



# China Macro Economy and Equity Market Outlook for Q3 2022

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August 2022

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# Summary of economic outlook

- After the announcement of weak Q2 GDP growth figures, we expect the GDP growth rate for 2022 to be +4.2%, much lower than the government target at 5.5%.
- However we maintain our view that China's economy has already bottomed out in April and already entered the recovery phase.

	2021	2022	2023	2021				2022				2023				Bloomberg consensus	
		(f)	(f)	1Q	2Q	3Q	4Q	1Q	2Q	3Q(f)	4Q(f)	1Q(f)	2Q(f)	3Q(f)	4Q(f)	2022	2023
real GDP	8.1	4.2	5.2	18.3	7.9	4.9	4.0	4.8	0.4	5.1	6.0	5.4	5.8	4.9	5.0	4.0	5.2
consumption	10.0	2.9	7.8	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
investment	2.7	6.8	3.4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
external demands (contribution)	1.7	-0.1	-0.3	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
industrial production	9.6	4.9	4.6	24.5	8.9	4.9	4.1	6.5	0.7	4.9	5.3	4.8	6.2	4.6	4.6	4.5	5.4
PPI inflation	8.1	6.0	1.5	2.3	8.3	9.7	12.2	8.7	6.9	5.5	3.3	1.4	0.9	1.4	2.2	5.8	1.5
CPI inflation	0.9	2.5	2.0	0.0	1.1	0.8	1.7	1.1	2.3	3.0	3.0	3.0	2.7	2.0	2.0	2.3	2.3
7days reverse repo (end of period)	2.20	2.10	2.10	2.20	2.20	2.20	2.20	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10
1Y MLF (end of period)	2.95	2.85	2.85	2.95	2.95	2.95	2.95	2.85	2.85	2.85	2.85	2.85	2.85	2.85	2.85	2.85	2.85

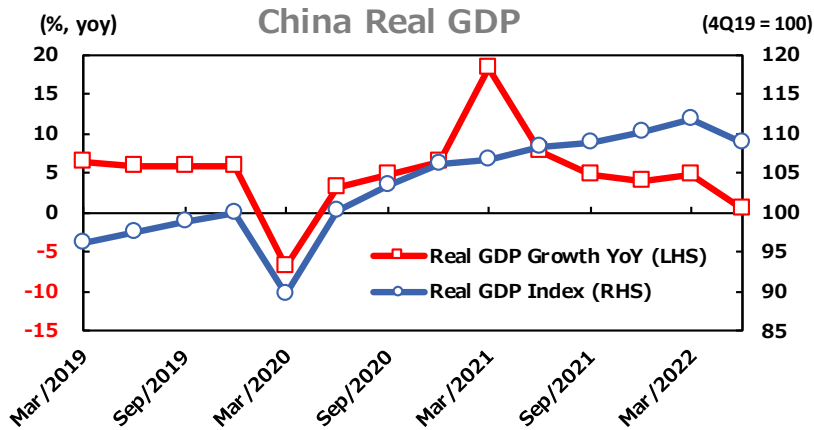
(note) unit is yoy growth rate if not exclusive indication; unit for interest rate is %

Bloomberg consensus figures are as of 26 Jul 2022

(source) SMDAM HK, CEIC and Bloomberg

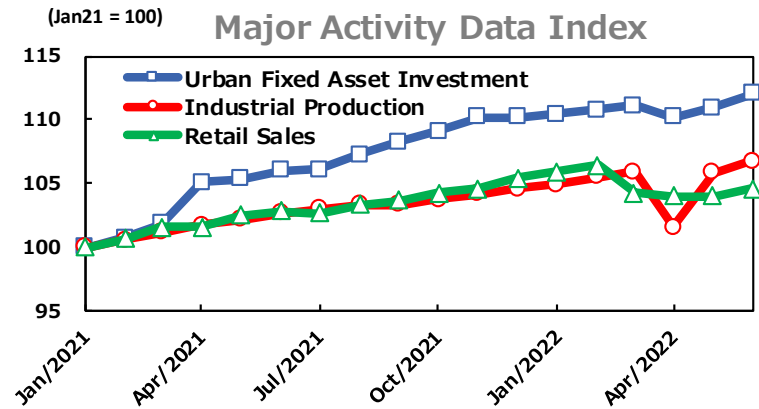
# Key charts: Economy is weak but has bottomed out

### Economic Growth Decelerated in 2Q22



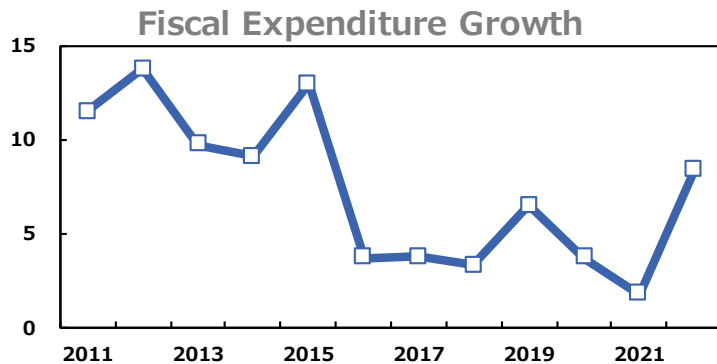
(Note) Seasonally adjusted by NBS

### Economy Already Bottomed Out

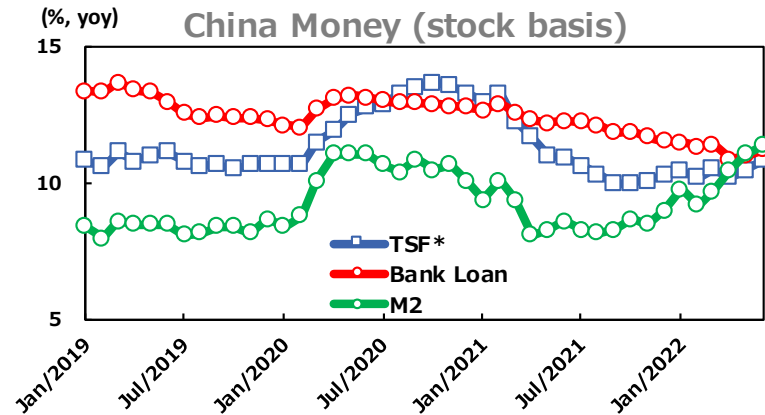


(Note) Seasonally adjusted by NBS

### Highest Fiscal Expenditure Growth since 2016



### Bank Loan Growth To Pick Up In 2H22

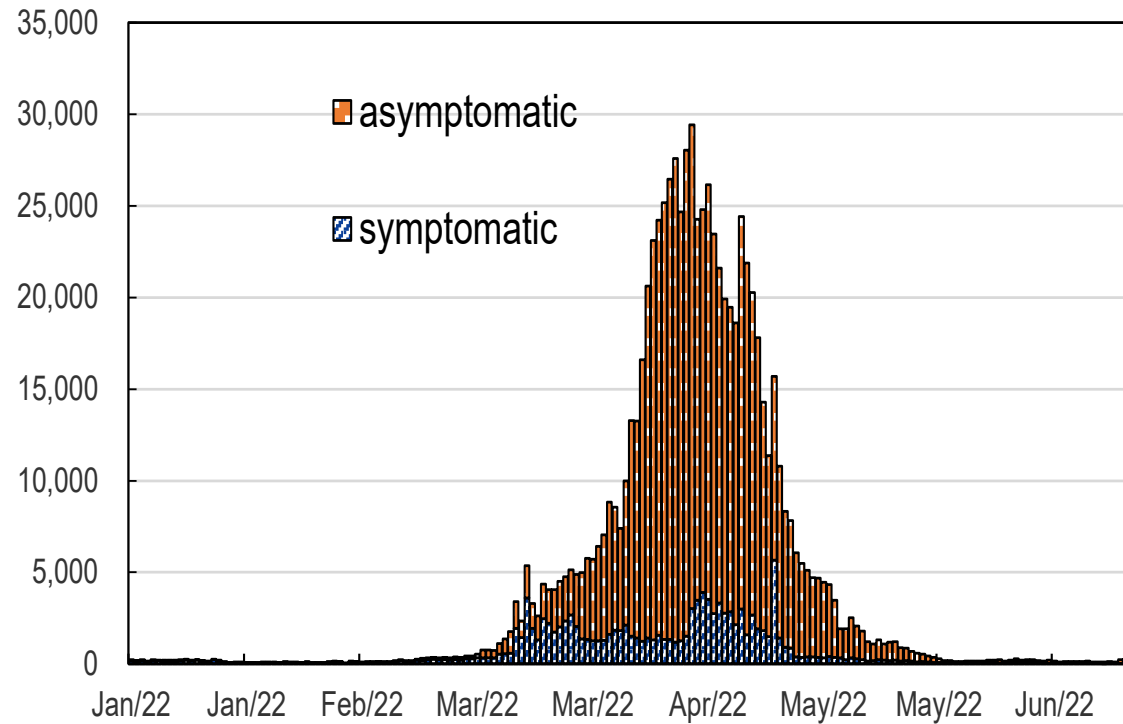


\*TSF: Total Social Financing

# Key charts: Pandemic phase concluding <sup>1/2</sup>

## Pandemic Phase Disappeared

China New Infection Toll



The data is disclosed only for your information purpose.  
Past result is not a reliable indicator of future performance and may not be repeated.. .

# Key charts: Pandemic phase concluding <sup>2/2</sup>

- Central government started to limit local governments' excessive epidemic control measures in June
- Removal of asterisk mark in the communication itinerary card on 29 June is highly symbolic

## Health code & Asterisk Mark In Itinerary card

Health Code  
(QR Code based)

Itinerary Card with Asterisk Mark  
(Phone Number and GPS based)

**Green:**  
unrestricted  
entry



**Yellow:**  
3 day  
quarantine



**Red:**  
7 day  
quarantine



**No entry or at least 14 day quarantine**

(Note) The Asterisk Mark was discontinued and the quarantine period was shortened to 7 days in June 2022.

# China A-Share Equity Market Outlook – June 2022

This Month	Current 2022/6/27	2022 Apr-Jun Range		Target	2022 Jul-Sep Range		Target	2022 Oct-Dec Range		Target	2023 Jan-Mar Range		Target	2023 Apr-Jun Range		Target
CSI300	4,444.26	-	-	-	4,290	6,240	4,587	4,290	6,240	4,615	4,290	6,440	4,810	4,290	6,440	4,793
Return (Local CCY)							3.2%			3.8%			8.2%			7.8%

Previous Month	2022/5/26	2022 Apr-Jun Range		Target	2022 Jul-Sep Range		Target	2022 Oct-Dec Range		Target	2023 Jan-Mar Range		Target	2023 Apr-Jun Range		Target
CSI300	3,989.17	3,930	6,240	4,329	4,290	6,240	4,650	4,290	6,240	4,625	4,290	6,440	4,810	4,290	6,440	5,005
Return (Local CCY)				8.5%			16.6%			15.9%			20.6%			25.5%

**Outlook:** Continued volatility and resumption of upward potential post-earnings growth consolidation

## Comments

1. Current FY22 earnings forecast for CSI300 is +8.06% (+9.91% on 26 May).
2. Current TTM P/E = 12.2x against the 10-y average level of 12.2x.
3. Our base case remains the same with a long term positive view on China A-share supported by rising earnings outlook amid relatively ample liquidity, despite subdued near-term sentiment.

## Risk

Upward (10% Prob.)	Stability and pro-growth return as top priority. More supportive measures being rolled out.
Downward (10% Prob.)	Domestic growth weaker than expected due to COVID resurgence. Deterioration of Sino-US relationship in many aspects under the current rhetoric.

## Change of outlook and underlying rationale

Index target change was largely set to reflect downward earnings revision.

# Outlook for China A-Share Equity Market (CSI300)

- Chinese companies have exhibited solid corporate earnings
- Current profit growth trend is expected to continue
- Comfortable valuations which have mostly priced in bearish news



Source: Bloomberg, SMDAM

Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.



# 12 month forward EPS forecast for CSI300

- Chinese companies' corporate earnings are expected to recover from the latter half of 2022 toward 2023, on the back of economic support measures

### 12 Month Forward EPS for CSI300



Source: Bloomberg, SMDAM

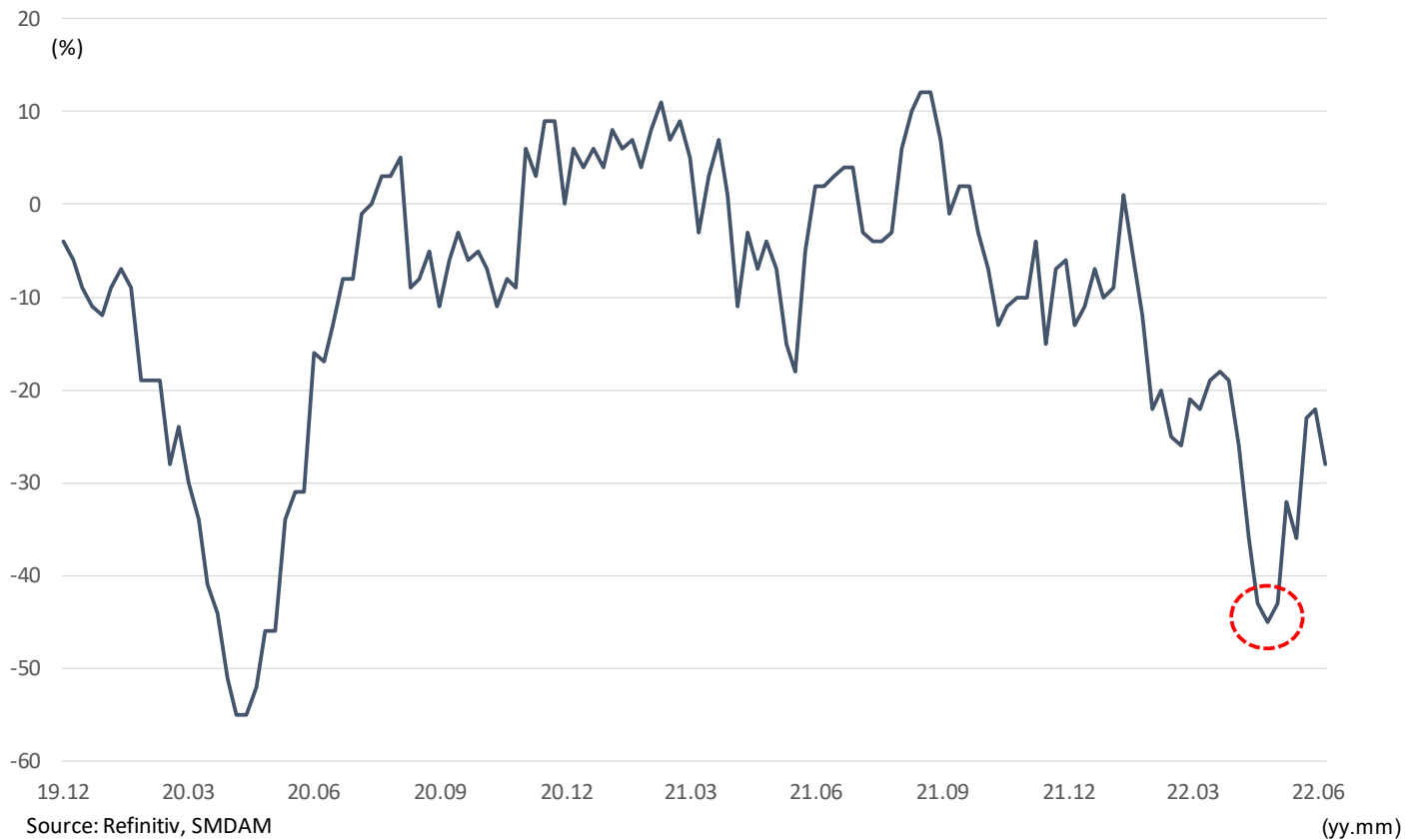
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# Earnings revision index\* for CSI300

\* (Number of upward revisions – downward revisions) /  
Number of companies with earnings forecast

- Downward revision trend of Chinese companies is expected to end in Q2 2022

## Earnings Revision Index for CSI300



# Earnings multiples\* for CSI300

\* Price-to-earnings ratio based on 12 month forward EPS

- Economic policy measures and the improvement of the earnings revision trend will support the China A-Share Equity market.

## Price-to-earnings ratio for CSI300

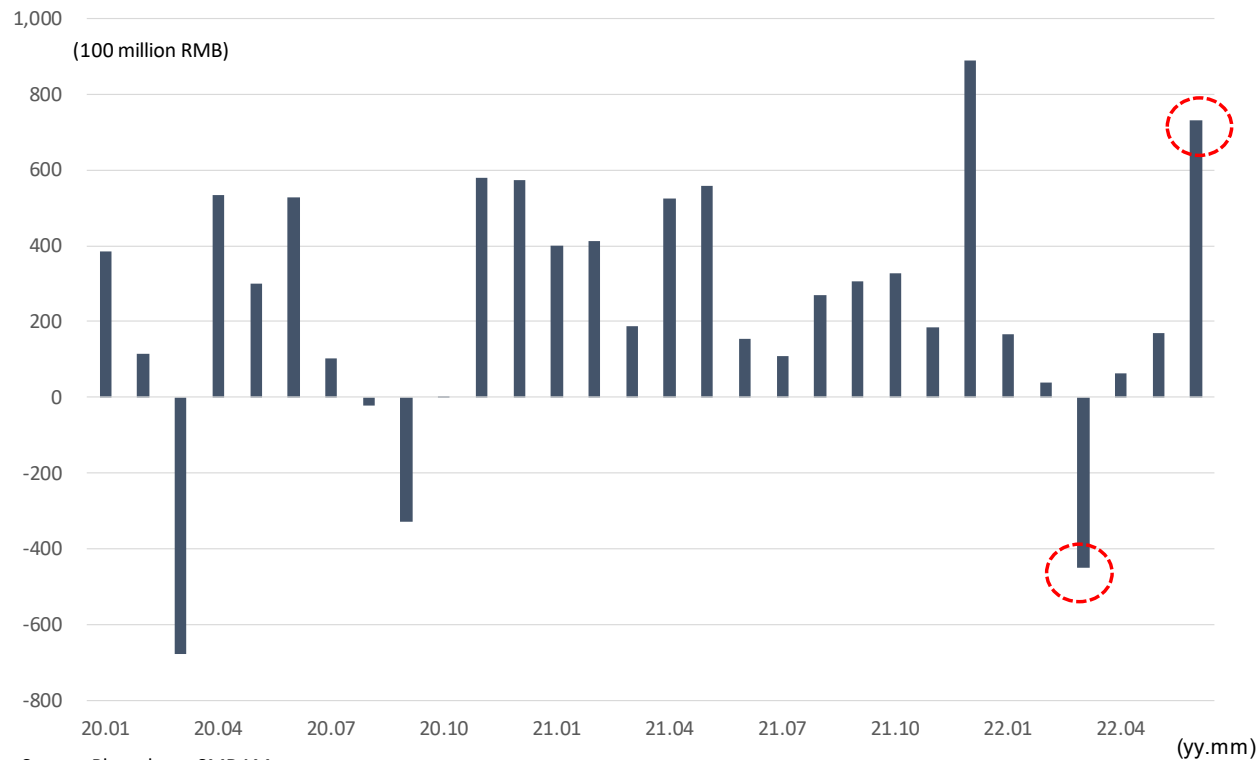


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# Supply and demand balance (Stock Connect Flow)

- Russian invasion of Ukraine led to surge in investors' concerns over geopolitical risks
- Demonstrated by large money outflow from Mainland market in March 2022, but Stock Connect flow has recently returned to positive territory

**Stock connect flow from Hong Kong to Shenzhen/Shanghai**



Source: Bloomberg, SMDAM

# Topic: Accelerating policy support measures

- In late May, Prime Minister Li Keqiang in charge of China's economy, instructed more than 100,000 government officials to immediately implement economic stimulus measures
- Specifically, he stressed the need to monitor the implementation status of policies in all areas of every region
- Various economic support measures announced successively in June
- Policies are aimed at the Communist Party Congress scheduled for this fall
- Congress is held once every five years and constitutes the most important meeting in China

## Important economic support measures announced in June

Area	Authority in charge	Details
Overall Economy	Ministry of Industry and Information Technology	Clarified a policy to study and implement policies that contribute to stable growth exceeding "ordinary disciplines"
Renewable Energy	National Development and Reform Commission	Instructed the development of renewable energy sources
Consumption	Local Governments	Removal of the ban on cross-provincial package tours (Hubei and Liaoning)
Infrastructure	Local Governments	Large-scale infrastructure investment plan by Guangzhou
Fiscal Policy	Ministry of Finance	New policy measures including front-loading of economic support measures
Automobile	Shanghai City	Implementation of new 100,000 yuan subsidy for purchasing EVs
IPO	China Securities Regulatory Commission	Support for new listing of domestic companies on Hong Kong market and overseas listing of platform companies

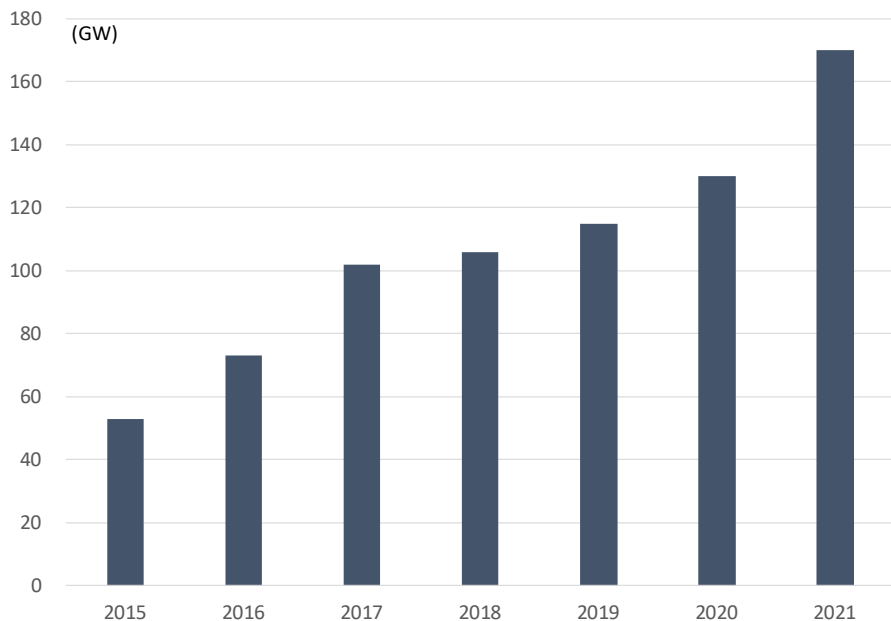
Source: Media reports, SMDAM

# Related stock example: “Greening” development patterns LONGi Green Energy Technology (601012 CH)

## Company profile

- One of the largest solar module manufacturers in China, with best-in-class technology
- In September 2020, President Xi Jinping declared that China aimed to reduce CO2 emissions by 2030 and become carbon neutral by 2060
- Global trend towards decarbonization is a tailwind for China as it is home to world-leading companies in every stage of the solar power supply chain

## Global volume of newly installed solar power generation systems



Source: Longi Green Annual Report, SMDAM

## Stock price and EPS



Source: Bloomberg, SMDAM

Note: This page is solely for the purpose of showing an example of China A Shares. SMDAM does not intend to recommend any specific stocks. This page is subject to change without prior notice.

# Appendix – Risk factors<sup>1/2</sup>: uncertainty in real estate market

- China Evergrande crisis has still weighed on China’s Real Estate market
- Shimao, another leading developer, has recently defaulted on its debt
- Real Estate represents the biggest risk for China

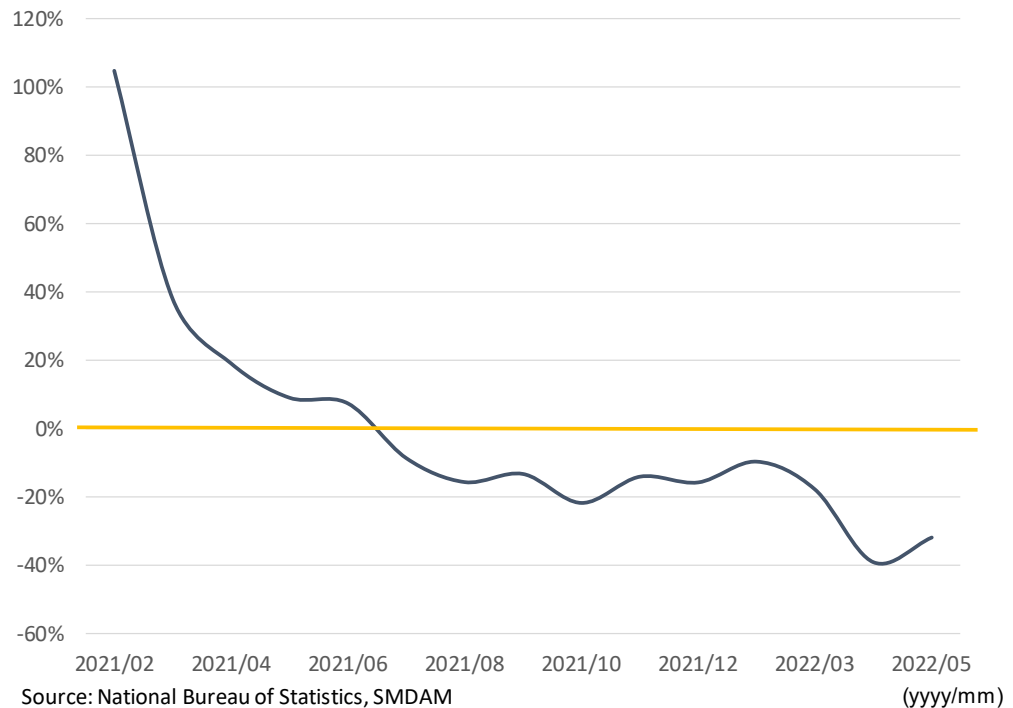
## Real Estate Statistics

Year-on-year	Apr 2022	May 2022
Real Estate Investment	-10%	-8%
GFA Sold	-39%	-32%
Transaction Amount	-47%	-38%
Land Sales Value	-28%	-40%

Source: National Bureau of Statistics, SMDAM

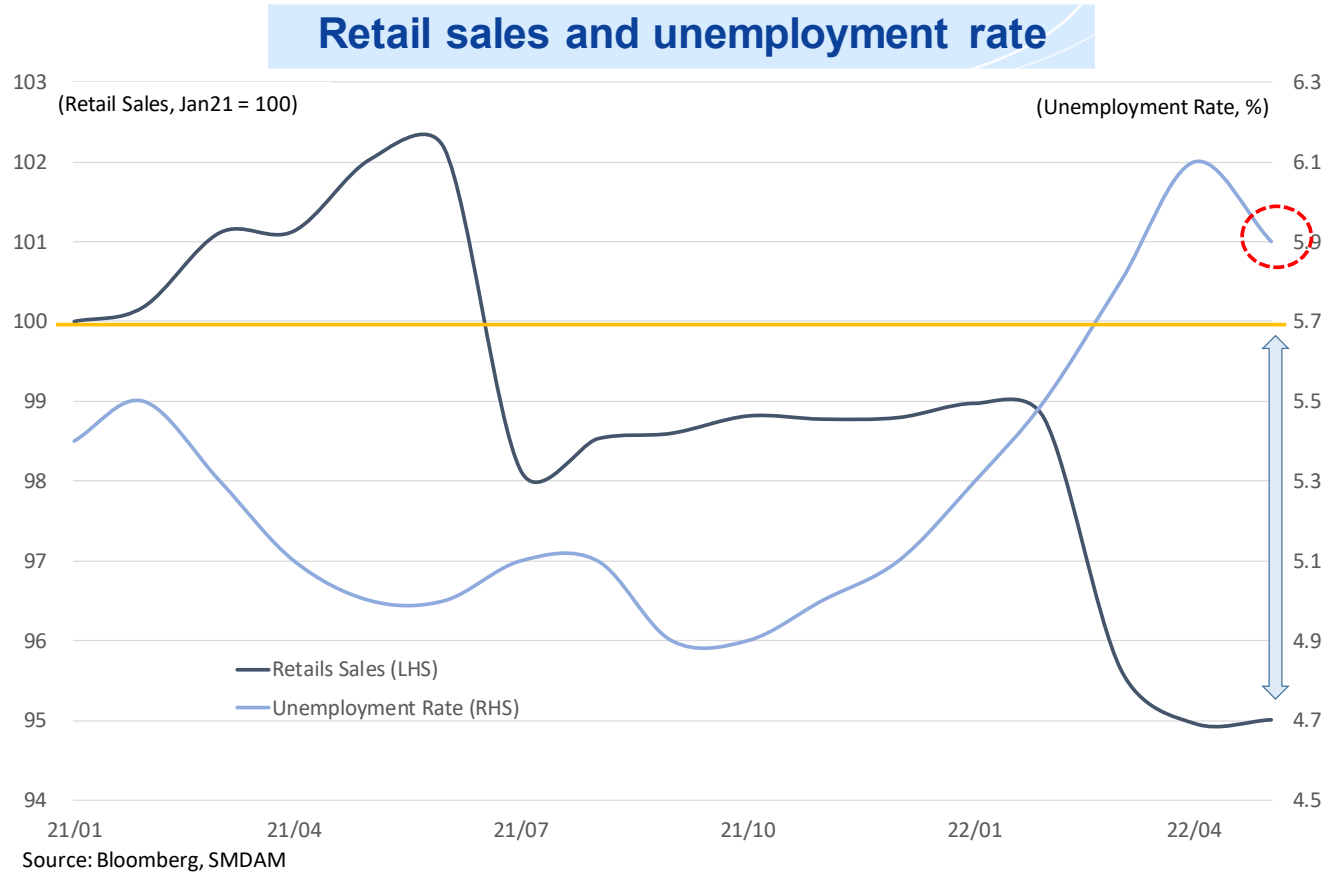
## GFA\* Sold (YoY)

\*GFA: Gross Floor Area



# Appendix – Risk factors<sup>2/2</sup> : weaker employment environment and consumer spending slump

- Risk that the recovery in consumer sentiment, which has been negatively affected by China's lockdown measures, will require an extended period of time
- Employment stability is one of the top priorities for the government





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