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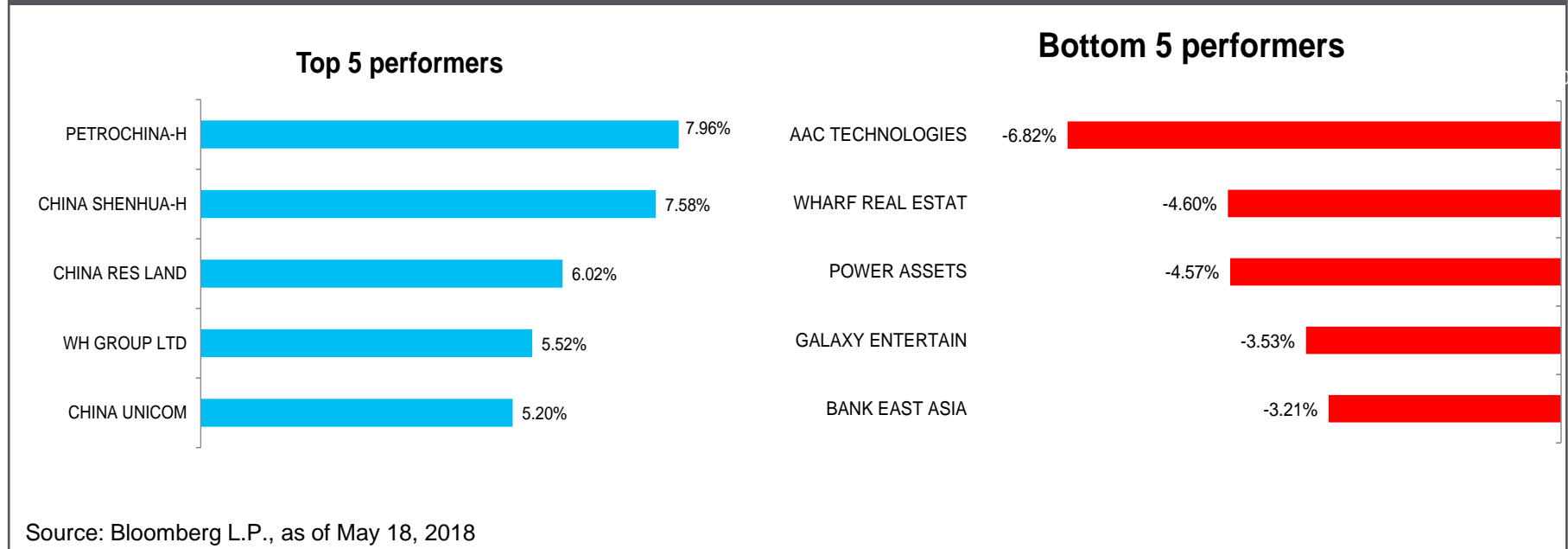
# Stock Spotlight

May 21, 2018



HSI dropped last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers

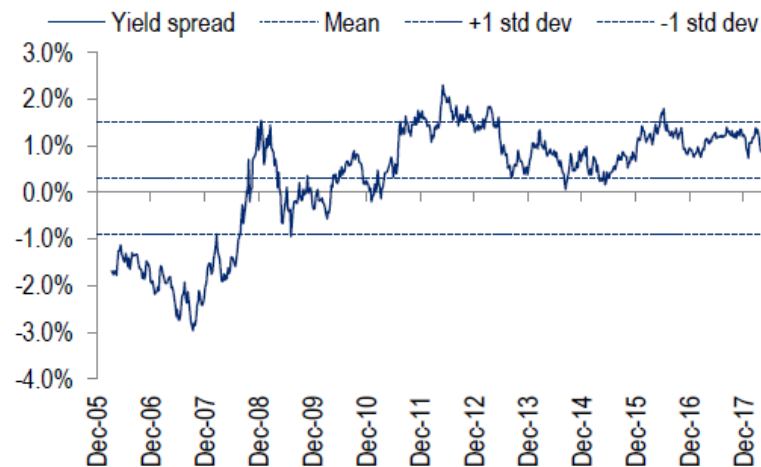


## ❖ The Hang Seng Index dropped 0.2% last week.

- ▶ Two China energy companies, PetroChina and Shenhua, reported returns of more than 7% and were the best performing blue-chips last week.
- ▶ AAC Technologies dropped 6.82% last week and was the worst-performing HSI component stock.

- US 10-year bond yields have approached 3.1%, a level not seen over the past seven years, creating the perception of greater stress for high-yield, low-growth sectors such as telecoms. We look at the yield spreads of the telcos to identify the risk of a share price de-rating linked to rising rates.
- A closer look reveals that the market may have mostly factored in the prospects of higher rates for some telcos. Yield spreads (dividend yield less bond yield) across certain Asian telcos have already corrected sharply over the past three years given the sector's underperformance.
- Among the Asian markets, we find that China telcos are well placed. Yield spreads for these names are typically well above LT mean levels. In this case, rising US yields could have less impact on the share prices with rising rates just bringing them closer to mean levels without de-rating the stocks to achieve this. Leverage amid rising rates is also a non-issue for most of these companies. Some Chinese telcos have seen dividend upticks as well, further protecting rate increases.
- We prefer the telcos traded favorably against their long-term yield spreads vs. the US\$ bonds.

Chart: China telcos yield spread vs. USD bond yield



Source: Citi, as of May 2, 2018

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