

China's Stock Market: A stimulus plan that may be beyond expectations

EQUITY STRATEGY TEAM

01 APRIL 2024

TRADING MATTERS SERIES:
NEWS FOCUS

The summary and impact of a major news event

National People's Congress

The "two sessions" political meetings in China commenced on 04 Mar 2024. China's leadership initially disappointed investors with a seemingly restrained budget plan for the year.¹ Nevertheless, upon closer examination of the numbers beyond the headline, it becomes apparent that the package may have a more significant impact than initially perceived.¹

China's economic targets for 2024 align broadly with market expectations and are similar to those of the previous year. The growth target for 2024 has been set at "around 5%," the same as the target for 2023. However, this year's target appears more ambitious due to a stronger base effect, indicating an increased level of policy support.²

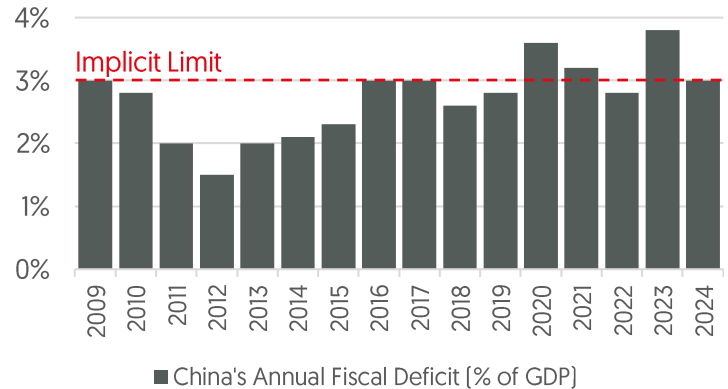
Although China has maintained its official budget deficit target at 3% of gross domestic product (GDP), this figure fails to fully capture the extent of government support as it excludes a substantial amount of investment spending. Regardless of how the latest spending plan is measured, some economists are predicting that Beijing will supplement it later in the year.¹⁴

What is the basis for China's 3% fiscal deficit target?

There is a rich historical context behind the significance of that number. For decades, central government authorities have regarded the 3% ratio as a maximum threshold, as it reflects a disciplined approach.¹ This guideline was initially established by European policymakers in the 1990s as a qualification criterion for the euro area, although many countries within the bloc have struggled to meet it in recent years.³

Due to the challenges posed by the COVID-19 pandemic and other factors, China has surpassed this threshold multiple times in recent years.¹ Last year's deficit figure stood at 3.8%, marking the highest level in three decades. While this year's 3% target may have disappointed some observers, it allows room for potential expansion later on.² Furthermore, a government spokesperson has emphasized that this target will contribute to boosting foreign investor confidence.¹

China tries to keep headline deficit in check
Beijing has long sought to maintain the headline fiscal gap at or below 3% of GDP



Source: National Bureau of Statistic & Bloomberg, extracted on 25 Mar 2024

How large is the stimulus relative to the past?

Taking a broader perspective, analysts can see that the planned 11.1 trillion yuan figure for the augmented fiscal deficit, which encompasses all the main fiscal resources, is estimated to be equivalent to 8.2% of GDP this year, as calculated by Bloomberg using data from the Ministry of Finance.¹ This would mark the highest deficit-to-GDP ratio since 2020. Moreover, the actual tally might surpass 8.2% due to deflation. This is because the 11.1 trillion yuan deficit is measured against nominal GDP, which takes into account for price growth. If price growth remains weak or negative, the deficit will represent a larger portion of the overall economy.¹

What is laid ahead?

The Government Work Report sent a clear signal that policymakers are intensifying their efforts to stabilize China's economic growth, which should boost investor sentiment in 2024.⁴ The report acknowledged the insufficient effective demand and is committed to support policies that enhance income levels, optimise supply, and reduce restrictive measures to stimulate domestic demand.² Premier Li further emphasized the importance of the renewal and trade-in of durable goods, which could potentially drive sales in sectors like automobiles, electronics, and home appliances.² Additionally, the report prioritises technology and innovation, highlighting the acceleration of industrial upgrades and the development of the digital economy.² It specifically mentioned initiatives like "AI+" to promote digitalising traditional industries.⁵ As a result, industries related to the digital economy are likely to benefit, such as technology, automation, software, and telecommunications.²



Hong Kong

Below are the top 4 largest **technology** companies based on market cap listed in Hong Kong

The Government Work Report (GWR) expanded from 8 key tasks to 10 this year, with the additional 2 tasks focusing on technology and infrastructure development being the top priority.² Technology companies with increased share buybacks/dividends and is related to the digital economy would set to benefit .²

Xiaomi Corp (1810 HK)

- Xiaomi's internet business sees rapid growth in overseas markets with its growing suite of services [South China Morning Post, 18 Mar 2024]
- Xiaomi reported a 10.9% rise in fourth-quarter revenue and beat adjusted net profit estimates boosted by strong smartphone sales as the sector shows signs of recovery [Reuters, 19 Mar 2024]

Market Cap [USD]	47.27 Billion
Current Price	14.82
Analysts' 12M Target Price	18.74
Upside/Downside from Analyst Consensus [%]	26.47%
Indicated Yield	N/A

Semiconductor Manufacturing (981 HK)

- SMIC said the global semiconductor industry was seeing some bright spots after a year-long slump, but growth would be mild as the demand recovery was insufficient to support a "strong and comprehensive" rebound [Reuters, 07 Feb 2024]
- The Biden administration said China's top chipmaker SMIC might have violated US export rules to produce a chip to power Huawei's Mate 60 Pro phone, but is still evaluating the situation [Reuters, 22 Mar 2024]

Market Cap [USD]	24.04 Billion
Current Price	15.50
Analysts' 12M Target Price	16.94
Upside/Downside from Analyst Consensus [%]	9.30%
Indicated Yield	N/A

Lenovo Group Ltd (992 HK)

- Lenovo has added new Nvidia GPU systems to its ThinkSystem servers and announced new computer workstations pre-installed with Nvidia chips. The world's largest PC maker has doubled down on AI, with plans to 'dramatically expand' its portfolio of AI devices through 2025 [South China Morning Post, 19 Mar 2024]

Market Cap [USD]	14.10 Billion
Current Price	8.89
Analysts' 12M Target Price	10.31
Upside/Downside from Analyst Consensus [%]	15.96%
Indicated Yield	4.27%

Sunny Optical Tech (2382 HK)

- Sunny Optical reported 2023 net income and revenue that missed estimates partly due to falling prices and gross margins [Bloomberg, 21 Mar 2024]

Market Cap [USD]	6.03 Billion
Current Price	43.00
Analysts' 12M Target Price	64.50
Upside/Downside from Analyst Consensus [%]	50.00%
Indicated Yield	0.50%



Hong Kong

Below are the top 4 largest **telecommunications** companies based on market cap listed in Hong Kong

The GWR set to drive the construction of a modern industrial system and accelerate the development of new quality productive forces. It specifically mentioned initiatives like "AI+" to promote digitalising traditional industries.² As a result, telecommunication companies plays a vital role in fostering AI and may likely to benefit.

China Mobile Ltd (941 HK)

- China Mobile's guidance for a higher dividend payout by 2026 could give the stock another three years of certainty. Despite weaker-than-expected 4Q results, China Mobile's full-year trends, which are more representative of its growth patterns, remain healthy [Dow Jones Newsires, 22 Mar 2024]

Market Cap [USD]	187.93 Billion
Current Price	66.75
Analysts' 12M Target Price	83.79
Upside/Downside from Analyst Consensus [%]	25.53%
Indicated Yield	7.24%

China Telecom Corp Ltd (728 HK)

- China Telecom added around 2.3 million 5G package subscribers in Feb 2024, bringing its 5G user base to 324.1 million [MT Newswires, 21 Mar 2024]

Market Cap [USD]	70.26 Billion
Current Price	4.09
Analysts' 12M Target Price	5.13
Upside/Downside from Analyst Consensus [%]	25.50%
Indicated Yield	5.82%

China Unicom Hong Kong Ltd (762 HK)

- China Unicom reported around 265.7 million 5G subscribers in Feb 2024 [MT Newswires, 20 Mar 2023]
- China Unicom's wholly-owned subsidiary, Unicom (Huai Lai) Big Data Innovation Industry Co Ltd, was recently founded, with a registered capital of RMB50 million [AAStocks, 20 Dec 2023]

Market Cap [USD]	21.79 Billion
Current Price	5.57
Analysts' 12M Target Price	7.36
Upside/Downside from Analyst Consensus [%]	32.08%
Indicated Yield	6.53%

HKT Trust and HKT Ltd (6823 HK)

- HKT Trust's earnings growth might accelerate on business returning to pre-pandemic normalcy, while interest rates could have peaked. Further roaming revenue recovery -- after reaching 72% of pre-pandemic levels in 2023 -- could boost mobile service revenue growth to the high single digits and sustain service Ebitda margin above 60% [Bloomberg Intelligence, 23 Feb 2024]

Market Cap [USD]	8.77 Billion
Current Price	9.05
Analysts' 12M Target Price	11.37
Upside/Downside from Analyst Consensus [%]	25.65%
Indicated Yield	8.45%



Hong Kong

Below are the top 4 largest **automobiles** companies based on market cap listed in Hong Kong

The GWR acknowledged that there was insufficient effective demand and pledged policy support to optimise supply and reduce restrictive measures to boost domestic demand. Moreover, Premier Li re-emphasised the importance of the renewal and trade-in of durable goods, which could help the sales of automobiles.²

BYD Co Ltd (1211 HK)

- BYD said it is entering the Greek passenger car market with the launch of two models, the latest move from the electric vehicle giant to expand in Europe [Reuters, 21 Mar 2024]
- Battery electric vehicle registrations in China dropped to 215,079 in Feb 2024 from 370,659 the month prior, according to China Automotive Technology and Research Center [Bloomberg, 22 Mar 2024]

Market Cap [USD]	83.50 Billion
Current Price	211.00
Analysts' 12M Target Price	298.43
Upside/Downside from Analyst Consensus [%]	41.44%
Indicated Yield	0.59%

Great Wall Motor Co Ltd (2333 HK)

- Great Wall Motor has started building electric vehicles in Thailand, the Chinese automaker said Friday, one of several companies aiming to take advantage of government subsidies that require local production. Annual production capacity at the plant is now as high as 120,000 vehicles, including the plug-in hybrids and other model already made there [Nikkei Asia, 13 Jan 2024]

Market Cap [USD]	22.53 Billion
Current Price	8.69
Analysts' 12M Target Price	12.30
Upside/Downside from Analyst Consensus [%]	41.57%
Indicated Yield	3.73%

Geely Automobile Holdings Ltd (175 HK)

- Post-2H Earnings Outlook: Geely Auto's rising volume scale and stringent cost control could protect its margins from persistent pricing pressure. Order momentum has stayed strong due to new battery-electrics and plug-in hybrids under the Galaxy, Zeekr and Lynk & Co. brands, and Geely plans nine new electric vehicles this year to boost sales. Price discounts are rising but cheaper raw materials and improved efficiency could drive down production costs [Bloomberg Intelligence, 21 Mar 2024]

Market Cap [USD]	11.43 Billion
Current Price	8.88
Analysts' 12M Target Price	13.37
Upside/Downside from Analyst Consensus [%]	50.57%
Indicated Yield	2.48%

Guangzhou Automobile Group (2238 HK)

- Aion, the electric vehicle unit of Guangzhou Automobile, will buy Hunan Zhixiang Automobile Management, the joint venture formerly named GAC Mitsubishi Motors [Bloomberg, 21 Mar 2024]

Market Cap [USD]	10.23 Billion
Current Price	3.22
Analysts' 12M Target Price	5.18
Upside/Downside from Analyst Consensus [%]	60.71%
Indicated Yield	7.80%

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