

# China / HK Market Weekly

## Internet outperformed as delisting risks eased

Last week (28 Mar-1 Apr), China / HK stock markets rebounded and outperformed other major markets. Sentiments are gradually normalizing from panic. Real Estate sector led the rebound in A-shares, as more and more cities loosened property policies including removing purchase & price restrictions and lowering down-payment ratio of provident funds. In offshore market, Internet sector outperformed as China Internet ETF recorded strong inflows. Investors speculated a decline in delisting risk for US-listed Chinese companies. Energy sector also outperformed in both Mainland & HK.

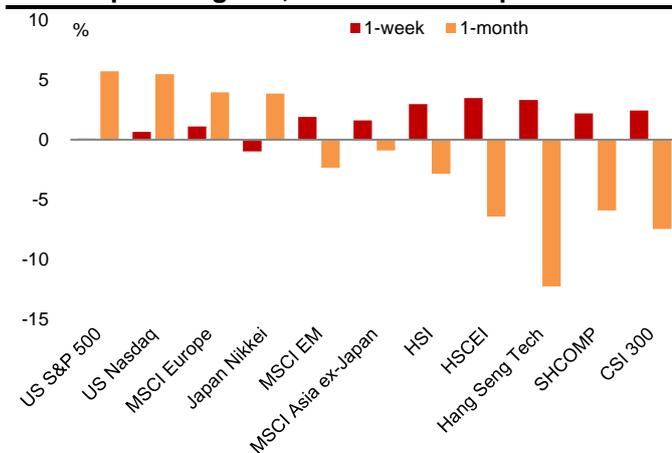
- **Market recap:** The HSI and CSI 300 rebounded with lower turnover. In HK, Energy, IT and Consumer Discretionary led gains, while Healthcare, Telecom & Materials underperformed. In A-shares market, Real Estate, Energy & Financials surged, but IT, Materials & Healthcare underperformed (Fig. 3-4).
- **Fund flows: Strong flows into China Internet ETF.** Global fund flow out of China significantly declined as markets rebounded from the panic sales. There were strong flows into China internet ETF (Fig. 9). But investors were divided about the upside of Chinese markets. Some investors were concerned about the credibility of Chinese policymakers' commitment, while other investors were relatively bullish as more cities loosened property policy and the CSRC eased rules on offshore listed companies' auditing report sharing.
- **Stock Connect flows: Southbound weakened while Northbound rebounded.** Southbound trading opened for only three days last week ahead of Ching Ming Festival (5 Apr), and net buying shrank. Northbound net inflows rebounded (Fig. 9-10). Despite this reversal in Southbound & Northbound flows, AH premiums shrank slightly further to 42%, still significantly higher than 10-year average 22% (Fig. 15). By sector, Southbound funds flew into Healthcare, Telecom & Real Estate, while Northbound funds flew into cyclical sectors such as Materials, Capital Goods, Financials & Auto (Fig 16-17).
- **Sentiment: Panic eased further.** "Fear Index" VHSI retreated further to 25.8, around the level before the recent market selloff (Fig. 20). Short sell % on HK mainboard remained high at ~18%. By sector, short sell ratio increased in Materials, Healthcare & Industrials, and decreased in Financials & Utilities.
- **Valuation & Earnings: EPS estimates of HK market rebounded.** Valuation of HK market remains very low as prices changed little last week (Fig. 33-36). As the FY21 earnings season came to a close, EPS estimates of HSI & HSTECH rebounded after cuts in the previous week (Fig. 40-41).
- **Sector views: More upside in Internet & Infrastructure.** In the short term, we see further upside for Internet sector, as China modified rules to allow US regulators to gain more access to auditing reports of Chinese companies listed in the US, and thus delisting risks tend to decrease. Infrastructure-related sectors such as Capital Goods & Cement could be boosted by a speed up in infrastructure spending, as China vowed to speed up the issuance of government special bonds and infrastructure project construction in Q2-Q3. We are bearish on commodity stocks as optimism of Russia-Ukraine ceasefire is building up and US Fed's policy tightening may also bring downside pressure on commodity prices.

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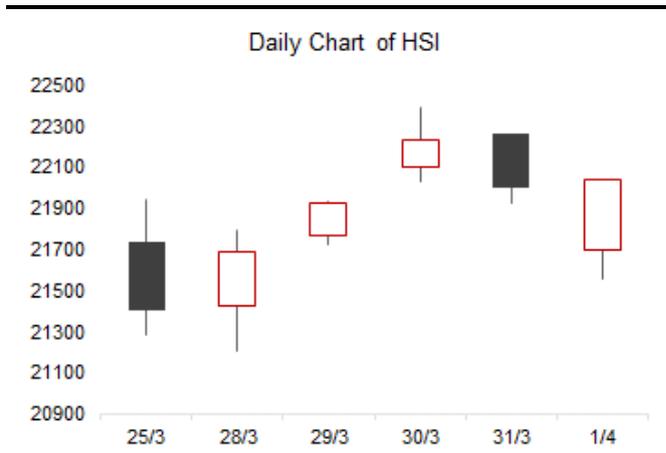
## Market Recap

**Figure 1: Weekly global markets total returns: US & Japan led gains, China/HK underperformed**



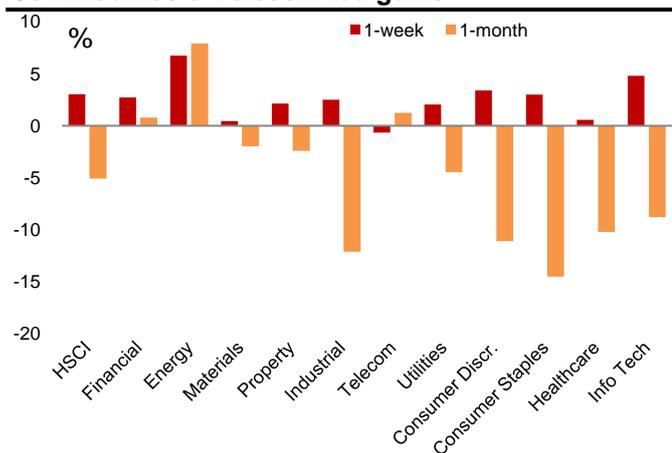
Source: Bloomberg, CMBIGM

**Figure 2: HSI range-bound between 21100-22400 for the second consecutive week**



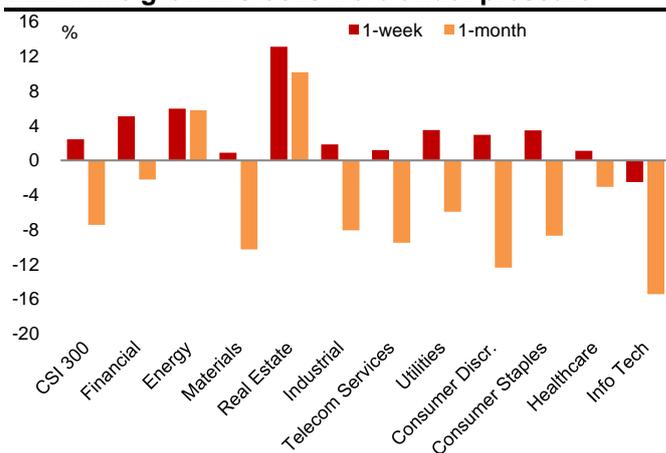
Source: Bloomberg, CMBIGM

**Figure 3: Hang Seng Composite Index sectors: Commodities & Telecom led gains**



Source: Bloomberg, CMBIGM

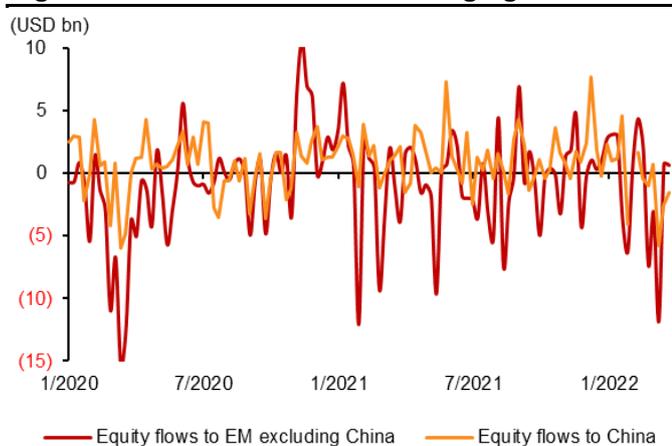
**Figure 4: CSI 300 Index sectors: Old economy stood firm while growth stocks were under pressure**



Source: Bloomberg, CMBIGM

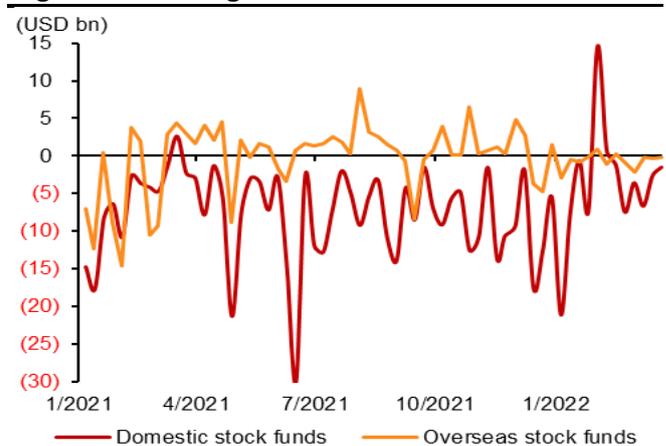
## Fund Flows

**Figure 5: Global Fund Flow to Emerging Market**



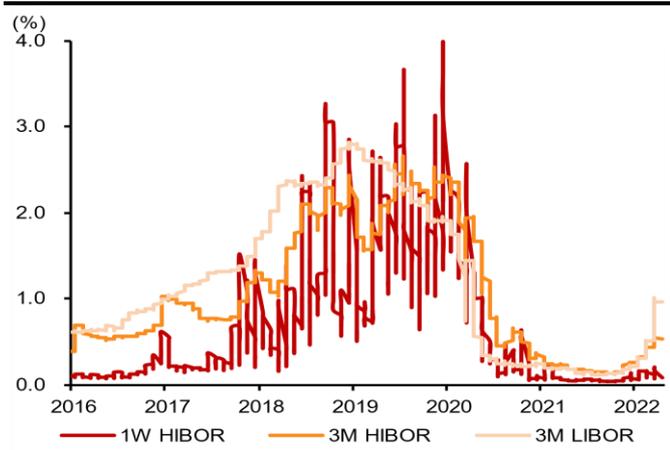
Source: IIF, CMBIGM

**Figure 6: US Long-term Mutual Fund Flow**



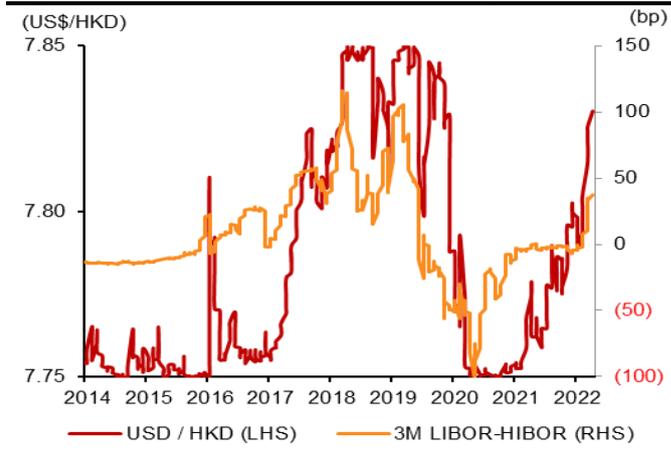
Source: Wind, CMBIGM

**Figure 7: USD & HKD Interest Rates**



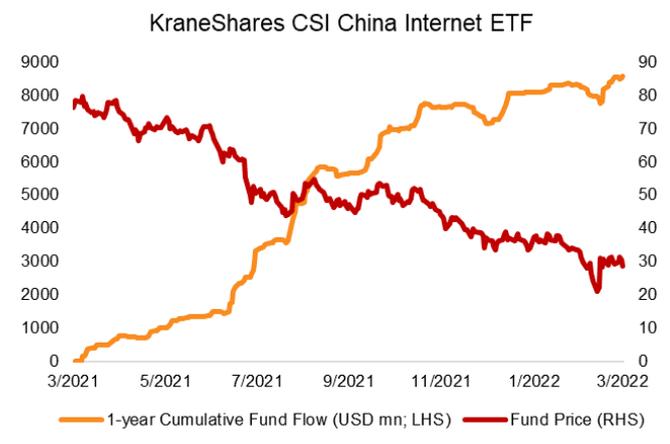
Source: Wind, CMBIGM

**Figure 8: USD/HKD Rates & Interest Spreads**



Source: Wind, CMBIGM

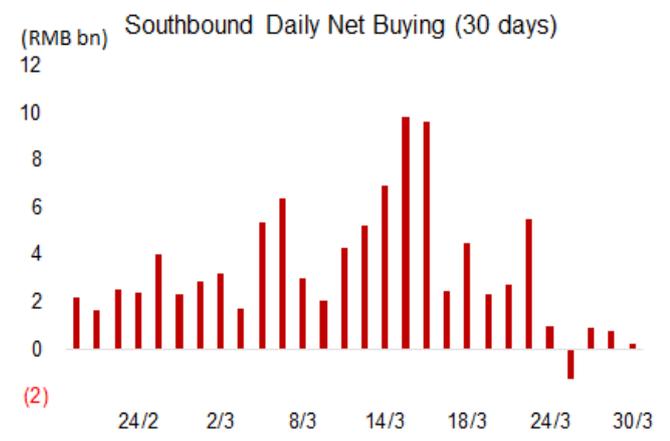
**Figure 9: KWEB, the largest China Internet ETF, recorded strong inflows since 17 Mar**



Source: Bloomberg, CMBIGM

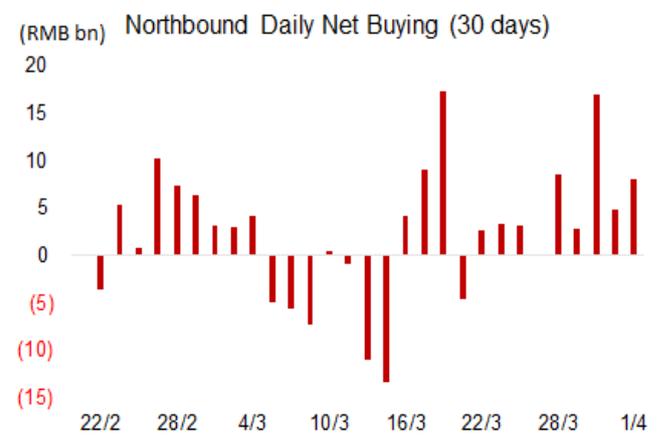
## SH/SZ-HK Stock Connect

**Figure 10: Southbound net buying decreased**



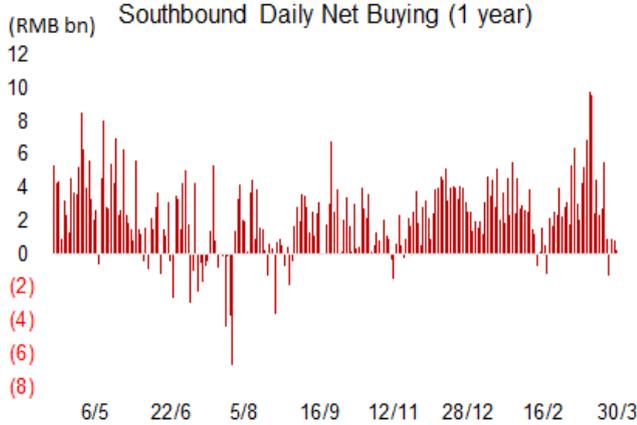
Source: Bloomberg, CMBIGM

**Figure 11: Northbound net inflows rebounded**



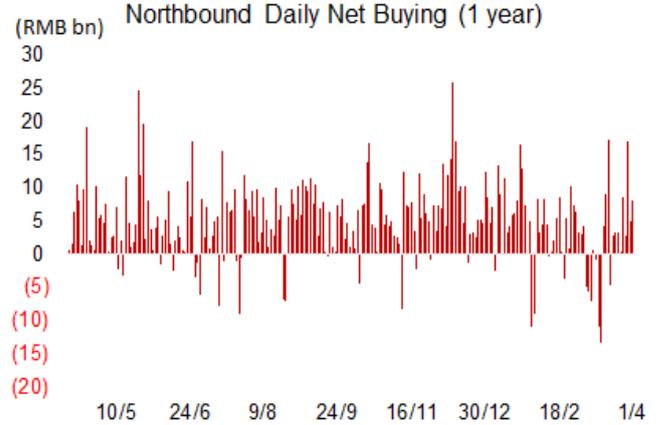
Source: Bloomberg, CMBIGM

**Figure 12: Southbound net buying turned strong since mid-Feb...**



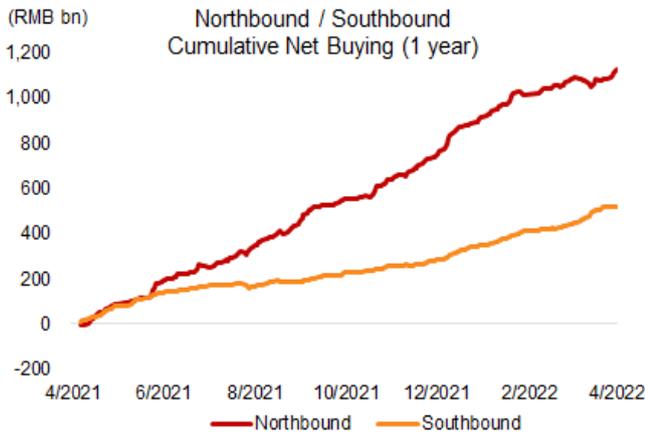
Source: Bloomberg, CMBIGM

**Figure 13: ...while Northbound buying weakened at the same time**



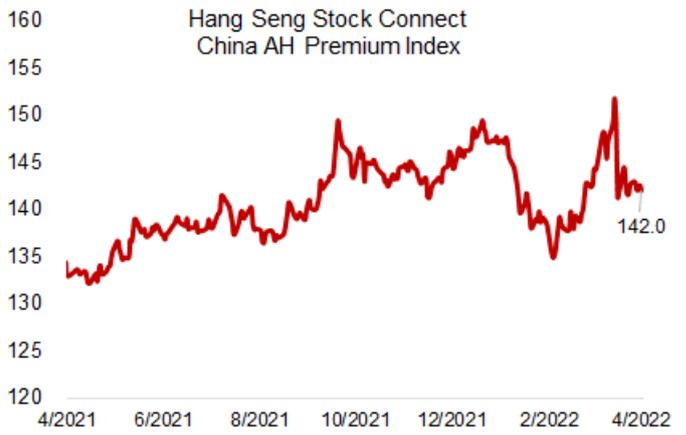
Source: Bloomberg, CMBIGM

**Figure 14: Southbound inflows speeded up since early 2022, while Northbound inflows slowed down**



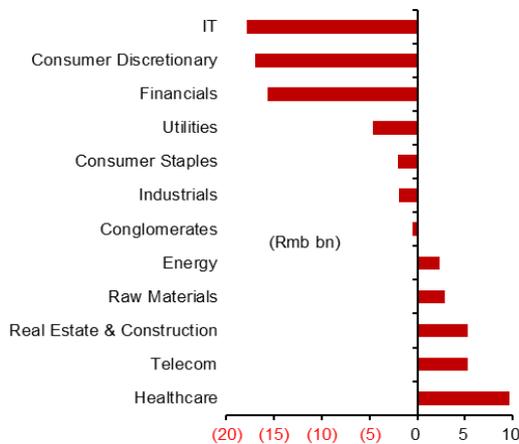
Source: Bloomberg, CMBIGM

**Figure 15: AH premium slightly narrowed further from a week ago, and still above historical average**



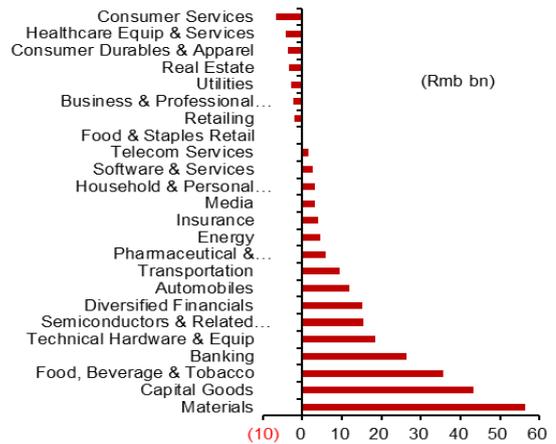
Source: Bloomberg, CMBIGM

**Figure 16: Southbound net flows by sector last week**



Source: Wind, CMBIGM

**Figure 17: Northbound net flows by sector last week**



Source: Wind, CMBIGM

**Figure 18: Southbound weekly Top 10 active stocks**

(HKD bn, cumulative)		Turnover	Net Buying
Tencent	700 HK	98.5	7.8
Kuaishou	1024 HK	44.2	6.2
CNOOC	883 HK	49.2	16.6
Meituan	3690 HK	84.0	8.5
China Mobile	941 HK	32.4	-6.6
Sunac China	1918 HK	51.0	-3.9
Xiaomi	1810 HK	35.0	-3.6
China Shenhua Energy	1088 HK	33.5	-5.6
Wuxi Biologics	2269 HK	27.3	6.7
China Construction Bank	939 HK	3.6	-3.2

Source: Wind, CMBIGM

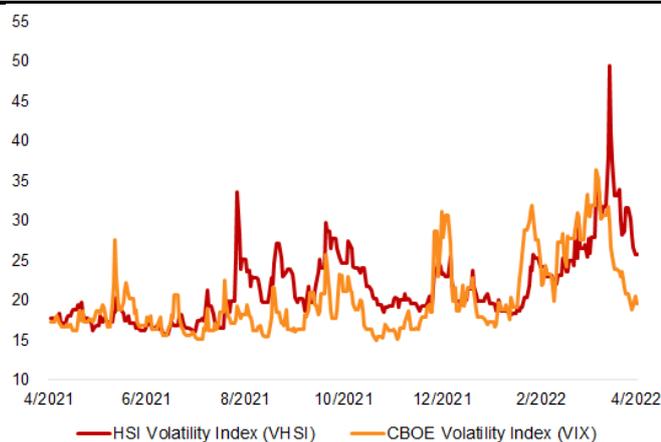
**Figure 19: Northbound (SH) Top 10 active stocks**

(RMB bn, cumulative)		Turnover	Net Buying
Kweichow Moutai	600519 CH	93.9	15.9
CTG Duty Free	601888 CH	29.2	-1.6
LONGi Green Energy	601012 CH	49.2	9.7
COSCO Shipping	601919 CH	14.9	5.8
China Merchants Bank	600036 CH	50.8	-3.9
Wanhua Chemical Group	600309 CH	8.1	-2.1
Industrial Bank	601166 CH	19.4	-1.6
WuXi AppTec	603259 CH	32.4	1.2
China State Construction	601668 CH	17.1	6.9
Ping An Insurance	601318 CH	10.6	2.4

Source: Wind, CMBIGM

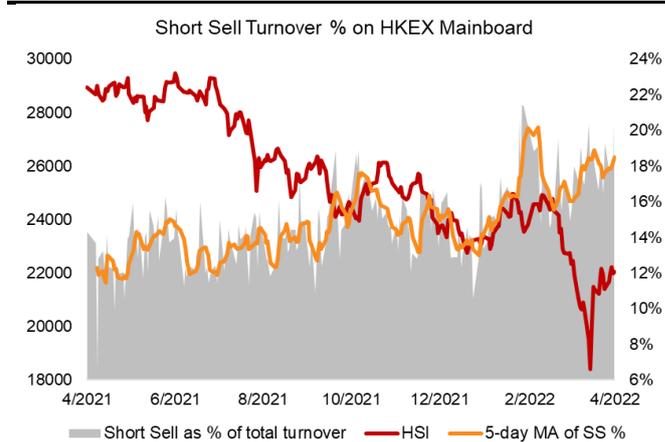
## Sentiments

**Figure 20: "Fear Index" VHSI retreated further to 25.8, around the level before the recent market selloff**



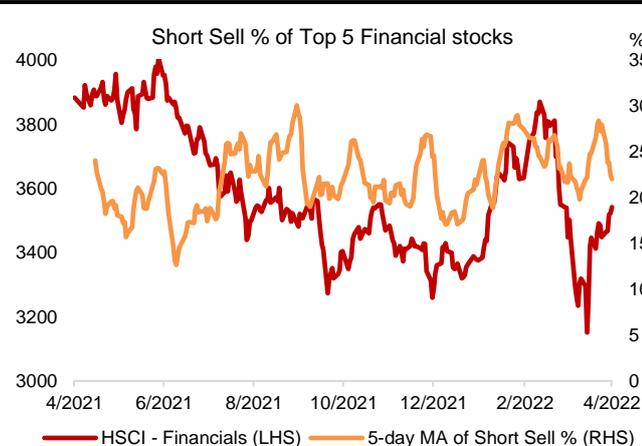
Source: Bloomberg, CMBIGM

**Figure 21: Short sell % on HK mainboard remained high at around 18%**



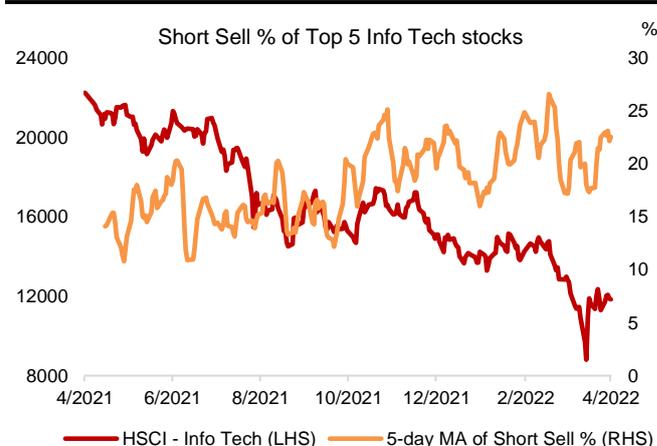
Source: Bloomberg, CMBIGM

**Figure 22: Short sell % in HK - Financials**



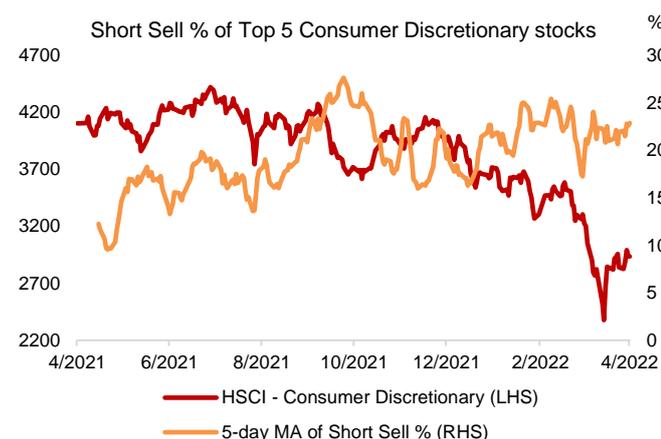
Source: Bloomberg, CMBIGM

**Figure 23: Short sell % in HK - Info Tech**



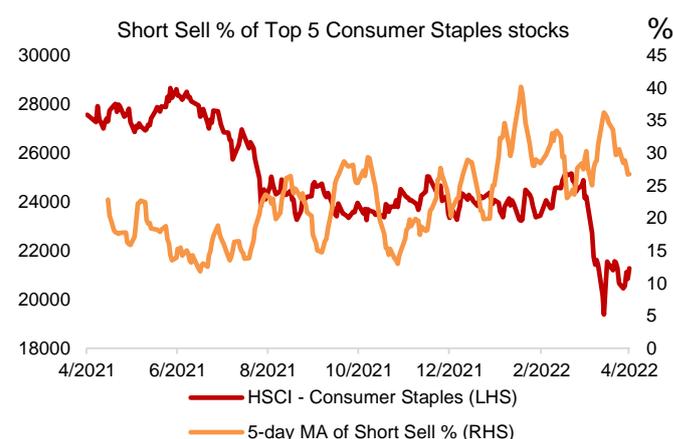
Source: Bloomberg, CMBIGM

**Figure 24: Short sell % in HK – Consumer Discretion.**



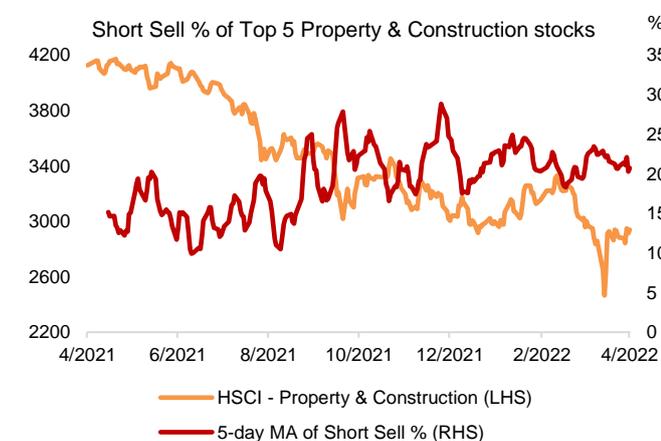
Source: Bloomberg, CMBIGM

**Figure 25: Short sell % in HK – Consumer Staples**



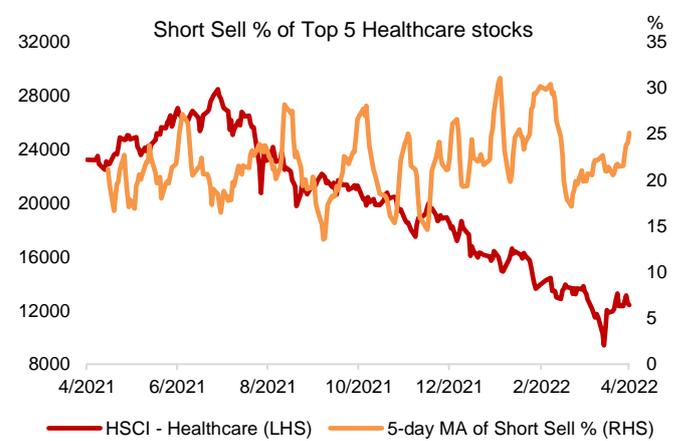
Source: Bloomberg, CMBIGM

**Figure 26: Short sell % in HK - Property**



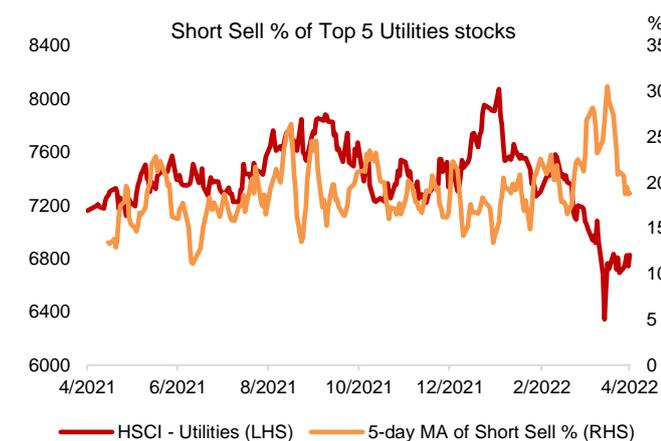
Source: Bloomberg, CMBIGM

**Figure 27: Short sell % in HK – Healthcare**



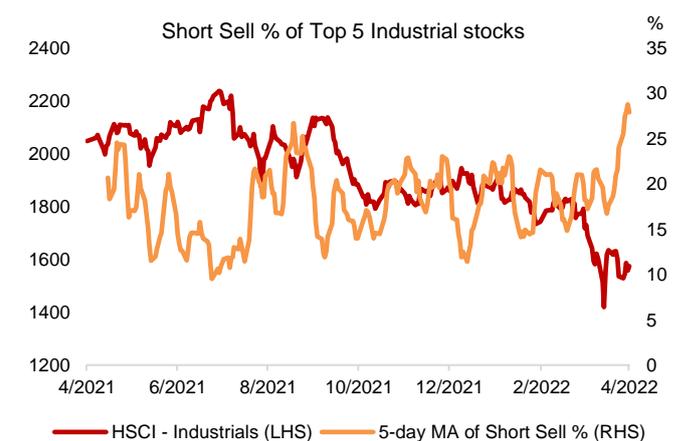
Source: Bloomberg, CMBIGM

**Figure 28: Short sell % in HK – Utilities**



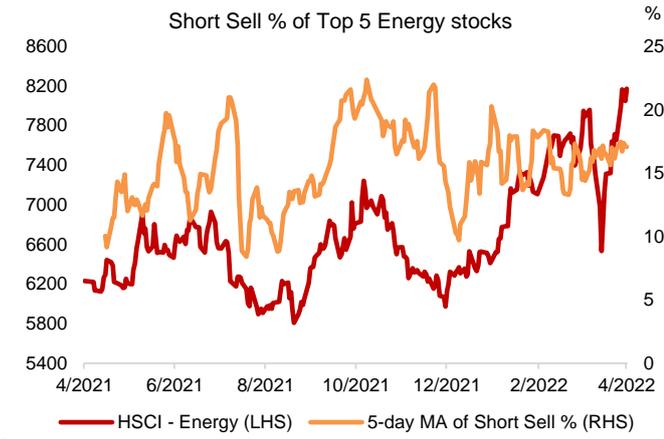
Source: Bloomberg, CMBIGM

**Figure 29: Short sell % in HK – Industrials**



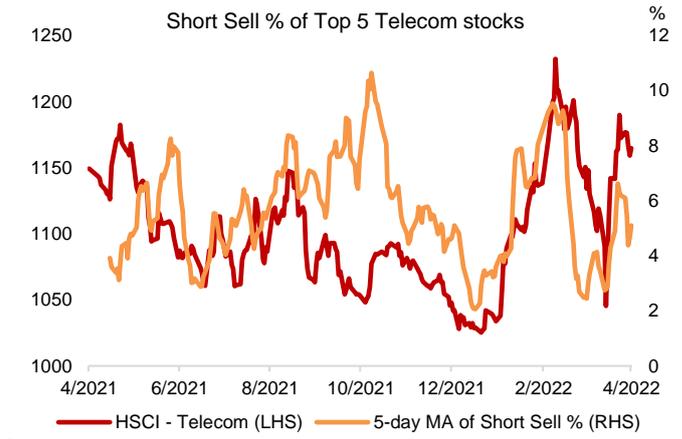
Source: Bloomberg, CMBIGM

**Figure 30: Short sell % in HK – Energy**



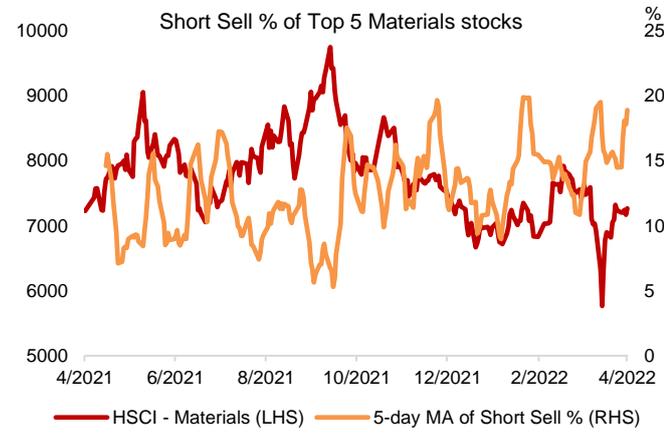
Source: Bloomberg, CMBIGM

**Figure 31: Short sell % in HK – Telecom**



Source: Bloomberg, CMBIGM

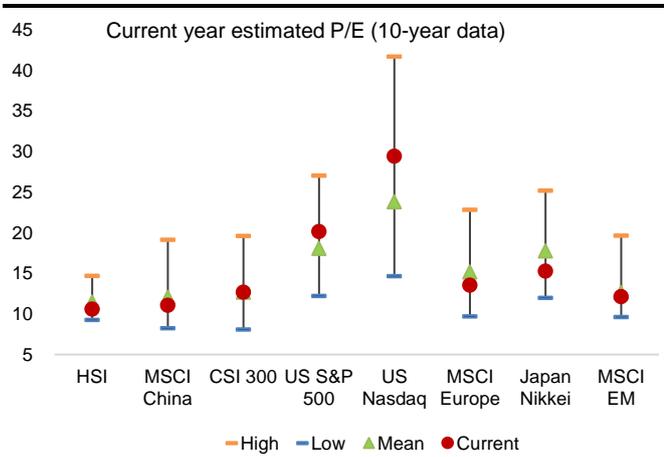
**Figure 32: Short sell % in HK – Materials**



Source: Bloomberg, CMBIGM

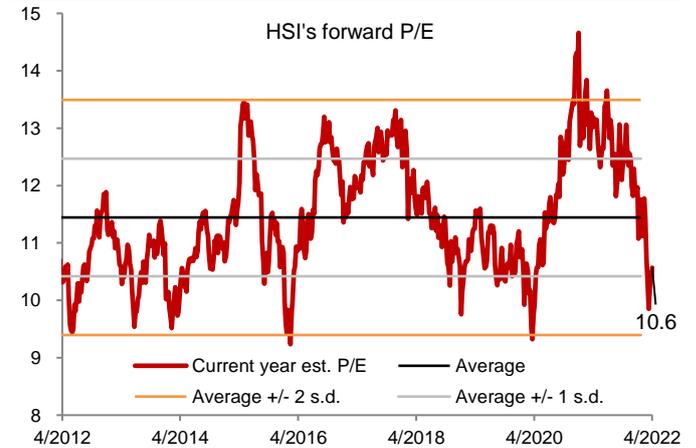
## Earnings & Valuations

**Figure 33: HSI' P/E close to low end, while other major markets' are near 10-year mean**



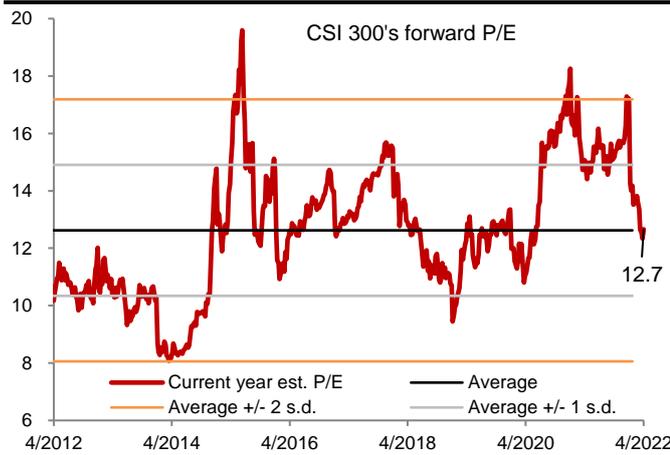
Source: Bloomberg, CMBIGM

**Figure 34: HSI' P/E would have been even lower had it not added many high-P/E growth stocks since 2020**



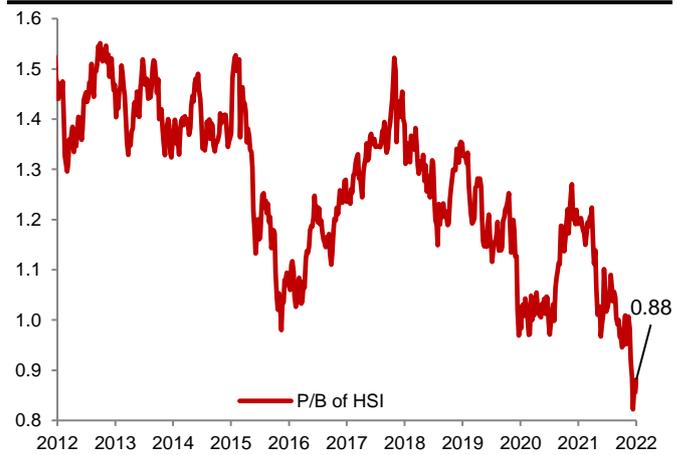
Source: Bloomberg, CMBIGM

**Figure 35: CSI 300's P/E at around 10-year mean, not really cheap**



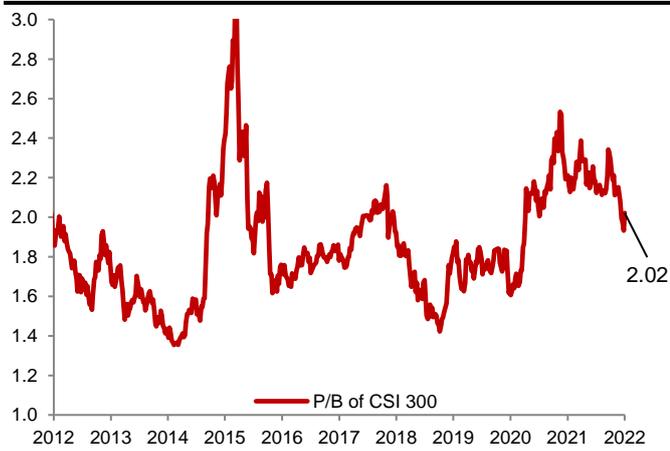
Source: Bloomberg, CMBIGM

**Figure 36: HSI' P/B below 1, lower than previous crisis troughs**



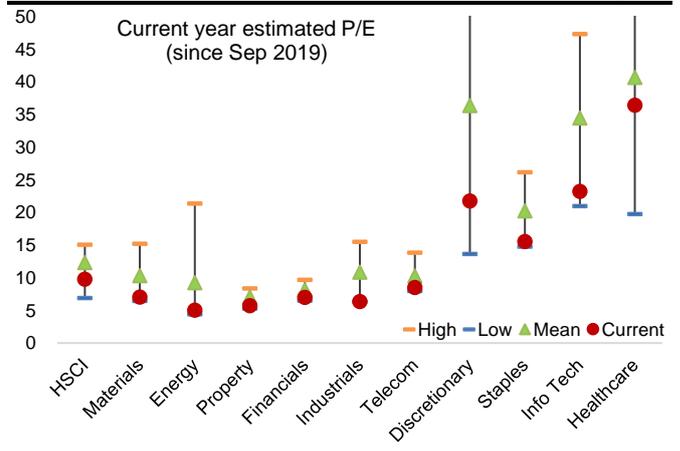
Source: Bloomberg, CMBIGM

**Figure 37: CSI 300's P/B at around 2**



Source: Bloomberg, CMBIGM

**Figure 38: Most HSCI sectors' P/E are near troughs**



Source: Bloomberg, CMBIGM

**Figure 39: EPS Growth for Major Stock Indexes**

(%)	2011-2019 CAGR	2019-2021E CAGR	2022E Growth
Hang Seng Index	4.1	(12.0)	5.6
CSI 300 Index	4.6	(2.4)	17.9
Chinext Index	9.3	8.4	40.7
S&P 500 Index	6.5	13.2	7.5
NASDAQ Index	8.9	17.0	8.3
Nikkei 225 Index	11.2	12.5	2.5
Germany DAX	4.5	12.9	5.4
France CAC	1.3	9.5	19.4
UK FTSE 100 Index	(0.3)	4.0	12.0

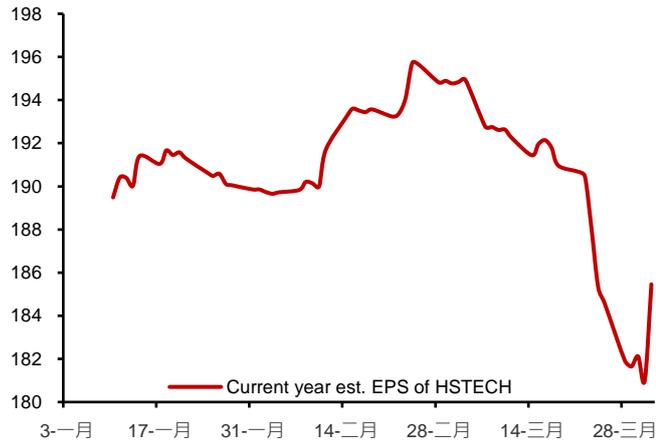
Source: Bloomberg, CMBIGM

**Figure 40: EPS estimates of HSI rebounded towards the end of FY21 earnings season**



Source: Bloomberg, CMBIGM

**Figure 41: EPS estimates of Hang Seng TECH Index rebounded towards the end of FY21 earnings season**



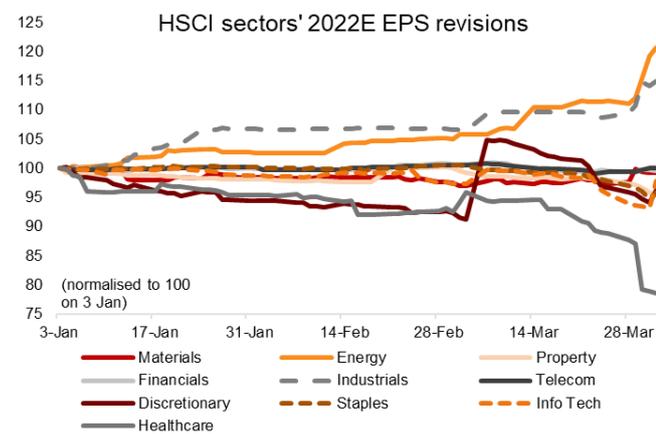
Source: Bloomberg, CMBIGM

**Figure 42: EPS estimates of A-shares are relatively stable vs. H-shares**



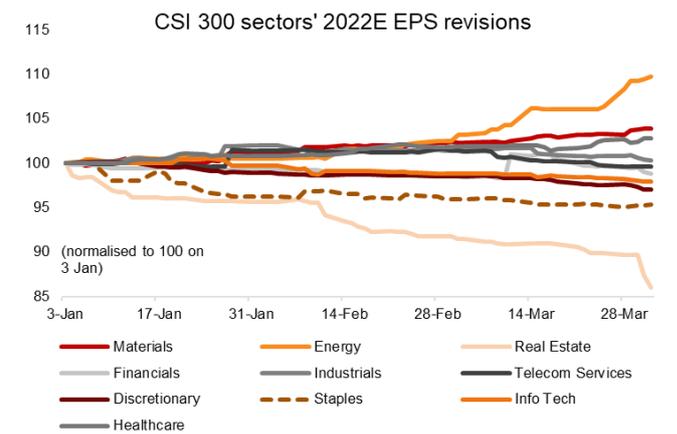
Source: Bloomberg, CMBIGM

**Figure 43: HK earnings revision: Energy & Industrials up again, Healthcare down & IT rebounded**



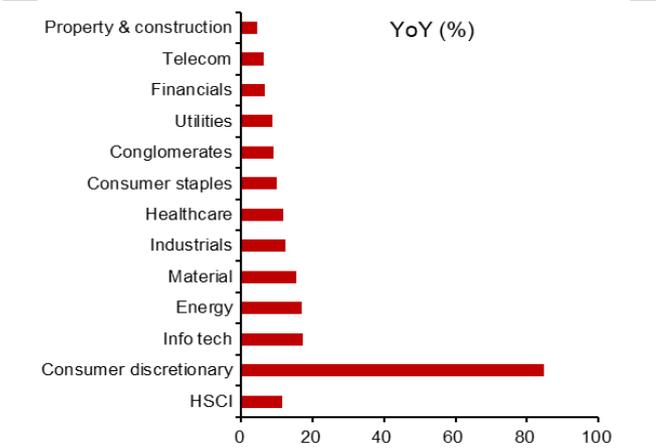
Source: Bloomberg, CMBIGM

**Figure 44: A-shares earnings revision: Commodities up & Real Estate down again**



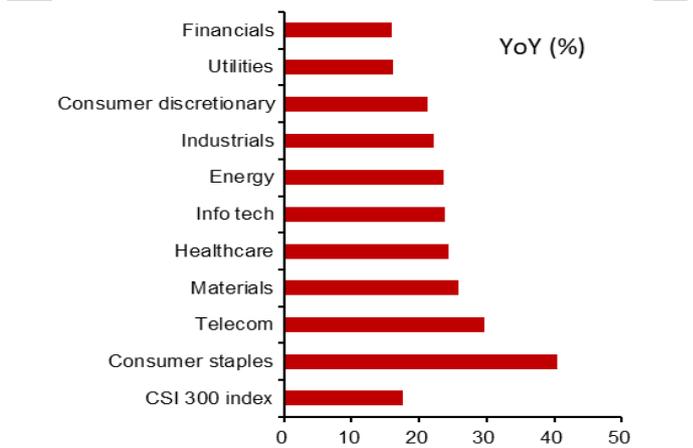
Source: Bloomberg, CMBIGM

**Figure 45: 2022E EPS Growth Consensus for HSCI**



Source: Bloomberg, CMBIGM

**Figure 46: 2022E EPS Growth Consensus for CSI 300**



Source: Bloomberg, CMBIGM

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