

China Economics

Industrial Profit Growth May Slow to 13% in 2022

Total profits of China's mining, manufacturing and public utility industries grew 34.3% YoY in 2021 thanks to low base, strong exports and reflation effect. But the growth may slow to 13% in 2022 with supply-side improvement and demand-side weakening. The market consensus for China's industrial listed should also face downward pressure.

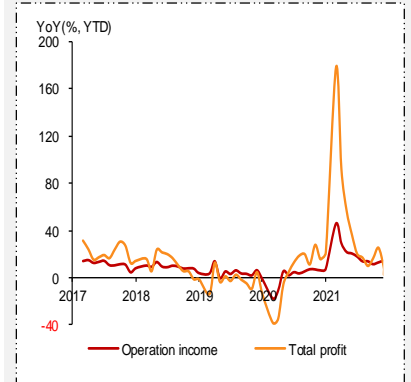
- **Strong growth of industrial profits in 2021.** The 2Y CAGR of China's industrial profits reached 18.2% in 2021, compared to a YoY growth of 4.1% in 2020 and a YoY decline of 3.3% in 2019. The operation income rose 19.4% YoY with the 2Y CAGR at 9.7% in 2021, versus the YoY growth at 0.8% in 2020 and 3.8% at 2019. Total profits as % of operation income rose from 5.9% in 2019 and 6.1% in 2020 to 6.8% in 2021.
- **Profit growth supported by low base, strong exports and reflation effects.** The strong growth of China's industrial profits in 2021 was mainly supported by low base, strong exports and reflation effects. The trade war in 2019 and the pandemic in 2020 caused a low base for 2021. Meanwhile, China's exports jumped by over 28% in 2021 amid overseas economic reopening and China's lead in supply-chain resumption. In addition, China's PPI increased by 8.2% in 2021, supporting industrial profits especially in upstream industries.
- **Divergence of profit growth in different sectors.** Coal, petroleum & gas, metals and chemical materials & products saw the strongest growth in profits thanks to low base, demand recovery and commodity reflation. Profit growth in medicines and computers & electronic equipment was also strong due to booming demand during the pandemic. But profit growth in auto, other transportation equipment, rubber & plastic products, furniture and textile was weak as the pandemic hit demand or disrupted supply chain in these sectors.
- **Gradual improvement of supply-side condition in 2022.** Supply shortage of materials, chips and shipping service may gradually ease as more countries especially in Southeast Asia emerge from the pandemic. Meanwhile, China's energy shortage should further alleviate as the country adjusts its energy saving policy. China focus on reductions of energy consumption per unit of GDP instead of total energy consumption. New energy use and traditional energy use as materials instead of fuel will not be include in the energy saving evaluation. In fact, prices of some commodities and shipping service as well as delivery time have started to decline in recent few months. Coal and material may be losers, while autos, electrical equipment and power generation may be beneficiaries in 2022.
- **But aggregate demand likely to see weakening in 2022.** For one thing, the resumption pace of global economy may decelerate as more countries exit loosening policy or tighten the policy in face of inflation. The Fed will lead developed countries in tapering, policy rate hikes and balance sheet reductions. Overseas demand for Chinese products should decline. China's market share in global exports may also mildly decline as overseas supply resumes. For another thing, China's fixed asset investment will continue to be dragged down by the property sector. China's property market bay bottom out from the stressed condition as early as in 2Q22 amid policy loosening. But it can hardly regain strong growth momentum. The deleveraging stress has

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Industrial Income & Profit Growth



destroyed property developers' confidence while the proposed property tax pilot program has lowered households' demand for housing. The fiscal policy may support a moderate rebounding of infrastructure investment, but the shrinkage of land income and local government debt control may restrain the upside room for infrastructure investment.

- **Industrial profit growth expected to slow to 13% in 2022.** The YoY growth of China's industrial profits may slow from 34.3% in 2021 to 13% in 2022. Coal, metal and chemical material may see the most significant slowdown, while power supply may experience a pick-up. Those sectors with stable demand and improvement of supply chain should have strong profit growth in 2022.

Figure 1: Operation Income Growth of China's Industries

	YoY(%)						2Y CAGR(%)		
	2019	2020	2021	1H21	3Q21	4Q21	1H21	3Q21	4Q21
Mining	2.9	(8.2)	41.9	29.5	47.3	55.8	7.2	15.4	23.6
Coal	3.2	(8.4)	58.3	30.9	68.5	90.8	7.4	21.5	39.1
Petroleum & Natural Gas	(0.8)	(20.1)	35.9	27.9	44.1	42.8	0.4	7.2	8.3
Ferrous Metal Ores	11.1	11.2	34.3	57.2	35.7	3.5	27.1	24.3	12.1
Non-ferrous Metal Ores	(4.6)	(3.2)	14.8	20.9	6.2	13.6	5.7	5.7	4.8
Non-metal Minerals	2.4	(1.3)	10.3	19.8	(1.7)	8.1	7.5	(0.1)	3.6
Mining Specialties & Auxiliary Activities	16.9	(7.9)	2.7	(4.3)	11.4	6.5	(4.1)	(4.1)	(0.1)
Manufacturing	3.7	1.1	18.8	28.7	11.3	11.3	10.5	8.6	9.0
Agricultural product processing	4.0	2.2	12.6	18.8	5.6	9.3	9.4	5.5	5.5
Food	4.2	1.6	10.0	12.6	4.5	10.7	6.6	4.8	5.1
Liquor, Beverage & Tea	5.0	(2.6)	13.1	18.3	3.4	12.3	5.2	3.2	5.9
Tobacco	6.1	3.1	6.6	7.9	5.4	4.4	6.9	4.4	(0.4)
Textile	(1.8)	(6.7)	10.0	18.9	3.2	3.8	0.2	1.0	3.4
Textile Apparel	(3.4)	(11.3)	6.5	13.0	2.9	1.0	(2.8)	(3.1)	(2.6)
Leather, Furs & Related Products	(1.1)	(14.5)	8.2	11.8	3.0	7.5	(3.8)	(6.3)	(1.5)
Timbers, Wood & Rattan Products	0.6	(6.2)	12.5	20.5	1.0	11.4	4.7	(1.5)	3.5
Furniture	1.5	(6.0)	13.5	29.3	1.7	4.1	4.8	1.2	2.8
Paper & Paper Products	(3.0)	(2.2)	14.7	24.7	6.8	7.0	6.2	5.3	6.0
Recording Media Printing	1.6	(5.2)	10.3	18.8	3.2	5.1	3.7	0.9	1.4
Cultural, Educational & Sports Goods	2.0	(4.4)	15.6	27.2	3.9	10.6	4.5	4.1	7.0
Petroleum & Coal Processing	4.0	(13.4)	32.3	31.7	34.3	31.5	7.0	7.0	7.0
Chemical Materials & Products	(1.0)	(3.7)	31.1	35.4	28.2	27.0	10.3	12.8	15.4
Medicines	7.4	4.5	20.1	28.0	18.0	10.0	11.8	13.6	11.0
Chemical Fibres	4.0	(10.4)	27.8	35.0	30.4	15.3	5.0	11.5	6.5
Rubber & Plastic Products	2.0	(1.0)	12.9	25.0	4.5	3.6	7.6	3.1	5.0
Non-metallic Mineral Products	9.9	(0.1)	13.8	23.5	6.4	7.2	8.3	4.8	5.8
Ferrous Metal Smelting & Pressing	6.8	5.2	32.2	49.5	26.7	12.0	19.9	18.2	14.0
Non-ferrous Metal Smelting & Pressing	7.2	4.2	31.6	38.3	31.5	21.9	17.3	17.6	16.3
Metal Products	4.9	1.8	22.3	34.6	17.5	10.4	11.7	12.5	10.6
General Purpose Machinery	3.9	3.2	15.1	28.3	7.5	3.7	10.5	9.4	6.3
Special Purpose Machinery	6.3	7.6	12.8	25.1	3.1	2.6	12.6	8.0	7.8
Automobile	(1.8)	3.4	6.7	28.0	(14.2)	(3.2)	8.5	0.2	3.3
Railways, Ships, Aircrafts	4.5	(0.6)	11.1	20.5	4.1	5.2	6.5	4.8	3.3
Electrical Machinery & Equip	5.9	4.5	23.7	36.4	14.4	15.8	13.1	13.3	15.0
Computer, Telecom Equip & Electronics	4.5	8.3	14.7	22.1	7.2	11.2	13.0	9.6	10.8
Instruments & Meters	5.5	3.5	15.9	25.7	8.5	9.8	10.1	10.3	8.1
Public utility	6.7	1.1	15.5	18.4	11.1	15.0	7.3	7.2	10.2
Power	6.0	1.7	14.3	17.3	9.1	14.6	7.3	6.6	9.8
Gas	12.0	(5.4)	25.8	25.3	31.1	23.1	5.7	11.3	12.9
Water	8.5	6.9	13.0	20.6	10.1	5.5	10.3	9.9	9.3

Source: Wind, CMBIS

Figure 2: Total Profit Growth of China's Industries

	YoY(%)						2Y CAGR(%)		
	2019	2020	2021	1H21	3Q21	4Q21	1H21	3Q21	4Q21
Mining	1.7	(31.5)	190.7	133.0	207.4	276.8	16.5	48.3	88.1
Coal	(2.4)	(21.1)	212.7	113.8	277.5	294.8	21.3	64.8	105.3
Petroleum & Natural Gas	1.8	(83.2)	584.7	248.6	304.5		(2.3)	20.9	46.4
Ferrous Metal Ores	396.5	74.9	113.5	187.9	111.9	(30.1)	89.1	87.8	334.0
Non-ferrous Metal Ores	(28.8)	14.7	44.5	83.5	26.7	18.2	26.0	34.3	28.2
Non-metal Minerals	6.1	4.2	23.3	27.9	23.0	18.6	9.9	13.2	17.9
Mining Specialties & Auxiliary Activities	80.4	223.7		35.0	63.6		(15.5)	(48.4)	
Manufacturing	(5.2)	7.6	31.6	67.3	9.9	9.4	22.8	15.2	16.1
Agricultural product processing	3.9	5.9	(9.2)	5.4	(27.9)	(12.6)	10.0	(7.0)	(10.3)
Food	9.1	6.4	(0.1)	10.4	(18.4)	1.0	7.2	2.0	(1.7)
Liquor, Beverage & Tea	10.2	8.9	24.1	29.7	4.5	34.0	12.2	13.3	31.2
Tobacco	1.3	25.4	3.3	14.1	(16.3)	23.2	19.0	5.4	31.8
Textile	(10.9)	7.9	4.1	2.3	0.0	8.6	(1.7)	12.2	11.0
Textile Apparel	(9.8)	(21.3)	14.4	13.9	(4.4)	29.9	(9.1)	(10.6)	3.1
Leather, Furs & Related Products	(1.9)	(20.7)	1.5	13.5	(7.9)	(3.7)	(10.5)	(12.0)	(8.2)
Timbers, Wood & Rattan Products	(6.2)	(8.8)	13.1	13.8	2.1	19.0	(0.7)	(5.5)	8.5
Furniture	10.8	(11.1)	0.9	27.9	11.0	(24.6)	(5.3)	(0.6)	(8.9)
Paper & Paper Products	(9.1)	21.2	6.9	77.1	(21.5)	(31.5)	33.1	3.8	(4.1)
Recording Media Printing	4.1	(5.7)	(0.4)	11.8	(16.6)	(0.0)	(1.8)	(8.6)	(0.5)
Cultural, Educational & Sports Goods	9.9	(9.2)	19.2	25.5	8.4	20.4	(0.4)	(0.3)	11.8
Petroleum & Coal Processing	(42.5)	(26.5)	224.2	0.0		(66.1)		(71.0)	(30.6)
Chemical Materials & Products	(25.6)	20.9	87.8	176.8	69.6	28.6	37.0	35.9	132.4
Medicines	5.9	12.8	77.9	88.8	66.4	71.3	38.8	41.7	46.9
Chemical Fibres	(19.8)	(15.1)	149.2	387.5	216.1	12.9	68.3	58.1	12.7
Rubber & Plastic Products	12.0	24.4	(2.9)	24.9	(21.5)	(17.5)	19.3	1.3	4.4
Non-metallic Mineral Products	7.5	2.7	14.3	26.7	(1.7)	13.5	7.6	4.5	12.5
Ferrous Metal Smelting & Pressing	(37.6)	(7.5)	75.5	234.1	42.5	(37.4)	41.2	40.7	(13.6)
Non-ferrous Metal Smelting & Pressing	1.2	20.3	115.9	272.8	77.6	46.6	62.2	65.7	55.2
Metal Products	5.9	4.1	28.7	52.3	15.1	17.8	16.3	15.1	15.6
General Purpose Machinery	3.7	13.0	8.3	34.5	(5.0)	(11.0)	15.3	12.2	2.5
Special Purpose Machinery	12.9	24.4	10.2	31.0	(10.1)	(5.3)	25.7	6.4	10.5
Automobile	(15.9)	4.0	1.9	45.2	(48.0)	3.7	7.3	(10.3)	5.2
Railways, Ships, Aircrafts	11.9	(1.5)	(15.9)	11.6	(4.8)	(53.2)	3.1	2.5	(33.4)
Electrical Machinery & Equip	10.8	6.0	12.2	36.1	(8.0)	4.7	12.9	3.6	8.6
Computer, Telecom Equip & Electronics	3.1	17.2	38.9	45.2	28.8	39.3	35.9	14.3	29.6
Instruments & Meters	5.9	11.6	11.0	25.1	1.0	4.5	13.4	14.8	6.5
Public utility	15.4	4.9	(41.9)	16.9	(56.9)		3.3	(27.4)	
Power	19.0	3.4	(57.1)	9.5	(68.4)		(0.5)	(37.8)	
Gas	0.6	7.7	18.4	48.5	0.8	(9.1)	19.4	4.1	8.2
Water	5.6	16.5	4.8	44.6	(14.8)	(11.4)	15.3	10.0	4.2

Source: Wind, CMBIS

Figure 3: Operation Margin of China's Industries

(%)	2018	2019	2020	2021	1Q21	2Q21	3Q21	4Q21
Mining	12.1	11.8	9.0	17.9	14.6	18.7	21.4	16.3
Coal	12.0	11.5	11.4	20.1	14.7	19.6	23.2	20.7
Petroleum & Natural Gas	20.4	19.6	1.9	20.8	20.7	25.3	24.2	13.9
Ferrous Metal Ores	4.0	6.7	10.2	14.1	12.6	16.9	20.9	4.0
Non-ferrous Metal Ores	11.3	9.2	13.5	15.9	15.6	17.7	19.4	11.7
Non-metal Minerals	7.9	8.7	9.3	9.4	8.2	10.6	11.9	7.2
Mining Specialties & Auxiliary Activities	(2.0)	1.2	0.6	(0.4)	(1.9)	1.6	(0.5)	(1.0)
Manufacturing	5.9	5.4	5.7	5.7	6.2	7.0	6.1	4.0
Agricultural product processing	4.3	3.9	4.1	2.8	3.7	2.8	2.6	2.2
Food	8.1	8.5	8.9	6.6	7.9	7.4	6.8	4.6
Liquor, Beverage & Tea	13.3	14.3	16.1	14.3	18.6	16.0	16.3	6.8
Tobacco	8.9	8.4	10.2	12.0	15.0	13.7	10.2	6.5
Textile	4.3	4.0	4.5	3.7	3.0	4.0	4.3	3.4
Textile Apparel	5.6	5.3	4.5	4.3	3.7	4.2	4.5	4.7
Leather, Furs, Down & Related Products	5.8	5.7	5.3	4.4	4.8	4.5	5.6	2.9
Timbers, Wood, Bamboo & Rattan Products	5.0	4.2	3.9	3.2	3.0	3.7	3.4	2.9
Furniture	5.9	6.3	5.8	4.7	4.0	5.1	6.0	3.7
Paper & Paper Products	5.0	4.6	5.8	4.9	6.9	5.9	3.9	3.1
Printing, Reproduction of Recording Media	6.3	6.3	6.1	4.6	4.4	5.5	5.0	3.8
Cultural, Educational & Sports Goods	5.1	5.0	4.9	4.2	4.0	4.4	4.7	3.9
Petroleum, Coal & Other Fuel Processing	4.8	2.7	2.1	5.3	7.5	6.6	5.0	2.7
Chemical Materials & Products	6.9	5.1	6.5	8.9	9.5	10.0	9.8	6.7
Medicines	12.4	12.8	13.8	18.5	17.4	24.7	21.0	11.4
Chemical Fibres	4.5	3.4	3.0	5.7	6.2	7.2	5.3	4.3
Rubber & Plastic Products	4.9	5.2	6.6	5.0	6.1	5.5	5.2	3.4
Non-metallic Mineral Products	8.5	8.3	8.3	7.4	6.5	8.7	7.9	6.6
Ferrous Metal Smelting & Pressing	6.2	3.7	3.1	4.4	4.2	6.8	4.0	2.4
Non-ferrous Metal Smelting & Pressing	2.6	2.1	2.5	3.9	3.6	4.4	4.5	3.2
Metal Products	4.5	4.4	4.3	4.0	3.8	4.4	4.2	3.7
General Purpose Machinery	6.3	6.0	6.8	5.8	6.2	7.0	6.4	4.0
Special Purpose Machinery	6.4	7.1	8.3	6.7	8.4	8.6	6.1	4.1
Automobile	7.1	6.1	6.2	5.4	6.1	7.0	4.8	3.7
Railways, Ships, Aircrafts	5.2	5.1	5.2	4.1	3.8	5.0	4.7	3.2
Electrical Machinery & Equip	5.5	5.6	5.6	4.6	4.8	5.3	5.1	3.6
Computer, Telecom Equip & Electronics	4.3	4.3	4.7	4.7	4.5	6.1	5.6	3.0
Instruments & Meters	9.0	9.2	10.2	8.9	7.6	10.9	10.7	6.7
Public utility	5.3	5.8	6.1	3.7	5.9	5.9	2.9	0.8
Power	4.9	5.6	5.7	3.0	5.6	5.0	2.0	0.1
Gas	7.6	6.6	7.6	6.2	7.5	9.7	6.5	2.7
Water	8.4	8.5	9.5	9.3	6.0	12.3	12.3	6.6

Source: Wind, CMBIS

Figure 4: Market Consensus for EPS Growth and PE for A Share Industrial Companies

	EPS YoY(%)		PE	
	2021F	2022F	2021F	2022F
Mining	153.2	10.9	9.6	8.9
Coal	112.6	7.1	7.2	6.6
Petroleum & Natural Gas	242.9	4.9	8.9	8.5
Ferrous Metal Ores	111.8	24.4	16.3	13.1
Non-ferrous Metal Ores	136.8	37.5	17.9	15.0
Non-metal Minerals	9.5	54.0	37.3	24.2
Mining Specialties & Auxiliary Activities	215.8	42.1	25.3	17.8
Manufacturing	138.2	26.5	24.8	20.0
Agricultural product processing	(39.3)	80.1	34.5	24.2
Food	57.0	23.4	34.2	27.8
Liquor, Beverage & Tea	52.6	21.1	42.1	34.7
Textile	174.0	20.9	16.1	13.4
Textile Apparel	288.4	26.2	15.6	12.6
Furniture	155.2	28.8	21.7	16.8
Paper & Paper Products	91.3	19.3	11.9	10.0
Printing, Reproduction of Recording Media	98.3	25.1	23.3	18.6
Cultural, Educational & Sports Goods	199.8	34.8	33.7	25.0
Petroleum, Coal & Other Fuel Processing	232.6	10.7	10.6	9.5
Chemical Materials & Products	275.5	24.1	17.5	14.3
Medicines	231.3	33.9	27.9	22.2
Chemical Fibres	151.8	23.1	11.8	9.7
Rubber & Plastic Products	106.0	20.2	25.4	21.1
Non-metallic Mineral Products	59.0	18.7	14.1	12.4
Ferrous Metal Smelting & Pressing	180.9	11.4	6.1	6.1
Non-ferrous Metal Smelting & Pressing	266.2	37.0	23.1	16.7
Metal Products	96.6	19.9	18.7	15.6
General Purpose Machinery	149.5	30.0	27.2	21.1
Special Purpose Machinery	128.1	25.0	28.5	22.9
Automobile	149.6	33.6	23.9	20.2
Railways, Ships, Aircrafts	52.1	22.0	36.3	29.6
Electrical Machinery & Equip	155.9	34.7	33.2	24.8
Computer, Telecom Equip & Electronics	157.0	27.3	28.3	22.8
Instruments & Meters	82.9	39.5	31.3	22.9
Public utility	(5.3)	48.5	18.8	14.9
Power	(14.6)	54.7	19.6	15.2
Gas	287.9	0.4	16.5	14.5
Water	20.6	11.7	11.2	10.1

Source: Wind, CMBIS

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