



Policy Snapshot

Oct 25, 2017

This is a summarized review and commentary on the 19th National Congress of the Communist Party of China (NCCPC), which was concluded on Oct 24, 2017.

The 19th NCCPC was held on Oct 18, with the General Secretary of Central Committee of the CPC Xi Jinping presenting the report on behalf of the Party's 18th Central Committee. The presentation started off with a review of the work progress accomplished in the past five years before setting forth an overall work agenda whose timeline will span across decades.

From a macroeconomic perspective, a few aspects of Xi's report should warrant attention. First, China's development from 2020 till the mid-21st century will be divided into two phases. In the first phase from 2020-2035, China, upon the foundation of a moderately prosperous society, would expend 15 years to realize the goal of socialist modernization. In the second phase from 2035 till mid-21st century and upon the foundation of modernization, China will develop into a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful. This is the first time the Chinese leaders have established concrete targets for development in the next 30 years. Reforms will be expedited to achieve these goals.

Xi's report stated that socialism with Chinese characteristics has entered a new era. The principal contradiction in Chinese society has evolved into one between unbalanced and inadequate development and the people's ever-growing needs for a better life. In the next few decades, China will propose measures to improve income distribution, urban-rural integration and coordinated regional development.

Xi reiterated that China's economy has evolved from the stage of high-speed development to one that emphasizes on quality. The country should put quality first, give priority to performance, and pursue supply-side structural reform as its main task. Innovation will be accelerated while rural revitalization and strategy for coordinated region development would be implemented. China will also accelerate efforts to improve the socialist market economy and pursue opening up on all fronts.

Xi also stated the goal to improve social security and living standard. Employment quality and income level will also be raised. Development of a social security system will be enhanced, poverty will be triumphed, and the "Healthy China" initiative will be carried out. China will speed up reform to develop sound systems for building an ecological civilization, promote green development, and resolve prominent environmental problems,

We believe the reforms are spearheading in the right direction. Many of the policies and measures have already been mentioned in the 13th Five-Year Plan work reports, and we believe the overall policy will elevate the potential of economic growth in the mid and long term. Success will lie on whether the proposed polices can indeed be implemented.



Policy Snapshot

Based on past experience, we believe the focus of the Third Plenary Session of the 19th CPC to be held in the fall of 2018 will be placed on economic reforms. We believe the widely supported reform measures, which include the rural land reform, income distribution reform, state-owned enterprise reform, financial system reform, and financial reform will be launched on schedule.

For new investment opportunities in the capital market, the report also proposed the exploring of the possibility of opening free trade ports as well as establishing a housing system that encourages both leasing and purchasing. The report emphasizes on powering the country's advancement through science education, talent cultivation, innovation, rural vitalization, coordinated regional development, sustainable development, and military-civilian integration. These could be the new investment themes in the capital market over the next few years. Our analysts will provide commentaries on relevant sector policies.

Policy Snapshot

Implications on Sectors:



China Banks Sector

Relevant contents from the 19th NCCPC Report

- Supply-side structural reform will be the core direction of the national economic development; emphasis will be placed on accelerating the construction of an innovative nation and promoting economic development that prioritizes quality.
- The work report emphasizes on the implementation of the rural revitalization strategy, with solving the “Sannong” problem as the top priority.
- Enhance risk management, with emphasis on preventing the occurrence of systemic financial risks, improving financial regulatory system; accelerating the completion of a socialist market economy.

Impacts on industry

- The general policy direction of 19th NCCPC is in line with 16th-18th NCCPC. Hence, we do not expect any significant changes in policy direction that would impact the banking sector. To deepen financial reform, policies will be revised and fine-tuned.
- To support the supply-side structural reform and development models such as the innovative economy, the banking industry will need to further increase its targeted support and resource allocation in the real economy, technological innovations, and modern finance.
- Risk management will continue to be emphasized, especially in the four major areas of concern mentioned by the PBOC - the shadow banking system, asset management industry, internet finance, and financial holding companies.

Stocks to watch

- **Agricultural Bank of China (1288 HK, Buy, TP: HK \$ 4.8), Postal Savings Bank (1658 HK)** and various rural commercial banks would be the major beneficiaries. The government is resolved to tackle the “Sannong” problem and set it as one of the top priorities. Hence, we expect relevant measures would benefit banks with strengths in the “Sannong” area.
- **Industrial and Commercial Bank of China (1398 HK, Buy, TP: HK \$ 6.96) and Construction Bank (939 HK, Buy, TP: HK \$ 8.48)** will benefit. With the economy evolving into one that prioritizes quality and the growing necessity of innovative economy and inclusive finance, industry leaders can better capture opportunities through their diversified businesses and greater defensiveness against policy changes.



Policy Snapshot

Market valuation of stocks mentioned

Code	24-10-2017 Stock	Share price (Local)	12/17 PER (x)	12/17 P/B (x)	12/17 Yield (%)	12/17 ROAE (%)	12/18 PER (x)	12/18 P/B (x)	12/18 Yield (%)	12/18 ROAE (%)
1398 HK	ICBC-H	6.15	6.61	0.89	4.55	13.99	6.22	0.81	4.76	13.57
939 HK	CCB-H	6.81	6.02	0.84	4.97	14.44	5.62	0.76	5.30	14.21
1288 HK	ABC-H	3.61	5.26	0.73	5.77	14.35	4.93	0.65	6.06	14.00
1658 HK	POSTAL SAVINGS-H	4.53	6.98	0.81	2.41	12.20	6.20	0.73	2.73	12.34

Source(s): Bloomberg, ABCI Securities

Policy Snapshot



Brokerage /Non-Bank Financial Services Sector (Brokerage, Insurance, etc.)

Relevant contents from the 19th NCCPC Report

- Deepen the financial system reform, enhance the economic capacity of financial system, increase the proportion of direct financing, and promote the healthy development of multi-level capital market.
- Implement a high level of investment liberalization policy.
- Innovate foreign investment and promote international production cooperation.
- Improve the financial regulatory system and prevent systemic financial risks.
- Developing green finance.
- The report called for strengthening of the social security system, which includes the full implementation of the national insurance plan. The basic pension system for urban employees and the basic pension system for urban and rural residents should be improved to establish the national coordinated universal basic pension system. The report also urges to improve the unified urban and rural residents basic medical insurance system and critical illness insurance system, finesse the unemployment and industrial injury insurance system, establish a unified national public service platform for social insurance, coordinate the urban-rural social assistance system, and improve the minimum living security system.

Impacts on industry

- The government plans to increase the proportion of direct financing and promote the healthy development of multi-tiered capital markets, which is beneficial to brokers' investment banking business such as equity financing and bond financing. These goals have also been mentioned in the 2017 government report. In our view, this indicates that the government's direction in the capital market has stayed unchanged.
- In addition, investment liberalization policies and innovative measures for overseas investment will further enhance cross-border investment and capital flows, strengthening Hong Kong's role as an international financial center and benefiting Chinese investment banks and brokers in the city.
- Regulation will be a top priority, which will help reduce systemic risk.
- Commercial insurance plays an important role in supplementing the government's social security system. While the government's social security can provide standardized protection, the commercial insurance can offer additional protection (such as the critical illness insurance). The government's insurance or commercial insurance funds can play an active role in improving the healthcare system and supporting development in the real economy. Insurance funds will become financing partners for many government projects, such as PPP or infrastructure projects.

Stocks to watch

- Beneficial to the brokerage sector in general, especially those with higher revenue mix from investment banking business such as **CSC (6066 HK, BUY, TP HK\$ 8.3)**.
- Currently, China's insurance industry is highly concentrated. The top 10 insurance companies (by premium income) such as **China Life (2628 HK), Ping An (2318, HK), Chinese Pacific (2601**

Policy Snapshot

- **HK), PICC group (1339 HK) and New China Life (1336 HK)** have a joint market share of more than 70%. Their investment policies and investment directions will determine the allocation of financial resources, thereby affecting the capital market as well as the real economy. This small group of key insurers would become the major customers of investment banks

Market valuation of stocks mentioned

Code	24-10-2017 Stock	Share price (Local)	12/17 PER (x)	12/17 P/B (x)	12/17 Yield (%)	12/17 ROAE (%)	12/18 PER (x)	12/18 P/B (x)	12/18 Yield (%)	12/18 ROAE (%)
6066 HK	CSC FIN-H	7.21	8.83	1.01	2.82	11.70	7.61	0.91	3.26	12.58
2628 HK	CHINA LIFE-H	25.10	23.61	1.88	1.54	8.12	19.60	1.75	1.82	9.24
2318 HK	PING AN	66.15	14.34	2.24	1.77	16.20	12.07	1.97	2.06	17.38
2601 HK	CHINA PACIFIC-H	36.95	20.07	2.04	2.50	10.45	16.65	1.85	2.90	11.64
1339 HK	PICC GROUP- H	3.69	8.04	0.95	1.02	12.10	7.60	0.84	0.89	11.74
1336 HK	NEW CHINA LIFE-H	48.70	20.87	2.00	1.37	9.79	15.99	1.80	1.78	11.86

Source(s): Bloomberg, ABCI Securities

Policy Snapshot



China Property Sector

Relevant contents from the 19th NCCPC

- Houses are built to be inhabited, not for speculation.
- China will accelerate to establish a housing system with multiple suppliers and multifaceted protection. The system should support both home leasing and purchasing in order to satisfy housing needs for all.

Impacts on industry

- The stance against speculation in the housing market was reiterated. Over the past year, home purchase restrictions did reduce investment demand and speculative activities in the housing market. Therefore, such restrictions are likely to continue in the short term.
- The idea of encouraging both home leasing and purchasing is being promoted to the national level from the regional one. Such idea was first mentioned in the "Beijing residential supply plan in 2017-2021" announced earlier. Shortly after, Guangzhou, Shanghai and Shenzhen announced their respective plans in boosting the leasing market. The policy of supporting both home leasing and purchasing could become one of the key components in the long-term mechanism in China's property sector. The goal is to promote a healthy leasing market by reducing speculative purchases and increasing leasing demand. Housing need can be met by leasing or purchasing based on one's financial viability.
- However, market statistics that can accurately reflect the demand for home leasing is lacking. On the supply side, the government can encourage the development of rental home projects. With uncertainties on the demand side, however, we believe policies to support both home leasing and purchasing will be piloted in tier-1 or other major cities.

Stocks to watch

- We believe developers with a high mix of rental income such as **Jinmao (817 HK, BUY, HK\$ 4.32)** and **CR Land (1109 HK, UNRATED)** would benefit from rapid development of the leasing market. Since rental yield is low at present, we believe ample land supply for rental home projects will lower land cost in the future, thus reducing development cost of developers.
- Developers that adopt a high asset turnover model, such as **Sunac (1918 HK, SELL, TP under review)** and **Evergrande (3333 HK, BUY, HK\$28.4)**, may lose market share in the future because of inexperience in rental property development.



Policy Snapshot

Market valuation of stocks mentioned

Code	24-10-2017 Stock	Share price (Local)	12/17 PER (x)	12/17 P/B (x)	12/17 Yield (%)	12/17 ROAE (%)	12/18 PER (x)	12/18 P/B (x)	12/18 Yield (%)	12/18 ROAE (%)
817 HK	CHINA JINMAO	3.92	9.98	1.09	5.22	11.10	8.11	1.00	4.86	12.83
1109 HK	CHINA RES LAND	24.20	7.55	1.09	3.85	14.95	6.46	0.96	4.47	15.80
1918 HK	SUNAC	41.90	41.23	5.25	0.90	13.52	17.06	4.03	1.69	26.71
3333 HK	CHINA EVERGRAND	31.55	12.01	4.89	2.51	33.82	10.20	3.89	5.43	42.49

Source(s): Bloomberg, ABCI Securities

Policy Snapshot



China Environmental Protection / Alternative Energy Sectors

Related contents from 19th NCCPC Report

- The society must adhere to the principle of prioritizing conservation, protection, and natural recovery. Resource conservation and environmental protection should be the main themes.
- Building clean, low-carbon, and efficient energy systems.
- Building a market-oriented green technology innovation system; developing green finance, strengthening energy conservation and environmental protection industry, clean production industry, and clean energy industry.
- Accelerating water pollution control and implementing comprehensive management of watershed and coastal waters
- Strengthening solid waste and waste treatments; elevating pollution emission standards.

Industry impacts :

- Wastewater treatment industry and solid waste treatment industry would benefit the most. Xi stressed that the country will strengthen wastewater and solid waste treatments as well as raising pollution standards. In the long run, more pollutant treatment facilities will be needed. We also expect more supportive policies in the future.
- Alternative energy industries (wind power, nuclear power, hydropower, solar, etc.) would also benefit as Xi stated the goal to strengthen the clean energy industry by building a clean, low-carbon, safe and efficient energy system.
- We believe the development of green finance should help environmental companies with high levels of accounts receivable although details of the "green finance" policy are yet to be released. High accounts receivables reduce the cash flow and raise the debt ratio in environmental operators - which can be damaging to business.

Stocks to Watch

- **Beijing Enterprises Water Group (371 HK, BUY, TP: HK\$ 7.6)** would benefit. We believe the government's emphasis on forestalling wastewater pollution and enhancing treatments of solid waste and waste would accelerate development in the waste/wastewater treatment industries.
- China's intention to develop a clean, low-carbon, safe and efficient energy system would stimulate demand for clean energy. Nuclear power and wind power are considered to be the clean energy with the most potential. Nuclear industry leader **CGN (1816 HK, BUY, TP: HK\$ 3.0)** and wind industry leader **Longyuan (916 HK, BUY, \$ 7.5)** would be the greatest beneficiaries.



Policy Snapshot

Market valuation of stocks mentioned

Code	24-10-2017 Stock	Share price (Local)	12/17 PER (x)	12/17 P/B (x)	12/17 Yield (%)	12/17 ROAE (%)	12/18 PER (x)	12/18 P/B (x)	12/18 Yield (%)	12/18 ROAE (%)
371 HK	BJ ENT WATER	6.67	14.34	2.95	2.28	21.28	11.50	2.52	2.83	23.64
1816 HK	CGN POWER-H	2.24	10.02	1.36	3.20	13.94	9.57	1.24	3.26	13.51
916 HK	CHINA LONGYUAN-H	6.20	10.74	0.98	1.92	9.51	9.06	0.90	2.30	10.34

Source(s): Bloomberg, ABCI Securities

Policy Snapshot



China Consumer Sector

Related contents from the 19th NCCPC

- Develop industry system for modern agriculture; improve the support and protection system for agricultural industry; cultivate different business models; nurture modern agricultural business operators; enhance the service system for socializing agriculture; better allocate the resources of small farmers with modern agriculture; facilitate the integration of primary, secondary, and tertiary industries within agricultural industry; encourage entrepreneurs among farmers; diversify income sources for farmers.
- Support private healthcare providers and develop healthcare industry. Facilitate population policy and development of complementary policies; strengthen research on strategy of population development
- Support and regulate private education providers; improve vocational training education

Impacts on industry

- Leaders of the consumer goods industry would benefit. Modern agricultural system, integration of the primary, secondary, and tertiary sectors within the agricultural industry would accelerate the development of consumer goods industry leaders. Apart from better resource allocation for small farmers, these industry leaders would be able to take the lead in developing relevant businesses along the industry chain, such as finance services and logistics.
- More private capital to enter the healthcare industry. The opening speech emphasized the support for private capital to enter the healthcare service industry. It usually requires a long period for a hospital to reach a certain scale and provide quality services, and this forms a natural entry barrier. We expect more private capital to enter the business of clinic and professional healthcare center.
- Education industry to see further development. The opening speech stated that the development of education industry should be prioritized. We believe more policies to accelerate the development of public/private schools and more details on the regulation for private schools would be soon released. New policies to support private school operators seeking external funding in and out of China would be beneficial to investment banking business.

Stocks to watch

- **Yili (600887 CH, BUY, TP:RMB 26.4), WH Group (288 HK, BUY, TP:HK\$ 9.14), and Shuanghui Development (000895 CH, BUY, TP: RMB 27.9)** would benefit from the government's support for the development of modern agriculture industry. These industry leaders would also become the testing grounds for pilot programs of the new business paradigms.
- **Kanghua Healthcare (3689 HK, BUY, TP HK\$ 12.60).** We believe the entry barrier in the healthcare business, especially in hospitals, would give Kanghua a strong competitive edge. Its portfolio hospital Kanghua Hospital, a Grade A Class III hospital, is this first private for-profit

Policy Snapshot

hospital to receive such premium classification. The Group is also the only healthcare service provider listed in HK that has portfolio hospital with such high ranking.

- **Wisdom Education (6068 HK, BUY, TP: HK\$ 4.35)** will benefit from government's support for the education industry. We believe the Group could leverage on its scale, brand name, and experiences to expand nationally.

Market valuation of stocks mentioned

Code	24-10-2017 Stock	Share price (Local)	12/17 PER (x)	12/17 P/B (x)	12/17 Yield (%)	12/17 ROAE (%)	12/18 PER (x)	12/18 P/B (x)	12/18 Yield (%)	12/18 ROAE (%)
600887 CH	INNER MONG YIL-A	29.68	28.82	7.26	2.11	26.27	24.43	6.42	2.43	27.89
288 HK	WH GROUP LTD	7.57	12.76	2.09	3.40	16.35	11.69	1.91	3.81	17.06
3689 HK	GUANGDONG KANGHUA	10.92	18.28	2.37	1.66	13.77	15.74	2.10	1.92	14.15
6068 HK	WISDOM EDUCATION	4.64	30.35	4.33	1.09	19.92	24.35	3.93	1.47	16.93

Source(s): Bloomberg, ABCI Securities

Policy Snapshot



China E-commerce Sector

Related contents from the 19th NCCPC

- The government will further develop various new technologies such as internet, big data, artificial intelligence, etc. It will also cultivate new growth areas such as shared economy, low-carbon economy, modern supply chain, etc.
- The government will also deepen the reform in science and technology system by establishing a technological innovation system with deep integration of R&D, and strengthening the support for startups and promote the commercialization of R&D.
- The government will cultivate an innovative culture and strengthen the creation, protection and use of intellectual property.

Impacts on industry

- In our view, these policies are positive to the industry and will accelerate the penetration of new technologies such as the internet, large data, artificial intelligence, and shared economies.
- The government may speed up the introduction of policies or regulations targeting these emerging industries. E.g., relative to the rapid development of shared economy, the current laws and regulations, including the quality of service, division of responsibility and consumer rights, are still lagging behind and have hindered the development.
- In addition, the government may strengthen support for startups and protection in intellectual property.

Stocks to watch

- **Tencent (700 HK, BUY, TP HK\$364)** should benefit the most given its leading industry position. In addition, it has been actively developing new technologies such as big data, artificial intelligence, etc.
- Some leading startups are currently enjoying first-mover advantages and the capital market has also given such companies a high valuation premium. We have observed that whenever a new technology has been popularized, the overheated sentiment in the related companies tends to cool. Valuation will normalize and ultimately be driven by corporate profitability

Market valuation of stocks mentioned

Code	24-10-2017 Stock	Share price (Local)	12/17 PER (x)	12/17 P/B (x)	12/17 Yield (%)	12/17 ROAE (%)	12/18 PER (x)	12/18 P/B (x)	12/18 Yield (%)	12/18 ROAE (%)
700 HK	TENCENT	347.40	44.30	11.82	0.24	27.99	34.68	8.90	0.31	29.27

Source(s): Bloomberg, ABCI Securities

Policy Snapshot

Contributors



China Insurance Sector - Philip Chan, Head of Research
philipchan@abci.com.hk



Macroeconomics - Andy Yao
yaoshaohua@abci.com.hk



China Banks Sector - Johannes Au
johannesau@abci.com.hk



China Brokerage/Non-Bank Financial Services Sector - Steve Chow
stevechow@abci.com.hk



China Property Sector - Kenneth Tung
kennethtung@abci.com.hk



China Environmental Protection / Alternative Energy Sectors - Kelvin Ng
kelvinng@abci.com.hk



China Consumer Sector - Paul Pan
paulpan@abci.com.hk



China E-commerce Sector
stevechow@abci.com.hk



More research reports



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.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

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 \geq Market return rate
Hold	Market return - 6% \leq 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	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 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

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2017 ABCI Securities Company Limited. No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

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

Tel: (852) 3666 0002