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Stock Spotlight

Sep 25, 2017



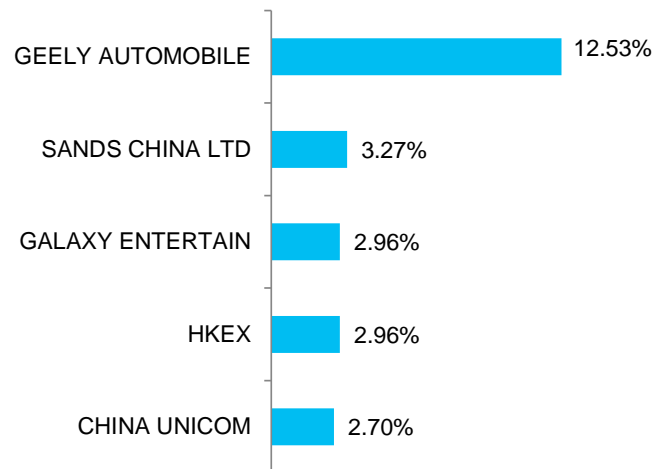
Weekly HK stocks Recap & Leaders/Laggards

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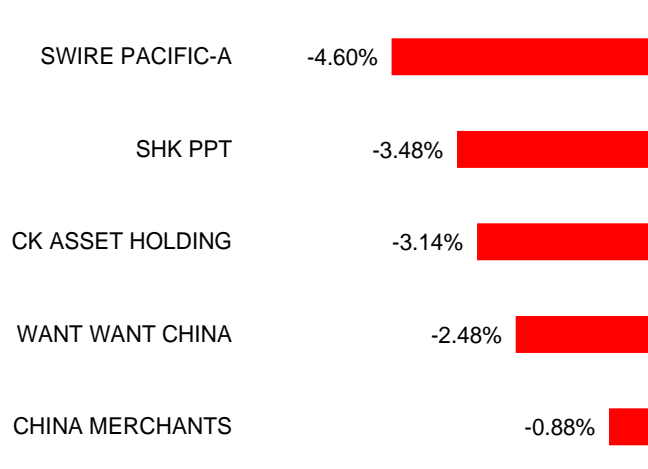
HSI rose last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers

Top 5 performers



Bottom 5 Performers



Source: Bloomberg L.P., as of Sep 22, 2017

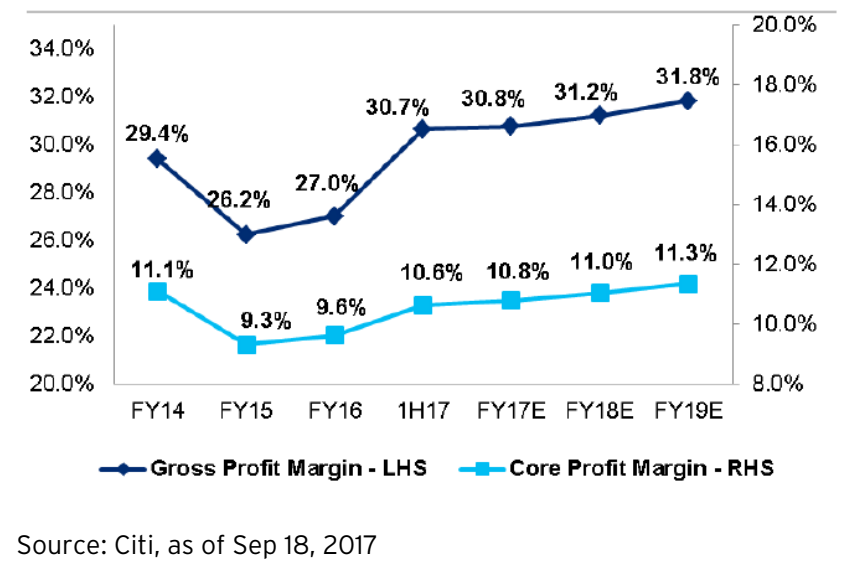
❖ The Hang Seng Index rose 0.3% last week.

- ▶ Carmakers continue their run of popularity that began when China announced earlier this month it was considering a ban on petrol and diesel cars.
- ▶ BYD, China's biggest electric vehicle maker, soared while Geely Auto, a Hang Seng Index component, was the top gainer among blue-chip stocks, up 12.5% to a record high.

❖ **We believe the sector's current re-rating is sustainable over multi-years in 3 stages**

- ▶ **First stage re-rating completed (2H16 to Aug 17):** In this stage, the sector's past distorted valuation (average 5-6x PE) on expectations of a "bubble-burst" was "repaired" (back to 7x by Aug)
- ▶ **Now: Second stage re-rating (Aug-17 to mid-19E):** Starting with upbeat 1H17 results (link), we see the second stage of the re-rating being driven by a strong earnings upcycle in '17-19E (+38%/22%/20%, +26% CAGR, with potential upside) and ROE rebound (13.3%-15.5% in '17-19E). Current valuations (7.2x '18 PE) should further expand, say to 9-10x PE, which would still be cheap on a global basis (average 16.1x PE).
- ▶ **Third stage re-rating (post '19) -** In this stage, valuation multiples further expand, say to 10-12x PE or even higher, for a more "mature" market - i) Government's longterm housing mechanism is largely in place; Policy uncertainty reduces. Listed names transform to mature business models.

Chart: China Property - Strong Margin Rebound



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