

# EVALUATE NEWSLETTER

August 2021

Welcome to Evaluate Research's Newsletter for Aug 2021! This newsletter focuses on:

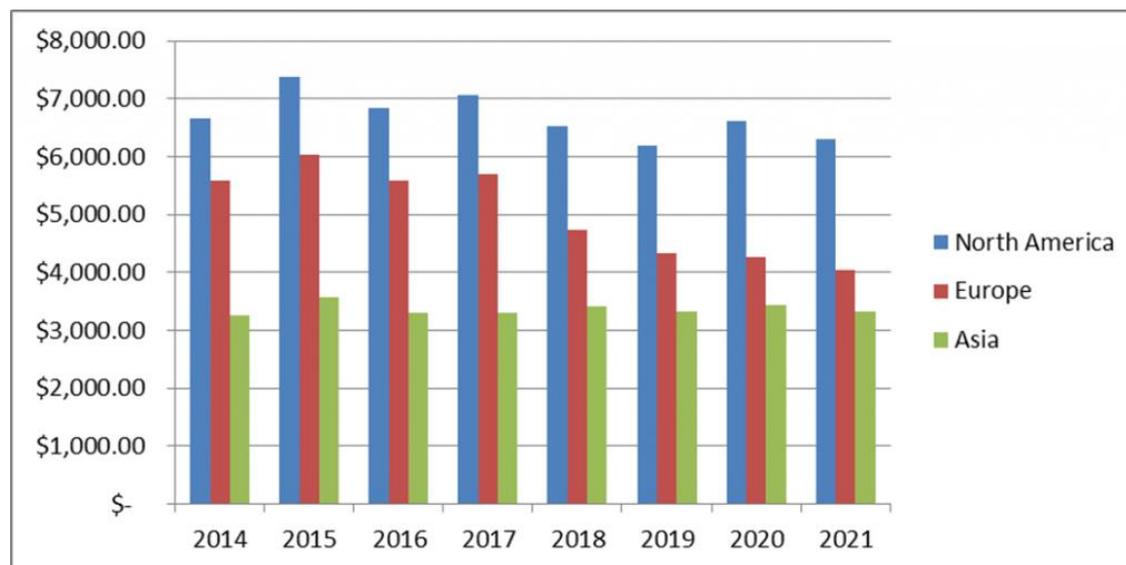
- Challenges faced by mid-cap & under-covered companies – declining research spending globally
- Expanding our research coverage universe with 2 new recos:
  - US-listed Hywin: China's 3<sup>rd</sup> largest independent wealth management provider; value + growth
  - Jinchuan-HK: Inflection point, huge base of quality resources, strong demand for copper & cobalt

## Challenges Faced By Mid-Cap & Under-Covered Companies:

### Latest data on declining research spending globally

Buy-side spending on sell-side and independent investment research is expected to fall 4.5% to \$13.66 bn in 2021, according to Integrity Research's annual Investment Research Industry Outlook. This represents a 19.6% decline in annual research expenditures from the peak spending level of \$19.98 bn seen in 2015.

Many European and US asset managers are expected to continue limiting their spending on research in 2021, in response to MiFID II which makes most asset managers fund research from their own P&Ls. According to Integrity Research's forecast [see below chart], research spending in Europe should drop 5.4%, spending in North America will fall 4.8%, and research spending in Asia is expected to fall 2.8% in 2021.



Source: Integrity Research

Interestingly, since an increasing number of asset managers are now spending their own funds for sell-side and independent research, their overall spending on research continues to decline. Both asset managers [buy-side] and brokerage firms [sell-side] are seeing ongoing fee and commission pressure, leading to declining analyst headcount and less companies followed, particularly small-caps.

Evaluate Research has been providing research coverage on under-covered companies with good valuations since more than 6 years now, and we believe that our services add value to small & mid-cap companies helping them to communicate their investment thesis to all kinds of investors through our institutional quality, detailed and objective reports as well as our wide dissemination on major global investment platforms.

Our CEO, Sandy Mehta, CFA, who has over 30 years of investment experience, has been recently interviewed by *The Wall Street Transcript*, a leader in detailed interviews of CEOs, money managers, and industry experts for over 50 years.

Please see our CEO's **interview** in the link below:

<https://evaluatorresearch.com/wp-content/uploads/2021/07/TWST-Wall-Street-Transcript-2021.pdf>

## **Exciting 2 New Recos on HK & US-listed under-covered companies**

### **Hywin: China's 3<sup>rd</sup> largest independent wealth management provider; Value + Growth**

We are quite excited to be the only firm covering recent IPO Hywin Holdings [NASDAQ: HYW], China's third largest, and most rapidly growing, independent wealth management provider and investment advisor. The stock is a unique mix of rapid growth, industry leadership, and clear deep value. Hywin most recently reported 98% net income growth for the March quarter, an acceleration from the 84% first half ended December 2020. Numerous interactions with management give us confidence in our investment thesis.

As China's economy continues to grow and the number of High Networth Individuals surges, the opportunities for Hywin continue to multiply. Hywin has a 7.5% market share in the industry, which continues to rise. Hywin was #1 in the industry with 26.5% transaction value 3-year [FY17-19] CAGR and 23% growth in FY06/2020. Hywin operates in a secular growth area, as the third party wealth management penetration rate is only 6.2% in China in 2019, versus 32% in Hong Kong & 62% in USA. The company's stock, trading at a sizable discount to its recent IPO price, provides investors with very favorable risk-reward based on high FCF and ROE, a large net cash position, and a single-digit price/earnings ratio.

Report Link: <https://evaluatorresearch.com/wp-content/uploads/2021/06/Hywin-Holdings-Ltd-Initiation-Report.pdf>

### **Jinchuan-HK: Inflection Point, Large Base of Quality Resources, Strong Demand for Copper & Cobalt**

Jinchuan Group International Resources [2362\_HK] is a supplier of copper and cobalt operating mines located in Africa. The company has high quality mineral resources of 4,640 kilo tons of contained copper and 447 kilo tons of contained cobalt at the end of December 2020. The company has mineral reserves of 1,137 kilo tons of contained copper and 200 kilo tons of contained cobalt at the end of December 2020, enough to support 10 years of mining activity with additional ore resources that could extend the mine life to 20 years and beyond.

Jinchuan International aims to become a world-class mineral corporation. With an expectation of rapidly increasing sales volume, a sustained higher pricing premium for copper and cobalt and reducing costs, the company's revenues and earnings should grow at an above average pace in the next 3 years. We believe that the stock is currently at a multiyear inflection point and expect earnings to increase significantly in FY2021 supported by continuously rising copper and cobalt prices.

Report Link: <https://evaluatorresearch.com/wp-content/uploads/2021/07/Jinchuan-International-Resources-Initiation-Report.pdf>