

Markets at a Glance

Indices	Closing	DoD%
Hang Seng Index	26523.2	3.9
HSCEI	10288.2	2.5
Shanghai COMP	2957.4	0.9
Shenzhen COMP	1636.4	0.7
Gold	1552.4	0.3
BDIY	2501.0	2.4
Crude Oil, WTI (US\$/BBL)	56.3	4.3
Crude Oil, BRENT (US\$/BBL)	60.7	4.2
HIBOR, 3-M	2.3	(0.2)
SHIBOR, 3-M	2.7	0.0
RMB/USD	7.15	(0.5)

Source: Bloomberg

Upcoming Key Data Releases

Date	Key Data
7 th September	Foreign Exchange Reserves AUG
8 th September	Balance of Trade AUG
8 th September	Exports YoY AUG
8 th September	Imports YoY AUG

Source: Bloomberg

Research Contact**Wong Chi Man, Head of Research**

T: (852) 3698 6317

E: cmwong@chinastock.com.hk

CGIS Yum Cha Daily

RESEARCH NOTES

STRATEGY – Carrie Lam officially withdrew the extradition bill yesterday, which triggered a 3.9% rebound in the Hang Seng Index. However, it may not be enough to satisfy the protestors. There may be some room for large cap Hong Kong plays to rebound, but it may not be sustainable if we continue to see protests during the weekend and the National holiday. Some large cap H-share companies may be a better choice, as there is potential for the A-H price difference to narrow, and they have very limited Hong Kong exposure. (Analyst: Wong Chi-man)

SNIPPETS

CHINESE ECONOMY – The Ministry of Finance has asked some cities in Shanxi, Jilin and Jiangxi provinces to submit the information related to the utilization of newly issued bonds in 7M2019 and the expected needs of new local government bond issue for 2020, according to Caixin. The move is earlier than previous years by about three months. It may suggest the local government bonds for 2020 will be issued in Q1 2020, similar to the case in 2019. In the past, new local government bonds were usually issued after March. It will ensure a stable funding support to infrastructure projects, in our view. (Analyst: Wong Chi-man)

Hong Kong

Hong Kong Strategy

Uncertainty remains

- Carrie Lam officially withdrew the extradition bill yesterday, which triggered a 3.9% rebound in the Hang Seng Index.
- However, it may not be enough to satisfy the protestors.
- There may be some room for large cap Hong Kong plays to rebound, but it may not be sustainable if we continue to see protests during the weekend and the National holiday.
- Some large cap H-share companies may be a better choice, as there is potential for the A-H price difference to narrow, and they have very limited Hong Kong exposure.

Extradition bill officially withdrawn

Hong Kong chief executive Carrie Lam officially announced the withdrawal of the extradition bill yesterday, which triggered a major rally in the Hong Kong market. She also mentioned that she and her principal officials will reach out to the community to start a direct dialogue.

Too early to expect the situation will be back to normal

Although we saw a huge rally yesterday, it is too early to assume everything will be back to normal soon. A Bloomberg news headline “Lam’s Retreat in Hong Kong Fails to Satisfy Impatient Protesters” properly summarizes the latest situation, in our view. More than 1,000 protestors have been arrested so far, as they have held running battles with the police. Some key demands from the protestors, such as “amnesty for arrested protestors” and “dual universal suffrage”, may be very difficult for the government to make any concession on in the near term.

Short-term rebound for HK plays, but may not be sustainable

Figure 1 shows that the Hang Seng Index has dropped 7.2% since late July, when the protests turned more violent, and many people came to realize that the situation might not be resolved in the near term. Figure 2 shows the Hang Seng Large Cap Index stocks that underperformed against the Hang Seng Index during this period. Many of them are Hong Kong property, hotel and financial plays. Macau plays are also indirectly affected. Some companies, like HK & Shanghai Hotels (0045.HK), Swire Pacific (0019.HK), SJM (0880.HK; HOLD; TP: HK\$8.85), Wynn Macau (1128.HK; ADD; TP: HK\$21.46) and Shangri-La Asia (0069.HK), have dropped more than 15% since late July even after the rebound yesterday. There may still be some room for a rebound. However, as we mentioned above, protestors may come out again during the weekend and the National holiday to fight for the remaining demands. This implies that a sharp recovery in mainland Chinese and overseas tourist arrivals seems unlikely. Therefore, the share price rebound may not last long.

Potential for the A-H price difference to narrow

The Hong Kong market has underperformed A-share market recently, partly because of the social unrest. Figure 3 shows that the Hang Seng AH Premium Index remains at a high level compared with the past 18 months, although it has already come down a bit. We believe there is potential for the A-H price difference to narrow further as these A-H dual-listed companies have no or very limited business exposure in Hong Kong. As Figure 4 shows, the A-share premium is still far above the 3-year average for stocks like CCB (0939.HK; ADD; TP: HK\$10.10), ABC (1288.HK; ADD; HK\$5.30), BOC (3988.HK; ADD; HK\$5.60), China Life (2628.HK; REDUCE; TP: HK\$17.90) and CITIC Securities (6030.HK; HOLD; TP: HK\$14.90).

Analysts

Wong Chi Man

T (852) 3698 6317
 E cmwong@chinastock.com.hk

Mark Lau

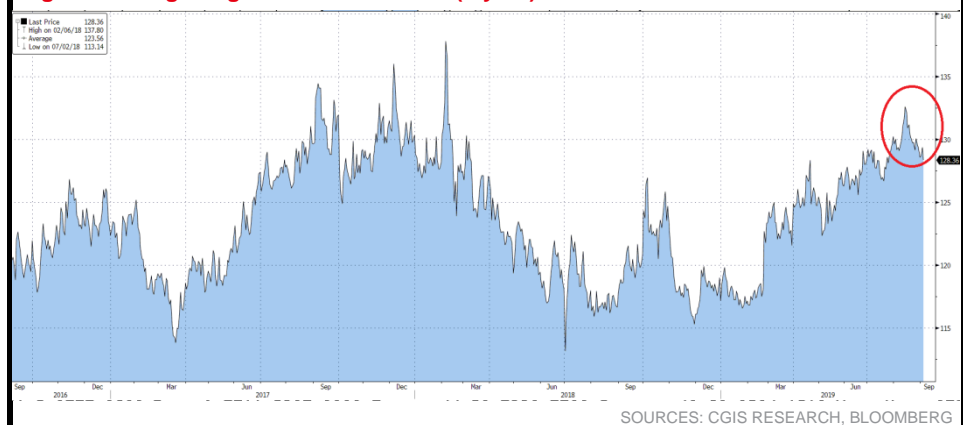
T (852) 3698 6393
 E marklau@chinastock.com.hk



Figure 2: Hang Seng Large Cap Index stocks which have underperformed against HSI since July 25

Ticker	Company name	Share price (HK\$)	Share price performance since July 25	Market cap (HK\$m)	2019F P/E (x)	2020F P/E (x)	P/BV (x)	Dividend yield (%)
607 HK Equity	Fullshare Holdings Ltd	0.209	-31.5%	4,123	n.a.	n.a.	0.18	n.a.
45 HK Equity	Hongkong & Shanghai Hotels Ltd/The	8.12	-24.0%	13,228	26.62	24.98	0.34	1.79
2018 HK Equity	AAC Technologies Holdings Inc	34.9	-22.4%	42,177	15.57	12.48	2.05	3.01
3333 HK Equity	China Evergrande Group	16.94	-20.8%	222,392	4.40	4.01	1.52	13.70
992 HK Equity	Lenovo Group Ltd	5.27	-18.9%	63,318	9.89	8.73	2.30	4.91
19 HK Equity	Swire Pacific Ltd	77.85	-18.9%	106,491	12.81	11.32	0.43	4.30
1141 HK Equity	CMBC Capital Holdings Ltd	0.16	-18.8%	7,633	n.a.	n.a.	4.07	n.a.
880 HK Equity	SJM Holdings Ltd	7.68	-18.2%	43,500	15.36	17.22	1.56	3.70
966 HK Equity	China Taiping Insurance Holdings Co Ltd	18.1	-17.5%	65,052	6.81	6.24	0.91	0.94
683 HK Equity	Kerry Properties Ltd	26.45	-16.6%	38,524	6.95	6.79	0.39	5.22
288 HK Equity	WH Group Ltd	6.82	-16.3%	100,326	11.15	9.89	1.65	5.17
1128 HK Equity	Wynn Macau Ltd	16.36	-15.5%	85,022	14.85	13.20	55.99	6.34
69 HK Equity	Shangri-La Asia Ltd	8.23	-15.3%	29,509	20.59	18.42	0.61	2.86
257 HK Equity	China Everbright International Ltd	6.21	-13.8%	38,148	7.26	6.09	1.07	4.14
322 HK Equity	Tingyi Cayman Islands Holding Corp	11.16	-13.1%	62,757	21.69	19.68	2.91	3.62
2388 HK Equity	BOC Hong Kong Holdings Ltd	27.1	-12.9%	286,522	8.63	8.25	0.98	5.69
1038 HK Equity	CK Infrastructure Holdings Ltd	52.9	-12.6%	140,221	12.22	11.96	1.31	4.73
1044 HK Equity	Hengan International Group Co Ltd	52.9	-12.6%	62,934	14.53	13.42	3.48	4.69
11 HK Equity	Hang Seng Bank Ltd	171.7	-12.3%	328,263	12.87	12.74	2.04	4.77
4 HK Equity	Wharf Holdings Ltd/The	17.78	-12.0%	54,187	8.16	7.60	0.40	3.71
788 HK Equity	China Tower Corp Ltd	1.86	-11.8%	327,376	56.53	36.87	1.65	1.00
83 HK Equity	Sino Land Co Ltd	11.64	-11.7%	79,350	14.88	7.59	0.56	4.89
66 HK Equity	MTR Corp Ltd	47.35	-11.7%	291,486	24.08	21.31	1.61	2.69
3 HK Equity	Hong Kong & China Gas Co Ltd	15.52	-11.5%	262,677	31.42	29.34	4.18	2.34
883 HK Equity	CNOOC Ltd	11.74	-11.5%	524,161	8.48	8.20	1.11	5.61
1972 HK Equity	Swire Properties Ltd	27	-11.3%	157,950	19.00	18.38	0.55	3.28
20 HK Equity	Wheelock & Co Ltd	47.15	-11.0%	96,589	6.31	6.09	0.38	3.52
17 HK Equity	New World Development Co Ltd	10.6	-10.9%	108,390	12.09	12.60	0.49	4.72
2282 HK Equity	MGM China Holdings Ltd	12.22	-10.8%	46,436	18.86	14.88	5.19	2.09
3311 HK Equity	China State Construction International Holdings Ltd	7.15	-10.7%	36,101	6.45	5.57	0.94	4.57
1113 HK Equity	CK Asset Holdings Ltd	56.2	-10.5%	207,569	7.16	8.22	0.62	3.77
23 HK Equity	Bank of East Asia Ltd/The	20.05	-10.5%	58,079	18.45	9.71	0.62	3.26
3320 HK Equity	China Resources Pharmaceutical Group Ltd	7.8	-10.4%	49,019	10.54	9.32	1.24	1.96
5 HK Equity	HSBC Holdings PLC	57.9	-10.4%	1,168,208	10.27	10.20	0.88	6.92
2799 HK Equity	China Huarong Asset Management Co Ltd	1.21	-10.4%	47,275	5.01	4.12	0.36	5.44
78 HK Equity	Regal Hotels International Holdings Ltd	4.33	-10.2%	3,892	n.a.	n.a.	0.30	n.a.
659 HK Equity	NWS Holdings Ltd	13.68	-10.1%	53,504	11.59	10.47	1.08	4.75
144 HK Equity	China Merchants Port Holdings Co Ltd	12.04	-10.0%	41,158	7.92	8.87	0.53	8.15
2628 HK Equity	China Life Insurance Co Ltd	18.68	-9.8%	807,286	10.69	11.49	1.31	3.26
386 HK Equity	China Petroleum & Chemical Corp	4.66	-9.7%	652,371	8.27	7.91	0.71	7.93
3328 HK Equity	Bank of Communications Co Ltd	5.27	-9.6%	421,723	4.75	4.55	0.54	6.45
12 HK Equity	Henderson Land Development Co Ltd	38.7	-9.4%	187,362	11.77	11.28	0.60	4.65
1800 HK Equity	China Communications Construction Co Ltd	6.23	-9.2%	169,056	4.35	3.99	0.45	4.47
1 HK Equity	CK Hutchison Holdings Ltd	68.9	-9.2%	265,695	6.64	6.17	0.60	4.77
1114 HK Equity	Brilliance China Automotive Holdings Ltd	8.34	-9.1%	42,078	5.73	5.06	1.23	2.56
688 HK Equity	China Overseas Land & Investment Ltd	25.65	-9.0%	281,027	6.22	5.34	0.99	4.29
1398 HK Equity	Industrial & Commercial Bank of China Ltd	5.07	-9.0%	2,057,604	5.36	5.09	0.71	5.62
6 HK Equity	Power Assets Holdings Ltd	52.55	-8.9%	112,155	15.13	14.97	1.36	5.35
3968 HK Equity	China Merchants Bank Co Ltd	37.3	-8.9%	960,666	9.61	8.51	1.61	3.13
267 HK Equity	CITIC Ltd	9.64	-8.9%	280,430	5.22	4.99	0.50	4.46
1997 HK Equity	Wharf Real Estate Investment Co Ltd	46.3	-8.6%	140,577	13.73	13.31	0.64	4.72
857 HK Equity	PetroChina Co Ltd	3.91	-8.4%	1,181,831	11.57	10.64	0.53	4.82
700 HK Equity	Tencent Holdings Ltd	341.2	-8.4%	3,260,253	31.37	25.84	7.66	0.33
16 HK Equity	Sun Hung Kai Properties Ltd	118.5	-8.0%	343,387	10.31	9.46	0.63	4.23
388 HK Equity	Hong Kong Exchanges & Clearing Ltd	248	-7.7%	312,011	32.33	29.03	7.07	2.76
1928 HK Equity	Sands China Ltd	36.85	-7.4%	298,000	17.67	15.99	8.62	5.45
3988 HK Equity	Bank of China Ltd	3.04	-7.3%	1,086,426	4.48	4.28	0.52	6.93
HSI Index	Hang Seng Index		-7.2%					

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 3: Hang Seng AH Premium Index (3-year)


SOURCES: CGIS RESEARCH, BLOOMBERG

Figure 4: A-share premium of the top 20 A-H dual listing stocks

Ticker	Company name	Share price (HK\$)	A-share premium	3-year average	3-year high	3-year low	Market cap (HK\$m)	2019F P/E (x)	2020F P/E (x)	P/BV (x)	Dividend yield (%)
1398 HK Equity	Industrial & Commercial Bank of China Ltd	5.07	18.3%	12.5%	36.5%	1.4%	2,057,199	5.36	5.09	0.71	5.61
2318 HK Equity	Ping An Insurance Group Co of China Ltd	92.2	5.0%	0.7%	12.7%	-10.4%	1,735,533	10.18	9.72	2.45	2.25
939 HK Equity	China Construction Bank Corp	5.89	30.3%	17.1%	40.6%	0.0%	1,489,697	5.07	4.81	0.68	5.90
1288 HK Equity	Agricultural Bank of China Ltd	3.04	24.4%	15.4%	34.6%	0.3%	1,301,166	4.63	4.36	0.59	6.49
857 HK Equity	PetroChina Co Ltd	3.91	73.6%	70.2%	97.1%	44.0%	1,181,556	11.58	10.64	0.53	3.78
3988 HK Equity	Bank of China Ltd	3.04	29.8%	17.7%	36.1%	3.1%	1,086,217	4.49	4.28	0.52	6.87
3968 HK Equity	China Merchants Bank Co Ltd	37.3	2.6%	7.4%	19.7%	-0.3%	960,468	9.61	8.51	1.61	2.86
2628 HK Equity	China Life Insurance Co Ltd	18.68	71.8%	41.0%	77.1%	12.5%	807,119	10.69	11.49	1.31	0.97
386 HK Equity	China Petroleum & Chemical Corp	4.66	19.8%	11.8%	43.0%	-5.0%	652,237	8.27	7.91	0.71	9.15
3328 HK Equity	Bank of Communications Co Ltd	5.27	14.6%	17.4%	40.8%	3.7%	421,664	4.75	4.55	0.54	6.46
1088 HK Equity	China Shenhua Energy Co Ltd	16.22	32.4%	26.6%	50.7%	8.0%	409,372	6.93	7.06	0.87	6.17
1339 HK Equity	People's Insurance Co Group of China Ltd/The	3.15	205.0%	185.0%	310.9%	6.2%	368,079	6.91	6.56	0.74	1.65
2601 HK Equity	China Pacific Insurance Group Co Ltd	32.2	30.1%	23.8%	45.8%	3.5%	352,701	9.59	9.55	1.58	3.51
2202 HK Equity	China Vanke Co Ltd	27.65	5.9%	15.4%	59.9%	-2.7%	328,331	6.87	5.97	1.77	4.30
1816 HK Equity	CGN Power Co Ltd	2.07	152.0%	124.6%	174.2%	29.2%	228,419	9.25	8.43	1.18	4.05
6030 HK Equity	CITIC Securities Co Ltd	14.84	72.0%	29.9%	78.0%	7.0%	285,504	12.66	11.63	1.05	2.67
998 HK Equity	China CITIC Bank Corp Ltd	4.19	50.7%	44.4%	63.5%	26.9%	277,435	4.05	3.86	0.45	6.24
1988 HK Equity	China Minsheng Banking Corp Ltd	5.29	24.6%	24.0%	38.7%	10.3%	277,717	4.04	3.86	0.44	7.41
914 HK Equity	Anhui Conch Cement Co Ltd	46.15	1.0%	-7.5%	6.5%	-12.7%	246,462	7.29	7.67	1.98	4.16
1766 HK Equity	CRRC Corp Ltd	5.38	53.7%	54.6%	97.5%	25.7%	224,656	10.64	9.31	1.09	3.17

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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- BUY : share price will increase by >20% within 12 months in absolute terms
SELL : share price will decrease by >20% within 12 months in absolute terms
HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

Explanation on Equity Ratings (New mechanism)

- ADD : The stock's total return is expected to exceed 10% over the next 12 months.
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20/F, Wing On Centre, 111 Connaught Road Central, Sheung Wan, Hong Kong. General line: 3698-6888.