招銀国际
CMB INTERNATIONAL

China Strategy Outlook 2022

Crouching Tiger Ready to Leap

Contents

2021 Market & Strategy Review

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Global recovery & inflation; China stocks lagged

Economy: Recovering from COIVD while inflations spiked

In 2021, global economy and financial markets recovered from COVID-19. Although the pandemic has not yet ended with a new variant Omicron appeared at the end of Nov, vaccinations and the policy of “living with the virus” adopted by the West, coupled with fiscal and monetary stimuli, have resulted in a significant recovery of the global economy. As demand recovered, supply failed to catch up. Supply chain disruption and labour shortages caused by the pandemic stimulated prices to rise sharply. The US CPI rose 6.2% YoY in Oct, a 31-year high, and the core CPI inflation reached 4.6%. Eurozone CPI inflation rose to a 13-year high at 4.1%, and core CPI inflation reached 2.0%.

Stock markets: US & Europe led gains; China lagged behind

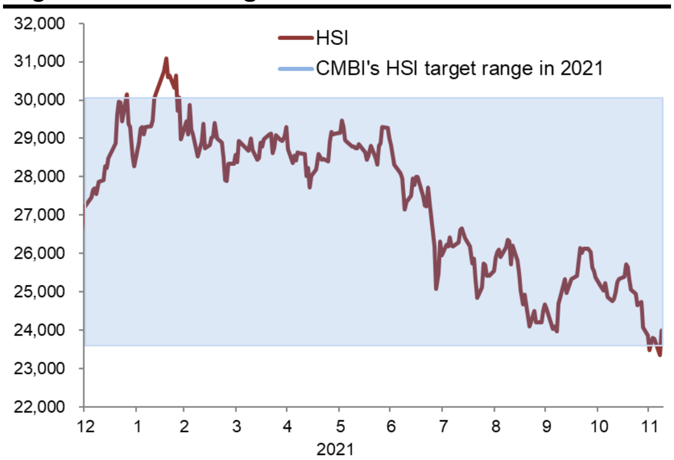
Driven by both economic recovery and quantitative easing, US and European stock markets performed brilliantly in 2021, setting record highs after highs. The Chinese stock market has lagged significantly, dragged by economic slowdown, prudent monetary policy, and tightening regulations on various industries.

CMBI Strategy Review: HSI target in line; Top picks gained

HSI trading range in line with our target

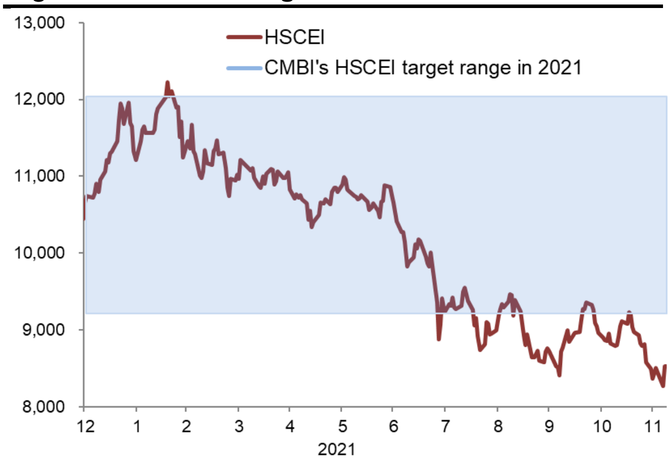
Our <2021 Strategy Report> published on 10 Dec 2020 predicted that the Hang Seng Index will trade within a range of 23,600 – 30,000 in 2021. It turned out that the HSI peaked in Feb and bottomed in Nov. The actual range is 23,175 – 31,183, which is quite close to our forecast. As for the Hang Seng China Enterprises Index, our target range was 9,200 – 12,000. The actual peak 12,272 was close to our forecast, and the trough 8,258 was 10% below our forecast.

Figure 1: HSI’s range in 2021 vs CMBI forecast



Source: Bloomberg, CMBIS; as of 8 Dec 2021

Figure 2: HSCEI’s range in 2021 vs CMBI forecast



Source: Bloomberg, CMBIS; as of 8 Dec 2021

Top picks outperformed benchmarks

Our 18 top picks a year ago have gained 3.3% in prices on average, outperforming the HSI / HSCEI / Hang Seng Technology Index / MSCI China Index by 13 / 22 / 30 / 21 percentage points.

Figure 3: Performance of CMBI's top picks in 2021

Stock	Ticker	Price at Recommendation (LCC)	Latest Price (LCC)	Price Change (%)	High Price (LCC)	Max. Price Gain (%)
Meituan	3690 HK	286.4	245.2	-14.4%	460.00	60.6%
Bilibili	BILI US	73.06	61.16	-16.3%	157.66	115.8%
Xiaomi	1810 HK	27.50	19.22	-30.1%	35.90	30.5%
BYDE	285 HK	38.80	30.60	-21.1%	63.10	62.6%
CR Beer	291 HK	65.35	64.35	-1.5%	78.60	20.3%
Jiumaojiu	9922 HK	18.82	14.74	-21.7%	38.70	105.6%
JXR	1951 HK	13.96	9.77	-30.0%	24.55	75.9%
Hope Edu	1765 HK	2.00	1.53	-23.5%	3.47	73.5%
PSBC	1658 HK	4.33	5.63	30.0%	6.37	47.1%
CPIC	2601 HK	29.50	23.30	-21.0%	42.75	44.9%
CICC	3908 HK	17.94	21.75	21.2%	25.75	43.5%
CR Land	1109 HK	30.80	34.15	10.9%	41.30	34.1%
Shimao	813 HK	24.70	8.33	-66.3%	26.90	8.9%
Zoomlion-H	1157 HK	9.22	5.30	-42.5%	13.98	51.6%
Jingsheng	300316 CH	28.48	70.88	148.9%	84.99	198.4%
Xinyi Solar	968 HK	13.06	14.56	11.5%	24.80	89.9%
Longyuan	916 HK	6.24	17.14	174.7%	20.25	224.5%
China Gas	384 HK	29.15	14.68	-49.6%	35.00	20.1%
Average				**3.3%**		72.7%
HSI		26,503	23,997	**-9.5%**	31,183	17.7%
HSCEI		10,488	8,523	**-18.7%**	12,272	17.0%
HS Tech		8,102	5,970	**-26.3%**	11,002	35.8%
MSCI China		105.7	86.9	**-17.7%**	130.7	23.7%

Source: Bloomberg, CMBIS; as of 8 Dec 2021

2022 Market Outlook & Strategy

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Rebound in sight as bear market ends

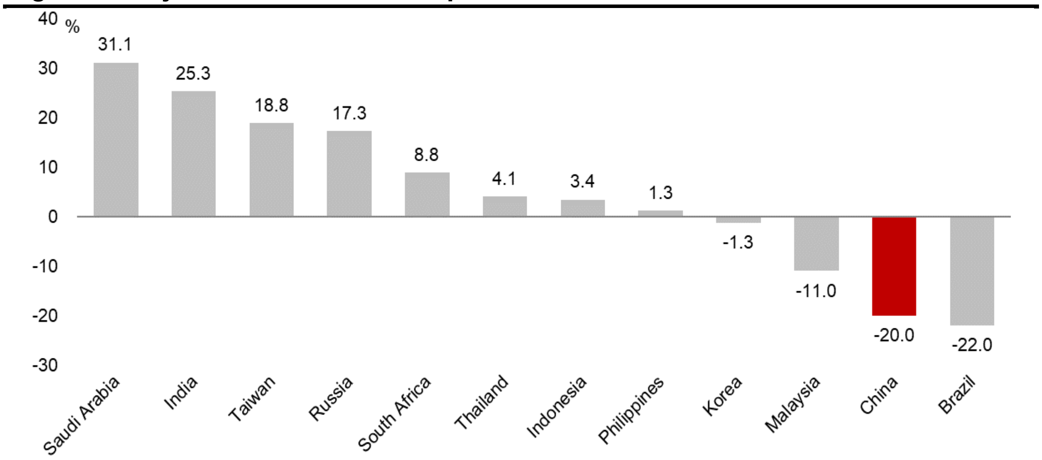
HK stock market to re-rate from distressed valuation

Underperformed other EM by a large margin

Among the major emerging markets, China has been the second worst performing in 2021.

We reviewed the annual performance of 11 major emerging stock markets, sorted in descending order each year. With the exception of Brazil, individual market rarely ranked among the worst two for two consecutive years. In other words, the two emerging markets with the weakest performance in a certain year will generally not underperform significantly in the following year, exhibiting a certain degree of mean reversion.

Figure 4: Major EM stock markets' performance in 2021



Source: MSCI Index, Bloomberg, CMBIS; as of 7 Dec 2021

Figure 5: Major EM stock markets' annual returns

Legend	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
China	-1%	53%	21%	115%	59%	69%	79%	75%	-19%	121%	36%	5%	35%	13%	26%	0%	61%	52%	0%	41%	34%	25%
India	-14%	52%	19%	103%	30%	51%	55%	64%	-41%	100%	26%	1%	28%	12%	25%	-2%	49%	29%	-4%	28%	29%	19%
Korea	-17%	26%	14%	80%	25%	50%	54%	57%	-41%	92%	23%	0%	27%	9%	24%	-3%	22%	29%	-5%	22%	27%	17%
Taiwan	-17%	15%	5%	70%	19%	40%	46%	52%	-47%	90%	22%	-1%	21%	7%	13%	-3%	13%	24%	-6%	20%	17%	9%
Thailand	-30%	5%	-3%	65%	12%	40%	44%	33%	-48%	71%	19%	-3%	19%	3%	13%	-3%	12%	23%	-7%	14%	-1%	4%
Philipines	-32%	2%	-3%	60%	11%	19%	41%	31%	-49%	63%	17%	-12%	12%	2%	13%	-5%	10%	21%	-8%	8%	-2%	3%
Indonesia	-32%	-4%	-12%	45%	4%	16%	30%	31%	-51%	59%	17%	-20%	10%	0%	5%	-10%	2%	21%	-9%	5%	-9%	1%
Malaysia	-42%	-17%	-16%	37%	4%	13%	24%	23%	-52%	57%	15%	-20%	9%	-3%	-8%	-11%	0%	19%	-13%	4%	-10%	-1%
Russia	-45%	-19%	-26%	33%	-1%	11%	15%	16%	-57%	56%	8%	-21%	9%	-5%	-9%	-12%	-1%	14%	-15%	3%	-14%	-11%
Brazil	-49%	-22%	-28%	23%	-1%	7%	2%	11%	-58%	46%	4%	-25%	7%	-11%	-17%	-19%	-2%	9%	-19%	-2%	-17%	-20%
South Africa	-50%	-26%	-34%	9%	-6%	-2%	-6%	5%	-74%	22%	3%	-26%	-4%	-19%	-49%	-43%	-3%	0%	-20%	-6%	-21%	-22%

Source: MSCI Index, Bloomberg, CMBIS; as of 7 Dec 2021

Cheap in terms of absolute valuation…

The HSI hit a YTD low at 23,175 at the end of Nov 2021, and its P/B ratio fell to as low as 0.96x. After a slight rebound, it is still at only 0.99x, which is similar to the troughs in previous stock market crises, including that in the early stage of the COVID outbreak in Mar 2020. However, compared with the early stage of the pandemic, the world has now mastered a certain degree of knowledge in the treatment, prevention, and response policies of COVID, so the uncertainties are far smaller than in Q1 2020. Even after considering the regulatory risks and the weakening of the real estate market in China in the past six months, the easing of pandemic risk should be enough to support the stock market valuation to be significantly higher than the trough level at the beginning of last year.

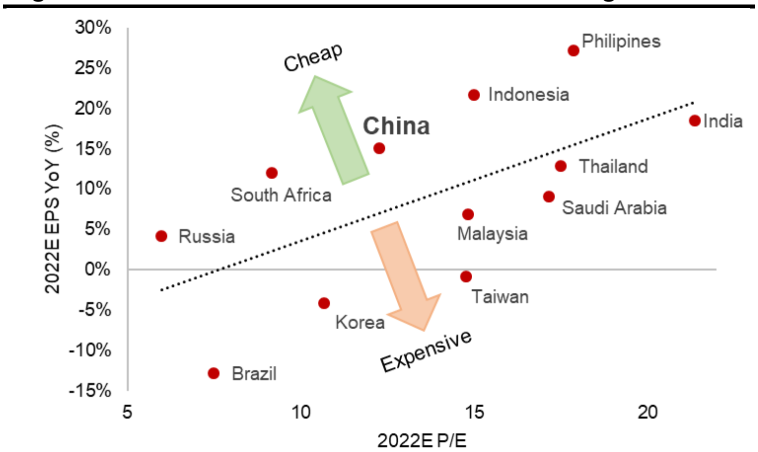
Figure 6: HSI's P/B dropped below 1x

Source: Bloomberg, CMBIS; as of 8 Dec 2021

…and relative to other EM

As mentioned above, the Chinese stock market has not only failed to rise along with the US and European markets in 2021, but also underperformed other major emerging markets by a large margin, so the current valuation is relatively cheap. Comparing the estimated P/E ratios and earnings growth rates of major emerging stock markets in 2022, we found China's earnings growth rate is among the highest, while P/E ratio is relatively low. In other words, among emerging markets, China is relatively attractive.

Figure 7: EM stock markets' 2022E P/E vs EPS growth



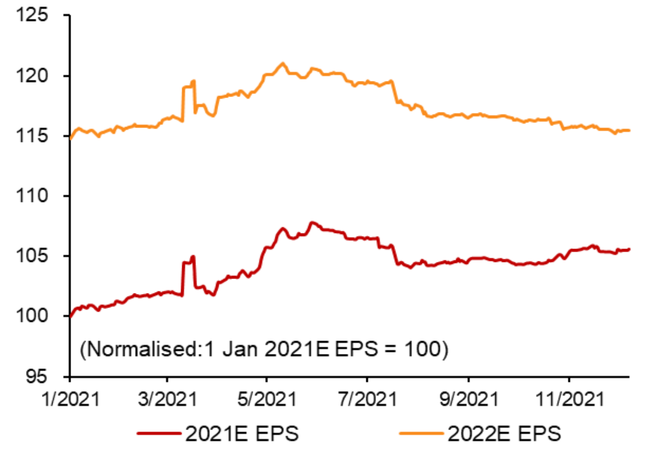
Source: MSCI Index, Bloomberg, CMBIS; as of 7 Dec 2021

Earnings outlook: China & HK to accelerate on low base

China and Hong Kong stocks lagged far behind US stocks, and the divergence in corporate earnings has been a key factor. The earnings of the US S&P 500 index rebounded sharply in 2021 and are expected to be much higher than the pre-pandemic (2019) level, but the earnings of the HSI and MSCI China Index in 2021 are still expected to be lower than in 2019. However, looking forward to the next two years, the low base effect is expected to make the profit growth rate of China and Hong Kong stocks higher than that of the US stocks. The market estimates that HSI earnings will grow by 11% and 14% in 2022 and 2023, and the MSCI China Index earnings are expected to grow by 15% and 16%. S&P 500 earnings are expected to grow by only 7% and 9%.

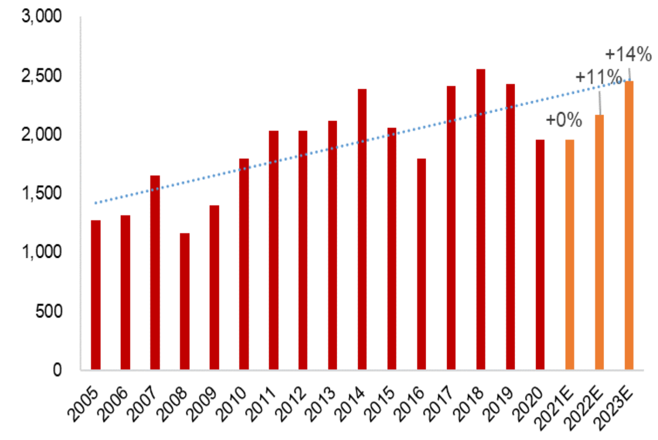
Besides, after the HSI's earnings forecasts were slashed in Q3 2021 due to regulatory risks and disappointing interim results, recent earnings forecasts have largely stabilised.

Figure 8: HSI's EPS forecasts



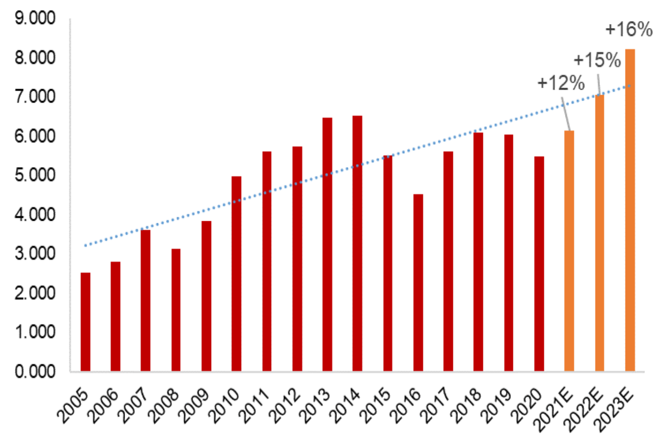
Source: Bloomberg, CMBIS *adjusted for changes in constituents

Figure 9: HSI's annual EPS



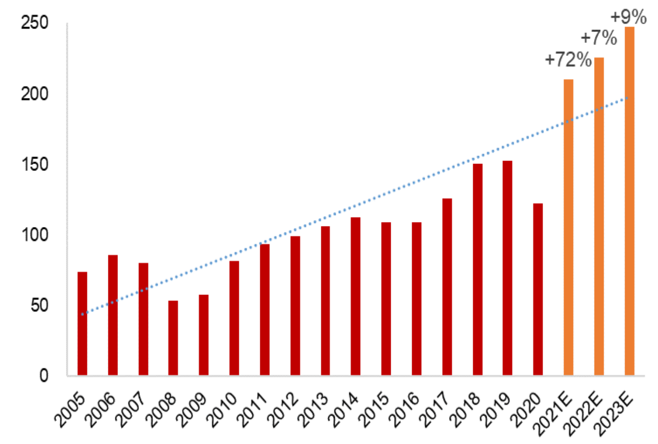
Source: Bloomberg, CMBIS; as of 7 Dec 2021

Figure 10: MSCI China's annual EPS



Source: Bloomberg, CMBIS; as of 7 Dec 2021

Figure 11: S&P 500's annual EPS



Source: Bloomberg, CMBIS; as of 7 Dec 2021

Bear market drawdown and duration requirements are met

In the past 30 years, the Hang Seng Index has experienced 9 bear markets (not including this year's). Except for the bear market triggered by COVID last year, which lasted for only 2 months, the other bear markets lasted for 9-14 months, with an average of about 11 months, and a decline of 27%-67%, with an average of 42%. The current bear market began from the peak 31,183 in Feb 2021, and the trough was 23,175 at the end of Nov 2021. The downturn has lasted for 9 months, with a decline of 26%, which has already met the minimum drawdown and duration requirements of a bear market.

Figure 12: HSI's drawdown % and duration in bear markets

Peak & Trough dates	Drawdown time	Peak - Trough	Drawdown %
Feb 2021 – Nov 2021	**9 months**	**31,183 – 23,175**	**26%**
Jan 2020 – Mar 2020	2 months	29,150 – 21,129	28%
Jan 2018 – Oct 2018	9 months	33,484 – 24,541	27%
Apr 2015 – Feb 2016	10 months	28,589 – 18,279	36%
Nov 2010 – Oct 2021	11 months	24,989 – 16,170	35%
Oct 2007 – Oct 2008	12 months	31,958 – 10,676	67%
May 2002 – Apr 2003	11 months	12,022 – 8,332	31%
Jul 2000 – Sep 2001	14 months	18,126 – 8,894	51%
Aug 1997 – Aug 1998	12 months	16,820 – 6,545	61%
Jan 1994 – Jan 1995	12 months	12,599 – 6,890	45%

Source: ETNet, CMBIS; as of 8 Dec 2021

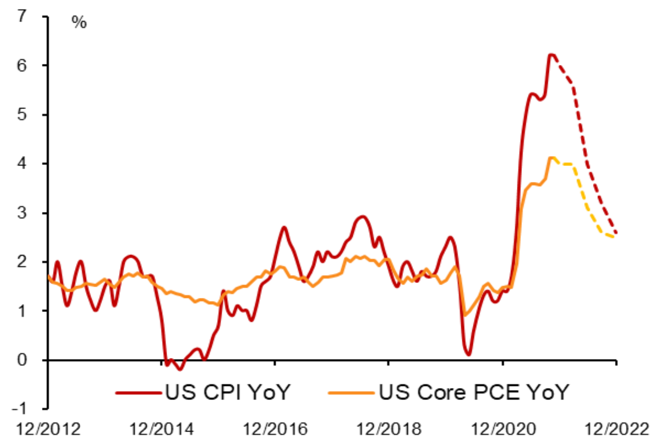
Normalization of inflation and monetary policy

The COVID pandemic that broke out in early 2020 has caused an extraordinary lifestyle, an extraordinary stock market volatility, an extraordinary monetary policy, and extraordinary supply-demand dynamics and inflations. After almost two years, the above aspects are gradually normalising, and they are expected to continue to normalise in 2022.

Inflation: US inflation to moderate; China's PPI-CPI gap to narrow

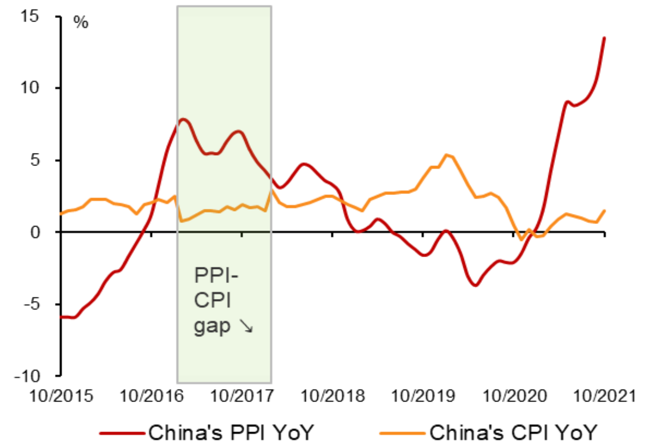
Inflations in the US and Europe are now high, but are expected to moderate in 2022 on high base as supply chain disruptions caused by the pandemic would gradually ease. The Federal Reserve estimated in Sep 2021 that the US core PCE (personal consumption expenditure; the Fed's main inflation indicator) growth rate will fall to 2.3% in 2022 (the growth rate in 2021 is expected to be 3.7%), and the latest market estimate is that core PCE growth rate will drop to 2.5% in 2022, and CPI inflation will drop to 2.6%.

Figure 13: US inflations expected to peak out



Source: Bloomberg consensus, CMBIS

Figure 14: China's PPI-CPI gap to narrow



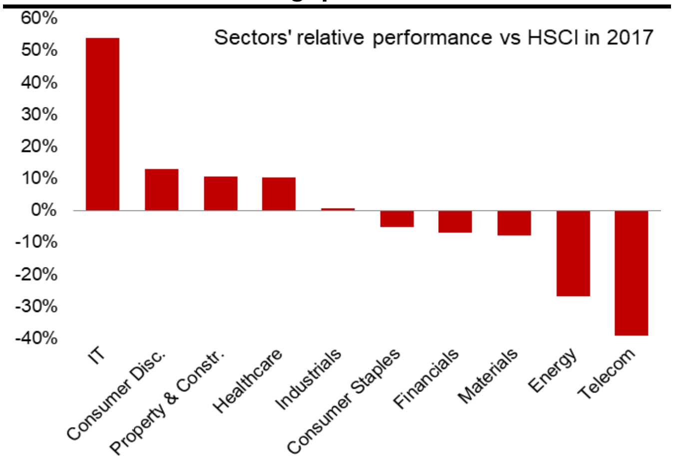
Source: Bloomberg, CMBIS

China's price trends are quite different from those of the US and Europe. The increase in inflation in 2021 are mainly in PPI, while CPI inflation remains low. Therefore, the gap between PPI and CPI has reached a new high. Looking ahead to 2022, PPI inflation is expected to decline on a high base, to 3.9% YoY for the full year. CPI inflation is expected to rise to about 2% in 2022, as pork price is expected to stabilise and rebound next year.

- **Sector implication: Shift from Upstream to Downstream**

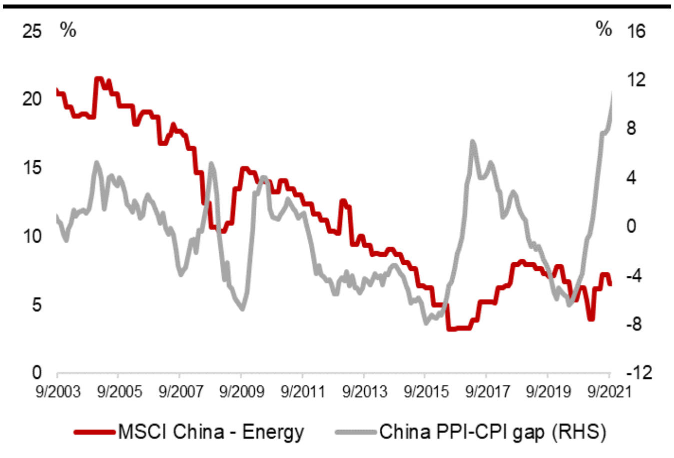
The gap between China's PPI and CPI narrowing will be similar to year 2017. When the PPI inflation fell from its peak of 7.8% in Feb 2017, CPI inflation began to rise. During this period, the performance of various sectors in HK stock market diverged, with growth stocks (Information Technology, Healthcare, Consumer) outperforming value stocks (Financials, Materials, Energy, Telecommunications). One of the major reasons was that the profit growth of upstream companies was slowing down along with PPI inflation, causing Materials and Energy to underperform. On the other hand, the pressure on the profit margin of downstream companies was easing, which benefited Consumer and Healthcare sectors.

Figure 15: HK stock's performance by sector in 2017 when China's PPI-CPI gap narrowed



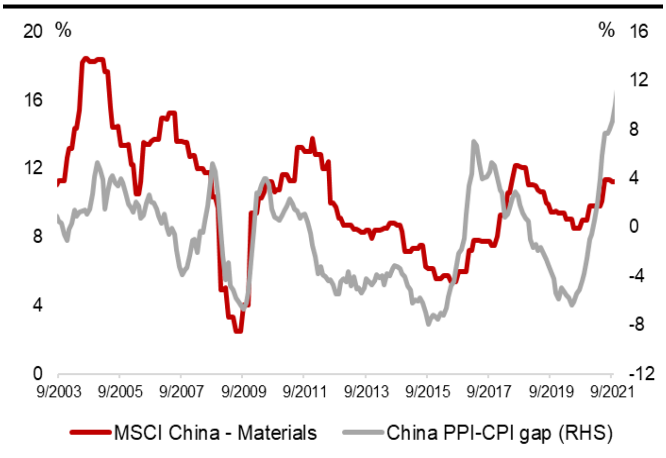
Source: Bloomberg, CMBIS

Figure 16: China's PPI-CPI gap vs Energy stocks' OPM



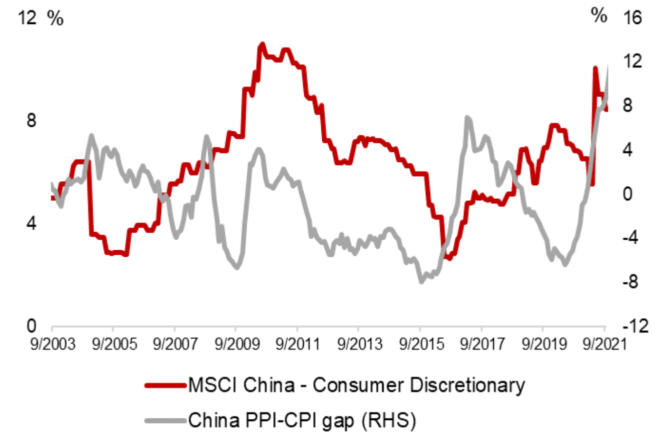
Source: Bloomberg, CMBIS

Figure 17: China's PPI-CPI gap vs Materials stocks' OPM



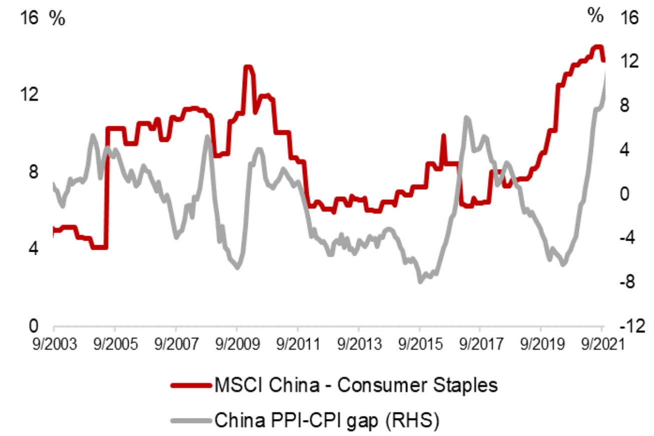
Source: Bloomberg, CMBIS

Figure 18: China's PPI-CPI gap vs Consumer Discretionary stocks' OPM



Source: Bloomberg, CMBIS

Figure 19: China's PPI-CPI gap vs Consumer Staples stocks' OPM



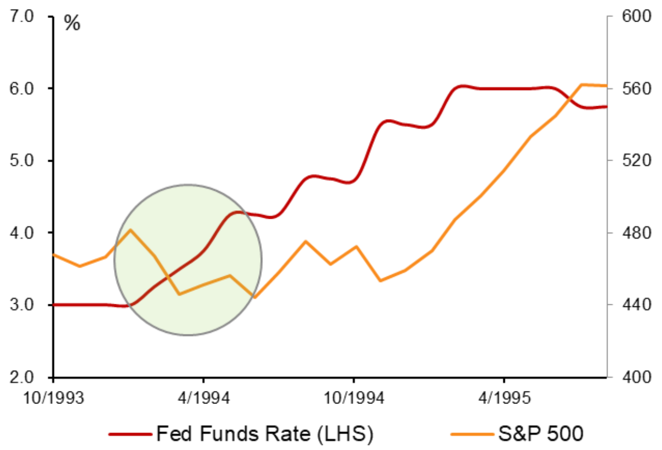
Source: Bloomberg, CMBIS

Monetary policy: the Fed to end QE and then raise interest rates

The US Federal Reserve began to gradually reduce asset purchases (quantitative easing) in Nov 2021, and Chairman Powell pointed out at the end of Nov that they would consider accelerating the pace of tapering. It is believed that the Fed will conclude QE in 1H 2022, and then raise interest rates around mid- to 2H 2022.

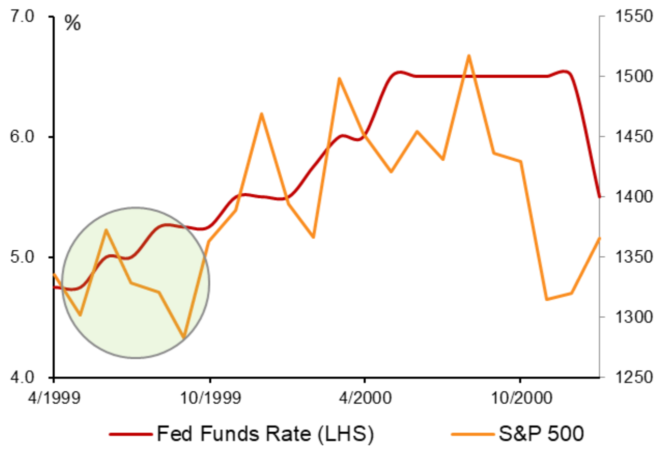
It must be pointed out that the Fed are still printing money to inject liquidity into the market during the tapering period, only that the rate of injection is gradually slowing down. When asset purchases end, the Fed will not reduce its holdings immediately, and so it is not going to withdraw liquidity any time soon. Therefore, throughout 1H 2022, before the Fed starts raising interest rates, we expect market liquidity to keep increasing and that monetary policies will still be supportive for stock markets.

Figure 20: US stocks in rate hike cycle (1993-1995)



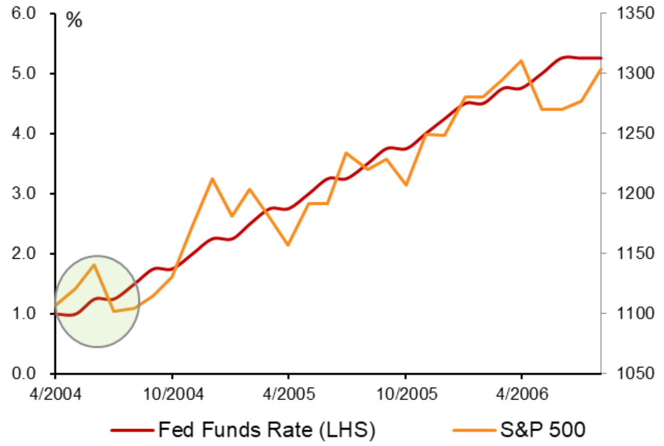
Source: Bloomberg, CMBIS

Figure 21: US stocks in rate hike cycle (1999-2000)



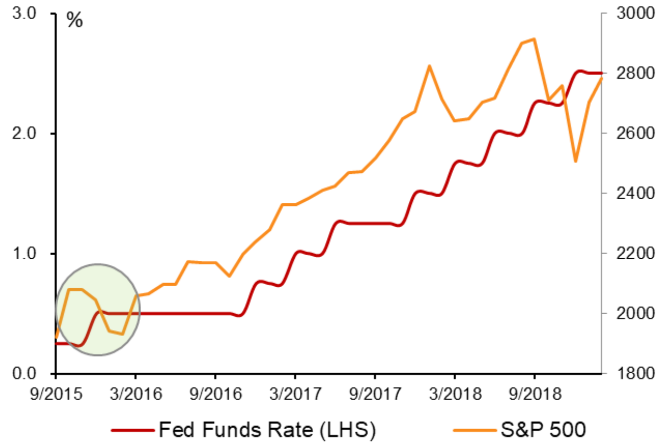
Source: Bloomberg, CMBIS

Figure 22: US stocks in rate hike cycle (2004-2006)



Source: Bloomberg, CMBIS

Figure 23: US stocks in rate hike cycle (2015-2018)



Source: Bloomberg, CMBIS

- **More volatility and downward pressure in 2H 2022**

When the US enters an interest rate hike cycle, how will the stock market perform? It depends on whether the interest rate hike is mainly due to strong economic growth or excessive inflation. In the past three decades, inflation in the US has been moderate for most of the time. In all of the four interest rate hike cycles, US stocks gained. However, in the first six month of those rate hike cycles, US stocks experienced a 5-10% correction. The key this time is whether the factors that pushed up inflation in the short-term (supply chain disruption due to the pandemic) can be resolved in time to bring inflation down. If inflation remains high and the Fed is forced into consecutive rate hikes, the stock market will have greater correction pressure.

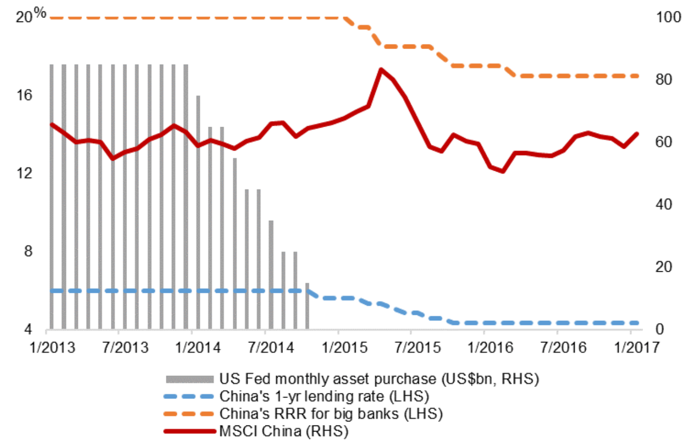
Monetary Policy - When the US tightens while China eases, how would stock markets perform?

When the pandemic broke out globally in Mar 2020, leading to a global stock market crash, the US and European central banks quickly slashed interest rates and relaunched quantitative easing, which was an important driving force for the stock market to rebound. Now that the economy has recovered from the pandemic and inflation has risen to a high level, the US Federal Reserve has begun to gradually reduce the size of its asset purchases (taper) in Nov 2021, and is expected to end asset purchases by mid-2022, followed by interest rate hikes. The Bank of England and the European Central Bank are also expected to tighten monetary policy. On the other hand, the People's Bank of China has maintained a relatively stable and neutral monetary policy since the outbreak of the pandemic. Due to economic slowdown, the PBOC has a need and room to relax monetary policy.

In other words, the monetary policies of China and the West are diverging. How will this affect the Chinese and Hong Kong stock markets? There are precedents for this. The Fed's last exit strategy started with tapering during Jan-Oct 2014, followed by an interest rate hike in Dec 2015. The PBOC went the other way, cutting interest rates in Nov 2014, Mar, May, Jun, Aug and Oct 2015, and lowered RRR in Feb, Apr, Sep and Oct 2015. During that Fed tapering period, the MSCI China Index did not change much, and when the PBOC began to cut interest rates, MSCI China surged in the following six months.

The PBOC is expected to only slightly loosen its monetary policy in the coming year. The degree of easing, and thereby the stimulus to China and Hong Kong stock markets, will not be as strong as during end-2014 to end-2015. Nonetheless, the experience of 2014-2015 shows that the Fed's gradual exit from the easing policy, as long as it communicates with the market in advance, should have little impact on China and Hong Kong stock markets. In comparison, the PBOC will have a more direct and obvious impact on China and Hong Kong markets.

Figure 24: When US tightened and China eased



Source: Bloomberg, CMBIS

HSI target range: 22,500 – 28,400

The Hang Seng Index has added many high-P/E growth stocks since Sep 2020, such as Alibaba (9988 HK), Xiaomi (1810 HK), WuXi Biologics (2269 HK), Meituan (3690 HK), Ali Health (241 HK) and JD.com (9618 HK). These new constituents currently account for about 32% of the HSI's weight, directly driving up the overall valuation of the HSI. Therefore, while the HSI is at similar levels as in early-Jun 2020, the forward P/E ratio is now higher. When using P/E ratio as a valuation method and comparing with historical levels, the change in constituent stocks must be taken into consideration.

HSI target P/E ratio: 10.4x-13.1x

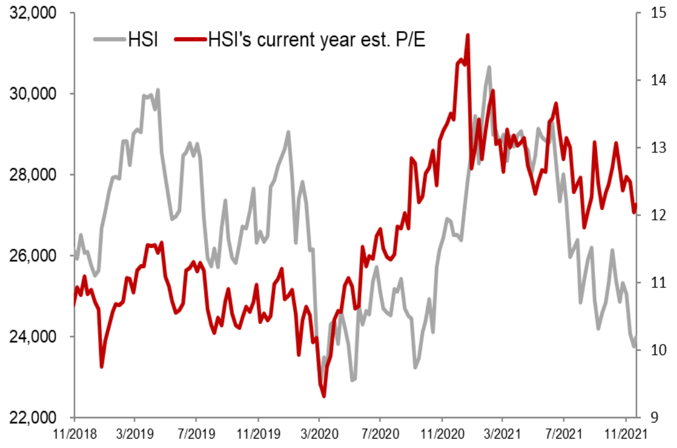
Based on a target P/E range of 10.4x-13.1x, **we estimate the trading range of the HSI in 2022 to be 22,500 – 28,400**, which implies a potential upside of 18% from the current level, of which 11 ppts come from profit growth and 7 ppts from valuation expansion.

Since July 2021, Chinese government has strengthened the supervision of various industries, and the HSI's current year P/E has been capped at 13.1x. We believe the worst period for the impact of regulatory risks on valuations has passed, but such risks will continue for some time, with more specific regulatory details to be announced next year, coupled with China's economic slowdown, and the US Fed's exit plan, we expect the HSI's room of re-rating will be capped at 13.1x forward P/E, which is close to the average level 12.9x since Sep 2020 (when the HSI started to add more high-P/E growth stocks).

The low-end of target P/E range is set at 10.4x, as we expect the high-to-low range of P/E ratio in 2022 will be the same as it 10-year average (2.7 standard deviations, the same as in 2021). On one hand, the pandemic's impact on markets would somewhat diminish in 2022. On the other hand, high inflation and consequent monetary tightening in the West are expected to cause market volatility. 10.4x forward P/E is equivalent to its 10-year average minus one standard deviation. As mentioned above, considering that the HSI has added more than 30 ppts of growth stocks in the past year, we expect the low end of forward P/E to be higher than the troughs of the past decade (about 9.4x).

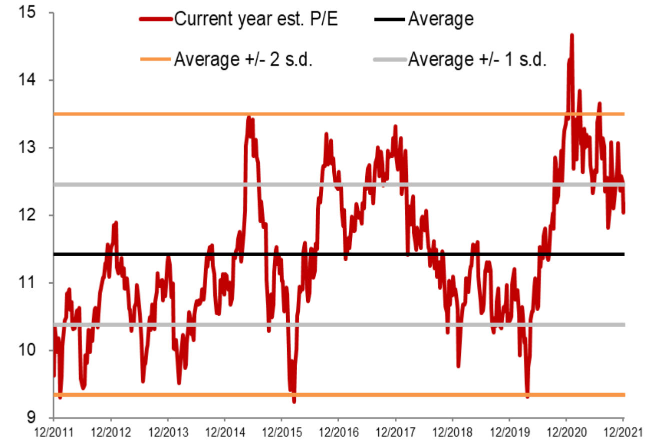
Besides, the HSI will continue to increase the number of constituent stocks next year, with the goal to increase to 80 stocks by mid-2022 (currently 64). That is expected to further drive up the fair valuation of the HSI.

Figure 25: HSI & forward P/E in 2018-2021



Source: Bloomberg, CMBIS; as of 8 Dec 2021

Figure 26: HSI's current year forward P/E



Source: Bloomberg, CMBIS; as of 8 Dec 2021

Re-rating in 1H 2022; Fluctuations in 2H

We expect the HSI would fare better in the 1H 2022, thanks to re-rating, than in the 2H 2022. After a bear market which lasted for more than 9 months, the HSI's absolute valuation (P/B ratio fell below 1x) and relative valuation (relative to other emerging markets) are cheap. Optimism that the Chinese government will moderately strengthen pro-growth policies, coupled with a still highly accommodative monetary policies in the West (the Fed would still be purchasing assets in 1H 2022), would drive the valuation of the HSI upwards.

In the 2H 2022, markets may be more volatile as the US Fed is expected to start raising interest rates. Magnitude of potential corrections depend partly on whether inflations remain elevated to force central banks into successive rate hikes.

As for sector allocation, we expect Internet sector to lead gains in growth stocks and the broad market in the 1H, as this sector has already priced in most of the regulatory risks, in our view. In the 2H, as the pandemic may become under better control, and inflations may moderate and disruptions in supply chain could ease, we would turn more bullish on tourism, catering, retail, mid-to-downstream manufacturing and consumer goods, and technology hardware industries.

Catalysts & Risks

Potential Catalysts

- The COVID pandemic gets under control, possibly due to higher vaccination rates, successful drug development and application.
- China relaxes its “zero COVID” policy, relaxes border and travel restrictions.
- The US and China conduct trade negotiations and cut tariffs on some goods.
- US inflation slows more than expected (probably due to easing of supply chain disruption), so the Fed may raise interest rates at a more moderate pace.
- The Chinese government adopts stronger policies to stabilise growth, including monetary easing and fiscal stimulus.

Risks

- New variants of COVID emerge and spread widely in major regions of the world, leading to tightening of lockdowns / border control / social distancing policies.
- Inflation continues to rise, and central banks are forced to raise interest rates rapidly.
- Supply chain disruptions continue.
- Tension in US-China relations.
- Geopolitical tensions.
- Chinese property market deteriorates, with more credit defaults.

China Internet

OUTPERFORM

Analyst: Sophie HUANG – sophiehuang@cmbi.com.hk

Embracing a new nomarl of regulation

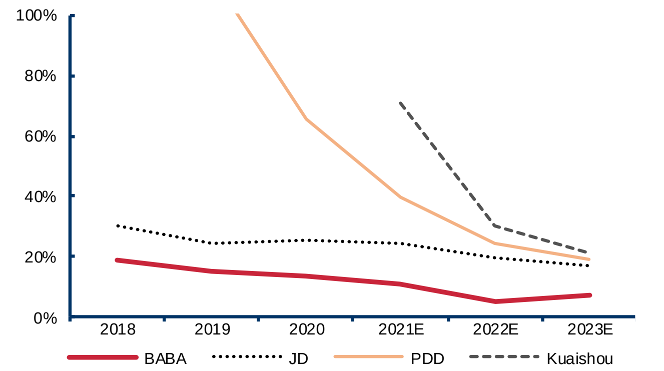
Always Day One: Focusing on quality growth

We keep positive on internet momentum ahead, with sector regulation overhang gradual to lift, well-guided financials and attractive valuation (17x FY22E P/E). Although detailed policies yet over (or lasting 3-6 months), we believe most worst-cases scenarios have been priced in, and market has accepted the new normal of regulation. With market focus shift to fundamentals, we expect challenges to linger in 4Q21 & 1Q22. Sector sentiment will be boosted until 2Q22, backed by: 1) consumption internet to see gradual rebound with relaxation of travel limit after Winter Olympics and Two Sessions; 2) upcoming game licenses resumption, with new key titles to launch; and 3) solid 2H22 outlook with easy base. Risk reward is favorable currently, given limited valuation& earnings downside. Our pecking order: Meituan > NetEase > Tencent > PDD > BABA > BILI > Kuaishou > Zhihu; Top picks: **Meituan (3690 HK, BUY)**, **NetEase (NTES US, BUY)**.

- **Regulation tightening yet over, but almost priced in.** After near one-year regulation cycle, we believe the market has factored in much of the policies headwinds, including anti-trust law, data security, minor protections, content supervision and social responsibility. China Internet stocks' prices have corrected 54% from Feb's peak, mainly on tightening regulations, intensified competition and traffic normalization to weigh on its organic growth and LT margin outlook. Looking ahead, we believe the fundamental valuation floor has built, with top frame of regulations competed. More detailed regulatory measures might continue, but well anticipated by the market. In the near term, data security would be ongoing regulation priority, including: 1) cross-border data issue; 2) Fintech data supervision; and 3) PIPA and algorithmic recommendation management. Longer term, core internet margin will be limited by taking more social responsibility.
- **Moving into 2Q22 gradual recovery.** Stocks might see volatility in 4Q21 and 1Q22, for lingering headwinds (e.g. macro & epidemic uncertainty, tough base). However, we expect sector rebound from 2Q22E, boosted by: 1) consumption internet to bottom out after key events; 2) upcoming game licenses resumption; and 3) gradual macro recovery. We see high visibility for sector re-rating in FY22E, given gradual regulation easing and solid growth outlook with easy base. We forecast industrial earnings growth at 17% YoY in FY22E, with 22% CAGR in FY21-23E.
- **Selective in upcoming sector re-rating.** We expect sector to embrace structural trend of Gen Z, video-lization and regulation reset. 2022 eyes on four themes: short videos, CGP, Metaverse and industrial Internet. By segment, we prefer game > consumer internet > entertainment > ads, while cautious on traditional livestreaming and long-form video. **Game:** FY22E would be an anticipated year, with license resumption as ST catalyst and strong pipeline & overseas expansion as LT engine. **Entertainment:** SFV/MFV to continuously gain share. **Ecommerce:** expecting industrial GMV +14% YoY, in which JD/PDD/SFV to gain share. CGP is still in high growth trajectory (forecasting >RMB600bn GMV in FY22E), with accelerated consolidation and improving UE. **Ads:** ST pressure to continue until 2Q22, given multiple headwinds.
- **Valuation attractive, with favorable risk reward.** Our pecking order of consumer internet is: Meituan > PDD> BABA, while entertainment preference is: NetEase > Tencent > Bilibili > Kuaishou > Zhihu. Sector valuation at 17x FY22E P/E (slightly below 5-year historical trough) is attractive, and suggest to buy the dips.

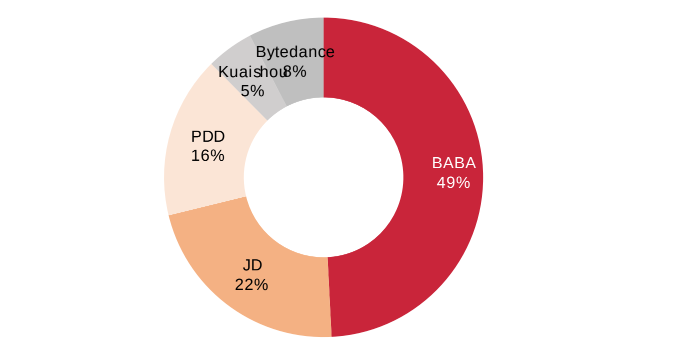
Focus Charts

Figure 27: China ecommerce GMV YoY growth



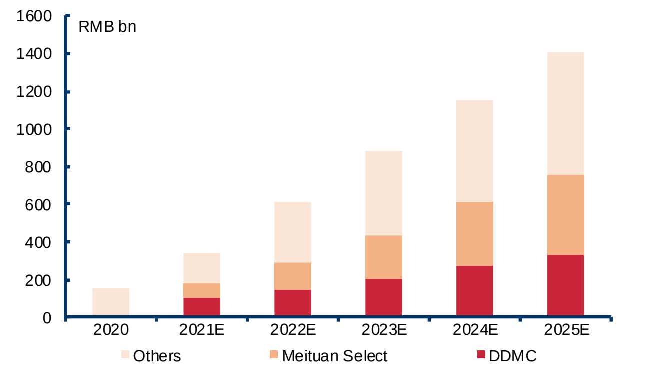
Source: Company data, Bloomberg, CMBIS estimates
Notes: BABA GMV refers to estimated Taobao+Tmall GMV in fiscal year

Figure 28: Top players' mkt share (by GMV) in 2022E



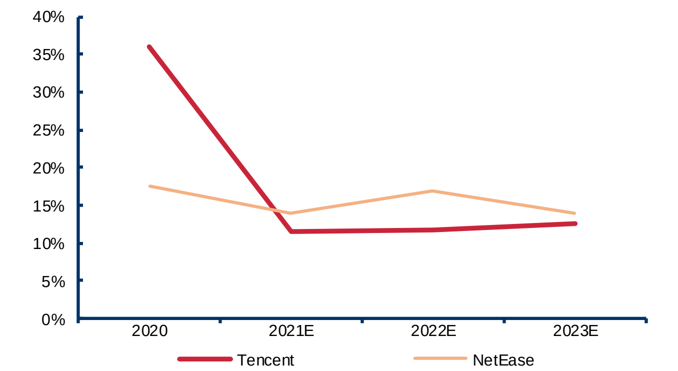
Source: Company data, CMBIS estimates

Figure 29: CGP GMV YoY growth



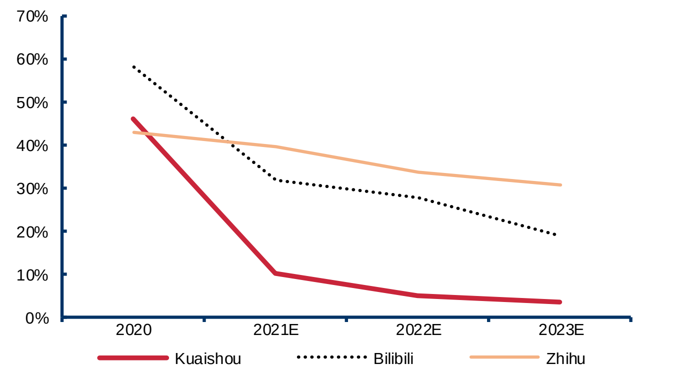
Source: Industry data, CMBIS estimates

Figure 30: Games YoY growth of TOP2 platforms



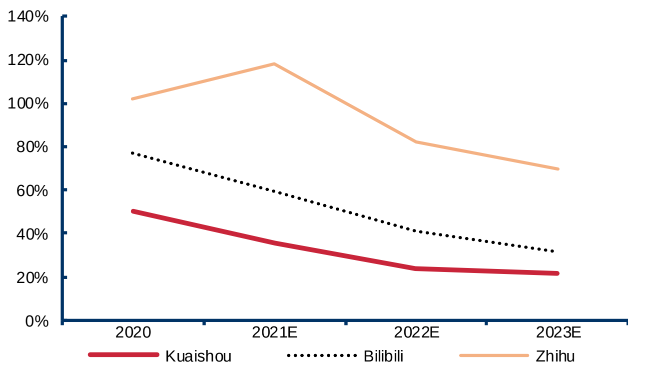
Source: Company data, CMBIS estimates

Figure 31: MAU growth of key entertainment platforms



Source: Company data, CMBIS estimates

Figure 32: Rev growth of key entertainment players



Source: Company data, CMBIS estimates

Selective in upcoming sector re-rating

Attractive valuation with favourable risk reward.
We expect sector to see re-rating in FY22E, given gradual regulation easing and solid growth outlook with easy base. We forecast industrial earnings growth +17% YoY in FY22E, at 22% CAGR in FY21-23E. We are conservative on 4Q21 and 1Q22 outlook, given lingering headwinds. However, sector sentiment might see gradual recovery in 2Q22, boosted by: 1) ecommerce & lifestyle to bottom out; 2) upcoming game licenses resumption; and 3) macro recovery expectation. Sector valuation was trading at 17x FY22E P/E, slightly below 5-year historical trough. Risk reward is favorable, and suggest to buy the dips.

Prefer game + consumer internet, in which Meituan and NetEase as Top Picks.
Given traffic normalization and intensified competition, we believe subsectors or companies continued to diverge from each other. Suggest to keep selective in upcoming sector re-rating: games > consumer internet > short/middle video > ads.

Our pecking order of consumer internet is: **Meituan > PDD > BABA**, while entertainment preference is: **NetEase > Tencent > Bilibili > Kuaishou > Zhihu**. Our top pick is **Meituan (3690 HK, BUY, TP: HK332)**, given: 1) 40% FY20-23E rev CAGR with expanding TAM; 2) high barrier and competitive advantage in lifestyle & digital operation; 3) new initiatives (e.g. CGP, ride hailing) to unlock valuation; and 4) high LT margin visibility with UE enhancement. We believe near-term concern have been priced in and more prudent monetization outlook was well-guided. 4Q21 & 1Q22 would be a good entry point, for attractive valuation and regulatory overhang to lift. We also like **NetEase (NTES US, BUY, TP: US$132)**, and turn more bullish on its 4Q21 & FY22E outlook. NetEase is well-positioned to capture game premiumization trend with strong pipeline and overseas expansion. We expect its new titles (e.g. *HP international, Diablo: Immortal, Justice Mobile* and *Lord of the Rings*) to bring 20%+ grossing upside in FY22E. Coupled with overseas expansion (targeting 30% rev share in 3-5 years), we see high visibility for NetEase to see rev acceleration, margin enhancement and re-rating ahead. License resumption would be ST catalyst.

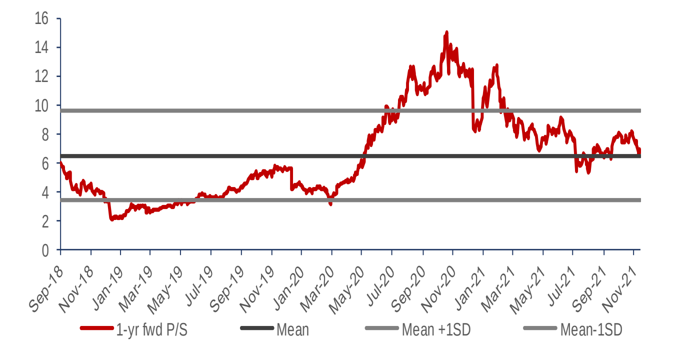
Figure 33: Core Internet P/E band

Source: Bloomberg

Figure 34: Core Internet P/S band

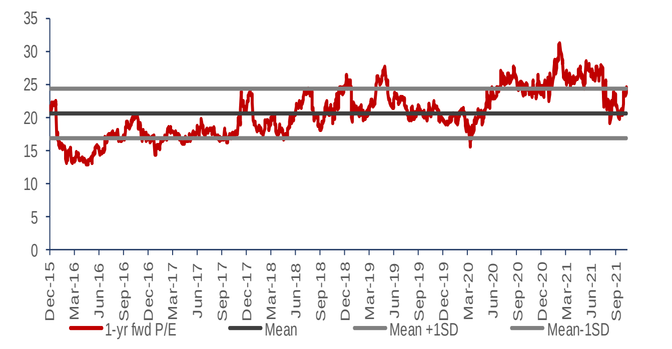
Source: Bloomberg

Figure 35: Meituan P/S band



Source: Bloomberg

Figure 36: NetEase P/E band



Source: Bloomberg

Figure 37: China Internet peers valuation

Company	Ticker	Mkt cap	Currency	Price	CMBI	CMBI	PE			PS			EV/EBIT			FY21-23 EPS
		(USD mn)			Raiting	TP	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	CAGR
China Internet Giants																
Tencent	700 HK	579,310	HKD	470	BUY	640	28.0	23.9	19.7	6.5	5.5	4.7	19.2	19.2	16.6	18%
Alibaba	BABA US	340,328	USD	126	BUY	213	14.6	12.6	10.3	2.5	2.1	1.8	18.4	14.1	10.9	17%
Baidu	BIDU US	52,171	USD	150	BUY	219	18.5	17.0	13.0	2.7	2.4	2.1	21.6	17.9	12.8	17%
JD	JD US	121,741	USD	78	NR	NA	47.7	35.1	23.1	0.8	0.7	0.6	NA	49.9	25.9	39%
Meituan	3690 HK	196,516	HKD	250	BUY	332	NA	NA	93.4	7.0	5.1	3.9	NA	NA	NA	NA
Pinduoduo	PDD US	78,995	USD	63	BUY	121	82.1	40.2	20.3	5.0	3.7	2.8	NA	49.0	18.9	99%
NetEase	NTES US	72,023	USD	107	BUY	132	25.9	21.7	18.7	5.2	4.5	4.0	25.0	20.2	16.6	18%
Didi	DIDI US	34,727	USD	7	NR	NA	66.3	NA	46.0	1.1	0.9	0.8	NA	35.1	17.7	NA
Kuaishou	1024 HK	45,625	HKD	85	BUY	136	NA	NA	NA	3.6	2.8	2.2	NA	NA	NA	NA
Average							**36.1**	**22.1**	**17.5**	**3.8**	**3.1**	**2.5**	21.1	29.4	17.1	35%
E-commerce																
Alibaba	BABA US	340,328	USD	126	BUY	213	14.6	12.6	10.3	2.5	2.1	1.8	18.4	14.1	10.9	17%
JD	JD US	121,741	USD	78	NR	NA	47.7	35.1	23.1	0.8	0.7	0.6	NA	49.9	25.9	39%
Pinduoduo	PDD US	78,995	USD	63	BUY	121	82.1	40.2	20.3	5.0	3.7	2.8	NA	49.0	18.9	99%
Meituan	3690 HK	196,516	HKD	250	BUY	332	NA	NA	93.4	7.0	5.1	3.9	NA	NA	NA	NA
Vipshop	VIPS US	6,776	USD	10	NR	NA	7.1	6.7	6.0	0.4	0.3	0.3	5.3	4.8	4.1	10%
Yatsen	YSG US	1,402	USD	2	NR	NA	NA	NA	NA	1.5	1.2	0.9	NA	NA	NA	NA
Baozun	BZUN US	1,066	USD	15	BUY	28	23.8	12.9	8.7	0.7	0.6	0.5	26.5	12.9	8.0	61%
Average							**35.0**	**16.8**	**13.7**	**2.5**	**2.0**	**1.5**	16.8	26.1	13.6	45%
OTA																
Trip.com	TCOM US	17,766	USD	28	BUY	48	NA	23.0	15.4	5.5	3.7	2.9	NA	30.2	16.6	226%
Tongcheng	780 HK	5,027	HKD	18	BUY	20	24.4	19.0	13.8	4.2	3.2	2.6	28.3	20.6	13.7	34%
Average							24.4	21.0	14.6	4.9	3.5	2.8	28.3	25.4	15.1	130%
Game																
Tencent	700 HK	579,310	HKD	470	BUY	640	28.0	23.9	19.7	6.5	5.5	4.7	19.2	19.2	16.6	18%
NetEase	NTES US	72,023	USD	107	BUY	132	25.9	21.7	18.7	5.2	4.5	4.0	25.0	20.2	16.6	18%
XD Inc	2400 HK	2,911	HKD	47	NA	NA	NA	NA	NA	6.6	5.0	4.0	NA	NA	89.3	NA
Kingsoft	3888 HK	6,168	HKD	35	NA	NA	63.7	40.0	26.5	6.3	5.1	4.2	21.8	15.1	11.4	46%
IGG	799 HK	1,090	HKD	7	NA	NA	8.0	6.9	5.9	1.3	1.3	1.2	5.4	2.5	1.6	18%
FriendTimes	6820 HK	372	HKD	1	BUY	3	8.2	6.2	5.1	1.4	1.1	0.9	5.1	3.3	NA	29%
CMGE	302 HK	1,154	HKD	3	BUY	6	7.3	6.7	5.3	1.4	1.2	1.0	7.2	6.2	4.6	18%
Archosaur Gam	9990 HK	988	HKD	9	NA	NA	NA	14.5	10.9	4.5	3.3	2.6	NA	9.0	6.4	-33%
Perfect World	002624 CH	5,981	CNY	20	BUY	49	29.3	16.6	13.8	4.0	3.0	2.6	28.6	15.4	12.9	45%
Sanqi Interactiv	002555 CH	8,558	CNY	25	BUY	30	20.6	16.5	14.0	3.2	2.7	2.3	16.7	13.3	11.3	21%
Giant Network	002558 CH	3,175	CNY	10	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Average							23.9	17.0	13.3	4.0	3.3	2.8	16.1	11.6	19.0	20%
Live Streaming																
Hello Inc	MOMO US	2,383	USD	10	HOLD	14	7.2	6.4	5.3	1.0	1.0	0.9	5.8	5.7	4.7	16%
JOYY	YY US	3,709	USD	48	BUY	66	NA	35.5	19.3	1.4	1.2	1.1	NA	NA	2.9	128%
Inke	3700 HK	378	HKD	1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	33%
Douyu	DOYU US	814	USD	3	NA	NA	NA	NA	40.9	0.6	0.6	0.5	NA	NA	NA	NA
Huya	HUYA US	1,830	USD	8	BUY	11	28.0	NA	18.3	1.0	0.9	0.9	5.6	NA	2.5	21%
Average							17.6	20.9	20.9	1.0	0.9	0.8	5.7	5.7	3.4	49%
Pan-entertainment																
TME	TME US	11,459	USD	7	HOLD	9	17.3	17.4	15.4	2.3	2.2	2.0	20.3	20.5	17.6	5%
iQIYI	IQ US	4,223	USD	5	BUY	13	NA	NA	NA	0.9	0.8	0.8	NA	NA	NA	NA
China Literature	772 HK	7,267	HKD	55	NR	NA	35.6	27.5	22.0	4.9	4.1	3.5	24.6	24.2	18.1	23%
Bilibili	BILI US	23,705	USD	61	BUY	110	NA	NA	NA	7.8	5.5	4.1	NA	NA	NA	NA
Kuaishou	1024 HK	45,625	HKD	85	BUY	136	NA	NA	NA	3.6	2.8	2.2	NA	NA	NA	NA
Zhihu	ZH US	3,813	USD	7	BUY	15	NA	NA	NA	8.2	4.6	2.8	NA	NA	NA	NA
Average							26.4	22.5	18.7	4.6	3.3	2.6	22.5	22.3	17.8	14%
Ad																
Baidu	BIDU US	52,171	USD	150	BUY	219	18.5	17.0	13.0	2.7	2.4	2.1	21.6	17.9	12.8	17%
Weibo	WB US	7,486	USD	33	NR	NA	10.4	9.7	8.6	3.3	3.0	2.7	9.9	9.0	8.0	10%
Mobvista	1860 HK	1,351	HKD	6	BUY	11	48.9	33.1	21.6	2.2	1.9	1.7	95.7	47.0	25.6	51%
Duiba	1753 HK	213	HKD	2	BUY	4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Average							26.0	19.9	14.4	2.7	2.4	2.2	42.4	24.6	15.5	26%
CGB																
Dingdong	DDL US	3,243	USD	16	NR	NA	NA	NA	NA	1.0	0.7	0.5	NA	NA	NA	NA
MissFresh	MF US	1,001	USD	4	NR	NA	NA	NA	NA	0.8	0.6	0.4	NA	NA	NA	NA
Average							NA	NA	NA	0.9	0.6	0.4	NA	NA	NA	NA
SaaS																
Weimob	2013 HK	2,836	HKD	9	NR	NA	NA	NA	82.9	6.6	5.1	3.9	NA	NA	73.5	NA
Youzan	8083 HK	1,527	HKD	1	NR	NA	NA	NA	NA	5.6	4.2	3.0	NA	NA	NA	NA
KE Holdings	BEKE US	23,723	USD	20	NR	NA	85.2	37.9	21.0	1.9	1.8	1.5	NA	44.0	15.3	99%
Average							85.2	58.3	50.4	7.4	5.6	4.2	NA	54.5	43.5	74%
Verticals																
Autohome	2518 HK	4,403	HKD	67	NR	NA	10.8	9.7	9.8	3.9	3.6	3.6	4.6	3.7	3.2	5%
KE Holdings	BEKE US	23,723	USD	20	NR	NA	85.2	37.9	21.0	1.9	1.8	1.5	NA	44.0	15.3	99%
BZ Kanzhun	BZ US	12,065	USD	30	NR	NA	NA	51.1	23.1	18.2	10.1	6.4	NA	44.2	19.4	111%
Average							48.0	32.9	17.9	8.0	5.2	3.9	4.6	30.6	12.6	72%
Average							**21.0**	**17.3**	**14.4**	**3.9**	**2.9**	**2.4**	**19.9**	**22.9**	**17.5**	**26%**

Source: Bloomberg, CMBIS, as of 8 Dec 2021

China Technology

OUTPERFORM

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Riding on 5G+VR/AR cycle and semi localisation

Positive on secular growth in 2022

China technology sector experienced a volatile year in 2021 against the backdrop of Covid-19 and US-China tensions. While tech sector outperformed in 1H21 given post-pandemic supply chain recovery and acceleration of domestic substitution, the sector saw more volatility in 2H21 due to unstable pandemic, supply chain shortage and consumer demand weakness. For 2022E, despite ongoing US-China tensions, we maintain our positive view on this sector backed by VR/AR cycle, optics innovation, favorable 5G industry policy, semiconductor localization and recovery of consumer demand. We believe technology upgrade and innovation cycle will remain the key investment themes for next year.

Consumer electronics: Apple, VR/AR/metaverse, optics upgrade

We believe Covid-19 and supply chain shortage accelerated industry consolidation in past two years, and leading tech companies are poised to benefit from smartphone demand recovery and VR/AR product cycle in FY22E. 1) Smartphone market: We believe a new wave of foldable phone launches will drive high-end replacement demand, and we are also positive on Apple's iPhone/AR cycle and Xiaomi's market share gain in FY22E. 2) VR/AR: As VR/AR devices is set to reach a critical mass of 10mn shipment in 2021, metaverse ecosystem will continue to expand from gaming to social, sports and office use cases, benefiting VR/AR supply chain in next 5 years. 3) Components: Wireless features (charging, TWS), foldable phones and optics upgrade will remain key trends in coming year.

Telco equipment: stable 5G expansion to benefit supply chain

We believe China telco capex will remain stable in FY22E, and Chinese telco equipment players will continue to benefit from 5G buildout demand from both domestic and overseas operators. PCB/CCL sector will deliver stable growth in FY22E driven by economic recovery and strong demand from various end-markets (e.g. automotive, consumer, communications). In particular, we are optimistic about IC substrate segment (BT/ABF). However, raw material cost hike (e.g. copper) will remain a major overhang.

Semi: secular growth and domestic substitution to accelerate.

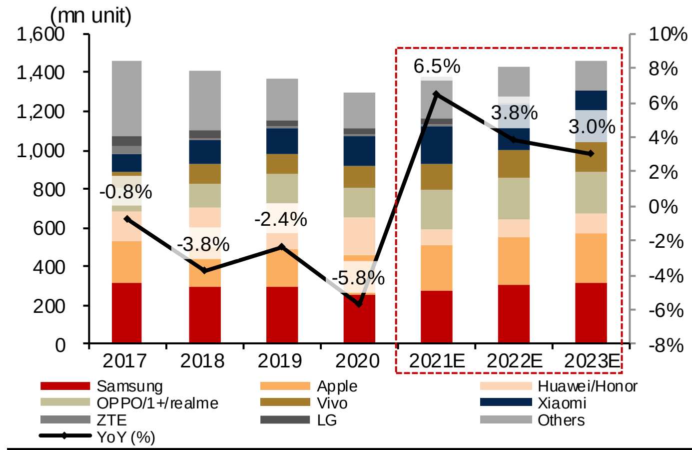
Despite supply chain constraints, semi industry are experiencing exceptional growth. We believe semi shortage may ease next year, we suggest to follow 5G/AIot/EV/clouding computing-related companies, especially those riding the tailwind of domestic substitution.

Top picks

We suggest to accumulate sector leaders with high growth visibility, including Sunny Optical (2382 HK, BUY), Xiaomi (1810 HK, BUY), Goertek (002241 CH, BUY), Wilisemi (603501 CH, BUY), Wingtech (600745 CH), SG Micro (300661 CH) and StarPower Semi (603290 CH).

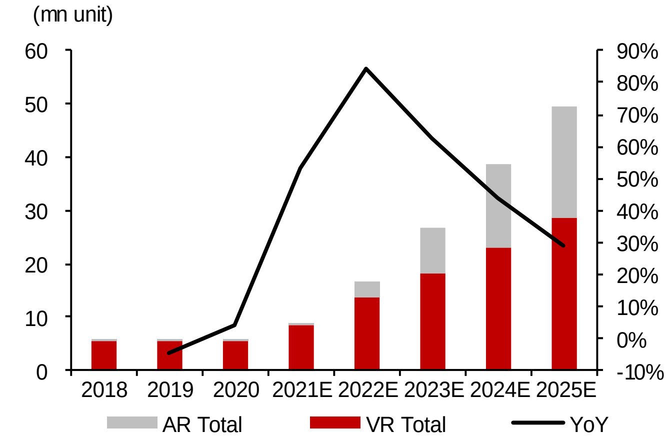
Key figures

Figure 38: Global smartphone case Market Forecast (2015-23)



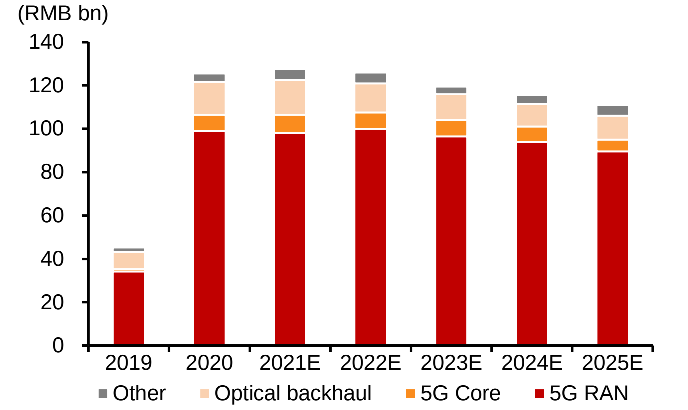
Source: IDC, CMBIS

Figure 39: Global VR/AR Market Shipping Volume Forecast (2018-2025)



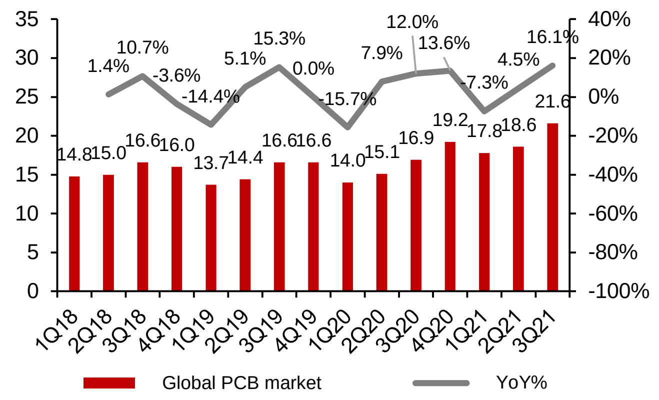
Source: IDC, CMBIS

Figure 40: China's three largest operators' capex forecasts (2021E-25E): expected to maintain similar capex next year as this year



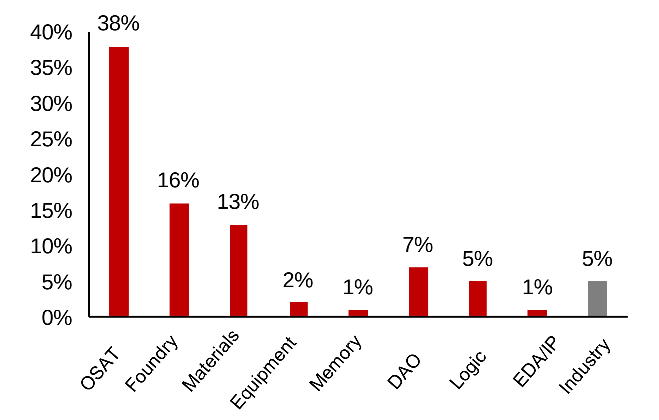
Source: IDC, CMBIS

Figure 41: PCB industry revenue growth expected to reach 22.6% YoY in 2021, benefiting from economic recovery and rapid growth in consumer demand



Source: Prismark, CMBIS

Figure 42: Global Semiconductor Market: Market Share of Chinese Companies (2019)



Source: SIA, CMBIS

Figure 43: Comparison of Overseas and Chinese Semiconductor Companies

	Overseas	Domestic
RF Front-end	Skyworks、Qorvo、Broadcom、Qualcomm	Maxscend、Vanchip
CIS	Samsung、Sony	Willsemi、GalaxyCore
Analog	TI、ADI、NXP	SG Micro、Silergy、3PEAK
Power semi	Infineon、Onsemi、STMicroelectronics	Wingtech、Silan、CRMicro、Starpower、CRRC Times Electric
Momery	Samsung、SK Hynix、Micron	Gigadevice、YMTC、CXMT
Foundry	TSMC、Samsung、UMC、Global Foundries	CMIC、Huarong
OSAT	ASE、Amkor、PowerTech	JCET、Huatian、TFme
Equipment	Applied Materials、LAM Research、KLA、ASML	NAURA、A,MEC、ASMP、HFTC

Source: CMBIS

Top picks

Xiaomi (1810 HK, BUY): Global share gain to continue; AR/VR/EV to become next growth drivers.

We are positive on Xiaomi's comprehensive product portfolio and premium model strategy amid Huawei's weakness in high-end segment. Despite global chip shortage in near term, Xiaomi is on track to expand global market share in FY22/23 and improving ASP/margin will offset smartphone shipment softness in 2H21E. We believe advertising segment will maintain healthy growth backed by smartphone momentum, while gaming/fintech biz will remain under pressure due to policy uncertainties.

In addition, we expect AR/VR will become Xiaomi's next growth driver post-smartphone era, and Xiaomi will launch its AR/VR consumer device in FY22E. As for EV, mgmt. expected to commence mass production in 1H24E and we are positive on its progress backed by strong balance sheet, technology investment and talent acquisitions

We believe recent correction has reflected uncertainties from Honor's threat and supply chain uncertainties. Current valuation at 15.9x FY22E P/E is close to 1-sd below 3-yr average at 16.4x, and we view risk-reward is attractive. Our TP of HK$31.34 is based on 26x FY22E P/E. Catalysts include EV progress, product launch and market share gain.

Willsemi (603501 CH, BUY): Long-term positive view unchanged as non-mobile CIS will drive future growth

We hold a positive view on China CIS sector, as we believe the demand from non-mobile CIS markets, such as automobile, security, AR/VR and medical will drive future growth. Chinese CIS players will be major beneficiaries of expanding global CIS market (7.2% 21E-26E CAGR) and semi localization. Recent semi supply tightness will accelerate share gain for top CIS players.

Willsemi's auto CIS sales have experienced faster-than-expected growth in 2021 and we expect the momentum would continue given On Semi's supply chain constraints. The growth visibility in auto CIS is clearer due to longer certification period for its peers.

Meanwhile, AR/VR market opportunity and security camera upgrade needs will contribute future growth as well. According to Qualcomm, the shipment of Oculus Quest 2 headsets have already exceeded 10 million since it launched last October. As non-mobile CIS has high GPM, we expect Willsemi's profitability will improve due to favorable product mix.

We reiterate BUY rating on Willsemi, with unchanged TP of RMB 346.60, based on 50x FY22E P/E. We believe this valuation is justified given 1) its leading position in CIS market with global presence, 2) share gain in auto CIS and 3) its integrated semiconductor platform with diversified product portfolio.

Potential risks includes: 1) worse-than-expected global economy that curbs consumer spending and 2) covering chip shortage led to unfilled demand.

Figure 44: Comps

Company	Ticker	Rating	MktCap (US$mn)	Price (LC)	TP (LC)	Upside/ Downside	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	P/B (x) FY21E	ROE (%) FY20E	ROE (%) FY21E
Telecom equipment												
ZTE (H)	763 HK	NR	**21,492**	**20.45**	**33.06**	**62%**	**9.3**	**8.0**	**1.4**	**1.2**	**16.1**	**16.4**
Fiberhome	600498 CH	NR	3,161	17.74	NA	NA	29.2	24.2	1.5	1.3	8.4	-
Nokia	NOK US	NR	33,485	5.90	NA	NA	14.9	12.9	1.7	1.5	9.5	-
Ericsson	ERIC US	NR	34,880	10.44	NA	NA	13.3	12.2	2.7	2.4	20.9	20.2
			Average				**16.7**	**14.4**	**1.8**	**1.6**	**13.7**	**18.3**
PCB												
Shengyi Tech	**600183 CH**	**Buy**	**8,344**	**22.94**	**30.50**	**33%**	**17.0**	**15.3**	**3.5**	**3.1**	**20.7**	**20.2**
Shennan	**002916 CH**	**Hold**	**8,226**	**110.75**	**110.75**	**4%**	**28.9**	**23.7**	**5.6**	**5.0**	**19.3**	**20.9**
WUS	002463 CH	NR	4,740	15.87	NA	NA	21.6	17.4	3.8	3.3	17.5	18.6
Kinwon	603228 CH	NR	3,829	28.54	NA	NA	18.7	15.4	2.9	2.6	15.8	16.7
DSBJ	002384 CH	NR	6,685	24.83	NA	NA	17.5	15.4	2.5	2.2	14.6	14.4
Zhen Ding	4958 TT	NR	3,213	98.80	NA	NA	9.0	7.8	1.1	1.1	11.8	13.9
TTM	TTMI US	NR	1,491	14.29	NA	NA	10.0	-	1.0	-	-	-
UMTC	3037 TT	NR	11,986	221.00	NA	NA	20.3	16.3	4.8	4.0	23.6	26.0
Tripod	3044 TT	NR	2,311	122.00	NA	NA	9.7	8.6	1.6	1.5	16.3	17.0
Comped	2313 TT	NR	1,826	42.50	NA	NA	9.6	8.6	1.4	1.3	15.2	15.2
SEMCO	009150 KS	NR	11,166	176,000.00	NA	NA	10.9	9.9	1.7	1.5	16.6	15.7
			Average				**15.7**	**13.8**	**2.7**	**2.5**	**17.1**	**17.9**
CCL												
Shengyi Tech	**600183 CH**	**Buy**	**8,344**	**22.94**	**30.50**	**33%**	**17.0**	**15.3**	**3.5**	**3.1**	**20.7**	**20.2**
Nanya	1303 TT	NR	24,183	84.60	NA	NA	11.1	12.7	1.7	1.6	15.5	13.4
ITEQ	6213 TT	NR	1,767	128.00	NA	NA	12.4	10.1	2.6	2.4	21.3	25.0
Kingboard	148 HK	NR	5,474	38.50	NA	NA	4.5	4.1	-	-	-	-
Sumitomo	4203 JT	NR	2,516	5760.00	NA	NA	14.5	12.8	1.3	1.2	9.1	9.9
Rogers	ROG US	NR	5,080	271.22	NA	NA	33.3	27.7	-	-	-	-
			Average				**17.4**	**14.1**	**0.8**	**0.8**	**6.1**	**6.9**
CIS												
Willsemi	**603501 CH**	**Buy**	**42,422**	**309.99**	**346.6**	**12%**	**44.7**	**34.3**	**11.8**	**8.5**	**26.0**	**24.4**
GalaxyCore	**688728 CH**	**Buy**	**12,406**	**31.53**	**48.2**	**53%**	**39.0**	**26.5**	**9.2**	**6.8**	**23.7**	**25.8**
Sony	SONY US	NR	157,333	124.76	NA	NA	23.4	20.1	-	-	11.6	-
Samsung	005930 KS	NR	392,482	77400.00	NA	NA	11.8	10.4	1.6	1.4	13.6	14.2
STMicroelec.	STM FP	NR	45,088	43.88	NA	NA	14.9	18.8	4.0	3.4	21.2	19.2
ON Semi	ON US	NR	28,198	65.45	NA	NA	20.2	19.2	5.0	4.2	26.4	23.4
			Average				**25.7**	**21.5**	**6.3**	**4.9**	**20.4**	**21.4**

Source：Bloomberg, CMBIS

China Software & IT Services

OUTPERFORM

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Software supply chain upgrade to continue

Gradually recover from regulatory headwinds

Since Mar 2021, China A and HK technology sector began to de-rate given tightening regulations towards internet industry. Year to date, technology sector underperformed the market with CSI Computer Index/ Hang Seng Tech Index dropped by 5%/ 22% respectively. We think the long-term growth trend, driven by New Infrastructure Plan, has not changed and the Software sector will gradually recover in 2022. **In 1H22, we prefer Chinasoft/ Hikvision on relatively lower policy risk. In 2H22, re-rating opportunities could emerge to deeply-discounted names like GDS/ Ming Yuan Cloud.**

China cloud landscape changing, focus on green data center trend

China public cloud (IaaS + PaaS) market was growing fast at +48.3% YoY in 2Q21 to US$7.68bn, according to IDC. Meanwhile, given policy headwinds towards internet sector, cloud market competition is intensifying. AliCloud share in 2Q21 dropped to 36.7% (vs. 40.8% in 2Q20) while Huawei Cloud share increased to 10.9%, similar to Tencent Cloud's 11.1%. Moving into 2022, we expect the third-party IDC market will still be affected by (1) cloud landscape change, (2) more conservative cloud capex by internet vendors and (3) rising electricity cost. On the other hand, as old and energy inefficient data centers are gradually being replaced, sector consolidation will benefit operators who meet the green data centers standards.

AI gaining momentum as more AI companies go public

Improving computing power, algorithms and massive data from AIoT devices have created the foundations for enterprises to adopt AI applications. Apart from traditional use cases in surveillance and transportation, IDC predicts that by 2025, >60% of enterprises will combine human expertise with AI, AutoML, NLP and other technologies to help decision making and drive productivity. In 2022, we believe AI will regain investors' attention as more leading AI companies going public.

Macro weakness could drag enterprise SaaS growth

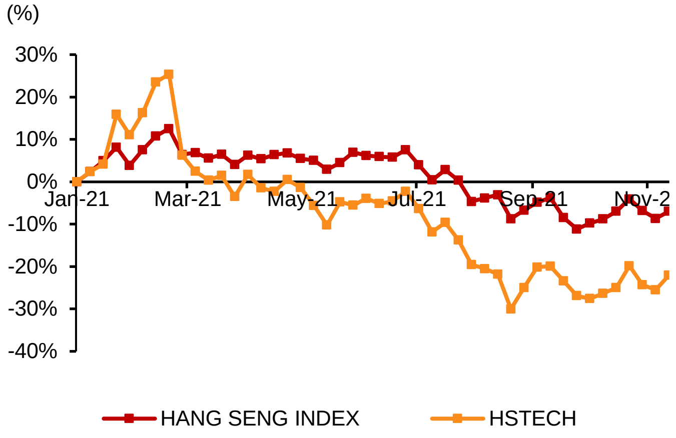
In 2020, China enterprise SaaS market size was at RMB53.8bn, representing 2.4% of China software product TAM of RMB2,277bn. In 2022, we think enterprises may become more conservative in digitalization-related IT spending given weaker macro environment and high base factors. We expect China enterprise SaaS market to increase at +34% YoY to RMB99.1bn (compare to +37% YoY in 2021).

Investment strategy

New Infrastructure Plan, cloud and software value chain upgrade are still the key strategies of the 14th Five-Year Plan. We expect sector valuation to gradually recover in 2022 as the marginal impacts from regulatory issues diminish. Re-rating opportunities to deeply discounted stocks could emerge in 2H22.

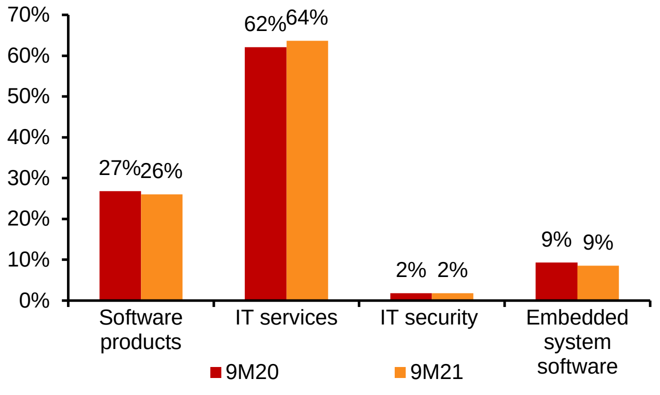
Focus Charts

Figure 45: YTD performance of Hang Seng Index and HSTECH Index



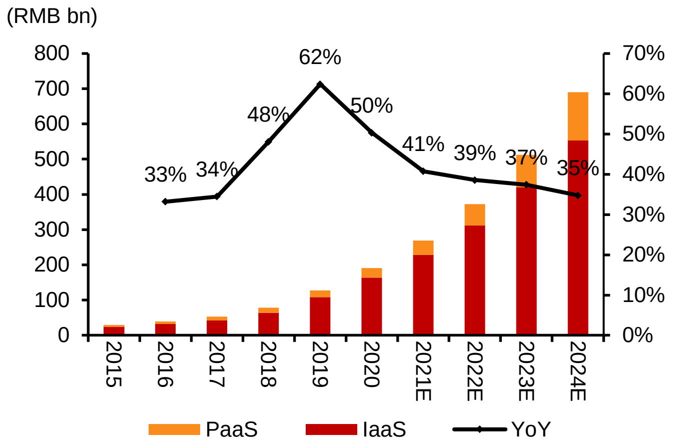
Source: Bloomberg

Figure 46: China software industry revenue by sector for the first 9 months of 2021



Source: MIIT

Figure 47: China IaaS + PaaS market size



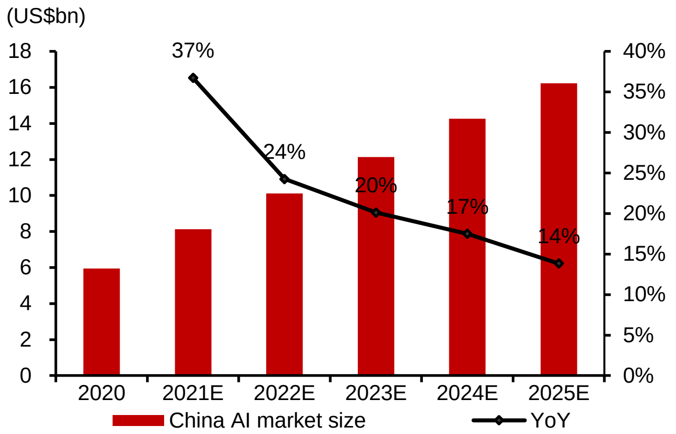
Source: iResearch

Figure 48: China IaaS + PaaS market share

China IaaS + PaaS	2Q20	1Q21	2Q21	YoY	QoQ
Market size (US$bn)	5.18	4.63	7.68	48%	66%
Market share					
Alibaba	40.8%	39.9%	36.7%	**-4.1%**	**-3.2%**
Tencent	11.9%	11.4%	11.1%	**-0.9%**	**-0.3%**
Huawei	8.7%	10.9%	10.9%	**2.2%**	**0.0%**
China Telecom	7.4%	7.8%	8.6%	**1.2%**	**0.8%**
AWS	7.2%	7.2%	7.7%	**0.5%**	**0.5%**
Others	23.8%	22.8%	25.0%	**1.2%**	**2.2%**

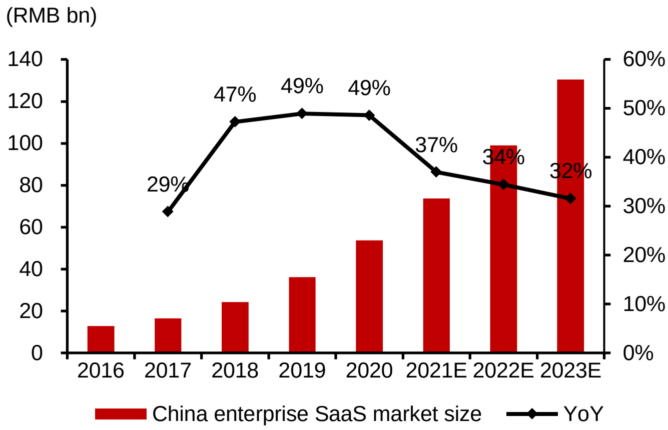
Source: IDC

Figure 49: China AI market size



Source: IDC (Aug 2021)

Figure 50: China enterprise SaaS market size



Source: iResearch

Top pick – Hikvision (002415 CH)

Benefiting from business intelligence and digital transformation

AI is gaining traction among traditional industries in China. Hikvision, as a leading company in both computer vision and camera hardware, will continue to benefit from the enterprise digitalization trend. In 2022, we expect innovative business growth to remain strong and the supply chain risk is manageable given high inventory level and supplier diversification strategy. Maintain BUY with target price of RMB76.25. Key downside risks include raw material shortage, higher logistic cost and weaker AI cameras demand.

- **Leading position in computer vision and camera hardware technology.** We believe China has entered a new chapter of AI development that more industries are increasing AI adoption. In addition to traditional use cases in surveillance and transportation, more companies are leveraging AI technology to improve operational management and productivity. As a leading company with both computer vision and camera hardware capabilities, Hikvision will continue to benefit from Chinese enterprises digitization trend.
- **Demand: Innovative business remained strong, property sector weakness to be reflected in FY2H22.** Hikvision products cover 70 industries now as camera applications expanded by embedding AI/ sensor technology. Innovative businesses (smart home products/ robotics/ industrial cameras etc.) continued to gain shape with revenue growth of +53% YoY to RMB3.7bn in FY3Q21, contributing 17% of revenue. Regarding weakening macro environment, as it is turning more difficult to acquire new land and newly started construction area has been declining in China, EBG business could be negatively affected in FY2H22.
- **Supply: Record-high inventory level to minimize power cut risk.** As we flagged before, there is no direct impact from power cut to Hikvision production plants although some upstream component suppliers were being affected. Hikvision maintained a high-inventory level strategy and expanded the supplier list to minimize the potential risk. In FY3Q21, Hikvision inventory level came to a record high of RMB19.1bn (+71% YoY, +26% QoQ). Inventory as % of sales was at 0.88, still lower than the level in 1Q20 at 1.32 (Hikvision being added to entity list in Oct 2019).
- **Maintain BUY.** We expect Hikvision FY22E revenue/ net profit to grow at +17%/ +20% YoY respectively. Maintain BUY with target price of RMB76.25, based on 36x FY22 P/E. Key downside risks include raw material shortage that could last for longer time, higher logistic cost and weaker than expected AI cameras demand.

Valuation

Figure 51: Peers' valuation

Company	Ticker	Price (LC)	Market Cap (US$ mn)	YTD (%)	EV/sales (x) FY21E	EV/sales (x) FY22E	P/E FY21E	P/E FY22E	Sales CAGR FY20-23E	EPS CAGR FY20-23E
SaaS										
Glodon	002410 CH	66.28	12,410	-16%	14.7	12.0	117.9	78.6	24%	59%
Yonyou	600588 CH	35.07	18,079	-20%	11.8	9.2	116.5	95.8	23%	17%
Kingsoft Office	688111 CH	254.37	18,483	-38%	32.4	23.9	97.8	72.5	40%	36%
Kingdee	268 HK	22.75	10,128	-28%	14.4	11.5	n.a.	n.a.	27%	n.a.
Ming Yuan Cloud	909 HK	22.25	5,617	-53%	12.4	9.0	102.9	70.4	38%	n.a.
Shiji	002153 CH	27.25	6,441	23%	9.9	8.2	187.9	88.5	19%	n.a.
Youzan	8083 HK	0.69	1,527	-70%	5.6	4.2	n.a.	n.a.	21%	n.a.
Weimob	2013 HK	8.62	2,856	-38%	6.0	4.6	n.a.	n.a.	33%	n.a.
				Mean	**13.4**	**10.3**	**124.6**	**81.2**	**28%**	**37%**
				Median	**12.1**	**9.1**	**116.5**	**78.6**	**25%**	**36%**
IDC										
GDS	GDS US	54.25	10,139	-42%	11.2	8.7	n.a.	n.a.	30%	n.a.
21Vianet	VNET US	9.14	1,331	-74%	2.1	1.6	81.2	n.a.	25%	n.a.
ChinData	CD US	7.64	2,790	-68%	5.9	4.1	120.9	57.7	45%	n.a.
Sinnet	300383 CH	14.37	3,495	-16%	3.1	2.8	23.2	19.8	10%	13%
Baosight	600845 CH	63.87	13,277	20%	6.6	5.0	53.2	39.5	29%	34%
AtHub	603881 CH	35.06	1,818	-18%	12.2	8.9	75.7	44.4	35%	38%
				Mean	**6.8**	**5.2**	**70.8**	**40.3**	**29%**	**29%**
				Median	**6.2**	**4.6**	**75.7**	**41.9**	**29%**	**34%**
AI										
Hikvision	002415 CH	51.68	76,048	7%	5.8	4.9	28.9	23.7	21%	22%
Dahua	002236 CH	25.58	12,078	29%	2.4	2.1	18.5	15.0	20%	15%
China Transinfo	002373 CH	15.21	3,790	-20%	2.0	1.6	24.3	18.3	21%	16%
iFlytek	002230 CH	53.60	19,436	31%	7.0	5.4	69.3	51.3	31%	29%
Cambricon Tech	688256 CH	97.00	6,117	-34%	52.8	37.1	n.a.	n.a.	40%	n.a.
Arcsoft	688088 CH	46.75	2,992	-33%	26.1	18.3	102.1	73.9	24%	14%
				Mean	**16.0**	**11.6**	**48.6**	**36.4**	**26%**	**19%**
				Median	**6.4**	**5.1**	**28.9**	**23.7**	**22%**	**16%**
IT services										
Chinasoft	354 HK	12.44	4,896	44%	1.7	1.4	23.1	17.5	25%	25%
Asiainfo	1675 HK	12.26	1,454	10%	1.1	1.0	11.4	10.5	10%	9%
Digital China	000034 CH	15.63	1,627	-27%	0.2	0.2	13.0	10.1	9%	28%
				Mean	**1.0**	**0.9**	**15.8**	**12.7**	**14%**	**21%**
				Median	**1.1**	**1.0**	**13.0**	**10.5**	**10%**	**25%**
IaaS + PaaS										
Kingsoft Cloud	KC US	16.48	3,983	-62%	2.3	1.6	n.a.	n.a.	44%	n.a.
Ucloud	688158 CH	27.87	1,857	-33%	2.8	1.9	n.a.	n.a.	48%	n.a.
Sinnet	300383 CH	14.37	3,495	-16%	3.1	2.8	23.2	19.8	10%	13%
				Mean	**2.7**	**2.1**	**n.a.**	**n.a.**	**34%**	**n.a.**
				Median	**2.8**	**1.9**	**n.a.**	**n.a.**	**44%**	**n.a.**

Source: Bloomberg, CMBIS

China Healthcare

OUTPERFORM

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Innovation is the constant theme

Good bottom fishing opportunity for China healthcare sector. The MSCI China Healthcare Index pulled back from 437.66 in Jun 2021 to 313.97 on Nov 30, showing a deep correction, while the fundamentals remain solid. In 1H21, as the domestic COVID-19 pandemic gradually eased, China's drug sales rebounded. Drugs sales in China's public medical institutions increased 9.77% YoY to RMB617.4bn. Sales of innovative drugs also outperform the industry average. During 1H21, sales of NRDL reimbursed innovative drugs maintained a rapid growth momentum, increasing 29.31% YoY thanks to their high clinical value and improved affordability after NDRL inclusion. The new version of NRDL will be implemented from Jan 2022, with a total of 67 patent drugs newly added into the NRDL, which will further drive the growth of the domestic innovative drug market, in our view.

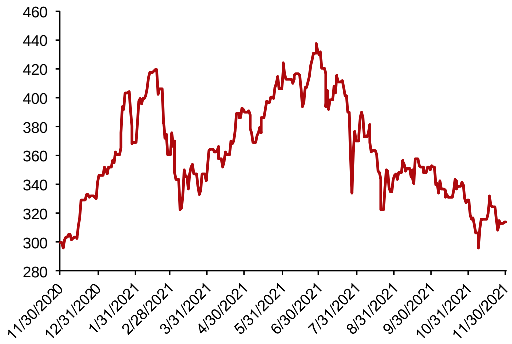
China innovation plays a vital role in global market. In terms of the world's total number of innovative drug pipelines, China's contribution has jumped from 4% in 2015 to 14% in 2020, ranked behind the US (49%) and leading the UK (6%) and Germany (4%). In Nov 2019, BeiGene's zanubrutinib (a BTK inhibitor) received approval from the US FDA for MCL treatment, marking the first Chinese innovative drug commercialized in the US. During recent years, domestic innovative drugs have achieved multiple out-licensing deals with global MNCs, with the largest deal size exceeding US$2bn. Our top picks in the biotech sector are Innovent, I-Mab and BeiGene.

CXO sector continues solid growth momentum. The COVID-19 pandemic has provided a good opportunity for China CXOs to showcase their capabilities to global clients. Reliable operation during the pandemic also helps China CXOs to win global orders. As a result, China CXOs experienced revenue growth acceleration in 2021 (average 36%/58% YoY in 2020/1H21), which significantly outpaced that of foreign peers (average 15%/30% YoY in 2020/1H21). We believe China CXOs, especially leading players, will continue to win market share from foreign peers over the next 5-10 years. Looking at China CXO sector's relative P/E to foreign CXO sector, we found that China CXO's relative valuation multiple has fallen to the lowest level since the outbreak of COVID-19, indicating a good bottom-fishing opportunity. We prefer leading CXO names including WuXi Bio, WuXi AppTec and Tigermed.

COVID treatment drugs and vaccines will see sustained demand. We believe booster vaccine shots and continuous upgrade of vaccines are necessary given the emerging types of COVID-19 variants. In addition, small molecule drugs will become a necessary tool for tackling the pandemic due to their advantages including 1) convenience of use thanks to oral dosing and 2) cheap costs (US$705 per course for molnupiravir vs US$2,100~2,400 per course for neutralizing antibodies), 3) fast scalable manufacturing, 4) lower risks of drug resistance caused by new COVID-19 variants. Merck's molnupiravir and Pfizer's PAXLOVID have already submitted EUA for treatment of COVID-19 outpatients. In addition, proxalutamide (AR antagonist) from Kintor and S-217622 (3CLpro inhibitor) from Shionogi & Co are at late clinical stage.

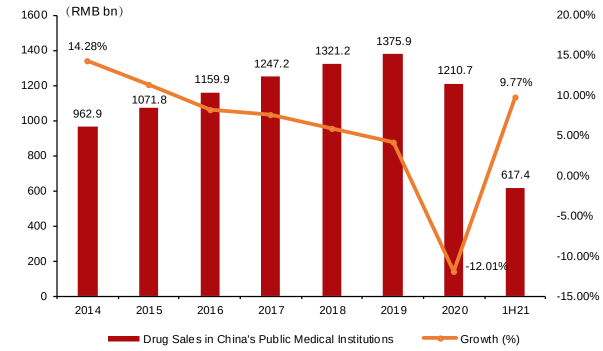
Focus Charts

Figure 52: MSCI China Healthcare Index



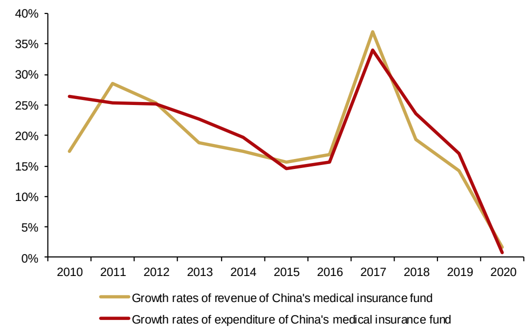
Source: Bloomberg, CMBIS

Figure 53: Drug sales in Public Medical Institutions



Source: Menet.com.cn, CMBIS

Figure 54: Growth rates of revenue and expenditure of China's basic medical insurance fund



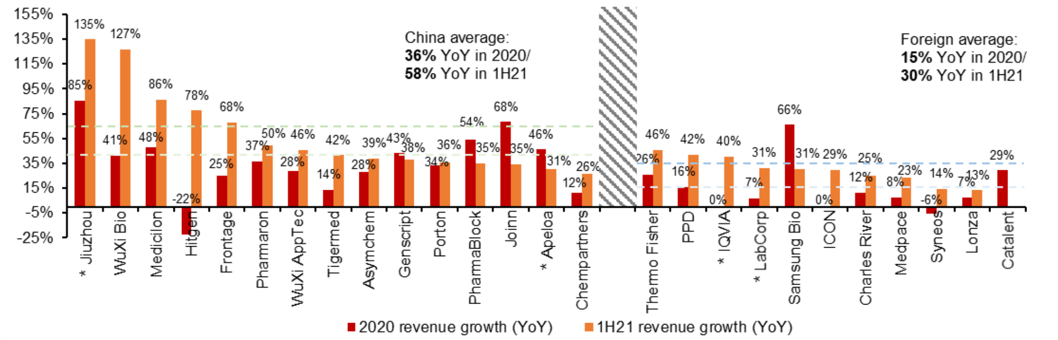
Source: WIND, CMBIS

Figure 55: Drug sales in public medical institutions by category

Drug category	1H19 proportion	1H20 proportion	1H21 proportion	1H21 YoY
Volume-based Procurement Drug (集采品种)	12.67%	10.72%	6.64%	-32.01%
Key Monitoring Drug (国家重点监控品种)	3.95%	1.53%	0.85%	-38.94%
NDRL Negotiation Drugs (国家医保谈判品种)	5.73%	7.89%	9.29%	29.31%
Others	77.65%	79.86%	83.22%	14.83%
Total	**100.00%**	**100.00%**	**100.00%**	**9.77%**

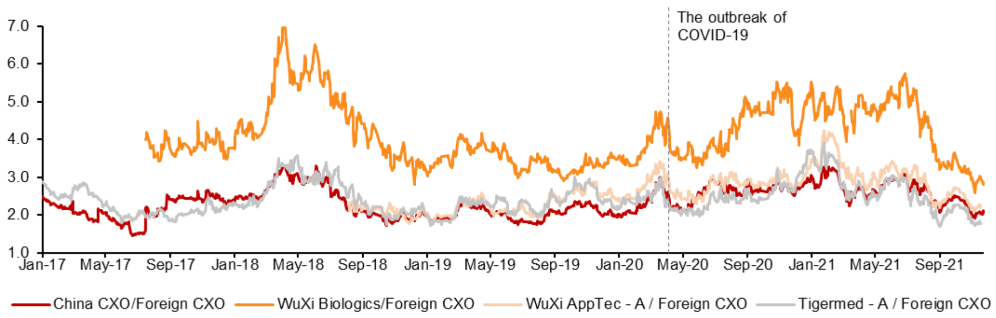
Source: Menet.com.cn, CMBIS

Figure 56: Global CXO revenue growth comparison (2020 & 1H21)



Source: Company data, CMBIS; Note: * refers to "CDMO" segment for Jiuzhou and Apeloa, "Research & Development Solutions" segment for IQIVA, and "Drug Development (DD)" segment for LabCorp

Figure 57: Relative P/E: CMBI-covered CXO/Foreign CXO (as of 25 Nov 2021)



Source: Bloomberg, CMBIS; Notes: Relative P/E = P/E of China CXO divided by P/E of foreign CXO

Top picks: Innovent (1801 HK), WuXi Biologics (2269 HK)

Innovent (1801 HK, BUY, TP HK$116.89)

1) **Rich innovative drug pipelines.** Besides 6 marketed products (Tyvyt, three biosimilars, pemigatinib, and olverembatinib), Innovent also has 5 innovative drugs in pivotal clinical stage, including IBI306 (PCSK9 mAb), IBI310 (CTLA-4 mAb), IBI376 (PI3Kδ inhibitor), IBI326 (BCMA-CART), and taletrectinib (ROS1/NTRK inhibitor). In addition, Innovent has established a comprehensive innovative portfolio covering next-generation I/O targets, including CD47/SIRPα, TIGIT, LAG3, 4-1BB, OX40, etc. 2) **Fruitful business development deals**. YTD, Innovent has completed seven licensing-in deals with AnHeart, Synaffix, Ascentage, Laekna, Bolt, GenFleet, and NeoCura, respectively. We believe Innovent will become the best commercial partner for domestic biotech companies given its strong commercialization network and proven track record in China. 3) **Tyvyt got three large indications added into the NRDL.** Through price negotiation, Tyvyt's three large indications, including 1L nsq-NSCLC, 1L sq-NSCLC, and 1L HCC, were included into the NRDL, effective from Jan 2022. As an early mover in developing large indications, Tyvyt will further strengthen its leading position in Chinese PD(L)1 market. Moreover, Innovent has also filed two sNDA of Tyvyt for treatment of 1L ESCC and 1L GC in China. Innovent and its partner Eli Lily has already filed NDA of Tyvyt for 1L nsq-NSCLC to the US FDA with PDUFA date in Mar 2022. We are positive towards Tyvyt's FDA approval. We derive our target price of HK$116.89 based on 15-year DCF valuation (WACC: 9.05%, terminal growth rate: 4.0%).

WuXi Biologics (2269 HK, BUY, TP HK$159.19)

WuXi Bio is the largest China-based biologics CDMO with a leading position (in terms of revenue) in the global market. Pipeline project number has reached 441 as of Sep 2021, including 31 projects in Phase 3 stage and 6 in commercial stage (compared with 334/28/2, as of Dec 2020).

1) **CMO revenue to surge**. WuXi Bio now has 6 commercial stage projects, 5 of which were added during 9M21. In 1H21, the Company recorded RMB889mn CMO revenue, accounting for 20% of the total revenue. Management also expected to add another one CMO project in 4Q21E, and additional 2 - 4 CMO projects in 2022E/ 23E and 4 - 6 in 2024E / 25E. 2) **Non-COVID project to be the major growth driver**. The Company has signed 3 COVID-19 vaccine contracts (including AstraZeneca's adenovirus vector vaccine). We expect COVID-19 related projects to contribute c. RMB3bn of revenue in 2021E, or approximately 30% of the total revenue during the period. Meanwhile, we expect WuXi Bio's non-COVID revenue will grow by more than 50%+/75%+ YoY in 2021E/22E, respectively, assuming COVID-19 revenue would experience more than 30% YoY decline in 2022E following a 170%+ YoY increase in 2021E. We believe that the possible fade-away of COVID-19 revenue after 2022 will have a limited impact to the Company, given its larger revenue size by then (RMB21bn based on our forecasts). 3) **Attractive valuation**. Valuation of China CXO sector has come to an attractive level after significant correction since Jun 2021. In the past four years, China CXO sector has always been trading at a valuation premium to foreign CXO sector. However, the current valuation premium is at the lowest level since the COVID outbreak. More importantly, WuXi Bio's relative valuation premium to foreign peers is at historical low.

Valuation

Figure 58: China healthcare valuation comps (as of 8 Dec 2021)

Company	Ticker	Rating	Mkt Cap (US$mn)	Price (LC)	TP (LC)	Upside/ Downside	P/E(x) FY21E	P/E(x) FY22E	P/B(x) FY21E	P/B(x) FY22E	ROE(%) FY21E	ROE(%) FY22E
Medical service												
Jinxin Fertility	1951 HK	BUY	3,141	9.77	25.44	160.42%	59.3	32.9	2.3	2.1	4.2	6.7
Aier Eye Hospital	300015 CH	N/A	36,731	43.14	N/A	N/A	97.2	73.7	18.6	15.5	20.0	21.9
Hygeia Healthcare	6078 HK	N/A	4,465	56.35	N/A	N/A	68.0	46.8	6.1	5.4	9.4	12.1
			Average				**74.8**	**51.2**	**9.0**	**7.7**	**11.2**	**13.6**
Biotech												
Innovent Biologics	1801 HK	BUY	12,296	65.60	116.89	78.18%	N/A	N/A	7.2	7.6	-19.7	-11.7
Hutchmed	13 HK	BUY	6,058	54.65	77.74	42.25%	N/A	N/A	6.5	9.1	-22.8	-40.5
I-mab	IMAB US	BUY	3,998	51.23	103.60	102.23%	N/A	N/A	7.3	9.5	-31.3	-29.7
Innocare Pharma	9969 HK	BUY	3,546	18.44	24.66	33.73%	167.3	N/A	2.6	2.6	N/A	N/A
Kintor Pharma	9939 HK	BUY	2,870	57.75	98.07	69.82%	N/A	2.5	7.4	1.9	-22.4	74.6
Ascentage Pharma	6855 HK	BUY	929	27.55	67.20	143.93%	N/A	N/A	10.0	30.3	N/A	-1.0
BeiGene	6160 HK	N/A	29,317	188.10	N/A	N/A	N/A	N/A	4.0	4.5	-23.6	-16.5
Shanghai Junshi	1877 HK	N/A	7,477	42.55	N/A	N/A	N/A	N/A	4.4	6.5	0.2	-20.8
Zai Lab	ZLAB US	N/A	6,795	70.48	N/A	N/A	N/A	N/A	5.0	6.4	-55.0	-37.4
Remegen	9995 HK	N/A	5,885	93.70	N/A	N/A	N/A	N/A	9.7	10.3	-13.3	-10.2
Akeso	9926 HK	N/A	4,463	42.60	N/A	N/A	N/A	N/A	9.5	12.1	-25.2	-22.7
			Average				**167.3**	**2.5**	**6.7**	**9.2**	**-23.7**	**-11.6**
CXO												
Wuxi Apptec	603259 CH	BUY	64,638	139.50	167.38	19.98%	78.9	62.6	11.3	10.0	14.4	16.1
Wuxi Biologics	2269 HK	BUY	55,485	101.80	159.19	56.38%	106.1	71.6	14.7	12.2	14.9	18.6
Hangzhou Tigermed	300347 CH	BUY	18,430	140.02	212.59	51.83%	39.3	36.4	4.9	4.4	13.5	13.0
Pharmaron	300759 CH	N/A	21,016	177.37	N/A	N/A	95.3	70.4	13.8	11.7	14.6	16.8
Asymchem Labor	002821 CH	N/A	18,142	470.82	N/A	N/A	113.9	73.4	16.5	13.6	14.7	19.1
Joinn Laboratories	603127 CH	N/A	7,264	130.48	N/A	N/A	108.9	81.1	30.1	14.1	16.3	8.0
			Average				**90.4**	**65.9**	**15.2**	**11.0**	**14.7**	**15.3**
Medical device												
Venus Medtech	2500 HK	BUY	1,609	28.45	71.34	150.76%	N/A	N/A	2.1	2.1	-2.2	0.0
AK Medical	1789 HK	BUY	948	6.63	11.45	72.70%	43.6	41.8	4.8	4.4	11.0	10.6
Broncus	2216 HK	BUY	647	9.60	23.77	147.60%	N/A	N/A	12.9	24.2	-54.7	-87.1
Shanghai Kindly	1501 HK	BUY	479	22.50	44.91	99.60%	20.7	15.8	2.2	2.0	10.5	12.9
Shanghai Microport	853 HK	N/A	7,306	31.30	N/A	N/A	N/A	N/A	5.7	6.0	-15.6	-10.0
Microport MedBot	2252 HK	N/A	6,883	56.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Shandong Weigao	1066 HK	N/A	6,274	10.82	N/A	N/A	16.1	13.6	2.0	1.8	12.9	13.7
			Average				**26.8**	**23.7**	**5.0**	**6.7**	**-6.4**	**-10.0**
Vaccine												
Chongqing Zhifei	300122 CH	N/A	31,229	123.93	N/A	N/A	36.8	28.7	13.7	9.5	46.6	35.4
Changchun High-tech	000661 CH	N/A	18,345	287.80	N/A	N/A	28.2	21.7	7.8	5.8	27.8	26.9
Walvax Biotech	300142 CH	N/A	15,692	63.00	N/A	N/A	79.7	57.8	12.9	10.8	15.7	16.6
Shenzhen Kangtai	300601 CH	N/A	11,893	109.91	N/A	N/A	59.7	38.6	8.7	7.3	14.0	18.9
Hualan Bio	002007 CH	N/A	8,157	28.39	N/A	N/A	27.8	22.7	5.8	4.9	20.8	21.5
Cansino Bio	6185 HK	N/A	7,072	143.50	N/A	N/A	11.6	6.0	3.7	2.6	32.4	42.0
			Average				**40.7**	**29.2**	**8.8**	**6.8**	**26.2**	**26.9**
Pharma												
CSPC Pharma	1093 HK	BUY	12,528	8.16	12.33	51.10%	13.8	12.8	3.0	2.5	22.2	20.6
Simcere Pharma	2096 HK	BUY	3,077	9.13	13.73	50.38%	18.7	14.4	3.4	3.1	18.3	21.6
Jiangsu Hengrui	600276 CH	N/A	50,730	50.36	N/A	N/A	50.9	44.5	8.7	7.5	17.9	17.8
Sino Biopharm	1177 HK	N/A	13,359	5.53	N/A	N/A	8.1	12.0	3.1	2.5	46.8	24.5
Hansoh Pharma	3692 HK	N/A	12,910	17.00	N/A	N/A	26.8	23.0	4.4	3.9	14.7	16.0
			Average				**23.7**	**21.3**	**4.5**	**3.9**	**24.0**	**20.1**
Medical aesthetic												
EC Healthcare	2138 HK	BUY	1,836	12.16	22.40	84.21%	66.0	39.0	7.8	8.1	16.1	26.1
Imeik Technology	300896 CH	N/A	19,222	564.10	N/A	N/A	130.2	87.1	23.6	19.5	18.1	22.3
Angelalign Technology	6699 HK	N/A	6,799	315.00	N/A	N/A	153.5	113.6	14.3	11.2	15.2	15.7
			Average				**116.6**	**79.9**	**15.2**	**13.0**	**16.4**	**21.4**
Internet healthcare												
Ping An Healthcare	1833 HK	BUY	4,303	29.25	57.00	94.87%	N/A	N/A	1.9	2.1	-10.2	-7.0
JD Health	6618 HK	N/A	27,701	67.80	N/A	N/A	256.7	153.8	4.5	4.4	1.1	2.5
Alibaba Health	241 HK	N/A	12,489	7.22	N/A	N/A	150.7	N/A	7.3	5.5	7.9	0.3
			Average				**203.7**	**153.8**	**4.6**	**4.0**	**-0.4**	**-1.4**

Source: Bloomberg, CMBIS estimates

China Consumer Staples

OUTPERFORM

Analyst: Joseph WONG – josephwong@cmbi.com.hk

Structural merits look prominent amid any stagflation expectation

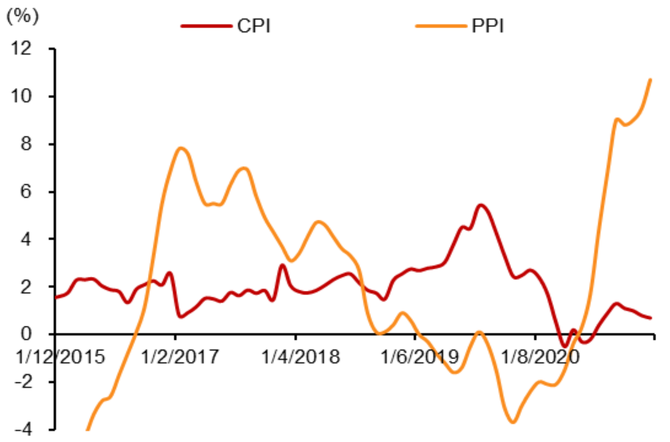
Prefer players with high pricing power that protect margins

While market sentiment looks to have digested any consequences from policy changes and a bumpy path to a post-COVID recovery over the year of 2021, in our view, investors should not be too complacent either. Supply chain bottlenecks, channel reshuffling and the contagious "wealth effect" from property tightening are uncertainties that could extend into 2022E. Compounding with any stagflation expectations, we see emerging values from a habitual consumption pattern, premiumization and an effective cost pass-through that F&B players offer. We recommend investors to stick to players with high pricing power that would manifest into steadfast margins. CRB and Mengniu are our top picks, followed by Tsingtao and Yili. We also like Smoore as it seems to be one of the major beneficiaries of any local e-vapor regulation enforcement.

- **Margins pressure driven by supply shocks looks to be transitory.** The supply shocks in energy and raw material have led to concerns over F&B producers' GPM trajectories. We noted little production halts. Margins dilution from a higher electricity tariff looks to be uneven, ranging from 0.3%-2.9%, with beer producers suffering the most on our sensitivity analysis. That said, we believe the margins upside brought by premiumization should suffice to smooth out the distortion. With raw milk cost hike likely peaking-out, in our view, 2H21 would probably mark the trough to F&B producers' GPMs.
- **Property tightening could result in contagious impact to consumption.** Anecdotal evidence and our data-mining analysis suggest that household income remains crucial in supporting consumption, while property and financial income have been drivers of disposable income growth. Any wealth effect amid a property market downturn would lead to hiccups to large-ticket discretionary spending, while food and beverage historically took a lighter hit.
- **CGB likely to linger as an ongoing but idiosyncratic disruption across the F&B spectrum.** We think SKUs that are frequently consumed at home without distinguishable product differentiation, along with high channel margins, are prone to the channel migration. Producers' pricing power, distributor management and the degree of market consolidation also matter. Our channel check suggests that beer and dairy producers remain cautious in monetizing this fast-growing opportunity, while e-vapor makers are irrelevant.
- **Valuation.** The MSCI China Consumer Staple index is trading at 23.0x 2022E P/E which starts to turn attractive with a medium-to-long-term investment horizon vs a five-year historical average PE of 31.5x, in our view. We benchmark our TPs for Mengniu, Yili and Tsingtao to +1sd above the stocks' 3-year averages, CRB at 3-year average, while we set those for Smoore at -1sd below, as we attempt to price-in the perplexed sentiment post regulatory scrutiny.

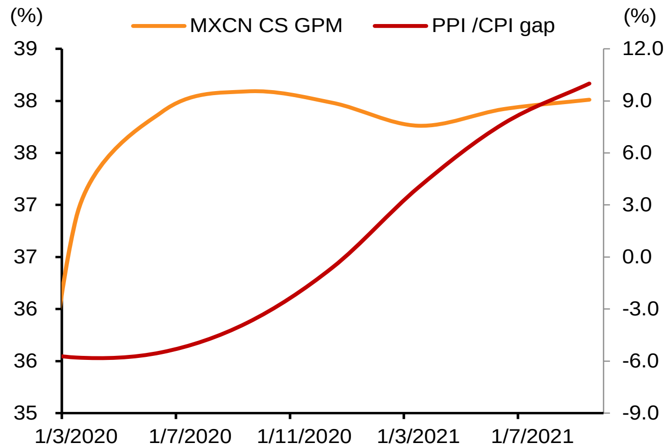
Focus Charts

Figure 59: China PPI and CPI inflations



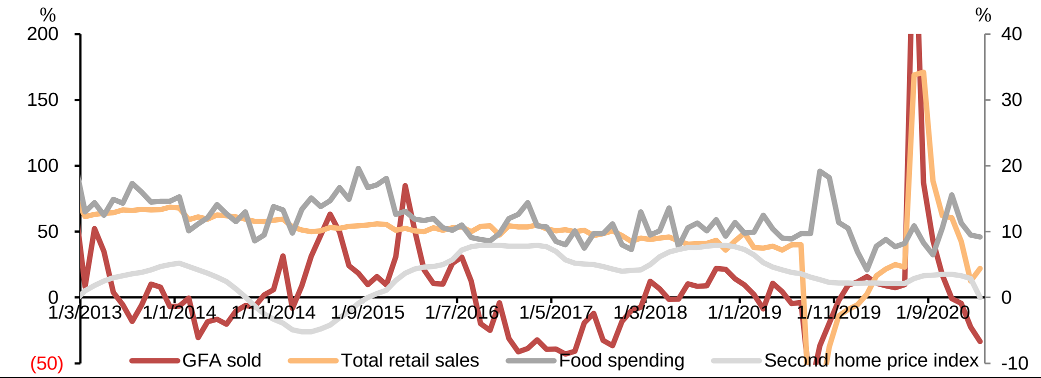
Source: Wind, CMBIS

Figure 60: Strong margins buffer amid cost inflation



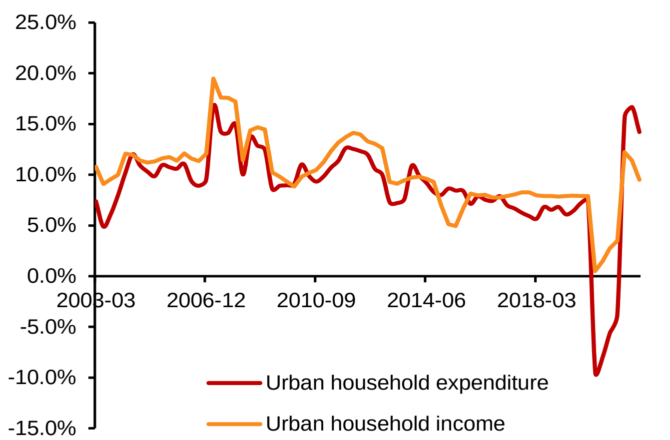
Source: Bloomberg, CMBIS

Figure 61: Food spending offered a relatively resilience compared to China total retail sales, GFA sold and home price changes



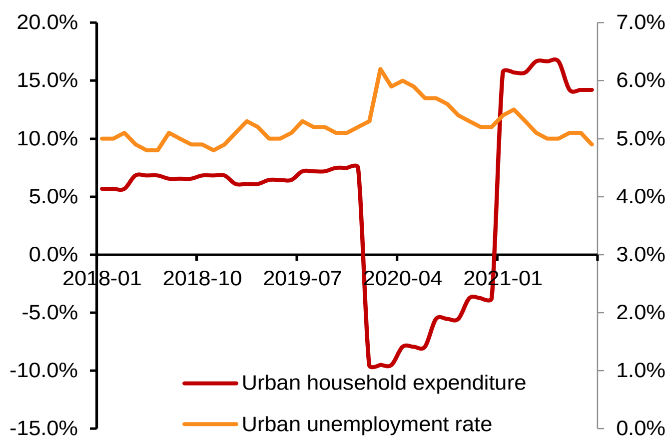
Source: Wind, CMBIS

Figure 62: Urban household income vs expenditure



Source: Wind, CMBIS

Figure 63: Household expense vs unemployment



Source: Wind, CMBIS

CRB and Mengniu are our top picks; we also like Smoore

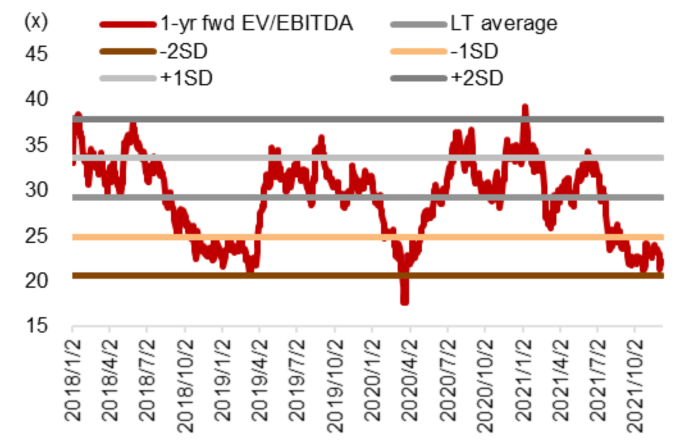
CRB (291 HK, Buy, TP HK$88.0). Despite an anticipated 3Q consumption disruption and a seasonally slower 4Q, CRB remains a high-quality name to stand tall thanks to its undisrupted premiumization trajectory, underpinned by a ~2% sub-premium price hike and a ~5% from a higher premium mix, respectively. We envisage these should also mitigate any cost inflation (4-5%) to be materialized over 2H21.

Mengniu (2319 HK, Buy, TP HK$58.0). Our 5.9% 2H EBIT margins stemmed from an effective cost control that was well proven in 1H. This efficiency gain should also suffice to mitigate the risks to our RMB2bn net profits assumption brought by the transitory raw milk price hike - we expect it to peak out and taper from 17% YoY in 1H to 5-6% YoY in 2H21E, resulting a ~36% 2H gross margins (2H19: 36.3%).

Smoore (6969 HK, Buy, TP HK$51.4). Regulatory scrutiny is a well-known overhang to Smoore. That said, it also serves as a double-edged sword by lifting up the entry barrier to new entrants, upkeeping a high pricing discipline and projecting a more visible competitive landscape.

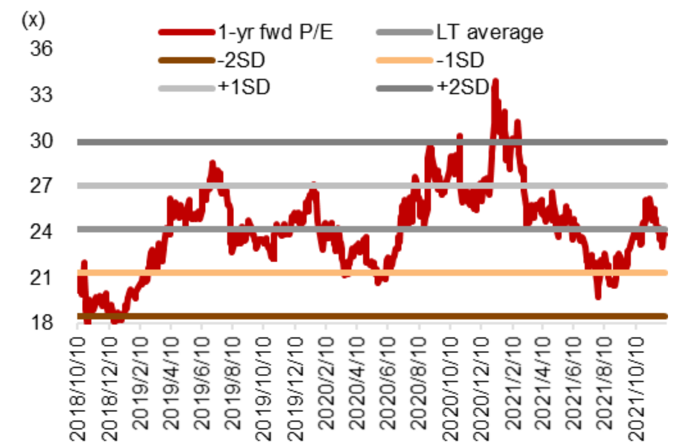
Yili Industrial (600887 CH, Buy, TP RMB50.0). Our incorporation of a 7.8% 2H EBIT margins is benchmarked to the level of 2H19, based on a similar rational we assumed for Mengniu. The 15% raw milk price hike over 1H has resulted in a 0.6pp gross margins dilution to Yili, and we expect the impact to proportionately diminish if the hike maintains at 5% over 2H. We assume a 33.5% 2H gross margin.

Figure 64: CRB - 12M forward EV/EBITDA



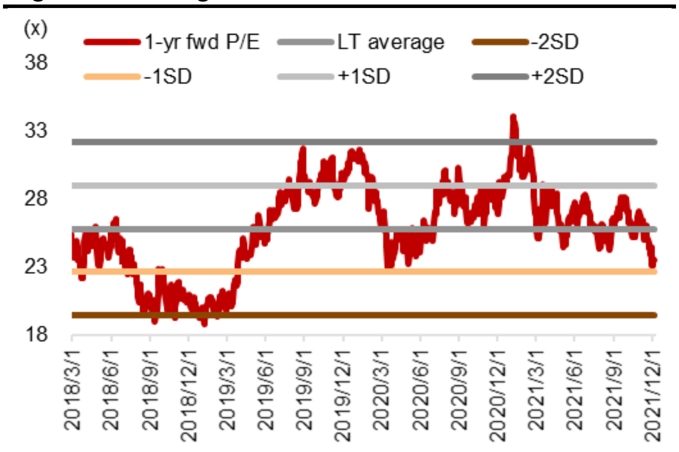
Source: Bloomberg, CMBIS

Figure 65: Yili - 12M forward P/E band



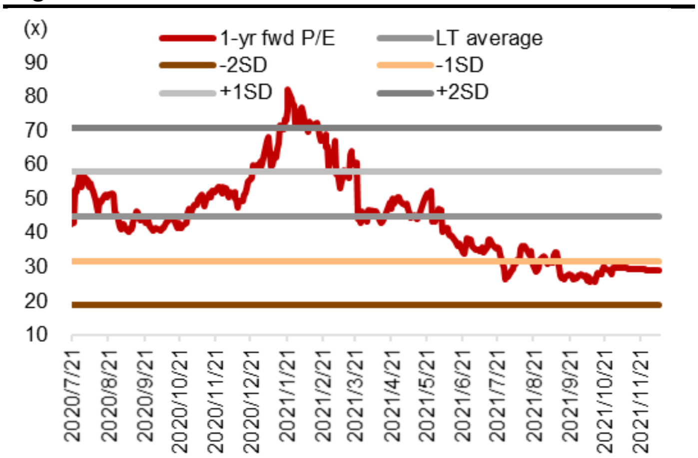
Source: Company data, CMBIS

Figure 66: Mengniu - 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 67: Smoore - 12M forward P/E band



Source: Bloomberg, CMBIS

Valuation

Figure 68: China Consumer Staples valuation comps

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Upside/ Downside	Mkt. Cap (US$ mn)	P/E (x) FY21E	P/E (x) FY22E	P/B (x) FY21E	P/B (x) FY22E	ROE (%) FY21E	ROE (%) FY22E
Food/ beverage/ cosmetics/ e-cigarette												
CR Beer	291 HK	Buy	88.0	67.5	30.3	28,040	40.1	38.8	7.2	6.4	13.9	17.5
Tsingtao Brewery	168 HK	Buy	86.0	70.9	21.3	17,518	27.2	22.5	3.3	3.0	12.2	13.6
Budweiser APAC	1876 HK	NR	N/A	20.3	N/A	34,450	37.7	31.3	3.1	2.9	8.3	9.4
Mengniu	2319 HK	Buy	58.0	45.7	26.9	23,150	41.0	34.5	5.8	5.1	11.9	13.5
Yili - A	600887 CH	Buy	50.0	42.0	19.0	42,221	27.1	23.4	7.5	6.7	27.7	30.5
Feihe	6186 HK	NR	N/A	10.9	N/A	12,475	10.8	8.9	3.8	3.0	36.7	35.3
Nongfu Spring	9633 HK	NR	N/A	48.0	N/A	69,174	64.7	57.3	21.3	16.7	36.5	32.9
Tingyi	322 HK	NR	N/A	15.5	N/A	11,170	18.8	16.6	3.4	3.4	18.5	21.0
Uni-President China	220 HK	NR	N/A	7.8	N/A	4,290	18.5	16.2	2.0	2.0	10.7	12.2
Zhou Hei Ya	1458 HK	NR	N/A	6.4	N/A	1,954	25.5	17.1	2.8	2.5	11.1	15.0
Juewei Food	603517 CH	NR	N/A	69.1	N/A	6,671	35.8	32.3	7.2	6.2	20.1	19.2
Kweichow Moutai	600519 CH	NR	N/A	2,150	N/A	424,518	51.4	44.0	14.1	11.8	28.5	28.2
Wuliangye	000858 CH	NR	N/A	250	N/A	152,529	40.5	34.0	9.6	8.2	24.7	25.2
WH Group	288 HK	NR	N/A	4.9	N/A	8,023	7.6	6.3	0.9	0.8	11.3	12.8
Foshan Haitian	603288 CH	NR	N/A	112.2	N/A	74,285	70.1	57.0	19.1	15.4	28.6	28.5
Proya Cosmetics	603605 CH	NR	N/A	204.5	N/A	6,461	69.4	55.1	14.3	11.9	21.2	22.2
Smoore	6969 HK	Buy	51.4	42.8	20.1	32,962	38.5	27.0	13.5	10.4	41.7	45.8
RLX Tech - ADR	RLX US	Buy	6.9	4.1	68.3	6,487	16.2	14.4	15.6	10.3	39.7	34.0

Source: Bloomberg, CMBIS

China Consumer Discretionary MARKET PERFORM

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Effective foot traffic acquisition and costs pass-through are the keys

Expect challenges in 1H22E and marginal improvements in 2H22E

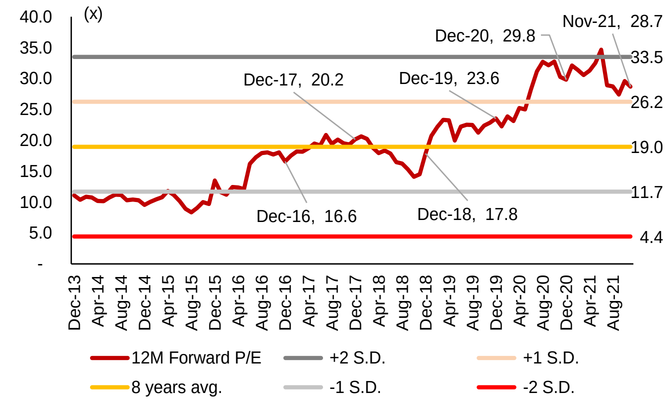
Our rating for Consumer Discretionary is market perform in 2022E.
Combining a sluggish demand and marginal policy relaxation, we only anticipate a weak recovery in 2022E. We forecast China retail sales growth to be ~6% in 2022E, a significant slowdown from 12.9% in 2021. The main reasons, in our view, are: **1) lingering covid-19 outbreaks**, **2) government's regulatory measures**, **3) pressure of slowdown in economic growth**, **4) surging costs caused by global inflation**. Considering the downward pressure for the property and other sectors, the relatively limited room for policy relaxation and the time it takes for those policies to take effect, plus the high base from last year, we expect challenges but potential bottom in 1H22E, and then a mild recovery in 2H22E. We are more positive on sportswear and apparel sectors in 1H22E, and more positive on catering and small home appliances sectors in 2H22E, while we are neutral on large home appliances for FY22E. **Positive catalysts:** Significant improvements in Sino-US relation, better than expected policy easing. **Negative catalysts:** Emergence of new and severe COVID-19 variants, meaningful asset prices depreciation, higher than expected taxation, global supply chain and transportation issues fail to be resolved in a timely manner.

Sector valuation is still hovering at the high-end. Facing slowing economic growth, we urge the investors to stay cautious.
The forward 12 months P/E dropped from 29.8x in 2020 to 28.7x in 2021, consists of share prices decline and cuts in corporate earnings. Given that the downward cycle is not yet over and potential slowdown in FY22E growth, this valuation is not attractive. Especially when the US Fed may taper at a faster pace or reduce bond purchases earlier, global liquidity may decrease and companies' valuations can still face greater pressure.

Figure 69: China retail sales growth, overall and online

Source: NBS, CMBIS estimates

Figure 70: Consumer Discretionary sector valuation



Source: Bloomberg, CMBIS estimates

Still constrainted by the covid-19 outbreaks

Recovery of China retail sales was strong, with a 25.7% YoY growth in 5M21. However, after discovery of the new delta variant Jun 2021, there were many rounds of outbreaks in the world (even in China which is sticking to a "zero-infection" policy) and as a result, retail sales growth slowed to as low as 2.5% YoY in Aug 21. Entering into 2022E, we believe this challenge to stay, therefore we are expecting services based industries such as catering and entertainment sectors to have a slower recovery.

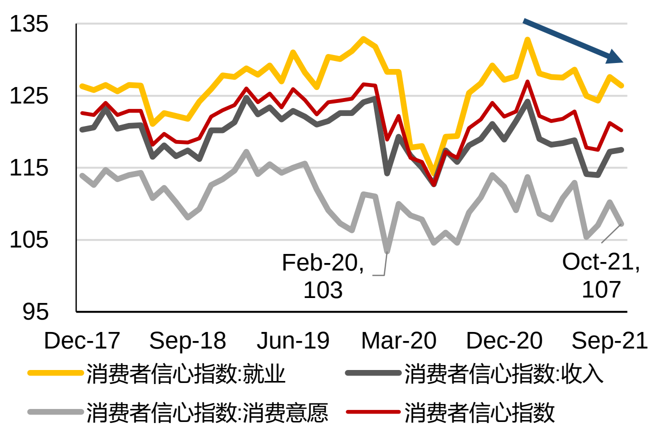
Policy-wise, we may only see marginal relaxation

We believe regulatory measures will inevitably last for a certain period of time, where room for fiscal policy relaxation is restricted, as 30-40% of local government revenue is property sector-related and relatively speaking, the monetary policy can possibly be more loosen.

The latest round of regulation on the property sector began with the "Three Red Lines" announced in late 2020, which the requirements for property developers to comply now is higher than ever. Besides, sales restrictions, price restrictions, purchase restrictions, loan restrictions and other measures have been implemented in various places, which caused both the sales area and price growth to cool down. However, starting from mid 2021, as some debt issues of several private property developers turned into a crisis, the overall industry sales have experienced a cliff-like decline. Subsequently speaking, almost all financing channels have all become problematics and this causes the real estate related investment and other consumption to become fairly severe.

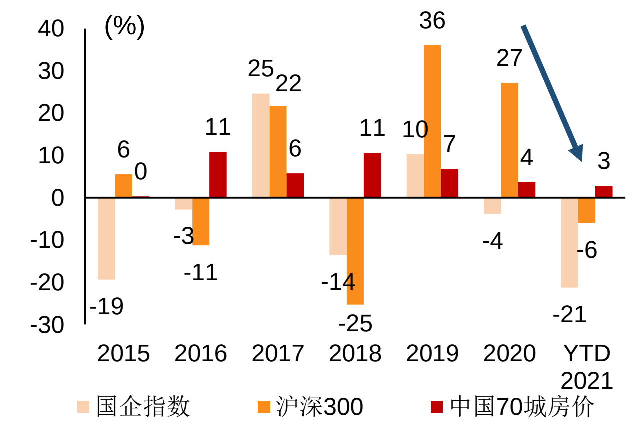
Pressure are huge on many sectors, such as "Double Reduction" policy for the education, anti-monopoly law for the TMT, carbon neutrality and power curtailment policy for the manufacturing. Because these are making up about 40-50% of the workers in the urban population in China, decline in corporate earnings and slowdown in income growth will bring further downside in consumption. Even government is starting to loosen right now, it would still take 3-6 months for the policy to pass through and take effect. Moreover, under the belief of "Common Prosperity", government may implement stricter policies at appropriate times in the future, measures may include taxes, such as real estate tax and consumption tax, in order to improve the so called "Third-times distribution".

Figure 71: Worsening consumer sentiment, consumer desire close to recent low in Mar2020



Source: NBS, CMBIS estimates

Figure 72: Disappointing stock and property market may lead to negative wealth effect



Source: Bloomberg, CMBIS estimates

Enormous pressure on economic growth, with negative wealth effect

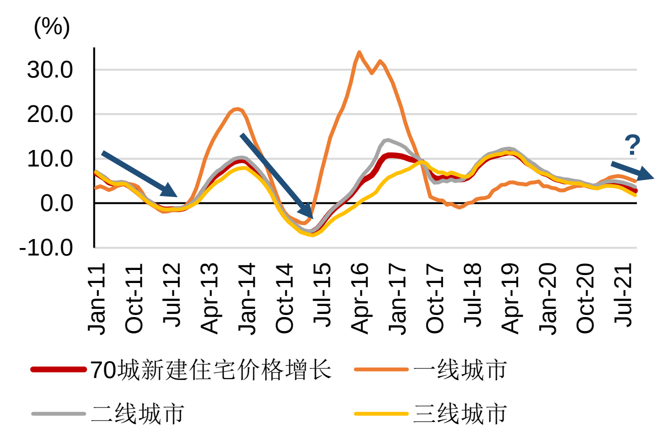
Disposable income rose surged by 17.6% YoY in 1Q21, however, as economic growth slowed down and the ripple effect caused by the downturn in multiple sectors and industries, the disposable income growth fell to just 10.4% in 9M21. If we look at the Consumer Confidence Index, consumer desire fell to only 107 in Oct21, which is very close to the recent low of 103 in Mar20, when the pandemic first hit China. In addition, the performance of asset prices (HK shares, China-concept shares listed in US, A-shares, property) are very disappointing. If the real estate industry experiences a downward cycle like the previous ones during 2010-2012, or 2013-2015, which the property prices were falling across the country, then the negative wealth effect may become even more serious.

Investors should also be aware of the global inflation risk

In 2021, together with recovery of the global economy and shipping industry had greatly increased the demand for raw materials, energy and labour, but after a multiple waves of covid-19 outbreaks, the supply chain was severely disrupted, causing serious miss-allocation of resources and logistic power, and led to worldwide port congestion and soaring freight rates. We believe that even under the most optimistic circumstances, this situation may only be resolved as early as mid-2022, therefore we are rather conservative on companies in the export sector in the coming months.

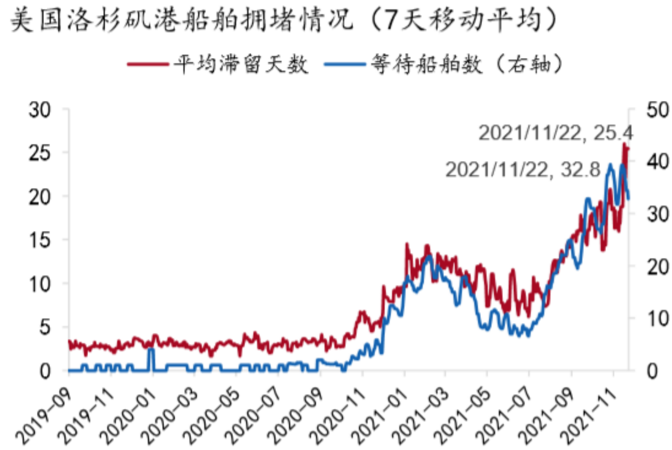
In terms of costs, we conservatively predict that the prices of energy (i.e. coal, oil and natural gas) and raw materials (i.e. metals and plastics) to hover at a high level in 2022, and may not fall back soon. Therefore, although the cost pressure of enterprises may not increase further, still it may not be a positive catalyst for them in the near future yet. On the contrary, we believe labour costs pressure to be even higher, because the adjustment of minimum wage in 2020 was suspended, and pressure of social insurance will slowly arise in 2021 and 2022, which may cause an even higher labour costs increase. Therefore, we are more positive on the companies that have the ability to increase prices and passing on costs inflation, such as JMJ, Li Ning, Bosideng and Haier Smart Home etc.

Figure 73: Price growth for newly built residential property in the 70 cities in China (Monthly)



Source: NBS, CMBIS estimates

Figure 74: Congestion situation of major US port



Source: The Port of Los Angeles, China Merchant Bank Institute, CMBIS estimates

1) Sportswear Industry (Outperform)

Concurring with the 14th Five-Year Plan, local governments will step their investment in sports venues and talent development. The time for sports will also increase under the "Double Reduction" policy. The upcoming Winter Olympics can also stimulate people's interest in sports. We expect the retail sales growth to slightly slowdown in 2022E, comparing to 2021,but because industry inventory level is low, the trade fair sales growth can still be strong. Also retail discounts could also improve slightly further. Moreover, thanks to the rise of domestic fashion, ASP may continuous to increase and lead to net profit margin expansion. We are optimistic on domestic sportswear brands, but due to the high base in 2Q21, we tend to have a higher confident on Li Ning. We also estimate that overseas brands will slowly recover after the Winter Olympics and record positive growth rate and valuation for their distributors are cheap, companies like Pou Sheng has begun buying back shares recently.

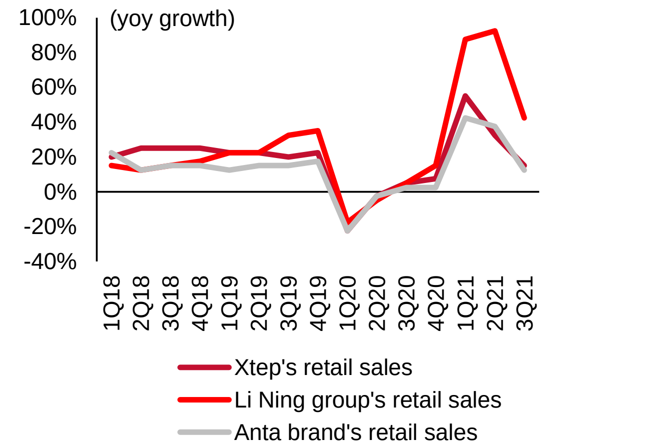
Top pick: Li Ning (2331 HK, BUY). Focus list: Anta (2020 HK, BUY), Xtep (1368, BUY), Pousheng (3813 HK), Topsports (6110 HK).

2) Catering Industry (Outperform)

Industry is still facing many challenges in the short run, but once it enters 2H22E with low base and consumers slowly adapting to this new lifestyle or any changes in "zero-infection" policy, we might see a strong demand and profit rebounds. In terms of product strength, various brands are expanding and developing new product categories. Pizza Hut's steak is now become a regular product in the restaurant's menu. Yum China is also speeding up the coffee brand LAVAZZ's expansion. XiabuXiabu is introducing a brand new menu with much better price to quality in its restaurants since Dec 2021. In terms of store efficiency, we are seeing more automations, Nayuki is aiming to automate its scheduling system to reduce overall labour costs and workload per employee. Xiabu Xiabu is also implementing a new employees' incentive scheme. We are currently more positive for JMJ, where its growth is more certain, or Xiabu Xiabu (520 HK), which has a much cheaper valuation. We believe that Nayuki and Haidilao have more uncertainties.

Top pick: JMJ (9922 HK, BUY). Focus list: Café De Coral (341 HK, BUY), Haidilao (6862 HK, HOLD), Nayuki (2150 HK, HOLD), YUM China (9987 HK, HOLD), Yihai (1579 HK, BUY), Xiabu Xiabu (520 HK), Tam Jai Int'l (2217 HK).

Figure 75: Retail sales growth (quarterly), Domestic brands



Source: NBS, CMBIS estimates

Figure 76: Same Store Sales recovery rate (half-yearly), vs 2019, by brand

SSS (vs 2019)	2H20	1H21	Jul-Oct 21
JMJ	0.86	0.82	0.83
Tai Er	1.03	0.99	0.91
HDL	0.83	0.73	0.66
XBXB	0.88	0.83	0.71
Cou Cou	0.98	0.93	0.87
KFC China	0.95	0.94	0.87
Pizza Hut China	0.94	0.96	0.89

Source: Bloomberg, CMBIS estimates

3) Apparel Industry (Market-perform)

Facing both slowdown of economic growth and consumer demand, we expect a slower growth in 2022E for the apparel industry, comparing to 2021. But since industry's inventory level is not high, trade fair sales growth could still be good, driven by ASP increases through product premiumization and to offset raw material costs pressure. Net profit margin wise, we believe it could still improve further. More importantly, current valuation is not high and therefore it is rather defensive. We expect only leading brands can have more effective branding upgrades and product strength enhancements which will allow them to increase their ASPs. Moreover, new e-commerce channels such as TikTok, Xiaohongshu (小紅書), Bilibili etc. are developing quickly and provide decent growth potential in the future. We believe that brands that can quickly adapt to these sales channel will have faster growth rate in the future.

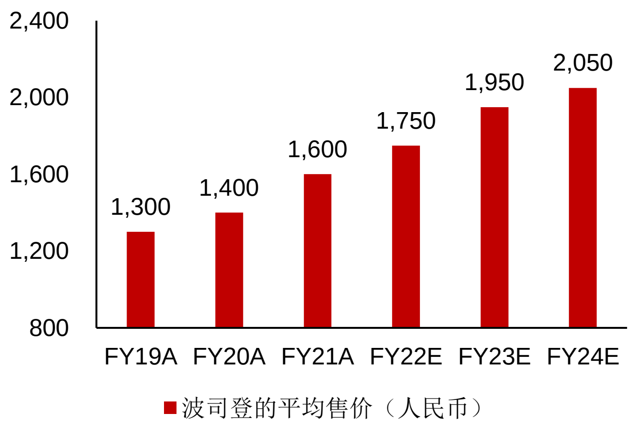
Top pick: Bosideng (3998 HK, BUY). Focus list: JNBY Design (3306 HK, BUY), China Lilang (1234 HK, BUY)

4) Home Appliance Industry (Market-perform)

Under this property sector down cycle, sales and completion data in the next six months may not be too decent, but we believe the policy easing should be on its way. Thanks to this year's low base, positive growth rate may resume in 2H22E. While the industry is experiencing premiumization, the sluggish economic environment in 2022E may, to some extent, curb the sales volume growth when brands apply ASP increases. However, because there were too many negative factors in 2021, like weakening demand, surge in raw material prices and strong RMB, if any of these factors ease, it will certainly become catalysts for the industry. But for the overseas segment, high base from last year and a potential demand overdraft induced by the pandemic may be a worry and lead to a slower growth in 2022E. In 1H22E, we are more optimistic about overseas large home appliances, because of their highly localized productions, which gave them an important edge amid the global shipping disruption, while in 2H22E, we are more optimistic about domestic small home appliances, thanks to the low base and lower correlation with property sector. We also like products with low penetration rate, such as robot vacuums.

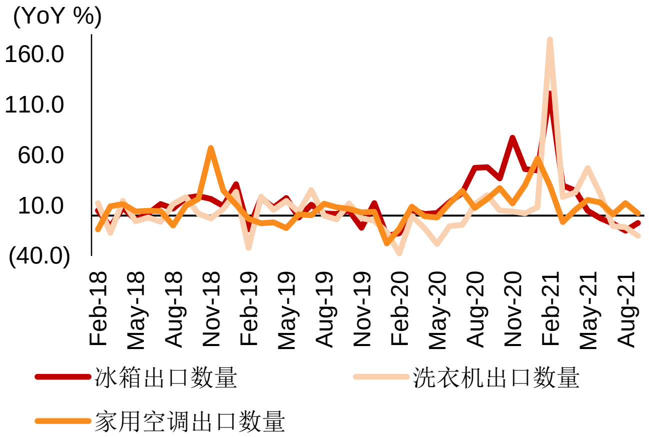
Top pick: JS Global (1691 HK, BUY). Focus list: Haier Smart Home (6690 HK, BUY), Haier Smart Home (600690 CH), Vesync (2148 HK, BUY), Midea Group (000333 CH, BUY), Joyoung (002242 CH), Supor (002032 CH)

Figure 77: Bosideng's ASP



Source: Company data, CMBIS estimates

Figure 78: Large home appliances export volume growth



Source: ChinaIOL, CMBIS estimates

Peers’ Valuation

Figure 79: Peers’ valuation table 1

Company	Ticker	Price L.C.	Mkt cap HK$ mn	Rating	TP L.C.	Year End	PER (x) FY1	PER (x) FY2	EV/EBITDA (x) FY1	EV/EBITDA (x) FY2	PBR (x) FY1	PBR (x) FY2	PEG (x) FY1	Yield (%) FY1	Net gearing FY0	YTD performanc	30 days high
HK retail																	
Chow Tai Fook Jeweller 周大福	1929 HK	13.76	137,600	-	-	Mar-21	18.9	16.1	12.7	10.7	4.0	3.7	1.1	3.8	24.1	43.3	17.9
Luk Fook Holdings Intl Lt 六福集團	590 HK	23.45	13,768	-	-	Mar-21	10.9	9.1	5.3	4.8	1.2	1.1	0.6	4.9	(18.0)	28.3	25.8
Chow Sang Sang Hldg 周生生	116 HK	10.78	7,303	-	-	Dec-20	7.3	6.6	4.9	4.3	0.6	0.6	0.3	6.2	3.5	23.9	12.2
Hong Kong Technology 香港科技探索	1137 HK	8.22	7,536	-	-	Dec-20	54.8	27.9	23.2	15.3	3.4	3.3	2.2	1.1	(31.6)	(28.0)	12.4
Sa Sa International Hldg 莎莎國際	178 HK	1.70	5,275	-	-	Mar-21	n/a	37.8	n/a	16.8	4.7	4.1	0.0	0.0	9.2	40.5	2.0
Lifestyle Intl Hldgs Ltd 利福國際	1212 HK	4.23	6,353	-	-	Dec-20	8.7	6.1	14.3	12.1	1.4	1.3	0.1	1.0	301.0	(31.2)	5.1
Cafe De Coral Holdings 大家樂集團	341 HK	13.74	8,048	BUY	19.05	Mar-21	27.0	19.0	9.8	7.7	2.5	2.4	2.1	2.4	37.4	(17.7)	14.4
Wharf Real Estate Inves 九龍倉置業	1997 HK	41.40	125,700	-	-	Dec-20	17.8	16.3	18.4	16.9	0.6	0.6	(0.1)	3.5	24.8	2.6	45.8
Average							**20.8**	**17.4**	**12.7**	**11.1**	**2.3**	**2.1**	**0.8**	**2.8**	**43.8**	**7.7**	**16.9**
Median							**17.8**	**16.2**	**12.7**	**11.4**	**2.0**	**1.8**	**0.4**	**2.9**	**16.7**	**13.3**	**13.4**
Apparel																	
Bosideng Intl Hldgs Ltd 波司登	3998 HK	5.11	55,582	BUY	6.13	Mar-21	20.0	16.3	13.2	10.6	3.7	3.3	0.8	3.6	(43.6)	29.4	6.4
Giordano International Lt 佐丹奴國際	709 HK	1.48	2,337	-	-	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	(12.8)	29.8	1.6
Esprit Holdings Ltd 思捷環球	330 HK	0.65	1,840	-	-	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	43.4	(39.5)	0.7
Cosmo Lady China Hold 都市麗人	2298 HK	0.70	1,575	-	-	Dec-20	6.2	14.3	n/a	n/a	0.5	0.5	(0.0)	1.9	31.8	(45.7)	0.9
Jnby Design Ltd 江南布衣	3306 HK	12.94	6,713	BUY	22.84	Jun-21	7.9	6.8	4.5	3.8	3.0	2.7	0.6	8.9	(54.1)	48.0	14.5
China Lilang Ltd 中國利郎	1234 HK	4.22	5,053	BUY	6.27	Dec-20	6.0	5.1	n/a	n/a	1.1	1.0	0.3	11.3	(44.2)	(18.1)	4.7
Xinjiang Lachapelle Fasl *St拉夏	6116 HK	0.65	1,216	-	-	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	n/a	100.0	0.7
Global Brands Group Hc 利標品牌	787 HK	0.19	194	-	-	Mar-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	205.3	7.4	0.2
Average							**10.0**	**10.6**	**8.9**	**7.2**	**2.1**	**1.9**	**0.2**	**6.4**	**18.0**	**13.9**	**3.7**
Median							**7.0**	**10.6**	**8.9**	**7.2**	**2.0**	**1.9**	**0.0**	**6.2**	**(12.8)**	**18.4**	**1.2**
Restaurant																	
Haidilao International Hol 海底撈	6862 HK	18.30	102,004	HOLD	18.30	Dec-20	166.0	27.9	16.3	9.9	7.4	6.0	1.2	0.3	90.0	(69.3)	26.6
Jiumaojiu International H 九毛九	9922 HK	15.04	21,859	BUY	30.47	Dec-20	38.3	23.8	13.9	8.8	5.2	4.3	0.4	0.7	(16.9)	(36.2)	20.8
Nayuki Holdings Ltd 奈雪的茶	2150 HK	8.43	14,459	HOLD	10.15	Dec-20	6883.6	47.5	26.0	14.5	3.4	3.2	0.0	n/a	n/a	n/a	10.7
Xiabuxiabu Catering Mar 呷哺呷哺	520 HK	5.62	6,100	-	-	Dec-20	30.4	11.8	2.9	2.5	2.1	1.8	0.1	1.6	37.9	(67.9)	6.3
Cafe De Coral Holdings 大家樂集團	341 HK	13.74	8,048	BUY	19.05	Mar-21	27.0	19.0	9.8	7.7	2.5	2.4	2.1	2.4	37.4	(17.7)	14.4
Tai Hing Group Holdings 太興集團	6811 HK	1.39	1,395	-	-	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	101.7	(5.4)	1.6
Ajisen China Holdings Lt 味千（中國）	538 HK	1.25	1,364	-	-	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	(28.5)	(4.6)	1.4
Fairwood Holdings Ltd 大快活集團	52 HK	16.50	2,138	-	-	Mar-21	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	76.7	(6.8)	17.2
Hop Hing Group Holding 合興集團	47 HK	0.08	755	-	-	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	73.7	53.1	0.1
Tsui Wah Holdings Ltd 翠華控股	1314 HK	0.24	337	-	-	Mar-21	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	89.8	(9.8)	0.3
Yihai International Holdin 頤海國際	1579 HK	42.55	44,546	BUY	108.52	Dec-20	36.8	32.3	24.5	19.5	8.8	7.2	2.3	0.7	(58.4)	(62.8)	51.2
Yum China Holdings Inc 百勝中國	9987 HK	404.80	173,306	HOLD	438.86	Dec-20	33.7	24.1	15.5	12.1	3.3	2.9	3.9	0.9	(28.9)	(9.0)	478.2
Yum China Holdings Inc 百勝中國	YUMC US	52.48	175,156	-	-	Dec-20	34.1	24.3	15.7	12.2	3.3	3.0	3.9	0.9	(28.9)	(8.1)	60.4
Average							**906.2**	**26.3**	**15.6**	**10.9**	**4.5**	**3.8**	**1.1**	**1.1**	**28.8**	**(20.4)**	**53.0**
Median							**35.4**	**24.2**	**15.6**	**11.0**	**3.3**	**3.1**	**0.1**	**0.9**	**37.7**	**(9.4)**	**14.4**
Textile																	
Shenzhou International (申洲國際	2313 HK	156.50	235,254	-	-	Dec-20	37.1	28.4	27.5	21.5	6.4	5.6	1.9	1.5	(25.3)	3.0	175.5
Crystal International Gro 晶苑國際	2232 HK	2.58	7,360	-	-	Dec-20	6.1	5.6	2.6	2.3	0.7	0.7	0.3	3.3	(15.5)	9.8	3.0
Huali Industrial Group Co 華利集團	300979 CH	84.80	121,193	-	-	Dec-20	36.0	28.9	n/a	n/a	9.4	7.6	1.2	1.1	(16.1)	n/a	96.6
Regina Miracle Internatic 維珍妮	2199 HK	6.43	7,872	-	-	Mar-21	17.1	13.3	9.8	8.2	2.3	2.1	0.2	2.0	120.1	154.5	7.0
Pacific Textiles Holdings 互太紡織	1382 HK	4.01	5,659	-	-	Mar-21	8.3	7.2	5.9	5.3	1.7	1.6	1.3	10.5	(4.3)	(21.2)	4.4
Nameson Holdings Ltd 南旋控股	1982 HK	0.49	1,117	-	-	Mar-21	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	30.1	5.4	0.6
Best Pacific Internationa 超盈國際控股	2111 HK	2.25	2,340	-	-	Dec-20	6.3	4.9	5.1	4.3	0.7	0.7	0.2	4.9	42.3	80.0	2.6
Texwinca Holdings Ltd 德永佳集團	321 HK	1.65	2,280	-	-	Mar-21	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	(5.6)	10.7	1.7
Win Hanverky Holdings I 永嘉集團	3322 HK	0.33	424	-	-	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	24.6	(9.6)	0.4
Eagle Nice (Intl) Hldgs L 鷹美	2368 HK	4.47	2,378	-	-	Mar-21	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	(0.4)	14.0	5.1
Texhong Textile Group L 天虹紡織	2678 HK	10.22	9,382	-	-	Dec-20	3.5	4.0	2.0	2.1	0.8	0.7	0.1	8.9	57.0	53.7	12.3
Yue Yuen Industrial Hldg 裕元集團	551 HK	13.92	22,442	-	-	Dec-20	18.4	8.8	6.4	4.4	0.7	0.7	(0.1)	2.2	30.7	(13.8)	17.3
Stella International 九興控股	1836 HK	8.91	7,074	-	-	Dec-20	12.6	8.5	5.7	5.0	0.9	0.9	0.0	6.9	(9.3)	(1.1)	10.1
Average							**16.1**	**12.2**	**8.1**	**6.6**	**2.6**	**2.3**	**0.4**	**4.6**	**17.6**	**23.8**	**25.9**
Median							**12.6**	**8.5**	**5.8**	**4.7**	**0.9**	**0.9**	**0.1**	**3.3**	**(0.4)**	**7.6**	**5.1**

Source: Bloomberg, CMBIS estimates

Figure 80: Peers' valuation table 2

Company	Ticker	Price L.C.	Mkt cap HK$ mn	Rating	TP L.C.	Year End	PER (x) FY1	PER (x) FY2	EV/EBITDA (x) FY1	EV/EBITDA (x) FY2	PBR (x) FY1	PBR (x) FY2	PEG (x) FY1	Yield (%) FY1	Net gearing FY0	YTD performanc	30 days high
Sports																	
Anta Sports Products Lt 安踏體育	2020 HK	125.70	339,808	BUY	156.06	Dec-20	36.1	28.3	20.4	16.3	9.2	7.5	1.0	1.0	(13.8)	2.3	138.8
Li Ning Co Ltd 李寧	2331 HK	87.45	228,817	BUY	102.84	Dec-20	49.3	39.1	31.9	24.9	14.7	11.3	0.9	0.6	(69.9)	64.1	98.0
Xtep International Holdin 特步國際	1368 HK	9.85	25,909	BUY	18.73	Dec-20	23.6	18.5	13.5	11.0	2.6	2.5	0.6	2.6	(15.2)	154.5	11.4
361 Degrees Internation ３６１度	1361 HK	3.86	7,981	-	-	Dec-20	11.7	10.4	2.0	1.3	0.9	0.8	0.6	1.2	(58.8)	257.4	4.0
Topsports International I 滔搏	6110 HK	9.02	55,935	-	-	Feb-21	14.8	12.5	6.3	6.2	4.1	3.5	0.8	3.5	38.7	(22.2)	10.1
Pou Sheng Intl Holdings 寶勝國際	3813 HK	1.19	6,375	-	-	Dec-20	6.3	4.3	1.9	0.9	0.6	0.5	0.1	2.6	42.4	(35.3)	1.4
China Dongxiang Group 中國動向	3818 HK	0.73	4,298	-	-	Mar-21	n/a	5.4	n/a	n/a	0.3	0.3	0.0	0.0	(49.2)	(8.0)	0.9
Average							**23.6**	**16.9**	**12.7**	**10.1**	**4.6**	**3.8**	**0.6**	**1.6**	**(18.0)**	**59.0**	**37.8**
Median							**19.2**	**12.5**	**9.9**	**8.6**	**2.6**	**2.5**	**0.6**	**1.2**	**(15.2)**	**2.3**	**10.1**
Home appliances																	
Haier Smart Home Co L 海爾智家	6690 HK	32.00	327,282	BUY	36.91	Dec-20	17.9	15.1	12.3	10.1	3.2	2.7	1.1	2.0	(14.2)	13.9	32.3
Js Global Lifestyle Co Lt Js環球生活	1691 HK	14.80	51,720	BUY	22.35	Dec-20	14.3	11.3	8.9	7.0	3.3	2.7	0.6	3.2	14.0	(1.2)	17.8
Vesync Co Ltd Vesync Co Ltd	2148 HK	10.26	11,953	BUY	15.60	Dec-20	11.6	8.7	n/a	n/a	4.2	3.4	0.5	1.7	(63.9)	(6.2)	11.8
Hisense Home Applianc 海信家電	921 HK	8.77	19,426	-	-	Dec-20	6.8	5.2	n/a	n/a	0.9	0.8	0.4	4.2	20.2	(26.5)	8.8
Midea Group Co Ltd-A 美的集團	000333 CH	70.23	600,629	BUY	95.24	Dec-20	17.2	14.9	14.8	12.5	3.6	3.1	1.2	2.6	30.6	(28.7)	73.9
Gree Electric Appliances 格力電器	000651 CH	36.63	265,317	-	-	Dec-20	9.4	8.2	3.7	3.0	1.8	1.7	0.7	6.3	(68.8)	(40.9)	39.6
Haier Smart Home Co L 海爾智家	600690 CH	30.20	327,282	-	-	Dec-20	21.6	18.1	12.6	10.2	3.7	3.2	1.4	1.8	(14.2)	3.4	30.4
Joyoung Co Ltd -A 九陽股份	002242 CH	22.91	21,520	-	-	Dec-20	18.4	16.2	15.1	12.7	3.9	3.6	1.5	3.7	(40.5)	(28.5)	25.3
Zhejiang Supor Co Ltd -A 蘇泊爾	002032 CH	63.30	62,689	-	-	Dec-20	25.5	22.1	20.0	17.4	6.2	5.4	1.6	2.1	(24.5)	(18.8)	64.5
Ecovacs Robotics Co Lt 科沃斯	603486 CH	161.09	112,848	-	-	Dec-20	44.6	33.1	35.5	26.1	19.0	13.3	0.5	0.9	(54.8)	82.0	198.0
Beijing Roborock Techn 石頭科技	688169 CH	760.00	62,164	-	-	Dec-20	32.7	24.7	28.4	20.1	6.0	4.9	1.3	0.5	(73.4)	(26.6)	1030.0
Hangzhou Robam Applia 老闆電器	002508 CH	34.72	40,352	-	-	Dec-20	17.2	14.8	12.8	10.6	3.5	3.0	0.9	1.9	(66.9)	(14.9)	33.4
Average							**19.8**	**16.0**	**16.4**	**13.0**	**4.9**	**4.0**	**1.0**	**2.6**	**(29.7)**	**(7.8)**	**130.5**
Median							**17.6**	**15.0**	**13.8**	**11.5**	**3.6**	**3.2**	**1.0**	**2.1**	**(32.5)**	**(16.8)**	**32.8**
Entertainment																	
Imax China Holding Inc Imax China	1970 HK	12.64	4,403	-	-	Dec-20	15.4	14.7	n/a	n/a	2.2	2.0	0.0	3.4	(34.9)	(1.6)	13.0
Television Broadcasts L 電視廣播	511 HK	4.46	1,953	-	-	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	6.9	(44.2)	6.4
Maoyan Entertainment 貓眼娛樂	1896 HK	9.03	10,309	-	-	Dec-20	11.5	8.7	7.7	5.1	1.0	0.9	(0.1)	0.0	(19.7)	(26.2)	10.1
Alibaba Pictures Group I 阿里影業	1060 HK	0.77	20,664	-	-	Mar-21	41.9	18.0	22.4	10.6	1.2	1.1	(0.1)	n/a	(25.9)	(19.8)	0.9
Average							**22.9**	**13.8**	**15.0**	**7.8**	**1.5**	**1.4**	**(0.0)**	**1.7**	**(18.4)**	**(23.0)**	**7.6**
Median							**15.4**	**14.7**	**15.0**	**7.8**	**1.2**	**1.1**	**(0.0)**	**1.7**	**(22.8)**	**(23.0)**	**8.2**
Exporters																	
Man Wah Holdings Ltd 敏華控股	1999 HK	12.00	47,425	-	-	Mar-21	19.0	15.3	13.8	11.1	3.5	3.0	0.8	2.6	(0.3)	(28.7)	14.6
Goodbaby International I 好孩子國際	1086 HK	1.14	1,902	-	-	Dec-20	7.3	5.5	4.1	3.4	0.3	0.3	0.4	0.4	22.3	8.6	1.4
Dream International Ltd 德林國際	1126 HK	2.83	1,916	-	-	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	0.0	n/a	(14.3)	0.7	3.0
Vtech Holdings Ltd Vtech Holdings	303 HK	61.05	15,408	-	-	Mar-21	11.1	9.9	6.2	5.8	2.9	2.8	(5.1)	8.9	(18.8)	1.5	66.0
Techtronic Industries Co 創科實業	669 HK	165.60	303,791	-	-	Dec-20	35.6	29.5	24.9	20.9	8.4	7.1	1.4	1.1	3.8	49.7	174.5
Average							**18.3**	**15.1**	**12.3**	**10.3**	**3.8**	**3.3**	**(0.5)**	**3.2**	**(1.4)**	**6.4**	**51.9**
Median							**15.1**	**12.6**	**10.0**	**8.4**	**3.2**	**2.9**	**0.4**	**1.8**	**(0.3)**	**1.5**	**14.6**

Source: Bloomberg, CMBIS estimates

China Banking

OUTPERFORM

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Looking for safe harbor

Investment Thesis

Sector valuation capped by asset quality concern

Current historical low valuation is caused by concern on developers' defaults and pessimistic outlook on macro economy in 2022. Since sector is trading at 0.4x 22F/PB and most of banks' valuation implies a 10% default rate on their lending, we think negatives priced in. Increasing default rate on property sector may hurt banks' asset quality, but it will not cause a collapse in the system. After PBOC shows neutral tone on property sector, we think the sector wide risk caused by defaulted developers is under control. Current macro data indicates weak economy, and a pessimistic outlook on the GDP growth in next year. In 2022, we will see a weak trade volume after other countries recovered from pandemic. Domestic consumption demand would remain weak and it seems that it will not fully recover in short term. To maintain a stable GDP growth, government need to use investment as the engine to drive GDP growth instead of trade and consumption. To achieve this goal, we need more liquidity. In our view, all changes on other fundamental factors such as NIM, loan growth, CAR etc. are not the key drivers; potential banking sector re-rating in 2022 is determined by expectation on asset quality.

Catalyst: RRR cut will drive sector re-rating

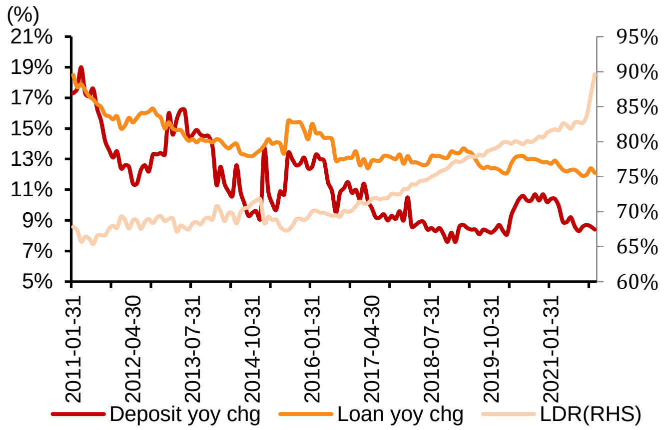
Current inflation rate can afford a liquidity injection. The core CPI was stabilized at a low level of 1.2% at the end of 3Q21, which indicates that PBOC can use RRR cut to stimulate the economy without causing a serious inflation. On sector performance perspective, after PBOC cut RRR, banking sector has a high possibility to outperform the benchmark. Among all of the 8 RRR cuts since 2016, A share listed and HK listed domestic banks rises 0.4% and 0.37%, outperforms benchmark 0.8% and 1.3% respectively. If we excluding the negative impacts from Wuhan lockdown, A share listed and HK listed domestic banks will gain 1.1% and 1.8%, outperform benchmark 1.3% and 1.9% respectively.

Some banks are undervalued

In history, there are 3 historical valuation bottoms in 1H14 (before Chinese QE), 1H20 (COVID-19) and 2021(default wave in property sector). In 1H14, Chinese banks are traded at a discount on book value, which implies a NPL ratio of 3.27% (A) and 3.04% (H) while reported NPL ratio is around 1.04%. During 1H20, banks' valuation implies a NPL ratio of 7.77% (A) and 9.11% (H). Obviously, banks' current valuation which implies a NPL ratio of 8.74% (A) and 10.32% (H) is undervalued. Since current economy outlook and borrowers' default risk is better than 2014 and 2020, we believe all the risk have already be reflected on the valuation. Downside is quite limited, banks with solid balance sheet are waiting for catalyst on the re-rating.

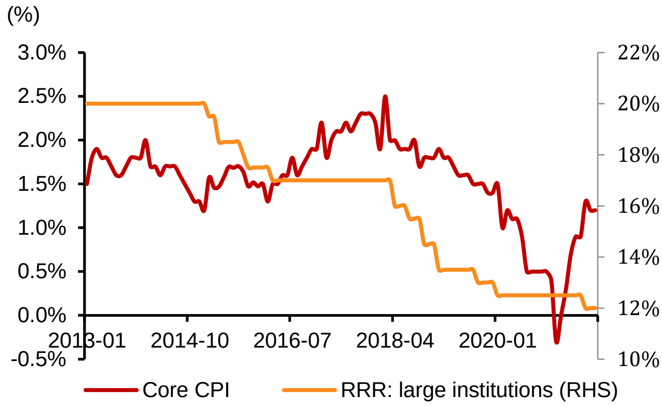
Focus Charts

Figure 81: LDR chg



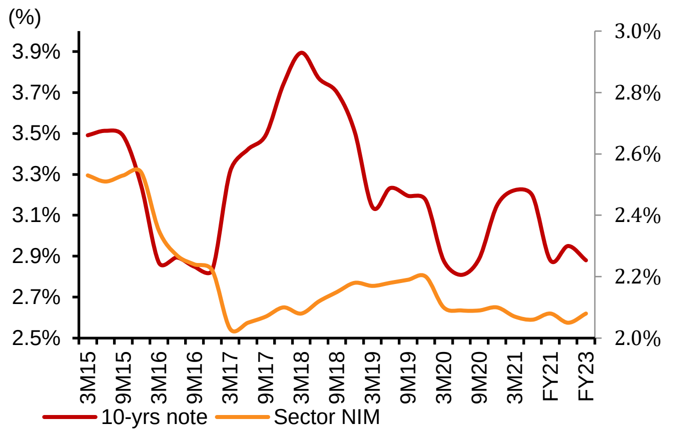
Source: WIND, CMBIS estimates

Figure 82: Core CPI and RRR cut



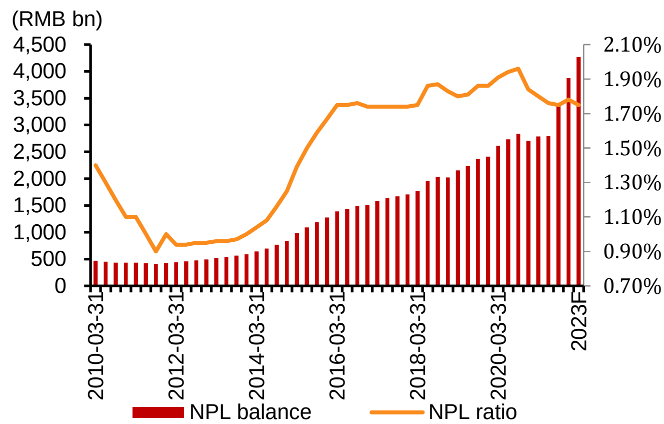
Source: WIND, CMBIS estimates

Figure 83: Industry NIM and risk-free interest rate



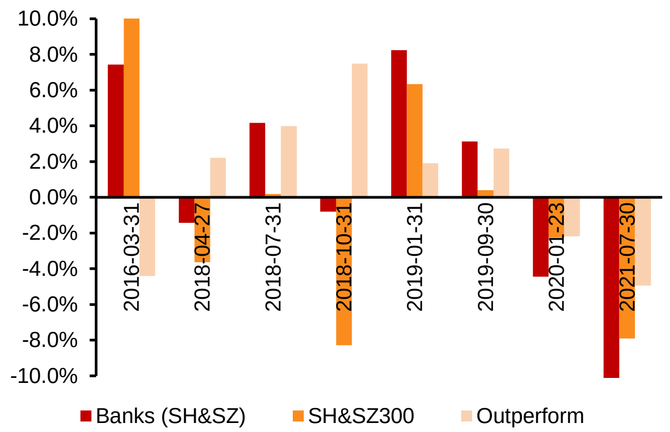
Source: CBIRC, CMBIS estimates

Figure 84: NPL balance chg



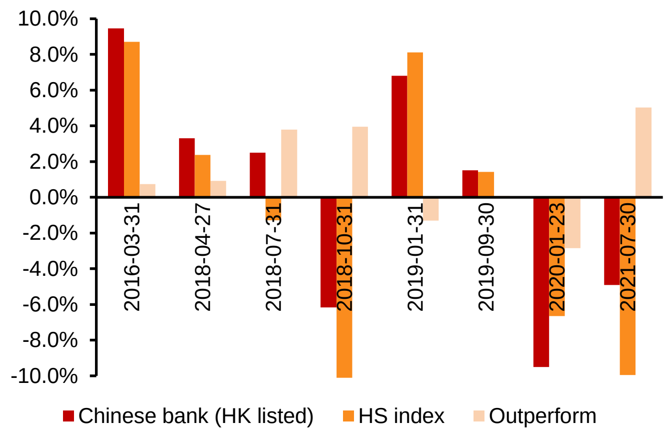
Source: WIND, CMBIS estimates

Figure 85: Banks listed in SH&SZ will outperform benchmark after RRR cut



Source: WIND, CMBIS estimates

Figure 86: Banks listed in HK will outperform benchmark after RRR cut



Source: WIND, CMBIS estimates

Risk on property industry is manageable

Under the worst-case scenario, assuming 10% of RMB 12.4 tn loan to property developers will go default, banks will still bear a RMB 950 bn loss on its property investment. It will lead to 59 bps increase on NPL ratio, from 1.76% to 2.35%. The RMB 950 bn loss is equivalent to 83.3% of banks net profit in 1H21 and 45.8% of estimated sector accumulated net profits in 2021.

Figure 87: Impacts on asset quality under different scenarios

RMB bn	1H21	Worst Case Scenario	Base Case Scenario
NPL balance	2,791	3,741	3,551
Provision coverage ratio	193.23%	143.04%	151.87%
NPL ratio	1.76%	2.35%	2.24%

Source: CMBIS

Expecting NIM compress to 2.05% in 2022

Market consensus on yield of 10-yr note in 2022 is 2.95%, 20 bps lower than FY20 and 2bps higher than 10M21 respectively. Based on our estimation, 2022E sector NIM is 2.05%, 5 bps and 1 bps compressed than FY20 and 1H21 respectively. NIM compression is caused by increasing deposit cost and low interest rate environment.

No capital supplementary concern in 2022

Banks have sufficient capital to support their balance sheet expansion, there is no capital supplementary pressure in 2022. All the D-SIBs maintains at least 50 bps higher than the minimum CAR requirements under new rules. In near term, there is no capital constrain on these banks. Under TLAC rules (big 4 banks are affected), all of these 4 banks need to raise TLAC-qualified capital in mid-term. Based on static scenario analysis, big 4 need around additional RMB 2.2tn TLAC capital to meet the requirements before 2028; under dynamic scenario, assuming CAGR on net capital and RWA is 8% and 10% respectively, big 4 banks need RMB 6.3tn qualified capital to support its balance sheets.

Figure 88: TLAC influence on big 4 banks (RMB bn)

Bank	Required TLAC supplementray (Static)-FY27E	Required TLAC supplementray (Dynamic)-FY27E
ICBC	544	1,596
CCB	495	1,522
ABC	587	1,664
BOC	566	1,551
Total	2,192	6,332

Source: Company data, CMBIS estimates

Valuation

Figure 89: Peers' valuation

Type	Ticker	Bank	Mkt cap (lc bn)	Closing price	PE	PB	Yield	ROE(21E)	ROE(22E)	NPL ratio	Provision coverage	NIM
SOE	601398.SH	ICBC	1,527	4.58	4.5	0.5	6.7%	10.7%	11.4%	1.54%	192%	2.12%
JSB	600036.SH	CMB	1,247	49.49	9.2	1.5	3.6%	16.1%	16.1%	1.01%	439%	2.49%
SOE	601939.SH	CCB	1,054	5.76	4.6	0.5	6.6%	12.6%	11.5%	1.53%	222%	2.13%
SOE	601288.SH	ABC	994	2.91	4.1	0.4	7.5%	10.8%	11.0%	1.50%	275%	2.12%
SOE	601988.SH	BOC	828	3.05	4.0	0.4	7.5%	10.6%	10.6%	1.30%	184%	1.76%
SOE	601658.SH	PSBC	454	5.08	5.4	0.7	6.0%	10.9%	12.4%	0.83%	421%	2.37%
JSB	601166.SH	CIB	374	18.01	4.1	0.6	6.0%	12.5%	13.7%	1.15%	257%	2.32%
JSB	000001.SZ	PAB	338	17.44	7.8	0.9	1.7%	10.1%	11.6%	1.08%	260%	2.83%
SOE	601328.SH	BoComm	309	4.57	3.7	0.4	8.0%	9.0%	10.5%	1.60%	149%	1.55%
JSB	600000.SH	SPDB	250	8.51	4.0	0.4	6.2%	10.7%	10.2%	1.64%	151%	1.84%
City bank	002142.SZ	BNB	234	38.88	10.7	1.7	2.0%	14.7%	15.7%	0.79%	510%	2.33%
JSB	601998.SH	Citic	194	4.50	3.7	0.4	6.8%	9.6%	10.4%	1.50%	189%	2.09%
JSB	601818.SH	CEB	166	3.35	3.7	0.4	8.2%	9.7%	11.8%	1.36%	184%	2.20%
JSB	600016.SH	CMBC	158	3.89	4.4	0.3	5.7%	9.2%	7.5%	1.80%	143%	2.02%
City bank	601229.SH	BoSH	102	7.15	3.9	0.5	7.5%	12.5%	12.7%	1.19%	324%	1.73%
City bank	601169.SH	BoBJ	93	4.38	3.7	0.4	8.1%	11.3%	10.5%	1.45%	228%	1.84%
City bank	601009.SH	BoNJ	91	9.07	4.9	0.7	6.1%	14.8%	14.7%	0.91%	395%	1.91%
City bank	600919.SH	JS Bank	87	5.89	3.8	0.5	8.2%	10.9%	13.2%	1.16%	282%	2.29%
JSB	600015.SH	HXB	87	5.64	3.6	0.3	6.3%	7.8%	9.6%	1.78%	157%	2.41%
City bank	600926.SH	HZB	82	13.76	7.8	1.0	3.7%	13.7%	13.0%	0.98%	530%	1.93%
JSB	601916.SH	CZB	69	3.43	5.0	0.5	5.6%	10.2%	10.6%	1.50%	180%	2.27%
City bank	601838.SH	BoCD	40	11.21	4.7	0.8	5.6%	14.2%	16.1%	1.10%	371%	2.11%
RC bank	601077.SH	CQRC	39	3.82	4.2	0.4	6.8%	11.7%	9.5%	1.28%	313%	2.23%
City bank	601577.SH	BoCS	31	7.82	4.4	0.6	5.1%	13.7%	13.9%	1.20%	297%	2.41%
Type	**Ticker**	**Bank**	**Mkt cap (lc bn)**	**Closing price**	**PE**	**PB**	**Yield**	**ROE(21E)**	**ROE(22E)**	**NPL ratio**	**Provision coverage**	**NIM**
SOE	1398.HK	ICBC	1,867	4.12	3.2	0.4	9.0%	11.8%	11.7%	1.54%	192%	2.12%
JSB	3968.HK	CMB	1,525	60.30	9.4	1.5	3.6%	15.3%	15.9%	1.01%	439%	2.49%
SOE	0939.HK	CCB	1,289	5.08	3.3	0.4	9.1%	11.9%	11.7%	1.53%	222%	2.13%
SOE	1288.HK	ABC	1,215	2.57	2.9	0.3	10.3%	11.4%	11.3%	1.50%	275%	2.12%
SOE	3988.HK	BOC	1,013	2.71	2.8	0.3	10.3%	11.1%	11.1%	1.30%	184%	1.76%
SOE	1658.HK	PSBC	556	5.29	4.7	0.6	7.0%	12.1%	12.3%	0.83%	421%	2.37%
SOE	3328.HK	BoComm	378	4.54	2.9	0.3	9.8%	10.9%	11.0%	1.60%	149%	1.55%
JSB	0998.HK	Citic	237	3.35	2.3	0.2	11.1%	10.4%	10.5%	1.50%	189%	2.09%
JSB	6818.HK	CEB	203	2.68	2.4	0.3	12.5%	11.5%	11.9%	1.36%	184%	2.20%
JSB	1988.HK	CMBC	194	3.00	2.8	0.2	9.0%	9.2%	7.5%	1.80%	143%	2.02%
JSB	2016.HK	CZB	84	3.11	3.7	0.4	7.5%	10.3%	10.4%	1.50%	180%	2.27%
RC bank	3618.HK	CQRC	48	2.66	2.3	0.2	12.0%	9.4%	9.9%	1.28%	313%	2.23%

Source：Asset quality data based on 1H21 results, trading data @ 30 Nov, valuation data base on 22E consensus

China Insurance

OUTPERFORM

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P&C growth rebound; Life slow momentum into 1Q22

Prefer P&C over life in 1H22

Life: Expect a slow jumpstart for 2022

In 10M21, Chinese life insurers H-shares dropped 9%-38%, underperforming the 7.6% fall of HSI, due to: 1) continued decline of VNB, 2) impairment of real estate investment. Looking into 2022, given 1) a significant decline in # of life agents YTD; 2) late start of 2022 jumpstart pre-sale, we expect the new business momentum will remain slow in 1Q22. That said, as the agency force transformation proceeds, we expect the number of sales agents to bottom around mid-2022. With enhanced agent productivity and low base of 2Q/3Q21, we expect to see sequential improvement in VNB growth starting from 2Q22. Chinese insurers are trading at historical trough valuation; we believe the current valuation already priced in the worst case scenario of slow growth and investment impairment, hence the downside is limited. We roll over our target prices from 2021E to 2022E. Maintain BUY.

P&C: Auto growth turnaround; Non-auto underwriting to improve

It has been over 1 year since the launch of the Comprehensive Reform of Auto Insurance on 19 Sep 2020, and the low base effect kicked in. In Oct 2021, auto insurance premium growth rebounded to 2.4% YoY. In 9M21, the decline in auto premiums forced insurers shifting to non-auto space for revenue growth, which resulted in increased non-auto competitions and higher combined ratio except for credit insurance of financing business. We expect that with the recovery of auto growth, the competitions for non-auto growth will be eased in 2022, likely contributing to an improvement in non-auto underwritings. We expect PICC P&C will continue to outperform the market in terms of underwriting in 2022.

Regulatory overhangs on life business

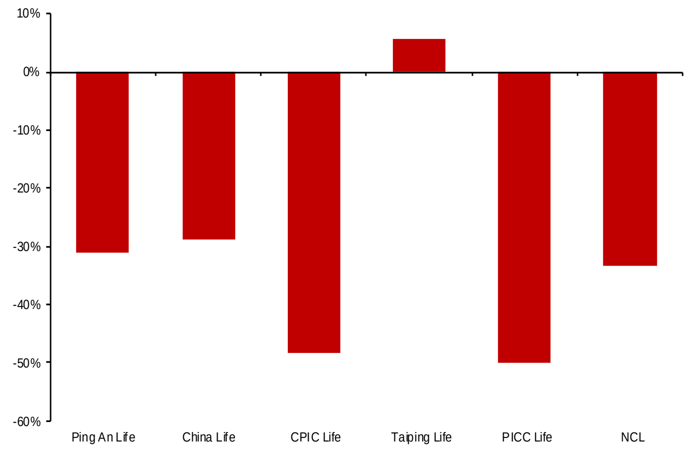
We expect the updated solvency regime, C-ROSS 2.0, will be officially launched in 1Q22. We estimate that the core solvency margin of insurers will decline to various degrees after the implementation of C-ROSS 2.0, among which, we expect life insurance companies to experience more significant impacts than P&C peers. Based on our estimates, the core solvency ratio of major insurers will remain above 100% under C-ROSS 2.0, safely above the CBIRC's minimum requirement of 50%. On the other hand, the CBIRC recently circulated a new consultation paper on life insurance sales regulation. The new rule will force life insurers to trim volume-oriented short-term business and build sustainable professional sales force. Meanwhile, the lower cap on first year commission rate may delay the recovery of life insurance agent headcount.

750-day CGB yields to flatten, less reserve catch-up for 2022

Our economists project China's 10-year government bond yields in 2022 to move within the range of 2.7%-3.1%, rising in the first half while trending flat in the second half. Based on this view, we expect the decline of average 750-day government bond yields in 2022 to be 9 bps, lower than 16bps in 2021, leading to less reserve catch-up in 2022 for life insurers.

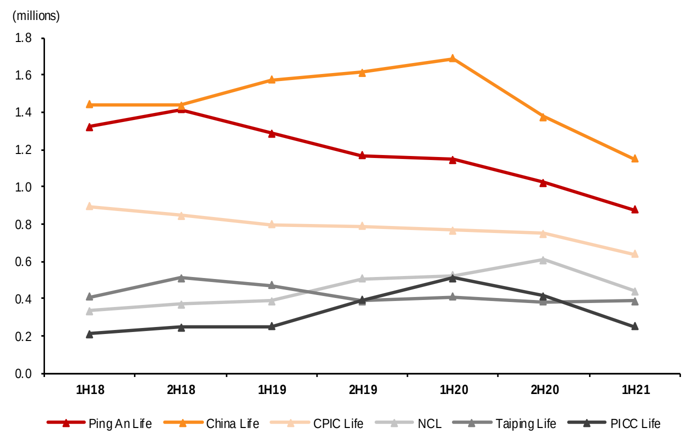
Focus Charts

Figure 90: Decline in agent headcounts (3Q21 vs 4Q20)



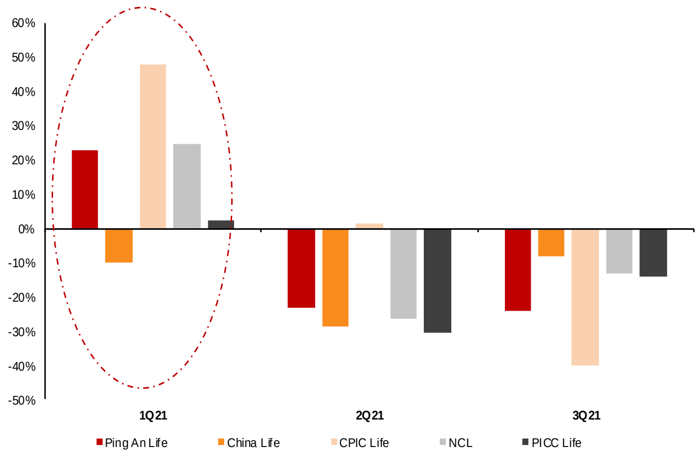
Source: Company data, CMBIS estimates

Figure 91: Life insurers: Agent headcount by companies



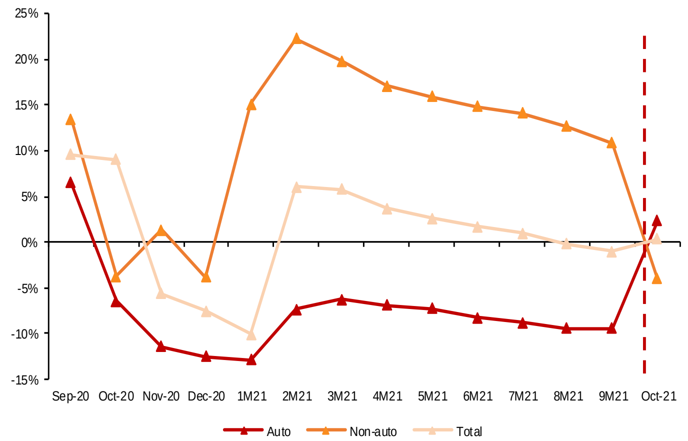
Source: Company data, CMBIS estimates

Figure 92: Life insurers: FYP APE growth YOY%



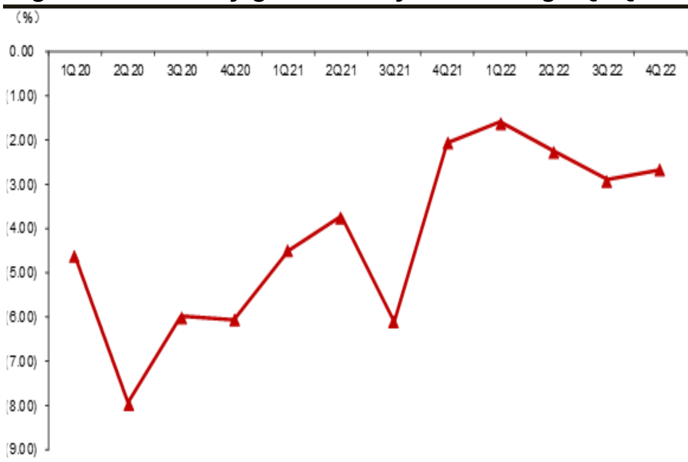
Source: Company data, CMBIS estimates

Figure 93: Auto & Non-auto premium growth after ACR



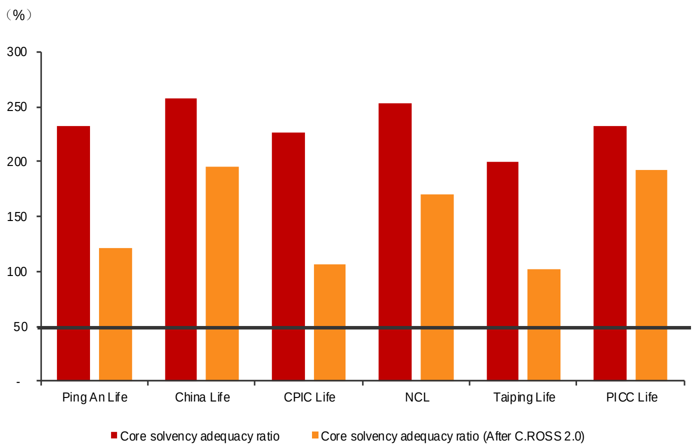
Source: Company data, CMBIS estimates

Figure 94: 750-Day govt. bond yields change QoQ



Source: Company data, CMBIS estimates

Figure 95: C-ROSS 2.0: CMBI forecasts on core solvency



Source: Company data, CMBIS estimates

Upcoming strigent regulation over life insurance sales activities

On 25 Nov, the CBIRC circulated a consultation paper of the "Measures for the Management of Personal Insurance Sales", implying a trend of more stringent supervision on personal insurance sales management. According to the consultation paper, the new rules will be in full coverage of all subjects, all channels and the entire process of life insurance sales and cap the commission rates, especially first-year commissions. Given that over 50% of direct commissions are currently paid as first-year commission for long-term life insurance, we believe that as new regulations will lower agents' income in short term and force out low-productivity agents. Life insurers will have to accelerate their agency force transformation from short-term scale expansion to a more sustainable high-quality business operating model. At the meanwhile, large life insurers and bank-affiliated insurers will benefit from the exclusive bancassurance model and expand their shares.

Progressive agent transformation improves productivity

With continuous progress in removal of low-productivity agency force, the average agent productivity for listed insurance companies substantially improved in 2021, except for New China Life. Moreover, major life companies have proactively started the transformation so as to empower various agent channels. Among which, Ping An Life promoted digital agent transformation including a "Talent+" seasonal recruitment plan and a new model of bancassurance building a professional new team, namely "Ping An Bankers", to sell insurance products. CPIC Life launched its "Long Voyage Action" to further deepen the professional transformation in agent team and promote sales in match with clients' needs.

Marginal easing of real estate policies to support investment

With the marginal easing of policies over real estate industry, the prices of property stocks and bonds began to rise from the bottom. Listed life insurance companies' investments in property sector via equity, bonds and non-standard assets accounted around 5% of their total investment assets. In 2021, the liquidity problems of China real estate sector, i.e. China Fortune Land Development and Evergrande Group defaults, lead to investment write-down or impairment of insurers' investment. Moving into 2022, with marginal relaxation of real estate policies, the liquidity risks faced by real estate companies are likely to be eased combined with the recovery of stock prices and bond value. This will support the investment performance and ease concerns over the asset quality for listed life insurers.

Top pick: Buy PICC P&C (2328 HK)

Chinese insurers H shares are currently at historical trough valuation. Life insurance H shares are trading at 0.2x -0.5x P/EV FY22E and 0.4x-0.9x P/BV FY22E, PICC P&C is now trading at 0.6x P/BV FY22E. Looking ahead into 2022, we think the turnaround of P&C business will come ahead of life insurance recovery. We expect to see higher growth and underwriting improve of top P&C insurers, i.e. PICC P&C, in 2022, given the recovery of auto business and less competition pressures in non-auto space. For life insurance business, new business momentum is likely to remain slow in 1Q22, and we expect sequential improvement starting from 2Q22. As the 750-day average government bond yields decline trending flat, there will be less reserve catch-up for life insurers in 2022. On the investment front, insurance companies are likely to benefit from the marginal relaxation on real estate policies. Our top pick is PICC P&C (2328 HK).

Valuation

Figure 96: Peers' Valuation

						P/BV				Dividend yield				P/E			
Ticker	Company	Price	Rating	PO	Upside	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
2318 HK	Ping An	55.70	Buy	87.02	56%	1.1 x	1.0 x	0.9 x	0.8 x	4.9%	5.2%	6.0%	6.8%	5.7 x	6.7 x	5.8 x	5.5 x
2628 HK	China Life	13.08	Buy	18.41	41%	0.7 x	0.6 x	0.6 x	0.5 x	5.9%	6.0%	6.8%	7.3%	6.1 x	6.1 x	5.3 x	5.0 x
2601 HK	CPIC	22.75	Buy	36.98	63%	0.8 x	0.8 x	0.7 x	0.6 x	6.9%	7.6%	8.9%	9.8%	7.2 x	6.4 x	5.5 x	4.9 x
1336 HK	NCL	20.85	Buy	34.04	63%	0.5 x	0.5 x	0.4 x	0.4 x	8.0%	8.8%	9.2%	10.5%	3.8 x	3.5 x	3.3 x	2.9 x
966 HK	Taiping	10.90	Buy	14.21	30%	0.4 x	0.4 x	0.4 x	0.3 x	3.7%	5.2%	6.8%	7.6%	6.0 x	4.8 x	4.4 x	3.9 x
1339 HK	PICC Group	2.32	Buy	3.57	54%	0.4 x	0.4 x	0.4 x	0.3 x	8.1%	9.2%	10.6%	12.3%	4.3 x	3.7 x	3.2 x	2.8 x
2328 HK	PICC P&C	6.78	Buy	11.53	70%	0.7 x	0.6 x	0.6 x	0.5 x	6.7%	7.1%	8.1%	9.6%	6.0 x	5.7 x	4.9 x	4.2 x
6060 HK	Zhong An	24.80	Buy	44.27	78%	1.7 x	1.6 x	1.5 x	1.4 x	0.0%	0.0%	0.0%	0.0%	55 x	34.2 x	34.0 x	21.9 x
601318 CH	Ping An	49.15	Buy	72.23	47%	1.2 x	1.1 x	1.0 x	0.9 x	4.6%	4.9%	5.6%	6.4%	6.1 x	7.2 x	6.2 x	5.9 x
601628 CH	China Life	29.44	Sell	18.34	-38%	1.8 x	1.7 x	1.6 x	1.4 x	2.2%	2.2%	2.5%	2.7%	16.6 x	16.5 x	14.5 x	13.5 x
601601 CH	CPIC	27.26	Buy	36.84	35%	1.2 x	1.1 x	1.0 x	0.9 x	4.8%	5.3%	6.1%	6.8%	10.4 x	9.2 x	7.9 x	7.1 x
601336 CH	NCL	38.64	Sell	28.26	-27%	1.2 x	1.0 x	0.9 x	0.9 x	3.6%	3.9%	4.1%	4.7%	8.4 x	7.7 x	7.4 x	6.5 x
601319 CH	PICC Group	4.71	Sell	3.70	-21%	1.0 x	1.0 x	0.9 x	0.8 x	3.3%	3.8%	4.3%	5.0%	10.4 x	9.1 x	7.9 x	6.8 x

		P/EV (Group)				New Business Multiplier				ROE				ROEV			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
2318 HK	Ping An	0.6 x	0.6 x	0.5 x	0.5 x	(9.7) x	(14.7) x	(18.1) x	(20.5) x	19.9%	15.6%	16.4%	15.5%	10.1%	8.2%	11.3%	11.0%
2628 HK	China Life	0.3 x	0.3 x	0.3 x	0.2 x	(13.1) x	(17.8) x	(18.7) x	(18.7) x	11.8%	10.9%	11.4%	11.2%	12.9%	6.5%	6.8%	7.0%
2601 HK	CPIC	0.4 x	0.4 x	0.3 x	0.3 x	(15.1) x	(19.9) x	(20.8) x	(21.1) x	12.5%	12.5%	13.5%	13.7%	14.8%	6.0%	8.1%	7.6%
1336 HK	NCL	0.2 x	0.2 x	0.2 x	0.2 x	(20.3) x	(26.7) x	(28.4) x	(28.4) x	15.4%	14.4%	13.4%	13.9%	16.0%	7.0%	6.2%	6.0%
966 HK	Taiping	0.2 x	0.2 x	0.2 x	0.2 x	(17.2) x	(21.8) x	(22.3) x	(22.8) x	7.8%	8.6%	8.6%	8.8%	19.0%	6.8%	6.6%	6.4%
1339 HK	PICC Group	0.3 x	0.3 x	0.3 x	0.3 x	(42.1) x	(61.3) x	(65.8) x	(69.4) x	10.4%	10.9%	11.5%	12.3%	12.8%	6.0%	7.2%	7.5%
601318 CH	Ping An	0.7 x	0.6 x	0.6 x	0.5 x	(8.7) x	(13.4) x	(16.9) x	(19.4) x	19.9%	15.6%	16.4%	15.5%	10.1%	8.2%	11.3%	11.0%
601628 CH	China Life	0.8 x	0.7 x	0.7 x	0.6 x	(4.1) x	(6.6) x	(8.0) x	(8.9) x	11.8%	10.9%	11.4%	11.2%	12.9%	6.5%	6.8%	7.0%
601601 CH	CPIC	0.6 x	0.5 x	0.5 x	0.5 x	(10.7) x	(14.6) x	(16.0) x	(16.7) x	12.5%	12.5%	13.5%	13.7%	14.8%	6.0%	8.1%	7.6%
601336 CH	NCL	0.5 x	0.5 x	0.4 x	0.4 x	(13.1) x	(18.0) x	(19.8) x	(20.4) x	15.4%	14.4%	13.4%	13.9%	16.0%	7.0%	6.2%	6.0%
601319 CH	PICC Group	0.8 x	0.7 x	0.7 x	0.6 x	(13.7) x	(23.5) x	(29.1) x	(34.5) x	10.4%	10.9%	11.5%	12.3%	12.8%	6.0%	7.2%	7.5%

		P&C premium growth				Combined ratio				Expense ratio				Loss ratio			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
2318 HK	Ping An	5.5%	0.0%	6.0%	6.0%	99.1%	98.0%	98.0%	98.0%	38.6%	36.5%	36.5%	36.5%	60.5%	61.5%	61.5%	61.5%
2601 HK	CPIC	11.1%	3.2%	6.7%	7.1%	99.0%	98.6%	98.6%	98.6%	37.6%	37.4%	37.4%	37.4%	61.4%	61.2%	61.2%	61.2%
966 HK	Taiping	3.5%	0.0%	5.0%	5.0%	103.9%	105.0%	101.0%	100.0%	48.6%	48.0%	45.0%	45.0%	55.3%	57.0%	56.0%	55.0%
2328 HK	PICC P&C	0.0%	1.0%	10.0%	10.0%	98.9%	99.0%	98.6%	98.2%	32.7%	27.0%	26.8%	26.8%	66.2%	72.0%	71.8%	71.4%
6060 HK	Zhong An	0.1%	0.4%	0.2%	0.2%	102.5%	99.9%	99.4%	98.9%	48.4%	51.3%	50.4%	49.6%	54.1%	48.6%	49.0%	49.3%

Source: Company data, CMBIS estimates

China Property

OUTPERFORM

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What is the end game?

A detailed analysis of chairpersons' possible bailout

The recent data and news also proved this trend with Oct mortgage loans up 4% for the first time since Apr 2021 and possible MTN support from NAFMII. However, we continue to think developers' destiny are in the hands of themselves as the offshore bond crisis remains. Therefore, for troubled developers, we think the bear case is whether the chairpersons can bailout in the extreme condition. **We did a deep analysis on whether chairpersons' personal wealth can cover the cash needs.** Our conclusion is valuation-distressed **Shimao** and **Sunac** can survive even in a very tight regulation for sales proceed. Suggest investors to long the names mentioned above. We suggest investors that now is the opportunity to accumulate short-term survivors (Shimao/Sunac) and long-term winners (Longfor/COLI/CRL) as fundamentals and policy have bottomed in Sep and slightly improved in late Oct.

Mortgage loans increased YoY in Oct for the first time since Apr 2021

PBOC just released the Oct loan data on 10 Nov after market close. In general the liquidity has shown some improvement as 1) M2 grew 8.7% YoY in Oct, higher than the market expectation of 8.3% and that in Aug/Sep (8.2%/8.3%). 2) Mid-to-long term household loans (as a proxy of mortgage data) grew 4% YoY in Oct at RMB422bn, vs. a decline of 19-34% in Jun-Sep 2021. We think this is a proof of PBOC's push for faster mortgage approval. However, the total amount was still -10% MoM compared to Sep so the steps are not huge. Finally it's worth noting that TSF in Oct was below the market expectation which may indicate generally weak loan demand of overall economy.

Overall policy is also getting more gentle towards the sector

According to JingWeiView (a state-owned news agency), NAFMII (the regulator of MTN) has organized a meeting with major developers and investors which may help boost the issuance of domestic MTN and developers' liquidity. Also, recently Wuhan slightly relaxed the HPR for corporates' senior executives which are allowed to buy one unit. We view these as positive signs. However, it's definitely not enough to turn around the industry.

Then can SOE bailout the industry? Unlikely.

We do not think they will massively bailout the troubled developers due to 1) the potential hidden debt and legal risks (such as Vanke's involvement in Taihoe, China Fortune and Guangxin asset). 2) Restriction of "Three Red Lines" which may limit the debt-heavy takeover. According to CLS, some SOEs suggest PBOC to change rules of "Three red line" to give flexibility for such M&A. However, this can hardly apply to the industry in our view and thus it is unlikely.

- **Our detailed analysis of the possibility of chairperson's bailout (Figure 97).**

Firstly we use Hurun's wealth ranking in Dec 2020 as the main source of total wealth of developers' chairpersons and their family.

Secondly, the personal wealth is then implied by deducting the attributable market cap (as of Dec 2020) of the listco.

Thirdly, we calculate the cash shortage in a very restricting situation for sales proceed by using ST debts – ST cash * (1 – ratio of restricted cash). We generally assume 30-50% ratio for the stress testing.

Lastly, we add the personal wealth to the cash shortage to see if it can be covered.

Our conclusion is Shimao and Sunac are enough to survive while Evergrande/R&F/Sinic may need extra help.

So who can bailout developers? Some Chairpersons.

With developers facing offshore bond crisis, we think the most likely bailout would come from Chairperson of the developers given that 1) the property business is still their largest wealth (70% of total wealth). 2) Currently it is trading at huge discount (industry average at 0.7x PB and 3x PE). 3) Property sector is the business of credit and reputation which many chairpersons value the most. The next question would be "Who is personally rich enough to bailout?" Based on our analysis (Figure 97), valuation-distressed names like Sunac and Shimao can survive even if we assume a much higher restricted cash ratio of 30-40% (as % of total cash).

What is the end game?

- **Most developers can survive in this crisis but would downsize.**

The impact of this offshore bond crisis has spread out to developers with more than 10% of market shares. This would force them to de-leverage by paying back debts and pause land acquisitions, which lead to decline of sales and earnings in the coming years. Therefore we estimate 2022E sales volume to down 2% YoY (Figure 98).

- **This crisis would benefit long-termist.**

The most important thing for developers is to buy the right lands at a right price. Opposite to the industry, we see quality players like Longfor (Figure 99) and COLI to aggressively buy lands in Tier 1-2 cities in 2H21 when the land price faced pressure.

- **This crisis may accelerate Central government's determination to reduce its reliance on property such as property tax.**

This is mainly because households and financial system are too exposed to the sector and it could again be the snake in the grass.

Focus Charts

Figure 97: Cash shortage if chairpersons are willing to bailout

As of Dec 2020 (RMB Bn) Company	Chairperson's wealth by HuRun	Worth of its listco	Personal wealth	Cash shortage - (1H21 ST debt - total unrestricted cash - personal wealth)
Evergrande	204	126	78	-75
Shimao	102	46	56	61
Country Garden	215	177	38	63
R&F	41	18	23	-16
Agile	45	22	23	17
Longfor	110	97	13	53
Sunac	59	50	9	4
Times	19	11	8	15
Central China	14	6	7	10
KWG	24	18	6	15
Kaisa	9	5	4	0
CIFI	24	21	3	20
Aoyuan	13	10	2	0
Redsun	7	5	2	9
Sinic	11	10	1	-1
COLI				37
CR Land				25

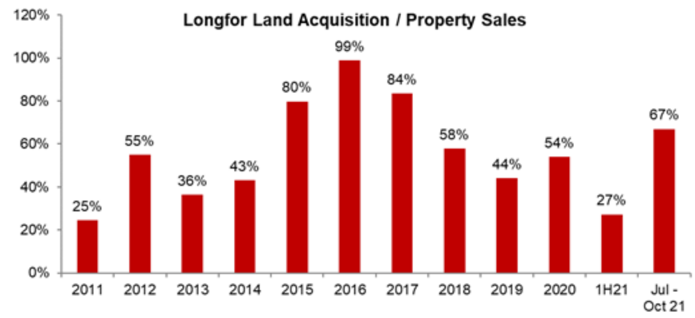
Source: CMBI research; Restricted ratio is assumed at 30-50% of total cash for different developers as stress testing

Figure 98: Our forecast for 2022E property sales and REI

	Residential GFA Sold (sqm mn)	YoY	Residential Sold (RMB bn)	YoY	REI (RMB bn)	YoY
2010	931	9%	4,395	15%	3,404	33%
2011	970	4%	4,862	11%	4,431	30%
2012	985	1%	5,347	10%	4,937	11%
2013	1,157	18%	6,770	27%	5,895	19%
2014	1,052	-9%	6,240	-8%	6,435	9%
2015	1,124	7%	7,275	17%	6,460	0%
2016	1,375	22%	9,906	36%	6,870	6%
2017	1,448	5%	11,024	11%	7,515	9%
2018	1,479	2%	12,639	15%	8,519	13%
2019	1,501	1%	13,944	10%	9,707	14%
2020	1,549	3%	15,457	11%	10,445	8%
2021E	**1,590**	**3%**	**16,281**	**5%**	**11,144**	**7%**
2022E	**1,558**	**-2%**	**16,281**	**0%**	**11,702**	**5%**

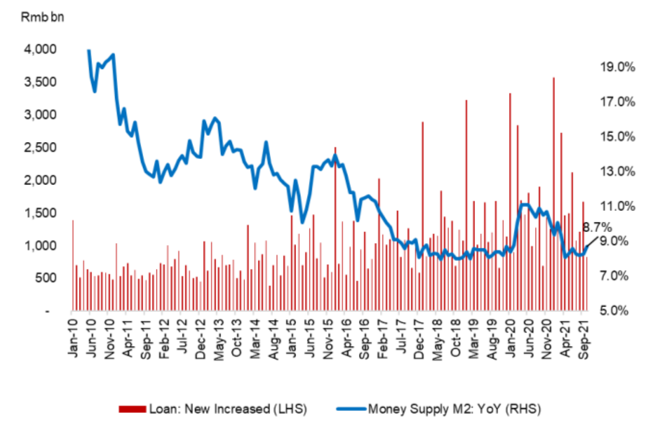
Source: CMBIS estimates

Figure 99: Longfor's consistent anti-cycle land acquisitions



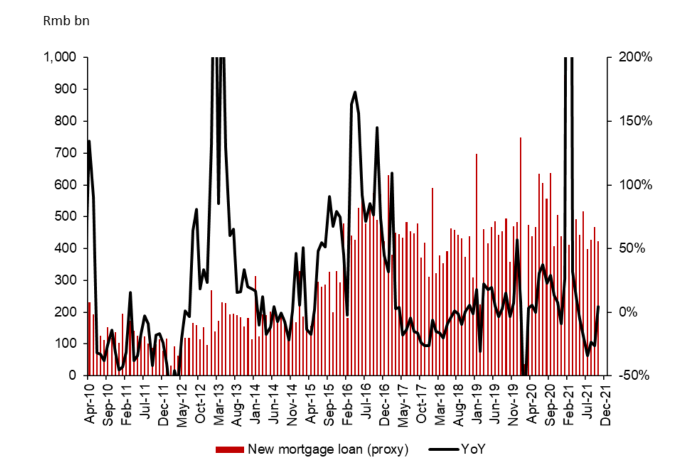
Source: CMBIS

Figure 100: M2 growth accelerated in Oct 2021 at 8.7% vs. 8.2/8.3% in Aug/Sep



Source: PBOC

Figure 101: Mortgage loans increased YoY in Oct



Source: PBOC

Valuation

Figure 102: Peers' valuation

Company	Ticker	Mkt. Cap (US$ mn)	P/E (x) FY21E	P/E (x) FY22E	P/B (x) FY21E	P/B (x) FY22E	ROE (%) FY21E	ROE (%) FY22E
HK/China								
Vanke - H	2202 HK	264,091	3.5	3.4	0.8	0.7	19.3	17.8
COLI	688 HK	203,574	3.7	3.2	0.5	0.4	13.0	13.2
Country Garden	2007 HK	160,957	2.8	2.5	0.8	0.7	23.2	21.9
CR Land	1109 HK	249,583	6.5	6.0	1.0	0.9	14.6	14.3
Longfor	960 HK	243,549	6.6	6.4	1.7	1.5	25.2	22.3
Shimao	813 HK	35,881	1.9	1.6	0.5	0.5	17.1	17.6
Agile	3383 HK	21,230	1.8	1.6	0.5	0.4	16.4	15.8
KWG	1813 HK	21,390	2.2	1.8	0.4	0.4	15.9	17.2
China Aoyuan	3883 HK	6,308	0.7	0.6	0.5	0.4	31.6	30.4
Times China	1233 HK	9,365	1.1	0.9	0.5	0.4	24.9	23.8
China SCE	1966 HK	9,289	1.8	1.4	0.5	0.4	18.5	19.8
Redsun	1996 HK	6,878	2.7	2.3	0.5	0.5	12.5	13.1
Vanke - A	000002 CH	216,262	4.4	4.1	1.1	0.9	19.3	17.8
Radiance	9993 HK	15,412	3.1	2.6	0.6	0.5	13.6	14.2
Dafa	6111 HK	3,841	5.1	4.4	1.3	1.2	14.9	15.2
Shinsun	2599 HK	4,809	1.1	1.0	0.9	0.8	27.0	24.9
Dexin	2019 HK	6,888	5.0	4.4	1.1	0.9	16.9	17.2
		Average	**3.2**	**2.8**	**0.8**	**0.7**	**19.1**	**18.6**

Source: Bloomberg, CMBIS estimates

China Construction Machinery / HDT | OUTPERFORM

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Potential recovery in infrastructure spending; Industry leaders to rebound

Investment Thesis

While the construction machinery and HDT demand was strong in 1Q21, it experienced a slowdown in 2Q21 which prompted us to downgraded the sector rating to Market Perform. Entering 3Q21, due to a series of negatives such as (1) power shortage, (2) price hikes in steel and freight rates, (3) Evergrande crisis and its negative impacts on property sector, (4) sluggish infrastructure spending caused by the slowdown in local government special bond issuance, the construction machinery & HDT demand declined tremendously. In light of the policy shift towards ensuring economy growth, we upgrade the sector back to **OUTPERFORM** in 3Q21. Looking ahead, we expect the new issuance of local government bond in recent months will form its physical workload in early 2022E and we expect the new quota for special bond issuance in 2022E will amount to RMB3.5tn, which we believe will offer strong support to the construction machinery and HDT demand in early 2022E. On the other hand, the pullback of steel price will help ease the margin pressure. All these, together with the low market expectation at present, will likely drive a sector rebound in 2022E.

Bottomed out in 2H21; new demand to rebound in 2022E driven by infrastructure spending

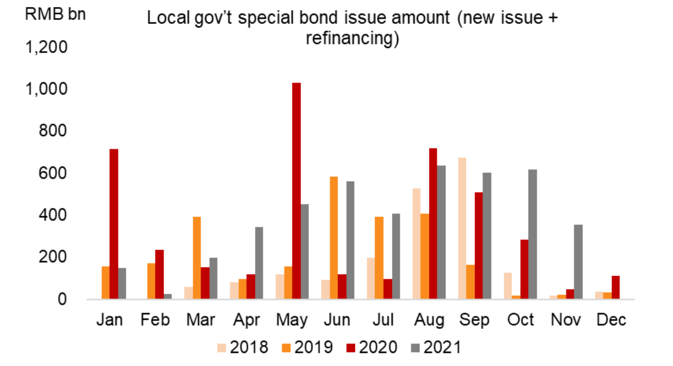
While we expect the construction machinery and HDT demand will record a single-digit decrease (YoY) in 2022E, we expect the demand to see sequential improvement starting 2022E on the back of improving macro factors and low base in 2H21. **For HDT,** we expect the channel inventory of NES V models will be digested in the near term. Besides, the potential launch of NES IV phase-out policy will support the replacement demand. **For Excavator**, we expect new demand will maintain a steady growth with the speed-up of infrastructure spending, which will partially offset the decline in replacement demand. In addition, we expect export volume will stay at a high level in 2022E.

Structual growth opportunities: Replacement of labor, Electrification, Intelligentization & Hydrogen energy

With the irreversible trend of carbon neutrality goals and the increasing focus on ESG, industry players are accelerating the development of electric products (for construction machinery) as well as the transformation to hydrogen fuel cell vehicles (for HDT). Therefore, we believe that market leaders including **SANY Heavy (600031 CH, BUY)** and **Weichai Power (2338 HK / 000388 CH, BUY)** will further expand their competitive advantages. Meanwhile, in the context of labor shortage and wage hikes, we see acceleration in labor replacement and upgrading to intelligent products. For AWP (a key product that benefit from the replacement of labor), we believe growth will continue in 2022E and **Zhejiang Dingli (603338 CH, BUY)** will benefit from major equipment leasing companies' capex boost. Besides, **SANY International (631 HK, BUY)** will see room of continuous product upgrade brought by the transformation to intelligent mines and ports.

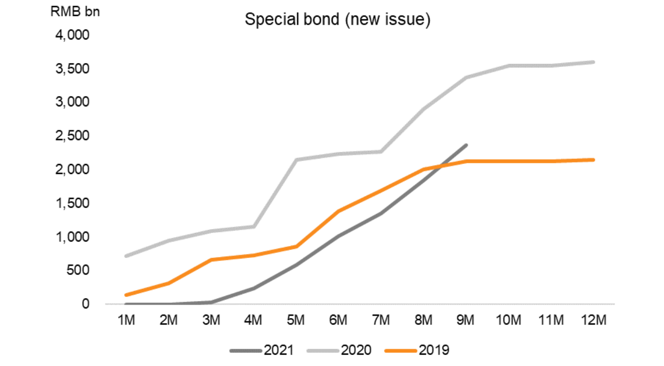
Focus Charts

Figure 103: Monthly local gov't special bond issue amount (new issue + refinancing)



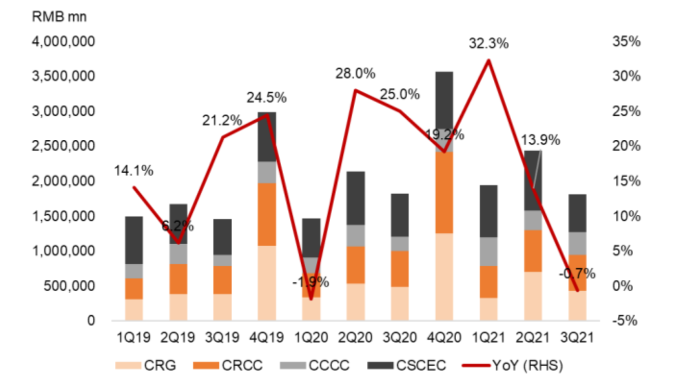
Source: Ministry of Finance, CMBIS

Figure 104: Local gov't special bond new issue amount (YTD)



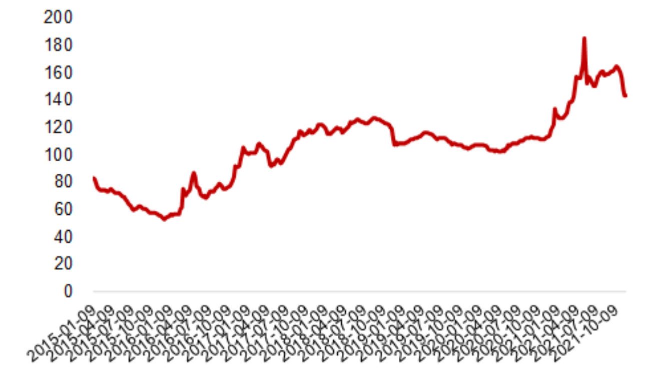
Source: Ministry of Finance, CMBIS

Figure 105: Value of new contract (CRG/ CRCC/ CCCC/ CSCEC)



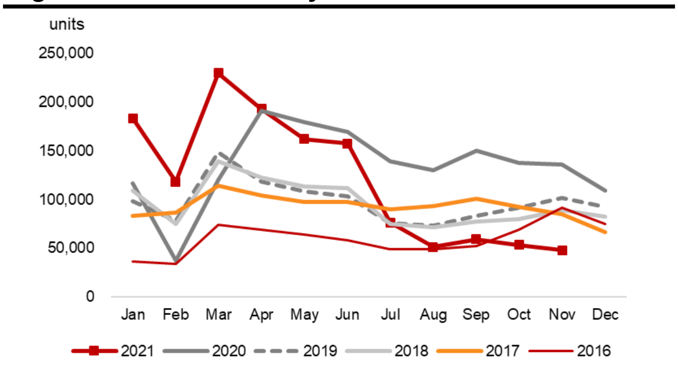
Source: Company data, CMBIS

Figure 106: Medium and thick plate index



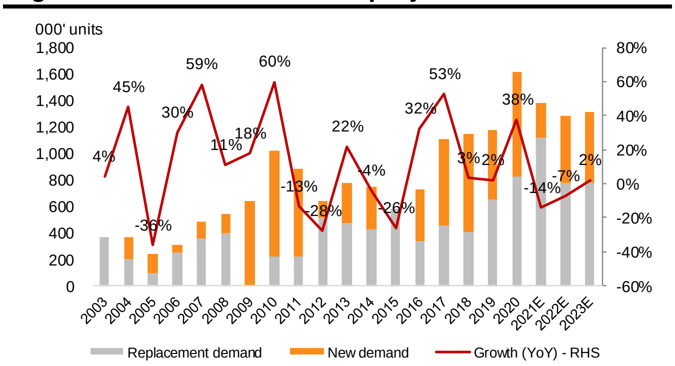
Source: Wind, CMBIS

Figure 107: HDT monthly sales volume



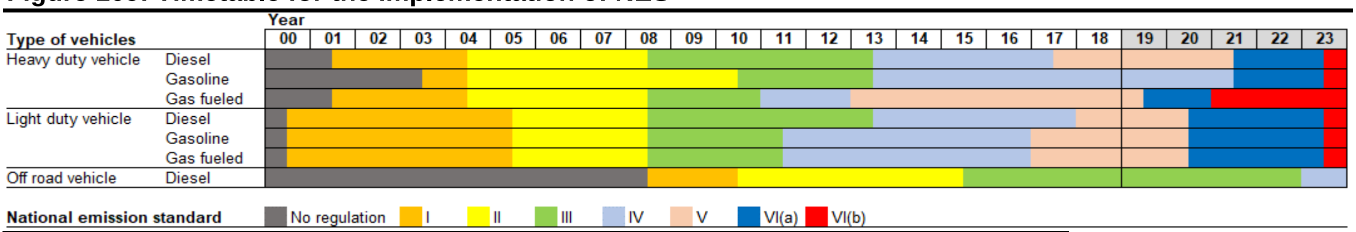
Source: Wind, Cvworld, CMBIS

Figure 108: CMBI HDT sales projection



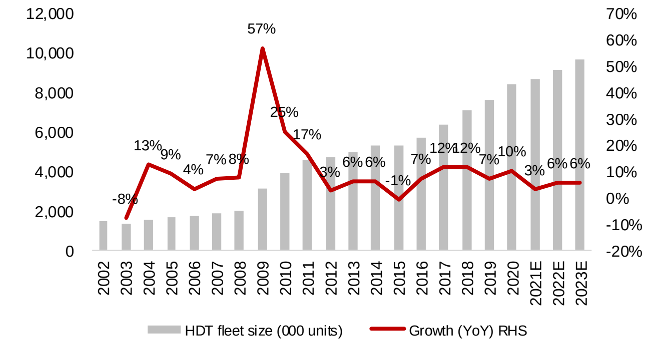
Source: Wind, Cvworld, CMBIS estimates

Figure 109: Timetable for the implementation of NES



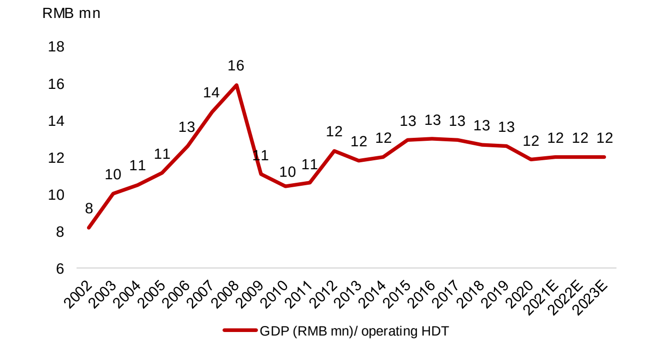
Source: Ministry of Ecology and Environmental, CMBIS

Figure 110: Fleet size of HDT



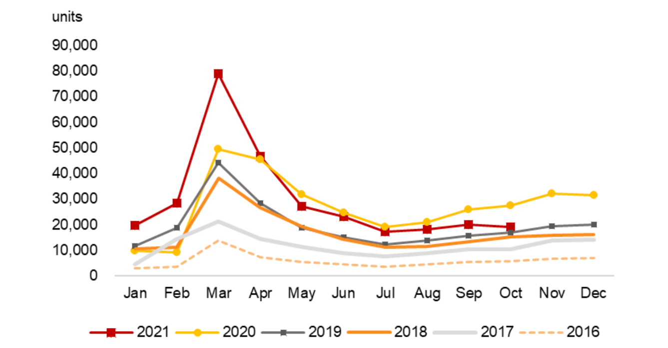
Source: Wind, NBS, CMBIS estimates

Figure 111: GDP value per unit of operating HDT



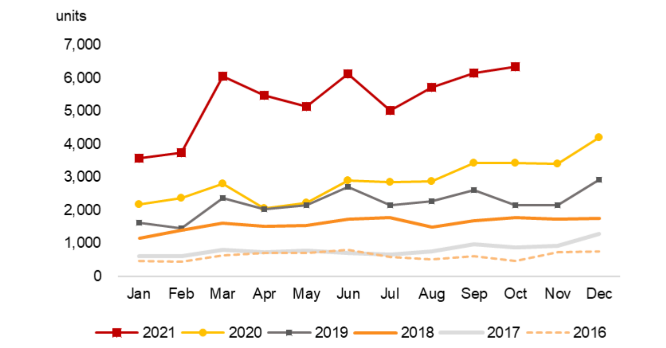
Source: Wind, NBS, CMBIS estimates

Figure 112: Excavator monthly sales volume (domestic sales + export)



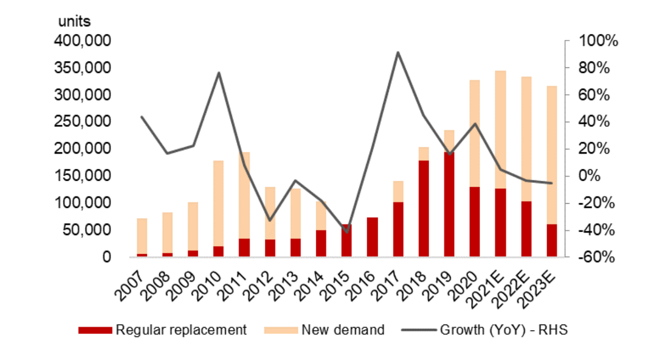
Source: CCMA, CMBIS

Figure 113: Excavator monthly export volume



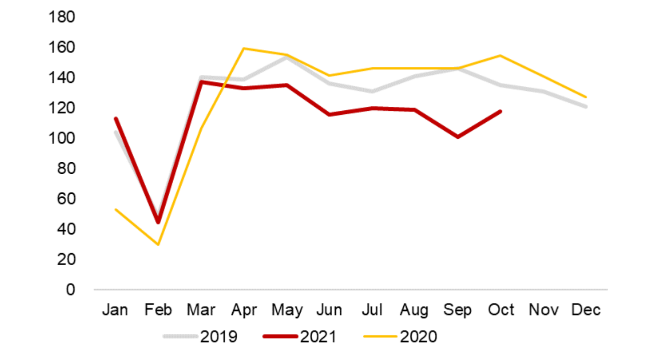
Source: CCMA, CMBIS

Figure 114: CMBI excavator sales projection



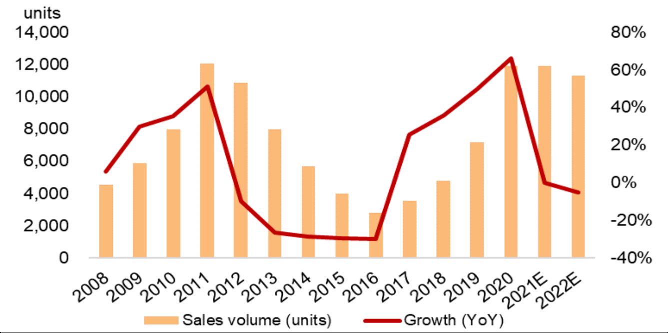
Source: CCMA, CMBIS estimates

Figure 115: Excavator monthly utilization hour



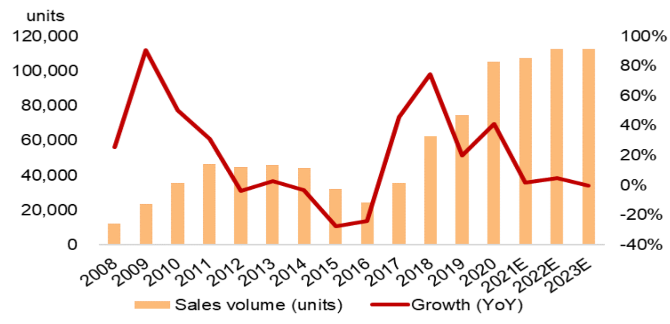
Source: CCMA, CMBIS

Figure 116: CMBI concrete pump truck sales projection



Source: CCMA, Company data, CMBIS estimates

Figure 117: CMBI concrete mixer sales projection



Source: CCMA, Company data, CMBIS estimates

Valuation

Figure 118: Peers' valuation

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US$ mn)	PE (x) FY21E	PE (x) FY22E	PB (x) FY21E	PB (x) FY22E
HK listed										
631 HK Equity	SANY INTERNATIONAL	BUY	7.80	14.30	83%	3,154	15.0	12.2	2.3	2.0
3339 HK Equity	LONKING	BUY	2.09	4.29	105%	1,147	4.9	4.7	0.8	0.7
1157 HK Equity	ZOOMLION HEAVY-H	BUY	5.15	8.80	71%	9,337	5.5	4.3	0.7	0.6
2338 HK Equity	WEICHAI POWER-H	BUY	15.36	22.60	47%	22,597	8.8	8.3	1.6	1.4
3808 HK Equity	SINOTRUK HK LTD	BUY	12.12	19.50	61%	4,289	4.0	4.3	0.7	0.6
1839 HK Equity	CIMC VEHICLES -H	BUY	6.60	9.20	39%	3,780	8.4	7.6	0.9	0.8
564 HK Equity	ZHENGZHOU COAL-H	NR	7.79	-	-	2,934	6.3	4.6	0.9	0.7
	HK listed average						**7.5**	**6.6**	**1.1**	**1.0**
A share										
000338 CH Equity	WEICHAI POWER-A	BUY	17.61	18.80	7%	22,598	12.3	11.7	2.3	2.0
601100 CH Equity	JIANGSU HENGLI-A	HOLD	87.29	86.00	-1%	17,906	42.4	35.9	12.4	10.0
603338 CH Equity	ZHEJIANG DINGLI -A	BUY	82.99	87.00	5%	6,331	41.9	32.4	8.8	7.1
600031 CH Equity	SANY HEAVY-A	BUY	23.83	30.00	26%	31,802	13.2	11.3	3.0	2.5
000157 CH Equity	ZOOMLION HEAVY-A	BUY	7.44	9.30	25%	9,337	9.7	7.6	1.2	1.0
000425 CH Equity	XCMG-A	NR	6.15	-	-	7,571	8.4	7.4	1.3	1.1
000528 CH Equity	GUANGXI LIUGONG-A	NR	7.69	-	-	1,783	9.0	8.1	0.9	1.0
603638 CH Equity	YANTAI EDDIE P	NR	31.89	-	-	4,217	55.9	42.0	8.8	7.5
600761 CH Equity	ANHUI HELI CO-A	NR	13.65	-	-	1,588	14.0	12.0	1.7	1.6
603298 CH Equity	HANGCHA GROUP-A	NR	17.01	-	-	2,316	14.4	11.8	2.6	2.3
000951 CH Equity	CNHTC JINAN T-A	NR	17.15	-	-	3,166	13.8	12.0	1.5	1.4
601717 CH Equity	ZHENGZHOU COAL-A	NR	11.18	-	-	2,934	11.0	8.0	1.7	1.2
600582 CH Equity	TIAN DI -A	NR	4.17	-	-	2,712	10.2	8.2	n/a	n/a
	A-share average						**19.7**	**16.0**	**3.8**	**3.2**
Overseas										
CAT US Equity	CATERPILLAR INC	NR	201.6	-	-	109,075	19.4	16.3	7.3	6.8
DE US Equity	DEERE & CO	NR	348.6	-	-	108,072	15.7	14.0	5.8	4.6
6305 JP Equity	HITACHI CONST	NR	3,240.0	-	-	6,130	15.9	13.5	1.3	1.2
6301 JP Equity	KOMATSU LTD	NR	2,627.0	-	-	22,484	13.2	10.9	1.2	1.2
042670 KS Equity	DOOSAN INFRACORE	NR	7,260.0	-	-	586	5.7	7.9	0.7	0.5
VOLVB SS Equity	VOLVO AB-B	NR	196.9	-	-	43,781	13.0	11.7	3.0	2.8
	Average						**13.8**	**12.4**	**3.2**	**2.8**
Hydraulic components										
PH US Equity	PARKER HANNIFIN	NR	311.4	-	-	40,020	17.8	16.1	4.2	3.6
ETN US Equity	EATON CORP PLC	NR	164.8	-	-	65,705	24.8	22.3	4.1	3.9
7012 JP Equity	KAWASAKI HVY IND	NR	2,006.0	-	-	2,963	16.1	10.6	0.7	0.7
7242 JP Equity	KYB CORP	NR	2,967.0	-	-	672	n/a	n/a	n/a	n/a
6474 JP Equity	NACHI-FUJIKOSHI	NR	4,040.0	-	-	885	10.9	9.6	0.8	0.7
6268 JP Equity	NABTESCO CORP	NR	3,245.0	-	-	3,455	4.2	15.3	1.6	1.5
	Average						**14.8**	**14.8**	**2.3**	**2.1**
Aerial working platform										
TEX US Equity	TEREX CORP	NR	43.6	-	-	3,043	15.5	10.5	2.8	2.3
OSK US Equity	OSHKOSH CORP	NR	110.4	-	-	7,448	23.4	16.4	n/a	2.2
LNR CN Equity	LINAMAR CORP	NR	71.7	-	-	3,652	10.7	9.6	n/a	n/a
PIG FP Equity	HAULOTTE GROUP	NR	4.8	-	-	171	14.4	8.5	0.6	0.6
6345 JP Equity	AICHI CORP	NR	807.0	-	-	542	12.3	11.8	0.8	0.8
	Average						**15.3**	**11.4**	**1.4**	**1.5**

Source: Bloomberg, Company data, CMBIS estimates

Key risks

(1) Infrastructure and property investment below expectation; (2) margin pressure due to price hikes in raw materials and freight rates.

China Express Delivery

OUTPERFORM

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Katherine NG – katherineng@cmbi.com.hk

Strong Policy Measures to Reshape Competitive Landscape

Investment Thesis

The Chinese government's strong intervention in the express delivery industry through policies and regulations in 2021 successfully put the bloody price war to an end and brought the industry development back to the right track. From corporate perspective, major players have already shifted from pricing to capex optimization, quality service and profit oriented strategy. Looking ahead, we expect ASP increase and the potential public listing of J&T Express will serve as sector catalysts in 2022E. In addition, we expect market share gain through M&A, as well as expansion to integrated logistics model, will become the long-term trend over the medium term. In light of better earnings visibility, we **upgrade** the sector to **Outperform** from Market perform. We believe mass market players including **ZTO (2057 HK / ZTO US, BUY)**, **YTO (600233 CH, NR)** and **Yunda (002120 CH, NR)** are all beneficiaries.

Entering the 2nd stage of competition: Stabilizing market share + Better profitability

Given that price reduction is no longer a feasible tool to gain market share, major players will shift the focus to enhance service quality as it is the best way to defend market share and boost ASP. In particular, following the acquisition of BEST Inc's express delivery business, J&T Express will be able to double the market share to ~15% in China express delivery market, making it the top 4 player. We expect J&T Express will focus on internal integration and efficiency improvement. On the other hand, ZTO also adjusted both the pricing strategy and capex plan aiming at achieving better profitability.

ASP hike to drive operating leverage

For the industry as a whole, the parcel ASP in 10M21 dropped 10%. We forecast ASP to drop 9% YoY in 2021E but rebound 2% YoY in 2022E. We expect meaningful earnings recovery driven by a strong operating leverage. Based on our calculation, STO and YTO will benefit more from rising ASP in the near term due to their relatively lower base of unit gross profit (RMB0.05 and RMB0.11/parcel respectively in 1H21).

Expect 15% parcel volume CAGR in 2022E/23E

Parcel volume grew 35% in 10M21 and we forecast the full year growth to be 30%. We expect parcel volume growth to maintain at 15% p.a. in 2022E and 23E, driven by continuous growth of ecommerce/ short video platforms and new segments such as fresh products and intra-city logistics market.

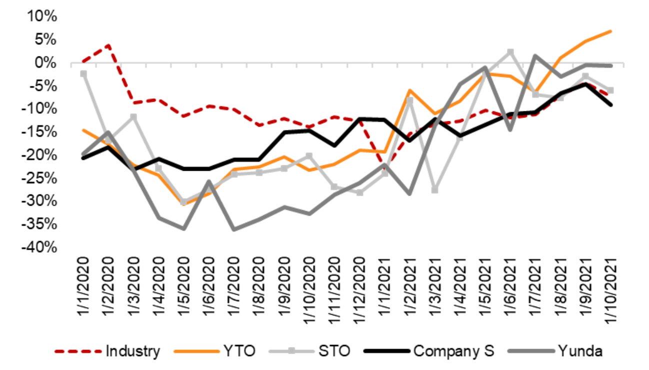
Figure 119: China express delivery

	2019	2020	2021E	2022E	2023E
Express delivery parcel volume (mn)	**63,520**	**83,358**	**108,339**	**124,648**	**143,412**
YoY	*25.3%*	*31.2%*	*30.0%*	*15.1%*	*15.1%*
Revenue (RMB bn)	**750**	**880**	**1,040**	**1,221**	**1,405**
YoY	*24.2%*	*17.3%*	*18.3%*	*17.4%*	*15.1%*
ASP (RMB/unit)	**11.8**	**10.6**	**9.6**	**9.8**	**9.8**
YoY	*-0.9%*	*-10.6%*	*-9.0%*	*2.0%*	*0.0%*

Source: State Post Bureau, CMBIS estimates

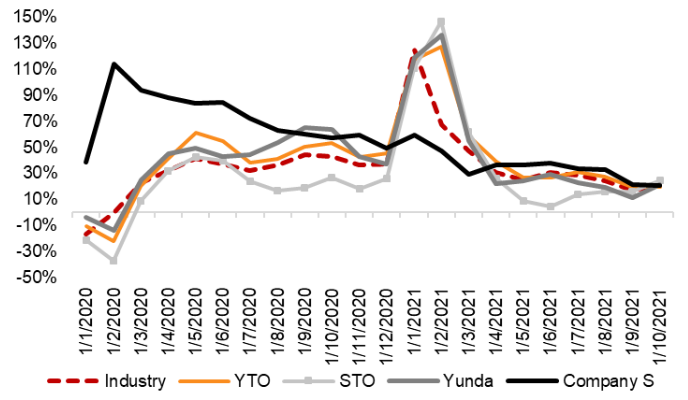
Focus Charts

Figure 120: Express delivery parcel ASP change (YoY)



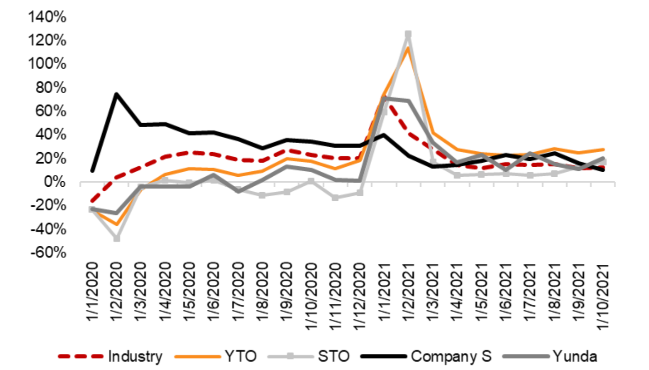
Note: Company S is the largest integrated logistics operator based in Shenzhen
Source: State Post Bureau, Company data, CMBIS

Figure 121: Parcel shipment volume growth (YoY)



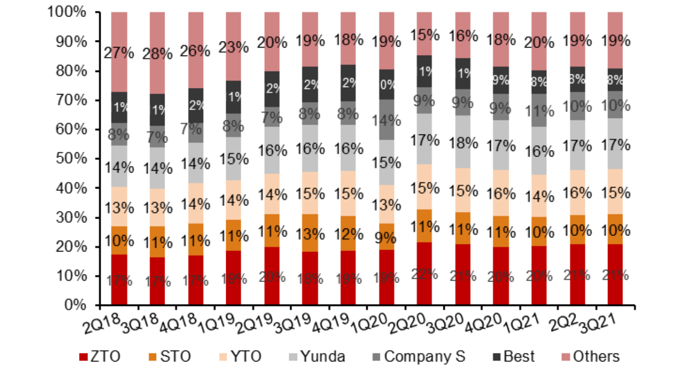
Source: State Post Bureau, Company data, CMBIS

Figure 122: Express delivery revenue growth (YoY)



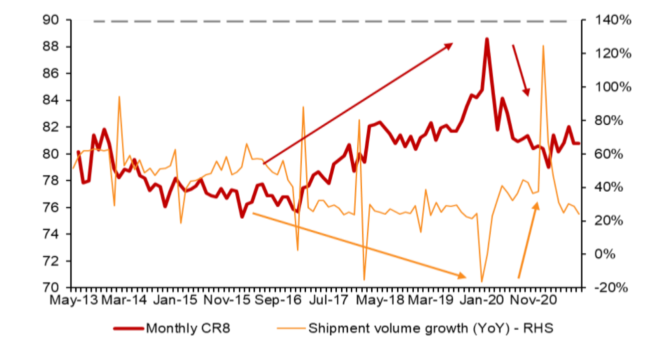
Source: State Post Bureau, Company data, CMBIS

Figure 123: Quarterly market share trend



Source: State Post Bureau, Company data, CMBIS

Figure 124: Negative correlation (-43% in last 9 years) between CR8 and parcel shipment growth in China



Source: State Post Bureau, Wind, CMBIS

Figure 125: China diesel price

Source: Wind, CMBIS

Sector Overview & Outlook

Stage One competition come to an end

The strong demand growth of express delivery brought along with a cutthroat price reduction since early 2020 as express delivery companies were fighting harder than ever for market share. The aggressive pricing strategy adopted by J&T Express for market share, the expansion into mid-low end market by the largest integrated logistics operator based in Shenzhen in order to protect its time definite business, as well as the general strong balance sheet for the Tongda players, triggered an unprecedented price war.

It was not until mid-2021 when the Chinese government started to intervene the industry, as the price war severely affected the interest of couriers and the delivery service quality. In Jul, seven authorities released an opinion to protect the interest of couriers. In Sep Zhejiang provincial people's congress approved the regulation regarding the express delivery industry development in late Sep. The regulation states that, effective from 1 Mar 2022, express delivery operators, without justified reasons, are not allowed to offer service below cost level.

In early Sep, the major express delivery operator focusing on mass market, namely ZTO, YTO, STO, BEST, Yunda and J&T Express, decided to revise up the dispatch fee by RMB0.1/parcel, in response to the authority's opinions regarding the protection of couriers' interest. Sequentially, with the support of Shanghai Municipal Postal Administration, major express delivery operators started price hike in early Oct in response to the rising operating cost.

Tongda players' parcel ASP reached the lowest point in Jul and started to rebound since then.

Entering the second stage of competition: Stablizing market share + Better profitablility

Given that price reduction is no longer a feasible tool to gain market share, major players will shift the focus to enhance service quality as it is the best way to protect market share and boost ASP in the near term. Besides, we believe the competitive landscape will become more stable in the foreseeable future, in particular following the acquisition of BEST's express delivery by J&T Express. In 3Q21, BEST's market share was ~8% in terms of parcel volume. After this acquisition, J&T Express will be able to double the market share to 15% in China express delivery market immediately, making it the top 4 player.

We expect more M&As going forward, as it becomes the only way for the major players to gain meaningful market share. Also, we expect major players will speed up the non-express delivery business expansion.

Figure 126: Comparison of major ecommerce express delivery operators

	ZTO		YTO		STO		Yunda		BEST Express	
	2020	1H21	2020	1H21	2020	1H21	2020	1H21	2020	1H21
Shipment Volume (mn parcels)	17,002	10,247	12,648	7,411	8,817	4,832	14,144	8,261	8,535	4,058
ASP (RMB/parcel)	1.37	1.3	2.26	2.21	2.35	2.25	2.25	2.10	2.28	1.97
Unit gross profit (RMB/parcel)	0.33	0.26	0.10	0.11	0.00	0.05	0.19	0.18	(0.01)	(0.12)

Note: ZTO's ASP does not include dispatch fee
Source: Company data, CMBIS estimates

Figure 127: Major express delivery operators' net capex

Net capex	2019	2020	YoY	9M20	9M21	YoY
(RMB mn)						
Company S	6,372	12,203	91%	7,354	13,860	88%
ZTO	5,226	9,208	76%	6,188	7,075	14%
Yunda	4,373	6,001	37%	3,951	5,491	39%
YTO	3,313	5,128	55%	3,039	4,173	37%
STO	1,986	2,394	21%	1,984	1,708	-14%
BEST Express	1,483	1,559	5%	-	-	-

Source: Company data, CMBIS estimates

Figure 128: Key supporting policies for express delivery industry in China

Date	Authority	Document	Summary
Feb-18	State Council	Opinions of the Central State Council of China on Implementing the Rural Revitalization Strategy《中共中央国务院关于实施乡村振兴战略的意见》	· Advocated building a cold chain warehousing and logistics system for modern agricultural products and extending service outlets to rural · Encouraged to develop a comprehensive infrastructure to promote rural e-commerce development, and expedite penetration of e-commerce into rural area
Mar-18	State Council	Interim Regulation on Express Delivery《快递暂行条例》	· Set the industry standard in terms of operation, supervision and business management · Emphasized customer privacy security and environmental friendly operation
Apr-18	State Post Bureau	Work Plan for the Establishment of a Credit System for the Express Delivery Industry《快递业信用体系建设工作方案》	· Nationwide construction of credit systems for the industry · Facilitated cooperation with government and key clients and decreased companies' ongoing financing costs
May-18	State Council	Confirmation of the measures for further reducing logistics cost of the real economy 进一步降低全社会物流成本提升实体经济竞争力	· Tax reduction, simplifying review process for goods vehicles and procedures for establishing branches of logistics enterprises · Expected to reduce logistics cost by more than RMB12bn
Jun-18	Ministry of Finance, Sate Taxation Administration	Policy under which urban land use tax is reduced by 50% for logistics companies that lease land for commodities warehousing《将物流企业承租的仓储设施用地减按50%计征城镇土地使用税》	· In Mar 2020, the implementation period of the policy has been extended to Dec 2022.
Oct-18	State Council	Three-year Action Plan (2018-2020) for Promoting the Structural Adjustment of Transportation《推进运输结构调整三年行动计划（2018—2020年）》	· Promoted railway and waterway freight · Railway/ Waterway freight volume expected to increase by 30%/ 7.5%
Oct-18	State Council	Work Plan for Optimizing Checkpoint Business Operation Environment to Facilitate Convenience in Cross-border Trade《优化口岸营商环境促进跨境贸易便利化工作方案》	· Aimed at improving the efficiency of logistics services through the checkpoints and facilitating business operation environment at the checkpoints
Dec-18	NDRC, MOT	Planning on construction and layout of national logistics hubs《国家物流枢纽布局和建设规划》	· Planned to construct 212 national logistics hubs which benefit decrease of social logistic costs
Jun-19	The State Post Bureau	Opinions on Supporting the Development of Private Express Delivery Enterprises《国家邮政局关于支持民营快递企业发展的指导意见》	· Promotes reduction of institutional transaction costs, and guides private express delivery enterprises to fully enjoy tax reduction and benefits offered by the government
Sep-20	NDRC	Opinions on the development of air cargo transportation facilities《关于促进航空货运设施发展的意见》	· Aimed at raising the capacity of air cargo transportation to meet the rising demand. · By 2025: To complete the construction of Ezhou Aiport; to enhance the cargo airport hub status in Shanghai, Guangzhou and Shenzhen. · By 2035: To complete the construction of 1-2 professional hubs; To nurture several large-scale air logistic companies with global competitiveness.
Jul-21	The State Post Bureau, MOT, NDRC, MOHRSS, MOC, State Administration for Market Regulation,	Opinions on Protecting the Legal Rights and Interests of the Courier Group《关于做好快递员群体合法权益保障工作的意见》	· Clarifies companies' responsibilities to protect workers' rights and aims at providing guildlines on better protection on couriers' rights. · Guildlines include: 1) delivering reasonable salaries, 2) purchasing social insurance, 3) hiring couriers directly is encouraged, 3) improving their working environment, etc.
Sep-21	The Standing Committee of Zhejiang Provincial People's Congress	Regulations of Zhejiang Province on Promotion of Express Delivery Industry《浙江省快递业促进条例》	· Express delivery companies shall not provide express delivery services at a lower-than-cost price without any justified reason. · Regulations are passed on 29 Sep, 2021 and will be implemented on 1 Mar, 2022.
Nov-21	MOT	The 14th Five-Year Deveopment Plan for Integrated Transportation Service《综合运输服务"十四五"发展规划》	· 2021E - 2025E: the CAGR of the total parcel volume of China's express delivery industry is expected to be 15.4%.

Source: State Council, State Post Bureau, NDRC, Ministry of Transport, CMBIS estimates

Valuation

Figure 129: Peers' valuation

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US$ m)	PE (x) FY21E	PE (x) FY22E	PB (x) FY21E	PB (x) FY22E	EV/EBITDA (x) FY21E	EV/EBITDA (x) FY22E
China express delivery												
ZTO US Equity	ZTO EXPRESS -ADR	BUY	30.03	44.00	47%	24,839	33.9	24.1	3.1	2.8	17.7	12.9
2057 HK Equity	ZTO EXPRESS	BUY	233.20	342.00	47%	24,839	33.9	24.1	3.1	2.8	17.7	12.9
600233 CH Equity	YTO EXPRESS -A	-	16.97	-	-	9,176	35.7	25.8	2.9	2.5	18.1	13.4
002468 CH Equity	STO EXPRESS CO-A	-	8.88	-	-	2,140	n/a	118.4	1.6	1.6	19.2	12.3
002120 CH Equity	YUNDA HOLDING -A	-	20.52	-	-	9,379	44.2	29.8	3.8	3.5	17.4	13.4
	Average (excluding STO)						**36.9**	**26.0**	**3.2**	**2.9**	**17.8**	**13.1**
China logistics (others)												
636 HK Equity	KERRY LOGISTICS	-	20.90	-	-	4,844	12.8	13.1	1.4	1.3	7.3	8.5
2618 HK Equity	JD LOGISTICS	-	26.80	-	-	21,248	n/a	n/a	5.7	6.6	81.4	33.3
9956 HK Equity	ANE CAYMAN INC	-	8.53	-	-	1,272	n/a	n/a	n/a	n/a	n/a	n/a
603056 CH Equity	DEPPON LOGISTIC-A	-	10.05	-	-	1,625	33.5	18.0	1.9	1.8	8.4	6.2
600787 CH Equity	CMST DEVELOPM-A	-	6.22	-	-	2,155	n/a	n/a	n/a	n/a	n/a	n/a
603128 CH Equity	CTS INTERNATIO-A	-	13.94	-	-	2,874	20.9	16.1	3.5	3.0	15.0	11.8
603565 CH Equity	SHANGHAI ZHONG-A	-	30.30	-	-	4,574	13.5	15.3	3.6	3.1	6.6	7.3
002930 CH Equity	GUANGDONG GREAT RIVER-A	-	25.78	-	-	1,813	38.8	28.3	5.2	4.7	18.8	14.1
600057 CH Equity	XIAMEN XIANGYU-A	-	8.02	-	-	2,725	8.1	6.8	1.1	1.0	10.2	8.5
	Average						**21.3**	**16.3**	**3.2**	**3.1**	**21.1**	**12.8**
Overseas (Integrated logistics)												
FDX US Equity	FEDEX CORP	-	240.04	-	-	63,767	12.2	10.9	2.4	2.0	8.7	7.8
UPS US Equity	UNITED PARCEL-B	-	203.74	-	-	177,079	17.6	16.8	13.7	10.0	12.4	11.9
DPW GR Equity	DEUTSCHE POST-RG	-	53.48	-	-	74,773	13.3	13.1	3.9	3.6	6.8	6.7
9064 JP Equity	YAMATO HOLDINGS	-	2,667.0	-	-	9,129	17.4	15.8	1.6	1.5	6.1	5.6
9143 JP Equity	SG HOLDINGS	-	2,641.0	-	-	14,899	19.7	19.5	3.7	3.2	11.7	11.4
6178 JP Equity	JAPAN POST	-	896.0	-	-	29,739	8.1	8.6	0.2	0.2	n/a	n/a
	Average						**14.7**	**14.1**	**4.2**	**3.4**	**9.1**	**8.7**
Overseas (Pure LTL)												
ODFL US Equity	OLD DOMINION FRT	-	352.08	-	-	40,493	40.4	34.4	11.2	9.5	24.6	21.4
SAIA US Equity	SAIA INC	-	320.71	-	-	8,446	35.0	28.3	7.1	5.7	18.2	15.0
XPO US Equity	XPO LOGISTICS IN	-	71.86	-	-	8,264	16.7	15.2	4.2	3.3	10.2	9.2
	Average						**30.7**	**25.9**	**7.5**	**6.2**	**17.7**	**15.2**

Source: Bloomberg, Company data, CMBIS estimates

China Solar

OUTPERFORM

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Tightened supply to resume normal

Investment thesis

China Solar supply chain experienced structural supply-demand mismatch in 2021. Tighten Poly-Si supply had blocked the trend for LCOE reduction, and brought challenges to grid-parity project development in China for the first year ground-mounted project entered into grid-parity tariff. However, as China's reiterated its determination for low carbon development under the broad policy framework of the 2030/60 targets, we saw supportive actions such as large scale renewable base development and country level distributed project development scheme. We think those supportive policy support will sustain market development in the next 5-10 years. In the overseas market, Europe, America and the other developing countries also expressed positive stance on carbon-neutral development.

Looking ahead in 2022, as new Ploy-Si capacity to release output, we expect solar PV supply chain to resume LECO improvement track, which will boost downstream PV installation. We project Global Solar PV installation to increase 40% YoY, which will sustain the booming capital market sentiment. We have OUTPERFORM rating for China Solar Sector, and suggest investors to focus on highly integrated downstream module players. We think Jinko Solar (JKS US, NR), Canadian Solar (CSIQ US, NR) and LONGi (601012 CH, BUY) will be benefit most from the market expansion.

High Poly-Si price blocked LCOE improvement

The continuous rise in the price of Poly-Si was quite unexpected in 2021. Poly-Si supply was in structural tightness compared to downstream capacity and overall demand. Power supply shortage and carbon in 2H21 had add more pressures to Poly-Si supply. Mono-grade Poly-Si price had surged from RMB85/kg at the beginning of the year to RMB270/kg in 4Q21. In the context of the violent price fluctuations, solar manufacturers in the supply chain had tried all means for pass-through costs pressure to the downstream, which boosted solar PV module price by more than 30% from RMB1.6/watt at the beginning of the year to a year high of RMB2.10/watt. This has interrupted the continuous cost reduction trend and has brought challenges to downstream developers. In 2021, China's large-scale ground-based photovoltaic projects will enter the first year of parity. Based on an IRR of 6%, we expect the price threshold of the module side to be about RMB1.80/watt. The excessively high module price resulting in lower-than-expected photovoltaic installations in the Chinese market throughout the year.

In the overseas market, renewables developers had higher module pricing tolerance due to higher project tariff, higher distributed project proportion and vigorously promoting green and low-carbon development in European and American countries. Overseas project developers are able to afford higher module prices, and therefore module price hike has not yet created significant impact on overseas component demand. However, we observe that overseas demand is more affected by tight shipping capacity and skyrocketing prices in the shipping logistic perspective.

Pricing to resume reasonable in 2022

Based on our Poly-Si output projection, we expect effective output could reach up to 817k tonnes in 2022, sufficient to cover 290GW downstream module demand. Deducting installation surplus ratio and supply chain inventory, we expect Poly-Si supply could support 223GW. Zoom in further for Poly-Si capacity growth, we think additional supply will concentrate in 1Q/4Q22. Based on the projection above, we expect Poly-Si price to decline, and that will boost downstream demand growth in 2022.

Based on capacity status from different nodes of the supply chain, we expect key variants will likely come from the wafer end, as total capacity could expand to ~600GW by end-2022, implying two times than that of Poly-Si. For downstream module players, as manufacturing is mostly order driven, we think module manufacturers will have higher flexibility and visibility in demand. We expect module players to gain some benefits through GPM expansion.

Capacity installation to increased 40% YoY in 2022.

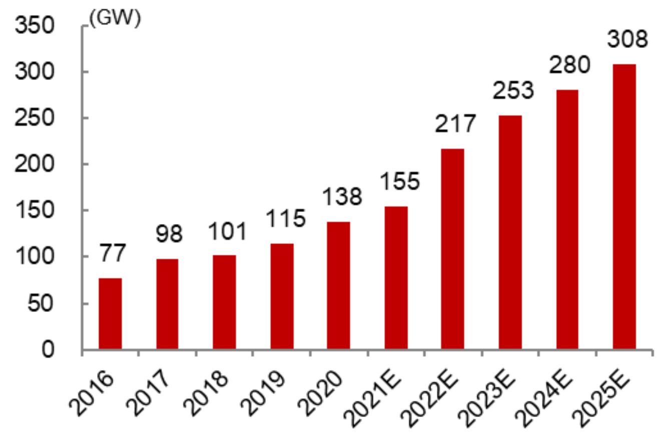
We expect global PV installation to be 155GW under module price pressures, and China market demand to be 45GW in 2021. Looking forward in 2022, as we expect supply chain pricing to resume reasonable, we expect global PV demand to boost to 217GW, up 40% YoY. We are optimistic to China PV demand to reach ~80GW on the back of supportive government policies. In 2021-25E, we project global PV demand to increase with a 18.8% CAGR, and annual installation scale will reach above 300GW by 2025E.

Investment strategy

We think PV module manufacturers will be benefited from GPM expansion and significant growth in PV module shipment. At current phase, we expect integrated PV module players will have cost advantage and more defensive power in view of supply chain pricing fluctuation. We believe most of A-share names had priced in earnings improvement expectation, while US listed names still have attractive risk-reward. Jinko Solar (JKS US) and Canadian Solar (CSIQ US) are on track to spin-off listing in the A-share market, while LONGi (601012 CH) is maintaining leading position as the largest module supplier in the world.

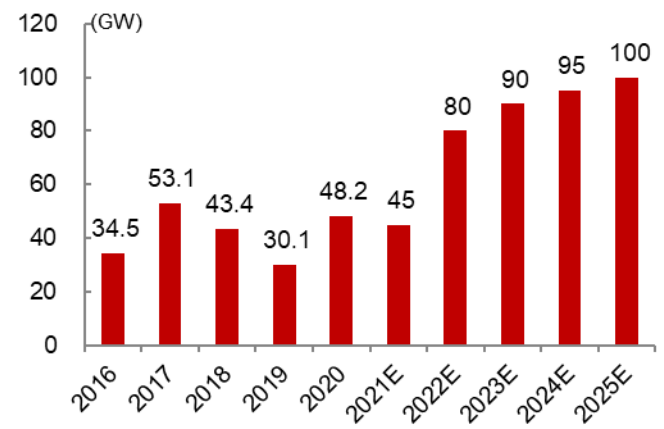
Focus Charts

Figure 130: We project global solar capacity growth to exceed 40% in 2022E, and growth CAGR to reach above 18.8% in 2021-25E



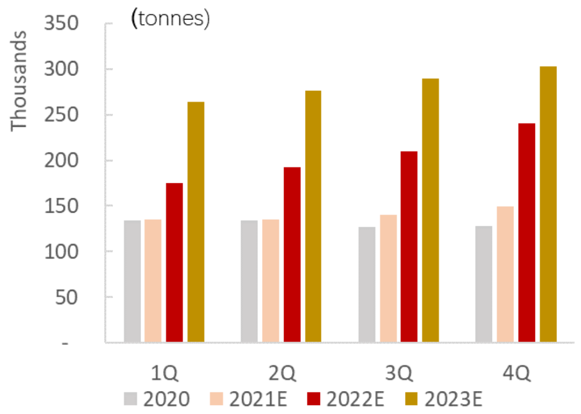
Source: IRNEA, CMBIS estimates

Figure 131: Solar capacity growth may read a YoY decline in 2021E, but to rebound quick in 2022E



Source: NEA, CMBIS estimates

Figure 132: We expect Poly-Si supply to increase 17.6% QoQ, which will likely bring price back to reasonable level.



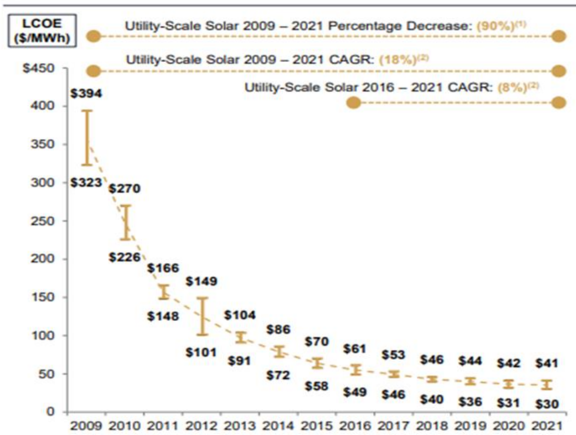
Source: CMBIS estimates

Figure 133: We think wafer capacity expansion could be an uncertainty to solar supply chain in 2022E; by end-2022, there could be ~600GW wafer capacity, two-fold of Poly-Si.

Mono wafer(GW)	2020	1H21	2021E	2022E
LONGi	75	85	105	120
Zhonghuan	55	55	73	135
Jinko	20	25	25	40
JA Solar	18	18	30	45
Jingyuntong	8	20	20	32
Huantai	5	17	17	30
Shangji	20	20	30	50
Others	30	40	100	140
Capacity total	**231**	**280**	**400**	**592**

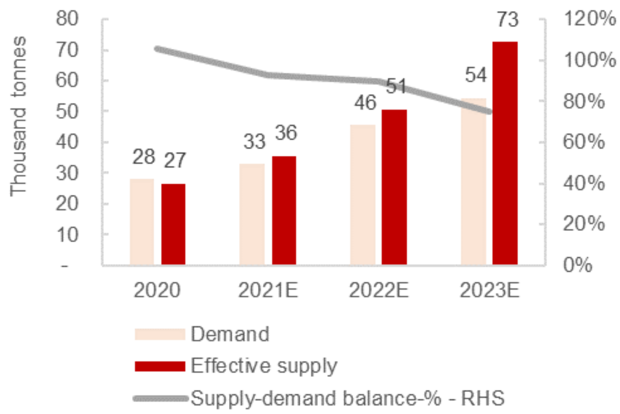
Source: CMBIS summarized based on CNIA data

Figure 134: LCOE decline was a key theme driving demand growth of the solar supply chain.



Source: Lazard LCOE 15.0

Figure 135: Solar glass supply-demand outlook



Source: CMBIS estimates

Valuation

Figure 136: Peers' valuation

Company name	Ticker	Mmarket cap mn US$	Shr Px local currency	YTD	EPS CAGR 2021-23E	PER			PBR		
TONGWEI CO-A	600438	32,904	46.45	20.8	19.1%	24.4	18.8	17.2	5.4	4.2	3.4
DAQO NEW ENE-ADR	DQ	3,477	47.3	-17.5	-17.8%	3.8	3.9	5.7	1.6	1.1	1.0
XINJIANG DAQO -A	688303	19,351	63.88	n/a	7.5%	18.1	15.8	15.7	8.3	5.5	4.3
GCL-POLY ENERGY	3800	8,710	2.71	120.3	0.9%	10.2	9.2	10.0	2.2	1.8	1.5
XINTE ENERGY C-H	1799	3,026	16.5	47.8	-2.9%	4.0	3.6	4.2	1.0	0.8	0.7
						12.1	**10.3**	**10.6**	**3.7**	**2.7**	**2.2**
TONGWEI CO-A	600438	32,904	46.45	20.8	19.1%	24.4	18.8	17.2	5.4	4.2	3.4
SHANGHAI AIKO-A	600732	8,235	25.7	60.9	134.0%	135.3	34.5	24.7	9.2	7.3	5.6
						79.8	**26.7**	**21.0**	**7.3**	**5.8**	**4.5**
LONGI GREEN EN-A	601012	71,688	84.16	27.8	31.2%	41.2	30.0	23.9	9.8	7.7	6.0
TIANJIN ZHONG-A	002129	20,729	40.76	59.8	25.5%	33.9	26.5	21.5	5.1	4.3	3.6
WUXI SHANGJI -A	603185	8,394	193.81	40.0	N/A	23.1	17.6	N/A	N/A	N/A	N/A
						37.6	**28.2**	**22.7**	**7.4**	**6.0**	**4.8**
JINKOSOLAR-ADR	JKS	2,185	46.71	-24.5	52.7%	21.6	10.2	9.2	1.2	1.1	0.9
CANADIAN SOLAR I	CSIQ	2,143	33.67	-34.3	55.0%	25.5	10.5	10.6	1.0	0.9	0.8
JA SOLAR TECHN-A	002459	23,293	92.58	127.4	59.5%	73.6	39.6	28.9	9.7	7.9	6.3
TRINA SOLAR CO-A	688599	24,473	75.2	224.8	55.0%	80.5	45.2	33.5	9.2	7.7	6.2
						50.3	**26.4**	**20.6**	**5.3**	**4.4**	**3.6**
XINYI SOLAR HLDS	968	16,600	14.56	-28.1	18.3%	23.9	21.1	17.0	4.3	3.8	3.3
FLAT GLASS GRO-H	6865	14,871	34.8	6.6	29.5%	27.8	23.7	16.6	5.2	4.3	3.5
FLAT GLASS GRO-A	601865	14,871	48.17	20.7	32.3%	45.5	34.6	26.0	9.4	7.3	5.7
CHANGZHOU ALMA-A	002623	1,282	40.94	-6.9	82.7%	69.4	29.9	20.8	2.8	2.5	2.2
						41.6	27.3	20.1	5.4	4.5	3.7
SUNGROW POWER -A	300274	35,105	150.2	107.8	39.6%	81.3	55.5	41.7	16.6	13.1	10.1
GINLONG TECHNO-A	300763	9,791	251.3	186.7	52.1%	108.1	68.8	46.7	25.7	18.8	13.1
						94.7	62.2	44.2	21.2	15.9	11.6
HANGZHOU FIRST-A	603806	19,060	127.35	78.9	25.3%	61.7	48.8	39.3	10.6	8.9	7.3
						45.7	**27.4**	**21.5**	**7.2**	**5.7**	**4.5**

Source: Bloomberg, CMBIS

China Wind

OUTPERFORM

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Grid-parity project to sustain growth in 2021-25E

Investment Thesis

China wind farm entered grid-parity era in 2021, after an installation rush in 2020. We expect wind farm capacity addition to read YoY decline in 2021, and major wind turbine (WTG) demand is supported by onshore grid-parity and offshore subsidy-backed project. Severe WTG tender pricing competition was a key market focus in 2021. 3-4MW WTG price had declined from RMB3,200/kw in 4Q20 to RMB2,300-2,400/kw in a year. By Nov 2021, WTG tender in China had reached 60GW, and will likely to exceed 65GW in 2021, which could be flat as historical record level in 2019 or refresh a new height. All in all, we think active WTG tender reflects strong market demand in 2022, and we expect WTG installation to resume rapid growth. Looking ahead in 2022, we prefer renewables operators. We expect wind operators will benefit from WTG pricing decline for higher project IRR on one hand, and we also expect wind operators could gain more earnings upside from green electricity trading. For WTG supply chain, we suggest investors to wait for better visibility given WTG pricing decline while material and component prices are on a rising trend. We prefer quality operators such as China Longyuan (916 HK, BUY) and Suntien (956 HK, BUY).

Large scale renewable base will be a key driver in 2021-25E

We expect wind farm capacity addition figure to decline in 2021 compared with a peak level in 2020 driven by subsidy cutoff. Wind farm investment in China will be support by grid-parity project and offshore wind farm (offshore project subsidy will be cut off by 2021). As wind farm development plan and project quota was distributed late in the year, we think most of wind farm operators will somewhat delay project development to 2022. Considering China's non-fossil energy consumption target to reach above 20% by 2025, and government supports for large scale renewable base development, we expect average capacity addition of wind power to reach above 50GW in 2021-25E with a CAGR of more than 13.5%.

Declining tender price will suport grid-parity project IRR

By mid-Nov 2021, China had completed more than 60GW WTG tender. For 2021, we expect the figure could reach 65GW, flat as or exceed historical record level in 2019. Tender price had reflect fierce competition among WTG manufacturers, as 3-4MW size WTG tender price had declined from RMB3,200 in 4Q20 to RMB2,300-2,400 in less than a year. According to our estimates, given current WTG price, we think wind farm developers could make attractive project return at IRR of 10.9%, far exceed wind operators expected return level. At the same criteria, we think wind farm investment is more attractive than solar farm (module price hike in 2021). Given more attractive return level, we think developers will have higher willingness to develop wind farm.

WTG manufacuter may face cost pressures

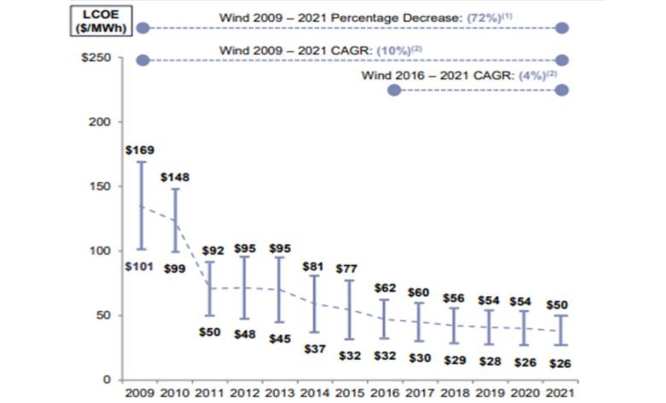
We expect rapid cut in WTG tender price and surging material and component costs will bring significant GPM pressures to WTG manufacturers, and we believe WTG manufacturers will also choose to shift downstream pricing pressure to upstream suppliers, which could squeeze GPM along the supply chain, and have impacts to overall earnings. In the short run, we think active market tender will boost market sentiment, but we are also cautious to GPM outlook. We suggest investors to be alert for WTG manufacturers gaining market shares through aggressive pricing strategies. Although we expect WTG installation will resume growth track in 2022, we suggest to wait for better timing for WTG upstream supply chain for higher margin visibility.

Investment strategy

Wind operators had experienced significant re-rating since Jul 2021. We think key valuation re-rating driver was market expectation for electricity tariff hike driven by green electricity market trading. Wind operators' share price reached year high in Sep 2021 after the green electricity trading demonstration during the month. Looking ahead in 2022, as Chinese government provides increasing policy supports for renewables electricity market trading, we expect overall green electricity trading scale to have rapid expansion, and gaining sufficient demands from corporates with ESG needs or in energy intensive business. We also believe green electricity trader could be a mean to reflect renewable energy's environmental value. We expect valuation re-rating of renewables operators will continue, and we suggest investors to focus on quality picks. Our sector preference in China Longyuan (916 HK) and Suntien (956 HK).

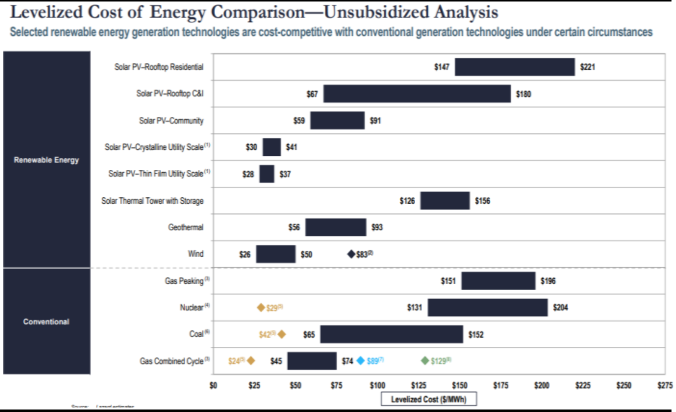
Focus Charts

Figure 137: In a global context, LCOE of wind power declined with an average pace of 6.1%



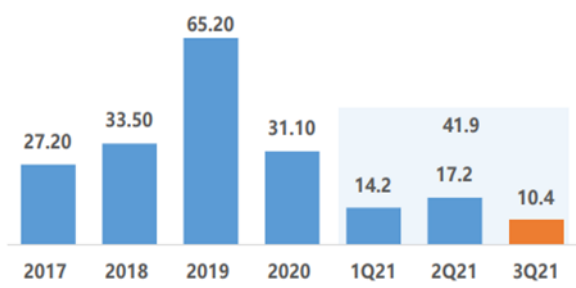
Source: Lazard Levelized Cost of Energy Analysis, Version 15.0

Figure 138: Wind farm project is now more competitive than conventional power generating sources



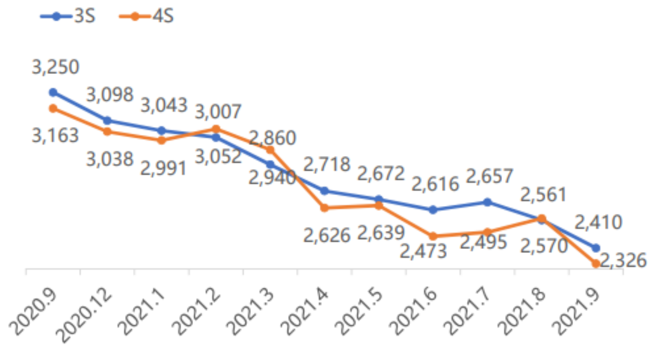
Source: Lazard Levelized Cost of Energy Analysis, Version 15.0

Figure 139: In 2021, wind turbine tender market in China was active. By 11M21, accumulated tender capacity had exceeded 60GW.



Source: Goldwind 3Q21 investors' presentation

Figure 140: 3-4MW wind turbines were facing fierce pricing competition; entering 4Q21, WTG tender price started to stabilize (RMB/kw, VAT incl.).



Source: Goldwind 3Q21 investors' presentation

Figure 141: At current WTG and project CAPEX level, we estimate grid-parity project IRR could reach 10.9%

Item	Unit	Assumptions
Project scale	MW	100
Operating life	Years	20
Tariff (VAT incl)	RMB/Kwh	0.32
Utilization hours	Hours/yr	2500
CAPEX per watt	RMB/w	5.5
Maintenance cost	RMB/Kwh	0.065
Other OPEX (subject to inflation adj.)	RMB mn/Yr	1.5
Loan terms	Years	15
Interest rate		4.3%
Debt to asset ratio		70%
Total investment/capex		105%
Discount rate		4.3%
Project economics estimates		Results
Project IRR		**7.4%**
Equity IRR		**10.9%**
Average ROE in first 10 year		6.4%
Payback period		9

Source: CMBIS estimates

Figure 142: Compared with solar farm costs at current module pricing level, we think wind farm investment is more attractive

Item	Unit	Assumptions
Project scale	MW	100
Operating life	Years	20
Tariff (VAT incl)	RMB/Kwh	0.4
Utilization hours	Hours/yr	1300
CAPEX per watt	RMB/w	4.6
Maintenance cost	RMB/Kwh	0.055
Other OPEX (subject to inflation adj.)	RMB mn/Yr	1
Loan terms	Years	15
Interest rate		4.3%
Debt to asset ratio		70%
Total investment/capex		105%
Discount rate		4.3%
Project economics estimates		Results
Project IRR		**5.5%**
Equity IRR		**6.1%**
Average ROE in first 10 year		3.7%
Payback period		11

Source: CMBIS estimates

Valuation

Figure 143: Peers' valuation

Company name	Ticker	Market Cap mn RMB	Shr price Local currency	YTD (%)	EPS-CAGR 2021-23E	PER			PBR		
Operators - H											
CHINA LONGYUAN-H	916 HK	107,278	16.38	110.81	15.3%	17.27	15.08	12.99	1.80	1.64	1.49
CHINA DATANG C-H	1798 HK	18,732	3.16	159.02	18.1%	11.65	9.50	8.36	1.41	0.92	0.87
CHINA SUNTIEN-H	956 HK	45,186	5.81	144.12	9.5%	8.16	7.52	6.81	0.85	0.77	0.69
CGN NEW ENERGY H	1811 HK	23,918	6.84	460.66	16.6%	16.55	14.62	12.18	2.74	2.44	2.19
CONCORD NE	182 HK	5,652	0.78	65.96	20.4%	6.36	5.09	4.38	0.68	0.64	0.58
						12.00	10.36	8.95	1.50	1.28	1.17
Operators - H											
CHINA THREE GO-A	600905 CH	195,426	6.84	N/A	25.1%	35.81	27.25	22.88	3.01	2.81	2.61
CHINA SUNTIEN -A	600956 CH	45,185	18.14	80.32	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FUJIAN FUNENG -A	600483 CH	32,693	17.05	115.01	22.8%	16.63	11.91	11.03	2.13	1.85	1.63
NINGXIA JIAZE -A	601619 CH	13,156	5.44	60.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A
JIANGSU NEW EN-A	603693 CH	18,927	27.60	114.29	N/A	31.36	22.81	N/A	N/A	N/A	N/A
CECEP WIND POW-A	601016 CH	34,239	6.83	99.13	29.2%	35.95	25.97	21.55	2.51	2.07	1.74
						29.94	21.99	18.48	2.55	2.24	1.99
Wind turbine											
XINJIANG GOLD-H	2208 HK	73,605	17.44	11.94	8.6%	14.77	14.06	12.52	1.63	1.50	1.38
XINJIANG GOLD-A	002202 CH	73,605	18.14	27.30	12.6%	19.76	17.96	15.58	2.10	1.94	1.80
MING YANG SMAR-A	601615 CH	55,344	28.29	49.05	10.6%	19.96	17.97	16.31	3.11	2.64	2.21
ZHEJIANG WINDE-A	300772 CH	15759.65305	46.49	180.91	N/A	39.07	27.84	N/A	N/A	N/A	N/A
SHANGHAI ELECT-A	688660 CH	17,827	13.37	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
						23.39	19.46	14.81	2.28	2.03	1.79
Wind blade											
SINOMA SCIENCE-A	002080 CH	63,232	37.68	55.83	15.5%	17.53	15.05	13.13	3.87	3.15	2.59
ZHUZHOU TIMES -A	600458 CH	9,939	12.38	45.48	N/A	N/A	N/A	N/A	N/A	N/A	N/A
WEIHAI GUANGWE-A	300699 CH	42,826	82.62	-7.22	23.6%	53.23	42.54	34.83	10.10	8.48	7.00
						35.38	28.80	23.98	6.99	5.81	4.79
Tower											
DAJIN HEAVY IN-A	002487 CH	24,394	43.90	382.95	N/A	N/A	N/A	N/A	N/A	N/A	N/A
QINGDAO TIANNE-A	300569 CH	13,017	16.40	74.36	N/A	24.85	21.58	N/A	N/A	N/A	N/A
SHANGHAI TAISH-A	300129 CH	7,220	10.04	32.11	N/A	N/A	N/A	N/A	N/A	N/A	N/A
						24.85	21.58	N/A	N/A	N/A	N/A
Gear box and others											
CHINA HIGH-SPEED	658 HK	8,036	6.03	-20.66	N/A	N/A	N/A	N/A	N/A	N/A	N/A
HANGZHOU ADVAN-A	601177 CH	3,585	8.96	11.17	N/A	N/A	N/A	N/A	N/A	N/A	N/A
LUOYANG XINQIA-A	300850 CH	37,820	195.00	107.33	30.9%	67.24	51.32	39.24	10.74	8.88	7.24
RIYUE HEAVY IN-A	603218 CH	33,082	34.19	13.02	43.6%	42.47	26.34	20.60	3.78	3.39	3.07
Averahe						54.86	38.83	29.92	7.26	6.14	5.16
Sector average						**26.59**	**20.80**	**16.83**	**3.36**	**2.87**	**2.47**

Source: Bloomberg, CMBIS

China Gas

MARKET PERFORM

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Accelerating business transition

Investment Thesis

China Gas Distributors' share prices experienced high and low. In 1H21, share price exhibited significant gain on the back of post-pandemic recovery of industrial activities. Entering 2H21, share prices drawback due to several factors, including 1) several city gas explosion accident raised market concerns for operating safety; 2) tighten gas supply in the overseas market pushed up LNG price; 3) La Nina phenomenon brought cold winter outlook which further intensified gas supply shortage expectation; and 4) real estate development slowdown could bring impacts to future city gas connection. Entering winter, we think natural gas supply would be a short term market focus, and we think market also has concerns for gas dollar margin squeeze due to weak industrial demand and potential industrial activities control before Beijing Winter Olympic Games. Looking ahead in 2022, we expect overseas gas price to resume normal level, which could trigger gas distributors' valuation rebound. Under the backdrop of slower residential connection, we expect gas distributors to accelerate development of new businessed, which include distributed and integrated energy and value adding services. We suggest investors to focus on gas distributors leading in business transformation. Our pecking order in gas distribution sector is ENN (2688 HK) > Tianlun Gas (1600 HK) > CR Gas (1193 HK) > China Gas Holdings (384 HK).

Slower connection pace will boost new business development

As China to imposed tightened controls on the real estate sector, we think city gas distributors will slow down development pace in residential connection business. Connection business used to play an important role to gas distributors' earnings performance. We expect a slowdown in the gas connection segment will force gas players to accelerate new business developments, such as distributed and integrated energy business, carbon emission and carbon asset management, new customer development for winter heating consumption along the Yangtze River and eastern coastal areas, and value-adding services to the existing customers.

La Nina impact could squeeze winter gas dollar margin

Looking ahead in the winter of 2021/22, due to the impact of La Nina effect, China will likely be colder than normal temperature during winter. Given the high global LNG price caused by tighten gas supply in Europe, LNG spot price in Asia also exhibited a surge before winter, which raised market concerns for natural has supply outlook during winter. On one hand, cold winter will boost residential gas consumption which gas cost cannot be passed based on existing pricing mechanism in China; on the other hand, Chinese Government may choose to suppress industrial usage (gas cost can be easier pass-through) to secure residential gas supply in view of potential gas supply shortage. Either way, it will squeeze gas dollar margin, and city gas distributors had been revise down gas dollar margin guidance during recent announcement. We expect market to adjust gas distributors' earnings outlook based on winter gas supply-demand outlook, which could imply short term pressures to valuation.

Increasing concerns for operating safety

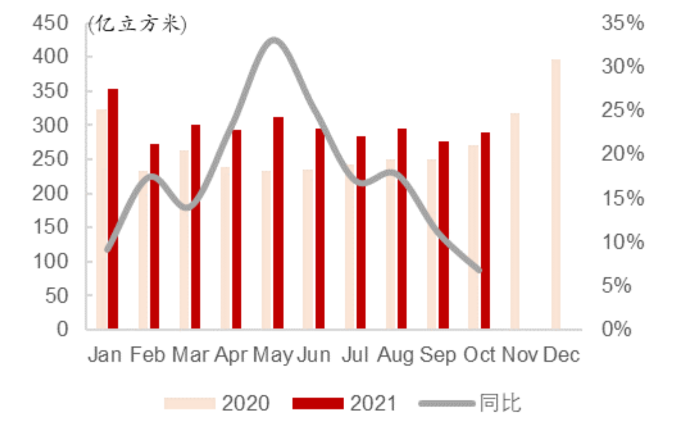
In 2021, several city gas explosion accident had raised market concerns for gas distributors' operational safety issue. After years of rapid development since 2000, some gas pipe aging and historical construction defect may pose increasing challenges to safety management. From capital market's perspective, safety management will also be a key matter of gas distributors' ESG image. Given tighten safety requirement by the government, we expect city gas distributors to increase input to safety controls, such as increasing safety personnel, IoT monitoring equipment, safety inspection equipment and etc. In the short run, we think those input could increase short term CAPEX; but in the long run, those safety investments will secure long term sustainable operation and cash flow generation.

Investment strategy

Based on short term concerns and long term optimistic outlook on the sector, we suggest investors to buy on dip for gas distributors leading in business transformation. Looking ahead in 2022, we expect overseas natural gas price to resume normal, which will likely to boost sector valuation. Our pecking order for China City Gas Distributor is ENN (2688 HK) > Tianlun Gas (1600 HK) > CR Gas (1193 HK) > China Gas Holdings (384 HK).

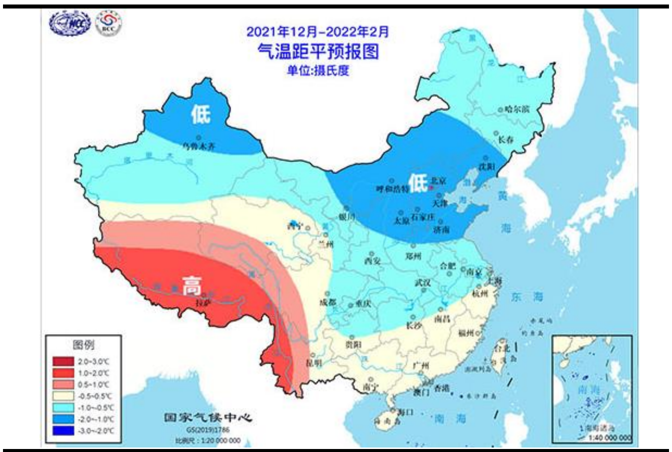
Focus Charts

Figure 144: China natural gas consumption maintained rapid growth in 2021



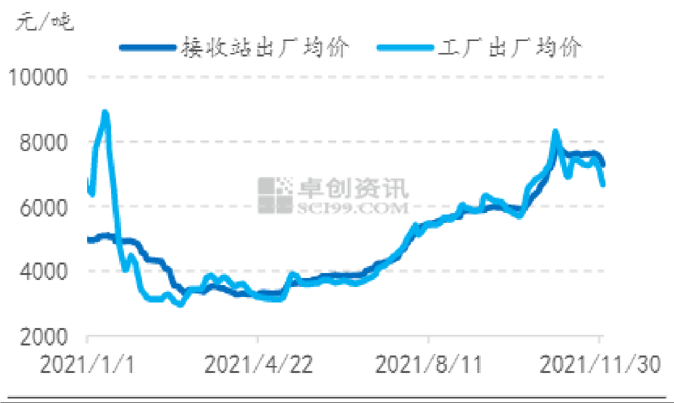
Source: Chongqing Petroleum and Gas Exchange, CMBIS

Figure 145: Northern China will be colder than normal in 20121/22 winter due to La Nina effect



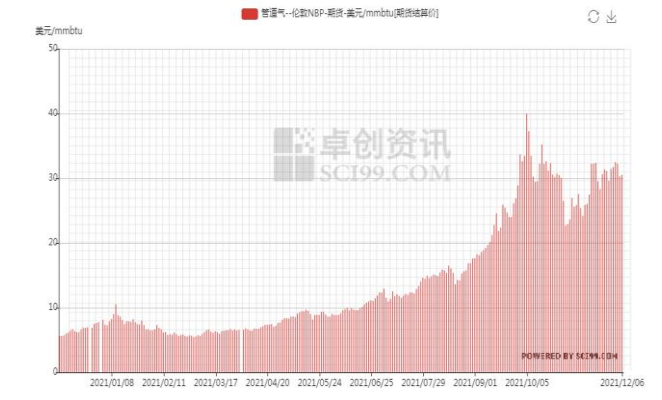
Source: China Meteorological Administration, CMBIS

Figure 146: Onshore LNG price and offshore LNG terminal price was higher than normal winter in 2021



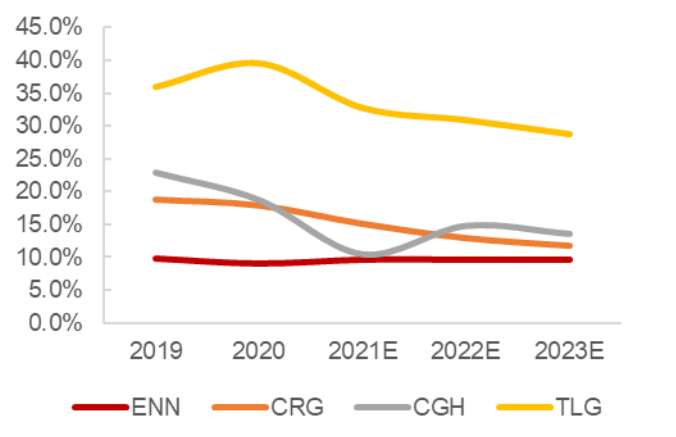
Source: SCI99

Figure 147: London NBP future at historical high range



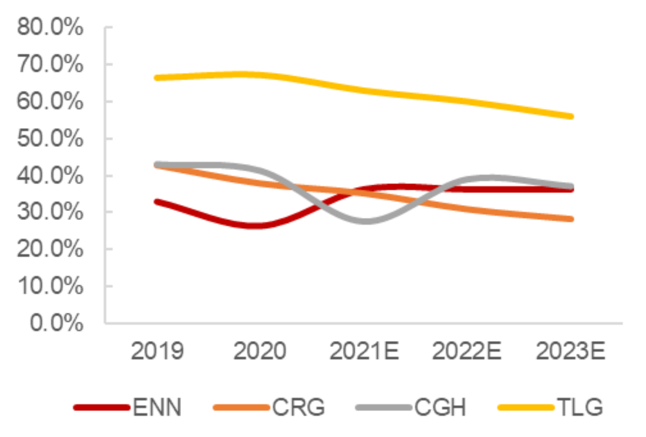
Source: SCI99

Figure 148: Gas connection revenue accounts for considerable proportion to gas distributors



Source: Company data, CMBIS estimates

Figure 149: Gas connection business contributed significant proportion to gross profit margin



Source: Company data, CMBIS estimates

Valuation

Figure 150: Peers' valuation

Company	Ticker	Closing Price (HK$)	Mkt cap (HK$mn)	EPS 20A	EPS 21E	EPS 22E	20-22E CAGR	PER FY0	PER FY1	PER FY2	PBR 19A	PBR 20E	PBR 21E
Cross-regional gas distributor													
ENN ENERGY	2688 HK	137.10	154,918	5.59	6.35	7.20	13.5%	17.1	17.6	15.5	3.9	3.6	3.1
CHINA RES GAS	1193 HK	40.55	93,833	2.31	2.73	3.02	14.4%	15.3	14.8	13.4	2.5	2.3	2.1
CHINA GAS HOLDIN	384 HK	14.64	81,044	2.01	1.82	2.11	2.4%	8.2	8.0	6.9	1.3	1.2	1.1
KUNLUN ENERGY	135 HK	7.49	64,854	0.70	0.58	0.65	-3.7%	29.4	10.6	9.4	1.0	1.0	0.9
TOWNGAS CHINA	1083 HK	5.85	18,485	0.50	0.56	0.60	10.4%	10.6	10.4	9.7	0.8	0.8	0.8
TIAN LUN GAS	1600 HK	7.92	7,949	1.04	1.03	1.14	4.8%	5.5	6.3	5.6	1.3	1.2	1.0
Average								**14.4**	**11.3**	**10.1**	**1.8**	**1.7**	**1.5**

Source: Bloomberg, CMBIS

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