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Hong Kong Stock Market Weekly Review

May 24, 2024

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24/5/2024

- **Sustained Industrial Output Growth Drives Certain Industrial Metal Futures to 52-Week Highs This Week**
- **Stock Market Reacts Positively to Central Bank's New Measures Supporting Housing Market**
- **China's Telecom Service Revenue Growth Continues to Slow**
- **NEV Companies Are Undergoing Transformation**

1. Sustained Industrial Output Growth Drives Certain Industrial Metal Futures to 52-Week Highs This Week

China's industrial added value real growth rate rose from 3.6% in 2022 to 4.3% in 2023. In 1Q24, it reached 6.1% and further expanded to 6.3% in the 4M23. The monthly YoY real growth rate increased from 4.5% in Mar to 6.7% in Apr. The sustained growth in industrial output has reinforced market expectations for continued growth in demand for industrial metal raw materials. Commodity futures market traders actively pushed up base metal futures, including copper, aluminum, and zinc. On the Shanghai Futures Market, active copper and aluminum futures hit their 52-week highs this week, rising by ~22% and 8% respectively since the beginning of the year. Compared to their 52-week lows, their prices have increased by ~28% and 17%, respectively.

In the international market, the 3-month forward futures prices of copper, zinc, lead, and primary aluminum on the London Metal Exchange also reached their 52-week highs this week, rising by ~22%, 15%, 12%, and 10% respectively YTD. Compared to their 52-week lows, their futures prices have increased by ~33%, 38%, 17%, and 24%, respectively. The global manufacturing PMI stayed below 50 for 16 consecutive months from Sep 2022 to Dec 2023, but has been above 50 for 4 months in a row this year, indicating a sustained recovery in manufacturing since the start of the year. The rebound in demand for industrial metal raw materials has also boosted demand for related bulk cargo transportation services. The Baltic Exchange Dry Index (BDIY) has climbed ~38% from its Jan low and has surged nearly 96% compared to its 52-week low. We believe that the ongoing contraction of global manufacturing activities in 2022-23 has restrained the capacity of upstream industrial metal suppliers. The modest recovery in global manufacturing activities this year has already caused an imbalance in the supply and demand of some industrial metals, thereby pushing prices higher.

The rebound in industrial production is good for the macroeconomy and industrial companies, but it also poses new challenges to manufacturers, specifically the substantial rise in the cost of industrial metal raw materials used in production. Home appliance and automakers are dealing with the problem of increasing metal raw material costs. Cost pressures will grow when manufacturers use up their low-cost material inventories and begin restocking materials at higher costs in the upcoming months.

Upstream industrial metal raw material mining companies and suppliers are expected to benefit from the rise in base material futures prices. The Hong Kong stock market has also responded accordingly. Since the end of 2023, the Hang Seng Composite Materials Index (HSCIMT Index) has risen by ~38%, while the Hang Seng Index (HSI) has increased by ~9%, and the Hang Seng Tech Index (HSTECH Index) has climbed by ~1%. This week, the stock prices of MMG (1208 HK), Aluminum Corporation of China (2600 HK), Jiangxi Copper (358 HK), Zijin Mining (2899 HK), and China Nonferrous Mining (1258 HK) all hit their 52-week highs.

2. Stock Market Reacts Positively to Central Bank's New Measures Supporting Housing Market

The Hang Seng Mainland Properties Index (MSMPI), which tracks major Chinese real estate stocks listed in Hong Kong, has jumped 9% in May so far and ~22% since the end of 1Q24. The rally started with rumours about the central bank planning to support the real estate market. On May 17, the central bank announced four measures:

1) Providing RMB 300bn in loans to encourage banks to lend to local state-owned enterprises to purchase housing and convert into affordable housing;
2) Reducing the minimum down payment for first-time and second-time homebuyers to 15% and 25%, respectively;
3) Letting local governments set minimum interest rates for housing loans, making them market-oriented;
4) Cutting interest rates on housing provident fund loans by 0.25 ppt for all maturities. After the cut, the rate for first-time homebuyers with loans over five years is 2.85%, making it easier for provident fund depositors to afford housing.

Exhibit1: 5-Year LPR（red line, LHS）vs. HSMPI (black line, RHS)

Source(s): Bloomberg, ABCI Securities

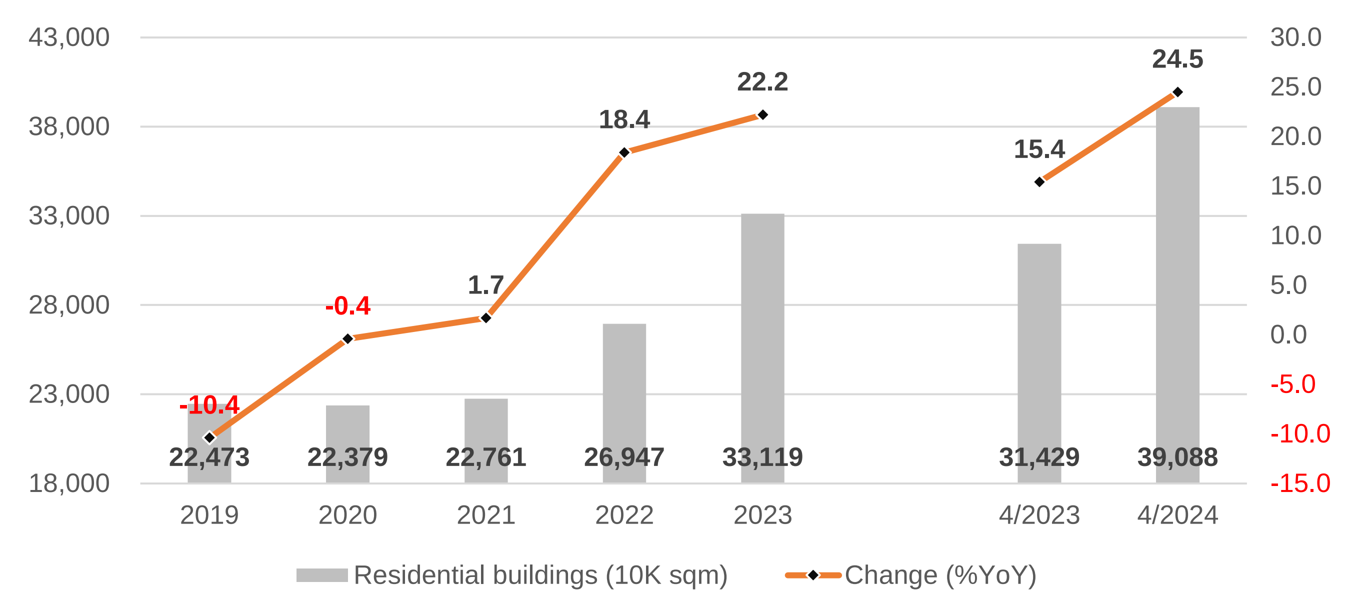
RMB 300bn Re-Lending Facility Established for Affordable Housing

The re-lending facility encourages banks to support local SOEs in buying unsold commercial housing at fair prices, following market and legal principles. The purchased housing will be used for affordable housing, either for sale or rent. The central bank expects this to drive RMB 500bn in bank loans. If all re-lending is used and local SOEs provide 30%-50% of their own funds, with a loan-to-value ratio of 50-70%, the total housing purchase will be between RMB 700bn and RMB 1tr. Assuming an average price of RMB 10,000/sqm, the potential housing purchase volume is 71-100mn sqm. This equals 18-25% of the unsold completed housing inventory at the end of Apr 2023.

Scenario Analysis

- Affordable Housing Re-Lending: RMB 300bn (equivalent to 60% of the loans granted by commercial banks to enterprises)
- Housing Purchase Loans granted by Commercial Banks to Enterprises: RMB 500bn
- Assumed Loan-to-Value Ratio: 50-70%
- Funds Provided by Borrowers (Local SOEs): RMB 210-500bn
- Funds Provided by Borrowers + Commercial Bank Loans: RMB 710-1,000bn
- Assumed Average Purchase Price: RMB 10,000/sqm
- Potential Housing Purchase Volume: 71-100mn sqm

Exhibit 2: Completed Residential Housing Inventory* (LHS, Area), RHS (YoY chg)
After 2021, new housing sales began to stagnate. At end-Apr 2024, the completed residential housing inventory reached 390mn sq m.



Note*: Completed residential housing inventory refers to the construction area of completed commercial housing available for sale or rent at the end of the reporting period that has not yet been sold or rented out. This includes the housing area completed in previous years and the current period.
Source: NBS, ABCI Securities

Investment Banking Opportunities

For local SOEs, buying market housing and turning it into affordable housing will tie up a lot of financial resources, which may harm their financial health. Investment banks or securities firms can help local SOEs package the affordable housing into REITs and sell the REITs to investors like pension funds, insurance funds, and wealth management.

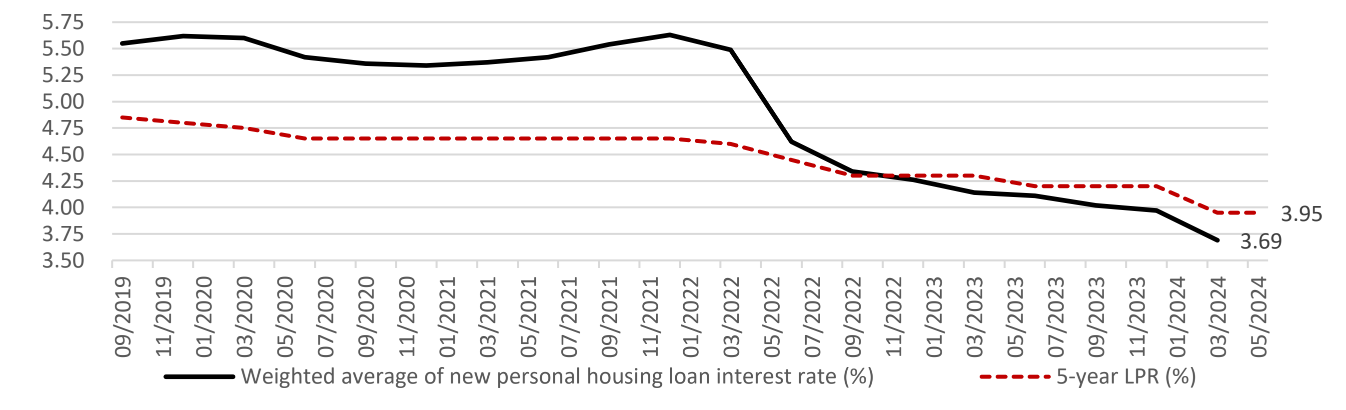
The minimum down payment ratios for first and second homes have been cut from 20% and 30% to 15% and 25%

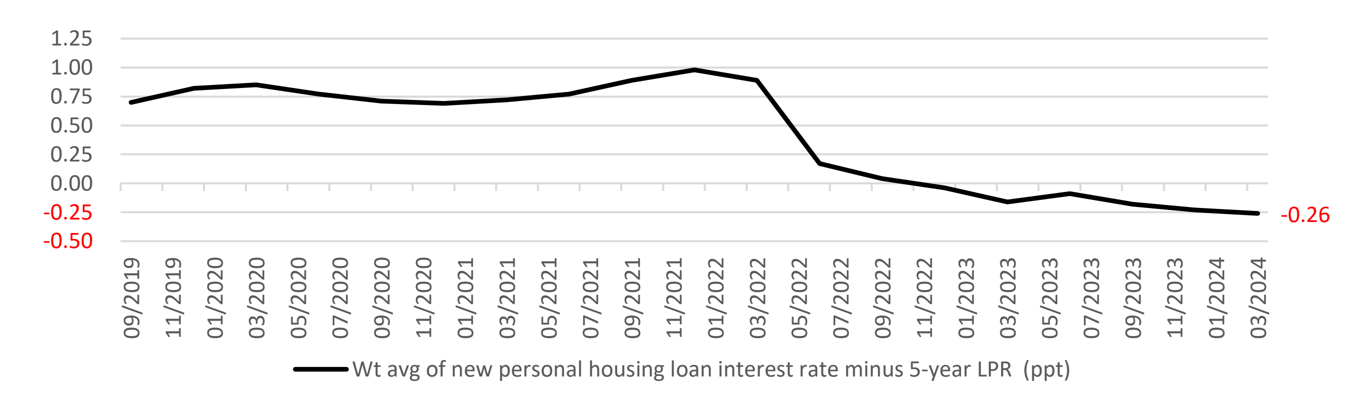
Based on data from the NBS, in 4M24, the average price of new housing nationwide was RMB9,978/sq m, the sales of new housing were RMB 2,445.3bn, and the sales area of new housing was 245.07mn sqm. For a 100 sqm home, assuming a price of ~ RMB10,000/sqm, the down payment will be reduced by about RMB 50,000.

Removal of National Lower Limit on Personal Housing Loan Rates

The lower limit on rates for first and second home loans will no longer be set, letting housing loan rates be market-driven. According to PBOC, the weighted average rate for new housing loans in Mar was 3.69%, down 28bps from Dec 2022 and 26bps lower than the 5-year LPR. PBOC stated that banks should set the specific rate for each loan based on the lower limit of rates set by the rate pricing mechanism at the provincial level (if any), along with factors like the bank's operating conditions and customer risk status. We believe the new arrangement will benefit high-net-worth borrowers who can negotiate lower housing loan rates. For banks, the profit margin in the housing loan market is getting thinner.

Exhibit 3: (Top): Weighted Average Interest Rate of New Housing Loans (%) vs. 5-Year LPR (%) (Below): Interest Rate Spread = Weighted Average Interest Rate of New Housing Loans minus 5-Year LPR (ppt)



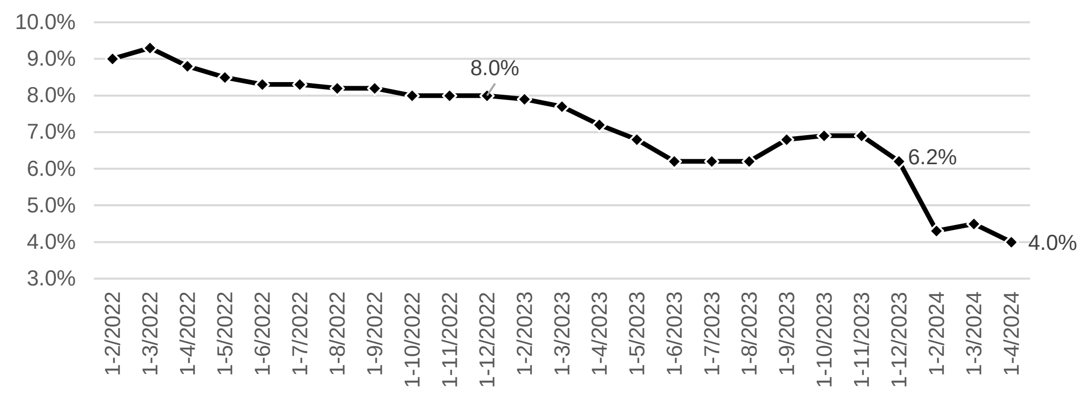


Source(s): PBOC, Bloomberg, ABCI Securities

3. China's Telecom Service Revenue Growth Continues to Slow

According to the Ministry of Industry and Information Technology (MIIT), from Jan-Apr, the cumulative revenue of the telecommunications industry reached RMB ~592.4 bn, a YoY increase of 4%. The total volume of telecom services calculated at constant prices from the previous year increased by 12.5% YoY. In terms of absolute revenue growth rate, the growth momentum continues to weaken. The YoY growth rate of telecom service revenue slowed down from 7.2% in 1Q23 to 6.2% for the full year of 2023, 4.5% in 1Q24, and 4.0% in Jan-Apr 2024. The deceleration in cumulative revenue growth implies that the revenue growth rate in Apr may slow to around 2-3%.

Exhibit 4: YoY Change in Telecom Service Revenue



Source(s)：MIIT, ABCI Securities

The three main sources of telecom service revenue are mobile data services, emerging services (including IPTV, internet data centers, big data, cloud computing, internet of things, etc.), and internet broadband services. In 4M24, these three main revenue sources accounted for 36.6%, 25.5%, and 15.1% of total telecom service revenue respectively, with a combined share of 77.2%.

Mobile data services, the largest revenue source for the telecom service industry, saw flat growth in the first four months of 2023, a 0.9% YoY decline for the full year of 2023, and a 1.3% YoY decline in 1Q24. In 4M24, revenue declined by 1.0% YoY to RMB 216.9 bn. The growth momentum of this business segment shows a marginal downward trend. Therefore, this segment is not driving revenue growth but rather dragging down the growth of total industry revenue.

Emerging services are currently in a high-growth stage, but the growth rate has slowed down significantly compared to last year. In 4M24, emerging services like IPTV, internet data centers, big data, cloud computing, and IoT generated a total revenue of RMB 150.8bn, a YoY increase of 11.2%. The YoY growth rate of emerging service revenue slowed from 22.3% in 4M23 to 19.1% for 2023, 12.2% in 1Q24, and 11.2% in 4M24. This suggests revenue growth for this business slowed to ~8-9% in Apr 2024.

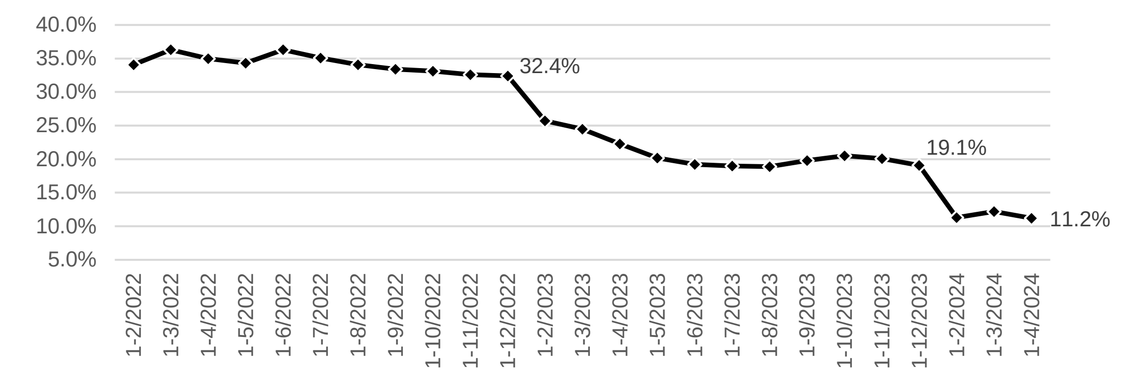
Cloud computing service revenue growth slowed from 50.7% YoY in 4M23 to 37.5% for 2023, 17.4% in 1Q24, and 16.0% in 4M24, implying revenue growth slowed to 11-12% in Apr 2024.

IoT revenue growth slowed from 26.1% YoY in 4M23 to 20.3% for 2023, 14.3% in 1Q24, and 14.5% in 4M24, suggesting revenue growth rebounded to ~15% in Apr 2024.

Big data service revenue growth slowed from 45.4% YoY in 4M23 to 37.5% for 2023 and 37.3% in 1Q24, but increased to 44.1% in 4M24, implying revenue growth rebounded significantly to ~65% in Apr 2024.

Cloud computing services likely account for the majority of total emerging service revenue, so the slowdown in cloud computing service revenue growth has led to a significant slowdown in total emerging service revenue growth. The price war between public and private cloud service providers may be the reason for this slowdown.

Exhibit 5: YoY Change in Emerging Service Revenue



Source(s): MIIT, ABCI Securities

Broadband service revenue is the third-largest revenue source for telecom services. The growth is also slowing. Revenue growth improved from 5.9% YoY in 4M23 to 7.7% for 2023, but fell to 6.1% in 1Q24 and 5.6% in 4M24, suggesting growth slowed to ~4% in Apr 2024.

Traditional voice service revenue continues to decline. In 4M24, fixed-line voice and mobile voice revenue fell by 0.9% and 3.1% YoY, respectively. These two businesses account for ~7.2% of total telecom service revenue.

Overall, given the continued decline in mobile data service revenue and weak growth in broadband and emerging services, the slowdown in revenue growth for telecom services may persist.

Exhibit 6: Telecom Service Revenue Trend of the Three Major Telecom Operators

	1-4/2023	1-6/2023	1-12/2023	1-3/2024	1-4/2024
Telecom Service Volume YoY Growth Calculated Based on Constant Prices of the Previous Year	17.6%	17.1%	16.8%	13.4%	12.5%
Telecom Service Revenue (RMB 100mn)	**5,699**	**8,688**	**16,835**	**4,437**	**5,924**
YoY Change	7.2%	6.2%	6.2%	4.5%	4.0%
Main Items:					
1.Mobile Data (RMB 100mn)	**2,191**	**3,356**	**6,368**	**1,598**	**2,169**
YoY Change	0.0%	0.2%	-0.9%	-1.3%	-1.0%
2. Emerging Services such as IPTV, Internet Data Centers, Big Data, Cloud Computing, and IoT (RMB 100mn)	**1,250**	**1,880**	**3,564**	**1,174**	**1,508**
YoY Change	22.3%	19.2%	19.1%	12.2%	11.2%
Including:					
Cloud Computing Revenue YoY Change	50.7%	38.1%	37.5%	17.4%	16.0%
Big Data Revenue YoY Change	45.4%	45.3%	37.5%	37.3%	44.1%
IoT Revenue YoY Change	26.1%	25.7%	20.3%	14.3%	14.5%
3.Internet Broadband Service (RMB 100mn)	**847**	**1,301**	**2,626**	**662**	**892**
YoY Change	5.9%	6.3%	7.7%	6.1%	5.6%
4.Fixed-line Voice Service (RMB 100mn)	**62.8**	**96**	**185**	**44.7**	**62.2**
YoY Change	-9.4%	-7.5%	-8.0%	-6.3%	-0.9%
5.Mobile Voice Service (RMB 100mn)	**378.6**	**572**	**1,108**	**267.0**	**366.4**
YoY Change	0.6%	-2.5%	-2.5%	-4.5%	-3.1%

Source(s)：MIIT, ABCI Securities

4. NEV Companies Are Undergoing Transformation

NEV makers have released 1Q results. A key highlight is the growth in non-vehicle sales revenue and profit margins. Given the fierce competition in China's NEV market, some automakers are trying to expand revenue sources beyond vehicle sales to areas like services, charging stations, parts, and tech services. Tesla (TSLA US), for example, has repeatedly said it's a tech company, not just a car company, and that cars are a means to sell tech services.

In 1Q24, XPeng (9868 HK) reported vehicle sales revenue of RMB 5.54bn and non-vehicle sales revenue of RMB 1.0bn. However, vehicle sales gross margin was low at 5.5%, while non-vehicle sales gross margin was high at 53.9%. This big difference meant vehicle sales gross profit was RMB 302mn, while non-vehicle sales gross profit was RMB 541mn, making non-vehicle sales the main profit driver.

A similar trend was seen at Li Auto (2015 HK). In 1Q24, non-vehicle sales revenue rose to RMB 1.38 bn, up 200% YoY. Non-vehicle sales gross profit grew to RMB 590mn, up 186% YoY. In the same period, vehicle sales revenue and gross profit increased to RMB 24.3 bn and RMB 4.7 bn, up 32% and 29%, respectively. While vehicle sales still make up most of the revenue and gross profit, non-vehicle sales growth far outpaced vehicle sales. In 1Q24, non-vehicle sales gross margin was 43.0%, while vehicle sales gross margin was 19.3%.

Despite Li Auto and XPeng successfully boosting non-vehicle sales revenue and gross profit, NIO (9866 HK) has not seen the same results. NIO has not yet released 1Q24 results. In 4Q23, its non-vehicle sales revenue was RMB 1.66 bn, up 27.6% YoY, but this segment recorded a gross loss of RMB 560mn.

NEV companies are also trying to expand sales networks to increase sales volume. We believe raising sales volume is not easy. Sales per store will be a useful metric for evaluating sales network efficiency. We think product and sales staff competitiveness can be better reflected in average daily sales per store.

As of end-1Q24, XPeng had 574 stores in 178 cities. In 1Q24, they delivered 21,821 vehicles. On average, each store sold ~38 vehicles in 1Q24, or 0.418 vehicles per day. This means a store needs 2.4 days on average to sell one vehicle.

As of end-1Q24, Leapmotor (9863 HK) had 510 stores in 182 cities. In 1Q24, they delivered 33,410 vehicles. On average, each store sold ~66 vehicles in 1Q24, or 0.717 vehicles per day. This means a store needs 1.4 days on average to sell one vehicle.

As of end-1Q24, Li Auto had 474 stores in 142 cities. In 1Q24, they delivered 80,400 vehicles. On average, each store sold ~170 vehicles in 1Q24, or 1.848 vehicles per day.

Among the three automakers, Li Auto has the best sales efficiency. For sales staff, higher store sales led to higher commissions. Salespeople are usually motivated when they can earn more. Therefore, recruiting and retaining high-quality sales staff to increase per-store sales is challenging.

Exhibit 7: XPeng's gross margin trend

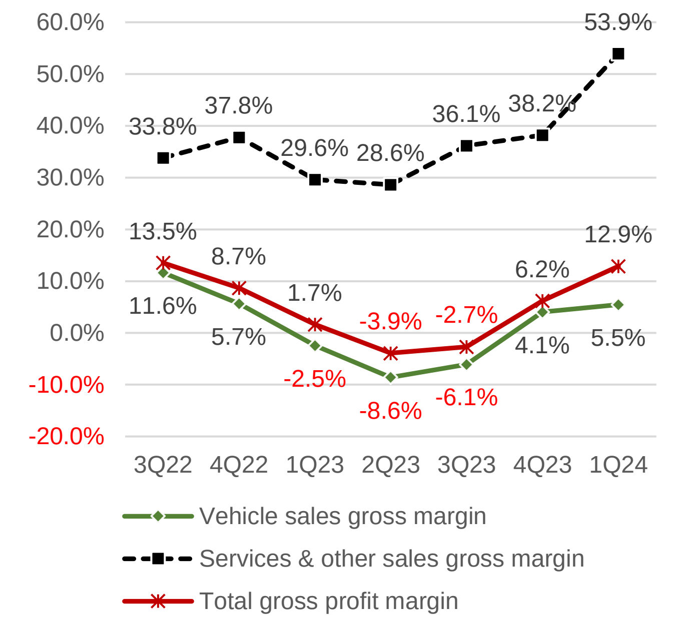
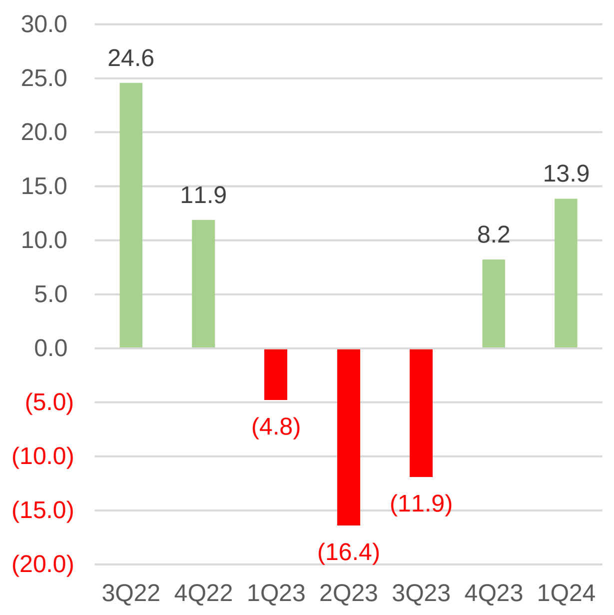


Exhibit 8: Average gross profit per vehicle (RMB'000/unit)



Source(s): Xpeng, ABC Securities

Exhibit 9: Li Auto's gross margin trend

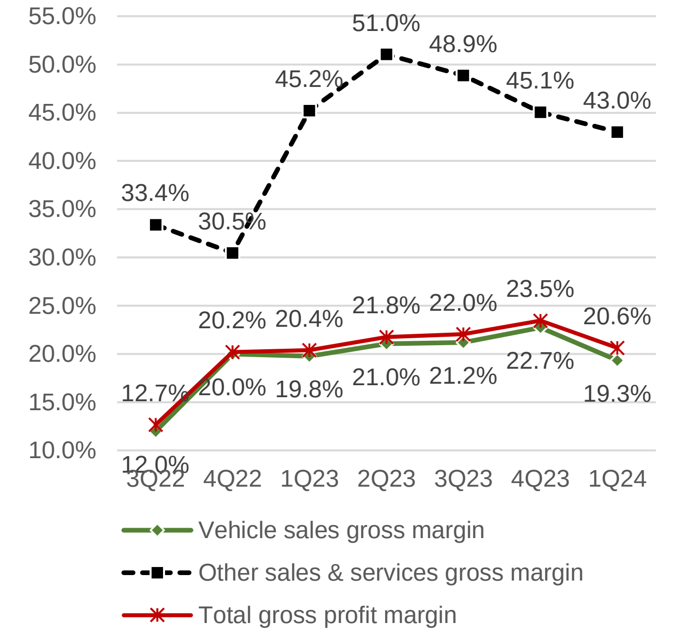


Exhibit 10: Average gross profit per vehicle (RMB'000/unit)

Source(s): Li Auto, ABCI Securities

Exhibit 11：NIO's gross margin trend

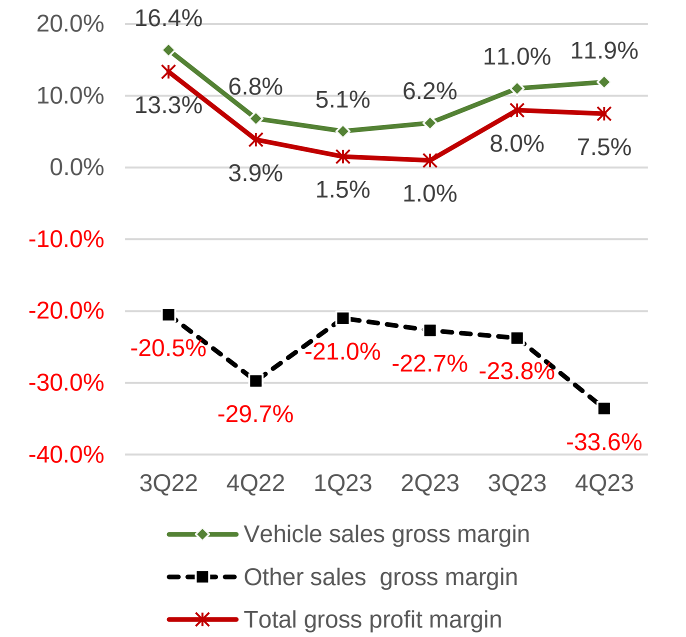
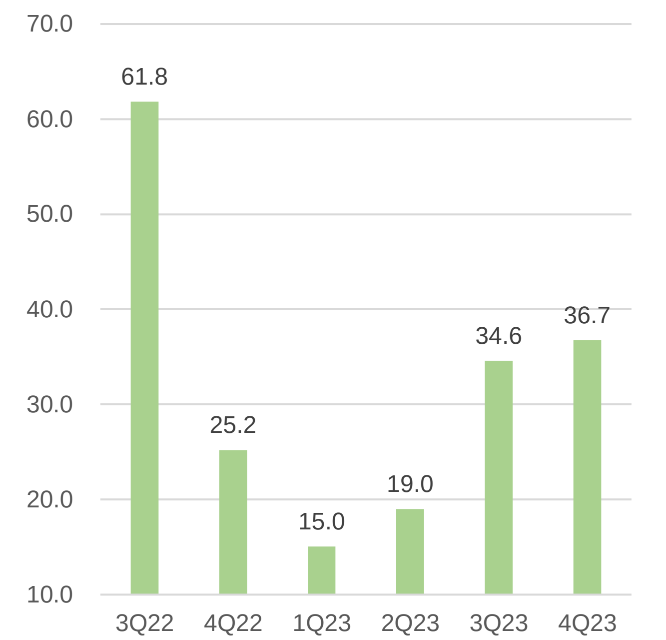


Exhibit 12：Average gross profit per vehicle（RMB'000/unit）



Source(s)：NIO, ABCI Securities

Disclosures

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Definition of equity rating

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

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

Time horizon of share price target: 12-month

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

Disclaimers

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