農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Hong Kong Stock Market Weekly Review

May 10, 2024

HK Stock Market Weekly Review

10/5/2024

- **HSI Sees High Volatility and Sectoral Rotation in Gains This Week**
- **Rising Live Hog Prices in China Expected to Boost Pork and Food CPI**
- **US to Release Apr Inflation Data Next Week, Expected to Influence Interest Rate Outlook**
- **Challenges Persist for Chinese Real Estate Developers, Yet Investors Remain Optimistic About Recovery**

1. HSI Sees High Volatility and Sectoral Rotation in Gains This Week

After last week's significant rise, HSI experienced high volatility this week. Before the weekend, rumors that the Hong Kong Stock Connect might lower dividend taxes triggered a surge in high-dividend-yielding H-shares on the market, driving the HSI to close this week at a new high for the year. HSI rose by 2.6% following a 4.7% increase the previous week. Since the beginning of May, the index has gained 6.8%. Since late Apr, Hong Kong's three major stock indices have consistently stayed above their 250-day moving averages, a signal often associated with a bull market. Despite this, some components of the index showed signs of being overbought in the short term, making this week's market consolidation a reasonable occurrence.

This week also featured rotational buying, where sectors that had previously risen fell, and those that had underperformed last week saw gains. Notably, shipping, export, coal, and power stocks increased, while real estate, e-commerce, and consumer stocks declined. A rebound in China’s export data for Apr and a rise in container shipping rates boosted shipping and export stocks. Additionally, China's manufacturing PMI has stayed above 50 for two consecutive months, suggesting increased demand for energy and power, which drove up coal and power stocks.

Major real estate developers reported weak sales for Apr, leading to a downturn in real estate stocks this week following their sharp increase last week. The conclusion of China's Labor Day holiday led to a sell-off in consumer and e-commerce stocks that had previously performed well.

Exhibit 1 : HSI Forecasted PE Ratio (Fluctuation Range Over the Past 5 Years, as of May 9)

Current HSI is equivalent to 9.2x the forecasted 2024 PE ratio, which is between 2 S.D. below and 1 S.D. below the 5-year average PE ratio. The PE ratio valuation remains in the lower range of the past five years

Source(s): Bloomberg, ABCI Securities

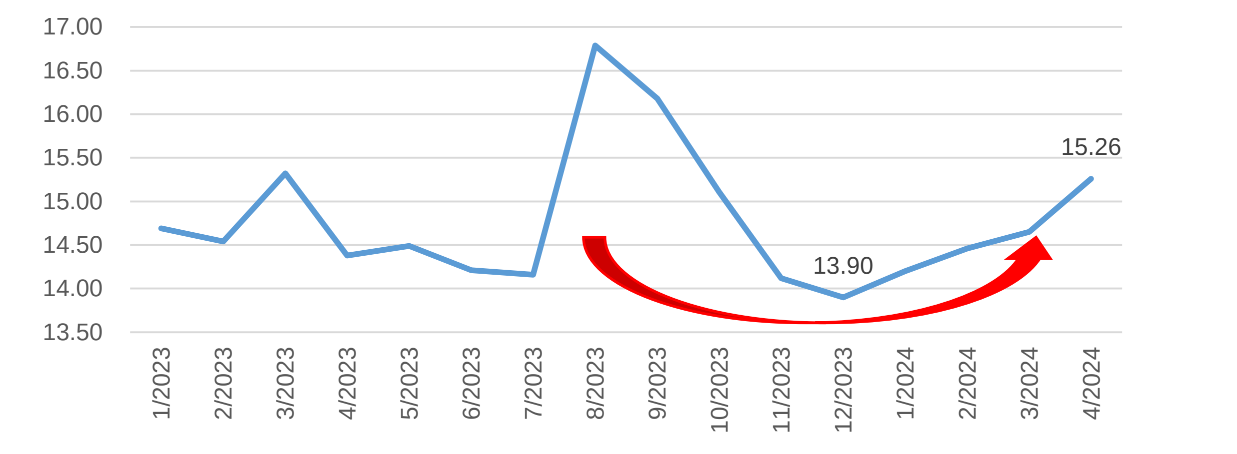
2. Rising Live Hog Prices in China Expected to Boost Pork and Food CPI

Recent monthly sales data from A-share and HK-listed hog farming operators show that live hog prices have been increasing MoM. The improving stock performance of major hog farming companies on both A-share and Hong Kong stock exchanges also indicates a more optimistic market outlook for live hog prices. If these market expectations prove accurate, the ongoing rise in live hog prices will likely lead to higher retail pork prices as well as increases in pork CPI and food CPI in the coming months.

NBS is set to announce Apr's CPI on May 11 (Sat). With major hog producers reporting higher prices, pork is expected to add to the overall inflationary pressures. Following the significant fluctuations in live hog prices — a sharp increase in 2022 followed by a steep decline in 2023 — farmers are likely to be cautious about expanding their operations.

The cycle from a pig's pregnancy to the sale of the animal takes about seven months: three months for gestation, three more for the piglets to reach market weight, and some additional time for processing and sale. Consequently, the trend of rising MoM live hog prices may continue into 3Q24.

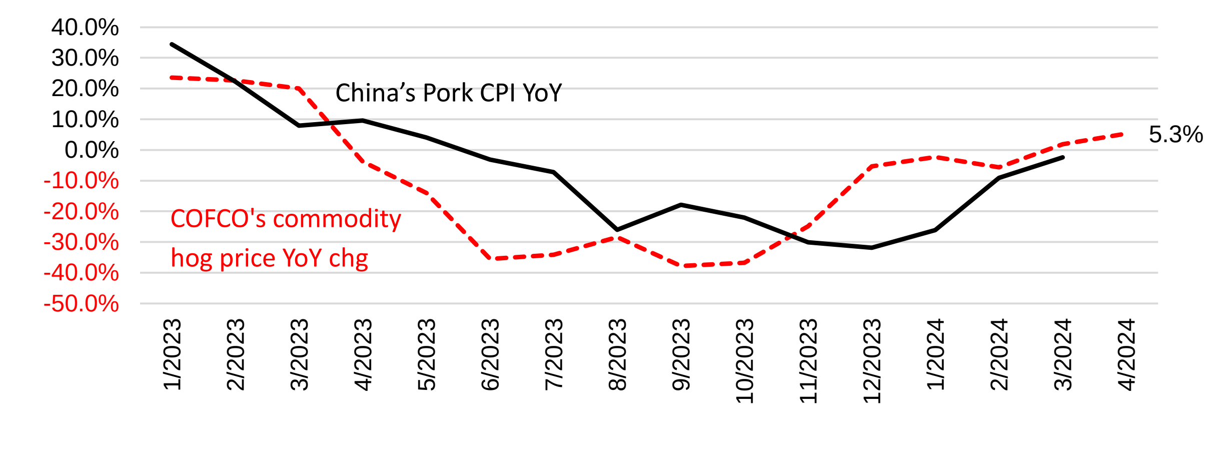
Exhibit 2 : COFCO Joycome Foods (1610 HK) Commodity Hog Prices (RMB/kg) - Four Consecutive Months of MoM Increases



Note: From the end-Feb to May 9, 202, the company's stock price has risen nearly 20%.

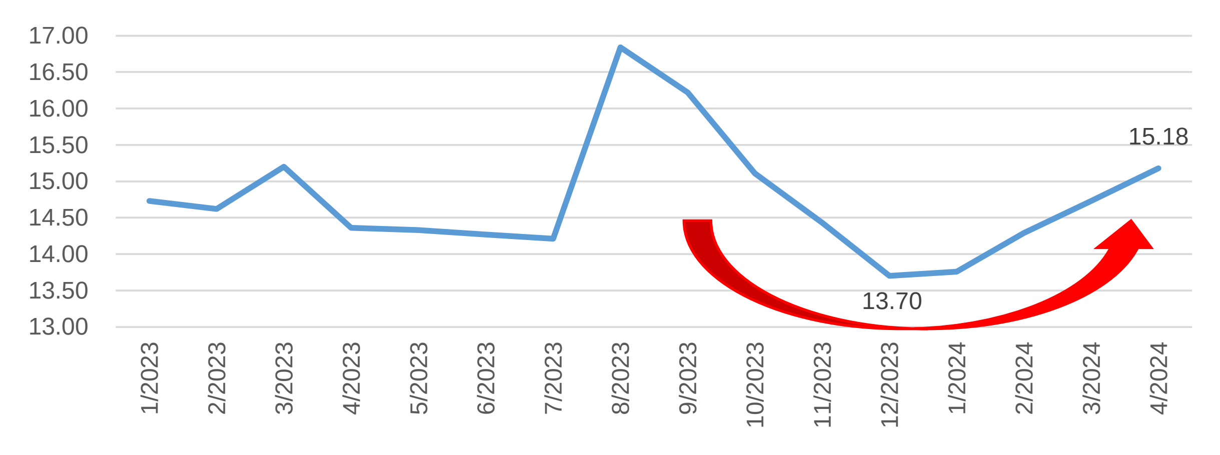
Source(s): COFCO Joycome Foods, ABCI Securities

Exhibit 3：COFCO Joycome Foods's Commodity Hog Prices YoY Change vs. Pork CPI YoY Change



Source(s)：NBS、COFCO Joycome Foods, ABCI Securities

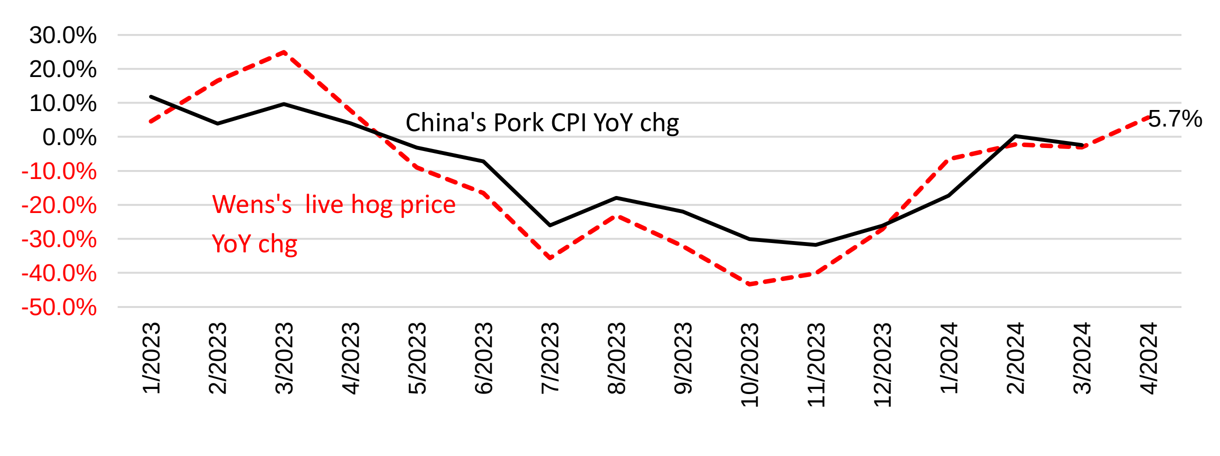
Exhibit 4: Wens Foodstuff Group (300498 CH)'s Live Hog Prices (RMB/kg) - Four Consecutive Months of MoM Increases in 2024



Note: From end-Feb to May 9 2024, Wens Foodstuff's stock price has risen nearly 6%.

Source(s)：Wens Foodstuff Group, ABCI Securities

Exhibit 5：Wens Foodstuff Group's Live Hog Prices YoY Change vs. Pork CPI YoY Change



Source(s): NBS, Wens Foodstuff Group, ABCI Securities

3. US to Release Apr Inflation Data Next Week, Expected to Influence Interest Rate Outlook

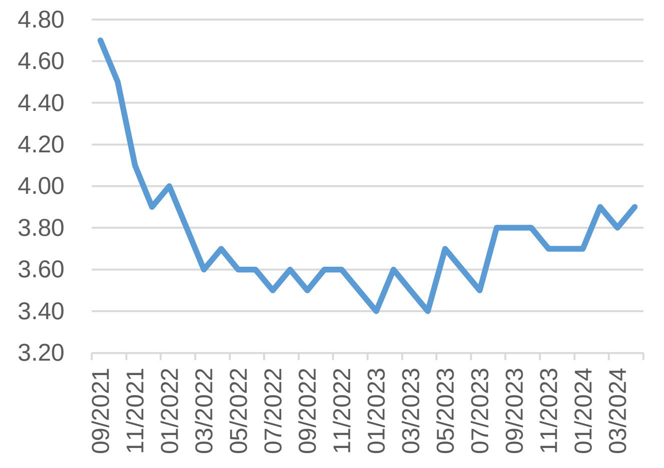
Before the US released Apr's unemployment figures, there was a 50% chance predicted for a Fed interest rate cut in Nov, which would be the first cut of the year. However, after the US unemployment rate was reported to have risen to 3.9%, the probability of an interest rate cut in Sep also reached 50%. Despite this increase, the likelihood of a rate cut before 4Q24 remains moderate, suggesting that the market does not expect the Fed to lower rates before then.

At the May FOMC meeting, the Fed emphasized that inflation, rather than unemployment, would play a more significant role in future rate decisions. The current US unemployment figures are largely impacted by high unemployment rates among youth. For instance, in Apr, the unemployment rate for 16-19 year-olds was 11.7%, compared to just 3.2% for those aged 25 and older. There are about 6.5mn unemployed individuals in the US, out of a civilian labor force of ~168mn.

Youth unemployment is also a concern in China. In Mar, the urban surveyed unemployment rate stood at 5.2%, with a notably high rate of 15.3% among 16-24 year-olds (excluding students), compared to 4.1% for those aged 30-59. Both the US and China see addressing youth employment as a crucial government objective.

Next week, the US will publish its CPI for Apr on May 15, a key indicator that could affect future interest rate decisions. Current market predictions suggest a slight decrease in the Apr CPI, from a 3.5% YoY increase in Mar to 3.4%. The core CPI, which excludes the more volatile food and energy prices, is also expected to drop from 3.8% in Mar to 3.6% in Apr.

While there is an expectation for a modest reduction in the Apr CPI figures, there is no clear evidence of a sustained downward trend in inflation. Observing the broader trend, the US economy has faced fluctuating unemployment rates, and the decrease in CPI rates stalled in mid-2023. From Jun 2023 to Mar 2024, the CPI has oscillated between 3.0% and 3.7%. Consequently, it appears that the Fed may not have enough grounds to schedule rate cuts soon. The next meeting of the Fed's FOMC is on Jun 12, where the Fed might revise its interest rate outlook for 2H24.

Exhibit 6: US Unemployment Trend (%)- Fluctuating Upwards	Exhibit 7: US CPI Trend (YoY%)- Stabilization After Decline, Fluctuating Sideways
	

Source(s): Bloomberg、ABCI Securities

4. Challenges Persist for Chinese Real Estate Developers, Yet Investors Remain Optimistic About Recovery

Recent trends in Chinese real estate stock prices and related market indices indicate that investors have shifted from bearish to more optimistic views on the sector's prospects.

Several major cities including Beijing, Shanghai, Shenzhen, Hangzhou, and Xi'an have recently relaxed home buying restrictions. The capital markets have responded positively to this change, driven by expectations that loosening these restrictions will release pent-up demand. However, it remains uncertain whether buyers will prefer new homes in the primary market or existing homes in the secondary market.

Real estate brokers are likely to directly benefit from these eased restrictions, as they are expected to boost overall sales volumes. Additionally, relaxing these policies will help developers decrease their inventories and enhance cash flow.

This year, real estate developers are confronting a new challenge: the increasing volume of completed but unsold homes. According to NBS, at the end of Mar, the unsold area of commercial residential buildings stood at 394.58mn square meters, marking a 24% YoY increase and a 19% rise from the end of 2023.

Homebuyers face the decision of purchasing existing homes from the secondary market or new homes from the primary market. With the inventory of newly completed homes growing, developers are expected to set competitive prices to compete with the offerings in the secondary market.

In 1Q24, Hang Seng Mainland Properties Index (HSMPI) and Hang Seng Property Service and Management Index (HSPSMI) both experienced significant declines, dropping ~14.1% and 14.0% respectively. In contrast, the broader HSI decreased by about 3.0%, showing that the property-focused indices underperformed compared to the general market.

As of May 9, during 2Q24, the HSMPI and the HSPSMI have recovered, rising by about 15.2% and 14.2% respectively. Meanwhile, HSI itself has increased by ~12.1%. This shows that the property-related indices have outperformed the broader market in this period.

Focusing on major Chinese real estate stocks, since the start of 2Q24, China Overseas Land & Investment (688 HK) and China Resources Land (1109 HK) have seen substantial gains, with increases of about 31% and 21% respectively. These gains significantly exceed the roughly 12% rise in the HSI. However, there is a risk involved: the positive sentiment towards these real estate stocks is not backed by strong sales data from these companies, as sales among major developers remain weak.

China Overseas Land & Investment recently reported that its contract sales in Apr decreased by ~36% YoY and ~47% MoM to RMB 21.8bn. From Jan to Apr, the company's contract sales fell by ~30% YoY to RMB 82bn. Despite these decreases, there has been a noticeable disparity between the company's stock performance and its Apr sales results since the beginning of 2Q24.

In another development that could be seen as positive for large developers, Vanke (2202 HK) has temporarily stopped purchasing land to improve its financial health. This decision could provide an opportunity for other major real estate developers to acquire land at more favorable prices, as one of their main competitors has withdrawn from the market.

In Apr, the leading real estate company Poly Developments (600048 CH) reported that its contract sales decreased by ~21% YoY but rebounded by ~22% MoM to RMB 33bn. From Jan to Apr, its contract sales dropped by ~38% YoY to RMB 96bn.

Vanke announced that its Apr contract sales fell by ~38% YoY and ~15% MoM to RMB 20.9bn. From Jan to Apr, its contract sales declined by ~42% YoY to RMB 78.9bn.

Poly Developments, China Overseas Land & Investment, and Vanke had comparable contract sales figures in Apr and for the first four months of the year. All three companies are national real estate developers, and their sales performance reflects the current state of the overall real estate market. The sales data from Apr indicates that the real estate market's downturn has not yet ended.

In 1Q24, the net increase in residential housing loans was relatively low, indicating a cautious approach to home purchasing. Central bank data shows that at end-1Q24, the total balance of individual housing loans stood at RMB 38.19tr, a decrease of ~1.9% YoY. This growth rate was 0.3ppt lower than end-2023, with an increase of only RMB 5.1bn in 1Q24. The data also indicates a strong inclination among residents to repay their housing loans, contributing to the modest increase in the housing loan balance.

Additionally, at end-1Q24, the balance of RMB real estate development loans was RMB 13.76tr, reflecting a growth of ~1.7% YoY. This growth rate was 0.2ppt higher than at end-2023, with an increase of RMB 609bn in 1Q24. The rise in real estate development loans suggests that there will likely continue to be a significant supply of new homes available for presale in the near future.

Disclosures

Analyst Certification

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

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with China Overseas Land & Investment.

Definition of equity rating

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

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

Time horizon of share price target: 12-month

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

Disclaimers

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