農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Hong Kong Stock Market Weekly Review

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19/4/2024

- **FTSE China A50 Index Outperforms Mainland China and Hong Kong Benchmark Indices YTD**
- **Strong Exports in Home Appliances**
- **Exports of battery electric vehicles plummeted, but exports of hybrid electric vehicles surged**
- **Industries Entrepreneurs Invest In and Avoid**
- **Overcapacity Issues are Prominent in Some Industries**
- **Nearly RMB 4tr in Funds Trapped due to Accumulation of Unsold Completed Housing**

1. FTSE China A50 Index Outperforms Mainland China and Hong Kong Benchmark Indices YTD

The rise of the FTSE China A50 Index has boosted the performance of various A50 ETFs listed on the Hong Kong stock market or the A-share market. These ETFs are now outperforming other major index-tracking ETFs.

This week, the China A50 Index reached a new high for the year. It has outperformed both the CSI 300 Index and the HSI on a YTD basis or from Apr onwards. From end-2023 to Apr 18, 2024, the China A50 Index has risen by ~6.9%. During the same period, HSI fell by 3.9%, and the CSI 300 Index increased by 4.0%. Since the beginning of 2Q24, the China A50 Index has gained 0.3%. In contrast, HSI has decreased by 3.2%, and the CSI 300 Index has dropped by 0.3%.

Since the start of the year, the China A50 Index's rise has been driven by gains in sectors like state-owned commercial banks, energy resources, and home appliances. In contrast, declines in insurance, brokerages, pharmaceuticals, and solar energy sectors have tempered these gains, reflecting shifts in investor asset allocation preferences.

Banks may revise their dividend policies to allow multiple distributions per year. This week, heavyweight A-share banks reached 52-week highs. Despite analyst concerns about potential revenue challenges from narrower interest margins, some major state-owned and city commercial banks also hit new 52-week highs. Regulatory bodies are pushing for more frequent dividend distributions. High-dividend-paying commercial banks might switch from annual to quarterly or semi-annual dividends, likely attracting more long-term investors. Additionally, Central Huijin's increased investments in the four major state-owned commercial banks have boosted market confidence in consistent dividend returns. This week, four out of the six major state-owned banks reached new 52-week highs in their A-share prices; also, Hua Xia Bank A (600015 CH), Bank of Beijing (601169 CH), Bank of Shanghai A (601229 CH), and Bank of Jiangsu A (600919 CH) reached new 52-week highs.

Conversely, some major brokerage stocks hit new 52-week lows this week. The PBOC reported that equity financing by non-financial corporations in 1Q24 was RMB 76.3bn, down

RMB 138.6bn YoY. Regulatory authorities are also considering raising A-share IPO listing thresholds, potentially impacting the investment banking prospects of large brokerages in the near to medium term. This week, CITIC Securities A (600030 CH), GF Securities A (000776 CH), Guotai Junan A (601211 CH), Haitong Securities A (600837 CH), and Orient Securities A (600958 CH) all reached new 52-week lows.

The real estate sector is still suffering from weak sales and falling prices, which are dragging down real estate stocks. Persistent financial issues at Vanke, along with continued weak sales and falling house prices as reported by companies and the National Bureau of Statistics, are affecting the market. This week, Vanke A (000002 CH) and Poly Development A (600048 CH) hit new 52-week lows. Additionally, there are growing concerns that risks in the housing market could spread to insurance companies. In the financial sector, despite the challenges faced by insurers and brokerages, bank stocks are currently favored by investors.

In 2Q24, international crude oil prices climbed to over $80 per barrel, compared to around $65-$75 per barrel in the same quarter last year. This increase has bolstered market optimism about the profit prospects of oil exploration companies, enhancing their stock performance.

2. Strong Exports in Home Appliances

Despite governmental efforts to boost domestic consumption through incentives for household appliance replacement, the retail sales of home appliances and audio-visual equipment modestly increased by 5.8% YoY in 1Q24, surpassing the overall national retail growth rate by 1.1 ppt.

The most notable success in the home appliance industry appears to be in the export market. The growth rate of home appliance exports has notably accelerated in 1Q24 compared to the same period last year. In 1Q24, home appliance exports, measured in RMB, rose by 15.9% YoY, with a 23.7% increase in volume; exports of audio and video equipment and their parts also saw a 9.0% YoY increase. For comparison, in 2023, home appliance exports increased by 9.9% YoY, with an 11.2% increase in volume; exports of audio and video equipment and their parts grew by 0.9% in 1Q24 YoY.

The trend in average export prices indicates underlying concerns in the household appliance industry's export market. Most categories of household appliances saw declines in average export prices, which are also relatively low. This suggests that the purchasing power in importing countries is weak, leading to intense price competition among exported products.

Exhibit 1: Home Appliance Export Trends - Continuing Recovery in Exports

YoY（%）	Amount 2022	Amount 2023	Amount 1Q 2024	Volume 2022	Volume 2023	Volume 1Q 2024
Home Appliances	-10.9	**9.9**	**15.9**	-13.0	**11.2**	**23.7**
Refrigerator	-21.1	14.0	33.2	-22.9	22.4	34.4
Washing Machine	-4.7	25.9	25.1	-5.9	39.8	30.0
Vacuum Cleaner	-17.8	8.7	20.9	-25.1	20.0	28.5
Electric Fan	6.9	10.1	18.9	-2.8	24.4	39.6
Television	-19.0	16.3	9.4	10.0	7.5	-1.4
Microwave Oven	-8.2	3.0	6.6	-16.7	8.7	10.5
Air Conditioner	-3.4	2.6	5.6	-13.0	4.6	11.2
Others	-8.9	8.0	16.6	-13.9	8.9	21.7

Note: Export Value Changes Calculated in RMB; Source(s): China Customs, ABCI Securities

Exhibit 2: Average Export Price Trend for Household Appliances
Apart from televisions, the average export prices of other major household appliances show a declining trend, or there is an increase in the proportion of exports for low-priced categories

（RMB/unit）	ASP 2022	ASP 2023	YoY（%）	ASP 1Q 2024	YoY（%）
Home Appliances	169	166	-1.6	167	-7.2
Television	912	987	8.3	1,021	11.5
Air Conditioner	1,100	1,079	-1.9	973	-5.0
Refrigerator	941	875	-7.0	887	-1.2
Washing Machine	933	840	-10.0	843	-3.9
Microwave Oven	376	356	-5.3	361	-3.7
Vacuum Cleaner	291	264	-9.4	261	-6.2
Electric Fan	108	94	-13.2	84	-19.7
Others	101	100	-1.9	98	-6.8

Note: Export Value Changes Calculated in RMB; Source(s): China Customs, ABCI Securities

3. Exports of battery electric vehicles plummeted, but exports of hybrid electric vehicles surged

The export strategies of electric vehicle companies have notably evolved, potentially due to the limited charging infrastructure available in importing countries. According to China Customs data for 1Q24:

(1) The export value of battery electric vehicles (BEVs) increased modestly by 2.3% YoY, while their export volume grew by 13.0%.
(2) Plug-in hybrid electric vehicles (PHEVs) surged in export value, up by 127.1% YoY, with an export volume increase of 110.7%.
(3) Hybrid electric vehicles (HEVs) without plug-in capability saw their export value skyrocket by 637.2% YoY, and their export volume expanded by 486.8%.

These substantial differences in export growth rates across the three categories of electric passenger vehicles not only suggest adjustments in the export strategies of automakers but also reflect diverse demands for these types of vehicles in different importing countries. Additionally, following a considerable increase in the export volume of BEVs in recent years, the baseline has become relatively high, making a deceleration in growth understandable. Nevertheless, the abrupt and steep decline in growth rate in 1Q24 has captured the attention of investors.

Exports of non-BEVs have shown robust performance, reflecting strong demand for PHEVs and HEVs in importing countries. The experience in the Chinese market suggests that inadequate charging infrastructure can suppress the growth in demand for BEVs, thereby boosting the demand for PHEVs and HEVs. In China, both BEVs and PHEVs are categorized as new energy vehicles and benefit from governmental support. However, HEVs are not classified under this category.

Internationally, BEVs, PHEVs, and HEVs are all recognized as electric vehicles. HEVs are particularly favored by consumers and supported by governments in some countries, which contributes to their substantial export growth.

We can expect intense competition among these three categories of electric passenger vehicles in international markets. Nevertheless, China's automobile export industry overall continues to reap benefits from these dynamics.

Exhibit 3: Electric Passenger Vehicle Exports: Notable Differences in Growth Rates

YoY（%）	Amount 2022	Amount 2023	Amount 1Q 2024	Volume 2022	Volume 2023	Volume 1Q 2024
Electric Passenger Vehicles	133.2	80.2	22.2	92.1	67.1	28.5
Passenger Cars:						
Non-Plug-In Hybrid Electric Vehicles	*179.2*	*485.3*	*637.2*	*98.0*	*361.7*	*486.8*
Plug-In Hybrid Electric Vehicles	*84.0*	*78.9*	*127.1*	*118.8*	*46.4*	*110.7*
Battery Electric Vehicles	*145.3*	*76.4*	*2.3*	*89.4*	*64.1*	*13.0*
Buses:						
Hybrid Electric Buses (10 seats and above)	*59.0*	*-49.9*	*18,346.7*	*92.0*	*-50.8*	*1,700.0*
Battery Electric Buses (10 seats and above)	*80.9*	*57.3*	*32.3*	*142.1*	*42.4*	*-19.6*

Note: Export Value Changes Calculated in RMB; Source(s): China Customs, ABCI Securities

Exhibit 4: Trend of Average Export Price for Electric Vehicles

（RMB/unit）	2023	YoY (%)	1Q 2024	YoY (%)
Electric Passenger Vehicles	166,168	8.1	161,581	-4.7
Passenger Cars:				
Non-Plug-In Hybrid Electric Vehicles	146,551	26.8	151,427	25.7
Plug-In Hybrid Electric Vehicles	220,661	22.2	215,090	7.9
Battery Electric Vehicles	155,459	7.8	147,430	-9.2
Buses:				
Hybrid Electric Buses (10 seats and above)	952,434	1.8	1,131,667	928.8
Battery Electric Buses (10 seats and above)	1,227,309	10.5	1,713,006	62.0

Note: Export Value Changes Calculated in RMB; Source(s): China Customs, ABCI Securities

4. Industries Entrepreneurs Invest In and Avoid

Market surveys assess economic or industry outlooks, with fixed asset investment growth rates in various industries being a key metric. Entrepreneurs increase investments in sectors they are optimistic about and hold back in sectors where they are cautious. They also monitor industry capacity utilization rates; high or improving rates encourage further investment in capacity expansion, while low or declining rates discourage it.

Exhibit 5: Fixed Asset Investment (Excl. rural, % YoY)

Period	2023	1-3/2023	1-3/2024
Manufacturing	**6.5**	**7.0**	**9.9**
Of which:			
Railway, ship, aerospace & other transport equip	3.1	-7.9	24.8
Foods	12.5	5.8	19.0
Smelting & processing of non-ferrous metal	12.5	10.8	18.8
Processing of food from agricultural & sideline products	7.7	10.1	17.4
Metal products	3.5	2.2	16.1
Computers, communication equip & other electronic products	9.3	14.5	14.3
Special purpose machinery	10.4	10.6	14.1
General purpose machinery	4.8	7.6	13.9
Electrical machinery & appliances	32.2	43.1	13.9
Textile	-0.4	-4.3	12.4
Raw chemical materials & chemical products	13.4	19.2	11.9
Pharmaceuticals	1.8	-1.9	8.5
Automobiles	19.4	19.0	7.4
Mining	**2.1**	**0.6**	**18.5**
Production and supply of electricity, heat power, gas and water	**23.0**	**22.3**	**29.1**
Transport, storage and post	**10.5**	**8.9**	**7.9**
Railway transport	25.2	17.6	17.6
Road transport	-0.7	8.5	3.6

Source(s): NBS, ABCI Securities

In the manufacturing sector, 1Q24 fixed asset investment growth accelerated compared to last year in several industries, including railway, ship, aerospace and other transportation equipment, food, non-ferrous metal smelting and processing, agricultural and sideline food processing, metal products, electronics, special purpose machinery, general purpose machinery, textile, and pharmaceuticals. The YoY growth rates were as follows: 24.8%, 19.0%, 18.8%, 17.4%, 16.1%, 14.3%, 14.1%, 13.9%, 12.4%, and 8.5%.

Conversely, in 1Q24, fixed asset investment growth significantly slowed in the automotive and electrical machinery and appliance manufacturing industries. The YoY growth rate in automotive manufacturing plummeted from 19.4% in 2023 to 7.4% in 1Q24. Similarly, in electrical machinery and appliance manufacturing, the growth rate fell from 32.2% in 2023 to 13.9% in 1Q24. High rates of investment and capacity expansion in these industries in 2023 led to reduced capacity utilization rates, which in turn discouraged further investment this year. Automotive manufacturing's capacity utilization dropped from 72.0% in 1Q23 and 76.9% in 4Q23 to 64.9% in 1Q24. For electrical machinery and appliance manufacturing, it declined from 75.8% in 1Q23 and 77.1% in 4Q23 to 72.7% 1Q24.

Entrepreneurs are ramping up investments in the food industry supply chain. In 1Q24, the food manufacturing industry and the processing of agricultural and sideline food products saw fixed asset investment increases of 19.0% and 17.4% YoY, respectively. It's important to note that despite the low capacity utilization rate in the food manufacturing sector, which stood at 71.3% in 4Q23 and decreased to 69.1% in 1Q24, aggressive investments are likely to lead to overcapacity and heightened market competition in the future.

Pharmaceutical companies are shifting towards a more optimistic outlook. In 1Q24, fixed asset investment in the pharmaceutical manufacturing industry increased by 8.5% YoY, compared to 1.8% growth observed in 2023. Over the past five quarters, the industry has sustained a high capacity utilization rate, recording 75.2% in 1Q23, 75.4% in 4Q23, and 76.0% in 1Q24.

Meanwhile, the sectors of electricity, heat, gas, and water production and supply have experienced robust growth in fixed asset investments, with YoY increases of 23.0% in 2023 and 29.1% in 1Q24. This robust growth is beneficial for upstream machinery and equipment suppliers. However, the surge in investments has led to an enhanced supply capacity, resulting in a decrease in capacity utilization from 74.4% in 4Q23 to 71.2% in 1Q24.

The railway transport sector has also maintained strong investment levels, with a YoY growth of 25.2% in 2023 and 17.6% in 1Q24. This continued investment growth is favorable news for upstream equipment suppliers, including locomotive and construction machinery providers.

5. Overcapacity Issues are Prominent in Some Industries

In Mar 2024, the government's work report highlighted overcapacity issues in certain sectors. This week, the National Bureau of Statistics (NBS) released 1Q24 capacity utilization data, enabling a more informed market risk assessment.

The problem of overcapacity is pronounced in some industries. In IQ24, industrial value added grew by 6.1% YoY. The manufacturing sector saw a 6.7% increase. However, the average industrial capacity utilization rate decreased from 74.3% in 1Q23 and 75.9% at end-2023 to 73.6 in 1Q24. In manufacturing, the rate fell from 74.5% in 1Q23 and 76.0% in 4Q23 to 73.8% in 1Q24. This gap between industrial value-added growth and capacity utilization decline suggests that capacity growth outpaces output growth.

This trend is not entirely negative. A reduction in capacity utilization could temporarily lower profit margins. However, increased capacity sets the stage for future output growth. Producers must now secure new business orders to boost capacity utilization. In sectors with low utilization, intense competition for new orders often leads to price wars. Industries with significant declines in capacity utilization in 1Q24 include automotive manufacturing, non-metallic mineral products, electrical machinery and equipment, and computer, communication, and other electronic equipment manufacturing, along with food manufacturing. A decrease in capacity utilization typically results in higher per-unit production costs and could lead to lower per-unit sales prices, posing challenges for manufacturers.

Exhibit 6: Utilization rate of industrial capacity（%）

	2019-2023 Quarterly avg	1Q 2024	Chg (ppt)
Industry	**75.8**	**73.6**	**(2.2)**
Of which：			
Mining & quarrying	75.0	75.0	0.0
Production and distribution of electricity, heating power, gas & water	72.8	71.2	(1.7)
Manufacturing	**76.1**	**73.8**	**(2.3)**
Chemical fibers	83.0	85.6	2.7
Textile	76.8	78.0	1.2
Chemical raw material & chemical products	75.9	76.4	0.5
Medicines	75.8	76.0	0.2
General-purpose machinery	78.9	78.2	(0.8)
Non-ferrous Metals	79.3	78.2	(1.1)
Special-purpose machinery	78.1	77.0	(1.1)
Ferrous metal smelting & pressing	78.4	77.3	(1.1)
Foods	71.8	69.1	(2.7)
Computer, communication equipment & other electronic equipment	78.2	74.7	(3.5)
Electric machinery & equipment	78.4	72.7	(5.7)
Non-metal mineral products	67.8	62.0	(5.8)
Automobiles	74.3	64.9	(9.4)

Industries with large declines in utilization rate

Note: Capacity utilization rate is low based on its historical average and absolute values.
Source(s)：NBS, ABCI Securities

Capacity utilization rate of selected manufacturing industries

Exhibit 7: Automobiles (%)

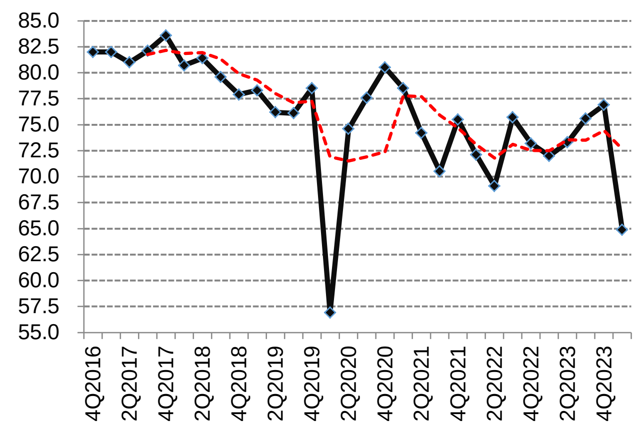


Exhibit 8 : Electric machinery & equipment (%)

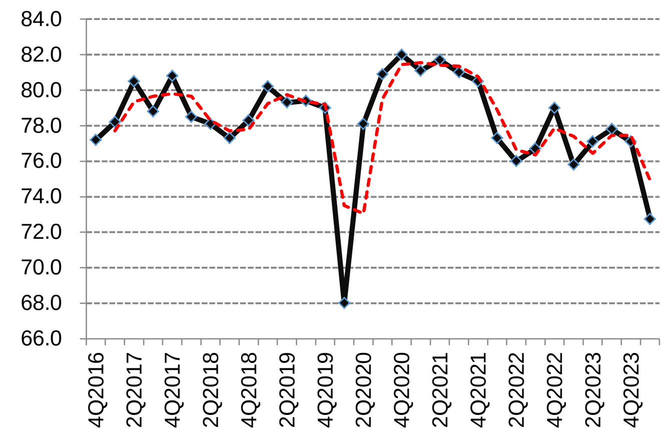


Exhibit 9: Non-metal mineral products (%)

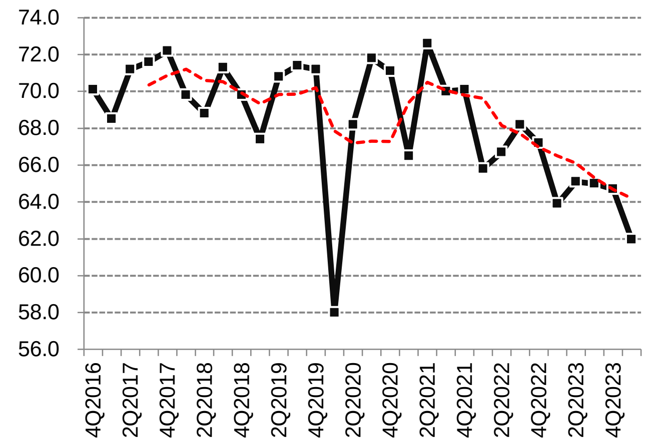


Exhibit 10: Computer, communication equipment & other electronic equipment (%)

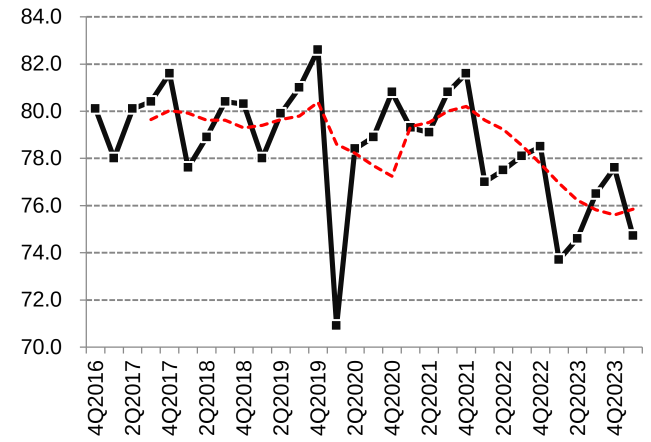


Exhibit 11: Foods (%)

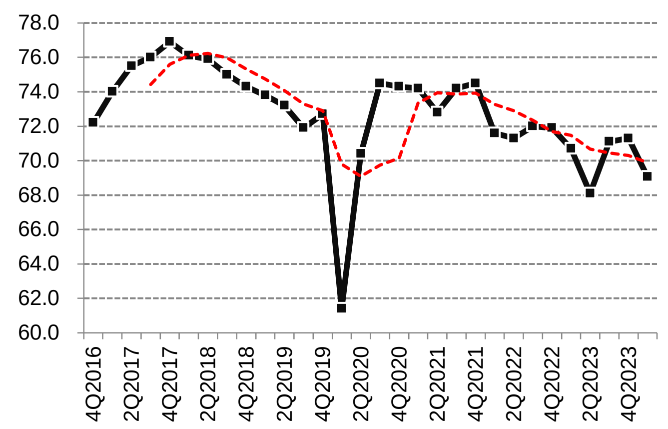
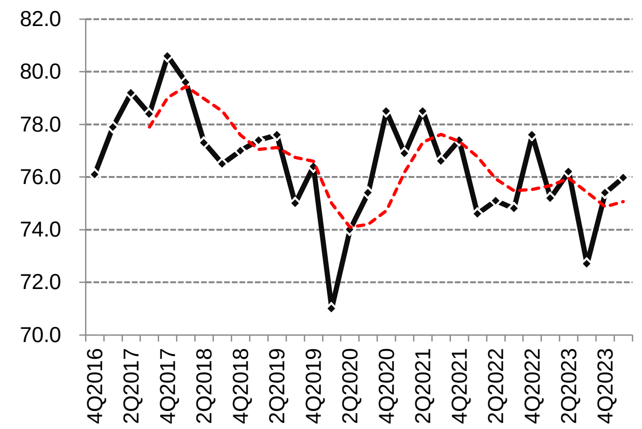


Exhibit 12: Pharmaceuticals (%)



Red line: four-quarter avg; Source(s): NBS, ABCI Securities

6. Nearly RMB 4tr in Funds Trapped due to Accumulation of Unsold Completed Housing

From 2022 to 2023, concerns grew that financially troubled developers might not complete pre-sold properties, risking unfinished projects. This risk has been largely mitigated through support from government and financial institution policies. However, a new challenge has emerged: a significant increase in the inventory of completed but unsold housing. According to the NBS, as of the end-Mar in 2024, the area of completed but unsold residential properties reached 394.58mn sqm. This represents a 23.9% increase YoY and a 19.1% rise from end-2023. In 1Q24, the average monthly sales volume was 46.15mn sqm for pre-sold properties and 16.985mn sqm for existing properties. With the current monthly sales averaging about 17mn sqm for existing properties, it could take about 23.2 months, or nearly two years, to clear the 394.58mn sqm of completed but unsold residential properties.

The significant rise in completed but unsold residential properties shows that many developers have substantial capital tied up in these homes. In 1Q24, sales of new commercial residential properties totaled RMB 1.85tr across 189mn square meters, averaging RMB 9779 per sqm. By the end of Mar, there were 394.58mn sqm of unsold existing residential properties. At an average price of RMB 9800 per sqm, this equates to about RMB 3.9tr of developers' and financial institutions' capital being locked in.

The rate at which developers are recouping cash from home sales has significantly slowed. This indicates that many large developers have faced liquidity issues since the start of 2024. To address this, developers might need to drastically reduce prices of existing homes to accelerate cash recovery. This could place downward pressure on pre-sold home prices.

There is direct competition between secondary and new existing homes, likely causing both to face price reductions. As second-hand homes may be of lower quality than new homes, they are expected to see larger price drops. Mar data from NBS also showed that the decline in second-hand residential property prices was sharper than that of new homes.

Exhibit 13: Home price changes in Mar 2024

	1st tier cities		2nd tier cities		3rd tier cities	
	New home	Existing home	New home	Existing home	New home	Existing home
Price chg (YoY)	-1.5%	-7.3%	-2.0%	-5.9%	-3.4%	-5.7%
Price chg (MoM)	-0.1%	-0.7%	-0.3%	-0.5%	-0.4%	-0.5%

Source(s): NBS, ABCI Securities

Exhibit 14: Sales performance of main property developers in 1Q24: Sales Declines of Some Developers Surpass National Average:

Contracted sales value	RMB 100mn	Chg (YoY)	Chg (QoQ)
Poly Development (600048 CH)	629.84	-44.8%	-27.7%
China Overseas (688 HK)	602.06	-28.0%	-14.9%
Vanke (2202 HK)	579.80	-42.8%	-39.3%
China Resources Land (1109 HK)	507.20	-35.8%	-30.2%
China Merchants Shekou (001979 CH)	402.08	-44.4%	-40.3%
National sales of buildings	21355	-27.6%	-22.5%
Of which, residential buildings	18523	-30.7%	-21.8%

Source(s): NBS, Company announcements (unaudited figures), ABCI Securities

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Rating	Definition
Buy	Stock return rate≥ Market return rate (~7%)
Hold	- Market return rate (~-7%) ≤ Stock return rate < Market return rate (~+7%)
Sell	Stock return < - Market return (~-7%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2005 (For reference: 2005-23 HSI total return index averaged at 7.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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