Summary

Fiscal year ends-31-Dec

Exhibit 4. Income statement

(RMB mn)	2023A	2024E	2025E
Net revenues	4,666	7,239	9,923
Total hotel operating costs	(2,241)	(3,138)	(3,844)
Other operating costs	(586)	(1,119)	(1,825)
Gross profit	1,839	2,981	4,254
Selling and marketing expenses	(470)	(887)	(1,310)
General and administrative expenses	(451)	(370)	(645)
Technology and development	(77)	(121)	(149)
Pre-opening expenses	0	0	0
Other operating income	83	70	40
Share based compensation	(164)	(37)	(99)
Operating profit, GAAP	924	1,673	2,190
Operating profit, non-GAAP	1,088	1,710	2,290
Interest income	30	47	53
Interest expense	(5)	(4)	(4)
Other income, net	(1)	5	0
Gain from ST investment	33	39	5
Pre-tax profit	982	1,761	2,245
Income tax expense	(243)	(459)	(561)
Net income, GAAP	739	1,302	1,684
Net income to shareholder, GAAP	737	1,305	1,684
Net income attributable to shareholder, Non-GAAP	903	1,339	1,783
GAAP diluted EPADS (RMB)	5.32	9.41	12.14
Non-GAAP diluted EPADS (RMB)	6.50	9.67	12.86

Source: Atour Lifestyle Holdings Limited, Blue Lotus (as of December 10, 2024)

Exhibit 5. Balance sheet

(RMB mn)	2023A	2024E	2025E
Cash and cash equivalents	2,841	5,736	8,462
Accounts receivable net	162	362	496
Prepayments and others	252	452	584
Amounts due from related parties	116	160	197
Inventories	119	259	397
Total current assets	4,241	6,969	10,137
Property and equipment net	266	375	436
Operating lease right-of-use assets	1,713	1,713	1,713
Other non-current assets	367	383	398
Total non-current assets	2,345	2,471	2,546
Total assets	6,587	9,440	12,683
Operating lease liabilities, current	296	346	346
Accounts payable	595	724	992
Deferred revenue	406	804	1,103
Salary and welfare payables	190	362	496
Accrued expenses	684	1,448	1,985
Other current liabilities	207	530	632
Total current liabilities	2,378	4,214	5,554
Total non-current liabilities	2,149	3,036	3,372
Total liabilities	4,527	7,250	8,926
Total equity	2,060	2,190	3,757
Total liabilities and equities	6,587	9,440	12,683

Source: Atour Lifestyle Holdings Limited, Blue Lotus (as of December 10, 2024)

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 September 30, 2024, it has operated 1,533 hotels with 175k rooms, covering 183 cities in China.

Industry View

We expect the lodging industry to grow at 3-yr CAGR of 4.4% over 2023-2026E to reach RMB911bn, where the hotel industry to grow at 3-yr CAGR at 5.6% to RMB749bn in 2026E. We expect the chain hotel ratio by room number to increase from 41% in 2022 to 48% in 2026E. We expect the hotel chains industry revenue to grow at 3-yr CAGR of 10% to Rmb680bn in 2026E, where the upper midscale hotel chains to grow at 3-yr CAGR of 22% to reach RMB177bn in 2026E, outpacing the overall hotel chains growth.

Exhibit 6. Cash flow statement

(RMB mn)	2023A	2024E	2025E
Net income	739	1,302	1,684
Adjustments:			
Depreciation and amortization	107	121	141
Gain from ST investment	0	0	0
Net loss on disposal of property and equipment	0	0	0
Net loss on disposal of intangible asset	0	0	0
Allowance for doubtful accounts	3	3	3
Deferred income tax expense (benefit)	0	0	0
Changes in working capital	890	1,677	1,185
Net cash used by operating activities	1,738	3,103	3,012
Net cash used in investing activities	(136)	(208)	(286)
Net cash used by financing activities	(0)	(0)	(0)
Net increase in cash	1,252	2,894	2,726
Cash at the beginning of the period	1,590	2,842	5,736
Cash at the end of the period	2,842	5,736	8,462

Source: Atour Lifestyle Holdings Limited, Blue Lotus (as of December 10, 2024)

See the last page of the report for important disclosures

Futu Holdings Limited (NASDAQ: FUTU)

Fiscal year ends-31-Dec

Exhibit 7. Exhibit 1. Income statement

(HKD mn)	2023A	2024E	2025E
Total revenues	10,008	11,533	12,892
Brokerage commission	3,945	5,172	5,717
Interest income	5,536	5,724	5,675
Other income	527	637	1,100
Cost of revenue	(1,536)	(2,059)	(1,916)
Brokerage commission and handling charge expenses	(250)	(307)	(381)
Interest expenses	(911)	(1,330)	(695)
Processing and servicing costs	(376)	(422)	(839)
Gross profit	8,472	9,474	10,976
Total operating expense	(3,465)	(3,899)	(4,576)
Research and development	(1,441)	(1,445)	(1,752)
Selling and marketing	(710)	(1,191)	(1,225)
General and administrative	(1,313)	(1,263)	(1,600)
Operating profit	5,007	5,575	6,400
Non-GAAP operating profit	5,298	5,922	6,658
Others, net	33	9	-
Pre-tax income	5,041	5,584	6,400
Income tax expense	(748)	(841)	(960)
Net income	4,292	4,743	5,440
Net income attributable to shareholder	4,278	4,743	5,440
Non-GAAP Net income	4,583	5,090	5,698

Source: Futu Holdings Limited, Blue Lotus (as of December 10, 2024)

Exhibit 8. Exhibit 2. Balance sheet

(HKD mn)	2022A	2023E	2024E
Cash and restricted cash	4,647	5,047	5,535
Cash held on behalf of clients	55,838	60,642	66,512
Term deposit	6	6	6
Loans and advances	25,295	30,966	32,080
Receivables	8,340	12,240	12,566
Interest	254	254	254
Prepaid assets	29	29	29
operating lease	197	197	197
Other assets	1,640	1,640	1,640
Total assets	96,349	111,124	118,922
Amounts due to related parties	155	192	192
Payables:	51,977	76,283	78,468
Interest	10	10	10
Short-term borrowings	1,945	-	-
Securities sold to repurchase	-	-	-
Operating lease	109	109	109
Accrued expenses and others	1,706	1,706	1,706
Total liabilities	55,902	78,300	80,485
additional paid in capital	18,155	18,155	18,155
other comprehensive loss	(48)	(48)	(48)
Accumulated deficit	26,664	19,041	24,654
Treasury stock	(4,325)	(4,325)	(4,325)
Total equity	40,446	32,823	38,436
Total liabilities and equity	96,349	111,124	118,922

Source: Futu Holdings Limited, Blue Lotus (as of December 10, 2024)

Company Description

FUTU is an advanced technology company that provides its clients a fully digitalized brokerage platform. Its advanced features and community spirit helped to accumulated high quality users, whose average age is 35, with high earnings. FUTU currently operates in four regions, including mainland China, HK, United States, and Singapore.

Industry View

The global online security trading market has increased from US\$77tn in 2018 to US\$150tn in 2023, with online penetration at 54%. Mobile internet development/ retail investor participation/ demanding on high quality investor community and products are the main contributors to the extending online retail investor base.

Exhibit 9. Exhibit 3. Cash flow statement

(HKD mn)	2023A	2024E	2025E
Net (loss)/income	4,292	4,743	5,440
Adjustments for:			
Depreciation and amortization	50	57	68
Expected credit loss	-	-	-
Loss from equity investments	-	-	-
Impairment from equity investment	-	-	-
Foreign exchange gains	-	-	-
Share-based compensation	291	347	258
Realized gain from financial securities	-	-	-
Deferred income tax expenses	(16)	(16)	(15)
Amortisation of right-of-use assets	-	-	-
Changes in operating assets:	2,615	(9,571)	(1,439)
Changes in operating liabilities:	(17,087)	24,343	2,185
Net cash generated from operating activities	(9,855)	19,902	6,497
Gain from PPE	(80)	(101)	(101)
Gain from financial securities	-	-	-
Placement of term deposit	-	-	-
Net cash used in investing activities	(80)	(101)	(101)
Net cash generated from financing activities	-	-	-
Exchange loss	10	14	(37)
Net increase in cash	(9,925)	19,815	6,359
Cash at beginning	55,714	60,485	65,689
Cash at end	60,485	65,689	72,048

Source: Futu Holdings Limited, Blue Lotus (as of December 10, 2024)

See the last page of the report for important disclosures

Investment in a high yield environment

- **China's response to Trump Tariff 2.0 might be stronger than expected:** In Trump Tariff 1.0 (2019), China allowed Rmb to depreciate 10-15% and thus largely absorbed the tariff cost on behalf of the US consumers. We believe this is unlikely to happen this time as (1) it only encourages Tariff 2.0 and (2) the US is on the heel of high inflation this time. We therefore see possibilities of China weaponize trade to retaliate. On November 15, 2024, China announced it would cancel the export VAT rebate for several China-dominated categories of goods and reduce the rebate for solar PV and battery. We view this as a precursor to weaponize trade by forcing the Chinese exporters to raise price. More of such measure may come. We further believe China may not allow Rmb to depreciate substantially because it sees the need to (1) break the mould of the US high interest-rate+tariff, (2) balance the trade with Road & Belt countries so they can buy more Chinese exports by importing to China more and along the way, (3) enhance the use of Rmb in global trade;
- **Looking for stocks that benefit from a high interest-rate environment:** Our sectors generally lack such stocks but FUTU (FUTU, BUY, UR) is a noticeable exception. It benefits from high interest rate from the cash deposit received from and the margin loans lent to its customers, but loses from dampened trading activity usually associated with a high rate environment. However, roughly 3/4 of FUTU's trading volume is based on HKSE, which will benefit from spilled over liquidity from the domestic A-shares. If US interest rate in 2025 stays at 4.58% today instead of 3.75% as forecasted, it would add US\$600mn interest income to FUTU's bottom-line, an upside of 11% from 2024;
- **Looking for stocks that can benefit from China's responses:** First of all, we believe China exporters will be hit hard if China decides to pose a strong response to Trump. More people will lose their jobs and thereby benefiting Meituan (3690 HK, BUY, HK\$165) and Didi (DIDI US, NR) by adding supply of delivery workers and ride-hailing drivers. We estimate that the number of registered riders under Meituan in 2024 increases to 9mn at 20% YoY, outpacing Meituan's order volume growth at 16% YoY, leading to a reduction delivery costs per order. Despite a 3% YoY decrease in Meituan's average order volume in 2024, the average profit per order is still increases by 22% YoY. The cost reduction resulting from cheap labor supply is one of the main factors. We believe this trend will continue in 2025. Additionally, we anticipate that the pending government policies to enhance rider social welfare (e.g. medical insurance and pension insurance) will not be promoted in 2025, as the priority is to absorb the employed population.
- **This means a substantial fiscal stimulus to save especially employment:** China lost 8-10mn potential jobs in the past five years by our estimate. With a noticeable decline in business confidence, employment picture is poised to worsen in C1H25. With monetary policy toolbox constrained by lingering high U.S. interest rates, expanding fiscal expenditures becomes a necessary option. We expect the coming Central Economic Work Conference (CEWC) in mid-December to provide definitive measure in support of employment and consumption, as well as a higher employment target to be disclosed at the National People's Congress (NPC) in February;
- **Add TCOM and ATAT to our DMC portfolio:** The DMC Portfolio (Despite Macro Champion) are sector champions enjoy market-share changing structural product cycle that defies the challenging macro environment. This list today consists of **Xiaomi, Meituan, Bilibili,**

China may need to keep Rmb high to balance the trade with Road & Belt countries so they can buy more Chinese exports.

We believe China may weaponize trade in Tariff War 2.0.

We expect fiscal stimulus with specific measures to save employment.

As services subsidy about to be added to stimulus, we add TRIP and ATAT to the DMC Portfolio and reiterate Meituan as well.

See the last page of the report for important disclosures

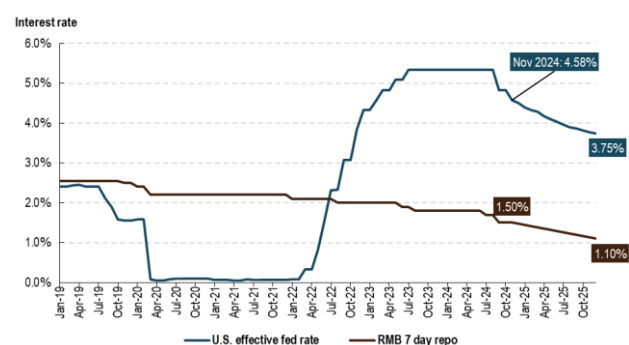
Tencent, JD.com, CATL, TCOM and ATAT. All except TCOM are on our TOP BUY list. The MMC Portfolio (Macro Mauled Champion) are sector champions with sector wide headwinds from China's economy challenges of deflation, property collapse and deteriorating trade environment. We expect MMC to benefit the most from expanded stimulus policies and some may move to the DMC camp. The MMC Portfolio now consists of **Beike, Alibaba, Kanzhun and Kuaishou.**

Exhibit 10. Dividend + share repurchase yield ranking within our coverage

Name	Ticker	Total yield (TTM)	Share repurchase yield (TTM)	Dividend yield (TTM)
Vipshop	VIPS US	9.9%	6.6%	3.3%
Alibaba	BABA US/9988 HK	9.7%	7.9%	1.8%
JD.com	JD US/9618 HK	8.9%	6.7%	2.1%
ZTO	ZTO US/2057 HK	5.4%	0.3%	5.1%
Beike	BEKE US/2423 HK	4.6%	2.9%	1.7%
Boss Zhipin	BZ US/2076 HK	4.1%	2.9%	1.2%
Tencent	700 HK	3.7%	2.8%	0.8%
Baidu	BIDU US/9888 HK	3.3%	3.3%	-
NetEase	NTES US/9999 HK	3.1%	1.6%	1.5%
Meituan	3690 HK	2.7%	2.7%	-
Kuaishou	1024 HK	2.4%	2.4%	-
Miniso	MNSO US/9896 HK	2.1%	0.4%	1.7%
Atour	ATAT US	1.6%	-	1.6%

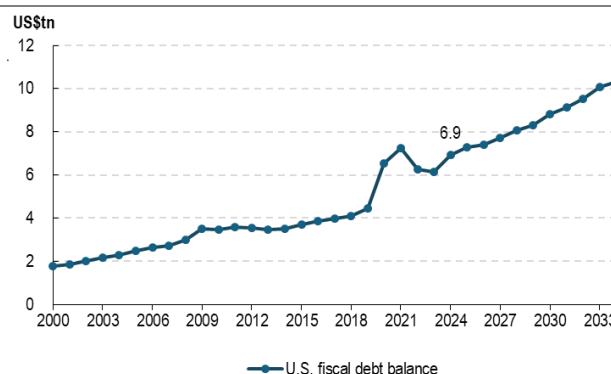
Source: Company data, Blue Lotus (as of December 10, 2024)

Exhibit 11. U.S. rate cuts create space for China



Source: Federal Reserve Board, PBoC, Blue Lotus (as of December 10, 2024)

Exhibit 12. DOGE may bring U.S. fiscal spending down



Source: The Office of Management and Budget, Blue Lotus (as of December 10, 2024)

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