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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED



Hong Kong Stock Market Weekly Review

Jun 21, 2024

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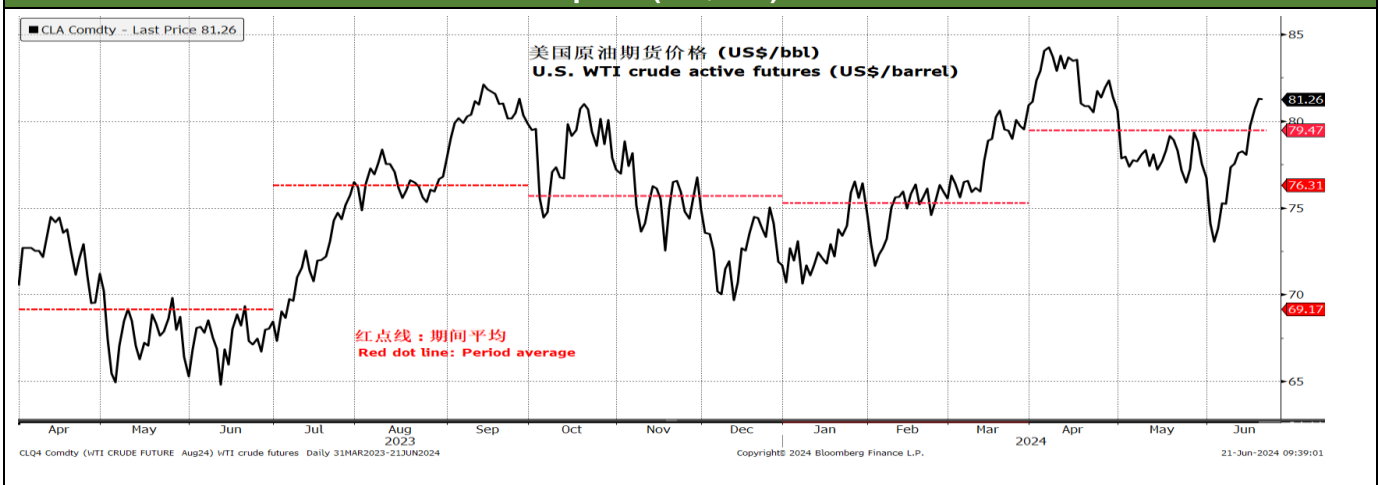
21/6/2024

- Chinese Energy Stocks Hit Yearly High as Oil Prices Surge
- Chinese Retail Market -Strong or Weak?
- Greater Volatility in Meat Stocks - Pork Prices Increase in China as Beef Prices Plunge
- CSI China Reform HK Connect Central-SOEs High Dividend Yield Index ETF (CSI China Reform HK SOE Div ETF)

1. Chinese Energy Stocks Hit Yearly High as Oil Prices Surge

This week, among the constituents of the HSI, the Chinese energy companies CNOOC (883 HK) and China Shenhua (1088 HK) reached new 52-week highs, while WuXi AppTec (2359 HK) and Li Auto (2015 HK) hit new 52-week lows. The sustained increase in international oil prices since early Jun has boosted the stock prices of these Chinese energy firms. Additionally, the upcoming launch of ETFs on the A-share market, targeting SOEs listed in Hong Kong, has bolstered market expectations of imminent domestic capital inflows into major state-owned energy stocks. Market sentiment towards WuXi AppTec's A-shares (603259 CH) turned more negative this week, with increased short selling prompting a sell-off in both its H-shares and A-shares. Sales of Li Auto's MEGA model underperformed expectations, resulting in a lawsuit from US investors alleging they were misled by the company. Particular attention is on oil price trends. This week, the price of active US WTI crude oil futures rebounded to above US\$ 80/barrel, signaling rising energy inflation pressures. The average oil prices for 2Q23 and 3Q23 were ~US\$ 69/barrel and ~US\$ 76/barrel, respectively. So far in 2Q24, the average price of oil has been ~US\$ 79/barrel. This week, oil prices climbed to over US\$ 80/barrel. If oil prices remain above US\$ 80/barrel in Jul and Aug, the persistent inflationary pressures from energy costs will significantly impact market expectations regarding when the Fed might lower interest rates. Although the market currently anticipates a Fed rate cut in Sep, if oil prices maintain levels above US\$ 80/barrel during Jul and Aug, these expectations might diminish.

Exhibit 1: U.S. WTI crude active futures price (US\$/bbl)



Source(s): Bloomberg, ABCI Securities

2. Chinese Retail Market -Strong or Weak?

Perceptions of China's retail consumption market are significantly influenced by the monthly retail sales statistics by the NBS. According to NBS, the total retail sales of consumer goods reported a YoY increase from 2.3% in Apr to 3.7% in May. Despite this uptick, the modest growth rate might still lead the market to perceive the momentum as subdued. Specifically, in May, the retail sales by larger retailers recorded a YoY increase of 3.4%, which is 0.3 ppt below the overall growth rate for consumer goods. This suggests that the sales growth of larger retailers was less robust compared to smaller ones. These growth figures have been broadly covered in the media and are frequently analyzed in reports by economists and retail industry analysts.

Understanding the growth in sales revenue of large retailers is essential for analyzing the overall market dynamics, particularly since most publicly traded retail companies are large retailers. The performance of these entities often acts as an indicator of the retail industry's health. Additionally, investors and analysts typically need to understand the definitions used by NBS for calculating the YoY growth rates of retail businesses of varying sizes. In surveys targeting larger retailers, the published growth rates represent comparable YoY growth rates. These rates do not reflect the absolute change in sales revenue for all large retailers compared to the same period last year. Simply put, comparable YoY growth rates only show the sales growth of retailers that have continuously operated from last to this. Therefore, in calculating comparable YoY changes, the sales revenue from retailers newly added this year and from those that ceased operations last year are excluded, as well as retailers that do not meet the survey criteria. We will use the following example to illustrate.

.Exhibit 2: Example of retail sales of the enterprises above the designated size (“large retailers”)

Retailers (RMB10K)	A	B	C	D	E	Comparable peers A+B	Peers above the designated size	Total
5/2023	333	300	250	Not exist	201	633	1084 (A+B+C+E)	1084
5/2024	319	330	Ceased	566	100#	649	1215 (A+B+D)	1315
YoY Change	-4.2%	10.0%	-	-		Comparable 2.5%	12.1%	21.3%

#: Revenue of retailer E in 5/2024 would be excluded from the comparable peers calculation due to revenue not meeting the selection criteria

Source(s): ABCI Securities

Based on the provided example, when calculated using comparable metrics, the YoY retail sales growth for retail enterprises above the designated size in May was 2.5%. However, the actual YoY growth for the large retailers in May was 12.1%, which is quite robust. Furthermore, if the sales from retailer E in May were included, the actual total growth rate could have soared to ~21.3%. This example illustrates how different definitions of YoY growth rates can lead to vastly different interpretations for readers. According to the survey methods of the NBS, all large retailers are surveyed while smaller ones are surveyed by sampling.

In May, NBS reported that the YoY retail sales growth for catering retailers above the designated size was only 2.5%, reflecting weak growth. This figure is based on comparable YoY growth rates. Additional data from the NBS shows that the retail sales for these large retailers totaled RMB 121.5bn in May 2024, up from RMB 108.4bn in May 2023, marking a robust YoY growth of 12.1%. Despite the substantial difference between these two growth rates, both are informative. The 2.5% comparable YoY growth rate indicates that existing large catering retailers have faced challenges over the past year. The entry of new large catering retailers has changed the competitive dynamics. Including sales from these new entrants, the total YoY retail sales growth for large-scale catering retailers would be 12.1%, not just 2.5%.

In May, data from the NBS showed that the retail sales of goods by enterprises above the designated size grew by 3.5% YoY, which was lower than the entire retail growth of consumer goods. However, this growth rate is based on comparable YoY growth rates. According to the NBS, in May 2024, the retail sales of goods by enterprises above the designated size amounted to RMB 1,377.3bn, compared to RMB 1,294.9bn in May of 2023, indicating a YoY increase of 6.4% ppt. This growth rate is better than the overall retail growth rate of consumer goods. This suggests that some new large retailers that joined have performed well, boosting the total retail sales for large retailers in May.

Physical goods online retail sales YoY growth: 11.5% or 0.5%? The NBS reported an 11.5% YoY increase in the physical goods online retail sales for 5M24, but a closer look reveals that the actual growth was only 0.5% YoY. Initially, statistics suggested robust double-digit growth, significantly outpacing the overall growth in consumer goods retail. However, the NBS clarified that the reported YoY growth rates for online retail sales are based on comparable YoY rates. For 5M24, online retail sales totaled RMB 4,828 bn, slightly up from RMB 4,805.5bn in the same period last year, marking a modest YoY increase of 0.5%.

This stark difference in reported growth rates might lead to a radically different perception of the online retail market's health. It is essential for readers to understand the definitions behind these growth rates when using this data for analysis or decision-making. The NBS has not intentionally misled the public or the market; rather, it provides necessary explanations for each growth rate definition at the bottom of its retail survey reports, ensuring transparency and aiding accurate interpretation.

Exhibit 3: Retail sales of the enterprises above the designated size

	5/2024 (RMB100mn)	Comparable YoY chg*	5/2023 (RMB100mn)	Value chg 5/2024 vs 5/2023
Catering	1215	2.5%	1084	12.1%
Consumer goods	13773	3.5%	12949	6.4%
	1-5/2024 (RMB100mn)	Comparable YoY chg*	1-5/2023 (RMB100mn)	Value chg 1-5/2024 vs 1-5/2023
Online sales of goods	48280	11.5%	48055	0.5%

*: Comparable YoY change according to NBS
 Source(s): NBS, ABCI Securities

3. Greater Volatility in Meat Stocks - Pork Prices Increase in China as Beef Prices Plunge

According to a weekly survey by the Ministry of Commerce, pork wholesale prices in the second week of Jun rose to RMB 23.59 /kg, marking a ~22% YoY increase and an ~18% rise since the beginning of 2Q24. Additionally, prices have increased nearly 7% MoM since end-May. Conversely, beef wholesale prices significantly dropped to RMB 59.47/kg, showing a ~19% YoY decrease, with a 10% fall since 2Q24 and a nearly 3% decline MoM from end-May.

The rising trend for pork wholesale prices began in early May, whereas the falling trend for beef prices started in early Apr. Despite significant reductions, beef prices, from a nominal perspective, remain higher than pork prices. Comparatively, since 2023, beef has been on average 3.4 times more expensive than pork. Recently, this ratio has decreased to 2.5 times. From a consumer perspective, even though beef has become more affordable, pork remains the more popular choice due to its lower price.

The surge in pork prices benefits pig farm operators but challenges manufacturers of packaged pork products due to increased raw material costs.

Henan Shuanghui's (000895 CH) A-share price has dropped by ~18% from its peak in Mar. In FY23, its packaged meat products contributed nearly 40% to total revenue and about 82% to total gross profit, while fresh meat products comprised 47% of revenue and 17% of gross profit. Although fresh meat sales are the principal revenue source, the majority of profits still arise from packaged meat products, rendering the company's stock price particularly sensitive to shifts in this market segment.

WH Group (288 HK), the holding shareholder of Henan Shuanghui, saw its stock price decrease by ~11% from its Mar peak. During FY23, its packaged meat products contributed about 52% of total revenue and ~ 139% of the total profits across all departments, indicating losses in other business lines. WH Group's overall business is notably sensitive to the dynamics of the packaged meat products market.

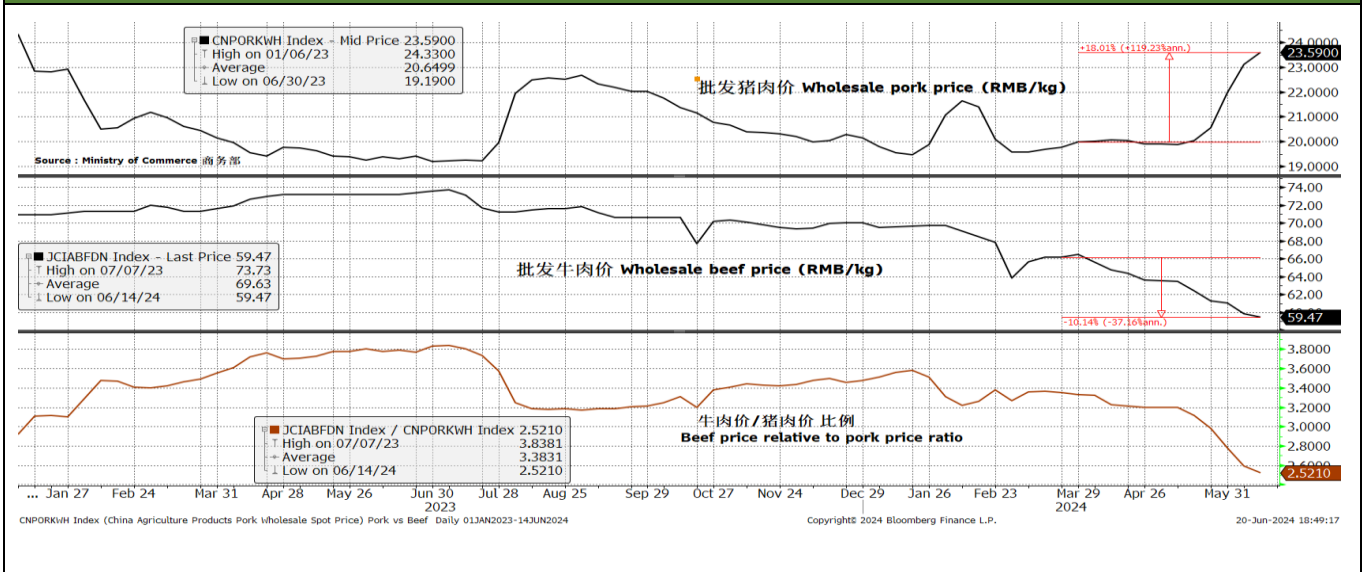
Cofco Joycome Foods (1610 HK), listed in Hong Kong, saw its stock price fall by ~14% from its peak in May. The company's business includes the sale of live pigs, fresh pork, and packaged meat products. Despite the unprofitability of fresh pork sales over the past two years, sales from live pigs and packaged meat products have been the main profit drivers. Rising pork prices have pressured the profits from packaged meat products but have reduced losses and boosted profits in live pig sales. Another pork product company, Hunan New Wellful (600975 CH), listed on the A-share market and supplying livestock and frozen meat to the Hong Kong market, experienced a ~18% decline in its stock price from its May high.

Falling beef prices have adversely affected cattle farm operators but have positively impacted manufacturers of packaged beef products. The steep decline in beef prices suggests an oversupply at the upstream of the supply chain. Milk retail prices have also fallen. According to the Ministry of Commerce, milk retail prices in the first two weeks of Jun dropped to RMB 12.21-12.22 per liter, the lowest since Aug 2020, indicating a market oversupply. Mengniu Dairy

(2319 HK) reached a 52-week low of HKD 12.54 in the second week of Jun 4.

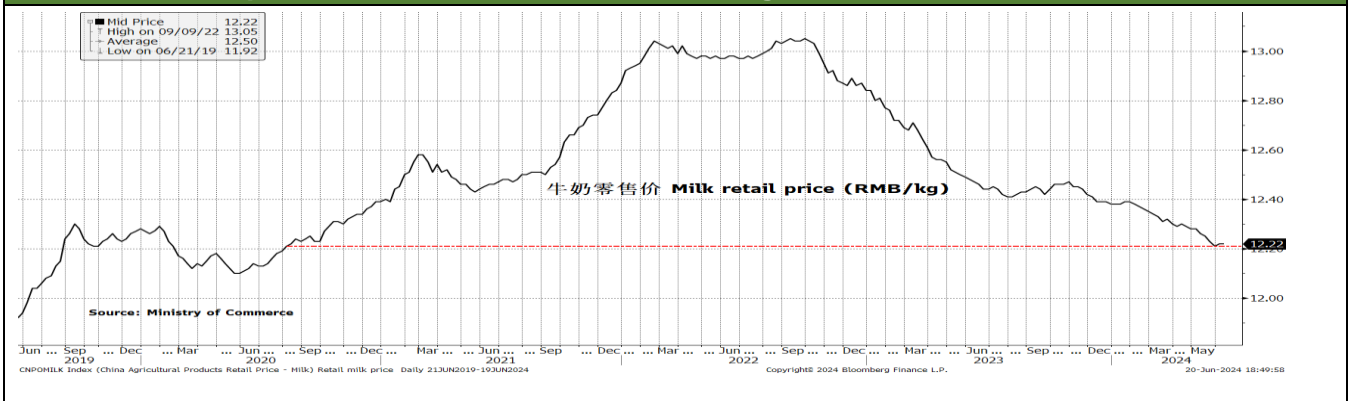
Readers might wonder whether fluctuations in pork and beef prices could impact China's inflation forecast. Livestock meat (including pork, beef, and lamb) accounts for ~ 3% of the total CPI weight. This implies that a 10% shift in average livestock meat prices would result in a change of about 0.3 ppt in the CPI. Given the relatively low weight of livestock meat in the CPI, only substantial price changes would significantly affect inflation. Recently, the rise in pork prices has been offset by decreases in beef and lamb prices. As a result, the CPI for livestock meat in May fell by 2.2% YoY and 0.4% MoM.

Exhibit 4: Wholesale prices of pork and beef since 2023 (RMB/kg)



Weekly data up to Jun 14, 2024. Source(s): Ministry of Commerce, Bloomberg, ABCI Securities

Exhibit 5: Retail price of milk since mid-2019 (RMB/kg)



Weekly data up to Jun 14, 2024. Source(s): Ministry of Commerce, Bloomberg, ABCI Securities

4. CSI China Reform HK Connect Central-SOEs High Dividend Yield Index ETF (CSI China Reform HK SOE Div ETF)

This week, there were reports that a subsidiary of China Reform Holdings Corporation Ltd. has subscribed to newly issued ETFs: China Southern CSI China Reform HK SOE Div ETF (tentative: 520660, not yet listed), Invesco Great Wall CSI China Reform HK SOE Div ETF (tentative: 520990, not yet listed), and GF CSI China Reform HK SOE Div ETF (tentative: 520900, not yet listed). This has led the market to believe that new mainland capital will soon be buying into heavyweight state-owned stocks listed in Hong Kong. In May, the China Securities Regulatory Commission approved the establishment of these three ETFs. The fundraising begins this week.

On Sep 13, 2023, the CSI China Reform HK SOE Div ETF (931722) was officially launched. This index tracks central state-owned enterprises (SOEs) listed in Hong Kong. Currently, the index comprises 48 constituent stocks.

By the end of May, the five largest stocks by weight were CNOOC (883 HK), PetroChina (857 HK), China Shenhua (1088 HK), Sinopec (386 HK), and China Mobile (941 HK). Collectively, these stocks accounted for ~54% of the index's total weight. The subsequent five stocks, namely, China Telecom (728 HK), China Unicom (762 HK), China Coal Energy (1898 HK), CGN Power (1816 HK), and China Resources Power (836 HK), increased the cumulative weight of the top ten constituents to ~71% of the index. These top 10 stocks include five energy SOEs, three telecommunications services SOEs, and two power SOEs, indicating that the CSI China Reform HK SOE Div ETF predominantly invests in these entities, with over half of its capital concentrated in the top five. Furthermore, the future performance of the index and its corresponding ETF will largely be influenced by the stock price movements of these ten companies within their respective sectors—energy, telecommunications, and power. Notably, eight of these ten stocks are also components of the HSI and the HSCEI. Therefore, significant ETF capital flows into or out of these shares could impact the performance of both the HSI and HSCEI.

Overall, at the end of May, the distribution of weights among the 48 constituent stocks of the as CSI China Reform HK SOE Div ETF was as follows: energy stocks accounted for 48.2%, telecommunications services stocks accounted for 21.7%, industrial stocks accounted for 11.9%, and utilities stocks accounted for 8.8%. Together, these four sectors comprised ~91% of the index weight.

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (-7%)
Hold	- Market return rate (-7%) \leq Stock return rate $<$ Market return rate ($+7\%$)
Sell	Stock return $<$ - Market return (-7%)

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 2005 (For reference: 2005-23 HSI total return index averaged at 7.4%)

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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