2018

Economic Outlook & Investment Strategy

ABCI China/ Hong Kong Equity Research

An Interconnected World of Prosperity

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

2018 Outlook Summary

Global Economic Outlook

- Global economic growth has gained further traction since the start of 2017 on firmer domestic demand growth in advanced economies and improved performance in emerging economies. Acceleration in investment, trade, and industrial production, as well as strengthening business and consumer confidence, are supporting growth
- Global consumer price inflation has ticked up since the start of 2017 on rising commodity prices. However, core inflation, excluding food and energy prices, has largely remained muted due to weak wage growth. Nonetheless, the increase in global producer price inflation has been particularly significant
- Global economic growth is expected to rise slightly in 2018, supported by robust growth in manufacturing and trade, rising consumer and business confidence, and supportive financial conditions
- Slow productivity growth and heightened uncertainty over economic and political policies will be the main challenges for the global economy

China Economic Outlook

- Although supply-side structural reform will continue to boost growth, we expect China's economic growth to slow slightly in 2018 on economic deleveraging, tightening environmental regulations, and housing market restrictions. We expect China's GDP to expand by 6.6% for 2018E, slightly slower than the estimated 6.8% in 2017E
- CPI inflation is expected to rebound to 2.0% in 2018E from 1.5% in 2017E. We forecast PPI inflation to ease to 2.5% in 2018E from 6.0% in 2017E
- PBOC will maintain a neutral monetary policy. We expect benchmark interest rates and benchmark RRR to stay unchanged in 2018
- The central government will maintain a proactive fiscal policy in 2018 through poverty elimination, environmental protections, tax reductions, local debt swap schemes, and livelihood investments
- With the leadership transition successfully completed, we believe economic reform will accelerate in 2018 to support economic growth and improve environmental health. Reform measures, which include the green development, rural land reform, income distribution reform, state-owned enterprise reform, fiscal system reform, and financial reform, will be launched on schedule
- Environmental protection, clean energy and healthcare sectors will enjoy higher growth and better profitability than most sectors in 2018. New economy sector will continue to exhibit high profitability and earnings quality

2018E GDP			2018E Index
China	U.S.	Eurozone	HSI
6.6%	2.4%	2.2%	31,529

Investment Highlights

- An interconnected world means a shared economic destiny
- Falling unemployment rates in major economies indicate global prosperity will sustain
- Corporate earnings growth in MSCI World Index and MSCI EM Asia Index would persist in 2018
- Profit growth in China's industrial enterprises increases on improved profitability in mining and manufacturing industries. Declining profitability in utility industry, however, drags growth
- Profitability of China's state-owned enterprises is recovering due to improving profit margins and asset turnover
- We have selected 21 A-shares in MSCI China A International Large Cap Provisional Index members with a long track record of high profitability
- New-economy companies startups in 2013-15 will be qualified to seek HK IPO in 2018-19
- 2018 Hang Seng Index trading range would be 24,992-33,955 in 2018E, which represents 10.3x-14.0x FY18E P/E, 1.10x-1.49x FY18E P/B, and a FY18E dividend yield of 3.9%-2.8%

Stock Pick

Sector	Rating	Stock Picks
China Banks Sector	Overweight	ABC (1288 HK) , CCB (939 HK)
China Insurance Sector	Neutral	Ping An (2318 HK)
China Securities and Brokerage Sector	Overweight	CSC (6066 HK) and GF (1776 HK)
China Property Sector	Overweight	Evergrande (3333HK), Sunac (1918 HK),Times (1233 HK), Yuzhou (1628 HK), and CIFI (884 HK)
China Alternative Energy Sector	Overweight	Longyuan (916 HK)
China Environmental Protection Sector	Overweight	Beijing Enterprises Water (371 HK)
Internet Media and Consumer Commerce	Overweight	Tencent (700 HK), Alibaba (BABA US)
China Education Sector	Overweight	Wisdom Education (6068 HK),
China Consumer Goods Sector	Overweight	WH Group (288 HK), Shuanghui (000895 CH), Yili (600887 CH), and Anta (2020 HK)
China Pharma & Healthcare Sector	Overweight	CR Sanjiu (000999 CH), Kanghua (3689 HK), Luye (2186 HK), CSPC (1093 HK), Sino Biopharm (1177 HK), and Hengrui (600276 CH)
China Auto Parts Sector	Overweight	Xin Point (1571 HK)

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Contents

Published on Dec 6, 2017

Data as of Nov 24, 2017 otherwise specified

Philip Chan
Head of Research
Insurance/ Pharma & Healthcare
philipchan@abci.com.hk

Andy Yao
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 Education/Consumer Goods/Auto Parts
paulpan@abci.com.hk

2018 Global Economic Outlook

Contributor:
Andy Yao

Global Economic Outlook

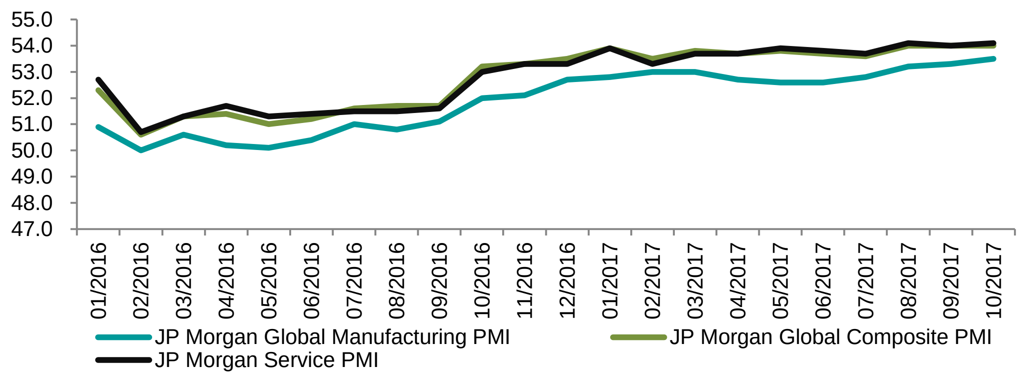
- Global economic growth has gained further traction since the start of 2017 on firmer domestic demand growth in advanced economies and improved performance in emerging economies. Acceleration in investment, trade, and industrial production, as well as strengthening business and consumer confidence, are supporting growth
- Global consumer price inflation has ticked up since the start of 2017 on rising commodity prices. However, core inflation, excluding food and energy prices, has largely remained muted due to weak wage growth. Nonetheless, the increase in global producer price inflation has been particularly significant
- Global economic growth is expected to rise slightly in 2018, supported by robust growth in manufacturing and trade, rising consumer and business confidence, and supportive financial conditions
- Slow productivity growth and heightened uncertainty over economic and political policies would be the main challenges for the global economy
- We expect economies in the U.S., China, Eurozone, Japan, and the U.K. to grow by 2.2%, 6.8%, 2.2%, 1.6%, and 1.6% in 2017E and 2.4%, 6.6%, 2.2%, 1.4%, and 1.6% in 2018E, respectively, compared with 1.5%, 6.7%, 1.8%, 1.1% and 1.8% in 2016

Global growth has gained traction

Global economic growth has gained traction since the start of 2017 on firmer domestic demand growth in advanced economies and improved performance in emerging economies. Acceleration in investment, trade, and industrial production, as well as strengthening business and consumer confidence are supporting the growth.

Global PMIs were stable in 10M17, pointing to extended favorable conditions. As shown in Exhibit 1, both the JP Morgan global manufacturing PMI and service PMI have remained firmly in expansionary territory since the start of 2017, indicating boisterous growth in global economic activity.

Exhibit 1: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities

Global trade activity has also picked up since the beginning of 2017 on rapid growth in global manufacturing activity. According to the WTO trade statistics, global merchandise trade value growth reached 9.0%[1] in 8M17, well above the 3.0% decline in 2016, the swiftest since 2012. The World Trade Outlook Indicator released by WTO was 102.6 in Aug, the highest since April 2011, suggesting global trade would continue to expand moderately in 2018.

In general, global major economies have stepped up this year on the back of rebounding international trade and improving labor market. In 9M17, the U.S. economy grew by 2.2%, up from 1.5% in 2016 (Exhibit 2). Economies in China, Eurozone, Japan and the U.K. expanded by 6.9%, 2.3%, 1.5% and 1.6% in 9M17, respectively, compared with 6.7%, 1.8%, 1.1% and 1.8% in 2016.

Exhibit 2: GDP growth in major economies (%)

Real GDP Growth (YoY)	2015	2016	9M17
U.S.	2.9	1.5	2.2
China	6.9	6.7	6.9
Eurozone	2.1	1.8	2.3
Japan	1.1	1.1	1.5
U.K.	2.3	1.8	1.6

Source(s): Bloomberg, ABCI Securities

Global consumer price inflation has ticked up since the start of 2017 on rising commodity prices. However, core inflation, excluding food and energy prices, has generally remained muted on weak wage growth. In most advanced economies, except the U.K., core inflation has failed to meet central bank targets even as unemployment rates improved substantially. Compared with the global consumer price inflation, the increase in global producer price inflation has been particularly significant. Notably, China's producer price inflation rose by 6.9% in 10M17.

With global economic activity strengthening, major central banks have begun to normalize monetary policy. The Fed announced in Sep that it plans to reduce its massive US$ 4.5tr balance sheet in Oct after raising federal funds target rate twice in 11M17. ECB announced during the meeting on Oct 26 that it would reduce the monthly pace of asset purchase from EUR 60bn currently to EUR 30bn, starting from Jan 2018. Meanwhile, BOE raised the official bank rate from 0.25% to 0.50% at the Nov meeting, marking the first rate hike in over a decade.

Global growth is likely to quicken slightly in 2018

Looking ahead, global economic growth is expected to increase slightly in 2018, supported by robust growth in manufacturing and trade, rising consumer and business confidence, and supportive financial conditions. According to IMF's latest World Economic Outlook in Oct 2017, the global economic growth is projected to rise to 3.6% in 2017E and 3.7% in 2018E, up from 3.2% in 2016 (Exhibit 3). However, slow productivity growth and heightened uncertainty in economic and political policies would be the main challenges faced globally.

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

We expect the U.S. economy to grow by 2.2% in 2017E and 2.4% in 2018E, up from 1.5% in 2016. Domestic demand would remain the key growth driver, supported by solid growth in job creation and strong business and consumer confidence. In particular, unemployment rate fell to 4.2% in Sep, the lowest since Jan 2001. However, interest rate rise in financial market and uncertainties surrounding the Trump government's stimulus package, such as the effective date of tax reform and $1 trillion infrastructure investment plan, are likely to weigh on the economic growth. On the monetary front, despite a weakening outlook for core inflation, we expect the Fed to increase interest rate once in Dec 2017 and three times in 2018. Meanwhile, the Fed would trim down its balance sheet by US$ 30bn and US$ 420bn in 2017E and 2018E.

With the continuous recovery in global economy and policy support, we maintain our China's economic growth forecasts of 6.8% for 2017E and 6.6% for 2018E, compared with 6.7% in 2016. PBOC is expected to maintain a neutral monetary policy to lower leverage ratio and prevent financial risks. We expect benchmark interest rates and benchmark RRR to stay unchanged for the rest of 2017 and 2018 given the stable growth momentum and benign inflation pressure, while the targeted RRR cut will be effective in early 2018 to support the inclusive finance and real economy.

We expect the Eurozone economy to grow by 2.2% both in 2017E and 2018E, compared with 1.8% in 2016. Manufacturing activity and goods exports will be the main growth drivers. With Eurozone's economy strengthening, the ECB announced at the Oct meeting that it would reduce the monthly pace of asset purchase from the current EUR 60bn to EUR 30bn, starting from Jan 2018. However, the monetary policy will remain accommodative as the ECB will extend the asset-buying program until Sep 2018 or after if deemed necessary. Given the weak inflation outlook, we expect the ECB to hold the interest rate unchanged in the remainder of 2017 and in 2018. Meanwhile, we expect the U.K. economy to grow by 1.6% both in 2017E and 2018E, slightly down from 1.8% in 2016.

We forecast Japan's economic growth to pick up from 1.1% in 2016 to 1.6% in 2017E and 1.4% in 2018E on the back of strengthening global demand and recovering private consumption and investment. With Prime Minister Shinzo Abe winning the general election held on Oct 22, the supportive fiscal policies are likely to continue in coming years. Since inflation outlook remains low, we expect the BOJ to maintain its ultra-loose monetary policy with the yield-curve control program for the rest of 2017 and 2018 to achieve its 2.0% inflation target.

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

Real GDP Growth (YoY)	2016	2017E	2018E
World	3.2*	3.6*	3.7*
U.S.	1.5	2.2	2.4
China	6.7	6.8	6.6
Eurozone	1.8	2.2	2.2
Japan	1.1	1.6	1.4
U.K.	1.8	1.6	1.6

Source(s): World Bank, Bloomberg, ABCI Securities estimates
*Denotes IMF estimates and forecasts

2018 China Economic Outlook

Contributor:
Andy Yao

China Economic Outlook

- China's economic growth has rebounded slightly since the start of 2017 on better external demand and effective supply-side structure reform. Official figures show the world's second-largest economy expanded by 6.9% in the first three quarters of 2017, up from 6.7% in 2016
- Although supply-side structural reform will continue to boost growth, we expect China's economic growth to slow slightly in 2018 on economic deleveraging, tightening environmental regulations, and housing market restrictions. We expect China's GDP to expand by 6.6% for 2018E, slightly slower than the estimated 6.8% in 2017E
- CPI inflation is expected to rebound to 2.0% in 2018E from the estimated 1.5% in 2017E due to higher food prices and low base effect. We forecast PPI inflation to ease to 2.5% in 2018E from 6.0% in 2017E with the low base effect withering out and commodity prices moderating
- On the monetary front, PBOC will maintain a neutral monetary policy with a tightening bias to balance among the goals of lowering leverage ratio, preventing financial risks, and maintaining a steady growth. We expect benchmark interest rates and benchmark RRR to stay unchanged in 2018 given the stable growth momentum and benign inflation pressure
- The central government is expected to maintain a proactive fiscal policy in 2018 through poverty elimination, environmental protections, tax reductions, local debt swap schemes, and livelihood investments. We expect fiscal deficit ratio to approach to ~3.5% of GDP in 2018E
- With the leadership transition successfully completed, we believe economic reform will accelerate in 2018 to support economic growth and improve environmental health. The widely supported reform measures, which include the green development, rural land reform, income distribution reform, state-owned enterprise reform, fiscal system reform, and financial reform, will be launched on schedule
- With concerns of air pollution escalating and China's emphasis on sustainable development and quality growth, we believe the environmental protection, clean energy and healthcare sectors would enjoy higher growth and better profitability than most sectors in 2018. Also, we expect the new-economy sector will continue to exhibit high profitability and earnings quality

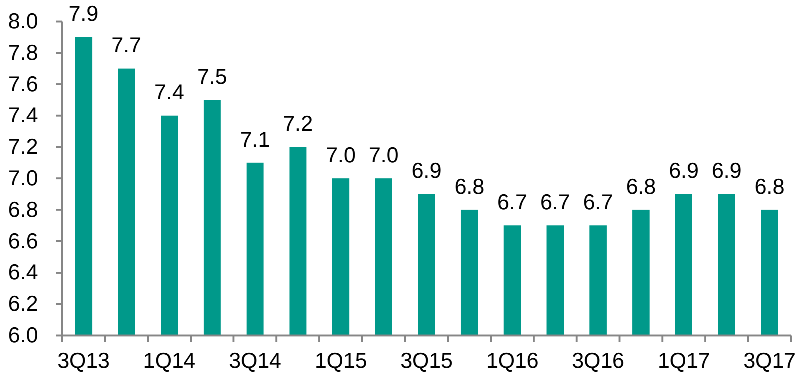
China's economic growth picked up slightly in 10M17

China economic growth has rebounded slightly since the start of 2017 on better external demand and effective supply-side structure reform. Official figures show the world's second-largest economy expanded by 6.9%[2] in the first three quarters of 2017, up from 6.7% in 2016 (Exhibit 1). Notably, China's economic rebalancing continues, with consumption contributing to 64.5% of economic growth and tertiary sector

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

accounting for 52.9% of GDP in 9M17. Contribution of net export of goods and services to economic growth swung to 0.2ppt in 9M17 from -0.4ppt in 2016.

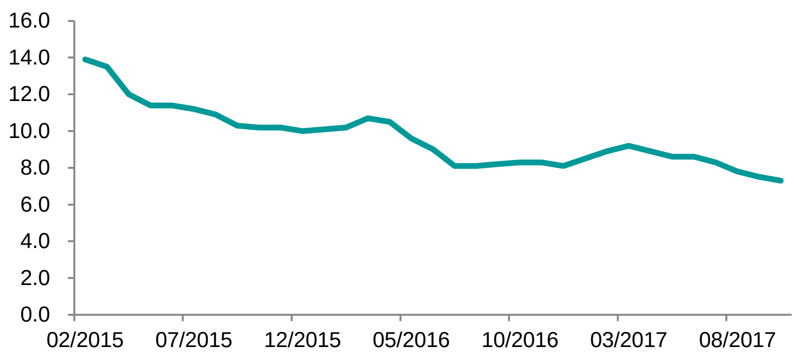
Exhibit 1: China's GDP growth (%)



Source(s): NBS, ABCI Securities

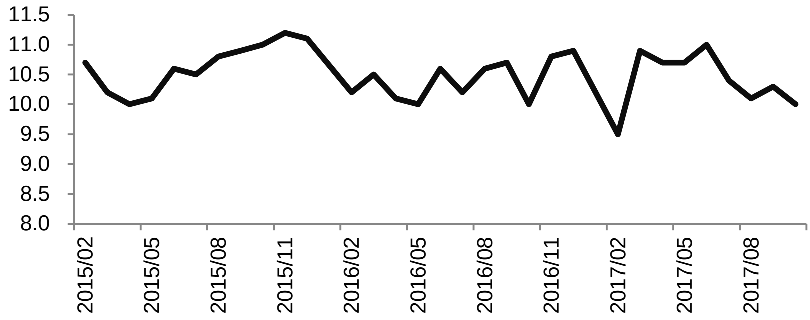
Compared with 2016, domestic demand showed weakness, with both investment and retail sales growth declining in 10M17. Fixed asset investment (FAI) in urban areas advanced 7.3% after rising 8.1% in 2016 (Exhibit 2), and retail sales of consumer goods grew 10.3% after increasing 10.4% (Exhibit 3). After adjusting for inflation, real growth retail sales slowed to 9.2% in 10M17 from 9.6% in 2016. On the production side, the real growth of industrial output climbed to 6.7% in 10M17 on rebounding PPI inflation, compared with 6.0% in 2016.

Exhibit 2: China's FAI YTD growth (%)



Source(s): NBS, ABCI Securities

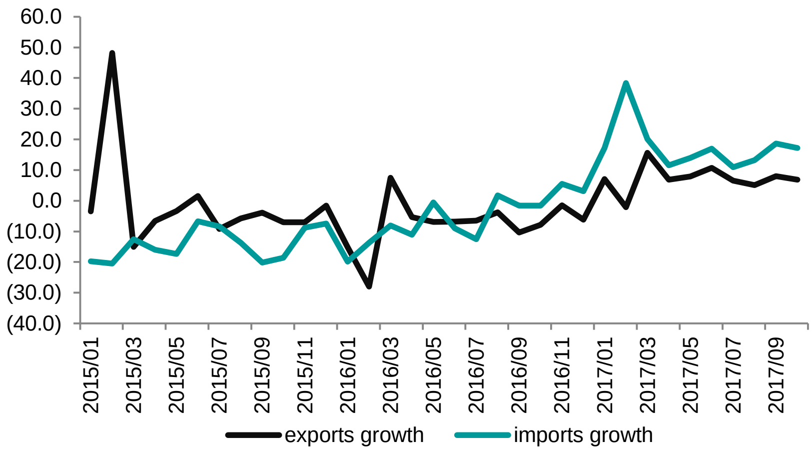
Exhibit 3: China's retail sales growth (%)



Source(s): NBS, ABCI Securities

On the external front, both exports and imports rebounded significantly in 10M17 (Exhibit 4). The USD value of China's exports grew by 7.4% in 10M17 on the back of improving global economic activity, well above the 7.7% drop in 2016. Imports climbed 17.2% in 10M17, compared with the 5.5% drop last year. With the substantial import growth, trade balance narrowed to US$ 334.8bn in 10M17 from US$ 441.6bn in 10M16.

Exhibit 4: China's export and import growth (%)



Source(s): NBS, ABCI Securities

Inflation diverged in 10M17. CPI retreated to 1.5% in 10M17 from 2.0% in 2016 on decelerating food prices. However, PPI rebounded significantly to 6.5% in from -1.3% during the same period due to ongoing capacity reduction, rebounding commodity and material prices, as well as low base effect.

On the monetary front, PBOC adhered to a neutral monetary policy with a tightening bias on the ongoing deleveraging. CBRC also strengthened financial regulation, particularly in the area of shadow banking. Growth in broad money supply (M2) decelerated to 8.8% in Oct 2017 from 11.3% in Dec 2016. The government bond yields and seven-day repurchase rate, which measures short-term funding costs, trended upwards.

Economic outlook for 2018

Although supply-side structural reform will continue to boost growth, we expect China's economic growth to slow in 2018 due to economic deleveraging, tightening environmental regulations, and housing market restrictions. Strong external demand and steady consumer spending will be the main growth drivers. On the contrary, high debt burden and potential geopolitical conflicts would be the major challenges.

Domestically, investment growth is expected to ease as tightening policies in the property market and rising financial rates would weigh on growth in property investment. Meanwhile, growth in infrastructure investment would ease due to slower fiscal revenue growth. Manufacturing investment and private investment would expand steadily. Increasing income and low unemployment rate would help underpin consumer spending. Externally, despite strong global demand, export growth is expected to moderate on high base effect. For these reasons, we expect China's economy to grow by 6.6% for 2018E, slightly slower than 6.8% in 2017E (Exhibit 5).

Exhibit 5: Economic forecasts

Economic indicators	2016	2017E	2018E
Real GDP growth, %	6.7	6.8	6.6
FAI growth, %	8.1	7.5	7.0
Retail Sales growth, %	10.4	10.5	10.5
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	1.5	2.0
PPI, %	-1.4	6.0	2.5
M2 growth, %	11.3	9.0	9.0
Aggregate Financing, RMB bn	17,800	20,000	22,000
New Yuan Loans, RMB bn	12,600	13,500	14,500
Spot CNY per USD, End-year	6.9450	6.5500	6.8500

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

CPI inflation is expected to rebound to 2.0% in 2018E from the estimated 1.5% in 2017E due to higher food prices and low base effect. We forecast PPI inflation to ease to 2.5% in 2018E from estimated 6.0% in 2017E with the low base effect withering out and commodity prices moderating.

On the monetary front, PBOC will hold on to a neutral monetary policy with a tightening bias to balance among goals to lower leverage ratio, prevent financial risks, and maintain a steady growth. We expect benchmark interest rates and benchmark RRR to stay unchanged in 2018 given the stable growth momentum and benign inflation pressure, while the targeted RRR cut will be effective in early 2018 to support inclusive finance and real economy. The central bank will continue to employ measures such as open-market operation, short-term liquidity operations, standing lending facility, and medium-term lending facility to maintain sufficient liquidity. Broad money supply (M2) is set to grow by ~9.0%, and new RMB-denominated loans and new aggregate financing would reach ~RMB 14.5tr and ~RMB 22.0tr in 2018E. Regarding the exchange rate, we expect spot USD/CNY rate to approach 6.8500 by end-2018E with the rising U.S. interest rates, as compared to the estimated 6.5500 at end-2017E.

The central government is expected to maintain a proactive fiscal policy in 2018 through poverty elimination, environmental protections, tax reductions, local debt swap schemes, and livelihood investments. We expect faster growth in fiscal expenditure than fiscal revenue to result in another small fiscal deficit in 2018, with the headline ratio approaching to ~3.5% of GDP.

The Communist Party of China held its 19th Congress during the Oct 18-24 period. With the leadership transition successfully completed, we believe economic reform will accelerate in 2018 to support economic growth and improve environmental health. The widely supported reforms, including green development, rural land reform, income distribution reform, state-owned enterprise reform, fiscal system reform, and financial reform, will be rolled out on schedule.

With concerns of air pollution escalating and China's emphasis on sustainable development and growth quality, we believe the environmental protection, clean energy and healthcare sectors would enjoy higher growth and better profitability than most sectors in 2018. Also, we expect new economy sector – a field that utilizes internet technology to create new products and services, will continue to enjoy high profitability and earnings quality.

2018 Investment Strategy

Contributors:
Philip Chan
Steve Chow

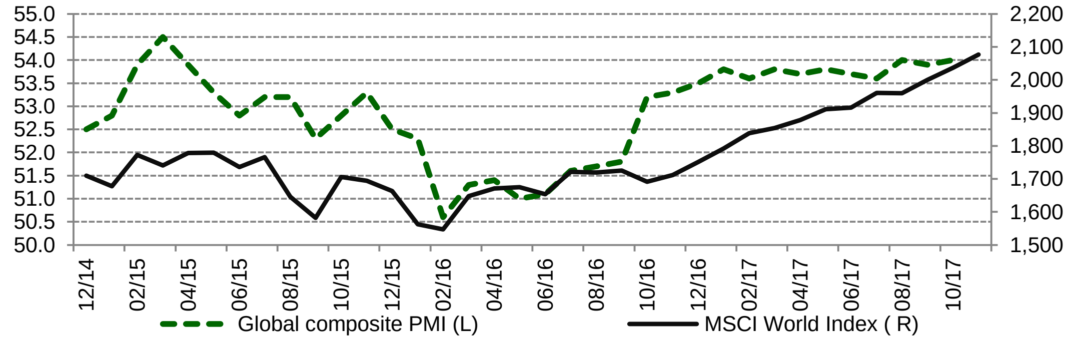
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Corporate Earnings boosted by Global Prosperity

- An interconnected world means a shared economic destiny
- Falling unemployment rates in major economies indicate global prosperity will sustain
- Corporate earnings growth in MSCI World Index and MSCI EM Asia Index would persist in 2018
- Profit growth in China's industrial enterprises increases on improved profitability in mining and manufacturing industries. Declining profitability in utility industry, however, drags growth
- Profitability of China's state-owned enterprises is recovering due to improving profit margins and asset turnover
- We have selected 21 A-shares in MSCI China A International Large Cap Provisional Index members with a long track record of high profitability
- New-economy companies startups in 2013-15 will be qualified to seek HK IPO in 2018-19
- 2018 Hang Seng Index trading range would be 24,992-33,955 in 2018E, which represents 10.3x-14.0x FY18E P/E, 1.10x-1.49x FY18E P/B, and a FY18E dividend yield of 3.9%-2.8%

The high statistical correlation of the manufacturing PMI among the world's three largest economies (the U.S., Eurozone and China) reveals their economic prospects are intertwined with each other. Variances among these regions mainly arise from the non-manufacturing sectors, as reflected by the lower correlation of their non-manufacturing PMIs. Overall, the global composite PMI is highly correlated to the MSCI World Index. Going forward, we believe the major economies will become increasingly interdependent. An interconnected world means all major economies will be ushered in a shared economic destiny.

Exhibit 1: Global Composite PMI and MSCI World Index



Correlation (since 12/2014): 0.69; Source(s): Markit, Bloomberg, ABCI Securities

Exhibit 2: Mfg PMIs of the world's three largest economies are trending up

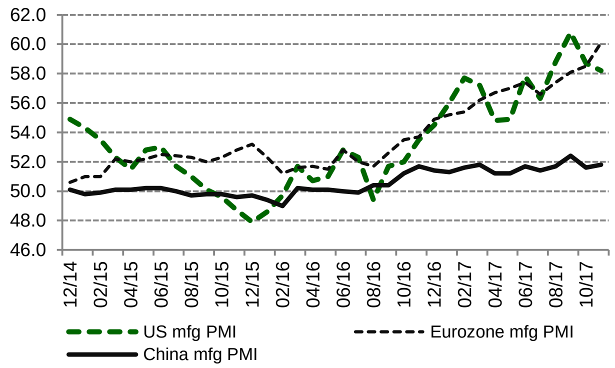
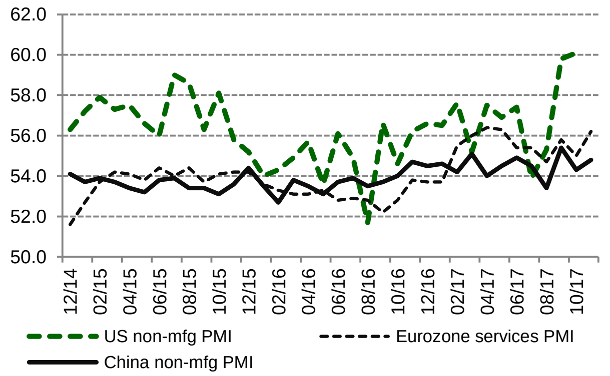


Exhibit 3: Non-mfg PMIs of the world's three largest economies are volatile



Global mfg industries highly interconnected

Correlation	US	Eurozone	**China**	UK	Japan
US	1.00	0.79	**0.86**	0.68	0.49
Eurozone	0.79	1.00	**0.86**	0.80	0.63
China	**0.86**	**0.86**	**1.00**	**0.74**	**0.49**
UK	0.68	0.80	**0.74**	1.00	0.65
Japan	0.49	0.63	**0.49**	0.65	1.00

Source(s): Inst. of Supply Management, Markit, NBS, Bloomberg, ABCI Securities

Global non-mfg industries less interconnected

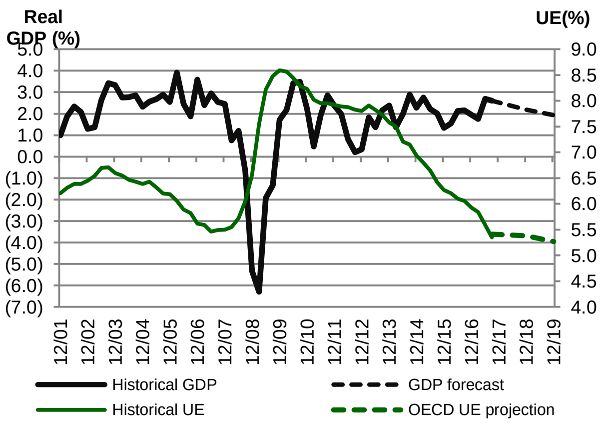
Correlation	US	Eurozone	**China**	UK	Japan
US	1.00	0.36	**0.28**	0.37	0.24
Eurozone	0.36	1.00	**0.52**	0.14	0.55
China	**0.28**	**0.52**	**1.00**	**(0.02)**	**0.30**
UK	0.37	0.14	**(0.02)**	1.00	0.16
Japan	0.24	0.55	**0.30**	0.16	1.00

Source(s): Inst. of Supply Management, Markit, NBS, Bloomberg, ABCI Securities

Falling unemployment rate in major economies

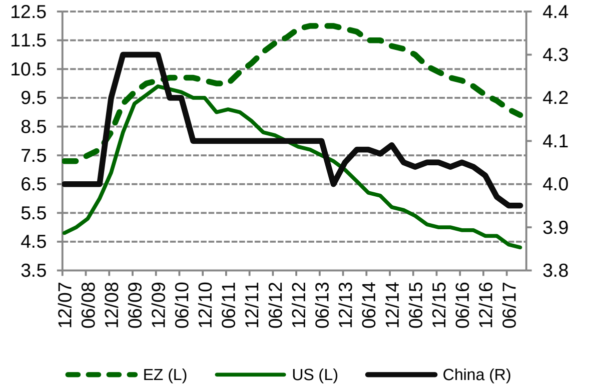
We believe global prosperity will sustain in coming years. Unemployment rate in OECD have been declining for eight consecutive years since 2010, and is expected to decline from 5.93% in Dec 2016 to 5.41%/5.38%/5.27% in 2017/2018/2019. In particular, unemployment rates of the world's three largest economies (the U.S., China and Eurozone) are trending down - this favorable labor market condition will be factored into corporate earnings.

Exhibit 4: OECD unemployment rate (UE) and GDP



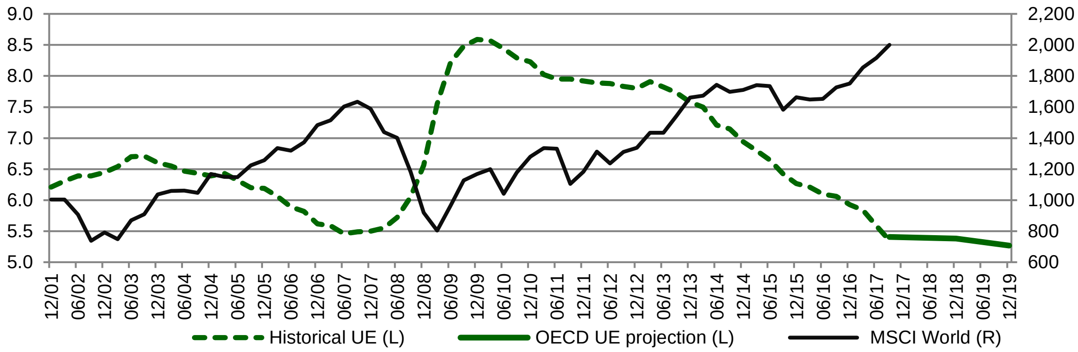
Source(s): OECD, Bloomberg, ABCI Securities

Exhibit 5: Unemployment rate in the world's three largest economies



Source(s): Eurostat, US Bureau Labor Stat., NBS, Bloomberg, ABCI Securities

Exhibit 6: OECD unemployment rate and MSCI World Index

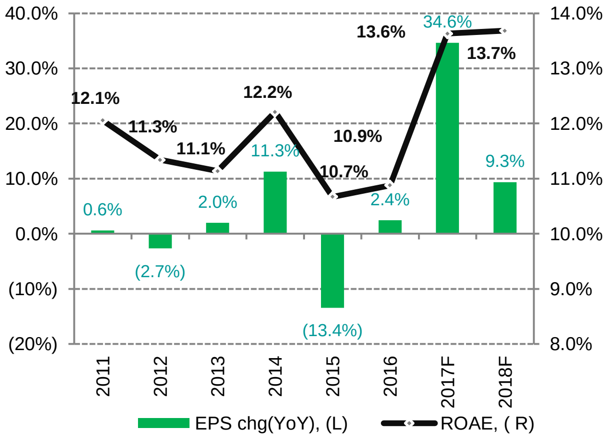


12-quarter correlation:-0.98; Source(s): OECD, Bloomberg, ABCI Securities

Bullish outlook for corporate earnings

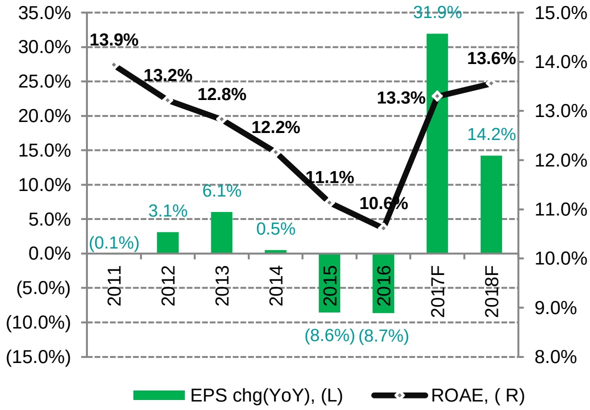
Based on market consensus, EPS growth of MSCI World Index will be 34.6% YoY in 2017 before slowing down to 9.3%YoY in 2018. Estimated ROAE of MSCI World Index will rise from 10.9% in 2016 to 13.6%/13.7% in 2017/18. Robust growth is expected for the Asia emerging markets in 2017/2018. EPS of MSCI Emerging Asia Index, after declining for two consecutive years in 2015 and 2016, will surge by 31.9%YoY/14.2%YoY in 2017/2018. Moreover, ROAE of MSCI Emerging Asia will advance from 10.6% in 2016 to 13.3%/13.6% in 2017/2018.

Exhibit 7: MSCI World Index



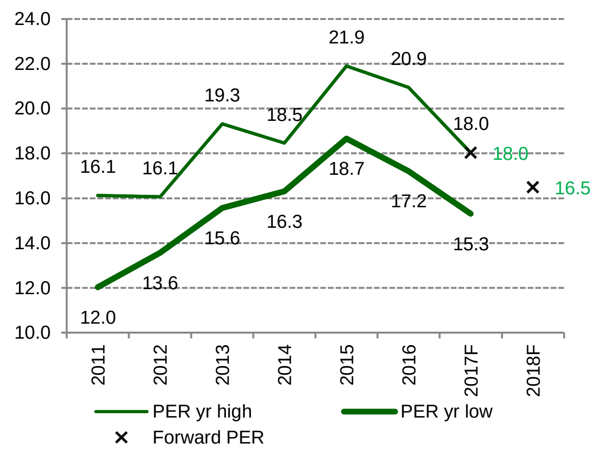
Source(s): Bloomberg, ABCI Securities

Exhibit 8: MSCI Emerging Asia Index



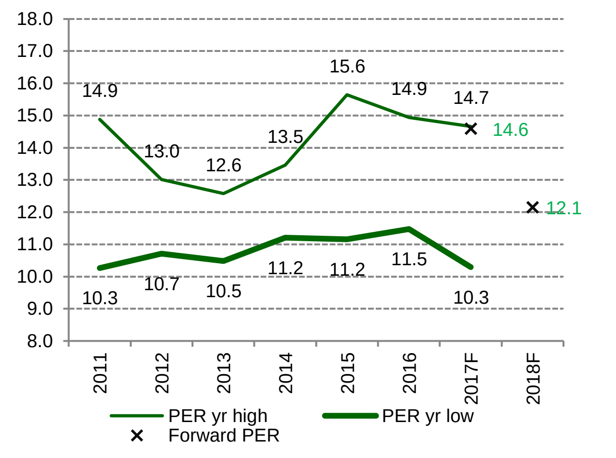
Source(s): Bloomberg, ABCI Securities

Exhibit 9: MSCI World Index P/E Band



Index (11/24/2017): 2059.54
Source(s): Bloomberg, ABCI Securities

Exhibit 10: MSCI Emerging Asia Index P/E Band

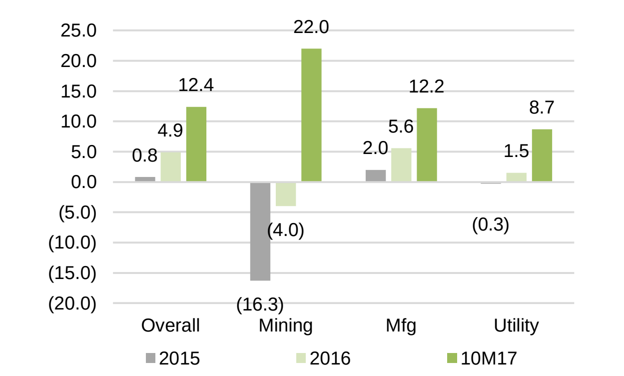


Index (11/24/2017): 591.89
Source(s): Bloomberg, ABCI Securities

Profit growth in China industrial enterprises increased

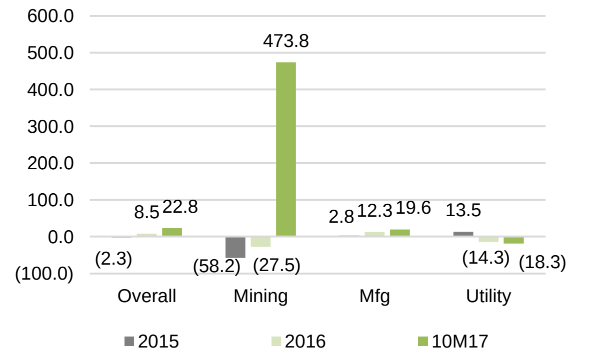
Profit growth of sizeable industrial enterprises in China has been accelerating, thanks to supply-side reforms in over-capacitated industries. In 2017, upstream mining industry manages to turn around and profit growth of mid-stream manufacturing industries is accelerating. In contrast, profitability of utility industry has been dragged by the increasing fuel costs.

Exhibit 11: Industrial enterprises revenue chg (YoY%)



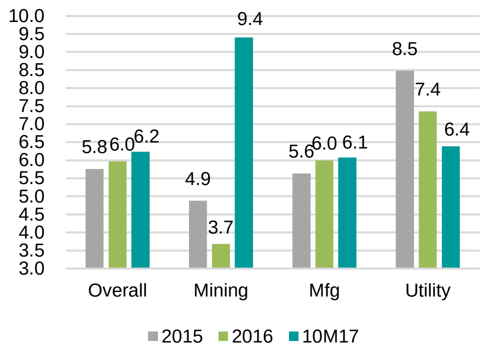
Source(s): NBS, ABCI Securities

Exhibit 12: Industrial enterprises profit chg (YoY%)



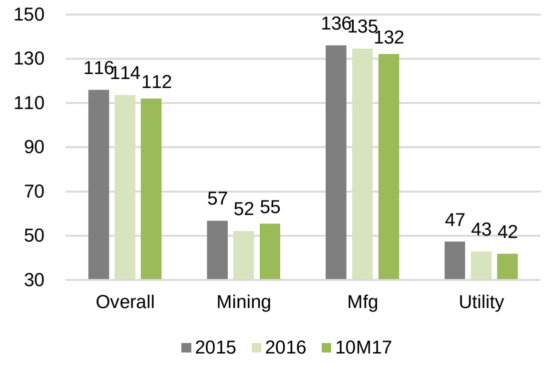
Source(s): NBS, ABCI Securities

Exhibit 13: Profit margin of industrial enterprises (%)



Source(s): NBS, ABCI Securities

Exhibit 14: Industrial enterprises asset turnover (%)

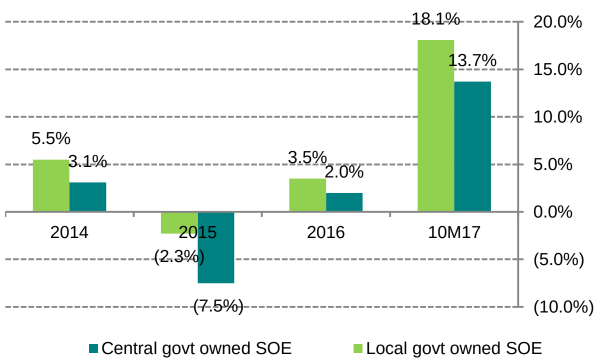


Source(s): NBS, ABCI Securities

Improving profitability of government-backed state-owned enterprises (SOEs)

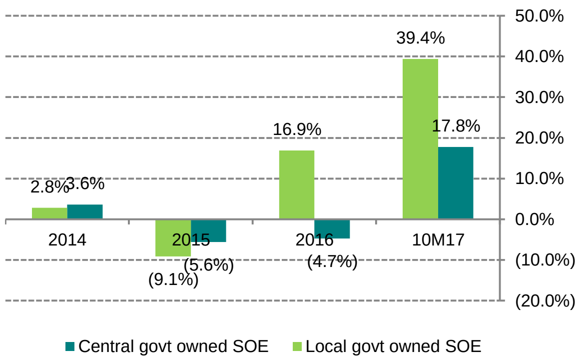
Revenue and profit of non-financial SOEs were up 15.4% YoY and 24.6% YoY in 10M17. The higher profitability of SOEs is positive to the credit quality of loans in domestic banking sector. Asset turnover rate of SOEs remains low, which suppresses ROA. Annualized asset turnover ratio of SOE was 0.33 for 10M17. Further deleveraging in 2018/19 implies that ROE will be pressured. In our view, one of the purposes of the SOE reform is to elevate asset turnover to enhance shareholders' value in the long run.

Exhibit 15: China's SOE* revenue chg (%YoY)



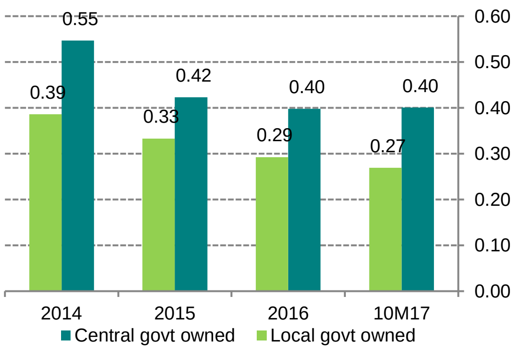
*Data refer to non-financial SOE
Source(s): MOF, ABCI Securities

Exhibit 16: China's SOE* profit chg (%YoY)



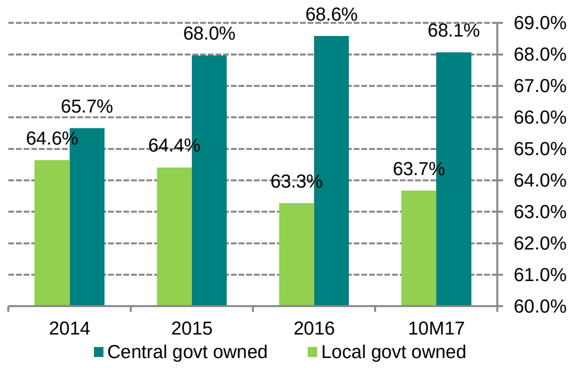
*Data refer to non-financial SOE
Source(s): MOF, ABCI Securities

Exhibit 17: China's SOE* asset turnover (x)



*Data refer to non-financial SOE
Source(s): MOF, ABCI Securities

Exhibit 18: China's SOE* liabilities/assets (%, period end)



*Data refer to non-financial SOE
Source(s): MOF, ABCI Securities

HK Stock Market

We expect the following trends to emerge in the HK capital market services industry.

International hub – Backed by the China government, the status of Hong Kong as an international financial hub remains intact. Since approval for mega A-share IPOs by CSRC was still rare in 2016-17, large enterprises still prefer to raise capital in HK. As such, HK capital market services industry will continue to benefit.

Increasing involvement of mainland investors – We estimate mainland investors net bought HK$ 695.1 bn of HK stocks via the southbound Stock Connect since its launch. On a monthly basis, mainland investors net bought HK$ 28.0 bn of HK stocks on average in 11M17.

Net effect of open-door policy is still favorable to HK – So far, the net effect of the Stock Connect is still favorable to HK stock market. Since the launch of Stock Connect, the cumulative net purchase of A-shares via the northbound Stock Connect is ~RMB 344.8bn (or ~ HK$ 405.6 bn). We believe this amount, to some extent, represents funds diverted from HK stock market to A-share bourses. Nonetheless, such "outflow" was more than offset by the investment inflow from mainland investors into the HK stock market.

New investment themes – More and more companies in the new economy segment, after years of operations, are qualified for public listing in 2018/19. Their new business models, which are usually integrated with the application of new technologies, have exhibited strong product or service differentiation and robust revenue growth. These new-economy stocks, compared to the old-economy ones, are seen to entail a much stronger earnings growth potential. In our view, the listing of those high-growth stocks in the HK capital market will attract global investors.

Structural change in HSCEI – In 2018/19, 10 non-H companies (mainly China Red-chips or P-chips) will be added into the HSCEI (or H-share Index) in phases. The total number of constituents will increase from 40 to 50 after the change. Due to the significant structural change of the H-share Index, our projections for HSCEI for 2018/19 will only be provided until more details are released.

Hang Seng Index (HSI)

EPS of HSI has declined for two consecutive years in 2015 and 2016. For 2017E, we expect EPS to rebound by 23.8% YoY due to low base effect, earnings recovery of large-cap energy resources and financial stocks, and profit growth of tech companies, automobile makers, and casino operators. These positive effects are partly neutralized by the profit decline of mid-cap consumer goods companies. Moreover, the exclusion of stocks with poor financial performance and the addition of high-growth tech and property stocks in the index would help support EPS growth of the index.

The trading range of HSI in 11M17 was 21,883.82-30,199.69, representing 9.84-13.58x of 2017E P/E, 1.39-1.42x of 2017E P/B, and a 2017E dividend yield of 4.54%-3.29%. We estimate the average daily turnover of HSI to be HK$ 30.8 bn/day for 2017E, up 28.7% YoY, representing 36% of daily stock market turnover in the Mainboard. We forecast the daily stock market turnover in the Mainboard to be HK$85.6 bn/day in 2017E, up 28.9% YoY.

Looking forward, we expect HSI to post a 9% earnings growth for 2018E. Earnings growth in tech companies and telecom services providers will exceed other industries in the index, while momentum of auto makers and casino operators will sustain in 2018. Profits of China insurance and banking stocks will be distorted by the implementation of new accounting standard IFRS9 in 2018. However, we are cautiously optimistic on China financial stocks in view of solid economic growth. China property developers will realize higher profit growth in 2018 due to the booking of property projects presold in 2016/2017. Adverse impacts of austerity measures in China's housing market in 2017 will not be reflected in the income statements until 2019/20.

Combining the P/E, P/B, and dividend yield valuations, we expect the trading range of HSI to be 24,992-33,955 for 2018E, which represents 10.3x-14.0x FY18E P/E, 1.10x-1.49x FY18E P/B, and a FY18E dividend yield of 3.9%-2.8%. We set our end-2018E target at 31,529, which represents 13.0x FY18E P/E, 1.39x FY18E P/B. and a FY18E dividend yield of 3.1%. We forecast the average daily stock market turnover in the Mainboard to climb 18% YoY to HK$ 101bn/day in 2018E.

Exhibit 19: **HSI trading range projection**

	Year high	Year low	Year end
Period: 2018			
Index	**33,955**	**24,992**	**31,529**
Implied 2018 P/E	14.00	10.30	13.00
Implied 2018 P/B	1.49	1.10	1.39
Implied 2018 yield	2.8%	3.9%	3.1%
Period: 2019			
Index	**36,237**	**27,806**	**34,106**
Implied 2019 P/E	13.60	10.44	12.80
Implied 2019 P/B	1.50	1.15	1.41
Implied 2019 yield	2.9%	3.7%	3.0%

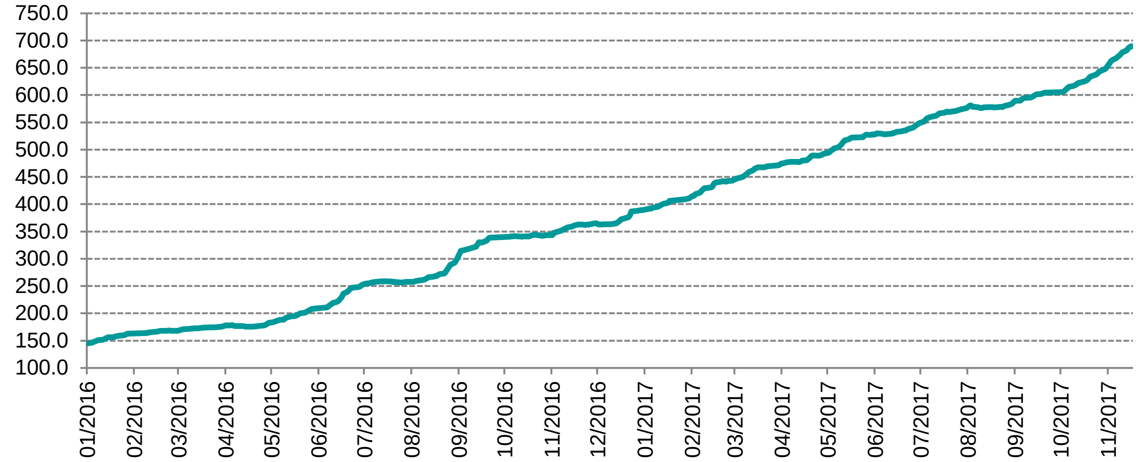
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 20: Top 20 HK-stocks held mostly by mainland investors via the southbound Stock Connect

			2017/11/27 Stake held	2017/11/27 Vs. 2017/6/30
1	861	Digital China	42.00%	1.42%
2	1336	New China Life-H	34.46%	9.75%
3	553	Nanjing Panda-H	30.72%	1.68%
4	3823	Tech Pro	30.17%	5.72%
5	719	Shandong Xinhu-H	28.09%	6.95%
6	2333	Great Wall Mot-H	28.01%	2.20%
7	2208	Xinjiang Gold-H	27.10%	18.05%
8	874	Baiyunshan Ph-H	25.95%	(2.97%)
9	564	Zhengzhou Coal-H	24.74%	5.65%
10	107	Sichuan Exp-H	24.56%	2.14%
11	1918	Sunac	24.42%	0.84%
12	1071	Huadian Power-H	24.21%	6.40%
13	3958	Dfzq-H	24.15%	16.59%
14	2880	Dalian Port Pd-H	23.70%	2.27%
15	1108	Luoyang Glass-H	23.09%	5.15%
16	2238	Guangzhou Auto-H	22.38%	(2.78%)
17	1072	Dongfang Elect-H	22.34%	(1.83%)
18	607	Fullshare	22.18%	5.87%
19	2727	Shanghai Elect-H	22.18%	2.65%
20	1055	China Southern-H	20.83%	0.65%

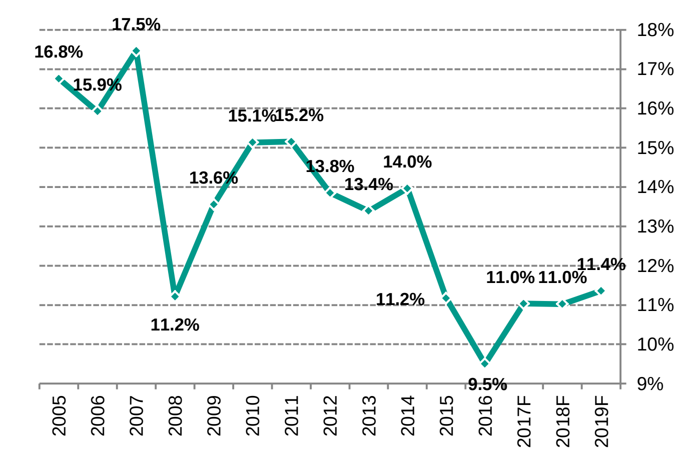
Source(s): HKEx, ABCI Securities

Exhibit 21: SH-HK and SZ-HK southbound Stock Connect: cumulative net purchase of HK stocks (HK$ bn)



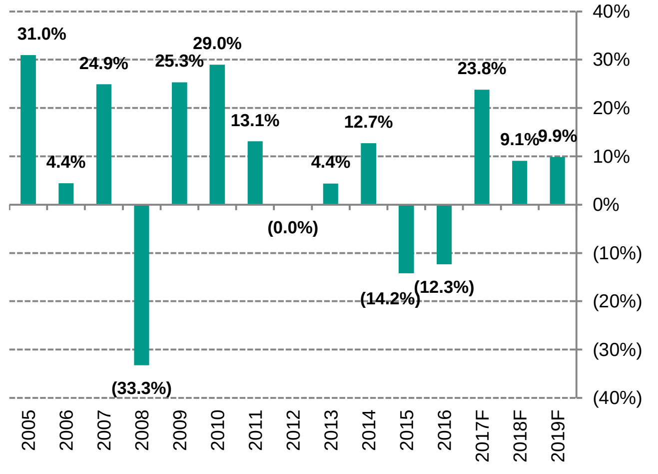
Source(s): HKEx, Bloomberg, ABCI Securities

Exhibit 22: HSI's ROAE



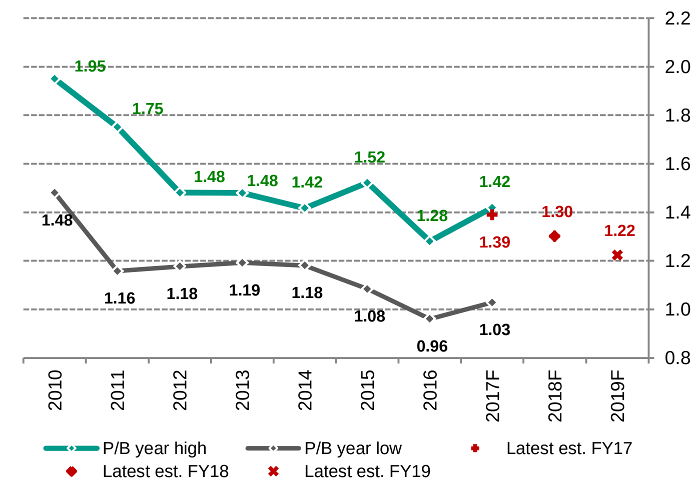
Source(s): ABCI Securities estimates

Exhibit 23: HSI's EPS growth (YoY)



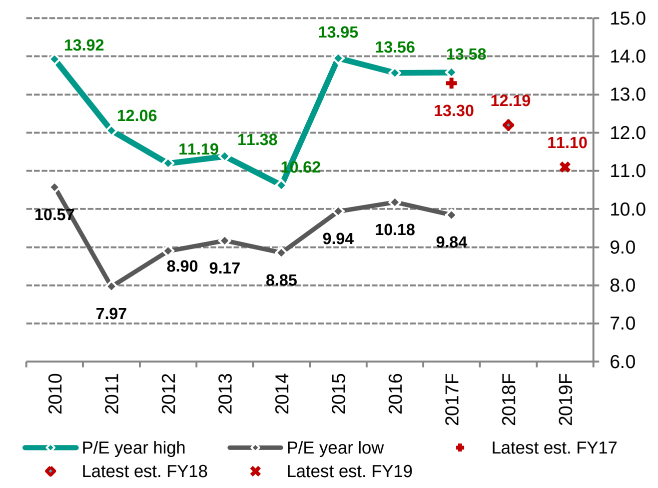
Source(s): ABCI Securities estimates

Exhibit 24: HSI's P/B band (Index: 29,572)



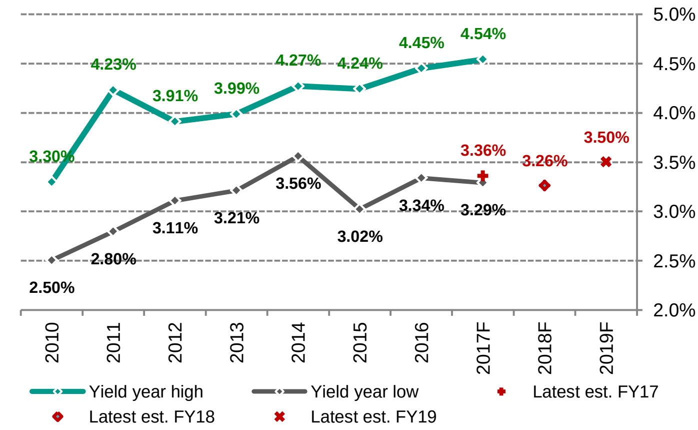
Source(s): ABCI Securities estimates

Exhibit 25: HSI's P/E band (Index: 29,572)



Source(s): ABCI Securities estimates

Exhibit 26: HSI's dividend band (Index: 29,572)



Source(s): ABCI Securities estimates

China A-share markets

We expect the following trends to emerge in the China A-share markets in 2018-20.

- **Institutionalization –** Institutional or corporate investors will actively involve in the A-share markets, helping the country allocate financial resources more efficiently. We expect China to open up the A-share IPO market to foreign investors as early as 2019 after CSRC gives the green light for mega IPO deals
- **Internationalization –** Northbound Stock Connect and the inclusion of A-shares in MSCI benchmark international indices will broaden international investors' base. Since the launch of Stock Connect till end Nov 2017, offshore investors have net bought RMB 344.8bn of A-shares via the northbound Stock Connect
- **Rationalization –** Widening global investment opportunities will motivate investors to conduct asset allocation rationally to balance risk and return
- **Polarization –** Stocks not defined as value stocks or growth stocks will fall out of favor
- **Diversification –** The growth and size of China's economy will provide sufficient rooms for local or foreign investors to diversify their portfolios
- **Application of FinTech –** With over 3400 companies and over 16,000 securities listed in the Shanghai Exchange or Shenzhen Exchange, application of FinTech in the capital market services industry become necessary to facilitate investment decision and optimize investment return

The "Core 21"

With China's A shares to be included into MSCI international benchmark indices, member stocks in the MSCI China A International Large Cap Provisional Index (MXCNALCP Index) will become the market focus in 2018. We have identified 21 stocks ("Core 21") with consistently high ROAE over the years (i.e. 5-year average ROAE>20% and 2016 ROAE>20%) among the >200 stocks included in the index. Except for four companies, the remainders recorded a double-digit ROAA in 2016. Stocks in Core 21 span across sectors, hence investors should be able to diversify their investment. Impressive profitability of Core 21 constituents is supported by high return on assets and a suitable level of financial leverage. In our view, Core 21 will become the core holding of long-term foreign investors building up their A-shares investment portfolios. MXCNALCP Index at 1,199.92 (as of Nov 24, 2017)represents 12-month trailing/2018E/2019E P/E of 16.7x/15.2x/13.3x or 12-month trailing /2018E/2019E P/B of 2.0x/1.9x/1.7x.

Exhibit 27: Core 21 - 21 A shares in the MSCI China A Int'l Large Cap Provisional Index member stocks with 5-yr ROAE >20% and 2016 ROAE >20%

	A-share			5-yr avg	Last yr	Last yr	Assets/
	Ticker	Company	Sector	ROE(%)	ROE (%)	ROA (%)	equity
1	600340	China Fortune-A	Real Estate	43.47	32.47	2.84	6.57
2	600816	Anxin Trust Co-A	Financials	37.23	30.41	21.08	1.39
3	603288	Foshan Haitian-A	Consumer Stap.	34.47	33.57	27.04	1.34
4	600519	Kweichow Mouta-A	Consumer Stap.	33.60	31.68	20.81	1.49
5	002415	Hangzhou Hikvi-A	IT	32.11	36.05	21.60	1.69
6	000963	Huadong Medici-A	Health Care	30.33	22.99	11.62	1.89
7	002304	Jiangsu Yanghe-A	Consumer Stap	30.04	24.54	17.54	1.49
8	002236	Zhejiang Dahua-A	IT	29.29	25.87	13.83	1.82
9	002294	Shenzhen Salub-A	Healthcare	28.95	27.07	22.83	1.20
10	600066	Zhengzhou Yut-A	Industrials	28.26	29.25	12.41	2.57
11	000895	Henan Shuan-A	Consumer Stap.	27.90	32.30	19.56	1.42
12	600309	Wanhua Chemic-A	Materials	25.80	47.82	15.73	2.77
13	601877	Zhejiang Chint-A	Industrials	25.79	21.57	10.56	2.52
14	000333	Midea Group Co-A	Consumer Disc.	25.75	26.04	8.33	2.47
15	601997	Bank Of Guiyan-A	Financials	24.96	20.83	1.20	16.92
16	000423	Dong E-E-Jiao-A	Health Care	24.69	22.41	18.79	1.19
17	002508	Hangzhou Robam-A	Consumer Disc.	24.57	35.04	20.87	1.56
18	600690	Qingdao Haier-A	Consumer Disc.	24.39	24.95	5.20	3.49
19	600887	Inner Mong Yil-A	Consumer Stap.	24.19	27.11	14.56	1.69
20	002146	Risesun Real -A	Real Estate	23.56	20.55	3.14	5.78
21	600276	Jiangsu Hengru-A	Healthcare	22.68	22.85	19.81	1.11

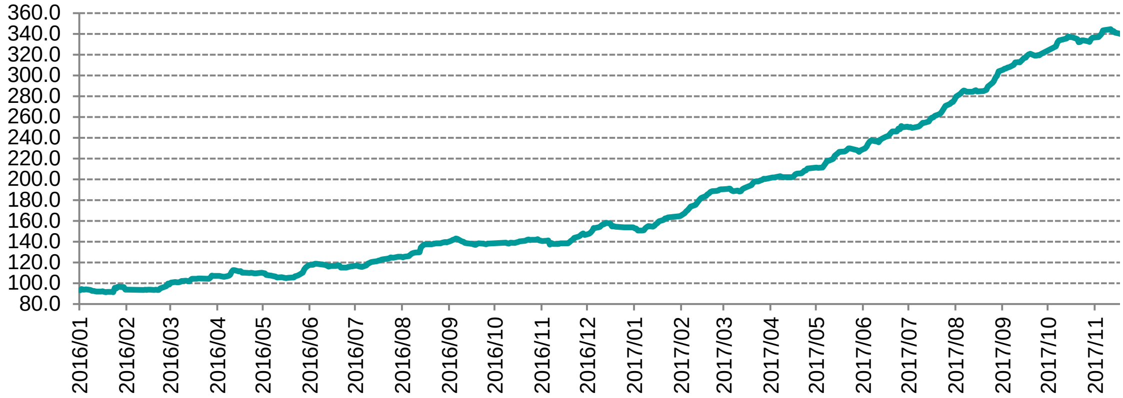
Source(s): Bloomberg, ABCI Securities

Exhibit 28: Market valuation of our selected 21 A-shares in MSCI China A Int'l Large Cap Provisional Index

		11/30/17	2017E	2018E	2017E	2017E	2017E	2017E	2018E	2018E	2018E	2018E
		Price	EPS	EPS	P/E	P/B	Yield	ROAE	P/E	P/B	Yield	ROAE
Ticker	Stock	(RMB)	(%YoY)	(%YoY)	(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)
600340	China Fortune-A	32.08	26.4%	28.4%	11.43	2.92	2.57	27.90	8.90	2.29	3.33	28.84
600816	Anxin Trust Co-A	13.72	6.5%	23.3%	16.53	3.60	2.30	23.14	13.41	3.21	2.84	25.31
603288	Foshan Haitian-A	48.90	-27.6%	102.4%	64.34	11.45	1.64	18.46	31.79	9.68	2.02	33.00
600519	Kweichow Mouta-A	631.00	45.0%	28.4%	32.69	8.98	1.44	28.09	25.46	7.40	1.87	31.86
002415	Hangzhou Hikvi-A	37.01	28.7%	32.5%	35.31	11.08	1.34	33.39	26.65	8.73	1.51	36.65
000963	Huadong Medici-A	49.92	24.2%	23.7%	26.80	5.82	2.08	22.02	21.67	5.25	2.38	25.48
002304	Jiangsu Yanghe-A	103.97	15.7%	19.3%	23.23	5.28	2.21	23.21	19.47	4.58	2.63	25.21
002236	Zhejiang Dahua-A	24.34	37.3%	33.1%	28.14	6.65	0.53	24.90	21.15	5.19	0.66	27.56
002294	Shenzhen Salub-A	35.89	9.0%	18.8%	24.75	5.97	1.94	25.27	20.83	5.07	2.26	26.31
600066	Zhengzhou Yut-A	23.79	-6.3%	16.3%	13.88	3.40	2.56	26.38	11.93	2.83	3.26	25.90
000895	Henan Shuan-A	25.05	5.1%	12.2%	17.87	5.83	5.44	33.51	15.92	5.56	6.08	35.75
600309	Wanhua Chemic-A	38.50	148.3%	6.9%	10.95	4.05	2.44	38.51	10.24	3.02	2.68	33.78
601877	Zhejiang Chint-A	24.07	-1.2%	23.7%	18.60	2.57	2.78	14.14	15.03	2.35	3.24	16.34
000333	Midea Group Co-A	51.18	14.8%	23.1%	19.56	4.68	2.22	23.94	15.89	3.94	2.70	26.91
601997	Bank Of Guiyan-A	14.39	1.1%	20.5%	7.65	1.33	1.95	18.80	6.35	1.13	2.38	19.20
000423	Dong E-E-Jiao-A	60.14	11.4%	14.5%	19.06	4.06	1.74	22.09	16.64	3.53	1.95	22.70
002508	Hangzhou Robam-A	44.61	35.1%	28.9%	26.01	7.54	1.22	31.39	20.18	5.81	1.52	32.54
600690	Qingdao Haier-A	17.29	35.0%	16.4%	15.56	3.41	1.94	22.15	13.37	2.72	2.23	22.60
600887	Inner Mong Yil-A	28.68	13.5%	22.0%	27.16	6.79	2.26	25.73	22.27	5.98	2.65	28.58
002146	Risesun Real -A	8.73	19.4%	18.2%	7.70	1.39	4.81	18.98	6.51	1.21	5.70	19.86
600276	Jiangsu Hengru-A	65.19	21.1%	22.6%	58.57	11.91	0.18	21.01	47.76	9.69	0.19	22.38

Source(s): Bloomberg

Exhibit 29: SH-HK and SZ-HK northbound Stock Connect: net purchase of A shares (RMB bn)



Source(s): HKEx, Bloomberg, ABCI Securities

Exhibit 30: Top 20 Shanghai A-shares mostly held by offshore investors via the northbound Stock Connect

	Ticker	Company	Industry	2017/11/27 Stake held	2017/11/27 Vs. 2017/6/30
1	600009	Shang Intl Air-A	Airport Services	29.57%	1.81%
2	603868	Shanghai Flyco-A	Personal Products	20.66%	19.10%
3	601901	Founder Securi-A	Investment Banking & Brokerage	14.59%	(4.94%)
4	600066	Zhengzhou Yut-A	Construction Machinery & Heavy	14.22%	1.71%
5	600660	Fuyao Glass-A	Auto Parts & Equipment	13.74%	2.59%
6	600276	Jiangsu Hengru-A	Pharmaceuticals	11.96%	0.84%
7	603939	Yifeng Pharma-A	Drug Retail	10.77%	8.04%
8	601888	China Internat-A	Hotels, Resorts & Cruise Lines	10.01%	5.43%
9	600900	China Yangtze-A	Renewable Electricity	9.33%	2.91%
10	603515	Opple Lighting-A	Household Products	9.12%	8.64%
11	600887	Inner Mong Yil-A	Packaged Foods & Meats	8.87%	0.37%
12	600690	Qingdao Haier-A	Household Appliances	8.56%	1.22%
13	601021	Spring Airline-A	Airlines	7.46%	3.45%
14	600004	Guangzhou Baiy-A	Airport Services	7.35%	3.00%
15	600298	Angel Yeast Co-A	Packaged Foods & Meats	6.72%	3.87%
16	600741	Huayu Autom-A	Auto Parts & Equipment	5.80%	2.47%
17	600519	Kweichow Mouta-A	Distillers & Vintners	5.76%	(0.24%)
18	600867	Tonghua Dongba-A	Pharmaceuticals	4.60%	1.89%
19	600885	Hongfa Technol-A	Electrical Components & Equip	4.24%	3.20%
20	600585	Anhui Conch-A	Construction Materials	4.16%	(0.67%)

Source(s): HKEx, ABCI Securities

Exhibit 31: Top 20 Shenzhen A-shares held mostly by offshore investors via the northbound Stock Connect

	Ticker	Company	Industry	2017/11/27 Stake held	2017/11/27 Vs 2017/6/30
1	002508	Hangzhou Robam-A	Household Appliances	9.80%	6.27%
2	002415	Hangzhou Hikvi-A	Electronic Equipment & Instrument	9.70%	2.25%
3	000333	Midea Group Co-A	Household Appliances	9.45%	3.64%
4	000651	Gree Electric-A	Household Appliances	8.34%	3.31%
5	300012	Centre Testing-A	Research & Consulting Services	6.80%	5.27%
6	002572	Suofeiya Home-A	Home Furnishings	5.69%	2.04%
7	000538	Yunnan Baiyao-A	Pharmaceuticals	5.63%	1.82%
8	002583	Hytera Communi-A	Communications Equipment	5.12%	4.52%
9	000423	Dong E-E-Jiao-A	Pharmaceuticals	4.83%	(0.02%)
10	002008	Han's Laser -A	Industrial Machinery	4.01%	0.93%
11	002304	Jiangsu Yanghe-A	Distillers & Vintners	4.00%	1.66%
12	000089	Shenz Airport-A	Airport Services	3.89%	1.12%
13	300124	Shenzhen Inova-A	Industrial Machinery	3.89%	0.92%
14	002268	Weston Info -A	Electronic Equipment & Instrument	3.84%	3.43%
15	002032	Zhejiang Supor-A	Housewares & Specialties	3.83%	1.74%
16	000726	Luthai Textile-A	Textiles	3.57%	(0.68%)
17	300203	Focused Photon-A	Environmental & Facilities Services	3.57%	2.34%
18	002463	Wus Printed-A	Electronic Components	3.33%	2.28%
19	002022	Shanghai Kehua-A	Biotechnology	3.27%	(0.22%)
20	000418	Wuxi Little Sw-A	Household Appliances	3.07%	1.16%

Source(s): HKEx, ABCI Securities

Exhibit 32: Hang Seng Index market valuation

			2019E	2019E	2019E	2019E	2019E	2018E	2018E	2018E	2018E	2018E	2017E	2017E	2017E	2017E
		Price	P/E	PEG*	P/B	Yield	ROAE	P/E	PEG*	P/B	Yield	ROAE	P/E	P/B	Yield	ROAE
Code	**Stock**	**(HK$)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**	**(x)**	**(x)**	**(%)**	**(%)**
2	CLP Holdings	79.65	16.83	(4.92)	1.73	2.59	10.5	15.14	(4.43)	1.80	2.88	12.3	15.70	1.92	2.77	12.9
3	HK China Gas	15.24	24.98	5.48	3.27	2.22	13.4	26.05	5.72	3.41	2.13	13.3	27.31	3.53	2.03	13.8
6	Power Assets	66.70	18.28	18.51	1.44	4.08	7.9	18.10	18.33	1.43	4.12	7.9	18.65	1.42	4.00	6.8
836	China Res Power	14.70	8.13	0.25	0.90	4.98	11.4	8.51	0.27	0.96	4.76	11.6	14.15	1.01	2.86	7.1
1038	CKI Holdings	66.30	14.11	2.45	1.48	3.43	10.7	14.58	2.54	1.53	3.32	10.7	15.77	1.60	3.07	10.2
1113	CK Asset Holding	65.75	10.76	1.73	0.79	2.79	7.5	11.20	1.80	0.83	2.68	7.6	12.15	0.88	2.47	7.6
101	Hang Lung Ppt	18.38	18.06	(2.03)	0.63	3.68	3.5	17.07	(1.91)	0.63	3.89	3.7	14.98	0.64	4.43	4.3
12	Henderson Land D	51.00	13.86	10.31	0.71	1.78	5.2	16.12	11.98	0.73	1.53	4.6	14.24	0.75	1.74	5.5
16	SHK Ppt	127.60	10.94	1.48	0.67	2.76	6.2	11.69	1.58	0.69	2.58	6.0	12.63	0.71	2.39	6.0
17	New World Dev	11.32	12.29	1.21	0.47	1.57	3.9	13.10	1.29	0.49	1.48	3.7	14.91	0.49	1.30	3.5
4	Wharf Hldg	24.60	11.74	(2.78)	0.52	3.06	4.5	11.45	(2.71)	0.54	3.14	4.8	10.77	0.57	3.33	3.2
823	Link Reit	69.65	24.31	3.09	1.02	0.64	4.2	26.30	3.34	1.04	0.59	4.0	28.29	1.06	0.55	4.2
83	Sino Land	14.14	15.24	(2.40)	0.63	2.12	4.2	17.76	(2.80)	0.64	1.82	3.7	13.36	0.65	2.42	5.1
688	China Overseas	24.80	5.79	0.41	0.86	2.81	15.6	6.61	0.47	0.96	2.46	15.4	7.56	1.08	2.15	14.8
2007	Country Garden	12.30	6.45	0.16	1.73	4.72	29.9	8.92	0.23	2.19	3.41	27.0	12.53	2.68	2.43	24.5
1109	China Res Land	22.45	6.18	0.40	0.92	3.55	15.9	7.03	0.46	1.05	3.12	15.8	8.23	1.19	2.67	15.3
1398	ICBC-H	6.07	5.62	0.75	0.72	5.40	13.4	6.09	0.81	0.79	4.98	13.6	6.49	0.87	4.67	14.5
939	CCB-H	6.81	5.14	0.64	0.69	5.86	14.0	5.60	0.70	0.76	5.38	14.2	6.00	0.84	5.02	15.3
3328	BankComm-H	5.78	4.90	0.98	0.50	6.13	10.6	5.20	1.04	0.54	5.77	10.8	5.40	0.59	5.56	11.8
3988	Bank Of China-H	3.79	4.77	0.68	0.56	6.55	12.1	5.13	0.73	0.60	6.10	12.3	5.47	0.66	5.72	13.1
11	Hang Seng Bank	193.00	16.59	1.95	2.33	2.42	14.4	17.91	2.11	2.45	2.24	14.0	19.53	2.57	2.05	13.6
23	Bank East Asia	34.55	15.90	(2.52)	1.01	2.84	6.5	17.73	(2.81)	1.05	2.55	6.0	13.96	1.08	3.23	8.1
2388	BOC Hong Kong Ho	39.50	11.42	1.19	1.48	4.20	13.4	12.73	1.33	1.60	3.77	13.0	13.71	1.72	3.50	13.9
5	HSBC Holdings Pl	78.00	13.39	2.23	1.16	5.86	8.8	14.15	2.36	1.18	5.55	8.4	15.04	1.19	5.22	7.4
2318	Ping An	77.00	11.48	0.64	1.98	1.55	18.4	13.43	0.75	2.27	1.32	18.0	15.95	2.60	1.11	18.9
2628	China Life-H	25.35	14.38	0.77	1.57	2.39	11.4	17.47	0.93	1.70	1.97	10.2	20.26	1.86	1.70	9.2
1299	AIA	63.30	16.27	2.14	2.11	2.39	13.5	18.17	2.39	2.30	2.14	13.2	18.85	2.50	2.06	14.8
388	HKEx	235.20	31.05	2.33	7.83	2.86	25.8	34.78	2.61	8.17	2.55	23.9	39.87	8.49	2.23	22.5

(Continue to next page)

			2019E	2019E	2019E	2019E	2019E	2018E	2018E	2018E	2018E	2018E	2017E	2017E	2017E	2017E
		Price	P/E	PEG*	P/B	Yield	ROAE	P/E	PEG*	P/B	Yield	ROAE	P/E	P/B	Yield	ROAE
Code	**Stock**	**(HK$)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**	**(x)**	**(x)**	**(%)**	**(%)**
762	China Unicom	11.32	18.25	0.26	0.91	2.12	5.1	26.84	0.38	0.96	1.44	3.6	52.94	0.97	0.73	1.9
941	China Mobile	79.25	10.75	1.82	1.22	3.95	11.7	11.31	1.92	1.30	3.76	11.8	12.06	1.37	3.53	11.9
700	Tencent	398.00	28.95	0.96	7.65	0.44	30.0	37.63	1.25	10.06	0.34	30.7	49.08	13.56	0.26	36.5
2018	AAC Technologies	156.30	18.11	0.62	5.55	2.20	34.2	22.31	0.77	7.01	1.79	35.4	30.16	9.07	1.32	36.9
2382	Sunny Optical	130.00	23.38	0.59	8.53	1.25	42.5	31.16	0.79	11.88	0.94	45.0	45.47	17.10	0.65	48.7
992	Lenovo Group	4.44	7.68	0.23	1.29	5.73	17.9	9.32	0.28	1.48	4.72	16.6	13.53	1.61	3.25	11.6
386	Sinopec Corp-H	5.58	9.35	1.25	0.73	5.96	7.9	10.52	1.40	0.76	5.30	7.3	10.81	0.78	5.16	7.5
857	PetroChina-H	5.25	14.91	0.35	0.65	3.08	4.4	20.48	0.48	0.66	2.24	3.3	30.44	0.68	1.51	2.2
883	CNOOC	10.58	9.57	0.58	0.91	9.63	9.8	11.18	0.68	0.96	8.24	8.8	12.96	1.01	7.11	7.9
1088	China Shenhua-H	19.22	8.31	(1.38)	0.91	4.34	11.3	8.23	(1.37)	0.98	4.38	12.3	7.35	1.05	4.91	14.5
66	MTR Corp	45.95	25.11	5.12	1.84	1.90	7.4	28.45	5.81	1.88	1.68	6.7	27.63	1.92	1.73	6.3
175	Geely Automobile	27.20	12.72	0.39	3.80	0.98	33.3	16.46	0.51	4.79	0.75	33.1	22.27	6.30	0.56	35.2
1928	Sands China Ltd	37.95	19.59	1.44	9.36	7.25	47.6	21.69	1.59	9.31	6.55	41.6	25.31	8.77	5.61	30.1
27	Galaxy Entertain	56.15	21.90	2.50	3.64	-	17.6	23.14	2.64	4.08	-	18.8	25.91	4.66	-	20.0
151	Want Want China	6.12	19.48	4.02	7.13	2.57	37.6	20.40	4.21	7.54	2.46	38.4	21.41	8.13	2.34	62.2
2319	Mengniu Dairy	19.84	16.86	0.64	2.40	1.36	14.9	19.76	0.74	2.65	1.16	14.1	27.00	2.93	0.85	10.9
1044	Hengan Intl	76.15	18.02	2.70	4.10	3.62	23.7	19.17	2.87	4.44	3.40	24.2	20.50	4.83	3.18	22.6
288	WH Group Ltd	8.29	11.93	1.33	1.87	2.35	16.3	12.79	1.43	2.03	2.19	16.6	14.15	2.22	1.98	17.2
144	China Merchants	20.15	11.18	3.46	0.86	4.44	7.7	12.25	3.79	0.87	4.05	7.2	11.91	0.91	4.17	6.9
1	CKH Holdings	98.30	9.13	1.07	0.76	0.76	8.6	9.77	1.14	0.81	0.71	8.6	10.76	0.86	0.64	8.5
19	Swire Pacific-A	75.10	13.52	0.56	0.49	3.23	3.6	16.72	0.70	0.49	2.61	3.0	20.80	0.50	2.10	2.5
267	Citic	11.06	6.30	14.65	0.54	3.01	8.9	6.59	15.32	0.58	2.88	9.2	6.36	0.62	2.99	10.2

Priced at Nov 30, 2017
RMB 0.8465/HK$1.00; HK$ 7.8106/US$ 1.00
PEG = P/E / EPS CAGR in 2017-19
Source(s): Bloomberg estimates, ABCI Securities

Exhibit 33: Hang Seng China Enterprises Index (H-share Index) market valuation

			2019E	2019E	2019E	2019E	2019E	2018E	2018E	2018E	2018E	2018E	2017E	2017E	2017E	2017E
		Price	P/E	PEG*	P/B	Yield	ROAE	P/E	PEG*	P/B	Yield	ROAE	P/E	P/B	Yield	ROAE
Code	**Stock**	**(HK$)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**	**(x)**	**(x)**	**(%)**	**(%)**
1398	ICBC-H	4.73	5.62	0.75	0.75	5.42	14.1	6.09	0.81	0.83	5.00	14.4	6.49	0.92	4.69	14.6
939	CCB-H	5.40	5.14	0.64	0.73	5.88	15.0	5.60	0.70	0.81	5.40	15.3	6.00	0.91	5.04	15.3
1288	ABC-H	3.02	4.57	0.61	0.64	6.77	14.7	4.94	0.66	0.71	6.26	15.1	5.28	0.79	5.85	15.1
3988	Bank Of China-H	3.51	4.77	0.68	0.55	6.52	12.1	5.13	0.73	0.60	6.07	12.3	5.47	0.66	5.69	12.6
3328	BankComm-H	5.57	4.90	0.98	0.54	6.23	11.5	5.20	1.04	0.59	5.87	11.8	5.40	0.64	5.65	11.2
1658	Postal Savings-H	18.28	5.05	0.33	0.65	2.65	13.7	5.95	0.39	0.74	2.25	13.1	6.71	0.83	2.00	12.6
3968	Cm Bank-H	5.05	7.36	0.55	1.22	4.09	17.7	8.40	0.63	1.39	3.58	17.6	9.46	1.58	3.18	17.0
998	Citic Bank-H	7.58	4.38	0.63	0.50	5.77	11.9	4.81	0.70	0.55	5.25	11.9	5.01	0.60	5.05	12.1
1988	Minsheng Bank-H	26.75	4.49	0.75	0.57	4.76	13.5	4.87	0.82	0.64	4.39	13.8	5.04	0.71	4.24	14.1
2628	China Life-H	44.25	14.38	0.77	1.54	2.53	11.1	17.47	0.93	1.66	2.08	9.8	20.26	1.78	1.79	9.3
2318	Ping An	4.09	11.48	0.64	2.14	1.87	20.2	13.43	0.75	2.52	1.60	20.4	15.95	2.98	1.34	19.1
1339	PICC Group-H	33.45	7.61	1.40	0.87	1.31	12.1	8.03	1.47	0.97	1.24	12.8	8.47	1.09	1.17	13.2
2601	China Pacific-H	34.70	13.17	0.60	1.77	4.00	14.0	15.59	0.71	1.91	3.37	12.7	19.55	2.06	2.69	10.8
1336	New China Life-H	17.40	13.03	0.48	1.70	2.33	13.7	15.42	0.57	1.88	1.97	12.8	20.98	2.08	1.45	10.2
2328	PICC P&C-H	18.44	7.28	0.91	1.13	3.49	16.6	7.86	0.98	1.29	3.24	17.5	8.49	1.47	3.00	17.8
6030	Citic Sec-H	13.58	11.88	0.79	1.07	3.43	9.3	13.64	0.91	1.14	2.98	8.6	15.70	1.20	2.59	7.7
6837	Haitong Securi-H	19.06	9.71	0.60	0.89	3.24	9.5	11.30	0.70	0.96	2.78	8.7	13.12	1.02	2.40	7.8
6886	Huatai Securit-H	19.74	10.38	0.63	1.03	5.48	10.2	12.06	0.73	1.09	4.71	9.2	14.08	1.14	4.04	8.1
1776	GF Securities-H	2.88	8.61	0.56	1.05	3.87	12.8	9.94	0.64	1.16	3.35	12.1	11.47	1.26	2.91	11.1
6881	CGS-H	12.66	7.91	0.64	0.73	3.86	9.6	8.89	0.72	0.79	3.43	9.2	10.00	0.84	3.05	8.5
1359	China Cinda-H	5.67	3.90	0.25	0.61	7.66	16.6	4.55	0.29	0.69	6.56	16.1	5.23	0.78	5.70	13.4
1088	China Shenhua-H	4.82	8.31	(1.38)	0.84	4.42	10.5	8.23	(1.37)	0.90	4.46	11.3	7.35	0.96	5.00	13.5
857	PetroChina-H	7.68	14.91	0.35	0.69	9.94	4.6	20.48	0.48	0.68	7.24	3.3	30.44	0.68	4.87	2.2
386	Sinopec Corp-H	7.10	9.35	1.25	0.76	6.91	8.2	10.52	1.40	0.78	6.15	7.5	10.81	0.80	5.98	7.4
902	Huaneng Power-H	2.98	8.57	0.10	0.72	6.04	8.6	8.91	0.11	0.75	5.81	8.8	28.41	0.81	1.82	2.7
1816	CGN Power-H	6.48	8.27	1.38	1.01	3.85	12.8	8.97	1.49	1.11	3.55	12.9	9.29	1.21	3.43	14.2

(Continue to next page)

			2019E	2019E	2019E	2019E	2019E	2018E	2018E	2018E	2018E	2018E	2017E	2017E	2017E	2017E
		Price	P/E	PEG*	P/B	Yield	ROAE	P/E	PEG*	P/B	Yield	ROAE	P/E	P/B	Yield	ROAE
Code	**Stock**	**(HK$)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**	**(x)**	**(x)**	**(%)**	**(%)**
390	China Rail Gr-H	5.83	6.17	0.50	0.70	2.76	12.0	6.97	0.57	0.78	2.44	11.7	7.77	0.86	2.19	11.2
1186	China Rail Cn-H	9.24	5.42	0.45	0.68	2.87	13.2	6.09	0.51	0.76	2.55	13.1	6.80	0.85	2.28	12.2
1800	China Com Cons-H	8.72	5.05	0.39	0.60	3.62	12.5	5.74	0.45	0.66	3.18	12.2	6.42	0.74	2.84	11.6
1766	CRRC Corp Ltd -H	7.12	11.31	0.84	1.39	4.76	12.7	12.50	0.93	1.48	4.31	12.2	14.56	1.58	3.70	10.8
3898	Zhuzhou Crrc T-H	44.85	11.87	0.85	2.02	1.54	18.3	13.23	0.95	2.35	1.38	19.2	15.42	2.76	1.18	18.1
1211	BYD Co Ltd-H	69.25	19.78	0.56	3.33	1.41	18.0	24.20	0.68	3.82	1.15	16.9	36.32	4.39	0.77	10.5
489	Dongfeng Motor-H	9.82	4.90	1.32	0.59	3.03	12.7	5.06	1.37	0.66	2.93	13.8	5.27	0.74	2.82	14.1
2333	Great Wall Mot-H	9.14	7.45	0.24	1.29	4.05	18.5	8.63	0.28	1.47	3.50	18.3	12.77	1.71	2.36	12.5
2238	Guangzhou Auto-H	19.60	7.57	0.47	1.58	4.04	22.6	8.49	0.53	1.87	3.61	23.9	10.20	2.23	3.00	22.9
2202	China Vanke-H	28.45	6.80	0.33	1.60	6.12	25.5	8.17	0.40	1.89	5.09	25.1	9.89	2.23	4.21	23.1
914	Conch Cement-H	37.50	11.68	3.39	1.66	2.64	15.0	12.06	3.50	1.85	2.56	16.2	12.50	2.07	2.47	17.1
1099	Sinopharm-H	30.70	11.22	0.86	1.68	2.65	15.8	12.65	0.97	1.88	2.35	15.7	14.33	2.12	2.08	15.3
728	China Telecom-H	3.79	10.62	1.05	0.75	3.99	7.2	11.54	1.14	0.78	3.67	6.9	12.88	0.82	3.29	6.4
753	Air China Ltd-H	8.38	9.84	1.24	1.15	2.20	12.3	11.07	1.40	1.27	1.95	12.0	11.46	1.40	1.88	12.0

Priced at Nov 30, 2017
RMB 0.8465/HK$1.00; HK$ 7.8106/US$ 1.00
PEG = P/E / EPS CAGR in 2017-19
Source(s): Bloomberg estimates, ABCI Securities

Hong Kong IPO Market

New economy on the rise

- **In 11M17, HK IPO market has raised US$ 14.9bn, with an average deal size of US$ 112mn. The Chinese investment banks continued to occupy top market positions, accounting for six of the top 10 underwriters by volume**
- **Financial stocks continued to be the main driver contributing to 54% of IPO volume in 11M17**
- **Technology stocks become rising star contributing 4% of IPO volume in 11M17 (2016: 0.3%). We expect the trend to continue over the next 1-2 years**

In 11M17, total volume of Hong Kong equity IPO amounted to US$ 14.9bn. A total of 133 IPOs were issued, with an average issue size of US$ 112mn each. In terms of underwriting volume, six out of the top 10 underwriters were the Chinese investment banks in 11M17, indicating the Chinese banks has maintained substantial clout in the IPO market.

Financial stocks, such as Guotai Junan Securities (2611 HK), BoCom Int'l (3329 HK), contributed to 54% of the total amount raised in 11M17. Overall, the share of financial industries in HK's IPO market increased from 28% in 2014 to 54% in 11M17. In our view, this structural uptrend can be attributed to the following reasons.

1) Financials, as a capital- intensive industry, has ongoing funding needs;

2) Financial IPOs generally have a larger deal size than other industries, which appeals to investors' current preference for larger-cap stocks. In 11M17, the average size of financial IPOs was US$ 505mn, compared to US$ 60m for non-financial IPO.

Technology/new-economy stocks, such as China Literature (772 HK) and ZhongAn Online (6060 HK), contributed to 4% of IPO volume in 11M17 (2016: 0.3%). These stocks generally achieved high valuations and strong reception from investors, reflecting robust demand for stocks in this emerging genre.

For the next 1-2 years, we expect financials to be the major contributors of HK's IPO market. Technology/new-economy stocks would exhibit impressive growth, partially due to its small base.

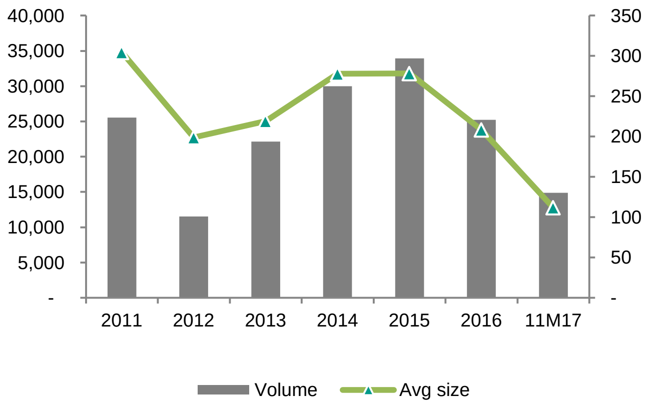
Market share of non-financial industries in HK IPO market dropped from 72% in 2014 to 46% in 11M17. In 2014, industrials amounted to 18% of HK IPO but its market share has since dropped to 10% in 11M17. In our view, the decline could be due to: 1) Non-financial industries are generally less capital-intensive than financials; 2) Average IPO size of non-financials is significantly lower than that of financials, and investors prefer larger IPOs. .

Exhibit 34: 11M17 HK IPO Overview

Industry	Volume (US$ mn)	Avg deal size (US$ mn)
Financials	8,081	505
Consumer Discretionary	2,892	80
Industrials	1,518	35
Healthcare	946	135
Technology	616	62
Others	814	41

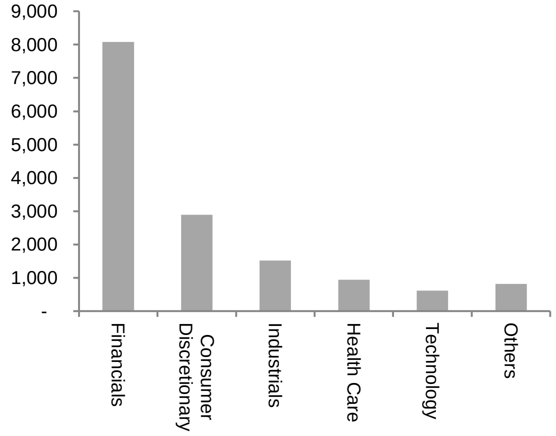
Source(s): Bloomberg, ABCI Securities

Exhibit 35: HK IPO volume (L) and average deal size (US$ mn)



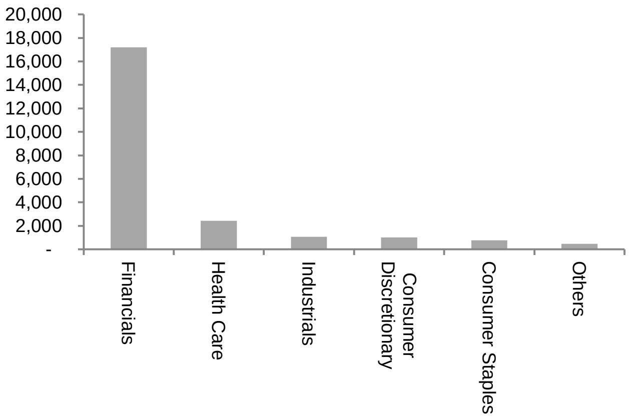
Source(s): Bloomberg, ABCI Securities

Exhibit 36: HK IPO volume by industry (11M17, USD mn)



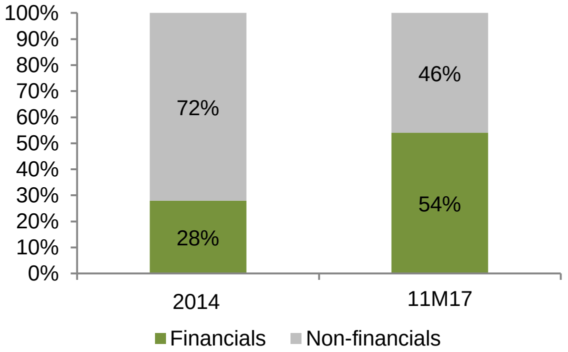
Source(s): Bloomberg, ABCI Securities

Exhibit 37 :HK IPO volume by industry (2016, USD mn)



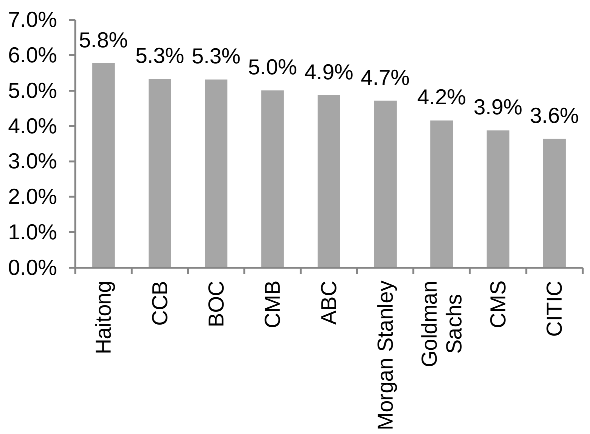
Source(s): Bloomberg, ABCI Securities

Exhibit 38: HK IPO volume – financials vs. non-financials



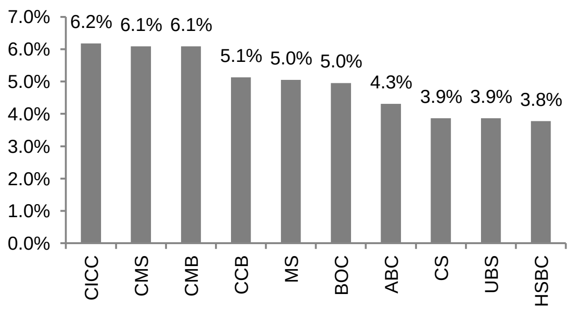
Source(s): Bloomberg, ABCI Securities

Exhibit 39: Market share of HK IPO underwriters (2016)



Source(s): Bloomberg, ABCI Securities

Exhibit 40: Market share of HK IPO underwriters (11M17)



Source(s): Bloomberg, ABCI Securities

2018 Sector Outlook

China Banks Sector

Positive outlook on reviving NIM and improving asset quality

- Sector fundamentals have improved since 3Q17
- Overhang in NIM dissipates - expect mild improvement on solid loan demand
- Balance sheet growth and operation flexibility are key factors in differentiating business performance
- NPL ratio to reduce gradually with strengthening risk buffer
- Momentum in fee income growth resumes after initial hiccups from policy concern
- Maintain **OVERWEIGHT** on low valuation and sustainable yield

OVERWEIGHT

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

Improving trend on fundamentals confirmed. Fundamentals in the banking sector have been improving in recent quarters, as evidenced by better NIM, topline revenue, asset quality, and profitability in 3Q17. We are positive on the sector's fundamentals for 2018E-19E because: 1) NIM would mildly improve under a stable interest rate environment with solid loan demand; 2) NPL ratio would lower gradually with NPL handling while risk buffer would be maintained at decent levels, especially with the implementation of IFRS 9 that will inflate the provision figure; 3) Business structure would evolve with a higher degree of diversification in retail banking and sources of non-interest income.

A stable monetary and policy environment. With the global interest rate hike cycle being kick started, our economist forecasts China's benchmark rate and RRR to remain stable over 2018E-19E. Supportive liquidity measures such as targeted RRR would continue to be adjusted and employed based on changes in economic environment. Based on the general direction from the 19th NCCPC, we expect policy will be biased towards risk management. Key policy directions will include supporting the real economy, improving operation structure, strengthening risk management, and progressing towards a more market-driven economy. Nevertheless, policy risk is expected to increase in specific areas such as the shadow banking system, asset management business, internet finance, and financial holding companies.

A mildly positive NIM trend going forward. Driven by completion of loan re-pricing induced by previous rate cuts and fading impacts of VAT reform, a QoQ rebound in NIM in 3Q17 was evident for some. We are of the view that system NIM would expand moderately as solid loan demand continues to support pricing. New loans in 10M17 reached 87.5% of our 2017E full-year loan target (RMB 13.5tr); meanwhile, loan pricing continued to improve in 3Q17, with 68.14% of the loans being priced at above the benchmark rates while average loan yield increased to 5.76%.

Key Data

Avg.18E P/E (x)	5.4
Avg.18E P/B (x)	0.7
Avg.18E Dividend Yield (%)	5.2

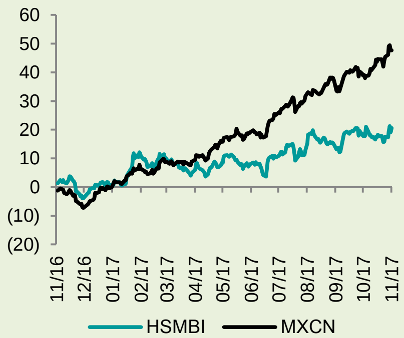
Source(s): Bloomberg, ABCI Securities

Sector Performance

	Absolute	Relative*
1-mth	1.8	(4.2)
3-mth	1.9	(8.2)
6-mth	9.0	(13.5)

*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 under the 13th FYP economic framework. Our economist forecasts China's total RMB loan would grow by 12.7% and 12.1% YoY for 2017E and 2018E, which concurs with our loan growth assumption for banks.

Banks to differentiate by growth and flexibility. The ability to expand balance sheet and skillful asset-liability management would remain as the key factors differentiating banks' performance. District banks, with many still in the growth phase, could potentially demonstrate a stronger rebound in NIM and higher earnings growth than the big banks and JSBs.

Lower NPL ratio with higher risk buffer. Banks are turning more sophisticated in NPL handling through a multitude of measures including write-offs, disposals, collections, and securitization. As a result, NPL ratios dropped QoQ in 3Q17 in some of the banks. We believe the system NPL ratio has already peaked out in previous quarters and would retreat mildly over time. Meanwhile, banks will continue to strengthen their risk buffer through large provisions while the adoption of IFRS will also inflate provision figure.

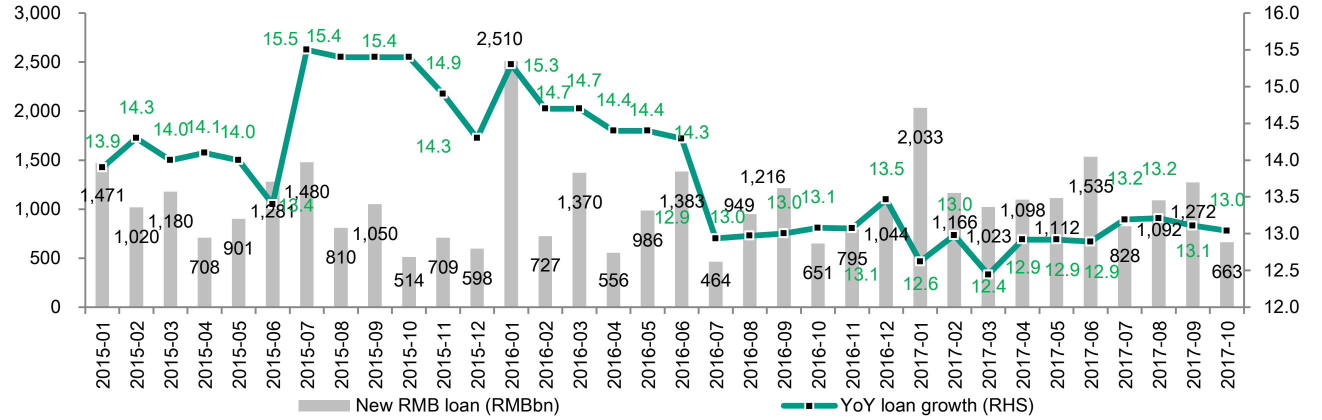
Fee income has resumed momentum. While fee income growth in 1H17 slowed on rising policy risk, we believe the momentum has resumed since 3Q17. We estimate the proportion of system non-interest income in total operating income would reach 30% in the next three years. In particular, investment banking, online banking, and fees related to wealth management products would be the key fee drivers in coming years. Nonetheless, with the government's emphasis on preventing systematic financial risk and maintaining financial stability, policy risk would remain elevated and present challenges to fee income expansion.

Big names are defensive. We like the big banks for their promising dividend yield and high degree of business diversification. Their decent earnings growth in 3Q17 once again reflects higher defensiveness against policy risks. In particular, we favor **CCB (939 HK)** for its consistency in prudent risk management and **ABC (1288 HK)** for substantial risk buffer and competitive edge in the Sannong domain. We downgrade **CMB (3968 HK)** from Buy to **HOLD** on its high valuation and low dividend yield, although we believe its fundamentals remain sound. District banks, with a smaller balance sheet, usually have a higher degree of operation flexibility. Their low trading liquidity, however, should be a concern.

The Chinese banks, prompted by the new capital rule requirements and higher capital needs arising from the development of mixed operation, would seek for listing on HKEx in our view. Increasing choices of H-share banks in the stock market, however, may potentially dilute funding in each.

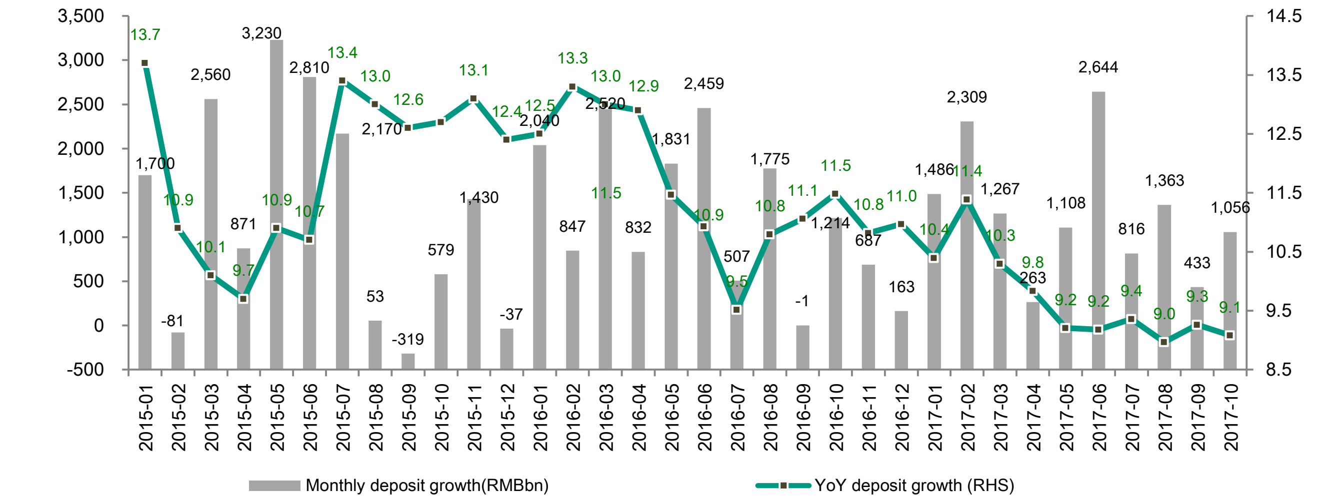
Risk factors: 1) Financial reforms in faster pace than expected; 2) Increasing competition from non-bank financial institutions; 3) Major asset quality deterioration in specific regions; 4) Sharp decline in loan demand; 5) Increasing policy risk in new and fast-growing businesses.

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



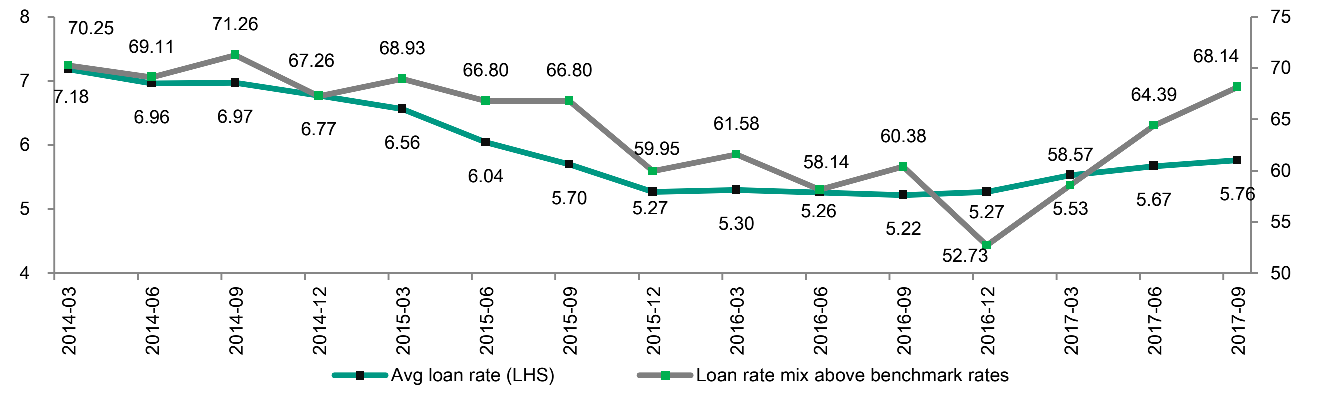
Source(s): PBOC, ABCI Securities

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



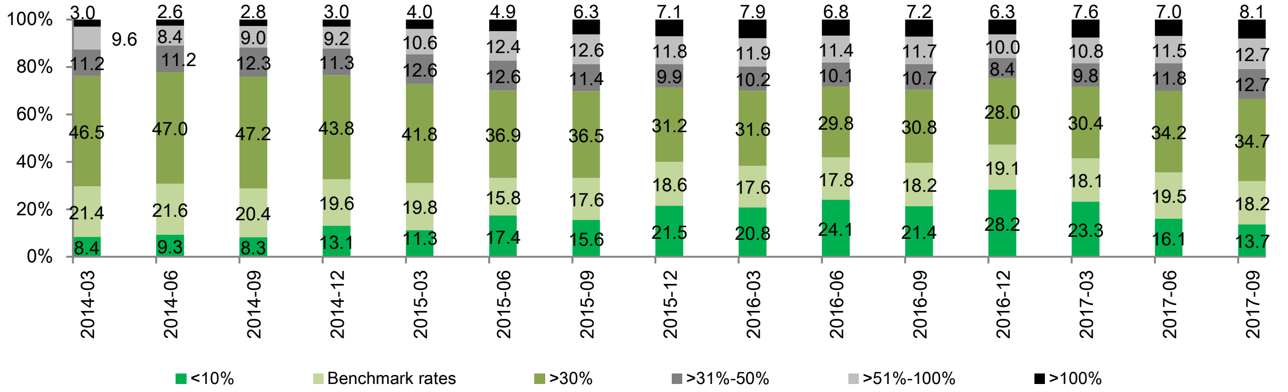
Source(s): PBOC, ABCI Securities

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



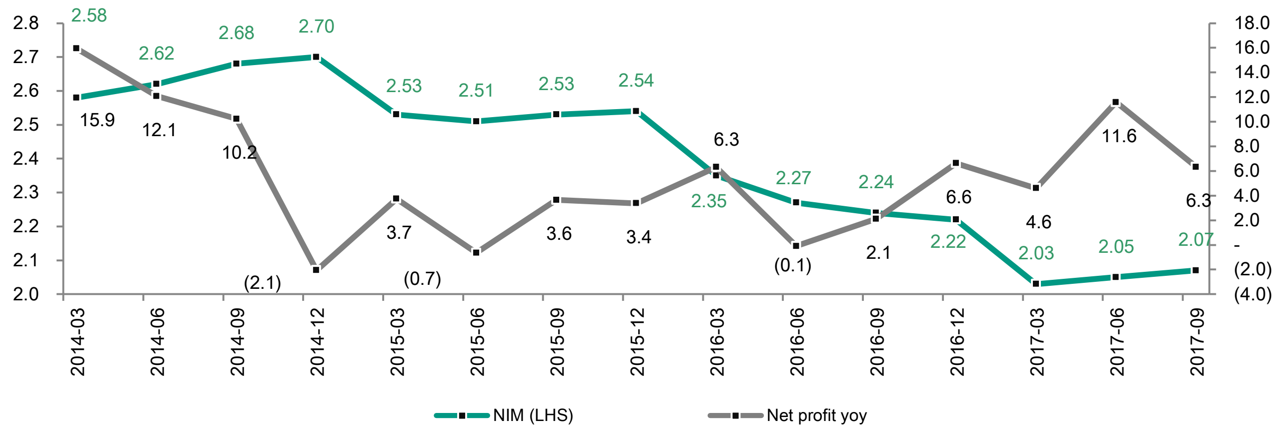
Source(s): PBOC, ABCI Securities

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



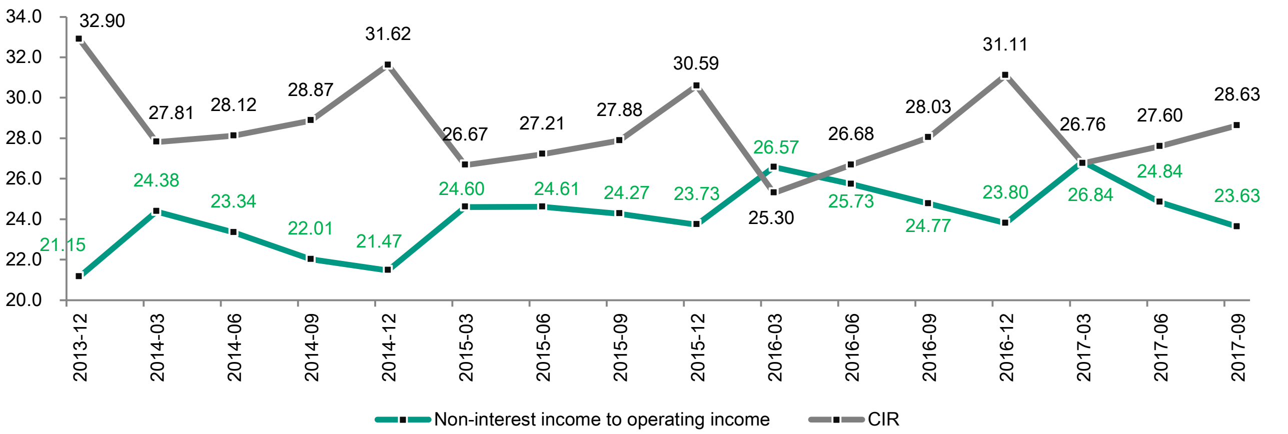
Source(s): PBOC, ABCI Securities

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



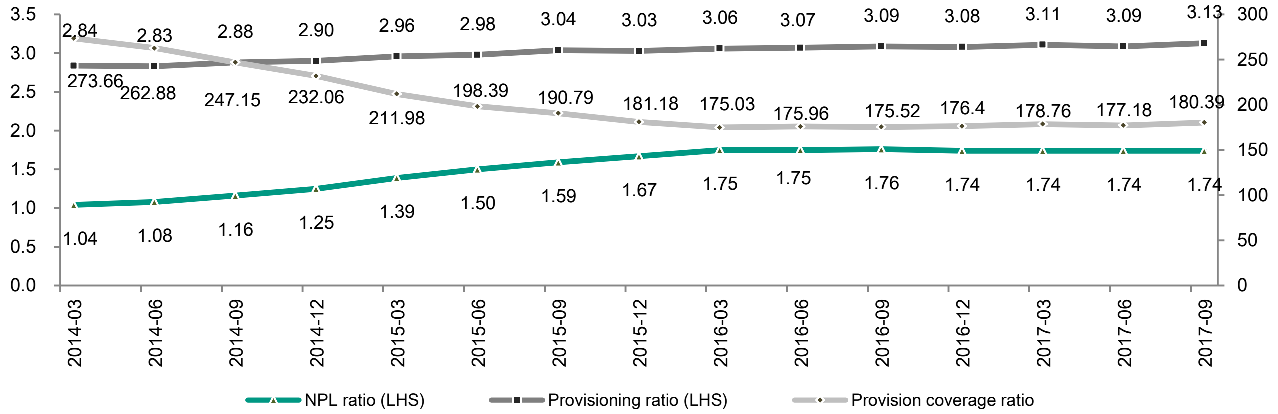
Source(s): CBRC, ABCI Securities

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



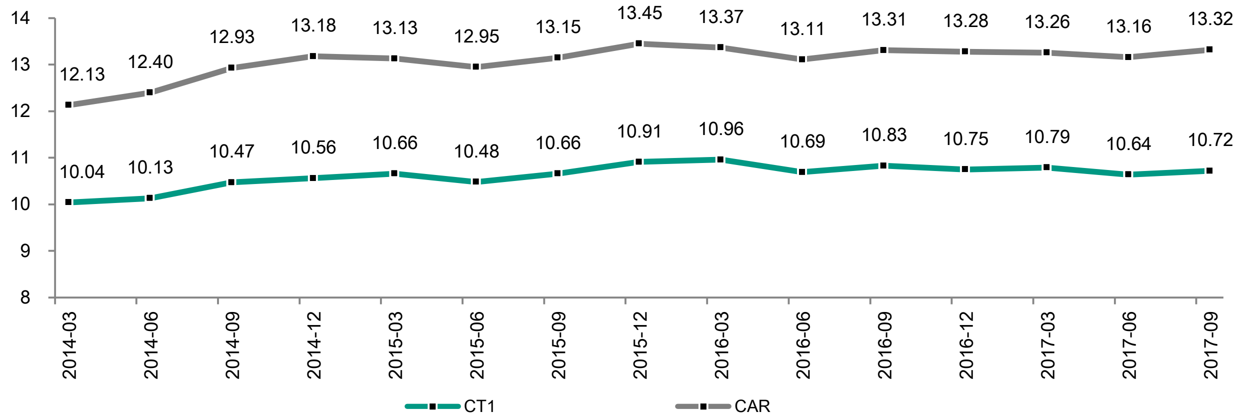
Source(s): CBRC, ABCI Securities

Exhibit 7: Key asset quality indicators (%)



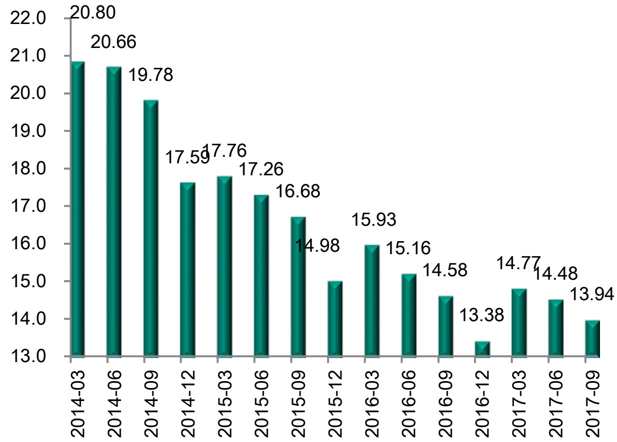
Source(s): CBRC, ABCI Securities

Exhibit 8: System CT1 and CAR (%)



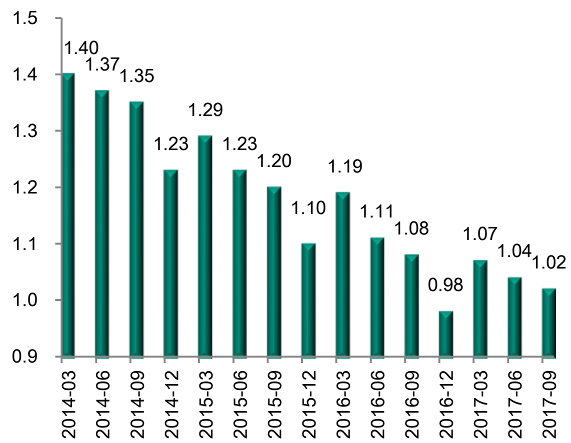
Source(s): CBRC, ABCI Securities

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 Nov 24, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)
ICBC	1398 HK	BUY	6.96	11.72	6.83	6.74	0.91	0.83	4.32	4.32
CCB	939 HK	BUY	8.48	20.97	6.31	5.76	0.87	0.79	4.84	5.17
ABC	1288 HK	BUY	4.80	30.43	5.42	5.24	0.75	0.68	5.72	5.72
BOC	3988 HK	BUY	5.02	30.05	6.00	5.50	0.68	0.62	5.46	5.76
BoCom	3328 HK	BUY	7.72	31.07	5.85	5.47	0.61	0.56	5.36	5.56
CMB	3968 HK	HOLD	30.60	(6.28)	10.18	9.09	1.55	1.37	2.94	3.30
MSB	1988 HK	BUY	11.79	46.46	5.21	5.06	0.68	0.61	4.51	4.80
HB	3698 HK	BUY	4.66	17.38	5.56	5.06	0.70	0.60	4.72	5.01
HRB	6138 HK	BUY	3.23	44.20	3.91	3.48	0.50	0.43	6.27	7.31
BoCQ	1963 HK	BUY	8.36	34.41	4.36	4.03	0.61	0.54	6.02	6.40

Source(s): Bloomberg, ABCI Securities estimates

China Insurance Sector

2018/19: Opportunities outweigh risks

- Low insurance penetration, fast nominal GDP growth, and supportive government policies are catalysts of embedded value growth
- Hard for foreign insurers and local ecommerce to alter the oligopolistic nature of insurance market in the medium term
- Price liberalization, changes in actuarial estimates, and implementation of IFRS 9 will cause turbulence in 2018
- We are bullish on large insurers if FinTech is able to add value to insurance conglomerates

NEUTRAL

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

Life and P&C premium would grow by 20% YoY and 11% YoY in 2018. We estimate life premium growth in the sector would slow from 36.5% YoY in 2016 to 23%/20%/18%YoY in 2017E/18E/19E, mainly backed by government supportive policies, high single-digit household income growth, and low penetration rate. Meanwhile, we expect sectoral growth of P&C premium to accelerate from 9.1% YoY in 2016 to 13%/ 11%/ 11%YoY in 2017E/18E/19E on gradual recovery of auto insurances as well as fast growth in non-auto insurances and online insurance.

Insurance penetration would increase to 4.53%/4.84%/5.14% in 2017E/18E/19E. We expect nominal GDP to exceed RMB 80 tr/RMB 90tr in 2017E/18E, up 10.5% / 10.0%YoY (vs. 11.3%YoY in 9M17). Life insurance penetration would increase from 2.99% in 2016 to 3.33%/3.63%/3.91% in 2017E/18E/19E. P&C insurance penetration will inch up from 1.17% in 2016 to 1.20%/ 1.21%/ 1.23% in 2017E/18E/19E.

Open-door policy would not alter the competitive landscape in medium term. Insurance penetration in China is significantly below that in OECD countries (8.8%) or EU (8.1%), which implies much room for growth. Most of the reputable foreign insurers have formed Sino-foreign insurance firms in China for years. So far, these insurance firms have captured less than 2% and 4% market shares in China's life and non-life insurance segments. The top 10 local life and P&C insurers have taken up 72% and 85% of their respective market shares. The oligopolistic nature of the insurance industry remains intact.

E-commerce giants are trying to reshape the competitive landscape. Ant Financial and Tencent (700 HK) are building up their insurance operations to strengthen business ecosystems. They jointly invest in ZhongAn Online (6060 HK). Ant Fin has a 34% stake in Trust Mutual Life and a 51% stake in Cathay Insurance, while Tencent holds 15% of Hetai Life. So far, online-based insurers have been gaining market shares in short-term products. High value-added long-term products, however, remain in the hands of market leaders.

Key Data

Avg.18E P/E (x)	13.6
Avg.18E P/B (x)	1.4
Avg.18E Dividend Yield (%)	1.9

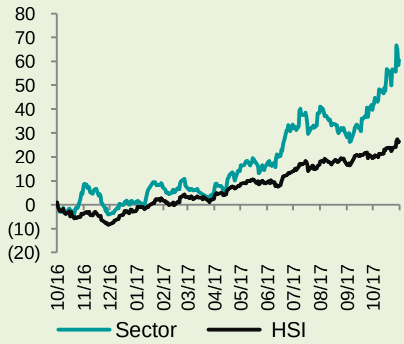
Source(s): Bloomberg, ABCI Securities estimates

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

Embedded value (EBV) growth of large life insurers will accelerate. Owing to regulatory control, we expect life insurers to launch more long-term protection products in life or health insurance to boost long-term shareholders' value. Small insurers without strong product design and risk assessment capabilities would lose market shares. In our view, NCI (1336 HK) is on the right track of transforming. Its life premium declined by 3.9%YoY in 10M17 but EBV increased by 29.5% YoY in 1H17.

EBV growth not indicative of share price performance. From end-2014 to end-June 2017, EBV/share of NCI, CPIC (2601 HK), Ping An (2318 HK) and China Life (2628 HK) increased by 67%, 58%, 57%, and 53%, respectively, with a standard deviation (SD) of less than 6ppt. A low SD indicates these players have operated in the same business environment and achieved similar levels of EBV growth. However, over the same period, total returns of their shares were +3.2%, -11.8%, +34.1%, and -17.4%, respectively.

Insurance conglomerates outperform pure insurers in share price. From a demand side perspective, insurance products are just one of financial products that individuals or corporates need to enhance or protect their wealth. It is hard for pure insurers to increase customer stickiness or optimize return from customers when the scope of financial services demanded is widening. Since end-2012, share price of insurance conglomerates outperform that of the pure insurers.

FinTech factor adds value to insurance conglomerates and help small insurers to differentiate from the large players. FinTech helps optimize synergetic effects across various business segments in insurance conglomerates. However, four online-only P&C insurers in China are operating below their breakeven points, capturing less than 1% of the market share despite strong premium growth. Their business models lack proven sustainable profit track record. The major weaknesses of online insurers are low customer stickiness and high customer acquisition cost, which can be partially attributes to the lack of social media features.

Stay with the market winner – Ping An (2318 HK). P&C insurance of Ping An, the second largest life insurer in life, gained market share in 10M17. By market share, it outperforms CPIC in life and P&C businesses and approaches closer to PICC P&C, and is narrowing the gap with China Life in life business. Application of FinTech helps optimize synergetic effects among insurance, securities, trust, banking and online financial units.

Exhibit 1: Assumptions in assessing 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, ABCI Securities

Exhibit 2 Sector financial performance summary (Data as of Nov 24, 2017)

Company	Ticker (SEHK)	EmV* /share (RMB)	1H17 Life new contracts value chg (YoY)	1H17 ROAA (%p.a.)	1H17 ROAE (%p.a.)	6/2017 NBV** (%Ytd)	6/2017 Assets / Equity (x)	1H17 Invest Yield (%p.a.)	1H17 P&C combined ratio	9/2017 Life core solvency	9/2017 P&C core solvency
China Life	2628	24.68	31.7%	0.90	8.00	1.64	9.19	4.6%	-	278%	216%
NCI	1336	45.55	76.7%	0.92	10.71	4.40	11.43	4.9%	-	273%	-
Ping An	2318	40.43	46.2%	1.70	21.47	11.04	11.22	4.9%	96.1%	230%	217%
CPIC	2601	29.96	59.0%	1.24	9.89	(0.19)	8.33	4.7%	98.7%	245%	243%
PICC Gp	1339	3.34	81.6%	2.67	13.62	5.33	5.48	5.4%	-	176%	242%
Taiping	966	25.09	63.5%	4.80	19.57	7.03	4.17	4.0%	98.8%	244%	181%
PICC P&C	2328	-	-	1.13	8.82	8.96	8.08	-	95.5%	-	242%
ZhongAn	6060	-	-	(3.1)	(4.3)	(4.3)	1.39	3.3%	129.3%	-	1135%
China Re	1508	1.80	73.0%	2.31	8.23	1.73	4.22	5.7%	98.2%(P)	211%(Re)	200%(Re) 278% (P)
Winner			**PICC Gp**	**Taiping**	**Ping An**	**Ping An**	**NCI**	**Chin Re**	**PICC P&C**	**China Life**	**Zhong An**

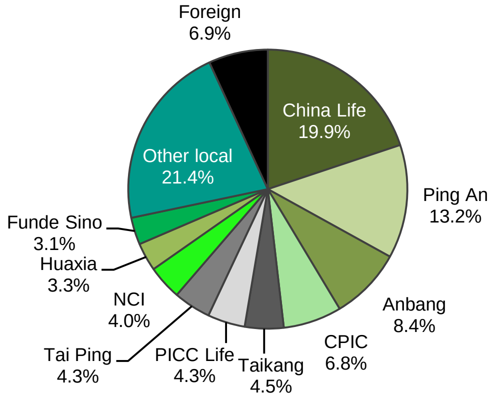
(P): Primary insurance; (Re): reinsurance
*Embedded value;
** Net book value
Source(s): Companies, ABCI Securities

Exhibit 3: Original insurance premium income

Life insurance premium income	10M 17 (RMB bn)	Chg (YoY)	2016 (RMB bn)	Chg (YoY)	2015 (RMB bn)	Chg (YoY)
China Life (2628 HK)	469.6	19.0%	430.6	18.3%	364.1	9.9%
Ping An Life[1]	320.6	35.6%	275.2	32.0%	208.4	19.8%
CPIC Life[2]	162.5	28.8%	137.4	26.5%	108.6	10.0%
Taiping Life[4]	103.7	25.8%	112.6	0.6%	79.9	22.7%
PICC Life[3]	100.6	1.9%	105.1	17.5%	89.4	13.6%
NCI (1336 HK)	98.2	-3.9%	94.4	18.1%	111.9	1.8%
PICC Health[3]	13.6	-20.9%	23.7	47.5%	16.1	1.9%
Ping An Health[1]	1.8	173.3%	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]	287.1	12.0%	310.5	10.5%	281.0	11.3%
Ping An P&C[1]	173.8	22.6%	177.9	8.7%	163.6	14.5%
CPIC Property[2]	85.6	9.0%	96.1	1.7%	94.4	1.7%
China Life P&C[5]	53.0	10.0%	59.7	18.6%	50.4	24.7%
Continent P&C[6]	30.5	16.1%	32.0	20.2%	26.6	18.9%
Taiping General[4]	17.7	19.1%	18.2	16.4%	15.6	17.7%
ZhongAn Online (6060 HK)	4.7	80.1%	3.4	49.6%	2.3	188.6%

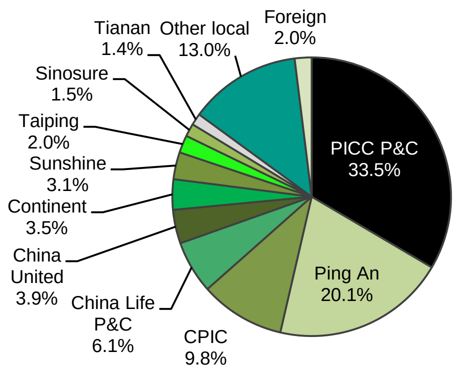
[1] Ping An Life, Ping An Health and Ping An P&C are 99.51%, 75.01% and 99.51% owned by Ping An Insurance (Group) (2318 HK)
[2] China Pacific Life (CPIC Life) and China Pacific Property (CPIC Property) are 98.29% and 98.5% owned by China Pacific Insurance (Group) (2601 HK)
[3] PICC Life and PICC P&C 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 4: Top 10 life insurers in 9M17



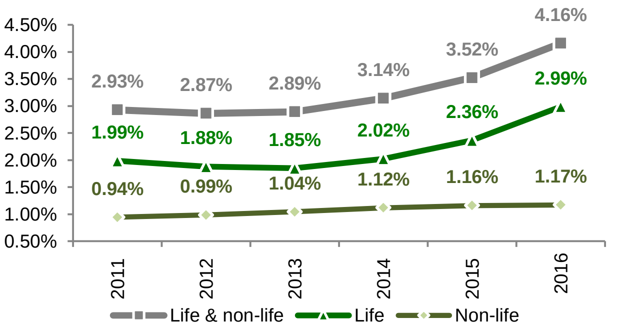
Source(s): CIRC, ABCI Securities

Exhibit 5: Top 10 P&C insurers in 9M17



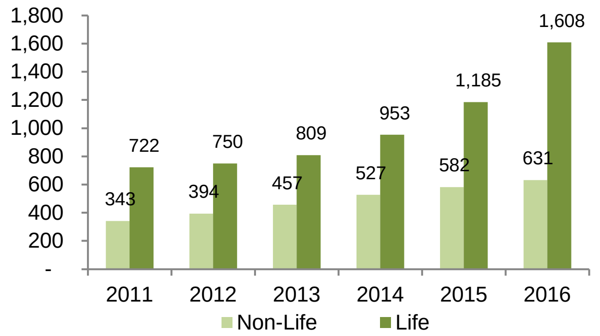
Source(s): CIRC, ABCI Securities

Exhibit 6: Insurance penetration (% of GDP)



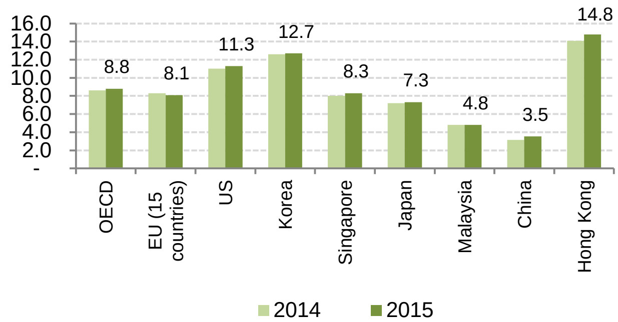
Source(s): CIRC, NBS, ABCI Securities

Exhibit 7: Insurance density (RMB per capita)



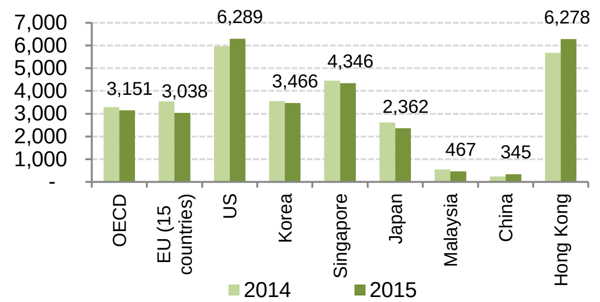
Source(s): CIRC, NBS, ABCI Securities

Exhibit 8: Insurance penetration (% of GDP)



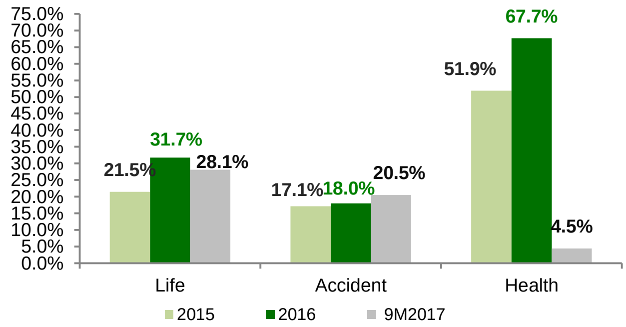
Source(s): OECD, CIRC, NBS, ABCI Securities

Exhibit 9: Insurance density (US$ per capita)



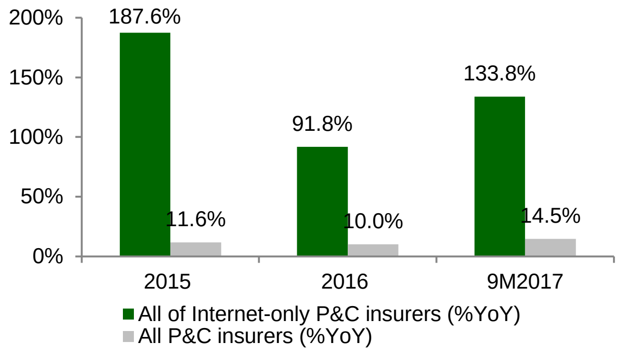
Source(s): OECD, CIRC, NBS, ABCI Securities

Exhibit 10: China's insurance premium (YoY%)



Source(s): CIRC, ABCI Securities

Exhibit 11: China's insurance premium (YoY%)



Source(s): CIRC, ABCI Securities

Exhibit 12: Sector Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	Rating	Price (HK$)	Price / EmV (x)	FY17E P/E (x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)	FY17E ROAE (%)	FY18E 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

China Securities & Brokerage Sector

All bodes well for investment banking

- After a weak 1H17, we expect sector outlook to improve over the next 12-18 months amid the improving ADT and recovering direct financing in recent months
- Investment banking business is recovering gradually and would continue to benefit from a long-term structural uptrend
- Under the 13th FYP, the government is committed to boosting direct financing in capital markets
- **BUY CSC (6066 HK)** and **GF (1776 HK)** for scarcity value of exposure in investment banking and asset management

OVERWEIGHT

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

1H17 results review. In 1H17, sector revenue and profit were down 9% and 11% amid the falling A-share ADT and slowdown in direct financing. Annualized sector ROE also normalized to 6.5% in 1H17 from 8.0% in 2016.

Bottoming out. We expect industry outlook to slowly improve over the next 12-18 months amid the rebound in A-share ADT as well as gradual recovery in direct financing activities. We expect a high-single-digit ROAE for 2018E-19E. Selected brokerage such as CSC (6066 HK) would continue to enjoy an above-average ROAE in 2018E-19E, in our view.

Investment banking business is recovering. Since 4Q16, the government has tightened control on bond issuance, leading to a substantial fall in bond volume issued. Net financing only accounted for 1% of aggregating financing in 1H17. Significant recovery was seen in 3Q17, however, with direct financing taking up 15% of aggregating financing. This indicates an improving environment for investment banking business.

The rise of direct financing. Despite the short-term hiccups, we continue to believe investment banking business would benefit from a long-term structural uptrend, given the government's commitment to deleverage the economy by boosting direct financing in the capital markets through the issuance of corporate bonds, equity securities, convertible securities, ABS, etc. Direct financing accounted for 24% of the aggregate financing in the economy in 2016, implying ample headroom for growth.

Developing a more sophisticated capital market. Under the 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, hybrid financing, and more. In our view, such developments will be supportive to investment banking business.

Key Data

Avg.18E P/E (x)	12.2
Avg.18E P/B (x)	1.1
Avg.18E Dividend Yield (%)	2.8

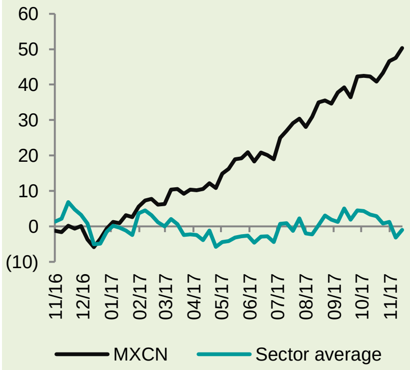
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(6.7)	(12.2)
3-mth	(4.4)	(15.3)
6-mth	(1.0)	(25.7)

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

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

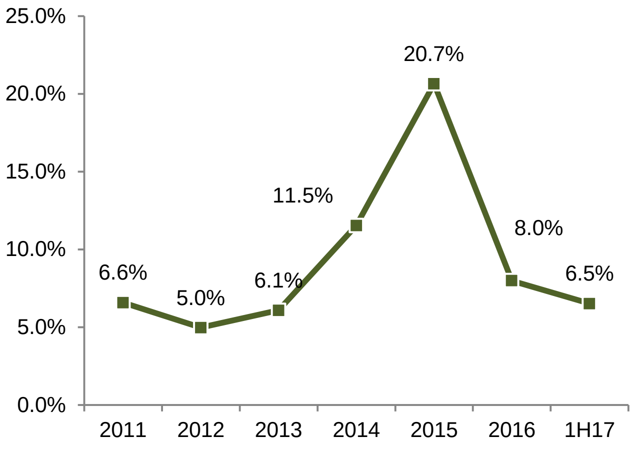
Sequential improvement in A-share ADT. A-share ADT has shown sequential improvement in recent months, rising from RMB 376bn in January 2017 to RMB 510bn in 3Q17. This, together with an easier base in 2H17 and 1H18 (A-share ADT was RMB 510bn in 2H16 and RMB 438bn in 1H17 vs. RMB 531bn in 1H16) should bode well for brokerage business in coming months.

Favor CSC (6066 HK) and GF (1776 HK). CSC possesses the scarcity value of having one of the highest exposures in investment banking among peers amid the structural uptrend of direct financing. We also continue to like GF given its strength in asset management business. Both CSC and GF outperformed its peers in terms of ROAE in 1H17.

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 from deleveraging in the financial sector.

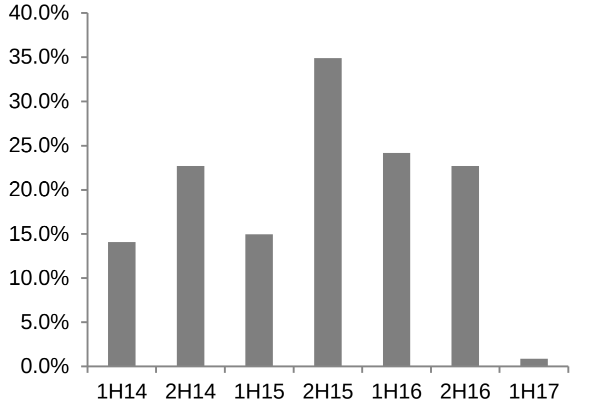
農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Exhibit 1: Sector ROAE trend



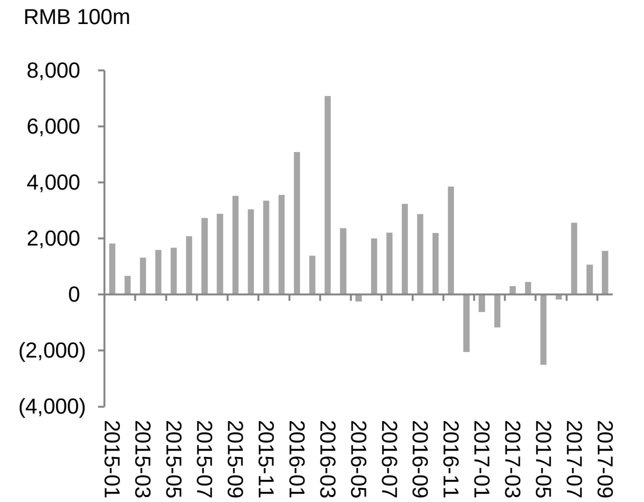
Source(s): SAC, ABCI Securities

Exhibit 2 Direct financing as a percentage of aggregate financing



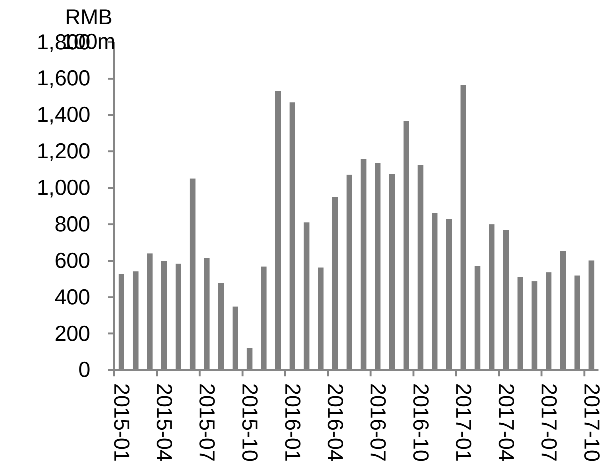
Source(s): PBOC, ABCI Securities

Exhibit 3: Net financing of corporate bonds



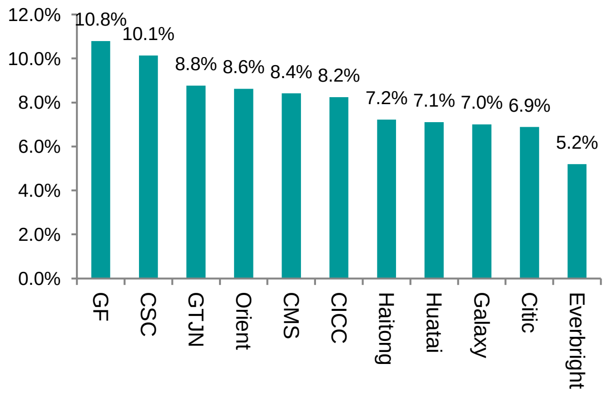
Source(s): PBOC, ABCI Securities

Exhibit 4: Equity financing on the stock market by non-financial enterprises



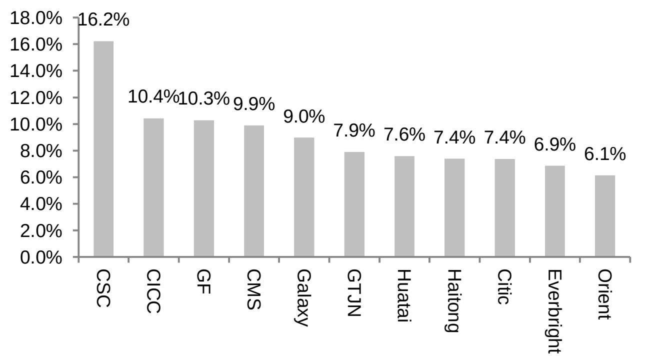
Source(s): PBOC, ABCI Securities

Exhibit 5: ROAE comparison (1H17)



Source(s): Companies, ABCI Securities

Exhibit 6: ROAE comparison (2016)



Source(s): Companies, ABCI Securities

Exhibit 7: Sector Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield(%)	FY18E Yield(%)
CSC	6066 HK	BUY	8.4	22%	8.4	7.2	1.0	0.9	3.0	3.4
GF	1776 HK	BUY	18.4	12%	12.0	10.4	1.2	1.2	2.8	3.2
CMS	6099 HK	HOLD	13.2	7%	12.6	11.0	1.1	1.0	2.8	3.2
DFZQ	3958 HK	HOLD	8.3	3%	13.1	11.5	1.0	0.9	2.5	2.8
Guolian	1456 HK	HOLD	3.8	3%	13.7	13.8	0.8	0.7	2.6	2.5

Source(s): Bloomberg, ABCI Securities estimates

农银國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

China Property Sector

Positive earnings in 2018

- Gross margin should improve further on higher presales ASP; we expect 2018 core profit to increase by 28% YoY for companies in our coverage universe
- Making rental housing as important as home purchasing is the government's new key initiative; developers with established rental business would gain market share
- Property management business could be a new growth driver
- We are positive on China property sector. Ongoing trend of market consolidation would benefit the larger listed players such as **Evergrande (3333 HK)** and **Sunac (1918 HK)**

OVERWEIGHT

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

Key Data

Avg.18E P/E (x)	5.9
Avg.18E P/B (x)	0.9
Avg.18E Dividend Yield (%)	6.3

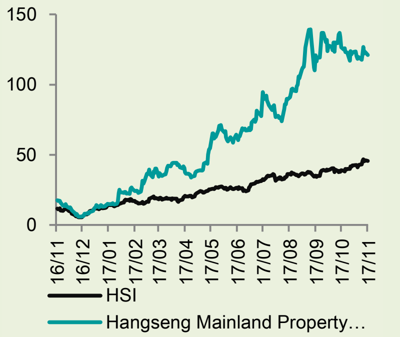
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(5.3)	(11.4)
3-mth	20.0	11.0
6-mth	44.4	27.9

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

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

Sustainable improvement in GPM and earnings for 2018. On the back of rising ASP, GPM of the HK-listed PRC developers rebounded from 26.6% in 1H16 to 31.5% in 1H17. Given presales ASP grew by 11% YoY on average in 10M17, we expect gross margin to increase in 2018-19. Besides, 10M17 presales of major listed developers surged 45% YoY and a substantial proportion would be booked in 2018. Driven by margin improvement and increasing sales booking, we estimate core profit (excl. Evergrande and Sunac to rise by 28%YoY in 2018E (2017E: +37% YoY) for companies in our coverage universe. Average net gearing in 1H17 increased 19.6ppt HoH to 85.0%. Excluding Sunac and Evergrande, the two outliers who increased their debt levels more significantly than others in 1H17, the figure was still up by 8.9ppt HoH to 68.7%. Despite policy tightening, developers are still expanding their landbank. In particular, Sunac, whose presales soared 142% YoY in 10M17, indicated over 71% of their landbank was purchased via M&A. As banks are still offering M&A loans to developers, we believe the trend of market consolidation would continue and net gearing of the larger players are unlikely to fall in the near term. We estimate the HK-listed players may raise their 2018 sales targets by 5-10% YoY (vs. a 5-10%YoY decline in our national new home sales forecast). As home purchase restrictions (HPR) showed no signs of abating, we expect a flat presales ASP for 2018 and growth would be driven by GFA.

Making rental housing as important as home purchasing. The concept, which includes the idea of promoting a healthy rental market by reducing speculative purchases and increasing rental demand, was reiterated In the 19th NCCPC. Based on individual's financial viability, housing need can be met by renting or purchasing. According to Centaline's data in secondary residential market, rental index as of Sep 2017 for tier-1 cities were 77-138% higher than the 2004 level, but rental yield was just 1.39-1.63% (vs. 3.95-7.37% in 2004) since property prices were rising at a much faster rate. Given the current rental yield at 1-2% can hardly cover the financing cost (5-year PBOC rate: 4.9%), property owners have limited incentives to rent out the properties for income. Instead, we believe most property speculators would leave the properties vacant until disposal for capital gain. Unless the government offers more incentives to encourage buy-to-rent for individual investors, rental-only land supply will need to expand. If land supply for rental housing increases, land cost may come down and reduce development costs of developers. We believe developers with a high mix of rental income such as Jinmao (817 HK,), Longfor (960 HK), CR Land (1109 HK) would benefit from development in the rental market. On the other hand, developers that adopt a high asset turnover model and have limited experience in rental property development may lose market share.

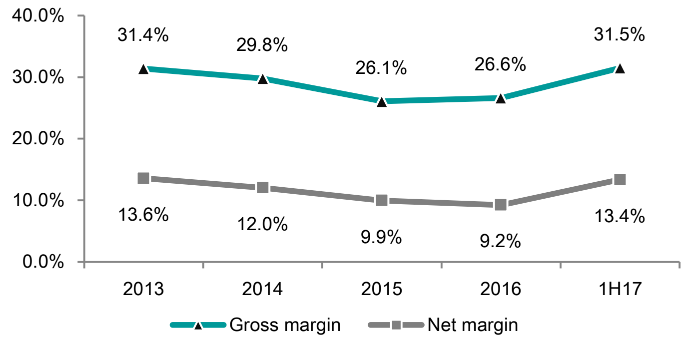
Property management (PM) could be a new growth driver. The rise in rental housing means opportunities for developers to expand recurring revenue, such as PM fees. According to China Index Academy, total managed GFA of property management sector reached 18.5bn sqm, up 6% YoY. With the ongoing market consolidation, large players are set to grow faster. E.g., market share of the top 10 PMCs increased from 4.9% in 2013, to 10.2% in 2016; the averaged managed GFA and revenue of these PMCs also increased by 41.3% YoY and 41.6% YoY to 188mn sqm and RMB3.14bn in 2016. We believe PMC subsidiaries of major large-cap developer, especially those who can secure a large volume of projects from the parent companies, will benefit. PM sector has been pressured by rising labor cost pressure as PMCs can increase management fee only by a small margin upon contract renewal. However, PMCs can capitalize on the rise in O2O business driven by the rising penetration of smartphones. In 2016, average net profit from VAS business among the top 100 PMCs grew 48% YoY vs. 3%YoY growth for traditional PM business; net margin of VAS business among the top 100 PMCs went up 3.1ppt YoY to 16.56%, compared to 5.36% for the traditional PM business. Sizeable PMCs, with access to a much larger group of potential O2O users, will see higher growth in VAS revenue.

OVERWEIGHT on China property sector as more developers may be included in HSI or HSCEI. We are positive on China property. Country Garden (2007 HK) will be included into HSI on Dec 4, 2017. Fund managers are highly likely to increase their portfolio weighting in the China property sector. We believe two other large-cap players, Evergrande (3333 HK) and Sunac (1918 HK), may follow the same route to become HSI constituents. In 2018, the H-share Index is going to be reshuffled. More large-cap, P-chip stocks in the property sector could be included in the index .We believe the market will continue to favor the large-cap names especially with the ongoing consolidation. We recommend (1) **BUY** for **Evergrande (3333HK)** on substantial net gearing reduction after the third round of capital increase in Hengda Real Estates; (2) **BUY** for **Sunac (1918 HK)** given its better-than-expected presales amid the year-end slowdown across the sector; (3) for small/mid-caps, we prefer counters trading at low valuations such as **Times (1233 HK), Yuzhou (1628 HK)** and **CIFI (884 HK)** for their attractive dividend yields.

.

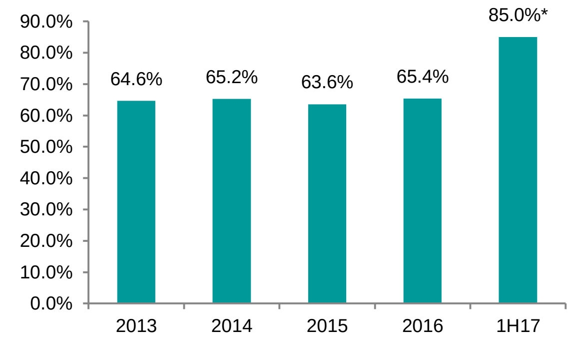
Risk Factors: 1) Placement risks; 2) Further policy tightening. 3) Land acquisition via M&A may lead to higher SG&A costs; 4) Interest rate and FX risks; 54) Rental housing policy may affect landbank replenishment of developers; 5) Tougher financing environment onshore; 6) Expansion into non-property businesses

Exhibit 1: Gross margin trend among the HK-listed PRC developers



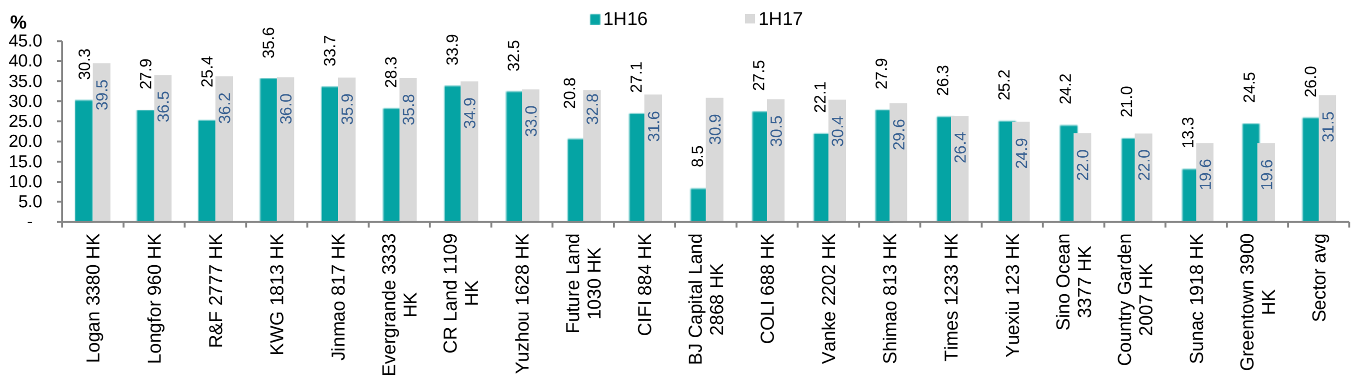
Source(s): Companies, ABCI Securities

Exhibit 2: Net gearing trend of the HK-listed PRC developers



*68.7% if we exclude Sunac and Evergrande
Source(s): Companies, ABCI Securities

Exhibit 3: Gross margin of the HK-listed PRC developers

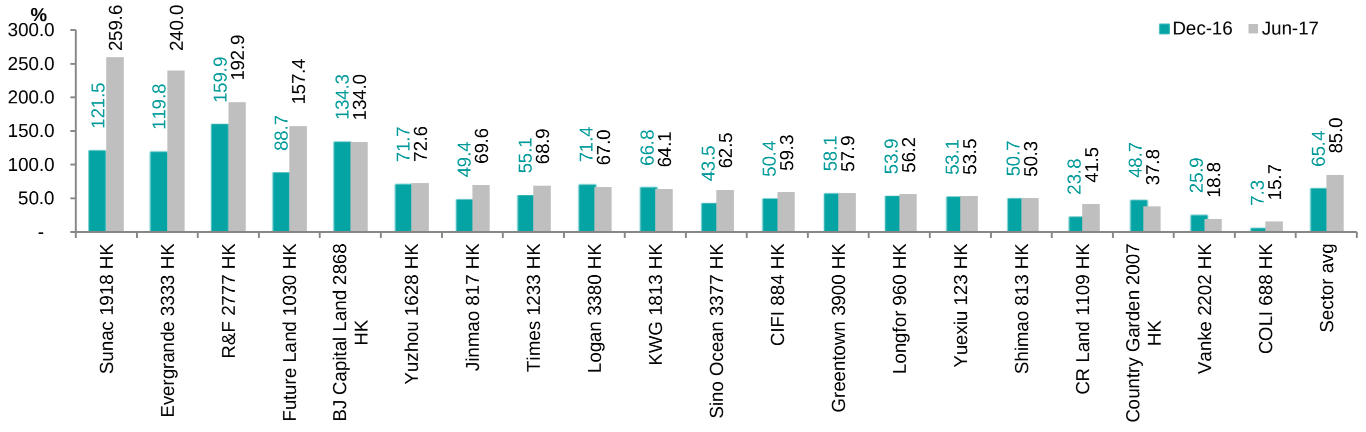


Source(s): Company, ABCI Securities

Exhibit 4: Core profit growth for 2017-18

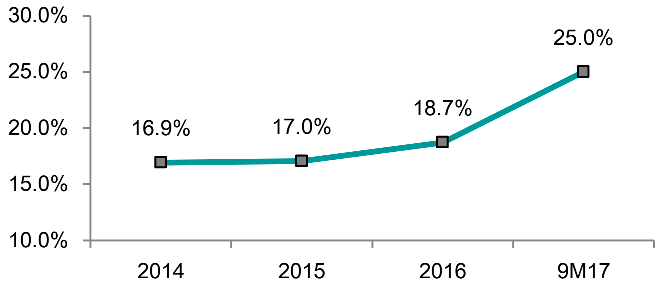
Source(s): Company, ABCI Securities estimates

Exhibit 5: Net gearing of the HK-listed PRC developers



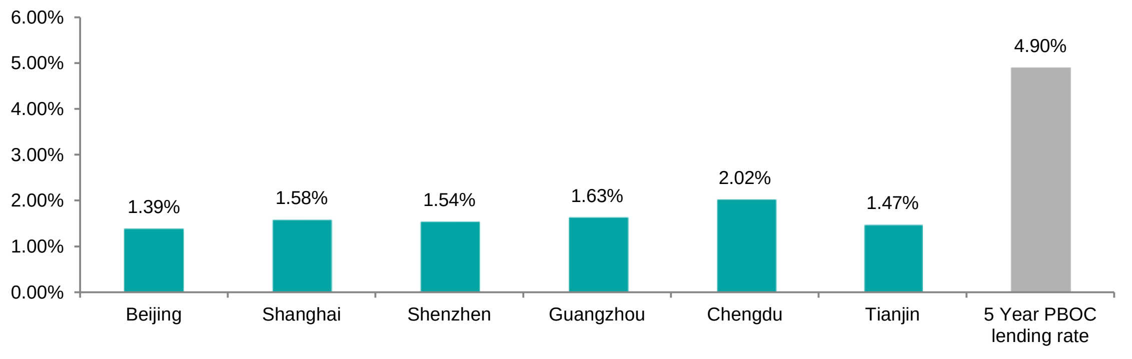
Source(s): Company, ABCI Securities

Exhibit 6: Market share of Top 10 HK-listed PRC developers



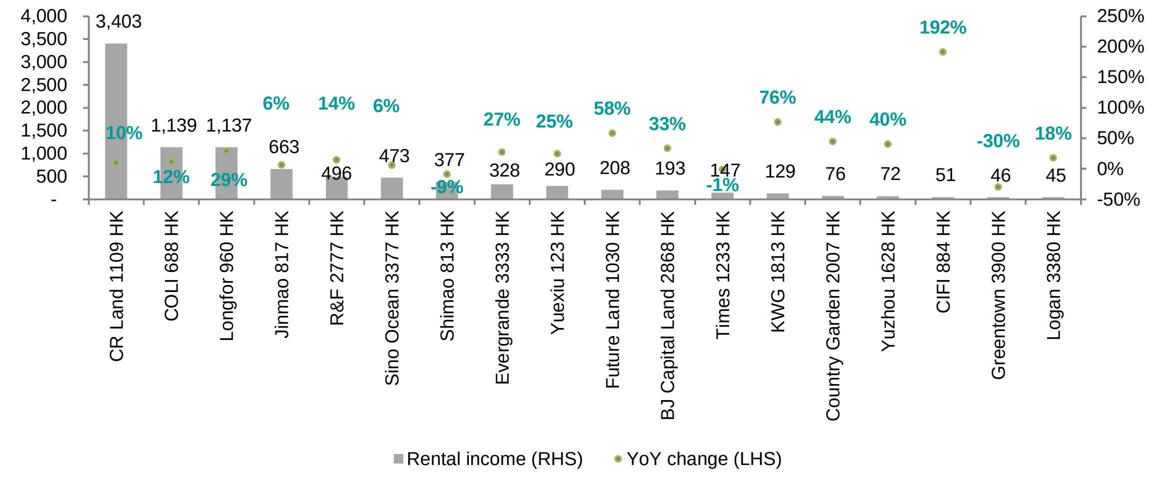
Source(s): Company, ABCI Securities

Exhibit 7: Rental yield in tier-1 cities vs. PBOC rate (Sep 2017)



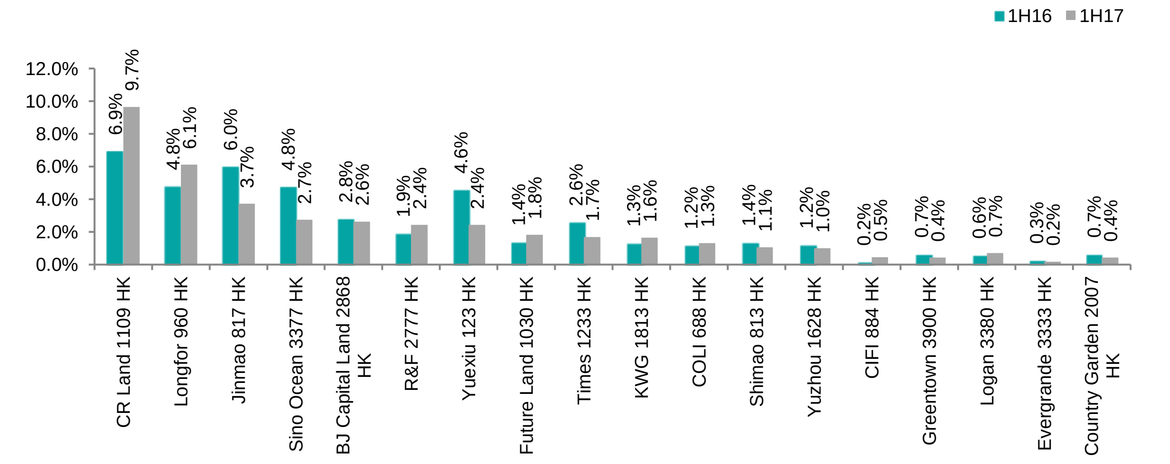
Source(s): Centaline, ABCI Securities

Exhibit 8: Rental income of PRC developers (1H17)



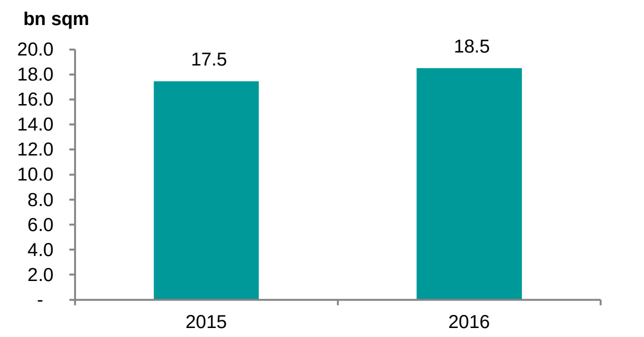
Source(s): Company, ABCI Securities

Exhibit 9: Rental income as a percentage of total income (1H17)



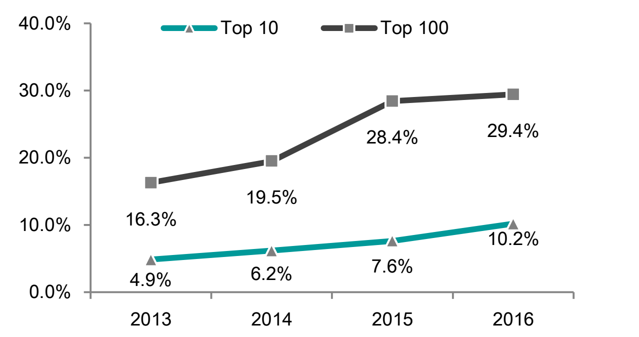
Source(s): Company, ABCI Securities

Exhibit 10: Total managed GFA of the property management sector



Source(s): China Index academy, ABCI Securities

Exhibit 11: Market share of the top 10 and top 100 PMCs by managed GFA



Source(s): China Index academy, ABCI Securities

Exhibit 12: Average managed GFA and revenue of top 100 PMCs (2016)

	Average managed GFA	YoY	Average revenue	YoY
	mn sqm	%	RMBmn	%
Top 10	188.39	41.3%	3,140	41.6%
Top 11-30	37.05	21.1%	1,038	22.0%
Top 31-50	16.23	1.5%	399	1.5%
Top 51-100	11.47	0.5%	246	0.7%

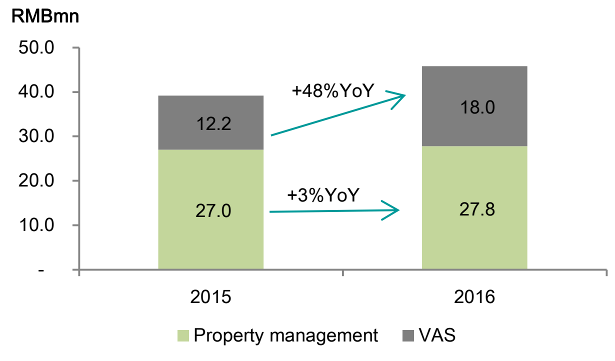
Source(s): China Index academy, ABCI Securities

Exhibit 13: Management fee of top 100 PMCs by property type

(RMB/sqm/mth)	2016	2015	YoY change
Office	7.86	7.89	-0.4%
Commercial	7.04	6.96	1.1%
Residential	2.31	2.24	3.1%
School	3.38	3.7	-8.6%
Hospital	6.87	6.76	1.6%

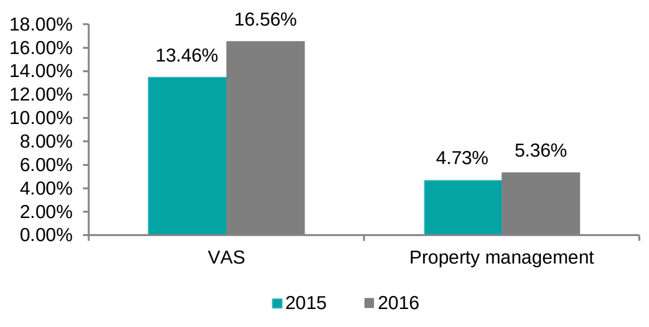
Source(s): China Index academy, ABCI Securities

Exhibit 14: Net profit breakdown of Top 100 PMCs



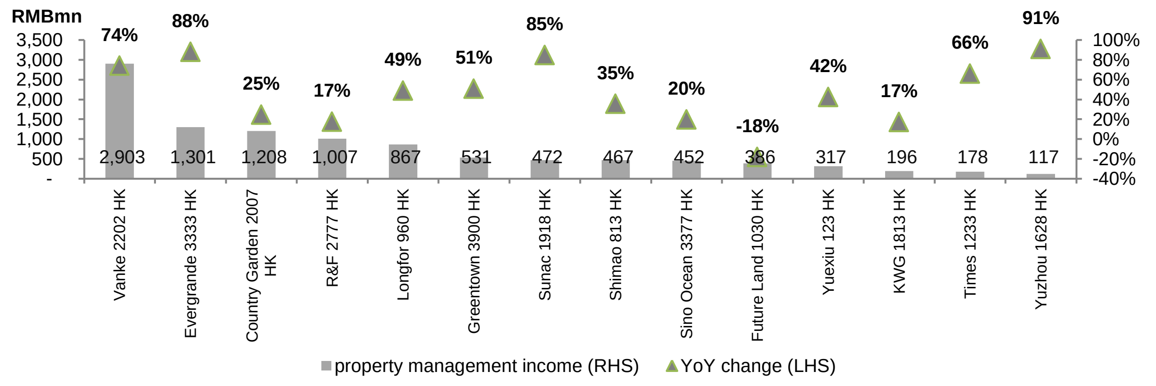
Source(s): China Index academy, ABCI Securities

Exhibit 15: Net margin by business of Top 100 PMCs



Source(s): China Index academy, ABCI Securities

Exhibit 16: Property management revenue of PRC developers (1H17)



*Only include the major HK-listed PRC developers with separate disclosure on property management business
Source(s): Company, ABCI Securities

Exhibit 17: 10M17 presale of major HK-listed PRC developers

		10M17						2017	Achievement
		Amount RMBbn	YoY %	GFA 000 sqm	YoY %	ASP RMB/sqm	YoY %	RMBbn	
1	Sunac	249.0	142	14,351	198	17,348	(19)	300.0	83.0%
2	Longfor	140.4	89	9,131	83	15,377	4	150.0	93.6%
3	Country garden	484.8	79	53,120	60	9,126	11	500.0	97.0%
4	CIFI	78.9	70	4,514	75	17,471	(3)	80.0	98.6%
5	Yuzhou	32.4	59	1,896	17	17,100	36	40.0	81.0%
6	Aoyuan	30.1	56	2,951	34	10,189	17	33.3	90.3%
7	Sino-Ocean	55.7	45	2,906	25	19,164	16	70.0	79.6%
8	Jinmao	41.7	42	1,761	39	23,661	2	51.0	81.7%
9	Logan	34.9	42	1,987	1	17,564	40	37.0	94.3%
10	Vanke	432.9	39	29,121	25	14,865	11	-	-
11	Shimao	78.6	39	4,685	15	16,780	21	88.0	89.3%
12	Poly-A	237.9	37	17,017	30	13,979	5	-	-
13	Evergrande	422.3	33	42,473	10	9,943	21	450.0	93.9%
14	Times	31.6	32	1,814	(15)	17,438	55	32.5	97.3%
15	KWG	24.9	29	1,559	5	15,976	23	28.0	89.0%
16	Yuexiu	32.0	29	1,843	(10)	17,354	42	33.0	96.9%
17	R&F	66.1	25	5,120	27	12,911	(2)	73.0	90.5%
18	CR Land	112.7	24	7,352	12	15,326	11	120.0	93.9%
19	Beijing Capital	37.9	12	1,907	11	19,853	1	50.0	75.7%
20	Greentown	81.9	4	3,420	(14)	23,947	22	90.0	91.0%
21	COLI*	200.6	3	12,422	4	16,149	(1)	210.0	95.5%
22	SZI	10.6	(43)	510	(41)	20,827	(4)	19.1	55.6%
	Total	**2,981.3**	**45%**	**227,158**	**31%**	**13,124**	**11%**	**2,520**	**91.7%**

*in HK$
Source(s): Company, ABCI Securities

Exhibit 18: Sector Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield(%)	FY18E Yield(%)
Evergrande	3333 HK	BUY	35.80	27%	9.5	10.3	4.9	3.9	-	4.9
Sunac	1918 HK	BUY	42.20	9%	31.8	15.6	4.5	4.0	1.3	2.6
Times	1233 HK	BUY	11.20	54%	5.2	4.3	1.1	0.9	5.8	6.9
Yuzhou	1628 HK	BUY	6.90	77%	4.4	3.1	0.9	0.8	7.5	11.3
CIFI	884 HK	BUY	5.90	34%	7.1	5.8	1.4	1.2	4.7	4.9
Logan	3380 HK	BUY	8.80	23%	7.1	5.1	1.5	1.3	5.5	6.7
SZI	604 HK	BUY	4.90	47%	8.2	5.5	0.7	0.6	6.1	9.1
Jinmao	817 HK	BUY	4.55	27%	12.7	8.8	1.3	1.2	5.4	4.5
COLI	688 HK	BUY	34.90	42%	9.6	9.2	1.1	1.0	3.2	3.4
Fantasia	1777 HK	BUY	1.45	32%	6.9	4.9	0.5	0.4	4.5	6.4
LVGEM	95 HK	BUY	3.10	27%	64.6	14.4	1.9	1.9	1.0	4.3
Greentown	3900 HK	HOLD	11.20	25%	6.8	5.5	0.6	0.6	3.0	3.7

Source(s): Bloomberg, ABCI Securities estimates

China Alternative Energy Sector

Energy restructuring to prompt long-term growth

- China reiterates its plan of shifting national energy structure from coal-fire to alternative energy sources in the 19th NCCPC
- China's nuclear power generation is likely to expand at 15% CAGR during 2016-20E; fundamentals will remain strong
- China's wind power generation would expand at 15% CAGR during 2016-20E
- **OVERWIEIGHT** on China's alternative energy sector. Recommend **BUY Longyuan Power (916 HK)**

OVERWEIGHT

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

Key Data

Avg.18E P/E (x)	7.1
Avg.18E P/B (x)	0.8
Avg.18E Dividend Yield (%)	3.6

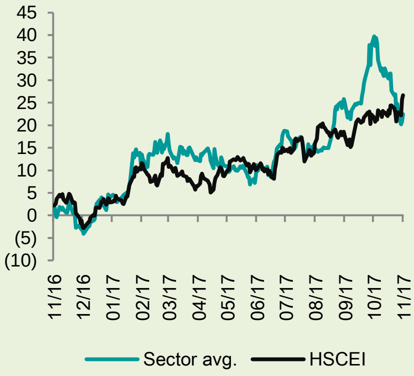
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(11.9)	(15.5)
3-mth	7.6	2.1
6-mth	11.3	(1.2)

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

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

China reiterates its plan of shifting national energy structure from coal-fire to alternative energy sources in the 19th NCCPC. President Xi Jinping announced the country would cultivate clean energy sources and construct a clean, safe, and highly efficient energy structure. China's resolution to alter the existing energy structure remains unchanged and that the government would continue to push for the development of clean energy (including nuclear, wind, hydro, solar, etc.). Contribution of coal-fire energy in China's overall power output declined from 84% by end-2006 to 65% by end-2016; meanwhile, nuclear /wind power took up 4%/4% of energy output in 2016 as compared to 2%/0.1% a decade ago. The government would continue to propagate energy reform, benefiting the alternative energy sector.

Contribution of nuclear power has been increasing from 1% in 2001 to 4% in 2017. Benefiting from robust growth in recent years, the contribution of nuclear power in China's overall power generation has been increasing. According to data from China Electricity Council (CEC), as of Jan 2001, nuclear power only contributed to 1% of national power generation; the figure rose to 3.9% in Aug 2017. Nuclear power capacity in China continues to rise and we expect its contribution to total output to trend up.

China's nuclear power generation would expand at 15% CAGR during 2016-20E. According to the "13th FYP for Electricity" announced by National Energy Administration (NEA) on Nov 7, 2016, China targets to boost nationwide nuclear power capacity from 34GW by end-2016 to 58GW by end-2020, suggesting a 15% CAGR in 2016-20. If we assume the average utilization hour of nuclear power to maintain at the current level at ~6,000 over the next few years, nuclear power generation would reach 366bn kWh, representing 15% CAGR in 2016-20E . Such robust growth is a long-term positive to nuclear power operators

Wind power output would increase at 15% CAGR during 2016-20E. According to the "13th FYP for Renewable Energy" issued by National Development and Reform Commission (NDRC) in Dec,2016, China targets to attain no less than 210GW of wind power capacity by end-2020, a 41% jump from 149GW by end-2016, or a 9% CAGR in 2016-20E. In addition, the plan also indicates wind power generation would reach at least 420bn kWh by end-2020, a 74% jump from 241bn kWh at end-2016, implying a 15% CAGR in 2016-20E. This target suggests wind power utilization would need to improve from 1,742hr in 2016 to 2,000hr in 2020. Such sharp increase in output would accelerate earnings for the wind power operators.

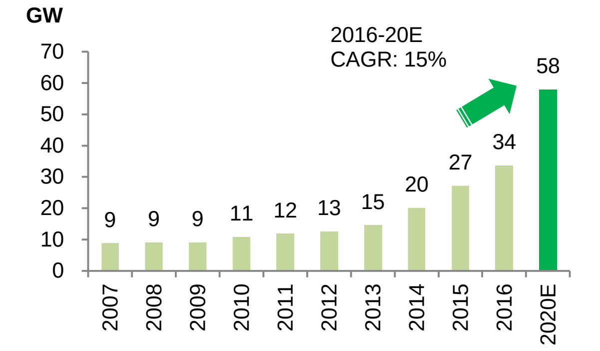
Wind power tariff would be slashed by 10% over the next few years. China would continue to lower tariff to make wind power a cost-competitive energy source. China's nationwide average wind power tariff has been trending down from RMB 0.56/kWh (including VAT) in 2009 to RMB 0.53/kWh in 2016. NDRC announced in Dec 2016 that the new tariff would further decrease to RMB 0.48/kWh, effective on Jan 1, 2018. This represents a 14% drop over the decade. However, the revised tariff will still be higher than the average coal-fire tariff of RMB0.43/kWh in wealthier regions (Guangdong, Shanghai, Zhejiang, etc.; for less affluent regions, the figures will be lower). We believe wind power tariff would be slashed by ~10% over the next few years. Key earnings drivers for wind power operators would be utilization hour improvement and capacity growth.

What to expect in 2022- energy restructuring to continue. The shift from coal-fire to alternative energy will continue. We estimate the mix of coal-fire energy in total power output would decrease from 65% in 2016 to less than 60% in 2022E; meanwhile, nuclear/wind energy output should account for 4%/4% in 2016 to 5%/6% of total in 2022. Between the two alternative energy sources, we favor nuclear power for its higher efficiency. Adding to that, nuclear power only takes up 4% of total output at present, far below the 50% average among the developed countries.

OVERWEIGHT on alternative energy sector; prefer Longyuan (916 HK). We are optimistic on the nuclear and wind power sectors. For the latter, we like **Longyuan** for its dominant position in the market and prime wind power assets diversified across China.

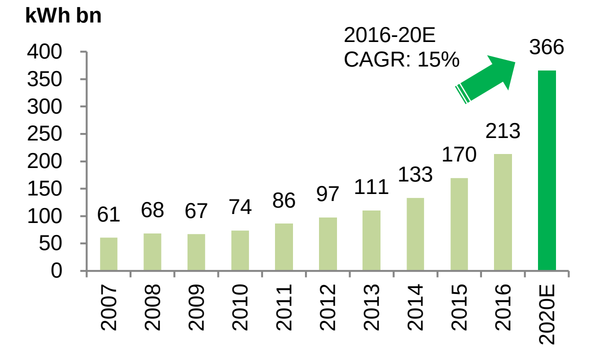
Risk factors: 1) Wind power tariff cut over the long run will reduce profit; 2) Decreased power demand may hinder alternative energy development; 3) Wind power curtailment may worsen and reduce utilization hour; 4) Safety issues related to nuclear power.

Exhibit 1: China's nuclear power capacity would expand in 2016-20E



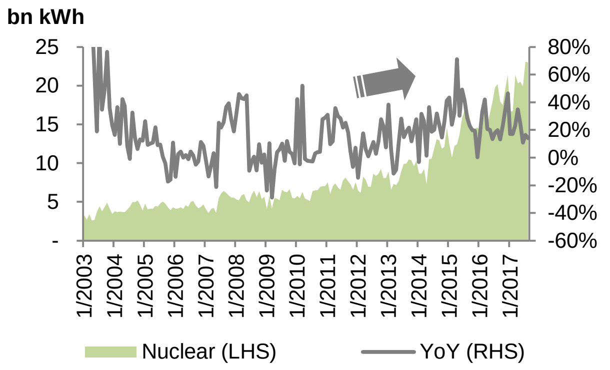
Source(s): NDRC, ABCI Securities estimates

Exhibit 2: China's nuclear power generation would see a double-digit growth in the next few years



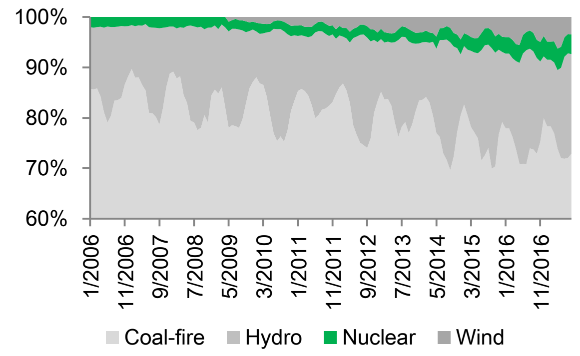
Source(s): NDRC, ABCI Securities estimates

Exhibit 3: China's monthly nuclear power generation has been trending up



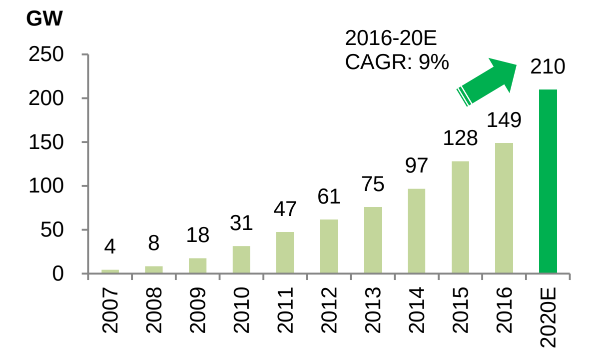
Source(s): CEC

Exhibit 4: The proportion of nuclear power in China's overall power output has been increasing



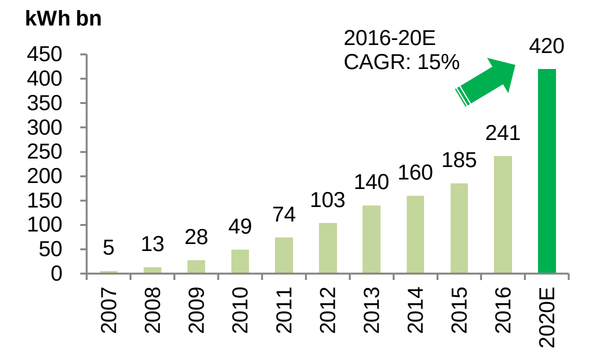
Source(s): CEC

Exhibit 5: China's wind power capacity would expand in 2016-20E



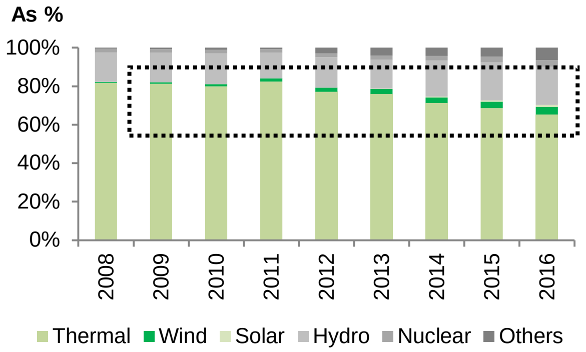
Source(s): NDRC, ABCI Securities estimates

Exhibit 6: China's wind power output would grow in 2016-20E



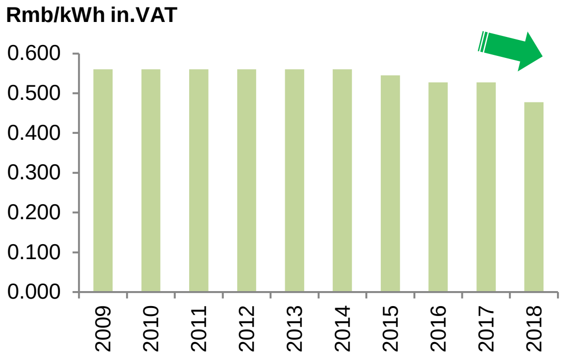
Source(s): NDRC, ABCI Securities estimates

Exhibit 7: The proportion of wind power in China's energy mix has been growing



Source(s): NDRC

Exhibit 8: China's nationwide average tariff would continue to trend down



Source(s): NEA, NDRC

Exhibit 9: Nuclear Power Operators Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)
CGN Power	1816 HK	9.5	9.1	1.3	1.2	3.4	3.4
CNNP	601985 CH	23.8	19.6	2.7	2.4	1.1	1.3
Tokyo Electric Power	9501 JP	2.3	3.4	0.4	0.4	0.0	0.0
Kansai Electric Power	9503 JP	9.6	9.1	0.9	0.9	2.2	3.0
Kyushu Electric Power	9508 JP	10.5	6.6	1.2	1.0	1.6	2.5
Korea Electric Power	015760 KS	7.0	5.8	0.3	0.3	3.4	4.1
E.On Se	EOAN GR	15.5	15.3	4.7	4.1	3.1	4.5
Edf	EDF FP	18.8	16.2	0.8	0.8	3.3	3.0
Duke Energy Corp	DUK US	19.4	18.4	1.5	1.5	4.0	4.1
Nextera Energy	NEE US	23.1	21.5	2.7	2.6	2.5	2.8
Exelon Corp	EXC US	15.6	14.4	1.4	1.3	3.2	3.3
Firstenergy Corp	FE US	11.4	13.4	2.2	2.0	4.2	4.2
Entergy Corp	ETR US	12.4	17.1	1.8	1.7	4.1	4.2

Source(s): Bloomberg estimates, ABCI Securities

Exhibit 10: Wind Power Operators Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)
China Longyuan	916 HK	BUY	7.50	38.63	9.4	7.9	0.85	0.78	2.2	2.6
Huaneng Renew.	958 HK	BUY	3.00	21.46	6.9	6.1	0.89	0.80	2.2	2.5
Datang Renew.	1798 HK	HOLD	0.80	(13.04)	9.4	7.3	0.50	0.47	3.2	4.0
Huadian Fuxin Energy	816 HK	-	-	-	6.5	5.6	0.63	0.57	3.4	4.0
Beijing Jingneng	579 HK	-	-	-	5.9	5.8	0.69	0.63	3.9	4.3
China Suntien	956 HK	-	-	-	7.6	6.6	0.73	0.67	4.6	5.2
Acciona Sa	ANA SM	-	-	-	15.3	14.5	1.00	0.97	4.3	4.6
Futuren Sa	FTRN FP	-	-	-	113.0	113.0	-	-	-	-
Edp Renovaveis	EDPR PL	-	-	-	31.3	29.5	0.95	0.93	0.9	1.0
Greentech Energy	GES DC	-	-	-	13.0	11.4	0.41	0.40	5.4	5.4

Source(s): Bloomberg, ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

China Environmental Protection Sector

The future will only get greener

- China reiterates its priority of environmental protection in the 19th NCCPC
- China's new environmental tax, effective on Jan 1, 2018, should be a long-term positive. Private-public partnership would boost operators' Engineering, procurement and construction (EPC) revenue
- We expect the volume of urban solid waste treated via incineration in China would increase at 13% CAGR; wastewater treatment volume would grow at 8% CAGR in 2015-20E
- **OVERWEIGHT** on China Environmental Protection Sector. Recommend **BUY** for **Beijing Enterprises Water (371 HK)**

OVERWEIGHT

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

China reiterated its priority of environmental protection in the 19th NCCPC. President Xi Jinping said the country would accelerate water pollution control, implement comprehensive management of watershed and coastal waters, strengthen solid waste and wastewater treatments, and elevate pollution emission standards. We believe the government would further tighten emission standard and spur demand for environmental protection facilities and services.

New environmental tax presents a long-term positive. China's tightening of environmental policy will be beneficial to environmental protection operators. The "China Environmental Protection Tax Law" was introduced on Dec 23, 2016 to enforce taxation on all pollution emission enterprises. According to the new law, to be effective on Jan 1, 2018, all sources of pollution will be taxed, including air pollutants, solid waste, wastewater and noise. The government is reclassifying the charges as tax instead of a fee to increase payment obligation since defaulting has been common and not been considered illegal. Hence, new tax law should help improve cash flow of environmental protection operators. Details regarding the implementation and whether the tax income will be used to subsidize waste treatment operators have not yet been disclosed.

Private-public partnership (PPP) would boost EPC revenue. The government will encourage PPP in urban facilities to lower the financial burden of local governments and attract private capital. Urban environmental protection operation (includes incineration and wastewater treatment) usually generate a strong cash flow and is a good investment for long-term investors. The business model of PPP would attract more private capital, boosting demand for construction. We believe the EPC business of environmental protection operators would grow in 2018.

Urban incineration capacity to grow at 19% CAGR and incinerated volume to increase at 13% CAGR in 2015-20E. Incineration is preferred as a treatment over landfill for residential solid waste because the latter usually causes soil and underground water pollution. According to "13th FYP on Urban Residential Waste Harmless Processing Facilities Construction Plan" issued by the NDRC in Dec 2016, China targets to raise the proportion of waste incinerated in urban areas from the 34% at end-2015 to >50% by end-2020E. In Sep 2016, NDRC launched the "The

Key Data

Avg.18E P/E (x)	10.3
Avg.18E P/B (x)	1.7
Avg.18E Dividend Yield (%)	2.4

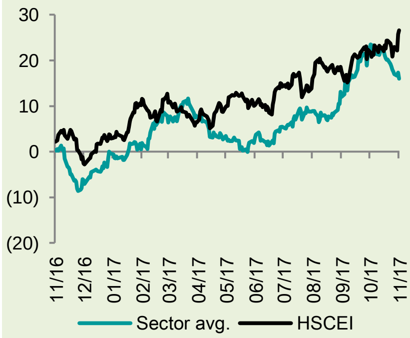
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(5.6)	(9.2)
3-mth	7.4	1.9
6-mth	13.8	1.2

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

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

Draft of 13th FYP on Urban Residential Waste Treatment" which targets to raise incineration capacity in urban area from 216kt/day by end-2015 to 520kt/day by end-2020, implying a 141% jump or a 5-year CAGR of 19% in 2015-20. Assuming residential waste produce per capita in urban areas would grow at 1% p.a. from 2016-20E (1.1% CAGR in 2010-15), with increasing urbanization rate and nationwide population (expected to reach 60% by end-2020E and nationwide population to reach 1.45bn by end-2020E from 1.38bn by end-2015), total residential waste produced in urban areas would increase from 192mt by end-2015 to 228mt by end-2020E, and waste treated via incineration would soar from 61mt by end-2015 to 114mt by end-2020E - a 87% jump or 13% CAGR during 2015-20E. Rising demand for urban incineration service would provide strong support to operators' earnings.

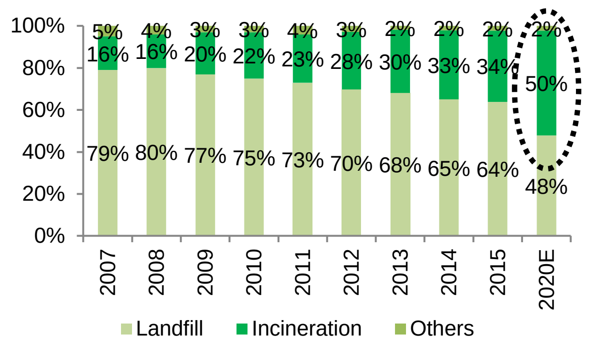
An 8% CAGR in urban wastewater treatment volume in 2015-20E will create attractive opportunities. With rising urbanization and the government's effort to boost urban wastewater treatment rate, total volume of urban wastewater to be treated would grow substantially in years to come. Assuming an urbanization rate of 60%, a wastewater treatment rate of 95% by end-2020E, and wastewater produced per capita to grow at 4% p.a. during 2015-20E (wastewater produced per capita grew 4% p.a. in 2010-15), total wastewater treatment volume would be 70bn tons, representing a 48% increase from end-2015 (~47bn tons), or a 8% CAGR during 2015-20E. We believe urban wastewater treatment operators would benefit from the rapid development.

Focus on quality players. With rapid expansion in solid waste and wastewater treatment facilities in urban areas, the market's focus is likely to shift from quantity to quality operators. As population in tier-1/ 2 cities will continue to expand, waste treatment operators (in solid waste or wastewater treatment) in these prime areas would outperform peers in less affluent regions.

OVERWEIGHT sector outlook; maintain BUY for Beijing Enterprises Water (371 HK). We are positive on wastewater and solid waste treatment sectors as increasing urbanization and rising living standard would spur demand for waste treatment. Our top pick is **Beijing Enterprises Water (371 HK)** for its leading position in wastewater treatment industry. Its increasing capacity in water distribution would support growth.

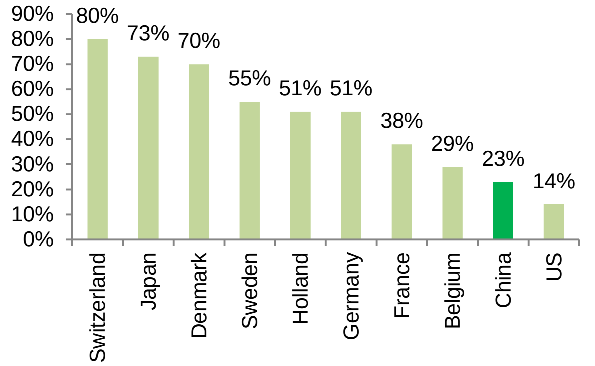
Risk factors: 1). Air pollution concern may hinder construction of incinerators; 2). High net gearing may compromise balance sheet quality; 3). Rising debts of local governments may affect funding and expansion of environmental protection facilities.

Exhibit 1: China targets to raise the proportion of solid waste treated via incineration in urban areas



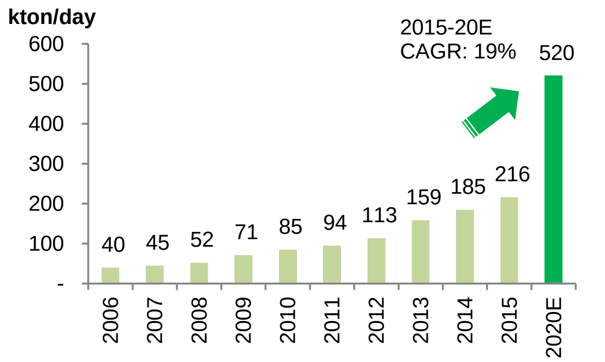
Source(s): NDRC, ABCI Securities estimates

Exhibit 2: The proportion of residential solid waste treated via incineration to total volume of waste treated (2011) - China still has much room to grow



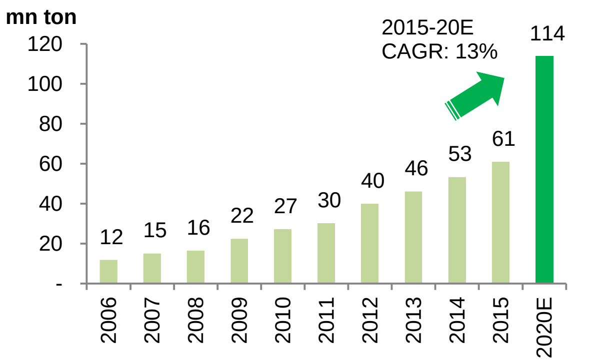
Source(s): cb.com.cn

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



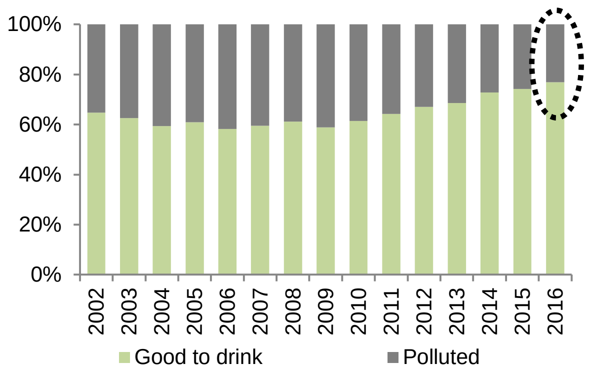
Source(s): NDRC, ABCI Securities estimates

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



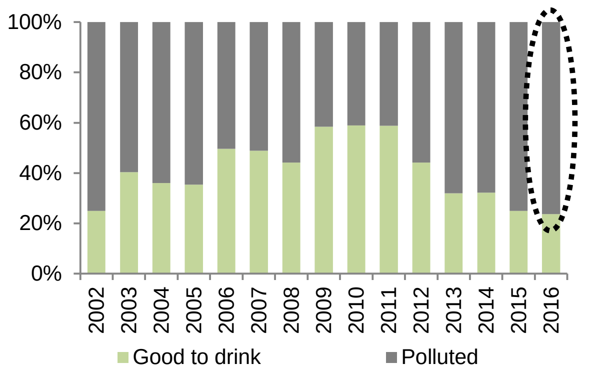
Source(s): NDRC, ABCI Securities estimates

Exhibit 5: Pollution in rivers has been improving in China



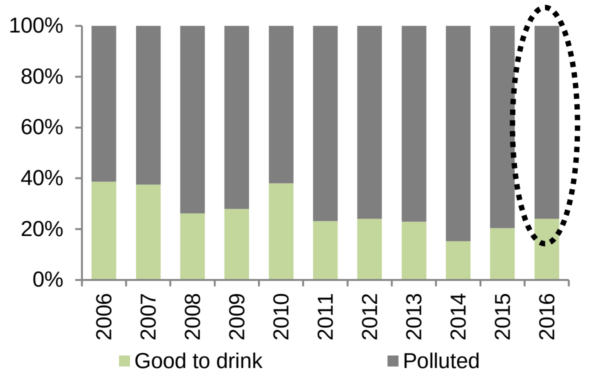
Source(s): MEP, MWR

Exhibit 6: Pollution in lakes is worsening in China



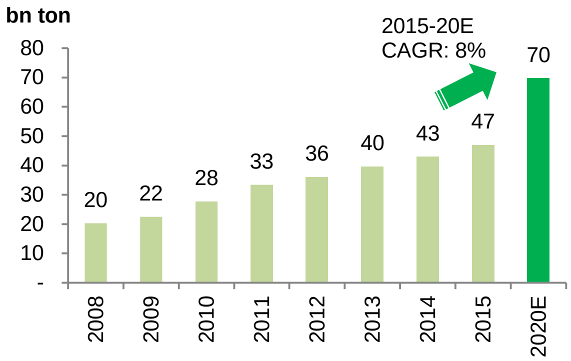
Source(s): MEP, MWR

Exhibit 7: Pollution in underground water is severe in China



Source(s): MEP, MWR

Exhibit 8: China's urban wastewater treatment volume would expand at 8% CAGR in 2015-20E



Source(s): NDRC, ABCI Securities estimates

Incineration Operators Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)
China Everbright Intl	257 HK	13.5	11.2	2.4	2.1	2.4	2.9
Canvest Enviro.	1381 HK	18.8	14.9	2.6	2.2	0.7	0.9
Capital Enviro.Holdings	3989 HK	28.7	9.9	1.1	1.0	-	-
Beijing Enterprises Enviro.	154 HK	-	-	-	-	-	-
Dynagreen Enviro. Pr-H	1330 HK	8.1	6.7	1.2	1.0	2.2	2.6
Kaidi Ecological-A	000939 CH	-	-	-	-	-	-
Asahi Holdings Inc	5857 JP	8.1	7.8	1.3	1.2	3.0	2.9
Daiseki Co Ltd	9793 JP	0.0	0.0	0.0	0.0	0.0	0.0
Republic Services Inc	RSG US	26.1	24.1	2.7	2.7	2.1	2.2
Waste Connections Inc	WCN US	32.4	29.4	3.0	2.8	0.7	0.8
Clean Harbors Inc	CLH US	138.6	53.6	2.7	2.5	-	-
Waste Management Inc	WM US	25.1	23.1	6.5	3.1	2.1	2.2
Waste Connections Inc	WCN CN	32.3	29.4	3.0	2.8	0.7	0.8

Source(s): Bloomberg estimates, ABCI Securities

Wastewater Treatment Operators Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)
Beijing Enterprises Water	371 HK	BUY	7.60	21.41	13.4	10.7	2.8	2.4	2.5	3.1
Ct Environment	1363 HK	-	-	-	11.3	9.6	1.9	1.6	2.0	2.2
Tianjin Capital - H	1065 HK	-	-	-	10.9	10.3	1.1	1.0	1.8	1.8
China Water Affairs	855 HK	-	-	-	9.6	8.1	1.6	1.5	2.2	2.5
Chongqing Water	601158 CH	-	-	-	18.0	19.9	2.5	2.4	5.1	4.9
Tianjin Capital - A	600874 CH	-	-	-	37.0	35.0	3.7	3.4	0.5	0.5
Beijing Originwater	300070 CH	-	-	-	20.9	16.4	3.0	2.5	0.5	0.6
Beijing Water Business	300055 CH	-	-	-	44.2	27.9	3.0	2.7	-	-
Heilongjiang Interchina	600187 CH	-	-	-	-	-	-	-	-	-
Beijing Capital	600008 CH	-	-	-	36.5	32.6	2.5	2.3	1.7	1.9
Manila Water	MWC PM	-	-	-	10.9	10.1	1.3	1.2	3.0	3.2
Ttw Pcl	TTW TB	-	-	-	18.2	17.3	4.3	4.2	5.2	5.4
Eastern Water Resources	EASTW TB	-	-	-	-	-	-	-	-	-
Aqua America	WTR US	-	-	-	26.9	25.5	3.2	3.1	2.2	2.4
American States Water	AWR US	-	-	-	32.8	31.5	4.0	3.7	1.8	1.9
California Water Service	CWT US	-	-	-	33.1	31.4	3.0	2.7	1.6	1.7

Source(s): Bloomberg, ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

China Internet Media and Consumer Commerce

The big gets bigger

- We believe **Tencent (700 HK)** and **Alibaba (BABA US)** should benefit the most from the rising FinTech trend because access to their databases is essential for most FinTech product development and risk management
- Tencent's growth momentum, particularly in online gaming, accelerated in recent quarters, indicating improving monetization across multiple social platforms
- Alibaba's revenue mix has been shifting from transaction-based commission income to valued-added service income.
- Earnings power of cloud business would be unleashed in the medium term

OVERWEIGHT

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

Key Data

Avg.18E P/E (x)	24.1
Avg.18E P/B (x)	6.2
Avg.18E Dividend Yield (%)	0.7

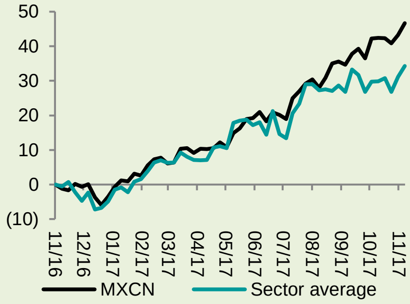
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	8.0	4.5
3-mth	3.5	(4.8)
6-mth	17.5	(6.8)

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

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

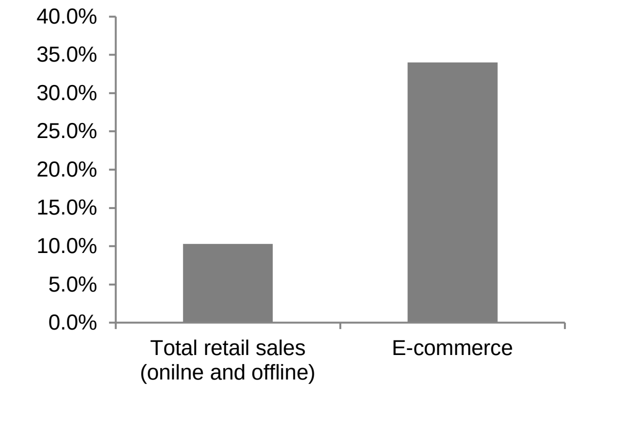
Tencent (700 HK) and Alibaba (BABA US) should benefit the most from the FinTech uptrend. FinTech players are utilizing new technology such as big data and A.I. to offer innovative products and services to customers, especially the post-80s/90s cohorts who are more tech-savvy than the target customer group of traditional financial institutions. The innovative products/services include shipping return insurance, phone accident insurance, micro-consumer loans, and more. Amid this FinTech uptrend, we believe major database owners including Tencent and Alibaba (via Ant Financials) should benefit the most, as most FinTech (e.g. big data and A.I) requires access to data of consumers' online behavior (i.e. shopping and browsing, etc.) for product development, marketing, and risk management.

Accelerating monetization in Tencent. Tencent's revenue growth rose to 62% in 3Q17 from 44% in 4Q16, indicating accelerating monetization across its various platforms such as QQ, WeChat, etc. Its mobile gaming business has been a bright spot thanks to strong performance of "Honor of Kings (HOK)". In our view, the upcoming new game, "Glorious Mission" ("光荣使命"), could potentially be the next blockbuster after HOK given the rising popularity of extreme survival shooter game genre. Tencent has recently announced a "Three 10 Billion" strategy that includes various forms of support for content providers to enrich content quality and increase traffic, supporting further monetization of advertising opportunities in years to come.

Alibaba - New Retail strategy. Alibaba has been actively implementing its New Retail strategy to create a seamless online and offline shopping experiences for consumers, as illustrated by its recent acquisition of China's leading hypermarket, Sun Art. In addition, online advertising and value-added service revenue to merchants have grown to 2.6x of commission revenue, illustrating the shift from transaction-based commission income to valued-added service income. Cloud revenue is another rising star with revenue growth of ~100% in recent quarters.

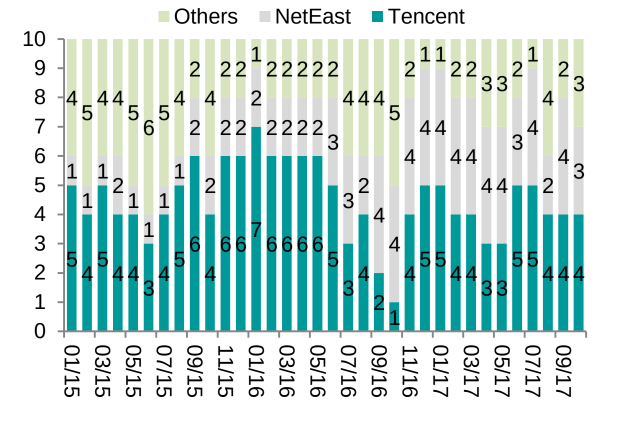
Online shopping: strong momentum continues. Online sales of goods rose 34.0% in 10M17, significantly higher than the 10.3% overall retail sales growth, indicating an ongoing shift in consumption pattern from offline to online. In our view, ongoing improvement in industry delivery infrastructure and O2O integration has led to continuous growth for the e-commerce industry as a whole.

Exhibit 1: 10M17 sales growth – online vs. offline



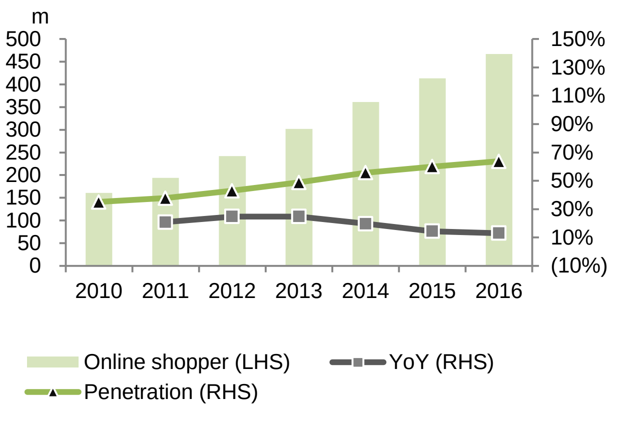
Source(s):NBS, ABCI Securities

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



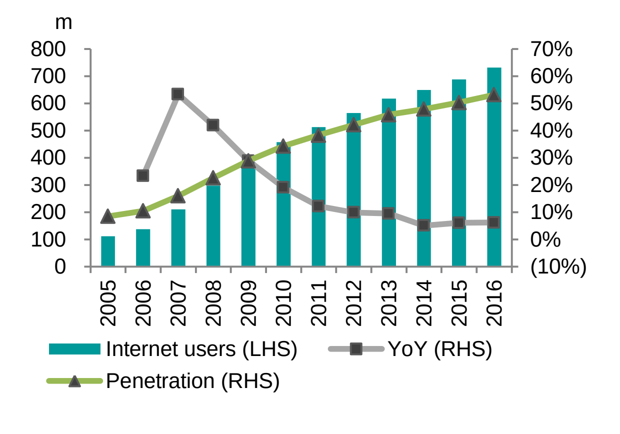
Source(s): App Annie, ABCI Securities

Exhibit 3: Online shopper growth



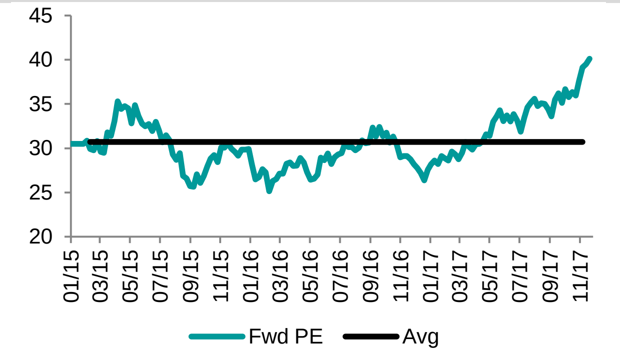
Source(s): CNNIC, ABCI Securities

Exhibit 4: Internet user growth



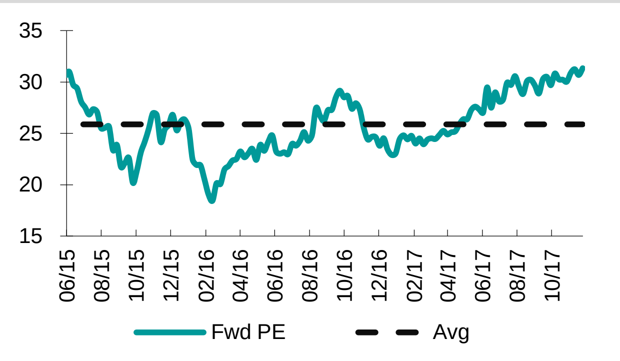
Source(s): CNNIC, ABCI Securities

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 Nov 24, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)
Tencent	700 HK	BUY	441	6	49.1	37.6	13.6	10.5	0.2	0.2
Alibaba	BABA US	BUY	222	16	35.4	27.2	8.2	6.9	-	-
JD.com	JD US	NR	-	-	82.2	45.4	8.2	7.4	-	-
Baidu	BIDU US	NR	-	-	11.4	10.5	3.9	2.9	-	-
VIP Shop	VIPS US	NR	-	-	21.1	18.1	5.7	4.8	1.0	1.1
NetEase	NTES US	NR	-	-	28.1	25.7	4.8	4.4	-	-

Source(s): Bloomberg, ABCI Securities estimates

China Education Sector

Benefit from policy and strong demand

- Government policy and robust demand are supporting the industry
- Schools of the HK-listed education providers are operating at a high utilization rate
- Expansion will likely be driven by M&A activities in the future
- Valuation of HK-listed players peaked in early 4Q17
- Future regulation may impact the finances and operation of listed players

OVERWEIGHT

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

Sector supported by policy and growing demand. The PRC government has introduced policies to encourage private capital to enter the education sector in China. In addition, the implementation of two-child policy would mean student numbers will increase. Sector-wise, student enrollment rose in the 2017/18 school year, indicating a rising demand for quality education. We believe private education providers will play an increasingly important role in supplementing the public schools. Education providers would be able to raise tuition and other charges in the medium term.

More M&A to be seen. In our view, growth of the industry participants are mostly limited by school capacity. Portfolio schools of the HK-listed education providers are operating at a high utilization rate. To expand further, they would need to look for M&A opportunities. Expansion based on the third-party management model may also be considered.

Peak valuation expected in 4Q17. Valuation of the education sector in the HK stock market peaked in 4Q17 and has gradually declined since beg-Oct 2017. In addition, valuations of fundamental education providers are consistently higher than those of the higher education providers.

The pool for selection is getting bigger. Currently, there are six private education providers listed in HK. In addition, four companies are pending to go public as of the report publication date. So far, the listed players usually have a small cap of less than US$ 2bn and ADT is low. Investors are looking for large caps with high liquidity.

Uncertainty in new regulations. The education industry still faces uncertainties in new regulations regarding the classification of non-profit/for-profit organizations and conversion from one form to another. Some adverse impacts on finance and operation (such as changing tax rates) can be expected.

Key Data

Avg.18E P/E (x)	20.3
Avg.18E P/B (x)	3.1
Avg.18E Dividend Yield (%)	2.0

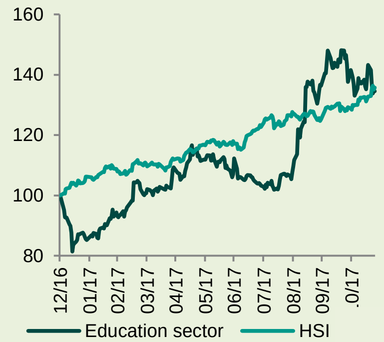
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	(7.4)	(13.5)
3-mth	26.4	17.9
6-mth	18.7	1.2

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

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

Sector recommendation. We are optimistic on school operators with exposure in affluent regions where they can command a high tuition fee. **Wisdom Education (6068 HK)**, with its reputable portfolio schools in Dongguan, solid expansion plan, rising tuition and fees amid strong demand for private education in China, is our top pick.

Risk factors: 1) Policy & regulatory risk; 2) Cost risks related to school expansion; 3) Cash flow management risk; 4) Education quality and student dropout risk; 5) Operational risk; 6) Growth risk; 7) M&A risk.

Exhibit 1: Comparison of margins (%)

	FY-end	FY13	FY14	FY15	FY16	FY17
GPM						
Wisdom	Aug-31	-	46.8	49.1	47.1	45.9
Maple Leaf	Aug-31	43.0	43.5	45.7	48.4	49.8
Yuhua	Aug-31	-	44.5	45.6	52.0	51.5
Virscend	Dec-31	37.4	40.7	41.9	47.3	-
Minsheng Edu	Dec-31	62.8	63.5	61.4	58.1	-
China New Higher Edu	Dec-31	-	48.8	49.5	48.0	-
NPM (to owners of the Company)						
Wisdom	Aug-31	-	20.2	32.1	22.0	20.4
Maple Leaf	Aug-31	7.0	7.4	31.5	37.1	37.6
Yuhua	Aug-31	-	34.7	13.1	39.9	37.1
Virscend	Dec-31	6.7	12.6	15.5	36.5	-
Minsheng Edu	Dec-31	46.0	46.4	47.7	54.7	-
China New Higher Edu	Dec-31	-	39.4	37.9	32.8	-

Source(s): Companies, ABCI Securities calculation

Exhibit 2: Comparison of size

		Revenue (RMB mn)			Net profit (RMB mn)			Student enrollment		
	FY-end	FY15	FY16	FY17	FY15	FY16	FY17	2014/15	2015/16	2016/17
Wisdom	Aug-31	569	701	846	182	154	200	22,837	27,644	31,788
Maple Leaf	Aug-31	653	830	1,083	206	308	414	16,078	19,334	26,088
Yuhua	Aug-31	698	781	846	91	312	314	43,579	48,220	51,115
Virscend	Dec-31	708	827	-	125	302	-	31,580	32,582	34,458*
Minsheng Edu	Dec-31	426	445	-	213	250	-	29,626	30,616	32,635
China New Higher Edu	Dec-31	274	341	-	104	112	-	25,040	29,716	33,462

* Latest figure disclosed by the company
Source(s): Companies, ABCI Securities calculation

Exhibit 3: Sector Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY18E P/E (x)	FY19E P/E(x)	FY18E P/B (x)	FY19E P/Bx)	FY18E Yield (%)	FY19 Yield (%)
Wisdom	6068 HK	BUY	4.95	5.77	27.87	19.85	3.96	3.30	1.28	1.79
Maple Leaf	1317 HK	-	-	-	20.63	17.04	3.84	3.40	1.91	2.21
Yuhua	6169 HK	-	-	-	17.61	15.78	2.68	2.29	2.99	3.22
Virscend	1565 HK	-	-	-	23.66	18.10	3.76	3.34	1.82	2.46
Minsheng	1569 HK	-	-	-	14.38	12.81	1.51	1.37	1.84	2.55
China New Higher Edu	2001 HK	-	-	-	17.38	14.00	2.66	2.31	1.99	2.38

Source(s), Bloomberg, ABCI Securities estimates

Consumer Goods Sector

Follow the market leaders in 2018

- Demand-side pressure surfaced in 2017 and may persist in 2018
- High growth in some consumer product companies' topline is partially inflated by the low base effect in 2016; their above-national growth also suggests other players are being squeezed
- New import tax policy would favor domestic consumption although the impact would not be immediate
- Sector valuation is retreating from high levels
- Still optimistic on the industry leaders

OVERWEIGHT

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

Demand-side pressure emerges as reflected by recent retail sales performance. Up until Oct 2017, nominal retail sales growth dropped to 10% YoY. Real retail sales growth dropped to 8.6% YoY, lower than the 8.8% YoY in Oct 2016. Meanwhile, inflation figures (CPI & PPI) have been rising. Piecing the data together, we believe real demand has been softening. We project the national nominal retail sales growth to remain stable and inflation continues to tick up in 2018E.

High growth in 2017. Satisfactory revenue growth has been observed among some consumer product companies in 2017.Yili and WH Group recorded 9M17 revenue growth of 13.64% YoY and 3.23% YoY. Nonetheless, we believe such growth is partially distorted by the low base in 2016.

Impact of import tax policy is hard to ignore. China's State Council announced that import tax for some consumer products will be reduced or eliminated, effective from Dec 1, 2017. The import tax for certain infant formula products and diaper products are eliminated, while other products saw a reduction of 50% or more. The new tax arrangement may rev up consumption of imported goods although the impact would not be immediate.

High valuations in the sector. In 2017, Valuation of companies in the consumer goods sector has hit high levels while stock indices relating to consumer sector have edged up. Aside from impressive business growth, the market's increased appetite for blue-chip stocks in 2017 also drive up share prices. With investors taking profit, the sector's share prices have retreated and we expect the downward pressure to persist in the near term.

Sector recommendation. We still prefer sector leaders, which include WH Group (288 HK), Shuanghui (000895 CH), Yili (600887 CH), and Anta (2020 HK).Strong financial performance of these companies in 2017 shows resilience of their businesses. These companies should be more

Key Data

Avg.18E P/E (x)	20.0
Avg.18E P/B (x)	4.3
Avg.18E Dividend Yield (%)	3.0

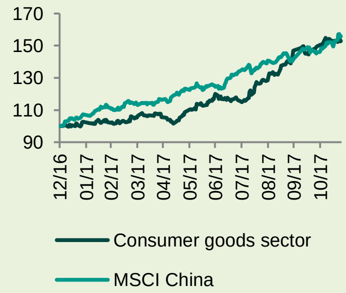
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	4.2	(2.5)
3-mth	18.9	7.2
6-mth	42.9	14.9

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

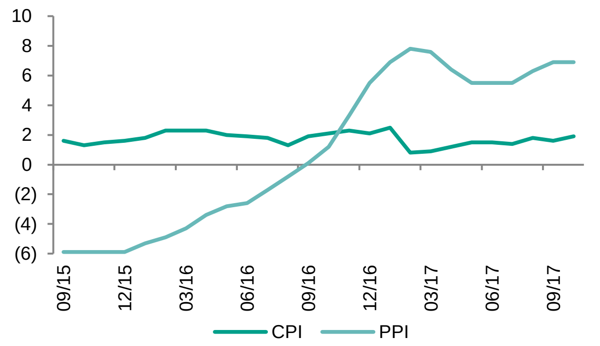
1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

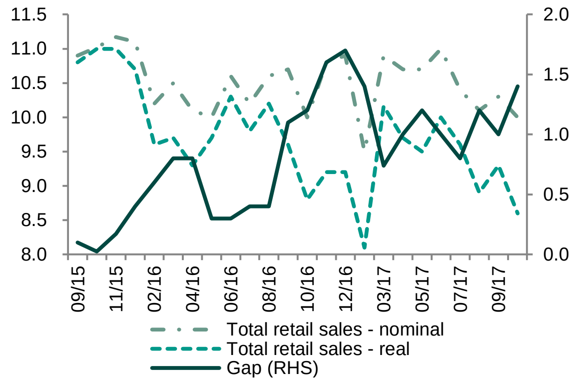
Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Product quality/safety risk; 4) Risk of changing consumer tastes; 5) Commodity price risk; 6) Foreign exchange risk; 7) Interest rate risk; 8) M&A risk.

Exhibit 1: China's CPI & PPI (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 2: Retail sales growth (YoY %)

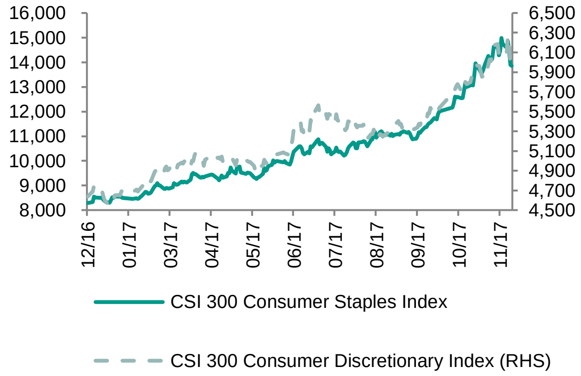


Source(s): NBS, ABCI Securities

Exhibit 3: Consumer goods-related indices have been rising in 2017

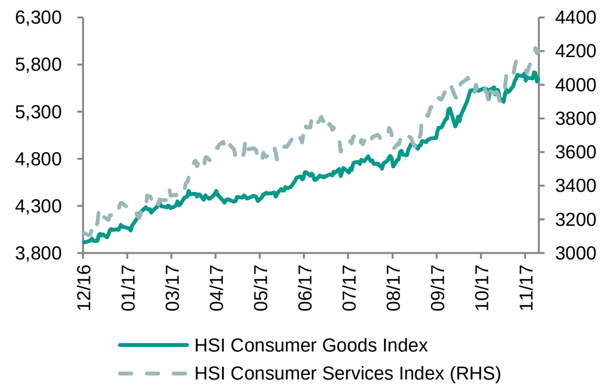
Source(s): Bloomberg, ABCI Securities

Exhibit 4: Consumer goods-related indices have been rising in 2017



Source(s): Bloomberg, ABCI Securities

Exhibit 5: Consumer goods-related indices have been rising in 2017



Source(s): Bloomberg, ABCI Securities

Exhibit 6: Sector Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)
WH Group	288 HK	BUY	9.14	12.84	14.46	13.57	2.28	2.15	2.22	2.38
Shuanghui	000895 CH	BUY	31.20*	15.47	19.00	16.50	6.08	5.86	4.74	5.45
Yili	600887 CH	BUY	35.20*	17.33	15.18	21.30	5.32	4.88	2.51	2.99
Anta	2020 HK	BUY	37.60	5.17	26.44	22.16	6.15	5.68	2.66	3.16
Mengniu	2319 HK	HOLD	20.30	(3.1)	30.12	26.38	3.11	2.88	0.80	0.90

*In RMB

Source(s): Bloomberg, ABCI Securities estimates

*

China Pharma & Healthcare Sector

Pick R&D-focused players

OVERWEIGHT

- We expect growth of health insurance claims to remain strong in 2018, boosting demand for drugs and healthcare services.
- Price war of generic drugs will intensify in 2019/20, slowing down business growth of drug distributors in 2018.
- Increasing birth rate will generate strong demand for healthcare services in O&G, pediatrics, and pediatric drugs in coming years. **CR Sanjiu (000999 CH)** will be the beneficiary
- Pharma plays committed to R&D, such as **Sino Biopharm (1177 HK)** and **Hengrui (600276 CH),** deserve higher valuations even though their earnings are suppressed in short term

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

Insurance claims to boost growth for drug and healthcare services. Growth of health insurance premium slowed down to 5.3%YoY in 10M17 from 64.1%YoY/51.9%YoY in 2016/2015, which is negative to pharma and healthcare sector in the medium term. However, growth of health insurance claims stabilized at 28.9%YoY in 10M17 from 31.1%YoY in 2016, benefiting the sector in short term. We expect growth of health insurance claims to remain strong in 2018, boosting demand for drugs and healthcare services.

Price war for generic drugs to intensify in future. Ex-factory PPI of pharma mfg industry rose by a meager 1.3%YoY in 10M17, indicating low price-bargaining power of most drug producers. The implementation of the "Two-invoice" system and "Quality and efficacy consistency evaluation for generics" will suppress aggregate demand for generic drugs in the short term and reduce differentiation among these products in the long term. In addition, price war of generic drugs will intensify in 2019/20, slowing down business growth of drug distributors in 2018.

Policy support for the healthcare service industry. Several new policies have been released to support healthcare industry, including the coverage expansion of basic medical insurance to include non-local hospital visits. With the expanded hospital choices, patients will opt for reputable, top-tier hospitals. In addition, implementation of two-child policy would lend sturdy support to demand for obstetrics & gynecology (O&G) services. **Kanghua (3689 HK)**, the only healthcare provider that has Grade A Class III portfolio hospital listed in the HK market, should be able to benefit from these policies.

Pediatric drugs will become a high-growth niche market. China's birth rate increased to 13.0% in 2016, the highest since 2002. Avg birth rate in 2007-16 was 12.1%. The number of newborns increased by 7.9%YoY to 17.9 mn in 2016. Increasing birth rate will generate strong demand for healthcare services in O&G, pediatrics, and pediatric drugs in coming years. Pediatric drug producer, **CR Sanjiu (000999 CH),** which is a subsidiary of CR Resources (3320 HK), will be the beneficiary.

Key Data

Avg.18E P/E (x)	18.5
Avg.18E P/B (x)	3.0
Avg.18E Dividend Yield (%)	1.8

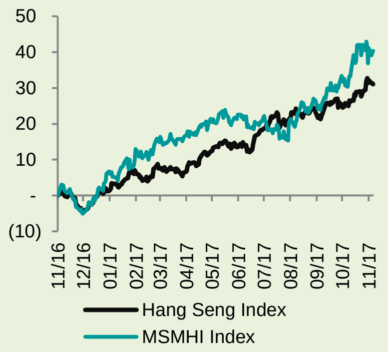
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	7.1	1.0
3-mth	16.2	7.7
6-mth	17.0	(0.4)

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

1-Year sector performance (%)

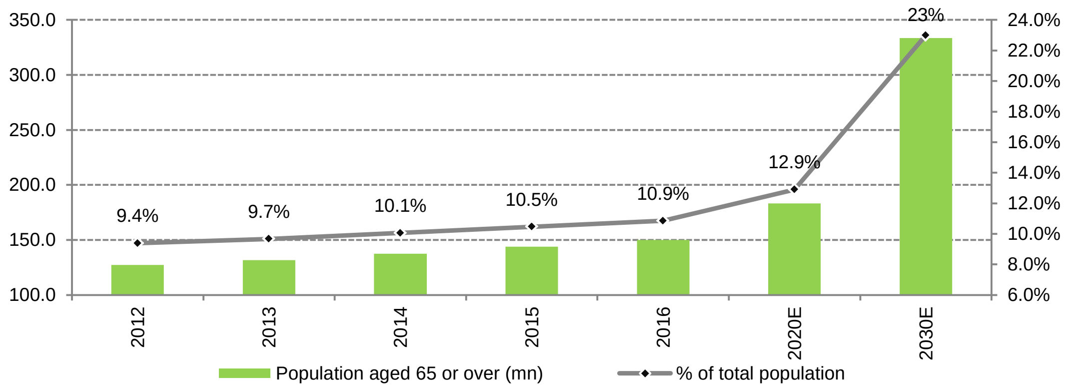


Source(s): Bloomberg, ABCI Securities

Demographic change elevates demand for elderly drugs and elderly services in the long run. The government projects total population will grow at 0.30% CAGR to 1.45bn in 2030 from 1.38 bn in 2016. Population aged 60 or above will grow at 3.09% CAGR to 362.5mn in 2030 from 222.6 mn in 2016. We estimate the proportion of population aged 60 or above will increase from 16.1% in 2016 to 17.7% in 2020 and 25% in 2030. Increasing size of aged population will continue to increase demand for diagnosis and treatment for cardiovascular disease, Alzheimer's disease , and cancers. **Sino Biopharm (1177 HK), Luye (2186 HK), and CSPC (1093 HK)** will benefit.

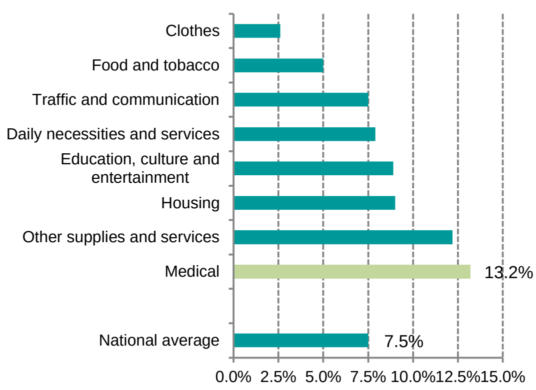
Pharma plays committed to R&D deserve higher valuations. Among the member stocks in Hang Seng Healthcare Index (33 stocks) and CSI 300 Health Care Index (18 stocks), only **Sino Biopharm (1177 HK)** and **Hengrui (600276 CH)** incur R&D expenses of over RMB1.0 bn and have an R&D/sales ratio greater than 10%. These companies, in our view, deserve a higher P/E as their near-term profits are suppressed by the high R&D costs. According to "the Opinions on Deeping the Review and Approval System Reform and Encouraging the Drug and Medical Device Innovation" announced by the State Council in Oct 2017, approval process of innovated drugs and medical device will be shortened- good news to pharma producers highly committed to R&D.

Exhibit 1: Projection of aged population (age > 65)



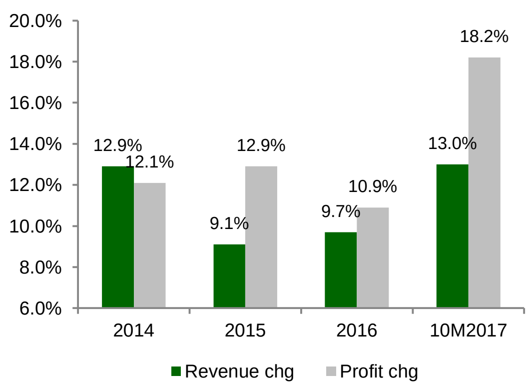
Source(s): State Council, NBS, ABCI Securities

Exhibit 2: Growth in per capita spending in 9M17 (YoY)



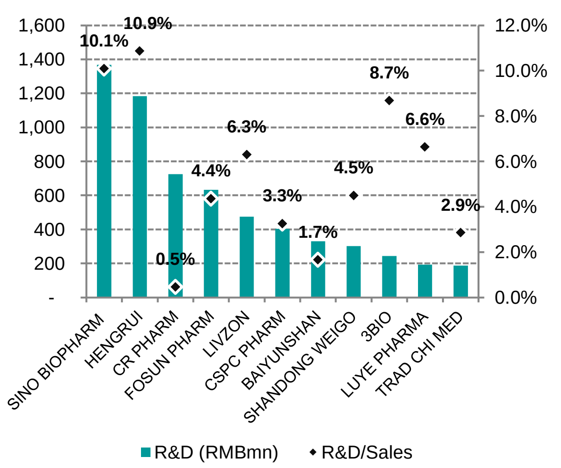
Source(s): NBS, ABCI Securities

Exhibit 3: Pharma mfg industry - revenue and profit growth (YoY)



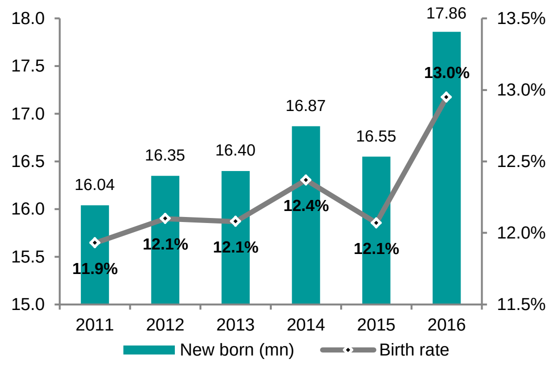
Source(s): NBS, ABCI Securities

Exhibit 4: R&D is crucial for future success



Source(s): Companies, Bloomberg, ABCI Securities

Exhibit 5: Surging demand for pediatric drugs



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 6:Sector Valuation Summary (Data as of Nov 24, 2017)

MSMHI Index Stocks	Ticker	Price (HK$)	FY17E P/E (x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)
CSPC Pharma	1093	15.76	34.99	27.93	7.8	6.55	0.96	1.2
CR Pharma	3320	10.26	18.86	16.46	1.49	1.36	1.2	1.86
SINO Biopharm	1177	10.72	39.49	34.26	8.21	6.86	0.51	0.59
Sinopharm-H	1099	31.05	14.5	12.81	1.95	1.75	2.07	2.33
CHINA Medical SY	867	16.14	20.69	17.58	4.56	3.87	1.7	2
SIHUAN Pharm	460	2.75	13.78	12.02	1.83	1.64	2.48	2.6
3SBIO INC	1530	15.18	36.81	28.2	4.49	3.94	0.17	0.24
Trad CHI Med	570	4.11	13.2	11.07	1.21	1.13	2.48	3.39
Shanghai Pharm-H	2607	19.8	12.73	11.14	1.34	1.24	2.4	2.7
Luye Pharma	2186	5.19	15.14	13.34	1.99	1.76	1.25	1.34
Average			**22.02**	**18.48**	**3.49**	**3.01**	**1.52**	**1.83**
Healthcare stocks								
CR Phoenix	1515	9.6	22.68	21.59	1.81	1.7	0.87	0.85
Harmonicare	1509	2.83	20.11	15.96	1.21	1.12	0.58	1
GD Kanghua	3689	10.88	18.11	15.6	2.35	2.08	1.63	1.88
Kangning Hosp	2120	37.45	28.43	22.79	2.15	2	1.15	1.53
Average			22.33	**18.98**	**1.88**	**1.73**	**1.06**	**1.32**

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

ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Auto Parts Sector

Downstream demand sustains industry growth

- Global auto sales slowed down in 2017 while China's auto sales maintained a solid growth momentum
- Share price performance of automobile and auto parts manufacturer have been decent in 2017, with market leaders outperforming the others
- Valuation difference between A-share market and HK market narrowed
- Recommend **Xin Point (1571 HK)**

OVERWEIGHT

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

Key Data

Avg.18E P/E (x)	12.0
Avg.18E P/B (x)	2.5
Avg.18E Dividend Yield (%)	3.4

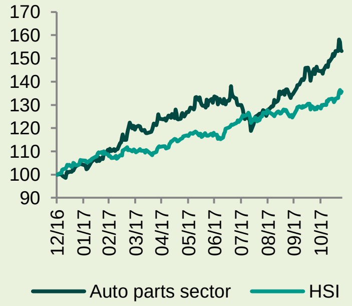
Source(s): Bloomberg, ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	6.9	0.8
3-mth	20.9	12.4
6-mth	21.0	3.6

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

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

Growth slowed in global auto sales. 10M17 global auto sales edged up 1.89% YoY, lower than the 4.60% YoY in 10M16. Lackluster performance in 10M17 was caused by the 1.14% YoY sales decline in North America while growth in Asia Pacific was lower at 1.70% YoY.

Supported by pricing, China auto retail sales maintain a solid growth momentum. Domestic demand continues to be strong in China, with retail sales of automobile showing a high-single-digit growth since Mar 2017, reaching 6.9% YoY in Oct 2017. We believe the increase has been supported mostly by higher prices rather than volume (+4.47% YoY in 10M17 vs. +13.88% YoY in 10M16).

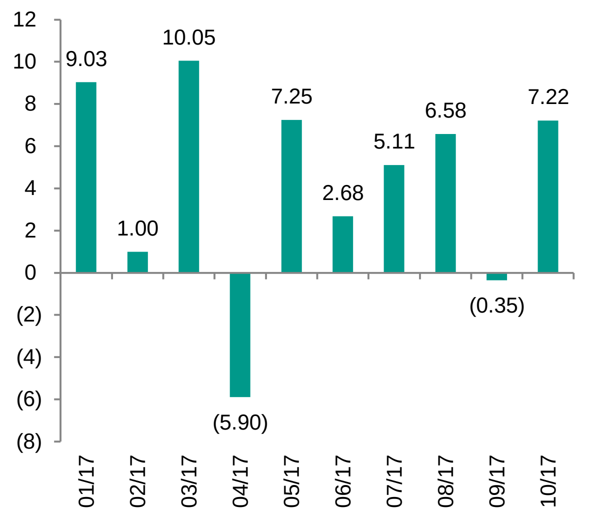
Listed industry players saw decent share price performance in 2017. Share prices of automobile and auto parts manufacturers rose in 2017. YTD (till Nov 24, 2017), share prices of Geely (175 HK) and GZ Auto (2238 HK) were up 279.12% and 125.9%, while Minth (425 HK) and Nexteer (1316 HK) climbed 87.70% and 95.98%. Aside from solid demand in the industry, players highly adaptive to market changes tend to outperform in the stock market.

Valuation of H-share auto parts companies is similar to that of international peers. Avg 18E P/E of the auto parts manufacturers in the HK market currently stands at 12.42x, similar to the 12.68x avg 18E P/E for the international players. The avg 18E P/E for the A-share market players stood at 20.31x although the valuation difference between A-share market and HK market has narrowed over time.

Sector recommendation. We remain positive on **Xin Point (1571 HK).** Aside from its list of reputable international clients, the Group has a strong track record in maintaining price growth and obtaining product orders. Its recent acquisition of assets (land, factories, and electroplating company in Jiangsu) shows confidence in future prospects.

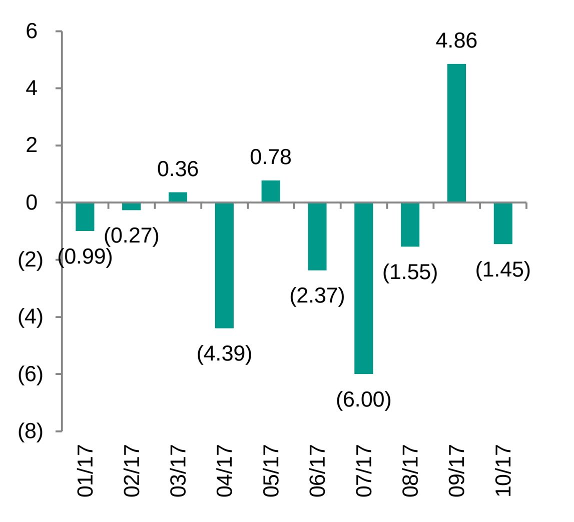
Risk factors: 1) Growth risk; 2) Commodity price risk; 3) Labor supply risk; 4) Product upgrade risk; 5) Order procurement risk; 6) Product quality risk; 7) Customer portfolio risk; 8) Export risk; 9) Currency risk.

Exhibit 1: Europe automobile sales volume growth (YoY %)



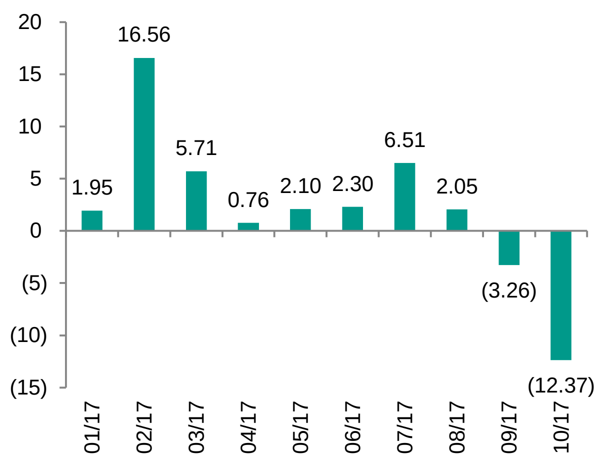
Source(s): Bloomberg, ABCI Securities

Exhibit 2: North America automobile sales volume growth (YoY %)



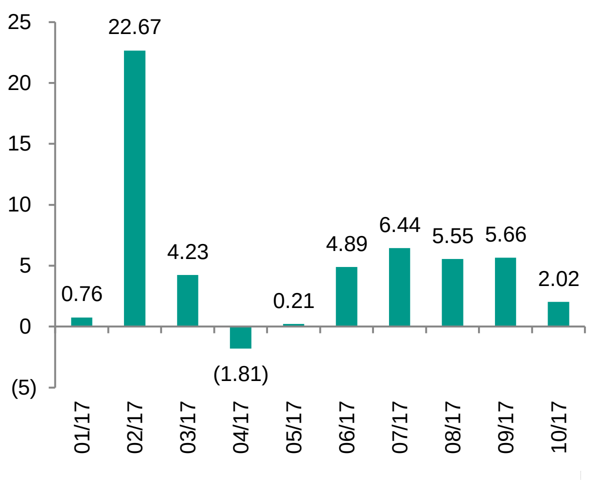
Source(s): Bloomberg, ABCI Securities

Exhibit 3: Asia-Pacific automobile sales volume growth (YoY %)



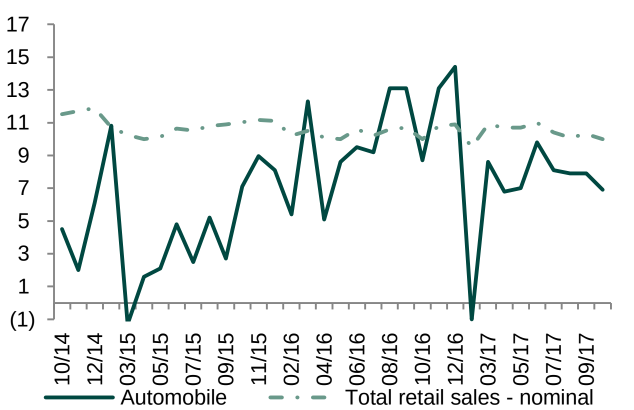
Source(s): Bloomberg, ABCI Securities

Exhibit 4: China automobile sales volume growth (YoY %)



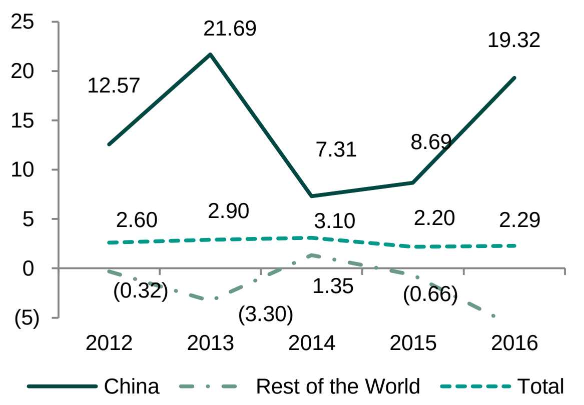
Source(s): Bloomberg, ABCI Securities

Exhibit 5: China automobile retail sales growth (YoY %)



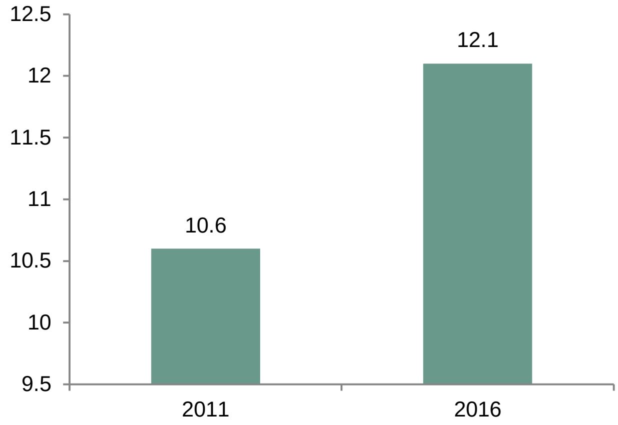
Source(s): NBS, ABCI Securities

Exhibit 6: Turnover growth - global automotive components market (YoY %)



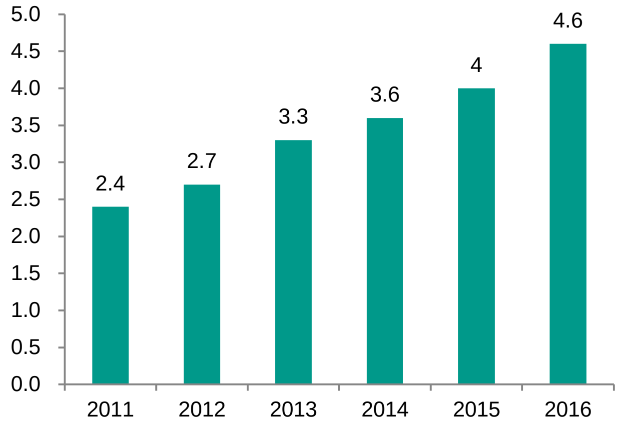
Source(s): Xin Point Prospectus, F&S report, ABCI Securities calculation

Exhibit 7: Market size of global automotive plastic electroplated components (US$ bn)



Source(s): Xin Point Prospectus, F&S report, ABCI Securities calculation

Exhibit 8: Market size of China's automotive plastic electroplated components (US$ bn)



Source(s): Xin Point Prospectus, F&S report, ABCI Securities calculation

Exhibit 9: Sector Valuation Summary (Data as of Nov 24, 2017)

Company	Ticker	Rating	TP (HK$)	Upside (%)	FY17E P/E(x)	FY18E P/E (x)	FY17E P/B (x)	FY18E P/B (x)	FY17E Yield (%)	FY18E Yield (%)
Xin Point	1571 HK	BUY	5.20	(7.47)	9.94	7.97	2.13	1.88	3.02	3.76
Minth Group	425 HK	-	-	-	19.80	16.13	3.51	3.06	1.84	2.29
Fuyao Glass - H	3606 HK	-	-	-	20.41	16.50	3.35	3.05	2.97	3.60
Tongda	698 HK	-	-	-	11.97	9.10	2.30	1.96	2.49	3.33
Xinyi Glass	868 HK	-	-	-	9.36	8.32	2.24	1.96	5.23	5.81
Nexteer	1316 HK	-	-	-	15.95	13.83	4.05	3.30	1.24	1.33

Source(s): Bloomberg, 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.

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 ≥ 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

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 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.

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

Tel: (852) 2147 8863

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED