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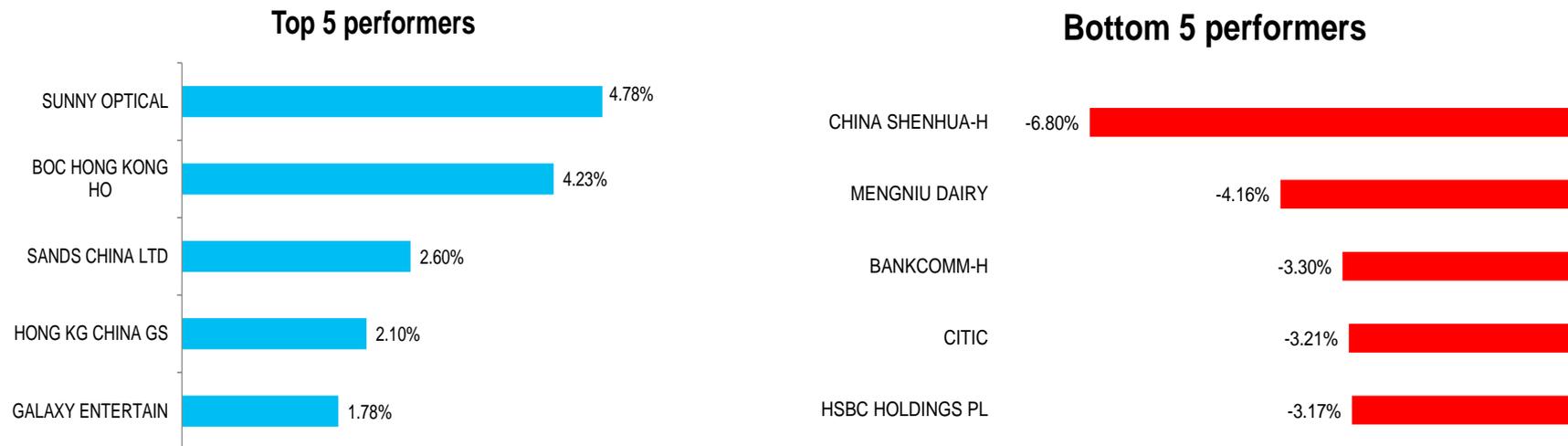
Stock Spotlight

May 7, 2018



HSI dropped last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers



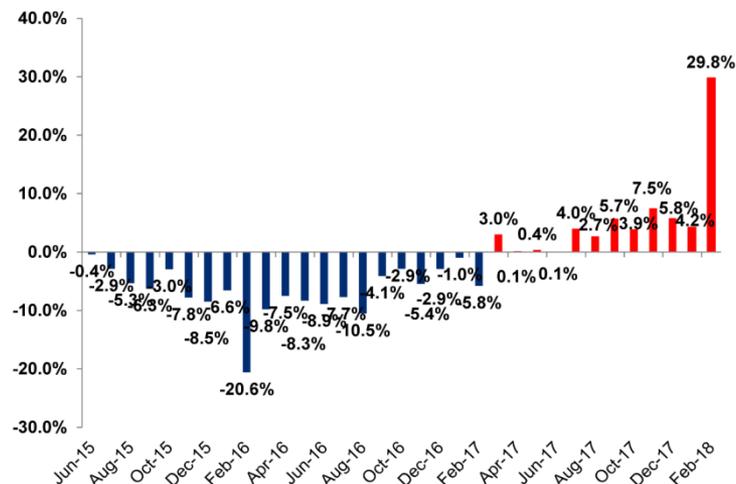
Source: Bloomberg L.P., as of May 4, 2018

❖ The Hang Seng Index retreated 1.2% last week.

- ▶ HSBC reported a first-quarter pretax profit decline of 4% from a year earlier and surprised the market. HSBC also announced a repurchase plan up to \$2 billion, but claimed this would be its only buyback for the year.
- ▶ Lens manufacturer Sunny Optical Technology climbed 4.78% and was the best-performing blue-chip last week.

- ❖ HK retail sales got a boost from strong inbound tourism from the Mainland during the 3-day Labor Day Holiday since Sunday.
- ❖ Overall arrivals, retail sales value, and mainland day-tour visitors reported strong numbers. Visibility of retail sales increase is also supported by high hotel occupancy, especially in key shopping districts.
- ❖ We affirm our positive view on HK retail sales. We see the pace accelerating in 1H18 due to: 1) appreciation of RMB and strong growth in inbound tourism; 2) a steady job market with modest pay hikes, driving local spending; 3) deferred impact of positive wealth effects from higher home prices; and 4) low base after a three-year decline in luxury items.
- ❖ Transport and Housing Bureau indicates that there could be 96,000 flats for sale in the next 3-4 years. The number of unsold units in completed projects was flat at 9,000 units. The number of unsold units under construction rose to 64,000 from 61,000 observed in the last quarter. The units from disposed sites where construction may start anytime declined 4,000 to 23,000.
- ❖ We expect overall supply demand to reach an equilibrium for the next 3 years (2018-2020). However, it does not change our expectation of home prices seeing a strong rally in 1H18. Such strong home price increase is driven by: 1) high season post CNY; 2) positive wealth effects, better bonus and higher pay rise; 3) a low-liquidity secondary market accelerating upward momentum; and 4) developers turning more aggressive on pricing of new launches.

HK Retail Sales Performance from 2015



Source: Citi, as of Apr 30, 2018

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