

STRATEGY – GREATER CHINA

Market Strategy

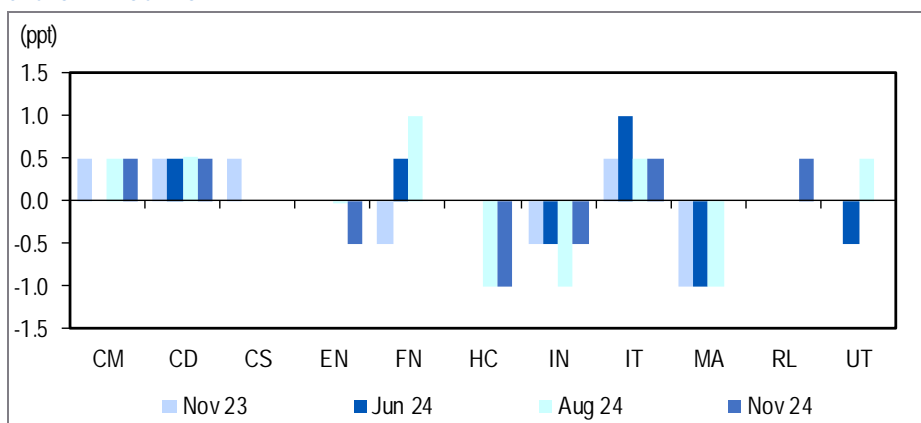
2025 Year Ahead: De-risking And De-coupling

Expect increased market volatility in 1H25 as the US embarks on another round of trade rebalancing with China via higher tariffs. We expect China to roll out growth supportive policies on top of the de-risking measures that have been announced. Hence, we prefer a domestic orientation and policy beneficiaries for 1H25. Our MSCI China Index target is at 68pt, based on 7% EPS growth and 10.5x PE. The downside target is 51pt in the event of a full-fledged trade war.

- **China is focusing on de-risking** by improving local government finances and accelerating property destocking in the recent round of policy announcement. The move to enhance China's medium-term growth outlook is a step in the right direction and we continue to expect moderate growth of 4.2% yoy in 2025. This will be driven by a gradual improvement in retail sales and FAI growth. This is expected to drive EPS growth of around 7% and support a PE of 10.5x, leading to an index target of 68pt.
- **Decoupling will be forced upon China** as the US seeks to ring fence supply chains of strategic industries, restricting China's access to leading edge technology and addressing imbalances perceived by the US. The US may choose to impose the 60% tariffs proposed by Trump or revoke China's PNTR status which would lead to 100% tariffs on strategic goods and 35% tariffs on the remainder. The higher tariffs, if imposed, should see China rolling out additional growth supportive measures, with policies to boost domestic tourism, funding for critical infrastructure and schemes to lift consumer spending.
- **Risk of PE compression.** Nevertheless, PE compression is still likely as markets do not like uncertainties. In 2017-18, Sino-US negotiations lasted about a year, before it concluded with a Phase One trade agreement and the MSCI China index saw a PE de-rating of 32.3%. The US remains an important trade partner for China, accounting for 14% of its exports. Moreover, our analysis shows that most key Chinese exporters to the US have gross margins below 40% and would hence be loss-making under the higher tariffs. If we were to see a similar level of PE compression from the recent high of 11.5x PE, then the downside target upon a full-fledged trade war would be 51pt.
- **Strategy.** Hence, we prefer exposure to the domestic economy and policy beneficiaries and to be OVERWEIGHT on communication services, consumer discretionary, IT and real estate, funded by UNDERWEIGHT on energy, healthcare and industrials. Stock picks are: Ali Health, COLI, CSCEC, Desay SV, Fuyao Glass, Geely, Haier Smart Home, Han's Laser, JD Logistics, Meituan, Mengniu Dairy, Ping An, Sands China, Tencent, Trip.com, Xiaomi and Zijin Mining.

[Click here for Blue Top dated 03 Dec 24](#)

SECTOR ALLOCATION



Source: MSCI, UOB Kay Hian

ANALYST(S)

Tham Mun Hon, CFA
 +852 2236 6799
 munhon.tham@uobkayhian.com.hk

Greater China Research Team
 researchhk@uobkayhian.com.hk

STOCK PICKS

Sector	Bloomberg Ticker	Company	Price 25-Nov-24 (1cy)	Target Price (1cy)	Upside (%)	----- PE -----		Dividend Yield 2025F (%)
						2025F (x)	2026F (x)	
BUYs								
Communication Services	700 HK	Tencent	395.20	570.00	44.2	15.3	13.5	1.5
Consumer Discretionary	002920 CH	Desay SV	127.80	190.00	48.7	26.8	20.2	1.0
Consumer Discretionary	3606 HK	Fuyao Glass	51.65	68.00	31.7	14.2	12.7	3.9
Consumer Discretionary	175 HK	Geely	13.00	23.00	76.9	11.5	9.4	2.8
Consumer Discretionary	6690 HK	Haier Smart Home	26.10	42.00	60.9	10.0	8.7	4.3
Consumer Discretionary	3690 HK	Meituan	162.00	222.00	37.0	16.6	12.1	0.0
Consumer Staples	2319 HK	Mengniu Dairy	16.58	23.5	41.7	11.2	9.8	4.3
Consumer Discretionary	1928 HK	Sands China	18.78	28.60	52.3	13.4	10.7	3.2
Consumer Discretionary	9961 HK	Trip.com	501.50	640.00	27.6	20.7	18.7	0.0
Financials	2318 HK	Ping An	44.30	69.00	55.8	6.0	6.0	5.2
Healthcare	241 HK	Ali Health	3.52	5.00	42.0	26.0	19.3	0.0
Industrials	601668 CH	CSCEC	5.89	6.61	12.2	4.4	3.9	4.9
Industrials	002008 CH	Han's Laser	25.71	34.00	32.2	20.1	16.9	0.8
Industrials	2618 HK	JD Logistics	14.20	22.00	54.9	11.8	10.9	0.0
Information Technology	1810 HK	Xiaomi	28.40	33.50	18.0	22.3	18.4	0.0
Materials	2899 HK	Zijin Mining	14.96	21.20	41.7	9.5	8.9	2.8
Real Estate	688 HK	COLI	13.12	18.60	41.8	6.9	6.6	5.0

Source: Bloomberg, UOB Kay Hian

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W