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ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

ABCI Policy Insight

2022 China Government Work Report: Macro, investment, and industry analysis

(Mar 7, 2022)

Contents

Andy Yao, Economist

Macro comments on 2022 China Government Work Report

China achieved the key economic targets in 2021

China's Premier Li Keqiang delivered his annual government work report ("the Report) in the fifth session of the 13th National People's Congress on Mar 5, 2022. The Report is divided into three main parts – it opens with a review of the work in 2021, followed by the main objectives and macro policies for 2022, and finally, an outline of major work tasks for 2022.

As shown in Exhibit 1, China's economy grew by 8.1% in real terms in 2021, significantly higher than the growth target of over 6.0%. As reflected by the economic indicators, employment has reached the target. In 2021, 12.69mn new urban jobs were created, exceeding the target of 11mn. The surveyed urban unemployment rate in 2021 was 5.1%, below the target of 5.5%. In 2021, grain output reached 1.37tr catties, a record high, exceeding the targeted figure of 1.3tr catties. In 2021, China reconstructed 56,000 old urban communities, higher than the target of 53,000, benefiting nearly 10mn families. In addition, efforts of pandemic prevention have been fortified. Vaccine coverage rate exceeded 85%; also, the clustered breakouts has been effectively contained and managed.

Exhibit 1: China's economic indicators in 2021 – Targets vs. Actual performance

Economic indicators	Target	Actual
Real GDP growth, %	above 6.0	8.1
New urban jobs created, mn	above 11.0	12.69
Surveyed urban unemployment rate, %	about 5.5	5.1
Grain output, tr catties	above 1.3	1.37
Old urban communities reconstruction, k	53	56
CPI, %	about 3.0	0.9

Source(s): 2021 and 2022 Government Work Reports, ABCI Securities

A GDP growth target at about 5.5% for 2022

The Chinese government has set an economic growth target of ~5.5% for 2022, down from a growth target of over 6.0% in 2021 (Exhibit 2). The downward adjustment shows the government is prioritizing quality growth over quantity growth, but it also reflects increasing downward pressure on the economy this year. The Report points out the three major pressures this year: shrinking demand, supply shock, and weakening expectations. This year's economic work will focus on stabilizing growth and finding new growth points to prevent a major economic downturn amid the substantial slowdown in the real estate industry. As the low base effect fades, we believe China's economic growth will return to normal in 2022. Overall, China's GDP would grow by 5.5% in 2022, in line with the government's growth target of around 5.5%. Strong external demand and proactive fiscal policy will be the main growth drivers. The main challenges will come from a struggling real estate sector, heavy debts, and potential resurgence of the COVID-19.

Exhibit 2: China's economic targets for 2022

Economic indicators	Target	ABCI Forecasts
Real GDP growth, %	about 5.5	5.5
New urban jobs created, mn	above 11.0	12.0
Surveyed urban unemployment rate, %	Below 5.5	5.0
Fiscal deficit as a proportion of GDP, %	about 2.8	3.0
CPI, %	About 3.0	2.0

Source(s): 2022 Government Work Report, ABCI Securities estimates

The Report stresses a stable and effective macro policy. Stable means that the policy should maintain continuity, stability, and sustainability; effective means that the policy should be efficient. It proposes to continue to implement a proactive fiscal policy and a prudent monetary policy.

In terms of fiscal policy, the Report proposes to enhance the effectiveness of the active fiscal policy. This year's deficit rate is set at around 2.8%, down from last year's deficit rate of 3.2%. The arrangement of special local government bonds in 2022 is RMB 3.65tr, the same as that in 2021. The central government's transfer payment to local governments will increase by RMB 1.5tr to RMB 9.8tr, up 18% YoY, the largest increase in many years. As one can see, this year's fiscal policy is turning normal: fiscal policy measures will be on normalized tax reduction and fee reduction, local general transfer payments will increase , and the scale of normalized direct fiscal funds will expand. With fiscal expenditure growing faster than fiscal revenue, we expect the government to record another small fiscal deficit in 2022, equivalent to about ~3.0% of GDP.

In terms of monetary policy, the government will intensify the implementation of prudent monetary policy, expand the scale of new loans, keep the growth of money supply and social financing scale in line with the nominal economic growth, and maintain a stable macro leverage ratio. RMB exchange rate will be kept at a reasonable and balanced level, and the government encourages financial institutions to reduce the actual loan interest rates to facilitate financing and lower the comprehensive financing costs. In view of the pressure of economic slowdown, PBOC will likely cut RRR and LPR in 2022. We estimate the scale of new RMB loans and new social financing to reach RMB 22tr and RMB 32tr in 2022. By end-2022, the broad money supply (M2) would grow by 8.5%, matching the growth of nominal GDP. Furthermore, as nominal GDP continues to grow this year, macro leverage would decline slightly.

In terms of employment, the Report proposes to expand employment channels, support employment by stabilizing the economy, and enhance the role of entrepreneurship in driving employment. The target for new urban jobs in 2022 is above 11mn, while the urban surveyed unemployment rate will be kept under 5.5%, the same as those in 2021. We believe the two employment targets are achievable. Although the Chinese economy was greatly impacted by the pandemic in 2021, new urban jobs still managed to reach 12.69mn in 2021 while the urban surveyed unemployment rate was only 5.1%.

This Report mandates the firm implementation of strategies to expand domestic demand and enhance the driving force of domestic demand. To promote the continuous recovery of consumption, the government will increase residents' income through multiple channels, improve the income distribution system, and enhance consumption capacity. The consumption of new-energy vehicles will be supported, and local governments will promote the use of green and smart home appliances in rural areas. Effective investment will expand. The country will focus on major national strategic deployments and the "14th Five-Year Plan", and expedite infrastructure investment whenever possible. This year's central budget for investment will reach RMB 640bn, more than last year's RMB 610bn. We expect fiscal support for infrastructure investment to increase this year. Coupled with last year's lower base effect, infrastructure investment will increase in 2022.

Consumer price inflation is targeted at ~ 3.0% in 2022, the same as that in 2021. However, we believe consumer price inflation is more of a soft indicator than a hard one. CPI and PPI divergence would narrow in 2022. Based on our estimates, CPI inflation would rise to 2.0% in 2022 from 0.9% in 2021 since food prices, especially pork prices, are likely to rise in 2H22 on tighter supply. PPI inflation would moderate to 3.0% in 2022 from 8.0% in 2021 due to weak domestic demand and the high base effect. In general, we believe macro policy in 2022 will not be constrained by inflation.

In terms of science and technology policies, the Report calls for in-depth implementation of the innovation-driven development strategy, enhancement of technological innovation capabilities, increased incentives for enterprises to innovate, enhancement of the core competitiveness of the manufacturing industry, and promotion of the development of the digital economy. We expect that West, led by the US, will increase their technological blockade against China for a long time. Therefore, China must accelerate the formation of a core technological system and achieve key core technological breakthroughs in major areas. China should improve total factor productivity through technological innovation and increase the return on investment. More resources will be diverted to high-tech fields such as chips and semiconductors, software, precision machinery, and new materials so that key core technologies can be independently controlled. Specialized and new "little giant" enterprises with strong innovation capabilities and core technologies will receive more financial and financial support. Growth in the high-tech sector will be fostered this year.

In terms of environmental protection policies, China will continue to improve the ecological environment, promote green and low-carbon development and implement the carbon neutralization work in an orderly manner. The report calls for innovations to replace the outdated frameworks and promote the switch to low-carbon energy. It calls for the construction of large-scale wind power plants, improve the grid's ability to absorb renewable energy power generation, facilitate energy conservation and carbon reduction in industries such as iron and steel, nonferrous metals, petrochemicals, chemicals, and building materials. The development of energy-consuming, high-emission projects without a justifiable purpose should be halted. Green economy, including the new energy industry and the environmental protection industry, will develop quickly, creating opportunities for the development of green debt and equity financing. We estimate the amount of new green loans this year to exceed RMB 1tr.

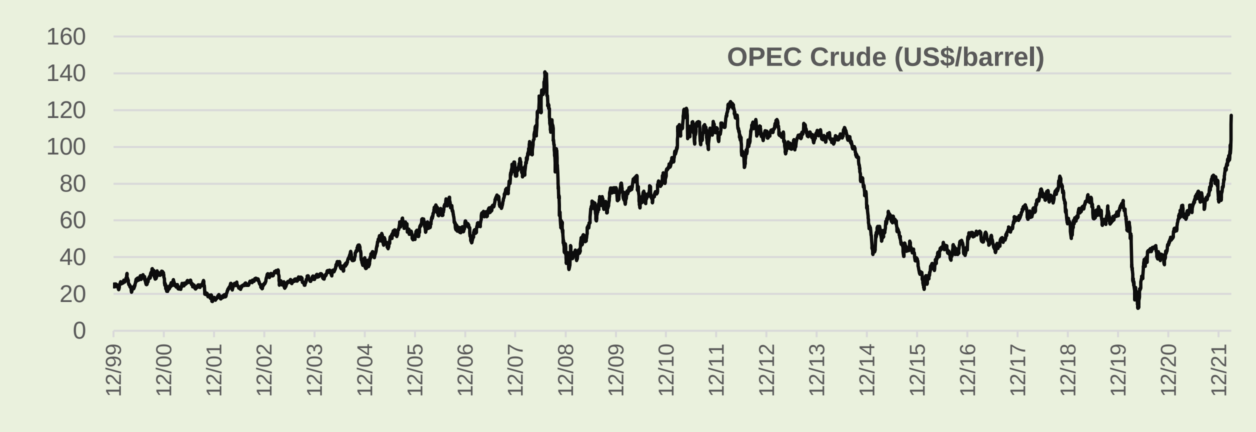
In terms of property policy, the Report reiterates its anti-speculation stance. It is equally important to develop both the renting and purchasing markets. Development of the long-term rental market, construction of affordable housing, and healthy growth in commodity housing market to meet reasonable housing needs are essential. The Report proposes to stabilize land prices, housing prices and expectations, and implement city-specific policies. In short, the general direction of the property policy has not been changed. We expect to see more loosening measures in the tier-3/4 cities whose housing market is suffering a greater downturn than their high-tier counterparts.

Policy Insight

Head of Research: Philip Chan

Special Topic: China Energy Revolution

Energy crisis to accelerate energy revolution



Source(s): The OPEC, ABCI Securities

The urgency of energy revolution

The 2022 Work Report pinpoints the need of an energy revolution. The ever-changing global political and economic scenarios highlight the importance of energy security. The catalyst to an energy revolution will be the escalating energy prices. Critical to the energy revolution is the optimization of the energy structure, which will serve the goals of environmental protection, enhance the country’s energy independence, and provide sufficient risk buffers for the economy to offset shocks in external energy prices. Long-term investors need to widen their perspective to include both industrial development policy and national strategy development in forming their decisions.

Given the high energy prices, China will need to reduce its reliance on imported energy. The savings in imported energy resources can be used for large-scale renewable energy projects in the country. The main energy resources imported by China include crude oil, natural gas, coal, and refined oil. In 2021, the total import value of these four commodities was RMB 2,361.7 bn, up 40%YoY; but the total import volume was only up 1%YoY. Since the average price of imported energy in 2021 increased by 38%, we estimate China had paid about RMB600 bn more for such imports.

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Exhibit 1: 2019-2022 Government Work Report: Main Expected Goals for the Development of Energy-related Work

	2019	2020	2021	2022
Energy Consumption Intensity	Down ~3%YoY	Continue to decline	Down ~3%YoY	New renewable energy and raw material energy consumption will not be included in the total energy consumption control. Promote the transformation from "double control" of energy consumption to "double control" of total carbon emission and intensity. Accelerate the formation of green production and lifestyle.

Energy revolution work mentioned in 2022 Government Work Report

- Promoting the energy revolution, ensuring energy supply.
- Strengthen the clean and efficient utilization of coal, reduce and replace it in an orderly manner, and promote energy-saving and low-carbon transformation.
- Promote the planning and construction of large-scale wind and solar power plants, strengthen the connectivity of renewable power projects and grid network.
- Promote R&D and application of green and low-carbon technologies, build a green manufacturing and service system, and foster energy conservation and carbon reduction in industries such as steel, nonferrous metals, petrochemicals, chemicals, and building materials.
- Discourage development of energy-consuming, high-emission projects without justifiable causes.

Source(s): 2019-2022 Government Work Report, ABCI Securities

Exhibit 2: The main energy resources imported by China. China paid more than RMB600 in cost due to rising prices in 2021

Volume (10K mt)	Chg ch(YoY)	2021 Import	Value (RMB100mn)	Chg (YoY)	price (RMB/mt)	Chg (YoY)
51,298	-5.36%	Crude	16,618	34.43%	3,239.5	42.03%
12,136	19.88%	Natural gas	3,601	56.27%	2,967.3	30.35%
32,322	6.56%	Coal & brown coal	2,319	64.06%	717.6	53.96%
2,712	-4.04%	Petroleum	1,078	31.62%	3,975.2	37.16%
98,467	**1.01%**	**Total**	**23,617**	**39.75%**	**2,398.4**	**38.35%**
	986	**Net change**		**6,717**		**664.8**

Mt:metric tonne；

Source(s): China Customs, ABCI Securities

2022 Scenario Analysis

Based on the import volume in 2021, if the average price of imported energy increases by 10-30% in 2022, China will pay RMB 236.2-708.5bn more for such imports. The additional cost is on top of the extra spending of more than RMB 600 bn in 2021.

From the perspective of renewable energy projects, the financial return rates on investment of projects may not be high. However, if the projects can reduce the country's imported energy cost, the total economic benefits of these projects will be higher than the financial benefits on the project level. The government needs to propose policies to encourage enterprises and the financial market to increase investments in renewable energy projects for the energy revolution.

Exhibit 3： Return-on-asset ratio of most green power companies are lower than the 10-year China treasury yields. Companies use high financial leverage to expand assets and improve shareholder returns, but high leverage will hinder the energy revolution

Green power Production companies	3-yr avg ROA (%)	3-yr avg ROE (%)	Est FY21 Net profit (RMB mn)	Liab / Assets	Assets / Equity
CGN Power	2.45	11.05	10,188	63.9%	2.77
China National Nuclear	1.51	10.26	7,913	69.5%	3.28
Longyuan Power	2.96	9.36	6,257	62.1%	2.64
Three Gorges Renewable	3.22	8.15	5,301	67.6%	3.09
Suntien Green Energry	3.24	14.04	2,274	70.8%	3.43
CGN New Energy	2.40	12.55	1,618	81.4%	5.38
Datang Corp Renewable	1.43	8.96	1,510	69.2%	3.24
CECEP Wind	2.42	7.63	967	68.1%	3.13
Jinko Power Tech	2.36	9.25	448	61.9%	2.63
10-yr China treasury yield	2.83				

Source(s): Bloomberg, ABCI Securities

Secure supply of energy resources

It will take years to develop the new renewable energy projects. In the medium-to-short term, China still needs to rely on energy imports. Energy security has become an important factor in supporting domestic economic development,

China's imported energy is exposed to high concentration risk. To ensure a stable supply of imported energy, political relations with energy-exporting countries and safe transportation routes are essential. Diversification of energy types and importing regions, in addition to sufficient domestic supply of renewable energy, will be the long-term solutions.

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Crude oil imports accounted for the most in the total cost of imported energy. Russia, Saudi Arabia, Iraq, Angola, and the United Arab Emirates took up 58% of total crude oil imports for China in Dec 2021; specifically, Russia and Saudi Arabia accounted for 30% of China's total crude oil imports. The top 10 crude oil import countries accounted for 84% of China's total crude oil imports.

In 2021, natural gas imports increased by 20%. It incurred the second-largest expenditure in total energy imports. China imports natural gas through inland pipelines and sea routes. We estimate 65% was imported by the sea routes and 35% by inland pipelines. In Dec 2021, China imported 88% of its pipeline gas from Turkmenistan, Russia, and Kazakhstan. For Dec 2021, we estimate 78% of the natural gas imports via sea routes came from Australia, Qatar, the United States, Malaysia, and Indonesia.

Despite China's abundant coal reserves, it needs to import coal with high calorific value for industrial purposes. China's coal imports grew by 6.6% in 2021. We estimate that about 60% of the imported coal was thermal and coking coal. For the imported thermal coal and coking coal, the main import sources were Indonesia, Russia, and Australia, which jointly accounted for 74% of the total imports; under the same coal category, the top five import sources accounted for 87% of the total imports.

Sino-Russian relations are crucial for energy security. Russia is China's second-largest supplier of imported crude oil (Saudi Arabia as largest), the second-largest supplier of imported natural gas (by pipeline and sea; Australia as largest), and the second-largest supplier of imported thermal coal and coking coal (Indonesia as largest). A sound political relationship between China and Australia is also important since the latter is China's largest supplier of imported natural gas and the third-largest supplier of imported thermal and coking coal. Safe and stable sea transportation is also essential to secure energy imports.

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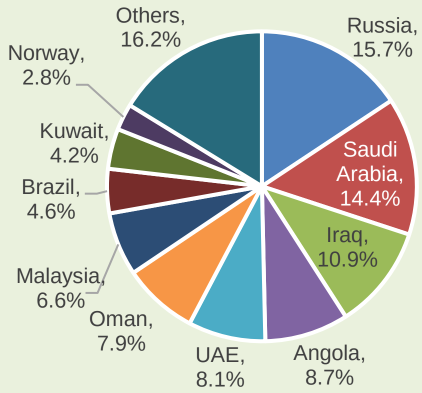
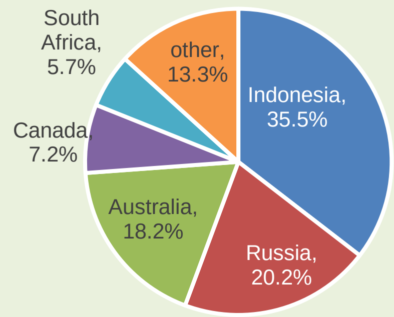
Exhibit 4：Sources of Crude Oil Import in 12/2021



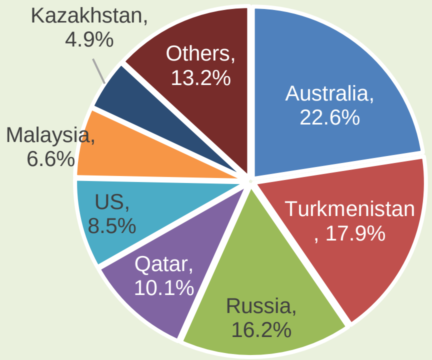
Source(s): China Customs, ABCI Securities

Exhibit 5：Sources of thermal coal and coking coal import in 12/2021



Source(s): China Customs, ABCI Securities

Exhibit 6：Sources of natural gas import in 12/2021



Source(s): China Customs, ABCI Securities

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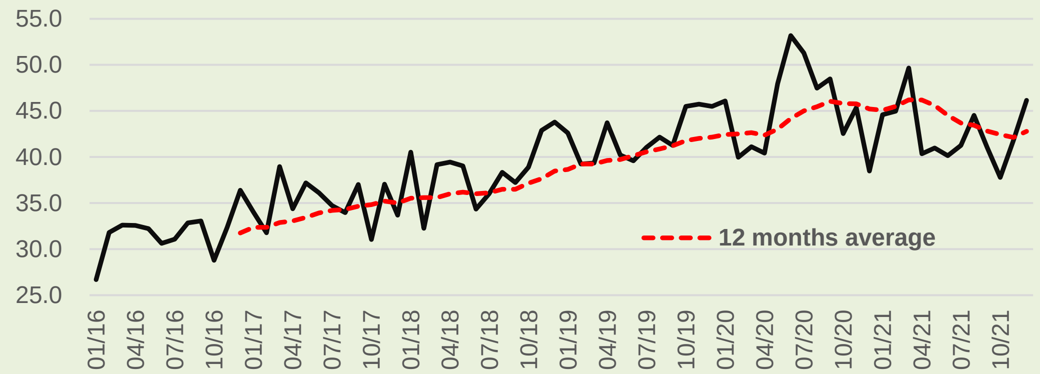
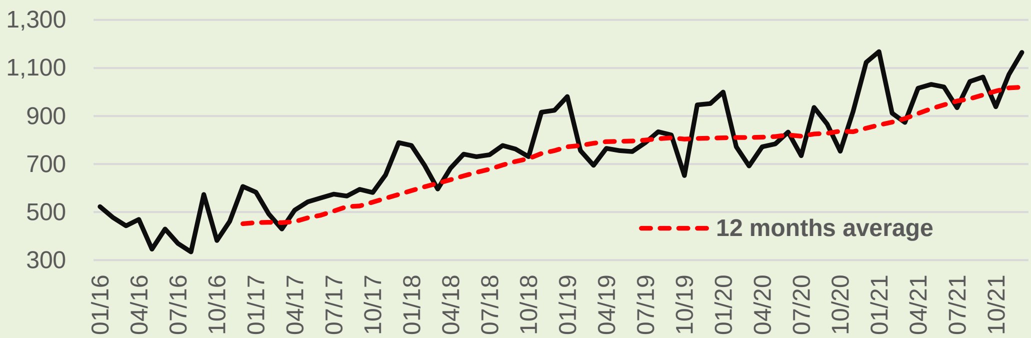
Exhibit 7：Crude oil import (mn tons)



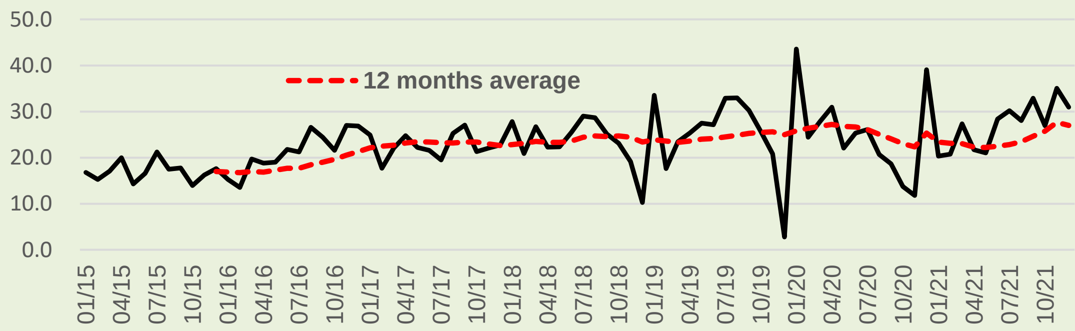
Source(s): China Customs, ABCI Securities

Exhibit 8：Natural gas import (10,000 tons)



Source(s): China Customs, ABCI Securities

Exhibit 9：Coal & brown coal import（mn tons）



Source(s): China Customs, ABCI Securities

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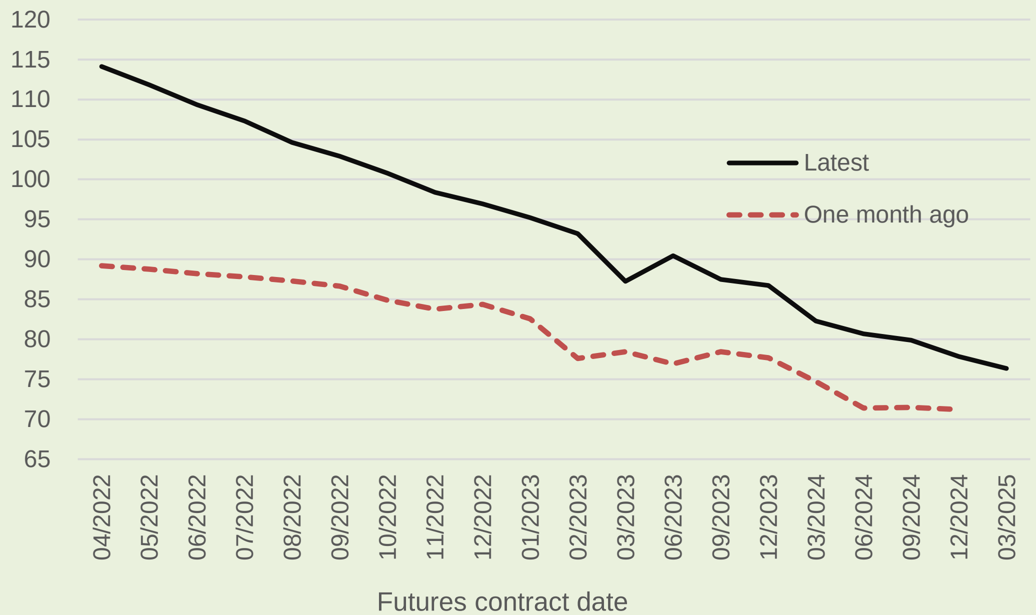
Exhibit 10：China crude oil futures curve (converted to US$/barrel)



Latest: 2022/3/4
Source(s)：Shanghai Intl Energy Exchange Center, ABCI Securities

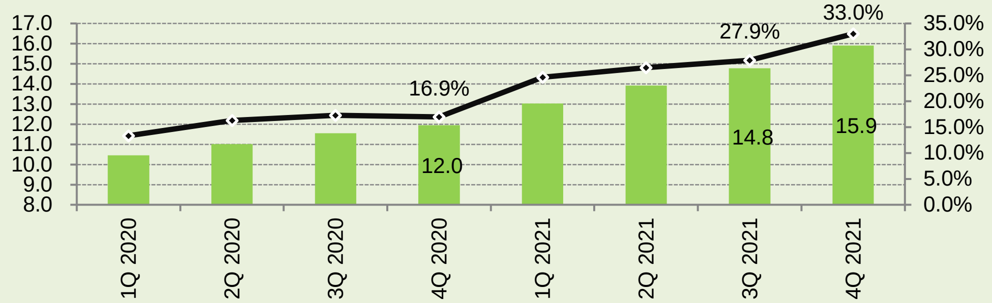
Exhibit 11: Absolute value change of future contract price (converted to US$/barrel)

Latest: 2022/3/4
Source(s)：Shanghai Intl Energy Exchange Center, ABCI Securities

Policy Insight

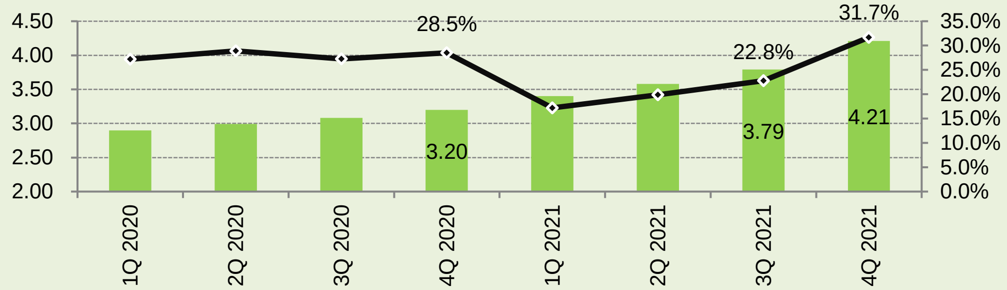
Loan credit flow of financial institutions: The strong growth of green loans can propel development of the green industry, but it can also bring risk by raising the already-high financial leverage of existing players.

Exhibit 12: Balance of local and foreign currency green loans (LHS: RMB tri, RHS: Chg (YoY)



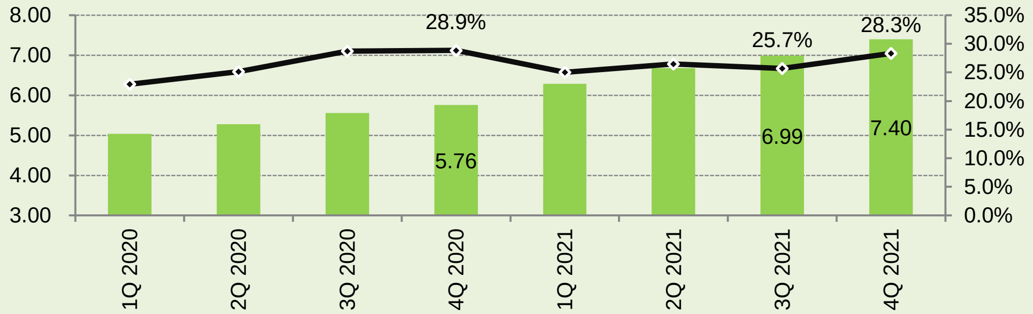
Source(s): The PBOC, ABCI Securities

Exhibit 13: Balance of green loans to the clean energy industry (LHS: RMB tri, RHS: Chg (YoY)



Source(s): The PBOC, ABCI Securities

Exhibit 14: Balance of green loans for green upgrade of infrastructure (LHS: RMB tri, RHS: Chg (YoY)



Source(s): The PBOC, ABCI Securities

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China Banks and Internet Finance Sector
Johannes Au, Analyst

<u>Related policy:</u>

Comparison of the Government Work Reports（2019-2022）

	2019	2020	2021	2022
Main policy theme	Maintain reasonable and sufficient liquidity Minimize systemic risk	Under the impact of COVID-19, priority will be given to stabilizing employment, enterprises, and livelihood Continue to prevent major financial risk Monetary policy to be more flexible	Prevent systemic risk FIs are responsible to serve real economy Flexible and reasonable monetary policy	Minimize systemic risk, handle economic and financial risks Flexible and reasonable monetary policy for sufficient liquidity Pursue progress while ensuring stability
Loans	Direct FIs to expand credit support esp. for real economy Encourage big banks to increase medium-to-long-term loans Reduce social-lending cost	Help corporate to obtain loans more easily and lower lending rates Must see significant reductions in comprehensive financing rates Encourage banks to concede profits to real economy	Banks to expand credit support, increase first-time credit customers, promote flexible borrowing and repayment mechanism Further reduce lending rates, guide financial system to concede profits to real economy	Expand scale of new loans Advise banks to increase medium-to-long-term manufacturing loans Increase financial support to real economy Lower actual lending rates, reduce bank-fee rates to lower comprehensive financing cost for society
Key supporting areas	Enlarge targeted RRR cut for medium- and small-sized banks; the released funds to support private enterprises and MSEs Ease real economy needs, in particular, to lower financing hurdles for private enterprises and MSEs	Assist medium, small and micro enterprises and individual business owners through hard times Fulfil lending needs of SMEs and micro enterprises Extend loan repayment deferral policy for SMEs and micro enterprises till Mar 2021 Defer loan repayment for inclusive finance MSEs Encourage banks to increase MSEs credit and first-time credit customers, and roll over loans without repayment Inclusive finance MSEs loans targeted to grow no less than 40% YoY for big banks	Increase credit support to tech-and green-related industries, MSEs, individual business owners, advanced agricultural operation, and industries affected by COVID-19 Ease financing for MSEs Extend repayment deferral policy for inclusive finance MSEs Inclusive finance MSEs loans targeted to grow no less than 30% YoY for big banks Reduce MSEs services charges	Direct funds to specific and vulnerable areas, expand inclusive finance coverage Better support inclusive finance MSEs lending, and increase refinance for agricultural areas and MSEs Lessen financing difficulties of SMEs and micro enterprises Promote significant growth in inclusive finance MSEs lending, credit finance, and first-time credit customers FIs credit policy to effectively support industries affected by COVID-19, avoid refusal, reduction or withdrawal of loans
Capital	Support big banks to expand capital through multiple channels to increase lending capacity	Support medium-and small-sized banks to boost capital position and enhance corporate governance to SMEs and micro enterprises	Continue to boost capital in medium-and small-sized banks through multiple channels	Enhance equity structure and corporate governance of medium-and small-sized banks

Others	Improve structure of financial system, develop private banks and community banks Enhance risk-monitoring and risk-managing capabilities in financial system Increase profit transfer of SOEs and FIs to central government	Integrated use of interest rates cuts, RRR cuts, and refinancing to increase money supply and total social financing size	Strengthen governance of financial holding companies and Fintech to ensure to monitor financial innovations -Monitoring deposit rate	Speed up NPL handlings in banks Introduce info-sharing system among FIs and departments in taxation and duties, customs, power suppliers, etc. Develop Fintech innovation products and services, enhance professionalism of Fintech intermediaries

Note: FIs refers to Financial Institutions
SMEs refers to Small and Medium Enterprises
MSEs refers to Micro and Small Enterprises
Source(s): 2019-2022 Government Work Report, ABCI Securities

Industry impacts:

- In general, policy direction of the 2022 Work Report is not significantly different from that of last year. Its outlook on the banking sector is within our expectations. We have stressed that stability will be the priority for 2022 in our previous sector report, which is exactly the emphasis in the latest meeting. Specifically, policy focuses this year include 1) defence against systemic risk, 2) maintaining a flexible and appropriate monetary policy, and 3) sufficient liquidity. Unlike last year, this year's session emphasizes risk handling on the economic and financial fronts. We believe this indicates the looming risks would mean the ability to handle altogether more critical.

- In terms of loans, banks will continue to expand the scale of new loans, strengthen effective support for the real economy, reduce actual lending rates and bank fees, and increase medium-to-long-term manufacturing loans. The underlying theme is conceding profits to support the real economy. The impact of LPR reform has been fully reflected in 2021, with the average NIM of banks stabilizing between 2.06% and 2.08% in the past few quarters. However, with the lower LPR in early 2022, we can expect the average lending rate of banks to decline again in the coming quarters. Balance sheet management would be crucial for banks to differentiate among peers this year.

- In terms of the financial support to the real economy, more funding will be directed to key areas and vulnerable aspects; the government also targets to expand inclusive finance coverage, improve financing availability for SMEs and micro enterprises, and provide financing support to enterprises and industries affected by the pandemic. The report has not highlighted the specific industries that will be the focus of support; also, it has not set any inclusive finance MSE loan growth target for banks like it used to. While financing demand still exists, the government may have decided to allow more policy flexibility amid the complicated macro environment. Moreover, with the banks' support

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in recent years, the lending needs of inclusive finance MSEs have eased. Finally, the report demands banks to increase NPL handling scale in 2022, which signals the persistence of asset quality pressure.

- Compared with 2021, less focus is placed on Fintech although the report states the need to develop Fintech products and services and improve professionalism in the practice of Fintech intermediaries. Nonetheless, we believe the Fintech industry still entails a high risk given the relatively nascent stage of development. New measures related to information sharing among financial institutions and other departments such as customs, taxation and duties, power suppliers, etc. could aid early detection and prevention of financial systemic risks, in our view.

Policy Insight

China Property Sector
Kenneth Tung, Analyst

Related policy:

Comparison of the Government Work Reports（2019-2022）

	2019	2020	2021	2022
Houses are not for speculation		Assert that houses are for living, not for speculation	Assert that houses are for living, not for speculation	Assert that houses are for living, not for speculation
Differentiated policies in each city according to local housing needs	Each city can apply its own policies to address local housing needs	Each city can apply its own policies to address local housing needs -facilitating a stable and healthy property market	Resolve the housing issues in big cities	Each city can apply its own policies to address local housing needs for healthy development of the property market
Affordable housing	Continue to promote affordable housing construction and shantytown renovation		Increase the supply of affordable rental housing and shared property housing by increasing land supply	Accelerate the development of the long-term rental market and promote the construction of affordable housing

Source(s): 2019-2022 Government Work Report, ABCI Securities

Industry impacts:

- **Reassert that houses are for living, not for speculation.** The 2022 Work Report once again stresses housing should not be speculated. The general direction for real estate has remained unchanged. Although new home sales have declined significantly in recent months, housing prices have not shown any substantial drop. In the future, the policy will continue to be marginally relaxed. Housing prices in tier-1/2 cities have been stabilizing while prices in tier-3 cities are still under pressure. For selling prices of newly built commodity residential buildings in Jan, first-tier cities went up 0.6% MoM vs. 0.1 MoM decrease in Dec 2021; tier-2 cities had a 0.1% MoM increase vs. 0.3% MoM decrease in Dec 2021; tier 3 cities, however, continued to go down by 0.2% MoM in Jan 2022. Hence, we believe loosening policies will be concentrated in tier-3/4 cities. The report also mandates support for the commodity housing market to meet the housing needs of homebuyers; as such, we believe more cities may introduce relaxation measures, such as lower down payment ratio and removal of loan restrictions, to support upgrading demand in the second-home market. We expect these supportive policies to drive up contracted sales for developers in 2H22.

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- **The share of affordable housing in new-home supply will increase.** The targets of affordable rental housing construction have been detailed in a press conference by the State Council Information Office. It is expected that 2.4mn affordable rental housing units will be built in 2022, an increase of more than 1.5 times compared to 0.942mn units in 2021. In addition, for the "14th Five-Year Plan" period (2021-25), Beijing, Shanghai, Guangzhou, Shenzhen, and other key cities will target to increase the proportion of new affordable rental housing to 40% to 45% of the new housing supply. Future land supply will focus on affordable rental housing, which may mean that the amount of commodity housing available for sale will decrease. While developers may be able to raise ASP this way, the gain can be potentially offset by potential increases in land prices due to the shorter supply. The completion of numerous affordable rental housing projects will provide opportunities for property management companies (PMCs). In our view, state-owned PMCs, who have more experience in managing public projects, will benefit the most.

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China Education Sector
Paul Pan, Analyst

Related Policy:

Comparison of the Government Work Reports（2020-2022）

	2020	2021	2022
Preschool education and compulsory education	Strengthen the development of boarding schools in rural areas and county/township schools; provide further support for special education and continuing education; support and regulate private education; provide relief to private kindergartens	Promote balanced development of compulsory education in urban and rural areas by improving rural school conditions and compensation structure of rural teachers Raise admission rate of preschool education; enhance the safety-net mechanism of universal preschool education and encourage private capital to enter preschool education industry	Promote balanced development of compulsory education (Grade 1-9) and urban and rural education systems; distribute educational resources based on local resident population and ensure location-based admission methods to be applied to all school-age children Continue to reduce the burden for students in compulsory education; increase educational resources available for universal preschool education; enhance development of township-level high schools; improve special education and continuing education; regulate private education development
Higher education and vocational education	Provide financial support for vocational education to stabilize the job market; 2020-21 enrollment targets for vocational training and higher education are 35mn and 2mn; develop first-class universities and programs.	Enrollment in higher education to expand by 1mn Enhance the applicability of vocational education and integration & cooperation of industries and education; implement grading system for vocational skill certification; develop first-class universities and programs.	Improve the operational conditions of vocational education and the cooperation between enterprises and educational institutions; enhance the quality of higher education development, and build first-class universities and programs; expedite cultivation of talents in the fields of science, engineering, agriculture, and medicine; support higher education in central China and western China regions

Source(s): 2020-2022 Government Work Report, ABCI Securities

Policy Insight

Industry impacts:

- The 2022 Work Report reiterates the balanced development of compulsory education is one of the major focuses and proposes reducing educational burden for students in compulsory education. Based on the "Opinion on Reducing In-school and After-school Education Burdens for Students in Compulsory Education" (《关于进一步减轻义务教育阶段学生作业负担和校外培训负担的意见》) ("The Opinion"), we believe reducing in-school and after-school educational burdens would remain a focal point in 2022 and local regulations/policies based on "The Opinion" would be launched this year. We expect listed companies with businesses in the relevant education segments would face more pressure and would need to explore pivoting strategies.

- Vocational education is also another focal point of national education development. The "Revised Implementation Measures for the Law on the Promotion of Private Schools" (《中华人民共和国民办教育促进法实施条例》) and "Opinion on Promoting High Quality Development of Vocational Education" （《关于推动现代职业教育高质量发展的意见》） released in 2021 both proposed measures to encourage private education institutions to participate in high education and vocational education segments. We believe the national focus on vocational education and the current policy environment would benefit the listed private higher education players.

Policy Insight

China Consumer Sector

Paul Pan, Analyst

Related Policy:

Comparison of the Government Work Reports（2020-2022）

	2020	2021	2022
CPI target	Around 3.5% YoY increase	Around 3.0% YoY increase	Around 3.0% YoY increase
Consumers' willingness and ability to spend	Stabilize job market and increase income level to improve consumption willingness and capabilities of domestic residents	Stabilize and expand consumption and expand the sources of income for consumers	Income growth is targeted at the same level of economic growth; increase spending capabilities by raising income through various means and improving income distribution mechanism
Industry development directions	Policies to support recovery of catering, shopping malls, cultural activities, tourism, and household service industries; promote offline-online integration	Utilize the Internet Plus strategy to deepen integration of online and offline consumption; develop new business models to better serve consumers	Further integrate online and offline consumption; stimulate recovery of daily service consumption; develop new modes of consumption

Source(s): 2020-2022 Government Work Report, ABCI Securities

Industry impacts:

- The CPI target for 2022 is set at ~ 3% YoY, the same as last year. We believe global commodity prices would continue to rise on geopolitical tension and uncertainties imposed by COVID-19. As a result, we expect the rising raw material costs would result in high product prices by companies in the consumer sector, which would eventually push up CPI.

- The 2022 Work report reiterates increasing income by various means and states that income growth should be in line with economic growth (2022 real GDP growth set at 5.5% YoY). According to NBS, per capita income real growth was 8.1% YoY in 2021, and average per capita income real growth in 2019-2021 was at 5.1% YoY. We believe the 2022 target is a result of the challenging macroeconomic environment. We expect more policies would be launched in 2022 to boost income growth and spending.

Policy Insight

- According to NBS, national online retail sales grew 14.1% YoY in 2021, while national retail sales rose 12.5% YoY. The figures show online consumption plays a crucial role in national consumption growth. We believe the flexibility and growth opportunities provided by online retail would benefit the consumer sector as a whole. We expect companies to explore more online retail options, but more resources would be required for building the online retail channel building as competition and regulation intensify.

Policy Insight

Internet Media & Consumer Commerce

Steve Chow, Analyst

Related Policy:

Comparison of Government Work Reports（2019-2022）

	2019	2020	2021	2022
R&D	Strengthen industrial base and technological innovation capabilities.	Support for basic research and applied basic research.	During the "14th Five-Year Plan" period, the R&D investment of the society to increase by more than 7% annually on average.	Implement a 10-year plan for basic research. - Implement the three-year plan for the reform of the scientific and technological system.
Supported segments	Emerging industrial clusters such as big data, artificial intelligence, high-end equipment, biomedicine, new-energy vehicles, and new materials.	Catering, shopping malls, culture, tourism, housekeeping and other life service industries.	E-commerce and rural express.	Smart cities, digital villages, industrial Internet, integrated circuits, artificial intelligence, integration of online and offline consumption.
Regulation			Strengthen regulation on financial holdings and Fintech	Strengthen network security, data security and personal information protection.

Source(s): 2019-2022 Government Work Report, ABCI Securities

- Implement a ten-year plan for basic research; three-year plan for the reform of the scientific and technological system.
- Promoting the reform of scientific research institutes and improving the management and establishment of major scientific and technological projects. Foster international scientific and technological cooperation and talent development.
- Increase innovation incentives of enterprises. Increase the tax rebate for R&D development expenses. Increase tax rebate ratio for technology SMEs from 75% to 100%.
- Promote the development of the digital economy and develop smart cities and digital villages. Accelerate the development of Industrial Internet, and cultivate and expand digital industries such as integrated circuits and AI. Hasten the integration of online and offline consumption and recovery of lifestyle services, and develop new forms of consumption.
- Strengthen internet content development with innovations while enhancing governance. Fortify network security, data security and personal information protection.

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Policy Insight

Industry impacts:

- Based on this year's report, policy direction in the technology/e-commerce industry remains largely unchanged. The main targets include supporting the development of the digital economy, improving digital infrastructure, fostering new business models, and promoting digital industrialization and industrial digitization.

- The report supports the scientific R&D of the technology industry, especially the basic research. Last year, the Work Report set a 7% annual increase of R&D investment for the "14th Five-Year Plan" period; this year, the government proposes a three-year plan to reform the scientific and technological system, reflecting increasing specifications of the strategic goals. Details of the three-year reform plan will be needed for us to determine which industries will be the beneficiaries.

- Regulation continues to be a policy priority. While Fintech supervision was stressed last year, the report this year focuses more on network governance, network security, data security and personal information protection, reflecting a slight shift in supervision focus.
- Regulatory authorities have introduced a number of measures covering e-commerce, online games, online advertising, social media, etc. last year. The objectives included reining in monopolistic behaviours, restricting unfair business practices of large Internet platforms, protecting the interests of consumers, strengthening data security, and restricting the expansion of disorderly capital. Regulation will still be the focus this year. From a long-term perspective, this will improve the health of the industry and consumers' rights.

- China's internet industry has been affected by macroeconomic headwinds in recent years. Also, large Internet platforms have been adjusting their business models under the new regulatory environment, which usually means increases in cost pressure. From a regulatory perspective, striking a balance between regulatory strength without compromising the operating environment will continue to present challenges.

- The government seeks to promote consumption and integration of online and offline consumption, which bodes well for e-commerce and express delivery industries.

Policy Insight

China Telecom Sector

Ricky Lai, Analyst

Related Policy:

Comparison of the Government Work Reports in 2019-2022

	2019	2020	2021	2022
Telecom Industry Policy	Continue to promote network speed and fee reduction. This year, the average broadband tariff of small- and medium-sized enterprises will be slashed by 15%, and the average tariff of mobile network service will be reduced by more than 20%. The "Mobile Number Portability" will be implemented.	Develop a new generation of information networks, build data centres, and help industrial upgrades. The average tariff for broadband service to be cut by 15%.	Strengthen network security, data security, and personal information protection. The average tariff of SMEs' broadband services to be cut by 10%.	Build digital information infrastructure, promote digital transformation of industries, and develop smart cities. Accelerate the development of the industrial Internet, cultivate and expand digital industries such as integrated circuits and AI, and improve innovation and supply capabilities of key software and hardware technologies.
5G Network Policy		Expand 5G applications	Step up 5G network construction	Promote the large-scale application of 5G

Sources：2019-2022 Government Work Reports、ABCI Securities

Industry impacts:

- Telecom operators will expand 5G networks in 2022. As of Dec 2021, 1.425 mn 5G base stations have been built in China. 600,000 more will be built in 2022, pushing the total number of 5G base stations to 2.025mn by end-2022. As of Dec 2021, 5G users were 360mn, accounting for 21.6% of the total mobile users, and we forecast the proportion to rise to 35.0% in 2022. Telecom operators will develop 5G standalone networks to improve network speed and transmission quality.

- 5G networks will drive digitalization and enhances the development of smart cities, supporting economic growth. The low-latency, high-speed 5G networks will facilitate cloud computing, industrial Internet, entertainment, etc. Enterprises are actively introducing 5G technology to accelerate modernization, intelligence, and digital development. The integration of 5G network and VR/AR technology will improve users' experience and be widely used in the consumer and commercial markets.

Policy Insight

- In 2022, the development of the Industrial Internet will quicken. Telecom operators will improve the coverage of fixed broadband fibre networks, promote the development of data centres, and support the development of the IoT, cloud computing, big data, AI, etc.

- In 2022,the government will support development in integrated circuits, expanding innovation and supply capabilities of key software and hardware technologies. R&D of chips and core devices will be a focus area, and industry players are set to actively participate in the formulation of international standards and raise their compatibility with such standards. Technological R&D will need to step up so as to promote vertical integration of the industry chain. Also, improving the integrated circuit application products will help alleviate chip shortages.

- **China Mobile (941 HK)** will benefit from the growth of 5G subscribers. Its market share of overall subscribers is the highest in the industry. A high 5G user growth in 2022, which we expect for the Group, would elevate mobile ARPU. Granted, its massive user base would benefit from the economies of scale.

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Policy Insight

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Disclosures

Analyst Certification
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Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (~10%)
Hold	- Market return rate (~-10%) ≤ Stock return rate < Market return rate (~+10%)
Sell	Stock return < - Market return (~-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2009 (For reference: HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

Disclaimers

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