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Stock Spotlight

Apr 8, 2019

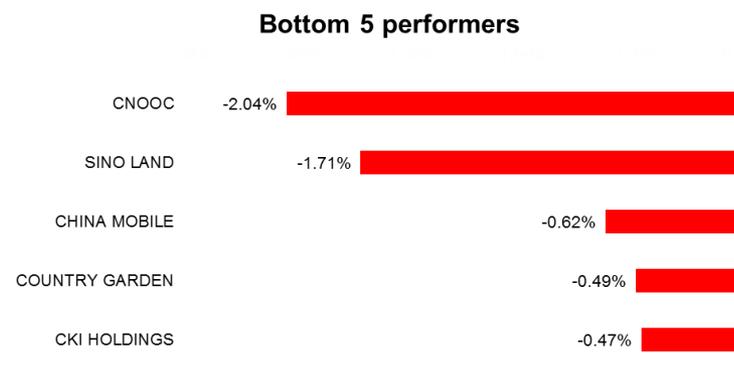
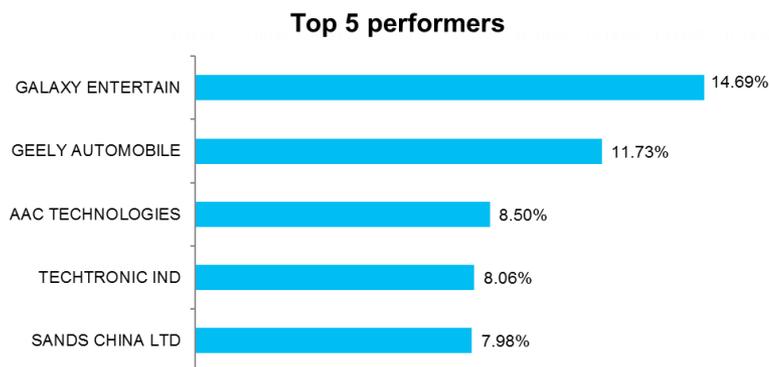


Weekly HK stocks Recap & Leaders/Laggards

2

HSI surged 3.05% last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers



Source: Bloomberg L.P., as of Apr 4, 2019

❖ The Hang Seng Index jumped 3% and touched the 30,000 level last week.

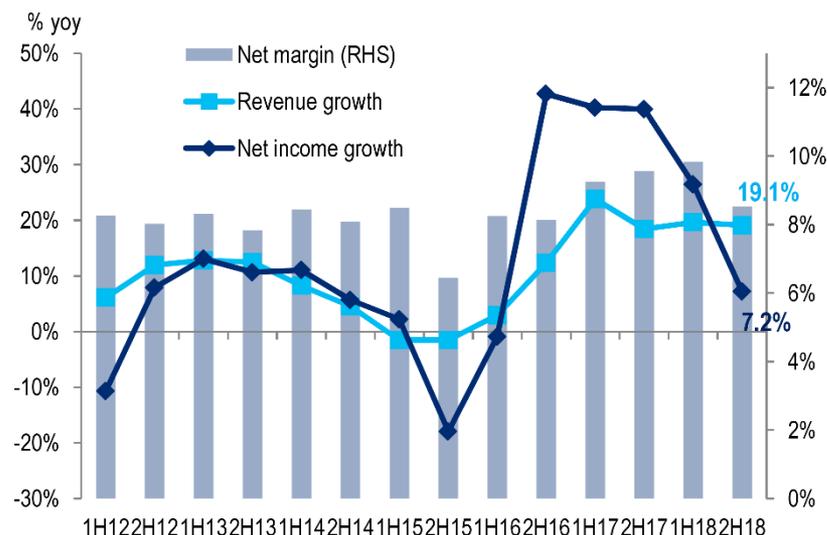
- ▶ Macau gaming revenue dropped 0.4% YoY to MOP25.8bn in March, but still exceeded market projections. Galaxy(0027.HK) surged more than 14% and Sands(1928.HK) rose about 8% last week.
- ▶ BoCHK(2388.HK) reported 2H18 EPS of HK\$1.36, -16% hoh/+6% yoy, inline with estimates. BoCHK delivered strong NIM expansion, above peers loan growth and stable asset quality. Share price jumped more than 7% last week.

- As expected, China equities' earnings growth decelerated notably in 2H18. MSCI China's core earnings grew 3% yoy (in Rmb terms) in 2H18, vs. 17% in 1H18.
- In terms of market cap, 56% of the MXCN constituents had in-line (within 5%) earnings relative to Bloomberg consensus. Companies with earnings beats accounted for 21% of the index market cap, while the remaining 23% missed expectations.

Sharp earnings growth slowdown in 2H18



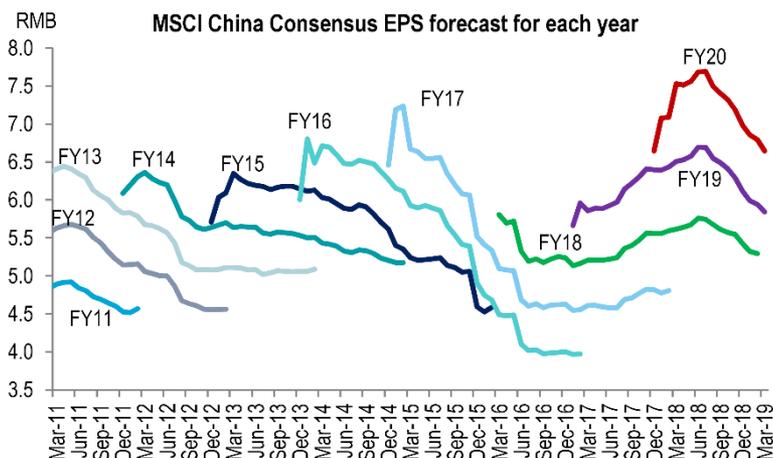
Top-line growth resilient



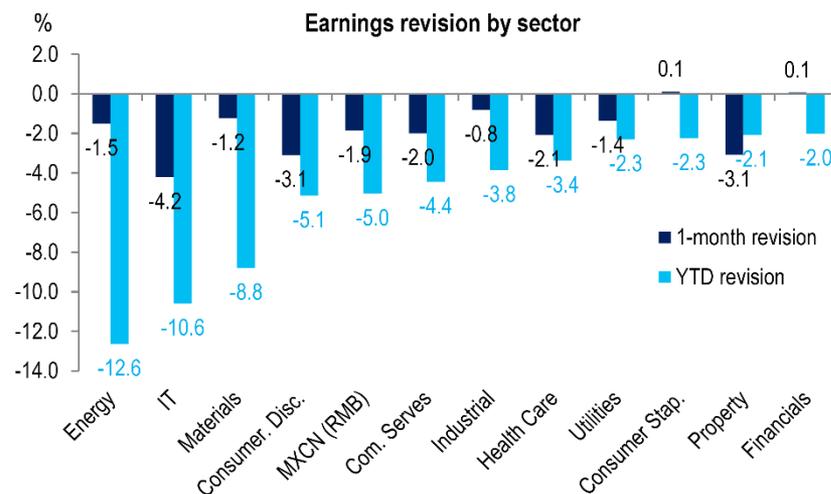
Source: Bloomberg, MSCI, Citi Research, as of Apr 4, 2019

- The downward earnings forecast revision since mid-2018 continued going into 2019. The downward revision could last for a few more months, as earnings could remain weak in 1H19. In particular, we see downside earnings risks for Tech, Healthcare and Utilities.
- The intensity of the downward revision has eased since the beginning of the year. Earnings revision ratios have improved in recent months, which bode well for market performance.

MSCI China historical EPS forecast revision



MSCI China sector earnings forecast revision



Source: Bloomberg, FactSet, MSCI, Citi Research, as of Apr 4, 2019

- Going in to 2H19, earnings growth could re-accelerate. We expect MXCN's earnings to grow 13% yoy in 2019, vs. 11% in 2018. Growth could pick up to 16% in 2020.
- Given a more accommodative policy stance from global central banks, positive development in trade talks and domestic policymaking, we raise our equity market valuation target to 12.0x fwd P/E for MSCI China and 13.5x for CSI300, which are around the historical average levels. We raise our Dec-19 MXCN / CSI300 index targets to 93.5 / 4,600, implying 10% / 15% upside from the current levels.

MXCN historical fwd P/E valuation



CSI300 historical fwd P/E valuation



Source: Bloomberg, FactSet, Citi Research, as of Apr 4, 2019

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