

How to get into Hong Kongâ??s pre-IPO action

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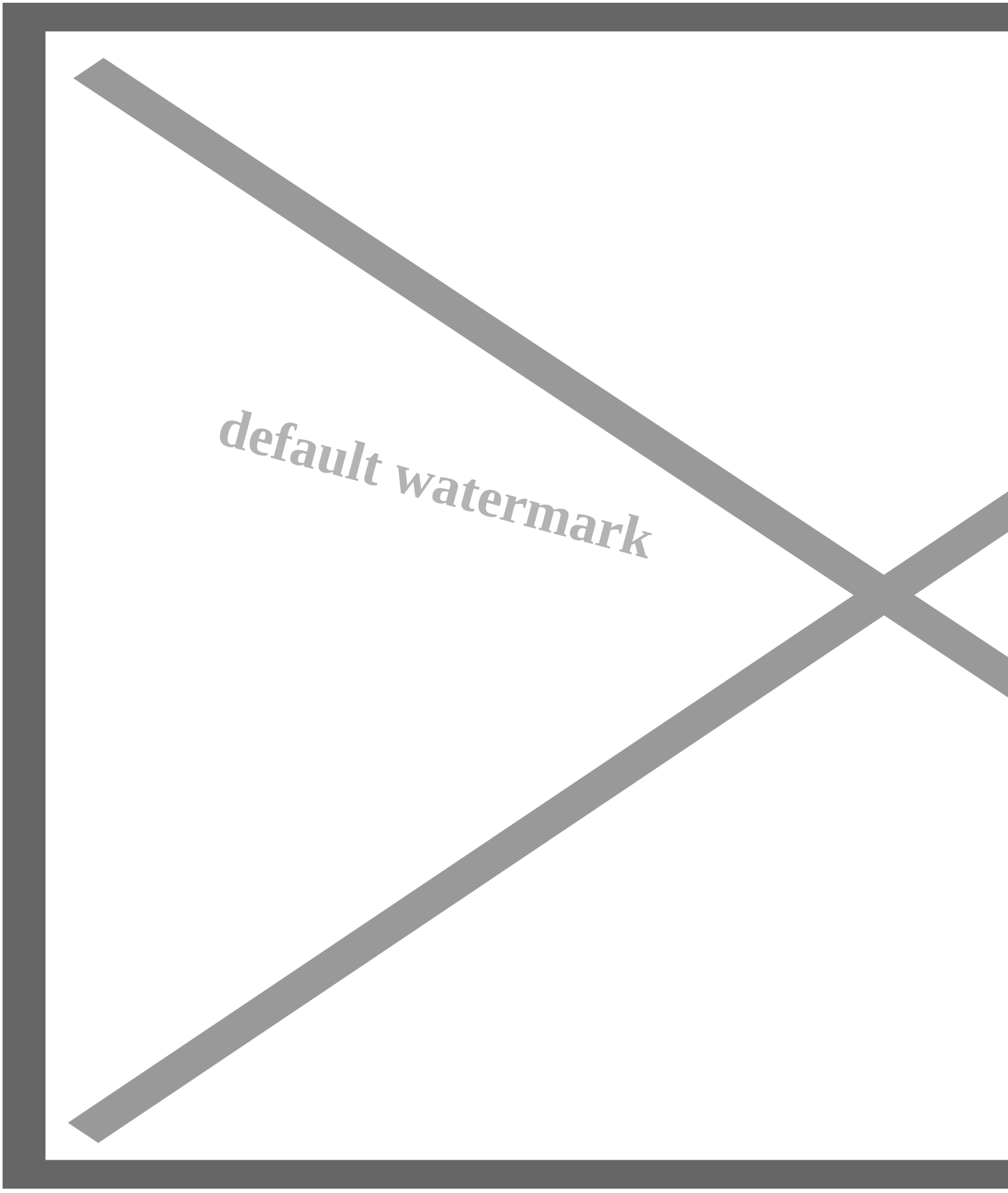
If youâ??ve been trying to find a way to capitalize on Hong Kongâ??s IPO action lately given that your brokerage doesnâ??t offer pre-IPO access, POEMS could be an alternative. Closer to home, Hong Kong is home to many large Chinese companies, offering investors a means to ride on the larger China growth story. With the laggard performance of the STI Index in 2020, the past year has shown the need for investors to diversify beyond our local Singapore equity markets.

If youâ??ve not invested in Hong Kong yet, you might be missing out.

The recent IPOs of Nongfu Spring (oversubscribed by 1,147 times) and Kuaishou (oversubscribed by 1,200 times) show that thereâ??s still a lot of money to be made. At time of writing, investors who bought into Nongfu Spring pre-IPO are sitting on 170% gains (even investors who bought off the open market on the first day are now up 65%).

With the surge of mainland Chinese investors purchasing Hong Kong shares via the Stock Connect schemes, we could very well see prices rising higher.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With Chinaâ??s economic performance in recent years and more Chinese companies getting into the spotlight, investors in Singapore can ride on the upward trend through stocks listed in Hong Kong or China A-Shares via the SH-HK Stock Exchange. While the relationship between China and the US will remain an ongoing concern, Chinese companies are starting to prove themselves as a strong competitor to their Western counterparts, attracting even overseas investors like Berkshire Hathaway. And according to Charlie Munger, the strongest companies in the world are now in China and not in America anymore.

I do hold a number of HK-listed shares myself, including Tencent and Alibaba. In fact, while my holdings in Alibaba were previously its ADR-shares on NYSE, Iâ??ve since sold them and moved to its HK-listed counterpart with all the uncertainty over Trumpâ??s announcement on the delisting of Chinese companies.

I was recently drawn to **BYD** (HKSE:1211) and **GDS** (HKSE:9698) when I chanced across analyst reports on them on POEMS.

If youâ??ll like to assess the same analyst reports that I did, just login to your POEMS account and click on News & Research > Research Report > Hong Kong > Research Coverage.

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BYD: The Chinese EV-maker backed by Berkshire-Hathaway

The Chinese governmentâ??s policies on electric vehicles are causing the growth of the EV industry, and BYD is well-poised to benefit from this tailwind.

BYD is a major player in the Chinese market, and has grown to become a major manufacturer of automobiles, battery-powered bicycles, buses, truck, forklift, solar panels, rechargeable batteries, and most notably mobile-phone batteries.

Sales of its newest models have been extremely promising, with 31% year-on-year growth based on November 2020â??s vehicle sale numbers despite a pandemic-stricken year.

While net revenue and profit fell (as expected) in Q1 FY2020, it rebounded quickly to 120% and 1,362% in the subsequent quarters, setting a record high for the company, and management expects Q4â??s profit to be up 2,356% y-o-y. Thatâ??sâ?¦some pretty high standards to beat, even if theyâ??re of your own.

Note that the company recently announced they intend to issue no more than 183 million H shares to raise funds, which will dilute profits and shareholder holdings in the short-term.

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POEMSâ?? analyst used a Sum-Of-The-Parts analysis to derive BYDâ??s valuation:

- Original business (automobile, mobile phone, rechargeable battery and photovoltaic): HK $89 â?? 139 per share
- Power battery business: : HK $94 â?? 138 per share
- Semiconductor business: HK $8.90 â?? 12.50 per share

Total SOTP valuation = $192 â?? $290 per share, representing an upside of between 6% to 60% based on 9 Decemberâ??s closing price of $179.
At time of writing, BYD has already risen to $255.
As Iâ??m bullish about the EV industry in China and given that Berkshire Hathaway is the biggest shareholder in BYD, this report definitely made me take a closer look and add 1211 to my watchlist for monitoring.

GDS: Data Centres in China for Rising Consumption

China is also one of the largest and fastest-growing digital economy in the world. Their rapid adoption of new technologies such as 5G, cloud computing, IoT and artificial intelligence has exponentially increased the volume of data created, transmitted, processed and stored, most of which will take place within data centers, with no signs of slowing down.

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GDS is a leading high-performance data center and IT infrastructure service provider in China, with 98% of its self-developed data centers located in first-tier markets such as Shanghai, Beijing, Shenzhen, Guangzhou and Hong Kong. These are strategic areas with the highest density of Internet users, with a high proportion of data and applications that are mission-critical and latency-sensitive.

Its contracts are 71% with cloud services customers, with a contract duration of 6 â?? 10 years.

Customers include Alibaba and Tencent, which account for 55% of total contracted area.

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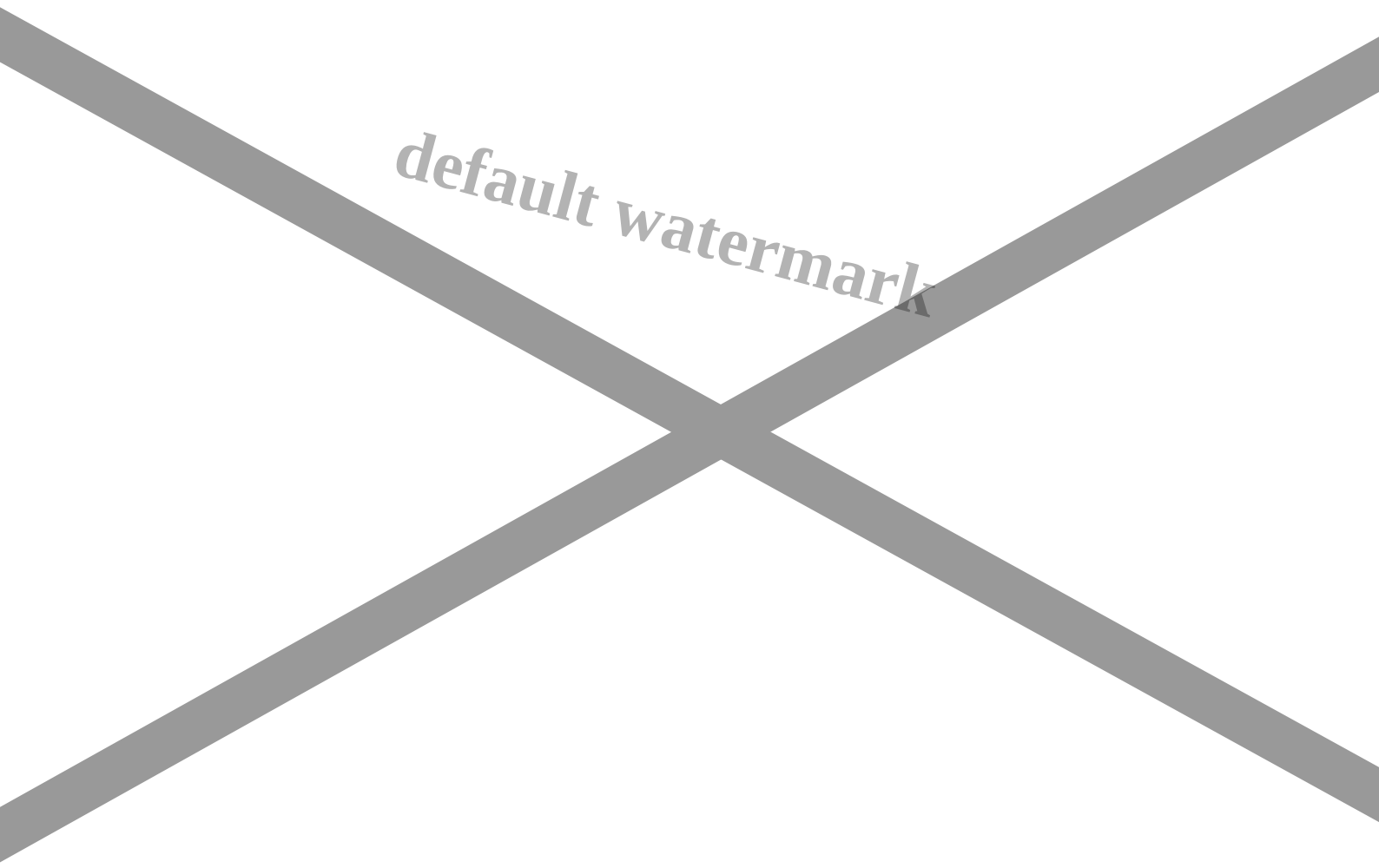
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In terms of competition, the IDC market structure in China is 62.3% dominated by the 3 major telecommunication operators (China Mobile, China Unicom, and China Telecom).
But the downside with telco operators is that because they often rely on the operatorsâ?? own networks to connect, and customers lack the flexibility to connect with other operatorsâ?? networks. This leaves a gap for third-party IDC companies like GDS, which are neutral to operators and cloud service providers, so their customers can access all major telecommunications networks in China.

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GDS leads the third-party IDC market with a market share of 21.9% (but 4.8% of the total IDC market in China).

For future growth, as of June 30, 2020, the Company has significant land reserves which could be used to build more data centers to capture enterprise-level clients in these key Tier 1 markets. In total, the Company holds a net floor area of 320,000 sqm for future development, which is double the room for development compared with the total net computer room area of its present 250,000 Sqm in operation

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Iâ??d never heard of GDS prior to this report, so this certainly stoked my interest as well!

Where to view the HK reports

If youâ??re the sort who do enjoy reading analyst reports from time to time, especially when it comes to uncovering potential stock ideas like these, donâ??t forget to make full use of your POEMS account for such access. While the depth of research varies in each report, what I like is that theyâ??re mostly written by locals who have ground insights into the situation in Hong Kong and China, which gives me an alternate perspective vs. what I can glean here in Singapore.

Some of the reports also reference original information sources in Chinese, so that can be really helpful for those of you who might have difficulties reading the Chinese language, but still want to ride on the growth of Chinese companies anyway.
Another potential tool to use is the **Stock Analytics** function on POEMS. If youâ??re using the POEMS 2.0 mobile app instead, then this is found under Watchlist > Stock Analytics.
Particularly useful if you donâ??t have a paid subscription for Bloomberg or Thomson Reuters data, because here you can see details on a stockâ??s financial data, business, valuations, operating performance, and more.
I personally prefer to cross-check and run my own numbers after that, but this serves as a good overall view first before I decide whether the stock piques my interest enough to delve deeper into research.

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Get Access to Pre-IPO Hong Kong Stocks

Whatâ??s more, if you were bummed about missing out on several IPOs this year, fret not because on POEMS, you can also trade by buying 1 day before the stockâ??s official listing on the HKEX.

Some interesting counters worth watching include **Kuaishou** (Stock Code: 1024) which is ByteDanceâ??s biggest (video app) competitor, or even the niche **Suzhou Basecare Medical Device** (Stock Code: 2170) which develops genetic screening and diagnostic devices to detect chromosomal abnormalities in embryos.

You can check out the full pre-IPO calendar here.
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Tier	Rate	Minimum
Starter	0.08%	HKD 30
Premier	0.06%	HKD 20
Privilege	0.05%	HKD 15

Disclosure: This post is written in collaboration with POEMS by PhillipsCapital.

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