

STRATEGY – CHINA

Cross Currents

In our base case, we expect the MSCI China index to range trade for the rest of 2024 due to uncertainties over the duration of economic adjustment. Upside risk comes from the start of the Fed's easing cycle as it opens the way for further monetary easing in China. However, this should be complemented by demand-side policies for greater impact. In the meantime, we utilise a barbell strategy, preferring TMT, tech hardware and defensives like financials, communication services and utilities.

- **Pricing in slower growth.** The MSCI China index has traded back down to 8.5-9.5x 12-month forward PE levels, as the pre-Third Plenum rally stalled on the lack of near-term catalysts and soft economic data. In particular, the dip in money supply growth does not bode well. It reflects not only a fall in transactional demand for funds but also a decline in free liquidity which is a negative in asset pricing.
- **Sino-US tensions are expected to rise** as Trump has a high chance of returning for a second term come November's US Presidential elections. He has proposed 60% tariffs on Chinese goods and there are many other proposals by the conservative Heritage Foundation to ring-fence China. However, some of these measures are already in place, and incremental damage could be less than expected. We expect the disruptions to Chinese trade could lead to at least 1.5ppt of growth coming off our base-case projection.

Click [here](#) for Blue Top dated 26 August 2024

CHINA'S EXPORTS TO US BY KEY PRODUCTS

Category	Exports to US (US\$b)	% of exports to US	% of China's Exports In Category
Electrical Machinery and Equipment and Parts	124.4	24.9	13.9
Nuclear Reactors, Boilers, Machinery, Mechanical Appliances & Parts	88.8	17.8	17.4
Furniture	30.6	6.1	25.2
Toys, Games and Sports Requisites	29.3	5.9	33.1
Plastics and Articles	23.2	4.6	17.6
Articles of Apparel and Clothing Accessories (Knitted or Crocheted)	18.9	3.8	23.0
Commodities Not Classified According to Kind	18.5	3.7	27.6
Vehicles Other Than Railway or Tramway Rollingstock and Parts	18.2	3.6	9.5
Articles of Iron or Steel	13.2	2.6	13.6
Articles of Apparel and Clothing Accessories (not Knitted or Crocheted)	12.9	2.6	18.4
Optical Instruments and Apparatus; Parts and Accessories Thereof	11.9	2.4	17.1
Other Made Up Textile Articles	10.1	2.0	30.5
Footwear, Gaiters and the Like; Parts of Such Articles	9.4	1.9	17.8

Source: Bloomberg, UOB Kay Hian

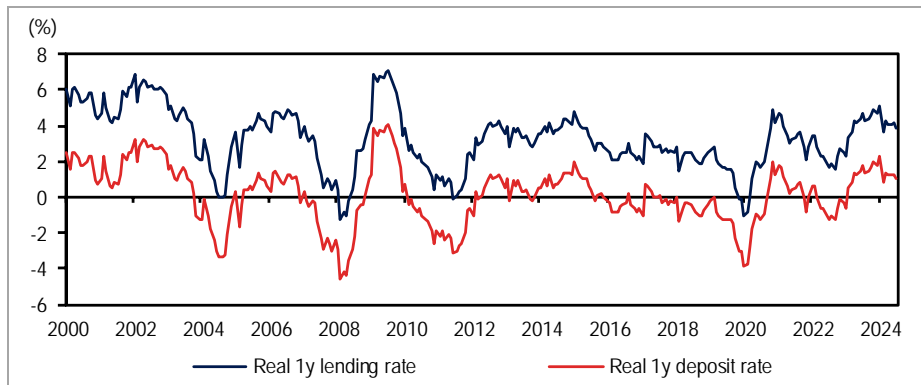
- **Rate cuts and demand-side policies.** The Fed's expected rate cut cycle starting on 18 Sep 24 will provide the PBOC with greater room for monetary easing. Real one-year lending rate still stands at 3.85% and historically, it has fallen to below 1% during economic downswings. Further monetary easing has to be complemented by demand-side measures for greater impact to help restore economic confidence.

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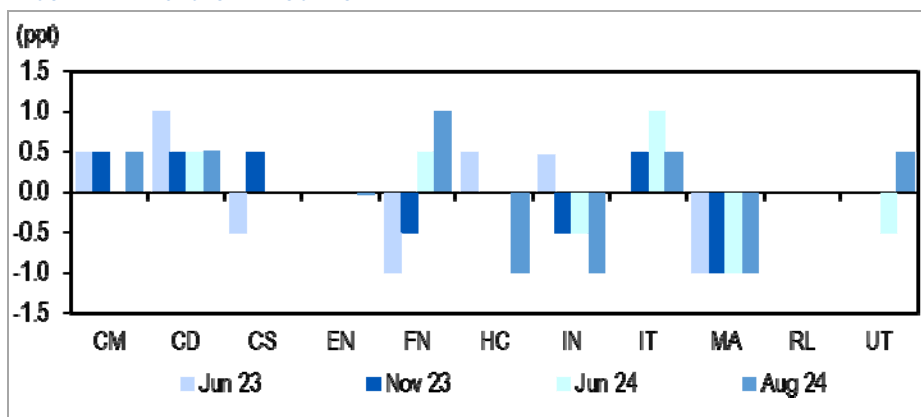
REAL INTEREST RATES



Source: CEIC, UOB Kay Hian

- **Barbell strategy.** In the meantime, we prefer technology, media and telecom (TMT), as their wider reach and economies of scale will lead to their outperformance in an environment of consumption downtrading. We also like tech hardware for the structural growth in AI. On the other end of the spectrum, we are OVERWEIGHT on defensive sectors like financials, communication services and utilities.

RECOMMENDED SECTOR ALLOCATION



Source: CEIC, UOB Kay Hian

STOCK RECOMMENDATIONS

Sector	Bloomberg Ticker	Company	Price 22-Aug-24 (1cy)	Target Price (1cy)	Upside (%)	PE		Dividend Yield 2024F (%)
						2024F (x)	2025F (x)	
BUYs								
Communication Services	700 HK	Tencent	377.80	490.00	29.7	16.0	14.1	1.5
Consumer Discretionary	175 HK	Geely	7.99	13.00	62.7	9.3	7.3	7.4
Consumer Discretionary	2423 HK	KE Holdings	38.55	53.00	37.5	17.5	13.2	2.0
Consumer Discretionary	PDD US	Pinduoduo	147.19	200.00	35.9	12.0	9.4	0.0
Consumer Discretionary	9961 HK	Trip.com	339.60	556.00	63.7	13.9	12.2	0.0
Financials	3968 HK	CM Bank	33.65	44.00	30.8	5.3	4.8	6.4
Financials	2328 HK	PICC P&C	9.95	11.70	17.6	7.2	6.4	5.8
Information Technology	522 HK	ASMP	89.15	118.50	32.9	40.8	17.8	1.2
Information Technology	601138 CH	Foxconn Industrial Internet	20.39	30.00	47.1	15.4	11.5	3.5
Information Technology	2382 HK	Sunny Optical	48.50	63.00	29.9	21.4	16.6	0.8
Information Technology	1810 HK	Xiaomi	19.10	23.70	24.1	22.5	21.0	0.0
SELLs								
Consumer Discretionary	2015 HK	Li Auto	82.70	70.00	-15.4%	19.9	20.1	0.0
Consumer Discretionary	9868 HK	Xpeng	27.60	18.00	-34.8%	Loss	Loss	0.0

Note: Prices as of 22 Aug 2019

* P/B instead of PE

** Link FY ends in Mar, P/B for FY19 and FY20, and dividend yield for FY19 were used

Source: Bloomberg, UOB Kay Hian

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