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Stock Spotlight

Jun 12, 2017



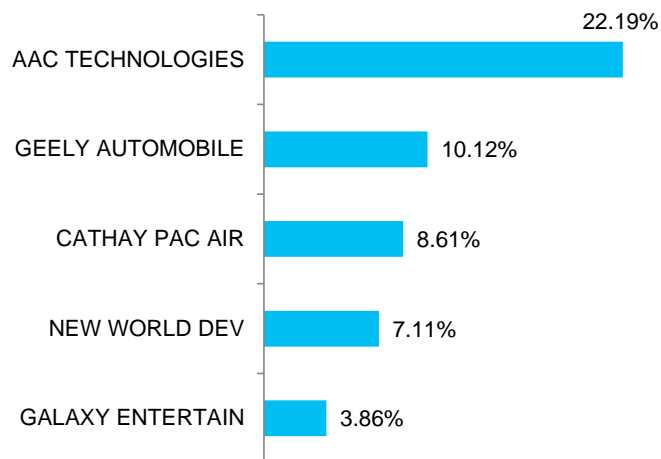
Weekly HK stocks Recap & Leaders/Laggards

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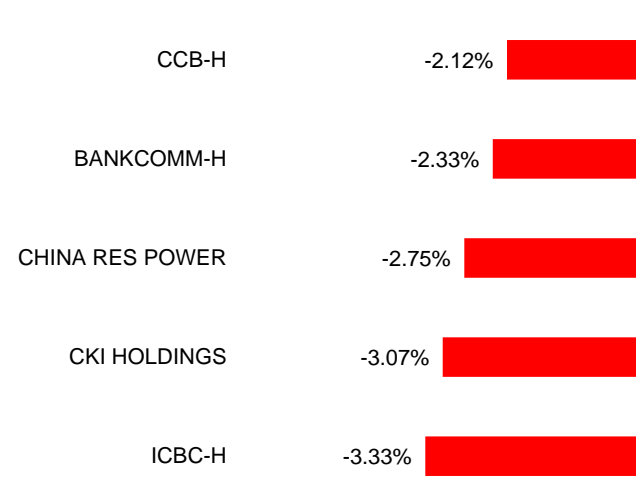
HSI rose last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers

Top 5 performers



Bottom 5 performers



Source: Bloomberg L.P., as of Jun 9, 2017

❖ The Hang Seng Index rose 0.4% to close at 26,030.

- ▶ AAC Technologies (2018.HK) surged 20.5% after resuming trade as Anonymous Analytics released a report to support the Apple supplier.
- ▶ Cathay Pacific (293.HK) rose 8.6% as it laid off 400 staff last week.

Recent rally is driven by improved fundamentals

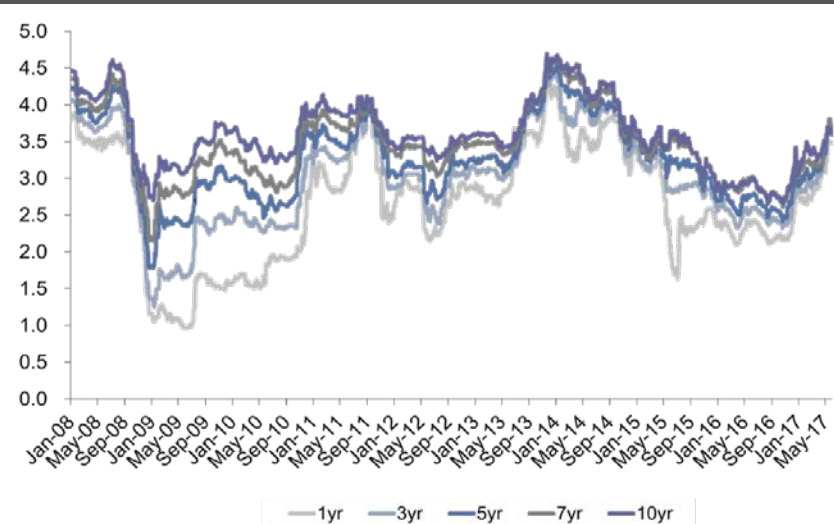
❖ Citi's view - The recent rally is driven by improved fundamentals of the industry.

- ▶ (a) competitive landscape improves as regulatory tightening continues to strengthen;
- ▶ (b) interest spreads expand as bond yields continue to rise while guaranteed rates fall;
- ▶ (c) reserving trends start to reverse in 2H17, hence leading to an earnings upcycle through 2018;
- ▶ (d) Dividend Per Share is likely to rise thanks to profit growth and possible increase in payout ratios.
- ▶ We believe New Business Value growth will stay strong in 2017E (>20%), despite a high base, given lagged impact of 2016's robust agent growth, productivity gains, improved product mix.

❖ Is deleveraging good or bad for insurers?

- ▶ If the economy manages a modest/smooth slowdown (our base case), then financial deleveraging should
- ▶ benefit insurers through higher bond yields and less asset quality concerns in the longer term.

Chart: China government bond yields (%)



Source: Bloomberg, as of Jun 7, 2017

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