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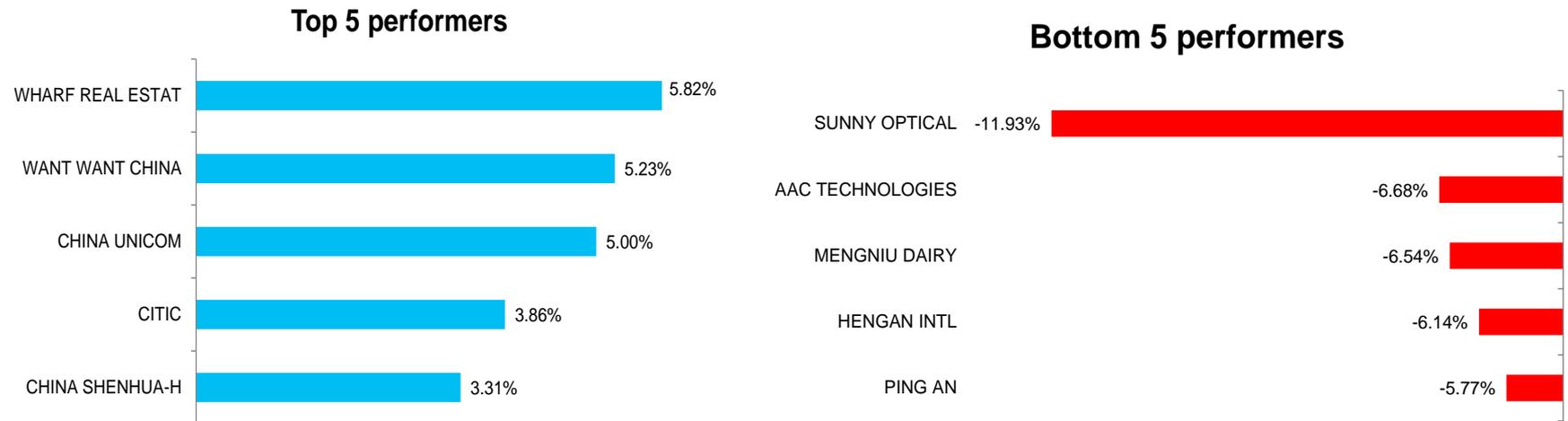
Stock Spotlight

Apr 30, 2018



HSI dropped last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers



Source: Bloomberg L.P., as of Apr 27, 2018

❖ The Hang Seng Index retreated 0.5% last week.

- ▶ Apple suppliers Sunny Optical Technology Group and AAC Technologies Holdings recorded a loss of 11.93% and 6.66% and were the worst performing blue-chip stocks.
- ▶ Shares of Wharf Real Estate climbed 7 days in a row and advanced 5.82% last week.

Structural and cyclical prospects for China Insurers

- ❖ **Structural driver:** China has reached a takeoff point for life insurance as half of the national life market has surpassed US\$10,000 per-capita GDP. Developed market experiences suggest once penetration takes off, the secular uptrend would last for 10+ years and there is usually also a product mix shift to health insurance.
- ❖ **Cyclical driver:** We expect notable earnings growth in 2018 (esp. 1H18) due to turnaround of the life reserving cycle, elevated bond yields and low base effect. We also believe DPS would grow strongly alongside earnings in 2018, and payout ratio could possibly still rise in some cases.

HK Banks in abundant liquidity and rates hikes

- ❖ **Liquidity:** HK banks' ROA is resilient or even improves during periods of abundant liquidity. The under-appreciated benefits of liquidity include: 1) low funding cost, which mitigates the risks of loan spread compression; 2) increased level of lending and market activities, higher asset prices and consequently better non-NII; and 3) benign asset quality.
- ❖ **Rate hikes:** NIM is structurally lower due to lending margin compression and is unlikely to recover to pre-GFC levels. Pace of NIM expansion could slow if funding costs were to rise. We forecast up to 26bps further NIM expansion by end of 2021.
- ❖ **Loan growth:** Tight liquidity in mainland China is positive for HK banks' loan growth. There is no sign of a slowdown in credit demand from the 16% loan growth in 2017.
- ❖ HK banks' EPS growth leads regional DM banks on the back of NIM expansion and strong loan growth.

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