農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Hong Kong Stock Market Weekly Review

Mar 28, 2024

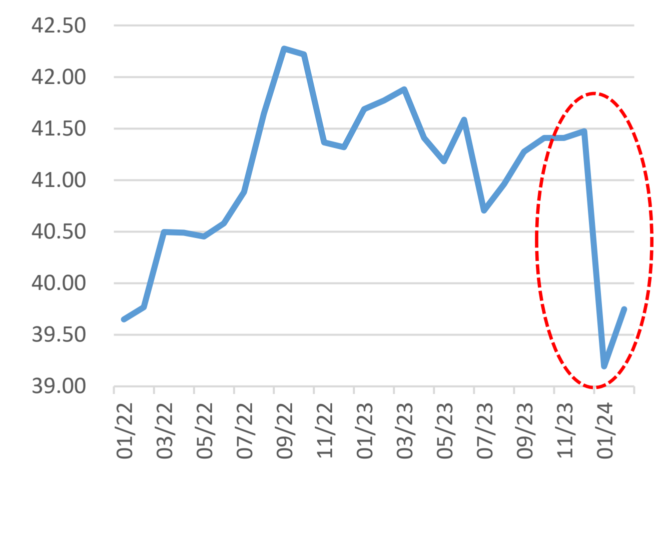
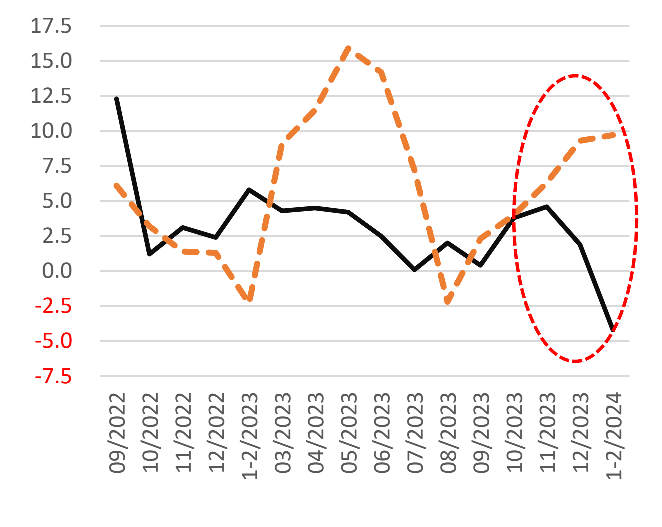
HK Stock Market Weekly Review

- **In 1Q24, the indices for energy, raw materials, and telecom performed well**
- **HSI 2Q24 Outlook: The market maintains a cautious stance on the earnings prospects of heavyweight stocks**
- **Certain large-cap internet and e-commerce stocks have been reclassified as non-essential consumer goods industry stocks**
- **Industrial enterprise profits increased by nearly 10% YoY in 2M24, providing insight into the 1Q earnings report period**
- **Interim Measures for the Transfer and Reinforcement of Social Security Funds via State-owned Shares and Cash Dividends Operation and Management [provisional]**

1. In 1Q24, the indices for energy, raw materials, and telecom performed well

Comparing the industry index performance for the first quarter in both A-share and Hong Kong stock markets, investors' behaviors in the two markets have many similarities. In the first quarter (as of Mar 28, the last trading day of the first quarter for Hong Kong stocks), the major industry indices for both A-shares and Hong Kong stocks showed that the energy, raw materials, telecommunications, and utilities sectors performed better, while the real estate and healthcare sectors underperformed.

In the first quarter, the CSI 300 Energy Index and the Hang Seng Composite Energy Index rose ~ 19% and 23%, respectively, primarily driven by the rise in oil prices, an expected 5% economic growth in 2024 spurring increased demand for coal-generated electricity, and high dividend payouts from leading energy companies. The top performers in the CSI 300 Energy Index were CNOOC (600938 CH), PetroChina (601857 CH), and China Shenhua (601088 CH), while in the Hang Seng Composite Energy Index, the best-performing stocks included CNOOC (883 HK), PetroChina (857 HK), and Yanzhou Coal Mining (1171 HK). Investors in the Chinese and Hong Kong stock markets are actively pursuing the leading stocks in the energy sector, focusing on crude and coal.

Exhibit 1: Daily Average Crude Production of OPEC and the US (in mn barrels) **Sharp reduction in crude production by OPEC and the US in 2M24 is one of the factors contributing to the swift increase in global oil prices in 1Q**	**Exhibit 2: Trend of China's Thermal Power Generation vs. Trend of Raw Coal Production, (%YoY)** **Beginning in 4Q23, thermal power generation increased while raw coal production fell**
	

Note: Orange dashed line=Thermal Power Generation(%YoY); Black solid line= Raw Coal Production (%YoY)
Note: Data as of Feb 2024
Source(s): OPEC, US Department of Energy, NBS, Bloomberg, ABCI Securities

The materials sector indices within the CSI 300 Index and the HSCI rose by ~ 9% and 19% in 1Q, respectively. The behaviors of investors in the Chinese and Hong Kong stock markets show similarities. They are selling off lithium-related material stocks and buying into non-ferrous metal material stocks such as gold, aluminum, and copper mining stocks. The rise in the prices of gold, aluminum, and copper in 1Q has triggered investors to chase the stocks of mining companies producing these commodities. The weak prices of lithium carbonate, a key material for car batteries, reflect a situation of severe oversupply, leading to investors in the Chinese and Hong Kong stock markets selling off lithium mining and lithium material stocks. The stock market's reaction largely reflects the market's close attention to the price trends of the respective commodities.

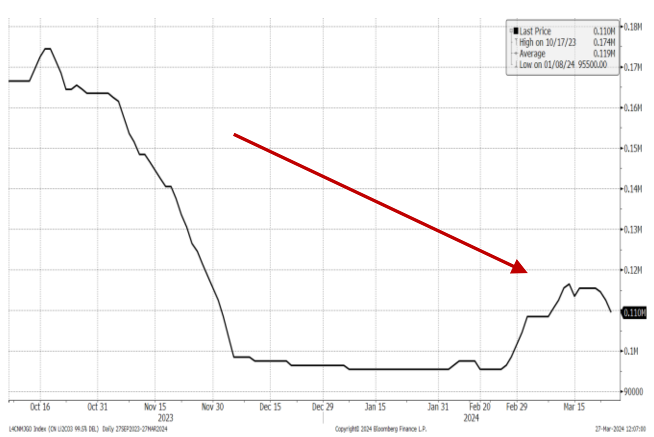
Exhibit 3: Gold price trend（USD/troy ounce）

Source(s)：Bloomberg, ABCI Securities

Exhibit 4: 3M LME copper forward price trend (USD/tonne)

Source(s)：LME, Bloomberg, ABCI Securities

Exhibit 5：Trend of lithium carbonate prices in China (RMB mn/tonne)



Source(s)：ASIAN METAL Inc, Bloomberg, ABCI Securities

Exhibit 6：LME 3M aluminum forward price trend (USD/tonne)

Source(s)：LME, Bloomberg, ABCI Securities

The telecom sector indices within the CSI 300 Index and the HSCI rose ~ 9% and 4% in 1Q, respectively. It is believed that the high dividend payments from leading telecom service providers have attracted investors in the Chinese and Hong Kong stock markets. In the Hong Kong stock market, investors are selling Hong Kong telecom service stocks and buying Chinese telecom service stocks. While A-share telecom service stocks have also strengthened, A-share investors are more actively pursuing optical module stocks that benefit from the expansion of digital communications.

The utilities indices within the CSI 300 Index and the HSCI changed by 12% and -0.4% in 1Q, respectively. In the A-share market, thermal and nuclear power stocks outperformed hydro, wind, and solar power stocks. A similar trend was observed in the Hong Kong stock market. According to the NBS, for Jan-Feb, the electricity generated by industrial entities above designated size, thermal power accounted for 72.6% of the total electricity generation, with a

YoY increase of 9.7%; wind and hydro were the second and third largest sources of electricity, accounting for 10.1% and 9.4% of the total electricity generation, with increases of 5.8% and 0.8%, respectively; nuclear power made up 4.7% of the total electricity generation, with a YoY increase of 3.5%. According to the NEA, the increase in operating hours for thermal and nuclear power in Jan-Feb indicates improved cost efficiency for operators. The decrease in wind power utilization hours indicates a decrease in cost efficiency.

The real estate and healthcare indices were the two worst-performing sector indices in both the A-share and Hong Kong stock markets in 1Q. Investors in these two markets tended to avoid these two sectors. The healthcare index is facing regulatory risks from the US government directed at Chinese companies. The significant decline in new home sales by large real estate developers in the first two months indicates that the property market has not yet recovered. According to the NBS, in Jan-Feb, the national sales value and area of new residential buildings decreased by 32.7% and 24.8% YoY, respectively, implying that the average price fell by 10.5% YoY. With slow sales progress, the area of completed residential housing available for sale at the end of Feb surged by 23.8% YoY to 405 mn sqm, an increase of 73.81mn sqm from the end of 2023. The obligation to complete and deliver projects leads to continuously increasing expenses, but the difficulty in selling completed properties results in slow capital return, becoming a new challenge for real estate companies and financial institutions in 2024.

Exhibit 7：Real estate companies and financial institutions face new business challenges and risks this year: A significant increase in unsold completed residential properties may inevitably lead to price reductions and promotional sales for existing homes, which could cause pre-sale property prices to fall as well

End-period	12/2022	12/2023	2/2024
Completed but unsold residential*（10K sqm）	26947	33119	40500
Change (YoY)	18.4%	22.2%	23.8%
Period	**1-12/2022**	**1-12/2023**	**1-2/2024**
Monthly average residential sold（10K sqm）	9553	7900	4780
of which, completed residential（10K sqm）	1331	1480	1265
under construction units（10K sqm）	8222	6420	3515

Note*: Includes both the current period and previously completed unsold and unleased areas

Source(s)：NBS, ABCI Securities

Exhibit 8: Index performances in 1-3/2024*

	CSI 300 Index	Hang Seng Composite Index	MSCI AP Index	MSCI Europe Index	S&P 500 Index
Benchmark	**2.6%**	**-3.2%**	**4.4%**	**6.8%**	**10.0%**
ENERGY	19.2%	22.7%	9.1%	2.0%	11.5%
FINANCIALS	3.9%	-5.4%	5.8%	9.7%	11.3%
REAL ESTATE	-7.6%	-13.8%	-1.6%	-1.9%	-2.0%
MATERIALS	8.8%	19.3%	-6.7%	2.7%	8.2%
INDUSTRIALS	2.7%	-3.6%	7.3%	9.7%	10.5%
CONSUM DISC	8.6%	-2.3%	5.5%	11.6%	4.9%
CONSUM STAP	1.0%	-6.0%	-4.4%	-1.8%	6.6%
HEALTH CARE	-11.5%	-22.1%	-0.8%	6.6%	8.3%
TELECOM SVC	8.6%	4.1%	3.2%	3.7%	15.9%
INFO TECH	-4.5%	-0.4%	9.4%	18.2%	12.6%
UTILITIES	12.5%	-0.4%	3.6%	-4.9%	2.8%

Note*: As of Mar 28; last trading day of Hong Kong stocks in 1Q24

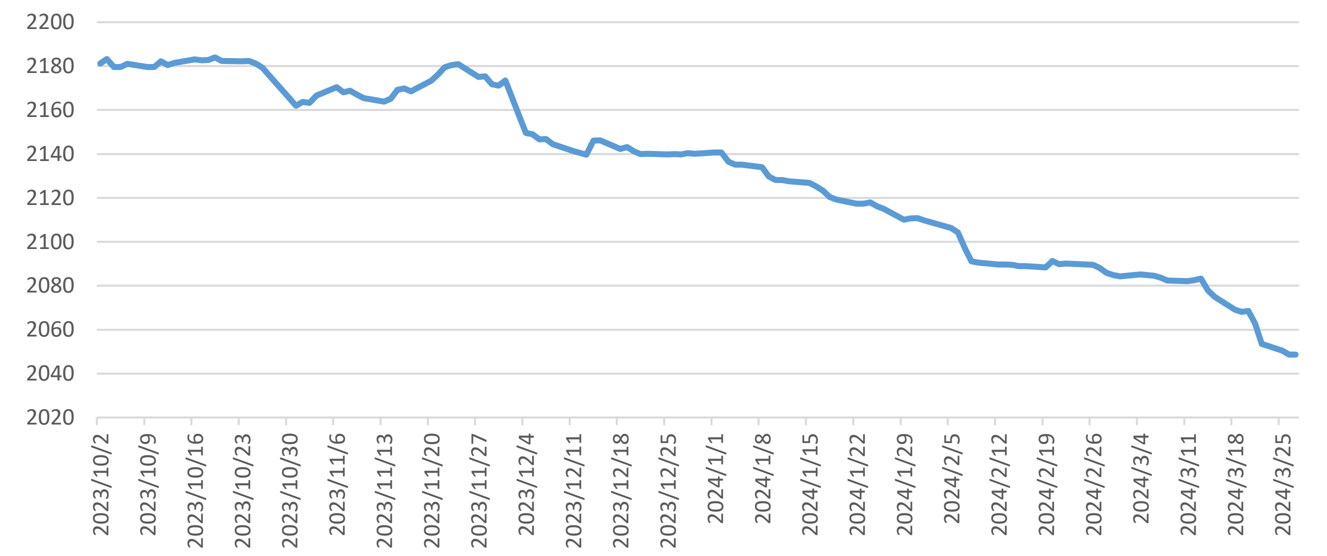
Source(s)：Bloomberg, ABCI Securities

2. HSI 2Q24 Outlook: The market maintains a cautious stance on the earnings prospects of heavyweight stocks

At the end of 1Q, most blue-chip companies had already announced their full-year performances. Market analysts often use the latest performance data and company business prospects to predict business performance for 2024. Additionally, market investors are shifting their focus from historical performance to expected business performance for 2024-25. As a result, the trend in earnings expectations will be a good parameter for tracking the attitudes of market analysts.

The forecast for 2024 EPS of HSI has been on a downward trend over the past two quarters. So far, there have been no signs of this downward trend stabilizing. We have prepared an exhibit to illustrate the trend in forecasted EPS. From this perspective, investors will demand a higher risk premium to compensate for the potential increase in earnings decline risk, which means that investors will require lower valuations to accommodate further downward adjustments in earnings forecasts. From this angle, there is no reason for the HSI to have high P/E valuations.

Exhibit 9：EPS forecast for HSI in 2024
Shows a downward trend with no signs of stabilization, reflecting an overly optimistic forecast previously



Note: Forecast influences the direction of risk assessment as well as asset allocation decisions
Source(s)：Bloomberg estimates, ABCI Securities

The financial, information technology, and consumer goods sectors collectively hold nearly 75% of the total weight of the HSI, dominating its performance as well as affecting the overall Hong Kong stock market. According to data from Hang Seng Indexes Company, as of the end of February, these sectors accounted for 34.01%, 26.89%, and 14.41% of the index's total weight, respectively.

Looking into the second quarter for these three sectors, the downward interest rate cycle and real estate market risks continue to be two major bearish factors for the banking and insurance industries in the financial field. Most heavyweight IT stocks, such as e-commerce platforms or internet companies that rely on advertising revenue, are very sensitive to the Chinese consumer market. However, many of them have indicated that they intend to enhance profitability through rationalizing their business models and better cost control. Their first-quarter results, which will be published in May, will verify whether they have achieved this. Nevertheless, investors may still be dissatisfied because such improvements in profitability are mainly driven by cost efficiency and optimized business models, rather than by strong revenue growth. The negative wealth effect caused by a sluggish property market and fierce competition in the durable goods market, such as price wars in the automobile sector, remains a concern for market investors regarding the consumer market in the second quarter.

We expect the HSI to have a reasonable fluctuation range of 16,200 to 18,000 points in the 2Q24. In 4Q23, the fluctuation range of the HSI was 15,972.31 to 18,290.91, which was equivalent to a P/E ratio of 8.4 to 9.2 times the projected EPS for 2023. Currently, the market expects the EPS for 2024 to be HK$ 2,048. The HSI range for 1Q24 was 14,794.16 to 17,214.67, corresponding to a P/E ratio of 7.2 to 8.4 times the current forecast for 2024 EPS. Is this P/E ratio low? We believe that investors see a 10-15% downside risk to the current earnings forecasts. Hence, investors are requiring a lower absolute P/E ratio to compensate for the potential risk of a further decline in the 2024 earnings forecast. We predict the HSI to have a reasonable range of 16,200 to 18,000 points in 2Q24.

The government's adept management of real estate market risks and initiatives to invigorate the consumer market could contribute to the HSI's upward potential in 2Q24. Downside risks for the 2Q24 encompass the ongoing slowdown in revenue growth for major banks, e-commerce, or consumer goods firms as they announce 1Q results in May, intensified price wars in the real estate and automobile sectors, increasing US-China tensions in the lead-up to the US presidential election in Nov, the US government's fiscal expansion continuing to attract global liquidity into the US, and a potential delay in the Fed's rate cut leading to a stronger USD and amplifying the risk of RMB devaluation.

3. Certain large-cap internet and e-commerce stocks have been reclassified as consumer discretionary goods industry stocks

Recently, Hang Seng Indexes Company Limited (HSI Company) announced a reclassification of its industry indexes. HSI Company initiated market consultations in Dec and Jan, and as a result, the adjustments to the industry indexes reflect the opinions of the market.

According to the consultation materials from HSI Company, given the rapid development of the electronic commerce ecosystem and digital environment in recent years, HSI Company proposed the division of the e-commerce and internet services sub-categories under the information technology sector into four new business sub-categories across information technology, non-essential consumer goods, and finance sectors:

(1) Internet services and infrastructure sub-category within the information technology sector,

(2) Online retail sub-category within the consumer discretionary goods sector,

(3) Interactive media and services sub-category within the consumer discretionary goods sector,

(4) Payment services within the finance sector.

The consultation materials also suggested including updates to the business sub-categories under information technology from systems development and IT consulting to digital solution services.

Now that the market consultation is complete, HSI Company will implement the new classification method. Readers should note several key points. Firstly, the reclassification reflects market opinions. Secondly, some large-cap internet or e-commerce stocks will be reclassified into the consumer discretionary industry index.

Technology serves as a tool for business operations, and the commercial essence of certain e-commerce platforms remains within the consumer sector. The reclassification of major stocks such as Alibaba (9988 HK) into the online retail sub-category of consumer discretionary goods reflects a recognition of emerging business models that integrate technology with retail. These online retailers use technology to enhance the online shopping experience, optimize logistics and supply chain operations, and provide efficient and timely customer service. While technology is an indispensable part of their operations, the core function of these online retailers is to meet consumer needs with products that are considered consumer discretionary expenditures.

Similarly, the essence of some internet companies' business is advertising aimed at promoting consumption, with technology again serving as a tool for business operations. Major stocks reclassified into the interactive media and services sub-category within the consumer discretionary goods sector include companies like Kuaishou (1024 HK) and Bilibili (9626 HK). Technology-enabled online advertising companies have emerged as a new trend and channel in the advertising industry, with revenue sources primarily dependent on providing online advertising services. Despite their technological innovations, the core business of these companies has always been to offer online advertising solutions; fundamentally, they are part of the advertising industry, which promotes consumption.

The reclassification by the HSI Company acknowledges the evolving landscape of businesses that, while heavily reliant on technological advancements, primarily cater to consumer spending and advertising. This shift in classification reflects the company's effort to more accurately represent these businesses in their respective sectors based on the nature of their revenue generation and core operations.

Over the past two years, when the market has sensed a weakening in the Chinese consumer market, some large-cap internet or e-commerce stocks have declined. This indicates that the market has long considered the nature of the business of stocks within the consumer market, where technology is just a tool for conducting business.

The reclassification into the digital solutions services sub-category within the information technology sector includes major stocks such as Meituan (3960 HK). This is to distinguish companies that specifically provide technology-based or digital solutions. Perhaps readers also perceive Meituan as related to consumption, but the new reclassification indicates that the essence of Meituan's business is to provide digital solutions for its merchant customers to connect with consumers.

Major stocks reclassified into the digital solutions services sub-category within the information technology sector also include Kingsoft Cloud (3896 HK) and GDS Holdings (9698 HK). They primarily provide services such as data centers, cloud networking, and storage infrastructure, as well as others that offer internet services, website design, web hosting, and email services.

Overall, the nature of the business better reflects the reasons for revenue fluctuations in the medium to long term, and in many cases, information technology applications are just tools for conducting business.

4. Industrial enterprise profits increased by nearly 10% YoY in 2M24, providing insight into the 1Q earnings report period

According to the NBS, in 2M24, industrial enterprises above a designated size achieved a total profit of RMB 914.06bn, a YoY increase of 10.2% (calculated on a comparable basis). In the same period in 2023, there was a YoY decrease in profit of 22.9%.

Profits in the industrial supply chain have shifted from upstream to midstream and downstream. Among the three major industry categories, in 2M24, public utilities such as electricity, heating, gas, and water production and supply industries saw profit growth of 63.1%; the manufacturing industry achieved a profit increase of 17.4%; while the mining industry saw a YoY profit decrease of 21.1%.

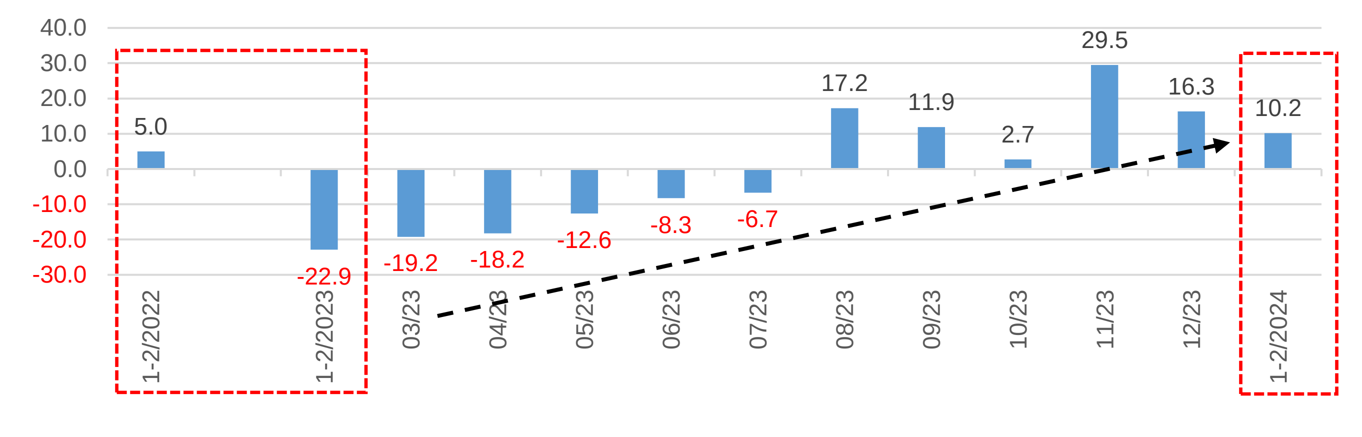
Private and foreign-invested industrial enterprises experienced a stronger profit rebound. In 2M24, foreign-invested enterprises, including those from Hong Kong, Macao, and Taiwan, saw a YoY profit increase of 31.2%, while private enterprises saw a profit increase of 12.7%. Joint-stock and state-owned industrial enterprises had a lower profit rebound. In 2M24, joint-stock enterprises saw a profit increase of 5.3%, and state-owned holding enterprises saw a profit increase of 0.5%.

As we approach Apr, when publicly-listed companies begin to report first-quarter earnings, the profit performance of various industries in 2M24 will provide a reference for the upcoming quarterly earnings reports.

The profits of industries that the capital market pays more attention to, such as computer, communication, and other electronic equipment manufacturing, electric power and heat production and supply, automobile manufacturing, general equipment manufacturing, and food manufacturing, increased by 211%, 69%, 50%, 21%, and 16% YoY, respectively, in 2M24. However, the profits of the electrical machinery and equipment manufacturing, pharmaceutical manufacturing, special equipment manufacturing, and coal mining and washing industries decreased by 2%, 4%, 17%, and 37%, respectively, YoY.

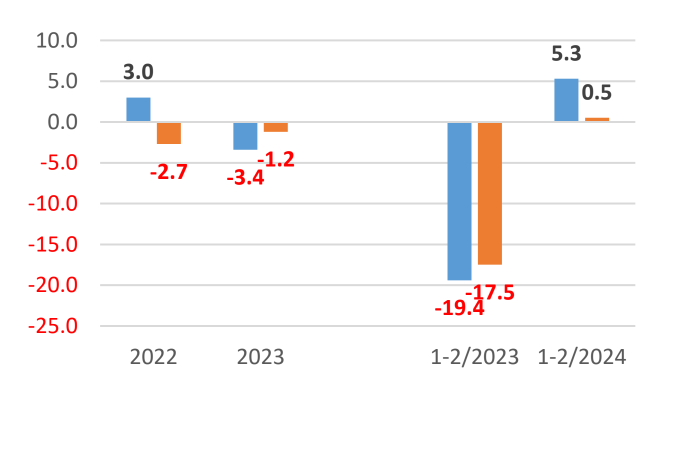
In 2M24, the petroleum processing, coking, and nuclear fuel processing industry, and the ferrous metal smelting and rolling processing industry recorded losses.

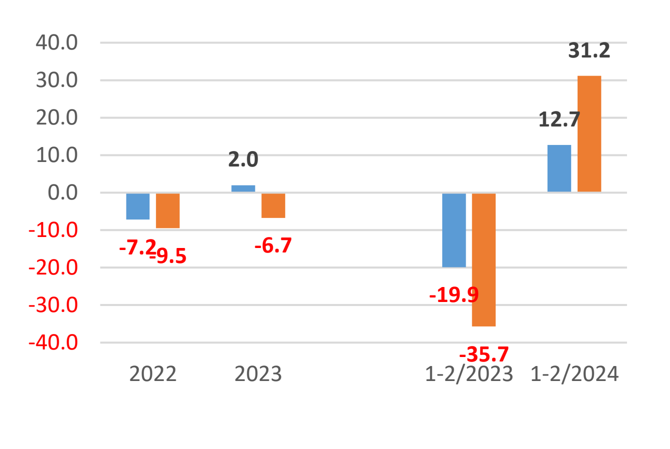
Exhibit 10: Industrial Enterprises Above Designated Size Achieved YoY Profit Growth (%)
In 2M24, there was a YoY increase of 10.2%, influenced by the low base from 2M23



Source(s): NBS, ABCI Securities

Exhibit 11: Industrial Enterprises Above Designated Size of Different Equity Categories (%)
Private and foreign-owned industrial enterprises have shown a stronger profit recovery, while joint-stock and state-owned industrial enterprises have shown a weaker profit rebound





Left chart: Blue bar= SOE; Orange bar=Joint-stock enterprises;
Right chart: Blue bar=Private enterprises; Orange bar=Foreign, HK, Macau & Taiwan enterprises
Source(s): NBS, ABCI Securities

Exhibit 12: Total Profit Change of Industry Enterprises Above Designated Size (Ranked by Growth Rate in 2M24)

	1-2/2024 Profit (RMB 100mn)	1-2/2024 (%YoY)	1-2/2023 (%YoY)	1-2/2022 (%YoY)	2023 Profit (RMB100mn)	2023 (%YoY)	2022 (%YoY)
Overall	**9,140.6**	**10.2**	**(22.9)**	**5.0**	**76,858.3**	**(2.3)**	**(4.0)**
A. Mining and Quarrying:	1,881.0	(21.1)	(0.1)	132.0	12,392.4	(19.7)	48.6
B. Manufacturing:	6,134.5	17.4	(32.6)	(4.2)	57,643.6	(2.0)	(13.4)
C. Production and Distribution of Electricity, Gas and Water:	1,125.1	63.1	38.6	(45.3)	6,822.3	54.7	41.8

Source(s): NBS, ABCI Securities

Exhibit 13: Total Profit Change of Mining Industry Enterprises Above Designated Size (Ranked by Growth Rate in 2M24)

	1-2/2024 Profit (RMB 100mn)	1-2/2024 (%YoY)	1-2/2023 (%YoY)	1-2/2022 (%YoY)	2023 Profit (RMB 100 mn)	2023 (%YoY)	2022 (%YoY)
A. Mining and Quarrying:	**1,881.0**	**(21.1)**	**(0.1)**	**132.0**		**(19.7)**	**48.6**
Mining of Ferrous Metal Ores	128.8	101.3	(41.5)	15.5	554.5	6.7	(22.0)
Mining and Processing of Nonmetal Ores	53.4	22.5	1.2	30.5	416.2	0.6	6.2
Extraction of Petroleum and Natural Gas	652.2	1.8	8.6	156.7	2,984.7	(16.0)	109.8
Mining of Non-Ferrous Metal Ores	96.0	(25.8)	30.3	49.0	785.6	8.1	37.3
Mining and Washing of Coal	954.8	(36.8)	(2.3)	155.3	7,628.9	(25.3)	44.3

Source(s): NBS, ABCI Securities

Exhibit 14: Change in Total Profits of Utilities Industry Enterprises Above Designated Size (Ranked by Growth Rate in 2M24)

	1-2/2024 Profit (RMB 100mn)	1-2/2024 (%YoY)	1-2/2023 (%YoY)	1-2/2022 (%YoY)	2023 Profit (RMB 100 mn)	2023 (%YoY)	2022 (%YoY)
C. Production and Distribution of Electricity, Gas and Water:	**1,125.1**	**63.1**	**38.6**	**(45.3)**	**6,822.3**	**54.7**	**41.8**
Production and Supply of Electric Power and Heat Power	973.3	69.4	53.1	(49.1)	5,488.4	71.9	86.3
Production and Distribution of Water	48.8	69.4	(9.2)	(25.7)	443.1	10.0	(11.3)
Production and Distribution of Gas	103.0	18.8	(1.0)	(32.0)	890.8	9.1	(15.4)

Source(s): NBS, ABCI Securities

Exhibit 15： Change in Total Profits of Manufacturing Industry Enterprises Above Designated Size（Ranked by Growth Rate in 2M24）

	1-2/2024 Profit (RMB 100mn)	1-2/2024 (%YoY)	1-2/2023 (%YoY)	1-2/2022 (%YoY)	2023 Profit (RMB 100 mn)	2023 (%YoY)	2022 (%YoY)
B. Manufacturing:	**6,134.5**	**17.4**	**(32.6)**	**(4.2)**	**57,643.6**	**(2.0)**	**(13.4)**
Manufacture of Paper and Paper Products	64.2	336.7	(52.3)	(57.7)	508.4	4.4	(29.8)
Manufacture of Computer, Communication Equipment and Other Electronic Equipment	418.1	210.9	(77.1)	(7.3)	6,411.3	(8.6)	(13.1)
Manufacture of Furniture	47.1	198.1	(23.5)	(15.2)	364.6	(6.6)	7.9
Manufacture of Railway Locomotives, Building of Ships and Boats, Air and Spacecraft and Other Transportation Equipment	78.9	90.1	64.8	(34.7)	893.8	22.0	44.5
Manufacture and Processing of Non-Ferrous Metals	311.1	65.5	(57.2)	63.8	2,930.5	28.0	(16.1)
Printing, Reproduction of Recording Media	40.5	57.0	(24.3)	(11.2)	389.6	1.7	(3.7)
Repair of Fabricated Metal Products, Machinery and Equipment	17.1	55.5	24.4	485.7	160.6	18.6	5.0
Manufacture of Textile	67.7	51.1	(37.1)	13.1	839.5	5.9	(17.8)
Manufacture of Articles for Culture, Education, Artwork, Sport and Entertainment Activity	86.5	50.4	(9.6)	10.5	624.3	(1.7)	(2.2)
Manufacture of Rubber and Plastics Products	183.0	50.2	(15.3)	(31.8)	1,691.3	14.6	(5.6)
Manufacture of Motor Vehicles	586.9	50.1	(41.7)	(9.9)	5,086.3	5.9	0.6
Manufacture of Textile Wearing Apparel And Ornament	78.9	31.1	(13.5)	5.0	613.8	(3.4)	(6.3)
Manufacture of Fabricated Metal Products	190.0	27.8	(23.7)	(0.6)	1,903.1	4.5	(10.5)
Manufacture of General-Purpose Machinery	325.1	20.7	0.2	(15.7)	3,427.8	10.3	0.4
Manufacture of Foods	285.1	15.8	(7.3)	12.3	1,666.8	4.2	7.6
Manufacture of Wines, Beverage and Refined Tea	553.8	14.2	2.4	32.5	3,110.0	8.5	17.6
Manufacture of Cigarettes And Tobacco	663.1	3.9	9.6	9.1	1,526.7	15.3	11.9
Manufacture of Chemical Raw Material and Chemical Products	423.4	0.3	(56.6)	27.3	4,694.2	(34.1)	(8.7)
Manufacture of Electrical Machinery and Equipment	599.1	(2.0)	41.5	5.7	6,334.5	15.7	31.2
Manufacture of Measuring Instrument and Meter	60.9	(3.2)	(4.5)	(14.9)	1,049.9	2.3	4.3
Manufacture of Medicines	545.2	(4.4)	(16.3)	(17.6)	3,473.0	(15.1)	(31.8)
Processing of Food From Agricultural Products	147.7	(7.3)	(6.3)	(29.4)	1,391.2	(11.0)	0.2
Manufacture of Special-Purpose Machinery	215.1	(17.0)	(8.9)	4.0	2,878.0	(0.4)	3.4
Manufacture of Non-Metallic Mineral Products	180.9	(32.1)	(39.2)	5.2	3,222.2	(23.9)	(15.5)
Waste Recycling and Recovery	4.4	(59.3)	(61.5)	42.1	222.4	(7.8)	(12.2)
Processing of Petroleum, Coking, Processing of Nucleus Fuel	(26.9)	（Note1）	(111.3)	(39.6)	449.5	26.9	(82.8)
Manufacture of Chemical Fibres	24.3	（Note1）	(97.2)	(32.7)	270.7	43.8	(62.2)
Manufacture and Processing of Ferrous Metals	(146.1)	（Note1）	(151.1)	(56.5)	564.8	157.3	(91.3)

Note 1: The same period last year recorded a loss.

Source(s)：NBS, ABCI Securities

5. Interim Measures for the Transfer and Reinforcement of Social Security Funds via State-owned Shares and Cash Dividends Operation and Management [provisional]

The Ministry of Finance, the Ministry of Human Resources and Social Security, and the State-owned Assets Supervision and Administration Commission of the State Council have jointly issued a notice on the "Interim Measures for the Transfer and Reinforcement of Social Security Funds via State-owned Shares and Cash Dividends Operation and Management." [provisional] We believe this notice will guide more long-term investment funds into the capital market.

Cash dividends refer to the dividends paid out from the state-owned equity transferred from central and local state-owned or state-controlled medium and large enterprises, financial institutions, as well as cash income generated through the operation of state-owned equity and dividends. Specifically, this includes:

A. Cash dividends from direct transfers and reinvestment of state-owned equity;
B. Cash income generated from the operation of state-owned equity, including transfer income and liquidation income;
C. Payments made to the receiving entities in lieu of or to supplement the untraceable transferred state-owned equity; and income generated from the operation of cash dividends.

We believe the most common form of regular cash income is the cash dividends received from held equity stakes. Therefore, this provision offers guidance on reinvesting cash dividends back into the capital or financial markets. In the A-share and Hong Kong stock markets, many government-controlled listed companies typically announce a dividend once a year. Most of these cash dividends are distributed during the Jun to Jul period each year. According to the new guidelines, a portion of the cash dividends during the June to July period will be correspondingly reinvested in the market each year.

Primary Investment and Operation Entities

The National Council for Social Security Fund (SSF) primarily conducts investment and operation activities. After deducting the cash dividends used to cover the shortfall in the basic pension insurance fund for enterprise employees as stipulated, the cash dividends at the central level are invested and operated by the National Social Security Fund Council. At the local level, no less than 50% of the accumulated cash dividends by the end of the previous year must be entrusted to the SSF for investment and operation. The remaining portion is invested and operated by the respective receiving entities within a defined scope.

Investment Targets and Restrictions

A. Bank deposits, government bonds, central bank bills, policy and development bank bonds, and money market funds: The combined investment ratio in these instruments must not be less than 40% of the net asset value. Specifically, the proportion in bank deposits must not be less than 10% of the net asset value, and deposits in any single bank must not exceed 25% of the total bank deposits.

B. Local government bonds and high-credit financial bonds, corporate bonds, convertible bonds (including separately traded convertible bonds), short-term financing bills, medium-term notes, asset-backed securities, bond-type securities investment funds, currency-type pension products, and fixed-income pension products: The combined investment ratio in these instruments must not exceed 30% of the net asset value. Within this category, the combined investment ratio in local government bonds and corporate (company) bonds must not exceed 20% of the net asset value, and the combined investment ratio in convertible bonds (including separately traded convertible bonds) and asset-backed securities must not exceed 10% of the net asset value.

C. Stocks, stock-type securities investment funds, mixed-type securities investment funds, stock-type pension products, and mixed-type pension products: The combined investment ratio in these instruments must not exceed 40% of the net asset value.

D. Investments in other state-owned and state-controlled enterprises and equity investment funds: The combined investment ratio in these entities must not exceed 30% of the net asset value. Within this category, the investment ratio in equity investment funds must not exceed 10% of the net asset value.

E. Bond repurchase agreements: The balance of funds in bond repurchase agreements must not exceed 40% of the net asset value on any trading day. Stock index futures and government bond futures transactions must only be for hedging purposes and must comply with the relevant hedging management regulations of the China Financial Futures Exchange.

Overall, at least 10% of cash dividends are to be placed in bank deposits, ensuring that at least 30% of cash dividends are invested in low-risk government bonds or policy bank bonds with sovereign equivalent ratings. This guidance allows significant flexibility for investment allocation in other types of risk assets such as equity securities and credit bonds.

Why is it important?

The current guidance on investment is particularly important at the moment as the low yield on government bonds presents a challenge for investment managers. Currently, both the yield on government bonds and the interest rates on bank deposits are quite low. If a large proportion of the portfolio is allocated to low-risk government bonds and bank deposits, the average investment return is likely to be diluted. To enhance the overall return, investment managers need to increase the allocation to riskier assets with potentially higher expected returns. However, a higher proportion of riskier assets could also bring hidden risks. We anticipate that investment managers will reinvest cash dividends into high-dividend-yielding blue-chip stocks or long-term local government bonds issued by wealthy cities or provinces.

Disclosures

Analyst Certification

The analyst, Chan Sung Yan , primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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: 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.

Disclaimers

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