China / Hong Kong Market Focus

Monthly Market Pulse

DBS Group Research . Equity 28 Feb 2024

A look back at 2015-16 market bottoming

- **China & HK stocks regained footing on strong market intervention, robust holiday data**
- **A look back at 2015-16 market rescue suggests capital mkt measures alone cannot guarantee a bottom out**
- **Mkt to trade range-bound until new catalyst emerges; watch Jan-Feb eco data, details of new stimulus on consumption in March**
- **Favour oversold consumer stocks, beneficiaries of China's effort to build modern industrial system, and selected SOEs for March**

Regain footing. A step-up in market stabilization efforts as well as robust CNY holiday data triggered long-awaited rebounds in both China and HK after the stock selloff went extreme in late-Jan. However, trading volume is yet to show a significant pick up, and short-selling turnover was still above the three-month average.

A page out of the 2015 playbook. The current market conditions, characterized by significant capital market intervention amid a slowing economy, recall the events of 2015, when China intervened to stabilize a 43% market crash triggered by deleveraging. That market rescue helped halt panic selling for four months in 2H15, but stocks only bottomed out in 1Q16 when a combination of demand-side stimulus, supply-side reforms, and favourable global liquidity environment propelled the economy out of the woods. We anticipate a similar scenario this time around – while capital market interventions can put a floor for stock market in the near term, we await more effective economic policies to do the heavy lifting. Before that happens, we suggest focusing on trading opportunities. Key events/data to watch incl. Two Sessions (details on new stimulus measures), Jan & Feb eco data (especially retail sales), Feb credit data (especially M1), and large companies' guidance in the result season.

Three themes for March. 1) Should we see more positive signs emerging in the economy, we believe consumption-linked sectors like retailing, durables & apparel, internet and auto have bigger upside after significant derating last year. Some stocks with resilient earnings deserve valuation recovery, and this has already happened on stocks like Li Auto. 2) we also compiled a list of beneficiaries of China's effort to build modern industrial system, as it will be high on government's agenda in Two Sessions. And 3) we continue to favour selected SOEs in telco and oil for their stable business and attractive dividend yield. We provide a new screening on other SOE picks. On our top pick, we replace BYDE (285 HK) with AAC Tech (2018 HK) for a tactical trade on upcoming result.

HSI: 16,791

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Recommendation & valuation

Company Name	Closing price (HK$)	Tgt Price (HK$)	FY24F PBV (x)	FY24F PER (x)	FY24F yield (%)
AAC Technologies (2018 HK)	19.58	26.2	0.8	12.3	2.4
Anta Sports (2020 HK)	78.45	117.0	3.5	17.4	2.7
China Mobile (941 HK)	67.00	93.0	0.9	8.7	8.2
China Petroleum & Chemical (386 HK)	4.43	5.3	0.6	6.6	7.8
KE Holdings (2423 HK)	37.20	57.0	1.4	11.9	0.0
Li Auto (2015 HK)	175.50	170.0	5.0	28.6	0.0
Samsonite (1910 HK)	26.45	43.3	2.7	9.2	3.3
Tencent (700 HK)	284.60	507.0	2.5	15.8	0.6
Trip.com (9961 HK)	362.00	515.0	1.6	20.0	0.0
Xiaomi Corp (1810 HK)	13.48	21.0	1.7	18.2	0.0

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

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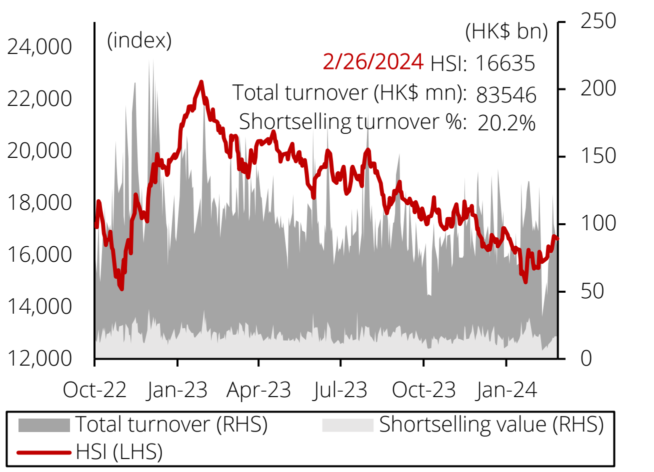
Regaining footing

The larger-than-expected LPR cut and robust CNY holiday data triggered long-awaited rebounds in both China and HK. The HSI rallied 11% since its trough on Jan 22, led by previously oversold sectors such as auto and retailing. High-dividend SOEs also outperformed. That said, despite turnover exceeding HKD100 bn on 20-21 Feb when the market jumped, overall average daily turnover remains quite muted at HKD85.6bn in Feb, the lowest since Oct 2023. Short selling turnover also climbed back to 20% on 26 Feb, above the three-month average level of 17%.

HSI performance & mainboard turnover



Source: CEIC, DBS HK

Positive factors emerging

While such a technical rebound is long-awaited as market selloff went to an extreme level with HSI's P/BV trading below 1x, and forward PE fell to -2SD below its five-year avg. in end-January, there are some positive fundamental factors building, both in the economy and the market.

1) On 20 Feb, the PBOC cut its five-year LPR by 25 bps, the biggest cut ever, to support the housing market
2) The new CSRC chairman WU Qing began his term with a slew of meetings with investors to seek feedback, and some restrictive measures to break the vicious cycle in market sentiment (i.e. Bloomberg reported CSRC banned net selling by major firms in first, last 30mins of trading in A shares, and condemned a quant fund that sold RMB2.57 bn within a min)
3) Consumption may not be as bad as investors feared, evidenced by the 19%/7.7% increase in no. of tourism trips/tourism revenue in CNY holiday vs. 2019
4) China Financial and Economic Affairs Commission, led by President Xi Jinping, called for equipment upgrade and consumer goods trade-in program with the support from both MoF and local govts. China has also started legislation processes for promoting private economy.

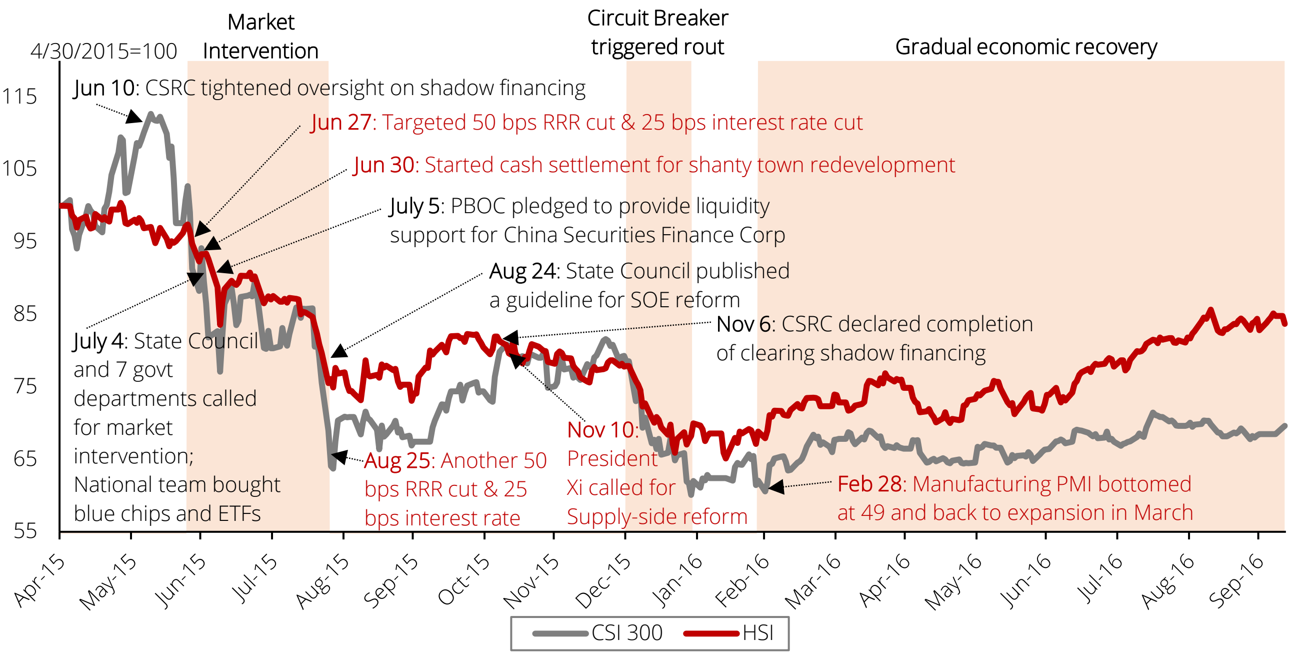
A page out of the 2015 playbook

The current market scenario evokes memories of 2015 when China intervened to stabilize a 43% market crash prompted by a crackdown on shadow financing in the capital market. In late June 2015, policy makers stepped in with unexpectedly targeted rate cuts in both RRR and interest rates, followed by a RMB1.26 tn stock purchase by National Team, with fundings backed by PBOC. Seven govt. departments were involved in the market intervention. By 26 Aug, the market finally reached a near-term bottom after another round of RRR and rate cuts, staging a 28% rebound until December. However, mounting economic challenges, RMB depreciation, and the launch of circuit break mechanism triggered another 26% selloff in just a month. The stock market only resumed its uptrend when China's economy stabilized on progress in supply-side reforms, housing market recovery driven by cash settlement of shanty town redevelopment, and the Federal Reserve's decision to suspend interest rate hikes in 2016.

In summary, market interventions in 2015 halted the downward spiral and alleviated panic selling. The resolution of market issues, particularly concerning shadow financing, laid the groundwork for market bottoming. However, it was a combination of 1) demand-side stimulus, 2) various reforms that reduced the industrial overcapacity, streamlined SOEs, promoted innovation and entrepreneurship, and 3) more favourable global liquidity dynamics that eventually fuelled the bull market from 2016 to 2018.

For now, we are in the process of bottoming. Positive steps have been taken on the capital market level, as regulators are resolutely trying to plug market loopholes by cracking down on non-compliant practices in areas like stock lending, quantitative trading, and company listing to protect shareholders' interest. These moves, if implemented thoroughly, could boost market participants' confidence, and attract some investors back. But for the stocks to stage a sustained rally, a lot more are needed to be done, incl. boosting demand, driving up reflation, containing risks in property, LGFVs and small financial institutions in the year. Some structural issues like aging population also need to be addressed to ease investors' concerns over China's long-term growth prospects.

2015 market turmoil & intervention



2015 playbook vs Actions taken in 2023-24

	2015 Market rescue	What have been done so far in 2024?
7/1/2015	Provide flexibility on margin call, adjusted transaction fees, taxes	√
7/2/2015	Top leader pledged to stabilize market	√
7/2/2015	CSRC tightened regulation on market trading activity & cracked down on "malicious short selling" and "market manipulation"	√
7/4/2015	Coordinated actions from multiple govts departments to stabilize market, incl. Ministry of Public Security	√
7/4/2015	National team buying stocks	√
7/5/2015	PBOC provided funding for national team	PBOC has not taken any actions
7/7/2015	CSRC banned some major shareholders and mgmt from cutting holdings	CSRC tightened conditions on large shareholders' stake cut
11/6/2015	CSRC completed clearance of shadow financing	Still in the process of plugging loopholes like stock lending activities and quantitative trading
2/20/2016	Replaced CSRC chairman	√

Source: CSRC, PBOC, Xinhua, Thomson Reuters, DBS HK

While it's too early to call a U-turn in the market, we believe trading opportunities exist. We expect a range bound trading in the near term, with national team intervention putting a floor in the market, especially A shares. Incremental policy supports and good economic prints may serve as catalysts for tactical trades. Buying on pullback would be a more sensible strategy if stocks retreat during the Two Sessions.

We will closely watch below events/data in March:

1) Upcoming political meetings in China, including Two Sessions (Starting 4 March), the Third Plenum (timing TBC) and Politburo meeting (in end-April), to assess policy directions (see our preview on Two Sessions here)
2) Feb credit data, especially M1, to gauge whether corporate confidence improved and ready to increase capex
3) Jan-Feb economic data, especially retail sales, to gauge whether consumption recovery is faster than expected
4) Corporate earnings and management guidance for 2024

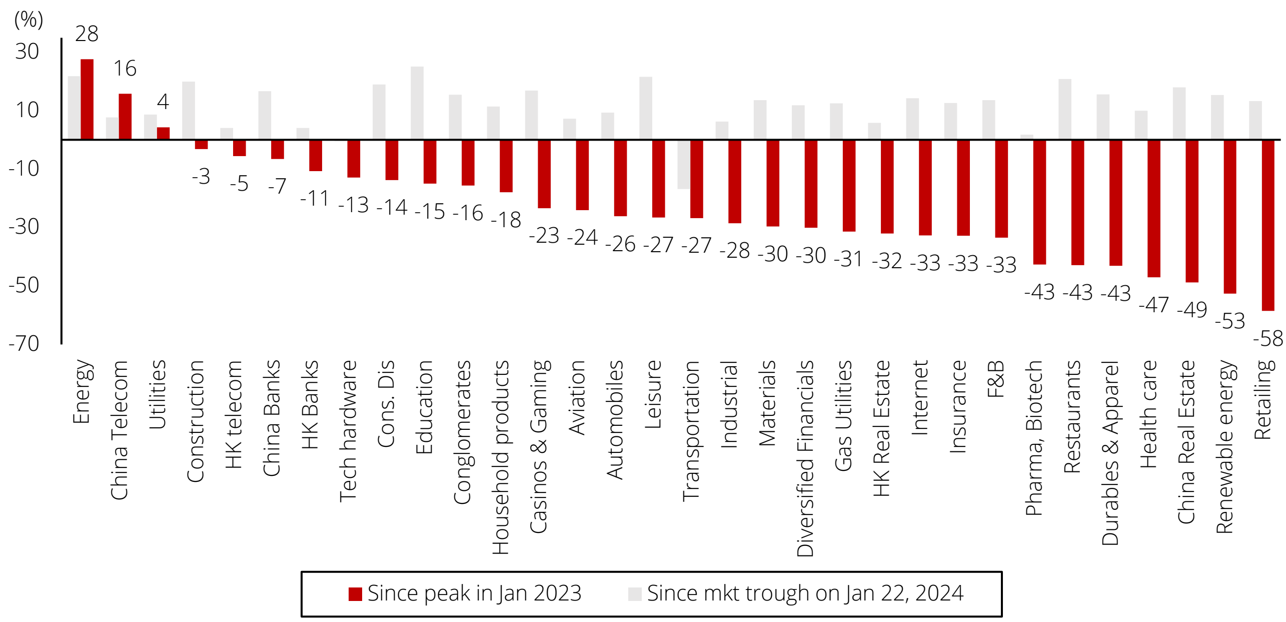
Three themes for March

Oversold consumption stocks. Should more positive signs emerge, we believe **consumption-linked sectors** such as **retailing, durables & apparel, internet and auto** have bigger upside as they have been derated deeply over course of selloff in 2023, so some stocks with relatively resilient earnings profile deserve some valuation recovery, which already happened in stocks such as Li Auto. The stock trading pattern back in 2015 boom-bust cycle also suggests sectors that had been sold the most, rebounded more fiercely in the first rebound after a long-period of correction.

Separately, consumer stocks will benefit from the newly announced consumer goods trade-in initiative to some degree, although the details of timing and magnitude of fiscal supports have yet to be released by the government.

CR Beer (291 HK) and Anta (2020.HK), BYD (1211.HK), Great Wall Motor (2333 HK) are among our sector analysts' top picks of relevant sectors.

Peak-to-trough sector performance



Source: Thomson Reuters, DBS HK

HSCI sector performance during market boom-bust cycle in 2015-2016

Phase	Time	Conglo.	Consumer discretionary	Consumer staples	Energy	Financials	Hlthcare	Industrials	IT	Materials	Ppty& Constr.	Telecom	Utilities
Market booming	1/1/2015-4/28/2015	22.4%	13.9%	11.1%	17.8%	21.0%	15.1%	43.9%	43.0%	29.4%	22.7%	27.8%	14.2%
Market crash	4/28/2015-9/29/2015	-18.1%	-31.4%	-30.2%	-43.9%	-31.6%	-24.0%	-35.3%	-27.1%	-41.8%	-24.9%	-23.2%	-18.7%
First Rally	9/29/2015-10/23/2015	9.2%	13.7%	9.9%	22.1%	13.2%	8.6%	11.5%	15.8%	15.2%	11.6%	2.8%	10.8%
Second dip	10/23/2015-2/12/2016	-21.0%	-19.7%	-20.9%	-24.7%	-25.4%	-18.5%	-29.1%	-12.3%	-15.2%	-23.5%	-11.8%	-22.2%
Full blown rally	2/12/2016-9/9/2016	16.8%	25.1%	17.9%	27.0%	31.8%	20.7%	28.4%	51.3%	32.4%	40.4%	17.5%	20.5%

Source: Bloomberg Finance L.P., DBS HK

Two Sessions. As discussed in our note previewing the upcoming Two Sessions, we think the meeting itself is unlikely to offer a major positive catalyst. The historical trading pattern also suggests higher likelihood of stocks declining during the meeting. We believe building a Modern Industrial System, an initiative focuses on boosting technology self-reliance, tackling supply chain bottleneck, and ensuring security, will be the no. 1 goal.

We surveyed our sector analysts and compiled a list of companies that are set to benefit or stand out from such initiative. We believe these beneficiaries of China's shift in industrial structure will be an attractive long-term investment theme.

Beneficiaries of China's effort to build Modern Industrial System

Top Pick	Reasons
Anta Sports (2020 HK)	Anta Sports has been one of the early adopters of Direct to Consumer to streamline the layers of distribution and contact to customers. Through the adoption of this business model, Anta Sports hold accountability of live tracking of inventory levels through ERP, and ensure a smoother supply chain to reduce excess inventory concerns.
Baogang (600019 CH)	Steel remains a key material amid new infrastructure development. Industrial upgrade will consume more high-end steel products.
BOC Aviation (2588 HK)	BOCA, as one of the world's largest aircraft leasing companies, is strategically poised to excel in China's aviation market. Its distinctive role as a primary leasing subsidiary of the Bank of China, coupled with its premium asset quality, characterized by a higher percentage of newbuild aircraft and a younger fleet, further strengthens its position in the industry.
BYD (1211 HK)	Being the largest EV maker globally, BYD has an extensive control over the EV value chain - EV battery and semiconductors, two key components for EV manufacturing.
China Longyuan Power (916 HK)	CLYP trades at deep value and continues to benefit from falling wind turbine prices, which could lead to CAPEX savings.
Flat Glass (6865 HK)	Flat Glass Group is a leading solar glass player. The company enjoys a duopoly position. Therefore solar glass pricing should be more resilient compared to other silicon based components (poly, wafer, cell, module).
PetroChina (857 HK)	PetroChina is the largest integrated oil major that leads the energy transformation in China. It is instrumental in driving the carbon neutrality policy in China. Natural gas, the transitional, cleaner fossil fuel, accounts for c.50% of its production. With the aim to have oil, gas, and green energies each account for a third of its portfolio by 2035, PetroChina also has various clean energy initiatives in place including a growing renewables portfolio, building hydrogen refueling stations, and R&D into carbon capture and storage.
SMIC (981 HK)	SMIC may benefit from improved sentiment if more emphasis be put on semiconductor development. But it remains to be seen whether such campaign will benefit its fundamental, as more political mission may hurt its gross margin, like what we have seen in the 7nm chips development.
Xpeng Inc (9868 HK)	Xpeng is one of the early players in autonomous driving which has developed a full-stack autonomous driving capability. Recently, Xpeng announced it plans to recruit some 4,000 staff and allocate Rmb3.5bn on AI R&D, focusing on intelligent driving technology.
ZTE (763 HK)	ZTE provides both mobile and fixed-line telecom equipment to carriers and corporates. Riding on the industrial digitalization theme, we expect revenue growth from its carrier and corporate segments to accelerate in FY24, supported by improved competencies in its computing power-related product offerings, such as AI servers.

Source: DBS HK

SOEs under new KPI. The SOE theme gained further attention in February, as SASAC's potential plan to incorporate market performance into KPIs of state firms' leaders fuelled expectations for higher valuation and better shareholders' return of SOEs, making the cohort a hot theme in an uncertain market environment.

We reiterate our preference on **China Mobile (941 HK)** and **Sinopec (386 HK)** and updated our SOE screening to show 1) their progress in achieving certain existing KPIs, and 2) valuation vs. history after recent rallies. Screening criteria: 1) 30D avg daily trading turnover >USD10mn, 2) 12m est. div yield >6%, 3) meet at least one of the SOE KPIs of ROE improvement, net profit growth >GDP growth, ratio of operating cashflow/revenue improvement.

Top-down screening for SOEs with capability to boost shareholders' return

Name	RIC	Sector	Share price (local ccy)	30D Avg Daily Trading T/O (mn USD)	Mkt Cap (bn USD)	DBS Rcmd	TP Upside (%)	LTM Net Profit Growth (% YOY)	12M LTM ROE Chg (Ppt)	Total Debt to Asset (%)	Chg in LTM OCF/ Rev vs Prev FY (Ppt)	Est. 12M Div Yld (%)	PB vs 5Y avg (xSD to 5-year mean)
CR Land	1109 HK	Real Estate	25.90	45.26	23.6	Buy	57%	4.5%	-1.86	24.3%	5.75	6.65%	-1.64
Postal Savings Bank	1658 HK	Financials	4.24	21.82	65.8	Buy	32%	1.8%	-0.02	2.6%	4.43	7.35%	-1.18
China Life Insurance	2628 HK	Financials	10.20	37.48	101.0	Buy	57%	-12.8%	-0.72	1.0%	7.57	7.39%	-1.18
China Everbright Environment	257 HK	Industrials	3.05	10.27	2.3	na	na	-17.5%	-3.84	49.7%	14.10	8.70%	-0.92
China Railway	390 HK	Industrials	3.89	13.53	20.5	na	na	9.3%	0.48	24.4%	1.32	7.28%	-0.73
China Unicom	762 HK	Comm. Services	5.65	23.42	22.1	Buy	54%	7.1%	0.89	8.7%	-4.38	7.96%	0.13
Cnooc	883 HK	Energy	16.36	174.04	103.6	Buy	-2%	22.7%	5.90	14.5%	-5.71	8.21%	0.19
Agricultural Bank of China	1288 HK	Financials	3.31	49.34	202.0	Buy	3%	6.7%	-0.45	8.3%	-60.70	7.97%	0.23
China Citic Bank	998 HK	Financials	4.29	16.53	39.5	Buy	17%	8.9%	0.04	15.9%	6.24	9.54%	0.23
Sinopec (H)	386 HK	Energy	4.48	65.03	98.1	Buy	18%	-8.7%	-1.56	18.3%	0.13	9.34%	0.36
New China Life Insurance	1336 HK	Financials	15.78	11.62	11.1	na	na	10.6%	0.06	0.9%	43.15	9.66%	0.36
China Mobile	941 HK	Comm. Services	67.85	142.41	190.8	Buy	37%	14.0%	0.52	6.4%	-3.40	7.97%	0.48
China Power	2380 HK	Utilities	3.22	15.22	5.1	na	na	Turnaround	9.04	55.2%	-9.10	6.79%	0.65
CR Power	836 HK	Utilities	17.22	25.01	10.6	na	na	636.4%	7.06	46.9%	11.76	7.30%	1.02
Huaneng Power	902 HK	Utilities	4.40	26.37	16.4	na	na	Turnaround	8.68	60.0%	7.36	11.32%	1.39
Cosco Shipping	1138 HK	Energy	7.55	13.51	7.9	na	na	Turnaround	25.32	44.3%	16.99	7.07%	1.44
China Telecom	728 HK	Comm. Services	4.30	40.21	72.7	Buy	42%	11.0%	0.16	9.6%	-2.78	6.75%	1.55
Sinopec (A)	600028 SS	Energy	6.37	184.18	98.1	na	na	-8.7%	-1.47	18.9%	0.12	6.24%	2.01
Mengdian Huaneng	600863 SS	Utilities	4.46	59.75	4.1	na	na	31.4%	5.19	36.7%	-2.29	7.60%	2.08
Petrochina	857 HK	Energy	6.26	106.97	22.1	Buy	1%	17.4%	2.48	16.8%	0.08	7.41%	2.26
Shenhua Energy	1088 HK	Energy	31.60	68.08	105.0	Sell	-21%	-14.1%	0.91	9.0%	-4.35	7.75%	2.60

Source: Bloomberg Finance L.P., Thomson Reuters, DBS HK

Sector preference

Top picks

Company Name	Code	Closing price (HK$)	Tgt Price (HK$)	Potential Return (%)	Mkt Cap US$m	PE 23F (x)	PE 24F (x)	EPS 23F (HK$)	EPS 24F (HK$)	ROE 24F (%)	PBV 24F (x)	Yield 24F (%)	Net Gear (%)	EPS CAGR 22-24 (%)
AAC Technology	2018 HK	19.58	26.20	33.8	3,009	17.1	12.3	1.1	1.6	7.0	0.8	2.4	12.1	42.0
ANTA Sports	2020 HK	78.45	117.00	51.5	28,490	20.3	17.4	3.9	4.5	19.9	3.5	2.7	Cash	20.8
China Mobile	941 HK	67.00	93.00	46.5	183,742	9.4	8.7	7.2	7.7	10.6	0.9	8.2	Cash	7.3
China Petroleum & Chem	386 HK	4.43	5.30	27.4	67,784	6.7	6.6	0.7	0.7	9.0	0.6	7.8	3.3	7.1
KE Holdings**	2423 HK	37.20	57.04	53.3	6,407	12.8	11.9	2.9	3.1	12.8	1.4	0.0	Cash	92.0
LI Auto	2015 HK	175.50	170.00	-3.1	23,873	46.1	28.6	3.8	6.1	19.3	5.0	0.0	Cash	n.a.
Samsonite Int'l ^^	1910 HK	26.45	43.32	63.8	4,916	11.6	9.2	2.3	2.9	32.4	2.7	3.3	53.2	34.0
Tencent^^	700 HK	284.60	507.00	78.7	346,017	19.7	15.8	14.5	18.1	17.0	2.5	0.6	Cash	-7.9
Trip.com	9961 HK	362.00	515.00	42.3	29,988	21.6	20.0	16.7	18.1	8.3	1.6	0.0	Cash	178.0
Xiaomi Corp	1810 HK	13.48	21.00	55.8	43,350	19.4	18.2	0.7	0.7	10.0	1.7	0.0	Cash	162.1

Company Name	Code	Why is it our top pick?
AAC Technologies	2018 HK	Replace BYDE with AAC Tech for a short-term tactical trade on upcoming AAC result. The company may deliver earnings surprises on improving AI phone orders and acoustics products ASP, as AI phone have a high requirement on sound sensor.
ANTA Sports	2020 HK	With retail store traffic recovery and a better brand mix, Anta's OP margin will continue to demonstrate resilience despite slowdown in revenue growth, as the company has strong operational control amid a tough operating environment.
China Mobile	941 HK	China Mobile will raise its payout ratio to at least 70% by FY23, making the company an attractive dividend play under weak market sentiment. Also, digital transformation business including DOCT and IoT will continue to drive its business.
KE Holdings	2423 HK	KE's margins will be enhanced with better GTV due to its operating leverage. The company is the key beneficiary of further relaxation in property market measures. A widespread implementation of the rate cut of 2% in all its Lianjia stores should only create a manageable earnings downside 5-6% to our FY24-25F earnings estimates.
Li Auto	2015 HK	Li will be launching first BEV model "MEGA" and three BEV models in 2024, pivoting the company into the fully electric technology segment. Its latest "navigate on autopilot" (NOA) system AD Pro3.0 will be released in 1H24, giving the company competitive edge in ADAS among EV players.
Samsonite Int'l	1910 HK	Samsonite is strategically prioritizing its investments in product innovation, global retail network expansion and marketing activities towards the higher-margin "Tumi" and "Samsonite" brands for better returns.
Sinopec	386 HK	Sinopec is expected to have stable earnings in the coming two years as improvement in downstream earnings will offset lower upstream profits. The company's spot oil price is above its upstream breakeven cost, and generally its share price could outperform upstream peers when oil prices drop. It is also having attractive dividend yield.
Tencent	700 HK	Potential loosening of restrictions on excessive use and spending on online games will lift pressure on Tencent's share price, given Tencent is a leading online game player in China and online game revenue is one of its growth drivers.
Trip.com	9961 HK	Structural changes in customer travel preferences, new revenue expansion from inbound business, increased penetration in lower-tier cities, and active expansion in overseas markets will support Trip.com's long term business growth.
Xiaomi Corp	1810 HK	Xiaomi just launched the 14 Ultra model in Feb, featuring more advanced AI technology and stronger processing power than the previous models. The moves to penetrate premium phone market is expected to bring higher margins to the company and lift share price.

Source: Thomson Reuters, DBS HK

Strategist's sector preference

Sector	Status	Sectors analysts' top picks	Changes
Positive			
China telecom carriers		China Mobile (941 HK)	
Internet		Trip.com (9961 HK), PDD (PDD US)	
Oil and gas		Petrochina (857 HK), Sinopec (386 HK)	
Tech hardware		AAC Technologies	Replace BYD Electronics (285 HK) with AAC Technologies
Neutral			
Apparel and footwear		Shenzhou (2313 HK), Stella (1836 HK), Anta Sports (2020 HK)	
Aviation		BOC Aviation (2588 HK), Cathay Pacific (293 HK), China Southern Airlines (1055 HK)	
China automobile		BYD (1211 HK), Great Wall Motors (2333 HK)	
China brokers		Huatai (6886 HK), CITICS (6030 HK)	Add Huatai
China data centre		GDS (9698 HK)	
China insurers		PICC P&C (2328 HK), AIA (1299 HK)	
China property		KE Holdings (2423 HK/BEKE US)	
China property management		CR MixC (1209 HK)	
China telco equipment		China Communications Services (552 HK)	
Consumer - Discretionary retail		Samsonite (1910 HK), Luk Fook (590 HK), Sa Sa (178 HK)	
Food and beverages		CR Beer (291 HK), Budweiser APAC (1876 HK)	
HK banks		HSBC (5 HK)	
HK developers		SHKP (16 HK), Sino Land (83 HK)	
Macau gaming		Sands China (1928 HK), Galaxy (27 HK),	
Pharmaceutical and healthcare		CR Medical (1515 HK)	
Renewable energy		Flat Glass Group (6865 HK), China Longyuan Power (916 HK)	
Restaurants and catering		Yum China (9987 HK), Cafe de Coral (341 HK)	
Negative			
China banks		BOC (3988 HK), CITIC Bank (998 HK)	Add CITIC Bank
China materials		CHALCO (2600 HK)	
Gas utilities		ENN (2688 HK)	
HK landlords & REITs		Link REIT (823 HK), Fortune REIT (778 HK), Wharf REIC (1997 HK), Hongkong Land (HKL SP), Swire Properties (1972 HK)	Add Hongkong Land, Swire Properties
HK telecom		HKBN (1310 HK)	

Source: DBS HK

Positive

China telecom carriers

We expect solid revenue growth to continue in FY24, thanks to the robust growth of industrial internet businesses such as cloud, IDC, and IoT, riding on the national digitalisation trend with supportive government policies. Operators' cloud business continued to record strong y-o-y growth of 40%-80% in 1H23, and we expect the momentum to be maintained in 2H23 and FY24. Mobile ARPU will continue to recover, driven by the increasing 5G penetration. Furthermore, bandwidth upgrades will also support the increase in broadband ARPU. In terms of shareholder returns, both China Mobile and China Telecom will increase their dividend payout ratio to 70% by FY23, as per their previous commitment, translating into a 7%-8% dividend yield.

Top pick: China Mobile (941 HK)

Internet

(1) Online travel. We forecast online travel revenue would grow by c.18% y-o-y in 2024, even after a strong rebound of 110% in 2023. The long-term growth will be driven by the structural change in travel behaviour, including the younger generation's preference for individual travel, the widening of short-haul travel scenarios (e.g., concert and examination), etc. In the near term, the strong CNY travel data should support robust 1Q24 results for OTAs, and outbound travel will further recover, as international flight capacity is targeted to reach 80% of 2019 level in 2024. (vs. c.65% in 2023).

(2) E-commerce. We expect e-commerce net GMV to register 8% y-o-y growth in 2024. Online shopping is favoured amid economic uncertainty and the consumption downgrade. The prices of products sold on online channels are normally c.5%-15% lower than that of traditional brick-and-mortar outlets. E-commerce platforms are proactively enhancing their product portfolios and placing a strong emphasis on value-for-money offerings to meet the burgeoning demand.

(3) Online games. We expect online gaming revenue to grow by 8% y-o-y in 2024. The process for game license approval is back on track, with 85+ approvals given per round in 2023. Regulatory concerns surrounding the online gaming sector escalated in Dec 2023 when the regulator issued a draft version of "Measures for the Administration of Online Games" for consultation. Despite that, the regulator has been sending positive signals to the market, and we expect cautious near-term sentiment in the online gaming sector pending the release of the revised draft in March 2024.

(4) Online advertising. We expect the online advertising market to grow by 10% in FY24, after a 15% increase in FY23. The outlook is relatively cautious due to the uncertainty in macro and retail sales. We expect online advertising will continue to take away market share from the offline channel, leveraging the improving AI capabilities and thus advertising return for merchants. New advertising formats such as live streaming will also be a key driver for individual companies.

(5) Food delivery. We expect food delivery revenue to grow by 17% in FY24, similar to FY23, mostly driven by the expansion of new categories such as milk tea and late-night snacks. The threat from Douyin is limited after the live stream player abandoned its food delivery target last year.

Top picks: Trip.com (9961 HK), PDD (PDD US)

Oil and gas

Oil prices are seeing an upward bias of late on concerns of the escalation of geopolitical tensions and an anticipation of the extension of OPEC+ production cuts into 2Q24. We maintain our view that oil prices would hover below US$80/bbl on average in 1H24 before recovering in 2H24. We expect 2025 Brent crude oil price to average US$77-82/bbl, slightly higher than the 2024 average, on the back of a likely improvement in fundamentals, backed by interest rate cuts. Hence, on a relative scale, we prefer downstream, which could benefit from lower oil prices and a potential GRM recovery from the 2023 level.

Top picks: PetroChina (857 HK), Sinopec (386 HK)

Tech hardware

(1) China foundries. We forecast the local foundry industry would experience mild growth in 2024 compared to the decline experienced in 2023. This growth is driven by an increased overall utilisation rate, anticipated at c.80% for local foundries in 2024, versus under 80% in 2023. Advanced process node foundries are experiencing a recovery due to rising global demand for consumer electronics, while growth in mature node foundries is expected to remain sluggish.

(2) Consumer electronics. Global smartphone shipments rebounded by 8.5% in 4Q23, vs. a 1% y-o-y decline in 3Q23, signalling a rebound in market demand, driven by innovative features like AI and a replacement peak. Meanwhile, Huawei's return to the 5G smartphone market, coupled with Apple's new phone launch, is going to support the smartphone premiumisation trend and the specification upgrade along the smartphone supply chain. We expect a gross margin recovery upon the improvement of the ASPs of components, such as CCM and acoustic components. In addition, non-smartphone sectors, like automotive electronics and XR devices, are also expected to surpass the top-line growth of conventional consumer electronics. We expect suppliers expanding their business within these non-smartphone sectors, like automotive electronics and XR headset assembly, such as BYD Electronics and Luxshare, to continue to outperform in 2024.

Specific Android smartphone vendors, such as Xiaomi, are expected to resume growth. It is well positioned for the smartphone premiumisation trend with its highly competitive flagship series, such as the Xiaomi 14 series, as against other Android phones in the same price range.

(3) Global PC shipments. The global PC shipment rate fell 2.7% y-o-y in 4Q23, versus a 7.6% y-o-y decline in 3Q23. Channel inventory destocking progressed smoothly in 2023. Additionally, we anticipate the commencement of the commercial PC replacement cycle in 2024, motivated by the migration from older Windows versions to Windows 11. We expect global PC shipments to resume moderate growth in 2024. PC vendors with significant global market presence are poised to capitalise on the global PC recovery.

Top pick: AAC Technologies (2018 HK)

Neutral

Apparel and footwear

2024 expectations have been largely tapered post revisions and cautious guidance from Li Ning and global sportswear plays. We believe the current valuation levels are turning attractive post the sell-offs in the past month, in addition to pricing in a high 1Q base. We also like OEM plays for their firm financial positions and stable yields. We expect volume recovery will drive an improvement in the utilisation rate relative to 2023. We have BUY ratings on Shenzhou (2313.HK), Stella (1836.HK), and Anta Sports (2020.HK).

Top picks: Shenzhou (2313 HK), Stella (1836 HK), Anta Sports (2020 HK)

Aviation

Across the three major regions, we are most optimistic about Asia Pacific airlines, where we anticipate strong earnings momentum driven by high capacity growth and wide margins, with the Chinese airlines likely to see the strongest earnings upswing. Throughout 2023, our stance on Chinese airlines was largely neutral due to credit concerns and the ambiguity surrounding the resumption of international flights. However, following a 20%-30% correction in their share prices, their valuations have become more compelling, particularly with the expectation of unmatched earnings growth over the next two years, prompting us to upgrade our recommendations on Air China and China Eastern Airlines to BUY while we maintain BUY for China Southern Airlines and Cathay Pacific.

The shortage of aircraft has pushed aircraft values and lease rates up significantly, and has led to more airlines extending their leases to secure capacity in an escalating lease rate environment. Lessors are poised to benefit from the tight aircraft market, especially as OEM production and engine challenges appear unlikely to abate for some time and aircraft demand continues to improve. While rapid interest rate hikes and ongoing aircraft delivery delays may create near-term net lease yield pressures for aircraft lessors, these challenges should be mitigated by a reduction in lease restructuring and aircraft in transition, coupled with improved cash collections, especially for lessors with well-staggered debt maturities. Furthermore, portfolio lease yields should finally catch up in 2024 with interest rates peaking. Further asset impairment losses seem improbable, and lessors are expected to see stronger gains on asset sales given the strength in aircraft values. BOCA is our top pick at this juncture, due to its premium asset quality (high % of newbuild aircraft and young fleet) and strong ability to manage the high interest rates because of its stellar credit rating and well-dispersed debt maturity profile.

Top picks: BOC Aviation (2588 HK), Cathay Pacific (293 HK), China Southern Airlines (1055 HK)

China automobile

The Chinese vehicle market started 2024 with a relatively strong sales momentum in January with PV sales growth at 57% and NEV at 102% y-o-y, largely attributable to the low base effect as the CNY was in Jan 23. Given the CNY was in Feb 24, PV sales growth is expected to decline by some 40% y-o-y. To remove the CNY impact, Jan-Feb 24 PV sales are expected to post a mid-teen expansion. As anticipated, automakers continue with their aggressive pricing strategy, widening to a broader market segment, especially after BYD priced two new models – Qin Plus and Destroyer – at an ASP of Rmb79.8k for the entry variant, which has triggered similar actions from other Chinese automakers. We believe the decline in battery cost will give automakers more flexibility to adjust their pricing strategy, since EV battery accounts for some 40% of total cost. Strong automakers such as BYD, which has control over the value chain, will be better positioned to navigate through the current market challenges.

Top picks: BYD (1211 HK), Great Wall Motor (2333 HK)

China brokers

We think China brokers are still undergoing a transitional period. The (1) tightened IPO & derivatives business and (2) public fund fee cuts will continue to drag China brokers' earnings. We think the appointment of the new CSRC chairman may accelerate the reforms. However, the overall direction to tighten things up has not changed. It will still take time for overall market activity to pick up, which also hinges on the economic recovery. We think diversified players like Huatai (6886 HK) and CITICS (6030 HK) would be more resilient than their peers.

Top picks: Huatai (6886 HK), CITICS (6030 HK)

China data centre

We forecast that sector growth will come in at a respectable level of c.15% in FY24, similar to FY23. The focus and growth catalyst for data centre operators will be overseas expansion, given the stable outlook on domestic demand in the near term. By 2026, GDS is expected to possess over 370MW of power capacity from seven overseas projects in Hong Kong, Johor, Batam, and Singapore, with the overseas market contributing approximately 15% to the company's adjusted EBITDA. We expect demand in the region to remain strong going forward, riding on Chinese internet companies expanding overseas. We hold a positive view on the sector's long-term outlook, backed by the stabilised domestic market and rapid overseas market expansion.

Top pick: GDS (9698 HK)

China insurers

We prefer P&C insurers over lifers amid the interest rate down cycle, given the net positive duration gap of P&C insurers. In the life segment, we prefer regional insurers with better asset-liability management and less sensitivity to interest rate cuts. Underwriting profits for P&C insurers are expected to improve in FY24F, driven by robust premium growth and a stable combined ratio (COR) outlook. We expect regional insurers such as AIA, Prudential to have double-digit value of new business (VNB) growth in FY24F, outperforming China life insurers, due to their exposure to the HK market with strong mainland Chinese visitor (MCV) demand for health and protection products and global asset allocation.

In China, the impact of stricter regulations on life insurance sales is less than previously expected. According to our recent discussion with management, insurance products continue to be attractive in comparison to bank deposits and WMPs, and they remain positive on sales growth in FY24F. We hence expect Chinese life insurers to achieve high single-digit VNB growth in FY24F, driven by strong demand for savings products. The agent headcount is likely to further decline in FY24F, while the improvement in agent productivity is expected to offset the streamlining headcount and drive high-quality growth in the agency channel. In the bancassurance channel, banks are expected to push insurance sales under pressure for fee income growth. The China property sector remains a key overhang for China life insurers, despite limited downside risk based on our stress tests. Due to the absence of effective policy stimulus and developers' offshore bond repayment cycle in 1H24, we expect lifer share prices to remain weak due to the lack of near-term catalysts.

Top picks: PICC P&C (2328 HK), AIA (1299 HK).

China property

We are maintaining a cautious view on the China property sector's near-term outlook. In the physical market, homebuyer sentiment has remained subdued, with both income uncertainty and weak price expectations continuing to linger. The increasingly attractively priced secondary market has also continued to divert genuine demand away from the primary market. These have translated into a weak start for the year as seen in the subdued performance in Jan 24 and during the Chinese New Year holiday week. We expect homebuyer sentiment to remain weak, with key drag factors unlikely to see a meaningful improvement in the short term. This, coupled with a high comparison base in Feb-Apr, will likely translate to meaningful y-o-y declines in the physical market over the upcoming few months.

On the policy side, the recent local-level "Two Sessions" that have concluded thus far have played down the importance of the property sector within the overall description of the region's development plans. We expect a similar trend to be seen on the upcoming national "Two Sessions", with the overall policy stance towards the sector unlikely to change. More light should be shed on the "Three Major Projects" and "Risk Mitigation". Local-level policy relaxation will likely continue, though further room for easing is limited, aside from a few core Tier 1 and 2 cities, while impacts to homebuyers and thus the physical market have been fading.

Investor sentiment in the sector is expected to remain subdued with share price volatility expected to stay with relatively thin trading volume. News flow on the sector may skew more towards the negative side as we enter the results season, with most developers likely to report weak sets of results and communicate conservative management guidance. KE Holdings (2423 HK) remains our sector top pick, as it is poised to capitalise on developers' rising reliance on external customer acquisition channels and surging secondary market transactions. Value-hunting opportunities may also emerge on quality SOE names amid share price volatility. Preferred names to look out for would be CR Land, COLI, and Yuexiu.

Top pick: KE Holdings (2423 HK/BEKE US)

China property management

The PM sector's share price performance continued to exhibit strong correlations to the China property sector based on lingering concerns regarding liquidity issues and repayment risks of related developers. As the de-risking process in the property space is still ongoing, we expect the relationship between the two sectors to persist in the near term.

In terms of the sector's earnings outlook, we expect property managers – especially POEs – to report weak financial results. This will stem from 1) potential shortfall on revenue and profit from property management (given intensifying competition, esp. in the third party space) and value-added services (upon ongoing property sector turbulence which may impede property-related services and weaker growth outlook in Community VAS upon increased service penetration rate); and 2) potential impairment risks for account receivables – upon further deteriorated related developer cashflows and increasing contribution from public facilities projects with longer fee collection days – and goodwill upon weaker performance of previously acquired companies. We expect SOE-backed PM names to be on track to deliver resilient earnings growths >20, compared to POE counterparts' >10% y-o-y declines. Meanwhile, we foresee that some SOEs may look to raise their dividend payouts in March to address investor concerns over potentially excessive cash holdings.

Considering the prevailing weak near-term investor sentiment due to spillover concerns from the property sector, we expect the sector to trade sideways or even potentially skew towards the negative side before a major policy shift. Share price volatility is expected to stay high, alongside relatively thin trading volume and short-term centric trades. We continue to like CR MixC (1209 HK) among SOEs for its continually resilient growth outlook, premised on its parent company's solid development pipeline and leading positioning in China's premium commercial market.

Top pick: CR MixC (1209 HK)

China telco equipment

We anticipate the capex budgets of three domestic operators to remain largely stable, with a continued shift towards computing power investments in FY24. We prefer telecom equipment providers with high exposure to the industrial internet business or enterprise digitalisation. On the other hand, the number of 5G base stations increased by 1,065k, reaching 3.4m in FY23, compared to a net addition of 890k in FY22. We expect operators to continue strengthening their 5G network coverage and quality, therefore supporting further 5G base stations buildouts in FY24.

Top picks: China Communications Services (552 HK)

Consumer – discretionary retail

Discretionary categories popular amongst tourists, including global luxuries, jewelleries & watches, cosmetics, etc. continue to recover and post sound double-digits' y-o-y growth. In the HK market, lower-than-expected rental hikes across street-level shops amid slower rental demand from some underperforming categories (e.g., local restaurants, home appliances, furnitures, etc.) also offer better operating leverage for discretionary tourist plays. For the full-year of 2024, retail sales in Mainland China could grow by 5-6%, while HK retail sales could recover by approximately 10-12%.

However, weak sentiment across the stock & property markets may affect consumption growth should we see further deterioration. Overall, we stay hopeful on tourist consumption, including market expectations of a >30% y-o-y expansion in the overall number of Mainland Chinese travellers during the 40 days spanning before and after the Chinese New Year Holidays (i.e., from 26 Jan to 5 Mar 2024). The latest government decision to add both Xian and Qingdao to the Individual Visit Scheme by 6 Mar 2024 (total: 51 cities) also allows their residents to travel to HK & Macau more easily ahead. Samsonite, Chow Tai Fook, Luk Fook, Chow Sang Sang and Sa Sa are some key examples of direct beneficiaries.

Top picks: Samsonite (1910 HK), Luk Fook (590 HK), Sa Sa (178 HK)

Food and beverages

Catering revenue (designated enterprises) recorded a 17% y-o-y growth during the Chinese New Year holiday. We expect leading brewery names to continue benefiting from the channel shift. Total sales volume could be sluggish in 1Q23 given the relatively high base, dairy processors could potentially see a better sales momentum in 2024 with demand recovery, and overall hog/pork supply could remain sufficient in 1H24 with potential price recovery in 2H24 as sow capacity contracts.

Cost pressure could continue to soften and support margin growth in 2024, with supply of major raw materials (e.g., barley, soybean meals and alfalfa) normalising. Upstream dairy farms should continue to see margin pressure due to the weaker raw milk price, but this could support margin expansion for downstream plays.

Top picks: CR Beer (291 HK), Budweiser (1876 HK)

HK banks

We expect flattish earnings growth for HK banks in FY24/25F, as the interest rate upward cycle has come to an end. We also expect loan growth in HK to remain subdued, given that the interest rate gap between HK/CN remains high. We expect a c.2% y-o-y loan balance growth in 2024 in HK, on 2023's low base. We also expect higher impairment and credit losses, given the continuous risk from China property sector. Fee income growth may remain weak with weak HK capital activities.

Top pick: HSBC (5 HK)

HK Developers

Developers have been expediting property launches following the relaxation of stamp duty in the Policy Address in Oct-23. Transaction volume improved slightly since then, yet, home price remained on a downward trend and concluded the full year with c.6% decline in 2023.

High mortgage rate, coupled with slower-than-expected post-COVID economic recovery of HK/China, should continue to weigh on housing demand. Coupled with rising new home supply and increased unsold inventory, developers are therefore expected to maintain a flexible pricing strategy when launching new projects as supply stays relatively high in the near term. On a positive note, residential rents have been bottoming out reflecting solid end-user demand. Incoming talent, who are no longer required to pay extra stamp duty at the time of residential property acquisition, would become a key source of home demand in the medium term. The newly unveiled Capital Investment Entrant Scheme aims to attract affluent immigrants who could be potential purchasers of luxury homes. In addition, potential reduction in mortgage rates in 2H24 could prompt property investors to re-enter the market. Overall, we project home prices to fall 5-10% in 2024.

In this currently challenging market, we prefer SHKP for its strong execution and Sino Land for its impeccable balance sheet. Following the share price retreat, SHKP is attractively valued, trading at c.2SD below its 10-year discount to NAV average. Major shareholder, Kwok family, has been increasing its stake in the company lately which signals strong embedded value. Any interest rate pivot should improve sentiment towards the sector, and thus, prompting share price appreciation for SHKP which is a proxy to the HK property market. With a robust balance sheet strength, Sino Land is well poised to pursue for more value-accretive land acquisitions amid falling land prices to underpin its long-term growth.

Top picks: SHKP (16 HK), Sino Land (83 HK)

Macau gaming

The market expects Macau's gross gaming revenue (GGR) to reach c.MOP220bn in 2024, translating to a decent 20% y-o-y growth. More importantly, the mass gaming segment is set to sustain well over the pre-COVID level this year to further beef up profitability. The latest addition of both Xian and Qingdao to the Individual Visitor Scheme, effective 6 Mar 2024, could also increase the pool of independent Mainland Chinese travellers able to visit Macau by c.23m people. Our top picks are Galaxy (TP at HK$62.31) and Sands China (TP at HK$43.00).

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

Pharmaceutical and healthcare

The sector's share price correction and headwinds resulting from the anti-corruption campaign initiated by the Central Commission for Discipline Inspection are still lingering. Investors should remain cautious toward medical product suppliers targeting public hospitals. For a bottom-fish idea, we like SOE hospital operators such as CR Medical (1515 HK), mainly due to the favourable policy just released in Feb 2023. In addition, we also like it because of a) asset injections from its parent company, which would double its capacity, as announced in Feb 2023; b) its attractive valuation; and c) expectations of at least two more asset injections from the parent in the next three years.

Top pick: CR Medical (1515 HK)

Renewable energy

China added 216.9GW of new solar installations in 2023, up 146% y-o-y, higher than our expectation of 180GW. As continuously noted previously, the growth rate will slow down in 2024. Solar component pricing (polysilicon, wafer, cell, module) remained weak, largely flat m-o-m. We continue to see wider N-type module adoption, with Trina Solar attributing strong 2023 profit growth to higher TOPCon module sales. As we highlighted earlier, the solar value chain is in the early stages of a shakeout. We are starting to see small players selling their solar-related assets. However, we reckon the scale of the shakeout remains too small to indicate a turnaround. In fact, rapid expansion of N-type production may lead to overcapacity for TOPCon modules.

As a result, we are cautious on most solar component names except for solar glass. We maintain BUY on Flat Glass Group (FGG) as our solar top pick given its relatively stable competitive (duopoly) position and resilient solar glass ASP.

Meanwhile, China added 77.1GW of new wind installations in 2023, up 58%, also higher than our expectation of 66GW. Wind turbine prices continue falling in China, having reached <Rmb1,400/kw. The wind turbine industry is facing structural difficulties as turbine sizes expand. Larger wind turbines drive down wind power prices, however, costs may decline slower or even increase in future. Thus, we see continued challenges to wind turbine gross margins. A turnaround will require a standardization of turbine sizes (i.e., stopping the "size war"). We maintain China Longyuan Power (CLYP 916 HK) as our wind sector pick.

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

Restaurants and catering

China restaurant plays have seen meaningful recoveries with the rebound in dine-in volumes, driving strong margin expansion in 2023. In 2024, we expect steady store expansion, with continued recoveries in dine-in volume to be the key earnings driver. With intense competition, we prefer defensive plays such as Yum China (9987.HK) and Cafe de Coral (341.HK) to sustain through a tough operating environment.

Top pick: Yum China (9987 HK), Café de Coral (341 HK)

Negative

China banks

China banks see continous NIM pressure, with negative impacts from 1) roll over effect from the existing mortgage rate being cut; and 2) continuously loosening monetary policy, where we expect another 10bps of 1-year LPR cut in 2024. The latest 25bps of 5-year LPR cut should be overall supportive to credit demand and asset quality of mortgage, despite NIM pressure. NIM pressure may be narrower than what we saw in 2023, after three rounds of deposit rate cut in 2023 to release the pressure from funding cost side. China property sector and LGFV debt restructure remain key risky sectors to watch. Until now, we have not seen material policy requirement to force banks to support such sectors.

Top pick: BOC (3988 HK), CITIC Bank (998 HK)

China materials

Global aluminium production growth decelerated modestly to 2.2% in 2023 (from 2.9% in 2022). In China, aluminium output growth also slowed to 3.7% in 2023 (from 4.5% in 2022). Meanwhile, assuming no further deterioration of China's construction market, we expect the rising investment from transportation and power sectors to support a continuous demand outlook. On the other hand, we assume China's output would further slow to approximately 2% in 2024 amid the industry capacity ceiling policy. As a result, lower output could help reduce the market surplus.

Top pick: CHALCO (2600 HK)

Gas utilities

Total gas consumption and natural gas supply climbed 7.7% and 8.2% y-o-y in 2023, respectively. Imported LNG in particular climbed >10% during the period. As our economic team expects China's GDP growth to nudge down to 4.5% in 2024, we estimate total gas consumption growth to slow down to around 7% in 2024. We expect gas distributors to deliver high single digit growth in gas sales volume in 2024.

Average domestic LNG prices dropped c.30% to around Rmb4,800/tonne in 2023. Such a downtrend continued in January 2024 amid a relatively warm winter. Despite LNG prices remaining at a slight premium to the pre-war level, we believe uptrend in dollar margin for gas distributors will continue due to the subsequent roll out of upstream/downstream cost pass through mechanism. New gas connection is expected to decline at least 10% in 2024 given the lacklustre property market. Nevertheless, the reliance on revenue from new gas connection is declining as gas distributors diversify into new operations – such as new energy, value added services, etc.

Top pick: ENN (2688 HK)

HK Landlords & REITs

Retail market recovery led by the border re-opening has lost momentum since 2H23. Tourist spending recovery was weaker-than-expected due to changing shopping behaviour, China's sluggish economic outlook and Rmb depreciation. Increased outbound travel among locals has also capped the recovery of domestic consumption. Nevertheless, retail rents are improving moderately, with high street shops outperforming prime shopping centers. With occupancy cost ratio becoming healthier, retail rent reversion is gradually turning positive. Potential resumption of multiple entry visa for Shenzhen residents, weakening of HKD led by potential rate cuts in 2H24 and recovery of flight capacity could give an additional boost to inbound tourism, and thus, tourist spending. Overall, we forecast c.5% rise in retail rents in 2024.

Office demand remained subdued amid increased macro uncertainties and lackluster financial market performance. Relocation activities were primarily driven by corporate downsizing or office consolidation. Overall office vacancy stood high at 12.8% as of Dec-23 with rents fell by another 5.9% in 2023 after dropping 26% since the COVID outbreak. The pace of China's economic recovery, interest rate movement and financial market performance would dictate the outlook of leasing demand in 2024. Pre-commitment rate of soon-to-be-completed office developments remain low, which should push up vacancy higher and exert additional pressure on office rents. We project office rents to fall 5% in 2024. Against this backdrop, office reversionary growth should remain in the negative territory. On the other hand, investment demand remains weak due to negative rental carry and ongoing rental corrections.

Following the sell-off, Link REIT, Fortune REIT and Wharf REIC are attractively valued. Any interest rate pivot, likely in 2H24, should improve their earnings outlook, prompting share price appreciation. Hongkong Land and Swire Properties are trading at >1.5SD below its 10-year mean. Concerns over office market prospects are likely to be priced in given such low valuations.

Top picks: Link REIT (823 HK), Fortune REIT (778 HK), Wharf REIC (1997 HK), Hongkong Land (HKL SP), Swire Properties (1972 HK)

HK Telecom

We prefer fixed-line operators over mobile operators in 2024, based on the formers' attractive dividend yield and more sustainable growth outlook. We expect the residential broadband market to grow by a faster 4.5% and 3.5% y-o-y in FY24 and FY25 respectively, from a 2.4% growth in FY23, as operators started to focus on ARPU maximisation in 2H23. In addition, we expect the enterprise market to grow steadily by 5-6% y-o-y in FY23-FY25, compared to flattish growth recorded in FY22, riding on increasing IT spending and enterprise digitalisation post-COVID. For mobile operators, we expect roaming revenue to continue to recover to 85-90% of the pre-COVID level and contribute 10-17% of mobile service revenue in FY24. While this will support earnings growth for mobile operators, we reckon that this trend has been largely priced in. Fixed-line players offer more attractive yields of 9-12%, 2-4 SD above the historical average. Mobile names are trading at 7-8% yields, c.1SD above.

Top pick: HKBN (1310 HK)

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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