

China Strategy

Growth target back on the table

- Chinese President Xi chaired the 11th meeting of the Central Financial and Economic Commission yesterday, which discussed strengthening infrastructure construction.
- Although there was no signal on changes in the COVID-19 prevention measures, the economic growth target seems to be back on the table, given the negative impact of the lockdowns on economic activity in Mar and Apr 22.
- It will be challenging to achieve of GDP growth target of 5.5% in 2022, but the Chinese government is expected to take action in May 22, with the impact emerging in 2H22.
- Infrastructure names (both conventional and new infrastructure) are expected to deliver decent results in 2022. Recent news flow may continue to be on the negative side, but for enterprising investors, it may be the time to revisit manufacturing names, which are expected to recover when production resumes.
- The analysis in this report is based on industry and macro figures and may differ from the views of individual analysts, in some cases.

Economic growth target back on the table

According to Chinese new reports, Chinese President Xi chaired the 11th meeting of the Central Financial and Economic Commission yesterday, which discussed strengthening infrastructure construction. As we discussed earlier, economic activity in China has been impacted by the COVID-19 outbreak since Mar 2022, and the industrial supply and logistics chains in China have been blocked and hit severely. This is most obvious in the automobile industry. Although there was no signal from the 11th meeting of the Central Financial and Economic Commission on changes in the COVID-19 prevention measures, the economic growth target seems to be back on the table, given the negative impact of the lockdowns on economic activity in Mar and Apr 22. *The Wall Street Journal* reported yesterday that President Xi told government officials to ensure that China's economic growth outpaces that of the US in 2022. At this stage, we can't verify the accuracy of the article released by *The Wall Street Journal*, but it also pointed to the conclusion that the Chinese government has to balance its zero-COVID policy and economic growth. It will be challenging to achieve the GDP growth target of 5.5% for 2022, but the Chinese government is expected to take action in May 22, and the impact is expected to emerge in 2H22. The market has been resetting its expectations of China's economic growth, given the events in Mar and Apr 22, which have continued to exert selling pressure in the markets. Any fine-tuning or adjustments to the current policy are expected to stabilize sentiment and expectations.

Message from 11th meeting of the Central Financial and Economic Commission

The meeting pointed out that it is necessary to strengthen the construction of network-based infrastructure, such as transportation, energy and water conservancy, and focus on networking, supplementing the network, strengthening the chain, and improving network efficiency. The meeting also reiterated: a) acceleration of the construction of the main framework of the national comprehensive three-dimensional transportation network; b) strengthening the planning and construction of coastal and inland river ports and waterways; and c) optimizing and upgrading the national network of water transportation facilities. China will develop a distributed smart grid, build a number of new green, low-carbon energy bases, and speed up the improvement of the oil and gas pipeline network. It will accelerate the construction of the main skeleton and arteries of the national water network, and the construction and modernization of key water sources, irrigation areas, and flood storage and detention areas. It is necessary to (1) strengthen the infrastructure construction of information, technology, logistics and other industries to upgrade, deploy and build a new generation of supercomputing, cloud computing, artificial intelligence platforms, broadband networks and other facilities; (2) promote the layout and construction of major scientific and technological infrastructure; (3) strengthen comprehensive transportation hubs, and collection and distribution points; (4) continue the construction and layout of a number of regional airports, general airports and cargo airports; (5) strengthen the construction of urban infrastructure, create high-quality living space, and promote the integration of urban agglomeration transportation; (6) build a convenient and efficient intercity railway network, and develop urban (suburban) railways and urban rail transit; (7) promote the construction of a comprehensive urban road transportation system; (8) promote the construction of underground comprehensive pipe corridors, strengthen the construction of urban flood control and drainage, sewage and garbage collection and treatment systems, and strengthen the construction of disaster prevention and mitigation infrastructure; (9) strengthen the construction of public health emergency facilities; (10) strengthen the construction of smart infrastructure such as smart roads, smart power supplies, and smart public transportation; (11) strengthen the construction of agricultural and rural infrastructure; (12) improve farmland water conservancy facilities and strengthen the construction of high- standard farmland;

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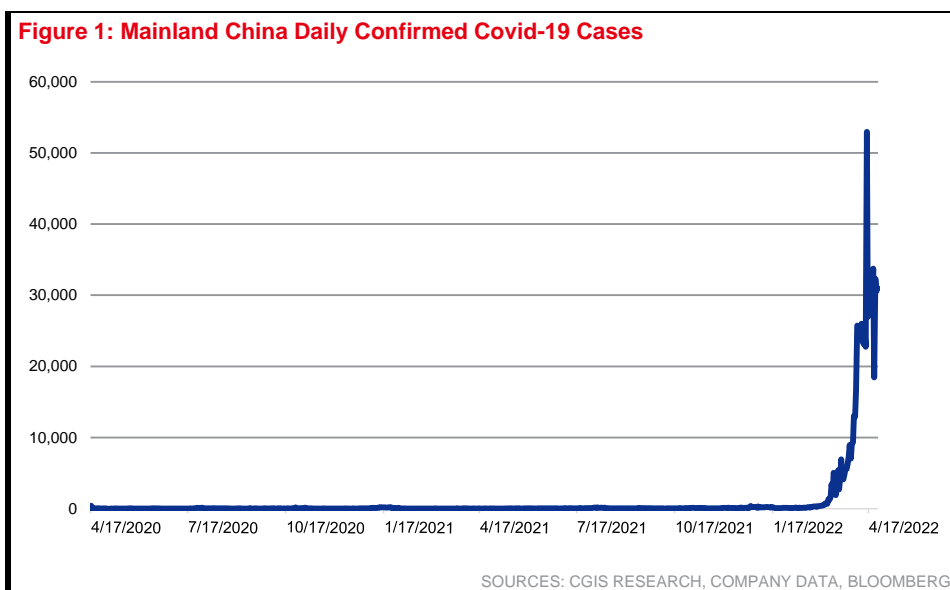
(13) steadily promote the construction of "Four Good Rural Roads" and improve the rural transportation system; (14) accelerate the construction of urban and rural cold chain logistics facilities; (15) implement large-scale water supply projects; (16) strengthen the construction of rural sewage and garbage collection and treatment facilities; (17) promote agricultural and rural modernization through infrastructure modernization; and (18) strengthen the construction of national security infrastructure and accelerate the capability to respond to extreme situations.

Our view

The impact of the lockdowns was factored into the macro figures in Mar 22. FAI yoy growth was 9.3% in Jan–Mar 22, dragged down by property FAI, but manufacturing FAI continued to outperform. In our view, the market is concerned about economic growth, since there has been no change in the zero COVID-19 measures. Infrastructure names are expected to deliver decent results in 2022. For enterprising investors, it may be the time to revisit manufacturing names, which are expected to recover after the resumption of production. We reiterate the view that FAI-related names in the conventional and new infrastructure-related segments are expected to report decent growth in 2022, such as builders, including CRG [0390.HK], CCC [1800.HK], CRC [1186.HK] and CSCI [3311.HK]; 5G (ZTE [0763.HK] and CCS [0552.HK]); power grids (Nari [600406.CH], Wasion Group [3393.HK] and Xuji [000400.CH]); and renewable energy (Xinyi Energy [3868.HK] and Skyworth [0751.HK]). toB and toG IT services names such as AsialInfo [1675.HK] and DC Holdings [0861.HK] are expected to benefit from the progression of projects.

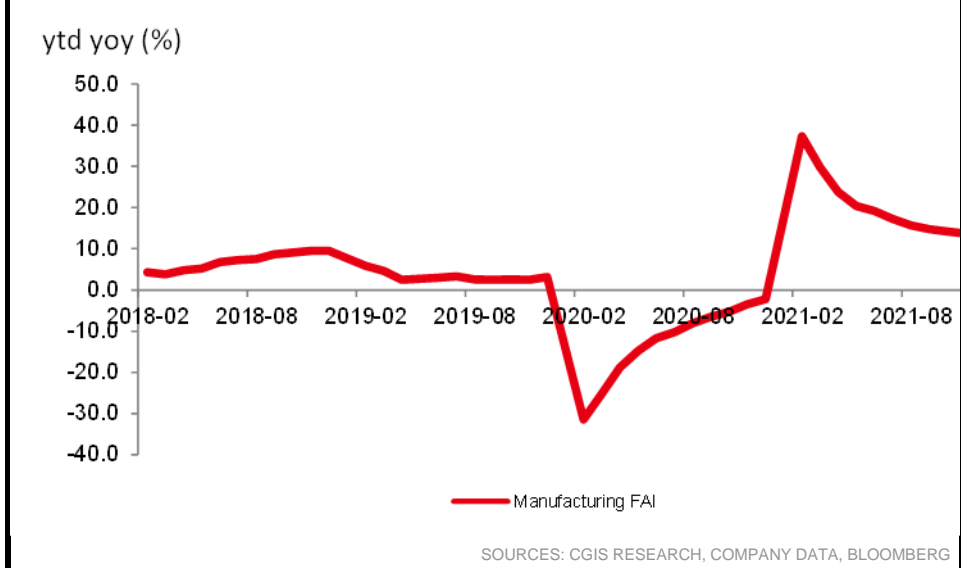
Although the COVID-19 prevention measures are still being tightly enforced, the resumption of work and production in the manufacturing industry is progressing in an orderly manner with the promotion of various parties. Some 70% of 666 key enterprises in Shanghai have resumed work and production. OEMs such as SAIC and Tesla have completed vehicles on the assembly line. CATL's Shanghai Lingang Plant has resumed production, and suppliers of related parts and components have resumed production one after another. The national and local government authorities have introduced a series of measures to ensure logistics and transportation and stabilize growth. For enterprising investors, it may be the time to revisit manufacturing names, which are expected to recover as production resumes. Equipment names in sectors such as robotics and machines (Estun [002747.CH], Precision Tsugami [1651.HK], Pentamaster [1665.HK] and Sany Heavy [0631.HK]) are expected to deliver decent results. Sentiment on component suppliers such as BOEV [0710.HK], Truly [0732.HK], YOFC [6869.HK] and FIT Hon Teng [6088.HK] will improve as production gradually resumes.

Figure 1: Mainland China Daily Confirmed Covid-19 Cases



SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 2: Manufacturing FAI (YTD yoy change)



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Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2021		
619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

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Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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