

*INVESTMENT PRODUCTS: NOT A BANK DEPOSIT. NOT GOVERNMENT INSURED. NO BANK GUARANTEE. MAY LOSE VALUE



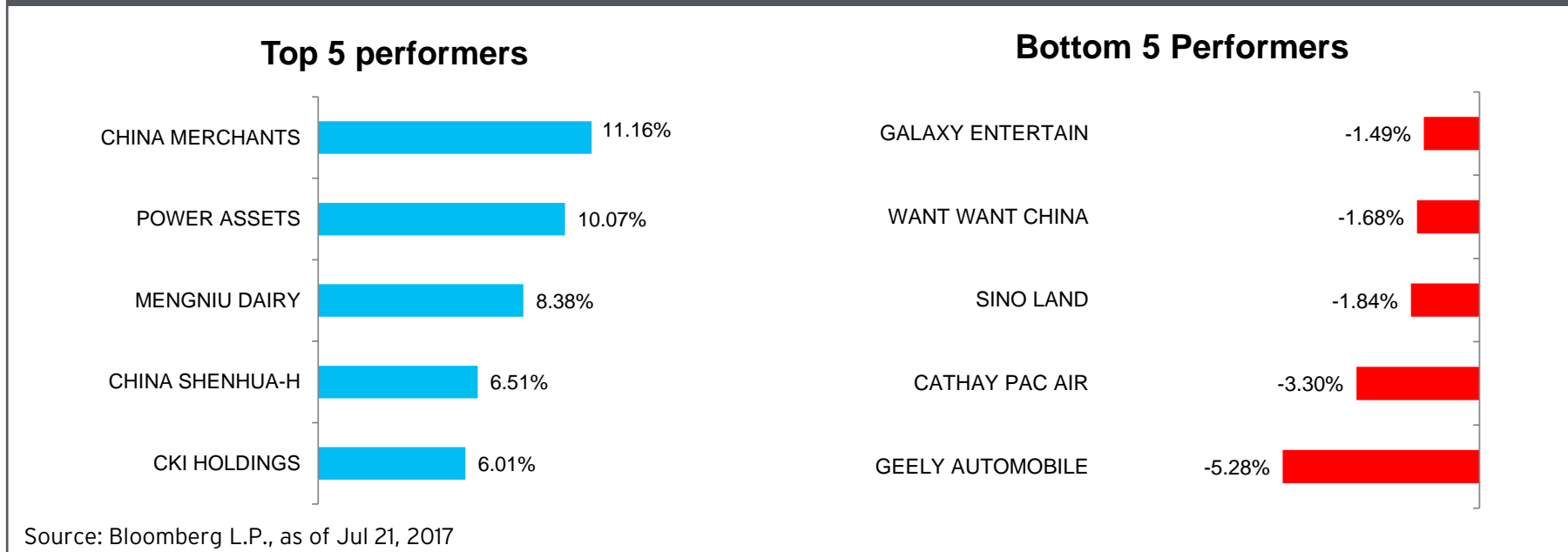
Stock Spotlight

Jul 24, 2017



HSI rose last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers



❖ The HSI rose 1.2% last week

- ▶ China Merchants Port Holdings (144.HK) surged 11.2% as it announced a more than 50% rise in expected profit for 1H.
- ▶ Power Assets (6.HK) jumped 10.1% as it announced a HK\$7.5 special dividend per share.
- ▶ Tencent (700.HK) once touched HK\$300.6, a record high, last Friday and closed the week at HK\$297.

❖ The following factors may drive re-rating for Chinese Banks

❖ Driver #1:

- ▶ Lower risk of over-tightening. Despite a clampdown on shadow banking, the risk of over-tightening is low, in our view - With financial stability and risk prevention cited as top priorities in 5th National Financial Work Conference.

❖ Driver #2:

- ▶ Sector-wide NIM expansion in 2H. Our proprietary analysis suggests hikes in market rates in 1H17 would drive up corporate loan yields by as much as 75bp (to 6.19%) in 2017E, pushing them towards corporate ROIC of 6.75%.

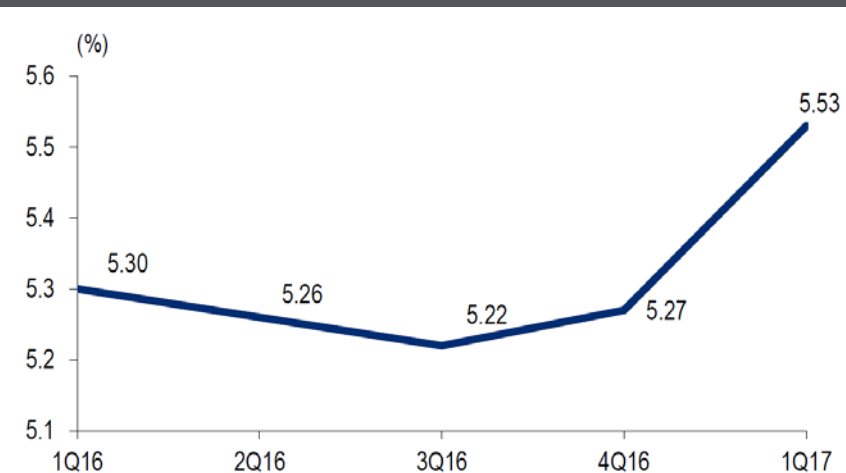
❖ Driver #3:

- ▶ NPLs are peaking out. We believe 2Q17 results will confirm our view that China banks' NPLs have already passed the peak, despite higher loan yields under deleveraging and the tightening cycle.

❖ Driver #4:

- ▶ Better Balanced Sheet transparency. Stepped-up regulatory tightening on shadow banking activities will push banks to further cut their shadow banking exposure both on- and off-B/S in future years.

Chart: China banks: average loan yield trend



Source: Wind, Citi, as of July 18, 2017

Important Disclosure

“Citi analysts” refers to investment professionals within Citi Research (CR) and Citi Global Markets (CGM) and voting members of the Global Investment Committee of Global Wealth Management.

Citibank N.A. and its affiliates / subsidiaries provide no independent research or analysis in the substance or preparation of this document. Investment products are not available to US persons and not all products and services are provided by all affiliates or are available at all locations.

This document is for general informational purposes only and is not intended as a recommendation or an offer or solicitation for the purchase or sale of any security, currency, investment, service or to attract any funds or deposits. Save to the extent provided otherwise in the Terms and Conditions for Accounts and Services or other applicable terms and conditions, information in this document has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Therefore, investment products mentioned in this document may not be suitable for all investors. Any person considering an investment should seek independent advice on the suitability or otherwise of a particular investment. Before making any investment, each investor must obtain the investment offering materials, which include a description of the risks, fees and expenses and the performance history, if any, which may be considered in connection with making an investment decision. Each investor should carefully consider the risks associated with the investment and make a determination based upon the investor’s own particular circumstances, that the investment is consistent with the investor’s investment objectives

In any event, past performance is no guarantee of future results, and future results may not meet our expectations due to a variety of economic, market and other factors. Further, any projections of potential risk or return are illustrative and should not be taken as limitations of the maximum possible loss or gain. Investments are not deposits or other obligations of, guaranteed or insured by Citibank N.A., Citigroup Inc., or any of their affiliates or subsidiaries, or by any local government or insurance agency, and are subject to investment risk, including the possible loss of the principal amount invested. Investors investing in funds denominated in non-local currency should be aware of the risk of exchange rate fluctuations that may cause a loss of principal.

Neither Citigroup nor its affiliates can accept responsibility for the tax treatment of any investment product, whether or not the investment is purchased by a trust or company administered by an affiliate of Citigroup. Citigroup assumes that, before making any commitment to invest, the investor and (where applicable, its beneficial owners) have taken whatever tax, legal or other advice the investor/beneficial owners consider necessary and have arranged to account for any tax lawfully due on the income or gains arising from any investment product provided by Citigroup. If an investor changes country of residence, citizenship, nationality, or place of work, it is his/her responsibility to understand how his/her investment transactions are affected by such change and comply with all applicable laws and regulations as and when such becomes applicable.



Important Disclosure

Although information in this document has been obtained from sources believed to be reliable, save to the extent provided otherwise in the Terms and Conditions for Accounts and Services or other applicable terms and conditions, Citigroup and its affiliates do not guarantee its accuracy or completeness and accept no liability for any direct or consequential losses arising from its use. Opinions expressed herein may differ from the opinions expressed by other businesses or affiliates of Citigroup, and are not intended to be a forecast of future events, a guarantee of future results or investment advice, and are subject to change based on market and other conditions. The information contained herein is also not intended to be an exhaustive discussion of the strategies or concepts.

At any time, Citigroup companies may compensate affiliates and their representatives for providing products and services to clients.

This is not an official statement of Citigroup Inc. and may not reflect all of your investments with or made through Citibank. For an accurate record of your accounts and transactions, please consult your official statement.

If this document shows information coming from Citi Research, please refer to the attached link:

https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures , which contains the important disclosures regarding companies covered by Citi's Equity Research analysts, and please refer to the attached link:

<https://ir.citi.com/PuXs6xELNHau7UqkjgvWxnihtUeLtAtDxeEh%2B2qaPpPb7uukpx8Qw1vzcuidtMtqgn1BWqJqak8%3D> for details on the Citi Research ratings system.

This document may not be reproduced or circulated without Citigroup written authority. The manner of circulation and distribution may be restricted by law or regulation in certain countries. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorised use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.

This document is distributed in Hong Kong by Citibank (Hong Kong) Limited ("CHKL"). Prices and availability of financial instruments can be subject to change without notice. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested.



Important Disclosures on RMB

Risk relating to RMB - If you choose RMB as the base currency or the alternate currency, you should also note the following:

RMB is currently not freely convertible through banks in Hong Kong. Due to exchange controls and/or restrictions imposed on the convertibility, utilisation or transferability of RMB (if any) which in turn is affected by, amongst other things, the PRC government's control, there is no guarantee that disruption in the transferability, convertibility or liquidity of RMB will not occur. There is thus a likelihood that you may not be able to convert RMB received into other freely convertible currencies.

CNH exchange rates and CNY exchange rates are currently quoted in different markets with different exchange rates, whereby their exchange rate movements may not be in the same direction or magnitude. Therefore, the CNH exchange rate may be different from the CNY exchange rate.

