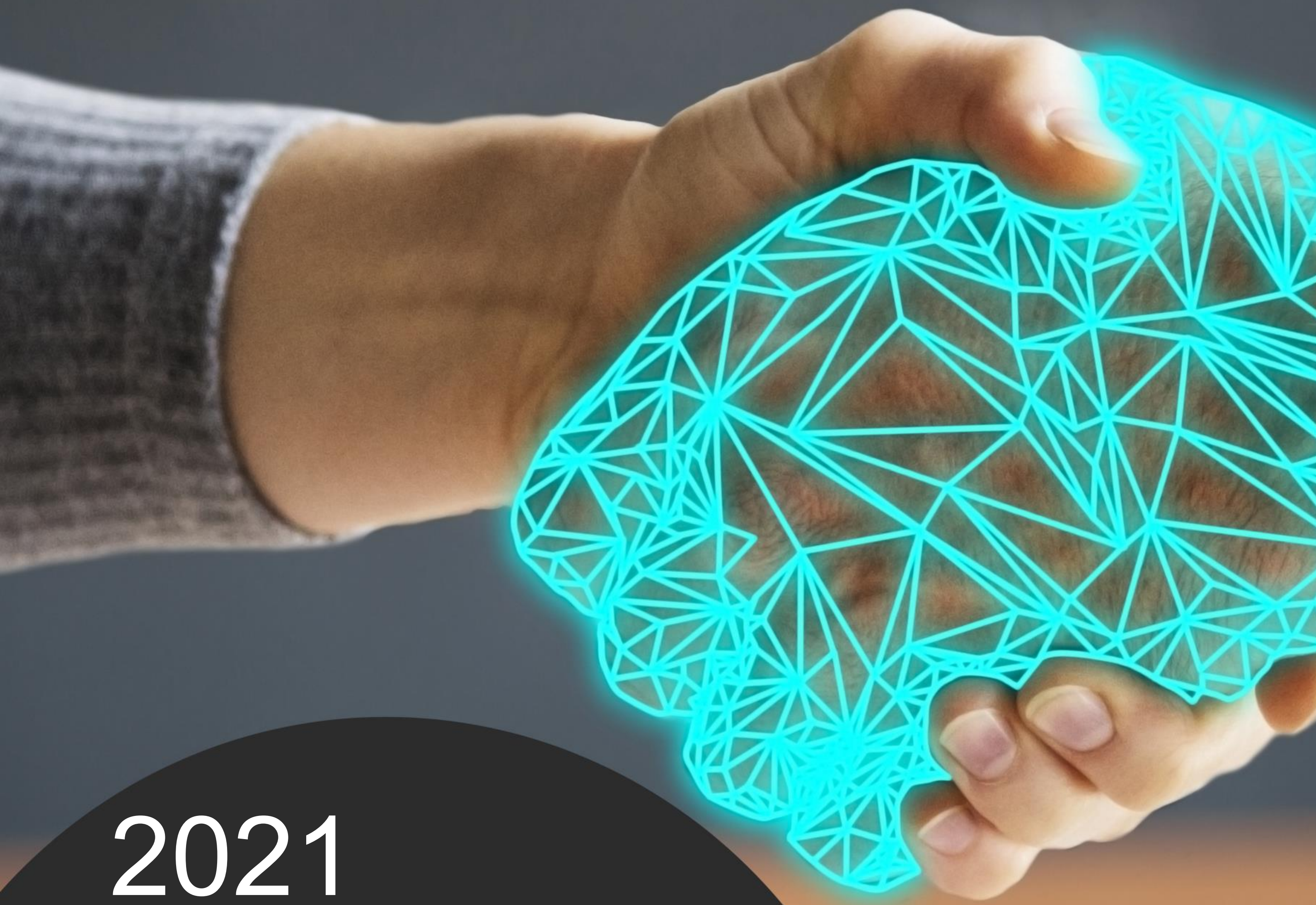
農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED



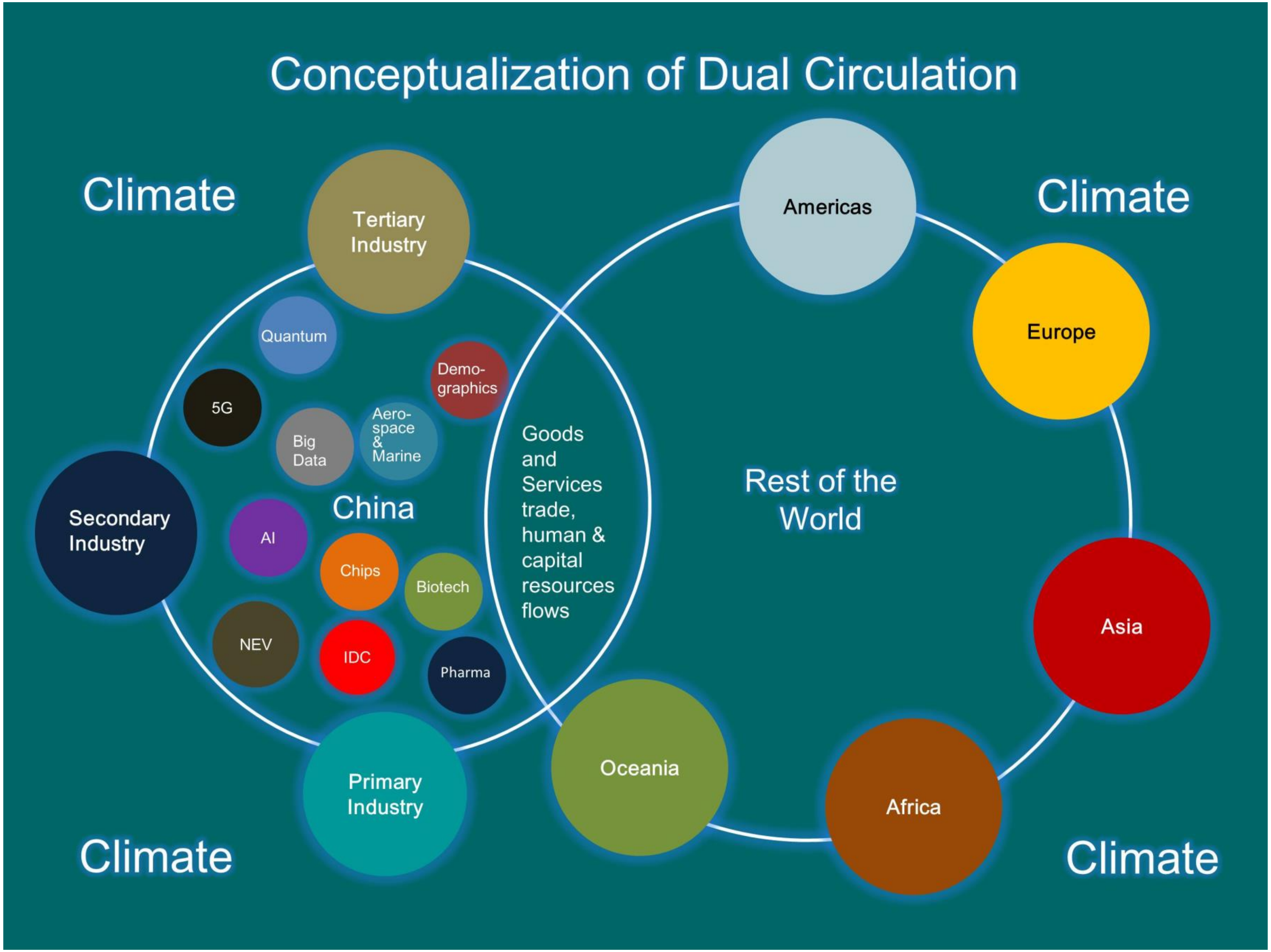
2021

Economic Outlook & Investment Strategy

ABCI China/ HK Equity Research

Smart Technology Reshapes Future

Dec 4, 2020


Conceptualization of Dual Circulation
Climate
Climate
Climate
Climate
Tertiary Industry
Secondary Industry
Primary Industry
Quantum
5G
Big Data
Aero-space & Marine
Demo-graphics
China
AI
Chips
Biotech
NEV
IDC
Pharma
Goods and Services trade, human & capital resources flows
Rest of the World
Americas
Europe
Asia
Africa
Oceania

Contents

Published on Dec 4, 2020
Data as of Dec 1, 2020

Philip Chan (Head of Research)
Investment Strategy
philipchan@abci.com.hk
852-2147 8805

Andy Yao (Economist)
Global/China Economic Outlook
yaoshaohua@abci.com.hk
852-2147 8863

Johannes Au (Analyst)
China Banks
johannesau@abci.com.hk
852-2147 8802

Steve Chow (Analyst)
China Securities & Brokerage / Internet Media & Consumer Commerce
stevechow@abci.com.hk
852-2147 8809

Kenneth Tung (Analyst)
China Property
kennethtung@abci.com.hk
852-2147 8311

Kelvin Ng (Analyst)
China Airport / Alternative Energy
kelvinng@abci.com.hk
852-2147 8869

Paul Pan (Analyst)
China Consumer / China Education
paulpan@abci.com.hk
852-2147 8829

Ricky Lai (Analyst)
China Telecom Sector
rickylai@abci.com.hk
852-2147 8895

Global Economic Outlook

2021 Global Economic Outlook

Economist: Andy Yao

- After the severe drop in 1H20, the global economic growth rebounded in 3Q20 with the easing of confinement measures and reopening of businesses
- A new wave of COVID-19 emerges in 4Q20, especially in the US, Europe, India and Brazil. As a result, recovery in many countries once again was slowed. Services sector becomes the hardest hit
- Global inflation has been mild since the start of 2020 on economic recession and low energy prices. Core inflation, excluding food and energy prices, has stayed muted as the effects of weak aggregate demand appeared to have outweighed the impact of supply interruptions
- We expect the pandemic to recede gradually in 2Q21 as vaccine coverage expands and therapies improve. Global economic growth is expected to recuperate in 2021, partially due to the low base effect; tension in global trade sees hope in easing with Biden entering the White House
- We expect economies in the US, China, Eurozone, Japan, and UK to grow by -3.7%, 2.0%, -7.5%, -5.4%, and -11.0% for 2020E, and 4.0%, 8.0%, 5.0%, 2.5%, and 5.5% for 2021E, respectively, compared with 2.2%, 6.1%, 1.3%, 0.7%, and 1.5% in 2019

COVID-19 pandemic has turned severe since 4Q20

The global economic growth rebounded in 3Q20 with the easing of confinement measures and reopening of business. As shown in Exhibit 1, economies in the US, China, Eurozone, Japan, and the U.K. expanded by -2.9%[1], 4.9%, -4.4%, -5.8%, and -9.6% in 3Q20, respectively, up from -9.0%, 3.2%, -14.8%, -10.2%, and -21.5% in 2Q20. China's economy has resumed positive growth in 9M20, thanks to effective handling of the pandemic. Both the JP Morgan global manufacturing PMI and service PMI have continuously advanced since Apr 2020, pointing to a significant economic rebound (Exhibit 2).

Exhibit 1: GDP growth of global major economies (%)

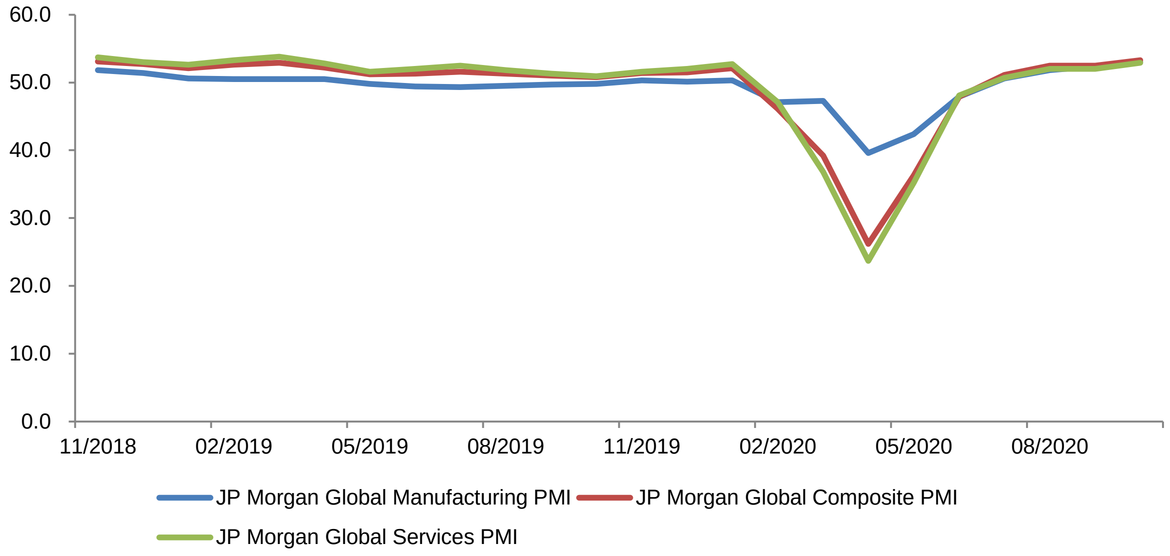
Real GDP Growth (YoY)	1Q20	2Q20	3Q20
US	0.3	(9.0)	(2.9)
China	(6.8)	3.2	4.9
Eurozone	(3.3)	(14.8)	(4.4)
Japan	(1.8)	(10.2)	(5.8)
UK	(2.1)	(21.5)	(9.6)

Source(s): Bloomberg, ABCI Securities

However, a new wave of COVID-19 infections emerged in 4Q20, worsening situations in the US, Europe, India, and Brazil. Currently, the world is seeing its highest number of confirmed cases and deaths per day. Many countries have delayed reopening and even enforced new lockdown measures. Once again, the economy in many countries suffered, with the services sector taking the hardest hit. E.g., the Eurozone composite PMI declined to 45.3 in Nov from 50.0 in Oct, with the services PMI fallen to 41.7 from 46.9 during the same period, indicating a slowdown during the first two months of 4Q20.

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

Exhibit 2: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities

Global trade declined sharply at the start of 2020 due to the pandemic and widespread lockdowns that disrupted industrial production and consumer spending. According to the latest WTO quarterly trade volume statistics, merchandise trade fell by 21.0% in 2Q20 after declining by 6.0% in 1Q20; commercial services trade plunged 30.0% in 2Q20 after a 6.0% decrease in 1Q20. Although the WTO's Goods Trade Barometer released by WTO rebounded sharply to 100.7 in Nov from 84.5 in Aug, global trade growth is likely to slow again in 4Q20 due to the latest resurgence of COVID-19 infections in the US and across Europe.

Global inflation has been mild since the start of 2020 on economic recession and low energy prices. Core inflation, excluding food and energy prices, has stayed muted as the effects of weak aggregate demand appeared to have outweighed the impact of supply interruptions. In most advanced economies, core inflation failed to meet targets of central banks on weak labor market and anemic wage growth. Among the emerging economies, core inflation remains at below 2% as economic activity was hit by COVID-19. For some, however, currency depreciation has boosted inflation, partially offsetting the downward pressure. Headline CPI in China declined significantly from 5.4% in Jan 2020 to 0.5% in Oct due to the rather sharp decline in pork prices while core inflation eased to 0.5% from 1.5% during the same period.

Major central banks have provided an unprecedented degree of monetary support to households, companies, and financial markets. The Fed has shaved its target range for the fed funds rate to 0.00%-0.25%; based on its announcement, it will purchase an unlimited amount of treasuries and mortgage-backed securities to support the financial market. The Fed also announced changes in its monetary policy strategy that involve moving to a flexible average inflation target of 2% over time. In other countries, ECB further lowered the rates on targeted longer-term refinancing operations, and the pandemic emergency purchase program has been increased to EUR 1,350bn. BOJ and BOE boosted their bond purchasing programs while leaving the interest rates unchanged. In China, PBOC has adopted a loose monetary policy involving several RRR and LPR cuts since the start of 2020 to support economic growth.

Global growth is likely to rebound significantly in 2021

Looking into 2021, we expect that the pandemic will gradually succumb to control in 2Q21 as vaccine coverage expands and therapies improve. Vaccine trials have progressed at an unprecedented rate in 2H20, with some reaching the final testing phase prior to approval in 4Q20. We expect global economic growth to rebound significantly in 2021 on the low base effect as well as the probable easing of global trade tension with Biden being elected as the 46th US President. In its latest forecasts released in Oct, WTO projects merchandise trade volume to grow by 7.2% in 2021E, up from an estimated -9.2% in 2020E. According to the latest World Economic Outlook released by IMF in Oct 2020, global economic growth is projected at 5.2% for 2021E, up from an estimated -4.4% in 2020E (Exhibit 3). However, rising debt burden and potential mutation of the COVID-19 virus would be the major challenges in 2021.

We expect the US economic growth to reach 4.0% in 2021E from -3.7% for 2020E because of the fading pandemic impact and accommodative monetary policy. A lower unemployment rate and rising consumer confidence level should support household spending in 2021. Upbeat construction activity and a surge in housing starts are likely to boost residential investment. Under the Biden administration, economic growth would benefit from increased spending on infrastructure and probable easing of trade tension with China. However, the Republicans are likely to continue to control the Senate in 2021, and fiscal stimulus package proposed by the Biden government may encounter challenges. On the monetary front, we expect the Fed to maintain the existing policy throughout 2021. The Fed is likely to hold the target range for the federal funds rate at its effective floor of 0.00%–0.25%; it will maintain its purchases of treasury securities and agency residential and commercial mortgage-back securities at its current pace.

With effective pandemic control, improving domestic demand, and potential de-escalation of the Sino-US conflict, China's economic growth is expected to rebound sharply in 2021. We maintain our 2.0% and 8.0% GDP growth forecasts for 2020E and 2021E. On the monetary front, PBOC is expected to maintain a neutral monetary policy with a loosening bias. It is likely to keep liquidity abundant to support loan growth for private firms and SMEs. RRR would continue to trend down in 2021E while OMO, MLF, and LPR rates are expected to fall. The Chinese government is expected to adopt a normal fiscal policy to support economic growth through tax and fee reductions, measures to boost infrastructure investment, and specific-consumption measures.

With the support of EU Recovery Fund, an ultra-loose monetary and fiscal stance, and strengthening external demand as the global economy reopens, we project the Eurozone economy to expand by 5.0% in 2021E, which is much higher than the 7.5% decline in 2020E. However, rising levels of public debt pose downside risks. On the monetary front, according to ECB's monetary meeting in Oct, we expect key interest rates to remain unchanged in 2021E. ECB will conduct net asset purchases under the pandemic emergency purchase program with a total envelope of €1,350bn until at least the end of June 2021. Net purchases under the asset purchase program will continue at a monthly pace of at least €20bn in 2021E. With a weakening economy and persistently low inflation, the ECB will provide banks with additional low-cost credit to support growth. Meanwhile, we expect the UK economy to grow by 5.5% in 2021E, up from the estimated -11.0% for 2020E due to the fading impacts of pandemic and support from the fiscal and monetary stimulus.

We forecast Japan's economic growth to rebound from -5.4% in 2020E to 2.5% in 2021E as sustained government spending would bolster domestic demand; meanwhile, recovery of external demand would drive up exports in 2021. With inflation outlook remaining low and far below the 2% target set by BOJ, the country's ultra-loose monetary stance would be held firmly in place throughout 2021. Short-term policy rate is likely to remain at -0.10% till the end of 2021E.

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

Real GDP Growth (YoY)	2019	2020E	2021E
US	2.2	(3.7)	4.0
China	6.1	2.0	8.0
Eurozone	1.3	(7.5)	5.0
Japan	0.7	(5.4)	2.5
UK	1.5	(11.0)	5.5
World (IMF)	2.8*	(4.4)*	5.2*

* IMF estimates and forecasts
Source(s): IMF, OECD, Bloomberg, ABCI Securities estimates


China Economic Outlook

2021 China Economic Outlook

Economist: Andy Yao

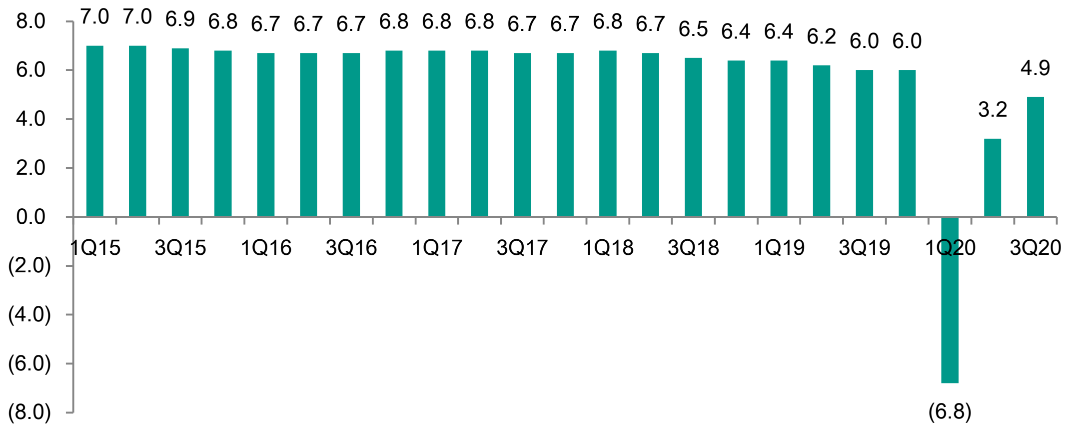
- China's economy contracted by 6.8% in 1Q20 on pandemic impacts but as production resumes, rebound has ensued since 2Q20. Official figures show GDP had expanded by 0.7% in the first three quarters of 2020 – the only major economy returning to positive growth
- Looking ahead, we expect China's economic growth to rebound significantly in 2021 due to improving domestic demand and potential de-escalation of the Sino-US conflict, in addition to the low base effect. On the whole, we expect China's economy to expand by 8.0% for 2021E, sharply higher than the estimated 2.0% for 2020E
- PBOC will maintain a neutral monetary policy with a loosening bias to support economic growth. The rates for one-year LPR and five-year LPR are projected at 3.65% and 4.55% for end-2021E. We expect RRR to be 10.0% for large financial institutions and 8.0% for medium and small financial institutions at end-2021E.
- We expect the proactive fiscal policy in 2020 to resume normalcy in 2021. The temporary and phased special measures introduced in 2020 in response to the pandemic are likely to be partially withdrawn in 2021. However, a normal fiscal policy, including tax and fee reductions, specific-consumption measures, and measures to boost infrastructure investment, will be retained to support economic growth. We expect fiscal deficit ratio to approximate 3.3% of GDP in 2021E, down from 3.6% in 2020E
- 2021 is the first year of the 14th Five-Year Plan. According to the Fifth Plenary Session of the 19th Central Committee of CPC, quality will be the major development theme. China's economy will shift from the rapid-growth stage to one that emphasizes on quality expansion
- In the 14th FYP period, the increased technological blockade of the West, mainly led by the US against China, will present threats to China's economic and social developments. Nonetheless, thanks to the mammoth size of the Chinese economy and rapid development in the emerging industries represented by 5G and Internet+, we believe the nation will maintain a reasonable economic growth at an annual rate of 5%-5.5% during the period. It will accelerate industrial transformation and upgrading, expand the real economy, and tap into the full potential of domestic demand. More importantly, it will strengthen frontier basic scientific research and accelerate independent research on key technologies

China's economy returned to growth after hit by COVID-19 pandemic

China's economy contracted by 6.8%[2] in 1Q20 due to the impact of COVID-19. However, as the infection ebbs in China and production resumes, economic data shows that the economy has begun to rebound since 2Q20. Official figures show the world's second-largest economy had expanded by 0.7% in the first three quarters of 2020, the only country returning to positive growth among the major economies (Exhibit 1). A breakdown of the GDP components shows consumption was the main drag subtracting 2.5ppt from the economic growth in the first three quarters of 2020. Investment added 3.1ppt to the overall growth, while growth in net exports of goods and services also increased by 0.1ppt.

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

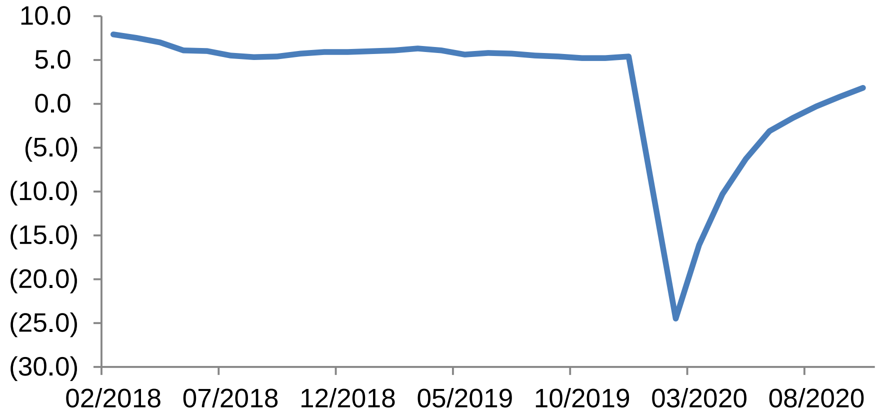
Exhibit 1: China's GDP growth (%)



Source(s): NBS, ABCI Securities

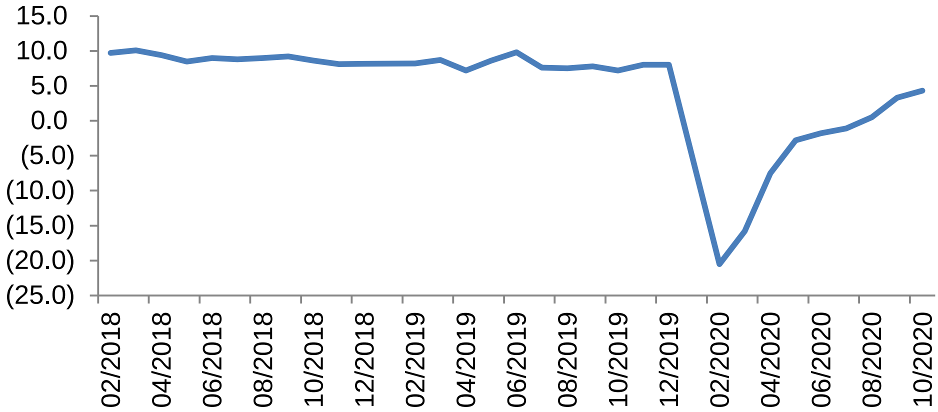
Entering 4Q20, China's economy continued to recover across the board. Domestic demand showed significant rebound, with both investment and retail sales growth improving in Oct. FAI growth in urban areas quickened to 12.2% in Oct from 8.7% in Sep, which we believe is a result of the rebound in manufacturing and property investment facilitated by the low financing cost, in addition to the improvement in infrastructure investment with the support of fiscal policy (Exhibit 2). Retail sales growth accelerated to 4.3% in Oct from 3.3% in Sep, mainly attributable to strong rebound in catering revenue and alternative consumption (Exhibit 3). On the production side, the real growth of industrial output remained at 6.9% in Oct, above the market expectation of 6.7% (Exhibit 4).

Exhibit 2: China's FAI YTD growth (%)



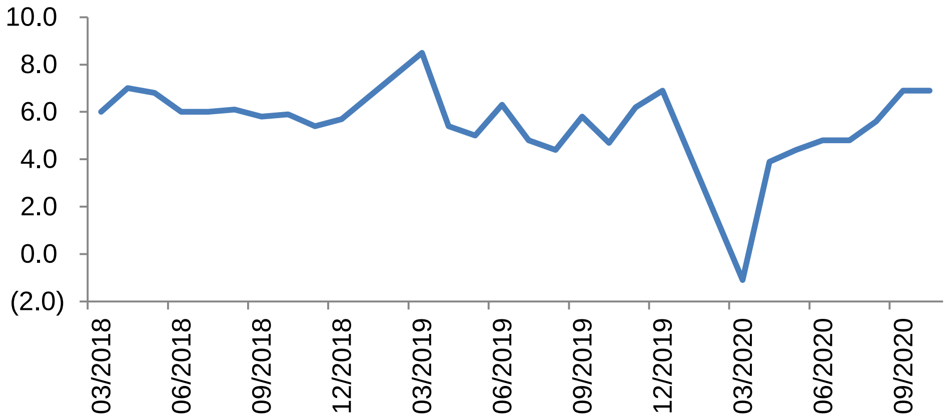
Source(s): NBS, ABCI Securities

Exhibit 3: China's retail sales growth (%)



Source(s): NBS, ABCI Securities

Exhibit 4: China's industrial output growth (%)



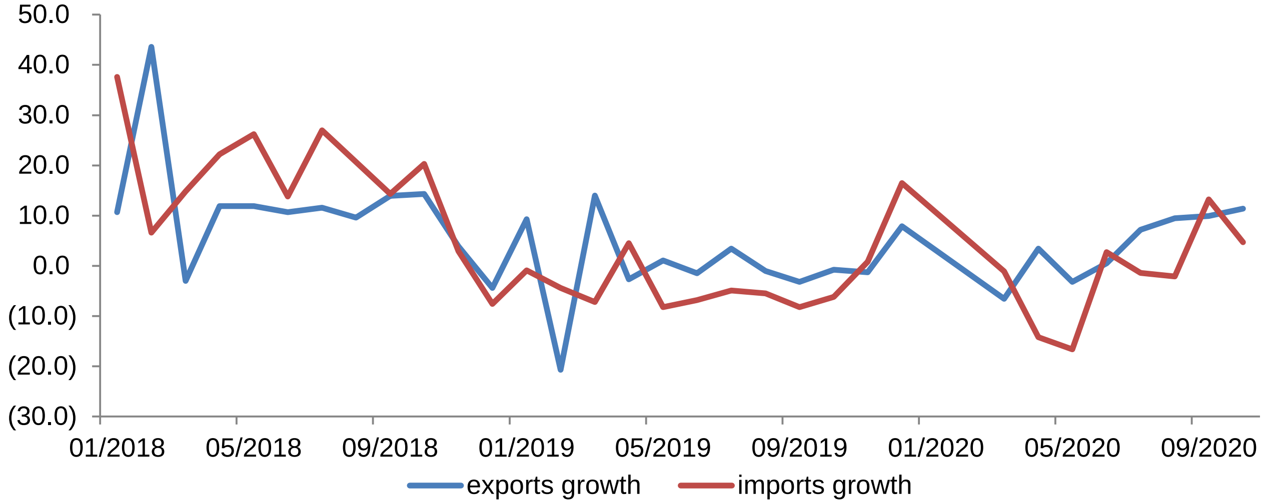
Source(s): NBS, ABCI Securities

On the external front, exports growth continued to rebound in Oct, while imports growth slowed significantly (Exhibit 5). The USD value of China's exports accelerated to 11.4% in Oct despite the adverse impact of RMB appreciation, up from 9.9% in Sep. Imports growth slowed to 4.7% in Oct, compared with the 13.2% increase in Sep. With the weaker import growth, trade balance widened to US$ 58.4bn in Oct from US$ 37.0bn in Sep.

Inflation slowed in Oct. CPI eased to 0.5% in Oct from 1.7% in Sep, driven by lower food prices, especially the pork prices, which fell 2.8% in Oct, compared to the 25.5% increase in Sep. The core CPI inflation, excluding food and energy, remained low at 0.5% in Oct. PPI remained weak at -2.1% in Oct due to lower prices in global energy and other raw materials.

On the monetary front, PBOC has adopted a loose monetary policy to support economic growth since the start of 2020. It slashed RRR thrice to lower financing costs for the real economy, especially for small/medium enterprises and private companies. Although the benchmark deposit interest rates set by PBOC have stayed unchanged, the LPR has been lowered twice. Growth in broad money supply (M2) expedited to 10.5% in Oct from 8.7% in Dec 2019, while total social financing − a comprehensive measure of all types of financing for the real economy, increased to RMB 31.0tr in 10M20 from RMB 21.5tr in 10M19.

Exhibit 5: China's export and import growth (%)



Source(s): NBS, ABCI Securities

Economic growth is set to recuperate in 2021

Looking ahead, we expect China's economic growth to rebound significantly in 2021 due to improving domestic demand and potential de-escalation of the Sino-US conflict; the low base in 2020 will also elevate the figure. On the whole, we expect China's economy to expand by 8.0% for 2021E, much higher than the estimated 2.0% for 2020E (Exhibit 6). Strong external demand and steady consumer spending will be the main growth drivers. On the contrary, high debt burden and COVID-19 variation would be the major challenges in 2021.

Exhibit 6: Economic forecasts

Economic indicators	2019	2020E	2021E
Real GDP growth, %	6.1	2.0	8.0
FAI growth, %	5.4	2.5	6.0
Retail Sales growth, %	8.0	(4.0)	14.0
Export growth in USD terms, %	0.5	2.0	7.0
Import growth in USD terms, %	(2.8)	(1.0)	9.0
Industrial Production growth, %	5.7	2.3	7.0
CPI, %	2.9	2.7	1.2
PPI, %	(0.3)	(2.0)	1.5
M2 growth, %	8.7	11.0	9.5
Aggregate Financing, RMB bn	25,674	34,000	33,000
New Yuan Loans, RMB bn	16,816	20,000	20,500
Spot CNY per USD, End-year	6.9632	6.6000	6.4500
One-year LPR, %	4.31	3.85	3.65
Five-year LPR, %	--	4.65	4.55

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

Domestically, infrastructure investment is expected to pick up in 2021 on the low-base effect, though fiscal support for infrastructure investment is likely to reduce. We forecast that property regulation will remain tight, and the "three red lines" financing policy for property enterprises would impede property investment, which we expect would fall slightly in 2021. Manufacturing investment will rebound significantly amid improving profit growth and strong external demand. Overall, we predict total FAI growth to accelerate to 6.0% in 2021E from 2.5% in 2020E. Retail sales are expected to recoup significantly in 2021 on increasing income and low unemployment rate, in addition to low base in 2020. We expect such growth to quicken to 14.0% in 2021E from -4.0% in 2020E. Externally, frictions between the US and China inspires hope for easing with Biden being elected as the 46th US President. Aided by the success of vaccine development, external demand would improve as the pandemic gradually succumbs to control. We forecast the growth of exports and imports to rebound to 7.0% and 9.0% in 2021E, compared with our 2.0% and -1.0% estimates for 2020E.

CPI inflation is expected to ease to 1.2% in 2021E from 2.7% in 2020E due to the lower food prices, especially the pork price as supply improves. We forecast PPI inflation to rebound to 1.5% in 2021E from the –2.0% for 2020E with higher commodity prices and improving domestic demand. We believe the macro policy will not be constrained by inflation in 2021.

On the monetary front, PBOC is expected to maintain a neutral monetary policy with a loosening bias to support economic growth. PBOC is likely to keep liquidity abundant to support loan growth for private firms and SMEs. We predict new RMB-denominated loans and new aggregate financing to be ~RMB 20.5tr and ~RMB 33.0tr in 2021E. Meanwhile, we expect the authority to lower interest rates of OMO, MLF, and LPR, though it will keep the benchmark deposit interest rates steady in 2021E. The rates for one-year LPR and five-year LPR are expected to be 3.65% and 4.55% for end-2021E. RRR would continue to trend down given weak inflation level and strong RMB appreciation pressure. We expect RRR to be 10.0% for large financial institutions and 8.0% for medium and small financial institutions by end-2021E. Broad money supply (M2) is set to grow by about 9.5% in 2021E. Regarding the exchange rate, we expect spot USD/CNY rate to approach 6.4500 by end-2021E with the widening of real interest rate gap between US and China, as compared to 6.6000 for 2020E.

We expect the proactive fiscal policy in 2020 to return to the normal status in 2021. The temporary and phased special measures introduced in 2020 in response to the pandemic is likely to be partially withdrawn in 2021- deficit rate will be reduced while issuance of special treasury bonds will likely be halted. However, the normal fiscal policy that includes tax and fee reductions, specific-consumption measures, and measures to boost infrastructure investment will be maintained to support economic growth. We expect fiscal deficit ratio to approximate 3.3% of GDP in 2021, down from 3.6% in 2020.

2021 is the first year of the 14th Five-Year Plan. According to the Fifth Plenary Session of the 19th Central Committee of CPC, quality will be the major development theme of the 14th Five-Year Plan (FYP) and after. China's economy will shift from the rapid-growth stage to one that emphasizes on quality expansion.

Looking forward to the 14th FYP period, the increased technological blockade of the West, mainly led by the US, against China will present threats to China's economic and social developments. Nonetheless, thanks to the mammoth size of the Chinese economy and rapid development in the emerging industries represented by 5G and Internet+, we believe China will maintain a reasonable economic growth at an annual rate of 5%-5.5% during the 14th FYP period. The country will accelerate industrial transformation and upgrading, expand the real economy, and tap into the full potential of domestic demand. More importantly, it will strengthen frontier basic scientific research and accelerate independent research on key technologies. We believe that China will surpass the middle-income trap to become a high-income country.

Investment Strategy

2021 Investment Strategy

Head of Research: Philip Chan

Investment trend over the next decade

It's all about being smart – a race of technology

Sino-US confrontation and COVID-19 in 2019-20 have driven up economic risks but expansionary monetary and fiscal measures have led to sharp increases in global liquidity. The capital constraint in global economic growth will lower significantly in coming years. The dominant factor in determining economic growth will be the total factor productivity (TFP). In our view, competition among nations will lie on one's ability to achieve a better TFP. TFP is the result of technology advancement from the inputs of human and capital resources. In short, competition among nations in the coming years is a race of technology. In our view, several major trends will be emerging in the next decade.

From Internet-of-People to Internet-of-Things: AI chips and AI servers are the brain and skull of the new-economy infrastructure

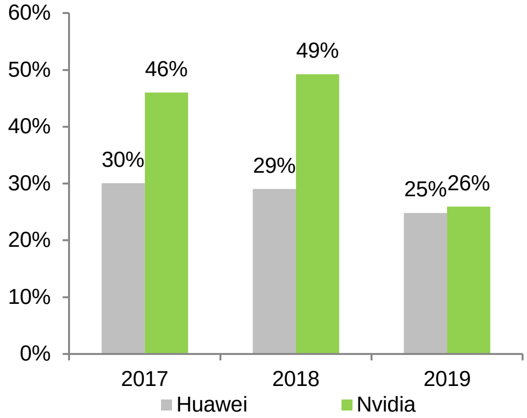
Internet-of-People: Demand for Internet Data Center (IDC) services will surge in the next five years after the 5G infrastructure network is built up in 2020-21. Several China's IDC companies plan to raise funds to finance their expansion plan. The common foundation of AI, big data, and cloud services ("ABC") is computer servers providing these functions, and they are stored at the IDC. From an investment point of view, the computing server market is highly concentrated in China, mainly dominated by **Inspur Technologies (000977 CH)** and Huawei. By revenue, the two captured ~60% of market share in the China computing server market. In terms of AI server, Inspur accounted for half of the market in 2019. We estimate that the sharp supply of IDC in coming years will lead to a decline in rental cost of rack, which in turn will motivate ABC providers to expand rapidly. The development trend will subsequently drive up demand for high-end computing servers such as the ones for AI. Conceptually, AI servers are similar to a human head and AI chips are analogous to the brain inside a human skull. AI chips are core components of AI servers - the core equipment used for almost all ABC services.

Internet-of-Things: AI-IoT is a sunrise industry. IoT has been in the market for years, but IoT-device itself is unable to think and judge. AI-IoT, then, is a breakthrough by allowing connected devices to learn, think, judge, and act accordingly.

AI-IoT technology will proliferate in the next two decades. Internet-of-People can serve billions of people, but Internet-of-Things can serve trillions of devices and things. The development of IDC can meet the increasing demand for services of Internet-of-People (e.g. online games, online education, online shopping, online healthcare, etc.), while advancement in edging computing and machine learning can meet the surging demand for services of Internet-of-Things.

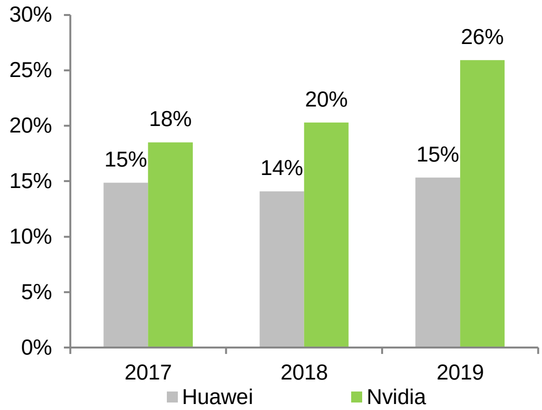
AI chips, as the core of AI-IoT, will enable machine learning. With the completion of 5G infrastructure, smart factories, smart new energy vehicle (NEV), and smartphones will trigger a strong wave of demand for AI-IoT and AI-chips. In next five years, tech companies specializing in the design, production and application of AI chips will be under the spotlight. In the China market, NVIDIA Tesla GPU is the heart of AI computing in cloud services; the computing power in edge computing relies on Huawei's chips and the NVIDIA Jetson chip series. The market at present is largely duopolistic **(NVIDIA (NVDA US)** and **Huawei**), but we believe the growth in market size will allow room for new start-ups with specialized strengths in AI software or hardware. So far, several small players such as **Cambricon Tech (688256 CH)**, **SenseTime (商汤科技)**, **Yitu Ltd (依图科技; pending A-share IPO)**, **Megvii (旷视科技),** and **Cloudwalk (云从科技)** are unicorns in the domain of AI-chip design and applications.

Exhibit 1: ROAE of Huawei vs. NVIDIA



Source(s): Companies, ABCI Securities

Exhibit 2: R&D (% of revenue) of Huawei vs. NVIDIA



Source(s): Companies, ABCI Securities

Positive prospects for the life insurance industry

China is targeting to double its per capita output to become a moderately developed economy by 2035. For the life insurance industry, long-term income growth implies the continued increase in the economic value of life - an important business catalyst. The higher insurance penetration and density in developed countries than those in the developing countries implies growth in China's insurance industry, as measured by premium income growth, will be faster than the per capita income growth in the long term. China's insurance density (insurance premium per capita) and insurance penetration (insurance premium to GDP) were ~US$ 440 per capita and 4.3% in 2019. The average insurance density and average insurance penetration of OECD countries were ~US$ 3630 per capita and 8.9% in 2018. We predict China's gross insurance premium will grow at a CAGR of 10% in 2020E-35E if China's insurance penetration reaches the average OECD countries level by 2035. By 2035, total gross premium of China's insurance industry will increase to US$ 2.85tr, equivalent to 32.5% of total gross premium in OECD. We believe large insurers, especially life insurers such as **China Life (2628 HK)** and **New China Life (1336 HK)**, are long-term beneficiaries.

Exhibit 3: China's insurance industry will expand at 10% CAGR in 2020E-35E

	2015	2019	2020E	2035E	2015-20E CAGR	2020E-35E CAGR
China economy:						
GDP value (RMB tr)	68.9	99.1	100.1	209.8	7.8%	5.1%
Population (100 mn)	13.75	14.00	14.07	14.71	0.5%	0.3%
GDP per capita (RMB'000)	50.2	70.9	71.3	142.6	7.3%	4.7%
Forex (end of period)	6.494	6.963	6.580	6.580*		
GDP per capita (US$'000)	7.7	10.2	10.8	21.7		
China insurance industry:						
China's insurance premium (US$bn)	374	612	686	2,850	12.9%	10.0%
OECD's insurance premium (US$bn)	4,843	5,458	5,621	8,758	3.0%	3.0%
China / OECD ratio	7.7%	11.2%	12.2%	32.5%		
Insurance density (RMB per capita)	1,766	3,046	3,208	12,747	12.7%	9.6%
Insurance density (US$ per capita)	272	437	487	1,937	12.4%	9.6%
Insurance penetration (% to GDP)	3.5%	4.3%	4.5%	8.9%		
Life insurance premium (RMB100mn)	13,242	22,754	24,633	101,266	13.2%	9.9%
Life insurance market share	54.5%	53.4%	54.6%	54.0%		

Note: Projections are based on the current exchange rate
Source(s): OECD, NBS, CBIRC, ABCI Securities estimates

Smart NEV is making headways

In our view, smart NEV will drive up demand for NEV in both the domestic and export markets. On the supply side, China aims to increase the proportion of NEV output in total automobile output to 20% by 2025 from ~5% in 2020. With this target ratio, we can expect major automobile producers to expand their NEV production facilities in years to come. In 2020, Tesla has begun to export its NEV from its production plant in Shanghai – an indication that the NEV supply chain in China is able to meet the international standard and export demand. On the demand side, we believe the surge will be triggered by smart functionalities (autonomous driving, risk detection, multi-media enabling, mobile office enabling, connectivity with other smart-NEV nearby, etc.) instead of its battery-powered nature; nonetheless, the advancement of battery technology will allow automakers to incorporate more smart functions in their NEV. The developmental course of smart-NEV will be similar to that of smartphones replacing the cellphones. The smartphone revolution in the past decade was triggered by the functionalities of the device, but more factors would need to orchestrate together to spark the widespread adoption of smart devices. The growth of smart NEV will drive up demand for more durable battery as well as upgrades in vehicle optical camera, antenna, AI-IoT chips for edge computing, multi-media system, power control chips, operating systems, etc. Moreover, smart vehicles powered by conventional fossil fuel energy or clean chemical energy will engender demand for hardware and software.

Exhibit 4: Demand for smart-NEV fueling output growth of NEV in 2020E-35E

	2016	2019	2020E	2025E	2035E	2016-20E CAGR	2020-25E CAGR	2025-35E CAGR
Automobile output (mn)	28.2	25.5	23.9	26.0	28.7	-4.0%	1.7%	1.0%
Non-NEV output (mn)	27.7	24.3	23.0	20.8	12.9	-4.6%	-2.0%	-4.6%
Non-NEV % to total	98.4%	95.3%	95.9%	80.0%	45.0%			
NEV output (mn)	**0.46**	**1.19**	**0.97**	**5.20**	**15.80**	**20.5%**	**39.9%**	**11.8%**
NEV % to total	1.6%	4.7%	4.1%	20.0%	55.0%			

Note: Output in 2020E was adversely affected by COVID-19
Source(s): NBS, ABCI Securities estimates

Exhibit 5: Our view on technology roadmap of smart driving in China

Current main stream	2021-25E	After 2025E
Advanced driving support system (ADAS)	**Autonomous driving (AD)**	
Tech level L0: no operation automation L1: assisting driver L2: partial automation	Tech level L3: conditional automation L4: advanced automation	L5: Fully automation
Tech function: driving support	Tech function: self-driving	Tech function: self-driving
Driver: Human	Driver: Human + AI (AI playing more roles)	Driver: AI
Winners: Auto & auto part producers	Winners: AD system integration providers, navigation chip producers, AI chip makers, vehicle optical producers, sensors producers, antenna producers, power management chip producers, multimedia services providers, graphene producer, electric motor producers, auto parts producers	

Notes: Effective from July 2020, there is no limit on foreign ownership of NEV automakers in China.
Limits on foreign ownership of automakers for ICE passenger vehicles will be removed by 2022.
Smart-driving is not exclusive for NEV automakers. ICE automakers can also embed smart-driving in their autos.
Sources: ABCI Securities estimates

Rural e-commerce: a major growth driver of e-commerce industry

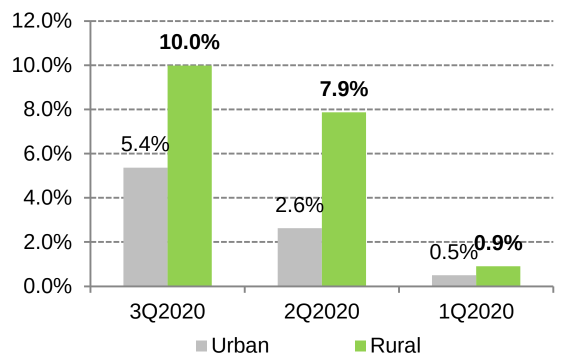
The local government is devoting more financial resources to support the rural economy. In Sep 2020, the State Council issued "Opinions on Adjusting and Improving the Use Scope of Land Transfer Income to Give Priority to Supporting Rural Revitalization" (关于调整完善土地出让收入使用范围优先支持乡村振兴的意见). The Opinion has raised the minimum proportion of proceeds from government land sales designated for the revitalization of the rural economy. The living and working environment in rural area will improve in subsequent years due to the adjustment in funding sources. The rural population reached 552mn at end-2019, representing 39% of China's total population or 1.7x/1.6x the US/Eurozone population. The huge population size and the increasing purchasing power of rural residents will provide strong impetus for secondary and tertiary industries in the next 10-15 years. Rural e-commerce will be a growth driver in coming years. Among various provinces, rural area in affluent provinces along the coastal regions will be the vanguard of the rising rural e-commerce – a domain where **Pinduoduo (PDD US)** has a first-mover advantage.

Exhibit 6: Trend in China's consumer spending

	Income Growth	x	Willingness to consume	→	Actual consumer spending
Urban	Lower	x	Lower	→	Lower
Rural	Higher	x	Higher	→	Higher

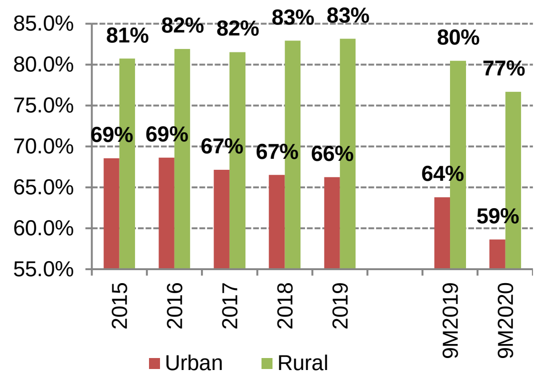
Source(s): ABCI Securities

Exhibit 7: Fast recovery of per capita disposal income in rural area after the pandemic



Source(s): NBSC, ABCI Securities

Exhibit 8: Per capita consumption expenditure / per capita disposal income ratio suggests rural residents are more willing to spend than their urban peers



Source(s): NBSC, ABCI Securities

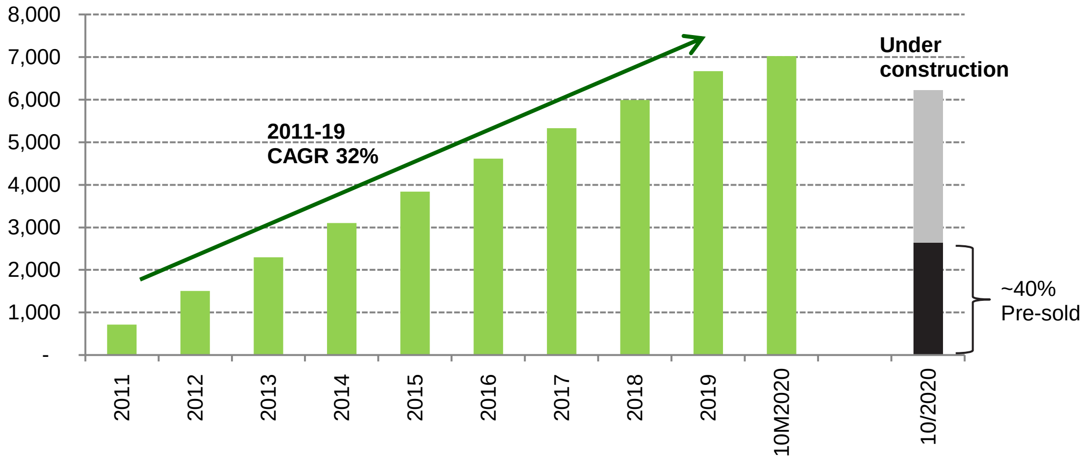
Property management services: huge demand in place

China property management services are a sunrise industry; in contrast, property development industry is likely to enter a downward cycle in coming years. In the 12th five-year plan period (2011-15), total residential GFA completion was 3.84bn sqm (or 768mn sqm per annum). In the 13th five-year plan period (2016-20), we estimate total residential GFA completion will be 3.45bn sqm (or 690mn sqm per annum). During 2011-20, total completion of new homes reached 7.29bn sqm (or 729mn sqm per annum). At end-Oct 2020, GFA of new homes under construction was 6.22bn sqm, equivalent to 85% of the total new home completion in 2011-20. The supply data does not include the supply of public residential housing. Hence, risk of oversupply is extremely high in the China residential market.

The oversupply risk in housing market will transmute into a systematic risk in the financial market with the collapse of property developers in distress. While it is tempting to blame the resulted bankruptcy on the government's measures to tighten loan growth as well as asset growth among property developers, investors should consider such measures as necessary for risk containment and reduce their position in property development, or at least narrow their choices to ones in good financial standing. The government's "three red lines" policy to limit loan growth of property developers will in turn help large and financially sound developers to defend their market shares. Because of loan growth constraints, small-to-medium sized developers will find it difficult to expand rapidly in the short term.

The high completion of properties in previous and coming years will translate into large demand for property management services. Property management service companies (PMCs) provide services to individuals or corporates residing or working in the properties under management; hence, the value of these companies will depend on their ability to offer value-added services to clients instead of the size of GFA under management alone. We expect an upward re-rating of PMCs if they demonstrate the ability to provide more high value-added services to clients.

Exhibit 9: Cumulated GFA new home completion since 2011 (mn sqm)



Source(s): NBSC, ABCI Securities

Frontier sciences: searching for the unicorns

We believe the economic values of technologies lies on their ability to fulfill unmet needs. Life & health sciences can help lower healthcare expenditures of households as well as the economic costs of the society as a whole; brain science can support the cure and management of hypertension and Alzheimer's disease in the aging population; aerospace technology can strengthen China's space defense; deep underground and deep sea exploration technology have led to the discovery new energy resources; biological breeding technology can secure food supply; integrated circuits are the backbone for the application of AI and quantum information in a data-driven economy. Frontier sciences in the abovementioned domains will amass strong interest from the private equity markets.

Emerging industries developed by commercialization of new technologies will be the new growth drivers of the economy. These new technologies cover areas such as IT, biotechnology, new energy, new materials, high-end equipment, NEV, green environmental protection, aerospace, and marine equipment. The in-depth integration of the internet, big data, and AI in advanced manufacturing will strengthen the competitiveness of many industries.

Global stock markets

The COVID-19 crisis in 2020 has exposed the structural weakness of economies around the world. We believe it is time for the industrial nations to rethink about the balance of its economic structure.

The tertiary industry, or the services industry, has been suffering more than the secondary industry in major developed countries since the outbreak due to social distancing and regional or national lockdown in 2020. Over-reliance on the tertiary industry implies a high concentration risk in an economy.

The conventional process of drug development and approval is lengthy – this is why no vaccines are available during much of 2020 despite escalation of the health crisis. Nonetheless, the fact that vaccines are developed within a year shows how far we have come to in the realm of bioscience. Pharmaceutical companies have demonstrated their prowess by providing solutions to a global medical crisis within a short period of time.

The world's governments and central banks have learnt valuable lessons in managing the pandemic-induced economic and social risks. The positive effects of monetary and fiscal expansion policies in 2020 are largely offset by the adverse effects of city lockdown and social-distancing measures.

Prior to the COVID-19 crisis, the Sino-US confrontation was considered as the major threat to the global economy. The damages caused by the pandemic, be it social, financial, or the dramatic loss of human lives, are far, far more serious.

Our View

The vaccination program, which is likely to be launched in 2021-22 in most countries, will prevent further deterioration of global economy. Nonetheless, vaccination alone cannot reverse entirely the damages resulted from the pandemic.

Moreover, the adverse economic factors (negative income effect or negative wealth effect) caused by the health crisis will extend to 2021-22. Economies need further fiscal stimulus in 2021.

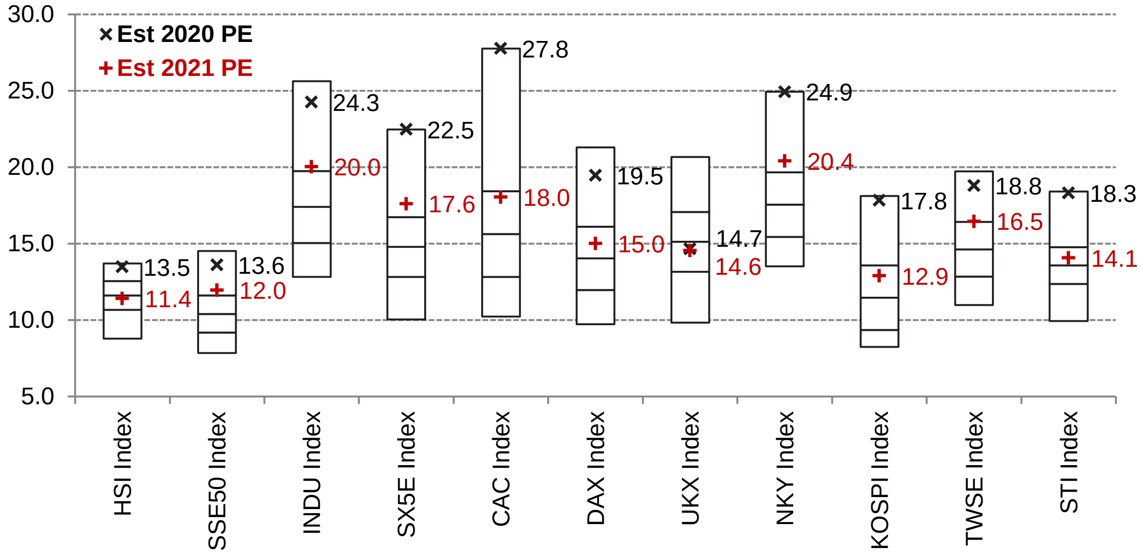
When the risk of COVID-19 retreats in 2021, the Sino-US tension will again assume the front stage. While the new US presidency brings hope of a de-escalation of confrontation between the two countries, its remains unknown if the direction or magnitude of the conflict will indeed be averted.

Central banks in the US, Eurozone, and Japan are unlikely to downsize their balance sheets in 2021-22. In the Sep FOMC meeting, the Fed said the Fed Fund rate will likely stay at the existing low level till 2023. Globally, the capital market will be liquidity-rich due to expansionary fiscal and monetary measures in 2020. Price bubble of risk assets in the capital market will persist in 2021-22.

The stock markets in 2021 will be supported by 1) the increased supply of global liquidity; 2) the receding downside risk in the global economy as vaccination begins; 3) the expectation of further fiscal stimulus measures; 4) potential easing of the Sino-US confrontation. Major downside risk of the stock markets is expensive valuation caused by the sluggish recovery in corporate profits.

Global stock market valuation

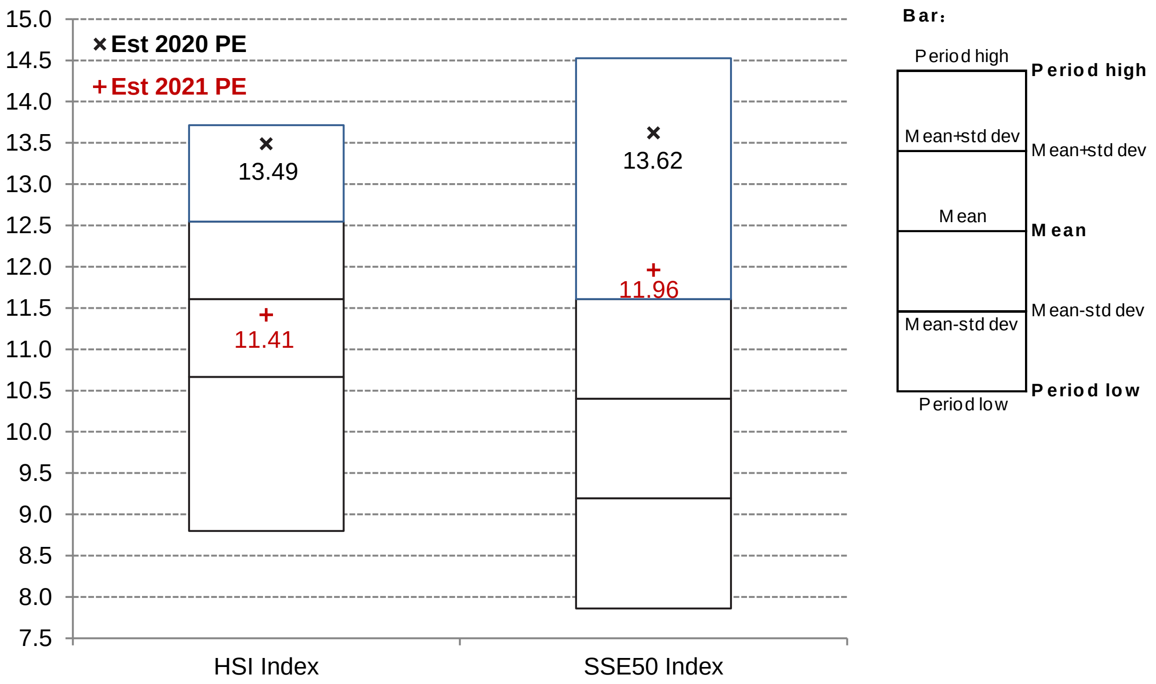
Exhibit 10: Forward P/E range (High, Mean+std dev, Mean, Mean-std dev, Low) since 2015; Est. 2021 P/E is still higher than the historical average in major stock markets



Index priced as at Nov 12, 2020

Source(s): Bloomberg, ABCI Securities

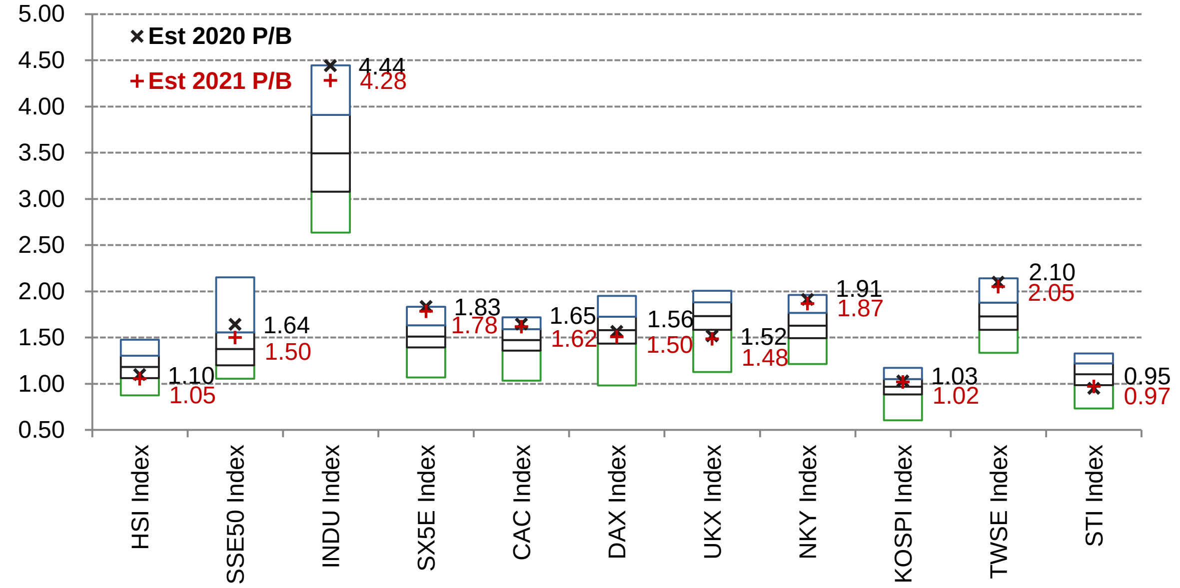
Exhibit 11: HK stock market is fairly priced at current level in terms of P/E



Index priced as at Nov 12, 2020

Source(s): Bloomberg, ABCI Securities

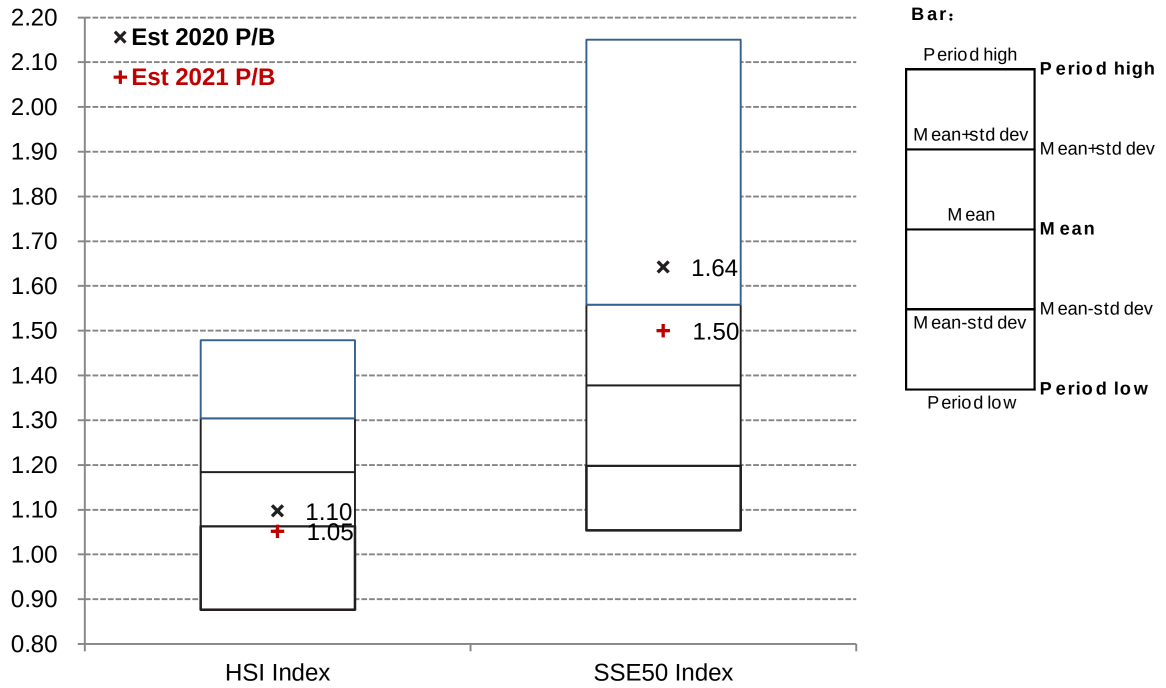
Exhibit 12: Forward P/B range (High, Mean+std dev, Mean, Mean-std dev, Low) since 2015; est. 2021 P/B is still higher than the historical average in major stock markets



Index priced as at Nov 12, 2020

Source(s): Bloomberg, ABCI Securities

Exhibit 13: HK stock market is fairly priced at the current level in terms of P/B



Index priced as at Nov 12, 2020

Source(s): Bloomberg, ABCI Securities

China Stock Market

Private and public consumption will be the major investment theme in the next 15 years. The common objective of the development of new technologies (e.g. chips, AI, IoT, cloud services, biotech, quantum IT, fintech, autonomous driving, new materials, etc.), new-economy infrastructure (e.g. 5G, big Data, IDC, etc.), green economy (e.g. NEV, clean energy, etc.), new business models (e.g. online education, online entertainment, ride-sharing, etc.) is to create new demand for consumption.

Consumption is the core of China's dual circulation economy. The weakness of economic structure in the major advanced economies is over-reliance on tertiary industry because the demand growth in tertiary industry fails to transmit fully to secondary industry. An efficient and effective circulation is the output of tertiary industry will drive up the output in secondary and primary industries which they in turn create new demand for output of tertiary industry. Domestic consumption market in China, formed by a 1.4bn population with over 0.4bn of middle class and ~RMB 2.8tr in net deposits held by households, (deposits held minus loans owed), will attract foreign capital, goods, and services to participate in China's dual circulation economy. The size of middle class in China is larger the population in the US or the Eurozone. The loops of dual circulation will eventually create jobs and generate per capita income.

Z-generation (born in 2000s) will be the major source of consumption growth in the next decade. The cohort is joining the job market and its purchasing power will increase accordingly. Companies targeting at this age group are on a fast and sustainable growth track. We estimate the Z-generation accounts for ~12% of current population.

It is time to widen the open-door policy to absorb surplus capital released by foreign central banks. To benefit from the abundant global liquidity created in 2020 by monetary expansion policy in developed economies, China should take the chance to further widen its open-door policy to absorb foreign capital to accelerate the circulation of goods and services in the dual-circulation economy. Open-door policy alone, however, is not enough to attract foreign capital; ultimately, it is the expectation that one will make profit in the China market that presents the biggest pull factor. As offshore investors will be allowed to invest in the Shanghai Stock Exchange's STAR Board, local tech companies can leverage foreign capitals to accelerate business development.

Investment banking industry is one of early beneficiaries of the government to reform the structure of aggregate financing in the real economy. High concentration of bank loans in aggregate financing to real economy will induce risk and limitation to the economy as a whole. Hence, we believe the government will proceed to reform the structure of aggregate financing and allow direct financing to take more important role. The proportion of direct financing (bonds and equity) in new aggregate financing increased to 27% in 2017 to 33% in 2019 and 40% in 10M20. The increase in market share of direct financing was mainly due to decline in shadow financing (trust loans and bills) in the aggregate financing. The proportion of direct financing in new aggregate financing will continue to trend up in the next decade.

Exhibit 14: Projection of benchmark indices in A-share market for 2021

	Expected valuation range	Implied trading range (rounding to hundred)	Expected fair mid-point valuation	Implied index (rounding to hundred)
SSE 50 Index	Est. 2021 P/E 9-13x	2,600-3,700	Est 2021 P/E 10.5x	3,000
CSI 300 Index	Est. 2021 P/E 12-16x	4,100-5,500	Est. 2021 P/E 13.0x	4,500

Sources: ABCI Securities estimates

Hong Kong Stock Market

Hang Seng Index trading range in 2021E: 24,000-30,300
Hang Seng Index trading range in 2022 E: 26,900-31,800

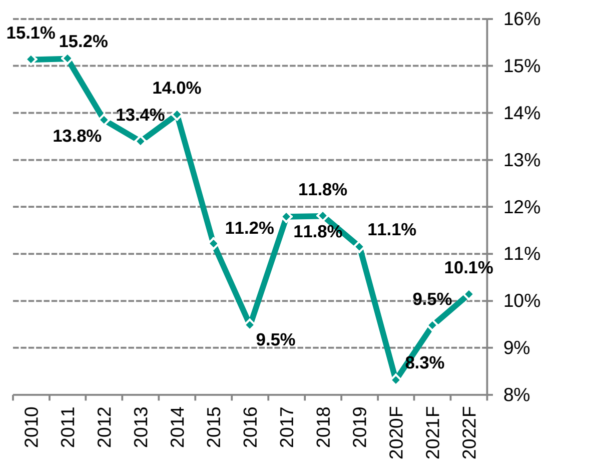
Our expected trading range for the Hang Seng Index (HSI) is equivalent to 10x-13x 2021E P/E, 0.95x-1.20x 2021E P/B, or 2021E yield of 3.7-2.9%. Our projection is reasonable in view of the recovery of the corporate earnings in 2021 due to 1) post-pandemic recovery and 2) low base in 2020. Despite the expected earnings recovery in 2021, overall profitability of blue chips is unlikely to return to the level in 2017-19, which is the reason why a high valuation for the index cannot be justified. ROAE of HSI is expected to recover to 9.5% in 2021E and 10.1% in 2022E from 8.3% in 2020E, but the projected profitability ratios in 2021E-22E are well below the ROAE at 11%-12% back in 2017-19.

Exhibit 15: HSI trading range projection

Period 2016-19	High	Low	Period end
P/E	13.56	9.07	10.50
P/B	1.56	0.95	1.13
Yield	4.68%	2.99%	3.79%
Period: 2020	**High**	**Low**	**Year end**
Index	**29,175**	**21,139**	**26,700**
Est. 2020 P/E	14.89	11.32	**13.63**
Est. 2020 P/B	1.22	0.93	1.12
Est. 2020 yield	2.53%	3.32%	2.76%
Period: 2021	**High**	**Low**	**Year end**
Index	**30,297**	**24,033**	**27,967**
Implied 2021 P/E	13.00	10.31	12.00
Implied 2021 P/B	1.20	0.95	1.11
Implied 2021 yield	2.92%	3.69%	3.17%
Period: 2022	**High**	**Low**	**Year end**
Index	**31,773**	**26,918**	**29,126**
Implied 2022 P/E	12.00	10.17	11.00
Implied 2022 P/B	1.18	1.00	1.08
Implied 2022 yield	3.11%	3.67%	3.40%

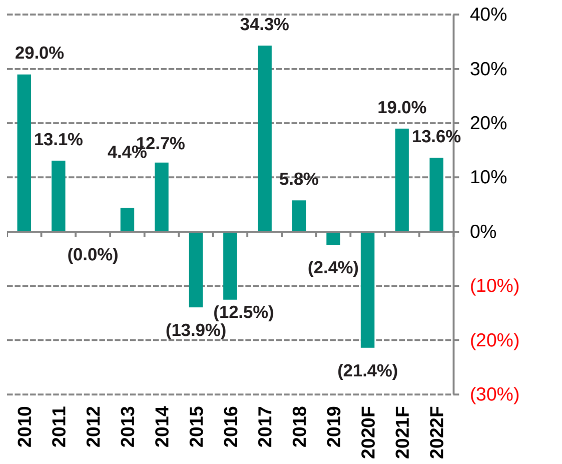
Notes: Indices are rounded to hundreds for the trading range
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 16: HSI ROAE (%)



Source: Bloomberg, ABCI Securities

Exhibit 17: HSI EPS Growth (%YoY)



Source: Bloomberg, ABCI Securities

Exhibit 18: HSI member stocks: Est. FY21 ROAE (%)

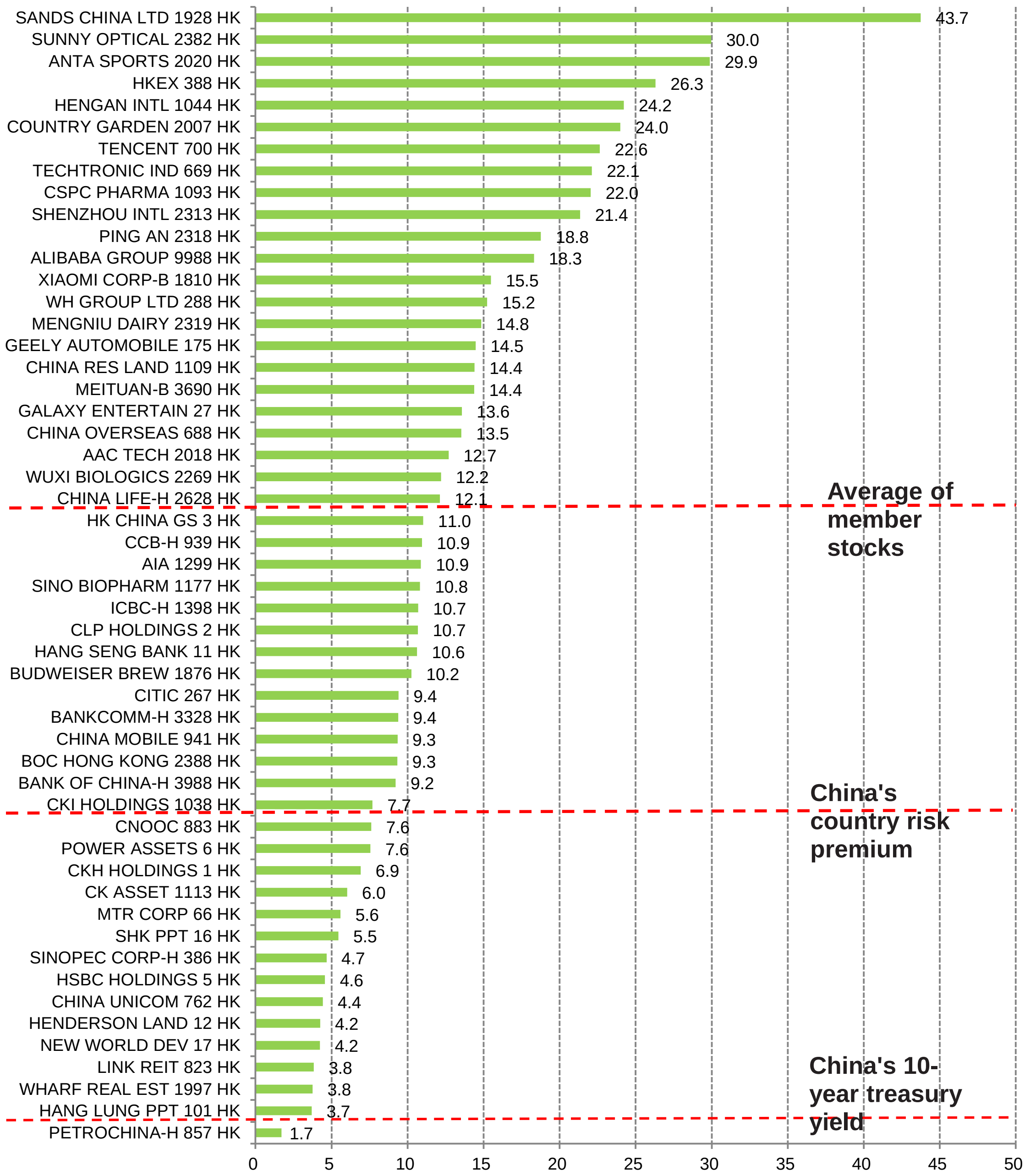
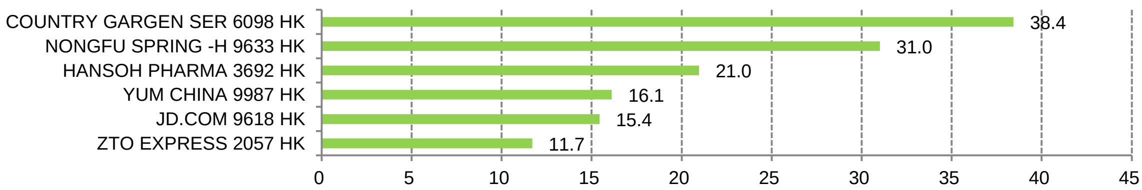
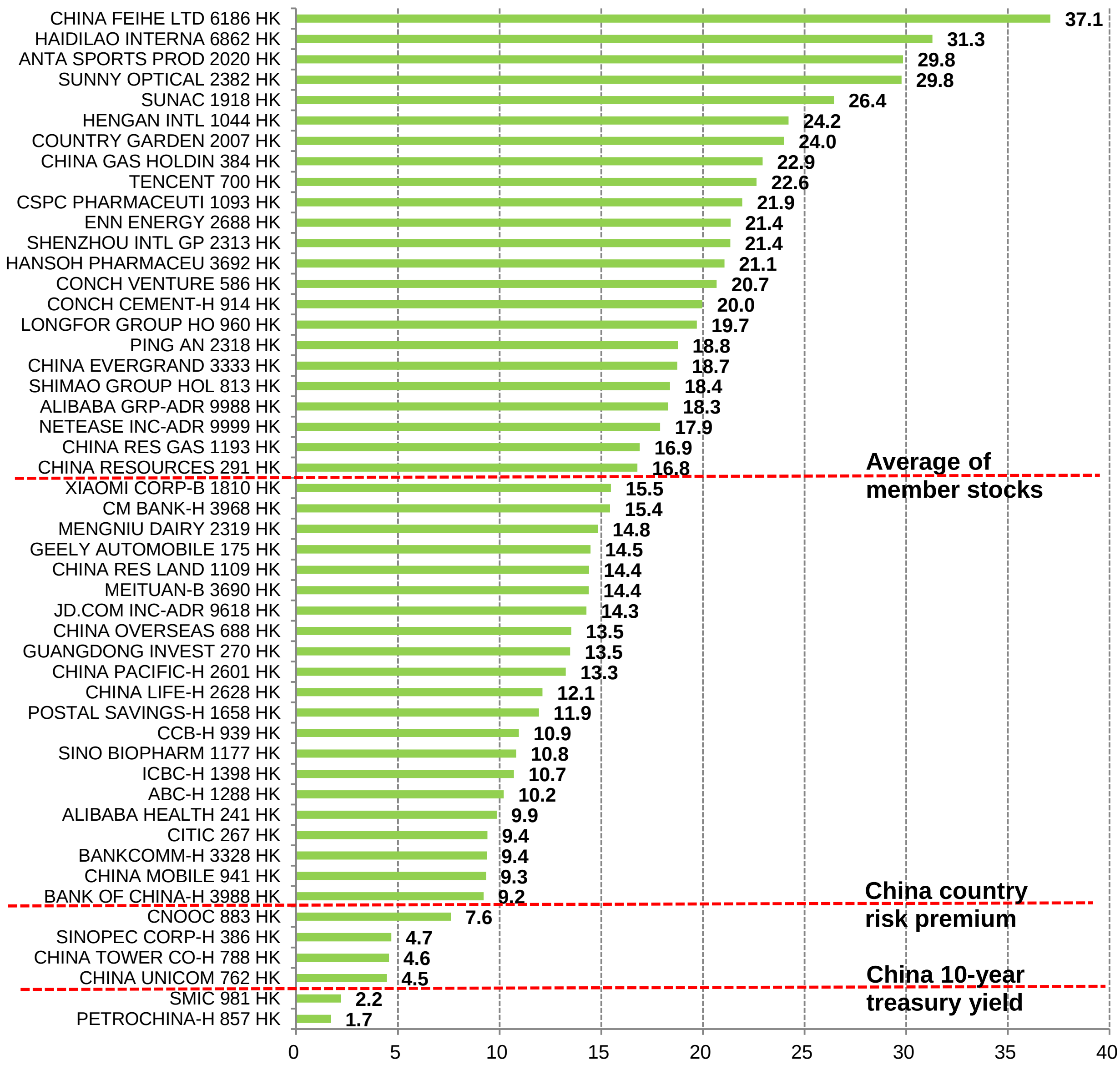


Exhibit 19: Potential candidates to join Hang Seng Index in 2021-22: Est. FY21 ROAE (%)



Source(s) for both: Bloomberg, ABCI Securities

Exhibit 20: Hang Seng China Enterprises Index member stocks: Est. FY21 ROAE (%)



Source: Bloomberg, ABCI Securities

Exhibit 21: HSI market valuation

			2022E	2022E	2022E	2022E	2022E	2021E	2021E	2021E	2021E	2021E	2020E	2020E	2020E	2020E
		Price	P/E	PEG*	P/B	Yield	ROAE	P/E	PEG*	P/B	Yield	ROAE	P/E	P/B	Yield	ROAE
Code	Stock	(HK$)	(x)	(x)	(x)	(%)	(%)	(x)	(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)
2	CLP HOLDINGS	73.05	15.31	5.26	1.55	3.66	10.3	15.62	5.37	1.60	3.59	10.4	16.22	1.65	3.45	10.5
3	HK CHINA GAS	12.02	27.26	2.52	3.12	3.12	11.6	28.76	2.65	3.18	2.95	11.1	33.48	3.22	2.54	9.8
6	POWER ASSETS	41.20	13.56	6.09	1.01	6.18	7.5	13.68	6.14	1.02	6.13	7.5	14.17	1.03	5.92	7.3
1038	CKI HOLDINGS	40.05	10.88	2.16	0.80	5.42	7.5	11.17	2.21	0.83	5.28	7.5	12.00	0.84	4.92	7.4
823	LINK REIT	68.75	21.74	4.09	0.88	1.30	4.0	22.63	4.26	0.88	1.25	3.9	24.11	0.89	1.18	3.7
16	SHK PPT	104.90	8.83	1.83	0.49	3.62	5.6	9.39	1.94	0.50	3.40	5.4	9.70	0.51	3.29	5.4
1109	CHINA RES LAND	33.25	6.28	0.44	0.86	4.12	14.4	7.02	0.49	0.95	3.68	14.2	8.21	1.05	3.15	12.8
1113	CK ASSET	43.30	6.97	0.83	0.41	3.82	6.0	7.36	0.88	0.42	3.62	5.9	8.19	0.44	3.25	5.5
2007	COUNTRY GARDEN	10.34	3.49	0.28	0.74	8.85	23.0	3.89	0.31	0.88	7.94	24.6	4.43	1.05	6.97	25.7
688	CHINA OVERSEAS	18.82	3.60	0.28	0.48	6.79	13.9	4.05	0.31	0.53	6.04	13.7	4.60	0.59	5.31	13.5
1997	WHARF REAL EST	37.05	13.24	2.17	0.50	11.88	3.8	14.06	2.31	0.51	11.20	3.7	14.90	0.52	10.56	3.5
17	NEW WORLD DEV	40.90	9.62	0.70	0.46	2.98	4.7	10.48	0.77	0.46	2.73	4.4	12.42	0.47	2.31	3.9
12	HENDERSON LAND D	32.25	10.19	6.30	0.45	5.03	4.5	11.31	6.99	0.46	4.54	4.1	10.52	0.47	4.88	4.6
101	HANG LUNG PPT	20.30	16.86	1.46	0.65	3.29	3.9	18.74	1.62	0.66	2.96	3.5	20.99	0.67	2.64	3.2
1299	AIA	89.65	18.42	0.97	1.95	1.60	11.0	20.54	1.08	2.09	1.43	10.6	26.11	2.26	1.13	9.0
2318	PING AN-H	90.80	7.84	0.45	1.41	3.11	19.2	9.09	0.52	1.61	2.68	18.9	10.82	1.85	2.25	18.1
2628	CHINA LIFE-H	17.96	6.88	0.61	0.83	1.13	12.6	7.85	0.70	0.90	0.99	12.0	8.52	0.99	0.92	12.1
939	CCB-H	5.97	4.57	0.71	0.48	6.67	10.8	4.88	0.76	0.51	6.24	10.9	5.18	0.55	5.89	11.2
1398	ICBC-H	4.67	4.44	0.74	0.45	6.88	10.6	4.73	0.79	0.49	6.46	10.8	4.99	0.53	6.13	11.0
3988	BANK OF CHINA-H	2.71	3.68	0.72	0.33	8.52	9.3	3.91	0.77	0.36	8.00	9.4	4.06	0.38	7.71	9.7
3328	BANK COMM-H	4.17	3.45	0.60	0.31	8.71	9.3	3.68	0.64	0.33	8.15	9.3	3.85	0.36	7.79	9.3
5	HSBC	42.15	9.68	0.20	0.64	5.17	6.6	12.80	0.27	0.64	3.91	5.1	21.16	0.65	-	3.1
11	HANG SENG BANK	136.90	13.33	2.00	1.41	4.73	10.7	14.46	2.17	1.46	4.37	10.3	15.17	1.53	4.16	10.2
2388	BOC HONG KONG	24.95	8.68	1.43	0.80	5.58	9.4	9.64	1.59	0.84	5.02	9.0	9.76	0.90	4.96	9.1
388	HKEX	382.80	33.71	2.49	9.17	2.65	27.9	37.71	2.79	9.63	2.37	26.2	43.46	10.17	2.05	24.2

(Continue next page)

			2022E	2022E	2022E	2022E	2022E	2021E	2021E	2021E	2021E	2021E	2020E	2020E	2020E	2020E
		Price	P/E	PEG*	P/B	Yield	ROAE	P/E	PEG*	P/B	Yield	ROAE	P/E	P/B	Yield	ROAE
Code	Stock	(HK$)	(x)	(x)	(x)	(%)	(%)	(x)	(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)
762	CHINA UNICOM	4.78	7.52	0.54	0.36	5.32	4.8	8.48	0.61	0.37	4.72	4.4	9.77	0.38	4.10	3.9
941	CHINA MOBILE	47.75	7.40	3.47	0.67	8.49	9.2	7.59	3.56	0.69	8.28	9.3	7.72	0.72	8.14	9.5
700	TENCENT	585.50	25.72	1.16	5.41	0.54	23.3	31.26	1.41	6.73	0.44	24.0	38.40	8.44	0.36	24.8
9988	ALIBABA-SW	268.00	18.46	0.81	3.70	-	22.0	22.73	0.99	4.51	-	21.4	27.89	5.29	-	20.9
3690	MEITUAN-W	307.80	55.48	0.43	11.59	-	22.9	93.84	0.73	14.03	-	15.9	291.58	15.94	-	5.2
1810	XIAOMI-W	26.55	25.90	0.82	4.26	-	17.8	32.86	1.05	5.03	-	16.5	44.75	5.90	-	13.2
2018	AAC TECHNOLOGIES	42.30	13.81	0.32	1.76	1.79	13.4	17.03	0.39	1.95	1.45	12.0	28.40	2.13	0.87	7.7
2382	SUNNY OPTICAL	154.10	20.69	0.83	5.44	0.96	29.3	25.25	1.01	6.87	0.79	30.7	32.29	8.91	0.62	31.0
386	SINOPEC CORP-H	3.82	7.69	0.15	0.48	8.48	6.4	9.53	0.19	0.51	6.85	5.4	17.60	0.52	3.71	3.0
857	PETROCHINA-H	2.66	9.93	-	0.32	4.52	3.3	18.95	-	0.33	2.37	1.8	(751.74)	0.34	(0.06)	(0.0)
883	CNOOC	9.58	6.91	0.13	0.73	9.35	10.8	9.83	0.19	0.77	6.57	8.0	15.86	0.80	4.07	5.1
2963	WUXI BIOLOGICS	74.05	84.61	2.05	10.56	-	13.5	120.04	2.91	12.39	-	10.9	168.77	13.83	-	5.2
1093	CSPC PHARMA	7.58	11.62	0.75	2.58	2.89	24.0	13.44	0.87	3.03	2.49	23.8	15.49	3.39	2.17	22.9
1177	SINO BIOPHARM	7.62	25.43	1.22	2.69	1.28	11.2	30.47	1.46	3.04	1.07	10.6	37.13	3.47	0.88	9.4
2319	MENGNIU DAIRY	40.30	21.92	0.65	3.22	0.79	15.7	26.04	0.77	3.69	0.66	15.1	39.23	4.21	0.44	11.2
1876	BUDWEISER	27.65	36.03	0.89	3.99	0.14	11.5	42.98	1.06	4.32	0.12	10.4	71.35	4.65	0.07	1.7
288	WH GROUP LTD	6.47	7.59	0.76	1.08	5.37	14.8	8.03	0.81	1.17	5.08	15.2	9.17	1.28	4.44	14.7
2020	ANTA SPORTS	105.60	24.27	0.63	6.76	1.39	30.5	30.66	0.80	8.20	1.10	29.6	46.53	10.14	0.72	22.4
1044	HENGAN INTL	55.80	10.76	2.04	2.49	5.61	24.0	11.39	2.16	2.69	5.30	24.6	11.92	2.92	5.06	24.0
2313	SHENZHOU	134.70	23.28	1.31	4.76	2.16	21.7	27.00	1.52	5.40	1.86	21.2	32.26	6.08	1.56	18.9
669	TECHTRONIC	101.80	22.96	1.13	4.69	1.46	22.5	27.42	1.35	5.75	1.22	21.7	33.25	6.18	1.01	19.8
175	GEELY AUTOMOBILE	22.85	16.33	0.68	2.24	1.93	14.5	18.33	0.76	2.51	1.72	14.7	25.16	2.90	1.25	12.6
1928	SANDS CHINA LTD	33.25	16.76	-	9.07	3.01	60.1	27.32	-	11.32	1.85	49.3	(24.80)	16.63	(2.04)	(42.8)
27	GALAXY ENTERTAIN	61.95	20.20	-	3.22	1.48	16.9	30.65	-	3.65	0.98	12.5	(62.01)	4.06	(0.48)	(6.2)
66	MTR CORP	42.10	16.01	0.26	1.32	3.96	8.4	25.30	0.42	1.39	2.51	5.5	41.44	1.41	1.53	3.4
1	CKH HOLDINGS	57.55	5.86	0.50	0.41	5.24	7.1	6.34	0.55	0.42	4.84	6.8	7.30	0.44	4.21	6.3
267	CITIC	6.15	2.85	0.19	0.25	8.81	8.9	3.25	0.21	0.26	7.74	8.4	3.78	0.28	6.65	7.8

Priced on Nov 26, 2020; RMB 0.8478/HK$1.00; HK$ 7.7508/US$ 1.00; PEG = P/E / EPS CAGR in 2020E-22E
Source(s): Bloomberg, ABCI Securities

Exhibit 22: Hang Seng China Enterprises Index (HSCEI) market valuation

			2022E	2022E	2022E	2022E	2022E	2021E	2021E	2021E	2021E	2021E	2020E	2020E	2020E	2020E
		Price	P/E	PEG*	P/B	Yield	ROAE	P/E	PEG*	P/B	Yield	ROAE	P/E	P/B	Yield	ROAE
Code	Stock	(HK$)	(x)	(x)	(x)	(%)	(%)	(x)	(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)
939	CCB-H	5.97	4.57	0.71	0.48	6.67	10.8	4.88	0.76	0.51	6.24	10.9	5.18	0.56	5.89	11.2
1398	ICBC-H	4.67	4.44	0.74	0.45	6.88	10.6	4.73	0.79	0.49	6.46	10.8	4.99	0.53	6.13	11.0
3988	BANK OF CHINA-H	2.72	3.69	0.73	0.33	8.48	9.3	3.93	0.77	0.36	7.97	9.4	4.08	0.38	7.68	9.7
1658	POSTAL SAVINGS-H	4.29	4.44	0.40	0.48	-	11.3	4.98	0.44	0.52	-	10.9	5.50	0.57	-	10.9
3328	BANKCOMM-H	4.16	3.44	0.60	0.31	8.72	9.3	3.67	0.64	0.33	8.17	9.3	3.84	0.35	7.81	9.3
3968	CM BANK-H	49.80	8.85	0.64	1.31	3.74	15.6	10.21	0.74	1.46	3.25	15.2	11.46	1.64	2.89	15.2
2318	PING AN	90.90	7.85	0.45	1.41	3.11	19.2	9.10	0.52	1.61	2.68	18.9	10.83	1.85	2.25	18.1
2628	CHINA LIFE-H	17.96	6.89	0.61	0.83	1.13	12.6	7.85	0.70	0.90	0.99	12.0	8.52	0.99	0.92	12.1
2601	CHINA PACIFIC-H	29.95	7.48	0.63	0.97	5.24	13.6	8.36	0.71	1.07	4.69	13.3	9.35	1.17	4.19	13.1
941	CHINA MOBILE	47.65	7.39	3.46	0.67	8.50	9.2	7.58	3.55	0.69	8.29	9.3	7.71	0.72	8.15	9.5
762	CHINA UNICOM	4.78	7.52	0.54	0.36	5.32	4.8	8.48	0.61	0.37	4.72	4.4	9.77	0.38	4.09	3.9
788	CHINA TOWER CO-H	1.22	16.69	0.60	0.92	2.95	5.6	21.56	0.78	0.94	2.28	4.4	27.23	0.97	1.81	3.6
700	TENCENT	586.00	25.75	1.16	5.42	0.54	23.3	31.29	1.41	6.74	0.44	24.0	38.44	8.45	0.36	24.8
3690	MEITUAN	308.00	55.53	0.43	11.60	-	22.9	93.93	0.73	14.05	-	15.9	291.85	15.95	-	5.2
9988	ALIBABA	269.00	18.54	0.81	3.71	-	22.0	22.83	1.00	4.53	-	21.4	28.00	5.32	-	20.9
9618	JD.COM	345.80	27.75	0.70	5.48	-	21.6	38.37	0.96	6.59	-	18.4	54.22	7.63	-	16.3
9999	NETEASE	143.90	19.11	1.24	3.69	2.31	20.5	21.86	1.42	4.15	2.02	20.2	25.42	4.73	1.74	21.6
1810	XIAOMI CORP-B	26.60	25.96	0.83	4.27	-	17.8	32.93	1.05	5.04	-	16.5	44.85	5.92	-	14.0
2382	SUNNY OPTICAL	154.80	20.79	0.83	5.46	0.96	29.3	25.37	1.02	6.90	0.79	30.7	32.45	8.95	0.62	31.0
2007	COUNTRY GARDEN	10.32	3.48	0.28	0.74	8.86	23.0	3.88	0.31	0.88	7.95	24.6	4.42	1.05	6.98	25.7
688	CHINA OVERSEAS	18.78	3.59	0.28	0.48	6.81	13.9	4.04	0.31	0.53	6.05	13.7	4.60	0.59	5.32	13.5
1109	CHINA RES LAND	33.35	6.30	0.44	0.87	4.66	14.4	7.05	0.49	0.95	4.17	14.2	8.24	1.05	3.56	13.5
3333	CHINA EVERGRAND	16.14	5.13	0.45	0.89	9.67	18.3	5.59	0.49	0.99	8.88	18.7	6.38	1.11	7.78	18.4
960	LONGFOR GROUP	50.30	9.67	0.56	1.76	3.97	19.8	11.37	0.65	2.09	3.37	19.7	13.32	2.39	2.88	19.1
813	SHIMAO GROUP	28.20	4.45	0.21	0.81	11.15	19.4	5.37	0.26	0.93	9.25	18.3	6.50	1.05	7.64	17.2
1918	SUNAC	29.20	2.64	0.13	0.66	7.80	27.9	3.19	0.16	0.82	6.44	28.7	3.80	1.04	5.42	30.7

(Continue next page)

			2022E	2022E	2022E	2022E	2022E	2021E	2021E	2021E	2021E	2021E	2020E	2020E	2020E	2020E
		Price	P/E	PEG*	P/B	Yield	ROAE	P/E	PEG*	P/B	Yield	ROAE	P/E	P/B	Yield	ROAE
Code	Stock	(HK$)	(x)	(x)	(x)	(%)	(%)	(x)	(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)
914	CONCH CEMENT-H	50.90	6.64	-	1.10	4.74	17.6	6.49	-	1.24	4.85	20.5	6.62	1.43	4.76	23.2
586	CONCH VENTURE	36.15	6.14	0.63	1.05	3.10	18.5	6.62	0.68	1.23	2.87	20.2	7.40	1.47	2.57	21.5
175	GEELY AUTOMOBILE	22.90	16.38	0.68	2.24	1.92	14.5	18.37	0.76	2.52	1.72	14.7	25.22	2.90	1.25	12.6
2313	SHENZHOU INTL	135.20	23.38	1.32	4.78	2.44	21.7	27.11	1.53	5.42	2.11	21.2	32.39	6.11	1.76	19.9
2020	ANTA SPORTS	106.60	24.51	0.64	6.82	1.56	30.5	30.96	0.80	8.28	1.24	29.6	46.99	10.24	0.81	23.7
241	ALIBABA HEALTH	21.20	206.66	2.00	21.05	-	11.2	418.12	4.04	25.87	-	6.4	856.16	27.66	-	4.7
3692	HANSOH PHARMA	35.35	39.24	1.54	8.14	0.69	22.7	46.99	1.84	9.83	0.57	22.8	61.81	11.81	0.44	20.2
1093	CSPC PHARMAI	7.60	11.66	0.76	2.59	3.26	24.0	13.48	0.87	3.04	2.82	23.8	15.53	3.40	2.45	24.2
1177	SINO BIOPHARM	7.62	25.44	1.22	2.69	1.46	11.2	30.48	1.46	3.04	1.22	10.6	37.14	3.47	1.00	9.9
2319	MENGNIU DAIRY	40.30	21.92	0.65	3.23	0.79	15.7	26.05	0.77	3.69	0.66	15.1	39.24	4.22	0.44	11.2
6186	CHINA FEIHE	17.68	14.59	0.58	4.93	2.86	37.7	17.94	0.71	6.21	2.32	38.9	22.89	7.96	1.82	39.2
6862	HAIDILAO INTL	52.05	37.96	0.26	10.54	0.88	31.5	50.62	0.34	13.84	0.66	31.7	232.33	19.05	0.14	8.8
1044	HENGAN INTL	55.80	10.76	2.04	2.49	6.36	24.0	11.39	2.16	2.69	6.01	24.6	11.93	2.92	5.74	25.4
291	CHINA RESOURCES	59.60	34.74	1.06	6.14	1.19	18.7	43.09	1.31	6.93	0.96	17.0	61.27	7.72	0.67	13.1
2688	ENN ENERGY	103.50	12.37	0.81	2.40	2.72	20.8	14.09	0.93	2.79	2.39	21.3	16.43	3.26	2.05	21.4
384	CHINA GAS	28.00	10.59	0.78	2.21	2.55	22.4	11.79	0.87	2.57	2.29	23.6	13.64	3.04	1.98	24.5
1193	CHINA RES GAS	36.40	12.89	1.02	2.03	2.91	16.6	14.41	1.14	2.26	2.60	16.4	16.35	2.49	2.29	16.7
270	GUANGDONG INVEST	13.04	13.46	1.32	1.82	5.57	13.8	14.24	1.40	1.90	5.26	13.7	16.34	1.99	4.58	12.4
883	CNOOC	9.60	6.92	0.13	0.73	9.33	10.8	9.86	0.19	0.77	6.55	8.0	15.90	0.80	4.06	5.1
857	PETROCHINA-H	2.65	9.90	-	0.32	4.54	3.3	18.89	-	0.33	2.38	1.8	(749.14)	0.33	(0.06)	(0.0)
386	SINOPEC CORP-H	3.83	7.72	0.15	0.49	8.46	6.4	9.55	0.19	0.51	6.83	5.4	17.65	0.53	3.70	3.0
267	CITIC	6.15	2.85	0.19	0.25	8.81	8.9	3.25	0.21	0.26	7.74	8.4	3.78	0.28	6.65	7.8
981	SMIC	22.05	55.78	(5.20)	1.46	-	2.6	67.74	(6.31)	1.49	-	2.2	44.45	1.49	-	4.1

Priced on Nov 26, 2020; RMB 0.8478/HK$1.00; HK$ 7.7508/US$ 1.00; PEG = P/E / EPS CAGR in 2020-22E
Source(s): Bloomberg, ABCI Securities

Hong Kong IPO Market

Analyst: Steve Chow

- **Swift recovery in 2H20; Chinese internet platforms may return to China/ Hong Kong markets**

- **Overall, the IPO market has recovered significantly in the post-pandemic period. In 11M20, Hong Kong IPO market raised a total of US$ 39.2bn vs. US$ 40.3bn in 2019.**

- **The industry mix is turning more diversified now. Consumer discretionary, healthcare, real estate, and telecom stocks accounted for 26%, 21%, 15%, and 15% of IPO volume, respectively, in 11M20.**

Despite the COVID-19 outbreak in 1Q20, Hong Kong's IPO market has recovered significantly in recent months. In 11M20 (up to Nov 26, 2020), Hong Kong IPO market raised US$ 39.2bn vs. US$ 40.3bn in 2019. In 11M20, a total of 125 IPOs were issued, with an average issue size of US$ 314mn each.

The industry mix has become more diversified in 11M20. Consumer discretionary, healthcare, real estate, and telecom stocks took up 26%, 21%, 15%, and 15% of IPO volume, respectively, in 11M20. This is in contrast with the situation in 2019 where consumer stocks (discretionary and staples) collectively accounted for 58% of IPO volume.

In our view, a more diversified industry mix is positive to the overall IPO market as it could dilute the impact of industry cyclicality. E.g., the share of healthcare increased from 13% in 2019 to 21% in 11M20, mitigating the impact of lower contribution of consumer staple from 17% to 6% during the same period.

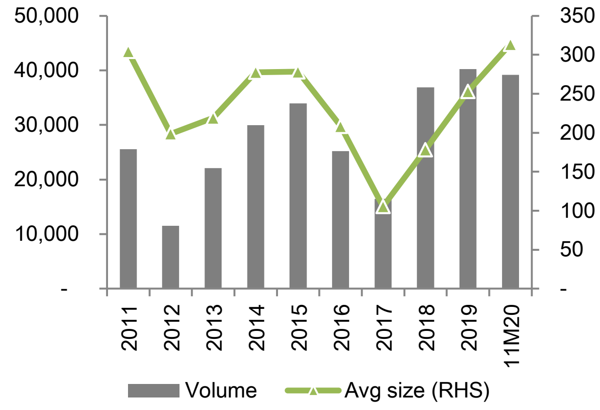
Overall, dual-listing of overseas listed Chinese internet platforms continued to be a major driver of the IPO market. Looking forward, we expect more major internet platforms to return to the Hong Kong/ China markets for listing. In our view, the increased supply of internet stocks may prompt institutional investors to rebalance their industry portfolio.

Exhibit 1: 11M20 HK IPO Overview *

Industry	Volume (US$ mn)	Avg deal size (US$ mn)
Consumer Discretionary	10,111	460
Health Care	8,082	449
Real Estate	6,042	355
Telecom	5,878	452
Financials	2,594	432
Consumer staple	2,339	468
Others	4,160	95

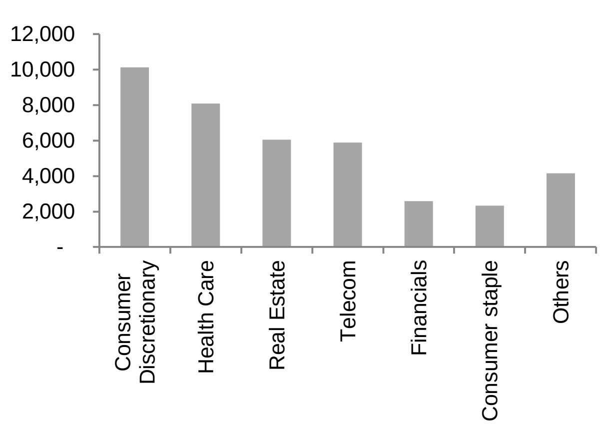
*Up to Nov 26, 2020
Source(s): Bloomberg, ABCI Securities

Exhibit 2: HK IPO volume and average deal size (US$ mn)*



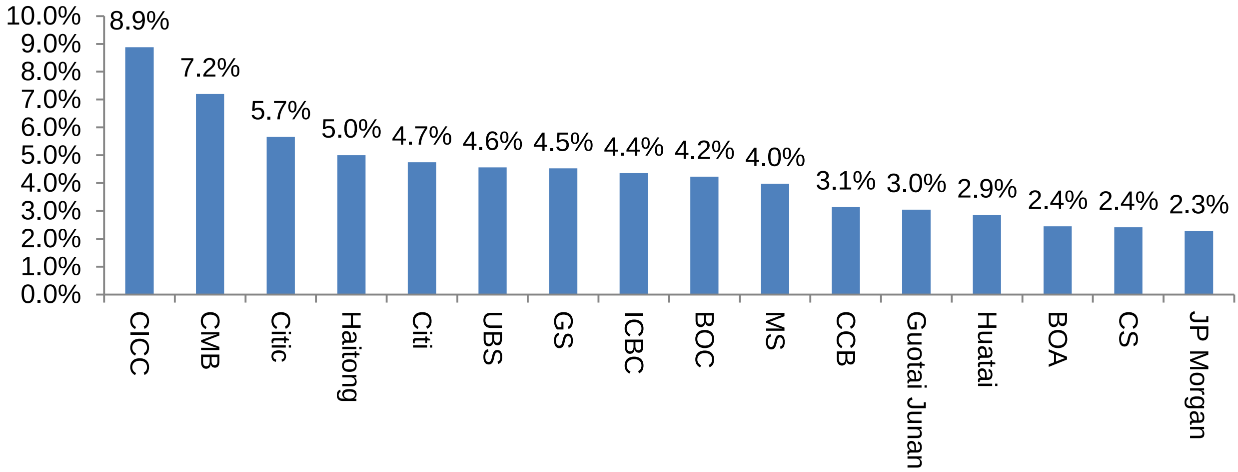
*11M20 -Up to Nov 26, 2020
Source(s): Bloomberg, ABCI Securities

Exhibit 3: HK IPO volume by industry (11M20)*

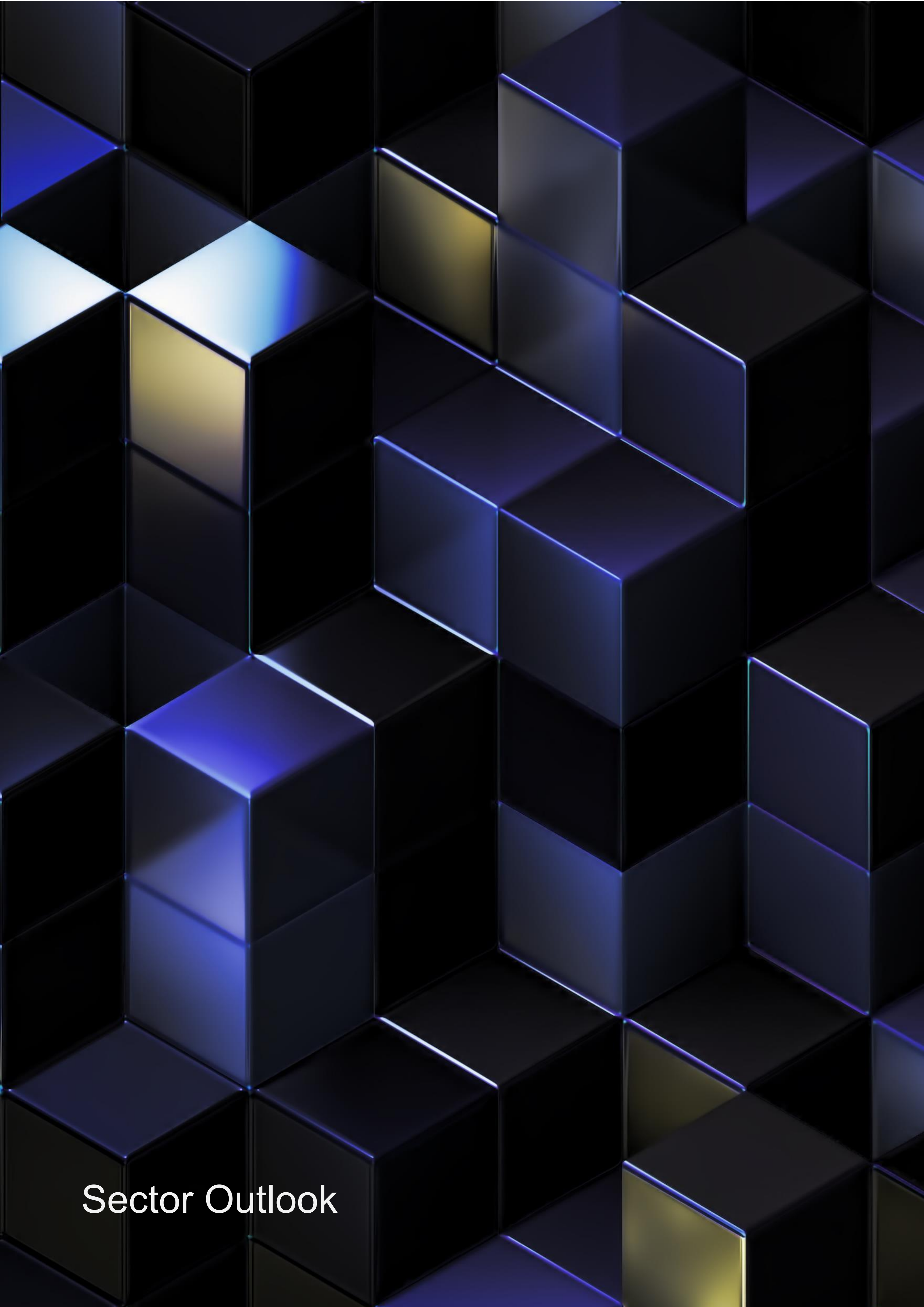


*11M20 -Up to Nov 26, 2020
Source(s): Bloomberg, ABCI Securities

Exhibit 4 : Market share of HK IPO underwriters by volume (11M20*)



*11M20 -Up to Nov 26, 2020
Source(s): Bloomberg



Sector Outlook

OVERWEIGHT
China Banks Sector – Resuming earnings growth momentum
Johannes Au

Key Data		**Sector Performance**	**Absolute (%)**	**Relative (%)**
H-shr		**H-shr (relative to MXCN)**		
Avg. 21E P/E (x)	5.01	1-mth	2.12	(1.66)
Avg. 21E P/B (x)	0.54	3-mth	4.08	(2.82)
Avg. 21E div yield (%)	7.04	6-mth	(1.01)	(26.91)
A-shr		**A-shr (relative to CSI300)**		
Avg. 21E P/E (x)	6.45	1-mth	(0.26)	(0.26)
Avg. 21E P/B (x)	0.68	3-mth	0.31	3.99
Avg. 21E div yield (%)	5.23	6-mth	1.95	(14.90)
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

- Earning growth momentum resumed in 3Q20, expect further progress in 2021E
- Asset quality risk is easing, yet large provisions will persist
- NIM impact from LPR reform is coming to an end; interest rate down cycle would exert mild pressure on NIM, fast balance sheet growth and component management would be the key defensive factors
- Reiterate **OVERWEIGHT** sector rating for both A/H markets. Prefer big banks for defensiveness and promising dividend yield. **CCB(939 HK/601939 CH)** is our sector top pick

Earnings growth momentum is resuming. Shadowed by the dual impacts of COVID-19 and Sino-US dispute, most listed Chinese banks reported negative earnings growth in 9M20. Nevertheless, signs of recovery started to show in 3Q20, of which average net profit growth for big banks and JSBs was down by only 0.9% and 4.98% YoY in 3Q20, compared to the average drop of 27.86% and 26.58% YoY in 2Q20, according to the CBIRC statistics. System net profit was down 5.8% QoQ in 3Q20, compared to the 24.1% decline in 2Q20. Assuming the pandemic stabilizing and the fact that Biden was elected to be the 46th US President, we believe uncertainties in the economy will gradually dissipate, paving ways for a better earnings growth outlook for banks in 2021E-22E with sustainable balance sheet growth and manageable credit cost. Specifically, our economist projects China's 2020E/21E real GDP growth to be 2.0% and 8.0%, in addition to a 2021E new loan target of RMB 20.5tr. Our base case scenario forecasts net profit growth of banks in our coverage universe to be in the range of 5.3%-18.6% YoY for 2021E and 3.2%-12.0% for 2022E.

Large provision to stay. While we expect resuming growth in the economy would lower asset quality risk, system NPL ratio would inch up in coming quarters due to the lag effect. Banks will continue to make large provisions, assuming that the delayed principal and interest payment policy would end in Mar 2021. System NPL ratio increased only by 2bps QoQ to 1.96% in Sep 2020 with proactive handling effort. By category, average NPL ratios of city commercial banks and rural commercial banks dropped 2bps and 5bps QoQ in 3Q20 to 2.28% and 4.17%. NPL ratios of big banks and JSBs were much lower at 1.5% (+5bps QoQ) and 1.63% (unchanged QoQ) as of Sep 2020. Our base case scenario projects the system NPL ratio to increase by a single-digit bps QoQ in coming quarters. Banks' earnings will be highly dependent on provision size. As seen, most banks recorded a solid topline growth in 9M20 but large provisions have diminished net profit growth into the negative territory.

Mild NIM pressure in 2021. Followed the LPR reform in Aug 2019, average lending interest rate gradually fall from 5.62% in Sep 2019 to 5.12% in Sep 2020, representing a drop of 50bps YoY or 6bps increased QoQ, according to the PBOC data. Based on the 3Q20 results, we believe re-pricing impact from LPR reform is coming to an end, meaning the NIM pressure in 2021E-22E may lessen and be mainly driven by the interest rate cut cycle in China and competition among individual banks. Loan pricing was on a stabilizing trend, with the proportion priced at above LPR slightly reduced from 70.03% in Jun 2020 to 67.70% in Sep 2020. System NIM therefore stayed flat QoQ at 2.09%, or YoY narrowed by only 10bps in 3Q20. The average NIM in all bank categories recorded a QoQ change of -1bps to +1bps. Going forward, we believe robust balance sheet growth would remain as the core defensive factor against NIM pressure, which, in turn, will be driven mainly by loan demand and resuming economic activities. Overall, NIM pressure, albeit inevitable, would be mild in 2021E and 2022E. Big banks, through balance sheet management, will be the most defensive of all bank categories.

Long-term Outlook

Policy risk remains to be the largest overhang in the China Banks sector. We believe a highly regulated and disciplined business environment is essential to establishing a robust financial industry in the long run, but deployment of new policies is likely to elicit short-term share price volatility.

Short-term Outlook

Economic impacts of COVID-19 will gradually fade in coming quarters, assuming the pandemic will not resurge in the near term. A substantial deterioration in asset quality is possible yet highly unlikely given the regulatory support and prudent practices of the Chinese banks. Sector re-rating would be triggered by continuous improvement in asset quality and NIM.

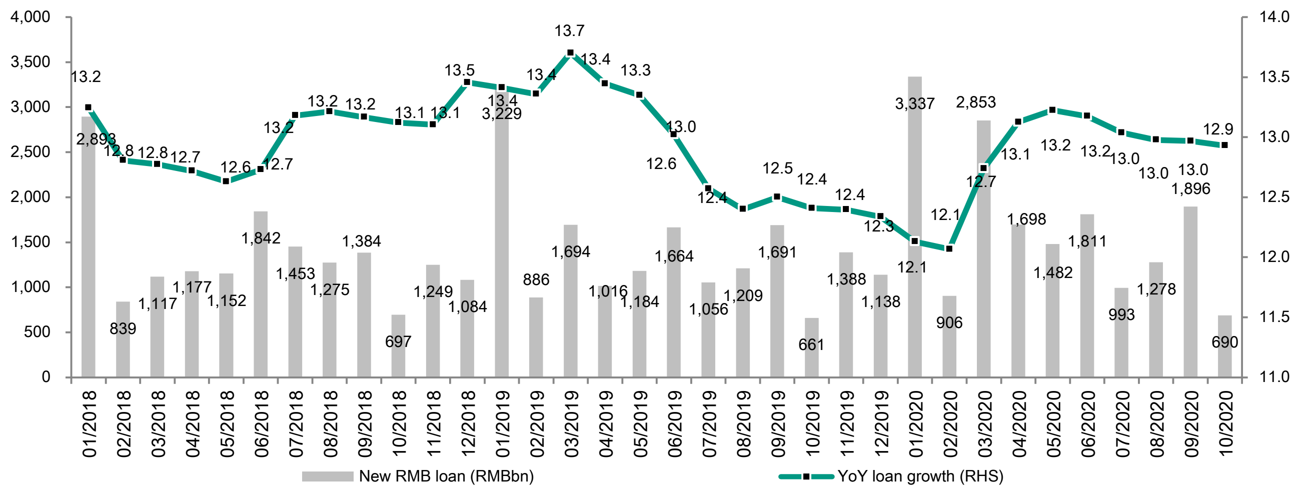
Stock Recommendations

We reiterate our **OVERWEIGHT** rating for the China banks sector (both A/H markets). Big banks, with promising dividend yield and high degree of business diversification, have repeatedly proven their defensiveness against policy changes and adaptability to vicissitudes of the economy. Our sector top pick is **CCB (939 HK/601939 CH)** for its prudent practices and diversified businesses.

Risk Factors

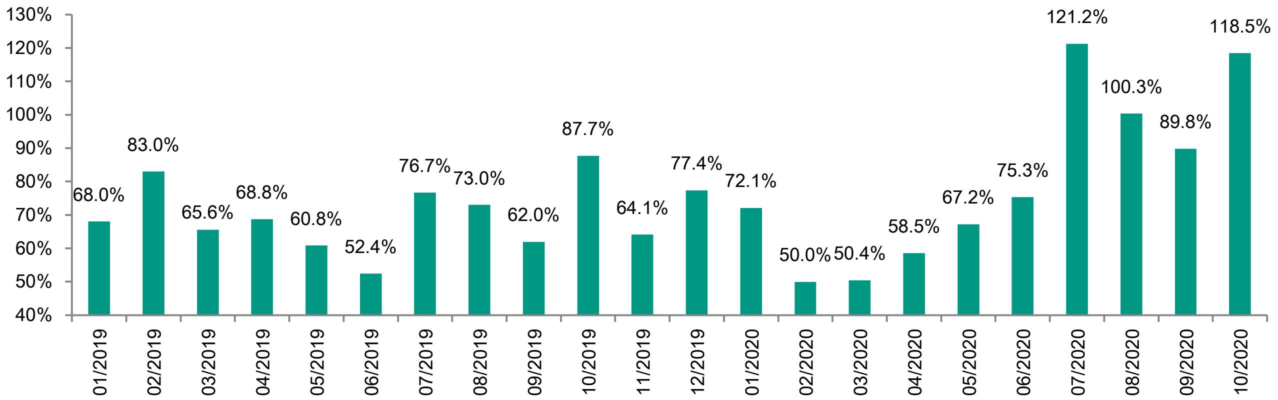
1) Increasing competition from non-bank financial institutions and foreign players; 2) Sharp deterioration in asset quality; 3) Increasing policy risk on macro uncertainties; 4) Resurgence of COVID-19 pandemic and escalation of Sino-US dispute.

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



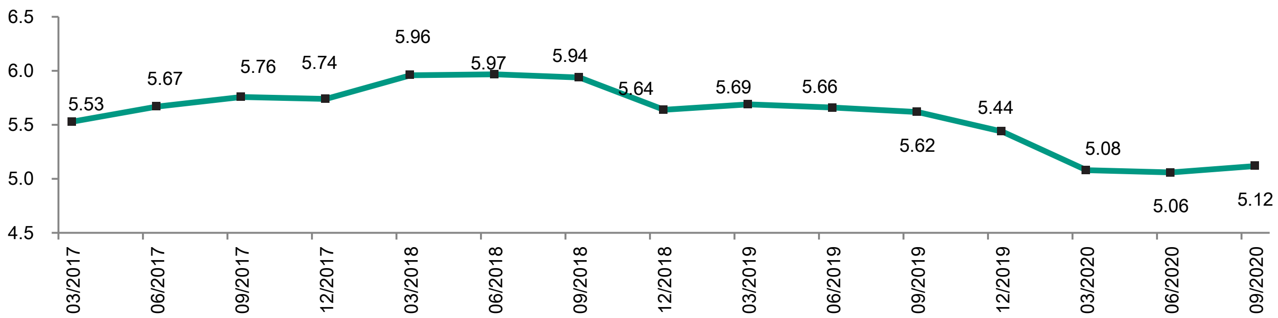
Source(s): PBOC, ABCI Securities

Exhibit 2: Medium-to-long-term loans to monthly total RMB loans (%)



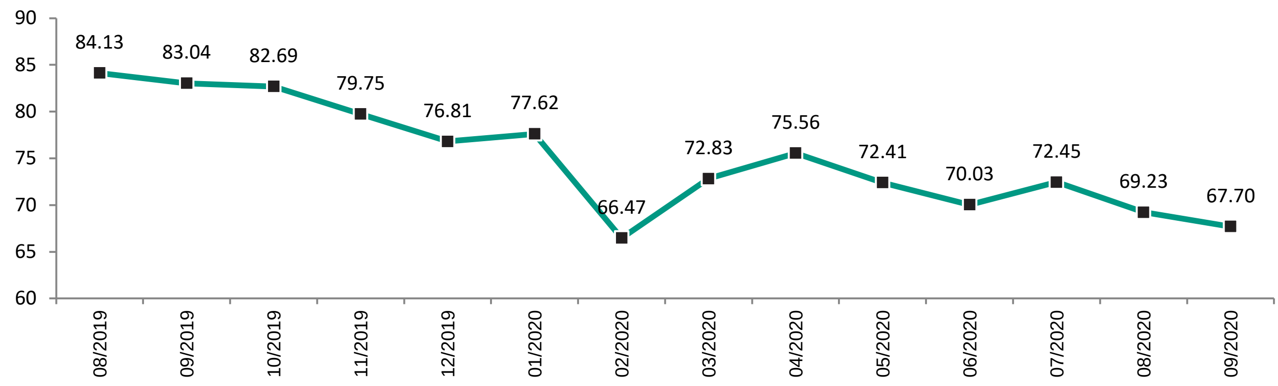
Source(s): PBOC, ABCI Securities

Exhibit 3: System monthly average lending rate (%)



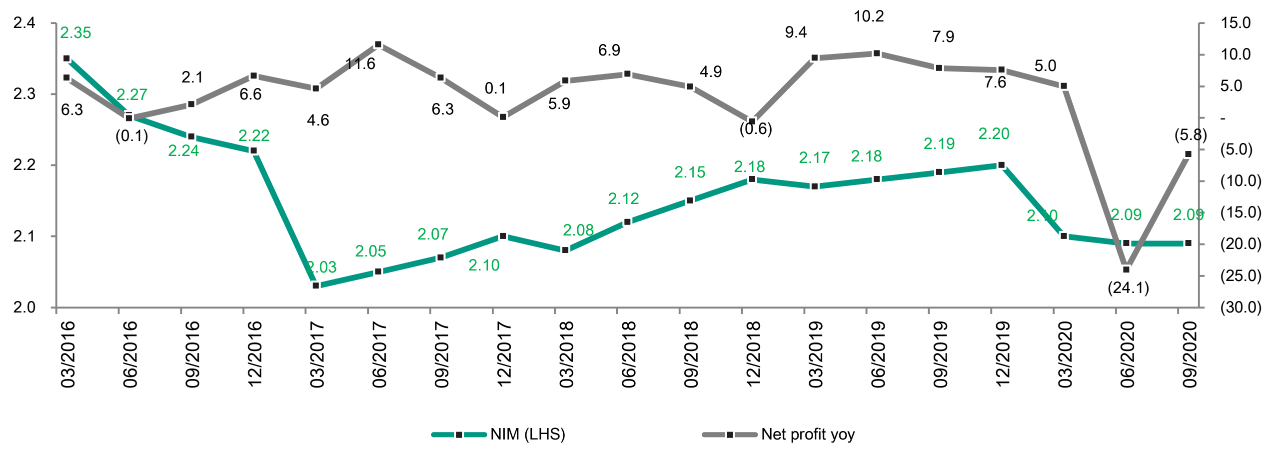
Source(s): PBOC, ABCI Securities

Exhibit 4: Proportion of loans priced at above LPR (%)



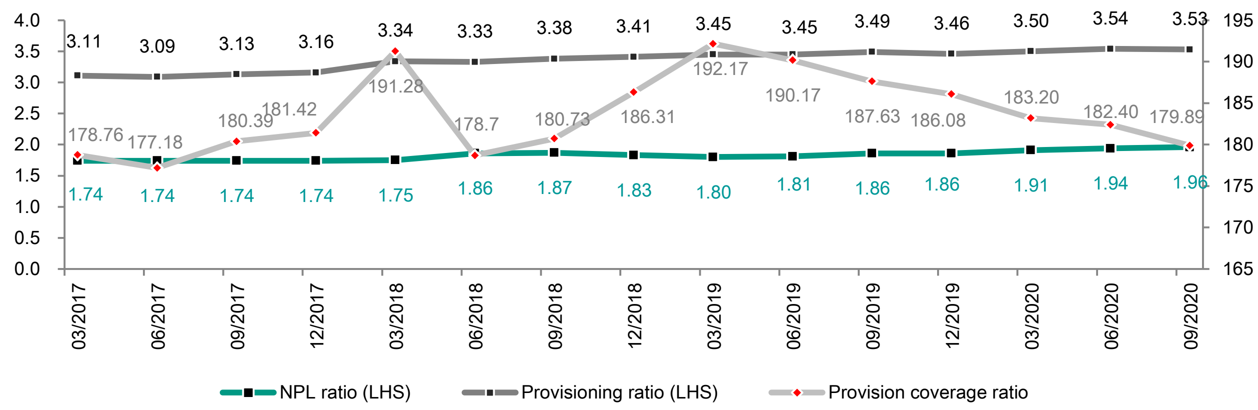
Source(s): PBOC, ABCI Securities

Exhibit 5: System NIM (%) vs. system quarterly net profit YoY (%)



Source(s): CBIRC, ABCI Securities

Exhibit 6: System asset quality indicators (%)



Source(s): CBIRC, ABCI Securities

Valuation of sector top picks for H-shr market (Data as of Dec 1, 2020)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield (%)	FY21E Yield (%)
CCB	939 HK	BUY	8.72	40.65	5.31	5.05	0.58	0.53	5.90	6.28

Source(s): Bloomberg, ABCI Securities estimates

Valuation of sector top picks for A-shr market (Data as of Dec 1, 2020)

Company	Ticker	Rating	TP (RMB)	Upside (%)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield (%)	FY21E Yield (%)
CCB	601939CH	BUY	9.66	32.33	7.37	7.02	0.80	0.74	4.25	4.52

Source(s): Bloomberg, ABCI Securities estimates

OVERWEIGHT
China Property Sector – Big is the name of the game
Kenneth Tung

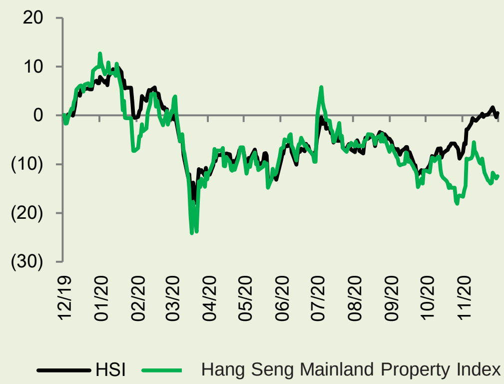
Key Data		Sector Performance (relative to HSMPI)	Absolute (%)	Relative (%)
Avg. 21E P/E (x)	5.68	1-mth	4.69	(5.51)
Avg. 21E P/B(x)	0.91	3-mth	(5.36)	(10.85)
Avg. 21E div yield (%)	7.95	6-mth	(4.34)	(16.28)

Source(s):Bloomberg, ABCI Securities estimates

Source(s):Bloomberg, ABCI Securities

- Developers' contracted sales rose 11% YoY on average in 10M20. We expect contracted sales and ASP to increase by 15%YoY and 5%YoY for 2021E
- Moving into 2021, we expect GFA under management of residential PMCs to expand faster since recovered presales activities in 2H20 would drive up completion
- **COLI (688 HK)** is our top pick for property development sector given its solid balance sheet and potential FX gains on USD depreciation. **A-Living (3319 HK)** is our top pick for the property for property management sector given its solid track record in M&A and undemanding valuation

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

Sector Outlook

■ Developers:

Expect national new home sales to grow 12%YoY in 2021E on low interest rate and lower supply. China's residential sales have resumed since June 2020. According to NBS, new home sales grew 21% YoY in 3Q20 and 26% YoY in Oct, compared to -3%YoY in 1H20. Pent-up demand unleashes after COVID-19, and contracted sales of 20 large-scale and listed developers rose 19% YoY in Oct 2020 or 11% in 10M20. ASP of the 20 listed developers edged up 0.3%YoY in Oct 2020- the first positive growth in 2020. Moving into 2021, we believe lower interest rate and tighter new home supply would continue to support contracted sales and ASP. According to Rong360, first-home mortgage dropped 30bps YTD to 5.24% in Oct 2020; we expect mortgage loan rate to decline further in 1H21 as banks resumes a more proactive loan stance in in 1H to achieve its annual new loan target. On the supply side, GFA completion and new construction starts for residential properties in China dropped 7.9% YoY to 492mn sqm and 3.3%YoY to 1,324mn sqm in 10M20 on pandemic disruptions. Land purchase also declined by 3.3%YoY to 177mn sqm in 10M20. Overall, we expect contracted sales to grow 15%YoY while ASP would increase 5% YoY for 2021E.

The "three red lines" may boost margins. Unofficial channels have been reporting that "the three red lines" financing rules will be enforced in the property sector starting from 2021. Specifically, measures will be prescribed to control debts of developers. The red lines are: 1) a 70% upper limit for a developer's debt-to-asset ratio after excluding advance receipts; 2) a 100 % upper limit for the net debt-to-equity ratio, and; 3) a one-to-one down limit ratio for cash against short-term debts. Companies that exceed the three red lines are placed into the "red tier"; those passing the two lines are in the orange tier; enterprises that cross the one marker are in the yellow tier; firms with ratios below all the lines are in the green tier. Based on the four tiers, each developer will be assigned an annual growth limit of total borrowing, which is 0% for red, 5% for orange, 10% for yellow, and 15% for green tier. One of the key uncertain factors concerns the referencing point - it remains unknown whether the debt level at June 2020 or Dec 2020 will be considered as the comparison base. On a more positive note, the new constraint on borrowing would mean reduced competition in the land market. The green-tier players will be in a better position to acquire land parcels with the highest 15% limit in debt increase.

- **PMCs:**

Valuation should recover after the large IPO pipeline. Despite limited fundamental changes in the PM sector, share price performance of HK-listed PMCs plummeted by 24% on average over the last three months (till 1 Dec 2020). The share price correction was caused by: **1) Profit taking by investor.** The PM sectors had risen 59% YTD (till Dec 1, 2020); consequently, some investors opted to realize their gains, especially those who regarded PM sector as a counter-cyclical sector given its high earnings visibility and stability. News on successful development on COVID-19 vaccines and improving economic outlook have induced a switch from the defensive sector to other cyclical sectors. **2) Large IPO pipeline:** Up to Dec 1, 2020, 10 PMCs had completed listing in 2020, raising a total of HK$ 35.1bn. Six PMCs were listed in Oct-Nov, which means that a significant amount of capital may have been diverted from the existing listed PMC stocks. Many of the newly listed PMCs are subsidiaries of the top developers in China (e.g. Shimao Services [873 HK], Jinke Smart [9666 HK]) and are regarded as quality players. Going forward, we believe investors will continue to favor (1) large PMCs for the better economies of scale; (2) PMCs with higher exposure to commercial projects, which usually allow for stronger pricing power and better margins. Only a few large-cap PMCs are yet to be listed; hence, PMCs spun off from small/mid developers will continue to weigh on valuations of small PMCs.

PM sector proved its earnings stability during a difficult 2020. The PM sector has elicited attention from investors after the listing of several large-cap PMC stocks, including as A-Living and Country Garden Services (6098 HK), in 2018. The sector's defensiveness was revealed amid the pandemic. In 1H20, GFA under management, revenue, and net profit of 12 major listed PMCs grew by 30%, 44%, and 50% while net margin improved 0.9ppt YoY to 14.4%. Moving into 2021, we expect a stronger YoY growth for residential PMCs on faster GFA completion driven by presales activities in 2H20. Shopping mall manager would achieve better revenue growth based on improving sales performance of retail tenants; this, in turn, will allow for a higher fee hike.

Stock Recommendations

- **Developers:**

COLI (688 HK) is our top pick since the "three red-line" policies would allow the group to leverage up (1H20 net gearing: 31.6%).Its high USD/HKD borrowing exposure (53.0% of total debt as at June 2020) would also result in favorable FX gains. Trading at 3.7x 2021 P/E (vs. large cap peer average at 5.5P/E), we believe COLI's share price has been over-corrected by concerns over the US President's executive order that requires US investors to divest from various Chinese stocks by Nov 2021. **Times (1233 HK)** is our mid-cap pick given its healthy 10M20 contracted sales performance (+19% YoY vs. peer average of +11%) and expertise in urban redevelopment projects in Greater Bay Area.

- **PMCs:**

A-Living (3319 HK) is our top PMC pick for its solid track record in M&As. Valuation looks attractive at 15.5x 2021 P/E, as compared to 25.1x of its large-cap peers. **Powerlong CM (9909 HK)** is also our preferred pick as improving retail performance of its malls under management should allow for a larger fee hike in 2021.

Risk Factors

- **Developers:**

1) Slowing contracted sales performance due to moderating economic growth; 2) Further policy interference on developers' funding activities; 3) Uncertain development of COVID-19

- **PMCs:**

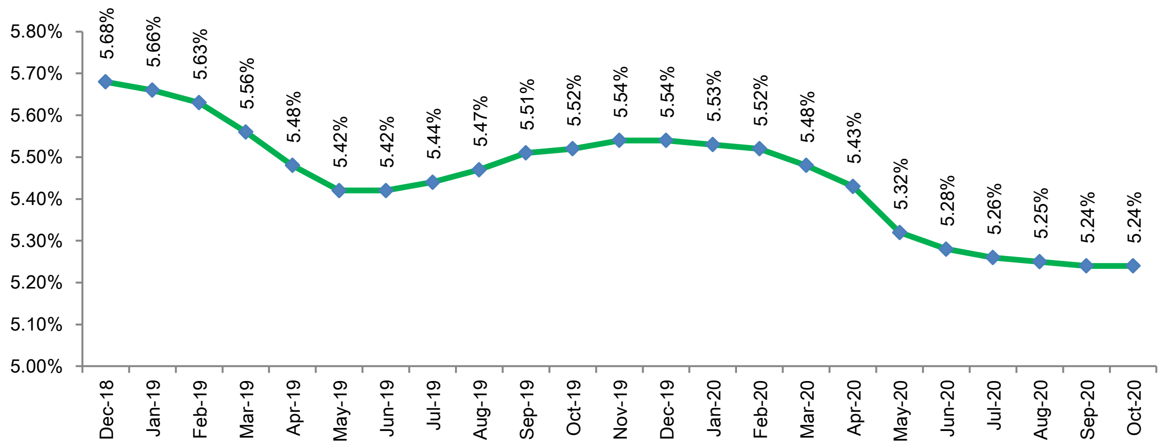
1) Substantial related-party transactions between PMC subsidiaries and parent developers; 2) Reliance on shareholders for new projects for non-independent PMCs; 3) Potential margin erosion caused by M&A; 4) increasing number of PMC IPOs may drive down sector valuation

Exhibit 1: 10M20 contracted sales of major listed developers

			10M20						2020	% Achieved
		Stock code	Amount RMBbn	YoY %	GFA '000 sqm	YoY %	ASP RMB/sqm	YoY %	Target RMBbn	
1	Yuzhou	1628 HK	88.6	52%	5,425	38%	16,329	10%	100	88.6%
2	Yuexiu	123 HK	73.3	40%	2,936	20%	24,981	16%	80	91.5%
3	Jinmao	817 HK	180.3	33%	9,405	53%	19,174	(13%)	200	90.2%
4	Greentown	3900 HK	196.1	30%	9,740	24%	20,133	5%	250	78.4%
5	Powerlong	1238 HK	62.4	24%	4,067	30%	15,347	(5%)	75	83.2%
6	Logan	3380 HK	97.0	23%	6,031	4%	16,085	18%	110	88.2%
7	Times	1233 HK	70.6	19%	4,975	25%	14,193	(5%)	82	85.8%
8	Shimao	813 HK	231.3	17%	13,190	20%	17,535	(2%)	300	77.1%
9	KWG	1813 HK	78.5	15%	4,710	19%	16,656	(4%)	103	75.9%
10	CIFI	884 HK	174.4	12%	11,572	24%	15,068	(10%)	230	75.8%
11	Aoyuan	3883 HK	98.5	11%	9,486	8%	10,384	3%	132	74.6%
12	Poly-A	600048 CH	422.8	9%	28,564	11%	14,800	(1%)	--	--
13	Longfor	960 HK	214.4	6%	12,655	6%	16,938	0%	260	82.4%
14	Agile	3383 HK	104.8	5%	7,781	5%	13,467	0%	120	87.3%
15	Vanke	2202 HK	545.1	5%	36,308	9%	15,012	(4%)	--	--
16	Country garden	2007 HK	500.7	4%	59,260	10%	8,449	(5%)	--	--
17	COLI	688 HK	286.1	3%	15,417	1%	18,557	2%	360	79.4%
18	R&F	2777 HK	102.7	(4%)	8,711	(12%)	11,786	10%	152	67.5%
19	Sino-Ocean	3377 HK	92.1	(9%)	4,748	(5%)	19,405	(4%)	130	70.9%
20	Beijing Capital	2868 HK	54.6	(10%)	2,043	(17%)	26,740	8%	80	68.3%

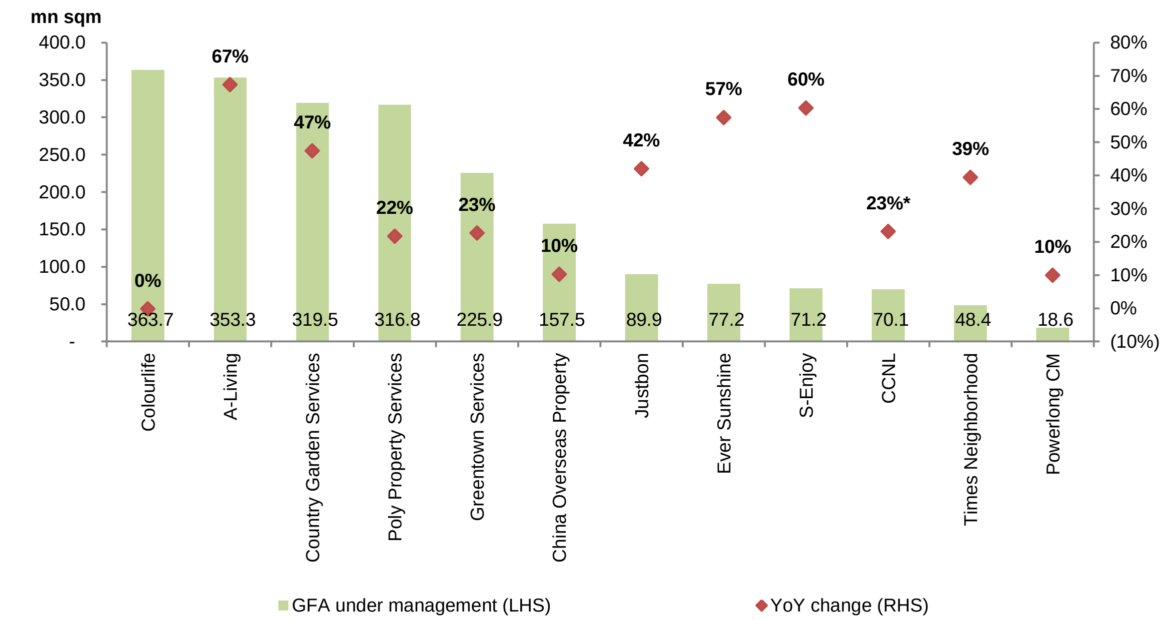
Source(s): Companies, HKEx, ABCI Securities

Exhibit 2: First-home mortgage rate in China



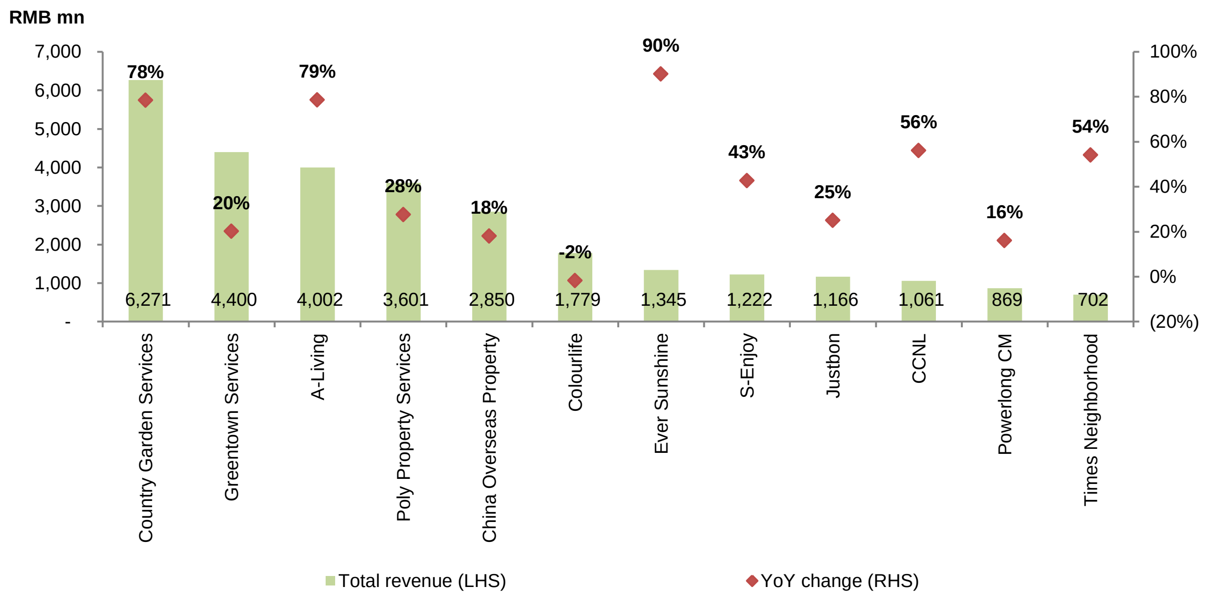
Source(s): Rong360, ABCI Securities

Exhibit 3: GFA under management of major listed PMCs (1H20)



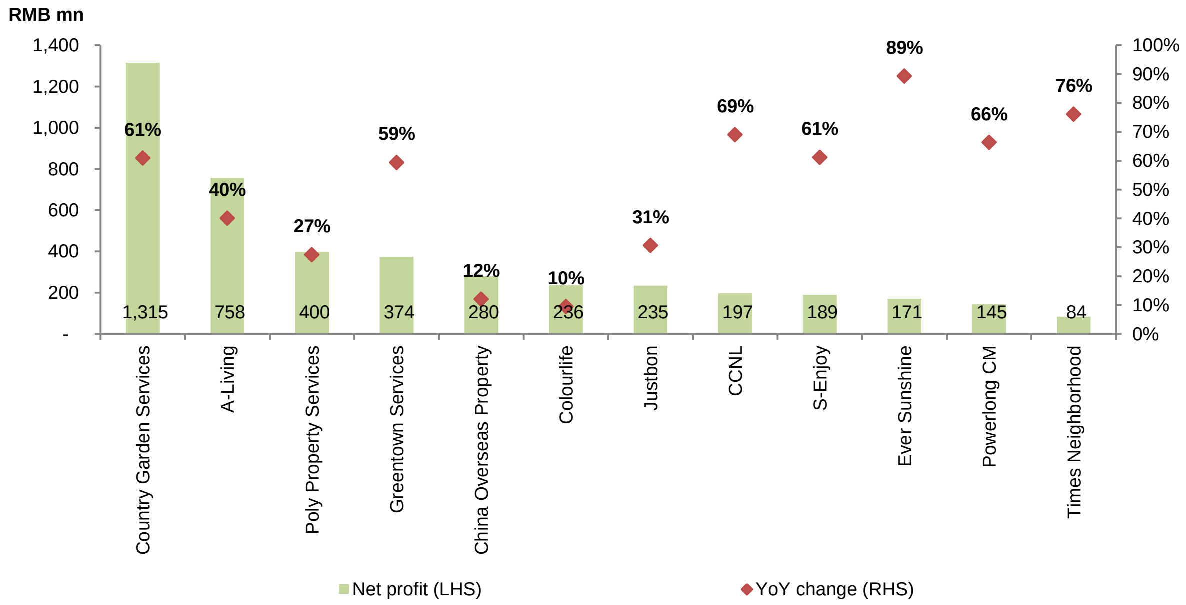
*HoH figure
Source(s): Companies, ABCI Securities

Exhibit 4: Total revenue of major listed PMCs (1H20)



Source(s): Companies, ABCI Securities

Exhibit 5: Net profit of major listed PMCs (1H20)



Source(s): Companies, ABCI Securities

Valuation of sector top picks (Data as of Dec 1, 2020)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield (%)	FY21E Yield (%)
A-Living	3319	BUY	51.40	58	21.4	15.5	5.2	4.5	2.3	3.2
COLI	688	BUY	33.30	75	4.3	3.7	0.6	0.5	5.8	6.8

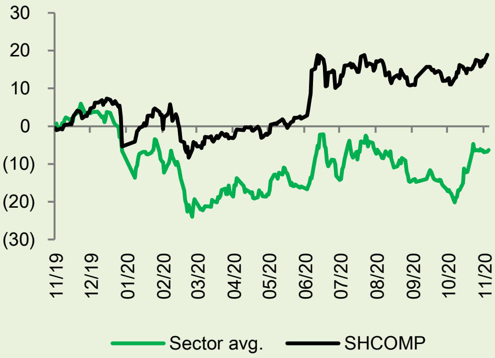
Source(s): Bloomberg, ABCI Securities estimates

OVERWEIGHT
China Airport Sector – The lucrative potential of China's aviation demand

Kelvin Ng

Key Data		**Sector Performance (relative to SHCOMP)**	**Absolute (%)**	**Relative (%)**
Avg. 21E P/E (x)	21.39	1-mth	13.9	12.9
Avg. 21E P/B(x)	1.96	3-mth	2.4	3.7
Avg. 21E div yield (%)	1.85	6-mth	7.4	(8.3)
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

- China's low average flight per capita per year indicates great potential for aviation industry
- Rise of low-cost carriers and traveling apps would spur demand for air travels
- Rising urbanization and disposal income per capita would benefit airports in major cities the most
- Airports have regional monopolistic advantage and high margin with strong cash flow
- **Shanghai International Airport (SIA, 600009 CH)** is our top pick because Shanghai, as a major hub in the Yangtze River Delta region, will undergo strong population and disposal income growth; low competition in the region and proximity to big cities such as Suzhou and Wuxi would provide a large pool of potential customers

China's low average flight per capita per year indicates great potential for aviation industry. According to the World Bank, in 2018, the average flight per capita per year (number of passengers carried via aviation transportation divided by total population) of China was 0.4, far below US's 2.7, UK's 2.5, Korea's 1.7, and Germany's 1.3. For developing countries in Asia such as Thailand and Vietnam, the figures were 1.1 and 0.5. The average flight per capita per year can be regarded as the proxy for the number of times each China resident travels per year. We believe as disposal income increases, more residents would increase the number of tours. The low figure indicates great room for development.

Rise of low-cost carriers and traveling apps would spur demand for air travel. In the recent decade, low-cost carriers have expanded quickly in China and around the world. According to Statista data, the worldwide market share of low-cost carriers rose from 15.7% in 2006 to 31% in 2019. The cost of air travel has been declining. Also, popular apps, such as Booking.com, Trip.com, Hotels combined, etc., have simplified the hotel and flight booking procedures. All these factors work in tandem to increase the number of air travels.

Rising urbanization and disposal income per capita would benefit airports in major cities the most. The Chinese government has been promoting urbanization to help reduce the unit cost of public facilities, such as hospitals, parks, and schools. Job opportunities and higher living standard have attracted population to major cities, especially in tier-1 cities such as Beijing, Shanghai, Guangzhou, and Shenzhen. According to the National Bureau of Statistics, average disposal income per capita in urban region in China increased from RMB 28,844 in 2014 to RMB 42,359 in 2019, representing a 6.6% CAGR during 2014-19. Rising disposal income per capita would support air travel and benefit airports.

Regional monopolistic advantage. Most airports in China are operated by the city governments because 1). high initial investment is needed; 2).airport are gateways of connecting with outsiders. Aviation facilities, therefore, are controlled by the governments for national security reason. Each city in China usually has only one or two airports (depending on the size and population of the city); therefore, the lack of competition forms a regional monopolistic advantage for most operators.

High margin with strong cash flow. The highest operating costs of airports are employee wages, fuel cost of equipment and machines, and depreciation of facilities. Since most of these are fixed-cost items, meaning that the unit cost would fall as the number of travelers increases. The average NPM of airport is ~ 20%. In addition, an airport usually has a strong cash inflow because a large part of the aviation-related fees are prepaid by passengers and travel agents. In addition, rental income from duty-free shops, catering, and souvenir shops also increase cash inflow. Without any significant expansion (like runway and terminal expansion), airports usually can generate a positive free cash flow and maintain a strong balance sheet position marked by a low net gearing ratio.

Long-term Outlook

We believe China's current low average flight per capita would leave ample room for aviation industry to develop include airport sub-sector given the willingness of residents in China to travel would increase with the rising disposal income.

Short-term Outlook

Negative impact from COVID-19 would hit business of airports in 1H20, yet the situation has improved since Apr 2020 and we believe rebound would turn more obvious in 2H20. For 2021, we believe passenger throughput in major cities would report a high growth partially due to the low base in 1H20.

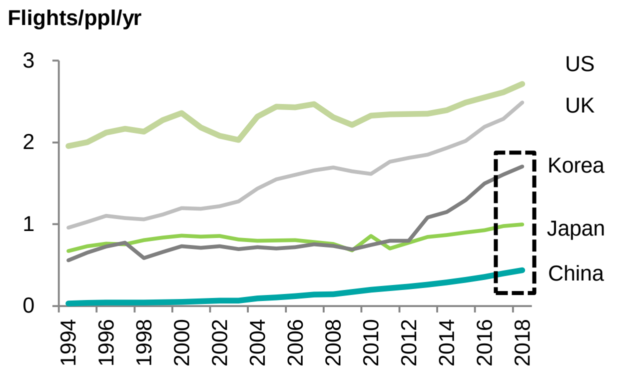
Stock Recommendations

Shanghai International Airport (SIA, 600009 CH) is our top pick in airport sector. SIA is our top pick in the China airport sector because 1).Shanghai, as a major hub in the Yangtze River Delta region, will demonstrate strong population and disposal income growth; 2).low competition in the region; 3).near big cities such as Suzhou, Wuxi, and Nantong, etc. would provide a large customer pool.

Risk Factors

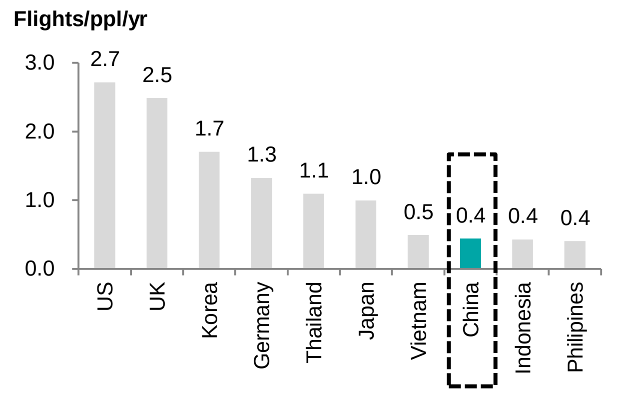
1) Disease outbreak would reduce travelling demand; 2) Slowdown in economy would reduce disposal income and traveling demand; 3) Technological advancement in high-speed railway would lower demand for short-haul flight; 4) Fear of potential terrorist attacks would reduce air travel

Exhibit 1: Average flight per capita per year



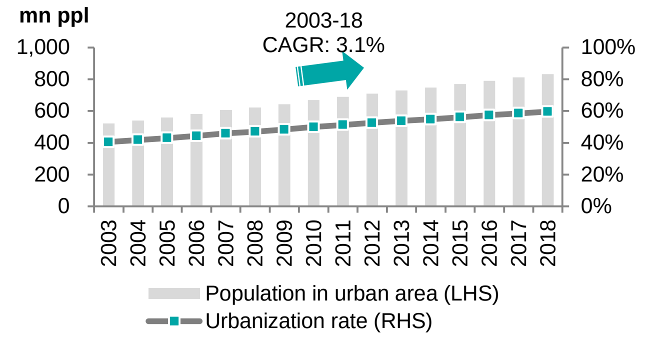
Source(s): World Bank, ABCI Securities

Exhibit 2: Average flight per capita per year (2018)



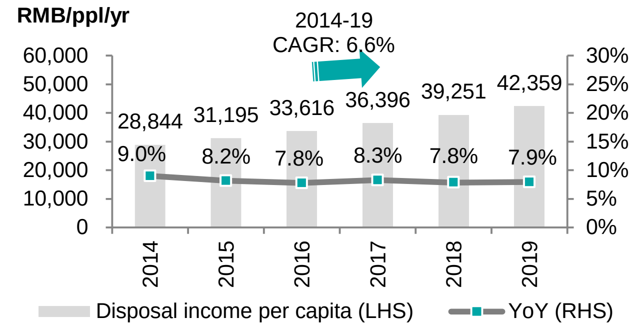
Source(s): World Bank, ABCI Securities

Exhibit 3: Urban population keeps rising in China



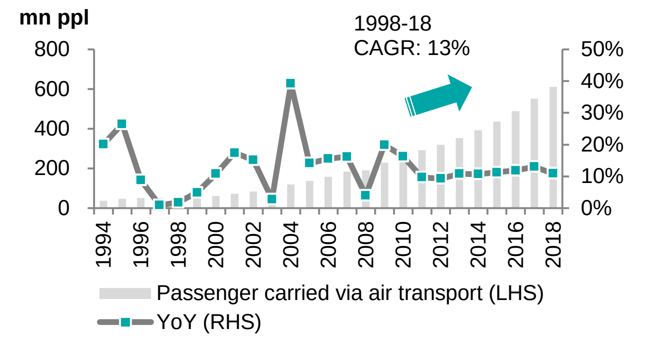
Source(s): NBS, ABCI Securities

Exhibit 4: Average disposal income per capita in China's urban regions



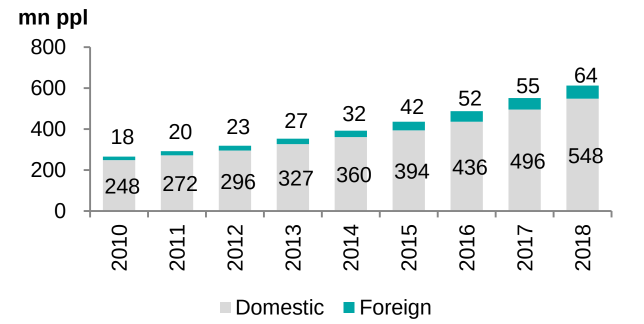
Source(s): NBS, ABCI Securities

Exhibit 5: The number of passengers travelling by air is increasing in China



Source(s): World Bank, ABCI Securities

Exhibit 6: Passengers in China are mostly taking domestic flights



Source(s): NBS, World Bank, ABCI Securities

Valuation of sector top picks (Data as of Dec 1 , 2020)

Company	Ticker	Rating	TP (RMB)	Upside (%)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield (%)	FY21E Yield (%)
SIA	600009 CH	BUY	90.00	12.9	82.9	27.3	4.6	4.1	0.4	1.1

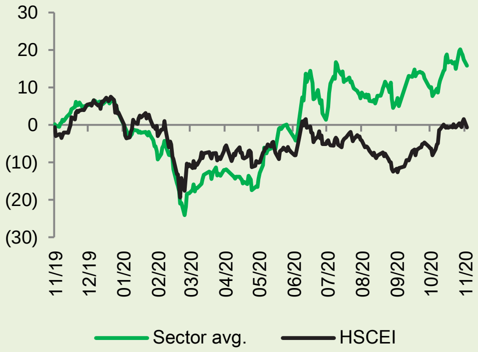
Source(s): Bloomberg, ABCI Securities estimates

NEUTRAL
China Alternative Energy Sector – Hydro power is cash cow
Kelvin Ng

Key Data		**Sector Performance (relative to HSCEI)**	**Absolute (%)**	**Relative (%)**
Avg. 21E P/E (x)	10.57	1-mth	6.7	(1.7)
Avg. 21E P/B(x)	1.21	3-mth	8.1	2.1
Avg. 21E div yield (%)	3.08	6-mth	34.6	21.8
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

- China's overall power output would increase by 2%/6%YoY in 2020E/21E; alternative energy power output would expand by 5%/6%YoY growth for the same period
- 0.3%/1.0%YoY growth in hydropower output for 2020E/21E
- 7%/12%YoY growth in China's nuclear power output for 2020E/21E
- 11%/11%YoY capacity growth and 13%/9%YoY output growth for wind power in 2020E/21E
- **China Yangtze Power (600900 CH)** is our top pick. Hydropower will continue to benefit from low generation cost, high margins, and strong cash flow. The Group is an industry leader controlling the world's largest hydropower plant, the Three Gorges Dam; its dominant position is unlikely to be challenged

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

Total power output: 2%/6%YoY growth in 2020E/21E. Affected by COVID-19, most industrial and economic activities halted in 1H20. Consequently, power demand declined. According to China Electricity Council (CEC), in 9M20, coal-fired power output fell 0.3% YoY, the worst 9M performance since 2013. Since coal-fired power accounted for more than 65% of total power output (2019: 69%), we expect the national power output growth to edge up by a mere 2% YoY in 2020E. For 2021E, we believe coal-fired power output would rebound, to prop up total power output by 6%YoY.

Alternative energy power output: 5%/6%YoY growth in 2020E/21E. Thanks to the solid growth in nuclear and wind power, we estimate China's 2020E full-year alternative energy output would increase by 5%YoY, surpassing the 2% estimated for total power output. In 9M20, nuclear power and wind power output increased by 6.4%/14.3% YoY. For 2021E, we expect alternative energy output to rise by 6% YoY, thanks to the 12%/9% YoY growth projected for nuclear/wind power.

Hydropower: the most profitable alternative energy sub-segment in China. Hydropower has the lowest production cost among all alternative energies since the "fuel" is free; its major production cost is depreciation. The unit cost of hydropower is RMB0.10/kWh (ex. VAT), lower than the RMB0.29/kWh (ex. VAT) for coal-fired, RMB0.20/kWh (ex. VAT) for nuclear, RMB0.22/kWh (ex. VAT) for wind, and RMB0.44/kWh (ex. VAT) for solar. GPM of hydropower is the highest compared to its alternative peers (60% vs. 31% peer average).

Hydropower: 0.3%/1.0%YoY growth in hydropower output in 2020E/21E. Capacity growth of hydropower is constrained by the geographical landscape (e.g. requires hilly landscape with rivers). As most water resources in large rivers (e.g. Yangtze River, Yellow River etc.) have already been developed, headroom for capacity growth is limited. As such, we estimate hydropower output to inch up by 0.3%/1.0%YoY for 2020E/21E.

Nuclear power: output remains low in the overall energy structure. Nuclear power accounted for only 4.2%/4.8% to China's overall power output in 2018/2019, far below the average at ~30% among developed countries. We believe the government will continue to promote the use of nuclear power.

Nuclear power: 7%/12%YoY growth in China's nuclear power output in 2020E/21E. We estimate China's nuclear power output would increase by 7% YoY only for 2020E on pandemic-related disruptions. For 2021E, we forecast output to rebound by 12%YoY.

Wind power: The subsidy-free policy would eliminate small players. NDRC announced in May 2019 that the government will cease subsidizing onshore wind and solar power facilities approved before end-2018 but remain unfinished by end-2020; no tariff subsidies will be made to onshore wind power facilities approved between Jan 1, 2019 and end-2020 but remain unfinished by end-2021. Starting from Jan 1, 2021, no tariff subsidies will be provided to newly-approved onshore wind power facilities. We believe the subsidy-free policy would lead to consolidation in the wind power industry, with small players being eliminated due to cost disadvantage.

Wind power: 11%/11%YoY capacity growth in 2020E/21E; 13%/9%YoY output growth in 2020E/21E. The construction of wind power facilities in 2020 and 2021 will be expedited or subsidy purpose. We therefore expect wind power capacity to climb 11%YoY each in 2020E/21E; after that, we believe capacity growth would fall to the single-digit level. Benefiting from strong growth in installed capacity, China's national wind power output would expand by 13%/9%YoY for 2020E/21E.

Long-term Outlook

Hydropower: Hydropower is more constrained by landscape compared to other energy sources. In China, locations for large-scale hydropower infrastructure construction, except for the upstream of Yangtze River, are limited. Therefore we believe hydropower output is unlikely to increase significantly in the next decade.

Nuclear power: Due to its high stability and low production cost, nuclear power is likely to become a core alternative energy source. Right now, it only takes up 4.8% of overall power output in China in 2019.

Wind power: After the implementation of "subsidy-free tariff" policy in 2021, we believe small operators would be eliminated and capacity growth would slow. Wind power output would report a high single-digit growth in the next decade.

Short-term Outlook

Hydropower operators: Capacity growth would be modest; hydropower output growth would rely more on the rainfall nationwide.

Nuclear power operators: Public concern on safety issue would be the key risk. Nuclear incidents will result in public panic and affect the development pace of nuclear power.

Wind power operators: Capacity growth would be strong in 2020 and 2021 as operators are rushing for completion before end-2021 for subsidy eligibility.

Stock Recommendations

China Yangtze Power (600900 CH) is our top pick**.** We believe hydropower would continue to benefit from low generation cost, high margins, and strong cash flow. The Group is an industry leader controlling the world's largest hydropower plant, the Three Gorges Dam. Its dominant position is unlikely to be challenged.

Risk Factors

■ **Hydro power operators:**

(1) Widespread drought would affect power output; (2) Construction risk; (3) High net gearing ratio prompts concern on fundraising activities; (4) Operation risk; (5) Policy risk

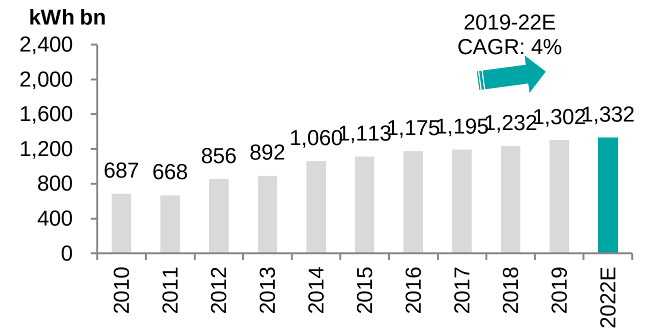
■ **Nuclear power operators:**

(1) Operation safety; (2) Slower-than-expect construction progress; (3) Fuel cost risk; (4) Currency and interest rate risks; (5) Fundraising activities to finance upcoming M&A.

■ **Wind power operators:**

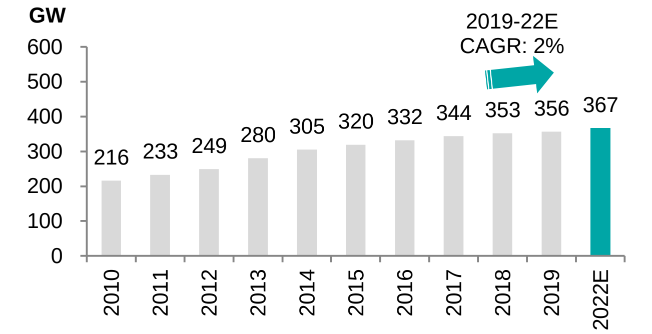
(1) Power curtailment risk; (2) Wind resources risk; (3) Construction risks; (4) Fundraising risk; (5) Government policy to deleverage may constrain growth.

Exhibit 1: China's hydro power output outlook



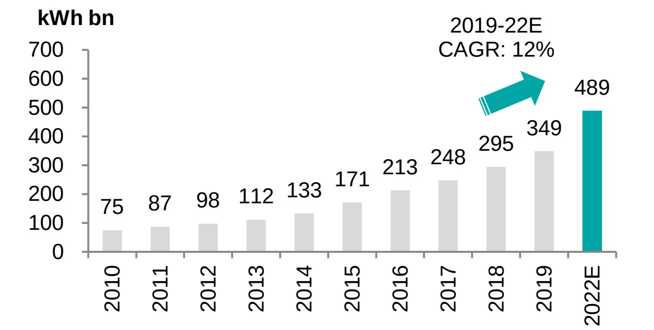
Source(s): NEA, CEC, ABCI Securities estimates

Exhibit 2: China's hydro power capacity outlook



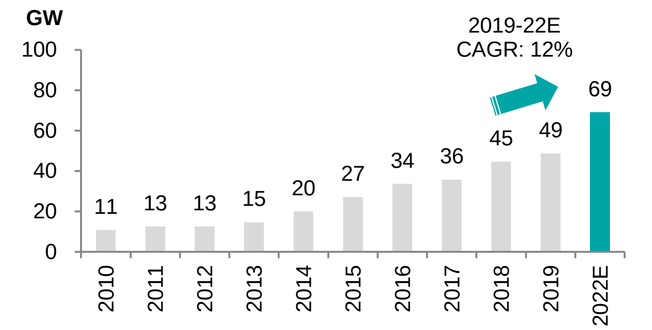
Source(s): NEA, CEC, ABCI Securities estimates

Exhibit 3: China's nuclear power output outlook



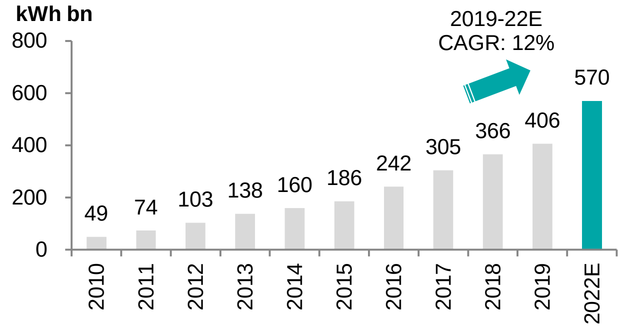
Source(s): NEA, CEC, ABCI Securities estimates

Exhibit 4: China's nuclear power capacity outlook



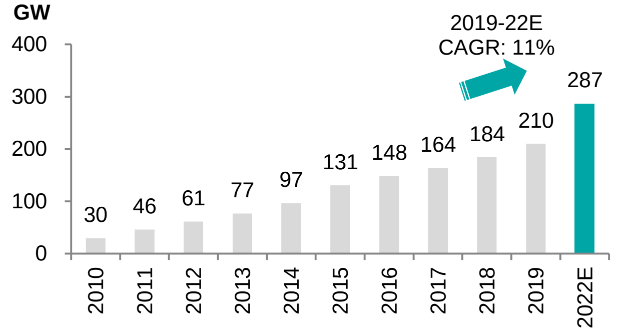
Source(s): NEA, CEC, ABCI Securities estimates

Exhibit 5: China's wind power output outlook



Source(s): NEA, CEC, ABCI Securities estimates

Exhibit 6: China's wind power capacity outlook



Source(s): NEA, CEC, ABCI Securities estimates

Valuation of sector top picks (Data as of Dec 1, 2020)

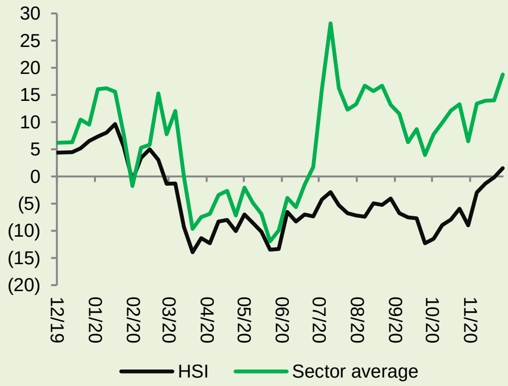
Company	Ticker	Rating	TP (RMB)	Upside (%)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield (%)	FY21E Yield (%)
China Yangtze Power	600900 CH	BUY	25.00	23.2	18.6	15.1	2.8	2.7	3.5	4.3

Source(s): Bloomberg, ABCI Securities estimates

NEUTRAL
China Securities & Brokerage Sector – A high base for 2021E
Steve Chow

Key Data		Sector Performance (relative to HSI)	Absolute (%)	Relative (%)
Avg. 21E P/E (x)	8.5	1-mth	13.4	3.2
Avg. 21E P/B(x)	0.7	3-mth	4.2	(1.2)
Avg. 21E div yield (%)	4.4	6-mth	31.5	19.6
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

- We believe the rising ADT in recent months could create a high base for 2021. Assuming the figure will stabilize at the current level over the next few quarters, this could potentially imply minimal or even negative YoY growth for 2021E
- We believe the Chinese government is committed to industry reform by increasing the contribution of direct financing in the economy
- We like **SWHY-H (6806 HK)** for its high ROAE across the market cycle, good track record in risk management, and reasonable valuations.

Improving operating environment. According to SAC, industry revenue and net profit grew 31% and 43% YoY in 9M20. Industry ROAE increased to 8.3% (annualized) in 9M20 from 6.3% in 2019. Overall, A-share monthly average ADT rose from RMB 562bn in 9M19 to RMB 852bn in 9M20, supporting the industry's commission income. In addition, the SHCOMP index rose 7.1% in 9M20, boosting the industry's investment income. Margin financing and securities lending (MFSL) balance increased from ~RMB 1.0tr at end-2019 to ~RMB 1.47trn at end-Sep 2020. All these indicate a positive operating environment.

A high base for 2021. Strong ADT figures in recent months could create a high base for 2021, in our view. This is supported by the fact that ADT had retracted from the peak of over RMB1tr in July/Aug 2020 to RMB700-800bn in recent months. If ADT stabilizes at current levels over the next few quarters, growth in 2021E will be minimal or negative on a YoY basis. According to SAC, brokerage commission income is the largest industry revenue contributor in 9M20 accounting for 39% of total. As a result, slowing ADT growth could potentially limit overall revenue expansion next year by dragging down commission income.

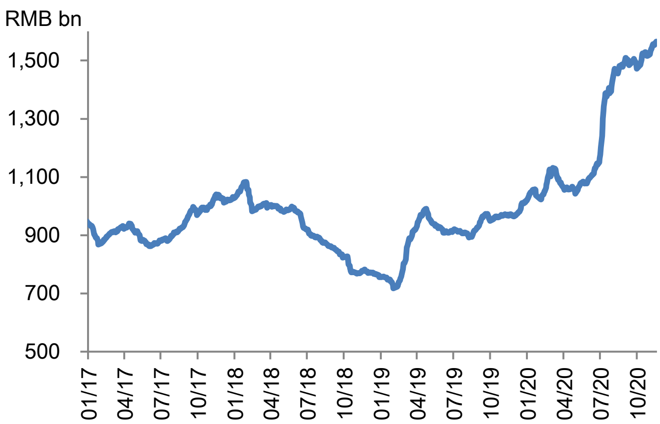
Commitment on industry reform. On a positive note, we believe the Chinese government is committed to industry reform over the long run. The country will increase the contribution of direct financing in the economy through the development of a diverse, multi-layered capital market while promoting product innovations such as high-yield bonds and hybrid financing. In our view, such developments will be supportive to the investment banking business. Overall, direct financing only accounted for 16% of the aggregate financing in the economy in 10M20 vs. 50% in US (2015), implying ample headroom for growth.

Stock Recommendations
Among our covered brokerage stocks, we like **SWHY-H** for its high ROAE across the market cycle, good track record in risk management, and reasonable valuations.

Risk Factors

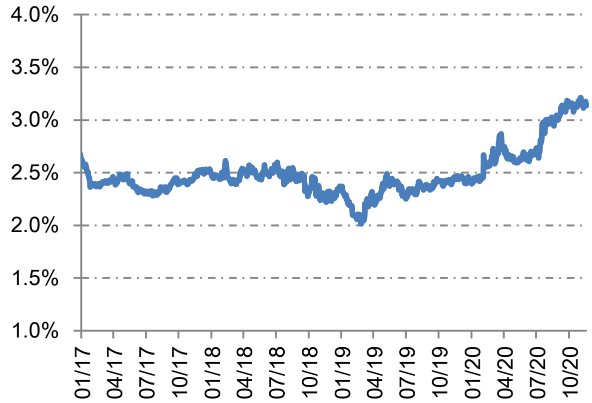
1) Market risk of financial assets; (2) Credit risk associated with bond investments and lending business; (3) Volatility in market turnover; (4) Penalties on misconduct or staff malpractice in securities firms; (5) Regulatory changes in direct financing; (6) Spill-over impact from deleveraging in the financial sector; (6) Intensifying competition after the relaxation of foreign ownership in the industry; (7) Intensifying competition between banks and securities companies in direct financing business.

Exhibit 1: MFSL Balance



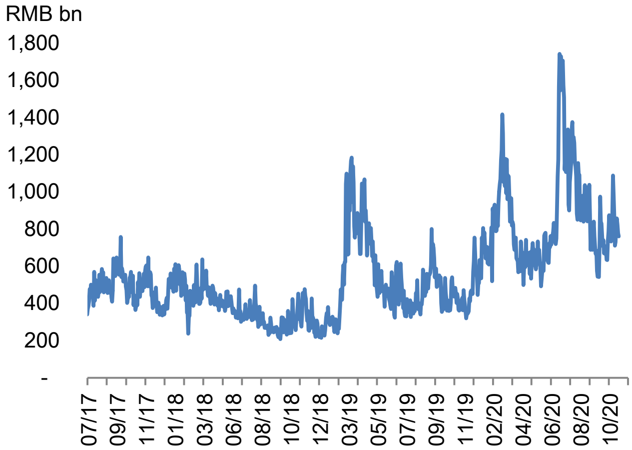
Source(s): Bloomberg, ABCI Securities

Exhibit 2: MFSL balance/A-share market cap



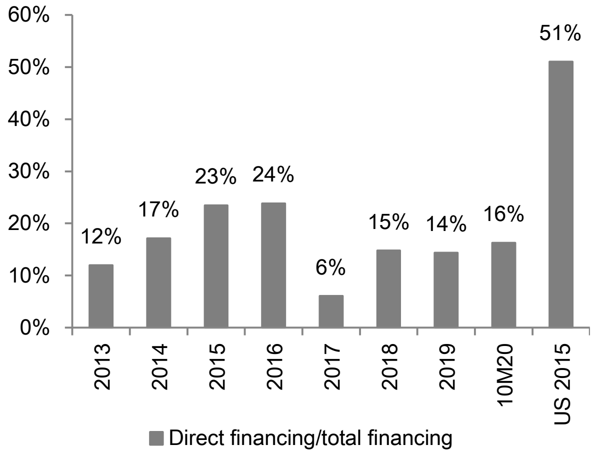
Source(s): Bloomberg, ABCI Securities

Exhibit 3: A-share ADT



Source(s): Bloomberg, ABCI Securities

Exhibit 4: Direct financing/total social financing in China vs. the US



Source(s): PBOC, ABCI Securities

Valuations of sector top picks (Data as of Dec 1, 2020)

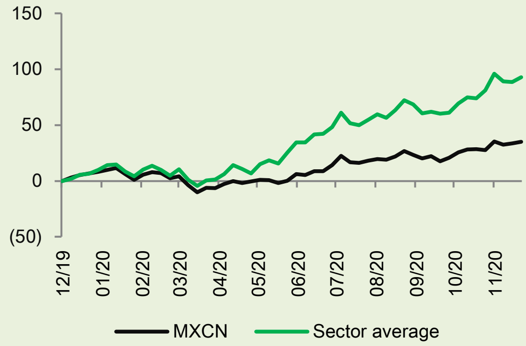
Company	Ticker	Rating	TP (HK$)	Upside (%)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield (%)	FY21E Yield (%)
SWHY-H	6806 HK	BUY	3.0	23.0	6.8	6.3	0.5	0.5	4.9	5.4

Source(s): Bloomberg, ABCI Securities estimates

OVERWEIGHT
Internet Media and Consumer Commerce – Structural boost in the post-pandemic era
Steve Chow

Key Data		Sector Performance (relative to MXCN)	Absolute (%)	Relative (%)
Avg. 21E P/E (x)	36.5	1-mth	(0.4)	2.7
Avg. 21E P/B(x)	4.5	3-mth	1.6	3.2
Avg. 21E div yield (%)	1.1	6-mth	42.4	27.9
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

- China's e-commerce sector has recovered strongly since 2Q20, with the momentum extending to 3Q20. The shift to online consumption provides a structural boost in the post-pandemic era
- Strong growth in online gaming seems to extend beyond the pandemic
- We like **Tencent (700 HK)** for its top position in online gaming, **Alibaba (BABA US/9988 HK)** for its dominance in e-commerce, and **Meituan (3690 HK)** for its unique strength in consumer service e-commerce

Impressive post-COVID recovery. The China e-commerce sector has been recovering since 2Q20 after a temporary slowdown in 1Q20 amid COVID-19. The robust momentum has carried into 3Q20, with China's online sales of physical goods increasing by 15.3% YoY in 9M20 vs. 14.3% YoY in 1H20. In addition, the express delivery industry (downstream industry of the e-commerce industry) also reported robust volume growth of 32.2%/36.5%/44.6% YoY in July/Aug/Sep 2020.

Structural boost in the post-pandemic era. In our view, the pandemic in 1Q20 has prompted more consumers to shop online, especially for groceries and food products. Such changes in consumer behavior are structural and likely to persist in the post-pandemic era. The average monthly growth in the express delivery industry has accelerated to about 37% YoY between Apr-Sep in 2020, which was ~11ppt higher than the pre-pandemic growth at 26% YoY in 2019.

Online shopping penetration rate has been rising rapidly. Penetration rate of online shopping (online sales of physical goods/total retail sales) increased by 3.5ppt to 18.4% in 2018 and 2.3ppt to 20.7% in 2019. In 9M20, the penetration rate was up 3.6ppt to 24.3% in 9M20. Assuming the current run-rate to continue in coming months, the full-year figure could potentially increase by 4.8ppt to 25.5% for 2020E.

Strong momentum in online gaming continues. Tencent's online gaming business experience robust growth in 3Q20 with revenue increasing by 45% YoY (8% QoQ) vs. 40% YoY in 2Q20, thanks to key titles including Peacekeeper Elite and Honor of Kings, as well as increasing contribution from overseas titles including PUBG Mobile. Smartphone game revenue grew 62% in 3Q20 - a drastic leap compared to the 1% YoY growth in PC game revenue.

Online advertising is bottoming out. Tencent's online advertising reported a 16% YoY (15% QoQ) revenue growth in 3Q20 vs. a 13% YoY growth in 2Q20, indicating a gradual recovery from the pandemic-induced trough. By industry, advertising spending on e-commerce platforms, internet services, and online education reported remarkable recovery; meanwhile, advertising spending on real estates, financial services, consumer staples, and automobile are stabilizing. Overall, we believe online advertising is gradually recovering and improvement will continue in coming quarters.

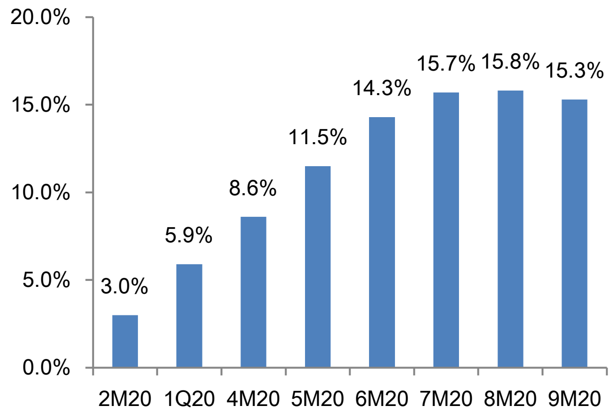
Stock Recommendations

We maintain our positive view on the China internet sector. Among the listed e-commerce platforms, we continue to prefer **Tencent (700 HK)** for its leading position in online gaming, **Alibaba (BABA US/9988 HK)** for its dominance e-commerce, and **Meituan (3690 HK)** for its unique strength in consumer service e-commerce.

Risk Factors

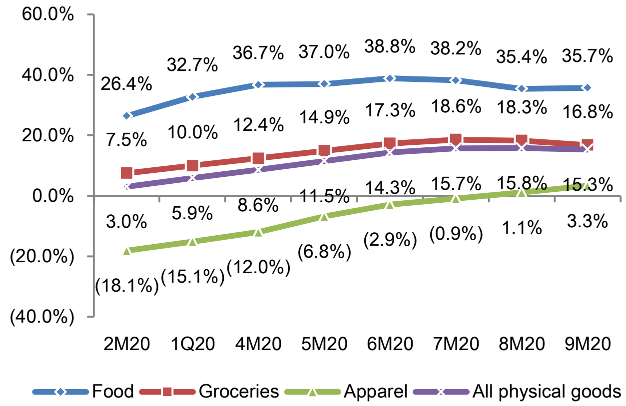
1) Tightening regulation on internet finance/mobile game/online payment; 2) Potential entry of foreign competitors such as Facebook (FB US) and Google (GOOGL US); 3) Slowdown in e-commerce and internet finance; 4) Lifecycle of mobile games.

Exhibit 1: China's online sales of physical goods growth (YoY %)



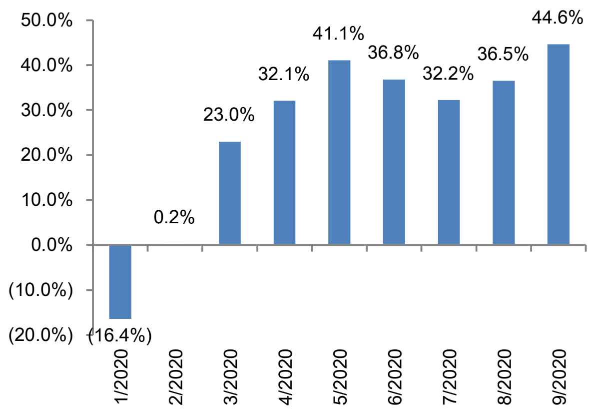
Source(s): NBS, ABCI Securities

Exhibit 2: China's online sales of physical goods growth by product (YoY %)



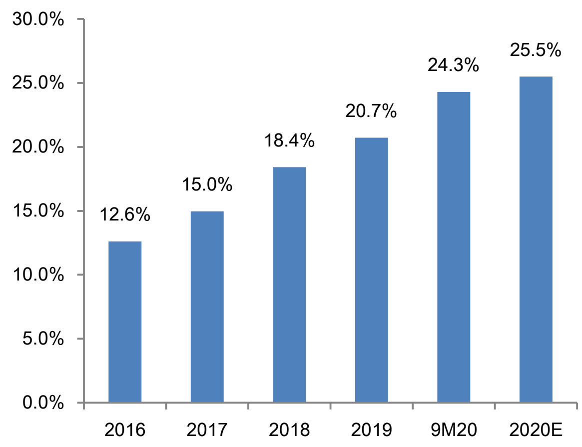
Source(s): NBS, ABCI Securities

Exhibit 3: China's express delivery volume growth (YoY %)



Source(s): State Post Bureau, ABCI Securities

Exhibit 4: China online shopping penetration rate



Source(s): NBS, ABCI Securities estimates

Valuations of sector top picks (Data as of Dec 1, 2020)

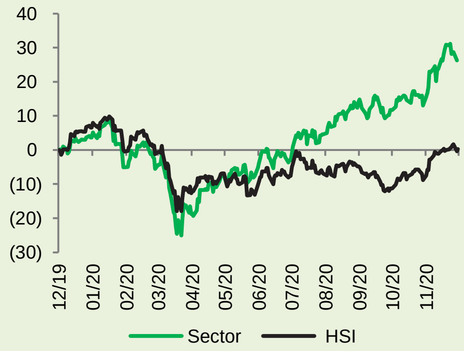
Company	Ticker	Rating	TP (HK$)	Upside (%)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/S (x)	FY21E P/S (x)	FY20E Yield (%)	FY21E Yield (%)
Alibaba-SW	9988 HK	BUY	340	32.2	35.0	27.7	8.8	6.9	--	--
Meituan	3690 HK	BUY	330	14.1	329.1	92.1	13.8	9.7	--	--
Tencent	700 HK	BUY	730	26.3	38.0	28.3	9.9	7.6	0.2	0.3

Source(s): Bloomberg, ABCI Securities estimates

OVERWEIGHT
China Consumer Sector – Resilient domestic market to provide support
Paul Pan

Key Data		**Sector Performance (relative to HSI)**	**Absolute (%)**	**Relative (%)**
Avg. 21E P/E (x)	31.21	1-mth	10.7	2.2
Avg. 21E P/B(x)	3.89	3-mth	11.4	5.8
Avg. 21E div yield (%)	2.97	6-mth	33.0	22.5
Source(s):Bloomberg, ABCI Securities, estimates		Source(s):Bloomberg, ABCI Securities		

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

- Post-pandemic recovery shows strength in the consumer sector
- Inflationary pressure will be much lower as pork prices declines
- Pandemic-induced changes in consumption pattern will continue
- We favor leaders in the consumer goods sector with strong domestic presence. Our sector top picks are **Yum China (YUMC US/9987 HK)** and **WH Group (288 HK)**

Post-pandemic recovery shows strength in China's consumer market. According to NBS, the national retail sales rose from -20.5% YoY in Jan-Feb 2020 to 4.3% YoY in Oct 2020, showing resilience of the domestic consumer market. However, the path of recovery is unlikely to be straight-forward with resurgence of the pandemic occurring across the world.

Lower inflationary pressure ahead. According to NBS, the national CPI declined to 1.7% YoY in Oct 2020 from 5.4% YoY in Jan 2020 (the highest level recorded in 2020). We believe the decline of inflationary pressure was mainly caused by the reducing pork prices. According to MOA, the average wholesale price of pork declined by 1.2% YoY in Oct 2020, vs. 161.2% YoY in Feb 2020 (the highest growth recorded in 2020) since measures to replenish supply, such as releasing the national stockpile and increasing import, takes effect. According to NBS, the national hog inventory as of end-3Q20 reached 370.39mn head, up 20.7% YoY. The replenishment of hog inventory signals potential increase in supply in the future, lending more room for inflation to trend down.

Changing consumption patterns. We believe pandemic-induced changes in consumption behavior would continue to affect the industry. Consumers are tightening their spending, as reflected by the gap between average per capita income growth and spending growth. According to the NBS, in 3Q20, average per capita spending growth was 1.4% YoY while average per capita income growth was 6.5%; the gap only declined from 9.0ppts in 1Q20 to 5.6ppts in 3Q20. In addition, the national shift to online consumption is unlikely to reverse. According to the NBS, online physical goods consumption represented 24.2% of national retail sales in 10M20 vs. 19.5%/17.5% in 10M19/10M18.

Long-term Outlook
The consumer market in China would continue to be supported by the large population base and consumption upgrade.

Short-term Outlook

As the national economy continues to improve, consumption growth would recover. The lower inflationary pressure resulted from the declining pork prices would also help induce overall consumption. Nonetheless, the lingering impact of pandemic would continue to affect consumer market and reduce spending appetite.

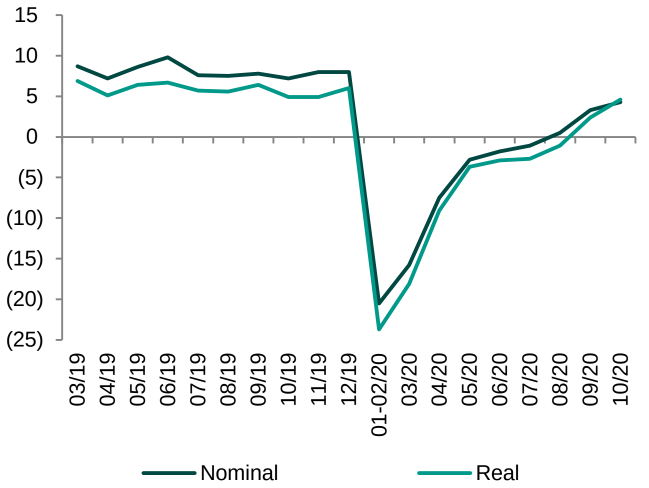
Stock Recommendations

We continue to favor companies with strong domestic presence, namely, the industry leaders in the consumer goods industry. We believe their scale would provide better capability to cope with uncertainty in economic situation and would be beneficial to ramping up growth. Our top picks are **Yum China (YUMC US/9987 HK)** and **WH Group (288 HK)**.

Risk Factors

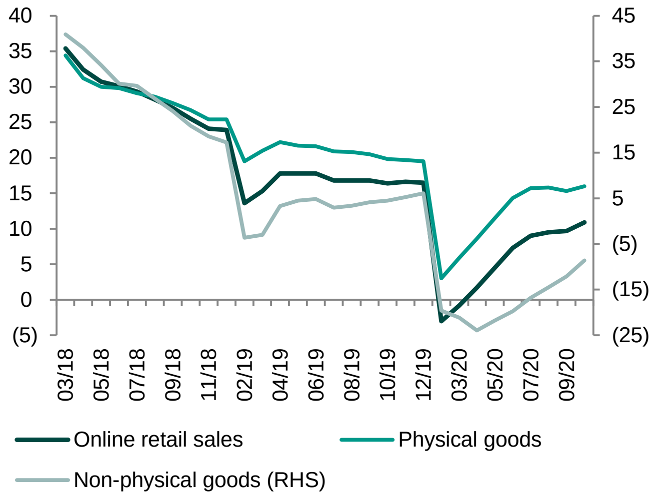
1) Macroeconomic risk; 2) Pandemic risk; 3) Policy risk; 4) Product quality risk; 5) Deflation risk; 6) Changing consumer behavior.

Exhibit 1: National retail sales growth (YoY %)



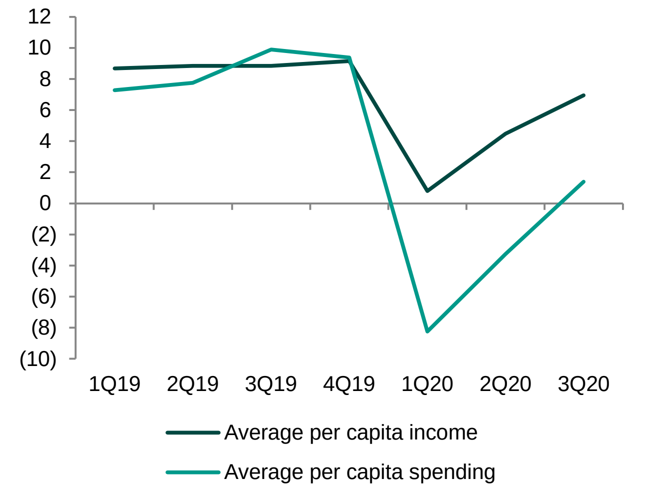
Source(s): NBS, ABCI Securities

Exhibit 2: Online retail sales growth (YoY %)



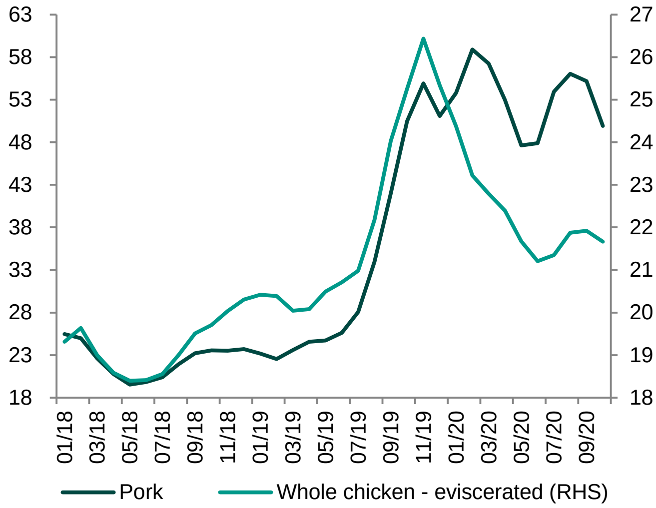
Source(s): NBS, ABCI Securities

Exhibit 3: Average per capita income/spending (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 4: Pork and chicken price (RMB/kg)

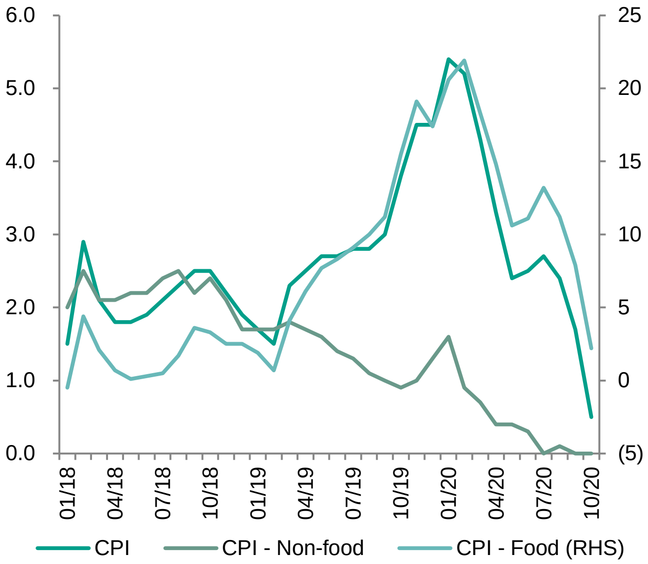


Source(s): MOA, ABCI Securities

Exhibit 5: Hog inventory in China (k heads)

Source(s): NBS, ABCI Securities

Exhibit 6: CPI (YoY %)



Source(s): NBS, ABCI Securities

Valuation of sector top picks (Data as of Dec 1, 2020)

Company	Ticker	Rating	TP	Upside (%)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield (%)	FY21E Yield (%)
Yum China	YUMC US/ 9987 HK	BUY	US$ 71.8/ HK$ 556.8	27.39/ 24.56	36.60/ 37.43	28.39/ 29.03	3.95/ 4.04	3.59/ 3.67	0.43/ 0.42	0.85/ 0.83
WH Group	288 HK	BUY	HK$ 9.6	49.77	8.87	7.48	1.26	1.11	4.51	5.35

Source(s): Bloomberg, ABCI Securities estimates

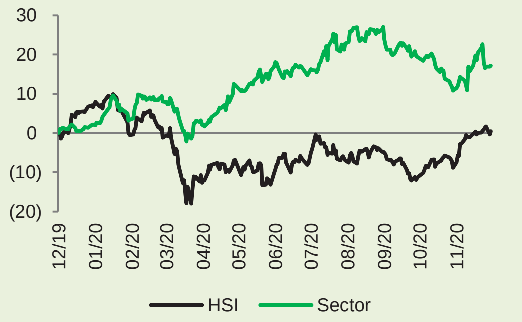
OVERWEIGHT
China Education Sector – Policy risk recedes; fundamentals remain strong
Paul Pan

Key Data		Sector Performance (relative to HSI)	Absolute (%)	Relative (%)
Avg. 21E P/E (x)	12.24	1-mth	5.1	(3.4)
Avg. 21E P/B(x)	5.56	3-mth	(5.4)	(11.1)
Avg. 21E div yield (%)	3.01	6-mth	0.2	(11.6)

Source(s):Bloomberg, ABCI Securities estimates

Source(s):Bloomberg, ABCI Securities

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

- Sector-wide recovery from the pandemic shows strength
- Assurance of continued support for private education industry reduces uncertainty over the pending legislation of Private Education Promotion Law
- Favor higher education and after-school education subsectors on policy and fundamental factors
- Industry leaders remain attractive; recommend **TAL (TAL US)** and **CEG (839 HK)**

Recovery from pandemic shows strength. Impacts of the COVID-19 on the education subsectors vary. The formal education subsector suffered the least as schools continued to conduct courses throughout the pandemic, though some had to refund boarding fees. Though the informal or after-school education subsector was heavily impacted, remarkable recovery was seen right as the pandemic subsides in China. We believe the industry's performance throughout the pandemic shows that demand for education in China remains strong and industry players are resilient.

Uncertainty over pending legislation recedes. The MOE has recently released the "Letter on Reply to Proposal No. 3379 (No. 343 for Education) at the Third Session of the 13th CPPCC National Committee". The authority reiterates the government's support for the smooth transition of private education institutions if any of them seeks to change their operation nature (e.g. from profit to non-profit, and vice versa). The Ministry will maintain an open attitude towards connected transactions that comply with regulations. The Letter has served to allay concerns over the legislation of the Private Education Law but finalization will be needed before any transitions can begin.

Favor higher education and after-school education subsectors. As the pandemic fades, the market's attention on policy will resume. We currently favor the higher education and after-school subsectors for the lower levels of policy risks involved; leading players in the two subsectors have shown defensiveness against the pandemic disruption. The higher education sector would continue to benefit from the government's support of higher education development, the increasing emphasis on vocational education, and M&A activities facilitated by the government's push to divest independent colleges away from affiliation with public universities. For the after-school education subsector, the rising demand and large market provide room for growth.

Long-term Outlook
We believe growth prospects remain attractive in the long term due to the demand for quality education and the large population base. More industry leaders will emerge.

Short-term Outlook

As the MOE assures that private education industry would receive further support from the authority, policy risk has lessened. The market would continue to focus on the formal legislation of the Private Education Law and fundamentals of individual companies.

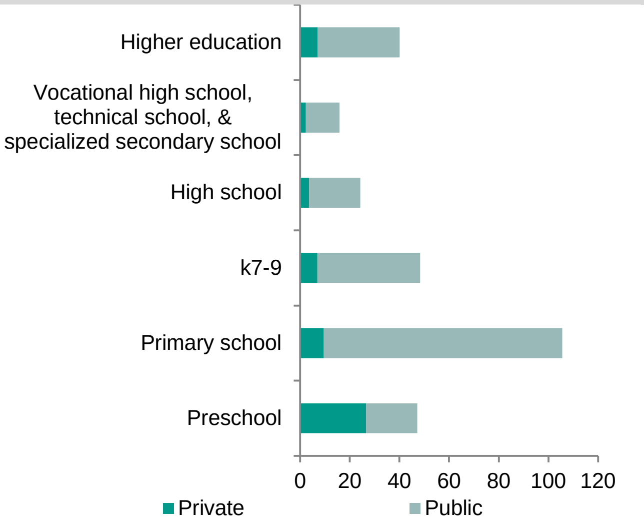
Stock Recommendations

We believe leading companies in the higher education and after-school education subsectors have successfully weathered the COVID-19 crisis and demonstrated their ability to maintain growth momentum. Our top picks for the sector are **TAL (TAL US)** and **CEG (839 HK)**.

Risk Factors

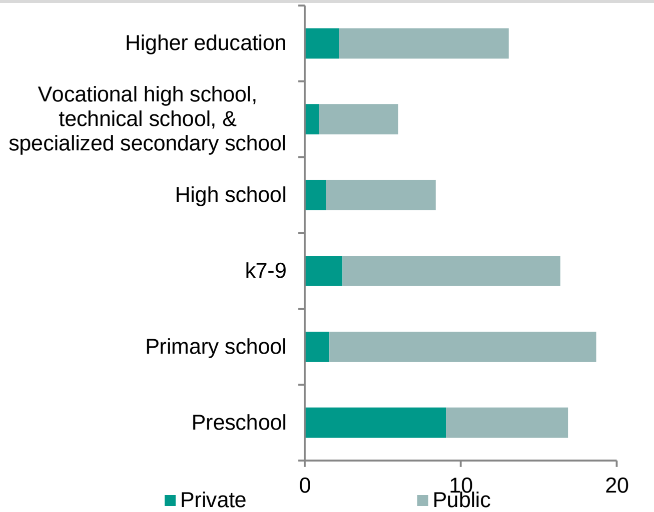
1) Demographic changes; 2) Policy risk; 3) Education quality and dropout risk; 4) Operation and reputation risks; 5) Expansion bottleneck.

Exhibit 1: National enrollment in 2019 (mn ppl)



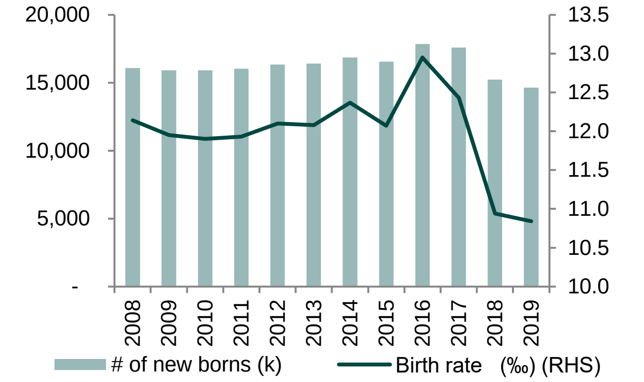
Source(s): MOE, ABCI Securities

Exhibit 2: National new student intake in 2019 (mn ppl)



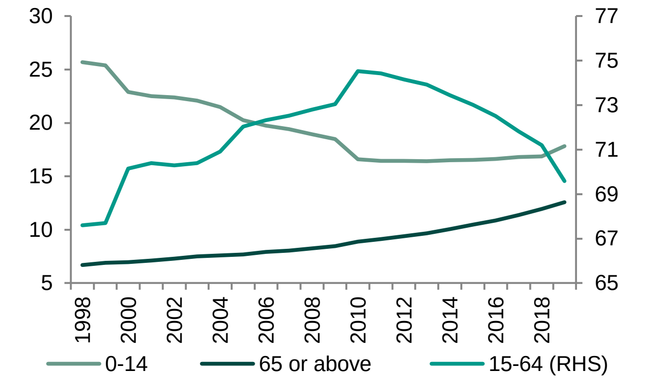
Source(s): MOE, ABCI Securities

Exhibit 3: Birth rate and number of newborns



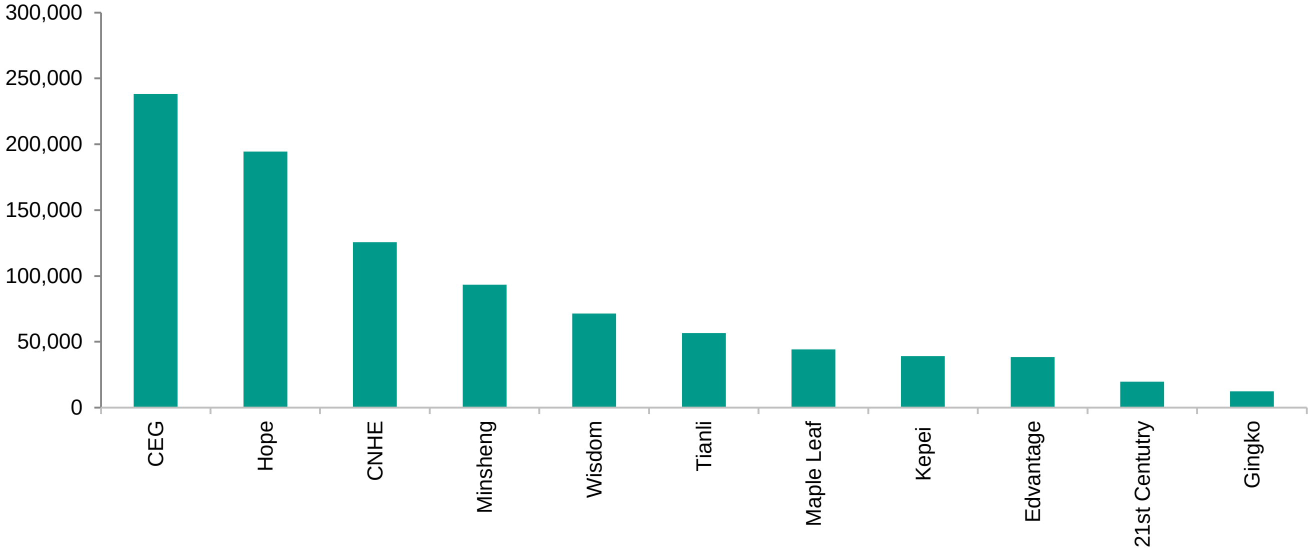
Source(s): NBS, ABCI Securities

Exhibit 4: Age distribution (%)



Source(s): NBS, ABCI Securities

Exhibit 5: 2020/21 school year student enrollment (ppl)



Source(s): Companies, ABCI Securities

Valuation of sector top picks (Data as of Dec 1, 2020)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY21E P/E(x)	FY22E P/E (x)	FY21E P/B (x)	FY22E P/B (x)	FY21E Yield (%)	FY22E Yield (%)
TAL	TAL US	BUY	US$ 80.0	14.18	156.23	73.54	15.12	12.54	0	0
CEG	839 HK	BUY	HK$ 17.8	19.46	20.12	16.92	2.80	2.51	1.71	2.04

Source(s): Bloomberg, ABCI Securities estimates

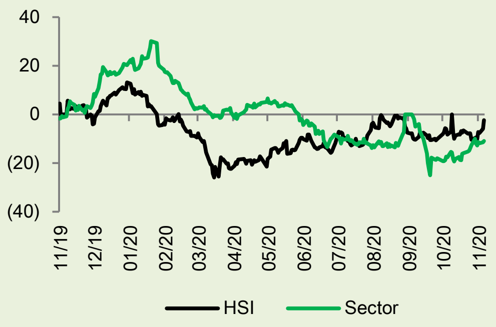
OVERWEIGHT
China Telecom Sector–All about the 5G
Ricky Lai

Key Data		**Sector Performance (relative to HSI)**	**Absolute (%)**	**Relative (%)**
Avg. 21E P/E (x)	14.9	1-mth	(4.2)	(12.7)
Avg. 21E P/B(x)	2.1	3-mth	(10.4)	(16.9)
Avg. 21E div yield (%)	1.9	6-mth	(2.6)	(12.9)

Source(s):Bloomberg, ABCI Securities estimates

Source(s):Bloomberg, ABCI Securities

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

- Telecom operators are upgrading 5G telecom network to standalone standard to improve transmission speed and efficiency in 2021E
- We forecast China's 5G users to reach 300mn in 2021E
- **China Mobile (941 HK)** is our top pick for its high dividend yield, healthy balance sheet, and dominant position in China's mobile business

We forecast China's 5G users to exceed 300mn in 2021E. China's mobile users reached 1.6bn in Oct 2020, up 0.1% YoY. As of Oct 2020, mobile user share of China Mobile, China Unicom (762 HK), China Telecom (728 HK) were 59.0%, 19.2%, and 21.8%, respectively. China Mobile has the highest mobile user share, thanks to its good network coverage and quality services. As of Oct 2020, 5G users have surpassed 150mn. Telecom operators are boosting 5G user growth through competitive service package and the latest 5G smartphone models. The no. of 5G base stations have reached over 600,000, covering most cities in China; we expect the figure to be ~950,000 in 2021E with the construction of standalone 5G network, which has higher speed and efficiency compared to the non-standalone ones currently in use. We forecast China's 5G users to exceed 300mn in 2021E, driven by the lower service tariff and the launch of affordable 5G smartphones.

Wireline broadband penetration is expected to deepen further. According to MIIT, wireline broadband users reached 481mn in Oct 2020, up 6.4% YoY, while fiber to the home (FTTH) users hit 449mn, or 93.4% of total wireline users. We forecast China's FTTH users to exceed 96.0% in 2021E, driven by demand from IPTV, online games, and high-quality videos. The demand for wireline broadband network has turned strong since the COVID-19 pandemic due to increased need for home office and home entertainment. Users are seeking for a more stable wireline broadband network to support streaming of online games, IPTV, video conference, etc. We expect China's wireline broadband market in 2021E to grow steadily with better network speed and IPTV utilization rate. As of Oct 2020, wireline broadband user market share of China Mobile, China Unicom, and China Telecom were 45.8%, 34.9%, and 19.3%, respectively. We believe aggressive pricing strategy and efficient marketing plans have helped China Mobile to attain the highest user share in wireline broadband.

5G smartphone penetration is expected to rise in 2021E. According to IDC, global smartphone shipments were 353.6 mn in 3Q20, down 1.3% YoY, which was much better than the 16.0% decline in 2Q20, thanks to the partial relaxation of pandemic restrictions in many countries. However, COVID-19 cases have been resurging in Europe in 4Q20, which could jeopardize smartphone shipments once again. IDC expects the global smartphone shipments in 2020 to decline by 9.5% YoY. Many smartphones makers are introducing high-res camera and new features to bolster consumption.

Long-term Outlook

We expect the launch of 5G network would boost the average mobile data usage per user and support data revenue growth. The 5G network will support various new technology and applications, such as the internet of things, autonomous driving, smart home, AR/VR, etc. Thus, telecom operators can generate more revenue from value-added services by offering more innovative services and new applications. Users, on the other hand, can access video contents and online games through a much faster transmission network. Enterprises and corporations will demand more cloud computing, data analysis and big data services. Telecom operators will speed up the 5G network development in China and increase relevant CAPEX in 2021E because the network requires a denser base distribution and a wider fiber network coverage than 4G. Telecom operators may introduce more incentives and subsidies to attract more upgraders to the 5G network.

Short-term Outlook

In the short term, we expect telecom operators will strive to gain market share in the 5G market by launching new smartphone models and attractive service packages. The 5G revenue will not be substantial enough to cover the related operating costs in 2020, however. 5G users are using more high-speed applications including video and online games compared to the 4G ones, which may raise the revenue from value-added services. Demand from big data and cloud computing from the enterprise customers has been growing in recent quarters, which will benefit telecom operators.

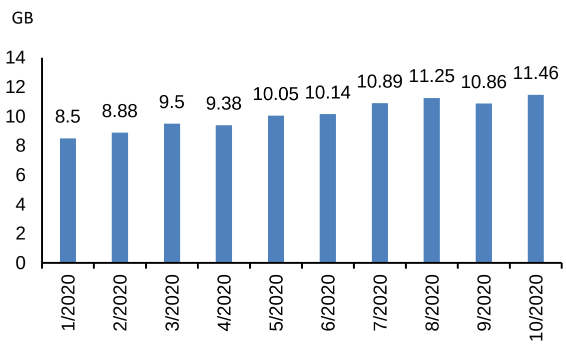
Stock Recommendations

China Mobile (941 HK) is our sector top pick. China Mobile had the largest market share for mobile users in China thanks to its network advantage with better coverage and resources. We expect the group to benefit from increased mobile data consumption amid tariff cut in data service. Our TP is HK$ 82.0, which implies 4.7x FY21E EV/EBITDA.

Risk Factors

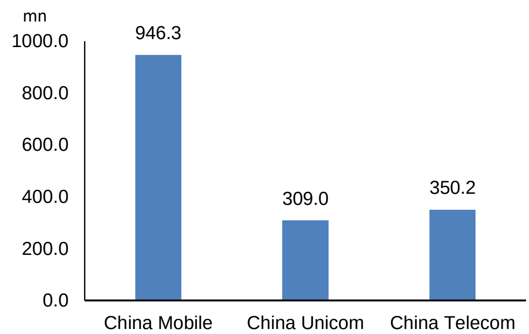
1)Further reduction in service tariff as requested by authorities; 2) User saturation; 3) Intensifying market competition; 4) Slower growth in smartphone shipments; 5) Slowdown in 5G network development.

Exhibit 1: China's average monthly data usage (Jan-Oct 2020)



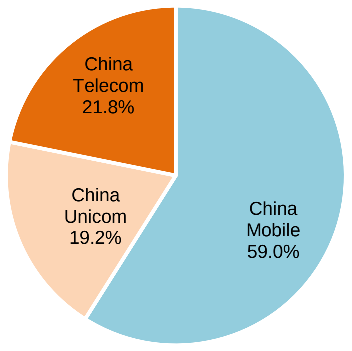
Source(s): MIIT, ABCI Securities

Exhibit 2: Telecom operators' mobile users in Oct 2020



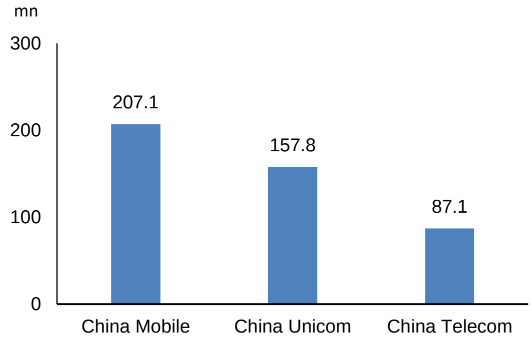
Source(s): Companies, ABCI Securities

Exhibit 3: China's mobile use share in Oct 2020



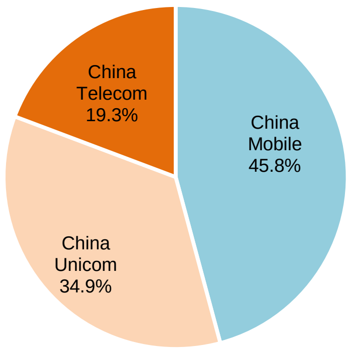
Source(s): Companies, ABCI Securities

Exhibit 4: Wireline broadband users of telecom operators in Oct 2020



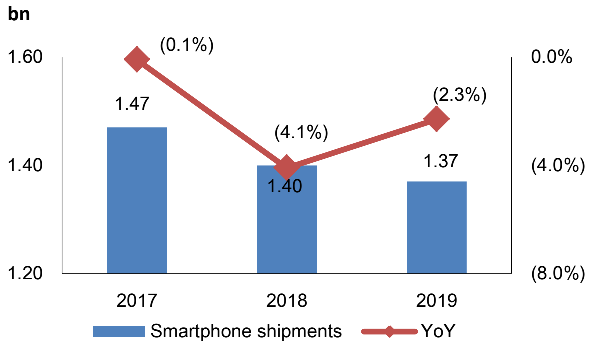
Source(s): Companies, ABCI Securities

Exhibit 5: China's wireline broadband user share in Oct 2020



Source(s): Companies, ABCI Securities

Exhibit 6: Global smartphone shipments (LHS) and growth



Source(s): IDC, ABCI Securities

Valuation of Sector top picks (Data as of Dec 1, 2020)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield (%)	FY21E Yield (%)
China Mobile	941 HK	BUY	82.00	76.9	7.56	7.50	0.70	0.67	7.17	7.23

Source(s): Bloomberg, ABCI Securities estimates

Disclosures

Analyst Certification
The analysts, CHAN Sung Yan, AU Yu Hang, Johannes, CHOW Sau Shing, LAI Pak Kin, NG King Chuen, PAN Hongxing, TUNG Yiu Kei, Kenneth, 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 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 relationship with one or more of the companies mentioned in the report.
Philip Chan holds H-shares of Agricultural Bank of China Ltd (1288 HK).

Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (10%)
Hold	- Market return rate (-10%) ≤ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

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 2008 (HSI total return index 2008-19 CAGR at 10%)

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.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED