China / Hong Kong Market Focus

Monthly Market Pulse

DBS Group Research . Equity 6 June 2022

Policies support to turn the tide

- **Negatives should be priced in as overhangs persist but there is nothing new**
- **Weight of multiple policy supports on sectors will eventually turn around the overwhelming negative sentiment**
- **Low confidence amongst investors offer opportunity to revisit undervalued market**
- **Favour sectors that benefit from policy supports, overhang removal and rising interest rates. This includes renewable energy, internet and new economy, auto, and HK Banks.**

Policy supports directly address market concerns. Inflation, rising interest rates, supply chain disruptions, and COVID resurgences have left the HK market stagnant YTD. Despite attractive valuation of <10x FY22 P/E, investors' confidence remains low as the "wait and see" approach is the overwhelming consensus. whilst overhangs persist, they are nothing new, and the various policy supports introduced by the government looks to finally turn the tide. China's cabinet introduced 33 policies to support businesses, boost infrastructure investment and reduce supply chain disruptions.

Clear policy support on platform companies should finally remove overhang from the new economy/tech sector. While it is hard to predict the outcome and timing of the Ukraine conflict and the peak of inflation or COVID, uncertainties regarding new economy sector have certainly been priced in. Comments from high-ranking officials and resumption of games approval are clear signs that the key overhangs are removed. The market should focus back to the new economy to play the likely rebound, given its attractive valuation and signs of easing from regulatory developments. The sector is also relatively shielded from rising inflation, supply chain disruption, and China property crisis.

Favour sectors that benefit from policy support, overhang removal and rising interest rates. Given the low investor confidence, we believe sectors that offer more visibility will outperform. Policy supports for the renewable, autos and infrastructure sectors are obvious beneficiaries. We also argue that investors should pay attention to the new economy and tech sector as the regulatory crackdown is over. Finally, HK banks enjoy tailwinds as they are clear beneficiary of rising interest rates. We are cautiously optimistic for 2H, when overhangs should either ease or be fully digested by the market. We maintain our 12mth HSI target at 24,600, as the market is under-owned and ready for rebound.

HSI: 21,082

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Recommendation & valuation

Company Name	Code	Closing price (HK$)	Tgt Price (HK$)	FY22F PBV (x)	FY22F PER (x)	FY22F yield (%)
AIA	1299 HK	80.00	127.0	1.7	15.3	2.0
Bank of China HK	2388 HK	30.20	32.0	1.0	10.6	4.7
BYD Company	1211 HK	284.40	330.0	6.6	90.4	0.1
China Longyuan Power	916 HK	16.86	22.0	1.6	15.7	1.3
China Mengniu	2319 HK	39.85	53.4	3.1	21.6	1.2
JD.com Inc (HK)	9618 HK	221.40	400.0	1.5	75.9	4.3
Link REIT	823 HK	71.30	81.8	0.9	n.a.	4.3
Meituan Dianping	3690 HK	180.20	226.0	7.9	n.a.	0.0
Ping An Insurance	2318 HK	47.00	90.0	0.8	5.6	6.7
Tencent^^	700 HK	359.00	447.0	3.1	20.9	0.3

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

DBS
Live more, Bank less

Policy supports had shined a light on various sectors

The key overhangs in the market persist, but the worst have been factored in. We are starting to see signs of a change in sentiment, with the launching of various supportive policies. The inflationary environment, rising interest rates, geopolitical tensions, supply chain disruptions, and COVID resurgences have left the HK market stagnant YTD. Despite attractive valuation of <10x FY22 P/E, investors' confidence remains low as the "wait and see" approach is the overwhelming consensus. Whilst overhangs persist, they are nothing new, and the various policy supports introduced by the government looks to finally turn the tide. In the past couple of months, we have seen a series of proactive stimulus measures from Chinese official to tackle the market concerns.

China's cabinet introduced 33 policies to support businesses and consumer spending, include stimuli intended to aid companies that have buckled under the weight of the outbreaks and anti-COVID measures, along with tools to boost infrastructure investment and reduce supply chain disruptions. These benefit various industries and sectors including the auto, logistics, aviation, port, infrastructure, industrial, utility, and new economy sectors.

More effective policy supports have been introduced for economy recovery

Introduction of more monetary supports from the government and expect more to come. The PBoC expectedly announced a RRR cut of 25bps in Apr 22 for all financial institutions except for those already enjoy a 5% RRR. This is the first RRR cut in 2022, following the 50bps RRR cut in Dec 2021. This will release Rmb530bn of long-term liquidity. While the move is expected by the market, the magnitude is smaller than market expectations. We expect more loosening policy including further RRR and interest rate cut in the coming quarters for the 5.5% GDP growth target to be achieved.

The cut is positive to loan growth economy recovery when China faces challenges from Omicron spread, Ukraine crisis and a weak property market. This is also positive to China brokers as the liquidity injection is considered welcome by the equity market and helps to lift market sentiment/trading activities.

The largest cut since the introduction of LPR. The announced 15 bps cut marked the largest drop in the mortgage reference rate since the LPR mechanism was introduced in Aug 19, as compared to the market's original expectation of a 5-10bps cut. This, coupled with PBOC's 20bps cut in the floor mortgage rate for new first-time homebuyers, would bring the lowest possible rate for new first-time homebuyers to a record-low 4.25% according to our property team analysts. Minimum mortgage rate for 2nd time homebuyers would also be reduced to 5.05%.

Further support to the property physical market. The LPR cut is expected to have a more direct and meaningful impact to the affordability for both first- and second-time homebuyers. This, alongside the central government's moves to revive the onshore refinancing channel, marks an evident step-up in central government's tone and effort to support the physical market. These developments, with the continued rollout of local supportive policies in >100 cities, should help to relief the "wait-and-see" sentiment that is currently broadly shared among homebuyers. For banking sector, 5-year LPR cut will bring NIM pressure to banks, but as expected. The loan growth and lower deposits cost would offset some negative impacts on banks' profitability.

A more supportive stance towards the property sector. Early in May, The PBoC announced to cut the benchmark mortgage pricing rate for first home by 20bps, while mortgage rate of second home remained unchanged. The move represents a more supportive stance towards the property sector from central government level since this is a targeted policy to support the property market. This suggests a meaningful shift from central government towards the property market to keep the economy afloat again

Likely to see more easing from local governments The move may send a clearer signal for local governments to take more proactive steps to revive its local property markets based on its market conditions till more evidence of stabilization in the physical market

Property sector polices (Apr 2022)

Date	Type	City/ Province	Details
5-Apr-22	Mortgage, resales restriction	Lanzhou	Relax resale restriction to 3 years, cut down payment ratio from 30/50% to 20/30% for first/second homes
11-Apr-22	Resale restriction	Suzhou	Relax resale restriction from 5 years to 3 years for secondary properties
11-Apr-22	Down payment ratio	Ziyang	Lower down payment ratio 10ppt to 20/30% for first/second homes
12-Apr-22	Home purchase restriction	Lishui, Luhe	Allow non-local residents to purchase one commodity property without requirement of providing tax/society security insurance
12-Apr-22	HPF	Tianjin	Allow homebuyers, spouses and their parents to purchase property with housing provident fund
13-Apr-22	Subsidy	Huaibei	Provide Rmb600 per sm subsidy for first home purchase and Rmb400 per sm for second home
14-Apr-22	Down payment ratio, resale restriction	Yichang	Lift housing restriction policy and cut down payment ratio to 20%/30% for first/second homes
15-Apr-22	RRR cut	National	PBoC annoucned 25bps RRR cut and inject Rmb530bn long-term capital into the financial system
20-Apr-22	Hukou	Changsha	Allow university graduates to enjoy home-purchasing eligibility
24-Apr-22	Subsidy	Nantong	Provide max 2% of property price subsidy for employed residents with 12 1months social security record
24-Apr-22	HPF	Yantai	Raise HPF amount to Rmb800K for master postgraduates for buying first property
25-Apr-22	HPF	Wuxi	Raise HPF amount to Rmb500K for first-home buyers and Rmb1m for second/third-child families
26-Apr-22	Home purchase restriction	Foshan	Lift home purchase restriction for buyers with more than 5 year of ownerships
29-Apr-22	Subsidy, HPF, down payment ratio	Zhuzhou	Provide 50% deed tax subsidy for new flats and max Rmb50k subsidy for graduates for home purchases; raise HPF quota; lower down payment ratio from 50% to 30% for secondary flats
29-Apr-22	Down payment ratio, HPF	Luoyang	Lower down payment to 20% for first-home buyers and raise HPF loan quota to Rmb550k for individual and Rmb650k for married couples and talents
30-Apr-22	Subsidy, down payment ratio	Shangrao	Lower down payment ratio 10ppt to 20/30% for first/second homes; Provide subsidy of Rmb300/sm for first time buyers and Rmb200/sm for upgraders who bought home in 2022
30-Apr-22	Mortgage	Dazhou	Two/third-child families can be treated as first-time buyers
30-Apr-22	Home purchase restriction	Huizhou	Lift home purchase restriction in the area of Huiyang and Daya Bay

Source: DBS HK

Property sector polices (May 2022)

Date	Type	City/ Province	Details
1-May-22	VAT	Wuxi	Lower personal housing transaction VAT exemption period from 5 to 2 years
3-May-22	Land auction deposit ratio	Xuzhou	Lower land auction deposit ratio from 100% to 50% and allow the outstanding land premium to be paid no later than 6 months
6-May-22	HPF	Zhenjiang	Lower down payment ratio of HPF to 40% for those who have settled all outstanding HPF
10-May-22	HPF, down payment ratio	Jingde	Raise HPF loan quota to Rmb500k, and lower down payment to 20% for first homes
11-May-22	Rental housing	Changsha	Properties registered on the rental housing platform and operated for >10 years are not treated as houshold ownership
11-May-22	Down payment ratio, land auction deposits, subsidy	Jiyuan	Lower down payment ratio to 20% for first or multiple homes, provides subsidy Rmb6k for bachelor degree for home purchases; lower the land auction deposits to 20%
11-May-22	HPF, down payment ratio	Luoyang	Raise HPF loan quota to Rmb450k for individual and Rmb550k for married couples, and lower down payment to 20% for first homes
11-May-22	Subsidy	Liangxi, Wuxi	Provide subsidy for talents max at Rmb10m (subject to talent classification)
13-May-22	HPF	Zhoushan	Raise HPF mortgage quota to Rmb600k for first home and Rmb400k for second homes
13-May-22	HPF	Putien	Lower down payment ratio of HPF from 50% to 40% and raise HPF mortgage quota from Rmb550k to Rmb600k
13-May-22	Home purchase restriction	Nanjing	Allow multi-child households to purchase an extra property and enjoy preferential mortgage rate
13-May-22	HPF	Mianyang	Raise HPF mortgage quota from Rmb600k to Rmb700k for married couples
14-May-22	Home purchase restriction, resale restriction	Dongguan	Allow multi-child households to purchase an extra property and enjoy preferential mortgage rate; Allow commodity properties to be resold after 2 years
15-May-22	Down payment ratio	Haikou	Lower down payment ratio to 50% for secondary homes and 30% for first home buyers
15-May-22	Mortgage rate	PBoC	Cut benchmark mortgage pricing rate for first home by 20bps (4.6%-20bps)
16-May-22	Home purchase restriction	Hangzhou	Families with >2 children can purchase 1 additional home
16-May-22	Home purchase restriction	Wuxi	Families with >2 children or elderly people can purchase 1 additional home
16-May-22	Down payment	Taizhou	Cut mortgage down payment ratio from 30% to 20% for first home and from 40% to 30% for second home
17-May-22	Home resale restriction	Taizhou	Ease resale restriction from 2 year to 1 year
17-May-22	Subsidy	Taizhou	50% deed tax subsidy for home purchased from May to Dec 2022 by college graduates
19-May-22	Down payment	Changzhou	Cut second home mortgage down payment ratio from 60% to 30%
20-May-22	Home purchase restriction	Liaoning	Lift purchase restriction for talents; lift 12-mth social security requirement for new home purchased in restricted area
20-May-22	HPF	Guizhou	Raised HPF mortgage quota to Rmb500k and cut down payment ratio to 30%
23-May-22	Home purchase restriction	Jinan	Multi-child families can purchase 1 additional home; Down payment ratio was cut to 30% for second home

Source: DBS HK

Property sector polices (May 2022) (con't)

Date	Type	City/ Province	Details
24-May-22	Down payment	Zhenjiang	Cut mortgage down payment ratio to 20%; Homeowners without outstanding mortgage are eligible to 30% down payment ratio
24-May-22	Mortgage rate, down payment	Tangshan	Cut mortgage rate to 4.25% for first time and 5.05% for second home; Cut mortgage down payment to 20%
24-May-22	HPF, down payment	Anyang	Cut mortgage down payment ratio to 20%; raised HPF mortgage quota from Rmb600k to Rmb700k
25-May-22	Subsidy	Liuzhou	Provide Rmb6000 subsidy for property with <90sm or Rmb10000 for properties >90sm
26-May-22	Rental relief	Hefei	Rent free is granted to all SOE-owned properties from Feb to Jun
31-May-22	Home purchase restriction, HPF, presale proceed control	Ningbo	Raised HPF mortgage for first home from Rmb600k to Rmb1m; multi-child families can purchase 1 additional home; allow developers to pay deposit of land auction using presale proceed
31-May-22	Home purchase restriction, home resale restriction, HPF	Chengdu	Multi-child families can purchase 1 additional home; properties are eligible for resale after 3 years; cut HPF down payment ratio 10% and raise HPF mortgage quota to Rmb800K

Source: DBS HK

The 33 stimulus measures

China releases 33 new stimulus measures to boost economy. China's State Council released a set of 33 measures in a document titled Policy Measure Package to Stabilize the Economy. The series of measures are covering a wide range of mechanisms aimed at supporting businesses impacted by the COVID-19 pandemic. Many of the stimulus policies proposed in the policy package are expansions of previous support measures, such as tax relief, fee reductions, and subsidies, while also proposing measures for stimulating the economy through increased investment and infrastructure spending and guaranteeing the supply of basic resources.

Highlight of the key measures of the 33 supportive policies and its direct beneficiary sectors

Market overhangs	Measures	Directly benefitted sector
China property debt crisis/ slowing economy	• The government will start construction of water conservancy facilities, transportation facilities, and residential community renovation projects, and guide banks to provide long-term loans	Infrastructure
	• The government will expand the previously announced cash subsidies so that more troubled companies can retain employees. The plan will apply to all companies that participate in the official unemployment insurance programme and encounter difficulties; not just small businesses previously covered	
	• Call on local governments to provide greater support to small businesses, including subsidies for utility costs and rent	
	• A goal to increase the National Financing Guarantee Fund's re-guarantee business by over CNY1tn this year. The plan is mainly used to support the financing of small enterprises	
	• A plan to expand value-added tax refunds to more industries, which will increase tax refunds by more than CNY140bn (US$21bn) and increase this year's overall tax relief from the CNY2.5tn originally announced in March to CNY2.64tn	
	• Promise to provide incentives, such as social insurance subsidies for small businesses that hire university graduates	
	• The government plans to basically use all the funds from this year's special local government bonds by the end of August to support a wider range of projects, including new infrastructure such as high tech and 5G	Hardware & equipment, 5G related
	• The central bank will double the size of the existing tool that provides funds to banks to encourage lending to small businesses	
	• Promise to support banks to defer principal and interest payments within this year for small business loans and truckers' car loans, as well as mortgages and consumer loans for individuals experiencing temporary difficulties	
	• The government will relax car purchase restrictions and reduce purchase taxes on some passenger cars by CNY60bn	Automobile
	• A promise to support the issuance of railway construction bonds worth CNY300bn	Infrastructure
Regulatory tightening	• Commit to encourage the overseas listing of internet platform companies in accordance with the law and compliance	Platform new economy
	• A pledge to fine-tune policies to help companies resume production and improve services for companies included on "white lists"; companies on this list are allowed to operate during COVID outbreaks	

Source: DBS HK

Tackling market concerns and overhangs (cont…)

Market overhangs	Measures	Directly benefitted sector
COVID-19 resurgence and supply chain disruptions	• The government will extend a policy that allows small businesses and companies in five industries affected by the pandemic to postpone payments for some social insurance plans until the end of this year. The policy will also be expanded to cover more struggling industries, resulting in CNY320bn in deferred payments in 2022	
	• A call to defer principal and interest payments for commercial truck loans of a value of CNY90bn extended by SOE carmakers	Automobile
	• Promise to shorten the payment period of commercial acceptance bills of exchange from one year to six months, which will prompt large companies that issue such bills to pay suppliers faster	
	• Promise to maintain smooth freight logistics, remove restrictions on truck movement in areas deemed to be at low risk of the pandemic, and eliminate all unreasonable fees and requirements, such as height restrictions	Logistics, port, & toll roads
	• Drivers of passenger and cargo vehicles will be able to have free access to COVID testing when travelling to other regions	Logistics, port, & toll roads
	• Add CNY150bn in emergency loans for airlines to support the industry in issuing CNY200bn in bonds	Aviation
	• A plan to increase domestic and international passenger flights in an orderly manner, and roll out measures to facilitate the travel of foreign companies' employees	Airlines
	• Increase domestic and international passenger flights in an orderly manner, and introduce measures to facilitate the travel of employees of foreign companies	Airlines
	• Call to start a new round of rural road construction projects	Infrastructure
Inflationary environment	• Promise to speed up coal mine operation procedures to ensure supply, and fine-tune the policy of approving coal mines to increase production capacity	Industrials, energy intensive
	• A plan to start constructing a batch of new hydropower and coal-fired power projects	Utilities
	• A plan to link social welfare standards to price inflation if circumstances require it	Industrials, energy intensive

Source: DBS HK

Industries including automobile, aviation, and logistics are the key industries being supported. Logistics had been taken serious damage from the recent lockdown in China due to the outbreak of COVID-19. Regional lockdowns and restrictions add pressure to various industries. The policy package looks to boost the industry by increasing investment in logistics infrastructure.

The government will invest in supporting national key "hub cities", and improve the cargo distribution, warehousing, transit transportation, and emergency support capabilities of the hubs, service industry development funds to support the acceleration of the construction of the agricultural product supply chain system and support county-level commercial construction plans.

For aviation, the government will also increase the number of emergency loans for civil aviation, and issue bonds for the industry.

China also aims to boost China's car sales. The government are lifting the new vehicle purchase restrictions and require regions that have already implemented purchase restrictions to increase vehicle quotas and relax requirements for car buyers. The government also will investigate support policies for the reduction of vehicle purchase tax for passenger vehicles below a certain displacement by the end of the year. So we can expect more supportive policies to come.

Shanghai lifts lockdown from June 1

Introducing 50 new support measures for businesses in Shanghai. After a nearly two-month of prolonged shutdown, Shanghai will resume work and production starting from June 1, 2022. Shanghai authorities have proposed a series of policies to stabilize foreign investment, promote consumption, and increase investment. The supports are similar to the 33 measures from Chinese official. These areas included the below.

1. Deferment of fund and tax payments,
2. Expanding the scope of rent reduction and exemption policies,
3. Measures for reducing operating costs,
4. Tax rebates and reduction measures,
5. Subsidies for maintaining or increasing headcount and training staff,
6. Measures for resumption of work and production,
7. Ensuring the smooth flow of domestic and international logistic channels,
8. Measures for supporting foreign investment and foreign trade
9. Measures for boosting consumption and accelerating recovery,
10. Boosting consumption in culture, tourism, and sports industries,
11. Measures for boosting investment

Stepping up for platform economy

Online game license approval resumed after eight months of suspension. The National Press and Publication Administration (NPPA) approved the first batch of 45 online game licenses in mid-April this year since it suspended game license approval in July 2021. At the time, this measure was introduced to push game developers to manage minors' time spent playing online games. The first batch of approved titles did not include games from Tencent, CMGE, or NetEase. However, this has eased market concerns about the mobile game segment and raised hopes that approvals will occur more frequently.

Government stepping up on platform economy. Last month, at a time when the COVID-19 pandemic situation in the mainland was heating up, Chinese officials held meetings to discuss economic strategies. President Xi Jinping presided over the latest meeting of the politburo of the Communist Party of China to analyse and study the economic situation. After the meeting, he reiterated that he insists on dynamic zero-COVID policy and that macro-policy adjustments must also be increased to ensure that the economy operates within a reasonable range.

Regarding industries that are deeply affected by regulatory news, such as China property and the platform economy, the meeting discussed the need to promote healthy development, complete the special rectification, normalise supervision, and introduce specific measures to support the standardised development of the platform economy.

For the property market, the meeting discussed how it is necessary to effectively control key risks, ensure that no systemic risks occur, adhere to the position of housing without speculation, support local areas to improve real estate policies from local realties, support rigid and improved living needs, and improve the supervision of pre-sale funds for commercial housing. In the capital market, it is necessary to respond to market concerns in a timely manner, steadily promote the reform of the stock issuance registration system, actively introduce long-term investors, and maintain the smooth operation of the capital market.

Vice Premier Liu He spoke in support of promoting the platform economy. On 17 May, the Chinese People's Political Consultative Conference (CPPCC) national committee held a special meeting on China's digital economy development. Vice Premier Liu delivered a speech pointing out that it supports the sustainable and healthy development of the platform economy and the private economy, handles government and market relations well, and encourages digital enterprises to list in domestic and foreign capital markets.

Liu said that the global digital economy is showing new characteristics such as intelligence, quantification, and cross-border integration. The country must strive to adapt to the all-round changes brought about by the digital economy and fight hard for key core technologies to promote competition with openness and innovation.

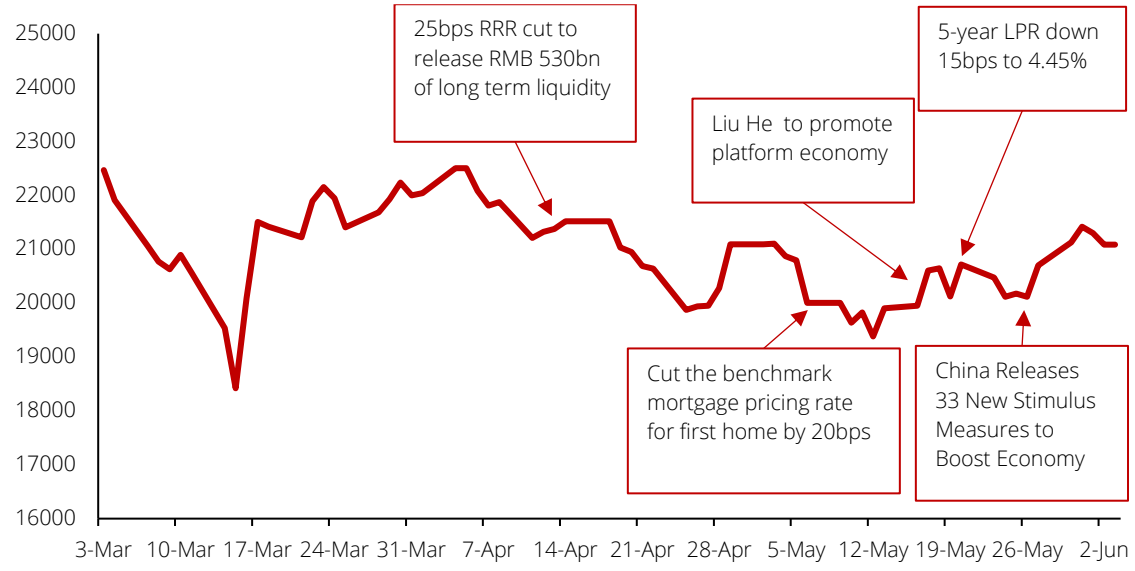
They expect the platform economy to remain a vital contributor to economic growth as well as the economy's rising profile on the global stage, on the back of government oversight on a regular basis.

Hinting at tech companies stepping out of regulatory actions. The two supportive statements given from the most powerful people in China – President Xi as well as Vice Premier Liu – could be a hint that the tech sector is stepping out of the regulatory tightening and that further regulatory action should be limited. The sector has been at the centre of a regulatory whirlwind since late 2020. The momentous meeting of the CPPCC national committee reassures domestic platform firms by voicing optimism on a more predictable policy environment.

Regulatory strengthening should end with the government extending its support. Regulatory strengthening since the end of 2020 had put the brakes on fintech giant Ant Group's dual IPOs in Shanghai and Hong Kong. Regulatory developments led to a record in anti-trust fines imposed for Alibaba while Didi was hit with an unprecedented cybersecurity probe, a corrective step designed to reformulate the practices of some freewheeling platforms. Other giants in the new economy such as Meituan and Tencent were also fined during the period. Fines and regulatory developments seem to have mulled in 2Q, as the Chinese economy is devastated by the Omicron variant outbreak in China. Following the supportive tone from the country's top leader, government measures to boost the healthy development of platform firms are expected to be in the pipeline.

Clear policy support on platform companies should finally remove overhang from the new economy/tech sector. While it is hard to predict the outcome and timing of the Ukraine conflict as well as whether inflation or COVID has peaked, we think the uncertainties regarding the new economy sector have certainly been priced in. Comments from high-ranking officials and resumption of games approval are clear signs that the key overhangs are removed. The market should shift its focus back to the new economy to play the likely rebound, given its attractive valuation and signs shown of easing from regulatory developments. The sector is also relatively shielded from rising inflation, supply chain disruption, and the China property crisis. .

HSI & key events



Source: DBS HK, Thomson Reuters

Valuations are attractive

Global markets are universally bearish. While China suffers from a slowing economy, regulatory developments, and property default risk, global markets suffer from rising interest rates and a high inflationary environment as well as the Ukraine war. S&P 500 and NASDAQ dropped 17.7% and 27%, respectively. China A-shares market such as the Shanghai and Shenzhen composite indices dropped 15.2% and 23.35%, respectively. With Hong Kong reopening post lockdowns, dine-in services having normalised, and lowered daily confirmed cases of COVID-19, the Hang Seng Index has outperformed the China and US markets. This has supported our view that HK is relatively less sensitive to interest rate concerns.

There is no doubt that the global markets are universally bearish. The risk averse mindset is set in global investors' heads. Although the valuation gap between the US, China, and the HSI narrows, the HK market breaking through the technical resistance level could produce a meaningful rebound, given the supportive policies and that more is expected to come.

Implication for the market.

Sector preference to favour sectors that benefit from policy support, overhang removal and rising interest rates. To conclude, the HK market is at a risk averse stage, given various market uncertainties that keep the risk appetite low. However, given the various forms of support from the government to the domestic economy, we believe sectors that offer more visibility will outperform. Policy supports for the renewable, autos and infrastructure sectors are obvious beneficiaries. We think the market should shift its focus back to the new economy to play the likely rebound, given its attractive valuation and signs shown of easing from regulatory developments. Finally, HK banks enjoy tailwinds as they are clear beneficiary of rising interest rates. We are cautiously optimistic for 2H, when overhangs should either ease or be fully digested by the market. We maintain our 12mth HSI target at 24,600, as the market is under-owned and ready for rebound

Hang Seng Index 50,100, & 250-day avg. and RSI

	Index performance (%)			Price to earnings (x)		Earnings growth	
Indices	3M	6M	YTD	2022	2023	2022	2023
HANG SENG INDEX	-17.2	-19.6	-13.9	10.3	9	-13.8%	14.3%
HANG SENG CHINA ENT INDX	-19.3	-23.2	-16.3	8.5	7.5	-9.4%	12.9%
DOW JONES INDUS. AVG	-7.6	-11.5	-13.3	16.5	15	6.1%	10.6%
S&P 500 INDEX	-9.8	-16.5	-17.7	17.3	15.8	13.4%	9.4%
NASDAQ COMPOSITE	-15.7	-28.9	-27	23.9	20	37.9%	19.0%
NIKKEI 225	-3.3	-11.8	-8.9	14.6	13.7	1.6%	6.5%
SHANGHAI SE COMPOSITE	-11.6	-13.3	-15.2	10.3	8.8	20.9%	16.9%
SHENZHEN SE COMPOSITE IX	-16	-22	-23.3	17	13.5	97.7%	25.3%
TAIWAN TAIEX INDEX	-12.4	-10.4	-12.3	11.1	11.3	8.2%	-1.5%
KOSPI INDEX	-5.9	-13.1	-13.3	10.5	9.2	-11.0%	13.3%
S&P BSE SENSEX INDEX	-6.3	-9.1	-6.9	19.4	16.7	20.1%	16.5%
Straits Times Index STI	-7	-1.3	2.1	12.6	11	10.5%	14.6%
FTSE Bursa Malaysia KLCI	-3.4	1.5	-1.2	14.8	13.3	0.2%	11.0%
STOCK EXCH OF THAI INDEX	-5.4	-1.5	-2.2	16.7	15.1	2.1%	10.7%
JAKARTA COMPOSITE INDEX	-1.4	1.1	3.2	17.2	15.9	21.1%	7.9%
FTSE 100 INDEX	-1	3	0.7	10.3	10.2	40.9%	1.4%
CAC 40 INDEX	-8.3	-10.7	-11.2	11.4	11.2	9.9%	1.5%
DAX INDEX	-6.9	-13.3	-11.8	11.7	10.8	12.0%	7.6%
BRAZIL IBOVESPA INDEX	-5.9	3.1	1.4	6.4	6.6	9.3%	-3.0%
MOEX Russia Index	-27.9	-39.1	-35.4	3.1	3.3	38.5%	-6.6%

Source: Bloomberg Finance LP

Monthly market review

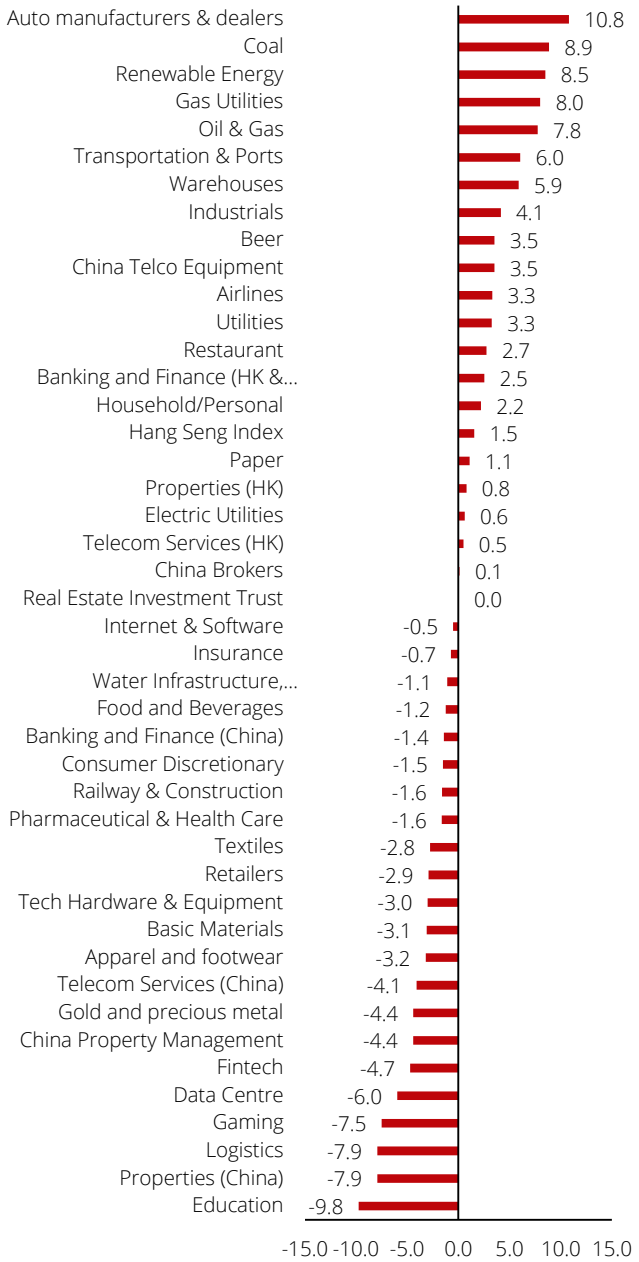
Hang Seng Index increased 1.5% thanks to the supportive policies launched by Chinese government. Heavy weighted constituents like Alibaba (9988 HK) and Tencent (700 HK) dropped 5.7% and 4% in May. Others like AIA (1299 HK), Meituan (3690 HK) and HSBC (5 HK) gained 4.1%, 8.7% and 7.3% respectively. The two top performed HSI constituents are Geely Auto (175 HK) and BYD (1211 HK), gaining 20.6% and 18.7% in May. Chinese State Council has recommended series of support to stimulate the vehicle market, including vehicle purchase tax exemption worth some Rmb60bn and financial loans of Rmb90bn to automobile companies, and allowing greater flexibility in their repayment schedule.

The worst performing index stock was Sands China (1928 HK), dropped 15% in May. Chinese Officials said that individuals are not encouraged to travel abroad, visit friends and friends, and do not leave the country unless it is necessary or urgent. Peer Galaxy Entertainment (27 HK) also dropped 8.1% during the period.

Auto manufacturers & dealers was the best performing sector, under our DBS coverage, thanks to the State Council launched series to supports to stimulate the vehicle market. Energy related sectors like Coal, Gas Utilities and Oil & Gas were also outperforming thanks to the oil price rallied. Renewable energy outperformed in May thanks to the policy support. China's National Development and Reform Commission (NDRC) and National Energy Administration (NEA) published the implementation plan prompting the next-generation and high-quality new energy development. China aims for an installed wind and solar power capacity of over 1.2 billion kWh by 2030, with faster buildout of a clean, low-carbon, safe and highly-efficient energy system.

Education was the worst performing sector as the Chinese official clarified that the application for the filing of the online training and education mobile application science will no longer be accepted, and those that have been filed will be revoked. Wisdom Education (6068 HK) was the worst performing among all education listcos and dropped 30% in May.

Sector performance, May



Source: DBS HK, Bloomberg Finance LP

Strategist view summary

Sector	Top picks	Change in top pick
Positive		
China automobile	BYD (1211 HK)	
China banks	PSBC (1658 HK)	
China insurers	Ping An (2318 HK), AIA (1299 HK)	
Food and beverages (Upgraded from Neutral)	China Mengniu (2319 HK), Yili (600887 CH)	
HK banks	BOCHK (2388 HK)	
HK landlords & REITs	Link REIT (823 HK), Fortune REIT (778 HK)	
Internet	JD.com (9618 HK)	
Oil and gas	CNOOC (883 HK), PetroChina (857 HK)	Added PetroChina
Ports and toll roads	Yuexiu Transport Infrastructure (1052 HK)	
Renewable energy	China Longyuan Power (916 HK)	Removed Flat Glass Group (6865 HK)
Neutral		
Aviation	BOC Aviation (2588 HK), China Southern (1055 HK)	
China brokers	CICC (3908 HK), GF (1776 HK)	
China materials	NA	Removed Conch (914 HK)
China property (Downgraded from Positive)	COGO (81 HK), COLI (688 HK), Longfor (960 HK), CR Land (1109 HK), Yuexiu (123 HK)	
China property management (Downgraded from Positive)	Country Garden Service (6098 HK), CR MixC (1209 HK), Poly Service (6049 HK), China Overseas Property (2669 HK)	
China telco equipment	ZTE (763 HK)	
China telecom carriers	China Telecom (728 HK)	
Consumer – retailing	Prada (1913 HK)	
Environmental service	China Everbright Water (1857 HK)	
Gas utilities	CR Gas (1193 HK), China Gas (384 HK)	Replace ENN (2688 HK) with China Gas
HK developers	SHKP (16 HK), CK Asset Holdings (1113 HK)	Added CK Asset Holding
HK telecom	HKBN (1310 HK)	
Restaurants and catering	Yum China (9987 HK)	
Tech hardware	Hua Hong SEMI (1347 HK), ASM Pacific (522 HK)	Removed Q TECH (1478 HK)
Textile	Texhong textile (2678 HK)	
Negative		
Macau gaming	Galaxy (27 HK), SJM (880 HK), Sands China (1928 HK)	
Pharmaceutical and healthcare	CR Medical (1515 HK), MicroTech (2235 HK)	

Source: DBS HK

Positive

China automobile

Total vehicle market sales plunged 47% y-o-y in April, as expected. The worst hit were Jilin and Shanghai, at over 90% each for new vehicle registrations. The central government has announced measures to support the Chinese vehicle market, including vehicle purchase tax cuts worth some Rmb60bn, extension of capital and interest for six months for automobile manufacturers' loans worth Rmb90bn, promotion of NEV to lower tier cities, relaxation of auto sales restrictions, and subsidies. Several local governments have introduced supportive measures, in line with the central government's initiatives. The latest is from Shanghai, where the government announced an NEV subsidy of Rmb10,000 and the issuance of an additional 40,000 license plates to support vehicle sales.

The various supportive measures should be a positive for the vehicle market in 2H22. We are maintaining our view that 2Q22 is to be a challenging period for Chinese automobile companies.

Top pick: BYD (1211 HK)

China insurers

The noticeable negative growth in VNB in 1H22F, due mainly to continuous life agent channel reform, a high y-o-y base, and impacts of the product mix shift on the VNB margin, is highly expected by the market and much of the negative is in the price. Looking forward, we expect to see a VNB growth recovery h-o-h as we move into 2H22F, and are likely to see mildly positive VNB growth in FY23F, as the life agent headcount cut should gradually stabilise. The negative spread between China and US 10-year bond yields, with the acceleration of the US interest rate hikes, should provide downside support to China's yield curve. This is positive for China insurers, given their business is highly correlated with yield curve movement. With the sector trading at 2x standard deviations (SD) below its five-year P/EV mean, we believe the current level offers a good opportunity for long-term investors to accumulate shares of China insurers. We also see regional insurers with a high VIF correlation with US bond yields to benefit from US interest rate hikes.

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

China banks

The 5-LPR dropped by 15bps to 4.45% in May while the one-yr LPR was unchanged, following disappointing social financing data in Apr. This reflects the government's encouragement for more long-term debt, including mortgages. In order to continue to support China's economic recovery for it to reach the pre-COVID level, we expect further loosening of the monetary policy in 2022, to inject funding into the banking system and direct liquidity to the sectors that are aligned with the policy direction. Our house view is there could be another 20bps cut in the one-yr LPR, to 3.5%, by end-2022. This should be able to support an c.11.6% y-o-y growth in loans, in our view. China banks will continue to see NIM downward pressure and those with higher retail exposure and better asset/liability structure would have a better position.

Asset quality was in general stable in 1Q21, while the NPL ratio in the property sector held its rising trend. We expect the negative impact on asset quality in 2Q22 to be rather short term and maintain an overall positive view for 2022. We see banks with higher exposure to SMEs as being more vulnerable.

Top picks: PSBC (1658 HK)

Food and beverages

Commodity prices peaked in late March and are maintained at high levels as the Russia-Ukraine crisis remains unresolved. Higher material costs are likely to spillover into 2H22, and this is expected to continue to place margin pressure on food processors including for instant noodles and RTD beverages. On the flip side, sales momentum has been largely decent for instant noodles and dairy products due to lockdowns, which have encouraged consumers to stock up on food supplies. With the tough operating environment and repeated lockdowns, food staples should likely remain resilient. Our preference remains with market leaders with bargaining power on the upstream, which include China Mengniu (2319 HK) and Yili (600887.CH).

Top picks: China Mengniu (2319 HK), Yili (600887.CH)

HK banks

The US is entering an interest rate upward cycle and we expect this should benefit HK banks' NIM and net interest income. We expect NIM to sequentially recover from 2022 and onward, helped by the US interest upward cycle. Our house view expects the 1M-HIBOR to reach 2.25% by end-2022. Also, business activities will signal better recovery ahead with the reopening of the Hong Kong economy. With improving investment demand, we expect loans to grow 6% y-o-y in FY22F. 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 from adjustments in ECL assumptions.

We expect a sufficient capital level and better earnings should support HK banks' valuation to re-rate from c.-1SD below its five-year avg to its five-year avg PB multiple.

Top pick: BOCHK (2388 HK)

Internet

(1) China's e-commerce segment growth will be backend loaded in 2022; we expect the strict lockdown measures in several regions since Mar to negatively impact 2Q growth due to disruptions to supplies and logistics. China retail sales declined 11.1% y-o-y in Apr, compared with a 3.5% decline in Mar 2022. We believe e-commerce players with focus on apparel/cosmetics are more impacted than those focused on groceries and 3C products. We prefer JD for its category mix and self-run fulfilment capability. Overall, smaller players will experience stronger growth through market share gain, after the new anti-trust rule (e.g., no more "2 choose 1" practice) last year. E-commerce players will invest and focus on high-growth segments, including e-grocery and fresh grocery. In particular, fresh grocery 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. As players became more rational about expansion, the operating loss on CGB started to narrow since 1Q22

(2) Online game growth is expected to gradually pick up in 2Q, as game license approvals resumed in Apr after eight months of suspension. Chinese mobile game revenue only increased by 2.7% y-o-y in 1Q22 due to a lack of new games, according to CNG. Game developers will focus on overseas expansion.

(3) Online advertising is one of the key revenue contributors of internet companies. The segment's growth will remain 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 games, and insurance.

(4) Short videos' operating metrics such as MAU, DAU, and duration of usage will continue its strong momentum. However, a potential clamp down on live streaming – 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 business. We expect a resilient performance in 2Q, considering solid user growth and more time spent on short videos amid the COVID resurgence.

(5) Online travel is expected to see weaker performance in 2Q, given the current COVID resurgence situation. Border reopening remains uncertain in the short term. Players focusing on domestic travel and expansion in lower tier cities have higher potential to outperform.

Top pick: JD.com (9618 HK)

HK landlords & REITs

In 1Q22, the office market showed signs of stabilisation. However, the prolonged border closure makes office inspections difficult. New office supply will come on stream starting from 2022. Thus far, pre-leasing progress has been slow.

Dampened by the fifth wave of the pandemic, overall retail sales in Hong Kong declined 7.6% in 1Q22 with the F&B sector taking the hardest hit. A new round of rental concessions seems inevitable but it is expected to be fewer compared to 2020. The gradual easing of social distancing measures since Apr 22 has released pent-up demand for dining out and consumption. This should underpin retail market recovery, which should be further bolstered by the distribution of electronic consumption vouchers. Yet, border re-opening remains a key to full-fledged retail market recovery.

We favour Link REIT and Fortune REIT, which should benefit from the gradual recovery in domestic consumption after the social distancing measures are relaxed. Further yield-accretive acquisitions could drive Link REIT's distribution income growth, which enhances its investment appeal.

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

Key risks: Further delay in border reopening and prolonged pandemic.

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

Oil and gas

We revise up our average Brent crude oil price forecast for 2022 to US$97-102/bbl (from U$95-100/bbl prev). For 2023, we revise up our average Brent crude oil price forecast to US$90-95/bbl (from US$85-90/bbl previously). We believe oil prices will likely stay rangebound above US$100/bbl in the interim, until the Russia-Ukraine conflict sees some hope of resolution, which we don't think is imminent. On the other hand, increasing demand side concerns will put a lid on the bullishness. EU sanctions on Russian oil do not seem imminent but remain an upside risk factor. Our top picks to play on sustained, high oil prices include CNOOC and PetroChina.

Top picks: CNOOC (883 HK), PetroChina (857 HK)

Ports and toll roads

We expect firm tariff hikes for many ports in China to help drive strong revenue and earnings growth for port operators in FY22. Continued steady growth in throughput will raise utilisation, leading to higher margins and ROE, which should support a P/B multiple re-rating. The sector also has attractive dividend yields on offer, as valuations remain low despite improving profitability.

Separately, we like Yuexiu Transport Infrastructure, as its transformation into an active toll road asset manager is now complete, with its successful spinoff of Hanxiao Expressway into a C-REIT on SZSE, allowing it the potential to continue to recycle assets into the C-REIT while accelerating its own acquisitions. A successful execution of this strategy will allow the company to grow its earnings and ROE at a faster pace, while paying out higher dividends from expected gains on the divestment of assets into the C-REIT.

Top picks: Yuexiu Transport Infrastructure (1052 HK)

Renewable energy

The Ukraine-Russia conflict continues to drive energy policies worldwide. The European Commission presented a detailed REPowerEU plan in mid-May, aiming to end the EU's dependence on Russian fossil fuels. The plan calls for a scaling-up of renewable energy adoption, increasing the headline 2030 target for renewables from 40% to 45%. Within this plan, a dedicated EU Solar Strategy aims to grow the EU's solar capacity to c.320GW by 2025 and c.600GW by 2030. Solar component manufacturers in China should stand to benefit from increased demand. Within China, the government continues its decarbonisation drive. NDRC officials said in May 85GW out of 450GW of wind/solar projects in desert/arid regions have commenced construction.

Demand remains solid for China's solar value chain. China's new solar installations continued to stay strong in 4M22, reaching 16.88GW, or up 138% y-o-y. This is a positive development given installations stayed strong despite elevated polysilicon prices. Wafer makers such as LONGi continue to raise ASP in May 22, up 10%-20% YTD, depending on the model. Major polysilicon producers in China have announced expansion plans, which could start to come online in 2H22. Easing of the polysilicon supply bottleneck could boost new solar installations. China's new wind installations grew 45.2% y-o-y in 4M22 to 9.58GW. Wind turbine ASPs continue to decline, with latest quotes as low as c.Rmb1,550/KW, down >40% y-o-y. Against this backdrop, we remain cautious about Xinjiang Goldwind. China Longyuan Power stands to benefit from capex savings and a resolution of the subsidy receivable issue.

Top picks: China Longyuan Power (916 HK)

Neutral

Aviation

1HFY22F will be a challenging period for the three Chinese carriers. The Omicron outbreak in the country will translate into a higher frequency of domestic lockdowns and tighter travel restrictions, while elevated jet fuel prices induced by geopolitical tensions will weigh on profitability, given the Chinese airlines are completely unhedged. The Chinese airlines may only turn profitable in 1HFY23F, assuming the pandemic is under control (Omicron wave is likely to dissipate faster than previous waves) and international border restrictions are finally lifted from early 2023. Domestic passenger yields, which were close to pre-pandemic levels in 2H21, could soften in 1HFY22F but should firm up from 2HFY22F as supply-demand dynamics turn more favourable. While the pandemic has forced many airlines in the region to downsize and streamline their fleets, the Chinese airlines are still growing their fleets, and this will enable them to garner market share from competitors in the region when China's borders finally reopen. Operating margins will be under pressure in the near term, given lacklustre improvement in passenger load factors and higher wages and jet fuel prices, but should subsequently improve in FY23F as airlines achieve greater economies of scale.

On valuations, the three Chinese airlines are trading at around +1.0SD above their five-year averages on a forward P/BV basis and are priced at a steep discount to regional peers (peer median = 1.5x), but their cheap valuations are counterbalanced by their lacklustre near-term outlook. China Southern Airlines is our only BUY call in the sector at this point in time, given its dominant position in the domestic market, larger freighter operations, stronger cost control, and reasonable valuation (1.0x FY22F P/BV, in line with five-year average).

Chief earnings downside risks are the emergence and spread of new variants, which will likely be even more contagious than the Omicron strain, and further momentum in crude oil/jet fuel prices. Delays to China's reopening (we currently anticipate China to start easing international travel restrictions from early 2023) will also cause us to turn more negative on the sector.

Aircraft lessors are our preferred pick at this juncture, because of their earnings resilience and attractive valuations. Despite the threat of the Omicron variant, BOC Aviation's earnings should continue to grow on the back of sustained portfolio expansion (both organically and via purchase and leasebacks) and healthier lease

rates. Lessors are not directly impacted by buoyant jet fuel prices and could see stronger demand for leased aircraft, as airlines dial back on capital spending. Sanctions on Russia are manageable, given the lessors' limited exposure to the country (BOCA: 3.0% of aircraft net book value, CALC: <1.0%), and other buffers in place like insurance on affected aircraft. Outside of Russia, the risk of asset and bad debt impairments is declining, with aircraft values and airlines' financial performance stabilising. Additionally, there are multiple tailwinds which should propel a shift towards leasing over the medium term. Hence, we anticipate a solid upside from here, driven by BOCA's strong earnings momentum, and believe that the current share price is a good entry point, given that the stock is only trading at -1.0SD below its five-year average on a P/BV basis.

Top picks: BOC Aviation (2588 HK), China Southern (670 HK)

China brokers

The China brokerage sector share prices, on average, corrected by 27% YTD, which is the worst performing sub-sector within China financials. The weak performance was mainly impacted by the 14% drop in the China A-share index YTD, which resulted in a slowdown in market ADT growth and margin finance demand from retail investors and weak investment income growth for brokers. While market liquidity, measured by TSF y-o-y (%)/GDP y-o-y (%), in 1Q22 landed at 2.2x and above the historical average, we believe the liquidity environment remains favourable to the market. The policy cycle should continue to be favourable, and we expect the long-awaited registration-based IPO reform to be implemented in all boards in 2H22F, which will serve as a strong driver for the sector. The growing institutionalisation also helps to enhance brokers' ROE in the long term. With the sector trading at 0.7x PB, at the trough level of its past five years' trading band, risk-reward is hereby considered attractive.

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

China materials

In Jan-Apr 2022, China major industrial material production continued its downtrend. Cement, crude steel, and aluminium output had dropped 15%, 10%, and 0.2% during the four-month period. On the inventory side, as of late May, the cement silo level continuously inched upwards. Cement producers plan to introduce capacity suspension over the next two weeks. The average operating rate of steel mills' blast furnace has picked up to 2021's high, and steel inventories reported on middlemen hand lowering to May 21's level. Aluminium inventory has edged down, whereas smelters' capacity utilisation is heading towards 4Q21's high. On the production cost front, although local coal supply increased as a result of the relaxation of coal import restrictions, the domestic coal price has stood firm at the current level, and clouded cement and steel product GP. In all, among these materials, in anticipation of the upcoming benefits from the potential normalisation in downstream market activities after COVID and the stimulus measures revealed, the aluminium market should have better support moving into the second half.

Top picks: N/A

China property

While we believe more supportive policies will likely be on the way to cushion the impact of a hard landing, the sector's liquidity risks must not be ignored. C.1/3 of the developers we track would struggle to achieve their expected FY22 presales in the absence of the reopening of refinancing channels. The current COVID-19 lockdowns and sales delays will likely pose additional challenges for developers as we head into the next repayment peak in Jul-Aug as well. On the other side of things, while the potential impact from Rmb depreciation on fundamentals should be manageable, its impact on valuations should not be overlooked. Thus, we recommend investors stay with quality names that are largely unaffected from a liquidity standpoint and await the supportive policies that are to come. Key indicators to watch for a potential bottoming of the sector would be 1) evident and sustainable sales recovery, 2) sizeable pickup in project launches within key cities, and 3) meaningful rebounds in our DBS China Property Offshore Bond Price Index.

Top picks: COGO (81 HK), COLI (688 HK), Longfor (960 HK), CR Land (1109 HK), Yuexiu (123 HK)

China property management

Share price performance of the sector continued to exhibit a strong price correlation to the China property sector, as dust on the development side has yet to settle. While we believe such correlation is unwarranted, given the sector's more defensive fundamentals and earnings profile, the relationship may continue in the near term, as the possibility of related developers disposing their stake in property management companies cannot be ruled out. Having said that, we expect the trend will gradually reverse as market sentiment gradually calms and dust in the development sector settles, potentially in 2H22. We believe it is now a good time for investors to start revisiting quality names that have solid earnings growth visibility, quality earnings, and strong growth potential – such as Country Garden Services (6098 HK); quality and cash-rich SOE names like CR MixC (1209 HK), Poly Services (6049 HK), and COPH (2669 HK) may also warrant investors' attention for the ability to take advantage of the sector turbulence and supplement growth prospects via M&As.

Top picks: Country Garden Service (6098 HK), CR MixC (1209 HK), Poly Service (6049 HK), China Overseas Property (2669 HK)

China telco equipment

The sector is driven by the capital expenditure of Chinese telecom operators. The capex budget of three domestic operators increased by 4% in FY22 to Rmb353bn. Mobile capex decreased by 7%, while capex for fixed-line networks and others increased by 9% and 22%, respectively. The focus of mobile network investment will still be on the macro base transceiver station (BTS) build-out, with an estimated 600k net additions for FY22. For fixed-line networks and others, the focus will be on transmission networks, data centres, and cloud computing, guided by the Eastern Data, Western Computing initiative. 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 driven by higher capex, an increase in market share within its addressable market, and margin improvement. Our top pick is ZTE for its increasing market share in carriers' network business.

Top pick: ZTE (763 HK)

China telecom carriers

The strong revenue growth momentum in 2021 will continue in 2022, attributable to the steady traditional telecom business and robust growth of new businesses (e.g., cloud, IDC, IoT, etc.). Mobile ARPU will continue to recover, driven by higher 5G penetration of 64% in 2022, compared to 44% in 2021. The bandwidth upgrade will help improve broadband ARPU. Besides, China Mobile (CM, 941 HK) also announced it would gradually increase its dividend payout ratio from 60% in FY21 to 70% by FY24, following China Telecom (CT, 728 HK), which implies a c.8% yield. CT is our top pick for its strong earnings growth and attractive dividend yield of 8%.

Top pick: China Telecom (728 HK)

Environmental service

The asset-light strategy is starting to bear fruit with an improvement in financials; in particular, operating cash flow has improved substantially, even though it remains negative. However, with a further reduction in construction and increasing treatment volume, operating cash flow should turn positive with the declining debt ratio in 2022/23.

In a recent State Council executive meeting, a batch of water conservancy projects, including the re-direction of water resources, flood prevention, construction of irrigation areas, etc., has been included in the country's construction plans. Together with other water projects, the total investment is estimated to be Rmb800bn. We believe China Everbright Water will be a major beneficiary of these projects.

Top pick: China Everbright Water (1857 HK)

Consumer – retailing

In 4M22, China retail sales fell by 0.2% y-o-y (1Q22: Up 3.3%) following a sharp decline of 11.1% in Apr 2022 (urban areas: -11.3%; rural areas: -9.8%) amid the COVID-19 resurgence and more stringent controls and lockdowns across the affected cities, as compared to a 3.5% drop in Mar 2022 and 6.7% growth in 2M22. In Apr 2022, categories that registered more severe sales dips included gold, silver, & jewellery (-26.7%), catering services (-24%), garment & footwear (-22.8%), cosmetics (-22.3%), communication appliances (-21.8%), furniture (-14%), and household appliances & AV equipment (-8.1%). Latest channel checks revealed that retail sales for May 2022 could see narrowed declines. We expect a gradual improvement in China retail sales ahead and project positive mid-single digit growth for 2022F.

Turning to the HK market, retail sales declined by 13.8% y-o-y in Mar 2022 (Feb 2022: -14.6%; Jan 2022: +4%), which is attributable to lingering impacts of the fifth wave of COVID-19. Of this, online sales went up by 30.9% in Mar 2022 and contributed 11.7% of the total (Feb 22: 10.7%). For 1Q22, total retail sales fell by 7.6%, of which online sales went up by 36.3%. Categories that outperformed in Mar 2022 included fresh fruits & vegetables (+14.5%) and supermarkets (+2.6%), while segments that recorded more substantial declines included optical shops (-42.8%), clothing & footwear (-41.5%), jewellery & watches (-36.8%), alcoholic drinks & tobacco (-25.6%), and furniture & fixtures (-23.7%). Despite the HK retail market having started to improve slightly by mid-Apr 2022, given the improving COVID-19 situation and new round of consumption vouchers for eligible local residents, retail sales could remain fairly slow, as the reopening of borders between Mainland China and HK might only be seen towards the end of 2022. All in all, we expect better operational improvement in 2H22F-2023F. Some renowned global brands could also benefit from the recovering macro conditions to capture more tourist sales ahead.

Critical factors could include any policy changes that could affect the retail environment and overall consumer sentiment; the containment of COVID-19; and the timing of border reopening.

Top pick: Prada (1913 HK)

HK developers

With the fifth wave of the pandemic gradually subsiding, developers have resumed new project launches since April. The market response has been satisfactory, thanks to the release of pent-up demand. Mortgage easing gave additional support to residential demand. The long-awaited reopening of the border with Mainland China, if it materialises, could boost luxury demand with the return of affluent mainland buyers. On the other hand, mortgage rates should be facing upward pressure. The negative wealth effect from the financial market correction could dampen housing demand. All things considered, we forecast home prices to be broadly stable in 2022.

We like SHKP, which is the major beneficiary of the Northern Metropolis development. We also like Cheung Kong Asset Holdings, which is well poised to make value-accretive acquisitions to bolster long-term growth with a strong balance sheet.

Critical factors for the sector to watch: Project launch response, border reopening, interest rate movement, and government policies. Key risk: Faster-than-expected interest rate hikes.

Top picks: SHKP (16 HK), Cheung Kong Asset Holdings (1113 HK)

HK telecom

The mobile roaming business suffered from city lockdowns amid COVID-19 and represented 4%-8% of mobile revenue in FY21. However, further roaming revenue shrinkage is unlikely. Any roaming revenue recovery would be positive for mobile ARPU. However, the outbreak of a new round of COVID-19 cases in Hong Kong will prolong the travel restrictions, at least in 1H22. 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 FY8/23. We also expect a 3% growth in the 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 down. We prefer fixed-line operators to mobile operators, as the former is less impacted by COVID-19. Our top pick is HKBN.

Top pick: HKBN (1310 HK)

Gas utilities

Domestic gas production volume growth in China was very low at around 7% in 1Q22, compared with the low teens in 2021, on the back of poor economic growth. On a positive note, the dollar margin is expected to recover q-o-q in 1Q22, thanks to lower gas cost, lower LNG prices, and a higher percentage of gas sales to industrial/commercial users. LNG prices have peaked in early March. Although the Ukraine crisis remains an uncertainty, a decline in demand during summer will allow the current downtrend to continue. Recovery of the dollar margin is expected to continue in the coming few months. With the lockdown in Shanghai being gradually lifted and economic activities getting back to normal, we expect a gradual improvement in gas sales volume in the rest of the year. The bright spot is the development of integrated/smart energy, which can ride on the government's push in decarbonisation and installation of rooftop solar power.

Top picks: CR Gas (1193 HK), China Gas (384 HK)

Restaurants and catering

The restaurant industry faced severe pressure since mid-March as COVID cases rose significantly, particularly in Shanghai. The COVID situation saw a deterioration in April, with a gradual easing reported in May, as the number of COVID cases dropped. XBXB and Haidilao both reported a >40% decline in seat turnovers in April. Apart from Shanghai, many major cities including Guangzhou, Suzhou, Tianjin, Changchun, and Xian were in partial lockdown in April. While Beijing is not under a full lockdown, restaurants are not allowed to offer dine-in services. Citizens had undergone mass COVID testing, particularly in districts with higher cases reported, and are under strict monitoring with proof of a negative PCR test required to enter public venues.

As such, consumption spending has been notably weaker. China retail sales declined 3.5% in March and a further 11.1% in April. China catering sales reported a more severe drop, at 16.4% in March and 22.7% in April (source: NBS). Shanghai is set to lift lockdowns in June, which should gradually offer some reprieve on a m-o-m basis. Yum China has warned the market that, unless events take a sharp turn for the better, 2Q22 (Apr-Jun) is expected to reflect an operating loss. Selective players' brands including Jiumaojiu's Tai-Er and Xiabu Xiabu's Coucou have reported gradual recovery, seen on a m-o-m basis in May, partly thanks to the Labour Holiday, but we continue to hold a cautious view. In terms of government benefits, most key players do not expect to receive significant government subsidies, as benefits are mainly directed at SMEs.

Top pick: Yum China (9987 HK)

Tech hardware

The lead time for chip delivery further increased to 26.6 weeks in Mar 2022 after a temporary drop in Jan. The distortion in the supply chain and demand from auto continues to pull chip demand, especially for MCUs and PMICs. Global foundry capacity expansion and investment in semiconductor manufacturing equipment accelerated in 1Q22, as some of the semiconductor equipment providers showed strong q-o-q growth in bookings.

Mainland foundries that specialise in mature nodes and are least impacted by the chip embargo, like Hua Hong Semi (1347 HK), are expected to continue enjoying the strong demand for auto chips in 2022.

The upstream of the semiconductor industry will still benefit from the expected massive capex investment cycle of foundry players, but there is a potential peak of capex growth in 2022. That said, we expect semiconductor manufacturing equipment and packaging providers like ASM Pacific (522 HK) to still enjoy relatively fast shipment and revenue growth in 2022. The shortage of PMIC and automotive chips is going to last well into 2022, as commented by a leading automaker.

Shipment growth for devices like smartphones is expected to revert to mid-single digits in 2022 after the resolution of the smartphone chip shortage. Sluggish growth in smartphones in China and global component shipments were maintained in 1Q22. We also expect suppliers of consumer electronics components, i.e., lenses, camera modules, acoustic components, casing, etc., to resume normal growth in 2H22.

Apple and Chinese vendors like Xiaomi, Oppo, and Vivo have been gaining market share since 2021. We expect it to continue in 2022. Apple's share in the premium smartphone market is expected to increase in 2022. The incremental shipments for Oppo and Vivo would be significant. This favours component suppliers whose key customers are the beneficiaries of the share gain or those with an increasing share of premium model shipments.

However, the supply chain woes of smart devices originally caused by Soc or 5G chip shortages are at the risk of being compounded by further lockdowns due to the COVID outbreak in China. The resilience of the supply chain depends on the control of the pandemic and the COVID-19 measures in China.

Critical factors: Chips' lead time can be closely monitored to have a better idea of the relief during a supply shortage. Key risks: Control of pandemic and the COVID-19 measures in China.

Top picks: Hua Hong SEMI (1347 HK), ASM Pacific (522 HK)

Textiles

In general, the supply chain disruptions due to COVID lockdowns in China has been easing. The lockdowns have not only restricted the shipping of goods but also the supply of raw materials. We expect to see a small impact to listed companies, mostly in slightly reduced capacities, in March and April. As this is not the traditional peak season, the negative impacts should be manageable. Overall, the temporary shutdown should have a limited impact on the listed companies.

Omicron's high transmissibility means there has been a 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 any significant direct impact to the listed companies' results. Share price crashes on the back of such disruptions should be a sign to buy. Aside from supply chain challenges in 2022, the key fundamental change would be the general inflation of raw material prices seen across the board; other cost inflation should also be a key factor in the current order discussion, on the cost side. 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. Such processes may take time, which could temporarily lower margins.

Looking to 2022, we expect recovery to continue with cost pass-on the key industry challenge.

We should also expect capacity expansions 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. The sector (except bellwether Shenzhou Int'l) 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.

Regarding the Ukraine conflict, we do not expect any direct material impact on the HK-listed companies.

Top pick: Texhong textile (2678 HK)

Negative

Macau gaming

Macau's gross gaming revenue (GGR) dropped by 68% y-o-y or 27% m-o-m to MOP2.7bn in Apr 2022, the worst since Sep 2020, as it was negatively impacted by reduced tourist arrivals due to COVID-19 outbreaks across certain parts of Mainland China, including Guangzhou and Shanghai. In 4M22, GGR declined by 36% y-o-y to MOP20.4bn.

While the recent Labour Day Golden Week Holiday (30 Apr-4 May 2022) saw a strong rebound in Macau's daily visitor numbers to >40,000 on the first day of the holiday, the rest of the holiday period registered a lower daily volume of c.25,000 inbound visitors, lower that the government's earlier forecast of an average of >30,000 visitors for the five-day holiday. As we expect the COVID-19 situation in both Mainland China and HK to continue to improve going ahead, we stay hopeful for the GGR momentum in 2H22-2023, and project GGR to grow by a c.50% CAGR in 2021-2023 to reach >MOP200bn next year.

Key things to watch should still rest on the potential amendments of Macau's gaming laws, which could hopefully be finalised around mid-2022, after which the re-bidding and granting of new gaming licenses to casino operators will be carried out.

Top picks: Galaxy (27 HK), SJM (880 HK), Sands China (1928 HK)

Pharmaceutical and healthcare

The sector will be continuously clouded by the following negative factors: a) Price cuts resulting from the deteriorating financial status of public medical insurance programmes and change of way to reimburse medical expenses; b) cost surge for R&D due to the tightening of the clinical trial requirement; c) anti-monopoly actions by the government, e.g., for active pharmaceutical ingredients; and d) the US's sanctions against Chinese companies.

Despite a deep share price correction since last year, the risks mentioned above persist, and so does the potential downside. Our criteria for stock picks are those with: a) very limited downside, e.g., historically low P/B, like CR Medical (1515 HK), or stocks trading at a deep discount relative to international players yet with much better product quality like MicroTech (2235 HK); and b) potential share price catalysts ahead, either from the industry or from the companies itself.

Top picks: CR Medical (1515 HK), MicroTech (2235 HK)

HK market strategist summary

Investment thesis

Rebounding from the market bottom. The Russia-Ukraine war has impacted the risk appetite in the global market. Given that the conflict is unlikely to see a quick resolution, we expect the risk averseness to prevail in the short term. However, China's cabinet introduced 33 policies to support businesses and consumer spending. Policies will tackle areas like China property debt crisis/slowing economy, COVID-19 resurgence, supply chain disruptions, the inflationary environment, and regulatory tightening. Our core view is that the Hong Kong market's recovery has been delayed due to the Russia-Ukraine crisis, global inflation, rising interest rates, the pandemic, and financial tensions between China and the US, but as the market is under-owned, it is likely for the market to recognise the support from the government in 2H.

HK market is relatively less sensitive to interest rate concerns. We expect a total of six hikes over the coming two years with risks on the upside if inflation proves to be persistent. The US is still reeling from this change in the narrative, but we think the HK market may be less affected, as HK's underperformance last year was due mostly to regulatory challenges and the property crisis.

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

Valuation

While we are cautiously optimistic of a potential market rebound in 2H, we maintain our 12-month Hang Seng Index target of 24,600 to reflect the lowered risk appetite, which implies 11.6x FY22F earnings, equivalent to its five-year average one-year forward PE. We maintain our 12-month HSCEI target at 8,160, which implies 9.3x FY22F earnings, equivalent to its five-year average one-year forward PE.

Sector preferences

We are overweight on **renewable energy** and **auto** sector due to supportive policies amid President Xi's pledges for zero emissions as well as the policy boost on domestic car sales

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 **e-commerce,** and **internet,** are trading at attractive valuations. We have moved China property and China property management to neutral due to worse than expected sales performance.

We like both the **port & toll roads** and **oil & gas** sectors due to strong demand amid global economic recovery post pandemic and the inflationary environment. Oil & gas is also benefitting from supply challenges which have worsened due to the Russia-Ukraine war.

HK banks will stand to benefit from the upcoming Fed interest rate upcycle. We like **HK REITs** from a valuation perspective, as the market is overreacting to the Omicron outbreak in HK. HK REITs' business performance hinges mainly on domestic consumption, which should remain resilient despite uncertainties caused by the latest Omicron outbreak. **China banks** will benefit from the improving sentiment that is a result of the policy actions relating to the China property market.

Top picks

Our picks are based on the top picks in our overweight sectors – AIA, BOCHK, BYD, China Mengniu, China Longyuan, Link REIT, JD.com, Ping An Insurance, Meituan, and Tencent.

Key risks to our view

The biggest risk in the market is a further escalation of the Ukraine-Russian war. Any drag on regulatory developments will reduce investor interest in the HK market; China property contagion may also lead to slower-than-expected economic growth; sporadic COVID-19 outbreaks in China; and a continued chip shortage and transportation bottlenecks. Finally, more hawkish actions by the Fed due to inflation may drag global equities, which, in turn, may put pressure on the HK market.

DBS HK top BUYs

Company Name	Code	Closing price (HK$)	Tgt Price (HK$)	Upside (%)	Mkt Cap US$m	PE 22F (x)	PE 23F (x)	EPS 22F (HK$)	EPS 23F (HK$)	ROE 22F (%)	PBV 22F (X)	yield 22F (%)	Net Gear (%)	EPS CAGR 21-23 (%)
AIA	1299 HK	80.00	127.00	58.8	123,538	15.3	13.9	5.2	5.8	12.2	1.7	2.0	Cash	32.4
Bank of China HK	2388 HK	30.20	32.00	6.0	40,936	10.6	9.5	2.8	3.2	9.7	1.0	4.7	Cash	13.3
BYD Company	1211 HK	284.40	330.00	16.0	106,145	90.4	57.8	3.1	4.9	7.5	6.6	0.1	Cash	93.9
China Longyuan Power	916 HK	16.86	22.00	30.5	18,118	15.7	13.0	1.1	1.3	11.2	1.6	1.3	125.4	19.9
China Mengniu	2319 HK	39.85	53.40	34.0	20,203	21.6	18.5	1.8	2.2	15.0	3.1	1.2	42.4	16.9
JD.com Inc (HK)	9618 HK	221.40	400.00	80.7	44,149	75.9	18.2	2.9	12.2	1.9	1.5	4.3	Cash	n.a.
Link REIT	823 HK	71.30	81.80	14.7	19,289	n.a.	n.a.	n.a.	n.a.	4.3	0.9	4.3	18.4	n.a.
Meituan Dianping	3690 HK	180.20	226.00	25.4	142,861	-79.3	94.3	-2.3	1.9	-9.5	7.9	0.0	Cash	n.a.
Ping An Insurance	2318 HK	47.00	90.00	91.5	110,150	5.6	4.7	8.5	10.0	14.7	0.8	6.7	Cash	21.0
Tencent^^	700 HK	359.00	447.00	24.5	442,398	20.9	17.1	17.2	21.0	16.0	3.1	0.3	4.0	-12.4

^^ Core profit and EPS

Source: Thomson Reuters, DBS HK

Closing price as at 2 June 2022

Our top picks in alphabetical order

Top picks	Comments
AIA Group (1299 HK)	• **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.
BYD Company (1211 HK)	• **Pure electric and hybrid technology to support NEV's long-term growth.** BYD chalked up fantastic NEV sales growth of 220%+ in FY21 and is expected to post CAGR of 60% (FY21-23F) to c.1.6m units, underpinned by its twin NEV technology capabilities. Further expansion of its Dynasty and Marine series are important volume drivers. The incorporation of DM-i technology, e3.0 smart features and blade battery will enable BYD to achieve higher ASP, which should help to partly mitigate raw material pricing pressure. We expect at least five new models to be launched in 2022. • **Margin erosion expected to ease.** Supply chain improvement should support margin recovery. FY21 GP margins fell by about 6.6ppts to c.11%, but we expect this to recover to 15% by FY23 on easing commodity inflation. Inhouse production of certain key components and expanded capacity should also help to manage production cost better. • **Sufficient funding to support growth.** BYD has stockpiled raw materials (+200% in FY21) to support its anticipated robust business growth. The Rmb36bn proceeds from the sale of shares in FY21 will help to finance both working capital and capex. We forecast annual capex of Rmb25bn in FY22/23F to support growth. As of end Dec-21, BYD had net cash of Rmb17bn (FY20 net debt of Rmb37bn).
BOC Hong Kong (2388 HK)	• **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 a 9% CAGR in FY21/22F. • **Better asset quality than its peers.** As BOCHK has higher bargaining power to select good-quality borrowers, we expect its NPL ratio to continue to be better than its peers'. • **Benefitting from a 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 Mengniu Dairy Co Ltd (2319 HK)	• **Product premiumisation.** We have a BUY rating on China Mengniu, with the TP at HK$53.4, pegged to a 29x FY22F PE, equivalent to 1SD above its two-year trading average. We are positive about the group's premiumisation strategy to stabilise its profit margin despite high raw milk prices. We forecast the group to deliver a CAGR of 17% in FY21-23F. • **Liquid milk to garner strong momentum.** Liquid milk, accounting for 86% of total sales, should see strong growth, driven by its star SKUs such as Milk Deluxe and Pure Milk, achieving 33% and 23% sales growth, respectively, in FY21. Aside from UHT milk, we forecast pasteurised milk to deliver stronger growth than the industry, supported by early planning to secure upstream supply across China. We forecast liquid milk sales to deliver a CAGR of 13% in FY21-23F • **Cheese.** We forecast the cheese category to be a strong growth contender within the dairy sector. In July 21, China Mengniu became a substantial shareholder of Shanghai Milkground, a leading cheese enterprise, which should support its intention to expand in the domestic market.

Source: DBS HK

Our top picks in alphabetical order (cont'd)

Top picks	Comments
JD.com Inc (9618 HK)	• **Robust transaction volume growth**, through product category expansion into non-electronic products, such as groceries and healthcare etc. This would support its direct sales business as well as its marketplace revenue. We expect 14% and 17% GMV growth for FY22F and FY23F. • **Strong fulfilment capability supports sustainable growth.** JD's self-developed fulfilment and logistics infrastructure (1,300 warehouses across 23m sq.ft of GFA), which makes it stand out among peers by offering superior customer experience . • **Solid earnings growth profile.** We are confident on JD's core margin expansion outlook from low base of c.2% in FY21, thanks to operating leverage from scale expansion and narrowing loss from new business.
Link Real Estate Investment Trust (823 HK)	• **BUY with HK$83.3 TP.** Link REIT offers distribution yields of 4.8-4.9% for FY22-23. This translates into a yield spread of 3%, which compares favourably to its 10-year average of 2.6%. While the recent COVID resurgence is causing short-term disruption on Hong Kong's retail market recovery, continued acquisitions would augment its DPU growth. • **In acquisition mode.** Following a string of acquisitions in China, Australia and Hong Kong in late 2021, Link REIT acquired a 49.9% stake in a joint venture with Oxford properties which hold interests in five prime office assets in Sydney and Melbourne in Feb-22. This not only enhances the distribution yield but also diversifies the earnings base. With current portion of China and overseas assets falling short of management's guidance, we believe there are more acquisitions to come in the years ahead. • **Concerns over the retail market disruption in Hong Kong should not be overplayed.** In view of recent resurgence of COVID cases, the Hong Kong government has tightened social distancing measures since early Jan-22. Though temporary rental relief for retail tenants may be required, concerns on Link REIT's mall operations should not be overdone. The government has proposed to introduce a vaccine pass to restrict non-vaccinated persons from visiting certain premises including shopping malls. With the first dose vaccination rate high at >80% and people adapt to pandemic restrictions, impact on shopper traffic should be not overplayed.
Meituan (3690 HK)	• **Leading online food delivery platform in China,** with 9m+ daily orders, supported by its efficient delivery network as well as wide range of restaurants. • **Food delivery and dining platform integration** creates synergies and attracts merchants and therefore advertising revenue. We expect food delivery revenue to grow at CAGR of 21% from 2021 to 2023. • **E-grocery business is a new revenue stream.**This will leverage on its existing delivery and fulfilment capacity and create new synergies with food delivery business. We expect these new initiatives revenue to grow at 2-year CAGR of 38% and take up c.34% of total revenue in 2023.
Ping An Insurance Group Co of China (2318 HK)	• **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, mainly due to a 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. We expect first-year premiums to start rebounding 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 concerns 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.

Source: DBS HK

Our top picks in alphabetical order (cont'd)

Top picks	Comments
Tencent (700 HK)	• **Monetisation of WeChat ecosystem.** Tencent has 1.25bn WeChat monthly active users (MAU), representing c.90% of China's population. This represents a 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 in 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 a 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.
China Longyuan Power Group Corp Ltd. (916 HK)	• **Maintain BUY, TP raised to HK$21.** China Longyuan Power (CLYP) is currently trading at a 15x FY22F PE, and 1x PEG ratio (based on a FY21-23F earnings CAGR of c.16%). We reckon the market has yet to recognise 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 ageing 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 to benefit disproportionately from future upgrades.

Source: DBS HK

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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*

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