

STRATEGY

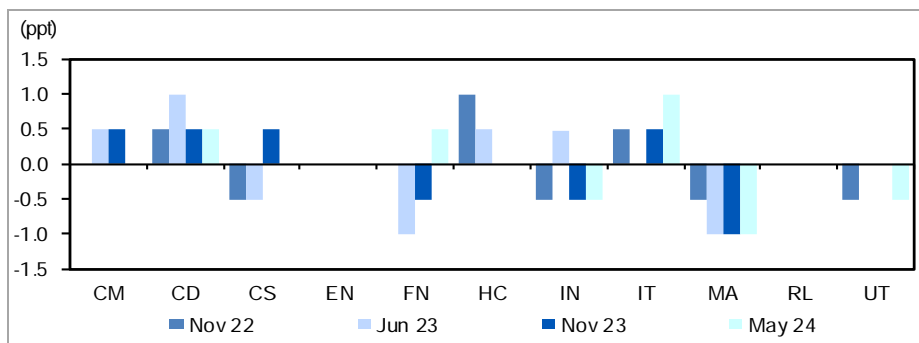
Market Strategy

2H24: Building Blocks In Place

- Rebound on policy clarity.** The MSCI China index has made impressive gains of 23.3% since bottoming out in late-Jan 24, bringing ytd performance to 8.2%. This is a remarkable turnaround, as Asia ex-Japan is only up 6.9% ytd. This comes after the government gave clear indications that it remains firmly behind the healthy development of capital markets and efforts to revive the property market will no longer be clouded by concerns of re-igniting the bubble.
- Further re-rating hinges on real estate revival,** as economic confidence remains low. Money supply and credit growth slowed in Apr 24 amid falling transactional demand for money and credit. Over this period, net new loans to households were negative as well. At the same time, the new inflation data was also mainly driven by falling housing costs and price competition in the auto sector. Thus, a sustainable economic rebound hinges on reviving the real estate sector.
- Building blocks in place.** On 17 May 24, the government announced a series of measures and Rmb300b in funding to help ease the inventory overhang in the property sector, as well as funding for whitelisted developers. This is a good start, as we can see that the building blocks for a sustainable bottom is being put in place. That said, our analysis suggests that given the scale of unsold homes, additional funding averaging Rmb750b is needed annually for the next 2-3 years.
- Geopolitical risk on the rise.** Apart from the domestic challenges, we expect Sino-US tensions to increase as we head towards the US Presidential elections in Nov 24. After all, China bashing is politically convenient and Biden has just announced tariffs on US\$18b of Chinese exports. The only positive is that it is still far below Trump's threat of a 60% tariff. The EU could also join the fray, due to concerns over competing Chinese electric vehicle imports.
- Pseudo QE?** Against this backdrop, it is understandable that the central government has been keeping the powder dry and not embarked on a large-scale reflationary effort. However, given the amount of funds still needed to resolve the property sector's inventory and improve the maturity profile of local government debt, there should be a sequential increase in special sovereign bond issuance in the quarters ahead to support restructuring in these two key areas of the economy. This should have a positive impact on the economy, similar to quantitative easing (QE).
- MSCI China index target of 68pt.** The return of foreign investors to Chinese equities has supported the initial re-rating. The MSCI China index has now traded up to 10.7x 12-month forward PE from 9.8x in late-Jan 24. Looking ahead, we expect the next leg of the rally to be policy-driven, as investors look for confirmation that macro policies will be focused on resolving the two biggest bottlenecks – real estate and local government debt. We expect the Third Plenum to provide further clarity on this front and keep target valuation at 11.5x, implying an index target of 68pt which could be hit in 3Q24.
- Strategy.** Against this backdrop, we prefer exposure to domestic consumption, beneficiaries of policy support, new productivity growth and structural growth in AI. Hence, we are OVERWEIGHT on consumer discretionary, IT and financials, and UNDERWEIGHT on industrials, materials and utilities.

[Click Here](#) for **Blue Top** Dated 06 June 2024

RECOMMENDED ASSET ALLOCATION



Source: MSCI, UOB Kay Hian

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### STOCK RECOMMENDATIONS

Sector	Ticker	Company	Price	Target	Upside To TP (%)	PE		Dividend Yield FY24F (%)
			3 Jun 24 (lcy)	Price (lcy)		FY24F (x)	FY25F (x)	
<b>BUYs</b>								
Communications	700 HK	Tencent	375.00	454.00	21.1	16.8	15.8	1.4
Consumer Discretionary	175 HK	Geely	9.80	13.00	32.7	11.8	9.4	3.0
Consumer Discretionary	6862 HK	Haidilao	18.12	21.80	20.3	17.8	16.4	1.9
Consumer Discretionary	6690 HK	Haier	28.95	34.80	20.2	12.6	11.0	3.6
Consumer Discretionary	2423 HK	Beike	45.00	55.00	22.2	12.4	12.2	0.0
Consumer Discretionary	2313 HK	Shenzhen	78.55	99.60	26.8	17.4	15.2	3.4
Consumer Discretionary	9961 HK	TCOM	406.00	556.00	36.9	16.7	16.4	0.0
Consumer Staples	291 HK	CR Beer	31.30	65.50	109.3	15.6	12.5	3.8
Financials	3968 HK	CMB	35.25	44.00	24.8	5.6	5.1	6.1
Financials	388 HK	HKEX	267.60	313.00	17.0	26.5	25.8	3.4
Industrials	300750 CH	CATL	202.50	250.00	23.5	18.6	15.1	1.6
Industrials	1199 HK	CSP	5.40	6.75	25.0	8.2	8.2	4.8
Industrials	300124 CH	Inovance	55.88	75.50	35.1	28.5	24.9	0.9
Information Technology	522 HK	ASMPT	97.90	120.00	22.6	31.0	18.1	1.6
Information Technology	601138 CH	FII	23.87	29.10	21.9	16.8	13.9	3.2
Information Technology	992 HK	Lenovo	11.34	13.50	19.0	13.4	8.8	3.4

Note: Prices as of 3 June 24

Source: Bloomberg, UOB Kay Hian

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