中國銀河國際 CHINA GALAXY INTERNATIONAL

Major Indices – 19.09.11

Index	Close (pts)	Change (pts)	% Chg
SHCOMP	3,008.8	-12.4	-0.41%
SZSE Comp	9,853.7	-111.2	-1.12%
CSI 300	3,930.1	-29.2	-0.74%
ChiNext	1,703.5	-21.8	-1.26%
HSI	27,159.1	475.4	1.78%
HSCEI	3,008.8	-12.4	-0.41%

Source: Bloomberg

CSI300 Top 5 Gainers – 19.09.11

Stock	Code	Close
Liaoning Hongyang Energy Resource Invest	600758	5.58
Henan Yuneng Holdings	001896	3.83
Zhejiang Guangsha	600052	6.46
Shanghai Conant Macroflag	300061	9.31
Shandong Rike Chemical	300214	7.78

Source: Bloomberg

CSI300 Top 5 Losers – 19.09.11

Stock	Code	Close
Hefei Metalforming Intelligent Manufacturing	603011	6.44
Tangshan Huizhong Instrumentation	300371	13.56
Jiangsu Fasten	000890	6.46
Global Top E-Commerce	002640	8.60
Shanghai East China Computer	600850	28.50

Source: Bloomberg

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China Galaxy A-Share Morning Comments

Market Commentary

The A-share market edged lower with shrinking turnover on Wednesday. Most sectors reported losses. The diversified financial, coal, paper manufacturing, and conglomerate sectors were among the top gainers, while the telecom operators, shipbuilding, brewery, and communications sectors were among the top losers.

Amid greater economic headwinds, the Chinese authorities have launched a series of capital market reforms, which have boosted the performances of the three major stock indices. To recap, the PBOC announced that it would cut the reserve requirement ratio (RRR) by 50bp for all financial institutions, and it would release long-term liquidity of about RMB900bn. The combination of the general and targeted RRR cut could increase the financial resources of financial institutions to support the real economy. On the other hand, on Sep 9 and Sep 10, the China Securities Regulatory Commission proposed 12 measures to deepen capital market reform, including a relaxation on access to capital markets, a broadening of cross-border investment channels and a promotion of cross-border regulatory framework. In addition, the State Administration of Foreign Exchange announced to remove quota restrictions on QFII and RQFII, which should attract more external fund flows into the A-share market. The impact of Sino-US trade dispute on China has been gradually discounted. This, coupled with loose monetary policies adopted by global central banks, should bring medium- to long-term investment opportunities for A-shares. Investors may pay attention to the brokerage and TMT sectors.

From CGS A-Share Morning Meeting Summary

Macro: China's money supply and social financing data for August 2019 showed some structural improvements. However, it still takes time to observe the sustainability of the recovery. It is not suitable to conclude that monetary easing is fully effective based on August figures only. We reiterated our view that the current conditions are suitable for the PBOC to implement monetary easing, and the PBOC is likely to maintain its policy direction. (*Click here…)*

Strategy: The fundamentals of some listed companies should be under a greater downward pressure in the short term, based on historical records and net fund outflows. The sectors with a large net fund outflow since August include basic chemicals, non-bank financial, non-ferrous metals, steel, and transportation. In the past few rounds of economic cycles, A-share listed companies usually see earnings recovery after monetary easing and credit expansion. Since Q3 2018, PBOC's monetary policy has been loosened slightly. The counter-cyclical adjustment policy has gradually strengthened recently. On the other hand, August financial data was better than expected, and we see higher probability of earnings turnaround for A-share listed companies during 2H19. This, coupled with multiple policies launched by the government in the past two months to support the development of China's capital market, should help to boost market sentiment. While market fundamentals may under pressure and the broader market may be volatile in the near term, the upward momentum of A-shares remains intact in the longer term. We recommend the TMT sector, which should benefit from supportive government policies. Pay attention to bargain-hunting opportunities of leading TMT stocks. (*Click here…)*

Textile and Apparel: The industry reported operating income of RMB127.10bn in 1H19, down 1.45% YoY. Net profit was RMB8.752bn, down 18.00% YoY. Recurring net profit was RMB6.629bn, down 22.83% YoY. It is worth noting that: (1) the earnings performance of apparel retailers remained divergent and the exports of textiles remained uncertain, with the RMB currency rate depreciating; (2) Sino-US trade disputes remain unsolved, and there are more textile companies moving production capacity to overseas to cope with uncertainty of export environment; (3) apparel and textile companies had a divergent earnings performance amid weak downstream demand; (4) the companies recommended by us previously have seen better earnings growth in Q2 2019, and they are expected to maintain solid growth in FY19. We prefer: 1) Zhejiang Semir Garment Company (002563.CH) and Biem.L.Fdlkk Garment (002832.CH), which have positive earnings outlook and should be benefit from industry policies; 2) HLA Corp (600398.CH) and Anhui Korrun (300577.CH), which are sub-segment leaders with high earnings resiliency and strong competitive advantages amid industry slowdown**.** (*Click here…)*

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