



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED



ABCI China / HK Equity Research

**2H24 Economic Outlook
& Investment Strategy**

**Resilient Economy Prompts
Earnings Growth**

28.6.2024

CONTENT

2H24 Global Economic Outlook	4	Andy Yao (Economist) Global/China Economic Outlook yaoshaohua@abci.com.hk 852-2147 8863
2H24 China Economic Outlook	8	
2H24 Investment Strategy	14	Philip Chan (Head of Research) Investment Strategy philipchan@abci.com.hk 852-2147 8805
Hong Kong IPO Market	26	
China Banks Sector – OVERWEIGHT	29	Johannes Au (Analyst) China Banks Sector johannesau@abci.com.hk 852-2147 8802
China Internet Sector – OVERWEIGHT	33	
China Consumer Sector – OVERWEIGHT	36	
China Advanced Manufacturing Sector – OVERWEIGHT	45	Steve Chow (Analyst) Internet Sector stevechow@abci.com.hk 852-2147 8809
		Paul Pan (Analyst) China Consumer Sector paulpan@abci.com.hk 852-2147 8829
		Alex Bai (Analyst) China Advanced Manufacturing Sector alexbai@abci.com.hk 852-2147 8825

Note: Published on Jun 28, 2024

Stocks selected and mentioned in this report are limited and may not be exhaustive due to ABCI's internal policy

Economist: Andy Yao, PhD

Economic Outlook 2H24

2H24 Global Economic Outlook

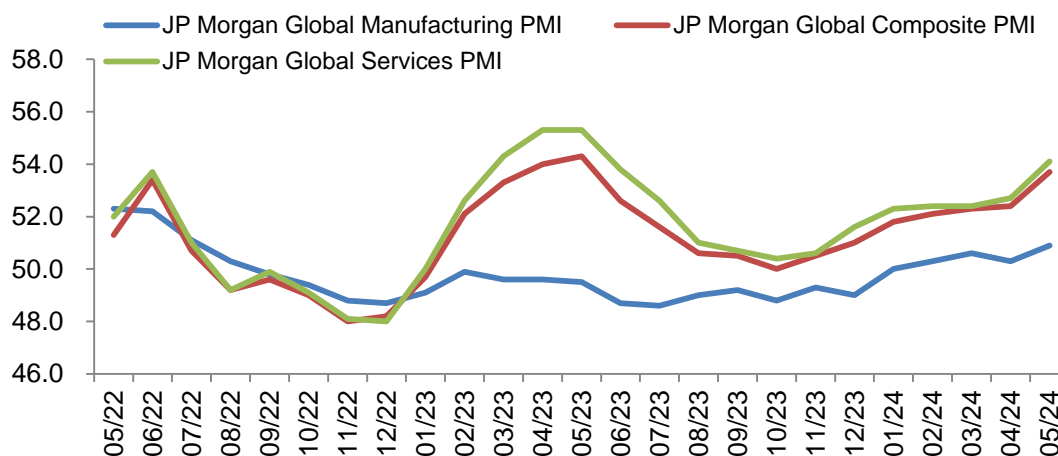
Economist: Andy Yao

- The global economy remained resilient in 1H24 as global inflation eased significantly and growth in employment and incomes held steady. Headline inflation in many countries eased in 1H24 on still-restrictive monetary policy settings, lower energy and food prices, and continued easing of supply chain pressures
- Major central banks began to ease their monetary policies in 1H24 with inflation moderating, leading to a drop in government bond yields. The PBOC, the ECB, the Bank of Canada, and the Swiss National Bank all lowered their main policy rates
- Despite high geopolitical tensions persisting, global economic growth is expected to hold steady in 2H24 as trade growth is likely to improve and monetary policy easing would support investment in both advanced and developing countries
- We expect economies in the US, China, Eurozone, Japan, and UK to grow by 2.2%, 5.0%, 0.8%, 0.6%, and 0.5% in 2024E, respectively, compared to 2.5%, 5.2%, 0.5%, 1.9%, and 0.1% in 2023

The global economy remained resilient in 1H24

The global economy remained resilient in 1H24 as global inflation eased significantly and growth in employment and incomes held steady. The JP Morgan global manufacturing PMI, service PMI, and composite PMI were above the 50 threshold in 1H24, suggesting the broad recovery in manufacturing and service providers (Exhibit 1). World merchandise trade growth appeared to have gained some momentum in 1H24, according to the latest WTO Goods Trade Barometer issued on Mar 8. The overall barometer index was 100.6, slightly above the baseline value of 100, which suggests that merchandise trade should start to show some modest gains in 1H24.

Exhibit 1: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities

1Q24 GDP growth in major countries was uneven, with the US and China showing strong growth, in contrast to European economies and Japan. Economies in the US, China, Eurozone, Japan, and the UK expanded by 2.9%¹, 5.3%, 0.4%, -0.1% and 0.2%, respectively, in 1Q24, compared with 3.1%, 5.2%, 0.2%, 1.1% and -0.2% in 4Q23 (Exhibit 2). Labor markets in major economies remained tight in 1H24, with low unemployment rates and recurrent worker shortages.

Exhibit 2: GDP growth of global major economies (%)

Real GDP Growth (YoY)	2023	4Q23	1Q24
US	2.5	3.1	2.9
China	5.2	5.2	5.3
Eurozone	0.5	0.2	0.4
Japan	1.9	1.1	-0.1
UK	0.1	-0.2	0.2

Source(s): Bloomberg, ABCI Securities

Headline inflation in many countries eased in 1H24 on still-restrictive monetary policy settings, lower energy and food prices, and easing supply chain pressures. Core inflation, excluding the volatile energy and food components, also moderated in many countries but more slowly than headline inflation due to the rising wage pressure. According to the World Bank's estimates released in Jun, global headline inflation is set to fall from 7.9% in 2023 to 3.5% in 2024 due to softening global demand. Still, core inflation will likely decline more slowly due to the rapid growth of services prices. Inflation is expected to return to the central banks' targets at end-2026 in most countries. While wage pressure remains contained in most developing countries, the tight labor market in certain advanced economies in 1H24 has pushed up wages.

Major central banks began to ease their monetary policies in 1H24 with inflation moderating, leading to a drop in government bond yields. Although the Fed maintained the target range for the Fed Funds rate at 5.25%-5.50% in 1H24, it began to slow the decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from \$60bn to \$25bn in Jun. With the headline inflation easing, the Fed hinted at lower its policy rate in the 2H24. At its Jun meeting, the ECB cut the main refinancing operations rate, the marginal lending facility, and the deposit facility rates by 25 basis points to 4.25%, 4.50%, and 3.75%, respectively. The ECB stated that it would reduce the Eurosystem's securities holdings under the pandemic emergency purchase programme (PEPP) by €7.5 billion per month on average over 2H24. The PBOC, the Bank of Canada, and the Swiss National Bank lowered their main policy rates in 1H24. However, with rising inflation and wages, BOJ raised its policy rate from -0.10% to 0.00%-0.10% in Mar, the first time in 17 years. It also removed its 1.00% soft cap on 10-year government yields.

¹ All growth rates are year-on-year except specified otherwise

Global growth to hold steady in 2H24

Despite high geopolitical tensions persisting, global economic growth is expected to hold steady in 2H24 as trade growth is likely to improve, and monetary policy easing would support investment in both advanced and developing countries. In the Apr trade forecast, WTO estimated the volume growth of global trade in goods in 2024E will grow by 2.6%, compared with 1.2% decrease in 2023. According to the latest Global Economic Prospects released by the World Bank in Jun 2023, the global economy is projected to grow by 2.6% in 2024E, unchanged from 2023 (Exhibit 3). In OECD's latest Economic Outlook released in May 2024, the global economy is projected to expand by 3.1% in 2024E, same as that in 2023.

We expect the US economy to grow by 2.2% in 2024E, down from the 2.5% growth in 2023, reflecting slowing wage growth, depletion of savings accumulated during the pandemic, and still-high interest rates. Consumer spending is expected to be normal, with real disposable income slowing and rising unemployment. Still-high interest rates are taking a toll on residential investment. However, the US government's funding for the CHIPS and Science Act and Inflation Reduction Act will continue to support the high-end manufacturing sector. Despite a significant decline in headline inflation expected for 2024E, core inflation will likely exceed the Fed's 2% target. Due to falling inflation and an easing job market, we expect the Fed to cut interest rate twice in 2H24. We expect the target range for the Fed Funds rate to reach 4.75-5.00% by end-2024E. The Fed will continue reducing its holdings of Treasury securities by \$25bn monthly and agency debt and agency mortgage-backed securities by \$35bn monthly in 2H24.

China's economic growth is expected to slow slightly to 5.0% for 2024E from 5.2% for 2023 due to the drag from the property sector. Significant recovery in exports and solid infrastructure and manufacturing investment will be the main drivers in 2H24. Inflation is expected to remain moderate in 2H24E, and macro policy is unlikely to be constrained by inflation. On the monetary front, PBOC will maintain a neutral monetary policy with a loosening bias. It will likely keep liquidity abundant to support loan growth for manufacturing firms and SMEs. The benchmark interest rates and RRR would continue to trend down in 2H24E. The Chinese government is expected to adopt an active fiscal policy in 2H24 to support economic growth.

We project the Eurozone's GDP growth to rebound modestly to 0.8% in 2024E from 0.5% growth in 2023 due to reductions in policy interest rates and ongoing recovery in real incomes. Private consumption will be supported by wage increases in tight labor markets in 2H24, and interest rate cuts and ongoing disbursement of the Recovery and Resilience Facility funds will benefit private investment. Lower energy and food prices will continue to ease headline inflation in 2H24, but core inflation will remain high due to sticky service prices. On the monetary front, we expect the ECB to cut interest rates twice in 2H24 due to a still-weak economic momentum. We project the interest rates on the main refinancing operations, the marginal lending facility, and the deposit facility to be 3.75%, 4.00%, and 3.25%, respectively, at end-2024E. Meanwhile, the UK economy

would expand by 0.5% in 2024E, up from 0.1% for 2023 as easing monetary policy will support business investment and robust real wage growth will help private consumption. Monetary policy will continue to loosen, with the policy rate set by BOE declining to 4.50% at end-2024E.

We forecast Japan's economic growth to slow from 1.9% in 2023 to 0.6% in 2024E as a softer external demand would bring down exports, and low real household income growth could drag domestic demand. Inflation pressure in Japan will moderate in 2H24 as imported energy and food prices calm, while core inflation is projected to ease to around 2% at the end of 2024. The BOJ would continue to raise the short-term policy interest rate gradually. The short-term policy rate is likely to rise to 0.15%-0.25% at end-2024E.

Exhibit 3: GDP growth forecasts for global major economies (%)

Real GDP Growth (YoY)	2023	2024E
US	2.5	2.2
China	5.2	5.0
Eurozone	0.5	0.8
Japan	1.9	0.6
UK	0.1	0.5
World	2.6*	2.6*

*Denotes World Bank estimates and forecasts

Source(s): World Bank, Bloomberg, ABCI Securities estimates

2H24 China Economic Outlook

Economist: Andy Yao

- With support from net exports and industrial output, China's economy grew 5.3% in 1Q24, up from 5.2% in 4Q23, higher than the market forecast of 4.8%. However, the economy eased slightly in 2Q24 as the property industry remained weak, and macroeconomic deflation has not improved
- Despite the better-than-expected GDP growth in 1Q24, we believe China's economy will slow moderately in 2H24 due to ongoing adjustments in the real estate sector, deleveraging from local governments, and weak consumer confidence. Overall, we expect the economy to expand by 5.0% for 2024E, unchanged from our previous estimate
- We expect inflation to rebound modestly in 2H24 with the low base effect. CPI inflation would rise by 0.5% in 2024E, up from 0.2% in 2023. We forecast PPI inflation to rebound to -1.5% in 2024E from a decrease of 3.6% in 2023
- On the monetary front, PBOC will maintain a supportive monetary policy in 2H24. The authority is likely to keep liquidity abundant to support loan growth for five major areas, which include science and technology finance, green finance, inclusive finance, pension finance, and digital finance. Meanwhile, we expect the authority to continue slashing the benchmark interest rates in 2H24 to lower financing costs for the real economy
- The central government will accelerate fiscal spending in 2H24 since the pace of fiscal spending was relatively slow in 1H24. Although local governments are moving forward with debt reduction, the new special bonds and ultra-long-term special government bonds will support infrastructure investment. Fiscal funds will also support large-scale equipment upgrades and trade-ins of consumer goods
- The Third Plenary Session of the 20th CPC Central Committee will be held in Beijing in July, focusing on comprehensively deepening reforms and promoting Chinese-style modernization. We believe that the focus will cover four major areas, which include fiscal and taxation system reform, developing new quality productivity, promoting the reform of modern enterprise system, and financial market reform

China's economic growth edged up in 1H24

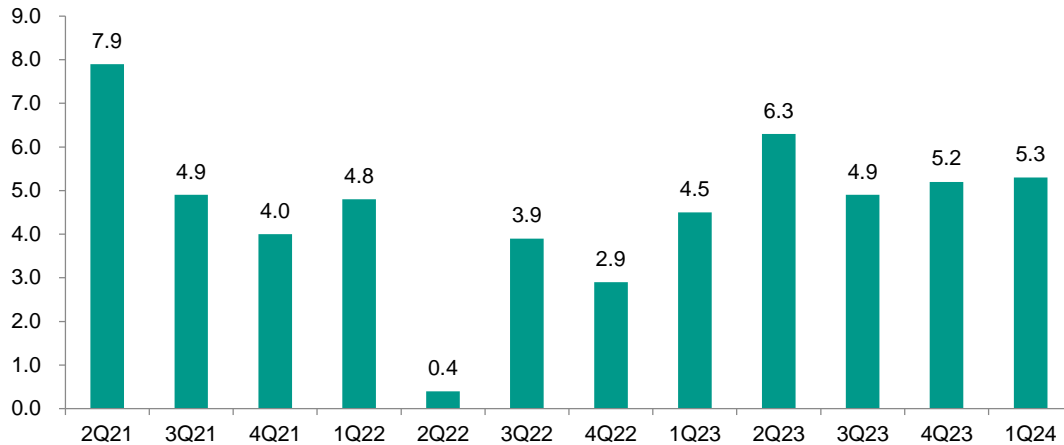
With support from net exports and industrial output, China's economy grew 5.3%² in 1Q24, up from 5.2% in 4Q23, higher than the market forecast of 4.8% (Exhibit 1). A breakdown of the GDP components shows consumption was still the key growth driver, contributing to 3.9ppt to the economic growth in the first three months of 2024. Investment added 0.6ppt to overall expansion, while growth in net exports of goods and services increased growth by 0.8ppt.

However, the economy eased slightly in 2Q24 as the real estate sector remained

² All growth rates are year-on-year except specified otherwise

weak and macroeconomic deflation has not improved. Economic activity, especially domestic demand, showed a weak momentum in Apr and May. Retail sales rose by 2.3% and 3.7% in Apr and May, compared with the 4.7% increase in 1Q24. The growth of FAI in urban areas also moderated to 3.5% and 3.4% in Apr and May from 4.5% in 1Q24.

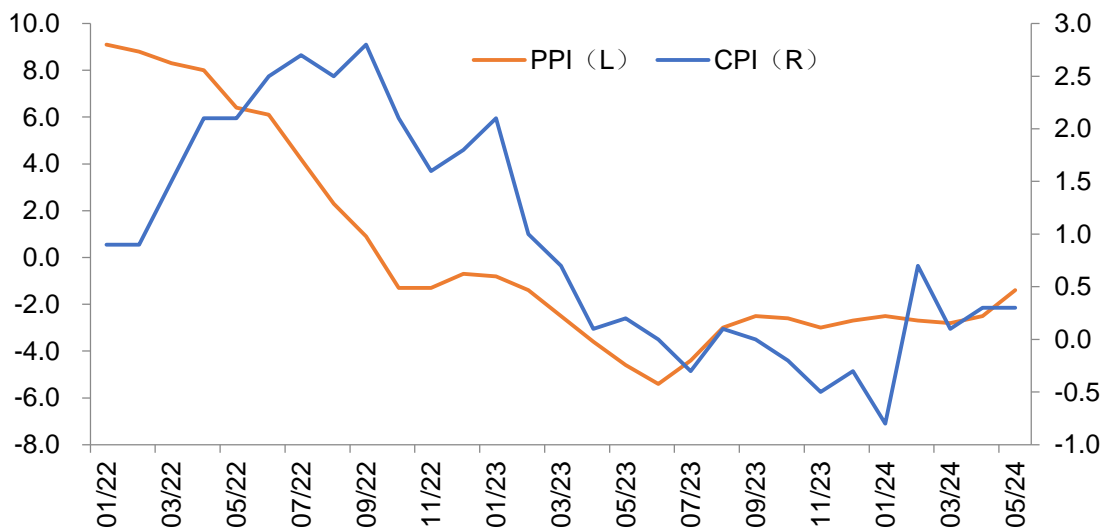
Exhibit 1: China's GDP growth (%)



Source(s): NBS, ABCI Securities

The pressure of deflation persisted in 1H24 due to weak demand for overall economic activity (Exhibit 2). CPI only rose by 0.1% in 5M24 as non-food inflation remained tepid while food inflation escalated. Core CPI inflation, excluding food and energy, remained low at 0.7% during the same period. PPI dropped by 2.4% in 5M24 due to moderation in commodity prices, including energy and ferrous metals.

Exhibit 2: China's CPI and PPI (%)



Source(s): NBS, ABCI Securities

On the monetary front, PBOC has adopted a loose monetary policy to support economic growth since the start of 2024. It slashed RRR and LPR to lower financing costs for the real economy, especially for small/medium enterprises and private companies. At the end of May, total social financing— a comprehensive measure of all types of financing for the real economy, increased by 8.4%, and broad money supply (M2) rose by 7.0%, both higher than the nominal GDP growth. The interest rate of new loans in May was only 3.67%, which was at a relatively low level.

Economic growth to slow slightly in 2H24

Despite the better-than-expected GDP growth in 1Q24, we believe China's economy will slow moderately in 2H24 due to ongoing adjustments in the real estate sector, deleveraging by local governments and weak consumer confidence. A continued rebound of external demand and a moderate pickup of manufacturing investment will be the main drivers. On the contrary, the weak property sector and high debt level for some local governments will be the major challenges in 2H24. Overall, we expect the economy to expand by 5.0% for 2024E, unchanged from our previous estimate (Exhibit 3).

Domestically, overall investment growth is expected to remain tepid in 2H24, as solid growth in manufacturing and infrastructure investment will be offset by weak growth in property investment. Manufacturing investment will remain high in 2H24 due to the recovering external demand, the rebound in PPI, and large-scale equipment upgrade. Meanwhile, high-tech manufacturing investment will increase substantially with the support of macro policies. Infrastructure investment is expected to accelerate slightly in 2H24 as fiscal spending quickens. Domestic consumption will remain subdued due to slow income growth and weak consumer confidence, despite China unveiling the details of its trade-in program for consumer products such as cars and home appliances.

Externally, export growth will accelerate in 2H24 as advanced nations, particularly the US, continue to replenish inventories and boost imports from China ahead of impending tariff implementations. Additionally, with deeper economic cooperation, China's exports to Africa and other Belt-and-Road regions, notably Russia, are set to sustain robust growth. Import growth is projected to remain stable in 2H24, as the steady demand for raw materials aligns with the tepid domestic demand.

We anticipate a modest rebound in inflation during 2H24, influenced by the low base effect. CPI inflation is projected to increase by 0.5% in 2024E, up from 0.2% in 2023. Pork prices are expected to rise in 2H24 due to tightening supply and the low base effect. Meanwhile, core CPI is expected to remain stable. We forecast that PPI inflation will recover to -1.5% in 2024E from -3.6% in 2023, driven by rebounding commodity prices and the low base effect. Macro policy is unlikely to be constrained by inflation in 2H24.

On the monetary front, we believe PBOC will maintain a supportive monetary policy in 2H24. The authority is likely to keep liquidity abundant to support loan growth for five major areas, which include science and technology finance, green finance, inclusive finance, pension finance, and digital finance. With the supervision of idle arbitrage of funds strengthening, we predict new RMB-denominated loans and new aggregate financing to be ~RMB 20.0tr and ~RMB 30.0tr in 2024E, down from ~RMB 22.8tr and ~RMB 35.6tr in 2023. Meanwhile, we expect the authority to continue slashing the benchmark interest rates in 2H24 to lower financing costs for real economy. The rates for 1-year LPR and 5-year LPR would fall to 3.25% and 3.75% for end-2024E. RRR would be cut once to increase liquidity for the financial market; RRR would be 8.00% for large banks and 6.00% for medium banks by end-2024E, while RRR for small banks is likely to stay at 5.0%. Broad money supply (M2) is set to grow by about 7.0% in 2024E. Regarding the exchange rate, we expect the spot USD/CNY rate to approach 7.0000 by end-2024E with Fed starting to cut the policy rate in 2H24 and still-high trade surplus, compared to the estimate of 7.0827 for end-2023.

The central government is set to accelerate fiscal spending in 2H24, following a relatively slow pace in 1H24. While local governments progress with debt reduction, the issuance of new special bonds and ultra-long-term special government bonds will bolster infrastructure investment. Additionally, fiscal funds will facilitate large-scale equipment upgrades and trade-ins of consumer goods. With the sharp contraction in the property sector, the revenue of local government-managed funds fell significantly in 1H24. To enhance local fiscal capability, we expect transfer payments from the central government to local governments to increase in 2H24. Overall, China's economy will require increased support from fiscal policy in 2H24.

The Third Plenary Session of the 20th CPC Central Committee is scheduled to take place in Beijing in Jul. The session will explore further comprehensively deepening reform and advancing Chinese-style modernization. The focus of these reforms is anticipated to encompass four major areas: reforming the fiscal and taxation system, developing new quality productivity, promoting the modern enterprise system reform, and reforming the financial market.



Exhibit 3: Economic forecasts

Economic indicators	2022	2023	2024E
Real GDP growth, %	3.0	5.2	5.0
FAI growth, %	5.1	3.0	4.0
Retail Sales growth, %	-0.2	7.2	5.0
Export growth in USD terms, %	7.0	-4.6	5.0
Import growth in USD terms, %	1.1	-5.5	3.0
Industrial Production growth, %	3.6	4.6	5.5
CPI, %	2.0	0.2	0.5
PPI, %	4.2	-3.6	-1.5
M2 growth, %	11.8	9.7	7.0
Aggregate Financing, RMB bn	32,010	35,590	30,000
New Yuan Loans, RMB bn	21,310	22,750	20,000
Spot CNY per USD, End-year	6.8986	7.0827	7.0000
One-year LPR, %	3.65	3.45	3.25
Five-year LPR, %	4.30	4.20	3.75

Source(s): NBS, PBOC, ABCI Securities estimates

Head of Research: Philip Chan

Investment Strategy 2H24

2H24 Investment Strategy

Hong Kong Stock Market Outlook

Hang Seng Index (HSI) in 2H24

HSI traded at 14,794.16-19,706.12 in 1H24, corresponding to a P/E ratio of ~7.2-9.7 times the anticipated 2024 earnings. Positively, the market upgraded its earnings forecasts for large-cap internet/e-commerce and energy stocks. Conversely, during the same period, earnings projections for large-cap firms in several sectors, including China's commercial banks, insurance, telecom services, property, medical and pharma, autos, consumer electronics and electrical, food & beverage, along with Hong Kong's property and banking and financial sectors, and Macao's gaming and entertainment sector, were downgraded. Despite these revisions, an increase in earnings expectations for heavyweight internet/e-commerce stocks enhanced the overall earnings outlook of the HSI for 2024. This revision in earnings forecasts for large-cap companies can be attributed to improved market and economic transparency following the release of macroeconomic data for 5M24 and 1Q results.

The stock market activities improved in the first two quarters of this year. The average daily turnover on the Mainboard increased from HK\$ 90.9bn/day in 4Q23 to HK\$ 99.3bn/day in 1Q24 and ~HK\$ 121bn/day in 2Q24E. In the IPO market, the fundraising amount remained sluggish in 1H24 compared to last year. We expect 29 IPOs in the Mainboard in 1H24 raised ~HK\$ 13bn (average deal size ~HK\$ 450mn). In 2023, average IPO deal size was ~HK\$ 680mn.

We set the P/E range of the HSI at 8.0-10.0x for 2H24, representing the index range of ~16,300-20,400 (rounded to the nearest hundred).

Exhibit 1: Average daily market turnover value in the Mainboard (HK\$ bn/day)

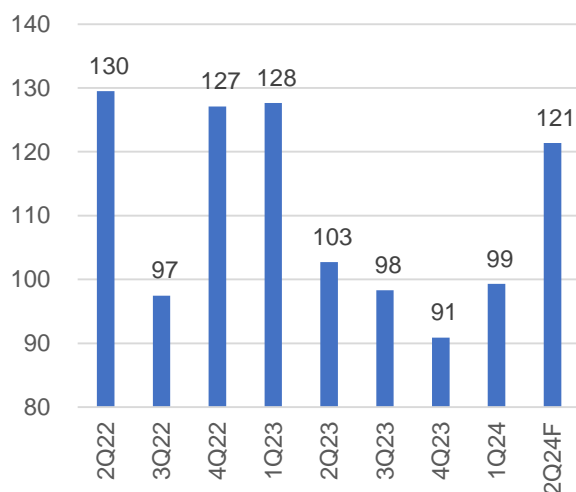
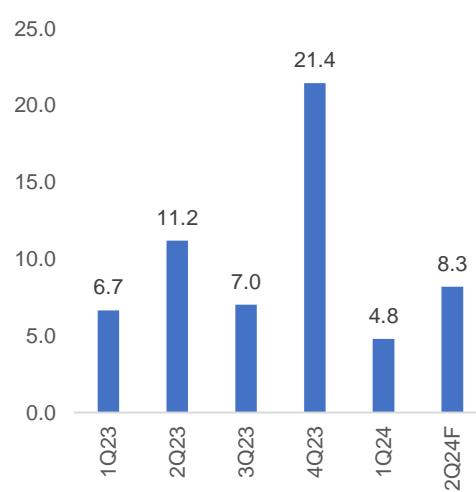


Exhibit 2: HK Mainboard IPO proceeds (HK\$ bn)



Source(s): HKEx, Bloomberg, ABCI Securities estimates

Exhibit 3: Hang Seng Index Valuation Summary (Index level at 18089.93 as of Jun 26, 2024)

Year	2021	2022	2023	2024F		2025F
EPS (HK\$)	2,076.1	1,886.8	1,886.2	2,042.1		2,177.6
YoY chg	-3.26%	-9.12%	-0.0%	8.3%		6.6%
Current Index P/E	-	-	9.59	8.86		8.31
NAV/shr (HK\$)	20,750.3	17,606.7	16,972.4	18,247.7		19,747.2
YoY chg	-12.2%	-15.1%	-3.6%	7.5%		8.2%
Current Index P/B	-	-	1.07	0.99		0.92
DPS (HK\$)	593.5	665.9	692.4	773.3		776.5
Current Index Dividend Yield	-	-	3.8%	4.3%		4.3%
ROAE	9.4%	9.8%	10.9%	11.6%		11.5%
DPS/EPS	29%	35%	37%	38%		36%
					2024F	
HSI	2021	2022	2023	1H24	2H24F	2025F
Peak	31,183.36	25,050.59	22,700.85	19,706.12	20,420.70	22,185.14
Trough	22,665.25	14,597.31	15,972.31	14,794.16	16,336.56	18,270.12
					2024F	
P/E	2021	2022	2023	1H24	2H24F	2025F
Peak	15.0	13.3	12.0	9.7	10.0	10.2
Trough	10.9	7.7	8.5	7.2	8.0	8.4
					2024F	
P/B	2021	2022	2023	1H24	2H24f	2025F
Peak	1.50	1.42	1.34	1.08	1.12	1.12
Trough	1.09	0.83	0.94	0.81	0.90	0.93
					2024F	
Dividend Yield	2021	2022	2023	1H24	2H24F	2025F
Peak	2.62%	4.56%	4.34%	5.23%	4.73%	4.25%
Trough	1.90%	2.66%	3.05%	3.92%	3.79%	3.50%

Source(s): Bloomberg consensus, ABCI Securities estimates

Our view is based on the following considerations:

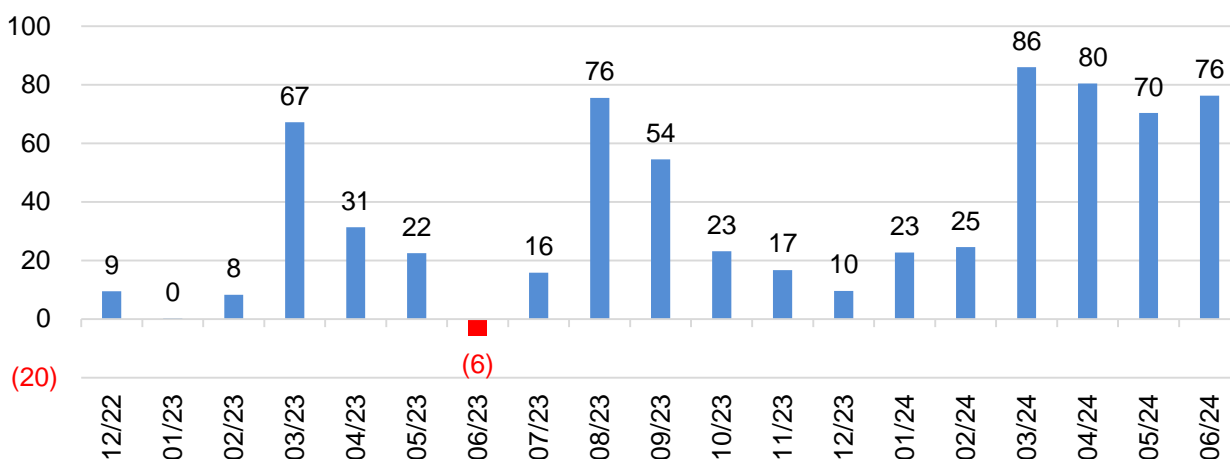
1. The pricing power of Mainland Chinese investors is increasing, as evidenced by their consistent net purchases of HK stocks. From Jan to May 2024, Mainland Chinese investors net bought HK\$ 284bn in HK stocks, compared to HK\$ 129bn during the same period in 2023 (5M23). We estimate that Mainland Chinese investors will net buy HK\$ 360bn in HK stocks in 1H24. In 2023, they had net purchased ~HK\$ 319bn in HK stocks. This sustained influx of liquidity from Mainland China into the HK stock market has narrowed the price gap between A-shares and their corresponding shares in the HK stock market. The Hang Seng Stock Connect China AH Premium Index decreased from a high of 161.36 in Feb to a low of 132.44 in May, indicating that the price gap closed by ~18 ppt.

Exhibit 4: Shareholding of some large-cap stocks held by Mainland Chinese investors via the Southbound Connect

Code	Stock	24/6/2024*	Code	Stock	24/6/2024*
1398	ICBC	28.51%	941	China Mobile	11.99%
939	CCB	9.15%	762	China Unicom	11.19%
3988	BOC	21.89%	728	China Telecom	62.73%
3968	China Merchants Bank	8.20%	3690	Meituan	13.30%
388	HK Exchanges	5.86%	9626	Bilibili	15.69%
883	CNOOC	20.07%	2020	Anta Sports	7.13%
857	PetroChina	19.20%	2331	Li Ning	20.09%
1088	Shenhua Energy	46.08%	1810	Xiaomi	13.40%
836	China Resources Power	19.27%	3033	CSOP HS Tech Index ETF	48.84%
1816	CGN Power	39.87%	2800	Tracker Fund	4.02%

Note *: It represents the total % of HK-listed issued shares or ETF units. For example, on Jun 24, 28.51% of HK-listed issued shares of ICBC (1398) were held by investors in the Southbound Connect.

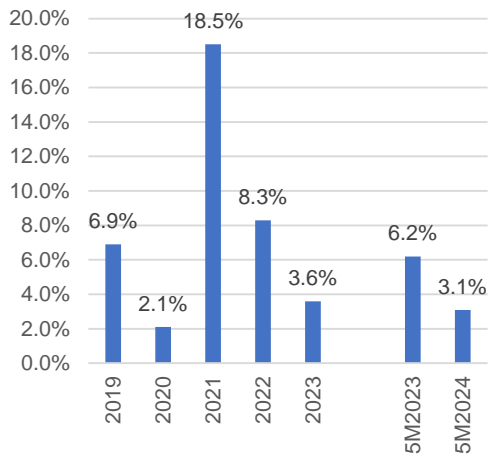
Source(s): HKEx

Exhibit 5: Monthly Net Buying (Selling) of Hong Kong Stocks by Mainland Chinese Investors via Southbound Stock Connect (HK\$ bn)


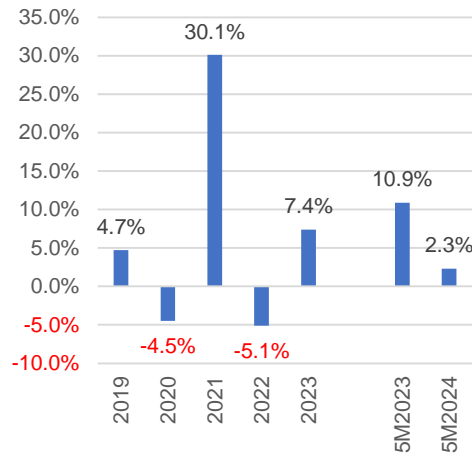
Note: Data up to Jun 24, 2024.

Source(s): HKEx, Bloomberg, ABCI Securities

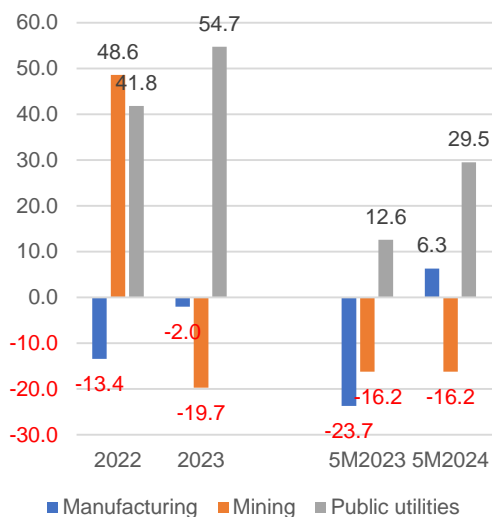
- The increase in holdings of major large-cap stocks by Mainland Chinese investors corresponds to a decrease in holdings by China's offshore investors.
- The earnings outlook constrains the potential expansion of the P/E range for the HSI. On the macroeconomic front, according to the National Bureau of Statistics (NBS), the total profit of industrial enterprises grew 3.4% YoY in 5M24. According to the Ministry of Finance, the total profit of non-financial SOEs grew 2.3% YoY in 5M24. Based on Bloomberg consensus, the market anticipates an 8.3% YoY growth in EPS for HSI in 2024. This modest growth in earnings momentum limits the upside potential of the P/E range.

Exhibit 6: Revenue growth (YoY) of non-financial SOE


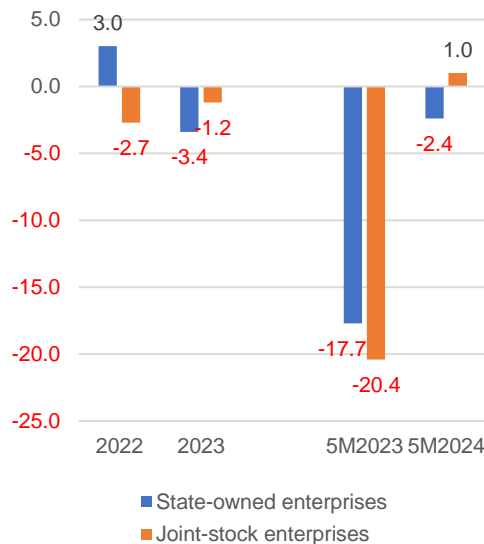
Source(s): Ministry of Finance, ABCI Securities

Exhibit 7: Profit growth (YoY) of non-financial SOE


5M: Jan-May

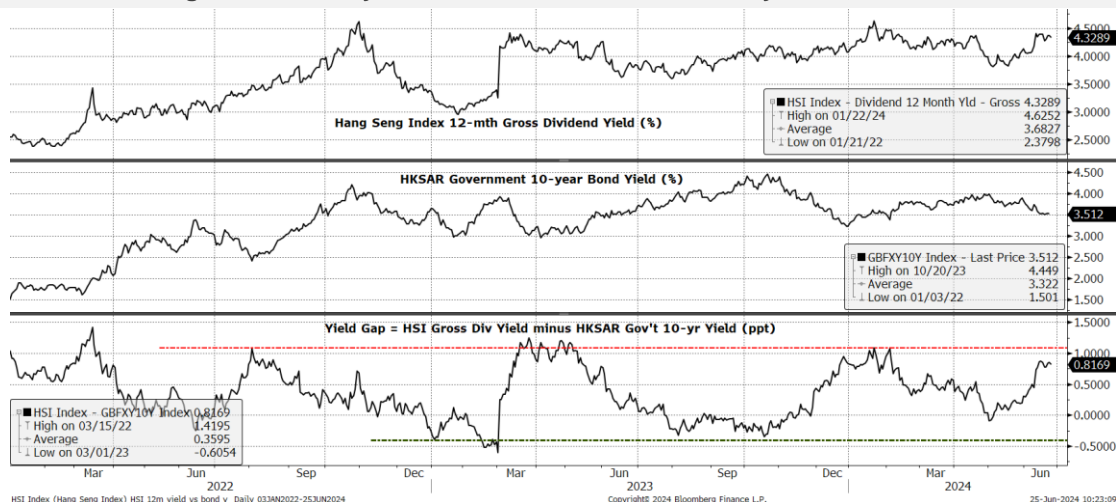
Exhibit 8: Industrial enterprises profit change (%YoY), by industry


Source(s): NBSC, ABCI Securities

Exhibit 9: Industrial enterprises profit change (%YoY)


5M: Jan-May

- The opportunity costs for China's offshore investors holding HK stocks are high due to the elevated interest rates in the US and Hong Kong. In 1H24, the HKSAR government's 10-year bond yield ranged from
- 3.2%-4.0%, while the US 10-year Treasury yield was 3.9%-4.7%. Long-term investors often compare the dividend yield of blue-chip stocks to the returns from low-risk assets like government bonds. For 2024, the HSI's expected dividend allowed for a trading range in 1H24 that corresponded to a forecasted gross dividend yield of 3.92%-5.23%. This suggests that overall investor demand requires the HSI to offer a dividend yield comparable to low-risk government bonds.

Exhibit 10: HSI gross dividend yield vs HKSAR Government bond yield


Source(s): Bloomberg

Key Risk Factors Impacting Stock Market Outlook in 2024

The following macro and micro-economic risks will adversely affect the earnings outlook and risk premium of listed companies and, subsequently, their equity valuations.

Risk factors	Our view
Insufficient effective demand	In 5M24, the total value added of industrial enterprises above the designated size grew by 6.2%, while retail sales increased by 4.1%, indicating that the supply side expanded at a faster pace than the demand side.
Overcapacity in some industries	In 5M24, fixed asset investment in the manufacturing industry, public utilities industry, and transportation services industry grew by 9.6%, 23.7%, and 7.1%, respectively. In a competitive market, new and efficient production facilities replace less efficient ones, often leading to overcapacity issues in outdated facilities.
Weak social expectations	We anticipate a gradual restoration of consumer and business confidence. The urban unemployment rate decreased from 5.5% in Dec 2022 to 5.1% in Dec 2023, and further to 5.0% in May 2024. Over the last 60 months (Jun 2019 to May 2024), the average unemployment rate was 5.3%. In 1Q24, per capita consumption expenditure rose by 8.3%, and per capita disposable income increased by 6.2%. The ongoing improvements in the employment market and income levels are key factors bolstering market confidence.
Blocking points in the domestic circulation	The transportation and logistics services industry is poised to benefit from government initiatives aimed at eliminating bottlenecks in domestic circulation. According to the State Postal Bureau, in 5M24, the express delivery services industry saw a revenue growth of 16.6%, with parcel volume increasing by 24.4%.



Increasing complexity, severity, and uncertainty of the external environment	The instability in the international political and economic landscape could impact China's exports and the inflow of foreign investments.
Real estate risks	Since 2023, government and regulatory bodies have implemented various measures to mitigate risks in the property market. However, we advise the market to maintain reasonable expectations regarding the housing sector. According to the NBS, the annual average wages in non-private enterprises were RMB 120,698 in 2023, marking a 5.8% increase, while in private enterprises, they were RMB 68,340, up 4.8%. The primary housing market demand comes from individuals earning these average wages. In 5M24, the total residential transaction value and volume reached RMB3,116.3 bn and 307.44mn sqm, respectively, resulting in an average selling price of RMB 10,136/sqm. Property development risk will arise if supply fails to align with affordable demand.
Local government debt risk	We identify the main risk as the debt repayment capability of local SOEs, which depends heavily on their business profitability. According to the Ministry of Finance, the total profit of non-financial SOEs grew by 2.3% in 5M24. However, data from the NBS indicates that the total profit of industrial SOEs declined by 2.4% in 5M24. This discrepancy highlights potential vulnerabilities in the financial health of these enterprises.
Exchange rate risk	In 5M24, CNY was devaluing against USD and GBP but appreciating against JPY, Euro, and CAD. RMB exchange rate risk is one of the risk factors but may not be the dominant factor affecting investors' decisions. In 5M24, the balance of onshore RMB bonds or debt securities held by offshore institutions increased by RMB 551.9bn to RMB 4220.8bn, according to China Clearing and Shanghai Clearing.
International geopolitical risk	Geopolitical instability, including confrontations between China and US alliances, may affect China's foreign trade and foreign investment inflows and thus affect economic performance.
Offshore financial market risk	According to SAFE, China's outward investments in securities (excluding foreign reserve assets) reached US\$ 1,098.4bn at the end of 2023. Of this amount, investments in bonds and equity securities were US\$ 475.8bn and US\$ 622.6bn, respectively. The price, credit, and exchange rate risks of these financial assets in offshore markets will affect the financial position of owners in China.

Source(s): NBS, SPB, MOF, SAFE, China Clearing, Shanghai Clearing, ABCI Securities

Exhibit 11: Hang Seng China Enterprises Index (HSCEI) Valuation Summary (Index level at 6477.24 as of Jun 26, 2024)

Year	2021	2022	2023	2024F		2025F
EPS (HK\$)	942.2	711.2	716.8	772.1		844.2
YoY chg	-6.5%	-24.5%	0.8%	7.7%		9.3%
Current Index P/E	-	-	9.04	8.39		7.67
NAV/shr (HK\$)	7,389.6	6,111.4	6,172.2	6,674.6		7,326.1
YoY chg	-18.5%	-17.3%	1.0%	8.1%		9.8%
Current Index P/B	-	-	1.05	0.97		0.88
DPS (HK\$)	232.2	252.6	232.2	244.7		255.2
Current Index Dividend Yield	-	-	3.6%	3.8%		3.9%
ROAE	11.4%	10.5%	11.7%	12.0%		12.1%
DPS/EPS	25%	36%	32%	32%		30%
					2024F	
HSCEI	2021	2022	2023	1H24	2H24F	2025F
Peak	12,271.60	8,822.80	7,773.61	6,986.20	7,335.24	8,505.33
Trough	8,011.03	4,919.03	5,443.60	4,943.24	5,404.91	6,379.00
					2024F	
P/e	2021	2022	2023	1H24	2H24F	2025F
Peak	13.0	12.4	10.8	9.0	9.5	10.1
Trough	8.5	6.9	7.6	6.4	7.0	7.6
					2024F	
P/B	2021	2022	2023	1H24	2H24F	2025F
Peak	1.66	1.44	1.26	1.05	1.10	1.16
Trough	1.08	0.80	0.88	0.74	0.81	0.87
					2024F	
Dividend Yield	2021	2022	2023	1H24	2H24F	2025F
Peak	2.90%	5.14%	4.27%	4.95%	4.53%	4.00%
Trough	1.89%	2.86%	2.99%	3.50%	3.34%	3.00%

Source(s): Bloomberg consensus, ABCI Securities estimates

Exhibit 12: Hang Seng Tech Index Valuation Summary (Index level at 3689.68 as of Jun 26, 2024)

Year	2021	2022	2023	2024F		2025F
EPS (HK\$)	152.7	117.0	163.5	220.2		282.9
YoY chg	-26.4%	-23.4%	39.7%	34.7%		28.4%
Current Index P/E	-	-	22.57	16.75		13.04
NAV /shr (HK\$)	1,767.3	1,688.0	1,735.4	1,932.7		2,155.0
YoY chg	15.4%	-4.5%	2.8%	11.4%		11.5%
Current Index P/B	-	-	2.13	1.91		1.71
DPS (HK\$)	23.0	25.5	27.7	32.8		35.3
Current Index Dividend Yield	-	-	0.7%	0.9%		1.0%
ROAE	9.3%	6.8%	9.6%	12.0%		13.8%
DPS/EPS	15%	22%	17%	15%		12%
					2024F	
Hang Seng TECH	2021	2022	2023	1H24	2H24F	2025F
Peak	11,001.78	5,923.45	4,825.59	4,162.51	4,184.56	4,808.79
Trough	5,427.94	2,720.38	3,527.45	2,984.90	3,083.36	3,677.31
					2024F	
P/E	2021	2022	2023	1H24	2H24F	2025F
Peak	72.1	50.6	29.5	18.9	19.0	17.0
Trough	35.6	23.2	21.6	13.6	14.0	13.0
					2024F	
P/B	2021	2022	2023	1H24	2H24F	2025F
Peak	6.23	3.51	2.78	2.15	2.17	2.23
Trough	3.07	1.61	2.03	1.54	1.60	1.71
					2024F	
Dividend Yield	2021	2022	2023	1H24	2H24F	2025F
Peak	0.42%	0.94%	0.78%	1.10%	1.06%	0.96%
Trough	0.21%	0.43%	0.57%	0.79%	0.78%	0.73%

Source(s): Bloomberg consensus, ABCI Securities estimates

Exhibit 13: FTSE China A50 Index Valuation Summary (Index level at 12133.21 as of Jun 26, 2024)

Year	2021	2022	2023	2024F		2025F
EPS (RMB)	1,202.8	1,107.0	1,022.7	1,141.5		1,251.9
YoY chg	6.5%	-8.0%	-7.6%	11.6%		9.7%
Current Index P/E	-	-	11.86	10.63		9.69
NAV /shr (RMB)	7,879.8	7,543.7	7,828.3	8,797.5		9,868.5
YoY chg	-8.7%	-4.3%	3.8%	12.4%		12.2%
Current Index P/B	-	-	1.55	1.38		1.23
DPS(RMB)	320.0	389.1	372.7	426.3		469.2
Current Index Dividend Yield	-	-	3.1%	3.5%		3.9%
ROAE	14.6%	14.4%	13.3%	13.7%		13.4%
DPS/EPS	27%	35%	36%	37%		37%
					2024F	
FTSE China A50 Index	2021	2022	2023	1H24	2H24F	2025F
Peak	20,547.73	15,775.90	14,307.43	12,923.25	13,698.12	15,641.33
Trough	14,560.29	11,205.55	11,003.77	10,675.21	10,844.35	11,731.00
					2024F	
P/E	2021	2022	2023	1H24	2H24F	2025F
Peak	17.1	14.3	14.0	11.3	12.0	12.5
Trough	12.1	10.1	10.8	9.4	9.5	9.4
					2024F	
P/B	2021	2022	2023	1H24	2H24F	2025F
Peak	2.61	2.09	1.83	1.47	1.56	1.58
Trough	1.85	1.49	1.41	1.21	1.23	1.19
					2024F	
Dividend Yield	2021	2022	2023	1H24	2H24F	2025F
Peak	2.20%	3.47%	3.39%	3.99%	3.93%	4.00%
Trough	1.56%	2.47%	2.60%	3.30%	3.11%	3.00%

Source(s): Bloomberg consensus, ABCI Securities estimates

Exhibit 14: CSI 300 Index Valuation Summary (Index level at 3480.27 as of Jun 26, 2024)

Year	2021	2022	2023	2024F		2025F
EPS (RMB)	296.1	280.1	268.8	290.4		327.4
YoY chg	30.8%	-5.4%	-4.0%	8.0%		12.7%
Current Index P/E	-	-	12.95	11.98		10.63
NAV /shr (RMB)	2,258.1	2,225.1	2,359.1	2,517.7		2,779.1
YoY chg	-1.1%	-1.5%	6.0%	6.7%		10.4%
Current Index P/B	-	-	1.48	1.38		1.25
DPS(RMB)	81.2	94.0	95.7	104.2		117.9
Current Index Dividend Yield	-	-	2.7%	3.0%		3.4%
ROAE	13.0%	12.5%	11.7%	11.9%		12.4%
DPS/EPS	27%	34%	36%	36%		36%
					2024F	
CSI300 Index	2021	2022	2023	1H24	2H24F	2025F
Peak	5,930.91	4,961.45	4,268.15	3,703.03	3,775.46	4,286.18
Trough	4,663.90	3,495.95	3,283.99	3,108.35	3,194.62	3,626.77
					2024F	
P/E	2021	2022	2023	1H24	2H24F	2025F
Peak	20.0	17.7	15.9	12.8	13.0	13.1
Trough	15.7	12.5	12.2	10.7	11.0	11.1
					2024F	
P/B	2021	2022	2023	1H24	2H24F	2025F
Peak	2.63	2.23	1.81	1.47	1.50	1.54
Trough	2.07	1.57	1.39	1.23	1.27	1.31
					2024F	
Dividend Yield	2021	2022	2023	1H24	2H24F	2025F
Peak	1.74%	2.69%	2.91%	3.35%	3.26%	3.25%
Trough	1.37%	1.89%	2.24%	2.81%	2.76%	2.75%

Source(s): Bloomberg consensus, ABCI Securities estimates

Exhibit 15: S&P500 Index Valuation Summary (Index level at 5469.30 at Jun 25, 2024)

Year	2021	2022	2023	2024F		2025F
EPS (USD)	198.3	223.7	221.5	244.9		277.4
YoY chg	38.8%	12.8%	-1.0%	10.6%		13.3%
Current Index P/E	-	-	24.70	22.34		19.71
NAV /shr (USD)	967.5	982.3	1,064.3	1,207.7		1,344.8
YoY chg	6.9%	1.5%	8.4%	13.5%		11.4%
Current Index P/B	-	-	5.14	4.53		4.07
DPS(USD)	60.5	67.6	70.9	76.1		80.7
Current Index Dividend Yield	-	-	1.3%	1.4%		1.5%
ROAE	21.2%	22.9%	21.6%	21.6%		21.7%
DPS/EPS	31%	30%	32%	31%		29%
					2024F	
S&P 500 Index	2021	2022	2023	1H24	2H24F	2025F
Peak	4,808.93	4,818.62	4,793.30	5,505.53	5,631.55	6,103.46
Trough	3,662.71	3,491.58	3,794.33	4,682.11	4,162.45	4,716.31
					2024F	
P/E	2021	2022	2023	1H24	2H24F	2025F
Peak	24.3	21.5	21.6	22.5	23.0	22.0
Trough	18.5	15.6	17.1	19.1	17.0	17.0
					2024F	
P/B	2021	2022	2023	1H24	2H24F	2025F
Peak	4.97	4.91	4.50	4.56	4.66	4.54
Trough	3.79	3.55	3.57	3.88	3.45	3.51
					2024F	
Dividend Yield	2021	2022	2023	1H24	2H24F	2025F
Peak	1.65%	1.94%	1.87%	1.62%	1.83%	1.71%
Trough	1.26%	1.40%	1.48%	1.38%	1.35%	1.32%

Source(s): Bloomberg consensus, ABCI Securities estimates

Exhibit 16: Nasdaq 100 Index Valuation Summary (Index 19701.13 at Jun 25, 2024)

Year	2021	2022	2023	2024F		2025F
EPS (USD)	507.6	532.8	557.6	681.4		811.2
YoY chg	40.6%	5.0%	4.7%	22.2%		19.0%
Current Index P/E	-	-	35.33	28.91		24.29
NAV /shr (USD)	1,760.0	1,865.2	2,248.9	2,710.8		3,141.8
YoY chg	21.6%	6.0%	20.6%	20.5%		15.9%
Current Index P/B	-	-	8.76	7.27		6.27
DPS(USD)	101.0	108.5	146.8	163.3		174.3
Current Index Dividend Yield	-	-	0.7%	0.8%		0.9%
ROAE	31.7%	29.4%	27.1%	27.5%		27.7%
DPS/EPS	20%	20%	26%	24%		21%
					2024F	
Nasdaq 100 Index	2021	2022	2023	1H24	2H24F	2025F
Peak	16,764.86	16,513.87	16,969.17	19,979.93	20,442.30	24,335.10
Trough	12,208.39	10,440.64	10,696.42	16,249.19	14,991.02	16,223.40
					2024F	
P/E	2021	2022	2023	1H24	2H24F	2025F
Peak	33.0	31.0	30.4	29.3	30.0	30.0
Trough	24.1	19.6	19.2	23.8	22.0	20.0
					2024F	
P/B	2021	2022	2023	1H24	2H24F	2025F
Peak	9.53	8.85	7.55	7.37	7.54	7.75
Trough	6.94	5.60	4.76	5.99	5.53	5.16
					2024F	
Dividend yield	2021	2022	2023	1H24	2H24F	2025F
Peak	0.83%	1.04%	1.37%	1.01%	1.09%	1.07%
Trough	0.60%	0.66%	0.86%	0.82%	0.80%	0.72%

Source(s): Bloomberg consensus, ABCI Securities estimates

Hong Kong IPO Market

Analyst: Steve Chow

- This year up to Jun 26, 2024, Hong Kong IPO market has raised US\$ 1.5bn vs. US\$ 5.8bn in 2023 amid ongoing macro headwinds
- Good start for the new listing regime for "specialist" technology companies

This year up to Jun 26, 2024, the Hong Kong IPO market has raised US\$ 1.5bn vs. US\$ 5.8bn in 2023. Twenty-seven IPOs, including Mainboard and GEM, were issued, with an average issue size of US\$ 55mn each.

In terms of industry mix, consumer discretionary accounted for 23% of the IPO volume, followed by technology (19%), industrials (14%), healthcare (13%), telecom (12%) and others (18%). In particular, there were fewer sizable IPOs during the period, illustrated by the small average deal size of US\$ 55m in Jan-Jun 26, 2024, vs. US\$ 88mn in 2023.

On a positive note, the first company under the new listing regime for "specialist" technology companies has recently been successfully listed in Hong Kong, and the second one has passed the listing hearing. This indicates a good start for this new listing regime, which targets emerging sectors such as next-generation information technology, advanced hardware and software, advanced materials, new energy and environmental protection, and new food and agriculture technologies.

Overall, Hong Kong's IPO market continues to be impacted by various macro headwinds, including a weakened economic environment, volatility in the HK/China equity market, and global geopolitical risks. In our view, these macro headwinds will likely persist in the near term and continue to hinder the near-term market outlook.

Exhibit 1: HK IPO Overview *(Jan-Jun 26, 2024)

Industry*	Volume (US\$ mn)	Avg deal size (US\$ mn)
Consumer Discretionary	344	172
Tech	281	56
Industrials	213	43
Healthcare	195	49
Telecom	174	29
Others	271	45

*Up to Jun 26, 2024

Source(s): Bloomberg, ABCI Securities



Exhibit 2: HK IPO volume and average deal size* (RHS, US\$ bn)

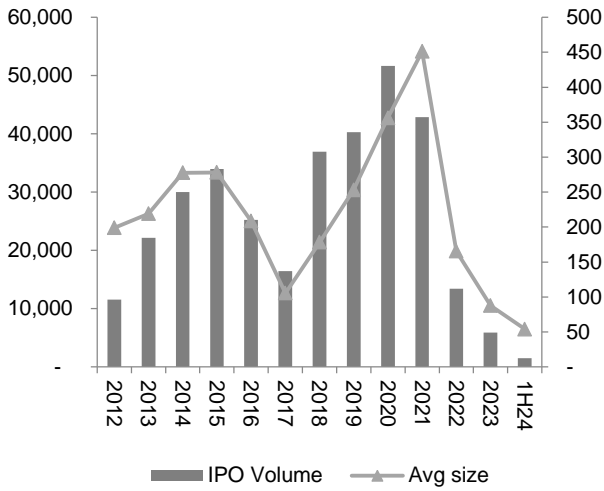
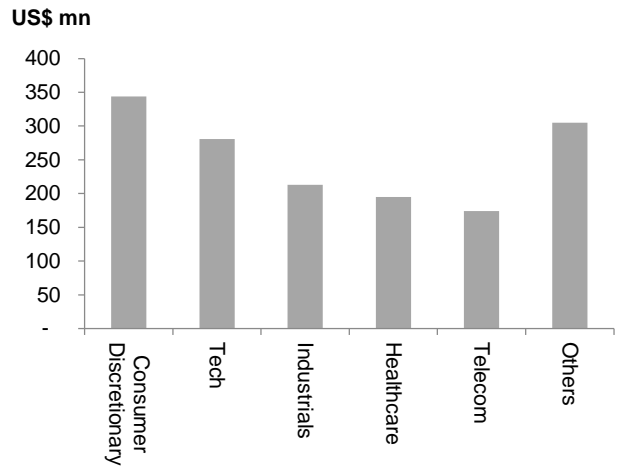


Exhibit 3: HK IPO volume by industry (Jan-Jun 26, 2024)*



*Up to Jun 26, 2024

Source(s): Bloomberg, ABCI Securities

Source(s): Bloomberg, ABCI Securities

ABCI Analysts

Sector Outlook 2H24

Note: Stocks selected and mentioned in this report are limited and may not be exhaustive due to ABCI's internal policy



OVERWEIGHT
China Banks Sector—Pending for topline growth recovery
Johannes Au

<u>Key Data</u>		<u>Sector Performance</u>	<u>Absolute</u> (%)	<u>Relative</u> (%)
H-shr		H-shr (relative to MXCN)		
Avg. 24E P/E (x)	4.17	1-mth	(3.21)	0.49
Avg. 24E P/B(x)	0.42	3-mth	12.69	4.63
Avg. 24E div yield (%)	7.48	6-mth	25.61	15.29
A-shr		A-shr (relative to CSI300)		
Avg. 24E P/E (x)	5.38	1-mth	(0.15)	2.87
Avg. 24E P/B(x)	0.53	3-mth	4.05	5.48
Avg. 24E div yield (%)	5.72	6-mth	14.34	9.13
Source(s): Bloomberg, ABCI Securities estimates		Source(s): Bloomberg, ABCI Securities		
<ul style="list-style-type: none"> ➤ Fundamental outlook remains challenging but gradual improvement may start to show ➤ Downside pressure on asset yield shall persist; funding cost management and balance sheet optimization are crucial to defending NIM ➤ Deposit funds may gradually shift to WMPs - a positive to banks' topline growth ➤ Asset quality outlook to stay benign with sufficient risk buffer ➤ Distribution of interim dividends may alter share price pattern ➤ Reiterate OVERWEIGHT sector rating for A/H markets. Prefer H-share big banks for defensiveness, promising dividend yield and relatively low valuations. ICBC-H (1398 HK) and CCB-H (939 HK) are our top picks 				

NIM pressure to reduce gradually. According to NFRA data, the sector's average NIM narrowed by 15bps QoQ and 20bps YoY to 1.54% in 1Q24. We believe the reduced NIM was mainly caused by China's interest rate down cycle and the impact of interest rate adjustments on the mortgage loan balance in 4Q23. While the effects of previous interest rate adjustments have largely been observed, the ongoing repricing of loans and potential future interest rate cuts are expected to exert additional pressure on NIM. As such, we expect NIM to be squeezed further, but the QoQ reduction will gradually decrease. Meanwhile, higher loan allocation to the five outlined segments (technology finance, green finance, inclusive finance, pension finance, and digital finance) by the government may provide some support to NIM, as demonstrated by the average new loan lending rate rising by 16bps QoQ to 3.99% in Mar 2024. Overall, in order to provide sustainable support to the real economy, we expect average new loan lending rate may continue to experience mild downside pressure. The possibility of further rate cuts would depend on the pacing of macro growth recovery. Our ABCI economist projects 1Y and 5Y LPR to be at 3.25% and 3.75% by end-2024, which implies further cuts from the 3.45% and 3.95% as of Jun 2024 (data from National Interbank Funding Center). By category, the average NIM of big banks and joint stock banks (JSBs) narrowed by 22bps and 21bps YoY to 1.47% and 1.62% in 1Q24, larger than the 18bps and 13bps YoY reduction to 1.45% and 1.72% for city/rural commercial banks, due to the former's higher obligation in social responsibility. Given the persisting yield pressure from the asset side, funding cost management and balance sheet growth & optimization will be crucial to NIM. All in all, we expect system NIM to lower by 10bps-15bps YoY for FY24E. Regulators have emphasized sustaining NIM and profits at reasonable levels since the beginning of 2024 and we believe such focus will be favorable to NIM outlook.

Net fee income growth to resume in FY25E at the earliest. To manage NIM, banks have exerted larger efforts on lowering deposit rates and curbing high-yield deposit products in 1Q24; as such, funds from deposits may gradually be redirected towards wealth management products (WMPs) that offer better yields in coming quarters. The reallocation pace, however, would be determined by the overall investment atmosphere and performance in the capital market. We believe big banks possess a more stable deposit base than the smaller ones, which helps defend from the reallocation impact. The shift of funds from deposits to WMPs may enhance the banks' topline by reducing interest expenses and increasing fee income simultaneously. Given the lackluster net fee growth in 1Q24, we believe, it is more reasonable to expect a positive YoY growth in net fee



income to occur in FY25E at the earliest. This estimate has considered the residual effect from the previous fee rate reduction in 4Q23 mandated by the regulators. Aside from the capital market performance, the recovery of retail consumption demand in the next few quarters could also drive up net fee income.

Asset quality outlook to remain stable. Asset quality remained stable in 1Q24 - the sector average NPL ratio stayed flat QoQ at 1.59% by Mar 2024. By category, the average NPL ratios of big banks/JSBs were down QoQ by 1bps at 1.25%; city commercial banks inched up by 3bps QoQ to 1.78%, and rural commercial banks stayed flat QoQ at 3.34% as of Mar 2024. We expect the overall asset quality, supported by regulators' dedication to high-quality financial development and priority in risk management, to stay benign for the rest of 2024 even though specific areas, such as the property-related sectors, will continue to pose risks. Investors' concerns regarding asset quality have shifted to a more neutral stance recently. However, it is important to note that the performance of asset quality remains closely tied to the macroeconomic recovery. Any downturn in the economy could lead to increased scrutiny of banks' risk profiles. Average provision ratio and provision coverage were down by 1bps and 60bps QoQ to 3.26% and 204.54% as of Mar 2024, implying a sufficient risk buffer in place to mitigate any potential deterioration in asset quality.

Potential change in share price pattern. Aligned with larger banks, several JSBs have announced their plans to distribute interim dividends following the release of their 1H24 results in late Aug. While specific details, including the payment date and payout ratio, are yet to be finalized, we believe this change will positively impact share prices. The introduction of interim dividends is expected to reshape the share price pattern. Historically, share prices have typically surged in late 4Q and then declined after the dividend ex-date in late 2Q. With the implementation of interim dividends, we anticipate a similar share price pattern to occur twice a year, accompanied with shorter duration and reduced volatility. This enhanced cash flow and decreased share price volatility resulting from the interim dividend scheme will likely attract long-term yield investors.

Long-term Outlook

The China banks sector is expected to face influences from policy risks and the macroeconomic outlook. In response to these challenges, larger banks are assuming greater social responsibility to support the country. While a centralized regulatory framework and a disciplined business environment are crucial for strengthening industry fundamentals in the long term, policy changes can potentially trigger short-term volatility in share prices.

Short-term Outlook

The market's attention remains fixated on the recovery of topline growth, which is closely linked to China's macroeconomic outlook. The sector's valuation in the coming quarters will be significantly influenced by the pace of economic growth. Demonstrating confirmed indications of improving fundamentals is crucial to attract value investors.

Stock Recommendations

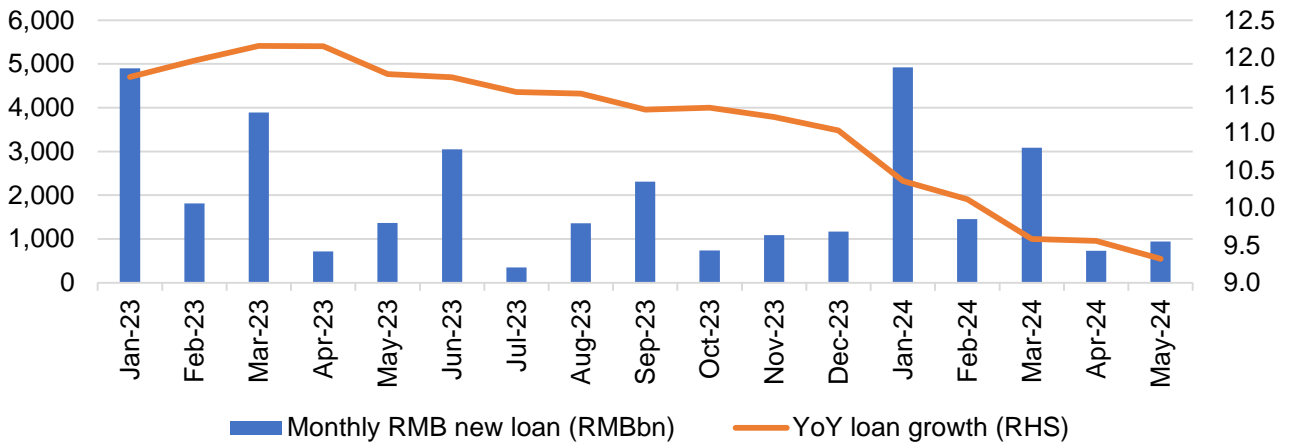
We maintain our **OVERWEIGHT** rating for the China banks sector in both A/H share markets, considering their current valuations. We anticipate an improvement in the topline outlook, while expecting stable asset quality in the coming years. To trigger a re-rating of the sector, it will be necessary to present tangible evidence of fundamental improvement. We favor the leading H-share big banks for their defensive qualities, promising dividend yield and relatively low valuations than their A-shares. Our preferred picks are ICBC-H (1398 HK) and CCB-H (939 HK).

Risk Factors

1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Increasing competition from non-bank financial institutions; 3) Sharp deterioration in asset quality in specific regions; 4) Slow macro recovery can add to social responsibility and policy risk as banks support the real economy; 5) Persisting pressure on NIM and slow revival in net fee income growth; 6) Declining ROAA and ROAE trends; 7) Issuance of additional capital and non-capital TLAC instruments to fulfill regulatory requirement.

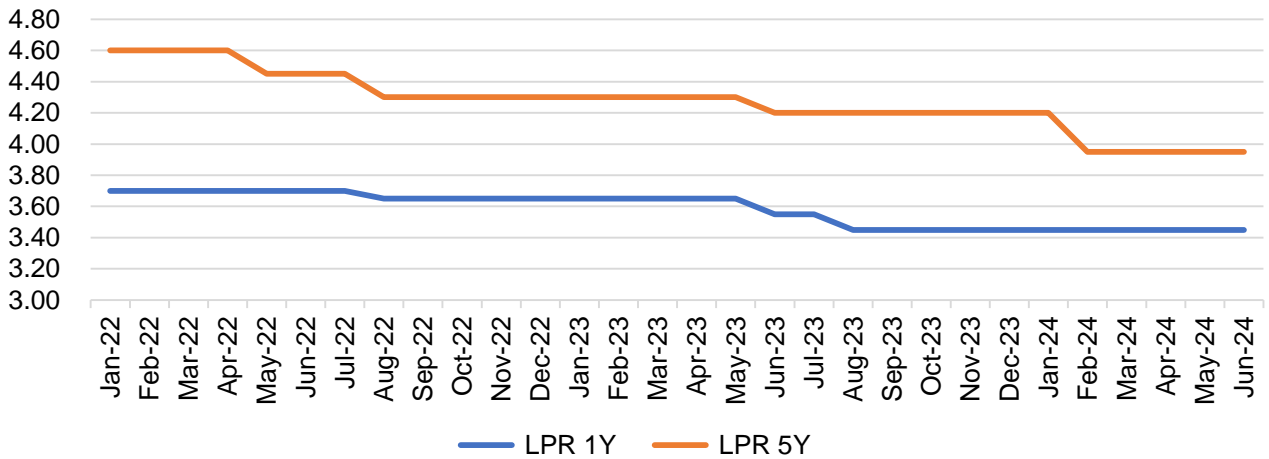


Exhibit 1: Monthly RMB new loans (RMB bn) and total RMB loan balance YoY (%)



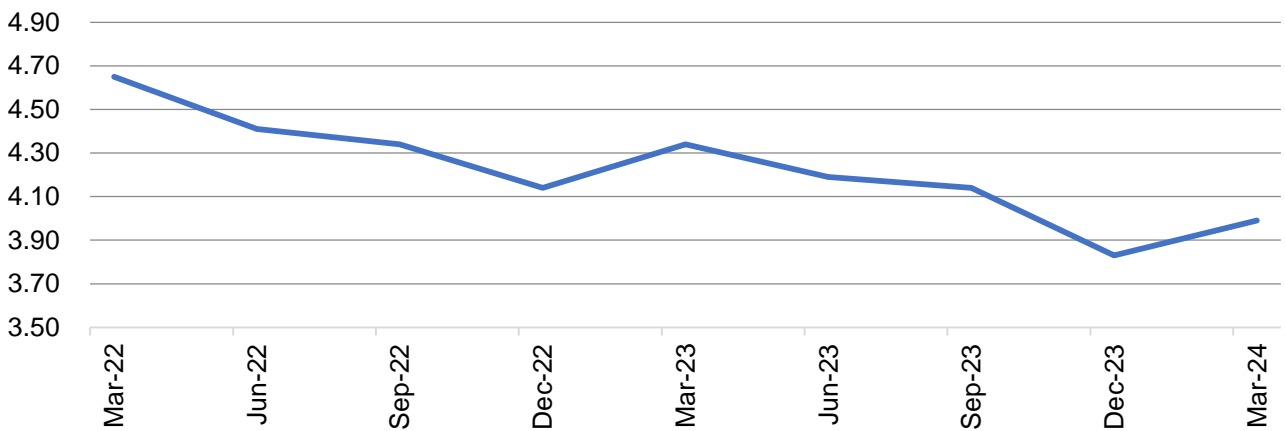
Source(s): PBOC, ABCI Securities

Exhibit 2: China LPR (%)



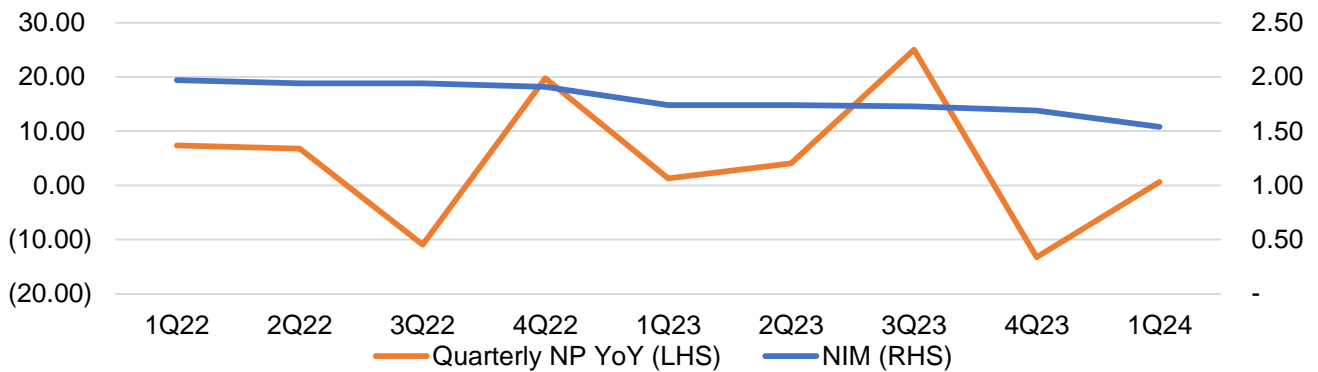
Source(s): National Interbank Funding Center, ABCI Securities

Exhibit 3: Sector monthly new loan average lending rate (%)



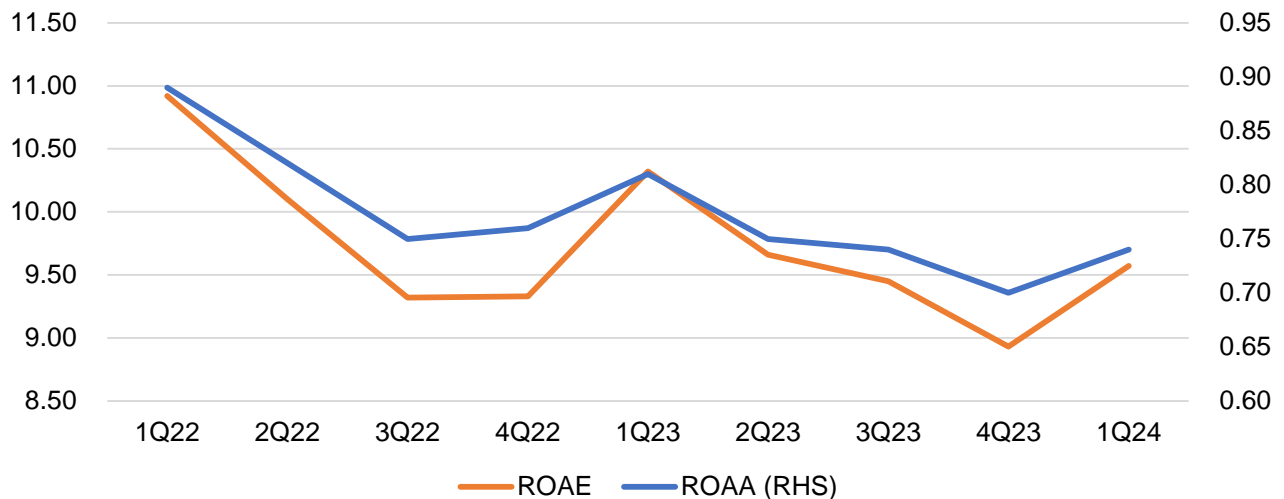
Source(s): PBOC, ABCI Securities

Exhibit 4: Sector average NIM (annualized) vs. sector quarterly net profit YoY (%)



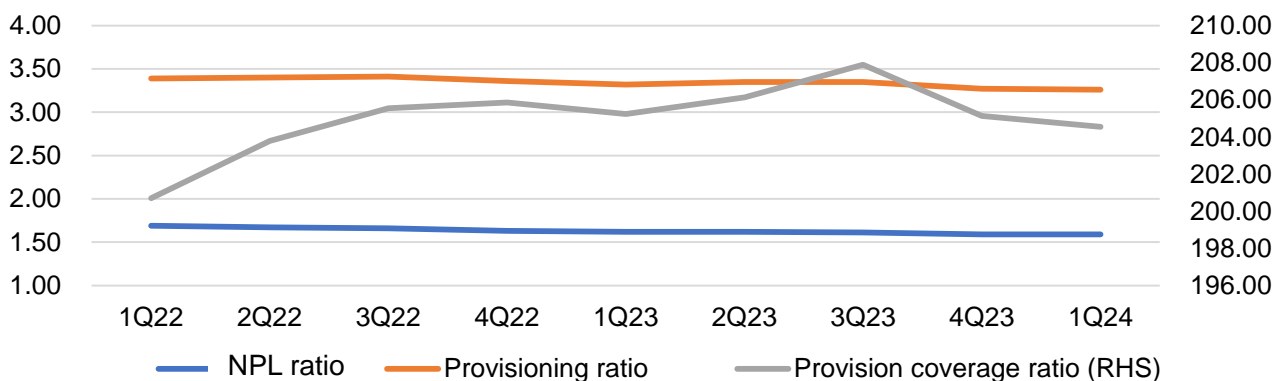
Source(s): NFRA, ABCI Securities

Exhibit 5: Sector average ROAA (annualized) and ROAE (annualized) (%)



Source(s): NFRA, ABCI Securities

Exhibit 6: Sector average asset quality indicators (% , period-end)



Source(s): NFRA, ABCI Securities

Valuation of sector top picks for H-shr market (Data as of Jun 26, 2024)

Company	Ticker	Rating	TP (HK\$)	Upside (%)	FY24E P/B(x)	FY25E P/B (x)	FY24E P/E(x)	FY25E P/E (x)	FY24E Yield (%)	FY25E Yield (%)
ICBC	1398 HK	BUY	5.17	11.90	0.42	0.39	4.32	4.19	7.20	7.39
CCB	939 HK	BUY	6.33	9.33	0.42	0.40	4.00	3.86	7.48	7.80

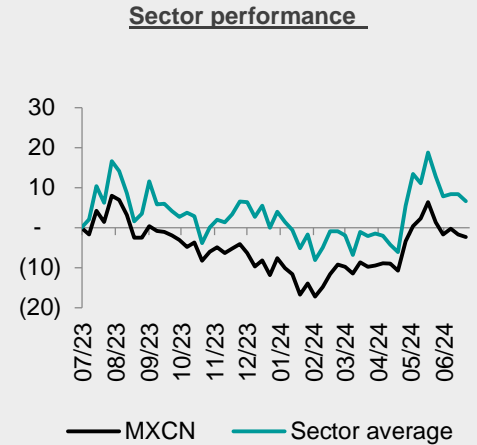
Source(s): Bloomberg, ABCI Securities estimates



OVERWEIGHT China Internet Sector– Picking the winners Steve Chow

Key Data		Sector Performance (relative to MXCN)	Absolute (%)	Relative (%)
Avg. 24E P/E (x)	12.4	1-mth	(2.6)	1.8
Avg. 24E P/B(x)	2.1	3-mth	12.3	3.0
Avg. 24E div yield (%)	1.7	6-mth	13.0	3.9
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

- Major internet platforms are actively enhancing shareholders' return
- Live-streaming and cross-border e-commerce platforms are gaining traction
- Major internet platforms have developed large language models leading to increased competition



Source(s):Bloomberg, ABCI Securities

Enhancing shareholders' return. Major internet platforms are actively enhancing shareholders' return via various initiatives such as dividends, share repurchases, disposal of non-core assets, etc. In our view, this helps to mitigate investors' ongoing concern on weak economic outlook. Nonetheless, these initiatives could be constrained by the availability of offshore funding of individual platforms.

Generative AI: Increasing competition. Since June 2023, there are over 540 AI models/algorithms being successfully registered with the Chinese regulators. Various internet companies, including Xiaomi (1810 HK), Baidu (BIDU US, 9888 HK), Ant Group, NetEase (9999 HK, NTES US), Meituan (3690 HK), Huawei, Douyin, among others, have developed their respective large language models, leading to increasing competition. In addition, some platforms have adopted an open-source AI strategy, which allows other enterprises to build their own AI models based on the open-sourced model and subsequently lowers the entry barrier of AI model development, especially for smaller enterprises. These generative AI models offer interactive features such as interactive dialogue and content (text and graphic) generation. Platforms can utilize these features to improve user experience and stickiness and explore monetization opportunities. According to CLUE, a testing platform for Chinese large language models, there has been a notable improvement in the testing scores of these Chinese models. In addition, it suggests that a few Chinese models are surpassing GPT3.5 and closing the gap with GPT4 in the Chinese language environment. On the flip side, US's export control of high-end AI chips could hinder industry development in the long run due to the intensive computing power (CPU) required for training and running these AI models.

Online shopping: Live-streaming and cross-border e-commerce are rising stars. Online shopping has slowed in recent months amid a softening economy and we expect this trend to persist. According to NBS, online sales of physical goods grew by 11.5% YoY in 5M24. By product category, online sales of food products, groceries, and apparel rose by 19.6%, 10.8%, and 9.0%, respectively, in 5M24. On a positive note, online shopping penetration rate has been on an uptrend in recent years, indicating a structural consumption shift from offline to online. We believe online shoppers have turned price-sensitive and increased their "wallet-share" towards value-to-money e-commerce platforms such as Pinduoduo (PDD US). This trend has prompted major e-commerce platforms to increase their sales and marketing efforts by raising user incentives and price subsidies. On a positive note, live-streaming and cross-border e-commerce are emerging. Platforms such as Pinduoduo and Shein are actively developing cross-border e-commerce, and growing traction has been observed in various overseas markets.

Local service: Rationalizing expansion. We see some easing of margin pressure as selected local service platforms, including Meituan, are rationalizing their expansion plans in community group purchase by



refocusing on quality growth, instead of market share gains, by lowering subsidies and increasing price mark-up, etc. Strategically, the community group purchase market has become less attractive for local service platforms as demand for food and grocery e-commerce has normalized after the pandemic, and it might be wise for platforms to devote more resources to other businesses. In the food delivery market, the increased supply of food delivery riders amid the economic downturn could alleviate some of the cost pressure resulting from raising user subsidies/incentives needed to stimulate slowing demand. The food delivery market also sees less competition due to higher entry barriers on local on-demand delivery networks.

Online gaming: Stable competition. In our view, competition in the online gaming market has been less than that in the e-commerce market, and major players have maintained their respective market positions. In our view, regulatory hurdles on new game approvals and long development cycles of blockbuster games discourage new entrants, such as short-video platforms, from expanding into the gaming realm. Nonetheless, regulatory requirements on user time for youngsters, gaming content, and monetization method, among others, have tightened over time, and online gaming platforms need to be flexible in adjusting their business models to continuous changes.

Stock Recommendations

Pinduoduo (PDD US): Pinduoduo has achieved strong revenue growth in recent quarters, implying market share gains against peers. In our view, this can be attributed to 1) solid position in the industry as a "value-for-money" platform when shoppers are turning more frugal amid a slowing economy; 2) enhanced monetization capabilities driven by operational improvement; 3) optimized product portfolio enabled by deepened cooperation with brands and continuous investments in agriculture and other areas; 4) increased contribution of Temu. Conversely, regulatory risks regarding overseas businesses remains an ongoing concern, though the company's plan to step up compliance monitoring on merchants' products and Temu's ongoing diversification from the US market would help lessen such concerns.

Kuaishou (1024 HK): Kuaishou has successfully leveraged its user traffic to live-streaming e-commerce in recent years. It is now one of the three major live-streaming platforms in China, with an estimated mid-single-digit market share in the e-commerce market. We estimate its revenue contribution related to e-commerce activities (online advertising spending, service charges, etc., by e-commerce merchants) is broadly in the 30s range.

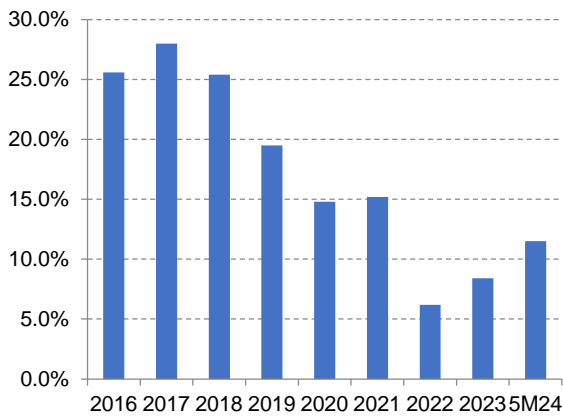
NetEase (9999 HK/NTES US): Having established a robust in-house game portfolio, NetEase is the second-largest participant in China's online gaming industry. Over the years, it has developed various blockbusters, such as "Fantasy Westward Journey" and the "Westward Journey" series. We estimate its online gaming revenue is currently at about 40% of the top online gaming platform in China, up from roughly 35% in 2020 due to the continued development of its gaming portfolio.

Risk Factors

1) Regulatory risk such as anti-trust investigations; 2) Slowdown in ecommerce and internet finance; 3) Non-GAAP financials.

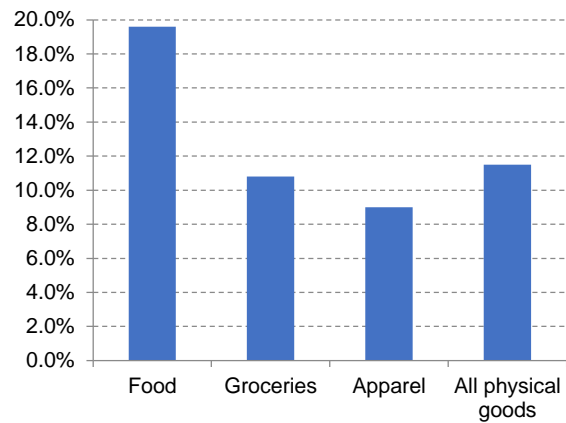


Exhibit 1: Online sales of physical goods (YoY chg)



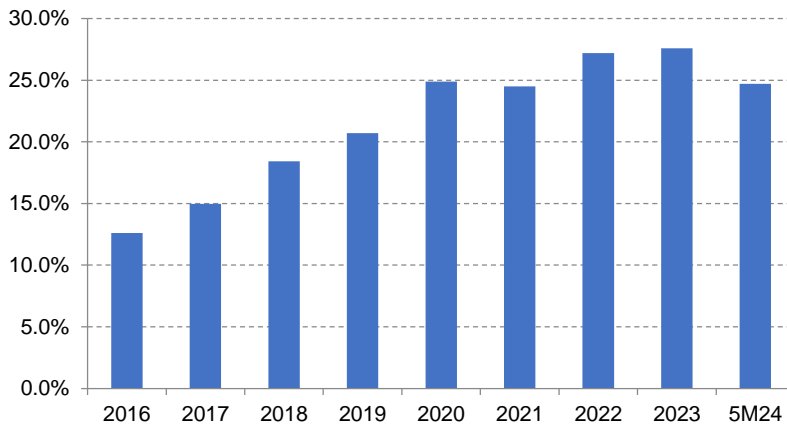
Source(s): NBS, ABCI Securities

Exhibit 2: Online sales of physical goods by category (5M24) (YoY chg)



Source(s): NBS, ABCI Securities

Exhibit 3: Online shopping penetration rate (%)



Source(s): NBS, ABCI Securities

Valuation (Data as of Jun 26, 2024)

Company	Ticker	Rating	TP	Upside (%)	FY24E P/S(x)	FY25E P/S (x)	FY24E P/E (x)	FY25E P/E (x)	FY24E Yield (%)	FY25E Yield (%)
Kuaishou	1024 HK	BUY	HK\$75	58.6	1.5	1.3	11.7	8.9	NA	NA
Pinduoduo	PDD US	BUY	US\$200	39.1	3.9	3.0	14.8	11.1	NA	NA
NetEase-S	9999 HK	BUY	HK\$200	45.7	3.7	3.3	11.8	10.8	3.4	3.7
NetEase-ADR	NTES US	BUY	US\$128	42.7	3.7	3.3	12.9	11.8	3.1	3.4

Source(s): Bloomberg, ABCI Securities estimates



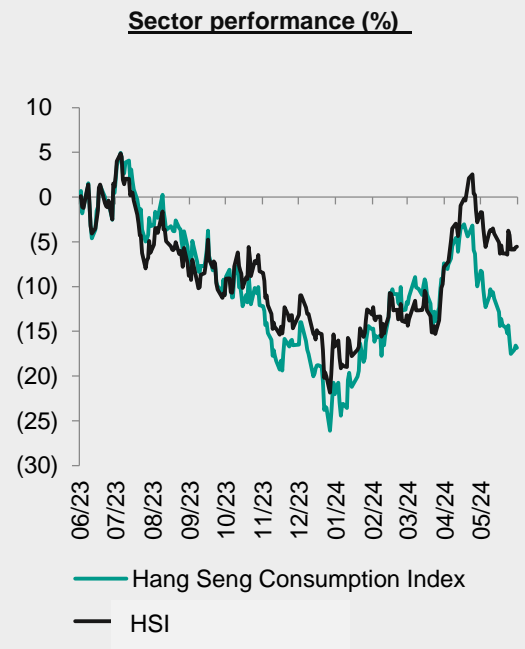
OVERWEIGHT

China Consumer Sector– Spending patterns show potential for recovery

Paul Pan

Key Data		Sector Performance (relative to HSI)		
			Absolute (%)	Relative (%)
Avg. 24E P/E (x)	17.2	1-mth	(7.7)	(4.9)
Avg. 24E P/B(x)	2.4	3-mth	(4.8)	(14.4)
Avg. 24E div yield (%)	3.9	6-mth	(0.3)	(11.0)
Source(s): Bloomberg, ABCI Securities estimates		Source(s): Bloomberg, ABCI Securities		

- The slow recovery is reflected in the retail sales performance and this year’s “618” shopping festival
- Spending in major holidays in 1H24 demonstrated relatively high growth, showing the potential for a solid recovery with the right macroeconomic conditions
- Policy support for the “Year of Consumption” promotion would help sustain the market
- Our sector rating is **OVERWEIGHT**, but we expect the performance of sector players to be affected by the slow market recovery, intensified competition, and changing market dynamics. We anticipate that sportswear companies will outperform due to the Olympics this year and the rising demand for cultural and sports-related activities driven by an expanding health-conscious consumer base



Source(s): Bloomberg, ABCI Securities

Consumer market still in recovery. Fundamental weakness remains in the consumer market. Retail sales growth has been trending down from 2M24 to Apr 2024, and bounced back slightly in May 2024. In addition, the overall GMV of all online platforms in 2024’s “618” shopping festival declined for the first time since its inception, according to SYNTUN’s data. However, tourism and holiday-related spending continue to show a relatively high growth. We expect volatile growth in the consumer market and uneven development in different segments to continue for some time.

Lackluster performance in retail sales amid macroeconomic challenges. Retail sales growth momentum declined from 5.5% YoY in 2M24 to 2.3% YoY in Apr 2024 before rebounding to 3.7% YoY in May 2024. Catering retail sales growth experienced a significant slowdown, dropping from 30% YoY in Dec 2023 to 5% YoY in May 2024. Various product categories also exhibited fluctuations in retail sales growth. Additionally, the GMV of the “618” online shopping festival in 2024 saw its first decline since its inception, despite e-commerce platforms simplifying participation rules and offering more discounts. According to SYNTUN’s data, the overall GMV of all online platforms in this year’s “618” shopping festival dropped 7.0% YoY; GMV of integrated e-commerce platforms dropped 6.9% YoY; GMV from community group buying declined by 16.8% YoY; new retail and live-streaming e-commerce saw GMV growth of 2.5% YoY and 12.1% YoY. Consumers are showing more restraint on discretionary spending and are more conservative on non-discretionary spending, favoring value-for-money options. The growth of the consumer market remains dependent on a robust macroeconomic environment and high consumer confidence. We believe that improving the macroeconomic conditions will bolster consumer confidence, leading to a resurgence in market growth.

Divergent consumer behavior shows potential for recovery. Despite the overall decline in retail sales growth, spending during major holidays in 1H24 saw strong growth. According to the Ministry of Culture and Tourism, in the eight-day Spring Festival holiday in 2024, the total number of tourists reached 474mn, up 34.3% YoY and 19.0% compared to the same holiday in 2019; spending on domestic tourism reached RMB



632.687bn, representing YoY growth of 47.3% and a 7.7% growth rate compared to the same holiday in 2019. In addition, according to MOFCOM, during the 2024 Spring Festival holiday, box office and cinema admission reached RMB 8,016mn and 163mn, representing YoY growth of 18.47% and 26.36%; key retail and catering enterprises saw revenue growth of 8.5% YoY, while key e-commerce platform saw catering sales growth of 40.8% YoY. The Qingming Festival also saw decent growth in the tourism industry. According to the Ministry of Culture and Tourism, in the three-day Qingming Festival holiday in 2024, the total number of tourists reached 119mn, representing a growth of 11.5% compared to the same holiday in 2019; total spending on domestic tourism reached RMB 53.95bn, representing a growth of 12.7% compared to same holiday in 2019. The five-day Labor Day Festival holiday showed some noteworthy spending patterns. The number of domestic tourists reached 295mn, representing a growth of 28.2% compared to the same holiday in 2019; total spending on domestic tourism reached RMB 166.89bn, representing a growth of 13.5% compared to the same holiday in 2019. The holiday spending and national retail sales figures show consumers are still willing to splurge on special occasions. Tourism remains vital in consumer spending, and major holiday events are the major drivers for consumption. We believe the market would focus on spending in the upcoming summer holiday and National Day Holiday, which would be crucial indicators of the overall health of consumer market.

Limited impact of inflation. Prices of some raw materials have been increasing recently while others are decreasing. For instance, in May 2024, the CPI for pork rose by 4.6% YoY, whereas the CPI for beef decreased by 12.9% YoY. This mixed price movement will likely lead to a modest upward inflation trend with limited impact on the consumer sector. However, we believe that certain consumer product companies, particularly those dealing in pork products, are more affected due to the upward pricing pressure on their raw materials

Policies support “Year of Consumption Promotion”. The MOFCOM has designated 2024 as “The Year of Consumption Promotion.” Key measures to stimulate consumer market growth will include cultivating and broadening new consumption modes, stabilizing and expanding traditional consumption, promoting service consumption, and optimizing the consumption environment to boost consumption. The central authorities have issued several policies aimed at tapping into potential growth drivers, including “Initiative to Promote Upgrade and Renewal of Large-scale Equipment and Consumer Products” (《推动大规模设备更新和消费品以旧换新行动方案》) and “Implementation Opinion on Promoting High Quality Development of E-commerce in Rural Areas” (《关于推动农村电商高质量发展的实施意见》). In addition, the Government work report issued in Mar 2024 also emphasized the importance of stimulating consumption growth with additional targets to address enhancement of consumer market standards and optimization of consumer market environment. In Jun 2024, the NDRC announced “Measures to create new consumption scenarios and new consumer market growth drivers”(《关于打造消费新场景培育消费新增长点的措施》), outlining measures to boost consumption in six key areas that include catering, culture, tourism & sports related consumption, new shopping experience, major consumer goods purchase, elderly care & child care, and community consumption. We believe the emphasis on cultivating consumption growth and the announcement and implementation of related measures would be favorable to the industry players’ performance. We expect the central authorities to announce additional policies to strengthen the current policy portfolio, paving the way for a stronger recovery in the consumer market.

Intensifying market competition leads to suppressed valuation. The challenging operating environment, slow growth in consumer market, and consumers’ increasing value consciousness have led to intensifying competition and uneven development among players in 2024. Companies that proactively cultivate new growth drivers or adapt to emerging opportunities will likely strengthen their leadership positions or expand their market share. Companies will also need to embrace the growing value consciousness among consumers by offering more discounts or value deals without compromising on quality. This will require dynamic adjustments in pricing strategy and product portfolio and consolidation of the value chain. We anticipate that sector players will experience varying growth and margin performances due to the changing market environment, likely leading to suppressed sector valuations. However, as macroeconomic conditions and the fundamentals of sector players begin to improve, a correction in valuations should follow suit.



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Long-term Outlook

As macroeconomic challenges persist, both corporations and consumers are adjusting their goals and expectations, impacting overall market demand and supply dynamics as well as the evolution of consumer behaviors. Companies will need to continually reassess their products and strategies to adapt to the potential risks and opportunities brought about by these changes.

Short-term Outlook

Short-term macroeconomic challenges and the slower-than-expected recovery would continue to be major hurdles for the sector. There are still opportunities in the market, but companies must adapt to changes in consumer sentiment and shifting consumer behaviors. The diverging operational performance of sector players will result in stock price volatility and variations in valuation.

Sector Rating

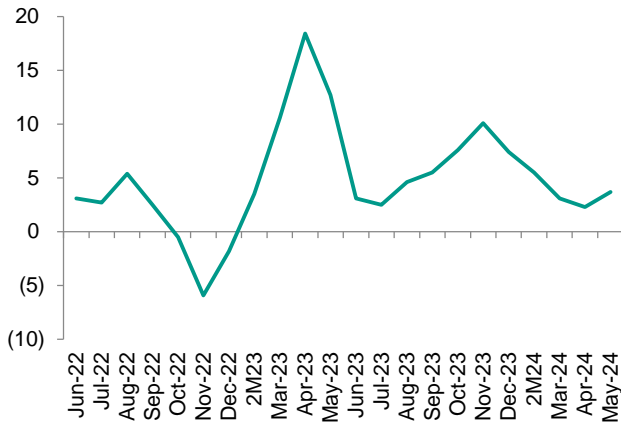
Our sector rating is **OVERWEIGHT**. However, we believe the slow recovery of the consumer market will weigh on the performance of sector players, resulting in uneven stock price and valuation levels. While leading players continue to benefit from their strong market positions, some subsegments face increased competition that threatens their dominance. We expect the sportswear subsegment to outperform, driven by the upcoming Olympics and the rising demand for culture and sports-related activities from an expanding health-conscious consumer base.

Risk Factors

1) Macroeconomic risk; 2) Fluctuating raw material costs; 3) Regulatory/policy risk; 4) Product quality/safety risk; 5) Risk of changing consumer tastes.

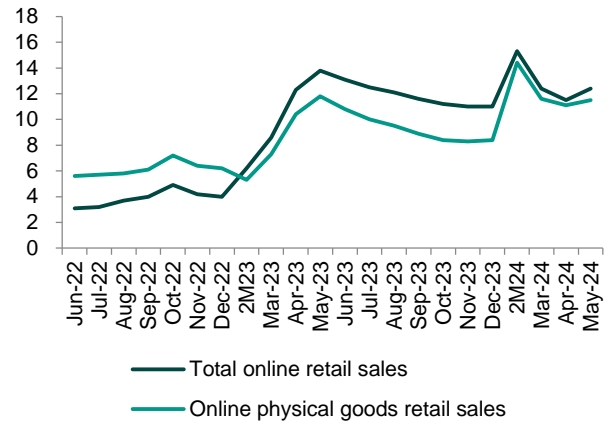


Exhibit 1: National retail sales (YoY %)



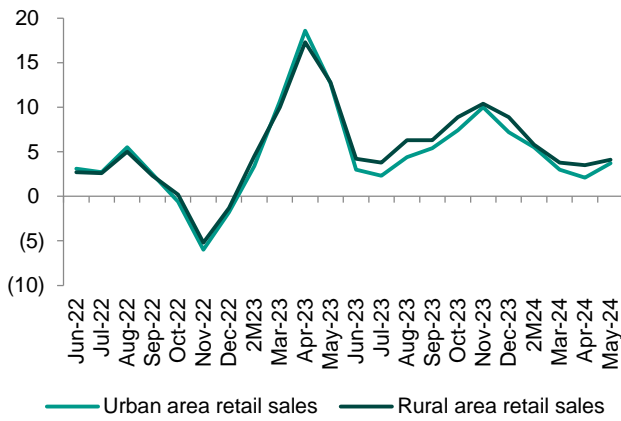
Source(s): NBS, ABCI Securities

Exhibit 2: Online retail sales (YTD YoY %)



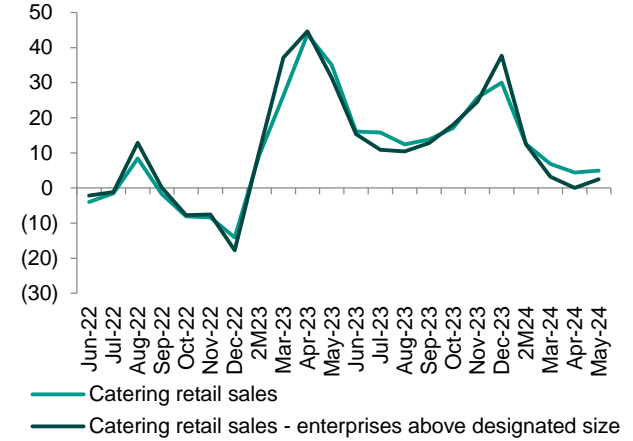
Source(s): NBS, ABCI Securities

Exhibit 3: Retail sales by region (YoY %)



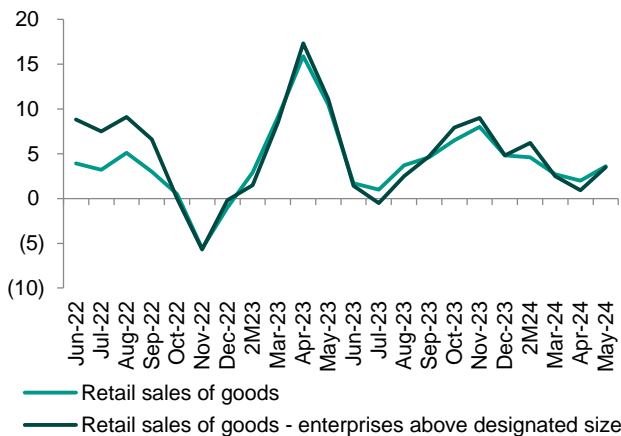
Source(s): NBS, ABCI Securities

Exhibit 4: Catering retail sales (YoY %)



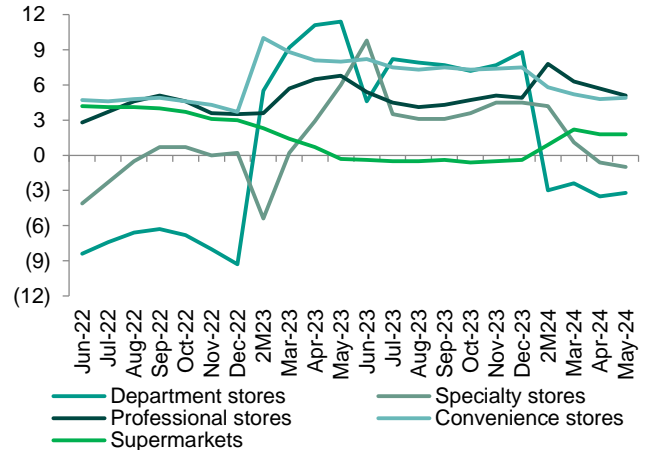
Source(s): NBS, ABCI Securities

Exhibit 5: Retail sales of goods (YoY %)



Source(s): NBS, ABCI Securities

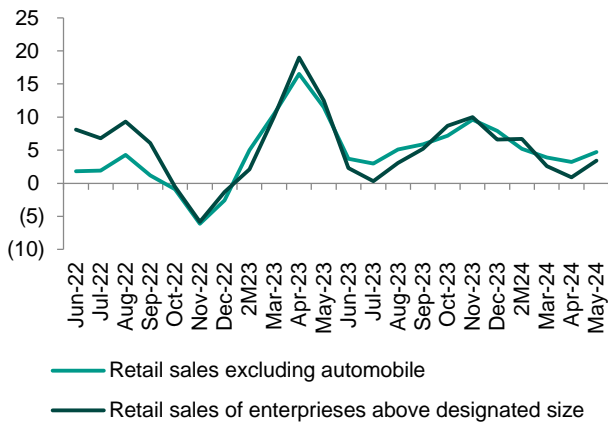
Exhibit 6: Retail sales by store format (YTD YoY %)



Source(s): NBS, ABCI Securities

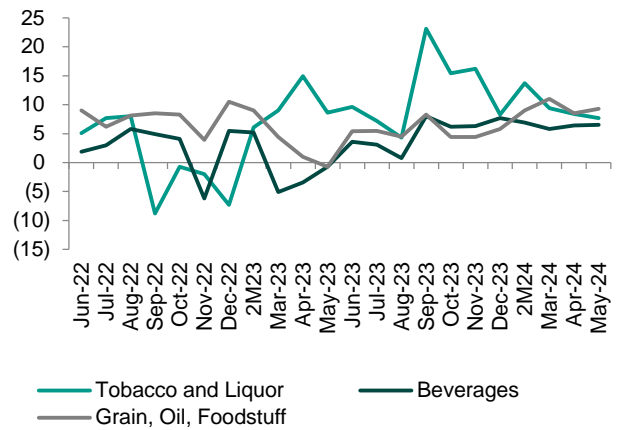


Exhibit 7: National retail sales ex. automobile & of enterprises above designated size (YoY %)



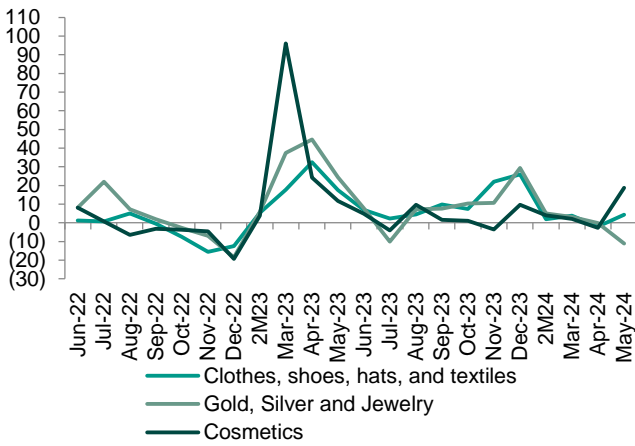
Source(s): NBS, ABCI Securities

Exhibit 8: Retail sales of selected goods (YoY %)



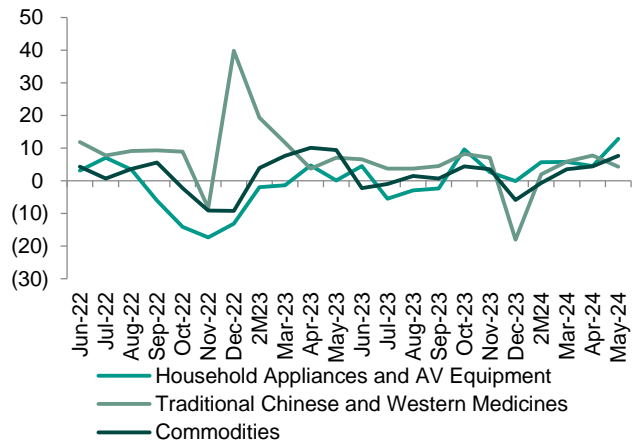
Source(s): NBS, ABCI Securities

Exhibit 9: Retail sales of selected goods (YoY %)



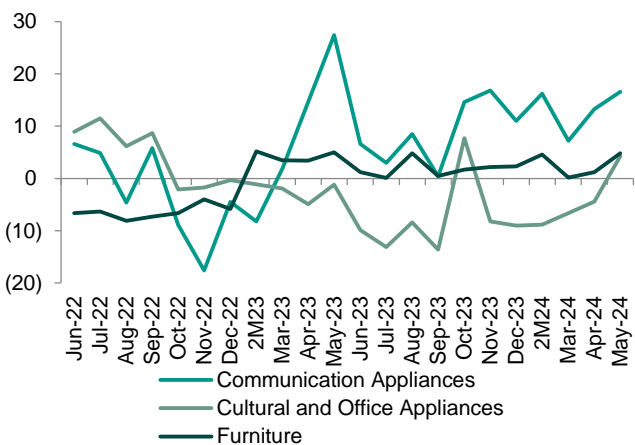
Source(s): NBS, ABCI Securities

Exhibit 10: Retail sales of selected goods (YoY %)



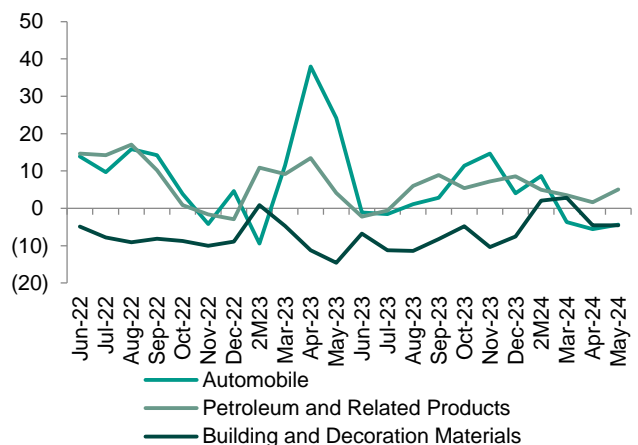
Source(s): NBS, ABCI Securities

Exhibit 11: Retail sales of selected goods (YoY %)



Source(s): NBS, ABCI Securities

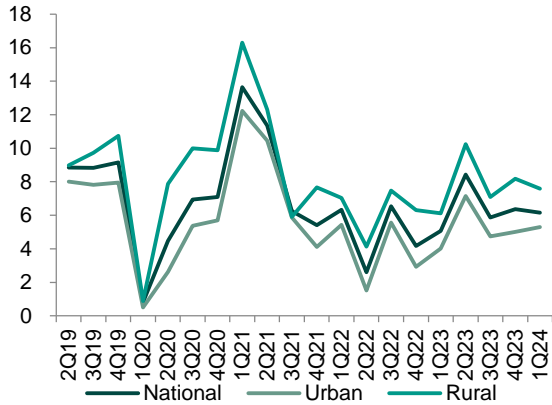
Exhibit 12: Retail sales of selected goods (YoY %)



Source(s): NBS, ABCI Securities

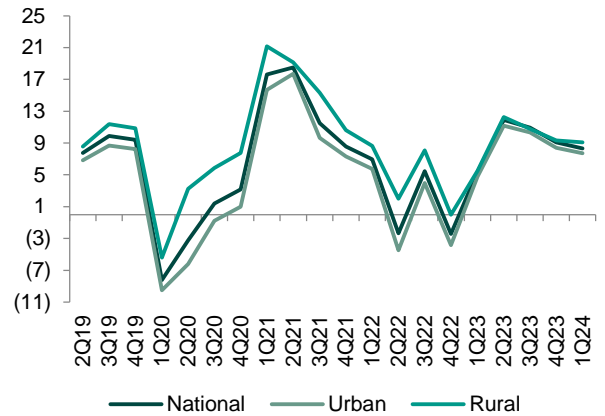


Exhibit 13: Average per capita disposable income (YoY %)



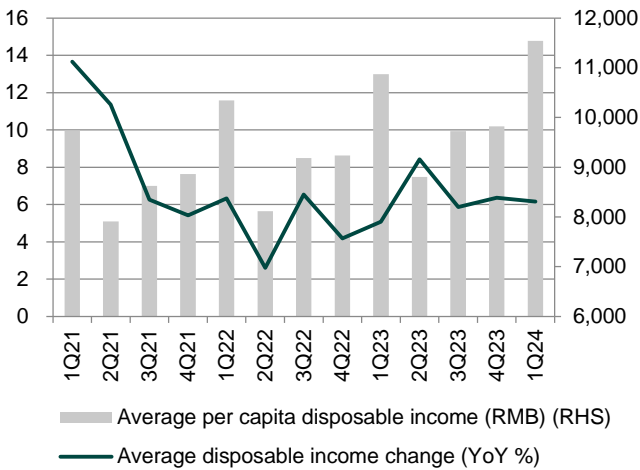
Source(s): NBS, ABCI Securities

Exhibit 14: Average per capita spending (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 15: National per capita disposable income level and change



Source(s): NBS, ABCI Securities

Exhibit 16: National per capita spending level and change

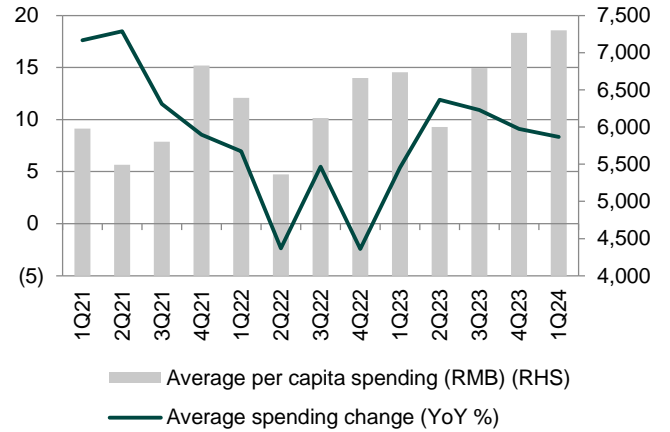


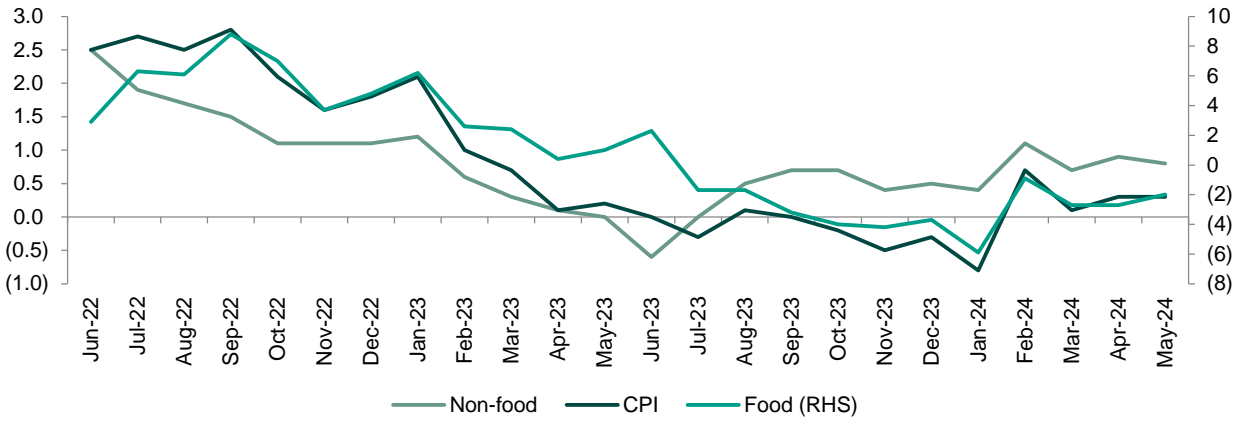
Exhibit 17: Average per capita spending-to-disposable income ratio (%)



Source(s): NBS, ABCI Securities

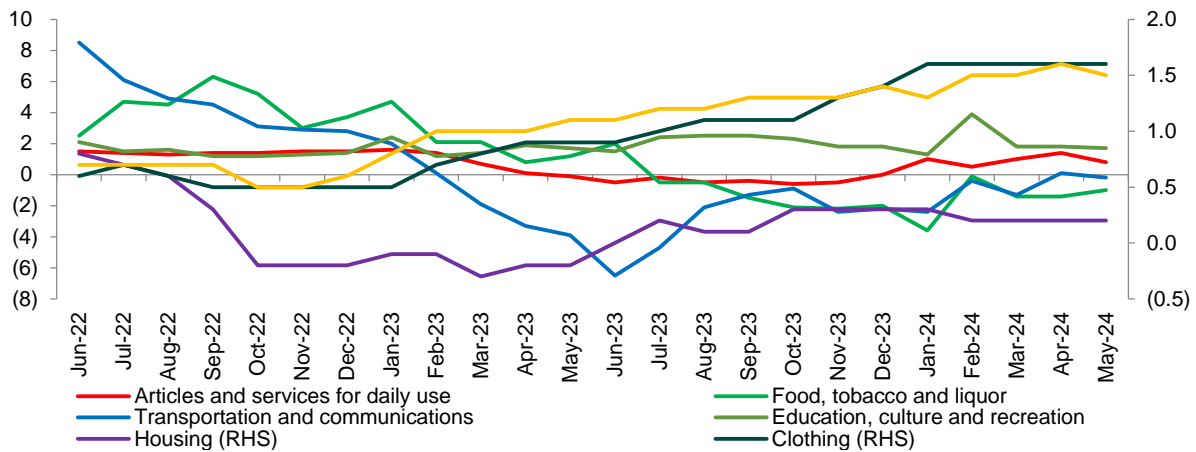


Exhibit 18: CPI (YoY %)



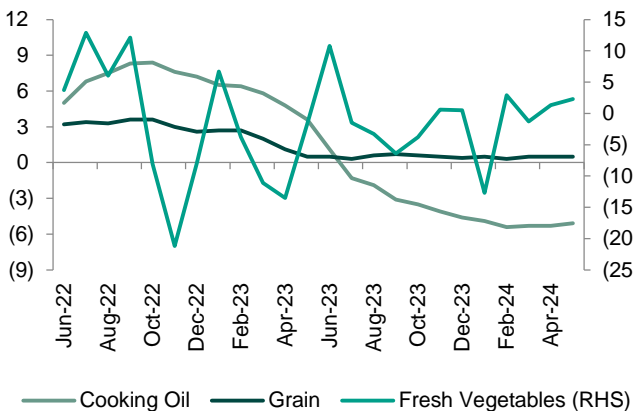
Source(s): NBS, ABCI Securities

Exhibit 19: CPI of major commodity categories (YoY %)



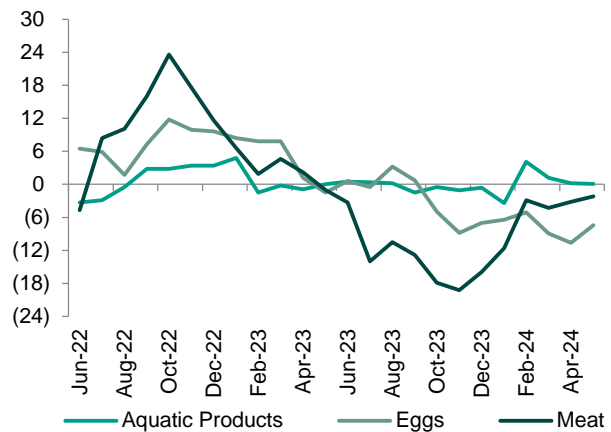
Source(s): NBS, ABCI Securities

Exhibit 20: CPI of cooking oil, grain, and fresh vegetables (YoY %)



Source(s): NBS, ABCI Securities

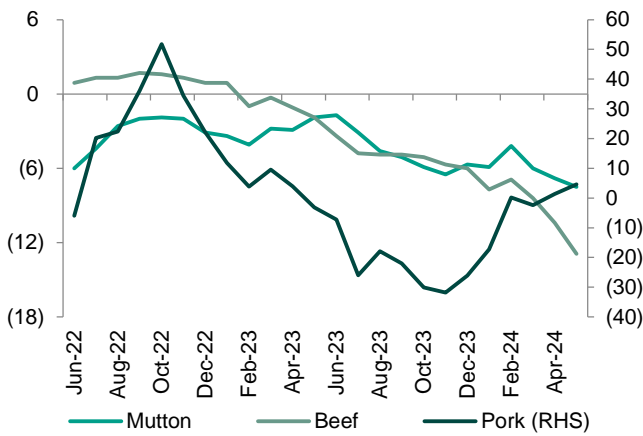
Exhibit 21: CPI of aquatic products, eggs, and meat (YoY %)



Source(s): NBS, ABCI Securities

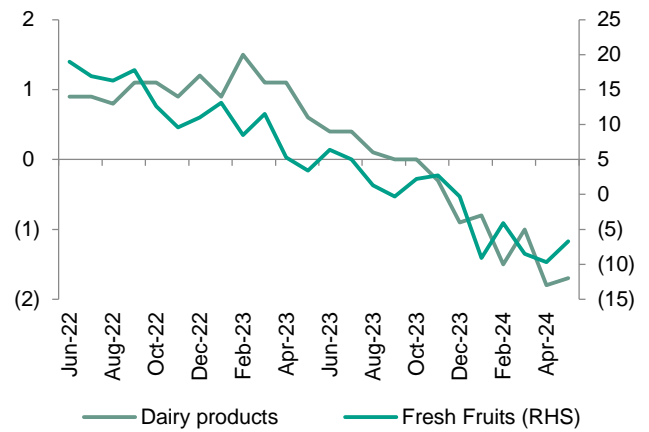


Exhibit 22: CPI of pork, beef, and mutton (YoY %)



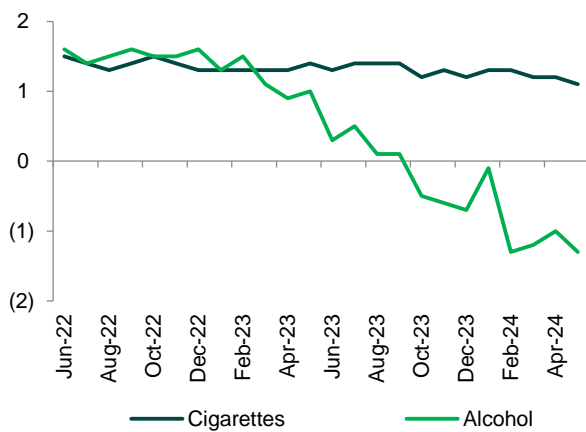
Source(s): NBS, ABCI Securities

Exhibit 23: CPI of dairy products & fresh fruits (YoY %)



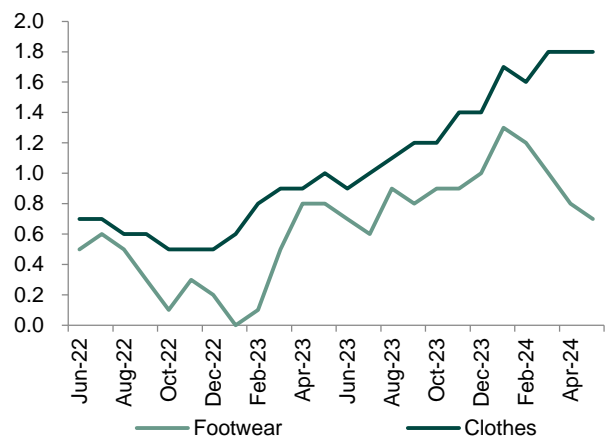
Source(s): NBS, ABCI Securities

Exhibit 24: CPI of cigarettes and alcohol (YoY %)



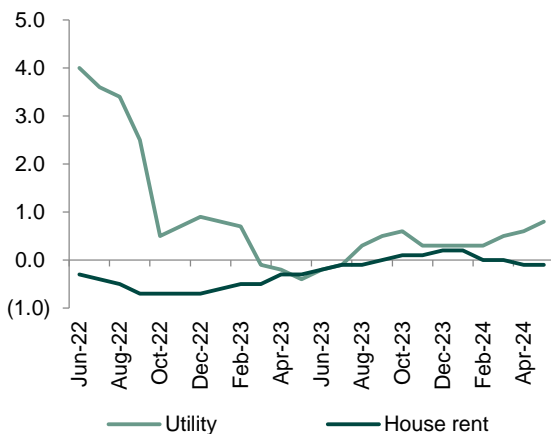
Source(s): NBS, ABCI Securities

Exhibit 25: CPI of clothing items (YoY %)



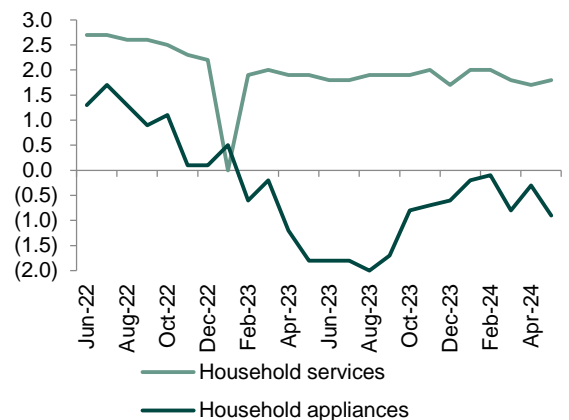
Source(s): NBS, ABCI Securities

Exhibit 26: CPI of housing items (YoY %)



Source(s): NBS, ABCI Securities

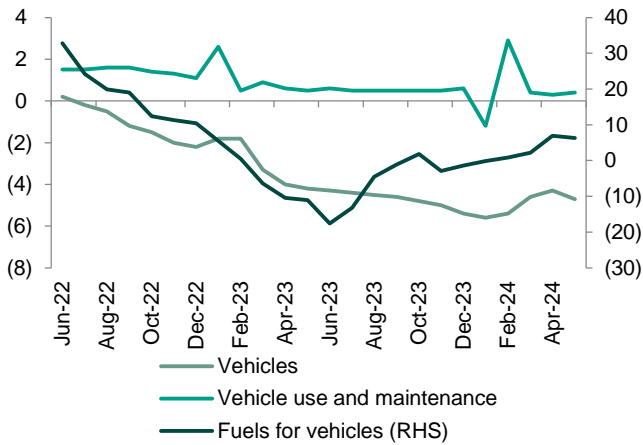
Exhibit 27: CPI of articles & services for daily use (YoY %)



Source(s): NBS, ABCI Securities

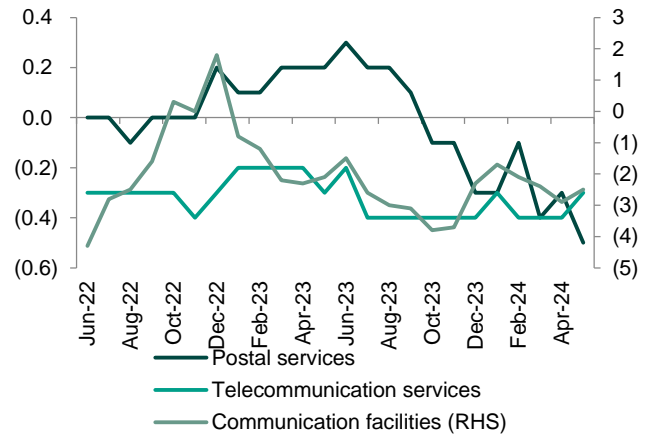


Exhibit 28: CPI of items from transportation and communications (YoY %)



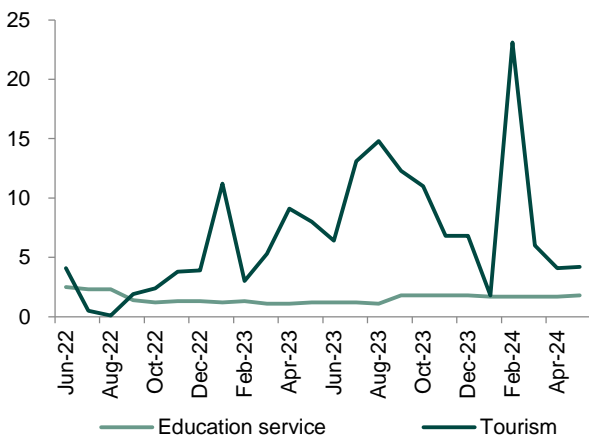
Source(s): NBS, ABCI Securities

Exhibit 29: CPI of selected items from transportation and communications (YoY %)



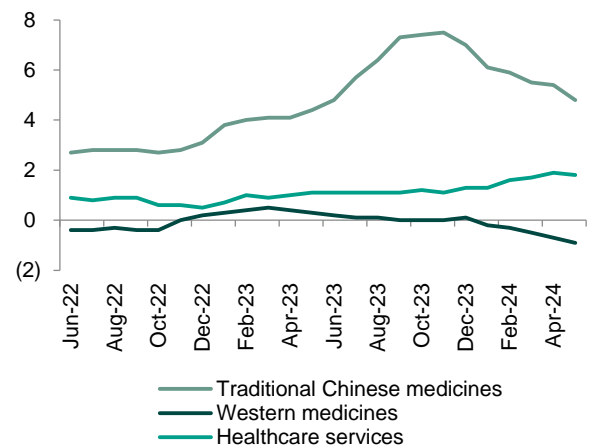
Source(s): NBS, ABCI Securities

Exhibit 30: CPI of items from education, culture and recreation (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 31: CPI of items from medical services and healthcare (YoY %)



Source(s): NBS, ABCI Securities

Valuation of sector top picks (Data as of Jun 26, 2024)

Company	Ticker	Rating	TP (HK\$)	Upside (%)	FY24E P/E(x)	FY25E P/E (x)	FY24E P/B (x)	FY25E P/B (x)	FY24E Yield (%)	FY25E Yield (%)
Anta	2020 HK	BUY	102.0	30.9	16.4	13.8	3.5	3.0	2.9	3.5

Source(s): Bloomberg, ABCI Securities estimates



OVERWEIGHT

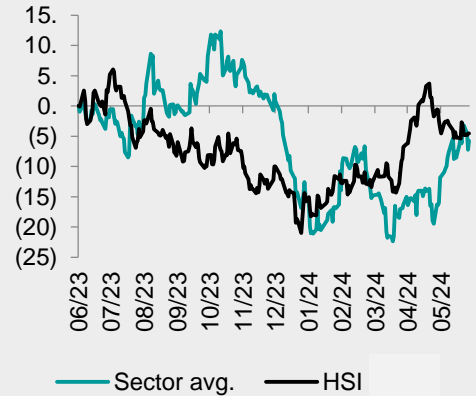
Advanced Manufacturing Sector—Domestic replacement continues to drive industry growth

Alex Bai

Key Data		Sector Performance (relative to HSI)	Absolute (%)	Relative (%)
Avg. 24E P/E (x)	39.1	1-mth	12.20	14.37
Avg. 24E P/B(x)	1.2	3-mth	11.20	0.93
Avg. 24E div yield (%)	0.4	6-mth	(6.51)	(12.54)
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

- The continuous surge in artificial intelligence (AI) is driving the demand for the chip industry
- NVIDIA is one of the biggest beneficiaries of the current AI wave
- The semiconductor industry is expected to improve in 2024, with sustained growth in demand for high-end chips.
- The demand for semiconductor products in the Chinese market remains strong
- Policy support and market demand are jointly driving growth, and Chinese semiconductor equipment manufacturers are likely to continue benefiting

Sector performance (%)



Source(s):Bloomberg, ABCI Securities

The continuous surge in AI is driving demand for the chip industry. As AI technology is increasingly applied across various fields, the need for high-performance computing capabilities and big data processing is growing, making chips an indispensable key component. Particularly driven by cutting-edge technologies such as deep learning, natural language processing, and autonomous driving, the demand for high-performance, low-power specialized chips is rising sharply. This not only accelerates the pace of innovation in chip technology but also brings new growth opportunities and challenges to the entire semiconductor industry.

NVIDIA (NVDA US) is one of the biggest beneficiaries of the current AI wave. In recent years, with the rise of generative AI and large language models (LLM), the demand for computing power chips from tech giants has rapidly increased. NVIDIA's long-term investment in GPUs has enabled it to maintain an absolute leading position in the industry. NVIDIA plans to release its next-generation AI chip, Blackwell, in 2H24 and to launch a new generation of chips annually in the coming years. We believe that the competition among tech giants in the AI field is still in its early stages, and these companies will continue to increase their investment in computing power chips to stay competitive. According to IDC, global investment in computing power is expected to grow at a CAGR of 16.5% over the next five years. Currently, NVIDIA's advantage in computing power chips is likely to ensure its strong growth continues in the coming years.

The semiconductor industry is expected to improve in 2024, with sustained growth in demand for high-end chips. According to the World Semiconductor Trade Statistics (WSTS) organization, the global semiconductor market size is projected to increase by 16.0% to US\$ 611.2bn in 2024, and further grow by 12.5% to US\$ 687.4bn in 2025. The Asia-Pacific region remains the largest market by share. Benefiting from the demand for AI computing power, the market size for memory chips is expected to achieve rapid growth.

The demand for semiconductor products in the Chinese market remains strong. According to the Semiconductor Industry Association (SIA) of the US, the Chinese semiconductor market accounts for ~30% of the global market, making it the largest market for semiconductor products. The rapid development of consumer electronics, new energy vehicles, and artificial intelligence in China will continue to boost demand for semiconductor products in the Chinese market. The Chinese semiconductor industry chain will also continue to benefit from the robust demand in China and achieve comprehensive development.



Policy support and market demand are jointly driving growth, and Chinese semiconductor equipment manufacturers are likely to continue to benefit.

In May 2024, China established the third phase of the National Chip Fund to further promote the development of the Chinese semiconductor industry. We believe that there is still a significant gap between China's chip industry chain and the global advanced level, mainly in semiconductor equipment, materials, and manufacturing. Investments from the first and second phases of the National Chip Fund have already shown some results, and the third phase will focus on the weak links in China's chip industry chain, likely increasing investment in critical areas such as lithography machines, etching machines, and thin film equipment. With the support of Chinese policies and the demand from the Chinese market, the localization rate of Chinese semiconductor equipment is set to increase, and Chinese semiconductor equipment manufacturers are expected to develop robustly.

Long-term Outlook

From a global perspective, AI is likely to be the main theme of future technological development. Driven by large models, intelligent driving, and robotics, the demand for advanced process computing chips will remain strong. Leading global chip companies are expected to continue their rapid growth. Mature process chips may continue to experience intense competition and exhibit certain cyclical nature. With policy support and the promotion of domestic substitution, Chinese semiconductor companies may seize the opportunity for sustained growth in the Chinese market.

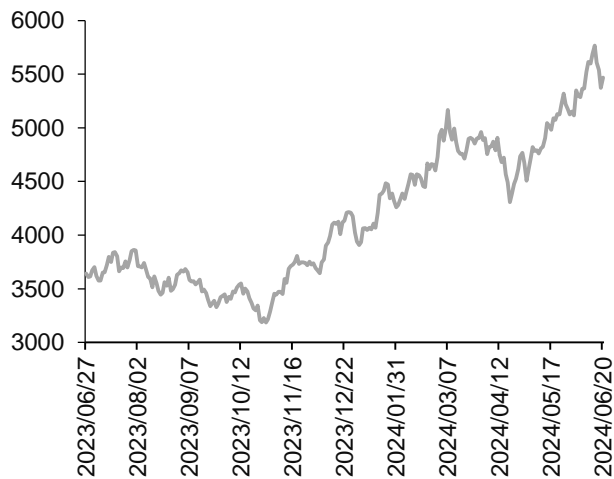
Short-term Outlook

In 2024, the consumer electronics industry is experiencing a recovery, driving a short-term resurgence in demand for chips, indicating a turning point in overall global chip demand. The Chinese market remains a major market for the chip industry, with short-term demand staying robust. Consequently, Chinese semiconductor companies are expected to maintain their growth.

Risk Factors

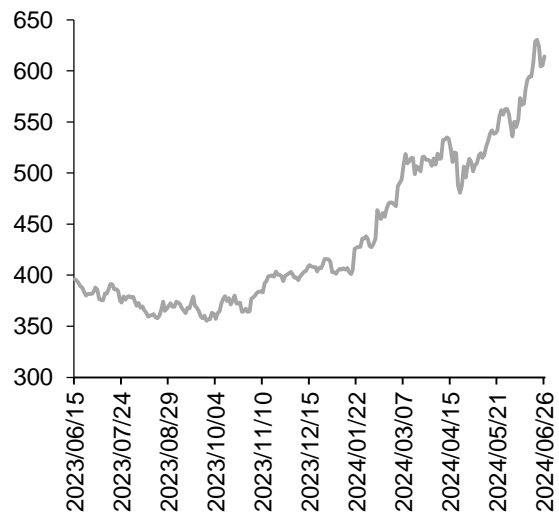
- 1) Demand may be lower than expected; 2) Geopolitical risk; 3) Competition may intensify.

Exhibit 1: PHLX semiconductor sector index (SOX Index)



Source(s): Bloomberg, ABCI Securities

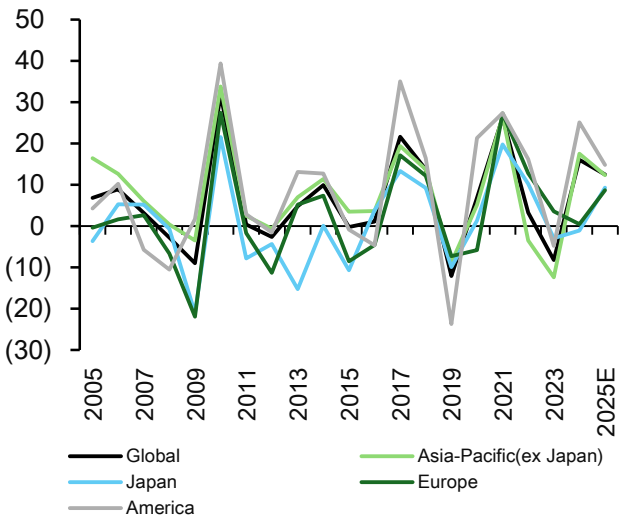
Exhibit 2: China Taiwan's semiconductor sector index (TWSESCI Index)



Source(s): Bloomberg, ABCI Securities

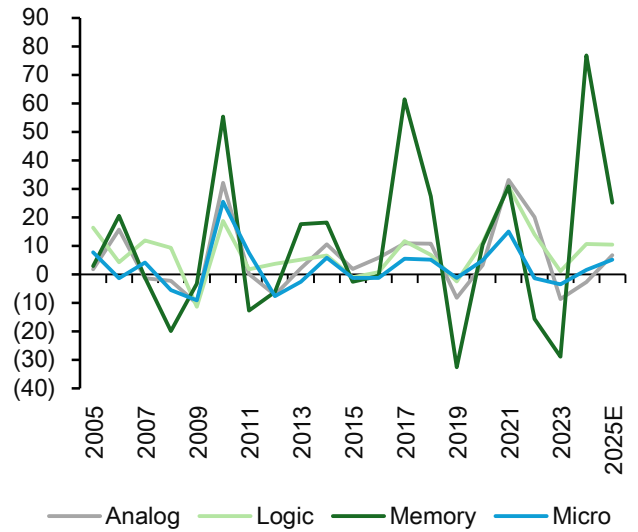


Exhibit 3: Global sales change of semiconductor market (YoY %)



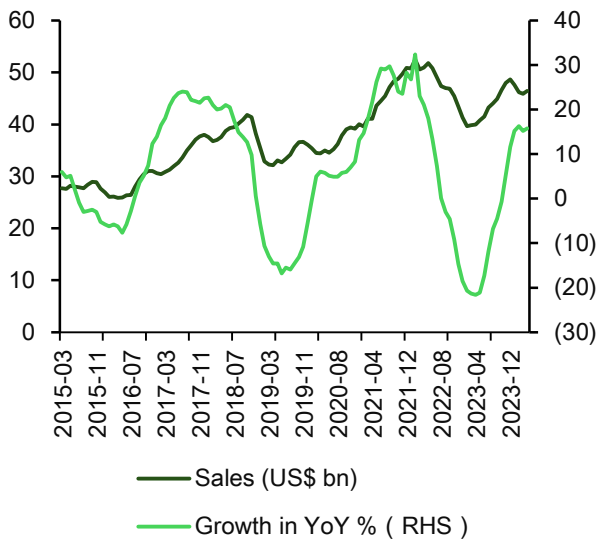
Source(s): WSTS estimates, ABCI Securities

Exhibit 4: Global sales change of semiconductor market divided by product (YoY %)



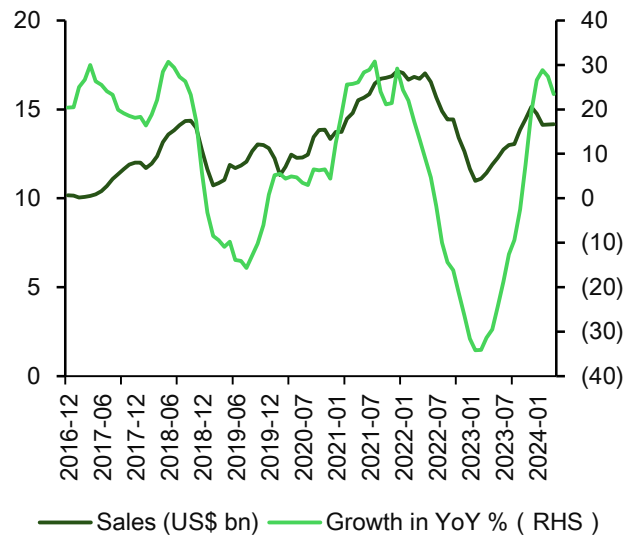
Source(s): WSTS estimates, ABCI Securities

Exhibit 5: Monthly sales of global semiconductor markets



Source(s): SIA, ABCI Securities

Exhibit 6: Monthly sales of Chinese semiconductor markets



Source(s): SIA, ABCI Securities



Disclosures

Analyst Certification

The analysts, CHAN Sung Yan, AU Yu Hang, Johannes, BAI Ge, Alex, CHOW Sau Shing, PAN Hongxing, YAO Shaohua, being the persons 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. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests (except "Disclosures of Interests" below) in relation to the listed company(ies) covered in this report, and we and/or our associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationships with ICBC, CCB, PetroChina, BOC, Xiaomi Corp, CMB, and Baidu Inc.

Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim +7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2024 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183