

China / Hong Kong Market Focus

Monthly Market Pulse

DBS Group Research . Equity

7 Feb 2022

Inflation and interest rate to take centerstage

HSI: 24,753

- **We prefer ports & toll roads, oil & gas, HK banks, and China financials during this inflation upcycle**
- **Investors should continue to pay attention to the likely rebound in new economy and property blue-chip names**
- **Sector preference remains unchanged**
- **Maintain 12mth HSI target at 28,500**

In search of inflation winners. The US annual inflation rate was recorded at 7% for the first time since 1982. During times of inflation, we prefer companies that benefit from manifested rising ASP, the interest rate upcycle, and the strong general economy. We like both the ports & toll roads and oil & gas sectors due to the strong demand amid the global economic recovery post pandemic and the inflationary environment. HK banks will stand to benefit from the upcoming Fed interest rate upcycle. Chinese brokers and China's banks will be benefitted by the improved risk appetite in the HK and A-share markets.

Investors should continue to pay attention to the likely rebound. We think the easing regulatory development and policy turnaround on China's property sector have left the HK equity market at an attractive valuation, in contrast to the US market. While we are in search of inflation winners, investors should also pay attention to companies with undemanding valuations and unique secular growth stories and their likely rebound. We prefer new economy and blue-chip property names, as they are likely to benefit from a strong general economy but are not impacted by higher inflation or interest rates; yet, the sector is well positioned for the likely rebound in the HK market.

A mix of inflation winners and companies with policy tension eases. Our top picks are based on the top picks in our overweight sectors. They are AIA, Alibaba, BOCHK, CMB, Country Garden, CG Services, China Longyuan, Ping An Insurance, Tencent, and CICC. Our sector preference remains the same as last month.

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Recommendation & valuation

Company Name	Code	Closing price (HK\$)	Tgt Price (HK\$)	FY22F		
				PBV (x)	PER (x)	yield (%)
AIA	1299 HK	85.0	125.0	1.8	16.6	1.7
Alibaba Group	9988 HK	120.4	211.0	1.9	16.5	0.0
Bank of China HK	2388 HK	31.1	32.0	1.0	11.0	4.6
China Merchants Bank	3968 HK	67.0	87.7	2.0	11.7	2.8
Country Garden #	2007 HK	6.5	12.5	0.5	3.0	9.6
Country Garden Services	6098 HK	49.0	75.6	3.2	21.5	1.2
China Longyuan Power	916 HK	16.5	21.0	1.5	14.9	1.3
Ping An Insurance	2318 HK	63.7	94.5	1.0	6.7	3.7
Tencent	700 HK	479.0	671.0	3.5	19.3	0.5
CICC	3908 HK	21.3	29.0	1.0	7.5	2.6

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited (DBS HK), Bloomberg Finance L.P.

FY20: FY21; FY21: FY22



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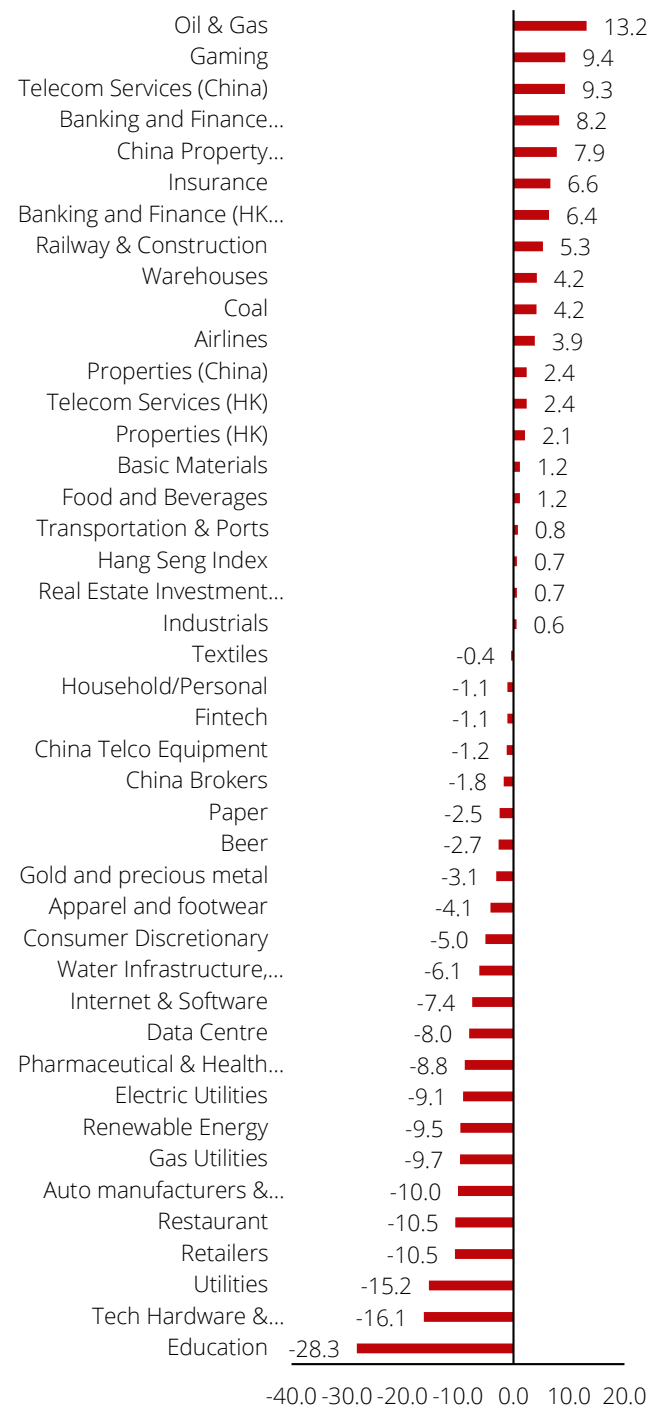
Monthly market wrap

Hang Seng Index gained 0.7% in the first month of 2022, thanks to the policy turnaround and the government's action to help property developers and property constituents rebound in January. Longfor Group, China Overseas Land, and China Resources Land gained 26.7%, 24.3%, and 14.5%, respectively. HK banks like BOCHK and HSBC also outperformed the market, as the interest rate hike expectation came sooner with upside risk. Sand China (1928 HK) was also one of the top outperformers in the period with expected results in line, while the Macau Government announced the framework for re-tendering of casino concessions.

AAC Technology (2018 HK) was the worst performing constituent in January, as the company announced a profit warning. Tech hardware sector share prices underperformed as US bond interest rates soared.

Oil & gas was the best performing sector in terms of DBS's coverage, as the oil price rally was fuelled by the OPEC production shortfall. The gaming sector also outperformed, as a framework for re-tendering of casino concessions was announced. Education continued to see sell-offs, as there are rumours in the market that the mainland authorities may increase their supervision of educational enterprises.

Sector performance – January



Source: DBS HK

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Strategist's view

Sector	Strategist's view	Status
China banks	Overweight	CMB (3968 HK), PAB (000001 CH), PSBC (1658 HK)
HK Banks	Overweight	BOCHK (2388 HK)
China property	Overweight	COLI (688 HK), COGO (81 HK), CR Land (1109 HK), Longfor (960 HK)
China property management	Overweight	Country Garden Services (6098 HK)
China insurers	Overweight	Ping An (2318 HK), AIA (1299 HK)
Renewable energy	Overweight	Flat Glass Group (6865.HK), China Longyuan Power (916.HK)
Ports and Toll Roads	Overweight	China Merchants Port Holdings (144 HK)
Oil and gas	Overweight	CNOOC (883 HK)
China automobile	Overweight	BYD (1211 HK); Great Wall Motor (2333 HK)
Internet	Overweight	JD.com (9618 HK), Meituan (3690 HK)
Restaurants and catering	Neutral	Yum China (9987.HK)
Food and beverages	Neutral	China Mengniu (2319.HK), Yili (600887.CH), UPC (220.HK)
Textile	Neutral	Texhong textile (2678 HK)
HK Developers	Neutral	SHKP (16 HK)
HK Landlords & REITs	Neutral	Link REIT (823 HK) Fortune REIT (778 HK)
Tech hardware	Neutral	Sunny Optical (2382 HK), Hua Hong Semicon. (1347 HK)
China Brokers	Neutral	CICC (3908 HK), GF (1776 HK)
Consumer – retailing	Neutral	Luk Fook (590 HK), CSS (116 HK), Sa Sa (178 HK), Prada (1913 HK), Samsonite (1910 HK)
Environmental service	Neutral	China Everbright Water (1857 HK)
Gas utilities	Neutral	Towngas Smart Energy (1083 HK) and China Gas (384 HK)
Aviation	Neutral	BOC Aviation (2588 HK), China Southern Airlines (1055 HK) and China Eastern Airlines (670 HK)
HK telecom	Neutral	HKBN (1310 HK)
China telco equipment	Neutral	ZTE (763 HK)
China telecom carriers	Neutral	China Unicom (762 HK)
China materials	Underweight	Anhui Conch (914 HK)
Pharmaceutical and healthcare	Underweight	B-Soft (300451 CH)
Gaming	Underweight	Galaxy (27 HK), SJM (880 HK)

Source: DBS HK

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Overweight

China automobile. Domestic auto consumption is crucial to the Chinese economy and we expect auto sales to gain strength in 2022. Sequential improvements in critical component supply, favourable measures to promote vehicle sales, and auto OEMs accelerating their NEV strategy to scale up sales are key growth engines. Besides, resilient demand for premium cars and the currently tight supply allow auto dealers to expand vehicle margins. Hence, we estimate a total vehicle sales growth of 5.2% in 2022 (was 4% in 2021) and NEV to remain the bright spot with a 2021-2025 volume sales CAGR of 35%.

Top picks: BYD (1211 HK), Zhongsheng (881 HK)

China banks. One-year and five-year LPRs have declined by 10bps and 5bps, respectively, to reflect a loosening monetary policy to support economic growth. With the decline in high-cost deposits and a relatively low interbank market rate, banks with better asset/liability allocations could face less pressure on NIM in FY21/22F. We expect China banks' NIM to go down 4bps/1bp in FY21/22F, respectively. Despite seeing limited room for further RRR cuts, a high loan-to-deposit ratio (LDR) of 82.7% and increasing capital requirement for domestic systemically important banks (DSIBs) give banks less loan capacity to support credit demand. In order to continue to support China's economic recovery to the pre-COVID level, we expect PBOC to cut RRR by another 50bps in 2022 so as to inject funding into the banking system and direct liquidity to the sectors which are aligned with the policy direction. This should be able to support a 12%/11.5% y-o-y growth in loans, in our view.

Despite A-share movement fluctuations in FY21, the average daily trading volume has further increased by 21%/16% for the SH/SZ indices in 1H21, compared to FY20. As China's government opens up the equity market for corporates to raise funds and relax limits on investment by foreign investors, there has been an increase in the initial public offering (IPO) pipeline of A-shares. We expect A-shares' performance to continue outperforming in FY22F amid China's continued economic recovery to pre-COVID-19 levels, which would further support China banks' fee income growth momentum. With the continued earnings uptrend in 2021-22F helped by China's economic recovery, we expect corporate cash flows would become positive. Asset quality has started to improve, thanks to lower new NPL formation and increased NPL disposals in FY21F. As long as China's economy continues its recovery, businesses resume, and income levels return to pre-COVID levels, we expect overall credit risks to be manageable with a sufficient coverage ratio for default risks.

Critical factors for the sector to watch: China's GDP growth, social financing, deposit/loan growth, and NPL and special mention loan trend.

Key risks to watch out for: Lower-than-expected economic growth in China would adversely affect financing demand and deterioration of asset quality amid the decline of solvency would lead to an increase in credit costs, while a sharp downward trend in LPR would hurt China banks' NIM and interest income.

Top picks: CMB (3968 HK), PAB (000001 CH), and PSBC (1658 HK)

China insurers. As of 3Q21, the agent headcount among listed lifers has declined by 27% to 45%, compared to end-FY20. Given Ping An's (2318 HK) ahead-of-peer channel reform progress, the lifer is likely to be the first lifer to be out of the woods. That said, we expect Ping An to show better growth resilience, while other insurers are to also show narrowing y-o-y declines. Nonetheless, and with the higher headcount base in 1H21, FY22F open-year sales are expected to start slow.

The dual-recording policy was first introduced in 2017, and the new rule now refers to all age groups as opposed to 60 years or above previously. Although the new rule may lengthen insurance sales turnaround times, we see the impact as manageable, given a) 33% of the market has already had pilot runs in FY21, b) 82% of the insurance purchases are done by 40-50-year-olds and driven by genuine demand for better insurance coverage, and c) the policy is likely to strengthen consumer confidence in buying insurance policies.

Details of C-ROSS 2 Phase II are in line with the market expectation. New rules now clearly distinguish core capitals by residual margin durations, while the residual margin is capped at 35% of insurers' core capital. As such, the listed life insurers' solvency ratio will see a meaningful decline but will remain comfortably above the regulatory requirement. However, small non-listed insurers may see pressure to replenish core capital. With the impact from agent channel reform to diminish in 2H22F, we believe it's time to bottom fish the long-term champions. Trading at past the five-year trough level, much of the negatives should have been priced in.

The critical illness (CI) deteriorating factor is adopted to better reflect changes in risk of the critical illness trend. We thus expect new business growth from CI products to further slow down, while insurers will likely focus on annuity/endowment, which has been granted a 10% discount on risk charge. In addition, a 100% (previously 10%) risk charge on long-term equity investment with a controlling

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right was also imposed when calculating minimum capital. This is to avoid the risk of capital arbitrage and expansion.

The new rule now adopts the 60-day moving average (MA) 10-year government bond yield curve (previously used 750-day MA yield curve) to better reflect the interest rate movement. Given the 60-day MA yield curve will be more sensitive to the interest rate spot rate, we expect that insurers with higher interest rate sensitivity, i.e., China Life (2628 HK, HOLD) and PICC (1339 HK, HOLD), or that are currently under-reserved may face higher reserving pressure.

Top picks: Ping An (2318 HK), AIA (1299 HK)

China property. We expect the physical market to see a 5%-10% decline in 2021, to be driven by 1) a 5%-10% decline in residential GFA sales given the likely shortage of supply from developers upon weak land acquisition activities in 2021 and their likely slowdown in construction pace for cash preservation purposes; and 2) flattish ASP – with impact from weaker market sentiment offset by lower supply and policy interventions from local governments.

Regulators have turned more proactive on policy supports over recent weeks, with cuts in interest rates, promotion of SOE M&As, and the reviewing of regulations over presales proceeds escrow accounts as cases in point. These reaffirm the government's willingness to control default risks in the sector and offered some comfort to the market sentiment. Having said that, we do believe more concrete evidence (e.g., complete settlement of the 1Q repayment peak) will be needed before investor confidence can be restored and refinancing channels reopened.

Near-term price volatility for the sector is likely to persist throughout 1Q22 as we cruise through the on and offshore bond repayment peak and an expected gloomy result season in March. We believe normalisation of bond prices (i.e., when our DBS China Property Offshore Bond Price Index returns to the >90s level vs. the current c.70s) would be necessary for the sector to see a sustainable price and valuation recovery. We advise investors to stay with quality companies with solid balance sheets and abundant saleable resources before further improvements are seen on the liquidity front.

Top picks: COLI (688 HK), COGO (81 HK), CR Land (1109 HK), Longfor (960 HK)

China property management. Share price performance of the sector has been weak since 2H21 and exhibited a strong price correlation to the China property sector alongside 1)

spill over concerns on developers' liquidity and refinancing risks and 2) evidently moderating physical market growth outlook. We are relatively more optimistic due to all these factors as we enter 2022. Firstly, we believe the property sector should have passed its toughest period, as the policy direction has already turned, with regulators illustrating a more proactive stance to keep things under control and more supportive measures are likely on the way. As such, we believe investor concerns over this front should gradually ease over 2022. Secondly, while we do expect the physical market in 2022 to post some retreat (c.5%-10% fall), as developers will likely record presales declines upon a potential supply shortage and their likely incentive to delay the construction pace for cash flow preservations, we expect the shortfall in terms of GFA growth for property managers can be offset by their ongoing efforts in third-party projects and rising opportunities in the M&A space. There could be some impact on non-property owner VAS, which represents c.25% of GP in FY20, but the price decline on the sector should have more than priced in a slowdown from this front.

In terms of individual property managers, we believe their FY21 earnings should be largely intact. The potential impact on non-property owner VAS from the physical market slowdown in 2H21 should translate into a manageable earnings impact of <5% (with the exception of a handful of property managers with debt-troubled developers that took a substantial hit in their recent presales performance). Having said that, if we are to look further into FY22-23 onwards, performance among property managers may become more polarised. Large caps can still maintain their current growth outlook and largely offset the impacts from a moderating property market and weakening non-property owner VAS outlook via taking on M&As, but small caps may have to see some cuts in terms of their future growth expectations.

We expect share prices and valuations in the property management sector to rebound, share price correlation with the property sector to decrease, and investors to refocus on fundamentals in 2022. We recommend investors accumulate sector leaders with a solid ranking in earnings growth visibility, earnings quality, and earnings growth potential – the three key pillars behind the valuation discrepancy in the property management sector – such as Country Garden Services (6098 HK).

Top pick: Country Garden Services (6098 HK)

HK banks. Since the Fed has announced the tapering of its asset purchases in Nov 21 to curb inflation risks, this would be a positive signal for the end of the interest rate downcycle. We expect this should benefit HK banks' NIM and net interest income, even though HIBOR/LIBOR are likely to

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stay at a relatively low level until the Fed rate hike takes place. We expect NIM to recover in 2H21F and rebound strongly in FY22F, helped by robust credit demand, better asset allocation, and improving investment yield. With improving investment demand, we expect loans to grow 5%/6% y-o-y in FY21/22F. Fee income remains the bright spot, driven by brokerage fees and retail investment funds. Provisions are expected to be lower y-o-y due to easing pressure as a result of adjustments in ECL assumptions. We forecast HK banks' earnings to grow at 12%-16% in FY21E and 10-13% in FY22F, higher than the market expectation. On the back of a sufficient capital level and better earnings, we expect this should support HK banks' valuation to re-rate from c.-1STD below the five-year avg to its five-year avg PB multiple.

Critical factors for the sector to watch: HK's GDP growth, unemployment rate, bankruptcy cases, and loan/deposit growth.

Key risks to watch out for: Weaker-than-expected HIBOR movement, deterioration of asset quality, and a further slowdown in the HK economy.

Top pick: BOCHK (2388 HK)

Internet. Regulation risks should remain an overhang for the internet sector, at least in 1H22, but the real surprise should be more manageable, as major impacts have been played out and a regulatory framework has been established. Besides, internet companies should be having a more frequent dialogue with the regulator.

Overall, China's e-commerce segment growth will be backend-loaded in 2022, as growth is driven by deepening penetration in the expansion of lower tier cities and e-grocery segment. Smaller players will experience stronger growth by market share gain, after the new anti-trust rule (e.g., no more "2 choose 1" practice). E-commerce players will invest and focus on high-growth segments including e-grocery, fresh grocery, and CGB. In particular, the fresh grocery sector is expected to grow at a CAGR of 38% over 2020-2023, given the lower penetration of 12%, vs. the overall online penetration rate of c.24% in 2021. The investment into CGB still on investment upscale but expect to ease in 2022, which will continue to drag down the overall profitability of Meituan, Pinduoduo, and JD.com, while benefitting longer term growth.

The online games sector suffered from a license approval suspension and tightened content regulation towards the end of 2021. We expect the growth momentum to gradually

resume in 2Q22. Overseas expansion, which is supported by the government, will continue to be the key growth driver.

Online advertising is one of the key revenue contributors for internet companies. The segment's growth will be more challenging in 1H22, partly due to the economic slowdown and regulatory changes. The performance has been dragged by weaknesses in certain verticals, such as education, online gaming, and insurance, in 2H21. The regulations on data privacy remained a concern in 1H22, but the actual impact should be manageable.

As for the short video sector, operating matrices such as MAU, DAU, and duration of usage will continue the strong momentum. However, the potential clamp down on live streaming, and on content in particular, remains a market concern. The broad regulatory scrutiny over various industries, such as education and real estate, has weakened prospects for the online advertising businesses. We expect a stronger performance in 2022, considering the peak season of the Spring Festival and Winter Olympics.

The outlook on online travel will remain uncertain due to the resurgence of COVID as well as the spread of new variants globally. Players focus on domestic travel, and the expansion of lower tier cities increase the potential to outperform. In terms of profitability, (i) investment into loss-making CGB, (ii) re-investing profits into long-term growth, and (iii) common prosperity are the factors negatively impacting earnings growth in the short term.

Top picks: JD.com (9618 HK), Meituan (3690 HK)

Oil and gas. The US's bid to release oil from strategic petroleum reserves is not a big game changer. In a desperate bid to lower gasoline prices at the pump, US President Joe Biden has tried to co-ordinate a global release of SPRs, but the move to release 50 million barrels over a period of a few months is too small a move to make a significant dent in the global market. Other major players like China and Japan have not made any firm commitments either.

Supplies remain in check in the near term, as OPEC+ is in no hurry to boost production volumes to higher than planned. In its latest meeting last week, OPEC+ members decided to stick to the 0.4mmbpd monthly output increase despite calls for more production. The lack of a material response from US shale drillers to the oil price increase so far seems to be one of the reasons that the OPEC+ bloc remains comfortable with oil prices being above US\$70/bbl and focuses on enjoying the higher oil revenues for now.

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We revise up our near-term forecasts further to factor in the current bullishness of and spillover from the gas market. Spot LNG prices in Asia and Europe are hovering in the US\$25-30/mmbtu range currently, compared to levels of US\$5/mmbtu at this time last year, as the demand-supply mismatch in the gas sector has intensified, owing to muted upstream investments. If the coming winter is colder than usual, the potential for higher oil demand increases. Given that the gas supply situation is unlikely to be addressed over the next few months, we raise our average Brent crude oil price forecasts for 2021 and 2022 to US\$70-75/bbl and US\$75-80/bbl, respectively, from US\$67-72/bbl and US\$70-75/bbl earlier. Following the winter gas crunch, we anticipate both gas and oil prices to moderate in 1H22, before firming up again in 2H22 on the back of high seasonal demand.

We are introducing 2023 forecasts at higher than 2022 levels. 2022 should still represent a reasonably balanced market, as OPEC+ is still looking to boost supplies by around 4.0mmbpd over the next 10 months. But, looking further ahead, we believe there could be oil price spikes towards US\$80/bbl or higher in late 2022 and beyond, once demand has recovered to pre-COVID levels, with air travel still recovering well into 2023 and OPEC spare capacity is down to normalised levels, as severe systemic underinvestment on the upstream side in recent years could have an impact on non-OPEC supply growth. Thus, we introduce our 2023 average Brent crude oil price forecast at an elevated level of US\$85-90/bbl.

Top pick: CNOOC (883 HK)

Ports and toll roads. Both China Merchants Port and COSCO SHIPPING Ports had reported very strong interim results and are on track to post a strong performance for FY21, as year-to-date throughput growth has been robust – at a double-digit pace on average – and the traditional peak container shipping season is coming in the weeks ahead. We can also expect to see average revenue per TEU improve as a result of the boom in freight rates, which, along with high operating leverage in the sector, should see margins and ROE improve significantly. With dividend payout ratios expected to be maintained at 40%-50%, we can expect final dividends for both these counters to be material, especially for China Merchants Port, whose dividend payout is usually heavily slanted towards the second half (first-half payout was just 17%).

Top pick: China Merchants Port Holdings (144 HK)

Renewable energy. In the lead up to COP26 in Oct 21, China's government had released more specifics on its decarbonisation roadmap to achieve the dual 30-60

emission reduction goals. China targets to increase the share of non-fossil fuel sources in its primary energy mix to 20% by 2025, and 25% by 2030, compared to 16% in 2020. For the longer term, China plans to increase the share of non-fossil fuels in the primary energy mix to 80% by 2060. Specific cumulative capacity targets for hydro, solar, and wind were released as well. By 2030, China plans to achieve an installed capacity of 450GW for hydro and 1,200 GW for wind and solar combined.

Solar installations in 2021 were suppressed by a spike in polysilicon prices. However, more supply is expected to come online in 2022. This should help prices along the solar value chain return to more rational levels. We reckon the pace of installations could pick up. We estimate China's 2022 new solar installations to reach 75GW in 2022 or grow by 25% y-o-y. For 2023-25, we estimate China's new solar installations to be at c.95-135GW per year, which translates to a 2021-25 CAGR of c.22%. Faster installation growth should benefit solar glass manufacturers such as Flat Glass Group (6865.HK).

Wind installations in 2021 were largely flat y-o-y, as installations in 2020 were boosted by an installation rush to beat the deadline for government subsidies. Looking ahead, we estimate China will add new wind installations of 37GW in 2022 and 40-48GW per year during 2023-25, which translates to a 2021-25 CAGR of 8%. Recently, the media reported wind turbine prices in China were declining on the back of stiff competition, directly impacting turbine manufacturers such as XJ Goldwind (2208.HK). However, wind farm operator China Longyuan Power (916.HK) stands to benefit from CAPEX savings. Furthermore, policy support for wind farm upgrades could also help Longyuan squeeze more power out of existing wind infrastructure.

Top picks: Flat Glass Group (6865.HK), China Longyuan Power (916.HK)

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Neutral

Aviation. The Chinese airlines should turn profitable in 2HFY22F, as air passenger volumes should rebound, with China gradually reopening its international borders from late 1HFY22F. Passenger yields should firm up as supply-demand dynamics turn more favourable, with airlines shifting domestic capacity into international routes. While the pandemic has forced many airlines in the region to downsize and streamline their fleets, the Chinese airlines are still growing their aircraft portfolios, and this will enable them to garner market share from competitors in the region. Operating margins should improve as unit costs continue to trend down, with airlines achieving more economies of scale, despite some pressure from buoyant crude oil/jet fuel prices.

On valuations, the three Chinese airlines are trading at 1.5 to 2.0 standard deviations below their five-year averages on a P/BV basis, which presents a good buying opportunity in our view. However, we remain neutral on Cathay Pacific, given its relatively sluggish recovery profile compared to the Chinese carriers, and pricey valuation.

A chief earnings downside risk is the emergence and spread of new variants like the Omicron strain, but the Chinese airlines are best positioned to weather the storm due to support from a robust and substantial domestic market. Meanwhile, delays to China's reopening (we currently anticipate China to start easing international travel restrictions from May-June 2022) or crude oil/jet fuel prices running ahead of passenger traffic could also moderate the earnings prospects of the Chinese airlines.

Aircraft lessors are our preferred pick at this juncture, because of their earnings resilience and bargain valuations. Despite the threat of the new COVID-19 variant, BOC Aviation's earnings should continue to grow on the back of sustained portfolio expansion (via both organic and via purchase and leasebacks). The risk of asset and bad debt impairments is present but should be manageable, with aircraft values and airlines' financial performance stabilising. Additionally, the recent sell-off is overdone in our view, as the stock is now trading at 1 to 1.5 standard deviations below its five-year average on a P/BV basis.

Top picks: BOC Aviation (2588 HK), China Southern Airlines (1055 HK), and China Eastern Airlines (670 HK)

China brokers. The sector has benefitted from the policy deregulation cycle since FY19, and we expect more in FY22F. We expect the long-awaited registration-based system to be implemented on the main board in 2H22F. This will serve as a multi-year catalyst to drive the brokers' investment banking business, given the shortened IPO processing time and

ongoing system deleveraging. With another round of RRR cuts likely in 1Q22F, this will serve as a short-term catalyst to the sector.

China A-share ADT has risen 36% y-o-y in FY21 at a three-year CAGR of 47%. Backed by the accommodative monetary policy, we expect to see another 15% y-o-y growth in FY22F and a 10% y-o-y increase in margin trades outstanding. Despite approaching FY15 level, we believe growth remains healthy given that ADT and margin trades outstanding-to-total mkt cap remains relatively low. Growth in brokers' wealth management business will continue to serve as a major earnings driver.

The launch of the registration-based system and policy direction will encourage growth in the direct financing channel, and this should help drive a 25% y-o-y growth in the fund-raising market. Backed by an increasing number of overseas companies relisting in the offshore H-share market, brokers with a strong investment banking franchise will continue to stand out. The expiry of the two-year lock-up period for IPOs will serve as an additional earnings driver to brokers.

Top picks: CICC (3908 HK), GF (1776 HK)

China telco equipment. The industry size is driven by the capital expenditure of Chinese telecom operators, which is expected to remain stable at around Rmb432bn in FY22-23, due to the co-build and co-share of the 5G network by China Telecom and China Unicom. The investment focus will still be on macro base transceiver station (BTS) build-out, with an estimate of 600k net additions per annum for FY22 and FY23. In general, as the profitability of operators' 5G business improves on the back of higher penetration, further pricing pressures are limited. Growth for individual players will be mainly driven by an increase in market share within its addressable market and margin improvements. Our top pick is ZTE for its increasing market share and gross margin in the carriers' network business. Our pecking order is as follows: ZTE>CCS>China Tower>YOFC.

Top pick: ZTE (763 HK)

China telecom carriers. The strong revenue growth momentum in 2021 will continue in 2022, and would be attributable to the robust traditional telecom business and rapid growth of new business (e.g., cloud, IDC, and IOT). Mobile ARPU will continue to recover, driven by the higher 5G penetration of 66% in 2022, compared to 20% in 2020. A bandwidth upgrade will help improve broadband ARPU. Besides, a potential dividend hike has not been priced in for China Unicom (CU, 762.HK) and China Mobile (CM, 941.HK).

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We expect CU to raise its distribution payout ratio to 60% for FY22, following China Telecom (CT, 728 HK), which implies a 10% yield. We also expect CM to increase its distribution ratio after its A-share listing. Our DPS forecasts for CU and CM are higher than that of the market. CU is our top pick for its attractive dividend yield of 10% from a potential dividend hike. Our pecking order is as follows: CU>CT>CM.

Top pick: China Unicom (762 HK)

Environmental service. The 14th Five-Year Plan targets to further increase the sewage treatment rate to 95% and water recycle rate to 25%. For some cities with water scarcity, the recycle rate is targeted higher, at 30-35%. The recycle rate of sludge is also expected to increase. The sewage treatment market is expected to grow at a single-digit level. Coupled with single-digit growth in the average tariff, the turnover of sewage treatment operators is expected to grow between the high single digits to low teens.

For waste-to-energy and biomass operators, policies have been issued for the allocation of subsidies for both existing and new projects. Thus, operators will focus on the completion of the existing orders on hand, which will bring significant growth in construction revenue. The 14th Five-Year Plan targets to increase the daily capacity of waste-to-energy treatment from 580,000 tonnes to 800,000 tonnes, implying an increase of 44,000 tonnes each year. As subsidies from the central government will eventually be cut for new projects, the treatment fee is expected to increase.

Top pick: China Everbright Water (1857 HK)

Food and beverages. We expect the dairy and instant noodle sectors to sustain decent demand in 2022E. Due to the COVID-19 pandemic, consumers have become increasingly health conscious, with dairy as one of the key beneficiaries. We expect downstream processors to sustain mid-teen growth, with easing raw milk price pressure in 2022E. With the rising cautiousness ahead of the Beijing Winter Olympics, we expect strict social distancing measures to remain in place, partly impacting outdoor spending in 1Q22. We expect household spending, such as on instant noodles, coupled with price hikes, to enable a sales leverage to partly offset commodity cost pressures such as of palm oil.

Top picks: China Mengniu (2319.HK), Yili (600887.CH), and Uni-President China (220.HK)

Gas utilities. The long-term growth trajectory of gas consumption continues to be driven by China's decarbonisation goals. China's policy target to increase the percentage of natural gas in the energy mix from 8% in 2020 to >15% in 2030 remains intact. In the near term, this could

be partially offset by downward pressure arising from pandemic controls, a property downturn, and slowing manufacturing activity. Considering both opposing forces, we forecast mid-teen gas sales volume growth for listed gas distributors in 2022.

Winter in Dec 21 was not too extreme and a spike in LNG prices did not occur. Nevertheless, we expect high LNG prices to lower the dollar margin of listed gas distributors by Rmb0.02-0.04/m3 in FY22. Extreme weather remains a swing factor for the dollar margin.

Gas distributors under our coverage have disclosed development strategies in new/smart energy businesses under China's decarbonisation plan. Most will diversify into integrated energy (fuelled by gas, distributive solar power, biomass, or geothermal power), coupled with energy and carbon management services.

We identify Towngas Smart Energy (1083.HK) as having the best combination of gas sales volume growth and green transformation. We also like China Gas (384.HK) for its low valuation, which should reflect most of the negative factors. China Gas should also see improving cash flow as a result of better receivables collection and lower CAPEX.

Top picks: Towngas Smart Energy (1083 HK), China Gas (384 HK)

HK developers. With the resurgence of COVID, residential market activities have slowed down recently. After retreating 3%-4% from its all-time high in Aug 21, home prices are expected to consolidate further in the short term. Mortgage rates should remain low in 1H22 but could experience mild upward pressure when the US raises its interest rates. On the other hand, residential supply outlook should remain favourable in the years ahead. The long-awaited re-opening of the border with Mainland China, if materialised, could boost luxury demand with the return of affluent Mainland buyers. All things considered, we forecast home prices to be broadly stable in 2022.

We like SHKP for its attractive valuation. SHKP is also the major beneficiary of the Northern Metropolis development.

Critical factors for the sector to watch: Project launch response, border reopening, interest rate movement, and government policies.

Key risks: Faster-than-expected interest rate hike.

Top pick: SHKP (16 HK)

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HK landlords & REITs. Office vacancy rates should peak, with rentals expected to stabilise. Yet, given high expiring rents, most of the landlords will continue to experience negative rental reversions in 2022. Selected firms are taking advantage of softer rents to relocate to better quality properties. Gradual relaxation of border control measures, if materialised, will allow more office inspections which, in turn, will unleash the pent-up office demand. On the other hand, new office supply will come on stream starting from 2022. Thus far, pre-leasing progress has been slow. This could cap the rental upside in 2022.

The rise of domestic consumer spending continued to underpin the retail market recovery in 2H21. The recent spread of Omicron should inevitably delay the border re-opening. However, this should not derail the retail market recovery. Retail rents should see a slight rebound in 2022. Yet, most of the retail landlords would remain in the last leg of the negative rental reversion cycle due to high expiry rents committed to in 2019. The re-opening of the border remains a key for full-fledged retail market recovery.

We favour Link REIT and Fortune REIT, as their business performance mainly hinges on domestic consumption, which should remain resilient despite uncertainties from the Omicron variant. Further yield-accretive acquisitions could bolster Link REIT's distribution income growth, enhancing its investment appeal.

Critical factors for the sector to watch: Border reopening, local economic recovery, financial market performance, and global business environment.

Key risks: Delay in border reopening and prolonged pandemic.

Top picks: Link REIT (823 HK), Fortune REIT (778 HK)

HK telecom. The mobile roaming business suffered from city lockdowns amid COVID-19 and represented 5%-8% of mobile revenue in FY21. However, further roaming revenue shrinkage is unlikely. Any roaming revenue recovery would be positive for mobile ARPU, along with the 5G upgrade. Despite the intense competition, we expect local service revenue to be solid, driven by higher 5G penetration. For fixed-line businesses, we expect total residential broadband subscribers to grow 2% and 1.5% in 2022 and 2023, respectively, with the supply of new housing. HKBN could gain market share with the launch of Disney+, with a target of 1m total subscribers by FY8/22. We also expect a 3% growth in its enterprise business in FY22. Despite the market's concern about the impact of COVID-19 on fixed-line operators due to SMEs' exposures, we estimate the impact is

only 1%-2% if 10% of SMEs close. We prefer fixed-line operators to mobile operators, as the former is less impacted by COVID-19. Our top pick is HKBN and our pecking order is HKBN>HKT>SmarTone>Hutchison Telecom.

Top pick: HKBN (1310 HK)

Restaurants and catering. Restaurant sales have been dampened by fresh outbreaks of COVID-19 with strict public health measures in place. Dec 21 sales declined 2.2% y-o-y (Nov 21: -2.7% y-o-y). Compared with 2019, 2021 restaurant sales stood flat. Consumer sentiment was again shaken by COVID-19 outbreaks in Shaanxi in December, with a citywide lockdown in Xi'an. Yum China noted that same-store sales in 4Q21 remained below 2020 and pre-COVID levels. Overall, table turnover rates have not recovered to pre-COVID levels. We expect dine-in volumes to normalise, but margins will come under pressure amid food and wage (mid-single-digit growth) inflationary pressure in 2022F. The key focus is to drive productivity and raise dine-in volumes, and offset cost pressure. We forecast China's catering sales to deliver mid to high single-digit growth in 2022F (2021: 19%; 2020: -16.6%).

Top pick: Yum China (9987.HK)

Tech hardware. The demand for smart devices and other consumer electronic trends is up due to the accelerating digital transition in daily activities, like remote office, new form social media (like the Metaverse), and autonomous driving. We expect this to keep pulling chip demand, especially logic chips, MCU, and PMIC. To encounter the shortage in chips, global foundry capacity expansion is going to continue and investment in semiconductor manufacturing equipment will be maintained at a high level in the upcycle.

Mainland foundry that specialises in mature nodes and is least impacted by the chip embargo, like Hua Hong Semi, will continue to enjoy the strong demand in 2022. Upstream of the semiconductor industry will still benefit from the expected massive CAPEX investment cycle by foundry players till 2023. We expect semiconductor manufacturing equipment and packaging providers, like ASM Pacific (522), to enjoy a relatively fast shipment and revenue growth in 2022.

We expect the normalcy of chip inventory can be reached as early as 2Q22, while shortages of various kinds of chips, like PMIC and automotive chips, by smaller vendors could last longer. The supply chain woe about smart devices caused by the chip shortage is supposed to ease, and shipment growth of devices like smartphones is expected to reverse to mid-single-digit levels in 2022. Consumer electronics component suppliers, i.e., supplies of lenses, camera modules, acoustic components, casings, etc., are expected to resume growth in

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its related businesses in 2022. A mild specification upgrade can be expected in 2H22. Therefore, a rebound in the ASP of smart device components can be expected in 2H22.

Huawei's smartphone shipment market share is expected to continue to be taken up by Apple and other Chinese brands like Xiaomi, Oppo, and Vivo in 2022. Apple's share in the premium smartphone market is expected to slightly increase in 2022 by continuously taking up some of Huawei's premium market share. On the other hand, purely smartphone manufacturer businesses, except for a few market leaders (like Apple, Samsung, Xiaomi, etc.) will suffer due to increasing market concentration and narrowing margins.

Critical factors: Chips' lead times can be closely monitored to have a better idea of the relief in a supply shortage.

Key risks: Knock out of foundry-intensive areas due to spread of new COVID-19 variants may extend the chip shortage.

Top picks: Sunny Optical (2382 HK), Hua Hong Semicon (1347 HK)

Textile. Omicron's high transmissibility means there has been sporadic closedown in capacities. But such is now a fact of life for the supply chain and is dealt with swiftly. Customers and manufacturers have dealt with lockdowns before and we do not foresee significant impact to listed company's results.

Share price crashes on the back of such disruption should be a sign to Buy. The key fundamental changes aside from supply chain challenges in 2022 should be the general inflation of raw material prices seen across the board. On the cost side, raw material price increases and other cost inflation should be the key factor in current order discussion. The ability to pass on raw material costs heavily depends on what part of the supply chain the enterprise is on. Yarn makers, whose prices are based on spot prices, have been beneficiaries of the raw material price surge. Fabric makers suffered more margin compression, as not all costs can be immediately passed on. We expect garment makers' margins to be stable due to effective costs being passed on. Looking to 2022, we expect recovery to continue and supply chain bottlenecks to dissipate.

We should also expect capacity expansion to be delayed by a quarter to two due to the disruptions in 2021. This will inevitably lower some of the planned capacity growth in 2022. Save for industry bellwether Shenzhou International, which has enjoyed a massive PE premium (c.30x FY22F P/E) over its industry peers, the rest of the industry is trading at c.10x P/E.

The sector remains cheap but there are also a lot of other sectors with better liquidity and prospects. We do not foresee heightened interest from the market, save for yield seekers looking for good value.

Top pick: Texhong Textile (2678 HK)

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China materials For 2022, we expect China basic materials consumption growth would decelerate. In consideration of mild progress in supply resumption, we believe overall product prices will seek support after correcting to current level which remain higher than their historical average. And we recommend picking stocks: (1) with better growth prospect and (2) are industry cost leaders amid the cyclical market environment.

Supply. Overall production is expected to keep stable as we expect their capacity utilisation rate to remain low amid the dual control and development projects delay.

Demand. Consumption is to register lower growth at a slowdown in China economy. And we foresee more accommodate monetary policies which are supportive to local market sentiment. Also, we believe new infrastructure construction would benefit demand for cement and lithium.

Price. We expect major materials products price will be lower but remain higher than average of the last decade.

Meanwhile, the transportation bottleneck over the supply chain arising from the pandemic and the carbon policies in China would support market sentiment for product price.

Top Picks: Anhui Conch (914 HK)

Gaming Macau's gross gaming revenue (GGR) went up by 50% y-o-y to MOP78.9bn in 11M21. This included a 55% m-o-m increase in GGR to MOP6.8bn for Nov 2021 along with easing border restrictions between Macau and Zhuhai by 19 Oct 2021, represented a daily run-rate of MOP227m. While the arrest of CEO Alvin Chau and ten others from SunCity Group, Macau's largest junket, in late-Nov 2021 had resulted in a 15-18% m-o-m decline in VIP volumes during the latest period of 1-5 Dec 2021, the mass segment saw 20% m-o-m growth hence lifting GGR to c.MOP1.3bn during 1st week of Dec 2021, translating into an improved daily run-rate of MOP260m.

As the Chinese government has become more stringent in its enforcement to crackdown illegal gambling and money laundering activities, negative impacts across the junket industry have dampened sentiment of VIP gaming business

in Macau. The market is also concerned whether casino operators would be jointly liable for the debts of junkets, as seen in the c.HK\$700m theft from Dore Entertainment's VIP room at Wynn Macau that resulted in both being jointly liable to repay HK\$6m debt owed to a VIP customer who produced proof of his deposits with Dore.

Having said that, we have already factored in a very slow momentum for Macau's VIP gaming over the medium-term, estimating the VIP segment to contribute c.5% of industry's EBITDA in FY22, and about 2-3% in FY23 given the segment's low profitability as well as rising emphasis on mass gaming. We currently do not expect the incident to produce any long-term impacts on Macau casino operators and continue to prefer companies with stronger focus on the mass gaming segment, including Galaxy, SJM and Sands China. Key things to watch should still rest on the potential amendments of Macau gaming laws, and its granting of new gaming licenses to casino operators in the near-term.

Top Picks: Galaxy (27 HK), SJM (880 HK)

Pharmaceutical and healthcare The price pressure for medical products should increase because: 1) % of drugs and categories of medical consumables used in public medical institutes subject to regional tender will increase from 75% and 1 in 2020 to 90% and >5 in 2025. Whenever there is regional tender, there will be huge price cut; 2) This factor is related to the change of way to reimburse medical expenses from public medical insurance programs. Previously, it was based on number of items spent. From this year onward, there will be more and more cities assigning a cap of amount reimbursable for each disease. Due to the cap, the price pressure will be greater.

Change of way to reimburse medical expenses involves another round of medical IT infrastructure investment, B-Soft (300451 CH) will benefit.

Top Picks: B-Soft (300451 CH)

We have discontinued our sector commentary on China Education and Railways and construction.

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HK market strategist summary

Investment thesis:

Set for a rebound in 2022. We think that after a tumultuous year, the China/HK market is ready to bounce back. While the Evergrande debt crisis and contagion effect, regulatory tightening on tech companies, inflationary environment, chip shortage, tapering and interest rate expectations, and geopolitical tensions and uncertainties are likely to linger in 2022, these negative overhangs are mostly reflected in the price already.

Attractive valuation with unique secular growth giants hard to ignore. Given the diverging fortunes, the valuation gap between the HK and US markets has doubled. While we cautiously navigate through 2022, even though uncertainties remain, the attractive valuation of the HK market, from both a historical and relative standpoint, are hard to ignore. While fundamentals are sound, the lack of confidence could be resolved by more supportive government policies.

Valuation:

Our 12-month Hang Seng Index target is maintained at 28,500, which implies 12.1x FY22F and 10.6x FY23F earnings, equivalent to its five-year average one-year forward PE. Our 12-month target for HSCEI is 10,400, which is set at 9.7x FY22F and 8.7x FY23F earnings, equivalent to its five-year average one-year forward PE.

Sector preferences:

We are overweight on **China automobile** and **renewable energy** due to supportive policy amid President Xi's pledges on NEV and zero emissions.

We believe heavily regulated sectors and companies that have already been penalised are more likely to avoid further regulatory action and most importantly, these sectors, such as **China property, China property management, e-commerce, and internet**, are trading at attractive valuations.

We like both the **port & toll roads** and **oil & gas** sectors due to the strong demand amid global economic recovery post pandemic and the inflationary environment.

Lastly, **HK banks** will stand to benefit from the upcoming Fed interest rate upcycle. Meanwhile, we have **Chinese brokers** into our overweight list, as the sector will benefit from the interest rate cut in China.

China's banks will be benefitted by the improved risk appetite in the HK and A-share markets.

Top picks:

Our top picks are based on the top picks in our overweight sectors. They are [AIA](#), [Alibaba](#), [BOCHK](#), [CMB](#), [Country Garden](#), [CG Services](#), [China Longyuan](#), [Ping An Insurance](#), [Tencent](#), and [CICC](#).

Key risks to our view:

Any drag on regulatory developments will reduce investor interest in the HK market; further Evergrande contagion may lead to slower than expected economic growth; sporadic COVID-19 outbreaks in China; continued chip shortage and transportation bottlenecks.

DBS HK top BUYs

														EPS
		Closing price	Tgt Price	Upside	Mkt Cap	PE 21F	PE 22F	EPS 21F	EPS 22F	ROE 21F	PBV 21F	yield 21F	Net Gear	CAGR 20-22
Company Name	Code	(HK\$)	(HK\$)	(%)	US\$m	(x)	(x)	(HK\$)	(HK\$)	(%)	(X)	(%)	(%)	(%)
AIA	1299 HK	85.00	125.0	47.1	131,823	18.6	16.6	4.6	5.1	10.8	1.9	1.7	Cash	22.6
Alibaba Group ^^	9988 HK	120.40	211.0	75.2	41,957	14.1	16.5	8.5	7.3	17.8	2.3	0.0	Cash	-8.6
Bank of China HK	2388 HK	31.10	32.0	2.9	42,156	12.6	11.0	2.5	2.8	8.8	1.1	4.0	Cash	6.4
China Merchants Bank	3968 HK	67.00	87.7	30.9	216,632	13.6	11.7	4.9	5.7	16.8	2.2	2.4	Cash	15.4
Country Garden #	2007 HK	6.46	12.5	92.9	19,172	3.3	3.0	1.9	2.2	18.8	0.6	8.6	50.6	9.8
Country Garden Services	6098 HK	48.95	75.6	54.5	21,124	30.1	21.5	1.6	2.3	16.0	3.4	0.8	Cash	38.1
China Longyuan Power	916 HK	16.48	21.0	27.4	16,979	17.0	14.9	1.0	1.1	10.6	1.7	1.2	132.9	24.1
Ping An Insurance	2318 HK	63.70	94.5	48.4	149,288	7.9	6.7	8.0	9.4	15.0	1.1	3.6	Cash	-0.7
Tencent^^	700 HK	479.00	671.0	40.1	590,053	22.6	19.3	21.2	24.9	21.0	4.3	0.4	Cash	10.0
China International Capital	3908 HK	21.25	29.0	36.5	19,867	9.0	7.5	2.4	2.8	12.9	1.1	2.2	18.3	25.1






FY20: FY21; FY21: FY22; ^^ Core profit and EPS

Source: Thomson Reuters

Closing price as at 4 Feb 2022

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Our top picks in alphabetical order

Top picks	Comments
AIA Group (1299 HK) 	<ul style="list-style-type: none"> • Well-positioned for the next expansion phase. Targeting 12 new provinces/municipalities by FY30F with an addressable market 4x larger than the current footprint, this offers a secular grand opportunity. • VONB to expand fivefold by FY30F. Additional VONB contribution from China expansion on a 10-year view is estimated to result in a fivefold and 27% increase in VONB and EV respectively. • Early signs of US bond yield upcycle in sight. The US 10-year bond yield has recovered to 1% and more importantly, the Treasury 10-year breakeven rate has reached the 2% level (inflation expectation). We believe bond yield is on the verge of turning to an upward cycle.
Alibaba Group Holding (9988 HK) 	<ul style="list-style-type: none"> • Largest e-commerce platform with marketplaces as a key driver. Alibaba continues investing in community marketplaces to deeper penetration into lower-tier cities via multiple consumer touch points in its ecosystem, like Taobao Deals and Taobao Grocery. • Cloud leader in China. Alibaba leads the China cloud services market with 39% of market share in 2020, which is expected to grow at c.43% CAGR during FY20-23. Alibaba Cloud has benefited from a larger client base and strong demand from merchants. • International e-commerce new engine driver. Alibaba sees accelerated growth to international e-commerce market, it is well positioned to capitalize on the Southeast Asia market by leveraging its existing supply chain and logistics networks
BOC Hong Kong (2388 HK) 	<ul style="list-style-type: none"> • Stabilising NIM with solid demand for financing. Given that HIBOR has been trading close to 0%, we see minimum downward pressure on NIM for BOCHK, while loan growth remains intact at 9% CAGR in FY21/22F. • Better asset quality than peers. As BOCHK has higher bargaining power to select good-quality borrowers, we expect its NPL ratio to continue to be better than peers'. • Benefitting from strong presence in GBA and ASEAN. With its broad branch network leveraging on its parent company BOC, BOCHK has a strong position in GBA and ASEAN which serve as the next revenue engine.
China Merchants Bank (3968 HK) 	<ul style="list-style-type: none"> • Wealth management products (WMP), the next growth driver. We believe CMB's wealth management arm could be the next engine to deliver fee income growth at 19.4% CAGR in FY21-23F. • Focusing on quality borrowers to keep asset quality benign, but NIM is under pressure. CMB will continue to focus on high-quality borrowers, albeit at lower loan yields given their higher bargaining power. Although this may put pressure on NIM, it will further strengthen CMB's asset quality. • High coverage ratio implies less provisioning pressure. The coverage ratio reached 440% in 1H21, the highest within our China bank coverage.
Country Garden Services Holdings (6098 HK) 	<ul style="list-style-type: none"> • Strongest earnings visibility and solid growth potential among peers. Core pillars to outperform the sector led by 1) Country Garden's (CG) scalable development pipeline; and 2) CGS's superior and proven capability on executing its growth strategy and controlling costs. • Solid progress in scale expansion as well as incubation of new businesses via M&A, with the acquisition of majority stakes in Languang Justbon (LG, 2606 HK), as well as majority interest in a scalable community media service provider and two industry-leading environmental sanitisation service providers as cases in point. • Upside risk to earnings if CGS successfully obtains the "High and New Tech Enterprise" status for FY20-22 once again. This will allow CGS to enjoy a preferential tax rate and potentially offer 16%/9% upside to our FY21F/FY22F earnings estimates

Source: DBS HK

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Our top picks in alphabetical order (cont'd)

Top picks	Comments
Country Garden (2007 HK) 	<ul style="list-style-type: none"> • Large valuation discount to peers is unwarranted. The company guided that land acquired in 2020 and 1H21 are expected to yield 20-25% gross margin (GPM) compared with reported GPM of c.19%. With up to 97% of CG's projects having been able to meet the target returns made at the time of land purchase, we believe CG's recognised GPM is likely to bottom out in 2022 and addresses market concerns on its profitability. Meanwhile, CG's efforts on raising operational efficiency and profit via refinements in its existing procedures and internal systems is starting to bear fruit, evidenced by its sector-leading cash collection rate, recovering presales margins, and solid SG&A cost ratio improvements in 1H21. Trading at 4.3x FY21F PE that is much lower than large-cap names' 5.1x with comparable gearing ratio, we believe CG's valuation is attractive. • Capable of capturing land acquisition opportunities in 2H21. With developers' land premiums to be capped at 40% of presales before they reach the "Green Camp" under the "Three Red Lines" policy, we believe those Tier 1/2 focused developers will face more restrictions in terms of securing more saleable resources. This may enable CG to stand out given its higher flexibility to capture land acquisition opportunities, both in high- and lower-tier cities.
China International Capital (3908 HK) 	<ul style="list-style-type: none"> • A-share IPO slowdown unlikely. Recent IPO application withdrawals will not slow down IPO pace given 250+ IPOs were approved by CSRC and 1,200+ applications in the line-up, creating strong growth momentum in 2H21, we expect the total investment banking revenue to grow 7%/11% y-o-y in FY21/22F. • Strong sponsorship to stand out. More regulated and stringent IPO process leads to a healthier market and favours experienced and professional sponsors like CICC given higher chances to obtain CSRC's approval. This is positive to CICC's investment banking fee income and we expect a 21%/12% y-o-y in FY21/22F. • Balanced business exposure achieved. The dividend from the merger of CISC started to pay off, with wealth management revenue contribution improving to c.30% of the total. The pre-existing network and client resources will help further drive CICC's wealth management fee income and brokerage commission income growth.
Ping An Insurance Group Co of China (2318 HK) 	<ul style="list-style-type: none"> • Expect VNB growth to recover from 2H22F onward with good agent channel reform progress. The sluggish new business growth in 9M21 and the product mix change may lead to a 13.7% y-o-y VNB decline in FY21F. Meanwhile, 1Q22F may also see slow growth due mainly to high base, before recovering in 2H22F. We expect VNB to post 4%/8% y-o-y growth in FY22/23F. • Building higher product strength. Effort in building the "insurance+medical+ecosystem" service helps to build product strength to drive new business growth. Expect first-year premium to start rebound from 2H22F and by 8% y-o-y in FY23F. • Concern over real estate investment risk alleviating. Positive progress in China Fortune Land debt restructuring may help alleviate market concern over Ping An's real estate investment risk. With a continuous increase in the production price (PPI), this also helps to support the 10-year bond yield.
Tencent (700 HK) 	<ul style="list-style-type: none"> • Monetisation of WeChat ecosystem. Tencent has 1.25bn WeChat monthly active users (MAU), representing c.90% of China's population. The represents long-term growth potential for its advertising and social media segments where a large user base is the key value proposition. • Leading online games player in China. Tencent has a strong game portfolio, which includes Honor of Kings and League of Legends. Tencent has the capability to launch top ranking games from time to time. Besides, this division is expanding its presence into overseas markets. • Cloud business to target enterprise segments. Tencent Cloud is the second largest player in China's cloud service market, which is expected to grow at c.43% CAGR during FY20-23. It is leveraging on its experience in the consumer market to expand into the enterprise market. FinTech will continue to benefit from higher payment frequency and wider usage.

Source: DBS HK

Monthly Market Pulse

Our top picks in alphabetical order (cont'd)

Top picks	Comments
China Longyuan Power Group Corp Ltd (916 HK) 	<ul style="list-style-type: none"> • Maintain BUY, TP raise to HK\$21 TP. China Longyuan Power (CLYP) is currently trading at 15x FY22F PE, and 1x PEG ratio (based on FY21-23F earnings CAGR of c.16%). We reckon the market has yet to recognize the positive developments from lower wind turbine prices and incremental revenue growth from wind infrastructure upgrades. • Wind turbine ASP cuts to help drive CAPEX savings. In Dec-21, Chinese wind turbine manufacturers began cutting their selling prices on the back of stiff competition. CLYP stands to directly benefit in the form of CAPEX savings as it expands its wind capacity. We estimate CLYP could see IRR enhancements of 1.5-2ppts on its new wind projects. • Wind farm upgrades to help top line growth. China is eyeing upgrades for its aging wind infrastructure. The NEA is mulling policy support to upgrade wind farms which have operated for >15 years. The new policy should help CLYP extract more power out of its existing facilities, helping to drive top-line growth. As CLYP is one of China's largest and oldest wind farm operators, it stands benefit disproportionately from future upgrades.

Source: DBS HK

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 7 Feb 2022 17:09:38 (HKT)

Dissemination Date: 7 Feb 2022 17:27:07 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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