



China Equity Strategy | : Biding its time

HSBC Qianhai Securities | November 2022



Steven Sun*, CFA
(Reg. No. S1700517110003)
Head of Research
HSBC Qianhai Securities Limited
stevensun@hsbcqh.com.cn
+86 755 8898 3158

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China

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Macro economy

Macro economy

20th Party Congress

- Key words statistics of Xi's speech (full version) in 20th vs. 19th Party Congress:
 - ✓ Modernisation (现代化), Security (安全), Technology (科技) and Marx are the top four words that increased the most in appearance rate;
 - ✓ Great (伟大), People (人民), Reform (改革) and Democracy are the bottom four words that decreased the most in appearance rate.

Key words statistics of Xi's speech (full version) in 20th vs. 19th Party Congress

CHN	ENG	20th #	19th #	20th %	19th %	20th vs 19th
现代化	Modernisation	85	47	0.79%	0.44%	↑0.35%
安全	Security	91	55	0.56%	0.34%	↑0.22%
科技	Technology	44	17	0.27%	0.11%	↑0.17%
马克思	Marx	30	18	0.28%	0.17%	↑0.11%
保障	Ensuring	48	31	0.30%	0.19%	↑0.10%
发展	Development	239	232	1.47%	1.43%	↑0.04%
共同富裕	Common prosperity	8	6	0.10%	0.07%	↑0.02%
开放	Opening	29	27	0.18%	0.17%	↑0.01%
市场	Market	18	19	0.11%	0.12%	↓0.01%
斗争	Struggle	22	23	0.14%	0.14%	↓0.01%
法治	Nomocracy	50	53	0.31%	0.33%	↓0.02%
创新	Innovation	55	59	0.34%	0.36%	↓0.03%
经济	Economy	60	70	0.37%	0.43%	↓0.06%
民主	Democracy	49	61	0.30%	0.38%	↓0.08%
改革	Reform	51	70	0.31%	0.43%	↓0.12%
人民	People	177	203	1.09%	1.25%	↓0.16%
伟大	Great	39	75	0.24%	0.46%	↓0.22%

总字数 Total word count 32,458 32,357

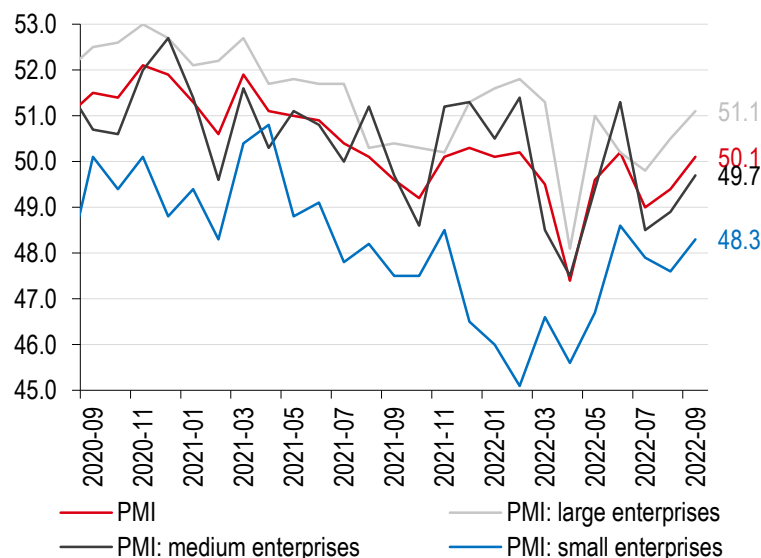
Source: Xinhua Net, HSBC Qianhai Securities

Macro economy

Slow and uneven recovery amid continued headwinds

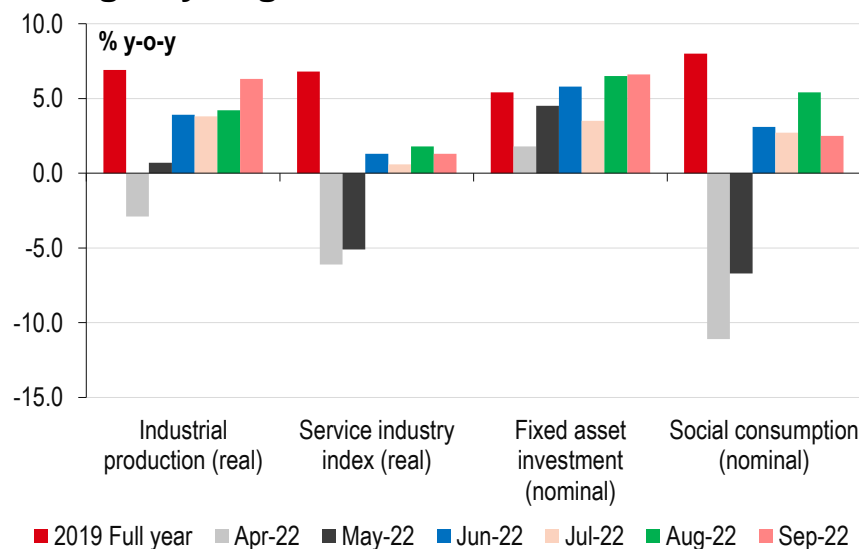
- The official PMI in September rose to 50.1, returning to a level above the prosperity line; however, the recovery of enterprises of different sizes varies greatly, with large enterprises > medium enterprises > small enterprises.
- Meanwhile, the economic recovery is also uneven across different segments: industry > services, investment > consumption.

Post-pandemic prosperity: large enterprises > medium enterprises > small enterprises



Source: Wind, HSBC Qianhai Securities

The uneven recovery means there is still a long way to go



Source: Wind, HSBC Qianhai Securities

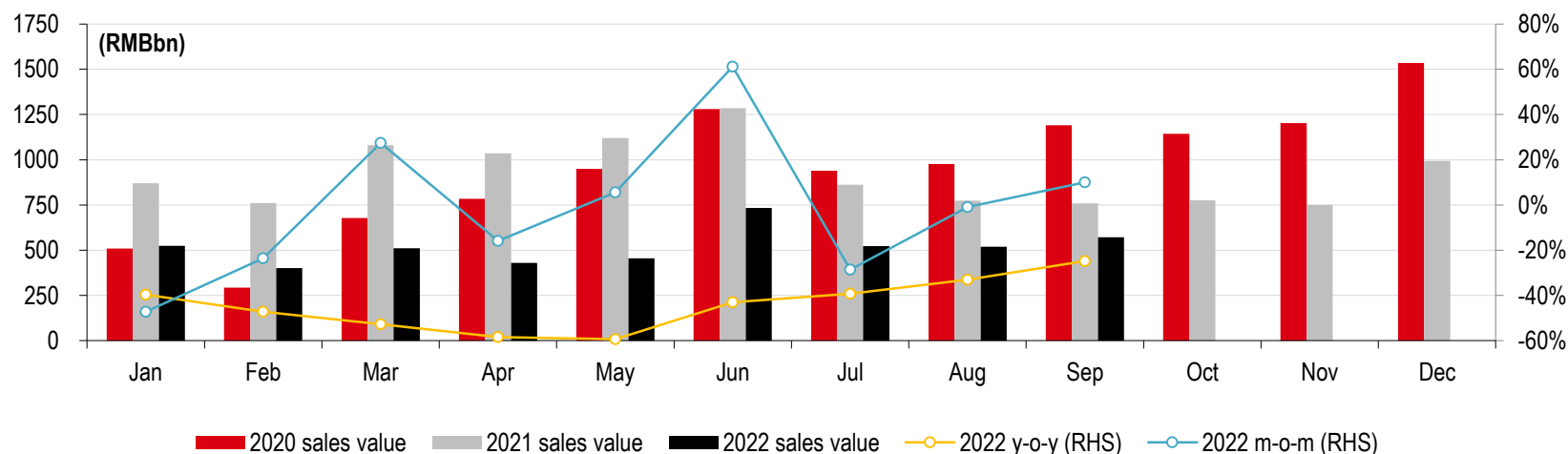
Macro economy

Real estate

- The real estate sector continued to suffer in 1H22 as homebuyers became increasingly cautious amid risk exposure of specific property developers.
- But ongoing policy easing (lower mortgage interest rates, easing of restrictions on purchases and loans, deed tax subsidies, etc.) has improved property sales of late.

The sales conditions have been improving: the y-o-y decrease has been narrowing

Top 100 property developers' monthly sales



Source: CRIC, HSBC Qianhai Securities

Macro economy

Real estate: recent policy summary

Date	Gov agency/dist.	Policy detail
9 Oct	PBoC, CBIRC	The PBoC and the CBIRC require six state-owned banks, namely China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, Postal Savings Bank of China, and Bank of Communications, to increase their support for real estate financing. Each bank will provide at least RMB100bn (RMB600bn in total) of financing support within the year, including mortgage loans, development loans or bond purchases.
30 Sep	PBoC	The PBoC has decided to lower the loan interest rate of the first personal housing provident fund. From October 1, 2022, the loan interest rate of the first personal housing provident fund will be lowered by 0.15 percentage points, the interest rate of no more than 5 years will be adjusted to 2.6%, and the interest rate of more than 5 years will be adjusted to 3.1%. The second set of personal housing provident fund loan interest rate policy remains unchanged.
30 Sep	Ministry of Finance, State Admin of Taxation	The Ministry of Finance and the State Administration of Taxation issued an announcement to support personal income tax policy for residents to exchange housing. From 1 October, 2022 to 31 December 2023, the sale of self-owned houses and the re-purchasing of the existing houses in the market within 1 year after the sale Taxpayers of housing shall receive preferential tax rebates for the personal income tax paid for the sale of their existing housing.
29 Sep	PBoC, CBIRC	The PBoC and the CBIRC issued a notice deciding to adjust the differentiated housing credit policy in stages. Eligible city governments can decide on their own to maintain, lower or cancel the lower limit of the local new first-home loan interest rate by the end of 2022.
23 Sep	CDB	CDB has paid Shenyang City the first special loan for “ guaranteed property handover ” in the country.
23 Sep	Kaifeng, Henan	Taxpayers who pay commodity housing deed tax from 22 July 2022 to 31 October 2022 and meet the subsidy scope and declare the subsidy before November 10 2022 will be subsidized according to 15% of the total deed tax. In the method of “requisition before compensation”, each house can only enjoy the subsidy once.
3 Sep	Chongqing	Employee families who purchase a second house and apply for a housing provident fund personal housing loan shall reduce the min down payment ratio from 40% to 30%. If a worker family with more children contributes to purchase a second house and apply for a housing provident fund personal housing loan, the min down payment ratio shall be It was reduced to 25%; the max loan amount for personal housing provident funds was increased from RMB400,000 to RMB500,000; the max loan amount for the families of paid employees was increased from RMB800,000 to RMB1m.

Source: Wind, Bloomberg, The Economic Observer, HSBC Qianhai Securities

Macro economy

Exchange rate

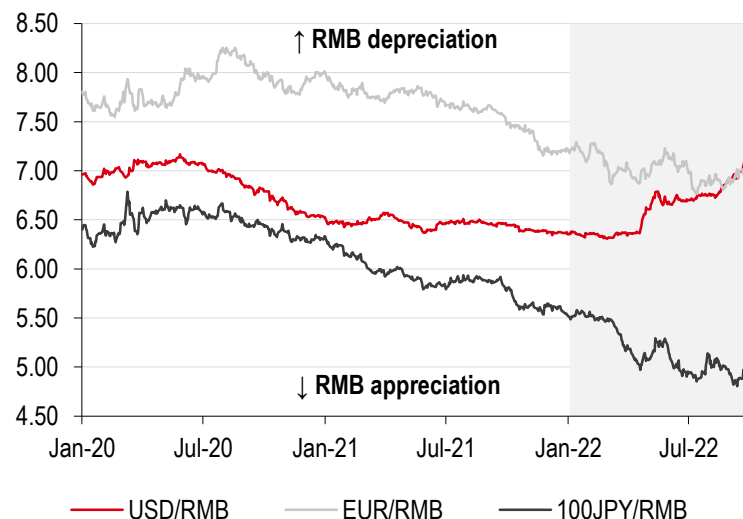
- Y-t-d, the continuous rates hike by the Fed has led to the continuous appreciation of the US dollar, and RMB has depreciated by c12% against USD...
- ...but still appreciated against EUR and JPY.

USDX has reached a 20-year high



Source: Wind, HSBC Qianhai Securities

Y-t-d, RMB depreciated against USD, but still appreciated against EUR and JPY



Note: Shaded region indicates 2022.

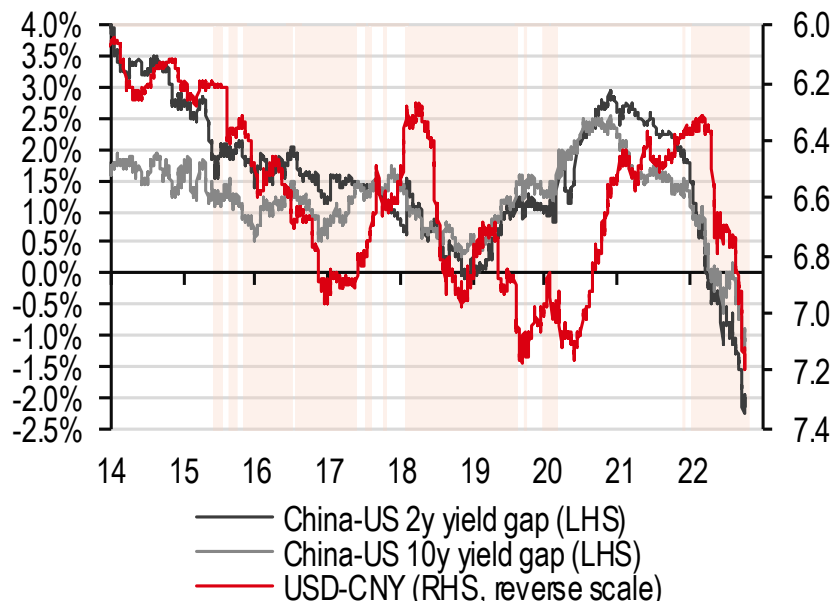
Source: Wind, HSBC Qianhai Securities

Macro economy

Exchange rate

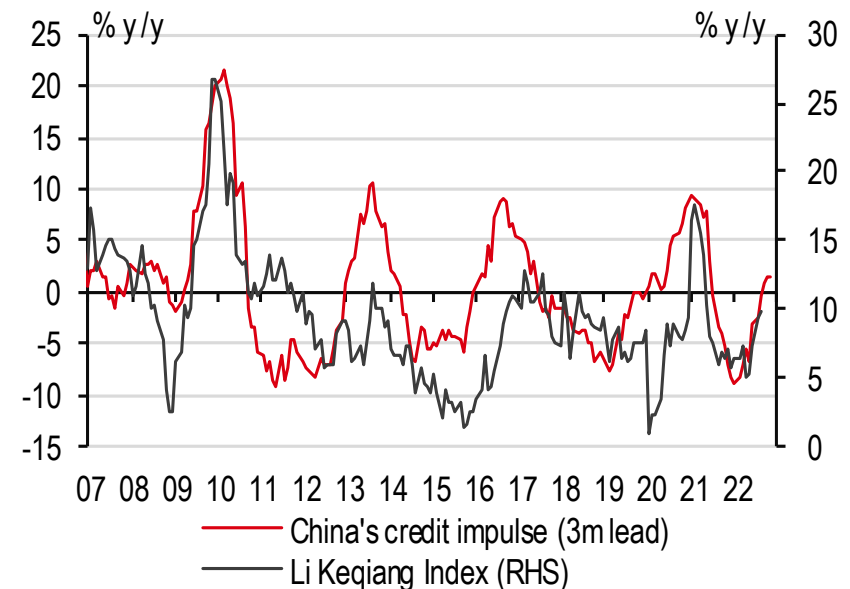
- RMB to stay on the back foot due to a negative yield differential.
- Depreciation pressure from cyclical factors.

Yield differentials and USD-RMB



Source: Bloomberg, HSBC

Mainland China growth indicators



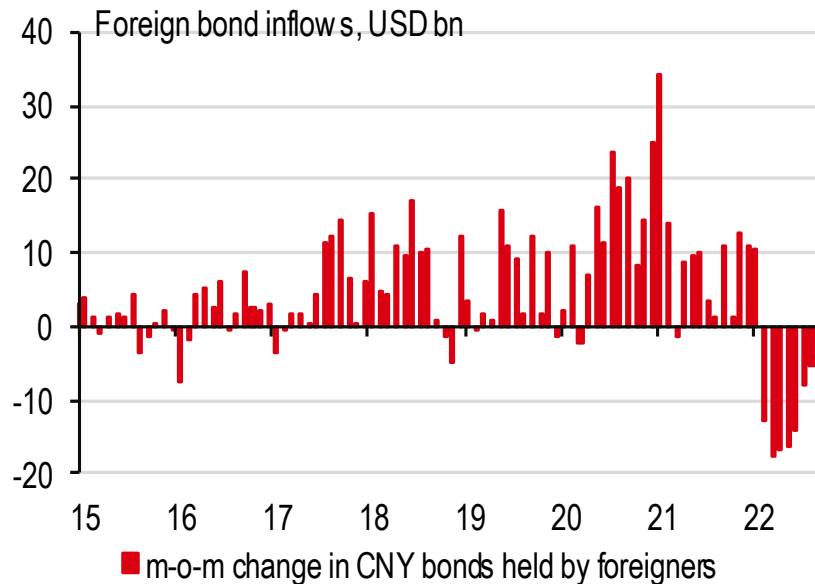
Source: Bloomberg, HSBC

Macro economy

Exchange rate

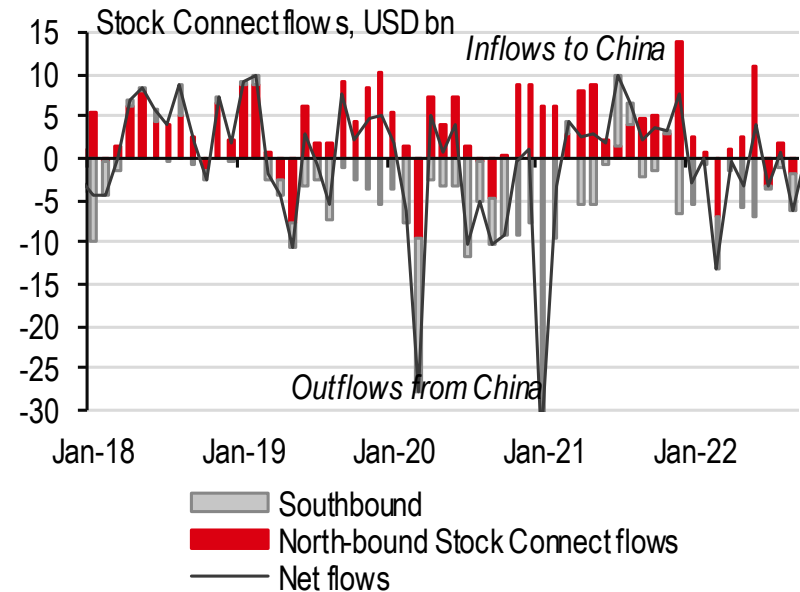
- Lack of confidence among some foreign investors.

Foreign bond outflows



Source: CEIC, HSBC

Stock connect flows



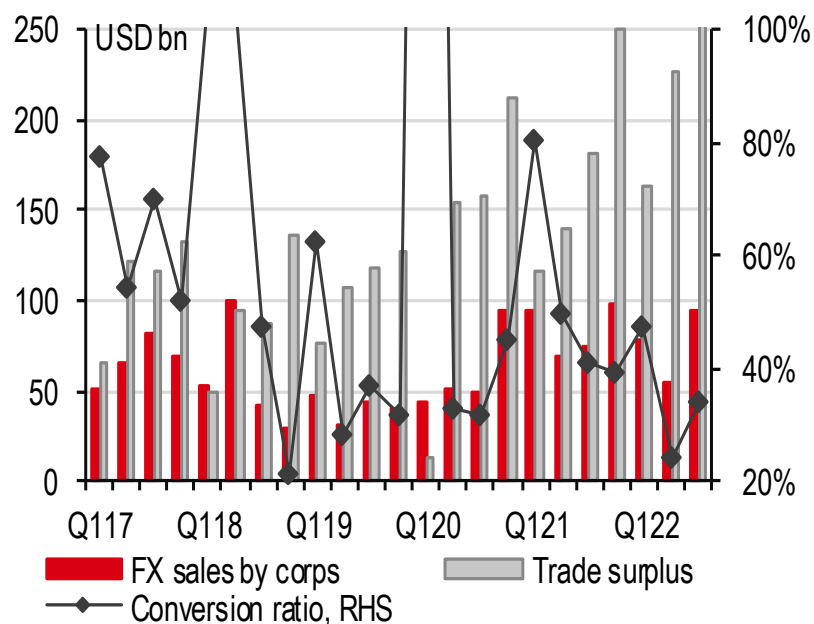
Source: CEIC, HSBC

Macro economy

Exchange rate

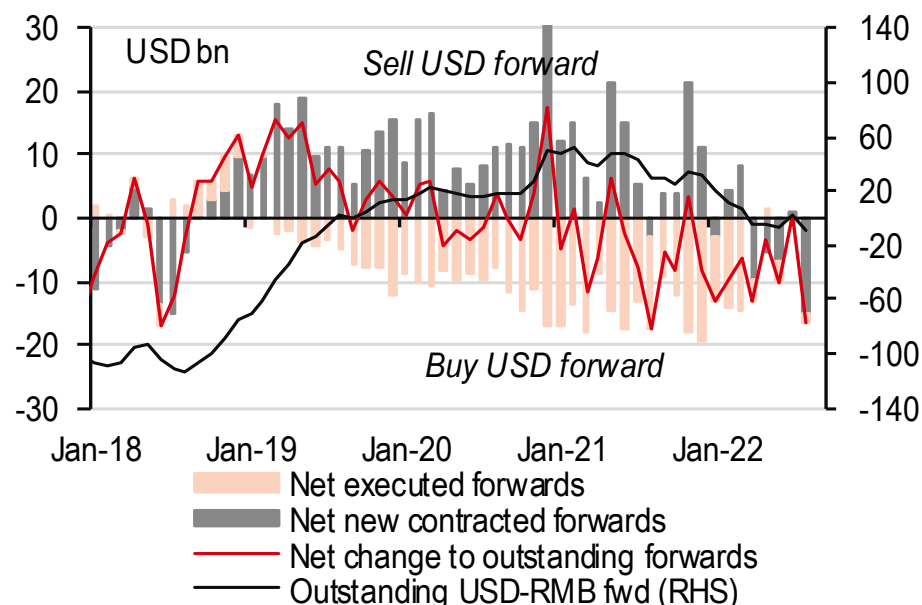
- Lack of confidence among some locals, too.
- Chinese corporates are hoarding USDs and buying USD-RMB forward.

FX sales onshore for the purpose of settling goods trade



Source: CEIC, HSBC

FX forward contracts onshore



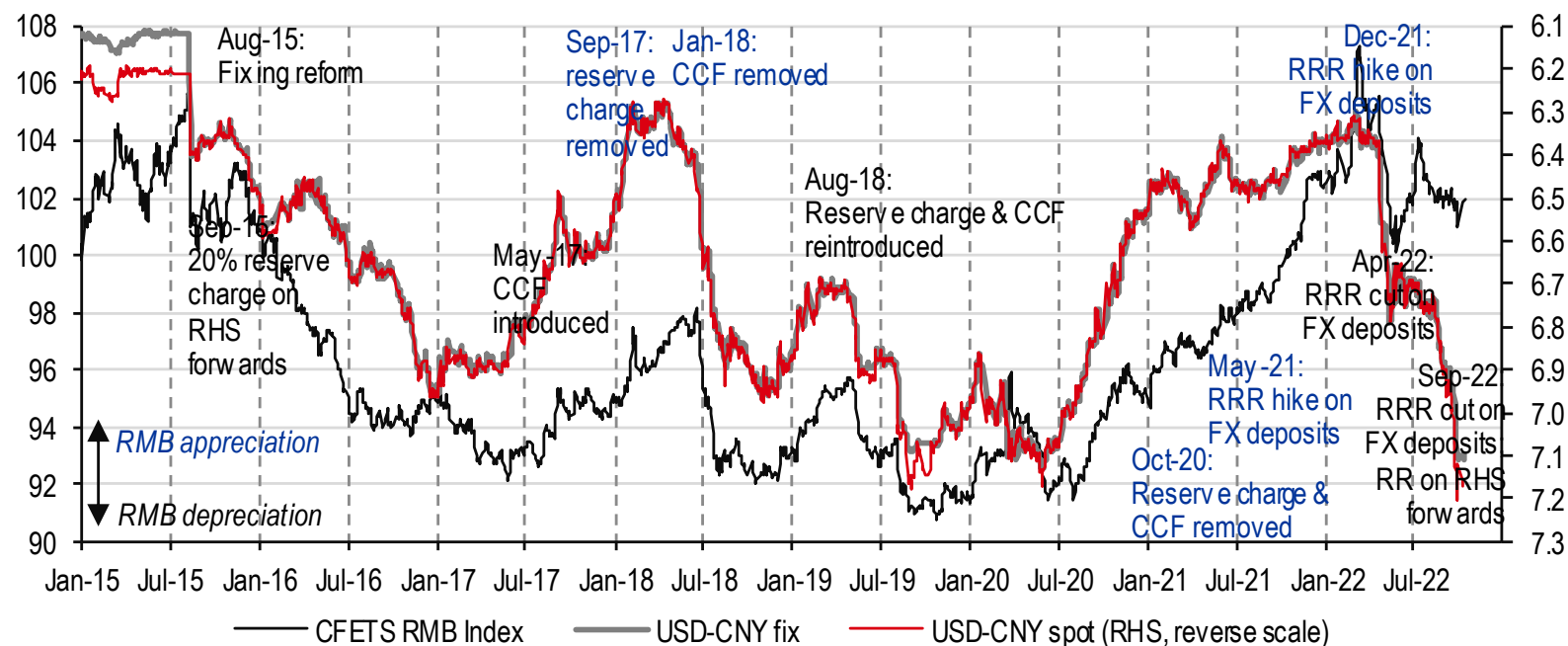
Source: CEIC, HSBC

Macro economy

Exchange rate

- PBoC leaning against the wind.

History of the PBoC's FX policy



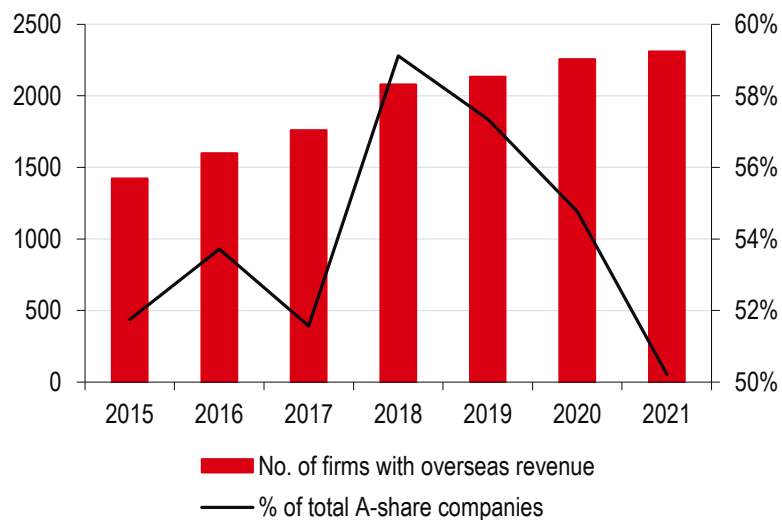
Source: PBoC, Bloomberg, HBS

Macro economy

How does RMB depreciation affect the A-share market?

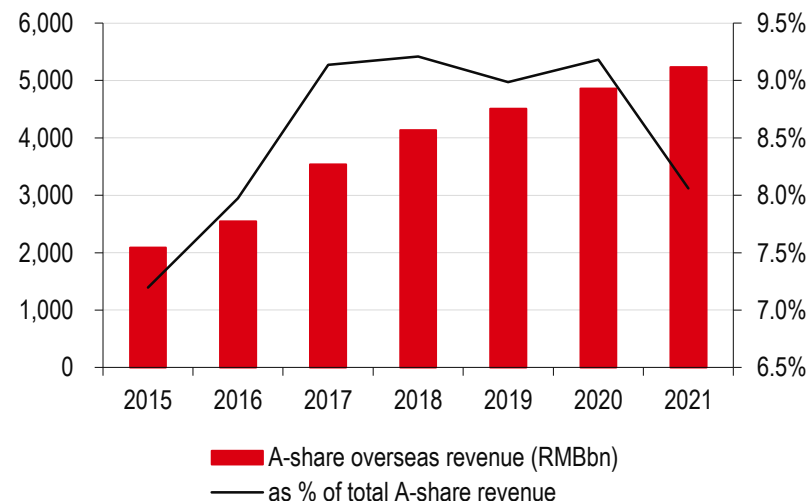
- For earnings, RMB depreciation should benefit companies which generate revenue overseas in USD but raise costs for firms that rely on imported production materials, and those with USD-denominated assets/liabilities.

Number of firms with overseas revenue is increasing, but the proportion of A-share companies has fallen



Source: Wind, HSBC Qianhai Securities

In 2021, overseas revenue accounted for 8% of total A-share revenue



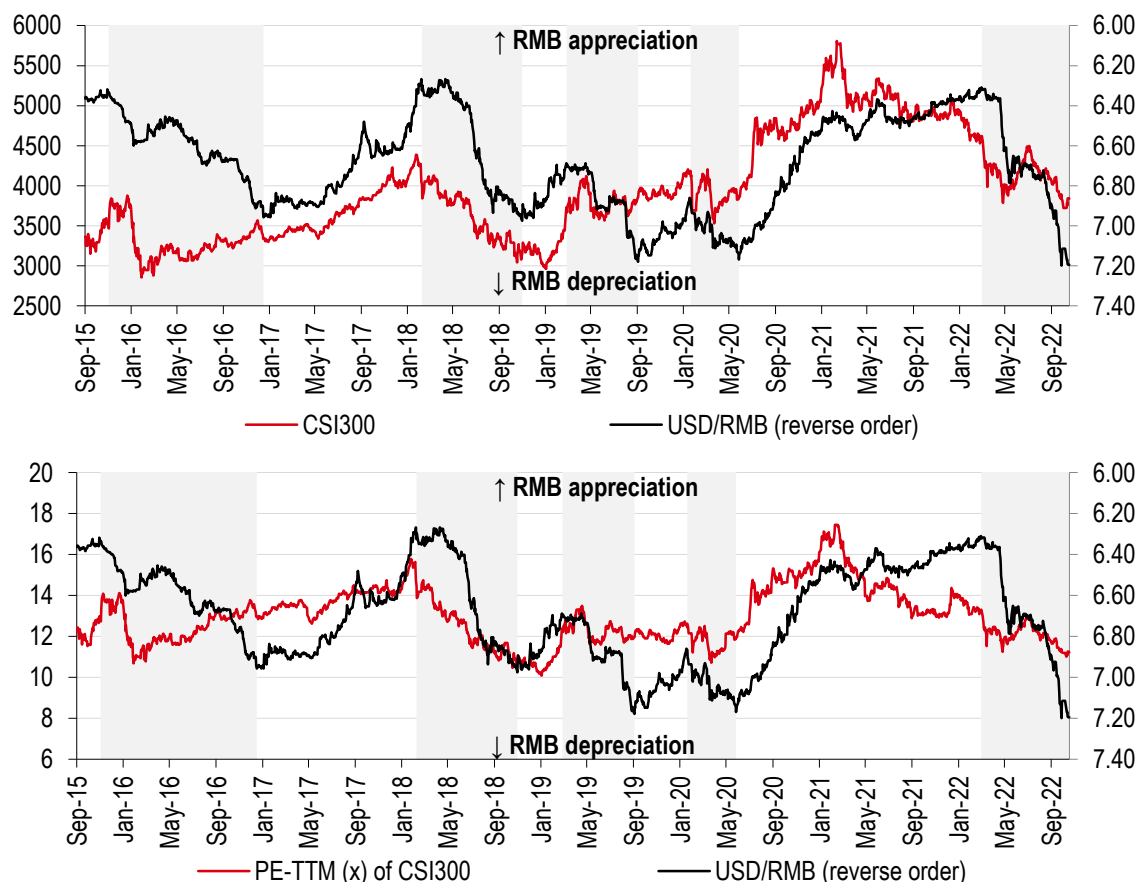
Source: Wind, HSBC Qianhai Securities

Macro economy

How does RMB depreciation affect the A-share market?

- For valuation, while RMB depreciation alone does not normally have a direct impact on multiples, it is always accompanied by lower risk appetite and lower valuations.
- Continuous depreciation might result in further expectations of RMB weakness, reducing investor appetite and lead to de-ratings.

Lacklustre A-share performance and de-rating during RMB depreciation cycles



Note: Shaded region indicates RMB depreciation cycle.

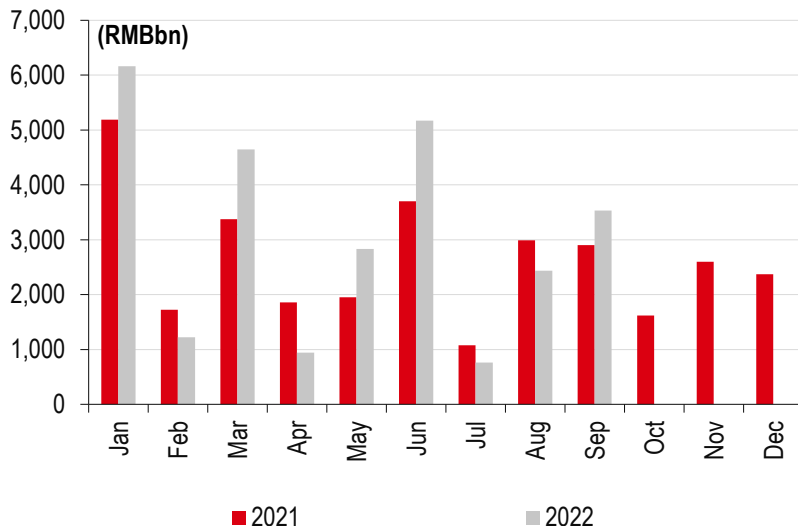
Source for both charts: Wind, HSBC Qianhai Securities

Macro economy

TSF (Total Social Financing)

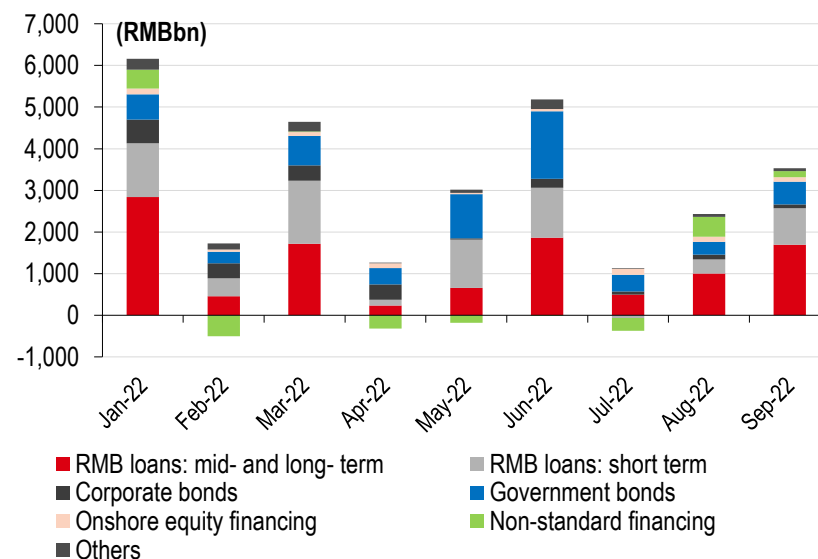
- In September, TSF reached RMB3.53trn, up cRMB0.6trn y-o-y.
- The TSF structure has been improving: the percentage of medium- and long- term loans has been increasing, the percentage of government bonds has been decreasing, and the contribution of non-standard financing has turned positive.

TSF reached RMB3.53trn in September, up cRMB0.6trn y-o-y



Source: Wind, HSBC Qianhai Securities

TSF structure has been improving



Source: Wind, HSBC Qianhai Securities

COVID-19 drugs and vaccine progress

Current COVID-19 treatments and medications

Company	Ticker	Drug candidates	Mechanism	Target	Stage	Date of Approval/NDA	Prize (RMB per course)
Approved							
Pfizer	PFE.N	Paxlovid (Nirmatrelvir with Ritonavi)	Oral	3CL	Approved by US, CN	12/22/2021	2,300
Gilead	GILD.O	Veklury (Remdesivir)	I.V.	RdRp	Approved by US	10/22/2020	16,642
Merck	MRK.N	Lagevrio (Molnupiravir)	Oral	NHC	Approved by US, EU	12/23/2021	5,589
Lilly/Incyte	LLY.N	Baricitinib	Oral	JAK2,JAK1	Approved by US	4/23/2021	1,173
Regeneron/Roche	REGN.O/ROG.SIX	Casirivimab + Imdevimab	I.V.	Neutralizing antibody	Approved by US	7/19/2021	14,968
Lilly/Junshi	LLY.N/1877.HK	Bamlanivimab + Etesivimab	I.V.	Neutralizing antibody	Approved by US	12/3/2021	14,940
GSK	GSK.N	Sotrovimab	I.V.	Neutralizing antibody	Approved by US	4/22/2022	14,940
BRII	2137.HK	BRII196, BRII198	I.V.	Neutralizing antibody	Approved by CN	12/8/2021	<10,000
In clinical stage							
Genuine Biotech	H01838	Azvudine	Oral	RdRp/Vif	Approved in CN	7/26/2022	540
Shionogi	4507.T	Ensitrelvir	Oral	3CL	Phase 3 (NDA in JP)	NDA Feb-2022	N.A.
Kintor Biotech	9939.HK	Pruxelutamide	Oral	AR	Phase 3 (EUA in PAR)	7/16/2021	N.A.
Junshi Biotech	1877.HK	VV116	Oral	RdRp	Phase 3 (EUA in UZB)	NDA May-2022	1460
Simcere	2096.HK	SIM4017	Oral	3CL	Phase 3 in CN	Phase 3 in Jun-2022	N.A.
Frontier Biotech	688221.CH	FB2001	Oral	3CL	Phase 2/3 in CN	Phase 2 Jul-2022	N.A.
Shenzhou Cell	688520.CH	SCTA01C, SCTA01A	I.V.	Neutralizing antibody	Phase 2/3 in CN	Phase 2 Jul-2022	N.A.
Mabwell Biotech	688062.CH	MW33	I.V.	Neutralizing antibody	Phase 2/3 in CN	Phase 2 Feb-2022	N.A.
Danxu Bio/Beigene	BGNE.O	DXP 593,DXP604	I.V.	Neutralizing antibody	Phase 2 in CN	Phase 2 May-2022	N.A.
Kexing Biopharm	688136.CH	SHEN26	Oral	RdRp	Phase 1 in CN	IND Jul-2022	N.A.
Asclepis Pharma	1672.HK	ASC10	Oral	RdRp	Phase 1 in CN	IND Aug-2022	N.A.
Zhongsheng Pharma	002317.CH	RAY003	Oral	3CL	Phase 1 in CN	IND Aug-2022	N.A.
Guangshengtang	300436.CH	NA	Oral	3CL	Phase 1 in CN	IND Sep-2022	N.A.

Source: CDE, Pharmacube, company website, company news, HSBC Qianhai Securities

COVID-19 drugs and vaccine progress

COVID-19 vaccines: approved

Company	Ticker	Vaccine candidates	Mechanism	Stage	Date of approval/NDA	Sales in 2021	Capacity (doses)	No. of injections
Approved								
Pfizer/BioNTech	PFE.N/BNTX.N	BNT162b/Comirnaty	mRNA	Approved by US	11/12/2020 (EUA)	USD36.78bn	4bn	2
Moderna	MRNA.N	mRNA-1273/Spikevax	mRNA	Approved by US	18/12/2020 (EUA)	USD17.7bn	2-3bn	2
JNJ	JNJ.N	Jcovden	Viral vector vaccine	Approved by US	24/2/2021 (EUA)	USD2.39bn	0.5bn	1
AstraZeneca	AZN.N	Covishield	Viral vector vaccine	Approved by US	22/1/2021 (EUA)	USD3.98bn	2.1bn	2
Sinopharm	N.A.	BBIBP-CorV	Inactivated virus	Approved by CN	12/30/2020	N.A.	7-8bn	2
Sinovac	N.A.	CoronaVac	Inactivated virus	Approved by CN	2/5/2021	RMB125bn	2bn	2
CanSino	6185.HK	克威莎/Convidecia	Viral vector vaccine	Approved by CN	2/25/2021	RMB4.3bn	0.5-0.7bn	1
Zhifei	300122.SZ	智克威得/RBD-Dimer	Subunit vaccines	Approved by CN	3/15/2021	RMB8.4bn	0.3-0.6bn	3
Kangtai	300601.SZ	可维克/KCONVAC	Inactivated virus	Approved by CN	5/14/2021	RMB1.1bn	0.2bn	2
Livzon	1513.HK	V-01	Subunit vaccines	Approved by CN (Booster)	9/15/2022	N.A.	1.5bn	-

Source: CDE, Pharmacube, company website, company news, HSBC Qianhai Securities

COVID-19 drugs and vaccine progress

COVID-19 vaccines: in clinical stage

Company	Ticker	Vaccine candidates	Mechanism	Stage	Date of Approval/NDA
In Clinical Stage					
Sinopharm - BJ	N.A.	Omicron vaccine	Inactivated virus	Phase 3 in CN	Phase 3 May-2022
Sinovac	N.A.	Omicron vaccine	Inactivated virus	Phase 2/3 in CN	Phase 2/3 Jun-2022
Sinopharm - WH	N.A.	Omicron vaccine	Inactivated virus	Phase 3 in CN HK	Phase 3 May-2022
AIM	N.A.	-	Inactivated virus	Phase 2 in CN	Phase 2 Oct-2021
Huaxi/Westvacpharma	N.A.	WSK-V101	Subunit vaccines	Phase 3 in CN	Phase 3 May-2021
GazoBiotech	N.A.	-	Subunit vaccines	Phase 3 in CN	Phase 3 Sep-2021
Recbio	2179.HK	ReCOV	Subunit vaccines	Phase 3 in CN	Phase 3 Jan-2022
Shenzhou Cell	688520.SH	SCTV01C	Subunit vaccines	Phase 3 in CN	Phase 3 May-2022
Shenzhou Cell	688520.SH	SCTV01E	Subunit vaccines	Phase 3 in CN	Phase 3 May-2022
Clover	2197.HK	SCB-2019	Subunit vaccines	Phase 2/3 in CN	Phase 2/3 Aug-2021
Walvax/Zerun	300142.SZ	202-CoV	Subunit vaccines	Phase 2 in CN	Phase 2 Jul-2021
Livzon	1513.HK	V-01-351/V-01D	Subunit vaccines	Phase 2 in CN	Phase 2 Jan-2022
Walvax/Zerun	300142.SZ	ZR202a-CoV	Subunit vaccines	Phase 1/2 in CN	Phase 1/2 Jun-2022
Clover	2197.HK	SBC-2020S	Subunit vaccines	Phase 1 in CN	Phase 1 May-2022
Yisheng	N.A.	YS-SC2-010	Subunit vaccines	Phase 1 in CN	Phase 1 Oct-2021
Institute of Biophysics	N.A.	-	Subunit vaccines	Phase 1 in CN	Phase 1 Apr-2021
Walvax	300142.SZ	AdC68-19S	Viral vector vaccine	Phase 2 in CN	Phase 2 Jul-2021
Hualan	002007.SZ	-	Viral vector vaccine	Phase 1 in CN	IND Jul-2021
Wantai/HK University	603392.SH	dNS1-RBD	flu virus vector vaccine	Phase 2/3 in CN	Phase 2/3 Feb-2022
Sianxin	N.A.	CV01	PIV-5 vector vaccine	Phase 1 in CN	Phase 1 Jun-2022
Walvax/Abogenbio	300142.SZ	ARCoVax	mRNA	Phase 3 in CN	Phase 3 Jul-2021
CSPC	1093.HK	SYS6006	mRNA	Phase 2 in CN	Phase 2/3 Jun-2022
Everest	1952.HK	PTX-COVID19-B	mRNA	Phase 2/3 in CN	Phase 2/3 Jul-2021
Fosun/BioNTech	600196.SH	BNT162b/Comirnaty	mRNA	Phase 2 in CN	Phase 2 Dec-2020
RiboBio	N.A.	-	mRNA	Phase 2 in CN	Phase 2 Feb-2022
AIM	N.A.	LVRNA009	mRNA	Phase 2 in CN	Phase 2 Mar-2022
Stemima	N.A.	SW-BIC-213	mRNA	Phase 1 in CN	Phase 1 Mar-2021
CanSino	6185.HK	-	mRNA	Phase 1 in CN	IND Apr-2022
Walvax/RNACURE	300142.SZ	RQ3013	mRNA	Phase 1 in CN	Phase 1 Jun-2022
Recbio	2179.HK	RH109	mRNA	Phase 1 in CN	Phase 1 Jul-2022
Stemima	N.A.	DF104B1	mRNA	IND approval in CN	IND Apr-2022
Abogenbio	N.A.	Omicron vaccine	mRNA	IND filed in CN	
		ABO-CoV.617.2	mRNA	Pre-clinical in CN	
		ABO-1009-DP	mRNA	Pre-clinical in CN	
Inovio/Kangtai	300601.SZ	INO-4800	DNA	Phase 2 in CN	Phase 2 Dec-2020
Northland	N.A.	Y003	DNA	Pre-clinical in CN	

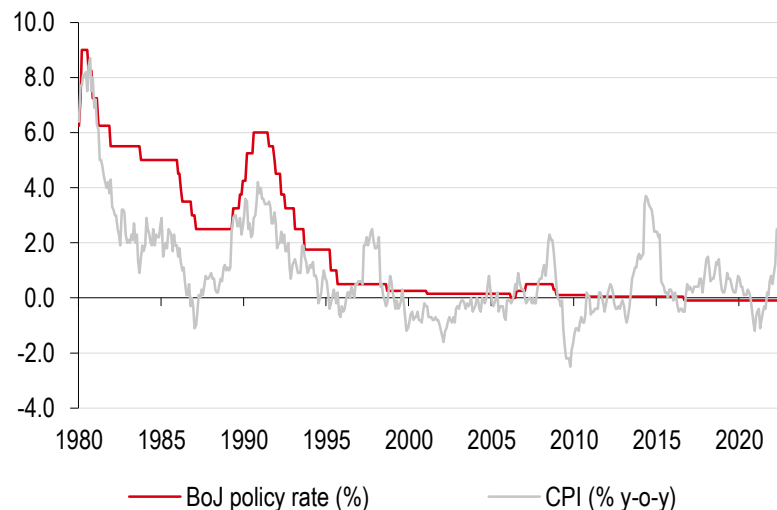
Source: CDE, Pharmacube, company website, company news, HSBC Qianhai Securities

Will there be a balance sheet contraction in China?

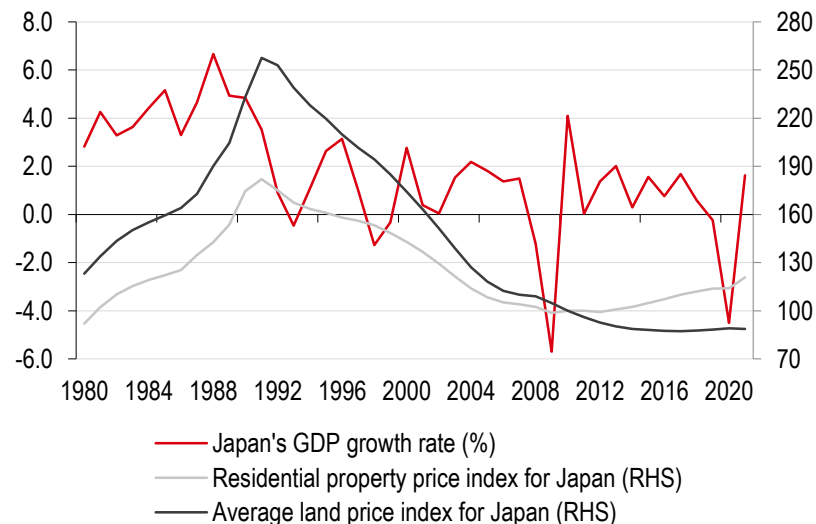
Will China follow the path of Japan in the 1990s?

- Three decades ago, the upheaval in Japan's monetary policy was believed to be a major contributor to the downturn in land and property prices and the weak economy since the '90s.
- The so-called *Lost Decades* period was thus often used to describe the economic stagnation in Japan caused by the asset price collapse in 1991.
- Thus Japanese companies and households mainly shrank their balance sheets (prioritising repaying debt) instead of increasing debt levels, leading to a balance sheet contraction.

Japan's monetary policy: Upheaval in 1990s and subsequent negative policy rate



Property and land prices in Japan have been weak since the bubble burst in the 1990s



Source: Wind, HSBC Qianhai Securities

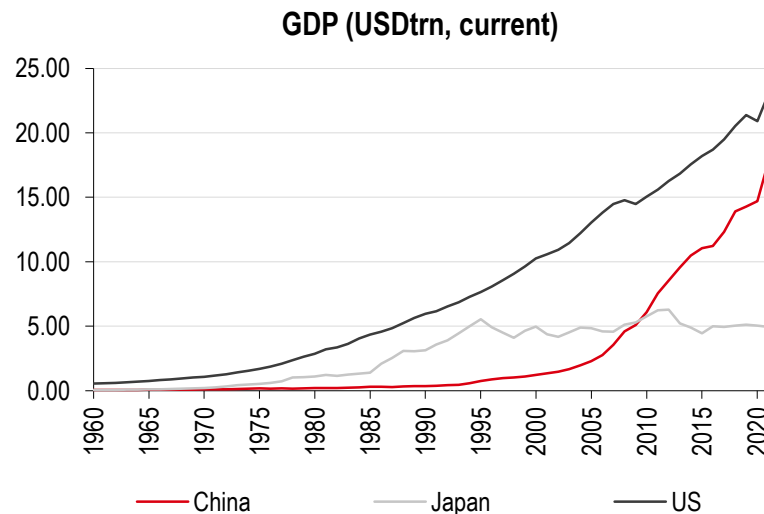
Source: BIS, Statistics Bureau of Japan, HSBC Qianhai Securities

Comparison between China in the 2020s and Japan in 1990s

GDP

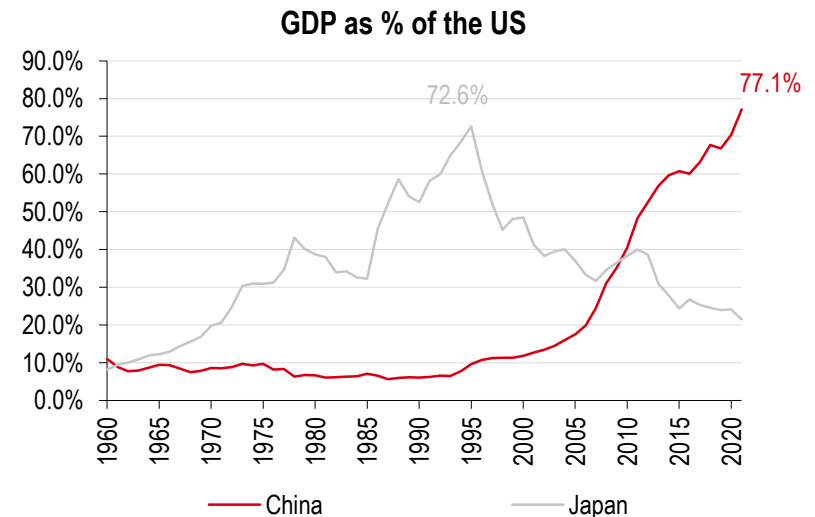
- China overtook Japan to become the second-largest economy in 2010, and has kept its no. 2 position since then.
- As of 2021, China's economy was 77.1% of the US, surpassing Japan's record of 72.6% in 1995.

Japan was the second-largest economy in the 1990s and 2000s, before being overtaken by China in 2010



Source: World Bank, HSBC Qianhai Securities

China's GDP reached 77.1% of US GDP in 2021, while Japan's GDP reached 72.6% of US GDP in 1995



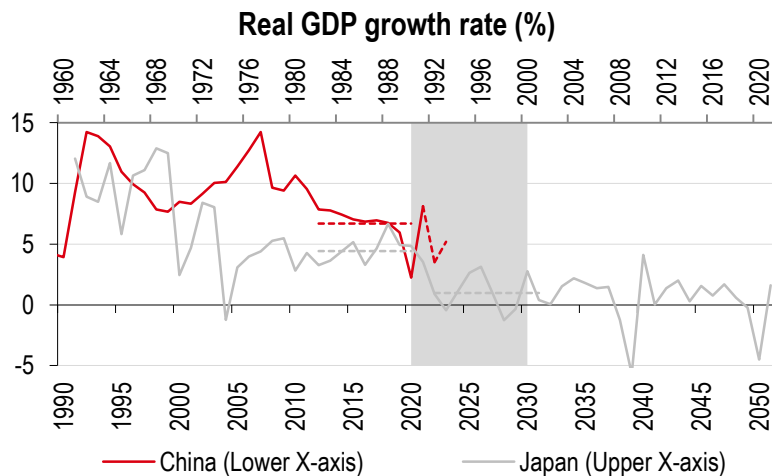
Source: World Bank, HSBC Qianhai Securities

Comparison between China in the 2020s and Japan in 1990s

GDP

- Japan maintained an average of 4.4% and 1.0% annual GDP growth rate during the decade before (1982-91) and after (1992-2001) the bubble burst, respectively.
- China's average GDP growth reached 6.7% in 2012-21, showing stronger momentum.
- Given the relatively low per capita level of output and income, we believe there's more room and desire for China to improve productivity.

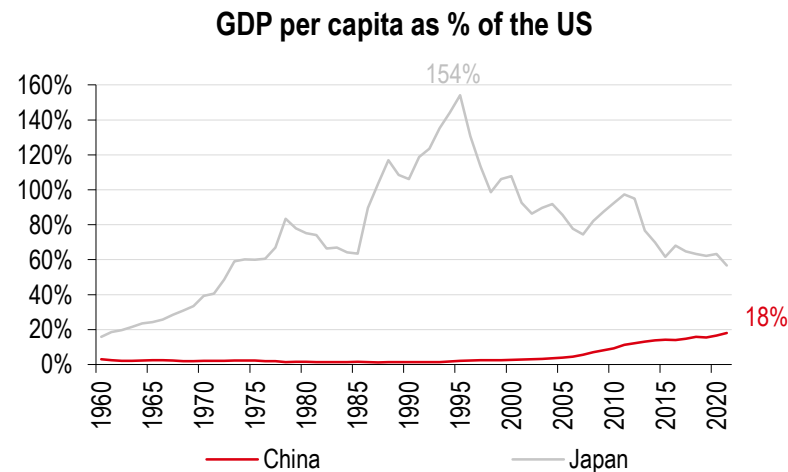
China (2020s) has stronger GDP growth momentum than Japan (1990s)



Note: Shaded region indicates China (2020s) and Japan (1990s).

Source: World Bank, HSBC Qianhai Securities, HSBC estimates

For GDP per capita, China was only 18% of US in 2021, while Japan was 154% of US in 1995



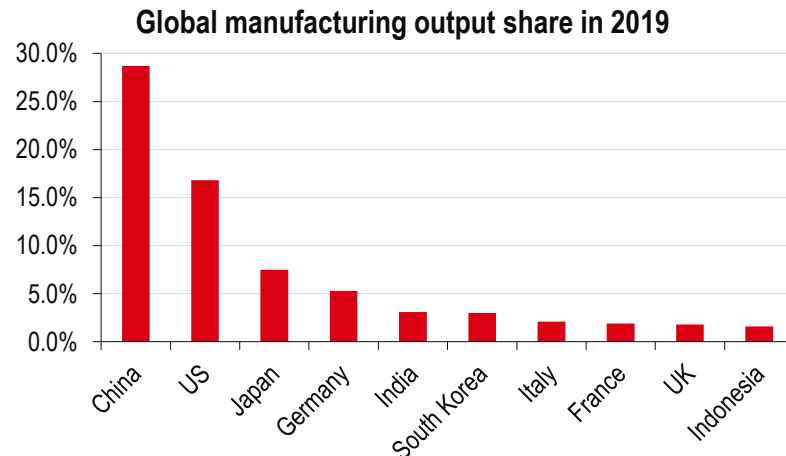
Source: World Bank, HSBC Qianhai Securities

Comparison between China in the 2020s and Japan in 1990s

Industrial policy

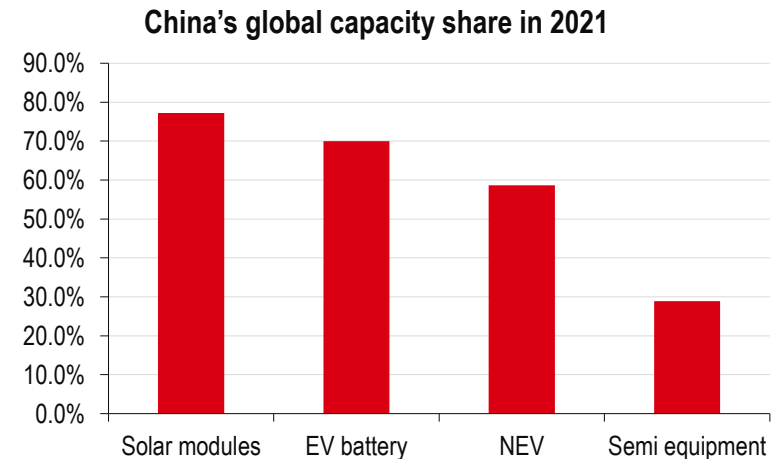
- For **real estate**, China could be better off as Beijing learned Japan's lessons and started deleveraging in 2018 before the property bubble got larger.
- For **new growth engines**, Japan is widely believed to have missed the Internet era. By contrast, China's government built its core competitiveness in the energy transition space, including cultivating pre-emptive demand for EVs and lowering the cost for solar products.

As the largest manufacturing country, China accounts for 28.7% of global manufacturing output



Source: United Nations Statistics Division, HSBC Qianhai Securities

China accounts for a significant share of global capacity in certain sectors



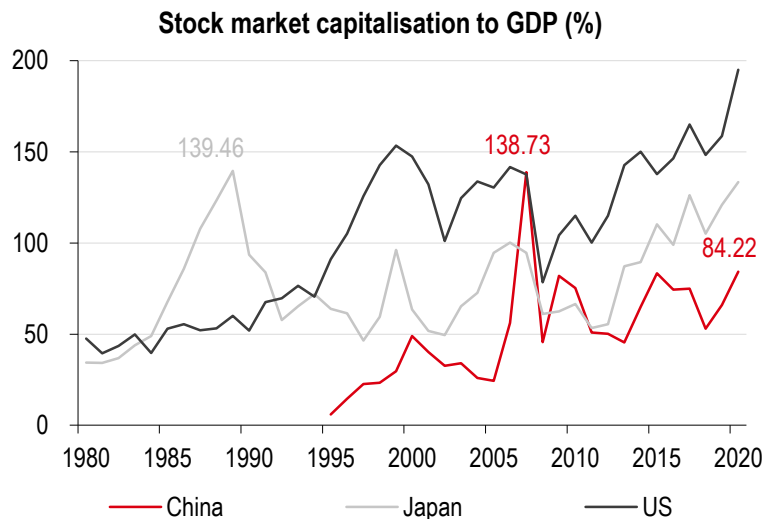
Source: CPIA, CCID Consulting, CPCA, SEMI, HSBC Qianhai Securities

Comparison between China in the 2020s and Japan in 1990s

Asset prices

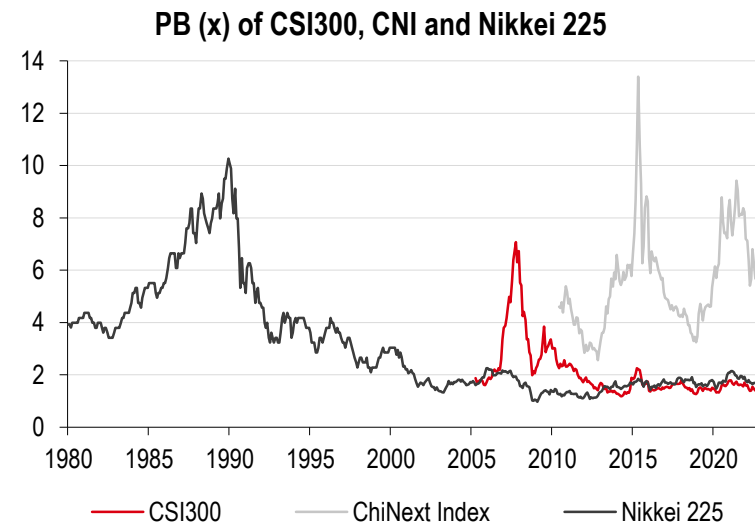
- In terms of asset prices, China (2020s) has a larger bubble in terms of property prices while Japan (1990s) had a larger bubble in the stock markets.

Japan's peak market-cap-to-GDP ratio reached c140%, higher than China's peak level and current level



Source: World Bank, HSBC Qianhai Securities

Nikkei 225's peak PB level reached c10x in 1990, much higher than CSI 300's peak level and current level



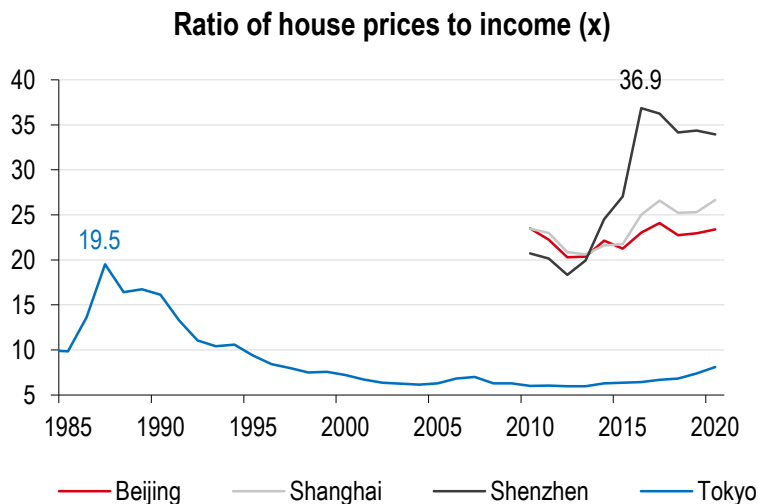
Source: World Bank, HSBC Qianhai Securities

Comparison between China in the 2020s and Japan in 1990s

Asset prices

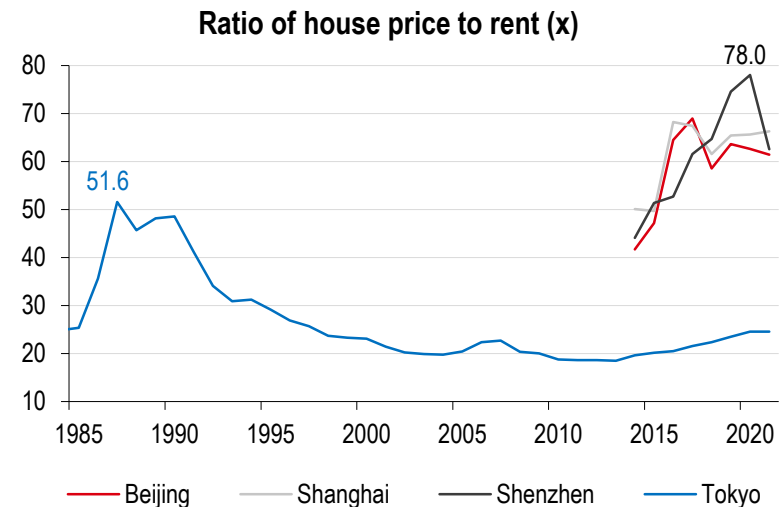
- In terms of asset prices, China (2020s) has a larger bubble in terms of property prices while Japan (1990s) had a larger bubble in the stock markets.

China's current house-prices-to-income ratio in first-tier cities is much higher than Tokyo's peak level



Source: Wind, BIS, OECD, Cabinet Office of Japan, HSBC Qianhai Securities

China's current house-price-to-rent ratio in first-tier cities is also higher than Tokyo's peak level



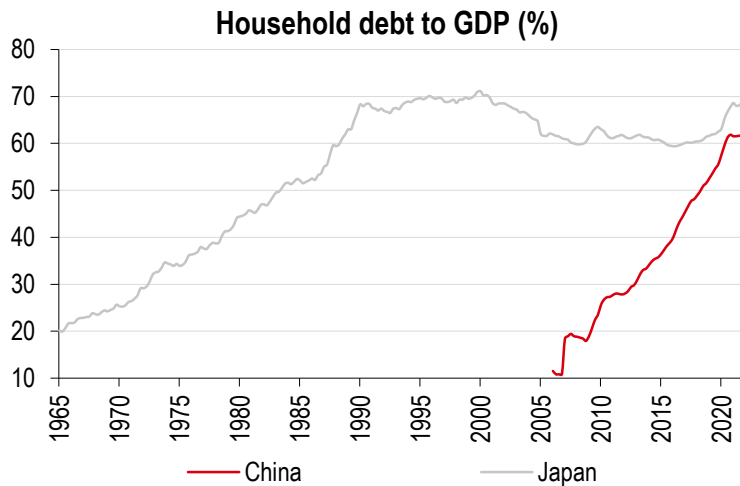
Source: Wind, Toyo Kantei, HSBC Qianhai Securities

Comparison between China in the 2020s and Japan in the 1990s

Debt level

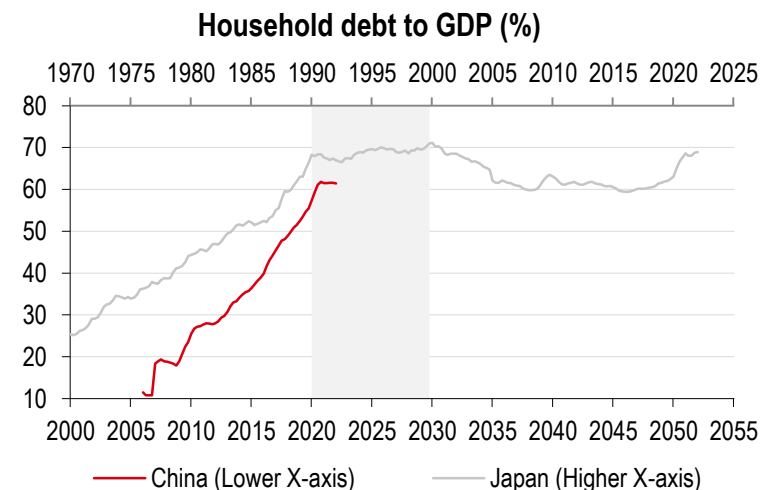
- We find China in the 2020s standing at a similar level to Japan in the 1990s.
- China's household-debt-to-GDP ratio in 2021 is lower than that of Japan in the 1990s, but China's ratio ramped up much more quickly.
- China's household-debt-to-GDP ratio should be lower as China normally requires 30% down payment for properties while Japan allows zero down payment.

China's current household debt level is lower than that of Japan in the 1990s...



Source: BIS, HSBC Qianhai Securities

...but the ramp up speed is much faster in China



Note: Shaded region indicates China (2020s) and Japan (1990s).

Source: BIS, HSBC Qianhai Securities

Comparison between China in the 2020s and Japan in 1990s

Debt level

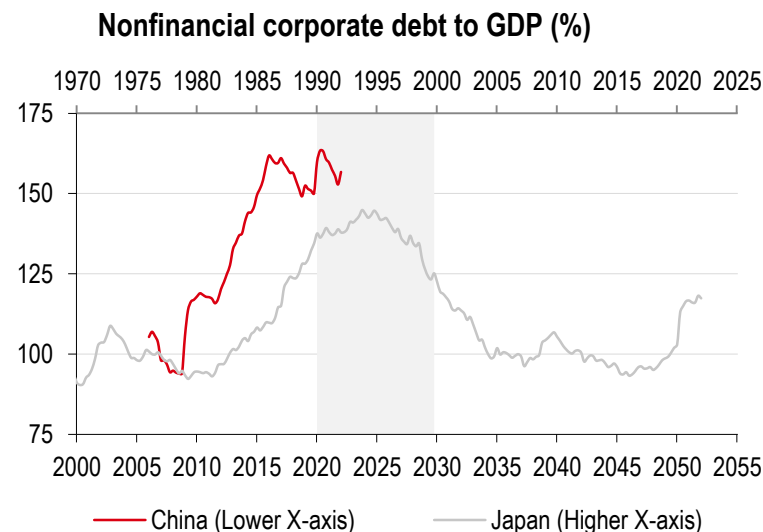
- China's corporate-debt-to-GDP ratio in 2021 is higher than that of Japan in the 1990s, suggesting reason to be more concerned towards China's corporate debt level.

China's current corporate debt level is higher than that of Japan in 1990s



Source: BIS, HSBC Qianhai Securities

A closer comparison would suggest more pessimism on China's corporate debt level



Note: Shaded region indicates China (2020s) and Japan (1990s).

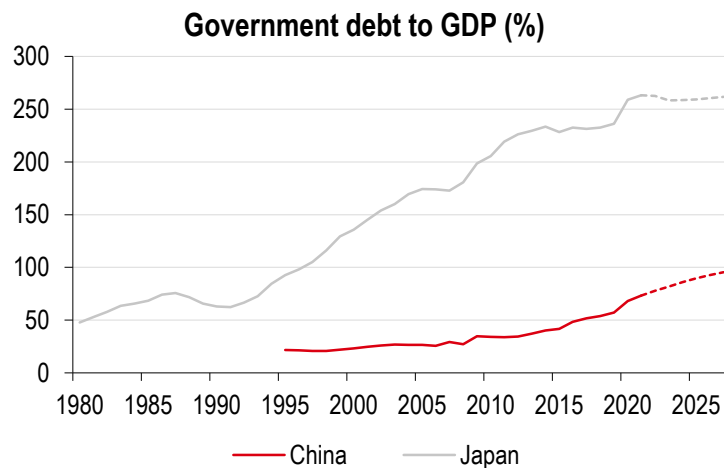
Source: BIS, HSBC Qianhai Securities

Comparison between China in the 2020s and Japan in 1990s

Debt level

- China's government-debt-to-GDP ratio stood at 73% in 2021, similar to Japan's level (63%) in 1990.
- Moreover, we see Japan's government-debt-to-GDP ratio increased aggressively from 63% in 1990 to 263% in 2022 -- we do see prospective measures as shoring up growth through stimulus given lacklustre economy.

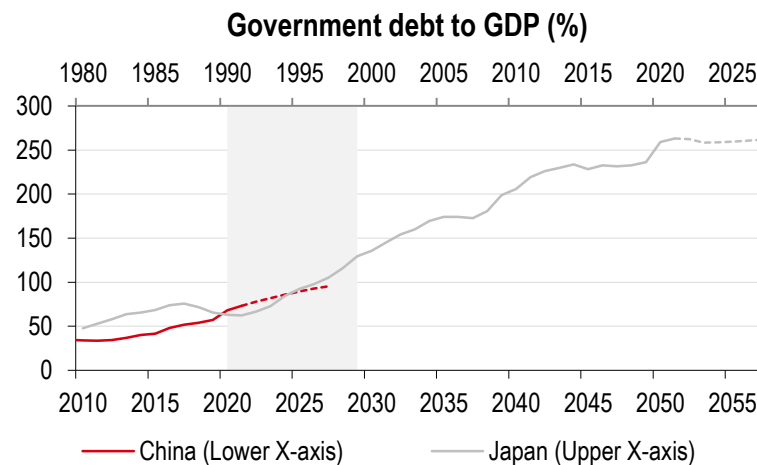
Japan's government debt level has increased aggressively since the 1990s



Note: Shaded region indicates China (2020s) and Japan (1990s); dash lines indicates forecasts.

Source: HSBC Qianhai Securities, IMF forecasts

A closer comparison puts China (2020s) in a similar position to Japan (1990s)



Note: Shaded region indicates China (2020s) and Japan (1990s); dash lines indicates forecasts.

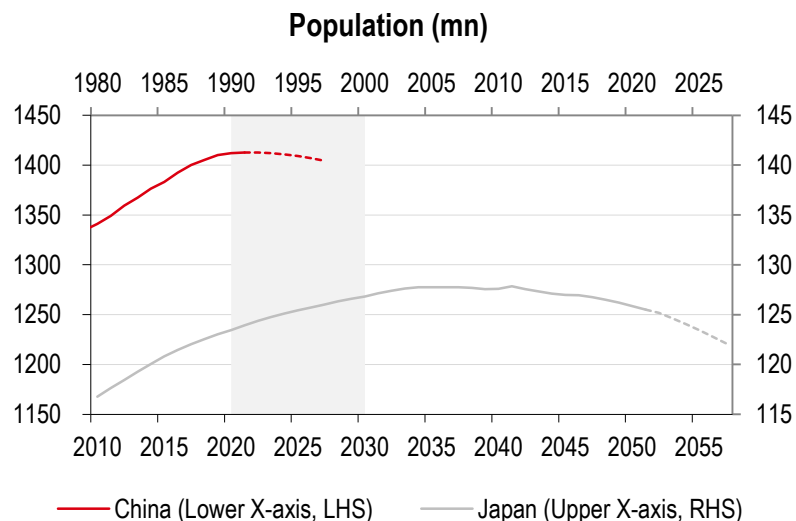
Source: HSBC Qianhai Securities, IMF forecasts

Comparison between China in the 2020s and Japan in the 1990s

Population

- In terms of population growth, China seems to face a more challenging situation in the 2020s than Japan in the 1990s.
- Japan's population did not decline until the late 2000s, and peaked in 2011. By contrast, China is forecast by the IMF to experience a population peak in 2021.

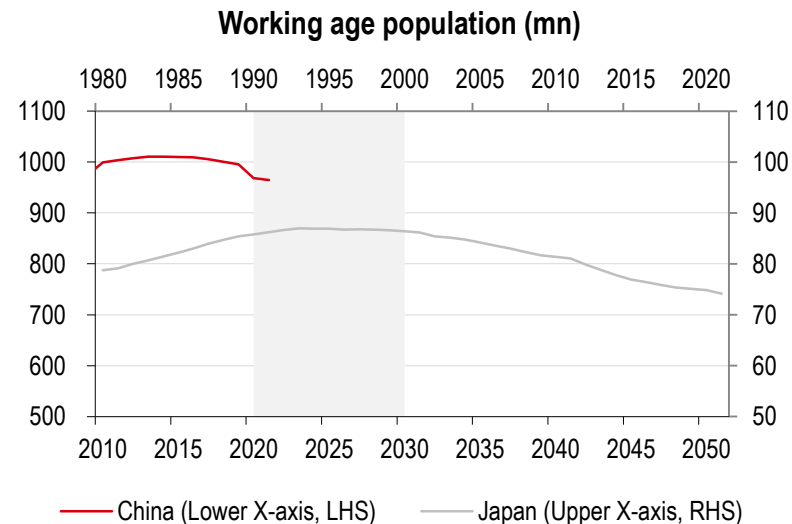
China's population is forecast to have peaked in 2021, while Japan peaked in 2011



Note: Shaded region indicates China (2020s) and Japan (1990s); dash lines indicate forecasts.

Source: NBS of China, Cabinet Office of Japan, HSBC Qianhai Securities, IMF forecasts

China's working age population peaked in 2013, while Japan peaked in 1993



Note: Shaded region indicates China (2020s) and Japan (1990s).

Source: NBS of China, Cabinet Office of Japan, HSBC Qianhai Securities

Comparison between China in the 2020s and Japan in 1990s

Conclusion

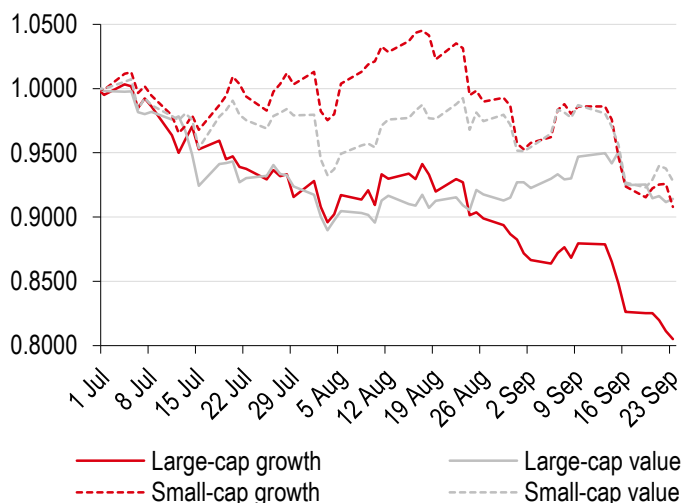
- Our key takeaways from the comparison between China (2020s) and Japan (1990s) suggests there's more reason for optimism on China due to: (1) stronger GDP growth momentum; (2) lower GDP per capita, which means more room to improve productivity; (3) a stronger industrial policy to deleverage traditional sectors and cultivate new growth engines; and (4) a lower equity valuation level.
- Having said that, the following factors aren't in China's favour: (1) higher house prices; (2) higher corporate debt levels; and (3) earlier population decline in economic growth stage.
- Based on our comparisons, our conclusion is that **China is unlikely to experience a balance sheet contraction in 2020s, despite the expected slowdown in balance sheet expansion in the current high-quality growth stage.**
- Moreover, we believe whether China can successfully revive entrepreneurs' risk-taking behaviour and animal spirits is the key determining factor.

Small caps vs large caps

Rotation in favour of small caps to continue

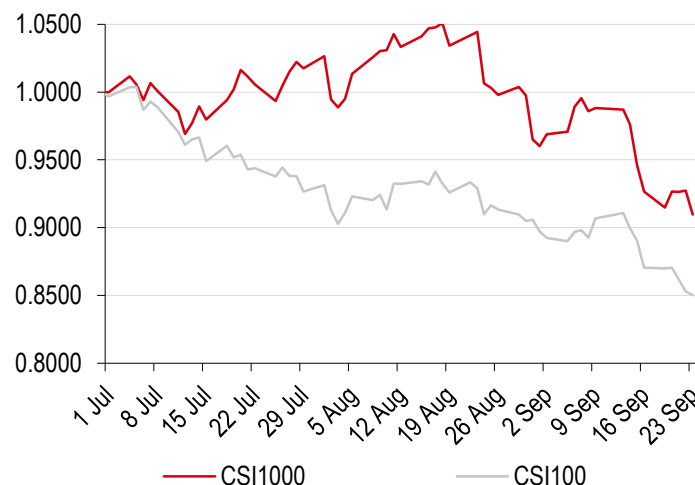
- Investors are concerned about the recent rotation between large caps and small caps. During 2H22, small caps' outperformance over large caps became significant, especially within growth names.
- Specifically, we find in 2H22, **small-cap growth outperformed large-cap growth by c10ppt** while small-cap value outperformed large-cap value by c2ppt.

During 2H22, small caps took the lead within growth/value style...



Source: Wind, HSBC Qianhai Securities

...and this is also happening in the broad based indices

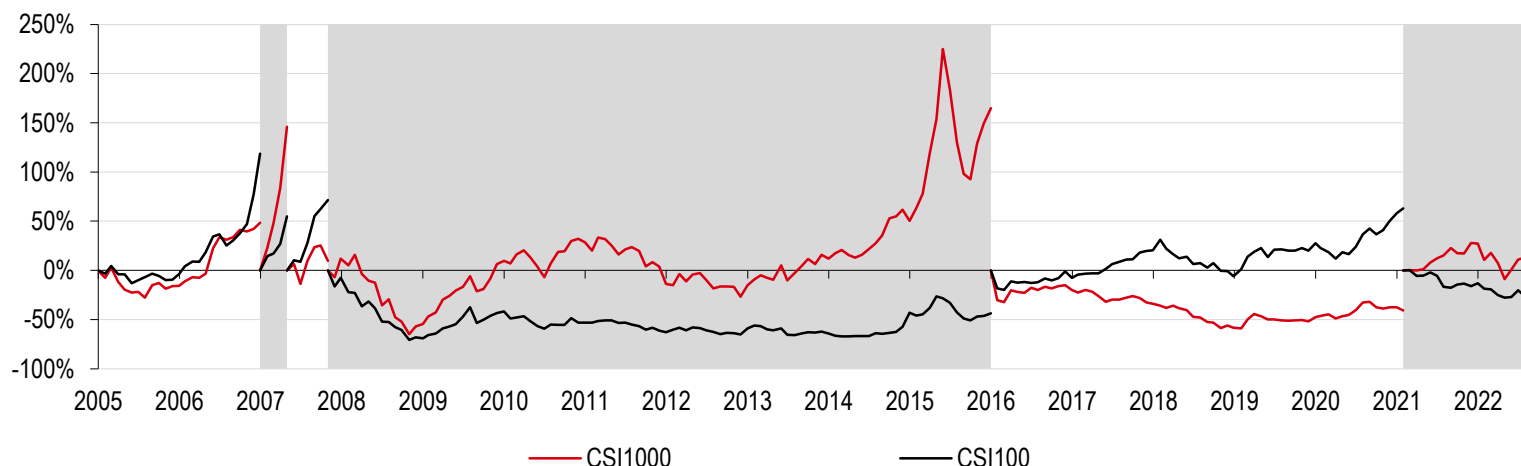


Source: Wind, HSBC Qianhai Securities

Rotation in favour of small caps to continue

- Using the CSI 1000 and CSI 100 as proxies for small caps and large caps, respectively, we find there can be significant alpha generated by selecting the right caps.
- From January 2016 to January 2021, large caps retook the lead and outperformed small caps by 104ppt (CSI 1000 -41%, CSI 100 +63%).
- From February 2021 to September 2022, small caps started to lead the market, and outperformed large caps by 30ppt (CSI 1000 -3%, CSI 100 -33%).

Small caps started to lead the market from February 2021



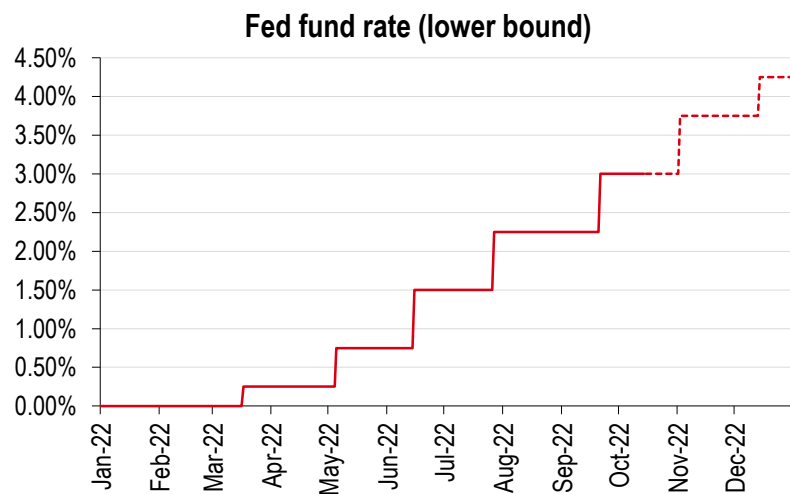
Note: Returns data are updated until end-September 2022; shaded region indicates period when small caps (CSI1000) outperforms large caps (CSI100).

Source: Wind, HSBC Qianhai Securities

Rotation in favour of small caps to continue

- Through our qualitative and quantitative analysis, we believe the cap rotation in the A-share market between large/small caps is mainly decided by:
- (1) The gap between global liquidity and domestic liquidity.** When domestic liquidity is more abundant than global liquidity, small caps are more likely to outperform.
- Fed is likely to continue tightening global liquidity due to inflation concerns while the PBoC is likely to keep a loose liquidity environment.

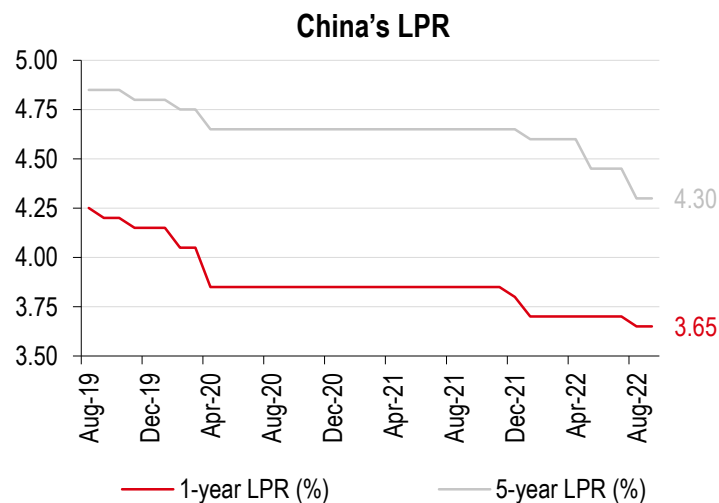
The Fed has been hiking policy rates in 2022



Note: Dash line indicate estimates.

Source: Wind, HSBC Qianhai Securities, HSBC estimates

PBoC cut both the 1-year and 5-year LPR (loan prime rate) three times over L12M

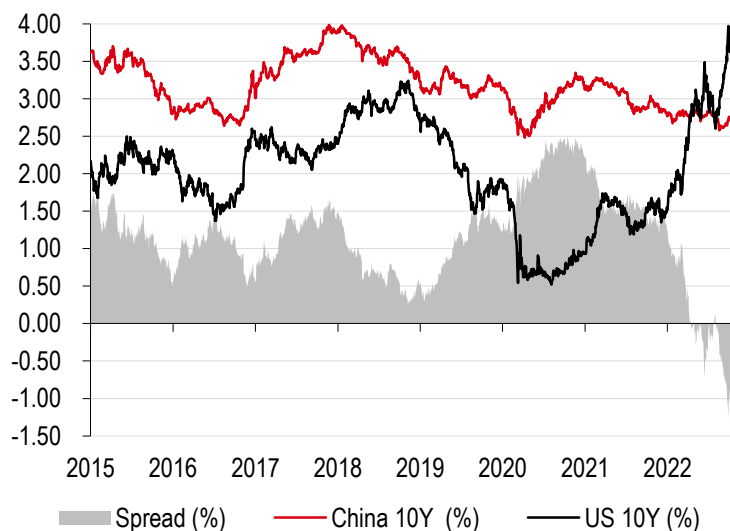


Source: Wind, HSBC Qianhai Securities

Rotation in favour of small caps to continue

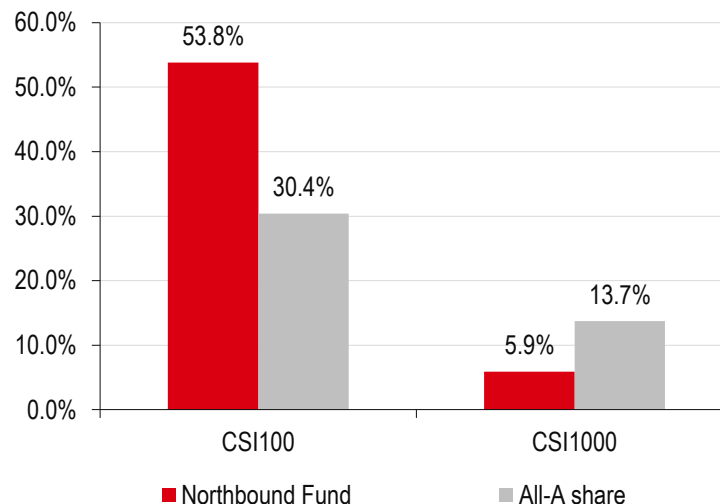
- **(1) The gap between global liquidity and domestic liquidity.** When domestic liquidity is more abundant than global liquidity, small caps are more likely to outperform.
- International funds invest in the A-share market mainly through the northbound channel, and have a strong preference for large caps. By comparison, domestic investors have a more balanced portfolio across large, middle, and small caps.

The spread between China and US 10Y Treasury yields has turned negative



Source: Wind, HSBC Qianhai Securities

Exposure to index constituents: Northbound channel has a preference for large caps



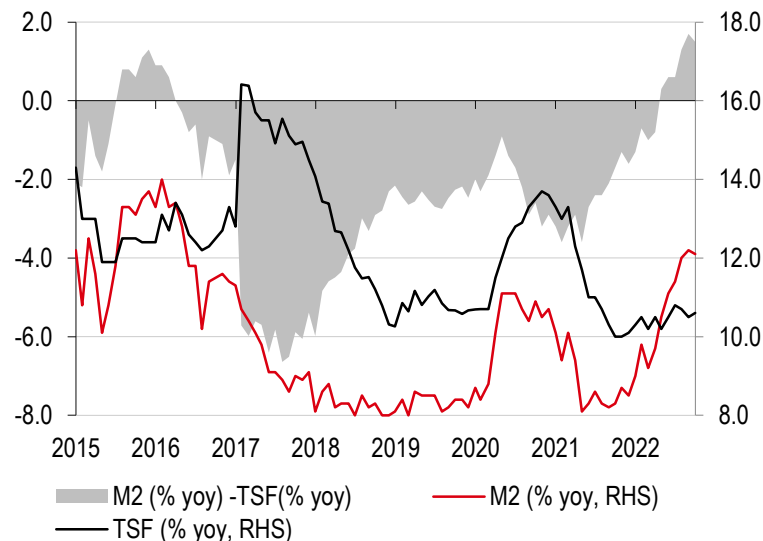
Note: Based on end-2Q22 prices and holdings.

Source: Wind, HSBC Qianhai Securities

Rotation in favour of small caps to continue

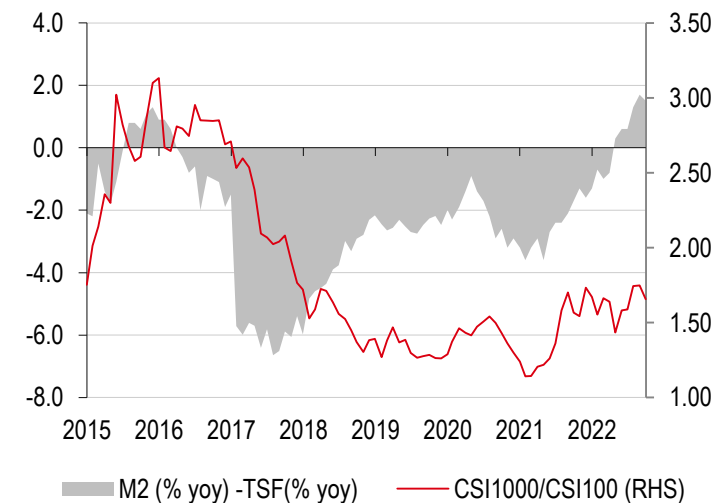
- **(2) The gap between M2 growth and TSF growth.** This can be interpreted as the excess money supply that is not devoted to the real economy.
- When the gap widens, it always means the PBoC wants to boost the economy while there is not enough credit demand. On this occasion, the excess liquidity could flow to retail investors, which normally benefits small caps.
- This gap is likely to widen given lacklustre real economy and supportive monetary policy.

M2 growth started to outpace TSF growth



Source: Wind, HSBC Qianhai Securities

Positive correlation between excessive liquidity and small-cap outperformance



Source: Wind, HSBC Qianhai Securities

Rotation in favour of small caps to continue

- **(3) Risk appetite.** A higher risk appetite would normally benefit smaller caps.
- Recently, market risk appetite has declined significantly, with the ERP surging due to a longer-than-expected COVID-19 zero policy in China and high inflation in the US.
- However, from a long-term perspective, a pro-growth policy tone generally means positive returns for both large/small caps, as well as a decreasing ERP.

A pro-growth policy tone generally means positive returns for both large/small caps, as well as decreasing ERP

Policy tone	Start signal	Start	End	Length	CSI300 return	CSI100 return	CSI1000 return	ERP (%) change
Pro-growth (#1)	PBoC removed "control the general valve of money supply" in 3Q14 MPR released on 6 Nov 2014	7 Nov 2014	17 Feb 2017	27m	+36.5%	+45.3%	+32.4%	↓(3.61→1.21)
De-risking	PBoC reiterated "control the general valve of money supply" in 4Q16 MPR released on 17 Feb 2017	18 Feb 2017	21 Feb 2019	24m	+0.6%	+11.3%	-40.6%	↑(1.21→3.58)
Pro-growth (#2)	PBoC removed "control the general valve of money supply" in 4Q18 MPR released on 21 Feb 2019	22 Feb 2019	17 May 2019	3m	+6.0%	+6.8%	+7.7%	↓(3.58→2.77)
De-risking	PBoC reiterated "control the general valve of money supply" in 1Q19 MPR released on 17 May 2019	18 May 2019	10 May 2020	12m	+8.6%	+4.3%	+10.0%	→(2.77→2.71)
Pro-growth (#3)	PBoC removed "control the general valve of money supply" in 1Q20 MPR released on 10 May 2020	11 May 2020	26 Nov 2020	6m	+24.1%	+25.2%	+13.3%	↓(2.77→1.14)
De-risking	PBoC reiterated "control the general valve of money supply" in 3Q20 MPR released on 26 Nov 2020	27 Nov 2020	19 Nov 2021	12m	-0.6%	-6.6%	+17.5%	↑(1.14→2.19)
Pro-growth (#4)	PBoC removed "control the general valve of money supply" in 3Q21 MPR released on 19 Nov 2021	20 Nov 2021						

Source: PBoC, Wind, HSBC Qianhai Securities

Rotation in favour of small caps to continue

- Our conclusion on these factors was also verified by a regression analysis, where we find all three explanatory variables significant in deciding the large/small caps rotation.

Regression analysis model and results

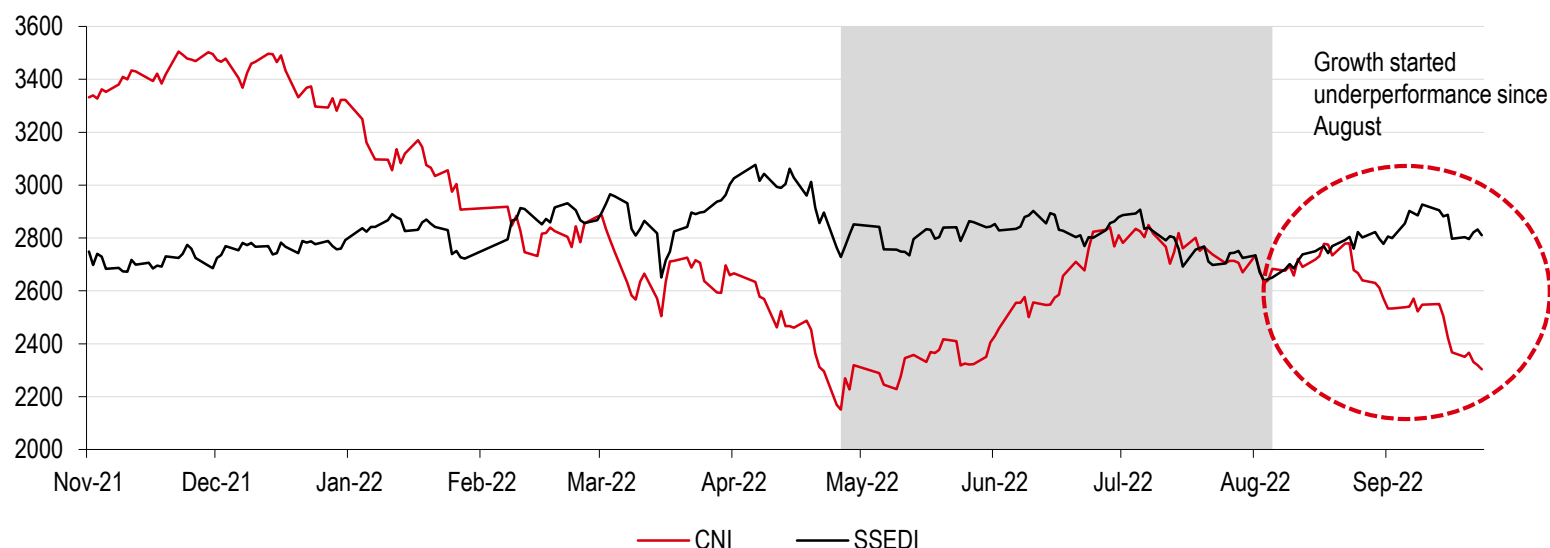
Regression model		$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$		
		Variable	Coefficient	P-value
Y: Small caps/large caps		CSI 1000/CSI 100		
X ₁ : Gap between global and domestic liquidity	China 10Y treasury yield – US 10Y treasury yield (%)		-0.4099	0.0000
X ₂ : Gap between M2 growth and TSF growth	M2 growth – TSF outstanding growth (%)		0.1225	0.0000
X ₃ : Risk appetite	1/(PE-TTM of all-A) – China 10Y treasury yield (%)		0.4870	0.0000
Intercept			3.6673	0.0000
Whole model (F-test)				0.0000

Source: Wind, HSBC Qianhai Securities

Style rotation: Less visibility

- From May 2022 to July 2022, we see growth outperforming value by c20ppt (CNI +15.2%, SSED I -4.5%).
- However, since August, stubbornly-high US inflation has led to more expectations on US policy rate hikes, which could further tighten global liquidity.
- As such, the key determinants no longer point to the same direction.

Style rotation between value and growth since November 2021



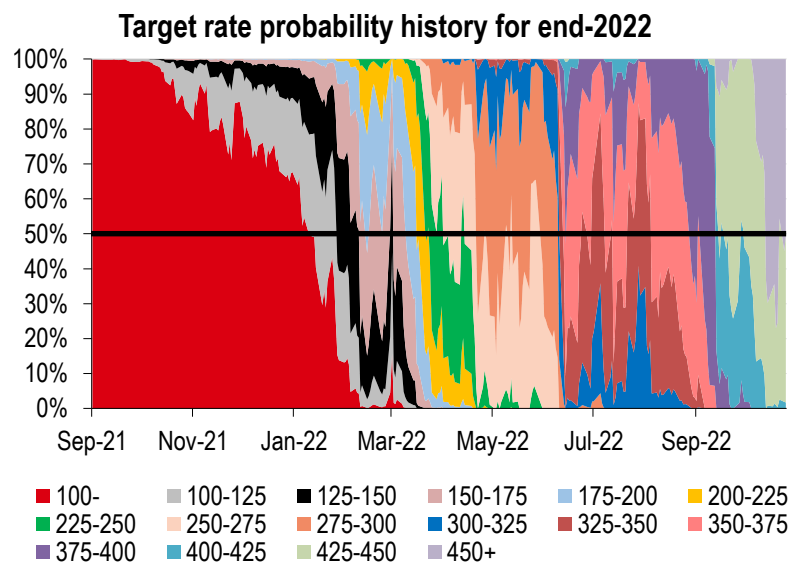
Note: Returns data are updated until end-September 2022; shaded region indicates period when growth (CNI, ChiNext Index) outperforms value (SSED I, SSE Dividend Index).

Source: Wind, HSBC Qianhai Securities

Style rotation: Less visibility

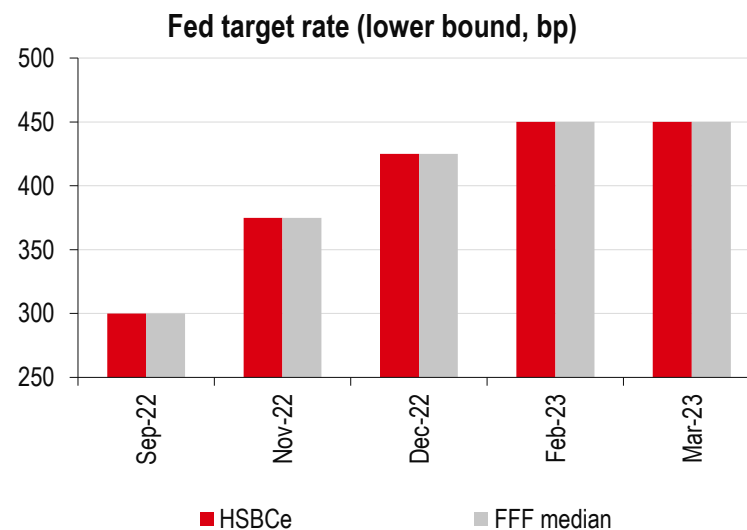
- In terms of the key determinants:
- **(1) Domestic policy:** benefitting growth;
- **(2) Global liquidity:** benefitting value;
- **(3) Earnings revision:** benefitting growth.

The rate hikes in 2022e implied by FFF median increased from c100bp to 425-450bp



Source: CME Fed Watch Tool, HSBC Qianhai Securities

Market is expecting Fed to continue hiking rates in Nov-22, Dec-22, and Feb-23

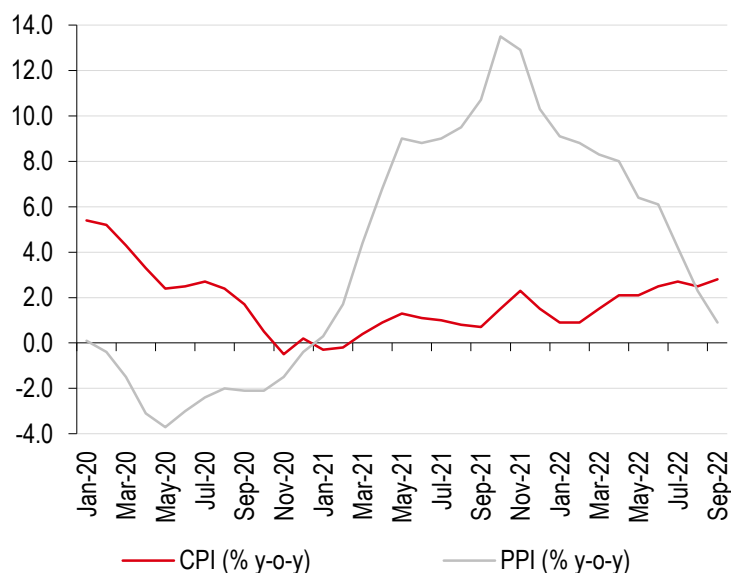


Source: CME Fed Watch Tool, HSBC estimates

Style rotation: Less visibility

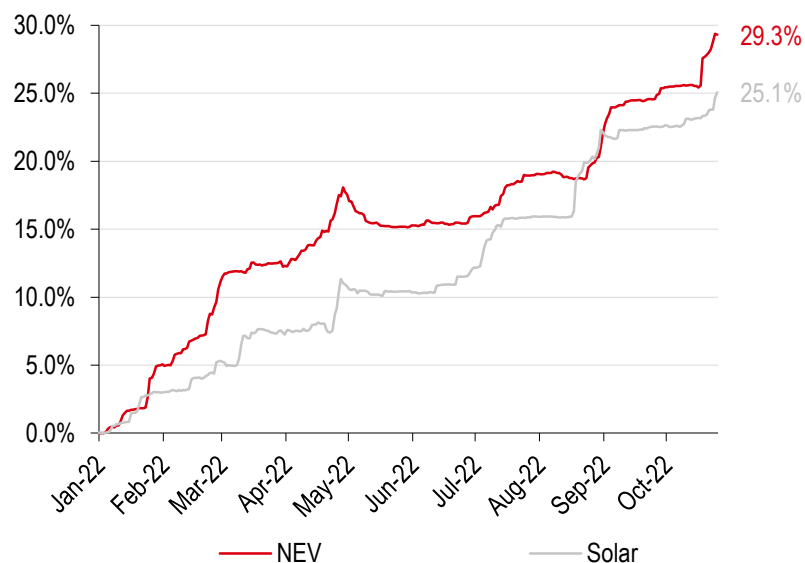
- In terms of the key determinants:
- **(1) Domestic policy:** benefitting growth;
- **(2) Global liquidity:** benefitting value;
- **(3) Earnings revision:** benefitting growth.

The gap between CPI and PPI has narrowed



Source: Wind, HSBC Qianhai Securities

Consensus 2022e earnings for NEV and solar: Upward revisions y-t-d



Note: Data updated until 25 October 2022.

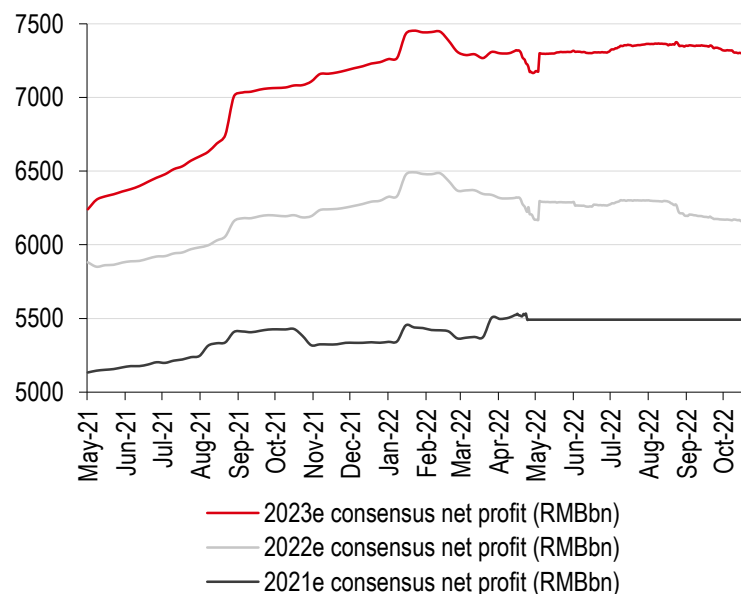
Source: Wind, HSBC Qianhai Securities

Earnings, liquidity and valuations

Earnings: Seeking a silver lining amid the gloom

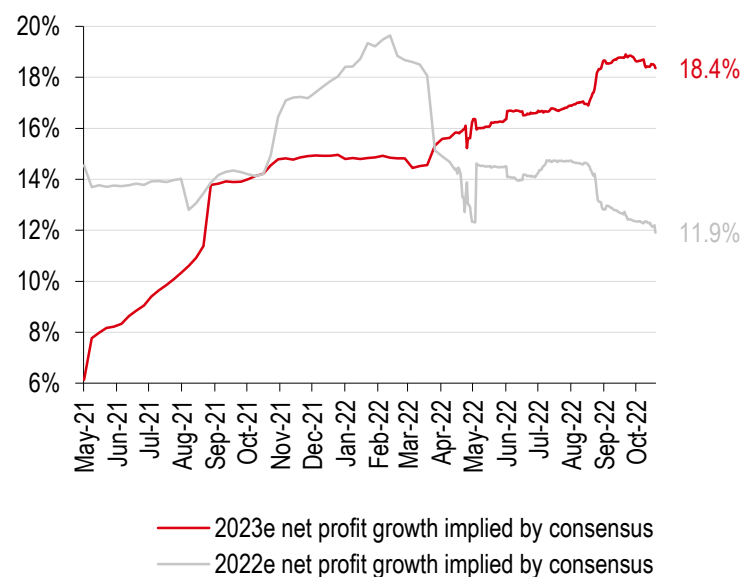
- Consensus A-share earnings forecasts for 2022e have dropped 6.0%, but still imply 11.9% y-o-y earnings growth, down from 19.6% in mid-February.
- Meanwhile, consensus estimates for 2023e earnings remain relatively stable, implying 18.4% y-o-y growth (up from 14.8% in mid-February), on a lower base.

Consensus for all A-share earnings



Source: Wind estimates, HSBC Qianhai Securities

Consensus implies earnings growth of 11.9%/18.4% in 2022e/23e

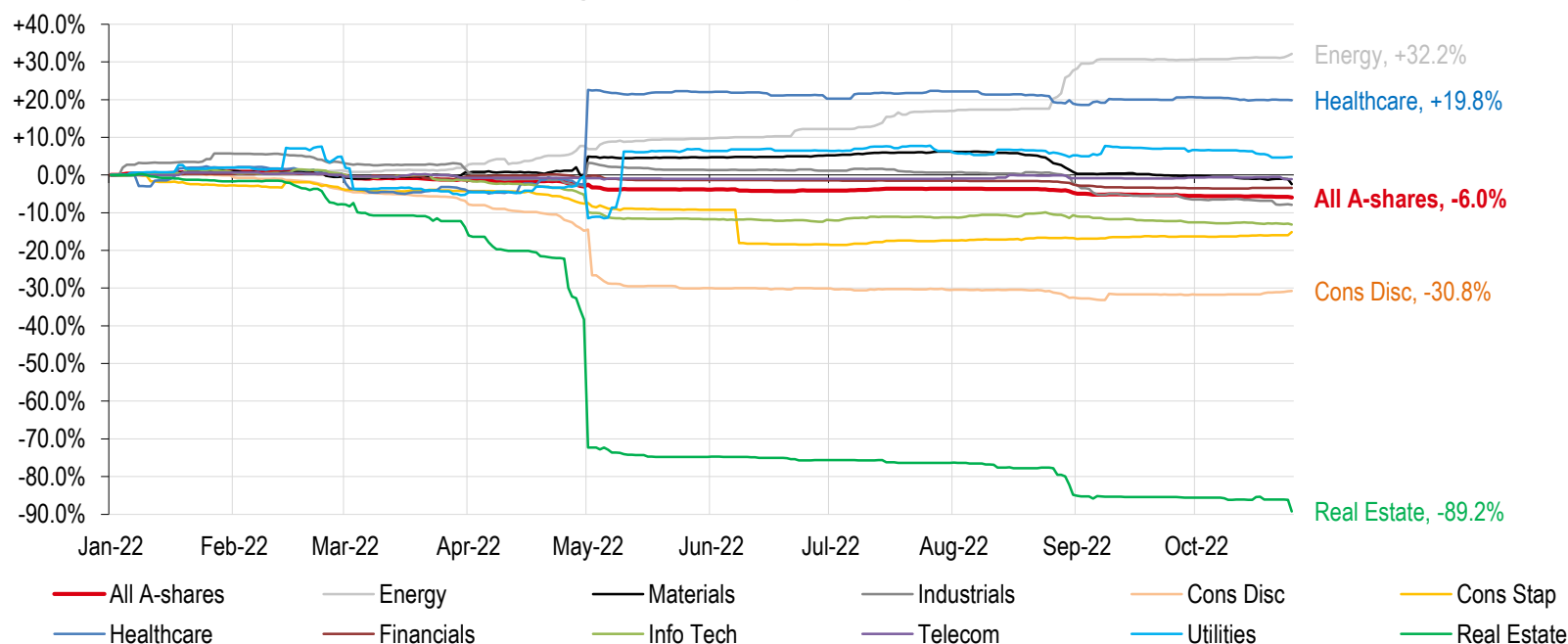


Source: Wind estimates, HSBC Qianhai Securities

Earnings: Seeking a silver lining amid the gloom

- By sector, 2022e consensus earnings y-t-d have increased the most for Energy (+32.2%) and Healthcare (+19.8%) and fallen the most for Real Estate (-89.2%) and Cons Disc (-30.8%).
- Consensus earnings are likely to be revised up during the remainder of the year as economic growth recovers as the accumulative effect of pro-growth policies filters through.
- Earnings revision momentum and earnings distributions are likely to shift from upstream sectors (value) to mid- and downstream sectors (growth), as the gap between PPI and CPI has narrowed.

Consensus A-share 2022e earnings revisions y-t-d by sector



Note: Consensus data are adjusted for China Mobile and CNOOC, which was listed in January 2022 and April 2022, respectively. Data updated until 25 October 2022.

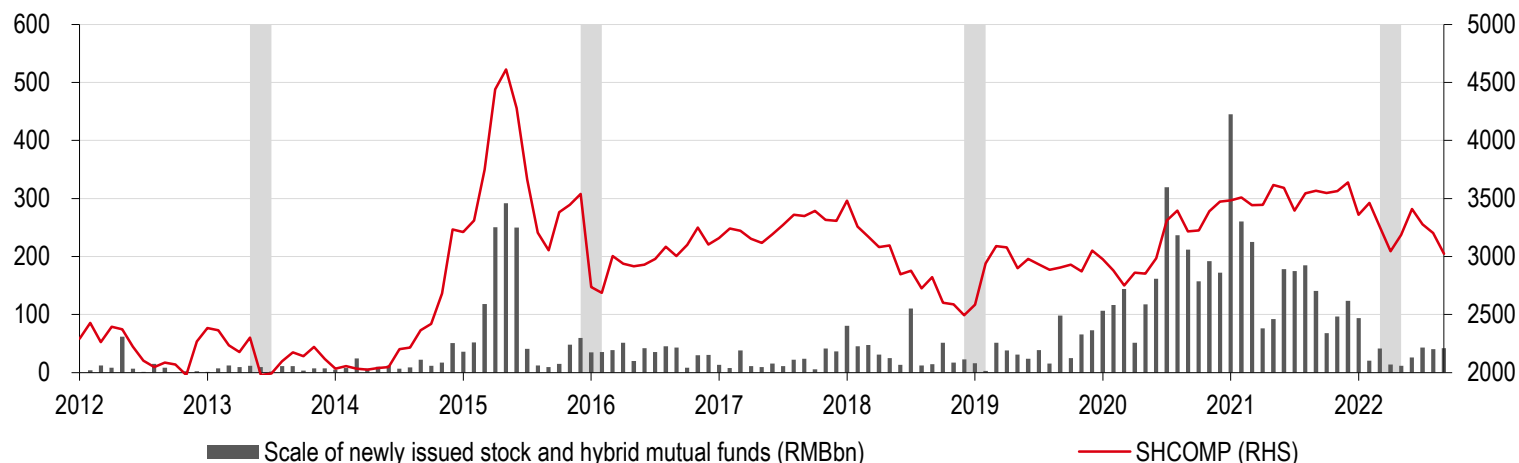
Source: Wind estimates, HSBC Qianhai Securities

Market liquidity: Gradual improvement, but still weak

Mutual funds

- New mutual fund issuances in April and May 2022 amounted to RMB14.1bn and RMB11.8bn, respectively, both accounting for only c3% of the figure during the corresponding peak month (January 2021, RMB445.0bn).
- However, new fund issuances totalled RMB26.3bn, RMB43.3bn, RMB40.6bn, and RMB41.8bn in June, July, August, and September, respectively. This signals fund issuance should have bottomed in May.

New mutual fund issuance likely bottomed in May



Note: Shaded region indicates market bottom.

Source: Wind, HSBC Qianhai Securities

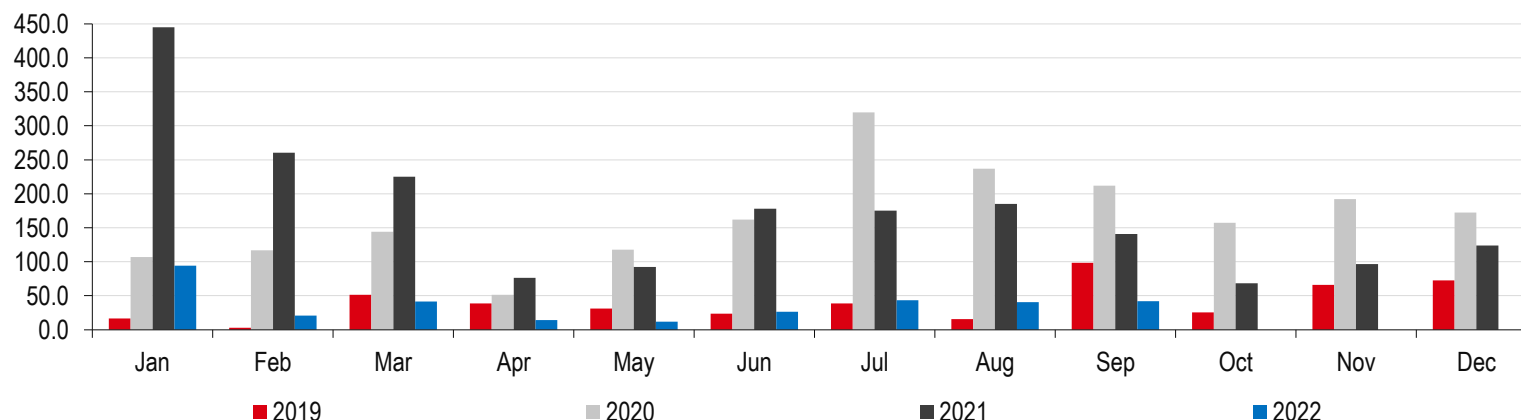
Market liquidity: Gradual improvement, but still weak

Mutual funds

- New issuance of mutual funds totalled RMB334.2bn in 9M22, **down 81% y-o-y** (9M21 totalled RMB1,778.6bn).

New mutual fund issuance in 2022 is weaker than the past two years

Scale of newly issued stock and hybrid mutual funds (RMBbn)



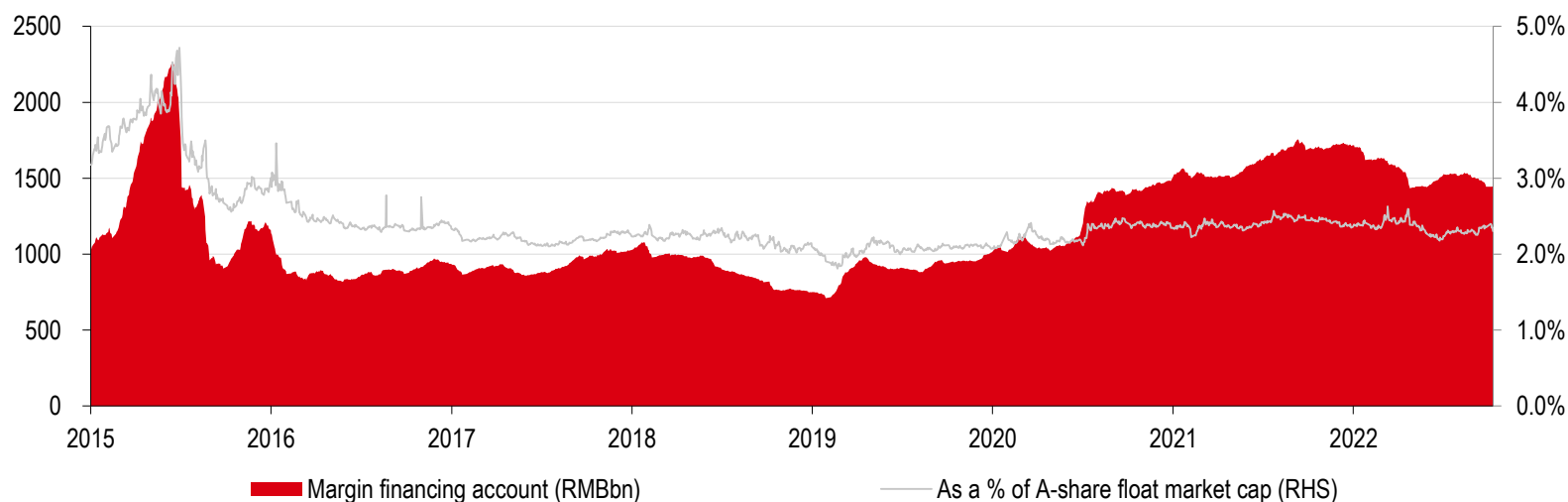
Source: Wind, HSBC Qianhai Securities

Market liquidity: Gradual improvement, but still weak

Margin financing balance

- As of 25 October 2022, the margin financing balance is cRMB1.44trn, **down 4.0%** or nearly RMB60.2bn vs end-1H22.
- However, the decrease was mainly due to a price decrease of the holding stocks in the margin financing balance, and the margin financing account as a percentage of A-share free float capitalisation increased slightly to 2.39% from 2.20% at end-1H22 .

Margin financing account as a percentage of A-share free float capitalisation increased slightly in 3Q22, despite the absolute figure decreasing



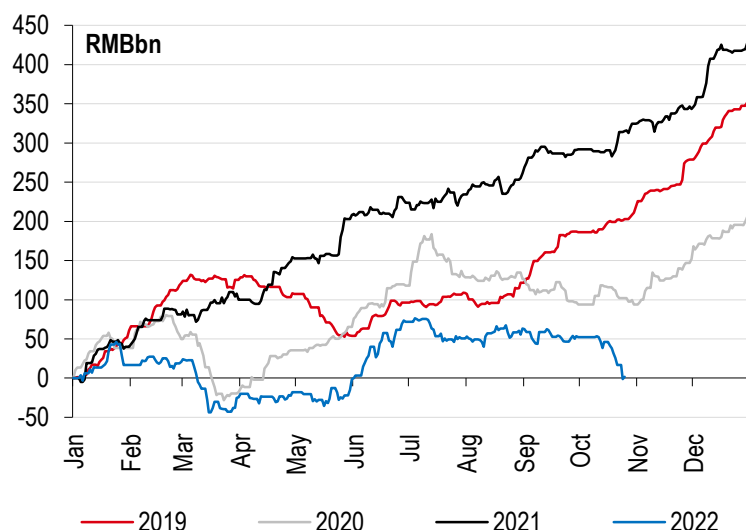
Source: Wind, HSBC Qianhai Securities

Market liquidity: Gradual improvement, but still weak

Northbound channel

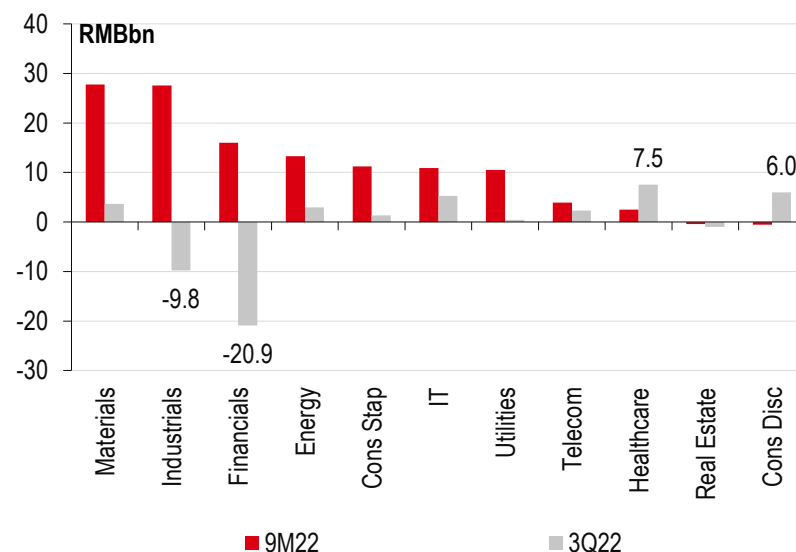
- As of 25 October 2022, y-t-d northbound net inflow has turned almost zero (RMB1.6bn), **down from RMB430bn in 2021**, also below our prior 2022 forecast of cRMB150bn. We believe this is mainly due to stickier-than-expected US inflation and China's longer-than-expected COVID-19 zero policy.
- In 3Q22, northbound channel **net sold RMB19.6bn**. Sectors that saw the most outflows were **Financials** and **Industrials**, while sectors saw the most inflows were **Healthcare** and **Cons Disc**.

Y-t-d northbound flow has turned almost zero from RMB430bn in 2021



Source: Wind, HSBC Qianhai Securities

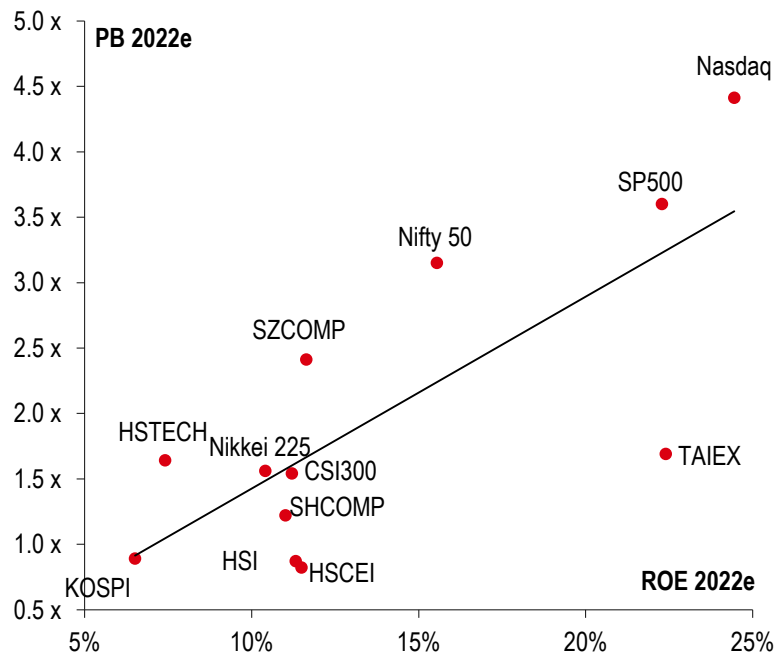
In 3Q22, Healthcare and Cons Disc saw most inflows, while Financials saw major outflows



Source: Wind, HSBC Qianhai Securities

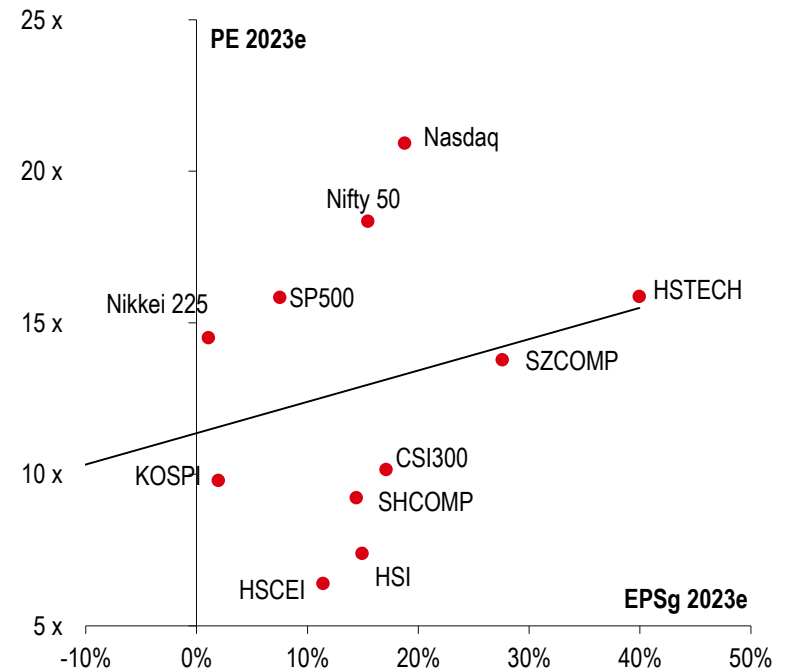
Valuation: Attractive after correction

PB-ROE: SHCOMP is undervalued, CSI 300 is fairly valued and SZCOMP is overvalued, in our view



Source: Bloomberg estimates, HSBC Qianhai Securities

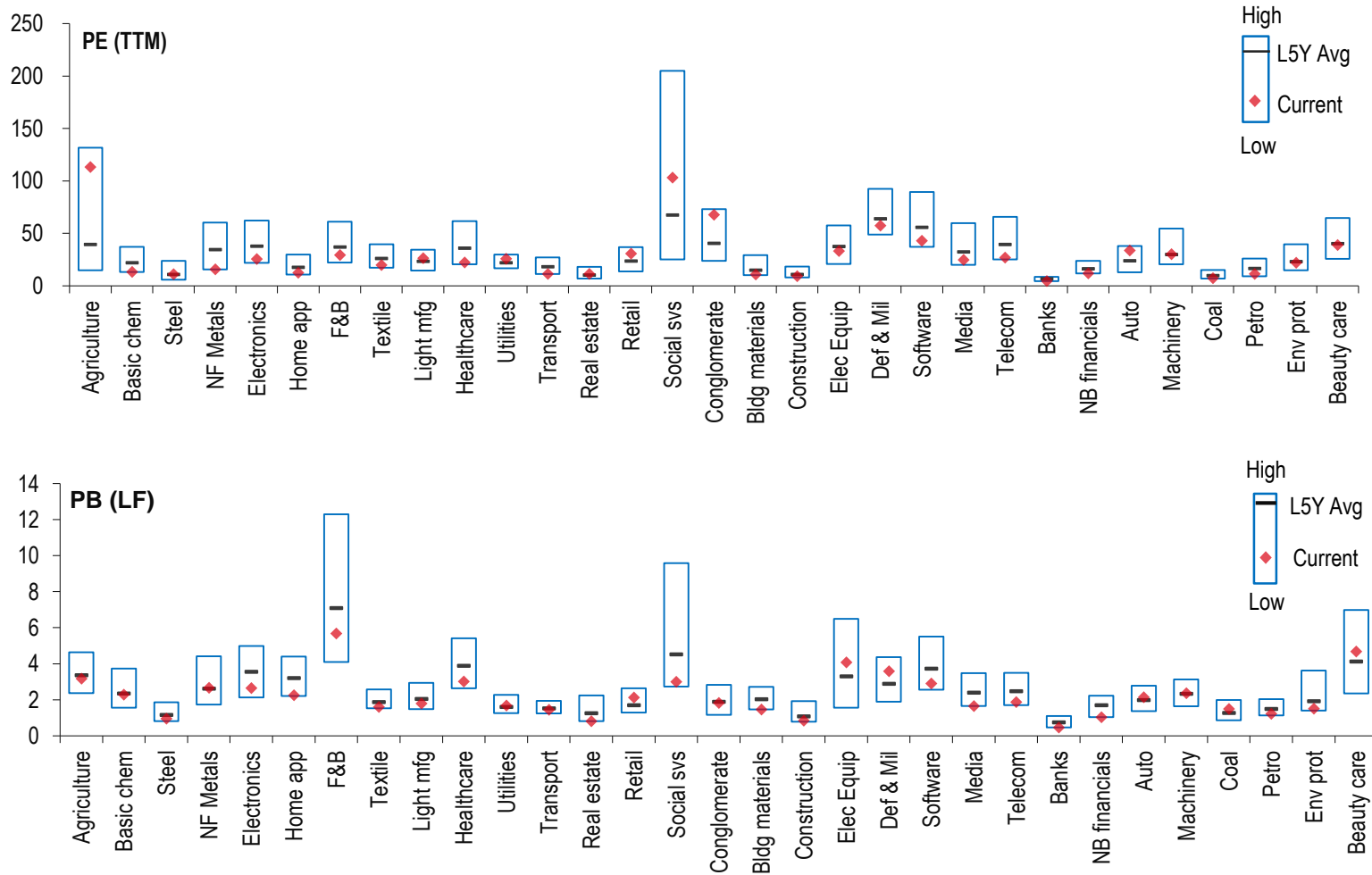
Fwd PE vs EPSg: Most onshore and the offshore China equity indexes are undervalued, in our view



Source: Bloomberg estimates, HSBC Qianhai Securities

Valuation: Attractive after correction

PE/PB multiples across industries



Note: Data updated until 25 October 2022.

Source: Wind, HSBC Qianhai Securities

Index targets, sector allocations and stock ideas

Index targets

- We underestimated the length of China's COVID-19 zero policy and US inflation, which results in a higher equity risk premium domestically and globally.
- As a result, we use a 75bp higher equity risk premium and cut index targets by 12-20%.

2022e year-end index targets*

	SHCOMP	CSI 300	SZCOMP
Dividend yield (%)	2.9	2.5	1.4
Index level (25 October 2022)	2,976.3	3,627.5	10,639.8
EPS growth YR1	24.2%	15.4%	20.3%
EPS growth YR2	13.8%	16.8%	27.9%
Growth in stage 2	9.6%	11.0%	14.5%
No of years of excess growth	10	10	10
Perpetual growth rate (%)	3	3	3
COE (%)	9.00	9.00	9.00
Payout ratio now (%)	30.3	30.7	25.6
Payout ratio at end of stage 2 (%)	33.0	32.0	32.0
Fair value	3,279	4,077	11,812
Under/overvalued	-9%	-11%	-10%
HSBC end-2022e targets Old	3,750	5,000	15,000
HSBC end-2022e targets New	3,300	4,200	12,000
HSBC target implied 12-m FWD PE	11.6	13.7	19.6
Index upside	10.9%	15.8%	12.8%

Source: Bloomberg, HSBC Qianhai Securities estimates

*Note that our end-2022e index targets were last revised in China Equity Strategy: 4Q outlook: Biding its time (27 September 2022)

Index targets

- We also introduced our end-2023e index targets in *in our report published on 27 September 2022. See China Equity Strategy.*
- The higher index targets for end-2023e correspond with expected earnings growth that year. Assuming a limited de-rating by end-2023e, we expect decent index upside for 2023e.

2023e year-end index targets

	SHCOMP	CSI300	SZCOMP
Dividend yield (%)	3.2	2.8	1.8
Index level (25 October 2022)	2,976.3	3,627.5	10,639.8
EPS growth YR1	13.8%	16.8%	27.9%
EPS growth YR2	13.0%	14.0%	16.2%
Growth in stage 2	9.6%	11.0%	14.5%
No of years of excess growth	10	10	10
Perpetual growth rate (%)	3	3	3
COE (%)	9.00	9.00	9.00
Payout ratio now (%)	29.4	29.5	23.9
Payout ratio at end of stage 2 (%)	33.0	32.0	32.0
Fair value	3,681	4,610	13,605
Under/overvalued	-19%	-21%	-22%
HSBC end-2023e targets	3,600	4,600	13,500
HSBC target implied 12-m FWD PE	11.2	12.9	17.2
Index upside	21.0%	26.8%	26.9%

Source: Bloomberg, HSBC Qianhai Securities estimates

Sector weightings

- Our sector allocation continues to favour high-quality growth sectors including **high-end manufacturing and greater consumption space**.
- We maintain our Overweight stance on Industrials, Consumer Staples, Consumer Discretionary, and Healthcare.

Sectors allocations

Sector	Weight	Sector Allocation	Growth vs market	3M earnings momentum	PE (2022e) revision	3M investor sentiment
Industrials	18.6%	Overweight	Higher	Negative	Upward	5
Cons Staples	11.0%	Overweight	Higher	Positive	Downward	7
Cons Disc	9.2%	Overweight	Higher	Negative	Downward	9
Healthcare	7.0%	Overweight	Higher	Negative	Downward	11
IT	14.1%	Neutral	Higher	Negative	Downward	8
Energy	5.1%	Neutral	Higher	Positive	Downward	1
Materials	13.3%	Neutral	Higher	Negative	Downward	10
Real Estate	2.3%	Neutral	Higher	Negative	Upward	4
Utilities	3.8%	Underweight	Lower	Positive	Upward	3
Financials	15.3%	Underweight	Lower	Negative	Downward	6
Telecom Service	0.4%	Underweight	Lower	Positive	Upward	2

Source: Wind, HSBC Qianhai Securities estimates

10 stock ideas

HSBC Qianhai key stock ideas from fundamental analysts

Ticker	Company	Sector	Rat.	TP	Curr price	Upside	Mcap	3M T/O	PE (x)	EPSg (%)	PEG	PB (x)	ROE (%)	Analyst*
				local	local		USDm	USDm	2022e	21a-24e		2022e	2022e	
600233 CH	YTO EXPRESS	Logistics	Buy	26.60	20.15	32%	9,537	45	18.6	30.8	0.60	2.7	15.5	David Wu
601799 CH	XINGYU AUTO	Auto comp	Buy	274.00	132.50	107%	5,207	36	19.8	n.a.	n.a.	4.1	22.8	Yuqian Ding
300450 CH	LEAD INTELLIGENT	Elec equip	Buy	129.00	50.22	157%	10,816	84	32.0	46.2	0.69	7.0	23.8	Corey Chan
002484 CH	JIANGHAI CAPACITOR	Hardware	Buy	31.40	26.84	17%	3,086	26	37.3	31.3	1.19	4.7	13.2	Dun Wang
000568 CH	LUZHOU LAOJIAO	Baijiu	Buy	280.00	175.98	59%	35,634	221	25.7	22.8	1.13	7.8	32.9	Kathy Song
300957 CH	BOTANEE	Cosmetics	Buy	239.00	142.99	67%	8,332	40	52.7	31.1	1.69	10.7	22.1	Joseph Zhou
300673 CH	PETPAL	Agriculture	Buy	25.60	17.97	42%	626	19	25.5	53.3	0.48	2.4	9.7	Yihui Sha
688008 CH	MONTAGE	Semi	Buy	93.50	49.55	89%	7,727	67	41.9	53.6	0.78	5.8	14.6	Frank He
300454 CH	SANGFOR	Software	Buy	149.00	109.20	36%	6,244	41	150.7	60.9	2.48	6.0	2.7	Yiran Liu
002555 CH	SANQI ENTERTAINMENT	Software	Buy	32.30	14.13	129%	4,311	71	9.2	14.8	0.62	2.4	28.8	Jing Han

Note: Priced as of 25 October 2022; EPSg refers to 3-year CAGR of EPS growth from 2021a to 2024e. *Employed by a non-US affiliate of HSBC Securities (USA) Inc. and not registered/qualified pursuant to FINRA regulations.
Source: Wind, Bloomberg, HSBC Qianhai Securities estimates

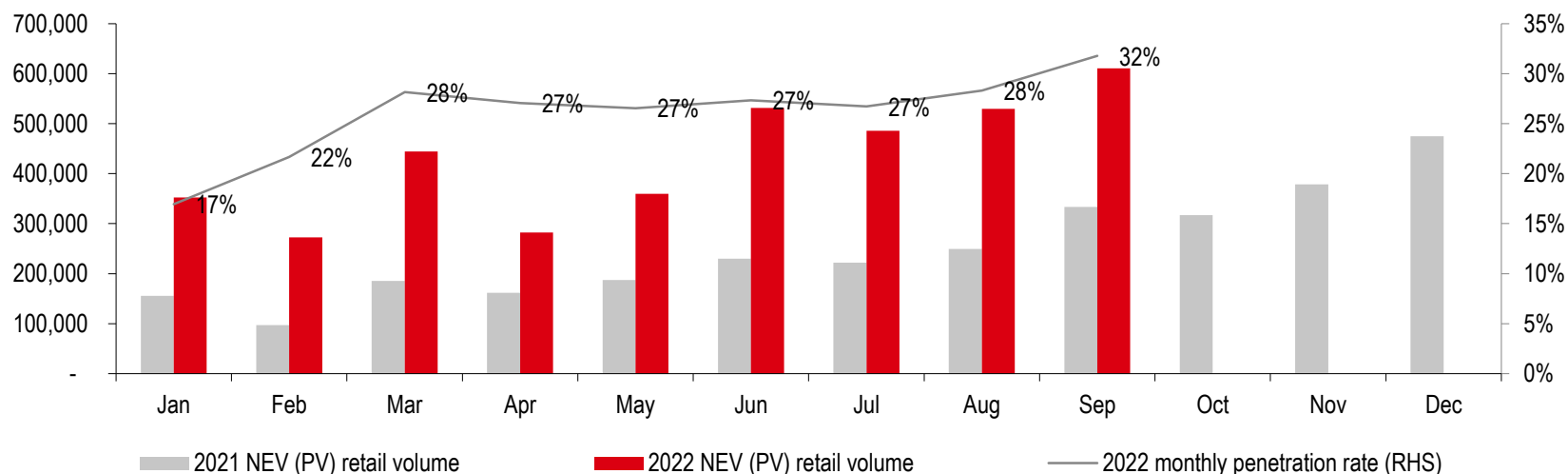
Sector views

China NEV

91% penetration in 2030e (99% on bull case)

- EV retail sales volume in September rose to 0.6mn units – up 83% y-o-y and 15% m-o-m – implying a new record high penetration rate of 32% during the month.
- The EV penetration rate in 9M22 reached a new high of 26.0%.

We see NEV retail volume in Sep hit record high at 611k units, and penetration reached 32%



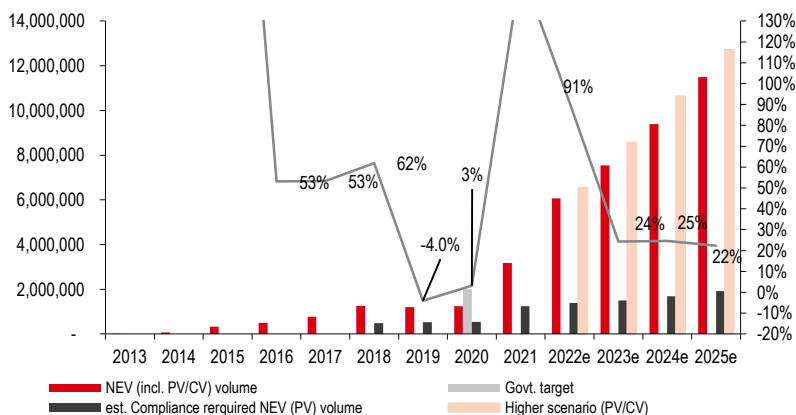
Source: CPCA, HSBC Qianhai Securities

China NEV

91% penetration in 2030e (99% on bull case)

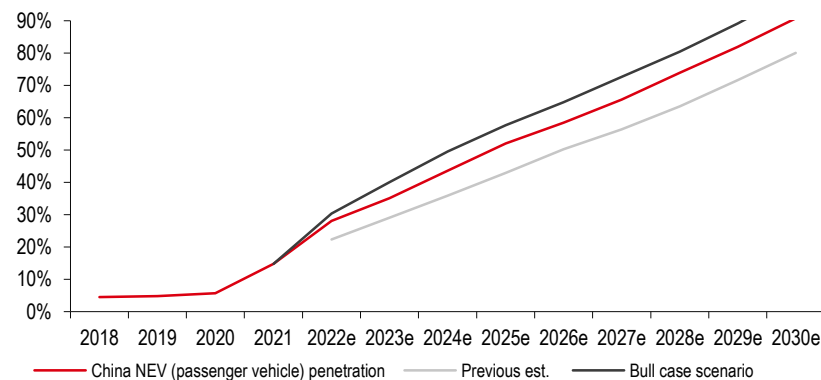
- On back of the increasing adoption towards EV and the rising number of better EV model supply, we remain constructive towards EV growth and penetration in the mid-long term.

We estimate 2022-24e NEV y-o-y growth of 91%, 24% and 25%



Source: IHS, HSBC Qianhai Securities estimates

We estimate 52%/91% EV penetration by 2025e/2030e



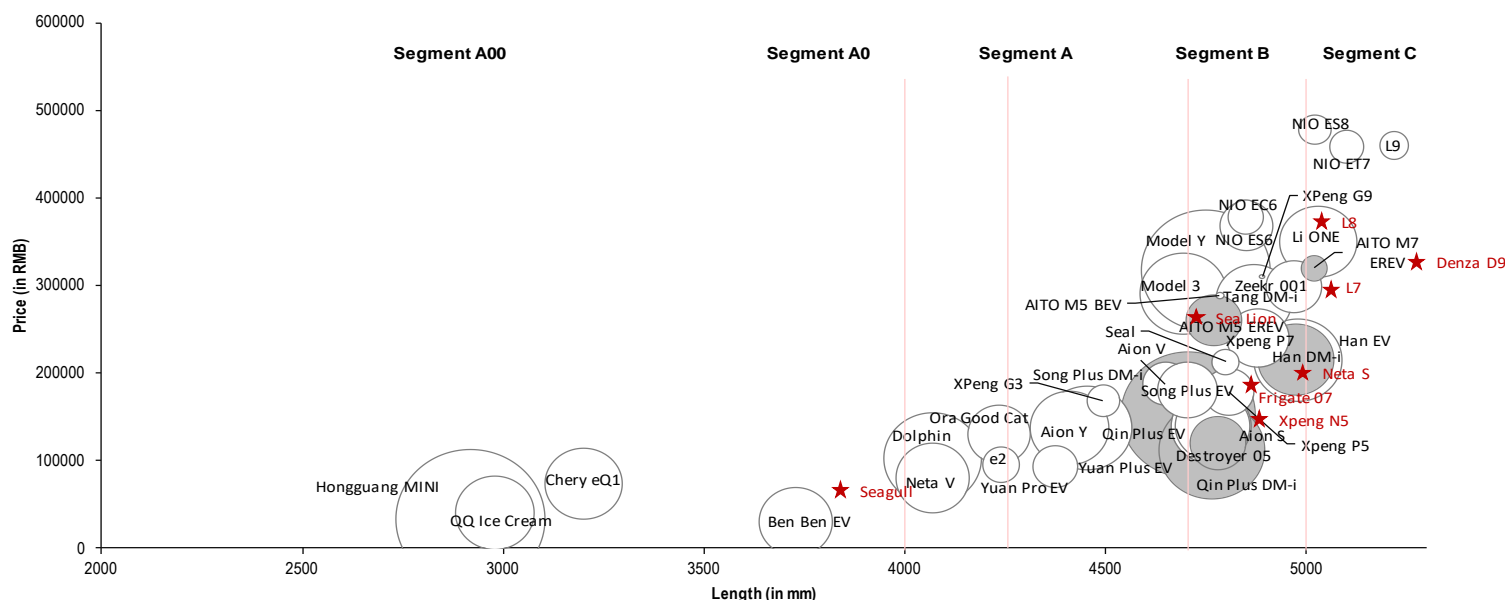
Source: CPCA, HSBC Qianhai Securities estimates

China NEV

Increasing EV Model Supply: competition tangible, PHEV/EREV likely better positioned

- We expect more EV models to be launched across lower mass to premium markets, likely boosting demand further.
- We see intensifying competition and model supplies in the NEV market.
- Share of PHEV in EV market increased to 24% in 9M22 vs. 17% in 2021 as PHEVs are less pressured compared with BEVs under hiking commodity price (especially Lithium) environment. And BYD is dominating in PHEV market.

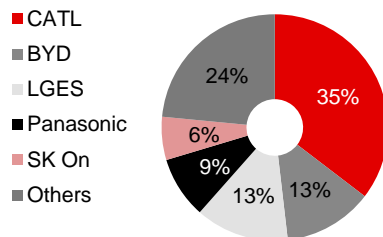
Top 20 selling NEVs in 9M22 and key peers models



EV battery: rising LFP battery, technology innovation, capacity expansion

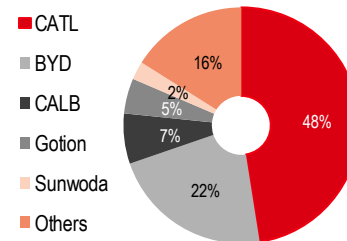
- China's EV value chain is favorably positioned given its: 1) economies of scale, 2) higher capex efficiency, 3) lower labor costs and higher productivity. These advantages create cost savings – especially for material costs, depreciation and amortization, and SG&A – for China battery suppliers versus global peers.
- Continued rising lithium carbonate price since the beginning of 2021, is pushing LFP battery shares up.

CATL took 35% in global EV battery market in 9M22



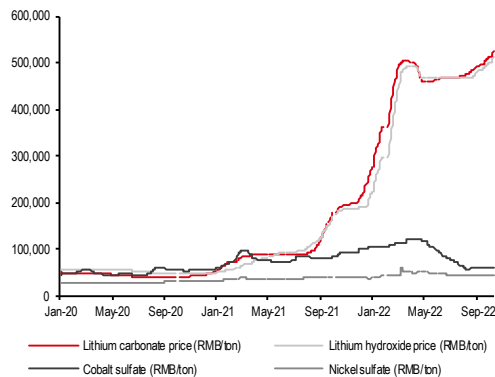
Source: SNE Research, HSBC Qianhai Securities

CATL took 48% in China EV battery market 9M22



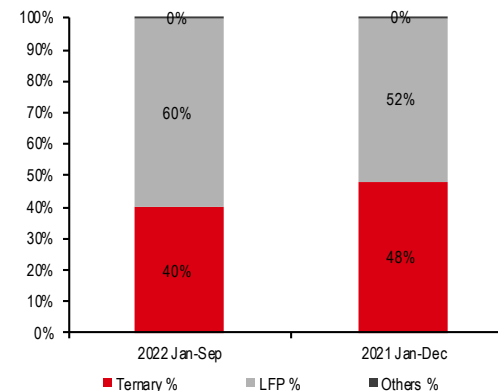
Source: CABIA, HSBC Qianhai Securities

Lithium carbonate price continues to hike in September, up 5.4% since last month



Source: Wind, HSBC Qianhai Securities

LFP penetration in China's total power battery shipments has increased to c60% in Jan-Sept 2022

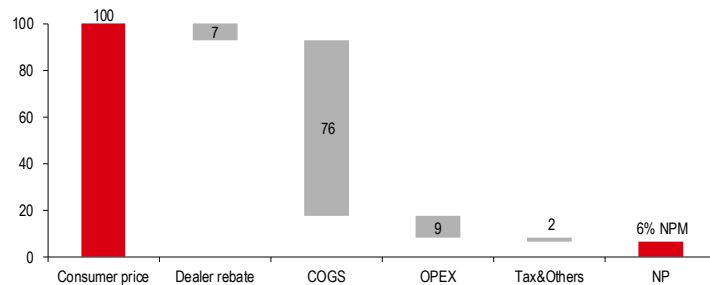


Source: CABIA, HSBC Qianhai Securities

Autonomous Driving (AD): revenue model disruption

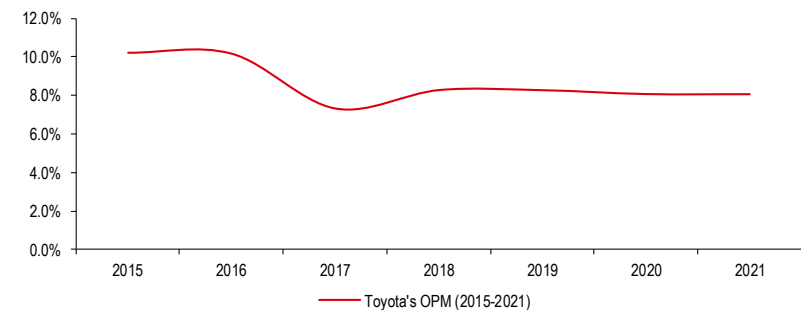
- As vehicles become more autonomous and increasingly electric, we see two main revenue pool opportunities for manufacturers: (1) Direct sales: If manufacturers move their sales teams (distribution) in-house, we believe their margins could rise 8% (vs. the 6-10% per annum rebate to dealers). This is because of the increasing availability of auto vertical websites and short video platforms which has advanced consumers' understanding of cars. The increasing digitalization and transparency of the auto value chain, and away from manufacturing and distribution, has also eased the inventory stocking pressure. (2) Software revenue model: We see leading brands such as Tesla and XPeng who have in-house software capabilities enjoying software revenue pool opportunities. Looking at Tesla as an example, its Full Self Driving (FSD) software costs USD12K. Given software development is largely in-house, it's more just the fixed cost and marginal cost of adding a new car that limits the size of its scale. And usually the software content has higher margins (likely >50%).

Existing OEMs' revenue and profit pool flow



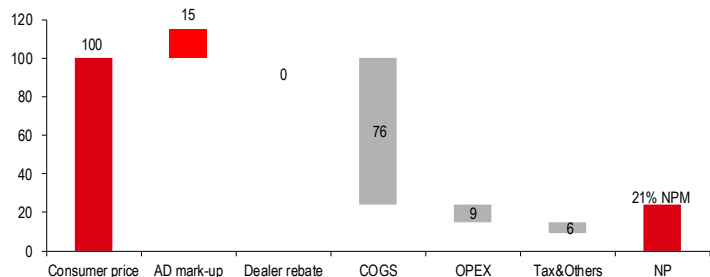
Source: Company data, HSBC Qianhai Securities estimates

Toyota's OPM through the cycle, likely among the best in the auto industry



Source: Company data, HSBC Qianhai Securities

Potential OEM (with vertical integrated AD) revenue and profit pool flow



Source: Company data, HSBC Qianhai Securities estimates

We see a 10-20% AD service package vs. the ticker price

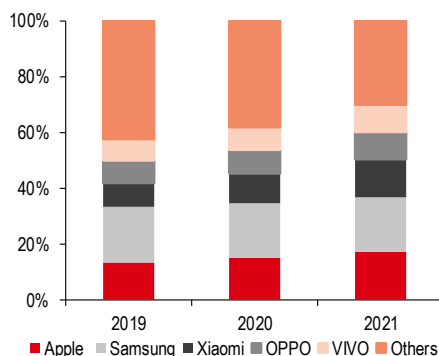
		Tesla	NIO	XPEV	Li
Model		Model 3	ES6	P7	One
Ticker price		276,740	358,000	234,280	338,000
AD package price	RMB	64,000	39,000	20,000	-
AD as % to ticker price	%	23%	11%	9%	NA

Note: Ticker price is MSRP before subsidy of its entry-level model; AD package: Enhance autopilot for Tesla, NIO pilot full package for NIO; Xpilot 3.0 for XPEV.

Source: Autohome, HSBC Qianhai Securities

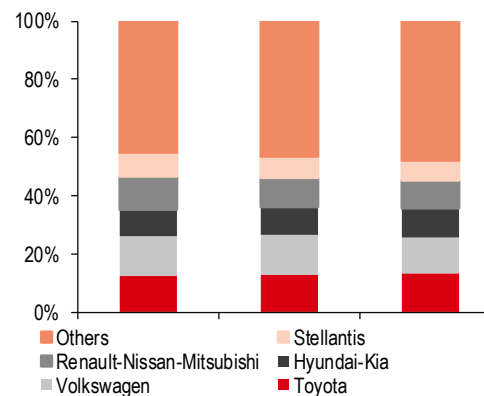
AD will also change the competitive landscape

Smartphone industry is more concentrated



Note: top 5 brands have been gaining share partly due to exit of Huawei and LG
Source: Counterpoint, HSBC Qianhai Securities

OEMs less so vs. smartphone



Source: IHS, HSBC Qianhai Securities

Apple, Toyota, Tesla comparison

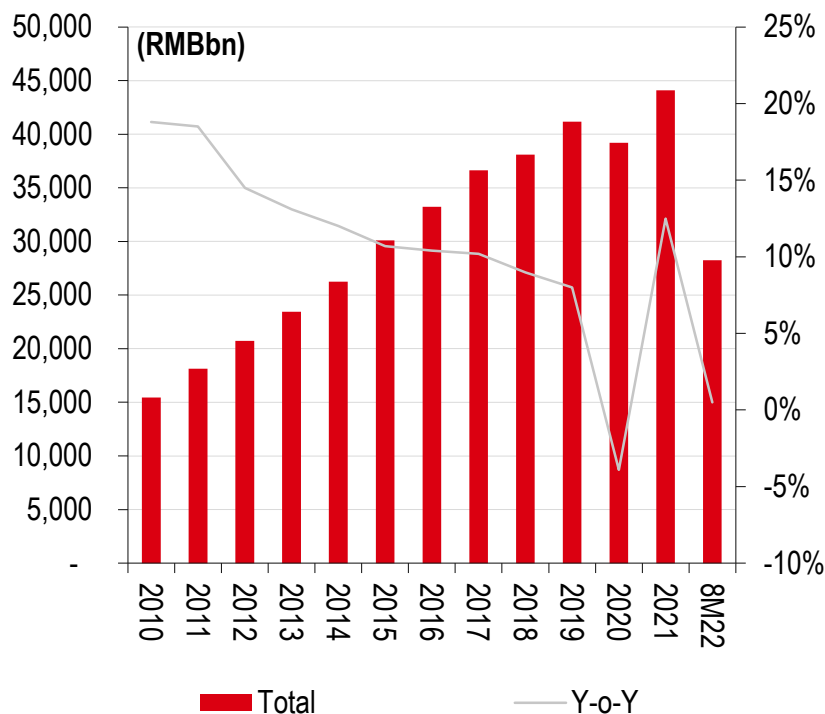
		Apple	Toyota	Tesla
Revenue (2021)	USDm	365,817	271,168	53,823
Volume (2021)	unit	237,900,000	10,495,548	936,172
Average selling price (blended)	USDm	1,538	25,836	57,493
Global market share	%	17%	13%	1%
GPM	%	42%	19%	25%
Avg. GPM in past 7 years	%	39%	19%	21%
OPM	%	30%	10%	12%
Avg. OPM in past 7 years	%	27%	9%	-5%
NPM	%	26%	9%	10%
Avg. NPM in past 7 years	%	22%	8%	-1%
R&D expense (P&L)	USDm	21,914	10,865	2,593
R&D as % of sales	%	6%	4%	5%
Avg. R&D in past 7 years	%	5%	4%	13%

Note: Financial data for Apple is 2021 fiscal year actual number (end at 2021/09/25); for Toyota is 2022 fiscal year Bloomberg consensus (end at 2022 /3/31); for Tesla is 2021 fiscal year actual number (end at 2021/12/31)
Source: Bloomberg, Company data, HSBC Qianhai Securities

Total retail sales of consumer goods

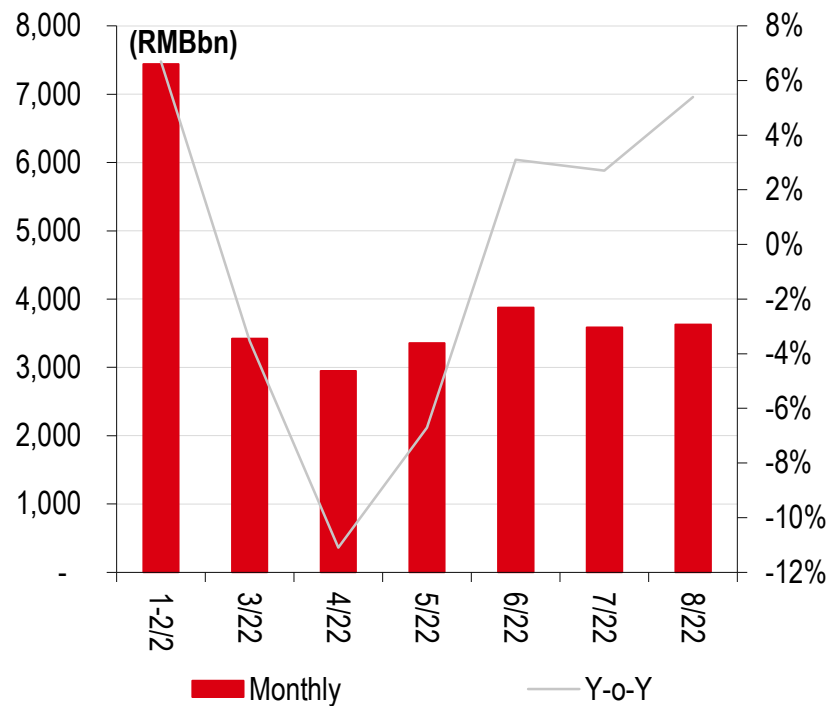
Total retail sales recovery was negatively impacted by COVID resurgence

Retail sales consumption recovery delayed



Source: National Bureau of Statistics, Wind, HSBC Qianhai Securities

Retail sales growth rebounded after 2Q22

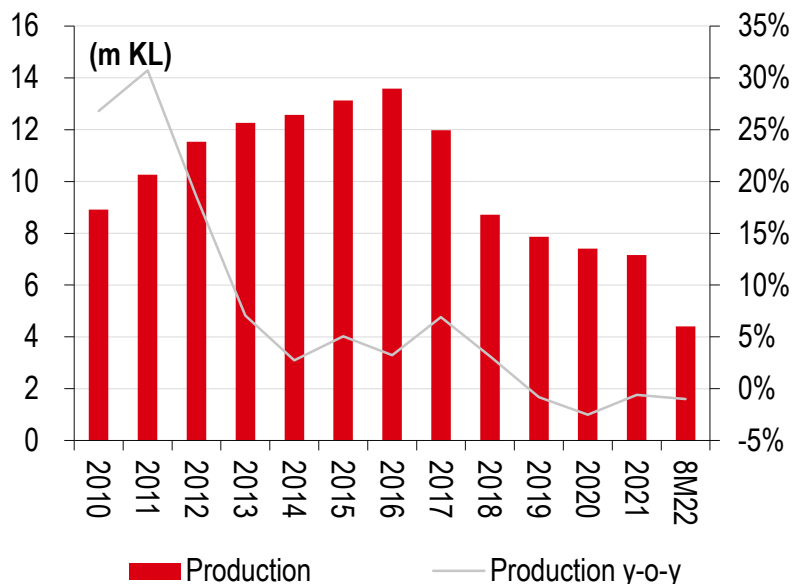


Source: National Bureau of Statistics, Wind, HSBC Qianhai Securities

Baijiu - culture of honour

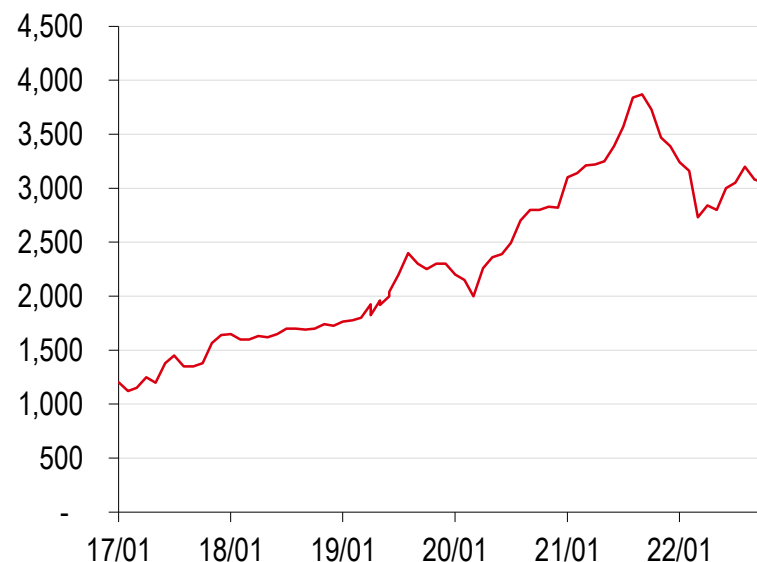
- We see steady demand for super premium baijiu products in China, such as Flying Fairy Moutai, even during the pandemic. The wholesale price of Flying Fairy Moutai has increased from cRMB1,200 per bottle in 2017 to cRMB3,000 per bottle in 2022.
- Chinese baijiu volume decreased by 12% annually while high-end baijiu unit price increased by 9% annually during 2016-21. We prefer Moutai, Laojiao and Yanghe in the segment. Laojiao and Yanghe are strong in management channels which can help the sales in mass market at the same time.

China baijiu annual production in volume



Source: National Bureau of Statistics, Wind, HSBC Qianhai Securities

Wholesale price of Flying Fairy (RMB/bottle)

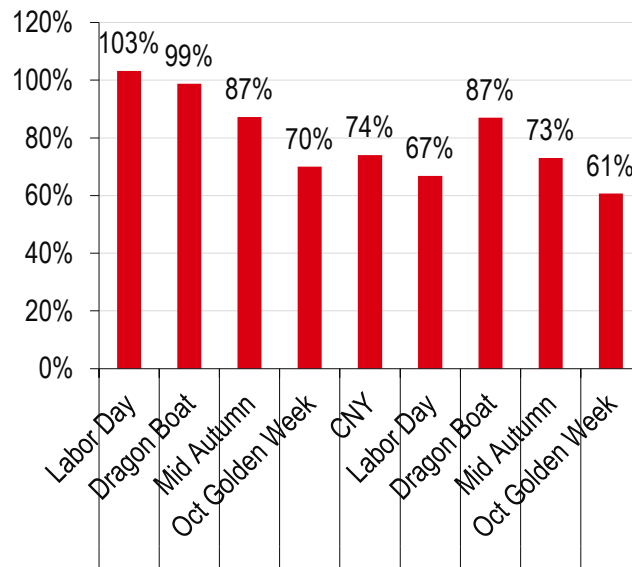


Source: Jinrijiujia, HSBC Qianhai Securities

Tourism - recovery remains weak but in line

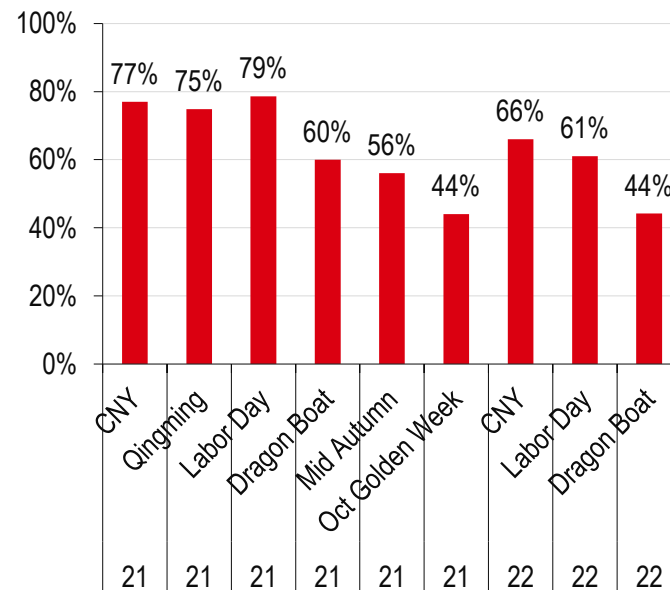
- Daily COVID cases have increased since the National Day holiday; large cities are under pressure to manage returning travelers.
- From the past Golden Weeks in China, we see weak tourism recovery but some highlights in consumer, such as popular surrounding tours with higher per capita spending.
- Winter is the high season for flu and we are cautiously optimistic about the recovery of passenger flows in mainland cities in 4Q22, yet delayed tourism and travelling demand should remain.

Recovery of domestic tourist number (vs the same period in 2019)



Source: NBS, MCT, HSBC Qianhai Securities

Recovery of domestic tourism revenue (vs the same period in 2019)



Source: NBS, MCT, HSBC Qianhai Securities

Cosmetics - COVID-19 accelerated the online shopping trend

- Still, up to now, foreign brands have dominated, but local competitors are gaining market shares, especially in the mass market.
- We believe local leaders could still maintain stable sales growth. They react faster to market changes, are more adept at digital marketing, and now start to eyeing their sub-brands to form a brand solid brand portfolio.
- Proya is our top pick due to the corporate's innovative ability and continuous share gaining story.

Listed cosmetics players' key brands and sub-brands – we expect local leaders' sub-brands (acquired or self-developed) to outperform their core brands

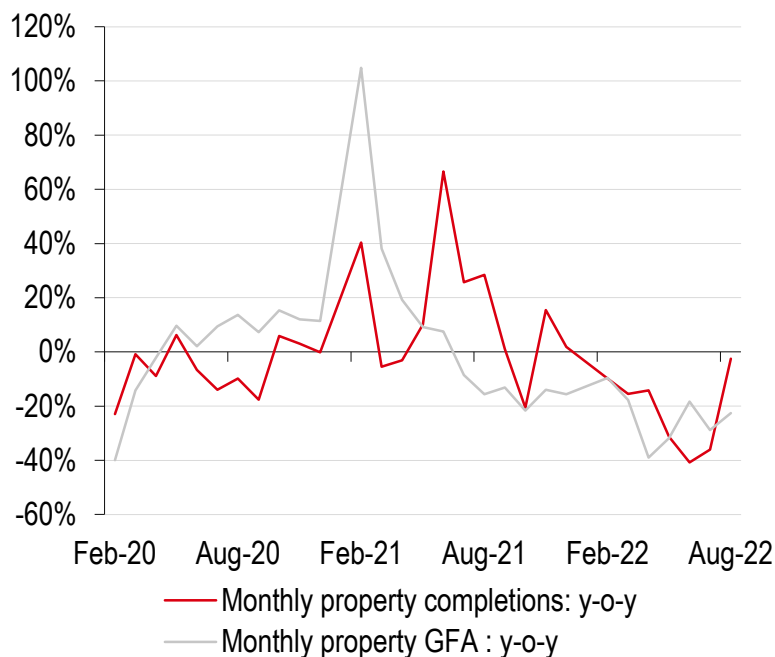
Brand	Category	Retail price band (RMB/bottle)	Brand positioning	2021 sales (RMBbn)	2022e sales (RMBbn)	2022e y-o-y growth
Proya						
- Proya	Skincare	150-400	Skincare brand focusing on young white-collar women	3.83	4.86	27%
- Timage	Makeup	100-250	Middle-end Chinese style makeup brand	0.25	0.54	116%
- Off&Relax	Personal care	100-300	Japanese spring scalp care brand	0.03	0.12	300%
Botanee						
- Winona	Skincare	200-400	Functional skincare brand on sensitive skin	3.85	5.13	33%
- Winona baby	Skincare	100-350	Functional skincare brand on sensitive skin of baby	0.05	0.20	300%
Shanghai Jahwa						
- Liushen	Personal care	30-80	Renowned domestic Florida Water brand	2.17	2.34	8%
- Herborist	Skincare	200-400	High-end Chinese herbal skincare brand	0.78	0.85	9%
- Dr. Yu	Skincare	200-400	Skin barrier recovery skincare brand	0.98	1.08	10%
Syoung						
- Yunifang	Skincare	100-200	Chinese style skincare brand	1.0-1.5	N/A	
- EviDens	Skincare	1000-3000	High-end skincare with combination of Japanese and French beauty care technology	0.13	N/A	
Marubi						
- Marubi	Skincare	300-500	High-end eyes care brand	1.59	N/A	
- Passional Lover	Makeup	100-200	Entry-level luxury makeup brand	0.07	N/A	
Bloomage						
- Biohyalux	Skincare	150-400	HA skincare brand targeting young consumers	1.23	N/A	
- QUADHA	Skincare	300-500	High-end HA skincare brand	0.98	N/A	

Source: Wind, Taobao data, HSBC Qianhai Securities estimates

Furniture - Further policy relaxations are expected; worst is over for home completion

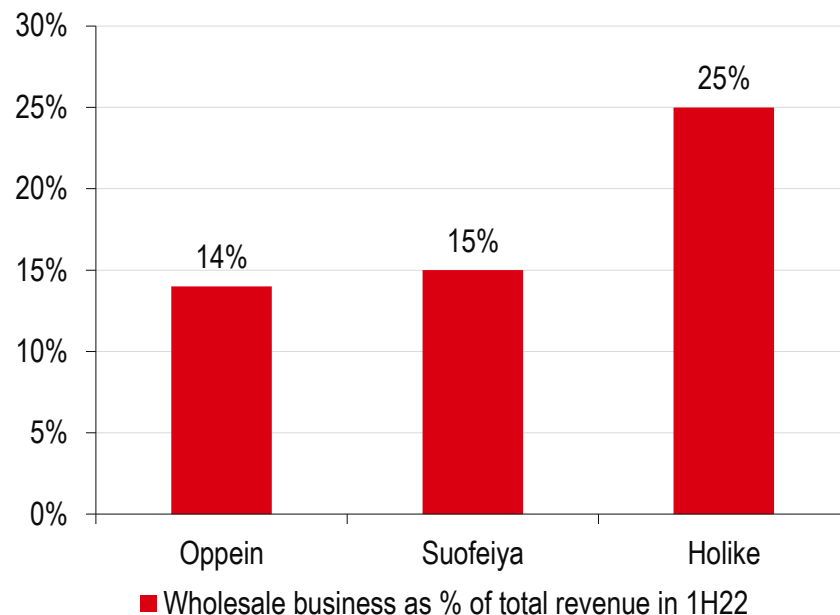
- Property completions in August declined -2.5% y-o-y, from -36% in July and -41% in June, a huge improvement mainly driven by the government's continued efforts in keeping housing delivery, given the number of unfinished houses in the past five years(2017-21) is nearly 6x that of the previous five years(2012-16), we think this new completions wave may last longer than consensus.
- We prefer market leaders that continue to gain market share in custom furniture space. Weapon of choice are Oppein (603833 CH), Suofeiya (002572 CH) and Holike (603898 CH) with Oppein as our top pick.

Monthly property completions y-o-y



Source: Wind, HSBC Qianhai Securities

Wholesale business as % of custom furniture players



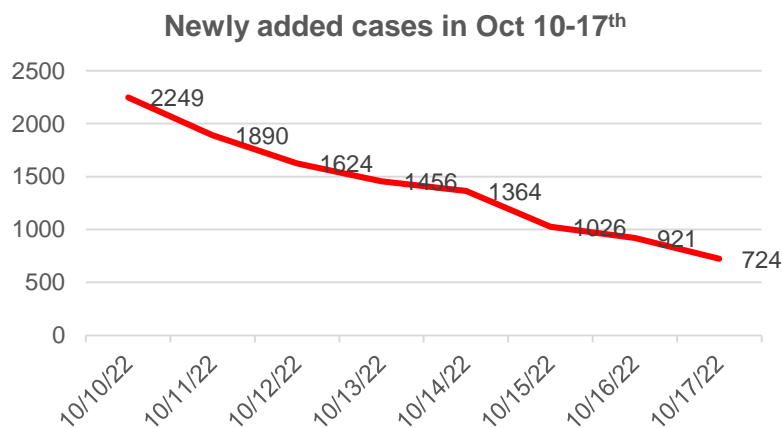
Source: Wind, HSBC Qianhai Securities

COVID-19 Update in China

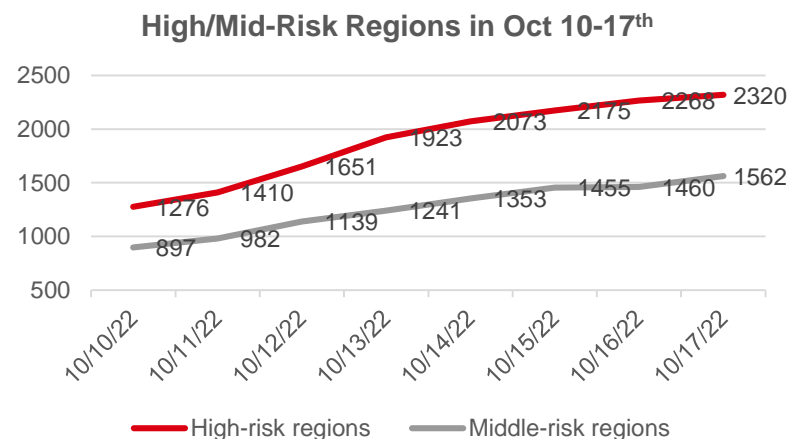
1. Newly Added Cases and Vaccination Rate

2. Therapeutic Toolbox: Oral drugs & Vaccines

- As of Oct 17th, the number of new daily cases decreased to **724** compared with **2,249** on Oct 10 in mainland China.
- The decline is driven by Xin Jiang and Inner Mongolia.
- High risk regions for Covid has increased to **2,320**, increased 52 regions and mainly in Beijing, Tian'jin, Datong etc. Mid-risk regions increased to **1,562**.
- Shenzhen, Beijing and Shanghai have mandated daily testing for inbound travelers.



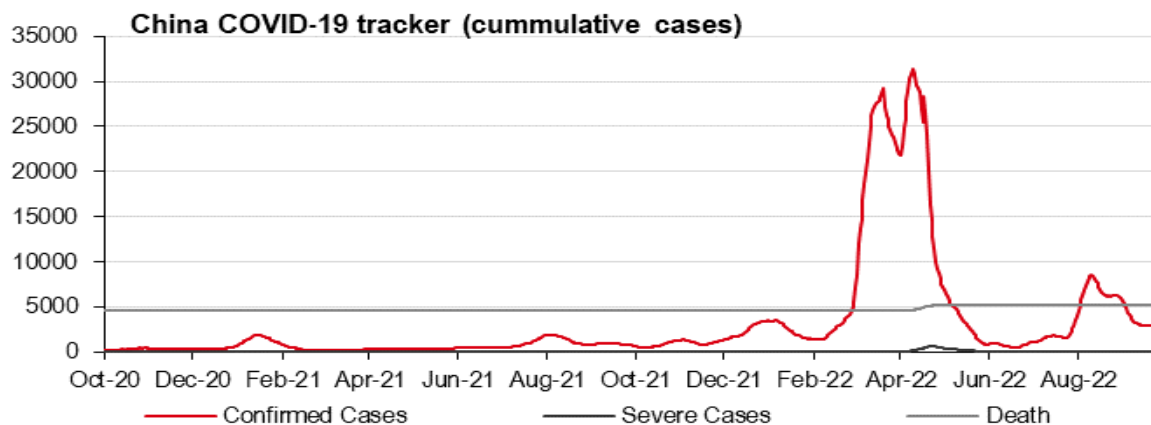
Source: Wind, HSBC Qianhai Securities



Source: Wind, HSBC Qianhai Securities

China COVID-19 update: Confirmed and Death cases

- As of October 16 2022, total cumulative COVID-19 **confirmed cases** in China reported **255,529 cases**, with **5,226** cumulative deaths reported. Death rate is higher than other regions according to the public data.



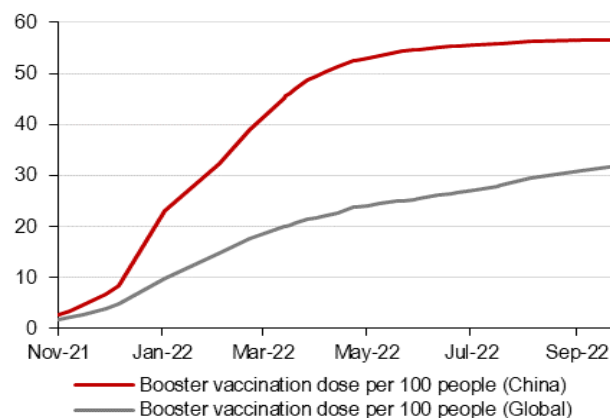
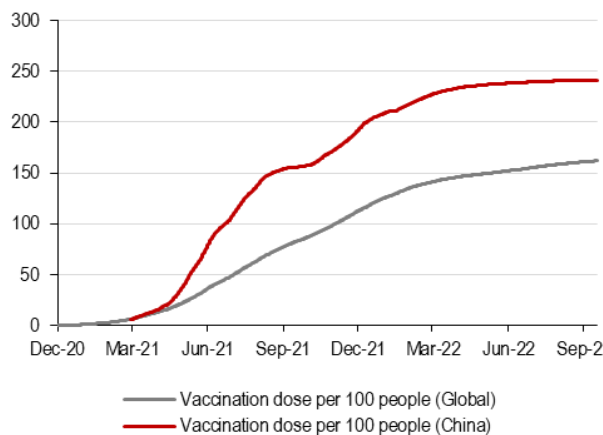
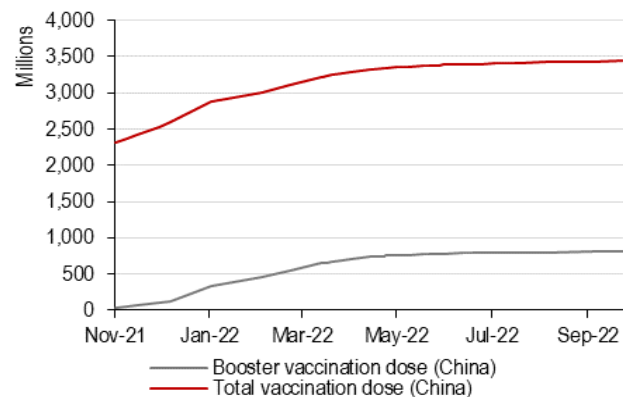
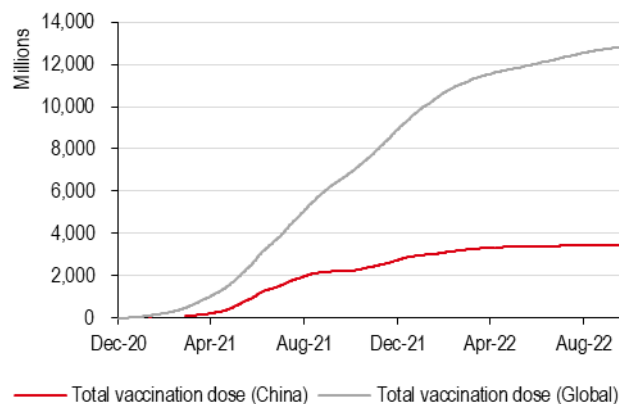
Source: Wind, HSBC Qianhai Securities



Source: Wind, HSBC Qianhai Securities

China COVID-19 Vaccination Rate

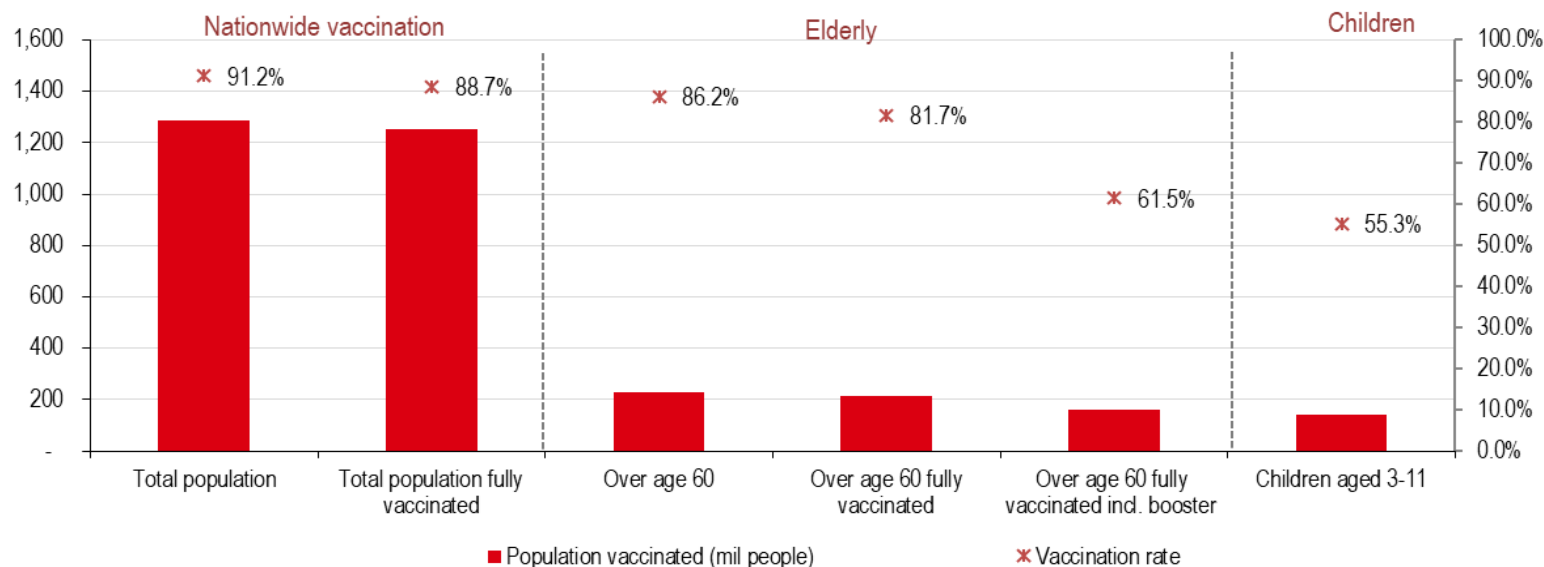
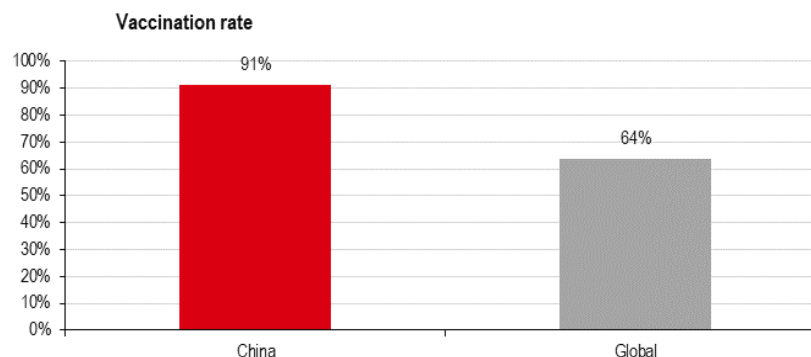
- As of October 11, 2022, China's nationwide COVID-19 vaccination dosage reported **3.4bn doses**, fully vaccinated **1.3bn doses**, and booster vaccine reached **0.8bn doses**.



Source for all exhibits: Wind, HSBC Qianhai Securities

China COVID vaccination update- cont'd

- As of October 11 2022, vaccination rate in China reached **91%** versus 64% globally.
- For elderly aged over 60 years, vaccination rate shows 86.2%, 81.7% and 61.5% for 1st dosage vaccinated, 1st & 2nd dose vaccinated and booster vaccinated.



Mainland China COVID-19 Vaccination Rate - cont'd

- Fully vaccination population ratio is 90.1% in mainland China.

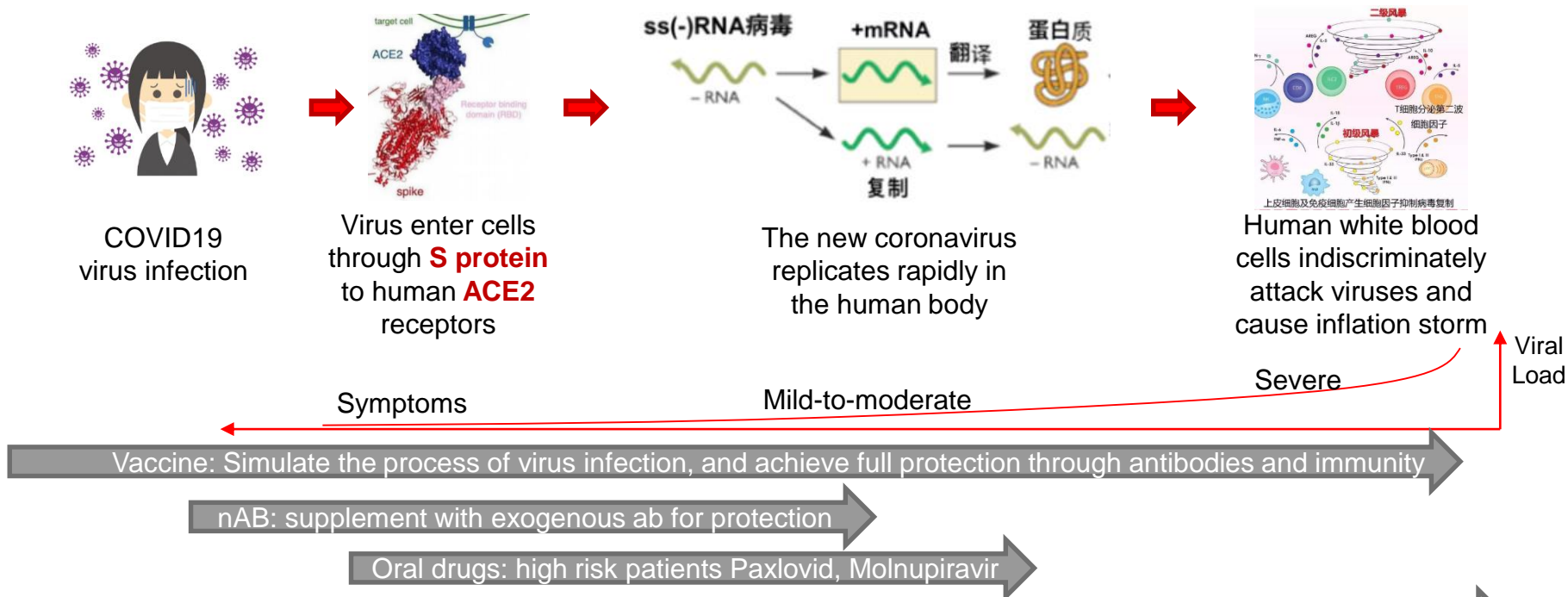
Location	Doses given	Fully vaccinated	% of population
Mainland China	3,440,000,000	1,270,000,000	90.10%
India	2,190,000,000	949,000,000	68.80%
United States	628,000,000	226,000,000	68.70%
Brazil	473,000,000	172,000,000	81.10%
Indonesia	439,000,000	171,000,000	62.50%
Japan	326,000,000	103,000,000	81.80%
Bangladesh	311,000,000	124,000,000	75.00%
Pakistan	298,000,000	132,000,000	59.70%
Vietnam	260,000,000	84,400,000	86.70%
Mexico	236,000,000	81,800,000	63.50%
Germany	187,000,000	63,500,000	76.30%
Russia	179,000,000	77,300,000	53.70%
Philippines	170,000,000	73,100,000	66.70%
Iran	155,000,000	58,500,000	69.60%
Turkey	152,000,000	53,200,000	63.00%
United Kingdom	151,000,000	50,700,000	75.50%
France	150,000,000	53,100,000	78.80%
Thailand	143,000,000	53,500,000	76.60%
Italy	141,000,000	48,000,000	80.50%
South Korea	129,000,000	44,700,000	86.30%
Argentina	110,000,000	37,800,000	83.30%
Spain	108,000,000	40,700,000	85.90%
Egypt	98,900,000	39,600,000	38.70%
Canada	91,200,000	31,600,000	83.20%
Colombia	88,700,000	36,700,000	72.10%
Peru	84,700,000	28,300,000	85.70%
Ethiopia	82,200,000	36,700,000	31.90%
Nigeria	80,600,000	42,100,000	20.40%
Malaysia	72,200,000	27,500,000	85.00%
Saudi Arabia	67,800,000	25,300,000	72.60%

Location	Doses given	Fully vaccinated	% of population fully vaccinated
Uzbekistan	65,300,000	16,500,000	48.20%
Myanmar (Burma)	64,500,000	27,500,000	50.60%
Chile	62,400,000	17,700,000	92.50%
Taiwan	62,400,000	20,400,000	86.60%
Australia	58,500,000	21,800,000	84.80%
Nepal	58,100,000	22,700,000	77.80%
Poland	57,100,000	22,600,000	59.50%
Morocco	55,400,000	23,500,000	63.70%
Cambodia	44,100,000	14,500,000	87.00%
Cuba	42,200,000	10,000,000	88.20%
Sri Lanka	40,000,000	14,700,000	67.00%
Venezuela	37,900,000	14,300,000	50.20%
South Africa	37,700,000	19,400,000	32.80%
Ecuador	37,300,000	14,100,000	79.90%
Netherlands	36,100,000	12,000,000	68.60%
Uganda	32,100,000	12,800,000	27.90%
Belgium	28,300,000	9,160,000	79.30%
Mozambique	27,900,000	13,100,000	42.00%
Tanzania	26,200,000	19,900,000	33.40%
Rwanda	26,100,000	8,950,000	69.10%
Portugal	25,600,000	8,920,000	86.60%
United Arab	24,900,000	9,790,000	99.00%
Sweden	24,300,000	7,640,000	73.70%
Kazakhstan	23,900,000	10,600,000	56.50%
Angola	22,700,000	7,810,000	23.80%
Ghana	22,700,000	8,670,000	27.90%
Greece	21,500,000	7,640,000	71.30%
Kenya	21,500,000	10,100,000	18.90%
Guatemala	19,700,000	6,920,000	41.10%
Hong Kong	19,600,000	6,720,000	89.80%

COVID-19 Therapeutic Toolbox

Oral drugs, neutralised antibody and vaccines are key to controlling the COVID-19 pandemic

- Controlling the COVID-19 pandemic requires a combination of interventions at all stages. Current evidence shows that it is difficult to control the COVID-19 pandemic with a single method. Only by controlling the whole process from prevention (vaccine, isolation, masks, etc.) - diagnosis - treatment (antibodies, small molecule drugs, etc.) can the new crown virus pandemic be effectively controlled.



China COVID Oral Drugs: Most Economic Method

- Four oral drugs are approved in the US market. Pfizer's Paxlovid (3CL) is **89%** effective in reducing Covid-19-associated hospitalization or death. Molnupiravir (RdRp) developed by Merck reduced the rate of hospitalization/ death by **30%** in mild-to-moderate COVID.
- In China, **Azvudine** developed by Geniune Biotech firstly got approval from NMPA in **July 2022**. No clinical data is disclosed.
- Simcere** has launched phase 3 trials in 3CL, which may have small group data readout in 1-2 months, and expected by the company to complete the trial in 1H23.

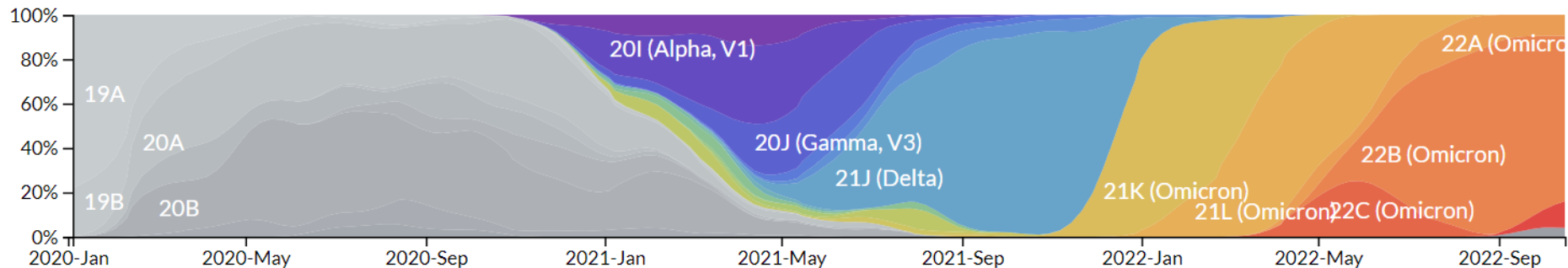
Company	Ticker	Drug candidates	Mechanism	Target	Stage	Date of Approval/NDA	Prize (Rmb per course)
Approved							
Pfizer	PFE.N	Paxlovid (Nirmatrelvir with Ritonavi)	Oral	3CL	Approved by US, CN	2021/12/22	2,300
Gilead	GILD.O	Veklury (Remdesivir)	I.V.	RdRp	Approved by US	2020/10/22	16,642
Merck	MRK.N	Lagevrio (Molnupiravir)	Oral	NHC	Approved by US, EU	2021/12/23	5,589
Lilly/Incyte	LLY.N	Baricitinib	Oral	JAK2,JAK1	Approved by US	2021/4/23	1,173
Regeneron/Roche	REGN.O/ROG.SIX	Casirivimab + Imdevimab	I.V.	Neutralizing antibody	Approved by US	2021/7/19	14,968
Lilly/Junshi	LLY.N/1877.HK	Bamlanivimab + Etesivimab	I.V.	Neutralizing antibody	Approved by US	2021/12/3	14,940
GSK	GSK.N	Sotrovimab	I.V.	Neutralizing antibody	Approved by US	2022/4/22	14,940
BRIL	2137.HK	BRIL196, BRIL198	I.V.	Neutralizing antibody	Approved by CN	2021/12/8	<10,000
Genuine Biotech	H01838	Azvudine	Oral	RdRp/Mf	Approved in CN	2022/7/26	540
In Clinical Stage							
Shionogi	4507.T	Ensirelvir	Oral	3CL	Phase 3 (NDA in JP)	NDA Feb-2022	N.A.
Kintor Biotech	9939.HK	Pruxelutamide	Oral	AR	Phase 3 (EUA in PAR)	2021/7/16	N.A.
Junshi Biotech	1877.HK	W116	Oral	RdRp	Phase 3 (EUA in UZB)	NDA May-2022	1460
Simcere	2096.HK	SIM4017	Oral	3CL	Phase 3 in CN	Phase 3 in June-2022	N.A.
Frontier Biotech	688221.CH	FB2001	Oral	3CL	Phase 2/3 in CN	Phase 2 July-2022	N.A.
Shenzhou Cell	688520.CH	SCTA01C, SCTA01A	I.V.	Neutralizing antibody	Phase 2/3 in CN	Phase 2 July-2022	N.A.
Mabwell Biotech	688062.CH	MW33	I.V.	Neutralizing antibody	Phase 2/3 in CN	Phase 2 Feb-2022	N.A.
Danxu Bio/Beigene	BGNE.O	DXP 593,DXP604	I.V.	Neutralizing antibody	Phase 2 in CN	Phase 2 May-2022	N.A.
Kexing Biopharm	688136.CH	SHEN26	Oral	RdRp	Phase 1 in CN	IND July-2022	N.A.
Asclepis Pharma	1672.HK	ASC10	Oral	RdRp	Phase 1 in CN	IND Aug-2022	N.A.
Zhongshegn Pharma	002317.CH	RAY003	Oral	3CL	Phase 1 in CN	IND Aug-2022	N.A.
Guangshengtang	300436.CH	NA	Oral	3CL	Phase 1 in CN	IND Sep-2022	N.A.

Source: CDE, Pharmacube, company website, company news, HSBC Qianhai Securities

Omicron Stain is the Main Strain Now

- From the earliest wild new coronaviruses, to British strains, South African strains, Brazilian strains and Indian strains. Four main mutant strains spread rapidly in many countries around the world since their discovery: British mutant strain B.1.1.7 mainly spread to Europe and North America; South African mutant strain B.1.315 mainly spread to North America, Europe and Southeast Asia; Brazil mutant strain The strain P.1 mainly spread to North America and Europe; the Indian mutant strain B.1.617 mainly spread to North America and Europe, and also affected neighboring Southeast Asian countries.
- At present, the Omicron strain has become the main infectious strain in the world.

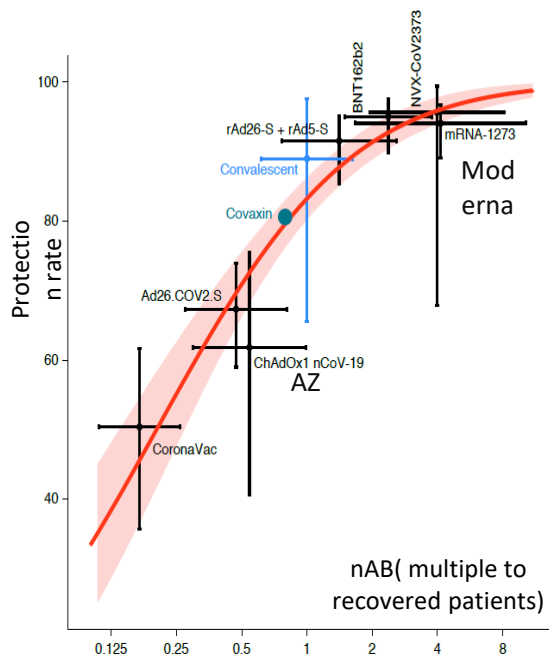
Frequencies (colored by Clade)



Source: Pharmacube, HSBC Qianhai Securities

The Protection Rate of COVID-19 vaccine is positively correlated with the level of neutralizing antibodies

- Among the different technologies, the vaccines of the **mRNA**, including Modern and BioNtech/Pfizer, have higher levels of neutralizing antibodies and protection rates. **The recombinant protein** technology vaccines include Novavax, Clover, Zhifei Bio, etc. based on different adjuvant technologies, and the levels of neutralizing antibodies and protection rates are different. One-shot adenovirus vaccine including CanSino, the protection rate was 68.83% after 14 days, 65.28% after 28 days, and the two-shot adenovirus vaccine AstraZeneca and Gamaleya protection rates were 62% and 91%, respectively. **Inactivated vaccine** neutralizing antibody levels and protection rates are lower in various technical routes



company	Technology	nAB testing	Vaccine nAB titers	Serum nAB titers in recovered patients	Ratio	Protection Rate
Novavax	subunit-S protein	MN IC ₅₀ >99%	3906	983	3.97	89%
Cloverbio	Subunit-S protein	CPE (MN ₅₀)	30ug:3948; 9ug:1810	717	2.5-5.5	-
Zhifei	Subunit-RBD	CPE	3 doses : 102.5	51.2	2	81.76%
Moderna	mRNA-prefusion S protein	PRNT80	654.3	158.3	4.13	94%
BioNTech/Pfizer	mRNA-prefusion S protein	NT50	361	94	3.84	95%
CureVac	mRNA-prefusion S protein	MN50	113	113	1	48%
Gamaleya	Ad26/5 Virus- S protein	MNtAb	49-25	32-96	1.49	91%
J&J	Ad26/Virus- S protein	wtVNA (IC ₅₀)	1 dose : 321; 2 doses : 827	522	0.6-1.6	66%
AZ	Ad virus- Sprotein	PseudoNA	450.9	400	1.12	62%
Cansino	Ad virus5- Sprotein	-	-	-	-	65%
Bharat Biotech	Inactivate	PRNT50; MNT50	197.0/160.1	similar	0.8-1.0	-
Kexing	Inactivate	EC50	27.6	30	0.92	50%
Sinovac	Inactivate	NtAb	Wuhan Bio 247.0/Beijing Bio282.7	-	-	79%

China COVID vaccination development

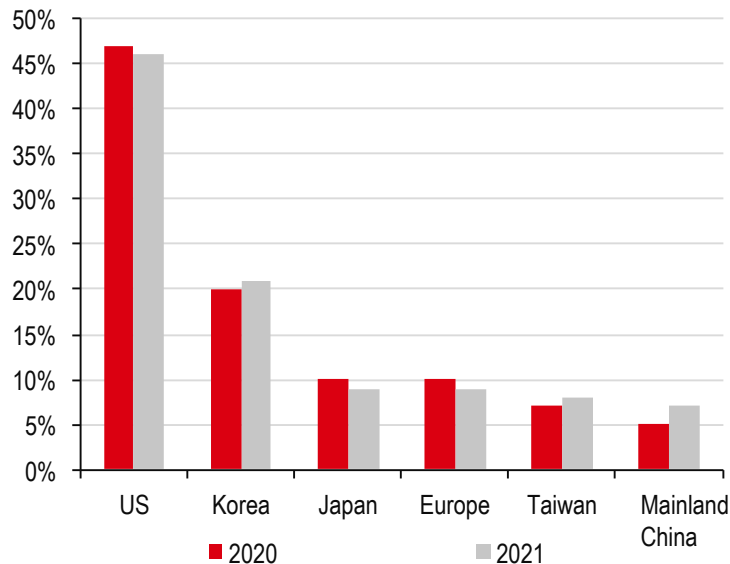
- 6 Covid19 vaccines are approved in China, yet none of them applied mRNA technology.
- 11 mRNA vaccines are developed in clinical stage. CSPC is expected to have phase two data interim result in Oct.

Company	Ticker	Vaccine candidates	Mechanism	Stage	Date of Approval/NDA	Sales in 2021	Capacity (doses)	No. of Injections
Approved								
Pfizer/BioNTech	PFE.N/BNTX.N	BNT162b/Comirnaty	mRNA	Approved by US	11/12/2020 (EUA)	USD36.78bn	4bn	2
Moderna	MRNA.N	mRNA-1273/Spikevax	mRNA	Approved by US	18/12/2020 (EUA)	USD17.7bn	2-3bn	2
JNJ	JNJ.N	Jcovden	Viral vector vaccine	Approved by US	24/2/2021 (EUA)	USD2.39bn	0.5bn	1
AstraZeneca	AZN.N	Covishield	Viral vector vaccine	Approved by US	22/1/2021 (EUA)	USD3.98bn	2.1bn	2
Sinopharm	N.A.	BBIBP-CorV	Inactivated virus	Approved by CN	2020/12/30	N.A.	7-8bn	2
Sinovac	N.A.	CoronaVac	Inactivated virus	Approved by CN	2021/2/5	RMB125bn	2bn	2
Casino	6185.HK	克威莎/Convidecia	Viral vector vaccine	Approved by CN	2021/2/25	RMB4.3bn	0.5-0.7bn	1
Zhifei	300122.SZ	智克威得/RBD-Dimer	Subunit vaccines	Approved by CN	2021/3/15	RMB8.4bn	0.3-0.6bn	3
Kangtai	300601.SZ	可维克/KCONVAC	Inactivated virus	Approved by CN	2021/5/14	RMB1.1bn	0.2bn	2
Livzon	1513.HK	V-01	Subunit vaccines	Approved by CN (Booster)	2022/9/15	N.A.	1.5bn	-
In Clinical Stage								
Sinopharm - BJ	N.A.	Omicron vaccine	Inactivated virus	Phase 3 in CN	Phase 3 May-2022	-	-	-
Sinovac	N.A.	Omicron vaccine	Inactivated virus	Phase 2/3 in CN	Phase 2/3 Jun-2022	-	-	-
Sinopharm - WH	N.A.	Omicron vaccine	Inactivated virus	Phase 3 in CN HK	Phase 3 May-2022	-	-	-
AIM	N.A.	-	Inactivated virus	Phase 2 in CN	Phase 2 Oct-2021	-	-	-
Huaxi/Westvacpharma	N.A.	WSK-V101	Subunit vaccines	Phase 3 in CN	Phase 3 May-2021	-	-	-
GazoBiotech	N.A.	-	Subunit vaccines	Phase 3 in CN	Phase 3 Sep-2021	-	-	-
Recrio	2179.HK	ReCOV	Subunit vaccines	Phase 3 in CN	Phase 3 Jan-2022	-	-	-
Shenzhou Cell	688520.SH	SCTV01C	Subunit vaccines	Phase 3 in CN	Phase 3 May-2022	-	-	-
Shenzhou Cell	688520.SH	SCTV01E	Subunit vaccines	Phase 3 in CN	Phase 3 May-2022	-	-	-
Clover	2197.HK	SCB-2019	Subunit vaccines	Phase 2/3 in CN	Phase 2/3 Aug-2021	-	-	-
Walvax/Zerun	300142.SZ	202-CoV	Subunit vaccines	Phase 2 in CN	Phase 2 Jul-2021	-	-	-
Livzon	1513.HK	V-01-351/V-01D	Subunit vaccines	Phase 2 in CN	Phase 2 Jan-2022	-	-	-
Walvax/Zerun	300142.SZ	ZR202a-CoV	Subunit vaccines	Phase 1/2 in CN	Phase 1/2 Jun-2022	-	-	-
Clover	2197.HK	SBC-2020S	Subunit vaccines	Phase 1 in CN	Phase 1 May-2022	-	-	-
Yisheng	N.A.	YS-SC2-010	Subunit vaccines	Phase 1 in CN	Phase 1 Oct-2021	-	-	-
Institute of Biophysics	N.A.	-	Subunit vaccines	Phase 1 in CN	Phase 1 Apr-2021	-	-	-
Walvax	300142.SZ	AdC68-19S	Viral vector vaccine	Phase 2 in CN	Phase 2 Jul-2021	-	-	-
Hualan	002007.SZ	-	Viral vector vaccine	Phase 1 in CN	IND Jul-2021	-	-	-
Wantai/HK University	603392.SH	dNS1-RBD	flu virus vector vaccine	Phase 2/3 in CN	Phase 2/3 Feb-2022	-	-	-
Sianxin	N.A.	CV01	PIV-5 vector vaccine	Phase 1 in CN	Phase 1 Jun-2022	-	-	-
Walvax/Abogenbio	300142.SZ	ARCoVax	mRNA	Phase 3 in CN	Phase 3 Jul-2021	-	-	-
CSPC	1093.HK	SYS6006	mRNA	Phase 2 in CN	Phase 2/3 Jun-2022	-	-	-
Everest	1952.HK	PTX-COVID19-B	mRNA	Phase 2/3 in CN	Phase 2/3 Jul-2021	-	-	-
Fosun/BioNTech	600196.SH	BNT162b/Comirnaty	mRNA	Phase 2 in CN	Phase 2 Dec-2020	-	-	-
RiboBio	N.A.	-	mRNA	Phase 2 in CN	Phase 2 Feb-2022	-	-	-
AIM	N.A.	LVRNA009	mRNA	Phase 2 in CN	Phase 2 Mar-2022	-	-	-
Stemirna	N.A.	SW-BIC-213	mRNA	Phase 1 in CN	Phase 1 Mar-2021	-	-	-
Cansino	6185.HK	-	mRNA	Phase 1 in CN	IND Apr-2022	-	-	-
Walvax/RNACURE	300142.SZ	RQ3013	mRNA	Phase 1 in CN	Phase 1 Jun-2022	-	-	-
Recrio	2179.HK	RH109	mRNA	Phase 1 in CN	Phase 1 Jul-2022	-	-	-
Stemirna	N.A.	DF104B1	mRNA	IND approval in CN	IND Apr-2022	-	-	-
Abogenbio	N.A.	Omicron vaccine	mRNA	IND filed in CN	-	-	-	-
		ABO-CoV.617.2	mRNA	Pre-clinical in CN	-	-	-	-
		ABO-1009-DP	mRNA	Pre-clinical in CN	-	-	-	-
Inovio/Kangtai	300601.SZ	INO-4800	DNA	Phase 2 in CN	Phase 2 Dec-2020	-	-	-
Northland	N.A.	Y003	DNA	Pre-clinical in CN	-	-	-	-

Source: CDE, Pharmacube, company website, company news, HSBC Qianhai Securities

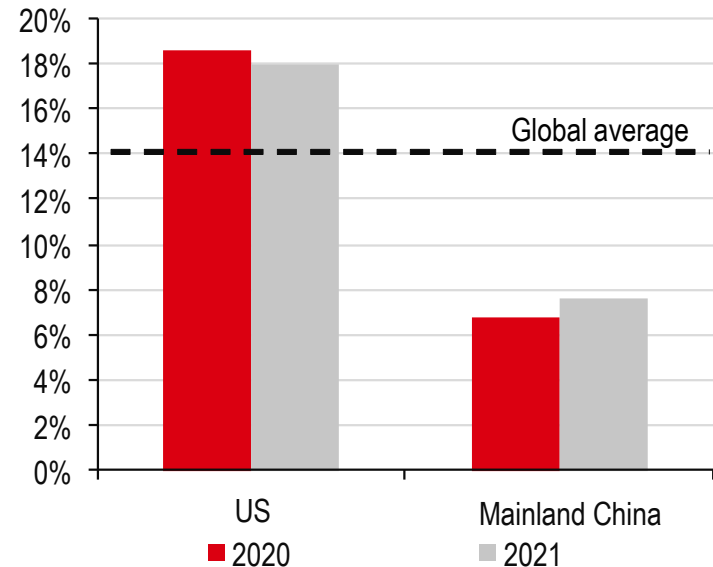
Current status of US and mainland China semiconductor development

US-based firms still have nearly half of the global semiconductor market share, while mainland China-based firms' shares gradually catch up



Source: SIA, HSBC Qianhai Securities

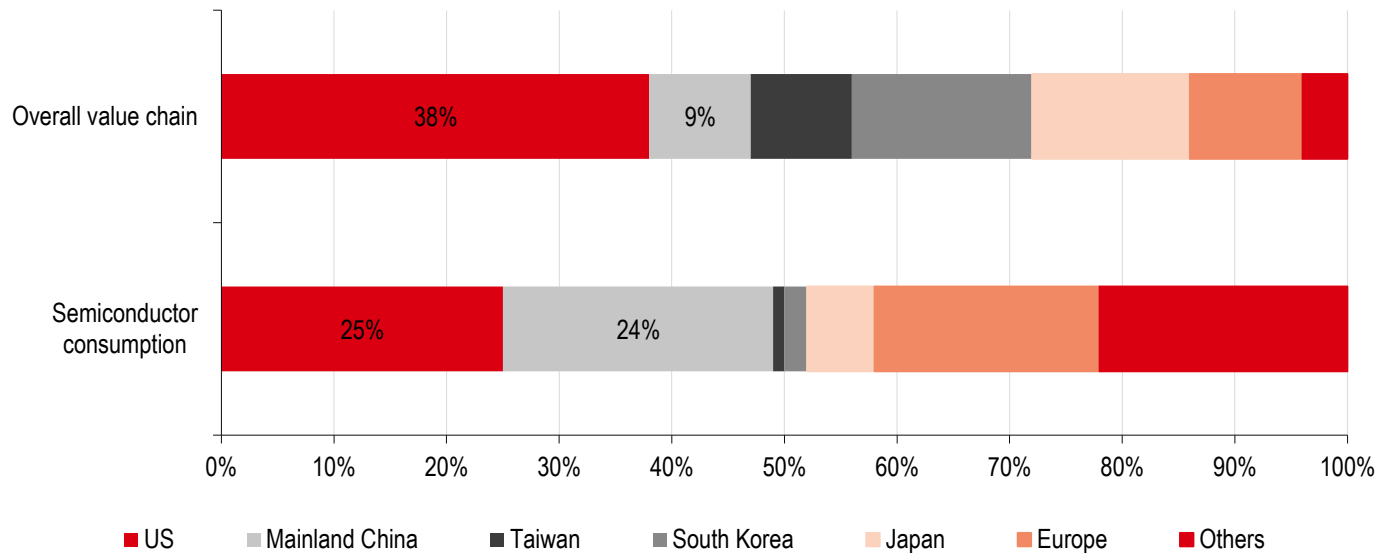
R&D Expenditures as % of sales: US semi industry's R&D spending leads the global average, and mainland China's still has much room to grow



Source: SIA, HSBC Qianhai Securities

Current status of US and mainland China semiconductor development

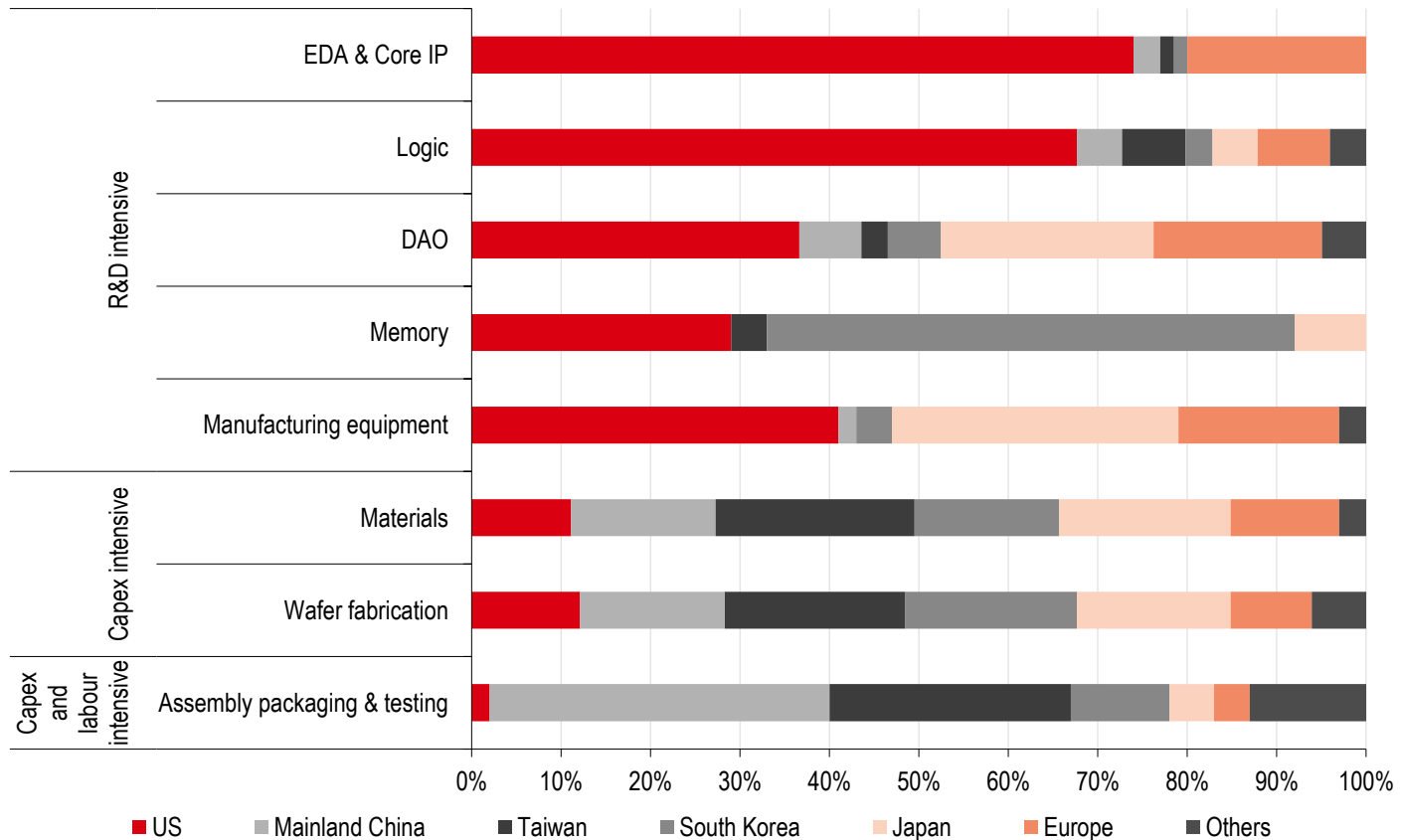
Mainland China consumes 24% of global semiconductors while only 9% is produced by mainland China's firms. US consumes similar shares of semiconductors as mainland China, but accounts for 38% of total production



Source: SIA, HSBC Qianhai Securities

Current status of US and mainland China semiconductor development

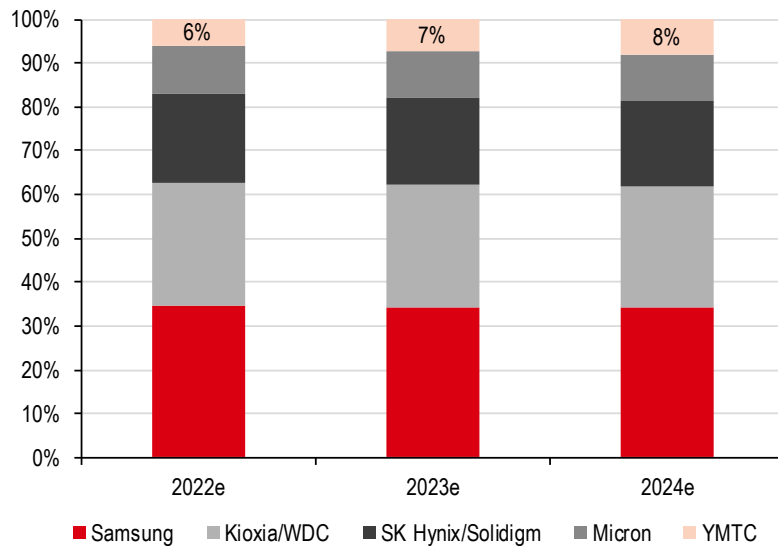
US has higher (some are dominate) share in R&D intensive segments while mainland China's share is higher in capex and labour intensive segments



Source: SIA, HSBC Qianhai Securities

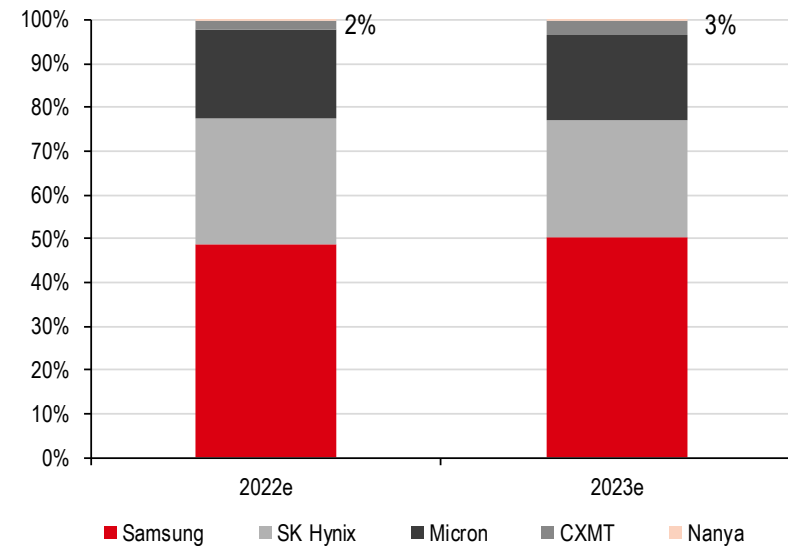
US new restrictions impact

If no recent restrictions, YMTC's market share in NAND flash may grow by 1ppt every year during 2022-24e



Source: TrendForce, HSBC Qianhai Securities

If no recent restrictions, CXMT's market share in DRAM (LPDDR4) may grow from 2% in 2022e to 3% in 2023e



Source: TrendForce, HSBC Qianhai Securities

US new restrictions impact

NAND flash suppliers technology roadmap:

YMTC may introduce its next-generation 2xx-layer product in 2023e, if no restrictions

Vendors	2020		2021		2022		2023	
	1H	2H	1H	2H	1H	2H	1H	2H
Samsung	128L★				176L			236L
SK Hynix	128L★				176L			238L
Solidigm	96L	144L★					192L	
Kioxia	96L			112L★			162L	
Micron	96L	128L		176L★			232L	
YMTC	64L		128L★					2XXL

★ Indicates the supplier's current primary technology

Source: TrendForce, Company data, HSBC Qianhai Securities

Valuation and risks

Valuation		Risks
YTO Express 600233 CH Buy	Current price: RMB20.15 Target price: RMB26.60 Upside: 32%	Investment rationale: We are optimistic about YTO's ASP increase and business volume growth. Valuation: We use an EV/EBITDA multiple to value the stock based on 2023e. We apply our target EV/EBITDA of 11x (in line with the historical mean) to our 2023e EBITDA estimate of RMB7.44bn and arrive at a target price of RMB26.60. Our target price implies c32% upside from current levels; accordingly, we have a Buy rating on the stock.
	David Wu* (S1700518110001) david.wu@hsbcqh.com.cn +86 21 6081 3802	
Xingyu Auto 601799 CH Buy	Current price: RMB132.50 Target price: RMB274.00 Upside: 107%	Investment rationale: In addition to improving its technology, Xingyu might also be able to expand its market share given its competitive advantages, in our view. Valuation: We use a DCF model to value Xingyu. We employ a WACC of 6.4% and a perpetual growth rate of 2% (risk free rate of 2.5%, China stock market premium of 6% for pure A shares, beta of 0.88, COE of 7.8%, cost of debt of 4%, tax rate of 16.7%, after-tax cost of debt of 3.3%, long-term debt/equity ratio of 30%). Based on the net present value of 2020-30e free cash flow, we derive a target price of RMB274. Our target price implies 107% upside from current levels; accordingly, we have a Buy rating on the stock.
	Yuqian Ding* (S1700519090001) yuqian.ding@hsbcqh.com.cn +86 10 5795 2350	
Lead Intelligent 300450 CH Buy	Current price: RMB50.22 Target price: RMB129.00 Upside: 157%	Investment rationale: We believe Lead, as a global leader in LIB equipment, should benefit from the LIB capacity upcycle in the coming years. Valuation: We use a DCF model to value Lead. The key assumptions in our model include: a cost of equity of 7.8%, derived from a risk-free rate of 2.0%, a market risk premium of 6.0%, a beta of 0.97, and an after-tax cost of debt of 4.3%; operating cash flow (before changes in working capital) growing at a CAGR of 34% in 2020-29e; capex of around RMB600m, RMB600m, and RMB100m, in 2022e, 2023e, and 2024e, respectively, and cRMB100m per year over 2025-29e; and a terminal growth rate of 2%. Our target price of RMB129.00 implies c157% upside from current from current levels; accordingly, we have a Buy rating on the stock.
	Corey Chan* (S1700518100001) corey.chan@hsbcqh.com.cn +86 21 6081 3801	
Jianghai Capacitor 002484 CH Buy	Current price: RMB26.84 Target price: RMB31.40 Upside: 17%	Investment rationale: We are positive on Jianghai's film capacitor and super capacitor business. Valuation: We use a DCF model to value the stock, with key assumptions including: a risk-free rate of 2.0%, a market risk premium of 6.0%, and a beta of 0.85, cost of equity of 7.1%, pre-tax cost of debt to be 5.0%, and terminal growth rate of 2%. We use our 2022e debt-to-capital ratio of 8% as our long-term debt-to-capital ratio. We assume our operating cash flow CAGR (before changes in working capital) to be 17.4% in 2021-29e, reflecting stable demand. We forecast capex of RMB370m in 2022e, 2023e, and 2024e. We forecast 2025e-29e capex to gradually decrease from RMB191m in 2025e to RMB125m in 2029e. Our target price of RMB31.40 implies c17% upside from current levels. Considering the upside brought by its super capacitor business, we have a Buy rating on the stock.
	Dun Wang* (S1700519060002) dun.wang@hsbcqh.com.cn +86 21 6081 3827	
		Key downside risks <ul style="list-style-type: none"> • Above-expectations price competition in the off-season of 3Q22e • Weaker-than-expected performance of the air freight forwarding business • Weaker-than-expected cost control
		Key downside risks <ul style="list-style-type: none"> • Weaker-than-expected order wins from new customers and product mix improvement • Continuing auto chip shortage • Lower-than-expected China car market volumes
		Key downside risks <ul style="list-style-type: none"> • Weaker-than-expected LIB capacity cycle • Weaker-than-expected ASPs on deteriorating pricing power • Higher-than-expected receivable provisions • Weaker-than-expected margin on intense competition
		Key downside risks <ul style="list-style-type: none"> • Weaker-than-expected demand for EVs globally • Stronger-than-expected raw material cost inflation • Weaker-than-expected solar and wind installations could negatively affect our earnings estimates • Uncertainties related to the ramp-up of new capacities and new business lines • Major shareholder reducing shares.

Valuation and risks

Valuation		Risks
Luzhou Laojiao 000568 CH Buy	<p>Current price: RMB175.98</p> <p>Target price: RMB280.00</p> <p>Upside: 59%</p> <p>Investment rationale: We believe Luzhou Laojiao could benefit from its consistent premiumisation of products.</p> <p>Valuation: We use a DCF model to value the stock, with key assumptions including a WACC of 8.9% and a perpetual growth rate of 2.0% (after-tax cost of debt of 3.6%, cost of equity of 8.9%, risk free rate of 2%, market risk premium of 6%, beta of 1.15, and optimal capital structure of 0%). We derive our target price of RMB280. Our target price implies c59% upside from current levels; accordingly, we have a Buy rating on the stock.</p> <p>Kathy Song* (S1700517120001) kathy.l.h.song@hsbcqh.com.cn +86 21 6081 3807</p>	<p>Key downside risks</p> <ul style="list-style-type: none"> • Macroeconomic slowdown • Changes in consumer preferences • Policy risk • Food safety risk • Sales of high-end products below expectations
Botanee 300957 CH Buy	<p>Current price: RMB142.99</p> <p>Target price: RMB239.00</p> <p>Upside: 67%</p> <p>Investment rationale: We believe Botanee has lots of growth potential and is gaining market share in the skincare industry by expanding its offerings in dermocosmetics.</p> <p>Valuation: We use a DCF model to value the stock based on our earnings estimates. Based on our key assumptions of a risk-free rate of 2.0%, a COE of 7.4%, a beta of 0.90, a WACC of 7.4% and a terminal growth rate of 3.0%, we derive our target price of RMB239.00, implying 2023e PE of 66x and 2023e PEG of 2.1. Our target price implies c67% upside from current levels; accordingly, we have a Buy rating on the stock.</p> <p>Joseph Zhou* (S1700520040002) joseph.yj.zhou@hsbcqh.com.cn +86 755 8898 3401</p>	<p>Key downside risks</p> <ul style="list-style-type: none"> • Risks of intensified industry competition • Channel risk • Concentrated risk of sales platforms • Brand concentration risk • Risk of product quality control
Petpal 300673 CH Buy	<p>Current price: RMB17.97</p> <p>Target price: RMB25.60</p> <p>Upside: 42%</p> <p>Investment rationale: We are positive on its earnings improvement in 2H22e.</p> <p>Valuation: We use a PE multiple to value the stock with the valuation base year as 2023e. We estimate 2022e-24e net profit CAGR will be 10%, in line with the 2019-21 net profit CAGR of 10%. Therefore, we use a 35x 2023e target PE to value the stock, in line with the historical average during 2019-21. Based on our 2023e EPS estimate of RMB0.73, we derive our target price of RMB25.60. Our target price implies c42% upside from the current levels; accordingly, we have a Buy rating on the stock.</p> <p>Yihui Sha* (S1700519100001) yihui.sha@hsbcqh.com.cn +86 21 6081 3804</p>	<p>Key downside risks</p> <ul style="list-style-type: none"> • Export business impacted by the COVID-19 pandemic, resulting in lower-than-expected profitability • Worse-than-expected expansion of the domestic pet food market, resulting in lower-than expected earnings growth • Substantial increases in raw material prices, resulting in lower-than-expected profitability

Valuation and risks

Valuation		Risks
Montage 688008 CH Buy	<p>Current price: RMB49.55</p> <p>Target price: RMB93.50</p> <p>Upside: 89%</p>	<p>Investment rationale: We believe Montage is one of the few listed Chinese semiconductor companies that have plans to engage in the AI processor market, and will benefit from China's increasing self-sufficiency over the long term.</p> <p>Valuation: We value the stock based on a sector average PEG of 1.0x. As we estimate a 50% net profit CAGR in 2022e-24e, we use a target PE multiple at 50x. Using our 2023e EPS estimate of RMB1.87, we derive our target price of RMB93.50. Our target price implies c89% upside from current levels; accordingly, we have a Buy rating on the stock.</p> <p>Frank He* (S1700517120005) frank.fang.he@hsbcqh.com.cn +86 21 6081 3809</p>
Sangfor 300454 CH Buy	<p>Current price: RMB109.20</p> <p>Target price: RMB149.00</p> <p>Upside: 36%</p>	<p>Investment rationale: We believe continued cost controls should bring accelerated earnings growth to Sangfor from 2023e, while strong product performance and industry demand recovery could boost revenue growth.</p> <p>Valuation: We use a PS multiple to value the stock. As we expect 2022e-24e revenue to grow at a CAGR of 28%, we use a 6x 2023e target PS for the valuation, which is applied to 2023e revenue of RMB10.3bn. Our target price of RMB149.00 implies c36% upside from current levels; accordingly, we have a Buy rating on the stock.</p> <p>Yiran Liu* (S1700520040001) yiran1.liu@hsbcqh.com.cn +86 10 5795 2349</p>
Sanqi Entertainment 002555 CH Buy	<p>Current price: RMB14.13</p> <p>Target price: RMB32.30</p> <p>Upside: 129%</p>	<p>Investment rationale: We expect Sanqi to benefit from high revenue growth in the overseas markets and new products to be launched in the domestic market in 2H22.</p> <p>Valuation: We use a target PE multiple to value the stock. We forecast Sanqi's 2021-23e net profit to grow at a CAGR of 16%, higher than the 15% CAGR in 2017-21. Therefore, we value the stock at a 21x 2022e PE, 0.5 SD above its historical 12-month average. Applying this multiple to our 2022e EPS estimate of RMB1.54, we derive a target price of RMB32.30. Our target price implies c129% upside from current levels; accordingly, we have a Buy rating on the stock.</p> <p>Jing Han* (S1705518080001) jing01.han@hsbcqh.com.cn +86 10 5795 2344</p>

Note: Priced at close of 25 October 2022. *Employed by a non-US affiliate of HSBC Securities (USA) Inc. and not registered/qualified pursuant to FINRA regulations.

Source: Wind, Bloomberg, HSBC Qianhai Securities estimates

Disclosure appendix

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HSBC Qianhai Securities Limited

Block 27 A&B, Qianhai Enterprise Dream Park, 63 Qianwan Yi Road, Shenzhen-Hong Kong Cooperation Zone, Shenzhen, China
Phone number: +86 755 8896 3288
Website: www.hsbcqh.com.cn

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