



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

ABCI China / HK Equity Research

2023 Economic Outlook &
Investment Strategy

Ride on China's Recovery amid
Advanced Economies' Downturn

Dec 5, 2022



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yaoshaohua@abci.com.hk

852-2147 8863

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Philip Chan (Head of Research)

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Investment Strategy

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philipchan@abci.com.hk

852-2147 8805

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Johannes Au (Analyst)

China Banks

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johannesau@abci.com.hk

852-2147 8802

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Steve Chow (Analyst)

Internet Media

& Consumer Commerce

stevechow@abci.com.hk

852-2147 8809

Kenneth Tung (Analyst)

China Property

kennethtung@abci.com.hk

852-2147 8311

Paul Pan (Analyst)

China Consumer / China Education

paulpan@abci.com.hk

852-2147 8829

Ricky Lai (Analyst)

China Telecom Sector

rickylai@abci.com.hk

852-2147 8895

Global /China Economic Outlook





2023 Global Economic Outlook

Economist: Andy Yao

- The global economic growth momentum has been shaken since the start of 2022 due to surging inflation pressure, tightening monetary conditions, and ongoing Russia-Ukraine conflict
- Global inflation has risen markedly since 2022 on elevated energy and food prices and higher labor costs. While wage pressure remains contained in most developing countries, tight labor market in certain advanced economies has pushed up wages
- Looking into 2023, global economic growth is expected to slow due to tightening financial conditions in most regions, still-elevated inflation, and ongoing turmoil in Ukraine. Global inflation is likely to peak in 2H22 and decline in 2023 as demand ebbs, commodity prices retreat, and the supply situation improves. However, inflation will stay high on the rising wage level and OPEC's oil production schedule
- We expect economies in the US, China, Eurozone, Japan, and UK to grow by 1.8%, 3.0%, 3.1%, 1.5%, and 4.0% for 2022E, and 0.5%, 5.0%, -0.5%, 1.4%, and -0.6% for 2023E, respectively, compared with 5.7%, 8.1%, 5.2%, 1.7%, and 7.4% in 2021

Global economic growth has lost some momentum

Since the start of 2022, the global economic growth momentum has been dragged by surging inflation pressure, tightening monetary conditions, and ongoing conflicts between Russia and Ukraine. As shown in Exhibit 1, economies in the US, China, Eurozone, Japan, and the UK expanded 2.4%¹, 3.0%, 4.0%, 1.4%, and 5.9% in 9M22, respectively, down from 5.7%, 8.1%, 5.2%, 1.7%, and 7.4% in 2021. Both the JP Morgan global manufacturing PMI and service PMI have eased continuously since the beginning of 2022- a significant signal of economic slowdown (Exhibit 2). The JP Morgan global composite PMI has been under the 50 threshold since Aug 2022.

Exhibit 1: GDP growth of global major economies (%)

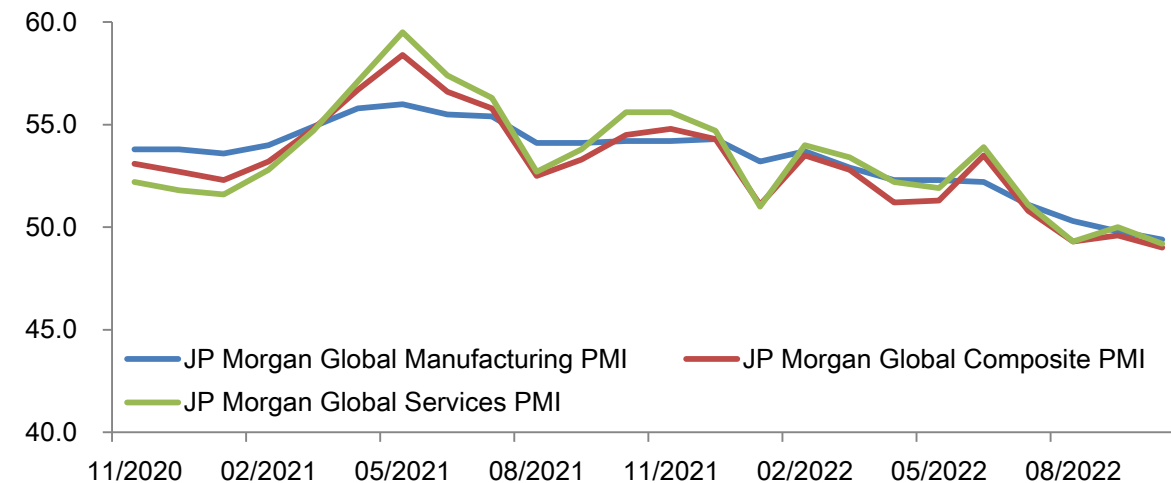
Real GDP Growth (YoY)	2020	2021	9M22
US	(2.8)	5.7	2.4
China	2.2	8.1	3.0
Eurozone	(6.1)	5.2	4.0
Japan	(4.7)	1.7	1.4
UK	(11.0)	7.4	5.9

Source(s): Bloomberg, ABCI Securities

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



Exhibit 2: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities

Global trade has slowed due to global economic slowdown, USD appreciation, conflicts between Russia and Ukraine. According to the latest WTO quarterly trade value statistics, merchandise value trade for exports rose 17.0% in 2Q22 after increasing 20.0% in 1Q22, compared with 26.5% growth in 2021. The WTO is now forecasting a global merchandise volume trade growth of 3.5% for 2022, down from the 9.7% increase in 2021. Meanwhile, global service exports increased 17% in 2Q22 and 19% in 1Q22, down from 21% in 4Q21 and 26% in 3Q21.

Global inflation has risen markedly since the start of 2022 on elevated energy and food prices as well as higher labor costs. Inflation has hit a 40-year high in some economies. According to IMF estimates, oil prices are expected to climb 41.4% in 2022, while the non-oil commodity prices would go up 7.3%. IMF expects global headline CPI inflation to increase 8.8% in 2022, up from 4.7% in 2021. While increases in food and energy prices have driven the sharp rise in headline CPI, core CPI has also risen globally except for China and Japan. Sharp inflation was seen in housing, fuel, transport, and furnishing sectors. While wage pressure remains contained in most developing countries, tight labor market in certain advanced economies has pushed up wages.

Major central banks, except PBOC and BOJ, have tightened their monetary policies amid rising inflation since 2022, which has led to the marked rise in government bond yields. The Fed has raised the Fed Funds rate 375bps since Mar. As of June, the Fed is also starting to reduce the size of its balance sheet. The ECB ended net asset purchases under the Pandemic Emergency Purchase Programme in Mar and terminated Asset Purchase Programme since Jul. The ECB has already raised policy rate 200bps since Jul. The BOE, the Bank of Canada, and the Reserve Bank of Australia have all raised their main policy rates since the start of 2022. However, PBOC and BOJ have maintained a loose monetary policy to support economic growth due to mild inflation pressure.



Global growth to slow in 2023

Looking into 2023, global economic growth will slow on tightening financial conditions in most regions, still-elevated inflation, and ongoing turmoil in Ukraine. Global inflation is likely to peak in 2H22 and decline in 2023 as demand ebbs, commodity prices retreat, and the supply situation improves. However, inflation will stay high on the rising wage level and OPEC's oil production schedule. In its latest forecasts released in Oct 2022, WTO projects merchandise trade volume to grow by 1.0% for 2023E, down from the 3.5% estimate for 2022E as global economy faces strong headwinds. According to IMF's latest World Economic Outlook in Oct 2022, global economic growth is projected at 2.7% for 2023E, down from an estimated 3.2% for 2022E (Exhibit 3). It expects global inflation to ease to 6.5% for 2023E from an estimated 8.8% for 2022E. In OECD's latest Economic Outlook released in Nov 2022, the global economy is projected to expand 2.2% for 2023E, down from an estimated 3.1% for 2022E.

We expect the US economy to grow 0.5% in 2023E, down from the 1.8% growth in 2022E, reflecting tighter financial conditions, high inflation, and fiscal stimulus withdrawal. Although a low unemployment rate and a rising wage level should support household spending, weak consumer confidence and high inflation will hinder consumption. The significant withdrawal of fiscal support will also weigh on growth. Higher interest rates are taking an important toll on spending, especially spending on residential investment. Although inflation is expected to peak at 2H22, it is likely to remain high and well above the Fed's 2% target in 2023E. On the monetary front, with the still-high inflation pressure and inflation expectations, further tightening of monetary policy with interest rate hikes and balance sheet reductions can be expected for 2023E. We expect the target range for the Fed Funds rate to be 4.75-5.00% at mid-2023 and remain unchanged by end-2023. The Fed will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities in 2023. With the Linked Exchange Rate System implemented by Hong Kong Monetary Authority, we expect the base rate in Hong Kong to rise to 5.25% by end-2023E.

China's economic growth is expected to rebound in 2023 due to the loosening pandemic restrictions, supportive macro policies, and the low base in 2022. We believe China's economy will expand 5.0% for 2023E, up from an estimated 3.0% for 2022E. A significant recovery of consumption and a moderate pickup in property investment will be the main drivers. Inflation will remain moderate in 2023E and macro policy is unlikely to be constrained by inflation. On the monetary front, PBOC will maintain a neutral monetary policy with a loosening bias. It is likely to keep liquidity abundant to support loan growth for manufacturing firms and SMEs. The benchmark interest rates and RRR would continue to trend down in 2023E. The Chinese government is likely to adopt an active fiscal policy to support economic growth through tax and fee reductions, measures to boost infrastructure investment, and specific-consumption initiatives.



With the spillover effects from the conflicts in Ukraine, tighter financial conditions, still-high inflation, and rising levels of public debt, we project the Eurozone economy to contract 0.5% in 2023E, down from the estimated 3.1% growth in 2022E. Pessimistic consumer sentiment and elevated inflation will hit household spending. External demand will be weak due to the global economic slowdown. Inflation is likely to start declining gradually in 2023E on tightening monetary stance and some normalization in commodity prices. However, we expect the inflation to stay high on the rising wages and Russian gas supply cuts. On the monetary front, according to ECB's monetary meeting in Oct 2022, we expect that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 3.00%, 3.25%, and 2.50%, respectively, at end-2023. With a weakening economy, the ECB will continue to provide ample liquidity through its refinancing operations. Meanwhile, we expect the UK economy to decline by 0.6% in 2023E, down from the estimated 4.0% growth for 2022E as high inflation reduces purchasing power and tighter monetary policy takes a toll on consumer spending and business investment. With high inflation pressure, we expect the BOE to increase the policy interest rate to 3.75% at the end of 2023.

We forecast Japan's economic growth to slow slightly from 1.5% in 2022E to the estimated 1.4% in 2023E as a softer external demand would drag on exports in 2023. However, loosen monetary policy will continue to support investment growth. Inflation pressure in Japan will remain moderate compared to other advanced economies in 2023, while core inflation is projected to ease to below 2%. With the mild underlying price pressure, BOJ will maintain its current policy stance focused on yield curve control while holding the policy rates steady. Short-term policy rate is likely to remain at -0.10% till end-2023E.

Exhibit 3: GDP forecasts of global major economies (%)

Real GDP Growth (YoY)	2021	2022E	2023E
US	5.7	1.8	0.5
China	8.1	3.0	5.0
Eurozone	5.2	3.1	(0.5)
Japan	1.7	1.5	1.4
UK	7.4	4.0	(0.6)
World (IMF)	6.0*	3.2*	2.7*

* IMF estimates and forecasts

Source(s): IMF, OECD, Bloomberg, ABCI Securities estimates



2023 China Economic Outlook

Economist: Andy Yao

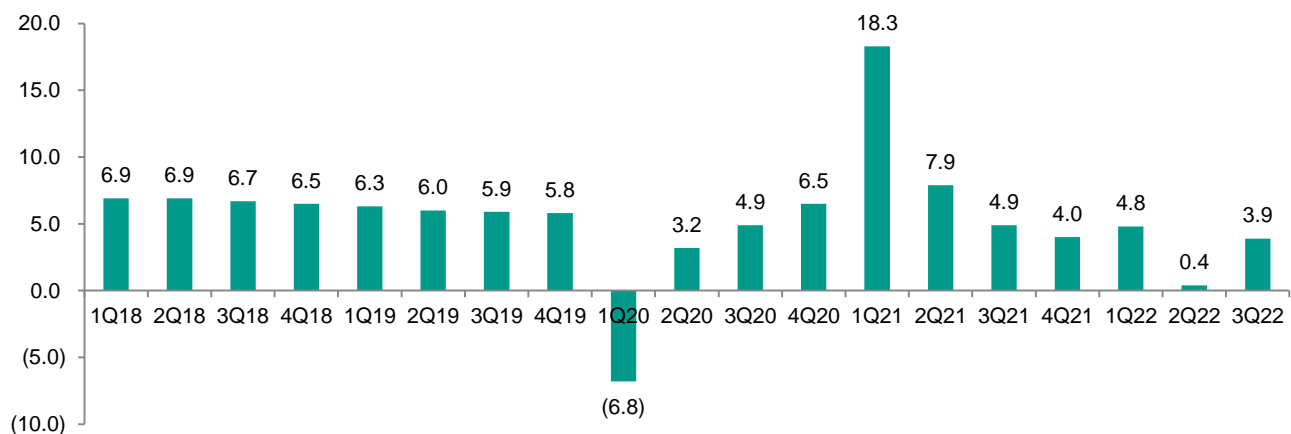
- China's economic growth slowed significantly in 10M22 due to repeated pandemic outbreaks and hard-hit property sector. Official figures show the world's second-largest economy had only expanded by 3.0% in the first three quarters of 2022, down from 9.8% in the same period last year
- Looking ahead, we expect growth in China to rebound in 2023 as pandemic prevention measures will likely loosen and the property sector will get further policy support. We estimate the economy to expand 5.0% for 2023E, up from an estimated 3.0% for 2022E. A significant recovery of consumption and a moderate pickup in property investment will be the main drivers. On the contrary, potential resurgence of COVID-19 pandemic and tepid external demand will be the major risks
- We expect the inflation to remain mild in 2023. CPI inflation would stay at 2.0% in 2023E, the same as that in 2022E. Core CPI is likely to rebound slightly as China's economic growth would quicken in 2023. We forecast PPI inflation to ease to 0.0% in 2023E from an estimated 4.5% in 2022E with the moderating commodity prices, softening domestic demand, and the high base in 2021
- PBOC is expected to maintain a supportive monetary policy in 2023, keeping liquidity abundant to support loan growth for manufacturing firms, property companies, and SMEs. We predict new RMB-denominated loans and new aggregate financing to be ~RMB 23.0tr and ~RMB 35.5tr in 2023E. Meanwhile, we expect the benchmark interest rates to lower in 2023 to reduce financing costs for real economy. The rates for one-year LPR and five-year LPR would fall to 3.55% and 4.10% for end-2023E. RRR would be slashed once in order to increase liquidity for financial market; RRR for large/medium/small banks would be 9.00% /7.00%/5.00%. Broad money supply (M2) is set to grow by about 11.0% in 2023E. We expect spot USD/CNY rate to approach 6.6500 by end-2023E with China's economy rebounding and still-high trade surplus, as compared to the estimate of 7.0000 for end- 2022E
- The central government will adopt a proactive fiscal policy in 2023 to support economic growth through cuts and deferrals of taxes and fees, consumption-specific stimulative measures, and programs to boost infrastructure investment. The authority will continue to provide support for those firms hit hard by pandemic. A muted land market will squeeze revenue of local government funds. Thus, the scale of local government special bonds would continue to remain high at RMB 4.00tr in 2023E. With faster growth in fiscal expenditure than in fiscal revenue, we expect fiscal deficit ratio to rise to 3.0% of GDP in 2023E, up from 2.8% in 2022E



China's economic growth slowed significantly in 10M22

China economic growth slowed in 10M22 due to repeated pandemic outbreaks and a languishing property sector. Official figures show the world's second-largest economy had only expanded by 3.0%² in the first three quarters of 2022, down from 9.8% in the same period in 2021 (Exhibit 1). A breakdown of the GDP components shows consumption was still the key growth driver contributing to 1.2ppt to the economic growth in the first three quarters of 2022. Investment added 0.8ppt to overall expansion, while growth in net exports of goods and services added 1.0ppt.

Exhibit 1: China's GDP growth (%)



Source(s): NBS, ABCI Securities

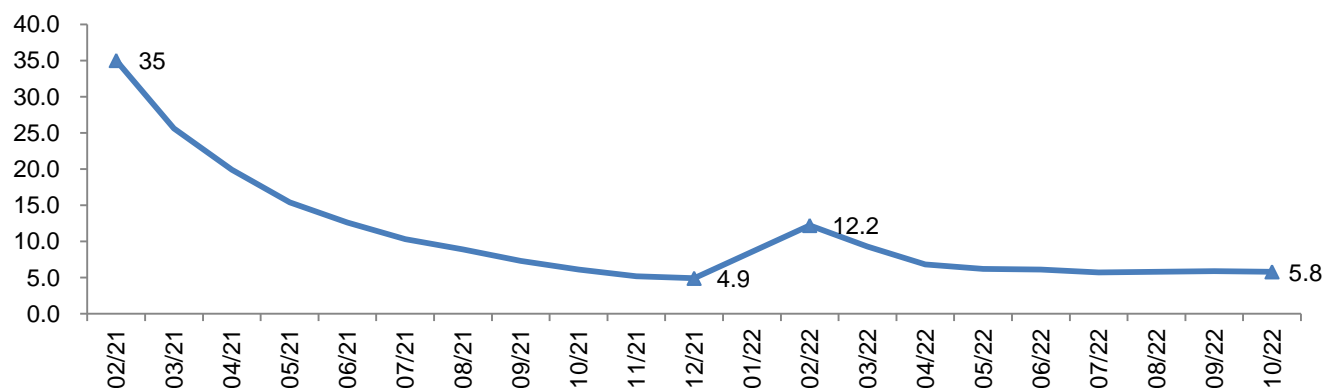
Entering 4Q22, China's economy lost steam due to the resurging pandemic, a dismal property sector, and falling external demand. Domestic demand eased substantially, with both investment and retail sales growth slowing in Oct. FAI growth in urban areas decelerated to 5.0% in Oct from 6.6% in Sep as a result of slowing property investment (Exhibit 2). Retail sales growth also eased to -0.5% in Oct from 2.5% in Sep, mainly due to the negative impact of pandemic on the services sector and dampened consumption of residents (Exhibit 3). On the production side, the real growth of industrial output slowed to 5.0% in Oct due to tepid growth in exports, down from 6.3% in Sep (Exhibit 4). Manufacturing PMI, which covers 31 industries, declined to 49.2 in Oct and 48.0 in Nov from 50.1 in Sep.

On the external front, both export and import recorded negative growth for Oct in USD terms (Exhibit 5). The USD value of China's exports declined 0.3% in Oct, compared with the 5.7% increase in Sep. The significant drop in export growth for Oct was attributable to the economic slowdown of the world's major economies and the high base in 2021. Import growth also dropped 0.7% in Oct, down from the 0.3% increase in Sep mainly on weak domestic demand. Despite the meek growth in export and import, trade balance widened slightly from US\$ 84.7bn in Sep to US\$ 85.2bn in Oct, which we deem to be relatively high.

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

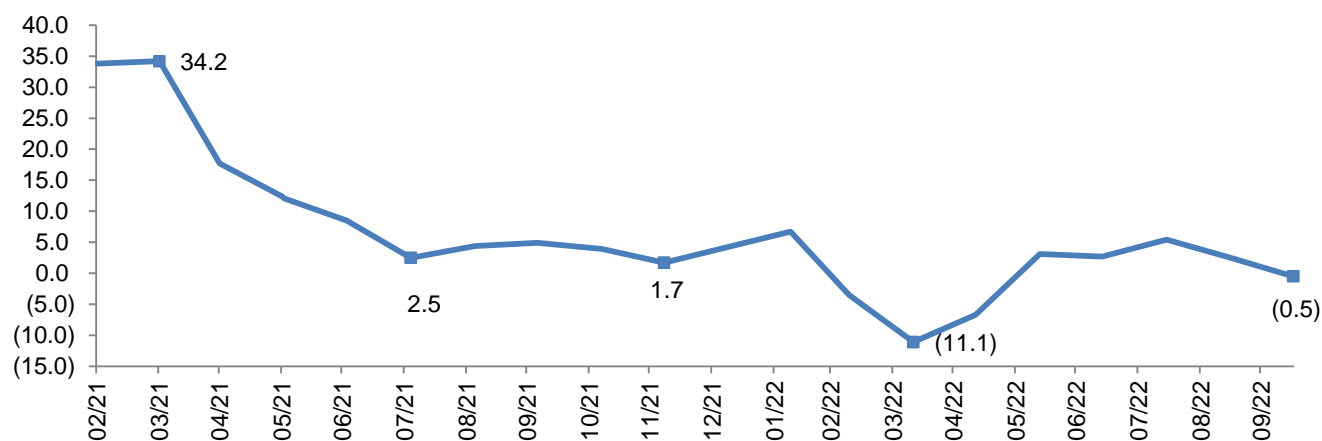


Exhibit 2: China's FAI YTD growth (%)



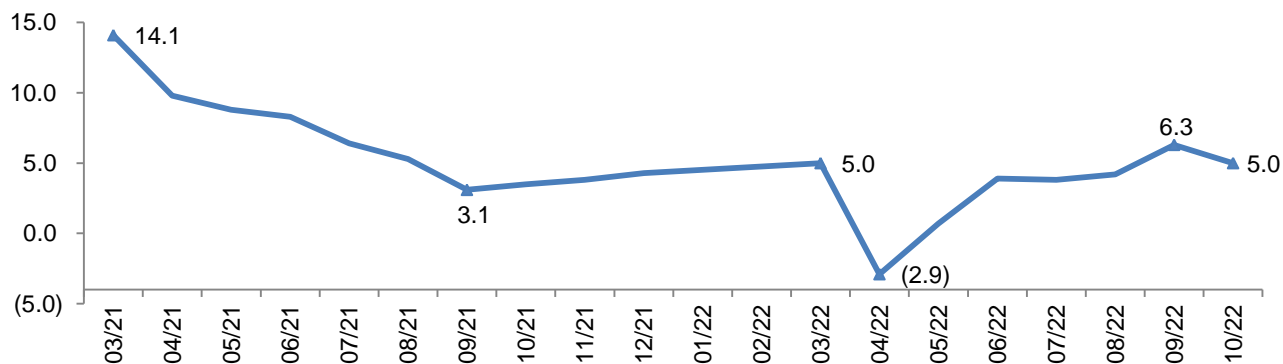
Source(s): NBS, ABCI Securities

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



Source(s): NBS, ABCI Securities

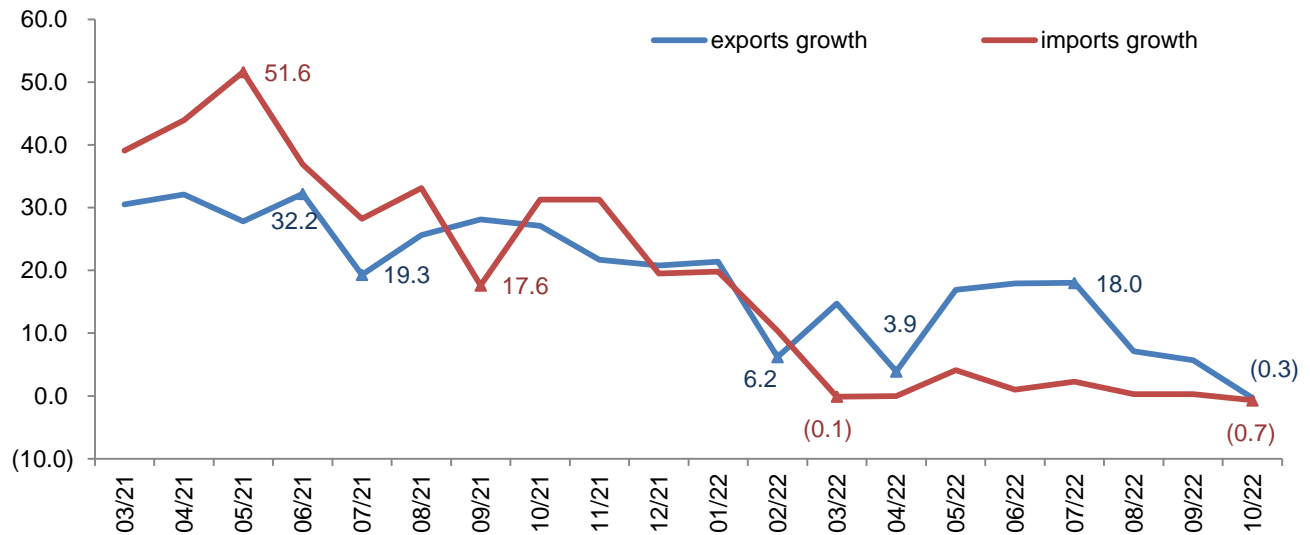
Exhibit 4: China's industrial output growth (%)



Source(s): NBS, ABCI Securities



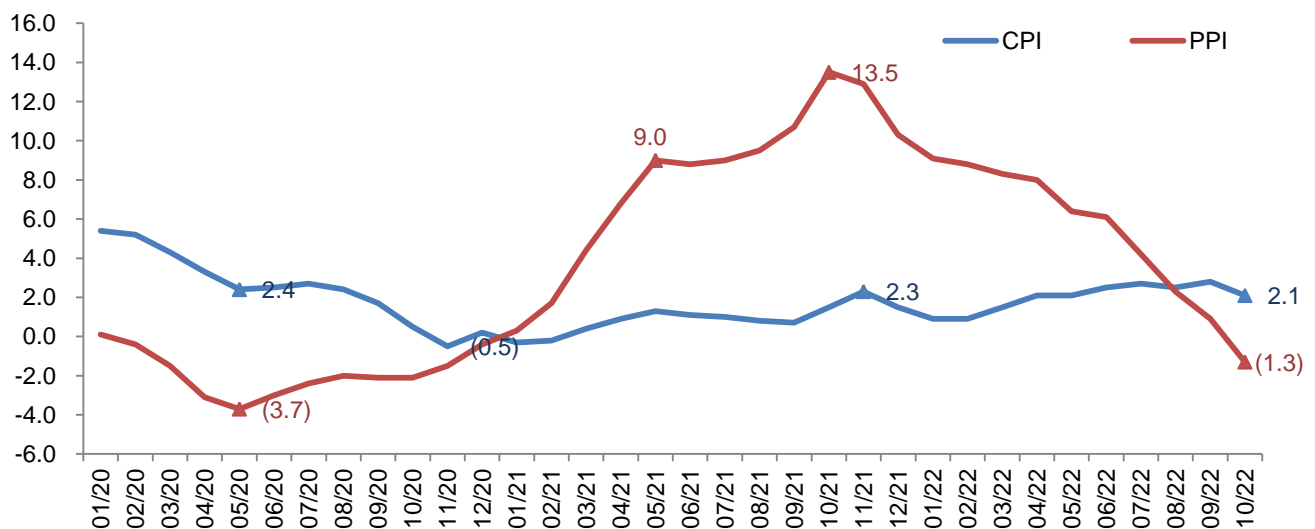
Exhibit 5: China's export and import growth (%)



Source(s): China Customs, ABCI Securities

Inflation diverged significantly in 10M22 (Exhibit 6). CPI rebounded to 2.1% in Oct from 0.9% in Jan as food inflation, especially the pork prices, jumped. Core CPI inflation, excluding food and energy, remained low at 0.6% in Oct. PPI slowed significantly to -1.3% in Oct, compared with the 9.1% increase in Jan. The sharp downturn of PPI was mainly due to the high base effect and the softening commodity prices, including those of oil, non-ferrous metals, and ferrous metals.

Exhibit 6: China's CPI and PPI (%)



Source(s): NBS, ABCI Securities



On the monetary front, PBOC has adopted a loose monetary policy to support economic growth since the start of 2022. It slashed RRR and LPR to lower financing costs for the real economy, especially for SMEs and private companies. Growth in broad money supply (M2) accelerated to 11.9% in Oct from 9.0% in Dec 2021, while total social financing– a comprehensive measure of all types of financing for the real economy, increased to RMB 28.7tr in 10M22 from RMB 26.4tr during the same period in 2021.

China's economy to rebound in 2023

Looking ahead, we expect growth in China's economy to rebound in 2023 as the pandemic restrictions loosens and the property sector gets further policy support. We believe the economy will expand by 5.0% for 2023E, up from an estimated 3.0% for 2022E (Exhibit 7). A significant recovery of consumption and a moderate pickup in property investment will be the main drivers. On the contrary, potential resurgence of COVID and frail external demand will be the major challenges.

Exhibit 7: Economic forecasts

Economic indicators	2021	2022E	2023E
Real GDP growth, %	8.1	3.0	5.0
FAI growth, %	4.9	5.9	8.0
Retail Sales growth, %	12.5	1.2	6.0
Export growth in USD terms, %	29.9	9.0	1.5
Import growth in USD terms, %	30.1	3.0	2.5
Industrial Production growth, %	9.6	4.2	6.0
CPI, %	0.9	2.0	2.0
PPI, %	8.1	4.5	0.0
M2 growth, %	9.0	11.5	11.0
Aggregate Financing, RMB bn	31,400	34,000	35,500
New Yuan Loans, RMB bn	19,900	22,000	23,000
Spot CNY per USD, End-year	6.3561	7.0000	6.6500
One-year LPR, %	3.80	3.65	3.55
Five-year LPR, %	4.65	4.25	4.10

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

Domestically, the overall investment growth will accelerate in 2023 as growth in property investment would quicken on the back of significant financing relaxations for property companies and residential mortgage loans. Property sales will regain some strength after purchase increases. Manufacturing investment and private investment are likely to slow slightly in 2023 amid soft external demand. However, high-tech manufacturing investment will increase substantially with the support of macro policies. Infrastructure investment is expected to remain high in 2023 as fiscal policy support would continue throughout the year. Overall, we predict total FAI to grow by 8.0% in 2023E, up from an estimated 5.9% in 2022E.



Retail sales are expected to recover significantly in 2023 on the back of loosening pandemic restrictions, improving consumer sentiment, and the low base in 2022. We expect a 6.0% growth for 2023E, up from an estimated 1.2% in 2022E. As of end-3Q22, residents' net deposits were close to RMB 100tr, indicating huge consumption potential. However, automobile retail sales, which accounted for 10% of overall retail sales, may ease in 2023 as the policies to promote automobile consumption fade.

Externally, export growth, especially for the advanced countries, is expected to ease in 2023 as the global economy slows on tightening financial conditions in most regions, the still-elevated inflation, and ongoing turmoil in Ukraine. In its latest forecasts released in Oct 2022, WTO projects merchandise trade volume to grow by 1.0% for 2023E, down from the 3.5% for 2022E. According to IMF's latest World Economic Outlook in Oct 2022, global economic growth is projected at 2.7% for 2023E, down from 3.2% for 2022E. However, with the agreement of Regional Comprehensive Economic Partnership (RECP) coming into force, China's trade with Asian economies in 2023, especially with Japan, will increase. We expect import growth to remain low in 2023 as import price is likely to ease with falling global commodity prices. Overall, we forecast exports and imports to expand by 1.5% and 2.5% in 2023E, compared with the estimated growth of 9.0% and 3.0% in 2022E.

We expect the inflation to remain mild in 2023. CPI inflation would stay at 2.0% in 2023E, the same as that in 2022E. Although pork prices are likely to rise in 1H23 on tightening supply and low base effect, they would ease in 2H23 with supply increasing and low base effect fading. Core CPI is likely to rebound slightly as China's economic growth quickens in 2023. We forecast PPI inflation to ease to 0.0% in 2023E from an estimated 4.5% in 2022E with the moderating commodity prices, softening domestic demand, and the high base effect.

On the monetary front, PBOC will maintain a supportive monetary policy in 2023. The authority will keep liquidity abundant to support loan growth for manufacturing firms, property companies, and SMEs. We predict new RMB-denominated loans and new aggregate financing to be ~RMB 23.0tr and ~RMB 35.5tr in 2023E. Meanwhile, we expect the authority to continue slashing the benchmark interest rates in 2023 to lower financing costs for real economy. The rates for one-year LPR and five-year LPR would fall to 3.55% and 4.10% for end-2023E. RRR would be cut once in order to increase liquidity for financial market; RRR would be 9.00% for large banks and 7.00% for medium banks by end-2023E, while RRR for small banks is likely to stay at 5.0%. Broad money supply (M2) is set to grow by about 11.0% in 2023E. Regarding the exchange rate, we expect spot USD/CNY rate to approach 6.6500 by end-2023E with China's economy rebounding and still-high trade surplus, as compared to the estimate of 7.0000 for end-2022E.

The central government will adopt a proactive fiscal policy in 2023 to support economic growth through cuts and deferrals of taxes and fees, consumption-specific stimulative measures, and programs to boost infrastructure investment. It will continue to provide support for companies hit hard by the pandemic. Muted land market will squeeze revenue of local government funds. As such, the scale of local government special bonds would continue to remain high at RMB 4.00tr in 2023E. With faster growth in fiscal expenditure than in fiscal revenue, we expect fiscal deficit ratio to rise to 3.0% of GDP in 2023E, up



from 2.8% in 2022E.

2023 is the third year of the 14th FYP. We expect the West, led by the US, to increase technological blockade against China in 2023. China will expedite the formation of a core technological system and seek to achieve key core technological breakthroughs in major areas. More resources will be diverted to high-tech fields such as chips and semiconductors, software, precision machinery, and new materials so as to attain full control on these core technologies. Specialized and new "little giant" enterprises with strong innovation capabilities and core technologies will receive more financial support. Meanwhile, China will aim to hit peak emissions before 2030 and attain carbon neutrality by 2060, thus we expect the green industry to enjoy higher growth and profitability than most sectors in 2023. We estimate the amount of new green loans in 2023E to exceed RMB 1tr.

Investment Strategy





Investment Strategy

Head of Research: Philip Chan

Our views for 2023-24

- China's relative economic growth rate will pick up in 2023, affecting asset allocation of fund managers globally.** China and advanced economies will be in a different stage of the economic cycle in 2023, with the former expected to trend up while the latter to go down. According to IMF, OECD, and our estimation, the relative growth rates in China against the three other major economies (the US, Eurozone, and Japan) declined in 2022 but is believed to increase sharply in 2023. Thus, asset allocation of fund managers worldwide will be affected. Although some capital market investors are concerned with possible recession in 2023, current predictions presented by the major international organizations do not expect such to occur in the advanced economies. Their predictions indicate a flat economic growth in the US and Eurozone for 2023 though further downward revision is possible going forward.

Exhibit 1: Absolute and relative economic growth in the major economies
China's relative GDP growth narrowed in 2022 but will rebound in 2023

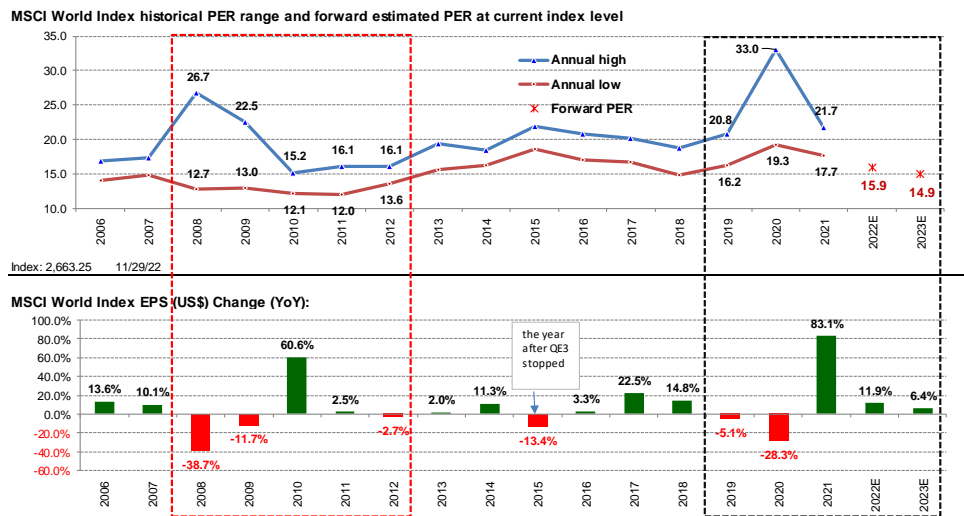
Source	Real GDP	2021	2022E	2023E	China relative GDP growth	2021	2022E	2023E
IMF	China	8.1%	3.2%	4.4%				
OECD	China	8.1%	3.3%	4.6%				
ABCI	China	8.1%	3.0%	5.0%				
IMF	U.S.	5.7%	1.6%	1.0%	China minus U.S.	2.4%	1.6%	3.4%
OECD	U.S.	5.9%	1.8%	0.5%	China minus U.S.	2.2%	1.5%	4.1%
ABCI	U.S.	5.7%	1.8%	0.5%	China minus U.S.	2.4%	1.2%	4.5%
IMF	Eurozone	5.2%	3.1%	0.5%	China minus Eurozone	2.9%	0.1%	3.9%
OECD	Eurozone	5.3%	3.3%	0.5%	China minus Eurozone	2.8%	0.0%	4.1%
ABCI	Eurozone	5.2%	3.1%	-0.5%	China minus Eurozone	2.9%	-0.1%	5.5%
IMF	Japan	1.7%	1.7%	1.6%	China minus Japan	6.4%	1.5%	2.8%
OECD	Japan	1.6%	1.6%	1.8%	China minus Japan	6.5%	1.7%	2.8%
ABCI	Japan	1.7%	1.5%	1.4%	China minus Japan	6.4%	1.5%	3.6%
IMF	World	6.0%	3.2%	2.7%	China minus World	2.1%	0.0%	1.7%
OECD	World	5.9%	3.1%	2.2%	China minus World	2.2%	0.2%	2.4%

Source(s): IMF World Economic Outlook (Oct 2022), OECD Economic Outlook (Nov 2022), ABCI Securities estimates (Nov 2022)

- We expect value stocks to outperform growth stocks in 2023, given that earnings growth of global blue chips will be significantly slower in 2023 than in 2021-22.** EPS growth of the MSCI World Index, the index tracking global blue chips, will slow sharply from 83% YoY in 2021 to 12% YoY in 2022E to 6%YoY in 2023E. In view of the economic and interest rate cycles, strong revenue growth in large enterprises is unlikely in 2023. Many large enterprises may streamline their operations, tighten cost control, deleverage balance sheet, and reward shareholders by dividends and share buy-back in 2023. Profitability will be supported by enhancement of cost-efficiency. As growth momentum is weakening, valuation of growth stocks will be subject to further downward revision. In this scenario, value stocks are likely to outperform in 2023.



Exhibit 2: MSCI World Index P/E Valuation vs. EPS Growth



Source(s): Bloomberg, ABCI Securities

3. **Global PPI trend informs more than the inflationary trend by implying changes in cost competitiveness among industrial nations.** Trade protectionism in Eurozone, the UK and the US will rise as domestic producers are losing cost competitiveness in the global trade market. Multinational enterprises will consider 2021-22 PPI trends among the industrial nations as the indicator of cost competitiveness in coming years. During 2021-22, currencies in main industrial nations have devalued against the USD. Cost competitiveness of industrial nations was weakened by high PPI but enhanced by currency devaluation. We combine the two factors to illustrate the net effect on PPI. Cost competitiveness of producers in Eurozone, the UK, and the US has been sharply weakened compared to that of China, Japan and Korea after the sharp rise of PPI from Oct 2020 to Oct 2022.

Exhibit 3: Cost trend comparison among main industrial nations from 10/2020 to 10/2022

Cost competitiveness of western industrial nations declined significantly in 2021 and 2022

Producer price index (PPI)	Eurozone	The UK	The US	Korea	Japan	China
10/2022 (YoY)	31.8%	14.8%	8.0%	7.3%	9.1%	-1.3%
10/2021 (YoY)	21.9%	8.7%	8.9%	9.1%	8.2%	13.5%
10/2022 vs. 10/2020 (local currency terms)	60.7%	24.8%	17.5%	17.1%	18.0%	12.0%
10/2022 vs. 10/2020 (in US\$ term)	51.5%	22.0%	17.5%	13.6%	12.7%	11.0%
Losing cost competitiveness						

Source(s): Bloomberg, Governments, ABCI Securities



4. The Chinese government will continue to exercise counter-cyclical measures to boost economy in 2023. As a result, government-led investments or industrial policies will be in focus.

The following factors will allow China to buck the economic downtrend in advanced economies:

- a) China is in a different monetary policy cycle due to PBOC's strong financial discipline of limiting balance sheet expansion in 2020-22. Since end-2019, the world's four largest economies have adopted different monetary policies to boost the economies. Balance sheets of the PBOC, BOJ, the Fed, and the ECB have expanded by 7.6%, 22.7%, 86.9% and 107.0% from end-2019 to Oct 2022. So, the US and Europe are in an upward inflationary cycle and interest rate cycle.
- b) Macro-leverage of the Chinese government was low compared with the macro-leverage of households and non-financial enterprises. At end-2021, macro-leverages of government, households, and non-financial enterprises were 46.6%, 72.2% and 153.7% respectively. Low macro-leverage of government allows room for increase to support economy. We believe government-led investments will play an important role in 2023.
- c) China has proactively deflated the property price bubble in 2021-22 and lowered the concentration of property-related loans in the banking industry. Financially distressed property developers have now been identified by the capital market; thus, risk in the property market risk has been largely factored in. According to Bank of International Settlements, from end-2019 to end-Jun 2022, residential prices of China and advanced economies increased 2.1% and 28.9% in nominal terms or -0.8% and 18.5% in real terms. In China's banking system, the proportions of real estate development loans and personal housing loans in total RMB loans lowered from 7.3% and 19.6% at end-2019 to 6.0% and 18.5% at end-3Q 2022.
- d) In terms of trading partners, China has diversified away from the US and EU to ASEAN, the country's largest trading partner in 2022. By USD, ASEAN, EU and the US accounted for 15.2%, 13.5% and 12.2% of China's total trade value in 10M22 respectively. Increased domestic production of energy resources and food enables China to counter import inflation on one hand and maintain a strong trade surplus on the other. In 10M22, import volume of coal, crude oil, petroleum, natural gas, meat and soybean declined 10.5%, 2.7%, 10.9%, 10.4%, 25.0%, and 7.4% respectively. Trade surplus reached US\$727.7bn in 10M22, up 42.5%YoY.
- e) Wealth effect will be a supportive factor in 2023. Total household deposits have increased by RMB 12.7tr in 10M22 to RMB 115.2tr at end-Oct 2022. Total household deposits at end-Oct 2022 were slightly higher than China's nominal GDP in 2021. The cumulated purchasing power of consumers is a stabilizer of economy to buffer impacts of adverse external factors. We believe when consumer confidence recovers in 2023, consumption may go up sharply.



5. Government-led investments and industrial policies

Among various industrial policies, the positive spillover effect of China's renewable energy development policy or green economy development policy stand out. Moreover, self-sufficiency in core technologies is a sensible long-term national strategy in light of the continuous Sino-US confrontations.

Storage battery export market. The surging price of fossil-fuel energy resources worldwide in 2022 induce demand for green energy and energy storage facilities. According to China Customs, export value of storage battery surged 56% and 78% to RMB210.8bn and RMB 289.0bn in 2021 and 10M2022, respectively. Market leaders Contemporary Amperex Technology (300750 CH) and Xiamen Hithium Energy Technology (Unlisted) will become the main beneficiaries for the upward trending export growth.

Production line suppliers in green economy. Producers in solar wafer industry are expanding production capacity to meet surging demand for green energy. Battery producers are building up production capacity to meet increasing demand from NEV industry as auto producers are also increasing their output capacity, boosting prospects of production line suppliers of solar wafer and battery producers. The market leaders, Wuxi Lead Intelligent Equipment (300450 CH) and Shenzhen Yinghe Technology (300457 CH), will become the main beneficiaries. Export sales of Wuxi Lead Intelligent Equipment accounted for 15% and 19% of its total sales in 2021 and 1H22, demonstrating its clout in the overseas markets.

Energy infrastructure contractors. In general, the complexity of infrastructure construction for hydro and nuclear power plants are higher than that of solar or wind. While the large-scale hydro power projects have been largely completed, numerous nuclear power projects are still in the pipeline, which means room for growth is still ample for main contractor such as China Nuclear Engineering & Construction (CNEC, 601611 CH). For long-term investors looking for companies resilient enough to withstand the volatile economic cycles in coming years, we believe nuclear power construction contractors would be a reasonable choice. CNEC is responsible for building the first fourth-generation nuclear power plant. At end-Oct 2022, there are 54 nuclear plants in operation and 23 new nuclear plants under construction or approved to commence construction. Contractors and equipment suppliers will be in favorable position in the next five years.

6. We expect systematic and unsystematic risks to emerge in the next 12-24 months

Systematic risks include

- a) Significant downturn or recession in developed countries, especially in Europe and the US, due to prolonged period of high interest rate;
- b) Regional financial or political crisis caused by the deterioration of trade balance and forex reserve balance of energy-importing countries in Europe and Asia;
- c) Potential burst of property price bubble in developed countries when the central banks in the US,



Canada, Eurozone, the UK, and Australia keep revising up interest rates; the price risk in real estate will spread to the global financial market;

- d) Economic turbulence caused by escalating Sino-US geo-political confrontation and industry competition;
- e) Valuation of the financial market has not fully accounted for these risk factors.

Unsystematic risks include:

- f) Downward business cycle of global semi-conductor industry,
- g) Revenue loss of the China commercial banks in 2023 after the interest rate cuts in 2022
- h) Longer- and weaker-than-expected recovery of the China property market
- i) Expensive valuation of some thematic sector, such as the new-energy resources supply chain

Systematic risks and unsystematic risks in 2023

From an investment point of view, risk management plays an important to optimize returns. We have identified several systematic and non-systematic risks that investors in the capital market will likely encounter in 2023.

Systematic Risks

Recession risk in the US and Europe is large, and the costs of recession may be borne by the Asian economies. Soft-landing in the US implies hard-landing for some countries; hard-landing in the US means hard-landing of most countries.

In 2023, we expect global economies to be in a post-super commodity cycle after the sharp rate hikes in advanced economies. The effects of interest rate hikes in 2022 will fully emerge in 2023. In the global commodity futures markets, futures contract prices of food and energy resources indicate the super commodity cycle is likely to end in 2H22. The risks arise from uncertainties after the super commodity cycle.

1H23: Favorable for net exporters of energy resources but not so much for the net importers.

Inflationary pressure in 1H23 will ease but chances of deflation will be low. Prices of base commodities, such as food and energy, will stay high, but the high base effect in 2022 means inflation figure would be lower in 1H23. In this scenario, countries who are net importers of food and energy will have higher economic and political risks since their trade balances are likely to worsen in 2023. Trade deficits of the Eurozone, the UK, Japan, Korea, Singapore, Thailand and the Philippines were enlarging rapidly in 2H22 due to the increased import value of food or energy. In our view, their trade deficits will further deepen in 2023, which will result in currency devaluation. Central banks in these regions may maintain high interest rates to suppress consumption, import demand, as well as defending their currencies and living standards. Their forex reserves will deplete rapidly, and sovereign debt crisis of some Asian countries will increase as



a result. In contrast, net energy-exporting countries such as Canada, the US, Australia, Indonesia, Malaysia, and some Middle-East countries will be the beneficiaries.

Collapse of property market in multiple economies. One of systematic risks emerging in 2023 is the collapse of property market in view of the climbing interest rates in advanced economies. According to the statistics by Bank of International Settlements, residential prices in advanced and emerging economies increased 28.9% and 17.2% from end-2019 to Jun 2022 in nominal terms. In Asia, price bubbles in Korea, Japan, and Singapore would raise concerns. Meanwhile, the price bubbles in China and Hong Kong have been easing. Investors should stay cautious on mortgage-backed securities with property collaterals in Europe, the US, Australia, New Zealand, Japan, Korea, and Singapore.

Exhibit 4: Residential property price change in main economies

Regions	Nominal change 6/2022 vs 12/2019	Real change 6/2022 vs 12/2019	Nominal YoY change at 6/2022	Real YoY change at 6/2022
World	22.3%	9.0%	10.6%	2.2%
Advanced economies	28.9%	18.5%	13.2%	5.3%
Emerging market economies	17.2%	3.3%	8.6%	(0.2%)
Asia:				
China	2.1%	(0.8%)	(2.2%)	(4.2%)
Hong Kong	0.9%	(1.5%)	(2.2%)	(3.6%)
Korea	26.1%	17.0%	9.4%	3.8%
Japan	16.0%	14.6%	9.1%	6.6%
Singapore	17.8%	9.7%	10.6%	4.5%
Thailand	8.9%	2.3%	5.2%	(1.1%)
Malaysia	2.4%	(1.3%)	0.5%	(2.3%)
Oceania:				
Australia	33.0%	22.6%	14.2%	7.5%
New Zealand	37.5%	23.6%	4.8%	(2.3%)
Europe:				
Eurozone	20.6%	9.5%	9.3%	1.1%
Germany	26.0%	13.9%	10.2%	2.4%
France	16.1%	8.7%	6.8%	1.4%
UK	22.2%	9.7%	11.0%	1.7%
N America:				
US	39.8%	22.9%	18.2%	8.8%
Canada	36.9%	23.3%	15.6%	7.5%

Source(s): Bank of International Settlements (residential property prices: selected series), ABCI Securities

Sino-US economic and political confrontations form inevitable risks in 2023-24. The confrontations will induce business uncertainty and cause price volatility in financial assets. For hedge fund managers, high volatility enhances value of financial derivatives; for long-term fund managers, geographical diversification of their investment portfolio is necessary.



Market is still very optimistic on profit outlooks of listed companies in 2023-24. The stock market has not fully factored in the potential recession risk in the US and Europe. Market forecast consensus indicates the market to attain positive profit growth in 2023 among the major stock indices in Hong Kong, the US, and the Eurozone. We believe the market will keep revising down the earnings outlook of major stock market indices in the next 12 months.

Exhibit 5: EPS forecasts of main stock market indices

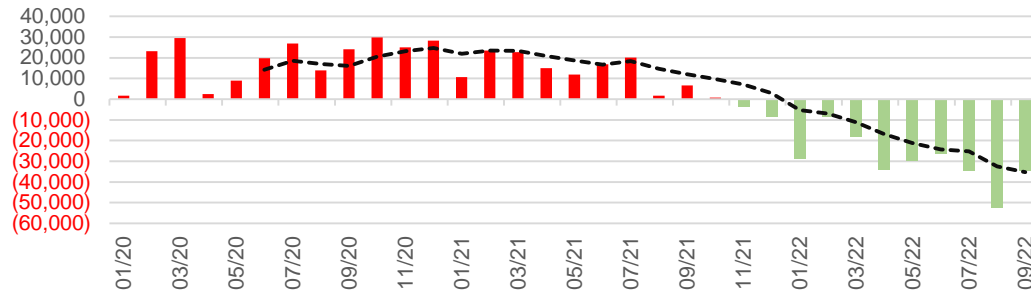
The current EPS forecasts in 2023-24 implies the market expects a soft-landing in the US and Europe; therefore, the valuation of these indices has not fully accounted for the recession risks in 2023-24

	Currency	EPS 2020	EPS 2021	EPS 2022E	EPS 2023E	EPS 2024E
HSI Index	HK\$	1,905.5	2,625.9	1,799.6	2,058.5	2,267.5
HSCEI Index	HK\$	1,054.2	1,022.0	720.8	799.8	888.3
SOX Index	US\$	82.3	137.9	154.4	163.2	186.5
NDX Index	US\$	341.7	430.7	514.7	572.9	661.5
SPX Index	US\$	123.7	192.8	220.6	235.0	257.3
INDU Index	US\$	1,254.6	1,854.8	1,829.2	2,022.3	2,236.6
SX5E Index	EURO	67.1	255.1	335.6	338.4	360.3
UKX Index	GBP	78.0	484.4	785.9	770.8	781.7
	Currency	EPS chg 2020	EPS chg 2021	EPS chg 2022E	EPS chg 2023E	EPS chg 2024E
HSI Index	HK\$	(21.6%)	37.8%	(31.5%)	14.4%	10.2%
HSCEI Index	HK\$	(16.5%)	(3.0%)	(29.5%)	11.0%	11.1%
SOX Index	US\$	20.8%	67.5%	12.0%	5.7%	14.3%
NDX Index	US\$	5.0%	26.1%	19.5%	11.3%	15.5%
SPX Index	US\$	(20.1%)	55.9%	14.4%	6.5%	9.5%
INDU Index	US\$	(14.5%)	47.8%	(1.4%)	10.6%	10.6%
SX5E Index	EURO	(64.2%)	280.1%	31.6%	0.8%	6.5%
UKX Index	GBP	(77.7%)	520.9%	62.2%	(1.9%)	1.4%
				PER 2022E	PER 2023E	PER 2024E
HSI Index	17,973			9.99	8.73	7.93
HSCEI Index	6,153			8.54	7.69	6.93
SOX Index	2,679			17.35	16.42	14.36
NDX Index	11,588			22.52	20.23	17.52
SPX Index	3,964			17.97	16.86	15.40
INDU Index	33,849			18.50	16.74	15.13
SX5E Index	3,936			11.73	11.63	10.92
UKX Index	7,474			9.51	9.70	9.56

Source(s): Bloomberg, ABCI Securities



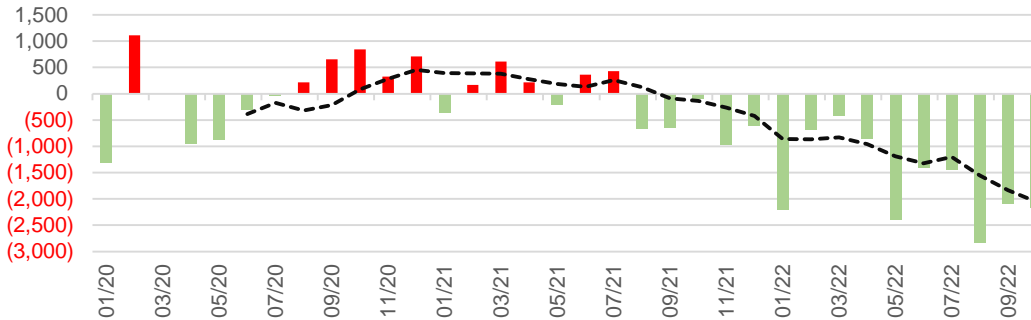
Exhibit 6: Eurozone's deteriorating trade balance (Euro mn)



Dot line: 6-month average

Source(s): Eurostat, ABCI Securities

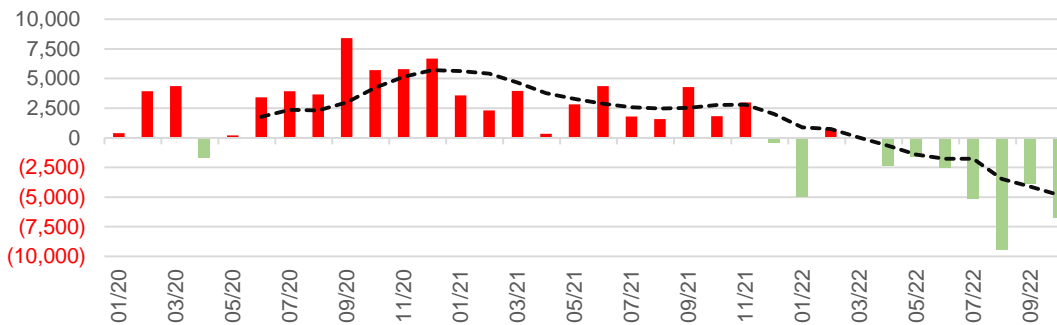
Exhibit 7: Japan's deteriorating trade balance (JPY bn)



Dot line: 6-month average

Source(s): Ministry of Finance Japan, ABCI Securities

Exhibit 8: Korea's deteriorating trade balance (US\$ mn)

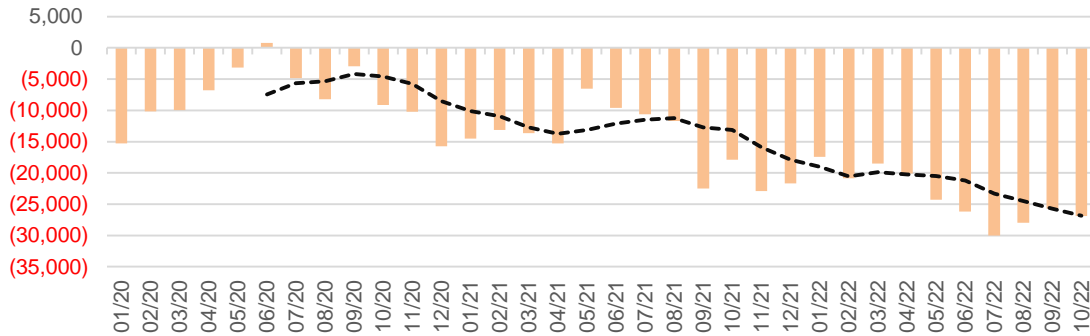


Dot line: 6-month average

Source(s): Ministry of Trade, Industry and Energy, ABCI Securities



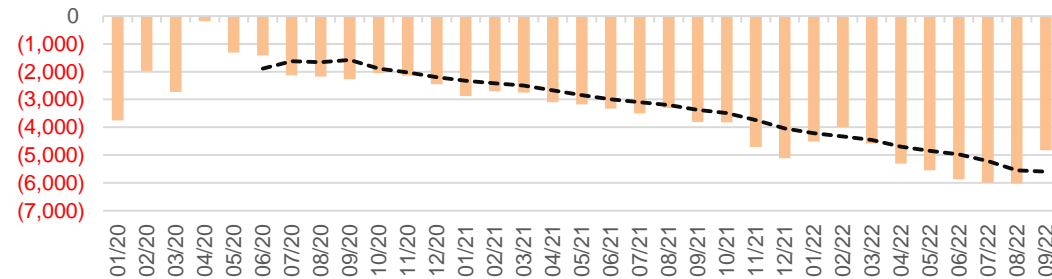
Exhibit 9: India's deteriorating trade balance (US\$ mn)



Dot line: 6-month average

Source(s): Directorate General of Commercial Intelligence and Statistics, ABCI Securities

Exhibit 10: The Philippines' deteriorating trade balance (US\$ mn)



Dot line: 6-month average

Source(s): Philippine Statistics Authority, ABCI Securities

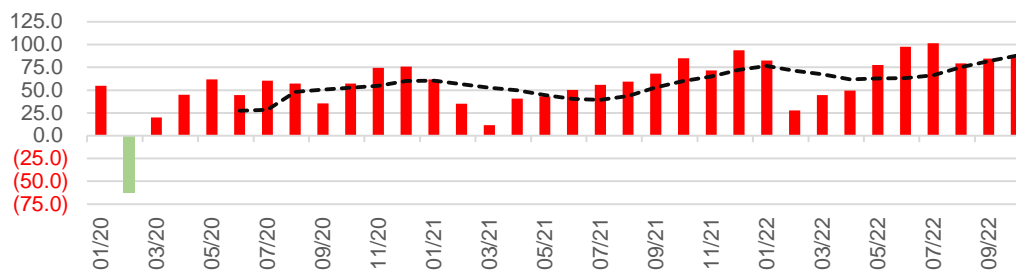
Exhibit 11: Forex reserves in Asia- a declining trend

Asia	Date	Forex reserve US\$100mn	Year-to-date Change
China	2022/10/31	30,524	(6.1%)
Japan	2022/10/31	10,825	(15.7%)
Taiwan	2022/10/31	5,428	(1.0%)
India	2022/9/30	4,728	(17.0%)
Hong Kong	2022/9/30	4,191	(15.6%)
South Korea	2022/9/30	3,936	(10.2%)
Singapore	2022/9/30	2,769	(32.2%)
Thailand	2022/10/31	1,827	(18.7%)
Indonesia	2022/9/30	1,184	(9.9%)
Malaysia	2022/10/31	963	(10.1%)
Vietnam	2022/8/31	921	(14.3%)
Philippines	2022/9/30	803	(15.2%)

Source(s): IMF, Governments, Bloomberg, ABCI Securities



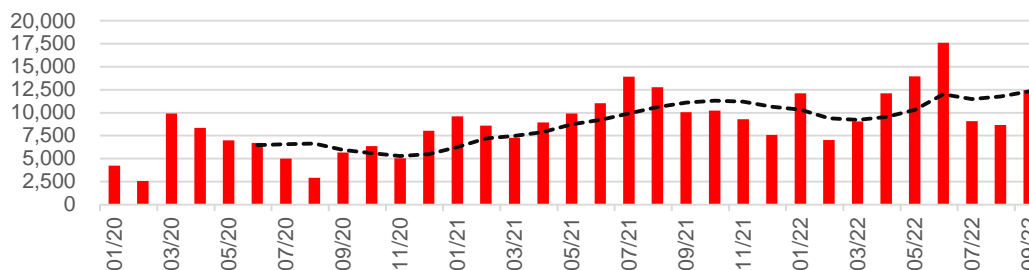
Exhibit 12: China's improving trade balance (US\$ bn)- China reduced import of energy resources to mitigate the adverse impacts of high import prices of energy resources



Dot line: 6-month average

Source(s): China Customs, ABCI Securities

**Exhibit 13: Australia's improving trade balance (A\$ mn)
Net exporter of energy and commodity resources**



Dot line: 6-month average

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

2023 Non-systematic Risk

- Semiconductor industry will be in a downward business cycle in 2023
- Adverse impacts of interest rate cuts in 2022 will fully emerge in the financial results of China's commercial banks in 2023
- May take longer for the China property market cycle to recover; the extent of recovery can be weaker than expected

Semi-conductor industry in downward business cycle

- The business cycle of the global chip industry is seen as a leading indicator of global economic cycle because it is driven by demand for consumer electronics and industrial electronics- the essential components in most industrial outputs. The China market accounted for 27.6% of global semiconductor equipment sales in 1H22 and 32.5% of global chip sales in 9M22. Turbulence in China's chip supply chain will spill over to the global semi-conductor supply chain. We believe two main negative factors will trigger the downward industry cycle.

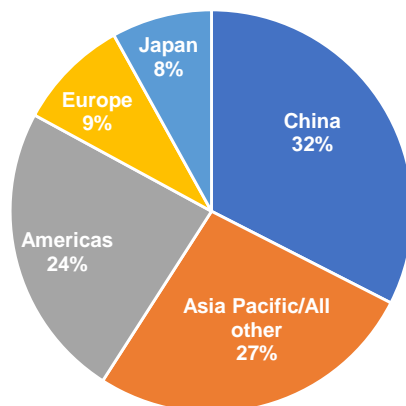


- First, demand for consumer discretionary will weaken further in 2023 when recession risk emerges globally. Second, the US ban of selected chip equipment exports to China will unfavorably affect the industry. Overall, we believe the industry cycle is more sensitive to the global economic condition than the export ban.
- Global chip sales have entered a negative growth cycle in 3Q22, dragged by weakening demand for consumer electronics but supported by demand for industrial electronics, such as automotive electronics. We expect demand for chips in industrial electronics to weaken in 2023 in view of the global economic downturn.
- The adverse effects of weakened downstream demand have transmitted to upstream chip equipment and silicon materials industries. Global sales of chip equipment and silicon materials has slowed sharply since mid-2022. The headwinds will intensify in 2023 as effect of the US restrictions on chip equipment export to China will fully emerge in 2023. Slowdown of chip production capacity growth in China will subsequently limit sales growth of chips and demand growth of semi-conductor grade silicon materials.
- The capital market has kept revising down the profit outlooks of the Philadelphia Stock Exchange Semiconductor Index, a benchmark index tracking the global chip stocks. Market consensus expects the index earnings per share growth will slow from 67.5% in 2021 to 12.0% in 2022E and 5.7% in 2023E. In our view, the current profit estimates for 2023 are still overly optimistic, considering the underlying industries will be in negative growth cycle. We expect the capital market to adjust down profit outlook in 2023.

Exhibit 14: Chip industry composition

Supply chain risk caused by imbalance supply-demand dynamics. While market demand is in Asia, technologies are possessed by the West. Trade resistance between supply and demand is a losing game on both sides. We expect tension to ease in 2024-25 when both sides realize the real costs of trade restrictions in 2023

Global Semiconductor Sales Composition
1-9/2022 : US\$448bn

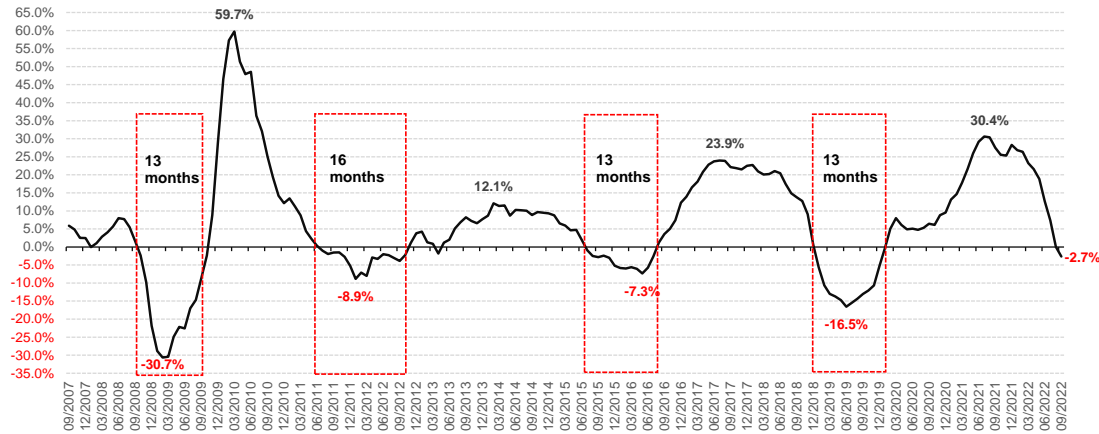


Source(s): SIA, ABCI Securities



Exhibit 15: Global Semiconductor Sales Change (YoY)

Global chip sales entering negative YoY growth cycle, the downward cycle may last till 2024



Negative YoY growth cycles:

2008-09 (13 months): caused by the US financial crisis

2011-12 (16 months): caused by the Europe sovereign debt crisis

2015-16 (13 months): caused by the fluctuations in China capital and financial markets

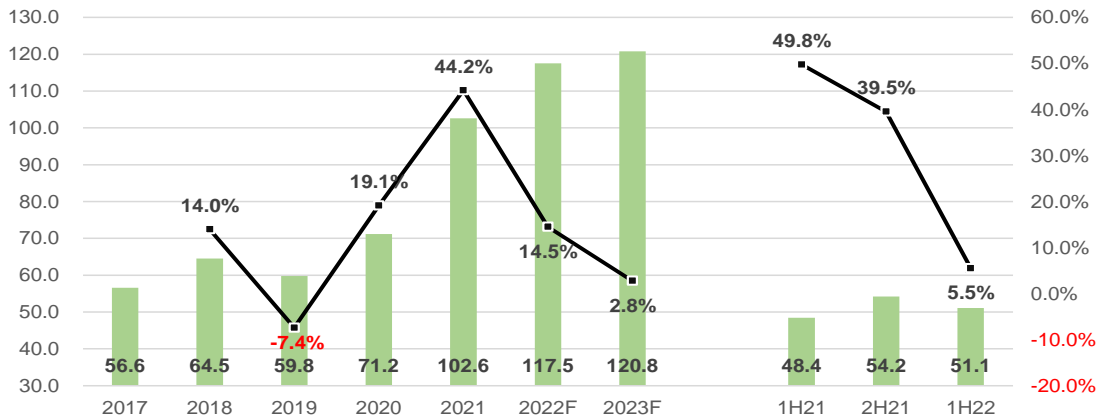
2018-19 (13 months): caused by Sino-US trade conflicts in tech industry

2022-24E: We predict the negative growth cycle will last till early 2024 due to soft demand for consumer electronics and intensified Sino-US trade conflict in chip industry

Source(s): SIA, ABCI Securities estimates

Exhibit 16: Global Semiconductor Equipment Sales (US\$bn, %YoY)

Sales of chip production equipment is expected to slow significantly in 2023

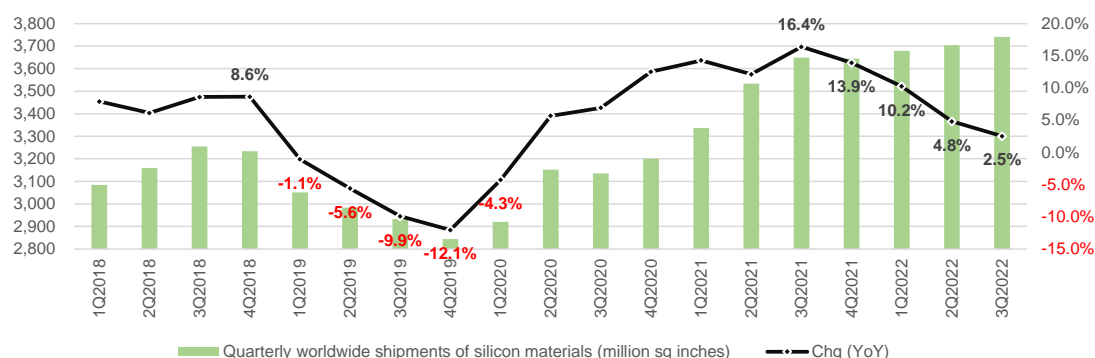


For the global chip equipment sales, assembly and packaging equipment, test equipment, and wafer fab equipment will account for 6.4%, 7.3%, and 86.3% of total expected sales in 2023E. Sales growth in assembly and packaging equipment and test equipment will be flat in 2023E; whereas, sales growth in wafer fab equipment will be in low single-digit.

Source(s): SEMI (Jul) estimates, ABCI Securities



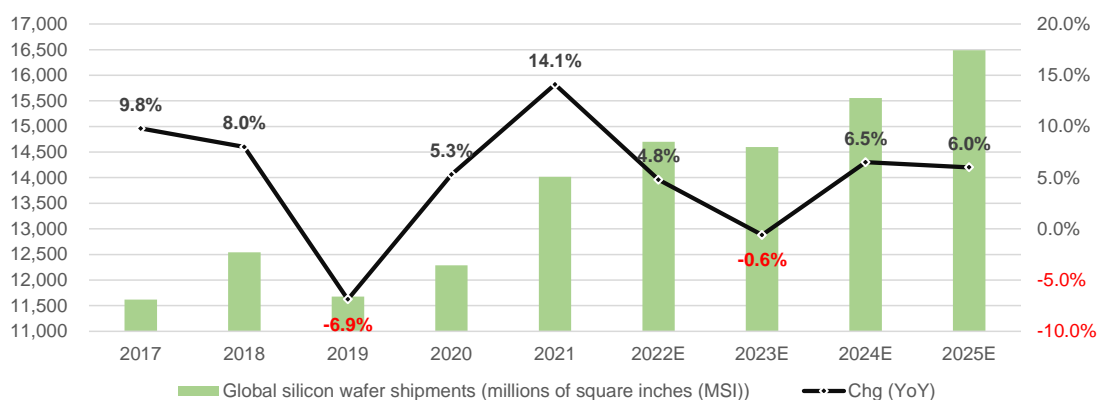
Exhibit 17: Quarterly worldwide shipments of silicon materials (mn sq. inches)
Shipments volume growth have slowed rapidly since mid-2022



Shipment statistics include polished silicon wafers such as virgin test and epitaxial silicon wafers, as well as non-polished silicon wafers shipped to end users. Shipments are for semiconductor applications only and do not include solar applications.

Source(s): SEMI, ABCI Securities

Exhibit 18: Global silicon wafer shipments (mn sq. inches)
Shipments are expected to decline in 2023 and rebound in 2024

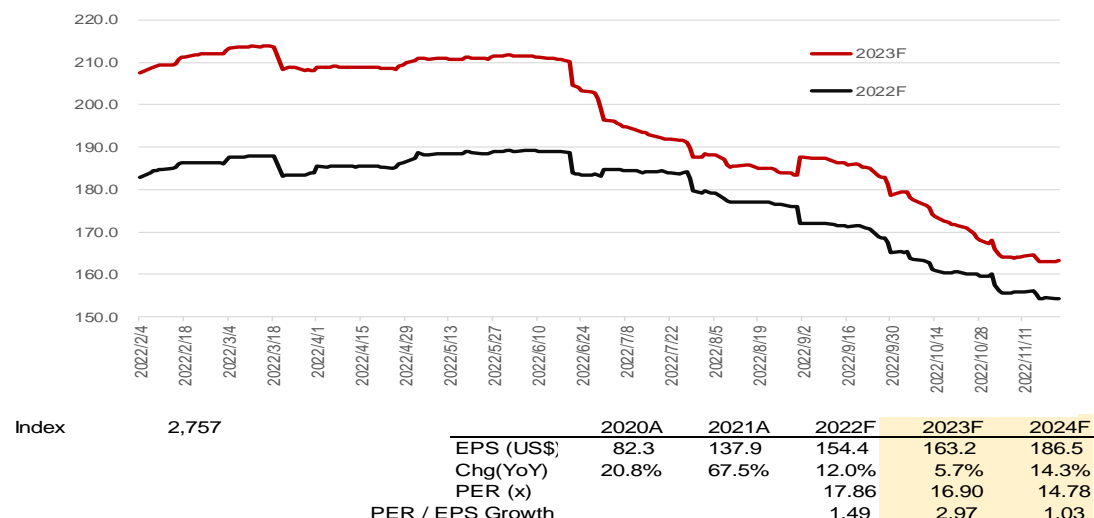


Note: Figures cover total electronic grade silicon disks but exclude non-polished and reclaimed wafers.. Shipments are for semiconductor applications only and do not include solar applications.

Source(s): SEMI, ABCI Securities



Exhibit 19: Philadelphia Stock Exchange Semiconductor Index (SOX Index) EPS Outlooks (US\$)
Possible downward earnings revision for 2023E, downside earnings risk still high



Source(s): Bloomberg, ABCI Securities

The adverse impacts of interest rate cuts in 2022 will fully emerge in the results of China's commercial banks in 2023

At end-2021, outstanding balances of mid-to-long-term loans to 1) households; 2) non-financial enterprises, government departments and organizations were RMB 53.78tr and RMB 74.58tr, respectively. The lending interest rates of these balances will be repriced in early-2023 due to interest rate cuts in 2022. The five-year LPR has been cut by 35 bp in 11M22. Should the banks lower lending rates by 35bp upon completion of the repricing, they can potentially lose RMB 449.28bn (or RMB112.32 bn in 1Q23) in interest income revenue. The loss of interest income revenue will be larger than our abovementioned estimates since new mid-to-long-term loans granted in 2022 will also be subject to downward repricing of interest rates in early 2023. Since the five-year LPR was slashed 20bps in 1H22 and 15 bps in Aug 2022, most of the new mid-to-long term loans granted before Aug 2022 will be entitled to downward repricing of lending interest rates in early 2023. We believe the adverse impacts will fully emerge in the 1Q23 financial results of commercial banks, which will be released in Apr. Impacts on the capital market will be clearer in 2Q23, which shall dissipate any overly pessimistic views.

Recovery in the China property market may take longer and be weaker than expected

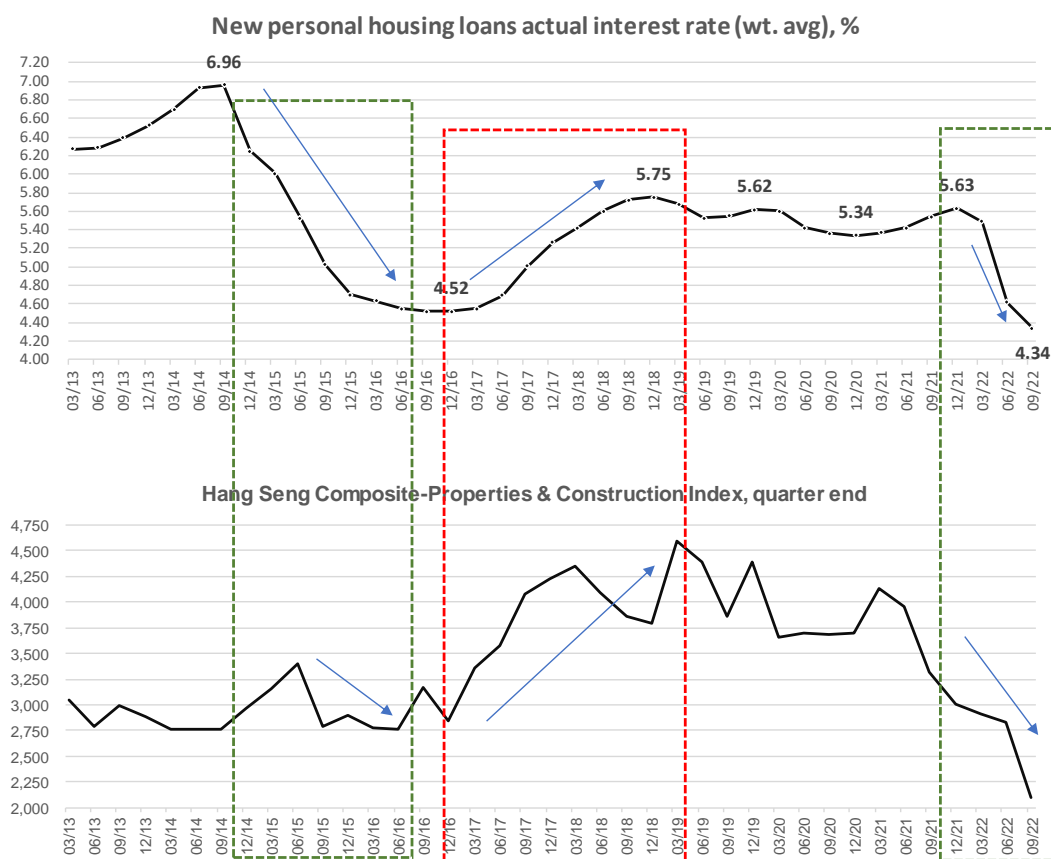
Although the Chinese government and central bank have taken myriad measures to support the property market in 2022, our analysis indicates investors in the capital market tend to interpret interest rate cut as a reverse indicator of the economic condition. The sequential interest rate cuts in 2022 are seen as a reflection of continuous economic weakness. For the last decade, the trend of Hang Seng Composite Properties & Construction Index coincides with that of the interest rate of personal housing loan - when



one fell, so would the other. The actual weighted average lending rate of new personal housing loan fell to 10-year low at 4.34% in Sep 2022, but homebuyers were cautious on taking up new loans. An emerging factor suppressing demand for private housing is the increased supply of public housing projects (low-price public housing for sale or lease) in large cities. This will in turn prolong and weaken the recovery in the private housing market. In the 14th five-year plan, around 9mn public housing units are expected to complete in large urbanized cities.

Exhibit 20: Interest rate cycle vs. property stock market index

Interest-rate-sensitive property stock index in a falling (rising) trend when interest rate in a falling (rising) trend

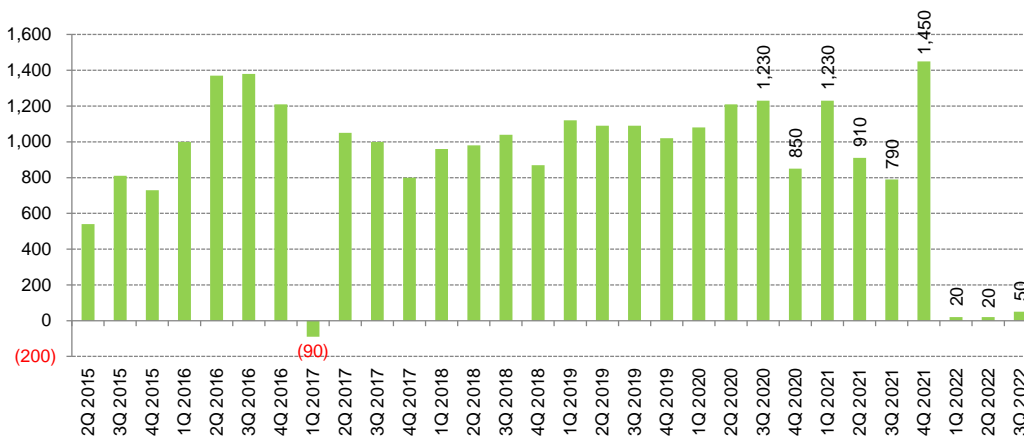


Source(s): PBOC (upper chart), Bloomberg (lower chart), ABCI Securities



Exhibit 21: Quarterly net increase of personal housing loans (RMB bn)

Potential homebuyers stay cautious on taking up housing loans despite the rate cuts in 2022



Outstanding balances of personal housing loans at end-2020, end-2021, and end-Sep 2022 were RMB 34.44tr, RMB 38.82 tr, and RMB38.91tr, respectively.

Sources: PBOC, ABCI Securities

HK Stock Market

Hang Seng Index

We are optimistic on the outlook of HK stock market in 2023 based on the following reasons.

- Relative economic growth rate in China will accelerate in 2023 because the Chinese economy is recovering while the economies in advanced economies are slowing
- Positive effects of interest rate cuts in 2022 will fully emerge in 2023.
- Systematic risks caused by turbulent property market and COVID measures have been properly managed in 2022. Systematic risks in 2023 will mostly be induced by external factors, including risks of recession and burst of property price bubble in advanced economies, distressed fiscal position of net energy-importing countries in Asia, geopolitical risk in Europe, and potentially unfavorable foreign policies by the US and its alliance against China.
- Unsystematic risks in 2023 include down cycle of semiconductor industry, slow recovery of the Chinese property market, and income loss of the Chinese commercial banks after rate cuts in 2022.
- Current market valuation of HSI have factored in the identified risk factors

We expect the reasonable trading range to be ~16,600-21,200 in 1H2023 which represents 8.0x-10.3x est. 2023 P/E in view of the early recovery phase in China. The trading range will expand to 18,900-23,600 in 2H23, which represents 9.0-11.5x2023E P/E when the economic recovery solidifies in late 2023.



Exhibit 22: Hang Seng Index Projection in 2023-24

Parameter	Forward P/B	Implied HSI In 2023	Implied HSI In 2024	Forward P/E	Implied HSI In 2023	Implied HSI In 2024
Mean + 2 sd.	1.39	25,889	27,991	13.71	28,224	31,090
Mean + 1 sd.	1.28	23,787	25,718	12.58	25,895	28,525
5-yr mean	1.16	21,683	23,444	11.45	23,566	25,960
Mean - 1 sd.	1.05	19,581	21,171	10.32	21,238	23,395
Mean - 2 sd.	0.94	17,477	18,896	9.19	18,909	20,830
Mean - 3 sd.	0.83	15,375	16,624	8.06	16,581	18,265

Source(s): ABCI Securities estimates



Hong Kong IPO Market

Analyst: Steve Chow

Muted momentum in 2022

- In 11M22, Hong Kong's IPO market has raised US\$11.1bn vs. US\$42.9bn in 2021
- The market has been hit by various factors including weakened economy, regulatory concerns for the internet sector, global geopolitical risk, etc.
- Key trends to look out for: 1) COVID development; 2) Regulatory environment of the internet sector; 3) Regulatory development of US-listed Chinese stocks

In 11M22 (up to Nov 23, 2022), the Hong Kong IPO market has raised US\$ 11.1bn vs. US\$ 42.9bn in 2021. In 11M22, a total of 61 IPOs were issued, with an average issue size of US\$ 183mn each.

In 11M22, Hong Kong's IPO market has been heavily impacted by factors including, weakened economic environment, regulatory concerns on internet sector, the resurgence of COVID in China, flammable geopolitical conditions, among others.

In terms of industry mix, consumer discretionary accounted for 33% of the IPO volume in 11M22, followed by materials (21%), technology (16%), real estate (9%), healthcare (8%), and others (13%). In particular, there were fewer sizable IPOs during the period, illustrated by the small average deal size of US\$ 183mn in 11M22 vs. US\$ 448mn in 2021.

In our view, the near-term outlook of the HK IPO market would depend on 1) COVID development, which could has a major impact on economic environment and market sentiment of the stock market; 2) Regulatory environment of the internet sector; 3) Regulatory development of US-listed Chinese stocks.

Exhibit 1: 11M22 HK IPO Overview *

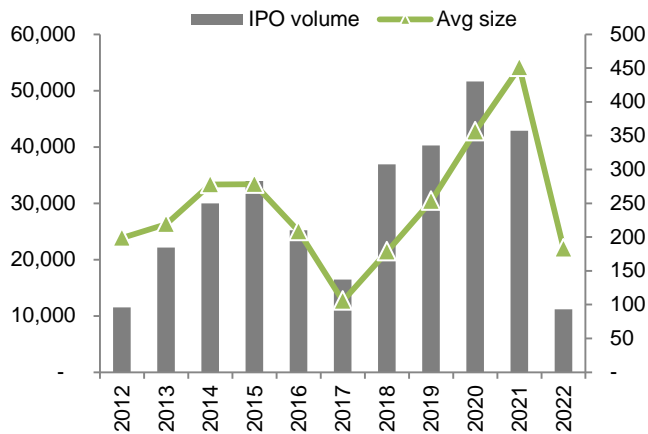
Industry	Volume (US\$ mn)	Avg deal size (US\$ mn)
Consumer Discretionary	3,669	367
Materials	2,291	573
Tech	1,775	197
Real estate	1,019	170
Healthcare	927	66
Others	1,474	82

*Up to Nov 23, 2022

Source(s): Bloomberg, ABCI Securities



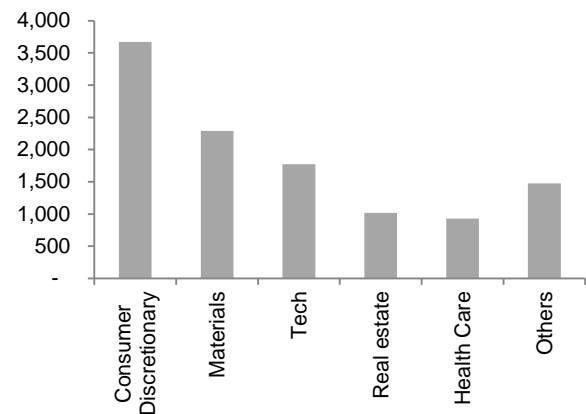
Exhibit 2: HK IPO volume and average deal size* (US\$ mn)



* Up to Nov 23, 2022

Source(s): Bloomberg, ABCI Securities

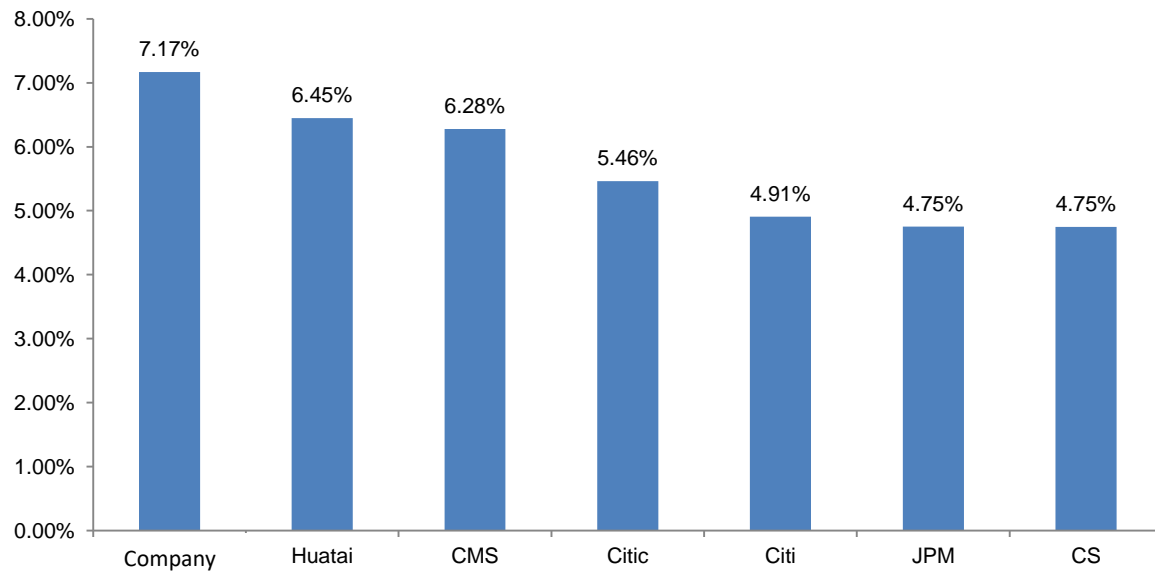
Exhibit 3: HK IPO volume by industry (11M22)* (US\$ mn)



* Up to Nov 23, 2022

Source(s): Bloomberg, ABCI Securities

Exhibit 4 : Market share of HK IPO underwriters by volume (11M22)*



* Up to Nov 23, 2022

Source(s): Bloomberg, ABCI Securities

Sector Outlook





OVERWEIGHT

China Banks Sector – Fundamental outlook remains challenging Johannes Au

Key Data		Sector Performance	Absolute (%)	Relative (%)
H-shr		H-shr (relative to MXCN)		
Avg. 23E P/E (x)	3.27	1-mth	7.6	(9.2)
Avg. 23E P/B(x)	0.35	3-mth	(4.6)	6.6
Avg. 23E div yield (%)	9.75	6-mth	(19.4)	(8.5)
A-shr		A-shr (relative to CSI 300)		
Avg. 23E P/E (x)	4.28	1-mth	(0.8)	(4.4)
Avg. 23E P/B(x)	0.46	3-mth	(1.7)	6.5
Avg. 23E div yield (%)	7.46	6-mth	(11.4)	(6.1)
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		
<div>➤ NIM pressure will reduce gradually after a hit in 1Q23</div> <div>➤ Banks' asset quality would be driven by China's macro outlook, expect mild increase in NPL ratio for FY23E driven mainly by property-related sectors</div> <div>➤ Sufficient risk buffer become critical to sustain earnings growth</div> <div>➤ Reiterate OVERWEIGHT sector rating for both A&H markets. Prefer big banks for stable fundamental and promising dividend yield. CCB (939 HK, 601939CH) is our sector top pick while CMB (3968 HK, 600036 CH) is our preferred name among JSBs</div>				

NIM pressure to ease in late FY23. Chinese banks' NIM has narrowed since 1Q22 due to efforts in increasing credit support and reducing financing cost to support the real economy. In Dec 2021 - Nov 2022, one-year and five-year LPR dropped 20bps and 35bps to 3.65% and 4.30%, according to the National Interbank Funding Center. Meanwhile, average lending interest rate fell 52bps YoY, or 24bps QoQ, in Jun 2022 to 4.41%, according to the PBOC data. As impact of loan re-pricing usually takes time to show, we expect NIM pressure to persist till a year after the last interest rate cut in each cycle. Structurally, NIM in 1Q23 would be hit harder than the rest of the year given the larger proportion of loan re-pricing taking place at year start. After a substantial NIM squeeze in 1Q23, we expect downward pressure on NIM would gradually ease in 2Q23. Our ABCI economist expects one-year and five-year LPR to reach 3.55% and 4.10% by end-2023. According to CBIRC, system NIM was flat QoQ at 1.94% in 3Q22, or narrowed by 13bp YoY. By category, average NIM of big banks, who are obliged to shoulder more social responsibility, declined the most by 2bps QoQ in 3Q22 and was the only category experiencing NIM contraction for the quarter. Robust balance sheet growth and optimization of balance sheet components will be the crucial in defending against NIM pressure down the line. Overall, we expect system NIM to lower by 10bps-17bps YoY for FY23E.

Asset quality ties with macro recovery. Extending the trend from 9M22, asset quality risk from property-related sectors is still a major concern and will remain so in the next few quarters due to the delayed impact. Meanwhile, macro uncertainty resulted from COVID-19 restrictions would pose additional risk on asset quality. Overall, we project system NPL ratio to increase mildly in FY23. In our opinion, asset quality is highly dependent on the pace of macro recovery in China, while risk attitude and effort in NPL handlings by banks would make a difference in business performance. As of Sep 2022, system NPL ratio was down 1bps QoQ to 1.66%. Our ABCI economist projects China's GDP to expand 5.0% for 2023E; new loan target would be RMB 23tr for 2023E. In our opinion, asset quality concerns will continue to weigh on sector valuation. For the past few quarters, investors have shown clear preference for banks with high risk buffers.

Adjusting risk buffers to sustain earnings growth. Encouraged by the central government in Apr 2022, big banks would manage their risk buffers to support real economy and sustain earnings growth. Signs of weakening topline



growth were seen in 3Q22; hence, provision scale will play a crucial role in determining profitability. In our view, big banks, with their higher risk buffers at present, may demonstrate a more stable earnings growth in FY23E. System provisioning ratio and system provision coverage ratio rose 1bps QoQ to 3.41% and 1.76ppt to 205.54% in 3Q22. By category, big banks reported the highest average provision coverage ratio at 246.62%, compared to the average of 139.60%-213.13% among the JSBs, city commercial and rural commercial banks. According to the CBIRC statistics, system net profit rose 1.2% YoY for 9M22. By category, city commercial banks reported a 22.4% QoQ decline in 3Q22 net profit, while rural commercial banks' reported a net loss for the quarter, indicating that smaller district banks are under significant operating pressure. Their asset quality and risk buffers may have been mainly sustained by large provisions

Long-term Outlook

Policy risk remains the largest overhang for the sector, especially since big banks are obliged to adhere closely to policy direction. A highly regulated and disciplined business environment is essential to strengthening industry fundamentals over the long run, but policy uncertainties would drive up share price volatility in the short term.

Short-term Outlook

Macro recovery from COVID will determine sector performance in coming quarters and asset quality concerns will remain substantial. Radical deterioration in banks' asset quality is unlikely given the high policy priority in financial system stability, though investors can be reactive to changes in macro and sector data in the near term.

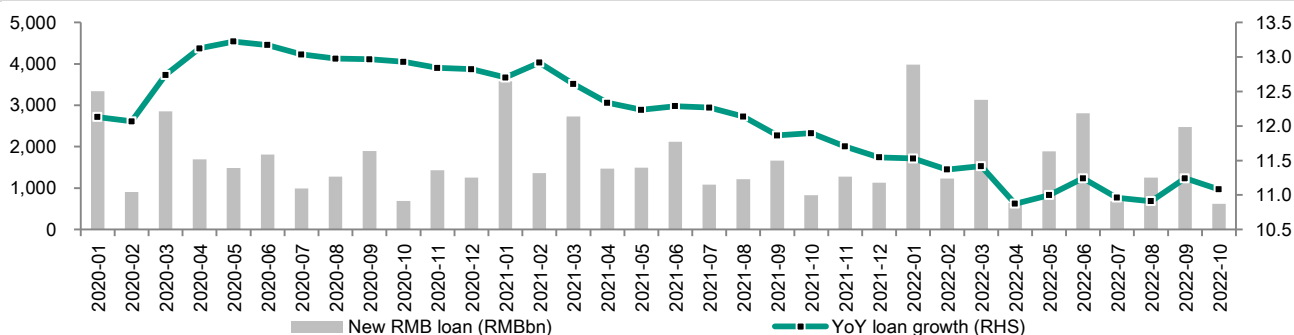
Stock Recommendations

We reiterate our **OVERWEIGHT** rating for the China banks sector in both A/H share markets as we believe current valuation discount has gone overboard. Sector re-rating will be dependent on China's macro economy and policy visibility. We prefer leading big banks for their stable fundamentals and promising dividend yield. Amongst **CCB (939 HK, 601939 CH)** is our sector top pick for its proven earnings growth capacity and prudent risk attitude. **CMB (3968 HK, 600036 CH)** is our preferred name among JSBs given its sector-leading profitability and robust risk buffers.

Risk Factors

1) Increasing competition from non-bank financial institutions and foreign players; 2) Sharp deterioration in asset quality; 3) Increasing policy risk on macro uncertainties; 4) COVID-19 pandemic and Sino-US disputes, 5) Interest rate down cycle.

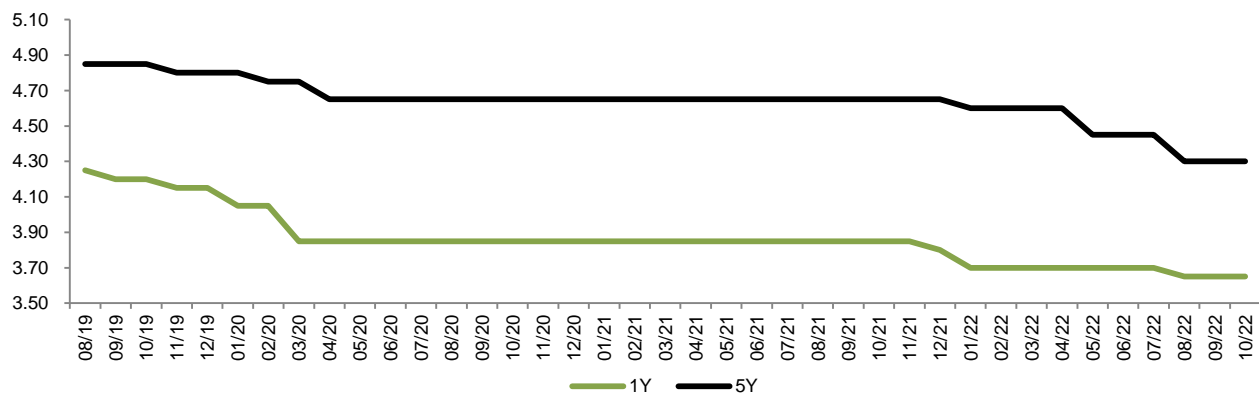
Exhibit 1: Monthly RMB loans (RMB bn) and total RMB loan balance (YoY %)



Source(s): PBOC, ABCI Securities

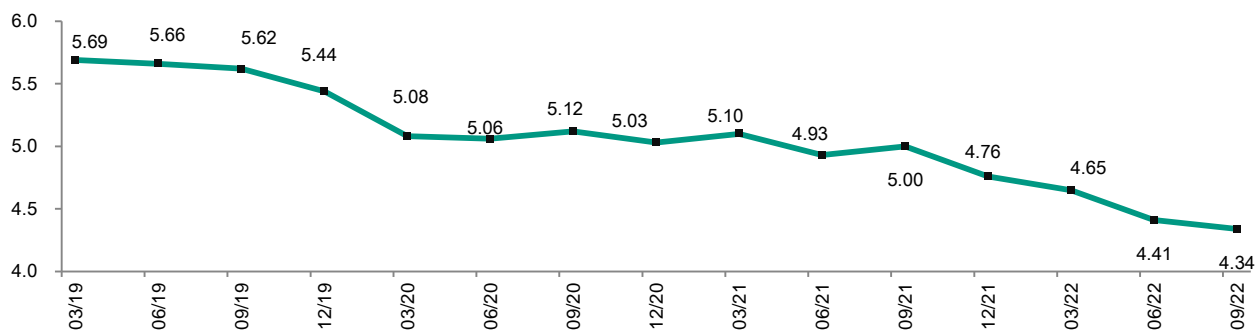


Exhibit 2: China LPR (%)



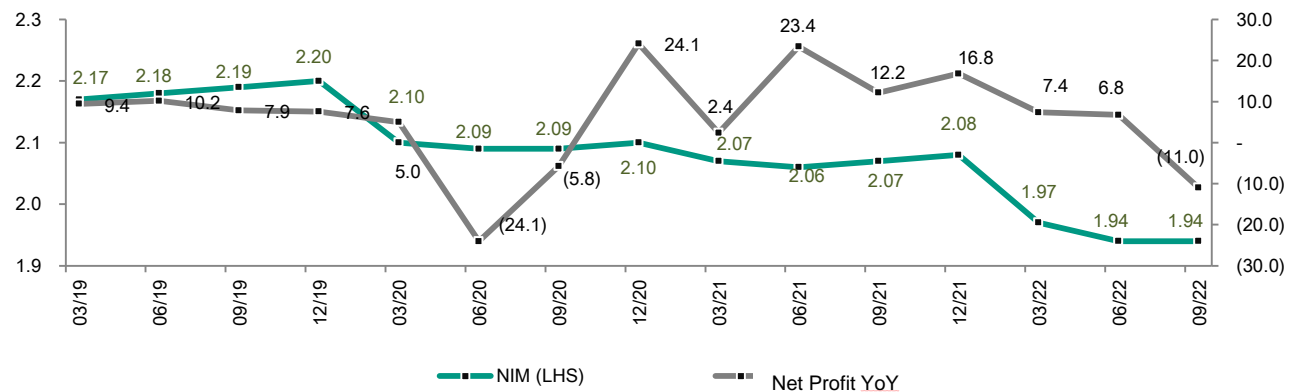
Source(s): National Interbank Funding Center, ABCI Securities

Exhibit 3: System monthly average lending rate (%)



Source(s): PBOC, ABCI Securities

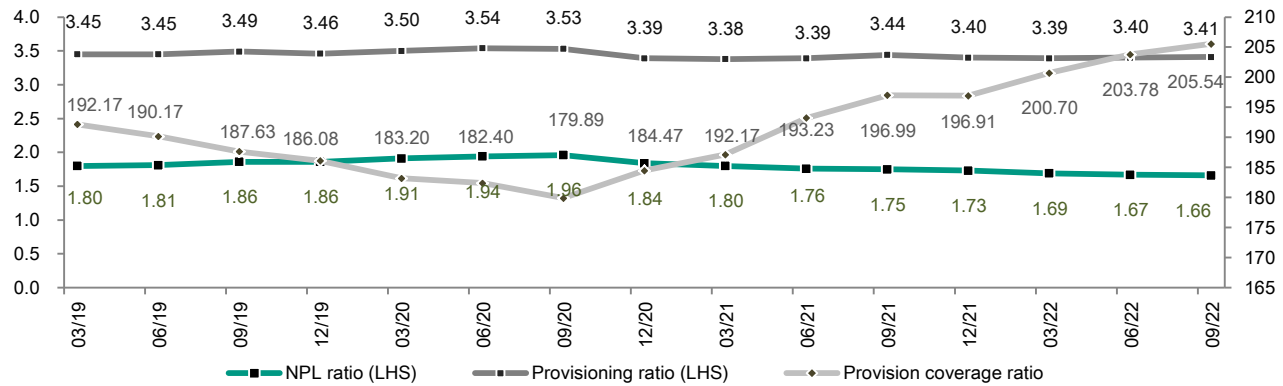
Exhibit 4: System NIM vs. system quarterly net profit YoY (%)



Source(s): CBIRC, ABCI Securities



Exhibit 5: System asset quality indicators (%)



Source(s): CBIRC, ABCI Securities

Valuation of sector stocks (H-shr) (Data as of Nov 25, 2022)

Company	Ticker	Rating	TP (HK\$)	FY22E P/E (x)	FY23E P/E (x)	FY22E P/B (x)	FY23E P/B (x)	FY22E Yield (%)	FY23E Yield (%)
CCB	939 HK	BUY	7.23	3.45	3.22	0.40	0.36	8.86	9.49
CMB	3968 HK	BUY	53.05	6.43	5.76	1.02	0.90	5.13	5.73
CITICB	998 HK	BUY	5.52	2.90	2.63	0.28	0.26	10.04	11.44

Source(s): Bloomberg, ABCI Securities estimates

Valuation of sector stocks (A-Shr) (Data as of Nov 25, 2022)

Company	Ticker	Rating	TP (HK\$)	FY22E P/E (x)	FY23E P/E (x)	FY22E P/B (x)	FY23E P/B (x)	FY22E Yield (%)	FY23E Yield (%)
CCB	601939 CH	BUY	7.54	4.45	4.15	0.51	0.47	6.87	7.36
CMB	600036 CH	BUY	46.73	6.39	5.72	1.01	0.90	5.16	5.77
CITICB	601998 CH	BUY	5.44	4.68	4.24	0.45	0.42	6.22	7.09

Source(s): Bloomberg, ABCI Securities estimates



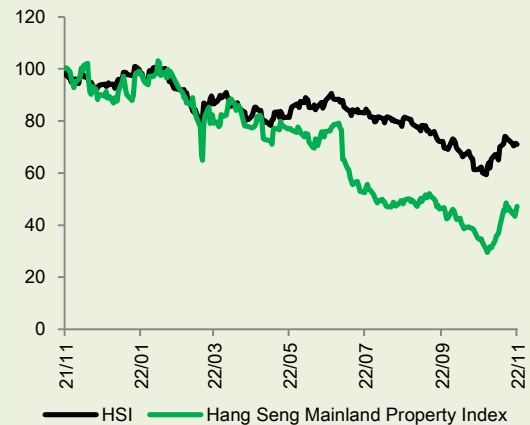
OVERWEIGHT

China Property Sector – SOEs are winning out Kenneth Tung

Key Data		Sector Performance (relative to HSI)	Absolute (%)	Relative (%)
Avg. 23E P/E (x)	4.59	1-mth	34.6	18.8
Avg. 23E P/B(x)	0.36	3-mth	(4.9)	8.0
Avg. 23E div yield (%)	9.21	6-mth	(38.8)	(26.1)
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

- Expect new home sales to increase 5% YoY in 2023E on increasing policy support
- Private developers have better access to onshore borrowing than before though repayment of offshore debts still in doubt
- Expect VASNPO revenue in PMCs to recover in 2023
- Prefer SOE developers and PMCs on stronger balance sheets and better corporate governance. **COLI (688 HK)/Yuexiu (123 HK)** remains our top large/small-cap developer picks; **CR Mixc (1209 HK)/YXS (6626 HK)** are our favorable large- /small-cap PMCs

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

Sector Outlook

■ Developers:

Policy efforts to bear fruit; expect a 5%YoY growth in new home sales for 2023E. Sales decline of commodity housing narrowed from -28.2%YoY in Jul to -14.2%YoY in Sep, although COVID resurgence in Oct re-steepened the fall to -23.7%YoY on stringent lockdown measures in China. Nonetheless, we believe a steady recovery would occur in 2023 on supportive policies. **1) Lower mortgage rate:** On the back of the 35bps interest rate cut in the five-year LPR YTD, average home loan rate declined 1.29ppt to 4.34% in Sep 2022 from 5.63% in Dec 2021. **2) Home loans turn attainable:** Apart from reducing mortgage payment due to interest rate cut, first-home buyers and upgraders also enjoy lower down-payments for their first- and second-home loans. E.g., Zhanjiang in Guangdong lowered its down payment ratio of first home from 25% to 20%; Suzhou also slashed down payment for second home from 50% to 30% provided that the first-home loan has been fully repaid. Besides, homebuyers can utilize balance in a parent's pension fund for home purchases in a number of cities, including Tianjin and Zhuhai. **3) Subsidies by local governments:** Local governments are offering subsidies to home purchasers to stimulate demand. E.g., Harbin government offers one-off subsidies of RMB 15k/ RMB 20k to families with second/third newborns for home purchases. In fact, several SOE developers have achieved positive YoY growth in Sep/Oct contracted sales- COLI gained 12%/15% and Yuexiu Property increased 178%/9%YoY. We expect such SOE developers to outperform since credibility of private names has been severely undermined due to incomplete projects. Looking forward, active landbanking by SOEs now will ensure more saleable resources for future earnings.

Private developers embroiled in offshore debt crisis. The National Association of Financial Market Institutional Investors (NAFMII) announced in Nov that PBOC will support private enterprises, including those in real estate, to issue debt financing with a RMB 250bn fund. Through entrusting different financial institutions, the bond issuances of private entities will be supported by credit enhancement by third-party guarantee, issuances of Credit Risk Mitigation



Warrants (CRMW), as well as direct bond purchasing. The first two measures have already been introduced months ago and bond issuance has turned more active since then. According to CIA, non-bank financing from property developers increased 16% YoY to RMB 55.7bn in Oct 2022, of which onshore corporate bond, trusts, and ABS moved +155.7% YoY, -72.1% YoY and +22.2% YoY, representing for 57.4%, 4.9% and 37.7% of total non-bank financing, respectively. However, offshore bond financing remains challenging and no funds were raised in Oct. We believe supportive policies onshore alone cannot reduce default risk for private developers. E.g., CIFI issued a three-year medium note of RMB 1.2bn at 3.22% with full guarantee from China bond issuance in Sep onshore but announced the suspension of its offshore principal and interest payment of US\$ 414mn due in Nov. As the government's top objective is to ensure project completion, onshore fund raised will be prioritized for that purpose instead of offshore debt repayment. Besides, the China Banking and Insurance Regulatory Commission, the Ministry of Housing and Urban-Rural Development, and the People's Bank of China recently proposed to guide commercial banks to issue letters of guarantee to high-quality developers in exchange for presales funds from escrow accounts, provided that the amount must not exceed 30% of the total outstanding development costs for projects completion. However, we believe only a few large private developers with solid operating conditions will be qualified for the policy. Offshore debt crisis will weigh heavily on share prices of the private developers in 2023.

■ Property mgt companies (PMCs):

Impairment risk looms on mounting receivables. Based on the 18 PMCs with 1H22 revenue higher than RMB 1bn, 12 failed to produce a positive OCF in 1H22 (Exhibit 4). So far, rising trade receivables have been a main reason for declining cash earnings. Trade receivables rose 33% HoH as of Jun 2022, pointing to a higher impairment risk for 2023. Credit crisis of parent developers has impacted the cash-rich PMCs. Among the 12 PMCs with a negative OCF in 1H22, only three were SOE players. Of the six PMCs with a positive OCF, three were SOEs, of which YXS showed the highest OCF-to-core profit ratio of 181% in 1H22. In our view, OCF performance will continue to diverge among the companies. Slower payment from parent developers in the VASNPO segment will continue in 2H22 and 2023E for private names, while cash collection may improve for SOE PMCs as positive growth in contracted sales resumes for SOE developers in 2H22.

VASNPO revenue to recover for quality SOE players. Based on the 10 largest listed PMCs (by revenue), YoY growth in VASNPO revenue slowed to 4%YoY in 1H22 from 42% YoY in 2021 and 23% YoY in 2020. Gross margin of the segment also fell to 26.9% in 1H22 compared to 30.6% in 2021 and 30.7% in 2020. These metrics reflect deteriorating financials as well as sluggish presales of parent developers, who can no longer support their PM subsidiaries by offering premium prices for services. As policy relaxation takes place, however, a recovery in property sales in 2023 is likely and VASNPO revenue may resume faster growth. In particular, SOE players should see better recovery in VASNPO business as parent developers continue to gain market shares.

Market consolidation to speed up. According to CIA's forecast, total GFA under mgt of PMCs in the PRC is expected to increase from 29.0bn sqm in 2022 to 35.5bn sqm in 2026, representing a CAGR of 5.2%. Driven by industry consolidation and M&A, the top 100 PMCs increased their market share from 32.4% in 2017 to 52.3% in 2021. We expect SOE PMCs to speed up acquisitions in the next 12 months given numerous private developers are selling their PMC subsidiaries for debt repayment.

Stock Recommendations

■ Developers:

Quality SOE will survive the storm. COLI (688 HK) remains our top large-cap pick given its low net gearing at 41% as of Jun 2022, which enables the Group to speed up acquisition amid a muted land market. **Yuexiu (123 HK)** is also top small/mid-cap pick given its lucrative TOD model and backing by its strategic shareholder, GZ Metro. Yuexiu's contracted sales increased 11%YoY to RMB 91.1bn in 10M22, one of the few developers achieving a positive YoY growth YTD.



■ PMCs:

SOE players are still our top picks. Our large/small-cap picks for the sector are SOE players CR Mixc/YXS. CR Mixc differentiates itself with its strong M&A execution ability. The Company completed three major acquisitions to add 96mn sqm of GFA under mgt YTD. Its parent developer, CR Land, also delivered impressive operating results in recent months- rental revenue grew 6%-27%YoY in Jul-Oct 2022 while contracted sales returned to YoY increase for five consecutive months as of Oct. We also favor YXS for its unique TOD business model and sizeable cash balance.

Risk Factors

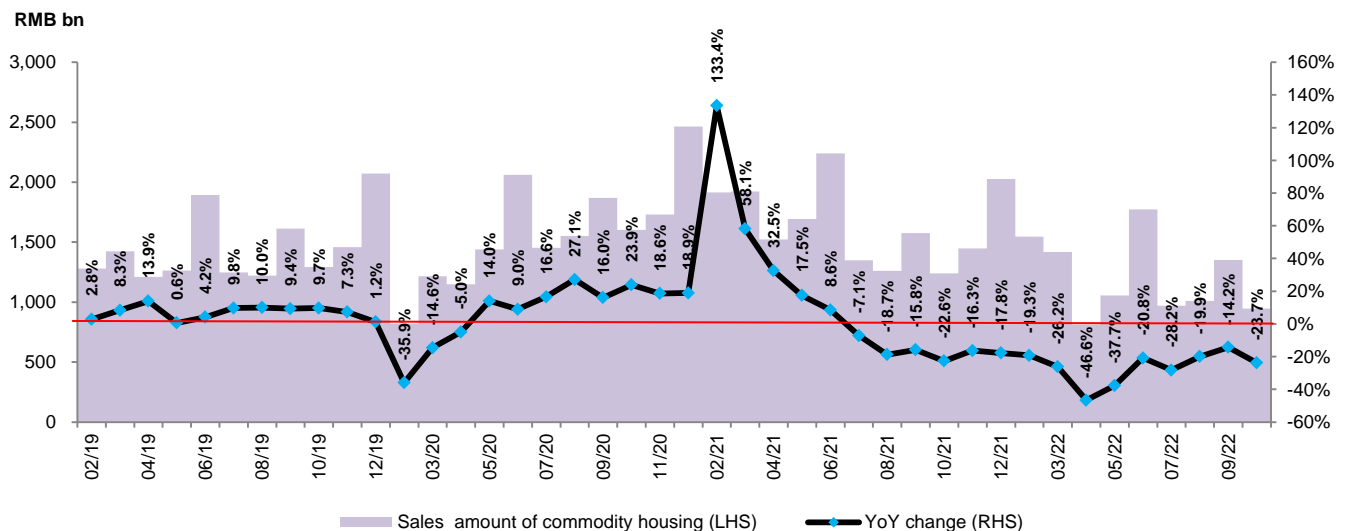
■ Developers:

1) Uncertain development of COVID-19; 2) Margin erosion on price cut; 3) Impairment provision for unsold inventories due to steep decline in property prices; 4) Unsuccessful bond refinancing; 5) Failure to release audited financial results due to dispute with auditors

■ PMCs:

1) Corporate governance issues on substantial related-party transactions; 2) Heavy reliance on parents for new projects; 3) Potential margin erosion caused by M&A; 4) Credit crisis of private developers may spill over to SOE peers; 5) High share price correlations between parent developers and PM subsidiaries

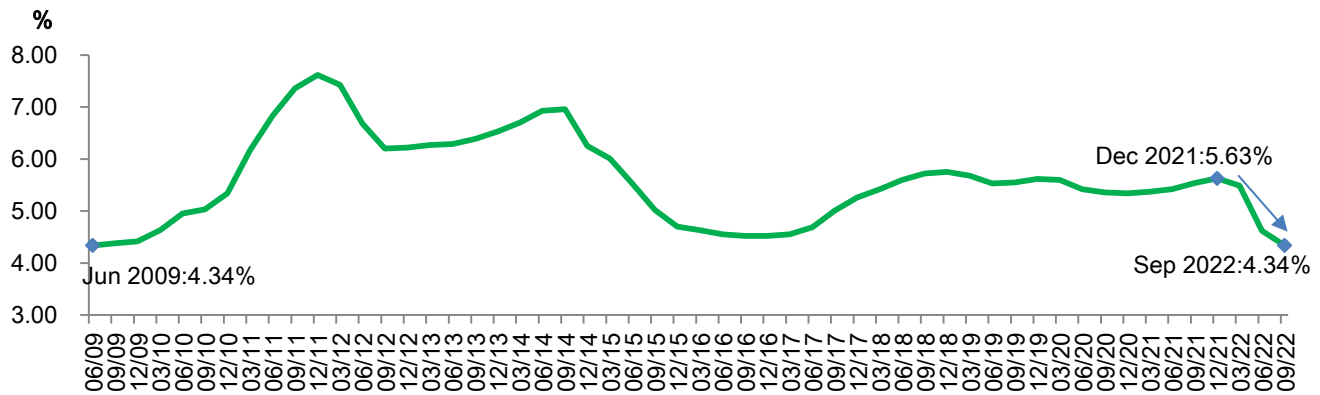
Exhibit 1: Sales of new commodity housing



Source(s): NBS, ABCI Securities

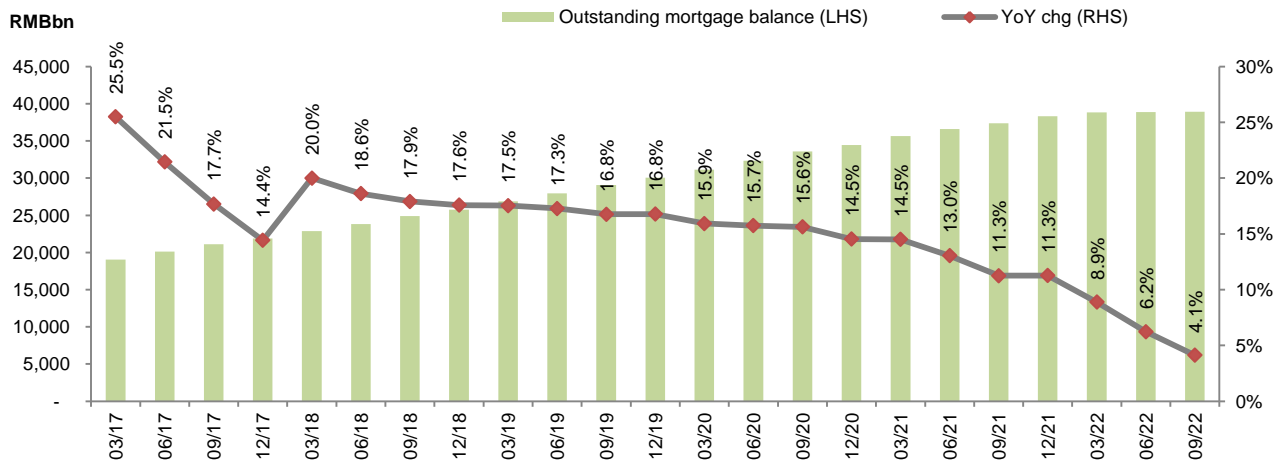


Exhibit 2: Weighted average rate of home loans



Source(s): PBOC, ABCI Securities

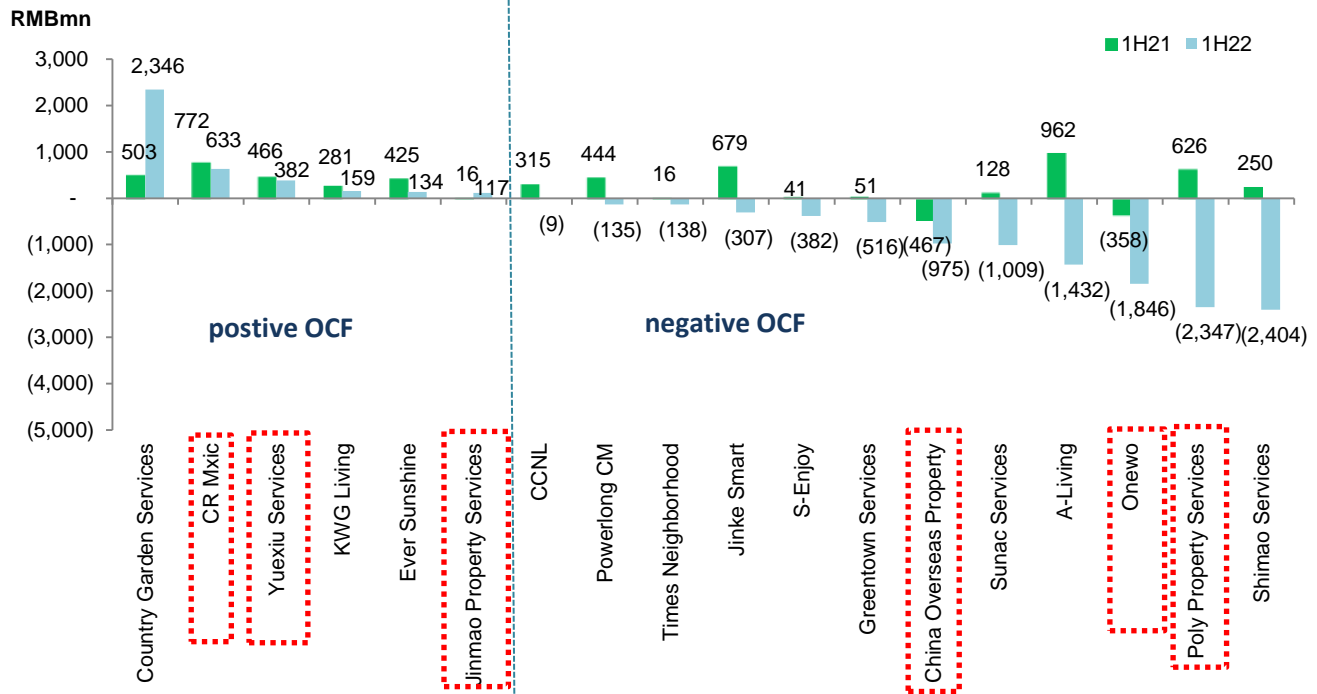
Exhibit 3: Outstanding balance of mortgage loan



Source(s): PBOC, ABCI Securities



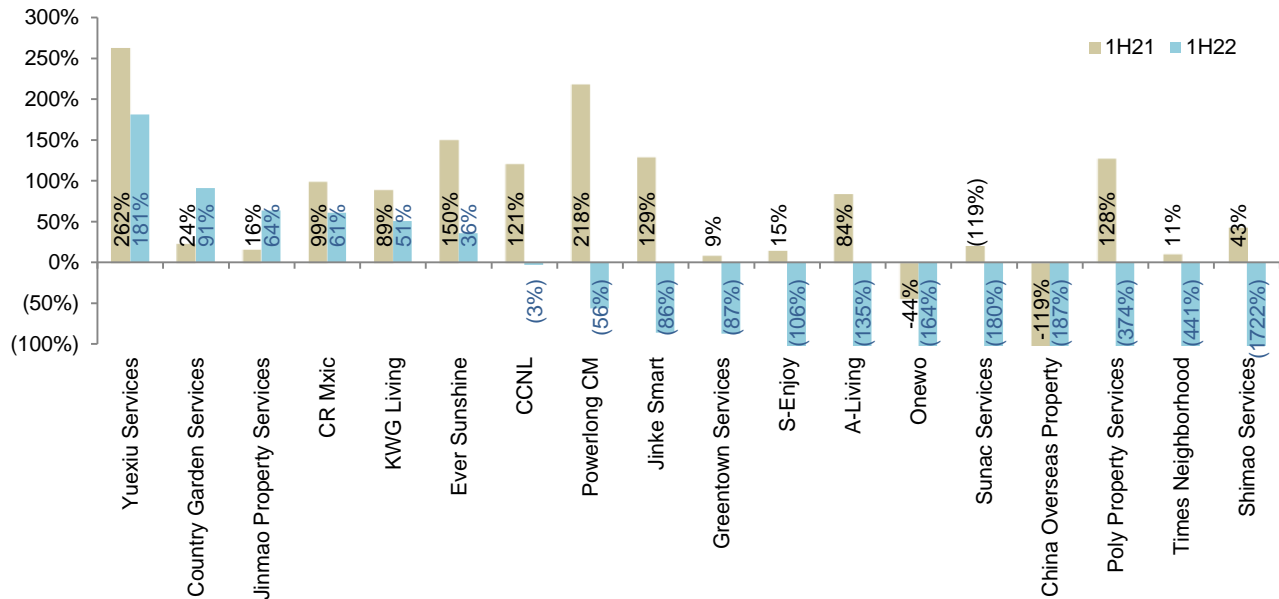
Exhibit 4: Operating cash flow in 1H22



* SOE PMCs in red boxes

Source(s): Companies, ABCI Securities

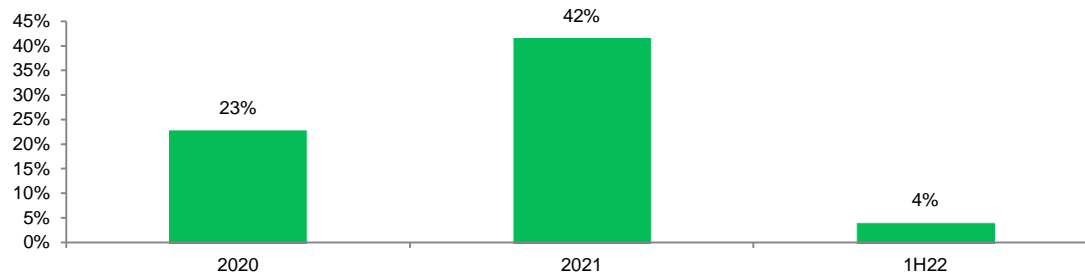
Exhibit 5: Operating cash flow as a percentage of core profit



Source(s): Companies, ABCI Securities



Exhibit 6: VASNPO revenue growth (YoY) for the top 10 listed PMCs *(2020-1H22)



*as defined by revenue

Source(s): Companies, ABCI Securities estimates

Valuation of sector stocks (Data as of Nov 25, 2022)

Company	Ticker (SEHK)	Rating	TP (HK\$)	FY22E P/E (x)	FY23E P/E (x)	FY22E P/B (x)	FY23E P/B (x)	FY22E Yield (%)	FY23E Yield (%)
COLI	688	BUY	31.5	5.81	5.80	0.56	0.53	5.37	5.38
Yuexiu	123	BUY	10.53	5.93	5.33	0.54	0.51	7.30	8.13
CR Mixc	1209	BUY	36.6	29.6	19.9	4.75	1.07	1.01	1.51
YXS	6626	BUY	4.55	6.55	4.65	1.08	0.93	4.58	6.46
PPS	6049	BUY	60.45	21.21	16.79	2.99	2.62	0.94	1.19
JPS	816	BUY	8.17	7.11	5.01	2.57	1.86	3.52	4.99

Source(s): Bloomberg, ABCI Securities estimates



OVERWEIGHT

Internet Media and Consumer Commerce – A better 2023

Steve Chow

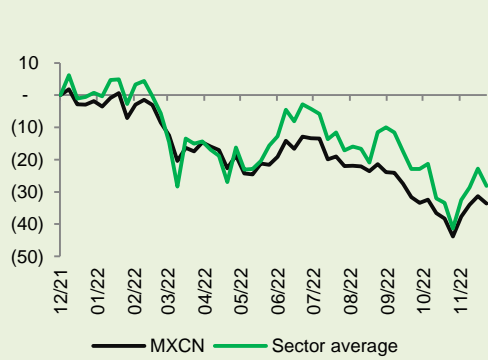
Key Data		Sector Performance (relative to MXCN)	Absolute (%)	Relative (%)
Avg. 23E P/E (x)	14.7	1-mth	32.9	15.9
Avg. 23E P/B(x)	2.5	3-mth	(25.3)	(15.8)
Avg. 23E div yield (%)	0.5	6-mth	(22.4)	(16.1)
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		
<div>➤ Cost optimization to drive margin improvement</div> <div>➤ More visible recovery for online shopping platform</div> <div>➤ Favor JD(9618 HK) and Meituan (3690 HK) due to stronger signs of recovering momentum, and Alibaba (9988 HK/BABA US) on attractive valuation</div>				

1-year sector performance

Date	MXCN	Sector average
12/21	-5	-5
01/22	-10	-10
02/22	-15	-15
03/22	-25	-25
04/22	-20	-20
05/22	-25	-25
06/22	-15	-15
07/22	-20	-20
08/22	-25	-25
09/22	-30	-30
10/22	-35	-35
11/22	-30	-30

Source(s):Bloomberg, ABCI Securities

1-year sector performance



A better 2023. After a sluggish 2022, outlook for 2023 due to 1) sluggish growth in 2022 amid COVID and economic weakness have led to an easier comparable base for 2023E; 2) Ongoing cost optimization by companies to drive margin; 3) Better risk-reward profile as share valuation turns attractive after correction. Having said that, the COVID development remains a major swing factor on the sector's recovery, adding volatility on the sector's near-term performance.

Divergent recovery momentum. Major internet platforms have been implementing cost optimization measures to mitigate macro headwinds. We see signs of bottoming out with most players reporting improving revenue growth momentum and operational improvement recently. Among HK-listed major online platforms, JD and Meituan are experiencing stronger rebound so far.

Ecommerce out of woods. Online sales growth of physical goods in China climbed 7.2% YoY in 10M22 versus 5.6% in 1H22, indicating ongoing shift of consumption spending from offline to online. Penetration rate of online sales rose from 25.9% in 1H22 to 26.2% in 10M22; in particular, online sales of food products rose 16.7% in 10M22, outperforming the sector average. Overall, consumer staples such as food and groceries have been outperforming the discretionary in ecommerce market.

Online gaming: Gradual improvement. We overall see a gradually improving environment for the online gaming market in 2023 due to 1) A lower comparable base after weak growth in 2022; 2) More new game launches as regulatory approval for new titles have been resumed in recent months. This could potentially mitigate negative impacts from minor protection measures, including restrictions on user time, gaming content, monetization methods, etc.

Online advertising: Still soft. Overall, the online advertising industry is still going through a downturn with no clear signs of recovery since corporates cut back on advertising budgets. However, ecommerce-related online advertising may recover faster along with the ecommerce segment.



Stock Recommendations

JD (9618 HK) has been experiencing resilient growth in recent quarters driven by its user growth in lower-tier cities. In addition, it also demonstrates strengths in operational improvement leading to improved margins. The company's shares have a lower supply risk than its listed peers after the recent divestment by Tencent (700 HK), in our view.

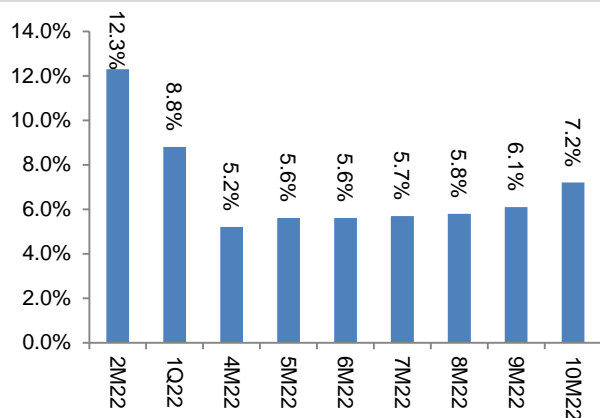
Meituan (3690 HK): Meituan's revenue growth accelerated to 28% in 3Q22 vs. 16% in 2Q22. Its food delivery and various new initiatives, including Meituan Instashopping, Meituan Select, and Meituan Grocery, mainly cover staple products and are currently benefiting from restocking demand from consumers. This should mitigate the volatility of the in-store, hotel & travel business that is highly sensitive to the pandemic changes. In addition, cost optimization measures have improved the company's profitability in recent quarters.

Alibaba (9988 HK/BABA US): As the largest ecommerce platform in China, we believe its current valuation presents an entry point for long-term investors. In addition, the recent upsize of share repurchase program by USD15bn till FY3/25 mitigates concerns on divestment risk by SoftBank. In addition, Alibaba achieved 12.6% YoY core net profit growth in 3Q22 amid cost optimization measures, marking the end of four quarters of core net profit decline since 3Q21.

Risk Factors

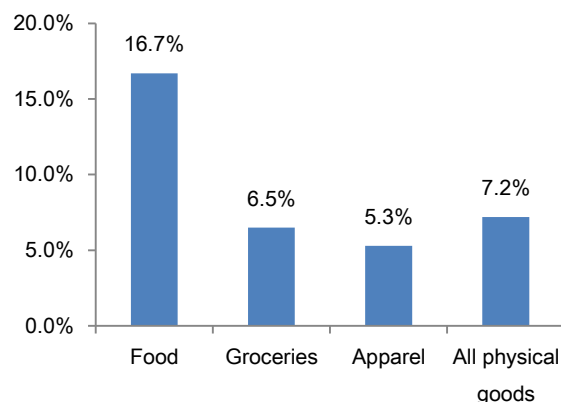
1) Regulatory risk such as anti-trust investigations; 2) Slowdown in ecommerce and internet finance; 3) Non-GAAP financials.

Exhibit 1: Online sales of physical goods (YoY chg)



Source(s): NBS, ABCI Securities

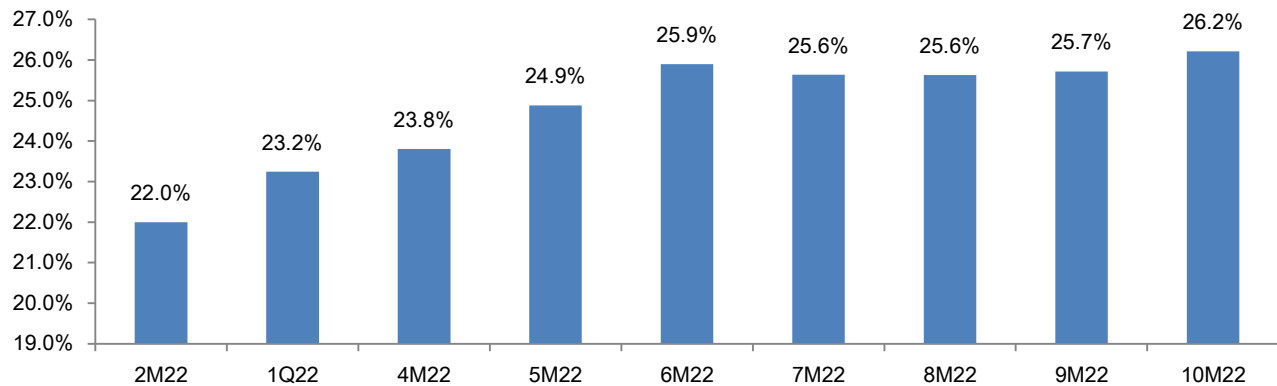
Exhibit 2: Online sales of physical goods by category (10M22, YoY chg)



Source(s): NBS, ABCI Securities



Exhibit 3: Penetration rate of online shopping



Source(s): NBS, ABCI Securities

Exhibit 11: Valuation of sector stocks (Data as of Nov 25, 2022)

Company	Ticker	Rating	TP	FY22E P/E (x)	FY23E P/E (x)	FY22E P/B (x)	FY23E P/B (x)	FY22E Yield (%)	FY23E Yield (%)
JD-SW	9618 HK	BUY	HK\$ 330	22.4	18.5	2.7	2.4	2.4	2.4
JD-ADR	JD US	BUY	US\$ 84	22.8	18.8	2.7	2.4	2.4	2.4
Alibaba-SW	9988 HK	BUY	HK\$ 130	10.6	9.6	1.4	1.2	NA	NA
Alibaba-ADR	BABA US	BUY	US\$132	11.5	9.2	1.4	1.2	NA	NA
Tencent	700 HK	BUY	HK\$ 430	20.9	17.6	2.4	2.0	0.6	0.6
Meituan-W	3690 HK	BUY	HK\$ 240	NA	71.9	6.4	6.0	NA	NA

Source(s): Bloomberg, ABCI Securities estimates

*Cash dividend yield for Tencent



OVERWEIGHT

China Consumer Sector– Loosening COVID curbs to boost recovery

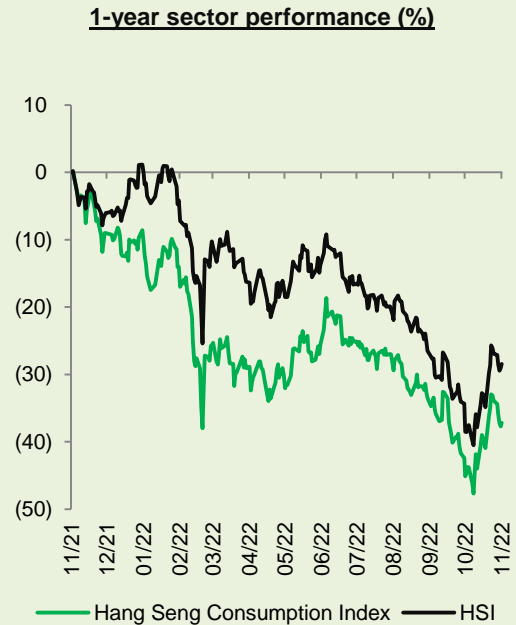
Paul Pan

Key Data		Sector Performance (relative to HSI)		Absolute (%)	Relative (%)
Avg. 23E P/E (x)	18.63	1-mth		12.1	(3.6)
Avg. 23E P/B(x)	2.94	3-mth		(12.9)	(4.1)
Avg. 23E div yield (%)	2.85	6-mth		(9.5)	3.2
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities			
<div>➤ Resurgence of the pandemic across China has led to fluctuations in growth of retail sales and personal income & spending. In Oct 2022, national retail sales fell YoY again</div> <div>➤ We expect inflation to remain subdued in 2023 despite the upward price pressure in the short term</div> <div>➤ Consumer sector shows uneven development, with retail sales growth of non-discretionary consumer goods outperforming the discretionary in Oct 2022</div> <div>➤ Expect COVID-related restrictions to be further relaxed in 2023, which will aid sector recovery</div> <div>➤ Sector rating is OVERWEIGHT; favor leading players in the consumer staples space due on solid fundamentals and defensiveness</div>					

1-year sector performance (%)

Legend: Hang Seng Consumption Index (green line), HSI (black line)

Source(s):Bloomberg, ABCI Securities



Source(s):Bloomberg, ABCI Securities

COVID-related restrictions to be relaxed further in 2023. As cities across China tightened social-distancing measures to cope with new waves of COVID, retail sales and national per capita income & spending has fluctuated throughout the year. After the steep decline of 11.1% YoY in Apr 2022, retail sales recuperated before falling 0.5% YoY in Oct 2022. In 2Q22, national per capita income grew 2.6% YoY while spending dropped 2.4% YoY. New policies have been announced to loosen requirements for inbound travelers and local residents – which we believe are initial steps to gradual reopening. We expect COVID-related restrictions would be further loosened in 2023, and recovery in consumer market would pace up on better demand.

Inflationary pressure to be mild. While domestic inflationary pressure has been mild with CPI at 2.1% YoY in Oct 2022 and 2.0% YoY in 10M22, global inflation is likely to climb further on risen prices of some major products in the short term. As of the third week of Nov 2022, weekly average wholesale prices of pork/egg/chicken increased 44.8%/19.1%/13.5% YTD while the prices of soy meal jumped 47.6% YTD. We believe the higher raw material prices would push up prices of food products in the short term, but inflationary pressure would be generally mild in 2023 and is likely to go down in 2H23.

Uneven intra-sector development. In Oct 2022, most discretionary consumer goods categories dropped while the non-discretionary ones saw consistent growth. In particular, the Oct retail sales of “Household Appliances and AV Equipment”, “Communication Appliances”, and “Building and Decoration Materials” dropped 14.1% YoY, 8.9% YoY, and 8.7% YoY. In contrast, retail sales of “Grain, Oil, Food stuff”, “Beverages”, and “Traditional and Western Medicine” grew 8.3% YoY, 4.1% YoY, and 8.9% YoY. In 3Q22, leading consumer companies saw uneven performance in growth



and margins. Both the macro and the companies' operating data reflect weakening fundamentals in the consumer sector. As COVID measures relax, however, overall performance of the sector would improve in coming quarters.

Long-term Outlook

We believe the diversity and scale of the consumer market in China still provide attractive growth opportunities. The pandemic has led to some long-term changes in consumer behavior and market dynamics. Companies unable to adapt will be severely hampered.

Short-term Outlook

COVID curbs will further loosen and measures would be taken to aid the reopening process. Inflation will remain a concern in the short term and companies could expect some cost pressure. We expect sector performance to improve as demand recover.

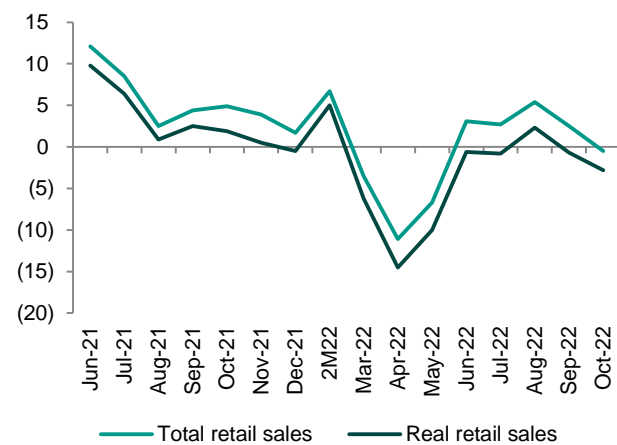
Stock Recommendations

Our sector rating is **OVERWEIGHT**. Signs of growth recovery emerged in 3Q22 as expected. The relaxation of COVID restrictions would facilitate sector recovery in 2023. We continue to favor leading consumer staple companies on solid fundamentals and defensiveness.

Risk Factors

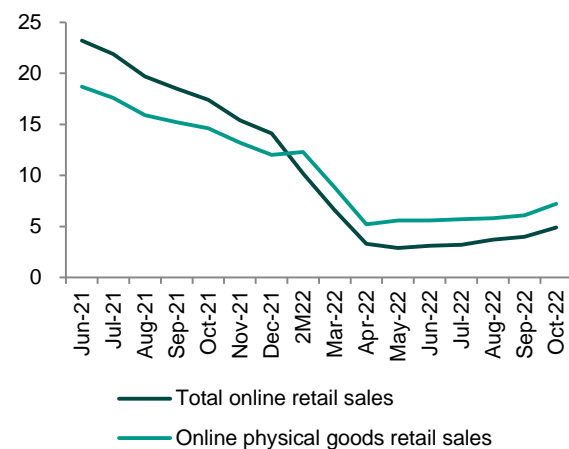
- 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak; 3) Rising raw material costs; 4) Regulatory/policy risk;
- 5) Product quality/safety risk; 6) Changing consumer tastes.

Exhibit 1: Retail sales change (YoY %)



Source(s): NBS, ABCI Securities

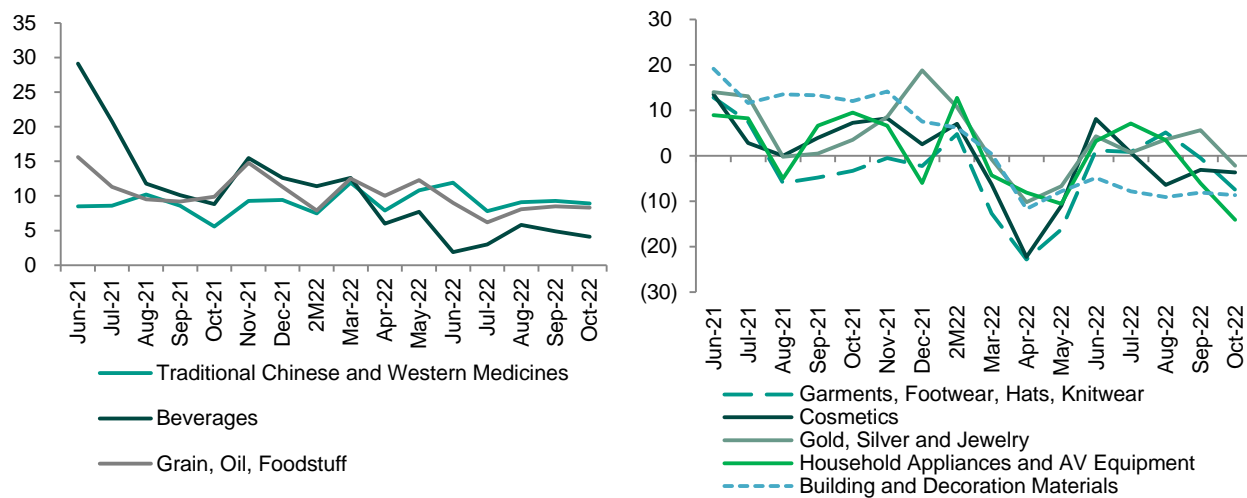
Exhibit 2: Online retails sales change (YTD YoY %)



Source(s): NBS, ABCI Securities

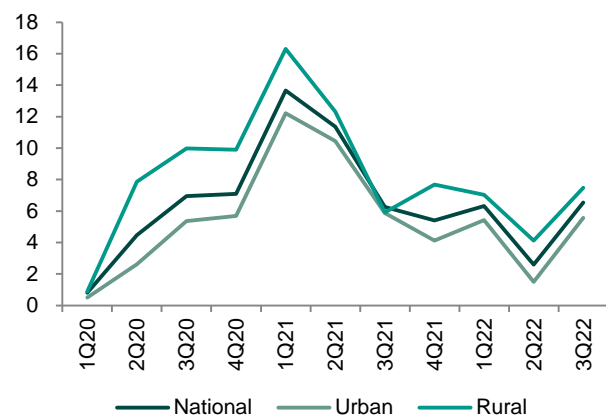


Exhibit 3: Retail sales change of certain product categories (YoY %)



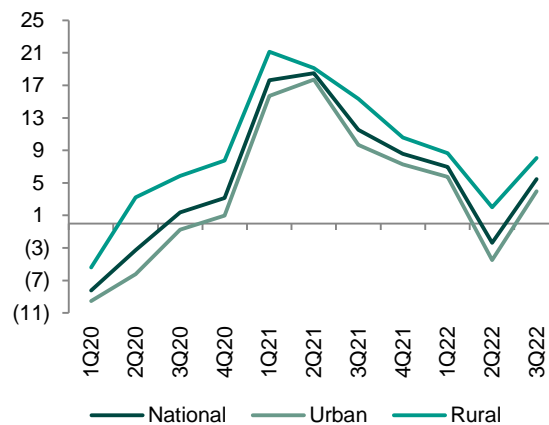
Source(s): NBS, ABCI Securities

Exhibit 4: Per capita income change (YoY %)



Source(s): NBS, ABCI Securities

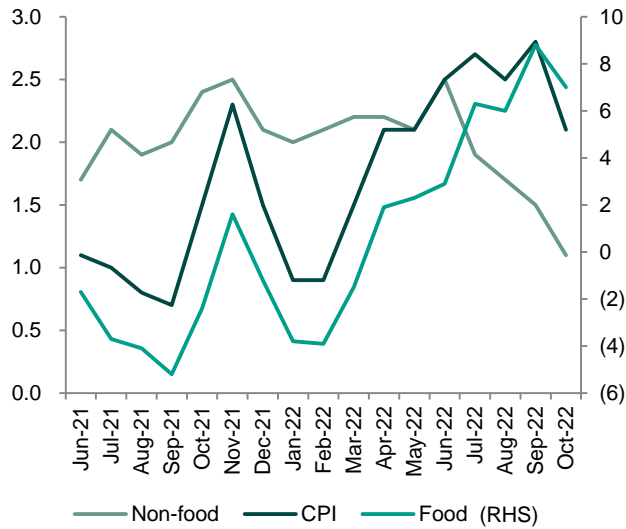
Exhibit 5: Per capita spending change (YoY %)



Source(s): NBS, ABCI Securities

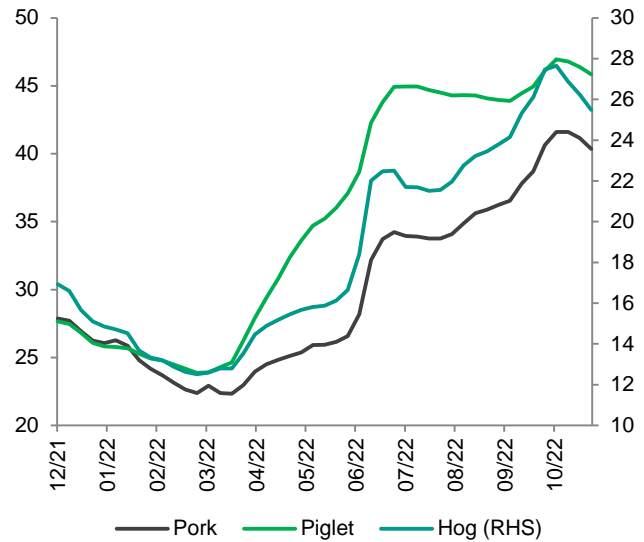


Exhibit 6: CPI (YoY %)



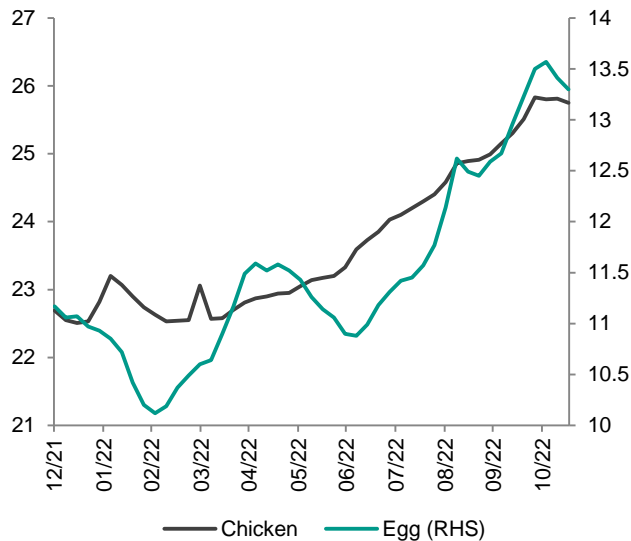
Source(s): NBS, ABCI Securities

Exhibit 7: Weekly average wholesale price of pork, piglet, and hog (RMB/kg)



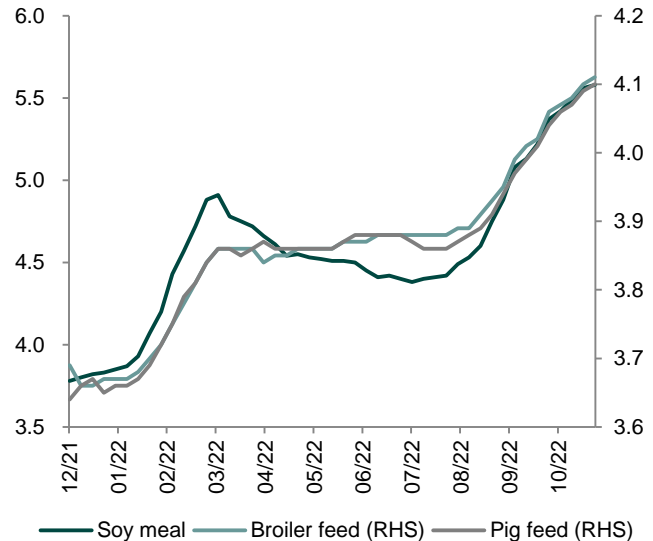
Source(s): MOA, ABCI Securities

Exhibit 8: Weekly average wholesale price of egg and chicken (RMB/kg)



Source(s): MOA, ABCI Securities

Exhibit 9: Price of soy meal, pig feed, and broiler feed (RMB/kg)



Source(s): MOA, ABCI Securities



Valuation of sector stocks (Data as of Nov 25, 2022)

Company	Ticker	Rating	TP	FY22E P/E (x)	FY23E P/E (x)	FY22E P/B (x)	FY23E P/B (x)	FY22E Yield (%)	FY23E Yield (%)
Yum China	YUMC US	BUY	US\$ 61.1	33.21	26.28	3.47	3.15	0.9	0.9
	9987 HK	BUY	HK\$ 479.3	32.36	25.61	3.38	3.06	0.9	0.9
WH Group	288 HK	BUY	HK\$ 5.9	6.40	5.91	0.80	0.73	4.7	5.1
Shuanghui	000895 CH	BUY	RMB 30.7	16.23	14.47	4.30	4.06	4.9	5.5
Nongfu Spring	9633 HK	BUY	HK\$ 51.3	58.31	48.15	21.63	17.04	0.7	0.8
Mengniu	2319 HK	BUY	HK\$ 49.0	16.77	16.48	2.86	2.55	1.8	1.8
Yili	600887 CH	BUY	RMB 35.8	18.66	14.77	3.72	3.46	3.8	4.8
Anta	2020 HK	BUY	HK\$ 113.2	23.62	19.67	5.82	4.86	1.4	1.7

Sources: Bloomberg, ABCI Securities estimates



NEUTRAL

China Education Sector– Organic-centric growth as new norm

Paul Pan

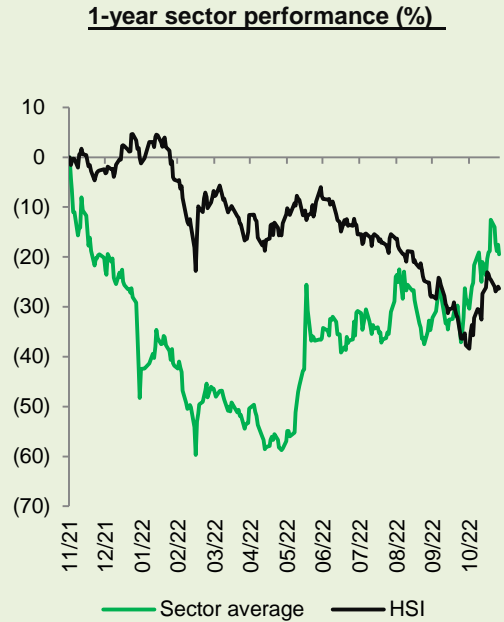
Key Data		Sector Performance (relative to HSI)	
		Absolute (%)	Relative (%)
Avg. 23E P/E (x)	3.99	1-mth	28.1
Avg. 23E P/B(x)	0.73	3-mth	24.7
Avg. 23E div yield (%)	3.14	6-mth	92.7
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities	
<div>➤ Policy environment supports higher education and vocational education players; fundamental education and after-school academic subject tutoring continue to face more restrictions</div> <div>➤ Some industry players achieved further progress in new business ventures amid the tightened policy environment; we expect more sector players to follow suit</div> <div>➤ M&A activities muted as the sector shift to mainly organic expansion, especially those in the higher education and vocational education; companies with untapped capacity would fare better in generating student enrollment growth</div> <div>➤ Sector rating is NEUTRAL because the strong policy support mainly focuses on higher & vocational education and material success of new businesses by other sector players remains to be seen; as such, we still prefer higher and vocational education players</div>			

1-year sector performance (%)

Date	Sector average (%)	HSI (%)
11/21	0	0
12/21	(10)	(5)
01/22	(20)	(10)
02/22	(30)	(15)
03/22	(40)	(20)
04/22	(50)	(25)
05/22	(60)	(30)
06/22	(55)	(25)
07/22	(45)	(15)
08/22	(35)	(10)
09/22	(25)	(5)
10/22	(10)	(10)

— Sector average — HSI

Source(s):Bloomberg, ABCI Securities



Source(s):Bloomberg, ABCI Securities

Policy supports higher education. Current policy favors higher education and vocational education players, with independent colleges undergoing conversions to separate from sponsor schools and private higher education institutions attaining for-profit status. Additional policies, such as the newly amended vocational education law announced in Apr 2022, provide support to the industry's regulatory framework. We maintain that higher education, especially the vocational education segment, will fare better. Fundamental education (K-9) and after-school academic subject tutoring will continue to be subjected to the tightened regulations, however.

Reposition to find new growth drivers. Players in fundamental education (K-9) and after-school academic subject tutoring explore new opportunities to pivot away from businesses not compliant with the new regulations. Certain players have achieved more progress than others. E.g., New Oriental (EDU US/9901 HK) has successfully established its live-streaming ecommerce brand DONG FANG ZHEN XUAN (东方甄选), which mainly focuses on educational, agricultural, and daily necessities products, and cultivated clout with its unique presentation style. We expect more sector players will continue to reinvent their businesses in the foreseeable future.

Organic-centric growth model as main expansion mode. Leading players continue to report decent growth. Newly registered students of CEG (839 HK), Hope Education (1765 HK), and Edvantage (382 HK) grew 48% YoY, 15% YoY, and 17% YoY, respectively. FY22 revenue of CEG (839 HK) and Edvantage (382 HK) grew 29.2% YoY and 34.7% YoY. While acquisition has been the main growth model for industry players over the past few years, M&A activities in 2022 are muted. We believe the shift to organic expansion could lead to slower student enrollment and revenue growth in the next few years. As such, we believe sector players with more unutilized capacity outperform its peers in terms of student enrollment growth.



Long-term Outlook

Regulatory scrutiny on the sector will continue to be a major overhang, leading to varying development among subsegments. In addition, potential decline of population in the long term would weigh on the sector's overall growth outlook.

Short-term Outlook

M&A activities will be muted and organic expansion would be the main growth model, especially for the higher and vocational education players. As such, unutilized capacity on hand will aid growth. The exploration of new business opportunities would continue for the highly regulated subsegments that need to venture outside the education business for survival.

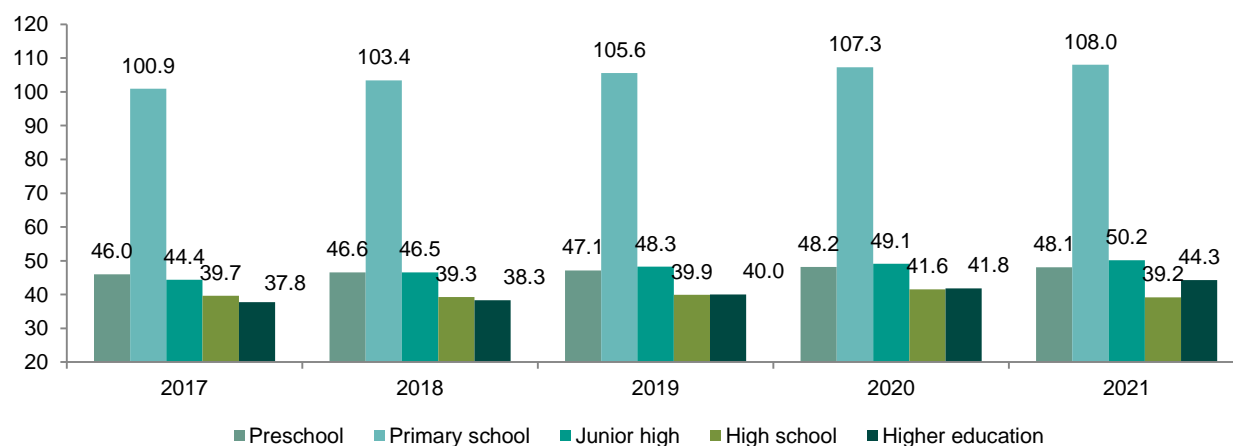
Sector Recommendations

Our sector rating is **NEUTRAL**. Higher education players, especially the vocational education ones, will fare better than players in other subsegments due to the more favorable policy environment. Subsegments subject to heavy-handed regulations are transforming their businesses though results are yet to be seen. Higher education players will rely on organic expansion for growth and those with spare capacity will outperform.

Risk Factors

1) Macroeconomic risk; 2) Regulatory risk; 3) Expansion model risk; 4) Market liquidity risk; 5) Education quality and student dropout risk; 6) Prolonged pandemic risk.

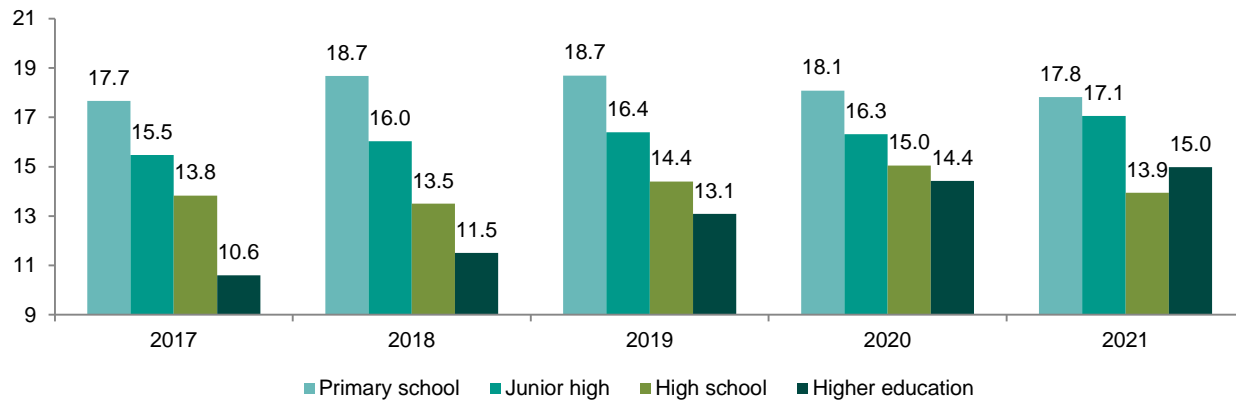
Exhibit 1: Student enrollment in China (mn ppl)



Source(s): MOE, ABCI Securities

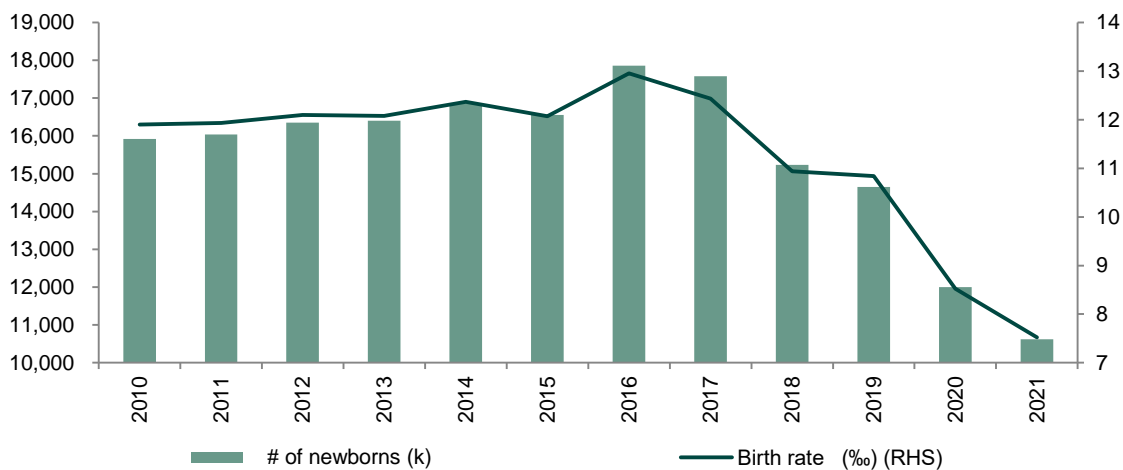


Exhibit 2: New student intake in China (mn ppl)



Source(s): MOE, ABCI Securities

Exhibit 3: Number of newborns and birth rate in China



Source(s): NBS, ABCI Securities

Valuation of sector stocks (Data as of Nov 25, 2022)

Company	Ticker	Rating	TP	FY22A P/E (x)	FY23E P/E (x)	FY22A P/B (x)	FY23E P/B (x)	FY22A Yield (%)	FY23E Yield (%)
CEG	839 HK	BUY	HK\$ 22.6	9.62	9.50	1.26	1.23	4.5	4.2
Edvantage	382 HK	BUY	HK\$ 13.1	3.79	2.76	0.73	0.54	4.6	14.4

Note: Yield refers to cash yield

Sources: Bloomberg, ABCI Securities estimates



OVERWEIGHT

China Telecom Sector–Emerging businesses as growth driver

Ricky Lai

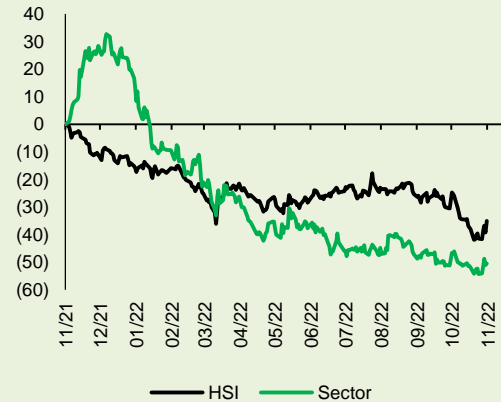
Key Data		Sector Performance (relative to HSI)	Absolute (%)	Relative (%)
Avg. 23E P/E (x)	7.51	1-mth	0.1	10.8
Avg. 23E P/B(x)	0.90	3-mth	(19.5)	(0.3)
Avg. 23E div yield (%)	6.80	6-mth	(24.4)	1.0
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		
<ul style="list-style-type: none">➤ Telecom operators are benefiting from the growth of emerging businesses (industrial internet, data center, and cloud computing)➤ The no. of 5G base stations in China is estimated to reach 2.8mn in 2023E, further improving 5G network coverage➤ Telecom operators' 2023E CAPEX to grow 2.5% YoY for data center development➤ China Mobile (941HK) is our top pick for high dividend yield, healthy balance sheet, and dominant position in China's telecom market				

1-year sector performance (%)

— HSI — Sector

Source(s):Bloomberg, ABCI Securities

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

Telecom operators to benefit from emerging businesses. The growth of emerging businesses (industrial internet, data center, and cloud computing) is expected to grow in 2023E due to the proliferation of cloud platform applications and supportive policy. Telecom operators are teaming up with corporations for developing the cloud platform solutions, which helps improve operation efficiency and management. Also, the NDRC has introduced the “East-to-West Computing Resources Transfer” strategy to develop data centers in western regions to improve data processing capacity and boost cloud computing adoption.

5G base stations to reach 2.8mn by end-2023E. We forecast 5G user penetration rate to reach 35.0% by end-2023E on improved 5G network coverage and aggressive pricing strategy. China Mobile maintains the dominant position in 5G market, thanks to improved network coverage, abundant resources, and efficient marketing strategies. For 2023E, we expect the total number of 5G base stations to reach 2.8mn, which would support the business of base stations equipment providers. Overall mobile base stations would reach 13.5mn in 2023E.

Telecom operators' CAPEX to improve by 2.5% YoY in 2023E on cloud computing, data center, 5G network, and fixed network. Telecom operators are upgrading their 5G telecom network to standalone standard to improve network quality, which will drive up income for telecom equipment providers. We estimate 2023E aggregate CAPEX of the three major telecom operators (China Mobile / China Unicom [762 HK]/ China Telecom [728 HK]) to be RMB 355.9 bn, up 2.5% YoY. The rise in CAPEX will benefit the telecom equipment makers and service providers.

We forecast global smartphone shipments to grow 2.0% YoY in 2023E. According to IDC, global smartphone shipment declined 9.7% YoY in 3Q22, the fifth consecutive quarter with YoY decline. It was due to inflation in overseas markets and dampened economic environment. We expect global smartphone shipment to grow 2.0% YoY in 2023E due to the low base effect in 2022.



Long-term Outlook

We expect telecom operators to benefit from 5G network development and emerging businesses. The higher 5G user penetration, increasing average mobile data usage per user, and climbing mobile ARPU will help elevate revenue. Telecom operators are introducing aggressive pricing strategies to attract more 5G users. Supportive policies are also in place to improve the adoption of 5G telecom services and emerging businesses. The NDRC has introduced the scheme of "East-to-West Computing Resources Transfer" strategy to develop data centers in western regions to improve data processing capacity and boost cloud computing adoption.

Short-term Outlook

Emerging businesses will be the major growth drivers for telecom operators. Many commercial companies are transferring their businesses to the cloud platform. We expect improvement in mobile service revenue growth, thanks to better mobile ARPU spiked by higher mobile data usage and 5G user base. Telecom operators are expected to raise CAPEX in 2023E for data center development.

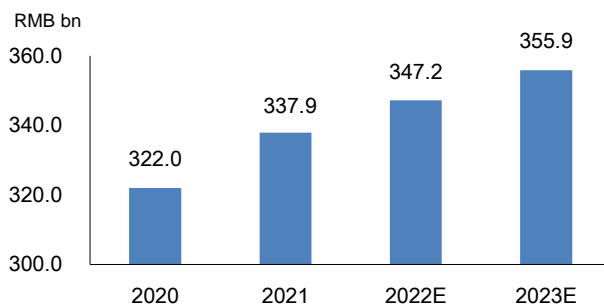
Stock Recommendations

China Mobile is our sector top pick. We expect the company's mobile ARPU to improve thanks to the growing 5G user base. It has the largest 5G market share thanks to network advantage with better coverage and resources. Our TP is HK\$ 81.00 for H-Share (941 HK), which implies 4.1x FY23E EV/EBITDA and RMB 97.00 for A-Share (600941 CH), which implies 5.4x FY23E EV/EBITDA.

Risk Factors

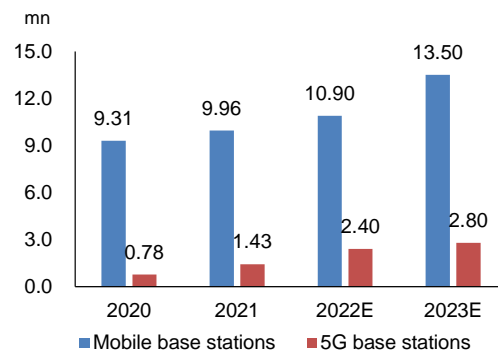
- 1) Further reduction in service tariff as requested by authorities; 2) User saturation; 3) Intensifying market competition;
- 4) Slower growth in smartphone shipments; 5) Slowdown in 5G network development.

Exhibit 1: CAPEX of telecom operators



Source(s): MIIT, ABCI Securities estimates

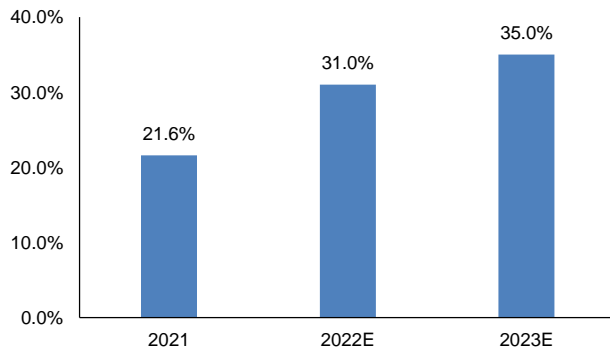
Exhibit 2: The number of mobile and 5G base stations



Source(s): MIIT, ABCI Securities estimates

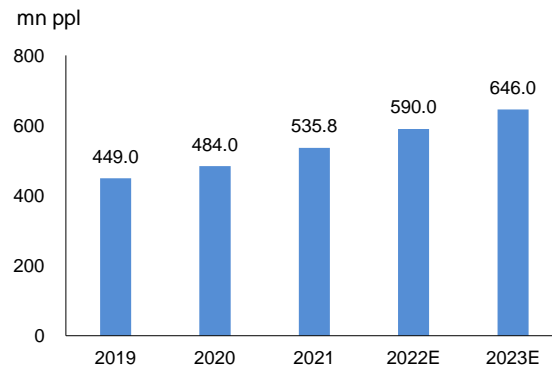


Exhibit 3: 5G User penetration rate in China



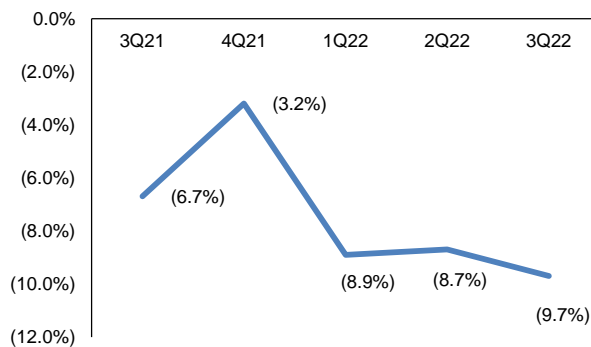
Source(s): Companies, ABCI Securities estimates

Exhibit 4: Wireline broadband users in China



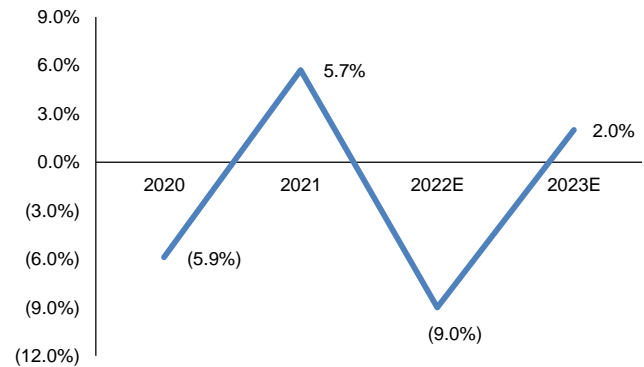
Source(s): Companies, ABCI Securities estimates

Exhibit 5: Quarter smartphone shipments growth



Source(s): IDC, ABCI Securities

Exhibit 6: Yearly smartphone shipments growth



Source(s): IDC, ABCI Securities estimates

Valuation of sector stocks (Data as of Nov 25, 2022)

Company	Ticker	Rating	TP	FY22E P/E (x)	FY23E P/E (x)	FY22E P/B (x)	FY23E P/B (x)	FY22E Yield (%)	FY23E Yield (%)
China Mobile	941 HK	BUY	HK\$ 81.0	7.03	6.43	0.70	0.68	9.67	10.88
China Mobile	600941 CH	BUY	RMB 97.0	10.70	9.80	1.07	1.03	6.35	7.15
China Unicom	762 HK	BUY	HK\$ 5.6	5.90	5.60	0.28	0.27	7.73	8.15
China Telecom	728 HK	BUY	HK\$ 4.2	8.67	7.39	0.55	0.54	7.04	8.25
China Telecom	601728 CH	BUY	RMB 5.1	13.10	11.17	0.84	0.81	5.39	6.31
China Tower	788 HK	BUY	HK\$ 1.1	14.50	11.80	0.65	0.63	3.79	4.65
CCS	552 HK	BUY	HK\$ 6.10	5.94	5.94	0.46	0.44	5.71	6.14
ZTE	763 HK	BUY	HK\$ 31.0	7.75	6.83	1.09	0.96	2.63	2.94
ZTE	000063 CH	BUY	RMB 42.0	13.11	11.30	1.85	1.62	1.29	1.91
AAC Tech	2018 HK	SELL	HK\$ 12.5	22.10	10.80	0.68	0.65	0.00	1.39
Sunny Optical	2382 HK	HOLD	HK\$ 90.0	36.10	30.80	4.20	3.80	0.58	0.68

Source(s): Bloomberg, ABCI Securities estimates



Disclosures

Analyst Certification

The analysts, CHAN Sung Yan, AU Yu Hang, Johannes, CHOW Sau Shing, LAI Pak Kin, PAN Hongxing, TUNG Yiu Kei, Kenneth, YAO Shaohua, being the persons primarily 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. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests (except "Disclosures of Interests" below) in relation to the listed company(ies) covered in this report, and we and/or our 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 relationships with Tencent, Jinmao Property Services, Onowo, CCB, Alibaba, CITIC Securities, and Huatai Securities.

Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (For reference: HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

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

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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183