



KGI

CHINA
DEVELOPMENT
FINANCIAL

Investment Daily

24 May 2022

Major Market Indicators

	23 May	20 May	19 May
Mkt. Turn.(mn)	105,100	122,700	121,100
Stock Advances	677	1,147	515
Stock Declines	868	469	1,012
HSI	20,470	20,717	20,121
Change	-247	+597	-524

HSI Technical Indicators

10-days MA	20,124
50-days MA	20,888
250-days MA	24,620
14-days RSI	48.67
Primary resistance	20,888
Primary support	20,200

HSCEI Technical Indicators

10-days MA	6,887
50-days MA	7,145
250-days MA	8,750
14-days RSI	49.33
Primary resistance	7,200
Primary support	6,800

Stock Pick

CNOOC (0883)

Target: \$11.8

Stop loss: \$9.3

Although US economic slowdown is expected to drag oil demand, China's reopening supports oil demand, supporting oil price at US\$110. We expect CNOOC to benefit from strong oil price. CNOOC declared special dividend at HK\$1.18 per share, equivalent to 11% yield, which is defensive.

COSCO Shipping (1919)

Target: \$15.0

Stop loss: \$12.2

Shanghai has reached zero-Covid on community level in mid-May, and has announced production resumption in two phases, targeting to fully reopen in June. Container traffic in Shanghai has resumed to 90% of normal level last week. COSCO will repurchase shares of Rmb1.5-3.0bn in one year, bolstering share price.

GAC Group (2238)

Target: \$8.2

Stop loss: \$6.6

Latest State Council's executive meeting announced another package of measures to stabilize economy growth. Car purchase restrictions will be relaxed. The purchase tax of passenger vehicles will be partially cut to the amount of Rmb 60 billion on a time-limited basis. China auto sector will benefit from tax cut, suggest to accumulate Guangzhou Auto(2238) during weakness.

Market Overview

US President Biden is still consider whether to cut tariff on China imported goods, and US Dollar index retreated obviously, both are positive to HK and China stock market. Besides, US banking sector rally, as well as rebound of US treasury yield, will provide support to HK banking stock today. However, Hong Kong stock turnover remained sluggish, Hong Kong stock market is likely to range trade today, Hang Seng Index resistance remains at 50 Day SMA(20,888).

Hong Kong Stock Connect net inflow rebounded to HK\$1.58bn on Monday, of which, BYD(1211) and CNOOC(0883) recorded most net buy, while tech leaders Tencent (0700) and Meituan (3690) recorded most net outflow. In fact, China will also reduce some passenger car purchase taxes by Rmb60 billion, which will be positive to the auto sector, especially new energy auto. Although BYD and other auto stocks rebounded significantly in the past few trading days, there might be some potential profit taking pressure. Given improving prospect, we still suggest to accumulate BYD and Guangzhou Auto(2238) during share weakness.

Daily Focus

Cosco Shipping (1919): Production resumption in Shanghai supports freight rate rebound

- Shanghai Container Freight Index (SCFI) has rebounded 0.4% to 4,163 last week, snapping consecutive 17-week declines. We believe SCFI stabilization was resulted from easing Covid-19 lockdowns in Shanghai. Shanghai has reached zero-Covid on community level in mid-May, and target to resume production and operation in two phases. Full resumption is expected in June.
- Gradual production resumption supports supply chain normalization, and export shipping demand recovery. Shanghai container traffic has reached 90% of normal level last week. Furthermore, US and Europe retailers have increased inventory replenishment for peak season in winter, in case of China pandemic resurgence in 2H22. We therefore expect shipping peak season to arrive earlier from June to September this year, and export shipping demand to see strong recovery. Besides, the negotiation of labors in US West Coast has not come to a conclusion, which may lengthen port congestion. We see freight rate bottoming and rebound going forward.
- In the long term, we are conservative but optimistic on freight rate, despite the fact that Maersk expect rate normalization in 2H22 on increasing economic slowdown risks. Ukraine-Russia conflicts and Covid pandemic may continue to be headwinds on global supply chain, which will support freight rate at high level. Shipping companies will therefore see strong earnings momentum in the first three quarters this year, which are expected to be outperformers in the turbulent markets.
- Cosco Shipping posted revenue of Rmb105.5bn and net profit of Rmb27.6bn in 1Q22, up 62.8% YoY and 78.7% YoY, thanks to improving efficiency of container business and stable growth in port business. Unit International route revenue surged 84% YoY to US\$2,975 per twenty-foot equivalent unit.
- Cosco stated that its short-term orders remained strong in early-May, attributed to the fact that Intra-Asia routes demand increased on industrial activities migration in Southeast Asia. Cosco now trades at 1.8x 2022F PE, which is far below its 3-year average of 12x. The company has declared a final dividend of Rmb0.87 per share, equivalent to dividend yield of 7.8%, which provides downside cushion to share price. The parent company of Cosco has announced to repurchase A&H shares of Rmb1.5-3.0bn, supporting share price uptrend. We suggest to buy with a target price at HK\$15.5.

Cosco Shipping (1919) Info	
Closed price	13.6
FY22 P/E (X)	1.8
FY22 Dividend yield (%)	7.8
52 week high	17.48
52 week low	9.76
14 RSI	58.9

Analyst: Christopher Ho

State Council Launched Supportive Measures

- Latest State Council's executive meeting announced another package of measures to stabilize economy growth. It includes 33 measures in six aspects which mainly include fiscal and related policies. Of which, tax refunds will increase by Rmb140 billion and bring the total amount of tax relief this year to Rmb 2.64 trillion.
- Besides, China government will postpone social security payments, including pension insurance premium payments, by small firms, individual businesses and some severely distressed sectors until the end of this year.
- Banks will be supported in deferring, within this year, principal and interest repayments on loans made to MSMEs and self-employed households, truck loans, and home loans and consumer loans borne by individuals facing temporary difficulties.
- Consumer spending and effective investment will be boosted. Car purchase restrictions will be relaxed. The purchase tax of passenger vehicles will be partially cut to the amount of Rmb 60 billion on a time-limited basis.
- Given the tough environment, it is expected that China government will continue launch measures to support economy growth. Of which, banking stocks might suffer higher provision cost and lower net interest margin. However, given their low P/E and high dividend yield, we expect the banking counters to range trade in the near term. On the other hand, China auto sector will benefit from tax cut, suggest to accumulate BYD(1211) and Guangzhou Auto(2238) during weakness.

GAC(2238) Info	
Closed price	7.01
FY22 P/E(X)	6.2x
FY22 Dividend yield (%)	5.0%
52 week high	9.19
52 week low	5.50
14 RSI	58.7

Analyst: Samuel Chua, CFA

Shanghai/Shenzhen-Hong Kong Stock Connect Statistics

	SH Connect	SZ Connect	Combined Southbound
Balance (RMB bn)	52.88	53.28	81.23
Balance as % of Quota Amount	101.9	102.5	96.7

Top 10 Most Actively Traded Stocks(SH-HK Connect Southbound)

Stock Name	Stock code	Buy Trades (HKD)	Sell Trades (HKD)	Turnover (HKD)
TENCENT	700	480,061,660	704,663,083	1,184,724,743
MEITUAN-W	3690	421,129,870	548,044,591	969,174,461
CNOOC	883	285,526,760	279,592,040	565,118,800
BYD COMPANY	1211	401,956,400	38,145,100	440,101,500
LI NING	2331	289,992,675	69,097,300	359,089,975
CHINA MOBILE	941	285,591,700	70,548,900	356,140,600
KUAISHOU-W	1024	213,156,705	136,089,435	349,246,140
CHINA SHENHUA	1088	218,238,625	70,150,000	288,388,625
CCB	939	104,593,180	170,010,540	274,603,720
CHINA TELECOM	728	159,487,160	109,047,660	268,534,820

Sources: HKEx

Top 10 Most Actively Traded Stocks(SZ-HK Connect Southbound)

Stock Name	Stock code	Buy Trades (HKD)	Sell Trades (HKD)	Turnover (HKD)
MEITUAN-W	3690	517,672,900	728,939,342	1,246,612,242
TENCENT	700	457,249,000	633,134,471	1,090,383,471
LI NING	2331	230,254,650	236,492,450	466,747,100
CNOOC	883	387,837,660	77,992,040	465,829,700
KUAISHOU-W	1024	223,894,290	201,046,126	424,940,416
WUXI BIO	2269	249,116,725	26,792,899	275,909,624
BYD COMPANY	1211	125,457,900	70,672,700	196,130,600
SMIC	981	79,620,330	114,178,230	193,798,560
KINTOR PHARMA-B	9939	91,379,475	91,812,475	183,191,950
GREATWALL MOTOR	2333	76,276,860	84,955,980	161,232,840

Sources: HKEx

Other Statistics

Ten Most Actively Traded Stocks

Stock Name	Code	Change	Closed Price	Turnover(Million)
TENCENT	700	-1.53%	346.80	58.97
MEITUAN-W	3690	-3.06%	167.70	48.00
BABA-SW	9988	-3.35%	85.10	40.89
JD-SW	9618	0.57%	212.80	40.10
AIA	1299	-2.54%	78.80	26.29
KUAISHOU-W	1024	-7.44%	65.95	21.40
BYD COMPANY	1211	0.67%	270.40	20.24
LI NING	2331	-9.14%	54.15	16.87
CNOOC	883	1.44%	11.30	14.87
CM BANK	3968	-1.02%	48.60	13.44

Ten Short Sell Stocks

Stock Name	Code	Short Selling Turnover	Turnover	Short Selling Ratio
JD-SW	09618.HK	1.37B	4.01B	34.24%
TRACKER FUND	02800.HK	1.20B	3.10B	38.67%
HSCEI ETF	02828.HK	1.17B	4.36B	26.75%
MEITUAN-W	03690.HK	1.01B	4.80B	21.02%
TENCENT	00700.HK	892.43M	5.90B	15.13%
BABA-SW	09988.HK	813.50M	4.09B	19.90%
AIA	01299.HK	687.64M	2.63B	26.16%
BYD COMPANY	01211.HK	545.89M	2.02B	26.98%
PING AN	02318.HK	469.21M	1.03B	45.58%
KUAISHOU-W	01024.HK	437.35M	2.14B	20.44%

Source: AA Stocks

Economic Calendars

Date	Country	Event	Survey	Prior
Mon	Hong Kong	XPeng Inc. (9868) Result		
Tue	US	May. Manufacturing PMI	57.9	59.2
		May. Services PMI	55.2	55.6
		Apr. New Home Sales	750k	763k
	Euro Zone	May. Manufacturing PMI		55.5
		May. Services PMI		57.7
	Hong Kong	Kuaishou (1024), ZTO Express (2057), Kingsoft (3888), NetEase (9999) Results		
Wed	US	Apr. Durable Goods Orders	0.6%	1.1%
	Hong Kong	Alibaba Health (241), CSPC Pharma (1093) Results		
Thu	US	FOMC Meeting Minutes (4 May)		
		1Q. GDP Annualized (QoQ)	-1.3%	-1.4%
		Initial Jobless Claims (Till May 21)		218k
		Continuing Jobless Claims (Till May 14)		1,317k
		Apr. Pending Home Sales (MoM)	-1.8%	-1.2%
	Hong Kong	Lenovo (992), Baidu (9888), Alibaba (9988) Results		
Fri	US	Apr. Wholesale Inventories (MoM)		2.3%
		Apr. Personal Income	0.5%	0.5%
		Apr. Personal Spending	0.6%	1.1%
		Apr. Retail Inventories (MoM)		2.0%
		Apr. PCE Deflator (MoM)	0.2%	0.9%
		May. University of Michigan Sentiment	59.1	59.1

All the above named KGI analyst(s) is SFC licensed person accredited to KGI Asia Ltd to carry on the relevant regulated activities. Each of them and/or his/her associate(s) does not have any financial interest in the respectively covered stock, issuer and/or new listing applicant.

Disclaimer Some of KGI Asia Ltd. equity research and earnings estimates are available electronically on KGIEWORLD.COM. Please contact your KGI representative for information. The information and opinions in this report are those of KGI Asia Ltd. internal research activity. KGI Asia Ltd. does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be reproduced or published (in whole or in part) for any purpose without the prior written consent of KGI Asia Ltd.. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned herein.