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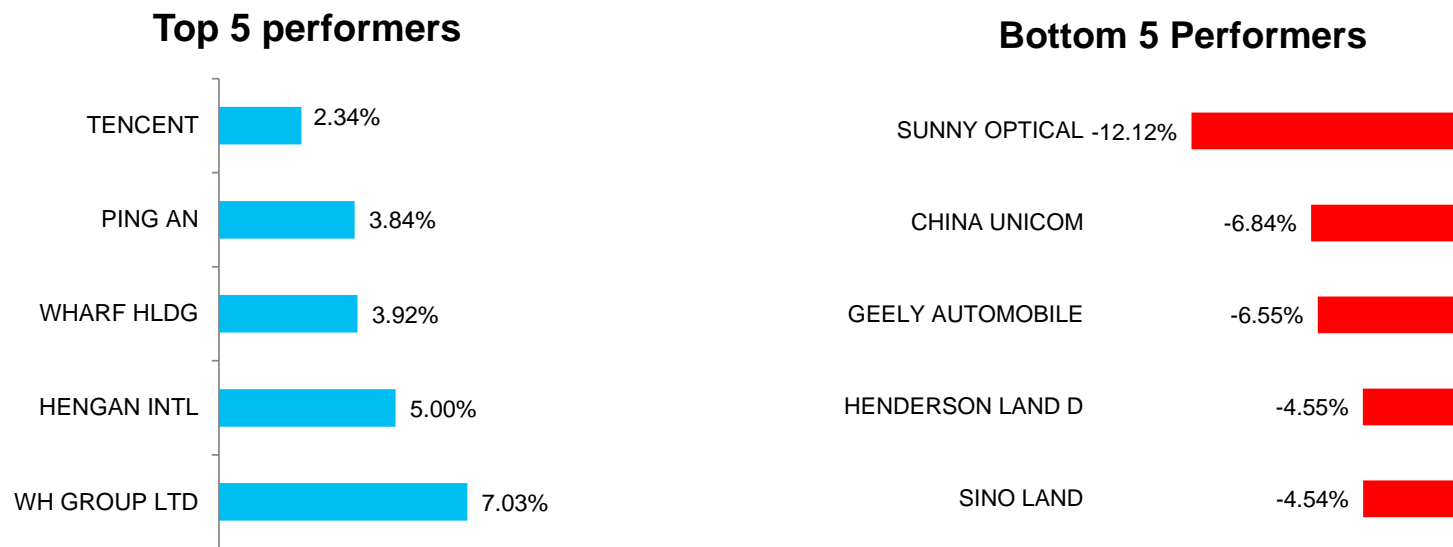
Stock Spotlight

Dec 11, 2017



HSI fell last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers



Source: Bloomberg L.P., as of Dec 8, 2017

❖ The Hang Seng Index fell last week.

- ▶ Sunny Optical Technology Group slid 12.1%, the worst performer on the index. The Apple supplier was admitted to the Hang Seng Index on Monday.
- ▶ Heavyweight stock Tencent Holdings, jumped 4.2% on Friday to erase losses recorded earlier in the week.
- ▶ Also wiping out declines from earlier in the week, Ping An Insurance Group climbed 4.9% on Friday.

❖ Premium market in the making

- Citi believes China's equity market is not just "too-large-to-ignore" but is also attractive. China's time-tested resilience deserves a premium. It is well positioned to capture the growth opportunities ahead.

❖ A more stable and sustainable economy

- Citi estimates that new economy now accounts for 21% of China's GDP and makes up ~45% of China's equity market cap. We expect the new economy to increasingly serve as a growth stabilizer for China.
- Consolidation has been a trend, especially among old economy sectors. Industry leaders are set to benefit, with rising market shares and profitability. The government's long-term housing mechanism should help smooth out volatility in the property market.

❖ Strong earnings growth ahead

- Citi expects MSCI China to deliver high-teen EPS growth in 2018/2019, and ROE is likely to improve from 15.3% in 2017 to 16.1%/16.4% in 2018/19.
- Upward earnings revisions continue, and cross-border trade flows have become an increasingly important market driver. Citi sets the end-2018 MSCI China target at 108, implying ~20% upside. Citi suggests overweight IT, Consumer Discretionary, Healthcare and Property and underweight Consumer Staples, Telecom and Utilities.

Chart: China Equities – Improving ROE



Source: Bloomberg consensus, MSCI, Citi, as of Dec 1, 2017

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