農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Hong Kong Stock Market Weekly Review

Apr 5, 2024

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- **Understanding consumer trends is key to choosing market-leading stocks**
- **Oil prices climb in early 2Q24; market eyes potential effects on interest rates and stocks**
- **Sustained growth in ASEAN's manufacturing sector positively impacts Chinese exports**

1. Understanding consumer trends is key to choosing market-leading stocks

According to the PBOC, household deposits in financial institutions reached RMB 142.7tr by end-Feb, amounting to 1.13 times China's 2023 nominal GDP, signaling robust potential buying power. For investors, it is crucial to grasp household consumption trends. In 2M24, retail sales of consumer goods rose by 5.5% YoY, while service retail sales jumped 12.3%, indicating that demand for services outpaced goods by a factor of two. The trend of consumer preference for services is expected to persist into 2Q24.

Apr and May's long holidays bode well for online travel platforms, with Trip.com Group (9961 HK) and Tongcheng Travel (780 HK) reaching 52-week highs in early Apr. Year-to-date, Meituan (3690 HK), Trip.com, and Tongcheng's stocks have soared 22%, 36%, and 44%, respectively, outperforming the economy hotel chain Huazhu Group (1179 HK)'s ~21% rise, and significantly eclipsing the Hang Seng Consumption Index's ~4% gain.

The NEV sector is experiencing notable splits. With the launch of Xiaomi's (1810 HK) first electric vehicle and its strong market reception, Xiaomi's shares hit a 52-week high. Xiaomi’s strong sales in NEV indicate a shift in market share from competitors. Meanwhile, Xpeng (9868 HK) and NIO (9866 HK) faced 52-week stock lows as the first week of Apr unfolded.

Bearish trends in Chinese real estate stocks persisted at the start of 2Q24, impacting pipeline gas stocks as well. Country Garden (2007 HK) halted trading due to delayed 2023 annual results, signaling auditors' heightened scrutiny over the viability of distressed developers. Asset valuations hinge on the assumption of ongoing operations, a premise that becomes precarious when a firm faces financial woes, raising audit risks. The sector's downturn saw several property giants, including Vanke (2202 HK), Agile Group (3383 HK), China Jinmao (817 HK), Midea Real Estate (3990 HK), and Sino-Ocean Group (3377 HK), touching 52-week lows in 2Q24's opening week. The ripple effect extends to natural gas utilities reliant on the real estate sector for pipeline connections. This key revenue stream diminishes as the property market cools. China Resources Gas (1193 HK) also experienced a 52-week low, reflecting these interconnected challenges.

2. Oil prices climb in early 2Q24; market eyes potential effects on interest rates and stocks

Crude oil prices shape global inflation and interest rate expectations. In the first week of 2Q24, US crude for May futures price hit ~US$ 87 per barrel, notably exceeding 1Q24/2Q23 averages.

In the past five quarters, US crude averaged US$ 72 per barrel in 1Q23, dipped to US$ 70 in 2Q23, climbed to US$ 78 in 3Q23 before edging down to US$ 77 in 4Q23. The average for 1Q24 was US$ 76 per barrel. In the last three months, prices rose from $74 in Jan 2024 to $76 in Feb, $80 in Mar.

The US will report Mar CPI on Apr 10, with Mar's average crude oil prices up nearly 14% YoY and 5% MoM, adding to inflationary pressures. Crude jumped from $70 per barrel in Mar 2023 to $80 in Mar 2024, a 14% YoY increase. With energy prices persisting above $80 per barrel, they are expected to remain a significant driver of inflation into Apr and possibly throughout 2Q24.

Should 2Q24 crude oil prices stay over US$ 80 per barrel, energy-driven inflation and its knock-on effects could notably shape inflation and interest rate forecasts. With crude strengthening, the Fed's rate cut may occur later than the market's current 60% expectation for June.

In Apr's first week, oil producers CNOOC (883 HK) and PetroChina H shares (857 HK) recorded 52-week highs, poised for robust YoY growth in exploration revenue and profit for 1Q24 and 1H24.

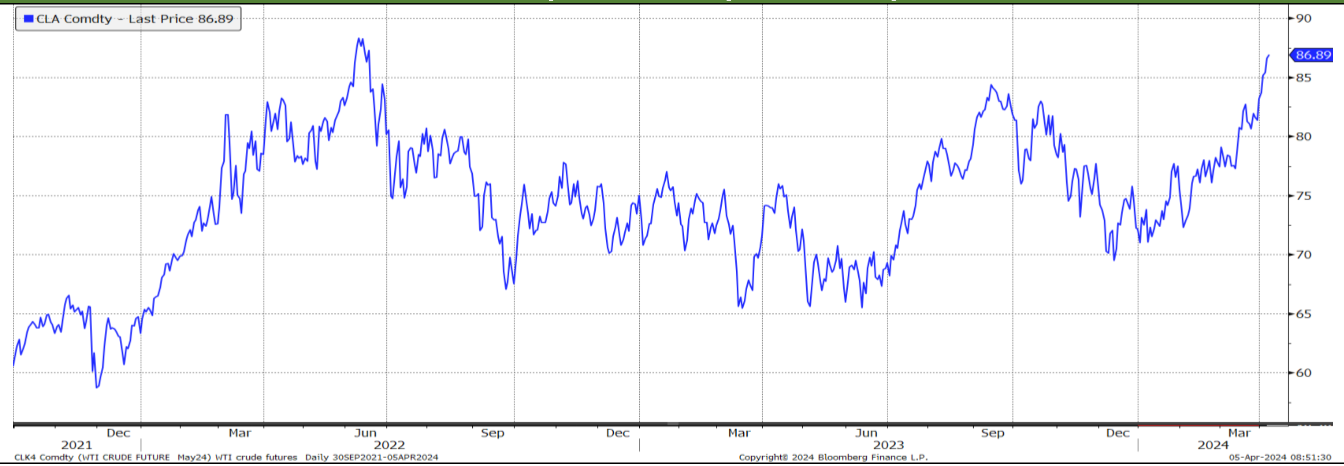
CNOOC's 2023 revenues fell 1.3% to RMB 416.6bn, with shareholder net profits dropping 12.6% to RMB 123.8bn, and a final dividend of HK$ 0.66 per share. Its competitive advantage lies in low production costs of US$ 28.83 per barrel. Rising crude prices YoY suggest CNOOC's exploration segment stands to benefit this year.

In 2023, CNOOC's net production of crude oil and natural gas reached 678mn barrels of oil equivalent. The company aims to increase production to between 700-720mn barrels in 2024, 780-800mn in 2025, and 810-830mn in 2026, indicating growth driven by rising output.

CNOOC reported net proven reserves of around 6.78bn barrels of oil equivalent at end-2023. Like other exploration and production players, the company's value depends on the size of its reserves, cost efficiency in discovering new reserves, the cash cost of future production, and average future sales prices. Rising crude prices, low cash production costs, and increasing production volumes are poised to energize profit expansion in the short term.

The company's capital expenditures in 2023 were ~RMB 137.3bn, with cash capital expenditures amounting to RMB 120.9bn. For 2024, the capital expenditure budget is set between RMB 125bn and135bn. Within the supply chain of the oil exploration and production sector, suppliers of upstream exploration equipment and services stand to gain as companies engaged in downstream activities, like CNOOC, sustain or escalate their significant capital investments.

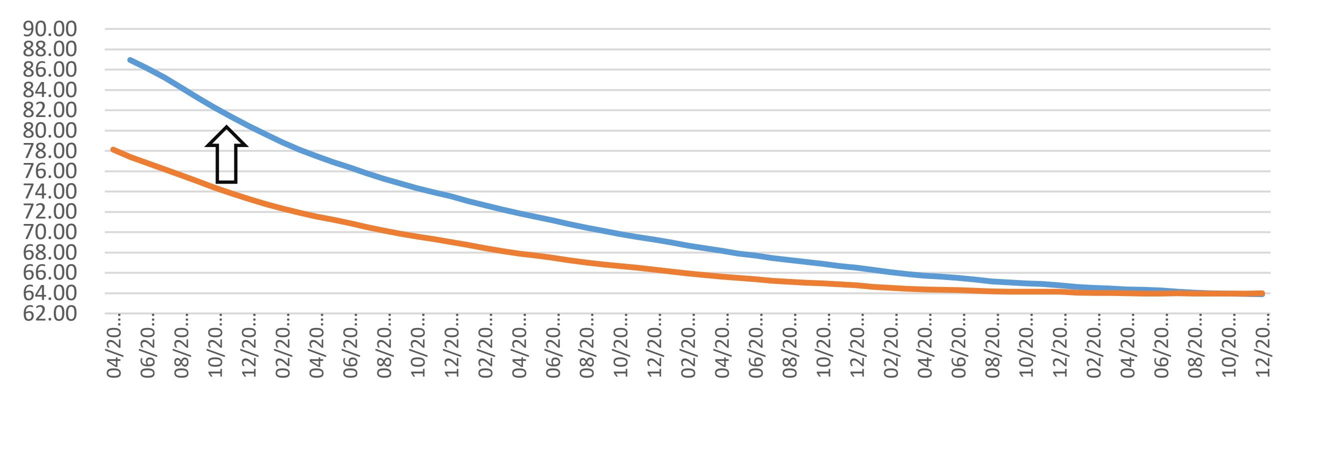
Exhibit 1: US WTI crude oil futures price trend (US$/barrel)



Note: As of Apr 5, 2024

Source(s): Bloomberg, ABCI Securities

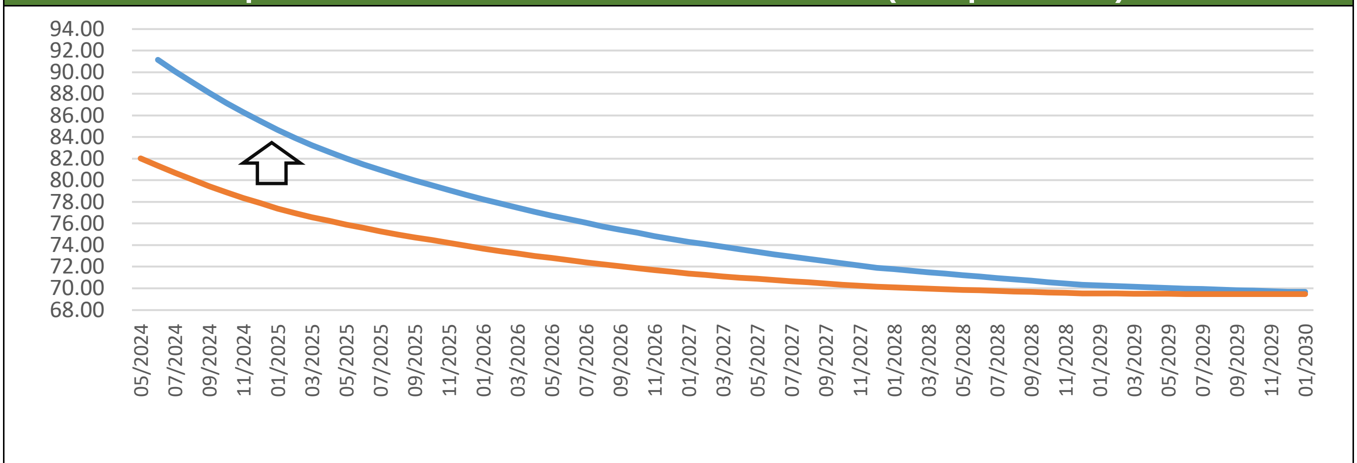
Exhibit 2: US. WTI Crude Oil Futures Price Curve (US$ per barrel)



Orange line =Current (Apr 5, 2024); Blue line = A month prior (Mar 3, 2024)

Note: As of Apr 5, 2024; Source(s): Bloomberg, ABCI Securities

Exhibit 3: European Brent Crude Oil Futures Price Curve (US$ per barrel)



Orange line =Current (Apr 5, 2024); Blue line = A month prior (Mar 3, 2024)

Note: As of Apr 5, 2024; Source(s): Bloomberg, ABCI Securities

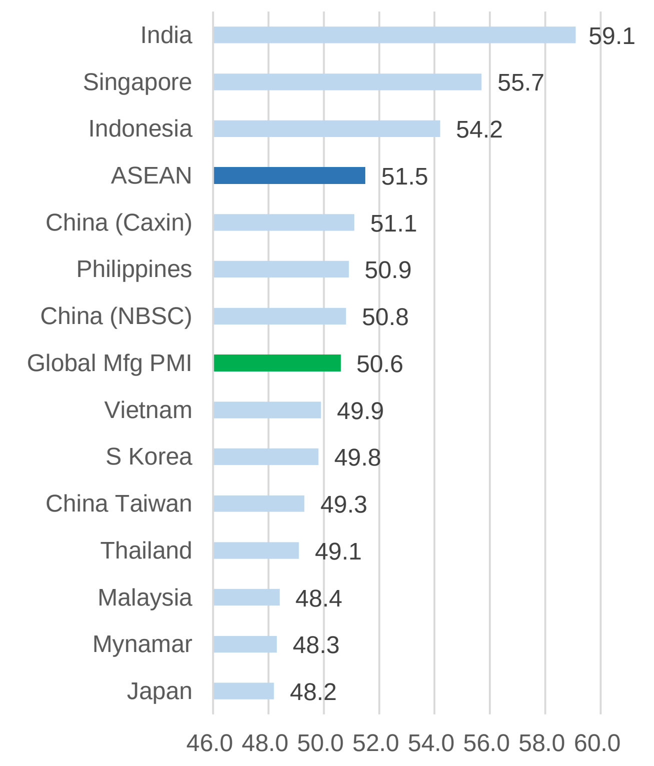
3. Sustained growth in ASEAN's manufacturing sector positively impacts Chinese exports

The ASEAN manufacturing PMI has stayed above the 50-point threshold for three consecutive months, signaling ongoing expansion in the region's manufacturing sector throughout 1Q24. This trend bodes well for China's export industry, as ASEAN is a key trading partner for China. The ASEAN manufacturing PMI has shown a steady increase: from 49.7 in Dec of the previous year to 50.3 in Jan, 50.4 in Feb, and 51.5 in Mar, with a 1Q24 average of 50.7, up from a 4Q23 average of 49.7.

Despite the positive trend, there is a notable divergence in performance across leading ASEAN economies. Singapore, Indonesia, and the Philippines recorded robust PMIs of 55.7, 54.2, and 50.9 in Mar, driving the regional PMI growth. In contrast, Vietnam, Thailand, and Malaysia recorded PMIs below the expansionary threshold, with 49.9, 49.1, and 48.4, respectively. For 1Q24, the average PMIs for Singapore, Indonesia, the Philippines, and Vietnam were healthy, while Malaysia and Thailand lagged with averages of 49.0 and 47.0.

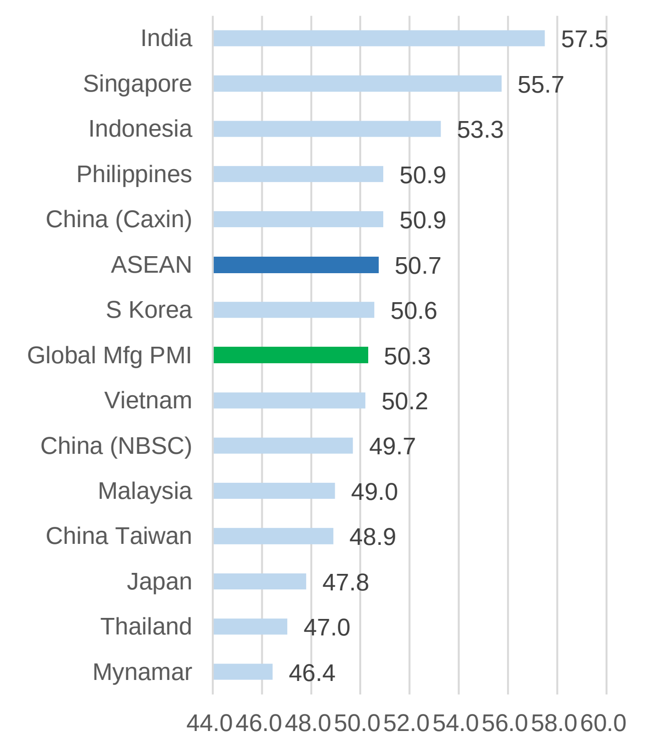
In 2M24, China's trade with ASEAN, in RMB terms, saw an 8.1% YoY increase. Exports from China rose by 9.2% to RMB 587.9bn, and imports increased by 6.6% to RMB 405.34bn, yielding a trade surplus of RMB 182.56bn. Particularly noteworthy is the significant growth in China's exports to Vietnam and Indonesia during this period, with YoY increases of 28.4% and 22.2%, respectively.

Exhibit 4: Mar manufacturing PMI in Asian regions PMI



Source(s)：S&P Global, NBS, ABCI Securities

Exhibit 5: Manufacturing PMI in Asian regions (3-mth avg. as of 3/2024)



Source(s)：S&P Global, NBS, ABCI Securities

Disclosures

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Definition of equity rating

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: HSI total return index 2005-23 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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