農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

ABCI China/Hong Kong Equity Research
2H17/2018 Economic Outlook & Investment Strategy

A New Era

農銀國際
ABC INTERNATIONAL
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Contents

Philip Chan
Co-Head of Research
philipchan@abci.com.hk

Yao Shaohua
Economist
yaoshaohua@abci.com.hk

Johannes Au
Analyst
China Banks
johannesau@abci.com.hk

Steve Chow
Analyst
China Securities and Brokerage
stevechow@abci.com.hk

Kenneth Tung
Analyst
China Real Estate
kennethtung@abci.com.hk

Kelvin Ng
Analyst
China Environmental/ Alternative Energy
kelvinng@abci.com.hk

Paul Pan
Analyst
China Consumer
paulpan@abci.com.hk

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2H17/2018 Economic Outlook - Global

Economist: Shaohua Yao
yaoshaohua@abci.com.hk

Global economic growth to quicken slightly in 2H17/2018

- Global economic recovery has accelerated since the start of 2017 on the back of rebounding manufacturing and services activities in addition to the improving trade. Year to date, the global major economies have demonstrated a steady growth
- Global inflation has ticked up since the start of 2017 on rising commodity prices. The increase in global producer price inflation has been particularly significant
- Looking ahead, global economic growth is expected to pick up slightly in 2H17 and 2018, supported by robust growth in manufacturing and trade, rising consumer confidence, accommodative monetary policy, and stabilizing commodity prices
- Rising trade protectionism and heightened uncertainty on economic and political policies would be the main challenges faced globally
- We expect economic growth in the U.S., Eurozone, Japan, and China to be 2.0%, 1.9%, 1.5%, and 6.7% in 2017F and 2.2%, 2.0%, 1.2%, and 6.4% in 2018F, respectively, compared with 1.6%, 1.8%, 1.0% and 6.7% in 2016

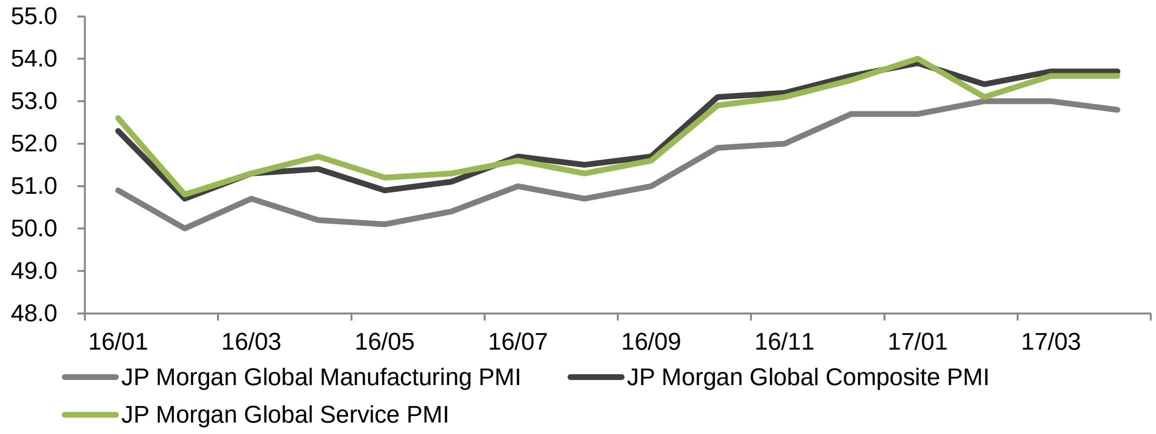
Global growth gains traction

The pace of global economic recovery has quickened since the start of 2017 on rebounding manufacturing and services activities as well as improving trade. As shown in Exhibit 1, both the JP Morgan global manufacturing PMI and service PMI increased noticeably in the first few months of 2017, pointing to robust growth in economic activity.

Global trade activity also picked up in 1Q17 on the reviving economic momentum. According to the WTO trade statistics, global merchandise trade value growth reached 10.4%[1] in 1Q17, its strongest pace in almost 7 years. The World Trade Outlook Indicator released by WTO was 102.2 in Mar, the highest since May 2011, suggesting global trade would continue to expand moderately in 2Q17.

[1] All growth rates are year-on-year except specified otherwise

Exhibit 1: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities

Year to date, the global major economies have been displaying a steady growth pace on the back of accommodative monetary policy and rebounding commodity prices. In 1Q17, the U.S. economy grew by 2.0% on a yearly basis, up from 1.6% in 1Q16 (Exhibit 2). Eurozone, the U.K., and Japan's economies expanded by 1.7%, 2.1%, and 1.6%, respectively, in 1Q17, compared with 1.7%, 1.6% and 0.5% in 1Q16. Recent data also pointed to growth acceleration in China's economy in 1Q17.

Exhibit 2: GDP growth of global major economies (%)

Real GDP Growth (YoY)	2016	1Q16	1Q17
U.S.	1.6	1.6	2.0
Eurozone	1.8	1.7	1.7
U.K.	1.8	1.6	2.1
Japan	1.0	0.5	1.6
China	6.7	6.7	6.9

Source(s): Bloomberg, ABCI Securities

Major central banks have adhered to an accommodative stance to counteract against economic and financial risks. E.g., ECB reiterated interest rates would stay low for an extended period of time and confirmed the Bank's commitment to purchase EUR 60bn of assets a month until the end of 2017. The refinancing rate, the marginal lending rate, and the deposit facility rate remain at 0.00%, 0.25%, and -0.40%, respectively. Meanwhile, BOJ maintains its easing monetary policy with the yield-curve control program to achieve the 2.0% inflation target.

Global inflation has ticked up since the start of 2017 on rising commodity prices. Compared with the global consumer price inflation, the increase in global producer price inflation has been particularly significant. Notably, China's producer inflation rose markedly in the first few months of 2017 - a result of the rebounding commodity and material prices, capacity-reduction effort, and recovering property investment.

Global growth to quicken slightly in 2H17/2018

Looking ahead, global economic growth is expected to accelerate slightly in 2H17 and 2018, supported by robust growth in manufacturing and trade, rising consumer confidence, accommodative monetary policy, and stabilizing commodity prices. According to the latest Global Economic Prospects released by the World Bank in June 2017, the global economic growth is projected to accelerate to 2.7% in 2017 and 2.9% in 2018, up from 2.4% in 2016 (Exhibit 3). However, rising trade protectionism and heightened uncertainty on economic and political policy would be the main challenges for the global economy.

We expect the U.S. economy to grow by 2.0% in 2017F and 2.2% in 2018F, up from 1.6% in 2016. Domestic demand would remain the key growth driver of the U.S. economy, which would be supported by the Trump government's stimulus package such as tax cuts and investments in infrastructure programs. On the monetary front, with a weakening outlook for core inflation, we expect the U.S. interest rate to stay unchanged in the remainder of 2017F before increasing twice in 2018F - a more gradual pace than the Fed has estimated so far. Meanwhile, the Fed would continue to reduce its balance sheet in 2018.

We expect the Eurozone economy to grow by 1.9% in 2017F and 2.0% in 2018F, compared with 1.8% in 2016. Manufacturing activity and goods exports will be the main drivers of this growth. According to ECB's forward guidance, we expect interest rate and monthly asset purchasing size to remain unchanged for the rest of 2017. However, with the Eurozone economy strengthening, ECB is likely to taper off its monthly asset purchasing size and cease it altogether in 2018 although interest rate would remain unchanged.

We forecast Japan's economic growth to pick up from 1.0% in 2016 to 1.5% in 2017F and 1.2% in 2018F on the back of recovering external demand and business investment. The accommodative monetary and fiscal policies would also support growth. With inflation outlook remaining sluggish and far below the 2% target set by BOJ, we expect the country's monetary stance would stay consistent in 2017 and 2018.

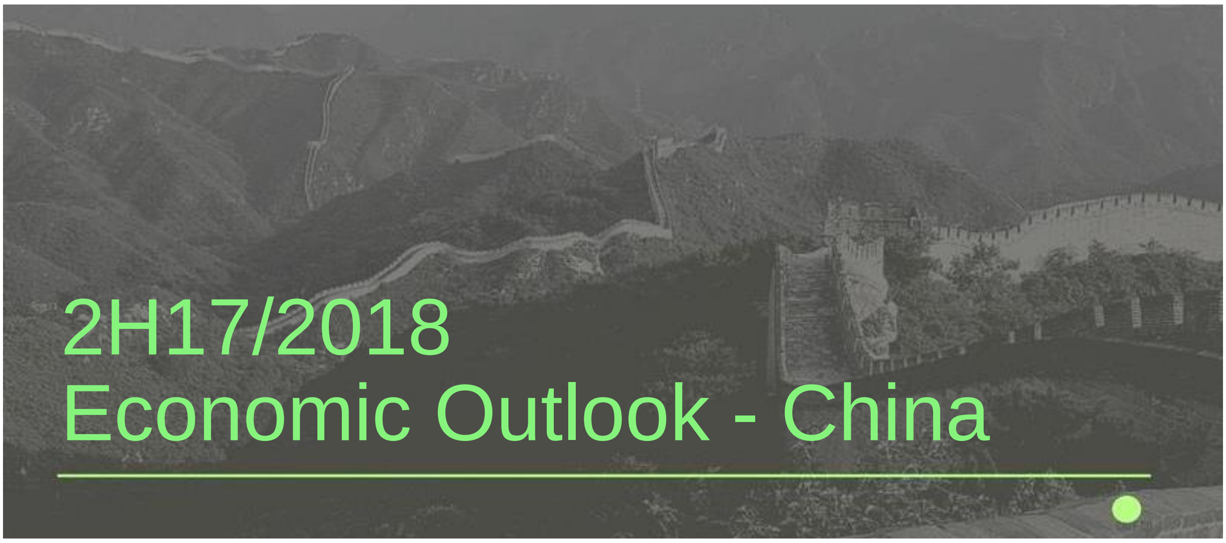
With the ongoing economic deleveraging, easing PPI inflation, and property tightening measures, we maintain our China's economic growth forecasts of 6.7% for 2017F and 6.4% for 2018F.

Exhibit 3: GDP growth forecasts for global major economies (%)

Real GDP Growth (YoY)	2016	2017F	2018F
U.S.	1.6	2.0	2.2
Eurozone	1.8	1.9	2.0
Japan	1.0	1.5	1.2
China	6.7	6.7	6.4
World	2.4*	2.7*	2.9*

Source(s): World Bank, Bloomberg, ABCI Securities estimates

* World Bank estimates and forecasts



Economist: Shaohua Yao
yaoshaohua@abci.com.hk

China's economic growth will moderate in 2H17/2018

- China's economy has started the second quarter at a moderate pace due to the ongoing deleveraging, rising financing costs, and tightening financial regulatory measures
- Industrial production, fixed asset investment, retail sales, and trade data in Apr and May eased from the strong level in Mar, with most of them coming below market expectations
- Despite the strong 1Q17 GDP figures, we believe China's economic growth will moderate slightly in the coming quarters. With the ongoing economic deleveraging, easing PPI inflation, and property tightening measures, we maintain our China's economic growth forecasts of 6.7% for 2017F and 6.4% for 2018F
- PBOC is expected to keep benchmark interest rates steady in 2017F and 2018F while RRR would be slashed by 50bps twice every year given the mild inflationary pressure and reduction in foreign exchange

Growth impetus is not as strong

Based on the latest data, China's economy has started the second quarter at a moderate pace due to the ongoing deleveraging, rising financing costs, and tightening financial regulatory measures. Industrial production, fixed asset investment (FAI), retail sales and trade data in Apr and May eased from the strong level in Mar, with most of them coming below market expectations.

Industrial production rose 6.5%[1] in Apr and May after growing 6.8% in 1Q and 7.6% in Mar. Electricity output expanded by 5.4% in Apr and 5.0% in May, compared with the growth of 6.7% in 1Q and 7.2% in Mar. Meanwhile, the PMI for manufacturing, which covers 31 industries, eased to 51.2 in Apr and May from 51.8 in Mar.

In terms of internal demand, both consumer spending and FAI growth slowed. Retail sales growth decelerated slightly to 10.7% in Apr and May from 10.9% in Mar as car sales slowed on partial withdrawal of tax incentives (Exhibit 1). FAI growth in urban areas also decelerated to 8.3% in Apr and 7.9% in May from 9.4% in Mar and 9.2% in 1Q, attributable to easing manufacturing FAI growth on tightening monetary condition (Exhibit 2).

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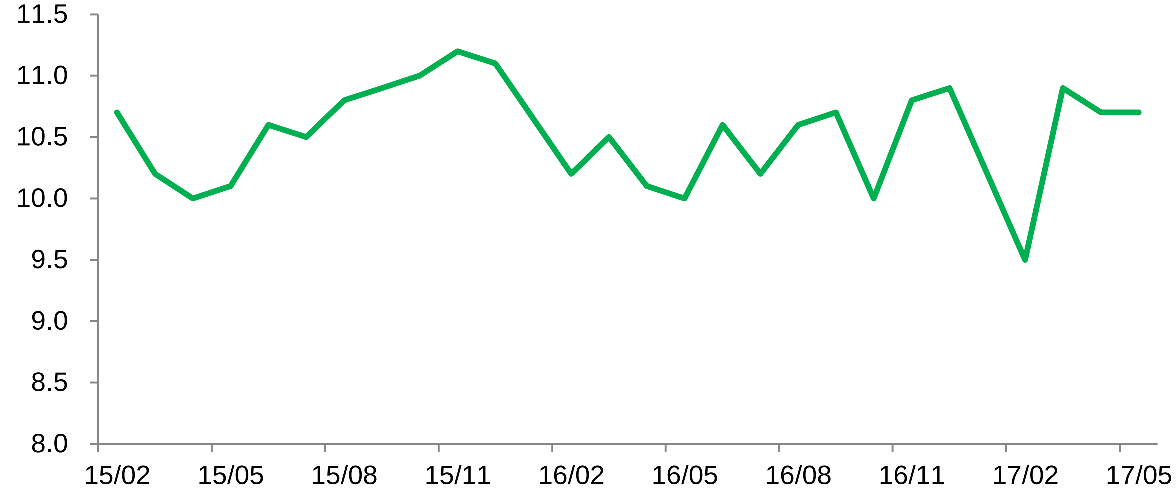
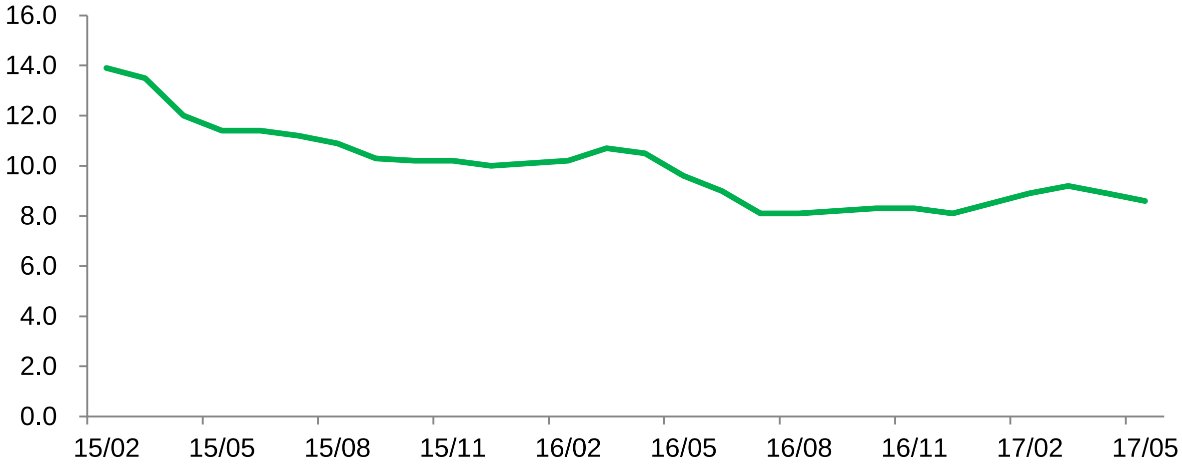
[1]All growth rates are year-on-year except specified otherwise

Exhibit 1: China's retail sales growth



Source(s): NBS, ABCI Securities

Exhibit 2: China's FAI YTD growth



Source(s): NBS, ABCI Securities

On the external front, both exports and imports slowed in Apr and May (Exhibit 3). China's export growth was 8.0% in Apr and 8.7% in May in USD terms, weaker than 16.4% in Mar, although it was close to the export growth of 8.2% in 1Q. Imports decelerated significantly in Apr and May, rising only by 11.9% and 14.8% respectively, compared with 20.3% in Mar and 24.0% in 1Q. With the significant decrease in import growth, trade balance widened to US$ 38.0bn in Apr and US$ 40.8bn in May from US$ 23.9bn in Mar.

Exhibit 3: China's export and import growth

Source(s): NBS, ABCI Securities

Inflation remained moderate in Apr and May. CPI rose to 1.2% in Apr and 1.5% in May from 0.9% in Mar as decline in food prices moderated. Meanwhile, PPI decelerated to 6.4% in Apr and 5.5% in May from 7.6% in Mar on the falling commodity prices, particularly those of oil and ferrous metal-related products.

On the monetary front, PBOC maintained a monetary tightening bias in Apr and May on the ongoing deleveraging. CBRC also strengthened financial regulation, particularly in the area of shadow banking system. Growth in broad money supply (M2) decelerated to 10.5% in Apr and 9.6% in May from 10.6% in Mar while the total social financing, a comprehensive measure of all types of financing for the real economy, fell to RMB 1,390bn and RMB 1,060bn from RMB 2,120bn during the same period.

Economic growth to moderate slightly in 2H17/2018

Despite strong 1Q GDP figures, we believe China's economic growth will moderate slightly in the coming quarters for the following reasons.

First, the ongoing deleveraging and tightening financial regulatory measures will continue to exert upward pressure on the interbank interest rates, driving up the lending interest rates. According to the 1Q17 Monetary Policy Report by PBOC, the weighted average lending rate rose to 5.53% in Mar 2017, compared with 5.26% in Dec 2016. Meanwhile, with CBRC issuing a series of regulations, the bond financing condition is likely to remain tight.

Second, PPI inflation is likely to moderate in coming quarters with the low base effect fading away and commodity prices easing, reducing investment return and dampening investment sentiments in the manufacturing sector.

Third, property sales are likely to slow amid the intensified property tightening measures, which would weigh on home renovation in retail sales growth. In fact, growth in new home sales, as measured in floor space area and value, were 7.7% and 10.0% in Apr and 10.2% and 14.1% in May, compared with 14.7% and 24.4% in Mar.

Considering the ongoing economic deleveraging, easing PPI inflation, and property tightening measures, we forecast China's economic growth forecast to be 6.7% for 2017F and 6.4% for 2018F. Meanwhile, we reassert that PBOC would keep the benchmark interest rates steady in 2017 and 2018. RRR would be slashed by 50bps twice every year given the mild inflationary pressure and reduction in foreign exchange.

Exhibit 4: Economic forecasts

Economic indicators	2016	2017F	2018F
Real GDP growth, %	6.7	6.7	6.4
FAI growth, %	8.1	8.5	8.0
Retail Sales growth, %	10.4	10.5	10.0
Export growth in USD terms, %	(7.7)	8.0	3.0
Import growth in USD terms, %	(5.5)	14.0	5.0
Industrial Production growth, %	6.0	6.5	6.0
CPI, %	2.0	1.7	2.0
M2 growth, %	11.3	10.5	10.0
Aggregate Financing, RMB bn	17,800	19,000	20,000
New Yuan Loans, RMB bn	12,600	13,500	14,500
Spot CNY per USD, End-year	6.9450	6.9000	7.1000

Source(s): NBS, PBOC, ABCI Securities estimates

2H17- 2018 Investment Strategy

Analyst: Philip Chan
philipchan@abci.com.hk

- The U.S. Fed is deleveraging ahead of others – the era of abundant, low-cost funding will soon be over. Major economies will enter a cycle of tightening monetary policy in the next 12 months
- Mainland China investors are gaining pricing power and influences over the HK capital market
- The depth and diversity of China's equity and bond markets are attractive to foreign investors
- Companies in businesses such as municipal facilities services, environmental protection, green energy production, insurance, healthcare, education, tourism, entertainment, internet, and logistic services will continue to flourish
- Uneven provincial economic growth will favor niche players in high-growth provinces benefiting from Belt and Road Initiatives, Yangtze River Belt Development Strategy, and Beijing-Tianjin-Hebei Province Collaboration Development Strategy
- New forms of investment-led growth in China would benefit large contractors
- We expect trading range of HSI to rise further from 22,800-27,900 in 2H17F to 24,360-29,300 in 2018F
- Volatility indices and country risk premiums, which are standing at low levels at present, suggest investors have underpriced market risk or overpriced stocks

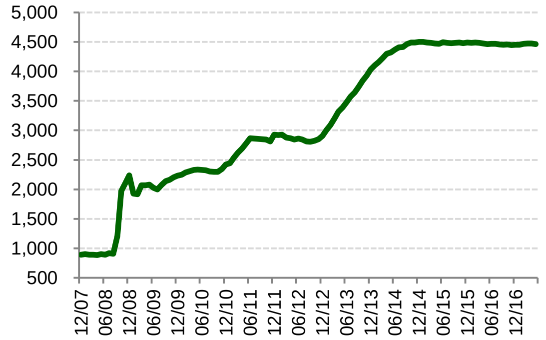
The U.S. Fed is deleveraging ahead of others – the era of abundant, low -cost funding will soon be over. Major economies will enter a cycle of tightening monetary policy in the next 12 months

The U.S. has raised the Fed Fund rates twice in 1H17 and three times since Dec 2016. Short-term USD interest rates have been trending up although liquidity supply remains intact. The Fed indicates it is downsizing its balance sheet in 2H17, meaning that liquidity supply will be tightened while funding cost will increase in 2H17-2018. As the Fed takes preemptive moves to deleverage its balance sheet ahead of PBOC (People's Bank of China), ECB (European Central Bank) and BOJ (Bank of Japan).

Industrial nations who decide to delay deleveraging will bear the risks of local currency devaluation and capital outflow.

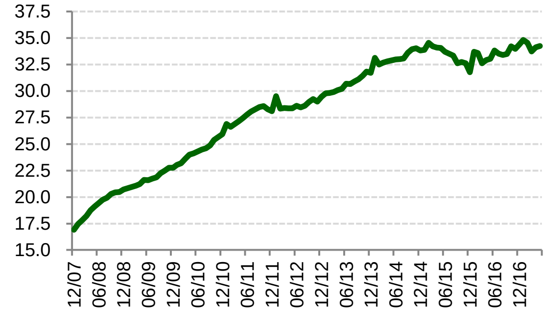
In fact, the Fed's balance sheet is the smallest compared with that of PBOC, ECB and BOJ. Among the major central banks, we believe the Fed and PBOC have refrained from expanding their asset sizes further; meanwhile, asset growth in BOJ slowed in 5M17 compared to that of 2016. ECB is still easing its monetary policy in 1H17 but may slow balance sheet growth in 2H17-1H18. Since PBOC has been refraining from expanding its balance sheet, the government bond yields in China have increased significantly in 5M17. China's 10-year bond yield advanced by ~58bp so in 5M17. Time is gradually running out for highly leveraged companies to reduce their assets or minimize the risk of duration mismatch of assets and liabilities.

Exhibit 1: Total assets of Federal Reserve Banks (US$ bn)



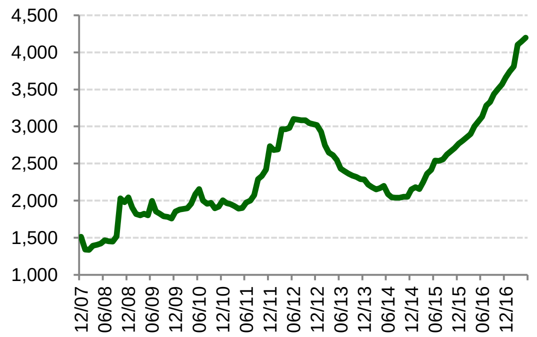
Source(s): The Fed, Bloomberg, ABCI Securities

Exhibit 2: Total assets of the People's Bank of China (RMB tn)



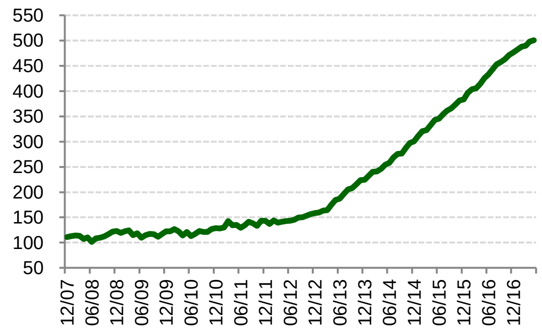
Source(s): PBOC, Bloomberg, ABCI Securities

Exhibit 3: Total assets of European Central Bank (EUR bn)



Source(s): ECB, Bloomberg, ABCI Securities

Exhibit 4: Total assets of Bank of Japan (JPY tn)



Source(s): BOJ, Bloomberg, ABCI Securities

Exhibit 5: Asset size of central banks' balance sheets – PBOC has a relatively large balance sheet

Central bank	Date	Asset size Local currency	Assets chg YTD	Assets size in USD term	2016 GDP /assets	Asset efficiency
PBOC	05/31/17	RMB 34.25tn	(0.4%)	US$ 5,014bn	2.17	Fairly efficient
ECB	05/31/17	Euro 4,196bn	14.5%	US$ 4,670bn	2.54	Efficient
BOJ	05/31/17	JPY 500.80tn	5.1%	US$ 4,500bn	1.10	Inefficient
Fed	05/31/17	US$ 4,460bn	0.2%	US$ 4,460bn	4.23	Highly efficient

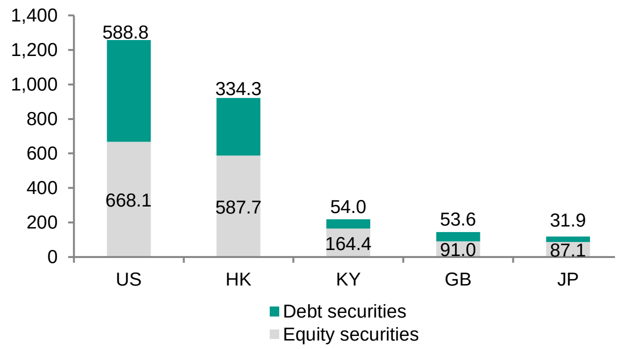
Source(s): PBOC, ECB, BOJ, Federal Reserve, ABCI Securities

China investors are gaining pricing power and influences over the HK capital market

The continued inflow of liquidity from China into the HK capital market will strengthen the pricing power of China investors in the HK stock market. According to SAFE, HK has become the second largest destination after the U.S. to absorb capital flow from China in 2016. At end-2016, China increased its investment in equity securities in HK by US$ 26.32bn to US$ 58.77bn (or HK$ 455.5 bn). Meanwhile, China increased its investment in debt securities in HK by US$ 7.39bn to US$ 33.43bn (or HK$ 259.1bn). The cumulative amount of HK-based funds net-sold in China reached RMB 8.5bn at end-May 2017. In 5M17, China investors bought a total of HK$ 136.5 bn of HK stocks in net via the SH-HK and SZ-HK connect schemes. As of end-May 2017, investors from China bought a total of HK$ 523.1bn HK stocks in net since the two trading schemes were launched. The amount represents ~4% of total free-float market capitalization of Hang Seng Composite Index at end-May.

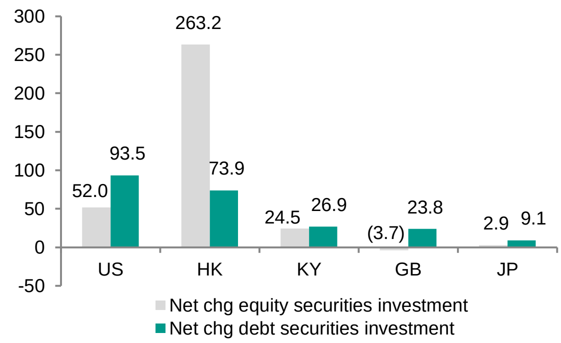
Despite the strong liquidity inflow from China to the HK stock market, share turnover velocity in the latter (i.e. annualized stock market turnover value/stock market capitalization) stabilized at ~43% in 5M17 vs. 42% in 2016, suggesting most China investors have been accumulating stocks in HK rather than trading them. Once they start trading actively in the HK stock market like they do in China (average share turnover velocity in Shanghai A-share and Shenzhen A-share market were 159% and 251% in 5M17), ADT of the HK stock market may rise explosively. We will not be surprised to see ADT of the HK stock market to reach HK$ 270-430bn/day in 2019F-20F.

Exhibit 6: China external investments (Top 5 countries/ regions) at end-2016 (US$100mn)



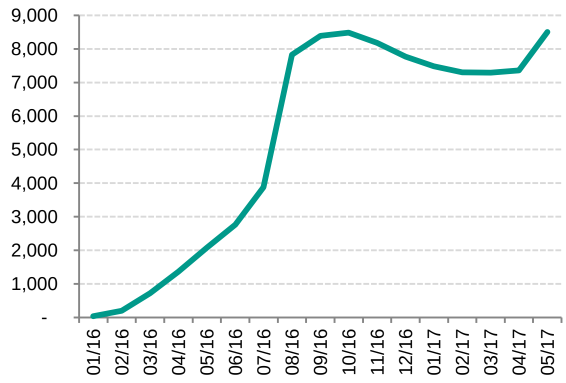
Source(s): SAFE, ABCI Securities

Exhibit 7: China external investments (Top 5 countries/ regions): net increase in 2016 (US$100mn)



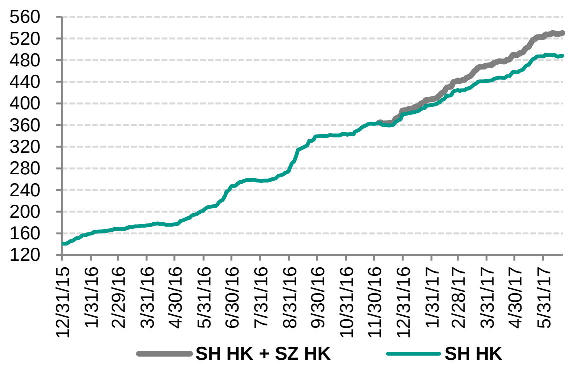
Source(s): SAFE, ABCI Securities

Exhibit 8: HK funds sold in mainland China: cumulative net outflow into HK (RMB mn)



Source(s): SAFE, ABCI Securities

Exhibit 9: Cumulative net purchase of HK stocks via SH-HK Connect and SZ-HK Connect (HK$ bn)



Source(s): HKEx, Bloomberg, ABCI Securities

Exhibit 10: Top 20 high-concentration stocks held by mainland Chinese investors via the stock connect schemes

No.	Stock Code	Stock	June 28 % stake	June 28 vs. Mar 31 Chg. ppt
1	861	Digital China Holdings Limited	40.72%	(2.95%)
2	874	Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.	29.02%	(0.15%)
3	553	Nanjing Panda Electronics Company Limited	28.92%	1.77%
4	187	Beijing Jingcheng Machinery Electric Company Limited	27.82%	(0.62%)
5	2333	Great Wall Motor Company Limited	25.94%	5.68%
6	2238	Guangzhou Automobile Group Co., Ltd.	25.32%	3.94%
7	1336	New China Life Insurance Company Ltd.	24.33%	11.59%
8	1072	Dongfang Electric Corporation Limited	24.12%	1.80%
9	1918	Sunac China Holdings Limited	23.44%	3.20%
10	3993	China Molybdenum Co., Ltd.	23.19%	2.25%
11	107	Sichuan Expressway Company Limited	22.37%	1.26%
12	2880	Dalian Port (PDA) Company Limited	21.29%	0.16%
13	719	Shandong Xinhua Pharmaceutical Company Limited	20.56%	7.52%
14	1055	China Southern Airlines Company Limited	20.32%	2.21%
15	2727	Shanghai Electric Group Company Limited	19.35%	0.19%
16	564	Zhengzhou Coal Mining Machinery Group Company Limited	19.04%	1.47%
17	1071	Huadian Power International Corporation Limited	18.09%	(4.15%)
18	1108	Luoyang Glass Company Limited	18.09%	(0.53%)
19	1053	Chongqing Iron & Steel Company Limited	17.98%	(9.26%)
20	2899	Zijin Mining Group Co., Ltd.	17.95%	1.58%

% stake = Shares held by China investors via the stock connect schemes/ Issued shares listed in HKEx

Sources: HKEx, ABCI Securities

Exhibit 11: H-share financial stocks (AMC, banking, insurance, securities) largely held by China investors via the stock connect schemes

No.	Stock Code	Stock	June 28 % stake	June 28 vs. Mar 31 Chg. ppt
1	998	China Citic Bank Corporation	15.11%	4.14%
2	3968	China Merchants Bank	12.10%	2.40%
3	6818	China Everbright Bank	11.69%	2.90%
4	1398	ICBC	6.83%	0.54%
5	1288	Agricultural Bank Of China	5.69%	(1.31%)
6	3988	Bank Of China	4.73%	1.11%
7	3618	Chongqing Rural Commercial Bank	5.06%	(0.59%)
8	1336	New China Life Insurance	24.33%	11.59%
9	2601	China Pacific Insurance	5.40%	0.96%
10	2628	China Life Insurance	4.50%	(0.67%)
11	1339	People's Insurance Company (Group) Of China	4.03%	0.13%
12	1508	China Reinsurance	2.73%	0.29%
13	2318	Ping An Insurance	1.49%	0.56%
14	3908	China International Capital Corporation	9.44%	0.12%
15	6099	China Merchants Securities	7.05%	1.65%
16	3958	DFZQ	7.39%	2.06%
17	6881	China Galaxy Securities	3.88%	(1.02%)
18	6886	Huatai Securities	3.67%	(0.20%)
19	6837	Haitong Securities	2.10%	(0.26%)

Remarks: Some financial stocks are excluded from the table
% stake = Shares held by China investors via the stock connect schemes / Issued shares listed on HKEx
Source(s): HKEx, ABCI Securities

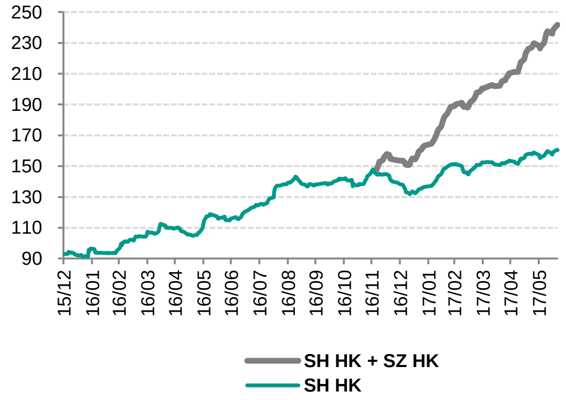
Depth and diversity of China's equity and bond markets will draw interest from foreign investors

To control risks, portfolio managers would usually set the proportion of Chinese exposure in their basket of investments. We believe foreign investors, drawn by the depth and diversity of the equity and bond markets in mainland China, may increase the proportion of investment assets in the region and scale down their holding of China-related assets in the HK capital market.

Foreign investors have purchased ~RMB240 bn of A-shares in net through the Northbound SH-HK and SZ-HK stock connect schemes since they were launched. By end-May, institutions outside mainland China and foreign banks in mainland China held RMB 757bn and RMB 317bn of onshore bonds in China.

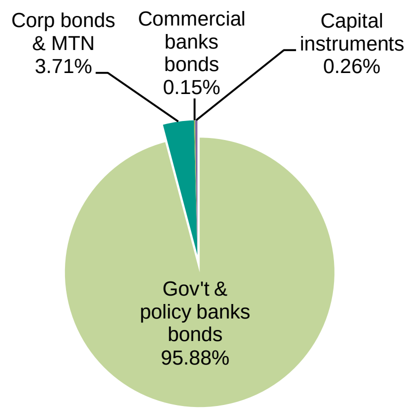
In 1H17, foreign investors were keen on investing in airport operators, consumer staples or discretionary (wine, electrical household appliances, dairy producers, etc.), Chinese medicine brand owners, and small-cap tech stocks. In the onshore bond market, foreign investors are more conservative and hold mainly bonds issued by the government or policy banks.

Exhibit 12: Net purchase of A-shares via SH-HK Connect and SZ-HK Connect (RMB bn)



Source(s): HKEx, Bloomberg, ABCI Securities

Exhibit 13: Types of onshore bonds held by institutions outside mainland China (RMB 757bn at end-May)



Source(s): CCDC, ABCI Securities

Exhibit 14: Top 10 A-shares held by foreign investors via the SH-HK or SZ-HK stock connect schemes

Top 10 Shanghai A-shares held by foreign investors via SH-HK Connect (June 28)	% stake	Top 10 Shenzhen A-share held by foreign investors via SH-HK Connect (June 28)	% stake
Shanghai International Airport (600009 CH)	27.85%	Hangzhou Hikvision Digital (002415 CH)	7.37%
Founder Securities (601901 CH)	18.91%	Midea Group (000333 CH)	5.75%
Zhengzhou Yutong Bus (600066 CH)	12.55%	Gree Electric Appliances (000651 CH)	5.10%
Fuyao Glass Industry Group (600660 CH)	11.13%	Dong-E-E-Jiao (000423 CH)	4.72%
Jiangsu Hengrui Medicine (600276)	11.05%	Lu Thai Te CHtile (000726 CH)	4.25%
Inner Mongolia Yili Industrial Group (600887 CH)	8.22%	Yunnan Baiyao Group (000538 CH)	3.64%
Qingdao Haier (600690 CH)	7.38%	Suofeiya Home Collection (002572 CH)	3.63%
Anhui Kouzi Distillery (603589 CH)	7.37%	Hangzhou Robam Appliances (002508 CH)	3.57%
Kweichow Moutai (600519 CH)	6.30%	Shanghai Kehua Bio-engineering (002022 CH)	3.49%
China Yangtze Power (600900 CH)	5.98%	Oriental Yuhong Waterproof (002271 CH)	3.21%

Source(s): HKEx, ABCI Securities

Companies in businesses such as municipal facilities services, environmental protection, green energy production, insurance, healthcare, education, tourism, entertainment, internet, and logistics services will continue to flourish

We believe the following social, economic, and demographic trends will sustain in 2017-20. Companies in businesses supportive of these development directions would continue to flourish.

a) Increasing urbanization will drive up housing and automobile ownership rates
b) Rising household income in urban and rural areas would support demand for consumer goods and services
c) Improvement in living standard (better public utilities services, lower pollution, more leisure activities, convenient communications and transportation, better quality of education, social hygiene and food)
d) Both aging and newborn populations would expand at a faster pace
e) China's political and economic influences would increase further in Asia
f) Increasing military power to protect national interests and overseas assets

Uneven provincial economic growth will favor niche players in high-growth provinces that benefit from the Belt and Road Initiatives, Yangtze River Belt Development Strategy, and Beijing-Tianjin-Hebei Province Collaboration Development Strategy

Profits of regional companies (such as city commercial or rural commercial banks, mid-sized home builders, mid-sized municipal service providers) focusing on high-growth regions (such as the "Tianjin-Beijing-Hubei" belt, YRD economic belt, transportation hubs in the Belt and Road Initiatives) will grow faster than their national peers.

New forms of investment-led growth in China would benefit large contractors

To avoid a significant increase in government deficit, public-private-partnership (PPP) business model will be widely promoted to increase FAI. Infrastructure construction companies with technological skills and capital would be the major partners in PPP - surplus capital owners in insurance firms and commercial banks would become the financial partners. Economic feasibility of PPP projects will be assessed by private partners before commencement, hence capital resources will be allocated more efficiently.

Stock market investors are bullish and may have underpriced the market risk

We believe risk appetite of investors has increased significantly in 1H17 as volatility indices of major benchmark stock indices in Hong Kong, the U.S., Europe, and Japan are at the low end of their one-year-trading ranges. The country risk premium of China's stock market is about 2 SDs below its historical mean, suggesting market risk has been underpriced. The relative low country risk premium in China's stock market is the result of the increase in treasury yield (risk-free rate) and the decrease in the expected market return rate. Volatility indices or and country risk premium at low levels indicate stocks are likely to be overpriced in the short term.

Exhibit 15: Summary *of* ABCI's global views and implications on HK stock market

Our view on the world in 2H17-2018	Implications on the HK stock market
• Rising populism, anti-globalization, and protectionism will heighten risks in world trade, geopolitical and geo-military tensions • The U.S. President Donald Trump issued executive orders in late Mar to issue omnibus report on significant trade deficit in goods within 90 days. Subsequently, the U.S. may impose import duties on imported goods from its major trading partners (Top 5 U.S. trade deficit partners: China, Mexico, Germany, Japan, and Canada)	• Increase in systematic risk due to adverse externalities • Increase of risk premium in the HK stock market will suppress stock valuation
• The Fed took preemptive moves to deleverage balance sheet in 2H17. Other major central banks (PBOC, ECB and BOJ) will constrain their balance sheet growth subsequently in 2017 or start deleveraging their balance sheets in 2018-19. • The U.S. monetary policy is transitioning from accommodative to tightening.	• The market interest rates of USD will move up. Industrial nations who delay its monetary tightening will bear the risks of currency devaluation and capital outflow • Interest rate cycle in HK will follow that in the U.S. due to the HKD-USD pegged system. • Financial sector will benefit from the early stage of an interest rate upcycle • Strong USD and weak RMB are favorable to China's export sector
• Aggressive fiscal stimulus plans in the U.S. under Trump's presidency may face political resistance and fiscal constraint in the short term. • Global competition for FDI will begin • Supply of treasury bonds will increase to finance fiscal stimulus plan • Risk of financial crisis and social unrest in developing markets will increase on the departure of USD-denominated capitals, reversal of interest rate trend, and rising inflation	• Risk of policy error in the U.S. starts to emerge • Diversion of liquidity from developing markets into the U.S. FDI in the U.S. is expected to increase with the rollout of fiscal stimulus plans • Net inflow of liquidity from the U.S. to the HK capital market will reduce; risk of liquidity outflow will increase.
• Aggressive fiscal stimulus in China will continue in 2H17 and 2018. • Investment-led growth model resumes with increased participation from the private sector • The trends of increasing urbanization, growing household income, aging population and improving living standard (lower pollution, more leisure activities, convenient communications and transportation, better quality of education, social hygiene and food) will continue • Uneven provincial economic growth continues. Regions covered by the 3 major national economic strategies- Belt and Road Initiative, Yangtze River Belt Development Strategy, and Beijing-Tianjin-Hebei Province Collaboration Development Strategy, will benefit in coming years.	• Public and private sectors will rely more on direct financing, which will benefit investment banks in China • "Supply-side reform" helps eliminate excessive competition and profitability of industrial enterprises will recover • Positive effects of SOE reforms will surface • Businesses supportive of China's long-term development trends such as urban utilities, environmental protection, green energy production, healthcare, education, tourism and entertainment services, internet and logistics services, will continue to flourish • Profits of some regional banks may grow faster than their larger, national peers • Geographical diversification of business and investment will increase

Source(s): ABCI Securities estimates

Hong Kong Stock Market

Hang Seng Index (HSI)

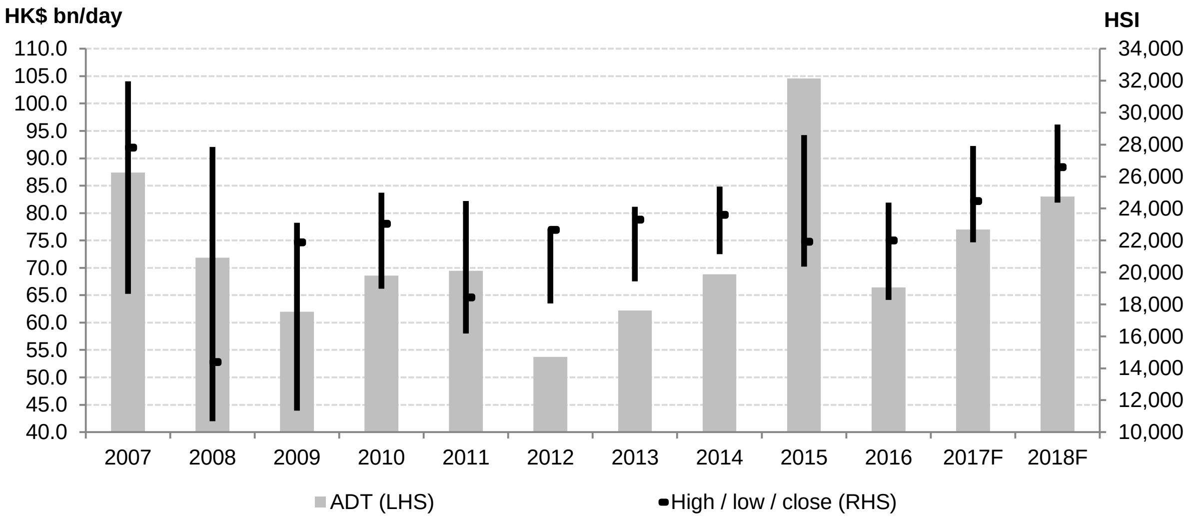
EPS of HSI is expected to rebound by 14.8% YoY in 2017F and 8.8% YoY in 2018F after declining by 14.2% in 2015 and12.1% in 2016. The rebound of EPS in 2017F would be mainly driven by the low base in 2016, recovery of EPS growth in financial stocks, TMT stocks, energy stocks, and leisure and entertainment stocks. Continued EPS growth in financial and TMT stocks will drive growth in the index EPS in 2018.

The trading range of HSI in 1H17 was 21,883.82 – 26,090.33, which represents 10.58x-12.62x 2017F P/E, 1.06x-1.26x 2017F P/B, and a 2017F dividend yield of 3.97%-3.33%. Based on our estimates, the average daily turnover (ADT) of HSI member stocks have increased by 16.5%YoY and 9.0% HoH to HK$ 26.9 bn/day so far in 1H17, equivalent to 35.8% of the Main Board's ADT in the corresponding period; meanwhile, the Main Board's ADT have increased by 12% YoY or 14% HoH to HK$ 75.1bn/day.

Combining the P/E, P/B, and dividend yield valuations, we expect the trading range of HSI to be 22,800-27,900 for 2H17F, which represents 11.0x-13.5 x FY17F P/E, 1.10x-1.35x FY17F P/B, and a FY17F dividend yield of 3.8%-3.1%. We set our end-2017F target at 24,500, which represents 11.8x FY17F P/E, 1.18x FY17F P/B. and a FY17F dividend yield of 3.6%.

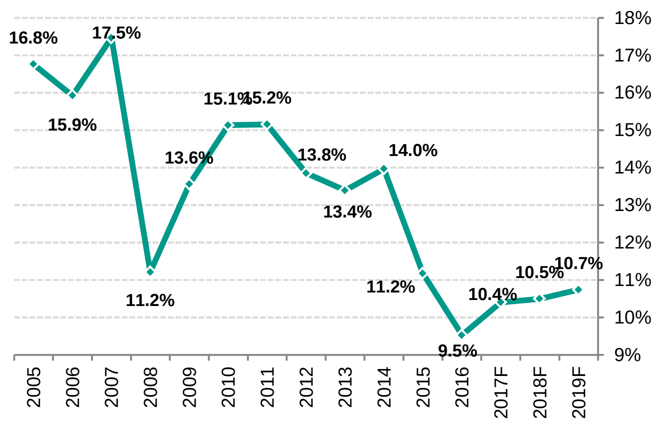
For 2018F, we estimate the trading range of HSI to be 24,360-29,200, which represent 10.8-13.0x FY18F P/E, 1.10-1.32x FY18F P/B, or a FY18F dividend yield of 3.8-3.1%. We set our end-2018F target at 26,600, which represents 11.8x FY18F P/E, 1.2x FY18F P/B, and a FY18F dividend yield of 3.4%. Main Board's ADT would improve by 8% YoY to HK$ 83 bn/day for 2018F.

Exhibit 16: Hang Seng Index (high/low/close) and average daily stock market turnover (HK$bn/day)



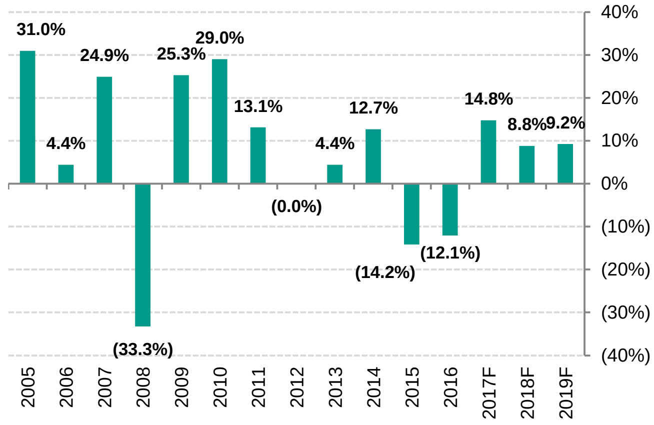
Source(s): HKEx, Bloomberg, ABCI Securities estimates

Exhibit 17 : HSI's ROAE



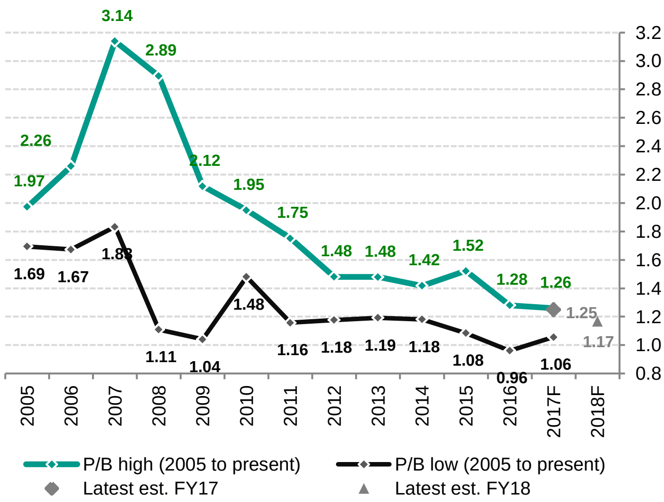
Source(s): ABCI Securities estimates

Exhibit 118 : HSI's EPS growth



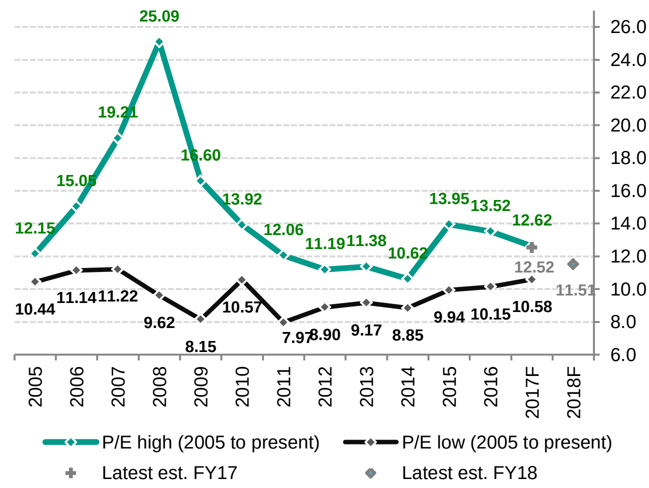
Source(s): ABCI Securities estimates

Exhibit 19: HSI's P/B band (Index: 25,899)



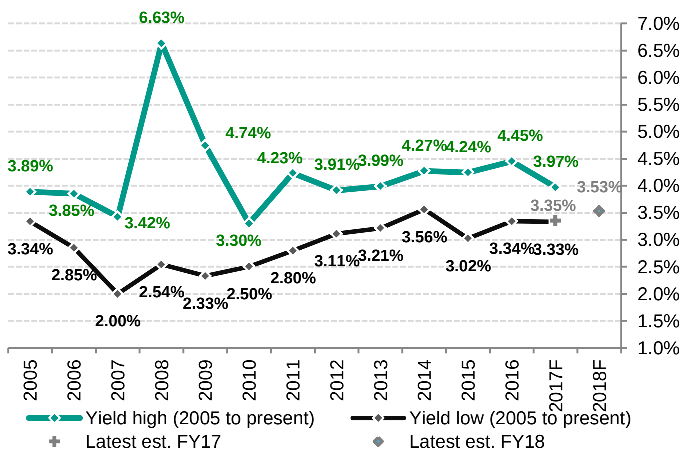
Source(s): ABCI Securities estimates

Exhibit 20: HSI's P/E band (Index: 25,899)



Source(s): ABCI Securities estimates

Exhibit 21: HSI's dividend band (Index: 25,899)



Source(s): ABCI Securities estimates

Hang Seng China Enterprises Index (HSCEI)

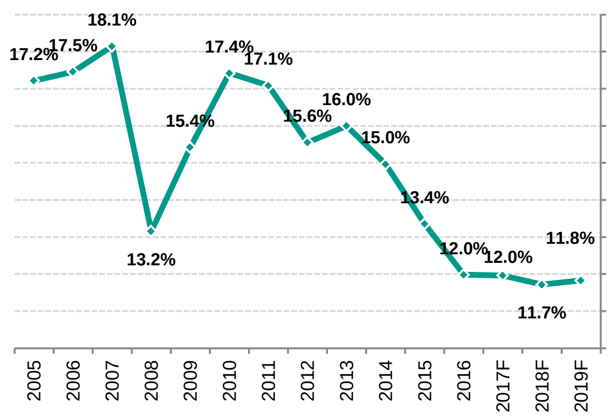
After declining by 2 consecutive years in 2015-16, the EPS of Hang Seng China Enterprises Index (or HSCEI) would rebound by 4.9%YoY in 2017F on flat EPS growth of large-sized banks, rebound of earnings of insurers and securities firms, and continued earnings growth of clean energy producers and infrastructure contractors. EPS of automotive makers, thermal power producers and oilfield services stocks are expected to decline in 2017F. For 2018F, we project EPS to rise by 8.5% YoY on moderate earnings growth of insures, securities firms, infrastructure contractors, and clean energy producers.

The trading range of HSCEI so far in 1H17 has been 9,310.82-10,727.06, representing 7.41x-8.54x of 2017F P/E, 0.84x-0.96x of 2017F P/B, and a 2017F dividend yield of 4.07%-3.54%. We estimate ADT of HSCEI member stocks to increase by 17% YoY and 7.5% HoH to HK$14.5 bn/ day, equivalent to 19% of the Main Board’s ADT in the corresponding period.

For 2H17F, we estimate HSCEI’s trading range to be 10,000-11,100, which represents 8.0-8.8x FY17F P/E, 0.9-1.0x FY17F P/B, and a FY17F dividend yield of 3.8-3.4%. We set our end-2017F target at 10,600, which represents 8.4x FY17F P/E, 0.95x FY17F P/B, and a FY17F dividend yield of 3.6%.

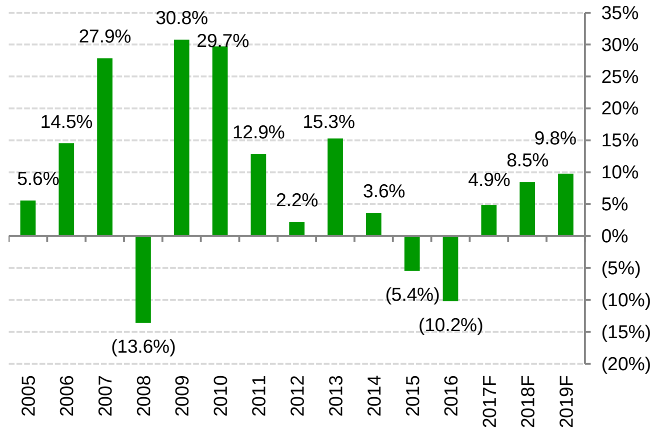
For 2018F, the trading range of HSCEI would be 11,520-12,260, which represents 8.5-9.0x FY18F P/E, 0.95-1.0x FY18F P/B, and a dividend yield of 3.6-3.4%. We set our end-2018F target at 12,130, which represents 8.9x FY18F P/E, 1.0x FY18F P/B, and a FY18F dividend yield of 3.4%.

Exhibit 22: HSCEI's ROAE



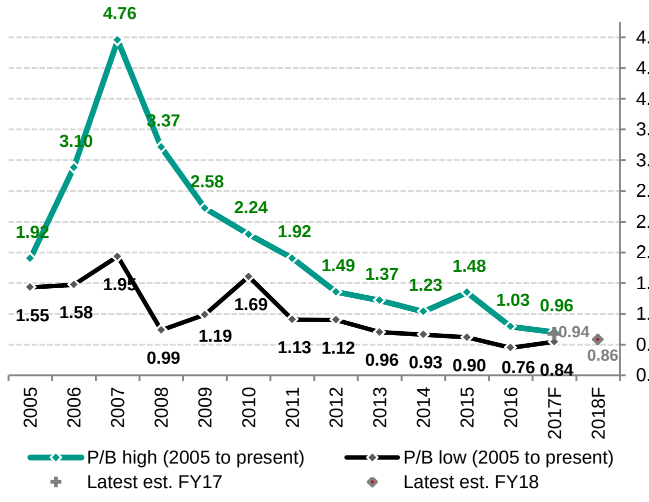
Source(s): ABCI Securities estimates

Exhibit 23 : HSCEI's EPS growth



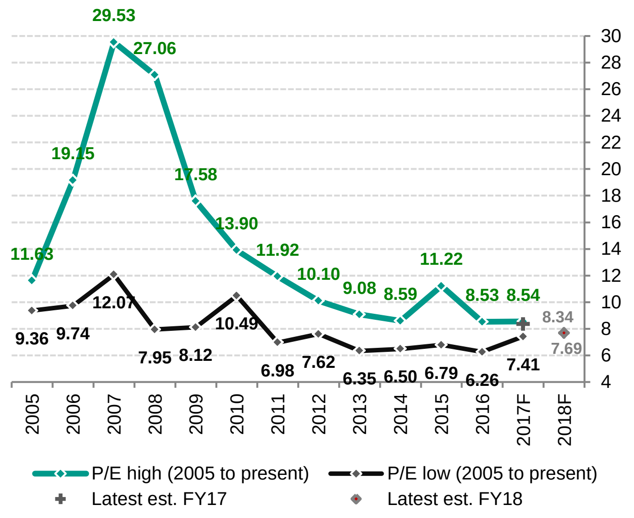
Source(s): ABCI Securities estimates

Exhibit 24: HSCEI's P/B band (Index: 10,470)



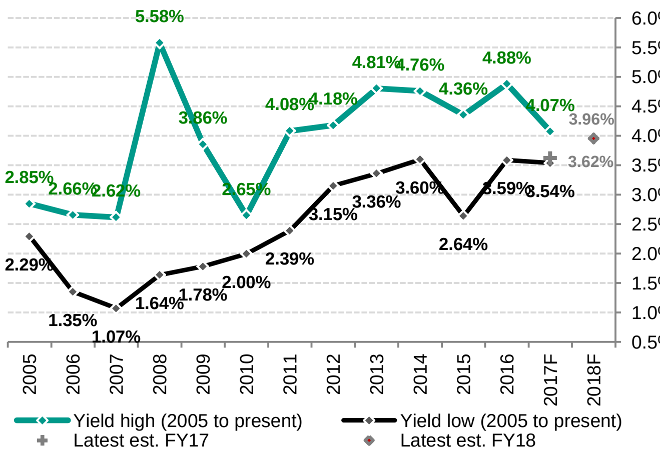
Source(s): ABCI Securities estimates

Exhibit 25: HSCEI's P/E band (Index: 10,470)



Source(s): ABCI Securities estimates

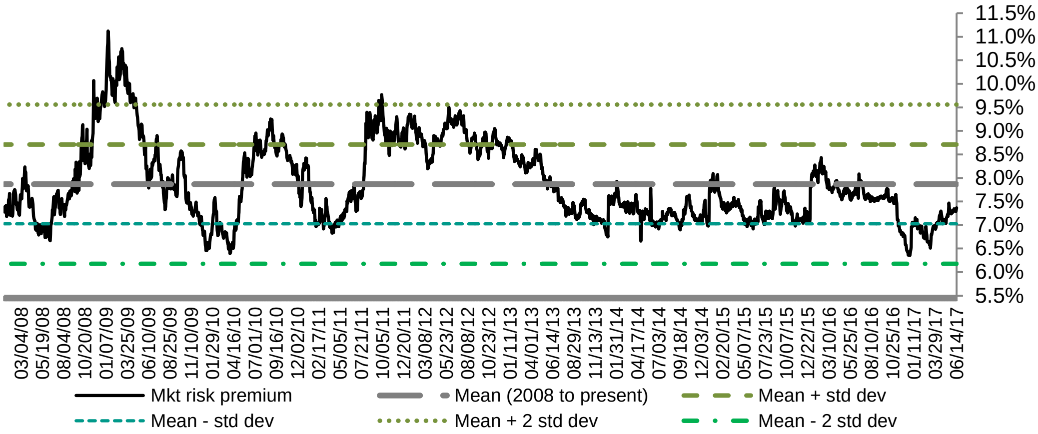
Exhibit 26: HSCEI's dividend band (Index: 10,470)



Source(s): ABCI Securities estimates

Market Risk Trend

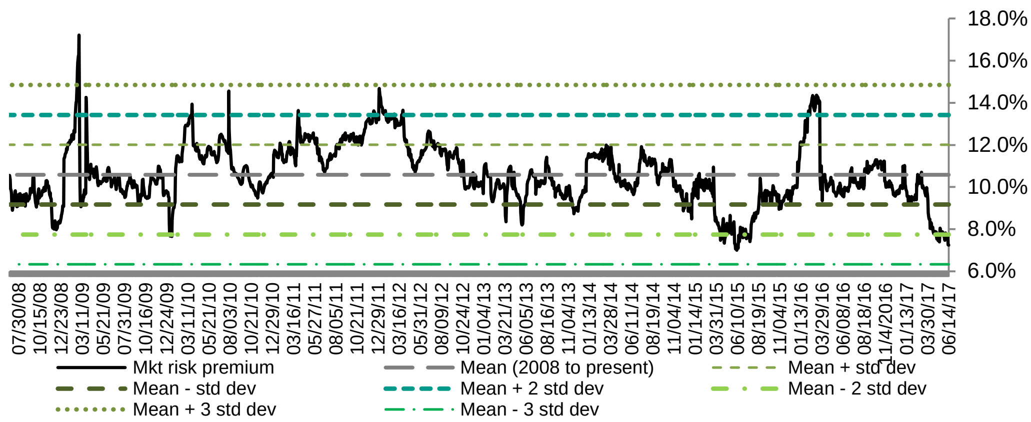
Exhibit 27: The U.S. stock market risk premium (1/2008- 6/2017)



Current market risk premium in the U.S. stock market is fairly priced but leans toward the optimistic side.

Remarks: Average risk premium (2008-present): 7.87%; SD: 0.84%; Current risk premium (14/6/2017): 7.37%
Source(s): Bloomberg, ABCI Securities

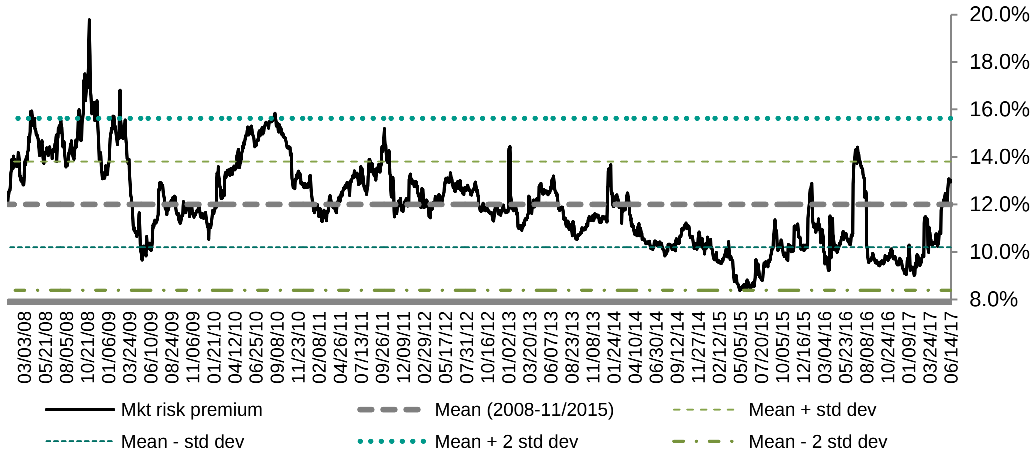
Exhibit 28: China stock market risk premium (1/2008- 6/2017)



Current market risk premium in China's stock market is underpriced; it is at 2 SDs below the historical average

Remarks: Average risk premium (2008-present): 10.58%; SD: 1.42%; Current risk premium (14/6/2017): 7.24%
Source(s): Bloomberg, ABCI Securities

Exhibit 29: Hong Kong stock market risk premium (1/2008- 6/2017)

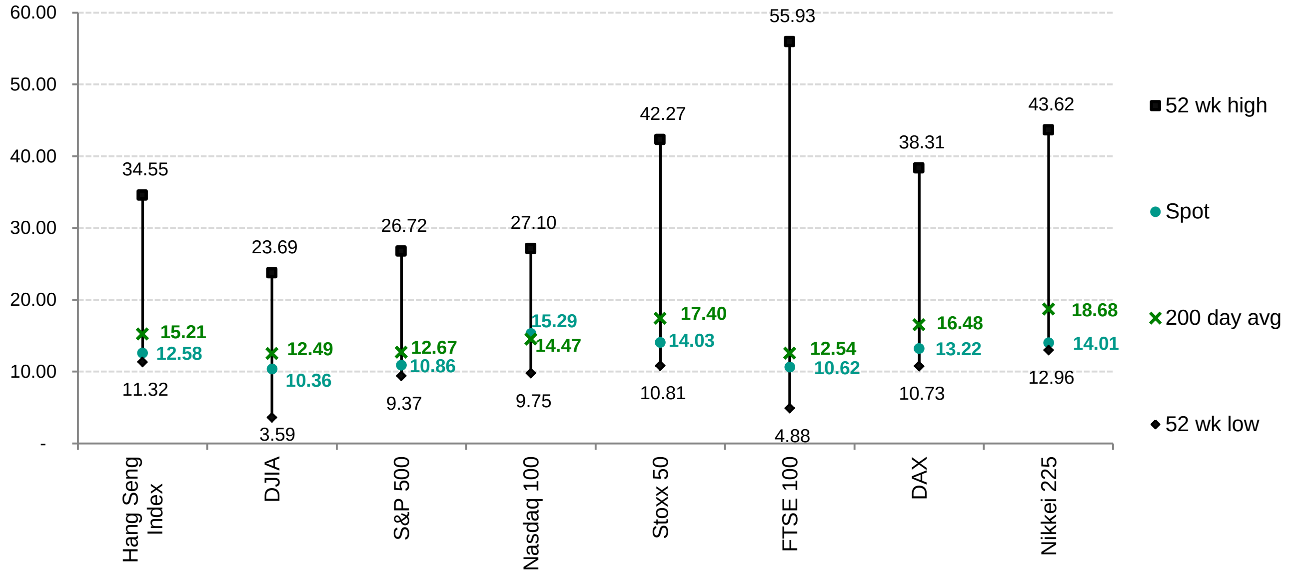


Current market risk premium in the HK stock market is cautiously priced; it is above the historical average.

Remarks: Average risk premium (2008-present): 12.0%; SD: 1.81%; Current risk premium (14/6/2017): 12.94%
Source(s): Bloomberg, ABCI Securities

Stock Market Risk

Exhibit 30: Volatility indices of major stock indices (20/6/2017)



Remarks: Volatility index approching a one-year low (or one-year high) suggests its underlying index is nearing the short-term peak (or trough)
Source(s): Bloomberg, ABCI Securities

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ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Hang Seng Index Member Stocks

		H-share	2019F					2018F					2017F			
SEHK		Price (HK$)	P/E (x)	PERG (x)	P/B (x)	Yield (%)	ROAE (%)	P/E (x)	P/EG (x)	P/B (x)	Yield (%)	ROAE (%)	P/E (x)	P/B (x)	Yield (%)	ROAE (%)
	Financial															
1398	ICBC	5.28	5.15	0.80	0.64	5.88	13.0	5.64	0.88	0.70	5.37	13.1	5.83	0.78	5.19	14.4
939	CCB	6.08	4.88	0.71	0.63	6.17	13.6	5.32	0.77	0.69	5.66	13.7	5.58	0.76	5.40	15.1
3328	BoCom	5.57	4.93	0.98	0.50	6.09	10.4	5.29	1.05	0.53	5.67	10.4	5.44	0.57	5.52	11.5
3988	BOC	3.84	5.20	0.84	0.57	5.79	11.5	5.46	0.88	0.62	5.51	11.9	5.86	0.68	5.13	12.6
11	Hang Seng Bank	165.40	15.03	1.76	2.00	2.67	13.7	16.32	1.91	2.10	2.46	13.2	17.70	2.21	2.26	12.8
23	Bank East Asia	34.00	16.16	-	1.03	2.79	6.5	19.23	-	1.06	2.35	5.6	15.99	1.09	2.82	7.0
2388	BOC Hong Kong HO	38.90	12.10	1.24	1.49	3.97	12.8	13.48	1.39	1.61	3.56	12.3	14.56	1.72	3.29	13.0
5	HSBC Holdings PL	72.80	12.77	1.60	1.14	6.14	9.0	13.92	1.74	1.16	5.64	8.4	14.90	1.18	5.27	7.2
2318	Ping An	52.25	9.74	0.76	1.45	1.83	15.7	10.95	0.86	1.62	1.62	15.8	12.39	1.86	1.44	17.1
2628	China Life	24.00	15.91	0.86	1.58	2.16	10.2	18.93	1.03	1.67	1.82	9.1	22.32	1.79	1.54	8.1
1299	AIA	57.65	15.68	1.37	1.98	2.48	13.2	17.58	1.53	2.16	2.21	12.8	19.48	2.36	2.00	13.3
388	HKEx	203.20	30.21	3.49	6.83	2.94	23.1	32.70	3.78	7.12	2.72	22.2	35.66	7.42	2.49	21.9
	Industry & Comm															
762	China Unicom	11.70	17.83	0.30	0.96	2.17	5.5	24.37	0.41	1.00	1.59	4.2	45.37	1.03	0.85	2.3
941	China Mobile	83.10	11.29	1.81	1.25	3.77	11.4	11.88	1.90	1.33	3.58	11.5	12.75	1.41	3.34	11.8
700	Tencent	284.00	24.92	0.97	6.05	0.51	27.4	30.41	1.19	7.85	0.42	29.2	39.35	10.18	0.33	33.9
2018	AAC Tech	99.00	14.20	0.79	3.92	2.81	30.3	16.53	0.92	4.79	2.41	32.0	19.75	5.93	2.02	36.7
992	Lenovo Group	4.97	9.79	0.65	1.44	4.49	15.7	10.10	0.67	1.65	4.36	17.2	12.99	1.83	3.39	13.7
857	Petrochina	4.83	10.93	0.31	0.60	4.21	5.6	14.52	0.41	0.62	3.17	4.3	19.98	0.63	2.30	3.2
883	CNOOC	8.54	8.77	0.35	0.80	10.51	9.3	10.52	0.42	0.83	8.75	8.0	13.71	0.86	6.72	6.3
135	Kunlun Energy	6.59	9.00	0.83	1.06	3.33	11.9	10.26	0.95	1.09	2.92	10.9	11.06	1.15	2.71	8.9
1088	China Shenhua	17.08	9.33	-	0.85	4.22	9.3	9.53	-	0.89	4.13	9.7	8.84	0.95	4.46	11.1
293	Cathay Pac Air	12.06	15.25	-	0.81	2.28	5.5	61.22	-	0.85	0.57	1.4	(46.21)	0.87	-	(2.0)
66	MTR Corp	44.20	23.42	2.43	1.74	2.04	7.5	27.17	2.82	1.78	1.76	6.6	28.15	1.82	1.70	5.9
175	Geely Automobile	17.28	10.90	0.44	2.79	1.14	28.3	13.12	0.53	3.45	0.95	29.3	16.92	4.36	0.73	31.3
1928	Sands China Ltd	36.00	19.29	1.76	9.41	7.36	47.1	21.55	1.96	8.80	6.59	39.0	23.77	8.03	5.98	29.9
27	Galaxy Entertain	47.60	21.76	2.19	3.20	-	15.5	24.16	2.44	3.57	-	15.6	26.30	4.00	-	16.8
151	Want Want China	5.18	16.13	5.38	3.22	3.11	21.0	16.85	5.62	3.58	2.97	22.5	17.11	4.03	2.93	41.8
2319	Mengniu Dairy	15.38	15.68	1.06	1.90	1.47	12.6	17.67	1.20	2.07	1.30	12.2	20.65	2.25	1.11	11.2
1044	Hengan Intl	58.40	15.65	2.98	3.35	4.17	22.1	16.27	3.10	3.58	4.01	22.9	17.34	3.87	3.76	21.3
1880	Belle Intl	6.15	13.03	8.02	1.45	4.53	11.4	13.29	8.18	1.52	4.44	11.7	13.46	1.59	4.38	12.6
144	China Merchants	21.75	12.65	4.54	0.87	3.93	6.9	13.15	4.72	0.88	3.78	6.8	13.36	0.92	3.72	6.5
1	CKH Holdings	98.50	9.29	1.33	0.76	0.74	8.4	9.75	1.39	0.80	0.71	8.5	10.63	0.86	0.65	8.5
19	Swire Pacific-A	76.50	13.93	1.63	0.51	3.13	3.7	14.95	1.75	0.51	2.92	3.4	16.42	0.52	2.66	3.2
267	Citic	11.90	7.08	2.02	0.58	2.68	8.5	7.07	2.01	0.62	2.69	9.1	7.59	0.67	2.50	9.1

Hang Seng Index Member Stocks

		H-share	2019F					2018F					2017F			
SEHK		Price (HK$)	P/E (x)	PERG (x)	P/B (x)	Yield (%)	ROAE (%)	P/E (x)	P/EG (x)	P/B (x)	Yield (%)	ROAE (%)	P/E (x)	P/B (x)	Yield (%)	ROAE (%)
	Properties															
1113	Cheung Kong Prop	61.70	10.93	1.81	0.76	2.74	7.1	11.46	1.90	0.80	2.62	7.1	12.29	0.84	2.44	7.1
101	Hang Lung Ppt	19.42	18.96	-	0.66	3.50	3.5	17.96	-	0.67	3.70	3.7	16.08	0.68	4.13	4.2
12	Henderson Land D	44.00	12.68	1.79	0.63	1.95	5.1	15.00	2.12	0.65	1.65	4.4	14.53	0.67	1.70	4.7
16	Shk Ppt	114.50	11.62	2.15	0.64	2.60	5.6	11.86	2.20	0.66	2.55	5.7	12.91	0.68	2.34	5.5
17	New World Dev	10.06	11.37	1.64	0.43	1.70	3.8	12.14	1.75	0.44	1.59	4.0	13.00	0.52	1.49	4.0
4	Wharf Hldg	65.45	12.80	2.95	0.58	2.81	4.5	13.46	3.11	0.59	2.67	4.4	13.93	0.60	2.58	4.5
823	Link REIT	59.90	21.15	2.53	0.92	0.73	4.4	23.12	2.77	0.95	0.67	4.1	24.83	0.95	0.62	4.2
83	Sino Land	12.90	16.00	-	0.60	2.02	3.8	15.49	-	0.62	2.08	4.0	15.36	0.63	2.10	4.2
688	China Overseas	22.85	5.77	0.50	0.81	2.82	14.7	6.38	0.56	0.90	2.55	14.8	7.17	1.00	2.27	14.4
1109	China Res Land	22.75	6.35	0.45	0.93	3.45	15.5	7.13	0.51	1.04	3.08	15.5	8.25	1.17	2.66	15.3
	Utilities															
2	CLP Holdings	83.40	17.55	-	1.81	2.48	10.5	15.92	-	1.88	2.74	12.2	16.38	2.02	2.66	13.0
3	Hong China Gas	14.86	25.40	6.53	3.31	2.18	13.2	26.44	6.80	3.41	2.09	13.2	27.42	3.56	2.02	13.6
6	Power Assets	69.40	18.95	6.11	1.32	3.94	6.9	19.27	6.22	1.32	3.87	6.9	20.14	1.34	3.70	6.3
836	China Res Power	15.48	8.56	0.48	0.94	4.73	11.3	9.32	0.52	0.99	4.34	10.9	11.91	1.04	3.40	8.8
1038	CKI Holdings	66.30	14.63	2.38	1.48	3.31	10.3	15.53	2.52	1.53	3.12	10.1	16.48	1.59	2.94	9.8

Remarks: Some member stocks are excluded from the table

Last priced on June 29, 2017

Sources: Bloomberg estimates, companies, ABCI Securities

HSCEI Index Member Stocks

Code	H-share	Share Price (HK$)	2019F P/E (x)	PERG (x)	P/B (x)	Yield (%)	ROAE (%)	2018F P/E (x)	P/EG (x)	P/B (x)	Yield (%)	ROAE (%)	2017F P/E (x)	P/B (x)	Yield (%)	ROAE (%)
1398	ICBC	5.28	5.20	0.84	0.58	5.99	11.6	5.46	0.88	0.63	5.70	12.0	5.86	0.69	5.31	12.2
939	CCB	6.08	4.93	0.98	0.54	6.19	11.4	5.29	1.05	0.59	5.76	11.5	5.44	0.63	5.61	11.1
1288	ABC	3.69	5.69	0.45	0.69	2.36	12.9	6.28	0.50	0.78	2.13	13.1	7.21	0.87	1.86	12.4
3988	BOC	3.84	6.18	0.50	1.00	4.87	17.1	7.11	0.58	1.13	4.23	16.9	7.79	1.28	3.86	16.6
3328	BoCom	5.57	4.36	0.75	0.49	5.80	11.7	4.64	0.80	0.54	5.46	12.1	4.88	0.59	5.18	12.1
1658	Postal Savings	4.51	4.63	0.76	0.59	4.61	13.3	4.95	0.81	0.65	4.32	13.9	5.22	0.73	4.10	13.9
3968	CM Bank	23.95	15.91	0.86	1.53	2.29	10.0	18.93	1.03	1.64	1.92	8.9	22.32	1.75	1.63	8.2
998	Citic Bank	4.83	9.74	0.76	1.59	2.20	17.5	10.95	0.86	1.83	1.96	17.9	12.39	2.12	1.73	17.3
1988	Minsheng Bank	7.80	6.67	0.85	0.74	1.49	11.7	7.16	0.91	0.83	1.39	12.2	7.76	0.92	1.28	12.1
2628	China Life	24.00	12.99	0.78	1.59	4.05	12.7	15.23	0.91	1.71	3.46	11.6	17.70	1.82	2.97	10.5
2318	Ping An	52.25	11.43	0.52	1.41	2.66	13.0	13.59	0.62	1.56	2.23	12.0	17.02	1.70	1.78	10.4
1339	Picc Group	3.28	7.35	1.28	1.06	3.46	15.2	7.56	1.31	1.18	3.37	16.7	8.22	1.34	3.09	16.7
2601	China Pacific	32.00	10.01	0.62	1.02	4.07	10.6	11.77	0.72	1.10	3.46	9.6	13.53	1.17	3.01	8.7
1336	New China Life	39.80	10.12	0.62	0.98	3.11	10.1	11.56	0.71	1.06	2.72	9.5	13.67	1.13	2.30	8.4
2328	PICC P&C	13.04	9.02	0.47	1.00	6.30	11.4	11.03	0.57	1.06	5.15	9.9	12.82	1.12	4.43	8.7
6030	Citic Sec	16.18	8.91	0.64	1.09	3.74	12.8	10.08	0.73	1.19	3.31	12.3	11.55	1.30	2.89	11.4
6837	Haitong Sec	12.70	8.39	0.63	0.85	3.64	10.5	9.38	0.71	0.91	3.25	10.1	10.75	0.98	2.84	9.2
6886	Huatai Sec	15.22	4.00	0.25	0.63	7.46	16.7	4.61	0.29	0.71	6.48	16.4	5.38	0.80	5.55	13.5
1776	GF Securities	15.80	9.33	(3.51)	0.82	3.94	9.1	9.53	(3.59)	0.87	3.85	9.4	8.84	0.92	4.16	10.5
6881	CGS	7.03	10.93	0.31	0.65	13.57	5.9	14.52	0.41	0.64	10.21	4.4	19.98	0.64	7.42	3.2
1088	China Shenhua	17.08	9.01	0.24	0.80	5.75	9.1	9.76	0.26	0.84	5.30	8.9	16.97	0.90	3.05	5.1
857	Petrochina	4.83	8.46	0.74	1.07	3.77	13.3	9.41	0.82	1.18	3.39	13.1	10.50	1.29	3.04	13.4
902	Huaneng Power	5.53	7.32	0.69	0.78	2.32	11.2	8.07	0.76	0.86	2.11	11.1	8.96	0.94	1.90	10.6
1816	CGN Power	2.20	6.25	0.56	0.77	2.49	13.0	7.01	0.63	0.86	2.21	12.9	7.72	0.96	2.01	12.2
916	China Longyuan	5.74	5.94	0.49	0.71	3.08	12.6	6.66	0.55	0.79	2.74	12.5	7.47	0.88	2.44	11.9
390	China Rail Gr	6.19	11.01	1.01	1.39	4.89	13.1	12.27	1.12	1.49	4.39	12.5	13.55	1.59	3.98	11.7
1186	China Rail Cons	10.20	15.87	0.76	2.45	1.75	16.4	18.00	0.86	2.77	1.55	16.4	23.18	3.15	1.20	11.9
1800	China Com Cons	10.18	4.89	1.00	0.58	3.03	12.6	5.19	1.06	0.65	2.86	13.3	5.38	0.73	2.76	13.5
1766	RRCCorp	7.05	7.08	1.26	1.28	4.26	19.3	7.33	1.30	1.47	4.12	21.6	7.90	1.71	3.82	21.4
1211	ByYD	49.40	10.09	1.03	1.73	1.81	18.5	10.95	1.12	2.02	1.66	20.0	12.16	2.38	1.50	20.0
489	Dongfeng Motor	9.35	6.48	0.47	1.35	6.42	22.3	7.19	0.53	1.55	5.79	23.2	8.37	1.81	4.97	22.0
2333	Great Wall Motor	9.90	10.59	3.17	1.31	2.91	12.9	10.93	3.27	1.43	2.82	13.7	11.31	1.58	2.73	14.2
3898	Zhuzhou CRRC	38.50	13.05	1.15	1.96	2.28	15.9	14.20	1.25	2.20	2.10	16.5	16.18	2.49	1.84	15.9
2202	China Vanke	22.15	10.68	1.00	0.76	3.97	7.3	11.76	1.10	0.80	3.61	6.9	13.08	0.83	3.24	6.4
914	Anhui Conch	27.00	9.46	0.75	1.13	2.28	12.6	10.92	0.87	1.25	1.98	12.0	11.99	1.38	1.80	11.3
1099	Sinopharm	35.45	5.20	0.84	0.58	5.99	11.6	5.46	0.88	0.63	5.70	12.0	5.86	0.69	5.31	12.2
728	China Telecom	3.75	4.93	0.98	0.54	6.19	11.4	5.29	1.05	0.59	5.76	11.5	5.44	0.63	5.61	11.1
753	Air China	8.02	5.69	0.45	0.69	2.36	12.9	6.28	0.50	0.78	2.13	13.1	7.21	0.87	1.86	12.4

Remarks: Some member stocks are excluded from the table

Last priced on June 29, 2017

Sources: Bloomberg estimates, companies, ABCI Securities

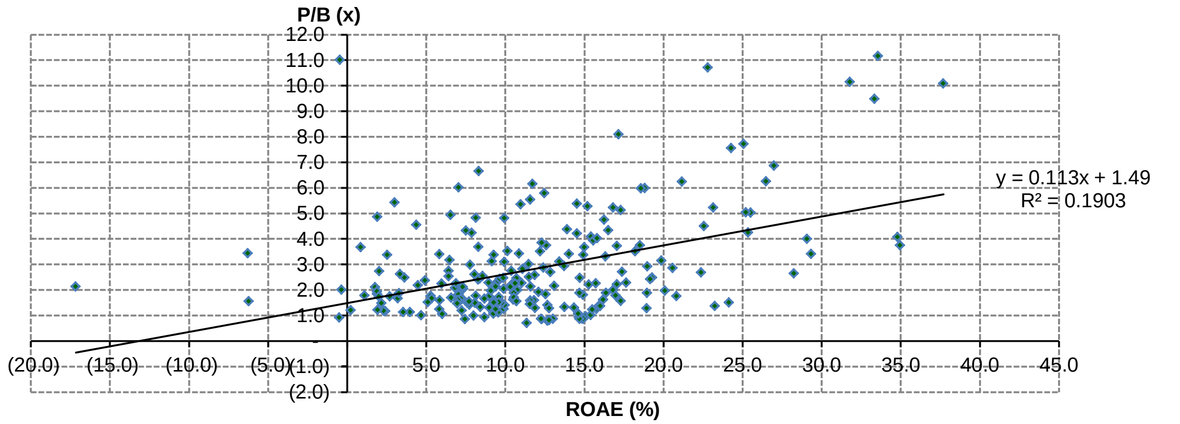
MSCI China A International Large Cap Provisional Index member stocks with ROAA >10% （Partial）

A-share code	H-share code	Name	Industry	5-yr avg ROE(%)	Last yr ROE(%)	Last yr ROA(%)	Assets/ equity	A-share (RMB)	A-share P/E(x)	A-share P/B(x)	H-share (HK$)	H-share P/E(x)	H-share P/B(x)
603288	-	Foshan Haitian	Food Products	34.47	31.78	**24.52**	1.34	40.83	36.7	10.05	-	-	-
600816	-	Anxin Trust Co	Capital Markets	37.23	34.80	**23.84**	1.39	13.84	16.3	4.67	-	-	-
002294	-	Shenzhen Salub	Pharmaceuticals	28.95	26.49	**22.47**	1.20	35.81	26.5	6.53	-	-	-
002508	-	Hangzhou Robam	Household Durables	24.28	33.33	**21.40**	1.56	42.65	30.4	9.19	-	-	-
600688	338	Sinopec Shang	Chemicals	8.71	28.24	**21.16**	1.36	6.59	10.5	2.67	4.16	6.6	1.6
002415	-	Hangzhou Hikvi	Electronic Equipment	32.11	33.57	**21.02**	1.69	32.50	38.1	11.63	-	-	-
600276	-	Jiangsu Hengru	Pharmaceuticals	22.68	22.80	**19.75**	1.11	50.62	52.5	10.79	-	-	-
000423	-	Dong E-E-Jiao	Pharmaceuticals	24.69	23.15	**18.96**	1.19	72.10	24.7	5.26	-	-	-
000895	-	Henan Shuan	Food Products	27.90	25.52	**18.25**	1.42	23.82	18.7	5.21	-	-	-
600519	-	Kweichow Mouta	Beverages	33.60	24.29	**17.12**	1.49	473.01	33.1	7.52	-	-	-
002466	-	Tianqi Lithium	Chemicals	12.52	37.70	**16.46**	1.93	53.86	32.5	10.09	-	-	-
002304	-	Jiangsu Yanghe	Beverages	30.04	22.57	**16.43**	1.49	86.29	21.3	4.52	-	-	-
000568	-	Luzhou Laojiao	Beverages	24.81	18.82	**15.71**	1.23	50.57	33.3	6.00	-	-	-
002236	-	Zhejiang Dahua	Electronic Equipment	29.29	25.07	**14.63**	1.82	22.96	34.8	7.80	-	-	-
600887	-	Inner Mong Yil	Food Products	24.19	25.20	**14.16**	1.69	21.48	22.3	5.26	-	-	-
600066	-	Zhengzhou Yut	Machinery	28.26	29.34	**14.02**	2.57	21.86	12.2	3.48	-	-	-
601801	-	Anhui Xinhua	Distributors	10.64	18.99	**13.68**	1.26	13.96	19.0	3.03	-	-	-
600674	-	Sichuan Chuan	Independent Power	18.22	16.82	**12.89**	1.28	9.85	12.7	2.03	-	-	-
600074	-	Jiangsu Protru	Electronic Equipment	-	27.00	**12.42**	2.01	12.78	36.2	6.84	-	-	-
002424	-	Guizhou Bailin	Pharmaceuticals	14.37	17.17	**12.30**	1.38	18.86	52.1	8.48	-	-	-
000858	-	Wuliangye Yibi	Beverages	21.27	15.43	**11.60**	1.29	55.42	28.1	4.15	-	-	-
600660	3606	Fuyao Glass	Auto Components	22.89	18.20	**11.46**	1.66	25.98	19.9	3.48	29.90	20.7	3.6
000581	-	Weifu High-Tec	Auto Components	13.53	14.92	**11.18**	1.29	26.19	13.8	1.95	-	-	-
600009	-	Sh Intl Airport	Transportation Infrastructure	11.86	13.42	**11.03**	1.19	37.22	24.3	3.11	-	-	-
000963	-	Huadong Medici	Health Care Providers	30.33	21.17	**10.81**	1.89	49.53	31.0	6.16	-	-	-
002195	-	Shanghai 2345	Software	9.56	11.59	**10.56**	1.11	7.25	35.9	5.98	-	-	-
601888	-	China Intl Travel	Hotels, Leisure	16.00	14.54	**10.53**	1.29	29.74	31.7	4.37	-	-	-
601098	-	China South Pu	Media	13.92	14.70	**10.29**	1.40	18.76	18.3	2.58	-	-	-
600309	-	Wanhua Chemic	Chemicals	25.80	34.97	**10.25**	2.77	28.76	14.1	4.04	-	-	-
600703	-	Sanan Optoelec	Semiconductors	14.48	13.90	**10.23**	1.35	19.99	33.9	4.48	-	-	-
601238	2238	Guangzhou Auto	Automobiles	9.95	18.52	**10.21**	1.83	26.14	20.7	3.55	13.90	12.3	1.8

Note: Some member stocks are excluded from the table
Last priced on June 29, 2017
Sources: Bloomberg, ABCI Securities

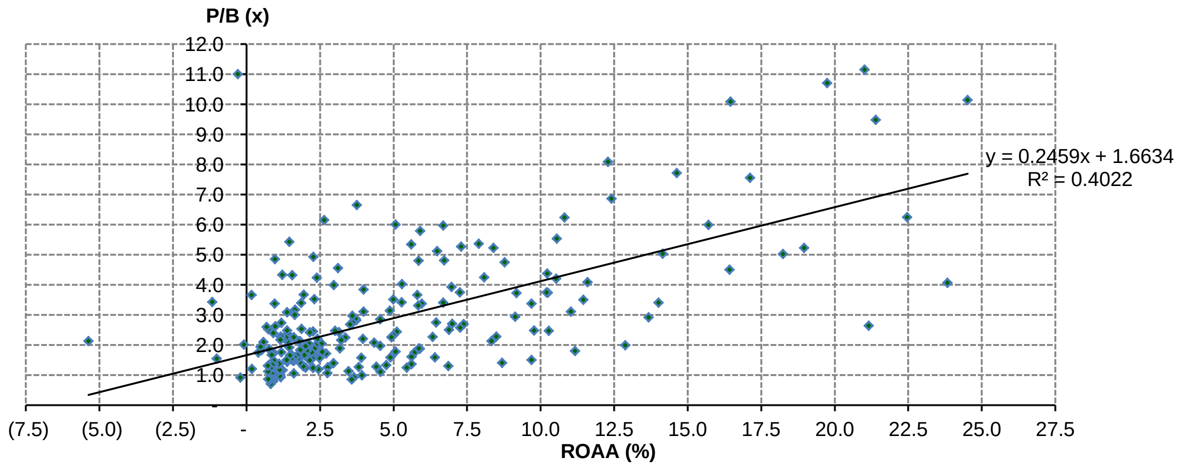
MSCI China A International Large Cap Provisional Index

A-share P/B (x) and ROAE (%) – a weak correlation



Remarks: 222 member stocks; Sources: Bloomberg, ABCI Securities

A-share P/B (x) vs. ROAA (%) – Investors focus more on ROAA



Remarks: 222 member stocks; Sources: Bloomberg, ABCI Securities

Hong Kong IPO Market

Financials will continue to dominate the scene

- **In 1H17, HK IPO market has raised US$ 6.8bn with an average deal size of US$ 110mn. The Chinese investment banks continued to gain market share, representing 9 out of the top 10 underwriters by volume**

- **Financial stocks, with their capital-intensive nature and larger deal sizes, continued to be the main driver that contributed to 59% of IPO volume in 1H17 (2014: 28%). We expect the trend to continue over the next 1-2 years**

In 1H17, total volume of HK equity IPO amounted to US$ 6.8bn. Sixty-two IPOs were issued with an average issuance size of US$ 110mn. In terms of underwriting volume, 9 out of the top 10 underwriters were Chinese investment banks in 1H17, indicating an ongoing share gain by the Chinese players against their foreign peers in the IPO market.

Financial stocks, such as Guotai Junan Securities, BOCOM International, and a rural commercial bank, were the main drivers of the HK IPO market, contributing to 59% of the total amount raised in 1H17. Overall, the share of financial industries in HK's IPO market increased from 28% in 2014 to 59% in 1H17. In our view, this structural uptrend is supported by the following factors:

1) Financials is a capital-intensive industry with ongoing funding needs;

2) Financial IPOs generally have a larger deal size than other industries, which is appealing to investors who currently prefer larger-cap stocks. In 1H17, the average deal size of financial IPOs was US$ 502mn, compared to only US$ 52m for non-financial IPOs.

We expect the financial industries to be the major contributor of HK's IPO market in the next 1-2 years. Upcoming financial IPOs will likely be driven by mid-sized banks, insurers, asset managers, and brokers.

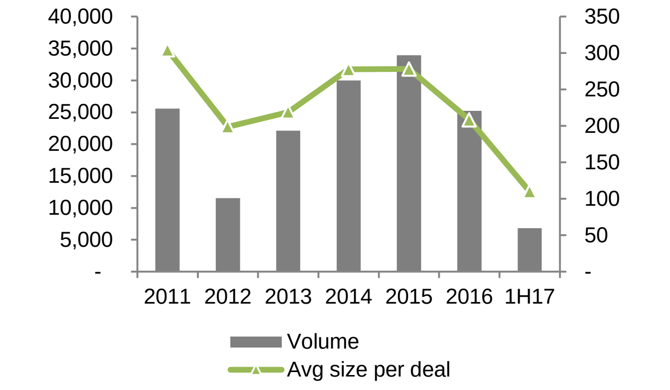
Market share of non-financial industries in HK's IPO market dropped from 72% in 2014 to 41% in 1H17. In 2014, industrials amounted to 18% of HK's IPO but its share has since dropped to 8% in 1H17. Similarly, market share of consumer discretionary dropped from 18% to 12% over the same period. In our view, the declines could be due to: 1) Non-financial industries are generally less capital-intensive than financials; 2) Average size of non-financial IPOs is significantly lower than that of the financial IPOs.

Exhibit 1: 1H17 HK IPO Overview

Industry	Volume (US$ mn)	Avg deal size (US$ mn)
Financials	4,016	502
Consumer Discretionary	854	41
Healthcare	800	200
Industrials	566	31
Others	595	54

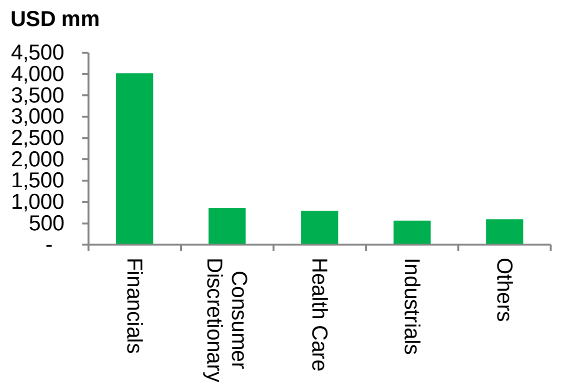
Source(s): Bloomberg, ABCI Securities

Exhibit 2: HK IPO volume and average deal size (US$ mn)



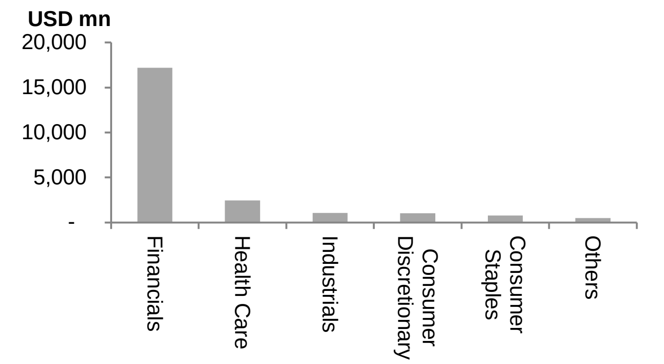
Source(s): Bloomberg, ABCI Securities

Exhibit 3: HK IPO volume by industry (1H17)



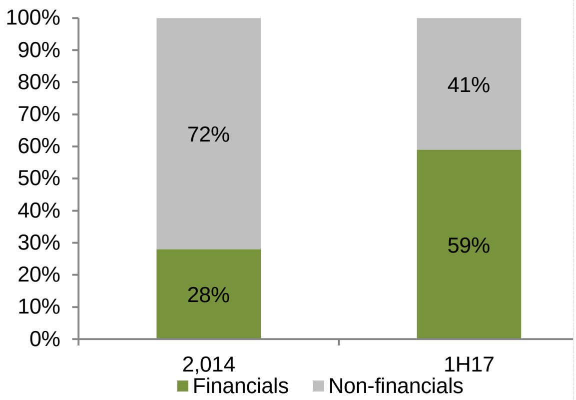
Source(s): Bloomberg, ABCI Securities

Exhibit 4: HK IPO volume by industry (2016)



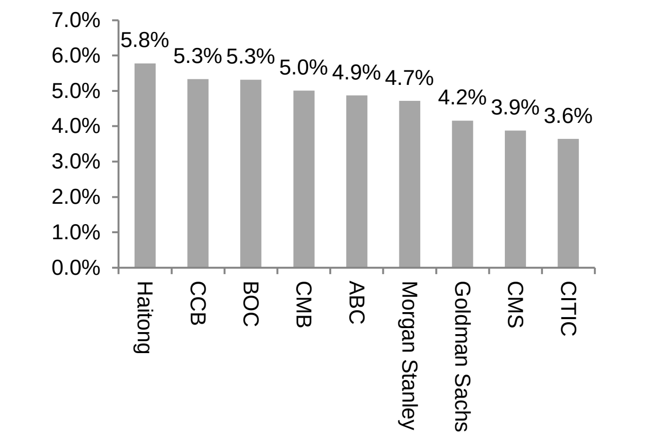
Source(s): Bloomberg, ABCI Securities

Exhibit 5: HK IPO volume – financials vs. non-financial



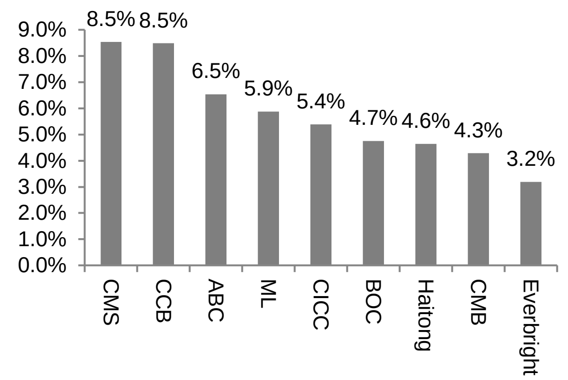
Source(s): Bloomberg, ABCI Securities

Exhibit 6: Market share of HK IPO underwriters by volume (2016)



Source(s): Bloomberg, ABCI Securities

Exhibit 7: Market share of HK IPO underwriters by volume (1H17)



Source(s): Bloomberg, ABCI Securities

China Banks Sector

Improving fundamentals, but higher policy risk in 2H17/18

- We expect a stable interest rate environment with 2 RRR cuts in both 2017F-18F
- NIM pressure to ease starting from 2H17; small banks may have a better NIM outlook
- New loan growth to stay robust at 9.8% and 7.4% in 2017F and 2018F
- NPL ratio to remain under control through proactive handling; large provision will persist to strengthen buffer
- Revenue mix is improving with higher policy risk in fast-growth areas
- Maintain **OVERWEIGHT** on low valuation and sustainable yield

OVERWEIGHT

Analyst : Johannes Au
Tel: (852) 2147 8802
Email: johannesau@abci.com.hk

Fundamentals turn stable. We expect sector fundamentals to improve in 2017-19 because: 1) NIM pressure will start to ease in 2H17 under a stable interest rate environment with mild RRR cuts; 2) Asset quality outlook remains secure under increased NPL handling effort and enhanced risk buffer; 3) Revenue structure is improving with a higher degree of diversification and reduced reliance on interest income. We believe these positive changes in fundamentals would support another round of sector re-rating in or near 4Q17.

A steady interest rate environment with mild RRR cuts. While the U.S. has kick-started the rate hike cycle, our ABCI economic team forecast a stable benchmark rate outlook with two RRR cuts in both 2017F and 2018F. With the key policy missions of deleveraging, lowering social financing cost, and maintaining financial market stability, a stable interest rate environment would aid NIM management of the Chinese banks while the mild RRR cuts would support overall liquidity.

NIM pressure to ease starting from 2017. As expected, the narrowing pace of system NIM was slower in 4Q16-1Q17 with the completion of loan re-pricing induced by previous rate cuts and fading impacts of VAT reform. With solid loan demand under China's "new normal" economic growth, we estimate the system NIM to bottom in 2Q17 and gradually stabilize afterward.

Balance sheet growth and flexibility in asset allocation would therefore continue be the key differentiating factors among banks. District banks, with many still in their growth phase, may demonstrate a slight rebound in NIM and stronger earnings growth than the big banks and JSBs.

Loan demand is still intact. Despite the ongoing deleveraging, loan demand has remained robust so far in 2017. New loans in 4M17 new loan took up 39.4% of our 2017F full-year loan target at RMB 13.5tr. Meanwhile, loan pricing improved in 1Q17, with 76.7% of the loans being priced at above the benchmark rates while average loan yield increased to 5.53%.

Key Data

Avg.17F P/E (x)	5.54
Avg.17F P/B (x)	0.69
Avg.17F Dividend Yield (%)	5.09

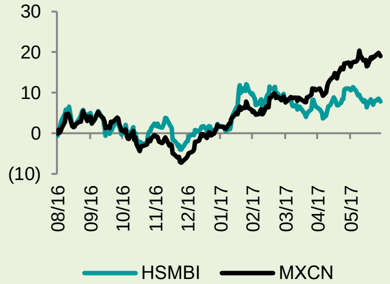
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(2.94)	(4.23)
3-mth	(1.72)	(9.96)
6-mth	9.96	(12.80)

*Relative to MXCN
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

We believe policy-driven sectors such as Sannong, technology, and clean energy would continue to be the key loan growth drivers within the 13th FYP economic framework. Our ABCI economic team forecast China's new loan to grow by 9.8% and 7.4% in 2017F and 2018F.

Stable NPL ratio with better risk buffer. Similar to previous quarters, we project system NPL ratio to remain manageable in 2017-18 mainly through increased NPL handling measures such as write-offs, disposals, collections, and securitization. Meanwhile we still expect a moderate level of NPL pressure to persist over the next few years. Banks are likely to adhere to a large provision policy to strengthen risk buffer.

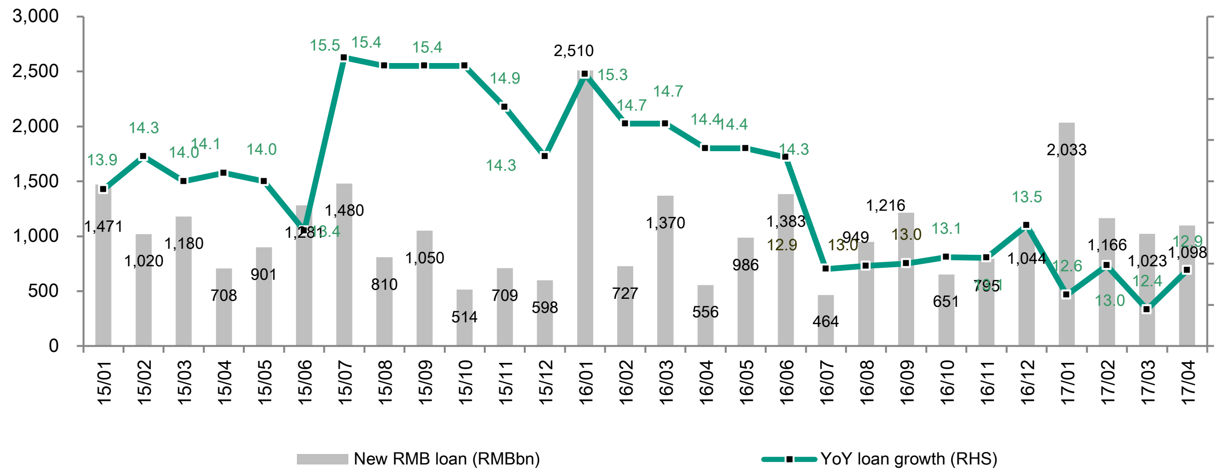
Robust fee income growth means higher policy risks. Innovations and reforms in the bank sector will accelerate fee income growth and expand new income sources. We believe investment banking, online banking, and wealth management products to be the key fee drivers in coming years. The proportion of non-interest income in total operating income would reach 30% in the next 3 years. However, higher policy risk can be expected in these areas given the regulators may implement policies to maintain financial market stability and fortify risk management.

Again, we recommend the big names. We like the big banks for their promising dividend yield as well as their high degree of business diversification, which increase their defensiveness against policy risks. In particular, we favor **CCB (939 HK)** for its consistency in prudent risk management and **ABC (1288 HK)** for its substantial risk buffer and high dividend yield. District banks, with a relatively smaller balance sheet, usually have a higher degree of operation flexibility. However, their low trading liquidity should be a concern.

We expect the new capital rule requirements and higher capital needs arising from the development of mixed operation will motivate more Chinese banks to seek for listing on HKEx. Increasing choices of H-share banks in the stock market, however, may potentially dilute potential funding in each.

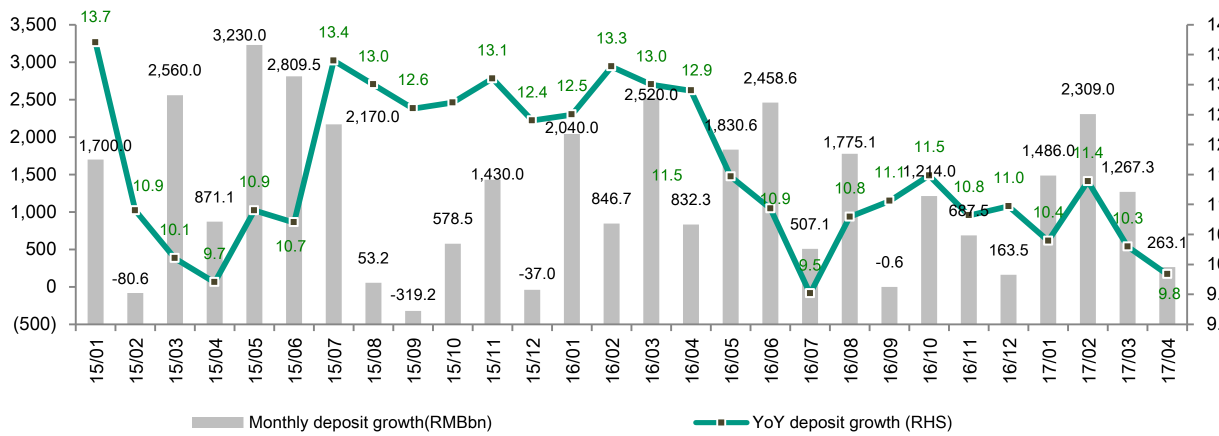
Risk factors: 1) Financial reforms in faster pace than expected; 2) Increasing competition from non-bank financial institutions; 3) Sharp asset quality deterioration in specific regions; 4) Sharp and sudden decline in loan demand; 5) Increasing policy risk in new and fast-growth businesses.

Exhibit 1: Monthly new loans (RMB bn) and YoY growth (%)



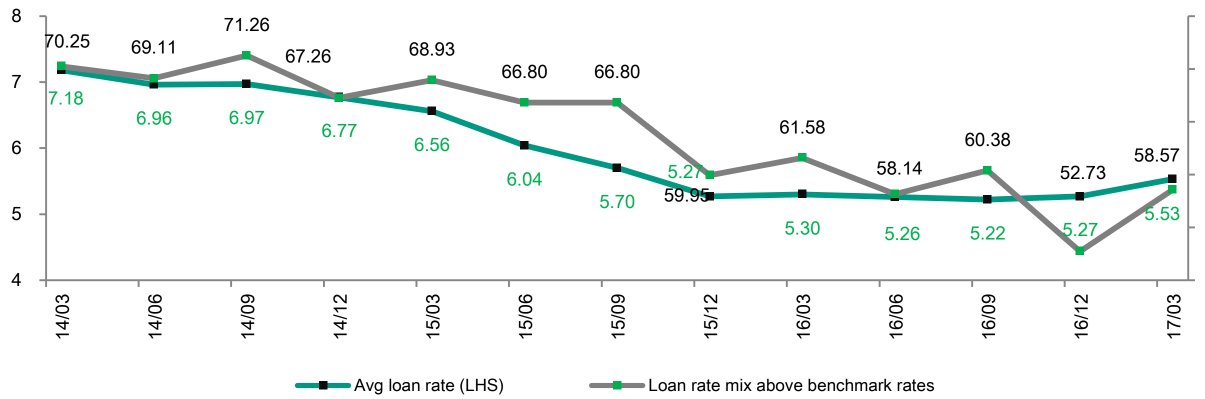
Source(s): PBOC, ABCI Securities

Exhibit 2: Monthly deposit growth (RMB bn) and YoY growth (%)



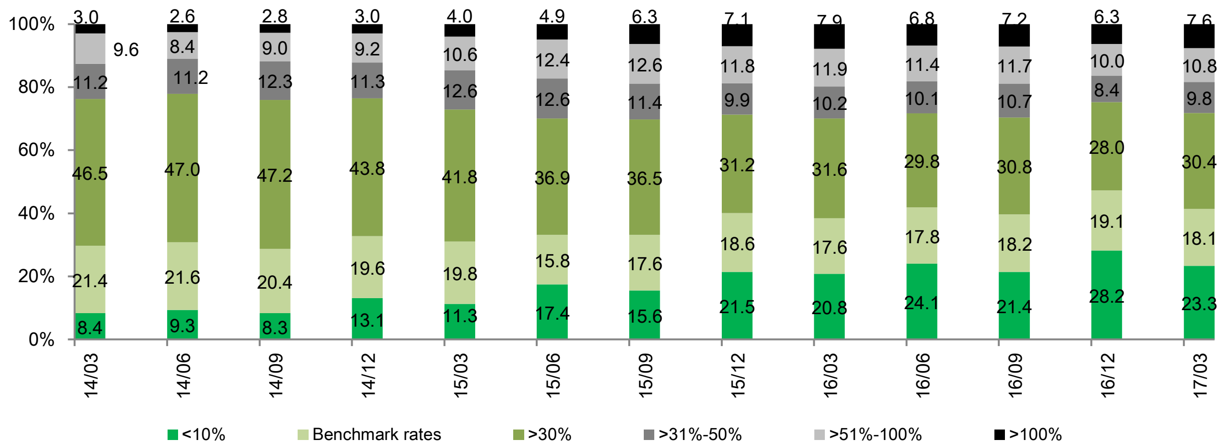
Source(s): PBOC, ABCI Securities

Exhibit 3: Average loan yield vs. proportion of loans with above-benchmark rates (%)



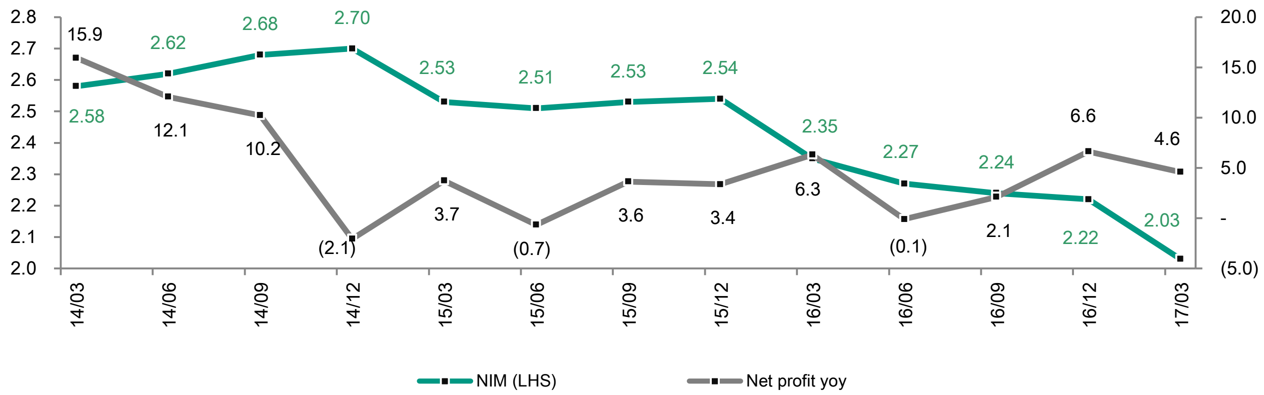
Source(s): PBOC, ABCI Securities

Exhibit 4: Breakdown of loans by loan pricing (%)



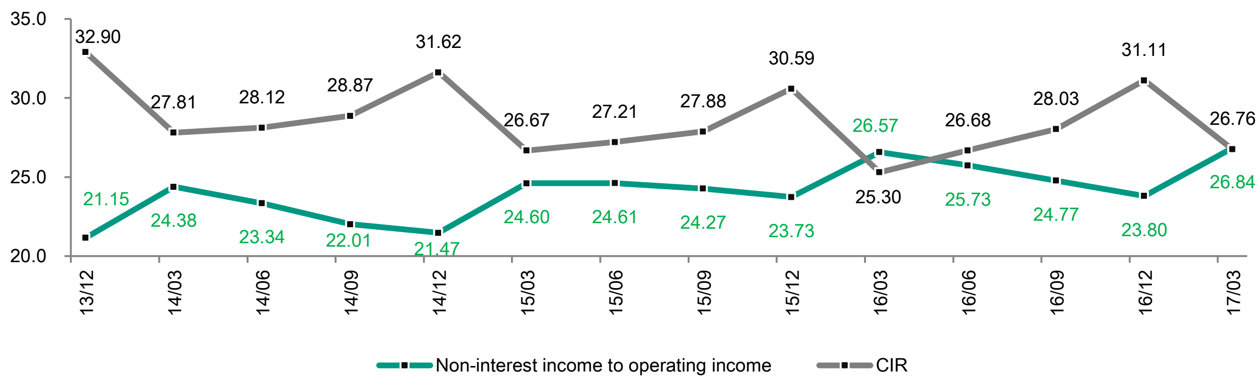
Source(s): PBOC, ABCI Securities

Exhibit 5: System NIM and system net profit YoY (%)



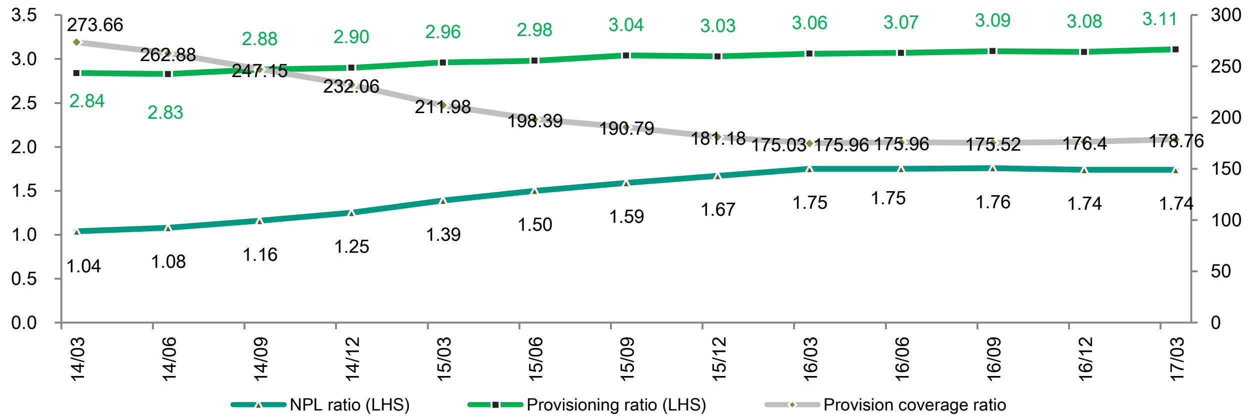
Source(s): CBRC, ABCI Securities

Exhibit 6: System non-interest income to operating income and system CIR (%)



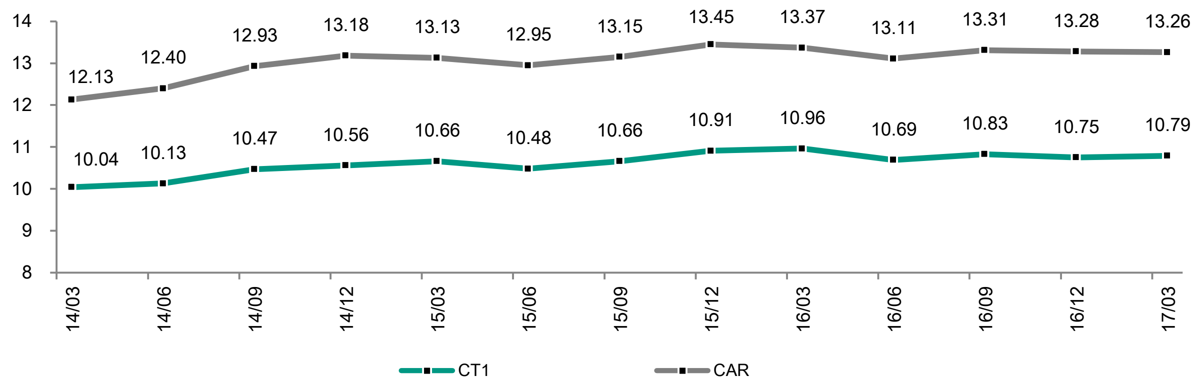
Source(s): CBRC, ABCI Securities

Exhibit 7: Key asset quality indicators (%)



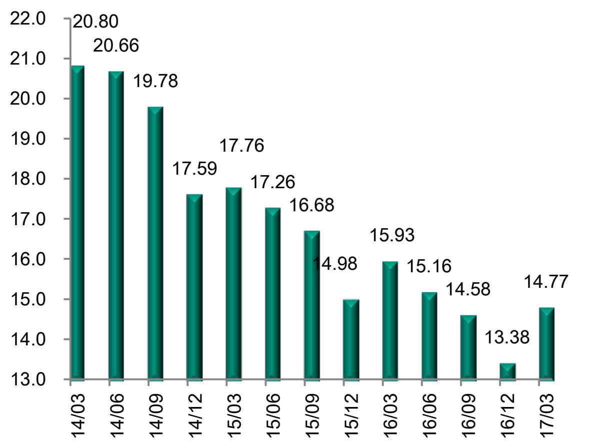
Source(s): CBRC, ABCI Securities

Exhibit 8: System CT1 and CAR (%)



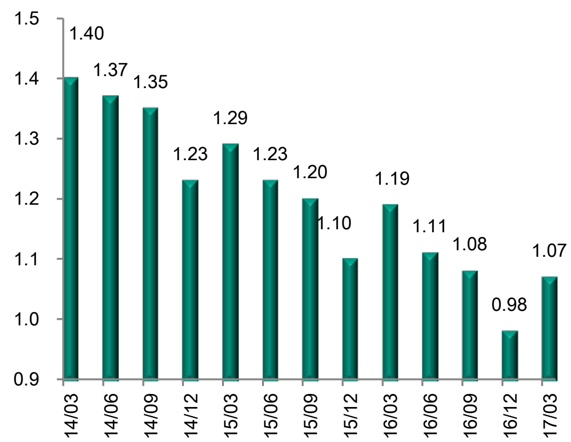
Source(s): CBRC, ABCI Securities

Exhibit 9: System ROAE (%)



Source(s): CBRC, ABCI Securities

Exhibit 10: System ROAA (%)



Source(s): CBRC, ABCI Securities

Exhibit 11: Sector Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)
ICBC	1398 HK	BUY	6.84	29.55	5.95	5.60	0.77	0.70	5.26	5.47
CCB	939 HK	BUY	8.02	31.91	5.89	5.59	0.78	0.71	5.11	5.29
ABC	1288 HK	BUY	4.56	23.58	5.73	5.54	0.73	0.67	5.41	5.72
BOC	3988 HK	BUY	5.01	30.47	5.77	5.49	0.65	0.60	5.49	5.49
BoCom	3328 HK	BUY	7.71	38.42	5.51	5.34	0.59	0.54	5.38	5.38
CMB	3968 HK	BUY	25.40	6.05	8.81	8.14	1.21	1.08	3.29	3.48
MSB	1988 HK	BUY	11.73	50.38	5.32	4.85	0.67	0.60	3.13	3.27
CITICB	998 HK	BUY	6.13	26.92	4.83	4.44	0.53	0.47	5.06	5.29
CEB	6818 HK	BUY	5.26	44.11	4.63	4.38	0.55	0.50	6.39	6.69
HB	3698 HK	BUY	4.59	22.73	5.18	4.88	0.64	0.56	5.34	5.64
HRB	6138 HK	BUY	2.84	16.87	4.47	3.84	0.56	0.50	5.48	6.40
BoCQ	1963 HK	BUY	8.20	31.83	4.41	3.89	0.56	0.48	5.71	6.42

Source(s): Bloomberg, ABCI Securities estimates

China Insurance Sector

2017: A year of challenges

- We believe **Ping An (2318 HK)** will be the winner in 2017
- Life premium income on fast-growth track but P&C premium income growth would slow
- We are cautious on large unrealized loss incurred in AFS financial assets and increase in alternative investments
- Price liberalization, changes in actuarial estimates, and implementation of IFRS 9 would cause temporary setbacks in insurers' profit and embedded value in 2017-18

NEUTRAL

Analyst : Philip Chan
Tel: (852) 2147 8805
Email: philipchan@abci.com.hk

Life insurance density and penetration are rising rapidly. Life insurance penetration (premium/GDP) increased to 2.99% in 2016, up 63ppt YoY. Meanwhile, life insurance density grew 35.7% YoY to RMB 1,608 per capita despite a much lower growth in national disposal income at 8.4% in 2016. Life premium growth of the top 3 life insurers was 29% YoY in 4M17, compared to the 24% YoY growth in 2016.

Low auto sales growth would affect premium income growth of non-life insurers. P&C insurance penetration increased to 1.17% in 2016, up 0.01ppt. Its density reached RMB 631 per capita, up 8.5%, which is in line with the 8% nominal growth. We believe the slower momentum, in auto sales, whose growth declined from 10.1% YoY in 2016 to 3.4%YoY in 4M17, would be the major headwind to P&C insurers in 2017.

Challenges ahead in 2017-18. Price liberalization in insurance and changes in actuarial estimates have driven up the liability cost of insurance contracts. China Life (2628 HK) warned that its pretax profit in 1Q17 would have reduced by RMB 13.3bn due to increase in insurance liabilities based on the new accounting estimates. The reduction is 1.76x of its reported pre-tax profit in 1Q17.

Earnings quality in question. Large unrealized gain (loss) in AFS financial assets distorts the quality of reported net profit of insurers, as the gain (loss) is credited (debited) after net profit. Insurers with hefty unrealized loss (gain) in AFS financial assets will lead to higher (lower) ROA and ROE but lower (higher) growth in net book value. Comprehensive net profits of China Life (2628 HK) and CPIC (2601 HK) were 89% and 49% of their reported net profits in 1Q17. Meanwhile, comprehensive net profits of Ping An (2318 HK) and NCI (1336 HK) were 127% and 135% of their reported net profits in 1Q17. In our opinion, comprehensive net profit can provide a better picture of insurers' profitability.

Alternative investments accounted for 307% of total equity of insurance industry at end-Mar 2017. Low transparency and lack of market values of alternative investments should be the major concerns.

Key Data

Avg.17F P/E (x)	13.61
Avg.17F P/B (x)	1.40
Avg.17F Dividend Yield (%)	1.90

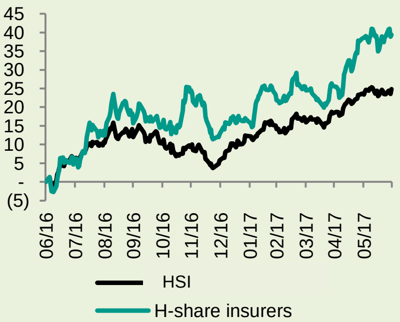
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	0.7	(0.3)
3-mth	11.0	4.6
6-mth	24.5	5.3

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

Stocks, bank deposits, and bonds accounted for 104%, 137%, and 270% of total equity of the industry at end-Mar 2017. Returns of alternative investments have become the largest swing factor of insurers' shareholder value.

High industry concentration remains intact. The top 10 life insurers captured ~72% of market shares in 2016 and 1Q17 in terms of total life insurance premium. Meanwhile, top 10 P&C insurers captured ~85% market shares in 2016 and 1Q17 in terms of total P&C insurance premium.

Surge in liabilities of life and health insurance contracts would erode underwriting profit. Changes in business and investment environments would lead to changes in actuarial estimates of liabilities for life and health insurance contracts. We expect the liabilities of long-term life or health insurance contracts to surge, with the negative impacts to be fully reflected in the income statements in 2017-18.

Embedded value would be boosted by increased sales of long-term protection insurance products. The life insurance industry recorded 36.5% YoY and 37.0% YoY growth in premium incomes in 2016 and 1Q17. New business value of CPIC, China Life, PICC, NCI and Ping An grew 56.5%, 56.4%, 49.9%, 36.4% and 32.2% YoY in 2016, respectively. Relative high growth of new business value is due to the change in product mix that includes a higher proportion of long-term protection insurance products. Embedded value per share of CPIC, NCI, China Life, Ping An, PICC and Tai Ping grew 19.6%, 17.0%, 16.4%, 15.6%, 8.0% and 4.6% YoY in 2016, respectively. We believe changes in product mix have helped increase the embedded value of life insurers while offsetting the adverse impacts of changes in actuarial estimates.

Lower risks imply lower investment returns in 2017-18. The main objective of CIRC's tightening of the regulatory controls on the insurance industry is to manage the systematic risk of the industry and business risks of the insurers. The regulatory environment is unfavorable to small insurers who usually promote aggressive investments to lure customers. As investment returns to customers are going to decline, surrender rates of small insurers are expected to increase. Liquidity risks to small and mid-sized insurers are mounting.

Ping An and NCI have more prudent assumptions on risk discount rates and investment returns. Their embedded values are more conservative than their peers (China Life, CPIC, PICC Gp, Taiping and China Re), who usually assume a relatively low risk discount rate or high expected investment return.

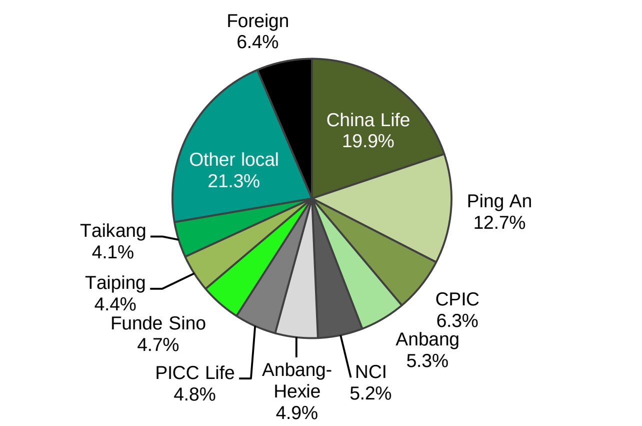
Pick the winner - Ping An (2318 HK). Among the H-share insurance peers, Ping An achieved the highest ROAE, the highest net book value enhancement, and the lowest combined ratio in P&C business.

Exhibit 1: 2016 assumptions on valuation of insurers' embedded value

	China Life (2628 HK)	NCI (1336 HK)	Ping An (2318 HK)	CPIC (2601 HK)	PICC Gp (1339 HK)	Taiping (966 HK)	China Re (1508 HK)
Discount rate (%)	10.0	11.5	11.0	11.0	10.0	11.0	10.5
Assumed future investment returns (%)	4.6-5.0	4.5-5.0	4.75-5.0	4.85-5.0	5.25	4.8-5.0	5.0
Reported total investment yield in 2016 (%)	4.56	5.1	5.3	5.2	5.8	5.01	5.48
End-2016 Embedded value (RMB/sh)	23.07	41.50	34.88	27.14	3.34	28.51	1.80
End-2016 Net book value (RMB/sh)	10.74	18.95	20.98	14.54	2.97	14.32	1.68
Embedded value / Net book value (x)	2.15	2.19	1.66	1.87	1.12	1.99	1.07

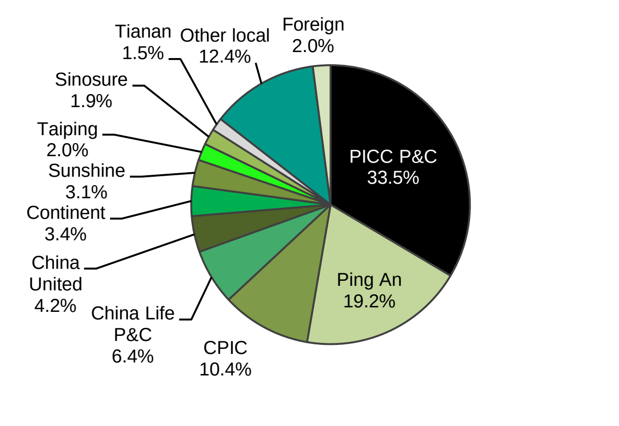
Source(s): Companies' financial reports, ABCI Securities

Exhibit 2: Top 10 life insurers in 2016



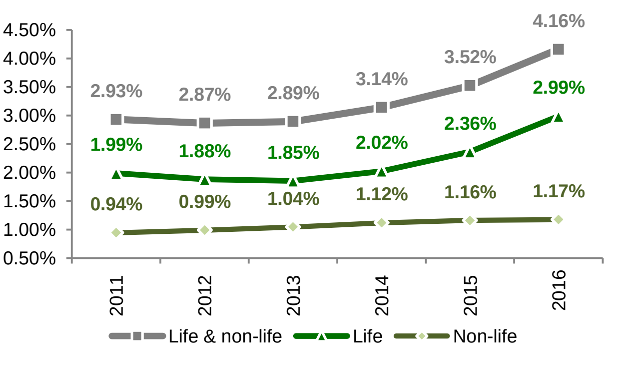
Source(s): CIRC, ABCI Securities

Exhibit 3: Top 10 P&C insurers in 2016



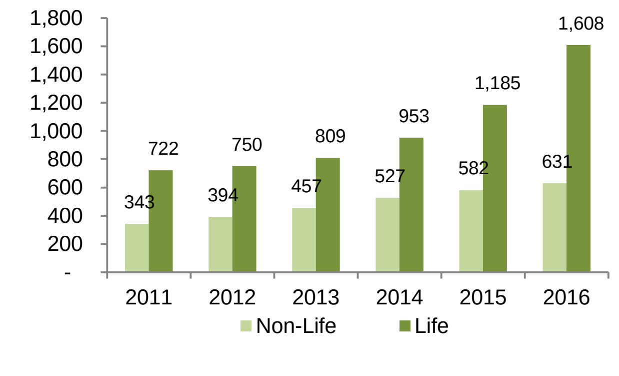
Source(s): CIRC, ABCI Securities

Exhibit 4: Insurance penetration (% of GDP)



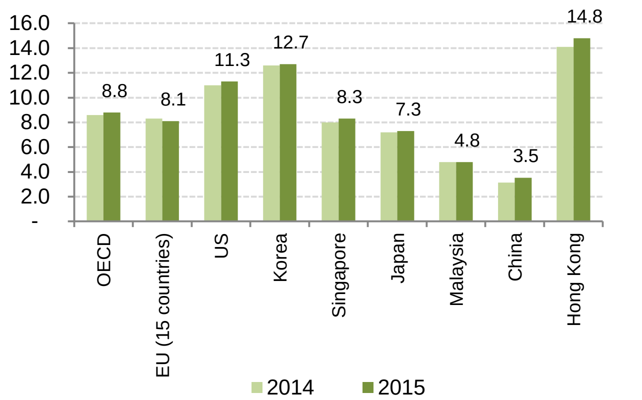
Source(s): CIRC, NBS, ABCI Securities

Exhibit 5: Insurance density (RMB per capita)



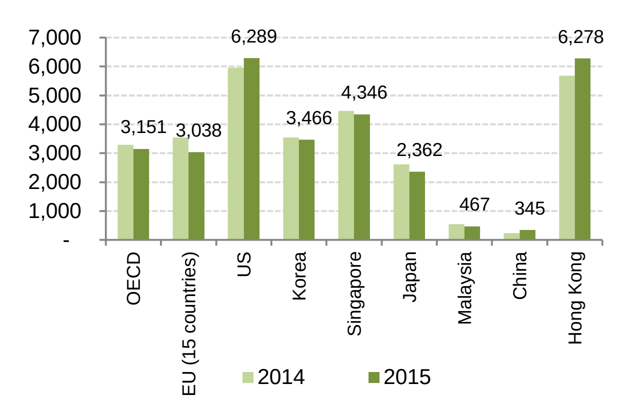
Source(s): CIRC, NBS, ABCI Securities

Exhibit 6: Insurance penetration (% of GDP)



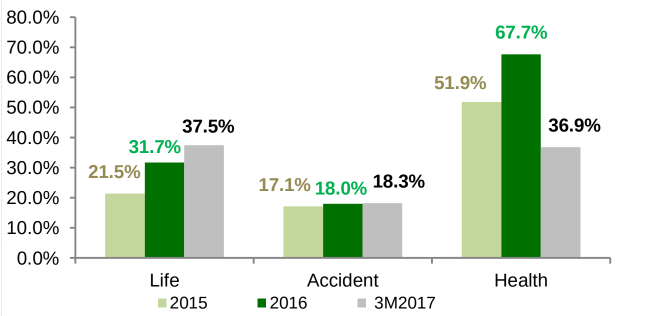
Source(s): OECD, CIRC, NBS, ABCI Securities

Exhibit 7: Insurance density (US$ per capita)



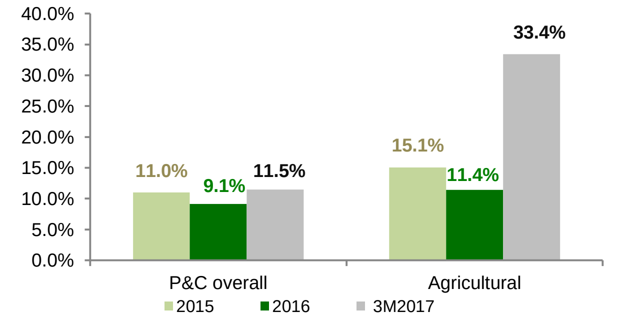
Source(s): OECD, CIRC, NBS, ABCI Securities

Exhibit 8: China Insurance premium (%YoY)



Source(s): CIRC, ABCI Securities

Exhibit 9: China Insurance premium (%YoY)



Source(s): CIRC, ABCI Securities

Exhibit 10: Original insurance premium income

Life insurance premium income	4M 17 (RMB bn)	Chg (YoY)	2016 (RMB bn)	Chg (YoY)	2015 (RMB bn)	Chg (YoY)
China Life (2628 HK)	268.4	20.0%	430.6	18.3%	364.1	9.9%
Ping An Life[1]	176.9	41.4%	275.2	32.0%	208.4	19.8%
CPIC Life[2]	82.7	39.7%	137.4	26.5%	108.6	10.0%
PICC Life[3]	68.3	(5.0%)	105.1	17.5%	89.4	13.6%
NCI (1336 HK)	63.5	33.0%	94.4	18.1%	111.9	1.8%
Taiping Life[4]	43.7	(19.6%)	112.6	0.6%	79.9	22.7%
PICC Health[3]	13.6	(8.5%)	23.7	47.5%	16.1	1.9%
Ping An Health[1]	0.7	182.1%	0.8	50.7%	0.5	24.6%
Non-life premium income	**(RMB bn)**	**(YoY)**	**(RMB bn)**	**(YoY)**	**(RMB bn)**	**(YoY)**
PICC P&C (2328 HK)[3]	117.1	8.9%	310.5	10.5%	281.0	11.3%
Ping An P&C[1]	69.9	22.6%	177.9	8.7%	163.6	14.5%
CPIC Property[2]	34.6	1.8%	96.1	1.7%	94.4	1.7%
China Life P&C[5]	10.1	9.2%	59.7	18.6%	50.4	24.7%
Continent P&C[6]	12.4	14.9%	32.0	20.2%	26.6	18.9%
Taiping General[4]	6.5	6.1%	18.2	16.4%	15.6	17.7%

[1] Ping An Life, Ping An Health and Ping An P&C are 99.51%, 75.01% and 99.51% owned by Ping An Insurance (Group) (2318 HK)
[2] China Pacific Life (CPIC Life) and China Pacific Property (CPIC Property) are 98.29% and 98.5% owned by China Pacific Insurance (Group) (2601 HK)
[3] PICC Life and PICC P&C and PICC Health are 80%, 68.98% and 93.95% owned by The People's Insurance Co (Group) (1339 HK)
[4] Taiping Life and Taiping General are 75.1% and 100% owned by China Taiping Insurance (966 HK)
[5] China Life P&C is 40%-owned by China Life Insurance (2628 HK)
[6] China Continent P&C is 93.18% owned by China Re (1508 HK)
Source(s): Bloomberg, ABCI Securities

Exhibit 11: Sector Financial Performance Summary (Data as of June 29, 2017)

Company	Ticker (SEHK)	EmV* /share (RMB)	Life new contracts value chg (YoY)	2016 ROAA (p.a.)	2016 ROAE (p.a.)	End-2016 NBV** (YoY)	Assets / Equity (x)	2016 Invest yield	P&C combined ratio	Mar 2017 Life core solvency	Mar 2017 P&C core solvency
China Life	2628	23.07	56.4%	0.76%	6.11%	(5.85%)	8.77	4.6%	-	285%	236%
NCI	1336	41.50	36.4%	0.73%	8.45%	2.22%	11.83	5.1%	-	261%	-
Ping An	2318	34.88	32.2%	1.40%	17.39%	14.72%	11.46	5.3%	95.9%	216%	219%
CPIC	2601	27.14	56.5%	1.26%	9.10%	(1.18%)	7.57	5.2%	99.2%	265%	252%
PICC Gp	1339	3.34	49.9%	2.35%	11.76%	8.61%	5.45	5.8%	98.1%	144%	233%
Taiping	966	25.09	28.8%	1.27%	8.49%	(6.47%)	7.54	5.0%	99.8%	233%	183%
PICC P&C	2328	-	-	4.02%	15.79%	9.51%	3.99	-	98.1%	-	233%
China Re	1508	1.80	10.9%	1.94%	7.28%	1.42%	2.93	5.5%	99.8%	206%(Re)	218%(Re) 280% (P)
Winner		**-**	**CPIC**	**PICC P&C**	**Ping An**	**Ping An**	**NCI**	**PICC Gp**	**Ping An**	**China Life**	**CPIC**

(P): Primary insurance; (Re): reinsurance
*Embedded value;
** Net book value
Source(s): Companies, ABCI Securities

Exhibit 12: Sector Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	Price (HK$)	Price / EmV (x)	FY17F P/E (x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)	FY17F ROAE (%)	FY18F ROAE (%)
China Life	2628 HK	HOLD	24.00	0.90	22.32	18.94	1.80	1.67	1.55	1.82	8.36	9.13
NCI	1336 HK	BUY	39.80	0.83	17.02	13.60	1.68	1.50	1.69	1.96	10.27	11.66
Ping An	2318HK	BUY	52.25	1.30	12.39	10.95	1.86	1.62	1.66	1.88	15.60	15.78
CPIC	2601HK	HOLD	32.00	1.02	17.71	15.23	1.75	1.62	2.80	3.16	10.33	11.08
PICC Gp	1339 HK	HOLD	3.28	0.85	7.76	7.16	0.85	0.76	0.81	0.81	11.61	11.25
Taiping	966 HK	-	19.86	0.70	12.85	11.06	1.16	1.04	0.47	0.61	9.43	9.93
PICC PC	2328 HK	BUY	13.04	-	8.22	7.56	1.25	1.10	2.83	3.14	17.44	15.44
China Re	1508 HK	HOLD	1.73	0.83	10.58	9.28	0.84	0.78	3.39	3.66	8.20	8.74

Source(s): Bloomberg, companies, ABCI Securities estimates

ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

China Securities & Brokerage Sector
Direct financing to drive growth in investment banking

- After a weak 2016, we expect sector outlook to stabilize over the next 12-18 months amid the improving ADT and bond issuance in recent months
- Investment banking business is recovering gradually on the reviving bond market, and should continue to benefit from a structural uptrend in the long term. Under the 13th FYP, the government is committed to boosting direct financing in capital markets
- **BUY CSC (6066 HK), GF (1776 HK) and CMS (6099 HK)** for above-average ROEs

OVERWEIGHT

Analyst : Steve Chow
Tel: (852) 2147 8809
Email: stevechow@abci.com.hk

2016 results review. In 2016, sector revenue and profit fell 43% and 50% YoY amid the high base in 2015 and slowdown in A-share market in 2016. Sector ROE normalized to 8.0% in 2016 from 20.7% in 2015.

Gradual improvement ahead. We expect outlook for the brokerage industry to slowly improve over the next 12-18 months amid the stabilizing A-share ADT in recent months. We expect the sector to experience a high single-digit ROE in 2017 similar to that in 2016. Selected brokerage such as CSC would continue to enjoy above-average ROE in 2017, in our view.

Net financing of corporate bonds swung back to positive. In 4Q16, the government imposed strict control on bond issuance, resulting in a significant shrinkage in bond issuance volume. Hence, net financing of corporate bonds turned negative between Dec 2016 and Feb 2017. Nonetheless, the figure swung back to positive in Mar/Apr 2017, indicating an improving environment for investment banking business.

The rise of direct financing. Despite the hiccup in 2016, investment banking business would benefit from a long-term structural uptrend accelerated by the government's commitment to deleverage the economy through direct financing in the capital markets, which includes the issuance of corporate bonds and equity securities. Direct financing accounted for 24% of the aggregate financing in the economy in 2016, up from 17% in 2015. We expect such trend to continue in the near term.

Developing a more sophisticated capital market. Under the current 13th FYP (2016-20), the government will increase the contribution of direct financing in the economy and deleverage through the development of a diverse, multi-layered capital market with GEM, NEEQ, regional stock market, etc. It also aims to promote product innovations such as high-yield bonds and hybrid financing. In our view, such developments will be supportive to the investment banking business.

Sequential improvement in A-share ADT. A-share ADT has shown sequential improvement in recent months, rising from RMB 376bn in Jan 2017 to RMB 506bn in Apr 2017. This, together with a relatively lower base

Key Data

Avg.17F P/E (x)	12.2
Avg.17F P/B (x)	1.1
Avg.17F Dividend Yield (%)	2.8

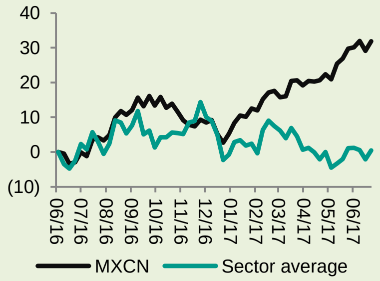
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(1.7)	(3.1)
3-mth	(5.7)	(14.8)
6-mth	(2.5)	(28.6)

*Relative to MXCN
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



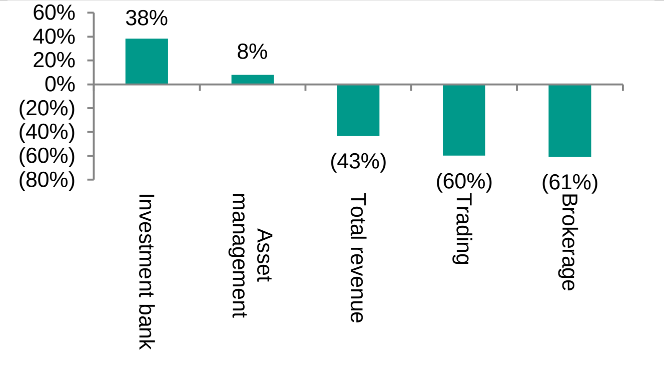
Source(s): Bloomberg, ABCI Securities

in 2H16 (RMB 510bn) than in 1H16 (RMB 529bn), should allow brokerage business to record better growth in coming months.

Favor CSC (6066 HK), GF (1776 HK), and CMS (6099 HK) for consistent performance. To assess the performance of brokers throughout a market cycle, we compare the ROEs of major brokers in 2015 and 2016 and identity that : 1) CSC, GF, and CMS attained above-peer ROEs in 2015 and 2016, reflecting their superior execution capabilities; 2) Everbright (6178 HK), GTJN (2611 HK), and DFZQ (3958 HK) were able to achieve high ROEs in 2015 but performance deteriorated during the market correction in 2016; 3) Huatai (6886 HK), Haitong (6837 HK), CITIC (6030 HK) are underperformers with below-peer ROEs in 2015 and 2016.

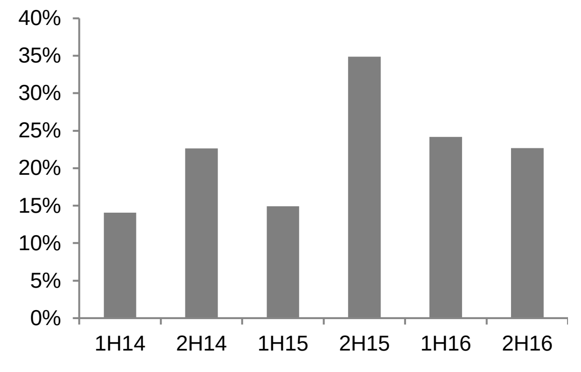
Risk factors: 1) Market risk of financial assets; 2) Credit risk associated with bond investments and lending business; 3) Volatility in market turnover; 4) Penalties on misconduct or staff malpractice in securities firms; 5) Regulatory changes in direct financing; 6) Spill-over impact of deleveraging in the financial sector.

Exhibit 1: Segmental revenue growth of the industry in 2016 (YoY %.)



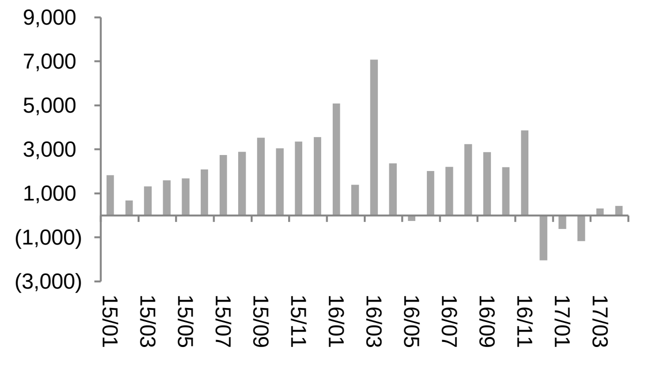
Source(s): SAC, ABCI Securities

Exhibit 2 Direct financing as a percentage of aggregate financing



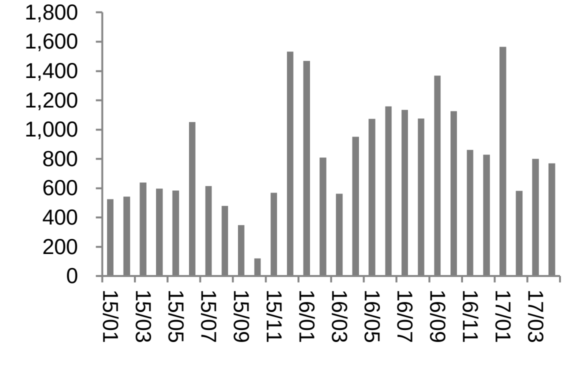
Source(s): PBOC, ABCI Securities

Exhibit 3: Net financing of corporate bonds (RMB 100 mn)



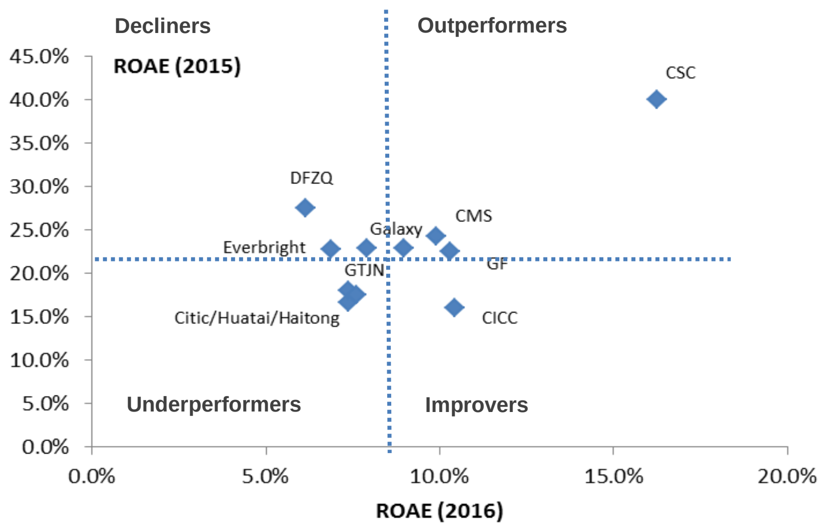
Source(s): PBOC, ABCI Securities

Exhibit 4: Equity financing in the stock market by non-financial enterprises (RMB 100mn)



Source(s): PBOC, ABCI Securities

Exhibit 5: ROAE comparison of the Chinese brokers



[1]Decliners: companies with an above-average ROE in 2015 and a below-average ROE in 2016
[2]Outperformers: companies with an above-average ROE in both 2015 and 2016
[3]Improvers: companies with a below-average ROE in 2015 and an above-average ROE in 2016
[4]Underperformers: companies with a below-average ROE in both 2015 and 2016
Source(s): Companies, SAC, ABCI Securities

Sector Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield(%)	FY18F Yield(%)
CSC	6066 HK	BUY	8.4	22%	7.6	6.5	1.0	0.9	3.0	3.5
GF	1776 HK	BUY	17.5	11%	11.7	10.2	1.2	1.2	2.9	3.3
CMS	6099 HK	BUY	13.6	11%	12.0	10.1	1.1	1.1	3.2	3.7
Everbright	6178 HK	HOLD	11.0	3%	12.3	10.4	0.9	0.8	2.7	3.0
DFZQ	3958 HK	HOLD	7.7	3%	14.0	11.1	0.9	0.9	2.4	2.9
Guolian	1456 HK	HOLD	4.1	5%	11.2	10.1	0.8	0.8	3.0	3.4

Source(s): Bloomberg, ABCI Securities estimates

農銀國際
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China Real Estate Sector

Winners in the Bay Big Area

- Strong sales momentum of major developers would persist in 2H17 due to recovery in lower-tier cities, low interest rates, and market consolidation
- Margin improvement would continue in 2017-18 on the back of rising ASP
- Offshore USD bond issuance rose 126% QoQ in 1Q17, indicating ability to refinance offshore
- Despite limited analyst coverage, **Aoyuan (3883 HK)** is our top pick based on its strong presales growth and high dividend yield. We also favor developers with high exposure in the Big Bay Area as they will benefit from the ensuing development in the region

OVERWEIGHT

Analyst : Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

Avg.17F P/E (x)	7.7
Avg.17F P/B (x)	0.9
Avg.17F Dividend Yield (%)	5.1

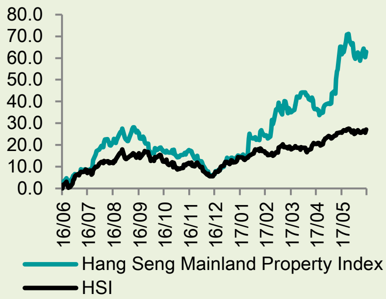
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(1.44)	(2.47)
3-mth	21.05	13.72
6-mth	52.97	33.82

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

Strong sales momentum would remain in 2H17. In 5M17, presales of the Chinese developers grew 62% YoY, completing 46% of sales target on average. We believe sales momentum would persist in 2H17 due to 3 major factors:

1) Lack of tightening in lower-tier cities. In 2016, property market in lower-tier cities performed worse than that in the tier-1/2 regions due to high inventory level and oversupply concern. However, with the implementation of home purchase restriction (HPR) in major tier-1/2 cities, part of the investment demand has been redirected to the lower-tier ones. As reflected by NBS's statistics, property price in tier-3 cities grew 3.4% in 5M17, outperforming the 1.2%/2.3% growth in tier-1/2 cities. For developers with a balanced portfolio across cities, better sales performance in lower-tier regions can compensate for slower sales in high-tier ones.

2) Low interest rate environment. Despite the government's deleveraging policy, mortgage loan remains to be one of the core segments in the loan portfolio of banks. In 5M17, mortgage loan grew 9% YoY to RMB 960bn. Mortgage loan rate, priced based on PBOC rate, stayed at record-low levels. Although discount rate has been reduced slightly from 15% to 0-10% for most banks, mortgage rate is at least 70-120bps lower than that in 2014.

3) Market consolidation. Top 10 players account for 18.7% of 2016 presales revenue, up 1.7ppt YoY. Due to rising land price and HPR in various cities, small developers with limited landbank and geographic coverage are particularly stressed. Meanwhile, major listed developers are increasing land acquisition via M&A. With a decreasing no. of players in the market, the sizeable developers will benefit from a growing market share.

Sustainable gross margin improvement. On the back of rising ASP, gross profit margin (GPM) of the Chinese developers rebounded from 26.0% in FY15 to 26.5% in FY16. Further presales ASP growth in 2016 means that GPM would go up in 2017-18. Average net gearing in FY16 increased 2.5ppt to 65.6%. Excluding Sunac (1918 HK) and Evergrande

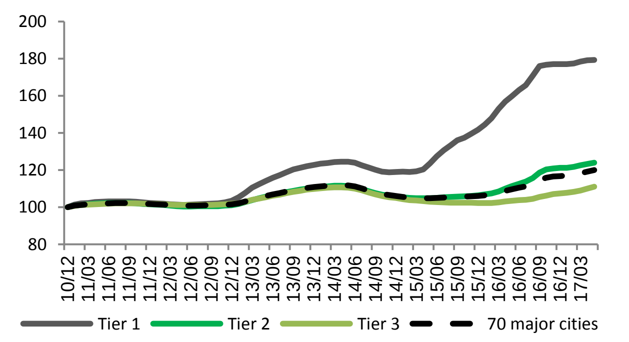
(3333 HK), the two outliers who increased their debt levels significantly in 2016, the figure fell 3.1ppt to 59.9%. We believe net gearing would retreat further in 2017 as developers become more cautious in land acquisition after resumption of HPR in 2016.

Increasing offshore bond issuance. As issuance of onshore corporate bond by the PRC developers has been suspended, developers that have fully utilized their onshore bond quota need to rely on USD bond offshore for funding. In 1Q17, onshore bond issued by PRC developers (listed and unlisted) declined 33% QoQ or 73% YoY to RMB 56bn while offshore USD bond issued rose 126% QoQ or 484% YoY to US$ 10.9bn. Average coupon rate for onshore bond and offshore bond rose 1ppt to 5.3% and 80bps to 5.6% in 1Q17. However, the risen coupon rate could be mostly driven by developers with lower credit rating (e.g. Evergrande's US$ 1bn bond issued in Mar 2017 had a coupon rate as high as 9.5%). On a like-for-like basis, coupon rate for USD bond declined in 1Q17. Coupon rate of Times property's USD bond issued in Apr 2017 (mature in 2022) was 50bps lower than that in Jan 2017 (mature in 2020) despite the longer maturity period in the former. We believe growing sales, improving margin, and declining net gearing among developers in FY16 have strengthened confidence of the credit rating agencies and bond investors.

The Big Bay Area story. The Guangdong-HK-Macau Big Bay Area (BBA), specifically mentioned in Premier Li Keqiang's annual work report in Mar 2017, is one of the key strategic regions that China seeks to develop. The concept of BBA dates back to 2011 when it was proposed in a study called "The Action Plan for the Bay Area of the Pearl River Estuary". The BBA will be led by 9 mainland cities (Shenzhen, Guangzhou, Foshan, Zhuhai, Dongguan, Huizhou, Zhongshan, Jiangmen, and Zhaoqing) and two SARs (Hong Kong and Macau), which will be developed into world-class metropolitan cities comparable to New York, Los Angeles and Tokyo in terms of size, population and GDP. During the meeting between Guangdong governor Ma Xingrui and HK Chief Executive Leung Chun-ying, Ma emphasized that transportation upgrades and technology innovation will be one of the key focuses in the BBA development. In our view, these initiatives will stimulate population inflow on better transportation network and job opportunities, which in turn will increase housing demand. We are positive on developers with high exposure in BBA such as Aoyuan, Times, Logan and SZI.

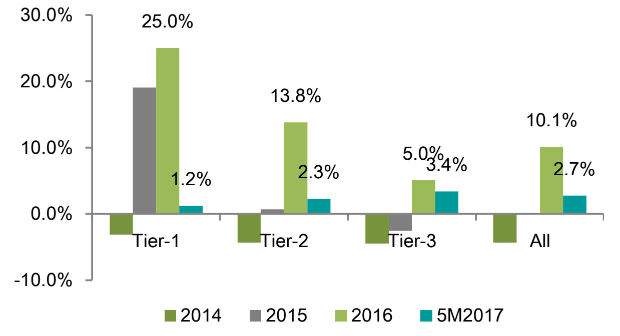
Our top picks: Aoyuan (3883 HK), Times (1233 HK), Logan (3380 HK) and SZI (604 HK). We maintain positive on China's property sector on healthy presales growth, improving margin, and ability to refinance offshore. Nonetheless, given the sector has rallied by 49.1% YTD, we believe current share price has priced in most of the positives. We expect limited catalysts ahead until the interim results to be announced in Aug. Hence, we advise investors to select players with low valuation and high yield. Our 3 Big Bay Area (BBA) picks, **Aoyuan, Times** and **Logan**, have a valuation of 3.6-7.1x 2017E P/E and a dividend yield higher than 4.8-8.4%. Aoyuan is our top pick base on its strong presales growth. We believe the market may have underestimated its potential due to its underperforming share price YTD and limited analyst coverage.

Exhibit 1: NBS property price index (Dec 10= 100)



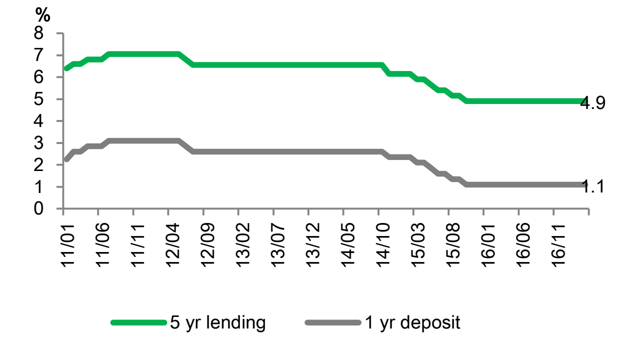
Source(s): NBS, ABCI Securities

Exhibit 2: NBS property price change



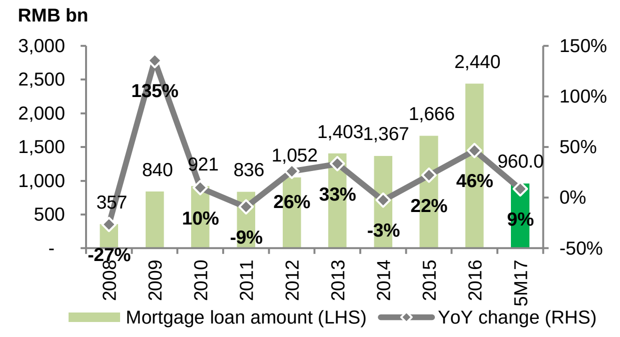
Source(s): NBS, ABCI Securities

Exhibit 3: Interest rate



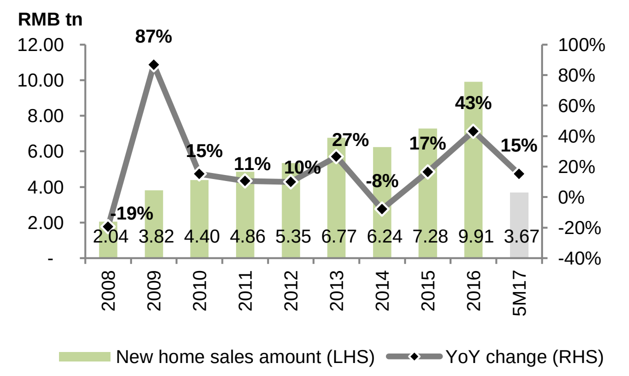
Source(s): PBOC, ABCI Securities

Exhibit 4: Mortgage loan



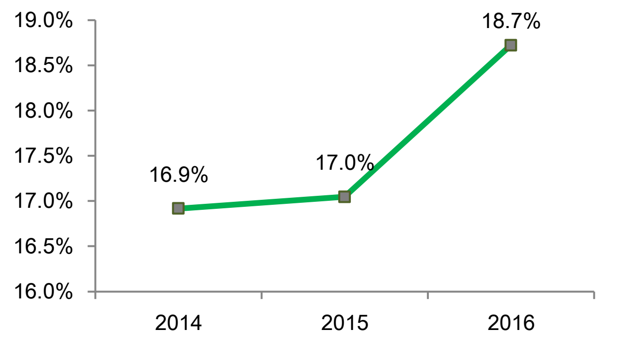
Source(s): PBOC, ABCI Securities

Exhibit 5: New home sales



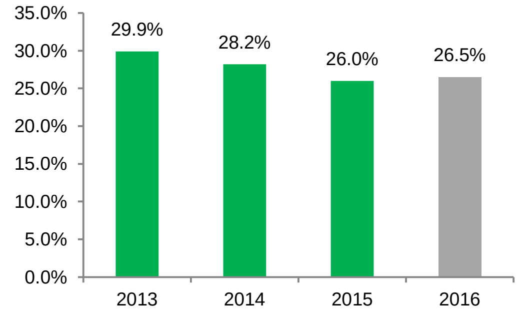
Source(s):NBS, ABCI Securities

Exhibit 6: Market share of top 10 developers by presale



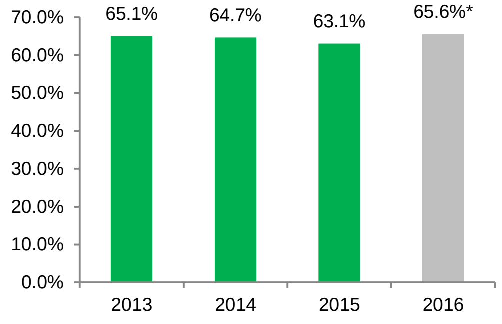
Source(s): NBS, ABCI Securities

Exhibit 7: Gross margin trend among the HK-listed PRC developers



Source(s): Companies, ABCI Securities

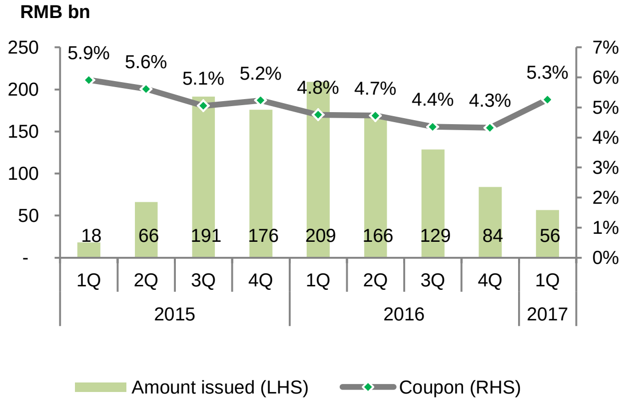
Exhibit 8: Net gearing trend of the HK-listed PRC developers



*59.9% if excluding Sunac and Evergrande

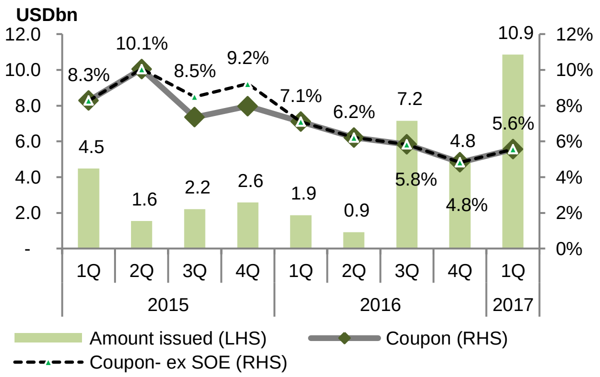
Source(s): Companies, ABCI Securities

Exhibit 9: Onshore RMB bond issuance by quarter



Source(s): Bloomberg, ABCI Securities

Exhibit 10: Offshore USD bond issuance by quarter



Source(s): Bloomberg, ABCI Securities

Exhibit 11: 5M17 presale of major HK-listed China developers

	Developer	5M17						2017	Achievement
		Amount	YoY	GFA	YoY	ASP	YoY		
		RMBbn	%	000 sqm	%	RMB/sqm	%	RMBbn	
1	Country garden	244.2	156%	27,270	126%	8,956	13%	400.0	61.1%
2	Longfor	75.8	151%	4,902	142%	15,453	4%	100.0	75.8%
3	Sunac	80.3	92%	4,298	109%	18,688	-8%	210.0	38.2%
4	Beijing Capital	18.9	78%	839	29%	22,539	38%	50.0	37.8%
5	Yuzhou	18.0	73%	1,112	36%	16,223	28%	28.0	64.4%
6	Sino-Ocean	23.1	67%	1,101	19%	21,005	40%	60.0	38.5%
7	Evergrande	183.0	66%	18,698	51%	9,786	10%	450.0	40.7%
8	CIFI	38.1	65%	2,030	53%	18,780	8%	65.0	58.7%
9	Vanke	228.1	55%	15,200	41%	15,003	10%	na	na
10	Jinmao	14.9	54%	670	40%	22,198	10%	51.0	29.2%
11	Agile	32.5	50%	2,581	16%	12,577	29%	60.0	54.1%
12	Aoyuan	11.2	48%	1,051	13%	10,653	31%	33.3	33.6%
13	Logan	15.5	46%	1,000	21%	15,490	21%	34.5	44.9%
14	COLI*	85.9	41%	5,868	25%	14,646	13%	210.0	40.9%
15	Shimao	33.8	39%	2,046	18%	16,527	18%	80.0	42.3%
16	Poly-A	108.5	30%	7,819	26%	13,878	3%	na	na
17	R&F	30.5	27%	2,393	19%	12,763	7%	73.0	41.8%
18	Times	12.1	24%	856	-7%	14,121	34%	32.5	37.2%
19	CR Land	53.2	24%	3,653	12%	14,551	10%	120.0	44.3%
20	KWG	10.9	15%	638	-8%	17,038	24%	28.0	38.8%
21	Yuexiu	15.1	12%	979	-22%	15,468	45%	33.0	45.9%
22	Greentown	33.6	-9%	1,570	-15%	21,401	7%	112.5	29.9%
23	SZI	8.3	-24%	377	-22%	22,081	-2%	19.1	43.6%
	Total	**1,375.5**	**62%**	**106,951**	**51%**	**12,861**	**7%**	**2,250**	**46.2%**

*in HK$

Source(s):Company, ABCI Securities

Exhibit 12: Sector Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Current Rating	Previous Rating	TP (HK$)	FY17E P/E(x)	FY18E P/E (x)	FY17A P/B (x)	FY18E P/B (x)	FY17E Yield(%)	FY18E Yield(%)
Aoyuan	3883 HK	BUY	BUY	3.40	4.8	3.8	0.6	0.5	6.2	7.9
Times	1233 HK	BUY	BUY	6.00	3.6	2.2	0.7	0.6	8.4	13.7
Logan	3380 HK	BUY	BUY	5.00	7.1	5.3	1.2	1.1	4.8	6.4
SZI	604 HK	BUY	BUY	4.20	8.6	5.8	0.7	0.7	5.8	8.7
Yuzhou	1628 HK	BUY	BUY	3.90	6.3	5.1	1.3	1.1	5.4	6.7
CIFI	884 HK	BUY	BUY	3.60	5.7	4.6	1.2	1.0	6.0	6.3
Jinmao	817 HK	BUY	BUY	3.25	13.3	11.2	1.1	1.0	2.5	3.0
COLI	688 HK	BUY	BUY	30.20	8.9	8.0	1.0	1.0	3.5	3.9
Evergrande	3333 HK	BUY	BUY	Under review	19.7	9.5	3.7	3.1	2.5	5.2
Fantasia	1777 HK	BUY	BUY	1.37	7.2	5.1	0.5	0.5	4.4	5.3
LVGEM	95 HK	BUY	BUY	2.50	24.2	22.5	2.0	1.9	2.5	2.7
Greentown	3900 HK	HOLD	HOLD	7.60	6.7	5.4	0.6	0.6	3.0	3.7
Sunac	1918 HK	SELL	SELL	9.70	24.9	16.5	2.1	2.0	1.6	2.4

Source(s): Bloomberg, ABCI Securities estimates

ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

China Alternative Energy Sector

Energy restructuring: the growth turbine for clean energy

- China will continue to push for national energy structure reform
- China's nuclear power capacity would expand by 15% CAGR in 2016-20; wind power capacity would grow by 9% CAGR during 2016-20
- China targets to expand wind power output by 15% CAGR during 2016-20, suggesting great opportunities for wind power operators
- Decreasing equipment unit cost is a plus for wind power development
- We are positive on China's Alternative Energy sector. Recommend **BUY** for **Longyuan Wind Power (916 HK)** and **CGN Power (1816 HK)**

OVERWEIGHT

Analyst : Kelvin Ng
Tel: (852) 2147 8869
Email: kelvinng@abci.com.hk

Key Data

Avg.17F P/E (x)	9.10
Avg.17F P/B (x)	0.90
Avg.17F Dividend Yield (%)	2.50

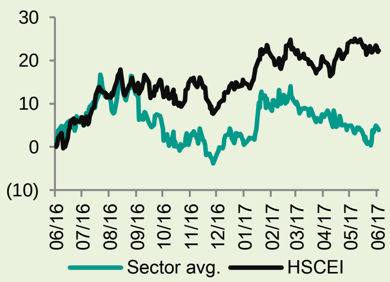
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(0.98)	0.78
3-mth	(3.54)	(5.09)
6-mth	4.96	(7.06)

*Relative to HSCEI
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

China will continue to push for national energy structure reform. China's energy structure will continue to shift from traditional coal-fired power to sustainable alternative energy sources such as nuclear, wind, and solar, etc. on rising pollution concerns and depleting fossil reserves (e.g. oil and coal). Given that coal-fire energy still contributes to ~70% of China's power output, the government will accelerate the development of alternative energy.

China's nuclear power capacity would expand by 15% CAGR in 2016-20. The Chinese government is likely to promote the use of nuclear energy nationwide. Based on China's "Strategic Action Plan of Energy development (2014-20)" (The Plan) announced in June 2014, the government targets a nuclear power capacity of 58GW in 2020, representing a 72% jump from 2016 or a 4-year CAGR of 15% from 34GW in 2016. The Chinese government reiterated the same nuclear power capacity target in the "13th Five-Year Plan for Power" announced on Nov 7, 2016.

China targets to expand wind power output by 15% CAGR during 2016-20. According to the "13th Five-Year Plan for Renewable Energy" issued by National Development and Reform Commission (NDRC) in Dec, 2016, the Chinese government targets to attain no less than 210GW of wind power capacity by end-2020, a 41% jump from 149GW level by end-2016, or 9% CAGR during 2016-20. The plan also indicated wind power generation will reach at least 420bn kWh by end-2020, a 74% jump from 241bn kWh at end-2016 or 15% CAGR in 2016-20. This target implies wind power utilization hour to improve from 1,742 in 2016 to 2,000 in 2020. We believe the sharp increase in output would accelerate earnings for the wind power operators.

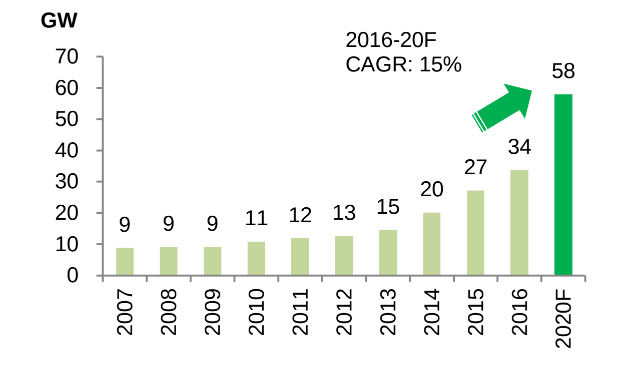
Decreasing equipment unit cost continues to be a plus in promoting wind power. Due to technological advancement, the unit cost of wind power equipment has been decreasing over the years, thus reducing the production cost. According to the industry data, unit cost of wind power equipment in China declined by 30% from RMB 5.8/W at end-2008 to RMB 4/W at end-2016, indicating a negative CAGR of 5%. We believe the cost would continue to trend down, reducing capital expenditure of wind power operators and facilitating adoption nationwide.

Increasing direct sales of electricity to alleviate impacts of wind power curtailment. Curtailment remains a key problem in wind power transmission. Increase in direct sales of electricity, however, may help alleviate the problem. Direct sales means wind power producer could sell and deliver power to customers without passing through the State Grid system (where bottleneck occurs and results in power curtailment), although the tariff is at a 20-30% discount to the national one. According to the power industry data, the proportion of power direct sales (coal-fired, wind, solar and all power sources) in overall power output nationwide trended up from 0.2% (8,040GWh) at end-2010 to 5.4% (303,394GWh) at end-2015, suggesting direct sales may eventually become the main way of power delivery.

OVERWEIGHT sector outlook; prefer Longyuan Power (916 HK) and CGN (1816 HK). We like **Longyuan Power** for its substantial wind power capacity growth and geographically diversified wind power assets that help reduce curtailment. We also prefer **CGN Power** for its leading status in the nuclear industry and quality assets.

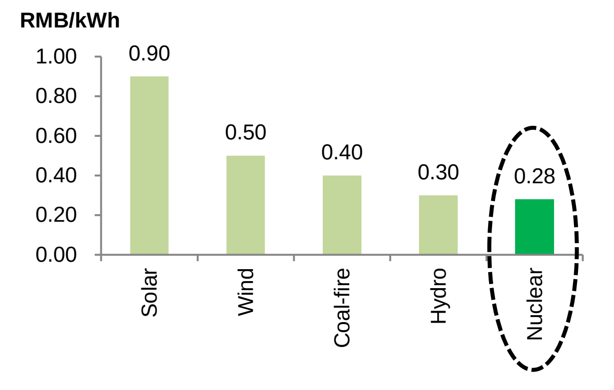
Risk factors: 1) Wind power tariff cut over the long run will reduce profit; 2) Decreased power demand may hinder wind power development; 3) Wind power curtailment may worsen and reduce utilization hour; 4) Safety issues related to nuclear power .

Exhibit 1: China's nuclear power capacity would grow rapidly in 2016-20F



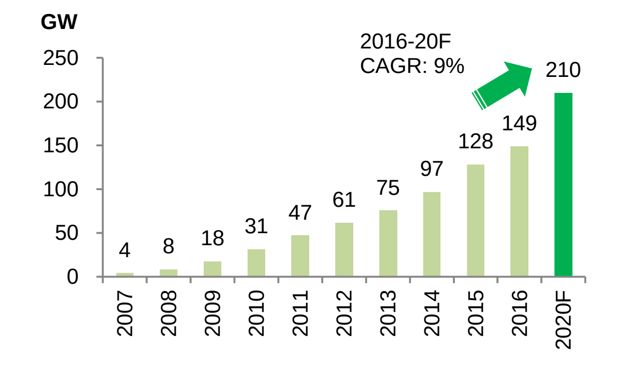
Source(s): NDRC, ABCI Securities estimates

Exhibit 2: Nuclear power has cost advantage over other energy sources



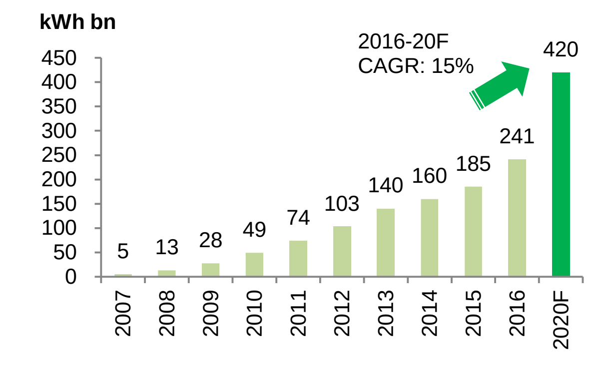
Source(s): HDFX, ABCI Securities

Exhibit 3: China's wind power capacity would expand in 2016-20F



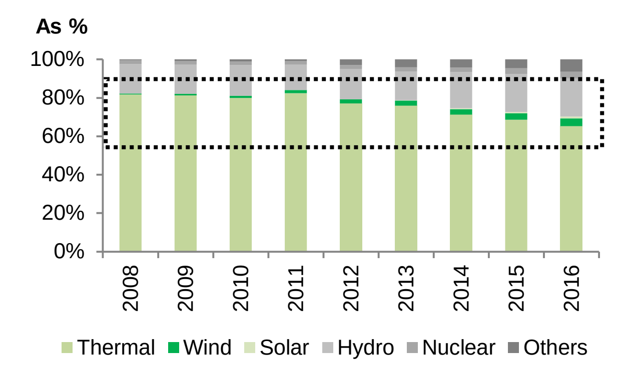
Source(s): NDRC, ABCI Securities estimates

Exhibit 4: China's wind power output would grow at 15% CAGR in 2016-20F



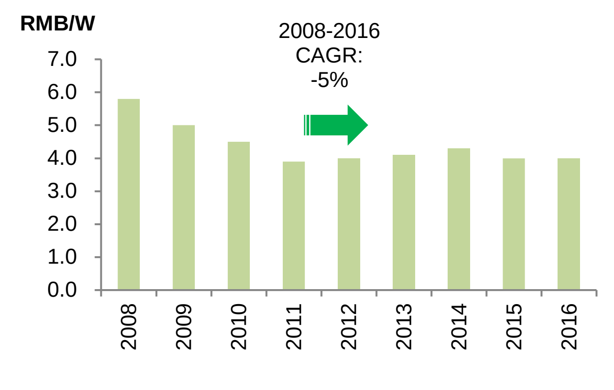
Source(s): NDRC, ABCI Securities estimates

Exhibit 5: The proportion of renewable energy in China's energy mix has been growing



Source(s): NEA, ABCI Securities

Exhibit 6: China's wind power equipment unit cost will maintain a downtrend



Source(s): bjx.com, ABCI Securities

Nuclear Power Operators Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)
CGN Power	1816 HK	BUY	3.00	36.36	10.5	9.4	1.3	1.2	3	3
CNNP	601985 CH	-	-	-	23.3	18.9	2.8	2.6	1	2
Tokyo Electric Power	9501 JP	-	-	-	2.5	3.6	0.5	0.4	0	0
Kansai Electric Power	9503 JP	-	-	-	9.9	9.8	1.0	0.9	2	3
Kyushu Electric Power	9508 JP	-	-	-	8.4	7.4	1.3	1.1	2	2
Korea Electric Power	015760 KS	-	-	-	5.2	4.7	0.3	0.3	4	5
E.On Se	EOAN GR	-	-	-	12.2	13.3	4.1	3.4	4	4
Edf	EDF FP	-	-	-	13.9	13.2	0.7	0.7	4	4
Duke Energy Corp	DUK US	-	-	-	18.2	17.4	1.4	1.4	4	4
Nextera Energy	NEE US	-	-	-	20.9	19.5	2.5	2.3	3	3
Exelon Corp	EXC US	-	-	-	13.4	12.4	1.1	1.1	4	4
Firstenergy Corp	FE US	-	-	-	10.3	11.4	1.9	1.7	5	5
Entergy Corp	ETR US	-	-	-	15.9	15.7	1.6	1.6	5	5

Source(s): Bloomberg, ABCI Securities estimates

Wind Power Operators Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)
China Longyuan	916 HK	BUY	7.40	28.92	9.8	8.2	0.9	0.8	2	2
Huaneng Renew.	958 HK	BUY	3.50	45.83	6.5	5.8	0.9	0.8	2	3
Datang Renew.	1798 HK	HOLD	0.80	(4.76)	9.4	7.2	0.5	0.4	3	4
Huadian Fuxin Energy	816 HK	-	-	-	6.6	5.4	0.6	0.6	3	4
Beijing Jingneng	579 HK	-	-	-	6.1	5.7	0.8	0.7	4	4
China Suntien	956 HK	-	-	-	6.9	6.0	0.5	0.5	6	6
Acciona Sa	ANA SM	-	-	-	17.7	15.8	1.1	1.1	4	4
Futuren Sa	FTRN FP	-	-	-	115.0	115.0	-	-	-	-
Edp Renovaveis	EDPR PL	-	-	-	33.3	29.2	1.0	0.9	1	1
Greentech Energy	GES DC	-	-	-	14.0	12.2	0.4	0.4	2	2

Source(s): Bloomberg, ABCI Securities estimates

ABC INTERNATIONAL
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China Environmental Protection Sector

A billion-dollar opportunity

- Increased urbanization and living standard would spur demand for wastewater and solid waste treatment services
- China targets to expand urban incineration capacity by 19% CAGR during 2015-20
- An 8% CAGR growth in urban wastewater treatment volume in 2015-20F will create attractive opportunities
- We are positive on China Environmental Protection Sector. Recommend **BUY** for **China Everbright Int'l (257 HK)** and **Beijing Enterprises Water (371 HK)**

OVERWEIGHT

Analyst : Kelvin Ng
Tel: (852) 2147 8869
Email: kelvinng@abci.com.hk

Key Data

Avg.17F P/E (x)	13.20
Avg.17F P/B (x)	2.40
Avg.17F Dividend Yield (%)	2.50

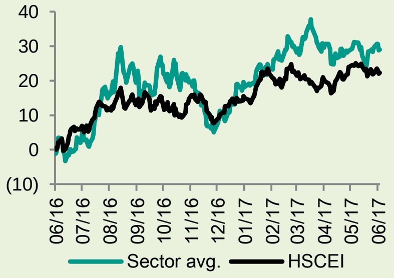
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(0.21)	1.55
3-mth	0.72	(0.82)
6-mth	18.50	6.48

*Relative to HSCEI
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

Increasing urbanization and higher living standard would spur demand for wastewater and solid waste treatment services. According to estimates by the State Council, total population in China would reach 1.45bn by end-2020, meaning that an additional of 99mn people would move to urban areas between 2015-20. As disposal income has been increasing for years, the need for higher hygienic standards among urban residents is likely to rise, offering great opportunities for treatment operators.

China targets to expand urban incineration capacity by 19% CAGR during 2015-20. Historically, around 70% of residential waste has been disposed of via landfills in China. According to "The Draft of 13th FYP on Urban Residential Waste Treatment" ("The Draft") issued by the NDRC on Sep 22, 2016, China targets to raise the proportion of waste incinerated in urban areas from 34% at end-2015 to 50% by end-2020. This will make incineration a key solid waste treatment in urban areas. NDRC targets to raise incineration capacity in urban area from 216kt/day by end-2015 to 520kt/day by end-2020, indicating a 141% jump or a 5-year CAGR of 19% in 2015-20. This will benefit incineration operators in urban areas.

Increasing urbanization and promotion of incineration would increase waste incinerated by 16% CAGR during 2015-20F. According to the "The Draft", China would raise the proportion of waste incinerated in urban areas from 34% at end-2015 to 50% by end-2020. If we assume residential waste per capita to increase 3% p.a. during 2015-20F, residential waste produced would reach 251mt by end-2020F (2015: 180mt), of which 126mt (2015: 61mt) of solid waste would be treated via incineration, indicating a 106% increase or a 16% CAGR during 2015-20F. Hence, waste treatment operators would benefit from the rising demand.

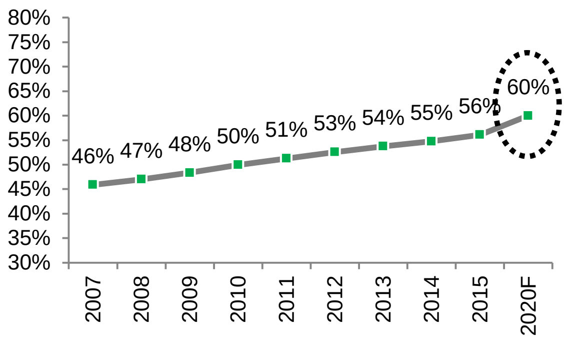
Ample room for incineration industry to grow. According to CCID data, in 2011, around 23% of China's urban residential solid waste was treated via incineration, compared to the ~51 % averaged among the developed countries. As China's disposable income and GDP per capita are approaching to those of the developed countries, incineration would be more widely adopted in China given the high population density in its major cities.

An 8% CAGR growth in urban wastewater treatment volume in 2015-20F will create attractive opportunities. With rising urbanization and the government's effort to boost urban wastewater treatment rate, total volume of urban wastewater treated would grow strongly in years to come. Assuming an urbanization rate of 60%, a wastewater treatment rate of 95% by end-2020F, and a 4% p.a. growth rate in wastewater produced per capita in 2015-20F (wastewater produced per capita grew 4% p.a. in 2006-15), total wastewater treatment volume would be 70bn tons, representing a 48% increase from end-2015 (~47bn tons), or a 8% CAGR during 2015-20F. We believe urban wastewater treatment operators would benefit from such rapid development.

OVERWEIGHT sector outlook; maintain BUY for China Everbright Int'l (257 HK) and Beijing Enterprises Water (371 HK). We are positive on solid waste treatment and wastewater sectors as increasing urbanization and rising living standard would drive the demand for waste treatment services. Our top pick is **China Everbright Int'l** based on its solid expansion in incineration capacity and existing operating projects in prime regions. We also like **Beijing Enterprises Water** due to its leading position in wastewater treatment industry. Its increasing capacity in water distribution would also boost earnings growth.

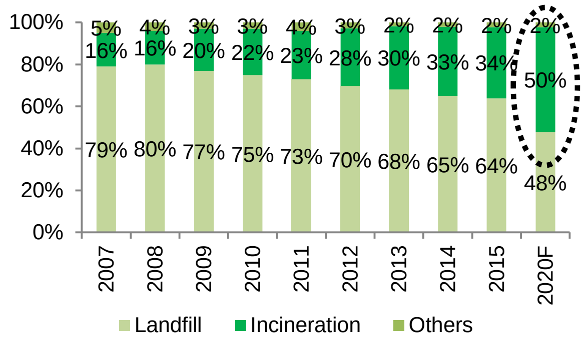
Risk factors: 1). Air pollution concern may hinder construction of incinerators; 2) Balance sheet position may deteriorate on high gearing or acquisitions in poor regions; 3) Rising debts of local governments may slow down the campaign for environmental protection facilities.

Exhibit 1: China's urbanization rate is likely to reach 60% by end-2020F



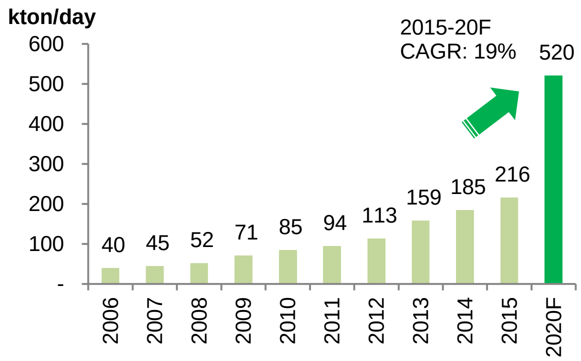
Source(s): NDRC, ABCI Securities estimates

Exhibit 2: China targets to increase the proportion of solid waste treated via incineration in urban areas



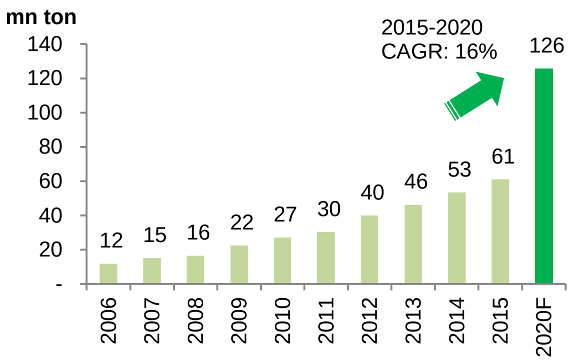
Source(s): NDRC, ABCI Securities estimates

Exhibit 3: China's incineration capacity would grow rapidly in the next few years



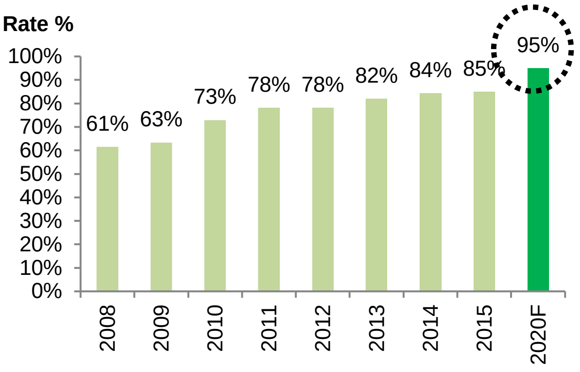
Source(s): NDRC, ABCI Securities estimates

Exhibit 4: China's urban solid waste to be treated via incineration would rise



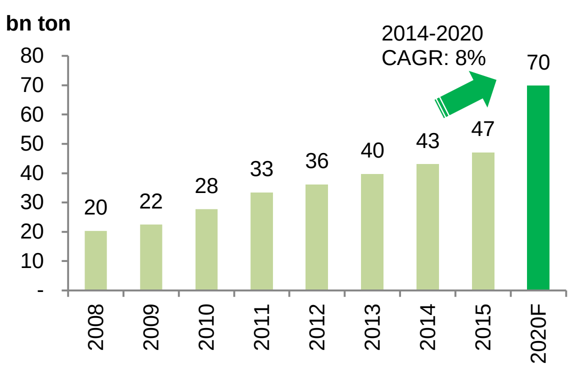
Source(s): NDRC, ABCI Securities estimates

Exhibit 5: China's urban wastewater treatment rate would rise



Source(s): NDRC, ABCI Securities estimates

Exhibit 6: China's urban wastewater treatment volume would expand by 8% CAGR in 2015-20F



Source(s): NDRC, ABCI Securities estimates

Incineration Operators Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)
China Everbright Intl	257 HK	BUY	13.40	37.72	12.9	10.9	2.2	1.9	3	3
Capital Environment	3989 HK	-	-	-	16.7	13.6	2.3	2.0	1	1
Beijing Enterprises Enviro.	154 HK	-	-	-	-	-	-	-	-	-
Dynagreen Enviro.	1330 HK	-	-	-	-	-	-	-	-	-
Kaidi Ecological	000939 CH	-	-	-	8.0	6.8	1.1	1.0	2	3
Asahi Holdings Inc	5857 JP	-	-	-	0.0	0.0	0.0	0.0	0	0
Daiseki Co	9793 JP	-	-	-	8.5	8.3	1.2	1.1	3	3
Republic Services	RSG US	-	-	-	0.0	0.0	0.0	0.0	0	0
Waste Connections	WCN US	-	-	-	26.5	23.7	1.8	1.7	2	2
Clean Harbors	CLH US	-	-	-	30.8	27.4	2.9	2.7	1	1
Waste Management	WM US	-	-	-	80.9	45.4	2.8	2.6	-	-
Waste Connections	WCN CN	-	-	-	23.0	21.0	5.7	3.2	2	2

Source(s): Bloomberg, ABCI Securities estimates

Wastewater Treatment Operators Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)
Beijing Enterprises Water	371 HK	BUY	7.60	24.59	13.5	11.0	2.6	2.3	2	3
China Everbright Intl	257 HK	BUY	13.40	37.72	12.9	10.9	2.2	1.9	3	3
Ct Environment	1363 HK	-	-	-	10.3	8.5	1.8	1.6	2	2
Tianjin Capital Environ	1065 HK	-	-	-	13.0	12.3	1.3	1.2	2	2
China Water Affairs	855 HK	-	-	-	7.7	6.3	-	-	3	3
Chongqing Water	601158 CH	-	-	-	20.6	20.8	2.2	1.9	4	4
Tianjin Capital	600874 CH	-	-	-	67.1	59.2	5.7	5.3	0	0
Beijing Originwater	300070 CH	-	-	-	22.5	16.8	3.2	2.7	0	1
Beijing Water Business	300055 CH	-	-	-	39.6	26.9	2.7	2.5	-	-
Heilongjiang Interchina	600187 CH	-	-	-	-	-	-	-	-	-
Beijing Capital	600008 CH	-	-	-	46.0	39.7	3.3	3.1	1	2
Manila Water	MWC PM	-	-	-	11.8	11.1	1.4	1.3	3	3
Ttw Pcl	TTW TB	-	-	-	16.1	15.3	3.7	3.7	6	6
Eastern Water Resources	EASTW TB	-	-	-	-	-	-	-	-	-
Aqua America	WTR US	-	-	-	24.5	23.2	2.8	2.6	2	3
American States Water	AWR US	-	-	-	28.1	26.5	3.2	3.0	2	2
California Water Service	CWT US	-	-	-	28.0	25.8	2.5	2.2	2	2

Source(s): Bloomberg, ABCI Securities estimates

China E-commerce Sector

Positive on long-term outlook but valuation is getting rich

- **Tencent (700 HK)** showed significant momentum in mobile gaming and online advertising in recent quarters. We expect such trend to continue
- Online shopping would continue to experience high growth in 2017-18, boosted by rural e-commerce, online supermarket, and improving delivery services
- Despite intact fundamentals, the sector's valuation starts to get rich , which may lead to higher stock price volatility should market sentiment reverse in the near term

OVERWEIGHT

Analyst : Steve Chow
Tel: (852) 2147 8809
Email: stevechow@abci.com.hk

Valuation starts to get rich. Solid 1Q17 results among major internet plays, including **Tencent (700 HK)**, Alibaba (BABA US), and JD.com (JD US), supports our long-term positive view on the sector. However, sector valuation starts to get rich after the share rally in recent months. E.g., Tencent is currently trading at ~33x 12-mth fwd P/E vs. the historical average of ~30x. In our view, such expensive valuation could lead to higher stock price volatility should overall market sentiment reverse in the near term.

Tencent strengthens its position in online games. Tencent has been a leader in the mobile gaming industry. Of the 10 highest-grossing games in China over the past 2 years, 3-6 were published by the Group. In addition, its market position has been recently strengthened by key mobiles games such as "Honor of Kings" and "Dragon Next Mobile", which led to a 34% YoY revenue growth in online games in 1Q17 vs. 27% in 4Q16.

Online advertising has huge potential. Online advertising, driven by advancement in location-based targeting technology and mobile advertising, especially those in the video format, presents a huge growth potential. We believe Tencent will be a major beneficiary, thanks to its highly successful Weixin platform. The Group has been ramping up its online advertising initiatives, including the Weixin Moment and Public Accounts, in recent quarters and revenue growth during the period maintained at over 40% YoY. We expect such growth momentum to persist in the near term.

Online shopping: going from strength to strength. Online sales of goods rose 32.0% in 4M17, significantly higher than the 10.2% overall retail sales growth, indicating an ongoing shift in consumption pattern from offline to online. This bodes well for major online shopping platforms such as Alibaba and JD.com.

Sales growth of non-physical goods is higher than the physical ones. In 4M17, online sales of non-physical goods, including games and media contents, increased 56.3% YoY, higher than the 25.9% online sales growth for physical goods such as apparel and electronics. Hence, We believe Tencent, with a significant proportion of income originating from sales of virtual goods, would outperform Alibaba and JD.com that focus mainly on sales of physical goods.

Key Data

Avg.17F P/E (x)	21.6
Avg.17F P/B (x)	5.6
Avg.17F Dividend Yield (%)	0.3

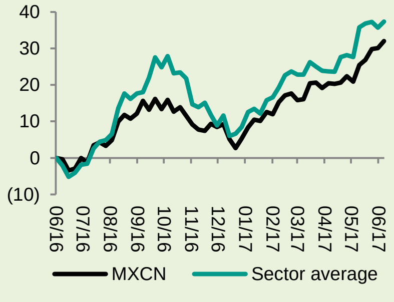
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(2.0)	(3.4)
3-mth	6.7	(2.5)
6-mth	25.7	(0.4)

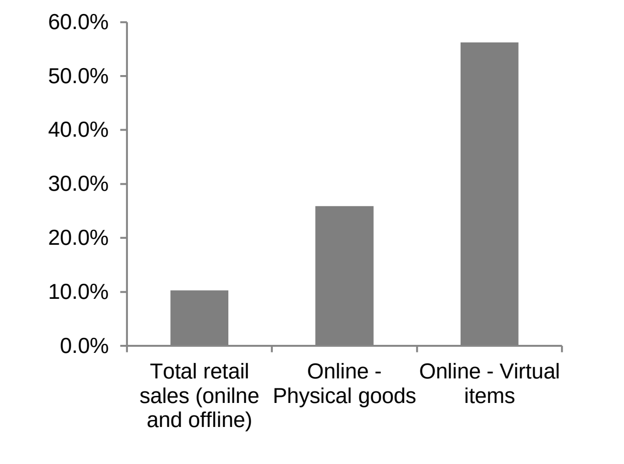
*Relative to MXCN
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



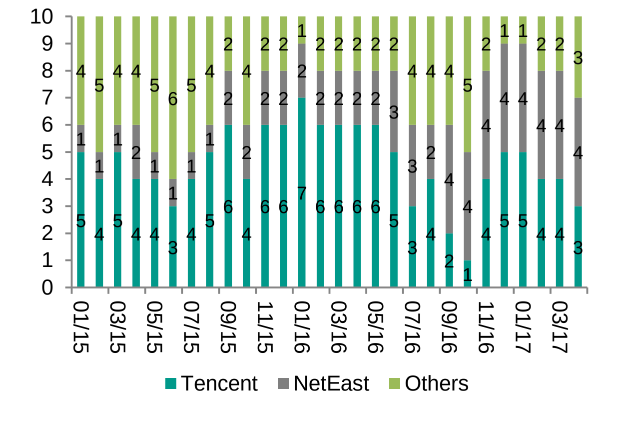
Source(s): Bloomberg, ABCI Securities

Exhibit 1: 4M17 sales growth – online vs. offline



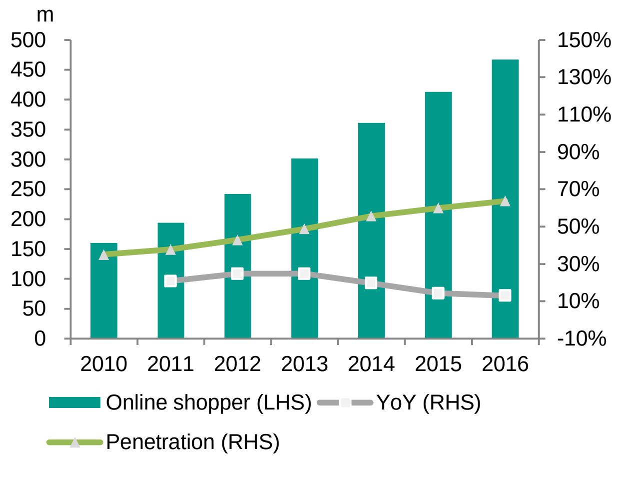
Source(s): National Bureau of Statistics, ABCI Securities

Exhibit 2 Market share - Top 10 grossing games in China (iOS platform)



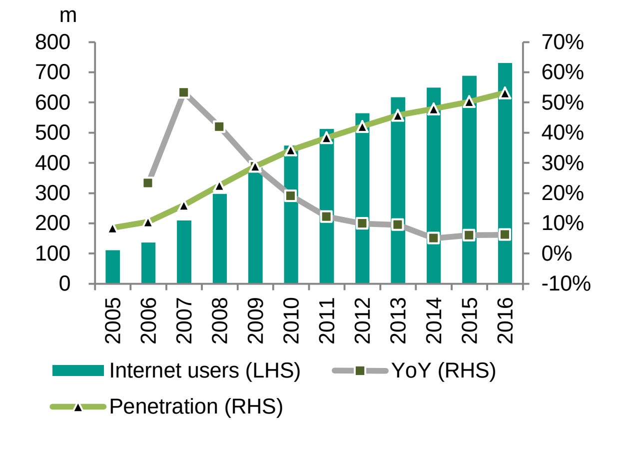
Source(s): App Annie, ABCI Securities

Exhibit 3: Online shopper growth



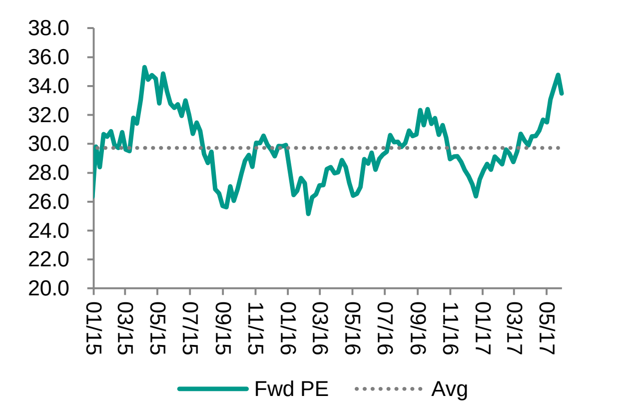
Source(s): CNNIC, ABCI Securities

Exhibit 4: Internet user growth



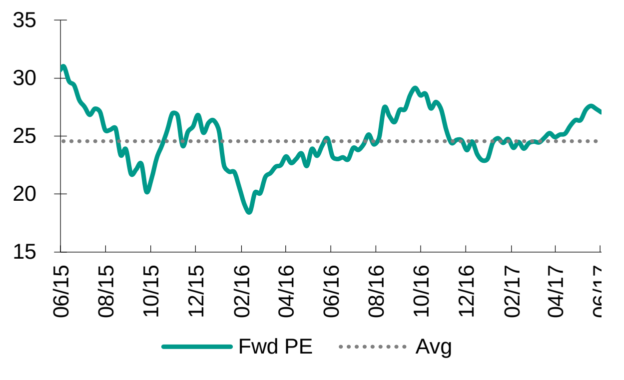
Source(s): CNNIC, ABCI Securities

Exhibit 5: Fwd P/E - Tencent



Source(s): Bloomberg, ABCI Securities

Exhibit 6: Fwd P/E - Alibaba



Source(s):): Bloomberg, ABCI Securities

Sector Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)
Tencent	700 HK	BUY	299	5	39.7	30.7	10.3	7.9	0.2	0.3
Alibaba	BABA US	-	-	-	31.4	24.1	6.9	5.5	-	-
JD.com	JD US	-	-	-	141.7	60.3	9.5	8.4	-	-
Baidu	BIDU US	-	-	-	14.6	12.3	5.4	3.7	-	-
VIP Shop	VIPS US	-	-	-	20.0	17.6	5.9	4.7	1.1	1.3
NetEase	NTES US	-	-	-	32.1	23.3	4.0	3.4	-	-

Source(s): Bloomberg, ABCI Securities estimates

ABC INTERNATIONAL
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China Consumer sector

Consumer staples to outperform

- Consumer sector has maintained a steady growth for the past few months
- Online retail sales maintained a high growth
- Performance of subsectors varies, but data show that certain categories, such as "grain, oil and food" and "beverage", are growing at accelerating paces
- We are positive on consumer staples players

OVERWEIGHT

Analyst : Paul Pan
Tel: (852) 2147 8829
Email:paulpan@abci.com.hk

A steady pace in the consumer sector. China's consumer sector has been growing steadily for the past few months. Retail sales increased by 10.7% in May 2017 YoY and have been fluctuating at similar levels since Nov 2016. Retail sales of enterprises above designated size expanded by 10.6% /9.2% YoY in Apr/May 2017.

Online retail sales maintained a high growth. 5M17 online retail sales expanded by 30% YoY. However, the growth was lower than that a year ago. Nonetheless, non-physical goods segments recorded an astounding increase of 69.7% YoY in 5M17.

Performances of industries continue to vary. The steady growth in retail sales has been mainly supported by sectors including "grain, oil and food", "beverage", "petroleum and related products", "furniture", and "Chinese and western medicine". Retail sales growth of "grain, oil and food" increased from 9.1% YoY in Oct 2016 to 14.4% YoY in May 2017; retail sales growth of "beverage" increased from 8.9% YoY in Oct 2016 to 14.2% YoY in May 2017. Meanwhile, retail sales of "automobile" and "communication equipment" declined to 7% YoY and 1.9% YoY in May 2017.

Consumer staples would outperform. Going forward, consumers would be careful with their discretionary spending with the moderating momentum in national economic growth. However, we believe that there is still strong demand for products in the consumer staples category, and the sector would become more volume driven. We expect fierce competition would eliminate weaker players and consolidate the market share. Our top picks include **WH Group (288 HK), Yili (600887 HK),** and **Anta (2020 HK).**

Key Data

Avg.17F P/E (x)	24.49
Avg.17F P/B (x)	3.81
Avg.17F Dividend Yield (%)	2.14

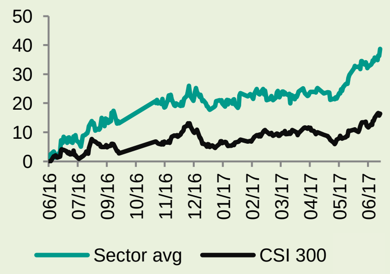
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	5.81	0.77
3-mth	13.72	7.84
6-mth	17.63	6.38

* Relative to CSI 300
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)

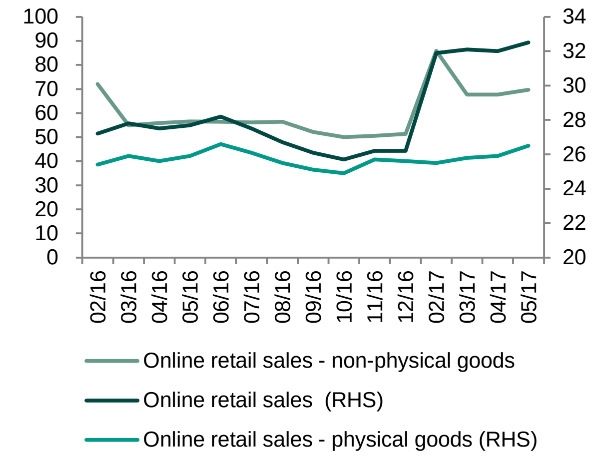


Source(s): Bloomberg, ABCI Securities

Exhibit 1: Retail sales growth (YoY %)

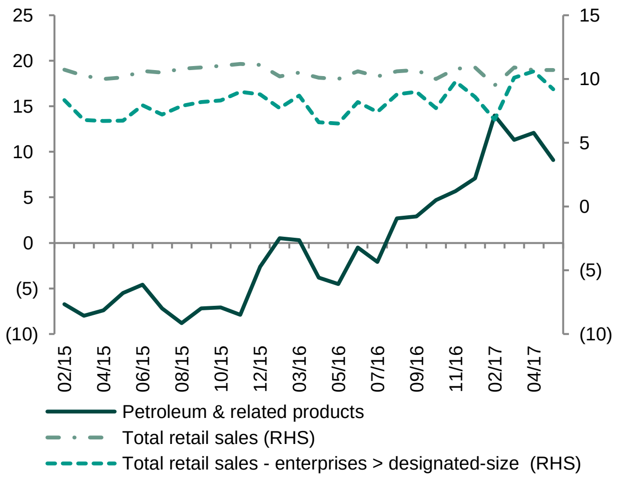
Source(s): NBS, ABCI Securities

Exhibit 2: Monthly online retail sales growth (YoY %)



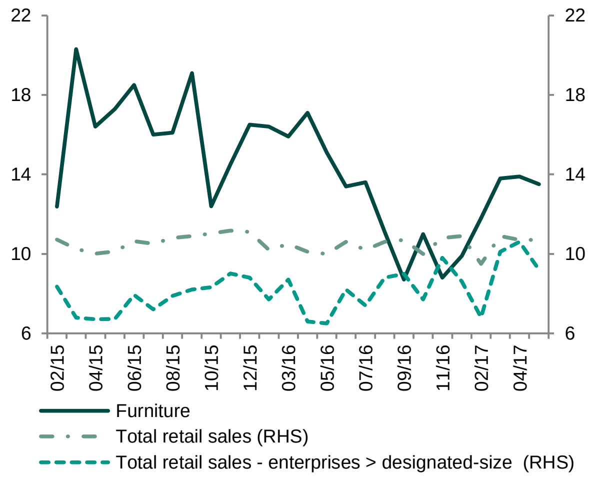
Source(s): NBS, ABCI Securities

Exhibit 3: Retail sales growth of "petroleum & related products" (YoY %)



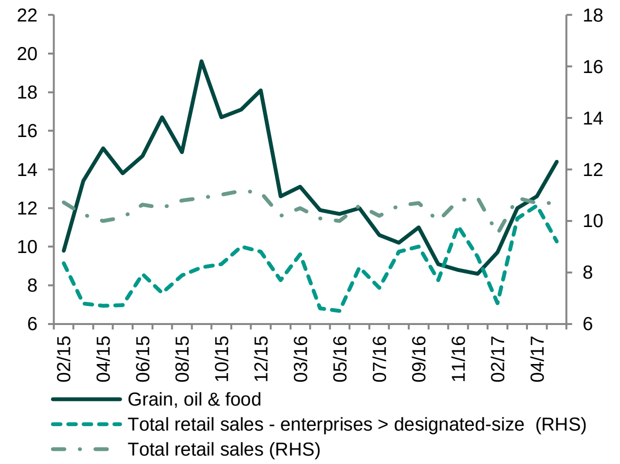
Source(s): NBS, ABCI Securities

Exhibit 4: Retail sales growth of "furniture" (YoY %)



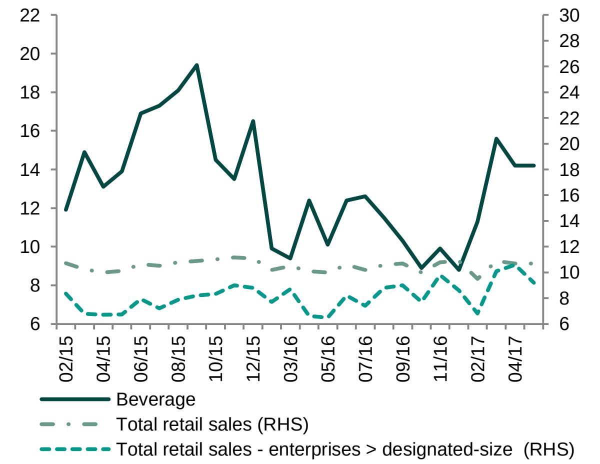
Source(s): NBS, ABCI Securities

Exhibit 5: Retail sales growth of "grain, oil & food" (YoY %)



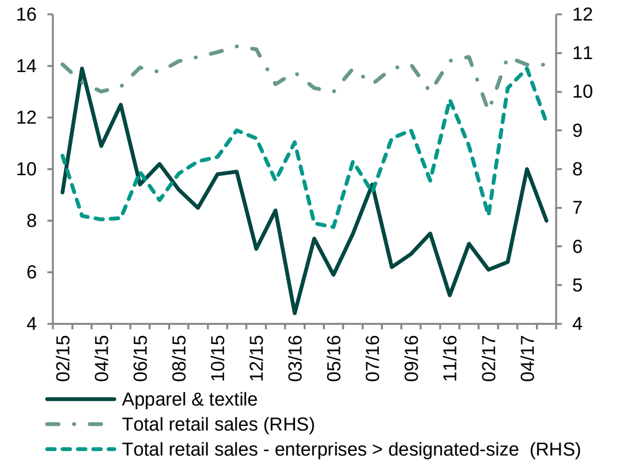
Source(s): NBS, ABCI Securities

Exhibit 6: Retail sales growth of "beverage" (YoY %)



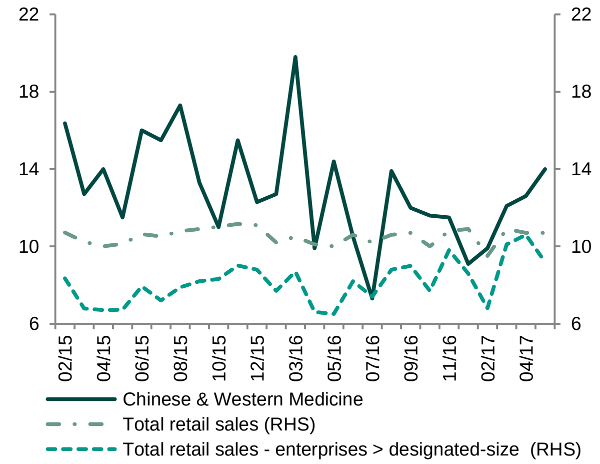
Source(s): NBS, ABCI Securities

Exhibit 7: Retail sales growth of "apparel & textile" (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 8: Retail sales growth of "Chinese & western medicine" (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 9: Sector Valuation Summary (Data as of Jun 25, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)
Yili*	600887 CH	BUY	21.3	(0.84)	20.55	17.28	3.72	3.38	3.10	3.71
WH Gp	288 HK	BUY	7.68	(2.29)	13.16	11.77	2.17	2.04	2.15	2.38
Anta	2020 HK	BUY	27.00	12.50	28.31	24.07	7.07	6.51	2.87	3.41
Mengniu	2319 HK	SELL	14.16	(7.93)	35.92	31.46	2.27	2.16	0.43	0.49

*Priced in RMB

Source(s): Bloomberg, ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

China Food and beverage Sector

Strong demand to persist

- Retails sales growth of food and beverage shows strong momentum
- The negative CPI of food shows retail sales growth was supported by strong volume growth, indicating solid consumer demand
- The sector would see rising raw material price and growth fluctuation
- Our top-picks are **Yili (600887 CH)**, and **WH Group(288 HK)**

OVERWEIGHT

Analyst : Paul Pan
Tel: (852) 2147 8829
Email:paulpan@abci.com.hk

Retail sales of food and beverage products continue to improve. Retail sales growth of "grain, oil and food" increased from 9.1% YoY in Oct 2016 to 14.4% YoY in May 2017; retail sales growth of "beverage" also increased from 9.1% YoY in Oct 2016 to 14.2% YoY in May 2017.

Strong demand for food and beverage. Since the beginning of 2017, the Food CPI has been negative. CPIs of egg, vegetable and pork were -14.4% YoY, -6.3% YoY and -12.8% YoY in May 2017. Accelerating growth in the sector was mainly supported by higher sales volume, indicating solid demand from consumers.

Challenges remain in the sector. The sector would encounter challenges in the medium term. As the prices of petroleum and petroleum -related products continue to rise, cost of production would eventually increase. Therefore, the ability to raise prices would be vital for the industry players to maintain margins. In addition, competition would remain fierce amid moderating economic growth and rapidly-changing consumer demand.

Remain positive on the consumer staple sector. We believe strong domestic demand, as reflected by the volume growth in the food and beverage segment would continue to support growth in the industry. However, we believe the top players would outperform, with additional growth coming from M&A activities undertaken by some of the sizeable companies. Our top picks include **WH Group (288 HK)** and **Yili (600887 CH)**.

Key Data

Avg.17F P/E (x)	23.21
Avg.17F P/B (x)	2.72
Avg.17F Dividend Yield (%)	1.89

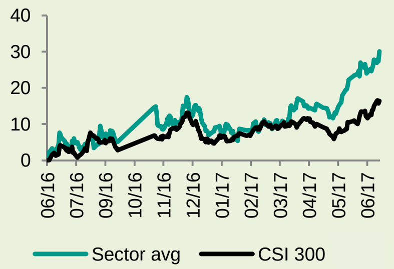
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	5.52	0.48
3-mth	13.85	7.97
6-mth	20.82	9.57

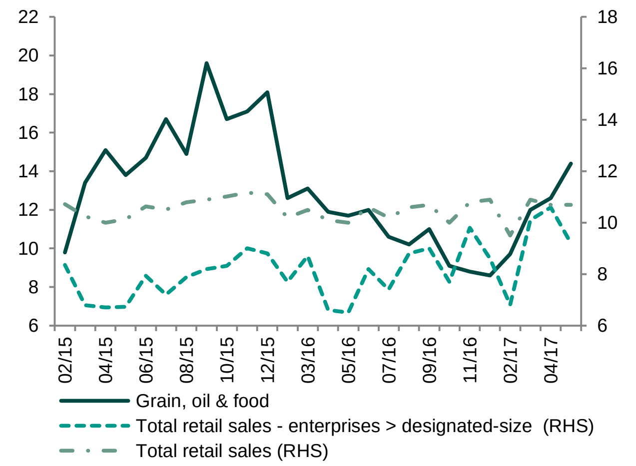
*Relative to CSI 300
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



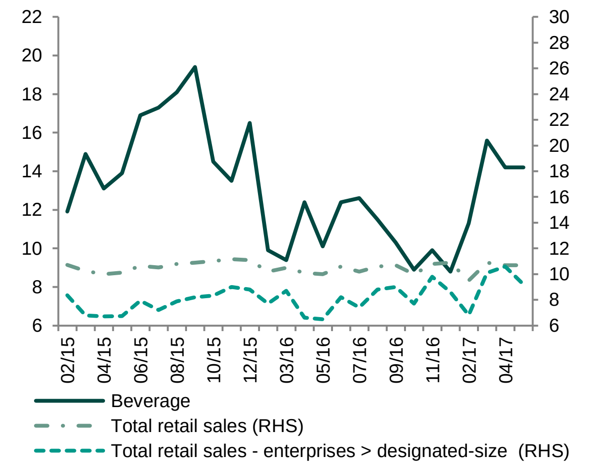
Source(s): Bloomberg, ABCI Securities

Exhibit 1: Retail sales growth of “grain, oil & food “(YoY %)



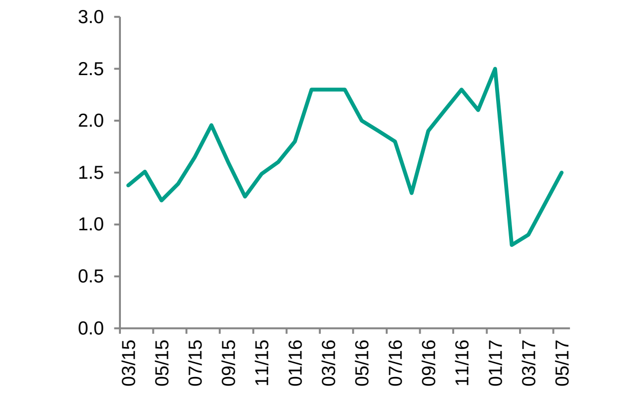
Source(s): NBS, ABCI Securities

Exhibit 2: Retail sales growth of “beverage”(YoY %)



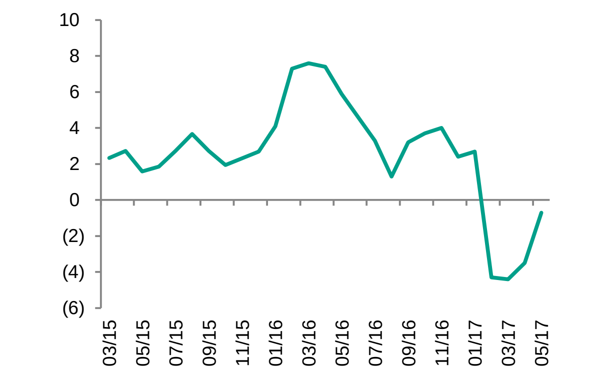
Source(s): NBS, ABCI Securities

Exhibit 3: China CPI (YoY %)



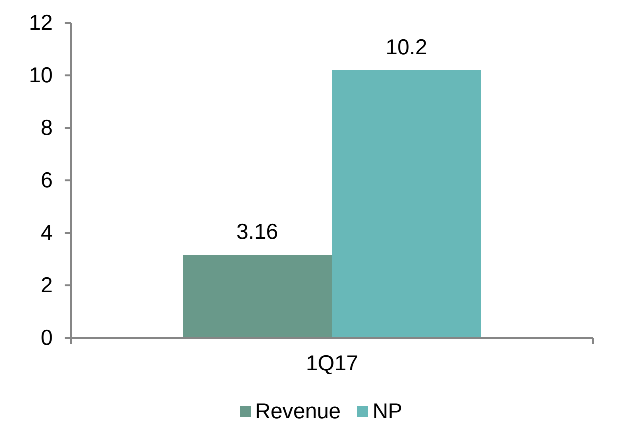
Source(s): NBS, ABCI Securities

Exhibit 4: China CPI – Food (YoY %)



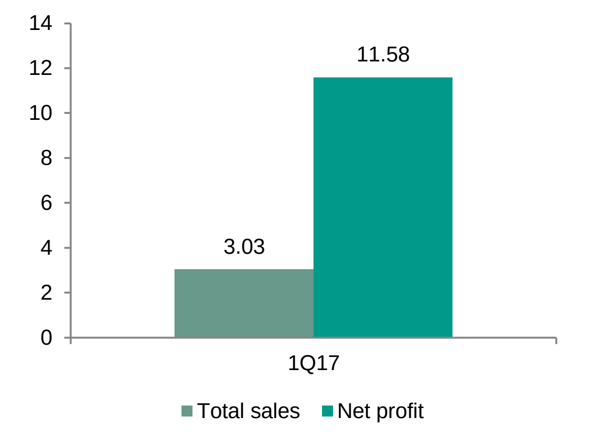
Source(s): NBS, ABCI Securities

Exhibit 5: WH Group 1Q17 revenue and profit growth* (YoY %)



*Net profit calculation excludes impacts of debt restructuring
Source(s): WH Group, ABCI Securities

Exhibit 6: Yili 1Q17 revenue and profit growth (YoY %)



Source(s): Yili, ABCI Securities

Exhibit 7: Sector Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)
Yili*	600887 CH	BUY	21.3	-0.84	20.55	17.28	3.72	3.38	3.10	3.71
WH Gp	288 HK	BUY	7.68	-2.29	13.16	11.77	2.17	2.04	2.15	2.38
Mengniu	2319 HK	SELL	14.16	(7.93)	35.92	31.46	2.27	2.16	0.43	0.49

*Priced in RMB

ource(s): Bloomberg, ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
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China Sportswear Sector

Cautious on domestic brands

- Supported by strong sales volume in the sector, growth momentum of apparel retail sales has picked up since the beginning of 2017.
- Listed sportswear apparel companies showed decent growth in 1Q17, but domestic brands will be facing challenges ahead
- Stay positive on **Anta (2020 HK)** but maintain our overall cautious outlook on the industry

OVERWEIGHT

Analyst : Paul Pan
Tel: (852) 2147 8829
Email:paulpan@abci.com.hk

Key Data

Avg.17F P/E (x)	15.00
Avg.17F P/B (x)	3.00
Avg.17F Dividend Yield (%)	4.93

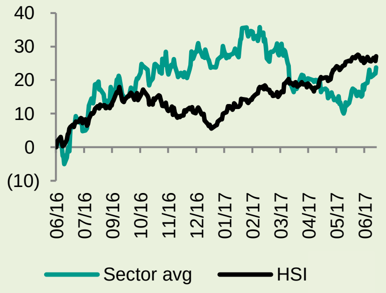
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	8.79	7.76
3-mth	3.35	(3.10)
6-mth	(2.29)	(21.44)

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

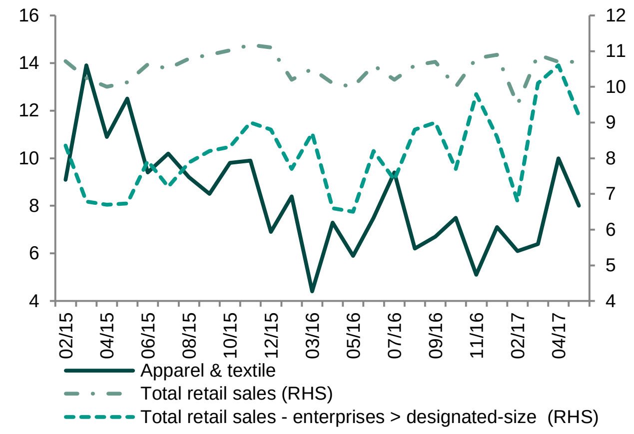
A good start for the apparel industry. Since the beginning of 2017, retail sales growth of apparel and textile has increased from 7.1% YoY to 8% YoY in May 2017. The CPI of apparel and textile declined from 1.1% YoY in Jan 2017 to 0.1% YoY in May 2017. Nonetheless, these figures point to a growing demand in the sector.

Sportswear apparel industry – a decent start in 2017. Retail sales value of Anta registered low-teens growth in 1Q17 while the same-store sales growth (SSSG) of the core brand of 361 Degrees (1361 HK) was 7.0% YoY in 1Q17. The listed companies in general saw slower growth momentum in 2017. Nonetheless, growth momentum of the Anta and 361 Degrees in 1Q17 exceeded the 6.2% YoY growth of national apparel and textile retail sales in 3M17.

Signs of a slowdown for the domestic sportswear apparel brands. Despite decent growth observed among the listed companies, signs of slowing have emerged among the domestic brands. For Anta, retails sales value growth of its non-Anta branded products, which was 40-50% YoY in 1Q17, was much higher than the growth of the Anta brand. For 361 Degrees, from 2Q16 to 1Q17, the average retail discount increased by 1.5ppt while SSSG remained unchanged.

Remain cautious on China's Sportswear Sector. We remain cautious on the sector, especially players with high exposure to domestic brands. Yet, we remain positive on **Anta (2020 HK)** for its strong capability in managing the acquired brands and its diversified brand portfolio.

Exhibit 1: Retail sales growth of "apparel & textile" (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 2: CPI of "clothing" (YoY %)

Source(s):NBS, ABCI Securities

Exhibit 3: Sector Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17F P/E(x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)
Anta	2020 HK	BUY	27	12.50	28.31	24.07	7.07	6.51	2.87	3.41
361 Degrees	1361 HK	-	-	-	8.48	7.51	0.89	0.83	4.67	4.67
Xtep	1368 HK	-	-	-	8.20	7.54	1.05	0.98	7.25	7.25

Source(s): Bloomberg, ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
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China Healthcare Services Sector

Patient preference and disease trends as investment criteria

- We prefer the top-tier (Class 3) hospital operators
- Drug distributors will benefit from the growing no. of private hospitals and clinics in coming years
- Growing aged population will support demand for medical treatment of senile diseases
- Health insurance improve access to better cancer treatments

Overweight

Analyst : Philip Chan
Tel: (852) 2147 8805
Email: philipchan@abci.com.hk

We prefer profit-oriented Class 3 hospital operators. These operators usually enjoy higher ASP per patient, patient visit volume, and bed utilization conducive to better cash flow, assets utilization, and profitability. Respective ASPs of outpatient and in-patient services in Class 3 hospitals are 1.6x and 2.2x of those in Class 2 hospitals. Bed utilization in Class 3 hospitals is 1.14x and 1.60x of that in Class 2 and Class 1 hospitals. Average outpatient and inpatient flows per Class 3 hospital are 4.6x and 3.6x of those in a Class 2 hospital. Hence, we prefer **Kanghua Healthcare (3689 HK).**

Private hospital operators are struggling to find patients. The government is opening up the hospital services market to private capital. Since end-2015, the no. of public hospitals has reduced by 144; in contrast, the no. of private hospitals has increased by 2,358 to 16,876, although most of the newcomers were low-class or unrated hospitals struggling to find customers. On average, outpatient and inpatient volumes in a public hospital are 8.5x and 7.7x of those in the private ones.

How to pick hospital operators? We prefer small, niche players with a clear focus on Class 3 hospital operation or large players with demonstrated capability to upgrade their existing hospitals to higher classes. Be cautious on operators with a large portfolio of low-class or unrated hospitals.

Drug distributors are set to benefit from the growing no. of new customers. Since end-2015, the no. of private hospitals and clinics increased by 2,358 and 9,706 in net. In 4M17, total outpatient or inpatient visits in private hospitals grew 12% and 16% YoY. We believe most of these new institutions are small medical institutions that have a low patient volume and lack collective bargaining power in drug procurement or logistic services. Changes in the healthcare services market are favorable to large drug distributors such as **Sinopharm (1099 HK)** and **CR Pharma (3320 HK).**

Cautious on upstream pharma industry as patient growth is slowing. IN 4M17, total outpatient visits and inpatient visits in all medical

Key Data

Avg.17F P/E (x)	18.1
Avg.17F P/B (x)	2.8
Avg.17F Dividend Yield (%)	1.5

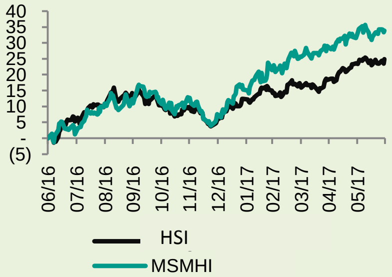
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	1.7	0.7
3-mth	6.7	0.2
6-mth	26.4	7.2

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

institutions grew 1.0%YoY (vs. 2.3% YoY in 11M16) and 4.0%YoY (vs. 7.7%YoY in 11M16). Tepid growth in patient flows suggests overall demand for drugs or medical products have been weak. Moreover, the government has abolished the markups on drugs in public hospitals. Demand for drugs will be suppressed as doctors have less incentive to prescribe them unless necessary.

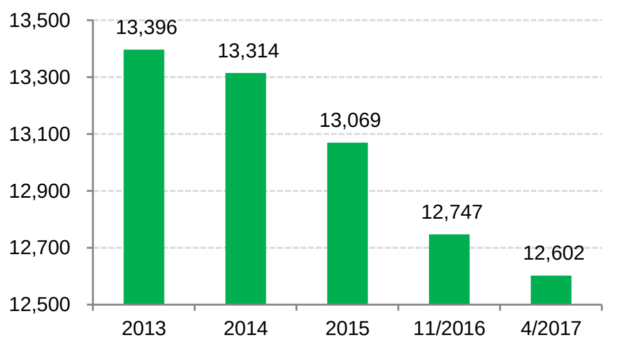
Profit grew 15.7% YoY in 5M17, but pharma manufacturers stay cautious on business expansion. Respective revenue and profit growth of pharma manufacturing industry improved to 11.9% YoY and 15.7% YoY in 5M17 from 9.7% YoY and 13.9% YoY in 2016. FAI growth of pharma manufacturing industry slowed to 2.7% YoY in 5M17 from 8.4%YoY in 2016. Industrial value-added growth of pharma manufacturing industry expanded by 11.2% YoY in 5M17. Low FAI growth but high industrial value-added growth in the pharma manufacturing industry indicates manufacturers are upgrading their product mix to increase output of high-value-added drugs.

Health insurers help increase affordability of insured patients. This is one of the major factors supporting the demand for premium drugs and medical services. Claims of health and accident insurances grew 29.4% YoY to RMB 118.4bn in 2016 and 21.0% YoY to RMB 42.7bn in 4M17. Meanwhile, health and accident insurance premium grew 22.9%YoY to RMB 222.0bn in 4M17. Also, CPIs of Chinese medicines and western medicines grew 5.8%YoY and 6.3%YoY in 5M17.

Demand for medical treatments for senile diseases and cancers will increase in coming years. From 2011 to 2016, population aged 65 or above grew at 4.1% CAGR to ~150 mn. The government expects population aged 60 and above to increase to 255 mn/363 mn by 2020/ 2030, accounting for 17.8%/25% of the total population. As the aged population is growing, demand for medical treatments on senile diseases (cardio-cerebrovascular disease, senile dementia, diabetes) will grow in coming years. Incidents of cancer also will increase, partially attributable to the polluted environment and unhealthy dietary habits. We prefer pharma manufacturers, such as **CSPC (1093 HK)** and **Sihuan Pharma (460 HK),** which focus on developing drugs against senile diseases and tumors.

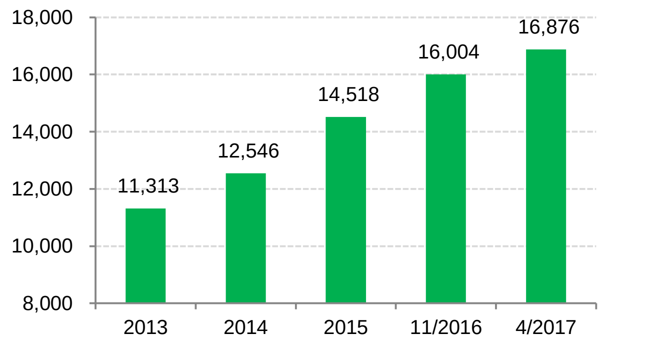
YTD performance of Hang Seng Mainland Healthcare Index (HSMHI) is better than that of HSCEI and Hang Seng Index. Average ROAE of the HSMHI was15.5% in 2016 (HSCEI: 12%; HSI: 10%), and we project the index to stay at ~16% in FY17F/FY18F.

Exhibit 1: The no. of public hospitals in China



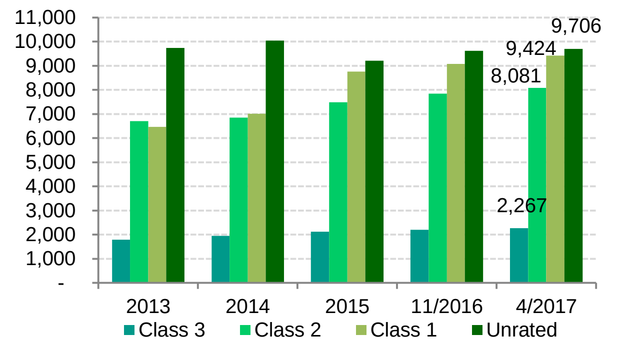
Source(s): NHFPC, ABCI Securities

Exhibit 2: The no. of private hospitals in China



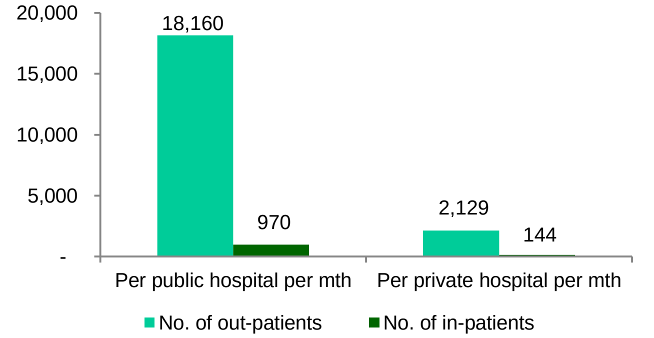
Source(s): NHFPC, ABCI Securities

Exhibit 3: The no. of hospitals by quality tier



Source(s): NHFPC, ABCI Securities

Exhibit 4: Avg. monthly no. of patients per hospital

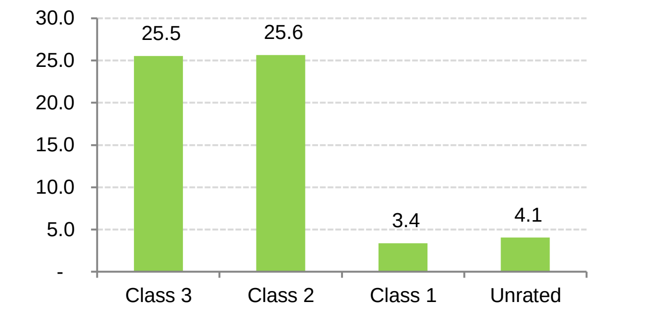


Source(s): NHFPC, ABCI Securities

Exhibit 5: The no. of outpatients in 4M17 (100 mn)

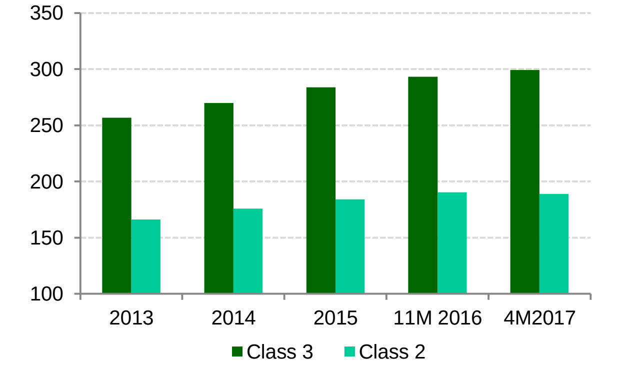
Source(s): NHFPC, ABCI Securities

Exhibit 6: The no. of inpatients in 4M17 (mn)



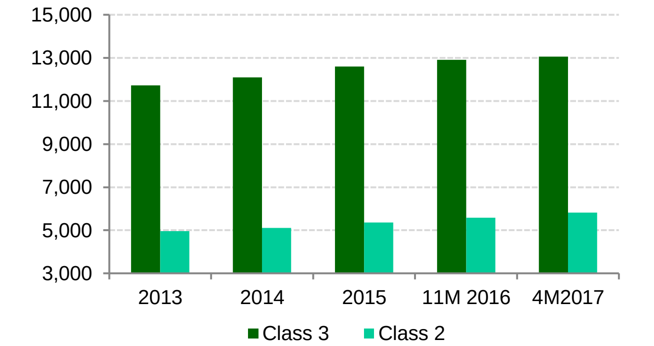
Source(s): NHFPC, ABCI Securities

Exhibit 7: Average outpatient fee (RMB/patient)



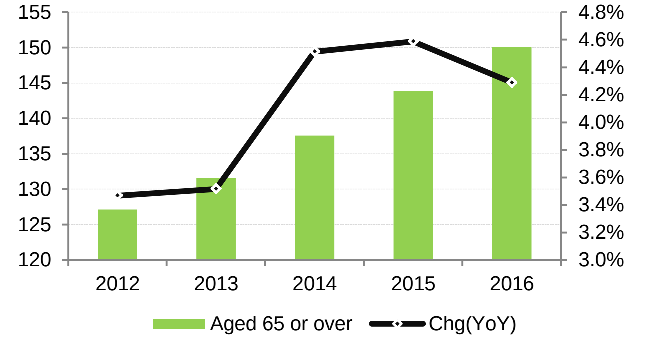
Source(s): NHFPC, ABCI Securities

Exhibit 8: Average inpatient fee (RMB/patient)



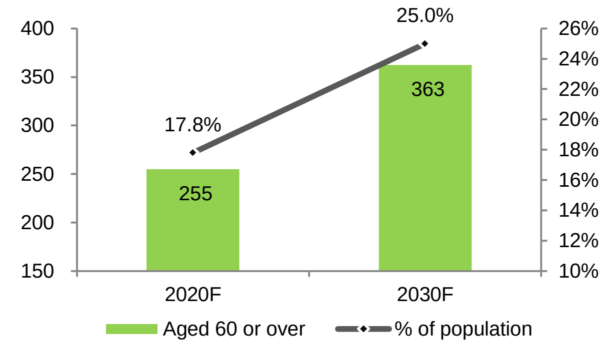
Source(s): NHFPC, ABCI Securities

Exhibit 9: Population aged 65 and over (mn)



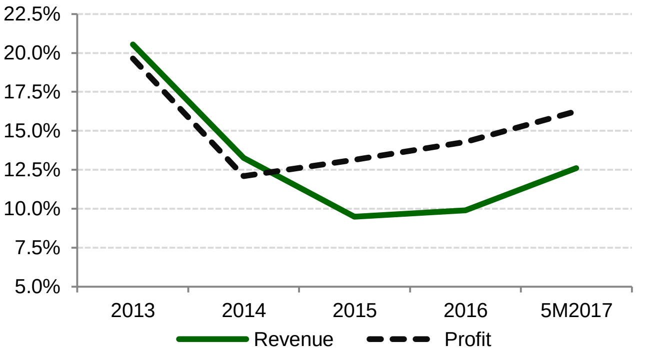
Source(s): NBSC, ABCI Securities

Exhibit 10: Population aged 60 and over (mn)



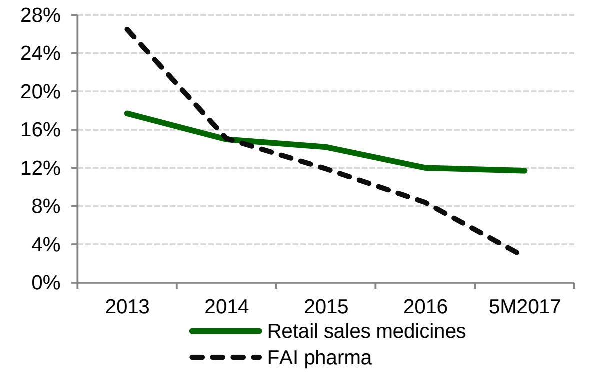
Source(s): State Council estimates, ABCI Securities

Exhibit 11: Revenue and profit growth in the pharma mfg industry (%YoY)



Source(s): NBSC, ABCI Securities

Exhibit 12: Pharma retail sales and Pharma FAI



Source(s): NBSC, ABCI Securities

Sector Valuation Summary (Data as of June 29, 2017)

Company	Ticker	Rating	Price (HK$)	FY17F P/E (x)	FY18F P/E (x)	FY17F P/B (x)	FY18F P/B (x)	FY17F Yield (%)	FY18F Yield (%)	FY17F ROAE (%)	FY18F ROAE (%)
HS Mainland Healthcare Index											
CSPC Pharma	1093 HK	BUY	11.58	25.68	20.53	5.79	4.87	1.31	1.65	24.6	25.8
CR Pharma	3320 HK	BUY	9.86	15.57	13.57	1.23	1.11	1.47	2.25	8.5	8.6
Sino Biopharma	1177 HK	-	6.93	23.98	20.94	4.58	3.85	0.84	0.95	21.8	20.0
Sinopharma	1099 HK	BUY	35.45	16.18	14.20	2.23	1.97	1.82	2.12	15.0	14.7
China Medical	867 HK	BUY	13.56	17.58	15.02	3.74	3.22	1.89	2.27	23.7	23.0
Sihuan Pharma	460 HK	-	3.33	14.61	13.45	2.31	2.07	1.76	1.94	16.6	16.3
3S Bio	1530 HK	-	10.64	25.75	19.62	3.21	2.80	0.29	0.42	13.2	15.2
Trad Chi Med	570 HK	-	4.50	14.81	12.49	1.37	1.27	2.12	2.51	9.7	10.6
SH Pharma	2607 HK	-	23.35	15.17	13.43	1.59	1.46	1.95	2.17	10.9	11.3
Luye Pharma	2186 HK	-	4.22	11.49	10.02	1.66	1.45	1.39	1.50	15.4	15.5
Average		-	-	**18.08**	**15.33**	**2.77**	**2.41**	**1.49**	**1.78**	**15.9**	**16.1**
Hospital operators											
CR Phoenix	1515 HK	BUY	9.78	28.13	22.72	2.18	2.02	0.84	0.88	7.6	9.2
Harmonicare	1509 HK	-	3.87	20.37	18.99	1.67	1.61	1.49	1.46	8.6	8.6
Kanghua	3689 HK	BUY	11.00	17.06	14.63	2.42	2.13	1.71	1.96	15.1	15.5
Kangning	2120 HK	-	35.70	27.52	21.14	2.11	1.95	1.18	1.58	7.9	9.6
Chunli	1858 HK	-	13.10	8.43	7.02	1.28	1.11	2.02	2.37	17.0	16.9
Average	-	-	-	**20.30**	**16.90**	**1.93**	**1.76**	**1.45**	**1.65**	**11.3**	**12.0**

Source(s): Bloomberg, companies, ABCI Securities estimates

Disclosures

Analyst Certification

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

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Philip Chan holds H-shares of Agricultural Bank of China Ltd (1288 HK).

Steve Chow holds H-shares of Tencent (700 HK).

Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months
Market return: 5-year average market return rate
Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price

Disclaimers

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Office address: ABCI Securities Company Limited, 10/F Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong.
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