2025

China Strategy Outlook

Beyond the Frost, There is Blossom

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Macro Outlook

2025 China Economic Outlook

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Sailing against all odds

China has shifted its top priority to boosting growth and is likely to keep its 2025 growth target at 5% to show its commitment to growth. Policymakers will focus on stabilising the housing and stock markets, boosting consumption and promoting technological innovation. Macro policies are likely to be highly accommodative with higher broad fiscal deficit ratio, easing liquidity condition and stabilising credit growth. China's economy will continue to recover with a more active stock market, less housing decline, continued consumption rebounding and moderate earnings improvement. However, the sustainability of the recovery may face a Trump shock, putting China's economic resilience and policy commitment to test.

- China economy faces challenges like the Trump 2.0 shock, property slump, deflation risk and structural problems. Trump's 30% tariffs on China and 10% tariffs on others may cause China's constant-price GDP to lose 0.7%. China's property market needs more time to rebalance supply & demand as its weakness remains a drag on the economy. Deflation risk continues to cast a shadow on economy as it dampens consumption, adds debt burden and weakens earnings prospects. China also faces structural problems like an aging population, urban-rural dichotomy, and weakened market incentives.

- The policy has been shifted to strong easing to support growth. Fiscal policy will be more expansionary while the tone of monetary policy has shifted from prudent to moderately easing for the first time since the global financial crisis in 2009. Policies will focus on stabilising the housing & stock markets, boosting consumption, and promoting technological innovation. The progress of policy easing will depend on economic dynamics and the timing of the Trump shock.

- Fiscal policy will be more expansionary. General fiscal deficit, local government (LG) special bond quota, and special T-bond quota may respectively rise from 3.1%, 3% and 0.8% of GDP in 2024 to 3.7%, 3.2% and 1.5% of GDP in 2025. Incremental funds will be used to relieve local fiscal distress, inject capital to large banks, stabilize the housing market, improve livelihoods of the poor and renew the equipment & durables 'trade-in' subsidy program. The Trump shock may prompt China to focus on boosting consumption, but we think large-scale fiscal transfers to households are unlikely.

- Monetary policy will be more accommodative. Liquidity may be materially abundant with RRR, money market rate and LPR cuts by 100bps, 30bps & 20bps respectively in 2025. Government and household demand for credit may improve, yet corporate borrowings could remain weak. Outstanding social financing and loans may pick up 8% and 8.1% at end-2025 after rising 7.8% and 8% at end-2024. US$/RMB might rise from 7.30 at end-2024 to 7.50 at end-2025 with Trump's 30% and 10% tariffs on China and others in 2H25. US$/CNY might reach 7.80 at end-2025 under the scenario of 60% and 20% tariffs on China and other countries.

- China economy may continue to improve with GDP growth at 5.1% in 1H25 as the policy stimulus will boost domestic demand and exporters will front-load shipments in anticipation of higher tariffs. As the policy stimulus effect might diminish and trade conflicts may come, however, we expect GDP growth to slow to 4.3%-4.7% in 2H25. GDP growth might fall from 4.9% in 2024 to 4.7% in 2025 and 4% in 2026, with the contribution of net exports down from 1.2ppt to 0.6ppt and -0.4ppt. The contributions of consumption and fixed investment should rise.

- Deflation pressure might decline in 2025 yet rise again in 2026. CPI growth may rise from 0.3% in 2024 to 0.6% in 2025 and fall to 0.4% in 2026; PPI might continue to fall, with the decline narrowing from 2.1% in 2024 to 0.3% in 2025 and widening to 0.7% in 2026; and the GDP deflator may drop 0.7% in 2024 and rise 0.2% in 2025 before zero growth in 2026.
- Exports of goods might rise 4.5% in 1H25 as overseas interest rate cuts will boost capex and durables demand and tariff expectations will cause front-loading of trade shipments. However, export growth may fall to 2.2% in 2H25 as trade conflicts hit trade. For the full year, we expect exports and imports of goods to grow 3.3% and 2.2% in 2025 after rising 5.2% and 1.8% in 2024. Their growth rates might further decelerate to 0.2% and 0.4% in 2026.
- The property contraction is likely to moderate. Housing demand might see a short-term recovery thanks to continued policy stimulus and rebounding urban migrant population after economic reopening. However, most cities still face a state of oversupply and need more time and efforts to rebalance supply and demand. Property sales in terms of gross floor area and property development investment may drop 7% and 9.3% in 2025 after decreasing 14% and 10.4% in 2024. Market performance should vary by region, as tier-1 cities are likely to take the lead in possible stabilization. In the medium to long term, however, increments of both urban population and per capita living space could decline, putting additional downside pressure on incremental housing demand.
- Household consumption might moderately recover. We estimate the growth rates of retail sales and nominal service GDP to respectively rise from 3.7% and 4.6% in 2024 to 4.7% and 5.5% in 2025. Durables consumption may outperform thanks to the housing sales recovery and ‘trade in’ subsidies.

Fixed asset investment growth may reach 3.4% in 2024 and 3.7% in 2025 thanks to narrower declines of property development investment. The drag of property development investment on GDP growth is likely to decline from 2.3ppt to 2.1ppt. Manufacturing and infrastructure investment growth is likely to fall from 9.3% and 9.2% in 2024 to 8.5% and 8.7% in 2025.

Figure 1: China Economic Indicators

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F	2026F
	Real GDP (YoY %)	7.9	7.8	7.4	7.0	6.8	6.9	6.7	6.0	2.2	8.4	3.0	5.2	4.9	4.7	4.0
GDP	Nominal GDP (US$ tn)	8.5	9.6	10.4	11.0	11.2	12.3	13.9	14.3	14.7	17.8	17.9	17.8	18.2	18.6	18.7
	Per capita GDP (US$)	6304	7078	7611	7943	8091	8822	9899	10141	10412	12617	12659	12609	12889	13198	13330
	GDP deflator	2.3	2.2	1.0	(0.0)	1.4	4.2	3.5	1.3	0.5	4.6	1.8	(0.6)	(0.7)	0.2	(0.0)
Inflation (%)	CPI	2.6	2.6	2.0	1.4	2.0	1.6	2.1	2.9	2.5	0.9	2.0	0.2	0.3	0.6	0.4
	PPI	(1.7)	(1.9)	(1.9)	(5.2)	(1.4)	6.3	3.5	(0.3)	(1.8)	8.1	4.1	(3.0)	(2.1)	(0.3)	(0.7)
	Agriculture	4.5	3.8	4.1	3.9	3.3	4.0	3.5	3.1	3.1	7.1	4.2	4.1	3.4	3.5	3.3
GDP by industry (YoY %)	Industry & construction	8.4	8.0	7.2	5.9	6.0	5.9	5.8	4.9	2.5	8.7	2.6	4.7	5.6	4.7	3.7
	- VAIO	10.0	9.7	8.3	6.1	6.0	6.6	6.2	5.7	2.8	9.6	3.6	4.6	5.7	4.9	3.8
	Service	8.0	8.3	8.3	8.8	8.1	8.3	8.0	7.2	1.9	8.5	3.0	5.8	4.7	4.9	4.5
	Consumption	4.4	3.9	4.2	4.9	4.5	3.9	4.3	3.5	(0.2)	4.9	1.2	4.3	2.4	2.7	2.8
Contribution to GDP Growth(ppt)	Investment	3.3	4.1	3.3	1.6	3.1	2.7	2.9	1.7	1.8	1.7	1.4	1.5	1.3	1.4	1.6
	Net exports	0.2	(0.2)	(0.1)	0.6	(0.8)	0.3	(0.5)	0.8	0.6	1.9	0.4	(0.6)	1.2	0.6	(0.4)
	FAI	20.6	19.6	15.7	10.0	8.1	7.2	5.9	5.4	2.9	4.9	5.1	3.0	3.4	3.3	4.0
	- Manufacturing	22.0	18.5	13.5	8.1	4.2	4.8	9.5	3.1	(2.2)	13.5	9.1	6.5	9.3	8.5	7.0
Demand indicators (YoY %)	- Property development	16.2	19.8	10.5	1.0	6.9	7.0	9.5	9.9	7.0	4.4	(10.0)	(9.6)	(10.4)	(9.3)	(4.0)
	- Infrastructure	13.7	21.2	20.3	17.3	15.7	14.9	1.8	3.3	3.4	0.2	11.5	8.2	9.2	8.7	8.0
	Retail sales	14.5	13.1	12.0	10.7	10.4	10.2	9.0	8.0	(3.9)	12.5	(0.2)	7.2	3.7	4.7	4.2
	Exports of goods	7.9	7.8	6.0	(2.9)	(7.7)	7.9	9.9	0.5	3.6	29.6	5.6	(4.7)	5.2	3.3	0.2
	Imports of goods	4.3	7.2	0.5	(14.3)	(5.5)	16.1	15.8	(2.7)	(0.6)	30.1	0.7	(5.5)	1.8	2.2	0.4
	Outstanding social financing YoY	19.1	17.5	14.3	12.4	12.8	14.1	10.3	10.7	13.3	10.3	9.6	9.5	7.8	8.0	7.7
	Outstanding loan YoY	15.0	14.1	13.6	14.3	13.5	12.7	13.5	12.3	12.8	11.6	11.1	10.6	8.0	8.1	7.8
	RRR for large banks	20.0	20.0	20.0	17.5	17.0	17.0	14.5	13.0	12.5	11.5	11.0	10.5	9.5	8.5	7.5
Credit condition (%)	DR007			4.96	2.32	2.59	3.09	3.04	2.65	2.46	2.29	2.36	1.91	1.67	1.37	1.07
	10Y T-bond rates	3.58	4.56	3.62	2.83	3.02	3.88	3.24	3.14	3.14	2.77	2.84	2.56	2.00	1.80	1.60
	1Y LPR		5.73	5.51	4.30	4.30	4.30	4.31	4.15	3.85	3.80	3.65	3.45	3.10	2.90	2.70
	5Y LPR								4.80	4.65	4.65	4.30	4.20	3.60	3.40	3.20
	US$/RMB (offshore, year end)	6.22	6.06	6.21	6.57	6.97	6.51	6.87	6.96	6.50	6.36	6.92	7.12	7.30	7.50	7.80
	General fiscal revenue YoY	12.9	10.2	8.6	5.8	4.5	7.4	6.2	3.8	(3.9)	10.7	0.6	6.5	0.0	3.0	2.5
	General fiscal expenditure YoY	15.3	11.3	8.3	13.2	6.3	7.6	8.7	8.1	2.9	0.0	6.1	5.4	2.0	5.0	4.0
Public finance (%)	General deficit ratio	1.5	2.0	2.1	2.4	2.9	2.9	2.6	2.8	3.7	3.1	2.8	3.1	3.1	3.7	3.7
	Special fund revenue YoY	(9.3)	39.2	3.5	(21.8)	11.9	34.8	22.6	12.0	10.6	4.8	(20.6)	(9.2)	(18.0)	(7.0)	(2.5)
	Special fund expenditure YoY	(9.7)	37.9	1.8	(17.7)	11.7	32.7	32.1	13.4	28.8	(3.7)	(2.5)	(8.4)	(3.5)	1.5	5.0
	LG special bond quota as % of GDP					0.5	1.0	1.5	2.2	3.7	3.2	3.0	3.0	3.0	3.2	3.3

Source: Bloomberg, Wind, CMBIGM estimates

Main Challenges

The Trump 2.0 Shock

The Trump 1.0 era witnessed a free fall in US-China relations, bringing about trade conflicts, investment restrictions and tech sanctions. China-US trade of goods was hit, but China's total merchandise trade was stable. Global supply chains have been restructured and evolved to adapt to high China-US tariffs. Some third-party connectors such as the ASEAN and Mexico have strengthened linkages to both China and the US and expanded trade with the two largest economies to avoid a complete decoupling. The significant growth in China's trade with non-US regions has offset the relative decline in trade with the US. The average tariff ratio between China and the US increased by 15ppts in 2018-2019 as their trade of goods in 2019 was 19% lower than the 2012-2017 trend line. However, China's overall merchandise trade in 2019 was 7.1% higher than the trend value. China’s total merchandise trade expanded even faster in 2020-2022 when the pandemic disrupted global supply chains, the aggressive policy stimulus boosted demand for goods and China had a full range of stable supply chains. While the China-US trade of goods in 2020-2023 was 14.5% below the 2012-2017 trend line, China’s overall merchandise trade in the past four years was 26.6% above the previous trend. China’s share in US imports of goods fell from 21.6% in 2017 to 13.3% in 9M24, while the ASEAN, Mexico, Chinese Taiwan, South Korea and India saw their share rise noticeably in US imports. However, China’s merchandise exports to those connectors increased significantly. China’s market share in global merchandise exports mildly rose from 12.8% in 2017 to 14.2% in 2023.

The Trump 1.0 shock has affected China-US bilateral investment flows. China's direct and portfolio investment in the US declined sharply from 2018. While US direct investment in China declined, its portfolio investment in China increased thanks to the opening of China's securities market. China's overall cross-border investment flow outperformed US-China bilateral investment, with single-digit declines in foreign direct investment (FDI) and outward direct investment (ODI) and sharp increases of cross-border portfolio investment. During the Biden period, China-US bilateral investment and China's overall cross-border investment both sharply declined. On the one hand, China-US relations deteriorated instead of improving. The Russia-Ukraine war exacerbated the market's concern about uncertainties around the Taiwan Strait. Multinational companies accelerated their ‘China + X’ supply chain strategy while long-term investors reduced their investment exposure to China to hedge against geopolitical risks. On the other hand, high inflation in the US and deflation pressure in China widened the US-Sino interest rate differentials and attracted fund flows out of RMB assets and into US dollar assets. The US-China conflict triggered short-term turbulence in China's financial markets, with the Hang Seng Index, CSI 300 Index and RMB exchange rate falling sharply in Q2-Q4 2018. However, China’s financial markets rebounded in 2019 thanks to the reversal of the market overshooting, the launch of US-China agreement negotiations and the Fed's shift to interest rate cuts.

The Trump 2.0 era might see an expanded scope of trade conflicts and enhanced investment restrictions and tech sanctions towards China. US trade imbalance has further increased in recent years as the investment and savings gap has widened due to higher federal fiscal deficits, lower household saving rates and continued business capex expansion. China's share in US merchandise imports has declined significantly, but Chinese goods can still bypass the US market by embedding themselves in third-party supply chains. Trump's insistence on protectionism to address the trade imbalance and rebuild domestic manufacturing indicates a possible expansion of tariff targets to more economies like Mexico, Canada, South Korea, the EU and Vietnam. However, lowering inflation and reducing illegal immigration appear to be a higher priority than addressing trade imbalance and imposing tariffs for Trump’s first 100 days after taking office in late

January. Tariff policies conflict with the disinflation goal because of their stagflation effect. Trump may lower energy prices by boosting energy production, slowing energy transition and ending the Russia-Ukraine war. However, there is uncertainty around the time lags of those policies. If tariffs are imposed only on China, Chinese goods can still enter the US through third-party connectors, which will not reduce the US's dependence on China's supply chains. If tariffs are imposed on all major trade partners, they could push up US inflation and supply chain costs for US firms.

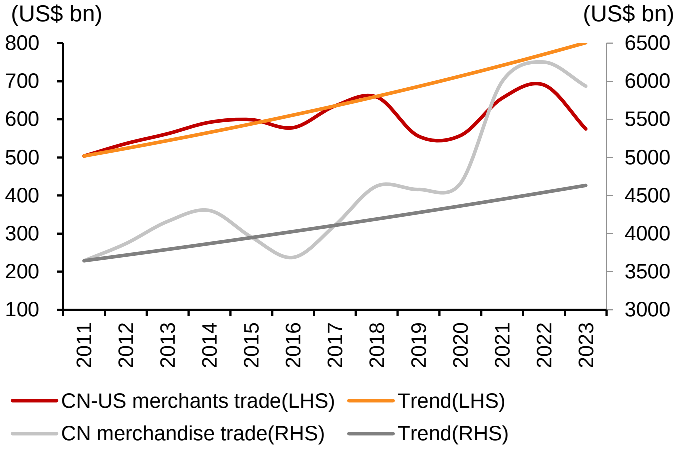
When inflation could remain high in 1H25, Trump might use a gradual approach to impose tariffs or use high tariffs as a bargaining chip to seek higher priority goals, such as pressuring Mexico, Canada and China to address issues such as illegal immigration or fentanyl. Massive tariff hikes are more likely to come in 2H25 or later when US inflation falls to lower levels. In the baseline scenario, Trump would impose a step-by-step increase of 30% tariffs on China and 10% tariffs on other countries with 5% retaliatory tariffs on the US by major countries in 2H25. China's merchandise exports and GDP at constant price in 2026 would be 2.7% and 0.7% lower than without the tariff hikes. In the pessimistic scenario, Trump would impose 60% tariffs on China and 20% tariffs on others. China's constant-price merchandise exports and GDP at constant price in 2026 would be reduced by 5.3% and 1.6%. In the optimistic scenario, China's merchandise exports and GDP would be less affected by only a minor trade conflict.

The Trump 2.0 shock will accelerate Chinese companies' efforts of going overseas to avoid tariffs or seek market diversification. China will continue to push forward the Belt and Road initiative to expand trade and investment with the ASEAN, Latin America and the Middle East. China will also strengthen economic, trade and investment ties with Europe, Japan, South Korea and Australia, as Trump's policies will weaken the US ally system. China's investment in the US might remain limited by Trump's restriction policies.

The Trump 2.0 shock may put China's financial markets under pressure. Trump's policies will push up US nominal GDP growth, slow the Fed's interest rate cuts and fuel a strong US dollar while hurting global trade, manufacturing activities and emerging market currencies. China's stock market and RMB exchange rates may face some downward pressure. As an unfavorable factor for China, US domestic demand seems stronger while China's domestic demand is weaker at present than in Trump 1.0 era. US personal consumption growth rose from 4.3% on average in 2017-2019 to 5.2% in 9M24, while China's retail sales growth over the same period fell sharply from 9% to 3.2%.

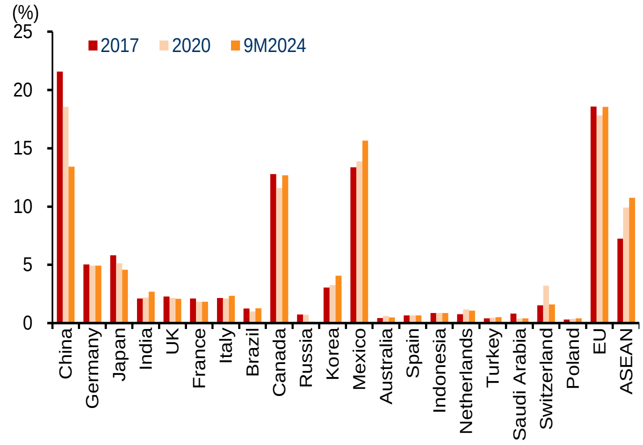
However, China's market reaction to the Trump 2.0 shock may be gentler than to the Trump 1.0 shock. There are more favorable factors for China. First, China is better prepared for further US-China conflicts as China's competitiveness in manufacturing and technology sectors have significantly improved and many large companies have already set up their operations overseas in recent several years. Second, the US dollar is currently in a cycle of interest rate cuts, whereas it was in a cycle of interest rate rises in the Trump 1.0 era. Third, China's liquidity condition is more relaxed than that of the US, with US interest rates at high levels and RMB interest rates at lower levels. Fourth, the US dollar index and stocks have high valuations after many years of gains while RMB asset valuations are low after a long decline. Last, the market is most afraid of uncertainty and unpredictability. Having already experienced the Trump 1.0 shock, the market may see the Trump 2.0 shock as relatively less uncertain and unpredictable.

Figure 2: China's Merchandise Trade with US & World



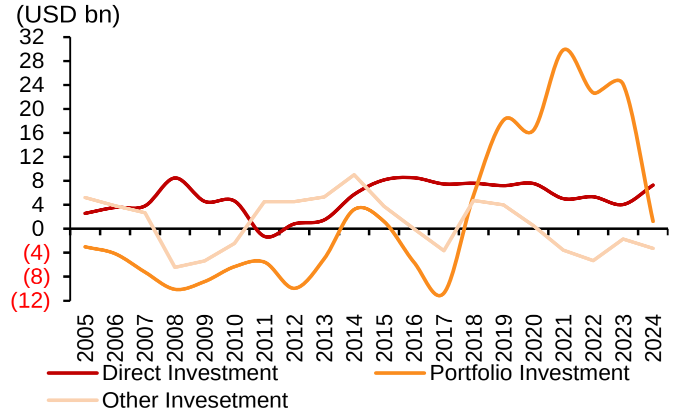
Source: Bloomberg, Wind, CMBIGM

Figure 3: Share of Partners in US Imports



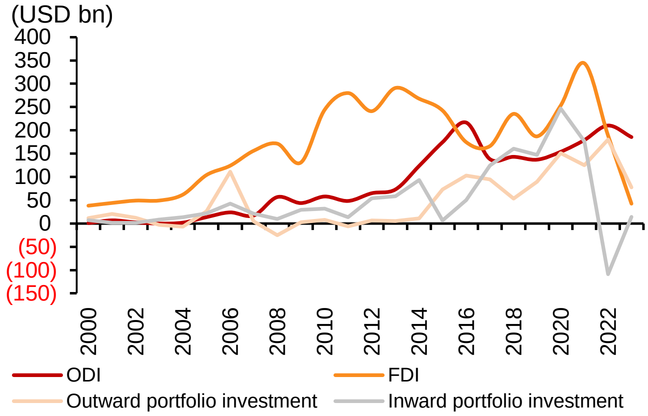
Source: Bloomberg, Wind, CMBIGM

Figure 4: US Investment Flows to China



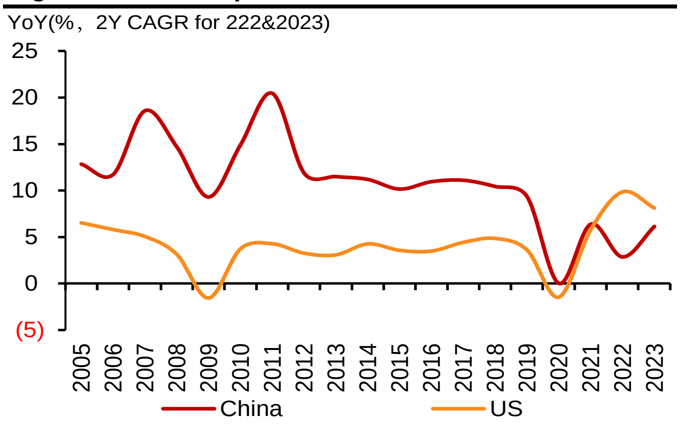
Source: Bloomberg, Wind, CMBIGM

Figure 5: China Cross-border Investment Flows



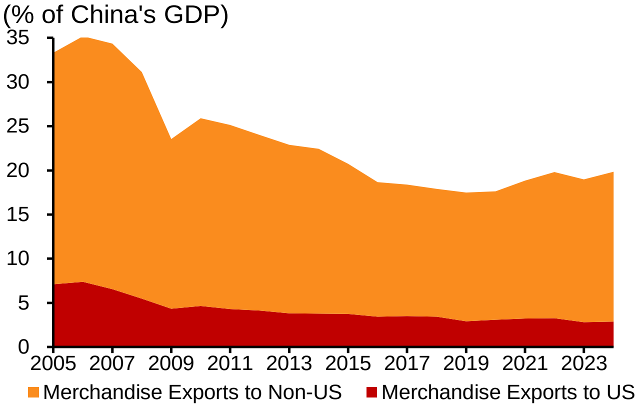
Source: Bloomberg, Wind, CMBIGM

Figure 6: Consumption Growth in China & US



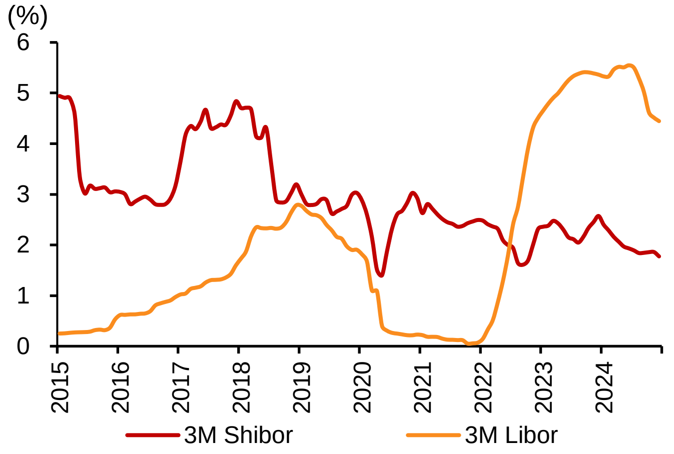
Source: Bloomberg, Wind, CMBIGM

Figure 7: China's Exports to US & Non-US Regions



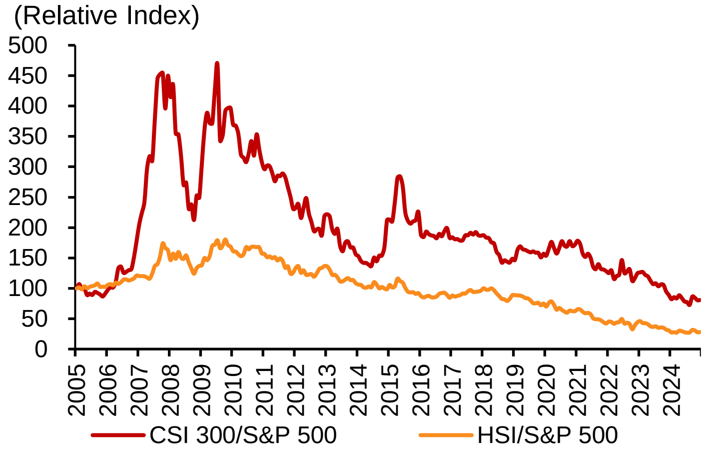
Source: Bloomberg, Wind, CMBIGM

Figure 8: 3M Interest Rates in China and US



Source: Bloomberg, Wind, CMBIGM

Figure 9: Chinese Stocks Relative to US Stocks



Source: Bloomberg, Wind, CMBIGM

Aftermath of the Property Slump

China economy still needs more time and policies to absorb the aftereffects of the property slump and push forward the rebalancing of housing supply and demand. After a booming cycle and bubbling trend, the property market has entered the slump period in recent three years triggered by the aggressive deleveraging and reverse urbanization effects of the pandemic. New property sales, starts and land transactions in term of gross floor area respectively dropped 51%, 69% and 68% from the peak in 2021 to 10M24. Housing price in tier-one cities declined by around 28% from the peak in 2Q21 to 3Q24.

The property slump dragged China's economic growth. The annual average contribution of value added in the property sector to China’s GDP growth declined from 0.35ppt in 2016-2019 to -0.22ppt in 2022-9M24. If we add up the impact of real estate construction, input-output effects, furniture and home furnishings-related consumption and the land-oriented fiscal system, the contribution of the broad property sector to China's GDP growth dropped from 1.4ppt in 2016-2019 to -0.18ppt in 2022-9M24.

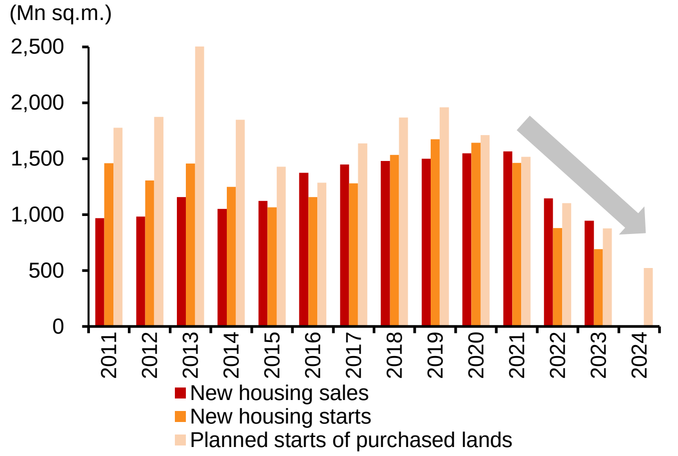
The property slump exacerbated local fiscal distress. Broad property-related fiscal revenues (property related taxes, land revenue & LGFV bond net financing) is likely to plummet from RMB13.1tn or 38.1% of local governments’ total revenue to RMB5.6tn or 15.8% of local governments’ total revenue in 2024. Local governments have to dispose of assets, increase forfeiture, contract infrastructure projects or postpone wage and supplier payments. The non-tax revenues and payables to suppliers have increased sharply, which hurts business confidence.

The property slump weakened household consumption by reducing employment, hurting wealth, restraining confidence and increasing deflation pressure. Based on NBS data, property service and related construction sectors accounted for 14% of total urban employment, while Chinese households allocated 60% of their total asset into the property market. The continued declines of property prices and housing rents would exacerbate deflation pressure as housing related items accounted for over 20% in China’s CPI basket.

The property slump exerted pressure on the financial system. The large-scale defaults of property developers affected financial market confidence and increased bad debts of banks. The index of US dollar bonds of Chinese real estate enterprises fallen by over 70% from the peak level to date. The NPL ratio of property developer loans has increased noticeably in the past few years. However, the default rate on mortgages remained very low.

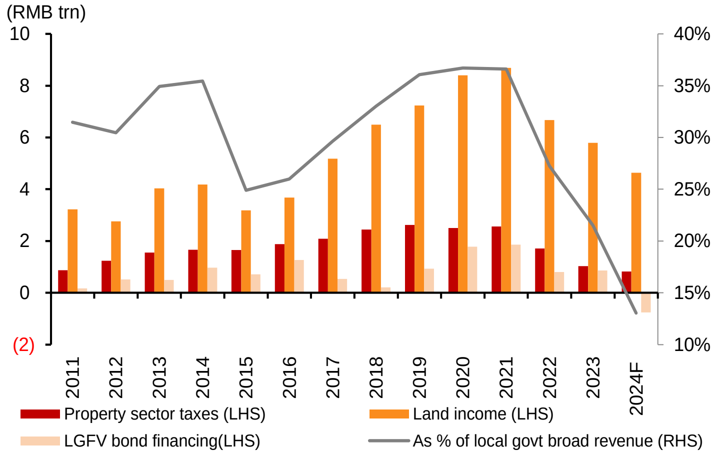
The policymakers have gradually loosened policies after the property slump, but they moved too slowly until this September when they eventually decided to launch strong stimulus. Property sales have rebounded sharply from this October with tier-one cities performing much better than lower-tier cities. Most cities still face an oversupply and downward pressure on house prices. It still needs more time and policy efforts to rebalance the supply and demand. Property might remain a drag on China economy next year, but we believe the magnitude of the drag will be moderately reduced.

Figure 10: Sharp Decline in Housing Sales and Starts



Source: Bloomberg, Wind, CMBIGM

Figure 11: Local Government Property-Related Income



Source: Bloomberg, Wind, CMBIGM estimates

Figure 12: Real Estate Impact on China's Economy

(% or ppt)	2016-2019	2020	2021	2022	2023	2024F	2025F
GDP growth	6.6	2.2	8.4	3.0	5.2	4.9	4.7
Contribution from property	1.4	0.7	0.5	(0.4)	0.1	(0.3)	0.1
-Property service	0.36	0.10	0.25	(0.26)	(0.08)	(0.30)	(0.10)
-Property construction	0.25	0.13	0.05	0.12	0.19	0.10	0.10
-Input-output effect	0.49	0.22	0.15	0.10	0.26	0.06	0.10
-Land fiscal system	0.24	0.29	0.05	(0.32)	(0.25)	(0.13)	(0.07)
-Furniture & decoration consumption	0.05	(0.01)	0.03	(0.01)	(0.01)	0.02	0.03
Related taxes as % of govt revenue	9.0	8.9	8.1	5.9	4.8	4.1	3.8
Land income as % of govt revenue	19.0	25.0	22.9	18.2	15.1	13.1	12.1
Property loan as % of total loan	27.3	28.7	27.1	24.8	22.2	20.3	19.3
-Mortgage	18.7	19.9	19.9	18.1	16.1	14.5	13.8
-Developer loan	8.6	8.8	7.2	6.7	6.1	5.8	5.5

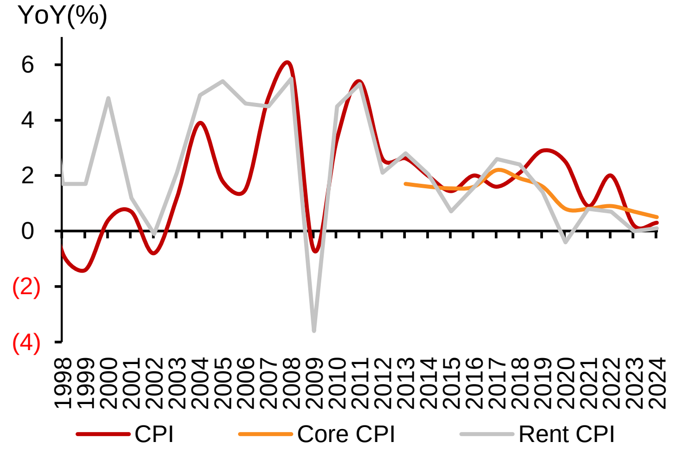
Source: Bloomberg, Wind, CMBIGM estimates

Deflation Pressure

China economy is facing deflation pressure. The GDP deflator and PPI fell while CPI growth remained below 0.5% for two consecutive years. The causes for deflation pressure included consumer demand weakness, overcapacity and policies that stimulated investment rather than consumption. After the economic reopening in November 2022, consumer demand recovered especially for services. However, the recovery lasted only four months, then demand slowed again and remained weak. Consumer demand weakness was due to the property slump, sluggish private business capex and sharp declines in stocks which hurt household employment, income and confidence. The youth unemployment rate remained high and individual & corporate income taxes continued to decline. Consumer confidence index was low while household savings rate was high. Overcapacity problem existed in most sectors as fixed investment continued to grow faster than consumption after the economic reopening in November 2022. The optimistic expectations of a strong recovery spurred a rapid expansion of capex in the service sector in 2023 while manufacturing investment growth even exceeded the 2017-2019 level. As consumer demand recovery was short-lived after the economic reopening, oversupply and price wars ensued. China's policies after the economic reopening focused on supporting businesses and boosting investment, with relatively limited support for households and consumption. China's social security system remains imperfect, with very low protection for the unemployed, low-income families and rural households, leaving those people in a situation where they have no money to consume. The imperfect social safety net has also increased Chinese households' precautionary savings significantly.

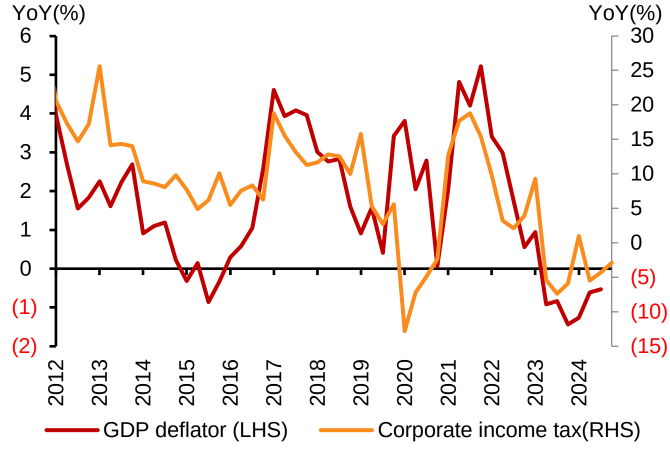
Japan's lost decades show that deflation has both cyclical and structural causes. Deflation has a self-reinforcing mechanism through deflation expectations. Deflation is very harmful for the economy as it suppresses consumer demand, increases debt burdens and weakens earnings prospects. Breaking the deflation spiral requires the decisive introduction of a comprehensive policy package. There were many reasons why Japan faced long-term deflation pressure in 1991-2010: 1) the housing and stock market bubble burst in 1991 caused a 'balance sheet recession' in the private sector as both households and corporates cut their expenditures to repay their debt or increase savings; 2) the large increase in toxic assets of financial institutions lowered their ability and willingness to supply credit while the Japanese government was hesitant to inject public funds for bailouts; 3) the aging of the population reduced the potential growth of domestic demand and the economy; 4) the US trade protection limited Japan's export growth, technological progress and industrial upgrading; 5) the large-scale fixed investment in the booming era became excessive capacity; 6) the BOJ's response after the bubble burst was too slow and conservative; 7) the Japanese government allocated a large amount of public funds into inefficient investment, which had a limited boost on consumer demand; 8) technological innovation and globalization increased productivity and international competition; and 9) the savings rate in Japan was high as people in the East Asian nations are generally more aware of the future uncertainty. The bubble burst caused Japanese households to become more risk-averse with an increase in savings rate.

Figure 13: CPI Growth



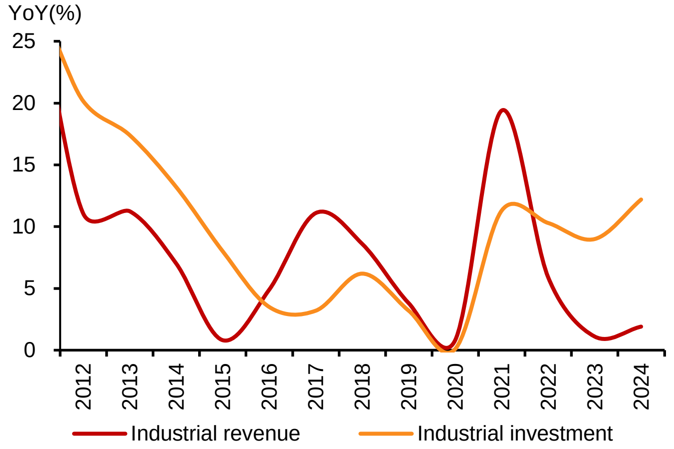
Source: Bloomberg, Wind, CMBIGM

Figure 14: GDP Deflator and Corporate Tax Growth



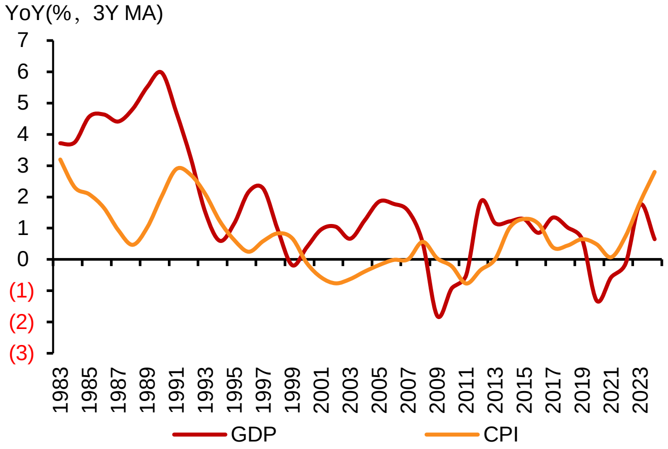
Source: Bloomberg, Wind, CMBIGM

Figure 15: Industrial Investment and Revenue Growth



Source: Bloomberg, Wind, CMBIGM

Figure 16: Japan GDP and CPI Growth



Source: Bloomberg, Wind, CMBIGM

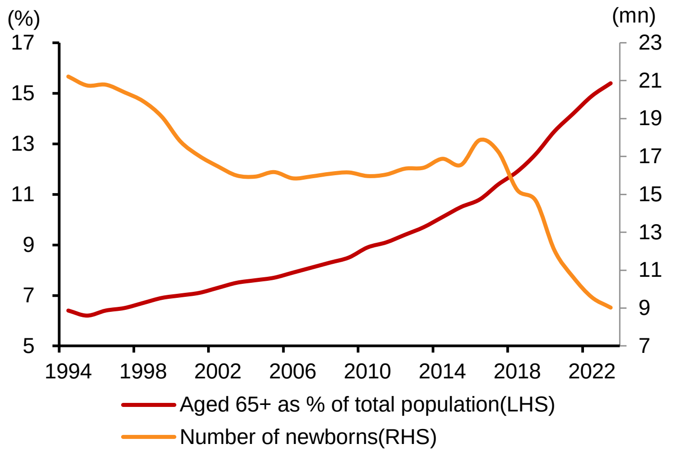
Structural Problems

First is aging population and declining births. The impacts on the economy include reducing labour supply, weakening innovation dynamics, lowering potential growth, increasing social security deficits, pushing up government debt, and changing the structure of consumption. China’s population aged 60 or older and its share of the population respectively rose from 202mn and 14.8% in 2013 to 296mn and 21.1% in 2023, and may reach 370mn and 26% in 2030 based on our estimates. The number of births dropped from 17.23mn in 2017 to 9.02mn in 2023 and may fall to 7mn in 2030. The working-age population peaked in 2013 and declined 0.6% on annual average in 2013-2023. We expect the annual average decline might widen to 0.7% in 2024-2030. After taking delayed retirement into account, the decline might narrow to 0.5%. The contributors/recipients ratio of urban workers' pension insurance declined from 3 times in 2013 to 2.67 times in 2023, and is expected to fall to 2.45 times in 2030. The social security fund, excluding fiscal subsidies, has already shifted from a surplus to a deficit in 2013, with the deficit rising to RMB1tn in 2023. Fiscal subsidies to the social security fund rose to RMB2.4tn or 1.9% of GDP in 2024 and might continue to increase in the future. Population aging and childlessness will raise consumer demand for healthcare, retirement, and nursing care, and lower consumer demand for education services and children's goods.

Second is the institutional inequality for different groups of people. For example, the household registration system is divided into the agricultural and the non-agricultural. There is a wide gap between the two groups in employment opportunities, education, social security and other public services. The wide gap constitutes an obstacle to the free flow of labors, economic efficiency, social fairness and common prosperity. The land system also harms rural households. China's incremental construction land in cities and towns mainly comes from occupying rural land. However, local governments receive the huge value-added gains from converting rural land to urban construction land to support infrastructure construction, industrial investment and public service improvement in cities. Farmers or rural households as the collective owners of rural land only receive little compensation calculated on the basis of the agricultural output value. We estimate total land transfer revenue reached RMB56.2trn in 2013-2022, equivalent to 11% of households disposable income.

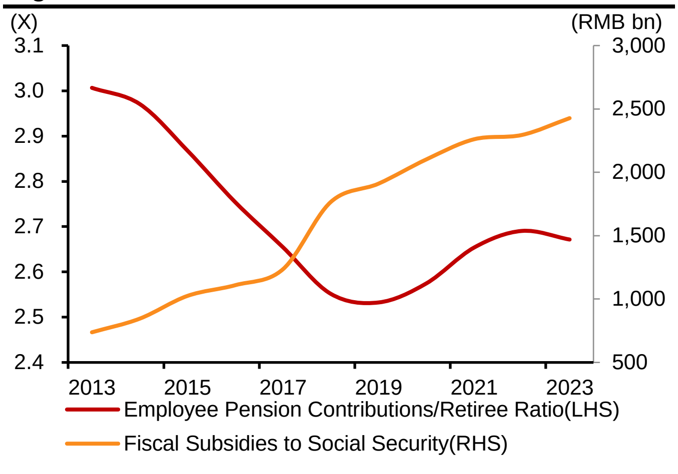
Third is a weakening of market incentives. In the face of the China-US tensions, China has placed greater emphasis on national security, and government decision-making has centered on proper resource allocation, thus resulting in a rising share of the state-owned sector in the economy. In 2022-10M24, the average annual growth rates of investment by SOEs, private enterprises and foreign enterprises respectively reached 7.6%, 0.1% and -8.2%.

Figure 17: Aging Population and Declining Births



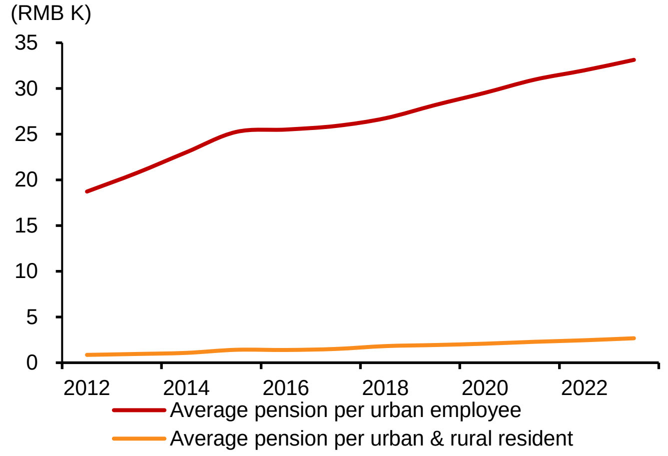
Source: Bloomberg, Wind, CMBIGM

Figure 18: Pension Deficit Pressure



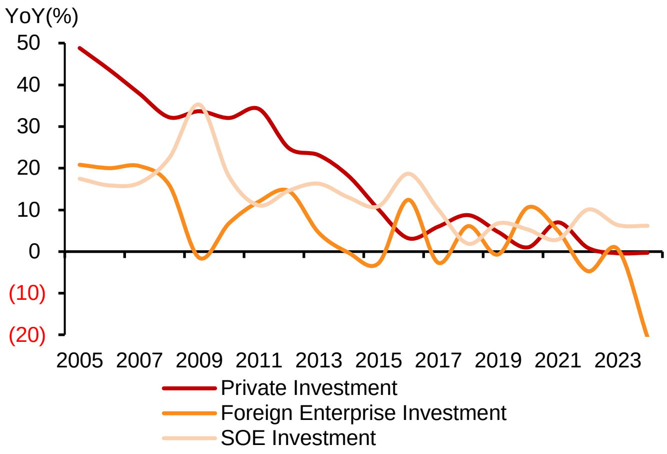
Source: Bloomberg, Wind, CMBIGM

Figure 19: Pension Benefit Differential



Source: Bloomberg, Wind, CMBIGM

Figure 20: FAI Growth Rates by Enterprises



Source: Bloomberg, Wind, CMBIGM

Key Policies

Policy framework

China's policy has shifted to strong easing. The top leaders became more acutely aware of the severe challenges facing the economy in September 2024 as the GDP growth dropped far below the target in 2-3Q24 with continued deterioration in the property market, fiscal revenue and employment conditions. Central ministries were required to introduce effective policies to support the economy. The central bank and financial market regulators took the lead in sending the policy-shift signals in the press conference on 24 September with the announcement of large cuts in RRR, policy rates & existing mortgage rates, more credit supply to whitelisted real estate companies, and the creation of a stock-swap refinancing mechanism to non-bank financial institutions and a refinancing mechanism for stock buybacks or key shareholders' stock purchase. China's market sentiment sharply improved. On 26 September, the Politburo confirmed the policy shift by calling for stronger policies to push the economy into a sustainable rebound. China's stock market entered into a frenzied mode with investor expectations for the policy outlook rising to a high level. Perhaps out of concern that market sentiment was overheating, an official from the central bank said on 7 October that banks are forbidden from supplying loans to individuals for stock purchase. At the same day, the NDRC held a press conference containing no news on the policy side. Investor sentiment turned bad. The Ministry of Finance held a press conference on 12 October to reiterate that there is a relatively large-scale fiscal policy, but did not give specific numbers, which is basically in line with the expectations. We believe China's policy has seen the pro-growth shift, and such top-down change often triggers large swings in market expectations.

China is likely to keep its GDP growth target unchanged at 5% for 2025, in our view. The Politburo meeting and the Central Economic Work Conference this week will set key economic targets and policy tone for next year. The state council will make the information public in its work report during the NPC meeting in early March next year. The 2025 GDP growth target is likely to remain at around 5% as the policymakers try to show their pro-growth commitment. The 5% target is very challenging considering the Trump 2.0 shock and other uncertainties. Some experts suggested a more pragmatic and flexible target at 4.5%-5%, but policymakers' eagerness to boost growth makes a target of 5% look likely.

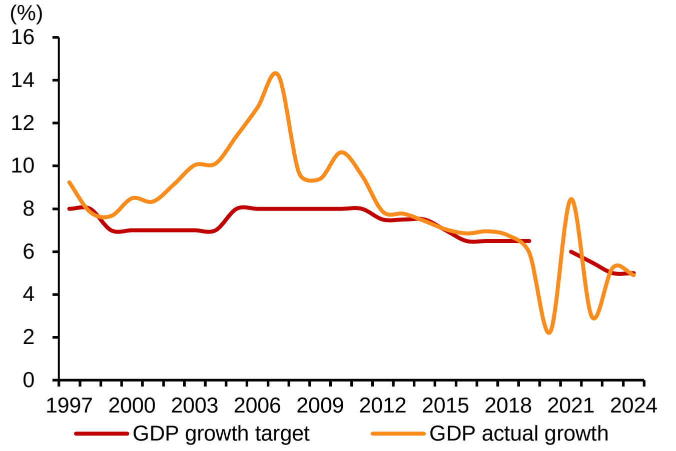
The CPI growth target may be also unchanged at 3% for 2025. The real meaning of China's inflation target seems to be no more than 3% as the target is not binding on policy. In the past 10 years, CPI growth has never exceeded 3%. After the economic reopening, China has faced deflation instead of reflation pressure. The central bank seems to have a clear mind on deflation pressure as it has repeatedly mentioned to push for a moderate price pick-up in future and its former governor Yi Gang said in September that China should focus on fending off deflation pressures and seeking positive GDP deflator growth in the next few quarters. However, China's central bank has multiple targets and the monetary policy is not anchored to a single target for inflation. In addition, higher-level policymakers and other ministries have never openly mentioned deflation pressure. Therefore, the priority of defying deflation pressure in China's policy reaction function is not clear. The central bank cannot prospectively fight deflation by effectively guiding expectations. The good thing is that China's pro-growth goal is in line with the direction of resisting deflation.

The target for urban surveyed unemployment rate is likely to remain at 5.5% for 2025. Despite high unemployment pressure, it is not difficult to achieve this target, in our view. From the statistical perspective, as long as one is engaged in a remunerated activity for up to one hour in the past week, he or she is considered to be employed. The definition of employment is a uniform international standard, but its applicability in China deserves to be studied. Chinese people are hardworking and family oriented, as most workers are willing to engage in temporary work after being unemployed. Therefore, China's urban surveyed unemployment rate has already fallen to pre-pandemic levels. However, the unemployment rate remains high for young people born in an era of abundance, as they demand higher quality jobs.

Macro policy will be more accommodative in 2025. Policymakers will focus on stabilising property and stock markets, boosting consumption and encouraging technological innovation. Fiscal policy will be more expansionary with the broad fiscal deficit ratio likely to rise by almost 2ppts to relieve local fiscal pressures, inject capital into large state-owned banks, stabilise the property market, extend the 'trade-in' subsidies for equipment & durables, and cut taxes for SMEs. Monetary policy will be more accommodative with the stance shifting from prudent to moderately easing, the first change since the global financial crisis in 2009. We expect the RRR, money market rates and LPRs could decline by 1ppt, 30bps and 20bps respectively in 2025. Liquidity conditions should ease significantly, credit growth could stabilize with slight pick-up and RMB could weaken further against the USD. Policymakers aim to stabilise the property market. New mortgage contract rates may decline further by 20-30bps along with the LPR cuts and removal of second-mortgage policy restrictions. Tier-one cities might further ease or remove their restrictions on home purchases. Local governments will be encouraged to expand the renovation of urban villages and acquire unsold commercial properties and vacant land to accelerate the rebalancing of housing supply and demand. Policymakers attract long-term funds, promote dividend payout, support M&As and improve corporate governance to boost the stock market. Policymakers will strengthen social safety net and increase transfers for the unemployed, low-income households and families with multiple births to boost domestic consumption. Policymakers will also promote technological innovation and business confidence by improving business environment and accelerating market opening.

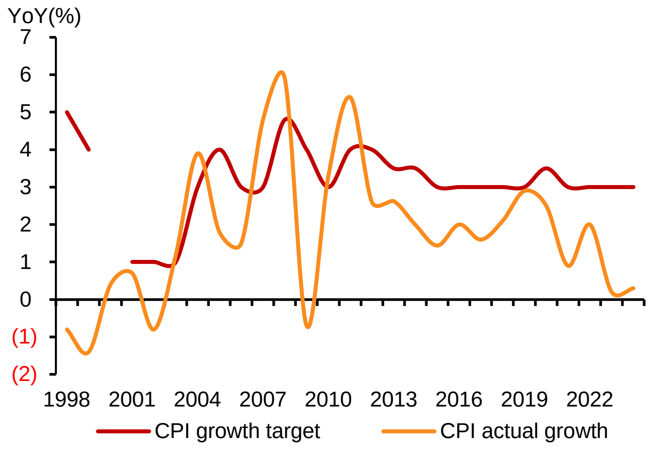
We believe China's policy progress in 2025 depends on its economic dynamics and when the Trump 2.0 shock will come. China's policy may remain accommodative and stable in 1H25 when the economy is likely to continue to recover. The latest round of policy stimulus could support property sales and durables consumption for 2-3 quarters. Exporters will front-load shipments in anticipation of higher tariffs in future. However, the economy may slow again in 2H25 as the policy stimulus effect might diminish and the Trump 2.0 shock might come. Then China may launch another round of stimulus policies to stabilize economic growth. China may prepare for the Trump 2.0 shock, but may not introduce countermeasures in advance before the shock arrives, in our view.

Figure 21: GDP Growth Target vs. Actual Growth



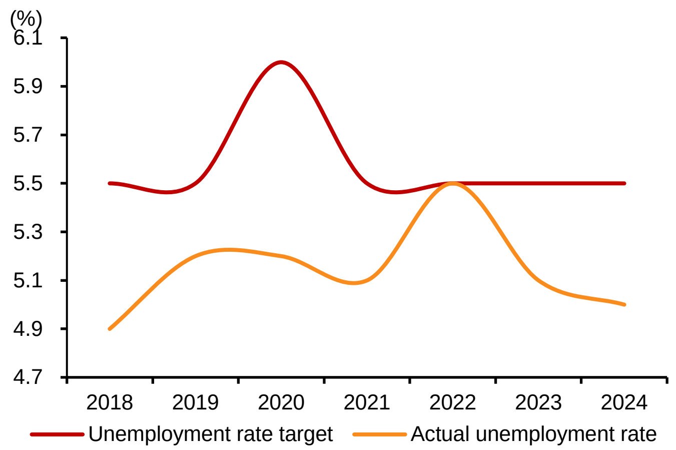
Source: Bloomberg, Wind, CMBIGM

Figure 22: CPI Growth Target vs. Actual Growth



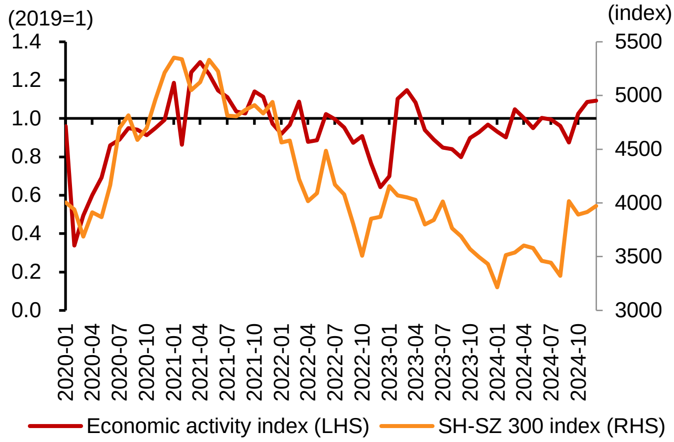
Source: Bloomberg, Wind, CMBIGM

Figure 23: Unemployment Rate Target vs. Actual Rate



Source: Bloomberg, Wind, CMBIGM

Figure 24: Economic Activity and Stock Performance



Source: Bloomberg, Wind, CMBIGM

Fiscal Policy

Fiscal policy could be more expansionary. Broad fiscal deficit ratio may increase. We expect general budget deficit, local government special bond quota and special Treasury bond quota to rise from RMB4.06tn (3.1% of GDP), RMB3.9bn (3% of GDP) and RMB1tn (0.8% of GDP) in 2024 to RMB5.06tn (3.7% of GDP), RMB4.4tn (3.2% of GDP) and RMB2tn (1.5% of GDP) in 2025. Based on the revenue-expenditure gaps of the four fiscal budget systems (i.e., general budget system, government fund system, state capital system and social insurance system), broad fiscal deficit may rise from 8.7% of GDP in 2024 to 9.7% of GDP in 2025 and 10.4% of GDP in 2026. Based on the net issuance of government bonds and municipal bonds, broad fiscal deficit may rise from 8% of GDP in 2024 to 9.8% of GDP in 2025 and 10% of GDP in 2026.

Fiscal policy will focus on relieving local fiscal woes, injecting capital into large state-owned banks, stabilizing the property market, safeguarding people's livelihoods and extending the 'trade-in' subsidy in 2025. First, the central government allows local governments to use RMB6tn debt swap for 2024-2026 and RMB4tn special bond funds for 2024-2028 to repay their hidden debts. The central government's transfers to local governments might rise from RMB10tn in 2024 to RMB11tn in 2025. Those policies will alleviate debt repayment pressure and improve cash flow in the broad government sector, which is positive for LGFVs and government suppliers. Second, the central government's capital injection for six large state-owned banks may reach at least RMB600bn to alleviate their pressure in net interest margins (NIMs) and non-performing loans (NPLs) and boost their capacity in rolling over local government hidden debt and expanding credit supply to targeted sectors. Thirdly, the central government will encourage municipal governments to renovate urban villages and acquire unsold properties and idle land. The proposed urban village renovation and property acquisition could accelerate the rebalancing of housing supply and demand, but the actual progress is still facing pain points, such as the local fiscal distress, the difficulty in achieving break-even for those projects given the property downturn cycle, and the difficulty in reaching consensus on the deal price among municipal governments, project owners and existing creditors. Fourth, the central government might strengthen social livelihood safeguarding with higher urban & rural resident pension benefits, lower the threshold for receiving unemployment insurance benefits and additional transfers to low-income households. Total amount of the incremental allocation might reach RMB200bn in 2025. Last, the central government might extend the 'trade-in' subsidy policy for business equipment and consumer durables upgrading. The subsidy budget for 2024 was RMB300bn with central government bearing 90% of the burden and enterprises & households each sharing half of the subsidies. The subsidy policy may be extended into next year with possibly more consumer durables covered by the subsidy scheme.

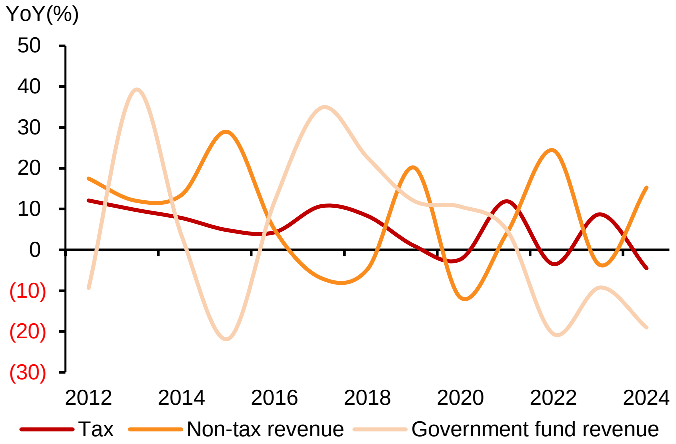
Fiscal transfers to households could be limited. By reliving local fiscal distress and boosting the property market, fiscal policy could also boost consumer confidence and alleviate deflation pressure in a gradual manner. The Trump 2.0 shock may push China's fiscal policy to place more emphasis on boosting domestic consumption, but the likelihood of large-scale fiscal transfers to households should be low, in our view. China's fiscal system has the doctrine of keeping expenditure within the limits of revenues. The current broad fiscal deficit ratio is not low and the policymakers are reluctant to further increase the deficit ratio significantly. The existing allocation pattern of fiscal funds may have solidified, with government operations, social livelihoods and infrastructural & industrial development respectively accounting for 25%, 40% and 35% of broad government expenditure. The first two expenditures are very rigid. A significant increase in transfer payments to households means a reduction in infrastructure and industrial development expenditures, which constitutes a change in the resource allocation mechanism and benefit distribution pattern. Fiscal transfers to households mean returning public funds to the private sector to let the market to decide the resource allocation. The policymakers want to leverage public funds to support supply-side technological innovation and high-end manufacturing development amid the China-US strategic competition. Local government officials also favor expenditures on infrastructure and industrial development, which creates both achievements for political promotion as well as private benefits.

Figure 25: Broad Fiscal Revenue, Expenditure & Deficit

(as % of GDP)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F	2026F
General fiscal revenue	22.1	21.4	20.7	19.9	19.3	18.0	17.6	16.9	17.2	16.5	16.2	15.8
General fiscal expenditure	25.5	25.2	24.4	24.0	24.2	24.2	21.4	21.6	21.8	21.3	21.4	21.2
expenditure-revenue	3.4	3.8	3.7	4.1	4.9	6.2	3.8	4.7	4.6	4.8	5.1	5.3
Government fund revenue (over 80% is land income)	6.1	6.2	7.4	8.2	8.6	9.2	8.5	6.5	5.6	4.4	3.9	3.6
Government fund expenditure	6.1	6.3	7.3	8.8	9.3	11.6	9.9	9.2	8.0	7.4	7.2	7.2
expenditure-revenue	0.0	0.0	(0.1)	0.6	0.7	2.4	1.3	2.7	2.4	3.0	3.3	3.6
State capital system revenue (e.g. SOE dividend)	0.4	0.3	0.3	0.3	0.4	0.5	0.4	0.5	0.5	0.4	0.4	0.4
State capital system expenditure	0.3	0.3	0.3	0.2	0.2	0.3	0.2	0.3	0.3	0.2	0.2	0.2
expenditure-revenue	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Social insurance revenue (excluding fiscal subsidy)	5.2	5.2	5.5	6.7	6.5	5.4	6.5	6.6	7.0	7.1	7.1	7.1
Social insurance expenditure	5.7	5.8	5.8	7.3	7.6	7.7	7.5	7.5	7.9	8.2	8.4	8.6
expenditure-revenue	0.4	0.6	0.3	0.7	1.1	2.3	1.1	0.9	0.8	1.0	1.3	1.5
Broad fiscal revenue	33.9	33.2	34.0	35.1	34.8	33.2	33.1	30.4	30.4	28.5	27.7	27.0
Broad fiscal expenditure	37.7	37.6	37.8	40.4	41.3	43.9	39.0	38.6	37.9	37.2	37.2	37.2
Broad fiscal deficit I	**3.8**	**4.4**	**3.9**	**5.2**	**6.5**	**10.7**	**5.9**	**8.2**	**7.6**	**8.7**	**9.5**	**10.2**
+ LG debt swap	4.6	6.5	3.3	1.4	0.2	0.1	0.4	0.4	1.1	1.5	1.5	1.4
+ LGFV bond financing	1.6	1.7	0.6	0.2	1.0	1.8	1.7	0.7	0.7	(1.0)	(0.6)	(0.3)
Broad fiscal deficit II	**10.0**	**12.6**	**7.8**	**6.9**	**7.7**	**12.6**	**8.1**	**9.3**	**9.3**	**9.2**	**10.4**	**11.3**
General fiscal deficit	2.4	2.9	2.9	2.6	2.8	3.7	3.1	2.8	3.1	3.1	3.7	3.7
Special treasury bond quota						1.0				0.8	1.5	1.4
LG special bond quota	0.1	0.5	1.0	1.5	2.2	3.7	3.2	3.0	3.0	3.0	3.2	3.3
Broad fiscal deficit III	**2.5**	**3.5**	**3.8**	**4.1**	**5.0**	**7.4**	**6.3**	**5.8**	**6.1**	**6.1**	**6.9**	**7.0**
Broad fiscal deficit IV (Government & LGFV bond financing)	**8.5**	**11.2**	**7.4**	**5.4**	**5.8**	**10.1**	**7.9**	**6.6**	**8.5**	**8.0**	**9.8**	**10.0**

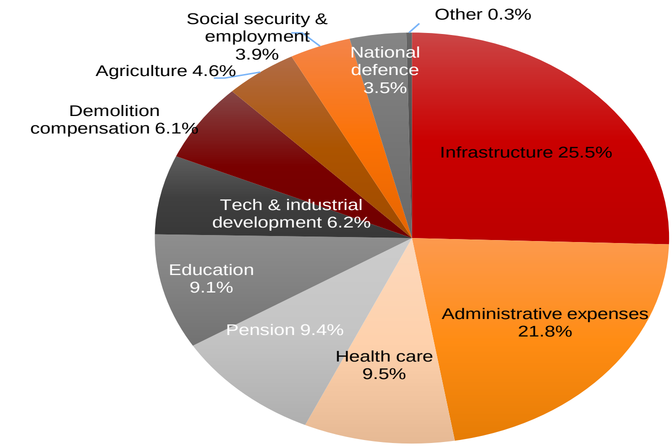
Source: Bloomberg, Wind, CMBIGM estimates

Figure 26: Government Revenue Growth



Source: Bloomberg, Wind, CMBIGM

Figure 27: Broad Fiscal Expenditure Structure (2023)



Source: Bloomberg, Wind, CMBIGM

Monetary Policy

Liquidity condition could be more easing in 2025. The PBOC might cut RRR by 1ppt and open market refinancing rates by 30bps. Interbank 7D reverse repo rate (DR007) may fall from 1.7% at end-2024 to 1.4% at end-2025. By highlighting the role of interest rate transmission mechanism in monetary policy, the central bank may rely more heavily on money market rate as the policy rate. This implies substantial easing of money market liquidity. Central banks in developed countries generally use overnight or 7D money market rates as their operation targets to influence the securities market, credit market, FX market and expectations to achieve the final target of price stability or employment maximization. Money market as the starting point of monetary policy transmission has a fundamental role to play. The securities market is more responsive to money market changes than the credit market.

The PBOC has long relied on deposit and lending rates as the policy rates, bypassing the money market and securities market transmission to directly change the financing costs for the real sector. Such practice has four major drawbacks, in our view. First, deposit and loan rates are sticky while the central bank needs flexibility in policy rate due to economic uncertainty. Second, it inhibits the development of financial markets and lowers the efficiency of financial resource allocation. Third, it strengthens the dominant role of banks in the financial system and slows the development of the securities market. Last, it weakens the feedback mechanism of financial markets to the central bank, increasing the risk of policy error.

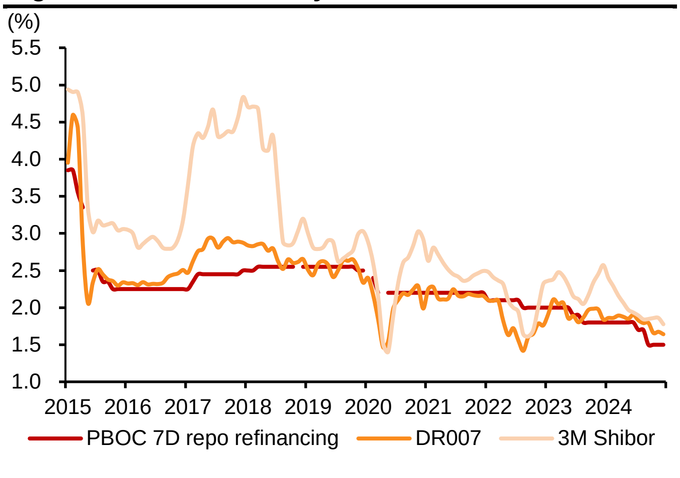
The PBOC has lowered open market operating rates and RRR in recent two years, yet with a limited impact on China's money market rates. The annual average level of DR007 rose from 1.8% in 2022 to 2% in 2023 and 1.9% in 8M24. Meanwhile, market expectations on economic outlook significantly deteriorated as annual average 10Y T-bond yields fell sharply from 2.77% in 2022 to 2.73% in 2023 and 2.2% in 8M24. The sharp narrowing of bond-money interest rate spreads sounded an alarm for the financial system. The central bank initially chose to alert the market to the risk of bond yields being too low. Unlike the A-share market with many noise traders, the bond market is dominated by large financial institutions and is very efficient. It actually sends a signal to the central bank that it should reduce money market rates rather than trying to pushing up bond yields. After the policy shift in September, DR007 dropped noticeably to 1.67%. The 1Y T-bond yields declined to 1.37% recently, indicating additional cuts in money market rates in the next four quarters.

China may further loosen credit policy and we expect a slight rebound in credit growth in 2025. The PBOC might cut LPRs by 20bps with 1Y and 5Y LPRs respectively down from 3.1% and 3.6% at end-2024 to 2.9% and 3.4% at end-2025. Outstanding social financing and RMB loans might slightly pick up 8% and 8.1% at end-2025 after rising 7.8% and 8% at end-2024. The trend of LPRs is strongly correlated with medium-term T-bond yields with some time lag between changes. Both 1Y and 5Y T-bond yields have declined by around 90bps since 2022 while 1Y and 5Y LPRs have declined by 70bps and 105 bps during the same period. The PBOC indicated in its recent monetary policy report to facilitate a mild decline in financing costs for the real sector. In order to alleviate banks' pressure in NIMs, deposit rates may be cut by about 20bps. As deposit repricing is significantly slower than lending, banks' NIMs might still face downward pressure.

Credit demand from governments and households might improve in 2025. Higher broad fiscal deficit ratio implies an increase in government financing. We estimate the growth of outstanding government bonds to rise from 15.5% at end-2024 to 17.5% at end-2025, pushing up outstanding social financing growth by 0.4ppt. Loans to households might pick up 4.3% at end-2025 after rising 3.5% at end-2024, with its contribution to outstanding social financing growth up by 0.2ppt. Major catalysts include an improvement in housing sales, durables consumption and stock market sentiment. However, corporate credit demand might remain weak due to overcapacity, deflation pressure and the shift of some capex from domestic to overseas. We expect the growth of outstanding business loans and corporate bonds to fall from 8% at end-2024 to 7.6% at end-2025, pulling down outstanding social financing growth by 0.2ppt. Outstanding social financing growth has a close negative correlation with real-term loan rates. Real-term loan rates should decline next year with a moderate decrease in nominal interest rates and a gradual alleviation in deflation. By sector, credit supply to high-end manufacturing, technology, digital economy, modern services and green development should maintain higher growth rates than total loan growth, in our view.

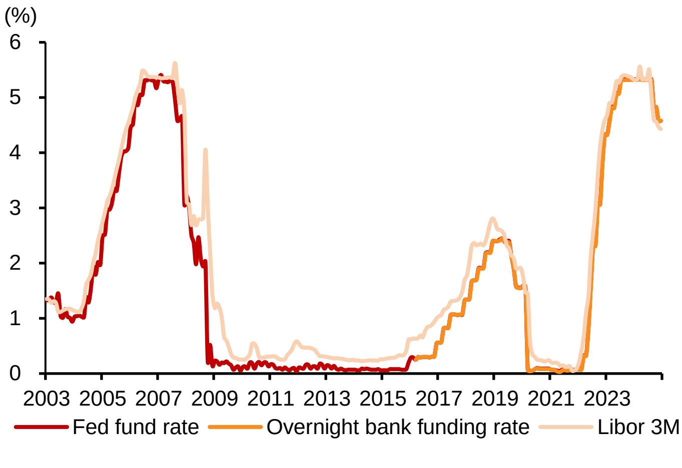
RMB exchange rates could be more flexible to absorb the Trump 2.0 shock in 2025. The PBOC said the market should play a decisive role in FX rates as flexible exchange rates are an automatic stabilizer to absorb external shocks. The central bank also said to strengthen the guidance of expectations to prevent disorderly movements or overshooting risks of RMB exchange rates. In other words, market supply and demand determines the medium- and long-term trend of RMB exchange rates while the PBOC has some influence in the short term by managing market expectations. Since 2017, the FX position at historical price on the PBOC's balance sheet has remained stable. The central bank has abandoned direct exchange rate interventions through the sale and purchase of FX. The central bank has used indirect ways including verbal intervention, fixing rate signals and window guidance on large state-owned banks to influence RMB exchange rates. In face of the Trump 2.0 shock, the PBOC will let RMB exchange rates to go down and to further cut RMB interest rates. In our baseline scenario (30% US tariffs on China, 10% tariffs on others and 5% tariffs on the US by major partner countries), US$/RMB could rise to 7.50 at end-2025. In our pessimistic scenario (60% US tariffs on China, 20% tariffs on others and 10% tariffs on the US by major partner countries), US$ /RMB could reach 7.80.

Figure 28: China's Money Market Rates



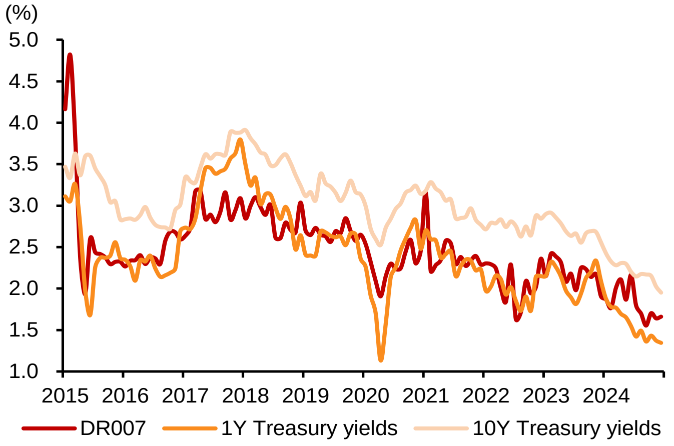
Source: Bloomberg, Wind, CMBIGM

Figure 29: US Money Market Rates



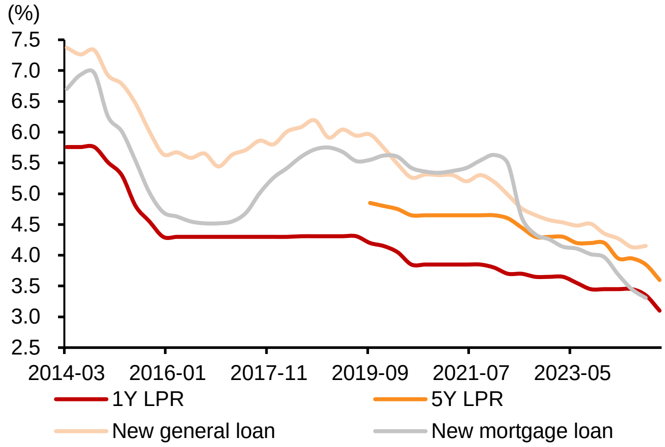
Source: Bloomberg, Wind, CMBIGM

Figure 30: China Treasury Yields



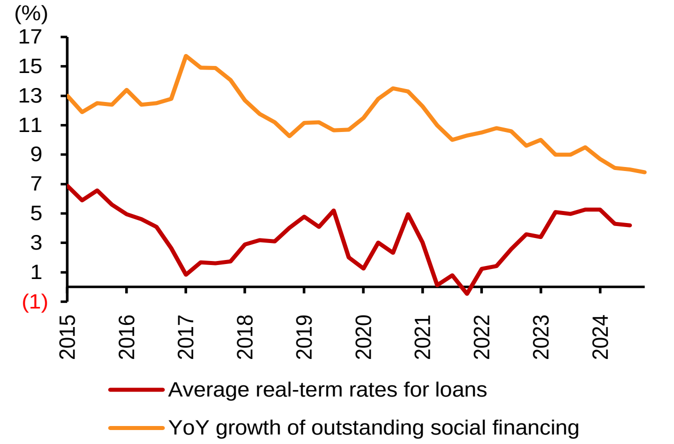
Source: Bloomberg, Wind, CMBIGM

Figure 31: LPRs and New Loan Contract Rates



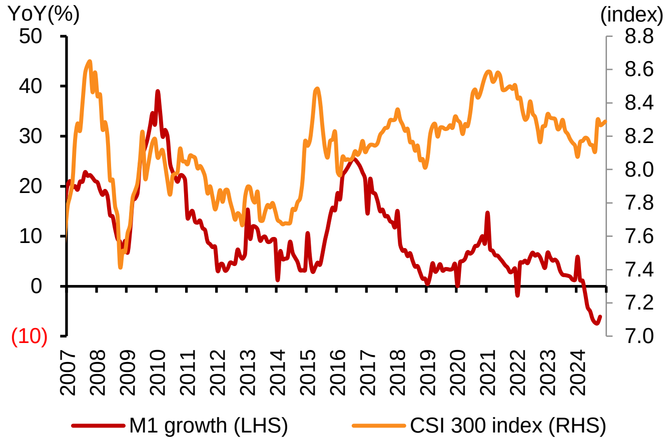
Source: Bloomberg, Wind, CMBIGM

Figure 32: Real-term Loan Rates & Credit Growth



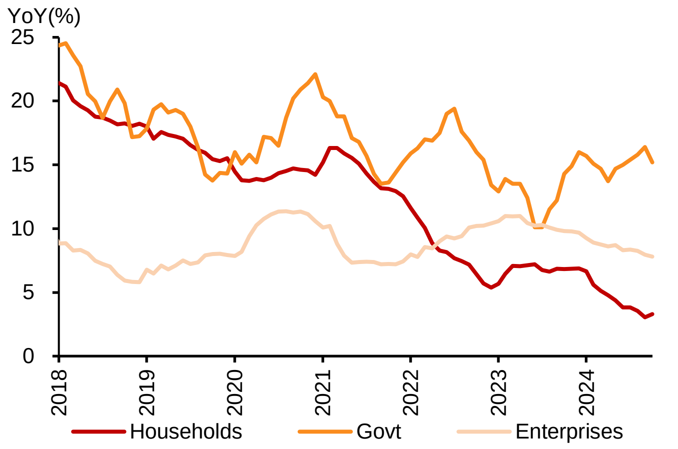
Source: Bloomberg, Wind, CMBIGM

Figure 33: M1 Growth and CSI 300 Index



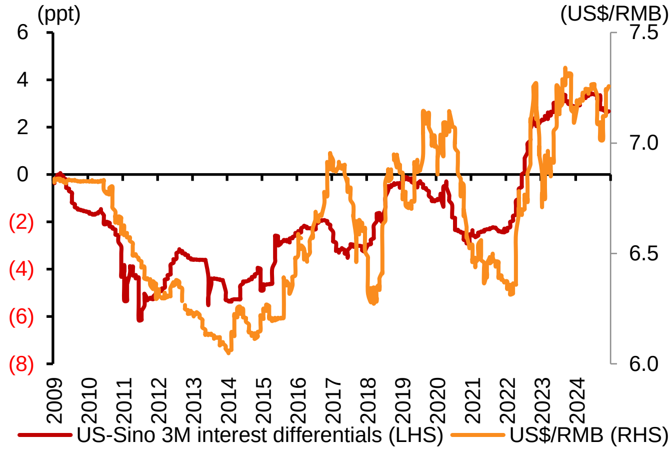
Source: Bloomberg, Wind, CMBIGM

Figure 34: Growth of Credit to Real Sectors



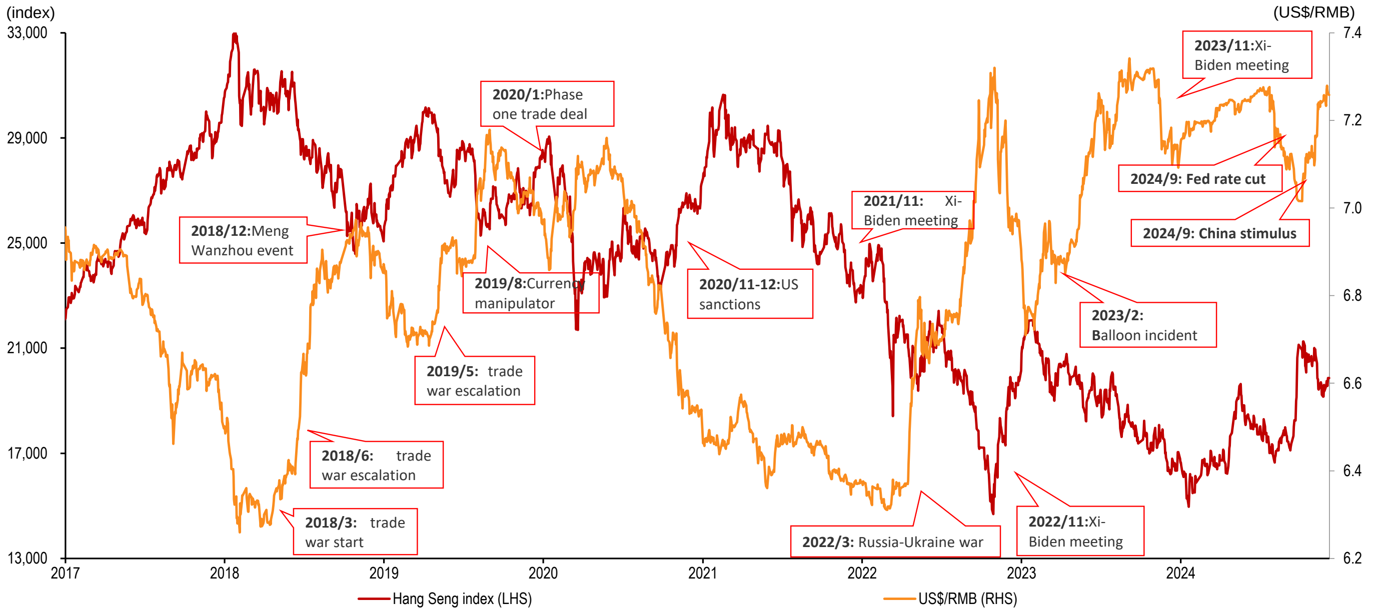
Source: Bloomberg, Wind, CMBIGM

Figure 35: USD/CNY & Interest Rate Differentials



Source: Bloomberg, Wind, CMBIGM

Figure 36: HSI and USD/CNY Exchange Rate as U.S.-China Relations Barometer



Source: Bloomberg, Wind, CMBIGM

Economic Trends

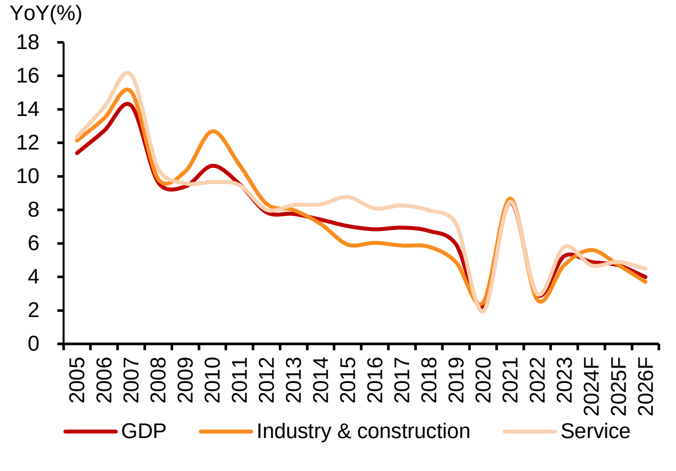
Growth and Inflation

China economy has seen recovery signs recently. The economy entered a bottom in 2022 due to the pandemic shock, aggressive property deleveraging and regulatory crackdown over capitalism. As a result, the stock market crashed, the property market started to slump and deflation pressure appeared. After economic reopening in late 2022, the service economy rebounded yet the recovery only lasted for four months. From 2Q23, the economy weakened again with a continued property slump, consumer demand weakness, export deterioration and deflation pressure. In 9M24, the economy remained weak with exports picking up yet domestic demand still sluggish. The economy has seen recovery signs in 4Q24 as the latest policy stimulus has boosted stock market confidence, housing sales and durables consumption while the tariff expectations have stimulated a front-loading of trade shipments. We expect China's GDP growth to rise from 4.7% in 2Q24 and 4.6% in 3Q24 to 5.1% in 4Q24.

China economy may continue to improve in the short term, but may face the Trump 2.0 shock in the medium term. GDP growth might reach 5% in 1Q25 and 5.1% in 2Q25 as the policy stimulus continues to boost domestic demand and overseas interest rate cuts and tariff expectations stimulate China's exports. However, GDP growth may fall to 4.7% in 3Q25 and 4.3% in 4Q25 as the policy stimulus effect diminishes and the trade war comes. For the whole year, we expect GDP growth to slow from 4.9% in 2024 to 4.7% in 2025 and 4% in 2026, with the contribution from net exports down from 1.2ppt in 2024 to 0.6ppt in 2025 and -0.4ppt in 2026. Meanwhile, the contribution of consumption and investment to GDP growth might rise from 2.4ppts and 1.3ppt to 2.7ppts and 1.4ppt, and then to 2.8ppts and 1.6ppt, respectively.

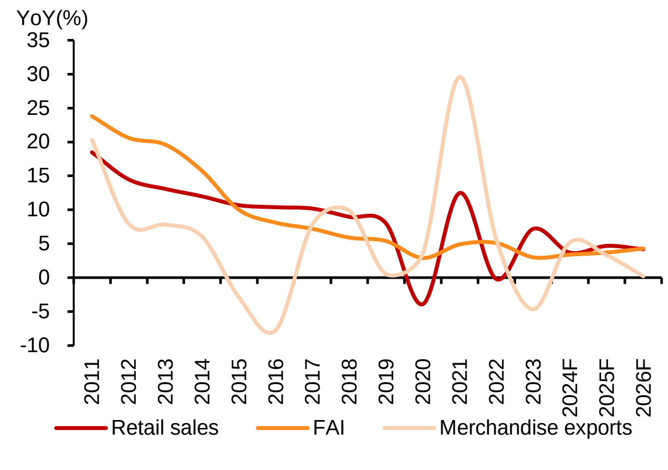
Deflation pressure is likely to fall in 2025 before rising again in 2026. CPI growth may rise from 0.3% in 2024 to 0.6% in 2025 with the peak at around 1% in 1Q25, thanks to property and durables consumption recovery. As domestic demand recovery softens and trade conflict starts to slow exports, CPI growth might fall again to 0.4% in 2026. PPI may continue to fall with the decline likely to narrow from 2.1% in 2024 to 0.3% in 2025 and widen to 0.7% in 2026. GDP deflator might pick up 0.2% in 2025 after dropping 0.7% in 2024. Its growth might decline to 0% in 2026 as the economy is expected to slow again. Deflation pressure is likely to persist, as most sectors would continue to see supply exceeding demand significantly and the Trump 2.0 shock might dampen global economic prospects.

Figure 37: GDP Growth by Sector



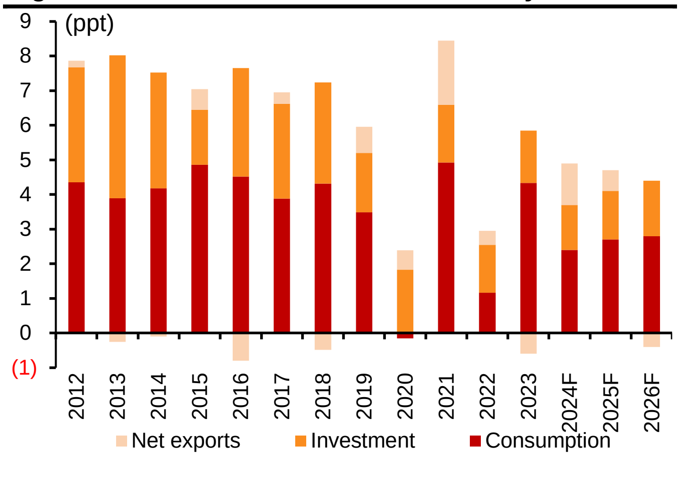
Source: Bloomberg, Wind, CMBIGM estimates

Figure 38: Demand Growth



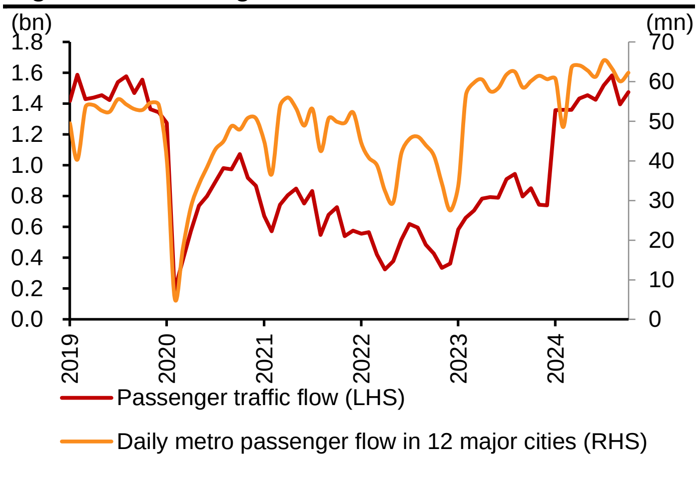
Source: Bloomberg, Wind, CMBIGM estimates

Figure 39: Contribution to GDP Growth by Demand



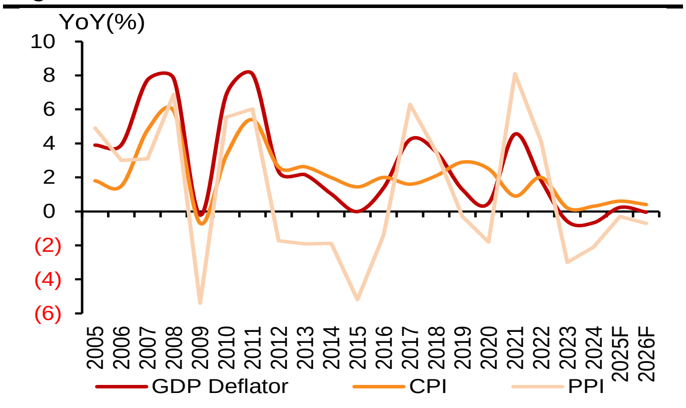
Source: Bloomberg, Wind, CMBIGM estimates

Figure 40: Passenger Traffic Flow



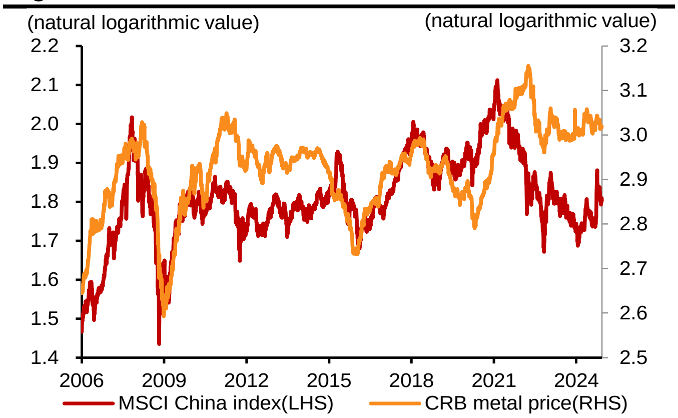
Source: Bloomberg, Wind, CMBIGM

Figure 41: Deflation Pressure in China



Source: Bloomberg, Wind, CMBIGM estimates

Figure 42: China Stock Index & Global Metal Price



Source: Bloomberg, Wind, CMBIGM

Merchandise Exports

China's merchandise exports could maintain moderate growth in 2025 despite a slowdown after the Trump 2.0 shock. Merchandise export growth might reach 4.5% in 1H25 and slow to 2.2% in 2H25. For the full year, we expect the growth to slow down from 5.2% in 2024 to 3.3% in 2025 and 0.2% in 2026. China's merchandise exports has been in an expansionary cycle since late 2023 as overseas demand for durables and capital goods has started to improve with inventory replenishment. Overseas demand might further improve in 1H25 thanks to continued interest rate cuts, European supply chain recovery and the front-loading of foreign trade shipments amid tariff expectations. However, downside pressure might increase sharply in 2H25 if Trump launches a new round of trade war. Foreign trade performance might be even worse in 2026 especially in the first half year with a higher base.

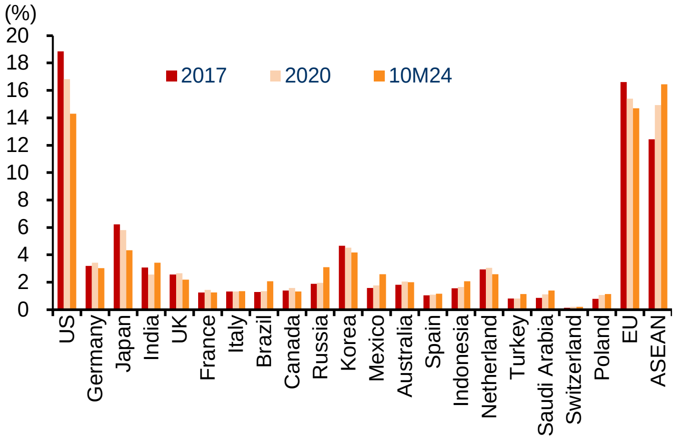
China's exports of consumer durables should maintain relatively faster growth in 2025. Benefiting from demand improvement amid interest rate cuts, mild inventory replenishment and front-loading effects, export growth in home appliances, furniture, medical equipment, computers, mobile phones, consumer electronics and integrated circuits might be higher than in other products. Auto exports might maintain moderate growth with the growth rate slowing down because of high base and rising trade barriers. China's exports to Southeast Asia, Latin America and the Middle East may continue to outperform as the country continues to enhance ties with those economies. In recent years, both multinational corporations and large Chinese companies have built production bases in those economies to overcome tariffs against China and hedge possible geopolitical risks. China has been an important supplier of components, intermediate products, equipment and production technologies to those economies.

Figure 43: China's Exports Growth & Structure by Destination

	YoY (%)							Proportion (%)						
	2023	2023	2023	2023	2023	2023	10M24	2018	2019	2020	2021	2022	2023	10M24
World	9.9	0.5	3.6	29.6	5.6	(4.7)	5.1	100	100	100	100	100	100	100
ASEAN	14.2	12.7	6.7	26.1	17.7	(5.0)	10.8	12.8	14.4	14.8	14.4	16.0	15.5	16.1
US	11.3	(12.5)	7.9	27.5	1.2	(13.1)	3.3	19.2	16.8	17.4	17.2	16.4	14.8	14.6
EU	9.8	4.9	6.7	32.6	8.6	(10.2)	1.9	16.4	17.2	15.1	15.4	15.9	14.8	14.6
Latin America	13.7	2.1	(0.8)	52.0	10.6	(2.4)	12.8	6.0	6.1	5.8	6.8	7.1	7.3	7.9
Africa	10.8	7.9	0.9	29.9	11.2	7.5	0.5	4.2	4.5	4.4	4.4	4.6	5.1	4.9
Japan	7.2	(2.6)	(0.4)	16.3	4.4	(8.4)	(4.4)	5.9	5.7	5.5	4.9	4.9	4.7	4.3
Korea	5.9	2.1	1.4	32.4	9.5	(7.2)	(2.4)	4.4	4.4	4.3	4.4	4.6	4.4	4.1
India	12.7	(2.4)	(10.8)	46.2	21.7	0.8	2.7	3.1	3.0	2.6	2.9	3.3	3.5	3.4
Russia	12.0	3.7	1.7	33.8	12.8	46.9	4.7	1.9	2.0	2.0	2.0	2.1	3.3	3.2
UK	(0.3)	10.4	16.3	19.9	(6.1)	(3.4)	1.0	2.3	2.5	2.8	2.6	2.3	2.3	2.2
Australia	14.2	1.8	10.9	24.2	19.0	(5.3)	(3.8)	1.9	1.9	2.1	2.0	2.2	2.2	2.0
Canada	12.1	5.0	14.0	22.4	4.5	(14.9)	3.9	1.4	1.5	1.6	1.5	1.5	1.3	1.3
Saudi Arabia	(5.1)	36.9	17.7	7.9	25.7	14.5	15.3	0.7	1.0	1.1	0.9	1.1	1.3	1.4
China Hong Kong	8.2	(7.6)	(2.3)	28.6	(15.0)	(6.3)	9.1	12.1	11.2	10.5	10.4	8.4	8.1	8.1
China Taiwan	10.6	13.2	9.1	30.4	4.2	(16.0)	9.8	2.0	2.2	2.3	2.3	2.3	2.0	2.1

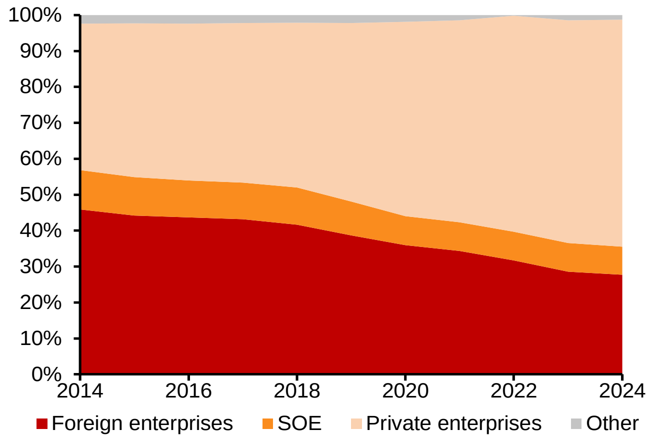
Source: Bloomberg, Wind, CMBIGM

Figure 44: Shares of Partners in China's Exports



Source: Bloomberg, Wind, CMBIGM

Figure 45: China Export Growth by Enterprise



Source: Bloomberg, Wind, CMBIGM

Property

Property demand is likely to see cyclical recovery in 2025. Second-hand home sales as a leading indicator recovered in 2023, flattened in 2024 and might return to growth in 2025. New housing sales may significantly narrow its declines in 2025 after continued slump in 2022-2024. We expect property sales in term of gross floor area to decline 4% in 2025 after dropping 13.5% in 2024. The recovery cycle of housing demand is supported by three main factors. First is a cyclical rebound in urban migrant inflow. The urban incremental population plummeted from 17.9mn in 2020 to 6.5mn in 2022 due to the pandemic. It sharply rebounded to 12mn in 2023 after the economic reopening. Urban footfall recovered better but employment condition and individual income recovered more slowly, leading to a lagging recovery in housing and consumption demand. Second is a significant increase of home affordability. As mortgage rates and house prices have fallen sharply, home affordability has risen significantly. From 4Q21 to 3Q24, average rates for new mortgages fell by 230bps while home prices in most cities dropped by 30%. We estimate the monthly payments for 30-year mortgages might have declined by over 40%. Third, there were strict home purchase and mortgage restriction policies in higher cities in the previous years, which suppressed much demand. After the removal of policy restrictions in recent quarters, pent-up demand may gradually be released, boosting short-term home sales.

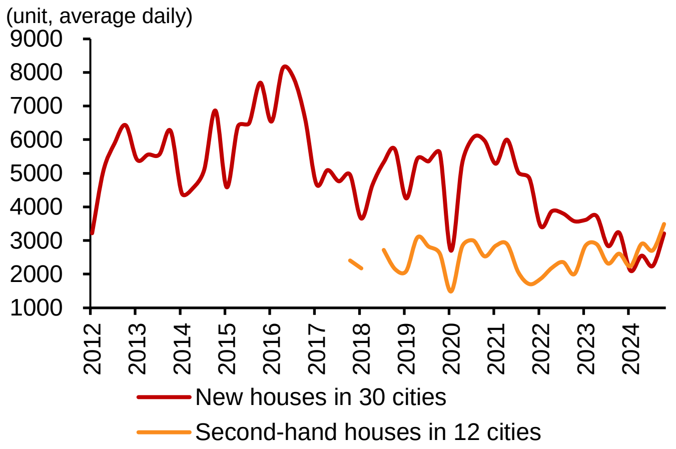
Property supply may still outstrip demand with weak development investment activity in 2025. The rebalancing of supply and demand will continue and home prices might see less declines. The unsold area to sold area ratio of commodity buildings as an indicator for current supply-demand condition rose from the average of 36% in 2015-2021 to 76% at end-10M24 and 60% at end-2023. The days of new home supply for sales in the top 10 cities started to decline from 601 days at end-3Q24 to 580 days at end-10M24, yet still much higher than the 2012-2021 average of 284 days. However, started area to sold area ratio as an indicator of future supply-demand condition declined from the 2012-2021 average of 122% to 89% in 2023 and 85% in 10M24. Development investment activity could remain weak in 2025 as land purchases and housing starts may continue to see double-digit declines. We expect property development investment to fall by 7% in 2025 after dropping 10.5% in 2024. Excessive supply might last next year, with additional room for home prices to fall. But the price decline is likely to narrow thanks to demand improvement and continued rebalancing of supply and demand. In typical cycles of house bubble bursting or financial crisis in six selective economies [1], house prices often experienced a first round of sharp declines followed by a second round of gentle declines. The decline cycle lasted for 5 years or longer and home price cumulatively dropped by 39% on average. The current cycle of home price declines in China's first-tier cities has lasted for 3.2 years, with a cumulative decline of 30%. The prices might enter a second round of gentle decline in the future.

The property market will likely continue to be regionally differentiated. First-tier cities have better economic prospects, more land supply constraints and less oversupply pressure as their home prices may bottom out first. Shenzhen's housing market can be seen as a leading indicator. According to Wind data, Its average daily sales of second-hand homes bottomed out in 2022 and rebounded by 49.3% in 2023 and 56.6% in 11M24. The average daily sales of new homes have rebounded sharply since October 2024, supporting the full-year sales to be almost close to that of last year. The number of new homes available for sale continued to fall from 95,000 units at end-3Q23 to 68,000 units at end-11M24. The days of supply may fall to the 2012-2021 average level in 4Q25. The recovery of the housing market in lower-tier cities could be slower and the downward cycle of home prices may last longer.

New home demand may continue to see downward pressure in the long term. The long-term prospect depends on urban incremental population, per capita living space and demolition & renovation. Urban incremental population is expected to gradually decline in the long term after the latest round of cyclical recovery. Continued declines in births imply a shrinkage of home-buying population in the future. Based on the births in 1983-2005, the population aged 25-40 is expected to be 12% lower than in 2023. Meanwhile, the urbanisation process is likely to slow down due to reduced employment opportunities in cities, unfriendly public service system to rural migrants and skills mismatch of the remaining rural population. In addition, per capita living space might increase more slowly as it has already reached to 38.6 square metres in 2020, based on the data of Ministry of Housing. If urban incremental population drops from 8.5mn in 2024 to 5mn in 2030 and the annual growth of per capita living space drops from 2.5% in 2010-2020 to 1.6% in 2020-2030, urban incremental housing demand would decline from 950mn square metres in 2023 to 600mn square metres in 2030. In the future, existing home transactions, property management and other services, retirement property and tourism property may become new growth drivers for the property sector, in our view.

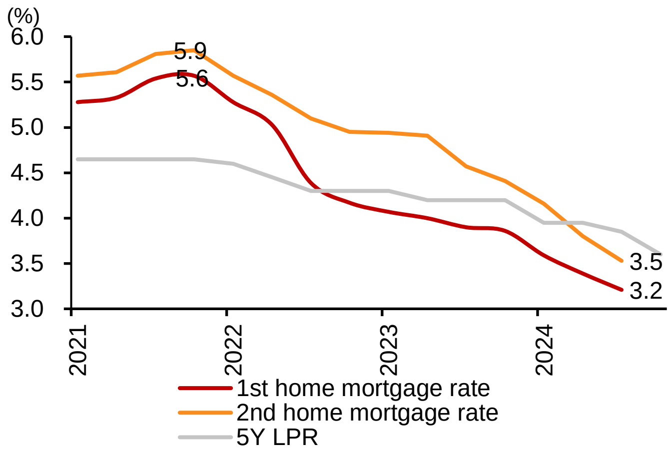
[1] The six selective economies are Japan, South Korea, Hong Kong, US, Spain and Italy.

Figure 46: New and Second-hand Home Sales



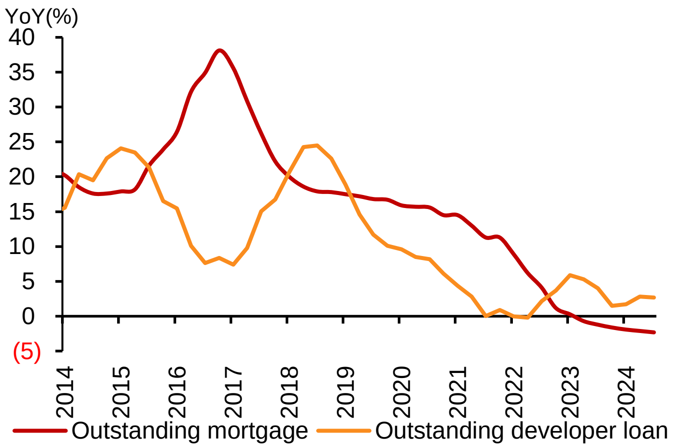
Source: Bloomberg, Wind, CMBIGM

Figure 47: New Mortgage Contract Rates



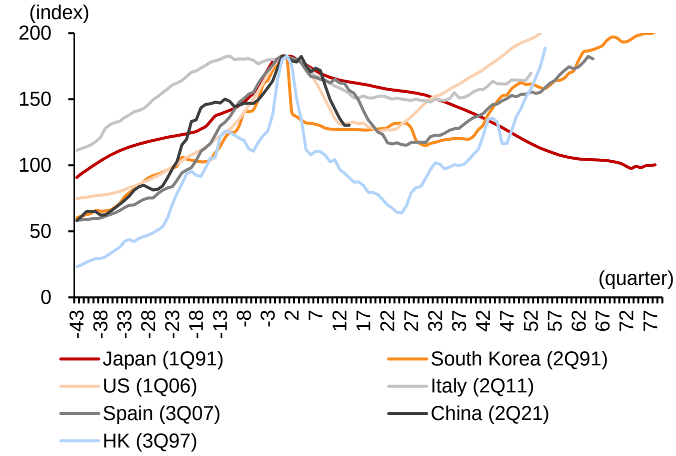
Source: Bloomberg, Wind, CMBIGM

Figure 48: Growth Rates of Property Loans



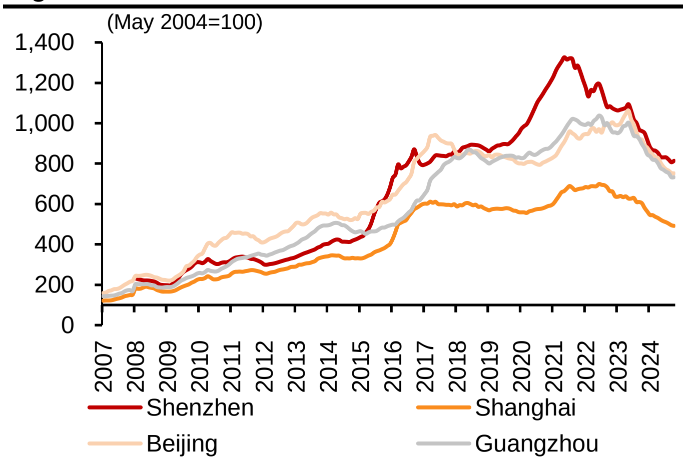
Source: Bloomberg, Wind, CMBIGM

Figure 49: House Prices Around the Peaks



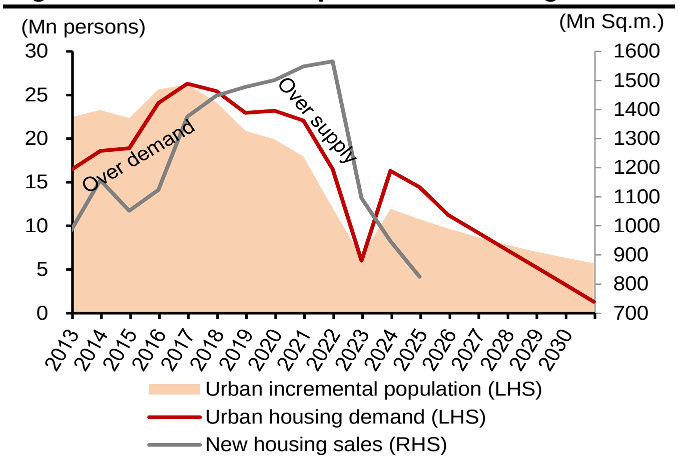
Source: Bloomberg, Wind, CMBIGM

Figure 50: House Prices in Tier-one Cities



Source: Bloomberg, Wind, CMBIGM

Figure 51: Urban New Population & Housing Demand



Source: Bloomberg, Wind, CMBIGM

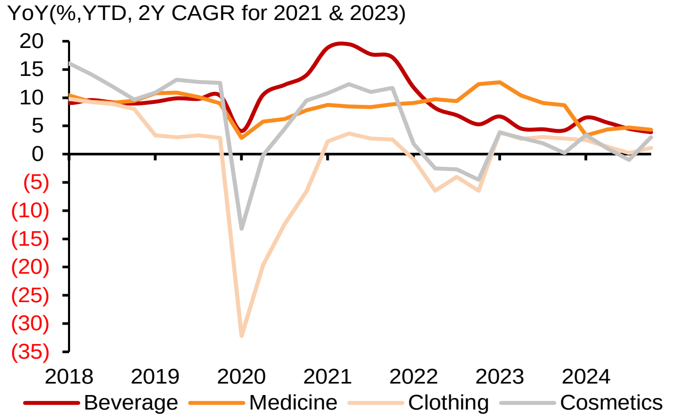
Household Consumption

Household consumption growth remained weak in 9M24. Retail sales grew 3.3% YoY in 9M24, similar to the 2Y CAGR in 2022-2023. Real GDP growth in services grew 4.7% YoY in 9M24, slightly above the 2Y CAGR in 2022-2023. Due to a slight deflation, however, nominal GDP growth in services fell to 4.6% in 9M24 from the average of 5.9% in 2022-2023. Breaking down items, cultural & office products, construction & decoration materials, autos, gold, silver & jewelry and cosmetics extended their YoY declines, while furniture, clothing and daily used goods saw low growth rates below 3%, and only food, tobacco & alcohol, and telecom equipment maintained growth rates above 5%. Reasons for weak consumption include individual income declines, unemployment pressure, the property slump and deflation expectations. In 9M24, China's individual income tax and corporate income tax respectively declined by 4.9% and 4.3% YoY while consumer confidence was subdued with high saving ratio and low consumer credit growth.

Household consumption growth might improve in 2025. We estimate the growth rates of retail sales and nominal GDP in services to respectively rise from 3.7% and 4.6% in 2024 to 4.7% and 5.5% in 2025. China’s latest policy stimulus has boosted the stock market confidence, property market sentiment and consumers’ willingness to spend. The YoY growth of retail sales rebounded from 3.3% in 9M24 to 4.8% in October. Not only did consumer durables such as home appliances, furniture and automobiles, which benefited from the trade-in policy, rebounded sharply, but other consumer goods like cosmetics and apparels also recovered markedly. The recovery in household consumption might be even broader in scope in the future especially during the Chinese New Year holiday. 2025 will see a marked improvement in home sales and the ‘trade-in’ subsidy policy is likely to continue with possible more durables on the list, with consumer durables likely to maintain stable growth, based on our estimates.

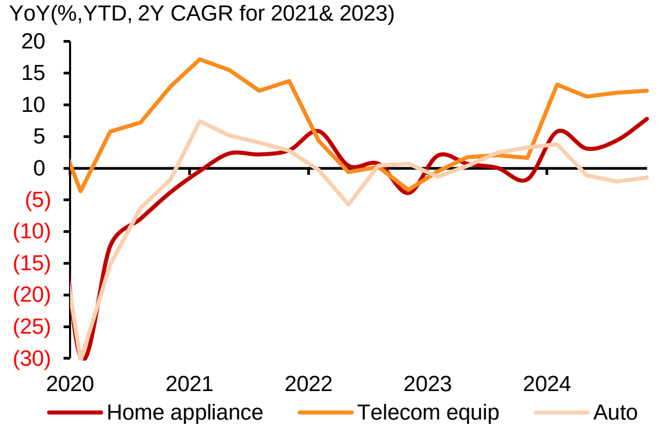
A sustained recovery in household consumption in the medium term will require a better household income outlook and a stronger social safety net. To improve household income, China has to increase both the quantity and quality of employment. As private businesses account for 80% of employment, China needs to restore entrepreneurial confidence and animal spirit to create more high-quality jobs for individuals. A stronger social safety net could increase the spending power of those with no or low incomes as well as lowering the excessive savings rate for most Chinese households. Building a stronger social security net requires a transformation of the fiscal system, compressing spending on infrastructure and industrial development and expanding spending on basic livelihoods.

Figure 52: Staples and Discretionary Retail Sales Growth



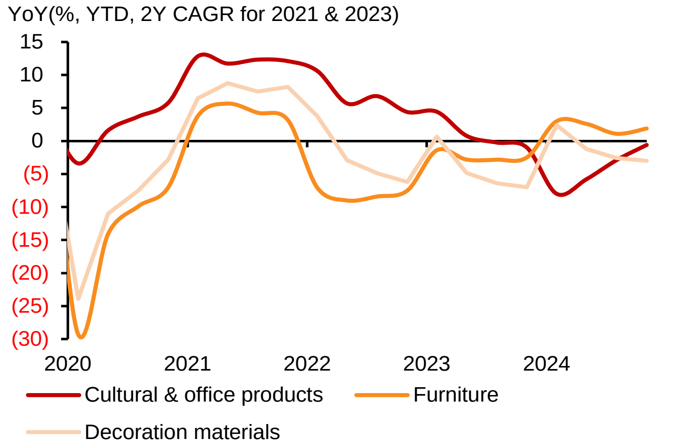
Source: Bloomberg, Wind, CMBIGM

Figure 53: Appliance, Telecom Equip and Auto Retail Sales Growth



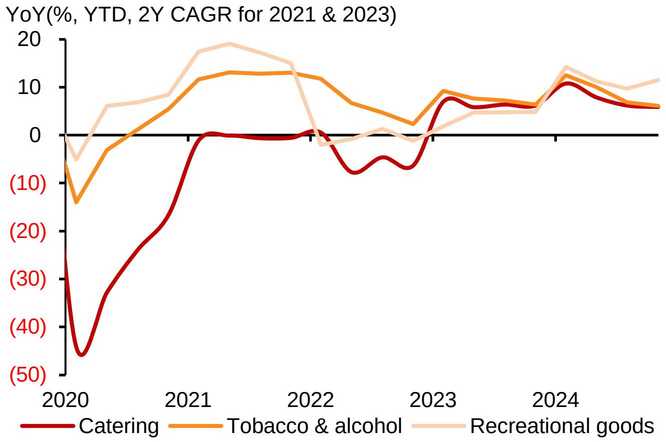
Source: Bloomberg, Wind, CMBIGM

Figure 54: Office Goods, Furniture & Decoration Materials Retail Sales Growth



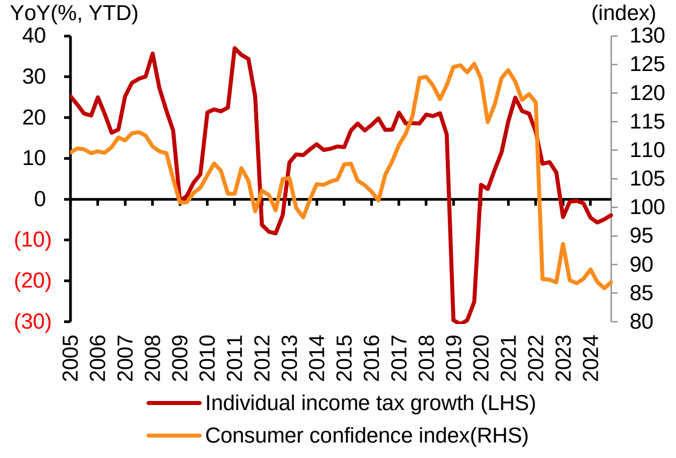
Source: Bloomberg, Wind, CMBIGM

Figure 55: Catering, Tobacco & Alcohol, and Recreational Goods Retail Sales Growth



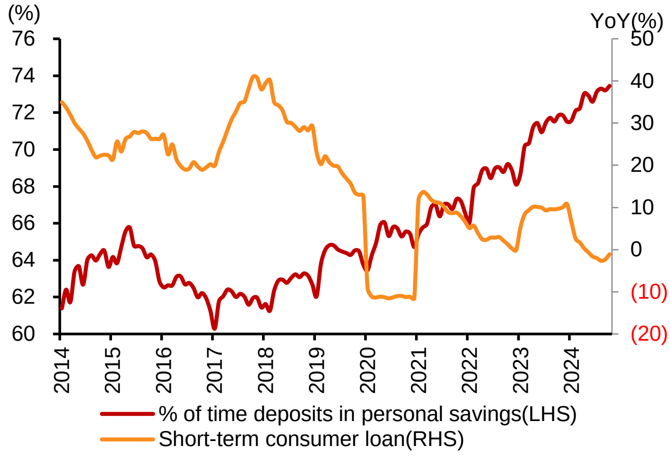
Source: Bloomberg, Wind, CMBIGM

Figure 56: Individual Income Tax Growth & Consumer Confidence



Source: Bloomberg, Wind, CMBIGM

Figure 57: % of Time Deposits in Personal Savings and Consumer Loan Growth



Source: Bloomberg, Wind, CMBIGM

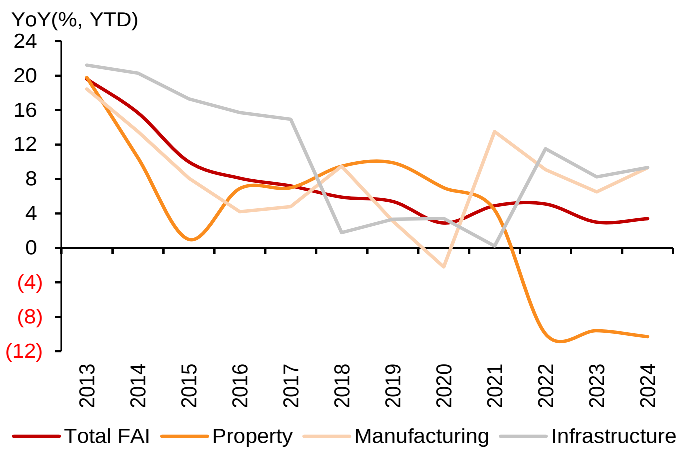
Fixed Investment

Fixed asset investment (FAI) growth is likely to rise from 3.4% in 2024 to 3.7% in 2025. The decline in property development investment will narrow from 10.5% in 2024 to 7% in 2025, with its drag on total FAI down from 2.3ppts to 1.5ppts. Manufacturing investment growth is likely to fall from 9.3% in 2024 to 8.1% in 2025 because of overcapacity pressure and trade conflict uncertainty. Infrastructure investment growth may fall from 9.2% in 2024 to 8.4% in 2025. Local government-led infrastructure investment may pick up slightly, but the growth is likely to remain low, as the land market and hidden debt financing might continue to decline. Fiscal policy focuses on relieving local government hidden debt problem and fiscal distress, which may have limited direct pull on infrastructure investment. Thanks to the 'trade-in' subsidy policy stimulus, we expect business equipment investment to grow over 15% in 2024 with the contribution ratio to total FAI growth at 60%. As the 'trade in' subsidy policy might continue, business equipment investment is likely to maintain strong growth in 1H25. However, its growth might slow down in 2H25 due to a higher base and continued overdraft on future demand.

FAI growth in manufacturing has varied across different industries. Investment growth in railway, ship & aerospace equipment has exceeded 30% in 2024 thanks to a boom in the low altitude economy and drone industry. Investment growth rates in non-ferrous metals, metal products, food manufacturing and textile products have been above 15% while those in general equipment, special equipment, chemical products, computers, telecom equipment & other electronic equipment have reached over 10%. Due to overcapacity pressure, however, investment in electrical equipment & materials and automobile manufacturing has remained weak in 2024.

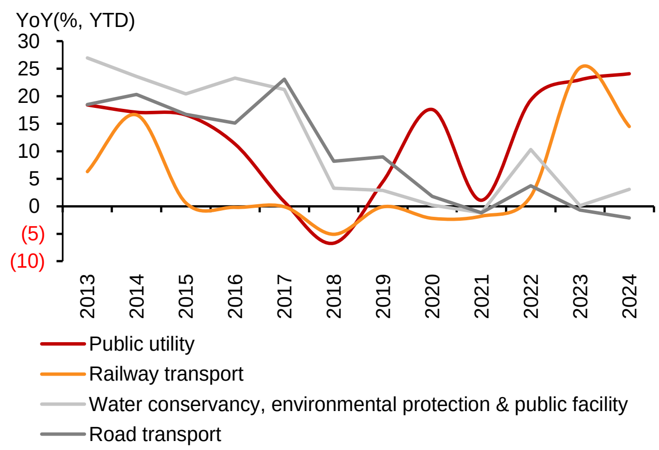
Infrastructure investment growth has also seen divergence. Investments led by LGFVs and local SOEs have slowed down sharply, such as those in road transport and public facility management. The local fiscal woes and strict restrictions on hidden debt financing have restrained investments by LGFVs and local SOEs. However, investments led by central SOEs have maintained rapid growth, with double-digit growth rates in both utilities and railway transport.

Figure 58: FAI Growth by Sector



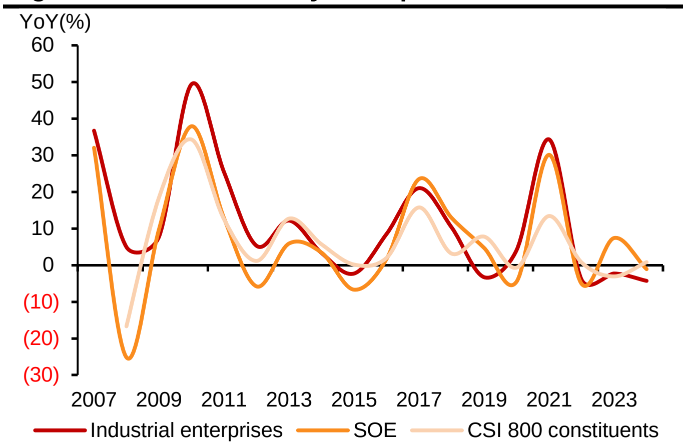
Source: Bloomberg, Wind, CMBIGM

Figure 59: FAI Growth in Infrastructure Sector



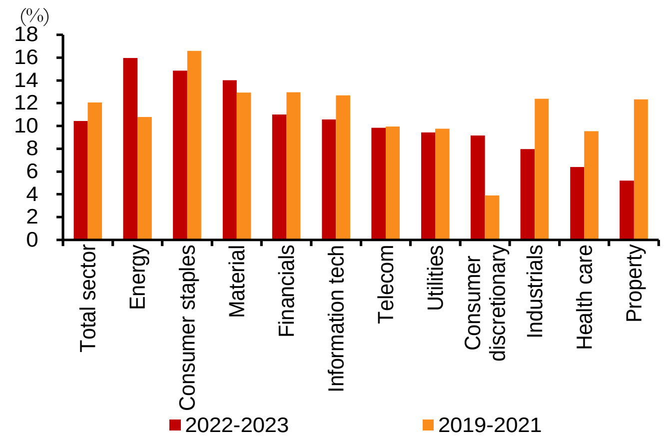
Source: Bloomberg, Wind, CMBIGM

Figure 60: FAI Growth by Enterprise



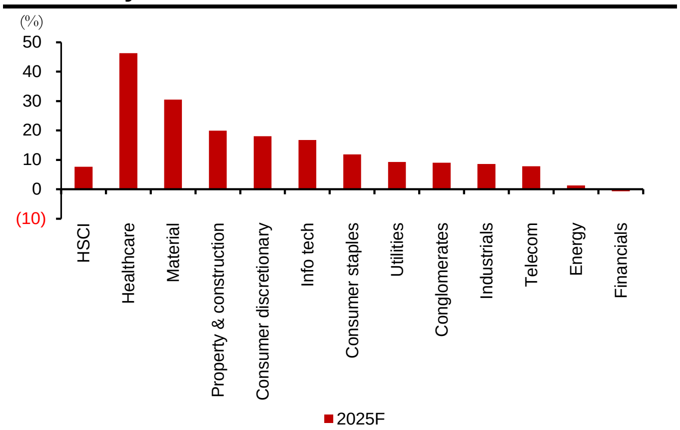
Source: Bloomberg, Wind, CMBIGM

Figure 61: Hang Seng Composite Index Sector ROE



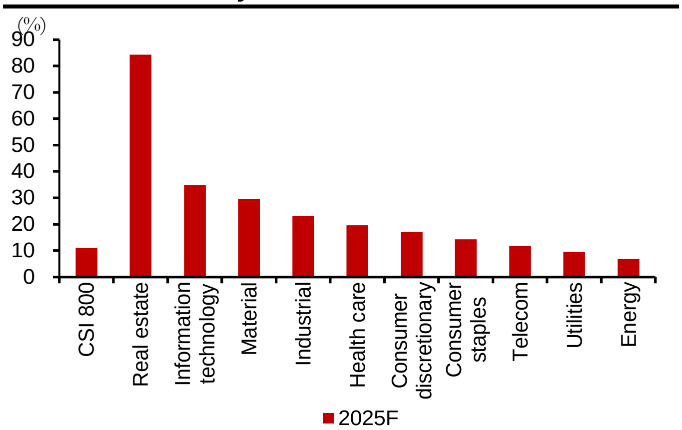
Source: Bloomberg, Wind, CMBIGM

Figure 62: Bloomberg Consensus of 2025 HSCI EPS Growth by Sector



Source: Bloomberg, Wind, CMBIGM

Figure 63: Wind Consensus of 2025 China A Share 800 EPS Growth by Sector



Source: Bloomberg, Wind, CMBIGM

2025 US Economic Outlook

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Bullish Start, Growing Caution

The Trump 2.0 era could prolong the US economic late-cycle, bringing overheating effects in the short term and stagflation in the medium term. The US economy is likely to see a soft landing with the GDP growth slowing from 2.7% in 2024 to 2.3% in 2025 and 2% in 2026. Inflation could fall slightly towards the target while Trump's policies could increase inflation uncertainty in medium term. The monetary policy will remain restrictive as the Fed may adopt a gradual approach to cutting rates for three times by 25bps each by end-2025. US dollar might remain strong in 1H25 amid the Trump uncertainty and weaken in 2H25 due to a possible reversal of the overshooting amid a US economic slowdown.

- Trump's tax stimulus will boost demand and inflation, while his deregulation could boost growth and exert a disinflationary effect. Immigrant deportations could reduce both labor supply and consumer demand, which is negative for growth and neutral for inflation. Tariffs could have stagflationary effects by hurting demand and raising supply costs. Trump's possible discretion over monetary policy could undermine the Fed's credibility and threaten inflation stability.
- In the baseline, Trump's moderate policies could add 0.2-0.3ppt to the GDP growth in 2025-2027 and lower the growth after 2027 by 0.1-0.2ppt. His policies might push up the inflation by 0.3-0.5ppt on average in 2025-2028.
- The economy could experience a soft landing, with GDP growth down from 2.7% in 2024 to 2.3% in 2025 and 2% in 2026. Slowdown pressures come from late cycle, Trump policy uncertainty and overseas economic weakness.
- The labour market may continue to moderate as the likelihood of a significant deterioration is low. The unemployment rate is expected to rise from 4.2% in 2024 to 4.3% in 2025 and 4.4% in 2026. Real wages will continue to increase.
- Disinflation may continue at a slower pace. PCE and core PCE inflation may slow from 2.4% in 2024 to 2.2% and 2.3% in 2025. Trump's policies could add some uncertainty to the inflation outlook in 2026.
- Consumer demand remains the main driver of growth. Its growth is projected to slow from 2.6% in 2024 to 2.4% in 2025 and 2.2% in 2026. Lower interest rates are positive for consumer durables, and sustained real wage growth will lay the foundation for robust consumer spending, but a cooling labour market and tightening consumer credit could bring mild downward pressure.
- Housing market could improve moderately, with housing sales and inventories expected to rise 5% and 10% in 2025. The main drivers are a resilient economy, lower mortgage rates, continued completion of new houses and a moderate easing of the lock-in effect of existing fixed-rate mortgages. House prices could continue to rise at a slower pace.
- Corporate earnings could pick up in 2025. The market expects EPS growth of S&P 500 companies to rise from 9.6% in 2024 to 15% in 2025. Business investment growth could slow from 3.7% in 2024 to 3.5% in 2025, due to Trump policy uncertainty and a possible overdraft effect on future demand in the Biden era.

- The Fed will take a gradual approach to rate cuts, with the federal funds rate likely to fall from the current 4.5%-4.75% to 4.25%-4.5% by end-2024, 3.75%-4.0% by end-2025 and 3.25%-3.5% by end-2026. The current pace of Treasury bill and bond roll-offs could end by 3Q25, when ample reserves are expected to decline to reasonable levels. 10-year Treasury yields are projected to decline from 4.2% at end-2024 to 4% at end-2025 and 3.75% at end-2026. The US dollar index is expected to fall from 105.5 at end-2024 to 104.5 at end-2025 and 102 at end-2026.

Figure 1: US Economic Forecast

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	Decade Average	Bloomberg Median			CMBI Forecast		
													2024F	2025F	2026F	2024F	2025F	2026F
Nominal GDP (US$tn)	17.6	18.3	18.8	19.6	20.7	21.5	21.4	23.7	26.0	27.7	29.0	-	29.2	30.4	31.7	29.1	30.5	31.7
GDP per Capita (US$th)	5.5	5.7	5.8	6.0	6.3	6.5	6.4	7.1	7.8	8.3	8.6	-	8.7	9.0	9.3	8.7	9.0	9.3
Real GDP (YoY %)	2.5	3.0	1.8	2.5	3.0	2.6	-2.2	6.2	2.5	2.9	2.9	2.5	2.7	2.1	2.0	2.7	2.3	2.0
Consumer Spending (YoY %)	2.8	3.4	2.5	2.6	2.7	2.1	-2.5	9.0	3.1	2.5	2.6	2.8	2.6	2.3	2.0	2.6	2.4	2.2
Private Investment (YoY %)	6.5	6.3	-0.1	4.4	5.8	3.2	-4.5	9.2	6.2	0.2	4.8	3.7	4.2	2.7	3.0	4.6	3.6	3.0
Residential	4.3	10.6	7.1	4.3	-0.7	-0.9	7.6	11.5	-8.6	-7.8	4.7	2.7	-	-	-	4.5	3.5	2.9
Non-residential	8.1	3.3	1.8	4.6	6.9	3.8	-4.6	6.2	7.0	6.0	4.0	4.3	-	-	-	3.7	3.5	2.7
Exports (YoY %)	3.9	0.3	0.5	4.1	2.9	0.5	-13.1	7.2	7.5	2.8	3.2	1.7	3.3	2.8	3.0	3.4	2.0	0.5
Imports (YoY %)	5.2	5.2	1.5	4.7	4.0	1.2	-8.9	15.4	8.7	-1.2	5.2	3.6	5.5	3.7	2.6	5.2	2.6	1.2
Government spending (YoY %)	-0.9	2.0	2.0	0.6	2.0	3.9	3.4	-0.3	-1.1	3.9	3.5	1.5	3.3	1.7	1.1	3.5	0.8	1.2
Federal Deficit (YoY %)	2.8	2.4	3.1	3.4	3.8	4.6	14.7	12.1	5.4	6.3	6.1	5.9	6.5	6.4	6.4	6.5	6.3	6.3
PCE (YoY %)	1.4	0.2	1.0	1.7	2.0	1.4	1.1	4.1	6.6	3.8	2.5	2.3	2.5	2.1	2.2	2.4	2.2	2.1
Core PCE (YoY %)	1.5	1.2	1.6	1.6	1.9	1.6	1.3	3.6	5.4	4.2	2.8	2.4	2.8	2.3	2.2	2.7	2.3	2.2
Unemployment (YoY %)	5.6	5.0	4.7	4.1	3.9	3.6	6.7	3.9	3.5	3.7	4.2	4.5	4.1	4.3	4.2	4.2	4.3	4.4
Fed Funds Rate (YoY %)	0.1	0.2	0.6	1.3	2.4	1.6	0.1	0.1	4.3	5.3	4.6	1.59	4.55	3.65	3.45	4.50	4.00	3.50
10-Year Note (%)	2.2	2.3	2.5	2.4	2.7	1.9	0.9	1.5	3.9	3.9	4.4	2.41	4.30	4.10	3.97	4.20	4.00	3.75
USD Index	90.3	98.7	102.4	92.3	96.1	96.4	90.0	96.0	103.5	101.4	106.9	96.7	105.8	105.1	101.7	105.5	104.5	102.0

Source: Wind, Bloomberg, CMBIGM estimates
Note: Consumption, investment, exports, imports and government spending are in real-term growth rates.

The Trump 2.0 Era

Following his landslide victory in the presidential election and the Republican Party's control over both the Senate and the House of Representatives—along with arguably a more conservative Supreme Court—Trump is more resolute than ever in advancing his "Make America Great Again" (MAGA) agenda. This will be driven by four core pillars: tax cuts, deregulation, immigration reform and tariffs. Tax cuts may boost demand and inflation, while deregulation could boost growth and lower inflation by improving supply and efficiency. Immigrant deportation will reduce both labor supply and aggregate demand, with a negative impact on growth and neutral influence on inflation. Tariffs would bring stagflationary effects by reducing growth and increasing inflation. Trump’s discretion over monetary policy might erode the Fed’s credibility and risk inflation stability.

Trump’s policies might bring overheating effect in 2-3 years as the supportive effects of tax cuts and deregulation should outweigh the negative impact of immigration policy and tariffs in the short to medium term. However, the balance of the two sides may change in the longer term with combined stagflation effects. The effect of tax cuts will diminish while the tariffs will generate much inefficiency and uncertainty and the immigration policy will bring negative labor supply shock. In the base scenario with moderate policy implementation, Trump’s policies could add 0.2-0.3ppt to the average annual GDP growth in 2025-2027 and reduce the annual growth after 2027 by 0.1-0.2ppt. His policies might push up the PCE inflation by 0.3-0.5ppt on average in 2025-2028.

However, the actual impact may deviate noticeably from the estimates as there are still many unknowns like the scope and timing of the policies, the responses of economic entities and the possible offsetting effects of different policies. Trump has an incentive to making progress in the issues that voters are most concerned about in the run-up to the midterm elections in November 2026. Polls show the top three issues voters are most concerned about are inflation, immigration and jobs. Therefore, Trump's priorities should be lowering energy prices (de-regulation to increase energy production, pushing for an end to the Russia-Ukraine war), reducing immigration (deporting illegal immigrants and reforming immigration policy) and creating more jobs (tax cuts and de-regulation). Trade and tariffs are not top of mind for voters, and large-scale tariff increases may conflict with the disinflation goal. So tariffs may not happen until inflation drops to lower levels, or they may be used by Trump as a means of the ‘extreme pressure’ strategy. The market has already priced in higher interest rates, stronger US dollar and better corporate earnings. Mid-term treasury yields have risen the most, indicating that the policy mix would have the greatest impact on the economy and inflation over the next 2-3 years.

Tax Cuts

On tax cuts, Trump's priority will be the full extension of the 2017 Tax Cuts and Jobs Act (TCJA) beyond 2026. He may also restore the 100% bonus depreciation on capital expenditures, which expired in 2022, to incentivize business investment. Additionally, he has promised to cut the corporate income tax rate from 21% to 15% for domestic manufacturing companies, eliminate individual income taxes on tips and social benefits, and increase/reinstate the cap on state and local tax deductions. The extension of the TCJA is expensive which is estimated to cost US$4.6tn over 10 years, according to the Congressional Budget Office (CBO). We anticipate that many of the campaign pledges are likely to face challenges in being fully implemented as concrete policies. The impact of Trump’s tax cuts on US growth and inflation might be mild in 2025 as most of the measures are a perpetuation of existing policies.

On spending cuts, the proposed Department of Government Efficiency has vowed to help reduce some expenditures through efficiency improvements. Spending cuts have tightening effects on the economy. But there's still a lot of uncertainty about how much Trump can actually reduce government spending. Mandatory spending including spending on Social Security, Medicaid, and Medicare amounted to nearly US$3tn, over 40% of total government spending. These programs are expected to grow steadily due to inflation, an aging population, and rising healthcare costs.

We generally determine the fiscal contribution to economic growth by monitoring fiscal deficit ratio. In recent years, fiscal expansion has played a significant role in the strong economic growth in the US. Fiscal deficit to GDP ratio remained elevated at 6.5% in 2023-2024, well above the 4.5% recorded in 2018-2019. We expect the Biden Administration's Fiscal Year 2025 budget plan will largely remain intact, with structural changes through budget reconciliation process under the new Congress. The fiscal deficit may slightly moderate to 6.4% in 2025 from 6.5% in 2024, as the fiscal tailwinds begins to fade. The full impact of the fiscal policies under the incoming administration may not materialize until the fourth quarter of 2025, when the Fiscal Year 2026 budget takes effect.

Deregulation

Trump's deregulation policies aim to reduce the regulatory burden on businesses and stimulate economic growth. Key areas targeted for deregulation include energy (rolling back environmental regulations), healthcare (expanding access to various insurance plans), and labor (reducing compliance costs for small businesses). Trump may also launch initiatives to extend deregulation efforts to state and local levels, encouraging reforms in occupational licensing and other regulatory frameworks. Deregulation policies could lead to higher economic growth by encouraging entrepreneurship, stimulating investments, increasing efficiency and facilitating competition. Deregulation policies might cause mild downside pressure on inflation by boosting supply and productivity.

Scott Bessent, Trump's nominee for Treasury Secretary, has championed a "3-3-3" economic plan, which aims to reduce the federal budget deficit while stimulating growth and energy production. The plan calls for reducing the budget deficit to 3% of GDP by 2028, boosting GDP growth to 3% annually through deregulation and other pro-growth policies, and increasing US energy production by 3 million barrels per day. Markets have interpreted this nomination as a signal for greater fiscal discipline and pro-growth measures within the administration. However, there is skepticism surrounding the feasibility of his energy agenda, as US energy companies generally require crude oil prices to be at least US$65 per barrel for drilling to be profitable and US$89 per barrel to substantially increase drilling, according to the latest survey by the Kansas City Federal Reserve. Given the weak demand outlook and current subdued oil prices, achieving an additional 3 million barrels per day of US oil production appears highly challenging.

Immigrate reform

Immigration has been a central focus of Trump's campaign, where he promised to prioritize immigration reform from day one of his presidency. His proposal includes securing the southern border, mobilizing military resources and declaring a national emergency to fund mass deportations. According to estimates from the Department of Customs and Border Protection, approximately 11 million undocumented immigrants were living in the US as of January 2022. With significant inflows in recent years, we estimate the number could reach 16-18 million by the end of 2024. Of these, 13 million are employed, making up roughly 7.7% of the total US workforce.

While markets are concerned that Trump's proposed mass deportations could reignite inflation and hinder economic growth, the logistical, legal, and political challenges of such an endeavor make it unlikely. We expect that Trump will adopt a more gradual approach to immigration, using a "salami-slicing" strategy to tackle easier tasks first. First, under his executive powers, Trump is likely to focus on reducing undocumented immigration inflows by reversing the current "catch and release" policy and reinstating the "Remain in Mexico" policy. According to the Congressional Budget Office (CBO), the gross increase of undocumented immigrants, who either entered illegally or overstayed their visas, was estimated to be 3.3 million in 2023, with about 2 million entering outside of official posts, including 1.1 million caught and released by CBP officials and 0.86 million who were not encountered. Second, Trump is expected to pursue changes to the legal immigration system, likely shifting it to a more merit-based system and reducing chain migration. However, during his first term, the number of legal immigrants gradually dropped from 1.31 million in 2017 to 0.6 million in 2020, while the number of H1-B visas for high-skilled workers also declined, with the denial rate increasing sharply. Finally, the more complex and far-reaching measure would be the deportation of undocumented immigrants within US borders. Trump is expected to target those with criminal charges or denied asylum applications, estimated to be about 2 million individuals.

Our baseline scenario is that Trump will reduce the net inflow of undocumented immigrants from an average of 2.1 million annually between 2022 and 2024 to just 0.1 to 0.2 million annually from 2025 to 2028. Overall net immigration may also decrease from an average of 3 million annually from 2022-2024 to 0.8 to 1.1 million annually from 2025-2028. A more pessimistic scenario, involving large-scale deportations, could see as many as 1.5 million to 2.2 million individuals deported between 2025 and 2028, compared to 1.2 million deportations during Trump's first term and 1.3 million deported during Operation Wetback in 1954, the largest deportation in US history.

Immigrants have played a vital role in supporting economic growth by contributing to the labor supply and increasing demand especially for food, housing, education and other items. Additionally, undocumented immigrants help alleviate the fiscal deficit, as they contribute to tax revenues through consumption and payroll taxes while having limited access to social benefits. The CBO estimates that the net fiscal impact of undocumented immigrants is expected to be a positive US$261bn from 2025 to 2028, or about 6% of the projected fiscal deficit, excluding interest payments.

Trump's immigration policy would impact both the supply and demand sides of the economy. A sharp decline in the net inflow of immigrants, coupled with increased deportations, would lower the GDP growth by reducing the labor force, diminishing demand for goods and services, pushing up fiscal deficit and increasing precautionary savings among remaining immigrants. Under the baseline scenario, we expect immigration restrictions to drag annual GDP growth by 0.1-0.15ppt in 2025-2028. However, under deportation scenario, the GDP could be 1% to 1.5% lower than its original trend without deportations by 2028.

The immigrant policy has a mixed impact on US inflation as immigrants increase both labor supply and consumer demand. Fed reserve Chairman Powell said in July 2024 that immigration is neutral on inflation in the long run. For the sectors that rely heavily on undocumented workers, such as agriculture (40%), construction (20%), and leisure and hospitality (10%), immigrant deportation might cause labor supply shock and inflation pressure. For the sectors that benefit incremental demand from immigrants, such as housing and education, fewer immigrants may cause mild disinflation effects.

Tariffs

President-elect Trump has described tariffs as “the most beautiful word in the dictionary,” expressing his commitment to bringing manufacturing jobs back to the US and reducing America’s trade deficit through tariff hikes. During his campaign, he proposed imposing a 30% or 60% tariff on all imports from China and a 10% or 20% tariff on imports from the rest of the world. It remains unclear whether Trump is using tariff threat as a negotiation tool, “escalate to de-escalate”, or if he genuinely believes that tariffs are the solution to reducing the US current account deficit and revitalizing American manufacturing. We are inclined to believe the latter, based on his cabinet picks for Secretary of Commerce, Trade Representative, and Treasury Secretary, where the Treasury Secretary was chosen for the loyalty to his tariff proposals after a prolonged consideration. Trump would have the authority to quickly implement tariffs across the board to the rest of the world, using the "International Emergency Economic Powers Act" (IEEPA) by declaring a national emergency. However, this approach is likely to face legal challenges and retaliation from other nations.

Trump’s approach to China will likely differ, as the Section 301 investigations initiated during his first term are already in place. A more practical strategy would involve building on existing tariffs. We anticipate the first round of tariff hikes—ranging from 15% to 25%—on the current lists of tariffs covering Chinese imports (valued at approximately US$320bn or 8.4% of US imports in 2023) might be implemented by 3Q25. Further rounds of 15%-25% broad increases might follow in 2026, contingent on the outcome of negotiations. Given that the Phase 1 trade deal was largely unfulfilled, the upcoming negotiations are expected to be far more contentious, with little room for compromise. The US may also revoke China’s most favored nation trade status. As such, our baseline scenario predicts that the weighted average tariff on Chinese goods will rise from the current 10%-13% to 20%-30% by end-2025, and could reach 30%-50% by end-2026. For the rest of the world (ROW), the weighted average tariff may increase from the current 1% to 2%-3% in 2025, and could either remain at 1%-2% or rise further to 4%-5% in 2026, depending on the success of Trump’s strategy.

Tariffs are expected to exert upward pressure on the CPI, potentially adding 0.2-0.5ppt annualized to inflation starting in 4Q25. In terms of GDP growth, the initial tariff hikes are likely to reduce US growth by 0.1ppt in 2025 and 0.3ppt in 2026. If a full-blown trade war results in retaliatory tariffs from the rest of the world, the impact on GDP could be as large as 0.4-0.8ppt in 2026.

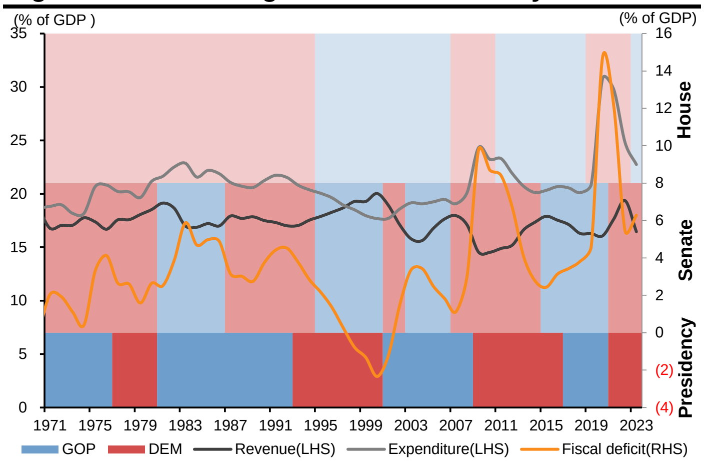
Lower-income households would bear the brunt of the tariff impact, as they spend a disproportionate share of their income on low-cost imported goods such as electronics, footwear, textiles, and clothing. The tariffs would reduce their demand for those goods. Business capex could also be affected, particularly as the first round of tariffs on the ROW may target intermediate goods to minimize the direct inflationary effect on final consumer products. Ironically, tariff policies cannot address the trade imbalance and manufacturing outsourcing. The US trade deficit has remained high because of large savings and investment gaps amid high federal deficits, low household savings rates and strong business investments. The massive outsourcing of manufacturing has been due to the high costs of local manufacturing and the lack of industrial workers in the US.

Figure 2: Trump's Major Policies

POLICY TOPICS	Impact on Real GDP	Impact on Inflation		Likelihood	Presidential Executive Power	Legislative Action Required
Taxes	Mild & Positive before 4Q25;Bigger impact in FY26	Mild & Positive before 4Q25;Bigger impact in FY26	Full Extenstion of 2017 Tax Cut and Job Act	Highly		✓
			Reduce corporate tax rate to 15% from 21% for companies manufacturing their products in the U.S	Medium		✓
			Eliminate income taxes on tips, overtime pay and Social Security benefits.	Less		✓
			Increasae/reinstate deduction cap for local and state income taxes.	Less		✓
Deregulation	Mild, Positive	Mild, Negative	Deregulate oil and gas drilling.	Highly	✓	
			Rolling back environmental regulations and subsidies	Highly	✓	
			Reducing compliance costs for small businesses	Highly	✓	
			Deregulate financial services sector	Highly	✓	
Immigration	-0.1-0.15ppt in baseline; 1-1.5% lower than original trend by 2028 under mass deportation	Slight positive or neutral	Tighten undocumented crossings at southern border	Highly	✓	
			Mass Deportation of 1.5-2.2m in 2025-28	Medium	✓	✓
			Implement more restrictive immigration rules, including avenues for legal work and student visas.	Highly	✓	
Trade	2025:-0.1ppt 2026:-0.3ppt; -0.4-0.8 if retaliation from ROW	0.2-0.5ppt annualized starting in 4Q25	15-25% tariff hikes on current lists of Section 301 investigations on China by 3Q25	Highly	✓	
			Effective tariff to the ROW increase to 2-3% in 2025 from current 1%	Highly	✓	

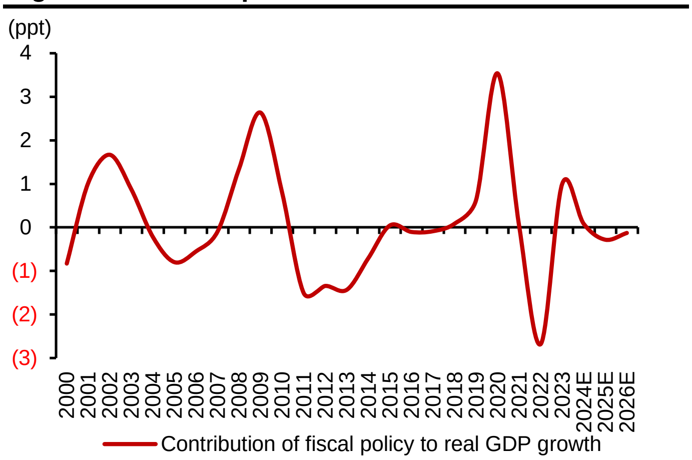
Source: Wind, Bloomberg, CMBIGM estimates

Figure 3: Fiscal Budgets in the Political Cycle



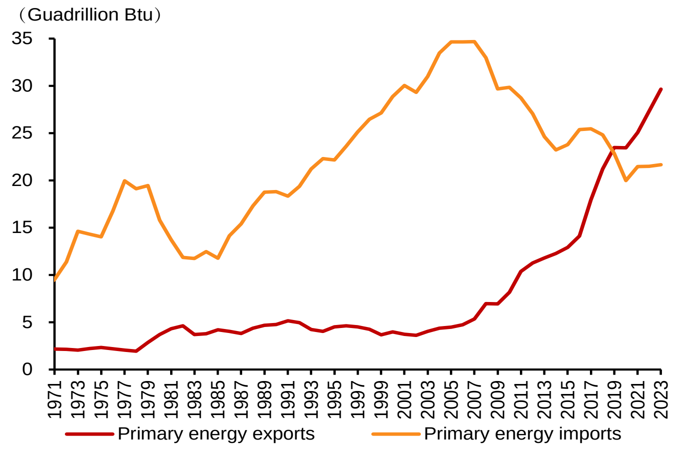
Source: Wind, Bloomberg, CMBIGM

Figure 4: Fiscal Impulse on Real GDP Growth



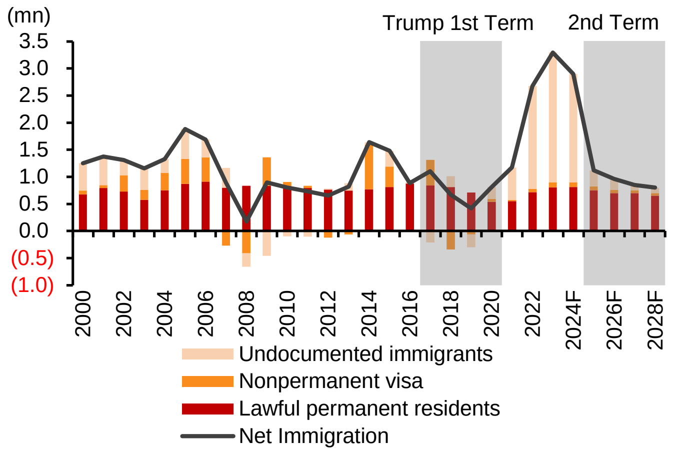
Source: Brookings, CMBIGM

Figure 5: Primary Energy Exports & Imports



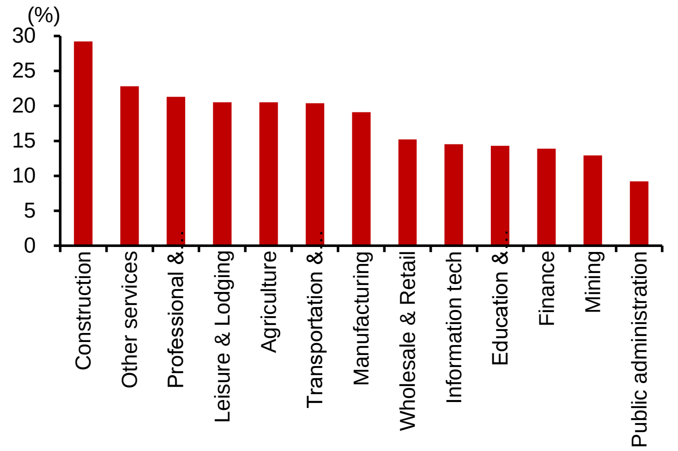
Source: Wind, Bloomberg, CMBIGM

Figure 6: Net Immigration Inflow



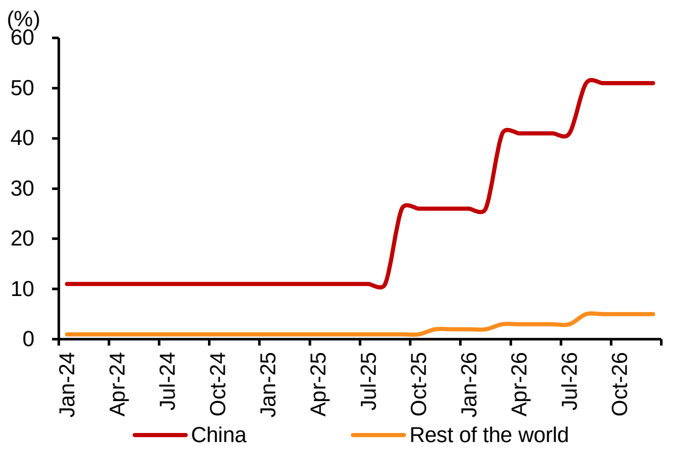
Source: Brookings, CMBIGM estimates

Figure 7: % of Foreign-Born Employees by Sector



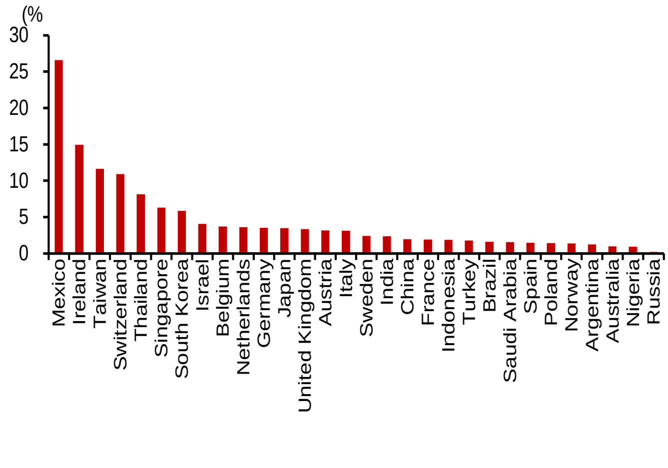
Source: Wind, Bloomberg, CMBIGM

Figure 8: Expected Effective Tariff Rates on Imports



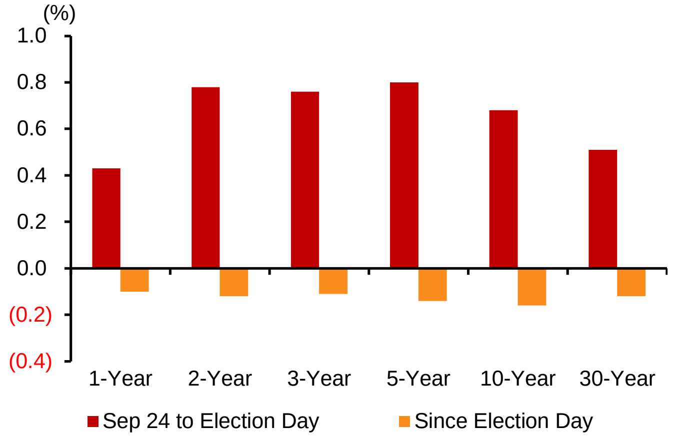
Source: Brookings, CMBIGM estimates

Figure 9: Merchandise Exports to US as % of GDP in 2023



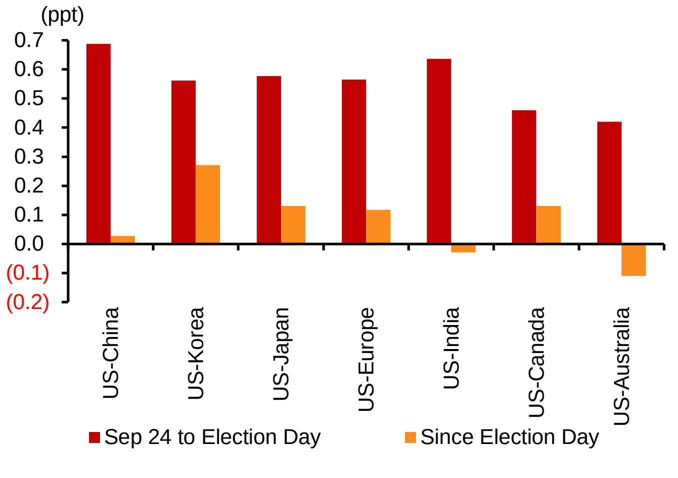
Source: Wind, Bloomberg, CMBIGM

Figure 10: T-bond Yield Changes around the Election



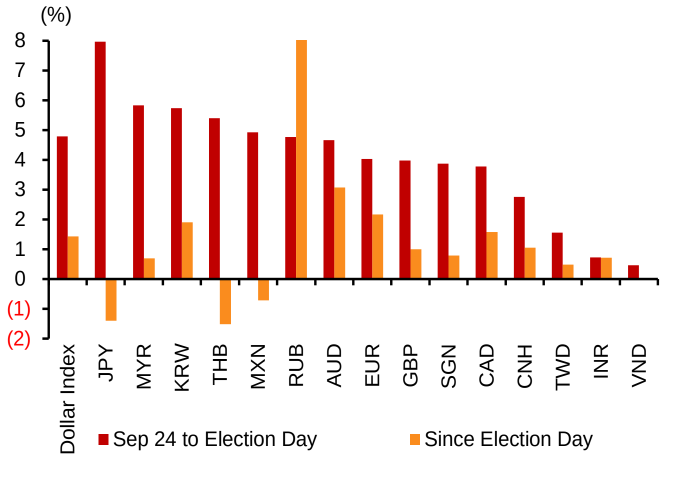
Source: Brookings, CMBIGM

Figure 11: Changes of T-bond Yield Differentials around the Election



Source: Wind, Bloomberg, CMBIGM

Figure 12: Changes of US Dollar against Other Currencies around the Election



Source: Brookings, CMBIGM

Growth

US economic growth has remained strong in 2024. We project the GDP growth to reach 2.7% in 2024, down from 2.9% in 2023. Despite a slowdown, the GDP growth is expected to remain higher than the 2014-2023 average of 2.5% and the estimated potential growth of 2.2%. The PCE inflation has been higher than the target while the unemployment rate has remained low. The above trends indicate the economy has mildly cooled down yet remained resilient.

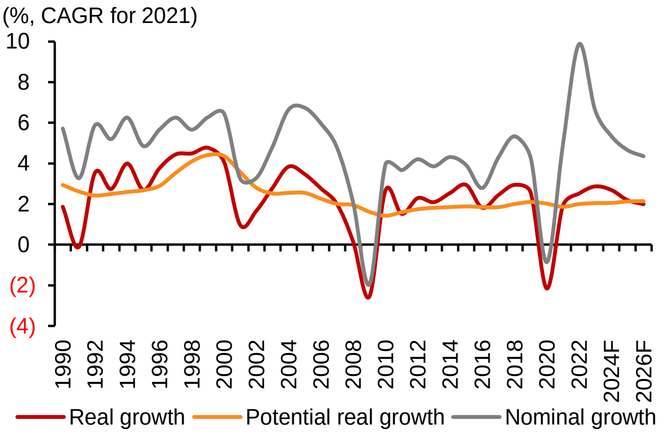
Consumer spending, business investment, government spending and exports have been major contributors to the strong growth in 2024. Household consumption at constant price is expected to grow 2.6% and contribute 1.7ppt to GDP growth in 2024, compared to the annual average levels of 2.8% and 1.8ppt in 2014-2023. The consumption growth has been supported by a resilient job market, solid wage gains, strong wealth effects and low debt burden amid the lock-in effect of fixed-rate mortgages. Non-residential investment at constant price is projected to rise 3.7% in 2024, compared to the 2014-2023 average of 4.3%. Strong earnings, AI innovation and positive economic outlook expectations have supported business investment, while high interest rates have had some negative impacts. Government spending at constant price might increase 3.5% in 2024 as the Biden administration has kept fiscal deficit high. Exports of goods and services at constant price is estimated to increase 3.4% in 2024 as both overseas demand and supply chain have improved.

Looking forward, US economic growth may gradually slow in 2025-2026. We expect the GDP growth to decelerate from 2.7% in 2024 to 2.3% in 2025 and 2% in 2026. We expect the growth rates of household consumption, non-residential investment, government spending and exports at constant prices to respectively soften from 2.6%, 3.7%, 3.5% and 3.4% in 2024 to 2.4%, 3.5%, 0.8% and 2% in 2025.

Downward pressure on the economic growth will come from three sources. First, as the economy enters a post-cycle, the impact of the high base and the lagged effects of high interest rates may further emerge. Second, policy uncertainty and global economic connections may finally increase US economic risks. Trump's policies may cause slower disinflation, less interest rate cuts and stronger US dollar, likely to prolong the effects of the restrictive monetary policy. His proposed tariffs and immigrant deportations would hurt consumer demand, business confidence and labor supply. Third, the economic weakness in non-US regions might finally affect the US economy especially if Trump launches the Trade War 2.0.

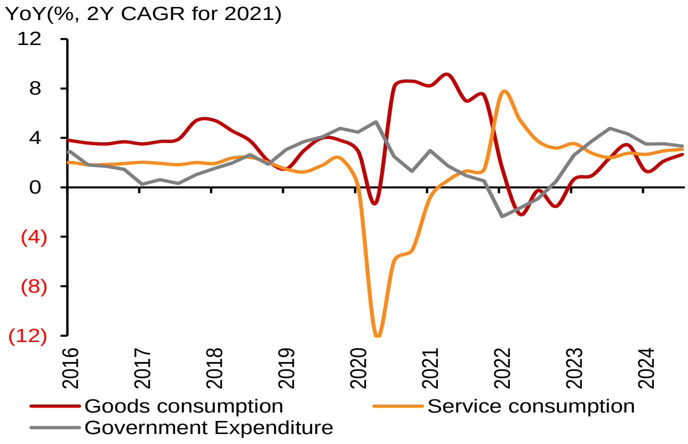
But the economy is expected to achieve a soft landing in 2025-2026. First, business cycles in different sectors have been out of sync as they have experienced rolling downturns, lowering the possibility of economic recession. In 2020-2021, the home economy was hot with housing demand and durable consumption in a super-boom cycle while service consumption in a recession. In 2022-2023, abrupt interest rate hikes sent housing and durables into a contractionary cycle, but service consumption continued to recover after the economic reopening. Second, household balance sheets have been strong as the housing and stock markets have boomed and fixed-rate mortgages have reduced the impact of interest rate hikes on household debt service burden. Third, firms have built up large cash reserves over the past few years thanks to fiscal handouts, a buoyant home economy and a revival in the service sector, reducing the squeeze effect of interest rate hikes on their capital expenditure. Last, fiscal deficits have remained high with continued expansion in government spending, making an important contribution to economic growth.

Figure 13: Real & Nominal GDP Growth



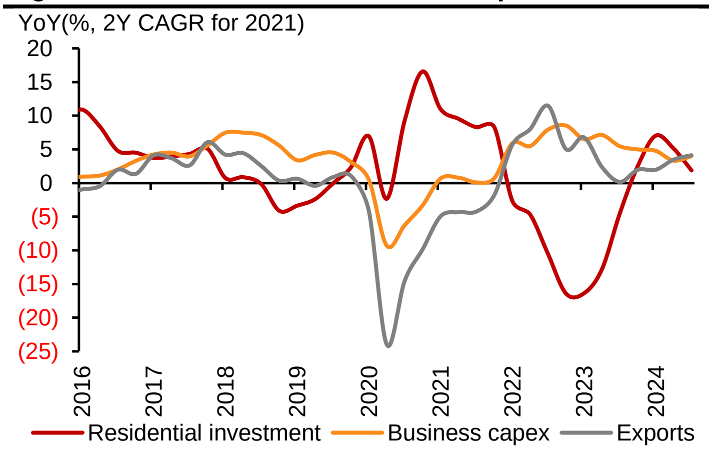
Source: Bloomberg, Wind, CMBIGM estimates

Figure 14: Consumer & Government Spending Growth



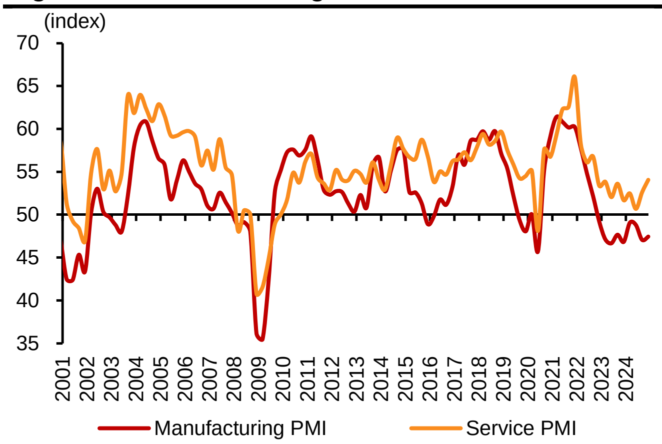
Source: Bloomberg, Wind, CMBIGM estimates

Figure 15: Growth of Investments & Exports



Source: Bloomberg, Wind, CMBIGM estimates

Figure 16: Manufacturing & Service PMI



Source: Bloomberg, Wind, CMBIGM estimates

Employment

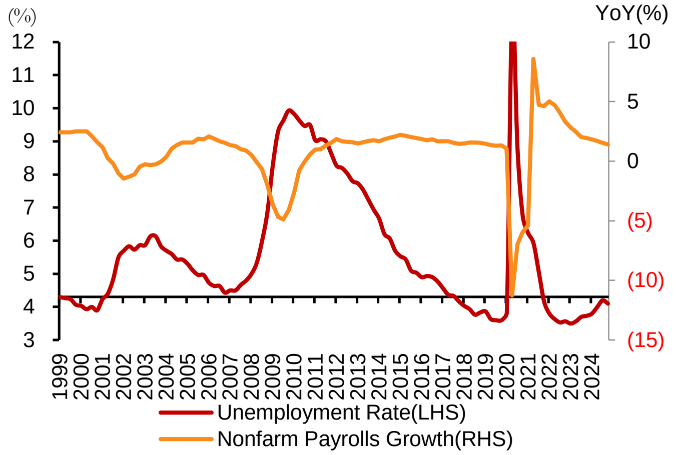
The labor market has gradually cooled down yet remained resilient in 2024. Both hiring and layoffs remain relatively low. Average monthly incremental non-farm payrolls declined to 180k in 11M24, down from 251k in 2023. The unemployment rate rose slightly from 3.7% in December 2023 to 4.2% in Nov 2024, still within a historically low range. The ratio of job vacancies to unemployment declined from 1.4 in December 2023 to 1.1 in October 2024, slightly below the pre-pandemic level of 1.2. The employment cost index grew 3.9% in 3Q24, down from 4.6% in 2023. Its growth was gradually approaching the target wage growth of 3.5%, which aligns with the 2% inflation target with 1.5% labor productivity growth. As the labor market has cooled down, wage growth has been no longer a significant driver of inflationary pressure.

Other metrics, such as declines in job vacancies, quit rates, and turnover rates, also suggest a gradual easing of labor demand. Initial claims for unemployment benefits have trended down following a surge caused by labor strikes and extreme weather, while continuing claims have slowly increased. The time it takes for unemployed individuals to find new jobs has also lengthened. The job growth has been concentrated in healthcare, leisure & hospitality, and government. The three sectors together accounted for over 75% of total non-farm payroll growth in 2024. As the employment catch-up effect from the pandemic fades with fewer immigrants potentially filling positions in these sectors, non-farm payroll growth might continue to slow.

The quarterly revisions in Aug 2024 of Quarterly Census of Employment and Wages (QCEW) have raised concerns about whether the employment data has been overly optimistic. The increase in the unemployment rate triggered the Sahm Rule in August. The Sahm Rule signals the start of a recession when the three-month moving average of the unemployment rate rises by 0.5ppt or more relative to the minimum of the three-month averages from the previous 12 months. However, our analysis suggests that this situation differs from previous ones. The rise in unemployment was largely due to the influx of immigrants expanding the labor force, while the number of employed individuals continued to grow steadily and the level of layoffs remained low.

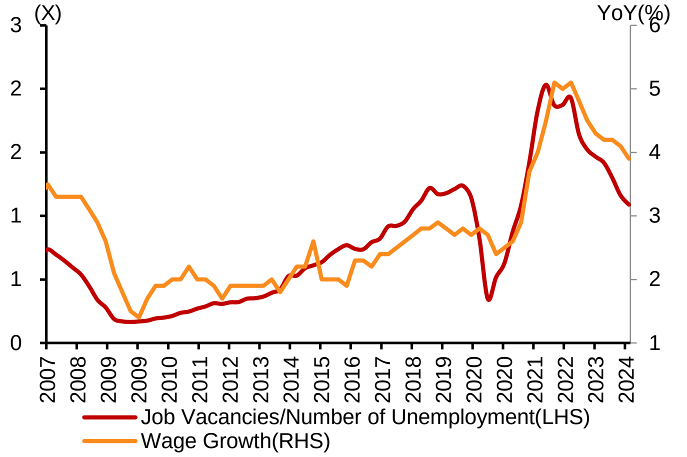
Labor market may continue to moderate in 2025, with the likelihood of a significant deterioration remaining low. A sharp decline in labor market conditions would require substantial weakness in key components of aggregate demand, such as consumption, investment, and government spending—none of which we foresee at this time. We expect non-farm payrolls may decline to around 125k per month and the unemployment rate is likely to rise to 4.3% in 2025 as the economy continues to slow. Wage growth is expected to decelerate mildly but should still outpace inflation. Real wages will continue to rise, supporting household consumption growth.

Figure 17: Unemployment Rate & NFP Growth



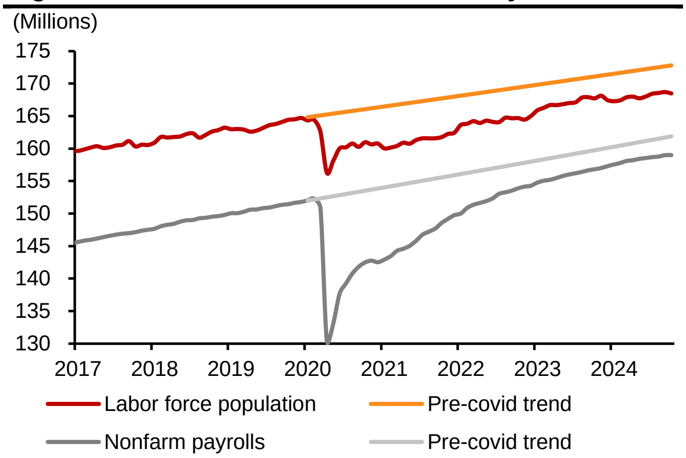
Source: Bloomberg, Wind, CMBIGM

Figure 18: The Job Openings-to-Unemployment Ratio



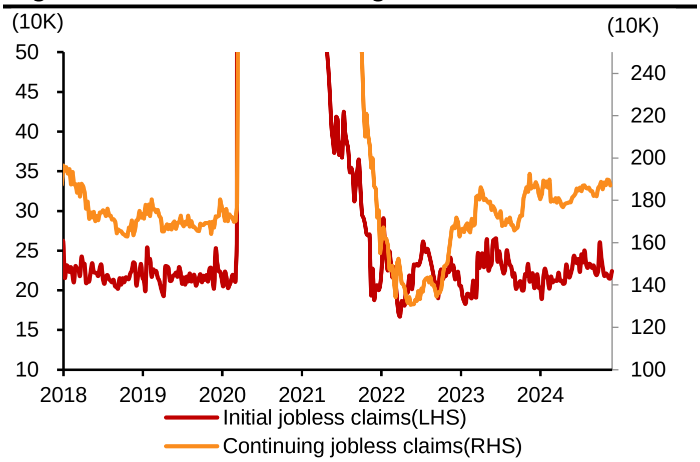
Source: Bloomberg, Wind, CMBIGM

Figure 19: Labor Force and Nonfarm Payrolls Trend



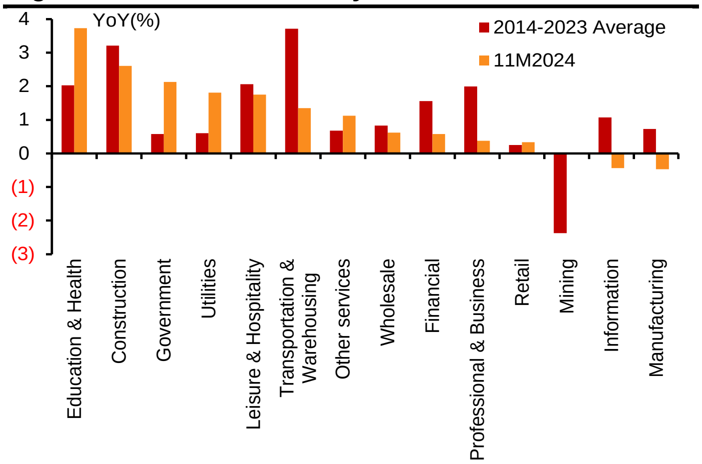
Source: Bloomberg, Wind, CMBIGM

Figure 20: Initial & Continuing Jobless Claims



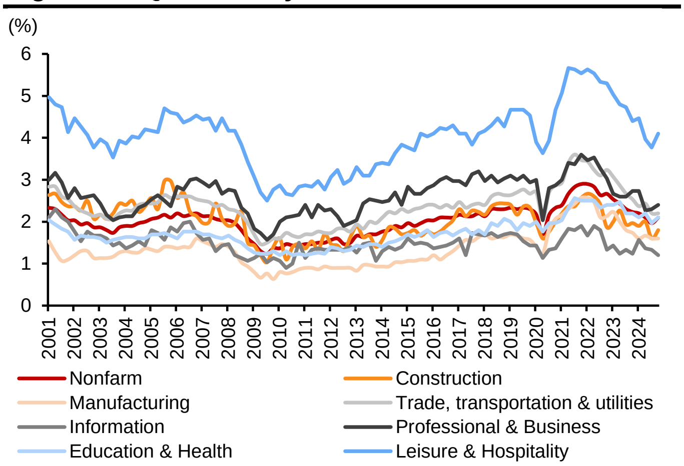
Source: Bloomberg, Wind, CMBIGM

Figure 21: Growth of NFP by Sector



Source: Bloomberg, Wind, CMBIGM

Figure 22: Quit Rate by Sector



Source: Bloomberg, Wind, CMBIGM

Inflation

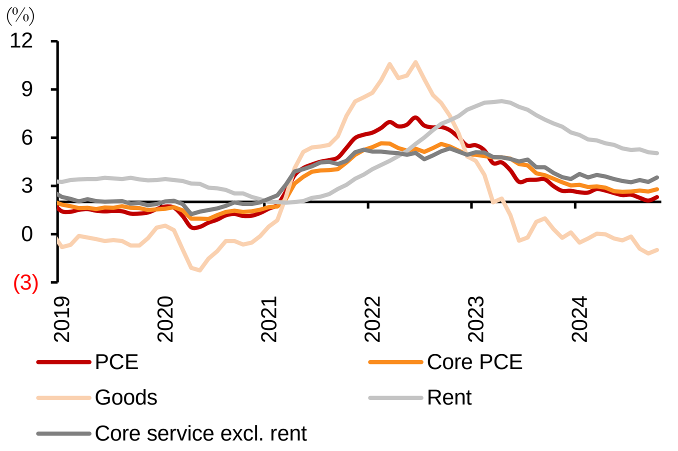
Inflation has significantly moderated in 2024. Prices in consumer goods especially in food, energy and durables have decreased notably due to supply chain resumption, manufacturing overcapacity and consumer demand shift from goods to services. But service disinflation has been much slower because of the stickiness of adjustments in rent and wage contract prices. The 3-month moving average (3MMA) of PCE inflation declined from its peak of 7% in mid-2022 to 2.8% in December 2023 and 2.2% in October 2024. The 3MMA of core PCE inflation dropped from the peak of 5.6% in March 2022 to 3.2% in December 2023 and 2.7% in October 2024. Rent inflation has eased from its peak of 8.3% in March 2023 and 6.2% in December 2023 to 4.9% in October 2024.

Rent disinflation has been much slower than other items because there has been a lag in rent changes in the CPI. The CPI rent component divides its survey sample into six groups, with data collected every six months. Since US rental agreements are typically renewed annually, new leases make up a small portion of the sample, which delays the reflection of the latest rental market prices in the CPI. The All Tenant Regressed Rent Index (ATRR) and New Tenant Rent Index (NTR), which capture both existing and new tenants' rental price changes, respectively fell from their peaks of 7.7% and 12.9% to 3.9% and 1% in 3Q24. Since the beginning of 2024, single-family rent has had a higher weight in the CPI survey samples and a lower proportion of new lease agreements in the sample, increasing the lag of the rent disinflation. For rent inflation, the situation is that the destination is clear, the pace at which it reaches that point remains uncertain.

Disinflation will continue with a slower pace in 2025. We expect PCE and core PCE inflation rates to edge down from 2.4% and 2.7% in 2024 to 2.2% and 2.3% in 2025. On the energy front, weaker global demand and an expansion of supply from Trump's energy policy, coupled with OPEC halting production cuts, should keep energy inflation under control, although its contribution to the overall disinflation will diminish. Core goods inflation may continue to decline in 2025 as business pricing power wanes and consumers become increasingly price-sensitive. The PPI has been in negative year-over-year territory for the past three months, with minimal month-over-month growth in October. Import prices have also remained subdued compared to pre-pandemic levels. Rent inflation might further decline as it lags behind the disinflation trend of new rental contract prices. Non-rent service inflation is closely related to labor cost growth. As labor market gradually cools and wage growth moderates, non-rent service inflation should generally trend downward.

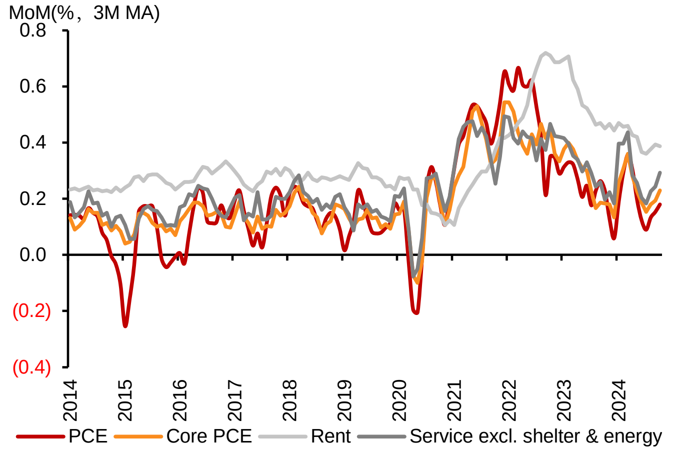
Trump's policies might bring some uncertainty for the inflation outlook in 2026 or later. His tariffs and tax cuts would moderately increase inflation pressure in 2026. A 10% tariff on all imports with 30% tariffs on the imports from China by end-2025 are projected to push up US PCE inflation in 2026 by 0.6ppt after taking into account the pass-through effect of the dollar appreciation on import prices and the dampening effect of higher prices on demand. The impact of his immigrant policy on the inflation might be neutral as the demand-channel effects offset the labor supply shock.

Figure 23: PCE Inflation in Term of YoY Growth



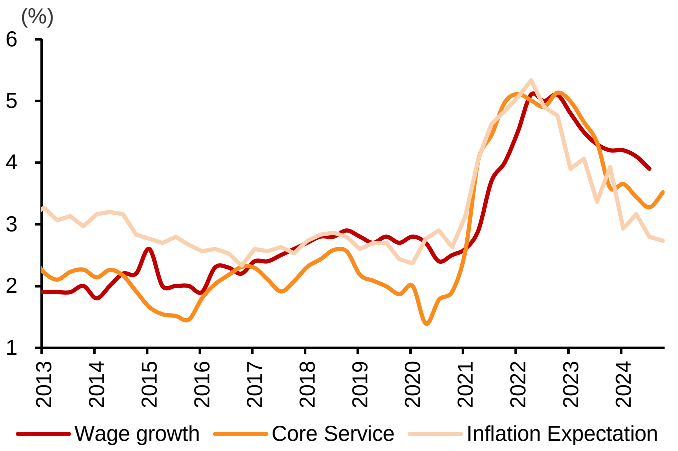
Source: Bloomberg, Wind, CMBIGM

Figure 24: PCE Inflation in Term of MoM Growth



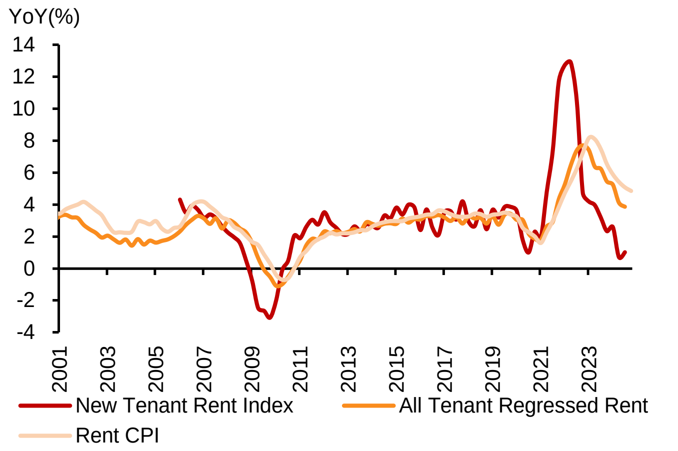
Source: Bloomberg, Wind, CMBIGM

Figure 25: Wage Growth & Core Service Inflation



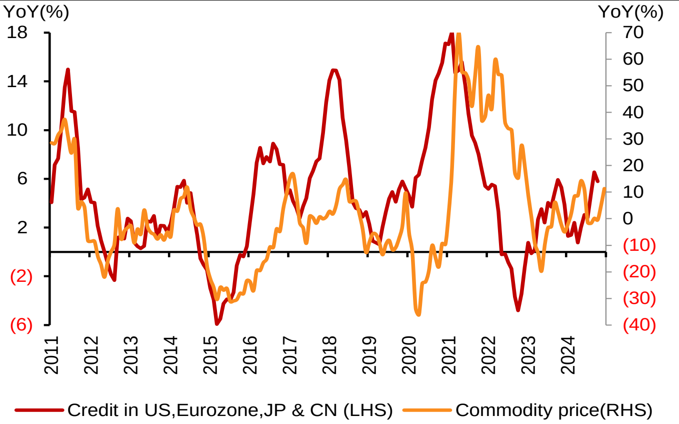
Source: Bloomberg, Wind, CMBIGM

Figure 26: NTR & ATRR Index & Rent CPI



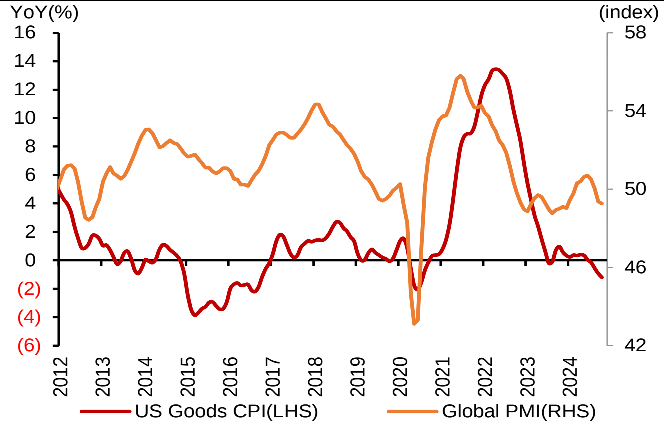
Source: Bloomberg, Wind, CMBIGM

Figure 27: Global Credit Cycle & Commodity Price



Source: Bloomberg, Wind, CMBIGM

Figure 28: US Goods Inflation & Global PMI



Source: Bloomberg, Wind, CMBIGM

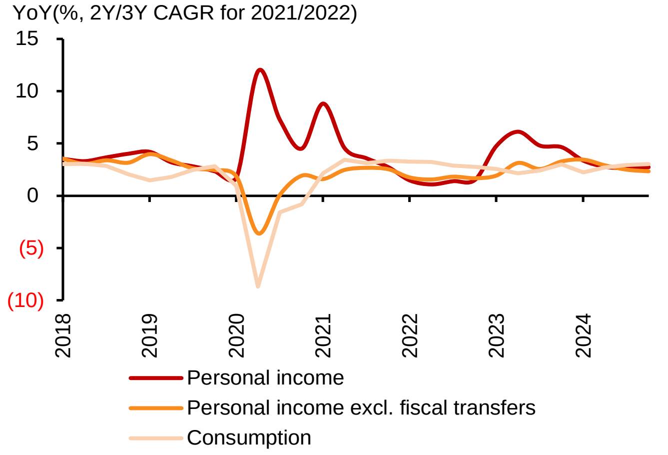
Consumption

Household consumption has remained strong especially in services as a key driver for economic resilience in 2024. Consumer spending at constant price rose 2.7% YoY in 10M24 and might reach 2.6% in the full year, compared to 2.5% in 2023. The consumption growth continued to outpace the pre-pandemic trend. Goods consumption grew 2.2% in 10M24, following a 1.9% increase in 2023, with non-durable goods rebounding to 1.9% from 0.8% in the previous year, while durable goods slowed to 2.7% from 3.9% in 2023. Food and apparel consumption increased by 1.3% and 1.5%, respectively, while spending on energy products fell by 0.4%. Auto consumption declined by 2.2% in 10M24, down from 3.1% in 2023, due to elevated real interest rates, while purchases of furniture and home appliances rebounded by 4.3%, up from 1.8% in the previous year. Service consumption rose by 2.91% in 10M24, slightly higher than the 2.86% increase in 2023. Consumption in health care, recreational services, food and accommodation, and financial services showed moderate deceleration, while transportation services saw a notable surge.

Several key drivers have supported strong household consumption in 2024. First is the strong fixed investment and robust labor market. We estimate private investment at constant price to grow 4.6% in 2024, higher than the 2014-2023 average of 3.7%. Strong capex expansion has continued to support labor demand. Unemployment rate has slightly increased yet remained low. Non-farm payrolls have maintained growth rates slightly higher than the 2015-2019 average. Wage income growth has remained strong. Second is the increased consumer confidence and declined savings ratio. Consumer confidence has improved with a lower savings ratio in 2024, translating into a willingness to spend on both essential and discretionary items. Third is the wealth effect from booming asset prices. Continued increases in equity and home prices have bolstered household balance sheets. We estimate the boost to consumer spending from asset booming might reach 0.3ppt in 2024. Last is continued support from government spending initiatives. Government spending has supported household consumption by transferring funds, creating jobs and enhancing public services. We project government spending at constant price to increase 3.5% in 2024, likely to contribute 0.5ppt to the US GDP growth.

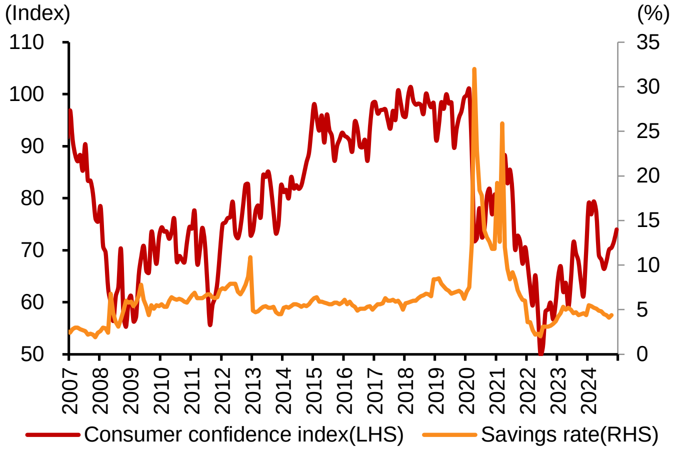
Household consumption growth might remain resilient yet at a lower rate in 2025. Consumer spending at constant price is projected to grow 2.4% in 2025, down from 2.6% in 2025. Overall outlook will remain positive, but a few risks might emerge to slow the consumption growth. Lower interest rates should be positive for home and consumer durables demand, but Trump's policies will reduce the Fed's room to cut rates. Labor market might further mildly cool down with a slight increase of unemployment rate and a mild decline of wage growth. Home equity might continue to rise yet with a slower pace with the continued rebalancing of home supply and demand. Corporate earnings and equity market momentum might remain strong, but over-optimism and over-valuation mean the market could be headed for volatility. Consumer confidence might remain high, but rising consumer delinquency rates and tightening credit condition might bring some downside pressure on consumer demand.

Figure 29: Personal Income & Consumption Growth



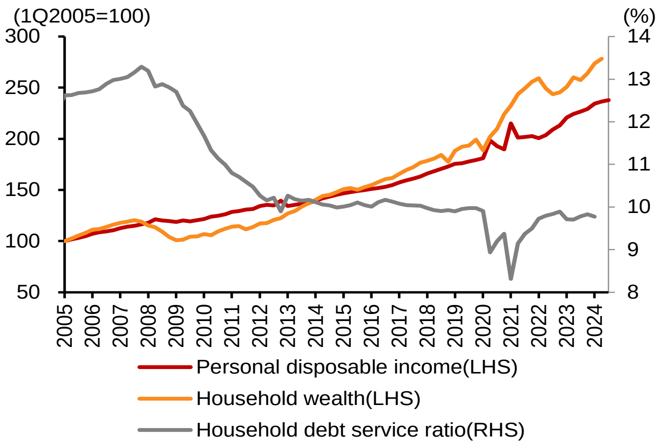
Source: Bloomberg, Wind, CMBIGM

Figure 30: Consumer Confidence & Savings Rate



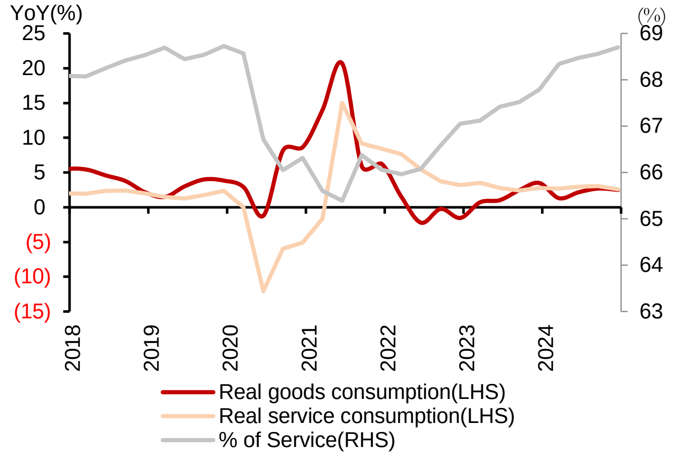
Source: Bloomberg, Wind, CMBIGM

Figure 31: Household Wealth & Debt Service Ratio



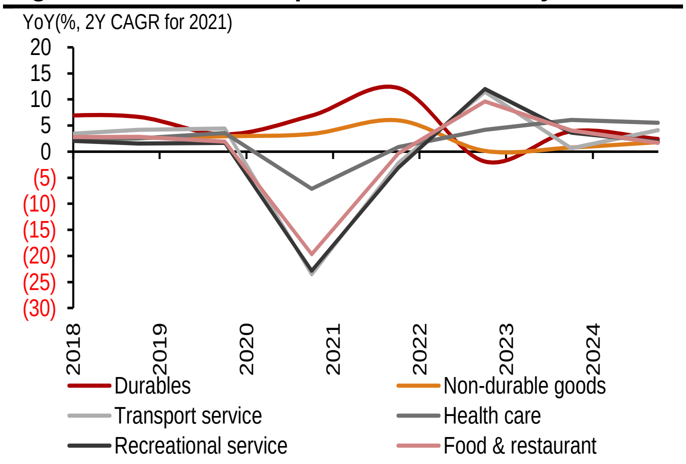
Source: Bloomberg, Wind, CMBIGM

Figure 32: Real Goods & Service Consumption



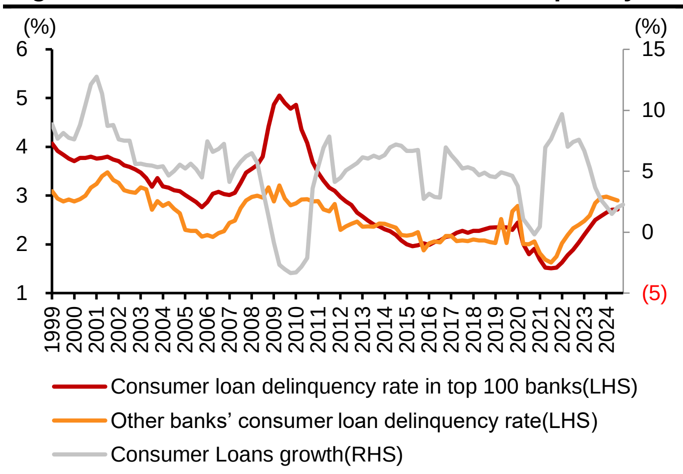
Source: Bloomberg, Wind, CMBIGM

Figure 33: Personal Expenditure Growth by Item



Source: Bloomberg, Wind, CMBIGM

Figure 34: Consumer Loan Growth & Delinquency



Source: Bloomberg, Wind, CMBIGM

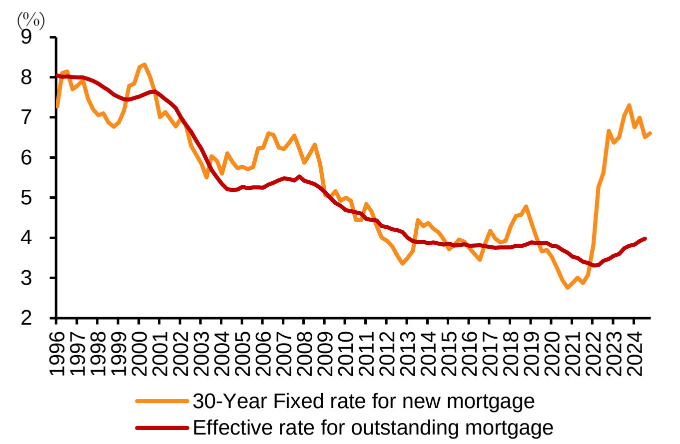
Housing Market

Housing market has been in a stagflation-like state in 2024. Housing sales have been subdued with total home sales down 1% in 10M24. Affordability has been stretched as home prices jumped by over 40% in the past four years and mortgage rates remained high. New home sales increased by 1.4% in 10M24 after rising 4.5% in 2023. After the recent rebound of mortgage rates amid the Trump trade, new home sales notably dropped by 9.4% YoY. Existing home sales narrowed their declines from -19.3% in 2023 to -2.5% in 10M24, but continued to suffer from high mortgage rates and the lock-in effect. The mortgage rate “lock-in” effect has caused a tight supply of existing homes with their months of supply down to historical lows. New housing supply has improved as completions increased especially in multifamily housing thanks to its robust starts in 2020-2021. Multifamily housing starts continued to decline while single-family starts recovered from their pandemic trough. House price has continued to rise, yet at a slower pace.

Commercial real estate market has continued to face tough challenges with slight improvement in 2024. Office vacancies remained elevated at 20% in 3Q24, compared to 19.6% at end-2023. Meanwhile, apartment vacancies rose from 5.6% to 5.9%. Vacancy rates in industrial, retail, and storage sectors remained below long-term averages. Cap rates demonstrated resilience and steady growth across most CRE segments, including apartments, retail, and office, while rates for hotels and industrial properties saw slight declines. Higher construction costs and increased required return led to a slowdown in new construction starts, particularly in the industrial and multifamily sectors, which should support near-term rent growth.

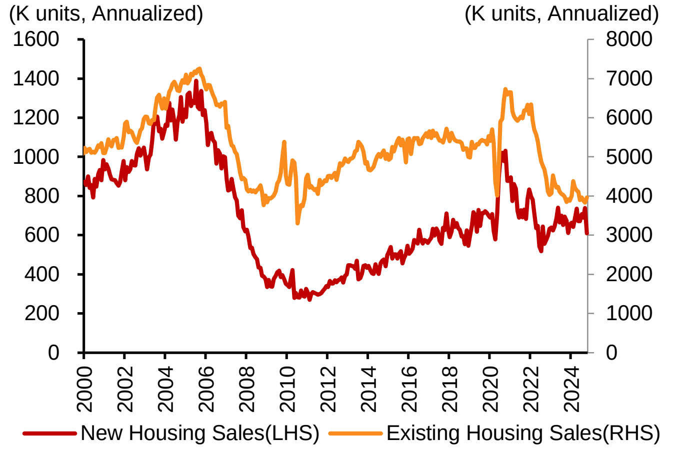
Housing market might see moderate improvements in 2025. We estimate total sales to increase by 5%, with new and existing homes to rise 7% and 4.5% respectively in 2025 thanks to resilient economic growth, lower mortgage rates, and increasing housing inventory. Economic growth is expected to slow yet remain resilient. Mortgage rates might moderately decline with the 30-year fixed mortgage rate possibly down from 6.7% at end-2024 to 6.2% at end-2025. Housing inventory is expected to increase by 10% in 2025 thanks to continued completions of new housing projects and a moderate alleviation in the lock-in effect of fixed-rate mortgages. Housing prices might continue to grow at a slower pace thanks to a rebalancing of supply and demand. We project rental prices to grow at a steady 3% with the mixed effects from reduced immigration and declining multifamily completions, particularly in the second half of 2025.

Figure 35: “Lock-in” Effect of Existing Mortgages



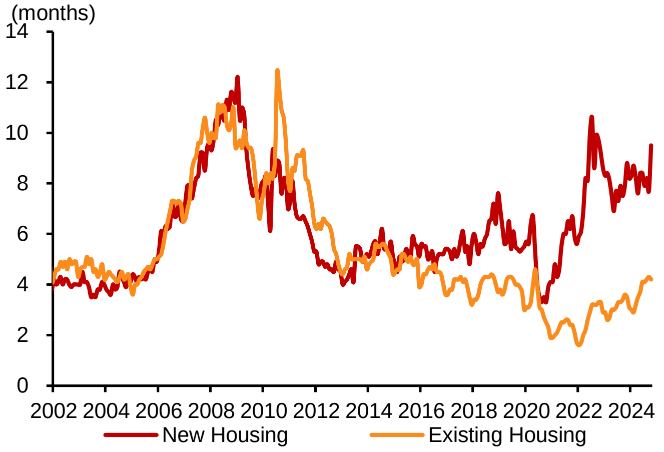
Source: Bloomberg, Wind, CMBIGM

Figure 36: New & Existing Home Sales



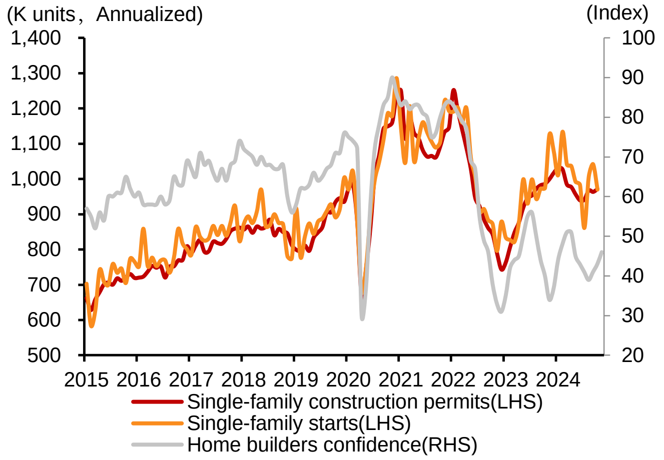
Source: Bloomberg, Wind, CMBIGM

Figure 37: New & Existing Home Supply in Months



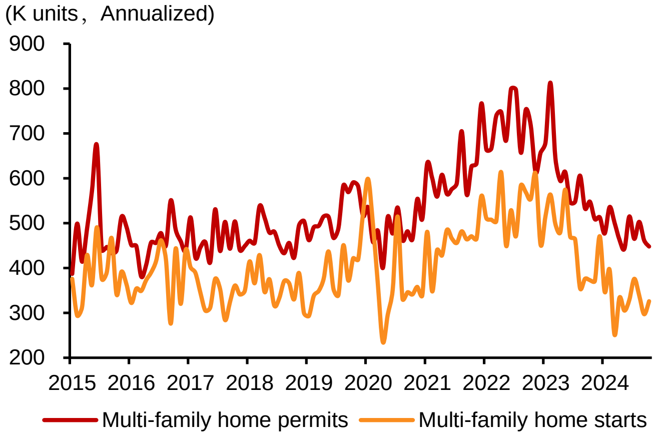
Source: Bloomberg, Wind, CMBIGM

Figure 38: Single-family Housing Permits & Starts



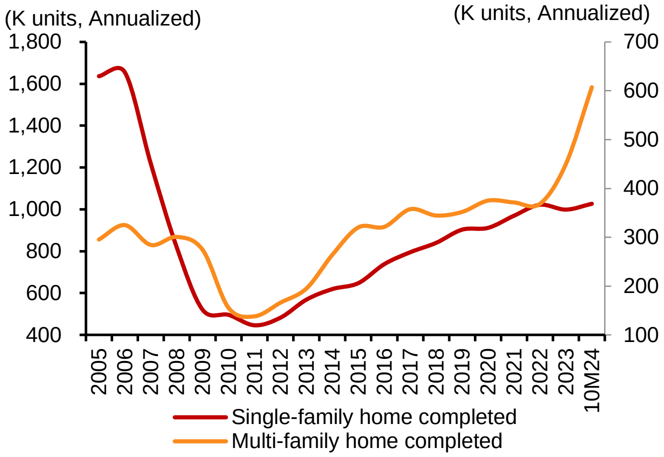
Source: Bloomberg, Wind, CMBIGM

Figure 39: Multi-family Home Permits & Starts



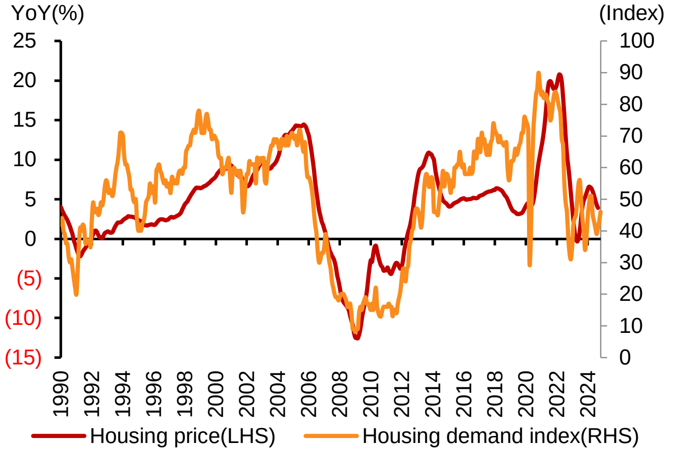
Source: Bloomberg, Wind, CMBIGM

Figure 40: New Housing Completions



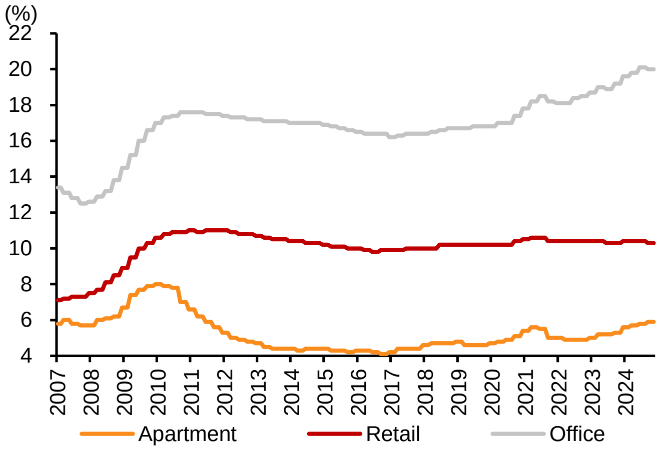
Source: Bloomberg, Wind, CMBIGM

Figure 41: Housing Price & Demand



Source: Bloomberg, Wind, CMBIGM

Figure 42: Vacancy Rates of Commercial Real Estate



Source: Bloomberg, Wind, CMBIGM

Corporate Earnings & Investment

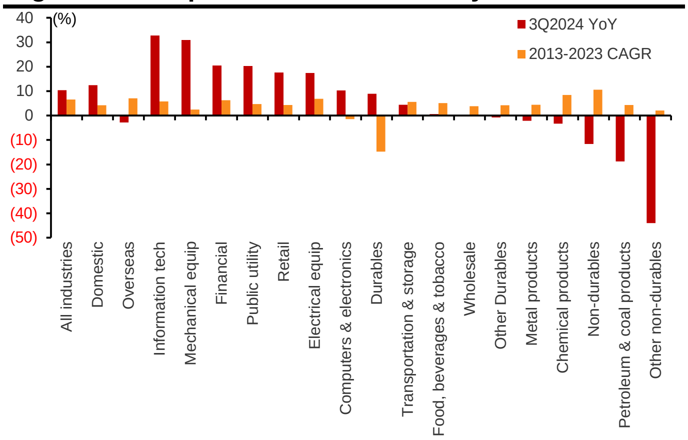
Corporate earnings have been strong with divergence by sector in 2024. US corporate profits grew 10.5% YoY in 9M24, compared to the CAGR of 5.2% in 2013-2023. Profits from the domestic market rose 12.5% while those from the overseas market dropped 2.6% in the first three quarters. Information service, machinery equipment, financials, public utilities, retail trade and electrical equipment registered strong profit growth rates above 17%, while energy, non-durable consumer goods, chemical products and metal products saw YoY declines of their profits. The current market consensus on the 2024 EPS growth of S&P 500 index components is 9.6%, with expected earnings growth rates in communication service, information technology, financials and consumer discretionary all higher than 14% and those in industrials, materials and energy all negative.

Business investment growth has slowed yet remained strong in 2024. Non-residential investment has slowed from 6% in 2023 to 4% in 9M24. Structures investment growth decelerated from 10.8% in 2023 to 4.4% in 9M24, while equipment investment growth slightly rose from 3.5% to 3.6%. Intellectual property investment maintained a relatively stable growth at 4.3% in 9M24, compared to 5.8% in 2023. The Inflation Reduction Act and the CHIPS & Science Act significantly stimulated investments in manufacturing, technology and renewable energy sectors in 2022-2023. The policy effects gradually diminished due to a high base and overdraft on future demand. But business investment growth was not low as consumer spending remained strong and large companies leveraged substantial cash reserves accumulated during the post-pandemic recovery to support their capex especially in AI and other technologies.

Corporate earnings growth might slightly pick up in 2025. The current market consensus on the 2025 EPS growth of S&P 500 index components is 15%, up from the expected growth of 9.6% in 2024. The EPS growth in information tech, health care, industrials and materials are expected to be relatively higher, all above 15%, while the growth in real estate, consumer staples and energy might be relatively lower, all below 6.5%. The optimistic outlook for earnings growth is contingent on resilient economic growth, lower cost pressure and Trump’s pro-growth policies in 2025. But downside risk might appear if Trump’s tariffs and immigrant policy cause stagflation effects.

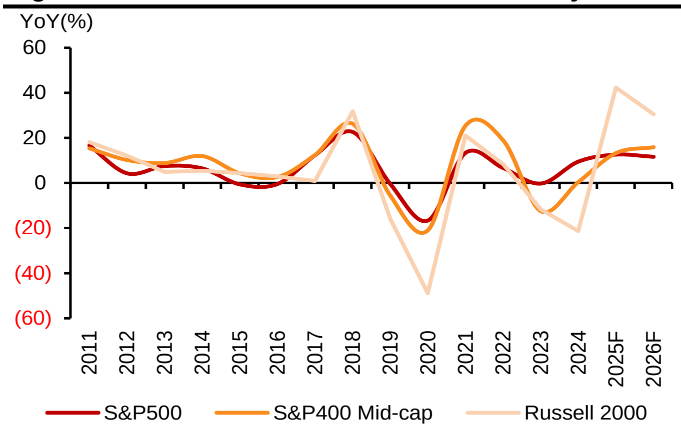
Business investment growth might further slow down in 2025. Non-residential investment may rise 3.5% in 2025, down from 3.7% in 2024. The construction investment especially in semiconductors and renewable energy might decelerate noticeably due to the overdraft on future demand in the past three years. Investment in traditional energy and information tech would maintain stable growth rates thanks to Trump’s deregulation policies and AI innovation. However, uncertainty over trade policies and tax reforms might hinder business investment. Policy uncertainty typically leads to a "wait and see" approach among firms, delaying investment decisions for several quarters. This mirrors the experience of 2018-2019, when business investment in equipment and manufacturing output shrank following the introduction of tariffs on China.

Figure 43: Corporate Profit Growth by Sector



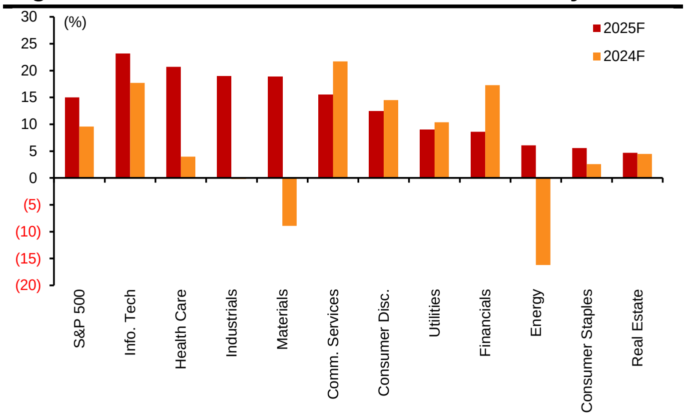
Source: Bloomberg, Wind, CMBIGM

Figure 44: BBG Consensus of EPS Growth by Index



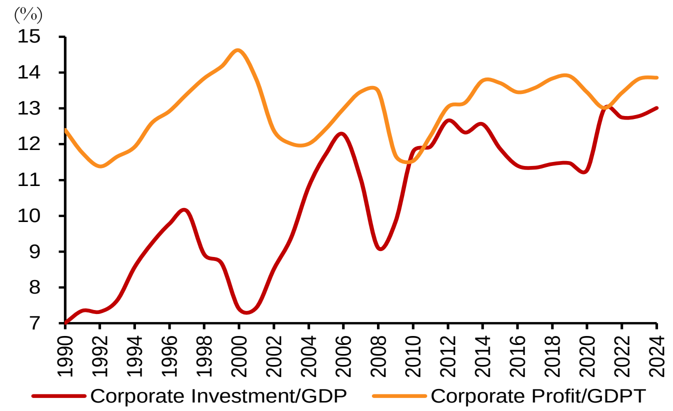
Source: Bloomberg, Wind, CMBIGM

Figure 45: BBG Consensus of EPS Growth by Sector



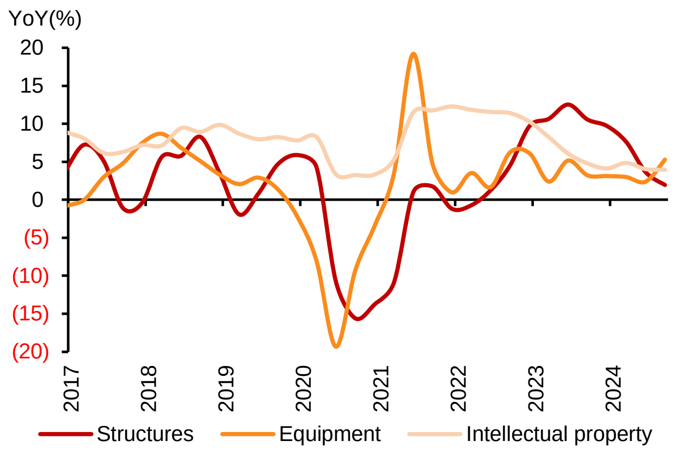
Source: Bloomberg, Wind, CMBIGM

Figure 46: Corporate Investment & Profit



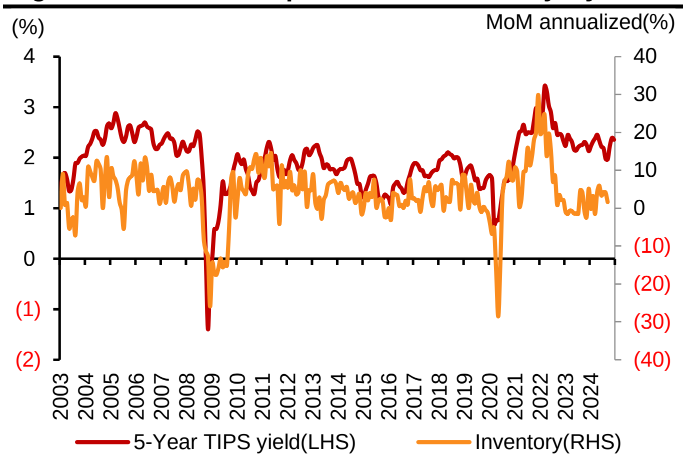
Source: Bloomberg, Wind, CMBIGM

Figure 47: Private Investment Growth



Source: Bloomberg, Wind, CMBIGM

Figure 48: Inflation Expectation & Inventory Cycle



Source: Bloomberg, Wind, CMBIGM

Monetary Policy

Monetary policy should remain restrictive in 2025. The Fed may adopt a gradual approach to cutting rates. The federal funds rate is likely to decline from the current 4.5%-4.75% range to 4.25%-4.5% at end-2024, 3.75%-4.0% at end-2025 and 3.25%-3.5% at end-2026. In the baseline scenario, we expect the Fed to cut the rate by 25bps each time this December, next March and September. We expect the current pace of Treasury note and bond roll-offs—approximately US$25bn per month—to end by 3Q25, as ample reserves continue to decrease to more cautious levels. Additionally, with approximately US$6.7tn in Treasury notes maturing in 2025 that will require refinancing, the Fed will need to maintain sufficient liquidity to prevent disruptions in the monetary markets.

The current monetary policy remains restrictive with the policy rate far above the neutral rate. Nominal GDP growth, as an anchor for the appropriate policy rate level, is set to moderately decline next year. Inflation may continue to trend downward toward the 2% target and the labor market might moderate in a steady manner. Therefore, the Fed is likely to further cut the policy rate. However, as the economy may remain resilient and Trump's policies might increase inflation uncertainty, the Fed will adopt a gradual approach to cutting rates. The Fed has emphasized that its decisions will be highly data-dependent, assessing economic indicators such as inflation and employment before determining the pace and magnitude of rate cuts. This means that while cuts are expected, the timing and frequency may vary based on incoming economic data.

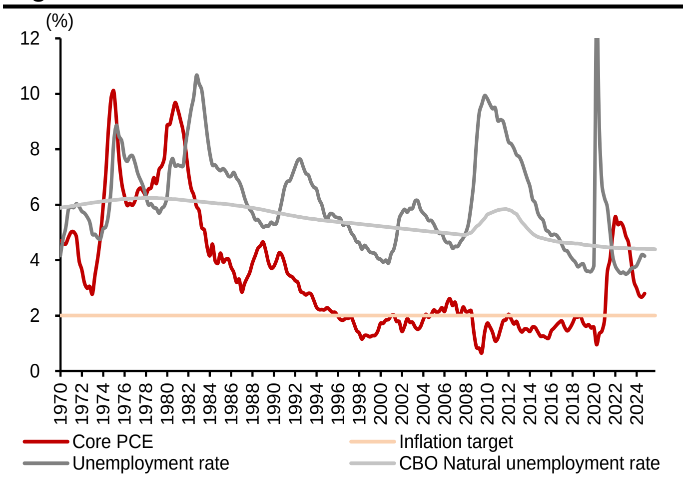
The terminal level of the policy rate depends on the state of the economy and the neutral interest rate level. In a lukewarm state of the economy, the policy rate should be near the neutral rate. The neutral rate depends on potential growth and inflation pivot. As both potential growth and inflation pivot increases, the neutral rate might be higher now than in the past. The CBO estimates that the potential GDP growth would rise from an average of 1.85% in 2015-2017 to 2.1% in 2024-2026. Major contributors are rising labor force participation, stronger business investment and technological revolutions such as AI. Inflation pivot also increases as the annual average PCE and core PCE inflation is expected to respectively increase from 1.3% and 1.6% in 2014-2019 to 2.2% and 2.4% in 2024-2026. We estimate the neutral interest rate might reach 3%-3.5%, higher than the Fed's estimate of 2.5%-3% before the pandemic.

The economy has been overheating in recent years with the annual average GDP growth reaching 2.5% over the past decade. The economic overheating was mainly due to high fiscal deficit rate, low household savings rate as well as strong housing & business investments. Both supply-demand gap and savings-investment gap widened with an increase of trade account deficit, causing upward pressure on interest rates to attract more capital inflows to finance the gaps. To lower inflation and interest rates, the US economy needs to rebalance its aggregate demand and supply with lower fiscal deficit rate, higher household savings rate or weaker business capex. But all of these requirements imply a contraction in US demand, which would pose downside risks to the global economy.

Treasury yields might mildly decrease in 2025. 10Y Treasury yields are projected to decrease from 4.2% at end-2024 to 4% at end-2025 and 3.75% at end-2026. Long-term treasury yields reflect the market's expectations of economic growth and inflation dynamics in the future. Since nominal GDP growth incorporates both economic growth and inflation dynamics, long-term treasury yields are closely related to the moving trend of nominal GDP growth. We expect nominal GDP growth to decelerate from 5.1% in 2024 to 4.5% in 2025 and 4.1% in 2026. Therefore, long-term treasury yields might mildly decline in the next two years.

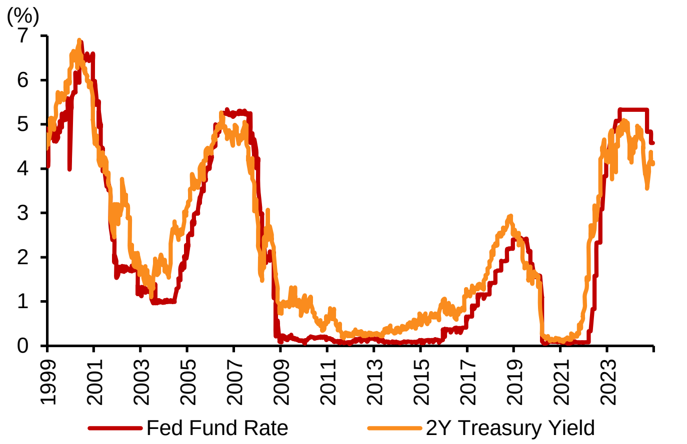
US dollar index may slightly decline in 2025 due to the current overshooting and possible weakening of US economy in 2H25. US dollar index may decline from 105.5 at end-2024 to 104.5 at end-2025 and 102 at end-2026. The dollar Index is mainly influenced by changes in the relative strength of the US economy and market risk sentiment. With a weight of nearly 60% in the dollar index, the EUR/USD exchange rate plays a decisive role in the movement of the index. Trump's policies tends to strengthen the US economy while hurting Eurozone economy as the US-Eurozone interest rate differentials have increased in the past two months amid Trump trade in the global market. The Trump 2.0 shock may continue to dampen Euro and support US dollar in 1H25. However, the dollar index might slide in 2H25 because of a weakening of US economy and possible reversal of the overshooting. The US-Eurozone GDP growth differential is expected to mildly narrow in 2025. Additionally, the narrowing interest rate differential between the US and Japan, amid further rate hikes by the Bank of Japan, is likely to weigh on the dollar. However, uncertainties surrounding Trump's trade policies and his strong commitment to maintaining the dollar's status as the world's leading reserve currency could partially offset the currency's anticipated weakness.

Figure 49: Fed's Dual Mandate



Source: Bloomberg, Wind, CMBIGM

Figure 50: Fed Funds Rate & 2Y T-bond Yields



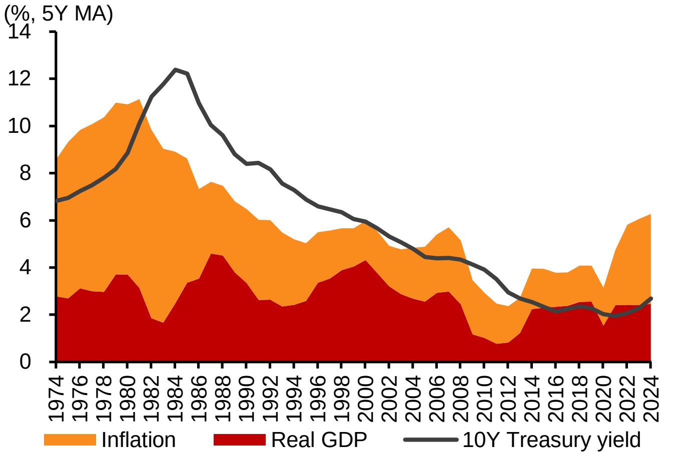
Source: Bloomberg, Wind, CMBIGM

Figure 51: Appropriate Policy Rate Implied by the Taylor Rule

(%)	Neutral rate of interest	Natural unemployment rate	Baseline Scenario			Optimistic Scenario			Pessimistic Scenario		
			Core Inflation	Unemployment Rate	Policy Rate	Core Inflation	Unemployment Rate	Policy Rate	Core Inflation	Unemployment Rate	Policy Rate
4Q23	1.50	4.20	3.20	3.70	5.80	3.20	3.70	5.80	3.20	3.70	5.80
1H24	1.50	4.20	2.80	3.90	5.00	2.80	3.90	5.00	2.80	3.90	5.00
2H24	1.50	4.20	2.60	4.20	4.40	2.70	4.00	4.75	2.50	4.40	4.05
2025	1.50	4.20	2.30	4.30	3.85	2.40	4.10	4.20	2.20	4.50	3.50

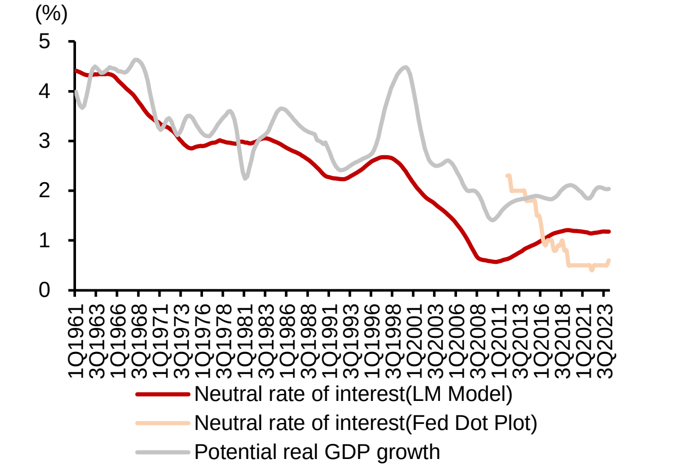
Source: Wind, Bloomberg, CMBIGM estimates

Figure 52: Inflation, Real GDP & 10Y Treasury Yields



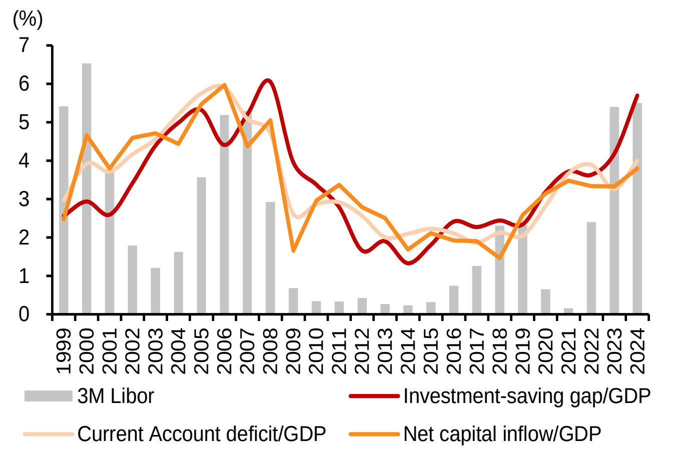
Source: Bloomberg, Wind, CMBIGM estimates

Figure 53: Estimation of Neutral Interest Rate (R*)



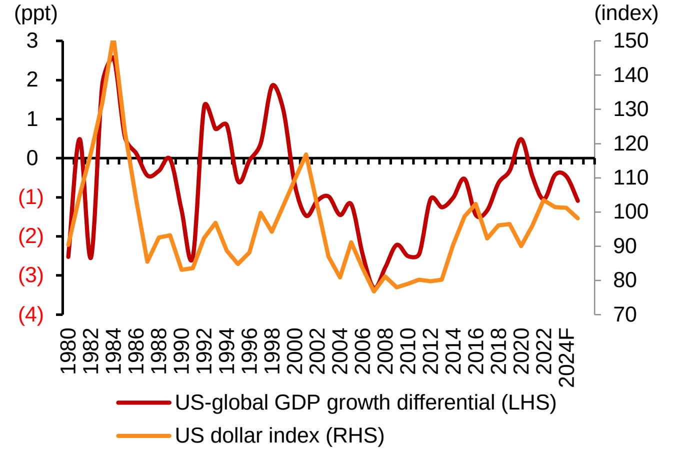
Source: Bloomberg, Wind, CMBIGM estimates

Figure 54: Investment-savings Gap, Current Account Deficit & Net Capital Inflows



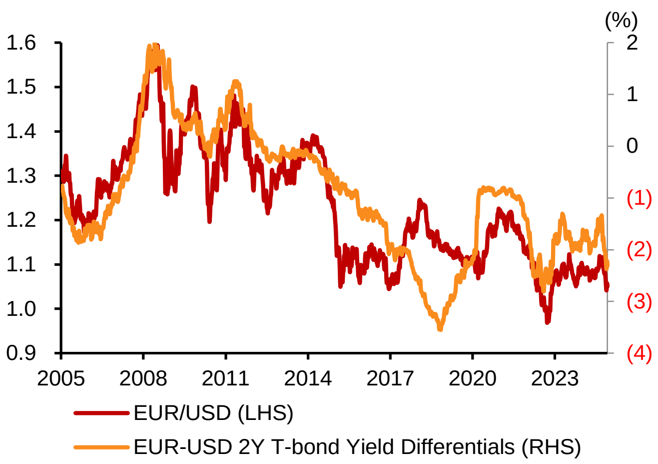
Source: Bloomberg, Wind, CMBIGM

Figure 55: US-global GDP Growth Differential and Dollar Index



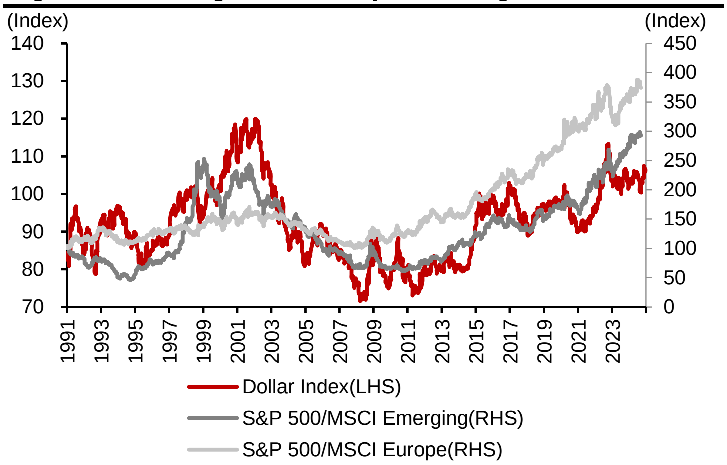
Source: Bloomberg, Wind, CMBIGM estimates

Figure 56: EUR/USD Rates & Yield Differentials



Source: Bloomberg, Wind, CMBIGM

Figure 57: Strong USD & Outperforming US Stocks



Source: Bloomberg, Wind, CMBIGM

Sector Outlook

- China Semiconductors – OUTPERFORM
- China Technology – OUTPERFORM
- China Internet – OUTPERFORM
- Software & IT Services – OUTPERFORM
- China Consumer Staples – MARKET-PERFORM
- China Consumer Discretionary – MARKET-PERFORM
- China Automobiles – OUTPERFORM
- China Healthcare – OUTPERFORM
- China Capital Goods – OUTPERFORM
- Uranium – OUTPERFORM
- China Insurance – OUTPERFORM
- China Property – OUTPERFORM

China Semiconductors

OUTPERFORM

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AI-powered party to continue in 2025

Key investment theses for 2025

We maintain our three key investment theses for 2025: 1) AI, 2) semiconductor localization and 3) high-yield defensive play. AI and semiconductor localization are our top picks for 2024 (2024 strategy report) and have been two of the most popular investment strategies throughout the year. On the individual stock level, we favor Innolight (300308 CH) and Naura (002371 CH), two representatives under these themes, with 64% and 66% YTD returns (as of 5 Dec 2024). This year, we add **a fourth "M&A theme,"** given China semiconductor industry is experiencing an unprecedented wave of consolidation supported by favorable policies.

Theme 1: AI: Long-term growth trajectory remains intact; opportunities exist in multiple hype cycles

The AI supply chain outperformed in 2024 on promising AI revenue growth, driven by surging infrastructure spending. Market concerns on sustainability of AI momentum will always be there, but we remain faithful on the long-term growth prospects of AI supply chain, not only enduring but also extending well beyond 2025. Bloomberg consensus forecasts **the aggregated capex of the Big Four (Microsoft/Google/Amazon/Meta) will increase another 18% YoY to US$ 250bn on top of a 42% growth projected for 2024**. The demand for compute power grows exceptionally among hyperscalers, cloud companies, consumer internet players, enterprises, sovereign and industry customers (e.g., xAI recently announced to ramp up its supercomputer to house 1mn GPUs; Meta also plans to build a 2GW data center in Louisiana, which may require 1mn+ GPUs in early December). We **maintain our view that AI's long-term growth trajectory stays intact**. Although key players have advanced significantly in terms of share price (NVDA US/TSM US/300308 CH: +188%/+97%/+66% YTD, as of 5 Dec 2024), we believe there is still great potentials as the sector navigates multiple hype cycles (e.g., launches of new AI GPU, applications, successful monetization strategies, etc.). While opportunities remain substantial, risks persist, esp. in China's AI industry, which faces potential further restrictions on exports.

Among our A-share coverage universe, we see optical transceivers and PCB suppliers as beneficiaries.

- **Our top pick: Innolight (300308 CH, BUY, TP: RMB186).** The company has reported substantial revenue growth of 146% YoY in 9M24 with GPM maintained at ~33% level, benefitting from a product mix shifted to 800G and above. Innolight has completed the verification work of 1.6T and will begin shipments in December 2024. We forecast the company's sales to grow 126%/41% in 2024/25E, fueled by continuously robust demand for 800G and ramp-up of 1.6T products. Maintain BUY with TP at RMB186. **Other AI beneficiaries include Eoptolink (300502 CH, NR) and TFC (300394 CH, NR).**

For PCB manufacturers:

- **Shengyi Tech (600183 CH, BUY, TP: RMB28.75):** The company's revenue grew 19% YoY in 9M24, while GPM recovered sequentially from 18.4% in 4Q23 to 22.9% in 3Q24. We expect 2024/25E sales to increase 20%/16% YoY and GPM to improve to 22.1%/23.6%, benefiting from 1) AI/server products (server sales up 21% YoY in 9M24) and 2) electrification trend. Shengyi Tech's ultra-low loss materials have been certified by many domestic and overseas customers, and are currently in the process of project certification. Maintain BUY with TP at RMB28.75.

Theme 2: Semi supply chain localization: China's semi localization push is our long-term investment conviction with significant share gain potential

China semiconductor localization theme is our long-term conviction, considering escalating geopolitical tensions that may lead to significant share gain for domestic peers. The US issued export controls in October 2022 and 2023 (report). In November 2024, the US has added another 140 China companies, including semiconductor fabs, tool companies, and companies that make technology investments. The objective is clear: to set controls over 1) semiconductor manufacturing equipment needed to produce advanced-node ICs, including certain etch, deposition, lithography, ion implantation, annealing, metrology and inspection, and cleaning tools; 2) software tools (e.g., EDA software) for developing or producing advanced-node ICs, including productivity-enhancing software of advanced machines or that enhances the functionality of legacy machines; 3) high-bandwidth memory (HBM), which is a key component of advanced computing ICs, etc. **We think the Trump 2.0 administration will maintain all announced restrictions and may even tighten the grip further.**

Several Chinese foundry players have been impacted by the latest US export restrictions, with seven foundries, including SMIC (688981 CH/981 HK) subsidiaries, added to the entity list. Hua Hong, while not listed, was removed from the VEU (Validated End-Users) list, requiring BIS approval for controlled items.

- **Hua Hong Semi (1347 HK, BUY, TP: HK$24):** However, we see limited impact on Hua Hong, which held a ~2% market share in 3Q24 per Counterpoint. As geopolitical tensions rise, domestic foundries are well-positioned to benefit from the push for localization and increased investments in China's semiconductor industry. In Novermber, STMicroelectronics announced a partnership with Hua Hong, commencing production of 40nm process MCUs in Shenzhen by the end of 2025, per Digitimes. Hua Hong's 3Q24 revenue declined 7.4% YoY but grew 10.0% QoQ to US$526mn. GPM improved to 12.2% vs. 6.4%/10.5% in 1Q/2Q24. We expect the company's overall utilization rate will remain above 95% next year. **Maintain BUY with TP at HK$24.**

China's semiconductor manufacturing equiment (SME) market TAM is estimated at US$37bn in 2023, according to WSTS, and is currently dominated by overseas players (top 5: 73% market share in 2023). **We estimate the localization rate was less than 20%** (top 15 China's listed SME companies accounted for ~16% share last year). **The new restriction list added most of the top domestic SME suppliers**, including Naura (002371 CH), Piotech (688072 CH), ACM Research (688082 CH), AMFE (688012 CH), PNC (603690 CH), etc.

The introduction of new restrictions is expected to impact regional capex in the coming year, potentially leading to a slowdown in investments. However, the Chinese market remains accessible for overseas companies, particularly from Japan and the Netherlands, as they are exempted from the latest restrictions. According to SEMI, 300mm equipment spending in China is anticipated to go down from the peak of US$45bn in 2024E to US$31bn in 2027E. **Looking forward, we remain positive for domestic SME suppliers on localization and expect the impact is mainly on the overseas side (est. US$9.4bn sales decline from China region for the top 5 overseas SME leaders, according to our analysis).**

- **Our top pick: Naura (002371 CH, BUY, TP: RMB426):** Notably, Naura, our top pick, has indicated that the new sanctions are not expected to have a material impact on its business. We believe they have prepared non-US options for key components and materials. Naura remains our top pick and we expect the company to 1) ride the tailwind of localization and 2) grow on product coverage expansion and gain market share. 9M24 revenue rose by 40% YoY. We project their revenue to grow 26%/24% in 2024/25E, given memory producer CXMT has not been added to the list and their capex plan may continue. **Maintain BUY with TP at RMB426.**

- **Willsemi (603501 CH, BUY, TP: RMB130):** Willsemi is also a beneficiary amid the semi localization theme in the domestic CMOS image sensor industry. The company has demonstrated a robust recovery in revenue over the past few quarters. Mgmt. attributed this growth to a combination of recovering consumer demand, increased penetration of its products in the high-end smartphone market and expanding adoption in autonomous driving applications. The company emphasized that auto CIS will be a key revenue driver moving forward, supported by a growing number of cameras per vehicle and higher ASP driven by the demand for advanced features. On the smartphone front, Willsemi is poised for further market share gains, with plans to launch more premium products in 2025, such as 200MP/0.6µm pixel and 50MP/1.0µm pixel sensors. **Maintain BUY with TP at RMB130.**

- **Maxscend (300782 CH, HOLD, TP: RMB86.0):** Maxscend, a prominent domestic leader in the mobile RFFE market, is currently going through a strategic transformation from a fabless to a fab-lite business model. This shift, aimed at enhancing production control, has temporarily weighed on the company's profitability, as reflected in its 3Q24 results amid an overall sluggish smartphone shipment recovery. We expect the company's RFFE module business to become the major revenue driver in the future as its contribution to total revenue increased in the past few quarters. Although Maxscend's LT growth prospects remain intact, we believe Maxscend must endure the trials of transformative business model shift through challenges before shining bright again on the global stage. **Maintain HOLD. TP is RMB86.0, corresponding to 45x 2025E P/E.**

- **Wingtech (600745 CH, BUY, TP: RMB52):** Having been added to the most recent entity list, Wingtech's investment arm may see resistance in making tech investments in the future. However, the company's operations should remain intact. Wingtech's semiconductor business segment (Nexperia) grew sequentially on strong domestic auto demand and seasonal consumer electronics procurement in 3Q24, with margin having bounced back to 40%. Wingtech's legacy business grew 33% YoY in 9M24 with revenue structure improvement with net loss narrowed. In 3Q24, smartphone/tablet contributed 50%/50% of revenue (vs. smartphone ~100% prev.) with the rest stemming from home appliances/auto/IoT sales. Within the segment, smartphone/tablet business began to profit in 3Q24, while home appliances had been profitable for two consecutive quarters. **Maintain BUY with TP at RMB52.**

- **BaTeLab (2149 HK, BUY, TP: HK$49.8):** BaTeLab manufactures industrial-grade analog IC patterned wafers and has a proprietary EDA tool and a reusable IP library. BaTeLab posted strong 1H24 results with revenue growing by 42.1% YoY driven by continued launch of new industrial products (now boasting 500+ SKUs from 400+ in 2023). We favor BaTeLab on 1) its unique position in the market (three differentiations from peers) (report), 2) robust growth in revenue (35%+ revenue growth in 2024-26E) and the ability to maintain its margins (GPM at ~54%), 3) attractive valuation (the company currently trades at 11.7x 2024E P/E and 8.2x 2025E P/E as of 10 Dec. 2024 market close). **We maintain BUY on BaTeLab with TP at HK$49.8.**

Theme 3: High-yield defensive play: A source of resilient returns

Major Chinese telecom companies continue to attract investors favoring cautious investment strategies due to their robust financial stability, consistent cash flow generation, attractive dividend payouts, and resilience to macro uncertainties. The current dividend yields for key telecom stocks are particularly appealing: China Mobile (941 HK) at 6.86%, China Unicom (762 HK) at 6.14%, China Telecom (728 HK) at 5.93%, China Tower (788 HK) at 4.86%, and ZTE (763 HK) at 3.78%.

The broad market anticipates continuous decline in long-term bond yields in 2025, creating challenges for insurance companies and pension funds that have historically relied on substantial bond holdings to generate high interest income for meeting long-term liability requirements. This trend is likely to prompt a reallocation of assets towards equities that offer attractive dividend yields as a viable alternative for investors with risk-averse appetite. In this context, we believe that telecom companies such as China Mobile, China Telecom, and China Tower stand out as key beneficiaries of this shift. These companies operate highly stable and predictable businesses, and their mgmt. have consistently prioritized shareholder returns through share buybacks and steady dividend growth (i.e., China Mobile/China Unicom/China Telecom's dividend payout targets are 75%/60%/75% by 2026).

- **ZTE (000063 CH, BUY, TP: RMB32.86) / (763 HK, BUY, TP: HK$22.43):** ZTE's 3Q24 revenue declined by 3.9% YoY and 13.6% QoQ, with GPM improving sequentially to 40.4% (vs. 39%/44.6% in 2Q24/3Q23). Net profit also declined by 8.2% YoY/27.3% QoQ. The company's underperformance was due to a decrease in telecom spending in China (~5% decrease in domestic telcos' capex in 2024E) and the delayed progress in the company's AI servers. Looking forward, we expect flattish revenue growth in 2024E at 8.2% YoY in 2025E, driven by double-digit growth in overseas carrier/consumer/enterprise & gov't segments. **Maintain BUY on ZTE's A and H-share, with A-share TP at RMB32.86 and H-share TP at HK$22.43.**
- **China Tower (788 HK, HOLD, TP: HK$0.95):** China Tower's revenue grew by 2.2% YoY in 3Q24 to RMB24.2bn, while net profit improved by 12.6% YoY to RMB2.8bn. The company's legacy business saw a 2.4% YoY increase in revenue for 9M24, with Tower revenue rising modestly by 0.9% YoY, and DAS segment delivering robust growth of 18% YoY. Meanwhile, the three major domestic telcos have announced a 5.4% YoY reduction in their 2024E capex plans, signaling a strategic shift from 5G network deployment toward investments in cloud and compute capabilities. **We maintain HOLD on China Tower with TP at HK$0.95, as we anticipate modest overall revenue growth of 2%/4% YoY for 2024E/25E, respectively.**

New Theme 4: M&A hype: Event-driven opportunities

In 2024, the Chinese government introduced a series of policies promoting technology independence. Coupled with a challenging exit market for financial investors and intensified competitions, **we see increasing M&A activities in China semiconductor market.** Per Tonghuashun (link), as of 22 Nov 2024, a total of 58 semi companies listed on A-share market have disclosed M&A events in 2024 compared to 41 during the same period in 2023.

We anticipate these M&A activities will serve as a strategic foothold for companies to 1) expand their customer base and product/technology portfolios, 2) gain greater market share, and ultimately 3) strengthen their competitiveness and profitability. The Chinese government's introduction of the "Six Measures for Mergers and Acquisitions" in September has further encouraged M&A activity by simplifying regulatory processes, enhancing market inclusiveness, etc.

Additionally, with a slowdown in domestic IPO approvals, M&A has become an increasingly viable exit path for financial investors. Companies that may have originally pursued IPOs are now turning to M&A as an alternative route, benefiting from the favorable regulatory environment under the "Six Measures." We expect both public and private companies to remain active in M&A transactions, leveraging these opportunities to consolidate market positions and accelerate their growth.

Figure 1: Sampled M&A activities in 2024

Announcement Date	Acquirer	Target	Transaction details	Deal size
8/12/2024	**JCET (600584 CH)** Packaging and testing	**Shanghai Sandisk** Packaging and testing of memory products	JCET acquired an 80% stake in Shanghai Sandisk, a subsidiary of Western Digital, for US$667.8mn. JCET"s acquisition aimed at enhancing its position in flash memory packaging segment.	US$667.8mn (80% of total equity)
10/15/2024	**Novosense (688052 CH)** Sensor, signal chain IC designer	**MagnTek** Magnetic sensors	Deal size was not publicly disclosed. Novosense will hold 100% of MagnTek upon successful acquisition. The acquisition allows Novosense to integrate MagnTek's expertise in analog and mixed-signal portfolio	NA
11/5/2024	**3Peak (688536 CH)** Analog IC designer	**ICM-Semi** PMIC designer	The transaction includes convertible bonds, cash payments, and share issuance to purchase 100% equity of ICM-semi. Supporting funds will also be raised via share issuance. The acquisition will expand 3Peak's product portfolio esp. in battery and power management IC, and diversify client base	RMB1.06bn
11/5/2024	**BP Semi (688368 CH)** Analog and mixed-signal IC designer	**Sichuan Convenient Power** Wireless charging chip	Deal size was not publicly disclosed. BP semi will acquire a controlling stake in Sichuan Convenient Power to expand its portfolio in Analog ICs, esp. in wireless charging product offerings	NA
11/6/2024	**GigaDevice (603986 CH)** Memory, sensor IC designer	**Xysemi** PMIC designer	The deal involves a total transaction value of RMB581mn (70% equity stake) from multiple parties. The acquisition will enhance GigaDevice's position in the analog chip market	RMB316mn (38.1% of total equity)
11/18/2024	**Halo Micro (688173 CH)** PMIC, signal chain IC designer	**CXW Technology** PMIC designer	Deal size was not publicly disclosed. Halo Micro will acquire 100% of CXW tech's equity through share issuance and cash payment. The acquisition will enhance Halo's portfolio in consumer, auto, and industrial applications	NA
11/23/2024	**Goodix (603160 CH)** Fingerprint sensor designer	**Yunyinggu** OLED driver chip player	Deal size was not publicly disclosed. Goodix will only acquire a controlling stake in Yunyinggu (19.39% of tot. equity). The acquisition provides Goodix with a pathway to integrate touch and display tech into unified solutions.	NA

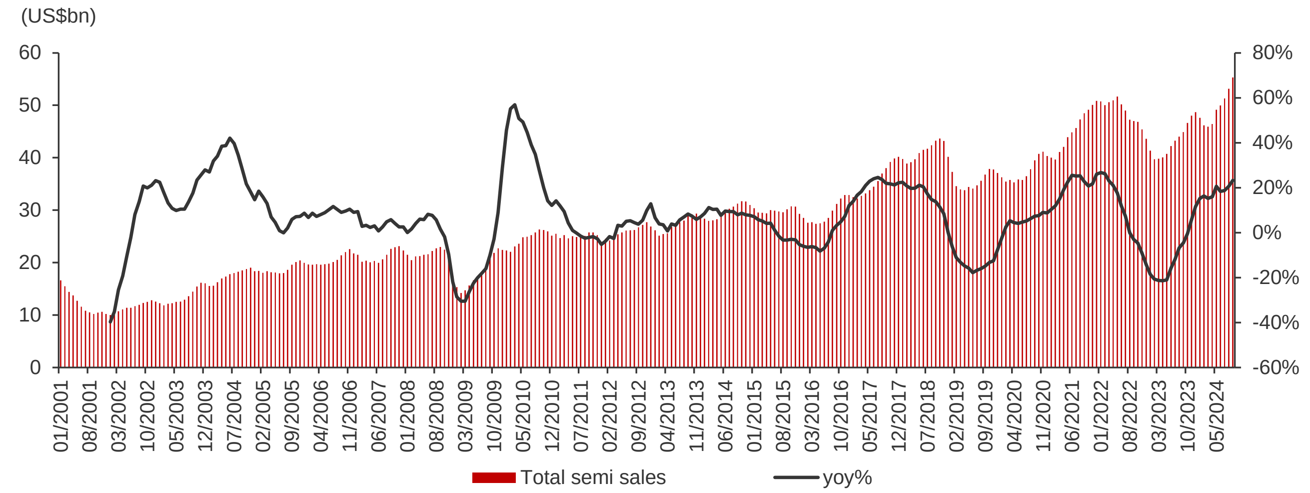
Source: Company data, CMBIGM

Global semiconductor outlook

Global semiconductor market to grow 11% in 2025

Global semiconductor sales grew 18% YoY in 9M24, according to SIA. Regionally, Americas (29% share) led the growth with 36% YoY, followed by 24% and 15% growth in China Mainland (30%) and other Asia (25%). Europe (9%) and Japan (8%) lagged with 8% and 4% decline.

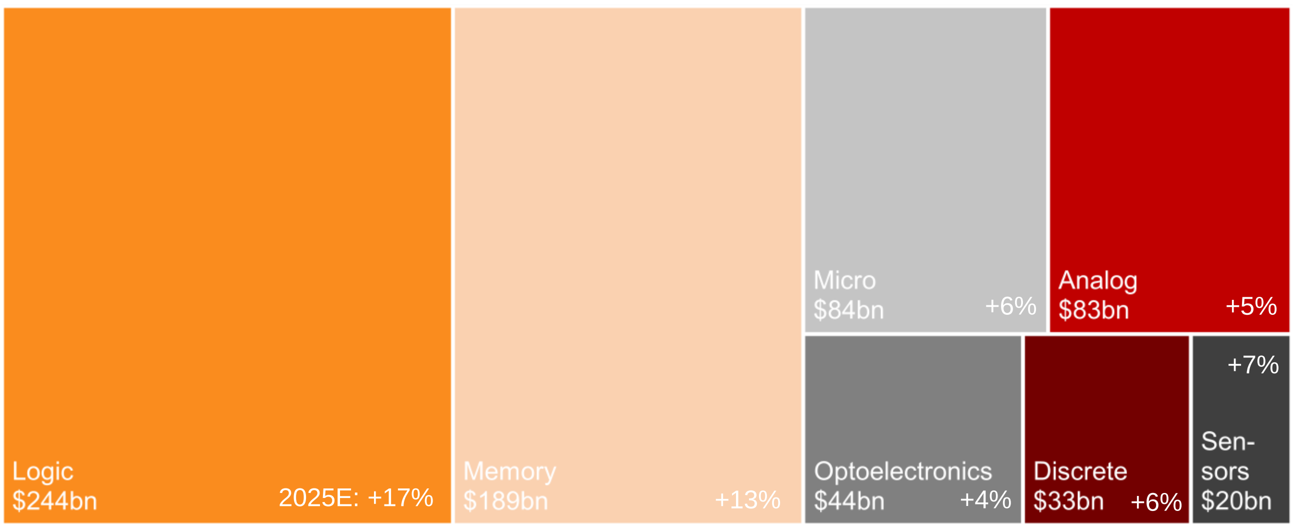
Figure 2: Global semiconductor monthly sales grew by double digits during 9M24



Source: SIA, WSTS, CMBIGM

WSTS forecasts the global semiconductor market to grow 19% to US$627bn in 2024 and expand further by 11% to US$697bn in 2025. Logic (33% share) and **memory** (27%) **are projected to lead the growth in both years** (2024/25E: 17%/17% and 81%/13%), mainly driven by continuous AI demand. The other segments are expected to resume growth (single-digit YoY) in 2025, as multiple end markets are expected to recover gradually. Geographically, **Americas** (30% share) **and Asia Pacific** (54%) **will lead the growth** with 39%/17% YoY in 2024 and 15%/10% in 2025

Figure 3: Global semiconductor market to grow 11% in 2025; logic (17% YoY) and memory (13% YoY) are two key growth drivers



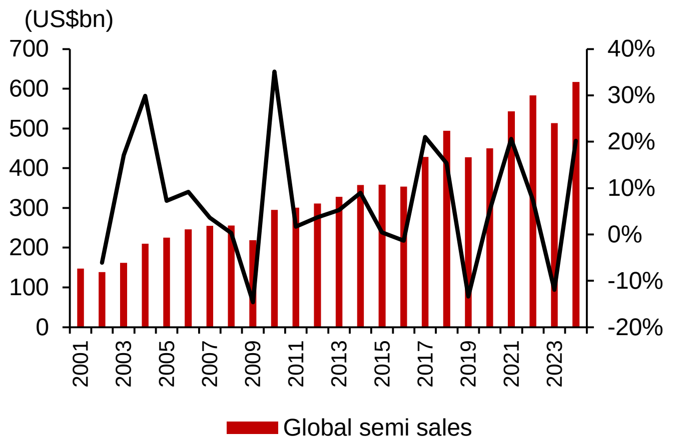
Source: SIA, WSTS, CMBIGM

Positive: Global logic segment to grow 17% in 2025

Global logic sales is expected to reached US$209bn (17% YoY) in 2024 and grow to US$244bn (17% YoY) in 2025. Key players in this market are Nvidia (NVDA US), AMD (AMD US), Qualcomm (QCOM US), etc. Fueled by AI demand, Nvidia's compute product sales soared by 192% YoY in 9M24. This is equivalent to US$46bn, which is larger than the increase of the overall logic sales (US$30bn est. for full year 2024 per WSTS).

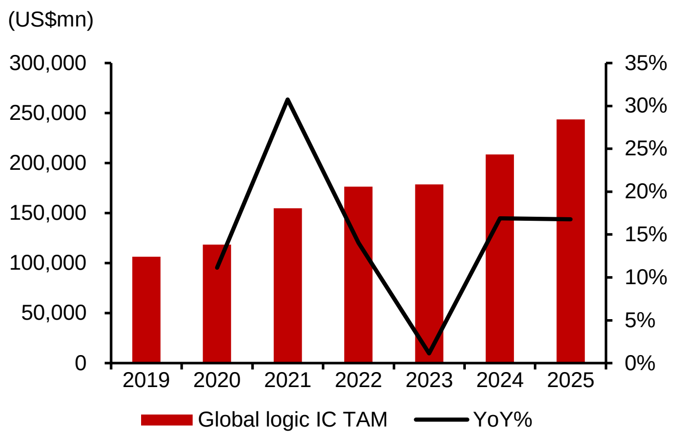
Bloomberg consensus forecasts Nvidia's compute revenue will be US$30bn in 4Q, implying a record sales of US$99bn for CY2024. AMD guided GPU revenue to be US$5bn (revised up from previous US$4.5bn) for the same period. **Using the aggregated number of these two companies' GPU sales (US$104bn) as a proxy for GPU TAM, Nvidia has a dominating market share of 95% (CY2024).** Consensus estimated Nvidia and AMD's compute/GPU sales to be US$156bn (58% YoY) and US$10bn (94% YoY), **suggesting a similar market share in CY2025 with continuously robust growth in AI demand.**

Figure 4: Global semi sales and growth



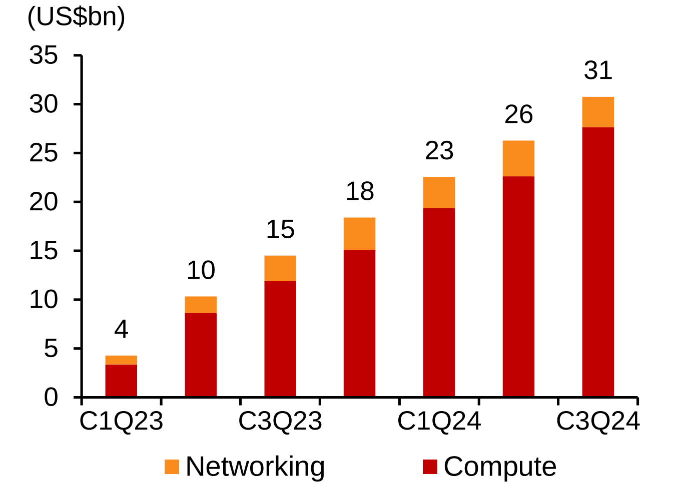
Source: WSTS, CMBIGM

Figure 5: Global logic IC sales and growth



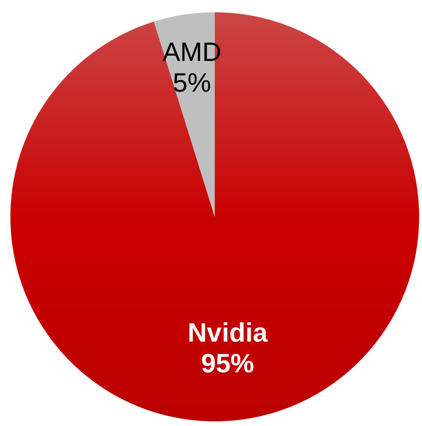
Source: WSTS, CMBIGM

Figure 6: Nvidia's compute product sales soared by 192% YoY (~US$46bn) in 9M24



Source: Company data, CMBIGM

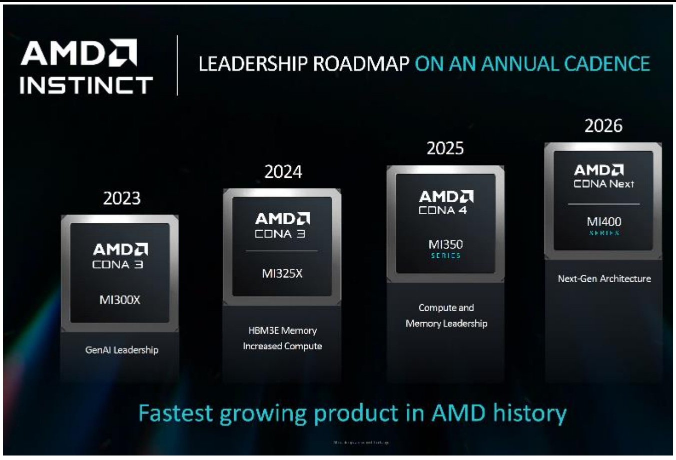
Figure 7: Nvidia has a dominating market share of 95% (CY2024)



Source: Company data, Bloomberg consensus, CMBIGM

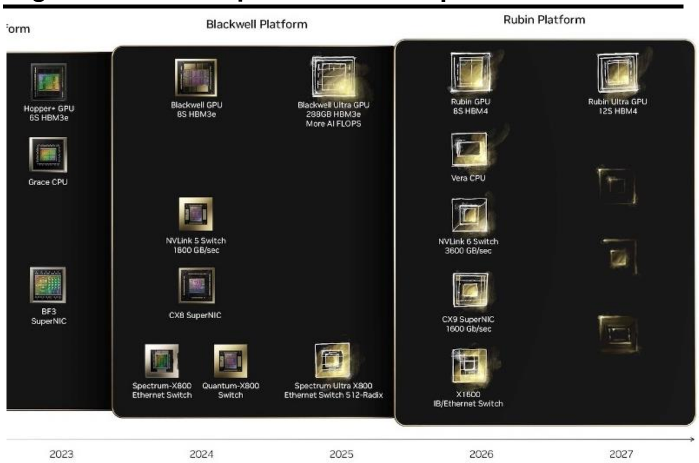
In the AI GPU landscape, there has yet been a third capable contender to challenge the great duo, Nvidia and AMD. Between the two, Nvidia remains at least a one-year product cycle ahead of AMD, with superior AI accelerator performance, but AMD is positioning itself as a strong value-driven alternative, appealing to cost-conscious customers. Both companies have now committed to a one-year product launch cadence to remain competitive in this rapidly advancing industry. Nvidia faces the critical challenge of defending its leading market share as AMD relentlessly seeks to close the gap and capitalize on any opportunity to erode Nvidia's dominance. While Nvidia's leadership is secure for now, the intense competition underscores the importance of constant innovation and strategic agility for both companies.

Figure 8: AMD's product roadmap



Source: Company website, CMBIGM

Figure 9: Nvidia's product roadmap



Source: Company website, CMBIGM

To reduce reliance on Nvidia's tech and develop hardware better tailored to their specific cloud services and LLMs, hyperscalers have actively pursued the design of customized AI accelerators. Notable examples include Microsoft's Maia 100, Amazon's Trainium (optimized for training) and Inferentia (optimized for inference), and Google's Tensor Processing Units (TPUs). While these custom chips may not match the performance of Nvidia's flagship products, such as Hopper and Blackwell accelerators, they are significantly more cost-effective. This makes them well-suited to meet the compute demands of in-house training workloads, providing hyperscalers with greater flexibility and control over their AI infrastructure.

Figure 10: Hyperscalers' custom-designed AI accelerator lineup

	Microsoft Maia 100	Amazon Trainium	Amazon Inferentia 2	Google TPU v5p	Google TPU v6e
Launch date	2H23	1H23	2H22	2H23	2H24
Process node	5nm	NA	NA	3nm	NA
Memory	64GB HBM3	32GB HBM	32GB HBM	95GB HBM2e	32GB
Bandwidth	1.6 TB/s	1 TB/s	1 TB/s	2.8 TB/s	1.6 TB/s
Performance	1600 TFLOPS (MXINT8)	380 TOPS (INT8)	380 TOPS (INT8)	918 TOPS (INT8)	1,836 TOPS (INT8)
Power	860W	NA	NA	NA	NA

Source: Company data, Wccftech, NAND research, Spillfill, CMBIGM

Figure 11: Logic IC peers table

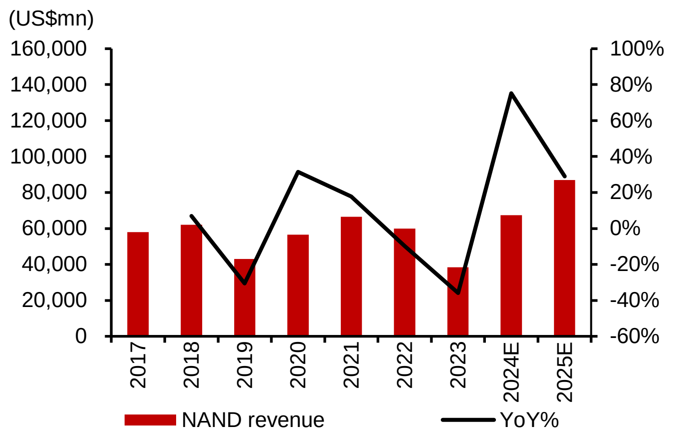
		Mkt Cap		P/E (x)			EPS (US$)			Revenue YoY%	
Company	Ticker	(US$mn)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Overseas peers											
ARM	ARM US	146,762	116.6	89.3	67.2	1.2	1.6	2.1	20.7	22.6	24.7
Nvidia	NVDA US	3,399,457	111.9	47.5	31.9	1.2	2.9	4.4	125.9	111.7	52.0
AMD	AMD US	212,377	39.4	25.8	18.4	3.3	5.1	7.1	13.1	26.7	21.2
Micron	MU US	114,180	83.9	11.4	8.0	1.2	9.0	12.9	61.6	52.8	20.2
Qualcomm	QCOM US	178,582	15.9	14.4	13.2	10.1	11.2	12.2	8.7	8.8	6.5
SK Hynix	000660 KS	86,903	6.9	4.6	4.1	17.5	26.2	28.8	86.1	29.8	10.6
Samsung Electronics	005930 KS	225,830	10.5	9.2	7.7	3.6	4.1	4.9	7.7	8.6	5.9
Intel	INTC US	89,754	-	21.9	12.5	-0.2	1.0	1.7	-2.9	6.3	7.3
Broadcom	AVGO US	835,753	36.9	28.8	24.4	4.9	6.2	7.3	44.0	17.6	12.2
Marvell	MRVL US	92,613	70.8	69.0	38.8	1.5	1.6	2.8	-7.0	4.4	40.6
		Average	***54.8***	***32.2***	***22.6***	***4.4***	***6.9***	***8.4***	***35.8***	***28.9***	***20.1***
Greater China peers											
MediaTek	2454 TT	66,630	20.6	19.0	16.2	2.0	2.2	2.6	16.0	13.9	16.3
AIChip	3661 TT	6,566	32.8	29.6	20.1	2.5	2.8	4.1	66.0	2.5	52.8
GigaDevice	603986 CH	7,668	50.0	33.1	26.7	0.2	0.3	0.4	27.5	25.5	17.2
Cambricon	688256 CH	31,010	-	-	–	-0.2	0.0	0.2	88.1	124.6	57.2
Hygon	688041 CH	41,784	174.2	125.3	92.4	0.1	0.1	0.2	41.7	38.4	31.3
Montage	688008 CH	10,780	56.6	37.1	27.4	0.2	0.3	0.3	60.8	50.5	30.3
Jingjia Micro	300474 CH	6,718	228.4	153.2	115.9	0.1	0.1	0.1	42.6	45.6	29.1
Amlogic	688099 CH	4,022	34.3	26.0	20.9	0.3	0.4	0.5	25.2	20.5	20.1
		Average	***85.3***	***60.5***	***45.6***	***0.6***	***0.8***	***1.0***	***46.0***	***40.2***	***31.8***

Source: Bloomberg data as of 10 Dec 2024, CMBIGM

Positive: Global memory market to grow 13% in 2025

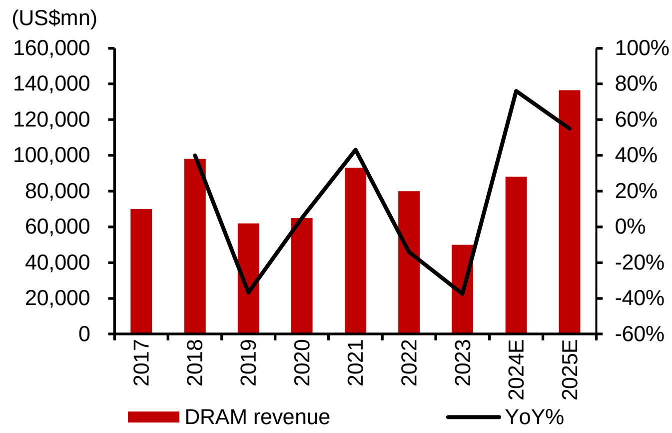
Global memory sales are expected to reached US$167bn (+81% YoY) in 2024 and grow to US$189bn (+13% YoY) in 2025, per WSTS. The traditional memory market has faced subdued demand in recent years. However, the growing momentum of generative AI (GenAI) has ignited a significant surge in demand for **High Bandwidth Memory (HBM)**, a specialized type of DRAM designed to meet the rigorous computational requirements of AI workloads. According to TrendForce, average DRAM prices are forecasted to rise by **53% in 2024** and **35% in 2025**, with the total market size expected to expand by **75% YoY to US$90.7bn in 2024E** and by an additional **51% YoY to US$136.5bn in 2025E**, driven largely by the escalating demand for HBM.

Figure 12: NAND market forecast



Source: TrendForce, CMBIGM

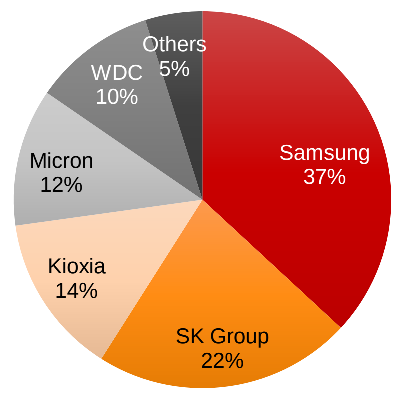
Figure 13: DRAM market forecast



Source: TrendForce, CMBIGM

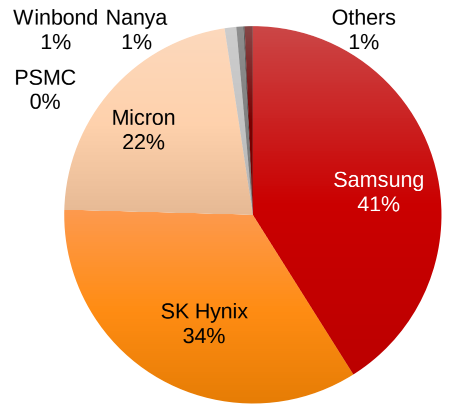
The HBM market is dominated by three primary competitors, with SK Hynix emerging as the undisputed leader, commanding 52.5% of global market share in 2024E, per TrendForce. The company is well-positioned to sustain remarkable growth and maintain its dominance in the HBM market through 2025. In its latest earnings report, SK Hynix announced that HBM sales surged over 70% QoQ and 330% YoY in 3Q24, with robust premium product sales driving a mid-10% increase in ASPs for both DRAM and NAND. Looking forward, SK Hynix anticipates HBM to contribute 40% of its total DRAM sales in 4Q24, up from 30% in 3Q24, supported by continuous advancements in HBM technology.

Figure 14: NAND market landscape in 2Q24



Source: TrendForce, CMBIGM

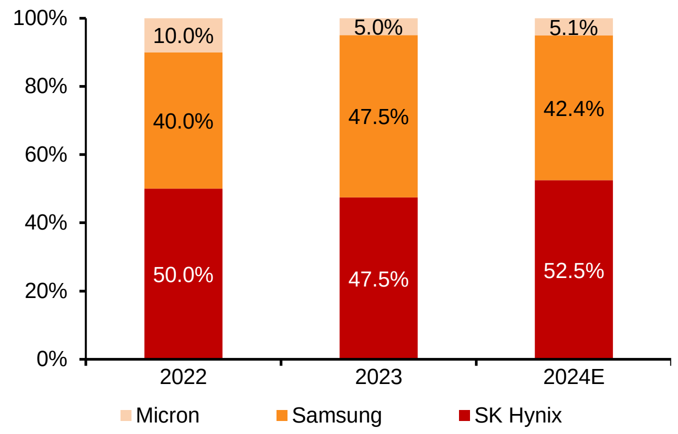
Figure 15: DRAM market landscape in 3Q24



Source: TrendForce, CMBIGM

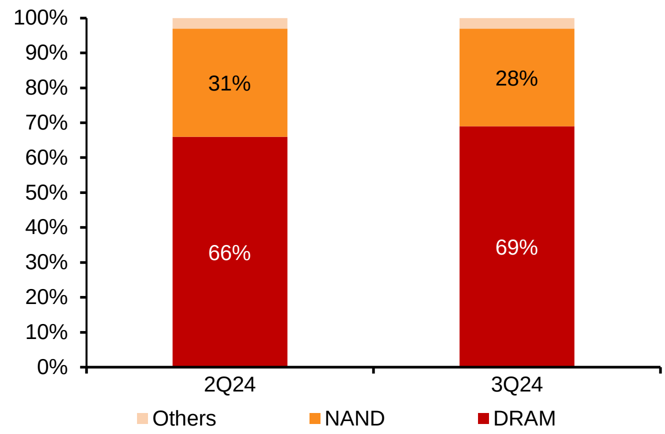
Trailing SK Hynix are Samsung (42.4% of global share) and Micron (5.1%), which hold comparatively smaller market shares. Samsung is expected to benefit from its collaboration with AWS on the Trainium 2 chip and ongoing volume orders from NVIDIA, ensuring a solid foothold in the market.

Figure 16: HBM market landscape



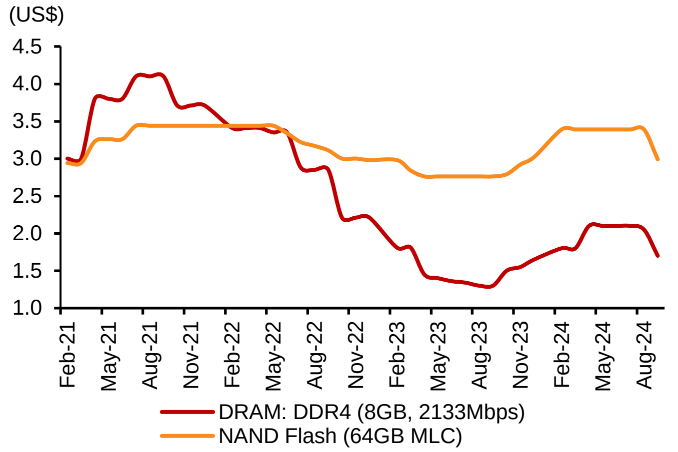
Source: TrendForce, CMBIGM

Figure 17: SK Hynix revenue by segment



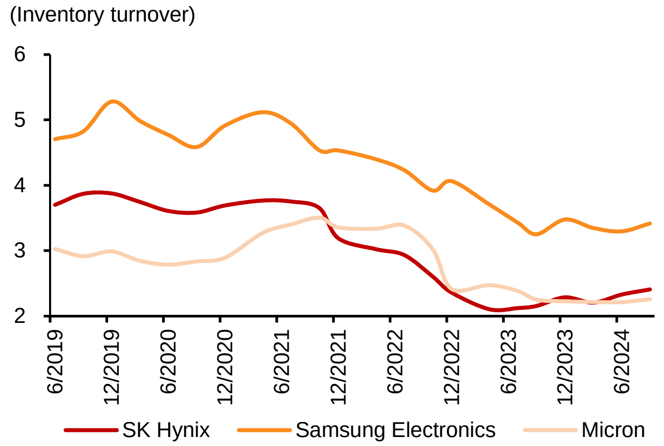
Source: Company data, CMBIGM

Figure 18: Avg. contract prices for memory products



Source: Wind, CMBIGM

Figure 19: Inventory turnover of HBM players (days)



Source: Bloomberg, CMBIGM

The HBM market is steadily advancing towards HBM3e adoption, driven by its integration into products such as Nvidia's H200/B200 GPUs and AMD's MI325X GPUs, while the industry simultaneously prepares for the arrival of HBM4, expected to launch in 2025. HBM4 is set to power Nvidia's Rubin platform, a next-generation GPU series designed for AI and high-performance computing (HPC) applications, according to *Tom's Hardware*.

In a significant development, SK Hynix is accelerating the timeline for its HBM4 chip delivery at the request of Nvidia, per Reuters. Initially slated for shipment in 2H25, SK Hynix has expedited its efforts to meet Nvidia's demand six months earlier. This underscores both the growing strategic collaboration between Nvidia and SK Hynix and the increasing importance of advanced memory technologies in supporting cutting-edge AI workloads and HPC systems. HBM4's superior performance characteristics, including higher capacity, greater bandwidth, and improved power efficiency, are poised to redefine the next era of high-performance memory solutions.

Figure 20: HBM developmental status

	Brand	Speed (Gbps)	Tech Nodes	2022–2026 (1Q22–4Q26)
HBM2e	Samsung	3.2 - 3.6	1Y 16Gb	8/16GB; EOL time not fixed
	SK Hynix	3.6	1Y 16Gb	8/16GB; EOL time not fixed
	Micron	3.2 - 3.6	1Z 16Gb	16GB; EOL (4Q23)
HBM3	Samsung	5.6 - 6.4	1Z 16Gb	16GB (2Q23); 24GB (3Q23)
	SK Hynix	5.6 - 6.4	1Z 16Gb	16GB (3Q22); 24GB (3Q23)
HBM3e	Samsung	8 - 9.2	1alpha 24Gb	24GB (2Q24); 36GB (2Q24)
	SK Hynix	8 - 9.2	1beta 24Gb	24GB (1Q24); 36GB (3Q24)
	Micron	8 - 9.2	1beta 24Gb	24GB (1Q24); 36GB (4Q24)
HBM4		TBD	TBD	Full spec may be released in 2H24-2025; C/S in 2026

Source: TrendForce, CMBIGM

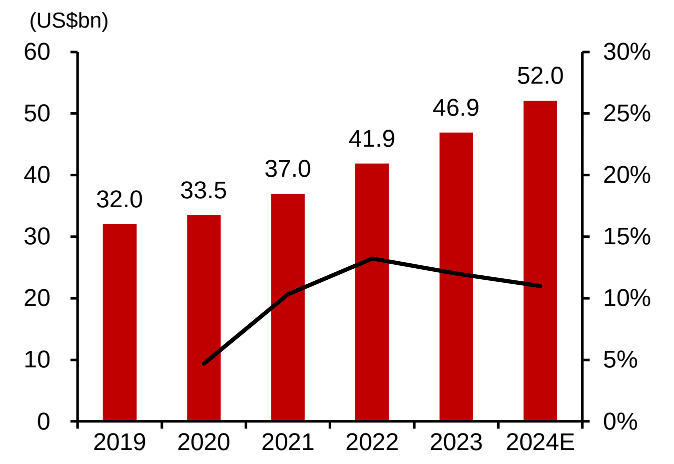
Note: the elliptical shape represents client sampling (C/S); red and orange represent different product specifications

Global optoelectronics/sensor market to grow 4%/7% in 2025

- **China domestic CIS market to expand on further share gain on mobile CIS and increased traction in auto CIS**

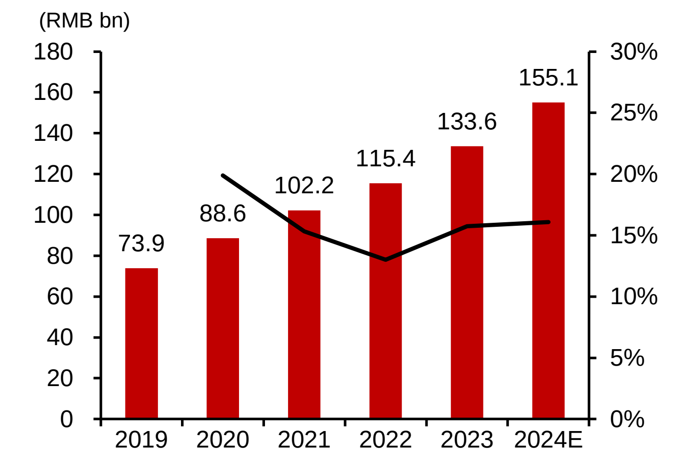
According to AKSCI, global sensor market grew by 12% to US$47bn and is expected to further expand by 11% to US$52bn in 2024E. China sensor market has also seen similar growth in 2023 at 16% and is projected to see another 16% growth in 2024E, driven largely by expansion in CIS sector. According to Yole, CIS market is projected to grow from US$21.8bn in 2023 to US$28.6bn in 2029E at a 4.7% CAGR. Specifically, Sony is poised to see significant share gain towards 50%, while South Korean players Samsung and SK Hynix are likely to see less meaningful revenue expansion.

Figure 21: Global sensor market size



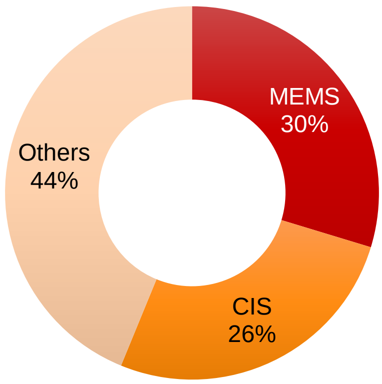
Source: AKSCI, CMBIGM

Figure 22: China sensor market size



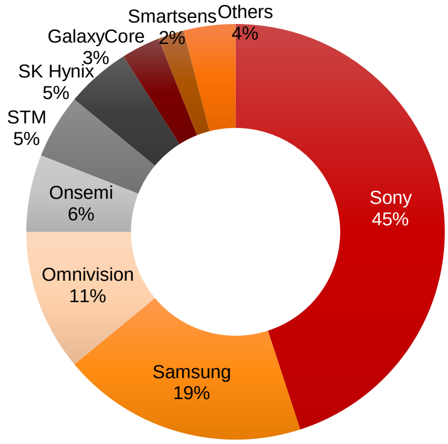
Source: AKSCI, CMBIGM

Figure 23: China sensor market breakdown (2023)



Source: Yole, CMBIGM

Figure 24: Global CIS market share (2023)

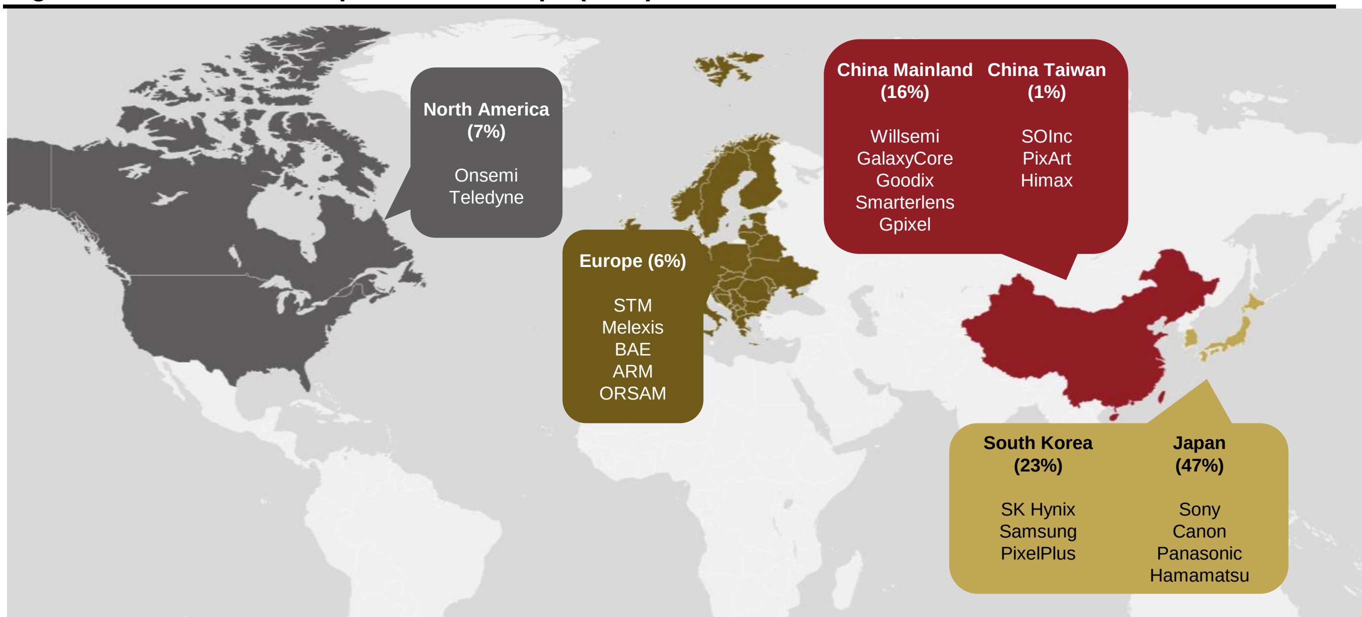


Source: Yole, CMBIGM

According to Yole, the auto CIS market is set to experience significant growth, expanding from **US$2.3bn in 2023** to **US$3.2bn in 2029E**, driven by the increasing number of cameras per vehicle and the adoption of high-resolution sensors to meet the demands of advanced driver-assistance systems (ADAS) and autonomous driving tech. Furthermore, Yole forecasts that the CIS market will grow at a faster pace than the broader semiconductor industry.

The global CIS landscape has also undergone notable changes due to geopolitical dynamics. US sanctions on Huawei have disrupted supply chains, restricting overseas suppliers such as Sony and creating opportunities for domestic Chinese players like **Willsemi** to capture market share. In recent years, the rise of premium-tier Android smartphones from domestic brands (Huawei, OPPO, etc.) has further strengthened the position of Chinese CIS suppliers. Companies like Willsemi have leveraged this trend to expand their market presence, particularly in high-end imaging solutions, positioning themselves as key beneficiaries of the evolving trend of semi supply chain domestication.

Figure 25: Global CIS competitive landscape (2023)



Source: Yole, CMBIGM

- **Willsemi (603501 CH, BUY, TP: RMB130)**

Willsemi has demonstrated a robust recovery in revenue over the past few quarters, achieving another record-high quarterly revenue in 3Q24. Mgmt. attributed this growth to a combination of recovering consumer demand, increased penetration of its products in the high-end smartphone market, and expanding adoption in advanced automotive driving applications. The company emphasized that auto CIS will be a key revenue driver moving forward, supported by a growing number of cameras per vehicle and higher ASP driven by the demand for advanced features. On the smartphone front, Willsemi is poised for further market share gains, with plans to launch more premium products in 2025, such as 200MP/0.6µm pixel and 50MP/1.0µm pixel sensors. Maintain BUY with TP at RMB130.

Figure 26: Sensor peers table

Company	Ticker	Mkt Cap (US$mn)	P/E (x) FY24E	P/E (x) FY25E	P/E (x) FY26E	EPS (US$) FY24E	EPS (US$) FY25E	EPS (US$) FY26E	Revenue YoY% FY24E	Revenue YoY% FY25E	Revenue YoY% FY26E
Honeywell	HON US	147,580	22.6	20.7	18.8	10.1	11.0	12.1	5.1	5.9	7.4
TE Connectivity	TEL US	45,425	20.1	18.8	16.9	7.6	8.1	9.0	-1.2	4.4	6.6
STM	STM US	23,242	15.6	18.7	11.6	5.1	6.1	7.6	-11.5	10.9	10.2
NXP	NXPI US	58,039	17.5	17.7	14.9	1.6	1.4	2.2	-23.4	-2.6	13.0
Infineon	IFX GY	43,602	17.5	21.7	15.5	13.0	12.9	15.3	-5.1	1.2	10.1
Amphenol	APH US	88,166	39.6	33.6	29.9	2.0	1.5	2.2	-6.9	-4.8	11.7
Siemens	SIE GY	159,768	17.7	16.9	16.0	6.3	7.2	9.1	-23.4	8.1	13.6
		Average	***24.9***	***23.5***	***19.3***	***1.8***	***2.2***	***2.4***	***19.2***	***15.5***	***9.6***

Willsemi	603501 CH	16,730	36.3	26.2	20.9	0.4	0.5	0.7	23.1	18.9	16.2
Hanwei	300007 CH	909	54.6	23.9	36.8	0.1	0.1	0.2	0.3	11.5	12.1
Memsensing	688286 CH	426	-	44.9	56.1	0.1	0.1	0.1	1.2	15.3	16.7
Smartsens	688213 CH	3,963	63.3	117.8	24.1	0.0	0.1	0.1	26.9	29.1	24.4
Goodix	603160 CH	5,149	58.8	34.6	39.7	0.2	0.3	0.4	92.1	32.6	25.1
Novosense	688052 CH	2,580	-	47.0	90.0	0.2	0.2	0.3	10.1	16.3	14.4
Cubic Sensor	688665 CH	417	30.2	61.8	16.6	0.0	0.0	0.0	37.8	33.1	22.9
		Average	***62.6***	***78.8***	***39.0***	***-0.3***	***0.1***	***0.2***	***41.2***	***36.8***	***27.4***

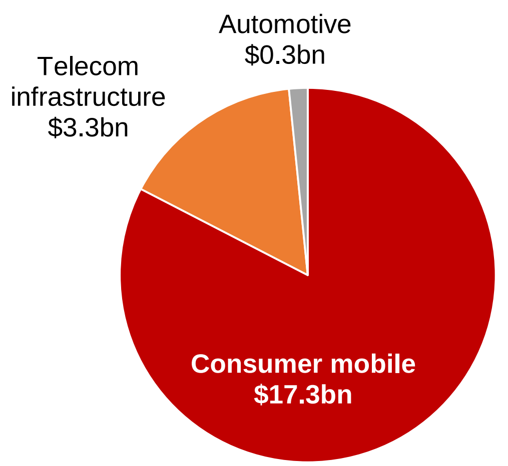
Source: Bloomberg data as of 4th Dec, 2024, CMBIGM

Global analog market to grow 5% in 2025

■ **Analog – RFFE market to see uneven end-market recovery in 2025.**

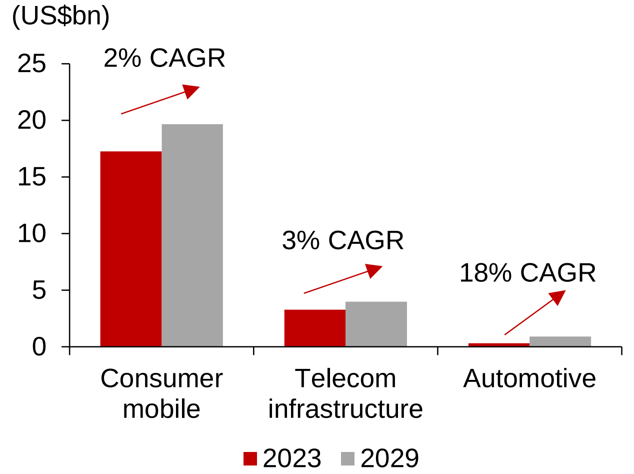
RFFE market grew to US$21bn in 2023, per Yole. Consumer mobile (US$17.3bn) remained the largest segment, contributing over 80% of total sales. Telecom infrastructure was US$3.3bn (16%), and auto was US$0.3bn (2%).

Figure 27: RFFE revenue breakdown by end market (2023)



Source: Yole, CMBIGM

Figure 28: Mobile/telecom infra. RFFE to grow at low-single digit; while auto RFFE to grow at double-digit

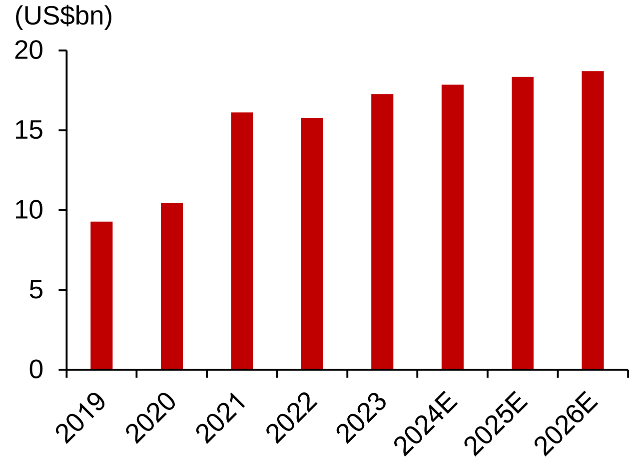


Source: Yole, CMBIGM

Looking forward,

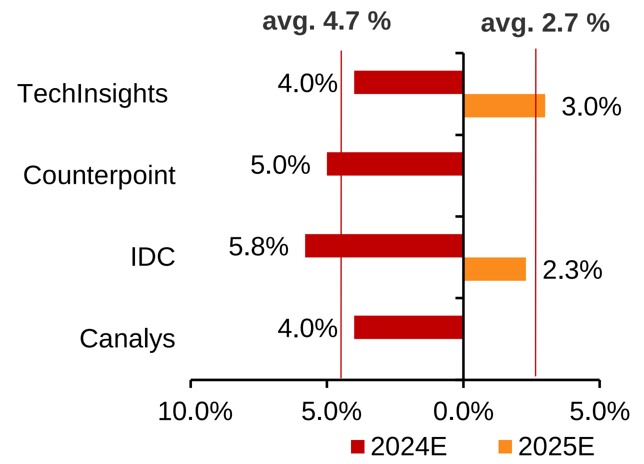
1) **Mobile RFFE segment** is projected to achieve low-single-digit growth (~2% YoY) in 2024E and beyond, aligned with the expected low-single-digit increase in smartphone shipments and relatively stable RFFE content per device. According to multiple forecasts (IDC, TechInsights, Counterpoint, etc.), global smartphone shipments are expected to grow by 4.7% in 2024E and 2.7% in 2025E, reflecting modest market recovery trends.

Figure 29: Mobile RFFE market is expected to grow at low-single digit in 2024E and 2026E, due to saturated smartphone shipment and stable RFFE content



Source: Yole, IDC, Canalys, TechInsights, Counterpoint, CMBIGM

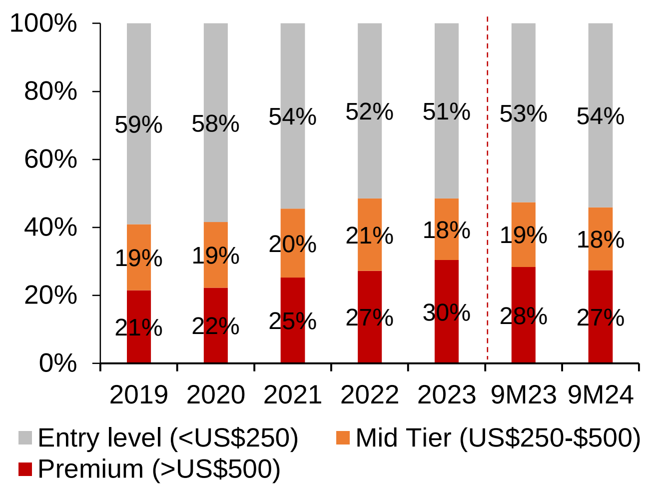
Figure 30: Smartphone shipments to grow at an average 4.7%/2.7% in 2024/25E according to multiple agencies' forecasts



Source: IDC, Canalys, TechInsights, Counterpoint, CMBIGM

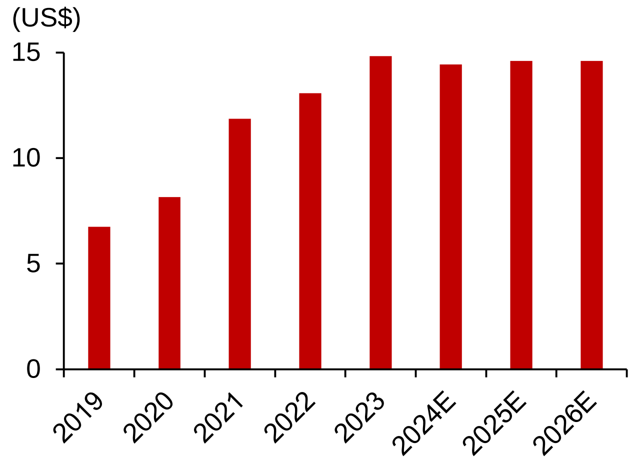
In 9M24, entry-level (ASP below US$250) gained traction with share increasing to 54% (vs. 53%/51% for 9M23/FY23). **Premium-tier lost momentum** with share falling to 27% (vs. 28%/30% for 9M23/FY23). **Mid-tier (ASP between US$250 and US$500) was steady** with 18% share (vs. 19%/18% for 9M23/FY23). In our view, **mobile RFFE content per smartphone will decline in 2024, considering the unfavorable mix.** We expect it to **remain stable going forward.**

Figure 31: The mix shifted to premium-tier in 2023 at the expense of mid-tier; however, entry-level gained traction in 6M24



Source: IDC, Bloomberg, CMBIGM

Figure 32: Mobile RFFE content per smartphone is expected to decline in 2024 and remain stable going forward



Source: Yole, IDC, Canalys, TechInsights, Counterpoint, CMBIGM

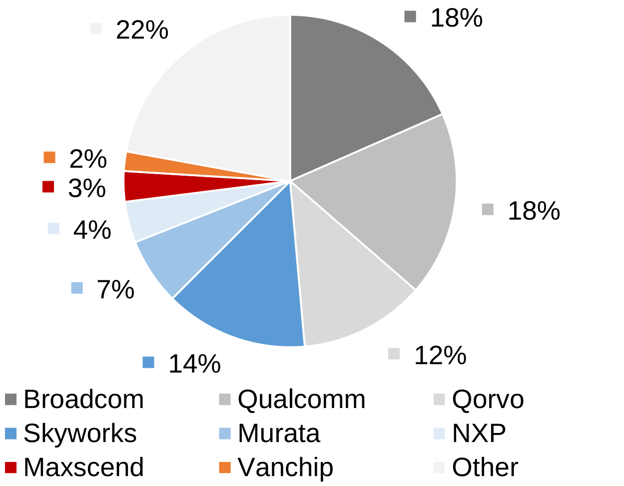
2) **Telecom infrastructure RFFE segment: Recovery is anticipated by 2026E**, with the segment projected to expand to US$4bn by 2029, supported by increased investments in 5G networks and infrastructure, per Yole.

3) **Auto RFFE segment:** Despite being the smallest segment, it is **forecasted to achieve double-digit growth, tripling in size to US$0.9bn by 2029E**, per Yole. The expansion will be fueled by the rising adoption of advanced safety systems and the acceleration of vehicle electrification trends. **Qualcomm is the dominant player in the auto RFFE**

market, offering a comprehensive suite of solutions. Meanwhile, **Qorvo and Skyworks are expanding their portfolios to address the growing demand for auto RFFE**. **For Chinese peers, their presence in the auto RFFE market remains minimal**, reflecting a potential area for future investment and development to compete in this high-growth segment.

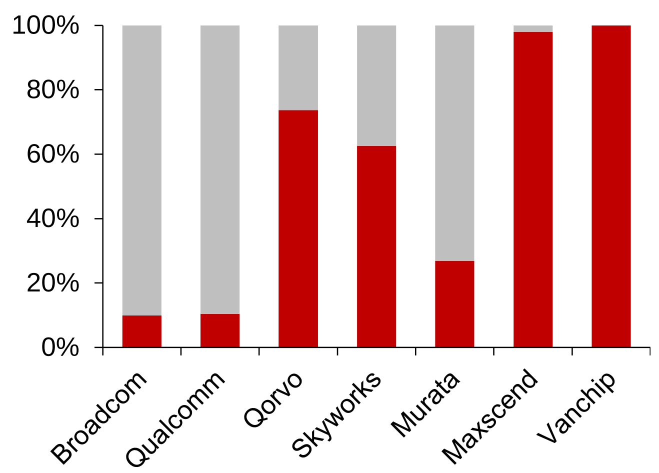
By competitive landscape, **a few companies dominate the RFFE market. Broadcom/ Qualcomm/Qorvo/Skyworks led the market with an aggregated share of 62% in 2023, per Yole. China peers** are trying to catch up; however, their **shares are still relatively small.** Maxscend and Vanchip are the two largest players in this domain with 3% and 2% market presence respectively.

Figure 33: Top 4 global RFFE players dominated ~62% market share (2023)



Source: Yole, company data, Bloomberg, CMBIGM

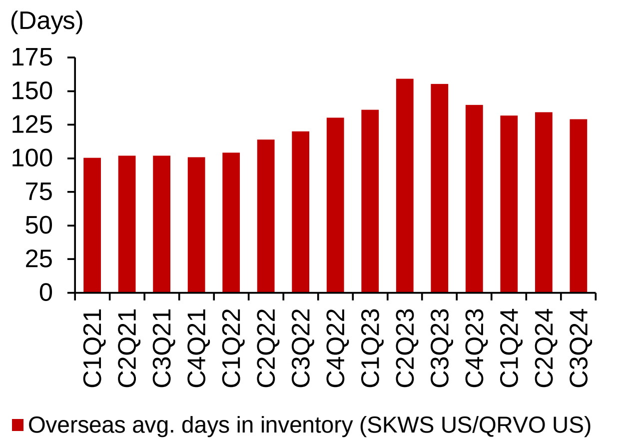
Figure 34: Skyworks, Qorvo, Maxscend, Vanchip's RFFE sales contributed over 50% of total revenue



Source: Yole, company data, CMBIGM

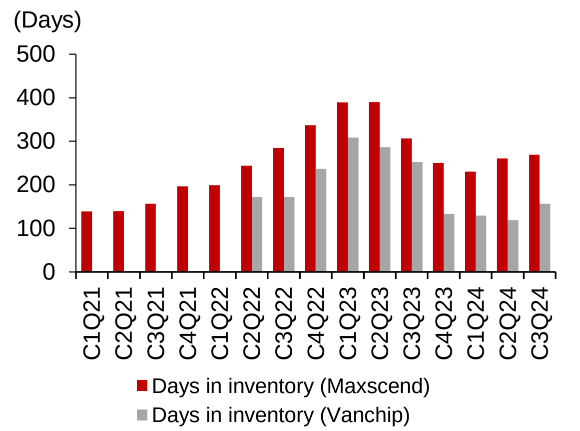
RFFE peers' inventory declined from peak level but is still above pre-pandemic levels. Overseas players' inventory is reducing gradually on disciplined management. Domestic peers' inventory level rose in recent one or two quarters, a mixed impact from slow recovery in demand and key components stocking behaviors due to seasonality and geopolitical concerns.

Figure 35: Overseas peers' inventory is still above pre-pandemic levels despite disciplined management



Source: Company data, CMBIGM estimates

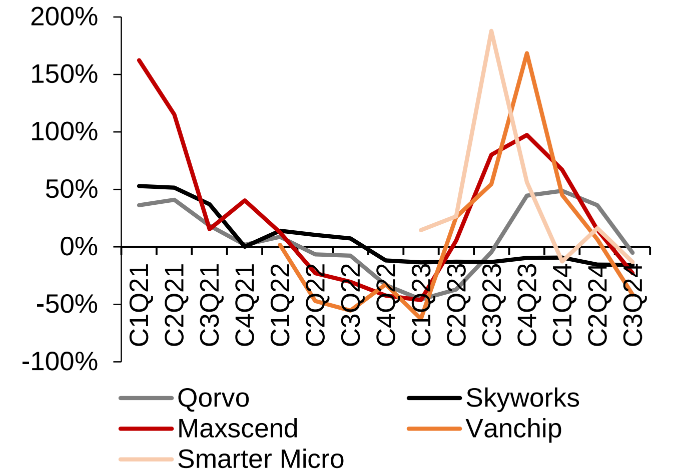
Figure 36: Domestic peers' inventory rose in 2Q/3Q24, reflecting a slow recovery in demand and ongoing geopolitical concerns



Source: Company data, CMBIGM estimates

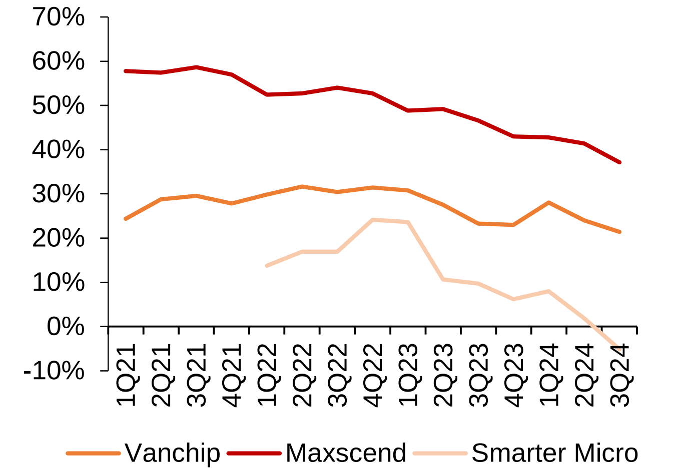
Domestic RFFE market has become increasingly crowded in recent years fueled by investment hype, particularly in the low-end categories. However, as the smartphone market reached saturation and 5G penetration normalizes, Chinese peers are facing growth challenges and margin erosion (Maxscend/Vanchip/Smarter Micro's GPM down 9ppts/2ppts/15ppts in 3Q24 vs. 3Q23), compounded by intensified competition alongside persistently soft demand.

Figure 37: Peers' revenue growth slowed down due to soft demand and price war



Source: Company data, Bloomberg, CMBIGM

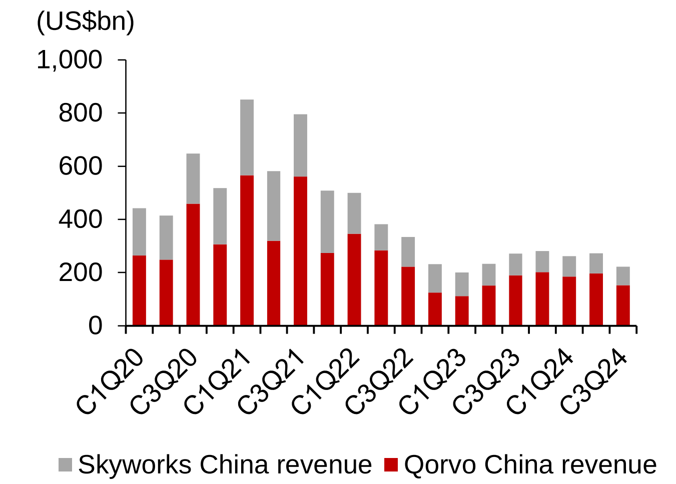
Figure 38: Intensified competition has weighed on Maxscend and Vanchip's margins



Source: Company data, Wind, CMBIGM

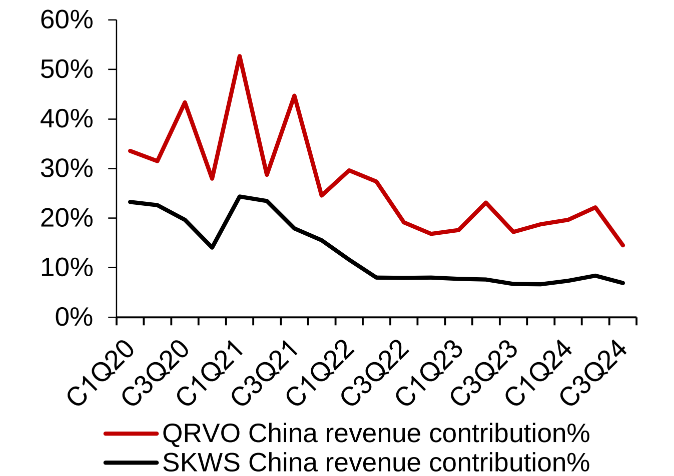
Meanwhile, the overseas players are reducing exposure to China's market. Qorvo and Skyworks' China revenue decreased over the past years. Excluding the impact from a challenging market, we see the percentage contribution dropping to 15%/7% in CY3Q24 from 43%/20% in CY3Q20, mainly due to 1) **rising semiconductor localization in China, 2) pricing discipline, and 3) ongoing geopolitical risks.**

Figure 39: Skyworks/Qorvo's China revenue declined over the past years



Source: Company data, CMBIGM

Figure 40: China sales contribution to remain at low level given foreseeable geopolitical risks



Source: Company data, CMBIGM

Based on the peer's valuation, domestic peers trade at a **relatively higher average valuation** compared to their global counterparts. The average 2024/25E P/E of domestic RFFE players (Maxscend, Vanchip, and Smarter Micro) are 85x/46x, while that of global peers (Qualcomm, Skyworks, Qorvo, etc.) are 19.2x/18.7x (per Bloomberg). The disparity reflects a more mature market and stable growth trajectory among global players. However, domestic Chinese companies are expected to outpace their global counterparts in revenue growth, with projected 49.7% YoY growth in 2025E following a flattish movement in 2024E. In contrast, global peers are forecasted to achieve more modest growth of 5.6%/2.7% YoY in 2024E/25E, per Bloomberg consensus.

Figure 41: Peers table

Company	Ticker	Mkt Cap (US$mn)	Price (LC)	P/E (x) FY24E	P/E (x) FY25E	EPS (US$) FY24E	EPS (US$) FY25E	Rev. growth YoY FY24E	Rev. growth YoY FY25E
Domestic RFFE peers									
Maxscend	300782 CH	7,593	103.29	72.0	47.2	0.20	0.30	6.9	23.5
Vanchip	688153 CH	2,299	38.88	98.4	44.2	0.05	0.12	-4.4	41.2
Smarter Micro	688512 CH	766	12.09	-	-	-0.12	-0.05	-3.5	84.5
			Average	***85.2***	***45.7***	***0.0***	***0.1***	***-0.3***	***49.7***
Global RFFE peers									
Qualcomm	QCOM US	177,216	159.51	15.8	14.3	10.08	11.16	8.7	8.8
Broadcom	AVGO US	838,509	179.53	37.1	28.9	4.84	6.21	44.0	17.6
Skyworks	SWKS US	14,052	87.87	14.1	16.4	6.25	5.36	-12.5	-4.9
Qorvo	QRVO US	6,459	68.33	11.3	14.2	6.05	4.82	5.6	-2.5
Murata	6981 JT	32,863	2510.50	21.5	18.2	0.75	0.92	-	3.6
NXP	NXPI US	55,574	218.66	16.8	16.9	13.04	12.92	-5.1	1.2
			Average	***19.2***	***18.7***	***6.1***	***6.1***	***5.6***	***2.7***

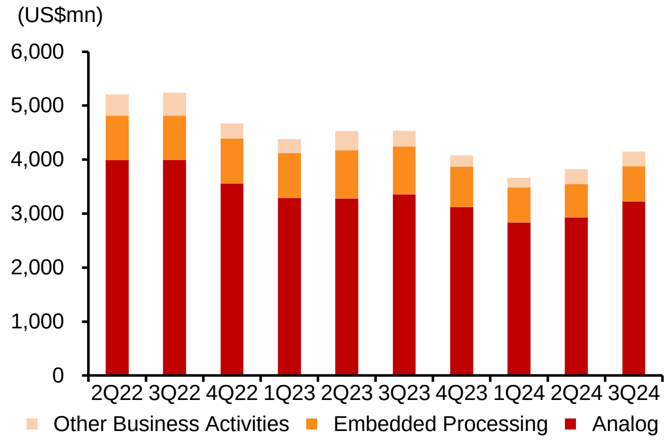
Source: Bloomberg data as of 5 Dec 2024, CMBIGM

■ Analog – overseas IC market to see uneven end-market inventory in 2025E

Texas Instruments reported a mixed 3Q24 performance, with revenue declining 8% YoY but growing 9% QoQ, driven by **cyclical recoveries in most end markets except industrial. Auto revenue grew 7-8% QoQ, reaching record levels in China due to strong EV demand**, though weakness persisted outside China. Personal electronics rebounded 30% QoQ, driven by seasonal demand in phones and notebooks, while enterprise systems and communication equipment rose 20% and 25% QoQ, respectively.

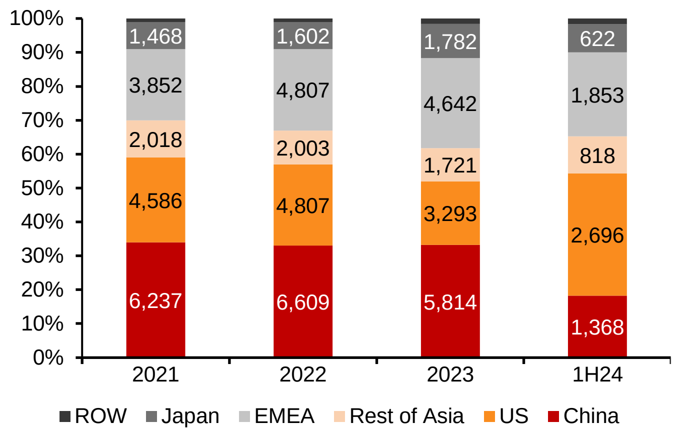
Industrial markets continued to decline sequentially, impacted by prolonged inventory digestion, and remaining 30% below their 3Q22 peak. Gross margin improved sequentially to 59.6% but remained below 3Q23 levels, with further margin pressure expected in 4Q24 due to depreciation and lower factory loadings. Looking ahead, TI anticipates **continued growth in personal electronics, enterprise systems, and communication equipment, while recovery in broader industrial and auto markets, especially outside China, remains crucial for meeting long-term targets**. The company remains focused on managing inventory effectively and leveraging its robust supply chain to support future growth.

Figure 42: TXN's revenue breakdown by end market



Source: Company data, Bloomberg, CMBIGM

Figure 43: TXN's revenue breakdown by geography

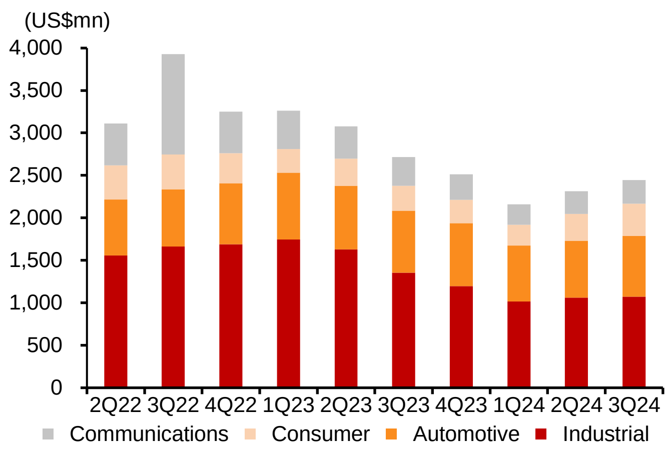


Source: Company data, Bloomberg, CMBIGM

Analog Devices reported FY4Q24 revenue of US$2.4bn, up 6% QoQ but down 10% YoY, with GPM steady at 67.9%. Industrial, at 44% of revenue, grew 2% QoQ but fell 21% YoY, driven by aerospace and defense strength but weighed down by macro challenges. **Auto rose 4% QoQ, led by strong EV demand in China**, while communications grew 4% QoQ due to wireline demand but dropped 18% YoY. **Consumer was a bright spot**, surging 22% QoQ and 31% YoY on strength in **wearables and gaming**.

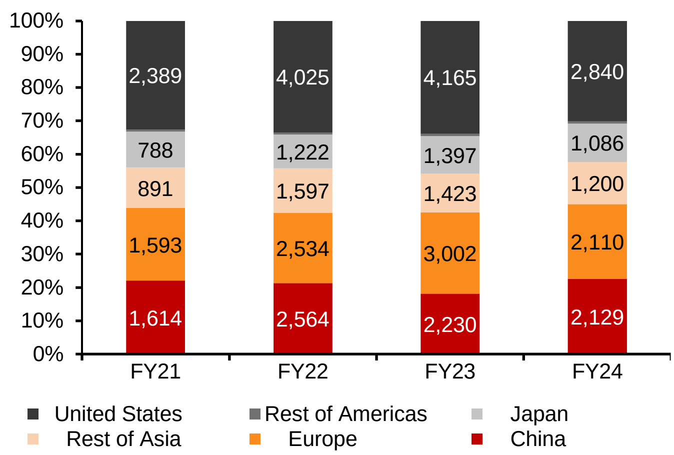
Analog Devices expects a mixed recovery across end markets in FY25. Industrial markets, still affected by inventory digestion, are showing early signs of recovery in automation, aerospace, and defense, with growth anticipated to pick up in the second half. Auto is poised for steady improvement, driven by EV demand in China, record design wins in connectivity and battery management systems, and recovery in grid storage applications. Communications is set to rebound, particularly in wireline, supported by AI infrastructure demand, though wireless remains subdued. Consumer markets, bolstered by wearables, gaming, and portable devices, are expected to sustain growth as inventory normalizes and new design wins come to market. This broad recovery, combined with ADI's focus on innovation in edge AI, mixed-signal solutions, and power management, positions the company for accelerating growth in key markets.

Figure 44: ADI's revenue breakdown by end market



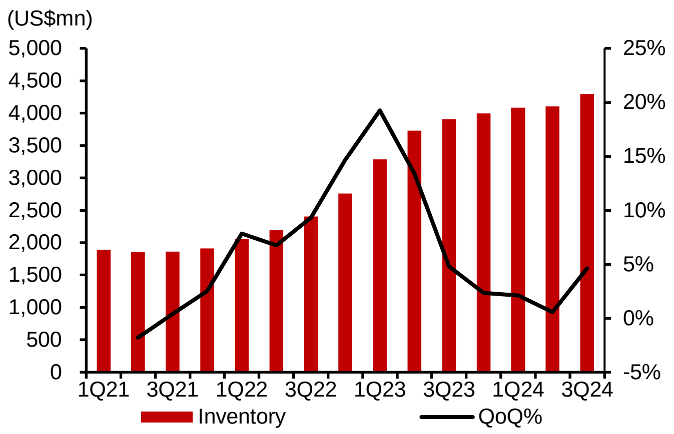
Source: Company data, Bloomberg, CMBIGM

Figure 45: TXN's revenue breakdown by geography



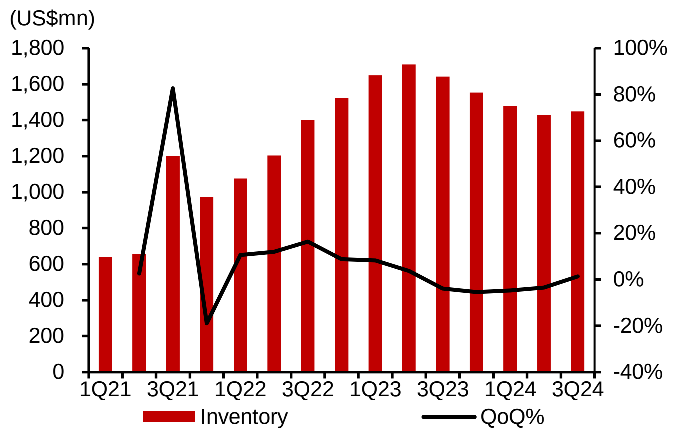
Source: Company data, Bloomberg, CMBIGM

Figure 46: TXN's inventory level



Source: Company data, Bloomberg, CMBIGM

Figure 47: ADI's inventory level



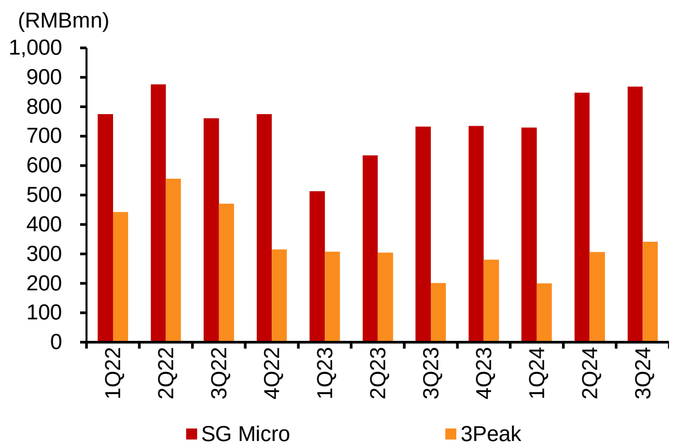
Source: Company data, Bloomberg, CMBIGM

Domestic Analog peers: SG Micro (300661 CH, NR) and 3Peak (688536 CH, NR)

Domestic analog players SG Micro and 3Peak saw their revenue bottom out in 1Q23 and 1Q24, respectively, with their GPM bottoming out from their lowest levels in 4Q23. For 3Peak, demand recovery in the industrial segment was slower than anticipated, showing only a slight QoQ increase. The auto segment demonstrated resilience, but intense market competition led to pricing pressures, with volume growth outpacing value growth. While inventory levels at automotive clients remain healthy, demand visibility continues to be uncertain, reflecting cautious market dynamics.

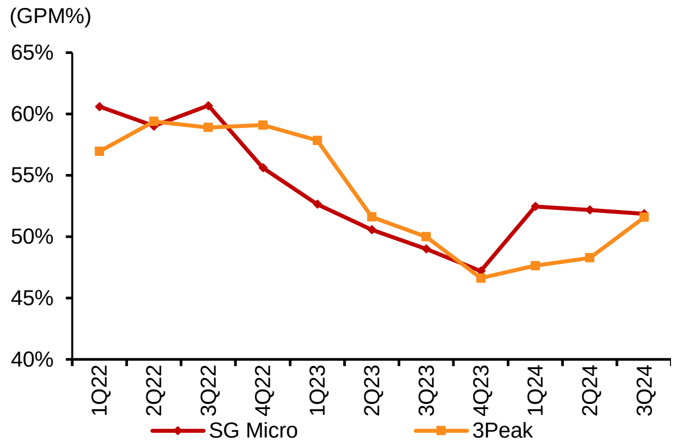
SG Micro expects a weaker performance in 4Q24 and 1Q25, citing that inventory restocking for the holiday season primarily occurred in 3Q24. Despite this, the company maintained high inventory turnover and achieved near-record shipment levels, showcasing strong operational execution even in a challenging market environment.

Figure 48: SG Micro and 3Peak's revenue



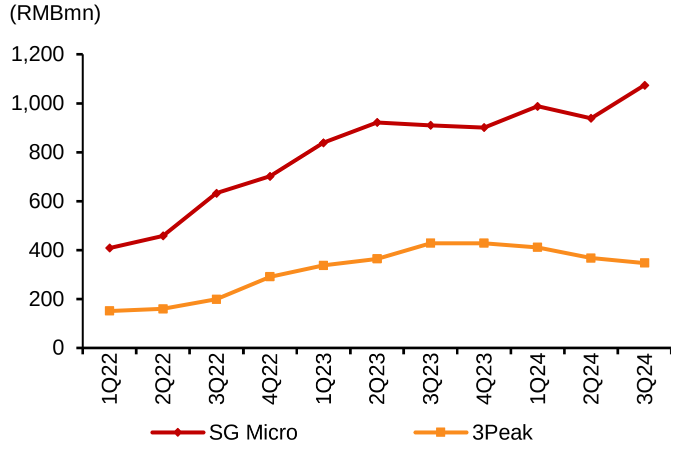
Source: Company data, Bloomberg, CMBIGM

Figure 49: SG Micro and 3Peak's GPM



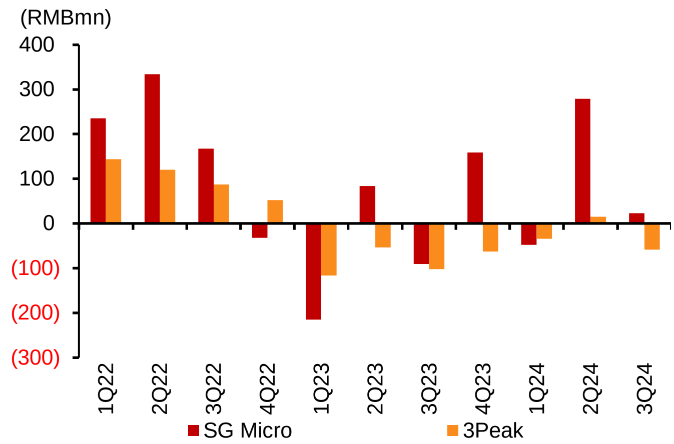
Source: Company data, Bloomberg, CMBIGM

Figure 50: SG Micro and 3Peak's inventory level



Source: Company data, Bloomberg, CMBIGM

Figure 51: SG Micro and 3Peak's FCF



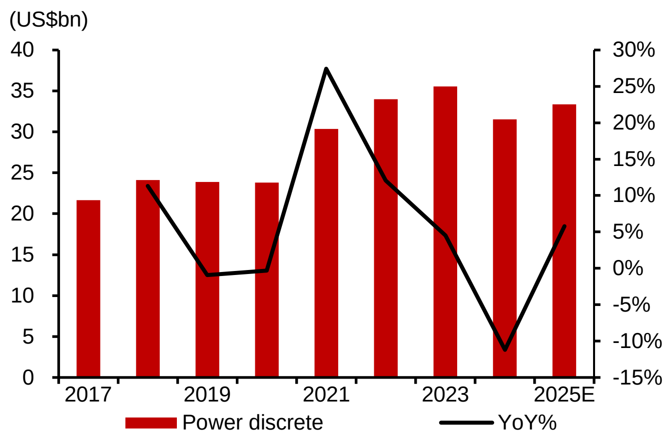
Source: Company data, Bloomberg, CMBIGM

Global power discrete segment to grow 6% in 2025

- **Broad global power semi market weakness with end-market inventory normalizing**

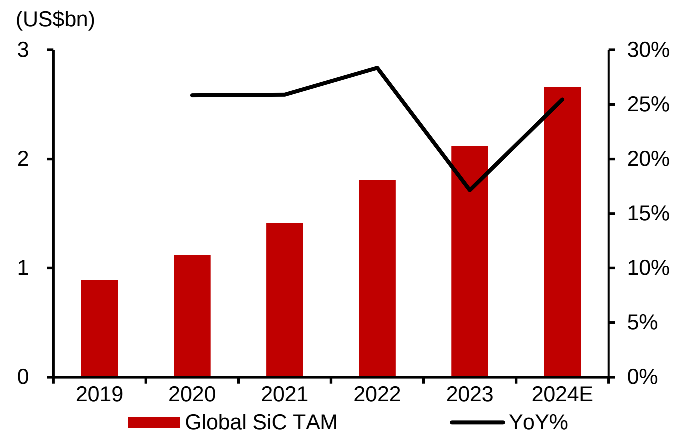
Power semiconductors are a critical category of semiconductors designed to manage and convert electrical energy efficiently, enabling functionality in applications such as energy infrastructure, auto, industrial, and consumer electronics. These devices, including **diodes**, **MOSFETs**, **IGBTs (power discrete)**, and power modules, play a vital role in power management systems by optimizing energy use and ensuring high reliability in demanding environments.

Figure 52: Global power discrete market size



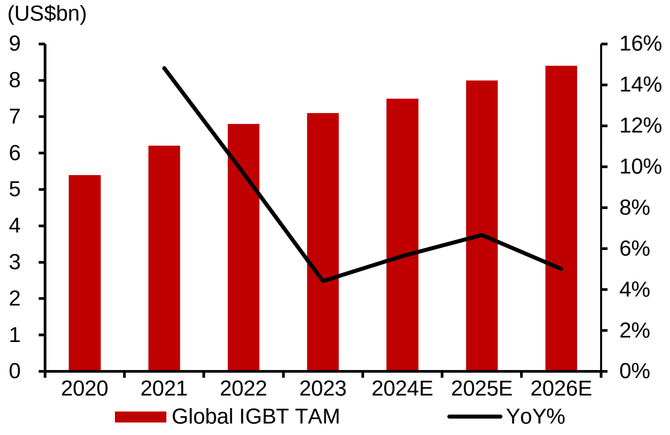
Source: WSTS, CMBIGM

Figure 53: Global SiC market size



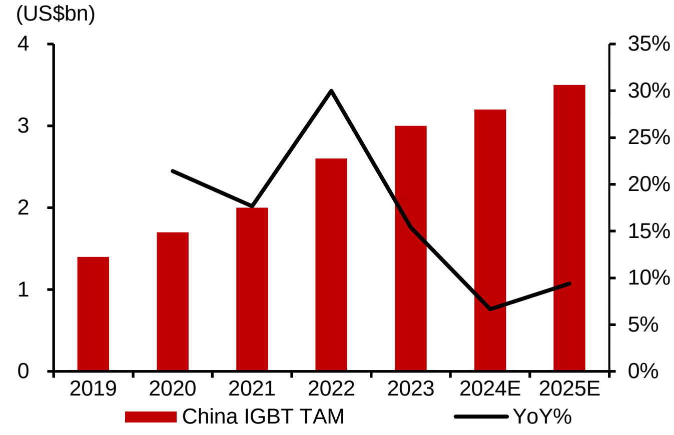
Source: Omdia, CMBIGM

Figure 54: Global IGBT market size



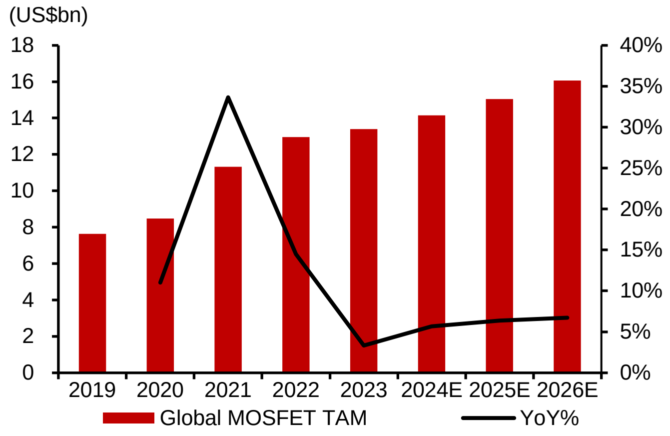
Source: Yole, CMBIGM

Figure 55: China IGBT market size



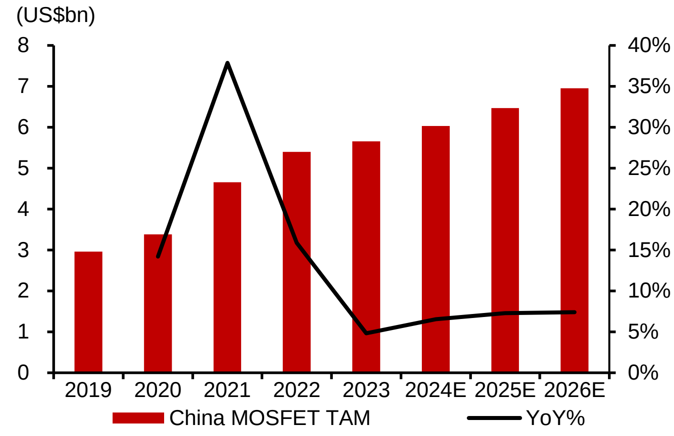
Source: Yole, CMBIGM

Figure 56: Global MOSFET market size



Source: Yole, CMBIGM

Figure 57: China MOSFET market size



Source: Yole, CMBIGM

Vital players in power discrete segment, such as IGBT and HV MOSFET, have seen improving lead times in recent quarters with inventory normalization continues to improve across end markets.

Figure 58: Market pulse - IGBT lead time trend (unit: weeks)

Suppliers	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Infineon	39-50	39-50	39-50	39-50	39-50	39-50	39-50	14-52	12-42	12-42	12-52
IXYS	47-52	50-54	50-54	50-54	50-54	50-54	50-54	50-54	50-54	50-54	50-54
STM	47-52	47-52	47-52	47-52	47-52	47-52	47-52	14-52	14-52	14-52	14-22
Onsemi	39-52	39-52	39-52	39-52	39-52	39-52	39-52	16-52	16-52	10-41	10-41

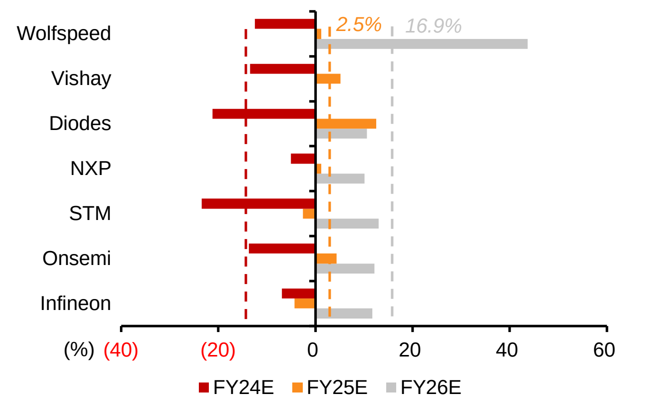
Source: futureelectronics, CMBIGM estimates

Figure 59: Market pulse – HV MOSFET lead time trend (unit: weeks)

Suppliers	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Infineon	52-65	50-54	50-54	50-54	50-54	39-56	39-56	12-40	10-32	10-20	10-26
IXYS	47-52	50-54	50-54	50-54	50-54	50-54	50-54	50-54	50-54	50-54	50-54
STM	47-52	47-52	47-52	47-52	47-52	47-52	39-52	14-40	14-40	13-39	13-32
Vishay	52-65	52-65	52-65	52-65	52-65	18-65	15-52	12-52	10-26	9-38	10-28

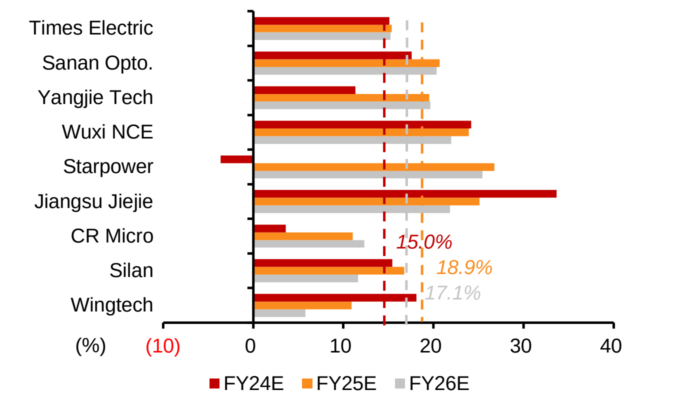
Source: futureelectronics, CMBIGM

Figure 60: Revenue YoY% of overseas peers



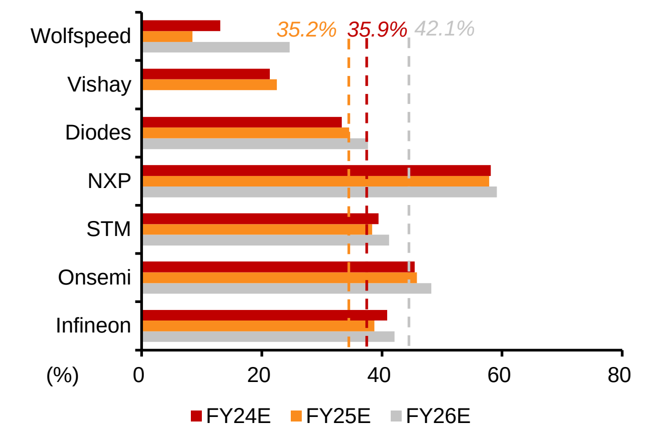
Source: Bloomberg consensus, CMBIGM

Figure 61: Revenue YoY% of domestic peers



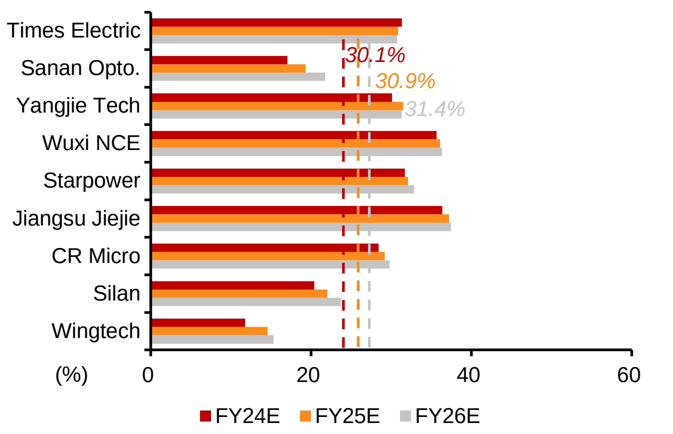
Source: Bloomberg consensus, CMBIGM

Figure 62: GPM% of overseas peers



Source: Bloomberg consensus, CMBIGM

Figure 63: GPM% of domestic peers



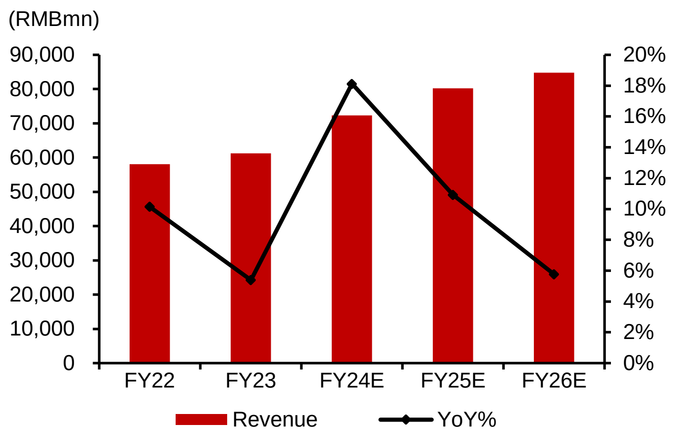
Source: Bloomberg consensus, CMBIGM

- **Wingtech (600745 CH, BUY, TP: RMB52)**

Wingtech's semiconductor business segment (Nexperia) grew on strong domestic auto demand and seasonal consumer electronics procurement in 3Q24, with margin bounced back to 40%. 3Q24 semiconductor sales were RMB3.8bn (20% of 3Q revenue), down 4% YoY but up 6% QoQ. Revenue mix remained similar (vs. 1H24), with auto contributing ~60%. For 3Q24, 1) auto sales increased modestly, with mixed growth from domestic (strong) and overseas (weak); 2) consumer electronics sales grew by double digits QoQ, driven by soaring computing demand and recovering personal electronics restocking behaviour due to the upcoming holiday season; 3) industrial/power/NE had weaker recovery with mild growth sequentially.

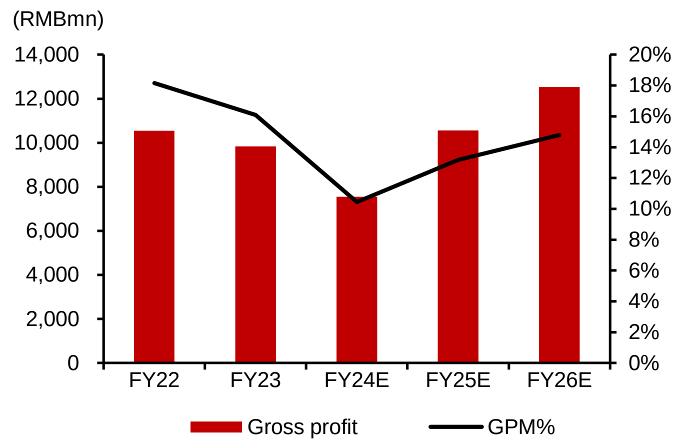
Wingtech's legacy business grew with revenue structure improvement with loss narrowed. In 3Q24, smartphone/tablet contributed ~50% of revenue (vs. ~100% prev.) with the rest stemming from home appliances/auto/IoT sales. Within the segment, smartphone/tablet business began to profit in 3Q24, while home appliances had been profitable for two consecutive quarters. Maintain BUY with TP at RMB52.

Figure 64: Wingtech's revenue and growth



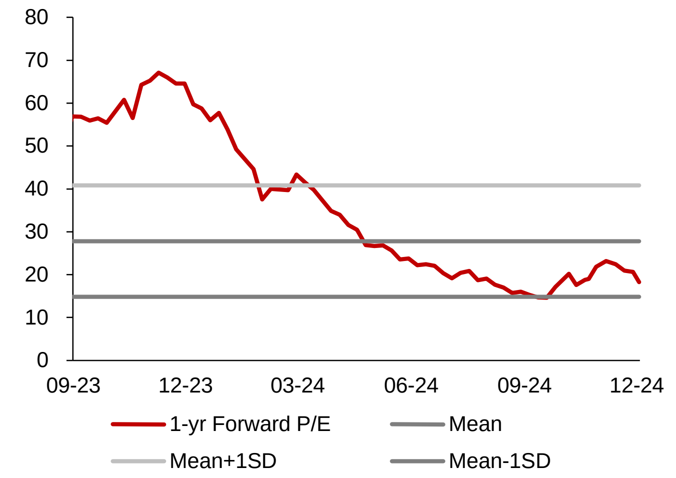
Source: CMBIGM estimates

Figure 65: Wingtech's GP and GPM%



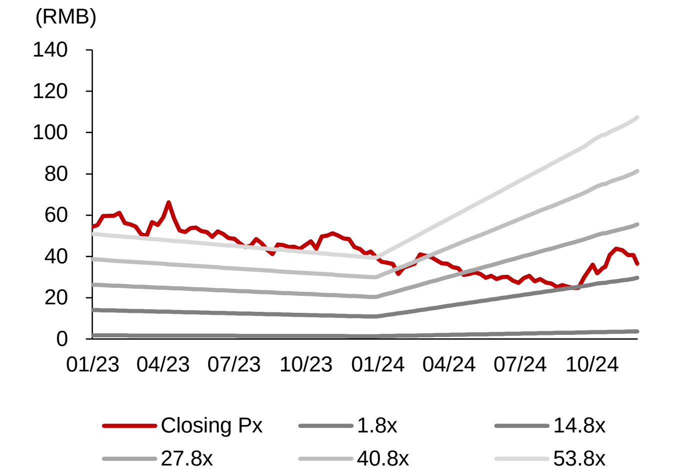
Source: MBIGM estimates

Figure 66: 1-yr forward P/E band



Source: Bloomberg consensus, CMBIGM estimates

Figure 67: P/E chart



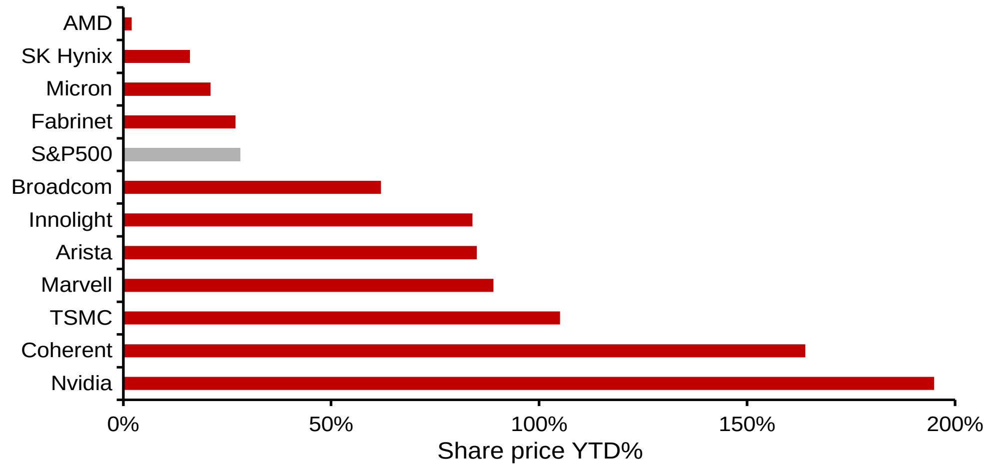
Source: Bloomberg consensus, CMBIGM estimates

Global AI market outlook

Positive: 2024 marked a rapid push for infra. buildup, laying the groundwork for AI-added value to unfold in the years ahead

AI theme is our top pick for 2024 (2024 strategy report) **and has been one of the most popular investment strategies throughout the year.** Key players within this universe include Nvidia (NVDA US, +195% YTD), AMD (AMD US, +2% YTD), Broadcom (AVGO US, +62% YTD), Marvell (MRVL US, +89% YTD) and Innolight (300308 CH, +84% YTD). These stocks outperformed on promising AI revenue growth, driven by surging AI infrastructure spending. The aggregated capex of the Big Three hyperscalers (Microsoft, Google and Amazon) and Meta increased 49% YoY to US$156bn in 9M24, per Bloomberg consensus. Hyperscalers' capex intensity also reached a record high to 16.9% in 3Q24, comparing to 12.0%/16.4% in 3Q23/2Q24.

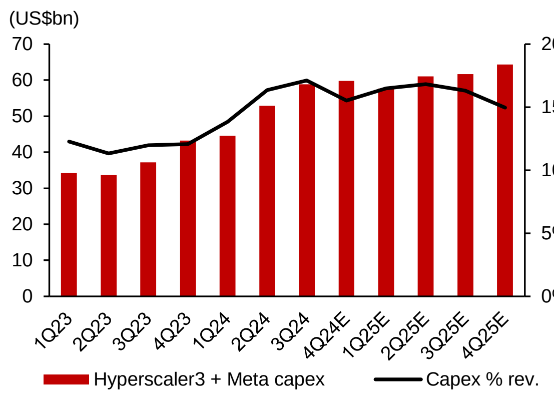
Figure 68: Key AI players have outperformed S&P 500 significantly YTD



Source: Bloomberg consensus (as of 6 Dec 2024), CMBIGM estimates

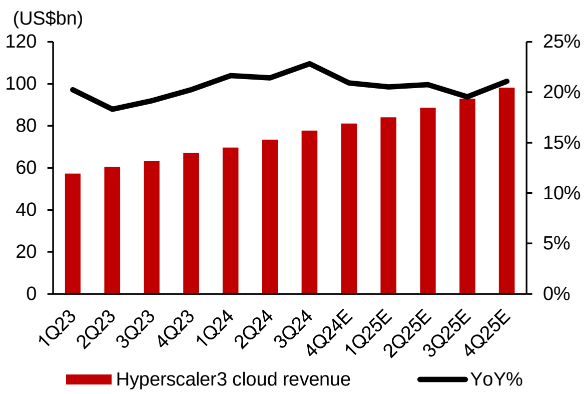
For 2025, we remain confident that the AI momentum will continue to be very strong. Bloomberg consensus forecasts the aggregated capex of MSFT/GOOG/AMZN/META to grow another 42%/18% to US$211bn/US$248bn in 2024/25E. In addition, there is incremental demand from smaller cloud companies, consumer internet players, enterprise, sovereign and industry customers (i.e., automotive, and healthcare), which is expected to create extra multi-billion-dollar vertical markets.

Figure 69: The aggregate capex of MSFT/GOOG/AMZN/META and capex-to-revenue ratio



Source: Company data, Bloomberg, CMBIGM

Figure 70: MSFT/GOOG/AMZN's cloud revenue and growth



Source: Company data, Bloomberg, CMBIGM

We predicted a potential shift of market focus to AI applications and software from previous concentration on AI hardware earlier this year. We think **successful monetization strategies of AI investments will remain a major market focus with the investment landscape expanding from previous concentration on AI hardware/ semiconductor** (such as chips and related infrastructure) **to AI applications and software.** We believe sustainable and profitable business models in the current stage of AI momentum may be the answer that investors are looking for to justify the hefty capex made in recent years. Overall, **we remain optimistic in the development of AI applications, which will drive infrastructure capex in longer term and benefit the AI hardware/semiconductor supply chain.**

Juding from AI exposure level, who is the real winner?

We believe that **the true beneficiaries of AI advancements are likely to have wide adoption of its products and services in the end markets, which should lead substantial revenue growth.** We have tracked the AI exposure of a basket of AI beneficiaries this year, and updated their latest AI exposure below.

According to our 3Q24 analysis, Nvidia leads the market with the highest AI-related revenue exposure at 88%, followed by Innolight (300308 CH, BUY, TP: RMB186) at 85% from its high-speed optical modules that are highly sought after from hyperscalers for their datacenter infrastructure. Nvidia continues to dominate with its industry-leading AI accelerator products, such as the Hopper and the upcoming Blackwell GPUs, which are integral to high-performance computing and generative AI workloads.

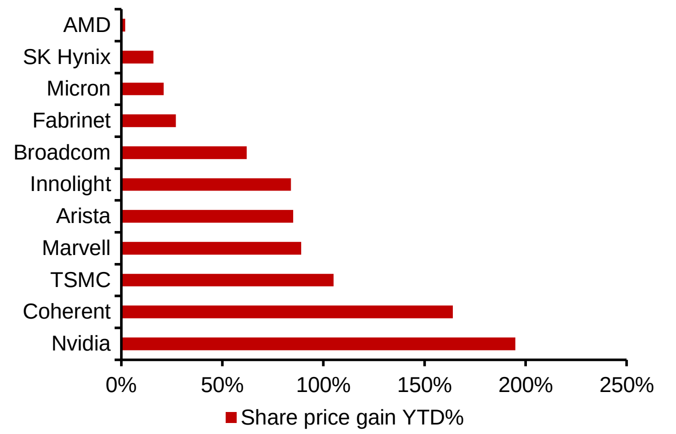
Meanwhile, AMD, with 19% of its revenue derived from AI, is emerging as a formidable competitor, accelerating its product launch cadence to stay in tune with and challenge Nvidia's dominance in the AI compute market. On the manufacturing side, TSMC (TSM US) remains the exclusive foundry for Nvidia's GPUs, solidifying its critical role in the AI supply chain while deriving ~15% of its revenue from AI, reflecting its monolithic presence as an AI factory.

Figure 71: AI peers table and rev. exposure to AI

Company	Ticker	Market Cap. (US$mn)	YTD	P/E (x)		Rev. YoY%		AI revenue exposure
				FY24E	FY25E	FY24E	FY25E	
Nvidia	NVDA US	3,552,519	195%	49.6	33.3	111.7	52.0	88%
Broadcom	AVGO US	796,193	62%	35.3	27.4	44.0	17.6	23%
AMD	AMD US	229,400	2%	42.6	27.8	13.1	26.7	19%
Marvell	MRVL US	98,099	89%	75.0	73.3	73.3	41.5	31%
Arista	ANET US	134,580	85%	48.9	43.8	18.8	18.8	9%
Fabrinet	FN US	8,518	27%	27.0	23.5	9.0	13.9	32%
TSMC	TSM US	1,059,611	105%	29.5	22.8	27.9	26.0	15%
SK Hynix	000660 KS	85,657	16%	6.7	4.4	86.7	30.5	21%
Micron	MU US	112,014	21%	82.3	11.1	61.6	52.9	5%
Innolight	300308 CH	20,325	84%	27.3	16.3	128.5	59.8	85%
Coherent	COHR US	16,806	164%	65.9	36.0	-8.8	18.1	60%

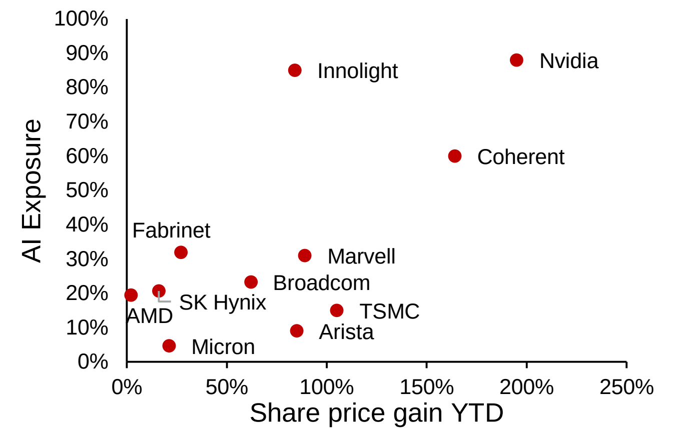
Source: Company info, Bloomberg consensus, CMBIGM.
Note: Last price/YTD as of 5 Dec 2024.

Figure 72: Leading AI infrastructure players YTD share performance



Source: Company data, Bloomberg, CMBIGM

Figure 73: Leading AI infra. players' AI-related revenue vs. YTD share gain



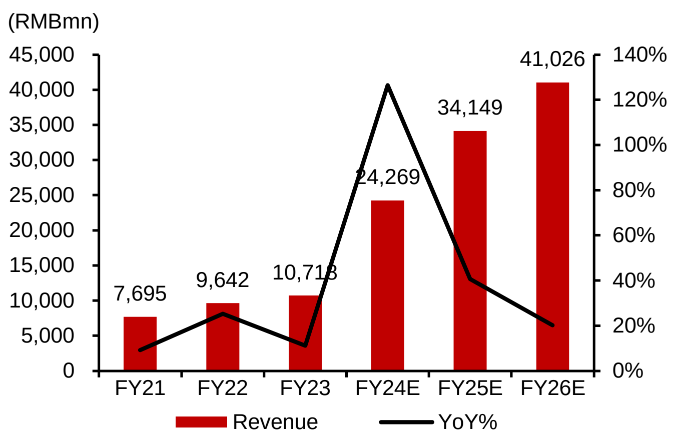
Source: Company data, Bloomberg, CMBIGM

■ **Innolight (300308 CH, BUY, TP: RMB186.0)**

We view **Innolight as a key beneficiary of the surging global AI momentum.** The company has demonstrated impressive performance in recent quarters, revenue surged by 115.2% YoY and 9.4% QoQ in 3Q24, while net profit increased by 104.4% YoY and 3.3% QoQ. Mgmt. attributed the slower sequential revenue growth (9.4% in 3Q24 vs. 31.3%/23% in 1Q/2Q24) to two main factors: 1) supply chain bottlenecks of key components (like DSPs & EMLs), and 2) unfavorable fluctuations in the USD/RMB exchange rate during 3Q. Excluding the impact of exchange rate movements, the company still achieved double-digit revenue growth in 3Q.

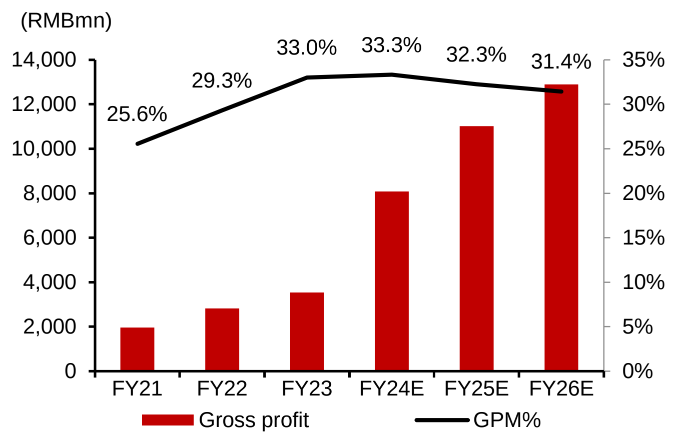
We remain confident in the company's growth trajectory, driven by the ramp-up in 400G/800G shipments and the upcoming production ramp-up of 1.6T products. Maintain our BUY with TP at RMB186.0.

Figure 74: Innolight's revenue and growth



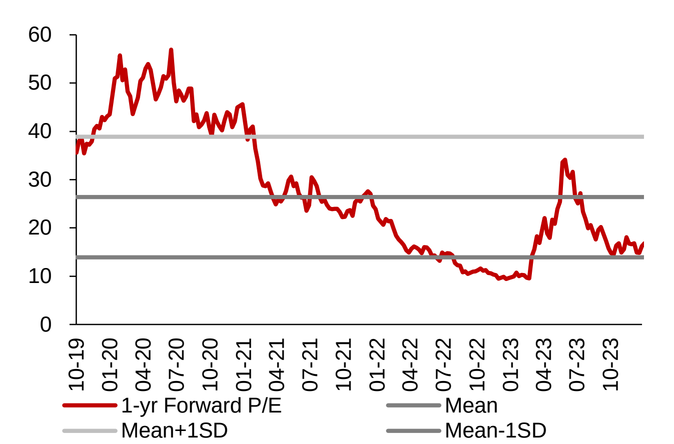
Source: Company data, CMBIGM estimates

Figure 75: Innolights's GP and GPM trend



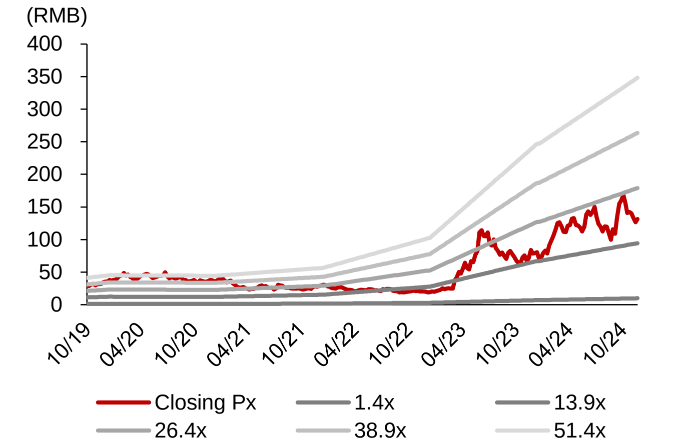
Source: Company data, CMBIGM estimates

Figure 76: 1-yr forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 77: 1-yr forward P/E chart



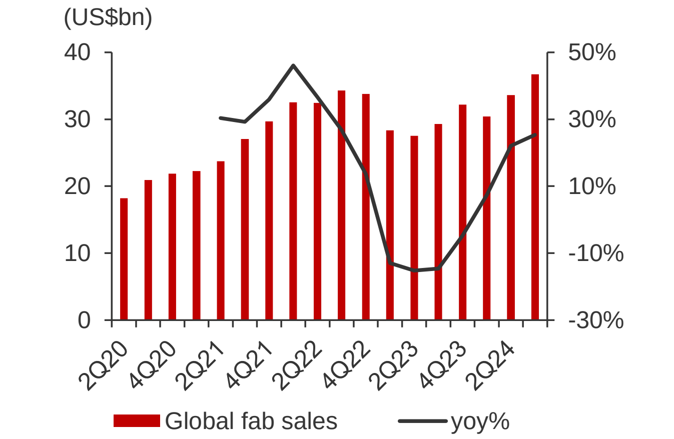
Source: Company data, Bloomberg, CMBIGM estimates

Global foundry market outlook

Positive: Global foundry industry to grow 20% in 2025

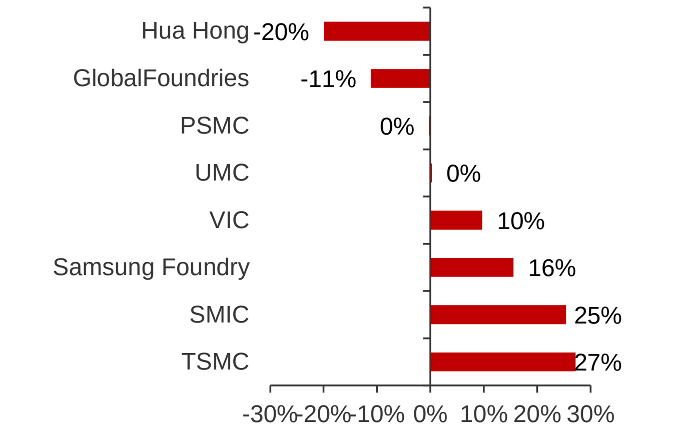
Global foundry market has recovered in 2024E from a weak 2023 (2023: US$115bn with 12% decline per Gartner). The total foundry sales were up 18% YoY in 9M24, with three consecutive quarters' growth (double-digit increase in both 2Q/3Q24). **TSMC, Samsung and SMIC led the growth** (27%/16%/25% YoY). **We estimate the global foundry market to grow 21% in 2024E.**

Figure 78: Global fab sales grew three consecutive quarters in 2024 (up double-digit in both 2Q/3Q24)



Source: Company data, Counterpoint, CMBIGM

Figure 79: TSMC, Samsung Electronics and SMIC led the growth with 27%/16%/25% YoY growth in 9M24



Source: Company data, CMBIGM

Looking forward, the global foundry sector is projected to grow another ~20% in 2025E by TrendForce and IDC, **outpacing the overall semiconductor market growth of 11%** (WSTS). We think the growth is fueled by 1) ongoing investments in AI infrastructure, 2) semiconductor localization, 3) gradual demand recovery from certain markets (i.e., smartphone, IoT, industrials, etc.) and 4) technological advancement.

Figure 80: End market demand outlook with AI demand to remain a central theme fuelling growth

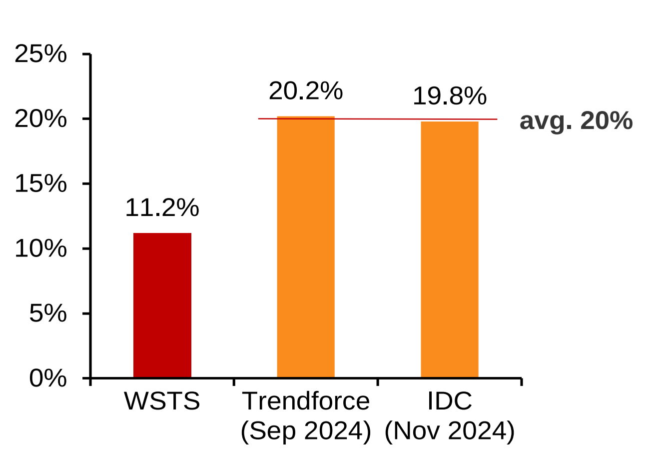
Sectors	Demand outlook from companies' 2Q/3Q24 earnings call
AI/Data center	**TSMC:** The AI demand is just the beginning, with one key customer even describing the current demand as "insane." While the overall semiconductor demand outside of AI is stabilizing and beginning to improve, AI remains a significant driver of future growth. **GFS:** Expects sustained growth in this area as demand for AI servers and data storage solutions drives a steady need for high-bandwidth and low-power connectivity options.
Consumer electronics	**TSMC:** The unit growth for PC and smartphone demand is expected to remain in the low single digits. However, the silicon content is increasing due to AI applications, leading to faster growth in silicon area. **GFS:** Demand showed signs of recovery largely due to normalized inventory levels **SMIC:** Saw inventory restocking behavior at customers on both seasonal factors and geopolitical concerns. **Hua Hong:** Consumer electronics saw a partial recovery with increased demand for certain products; however, the price competition remained intense. **UMC:** Inventory levels in communication, consumer, and computing have normalized in 3Q24.
Auto / Industrials	**GFS:** Auto sector is expected to see high single-digit revenue growth in 2024 with focus on radar, safety, power management, etc. **Hua Hong:** Auto saw uneven recovery with areas like HV power discrete lagged, but overall remained optimistic about future growth supported by gov't initiatives.

UMC: "Automotive and industrial segments will normalize by 2Q25. We expect utilization rates to rebound to healthy levels, potentially above 80%, as inventory levels stabilize."

Source: Company data, CMBIGM

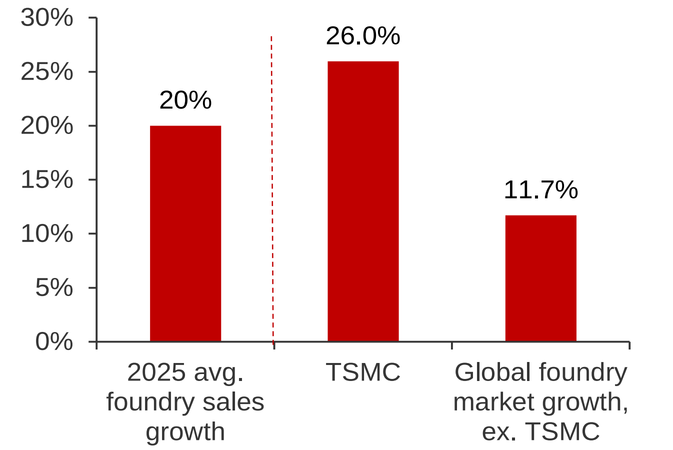
Advanced nodes will maintain higher growth and better utilization rate than mature node on strong AI demand. Therefore, **TSMC is believed to outgrow its peers again** in 2025 (TSMC vs. foundry excl. TSMC: 26% vs. 12% growth, per consensus/TrendForce).

Figure 81: Global foundry sector to grow another ~20% in 2025 (Trendforce/IDC: 20.2%/19.8%)



Source: Company data, WSTS, Trendforce, IDC, CMBIGM

Figure 82: TSMC to outgrow its peers again in 2025 (26% vs. 12%)



Source: WSTS, Trendforce, CMBIGM

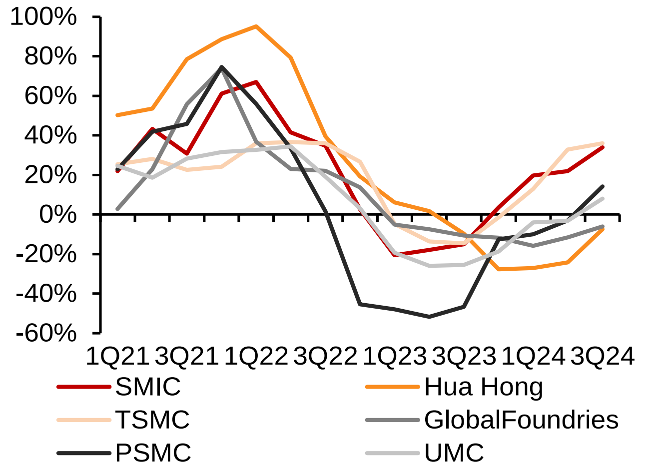
Performance among pure-play foundries varied in the past few quarters

According to the latest earnings reports, **performance among the top six pure-play foundries varied.**

1) **Revenue growth:** In 3Q24, TSMC, UMC, SMIC, and PSMC grew by 36%/6%/34%/12% YoY and 13%/7%/15%/5% QoQ, while GlobalFoundries and Hua Hong declined 6%/7% YoY. Samsung Electronics' foundry arm saw increasing sales but declining earnings due to a one-off cost. TSMC and SMIC led the growth driven by AI demand and semiconductor localization trend. TSMC gave a low-teens growth outlook in 4Q24E, while SMIC predicts a flattish sequential growth.

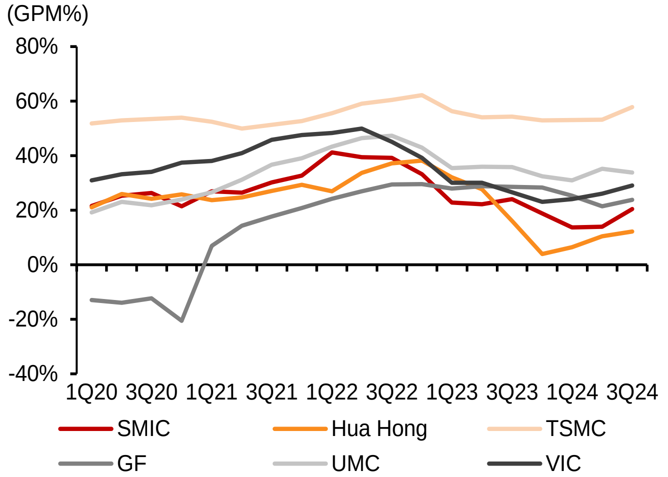
2) **GPM:** In 3Q24, TSMC's GPM surged to ~58%, with SMIC/Hua Hong/GF's GPM improved sequentially to 21%/12%/24% from 14%/11%/21% in 2Q24. UMC's GPM deteriorated QoQ to 34% in 3Q24 from 35% in 2Q24.

Figure 83: Performance among pure-play foundries varied in the past few quarters (revenue growth)



Source: Company data, CMBIGM

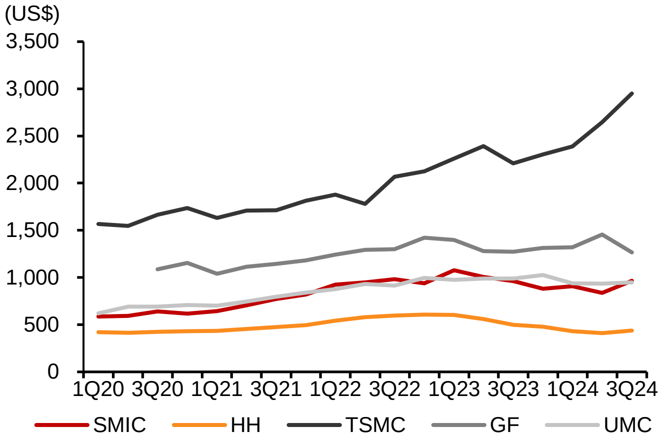
Figure 84: Performance among pure-play foundries varied in the past few quarters (GPM)



Source: Company data, CMBIGM

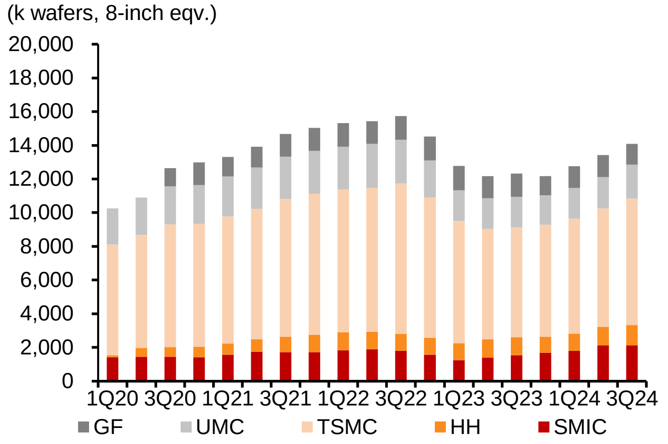
3) **Wafer ASP vs. wafer shipments (8-inch eqv.):** In 3Q24, only TSMC and Hua Hong saw meaningful sequential growth in both wafer ASP and wafer shipments (6%/7% and 7%/8% in ASP/shipments, respectively), while the rest of the pack faced challenges in balancing the trade-offs between price and shipments. SMIC saw flat shipments growth QoQ in both ASP and shipments. UMC and GFS each saw -1%/-13% in ASP and 8%/6% in shipments (from inventory orders for peripheral IC's for new PC and smartphone launches, per TrendForce). This suggests that while revenue dipped, production activity remained robust as foundries adjusted their strategies to optimize both pricing and capacity usage. **This confirms our previous view that foundries worldwide are balancing ASPs with their utilization rates to maximize revenue.**

Figure 85: ASP trend of major global foundries



Source: Company data, CMBIGM

Figure 86: Wafer shipments of top foundries

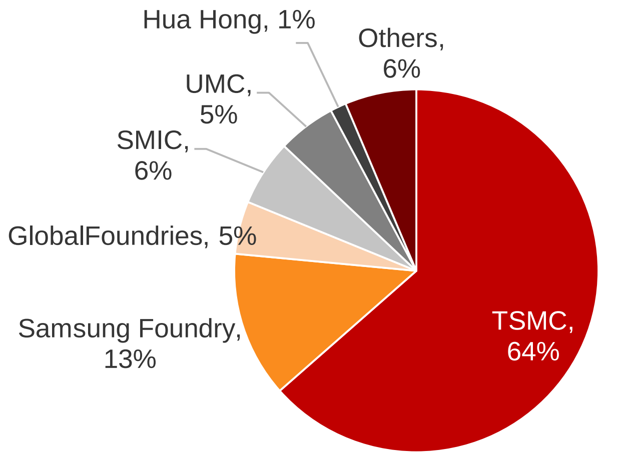


Source: Company data, CMBIGM

Competitive landscape: top five foundries dominate 92% market share in 3Q24

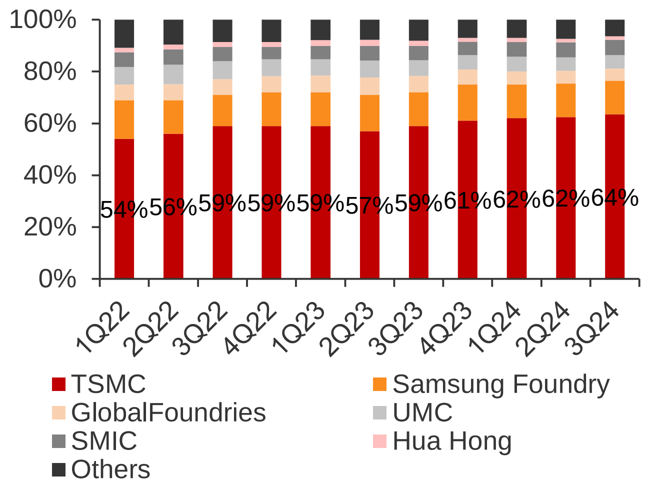
In 3Q24, top 5 foundries dominate 92% market share, per Counterpoint: TSMC (64%), Samsung Foundry (12%), SMIC (6%), GlobalFoundries (5%), UMC (5%). We estimate Hua Hong's share is roughly 1%.

Figure 87: top five foundries dominate 92% market share in 3Q24



Source: Company data, Counterpoint, CMBIGM

Figure 88: TSMC remains the largest foundry, with 64% share in 3Q24 (vs. 59%/62% in 3Q23/2Q24)



Source: Company data, Counterpoint, CMBIGM

TSMC remains the largest foundry worldwide. The company gained another 2% share in 3Q24, reaching 64% (vs. 62% in 2Q24) per Counterpoint. This is in line with our previous prediction that TSMC would gain further share due to its leading position in AI-related chip manufacturing and capacity (report).

We believe foundries with advanced process capabilities are expected to outperform due to strong AI demand from hyperscalers/cloud companies/ enterprises/sovereign and others, driving tight CoWoS capacity through late-2025 and potentially into early-2026, according to TSMC. In contrast, foundries focused on mature processes and catering to non-AI sectors such as auto, industrial, and IoT, may experience a slower recovery as demand remains uneven across these markets.

Figure 89: Foundry outlook

Company	Stock code	Mkt share 3Q24	QoQ rev growth 3Q24	QoQ rev growth 4Q24E	Outlook
TSMC	TSM US	64%	12.9%	11% - 15%	FY24E revenue to increase by mid-20s on heightened AI demand, HPC, and smartphones.
Samsung Electronics (Semi segment)	005930 KS	13%	3%	N/A	Mobile/PC rebound delayed with growing advanced demand due to AI. Expect market to see double-digit growth in 2025 driven by advanced node demand from AI/HPC clients despite inventory concerns.
SMIC	981 HK	6%	14.2%	0 - 2%	Expect segments like AI/HPC to perform well while auto/industrial may take longer to recover. Overall capacity utilization is still below 2022 level.
UMC	2303 TT	5%	6.5%	N/A	Expect to see stabilizing demand across end markets and healthier inventory levels. Expect Q4 ASP/wafer shipments/utilization rate to remain flat.
GlobalFoundries	GFS US	5%	7%	3.5% - 6.4%	Expects sequential growth in the next few quarters with GPM improvement on higher utilization rates

Hua Hong	1347 HK	2%	10%	0 - 2.6%	Expects strong demand across embedded flash, analog, PMIC, etc

Source: Counterpoint, company data, CMBIGM

Note: 4Q24E revenue growth and outlook are based on company guidance

Figure 90: Global foundries peers table

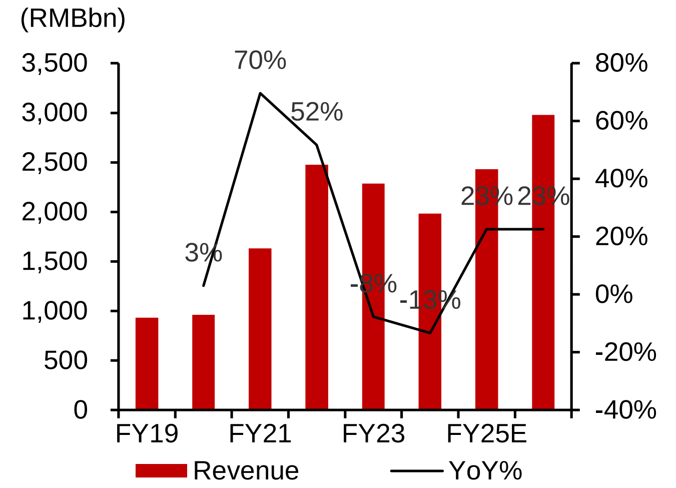
Company	Ticker	Mkt Cap (US$mn)	P/E (x) FY24E	P/E (x) FY25E	P/E (x) FY26E	Revenue YoY% FY24E	Revenue YoY% FY25E	Revenue YoY% FY26E
Overseas peers								
Samsung Electronics	005930 KS	228,389	10.4	9.1	7.6	8.9	9.2	4.7
GlobalFoundries	GFS US	25,064	29	24.8	18	-8.7	8.9	11.3
		Average	***19.7***	***17.0***	***12.8***	***0.1***	***9.1***	***8.0***
Greater China peers								
TSMC	TSM US	1,008,265	29.0	22.4	18.9	27.9	26.0	16.9
UMC	2303 TT	17,243	10.8	10.5	9.3	-0.5	8.1	10.6
PSMC	6770 TT	2,150	-	-	12.1	0.1	13.3	12.4
VIC	5347 TT	5,141	22.8	20.6	18.8	9.8	10.9	10.4
Hua Hong Semi	1347 HK	6,177	41.8	13.7	14.6	-13.3	22.6	12.8
SMIC	981 HK	43,818	48.2	29.3	22.9	26.8	14.9	12.8
		Average	***30.5***	***19.3***	***16.1***	***8.5***	***15.9***	***12.7***

Source: Bloomberg consensus as of 3 Dec 2024, CMBIGM

- **Hua Hong (1347 HK, BUY, TP: HK$24.0)**

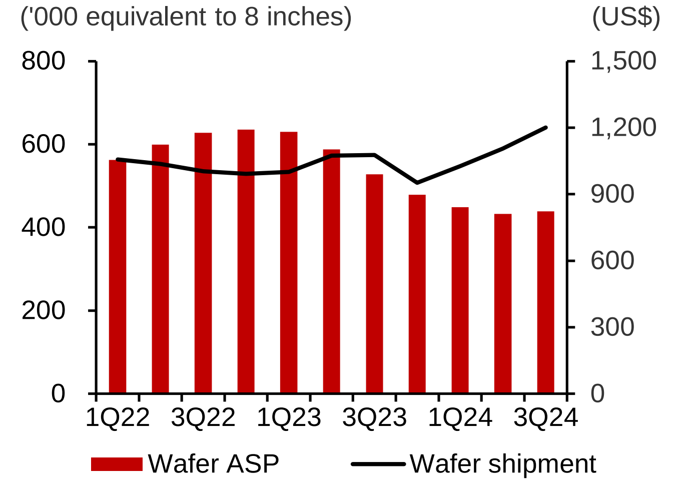
Hua Hong's 3Q revenue declined 7.4% YoY but grew 10.0% QoQ to US$526mn. GPM improved to 12.2% vs. 6.4%/10.5% in 1Q/2Q24. Company guided 4Q revenue to be US$530mn to US$540mn, implying flat to low single-digit growth sequentially. 4Q GPM is guided to be 11%-13%. Mid-point is 12%, which is also flattish compared to 3Q. This reflects slow recovery in end-market demand and a trade-off of high utilization rate (105% in 3Q24 vs. 87%/98% in 3Q23/2Q24). **Given the ongoing geopolitical challenges, we expect Hua Hong to be a key beneficiary in semiconductor localization.** Maintain BUY, with TP at HK$24.

Figure 91: Hua Hong's revenue and growth



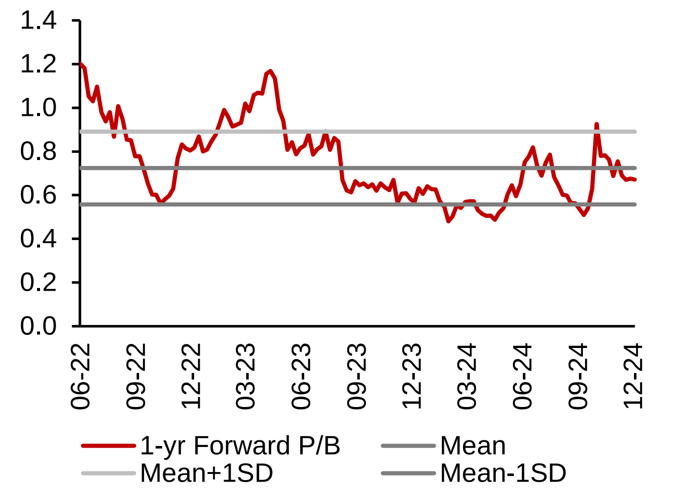
Source: Company data, CMBIGM estimates

Figure 92: Hua Hong's wafer ASP vs. shipment



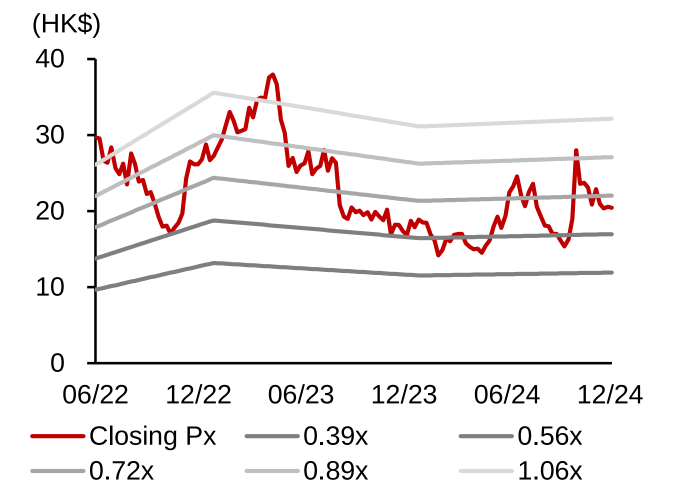
Source: Company data, CMBIGM

Figure 93: 1-yr forward P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 94: P/B chart



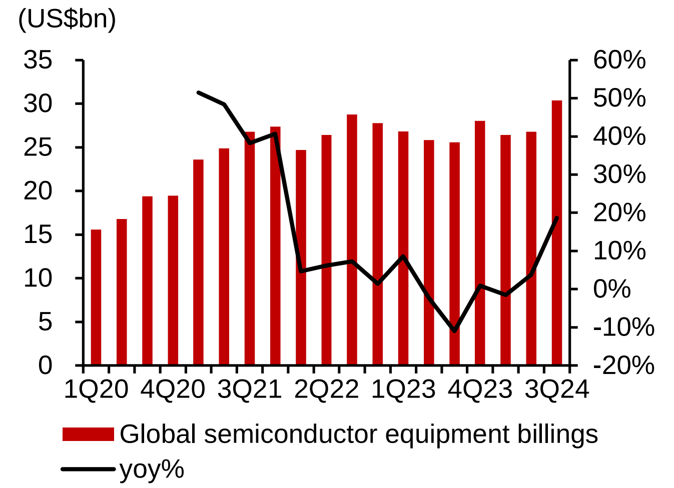
Source: Company data, Bloomberg, CMBIGM estimates

Global SME market outlook

Global SME market to grow 18% in 2025

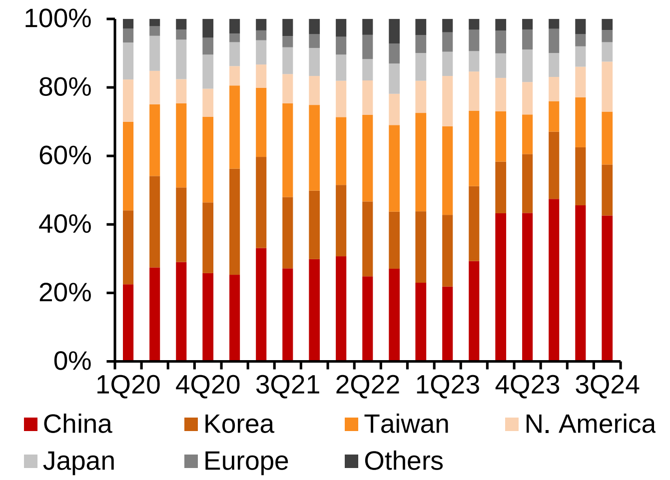
Worldwide sales of semiconductor manufacturing equipment (SME) reached US$106bn in 2023, according to SEMI**.** In 9M24, global semiconductor equipment billings were US$84bn, up 6.8% YoY. **The growth was exceptionally strong in 3Q24, up 18.7% YoY and 13.4% QoQ to a record US$30bn.** This is fueled by continuous investments to support growing AI demand and massive capacity expansion plans to achieve semiconductor independence goals in multiple regions.

Figure 95: Global semiconductor equipment billings grew 19%/13% YoY/QoQ to a record US$30bn (3Q24)



Source: SEMI, CMBIGM

Figure 96: China led the spending in recent quarters (54% YoY in 9M24)



Source: SEMI, CMBIGM

By geography, China Mainland (40%+ of worldwide SME billings) led the spending in the past six quarters. In 9M24, the region's spending grew 54% YoY, due to capacity expansion projects (particularly in mature nodes) and rising geopolitical risks.

Figure 97: Global semiconductor equipment billings

(US$bn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
China Mainland & Taiwan	**12**	**13**	**15**	**14**	**13**	**13**	**15**	**15**	**15**	**16**	**18**
YoY%	*7%*	*0%*	*3%*	*-5%*	*3%*	*0%*	*-2%*	*7%*	*16%*	*22%*	*19%*
China Mainland	**8**	**7**	**8**	**6**	**6**	**8**	**11**	**12**	**13**	**12**	**13**
YoY%	*27%*	*-20%*	*7%*	*-22%*	*-23%*	*15%*	*42%*	*91%*	*114%*	*62%*	*17%*
South Korea	**5**	**6**	**5**	**6**	**6**	**6**	**4**	**5**	**5**	**5**	**5**
YoY%	*-30%*	*-13%*	*-14%*	*6%*	*9%*	*-2%*	*-19%*	*-17%*	*-7%*	*-20%*	*17%*
North America	**3**	**3**	**3**	**3**	**4**	**3**	**3**	**3**	**2**	**2**	**4**
YoY%	*96%*	*57%*	*14%*	*13%*	*50%*	*12%*	*-4%*	*3%*	*-52%*	*-19%*	*77%*
Japan	**2**	**2**	**3**	**2**	**2**	**2**	**2**	**3**	**2**	**2**	**2**
YoY%	*14%*	*-7%*	*21%*	*0%*	*0%*	*-7%*	*-29%*	*19%*	*-4%*	*5%*	*-4%*
Europe	**1**	**2**	**2**	**1**	**2**	**2**	**2**	**2**	**2**	**1**	**1**
YoY%	*121%*	*162%*	*92%*	*34%*	*19%*	*-13%*	*2%*	*12%*	*24%*	*-42%*	*-38%*
Rest of the world	**1**	**1**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**
YoY%	*26%*	*49%*	*54%*	*7%*	*-18%*	*-34%*	*-57%*	*-34%*	*-28%*	*45%*	*13%*
Total semi equip. billings	**25**	**26**	**29**	**28**	**27**	**26**	**26**	**28**	**26**	**27**	**30**
YoY%	*5%*	*6%*	*7%*	*1%*	*9%*	*-2%*	*-11%*	*1%*	*-1%*	*4%*	*19%*

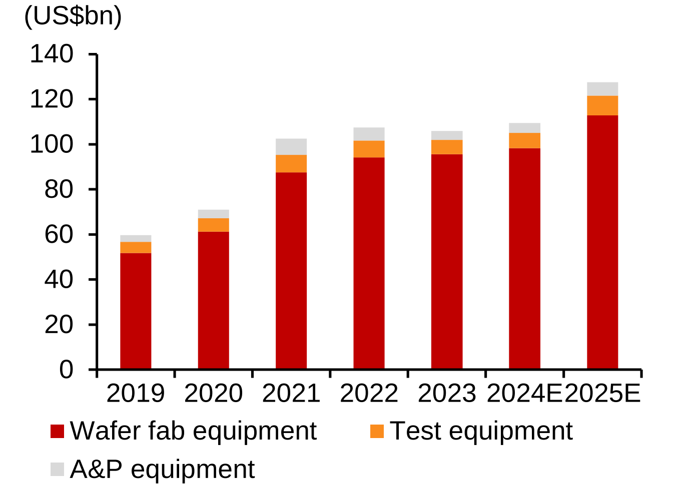
Source: SEMI, CMBIGM

Looking forward, SME industry is expected to grow 3%/18% to US$109bn and US$128bn in 2024/25E (per SEMI). During the same period, global semiconductor sales is projected to increase 19%/11%. A higher SME sales growth coming later next year may be due to limited memory capacity addition and the slowdown of mature capacity expansion in 2024. Once there is a clearer timeline of recovery, semi equipment spending is expected to resume 18% growth in 2025E, driven by capacity expansion on increasing orders and new project rollouts (a result of semi localization).

By segment, wafer fab equipment (88% of total equipment sales) is projected to grow 3%/15% YoY in 2024/25E. Test equipment and A&P equipment are forecasted to grow 7%/10% in 2024E and 30%/35% in 2025E.

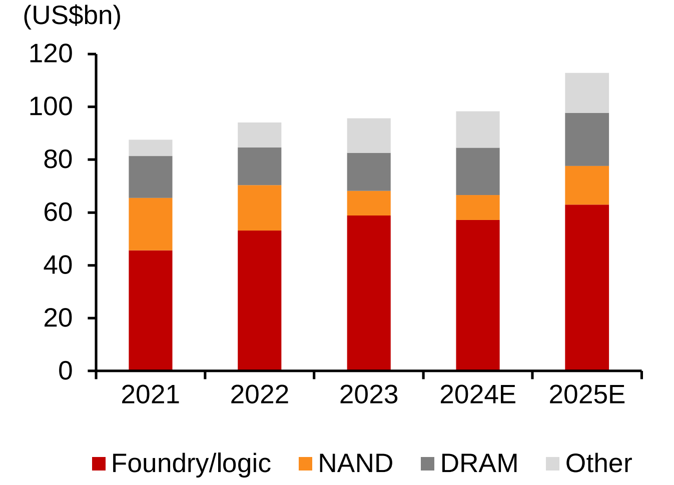
Within the wafer fab equipment (WFE) segment, foundry/logic equipment (~55% of total WFE sales in 2023) is expected to contract by a low single-digit in 2024 but increase 10% in 2025, driven by continuous investments in leading nodes, technology advancements and capacity expansions. DRAM equipment (~14%) is estimated to grow 24% in 2024 and further by 12% in 2025, largely due to surging HBM needs. NAND equipment (less than 10%) is expected to remain stable in 2024 and have robust growth of 56% in 2025, with the expectation that demand has bottomed out this year.

Figure 98: By segment, WFE/test equipment/A&P equipment is projected to grow 15%/30%/35% in 2025E



Source: SEMI, CMBIGM

Figure 99: China led the spending in recent quarters (54% YoY in 9M24)



Source: SEMI, CMBIGM estimates

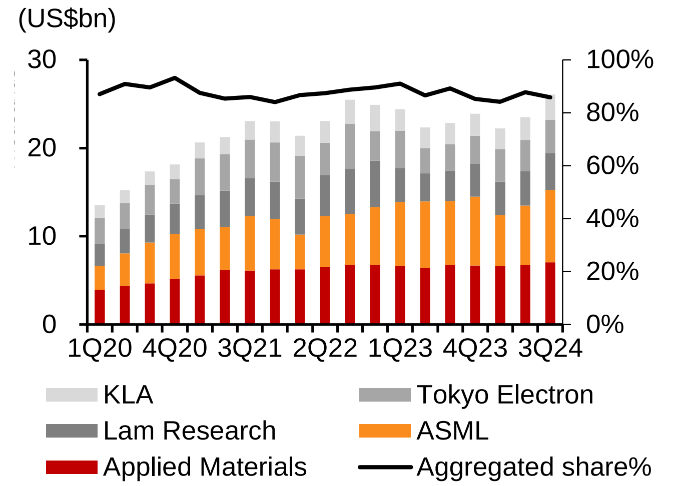
We recommend the SME sector, as we believe the sector is well positioned to ride the tailwinds of 1) increasing equipment needs from ongoing technological advancement, **2)** capacity expansion on AI investment and memory demand recovery, and 3) new project rollouts due to semi localization.

We expect the current market leaders will maintain their leading position, while Chinese suppliers will deliver a higher growth rate on market share gains as they meet urgent self-reliance needs influenced by geopolitics.

Competitive landscape: Top five SME players accounted for 86% of total market in 9M24

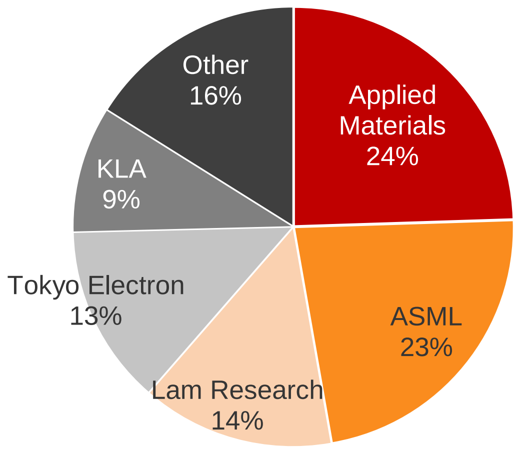
The current five SME leaders accounted for an aggregated 86% market share in 9M24: ASML (ASML US, 25% share in 9M24), Applied Materials (AMAT US, 24% share), Lam Research (LRCX US, 14% share), Tokyo Electron (8035 JT, 13% share) and KLA (KLAC US, 9% share). We think **these market leaders will maintain their dominated positions as technological advancement continues and geopolitical risk persists.**

Figure 100: Top 5 SME players quarterly revenue and the aggregated market share trend



Source: Company data, SEMI, Bloomberg, CMBIGM

Figure 101: Top 5 SME players dominated 86% market share in 9M24



Source: Company data, SEMI, Bloomberg, CMBIGM

The earnings of SMEs reflect the well-being of foundries globally, directly reflecting the spending appetite of major players like Intel, TSMC, Samsung Electronics, etc. Recent SME earnings have shown mixed signals: while AI-driven demand continues to be strong, recovery in more traditional segments—such as memory, smartphones, and auto/industrial sectors—remains sluggish. Besides cyclical demand, we also noticed a declining trend of China sales contribution in the recent quarters as most Chinese customers have been stockpiling those SMEs' tech since US exports control, and the market is now returning to a more normalized level.

Figure 102: Top six global SME players' outlook

Company	Stock code	QoQ rev. growth (midpoint guidance) 3Q24	QoQ rev. growth (midpoint guidance) 4Q24E	Outlook
ASML	ASML NA	22%	19.5%	- Outlook for 2025E was revised down on lower forecasts for low-NA EUV shipments (<50 units expected), driven by slower market recovery in mobile and PC sectors coupled with competitive dynamics within the logic segment - Also expect China contributed revenue to represent ~20% of total revenue in 2025E.
Lam Research	LRCX US	7.6%	31.7%	- Demand outside China remains strong, esp. in advanced nodes, DRAM, and advanced packaging, offsetting anticipated declines in China due to geopolitical pressure - The company has already achieved US$1bn annual run rate in advanced packaging fueled by AI. - The company has kept a healthy inventory level despite a weak sentiment in NAND business.

KLA	KLAC US	10.6%	3.8%	- Expects another year of growth fueled by growth and investment in both advanced node players and DRAM, offset by lower China demand due to earlier stockpiling
Applied Materials	AMAT US	3.9%	1.5%	- The company expects a rebound in NAND and DRAM driven by HBM demand on increased AI workload - In past quarter China-contributed revenue declined to ~30%, which is a normalized level per mgmt. - Company projects a double-digit growth in FY2025, leveraging secular trends in AI and HPC.
Tokyo Electron	8035 JT	2%	N/A	- The company expects WFE to grow to US$100bn in 2024E and double-digit in 2025E with strong support from AI. AI servers now make up 15% of WFE market, and ~7.5% for HBM - It also projects strong growth for AI PC/Smartphones in 2025E with AI accounting for 40% of overall semi market - Mgmt. expects memory sector to grow significantly in 2025E driven by HBM and recovering NAND investment
Advantest	6857 JT	37.3%	N/A	- Expects a positive market outlook for semiconductor testing equipment in 2024E, driven by increased investments in AI. Demand for testing equipment, esp. for high-performance DRAM and complex SoC semiconductors, is expected to surpass prior forecasts - While demand in AI-related testing grows, recovery for auto/industrial testing equipment is likely to remain slower.

Source: Company data, CMBIGM

Note: 4Q24E revenue growth and outlook are based on company guidance

Figure 103: Peers table

		Mkt Cap	P/E (x)			EPS (US$)			Revenue YoY%		
Company	**Ticker**	**(US$mn)**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**
Overseas peers											
ASML	ASML NA	286,895	35.1	28.0	22.5	20.4	25.6	31.7	0.2	15.1	15.4
Applied Mat.	AMAT US	141,822	20.2	18.2	16.2	8.5	9.5	10.6	2.5	8.3	5.4
Lam Research	LRCX US	96,772	25.3	21.1	18.0	3.0	3.6	4.2	-14.5	16.5	12.1
KLA	KLAC US	85,955	27.6	21.0	19.6	23.2	30.6	32.8	-6.5	19.2	5.9
Tokyo Electron	8035 JT	75,437	32.6	21.6	19.2	4.7	7.4	8.3	-22.4	24.3	9.6
Axcelis	ACLS US	2,390	12.6	14.4	11.5	5.9	5.1	6.4	-10.6	-3.9	11.7
Keysight	KEYS US	29,438	27.4	24.5	21.2	6.2	6.9	8.0	-8.9	5.2	6.5
Teradyne	TER US	18,521	35.8	26.9	19.0	3.2	4.2	6.0	4.9	19.3	20.4
Advantest	6857 JT	45,408	99.4	48.9	36.0	0.6	1.2	1.7	-18.7	30.7	17.1
		Average	***35.1***	***25.0***	***20.4***	***8.4***	***10.4***	***12.2***	***-8.2***	***15.0***	***11.6***

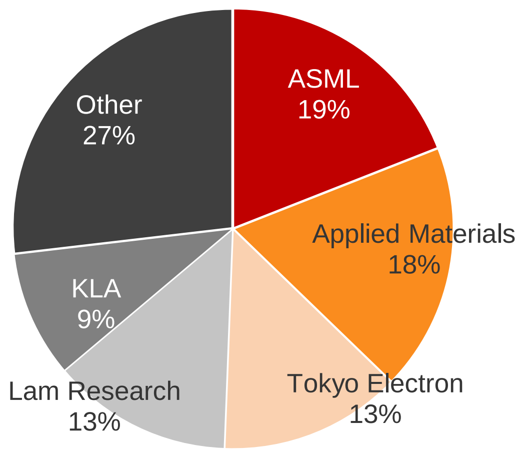
Source: Bloomberg data as of 5 Dec, 2024, CMBIGM

China SME market: top 5 overseas players dominated 73% of regional market in 2023; domestic peers will rise on semiconductor localization

China, the world's largest semiconductor market with a market size of US$152bn (per SIA) in 2023, continues to grapple with a significant challenge in achieving self-sufficiency in its semiconductor supply chain. Semiconductor equipment sector serves a critical role to support local technology independence in China. According to SEMI, **China has spent US$37bn on semiconductor equipment in 2023 and another US$38bn in 9M24, remaining the largest region in terms of SME spending during the past six quarters** (~45% of global).

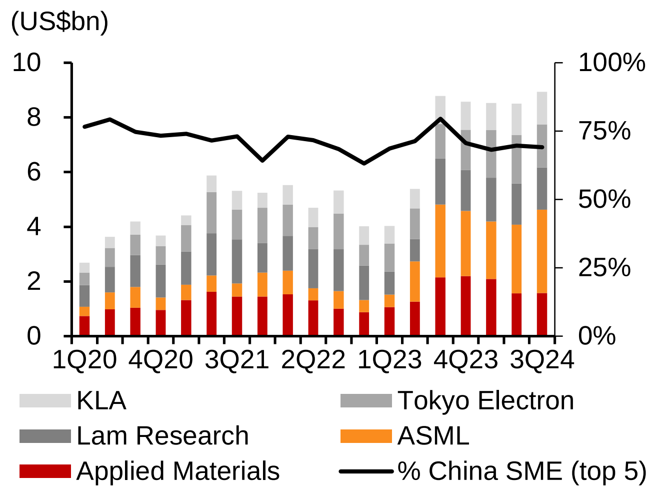
However, the localization rate of SME in China is relatively low. The top five overseas suppliers' China revenue has increased significantly over the past quarters (an aggregated 32% YoY in 9M24) on intensified geopolitical tensions. In total, **we estimate the top five collected approx. US$27bn revenue** (system/equipment revenue only) **from China in 2023, representing 73% of the regional SME bills** (19%/18%/13%/13%/9% went to ASML/Applied Materials/Tokyo Electron/Lam Research/KLA respectively).

Figure 104: 73% of China SME spending went to top 5 overseas suppliers



Source: Company data, SEMI, Bloomberg, CMBIGM estimates

Figure 105: China revenue of the top 5 overseas suppliers was up significantly over the past quarters



Source: Company data, SEMI, Bloomberg, CMBIGM estimates

The Chinese government has accelerated its support for domestic semiconductor enterprises. The National Integrated Circuit Industry Investment Fund, known as the "Big Fund" is now entering its third phase. Officially launched in May 2024, Big Fund Phase III holds a registered capital of RMB344bn – surpassing the combined capital of the previous two phases (link). We believe one of the key focuses of this new phase will be in SME, an area where western companies currently maintain a dominant position on the global stage.

We estimate domestic SME localization rate was less than 20% in 2023. The aggregated sales of top 15 China's listed SME players, spanning across sectors such as WFE, testing equipment, and A&P equipment, accounted for approx. 16% of the regional SME sales in 2023.

Looking forward, domestic peers' revenue is estimated to grow 32%/33% to US$11.6bn/US$14.7bn in 2024/25E per Bloomberg consensus, confirming the long-term semiconductor localization trend remains intact. We anticipate the localization rate will continue to rise as export restrictions on semiconductor equipment intensify, now encompassing not only advanced chip making technologies but a broader range of critical semiconductor supply chain components. With governments worldwide aggressively funding their own domestic semiconductor developments, e.g., US CHIPS Act, China's Big Fund, South Korea's K-Chips Act, etc., we expect to see an increase in domestic SME production capacity across major economies, coupled with a decreasing dependency on imported equipment.

In November 2024, the US added another 140 China companies, including Naura (002371 CH), Piotech (688072 CH), ACM (688082 CH) to the trade restriction list, suggesting the geopolitical tensions are escalating.

Despite that overseas suppliers have experienced significant revenue growth in China market, their China revenue is guided to decline after recent peaks. Mgmt.'s cautious view is a result of potential tightening in export controls:

#1: ASML guides that China orders are expected to go back to normal levels. The Company estimates China sales would contribute 20% of revenue in 2025 vs. 47% in 3Q24.

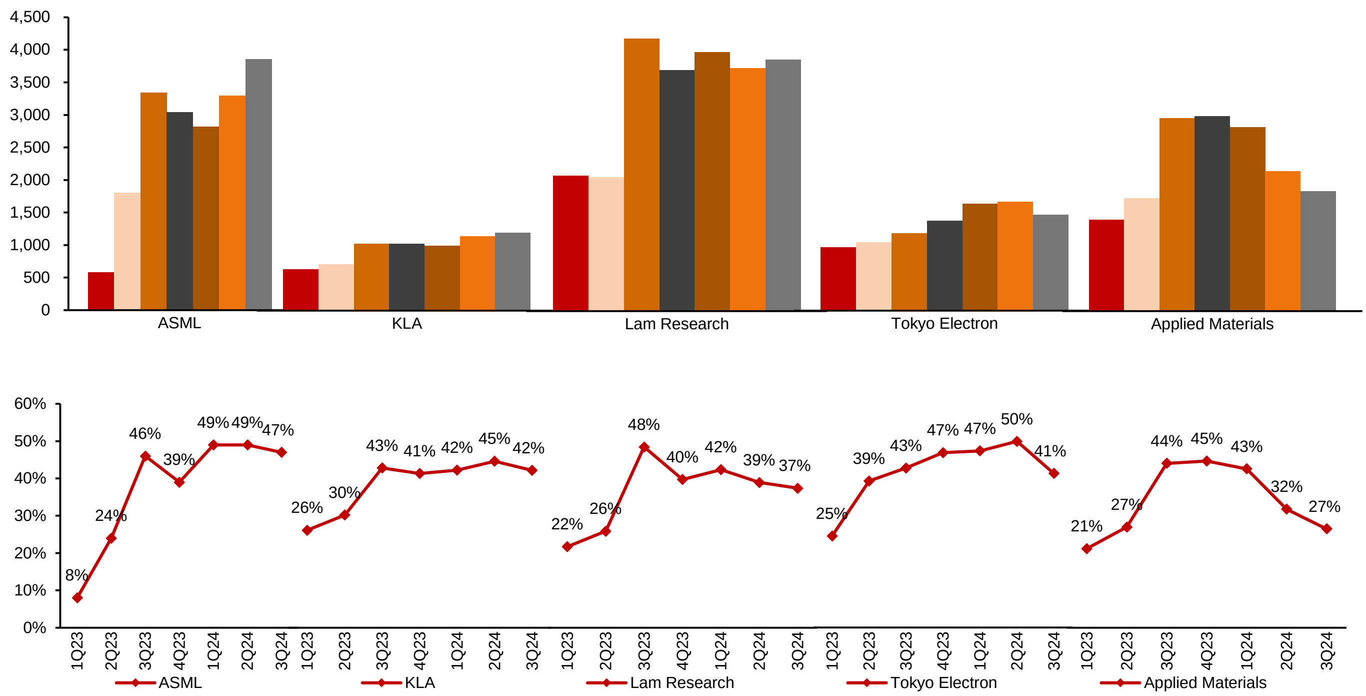
#2: Lam Research expects spending from China customers will decline to ~30% in December quarter.

#3: Applied Materials expects China contribution to maintain at ~30% (a normalized level) in FY1Q25 after seeing ~30% revenue from China region in FY4Q24.

#4: KLA expects China revenue to decline from ~40% in CY3Q24 to ~30% next quarter.

#5: Tokyo Electron also expects China revenue to decline from ~40% in CY3Q24 to gradually return to normalized level ~30%.

Figure 106: Top five overseas China-contributed SME sales in the past quarters



Source: Company data, Bloomberg, CMBIGM estimates

Figure 107: Top 5 SME players' China revenue is expected to decline after recent peaks

Company	Ticker	Mkt share	QoQ rev growth		China revenue exposure	
		9M24	C3Q24	C4Q24E	C3Q24	Guidance
ASML	ASML NA	25%	13%	20.5%	47%	~20% in 2025
Applied Materials	AMAT US	24%	5%	1.5%	30%	~30% next quarter
KLA	KLAC US	9%	19%	3.8%	42%	~30% next quarter
Lam Research	LRCX US	14%	20%	N/A	37%	~30% in December quarter
Tokyo Electron	8035 JT	13%	28%	3.2%	41%	~30% next quarter

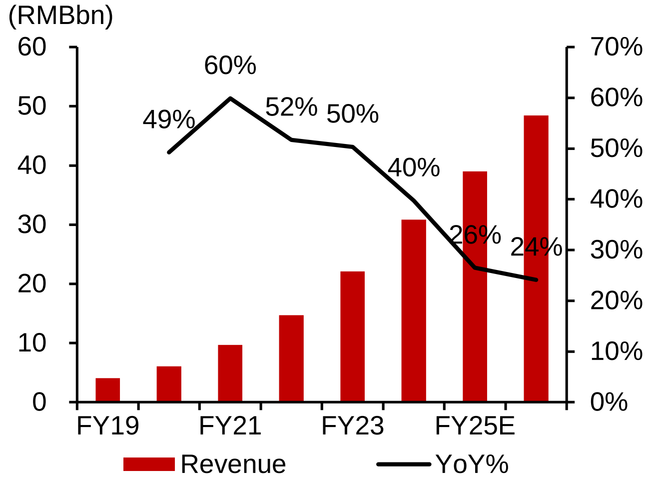
Source: Company data, Bloomberg consensus, CMBIGM

- **Naura (002371 CH, BUY, TP: RMB426.0)**

Naura, China's largest semiconductor equipment manufacturer, continues to deliver robust growth driven by surging domestic demand and strong policy support for semiconductor supply chain localization. With a comprehensive portfolio spanning etching, cleaning, deposition and other tools, Naura's 3Q24 revenue reached RMB8.0bn, up 30.1% YoY and 23.8% QoQ, while net profit grew 55.0% YoY to RMB1.7bn. Semiconductor equipment sales rose 47.0% in 9M24, reflecting its market leadership and alignment with China's localization efforts.

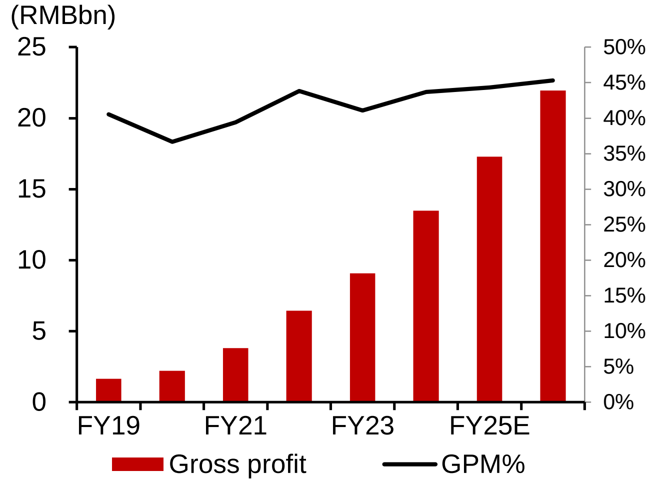
We expect Naura to post meaningful growth in 2025E as heightened export controls will benefit China's domestic semi equipment manufacturers. Looking ahead, increased export controls are expected to further bolster demand for domestic equipment, positioning Naura for meaningful growth in 2025E. The company's anticipated order backlog for FY2025E, set to be released in early 2025, is likely to reflect continued policy tailwinds. Maintain BUY with a target price of RMB426.0.

Figure 108: Naura's revenue and growth



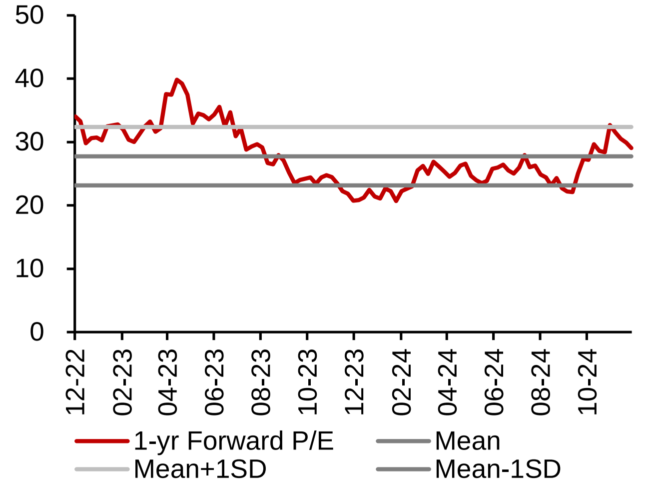
Source: Company data, CMBIGM estimates

Figure 109: Naura's GPM trend



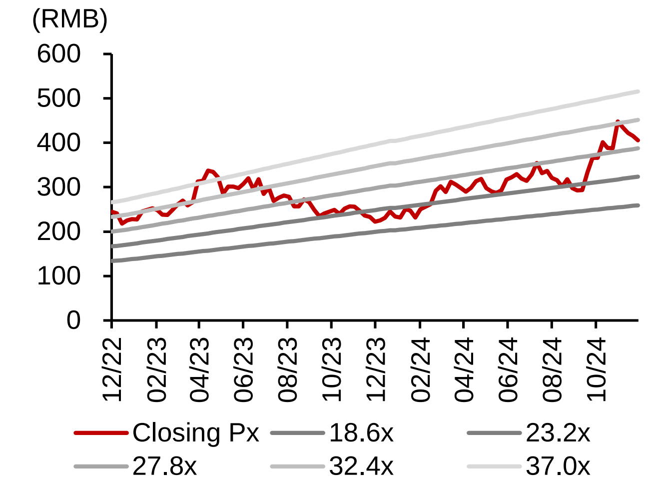
Source: Company data, CMBIGM estimates

Figure 110: 1-yr forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 111: 1-yr forward P/E chart



Source: Company data, Bloomberg, CMBIGM estimates

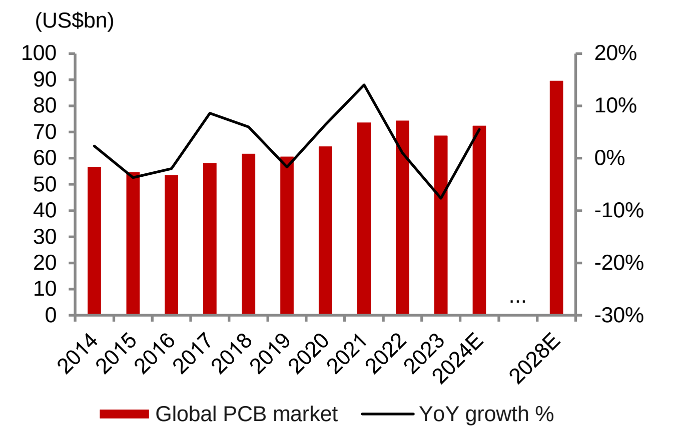
Global PCB & CCL market outlook

Positive outlook: continued strong AI demand amid broad end-market recovery

According to **Prismark**, the **40 leading PCB suppliers**, representing over half of the industry's total sales, reported an impressive **6.3% YoY revenue growth** in 1H24. The global **PCB market** reached a market size of **US$17.7bn in 2Q24**, marking a **5.7% QoQ** increase and a **6.8% YoY growth**. Looking ahead, **Prismark forecasts** the market will expand by **5.5% in 2024E (up from 5.0% forecast last quarter)**, driven by sustained demand across high-growth segments such as AI servers, networking infrastructure, and high-layer-count ML boards.

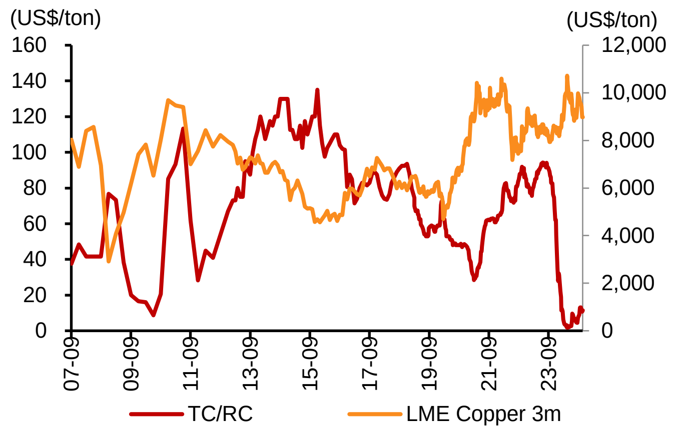
In contrast, other segments continue to face headwinds. **Low-end rigid boards** and certain **substrate products** likely have to endure **persistent ASP pressures** through 2H24 as demand in **non-AI-related markets** remained relatively flat. Furthermore, **rising material costs** are adding to the challenges, particularly for suppliers with **limited bargaining power**, potentially compressing margins and impacting profitability in these segments.

Figure 112: PCB market size and growth



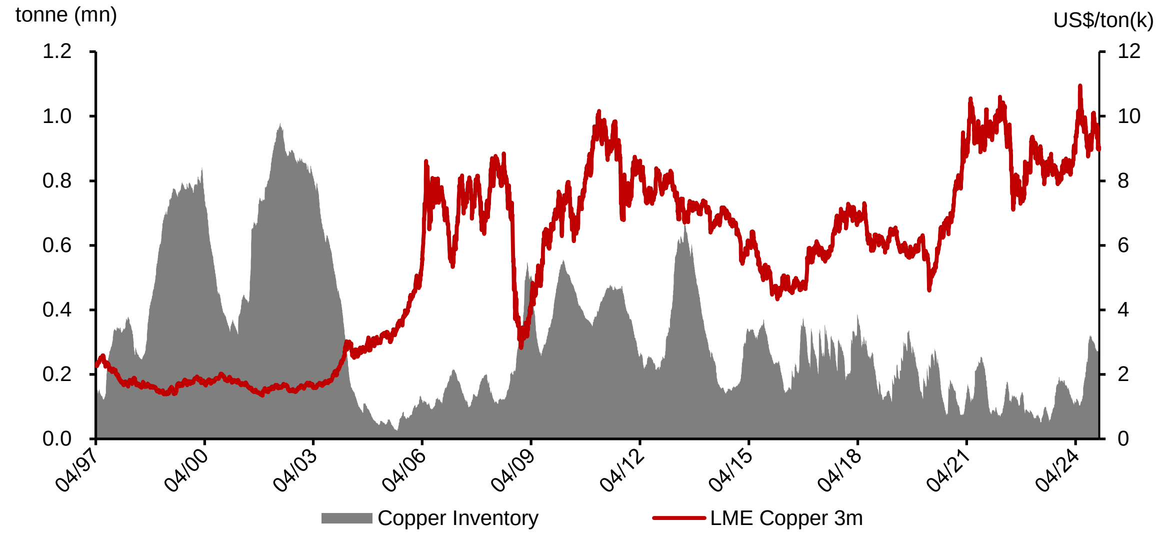
Source: Company data, CMBIGM

Figure 113: TC/RC price vs. copper price



Source: Wind, CMBIGM

Figure 114: LME3M copper price vs. copper inventory



Source: Wind, CMBIGM

- **The aggregate revenue of the top 13 global PCB manufacturers is forecasted to grow by 3.1%/12.4% in 2024/25E.**

The top 13 global PCB manufacturers (accounting for ~46% of total industry sales in 2024E) are projected to have an average of 3.1% YoY growth in 2024E following a 16% decline in 2023, signaling a normalized growth trajectory as end-market demand gradually recovers.

Looking ahead, Bloomberg consensus forecasts those 13 manufacturers will see a meaningful acceleration in avg. revenue growth of 12.4%/15.3% in 2025E/26E, and have an aggregated share of 49%/50% of global PCB market in 2025E/26E.

Figure 115: Top 13 global PCB manufacturers

		Mkt Cap	Revenue (US$mn)			Revenue growth (YoY%)		
Company	Ticker	(US$mn)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Zhen Ding	4958 TT	3,395	5,290	5,896	6,509	8.9	11.5	10.4
Unimicron	3037 TT	7,029	3,634	4,576	5,305	8.9	25.9	15.9
Dongshan Precision	002384 CH	6,232	5,167	5,945	6,831	8.7	15.0	14.9
TTM	TTMI US	2,471	2,422	2,555	NA	8.5	5.5	NA
Compeq	2313 TT	2,237	2,253	2,440	2,588	4.7	8.3	6.1
Tripod	3044 TT	3,028	2,022	2,220	2,433	7.0	9.8	9.6
SCC	002916 CH	7,066	2,411	2,825	3,237	26.2	17.2	14.6
AT&S	ATS AV	536	1,709	1,713	2,434	-9.9	1.9	42.1
Kinwong	603228 CH	3,254	1,766	2,073	2,373	16.2	17.4	14.4
Ibiden	4062 JT	4,155	2,368	2,524	2,812	-16.9	-1.6	11.4
WUS	002463 CH	9,985	1,683	2,095	2,409	33.3	24.5	15.0
Nanya	8046 TT	2,392	1,026	1,273	1,518	-24.3	24.1	19.3
Shinko	6967 JT	4,648	1,419	1,472	1,610	-31.3	1.2	9.4
Top 13 total revenue / average rev. growth			**33,170**	**37,607**	**40,059**	**3.1**	**12.4**	**15.3**
Aggregated market share %			*46%*	*49%*	*50%*			
Global PCB sales			**72,791**	**76,700**	**80,800**			

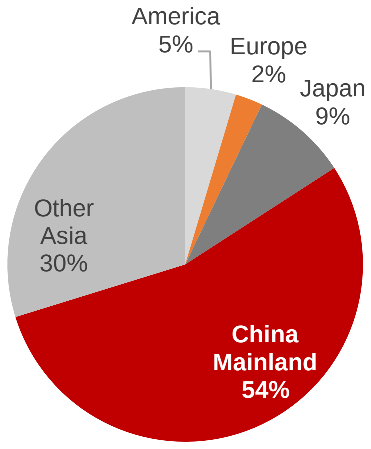
Source: Prismark, Bloomberg consensus (as of 27 Nov, 2024), CMBIGM

- **Domestic landscape: China's market share is expected to remain above 50% despite of supply chain diversification**

China remains the predominant global PCB manufacturing hub with 54% market share. The output of China PCB market decreased 13.2% to US$37.8bn in 2023, affected by industry headwinds and supply chain diversification.

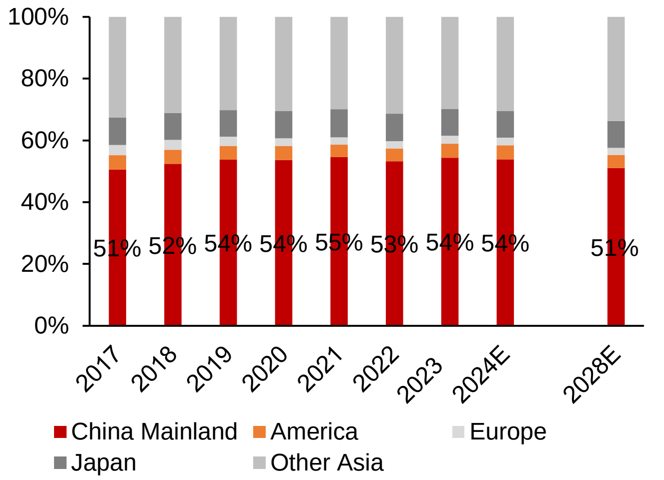
Despite the headwinds, China will maintain its greatest share in PCB manufacturing. Per Prismark, China PCB output is forecasted to grow 4.1% YoY to US$39.3bn in 2024E, and maintain the same growth CAGR during 2023-2028E (vs. 5.4% 2023-28E CAGR globally). China's market share is expected to decrease slightly to 51% by the end of 2028.

Figure 116: China remains the predominant PCB manufacturing hub with over 50% share (2023)



Source: Prismark, company data, CMBIGM

Figure 117: China's market share is expected to decrease slightly due to supply chain diversification

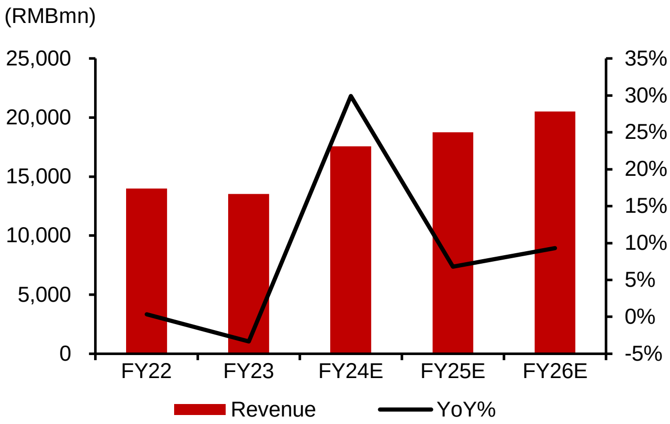


Source: Prismark, company data, CMBIGM

- **Shennan Circuits (002916 CH, HOLD, TP: RMB115)**

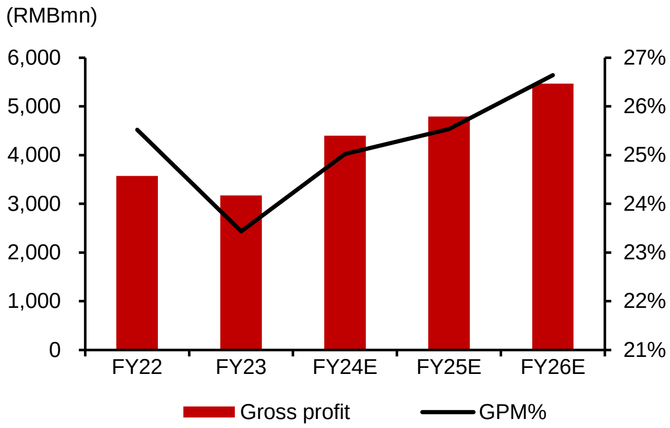
We maintain HOLD on SCC with TP at RMB115. Revenue went up 37.9% YoY/8.5% QoQ to RMB4.73bn in 3Q24, but GPM declined to 25.4% QoQ in 3Q24 from 27.1%/23.4% in 2Q24/3Q23, contributed by 1) higher sales contribution from lower-margin PCBA business (GPM at c.15%), 2) Guangzhou factory ramp-up suppressed substrate margin, 3) high copper price (avg. copper price in 3Q24 was ~US$9.9k/t), and 4) increased auto sales weighed on PCB's profitability. We believe the company's significant exposure (c.40% in 3Q24) to telecom market, which has yet seen a clear turnaround signal, would weigh on its margin, as well as a relatively lower utilization rate from non-AI related PCB production.

Figure 118: SCC's revenue and growth



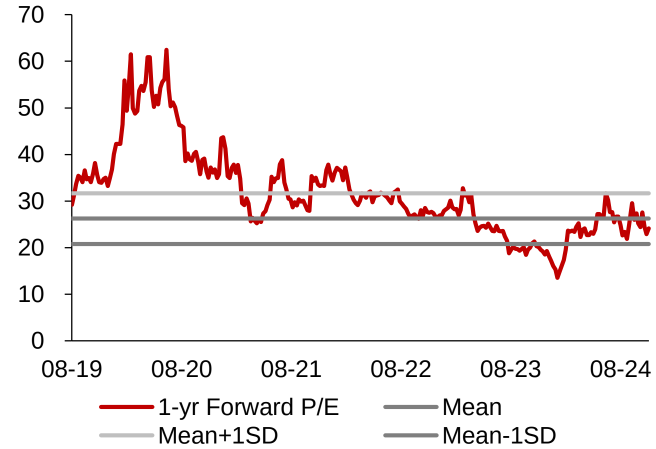
Source: Company data, CMBIGM estimates

Figure 119: SCC's GP and GPM



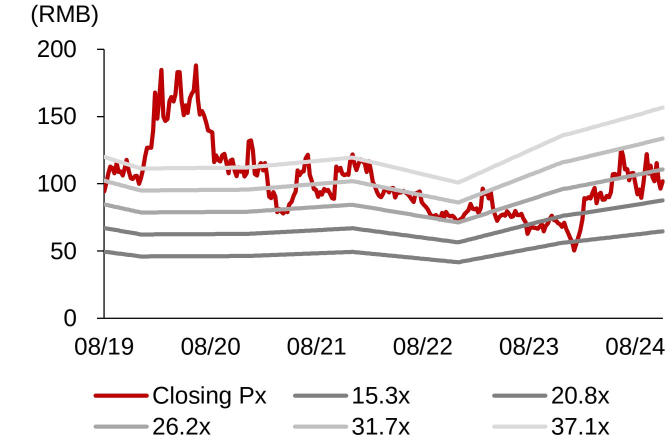
Source: Company data, CMBIGM estimates

Figure 120: 1-yr forward PE band



Source: Company data, CMBIGM estimates

Figure 121: PE chart

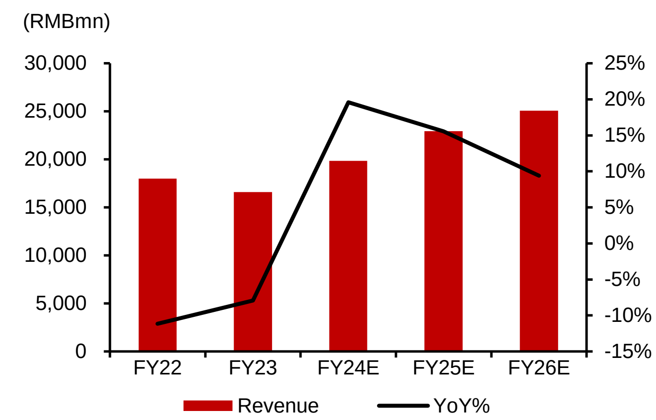


Source: Company data, CMBIGM estimates

■ Shengyi Tech (600183 CH, BUY, TP: RMB28.75)

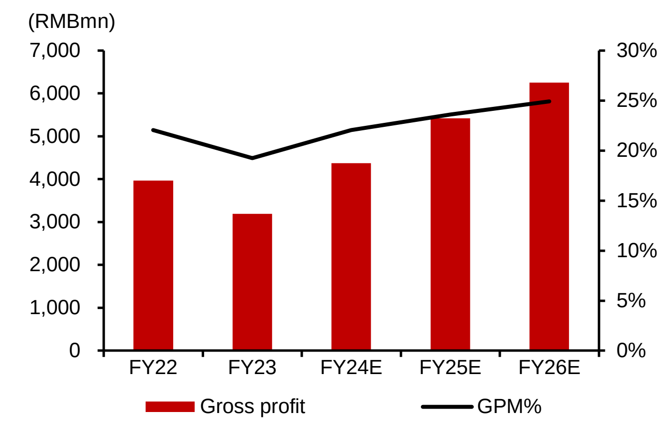
We maintain BUY on Shengyi Tech with TP at RMB28.75. Revenue was RMB5.1bn, up 14.5% YoY but down 1.7% QoQ in 3Q24. GPM was 22.9%, up 1.1ppts from 2Q24, benefitting from favourable product mix and lowered material costs. We view Shengyi Tech favorably, as the company benefits from **growing AI-related demand**, particularly through its **ultra-low-loss CCL** products. During the quarter, Shengyi's GPM recovered both on a QoQ and YoY basis, supported by robust server revenue, which accounted for **42.5% of total PCB sales**. However, the CCL segment showed a slight underperformance, likely due to weaker-than-expected demand in non-AI markets. Looking ahead, we remain optimistic about Shengyi's long-term prospects. The company is well-positioned to capitalize on the **AI growth tailwind**, which should drive sustained demand for its advanced materials and solutions.

Figure 122: Shengyi Tech's revenue and growth



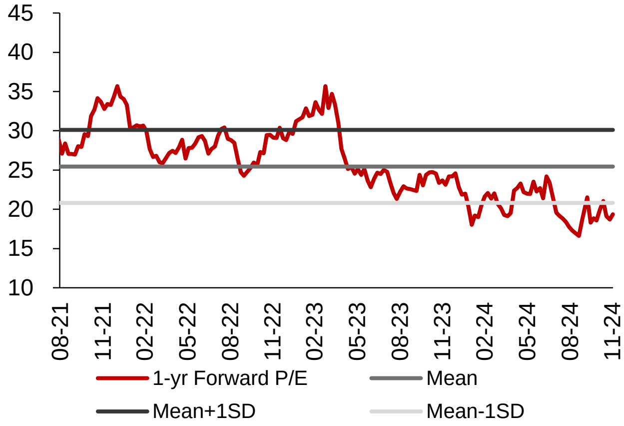
Source: Company data, CMBIGM estimates

Figure 123: Shengyi Tech's GP and GPM



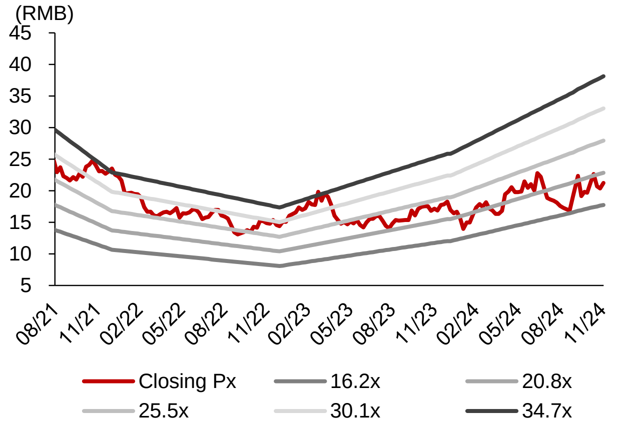
Source: Company data, CMBIGM estimates

Figure 124: 1-yr forward PE band



Source: Company data, CMBIGM estimates

Figure 125: PE chart



Source: Company data, CMBIGM estimates

Figure 126: PCB peer valuation table

		Mkt Cap		P/E			EPS (US$)			Revenue YoY%	
Company	Ticker	US$(mn)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
China Taiwan peers											
Zhen Ding	4958 TT	3,409	12.4	10.5	8.9	0.29	0.34	0.40	8.7	11.5	9.3
Unimicron	3037 TT	6,980	29.9	12.2	8.7	0.15	0.38	0.52	8.4	27.8	16.6
Compeq	2313 TT	2,266	12.6	10.1	9.0	0.15	0.19	0.21	4.7	8.3	6.1
Tripod Tech	3044 TT	3,084	12.1	10.7	9.5	0.49	0.55	0.62	6.8	9.9	8.6
Nanya	8046 TT	2,292	99.7	18.9	12.5	0.04	0.19	0.29	-24.3	24.1	19.3
			33.4	***12.5***	***9.7***	***0.2***	***0.3***	***0.4***	**0.8**	**16.3**	**12.0**
China Mainland peers											
Shengyi Tech	600183 CH	7,087	27.1	21.3	17.5	0.11	0.14	0.17	15.4	14.2	11.9
SCC	002916 CH	6,981	25.5	20.8	17.3	0.54	0.66	0.79	26.2	17.2	14.6
Dongshan	002384 CH	6,265	23.6	15.6	12.2	0.16	0.24	0.30	8.9	15.2	15.0
WUS	002463 CH	10,039	28.6	21.8	18.2	0.18	0.24	0.29	33.1	24.5	15.0
Kinwong	603228 CH	3,182	18.2	15.1	12.6	0.19	0.23	0.28	16.2	17.4	14.4
			24.6	***18.9***	***15.6***	***0.2***	***0.3***	***0.4***	**20.0**	**17.7**	**14.2**
Overseas peers											
TTM	TTMI US	2,537	15.6	12.6	-	1.59	1.97	-	8.5	5.5	-
Shinko	6967 JT	4,784	33.1	30.0	22.0	1.04	1.18	1.62	-31.3	4.2	9.3
Ibiden	4062 JT	4,150	18.4	18.8	14.9	1.52	1.57	1.99	-16.9	1.1	11.8
AT&S	ATS AV	537	-	-	25.6	-0.84	-3.51	0.56	-9.9	1.0	31.4
			22.4	***20.5***	***20.8***	***0.8***	***0.3***	***1.4***	**-12.4**	**2.9**	**17.5**

Source: Bloomberg data as of 3 Dec, 2024, CMBIGM

China Technology

OUTPERFORM

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2025 Outlook: Promising AI/upgrade cycle; Focus on accelerated edge AI innovations

Promising AI/upgrade cycle driven by computing/edge AI innovations

Since the launch of ChatGPT in 2023, rapid development of training and inference models fueled the robust growth of AI supply chain. In 2024, edge AI innovations accelerated with faster adoption of AI smartphones, AI PCs, and expansion into AI glasses and smart home. Looking into 2025, backed by a moderate global economic recovery, continued rebound in smartphone/PC, sustained growth in general/AI servers and edge AI cycle, we are positive on 2025 technology sector and recommend two key themes: 1): AI computing and server/ network architecture upgrade. 2) Expansion of edge AI devices (smartphones/PCs/ wearables/glasses/smart home/EVs). **Stock picks:** Xiaomi, Sunny Optical, BYDE, FIT Hon Teng, AAC, Luxshare, BOEVx and Intron.

Servers: GPU/ASIC AI server momentum continues; GB200/300 upgrades. Rapid development of AI large models boosted exponential growth in computing supply chain. We believe CSPs started to benefit from commercial potential of AI, while edge AI models are accelerating integration into more use cases. We estimate AI training server shipments to grow 109%/19% YoY to 2.07mn/2.45mn in 2025/26E. In addition, GB200/300 architecture upgrade and rapid growth of ASIC AI servers will further boost demand for ODMs and related components, such as copper interconnects, liquid cooling, and power components. Key beneficiaries include BYDE, FIT, and Foxconn Industrial Internet.

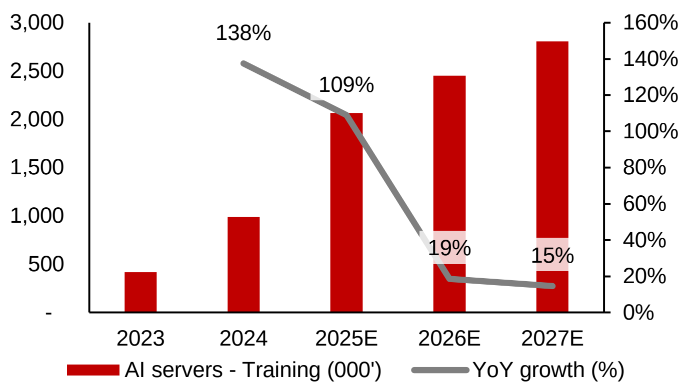
Smartphones: iPhone 17 and AI integration to boost innovation and replacement cycle. After two consecutive years of recovery, we expect iPhone 17 (5 new models) and AI integration will boost global smartphone to grow 3% YoY to 1.25bn in 2025. Key AI-powered innovations focuses on optics, acoustics, power management, cooling systems and foldable phones. We expect domestic supply chain to benefit from global share gains, easing competition, and cost optimization, leading to improvement in profitability. Key beneficiaries include Xiaomi, BYDE, Sunny Optical, AAC, Luxshare, and FIT Hon Teng.

AR/VR: AI Glasses to become mainstream AI platform. Since the launch of 2^{nd}-gen Ray-Ban Meta smart glasses in 2023, which received highly positive market feedback, we expect global tech giants, domestic AR brands and smartphone OEMs to accelerate development of AR glasses. We expect the integration of AI + AR will significantly enhance user experience and expand use cases. Companies with higher exposure in AR/VR stand to benefit, which include Sunny Optical, AAC, Luxshare, and Xiaomi.

Auto Electronics: electrification, intelligence, autonomous driving, and domain controller trends. Rapid growth of NEV industry is driven by electrification and intelligence. Look ahead, we are positive on two key trends: 1) autonomous driving: Penetration for L3 and higher autonomous vehicles are expected to rise significantly, driving demand for in-car cameras and displays. 2) Domain controllers as an essential component: With advancements in automotive intelligence, domain controllers are opening up new opportunities in NEV market. Beneficiaries include BYDE, BOE Varitronix, Intron Tech and Sunny Optical.

Focus Charts

Figure 1: Global AI training server market (2023-27E)



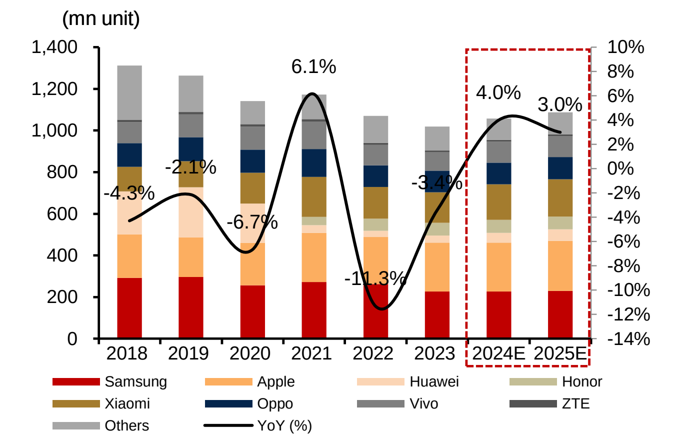
Source: IDC, Trendforce, CMBIGM estimates

Figure 2: GB200 NVL72 ODM vendors (2025)

	GB200 NVL72		ODMs
	Unit	Mix%	
Microsoft	14,000	29%	Honhai/FII (70%), Quanta (30%)
AWS	8,500	18%	Quanta (70%), Honhai/FII (30%)
Meta	9,000	19%	Quanta (70%), Honhai/FII (30%)
Google	5,500	12%	Quanta (80%), Inventec (20%)
Dell	3,000	6%	Wistron, Honhai/FII
HP	1,500	3%	Honhai/Fii, Wistron
SMCI	2,500	5%	In-house
Oracle	2,500	5%	Honhai/FII
Others	1,300	3%	Honhai/FII, Wistron, others
Total	**47,800**		

Source: Trendforce, CMBIGM estimates

Figure 3: Global smartphone shipment forecast



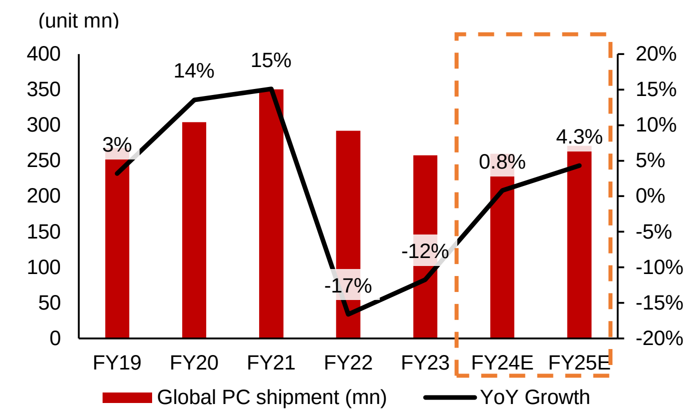
Source: IDC, CMBIGM estimates

Figure 4: Global smartphone shipment (by brand)

(mn unit)	2020	2021	2022	2023	2024E	2025E
Samsung	257	272	262	227	226	230
Apple	203	236	226	234	235	240
Xiaomi	148	191	153	146	170	180
Huawei	189	38	31	35	48	55
Honor	-	40	57	61	62	61
Oppo	161	211	166	154	155	157
Vivo	112	132	99	88	100	100
Others	212	240	212	220	215	225
Total	**1,281**	**1,360**	**1,206**	**1,165**	**1,211**	**1,248**
YoY	-7%	6%	-11%	-3%	4%	3%

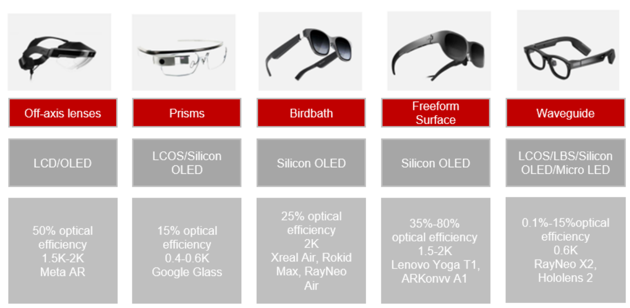
Source: IDC, CMBIGM estimates

Figure 5: Global PC shipment forecasts



Source: IDC, CMBIGM estimates

Figure 6: AR optical solution roadmap



Source: Wellsenn XR, CMBIGM estimates

2025 Outlook: Promising AI/upgrade cycle; Edge AI innovation set to accelerate

Positive outlook on computing upgrade and edge AI innovation cycle

In the past two years, rapid deployment of AI models has driven significant growth across AI supply chain, and AI edge products have gained strong momentum. Innovations such as AI smartphones and AI PCs are seeing faster adoption, and extended to AI glasses and smart home devices. Looking into 2025, backed by moderate economic recovery, smartphone/PC growth, general /AI servers demand, and edge AI cycle, we recommend two themes: 1) Accelerated AI computing and server/network architecture upgrade. 2) Expansion of edge AI devices (smartphones/PCs/wearables/glasses/smart home/EVs). As market liquidity improves, we believe global industry leaders will see re-rating opportunities.

1) Servers: Major CSPs' CAPEX is expected to remain strong in 2025, and we forecast global server shipment to grow 8% YoY to 14.9mn in 2025. New Blackwell and GB200/AI ASIC platforms will continue to boost AI server demand, and we estimate AI server shipment to grow 109% YoY to 2.07mn in 2025. **2) PCs:** We believe PC market will benefit from more mainstream AI PCs, Win-10 upgrade, and improving macro (e.g. US rate cuts, Chinese stimulus, and the US corporate tax cuts). We forecast global PC shipments to grow 4.3% YoY to 271mn in 2025. **3) Smartphones**: AI applications on smartphones is set to drive replacement cycle. We expect global smartphone shipment to grow 3% YoY 1.25bn in 2025.

Figure 7: Global TAM estimate: servers, PCs, smartphone, AR/VR, TV, iPhone/iPad/AirPods/Watch/Mac

(mn unit)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Server	**9.7**	**9.6**	**10.2**	**11.8**	**11.8**	**12.7**	**13.5**	**14.9**	**12.3**	**13.9**	**14.9**
YoY growth		*-1%*	*6%*	*16%*	*0%*	*7%*	*7%*	*10%*	*-17%*	*13%*	*8%*
AI Server- Training									**0.42**	**1.0**	**2.1**
YoY growth										*138%*	*109%*
PC	**275.8**	**260.2**	**259.7**	**259.6**	**267.9**	**304.2**	**350.1**	**292.0**	**257.7**	**259.8**	**271.0**
YoY growth		*-6%*	*0%*	*0%*	*3%*	*14%*	*15%*	*-17%*	*-12%*	*1%*	*4%*
Smartphones	**1437.6**	**1,469.5**	**1,465.3**	**1,402.5**	**1,372.6**	**1,281.2**	**1,359.8**	**1,205.9**	**1,164.7**	**1,211.3**	**1,247.6**
YoY growth		*2%*	*0%*	*-4%*	*-2%*	*-7%*	*6%*	*-11%*	*-3%*	*4%*	*3%*
AR/VR		**12.9**	**22.1**	**13.5**	**7.1**	**7.7**	**11.5**	**8.0**	**7.1**	**6.8**	**6.6**
YoY growth			*71%*	*-39%*	*-48%*	*9%*	*50%*	*-31%*	*-11%*	*-4%*	*-2%*
TV	**98.7**	**115.0**	**128.8**	**148.7**	**159.2**	**167.9**	**155.0**	**143.8**	**140.1**	**143.2**	**147.5**
YoY growth		*17%*	*12%*	*15%*	*7%*	*5%*	*-8%*	*-7%*	*-3%*	*2%*	*3%*
Apple Products											
iPhone	**231.5**	**215.4**	**215.8**	**208.0**	**200.5**	**204.9**	**228.6**	**224.8**	**224.1**	**221.7**	**226.1**
YoY growth		*-7%*	*0%*	*-4%*	*-4%*	*2%*	*12%*	*-2%*	*0%*	*-1%*	*2%*
AirPods				**27.5**	**58.2**	**73.7**	**83.8**	**82.1**	**74.4**	**66.3**	**63.0**
YoY growth					*112%*	*27%*	*14%*	*-2%*	*-9%*	*-11%*	*-5%*
iPad	**49.6**	**42.5**	**43.8**	**44.8**	**46.0**	**57.3**	**62.2**	**63.6**	**52.4**	**53.8**	**56.5**
YoY growth		*-14%*	*3%*	*2%*	*3%*	*25%*	*9%*	*2%*	*-18%*	*3%*	*5%*
Watch	**8.8**	**11.6**	**18.2**	**21.4**	**27.2**	**34.2**	**43.4**	**42.8**	**40.6**	**37.9**	**36.0**
YoY growth		*32%*	*57%*	*18%*	*27%*	*26%*	*27%*	*-1%*	*-5%*	*-7%*	*-5%*
Mac	**20.4**	**18.5**	**19.0**	**18.1**	**18.0**	**20.7**	**24.7**	**23.7**	**20.6**	**22.5**	**23.7**
YoY growth		*-9%*	*2%*	*-4%*	*-1%*	*15%*	*19%*	*-4%*	*-13%*	*10%*	*5%*
HomePod				**4.6**	**6.1**	**7.1**	**10.5**	**10.7**	**10.0**	**8.2**	**7.8**
YoY growth					*33%*	*16%*	*48%*	*2%*	*-7%*	*-18%*	*-5%*
Vision Pro										**0.5**	**0.2**
YoY growth											*-50%*

Soruce: IDC, Gartner, S&P, Trendforce, CMBIGM estimates

Potential Impact of Trump's Tariff Policies

U.S. President-elect Donald Trump plans to sign an executive order to impose new tariffs on China, Mexico, and Canada. This includes a 25% tariff on all goods imported from Mexico and Canada, and an additional 10% tariff on most exports from China, effective immediately after his administration takes office. For components (smartphones, PCs, servers), we expect limited direct impact, as suppliers have been accelerating global expansion since 2019. For ODMs, most servers exported to the US are assembled in Mexico, while PC and smartphone assembly remains primarily in China, although production capacity has been expanding to Vietnam and India since 2019.

1) AI Servers: The US remains the primary market for global AI servers. Most NVIDIA AI servers are manufactured and assembled in the US and Taiwan region, while some ASIC AI servers are assembled in Mexico. In 2018, due to geopolitical risks, major CSPs asked ODMs to relocate server production bases and absorbed most of the relocation costs. Therefore, we believe costs of new tariffs will likely to be passed on to CSP customers this time. Compared to smartphones/PCs, AI servers have a higher level of production automation and lower shipment volumes, making it easier to relocate the supply chain.

2) General servers: Due to the size, weight, and transportation costs of server racks, final assembly of servers is typically conducted near data centers. Currently, most general servers exported to the US are assembled in Mexico. Leading ODMs such as Wiwynn, Inventec, and Foxconn assemble servers in Mexico for clients like Dell, HP, and major CSPs. If Mexico is subjected to tariffs, these companies may relocate production to the US or return to Asia. Notably, two major ODMs, Quanta and Foxconn, have server capacity in the US, and we believe they are well-positioned to manage potential supply chain shifts.

3) PC: Since trade war in 2018, PC ODMs began expanding their global capacity. We believe many NB brands are well prepared to shift assembly capacity for their U.S. exports to other regions. For desktop PCs, we believe the situation is similar to general servers. Most desktop PCs exported to the US are assembled in Mexico, making it challenging to relocate production in the short term. However, as desktop PCs have lower added-value, production may shift to Asia or low-cost countries in Europe in the future.

4) Smartphones: Currently, 85% of iPhone assembly capacity is located in China. If the US imposes an additional 10% tariff on Chinese imports, iPhone production will be impacted, as it still takes time for India to scale up capacity for the US market. In this case, we believe Apple may pass on tariff costs to customers, and iPhone consumers are not necessarily price-sensitive to this price hike. By 2026, Foxconn aims to have 15-20% of its smartphone production capacity located in India, while Luxshare plans to increase its Vietnam capacity to 25-30% by 2024. BYD's Vietnam capacity is focused on tablets.

Figure 8: Global capacity of component names

Company	Production base
AAC Tech	China, Vietnam, Philippines, Singapore, Germany
FIT Hon Teng	China, Vietnam, Taiwan, India, Mexico, Europe
BYDE	China, India, Vietnam, Europe, Mexico
Goertek	China, Vietnam
Luxshare	China, Vietnam, Malaysia, Germany
Lens Tech	China, Vietnam
Sunny Optical	China, India, Vietnam
Q-Tech	China, Taiwan, India

Source: Company, CMBIGM

Figure 9: Global capacity of ODM names

Company	Production base
Hon Hai	China, Taiwan, Vietnam, India, Mexico, US, Malaysia
Quanta	China, Taiwan, US, Thailand, Vietnam, Germany, Mexico
Wistron	China, Taiwan, India, Vietnam, Mexico, Europe, Malaysia
Wiwynn	Taiwan, Malaysia, Mexico
Inventec	China, Taiwan, Mexico, Europe
Compal	Taiwan, Vietnam, Mexico, United States, Brazil
Lenovo	China, Europe, Mexico
Xiaomi	China, SEA, India

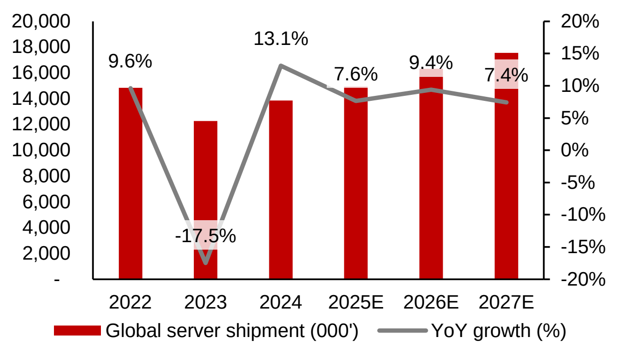
Source: Company, CMBIGM

Global servers: general server recovery, GB200/ASIC AI server demand accelerating

In the past two years, AI large models exhibited trends of increased parameter sizes, larger training datasets, accelerated iteration cycles, and multi-modal capabilities. Driven by both training and inference demand, AI supply chain has experienced rapid growth. In 2024, NVIDIA has introduced GB200 rack-level AI server solution, which will impose higher requirements on ODMs. We expect AI supply chain will maintain robust momentum throughout 2025, and ODMs and related components will also benefit, such as connectors, liquid cooling and power management.

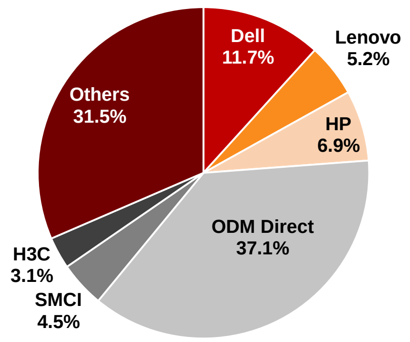
General servers: stable growth in cloud demand, despite softer enterprise orders. In 2025, we expect spending on traditional servers will maintain steady growth, driven by strong CSPs' CAPEX and business performance. On enterprise server side, demand is likely to remain weak due to softer macro and ongoing migration from private cloud to public cloud. Overall, we estimate global server shipment will grow 8% YoY to 14.83mn in 2025.

Figure 10: Global server shipment (2022-27E)



Source: IDC, CMBIGM estimates

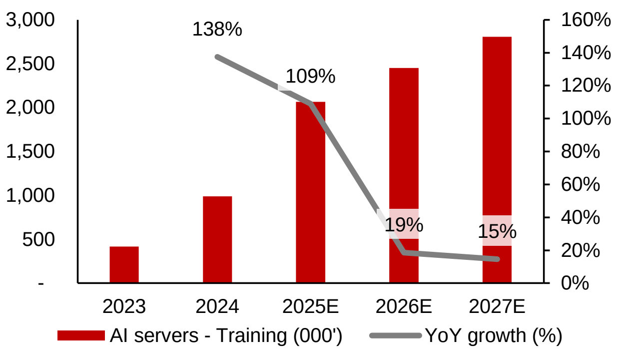
Figure 11: Global server brand mix (2023)



Source: IDC, CMBIGM estimates

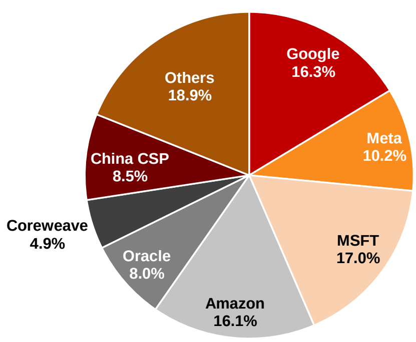
AI servers: product transition ahead; GB200 set for strong growth. We believe AI servers will be in a transition phase in 4Q24-1Q25 as the market gears up for the next GB200 cycle. We expect robust AI server demand to continue through 2025, with AI monetization being a key focus in 2026. With Blackwell platform mass production ramping up in Dec 2024, we expect GB200/HGX B200 servers to enter volume production in 1Q25E. We expect global AI training server to grow 109%/19% YoY to 2.07mn/2.45mn in 2025/26E.

Figure 12: Global AI training server market (23-27E)



Source: IDC, Trendforce, CMBIGM estimates

Figure 13: Global AI training server by CSP (2024)



Source: Trendforce, CMBIGM estimates

Figure 14: AI accelerator（GPU / ASIC）product roadmap

		1H23	2H23	1H24	2H24E	1H25E	2H25E	2026
Nvidia	GPU	H100 (N4N)		H200 (N4N)	B200 (N4NP)	B300 (N4NP)	B300A (N4NP)	R100 (N3)
	AI Server	HGX A100/H100			HGX H200	GB200 NVL36/72 HGX B200	GB300/300A NVL36/72 HGX B300	GR100 NVL36/72 HGX R100
AMD	GPU	MI300A (N5)	MI300X (N5)	MI325X (N5)			MI350 (N3)	MI400 (N2)
Intel	ASIC				Guadi 3 (5nm)		Falcon Shores (18A)	
Google	ASIC		TPU v5e (5nm) TPU v5p (5nm)			TPU v6e (4nm) TPU v6p (4nm)		TPU v7e (3nm) TPU v7p (3nm)
Amazon	ASIC	Inferentia 2 (7nm)		Trainium 2 (5nm)			Trainium 3 (3nm)	
Meta	ASIC			MTIA v1 (7nm)			MTIA v2 (5nm)	MTIA v3 (3nm)
Microsoft	ASIC			MAIA 100 (5nm)				MAIA 200 (3nm)

Source: Company CMBIGM estimates

Figure 15: AI server TAM forecasts

	2023	2024E	2025E	2026E
Total AI accelerator volume ('000)				
GPU chips	**1,759**	**5,420**	**7,347**	**8,446**
YoY growth		*208%*	*36%*	*15%*
Nvidia	**1,620**	**4,950**	**6,282**	**6,736**
YoY growth		*206%*	*27%*	*7%*
AMD	**139**	**470**	**1,065**	**1,710**
YoY growth		*239%*	*127%*	*61%*
ASIC chips	**3,140**	**6,112**	**10,819**	**14,842**
YoY growth		*95%*	*77%*	*37%*
Total	**4,899**	**11,532**	**18,167**	**23,287**
YoY growth		*135%*	*58%*	*28%*
AI server - Training ('000)				
GPU AI server	**199**	**626**	**1,471**	**1,994**
YoY growth		*215%*	*135%*	*36%*
ASIC AI server	**217**	**362**	**594**	**928**
YoY growth		*67%*	*64%*	*56%*
Total	**416**	**988**	**2,065**	**2,449**
YoY growth		*138%*	*109%*	*19%*
Nvidia AI server rack ('000)				
HGX/MGX Rack	47.1	144.2	136.0	115.2
GB200/300/GR100/200 NVL72	-	1.1	47.8	79.22
Total	**47**	**145**	**184**	**194**
YoY growth		*208%*	*27%*	*6%*
Global server shipment (‘000)				
General and other servers	**11,842**	**12,878**	**12,861**	**13,880**
YoY growth		*9%*	*0%*	*8%*
AI server – Training	**416**	**988**	**2,065**	**2,449**
YoY growth		*138%*	*109%*	*19%*
AIserver – Training mix (%)	*3.5%*	*7.7%*	*16.1%*	*17.6%*
Total	**12,258**	**13,867**	**14,926**	**16,329**
YoY growth		*13%*	*8%*	*9%*

Source: IDC, Trendforce, CMBIGM estimates

Figure 16: GB200 NVL72 ODM vendors (2025)

	GB200 NVL72 Unit	GB200 NVL72 Mix%	ODMs
Microsoft	14,000	29%	Honhai/FII (70%), Quanta (30%)
AWS	8,500	18%	Quanta (70%), Honhai/FII (30%)
Meta	9,000	19%	Quanta (70%), Honhai/FII (30%)
Google	5,500	12%	Quanta (80%), Inventec (20%)
Dell	3,000	6%	Wistron, Honhai/FII
HP	1,500	3%	Honhai/Fii, Wistron
SMCI	2,500	5%	In-house
Oracle	2,500	5%	Honhai/FII
Others	1,300	3%	Honhai/FII, Wistron, others
Total	**47,800**		

Source: Trendforce, CMBIGM estimates

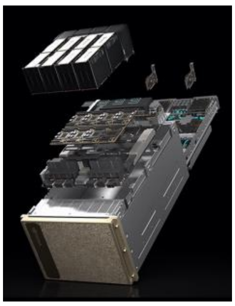
Figure 17: AI server ODM mix (2024)

	ODMs
Microsoft	Honhai/FII(30%), Quanda(35%), Inventec(30%), Wiwynn (5%)
AWS	Honhai/FII(15%), Quanda(30%), Inventec(35%), Wiwynn (20%)
Meta	Honhai/FII(10%), Quanda(70%),Wiwynn (20%)
Google	Honhai/FII(15%), Quanda(50%), Inventec (35%)
Dell	Wistron (35%), Honhai/FII (15%), Inventec (10%)
HP	Wistron (25%), Honhai/FII (20%), Inventec (20%)
SMCI	In-hosue, Wistron (20%)
Oracle	Honhai/FII (90%), Dell/HPE (10%)
Coreweave	SMCI (75%), Gigabytes (10%), Dell/HPE (15%)
Tesla	SMCI (40%), Dell (40%), Wistron (20%)

Source: CMBIGM estimates

GB300/GB300A server spec set to change. We believe upcoming GB300/GB300A servers will feature design changes with mass production in 3Q25E. Key changes include: **1) LPDDR CAMMs and GPU sockets**: GB300 will adopt LPDDR CAMMs and GPU sockets to reduce GPU failure costs and supply chain risks. **2) x86 CPU alternatives:** The servers will incorporate x86 CPU alternatives, which will still require PCI-E interfaces. **3) Increased rack power consumption**: total power consumption per rack will increase to 130-140kW, with that of B300 server of 1.4kW (vs 1.2kW for B200). **4) Optional power capacitor racks and BBU**: GB300/GB300A servers will have the option to adopt power capacitor racks and Battery Backup Units (BBU). **5) Flexible component suppliers:** GB300/GB300A servers will offer greater flexibility in component supplier choices.

Figure 18: AI server architecture and suppliers: H100 vs GB200 vs GB300

	HGX H100	GB200 NVL72	GB300 NVL72
Architecture			
Platform	HGX H100	MGX	MGX
Rack design	4 x HGX server	18 x Compute trays 9 x Switch trays NVL Backplane	18 x Compute trays 9 x Switch trays NVL Backplane
CPU	x86	Grace	X86 or Grace
GPU Memory Size	192GB	288GB	288GB
GPU Memory Bandwidth	8TB/s	8TB/s	8TB/s
# of CPU	8 x CPUs	36 x Grace CPUs	36 x Grace CPUs
# of GPU	32 x H100	72 x B200	72 x B300
GPU Max TDP	1,000W	1,200W	1,200W
GPU Sockets	-	-	Yes
GPU Cooling	Air cooling	Liquid cooling	Liquid cooling
# of Powerself	3	4	4
Network	400G CX7/ BF3	400G CX7/ BF3	800G CX8/ BF3
Launch Timing	4Q24	1Q25	2H25
Suppliers			
GPU module	Hon Hai	-	-
GPU socket	-	-	FIT
CPU socket	FIT, Lotes, APH	FIT, Lotes, APH	FIT, Lotes, APH
GPU Baseboard	Wistron, Hon Hai/FII	-	-
Motherboard	Inventec, Wistron, Hon Hai, Quanta, SMCI, Wiwynn	-	-
Compute board	-	Wistron, Hon Hai/FII	Wistron, Hon Hai/FII
NVLink switch board	-	Hon Hai/FII	Hon Hai/FII
Server	Wistron, Quanta, Wiwynn, SMIC, Gigabyte		
Compute trays	-	ODMs	ODMs
Switch trays	-	ODMs	ODMs
Air cooling/ Liquid cooling	Avc, Cooler Master	Auras, AVC	Auras, AVC
… Cold plates	AVC, Auras, Cooler Master		
… CDU	Vertix, Delta, Hon Hai		
… Fan	Delta, AVC, Sunon		
Power Supply	Delta, Lite-On, Flextronics		
Rack		Hon Hai/FII, Quanta	Hon Hai/FII, Quanta
			

Source: company data, CMBIGM

ODM/Brand: GB200/300 mass production in 2025 driven by AI server strong demand

Server brands/ODM strong revenue growth and improving GPM in 2024; positive on 2025 outlook. Most server brands/ODM vendors' 9M24 server businesses continue to grow in sales and we maintain an optimistic outlook on 4Q and 2025 shipments, mainly benefiting from the increasing demand for AI servers and the mass production and shipment of Nvidia GB200. Among them, Dell/Lenovo/HPE/SMCI server sales increased by 34%/65%/33%/201% YoY in 3Q24. In terms of GPM, due to the higher ASP of servers, most server brands/ODM gross profit margins remained unchanged or slightly increased QoQ. Among them, HP expects the low gross profit margin of AI servers to be temporary, and the overall profit margin will increase in the future. It is expected to obtain higher gross profit margins from enterprise customers in the future. Driven by the mass production and demand growth of Nvidia GB200, coupled with the increasing penetration of liquid cooling, we expect the server brand/ODM profit margin to improve next year.

Positive on AI server shipment by 2025 driven by CSP and enterprise customers. Dell expects that the growth of ISG business in 2025 will be mainly driven by AI servers, with AI demand shifting to Blackwell and corresponding demand already entering a backlog of orders waiting for delivery. Enterprise customer demand is growing rapidly. Lenovo has seen strong demand for AI GPU server orders in its ISG business, and expects that from 2H24 to FY25E, orders received will be converted into revenue contributions. Foxconn Industrial Internet expressed optimistic view that AI technology will drive the company's profitability and the company has laid out products on key components of GB200, including GPU boards, Compute boards, NV Link Switches, Smart NIC, DPU and other components, covering all key links of AI servers. It is also the only supplier in the industry with comprehensive manufacturing capabilities. FII expects to achieve large-scale shipments by 2025, which will increase profitability. Quanta is optimistic about the continued strong performance of its AI server business and expects that AI server revenue will continue to grow strongly by triple-digit% in 2025, with the overall server revenue mix increasing from 50%+ to 70%.

GB200 server ODM market integration to accelerate. The GB200 server architecture is becoming increasingly complex, and the upgrade of AI product roadmap is accelerating. In 2024, upstream chip company AMD acquires ODM company ZT Systems, and we expect the AI server ODM industry integration to accelerate. Given the close business relationship between Quanta and Foxconn and CSP, sufficient operating capital and research and development resources, as well as production bases spread across the world, we believe that Quanta and Foxconn will be the main beneficiaries. We expect that Quanda/Foxconn will occupy the majority of the GB200 server ODM market share.

Overall, we believe that the supply chains will continue to benefit from strong demand for AI servers, Nvidia GB200 shipments, and enterprise customers' orders, such as Foxconn Industrial Internet as a top tier GB200 server supplier, BYD Electronics' H20/GB200 server related products' mass production and shipment, and FIT Hon Teng's GB200 server products and liquid cooling components shipment. In addition, AI server related beneficiaries include Dawning Information, Unisplendour, Foxconn Industrial Internet, Leit Systems and China Great wall Technology etc.

Figure 19: Server supply chain 3Q24 results and outlook

Company	Revenue	3Q22 A	4Q22 A	1Q23 A	2Q23 A	3Q23 A	4Q23 A	1Q24 A	2Q24 A	3Q24 A	4Q24E Cons.	Outlook/Guidance
Revenue Growth:												
Server Brands												
Dell (DELL US)	**YoY Growth %**											
	Client solutions Group (CSG)	-17%	-23%	-23%	-16%	-11%	-12%	-13%	-4%	-1%	3%	*3Q sales improvement due to GPM improvement especially in server biz and lower operational expense *3Q flattish server and storage profit margin and slight improvement is a positive sign; general server recovery and customers tend to buy high-end servers *Expect 2025 ISG growth driven by AI servers and then general server and storage businesses *AI demand shifted to Blackwell and corresponding demand has entered order backlog and waiting for delivery, enterprise customer demand is growing rapidly *Rack integration including network, storage and cooling systems provide space to expand profit margins
	Infra. Solutions Group (ISG)	12%	7%	-18%	-11%	-12%	-6%	22%	38%	34%	26%	
	Total	-13%	-11%	-20%	-13%	-10%	-11%	6%	9%	10%	10%	
	QoQ Growth %											
	Client solutions Group (CSG)	-11%	-3%	-10%	8%	-5%	-5%	2%	4%	-2%	-1%	
	Infra. Solutions Group (ISG)	1%	3%	-23%	11%	0%	10%	-1%	26%	-2%	4%	
	Total	-6%	1%	-16%	10%	-3%	0%	0%	13%	-3%	1%	
HP Enterprise (HPE US)	**YoY Growth %**											
	Server	-	16%	-7%	-14%	-20%	23%	18%	35%	33%	27%	* 3Q personal PC biz sales grew 2% YoY but below market expectations; consumer PC declined 4% YoY while commercial PC jumped 5% YoY * 3Q uneven results is mainly due to limited recovery of PC market demand * AI PC function is not widely popularized among consumers, and some have only a partial understanding of the benefits of AI PC *The slowdown of global economic growth, work from home trend fading, weaker consumer demand for personal PC and strong competition from domestic and overseas PC brands have led to major products including personal computers' shipment decline * Chinese market is experiencing a downturn with weak product sales such as PCs and printers * Profit outlook for 1Q25E is lower than expected and slow recovery of PC market
	Hybrid Cloud	-	12%	9%	7%	-7%	-10%	-8%	-7%	0%	28%	
	Intelligent Edge	24%	23%	47%	48%	39%	3%	-19%	-23%	-18%	12%	
	Financial Services	0%	4%	4%	7%	2%	0%	1%	1%	2%	2%	
	Corp. Investments & Other	-32%	-11%	-10%	3%	10%	2%	4%	7%	1%	8%	
	Total	7%	12%	4%	1%	-7%	-13%	3%	10%	2%	15%	
	QoQ Growth %											
	Server	-	-3%	-24%	-4%	13%	-6%	15%	11%	11%	-10%	
	Hybrid Cloud	11%	-4%	-1%	2%	-4%	-7%	1%	4%	3%	19%	
	Intelligent Edge	3%	16%	15%	8%	-3%	-15%	-10%	3%	2%	17%	
	Financial Services	5%	2%	-2%	2%	0%	0%	-1%	1%	2%	-1%	
	Corp. Investments & Other	0%	-3%	3%	2%	7%	-10%	6%	4%	1%	-3%	
	Total	13%	-1%	-11%	0%	5%	-8%	7%	7%	-8%	9%	
Supermicro (SMCI US)	**YoY Growth %**											
	Server & Storage Systems	102%	68%	2%	37%	15%	107%	218%	148%	201%	71%	* DLC liquid cooling system can significantly reduce energy costs and improve computing performance for customers; expect 15-30% of new data centers will adopt liquid cooling technology facilities within the next year *Prepared relevant solutions for GB200, NVL72, and B200 liquid cooled and air-cooled rack systems based on Blackwell and waiting for Blackwell chip supply *Blackwell chip supply will significantly affect the rack shipment and corresponding performance *Modular solution DCBBS constructed by the center will promote the popularization of liquid cooling technology in the data center market and help customers reduce operating costs and achieve higher operational efficiency in the future
	Subsystems & Accessories	-24%	-24%	-43%	0%	10%	61%	27%	78%	88%	24%	
	Total	79%	54%	-5%	34%	14%	103%	200%	143%	180%	63%	
	QoQ Growth %											
	Server & Storage Systems	16%	-3%	-30%	75%	-3%	75%	8%	36%	18%	-1%	
	Subsystems & Accessories	-9%	2%	-16%	28%	0%	50%	-34%	79%	6%	-1%	
	Total	13%	-3%	-29%	70%	-3%	73%	5%	38%	12%	1%	
Lenovo (992 HK)	**YoY Growth %**											
	Intelligent Devices Group (IDG)	-11%	-34%	-33%	-28%	-16%	7%	7%	11%	17%	6%	*liquid cooling servers continue to grow at a double-digit rate due to widespread adoption by customers *Expect PC market to steadily recover and enter a new update cycle driven by AI PCs; AI PC will gradually grow and account for 80% of PC market by 2027 * ISG sales will exceed market expectations driven by strong cloud demand for hybrid infrastructure, recovery of enterprise demand, and accelerated adoption of liquid cooling *ISG sees strong demand for AI GPU server orders; expect orders received will be converted into revenue contributions starting from 2H24E *ISG latest ThinkSystem server is based on the NVIDIA GB200 platform and uses advanced sixth generation Neptune technology to achieve 100% liquid cooling without the need for specialized data center air conditioning
	Infra. Solutions Group (ISG)	33%	48%	56%	-8%	-23%	-13%	15%	65%	65%	40%	
	Solutions & Srv. Group (SSG)	26%	23%	18%	18%	11%	10%	10%	10%	13%	12%	
	Total	-4%	-24%	-24%	-24%	-16%	3%	9%	20%	24%	12%	
	QoQ Growth %											
	Intelligent Devices Group (IDG)	-4%	-16%	-15%	5%	12%	7%	-15%	9%	18%	-3%	
	Infra. Solutions Group (ISG)	25%	9%	-23%	-13%	5%	219%	-60%	25%	5%	5%	
	Solutions & Srv. Group (SSG)	18%	7%	-10%	4%	12%	5%	-10%	4%	15%	4%	
	Total	1%	-11%	-17%	2%	12%	9%	-12%	12%	16%	-1%	
Server ODMs												
FII (601138 CH)	YoY (%)	24%	12%	1%	-16%	-10%	-2%	12%	46%	40%	27%	*Cloud computing revenue increased by 71% YoY, with AI server revenue growing by 228% YoY, accounting for 45% of server revenue in 9M24;the proportion of AI servers in server revenue increased to 48% in 3Q24 (compared to 46% in 2Q) *Positive on AI technology to drive profits; GB200 and AI related network products will be launched on a large scale and will further drive profit growth in 2025 *Continue to increase R&D and shipment of AI related products to drive profit growth *The layout of products on GB200 key components includes GPU, baseboard, ComputeBoard, NVLinkSwitches, SmartNIC, DPU and other components, which cover all key links of the AI industry chain; the only supplier in the industry with comprehensive production capacity and expect to achieve large-scale shipments by 2025 with profit margin improvement *Committed to providing customers with comprehensive heat dissipation solutions, including In Rack, Sidecar; expect to have higher profit margins than previous generations of products
	QoQ (%)	-	11%	-30%	-5%	21%	21%	-20%	24%	16%	10%	
Quanta (2382 TT)	YoY (%)	46%	22%	-12%	-9%	-25%	-12%	-3%	27%	48%	42%	* 3Q sales and net profit growth rate accelerated; GPM improvement due to rising products' competitiveness *Significant increase in inventory, strong demand from downstream customers with sufficient orders * Positive on the continuous strong performance of the AI server business, and expect that AI server revenue will continue to grow strongly in the third digit percentage by 2025. The proportion of overall server revenue will increase from currently over 50% to over 70%.
	QoQ (%)	41%	-15%	-18%	-8%	17%	0%	-10%	20%	37%	-4%	
Wistron (3231 TT)	YoY (%)	13%	0%	-6%	-15%	-13%	-13%	13%	16%	26%	25%	* Flattish shipment from laptops, desktops and monitors in 4Q24E *AI servers maintain monthly and quarterly growth trends
	QoQ (%)	2%	5%	-20%	-2%	5%	6%	4%	0%	14%	6%	
Inventec (2356 TT)	YoY (%)	-2%	-9%	-7%	-4%	-5%	-5%	9%	18%	21%	34%	* Revenue growth in 9M24 was due to: 1) increasing ships in operation, resulting in increase in operational efficiency; 2) foreign trade biz has achieved a simultaneous increase in ASP and shipment * Have the water-cooling product and mother board design for Nvidia B100 AI servers; achieved a significant share in orders in GB200 *AI server shipment focus on motherboards with GPM of over double-digits; server motherboards account for ~20% of total market
	QoQ (%)	5%	-5%	-11%	9%	4%	-6%	2%	18%	6%	5%	
Gigabyte (2376 TT)	YoY (%)	-23%	-9%	-14%	15%	53%	64%	97%	183%	90%	50%	* Received the first GB200 large order with a total amount of Rmb$20bn from a major European customer; expect to start shipping in 1H25E, and the number of customers is constantly increasing *Revised up 2024 revenue from NT$120bn to NT$160bn; by 2025, sales will reach Rmb$250bn with the support of GB200 and water cooling technology is one of the key advantages for obtaining orders
	QoQ (%)	7%	15%	1%	-7%	42%	23%	21%	34%	-5%	-3%	
Profitability (GPM/OPM)												
Server Brands												
Dell	Infra. Solutions Group (ISG) OPM	14.3%	15.6%	9.7%	12.4%	12.6%	15.3%	8.0%	11.0%	13.3%	15.3%	*Service, installation (L11 and L12), DFS (Dell Financial Services) and financing measures, as well as opportunities in the network and storage fields, are the means to continuously improve GPM
HPE	Server OPM	14.0%	15.7%	14.4%	10.1%	10.1%	11.4%	11.0%	10.8%	11.0%	11.1%	*low AI servers GPM is temporary; expect to achieve higher GPM from corporate clients in the future
Supermicro	Blended OPM	12.5%	12.8%	8.7%	11.0%	10.8%	11.3%	11.3%	7.8%	9.5%	8.5%	*3Q sales and GPM below expectations due to Nvidia chip supply shortage
Lenovo	Infra. Solutions Group (ISG) OPM	1.4%	1.5%	0.3%	-3.2%	-2.7%	-1.5%	-3.8%	-1.2%	-	-0.3%	* Commercial PC recovery in 2025 will drive NPM and ASP upside
Server ODMs												
FII	GPM	7.6%	8.1%	7.4%	7.0%	9.3%	8.3%	7.6%	6.0%	11.5%	9.0%	*9M24 GPM YoY decline due to product mix change
Quanta	GPM	5.6%	6.5%	6.6%	8.5%	8.1%	8.1%	8.5%	8.6%	7.3%	7.1%	
Wistron	GPM	7.2%	8.6%	7.0%	7.6%	7.9%	9.3%	7.2%	8.4%	8.4%	8.6%	
Gigabyte	GPM	12.4%	9.3%	12.6%	11.8%	13.3%	11.0%	11.3%	10.8%	10.3%	10.7%	

Source: company announcement, presentation PPT, company official website, transcripts, CMBIGM

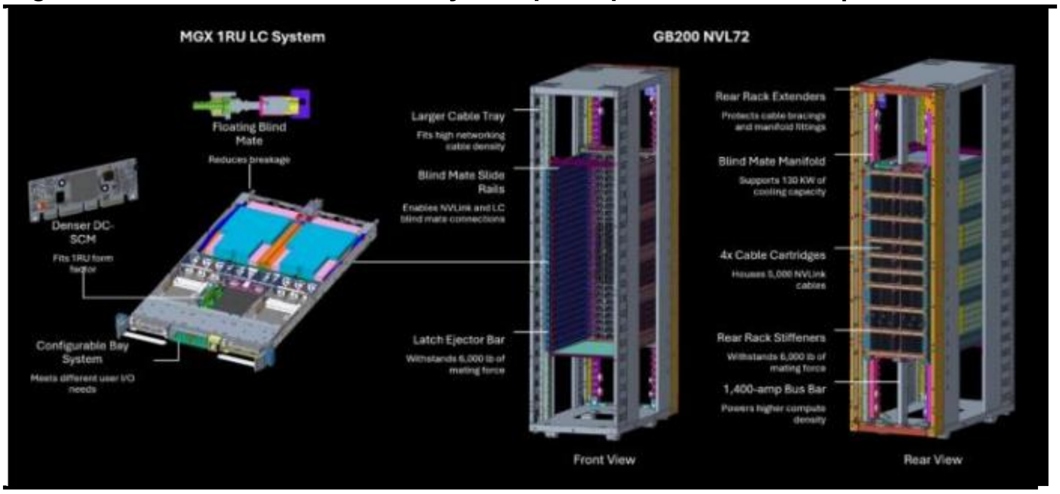
Server Components: GB200/300 new architecture to drive ecosystem development, benefiting upstream suppliers

The launch of GB200 rack product, based on NVIDIA's B200, reveals another innovative GPU solutions. Compared to traditional NVIDIA HGX H200 8-card servers, GB200 rack can integrate 36 or 72 B200 compute chips in the same rack, enabling a communication transfer speed of 1.8TB/s between each chip, providing an optimal solution for building large-scale AI compute infrastructure. Taking GB200 NVL72 as an example, a single NVL72 rack consists of 18 compute trays and 9 NVLink Switch trays. This architectural innovation provides new business opportunities for upstream suppliers involved in optical/copper connections, liquid cooling solutions, and power supply solutions.

At the October OCP (Open Compute Project) global summit this year, the NVIDIA GB200 NVL72 became the highlight of the conference. Suppliers from various sectors, including server assembly, interconnect cables, power supplies, and cooling systems, showcased their components that comply with the product design guidelines published by NVIDIA for the GB200 NVL72 on the OCP platform. OCP, an open-source collaboration platform initiated by Meta in 2011, aims to promote hardware innovation for compute infrastructure components (including servers, storage, and networking devices) and support the development of the entire datacenter infrastructure supply chain. Currently, OCP has over 400 membership companies, and has listed more than 270 products with over 400 approved contributions, including standardized designs, best practice solutions, and recommended reference architectures. In this instance, NVIDIA shared the recommended design for the GB200 NVL72 on the OCP platform, including official design guidelines and detailed parameters for the architecture design, compute trays and Switch trays, liquid cooling system, thermal management, and NVLink Cartridge.

We believe that by publishing the full content and parameters of the GB200 NVL72 recommended design on the OCP platform, NVIDIA will lead the integration of the AI server supply chain towards greater openness, benefiting more component companies along supply chain. It is beneficial for enhancing supply chain collaboration, encouraging participants in the supply chain to accelerate hardware innovation and production efficiency improvements, and jointly addressing the challenges currently facing the GB200 production.

Figure 20: Nvidia's GB200 NVL72 system plans published at OCP platform



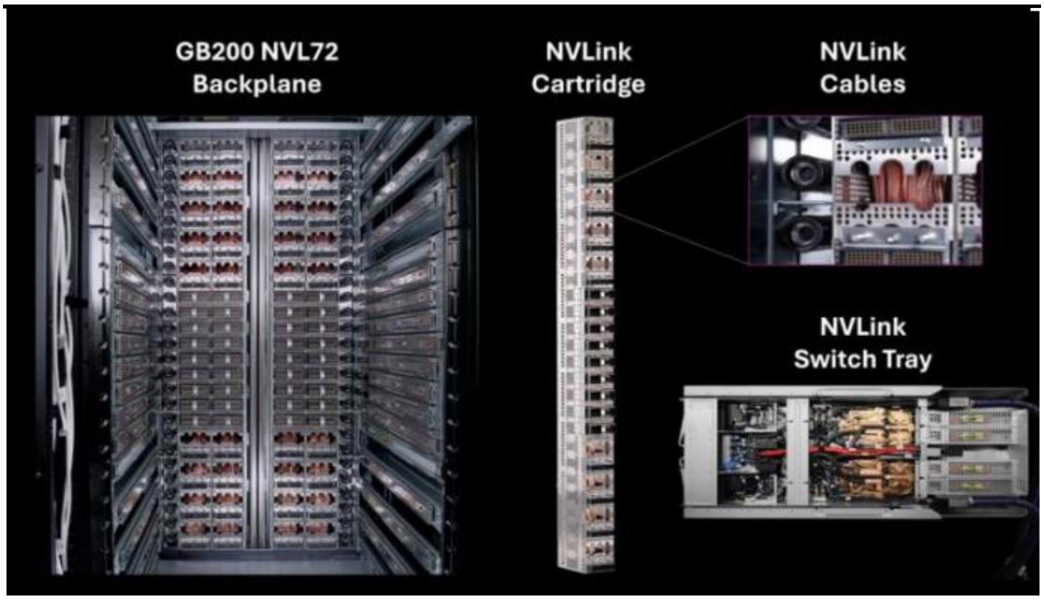
Source: Nvidia, CMBIGM

Copper connectors: Rack solutions expected to become mainstream

In NVIDIA's GB200 NVL36/72 rack solutions, high-speed communication between 36 or 72 GPUs is required. Considering factors such as cost, transmission loss, and energy consumption, copper connections are the optimal solution for inner-rack communication between multiple GPUs. As a result, a large number of copper wire connections are used in the NVIDIA GB200 NVL36/72 racks. Each GPU is directly connected to 18 NVLink cartridge ports, with each NVLink port connected to the NVSwitch board via four wire bundles (Overpass cables). We expect that each GB200 NVL72 rack will be equipped with 5,184 copper cables.

In addition to communication between compute trays and Switch trays, copper connections are also involved in jumpers, MCIO connectors, storage interface products, PCIe connectors, and other I/O interface products, including EDSFF and Gen-Z connectors. Currently, the NVLink cartridge ports are exclusively supplied by the American company Amphenol, which also supplies the wire bundles through its subsidiary Amphenol Times Microwave Systems, as well as upstream suppliers like WOER and DingTong Technology. Additionally, FIT Hon Teng is actively engaged in compute tray copper connectivity solutions and the backplane/switch tray related products are currently under sample verification. Leveraging its advantages in traditional server interfaces and connectors, along with its close cooperation with its parent company, Foxconn Group, FIT Hon Teng has achieved a total content value of US$500-1,000 for its connection products on compute trays. Shipments have begun in 3Q24, with further supply share growth potential in 2025.

Figure 21: Copper connectivity designs in Nvidia's GB200



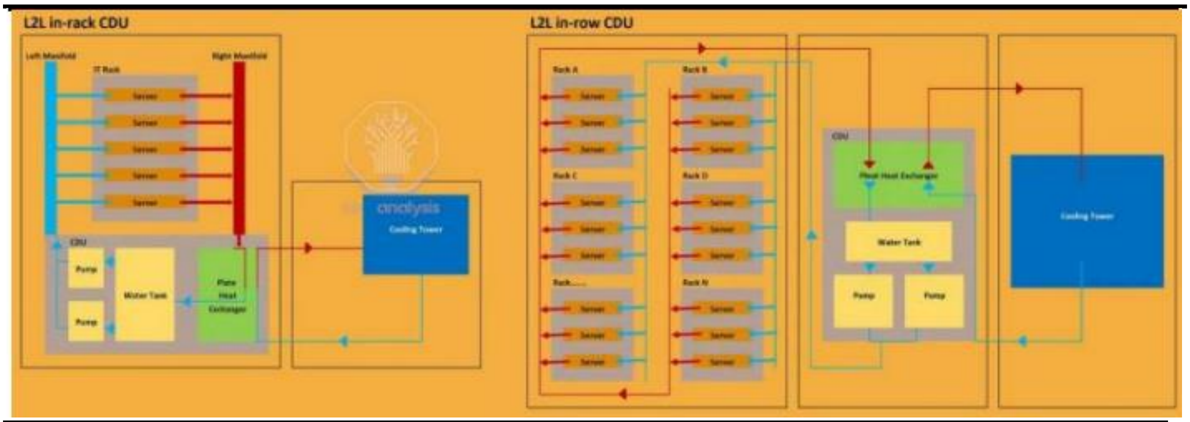
Source: Nvidia, CMBIGM

Liquid cooling: Replacing air cooling as mainstream cooling solution

Due to significant increase in power requirements driven by the enhancement of AI computing power, the demand for TDP (Thermal Design Power) has risen, leading to limitations in traditional fan-based cooling solutions. Liquid cooling has become the optimal solution for AI computing infrastructure. The liquid cooling components in NVIDIA's GB200 include cold plates, manifold, rear-door heat exchangers (RDHx), and liquid cooling distribution units (CDU). The CDU is used to regulate the server cooling system and maintain the temperature within the required standards. Each NVL36/72 rack requires one CDU, and each CDU contains four UQD (universal quick disconnect).

As AI computing infrastructure development accelerates, there has been a sharp rise in demand for liquid cooling systems, leading to a temporary supply shortage of the UQD. Previously, UQD products were mainly supplied by European and American companies such as Danfoss, Parker, CPC, and Staubil, with demand concentrated in niche sectors and limited supply capacity expansion. However, with the surge in demand for liquid cooling components in AI datacenters, more opportunities have arisen for related supply chain companies. According to our industrial survey, BYD Electronics is currently conducting customer validation for the liquid cooling distribution units (CDU) and cold plates in NVIDIA's GB200 solution, with shipments starting in 2025 after successful validation.

Figure 22: AI datacentre liquid cooling solutions



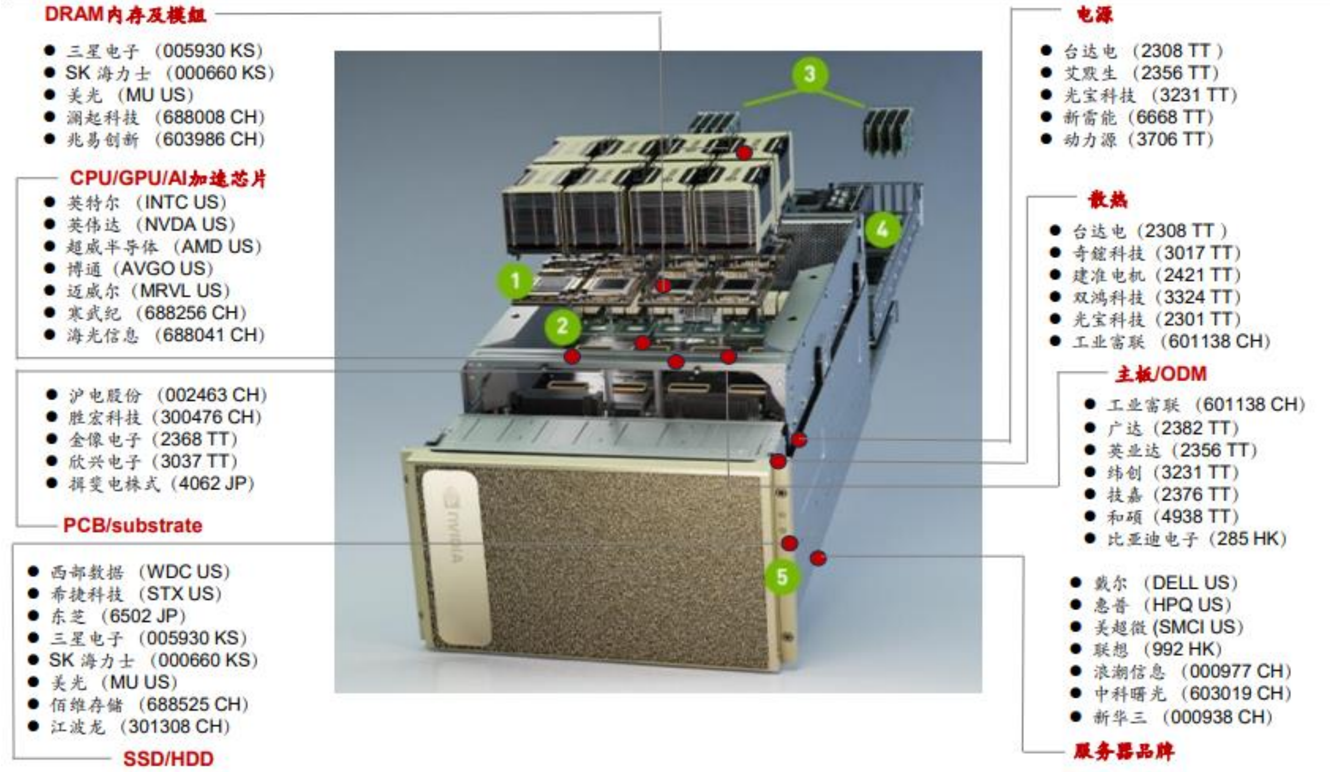
Source: Semi Analysis, CMBIGM

At the 2024 HHTD (Hon Hai Technology Day) exhibition, Hon Hai Group showcased its liquid cooling solutions and related components, such as cold plates, UQD, and manifold. According to our industrial survey, FIT Hon Teng has begun supplying UQD products for the GB200 liquid cooling solution. Although the liquid cooling component market is highly competitive, and more suppliers are expected to enter the field by 2025, we remain optimistic about FIT Hon Teng's expansion of its AI server product portfolio. Currently, we estimate that FIT Hon Teng will generate approximately US$300 per GB200 rack for liquid cooling-related products.

Power supply: High voltage and high current applications drive innovation in power components

The Nvidia GB200 rack solution adopts an innovative power supply design. To accommodate the high computational density and increased power requirements within the rack, the GB200 uses a new power system design, incorporating high-capacity power busbars to enhance power transmission capacity, supporting currents of up to 1,400 amperes—doubling the capacity compared to the previous standards. According to our industrial survey, FIT Hon Teng has already started supplying power busbar products. Assuming the average selling price (ASP) of the power busbar is US$300 and FIT Hon Teng's supply share in FY25 is 5%, we expect related revenue to reach US$10mn in FY25.

Figure 23: Server supply chain mapping



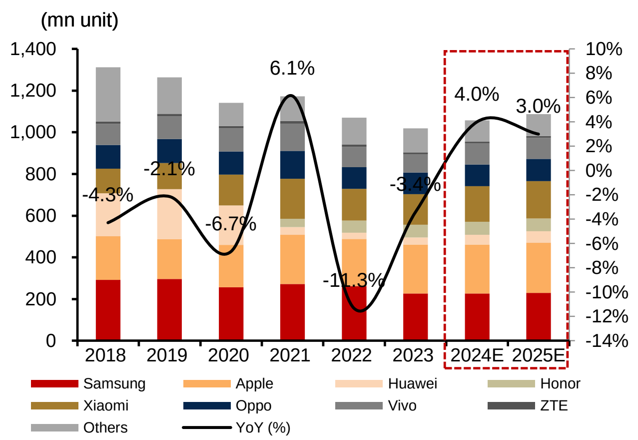
Source: CMBIGM estimates

Global smartphones: Edge AI to drive innovation and enhances user experience

Following two consecutive years of recovery in 2023-2024, we believe AI applications on smartphones will drive a new replacement cycle and spark functional innovation in 2025. We expect global smartphone market to continue moderate recovery and shipment will grow 3% YoY to 1.25bn in 2025. Key factors to watch include: 1) Trump's new tariff policies; 2) China's subsidy policies for smartphones and other consumer electronics.

In addition, we expect domestic supply chain to deliver improving profitability, driven by market share gains, easing competition, and cost-efficiency enhancements. Looking into 2025, we expect smartphones will fully embrace AI era, ushering in revolutionary advancements in human-machine interaction. We believe this transition will boost demand for both software and hardware upgrades on edge devices. Furthermore, innovations such as foldable designs, including tri-fold displays, are also worth close attention.

Figure 24: Global smartphone shipment forecast



Source: IDC, CMBIGM estimates

Figure 25: Global smartphone shipment (by brand)

(mn unit)	2020	2021	2022	2023	2024E	2025E
Samsung	257	272	262	227	226	230
Apple	203	236	226	234	235	240
Xiaomi	148	191	153	146	170	180
Huawei	189	38	31	35	48	55
Honor	-	40	57	61	62	61
Oppo	161	211	166	154	155	157
Vivo	112	132	99	88	100	100
Others	212	240	212	220	215	225
Total	1,281	1,360	1,206	1,165	1,211	1,248
YoY	-7%	6%	-11%	-3%	4%	3%

Source: IDC, CMBIGM estimates

Apple: Expect strong growth in 2H25E. Demand for iPhone 16 base models in 2024 is weaker than anticipated, and we expect iPhone 16 series to face headwinds in 1H25E. However, the launch of new iPhone SE4 in 2Q25E (20mn estimate) will partially offset weaker demand for iPhone 16 series, in our view. In addition, with the introduction of Apple Intelligence and related native applications, we believe iPhone 17 series will drive AI upgrade cycle in 2H25E. We estimate iPhone shipment to grow 2% YoY to 240mn in 2025.

Huawei: Uncertainties remain, potential impact on Honor. We believe Huawei's outlook remains uncertain due to lingering component shortages, which posed challenges for its high-end models in 2024. We estimate Huawei shipment of 48mn in 2024, slightly below supply chain targets set earlier in the year. Looking into 2025, we project Huawei to grow 15% YoY to 55mn. However, as Huawei and Honor overlap in certain markets and sales channels, Huawei shipment increase in 2025 could potentially impact Honor's performance.

Samsung/Oppo/Vivo: Facing pressure amid market shifts. In 2024, Oppo and Vivo expanded presence in low-end emerging markets, but demand for their high-end models remained weak. As Chinese brands accelerate their global expansion, Samsung is likely to face increasing pressure in overseas markets. In addition, if the Trump administration implements higher tariffs on Chinese products, high-end iPhone models—most of which are manufactured in China—could be directly impacted. This could create an opportunity for Samsung to emerge as a key beneficiary in the high-end smartphone segment.

2025: A potential supercycle for iPhone upgrades (iPhone SE4, iPhone 17/Air/Pro/Max)

Looking into 2025, we are positive on Apple supply chain. In 2024 iPhone 16 series introduced initial AI capabilities, and with continued advancements in edge AI models, we expect iPhone 17 series to bring significant hardware upgrades and innovations in edge AI functionality in 2025. Beyond 2025, we anticipate Apple will launch foldable phones and smart glasses in 2026, further solidifying its core competitive advantage in chips, systems, hardware, and AI model ecosystems.

2025 iPhone lineup: Expanding the AI Hardware Ecosystem. We expect Apple to launch five iPhone models in 2025, accelerating its push to build a comprehensive AI hardware ecosystem. The introduction of iPhone 17 Air is expected to attract significant consumer interest, while SE4 will provide an affordable upgrade path for older iPhone users. We expect Apple's hardware upgrades and advancements in edge AI capabilities to drive shipment growth in 2025-2026. With the release of SE4, a slim model (Air), and a foldable phone in 2025, we project iPhone shipments to reach 240-260mn in 2026.

1) **iPhone SE4**: Replacement for SE3 in 2022. Entry-level option with modern features.
2) **iPhone 17**: The standard flagship model.
3) **iPhone 17 Air:** New addition replacing "Plus" model, featuring the most significant design overhaul in the past decade.
4) **iPhone 17 Pro**: The premium flagship model.
5) **iPhone 17 Pro Max:** The top-tier model with the highest specifications.

Figure 26: iPhone16/17 series major supplier

	iPhone 16 Series	iPhone 17 Series
Baseband	Qualcomm	Qualcomm, Apple
Lens	Largan, Genius, Sunny	Largan, Genius, Sunny
Camera module	LGI, Hon Hai, Cowell	LGI, Hon Hai, Cowell
Display panel	Samsung, LGD, BOE	Samsung, LGD, BOE
Battery steel case	Sunway, Ruilong	Sunway, Ruilong, Lingyi
Battery pack	Sunwanda, Desay, Simplo	Sunwanda, Desay, Simplo
Acoustics/haptics	AAC, Goertek, Luxshare	AAC, Goertek, Luxshare
Cooling (VC)	-	AVC, AAC
Glass back cover	Lens,Biel, BYDE	Lens,Biel, BYDE
Structural parts	FII, BYDE, Lens, Luxshare	FII, BYDE, Lens, Luxshare
OEM assembly	Hon Hai, Luxshare, TATA	Hon Hai, Luxshare, TATA

Source: CMBIGM estimates. Note: Marked in red are suppliers with increasing share allocation.

Figure 27: Supplier mapping and sales mix (2024)

Company	Ticker	Apple	Huawei	Samsung	Other brands	Others	Major products
AAC Tech	2018 HK	25%	10%	10%	43%	12%	Acoustics, haptics, optics, casing
FIT Hon Teng	6088 HK	25%	-	-	-	75%	Connectors, AirPods, accessories, EVs, servers
Sunny Optical	2382 HK	5%	5%	15%	60%	15%	Camera modules, lens sets, automotive lenses/modules
BYDE	285 HK	60%	5%	5%	15%	15%	Metal/Glass/Plastic casing, ODM/OEM, automotive
Tongda	698 HK	5%	5%	5%	50%	35%	Metal/plastic casing
Q-Tech	1478 HK	-	5%	-	85%	15%	Camera module/lens, fingerprint module, auto CCM
TK Group	2283 HK	10%	-	-	-	90%	Plastic molding, plastic precision
Truly	732 HK	-	-	3%	62%	35%	Camera module, fingerprint, display module
Cowell	1415 HK	90%	-	5%	-	5%	Camera module
Luxshare	002475 CN	60%	10%	3%	-	27%	Wireless, iPhone/AirPods/Watch OEM, Acoustic/haptics

Source: Company, CMBIGM estimates

AI Smartphone poised to drive hardware innovation, edge AI application to enhance user experience

Major smartphone SoC suppliers introduced the latest AI smartphone SoC products with more advanced features

Following the release of the first generation smartphone processor chips that supports AI smartphone edge computing requirements in the fall of 2023, Qualcomm, MediaTek, Samsung, and Google have all launched the latest generation of AI smartphone SoC in 4Q24, which have further improvements in processing technology, AI performance, power consumption, and memory. In terms of AI capability, Apple A18/A18 Pro is equipped with the same 16-core NPU chip as the previous generation; the Qualcomm Snapdragon 8 Elite chip uses an enhanced version of the Hexagon AI processor, achieving a 45% performance increase compared to the previous generation and supports multimodal AI model operations on the edge. The latest MediaTek Dimensity 9400 is equipped with a brand-new 8th generation NPU 890, with stable diffusion performance doubled compared to the previous generation, and edge multimodal AI computing performance of 50 Tokens/second.

Figure 28: The latest AI smartphone SoC chips

		Qualcomm Snapdragon 8 Elite	MediaTek Dimensity 9400	Apple A 18/A 18 Pro	Google Tensor G5
Launch date		10/22/2024	10/9/2024	9/10/2024	10/24/2024
Launch model		Xiaomi 15 Series	Vivo X200 Series	iPhone 16 Series	Google Pixel 10 Series
Process		TSMC 3nm N3E	TSMC 3nm N3E	TSMC 3nm N3E	TSMC 3nm
CPU	**Clock speed**	4.32GHz	3.62GHz	4.05GHz	3.40GHz
	CPU core count	64-bit Qualcomm Oryon/8	Arm Cortex-X925 CPU/8	6	8
	Core Type	2*4.32GHz Super Core	1*Cortex-X925 Prime core	2*high performance cores	1*Cortex-X4 core
		6*3.52GHz High Performance core	3*Cortex-X4 Prime core	4*efficiency cores	5*Cortex-A725 core
			4*Cortex-A720 big core		2*Cortex-A520 core
GPU		Qualcomm Adreno	Arm Immortalis-G925 MC12	Mali-G79/G79 Pro GPU	Imagination Tech DXT-48-1536 GPU
Ray-tracking		Yes	Yes	Yes	Yes
Memory		5.3GHz LPDDR5X	LPDDR5X	LPDDR5X	LPDDR5X
		24 GB，UFS 4.0	UFS 4.0+MCQ	8GB	12GB, UFS3.1
Connectivity		Wi-Fi 7; Bluetooth 6.0	Wi-Fi 7	Wi-Fi 7; Bluetooth 5.3	WiFi 7
AI chip/NPU		Hexagon Processor	MediaTek NPU 890	16 core Apple NPU	Google TPU
Comment		AI Engine boasts the fastest Qualcomm Hexagon NPU, delivering a 45% AI performance improvement and 45% better performance per watt.	World's 1st high-quality on-device video generation and on-device LoRA training. >50 token MLLM generation performance and +100% diffusion generation performance compared with last generation.	Up to 30% performance improvement compared with A16, 50% CPU performance improvement compared with A15.	Tensor G5 AI performance has increased by 40% compared to the previous generation. The new TPU includes a small embedded RISC-V core that supports on-device training.

Source: Company data, CMBIGM estimates

Apple: Upcoming integration of ChatGPT with Apple Intelligence, eye on service revenue boost from AI application deployments

Since the release of Apple Intelligence in mid-2024 and its subsequent updates in iOS 18, iPadOS 18, and macOS Sequoia, Apple's hardware ecosystem has been equipped with AI capabilities including text correction and rewriting, text summarization, audio-to-text conversion, image creation, image and video search, and updated Siri with more advanced language capabilities.

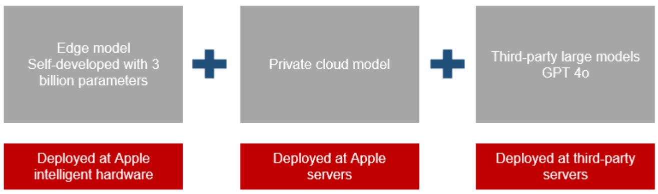
In terms of cross-application functionality, Siri can perform AI functions across Apple and third-party apps, based on user's personal and on-device information. In the latest round of iOS 18.2 updates in December, users are able to invoke ChatGPT features from the Siri interface, as well as experience the integration of ChatGPT with the iOS system.

We believe that Apple's strong hardware user base, software ecosystem construction, and the broad developer community will enable Apple to break down barriers between different hardware devices and software applications, bringing consumers a full AI experience at the edge. In terms of pricing and the use of the ChatGPT-integrated version of Apple Intelligence, Apple Intelligence will be provided free of charge to users, which includes basic ChatGPT features. The option to upgrade to the ChatGPT Plus plan requires an additional payment of $19.99 per month, and we are positive on the trend of service revenue growth triggered by Apple Intelligence in the future.

Figure 29: Apple Intelligence AI functions

Source: WWDC, CMBIGM estimates

Figure 30: Apple AI deployments



Source: WWDC, CMBIGM estimates

Figure 31: Smartphone vendor edge AI models

Brand	Edge model	Parameters (bn)	Self-developed
Apple	AFM-on-device	3	Yes
Samsung	Gemini Nano	1.8/3.25	No
Google	Gemini Nano	1.8/3.25	Yes
OPPO	AndesGPT	7	Yes
vivo	BlueLM	7	Yes
Xiaomi	MiLM 2	0.3-6	Yes
Huawei	Pangu		Yes

Source: Company data, CMBIGM estimates

Xiaomi: AI Empowers the "Human-Car-Home" ecosystem

Xiaomi has introduced its self-developed MiLM2 model matrix, emphasizing a lightweight structure and cloud-edge collaboration. Currently, the MiLM2 model matrix covers multiple parameter sizes, including 0.3B/0.7B/1.3B/2.4B/4B/6B/13B/30B, to meet the needs of different user scenarios. In terms of operating systems and AI voice assistant upgrades, following the update of Xiaomi's Hyper OS2, Xiaomi has launched Super Xiao Ai. Building on existing features such as voice assistance, image generation and meeting summary generation, it added functions like video search, automatic recording of IDs/addresses/schedules, personal data reminders and automatic operation execution based on personal operating habits. The update places a greater emphasis on personalized operations and the capabilities of human-computer interaction. In terms of ecosystem integration, HyperOS 2 promotes cross-ecosystem compatibility, supporting the interconnection between Apple and Xiaomi devices.

Figure 32: Xiaomi's "human-car-home" ecosystem

Source: Xiaomi, CMBIGM estimates

Figure 33: Super Xiao Ai voice assistant upgrades

Source: Xiaomi, CMBIGM estimates

The current edge AI models on smartphones are primarily at the level of tens of billions of parameters, focusing on edge-to-cloud collaboration. Due to hardware and technical limitations such as edge-side computing power and storage capabilities, AI applications on smartphones are still limited to tasks like text content generation, voice assistant, image search and generation. More complex tasks still require cloud-based large models. At present, the development of edge AI on smartphone is focused on enhancing the cross-application and cross-device intelligence of AI Agents, allowing them to collect user habits to predict user's needs and perform tasks.

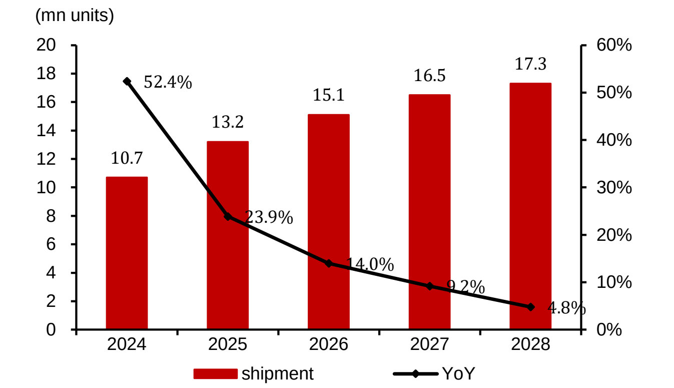
The storage and collection of user data on mobile devices are the foundation for the functionality of the on-device AI Agent. The ability to perform commands across software applications/hardware devices, and even across ecosystems, becomes more important. Therefore, we are optimistic about mobile brands that have a strong global user base, AIoT multi-device interconnection ecosystem, software operating system, and the edge-cloud AI model development capability. In the overseas market, we recommend investor's attention on Apple, and for the domestic market, we are optimistic about Xiaomi. We believe that Xiaomi will significantly benefit from the future explosion of edge-side AI applications and AI smart hardware.

Foldable smartphones: Accelerated market penetration, product innovation triggered high-end consumer demand

In 2024, global shipments of foldable smartphones are expected to continue rising, with growth rate significantly outpacing that of the overall smartphone market. According to IDC, China's foldable smartphone shipment grew by 13.6% YoY in 3Q24, reaching 2.23mn units. However, due to the high base in 2H23, the growth momentum is showing signs of slowing down. Currently, the penetration rate of foldable smartphones in China stands at 3.2%. IDC predicts that China's foldable smartphone shipments will reach 10.68mn units in 2024, a YoY increase of 52.4%. By 2028, shipments are expected to exceed 17mn units, with a five-year compound annual growth rate (CAGR) of 19.8%.

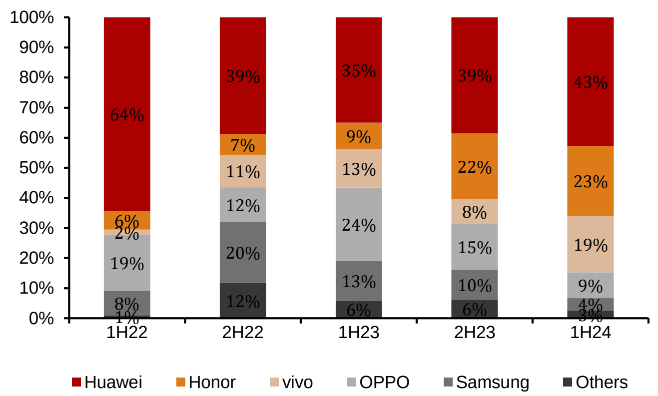
Huawei has maintained a leading position in China's foldable smartphone market, leading the sector through innovation in product design, upstream component development, and supply chain integration. In the first half of 2024, Honor and Vivo captured market share of 23.3% and 18.7%, respectively, with strong sales of new foldable models. OPPO ranked fourth but has not launched any new foldable models this year. China and the US are the two largest regional markets for foldable smartphones globally, accounting for 56% of global shipments. In the global competitive landscape, Samsung remains the leading vendor, but Chinese competitors such as Huawei and Honor are eroding its market share advantage. Xiaomi saw a significant boost in its market share thanks to the successful launch of its compact foldable model (Mix Flip) in 3Q24. And it is anticipated that Apple will release a foldable iPhone in 2026, which could rapidly accelerate the adoption of foldable smartphones.

Figure 34: China's foldable phone shipment (2024E-2028E)



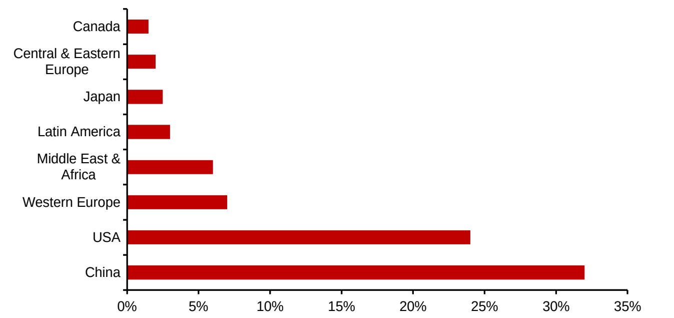
Source: IDC, CMBIGM estimates

Figure 35: China's foldable phone market



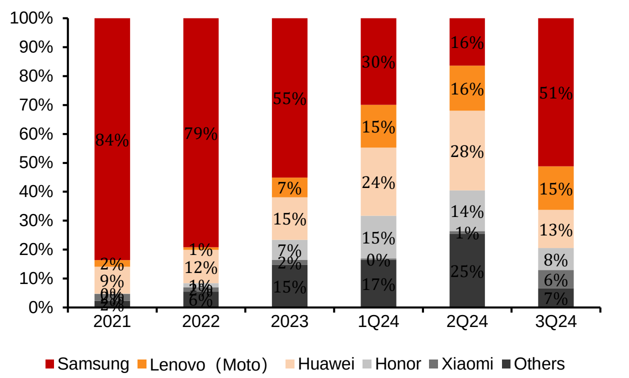
Source: IDC, CMBIGM estimates

Figure 36: China/US lead in global foldable phone demand



Source: IDC, CMBIGM estimates

Figure 37: Global foldable phone market (2021-3Q24)



Source: IDC, CMBIGM estimates

As Chinese foldable smartphone market gradually matures, major smartphone brands are transitioning from early exploratory period to a phase focusing on hardware upgrades and differentiated designs. Early generations of foldable phones, constrained by the limitations of internal space and design complexity, often compromised on processing performance, storage capacity, battery specifications, camera performance, thinness, and durability. However, significant advancements have been made in such areas with the flagship foldable models launched in 2024 with cutting-edge design and technology.

From a pricing perspective, flagship foldable models helped to boost ASP for Android brands. Large flagship foldable models are usually priced higher than the usual flagship models of the same brand, serving as the best platform for showcasing the hardware innovation and technological strength. Meanwhile, vertical foldable models are also seeing improvements in design and specifications, but their selling prices are gradually declining as the supply chain becomes more mature. This decline in pricing, combined with improving design/specifications, continue to drive the foldable smartphone market penetration.

Figure 38: The latest foldable phone models from the leading smartphone vendors

Fodable phone model	Processor	Main camera	Memory	Battery	Start price (RMB)
Huawei Mate X6	Kirin 9100	50MP+40MP ultra-wide+48MP periscope telephoto+1.5MP	12/16GB+512GB, 16GB+1TB	5110mAh	13,999
Huawei Mate XT	Kirin 9010	50MP+12MP ultra-wide+12MP	16GB+512BG/1TB	5600mAh	19,999
Samsung Z Fold 6	Snapdragon 8 Gen 3	50MP+12MP+10MP	12GB+512GB/12GB+1TB	4400mAh	13,999
Samsung Z Flip 6	Snapdragon 8 Gen 3	50MP+12MP	12GB+256/512GB	4000mAh	7,999
Xiaomi MIX Fold 4	Snapdragon 8 Gen 3	50MP+50MP floating telephoto+10MP macro telephoto+12MP ultra-wide	12/16GB+256/512/1TB	5100mAh	8,999
Xiaomi MIX Flip 4	Snapdragon 8 Gen 3	50MP+50MP floating telephoto	12/16GB+256/512/1TB	4780mAh	5,999
Vivo X Fold 3	Snapdragon 8 Gen 2	50MP+50M portrait+50MP ultra-wide	12/16GB+256/512/1TB	5500mAh	6,999
Vivo X Flip	Snapdragon 8+ Gen 1	50MP+12MP ultra-wide	12GB+256/512GB	4400mAh	5,999
Honor Magic V3	Snapdragon 8 Gen 3	50MP+40MP ultra-wide+50MP periscope telephoto	12/16GB+256/512/1TB	5150mAh	8,999
Honor Magic V Flip	Snapdragon 8+ Gen 1	50MP+12MP ultra-wide	12GB+256/512GB/1TB	4800mAh	4,999
Honor V purse	Snapdragon 778G	50MP+12MP ultra-wide	12/16GB+256/512GB	4500mAh	5,999
OPPO Find N3	Snapdragon 8 Gen 2	48MP+64MP periscope telephoto+48MP ultra-wide	12/16GB+512/1TB	4805mAh	9,999
OPPO Find N3 Flip	Dimensity 9200	50MP+32MP telephoto+48MP ultra-wide	12GB+256/512GB	4300mAh	5,999

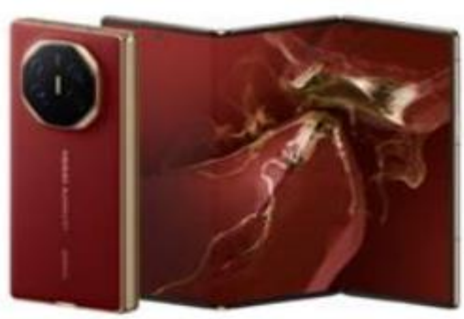
Source: Company websites, CMBIGM estimates

In September 2024, Huawei officially launched its tri-fold smartphone, Mate XT, which boasts the world's largest foldable smartphone display with a screen size of 10.2 inches. This device enhances the user experience by supporting split-screen operations with improved reading capabilities. We believe large foldable smartphones have become a key category for major brands to showcase their hardware innovation and brand image, leading the consumer trends and benefiting upstream hardware component manufacturers. Hinges and displays are the key elements in the BOM cost of foldable smartphones. The continued foldable smartphone adoption trend benefits the companies in related supply chain, such as AAC Technologies (hinges, structural components), Jiangsu Gian Technology and NBTM (hinge products for Android), and Eontec (liquid metal hinge components).

Figure 39: Xiaomi's latest flip model smartphone

Source: Xiaomi, CMBIGM

Figure 40: Huawei's latest tri-fold smartphone



Source: Huawei, CMBIGM

Smartphone components: outsourcing, optics upgrade and casing's new materials

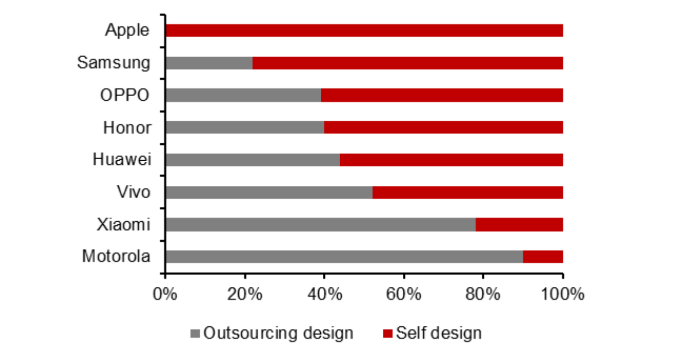
ODM: capacity relocation to boost competitiveness and market share

Chinese smartphone brand recovery on track; positive on ODM leaders' share gain in high-end models. According to Counterpoint, global smartphone market shipments increased by 7% YoY in 1H24., while shipment volume of independent design companies and original design manufacturers (ODM/IDH) increased by 6% YoY, mainly due to strong shipment from Chinese smartphone brands. Counterpoint predicts that global smartphone shipments will increase by 5% YoY in 2024, while the ODM/IDH market share will remain at around 41%. As competition in the smartphone industry becomes fierce, customers have higher requirements for cost, performance, and design. They also have higher demands on ODM manufacturers in terms of research and development, manufacturing processes, and productivity. We expect ODM leaders have cost advantages in research and development, design, and supply chain, making them more competitive when undertaking high-end smartphone orders.

Chinese consumer electronics market is relatively saturated; factory relocation to continue given geopolitical uncertainties and favorable policies. Due to increased uncertainty caused by geopolitics concerns, consumer electronics companies believe supply chain centralization poses certain risks. Currently, Apple has relocated some of its supply chains to India and Southeast Asia. We expect that by 2025, Apple's iPhone production in India will increase to 25% of its global production. Against the backdrop of technological competition between China and the US, saturation of Chinese consumer electronics market, and favorable policies in countries such as India and Southeast Asia, we believe relocation of tech industry chain will continue into 2025-26E, while some component companies have already relocated their production capacity since 2019.

1) Luxshare: after expanding its Yi'an production capacity in Vietnam, Luxshare's Yi'an factory has entered Apple supply chain and will produce iPhone accessories or related products in the future. **2) Inventec:** in September 2023, it invested US$125mn to build a factory in Hanoi to produce smartphones, computer peripherals, circuit boards, and other smart products. The Vietnamese factory is expected to officially start production in 4Q24E, with a planned annual output of 32mn products for export. **3) GoerTek:** It established GoerTek Electronic Technology (Vietnam) Co., Ltd. in Vietnam in January 2024, with total investment not exceeding US$280mn, for production of headphones, smartwatches, VR&AR, and consumer electronics products. **4) Hon Hai Precision/Foxconn:** Foxconn has established a total of 14 subsidiaries or indirect holding companies in Vietnam, and has 16 manufacturing plants in northern Vietnam, with a total investment of US$3.2bn.

Figure 41: Smartphone self-design /outsourcing mix



ource: Counterpoint, CMBIGM

Figure 42: Location of CE companies in Vietnam

Source: Aibang, CMBIGM

Optics: focus on periscope, hybrid lens, large image size and OIS optical upgrade

High-end smartphones to boost lenses' demand and ugprade. Considering that high-end smartphones are equipped with more lenses, Trendforce expected global shipment of smartphone camera lenses will be approximately 4.22bn in 2024, up 3.8% YoY. Currently, smartphone manufacturers are focusing on developing smartphones with multiple cameras, including telephoto lenses, macro lenses, and ultra wide-angle lenses. According to Yixing Industry Research Institute, with 5G development, AI, integration of digital technologies in industries such as cloud computing and IoT creates significant growth potential for the optical lens market. It is expected that by 2030, global optical lens market size will reach RMB 103.59bn.

High-pixel smartphones to drive stable growth in camera module market. After spec upgrade from single camera to dual camera, various camera spec continue to innovate. Currently, rear camera of smartphones is composed of one main camera and multiple sub cameras, and different sub cameras correspond to different functions such as background blurring, far view details, and improvement of light input and image quality. Considering consumers' demand for integrity of photographic performance, camera upgrades include increasing pixels and overlaying cameras with different functions to achieve better and more complete photographic performance. We believe the increasing demand for high pixel smartphones will continue to drive stable growth for mobile camera modules market . According to QY Research, global market size of mobile phone camera modules will reach RMB41.57bn by 2030, with 3.6% CAGR for FY24-30E.

In terms of optical innovation, we are positive on following trends in 2025-26E:

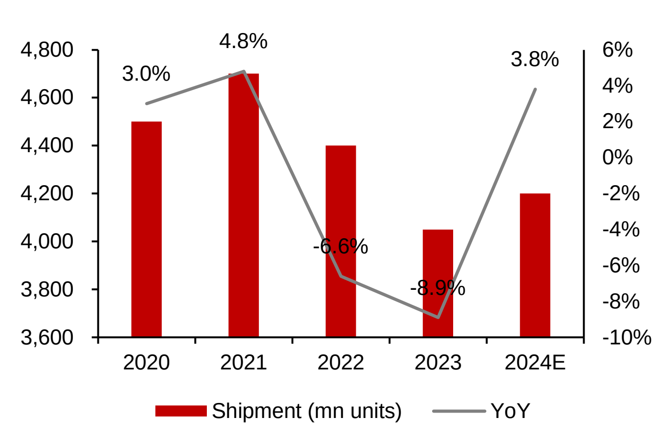
1) Periscope lens: This technology could imitate submarine periscopes to fold light and extend the transmission distance of light, thereby increasing the focal length of the lens. Periscope has the ability to capture images from a long distance, combines portability and aesthetics, protects mobile phone lenses, and improves imaging quality, resulting in a more balanced and delicate image. Due to high manufacturing cost of periscope lenses, which are mostly equipped in mid to high end mobile phones, we expect the periscope lens market to grow rapidly with more launches of high-end flagship phone models.

2) Glass plastic hybrid lens: Combining glass and plastic materials, it has better optical performance and lower cost, providing higher resolution, wider viewing angle and color reproduction, improving photo quality and reducing the overall weight of the phone.

3) Large image size: It becomes the direction of high-end camera modules, and it is expected to be used in lower to mid to low end mobile phones in the future.

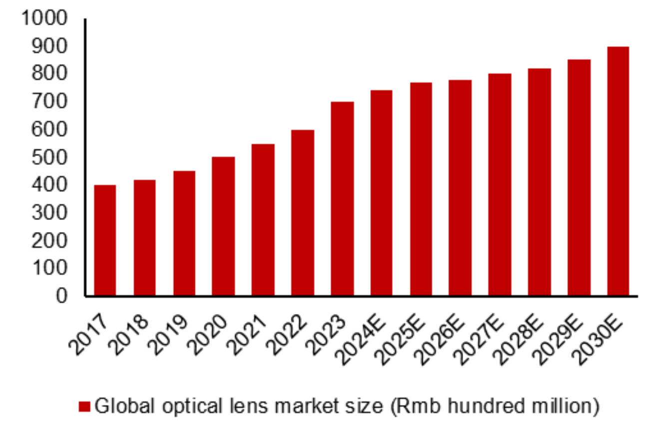
4) OIS: It can reduce hand shake issues and blurs in low light environments, which is a feature of high-end flagship models and support higher smartphone prices. With fierce competition from domestic mobile phones, OIS is expected to gradually penetrate into the mid to low end models. We suggest paying attention to mobile camera and module companies including Sunny Optical and Q-Tech.

Figure 43: Global smartphone lens shipment



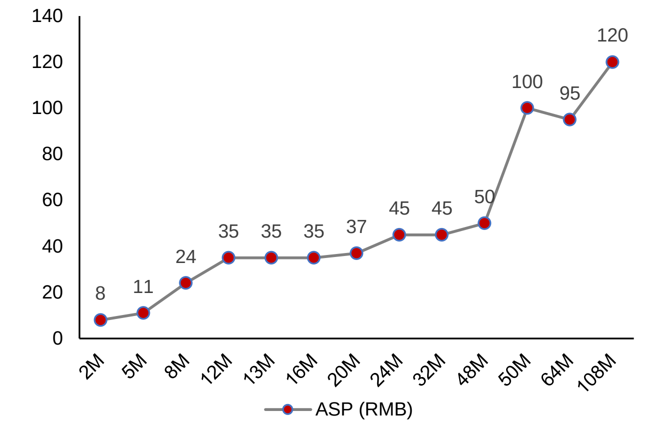
Source: Trendforce, CMBIGM

Figure 44: Global optical lens market size forecast



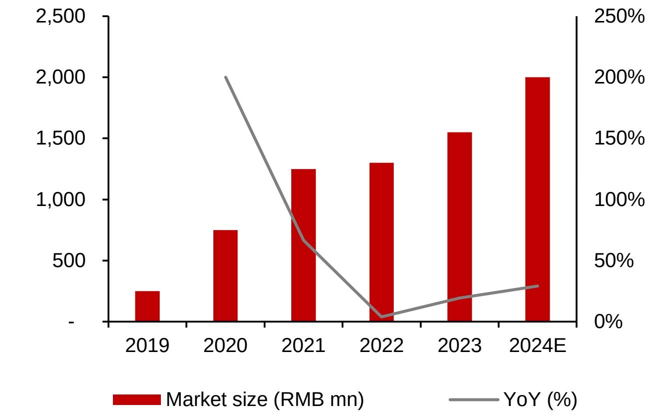
Source: Easseen Research, CMBIGM

Figure 45: Camera module ASP and pixel trend



Source: Trendforce, CMBIGM

Figure 46: China's periscope lens market size



Source: Gonyn, CMBIGM

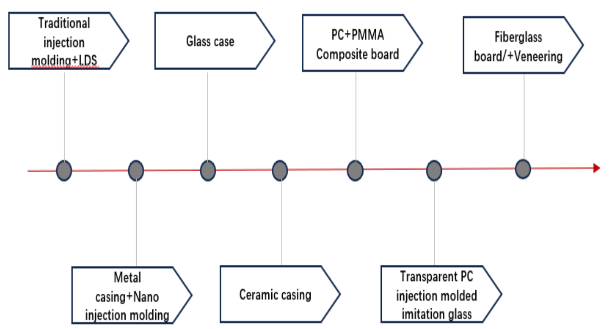
Structural components/casing: glass, ceramics and composite as the mainstream, and aluminum and fiberglass are the future trends

Glass, ceramics, and composite are currently the mainstream materials for mobile phone casing, and we are positive on fiberglass in next few years. According to Aibang, mobile phone casing have gradually upgraded from traditional plastic + LDS technology to metal cases + nano injection molding technology, but given 5G technology adoption, metal back casing became less popular due to weak signal issues. Afterwards, innovative technologies such as glass, ceramics, PC+PMMA composite board process, and transparent PC injection molding imitation glass process were introduced into market.

At present, mobile phone casing mainly use materials such as glass, ceramics, composite panels, fiberglass panels, and fiberglass + plain leather. Although fiberglass board has long been used on the back cover of tablets, its application on smartphones only begun to increase in recent years, such as Huawei, Honor and OPPO. Some models such as Xiaomi and Vivo have adopted it, especially the back cover of Huawei Mate60 series adopting fiberglass board spraying+3D printing technology. We expect that ceramic hot press bonding with fiberglass board will be the trend for lightweight back cover.

Dual material solution for aluminum frame and back cover of iPhone 17 flagship model. We expect Apple iPhone 17 Pro and iPhone 17 Pro Max flagship models will not adopt titanium alloy and stainless-steel frame materials, and they will become the first flagship phones to adopt aluminum frames. In terms of back cover design, the two flagship models will also adopt a new partially aluminum and partially glass design for the back panel. The upper half of the back (camera module) will be made of aluminum and feature a rectangular camera protrusion made of aluminum instead of traditional 3D glass, while the lower half will continue to be made of glass to support wireless charging. Compared to the current design of all glass back cover, the new dual material solution will provide better durability and texture.

Figure 47: Smartphone cases' material innovation and upgrade trend



Source: Aibang, CMBIGM

Figure 48: Fiberglass and glass cover/composite comparison

Phone cover	3D Fiberglass Board (New)	Glass cover board (mature)	Composite board (mature)
Weight	*	***	**
Strength	****	*	**
Surface hardness	***	****	**
Thickness	*	**	**
Cost	**	**	**
Resistance	***	***	***
Heat dissipation	**	**	**
Environment friendly	**	**	***
Process maturity	***	***	****
Yield rate	**	**	***
Texture	***	***	***
Molding process time	***	***	**
Fire resistance	****	****	**
Forming process	Hot pressing	Hot bending	High pressure

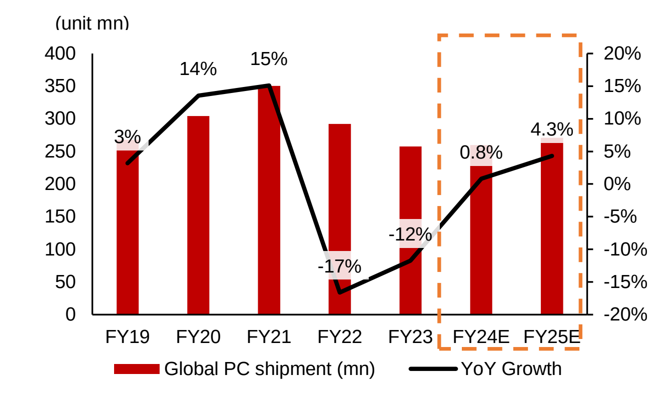
Source: Aibang, CMBIGM
Note: more * means higher the attribute

Global PCs: AI PCs and Windows 11 upgrades to drive industry recovery

In 1H24, global PC shipments experienced a mild rebound. However, due to weaker demand driven by macroeconomic factors in the second half, we anticipate stable QoQ shipments for PC components and ODMs in 4Q24. From the profitability perspective, healthy channel inventory levels are expected to improve margins for PC brands.

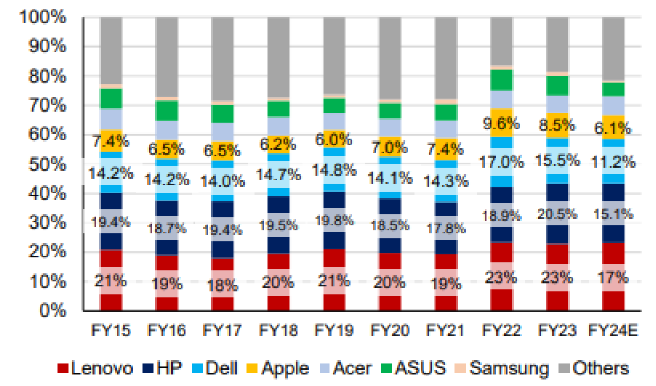
Looking into 2025, with the introduction of more mainstream AI PCs, Windows 10 replacement, and improving macro (e.g. US interest rate cuts, China's stimulus policies, and US corporate tax reductions), we expect global PC shipments to grow by 4.3% YoY to 271mn in 2025. With rising penetration of AI PCs, we expect PC ASP/margins to rise.

Figure 49: Global PC shipment estimates



Source: IDC, CMBIGM

Figure 50: Global PC market share (2015-2024E)



Source: IDC, CMBIGM

Since late-2023, major PC processor chip vendors have introduced chips designed to meet the computing requirements of AI PCs. For example, Intel launched the Meteor Lake Core Ultra, and Qualcomm released the Snapdragon X Elite. In 2024, the market saw the release of new-generation PC processors. Intel introduced its next-gen Core Ultra laptop chip, codenamed Lunar Lake, featuring an 8-core design and a significant boost in AI capabilities. Its NPU performance reaches 48 TOPS, exceeding the 40 TOPS requirement set by Microsoft's Copilot+PC for AI computing and hardware compatibility. Qualcomm, building on its previously launched Snapdragon X Elite AI PC processor, released the Snapdragon X Plus, a scaled-down version of the X Elite aimed at reducing BOM costs and lowering entry barriers AI PC products. Apple also released its M4 chip this year, increasing AI computing power from M3's 18 TOPS to 38 TOPS, further enhancing its AI capabilities.

Figure 51: Global PC processor chips development roadmap

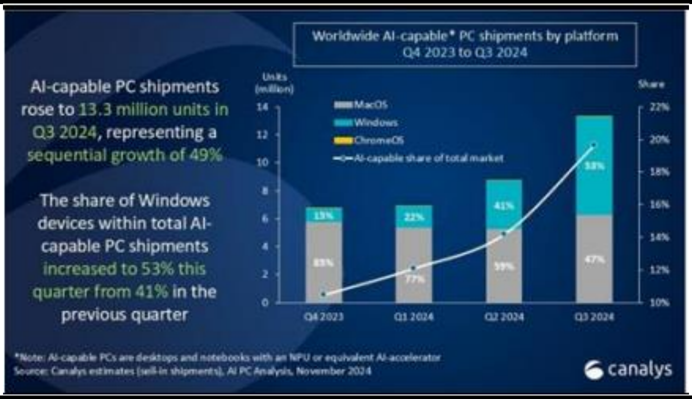
	1H22	2H22	1H23	2H23	1H24	2H24E	1H25E	2H25E
Intel		Raptor Lake (7nm)		Meteor Lake 11 TOPS (4nm)		Lunar Lake 48 TOPS (3nm)		Panther Lake 120 TOPS (2nm)
						Arrow Lake 13 TOPS (3nm)		
AMD			Phoenix 10 TOPS (4nm)		Hawk Point 16 TOPS (4nm)	Strix Point 48 TOPS (4nm)		
Apple	M1 Ultra 22 TOPS (5nm)	M2 15.8 TOPS (5nm)		M3 18 TOPS (3nm)	M4 38 TOPS (3nm)			
Qualcomm	Snapdragon 8cx Gen3 29 TOPS (5nm)				Snapdragon X Elite 45 TOPS (4nm)			
MediaTek		Kompanio 1380 4.8 TOPS (6nm)						AI PC chip (3nm)
NVIDIA								

Source: Company data, CMBIGM

Microsoft has introduced Copilot+PC, defining the AI PC standards within the Windows ecosystem. These standards require a combination of CPU, GPU, and NPU, the support for Copilot, and the inclusion of a dedicated Copilot button. The wave of AI PCs has driven both PC processor chip vendors and operating system providers to innovate and iterate on AI-focused products, enhancing user experience and accelerating AI PC market penetration.

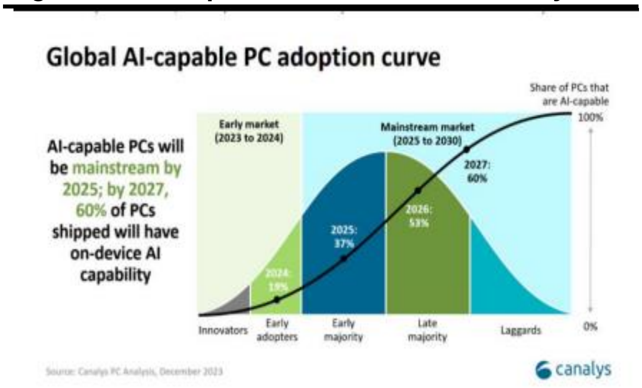
According to Canalys, the market share of AI PCs is expected to grow from 19% in 2024 to 37% in 2025, and further to 53% by 2026. In 3Q24, global AI PC shipments reached 13.3mn units, accounting for 20% of total quarterly PC shipments. During this quarter, PCs equipped with Qualcomm's Snapdragon X series chips combined with Microsoft's Copilot+ started shipping. Looking ahead, the release of Intel Lunar Lake and AMD Ryzen AI 300-powered Copilot+PC products, along with the end-of-service for Windows 10, is expected to further boost AI PC penetration in 2025.

Figure 52: AI PC penetration rising rapidly in 2H24



Source: Canalys, CMBIGM

Figure 53: AI-capable PCs as mainstream by 2025



Source: Canalys, CMBIGM

Lenovo leads AI PC innovation with its AI agent concept, pioneering in edge AI applications

At the 2024 Lenovo Tech World conference, Lenovo not only launched a range of new PC products but also unveiled its definition of the AI PC concept. According to Lenovo, a true AI PC should possess five key features: 1) natural language interaction with a personal AI agent, 2) embedded personal large language models (LLMs), 3) a hybrid AI computing foundation powered by CPU + GPU + NPU, 4) device-level personal data privacy and security, 5) an open AI application ecosystem. As early as 2H23, Lenovo introduced the concept of AI Twins—personal and enterprise-level AI agents designed to create local knowledge bases, run foundational personal LLMs, support AI functions, and enable natural interactions of human and AI PCs. At the 2024 conference, Lenovo further expanded its vision with AI Now, a local AI agent based on Meta's Llama model. This solution enables real-time interaction with a user's personal knowledge base through natural language, allowing users to efficiently complete tasks and retrieve information via AI assistants on their PCs.

As a global leader in PC and other hardware, Lenovo plays a central role in the AI PC revolution by closely collaborating with upstream processor chip vendors and operating system providers. Lenovo is well-positioned to benefit from the accelerated adoption of the AI PCs and the ongoing evolution of the industry.

Figure 54: Lenovo's definition of AI PCs

Source: Lenovo, CMBIGM

Figure 55: Lenovo AI agent Xiao Tian

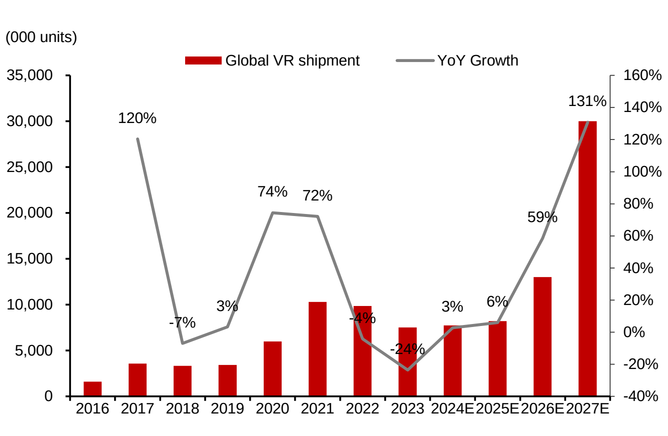
Source: Lenovo, CMBIGM

VR/AR/AI glasses are well-positioned for AI adoption, anticipating a surge in new AI glasses product launches

Global VR device shipment returned to moderate growth in 2024 after a decline in 2023. In 2023, VR devices centered on gaming applications lacked compelling content to drive hardware upgrades or consumer replacements. However, the launch of Meta Quest 3 and Apple Vision Pro in 2024 helped stabilize global VR shipments. According to Wellsenn XR, global VR device shipment will reach 7.74mn units in 2024, up 3% YoY.

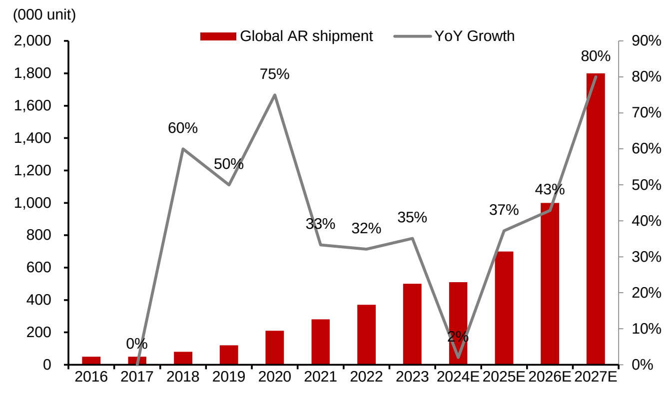
Meanwhile, global AR device market, after experiencing rapid growth in 2023, is expected to stabilize in 2024. In 2023, global AR device shipment reached 510k, up 38% YoY, primarily driven by AR devices with large-screen video watching functions. Notably, Chinese AR device shipment reached 200k, with local AR brands gaining prominence and strengthening the development of upstream supply chain in China. For 2024, Wellsenn XR predicted that global shipments of AR glasses will remain largely flat compared to 2023, due to weaker demand for entertainment-focused AR glasses, which had been a major driver of previous market expansion.

Figure 56: Global VR device shipment and growth



Source: Wellsenn XR, CMBIGM

Figure 57: Global AR device shipment and growth

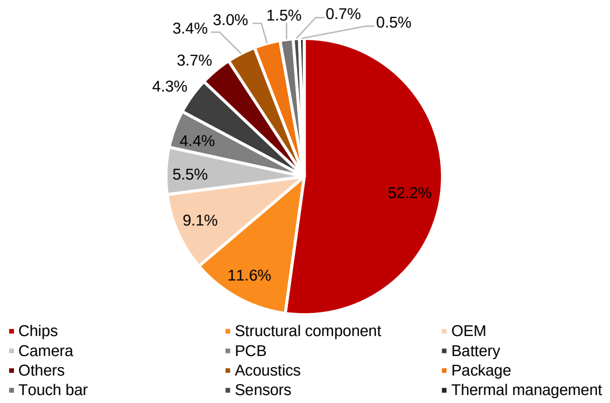


Source: Wellsenn XR, CMBIGM

The launch of 2nd-gen Meta Ray-Ban smart glasses in Sep 2023, a collaboration between Meta and EssilorLuxottica, received positive feedback from global consumers. The Meta Ray-Ban smart glasses integrate Meta's Llama 3 multimodal AI model, enabling features such as AI voice assistant interaction, object recognition, and live translation.

We believe the success of Meta Ray-Ban glasses is attributed to its lightweight and stylish design, which largely reduced traditional AR glasses display hardware spec. This design not only lowered BOM cost but also made the product more accessible to a broader consumer base. Equipped with a 12MP camera and AI capabilities for voice interaction, the glasses allow users to easily capture photos and videos, share on social media, and interact seamlessly with an AI assistant. These qualities position the Meta Ray-Ban AI smart glasses as a fashionable, everyday wearable device that balances style and utility. In the long term, as optical display and spatial computing technologies continue to advance, the design and functionality of AI smart glasses and AR glasses are expected to continue to improve, offering enhanced performance while maintaining lightweight design.

Figure 58: Meta Ray-Ban AI glasses BOM breakdown



Source: Wellsenn XR, CMBIGM

Figure 59: The latest Meta Ray-Ban limited edition AI glasses

Source: Meta, CMBIGM

AR/AI glasses: A new era of innovation with internet companies and smartphone brands entering the market

Chinese AR/AI glasses startups like Rokid, XREAL, Magic Leap, and RayNeo have emerged as key players in the global AR device market. These companies have cultivated robust hardware supply chains and developed industry-standardized hardware solutions. Positive consumer feedback for AR startups' products has prompted major smartphone brands and internet companies to accelerate their AR product deployments and product launches. The combination of AI and AR continues to enhance functionality and user interaction, setting the stage for a vibrant and diverse AR market boom.

In Nov 2024, Baidu unveiled Xiaodu AI Glasses, the world's first native AI glasses equipped with a Chinese-language large language model. This device rivals Meta Ray-Ban glasses, offering features like photo/video capture, real-time Q&A, live translation, and voice memos. Scheduled for release in mid-2025, it signifies Baidu's entry into AI-powered AR solutions. Xiaomi is expected to release its first AI smart glasses in 2025, integrating AI voice assistant capabilities, cameras, and smart audio functions. These glasses will complement Xiaomi's smartphones and AIoT ecosystem, emphasizing seamless cross-device integration. In collaboration with Google and Qualcomm, Samsung is likely to unveil its first AR glasses at the 2025 Galaxy Unpacked event. This device will combine Samsung's ecosystem with cutting-edge AR and AI technologies, potentially making a significant impact in global markets.

We expect 2025 will be a critical year for AR/AI glasses industry, with major smartphone brands and internet companies launching a new wave of flagship products. By leveraging their strengths in AI models, channels and ecosystems, these brands are well-positioned to shape the next phase of the AR/AI glasses industry, paving the way for a new era in wearable technology.

Figure 60: Summary of AR/AI glasses currently available on China AR/AI glasses market

Brand	Series	Type	Resolution	Optical and display solution	Weight	Price (RMB)
RayNeo	Air 1S	Separate	1920*1080	-	-	1,599
	X2	All-in-one	-	Diffractive Waveguide+MicroLED	119g	4,999
	Air 2 Champion	Separate	1920*1080	Birdbath+Sony 0.55 inch Micro-Oled	76g	1,399
	Air Plus	Separate	1920*1080	-	-	1,399
	Air 3	Separate	1920*1080	Birdbath+SeeYA 0.6 inch Micro-Oled	76g	1,699
Xreal	Air 2	Separate	1920*1080	Birdbath+Sony 0.55 inch Micro-Oled	72g	1,799
	Air 2 Pro	Separate	-	Sony 0.55 inch Micro-Oled	75g	2,599
	Air	Separate	-	Sony Micro Oled	79g	1,451
	Air 2 Ultra	Separate	-	-	83g	5,698
	X	Separate	-	-	106g	
Rokid	Rokid Glasses	All-in-one	-	Diffractive Waveguide	49g	2,499
	Rokid Max	Separate	1080P/1200P	Birdbath+Sony Micro Oled	75g	3,599
	Rokid Air Lite	Separate	1920*1200	Sony Micro Oled	75g	4,499
INMO	Air	All-in-one	640*400	Micro-OLED	79g	
	Air 2	All-in-one	640*400	Vertical array light waveguide	-	
	Go	All-in-one	640*480	Diffractive Waveguide+Micro LED	52g	1,951
meizu	StarV View AR	Separate	1920*1080	Sony OLED	74g	2499/2450
	StarV Air2 AR	All-in-one	640*480	Micro LED+single green light engine	44g	2,799
	MYVU Air	All-in-one	1280*480	0.3cc Micro LED+Diffractive Waveguide	43g	2,499
	MYVU exploration	All-in-one	1280*480	Micro LED+Diffractive Waveguide	71g	
Xiaomi	Mijia glasses camera	All-in-one	-	Sony Micro-OLED	100g	2,099
Huawei	Huawei Vision Glass	Separate	1920*1080	Micro OLED	112g	2,199
OPPO	Air Glass	Separate	-	Micro LED+waveguide	30g	-
Baidu	Xiao Du AI Glasses	-	-	-	45g	-

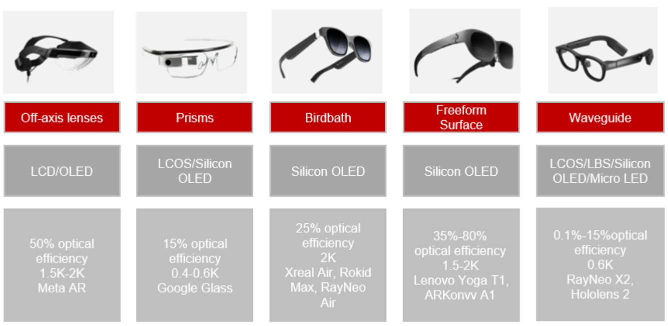
Source: Company websites, CMBIGM

AR glasses supply chain is developing rapidly; more hardware innovations to come

AR glasses adopts optical see-through technology, combining certain functions of regular glasses, while VR generally adopts video see-through technology, capturing information from the real world through sensors and cameras. As a result, AR glasses are typically lighter and provide more realistic visual effects. Their external form and wearing experience can resemble regular glasses.

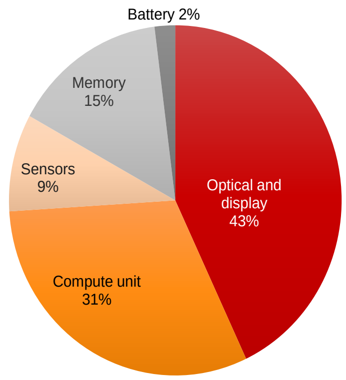
Looking at BOM cost breakdown for AR glasses, the optical display unit accounts for the largest portion. Development of AR display screens goes alongside the advancement of optical solutions. Different optical solutions impose different requirements on the screen, with significant differences in light transmission, optical path design, and size of solution.

Figure 61: AR device optical solution roadmap



Source: Wellsenn XR, CMBIGM

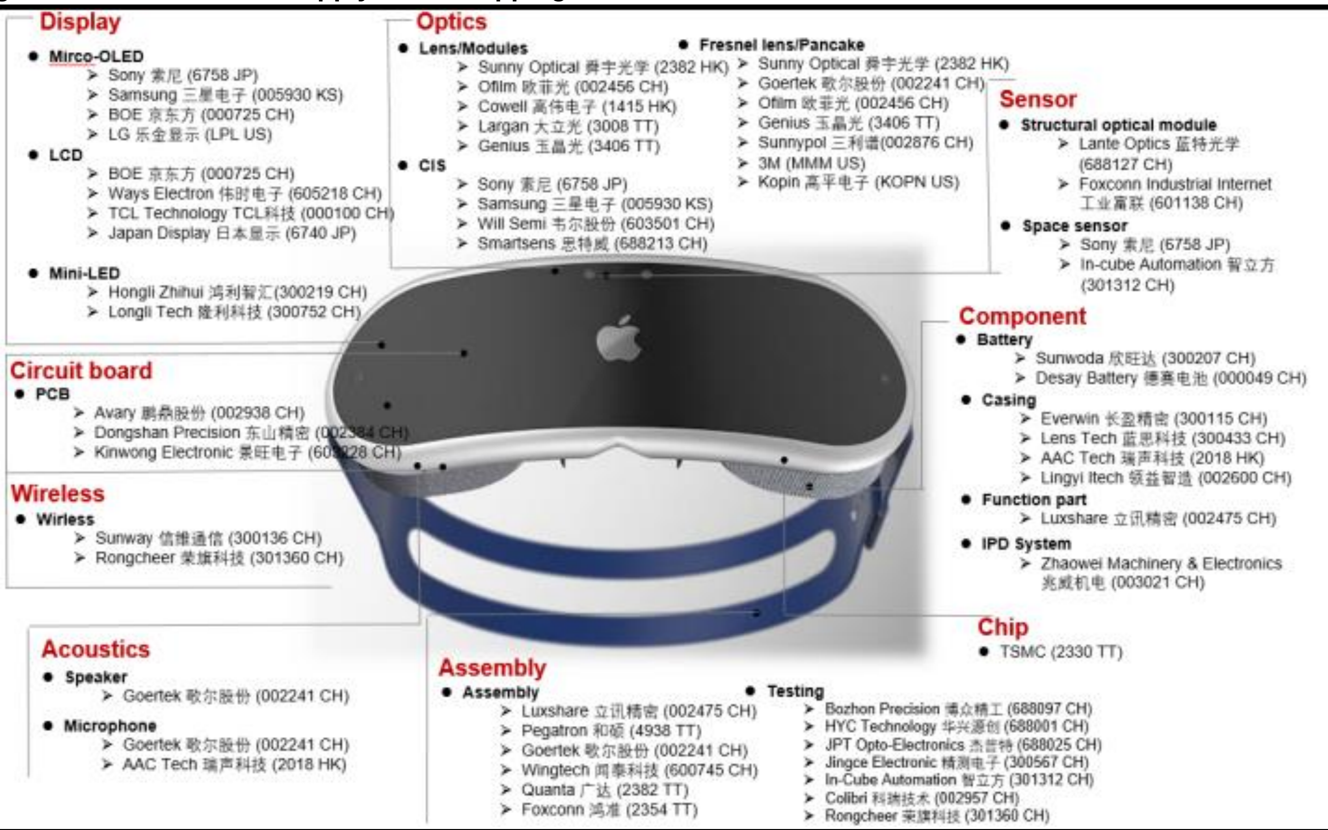
Figure 62: AR device BOM breakdown



Source: iResearch, CMBIGM

Against the backdrop of the accelerated development of AR glasses and AI smart glasses, we are optimistic about companies that are deeply involved in the supply chain. In terms of assembly, we favor manufacturers with leading product customers, such as Luxshare and Longcheer. For SoC (System on Chip) main control chips, in addition to companies like Qualcomm and UNISOC, we believe Bestechnic, which is expected to establish a competitive advantage in the low-power AR product field, will benefit. For AR glasses' optical solutions, we recommend companies that have deep cooperation with major international clients, such as Sunny Optical and AAC Tech. In terms of acoustic solutions for AR glasses, we suggest paying attention to MEMSensing, and AAC Tech.

Figure 63: AR/VR device supply chain mapping



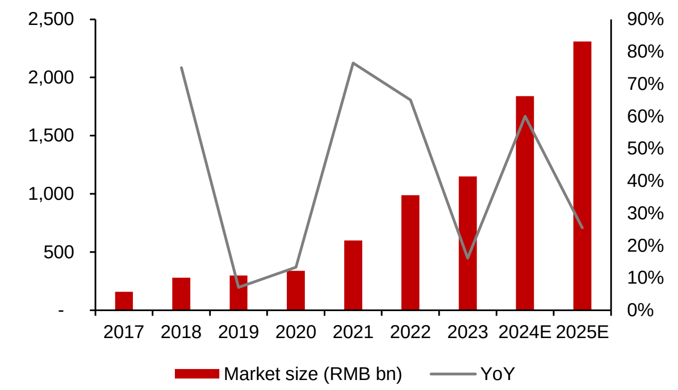
Source: CMBIGM estimates

Auto Electronics: electric+intelligent, autonomous drivind and electronic architecture doman control the major trends

Electrification and intelligence drive the rapid development of new energy vehicles. Electric vehicles, powered by batteries, are gradually replacing traditional fuel vehicles. Compared to traditional fuel vehicles, they have the advantages of zero emissions and low noise. At the same time, electric vehicles have the advantages of strong endurance and convenient charging, breaking down the barriers of traditional fuel vehicles from a technical perspective. Benefiting from the continuous development of battery technology, fast charging, etc., electrification will help the rapid development of the new energy vehicle industry in the future. In addition, intelligence is achieved through AI, autonomous driving, and vehicle networking technologies to help cars achieve self-learning functions from perception to decision-making and execution, thus achieving the goal of full automation of automobiles. Therefore, the integration of electrification and intelligence will drive the transformation of the automotive industry, which is conducive to the rapid development of the new energy vehicle industry.

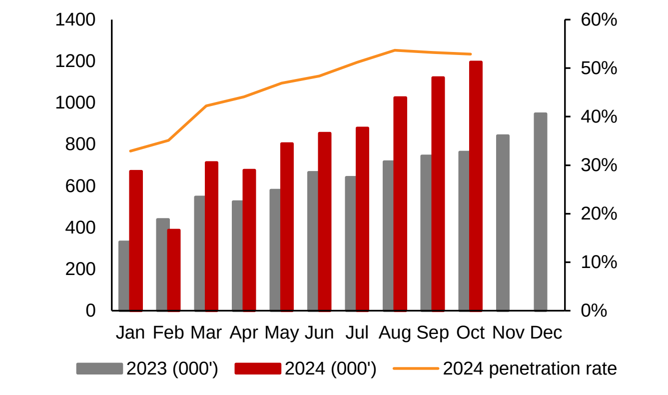
Penetration rate of new energy vehicles will continue to increase. According to iiMedia Research, the market size of China's new energy vehicle is expected to show a rapid growth trend from 2024 to 2025, mainly due to the rich selection of new energy vehicle models in the Chinese market, many attractive products, strong demand, and sustained high market growth. It is expected that the size of China's new energy vehicle market will reach RMB 2.31bn by 2025, a year-on-year increase of 26%. According to data from the China Automobile Dealers Association, the penetration rate of new energy vehicles reached 52.9% in October 2024, and has exceeded 50% for four consecutive months. It is expected that the penetration rate will further increase in the future.

Figure 64: Chinese NEV market size forecast



Source: iiMedia Research, CMBIGM

Figure 65: China's NEV monthly sales trend

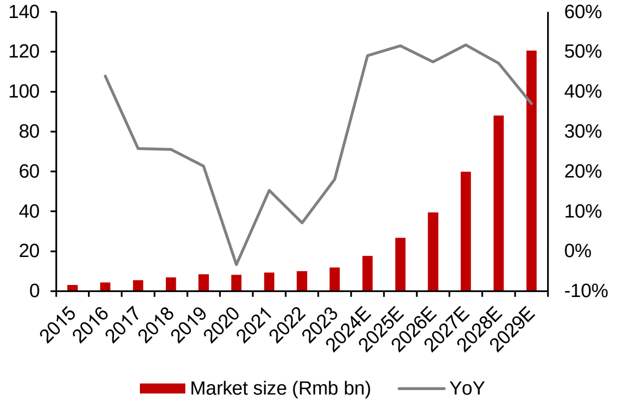


Source: China Automobile Dealers Association, CMBIGM

Rising penetration of level three and above autonomous vehicles is the key trend. Autonomous driving mainly utilizes technologies such as computer vision, sensors, and machine learning algorithms to achieve vehicle perception, decision-making, and control of the surrounding environment. It can effectively reduce the incidence of traffic accidents, improve traffic operation efficiency, and reduce energy consumption. At the same time, it can also enhance the user's driving experience. According to Chyxx, L1 and L2 levels of autonomous driving have become popular, while L3 and L4 levels are also being tested and commercialized in specific scenarios. According to iiMedia Research, under the stimulation of policies, technological innovation, and solid demand, it is expected that China's autonomous vehicle market size will increase by 52% YoY to RMB 26.76bn in 2025.

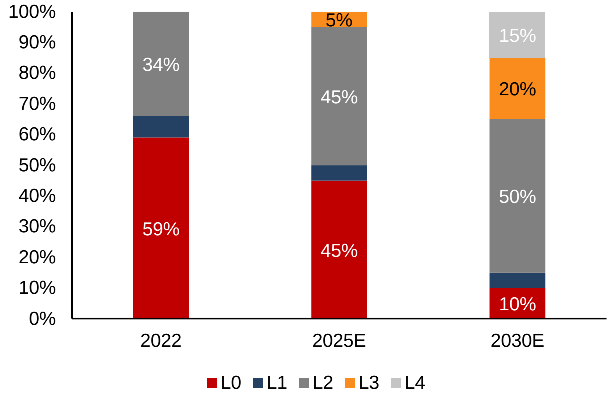
As traditional cars face transformation, the application of autonomous vehicles will become more widespread, and consumers' demand for autonomous driving services will grow synchronously. The penetration rate of L3 level and above autonomous driving is expected to significantly increase from 2025 to 2030.

Figure 66: China's autonomous driving market size



Source: iiMedia Research, CMBIGM

Figure 67: China different levels of ADAS penetration

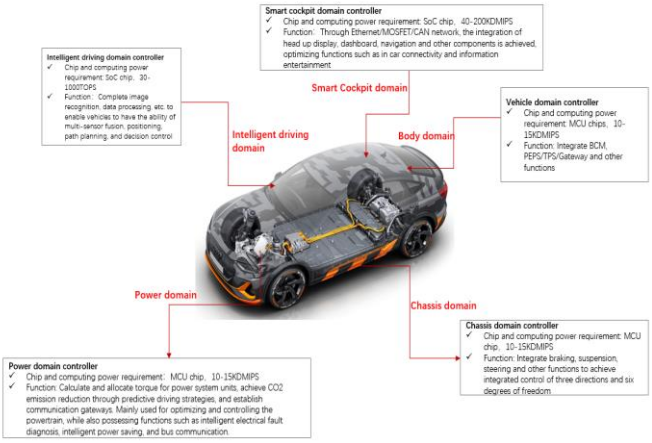


Source: iiMedia Research, CMBIGM

Domain control as an important component of electric vehicles and automotive intelligence is driving up demand. The electronic and electrical architecture of automobiles is related to their performance and affects their intelligent, automated, and networked functions. With the gradual development of automobiles towards electric vehicles and intelligent networking, the importance of automotive electronic and electrical architecture has become increasingly prominent. With the increasing number of automotive functions, the number of independent electronic control units (ECUs) corresponding to these functions is also increasing, resulting in increased costs and weight. The industry is currently transitioning from a distributed architecture to a centralized architecture, achieving centralized management and improving efficiency by reducing the number of ECUs. In addition, the functionality and performance of cars are constantly achieved through software upgrades, driving rapid updates and iterations of car functions. In order to achieve centralization and software upgrades to promote the development of intelligent vehicles, the demand for domain controller architecture has increased. Domain control can divide automotive functions into different fields such as autonomous driving, body control, and power systems. Each field corresponds to one or more domain control management, simplifying the system structure and facilitating software operation and expansion. With the continuous development of automotive intelligence, we expect the demand for domain controllers to continue to increase.

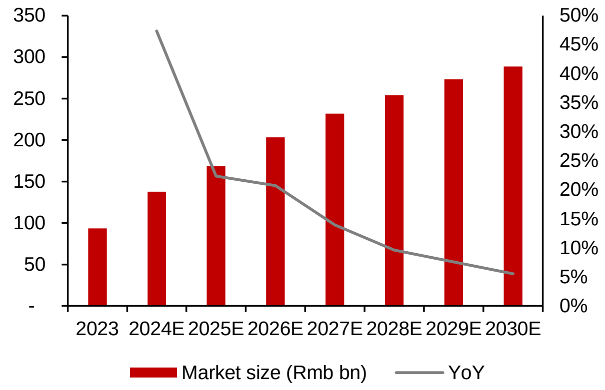
The continuous evolution of automotive intelligence has opened up growth opportunities for the electric vehicle domain controller market. According to Yiou, with the continuous improvement of domain controller technology, the promotion of automobile sales, and the iteration of OEM vehicle models, it is expected that the market size of intelligent electric vehicle domain controllers in China will increase by 22%/21% YoY from 2025 to 2026. It is expected that the market size will exceed RMB 280bn in 2030, and the potential market space is considerable.

Figure 68: Electrical vehicle domain control fields



Source: Yiou, CMBIGM

Figure 69: China's domain control market size



Source: Yiou, CMBIGM

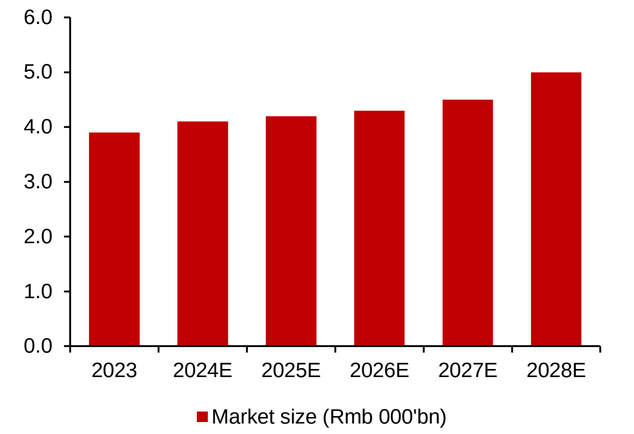
Auto components: Autonomous driving, domain controllers, intelligent cockpits, thermal management and suspension technology innovations

Auto manufacturers and component companies jointly boost rapid development of supply chain. Under the stable growth of global automotive industry, automotive component market is in good condition and showing a steady growth trend. With the refinement of global automotive industry chain, automotive components' suppliers need to cooperate with vehicle manufacturers in the development and production process to develop new products. The partnership between vehicle manufacturers and component manufacturers is gradually maturing, and higher requirements are put forward for the specialization and scale of automotive parts, which will promote the rapid development of automotive parts industry. According to Qianzhan Research Institute, global automotive component market is expected to reach US$453bn by 2026, and further increase to US$1,980bn by 2028, with 109% CAGR from FY26-28E.

Automotive component industry to benefit from policy support and the market size will exceed RMB4.8 tn by 2028. Automotive components are the foundation of the development of the automotive industry and an industry that China has long encouraged to develop. China has introduced a series of policies to promote the development of the industry. Among them, the "Development Plan for New Energy Vehicle Industry (2021-2035)" points out that by 2025, the competitiveness of China's new energy vehicle market will be significantly enhanced, key technologies such as power batteries, drive motors, and vehicle operating systems will make significant breakthroughs, and safety levels will be comprehensively improved. In addition, the "Medium - and Long-term Development Plan for the Automotive Industry" points out the need to break through the shortcomings of advanced automotive electronics such as automotive sensors and on-board chips, as well as lightweight new materials and high-end manufacturing equipment in the industrial chain, cultivate internationally competitive component suppliers, and form a complete industrial system from components to whole vehicles. According to Qianzhan Research Institute, the market size of China's automotive components industry will maintain a steady growth trend, and it is expected that the revenue scale of China's automotive components industry will exceed RMB 4.8 tn by 2028.

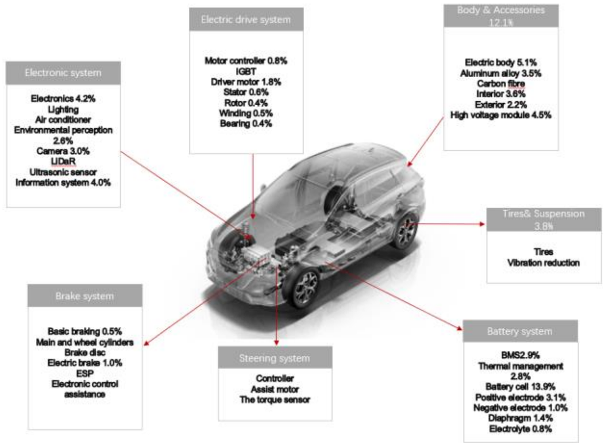
Transformation of auto manufacturing is driven by various innovative technologies, reinventing traditional auto manufacturing and defining innovative performance and functions of vehicles. For example, in terms of **1) electric driving technology,** it includes efficient integrated motors, controllers, and reducers that can ensure fast acceleration but smoother driving of electric vehicles; **2) Lidar, cameras, sensors, and algorithms in autonomous driving technology** help cars achieve autonomous driving, reducing operational errors and improving driving safety. **3) In the intelligent cockpit,** cabin thermal management system includes air conditioning cold air, heat pump warm air or PTC warm air, with heating and cooling requirements; Air suspension focuses on upgrading elastic components, which means that the softness and hardness of the springs can be automatically adjusted according to needs, and electronic control systems and air pumps have been added to endow the suspension with intelligent adjustment functions. **4) Domain controllers, shock absorbers, chassis, etc.** We believe that as the penetration rate of new energy vehicles continues to increase, manufacturers such as BYD Electronics that focus on producing electronic components for new energy vehicles will continue to benefit.

Figure 70: China auto components market size



Source: Qianzhan Research Institute, CMBIGM

Figure 71: New energy vehicle BOM cost



Source: Automotive Electronic Library, CMBIGM

Auto cameras: rapid ADAS development driving camera demand

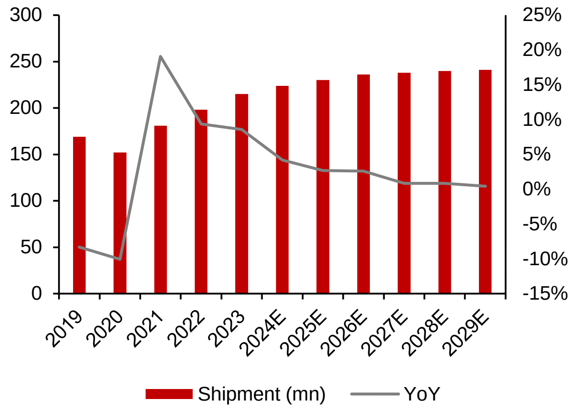
Rapid development of ADAS autonomous driving increasing demand for automotive cameras. The auto camera is mainly composed of optical lenses, CMOS, DSP and other components, and is the foundation of ADAS autonomous driving perception layer. Auto cameras have performance such as high temperature resistance, earthquake resistance, and waterproofing. At the same time, in auto cameras can achieve intelligent driving by integrating and complementing sensors such as lasers and millimeter wave radars to enhance perception and improve the safety and accuracy of autonomous driving. With the rapid development of autonomous driving, the demand for cameras has also increased. According to Gaishi Automotive Research Institute, it is expected that auto camera shipment in China will reach 100mn by 2025, up 20.5% YoY.

Domestic suppliers have a clear advantage in the front and interior camera market. According to Gai Shi Automotive, in the front facing camera market, Sunny Smartlead has benefited from the popularity of the Ideal L series and Volkswagen models, ranking high. The surround view cameras are mainly concentrated in the price range of RMB 100k-200k for new cars, with the highest installation volume in the RMB 100k-150k range. From a brand perspective, BYD has the highest installation volume, reaching 6.282 million units, while both Lixiang and NIO come standard with surround view cameras across the entire lineup. The installation of side cameras and rearview cameras in new cars has significantly increased in the range of RMB 200k-300k and RMB 300k-500k, with prominent demand for side cameras in mid to high price models. The installation of reverse cameras is the highest in the price range of RMB 100k-200k. In terms of vehicle models, Model Y and Sagitar have the highest installation volume, while Model 3 and Wuling Binguo have a 100% penetration rate of reverse cameras. In the car, there is mainly one camera, with Model Y, Model 3, and Lixiang L7 leading in sales. Among the models with standard L2 level functions, the sensor scheme is mainly based on 5V (including surround view) +1-3R scheme. Among the new cars with navigation function, the scheme with 11 cameras is the most commonly used and combined with LiDAR to enhance the vehicle's perception ability.

The 8MP front facing camera is growing rapidly. According to GAC Motor, driven by the urgent demand for high-resolution cameras in autonomous driving, the 8-megapixel front facing car camera has experienced explosive growth, and various large vehicle models have adopted this technology. For example, models from brands such as Ideal, XPeng, NIO, Wenjie, Geely, Baojun, and Tengshi have all adopted 8MP cameras. In addition, local manufacturers of 8MP have also launched related products, and many companies such as

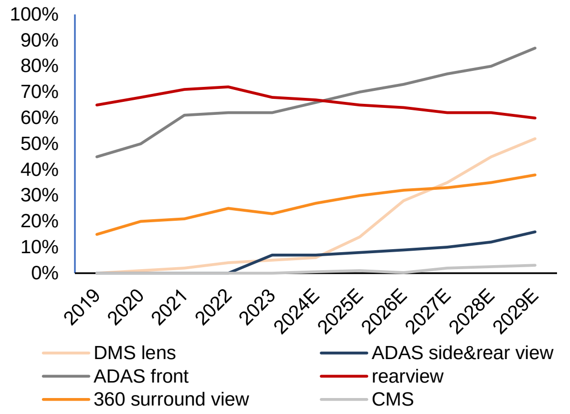
Freetech, Desay SV Automotive, Sunny Smartlead, LianChuang Electronic, and OFilm have entered mass production and delivery.

Figure 72: Auto front camera market size



Source: Gaishi Automotive Research Institute, CMBIGM

Figure 73: Auto camera penetration rate by type

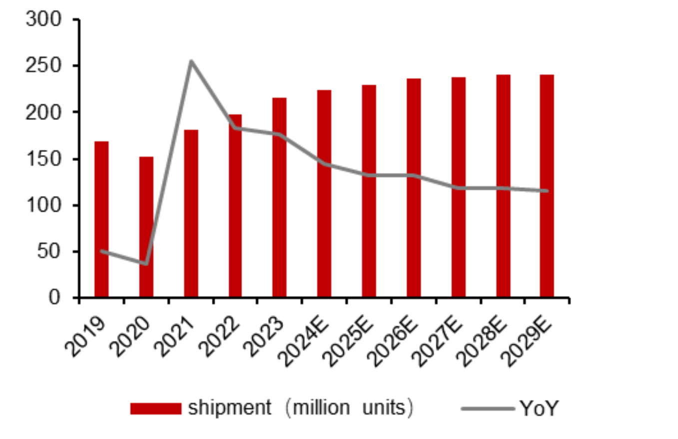


Source: Yole, CMBIGM

Auto display: large & multi-display as mainstream; focus on OLED, Mini LED and CMS opportunities

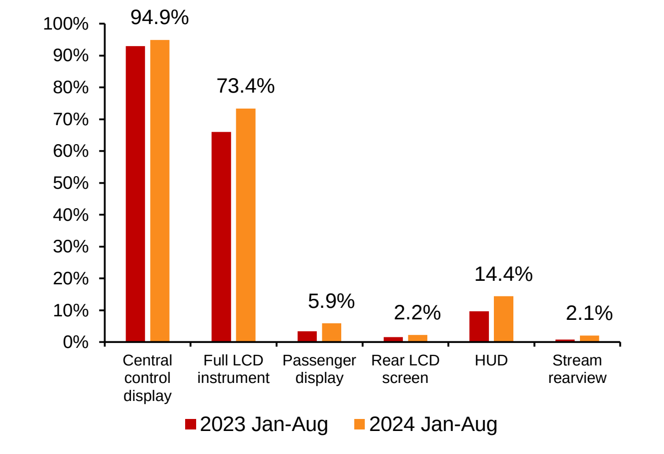
Increasing penetration of innovative auto display products such as HUD, rear-view cameras, passenger screens, and rear LCD screens. According to Gaishi Automotive Research Institute, penetration rate of central control screen and full LCD instrument panel, as traditional in car display products, reached a high level in 2024. In Jan-Aug 2024, penetration rate of central control screens reached 95%, and penetration rate of full LCD instruments increased to 73.4% from 66.0% in the same period of 2023. With continuous enhancement of entertainment and intelligence in car cabins, penetration of emerging in car display products, including HUD (Head Up Display), streaming media rearview mirrors, passenger screens, and rear LCD screens, has shown a clear upward trend. Among them, penetration rate of HUD increased from 9.7% from January to August 2023 to 14.4% in the same period of 2024. The penetration rate of rearview mirrors in streaming media increased from 0.8% to 2.1%. The passenger screen and rear LCD screen are mainly equipped in mid to high end models, but their penetration also increased from 3.4% to 5.9% and from 1.6% to 2.2% respectively.

Figure 74: Global auto display shipment forecast



Source: Sigmaintell, CMBIGM

Figure 75: 2023-2024 auto display penetration



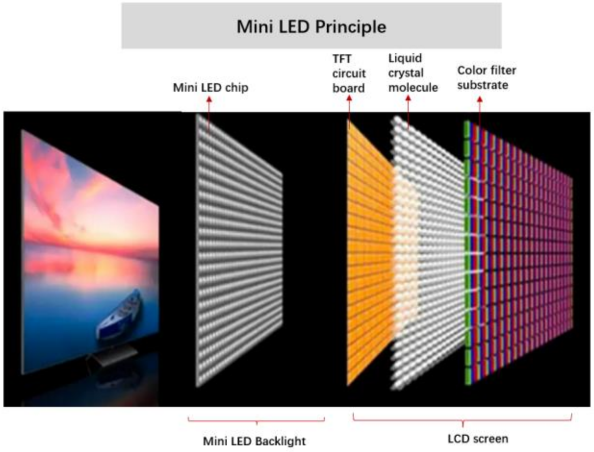
Source: Gaishi Auto Research Institute, CMBIGM

Large and multi-displays are still the mainstream. According to Gaishi Automotive, during Jan-Aug 2024, large-sized central control displays are popular, with 17% of screens being 15 inches or larger and 68% being 10 to 15 inches or larger. The dual screen layout still dominates the market, accounting for 78%, while integrated displays accounts for 11%. The market share of full LCD instruments exceeds 80%, with 29% being larger than 12 inches and 68% being larger than 8 inches. Small size instruments are gradually being phased out, with the mix of 5 inches and below decreasing from 21% to 13%.

Advanced display technologies such as OLED and Mini LED are gradually adopted in high-end NEV. OLED has advantages such as low power consumption, lightweight, high refresh rate, and flexibility, which can significantly increase the added value of automobiles. Mini LED miniaturizes the LED beads in the backlight layer of LCD screens to achieve better brightness. By using LED chip partition dimming, the black and white contrast of LCD can be improved, resulting in a display effect similar to OLED while avoiding issues such as lifespan. According to GAC Motor, due to factors such as cost and technological maturity, these advanced display technologies are mainly applied to mid- to high-end new energy vehicle models. By adopting technologies such as OLED and Mini LED, the central control screen can provide clearer and more delicate display effects, enhancing the user's driving experience.

Camera Monitor System (CMS) has prominent advantages, compared to traditional rearview mirrors. Increasing penetration will benefit leading manufacturers. CMS is equipped with main lens and wide-angle lens, including high-definition camera, digital visual processing system, security system, LCD display and other electronic devices. Compared to traditional rearview mirrors, CMS has a wider field of view and multifunctionality, including waterproofing and anti-fog, which can effectively reduce the risk of safety accidents. In addition, CMS can improve visual experience, save energy, reduce fuel consumption, provide navigation and real-time reminders for drivers, and other auxiliary system functions to ensure driving convenience and safety. Sihan Industry Research Institute forecasts that the market size of the automotive CMS industry is expected to grow from RMB2.7bn to RMB8.1bn from 2024 to 2028, with a compound annual growth rate of 31.68% during this period. According to experts from China Automotive News, the global CMS market is expected to see a significant increase in 2025, with a penetration rate of approximately 5% -10%. Around 2027, it will enter a period of rapid growth, with penetration rates increasing to 15% -20%. We believe that leading companies with large-scale production will continue to benefit.

Figure 76: Mini LED principle



Source: Good Orange Family, CMBIGM

Figure 77: Major auto displays show larger sizes

	Auto type	Image	Display size	Release date
Front (central + passenger screen) display	Galaxy E8		45 inch 8K integrated screen	2024.1
	Im motors L6		26.3-inch integrated screen	2024.4
	Buick Enclave		30-inch central control screen	2H24
Rear entertainment display	Xpeng x9		21.4-inch rear folding screen	2024.1
	NIO ET7		14.5-inch rear screen*2	2024.04

Source: Gaishi Auto, CMBIGM

Figure 78: Peers valuation

Company	Ticker	Mkt Cap (US$ mn)	Price (LC)	P/E (x) FY24E	FY25E	P/B (x) FY24E	FY25E	ROE (%) FY24E	FY25E	Perf YTD
Brand										
Apple	AAPL US	3,748,119	247.96	37.0	33.6	59.8	51.9	156.0	166.6	28.8
Xiaomi	1810 HK	101,043	31.45	29.1	24.5	3.8	3.4	13.1	13.8	101.6
Transsion	688036 CH	14,619	93.28	19.6	16.4	5.0	4.1	26.3	26.4	(5.6)
Samsung	005930 KS	233,810	56,100.00	10.9	9.8	1.0	0.9	9.2	9.5	(28.5)
LG	066570 KS	10,088	88,300.00	9.7	6.6	0.7	0.7	7.5	10.1	(13.3)
TCL Electronics	1070 HK	1,939	5.98	11.1	9.2	0.8	0.7	7.5	8.4	140.9
		Average		**21.3**	**18.2**	**14.1**	**12.2**	**42.4**	**45.3**	**16.6**
ODM/EMS										
BYDE	285 HK	12,159	41.90	19.1	14.0	4.6	3.8	24.2	26.8	14.6
Luxshare	002475 CH	40,319	40.61	21.6	17.7	3.5	2.9	16.0	16.4	17.9
Hon Hai Precision	2317 TT	79,572	186.50	16.3	12.4	1.5	1.4	9.6	11.6	78.5
		Average		**19.0**	**14.7**	**3.2**	**2.7**	**16.6**	**18.3**	**37.0**
Optics										
Sunny Optical	2382 HK	9,541	67.75	27.0	22.7	2.7	2.5	10.1	11.2	(4.4)
Q Tech	1478 HK	983	6.45	19.3	12.9	1.3	1.2	6.9	9.6	45.3
Truly	732 HK	459	1.13	-	-	-	-	-	-	41.3
Cowell	1415 HK	3,041	27.45	29.4	17.1	5.9	4.4	22.1	28.2	19.1
Largan	3008 TT	10,434	2,540.00	14.4	14.2	1.9	1.7	13.3	13.0	(11.5)
Genius	3406 TT	1,601	461.50	11.5	12.3	2.1	1.9	19.8	16.5	9.8
O-Film	002456 CH	6,100	13.43	125.3	49.7	10.6	10.2	6.0	12.2	54.0
Lg Innotek	011070 KS	2,829	171,200.00	6.7	5.8	0.8	0.7	12.2	12.5	(28.5)
		Average		**33.4**	**19.2**	**3.6**	**3.3**	**12.9**	**14.7**	**15.6**
Acoustics/Haptics										
AAC Tech	2018 HK	5,935	38.50	23.0	18.2	1.7	1.6	7.4	8.8	65.9
Luxshare	002475 CH	40,319	40.61	21.6	17.7	3.5	2.9	16.0	16.4	17.9
Merry	2439 TT	827	106.00	13.0	11.9	1.7	1.5	14.1	14.0	(2.8)
Knowles	KN US	1,746	19.83	20.2	18.0	-	-	-	-	10.7
Nidec	6594 JP	21,998	2,816.50	22.5	17.9	2.1	1.8	10.1	10.6	(1.1)
		Average		**22.0**	**18.0**	**2.3**	**2.1**	**11.2**	**12.0**	**19.6**
Connector										
FIT Hon Teng	6088 HK	3,113	3.32	16.5	9.9	1.2	1.0	7.0	10.6	181.4
Luxshare	002475 CH	40,319	40.61	21.6	17.7	3.5	2.9	16.0	16.4	17.9
TE	TEL US	45,269	151.32	20.0	18.7	3.6	3.6	19.1	18.9	7.7
Amphenol	APH US	88,733	73.60	39.9	33.8	9.2	7.8	24.9	25.2	48.5
		Average		**24.5**	**20.0**	**4.4**	**3.8**	**16.7**	**17.8**	**63.9**
Casing										
BYDE	285 HK	12,159	41.90	19.1	14.0	4.6	3.8	24.2	26.8	14.6
Tongda	698 HK	103	0.08	27.3	4.1	0.1	0.1	0.4	2.7	(20.4)
TK Group	2283 HK	214	2.00	5.9	4.7	0.9	0.8	15.2	17.4	49.7
Everwin	300115 CH	3,292	17.71	32.3	27.7	2.4	2.2	10.8	11.7	33.7
Lens Tech	300433 CH	15,004	21.92	26.8	20.0	2.2	2.1	8.5	10.6	66.0
Catcher	2474 TT	3,780	180.50	9.9	11.8	0.8	0.8	7.7	6.2	(7.0)
Jabil	JBL US	14,927	133.64	15.9	15.4	8.8	9.9	44.5	57.9	4.9
		Average		**19.6**	**13.9**	**2.8**	**2.8**	**15.9**	**19.0**	**20.2**
Hinge										
AAC Tech	2018 HK	5,935	38.50	23.0	18.2	1.7	1.6	7.4	8.8	65.9
Jiangsu Gian	300709 CH	1,074	41.98	30.0	23.9	-	-	-	-	34.6
KH Vatec	060720 KS	133	8,070.00	7.3	5.4	0.7	0.7	10.2	12.6	(45.1)
Foseltek	6805 TT	2,110	1,000.00	53.6	26.3	12.8	9.4	25.3	40.4	161.4
Jarlytec	3548 TT	371	182.50	22.0	17.6	2.2	2.1	-	-	(3.7)
NBTM	600114 CH	1,431	16.90	25.4	19.1	3.7	3.3	14.5	17.0	9.1
Dongguan Eontec	300328 CH	843	8.88	-	-	-	-	-	-	27.6
		Average		**26.9**	**18.4**	**4.2**	**3.4**	**14.3**	**19.7**	**35.7**

Source: Bloomberg, CMBIGM estimates, As of 12/13/2024 12:00pm close price

Figure 79: Peers valuation (cont.)

Company	Ticker	Mkt Cap (US$ mn)	Price (LC)	P/E (x) FY24E	FY25E	P/B (x) FY24E	FY25E	ROE (%) FY24E	FY25E	Perf YTD
PC/Server										
Lenovo	992 HK	14,632	9.17	15.7	11.7	2.3	2.3	16.0	20.5	(16.0)
Dell	DELL US	83,481	119.18	17.9	15.2	-	-	(156.9)	(78.1)	55.8
HPE	HPE US	28,350	21.83	11.1	10.3	1.3	1.1	11.9	11.8	28.6
HP Inc	HPQ US	33,711	34.98	10.3	9.8	-	-	(242.5)	(256.2)	16.3
Super Micro	SMCI US	22,210	37.93	16.0	12.2	4.0	3.1	38.3	32.3	33.4
ASUSTeK	2357 TT	14,059	615.00	12.7	12.8	1.8	1.7	14.3	13.4	25.6
Inspur	000977 CH	9,288	45.90	30.0	23.9	3.4	3.0	11.4	12.7	38.3
Dawning	603019 CH	14,502	72.13	50.8	40.5	5.1	4.6	10.3	11.4	82.7
		Average		**20.6**	**17.0**	**3.0**	**2.6**	**(37.1)**	**(29.0)**	**(2.9)**
ODM/OEM										
FII	601138 CH	58,458	21.41	17.5	13.6	2.8	2.5	16.0	18.5	41.5
Huaqing	603296 CH	8,702	62.33	21.1	16.9	2.7	2.3	12.8	13.6	9.2
Quanta	2382 TT	33,940	285.50	19.1	15.1	5.4	4.6	29.1	33.1	27.2
Wistron	3231 TT	9,941	111.50	17.9	13.0	2.6	2.3	15.2	18.3	13.1
Wiwynn	6669 TT	14,385	2,515.00	20.8	17.7	7.0	5.9	41.5	38.8	37.8
Inventec	2356 TT	5,476	49.60	23.8	17.7	2.7	2.6	11.9	14.9	(6.1)
GigaByte	2376 TT	5,525	268.00	18.4	14.4	3.8	3.3	22.9	24.3	0.8
		Average		**19.8**	**15.5**	**3.9**	**3.4**	**21.3**	**23.1**	**(2.9)**
Switch/Storage										
Cisco	CSCO US	234,385	58.85	15.9	16.1	5.1	5.1	32.3	30.7	16.5
Arista	ANET US	134,643	106.88	48.8	43.7	13.9	11.0	31.1	26.7	81.5
Juniper	JNPR US	12,350	37.30	22.6	18.3	2.6	2.5	12.7	13.8	26.5
Keysight	KEYS US	29,216	168.35	27.2	24.3	5.5	5.3	20.0	20.1	5.8
Seagate	STX US	20,654	97.64	97.4	13.2	-	-	(2.1)	(138.9)	14.4
Western Digital	WDC US	22,813	65.99	-	8.8	1.9	1.7	(3.0)	19.7	26.0
		Average		**39.4**	**22.1**	**5.5**	**4.9**	**15.9**	**1.0**	**38.1**
Substrate										
Unimicron	3037 TT	6,642	141.50	29.0	11.7	2.3	2.0	7.7	18.7	(19.6)
Ibiden	4062 JP	3,865	4,190.00	17.5	17.9	1.3	1.1	8.1	6.6	(46.4)
NYPCB	8046 TT	2,088	105.00	156.3	18.0	1.4	1.3	0.2	8.2	(58.3)
		Average		**67.6**	**15.9**	**1.7**	**1.5**	**5.3**	**11.2**	**(41.4)**
PCB										
WUS Printed	002463 CH	9,901	37.56	28.2	21.5	6.2	5.0	22.1	23.8	69.8
Victory Giant	300476 CH	5,174	43.64	32.1	20.3	4.3	3.6	13.7	17.1	136.5
Gold Circuit	2368 TT	3,512	232.00	19.5	15.6	5.6	4.7	31.5	32.6	6.4
		Average		**26.6**	**19.1**	**5.4**	**4.4**	**22.5**	**24.5**	**70.9**
Power Supply										
Delta	2308 TT	33,816	423.00	27.6	22.6	4.9	4.3	17.3	18.9	34.9
Lite-on	2301 TT	7,369	102.00	18.8	15.5	2.7	2.5	14.5	16.7	(12.8)
		Average		**23.2**	**19.0**	**3.8**	**3.4**	**15.9**	**17.8**	**11.1**
Thermal										
FII	601138 CH	58,458	21.41	17.5	13.6	2.8	2.5	16.0	18.5	41.5
Sunowealth	2421 TT	29,486	123.50	25.7	24.8	2.5	2.4	9.7	10.1	2.9
AVC	3017 TT	8,182	686.00	32.3	21.7	9.3	7.2	32.0	38.2	104.6
		Average		**25.2**	**20.0**	**4.8**	**4.0**	**19.2**	**22.3**	**49.7**

Source: Bloomberg, CMBIGM estimates, As of 12/13/2024 12:00pm close price

Figure 80: Peers valuation (cont.)

Company	Ticker	Mkt Cap (US$ mn)	Price (LC)	P/E (x) FY24E	FY25E	P/B (x) FY24E	FY25E	ROE (%) FY24E	FY25E	Perf YTD
Auto Electronics										
Luxshare	002475 CH	40,319	40.61	21.6	17.7	3.5	2.9	16.0	16.4	(4.3)
Sunny Optical	2382 HK	9,541	67.75	27.0	22.7	2.7	2.5	10.1	11.2	7.3
BYDE	285 HK	12,159	41.90	19.1	14.0	4.6	3.8	24.2	26.8	15.2
BOE Varitronix	710 HK	649	6.37	11.5	8.9	1.1	1.0	9.8	11.8	0.4
Intron Tech	1760 HK	179	1.28	5.4	4.0	0.5	0.5	9.7	12.4	(1.5)
Desay SV	002920 CH	8,854	116.11	30.1	23.1	6.7	5.4	23.3	24.1	1.3
Joyson	600699 CH	3,068	15.84	16.5	13.2	1.5	1.4	9.4	11.0	(1.1)
Jingwei Hirain	688326 CH	1,511	91.65	-	81.2	2.3	2.3	(4.7)	2.8	0.3
Foryou	002906 CH	2,333	32.35	25.7	19.7	2.6	2.3	10.2	12.2	(2.3)
O-Film	002456 CH	6,100	13.43	125.3	49.7	10.6	10.2	6.0	12.2	1.2
LianChuang	002036 CH	1,555	10.59	423.6	58.8	4.0	3.4	0.3	4.5	3.1
		Average		**70.6**	**28.4**	**3.7**	**3.2**	**10.4**	**13.2**	**1.8**

Source: Bloomberg, CMBIGM estimates, As of 12/13/2024 12:00pm close price

China Internet

OUTPERFORM

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Headwind persists, but there could be more to expect

Three investment themes: competitive moat and new development space, valuation rerating, and international expansion

Looking ahead to 2025, the introduction of incremental and substantial policies to boost consumption may still be the key driving factor for the structural improvement of China interent sector's fundamentals and valuation. Before that, the sector may still see some fluctuations. The level of shareholder returns, earnings growth and certainty may be the key supports for valuation. We suggest focusing on three key investment themes: 1) The moats of mature businesses and new development space, which will likely drive both earnings growth and valuation rerating (key stocks picks include Tencent, NetEase, Alibaba, Meituan); 2) Sectors where rapid earnings growth has been fairly anticipated while there is still room for valuation rerating, such as OTA, short-video platforms, and education (key stock to focus include Trip.com Group, Kuaishou, New Oriental); and 3) Sectors where international expansion could bring incremental earnings and valuation potential in the medium to long term, such as e-commerce and OTA.

Certainty may still be the focus in the short-term

Looking back at 2024, as macro headwinds still persists, the market's key focus has been centered on earnings growth and certainty of core businesses, the level of shareholder returns, and the increments brought by the new businesses. Looking ahead to 2025, fundamental wise, we like local life services (competition easing, and still has room for further online penetration), online games (new product launch drives fundamental recovery) and OTA (domestic travel demand resilient, consumption behavior shifting online). E-commerce has been weighed down by weak retail sales of consumer goods. Although there is no need to overly worry about the deterioration of domestic competitive landscape, but investment in different aspects to address deficiencies may weigh on short-term margin expansion. For online advertising, we see divergent performances across platforms. Medium- and short-video platforms' ad revenue growth should stay resilient, but traditional social network services or search platforms may face pressure, with advertisers' budgets tilted towards major players providing high-ROI solutions.

Seeking increments: boost to consumption, AI, and international expansion

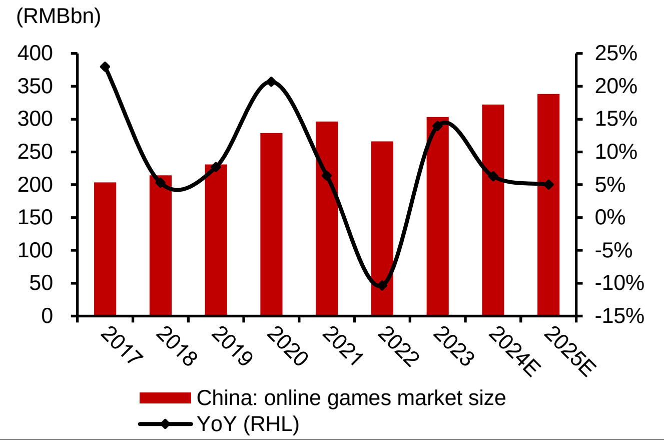
The main expected increments for the industry in 2025 may come from: incremental policies to boost consumption, Gen-AI related monetization opportunities on cloud, ads, and apps, as well as international expansion. In terms of international expansion, with the overseas online penetration rate still relatively low and leading companies having established a relatively strong supply chain foundation, the impressive overseas revenue growth of OTA is likely to sustain, in our view. Due to the disruption of geopolitical risks, investors have not assigned value of overseas business in e-commerce platforms' current valuation, in our view, and the alleviation of the geopolitical risks is likely to bring opportunities for valuation rerating, while a potential boost to domestic consumption could remain key to the rerating.

Robust, sustainable, and predictable shareholder returns could provide valuation support

Chinese internet companies' average net cash/market cap ratio has reached 26% (Fig. 9). As their core business matures, rewarding shareholders with attractive and sustainable returns may prompt the market to re-assess the value of net cash on the books and support valuation, apart from new business initiatives. The sustainability derives from a stable competitive landscape for core business and solid growth prospects. We prefer Alibaba, Tencent and NetEase under the theme of enhanced shareholder return.

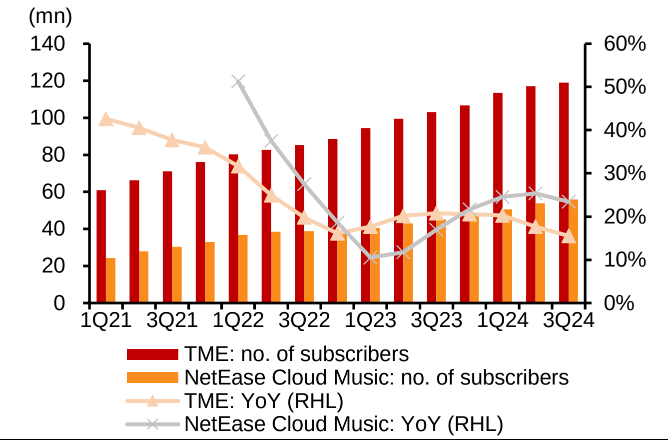
Focus Chart

Figure 1: China: online games market size



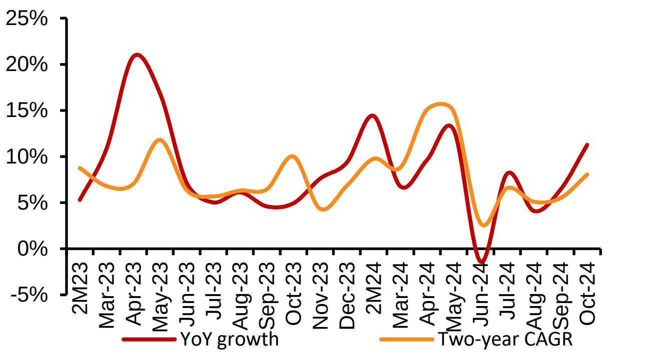
Source: CNG, CMBIGM

Figure 2: China online music: no. of subscribers



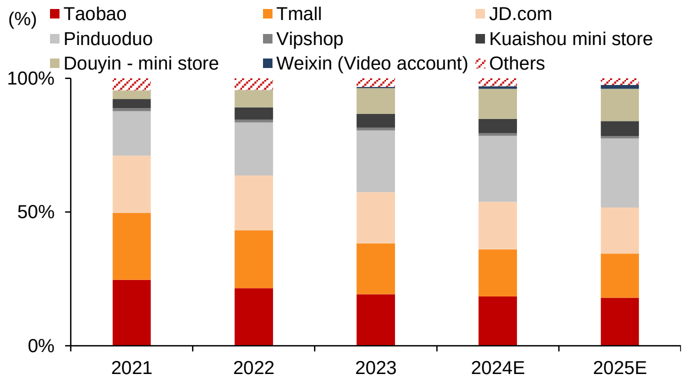
Source: Company data, CMBIGM

Figure 3: China: YoY growth of online physical goods GMV and two-year CAGR



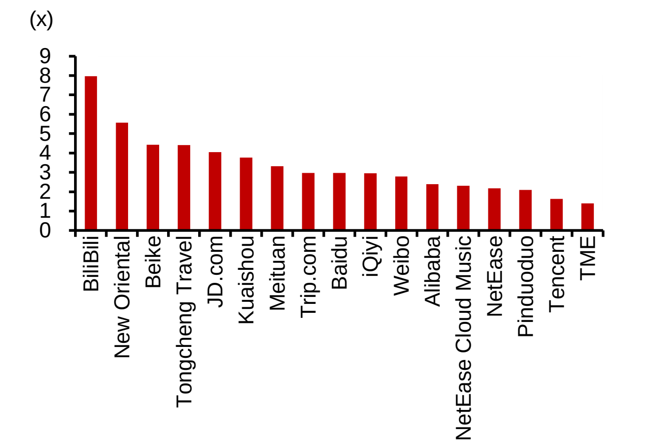
Source: NBS, CMBIGM

Figure 4: China: e-commerce market share



Source：NBS, Latepost, company data, CMBIGM

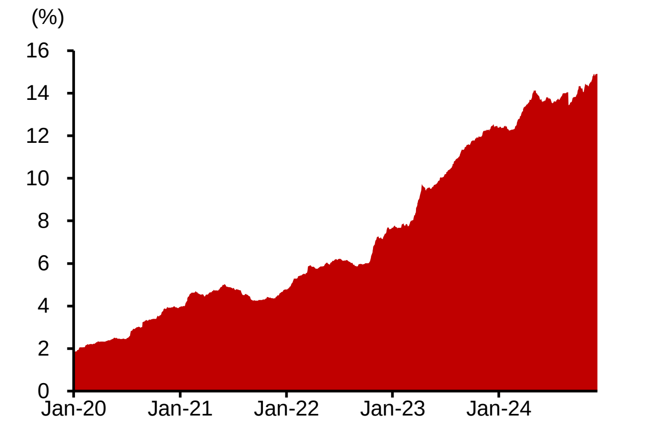
Figure 5: Internet: earnings elasticity



Note：Please see Fig.8 for earnings elasticity calculation

Source: Company data, CMBIGM estimates

Figure 6: Internet: average % shareholding by southbound stock connect



Source: Wind, CMBIGM

China Internet: headwind persists, but there could be more to expect

Looking ahead to 2025, the introduction of incremental and substantial policies to boost consumption may still be the key driving factor for the structural improvement of the sector's fundamentals and valuation. Before that, the sector may still see some fluctuations. The level of shareholder returns, earnings growth and certainty may be the key supports for valuation. We suggest focusing on three key investment themes: 1) The moats of mature businesses and new development space, which will likely drive both earnings growth and valuation rerating (key stocks picks include Tencent, NetEase, Alibaba, Meituan); 2) Sectors where rapid earnings growth has been fairly anticipated while there is still room for valuation rerating, such as OTA, short-video platforms, and education (key stocks to focus on include Trip.com Group, Kuaishou, New Oriental); and 3) Sectors where international expansion could bring incremental earnings and valuation potential in the medium to long term, such as e-commerce and OTA.

Leading internet platforms like Alibaba and Tencent continue to focus on strengthening the competitive moat of their core domestic businesses, investing in new technologies to improve efficiency of core businesses, and expanding overseas to support long-term revenue and earnings growth. In addition, enhancing shareholder returns based on steady core business earnings also provides support for their valuation. As for Baidu, despite the short-term growth challenges of its core search advertising business with competitors gaining user mindshare in different search use cases, Baidu is still aggressively investing in technological innovation and revamping product experiences through Gen AI to improve user engagement and increase user activity. Baidu aims to capture incremental monetization opportunities, through revamping existing monetization methods and seeking new monetization methods (i.e. AI agents).

For 2025, based on the level of business resilience of the various sub-sectors, we prefer local life services (improvement in competitive landscape with potential for online penetration), online games (new game releases driving a recovery in fundamentals), and online travel (travel becoming a necessity, with consumption shifting online). E-commerce sector is impacted by the soft total retail sales. While there should be no further deterioration of domestic competitive landscape, incremental investments by e-commerce platforms to address their weaknesses may drag on short-term profit margin. For online advertising sector, we expect platform performance will continue to diverge, with short-video platforms maintaining resilient ad revenue growth, and ad budgets further concentrating on top platforms with high-ROI ad solutions.

Figure 7: Internet: rating of sub-sector fundamentals

Subsector	Potential for online penetration	Revenue growth	Earnings growth	Growth certainty	Competitive landscape	Earnings resilience	Shareholder return	Regulatory environment
Local life services	★★★☆☆	★★★☆☆	★★★★☆	★★★★☆	★★★☆☆	★★★☆☆	★★☆☆☆	★★★☆☆
Online music	★☆☆☆☆	★★★☆☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★☆☆☆	★★★★☆
OTA	★★☆☆☆	★★☆☆☆	★★☆☆☆	★★★★☆	★★★★☆	★★★☆☆	★☆☆☆☆	★★★★☆
Games	★☆☆☆☆	★★☆☆☆	★★★☆☆	★★★★☆	★★★☆☆	★★★★☆	★★★☆☆	★★☆☆☆
E-commerce	★☆☆☆☆	★☆☆☆☆	★☆☆☆☆	★★★☆☆	★★☆☆☆	★★☆☆☆	★★★★☆	★★☆☆☆
Online ads	★☆☆☆☆	★★☆☆☆	★★☆☆☆	★★★☆☆	★★★☆☆	★★☆☆☆	★★★☆☆	★★★☆☆

Source: NBS, CNNIC, iResearch, CMBIGM

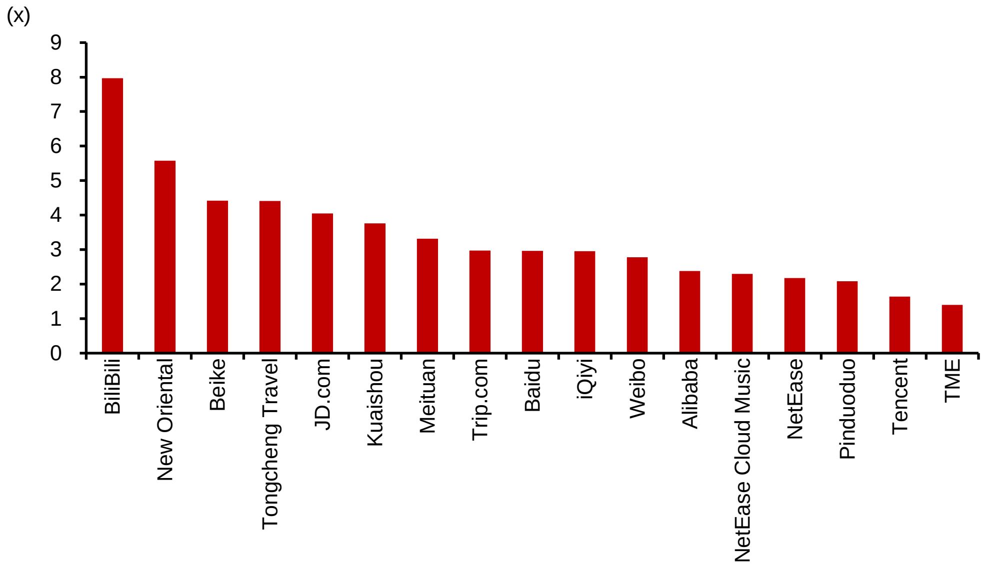
Note: potential for increase in online penetration rate of local life services/OTA/e-commerce is based on the level of online GTV penetration rate, that of online advertising is based on the share of online advertising revenue, and that of online music/gaming is based on the penetration rate of online users; revenue and profit growth rating based on CMBI 2H24 estimates; competitive landscape rating is based on data such as CR5 market share; earnings resilience rating is based on factors such as the correlation between earnings growth rate and GDP growth rate

Based on the recap of stock performance through phases of rise, consolidation, and decline in the past three years, we note that: 1) During the period of sector-wide valuation recovery driven by market sentiment, it is crucial to seek stocks with high beta, like BiliBili, Dada, Weimob, Meituan, SenseTime, iQIYI, Pinduoduo, and Kingdee.

The Politburo meeting on 9 Dec mentioned that China's monetary policy would be adjusted from "prudent" to "moderately loosing". For the first time, it mentioned the need to strengthen “unconventional” counter-cyclical policy adjustments. It also stated the importance of "boosting consumption, improving investment efficiency, and expanding domestic demand ". On 18 Nov, the Minister of Finance indicated that in 2025, there would be an "expansion of the category and scale of the trade-in program for consumer goods", which may suggest that additional consumption stimulus will be introduced. Although the scope and duration of the incremental stimulus policies still need to be detailed, under the current policy environment, we expect: 1) E-commerce stocks, which are undervalued and expected to benefit directly, will likely to exhibit significant stock price elasticity; 2) local life service and online travel platforms may continue to benefit; and 3) advertising platforms could also benefit from the increased ad demand driven by the consumption recovery.

If policies drive better-than-expected revenue growth, we expect certain companies with higher operating leverage (higher fixed costs) to have greater earnings elasticity. Companies ranked by earnings elasticity (i.e. for every 1% change in revenue, operating profit changes by x%) are detailed in Fig. 8. We believe companies like Bilibili, New Oriental, Beike, Tongcheng Travel, and JD.com possess higher earnings elasticity.

Figure 8: Internet: earnings elasticity



Note: earnings elasticity = FY25E GPM/OPM; earnings elasticity is the percentage change in operating profit if revenue changes by 1%, assuming unchanged GPM and opex.
Source: Company data, CMBIGM estimates

- **Local life services:** Looking ahead into 2025, we believe that the overall competitive landscape of the local life services sector could remain stable. The gross transaction value (GTV) of the food delivery/in-store sectors may be expected to maintain YoY growth rates of c.10%/20%+ respectively, mainly driven by the continuous increase in online penetration and category expansion. Benefiting from user subsidy optimization and operating leverage, profit growth should still be faster than GTV growth. In addition to continuously enriching the platform's supply to drive an increase in the purchasing frequency of core food delivery users, achieving more diversified monetization of high-quality food delivery users through more integrated operation of different business segments within core local commerce segment may be worthy of attention in 2025. In the in-store business, the growth of GTV may still be the main driving factor for profit in 2025, in our view, with the main focus on the continuous penetration in lower-tier cities and meeting the diversified consumption needs in core categories through new forms. We maintain our BUY rating on Meituan. The optimization of subsidies in the food delivery business and the continuous penetration in lower-tier cities for in-store business could at least support high earnings growth visibility till 2Q25.

- **Online music:** we expect online music revenue to maintain solid growth of 10-15% YoY in 2025, mainly driven by the balanced growth of paying users and ARPPU. In the long term, the paying ratio of TME/NetEase Cloud Music (21/25%) still have significant room for improvement compared to Spotify's paying ratio in different regions. We are upbeat on the long-term growth outlook of TME/NetEase Cloud Music’s subscribers, but the pace of growth could depend on the company's operational strategy and the balance between subscriber and ARPPU growth. For FY25E: 1) we forecast TME’s online music revenue to grow by 15% YoY in 2025, with subscribers/ARPPU up by 8/8% respectively. The company will continue to balance the growth of subscribers and ARPPU, reduce discounts for VIP memberships, and drive growth of SVIP; 2) we forecast NetEase Cloud Music's online music revenue to grow by 12% in 2025, with subscribers/ARPPU growing by 10/2% respectively.

- **Online travel agency (OTA):** Looking ahead to 2025, we expect the growth rate of domestic tourism revenue to maintain a level that is 2-3 ppts higher than China’s GDP growth rate, and to reach c. 8% in 2025E. The revenue growth of OTA could be even faster than overall industry average, benefiting from the continuous improvement of online penetration. In terms of outbound tourism, we predict that the overall outbound tourism revenue growth of the industry to be at around 10%, while TCOM's outbound tourism revenue growth could reach 25%, mainly thanks to its excellent supply chain capabilities, service capabilities and the well-established brand effect.

- **Online games:** We expect China’s online games market to maintain steady growth of 5% in 2025. The competition remains intense and the sector growth continues to be driven by a few new products. Amid current sector backdrop, we suggest bottom-up stock picking based on game titles. We like Tencent and NetEase, which have high-quality game products and strong pipeline in 2025. We expect Tencent's online games revenue to grow by 8% in FY25, mainly driven by the full-year contribution of *DnF Mobile* and the growth of overseas games revenue; we expect NetEase's online games and other VAS revenue to grow by 7% YoY in FY25, attributable to new game launch like *Where Wind Meets* and *Marvel Rivals,* the return of Blizzard games, and the full-year contribution of *Naraka: Bladepoint Mobile*.

- **E-commerce:** In 2024, the e-commerce sector as a whole was affected by the relatively weak consumer sentiment. The competition brought by live-streaming e-commerce platforms to traditional horizontal e-commerce platforms has shown a marginal easing trend amid slowing user traffic growth. Although the e-commerce industry as a whole benefited from the incremental "national subsidies" in 4Q24, the extension of subsidy period and the expansion of the category range may still be the key focus to determine whether the growth trend can persist in 2025. Although the overall competitive landscape of the e-commerce industry has not deteriorated significantly due to the high requirement of ROI, e-commerce platforms are all increasing their investments in different directions to address their own deficiencies and to enhance their long-term competitiveness, and therefore, we should not have overly high expectations for profit. During periods of large stock price fluctuations, the relatively high level of shareholder returns remains the key support for valuation, in our view. Looking ahead into 2025, the introduction of substantial incremental policies to boost consumption and the further removal of geopolitical uncertainties such as the extent of additional tariffs imposed by the US may be the key supporting factors for industrywide rerating. Based on the current visibility, we predict that the online retail sales of physical goods will grow by 7.1% YoY in 2025 (compared with the Wind consensus forecast growth rate of the total retail sales of consumer goods, which is currently 5.1%). From a short-term perspective, we expect JD.com to benefit more from the national subsidies due to its greater-than-industry GMV exposure to home appliance category and its supply chain advantages. However, from a medium-term perspective, we still prefer Alibaba, which may see a structural improvement in the monetization rate and has a stable level of shareholder returns. And we also like Pinduoduo, whose revenue and profit growth are significantly higher than those of its peers while the valuation multiple is largely on par with peers.

- **Online advertising:** We expect online ad revenue of China's major online ad platforms to grow by 12% in 2025E, accelerating compared to 2024, mainly due to: 1) recovery of consumer sentiment (total retail sales in FY25E: +5% YoY vs FY24E +4% YoY); 2) AI and large models improving recommendation algorithms, user time and ad conversion rates, which in turn drive growth in ad inventory/demand/prices; 3) emerging verticals like mini dramas and mini games creating incremental ad demand. We like Tencent/Kuaishou/Bilibili, as we expect the three platforms to benefit from these three drivers and to maintain faster-than-peer ad revenue growth in 2025E: we forecast Tencent marketing revenue to grow by 17% YoY in FY25E, driven by improvement in Video Account ad load, enhanced ad ROI and price on AI, and incremental ad budget from mini-games/mini-drama verticals; we expect Bilibili's ad revenue to grow by 17% in FY25E, mainly due to incremental ad budget from e-commerce verticals, increased ad load, enhanced ad algorithms; we expect Kuaishou's online marketing revenue to grow by 15% in FY25E, as mini games/mini dramas drive accelerated growth in external marketing revenue, and Kuaishou improves the monetization rate of closed-loop marketing services.

Figure 9: Internet: shareholder return summary

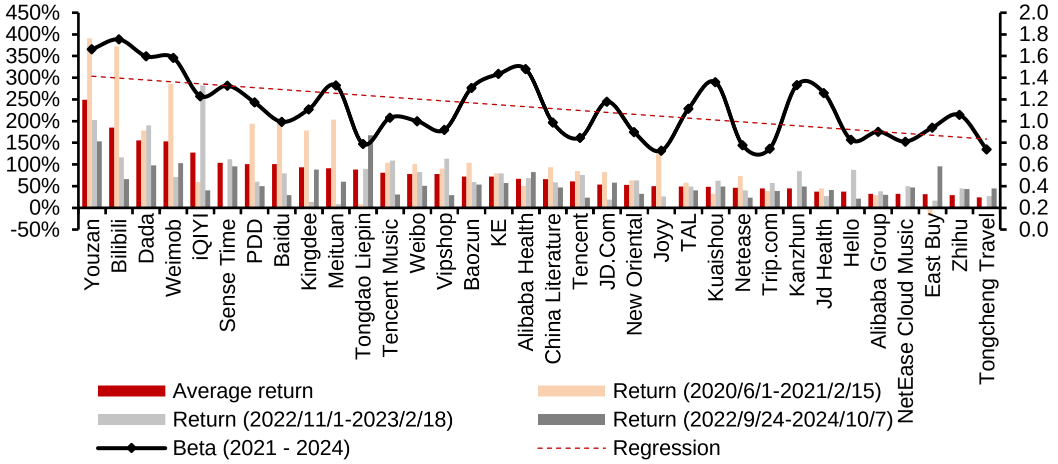
				Cash generation			Shareholder return				Dividend			Share repurchase			SBC		
Company	Ticker	Price (Local)	Mkt cap (US$mn)	FY23 Net cash (US$mn)	FCF Yield FY24E	Net cash /Mkt cap FY23	Div+Repo-SBC FY24E	Dividend Yield FY24E	Share Repo /Mkt cap FY24E	SBC/Mkt cap FY24E	DPS (local) FY24E	DPS (local) FY23	Dividend Payout FY24E	Share repurchase (US$mn) FY24E	Share repurchase (US$mn) FY23	Share repurchase (US$mn) FY22	SBC (US$mn) FY24E	SBC (US$mn) FY23	SBC (US$mn) FY22
China																			
VIPShop	VIPS US	13.1	6,719	3,549	12.6%	52.8%	11.1%	3.8%	10.6%	-3.3%	0.50	0.43	24.3%	(712)	(699)	(931)	(219)	(213)	(180)
JD.com	JD US	37.2	59,180	28,524	9.0%	48.2%	7.4%	2.0%	6.6%	-1.2%	0.75	0.76	26.5%	(3,900)	(356)	(271)	(713)	(678)	(1,122)
Boss Zhipin	BZ US	13.9	6,265	1,779	5.8%	28.4%	4.3%	0.4%	5.6%	-1.6%	0.06	-	11.0%	(350)	NA	(137)	(103)	NA	(103)
Weibo	WB US	9.8	2,389	520	18.8%	21.8%	3.8%	5.7%	2.4%	-4.3%	0.56	0.82	42.6%	(58)	NA	(58)	(103)	(101)	(112)
NetEase	NTES US	91.3	58,622	14,961	8.1%	25.5%	3.7%	1.9%	2.6%	-0.8%	1.78	2.60	27.6%	(1,500)	(739)	(1,238)	(495)	(458)	(472)
Alibaba	BABA US	85.9	204,949	81,186	10.4%	39.6%	3.6%	0.8%	5.0%	-2.2%	0.73	-	12.0%	(10,226)	(10,909)	(9,542)	(4,605)	(4,500)	(3,736)
Tencent	700 HK	412.6	491,328	1,115	5.4%	0.2%	2.8%	1.1%	2.6%	-0.9%	4.49	2.40	20.0%	(12,820)	(6,190)	(4,787)	(4,211)	(3,921)	(4,954)
TME	TME US	12.6	21,537	3,691	4.9%	17.1%	2.2%	0.5%	2.2%	-0.5%	0.06	-	10.7%	(465)	NA	(465)	(105)	(104)	(124)
Meituan	3690 HK	162.4	126,983	11,905	2.7%	9.4%	1.7%	0.0%	2.8%	-1.1%	-	-	0.0%	(3,500)	-	-	(1,364)	(1,184)	(1,300)
Beike	BEKE US	18.8	22,741	5,056	5.5%	22.2%	1.0%	1.1%	2.0%	-2.1%	0.21	-	34.6%	(458)	(719)	(196)	(479)	(454)	(361)
Kingsoft	3888 HK	33.0	5,665	2,961	7.5%	52.3%	0.2%	0.6%	0.5%	-0.9%	0.19	0.13	20.3%	(28)	(31)	(24)	(49)	(44)	(39)
Kuaishou	1024 HK	47.6	26,378	3,838	9.5%	14.5%	0.1%	0.0%	2.2%	-2.1%	-	-	0.0%	(589)	(182)	-	(557)	(504)	(929)
Cloud Music	9899 HK	129.4	3,602	1,338	4.6%	37.1%	-0.2%	0.0%	0.1%	-0.3%	-	-	0.0%	(4)	-	(5)	(12)	(12)	(16)
China Literature	772 HK	28.7	3,739	845	4.2%	22.6%	-0.5%	0.0%	0.0%	-0.5%	-	-	0.0%	-	-	-	(20)	(19)	(36)
Trip.com	TCOM US	69.1	47,211	1,939	4.7%	4.1%	-0.6%	0.0%	0.1%	-0.6%	-	-	0.0%	(26)	(224)	-	(301)	(259)	(177)
TCEL	780 HK	18.4	5,494	863	9.7%	15.7%	-0.7%	0.5%	0.0%	-1.3%	0.10	-	10.9%	-	-	-	(70)	(49)	(66)
Pinduoduo	PDD US	99.9	138,724	29,156	16.0%	21.0%	-1.1%	0.0%	0.0%	-1.1%	-	-	0.0%	-	-	-	(1,502)	(1,000)	(1,148)
Baidu	BIDU US	86.4	30,307	15,393	11.2%	50.8%	-1.5%	0.0%	1.6%	-3.1%	-	-	0.0%	(478)	(669)	(286)	(933)	(896)	(1,079)
Bilibili	BILI US	19.1	8,039	1,068	-0.8%	13.3%	-2.3%	0.0%	0.0%	-2.3%	-	-	0.0%	-	NA	(52)	(187)	(169)	(155)
US																			
Alphabet	GOOG US	176.5	2,160,414	82,049	5.0%	4.1%	2.5%	0.3%	3.1%	-1.0%	0.60	-	7.8%	(67,004)	(62,187)	(71,821)	(21,111)	(22,460)	(19,362)
Apple	AAPL US	242.8	3,670,726	38,169	2.0%	1.1%	2.4%	0.4%	2.3%	-0.3%	0.99	0.94	14.7%	(83,400)	(76,600)	(90,200)	(10,950)	(10,833)	(9,038)
Microsoft	MSFT US	443.6	3,297,890	(22,309)	2.3%	-0.7%	1.1%	0.7%	0.7%	-0.3%	3.18	2.72	24.0%	(23,217)	(18,400)	(28,033)	(11,108)	(9,611)	(7,502)
Meta	META US	623.8	1,574,700	27,479	2.9%	2.1%	0.8%	0.3%	1.5%	-1.0%	2.00	-	9.4%	(23,980)	(20,030)	(27,930)	(16,511)	(14,027)	(11,992)
Nvidia	NVDA US	142.4	3,488,356	14,928	1.8%	0.5%	0.0%	0.0%	0.2%	-0.3%	0.04	0.16	1.6%	(8,560)	(10,040)	(7,080)	(11,364)	(2,709)	(2,004)
Tesla	TSLA US	389.2	1,249,419	19,521	0.2%	3.0%	-0.2%	0.0%	0.0%	-0.2%	-	-	0.0%	-	-	-	(1,889)	(1,812)	(1,560)
Amazon	AMZN US	227.0	2,387,223	(67,776)	2.3%	-3.8%	-1.0%	0.0%	0.1%	-1.1%	-	-	0.0%	(3,000)	-	(6,000)	(26,728)	(24,023)	(19,621)

Note: FY24E share repurchase = average FY23 & FY22 or based on our estimate; FY24E net cash/cash flow/DPS/EPS estimates based on BBG consensus or our estimate

Source: Bloomberg, company data, CMBIGM estimates

Based on the recap of stock performance through phases of rise, consolidation, and decline in the past three years, we note that: 1) During the period of sector-wide valuation recovery driven by market sentiment, it is crucial to seek stocks with high beta, like BiliBili, Dada, Weimob, Meituan, SenseTime, iQIYI, Pinduoduo, and Kingdee; 2) During the period of consolidation and decline, it is crucial to overweight stocks with business resilience, earnings growth certainty, and decent shareholder returns.

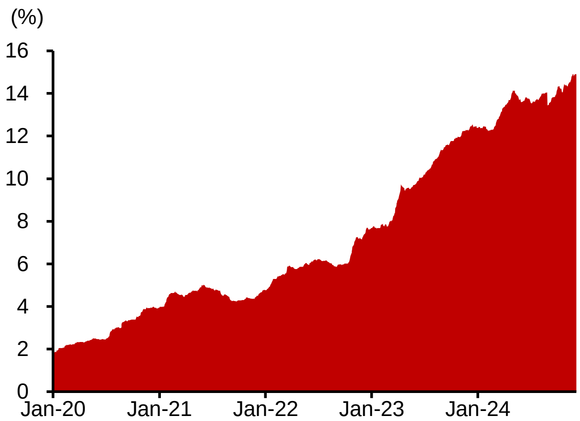
Figure 10: Internet: share price return vs Beta during the last three rallies



Source: Wind, CMBIGM

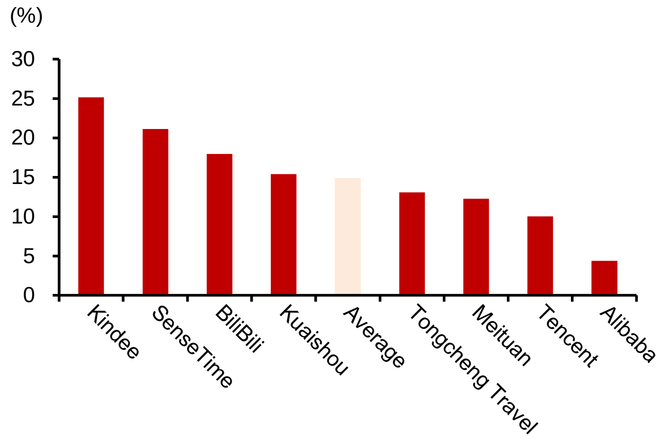
Since the beginning of 2020, the average percentage of shareholding by Southbound Stock Connect in internet and software companies has shown a continuous upward trend, up from 1.9% to 14.9% as of 6 Dec 2024. Within the sector, the percentages of Stock Connect shareholding in Alibaba/Tencent/Meituan/Tongcheng Travel remain low at 4.4/10.0/12.3/13.1% respectively, which still have potential for improvement compared to the average shareholding percentage of the internet sector.

Figure 11: Internet: average % shareholding by southbound stock connect



Source: Wind, CMBIGM
Note: stocks include Kingdee, SenseTime, BiliBili, Kuaishou, Tongcheng Travel, Meituan, Tencent, Alibaba

Figure 12: Internet: shareholding by southbound stock connect



Source: Wind, CMBIGM

Figure 13: Internet: valuation

Company	Ticker	Closing (local)	Mkt cap (US$mn)	PE (x) 2024E	PE (x) 2025E	PS(x) 2024E	PS(x) 2025E	PEG 2025E	EPS CAGR 23-25E
China									
Tencent	700 HK	412.6	491,461	16.6	15.0	5.4	5.0	0.7	25%
Alibaba Group	BABA US	85.9	205,351	9.9	8.7	1.5	1.4	1.5	7%
Pinduoduo	PDD US	99.9	138,724	8.8	7.6	2.5	2.0	0.2	51%
Meituan	3690 HK	162.4	127,018	21.6	17.3	2.7	2.4	0.4	57%
JD.com	JD US	37.2	60,238	9.6	8.8	0.4	0.4	0.5	21%
NetEase	NTES US	91.3	58,878	13.6	12.4	4.0	3.7	3.8	4%
Trip.com Group	TCOM US	69.1	44,487	19.5	18.2	6.1	5.3	0.7	27%
Baidu	BIDU US	86.4	30,307	8.7	8.6	1.7	1.6	NA	-2%
Kuaishou	1024 HK	47.6	26,387	11.0	9.0	1.5	1.4	0.2	53%
Beike	BEKE US	18.8	22,741	19.5	17.1	1.8	1.6	NA	-1%
TME	TME US	12.6	21,537	19.6	14.6	5.5	5.0	0.6	31%
JD Health	6618 HK	29.0	11,902	23.2	20.7	1.5	1.3	2.0	11%
YMM	YMM US	10.8	11,252	21.0	16.6	7.4	6.2	NA	37%
New Oriental	EDU US	62.2	10,299	27.1	19.4	2.4	2.0	0.4	67%
Bilibili	BILI US	19.1	8,038	NA	32.6	2.2	1.9	NA	NA
SenseTime	20 HK	1.7	7,724	NA	NA	12.6	9.8	NA	NA
Ali Health	241 HK	3.6	7,466	28.0	28.0	1.8	1.8	0.6	43%
VIPShop	VIPS US	13.1	6,983	6.0	5.7	0.5	0.5	NA	NA
Boss Zhipin	BZ US	13.9	6,242	17.4	15.5	6.2	5.4	1.1	15%
Kingsoft	3888 HK	33.0	5,667	27.9	22.2	4.0	3.5	0.4	79%
TCEL	780 HK	18.4	5,495	15.8	13.2	2.3	2.0	0.7	22%
China Literature	772 HK	28.7	3,740	19.4	17.4	3.5	3.3	1.1	17%
Cloud Village	9899 HK	129.4	3,598	18.1	16.6	3.2	3.0	0.3	57%
Weibo	WB US	9.8	2,382	5.4	5.3	1.4	1.3	NA	-6%
iQiyi	IQ US	2.2	2,121	9.7	8.7	0.5	0.5	NA	-18%
PA Healthcare	1833 HK	6.0	869	41.1	32.5	1.4	1.2	NA	NA
Baozun	BZUN US	2.4	144	NA	9.9	0.1	0.1	NA	NA
Average				***17.4***	***15.5***	***3.1***	***2.7***		
US									
NVIDIA	NVDA US	142.4	3,488,356	NA	48.7	58.8	27.1	NA	199%
Microsoft	MSFT US	443.6	3,297,890	37.6	33.9	13.5	11.8	2.3	17%
Amazon	AMZN US	227.0	2,387,223	35.9	31.8	3.7	3.4	1.0	37%
Alphabet	GOOGL US	174.7	2,149,245	21.3	19.1	7.3	6.2	0.9	23%
Meta	META US	623.8	1,575,264	26.8	23.8	9.7	8.4	0.8	32%
Tesla	TSLA US	389.2	1,249,419	NA	NA	12.5	10.7	NA	3%
Netflix	NFLX US	934.7	399,562	47.1	39.3	10.3	9.1	1.2	40%
Salesforce	CRM US	362.0	346,424	44.2	36.1	10.0	9.1	1.0	43%
Adobe	ADBE US	553.0	243,413	30.3	26.9	11.4	10.2	2.2	14%
ServiceNow	NOW US	1124.3	231,614	NA	NA	21.1	17.5	NA	26%
Intuit	INTU US	646.5	180,958	38.4	33.5	11.2	9.9	2.3	16%
Shopify	SHOP US	118.4	152,874	NA	NA	17.4	14.1	NA	47%
Average				***35.2***	***32.6***	***15.6***	***11.5***		

Note: as of 6 Dec mkt close
Source: Bloomberg, CMBIGM

Software & IT Services

OUTPERFORM

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Eyes on ramp-up of AI moentization

Against the backdrop of the economic cycle misalignment, the stock price performance of the software sector in China and the US in 2024 generally exhibited a divergent trend. However, AI-related investment, the short-term profit impact of AI, and potential monetization prospects are a common investment theme. Looking ahead to 2025, we posit that from a fundamental dimension, the investment theme associated with AI will follow the pathway from chips to public cloud, followed by infrastructure software and then application software. For infrastructure cloud sector, we recommend watching for cloud business growth as supply eases and AI's impact on margins. For infrastructure software sector, we suggest tracking the speed of AI-related revenue growth. For application software sector, investors may focus on the increments from AI-related subscription revenues. The development of the AI application ecosystems, supported by the declining costs of LLM APIs, may be the key investment focus in the software sector for the coming years.

Public cloud: Supply constraints still partially weigh on revenue growth; focus is gradually shifting to both revenue and profit

In 2024, Chinese infrastructure cloud vendors have gradually overcome the ramifications of business adjustments. Coupled with the revenue uptick in AI GPU cloud, the overall revenue growth rate manifested a trend of sequential recovery. On a full-year basis, as economies of scale gradually emerge, the profit margins of the cloud business of leading vendors all demonstrated a trend of steady expansion. Overseas infrastructure cloud vendors also benefited from the end of the overall cloud expenditure optimization process and the incremental revenue contribution of AI GPU cloud, with their overall revenue growth rates exhibiting a sequential acceleration trend. However, certain vendors were constrained by supply shortages, leading to slight fluctuations in the quarterly growth rate of cloud revenue.

Looking ahead to 2025, the continuous expansion of GPU cloud and the robust growth of public cloud demand are still anticipated to support the steady growth of the cloud industries in both China and the US. In our view, the revenue of Chinese infrastructure cloud vendors (Alibaba Cloud / Baidu Cloud / Tencent Cloud) is expected to grow by 12% YoY in 2025, accelerating compared to 8% in 2024. Meanwhile, we expect the revenue of US infrastructure cloud vendors (AWS / Google Cloud / Microsoft Intelligent Cloud) will experience a year-on-year growth of 21% in 2025, remaining basically stable compared to 2024. Additionally, the market is gradually transitioning from merely focusing on the speed of revenue contribution increments of AI-related cloud to simultaneously focusing on both revenue and profit growth, showing higher concerns regarding excessive Capex expansion and its potential drag on profit margins, and this trend may continue in 2025.

Decline in the utilization cost of LLMs may boost the development of ai application ecosystems

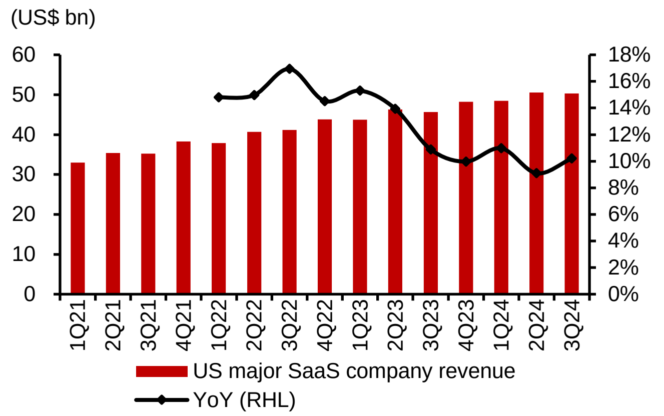
Owing to the continuous optimization of algorithms and hardware, increasing efficiency of model training and inference, and the economies of scale from an expanding user base, the utilization cost of LLMs has been continuously decreasing. We believe that the optimization of model invocation cost will catalyze the gradual prosperity of the AI application ecosystem. In the medium to long term, it is also expected to reciprocally help the continuous iteration of models by vendors, thus the market share of industry-leading players is poised to rise steadily. In the context of LLM applications, segments such as AI cloud, AI agents, AI coding, and the AI-driven optimization of advertising performance are currently the primary ways for LLM monetization. Looking ahead to 2025, with the sustained progress of model iteration and the further coverage of AI applications, we are optimistic that AI applications will contribute further revenue increments to overseas SaaS vendors.

The divergent trends in the fundamentals of chinese and US software companies may continue in the short term

Thanks to better profitability and cash flow outlook, the US SaaS sector commands a certain valuation premium compared to the Chinese SaaS sector (the US / Chinese SaaS: 9.4/3.4x FY25E PS). Looking ahead to FY25E, driven by AI demand, enterprises are expected to continuously increase their IT budgets, supporting the US SaaS sector to maintain high revenue growth, profit margins, and valuations. The Chinese SaaS sector has significant room for fundamental and valuation uplifts, but the pace of an uplift will depend on the macro environment and enterprises' willingness to pay for IT.

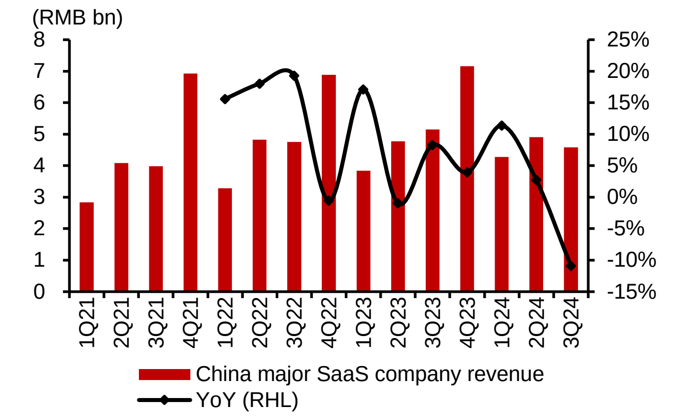
Focus Chart

Figure 1: US: Revenue trends for major SaaS companies



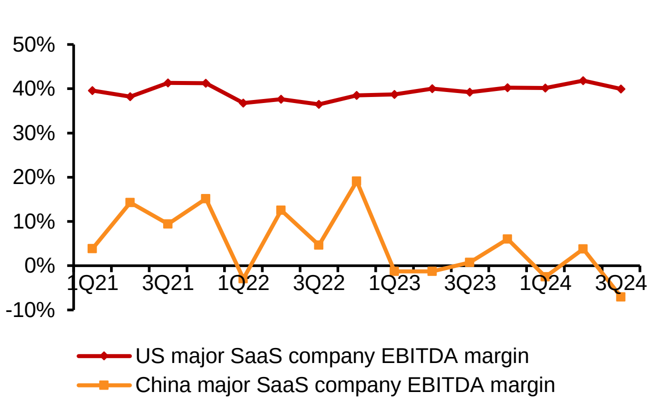
Source: Bloomberg, CMBIGM

Figure 2: China: Revenue trends for major SaaS companies



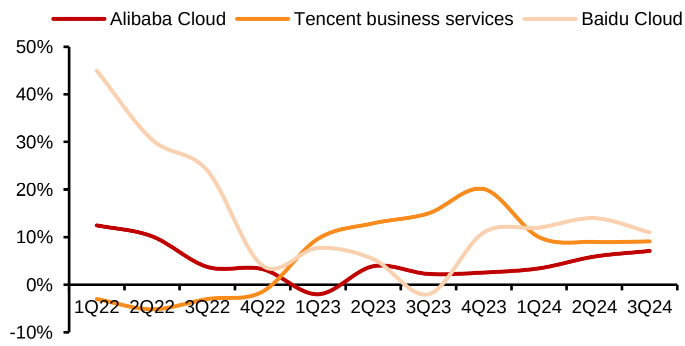
Source: Bloomberg, CMBIGM

Figure 3: China vs US: EBITDA margin comparison for software companies



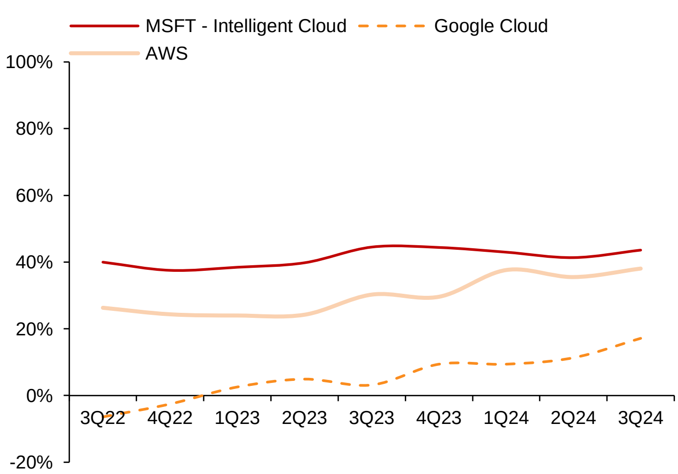
Source: Bloomberg, CMBIGM

Figure 4: China: Cloud revenue growth for major Internet companies



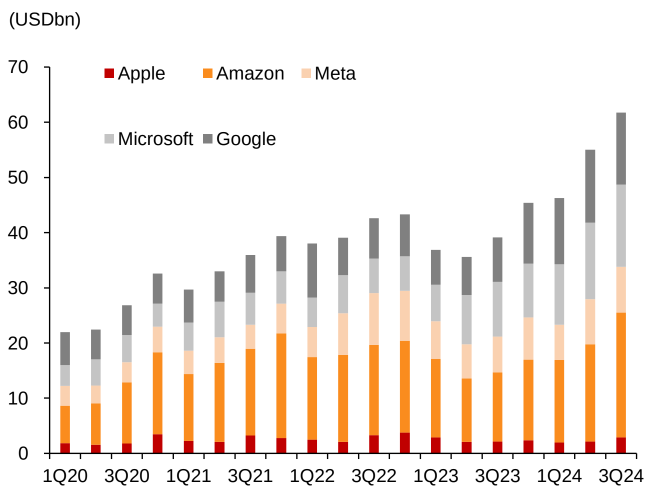
Source: Bloomberg, CMBIGM

Figure 5: US: Margin level for cloud business of major Internet companies



Source: Company data, Bloomberg, CMBIGM

Figure 6: Absolute capex of major TMT companies in the US



Source: Company data, Bloomberg, CMBIGM

Comparison between the US and Chinese SaaS industries: Divergence in fundamentals and valuation under the backdrop of economic cycle misalignment

The valuation premium of the SaaS sector is underpinned by a promising revenue growth outlook and strong cash flow generation capabilities. Owing to more favorable profitability and cash flow projections, the US SaaS sector enjoys a certain valuation premium compared to the Chinese SaaS sector (the US/Chinese SaaS: 9.4/3.4x FY25E PS). At the company level, CrowdStrike, ServiceNow, Datadog, and Palo Alto Networks meet the "Rule of 50" (Free Cash Flow Ratio + Revenue Growth > 50%), with relatively fast revenue growth and strong cash flow generation capabilities, and thus enjoy higher valuation premiums compared to their peers, at 18x/18x/16x/12x FY25E PS. Looking ahead to FY25E, driven by AI demand, enterprises are expected to continuously increase their IT budgets, supporting the US SaaS sector's high revenue growth, profit margins, and valuations. The Chinese SaaS sector has significant room for fundamental and valuation improvement, but the pace of such improvement will depend on the macroeconomic environment and enterprises' willingness to pay for IT.

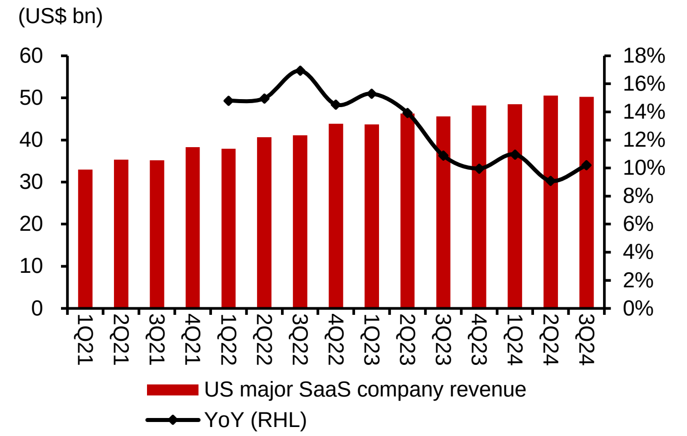
Figure 7: US and Chinese software companies: Valuation comparison

Company	Ticker	Price	Market cap	P/S (x)		EV/EBITDA (x)		Rev. YoY (%)		FCF margin (%)	FCF margin + Rev. YoY
		(LC)	(US$mn)	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2024E
US											
Oracle	ORCL US	178.6	499,480	10.1	9.0	19.9	17.2	10%	12%	22.3%	32.0%
Salesforce	CRM US	354.9	339,591	8.9	8.2	23.0	20.8	9%	9%	31.6%	40.3%
SAP	SAP US	249.5	306,549	9.0	8.1	35.7	25.0	9%	11%	12.5%	21.0%
Adobe	ADBE US	549.9	242,079	10.1	9.1	20.4	18.7	10%	11%	35.8%	46.2%
ServiceNow	NOW US	1147.2	236,319	21.3	17.6	66.9	52.9	23%	21%	31.1%	53.6%
PANW	PANW US	398.4	130,722	13.7	11.9	47.0	40.3	14%	16%	38.6%	52.7%
CrowdStrike	CRWD US	363.0	89,410	22.1	18.2	89.6	72.0	29%	21%	27.0%	55.5%
Fortinet	FTNT US	98.0	75,143	12.5	11.1	35.5	32.6	11%	13%	32.6%	43.7%
Atlassian	TEAM US	274.7	71,558	13.8	11.5	57.2	45.8	17%	20%	32.5%	49.4%
Datadog	DDOG US	156.5	53,087	19.3	15.8	72.4	59.0	25%	22%	28.1%	53.0%
HubSpot	HUBS US	726.1	37,483	14.2	12.3	68.0	56.8	20%	16%	11.6%	31.3%
ZScaler	ZS US	207.9	31,903	11.7	9.7	47.6	37.7	21%	21%	27.0%	47.5%
Zoom	ZM US	86.6	26,649	4.2	4.1	10.3	10.0	3%	3%	32.5%	35.5%
Twilio	TWLO US	113.0	17,331	3.3	3.0	17.3	15.8	6%	8%	15.3%	21.8%
Ring Central	RNG US	41.8	3,764	2.1	2.0	8.7	7.5	9%	7%	14.7%	23.6%
Five9	FIVN US	43.0	3,237	3.2	2.9	17.4	14.8	13%	11%	10.7%	23.9%
Median				**10.9**	**9.4**	**35.6**	**28.8**			**27.5%**	**42.0%**
China											
Kingsoft Office	688111 CH	333.0	21,207	28.2	22.9	95.7	74.0	11%	23%	37.8%	48.4%
Yonyou	600588 CH	12.5	5,900	3.8	3.4	NA	42.4	7%	13%	-10.5%	-3.5%
Kingdee	268 HK	9.6	4,418	4.5	3.8	90.5	43.8	12%	17%	1.5%	13.4%
Glodon	002410 CH	13.2	2,993	2.8	2.6	18.8	14.0	-5%	6%	4.9%	0.2%
Weimob	2013 HK	1.6	700	2.5	2.3	NA	17.1	-15%	16%	-32.8%	-48.3%
Median				**3.8**	**3.4**	**90.5**	**42.4**			**1.5%**	**0.2%**

Source: Bloomberg, CMBIGM; data as of 11 Dec 2024

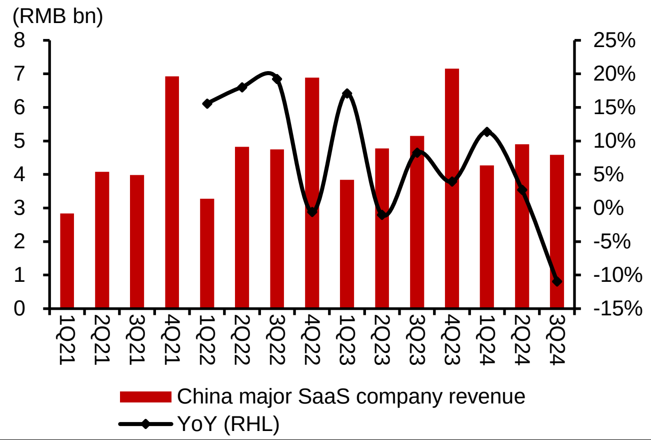
The revenue of major US SaaS companies has maintained a healthy growth trend, with total revenue in 9M24 up by 10% YoY, and the EBITDA margin improved by 1.4 ppts YoY to 40.7% during the same period, mainly driven by enterprises' cost reduction and efficiency improvement measures as well as the enhancement of operational efficiency by AI. The revenue performance of major Chinese SaaS companies has been relatively volatile, with total revenue in 9M24 being flat YoY, and the pressure on the revenue side led to operational deleveraging, with the operating margin slightly decreasing YoY.

Figure 8: US: Revenue trends for major SaaS companies



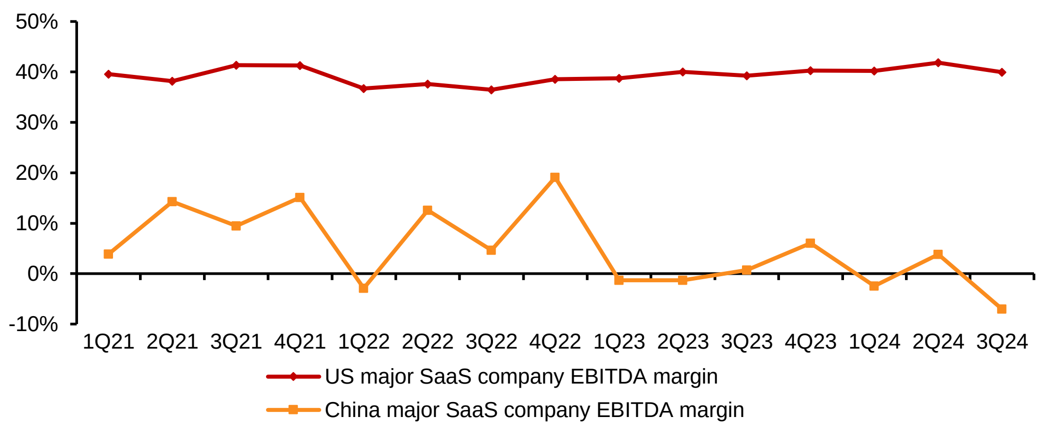
Source: Bloomberg, CMBIGM
Note: including all US SaaS companies in Fig.7

Figure 9: China: Revenue trends for major SaaS companies



Source: Bloomberg, CMBIGM
Note: including all China SaaS companies in Fig.7

Figure 10：China vs US: EBITDA comparison of software Companies



Source: Bloomberg, CMBIGM

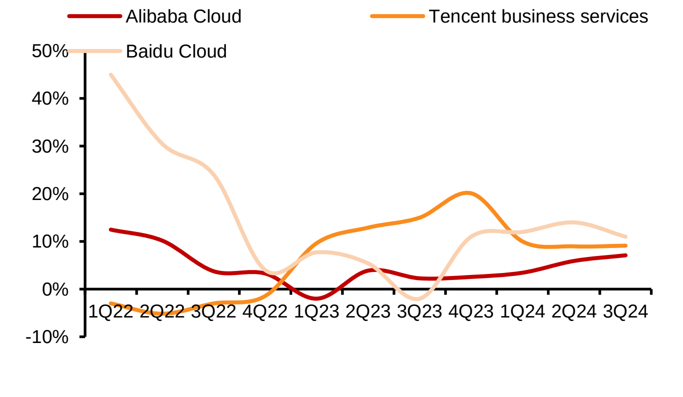
Public cloud: supply constraints still partially impinge on revenue growth; focus is gradually shifting to both revenue and profit

In 2024, Chinese infrastructure cloud vendors have gradually overcome the ramifications of business adjustments. Coupled with the revenue uptick in AI GPU cloud, the overall revenue growth rate manifested a trend of sequential recovery. On a full-year basis, as the economies of scale gradually emerge, profit margins of the cloud business of leading vendors all demonstrated a trend of steady improvement. Overseas infrastructure cloud vendors also benefited from the end of the overall cloud expenditure optimization process and the incremental revenue contribution of AI GPU cloud, with their overall revenue growth rates exhibiting a sequential acceleration trend. However, certain vendors were constrained by supply shortages, leading to slight fluctuations in the quarterly growth rate of cloud revenue.

Looking ahead to 2025, the continuous expansion of GPU cloud and the robust growth of public cloud demand are still anticipated to support the steady growth of the cloud industries in both China and the US. In our view, the revenue of Chinese infrastructure cloud vendors (Alibaba Cloud / Baidu Cloud / Tencent Cloud) is expected to grow by 12% YoY in 2025, accelerating compared to 8% in 2024, mainly driven by a relatively lower base, the sustained steady growth of public cloud business, and the continuous ramp-up of AI GPU cloud revenue. Meanwhile, we expect the revenue of US infrastructure cloud vendors (AWS / Google Cloud / Microsoft Intelligent Cloud) will experience a year-on-year growth of 21% in 2025, remaining basically stable compared to 2024.

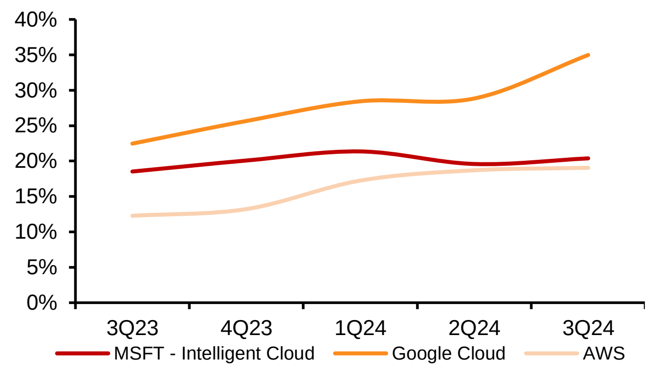
We have observed that the market is gradually transitioning from merely focusing on the speed of revenue contribution increments of AI-related cloud to simultaneously focusing on both revenue and profit growth, showing higher concerns regarding excessive Capex expansion and its potential drag on profit margins, and this trend may continue in 2025. In terms of the outlook for the profit margins of Chinese Internet companies' cloud business, as these companies pay more attention to high-quality cloud projects and the proportion of revenue from AI GPU cloud continues to rise, the increasing economies of scale may help boost the overall profit margins and make them comparable to the margin level of the cloud businesses of overseas peers in the medium to long term.

Figure 11: China: Cloud revenue growth of major Internet companies



Source: Company data, CMBIGM
Note: Tencent Cloud revenue based on CMBIGM estimates

Figure 12: US: Cloud revenue growth of major Internet companies



Source: Company data, CMBIGM
Note: Tencent Cloud revenue based on CMBIGM estimates

Review of cloud businesses of Chinese Internet companies:

1) Alibaba Cloud: Owing to the steady growth of public cloud business, the gradual increase in revenue contribution from AI GPU cloud, and the fading impact of the adjustment of some private cloud businesses with weak prospects for profit improvement, the revenue growth of Alibaba Cloud showed an accelerating trend quarter by quarter. The revenue of Alibaba Cloud Intelligence Group in 3Q24 was RMB29.6bn, up 7% YoY, thanks to the double-digit growth of public cloud and the increasing popularity of AI-related products. The adjusted EBITA margin of the Cloud Intelligence Group in 3Q24 reached 9.0%, with a YoY increase of 3.9 ppts, thanks to the optimization of the product portfolio and improvement of operational efficiency.

2) Tencent Cloud: The revenue of Tencent's enterprise services in 3Q24 maintained a healthy growth trajectory YoY, and the gross profit margin improved YoY. GPU computing power leasing brought incremental revenue contribution, accounting for a double-digit proportion of IaaS revenue in 3Q24. We expect the revenue of Tencent's enterprise services to grow by 10% YoY in 2025, mainly driven by the growth of GPU computing power leasing, self-developed SaaS/PaaS products, and the revenue of technical service fees for Video Account e-commerce.

3) Baidu Cloud: In 2023, revenue of Baidu's cloud business was impacted by the focus on high-quality growth and the high base of the intelligent transportation cloud business, and annual revenue of the cloud business only grew by 6% YoY. In 2024, with the decline of the base effect of the intelligent transportation cloud business and incremental contribution of Gen-AI cloud, revenue growth of Baidu's cloud business re-accelerated, up by 13% YoY in 1H24 (1H23: 6.5%). Despite the short-term business adjustment faced by Baidu Netdisk business, we expect the YoY growth rate of Baidu's cloud business revenue to re-accelerate to 12.5% in 2024 and to rise to 13.5% in 2025 (benefitting from the continued increase in revenue from GPU cloud and cross-selling to CPU cloud).

Review of cloud business of overseas Internet software companies:

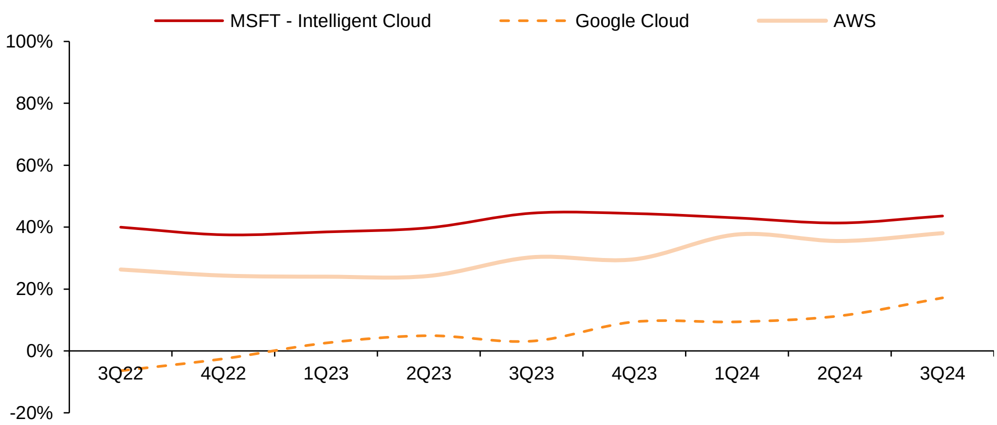
1) AWS: Benefiting from the end of overseas cloud spending optimization and the continuous ramp-up of AI cloud revenue, AWS saw a sequential increase in its revenue growth rate in 2024. In 3Q24, it achieved US$27.5bn in revenue, with a YoY growth of 19.1% (3Q23: +12.3% YoY; 2Q24: +18.7% YoY); The operating margin reached 38.1% (3Q23: 30.3%; 2Q24: 35.5%), mainly driven by the change in server estimated service life (about 2 ppts positive impact YoY), strong revenue growth driving operating leverage, and continuous cost control. Looking forward to 2025, we expect AWS revenue to grow 18% YoY, and the operating margin to improve slightly 0.5 ppt YoY to 37.0%.

2) Microsoft Intelligent Cloud: In 2024, it continued to benefit from the rapid revenue growth driven by the AI cloud business, although supply constraints led to seasonal fluctuations in growth. In 3Q24 (1QFY25), revenue of Microsoft's Intelligent Cloud business grew 20% YoY to US$24.1bn. Among this, Azure and other cloud services revenue grew 33% YoY (1QFY24: 31%), with AI-related services contributing 12 ppts to the growth rate (3QFY24: 10 ppts; 4QFY24: 11 ppts). We predict that Microsoft's Intelligent Cloud business segment revenue will grow 20% YoY in FY25, still driven by the continued growth of the AI cloud.

3) Google Cloud: In 2024, Google Cloud's revenue growth accelerated. In 3Q24, its revenue grew 35% YoY (2Q24/1Q24: +29%/28% YoY), mainly thanks to the strong growth of AI infrastructure and generative AI solutions. In 3Q24, Google Cloud's operating margin increased 14 ppts YoY to a record high of 17%, mainly attributable to operating leverage and improved infrastructure operating efficiency. Looking ahead to 2025, we expect that AI-related businesses will continue to drive Google Cloud's revenue to grow by 28% YoY.

However, the pace of the operating profit margin improvement may slow down relatively, as the increase in depreciation expenses will partly offset the efficiency gain.

Figure 13: US: Operating margin levels for cloud businesses of major Internet companies

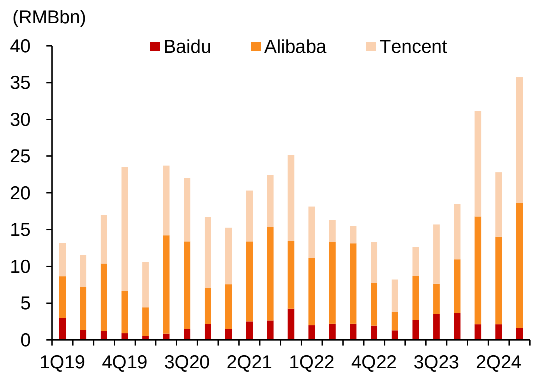


Source: Company data, CMBIGM

Cloud computing hardware market: generative AI-related demand drives Capex expansion of Chinese vendors

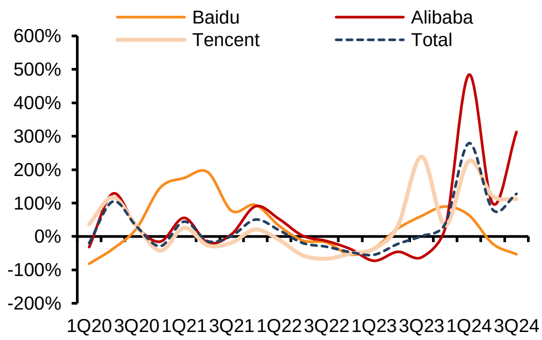
We have collated the Capex figures and YoY growth rates of premier cloud computing enterprises. The American cohort in our sample encompasses Amazon, Microsoft, Google, Meta, and Apple, while the Chinese cohort consists of Alibaba, Tencent, and Baidu. In 3Q24, the aggregate Capex of major Chinese cloud vendors totaled RMB35.7bn, surging 128% YoY. Concurrently, that of their overseas counterparts reached US$61.8bn, ascending 58% YoY. From the demand perspective, major Chinese cloud vendors have been substantially augmenting their Capex, mainly investing into AI training and inference chips. It is anticipated that the generative AI related incremental demand will emerge as the key impetus for the growth of leading Chinese Internet companies' cloud businesses in the future.

Figure 14: Capex of major cloud vendors in China



Source: Bloomberg, company data, CMBIGM

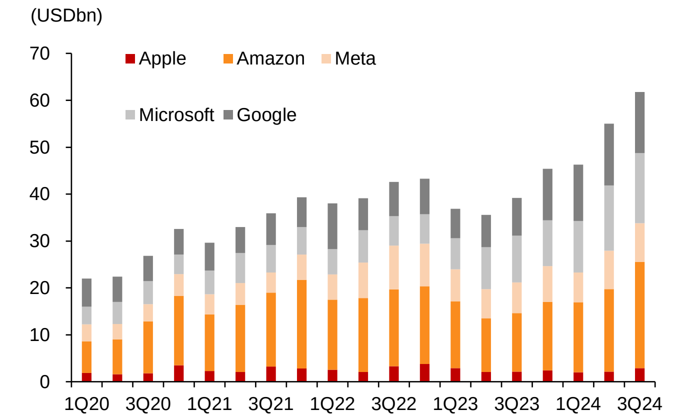
Figure 15: Capex growth of cloud vendors in China



Source: Bloomberg, company data, CMBIGM
Note: Mainly covering Alibaba, Baidu and Tencent.

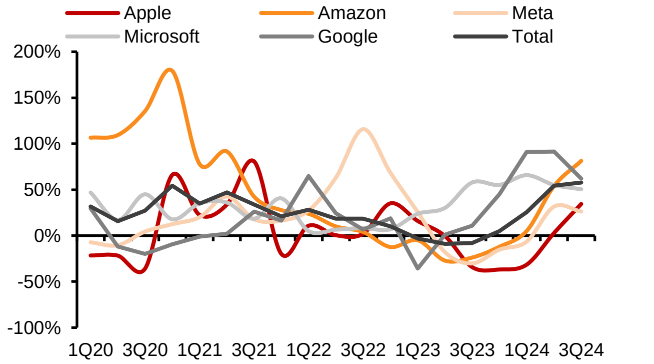
On the overseas front, generative AI is also a major catalyst for Capex. Since the emergence of ChatGPT, overseas giants have been engaged in an arms race. Google, Microsoft, and Amazon have continuously increased their investment in data centers, cloud infrastructure, etc. to enhance their AI competitiveness. In 3Q24, the Capex of leading overseas cloud vendors reached US$61.8bn, climbing by 58% YoY. Overall, we have noticed that the market is gradually shifting from only focusing on the speed of revenue contribution growth of AI-related cloud to simultaneously paying attention to both revenue and profit growth. There are growing concerns about excessive Capex expansion and its potential drag on profit margins, and this trend is likely to continue in 2025.

Figure 16: Absolute capex of major US cloud vendors



Source: Bloomberg, Company data, CMBIGM

Figure 17: YoY Capex growth for major US cloud vendors



Source: Bloomberg, Company data, CMBIGM

Outlook for LLMs: Cost decline boosts the development of AI application ecosystems

Owing to the continuous optimization of algorithms and hardware, increasing efficiency of model training and inference, and the economies of scale from an expanding user base, several large model vendors announced price reduction plans in 2024. In September, Alibaba Cloud's Qwen-Turbo model announced an 85% price cut, with the input price dropping to RMB0.0003 per thousand tokens. Also in July, Baidu Cloud announced the full opening of the ERNIE 4.0 Turbo model to enterprise customers, with the input price set at RMB0.03 per thousand tokens, a 70% reduction compared to the general version of ERNIE 4.0. In May, ByteDance announced that the input price of its flagship model, Doubao, was RMB0.0008 per thousand tokens, significantly lower than the industry average. Driven by the continuous decline in the cost of model API invocations, it is expected that more enterprise customers will connect to LLM APIs in the future, enriching the application scenarios of LLMs and AI, and simultaneously promoting a further increase in the demand for LLM services. In the long run, this will contribute to the consistent iterations of LLMs at vendors and their revenue growth.

Figure 18: Prices for major model API invocation

Small-size Company	Model	Input (RMB/1M tokens)	Output (RMB/1M tokens)
Alibaba	Qwen-turbo	0.30	0.60
Baidu	ERNIE-Speed-8K	Free	Free
Tencent	Hunyuan-lite	Free	Free
ByteDance	Doubao-lite-4k	0.30	0.60
Yi	Yi-spark	1.00	1.00
iFlytek	Spark Lite	Free	Free
MiniMax	abab5.5s-chat	5.00	5.00
Zhipu	GLM-4-Air	1.00	1.00
Mistral	Mistral 7B	1.81	1.81
Replicate	meta/llama-2-7b	0.36	1.81
Claude	Claude 3 Sonnet	0.02	106.95
Google	Gemini 1.0 Pro	3.57	10.69
OpenAI	GPT-3.5-Turbo-0125	3.61	10.83
Large-size Company	**Model**	**Input (RMB/1M tokens)**	**Output (RMB/1M tokens)**
Alibaba	通义千问 Qwen-max	20.0	60.0
Baidu	文心一言 ERNIE-Novel-8K	40.0	120.0
Tencent	混元大模型 hunyuan-turbo	15.0	50.0
ByteDance	火山云 Doubao-pro-128k	5.0	9.0
Yi	Yi-large-turbo	12.0	12.0
iFlytek	Spark4.0 Ultra	1.0	1.5
MiniMax	Abab6.5-chat	30.0	30.0
Zhipu	GLM-4	100.0	100.0
Mistral	Mistral Large	57.8	173.3
Replicate	Meta/llama-2-70b	4.7	19.9
Claude	Claude 3 Opus	106.9	534.7
Google	Gemini 1.5 Pro	49.9	149.7
OpenAI	GPT-4	216.6	433.2

Source: Company data, CMBIGM

Overseas AI applications: Introduction of enterprise applications contributes to order and revenue growth

Overseas SaaS vendors have already developed AI applications for multiple scenarios for both the enterprises and consumers. In the early stage of AI applications, we've observed that overseas enterprise customers have already developed relatively high AI demand stickiness and a willingness to pay. Companies like Salesforce and ServiceNow have obtained considerable AI-related orders and revenues, driving business growth. Looking ahead to 2025, with the iteration of models and further coverage of AI application scenarios, we are optimistic that AI applications will contribute further revenue increments to overseas SaaS.

Salesforce Agentforce: AI empowers various business scenarios of enterprises. In October, Salesforce officially announced the launch of Agentforce. As a brand-new feature on the Salesforce platform, it can assist enterprises in building and deploying AI agents that can independently execute various business functions. Agentforce goes beyond traditional chatbots and collaborative assistants. It utilizes advanced reasoning capabilities to make decisions and take actions, such as resolving customer issues, screening sales leads, and optimizing marketing campaigns. Agentforce can complete work without relying on human intervention; agents can be triggered by data changes, business rules, preset automation, or API signals from other systems.

Agentforce agents are proactive and autonomous applications that can provide professional and round-the-clock service support for employees or customers. Agentforce is charged at a list price of US$2 per conversation. According to the company's ROI calculator, it is expected to help enterprises save approximately 30% of costs over a three-year period in the base scenario. Subsequently, Salesforce announced its plan to recruit more than 1,000 employees to further promote the sales of its newly launched AI product, Agentforce.

Figure 19: Salesforce AgentForce：Application Scenarios

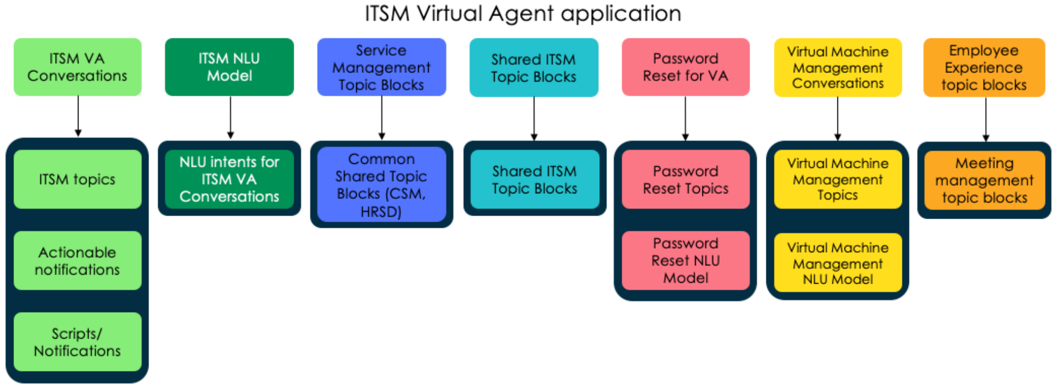
Source: Company data, CMBIGM

ServiceNow Virtual Agent: Integration of Agentic AI capabilities. In September, ServiceNow announced the integration of Agentic AI into their platform. By covering multiple scenarios such as IT, customer service, procurement, human resources, and software development, it further enhances enterprise productivity. The first batch of AI agents for Customer Service Management (CSM) and IT Service Management (ITSM) will be launched in November this year, which is expected to reduce the average time for problem-solving and improve the work efficiency of employees.

The ServiceNow Virtual Agent can handle common problems and routine requests, enabling enterprise customer service and technical personnel to focus on more complex user issues. Enterprises can adjust the look and feel of the chat experience according to different audiences of the business and run chatbots in various common or customized messaging channels. At the same time, enterprises can monitor the performance of AI assistants in real-time through analytical dashboards.

Generative AI products have drivin robust demand. ServiceNow already has 44 customers with Now Assist spending over US$1mn, and the estimated total ACV has exceeded US$85mn (about 1% of cRPO).

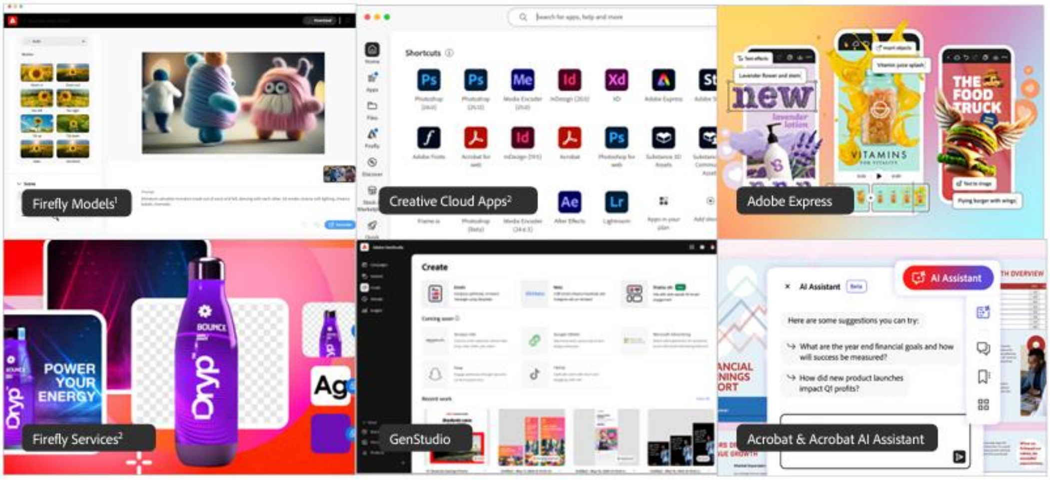
Figure 20: ServiceNow ITSM Virtual Agent application



Source: Company data, CMBIGM

Adobe Firefly Video Model: AI empowers the creative industry. During the Adobe MAX conference in 2024, Adobe introduced the Firefly video model and an upgraded version of its image model. Users can effortlessly generate videos of their choice by simply inputting prompts. This innovative product can mimic a diverse array of styles, such as highly realistic live-action cinematic effects, captivating 3D animations, and charming stop-motion animations. Notably, in addition to text prompts, the model offers the functionality of creating supplementary footage for existing content by uploading a single frame.

Figure 21: Adobe MAX: AI applications update



Source: Company data, CMBIGM

Duolingo Call with Lily: AI + Education improves user experience. At Duocon 2024 in September, Duolingo unveiled a series of significant product enhancements, notably the introduction of the AI-powered video call feature, Video Call with Lily. This novel application is designed to augment the user experience. Duolingo Max subscribers can now engage in spontaneous and highly realistic conversations with Lily, one of Duolingo's most beloved characters. The video call technology is engineered to replicate natural conversations, presenting users with a personalized and interactive learning environment. Even novice learners can communicate with confidence in a stress-free setting, as the video call dynamically adapts to the user's proficiency level. By affording the opportunity for real-time exchanges, this feature empowers learners to build the essential self-assurance required for effective communication in real-world scenarios. Currently, this functionality is accessible to Duolingo Max subscribers engaged in learning English, Spanish, and French.

Figure 22: Duolingo: Call with Lily

Source: Company data, CMBIGM

Domestic AI applications: Expanding AI use cases, with monetization still at the early stage

In the current landscape, China's AI applications predominantly center on four major domains: Multi-functional intelligent assistants, productivity enhancement, creative generation, and leisure & entertainment. Productivity tools, due to addressing urgent efficiency demands, are relatively more advanced in terms of product quantity, functional richness, market penetration, and monetization. Along with the deepening integration of technology with vertical industries, we hold an optimistic outlook for AI application vendors that have the ability to achieve further breakthroughs in multimodal technology and possess first-mover advantages in monetization, such as Baidu, Alibaba, and Tencent.

Comprehensive tools: Multi-functional AI assistants, with agents as the core to provide services covering multiple scenarios. AI agents, underpinned by LLMs, can think independently and invoke tools to complete given goals step by step. The agent will autonomously split tasks, use tools, and complete work, while users are only responsible for setting goals, providing prompts, and supervising results.

The providers of platform-type agents in China are mostly Internet companies or leading LLM startup companies, such as Baidu, ByteDance, Tencent, and Kimi. The diverse tools used by platform-type AI intelligent assistants are essentially an important bridge for transforming the thinking of LLMs into specific actions and executions. Currently, the main supported tool types include AI + Chatbot, information retrieval, file reading, etc., but most platforms are in the early stage of tool ecosystem construction and monetization.

Among the comprehensive tools, the relatively differentiated Zhixiaobao is an AI life steward application launched by Alipay in September 2024. Different from competing products that focus on learning and work efficiency scenarios, Zhixiaobao conveniently empowers daily scenarios by relying on Alipay's huge life service system and can complete one-click ordering, ticket booking, etc. Due to its differential positioning, we expect significant growth potential for Zhixiaobao within the AI + life service sector.

Figure 23: AI intelligent assistant applications

腾讯元宝　　字节跳动豆包　　支小宝

Source: Company data, CMBIGM

Productivity enhancement tools: Revolutionize and upgrade multiple enterprise production scenarios to improve overall work efficiency and optimize production costs. The main vendors have upgraded the original productivity applications and offer a variety of functions, including document understanding, text generation, meetings summarization, PPT generation, and data analysis. These functions assist users in obtaining more accurate information in a timely manner and enhancing overall work efficiency. For example, DingTalk, based on Alibaba's Tongyi Qwen model, has launched product capabilities such as image understanding, document speed-reading, and workflow. In November 2024, it introduced "Selected AI Assistants" for key enterprise scenarios. The first batch includes six major cohorts: work order assistant, administrative assistant, Excel assistant, reputation assistant, legal assistant, and approval assistant.

Figure 24: DingTalk introduced "Selected AI Assistants" for six key enterprise scenarios

Source: Company data, CMBIGM

Baidu launched the no-code tool "Miaoda" at the Baidu World Conference in 2024. It features no-code programming, multi-agent collaboration, and multi-tool invocation, which enables users to directly generate code and build exclusive agents with natural language input, lowering the technical threshold and allowing non-technical users to participate in the application development process. For the developer community, Baidu Ernie supported "Kuaima" can provide auxiliary suggestions throughout the entire research process and scenarios to help improve coding efficiency.

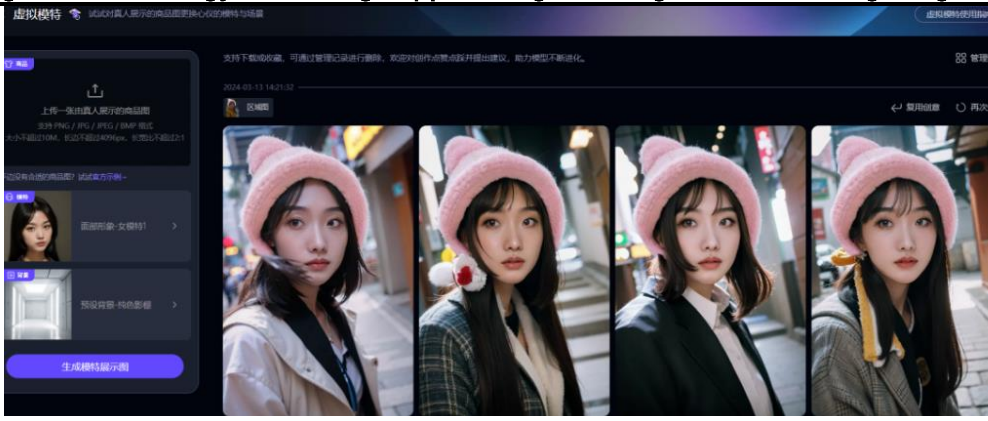
In addition to improving internal efficiency within enterprises, empowering external customer services is also one of the current mainstream AI applications. Baidu's intelligent customer service tool "Keyue", underpinned by the Ernie model, can precisely grasp user intentions and emotions and promptly respond to needs. It now has been widely used in numerous industries such as finance, automotive, transportation, energy, government affairs, e-commerce, cultural tourism, etc., helping governments and enterprise institutions reshape their competitiveness in customer service and product marketing.

Figure 25: Baidu's intelligent customer service tool "Keyue"

Source: Company data, CMBIGM

Creative generation tools: These comprise AI design, AI image generation and editing, AI video, AI music, etc., and are expected to create significant value in multiple vertical fields such as advertising, marketing, e-commerce, graphic design, education and training. For instance, Alibaba's Tongyi Wanxiang can produce accurate paintings and videos based on the painting prompt words input by users. Taking the e-commerce scenario as an example, its AI image and video generation capabilities can quickly generate high-quality display images for products and enrich product display forms. Combined with AI design and AI copywriting generation, it can greatly assist merchants in reducing costs, optimizing efficiency, and promoting product sales.

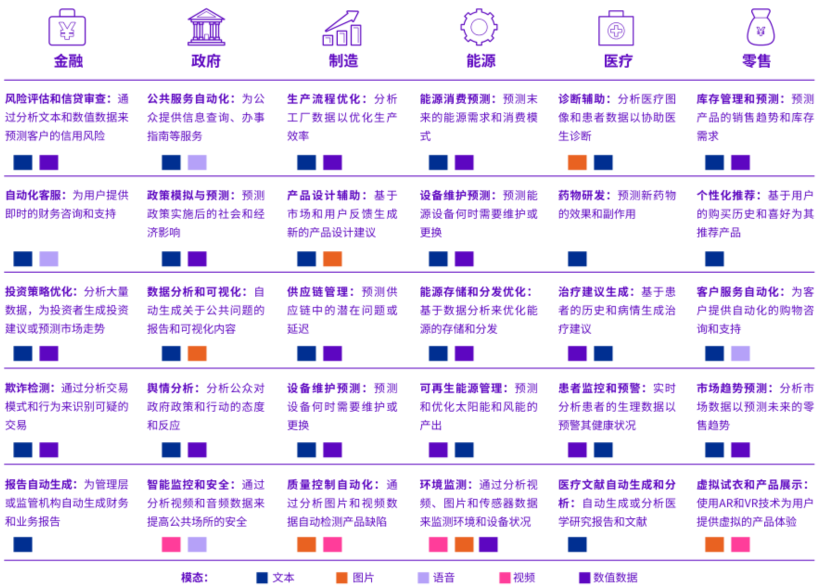
Figure 26: Ali Tongyi Wanxiang support for generating virtual modeling images



Source: Company data, CMBIGM

Currently, major players are actively exploring the application scenarios of combining AI agents with various industries and attempting to explore the monetization potential of AI. From the perspective of application scenarios, IDC predicts that the top five AI application scenarios in China in 2024 are intelligent infrastructure allocation, customer service, sales recommendation and enhancement, business innovation and automation, as well as the enhanced public safety and emergency response. From the perspective of vertical industries, law, government affairs, media, education, finance, transportation, energy, etc. are the current scenarios with the most extensive practical AI application implementations in China.

Figure 27: Demand for multimodal applications in industry scenarios



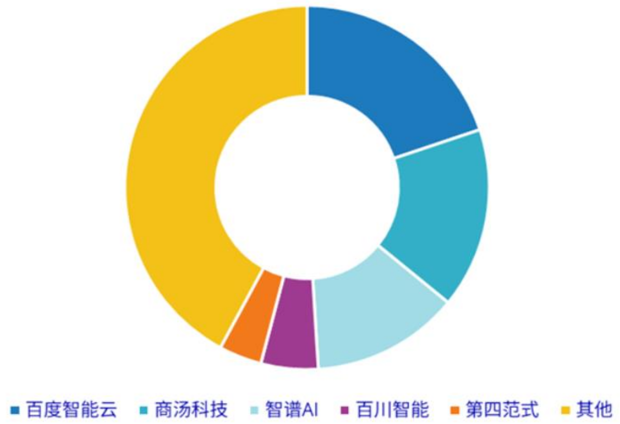
Source: IDC, CMBIGM

With the emergence of and breakthroughs in domestic multimodal capabilities, a broader monetization space for AI applications will be opened up, in our view. Multimodal-related technical research is the key to continuous breakthroughs in AI in the future. From the perspective of application empowerment, multimodal LLMs can deeply integrate and efficiently utilize massive and heterogeneous data resources without the limitations of single mode, thereby enhancing application effectiveness and peak capabilities and injecting strong impetus into AI implementation. In industry practice, with its accurate perception of multi-dimensional information, multimodal LLMs can continuously strengthen reasoning capabilities, expand service boundaries, improve comprehensiveness and reliability in application scenarios, and bring richer user interactive experiences. Looking ahead, with technological iterations and increasingly diversified, customized, and complex enterprise demands, multimodal empowerment will become the mainstream trend. The AI application architectures in many industries such as government, finance, manufacturing, energy, healthcare, and retail will accelerate the transformation towards multimodal and cross-modal, reshaping business processes and service experiences.

From the monetization perspective, the current domestic AI applications are still in the early stage. Baidu, benefiting from its active investment in the AI field and relative leadership in the multimodal field, is relatively advanced in both ToB and ToC monetization processes. The company disclosed at the 2024 Baidu World Conference held in November 2024 that the number of Ernie LLM users has reached approximately 430mn, with the number of PaddlePaddle developers has reached 18.08mn, serving 430,000 enterprises and creating 1.01mn models.

According to IDC data, Baidu Cloud ranked first in terms of market share in the LLM platform and application market in 2023, with a market share of 19.9%, followed by SenseTime with a 16.0% market share. Since the actual capabilities achieved by current LLMs are still relatively elementary, major vendors are still focusing on continuously enhancing the capabilities of the basic models. We expect that in the next 2-3 years, the competitive landscape will undergo multiple rounds of changes. There is huge room for product innovation and technological breakthroughs to be explored in various application scenarios. We expect that players with the ability to achieve further breakthroughs in the multimodal field and deepen combinations with vertical industries will have the opportunity to gain market share.

Figure 28: IDC: China LLM platforms and applications market share, 2023



Source: IDC, CMBIGM

China Consumer Staples

MARKET-PERFORM

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Emotion-driven consumption fuels demand recovery and propels high-quality growth

Positive consumption sentiment leads to a smooth transition towards high-quality growth

Enterprises embrace transformation, accelerating market evolution

In 2024, consumption trends are becoming more pronounced under the new economic cycle. The retail industry faces multiple challenges, including slowdown in premiumization, efficiency deleverage and internal restructuring. However, intensified competition among manufacturers is accelerating new consumption trends, driving rapid market realignment and speeding up the phase-out process of market survivors. This shift helps the industry better embrace consumer needs and recover from stagnation. A number of companies have committed to reform throughout 2024 to adapt to an unprecedented demand-supply dynamics under a new phase of high-quality development.

Emotion-driven consumption to lead the market

Stepping into 2025, emotion-driven consumption will remain dominant, particularly in food and beverages. Health-focused products are expected to maintain leadership. As product innovation slows down, the industry will focus on meeting core consumer needs. Beer: companies will expand mid-range offerings to meet mass-market demand. CR Beer (291 HK) will use Heineken's distribution network to drive premiumization and capitalize on its potential for price increases with the lowest ASP among top five brewers. Beverage: Nongfu Spring (9633 HK), a sector leader, will reposition its water line and promote sugar-free tea beverages to cater to health-conscious consumers, mitigating margin erosion and fostering robust growth. Snacks: Wei Long (9985 HK) anticipates sustained sales growth through continuous innovation, offering affordable psychological comfort and emotional value amidst societal pressure.

Quality upgrades and the continuation of long-term consumerism

Domestic skincare brands have rose to prominence, achieving significant initial growth. By 2025, leading brands are expected to solidify their market positions through continued high-quality R&D and innovation, closely aligned with consumer needs. Despite short-term competition from emerging MCN brands, these leaders are mastering full-chain operations within the new ecosystem. This strengthens their market presence, accelerates brand enhancement, and steadily advances their internationalization, bringing Chinese efficacy-focused skincare products to the global stage.

Stock recommendations

We believe high-quality consumption driven by emotional appeal remains a core driver. We reiterate BUY rating on Proya (603605 CH) and China Resources Beer (291 HK), considering their strong earnings visibility.

Food and Beverage

Mid-range beer segment expands market share amidst industry saturation

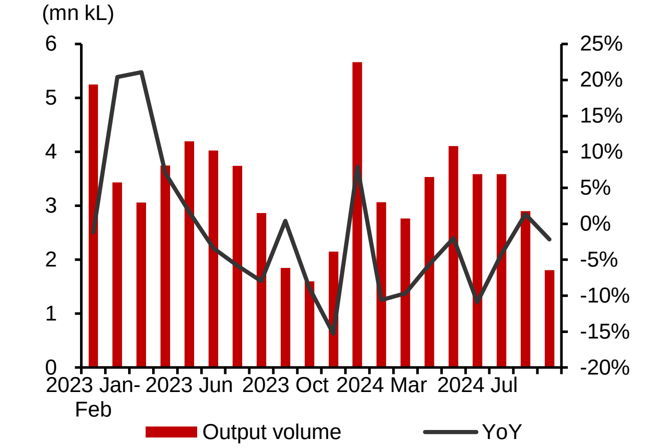
■ **Distortion and transition: upgrades from pyramid-shaped to spindle-shaped**

The beer market has witnessed intense competition alongside an overall industry contraction in 2024. Since China's beer production peaked at 506.2 mn hectoliters in 2013, sales have also reached their peak. Over the past three years, annual production volume of beer nationwide stabilized at around 356 million hectolitres, a decrease of approximately 30% from 2013. YTD, monthly production of large-scale beer enterprises nationwide has continued to record YoY declines, reflecting that brewers' confidence has not yet fully recovered. With the market share of CR5 remaining stable at over 90% since 2020, the Chinese beer market is transitioning from moderate maturity to high maturity. Consumer demand for beer is no longer solely focused on high-quality and reputable products, but is shifting towards diversification, value orientation, rich experiences, personalization, and products suitable for various consumption scenarios. Since 2Q24, the ASP has been on a continuous decline, although the sequential decline rate has narrowed. The product mix has remained largely unchanged, with the proportion of mid-range products gradually increasing. This change is primarily due to: 1) the reliance of high-end categories on sales through dining channels, which are difficult to stimulate in the short term; 2) the gradual depletion of mid-range category inventories, but at a slowing pace of price increases in the soft market environment; 3) the significant impact of weather conditions and consumer sentiment on low-end categories.

Looking ahead into 2025, the Chinese beer market may continue to face pressure from consumer tightening. Future competition will focus on vying for existing or shrinking volumes, leading to fluctuating market share among brands. CR Beer plans to flexibly adjust strategies based on market demand, targeting double-digit sales growth in favorable economic conditions and single-digit growth in a stable economy.

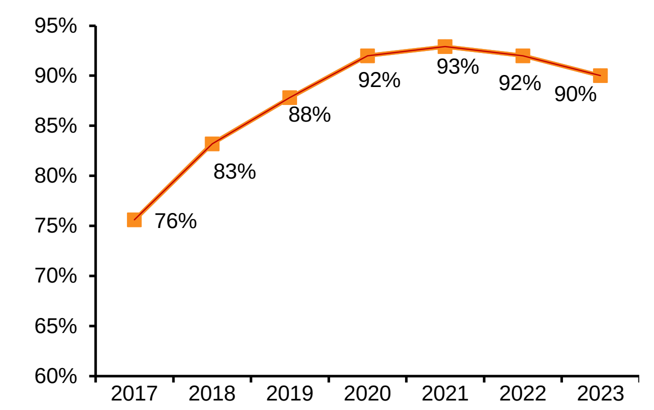
Driven by stimulus policies and improved macroeconomic expectations, China's beer market is accelerating its shift from a pyramid to a spindle structure. Consumption recovery will accelerate growth in the mid-to-high-end segment, signaling long-term structural upgrades and healthier market development.

Figure 1: Trend of monthly production volume among large-scale beer enterprises'



Source: CNBrewing, CMBIGM

Figure 2: Trend of CR5 market share changes in China's beer industry



Source: Company data, Market news, CMBIGM

- **Mid-range pricing becomes the new focus and growth engine in the market's era of saturation**

1) Budweiser APAC leads in the high-end segment, while the mid-range pricing band emerges as a new opportunity

With over two-thirds of its revenue coming from high-end and ultra-high-end products, Budweiser APAC holds a market share of 52% in the above 15 yuan segment, particularly excelling in on premise channels like dining and nightlife. Despite its high-end positioning, Budweiser APAC ASP saw a 4% decline in 9M24 in China, greater than the industry average, indicating vulnerability to market fluctuations due to its dominance in the high-end market.

2) Chongqing Brewery: Steady adjustments show resilience in the mid-range pricing band

The ASP of Chongqing Beer ranked second among CR5, and decreased by only 0.6% during the 9M24. The brand's revenue growth rate by categories decreased from economy, mainstream to premium segments. This is primarily due to Carlsberg's continued increasing penetration in the Chinese market, leading to growing traction for the company's mid-to-high-end priced products.

3) Tsingtao Brewery: Focusing on the 8-10 yuan pricing band, gradually increasing ton price

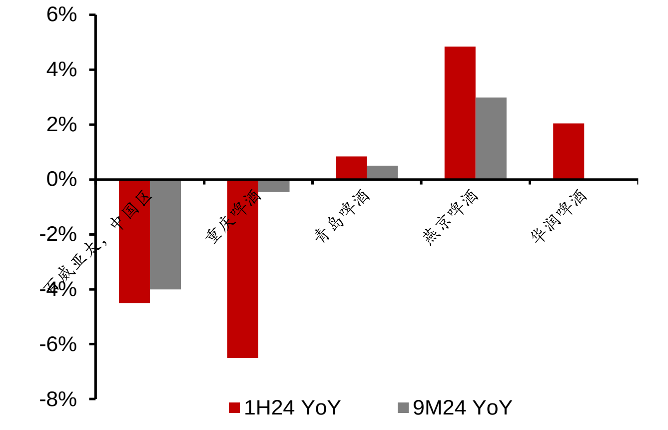
Tsingtao Brewery has the widest presence in the RMB 8-10 pricing band compared to peers. The company has been optimizing its product portfolio in recent years to gradually catch up with the trend of rising ton prices. In 9M24, sales of the main brand decreased by 6%, while sales of mid-to-high-end products decreased by 4%, with demand for low-end products declining at a faster pace. This provide an opportunity for Tsingtao to better adept to market needs.

4) CR Beer: with help of Heineken, the trend towards high-end products is expected to continue

Since 2019, CR Beer has been accelerating its presence in the 10-15 yuan pricing band by introducing Heineken. Its overall ASP remains relatively low. Its main mid-high-end products category achieved single-digit growth in 1H24, slower than the high-end and above products with over 10% growth. Notably, the Heineken brand maintained a growth rate of 20%, with management revealing at the 3Q24 performance meeting that the brand's sales in China grew by over 20%. With improved distribution and a growing customer base, CR Beer's product portfolio still has room for further optimization.

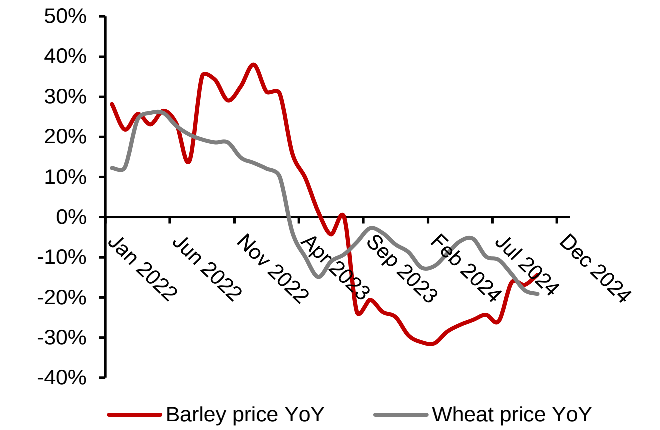
In the era of saturation, top breweries are poised to strengthen market concentration with robust distribution networks and brand reputation. However, intense competition looms as private-label OEM craft beers continue to emerge. In the slowdown phase of premiumization , a differentiated and misaligned competitive landscape has formed. As we enter the era of saturation, the RMB 8-10 mid-range pricing band has become a key battleground for major brands. By adjusting product lines and slowing down the pace towards high-end launches, beer companies not only solidify their leading positions but also vie for market share against each other. We anticipate mid-range pricing band to expand next year, with a focus on promoting individual flagship products to drive market development.

Figure 3: ASP YoY changes in 2024



Source: Company data, CMBIGM

Figure 4: Trends of raw material cost YoY changes



Source: WIND, CMBIGM

■ Operating leverage weakening partly offset margin benefits

Looking into 2025, the beer industry will face a dual challenge of weakening operating leverage and profit margin pressure. Budweiser APAC might continue to struggle with operating deleverage, leading to a sustained decline in profit margins. In contrast, Tsingtao Brewery is expected to smoothly transition in the final stages of inventory reduction, with a rebound in operating efficiency resumption anticipated following the off-season. Meanwhile, CR Beer will further drive its premiumization process with strong sales of Heineken. In 3Q24, due to the consecutive hosting of the UEFA European Championship and the Paris Olympics, leading breweries maintained high sales expense ratios to capitalize on the prime marketing period. Despite a decrease in raw material costs, the elevated sales expense ratio offset some of the profit gains from cost savings. As beer consumption enters the off-season, the trend of slowing revenue, sales volume, and profit growth among breweries is expected to persist in 1Q25.

Pricing and volume pressure hamper premiumization, with cost savings from lower material prices largely offset by fixed costs and operating expenses, resulting in minimal improvement in operational efficiency. Notably, the absence of major sports events in 2025 as catalysts for high-end dining consumption will further slow down the premiumization process of the beer industry.

■ Corporate transformation + differentiated development fuel long-term growth

China's current economic environment is similar to Japan's 90s, characterized with an aging population, stagnant youth growth, and reduced real estate activities. If China follows a similar trajectory, the beverage alcohol market will likely experience significant structural changes and differentiation. Learning from Japan's economic adjustment in 90s, while overall alcohol sales peaked, premiumization trends emerged in niche markets. Short-term shifts in Chinese consumer behavior include: 1) young consumers: exploring diverse light alcoholic beverages, driving fluctuating demand for low-alcohol drinks. Beer sales have declined since 1994, but flavored and fortified wines have been gaining popularity with rising drinking culture among female. 2) Elderly consumers: preferring high-quality spirits like Japanese sake and whisky, which have seen steady sales and price increases over 30 years, unaffected by economic downturns. Domestic premium liquor brands have also gained rapid recognition. 3) Middle-aged consumers: facing social pressure, they turn to group dining or solo drinking, boosting affordable high-proof shochu's market share, which has doubled recently.

By 2025, profound changes in China's alcohol market are expected. Companies will focus on online expansion, export, M&A, and product diversification. Industry leaders CR Beer and Tsingtao Beer have already outlined strategies to adapt to evolving consumer needs, solidify market positions, and drive sustainable growth. The beer market is shifting towards high-quality, cost-effective options, facing challenges from weakening operating leverage and dynamic market changes. Breweries are assessing product mixes and pricing strategies, laying a foundation for future prosperity.

Bottled water and beverage market: steady growth and profit margin recovery cycle

- **Price war in bottled water sector nearly comes to an end, competition returning to stability**

In 2024, the bottled water market underwent significant price adjustments, reverting to the "RMB 1 era." This shift was initiated by Nongfu Spring's introduction of Green Bottle Purified Water, retailing at RMB 2/bottle and further reduced to RMB 1/bottle through bulk promotions in selected regions, even reaching as low as RMB 0.8/bottle. Since summer, there has been intense competition among water companies in the bottled water price war. Nongfu Spring played a leading role in this price war, with significant fluctuations in its pricing, while C'estbon maintained strict price control and Wahaha adopted a strategy of synergize pricing across channels and regions.

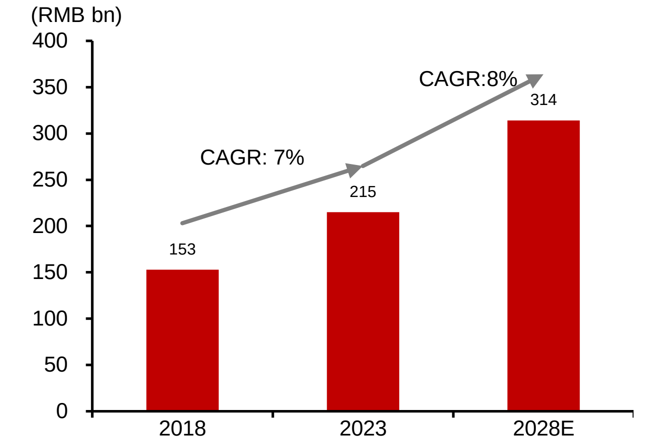
The introduction of Nongfu's Green Bottle Purified Water not only brought new choices to the market but also had a substitutive effect on the long-standing Red Bottle Natural Mineral Water, significantly impacting distributors, with Green Bottle Water accounting for nearly half of distributors' sales volume. However, some distributors faced heavier inventory backlog and parallel diversion. Nongfu Spring recently announced plans to phase out Green Bottle Water, signaling the end of the price war. The margin impact from Green Bottle Water is expected to diminish significantly next year.

We anticipate that the water beverage market will continue to be dominated by a duopoly. In the short term, price cuts by major brands will enhance the market penetration of leading brands. According to CHYXX, China's per capita consumption of bottled water has potential to double compare to the US and South Korea. Further, the current low prices for bulk water will help cultivate consumer preferences, driving steady industry growth.

In terms of competition dynamics, the CR5 market share of the bottled water industry increased from 56% in 2021 to 59% in 2023. Currently, national enterprises are aggressively expanding their market share through extensive distribution, squeezing the market space of small and medium-sized water companies. In the process of traversing the cycle, these companies are solidifying barriers for the long-term development of their brands by consolidating channel advantages. Looking ahead, with consumption recovery, the bottled water market is poised for another round of upgrades. Two years ago, Nongfu Spring launched "Changbai Snow," C'estbon introduced " L'EAU," Tingyi launched " Nourishing Spring," while Wahaha and Laoshan have already gained a foothold in the high-end mineral water sector.

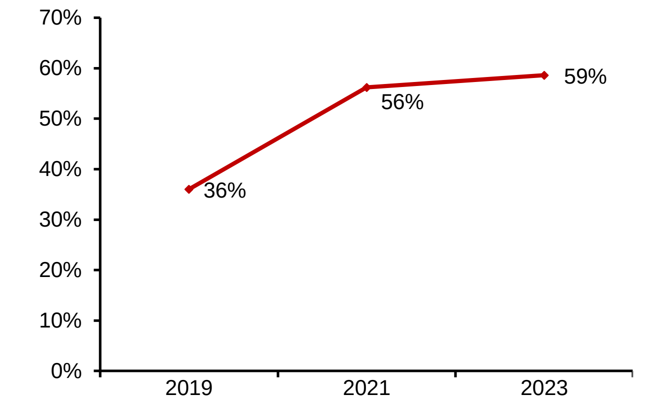
In 2024, China's bottled water and beverage market underwent structural adjustments through price wars, product innovation, and channel optimization. In the future, the overall consumption scale of bottled water is expected to maintain steady growth, and the profit margins in the water beverage sector are likely to gradually return to normal levels. Looking ahead, the industry outlook remains optimistic, with consumer demand for high-quality drinking water continuing to drive industry development.

Figure 5: Growth trend of China's packaged water market size



Source: CIC Insights, CMBIGM

Figure 6: Trend of CR5 market share changes in China's bottled water industry



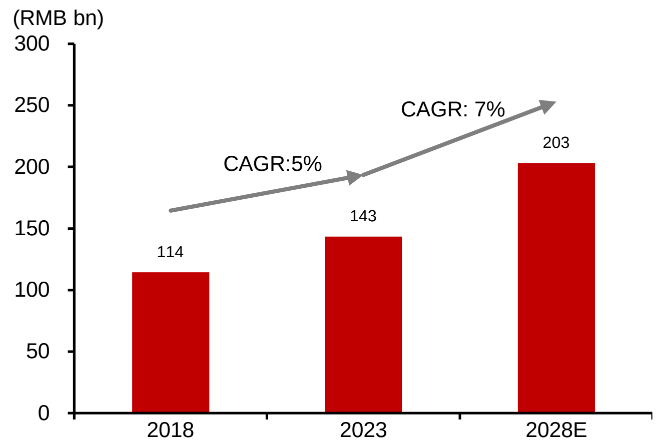
Source: CIC Insights, Euromonitor, CMBIGM

- **Sugar-free tea drinks have hopped on the fast track of the booming health industry, solidifying their position as a top "water substitution" product**

The sugar-free tea beverages are gaining solid market traction, driven by the current health-conscious consumer trend and their core concepts of "health" and "sugar-free". Combining the benefits of energy drinks (for alertness), carbonated drinks (mild stimulation), and coffee (boosting effects), while preserving rich tea culture, unsweetened tea appeals to a broad audience and fosters innovation. Its cultural heritage ensures wide acceptance and enhances brand loyalty.

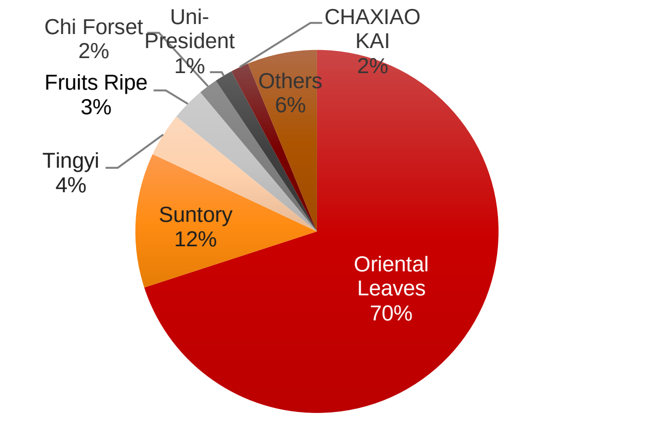
Post-pandemic travel recovery and increased foot traffic have boosted sales, spurring product innovation. The rapid expansion and capitalization of ready-to-drink stores have inspired packaged beverage brands and increased price tolerance, positioning sugar-free tea as an ideal "water substitute".

Figure 7: Growth trend of China's sugar-free tea market size



Source: CIC Insights, CMBIGM

Figure 8: CR5 market share of China's sugar-free tea industry, 1H24



Source: NielsenIQ, CMBIGM

As the health industry advances and awareness of traditional Chinese medicine grows, brands are actively expanding into wellness sectors. Chinese wellness waters have emerged strongly this year. According to the Qianzhan Intelligence Research's "*2024 Trends Insight Report on China's Chinese Wellness Water Industry*," clean ingredient lists are gaining attention again. In 2023, the market size reached RMB 450 mn, with YoY growth exceeding 250%, and is projected to achieve a CAGR of over 85% by 2028.

This emerging niche market has attracted numerous new brands, gradually securing a place in the RTD market. For instance, Keyang's Red Bean and Coix juice, which boast no artificial sweeteners, saw a 27% YoY in sales volume increase from June 2023 to June 2024; similarly 100% natural coconut water recorded 200% sales growth in 1H24. Low-calorie, healthier beverages are becoming the mainstream focus of the beverage industry.

With its 13 years of brand history, Oriental Leaf has capitalized on current consumer trends, attracting health-conscious consumers and maintaining a competitive edge. According to Nielsen IQ, Oriental Leaf held 70% of the unsweetened tea market share in 1H24, solidifying its leadership in the plant-based wellness beverage sector. As health awareness continues to spread, we anticipate that more beverage brands will enter the tea and plant-based drink markets next year. We expect the tea segment to continue to grow, providing robust support for beverage company profits.

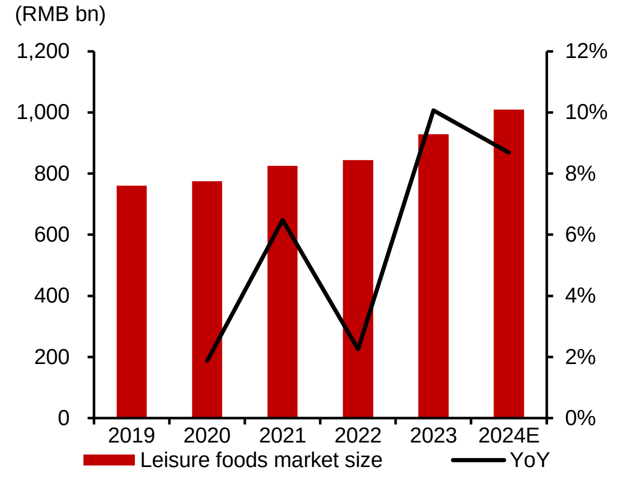
Snacks: the small snacks economy continues to unleash its potential, with snack innovation gaining consumer favor

- **Mini snacks are returning to the spotlight**

In 2024, as national consumption patterns further diversified, the leisure food industry is accelerating its R&D and marketing efforts. Against the backdrop of increasing social pressure, high-quality small snacks with low unit prices and rich flavors continue to win consumer favor. With the rise of modern sales channels, leisure snacks have become one of the most dynamic industries. In 9M24, 11 major leisure food listed companies achieved a total revenue of RMB 51.4 bn, recording a YoY increase of 58%. According to data from China Commercial Intelligence Network, the number of snack bulk stores has rapidly expanded from 300 in 2017 to over 30,000, with nearly 10,000 stores newly opened YTD. In recent years, the rapid expansion of snack bulk models has maintained high growth, and sales are expected to steadily increase at a rate of 27.3% annually by 2027.

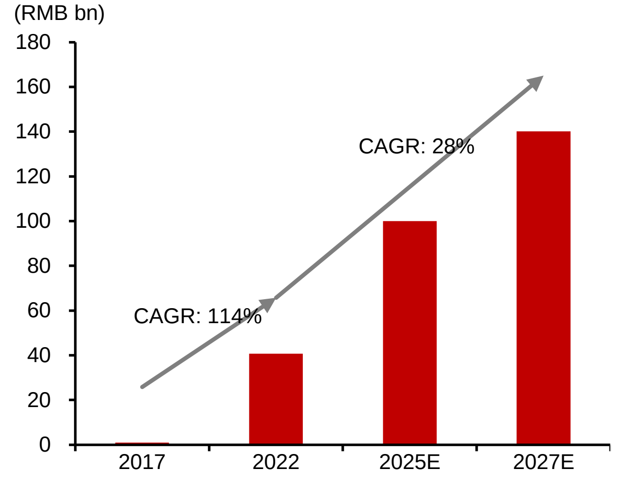
The rapid expansion reflects increasing consumer demand for convenient, diverse, and high-value snacks. Snack bulk stores not only offer greater variety but also enhance the shopping experience through innovative sales models. In the coming years, as more bulk stores open and market share grows, the leisure snack industry is well-positioned to lead consumption trends and sustain strong growth.

Figure 9: Growth trend of China's leisure food market size



Source: Frost & Sullivan, CMBIGM

Figure 10: CR5 market share of China's sugar-free tea industry, 1H24



Source: CIC Insights, ASKCI, CMBIGM

Looking ahead into 2025, snacks, as relatively low-priced goods that provide additional psychological comfort and emotional value, exhibit unique attractiveness to consumers facing economic uncertainty, especially among emerging groups with specific preferences. We believe that snack consumption is not only growing in quantity but also continuously upgrading in quality. According to Frost & Sullivan data, the Chinese leisure food market is expected to reach RMB 1.01 tn in 2024.

We believe the domestic snack industry is still at an early stage, characterized by low market concentration. However, leading companies are accelerating the launch of high-quality snacks to solidify their market leadership. As demand for instant snacks grows, companies that excel in taste, craftsmanship, nutrition, and ingredients will have significant growth potential.

With rising health and fitness awareness, many brands now emphasize "natural", "healthy", and "lightweight" attributes in their R&D, marketing, and promotion. This approach addresses consumers' desire for enjoyable yet guilt-free snacking experiences, reducing both physical and psychological burdens.

Weilong continues to expand and strengthen its product portfolio, introducing low-calorie vegetable snacks such as konjac and seaweed alongside its flagship spicy gluten strips. Leveraging advanced technologies, innovative processes, and robust R&D for taste development, Weilong is building a loyal customer base. The company anticipates that the seaweed category will grow at least as rapid as the konjac category throughout 2024, significantly contributing to revenue in 2025. Additionally, Weilong has fully diversified into fried, pickled, and puffed foods, steering the savory snack market toward healthier, vegetable-based options.

As the peak season for gatherings approaches in the fourth quarter and first quarter, demand for snacks is surging, driving the growth of industry. Enhanced distribution efficiency and the development of new sales channels are driving growth. The online New Year festival will further promote new flavors and categories. Traditional and bulk channels are expected to experience significant growth before the Spring Festival, with online sales likely to see non-linear spikes during the holiday season.

Looking ahead into 2025, the snack industry is poised for dual breakthroughs in both volume and quality, meeting diverse consumer demands and driving further industry prosperity. Weilong's strategic innovations and market responsiveness position it well to capitalize on these trends. With rising health and fitness awareness, many brands are emphasizing "natural", "healthy" and "lightweight" attributes in their R&D, marketing, and promotion. This approach addresses consumers' desire for enjoyable yet guilt-free snacking experiences, reducing both physical and psychological burdens.

Weilong's continued expansion into healthier snack options, combined with its strong R&D support and market responsiveness, positions the company to lead the industry in 2025. The anticipated growth in the seaweed and konjac categories, along with the surge in demand during peak seasons, sets the stage for significant revenue contributions. Moreover, the company's diversification into various snack types ensures it can meet evolving consumer preferences, driving sustained growth and industry leadership.

- **Emerging channel expansions align with industry development**

Snacks, often accompanied by channel expansion, remain one of the most promising sub-sectors in the food and beverage sector. In recent years, companies have actively recruited talents, strengthened channel construction, and enhanced brand marketing to seize market opportunities. Weilong, with approximately 1 million sales outlets, including over 300,000 directly reached outlets, has built a robust distribution network.

With the multidimensional development of e-commerce, emerging channels such as Douyin's interest-based e-commerce provide closer contact points for small snacks with consumers, not only expanding sales channels but also enhancing brand exposure and interaction. In the online format, instant retail platforms have rapidly emerged, effectively expanding the service radius of stores, bringing new traffic sources for leisure food brands and enhancing user experience. Content-rich and social e-commerce platforms attract more young consumers, providing a broader platform for interaction with consumers for leisure snack companies. Taking Weilong as an example, the company maintains steady expansion across multiple channels, with snack bulk and modern channel revenues accounting for 15%-20% and 20%-30%, respectively. Driven by interest-based e-commerce, online growth significantly surpasses offline, with Douyin platform growth exceeding 200%. From offline aspects, convenience stores and snack bulk stores achieve rapid growth by providing a more extensive selection of goods, quality consumer experiences, and higher cost-effectiveness, becoming crucial drivers for the growth of the snack industry. These stores are densely located around target consumer groups, providing convenient, diverse, and high-quality products and services, serving as key driving forces.

Looking ahead into 2025, we are optimistic about the prospects of the snack industry. The growing interest of young consumer groups in retail products is a key factor driving sales growth. Furthermore, brands expanding into wider lower-tier markets and enhancing distribution rates through bulk channels are expected to maintain strong growth momentum throughout 2025. The introduction of new products and flavor innovations not only attract more consumers to try but also provide the company with the opportunity to increase prices for some products, potentially continuously improving profitability levels.

Skincare and Cosmetics

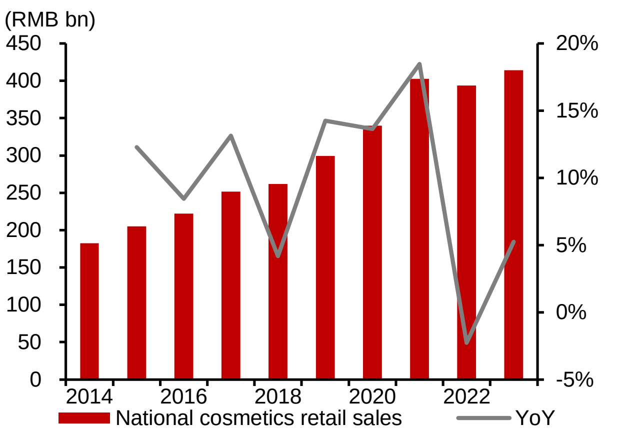
Cosmetics market has undergone reshaping, with the deepening of development of functional skincare products

- **Industry leaders deepen development and consolidate market share amidst gradual market expansion**

According to the data from the National Bureau of Statistics, the total retail sales of cosmetics in 10M24 increased 3% YoY. Data from Syntun shows that during 2024 Double 11 promotional period, the beauty and skincare sector across all platforms saw a 22.85% YoY increase in GMV. Against this backdrop, leading domestic brands have demonstrated exceptional performance, solidifying their market leadership. Notably, Proya has emerged as the dual champion on both Tmall and Douyin platforms, achieving GMV +10%/60% YoY, respectively, underscoring its robust market competitiveness. Under Giant Biogene, Comfy has achieved impressive GMV growth of 80% YoY across all channels, becoming the brand with the fastest rise in GMV ranking. Meanwhile, its sister brand Collgene has reported over 100% growth, further enhancing the group's market presence. Additionally, Chimax's Kans brand has secured second and fourth place rankings on Tmall and Douyin platforms, respectively, with a comprehensive YoY GMV increase of 44% across all platforms. These achievements highlight the brands' strong competitive edge and consumer appeal.

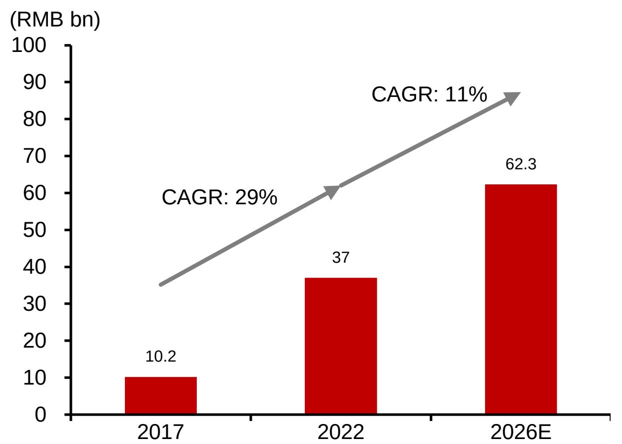
Looking ahead into 2025, despite an anticipated slowdown in overall industry growth, leading domestic brands in the functional skincare sector are poised to maintain their steady market share. These brands have solidified their positions through in-depth research and development capabilities, precise market positioning, and efficient marketing strategies. By continuously innovating and optimizing their product lines, they are well-equipped to meet consumers' increasingly personalized skincare needs. The focus on innovation and adaptability not only enhances their market leadership but also lays a robust foundation for future growth, ensuring they are still at the forefront of the evolving industry.

Figure 11: Market size and growth trend of national cosmetics retail sales



Source: NBS, CMBIGM

Figure 12: Growth trend of China's functional skincare market size



Source: Huaon, CMBIGM

Functional skincare becomes the mainstream, with the rise of domestic brands

According to data from Huaon Industry Research Institute, the size of China's functional skincare market has rapidly grown from RMB 102 bn in 2017 to RMB 370 bn in 2022, and is expected to reach RMB 623 bn in 2026. The growing popularization of medical aesthetics and rational skincare concepts has driven the demand for refined, science-backed, and effective skincare solutions, reshaping China's skincare market landscape and offering domestic brands a prime opportunity to transition from the periphery to the mainstream. By embracing these trends, local brands are poised to capture a larger share of the market, driven by consumers' increasing preference for high-quality, evidence-based products.

Leading companies uphold a long-term business philosophy by offering diverse product choices and continuously iterating and upgrading their offerings to enhance cost-effectiveness. A key highlight for domestic brands has been the introduction of innovative cosmetic ingredients, particularly self-developed plant components such as Chinese herbal extracts. In the first half of 2024 alone, 17 new plant-based materials were registered, representing 40% of all new materials—surpassing the total for 2022-2023 combined.

While "Chinese ingredients" remain loosely defined, they generally encompass characteristic active substance extracts and locally transformed synthetic compounds. The focus on indigenous ingredients has become a pivotal marketing strategy, significantly enhancing brand visibility and influence. By leveraging these unique formulations, domestic brands are effectively differentiating themselves in the market and winning consumer favor.

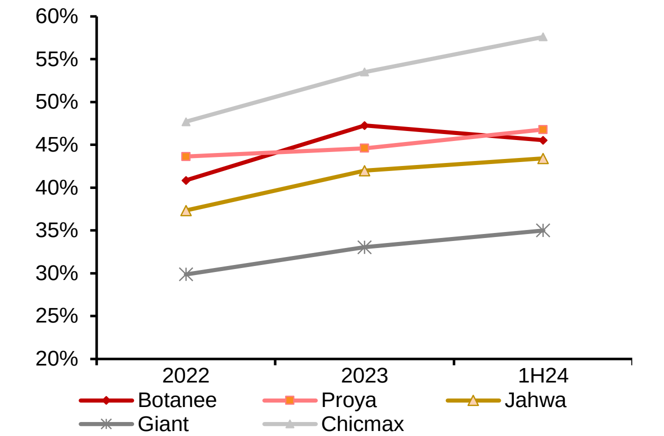
Leading brands employ long-term strategies and targeted tactics to navigate escalating marketing costs

Alongside the growing cultural confidence, domestic skincare brands have achieved significant recognition, marking a breakthrough from obscurity to prominence. As the market evolves, we anticipate intensified competition in 2025, especially with the rise and consolidation of MCNs private labels.

In 9M24, leading companies including Proya, Botanee, and Shanghai Jahwa saw increases in selling expense ratios by 1.8, 12.4, and 1.2 ppts, respectively. Chicmax and Giant Biogene also experienced increases of 4.1 and 2.5 ppts in 1H24. Despite the expected rising traffic costs and fiercer competition in 2025, these brands retain advantages through strong product portfolios and brand reputations.

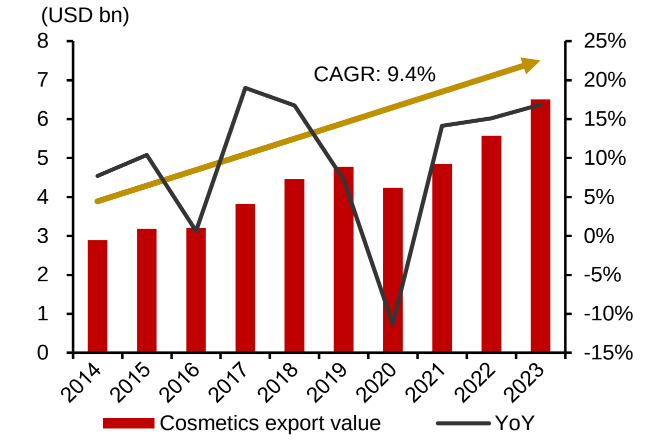
Meanwhile, to navigate this competitive landscape, top companies are adjusting their strategies. For example, during Double 11, Chicmax selectively avoided high-cost promotion to optimize expenses and maximize ROI. Proya has reduced promotional intensity by reducing complementary gifts, focusing on brand building and user experience rather than short-term sales spikes. By reallocating resources towards R&D and brand development while controlling marketing costs, top companies aim to sustain long-term competitiveness. This shift fosters a rational consumer perception, emphasizing value over price. The industry is entering a new phase where quality and innovation precede aggressive pricing.

Figure 13: Trends of domestic cosmetics companies marketing expense ratio



Source: Company data, CMBIGM

Figure 14: Growth trend of China's cosmetics export value



Source: CACS Mofcom, CMBIGM

■ **Overseas expansion to drive growth in 2025 and beyond**

Facing a gradually saturating domestic market, brand growth in 2025 is likely to be driven by international expansion strategies. Cosmetics exports have surged from $2.89 bn in 2014 to $6.51 bn in 2023, reflecting a CAGR of 9.4% and demonstrating steady progress. Despite the challenges of expanding globally, Chinese brands remain committed to globalize, buoyed by consumers' ingrained preference for functional skincare. This consumer mindset has solidified the resolve of domestic brands to pursue global opportunities with determination. Although Shanghai Jahwa has recently closed stores, likely due to corporate restructuring, this setback has not deterred other brands from pursuing overseas opportunities.

Botanee has established a Southeast Asian headquarter in Thailand, planning to open KA beauty chain stores and collaborate with over 30 aesthetic clinics as sales channels. The brand is also considering entering the North American market.

Recognized as the "future market" for the global cosmetics industry, ASEAN—especially Malaysia and Indonesia—offers significant growth potential. Proya is strategically targeting this region with a cautious yet flexible approach, leveraging online channels to swiftly capture market share and enhance its global competitiveness.

To support the expansion, Proya has set up a scientific research center in Europe, aiming to rapidly build sales networks in Western Europe and France. This move underscores Proya's commitment to innovation and its determination to achieve breakthroughs in international markets.

These initiatives highlight the strategic actions taken by Chinese brands to navigate the challenges of international expansion and capitalize on emerging market opportunities. They demonstrate the unwavering determination of domestic companies to achieve global success through innovation and targeted market strategies.

Valuation

Figure 15: Peers comparison

Company	Ticker	Price	Market Cap	PE (x)			ROE (%)			Revenue growth (%)			NP growth (%)			Payout Ratio	Yield (%)	
		(Local currency)	(US$ mn)	24E	25E	26E	24E	25E	26E	24E	25E	26E	24E	25E	26E	23A	23A	24E
Budweiser APAC	1876.HK	7.46	12,695	15.4 x	13.8 x	12.5 x	7.5	8.2	8.7	-5.1	3.9	3.8	-2.1	11.7	10.1	82%	5.5%	5.4%
Tsingtao Brewery	0168.HK	50.40	11,530	14.4 x	13.1 x	12.0 x	15.0	15.3	15.3	-6.3	3.2	2.5	3.3	10.2	9.4	63%	4.3%	4.4%
Tsingtao Brewery	600600.SH	73.84	11,530	22.6 x	20.4 x	18.8 x	15.2	15.4	15.5	-4.6	3.2	3.0	4.5	10.5	8.8	64%	2.7%	2.5%
CR Beer	0291.HK	26.25	10,942	14.5 x	13.1 x	11.9 x	17.1	17.1	17.1	2.6	3.8	3.8	5.2	10.5	9.9	58%	3.9%	3.5%
Chongqing Bee	600132.SH	64.98	4,377	23.3 x	22.0 x	20.8 x	58.4	56.3	55.8	1.4	3.7	3.5	0.8	5.9	5.7	101%	4.3%	4.0%
Yanjing Beer	000729.SZ	10.25	4,021	29.6 x	23.1 x	19.1 x	7.0	8.5	9.6	5.4	6.0	5.7	51.2	28.5	20.7	44%	1.0%	1.4%
Pearl River Beer	002461.SZ	9.07	2,794	24.8 x	21.7 x	19.2 x	7.8	8.4	8.9	7.6	6.5	6.0	29.7	14.4	12.9	45%	1.4%	1.8%
Nongfu Spring	9633.HK	35.45	51,229	28.9 x	24.9 x	21.7 x	37.3	35.6	33.8	10.9	16.0	11.2	5.4	16.1	14.8	69%	2.3%	2.4%
Eastroc Beverage	605499.SH	220.99	15,995	35.6 x	27.1 x	21.5 x	39.1	38.6	37.1	42.4	28.1	23.1	58.2	31.4	25.8	49%	1.1%	1.4%
Tingyi	0322.HK	9.94	7,196	14.4 x	13.0 x	12.0 x	25.0	26.7	28.3	4.2	3.7	3.7	14.9	10.7	9.1	98%	6.0%	7.4%
China Want Want	0151.HK	4.41	6,693	11.8 x	11.1 x	10.6 x	25.7	22.8	23.7	0.0	3.8	4.6	8.9	4.9	5.0	69%	5.8%	NA
CR Beverage	2460.HK	12.18	3,753	16.3 x	13.4 x	11.5 x	15.3	15.3	15.1	5.5	7.6	8.7	24.2	22.1	15.8	NA	NA	NA
Uni-President	0220.HK	7.08	3,929	14.8 x	13.4 x	12.3 x	13.8	14.8	15.6	7.5	5.8	5.8	14.3	10.4	9.1	109%	6.6%	7.6%
Yangyuan ZhiHui	603156.SH	21.38	3,766	18.9 x	17.0 x	15.2 x	13.4	15.0	16.7	-5.4	6.6	7.7	-2.5	11.3	11.7	138%	7.5%	NA
Cheng De Lolo	000848.SZ	8.94	1,310	14.9 x	12.8 x	11.5 x	18.6	19.4	19.6	8.0	8.0	8.2	-1.0	16.0	11.6	66%	4.5%	4.2%
Li Zi Yuan	605337.SH	11.58	636	19.4 x	17.4 x	15.6 x	13.1	13.9	14.7	3.9	9.3	9.6	-0.7	11.7	11.3	83%	4.3%	3.2%
Weilong Delicious	9985.HK	7.52	2,272	14.3 x	12.2 x	10.5 x	18.7	19.4	19.1	23.0	16.3	13.7	29.7	17.4	15.8	86%	4.8%	4.3%
Chacha Food	002557.SZ	30.07	2,122	15.5 x	13.5 x	11.7 x	16.2	16.6	17.1	10.5	11.0	10.9	22.2	15.1	15.0	63%	3.3%	3.9%
Yankershop Food	002847.SZ	51.70	1,963	21.7 x	17.1 x	13.7 x	35.6	35.7	35.3	27.6	23.7	21.2	28.8	27.0	24.3	57%	2.9%	2.5%
Three Squirrels	300783.SZ	32.58	1,818	32.5 x	23.6 x	17.6 x	14.3	17.2	19.7	44.3	28.8	24.9	82.8	37.7	34.1	46%	0.8%	1.1%
Jinzai	003000.SZ	12.96	813	19.4 x	15.6 x	12.7 x	20.1	21.4	22.2	21.9	21.6	19.9	43.4	24.8	22.5	63%	2.3%	2.3%
CTGDF	601888.SH	70.56	19,954	26.5 x	22.2 x	19.4 x	9.5	10.6	11.3	-10.4	13.8	11.0	-18.8	19.4	14.2	51%	2.3%	1.8%
Giant Biogene	2367.HK	51.30	6,778	24.8 x	19.4 x	15.6 x	34.6	33.2	31.4	44.7	30.7	26.1	35.2	28.0	24.1	59%	1.9%	2.1%
Proya	603605.SH	92.22	5,086	23.5 x	19.0 x	15.7 x	28.6	28.0	26.9	29.5	23.2	19.8	30.1	24.0	21.0	43%	1.4%	1.4%
Botanee	300957.SZ	49.28	2,905	26.2 x	20.6 x	17.6 x	12.4	14.2	14.8	18.4	15.5	13.3	5.5	26.8	17.5	34%	1.2%	1.2%
Chicmax	2145.HK	34.95	1,787	14.6 x	11.1 x	9.0 x	35.5	36.2	35.7	72.4	25.9	18.9	91.4	31.1	23.5	81%	3.0%	4.1%
Guangdong Marubi	603983.SH	29.49	1,646	32.4 x	25.5 x	20.6 x	10.3	12.1	13.8	30.7	24.4	20.0	40.6	27.4	23.5	80%	1.8%	1.2%
Shanghai Jahwa	600315.SH	17.74	1,660	32.9 x	25.6 x	21.6 x	4.6	5.6	6.3	-5.2	7.8	8.7	-27.5	28.5	18.3	31%	1.3%	1.0%
Runben	603193.SH	22.30	1,256	28.6 x	22.8 x	18.5 x	14.5	15.8	16.6	29.5	26.5	23.3	39.6	25.8	23.2	27%	0.8%	0.8%
SYoung Group	300740.SZ	13.68	739	22.0 x	16.6 x	13.7 x	10.7	12.5	13.2	-2.7	11.2	8.8	-17.8	32.6	20.9	13%	0.7%	0.6%
Beauty Farm	2373.HK	17.30	524	15.5 x	12.7 x	11.0 x	25.5	26.0	24.4	24.2	19.1	13.3	12.9	22.2	14.8	45%	2.7%	2.5%
Average				**23.6 x**	**19.9 x**	**17.3 x**	**24.3**	**24.0**	**23.7**	**9.5**	**12.8**	**10.4**	**12.5**	**17.3**	**14.6**	**65%**	**3.0%**	**2.7%**

Source: Wind, CMBIGM (Date as of 4 Dec 2024)

China Consumer Discretionary

MARKET-PERFORM

Walter Woo – walterwoo@cmbi.com.hk

Awaiting policy rollout, turnaround in supply-demand and resumption in consumer confidence

Consumption to benefit from policy support in 1H25E, but may face disruptions from high base and external risks in 2H25E; optimistic about sports goods, apparel, and catering.

- **In 2024, the consumer sector has faced challenges but offers opportunities. Exports and policy-favored home appliances outperformed.**

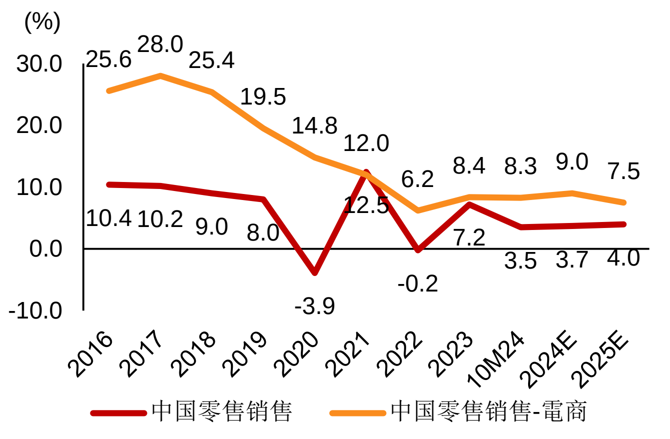
China's retail sales growth slowed from approximately 7% in 2023 to 3.5% in 10M24 (we estimate 3.7% for FY24E). This slowdown is largely due to weak offline foot traffic, especially against the high base from last year's CNY and summer holidays.

Despite strong online growth through platforms like Meituan and Douyin, recovery rates weakened quarter by quarter from 1Q24 to 3Q24. Notably, the modest growth in 2024 already factors in support measures like the “old for new” subsidies. If future policy support falls short, we are concerned about the overall consumer demand growth in 2025.

By segment, exports and the textile sector saw significant stock price increases, driven by the recovery of overseas economies and restocking demand. Home appliances performed slightly better, mainly supported by government subsidies.

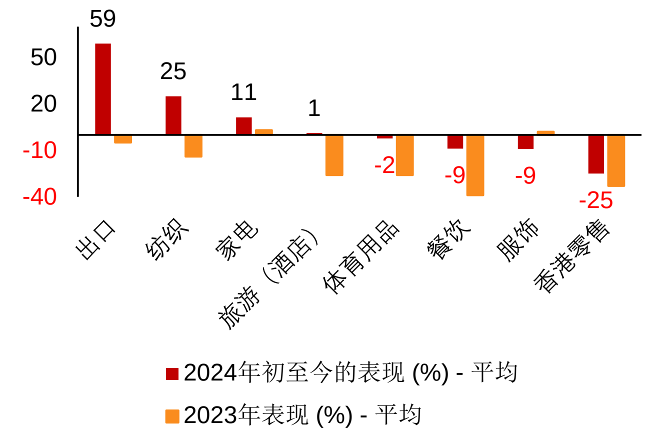
In contrast, other segments like tourism and hotels, sports goods, dining, and apparel, faced weak demand, lack of innovation, oversupply, and unfavorable weather (rainy days, typhoons, and a warm winter), leading to underperformance in stock returns.

Figure 1: China retail sales growth - offline and e-commerce sales



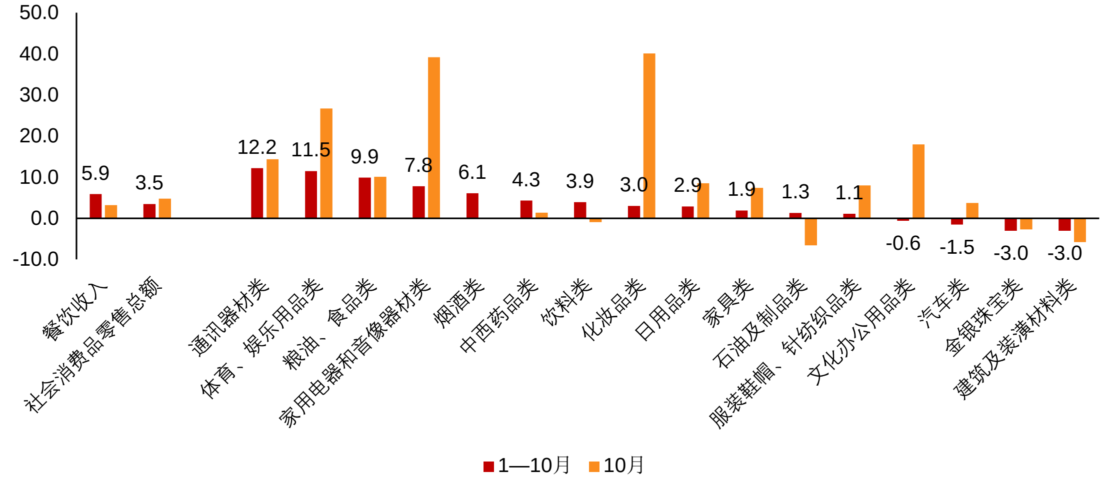
Source: NBS, CMBIGM estimates

Figure 2: Share price performance in 2023 and 2024 YTD, by sub-sector



Source: Bloomberg, CMBIGM estimates
Note: 2024 year-to-date data as of 6 Dec 2024

Figure 3: China retail sales growth (January-October and October, 2024), by sub-sector



Source: NBS, CMBIGM

- **Valuations may have bottomed in the short run, but potential recovery in the long run requires policy and fundamental turning points.**

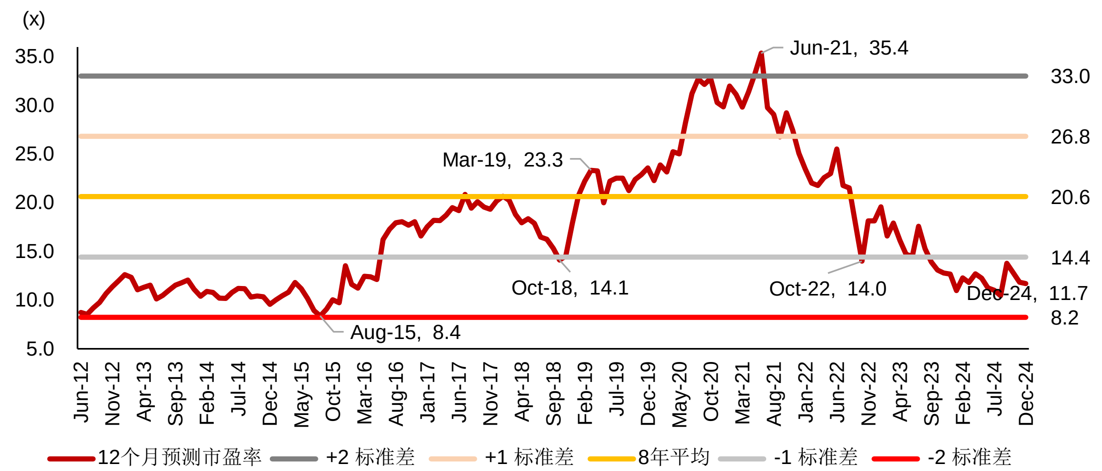
From a valuation perspective, the sector's forward P/E ratio declined from 13x in 2023 to 12x in 2024, primarily due to macro pressures and weaker-than-expected corporate earnings.

Compared to an 8-year average of 21x, current valuations are attractive (historical high and low are around 33x and 10x, respectively). However, fundamental risks remain, and unresolved geopolitical issues make a valuation recovery challenging. That said, with a shift in central government policies, valuations are likely bottoming.

Still, with China's long-term economic growth gradually slowing and reinvestment logic changing, the reasonable valuation range will need to be adjusted downward.

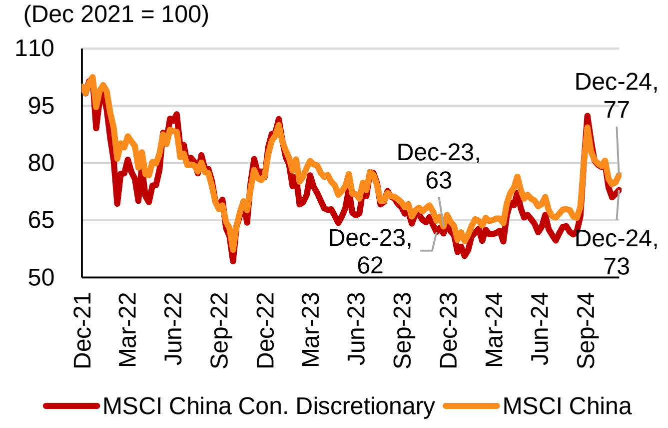
If stimulus policies exceed expectations, valuations could stabilize and recover. Conversely, if policies fall short, there is still downside risk.

Figure 4: Consumer discretionary industry valuation



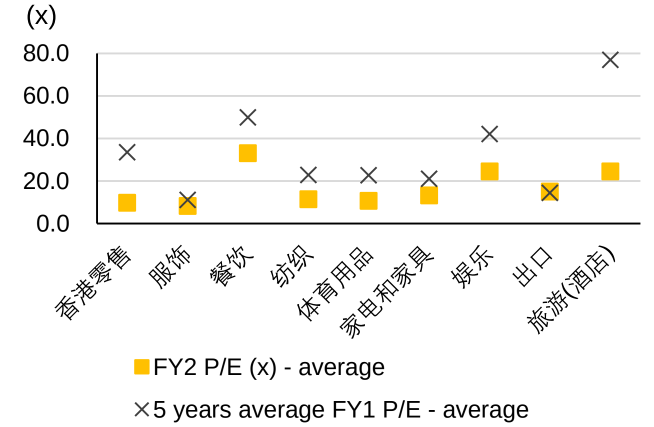
Source: Bloomberg, CMBIGM

Figure 5: MSCI China and MSCI China Consumer Discretionary index performance



Source: Bloomberg, CMBIGM

Figure 6: Sub-sector valuations - current and 5-year average



Source: Bloomberg, CMBIGM estimates

■ **Our rating on the 2025 consumer discretionary sector is market-perform.**
Our outlook for 2025 is not overly optimistic. We expect China's retail sales to grow by around 4.0% (conservative compared to our macro team's 4.7% forecast), slightly accelerating from 2024's estimated 3.7%. In 2024, exports and government consumption subsidies were key tailwinds. If these factors weaken in 2025, the overall consumption sector will face headwinds.

By halves, we are more optimistic about H1 due to policy support but expect greater pressure in H2 from external risks and a high base. By channel, both online and offline are expected to grow. Offline will likely see improvements in foot traffic and conversion rates, but online growth may slow as Douyin's base becomes higher.

For investment themes, we recommend:

1) **Policy beneficiaries (e.g., measures to stimulate consumption and stabilize the real estate market).**
2) **Supply-demand balance and market rationality (allowing winners to gain market share).**
3) **Overseas expansion/exports (priority on Southeast Asia).**
4) **High dividend yields with earnings visibility.**

In the short term, two negative factors persist: 1) A potentially warm winter from 2024 to 2025, 2) an earlier-than-usual CNY in 2025 (late January in 2025, vs. mid-February in 2024), which may negatively impact peak season sales.

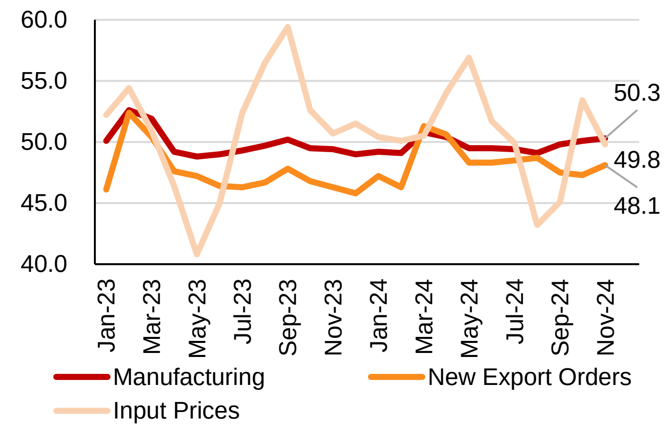
Despite current market uncertainties, many industries are moving toward a supply-demand balance, presenting new winners. Investing in these companies at current low valuations offers an attractive risk-reward profile.

■ **Unfavorable business environment and weak employment outlook.**

GDP growth forecast for 2025 may remain weak, with deflationary pressures persisting, likely leading to even weaker nominal growth.

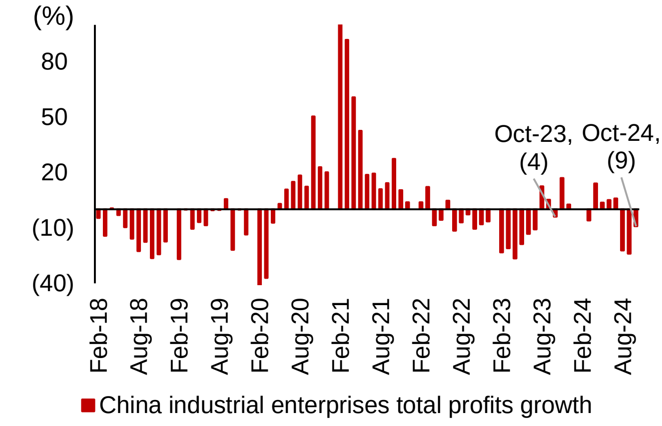
Various leading indicators show little improvement. Industrial profits are still declining, and PMI figures, while slightly better in Sep and Oct 2024, often remain below 50, while the sustainability is still a doubt. Notably, the raw material purchase price index suggests that China's overall business environment will remain challenging.

Figure 7: China Manufacturing PMI



Source: NBS, CMBIGM

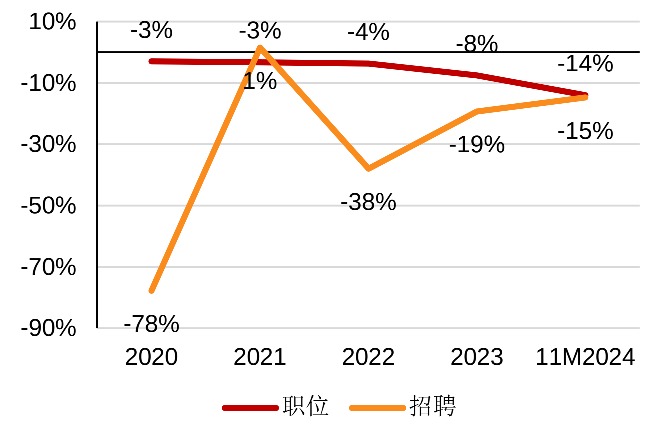
Figure 8: China's industrial profit growth (monthly)



Source: NBS, CMBIGM

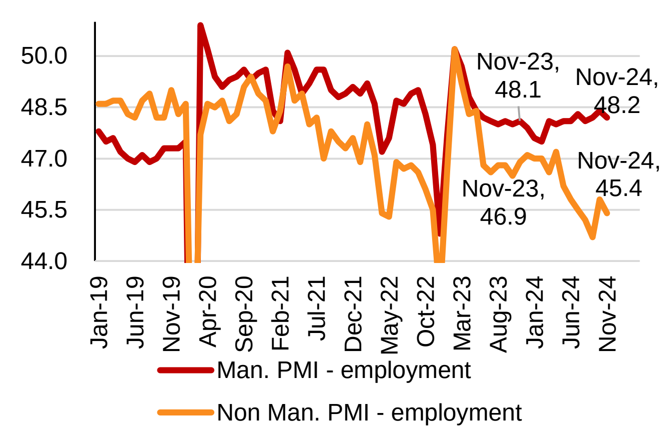
We forecast a more than 10% YoY decline in new job creation in 2024, worse than in 2023. For instance, the employment index in the non-manufacturing PMI has dropped sharply in the past six months. Additionally, average graduate salaries have significantly declined compared to 2023 and 2022.

Figure 9: Baidu Index keyword "job" and "recruitment" search volume



Source: Baidu Index, CMBIGM estimates

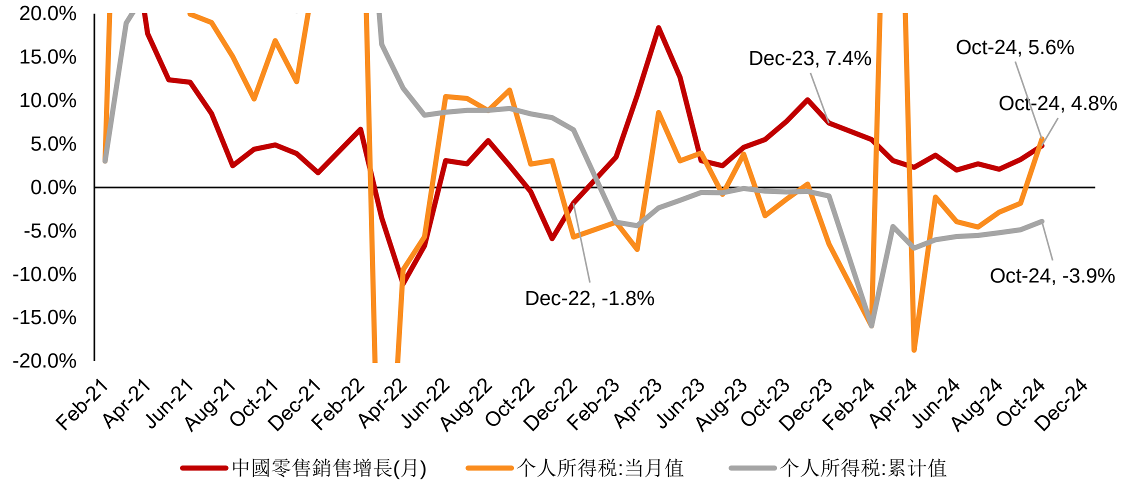
Figure 10: Employment index for manufacturing PMI and non-manufacturing PMI



Source: NBS, CMBIGM

However, a slight short-term improvement is observable. Personal income tax revenues rebounded in Sep and Oct 2024, likely due to a low base and subsidies for replacing old items with new ones. The sustainability of this improvement remains uncertain.

Figure 11: China's retail sales growth vs. personal income tax revenue growth



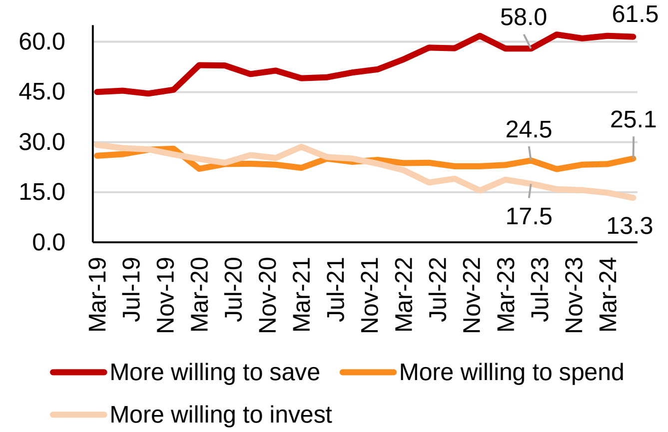
Source: NBS, CMBIGM

- **We believe real estate prices still have room to fall, sustaining the negative wealth effect.**

Real estate prices are still declining, and given high inventory levels, we believe there is further downside. Although stock prices have benefited from policy support, the magnitude of the increase remains limited. Overall, we expect the negative wealth effect to persist.

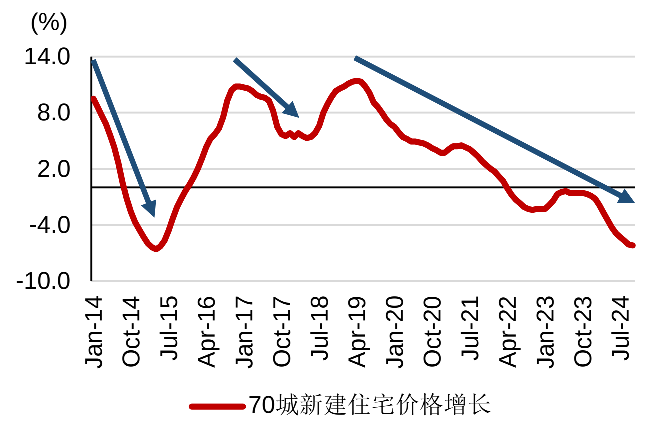
According to a survey by the People's Bank of China, while the proportion of people interested in saving continues to rise, those interested in investing have decreased significantly. This should theoretically lead to an increase in those interested in consumption. However, our research shows that actual consumer sentiment remains weak, particularly in luxury goods, fast-moving consumer goods, and catering.

Figure 12: The proportion of urban residents in their preferences for saving, investment and consumption



Source: PBOC, CMBIGM

Figure 13: Price index of new commodity housing in 70 large and medium-sized cities in China (monthly)



Source: NBS, CMBIGM

Our Investment themes are as follows:

- **1) Policy support (boosting consumption and stabilizing real estate market)**

With slowing export growth and increasing external uncertainties, enhancing domestic demand and consumption has become an effective driver of economic growth.

The positive aspect is that we believe the central government is increasingly aware of the importance of boosting consumption. However, it will take more time for policies to be introduced and transmitted to the real economy.

Challenges remain: Current economic fundamentals—such as income and employment, corporate profits and business conditions, wealth effects, and consumer confidence—remain weak. For retail sales growth in 2025, policy strength will be critical. We hope the government will introduce stronger measures than the "old-for-new" subsidy in 2024.

Based on the guidelines from the Central Economic Work Conference, we anticipate that in 2025 both monetary and fiscal policies will likely remain accommodative.

Fiscal policies are expected to include: 1) a moderate increase in the deficit ratio (predicted by our macro team to rise from 3.1% in 2024 to 3.7% in 2025), 2) expansion of local government special bond issuance, 3) continued issuance of ultra-long-term special treasury bonds to support the economy and consumption. We estimate that out of the additional RMB 2tn in fiscal stimulus, RMB 300-500bn may be allocated to stimulate consumption; however, this may shift focus away from home appliances to other sub-sectors.

Monetary policies may include: 1) further interest rate cuts to reduce mortgage burdens and business operating costs, and 2) a slight RMB depreciation to counter potential trade risks.

In the event of a policy-driven bull market, we estimate that oversold sectors such as catering, sportswear, and tourism (hotels) could have significant rebound potential.

Top picks: Luckin Coffee (LKNCY US, BUY), Yum China (9987 HK, BUY), DPC Dash (1405 HK, BUY), Haidilao (6862 HK, BUY), Anta (2020 HK, BUY), Li Ning (2331 HK, BUY), Atour (ATAT US, BUY).

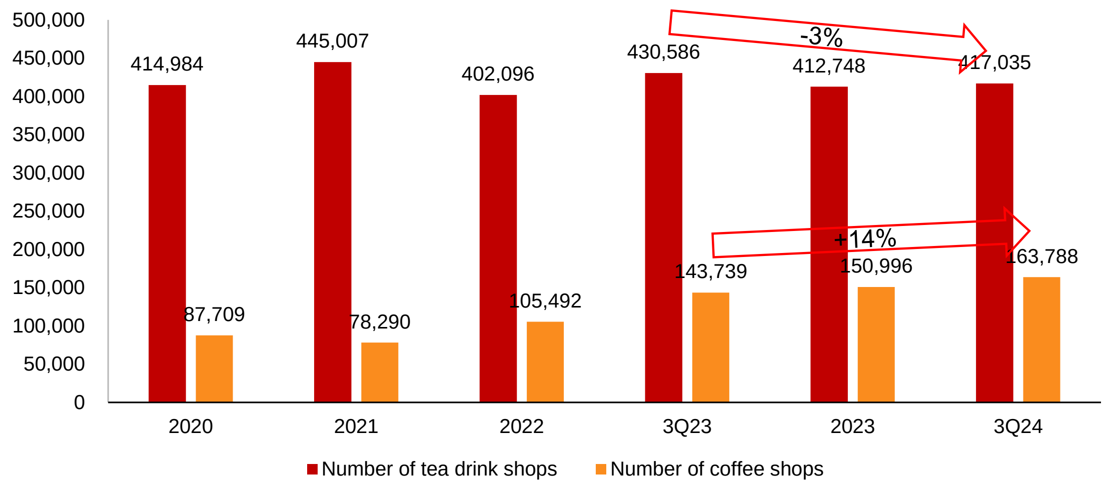
■ **2) Supply-demand balance and market rationalization**

Sectors such as sportswear, catering, and tourism (hotels) are currently oversupplied, leading to issues including excess inventory prompting heavy discounts, aggressive price wars reducing unit prices without boosting foot traffic. Over-supply of new hotels has been driving down overall pricing.

As supply gradually falls and inventory levels normalize, brands may recognize that discounting fails to drive significant customer loyalty or traffic and could reduce discounts. The closure of poorly managed stores could also contribute to supply-demand balance. We expect inflection points in the second half of the year at the earliest.

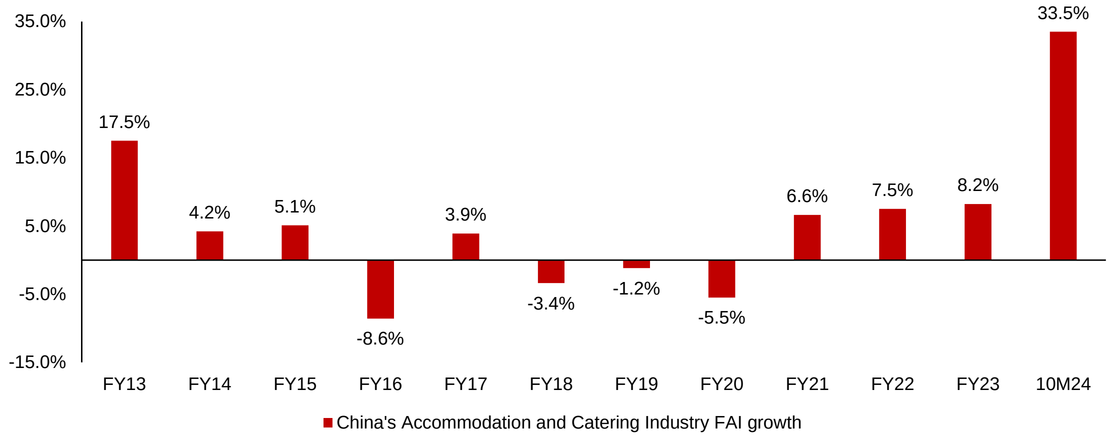
Top Picks: Luckin Coffee (LKNCY US, BUY), Yum China (9987 HK, BUY), Atour (ATAT US, BUY).

Figure 14: The number of tea shops and coffee shops in China in recent years



Source: https://www.canyin88.com, CMBIGM

Figure 15: Cumulative YoY growth in fixed asset investment in China's accommodation and catering industry



Source: NBS, CMBIGM

3) Overseas exports and market expansion (prioritizing Southeast Asia)

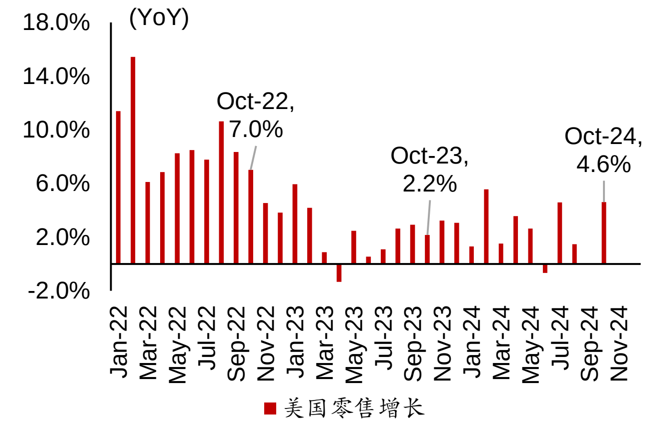
For 2025, we anticipate moderate recovery in Europe, which may drive retail sales growth. However, the US economic growth is expected to remain lackluster, with deeper discounts despite better-than-expected Black Friday and Thanksgiving sales.

Export sectors are likely to face headwinds due to: 1) a high base from prior years, 2) slower global economic growth, 3) potential trade wars, which could negatively impact manufacturing and wealth effects.

Figure 16: China export sales growth

Source: NBS, CMBIGM

Figure 17: US retail sales growth

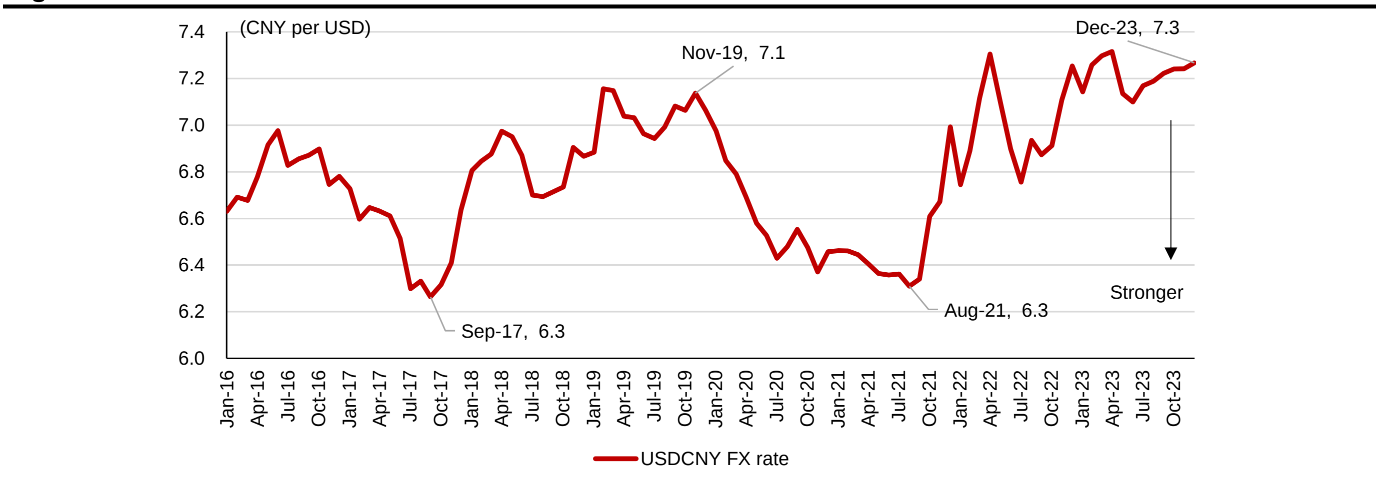


Source: U.S. Census Bureau, CMBIGM

We project tariffs could increase by **10–20%, on top of all existing tariffs, starting from 2Q25**, and the entire process may last up to two years. Small home appliance companies may face challenges, while furniture and textile sectors could perform relatively well as major players have all shifted production to Southeast Asia.

There is also a risk that the US could expand the scope of tariff hikes to all Chinese-affiliated supply chains, regardless of origin, which would have a significantly negative impact. Meanwhile, China's room for RMB depreciation this time round may be more limited (around 5% compared to 15% during 2017-2021), which could constrain China's countermeasures.

Figure 18: USDCNY FX rates



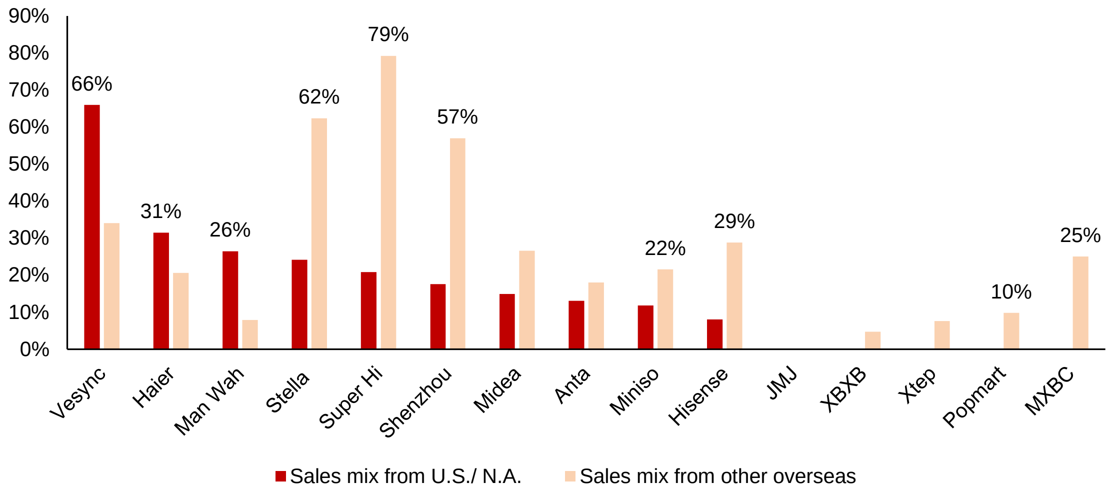
Source: Bloomberg, CMBIGM

Companies with capacity expansion in Southeast Asia (e.g., Crystal International (2232 HK, NR), Yue Yuen (551 HK, NR), Stella (1836 HK, NR), Shenzhou (2313 HK, NR), Huali Group (300979 CH, NR)) could benefit from increased orders.

Additionally, companies expanding into Southeast Asia, such as Pop Mart (9992 HK, NR), Miniso (9896 HK, NR), MXBC (unlisted), Hisense (921 HK, NR), and Super Hi International (9658 HK, NR), are expected to achieve better growth.

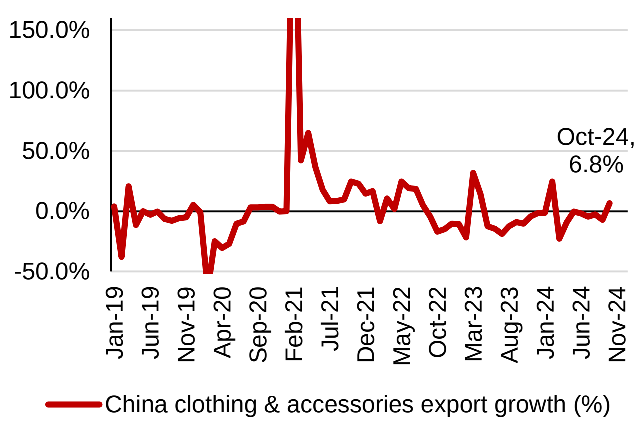
There are still many risks for overseas expansion, such as: 1) products must align with the purchasing power of overseas consumers and ensure sustainability, and 2) companies need cost advantages and economies of scale, which require significant investment and time to develop.

Figure 19: Proportion of sales in the US (or North America) and overseas sales in non-US (or North America) regions in FY23



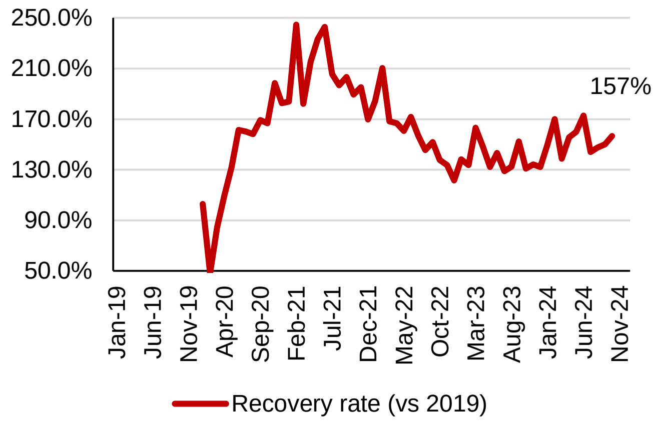
Source: Company data, Bloomberg, CMBIGM estimates

Figure 20: China's clothing & accessories export sales growth



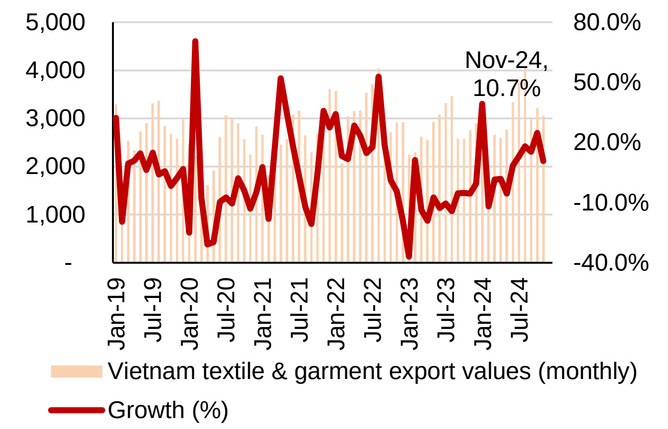
Source: NBS, CMBIGM

Figure 21: China's clothing & accessories export sales recovery rate (vs 2019)



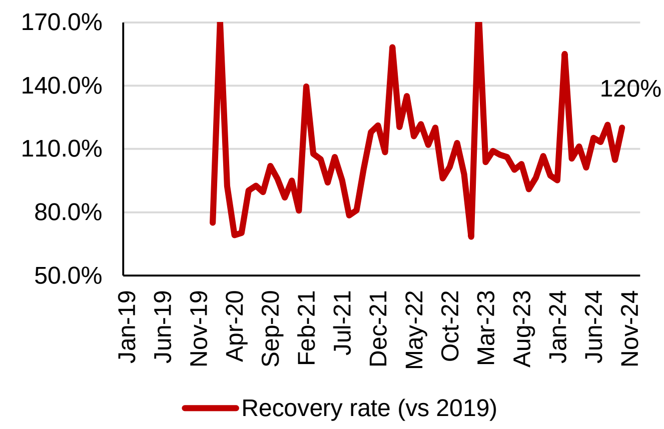
Source: NBS, CMBIGM

Figure 22: Vietnam textile and garment export sales and growth



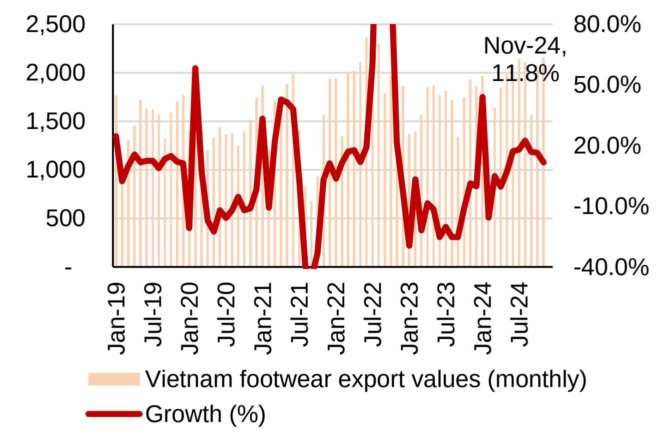
Source: Vietnam Statistics Bureau, CMBIGM

Figure 23: Vietnam textile and garment export recovery rate (vs 2019)



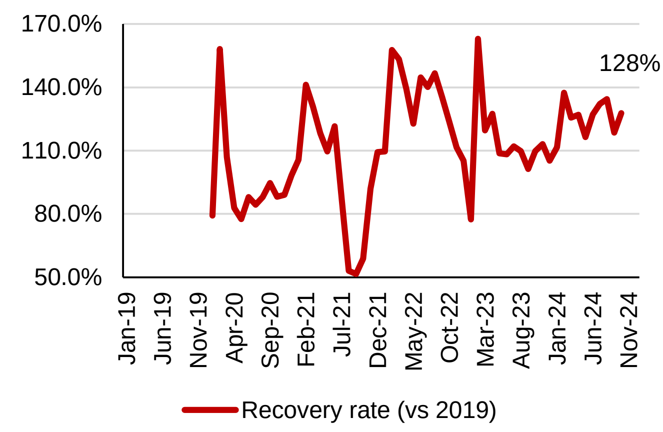
Source: Vietnam Statistics Bureau, CMBIGM

Figure 24: Vietnam footwear export sales and growth



Source: Vietnam Statistics Bureau, CMBIGM

Figure 25: Vietnam footwear export recovery rate (vs 2019)



Source: Vietnam Statistics Bureau, CMBIGM

■ 4) High dividend yields (with quality earnings performance)

Since the start of the interest rate cut cycle in 4Q24, investor interest in high-dividend stocks has decreased, and this trend may continue into the first half of next year due to expectations of further U.S. rate cuts.

However, we believe the likelihood of subsequent rate cuts is limited. Over the medium to long term, high-dividend stocks remain attractive.

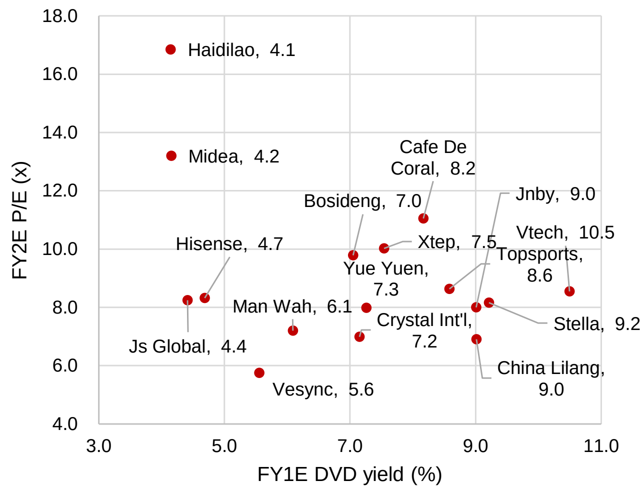
Top Picks: JNBY (3306 HK, BUY), Xtep (1368 HK, BUY), Bosideng (3998 HK, BUY).

Figure 26: Details of companies with high dividend yields

Name (eng)	Name (chi)	Ticker	Year End	FY2 Sales growth	FY2 NP growth	FY2 P/E	FY1 DVD yield
Vtech	偉易達	303 HK	Mar	6%	10%	8.6	10.5
Stella	九興控股	1836 HK	Dec	5%	10%	8.2	9.2
China Lilang	中國利郎	1234 HK	Dec	10%	13%	6.9	9.0
Jnby	江南布衣	3306 HK	Jun	8%	7%	8.0	9.0
Topsports	滔搏	6110 HK	Feb	4%	20%	8.6	8.6
Cafe De Coral	大家樂集團	341 HK	Mar	5%	16%	11.0	8.2
Xtep	特步	1368 HK	Dec	5%	13%	10.0	7.5
Yue Yuen	裕元集團	551 HK	Dec	5%	5%	8.0	7.3
Crystal Int'l	晶苑	2232 HK	Dec	11%	11%	7.0	7.2
Bosideng	波司登	3998 HK	Mar	13%	14%	9.8	7.0
Man Wah	敏華控股	1999 HK	Mar	7%	10%	7.2	6.1
Vesync	Vesync Co Lt	2148 HK	Dec	17%	18%	5.7	5.6
Hisense	海信家電	921 HK	Dec	8%	14%	8.3	4.7
Js Global	Js環球生活	1691 HK	Dec	8%	-2%	8.2	4.4
Midea	美的集團	000333 CH	Dec	7%	10%	13.2	4.2
Haidilao	海底撈	6862 HK	Dec	7%	13%	16.8	4.1

Source: Bloomberg, CMBIGM estimates

Figure 27: Forward FY2 P/E vs. forward FY1 dividend yield



Source: Bloomberg, CMBIGM estimates

Outlook by consumer sub-sectors

Overall in 2025, among the sub-sectors of the consumer discretionary industry, we are more optimistic about:

1) Catering sector (Maintain OUTPERFORM)

The restaurant industry has faced significant pressure due to macroeconomic headwinds, as more people opt to cook at home and downgrade their spending. However, looking ahead to 2025, we may adopt a more optimistic view due to the following factors: 1) supply reduction, as many independent restaurants are closing, leading to industry supply consolidation; 2) pricing rationalization: Many brands are becoming more pragmatic, realizing that price cuts have limited effects on customer traffic and attract lower-quality customers, and as a result, brands like Tai Er, Heytea, and Luckin Coffee are reducing discounting activities (that said, price reductions that do not affect gross margins, as seen with Pizza Hut, could still be a positive for eanrings performance); 3) low base effects: after moving past a low base, same-store sales in 2025 could turn positive, growing by approximately 0% to 5% (compared to -11% in 2024) and this could help alleviate the negative operating leverage; and 4) policy support, as any additional government stimulus policies would likely benefit the restaurant sector quickly and significantly.

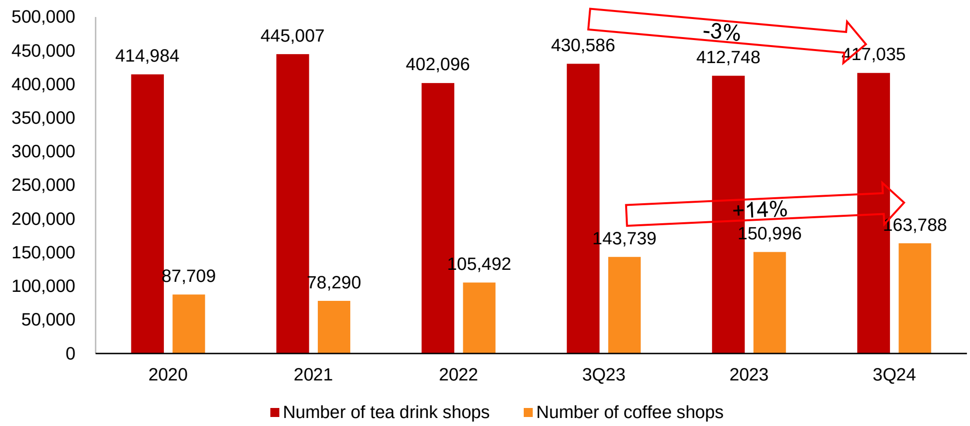
We are more optimistic about brands with strong product innovation (to attract traffic and expand their customer base), cost optimization, and efficiency improvements (to enhance margins). Top examples include Yum China (9987 HK, BUY) and Luckin Coffee (LKNCY US, BUY).

Top Pick: Luckin Coffee (LKNCY US, BUY)

Key reasons: **1) Cost leadership**: The company holds a significant cost advantage, with further room for improvement through economies of scale, supply chain investment and upgrades, and labor efficiency optimization. Both gross margins and operating profit margins have potential for improvement. **2) Same-store sales may return to growth** through product innovation and reduced discounting. **3) Rapid expansion**: The company continues to open new stores aggressively and is also expanding into overseas markets.

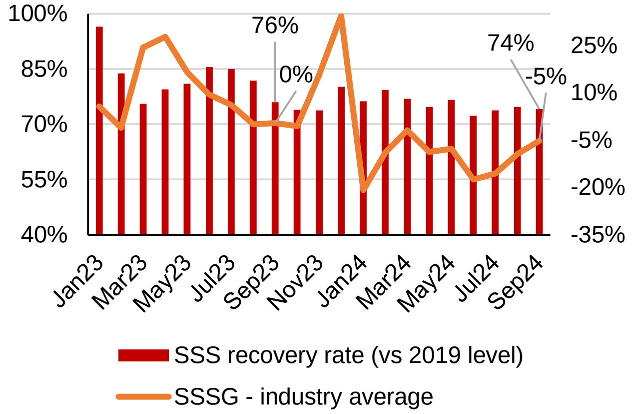
Related companies: Yum China (9987 HK, BUY), DPC Dash (1405 HK, BUY), Haidilao (6862 HK, BUY), Jiumaojiu (9922 HK, HOLD).

Figure 28: The number of tea shops and coffee shops in China in recent years



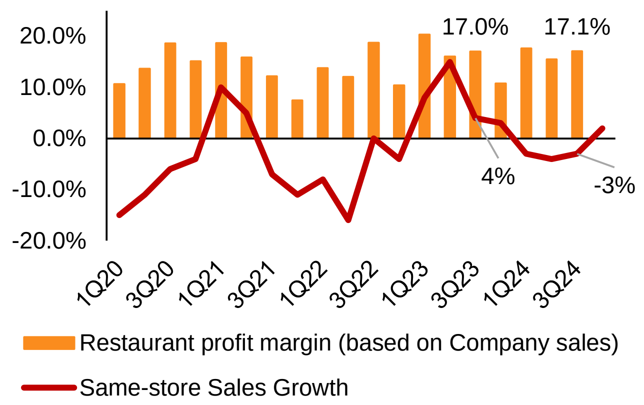
Source: https://www.canyin88.com, CMBIGM

Figure 29: Same-store sales growth and recovery rate in the catering industry (compared with 2019)



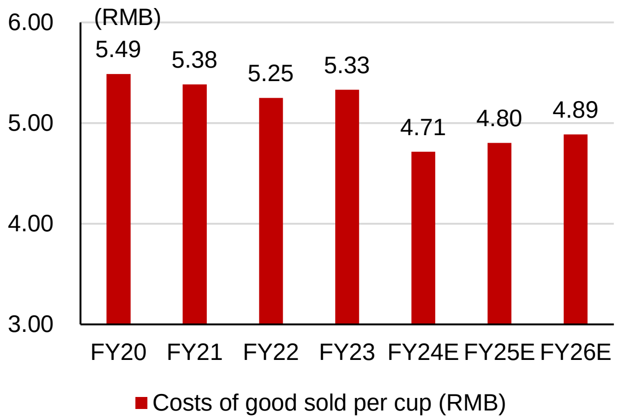
Source: Company data, CMBIGM, *Note: companies/brands include Jiumaojiu, Tai Er, Haidilao, Xiabuxiabu, Cou Cou, KFC, Pizza Hut, Nayuki

Figure 30: Yum China same-store sales growth and store operating profit margin



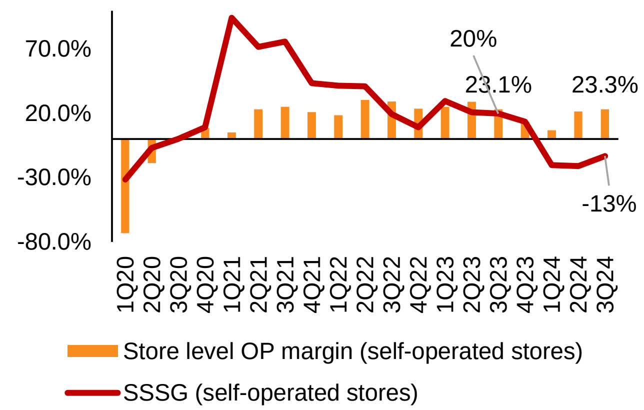
Source: Company data, CMBIGM

Figure 31: Cost per cup of Luckin Coffee



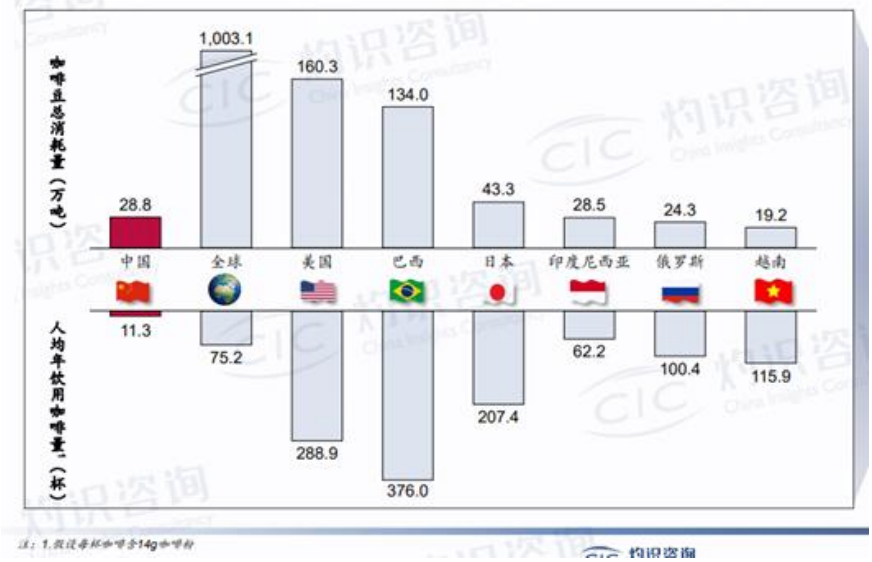
Source: Company data, CMBIGM

Figure 32: Luckin Coffee's self-operated stores' same-store sales growth and store operating profit margin



Source: Company data, CMBIGM estimates

Figure 33: Comparison of coffee bean consumption and cups per capita in China and other regions/countries in 2022



Source: CIC, CMBIGM

2) Sportswear sector (Maintain OUTPERFORM)

For short-term outlook (next 3 months), we believe the industry may remain under pressure in the near term due to the following reasons. 1) Macroeconomic conditions, where the overall environment still needs improvement. 2) Shorter peak season, as next year's CNY falls earlier than this year's, shortening the peak sales period. 3) Weak retail-end demand: while Oct 2024 benefited from policy support and an earlier Double 11 shopping festival, Nov 2024's retail performance was relatively weak (Overall, Double 11 sales growth did not exceed expectations, especially with rising return rates). 4) Offline pressure: the offline channels are still facing significant challenges, including negative operating leverage. 5) Inventory build-up: due to weaker-than-expected retail sales compared to orders, inventory has slightly increased, impacting retail discounting.

2025 industry outlook: We currently estimate industry growth could accelerate to over 5% in 2025 (compared to approximately 3% in 2024). For some brands, 2024 has been an adjustment year. Heading into 2025, we expect brands like Nike, Adidas, and Li Ning to introduce more innovative products. Channel-related trends: Offline: Positive growth expected, driven by improved foot traffic and conversion rates. Outlet channel growth should remain stable. Online: Growth may slow due to a higher base from platforms like Douyin (TikTok). Overseas expansion: Several brands are accelerating their international business development. As order growth aligns better with retail performance, risks of inventory build-up and aggressive discounting should decrease. We expect inventory levels and discounts to at least stabilize, with some brands showing improvement. Profitability: Margins are likely to improve in 2025 due to reduced marketing expenses in a non-Olympic year and continued efforts by companies to cut costs and enhance efficiency.

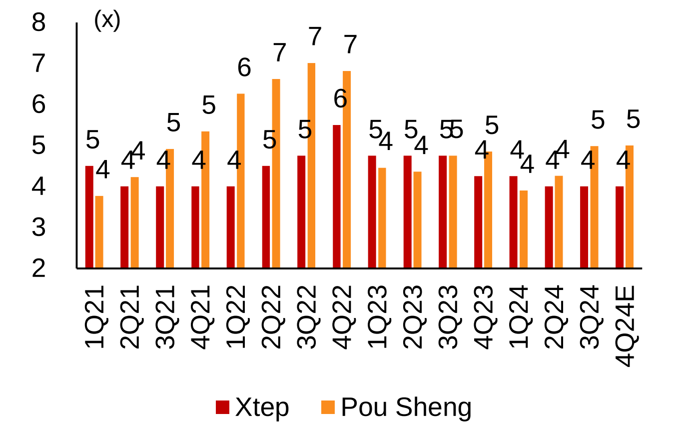
Preferred segments and brands: We expect outdoor brands, those with strong functionality and innovation capabilities, and brands launching more affordable products to outperform the industry.

Top Pick: Anta (2020 HK, BUY)

Key Drivers: 1) Outdoor growth: Benefiting from rapid growth in the outdoor segment, supported by brands like Descente, Kolon, and Amer, 2) Anta brand transformation: Expanding customer base through diverse store formats, and 3) FILA growth: Driving growth by enhancing functional and footwear product lines.

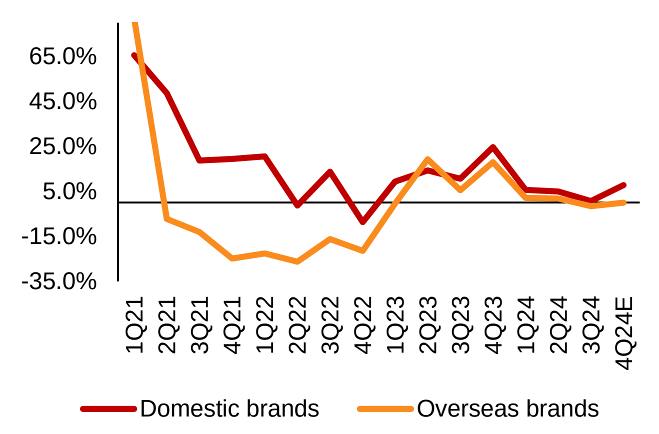
Related companies: Xtep (1368 HK, BUY), Li-Ning (2331 HK, BUY), 361 Degrees (1361 HK, BUY), Topsports (6110 HK, HOLD) and Pou Sheng (3813 HK, NR).

Figure 34: Channel inventory-to-sales ratio - Xtep and Pou Sheng



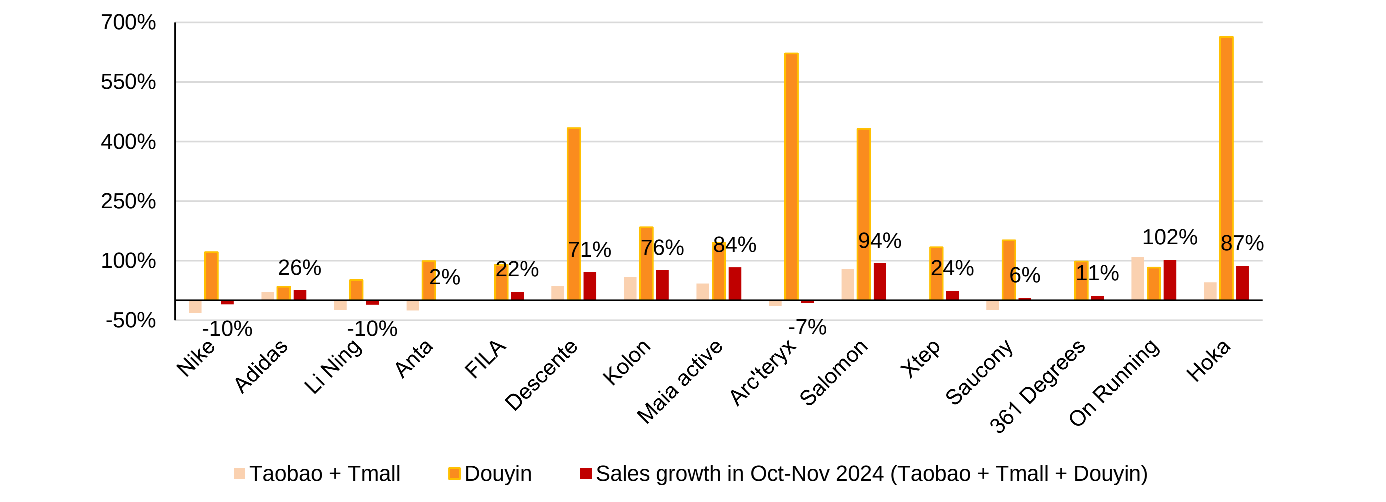
Source: Company data, CMBIGM estimates

Figure 35: Retail sales growth - domestic vs. overseas brands*



Source: Company data, CMBIGM estimates, *Note: Domestic brands: Li Ning + Anta + Xtep + FILA, overseas brands: Nike China + Adidas China + Pou Sheng

Figure 36: E-commerce sales growth of sporting goods in Oct to Nov 2024 (Taobao, Tmall, Douyin platforms)



Source: Moojing Market Intelligence, CMBIGM estimates

3) Apparel sector (Maintain OUTPERFORM)

Short-term outlook (next 3 months): We are relatively cautious in the short term due to the following risks: 1) warm winter: warmer-than-usual weather could impact winter apparel sales; 2) an earlier CNY: the timing of Chinese New Year in 2025 is earlier, potentially shortening the sales cycle. These factors, combined with weaker-than-expected retail sales and rising inventory levels, could lead to deeper retail discounting, potentially affecting profit margins.

2025 industry outlook: Looking ahead to 2025, we are not overly pessimistic, forecasting 0%-5% growth (compared to 1% growth in 2024). Key considerations include: 1) low base effect: A low comparison base, including the earlier Chinese New Year in 2025, could benefit growth; 2) potential stimulus policies: Government policies to stimulate consumption may extend beyond home appliances to include other sectors; 3) stronger female spending power: Consumption recovery and growth among women are outpacing that of men; and 4) weather trends: After a transitional period of 1-2 years, the return of La Niña weather patterns could lead to colder winters, supporting winter apparel demand.

Brand differentiation: While the situation is similar to the sportswear industry, brand performance is more polarized. We prefer stable and competitive brands with ongoing improvements in product innovation, store image, and service quality. Brands that perform well on platforms like Douyin (TikTok) are also expected to grow faster, such as JNBY (3306 HK, BUY) and Bosideng (3998 HK, BUY).

Top Pick: Bosideng (3998 HK, BUY)

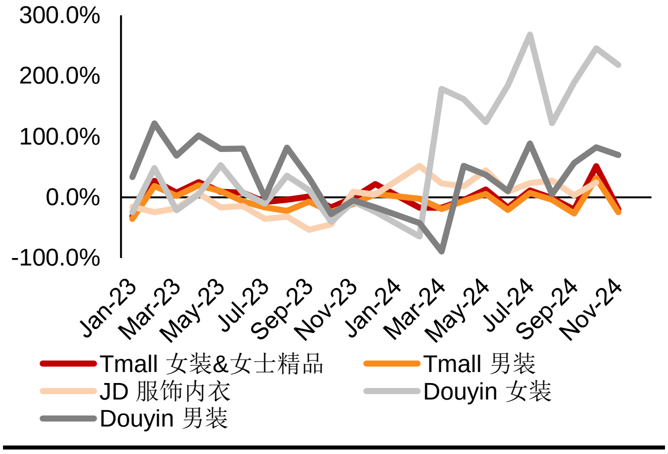
Key Drivers: 1) Product diversification: new product categories like sun-protective clothing and outdoor apparel are well-suited to warmer weather and will potentially broaden the customer base; 2) store upgrades: many stores still have potential for image enhancement; 3) membership services: there is significant room to improve customer loyalty through better member and VIP services; and 4) additionally, Bosideng's high dividend yield provides strong defensiveness.

Related companies: JNBY (3306 HK, BUY), China Lilang (1234 HK, BUY).

Figure 37: China retail sales, clothing and shoes sales growth

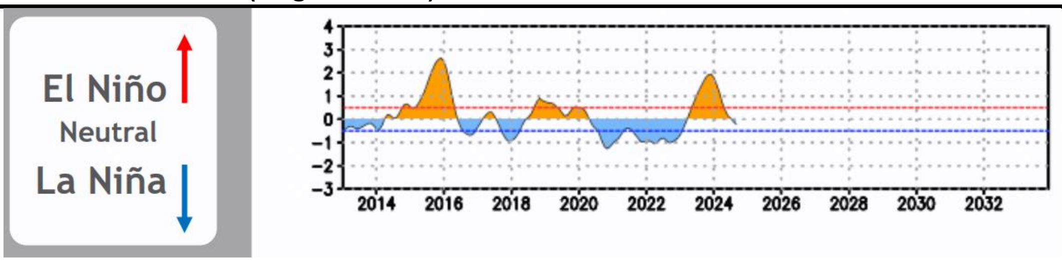
Source: NBS, CMBIGM

Figure 38: Clothing industry sales growth on different e-commerce platforms



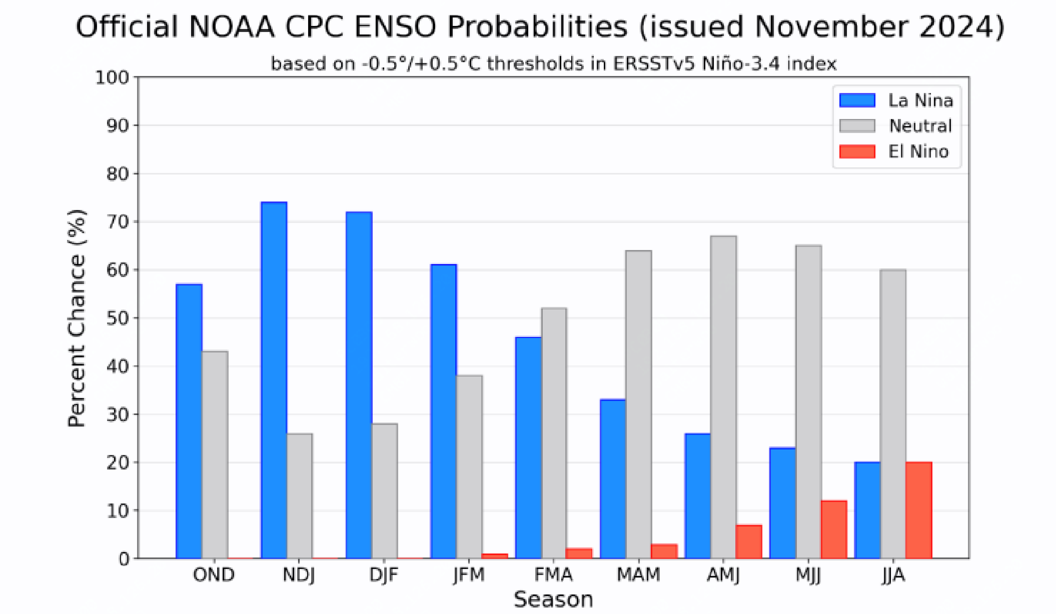
Source: Moojing Market Intelligence, CMBIGM

Figure 39: The latest ONI value (Aug-Oct 2024) is -0.2ºC.



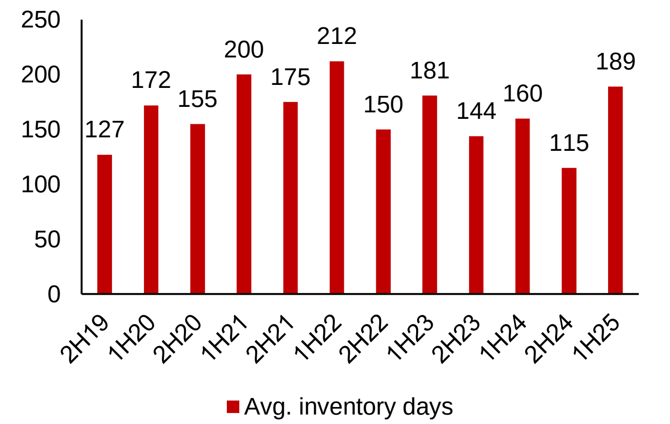
Source: US National Oceanic and Atmospheric Administration, CMBIGM

Figure 40: La Nina is expected to occur from Oct to Dec 2024 (57% probability) and last until Jan to Mar 2025.



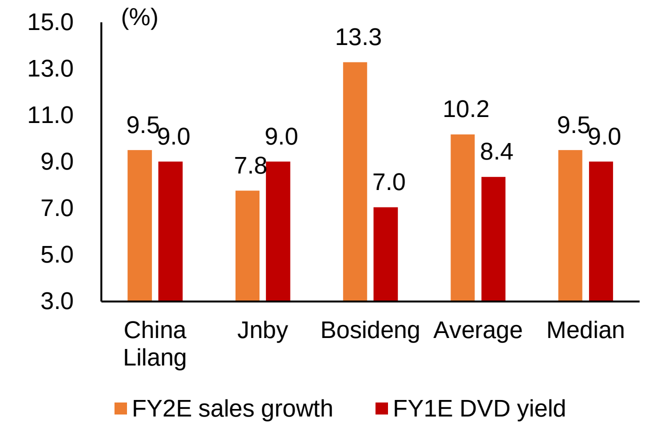
Source: US National Oceanic and Atmospheric Administration, CMBIGM

Figure 41: Bosideng inventory days



Source: Company data, CMBIGM

Figure 42: Forecast sales growth and forward dividend



Source: Bloomberg, CMBIGM estimates

4) Textile sector (Maintain OUTPERFORM)

From the demand perspective, while performance may vary across major brands—Nike remains weak, Adidas and Uniqlo are performing well, Puma is steady, and Lululemon is showing signs of improvement—we still expect the industry sales growth in 2025 to remain solid and is projected to grow around 5% (compared to approximately 6% in 2024).

Additionally, we are optimistic about the potential for a rebound in Nike's performance with the launch of new products.

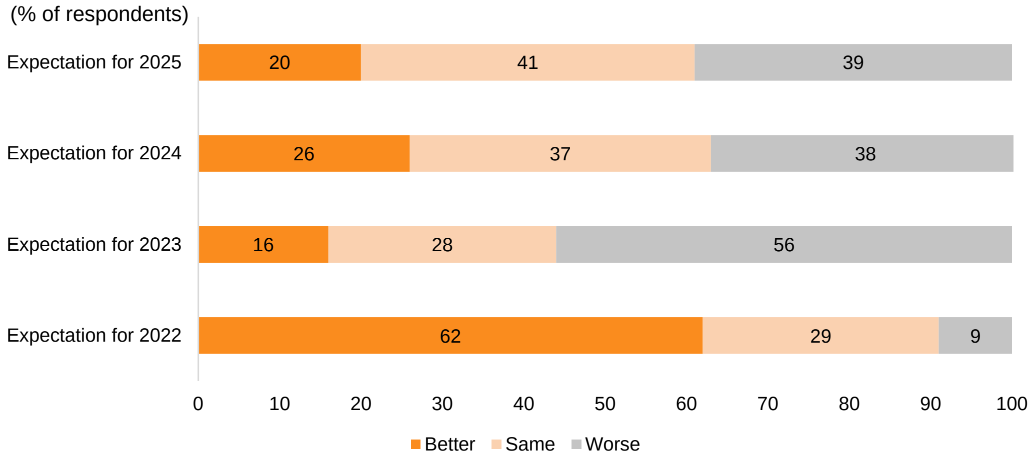
Given the currently low inventory levels, there is still a possibility for restocking activity, which could support demand.

We favor demand for mid- to low-priced brands over luxury goods. We also prefer apparel over footwear; therefore, compared to footwear manufacturers, we are more optimistic about apparel manufacturers.

Although future trade tensions may raise brand costs, leading to potential price increases and sales impact, leading suppliers (e.g., top-tier textile and apparel companies like Crystal International (2232 HK, NR), Pou Sheng (551 HK, NR), Stella International (1836 HK, NR), Shenzhou International (2313 HK, NR), and Huali Industrial Group (300979 CH, NR)) are well-prepared. Many of those have already established production capacities in Southeast Asia and made adjustments during the previous trade war. As a result, these companies might actually benefit from increased orders amid the trade tensions, in our view.

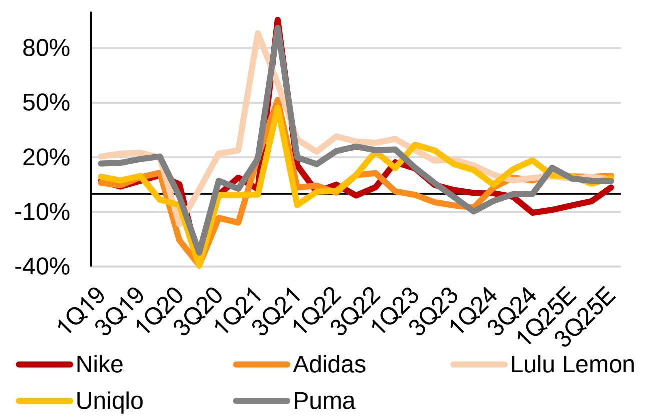
Related companies: Crystal International (2232 HK, NR), Stella International (1836 HK, NR), Pou Sheng (551 HK, NR), Shenzhou International (2313 HK, NR) and Huali Group (300979 CH, NR).

Figure 43: How executives see the fashion industry in the coming year compared to last year (how expectations evolve)



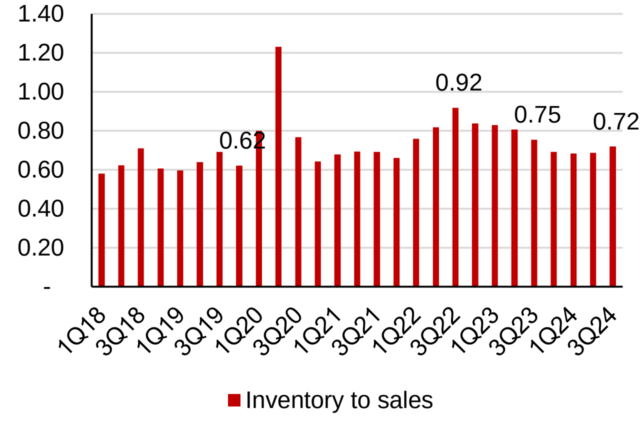
Source: State of fashion & McKinsey, CMBIGM

Figure 44: Sales growth of overseas sports and apparel brands



Source: Company data, CMBIGM estimates

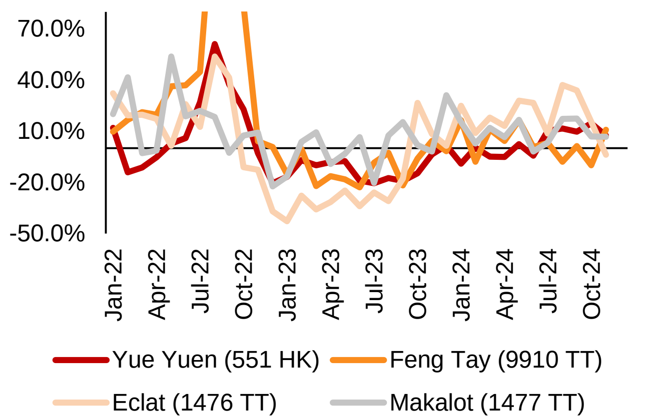
Figure 45: Average inventory-to-sales ratio of overseas sports and apparel brands*



Source: Company data, CMBIGM estimates

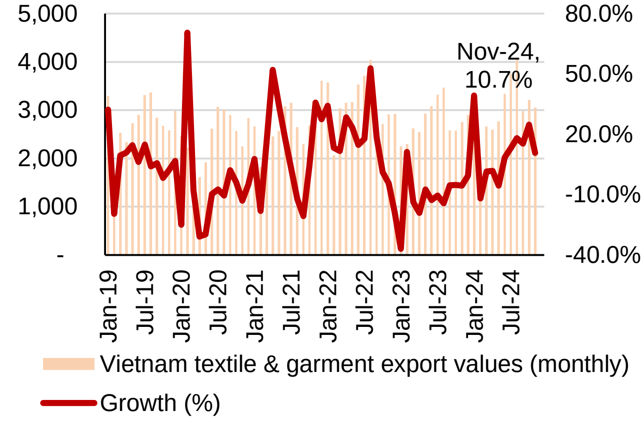
Note: *Nike+Adidas+Lululemon+Uniqlo+Puma

Figure 46: Sports and apparel makers' sales growth



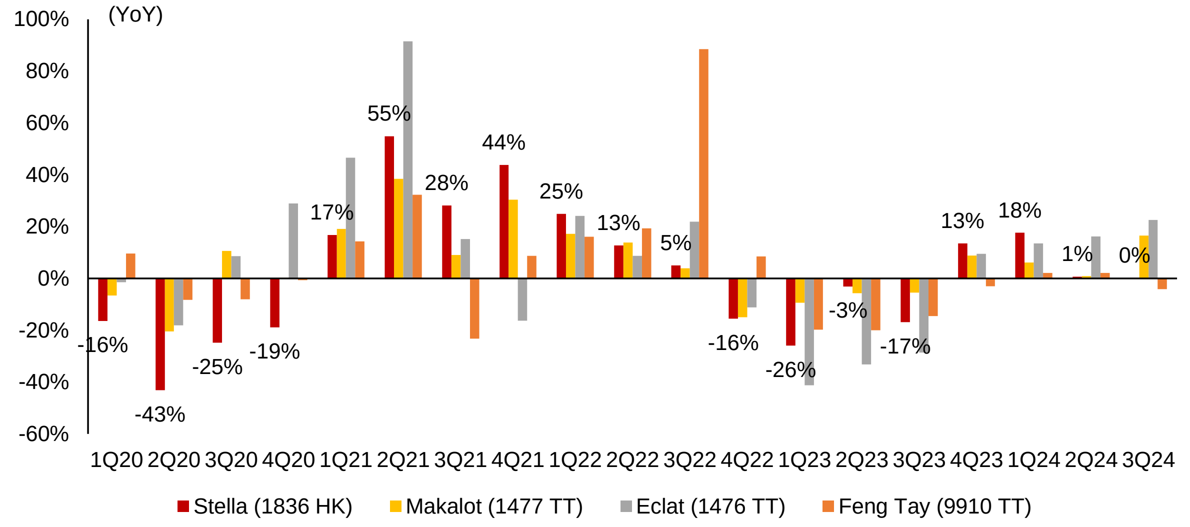
Source: Company data, CMBIGM estimates

Figure 47: Vietnam textile export sales and growth



Source: Vietnam Statistics Bureau, CMBIGM

Figure 48: Sports and apparel makers quarterly sales growth



Source: Company data, CMBIGM

Our outlook for the following sub-sectors are MARKET-PERFORM.

5) Tourism - Hotel sector (Downgrade to MARKET-PERFORM)

For the hotel industry in 2025, we believe caution is warranted in 1H25E, with some chances to improve in the 2H25E. Current demand remains weak, and despite a low base and government policy support, H-World has lowered its Q4 RevPAR growth guidance, signalling insufficient demand and significant pressure on individual hotel performance.

Hotel supply is still excessive (fixed asset investment in China's accommodation and catering industry grew by a cumulative 34% YoY in 10M24). Post-pandemic revenge travel demand and accelerated hotel openings by major brands have continued to increase the total number of hotels, with rapid growth expected to persist in 2025.

OTAs and leading hotel groups are downsizing in staff, which may indicate continued challenges ahead.

The quality and competitiveness of newly opened hotels are also high, benefiting from reduced construction costs, advances in new materials, digitalization, standardization, and modular production. These improvements can not only lower capex for new hotels but also enhance product quality and durability. As a result, leading brands that open more hotels at a faster pace will likely capture more market share.

There are some marginally positive factors, such as slower outbound travel growth, relaxed visa policies for inbound tourists to China, and the depreciation of the RMB, all of which could benefit domestic travel.

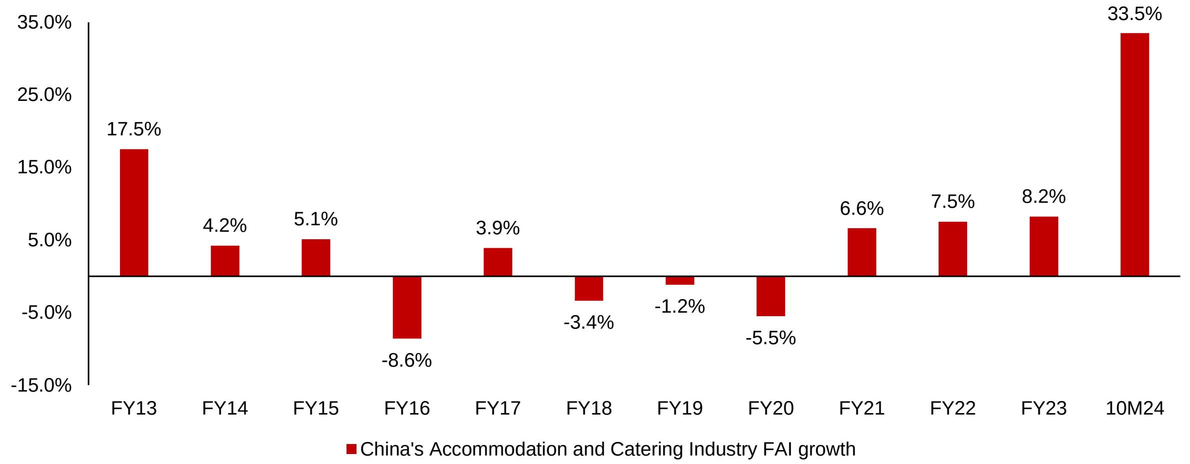
Overall, we expect RevPAR growth for the hotel industry in 2025 to range from 0% to 5% (compared to approximately -5% in 2024). In the medium to long term, we remain optimistic about the travel sector, expecting a sustained recovery in business and leisure travel demand.

Top pick: Atour Lifestyle (ATAT US, BUY)

Reasons: 1) rapid hotel expansion, enabling faster market share gains, 2) high value for money, catering to the demand for downgraded business travel spending, AND 3) strong retail business growth, although the valuation is currently relatively high.

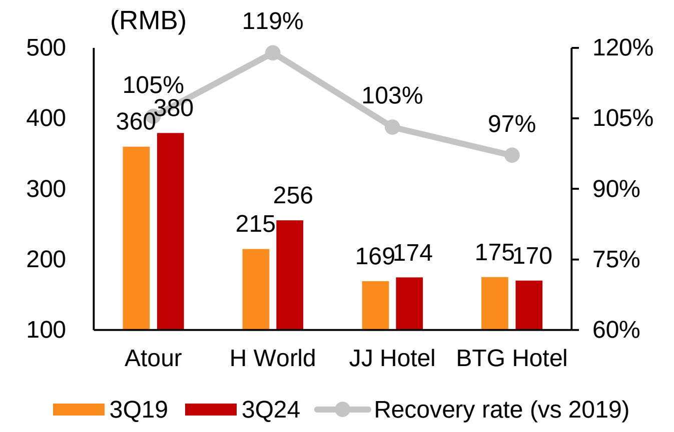
Related companies: H-World (1179 HK, NR), Jinjiang Hotels (600754 CH, NR), BTG (600258 CH, NR).

Figure 49: Cumulative YoY growth in fixed asset investment in China's accommodation and catering industry



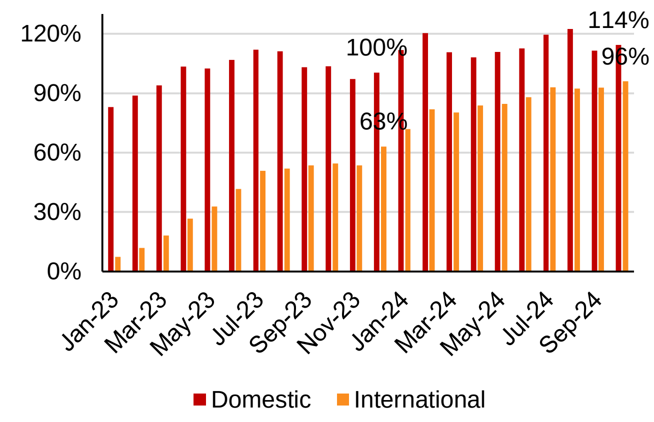
Source: NBS, CMBIGM

Figure 50: RevPAR recovery rate (3Q24 vs 3Q19) - by company



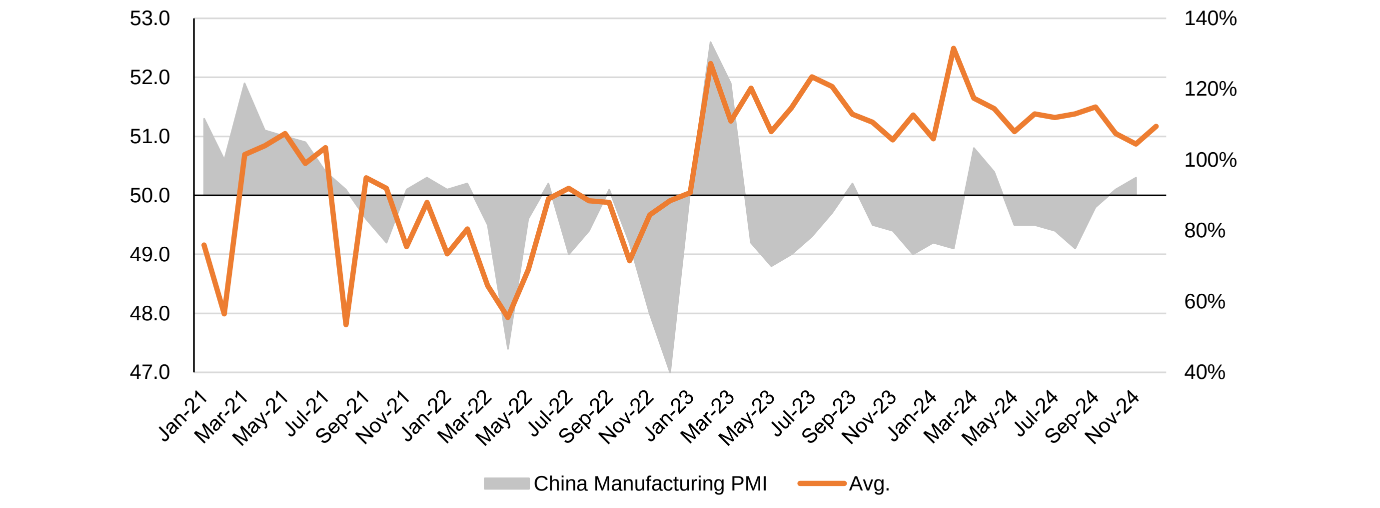
Source: Company data, CMBIGM

Figure 51: China's domestic and overseas civil aviation passenger traffic recovery rate (vs 2019)



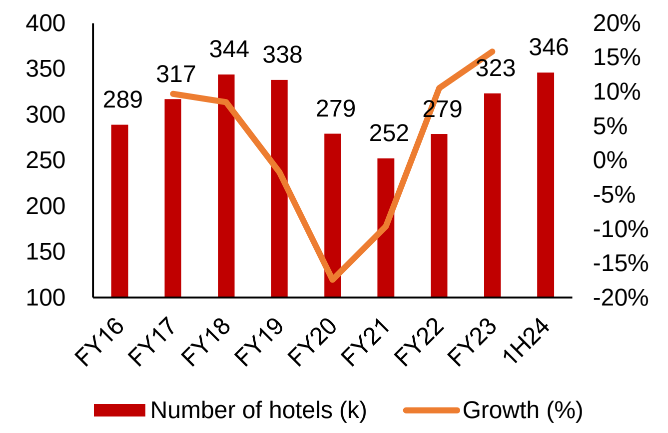
Source: Civil Aviation Administration of China, CMBIGM

Figure 52: China manufacturing PMI vs. hotel industry RevPAR recovery rate



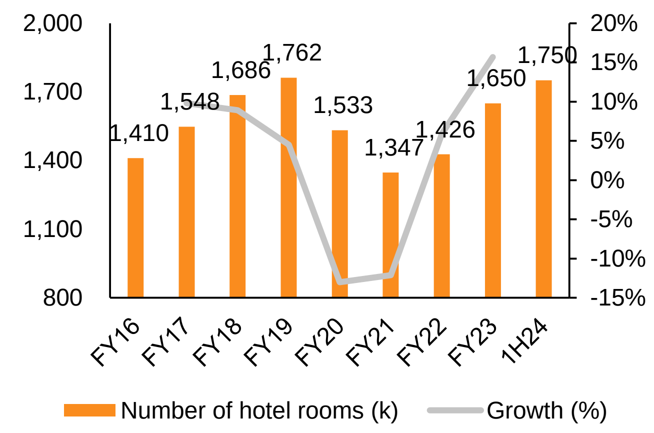
Source: Company data, NBS, CMBIGM,
Note: Industry data include: Atour + H-World + Jinjiang + BTG

Figure 53: Number of hotels and growth in China



Source: China Hospitality Association, CMBIGM

Figure 54: Number of hotel rooms and growth in China



Source: China Hospitality Association, CMBIGM

6) Home appliances sector (Downgrade to MARKET-PERFORM)

The home appliances sector faced challenges in 2024, but ultimately performed well thanks to supportive policies.

Looking ahead to 2025, we believe 1H25E has potential for solid performance due to several factors: 1) subsidy policies for trade-in programs may extend into 2025, as suggested by the Ministry of Finance (assuming the level of subsidies remains similar to 2024), 2) strong fourth-quarter sales in 2024 have led to lower channel inventory levels, providing room for inventory replenishment and supporting listed companies' sales in the first half of 2025, and 3) although export growth might slow, it is expected to remain at healthy levels.

However, we adopt a more cautious outlook for 2H25E due to: 1) weak underlying fundamentals, such as steep declines in real estate completion data, 2) higher YoY comparison base starting in 2H25E, and 3) while the government may introduce further supportive policies in 2025, these may extend beyond home appliances to other durable goods, raising the risk of reduced YoY subsidy impact.

Additionally, when subsidy programs end, average selling prices (ASP) and gross profit margins may face downward pressure, as consumers are less sensitive to pricing during subsidy periods.

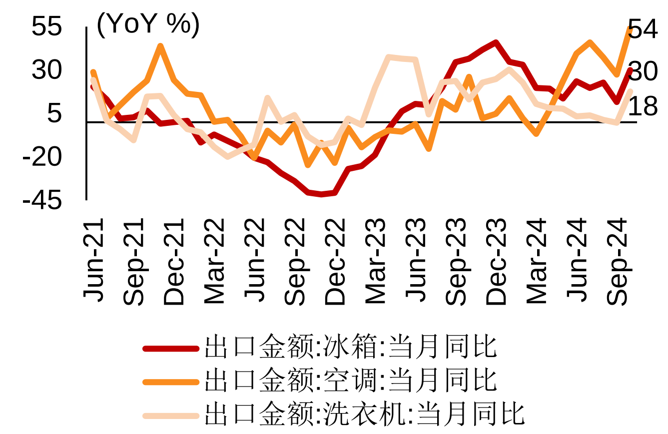
We are more optimistic about companies with higher export exposure, particularly those with a strong presence in Southeast Asia. Conversely, we remain highly cautious and conservative regarding the small home appliances segment due to tariff-related concerns.

Top pick: Haier (6690 HK, BUY)

Key reasons include: 1) recent improvements in US housing demand following interest rate cuts, 2) sales growth and margin improvement in Europe after local market reforms and localization efforts, 3) rapid sales growth in Southeast Asia, and 4) enhanced efficiency and cost management across the entire production process, including digitization in procurement and manufacturing.

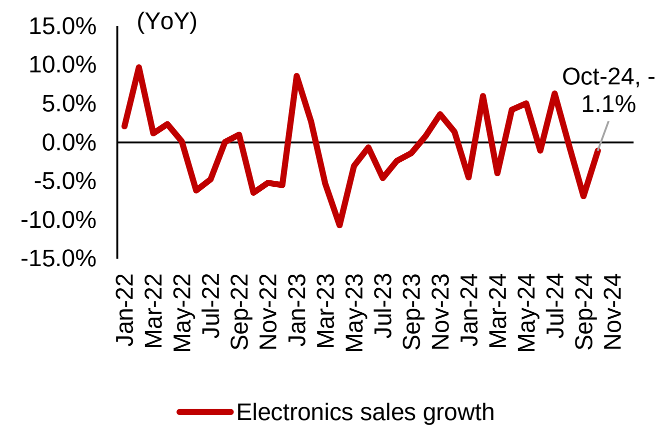
Related companies: Midea (000333 CH, BUY), Hisense (921 HK, NR), Vesync (2148 HK, BUY), JS Global (1691 HK, BUY), Carote (1691 HK, BUY), Roborock (688169 CH, NR), Ecovacs (603486 CH, NR), Joyoung (002242 CH, NR), and Supor (002032 CH, NR).

Figure 55: China's major home appliances export sales growth



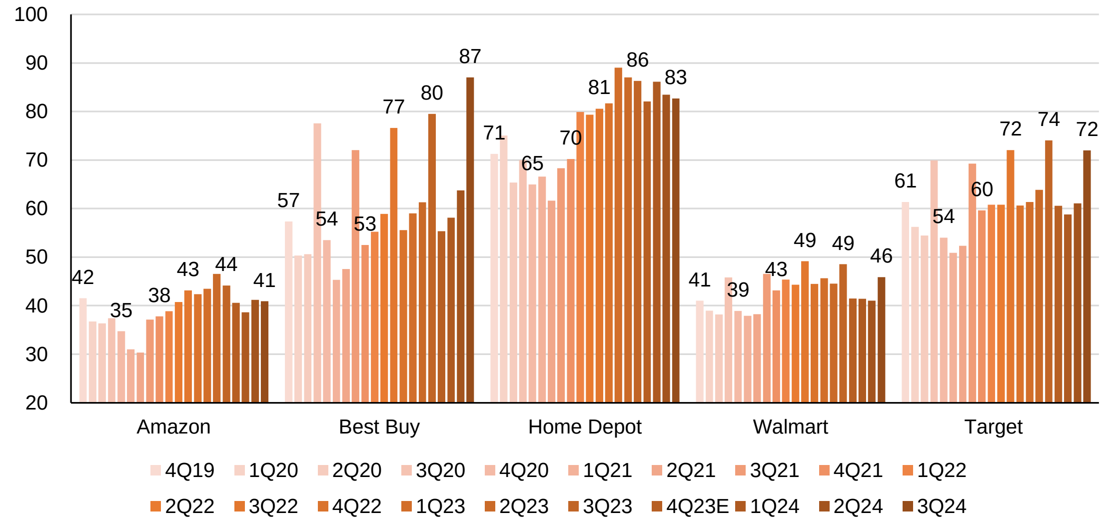
Source: Wind, CMBIGM

Figure 56: US home appliances retail sales growth



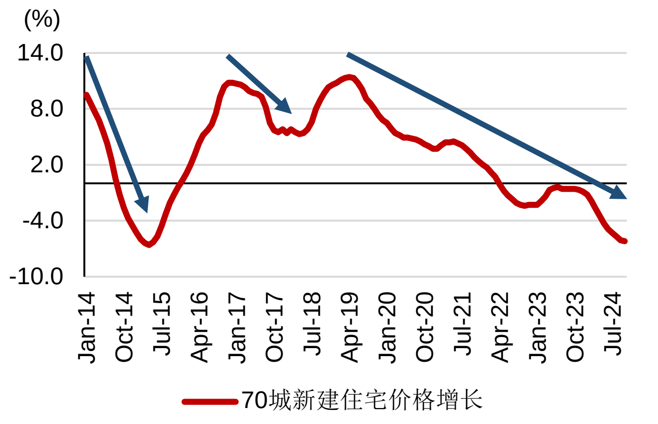
Source: Wind, CMBIGM

Figure 57: US retailers' inventory days



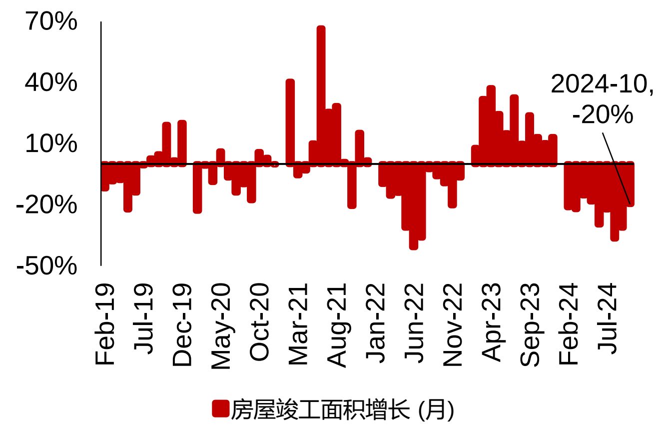
Source: Bloomberg, CMBIGM

Figure 58: Price index of new commodity housing in 70 large and medium-sized cities in China



Source: Wind, CMBIGM

Figure 59: China residential property housing area completion growth



Source: Wind, CMBIGM

Peers valuation

Figure 60: Peer valuation table

Company		Ticker	Price L.C.	Mkt cap HK$ mn	Rating	TP L.C.	Year End	PER (x) FY1	PER (x) FY2	EV/EBITDA (x) FY1	EV/EBITDA (x) FY2	PBR (x) FY1	PBR (x) FY2	Yield (%) FY1	Net gearing FY0	YTD performanc
Sports																
Anta Sports	安踏體育	2020 HK	79.45	224,782	BUY	126.68	Dec-23	16.0	15.1	9.4	8.2	3.4	3.0	3.2	(29.5)	4.9
Li Ning	李寧	2331 HK	16.60	42,902	BUY	19.58	Dec-23	13.0	11.6	6.2	5.1	1.5	1.4	3.5	(11.7)	(19.7)
Xtep	特步	1368 HK	5.36	14,384	BUY	7.50	Dec-23	10.7	9.5	6.4	5.8	1.3	1.2	7.5	0.5	33.6
361 Degrees	361度	1361 HK	4.19	8,664	BUY	5.15	Dec-23	7.2	6.2	1.6	1.2	0.8	0.7	5.6	(50.3)	20.7
Topsports	滔搏	6110 HK	2.39	14,821	HOLD	2.58	Feb-24	9.6	8.0	4.8	4.2	1.4	1.3	9.2	7.6	(58.9)
Pou Sheng	寶勝	3813 HK	0.52	2,770	-	-	Dec-23	5.2	4.3	n/a	n/a	0.3	0.3	8.4	(0.1)	(20.6)
China Dongxiang	中國動向	3818 HK	0.35	2,031	-	-	Mar-24	n/a	20.2	n/a	n/a	0.2	0.2	6.2	(30.0)	23.5
Average								**10.3**	**10.7**	**5.7**	**4.9**	**1.3**	**1.2**	**6.3**	**(16.2)**	**(2.4)**
Median								**10.1**	**9.5**	**6.2**	**5.1**	**1.3**	**1.2**	**6.2**	**(11.7)**	**4.9**
Apparel																
Bosideng	波司登	3998 HK	4.05	45,010	BUY	6.05	Mar-24	11.5	10.1	6.4	5.4	2.7	2.4	6.8	(65.6)	15.4
Giordano	佐丹奴	709 HK	1.67	2,699	-	-	Dec-23	9.8	8.8	3.3	3.0	n/a	n/a	n/a	(10.3)	(36.7)
Esprit	思捷環球	330 HK	0.14	391	-	-	Dec-23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	77.3	(65.9)
Cosmo Lady China	都市麗人	2298 HK	0.26	585	-	-	Dec-23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	33.8	8.8
Viva Goods	非凡領越	933 HK	0.70	6,807	-	-	Dec-23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.4	(22.2)
Jnby Design	江南布衣	3306 HK	14.86	7,709	BUY	17.61	Jun-24	8.1	7.5	4.3	3.7	3.0	2.6	9.6	(46.1)	45.5
China Lilang	中國利郎	1234 HK	3.76	4,503	BUY	4.85	Dec-23	7.5	6.6	n/a	n/a	1.0	1.0	9.4	4.8	(9.0)
Average								**9.2**	**8.3**	**4.7**	**4.0**	**2.3**	**2.0**	**8.6**	**0.5**	**(9.2)**
Median								**8.9**	**8.1**	**4.3**	**3.7**	**2.7**	**2.4**	**9.4**	**4.8**	**(9.0)**
Restaurant																
Haidilao	海底撈	6862 HK	16.02	89,295	BUY	15.94	Dec-23	18.0	15.9	8.9	7.9	6.2	5.4	4.4	(35.4)	10.2
Jiumaojiu	九毛九	9922 HK	3.50	4,937	HOLD	2.64	Dec-23	21.5	12.9	3.6	2.8	1.3	1.2	2.0	36.7	(42.6)
Nayuki	奈雪的茶	2150 HK	1.47	2,506	BUY		Dec-23	n/a	n/a	n/a	n/a	0.6	0.6	0.0	27.6	(53.6)
Sichuan Baicha Baidao	四川百茶百道	2555 HK	9.54	14,097	-	-	Dec-23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(266.2)	n/a
Xiabuxiabu	呷哺呷哺	520 HK	1.13	1,227	BUY	4.89	Dec-23	n/a	117.3	n/a	n/a	1.2	1.2	3.2	68.2	(53.4)
Helens	海倫司	9869 HK	2.55	3,227	-	-	Dec-23	14.6	11.3	n/a	n/a	1.8	1.8	10.1	(20.4)	(18.0)
Super Hi	特海國際	9658 HK	18.16	11,809	-	-	Dec-23	37.0	27.1	13.3	11.5	4.7	4.0	0.0	19.5	74.6
Dpc Dash	達勢	1405 HK	78.10	10,192	BUY	81.20	Dec-23	142.0	60.2	20.6	14.7	4.4	4.2	0.1	10.4	26.1
Cafe De Coral	大家樂	341 HK	7.92	4,594	BUY	9.30	Mar-24	12.9	11.1	n/a	n/a	1.6	1.6	8.2	40.8	(12.1)
Tam Jai	譚仔	2217 HK	0.77	1,037	-	-	Mar-24	7.9	8.2	n/a	n/a	0.7	0.7	10.1	(36.9)	(38.9)
Tai Hing	太興	6811 HK	0.67	674	-	-	Dec-23	11.4	6.7	n/a	n/a	67.0	67.0	9.0	82.1	(18.0)
Fairwood	大快活	52 HK	6.56	850	-	-	Mar-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	60.8	(28.5)
Ajisen China	味千（中國）	538 HK	0.82	895	-	-	Dec-23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(39.0)	(16.3)
Tsui Wah	翠華	1314 HK	0.25	353	-	-	Mar-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.0	33.7
Yihai	頤海國際	1579 HK	13.88	14,389	-	-	Dec-23	15.5	13.9	9.0	7.8	2.5	2.3	5.6	(47.4)	11.9
Luckin Coffee	瑞幸咖啡	LKNCY US	24.05	62,926	BUY	33.80	Dec-23	149.5	108.0	11.7	8.7	n/a	n/a	n/a	15.2	(11.8)
Tims China	Th International l	THCH US	0.83	1,016	-	-	Dec-23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(52.8)
Yum China	百勝中國	9987 HK	381.40	144,847	BUY	451.11	Dec-23	21.0	19.0	10.9	9.9	3.0	2.9	1.3	(0.8)	14.8
Yum China	百勝中國	YUMC US	48.53	143,398	BUY	38.07	Dec-23	20.8	18.8	10.8	9.8	3.0	2.9	1.3	(0.8)	14.4
Average								**39.4**	**33.1**	**11.1**	**9.1**	**7.6**	**7.4**	**4.3**	**(4.6)**	**(8.9)**
Median								**19.4**	**15.9**	**10.8**	**9.2**	**2.5**	**2.3**	**3.2**	**6.2**	**(14.2)**
Home appliances																
Haier Smart Home- H	海爾智家	6690 HK	27.40	277,683	BUY	36.41	Dec-23	12.5	11.1	8.1	6.9	2.1	1.9	3.8	(22.9)	24.3
Js Global Lifestyle	Js環球生活	1691 HK	1.38	4,795	BUY	1.84	Dec-23	7.7	8.1	n/a	n/a	0.8	0.7	4.5	(52.2)	(11.0)
Vesync	Vesync	2148 HK	4.18	4,763	BUY	6.79	Dec-23	6.7	5.7	4.9	3.1	1.5	1.2	5.6	(20.1)	(22.3)
Carote	卡羅特(商業)有	2549 HK	5.42	3,008	BUY	8.97	Dec-23	6.3	6.2	n/a	n/a	2.3	1.8	3.3	(101.6)	n/a
Hisense - H	海信家電	921 HK	22.50	37,771	-	-	Dec-23	8.7	7.6	5.4	2.8	1.9	1.6	5.2	5.1	33.5
Midea - A	美的	000333 CH	72.85	591,806	BUY	66.70	Dec-23	14.1	12.8	11.3	9.9	2.9	2.6	4.3	(15.8)	33.4
Gree	珠海格力電器	000651 CH	42.27	253,342	-	-	Dec-23	7.5	7.2	5.0	4.3	1.7	1.5	6.1	(10.3)	31.4
Haier Smart Home - A	海爾智家	600690 CH	29.24	277,761	-	-	Dec-23	14.3	12.8	7.9	6.9	2.4	2.1	3.2	(22.9)	39.2
Hisense - A	海信家電	000921 CH	27.68	37,782	-	-	Dec-23	11.5	10.0	3.3	2.6	2.5	2.1	4.1	5.1	35.7
Joyoung	九陽	002242 CH	11.00	9,028	-	-	Dec-23	30.6	23.1	20.9	15.3	2.3	2.2	1.1	(10.1)	(13.5)
Zhejiang Supor	蘇泊爾	002032 CH	53.94	46,261	-	-	Dec-23	18.9	17.4	14.4	13.3	6.5	6.0	4.7	(26.7)	1.8
Bear Electric Appliance	小熊電器	002959 CH	43.82	7,364	-	-	Dec-23	20.9	18.1	8.8	4.0	2.4	2.2	2.1	(31.2)	(15.6)
Ecovacs Robotics	科沃斯機器人	603486 CH	50.86	31,307	-	-	Dec-23	24.4	19.3	15.8	12.1	4.0	3.5	1.3	(39.5)	22.7
Beijing Roborock	石頭世紀科技	688169 CH	226.00	44,669	-	-	Dec-23	18.6	16.1	15.6	13.0	3.2	2.8	1.6	(50.8)	11.8
Hangzhou Robam	老闆電器	002508 CH	22.89	23,124	-	-	Dec-23	12.8	12.0	9.9	9.0	1.9	1.7	3.9	(32.0)	7.6
Goneo Group	公牛集團	603195 CH	71.88	99,405	-	-	Dec-23	21.1	18.6	16.4	14.5	5.8	5.2	3.3	(91.8)	9.0
Zhejiang Meida	浙江美大	002677 CH	7.92	5,475	-	-	Dec-23	18.5	16.0	12.2	9.9	2.7	2.8	2.4	(62.8)	(21.7)
Vatti	華帝股份	002035 CH	7.85	7,120	-	-	Dec-23	11.7	10.4	7.5	6.3	1.7	1.5	4.2	(24.5)	26.4
Average								**14.8**	**12.9**	**10.5**	**8.4**	**2.7**	**2.4**	**3.6**	**(33.6)**	**11.3**
Median								**13.4**	**12.4**	**9.4**	**7.9**	**2.4**	**2.1**	**3.8**	**(25.6)**	**11.8**
Hotels																
Atour Lifestyle	亞朵生活	ATAT US	26.49	28,359	BUY	32.01	Dec-23	28.8	22.4	13.2	10.1	8.7	6.6	1.6	(79.7)	52.6
H World	華住	HTHT US	32.87	81,524	-	-	Dec-23	19.4	16.5	10.6	9.6	6.4	5.5	2.8	218.3	(1.7)
Shanghai Jinjiang	錦江國際酒店	600754 CH	26.07	27,341	-	-	Dec-23	22.4	21.1	6.9	6.8	1.6	1.5	2.0	75.9	(12.8)
Btg Hotels	首旅酒店	600258 CH	14.77	17,646	-	-	Dec-23	19.5	17.4	6.3	5.7	1.4	1.3	1.5	67.2	(5.4)
Ssaw Hotels	君亭酒店	301073 CH	23.70	4,931	-	-	Dec-23	129.5	64.4	n/a	n/a	4.7	4.5	1.4	77.2	4.5
Greentree	格林酒店	GHG US	2.61	2,075	-	-	Dec-23	6.7	5.3	n/a	n/a	n/a	n/a	7.4	42.2	(30.6)
Average								**37.7**	**24.5**	**9.3**	**8.1**	**4.6**	**3.9**	**2.8**	**66.9**	**1.1**
Median								**20.9**	**19.3**	**8.8**	**8.2**	**4.7**	**4.5**	**1.8**	**71.6**	**(3.6)**

Source: Bloomberg, CMBIGM, data as of 6 Dec 2024

Figure 61: Peer valuation (continued)

Company		Ticker	Price L.C.	Mkt cap HK$ mn	Rating	TP L.C.	Year End	PER (x) FY1	PER (x) FY2	EV/EBITDA (x) FY1	EV/EBITDA (x) FY2	PBR (x) FY1	PBR (x) FY2	Yield (%) FY1	Net gearing FY0	YTD performanc
HK retail																
Chow Tai Fook	周大福珠寶	1929 HK	7.04	70,314	-	-	Mar-24	11.7	10.1	6.9	6.8	2.6	2.4	6.9	83.0	(39.4)
Luk Fook	六福	590 HK	14.96	8,783	-	-	Mar-24	7.0	6.2	2.8	1.9	0.6	0.6	7.2	0.3	(28.5)
Chow Sang Sang	周生生	116 HK	6.56	4,444	-	-	Dec-23	6.4	5.3	n/a	n/a	0.4	0.3	6.3	28.4	(26.9)
Hong Kong	香港科技探索	1137 HK	1.50	1,183	-	-	Dec-23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(0.9)	(43.4)
Sa Sa Int'l	莎莎國際	178 HK	0.74	2,296	-	-	Mar-24	29.6	14.8	8.0	7.3	1.9	1.9	4.2	18.7	(26.7)
Cafe De Coral	大家樂	341 HK	7.92	4,594	BUY	9.30	Mar-24	12.9	11.1	n/a	n/a	1.6	1.6	8.2	40.8	(12.1)
Wharf REIT	九龍倉置業	1997 HK	21.30	64,672	-	-	Dec-23	10.4	9.9	9.9	9.7	0.3	0.3	6.0	18.6	(19.3)
Link Reit	領展房地產投資	823 HK	34.10	87,864	-	-	Mar-24	12.8	12.7	14.1	13.9	0.5	0.5	7.8	29.2	(22.2)
Hang Lung Properties	恒隆地產	101 HK	6.45	30,855	-	-	Dec-23	8.4	8.5	12.9	12.4	0.2	0.2	8.1	32.1	(40.7)
Swire Properties	太古地產	1972 HK	16.02	93,346	-	-	Dec-23	12.7	11.9	15.2	14.8	0.3	0.3	6.8	12.7	1.4
Hysan Development	希慎興業	14 HK	12.76	13,105	-	-	Dec-23	7.6	7.1	14.4	15.4	0.2	0.2	8.5	27.2	(17.7)
Average								**11.9**	**9.7**	**10.5**	**10.3**	**0.9**	**0.8**	**7.0**	**26.4**	**(25.1)**
Median								**11.1**	**10.0**	**11.4**	**11.0**	**0.4**	**0.4**	**7.0**	**27.2**	**(26.7)**
Textile																
Shenzhou Int'l	申洲	2313 HK	59.25	89,066	-	-	Dec-23	14.2	12.4	10.1	8.8	2.3	2.1	4.3	(14.0)	(26.3)
Crystal Int'l	晶苑	2232 HK	4.28	12,210	-	-	Dec-23	7.9	7.1	3.3	2.9	1.0	1.0	7.1	(31.5)	47.6
Huali Industrial	中山華利實業	300979 CH	71.92	89,805	-	-	Dec-23	21.6	18.7	13.5	11.8	4.7	4.0	2.2	(22.0)	36.6
Regina Miracle	維珍妮	2199 HK	2.10	2,571	-	-	Mar-24	7.0	8.4	n/a	n/a	0.7	0.7	2.4	108.4	(2.3)
Pacific Textiles	互太紡織	1382 HK	1.45	2,024	-	-	Mar-24	9.1	6.0	n/a	n/a	n/a	n/a	9.0	20.3	7.4
Nameson	南旋控股	1982 HK	0.81	1,846	-	-	Mar-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.8	62.0
Best Pacific	超盈國際	2111 HK	3.00	3,119	-	-	Dec-23	5.6	4.8	n/a	n/a	n/a	n/a	n/a	21.8	170.3
Texwinca	德永佳	321 HK	0.82	1,133	-	-	Mar-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(6.5)	(14.6)
Win Hanverky	永嘉	3322 HK	0.17	220	-	-	Dec-23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	37.6	31.5
Eagle Nice	鷹美（國際）	2368 HK	3.85	2,211	-	-	Mar-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	25.8	(9.0)
Texhong	天虹國際	2678 HK	4.00	3,672	-	-	Dec-23	5.1	3.7	n/a	n/a	0.3	0.3	7.2	56.4	(8.7)
Yue Yuen	裕元工業	551 HK	18.00	28,954	-	-	Dec-23	8.6	8.2	3.4	3.1	0.8	0.8	7.1	2.4	108.3
Stella Int'l	九興控股	1836 HK	15.02	12,335	-	-	Dec-23	9.2	8.4	5.3	5.2	1.4	1.4	9.0	(26.2)	63.1
Pou Chen	寶成工業股份有	9904 TT	43.70	30,938	-	-	Dec-23	8.7	8.5	3.5	3.7	0.9	0.9	3.3	2.9	41.4
Feng Tay	豐泰企業股份有	9910 TT	135.50	32,146	-	-	Dec-23	22.0	18.9	11.8	10.1	5.5	5.0	3.4	9.8	(22.6)
Eclat	儒鴻企業股份有	1476 TT	528.00	34,804	-	-	Dec-23	21.7	19.6	15.5	13.6	5.2	4.8	3.1	(5.7)	(6.0)
Makalot	聚陽實業股份有	1477 TT	310.00	18,373	-	-	Dec-23	18.4	16.6	12.7	11.7	4.8	4.8	4.9	(9.5)	(10.8)
Fulgent Sun	鈺齊國際股份有	9802 TT	106.00	4,918	-	-	Dec-23	11.3	9.4	n/a	n/a	1.4	1.4	n/a	(0.2)	(19.5)
Lai Yih Footwear	來億興業股份有	6890 TT	395.50	23,697	-	-	Dec-23	25.8	19.7	n/a	n/a	4.0	3.8	2.1	(1.3)	n/a
Average								**13.1**	**11.4**	**8.8**	**7.9**	**2.5**	**2.4**	**5.0**	**9.4**	**24.9**
Median								**9.2**	**8.5**	**10.1**	**8.8**	**1.4**	**1.4**	**4.3**	**2.4**	**2.5**
Exporters																
Man Wah	敏華控股	1999 HK	4.98	19,311	-	-	Mar-24	8.1	7.4	5.2	4.6	1.4	1.3	6.0	6.2	(6.9)
Goodbaby	好孩子國際	1086 HK	0.89	1,485	-	-	Dec-23	5.6	4.7	n/a	n/a	n/a	n/a	n/a	26.0	23.6
Miniso - H	名創優品	9896 HK	47.40	59,657	-	-	Dec-24	20.4	16.9	12.8	10.3	5.0	4.1	2.4	(61.2)	19.8
Miniso	名創優品	MNSO US	24.18	59,194	-	-	Dec-24	20.2	16.8	12.7	10.2	5.0	4.1	2.4	(61.2)	20.3
Pop Mart	泡泡瑪特	9992 HK	93.25	125,229	-	-	Dec-23	43.6	31.5	28.6	20.2	11.6	8.6	0.7	(66.6)	360.5
Dream Int'l	德林國際	1126 HK	4.85	3,283	-	-	Dec-23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(34.4)	24.4
Vtech	偉易達	303 HK	52.40	13,261	-	-	Mar-24	9.5	8.6	n/a	n/a	n/a	n/a	10.4	(25.3)	11.1
Techtronic	創科實業	669 HK	111.10	203,565	-	-	Dec-23	23.2	19.6	14.9	13.0	4.1	3.6	2.0	32.4	19.4
Average								**18.6**	**15.1**	**14.8**	**11.7**	**5.4**	**4.3**	**4.0**	**(23.0)**	**59.0**
Median								**20.2**	**16.8**	**12.8**	**10.3**	**5.0**	**4.1**	**2.4**	**(29.9)**	**20.0**
Global Sports																
Nike	耐吉公司	NKE US	78.89	913,632	-	-	May-24	28.2	24.4	21.1	18.6	8.8	9.0	1.9	2.6	(27.3)
Adidas Ag	阿迪達斯股份有	ADS GY	241.60	356,997	-	-	Dec-23	61.2	31.9	19.3	13.8	8.3	6.9	0.6	73.0	31.2
Puma Se	彪馬公司	PUM GY	46.53	57,180	-	-	Dec-23	22.1	16.8	7.8	7.0	2.6	2.4	1.7	46.2	(7.9)
Under Armour	安德瑪公司	UAA US	10.12	32,143	-	-	Mar-24	35.1	25.3	13.4	10.9	2.2	2.0	0.0	27.1	15.1
Lululemon	露露檸檬公司	LULU US	399.60	378,631	-	-	Jan-24	28.3	26.1	16.3	15.1	10.4	8.2	0.0	(19.9)	(21.8)
Skechers	美商思凱捷股份	SKX US	71.05	83,867	-	-	Dec-23	16.7	14.5	10.0	9.5	2.2	2.0	0.0	9.6	14.0
On Holding	昂跑控股股份有	ONON US	57.64	144,989	-	-	Dec-23	67.8	53.9	41.6	31.1	11.5	9.4	n/a	(27.9)	113.7
Deckers Outdoor	德克斯戶外用品	DECK US	199.55	235,871	-	-	Mar-24	36.1	31.5	25.7	22.3	11.9	9.8	0.0	(58.6)	79.1
Vf Corp	Vf公司	VFC US	21.05	63,762	-	-	Mar-24	45.4	22.5	18.4	13.7	4.2	3.1	1.7	407.5	12.0
Columbia Sportswear	哥倫比亞運動服	COLM US	88.35	39,315	-	-	Dec-23	22.7	20.6	12.0	11.0	2.7	2.4	1.4	(18.4)	11.1
Wolverine World Wide	狐狼世界公司	WWW US	22.99	14,322	-	-	Dec-23	25.7	17.0	15.6	11.5	5.1	4.3	1.7	303.0	158.6
Mizuno Corp	Mizuno Corp	8022 JP	8640.00	11,914	-	-	Mar-24	14.6	13.6	9.4	8.7	1.5	1.4	1.4	(12.7)	119.8
Asics Corp	亞瑟士公司	7936 JP	3092.00	121,838	-	-	Dec-23	34.8	29.4	20.5	17.6	10.7	9.2	0.9	8.8	179.9
Average								**33.7**	**25.2**	**17.8**	**14.7**	**6.3**	**5.4**	**0.9**	**56.9**	**52.1**
Median								**28.3**	**24.4**	**16.3**	**13.7**	**5.1**	**4.3**	**1.1**	**8.8**	**15.1**
Global Restaurant																
Yum! Brands	百勝餐飲	YUM US	137.63	298,835	-	-	Dec-23	25.1	22.7	18.4	17.3	n/a	n/a	1.9	n/a	5.3
Mcdonald'S Corp	麥當勞公司	MCD US	298.98	1,666,989	-	-	Dec-23	25.4	23.8	18.0	17.2	n/a	n/a	2.3	n/a	0.8
Starbucks Corp	星巴克	SBUX US	100.11	883,112	-	-	Sep-24	32.1	27.0	19.2	16.8	n/a	n/a	2.4	n/a	4.3
Restaurant Brands	餐廳品牌國際公	QSR US	68.99	241,905	-	-	Dec-23	20.6	18.2	15.9	14.5	6.4	6.0	3.4	281.9	(11.7)
Wingstop Inc	溫斯特普餐館有	WING US	340.09	77,297	-	-	Dec-23	92.6	74.7	51.6	42.9	n/a	n/a	0.3	n/a	32.5
Shake Shack	搖克夏公司	SHAK US	138.76	46,238	-	-	Dec-23	171.7	122.6	36.8	30.6	12.2	10.8	n/a	102.9	87.2
Chipotle Mexican Grill	奇波雷墨西哥燒	CMG US	65.40	693,339	-	-	Dec-23	58.6	49.7	39.5	33.6	24.3	20.1	0.0	90.0	43.0
Darden Restaurants	達登餐廳公司	DRI US	169.75	155,186	-	-	May-24	17.9	16.0	11.1	10.1	8.7	8.1	3.2	291.6	3.3
Domino'S Pizza	達美樂披薩股份	DPZ US	459.59	123,479	-	-	Dec-23	27.6	26.1	21.3	19.8	n/a	n/a	1.3	n/a	11.5
Wendy'S	溫蒂公司	WEN US	17.48	27,723	-	-	Dec-23	17.6	16.7	10.9	11.1	14.0	17.9	5.7	1169.8	(10.3)
Jollibee Foods	快樂蜂食品公司	JFC PM	266.80	40,291	-	-	Dec-23	28.4	23.8	10.1	8.7	3.3	3.1	1.2	71.3	6.1
Saizeriya	Saizeriya Co Ltd	7581 JP	5590.00	15,160	-	-	Aug-24	24.3	20.5	7.7	7.2	2.3	2.1	0.4	(44.5)	11.1
Toridoll Holdings	Toridoll控股公司	3397 JP	3799.00	17,403	-	-	Mar-24	61.4	37.6	9.7	8.3	3.9	3.6	0.3	122.2	(6.3)
Skylark Holdings	雲雀控股有限公	3197 JP	2416.00	28,517	-	-	Dec-23	42.5	39.9	9.1	8.6	3.2	3.0	0.7	105.9	17.4
Food & Life Companies	Food & Life Cos	3563 JP	3550.00	21,378	-	-	Sep-24	25.0	20.3	9.8	8.4	4.6	3.9	0.8	216.1	22.6
Ohsho Food Service	王將食品服務有	9936 JP	3040.00	11,018	-	-	Mar-24	22.4	20.9	12.2	11.4	2.3	2.1	1.6	(42.7)	13.0
Average								**43.3**	**35.0**	**18.8**	**16.7**	**7.7**	**7.3**	**1.7**	**215.0**	**14.4**
Median								**26.5**	**23.8**	**14.1**	**12.9**	**4.6**	**3.9**	**1.3**	**105.9**	**8.6**

Source: Bloomberg, CMBIGM, as of 6 Dec 2024

China Automobiles

OUTPERFORM

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2025 Outlook: Likely a replica of 2024, but more

Despite a pre-buying effect in 2024, we expect China's passenger-vehicle (PV) sales volume to be still resilient in 2025. We also project new-energy vehicle (NEV) market share to reach 57.8% in 2025E on a retail basis, which could make NEVs become mainstream in most price segments. While some themes including competition and the rising importance of new models are likely to continue in 2025, we also need to be prepared for new trends.

- **Resilient industry growth despite more challenges ahead**

We project China's PV retail sales volume to fall 2% YoY to 23.08mn units in 2025E, largely due to the pre-buying effect as the government has doubled the subsidies from Aug 2024. We estimate the pre-buying effect to pull 1.5mn units ahead into 2024 and we expect stimulus measures to continue in 2025. We project China's PV wholesale volume to rise 3.8% YoY in 2025E amid rising exports and inventories. We have assessed Chinese brands' current penetration and potential in 60 countries and estimate a market size of 7mn units annually in the medium term. Meanwhile, we expect the PV export volume to rise 10% YoY to 5.5mn units in 2025E, at a lower growth rate than 21% in 2024E amid rising geopolitical risks.

- **Chinese brands to continue gaining market share amid a stronger NEV pipeline**

We project China's NEV retail and wholesale volumes to both rise 22% YoY in 2025E to 13.35mn units and 14.90mn units, respectively. Globally, Europe could be a positive surprise in NEV sales volume, given its tightening emission standards in 2025. Similar to 2024, we expect Chinese brands to gain market share in both NEV and ICE segments, aided by a much stronger model pipeline. We project Chinese brands' market share to hit 70% in China in 2025E on a wholesale basis. About 84% of new models in 2025 are NEVs, based on the data we have compiled. We are likely to see more EREVs and larger vehicles in 2025, with more competitive pricing. We project PHEVs (including EREVs) to make up 45% of China's NEV wholesale volume in 2025E.

- **Investment Thesis**

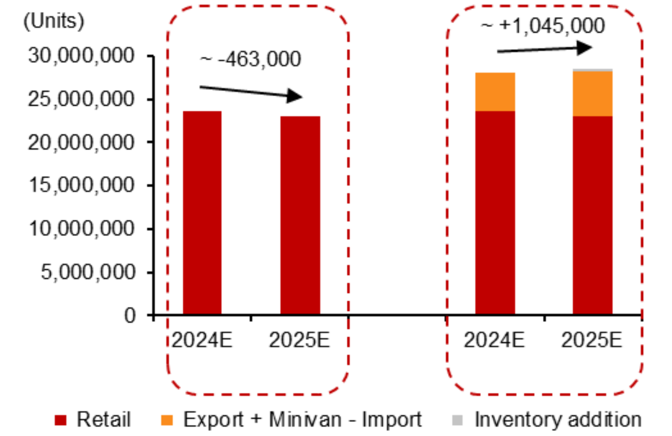
2024 is a year for NEVs to be more mature in China, in our view, as the NEV market share in tier-4 and below cities reached 38% in the first 10 months of 2024. NEVs' price distribution patterns now are similar to internal combustion engine (ICE) vehicles'. As NEVs are set to become mainstream for most price ranges, new models in any price range could become popular ones. It is about value-for-money and brand image now. There are only five brands among the top 20 best-selling NEV models in 2024, down from seven in 2023. It also means there is not much time left for weaker NEV brands to catch up, or industry consolidation could start as soon as in 2025. We believe investors could also put profitability or breakeven timeline at a high priority when picking stocks in 2025.

- **Top picks**

Our pecking order focuses on automakers with new models that have higher potential to be sales drivers, and improving profitability. Geely and Xpeng could fit these two criteria better than peers, in our view. The recent successful launches of new NEV models at both automakers give us more confidence about their upcoming new models, as they seem to have found the key to sales driver. Although we suggest investors pay more attention to dealers in 2025, dealers are still not high-conviction calls, in our view. However, we believe Tuhu, an independent after-sales service player, could benefit from consumption downgrade.

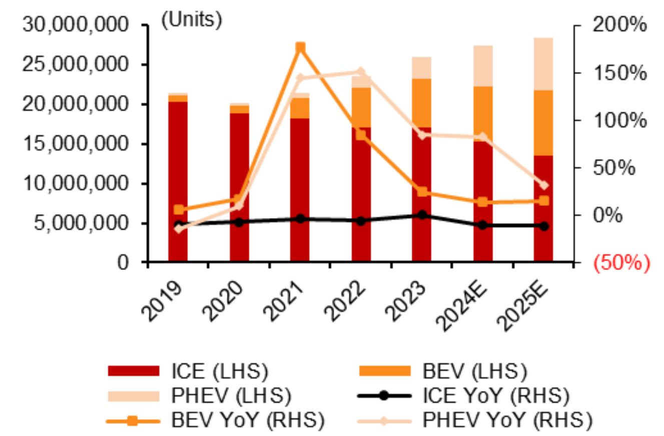
Focus Charts

Figure 1: Retail vs. wholesale volume in 2024-25E



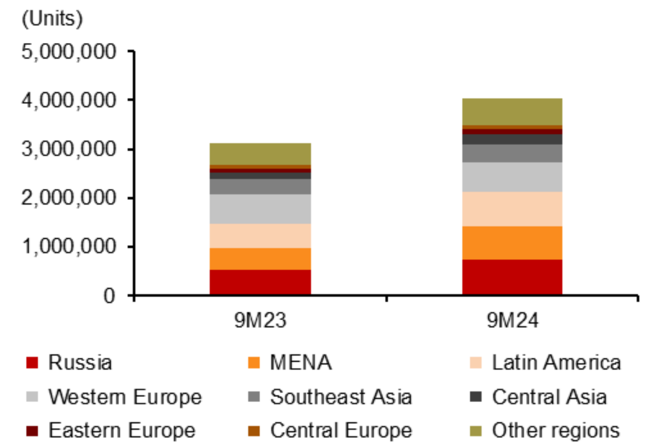
Source: CAAM, CATARC, CMBIGM estimates

Figure 2: China's PV wholesale volume breakdown



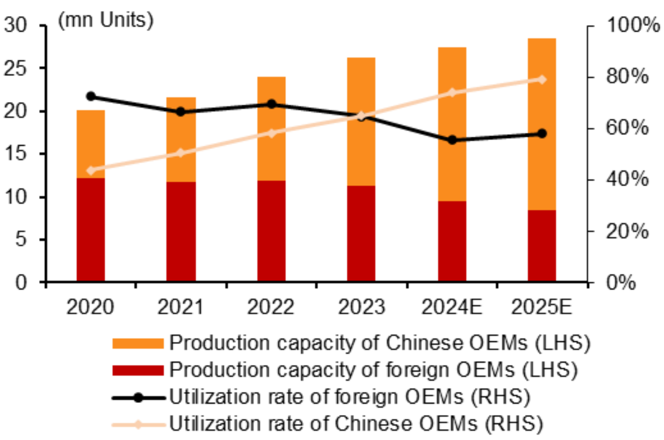
Source: CAAM, CMBIGM estimates

Figure 3: China PV exports by region



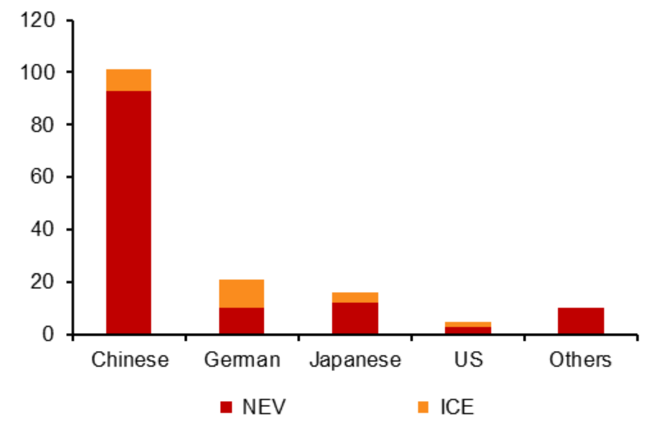
Source: China Customs, ThinkerCar, CMBIGM estimates

Figure 4: China's PV production capacity



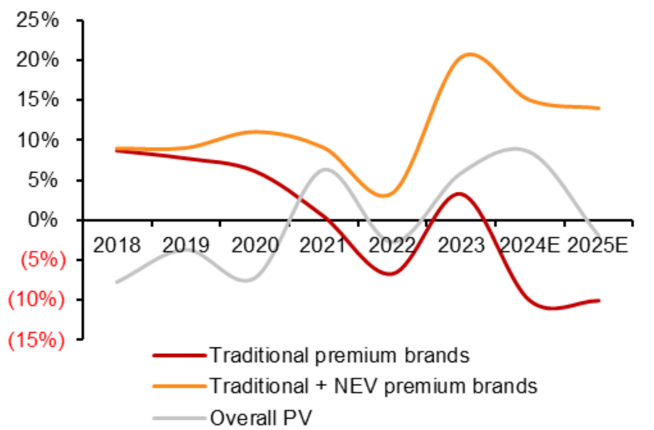
Source: CAAM, company data, Marklines, CMBIGM estimates

Figure 5: No. of new models by brand origin in China in 2025



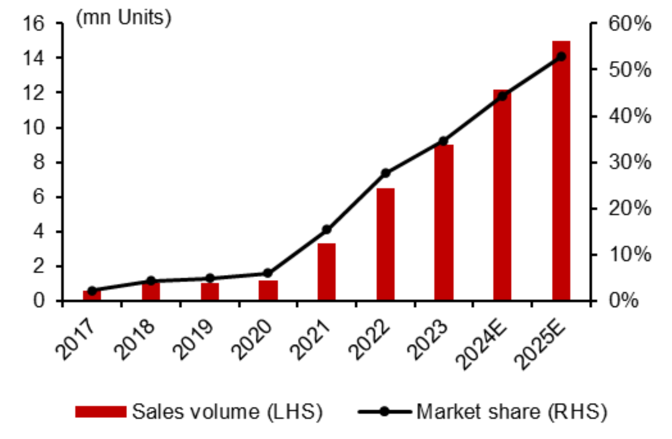
Source: Company data, CMBIGM estimates

Figure 6: Retail sales volume YoY growth for traditional and overall premium brands



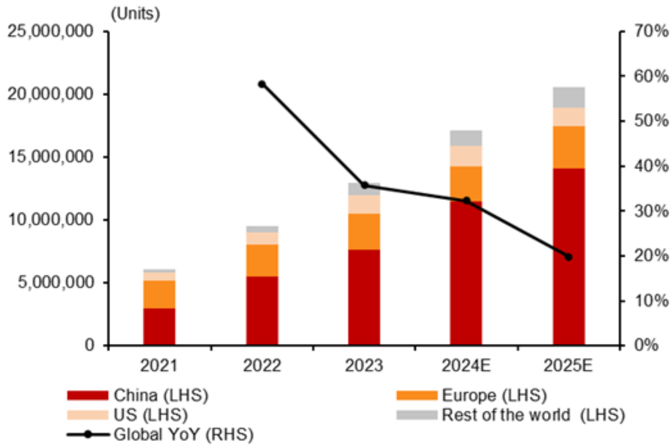
Source: CATARC, CMBIGM estimates

Figure 7: NEV wholesale and market share in China



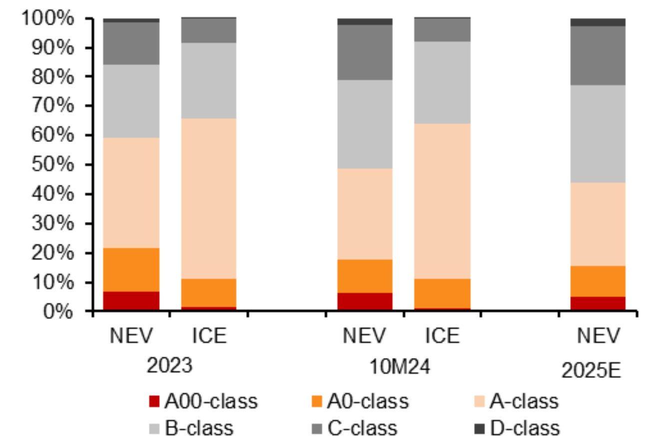
Source: CAAM, CMBIGM estimates

Figure 8: Global NEV sales volume forecast



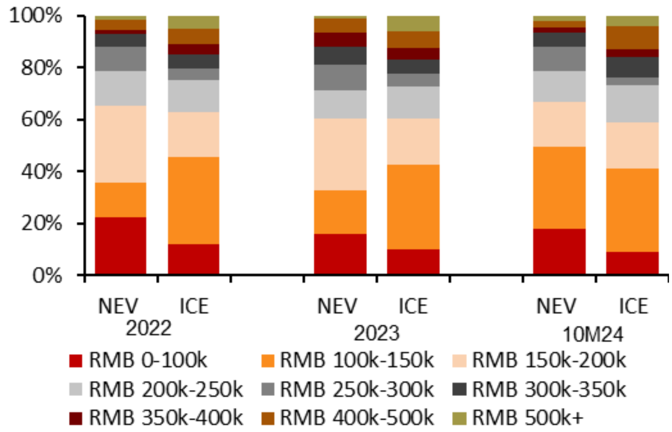
Source: Marklines, CMBIGM estimates

Figure 9: NEV wholesale volume breakdown by vehicle size in China



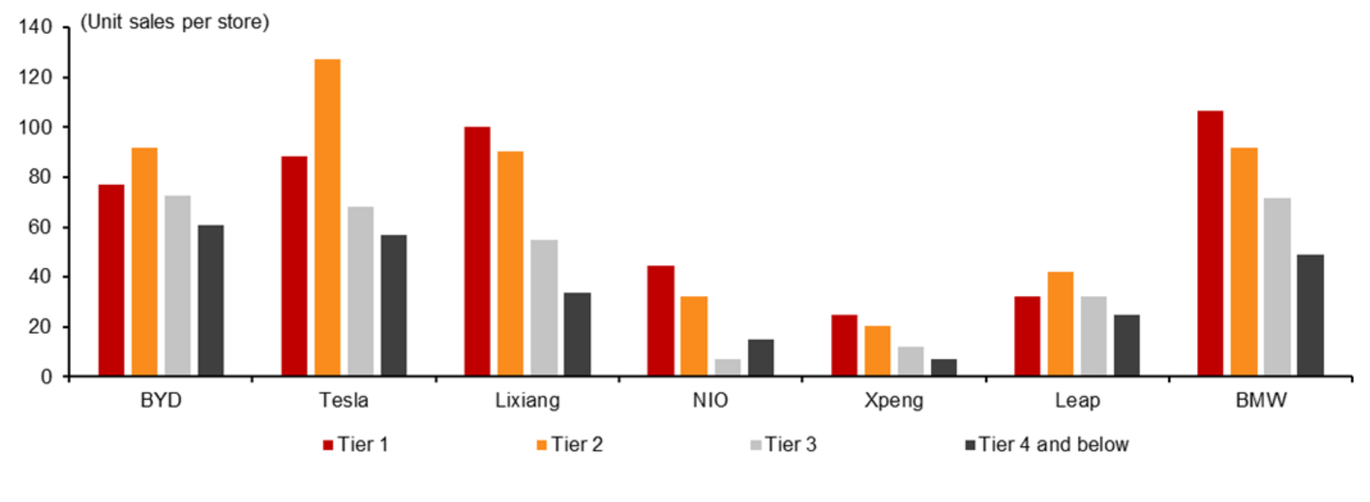
Source: CAAM, CMBIGM estimates

Figure 10: Retail sales volume breakdown by price range (NEV vs. ICE)



Source: CATARC, CMBIGM

Figure 11: Monthly unit sales per store on average for different brands in different city tiers (10M24)



Source: CATARC, company data, CMBIGM

Investment Thesis: Will 2025 be a replica of 2024?

■ Competition continues to intensify; Early signs of consolidation may emerge

As the industry dynamics in 2024 looks similar to 2023, with a prolonged price war, new models being increasingly important catalysts, and range trading for auto stocks, investors may perceive 2025 as a replica of 2024. We are of the view that some of the key themes in 2024 could continue in 2025: price war is likely to continue with even stiffer competition; new models are still one of the most important catalysts, if not the most important one, as sales volume is the foundation of profits. We may also need to be prepared for new things.

We believe 2024 is a year for NEVs to be more mature in China, as the NEV market share in tier-4 and below cities surpassed 38% in the first 10 months of 2024. Although we argued that the highly complex industry landscape in China would likely make the bottom of the cycle longer than previously expected, we may start to see early signs of industry consolidation from 2025. We are of the view that there is not much time left for weaker NEV brands to catch up, as automakers should have tried their best to make their products more appealing and their marketing strategies more efficient. We see low chances of significantly evolved NEV products to emerge in the short term before the full autonomy for cars arrives, as the industry becomes more mature.

■ Likely higher priority on profitability or breakeven timeline in 2025

We are of the view that it is still difficult to identify long-term winners in China's auto industry, as the number of players in the steady state could be more than originally expected. The success of Xiaomi's first model, and Huawei's partnership with more and more automakers could make it more complicated. However, the chance to survive for automakers with no clear timeline to break even has become much lower. BYD and Li Auto have been profitable for a few years with healthy balance sheet. Geely's NEV business is likely to be profitable in 2025E. We project Xpeng to break even in 2026E and Leapmotor to break even in 2026-27E. The gap between the expected and actual breakeven timelines could be crucial to share prices in 2025. Breakeven timeline is no longer an empty promise.

■ Autonomous driving function is needed but difficult to monetize

The gap of autonomous driving (AD) functions between different automakers appears to be narrowing, rather than widening as we had originally expected. That could make such functions a necessity but difficult to monetize in China. We still prefer automakers over independent L4 technology providers in the AD industry. Most leading suppliers, such as Huawei, Dji and Momenta, are not listed yet. Horizon Robotics (9660 HK, NR) was listed in Oct 2024, which may attract more attention from investors in 2025.

■ Top picks: Geely, Xpeng among OEMs, Tuhu along the value chain

Our pecking order focuses on automakers with new models that have higher potential to be sales drivers, and improving profitability. Geely and Xpeng could fit these two criteria better than peers, in our view.

After simplifying its CMA platform into the GEA platform and modifying its hybrid technology to EM-i, Geely's recent launches of the *Galaxy E5* and *Starwish* have been well received. We are of the view that its upcoming new models, including the *Starship 7* PHEV (in Dec 2024) and a medium-size PHEV sedan (in 2Q25) are likely to be successful. We project Geely's total wholesale volume to rise 10% YoY to 2.38mn units in 2025E, with 55% being NEVs. The simplified platform and hybrid technology architecture could also cut costs. That, along with greater economies of scale, may lead to a net profit of RMB12.5bn in FY25E, based on our estimates.

Similar to Geely, the initial success of the *Mona M03* and *P7+* gives us more confidence about its upcoming four new models in 2025. We project Xpeng's sales volume to rise to 390,000 units in FY25E and 490,000 units in FY26E, which may lead to a breakeven in FY26E.

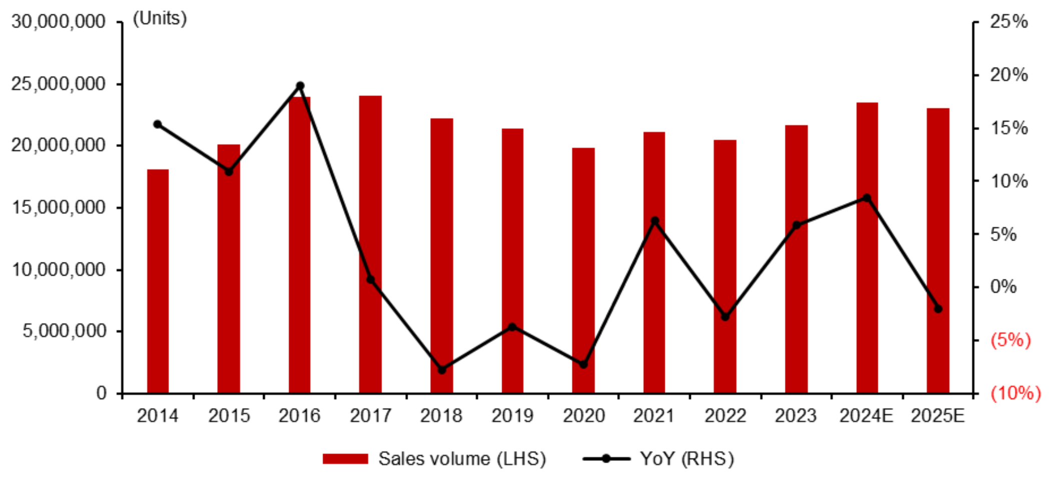
Although we suggest investors pay more attention to dealers in 2025 as noted above, dealers are still not high-conviction calls, in our view. However, we believe Tuhu, an independent after-sales service player, could benefit from consumption downgrade, leveraging its competitive and transparent pricing and consumer stickiness through its technologies and locations.

2025 Industry Outlook: China Still Resilient in Global Market

Retail sales volume: -2% YoY in 2025 after 2024 subsidies

We project China's PV retail sales volume to fall 2% YoY from 23.54mn units in 2024E to 23.08mn in 2025E, largely due to the pre-buying effect in the last four months of 2024 driven by government subsidies. China's auto sales volume has beaten investors' expectations in both 2023 and 2024 despite some economic challenges. We believe that auto sales volume in China in 2025 could also be more resilient than some investors expect.

Figure 12: China's PV retail sales volume



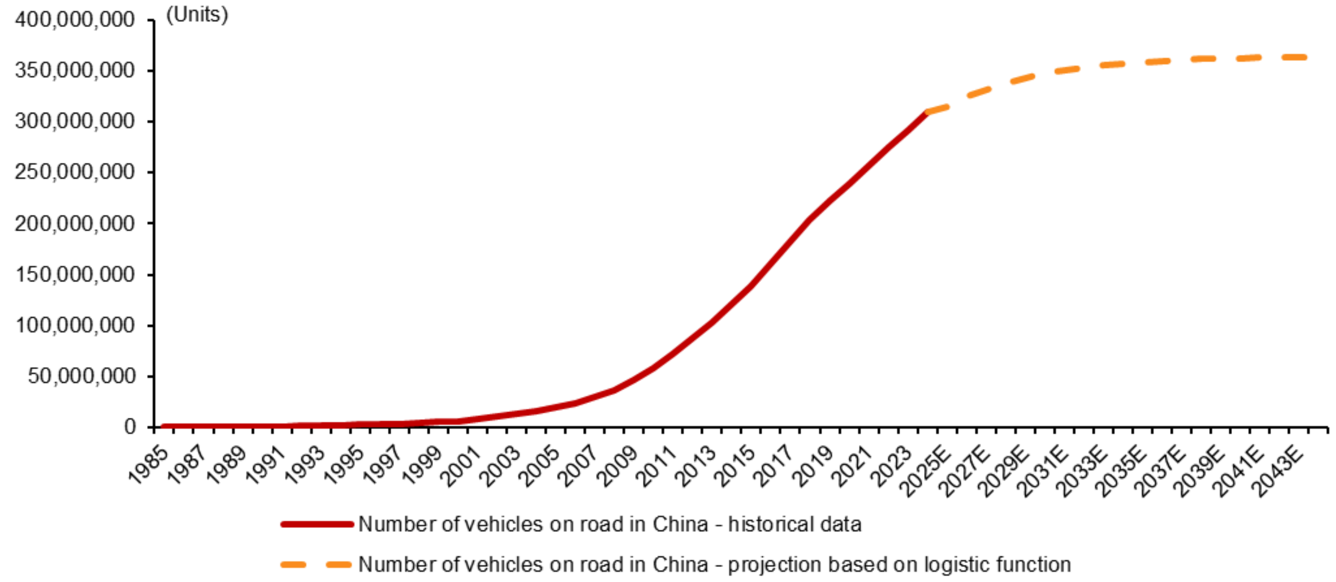
Source: CATARC, CMBIGM estimates

The Chinese government initiated the stimulus measures in Apr 2024 by subsidizing new-car purchases (RMB7,000 for an ICE vehicle and RMB10,000 for a NEV) for scrapped vehicles. It doubled the subsidies from mid-Aug 2024 (RMB15,000 per vehicle for ICE and RMB20,000 per vehicle for NEV). About 2mn car buyers who are qualified for such subsidies have applied for it as of mid-Nov 2024. That, along with some trade-in subsidies by local governments, could increase China's PV sales by about 1.5mn units in 2024, based on our estimates, or 6.4% of our 2024 projected sales volume. We now project PV sales volume in China to rise 8.5% YoY to 23.54mn units in 2024E, 11% higher than our original forecast made in Nov 2023. We attribute about 65% of the sales beat to stimulus measures.

Vehicle consumption is now one of the most important ways, if not the most important way, to stimulate the economy in China. Therefore, we expect such subsidies or stimulus measures in other forms to continue in 2025. However, the pre-buying effect in 2024 could still dent some demand in 2025. Assuming that 2/3 of the pre-buying amounts (1.5mn units on our estimates) come from 2025 and the extended stimulus measures pull another 1.5mn units ahead into 2025, the adjusted retail sales volume growth for 2025 would be 2.4%, which is consistent with our long-term growth forecast for China's PV sales volume. In fact, our projected 2025 PV retail sales volume is the 4th highest in history.

We have been using a single-factor model to roughly project China's long-term number of vehicles on the road and steady-state replacement demand. See page 23-24 of our 2023 outlook report published on 7 Dec 2022 for calculation details. We have added our estimates for the number of PVs on the road in 2024 and run the same non-linear regression based on the logistic function, and we obtain the steady-state number of PVs on the road of about 364mn units. The new forecast is about 3% higher than the previous estimates made in 2023 and 2022, implying more resilient sales in 2023-24 than expected. Therefore, we estimate China's steady-state annual replacement demand to be around 24.5-25.5mn units.

Figure 13: Projection on number of vehicles on the road in China based on logistic function

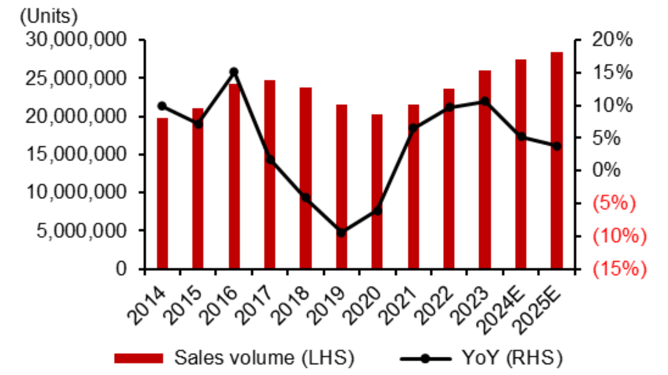


Source: CAAM, CATARC, NBS, CMBIGM estimates

Wholesale volume: +3.8% YoY amid inventory restocking, exports

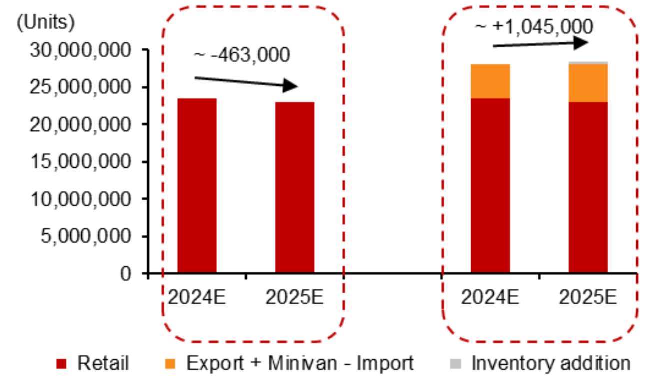
We project China's PV wholesale volume to rise 3.8% YoY from 27.42mn units in 2024E to 28.47mn units in 2025E, based on our assumption for retail sales volume of 23.08mn units. We expect China's PV wholesale volume in 2024 to be 4.6% higher than our original forecast made in Nov 2023, largely due to stronger-than-expected retail sales volume. Both exports and inventory addition in 2024 are likely to be lower than our prior forecasts.

Figure 14: China's PV wholesale volume



Source: CAAM, CMBIGM estimates

Figure 15: Retail vs. wholesale volume in 2024-25E



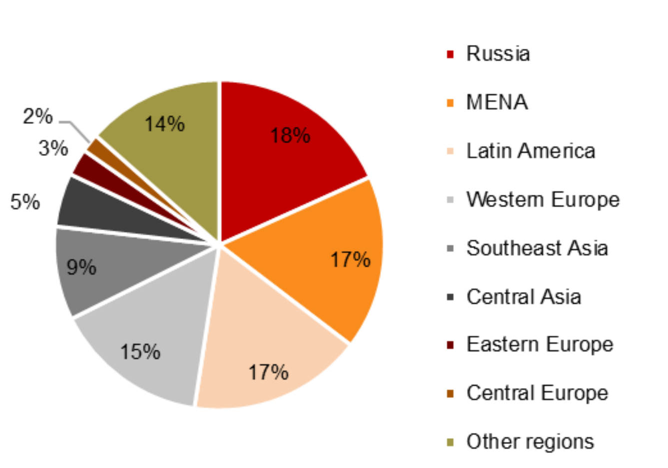
Source: CAAM, CATARC, CMBIGM estimates

■ Export: Growth likely to slow down amid rising trade risks and competition

We project China's PV exports to rise 10% YoY from 5.0mn units in 2024E to 5.5mn units in 2025E, the lowest growth since 2021. In fact, the YoY growth for exports in 2024 is likely to slow down to 21%, lower than our original forecast of 25%, largely due to the YoY declines for SAIC and Tesla (TSLA US, NR).

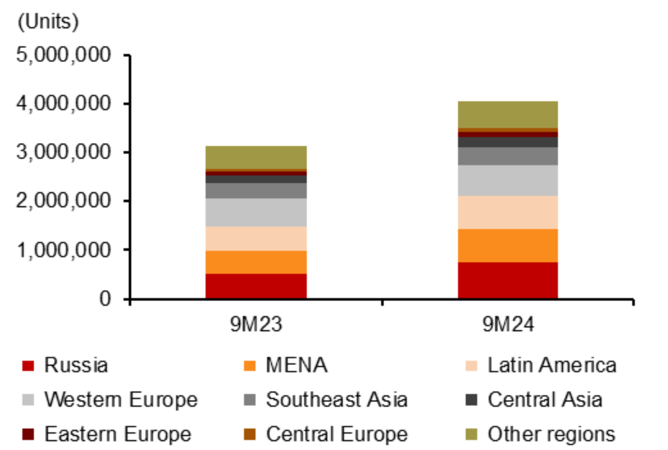
In the first three quarters of 2024, China exported PVs to about 200 countries with the top 10 countries accounting for 56% of total PV exports, according to the data from customs. Russia was the No.1 destination with 18% market share, followed by Mexico (7%), United Arab Emirates (5%) and Belgium (5%). United Arab Emirates and Belgium should be the Chinese cars' export hubs for Middle East and Europe, respectively. Exports in the Middle East and North Africa (MENA, including Turkey) in the first three quarters of 2024 surged 49% YoY. Central Asia and Russia both posted a YoY growth rate of 41%. The growth rates were 40%/38%/29%/18% in Eastern Europe (excluding Russia), Latin America (South America, Central America, the Caribbean and Mexico), Central Europe and Southeast Asia, respectively. These seven regions combined accounted for 71% of China's total PV exports in the first three quarters of 2024.

Figure 16: PV export market share by region in 9M24



Source: China Customs, ThinkerCar, CMBIGM estimates

Figure 17: China PV exports by region



Source: China Customs, ThinkerCar, CMBIGM estimates

We see a few challenges for China's PV exports in 2025:

1) Auto sales growth in Russia could slow down in 2025 and Chinese brands' market share in Russia (close to 50%) could be peaking.

2) Russia's auto sales growth slowdown could also affect China's exports to Central Asia and Belarus. Uzbekistan has become the most important market in Central Asia for Chinese automakers to tap into, as Chinese brands already account for about 40% of the total auto sales volume in Kazakhstan.

3) The European Union (EU) has imposed a new tariff of 7.8-35.3% on China-made BEVs and EREVs since Jul 2024. Although there could still be some changes, we expect China car exports to the EU to slow down in 2025.

4) Some countries such as Brazil and Turkey have also been raising tariffs on Chinese EVs, as Chinese brands start to take up a meaningful market share. We believe some other countries could follow suit.

5) Tesla, which accounted for 26% of China's total NEV exports or 6% of China's total PV exports during the first 10 months of 2024, may post stagnant export growth or even declines in 2025, after a 21% YoY decline in its China exports during the first 10 months of 2024.

We expect China's PV export growth to continue coming from the MENA, Latin America and Southeast Asia in 2025. Local production could be more important for regions including Latin America and Southeast Asia in 2025, as Chinese brands have accounted for about

7-10% of the markets in both regions. Chinese brands also take up about 10% in the Gulf Cooperation Council (GCC) which comprises Saudi Arabia, United Arab Emirates, Qatar, Oman, Kuwait and Bahrain.

We divide overseas markets into different regions based on their auto industry development, local consumers' brand loyalty and policies: 1) US, 2) Canada, 3) Japan, South Korea and India, 4) Western Europe with own brands (Germany, France, Italy etc.), 5) Western Europe without own brands (Belgium, Netherlands, Switzerland etc.), 6) Northern Europe, 7) Central Europe, 8) Eastern Europe, 9) Russia, 10) Latin America, 11) MENA, 12) Southeast Asia, 13) Central Asia, 14) Oceania, 15) Others. We project Chinese brands' market share to be ranged 0-45% in these regions and calculate potential market size of 7mn units for Chinese brands in the overseas markets in the medium term. In other words, there is probably 75% growth potential for Chinese brands in overseas markets in the next five years or so, or a CAGR of 10-12%. We expect overseas sales volume for Chinese brands to rise 16% YoY from 4mn units in 2024E to 4.65mn units in 2025E.

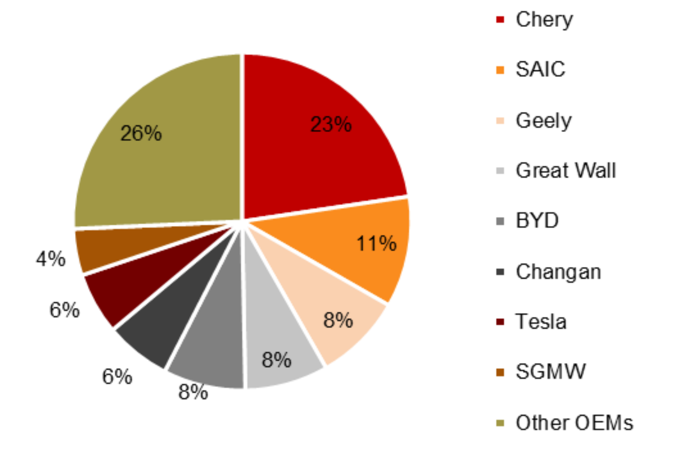
Figure 18: Our forecast for Chinese brands' potential overseas market size in the medium term

Regions (excl. China)	Total annual sales (units)	Our market share assumption for Chinese brands	Potential annual market size for Chinese brands (units)	Current EV market share in each region
US	17,000,000	0%	0	9%
Japan, South Korea and India	11,100,000	4%	444,000	3%
Western Europe with own brands	9,500,000	9%	838,000	18%
Latin America	5,500,000	25%	1,364,000	4%
MENA	4,700,000	25%	1,166,000	4%
Southeast Asia	3,150,000	25%	781,000	6%
Western Europe without own brands	3,000,000	15%	450,000	22%
Canada	1,900,000	2%	38,000	7%
Central Europe	1,600,000	20%	320,000	5%
Oceania	1,400,000	25%	350,000	5%
Russia	1,100,000	45%	495,000	0%
Northern Europe	780,000	20%	156,000	52%
Central Asia	730,000	35%	256,000	6%
Eastern Europe (excl. Russia)	220,000	30%	66,000	1%
Others	920,000	30%	276,000	5%
Total	**62,600,000**	**11%**	**7,000,000**	

Source: Marklines, CMBIGM estimates

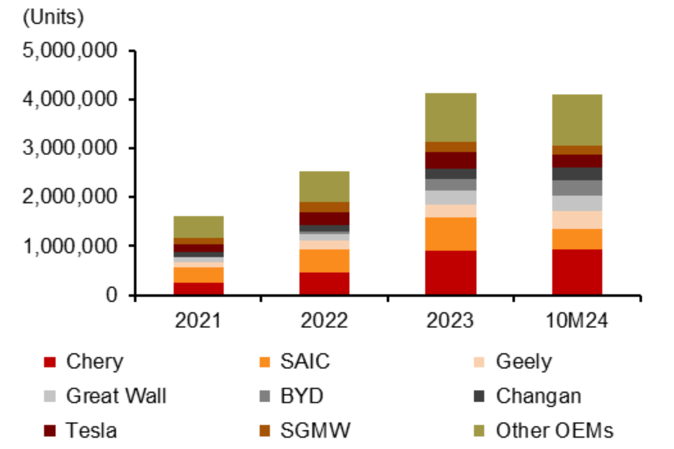
In the first 10 months of 2024, BYD's exports surged 83% YoY to about 322,000 units, the highest growth rate among the top five exporters, according to CAAM. BYD also surpassed Tesla to be the largest NEV exporter in China in the first 10 months of 2024. Tesla fell from the 3rd largest PV exporter in China in 2023 to the 7th YTD 2024, with a 21% YoY decline in PV exports. SAIC is the only one with YoY decline (-17%) in the first 10 months of 2024 among the top five exporters. Chery remained the largest PV exporter in China in the first 10 months of 2024 with 27% YoY growth to about 927,000 units, larger than the No.2 and 3 (SAIC and Geely) combined. PV exports at Geely and Great Wall rose 55% YoY and 56% YoY to 346,000 units and 327,000 units, respectively, in the first 10 months of 2024.

Figure 19: PV export market share by OEM in 10M24



Source: CAAM, CMBIGM

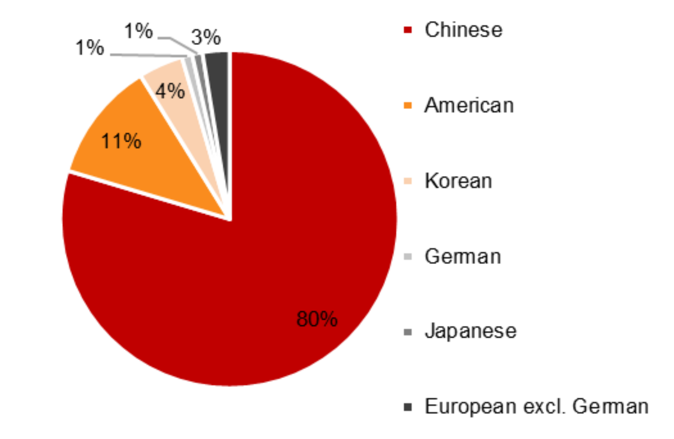
Figure 20: China PV exports by OEM



Source: CAAM, CMBIGM

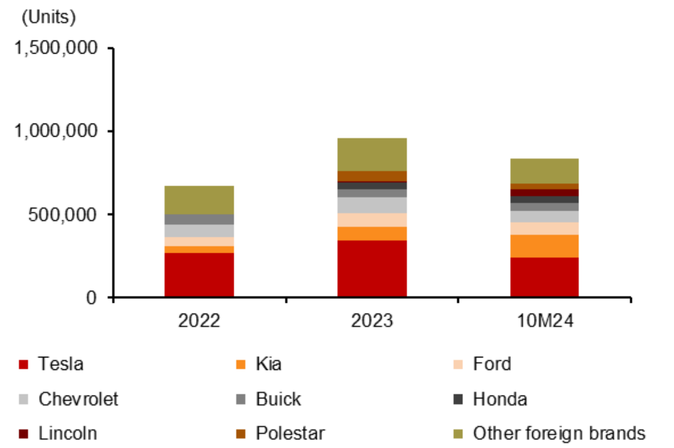
We project foreign brands' exports from China to rise 4% YoY to about 1mn units in 2024. More foreign automakers in China have started or accelerated exports by using China as the export hub amid their declining capacity utilization rate. Kia's exports more than doubled YoY to about 137,000 units in the first 10 months of 2024, becoming the 2nd largest foreign brand exporter after Tesla. Honda, Hyundai, Ford and Lincoln followed suit. On the other hand, such export growth has been offset by declining NEV exports amid the new tariffs in the EU. Tesla, Dacia, BMW, Smart and Polestar posted 21-49% YoY declines in their exports in the first 10 months of 2024.

Figure 21: China PV exports by brand origin in 10M24



Source: CAAM, CMBIGM

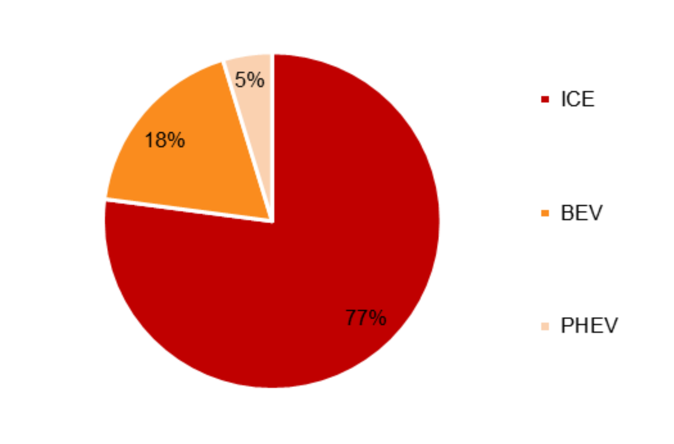
Figure 22: Foreign brands' PV exports from China



Source: CAAM, CMBIGM

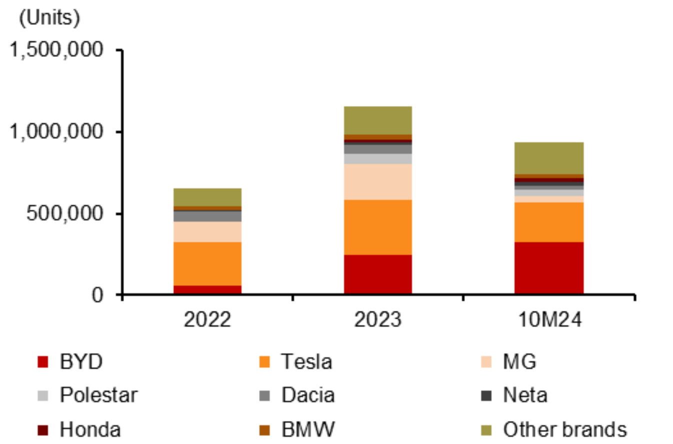
We project NEV exports from China to fall 2% YoY to 1.14mn units in 2024E, as BYD's growth is not able to offset declines from Tesla, SAIC, Polestar, Dacia etc. China's NEV export growth in 2024E is likely to trail the overall PV export growth for the first time since 2020. Such trend could extend into 2025E given the continuous geopolitical tensions.

Figure 23: China PV exports by powertrain in 10M24



Source: CAAM, CMBIGM

Figure 24: China NEV exports by brand



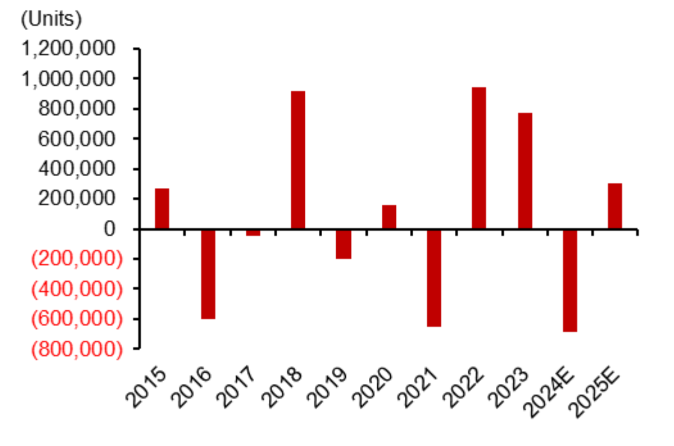
Source: CAAM, CMBIGM

■ **Inventory: Inventory cuts in 2024 show OEMs' cautiousness**

Automakers in China cut about 538,000 units of inventories at dealers in the first 10 months of 2024, which almost erased the inventory restocking in the first 10 months of 2023. Unlike previous occasions in 4Q15 and 2H22, automakers did not add inventories into dealers during Sep and Oct 2024 after the Chinese government doubled the subsidies for vehicle trade-ins. We also expect automakers to cut inventories in Dec 2024 amid an early Chinese New Year in late January 2025. Therefore, we project an inventory destocking of about 688,000 units in 2024E and an inventory addition of 300,000 units in 2025E.

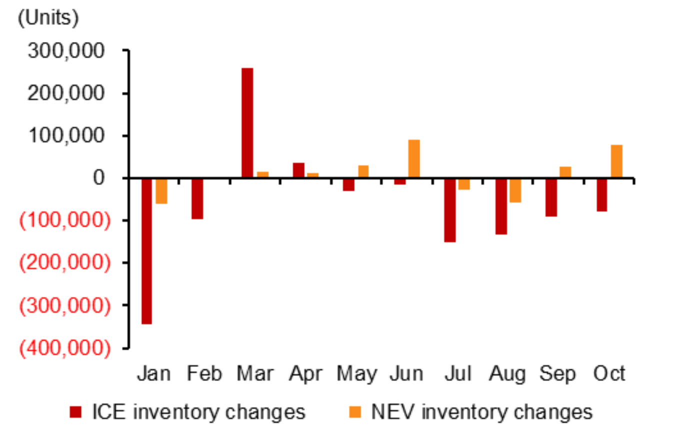
The inventory destocking in the first 10 months of 2024 came from ICE vehicles, as inventories at dealers for NEVs continued to increase by about 108,000 units during the same period. Both ICE and NEV inventory levels are at about 1.5 months now. We expect ICE vehicle inventories to continue falling and NEV inventories to rise moderately in 2025E.

Figure 25: Our est. inventory changes at dealers



Source: CAAM, CATARC, CMBIGM estimates

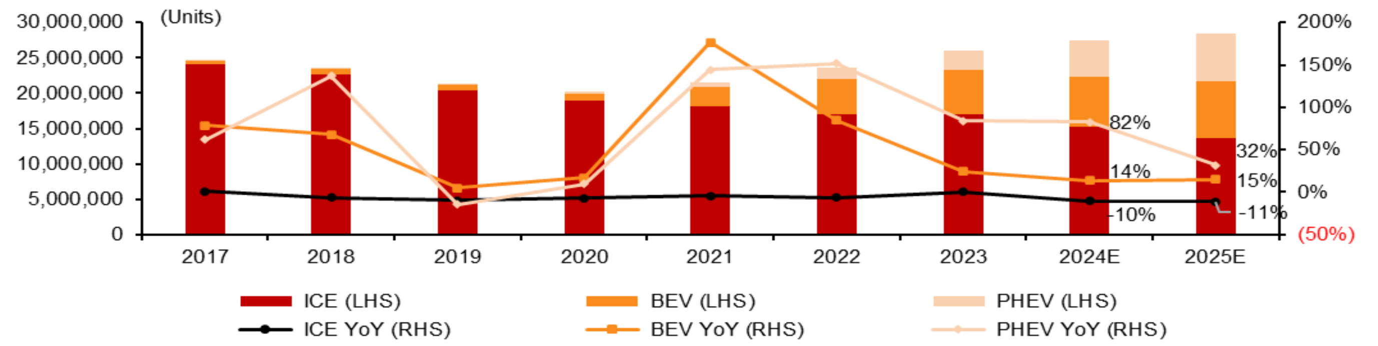
Figure 26: Inventory changes in 2024



Source: CAAM, CATARC, CMBIGM

Accordingly, we project China's PV wholesale volume to rise 3.8% YoY to 28.47mn units in 2025E. From the powertrain perspective, NEV is to be the driver for China's auto sales growth again. We forecast China's NEV wholesale volume to rise 22% YoY from 12.18mn units in 2024E to 14.90mn units in 2025E, details of which will be discussed in the NEV outlook section of this report. We expect PHEV wholesale volume growth (+32% YoY) to continue outpacing BEV (+15% YoY) in 2025E. Our industrywide and NEV forecasts imply that China's ICE wholesale volume is to decline 11% YoY in 2025E, at a similar pace in 2024E. In Nov 2023, we projected China's 2024E ICE wholesale volume to fall 10% YoY.

Figure 27: China's PV wholesale volume breakdown by powertrain



Source: CAAM, CMBIGM estimates

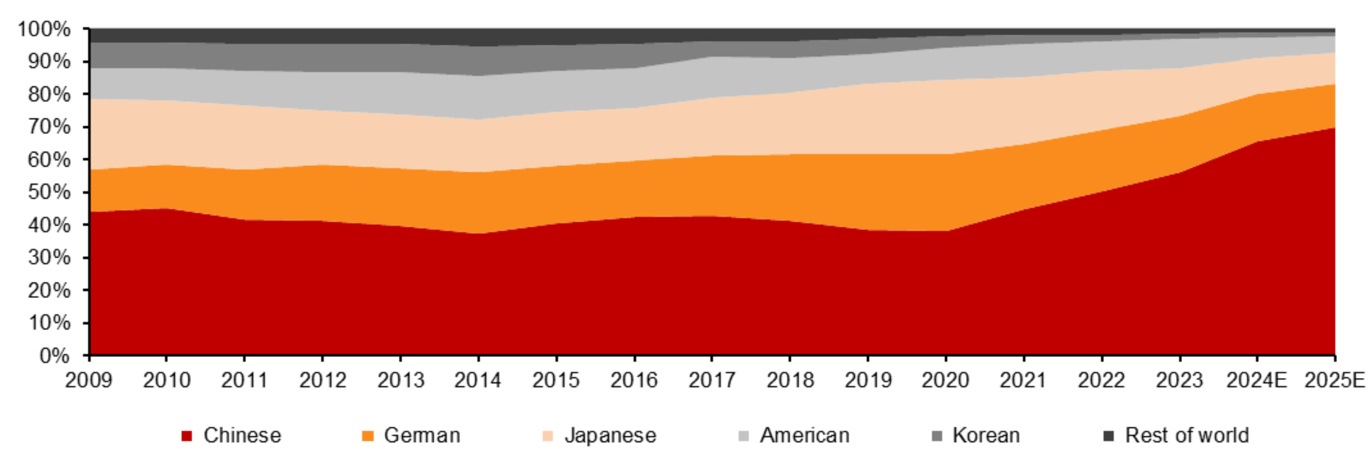
Strong model pipeline to continue lifting Chinese brands' market share

As noted in our 2023 and 2024 outlook reports, we believed that the trough of the auto industry cycle in China could last longer than previously expected and foreign brands would probably suffer the most given their lagging in electrification and connected intelligence. That could be reflected by their longer model cycles. As competition continues to intensify in 2025, we do not expect market share loss for foreign brands to halt. Meanwhile, we are also of the view that 2025 could be a year that we start to see signals of market consolidation.

We project Chinese brands' market share on a wholesale basis to rise to 70% in 2025E from 66% in 2024E. Chinese brands' market share is likely to increase by 9ppts YoY in 2024E, the biggest jump in history, and 5ppts higher than our original forecast. We project Chinese brands to gain market share both ICE and NEV segments in 2025E, extending the trend in 2024.

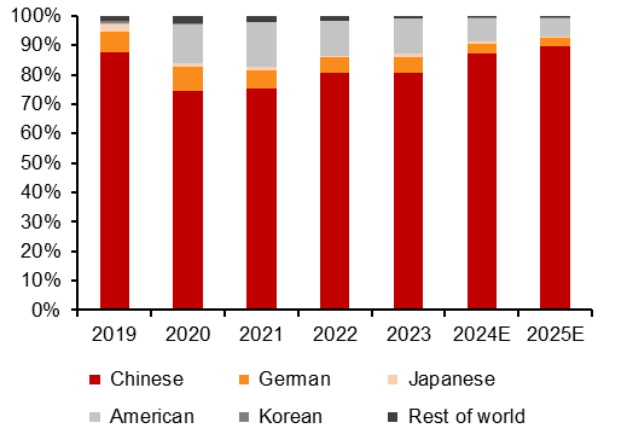
We forecast Chinese brands' market share in the ICE segment to widen from 43% in 2023 to 48% in 2024E and 49% in 2025E, on a wholesale volume basis. Although the majority of Chinese ICE market share gains in 2023-24 came from rising exports, Chinese brands' market share in the ICE segment rose by about 0.6ppts YoY in the first 10 months of 2024, on a retail basis, as the market share for American and Korean ICE vehicles narrowed during the same period.

Figure 28: PV market share by brand origin in China on a wholesale basis



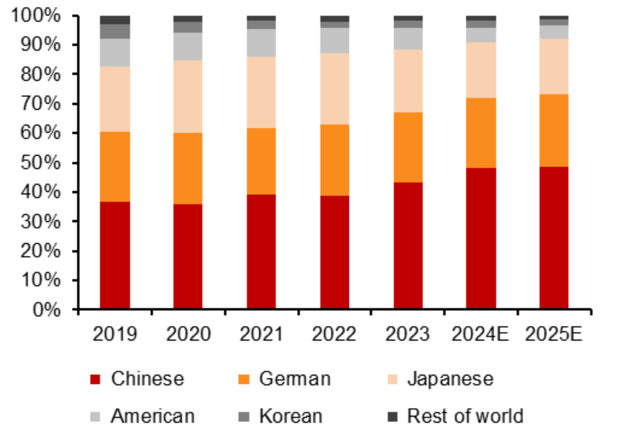
Source: CAAM, CMBIGM estimates

Figure 29: NEV market share by brand origin on a wholesale basis



Source: CAAM, CMBIGM estimates

Figure 30: ICE market share by brand origin on a wholesale basis



Source: CAAM, CMBIGM estimates

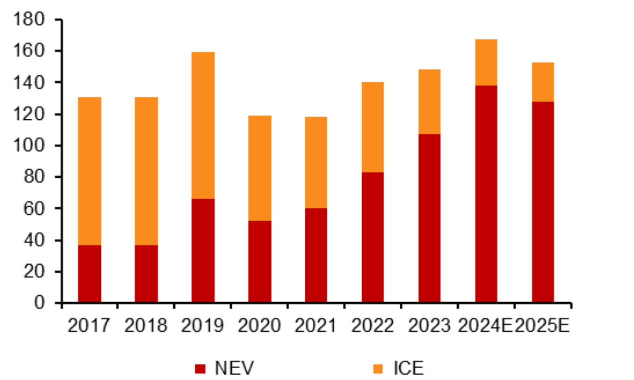
■ **Model pipeline: Larger Chinese NEVs with more competitive pricing**

2024 is likely to end with the highest number of new-model launches in China's history (about 167, higher than our original forecast of 151 made in Nov 2023), based on the data we have compiled, reflecting stiffer competition than ever before. About 149 new models have been launched in the first 10.5 months of 2024.

We have compiled data about 153 new-model launches for 2025E, with 84% being NEVs or having NEV powertrain choices, compared with 83% in 2024E and 72% in 2023. We project Chinese brands to launch 101 new models in 2025 with 93 being NEVs. We believe the actual number of new models from Chinese brands in 2025 could be higher than our projection now given massive R&D investments made by many Chinese automakers and their engineering flexibility to stay ahead of the competition.

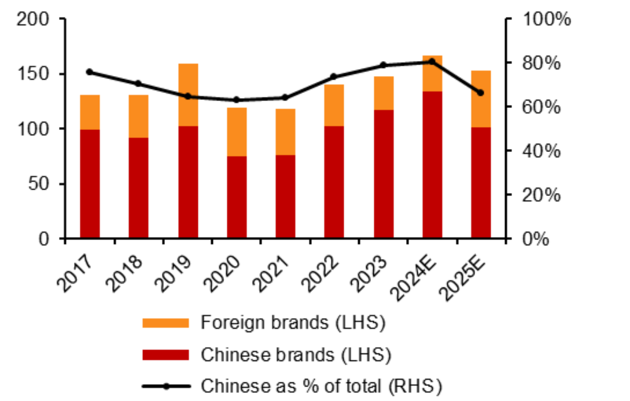
On the other hand, the number of new models, especially new NEVs, from foreign brands could miss our projection in 2025, as many previously scheduled new foreign-brand NEV models were delayed or cancelled due to its lack of competitiveness, despite some foreign automakers' grand NEV plans in China. Foreign automakers only launched 46 new NEV models in three years combined during 2022-24, less than half of Chinese new NEV models in one year. We project 52 new-model launches for foreign brands in 2025E, with 35 (or 67%) being NEVs. However, we have not seen any competitive NEV models from foreign brands' model pipeline in 2025E yet.

Figure 31: No. of new model launches in China



Source: Company data, CMBIGM estimates

Figure 32: No. of new models by brand origin



Source: Company data, CMBIGM estimates

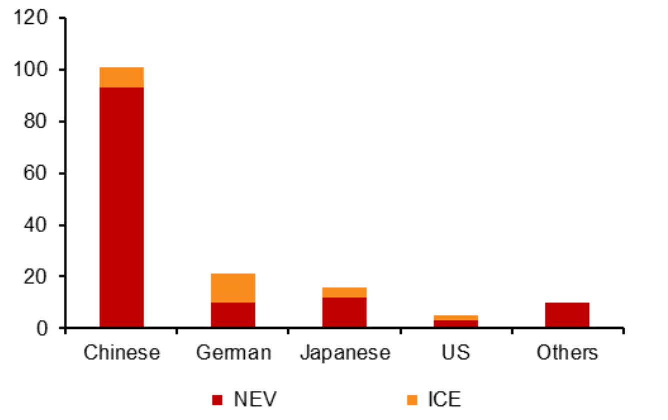
Among all the new models scheduled for 2025E, we see a few interesting trends:

1) Car size is still getting larger in China. About 70% of new models in 2025E are to be medium size or above, higher than 62% in 2024E, 58% in 2023 and 46% in 2022. About 37% of new models in 2025E are to be medium-to-large or large size, higher than 35% in 2024E, 30% in 2023 and 28% in 2022.

2) The smart EV competition will likely shift from RMB200,000-300,000 in 2024 to RMB150,000-200,000 in 2025E. Xpeng priced its medium-to-large size sedan, the *P7+*, below RMB200,000 in Nov 2024, which has been well received so far. We expect more automakers to follow suit in 2025E. We expect 26% of new NEV models in 2025E to be priced between RMB150,000-200,000, the highest among all the price segments and higher than 21% in 2024E. We expect 12% of new NEV models in 2025E to be priced between RMB200,000-250,000, much lower than 20% in 2024E.

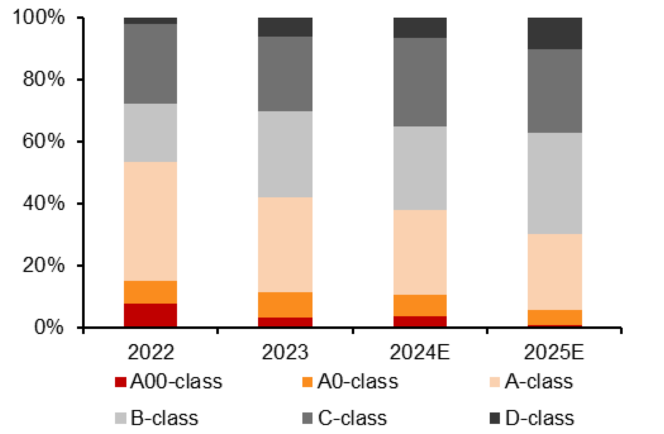
3) More BEV makers plan to launch hybrid models, especially EREVs given their simple architecture. Aion, Zeekr and Xpeng have scheduled EREV/PHEV models in 2025E. Xiaomi (1810 HK, BUY) and NIO plan to debut EREVs in late 2025 or 2026. We project 32 new EREVs (or models with the EREV powertrain available) to be rolled out in 2025E, higher than 22 new EREVs in 2024E and 9 in 2023.

Figure 33: No. of new models by brand origin in 2025



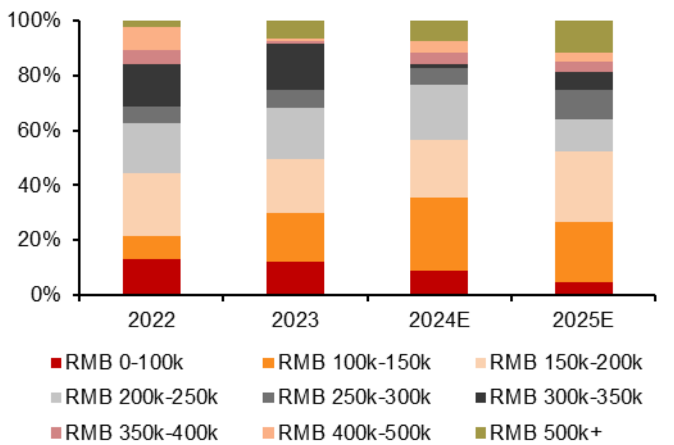
Source: Company data, CMBIGM estimates

Figure 34: Breakdown of new models by vehicle size



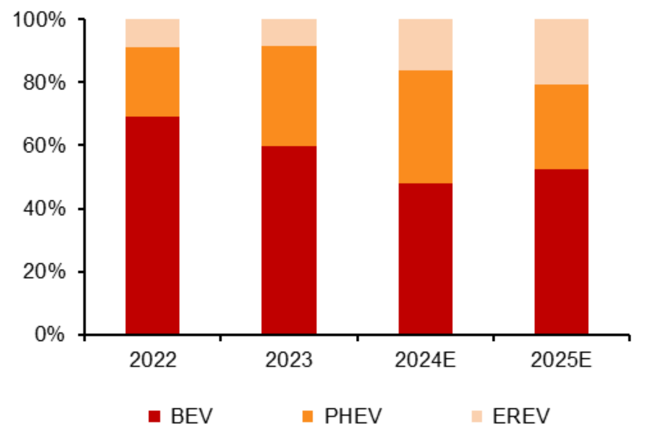
Source: Company data, CMBIGM estimates

Figure 35: Breakdown of new NEV models by price range



Source: Company data, CMBIGM estimates

Figure 36: Breakdown of new NEV models by powertrain



Source: Company data, CMBIGM estimates

Possible key models to watch as Chinese OEMs' sales growth drivers

New models' contribution to an automaker's sales volume and profit has become increasingly important, as the model cycle accelerates. New models launched during Oct 2023-Sep 2024 roughly contributed about 30% of China's total wholesale volume in Oct 2024, based on our calculations. Top 20 new models launched during Oct 2023-Sep 2024 made up about 17% of total wholesale volume in Oct 2024.

We are of the view that BYD's new models in 2024 based on its DM-i 5.0 technologies are the key driver to BYD's stronger-than-expected sales volume this year. The wholesale volume of the *Qin L* PHEV and its sister model *Seal 06* PHEV combined reached 95,000 units in Oct 2024. The Aito *M9* has become the best-selling model priced above RMB500,000 in the first 10 months of 2024, which helped Seres turn profitable. Xiaomi's first model, the *SU7* EV, has made Xiaomi become a key player in the industry.

On the other hand, the failure of BMW's new *5-Series* launch resulted in BMW Brilliance's profit plunge in 1H24 and the worst new-car gross margin in history for BMW dealers in China. GAC Toyota is poised to post the largest YoY sales-volume decline in China in 2024E, dragged by its 30% YoY decline for the new-generation *Camry*'s wholesale volume, based on our estimates. We project Great Wall's wholesale volume to fall 2% YoY in 2024E, as the sales volume of the *H6* SUV is likely to decline 27% YoY.

- **BYD: More new premium models in 2025E**

BYD launched 11 new models (BYD brand: 7, Denza: 2, Fangchengbao: 1, Yangwang: 1) in the first 11 months of 2024. New models based on the DM-i 5.0 technologies have been more successful than we had previously expected. These new models will contribute the full-year sales volume in 2025. We estimate BYD to launch another 14 new models in the next 12 months. Nine of the 14 new models may come from its premium brands Denza, Fangchengbao and Yangwang. The important models in 2025E for BYD brand should be the redesigned *Tang* and new *Tang L*. A new medium-to-large size MPV, the BYD *Xia*, is also expected to be delivered in 2025. The Denza *N9*, a rival model for the Li *L9*, would be key to Denza's sales growth in 2025. The *Bao 3* EV could be key to Fangchengbao's sales growth in 2025.

We project BYD's total wholesale volume (including commercial vehicles) to rise 15% YoY from 4.24mn units in 2024E to 4.90mn units in 2025E, slightly lower than the overall NEV's 22% YoY growth. We believe BYD's sales volume and profits could still be resilient in 2025E, given its superb cost reduction capabilities and resources to initiate new rounds of price war. BYD's earnings quality remain high, as it does not capitalize R&D investments.

- **Geely: New GEA platform with EM-i hybrid technology to boost NEV sales**

Geely appears to have found the key to making popular NEVs by simplifying its CMA platform into the GEA platform and modifying its hybrid technology to EM-i (P1+P3 with a reducer). We estimate that such changes could cut costs of about RMB5,000-7,000 per vehicle. Its upcoming new models, the *Starship 7* (in Dec 2024) and a medium-size PHEV car (in 2Q25, to compete with the *Qin L*), are likely to be well received, after successful launches of the *Starwish* and *Galaxy E5* recently. Therefore, we project Geely's NEV wholesale volume (including Zeekr and Lynk & Co) to rise 50% YoY from 0.87mn units in 2024E to 1.31mn units in 2025E. We project Geely's total wholesale volume to rise 10% YoY from 2.16mn units in 2024E to 2.38mn units in 2025E. It implies that NEV is to account for 55% of its total wholesale volume in 2025 and ICE wholesale volume at Geely is to fall 20% YoY in 2025.

■ Great Wall: Still need a new "*H6*" in the NEV era

It appears to us that Great Wall's focus in 2025 would still be Wey, as it plans to launch four new Wey NEV models in 2025E, although the details are still not quite clear. We are of the view that Great Wall is still looking for its positioning in the NEV era given many scheduled NEV models have been delayed or cancelled. Great Wall is likely to debut a Li *L9* rival model under the Wey brand. The improvement of its facelifted Wey *Lanshan* in 2024, which has been better received by customers than the previous version, may help it better market new models.

New models under the Haval brand could be crucial to offsetting Great Wall's declining ICE sales volume, as new models for Tank and Ora are limited in 2025. Two Haval PHEV SUVs are likely to be rolled out in 2025E. We project Great Wall's total wholesale volume (including pick-up trucks) to rise 13% YoY from 1.21mn units in 2024E to 1.36mn units in 2025E, with NEVs making up 39% of its total PV sales volume in 2025E.

■ Chery: A plethora of new models for 2025 in a bid to lift NEV sales

Chery, with its five brands (Chery, Jetour, Exeed, iCAR and Luxeed), launched 18 new models in the first 10 months of 2024, a record high number in China's history. 17 out of 18 models were NEVs. Although China only accounted for 52% of Chery's wholesale volume in the first 10 months of 2024, new models drove Chery's retail sales volume in the first 10 months of 2024 in China 73% higher than a year earlier.

Chery added Shanhai series under its Jetour brand. The Shanhai L series appears to be parallel to the Jetour X series. The Shanhai T series focuses on off-road style hybrid SUVs. The Shanhai T series' first model, the *Shanhai T2*, which was launched in Apr 2024, reached an average monthly sales volume of about 6,000 units during Aug-Oct 2024. Chery has also revived its Fulwin series under the Chery brand. Most of the Fulwin series models look like the PHEV versions for the Arrizo (Fulwin A series) and Tiggo (Fulwin T series) models. These two new series, along with iCAR and Luxeed, have lifted Chery's NEVs to 18% of its total wholesale volume in the first 10 months of 2024, up from 7% in 2023.

We project another 15 new models to be launched in the next 12 months at Chery and therefore, we forecast Chery's NEV wholesale volume to rise 44% YoY to 0.7mn units in 2025E.

■ Xpeng: *Mona M03*, *P7+* make us more confident about its new models

We are of the view that the success of the *Mona M03* and *P7+* could help Xpeng better understand its customers' needs and increase the chance of success for its four brand-new models scheduled in 2025E, although no details are available yet. We believe that Xpeng would prioritize sales volume with attractive pricing, although it targets a quarterly breakeven by 4Q25E. We project Xpeng's sales volume to more than double YoY to 390,000 units in 2025E.

■ Li Auto: Await more details of new BEVs

Although the full-year sales contribution from the *L6* could continue to lift Li Auto's EREV sales in 2025, its upcoming BEVs should be the medium-term sales driver and the catalyst for its share price. The automaker has become very cautious about its new BEVs after the *Mega* failure. We are of the view that it is still too early to draw a conclusion now while the share price could lack catalysts in 1Q25 before the debut of the Li *M8* EV. We project Li Auto's total sales volume to rise 30% YoY to 660,000 units in 2025E, with 110,000 units from BEVs.

NIO: Sales cannibalization between NIO and Onvo could be more severe

We estimate NIO to roll out four new models in 2025E, with two Onvo models (Li *L7* and *L8* rival models) likely being sales drivers. The flagship *ET9* is more for showcasing NIO's state-of-the-art technologies with limited sales contribution. We project sales volume of the three Onvo models combined to be 142,000 units in 2025E. Meanwhile, we expect sales volume of the NIO brand to fall 17% YoY to 168,000 units due to the potential cannibalization from Onvo. Therefore, we project NIO's total sales volume to rise by 61% YoY to 360,000 units in 2025E, lower than the company's target of doubling YoY.

The first model under NIO's 3rd brand Firefly will have its debut in Dec 2024 and start to deliver in 1H25E. We are of the view that multi-brand strategy for an automaker with annual sales volume below 500,000 units could be a waste of R&D and marketing resources.

Leapmotor: The success of the *C10* and *C16* lays foundation for B series

After completing its C series (medium and medium-to-large sizes) model line-ups, B series (compact size) models, designed for both China and overseas markets, would be key to sales volume growth in 2025. The *B10* SUV is scheduled to be delivered in Mar 2025, followed by two more models, the *B01* and *B05*. We are of the view that Leapmotor's value-for-money brand image has been strengthened after the successful launches of the *C10* and *C16*. We believe the automaker would continue its aggressive pricing strategy to lure consumers and may benefit from consumption downgrade. We project Leapmotor's sales volume to rise 54% YoY to 450,000 units in 2025E, with the B series models contributing 107,000 units. We are of the view that the sales sustainability of the *C16* could still be crucial to Leapmotor's gross margin.

Seres: All eyes on the Aito *M8*

After the successful launches of the Aito *M9* and redesigned *M7*, all eyes are on the upcoming *M8* in 2025. We project Aito's sales volume to rise 28% YoY from 402,000 units in 2024E to 516,000 units in 2025E. We are positive on the *M8* while we also take competition into consideration, given more and more automakers have been rolling out medium-to-large or large size SUVs for families.

Xiaomi: Sales volume of the 2nd model could surpass the *SU7*

We project Xiaomi's sales volume to be 135,000 units in 2024E, after the *SU7*'s sales volume reached 20,000 units in Oct 2024. Its 2nd model, a medium-to-large size SUV, could attract a broader customer base. We project Xiaomi's sales volume to be 300,000 units in 2025E, taking the production ramp-up into account.

Figure 37: China's passenger-vehicle wholesale volume forecasts by OEM / brand

	Sales volume in 2023 (units)	Sales volume in 2024E (units)	Sales volume in 2025E (units)	2025E YoY (%)	2024E market share (%)	2025E market share (%)
Chinese OEMs	**14,677,689**	**17,969,000**	**19,952,000**	**11%**	**65.5%**	**70.1%**
Geely	1,682,667	2,160,000	2,380,000	10%	7.9%	8.4%
Great Wall Motor	1,027,847	1,037,000	1,160,000	12%	3.8%	4.1%
Changan	1,539,539	1,670,000	1,750,000	5%	6.1%	6.1%
SAIC-GM-Wuling	960,160	1,035,000	970,000	-6%	3.8%	3.4%
SAIC	1,024,271	770,000	800,000	4%	2.8%	2.8%
BYD	3,012,906	4,231,000	4,900,000	16%	15.4%	17.2%
GAC Motor	886,505	738,000	790,000	7%	2.7%	2.8%
Chery	1,717,643	2,470,000	2,660,000	8%	9.0%	9.3%
Dongfeng	338,914	430,000	275,000	-36%	1.6%	1.0%
FAW	471,443	585,000	640,000	9%	2.1%	2.2%

NIO	157,110	223,000	360,000	61%	0.8%	1.3%
Li Auto	376,029	507,000	660,000	30%	1.8%	2.3%
Xpeng	141,601	186,000	390,000	110%	0.7%	1.4%
Avatr	26,407	64,000	120,000	88%	0.2%	0.4%
Leapmotor	144,155	293,000	450,000	54%	1.1%	1.6%
Seres	166,301	473,000	549,000	16%	1.7%	1.9%
Xiaomi	0	135,000	300,000	122%	0.5%	1.1%
German brands	**4,483,007**	**4,016,000**	**3,759,000**	**-6%**	**14.6%**	**13.2%**
VW	2,218,703	2,050,000	1,900,000	-7%	7.5%	6.7%
Audi	668,252	600,000	560,000	-7%	2.2%	2.0%
BMW	743,885	610,000	574,000	-6%	2.2%	2.0%
Mercedes-Benz	623,393	595,000	570,000	-4%	2.2%	2.0%
Smart	67,018	53,000	75,000	42%	0.2%	0.3%
Japanese brands	**3,761,068**	**3,008,970**	**2,672,000**	**-11%**	**11.0%**	**9.4%**
Honda	1,243,181	860,000	740,000	-14%	3.1%	2.6%
Toyota	1,749,907	1,473,000	1,400,000	-5%	5.4%	4.9%
Nissan	661,241	600,000	480,000	-20%	2.2%	1.7%
American brands	**2,325,968**	**1,688,000**	**1,490,000**	**-12%**	**6.2%**	**5.2%**
Buick	606,400	275,000	180,000	-35%	1.0%	0.6%
Ford	258,331	235,000	210,000	-11%	0.9%	0.7%
Tesla	947,742	900,000	860,000	-4%	3.3%	3.0%
Korean brands	**415,956**	**427,000**	**315,000**	**-26%**	**1.6%**	**1.1%**
Hyundai	249,716	177,000	105,000	-41%	0.6%	0.4%
Kia	166,240	250,000	210,000	-16%	0.9%	0.7%
Others	**396,311**	**316,000**	**282,000**	**-11%**	**1.2%**	**1.0%**
Total	**26,059,999**	**27,424,970**	**28,470,000**	**4%**	**100.0%**	**100.0%**

Source: CAAM, CMBIGM estimates

Figure 38: China's passenger NEV wholesale volume forecast by OEM / brand

	Sales volume in 2023 (units)	Sales volume in 2024E (units)	Sales volume in 2025E (units)	2025E YoY (%)	2024E market share (%)	2025E market share (%)
Chinese OEMs	**7,285,073**	**10,610,999**	**13,346,700**	**26%**	**87.1%**	**89.6%**
Geely	489,248	872,000	1,310,000	50%	7.2%	8.8%
Great Wall Motor	261,546	313,000	450,000	44%	2.6%	3.0%
Changan	412,800	590,000	747,000	27%	4.8%	5.0%
SAIC-GM-Wuling	446,080	693,200	677,000	-2%	5.7%	4.5%
SAIC	376,235	210,200	260,000	24%	1.7%	1.7%
BYD	3,012,906	4,231,000	4,900,000	16%	34.7%	32.9%
GAC Motor	510,676	408,000	470,000	15%	3.3%	3.2%
Chery	124,846	486,300	702,000	44%	4.0%	4.7%
Dongfeng	155,129	320,870	378,550	18%	2.6%	2.5%
FAW	106,366	205,000	265,000	29%	1.7%	1.8%
NIO	157,110	223,000	360,000	61%	1.8%	2.4%
Li Auto	376,029	507,000	660,000	30%	4.2%	4.4%
Xpeng	141,601	186,000	390,000	110%	1.5%	2.6%
Avatr	26,407	64,000	120,000	88%	0.5%	0.8%
Leapmotor	144,155	293,000	450,000	54%	2.4%	3.0%
Seres	126,144	432,690	519,000	20%	3.6%	3.5%

Xiaomi	0	135,000	300,000	122%	1.1%	2.0%
German brands	**461,767**	**419,350**	**414,000**	**-1%**	**3.4%**	**2.8%**
VW	190,803	201,000	170,000	-15%	1.6%	1.1%
Audi	31,677	22,500	22,000	-2%	0.2%	0.1%
BMW	133,952	116,150	120,000	3%	1.0%	0.8%
Mercedes-Benz	38,317	26,700	25,000	-6%	0.2%	0.2%
Smart	67,018	53,000	75,000	42%	0.4%	0.5%
Japanese brands	**137,034**	**90,245**	**115,300**	**28%**	**0.7%**	**0.8%**
Honda	75,390	26,800	30,000	12%	0.2%	0.2%
Toyota	39,080	59,920	57,300	-4%	0.5%	0.4%
Nissan	22,205	1,700	20,000	1076%	0.0%	0.1%
American brands	**1,049,729**	**976,542**	**899,000**	**-8%**	**8.0%**	**6.0%**
Buick	88,954	69,000	34,000	-51%	0.6%	0.2%
Tesla	947,742	900,000	860,000	-4%	7.4%	5.8%
Others	**99,736**	**87,490**	**125,000**	**43%**	**0.7%**	**0.8%**
Total	**9,033,339**	**12,184,626**	**14,900,000**	**22%**	**100.0%**	**100.0%**

Source: CAAM, CMBIGM estimates

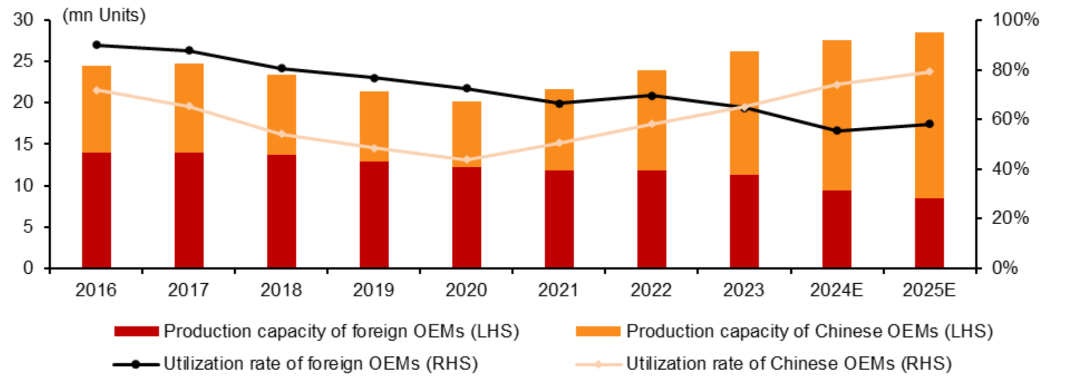
We expect joint ventures to cut capacity in China in 2025

Despite 2% production capacity cuts for foreign brands in China in 2024 based on our estimates, foreign brands' capacity utilization rate is poised to hit an all-time low of 55% in China in 2024E, given their 16% YoY decline in production on our estimates. Meanwhile, production capacity utilization rate for Chinese brands in China is likely to hit an all-time high of 74% in 2024E.

We project a more significant capacity cut for foreign brands in 2025, as many of them have realized that it is unlikely to recover their sales volume to previous high levels. Among all the joint ventures (JVs), we believe SAIC VW, FAW VW, Dongfeng Nissan, SAIC GM and Beijing Hyundai are most likely to cut capacity in 2025, following Dongfeng Honda's announcement to close one of its plants in Wuhan in mid-2024. Therefore, we project foreign brands to cut an annual capacity of 2.4mn units in 2025E in China to halt the declines of capacity utilization rate. Yet, we still expect a capacity utilization rate of below 60% for foreign brands in China in 2025E.

On the other hand, we expect Chinese automakers' capacity utilization rate in China to hit a new high of 79% in 2025E, with a mild capacity increase of 4% YoY. NEVs have become the driver to lift Chinese automakers' capacity utilization rate. Although it is difficult to separate capacity for NEVs and ICE vehicles clearly as quite a few production lines or plants still produce vehicles with different powertrains at the same time, we roughly estimate Chinese automakers' NEV capacity utilization rate to be 76% in 2024E and 85% in 2025E.

Figure 39: China's PV production capacity and utilization rate

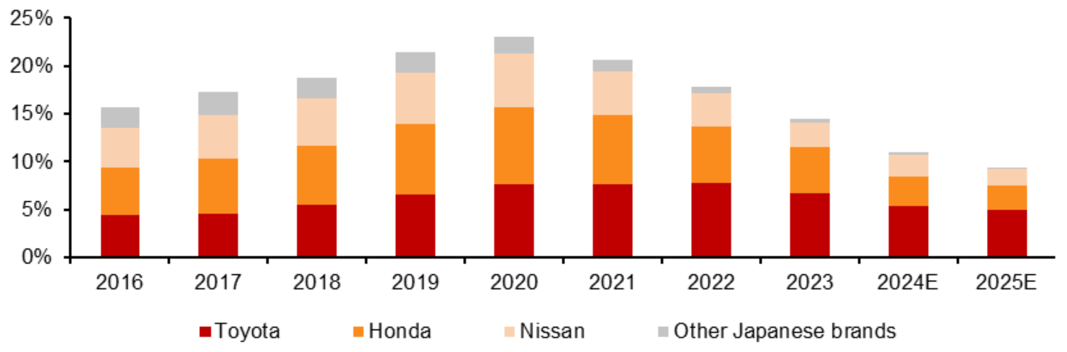


Source: CAAM, company data, Marklines, CMBIGM estimates

■ Japanese brands: The largest market share loss in 2024 could extend into 2025

Japanese brands' market share in China on a wholesale-volume basis narrowed from 14.4% in 2023 to 11.2% in the first 10 months of 2024, the largest decline among all the brands for three years in a row. Such trend could continue in 2025, in our view, as sales volumes of their key models have been declining. In 2023, the sales dent mainly came from small-size models. However, larger-size and more profitable models, such as the Toyota *Camry*, *Avalon*, *Highlander*, *Sienna*, Honda *Accord*, *CR-V*, *Breeze* and Nissan *Teana* all posted YoY sales declines in the first 10 months of 2024. That, along with a lack of new competitive models, could lead to a market share loss of 1.6ppts YoY in 2025E, based on our estimates.

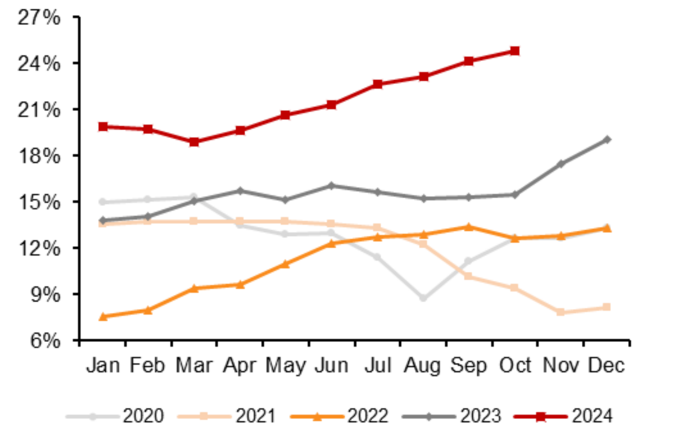
Figure 40: Japanese brands' market share in China (on a wholesale basis)



Source: CAAM, CMBIGM estimates

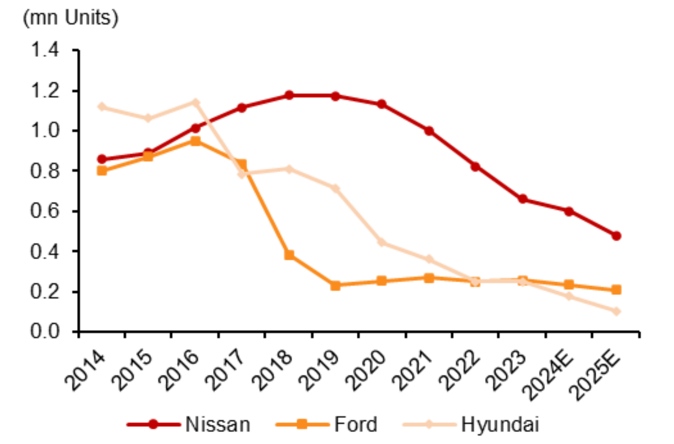
Nissan is probably the most active one among the Japanese "Big Three" to push electrification in China given its sales plunge in the past four years. It plans to launch five NEVs by the end of its FY26. However, the failure of its *Ariya* EV gives us little confidence about its upcoming NEVs. We view Nissan's challenges, such as lack of competitive models and technologies, as global, not only in China, especially after its management saga in 2018. We are of the view that Nissan has followed the collapse of Ford and Hyundai in China.

Figure 41: Dongfeng Nissan discounts at dealers



Source: ThinkerCar, CMBIGM

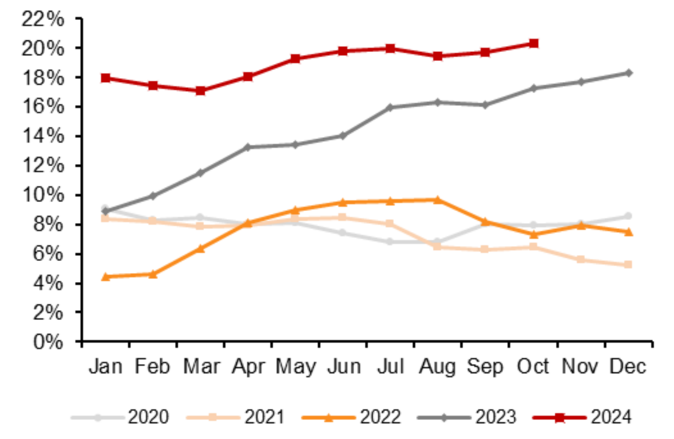
Figure 42: Nissan's wholesale volume in China



Source: CAAM, CMBIGM estimates

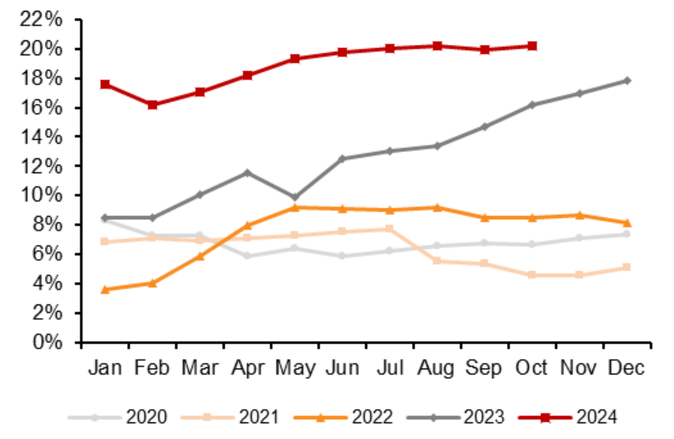
After unsuccessful launches of the e:NP/e:NS series, **Honda** rolled out a new brand named Lingxi at its JV with Dongfeng in 2024 by leveraging resources from its Chinese partner. In 2025, Dongfeng will launch a new NEV brand named Ye at both JVs in China. Nevertheless, we expect Honda's market share in China to continue narrowing in 2025E. It takes Nissan about six years to halve its China sales volume from its peak in 2018 and it may only take Honda four years to halve its China sales volume from its peak in 2021. Discounts at dealers for both Dongfeng Honda and GAC Honda reached 20% in 3Q24.

Figure 43: Dongfeng Honda discounts at dealers



Source: ThinkerCar, CMBIGM

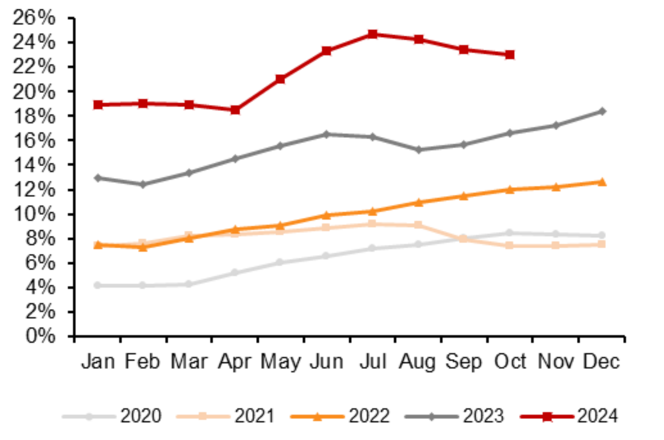
Figure 44: GAC Honda discounts at dealers



Source: ThinkerCar, CMBIGM

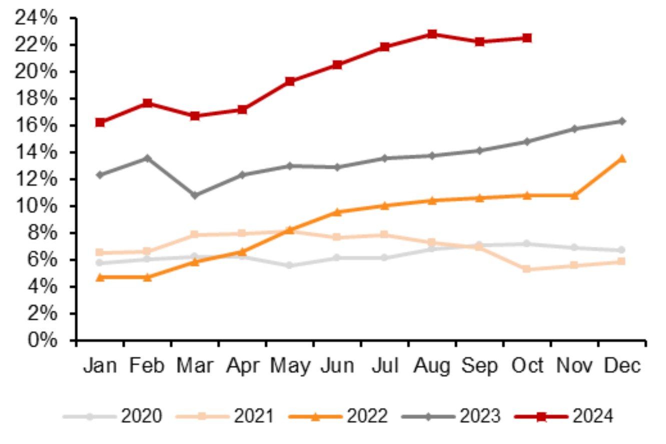
Although **Toyota** was widely regarded as the best-positioned foreign mass-market brand in China by many investors in the past years, its sales volume decline has started since 2023. We expect its sales volume in China to fall 16% YoY in 2024E, as its key models have started to lose Chinese consumers. After having launched 17 new models in the past four years, Toyota lacks new models in 2025 and may have to rely on heavier discounts to mitigate its sales decline in 2025, in our view. Both GAC Toyota and FAW Toyota's discounts exceeded 22% in 3Q24, the highest in history.

Figure 45: FAW Toyota discounts at dealers



Source: ThinkerCar, CMBIGM

Figure 46: GAC Toyota discounts at dealers



Source: ThinkerCar, CMBIGM

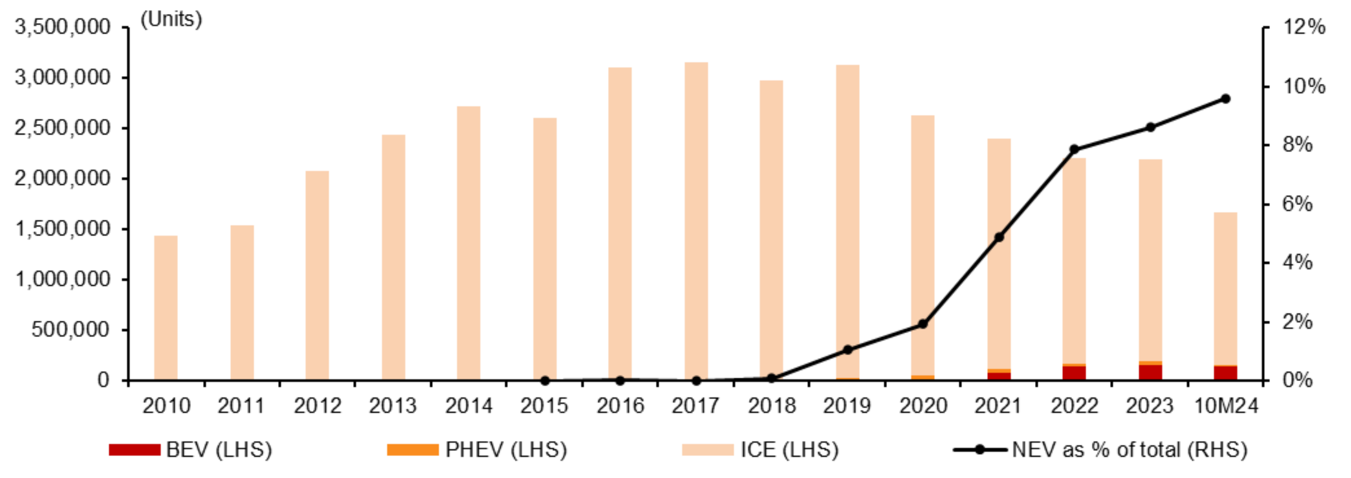
■ VW brand: more resilient than expected in 2024

We project the VW brand's wholesale volume in China to drop 8% YoY in 2024E, better than the 17% decline for foreign brands. We believe that VW is the first German brand to realize the challenges it faces in China. That probably has helped VW adapt to the landscape changes faster than other foreign automakers, such as new model pricing. Its new models in 2024, including the *Magotan*, *Passat* and *Tiguan L*, have been more successful than other foreign brands based on the initial sales volume after the rollouts.

Although VW has seven BEV models on sale, NEVs only accounted for 10% of VW's total retail sales volume in the first 10 months of 2024. The *ID.3* EV had an average monthly retail sales volume of about 7,500 units in the first 10 months of 2024, higher than all the remaining six models combined. We expect NEVs to make up a lower portion of VW's sales volume in China in 2025E than 2024E, given that most of the scheduled ID. Series models have been launched and new BEV models partnered with Xpeng are to be rolled out in 1Q26.

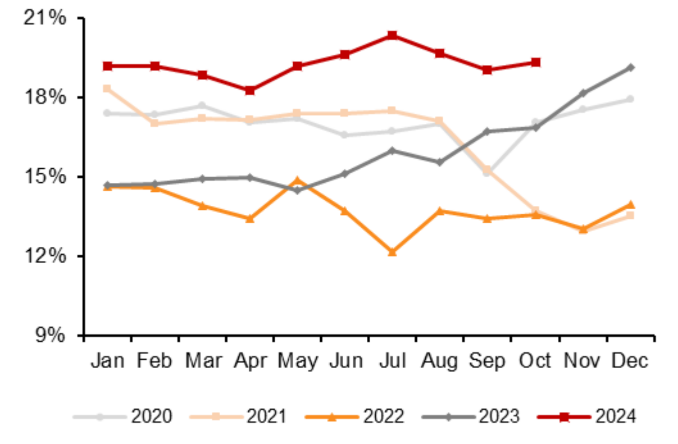
On the other hand, the new generations of the ICE models including the *Tayron*, *T-Roc*, *Tharu*, and *Teramont* are likely to be unveiled in 2025E, based on our estimates. The relatively successful launches of new ICE models in 2024 could offer good experience for VW.

Figure 47: VW brand's retail sales volume in China



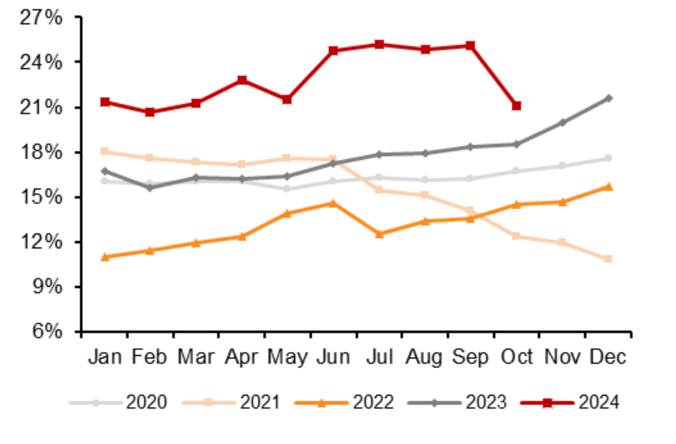
Source: CATARC, CMBIGM

Figure 48: SAIC VW discounts at dealers



Source: ThinkerCar, CMBIGM

Figure 49: FAW VW discounts at dealers



Source: ThinkerCar, CMBIGM

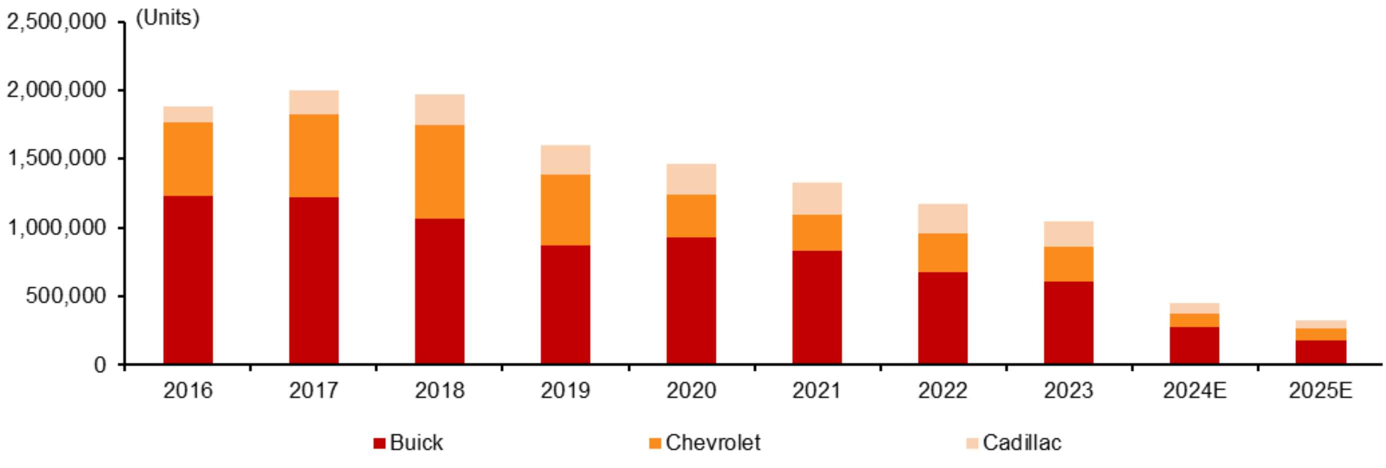
■ GM: 1/4 of the peak sales volume is not the end of the decline

GM's experience in China shows that the worst scenario could be worse than previously expected for any foreign brands. SAIC GM's wholesale volume had its peak in 2017 with about 2mn units (the 2nd largest foreign automaker in China at that time) and was halved to about 1mn units in 2023. We project GM's wholesale volume under its three brands (Buick, Chevrolet and Cadillac) to be 0.45mn units in 2024E. To make it worse, about 31% of GM's wholesale volume in China was from exports in the first 10 months of 2024. SAIC-GM-Wuling contract manufactures the Chevrolet *Aveo* for exports to Mexico.

Interestingly, about 25% of Buick's wholesale volume in China in the first 10 months of 2024 was from NEVs, the highest ratio among all the foreign brands except pure EV brands such as Tesla. The *Velite 6* EV and *GL8* PHEV contributed the most.

We project GM's wholesale volume to continue falling by 29% YoY to 320,000 units in 2025E, as we see no competitive new models in 2025E and the *GL8* PHEV appears to lose sales momentum five months after its rollout. We see no turnaround signals for GM in China, although it has attempted many ways to revive its sales in China.

Figure 50: GM's wholesale volume in China



Source: CAAM, CMBIGM estimates

Premium car: Is the worst over for dealers?

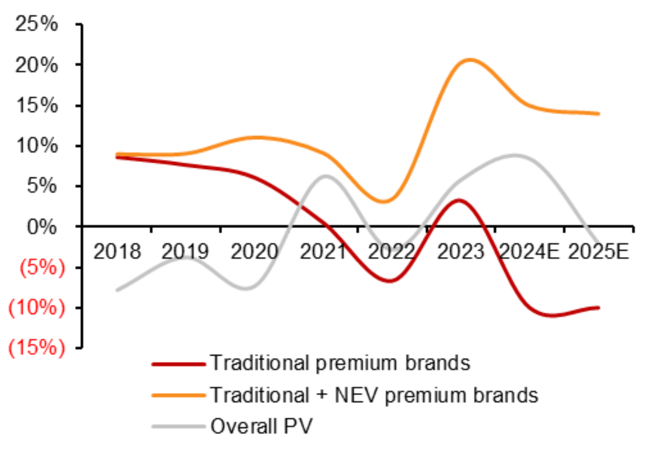
We divide the premium car segment into two categories to better reflect the industry landscape changes: traditional premium brands and premium NEV brands. Although some Chinese automakers are still adjusting their brand positioning, which makes it difficult to define them properly, we still see brands like Tesla, NIO, Li Auto, Aito, Zeekr, Denza and Xiaomi as premium NEV brands. As about 20% of traditional premium cars in China are still imported and about 1/3 of Tesla Shanghai's production is exported, we use retail sales volume to reflect such demand more precisely.

Traditional premium-brand market share in China reached the peak of 16.4% in 2020 and followed by a four-year decline. We project such market share to narrow to about 12% in 2024E, worse than our prior forecast. Such trend is likely to continue in 2025 and we project traditional premium-brand market share to shrink to about 11% in 2025E.

Retail sales volume for premium NEV brands in China surged 68% YoY to 1.96mn units in the first 10 months of 2024, largely driven by Aito (+560% YoY), Zeekr (+89% YoY) and new brands such as Xiaomi. Tesla accounted for 26% of total premium NEV retail sales volume in the first 10 months of 2024, followed by Li Auto's 20% and Aito's 17%. We expect Tesla's market share in the premium NEV segment to continue shrinking in 2025E. Although the premium NEV market share reached 10.7% in the first 10 months of 2024 on a retail basis, we still expect retail sales volume of these brands to surge 40% YoY in 2025E.

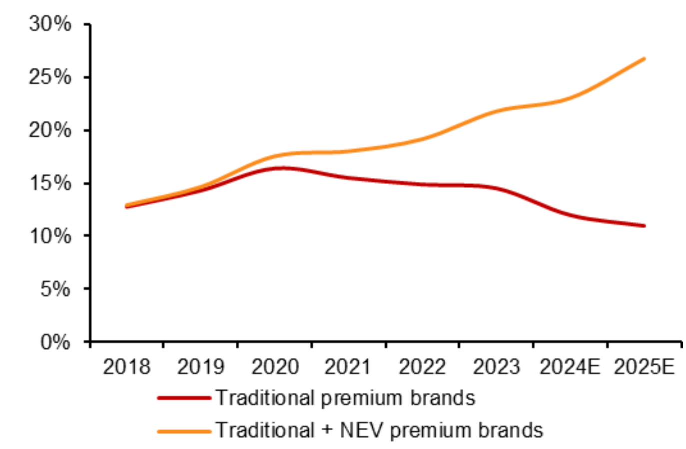
In other words, premium NEV market share is likely to surpass traditional premium brands' market share in 2025E. We project the combined market share for traditional and NEV premium brands to rise from 21.8% in 2023 to 23.0% in 2024E and 26.7% in 2025E.

Figure 51: Retail sales volume YoY growth for traditional and overall premium brands in China



Source: CATARC, CMBIGM estimates

Figure 52: Market share for traditional and overall premium brands in China



Source: CATARC, CMBIGM estimates

Retail sales volume for BMW, Mercedes-Benz and Porsche fell 15%/10%/33% YoY, respectively, in the first 10 months of 2024, whereas retail sales volume for Lexus rose 7% YoY during the same period. Discounts at dealers for these four brands, which are probably the most important brands for Hong Kong-listed dealers, all reached record highs in 2024. Therefore, new-car gross margins at dealers for these brands also narrowed to all-time lows in 1H24, despite higher subsidies from OEMs.

We are of the view that new-car gross margin is unlikely to be significantly worse than now in order to avoid a large number of dealer exits. However, profits from after-sales services could continue to shrink, as new-car sales volume is likely to keep falling. On the other hand, as sales volume of premium NEV brands is set to surpass that for traditional premium brands and more premium NEV brands adopt the dealership model, leading dealers have started to work with some premium NEV brands that are more likely to survive than others in the long term. For example, Zhongsheng has planned to open a number of Aito stores to ride on the brand's sales boom.

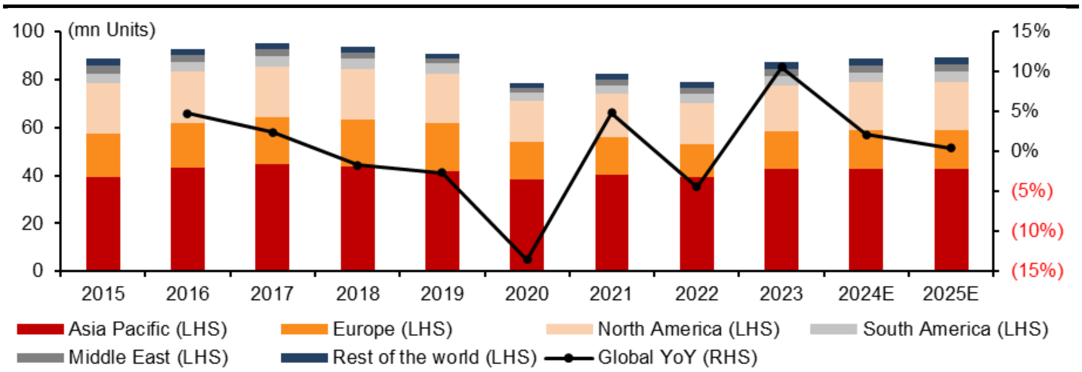
We believe that the challenges that Chinese dealers face now are unlikely to be significantly larger in the foreseeable future. However, it is still a bit early to foresee a profit growth, as the landscape for NEV brands are still changing fast, especially with quite a few NEV brands adopting the direct-sales model. In our view, the picture could be clearer after 2025.

Global auto sales in a nutshell: Mild recovery with capacity cuts

We project global auto sales volume to rise 2.1% YoY to 89.04mn units in 2024E, in line with our prior forecast made in Mar 2024. Although sales volume in China beat our prior expectation, the declines in Japan, Thailand and Indonesia drag Asia Pacific's total sales volume lower than our prior estimates by 1.3ppts in 2024E. We have also revised down Europe's auto sales volume growth in 2024E from 4.3% YoY to 2.6% YoY. Almost all the large markets in Europe posted weaker-than-expected growth in the first 10 months of 2024, except the UK and Poland. The positive surprise came from Latin America, as Mexico, Brazil and Argentina all beat our prior estimates.

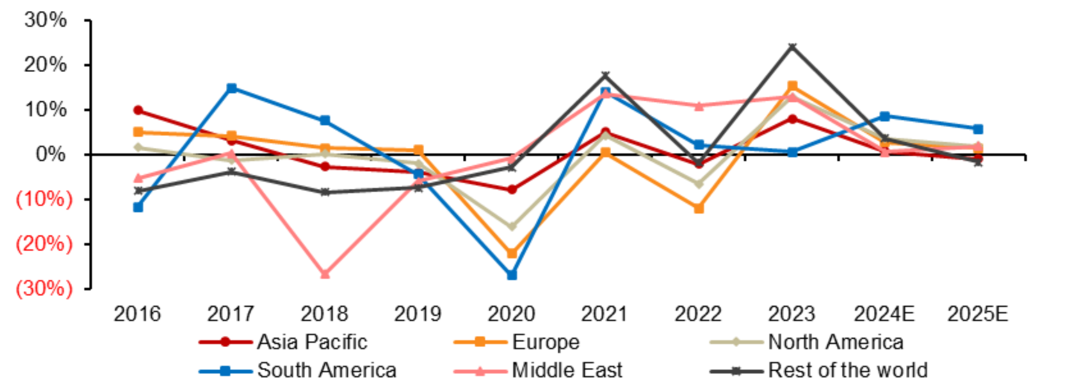
We project global auto sales volume to rise 0.4% YoY to 89.41mn units in 2025E, down from our prior projection of 1.9% YoY in Mar 2024. The cut is mainly from China and Europe, as we take the pre-buying effect in 2024 for China into consideration and we have not seen any turnaround signs for Europe. Although global auto sales volume is likely to rise for three years in a row from 2023-25E, it is still below the pre-COVID level of 91.00mn units in 2019 and the peak of 95.10mn units in 2017.

Figure 53: Global auto sales volume by region



Source: Marklines, CMBIGM estimates

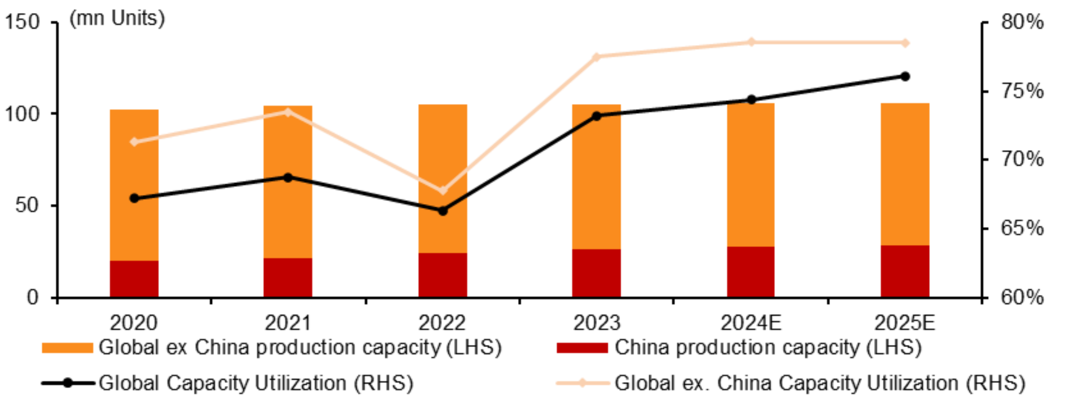
Figure 54: Global auto sales volume growth by region



Source: Marklines, CMBIGM estimates

Global ex. China's production capacity cuts started from 2022 when the utilization rate fell to 68% after the dent from COVID and chip shortage. The capacity cuts mainly came from Europe and South America in 2022-23. We expect global capacity cuts to continue in 2025E, in both China and overseas, despite our projected mild growth for global auto sales volume. That would lift the global capacity utilization rate to 76% in 2025E, based on our estimates. The capacity utilization rate in China is likely to be close to the global average in 2025E. In fact, Chinese automakers' capacity utilization rate in China could be 3ppts higher than the global average, aided by the rising NEV sales volume.

Figure 55: Global auto production capacity and utilization rate



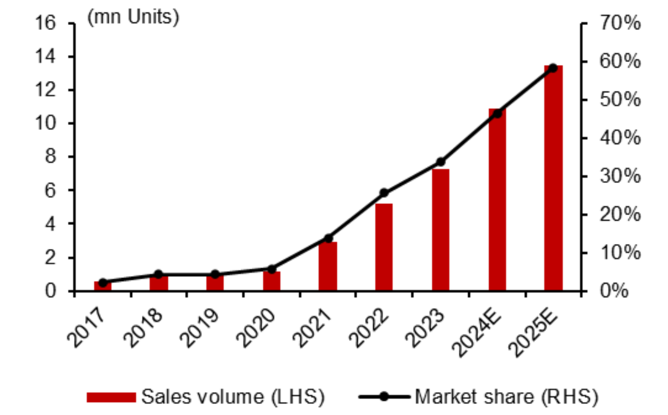
Source: Marklines, CMBIGM estimates

2025 NEV Outlook: Not Much Time Left for Weaker Brands

We project China's passenger NEV retail sales volume to rise 22% YoY from 10.93mn units in 2024E to 13.35mn units in 2025E, which implies NEV market share of 57.8% in 2025E, up from 46.4% in 2024E.

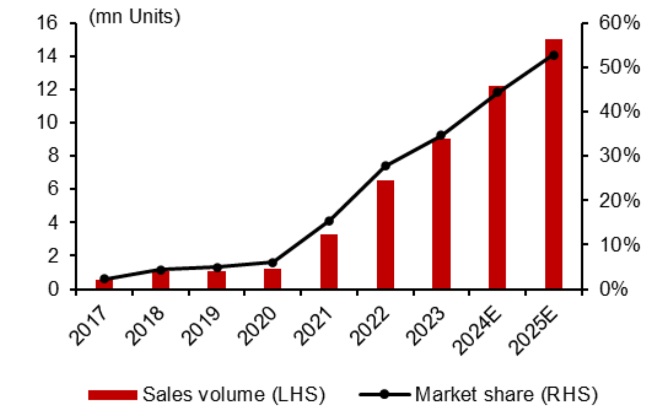
We also project China's passenger NEV wholesale volume to rise 22% YoY from 12.18mn units in 2024E to 14.90mn units in 2025E, which implies NEV market share of 52.3% in 2025E, up from 44.4% in 2024E. Lower NEV market share on a wholesale basis than a retail basis is mainly due to exports. We project NEV exports to rise 5% YoY to 1.2mn units in 2025E, after a 2% YoY decline in 2024E, as the new tariffs on China-made NEVs from the EU could curb NEV exports from Chinese EV makers and Tesla.

Figure 56: China's NEV retail sales and market share



Source: CATARC, CMBIGM estimates

Figure 57: China's NEV wholesale and market share



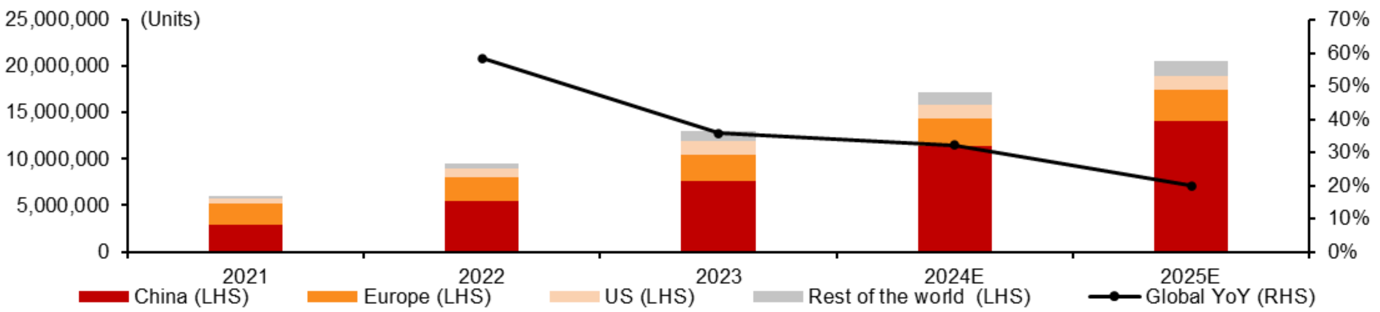
Source: CAAM, CMBIGM estimates

Global NEV sales in a nutshell: China continues to dominate; EU could be a positive surprise in 2025

We project global NEV sales volume to rise 32% YoY to 17.14mn units in 2024E, 3% higher than our prior forecast of 16.58mn units. The beat mainly comes from China, as NEV sales volume in both Europe and the US was below our expectation. EV sales volume growth in China is set to outpace the global average for four years in a row, which is likely to make China account for 67% of global NEV sales volume in 2024E, up from 40% in 2020.

We project global NEV sales volume to rise 20% YoY to 20.54mn units in 2025E, with China making up 68%. We also expect NEV sales volume in Europe to regain traction amid tightening carbon emission standards in 2025. NEV sales volume in the US could be more uncertain under the Trump Administration.

Figure 58: Global NEV sales volume forecast



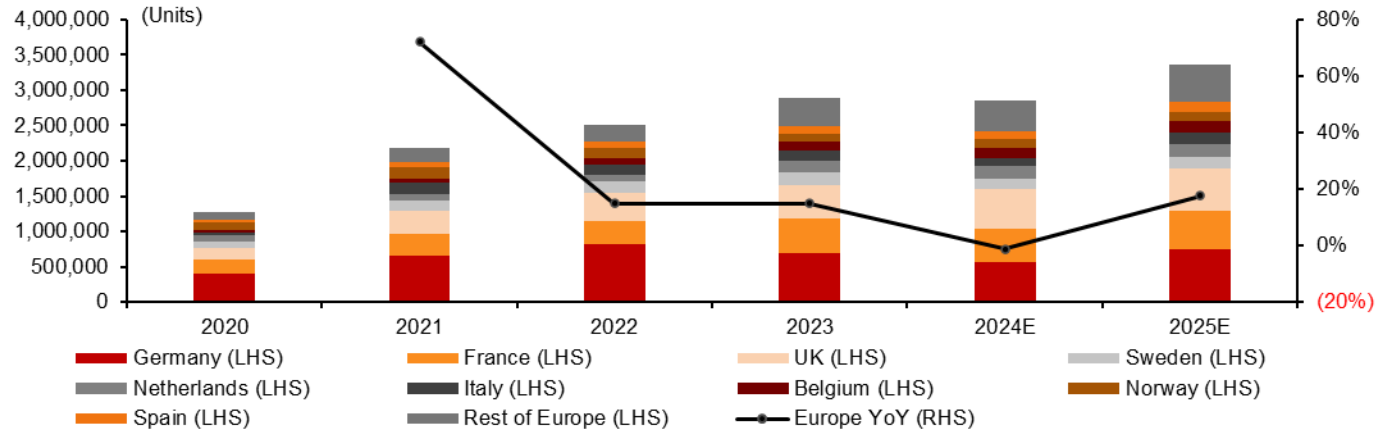
Source: Marklines, CMBIGM estimates

- **Europe: Tightening emission standards to lift NEV sales again in 2025**

In the past three years, we have been talking about the policy-driven nature for NEV sales in Europe, as the CO2 emission requirement in 2020-21 forced automakers to sell NEVs in Europe, when their products were not ready. That resulted in a stagnant NEV market share of around 18% during 2022-23 and a decline to 17.7% in 2024E, in our view. Policies are set to lift NEV sales volume in Europe again, as carmakers in the EU faces stricter CO2 emission standards in 2025.

We project NEV market share in Europe to widen from 17.7% in 2024E to 20.5% in 2025E. It could be even higher, if all the automakers aim to fulfil the requirement. Minth may benefit from such trend, as more than 50% of Minth's battery housing revenue comes from Europe. The stricter emission-standard timeline coincides with the launches of BMW's next-generation NEVs (the Vision Neue Klasse) and Mercedes-Benz's new models based on the MMA platform.

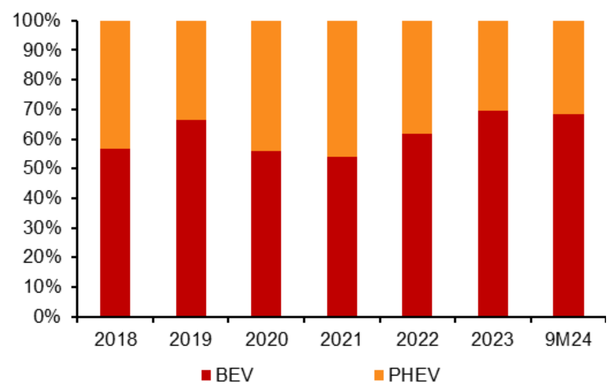
Figure 59: Europe NEV sales volume forecast



Source: Marklines, CMBIGM estimates

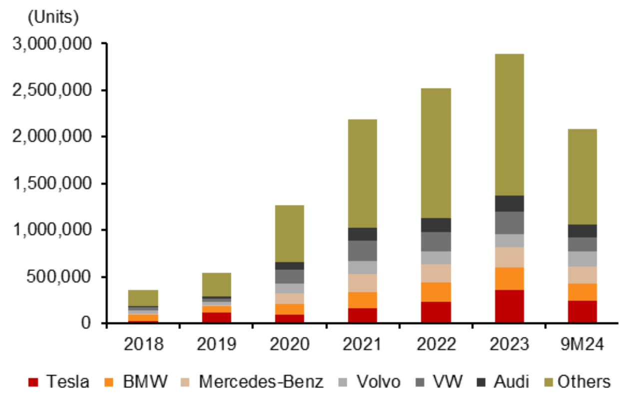
Tesla is set to remain the best-selling NEV brand in Europe in 2024E, although sales volume may fall more than 10% YoY. VW fell to the 5th place with NEV sales volume decline of 17% YoY in the first three quarters of 2024. Volvo climbed to No.4 with a NEV sales volume surge of 60% YoY in the first three quarters 2024. NEV sales volume for BMW and Mercedes-Benz also rose 19% YoY and 15% YoY, respectively, during the same period, despite the overall NEV declines in Europe. NEV sales volume of MG fell 23% YoY in the first nine months of 2024, the most among the top 10 brands.

Figure 60: BEV and PHEV sales breakdown in Europe



Source: Marklines, CMBIGM

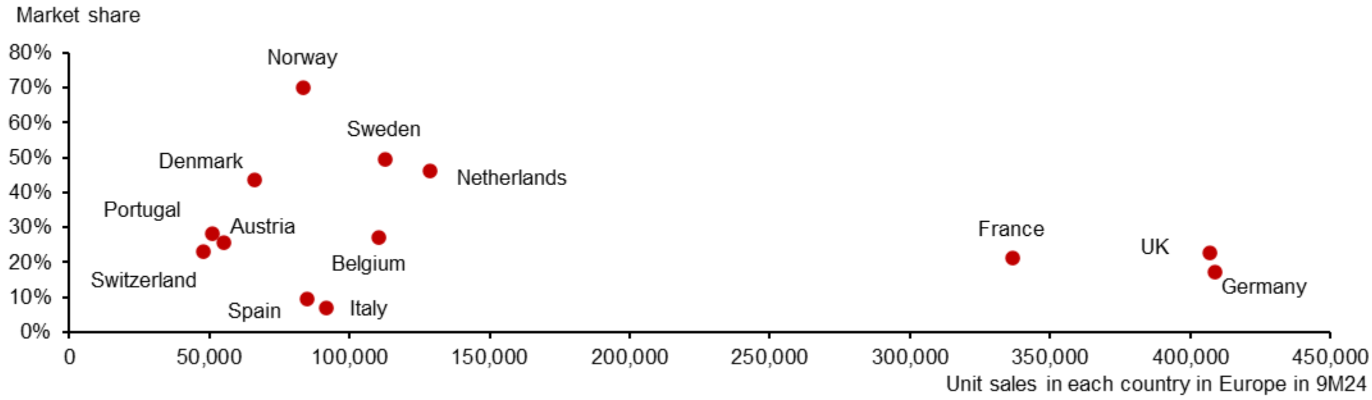
Figure 61: NEV sales volume by brand in Europe



Source: Marklines, CMBIGM

Germany, the largest auto market in Europe for both PV and NEV, dragged Europe's NEV sales volume down, as the NEV sales volume in this country fell 20% in the first three quarters of 2024. NEV sales volume in the UK rose 15% YoY in the first three quarters of 2024, the fastest growth among the top five countries in Europe in terms of NEV sales volume, driven by emission policies. Netherlands surpassed Sweden to be the 4th largest European country in terms of NEV sales volume in the first three quarters of 2024. Norway and Sweden still have the highest NEV market share in Europe, although NEV sales volume in both countries fell YoY in the first three quarters of 2024.

Figure 62: NEV sales volume and market share by country in 9M24 in Europe



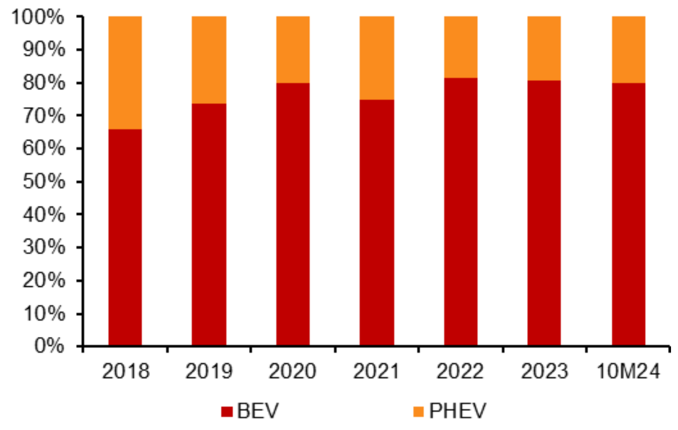
Source: Marklines, CMBIGM

US: Full of uncertainties under the Trump Administration

We project NEV market share in the US to widen from 9.1% in 2023 to 9.5% in 2024E, given a 7% YoY growth in the NEV sales volume in the first 10 months of 2024, vs. 1% YoY growth for the overall US market during the same period.

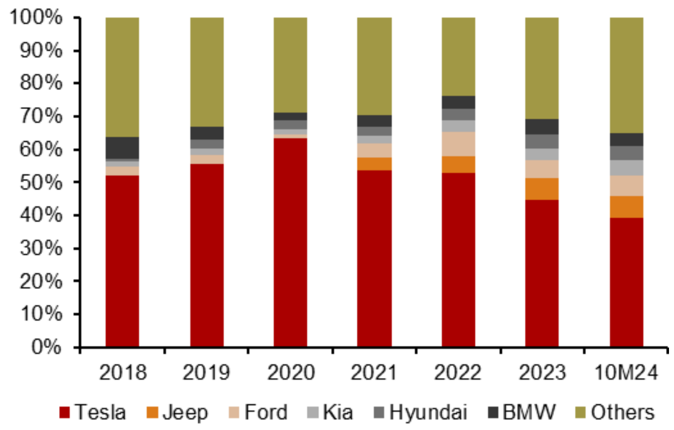
Tesla's market share in the US NEV segment narrowed from 53% in 2022 to 45% in 2023 and 39% in the first 10 months of 2024. Ford, Kia and Volvo have been grabbing market share for the past 12 months.

Figure 63: BEV and PHEV sales breakdown in the US



Source: Marklines, CMBIGM

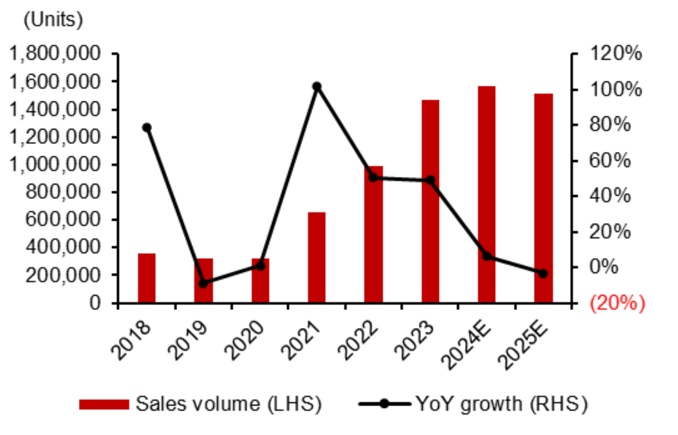
Figure 64: NEV market share by brand in the US



Source: Marklines, CMBIGM

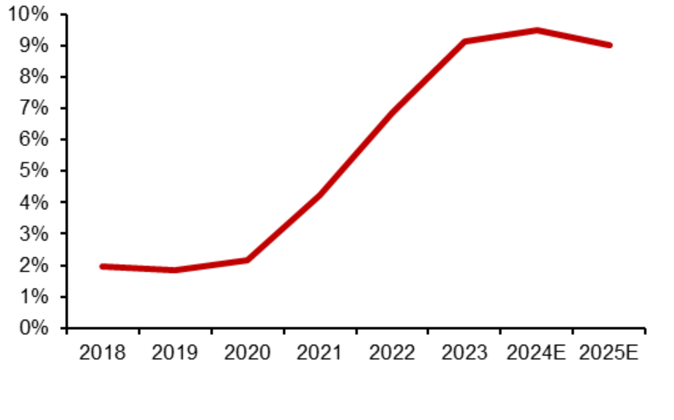
Donald Trump's second term, along with Elon Musk's association with the new administration, makes both Tesla and US NEV market a wild card in the next few years, in our view. We believe the EV tax credits in the Inflation Reduction Act (IRA) enacted from 2022 will face scrutiny under the Trump Administration. We are also of the view that Tesla's brand image is likely changing subtly among different American consumers. We project NEV market share in the US to narrow to 9.0% in 2025E, down from 9.5% in 2024E. We still see little chance for Chinese automakers to enter the US market in the foreseeable future.

Figure 65: US NEV sales volume forecast



Source: Marklines, CMBIGM estimates

Figure 66: US NEV market share forecast

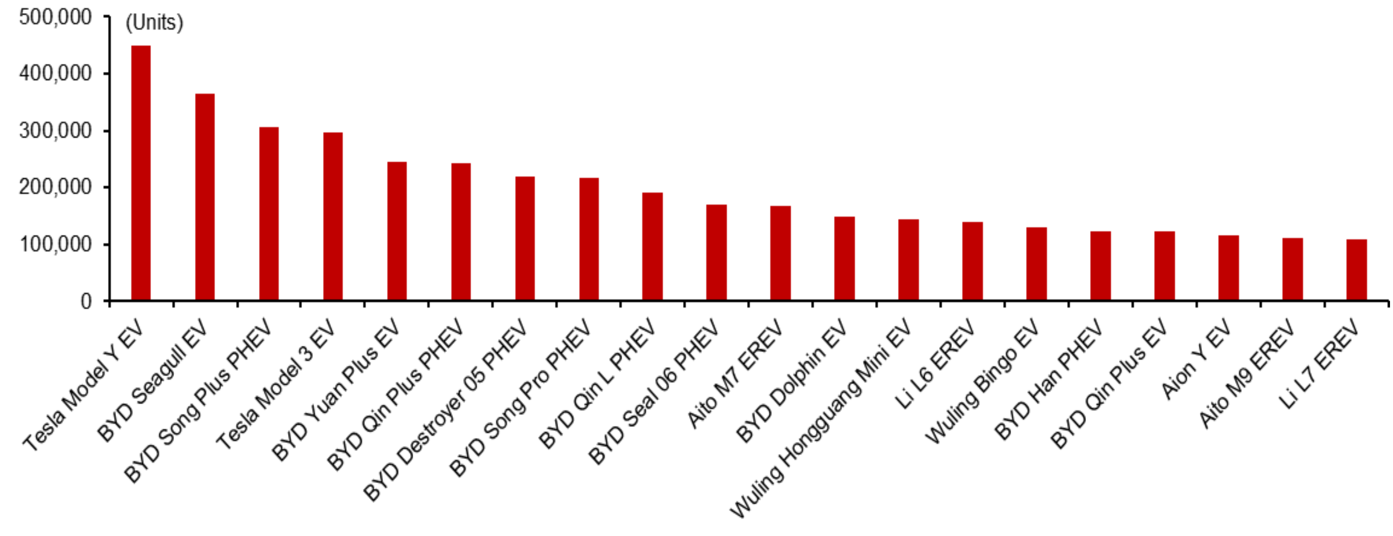


Source: Marklines, CMBIGM estimates

PHEVs to make up 45% of China's NEV wholesale volume in 2025E

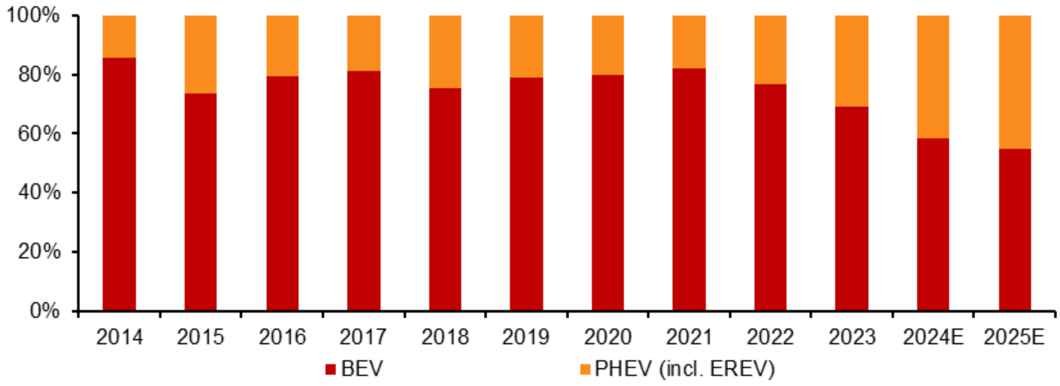
Among the top 20 best-selling NEV models (on a wholesale basis) in the first 10 months of 2024, only nine were BEVs, compared with 11 in 2023. BYD's PHEV models based on the DM-i 5.0 technology, along with EREVs from Li Auto and Aito, took up 11 spots in the top 20 list. In fact, PHEVs (including EREVs) accounted for 42% of total NEV wholesale volume in the first 10 months of 2024, up from 31% in 2023. As more automakers in China plan to launch PHEVs or EREVs from 2025 as noted earlier in the report, we project PHEVs (including EREVs) to make up 45% of total NEV wholesale volume in China in 2025E. Such ratio could reach 50% in 2026E, based on our estimates.

Figure 67: Top 20 NEV models in China in terms of wholesale volume in 10M24



Source: CAAM, CMBIGM

Figure 68: BEV and PHEV (incl. EREV) wholesale volume breakdown in China



Source: CAAM, CMBIGM estimates

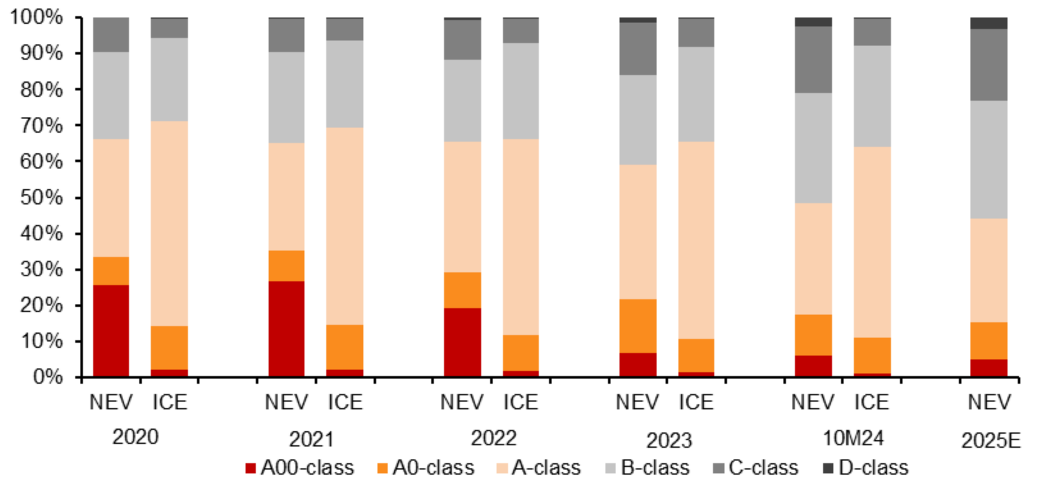
NEVs are still getting larger in China as vehicle prices drop

Although such trend has become apparent since 2022 when sales of mini-size BEVs started to fall sharply, it has not ended yet. The chassis flexibility by NEVs makes them easier to provide longer wheelbase to satisfy Chinese consumers' preference for lengthy legroom.

Among the top 20 best-selling NEV models (on a wholesale basis) in the first 10 months of 2024, nine models are B-class or above (medium size or above), vs. 7 in 2023. In fact, market share for B-class and C-class NEVs both rose 5.1ppts in the past 12 months (on a wholesale basis), the most among all the vehicle sizes. The market share for A-class (compact size) NEVs fell the most by 7.7ppts in the past 12 months. NEVs with medium size or above made up 51.5% of total NEV wholesale volume in China in the first 10 months of 2024.

We project B-class NEVs to account for 33% of total NEV wholesale volume in China in 2025E, the highest ratio among all the vehicle sizes. We also project NEVs with B-Class or above to account for 56% of total NEV wholesale volume in China in 2025E.

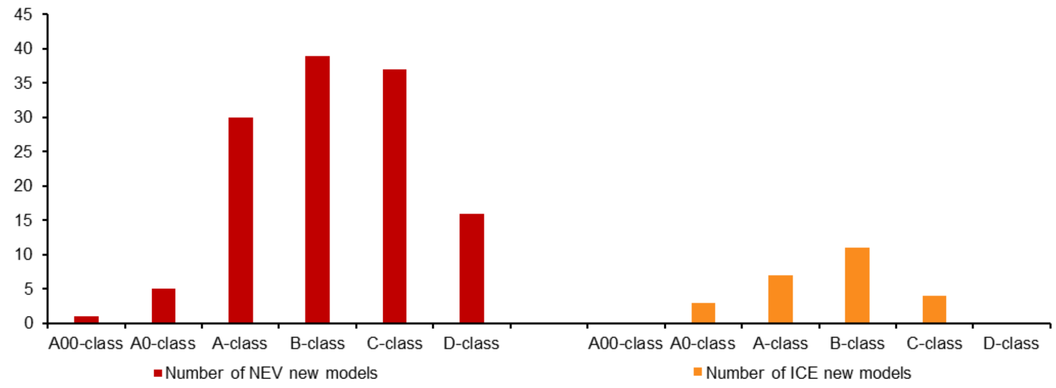
Figure 69: NEV wholesale volume breakdown by vehicle size in China



Source: CAAM, CMBIGM estimates

In both 2023 and the first 10 months of 2024, it required an average monthly sales volume of about 10,000 units to squeeze into the top 20 best-selling NEV models. There were 35 models with monthly sales volume of above 10,000 units in Oct 2024. Some of them were not in the top 20 list for the first 10 months of 2024, as they were just launched recently, such as the *Song L* PHEV, Xiaomi *SU7* EV, Zeekr *7X* EV and Xpeng *P7+* EV. These models, along with the upcoming new models including the BYD *Tang L*, Aito *M8*, Li *M8*, Xiaomi C-class SUV and Geely Galaxy B-class sedan, could support NEVs with medium size or above to outpace the segment's overall sales growth in 2025E. Meanwhile, we also project A-class NEVs' market share to narrow at a slower pace in 2025E than in 2024E, supported by models including the Geely *Galaxy E5* EV, Xpeng *Mona M03* EV and Leap *B10*.

Figure 70: New model pipeline breakdown by vehicle size in 2025E



Source: Company data, CMBIGM estimates

Chinese consumers are also buying larger size ICE models, but the shift has been much slower than NEVs, given the longer model cycle and slower price cuts. Models with B-class or above made up 35.9% of total ICE wholesale volume in China in the first 10 months of 2024, only 1.7ppts higher than a year earlier.

Value-for-money, brand image more crucial as competition continues to intensify

NEVs in China has been increasingly competitive every year and we do not expect such trends to change in 2025E. The top 20 best-selling models combined only accounted for 43% of China's total NEV wholesale volume in the first 10 months of 2024, down from 52% in 2023 and 55% in 2022. Meanwhile, the NEV pricing has become more interesting.

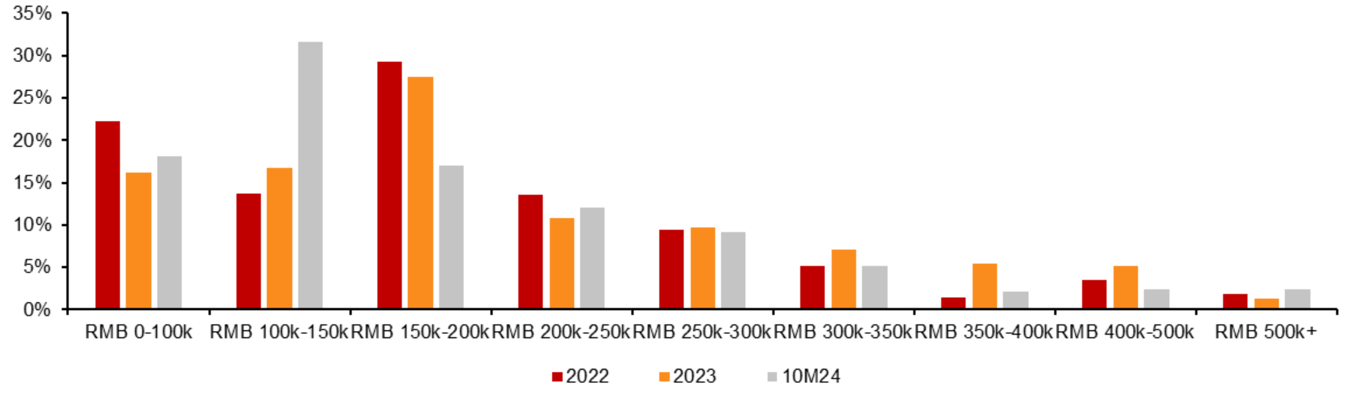
- **NEV price pattern converges with ICE; Models priced at RMB100,000-150,000 take the highest market share**

NEVs priced at RMB100,000-150,000 accounted for 32% of total NEV retail sales volume in China in the first 10 months of 2024, 14.8ppts higher than that in 2023. The huge market share jump came from declining NEV prices, led by BYD. BYD cut prices for the *Song Plus* PHEV, *Song Pro* PHEV and *Yuan Plus* EV from RMB150,000-200,000 to RMB100,000-150,000 in 2024. Others such as Aion and Geely followed suit. BYD also rolled out successful new models in 2024 including the *Qin L* PHEV and *Seal 06* PHEV which are larger than the *Qin* PHEV with a similar price range.

The price war has also lifted the market share of NEVs priced at RMB200,000-250,000 in 2024 as we had expected last year, because EV makers have lowered prices for their models which were previously priced at RMB250,000-350,000. The Tesla *Model Y* was the largest contributor to this trend. Meanwhile, retail sales volume for NEVs priced at above

RMB500,000 rose 2.6x YoY in the first 10 months of 2024, driven by the Aito *M9*. The Zeekr *009*, Li *Mega* and Yangwang *U8* also contributed to such trend, offsetting the sales declines from BMW *5-Series* PHEV, Mercedes-Benz *E Class* PHEV and Porsche *Cayenne* PHEV.

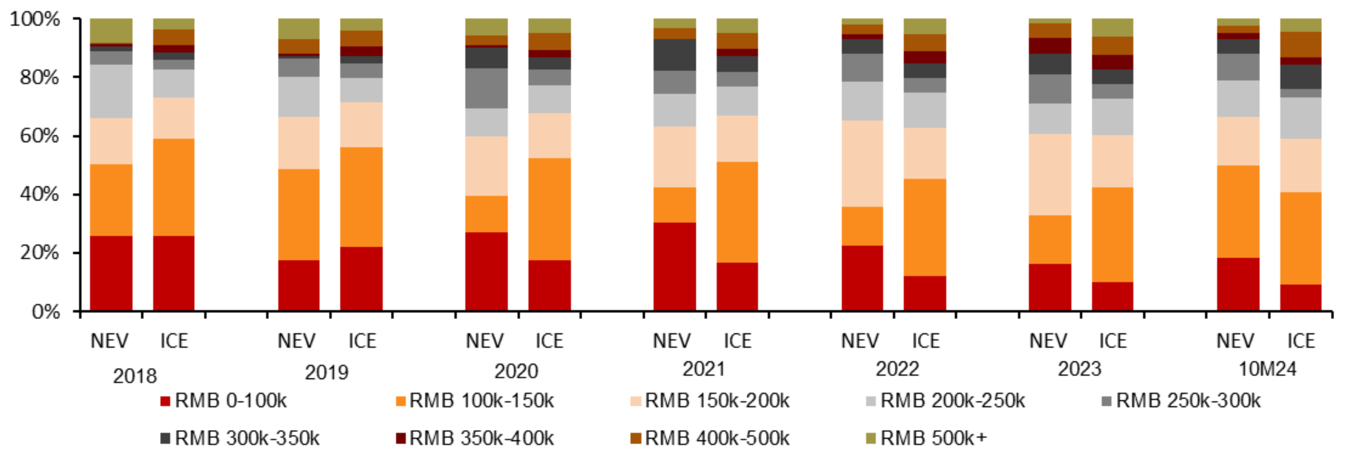
Figure 71: Comparison of NEV retail sales volume breakdown by price range in 2022-10M24



Source: CATARC, CMBIGM

Unlike 2020-21 when mini-size BEVs or premium NEVs made up the majority of sales volume or 2022 when sales volume of NEVs priced at RMB150,000-300,000 grew the fastest, the NEV price distribution patterns in 2024 are similar to ICE vehicles'. Some NEVs have been cheaper than ICE models in a sense. We no longer expect any price range to post drastic market share changes. In other words, new NEV models within any price range could become popular models. It is about value-for-money and brand image now, rather than any specific price range to target.

Figure 72: Retail sales volume breakdown by price range (NEV vs. ICE)

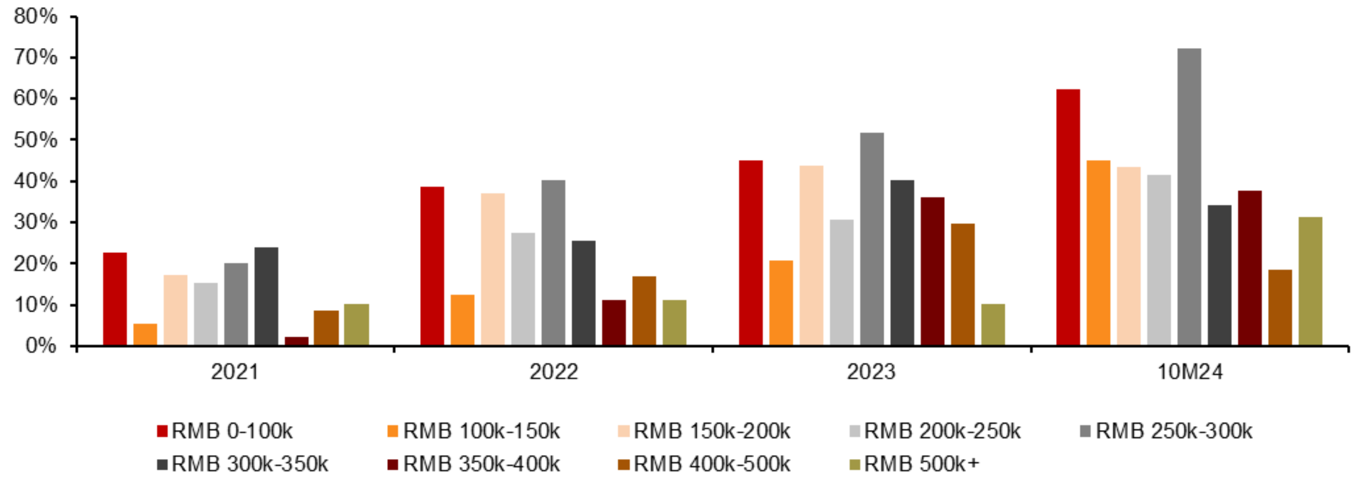


Source: CATARC, CMBIGM

■ **NEVs to take 50%+ share in all the segments priced below RMB300k in 2025E**

NEVs accounted for 72% of retail sales volume for vehicles priced at RMB250,000-300,000 in the first 10 months of 2024, in line with our forecast made in Nov 2023. However, we still underestimated the severity of the price war, as NEVs also made up 45% of retail sales volume with vehicles priced at RMB100,000-150,000 in the first 10 months of 2024, up from 21% in 2023. Meanwhile, NEV's market share growth in the price segment of RMB300,000-350,000 halted in the first 10 months of 2024 amid the price war.

Figure 73: NEV market share in each price segment (on a retail basis)



Source: CATARC, CMBIGM

As we project NEVs' overall market share to rise to 57.8% in 2025E, NEVs are likely to contribute more than 50% of sales volume in major price segments in 2025E. It once again implies that the future popular models could have diversified pricing.

Xpeng and Leapmotor probably have a deep understanding of the importance of value-for-money now. Rising sales volume will likely solidify the brand image and positioning, which again helps develop new models and thus a virtuous cycle. We are of the view that price war will continue in 2025E, as more automakers will follow suit. On the other hand, there may be limited time left for weaker NEV makers to build their brand image. Interestingly, the top 20 best-selling NEV models in 2023 belonged to seven different brands and the number was reduced to five in the first 10 months of 2024, namely BYD, Tesla, Lixiang, Aito and Wuling.

Should price war become even more severe in 2025, cost reduction capabilities, whether through economies of scale or technological innovation, would be crucial. In our view, BYD is probably the best positioned and in fact, BYD could initiate another round of price war again in 2025, as it did in 2024.

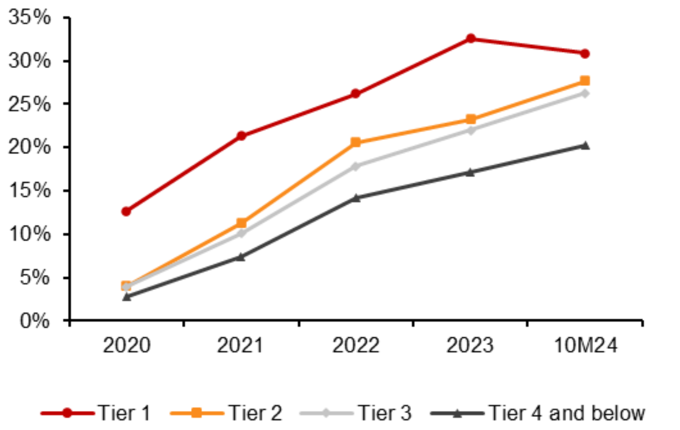
NEV sales and store efficiency analysis at city-tier level

- **Will NEV sales growth in lower-tier cities slow down when market share is above 40%?**

Tier-3 cities in China continued to see the fastest NEV sales volume growth in the first 10 months of 2024, with NEV market share there rising 12.9ppts to 45.1% in the first 10 months of 2024, up from 32.1% in 2023 on a retail basis. NEV retail sales volume in tier-2 and tier-4 and below cities also outpaced the overall NEV growth, with market share widening by 11.9ppts and 12.2ppts in the first 10 months of 2024 vs. 2023. Tier-1 cities underperformed the overall NEV market, as BEV retail sales volume declined YoY in the first 10 months of 2024.

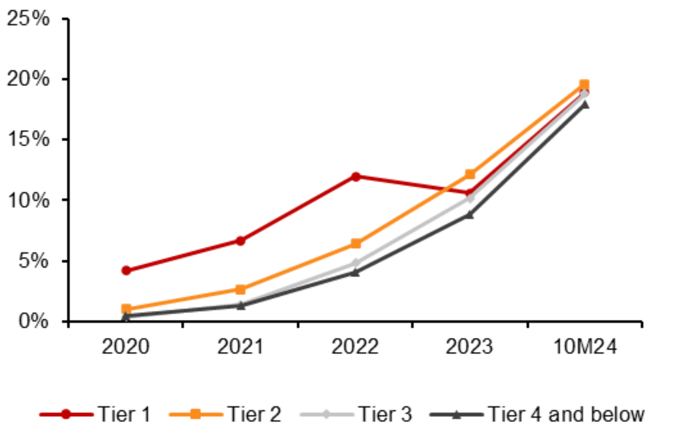
Now that NEV market share on a retail basis in China's tier-1, -2, -3 and -4 and below cities reached 49.7%/47.3%/45.1%/38.2%, respectively, in the first 10 months of 2024, we think that the question should be whether NEV sales growth in lower-tier cities is to slow down like it occurred in tier-1 cities during 2023-24, rather than which city tier is to drive sales next year. Although the sales growth rate slows down naturally to be close to the overall market when NEVs become mainstream, it is ultimately the product that determines the penetration rate and thus the growth rate in the next few years. PHEV's rapid growth in tier-1 cities in the first 10 months of 2024 could be a good example to illustrate this. It is also the continuously improving NEV products that result in stronger-than-expected NEV sales volume in 2023 and 2024, in our view.

Figure 74: BEV market share in different city tiers (on a retail basis)



Source: CATARC, CMBIGM

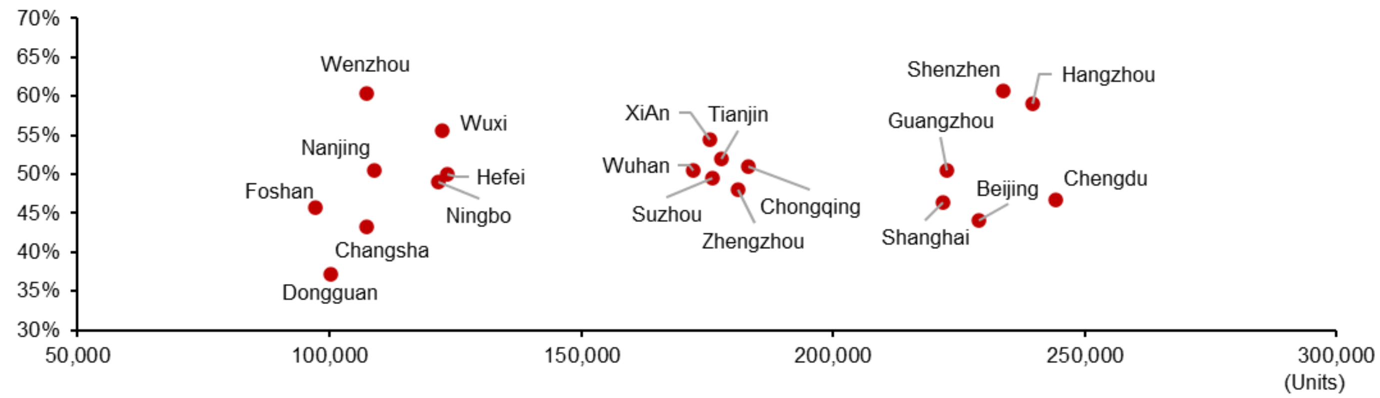
Figure 75: PHEV market share in different city tiers (on a retail basis)



Source: CATARC, CMBIGM

Among the top 20 cities in terms of NEV retail sales volume, NEV sales volume exceeded that of ICE in 10 cities in the first 10 months of 2024. The number was only one (Shenzhen) in 2023. NEVs accounted for more than 60% of total retail sales volume in Shenzhen and Wenzhou in the first 10 months of 2024. Surprisingly, NEV's market share in Shanghai fell from 49% in 2023 to 46% in the first 10 months of 2024, as BEV retail sales volume in the city fell 26% YoY in the first 10 months of 2024.

Figure 76: NEV retail sales volume in top 20 cities with corresponding NEV market share (10M24)



Source: CATARC, CMBIGM

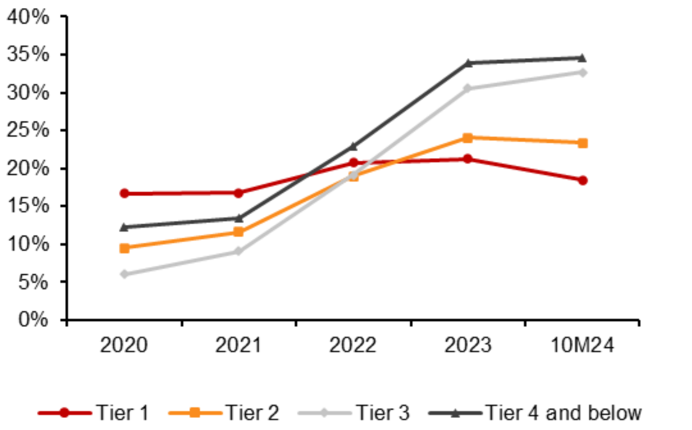
■ BYD: Benefit from lower-tier cities with comprehensive network and models

BYD (including BYD, Denza, Yangwang and Fangchengbao) maintained its largest market share in all the city tiers in China for both BEVs and PHEVs (EREVs included) in the first 10 months of 2024. It continued to gain BEV market share YoY in tier-3 and below cities, despite the high base (about 1/3 of BEVs sold in these cities were BYD), thanks to its extensive sales network in lower-tier cities and comprehensive model offerings with diverse price ranges.

BYD's PHEV market share narrowed in all the city tiers in the first 10 months of 2024, as we had expected, given its previous dominance. Its PHEV market share in tier-3 and below cities was still higher than 50%, despite sharper market share declines compared with BEVs. Chery and Aito grabbed the most market share from BYD in lower tier-cities among all its peers.

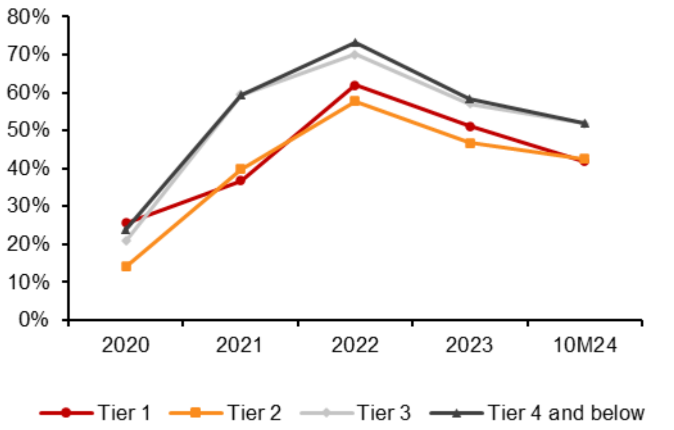
BYD's sales network (Dynasty and Ocean only, excluding Denza, Yangwang and Fangchengbao) comprised over 3,500 stores by the end of Oct 2024, about 100 higher than a year earlier. The expansion all came from lower-tier cities, resulting in 53% of its stores located in tier-3 and below cities in China as of Oct 2024. BYD's sales volume growth in lower-tier cities in 2024 was even faster than the store expansion, making the average unit sales per store in tier-3 and below cities about 50% higher than a year earlier.

Figure 77: BYD's share in the BEV market of each city tier (on a retail basis)



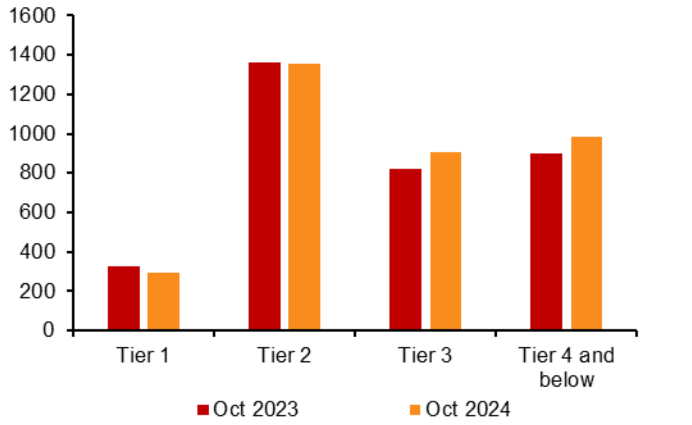
Source: CATARC, CMBIGM

Figure 78: BYD's share in the PHEV market of each city tier (on a retail basis)



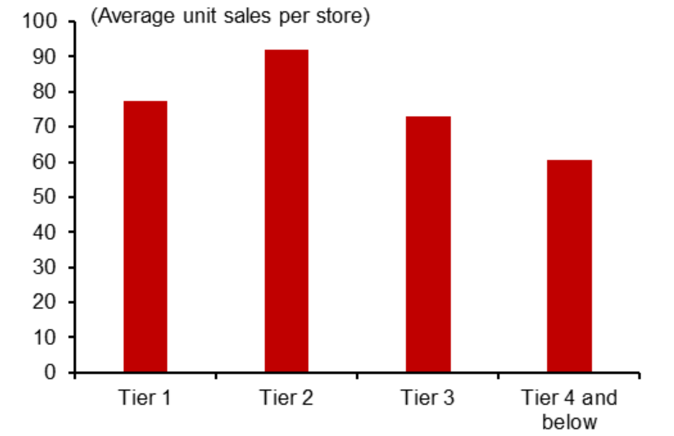
Source: CATARC, CMBIGM

Figure 79: BYD brand's number of stores in different city tiers in China



Source: Company data, CMBIGM

Figure 80: BYD brand's average monthly unit sales per store in different city tiers



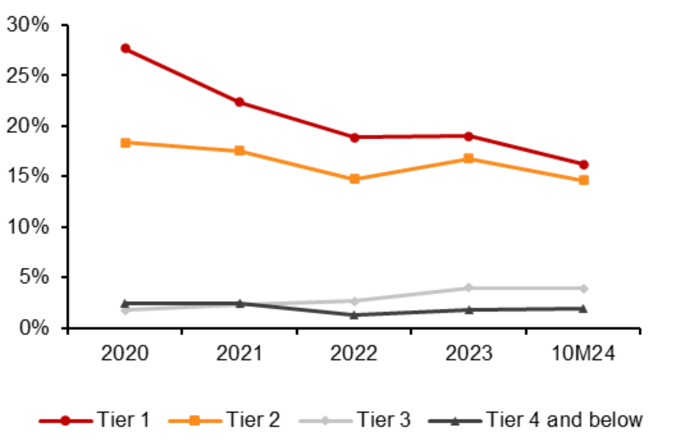
Source: CATARC, company data, CMBIGM

■ Tesla: Sales still resilient as it taps into lower-tier cities

Tesla's retail sales volume rose 8% YoY in China in the first 10 months of 2024, more resilient than we originally expected, thanks to the contribution from lower-tier cities. Tesla's retail sales volume in tier-3 and below cities surged 28% YoY in the first 10 months of 2024. Tier-3 and below cities accounted for 10% of Tesla's total retail sales volume in China in the first 10 months of 2024, up from 8% in 2023.

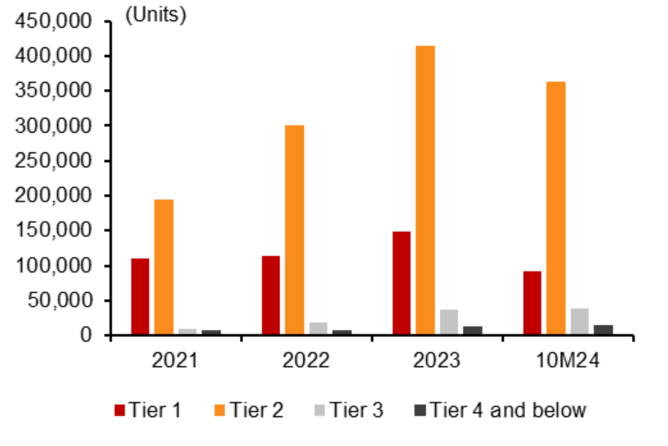
Tesla opened about 150 new stores in the past 12 months, 90 of which were in tier-2 cities. Despite that, average unit sales per store in tier-2 cities was still the highest among all the city tiers for Tesla in the first 10 months of 2024. About 56 stores were added in tier-3 and below cities in the past 12 months. Tesla also leverages digital marketing and its brand image to tap into lower-tier cities in China. Tesla still has the highest store efficiency among all the NEV brands in China, although BYD and Li Auto have been narrowing the gap.

Figure 81: Tesla's share in the BEV market of each city tier (on a retail basis)



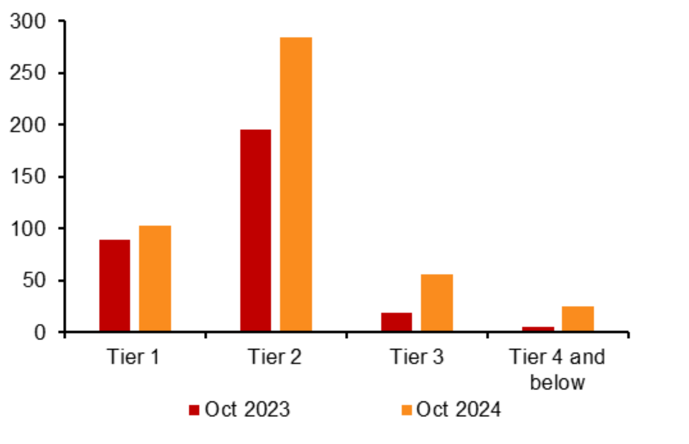
Source: CATARC, CMBIGM

Figure 82: Tesla's retail sales volume by city tier in China



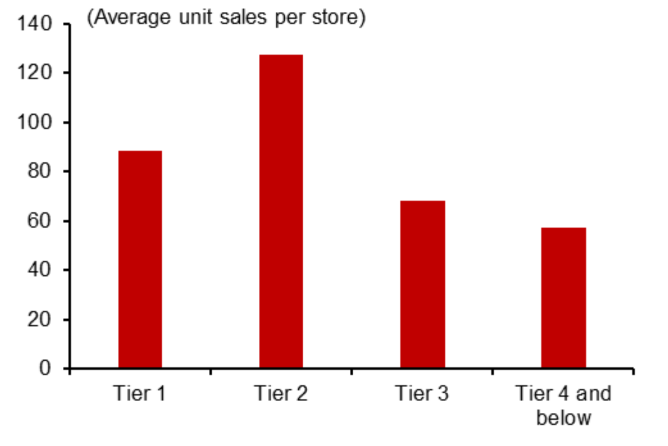
Source: CATARC, CMBIGM

Figure 83: Tesla's number of stores in different city tiers in China



Source: Company data, CMBIGM

Figure 84: Tesla's average monthly unit sales per store in different city tiers



Source: CATARC, company data, CMBIGM

- **Li Auto: *L6* has not lifted lower-tier city sales yet; BEV still key in 2025**

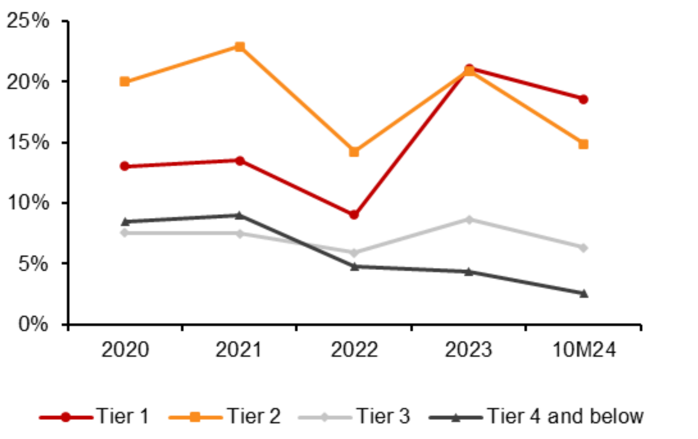
Li Auto's market share in all the city tiers fell YoY in the first 10 months of 2024, as competition has been stiffer, especially from Aito. Aito became the largest PHEV market share gainer in tier-1, -2 and -3 cities in the first 10 months of 2024. After the failure of the *Mega*, the Li *L6* became the only sales driver in 2024. The majority of the Li *L6*'s sales volume still came from tier-2 cities, with only 17% of its sales volume from tier-3 or below cities during the first seven months on sale. About 16% of the companywide sales volume came from tier-3 and below cities in the first 10 months of 2024.

Li Auto did not expand its store coverage as aggressively as it originally planned for 2024. Instead, it replaced some of its showrooms in shopping malls with larger 4S stores in order to display more models. Now Li Auto has the least number of stores among the NEV trio.

It has also been accelerating the build-out of fast charging stations to lay a foundation for the upcoming BEV models. We are of the view that new BEVs could be key to Li Auto's sales growth in 2025E, while the relevant information is still limited.

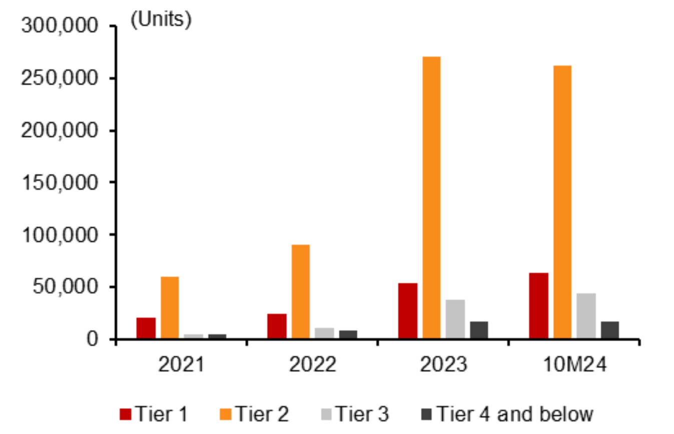
Li Auto has the highest store efficiency among all the Chinese NEV makers in China, which probably explains why it has significantly lower SG&A ratio than Xpeng and NIO.

Figure 85: Li Auto's share in the PHEV market of each city tier (on a retail basis)



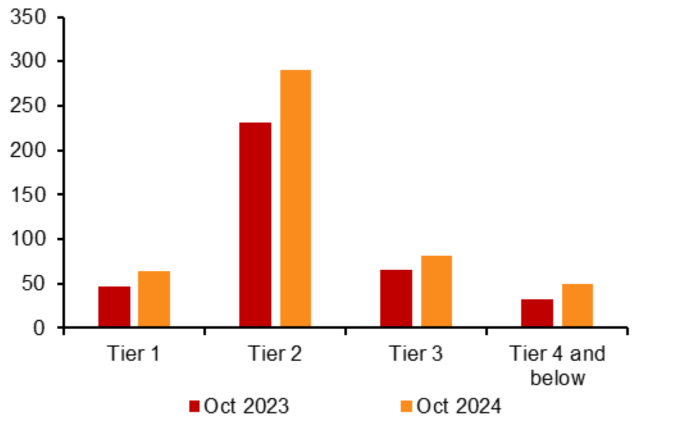
Source: CATARC, CMBIGM

Figure 86: Li Auto's retail sales volume breakdown by city tier



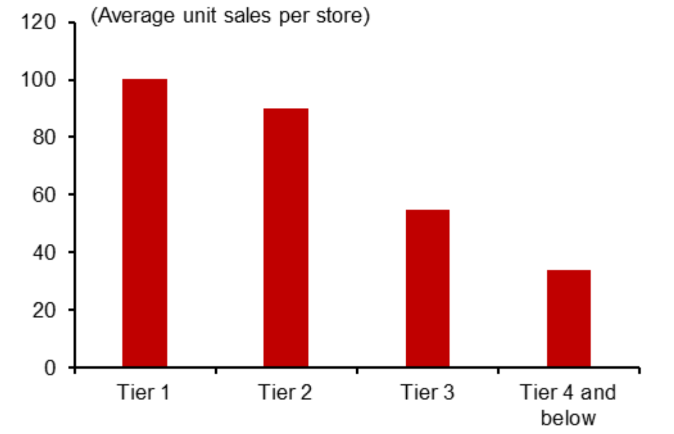
Source: CATARC, CMBIGM

Figure 87: Li Auto's number of stores in different city tiers in China



Source: Company data, CMBIGM

Figure 88: Li Auto's average monthly unit sales per store in different city tiers



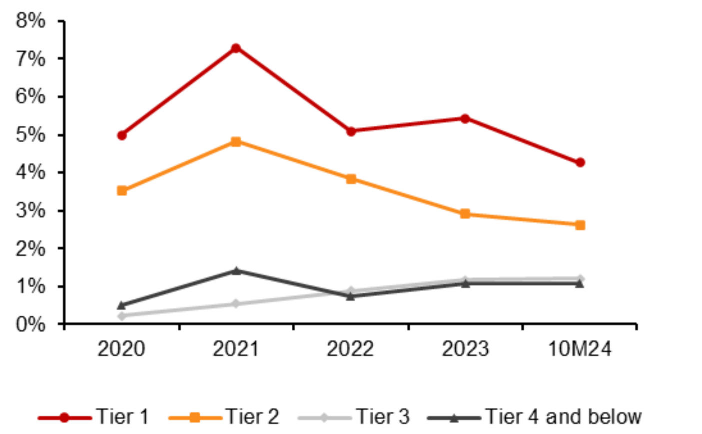
Source: CATARC, company data, CMBIGM

■ **Xpeng: *Mona M03* to support sales especially in lower-tier cities**

Xpeng managed to retain its BEV market share in tier-3 and below cities in the first 10 months of 2024 vs. 2023, with lower-priced models and sales network expansion. About 24% of the *Mona M03*'s deliveries were in tier-3 and below cities during the first two months of launch, vs. 18% companywide. We expect more sales volume to come from lower-tier cities as production ramps up.

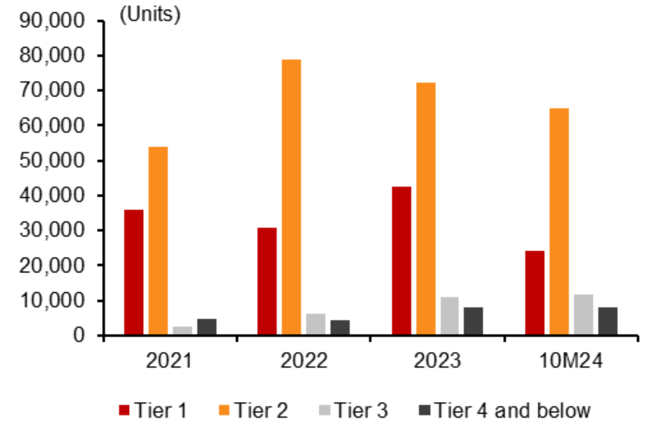
Xpeng opened about 155 new stores in the past 12 months, 96 of which were in tier-3 and below cities, which makes tier-3 and below cities account for 34% of Xpeng's total stores now (vs. 25% a year ago). Such ratio has also surpassed Li Auto's to be the highest among the NEV trio. We believe such development is consistent with Xpeng's current strategy to launch value-for-money products. Its shift to the dealership model could also lower the costs for opening stores in lower-tier cities and potentially make such process faster. Therefore, we expect a higher portion of sales and stores to come from lower-tier cities for Xpeng in China in 2025E.

Figure 89: Xpeng's share in the BEV market of each city tier (on a retail basis)



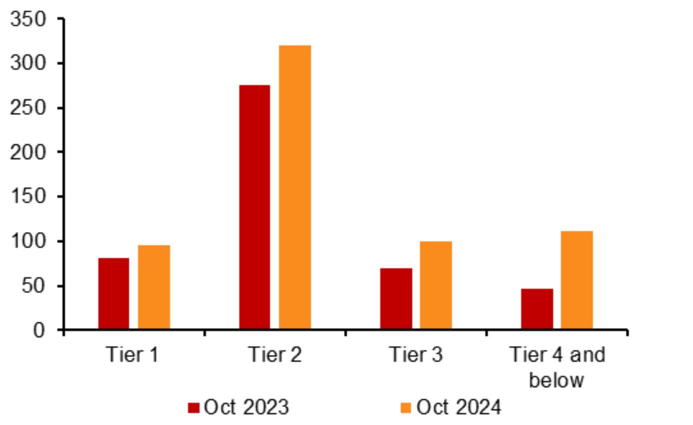
Source: CATARC, CMBIGM

Figure 90: Xpeng's retail sales volume by city tier in China



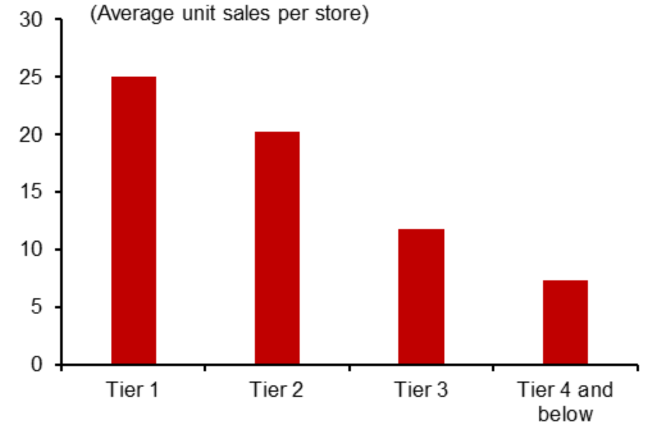
Source: CATARC, CMBIGM

Figure 91: Xpeng's number of stores in different city tiers in China



Source: Company data, CMBIGM

Figure 92: Xpeng's average monthly unit sales per store in different city tiers



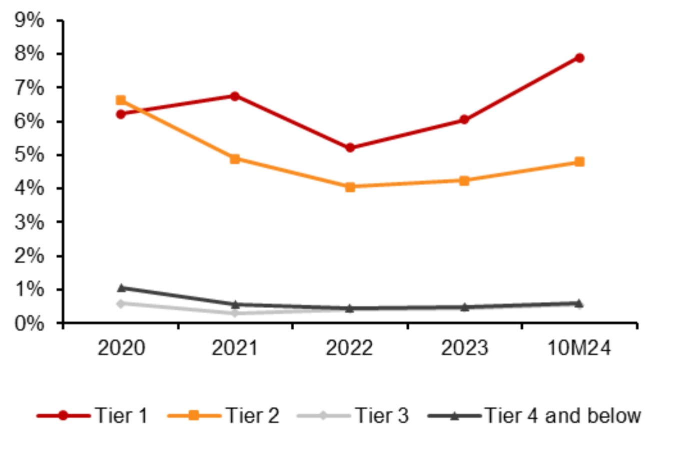
Source: CATARC, company data, CMBIGM

■ **NIO: Market share gainer in tier-1 and -2 cities; dilemma between NIO and Firefly**

Unlike many leading Chinese automakers riding on the faster NEV sales growth in lower-tier cities, NIO has been gaining market share in tier-1 and -2 cities since 2023, partially due to its better battery swap services in these cities. That could make NIO's sales more vulnerable amid macroeconomic headwinds. NIO has introduced a new brand Onvo to expand its coverage of models priced at RMB200,000-300,000. NIO has been building a separate sales network for Onvo and upgrading battery swap stations to make them compatible with Onvo models. These require quite a large amount of investments which is somewhat redundant, in our view. We also expect the sales cannibalization between NIO and Onvo to be more severe than the company expects.

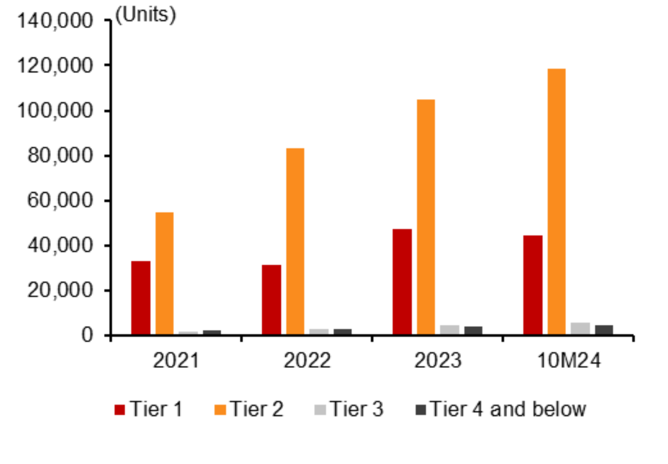
NIO plans to roll out the first model under its 3rd brand Firefly in 1H25, which will be sold through the NIO brand's network. Firefly focuses on smaller-size NEVs, similar to Smart or Mini, targeting both Chinese and overseas markets. However, NIO's lack of sales network in lower-tier cities could also curb Firefly's sales in small cities in China. That may create a dilemma for NIO and Firefly's sales network expansion, as both brands target different Chinese consumers.

Figure 93: NIO's share in the BEV market of each city tier (on a retail basis)



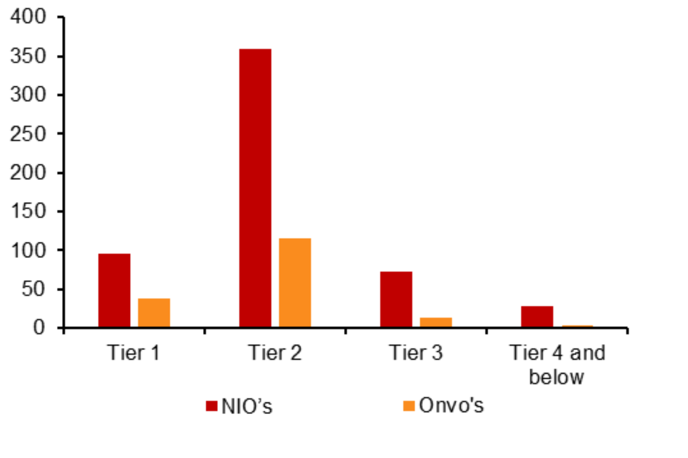
Source: CATARC, CMBIGM

Figure 94: NIO's retail sales volume by city tier in China



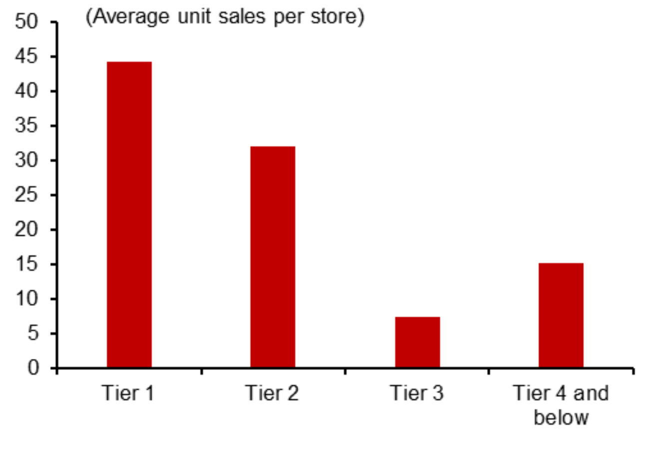
Source: CATARC, CMBIGM

Figure 95: NIO and Onvo's number of stores in different city tiers in China as of Oct 2024



Source: CATARC, company data, CMBIGM

Figure 96: NIO brand's average monthly unit sales per store in different city tiers



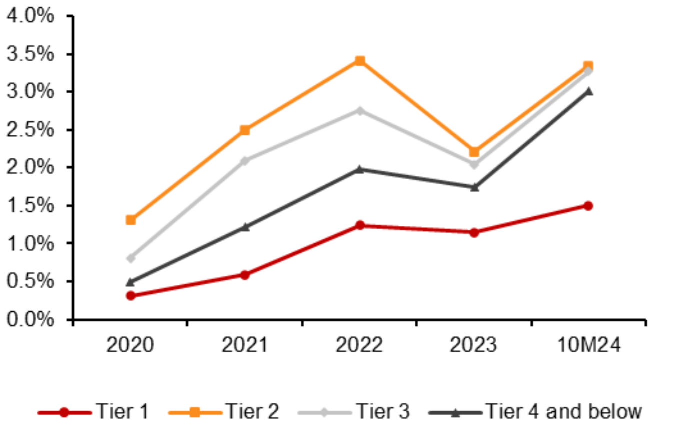
Source: CATARC, company data, CMBIGM

■ **Leapmotor: Market share gainer in all city tiers with improving store efficiency**

Leapmotor's BEV market share widened YoY in the first 10 months of 2024 in all the city tiers, as one of the only two automakers in China (the other one is Zeekr). The successful launches of the *C10* and *C16* have strengthened Leapmotor's value-for-money brand image. About 37% of retail sales volume at Leapmotor came from tier-3 and below cities in the first 10 months of 2024, the highest among all the major Chinese NEV start-ups. The upcoming B-series models could make such ratio even higher in 2025E.

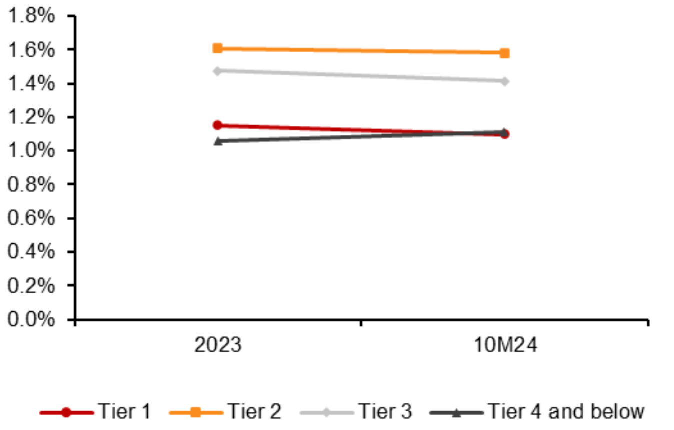
Leapmotor cut its store number by about 40 stores in the past 12 months, mainly in tier-1 and -2 cities. That made the average unit sales per store more than doubled YoY. Yet, its store efficiency still trails that of BYD, Tesla and Li Auto.

Figure 97: Leap's share in the BEV market of each city tier (on a retail basis)



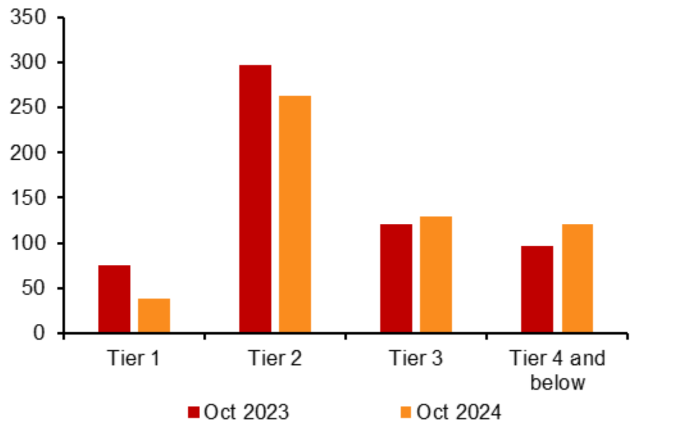
Source: CATARC, CMBIGM

Figure 98: Leap's share in the PHEV market of each city tier (on a retail basis)



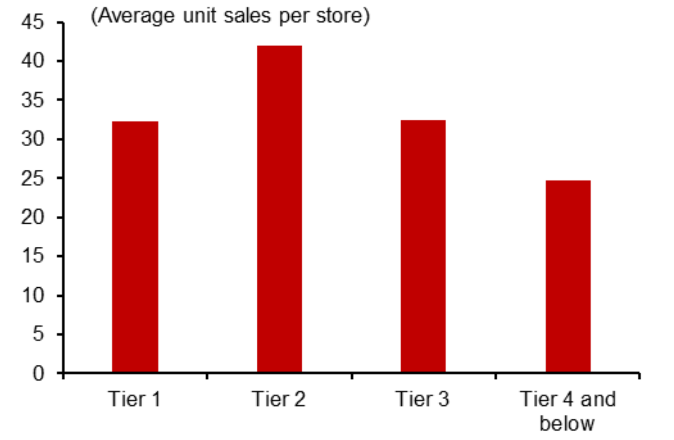
Source: CATARC, CMBIGM

Figure 99: Leap's number of stores in different city tiers in China



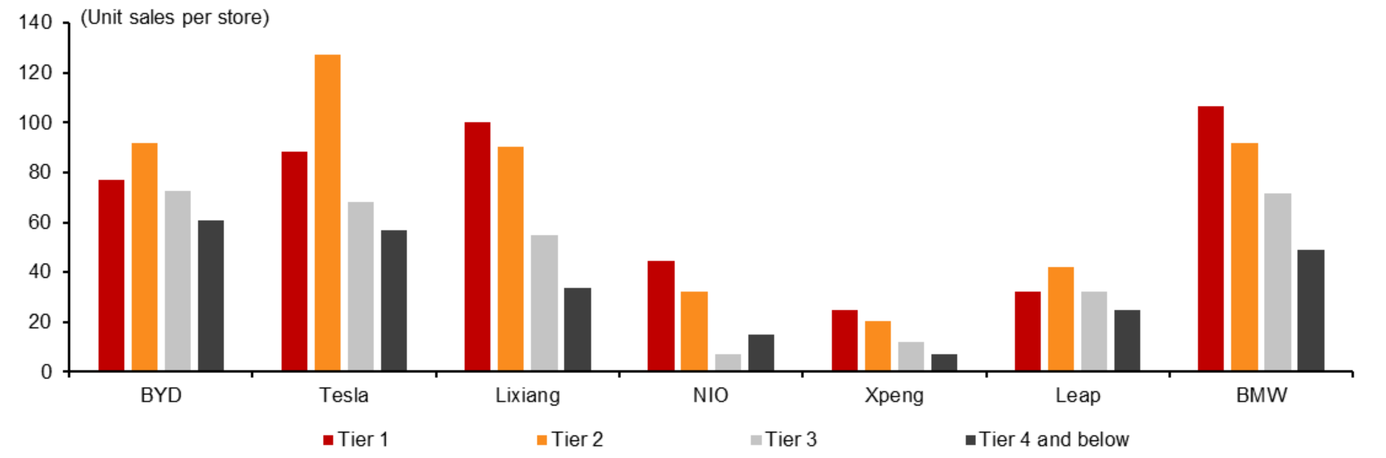
Source: CATARC, company data, CMBIGM

Figure 100: Leap's average monthly unit sales per store in different city tiers



Source: CATARC, company data, CMBIGM

Figure 101: Monthly unit sales per store on average for different brands in different city tiers (10M24)



Source: CATARC, company data, CMBIGM

Valuation

Figure 102: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Upside/ Downside	Mkt. Cap (US$ mn)	P/E (x) FY24E	P/E (x) FY25E	P/B (x) FY24E	P/B (x) FY25E	ROE (%) FY24E	ROE (%) FY25E
LI Auto	LI US	BUY	30.0	22.7	32.2%	24,085	19.8	13.3	1.2	0.9	13.4	16.7
LI Auto	2015 HK	BUY	117.0	87.9	33.1%	23,949	19.7	13.2	1.2	0.9	13.4	16.7
NIO	NIO US	HOLD	5.0	4.6	8.7%	9,684	N/A	N/A	1.1	0.7	(131.3)	(382.4)
NIO	9866 HK	HOLD	39.0	37.1	5.1%	9,947	N/A	N/A	1.1	0.7	(131.3)	(382.4)
Xpeng	XPEV US	BUY	16.0	12.7	26.0%	12,050	N/A	N/A	2.2	1.2	(18.0)	(7.6)
Xpeng	9868 HK	BUY	62.4	50.0	24.8%	12,199	N/A	N/A	2.2	1.2	(18.0)	(7.6)
Tesla	TSLA US	NR	N/A	351.4	N/A	1,128,079	136.6	98.6	11.3	9.7	11.4	13.1
						Average	**58.7**	**41.7**	**2.9**	**2.2**	**(37.2)**	**(104.8)**

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Upside/ Downside	Mkt. Cap (RMB mn)	P/E (x) FY24E	P/E (x) FY25E	P/B (x) FY24E	P/B (x) FY25E	ROE (%) FY24E	ROE (%) FY25E
Geely	175 HK	BUY	19.0	14.5	31.0%	136,048	8.2	10.9	0.6	0.5	19.3	12.9
Great Wall	2333 HK	BUY	17.0	13.1	29.8%	104,610	8.2	7.5	0.5	0.4	17.3	16.7
Great Wall	601633 CH	BUY	35.0	27.1	29.2%	231,812	18.2	16.5	1.1	1.0	17.3	16.7
GAC	2238 HK	BUY	3.3	3.3	0.0%	31,913	N/A	247.7	0.3	0.3	(0.4)	0.1
GAC	601238 CH	BUY	10.0	10.1	-1.0%	104,130	N/A	808.1	1.0	1.0	(0.4)	0.1
BYD	1211 HK	BUY	350.0	260.4	34.4%	707,747	19.6	14.9	1.0	0.8	23.6	25.5
BYD	002594 CH	BUY	382.0	280.0	36.4%	814,536	22.6	17.1	1.1	1.0	23.6	25.5
Leapmotor	9863 HK	BUY	40.0	27.9	43.4%	29,099	N/A	N/A	1.0	0.7	(32.2)	(28.5)
Yongda	3669 HK	BUY	1.8	2.0	-10.0%	3,588	14.4	7.0	0.1	0.1	1.8	3.6
Meidong	1268 HK	BUY	2.8	2.2	27.3%	2,729	22.4	7.1	0.1	0.1	2.3	7.1
Tuhu	9690 HK	BUY	26.0	21.5	20.9%	15,028	23.7	14.6	1.0	0.9	13.4	18.4
Minth	425 HK	BUY	21.0	13.3	57.9%	14,274	6.1	5.4	0.6	0.5	11.9	12.3
EVA	838 HK	BUY	1.4	0.7	100.0%	1,090	4.5	3.9	0.2	0.2	8.4	9.1
						Average	**14.8**	**96.7**	**0.7**	**0.6**	**8.2**	**9.2**

Source: Bloomberg, CMBIGM estimates; Note: Market data as of 4 Dec 2024

China Healthcare

OUTPERFORM

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Improving Macro Environment Enhances Prospects for Valuation Restoration

Expect rerating of the healthcare sector in 2025E

Since July 2021, the MSCI China Healthcare Index has accumulated a decline of 69.0%, making the sector's valuations attractive. Benefiting from overseas interest rate cuts and improvements in the domestic macroeconomic environment, healthcare, as a highly elastic sector, is expected to outperform the market. We believe that the revenue and expenditure of the medical insurance fund and healthcare consumption are closely related to the macroeconomy. As policy focus shifts towards stimulating the economy, we anticipate an acceleration in the implementation of medical equipment renewal policies. The medical insurance fund will continue to support innovative drugs, while commercial insurance is expected to increase coverage for high-cost innovative drugs/devices. The CXO sector is likely to benefit from the recovery in overseas R&D demand.

Robust growth in medical insurance fund expenditure

China's medical insurance fund expenditures have grown robustly, and fund regulation has become stricter. In 2023, due to the recovery in medical demand post-pandemic, expenditures from the basic medical insurance fund (including maternity insurance) increased significantly by 14.7% YoY (compared to a 2.4% YoY increase in 2022). The growth of fund expenditures in 2023 exceeded that of income, with fund revenue increasing by 8.3% YoY (compared to a 7.7% YoY increase in 2022). Consequently, the annual surplus of the national basic medical insurance fund decreased to RMB3.4tn, and the ratio of annual surplus to annual expenditure dropped from 1.7 in 2022 to 1.2 in 2023.

From January to October 2024, the accumulative revenue of the basic medical insurance (including maternity insurance) pooling fund grew by 8.9% YoY, which was largely consistent with the growth of expenditures. This has resulted in a positive growth in the accumulative surplus of the basic medical insurance fund (including maternity insurance). Due to the long-term trend of an aging population, medical demand is relatively inelastic, and we anticipate that medical insurance expenditures will continue to grow.

Against the increasing pressure on medical insurance fund payouts, regulation of the medical insurance fund has become more stringent, as manifested in several key areas: 1) intensifying the crackdown on fraud activities, which includes fraudulent behaviors across pharmacies, medical institutions, and pharmaceutical companies; 2) Combating illegal activities in drug marketing, such as the issuance of fake invoices for drug rebates; 3) Price regulation on drugs, medical consumables, and medical services.

Innovative drugs are flourishing overseas

Due to sluggish growth in the domestic drug market, Chinese companies are increasingly looking to expand in the global market. Chinese innovative drugs have made significant progress in the international market. Among the Chinese innovative drugs that have been successfully commercialized in Europe and America, Zanubrutinib (a BTK inhibitor), Carvykti (BCMA CAR-T), and Fruquintinib (VDGFR1/2/3 inhibitor) have shown excellent sales performance. Zanubrutinib achieved global sales of US$1.82bn in 9M24, a year-over-year increase of 107%. Carvykti reached global sales of US$570mn in the same period, marking a 74% increase year-over-year. Fruquintinib was approved in the US in Nov 2023 and recorded approximately US$200mn in sales in the US during 9M24.

Out-licensing and mergers and acquisitions (M&A) are the main methods for Chinese innovative drugs to enter the international market, with a significant global transaction market size. According to IQVIA, the total transaction value of all M&As in the global healthcare sector (including contingent consideration) was US$198bn in 2023, an increase of 37% year-over-year. During the same period, the number of M&A transactions decreased by 27%, indicating that the average transaction size increased by about 64%. In parallel, the potential total value of licensing transactions in the global healthcare sector was US$157.4bn in 2023, remaining roughly stable compared with 2022, while the average amount per licensing deal in 2023 increased by 7%.

In 2023, the total upfront payment amount for the out-licensing of Chinese innovative drugs reached US$3.5bn (+42% YoY), with the total transaction value amounting to US$42.1bn (+52% YoY), and the number of transactions reached 106 (+51% YoY). From Jan to Nov 2024, there were 101 out-licensing transactions for Chinese innovative drugs, nearly matching the total number for full-year 2023. The disclosed total transaction value reached US$45.6bn, and the total upfront payments reached US$3.8bn, both surpassing the full-year levels in 2023.

Additionally, the approaches for Chinese innovative drugs to expand internationally have become more diverse. From Jan to Nov 2024, there were five major acquisition events involving Chinese companies, including Genmab's acquisition of ProfoundBio (US$1.8bn), BioNTech's acquisition of Biotheus (US$950mn), Nuvation Bio's acquisition of AnHeart, OncoC4's acquisition of AcroImmune , and Novartis' acquisition of SanReno. In 2024, there were also multiple cases of NewCo formations facilitating the overseas expansion of Chinese innovative drugs, with companies like Hengrui, Keymed, Genor Biopharma, and EpimAb, successfully using NewCo structures for international market entry.

We believe that in the coming years, out-licensing will continue to dominate the international expansion of Chinese innovative drugs. Additionally, NewCo formations and M&As will continue to emerge as significant methods for entering the overseas markets.

CXO sector approaching an inflection point

According to data from VBDATA, global pharmaceutical and healthcare funding has significantly decreased since 2022, but there has been a stabilizing trend starting this year. In the first three quarters of 2024, the total global healthcare funding was US$45.5bn, a slight increase of 0.7% YoY, marking a significant recovery compared to the declines of 43%/ 21% in 2022/2023, respectively. On September 18, 2024, the US Federal Reserve announced a reduction in the federal funds rate target range by 50 basis points. Since then, we have noted a rapid rebound in global medical and healthcare financing, with monthly financing amount in September showing a substantial month-over-month increase of 141% to reach the highest monthly financing amount since February 2024. Therefore, we expect that, as the US initiates the rate-cutting cycle, the global healthcare funding will continue to grow, which is anticipated to drive a rebound in global pharmaceutical R&D demand, particularly for early-stage R&D needs.

In addition to healthcare financing, pharmaceutical companies' R&D investments are also a crucial source of funding for global pharmaceutical R&D activities. Major pharmaceutical companies remain the primary source of investment in global pharmaceutical R&D. Historical data shows that R&D spending by these large pharmaceutical companies has continued to grow. We have compiled the R&D expenses of 20 representative MNC pharmaceutical companies, which totaled US$167.7bn in 2023, representing a YoY increase of 19.5%, significantly higher than the 4.8% CAGR from 2010 to 2023. Although the R&D investments of these large pharmaceutical companies, influenced by the Inflation Reduction Act (IRA) and a slowdown in drug sales following the COVID-19 pandemic, saw a 2.9% YoY decrease in 1H24 compared to the same period last year, the absolute R&D expenditure still far exceeds that of biotech companies. This substantial investment can effectively hedge against the fluctuations in biotech funding caused by macroeconomic factors and serve as a bedrock for global pharmaceutical innovations.

Medical equipment tendering shows signs of recovery

In 2024, the Chinese medical device market is under pressure. According to IQVIA, the market size of medical devices in China in 9M24 decreased by 2.4% YoY. The ongoing anti-corruption campaign in the healthcare industry has led to a decline in the use of non-essential clinical products and high-cost, low-value consumables. The implementation of DRG2.0 and cost control measures for health insurance funds has further restricted the use of medical consumables, particularly those not included in volume-based procurement (VBP) programs. Medical equipment has been negatively impacted by stringent industry regulations and delays in equipment renewal projects, leading to a strong wait-and-see attitude in hospital equipment procurement and a reduction in procurement activities. Meanwhile, equipment related to critical and emergency care experienced low demand following the post-pandemic release of pent-up needs. Additionally, the subsidized loan policy in 2022 was implemented from late 2022 to early 2023, which advanced the release of demand and negatively impacted the performance of medical equipment market in 1H24. According to IQVIA, the market size of medical devices in China in 9M24 decreased by 15.6% YoY.

Nationwide procurement activities show signs of recovery. According to MDDI (医装数胜), as of September 25, more than 1,000 medical equipment renewal projects have been approved nationwide, with a total budget over RMB41.2bn. Primary products included ultrasound, CT, MR, DSA, and DR. Since August, multiple provinces announced procurement intentions. According to Joinchain (众成数科), as of November 17, the total budget for procurement intentions related to medical equipment renewal projects has reached RMB17.7bn.

A large number of medical equipment renewal projects were initiated and gradually entered the bidding stage from October. According to Joinchain, the number of procurement projects and announced budget amounts for medical equipment renewals began to increase rapidly starting from week 40 (September 30). As of November 17, the total budget disclosed for procurement projects related to medical equipment renewals reached RMB4.8bn. Joinchain estimated that the cycle from intention to procurement generally spans 2-3 months. We anticipate that orders related to medical equipment renewals will be finalized from 4Q24 to 1H25E, driving the recovery of medical equipment market in China.

Considering the low base for medical equipment companies in 2024, we expect these companies to demonstrate strong earnings recovery resilience in 2025E.

Valuation

Figure 1: China healthcare valuation comps

Company	Ticker	Rating	Mkt Cap （US$mn）	Price （LC）	TP （LC）	Upside/ Downside	P/E (x) FY25E	FY26E	P/B (x) FY25E	FY26E	ROE (%) FY25E	FY26E
Medical service												
Jinxin Fertility	1951 HK	BUY	1,044	2.96	3.33	13%	15.6	13.5	0.7	0.7	4.5	5.0
Aier Eye Hospital	300015 CH	NR	18,486	14.41	N/A	N/A	35.0	27.4	5.5	4.8	18.4	18.4
Hygeia Healthcare	6078 HK	NR	1,252	15.58	N/A	N/A	9.5	7.8	1.2	1.0	12.8	13.3
Gushengtang Hold	2273 HK	BUY	1,025	33.05	56.50	71%	15.6	11.9	2.5	2.1	16.3	18.2
C-Mer Eye Care	3309 HK	NR	318	2.96	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
			Average				**18.9**	**15.2**	**2.4**	**2.1**	**13.0**	**13.7**
Biotech												
Innovent	1801 HK	BUY	7,923	37.65	55.21	47%	308.5	37.0	4.6	4.1	1.4	10.7
Hutchmed	13 HK	BUY	2,973	26.55	35.61	34%	59.8	19.4	4.1	3.4	5.1	14.1
Innocare	9969 HK	BUY	1,814	6.67	9.07	36%	N/A	N/A	1.8	2.0	(7.1)	(5.0)
Beigene	BGNE US	BUY	22,113	199.09	276.02	39%	3,263.8	44.1	7.0	5.7	2.4	15.1
Shanghai Junshi	1877 HK	NR	3,611	13.12	N/A	N/A	N/A	N/A	2.2	2.0	(10.5)	0.6
Zai Lab	ZLAB US	NR	3,075	28.31	N/A	N/A	N/A	N/A	8.7	4.3	(43.2)	0.5
Remegen	9995 HK	BUY	2,226	16.92	21.09	25%	N/A	N/A	4.6	5.3	(55.3)	(43.6)
			Average				**1,210.7**	**33.5**	**4.7**	**3.8**	**(15.3)**	**(1.1)**
CXO												
Wuxi Apptec	603259 CH	BUY	20,264	51.64	72.37	40%	14.0	12.5	2.1	1.9	15.7	15.6
Pharmaron	300759 CH	NR	6,139	27.46	N/A	N/A	25.4	21.6	3.1	2.7	12.4	12.8
Asymchem	002821 CH	NR	3,904	79.59	N/A	N/A	23.0	18.4	1.5	1.4	6.7	7.7
			Average				**20.8**	**17.5**	**2.2**	**2.0**	**11.6**	**12.0**
Medical device												
INT Medical	1501 HK	BUY	616	27.25	35.04	29%	N/A	N/A	N/A	N/A	N/A	N/A
Microport	853 HK	NR	1,376	5.80	N/A	N/A	N/A	124.2	1.8	1.8	(10.3)	(14.8)
MedBot	2252 HK	NR	1,021	8.18	N/A	N/A	N/A	177.7	N/A	N/A	(45.9)	9.1
Weigao Group	1066 HK	NR	2,830	4.87	N/A	N/A	9.1	8.4	0.8	0.7	9.2	9.1
Mindray	300760 CH	BUY	42,705	256.09	328.81	28%	20.0	17.0	6.1	5.1	32.6	32.0
United Imaging	688271 CH	BUY	15,870	140.00	162.81	16%	50.6	40.1	4.9	4.4	10.1	11.5
			Average				**26.5**	**73.5**	**3.4**	**3.0**	**(0.9)**	**9.4**
Pharma												
CSPC Pharm	1093 HK	BUY	7,408	4.93	5.97	21%	9.8	9.0	1.3	1.2	14.0	13.8
Jiangsu Hengrui	600276 CH	NR	42,903	48.90	N/A	N/A	47.2	39.7	6.2	5.5	13.4	14.2
Sino Biopharm	1177 HK	NR	7,798	3.23	N/A	N/A	17.5	15.3	1.7	1.6	9.0	9.7
Hansoh	3692 HK	NR	14,383	18.86	24.11	28%	27.2	24.0	3.2	2.9	12.3	12.5
3SBio	1530 HK	BUY	1,905	6.19	9.81	58%	6.3	5.8	0.8	0.7	12.7	12.5
			Average				**21.6**	**18.8**	**2.6**	**2.4**	**12.3**	**12.5**
Medical aesthetic												
IMEIK	300896 CH	NR	8,652	208.00	N/A	N/A	24.5	20.6	6.2	5.1	27.2	26.5
Giant Biogene	2367 HK	BUY	6,288	47.60	66.15	39%	18.1	14.7	5.7	4.4	32.9	30.9
Angelalign	6699 HK	NR	1,256	57.55	N/A	N/A	55.5	36.9	2.5	2.3	4.0	6.3
			Average				**32.7**	**24.1**	**4.8**	**3.9**	**21.4**	**21.2**

Source: Bloomberg, CMBIGM estimates (Based on the morning session closing price on December 5, 2024).

China Capital Goods

OUTPERFORM

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Emerging markets the key growth driver; China market to be stabilized

We expect Chinese construction machinery manufacturers' global expansion will continue in 2025E, with emerging markets such as the Middle East, Africa, Latin America to offer explosive growth potential across all types of machinery. In China, we expect replacement cycle together with stepped-up government stimulus will help stabilize the machinery demand, though we have yet to model aggressive assumptions. By segment, we expect excavator will achieve growth in both China and export markets in 2025E, while other machinery will likely see much better growth overseas compared with China. Our top pick is **Zoomlion (1157 HK / 000157 CH, BUY)** for its strong presence in emerging markets with a full range of product offerings. We see the start of share buyback (H-share) in Dec a good sign given the good track record of corporate actions. We upgraded **SANY Heavy (600031 CH) to BUY** on 9 Dec, due to its high proportion of revenue from excavators (~50% of segment profit) (please see our report "Riding on the up-cycle of excavator + overseas expansion"). We also like **Zhejiang Dingli's (603338 CH, BUY)** strong execution in overseas AWP market.

Potential new US tariffs to have limited impact. The market has been concerned about the uncertainties of the US tariffs in 2025. However, we believe the actual impact on Chinese construction machinery manufacturers is limited, as (1) the revenue generated in the US is not significant for the majority of Chinese players; (2) the Chinese players have contingency plans, such as producing in the US, to mitigate the potential impact.

Emerging regions to watch: Saudi Arabia has continued to achieve economic diversification through raising the contribution of non-oil industries. The construction activities brought by "Saudi Vision 2030" will continue to offer a fast-growing market for the Chinese contractors as well as machinery/HDT makers. In Africa, we expect the increase in Chinese government's funding, under the FOCAC Beijing Action Plan (2025-27), will help boost energy and infrastructure spending, offering visibility for Chinese players.

Excavator: Expect 12% YoY sales growth (domestic sales + exports) in 2025E. For exports, we forecast 15% YoY growth. In China, on the back of the beginning cycle of replacement and the recovery of medium-to-large size excavators, we forecast domestic sales of excavators to grow 10% YoY.

HDT: Expect 10% YoY growth (domestic sales + exports) in 2025E. We think the potential extension of the equipment replacement policy to NES IV trucks will be the key to boosting HDT demand, given the much larger fleet size (~30% of total fleet size of HDTs) compared with NES III. We have already seen some provinces taking initiatives to offer subsidies for the replacement of NES IV trucks in 2024, and we expect more provinces to follow in 2025. We are cautious on the HDT export market as Russia, the major market for Chinese trucks, will likely see further decline due to a high base and impact of high recycling tax (starting in Oct 2024). We believe Chinese brands' growth story in Russia has already come to an end.

Valuation

Figure 1: Peers comparison

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US$ mn)	PE (x) FY24E	PE (x) FY25E	PB (x) FY24E	PB (x) FY25E	Yield (%) FY24E
Hong Kong											
631 HK Equity	SANY INTERNATIONAL	BUY	4.86	7.20	48%	2,007	7.8	6.6	1.1	1.0	3.7
1157 HK Equity	ZOOMLION HEAVY-H	BUY	5.38	6.80	26%	7,950	12.5	9.2	0.8	0.7	6.3
2338 HK Equity	WEICHAI POWER-H	BUY	11.30	17.70	57%	15,502	8.1	7.9	1.1	1.0	6.2
3808 HK Equity	SINOTRUK HK LTD	HOLD	21.75	21.40	-2%	7,716	9.8	9.1	1.3	1.2	5.1
564 HK Equity	ZHENGZHOU COAL-H	NR	10.10	-	-	3,067	4.5	4.3	0.8	0.7	8.6
	HK listed average						**8.5**	**7.4**	**1.0**	**0.9**	**6.0**
A share											
000338 CH Equity	WEICHAI POWER-A	BUY	13.60	17.90	32%	15,566	10.4	10.2	1.4	1.3	4.8
601100 CH Equity	JIANGSU HENGLI-A	BUY	54.81	64.00	17%	10,143	26.7	23.9	4.5	4.0	1.4
603338 CH Equity	ZHEJIANG DINGLI -A	BUY	62.80	75.00	19%	4,389	15.1	13.1	3.0	2.6	1.9
600031 CH Equity	SANY HEAVY-A	BUY	16.89	21.00	24%	19,756	24.0	19.5	2.0	1.9	1.7
000157 CH Equity	ZOOMLION HEAVY-A	BUY	7.03	10.50	49%	7,983	17.5	12.9	1.1	1.0	4.5
000425 CH Equity	XCMG-A	NR	7.98	-	-	13,014	14.3	11.3	1.6	1.4	2.7
000528 CH Equity	GUANGXI LIUGONG-A	NR	11.62	-	-	3,182	14.7	10.9	1.3	1.2	2.2
603638 CH Equity	YANTAI EDDIE P	NR	17.20	-	-	1,990	41.1	35.8	4.0	3.7	0.7
600761 CH Equity	ANHUI HELI CO-A	NR	18.35	-	-	2,256	11.2	9.8	1.7	1.5	3.0
603298 CH Equity	HANGCHA GROUP-A	NR	17.86	-	-	3,229	11.6	10.0	2.3	1.9	2.6
000951 CH Equity	CNHTC JINAN T-A	NR	17.11	-	-	2,774	14.3	11.5	1.3	1.2	3.6
301039 CH Equity	CIMC VEHICLES -A	NR	9.88	-	-	2,751	14.2	11.4	1.1	1.1	3.3
601717 CH Equity	ZHENGZHOU COAL-A	NR	12.98	-	-	3,080	6.2	6.0	1.1	0.9	6.2
600582 CH Equity	TIAN DI -A	NR	6.34	-	-	3,621	10.0	9.4	1.0	0.9	n/a
	A-share average						**16.5**	**14.0**	**2.0**	**1.8**	**3.1**
Overseas											
CAT US Equity	CATERPILLAR INC	NR	395.0	-	-	190,721	18.1	18.0	10.3	9.2	1.4
DE US Equity	DEERE & CO	NR	444.0	-	-	121,478	22.8	19.8	6.2	6.0	1.4
CMI US Equity	CUMMINS INC	NR	379.6	-	-	52,074	18.5	17.0	4.9	4.1	1.8
6305 JP Equity	HITACHI CONST	NR	3,489.0	-	-	4,850	8.5	8.1	0.9	0.9	4.8
6301 JP Equity	KOMATSU LTD	NR	4,119.0	-	-	25,313	10.0	9.8	1.2	1.1	4.1
042670 KS Equity	DOOSAN INFRACORE	NR	6,980.0	-	-	960	9.9	7.2	0.7	0.7	1.8
VOLVB SS Equity	VOLVO AB-B	NR	286.8	-	-	52,885	11.5	11.6	3.1	2.9	6.0
	Average						**14.2**	**13.1**	**3.9**	**3.6**	**3.0**
Hydraulic components											
PH US Equity	PARKER HANNIFIN	NR	696.2	-	-	89,610	26.1	23.7	6.4	5.7	0.9
7012 JP Equity	KAWASAKI HVY IND	NR	6,242.0	-	-	6,774	13.6	11.5	1.5	1.3	2.3
7242 JP Equity	KYB CORP	NR	2,542.0	-	-	829	n/a	n/a	n/a	n/a	n/a
6474 JP Equity	NACHI-FUJIKOSHI	NR	3,015.0	-	-	486	23.8	11.1	0.4	0.4	3.3
6268 JP Equity	NABTESCO CORP	NR	2,410.0	-	-	1,886	30.8	21.8	1.1	1.1	3.3
	Average						**23.6**	**17.0**	**2.4**	**2.1**	**2.5**
Aerial work platform											
TEX US Equity	TEREX CORP	NR	52.9	-	-	3,536	8.7	9.4	1.8	1.5	1.3
OSK US Equity	OSHKOSH CORP	NR	106.6	-	-	6,938	9.4	9.7	1.7	1.5	1.7
LNR CN Equity	LINAMAR CORP	NR	61.5	-	-	2,713	6.4	6.2	0.6	0.6	1.6
PIG FP Equity	HAULOTTE GROUP	NR	2.6	-	-	86	5.2	5.1	0.4	0.4	2.6
6345 JP Equity	AICHI CORP	NR	1,398.0	-	-	674	17.4	16.0	n/a	n/a	2.9
	Average						**9.4**	**9.3**	**1.1**	**1.0**	**2.0**

Source: Bloomberg, company data, CMBIGM estimates

Potential new tariffs in US to have limited impact on Chinese machinery makers

The market has been concerned about the uncertainties of the US tariffs in 2025. We believe the actual impact on Chinese construction machinery manufacturers should be limited, as (1) the revenue generated in the US is not significant for the majority of Chinese players; (2) the Chinese players have contingency plans to mitigate the potential impact.

Zhejaing Dingli – high exposure in the US but limited impact. The US is a key market for Dingli and we estimate 30% of total revenue generated from the US in 9M24. While any increase in tariff could affect Dingli, the impact will be mitigated given the recent reduction of anti-dumping (AD) duties by 19ppt (from 31.54% to 12.39%). In theory, Dingli will not be worse-off if the potential tariff increase is <19%. Under a worst-case scenario (i.e. increase in tariff by >19%), Dingli can upgrade the existing production base in the US to fulfil the requirement of "made in USA".

SANY Heavy – Low exposure; possible to go for localization in US. Revenue from America (including North & South America) accounted for ~10% of SANY's total machinery revenue. Given that SANY has a production plant in the US, we believe SANY can mitigate the impact of potential tariffs through expanding the local production in the US.

SANYI – 2% sales in the US. The products sold in the US are mainly logistics machinery. Going forward, SANYI can supply the US market through producing in the US and India's production bases.

Zoomlion – Currently only <1% sales in the US. The annual designed output value of Zoomlion's Mexico AWP plant is ~RMB1bn (~2% of Zoomlion total sales assuming full utilisation). Products from the Mexico plant will be supplied to both North and South America. We expect Zoomlion to shift the sales to other regions in case of any unreasonably high tariff in the US.

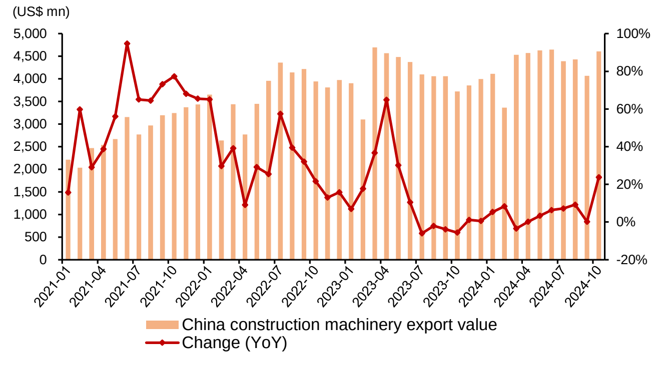
Jiangsu Hengli – Mexico plant to be hurt by potential tariffs. Hengli's new production plant in Mexico is expected to generate US$450mn (~RMB3.2bn) production value (assuming full utilization). The products will be supplied to **Caterpillar (CAT US, NR)**, a key client of Hengli, upon the commencement. We think Hengli will likely share some the burden of potential tariffs if a 25% tariff is to be imposed on Mexico by the US.

Figure 2: Overseas revenue contribution for major Chinese manufacturers

Company	Ticker	% of overseas revenue		
		2022	2023	1H24
Zhejiang Dingli	603338 CH	65%	64%	77%
SANY Heavy	600031 CH	47%	61%	62%
Zoomlion	1157 HK / 000157 CH	24%	38%	49%
Sinotruk	3808 HK	47%	36%	45%
XCMG	000425 CH	30%	40%	44%
SANY International	631 HK	27%	31%	36%
Jiangsu Hengli*	601100 CH	22%	22%	-
Weichai Power**	2338 HK / 000338 CH	54%	53%	52%

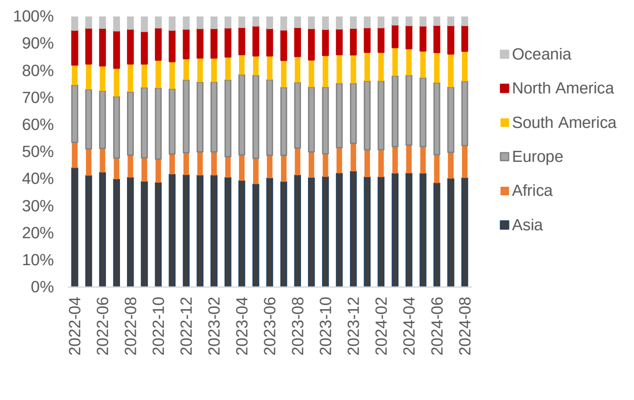
Source: Company data, CMBIGM
Note: * Certain domestic sales will become final products for export.
** Weichai owns 46.5% interest in KION (KGX GR), the major source of overseas revenue. Adjusted for KION's revenue, together with Weichai's direct and indirect export, we estimate Weichai's attributable overseas revenue accounted for 30-40% of total revenue.

Figure 3: China construction machinery export value



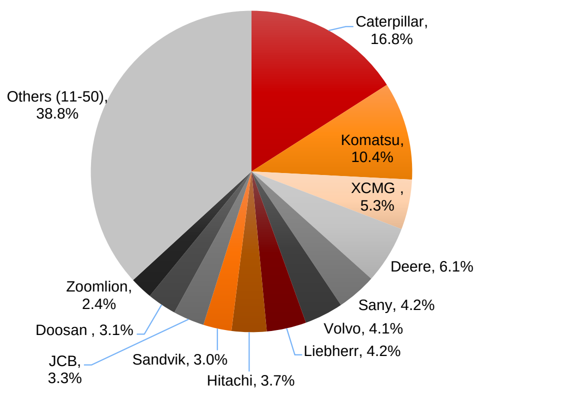
Source: Wind, CMBIGM

Figure 4: China construction machinery export value (breakdown by region)



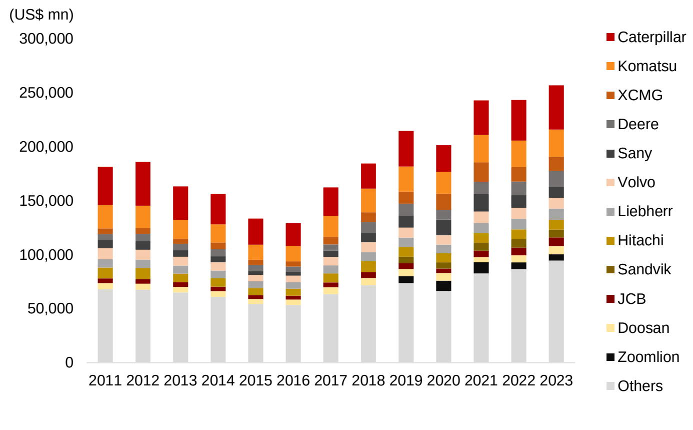
Source: Wind, CMBIGM

Figure 5: Global construction machinery market share in 2023 (by revenue)



Source: Yellow Table, CMBIGM

Figure 6: Global construction machinery revenue trend



Source: Yellow Table, CMBIGM

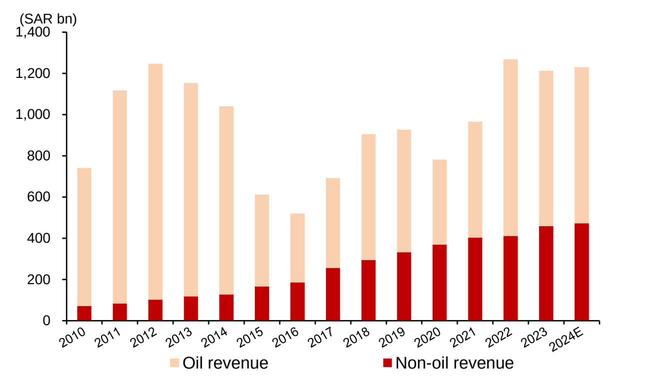
Saudi Arabia: Diversification from oil to offer opportunities for Chinese construction machinery manufacturers

Rather than rely heavily on crude oil industry in the past, Saudi Arabia has gradually diversified her source of revenue over the past couple of years. Non-oil government revenue is forecast to reach 38% of total revenue in 2024, up from 12% in 2014, according to Saudi Arabia's Ministry of Finance. In Nov 2024, Moody's upgraded Saudi Arabia's credit rating to Aa3 from A1, thanks to the country's economic diversification.

The Ministry of Finance forecasts the GDP growth to be only 0.8% in 2024E, dragged by the decline in oil price despite resilient non-oil activities. Looking ahead to 2025E, Saudi forecasts GDP growth of 4.6%, driven by resilient government spending and non-oil sectors. The budgeted expenditure in 2025 is forecast to increase 2.7% YoY to SAR 1,285bn (~US$346.95bn), with a 2.3% deficit as percentage of GDP.

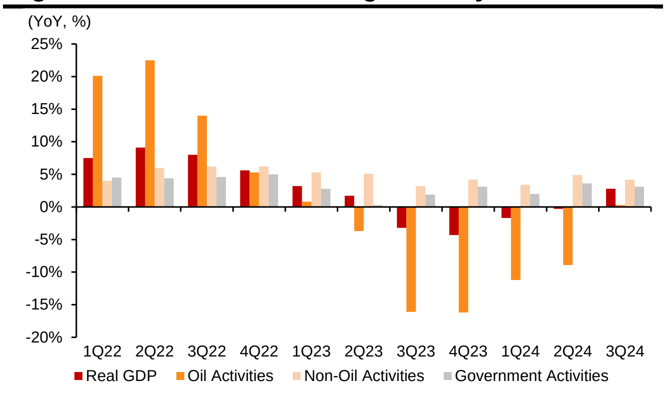
In the longer-term, the Ministry of Finance plans to maintain a budget deficit of 2%-3% intentionally for the coming years in order to support the long-term development of the non-oil sector.

Figure 7: Saudi Arabia government revenue breakdown



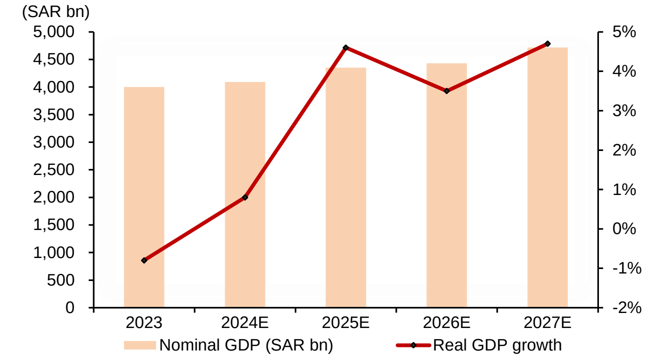
Source: Saudi Arabia Ministry of Finance, CMBIGM

Figure 8: Saudi Arabia GDP growth by sector



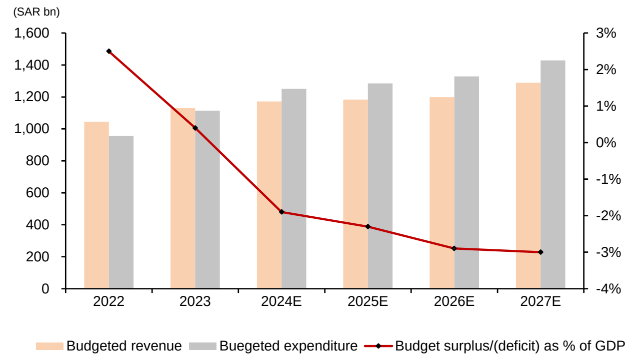
Source: Saudi Arabia General Authority for Statistics, CMBIGM

Figure 9: Saudi Arabia GDP growth estimates



Source: Saudi Arabia Ministry of Finance, CMBIGM

Figure 10: Saudi Arabia government expenditure and budget forecast



Source: Saudi Arabia Ministry of Finance, CMBIGM

Construction of giga projects underway

Under ‘Saudi Vision 2030’, the construction of Saudi Arabia’s mega projects (i.e., NEOM, Qiddiya, Red Sea Global, etc.,) is valued at US$1.3tn, according to Knight Frank. Around US$164bn worth of real estate contracts have been awarded for construction as of 2024. Among them, **China State Construction Engineering (CSCEC, 601668 CH, NR)** was awarded US$2.08bn contract for a project located in Diriyah, the kingdom’s capital city.

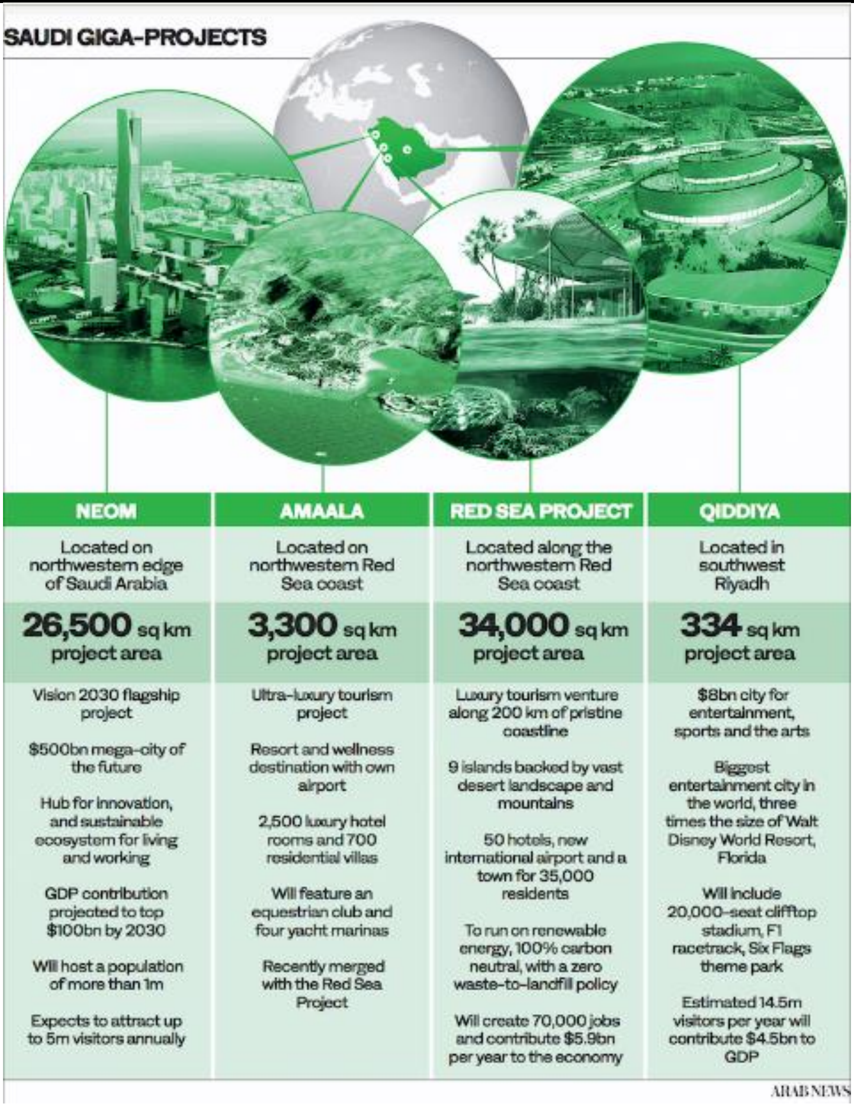
Another key focus under ‘Saudi Vision 2030’, the ‘Housing Program’, aims to build 300k housing units in 2018-2025, where CSCEC and China Machinery Engineering Corporation were both awarded a contract for the construction of 20k housing units in 2024, amounting to more than 10% of the total number of construction target. Looking forward, the kingdom expects to add another 300k units in 2025-2030 to achieve the long-term objective of 70% home ownership.

Saudi Arabia also plans to develop a new AI project, namely “Project Transcendence”. The project will be financed by the Public Investment Fund (PIF) with an amount as much as US$100bn, aiming to develop AI infrastructure and push Saudi Arabia to become a technological hub in the Middle East.

On the sports and entertainment side, Saudi Arabia is also set to hold the World Expo 2030 with a 6 million square meter site under construction. The kingdom is also planning to build 11 new football stadiums to accommodate spectators, being the host of the World Cup 2034 (3 stadiums are under construction).

All these projects will continue to offer good opportunities for Chinese construction machinery manufacturers. Zoomlion, SANY, and XCMG have been expanding their market presence in Saudi Arabia.

Figure 11: Saudi giga projects



Source: Arab News, CMBIGM

Africa: Chinese machinery players to benefit from China-Africa top level cooperation

The 2024 Forum on China-Africa Cooperation (FOCAC) marks a turning point in China's commitment to investing in and supporting Africa's development. Under the FOCAC Beijing Action Plan (2025–27), the Chinese government pledged RMB360bn (~US$49bn) of financial support to Africa—an amount notably higher than the assistance provided during the 2021 FOCAC.

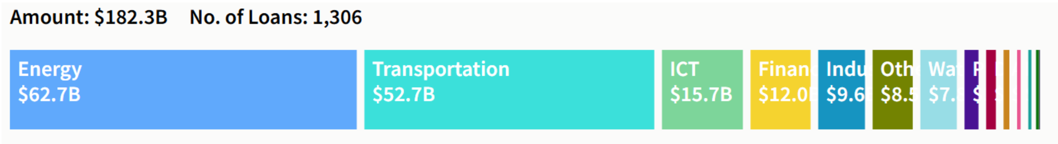
Figure 12: FOCAC financial assistance to African countries

	2018 FOCAC	2021 FOCAC	2024 FOCAC
Investment and Financial Assistance	To encourage Chinese companies to make at least US$10 billion of investment in Africa in the next three years To extend US$20 billion of credit lines and support the setting up of a US$10 billion special fund for development financing	To encourage Chinese companies to make at least US$10 billion of investment in Africa in the next three years China will provide US$10bn in credit line to African financial institutions and support the development of small and medium-sized African enterprises on a priority basis To channel to African countries US$10bn from its share of the IMF's new allocation of SDR	RMB360bn in financial commitments over three years, comprising RMB210bn in credit facilities, RMB80bn in assistance of different types, and no less than RMB70bn of investment by Chinese enterprises.
Agriculture	RMB1bn in emergency food aid		RMB1bn in emergency food aid
Trade	To set up a US$5 billion special fund for financing imports from Africa	To provide US$10bn of trade finance to support African export To reach US$300bn in total imports from Africa in the next three years	Target US$20bn in exports of African agricultural products to China by 2030
Development Cooperation	To extend US$15 billion of grants, interest-free loans and concessional loans to Africa		

Source: FOCAC, CMBIGM

Over the past two decades, China's loans predominantly supported the energy and transportation sectors, accounting for 34% and 28% of total allocations respectively, according to the Boston University Global Development Center.

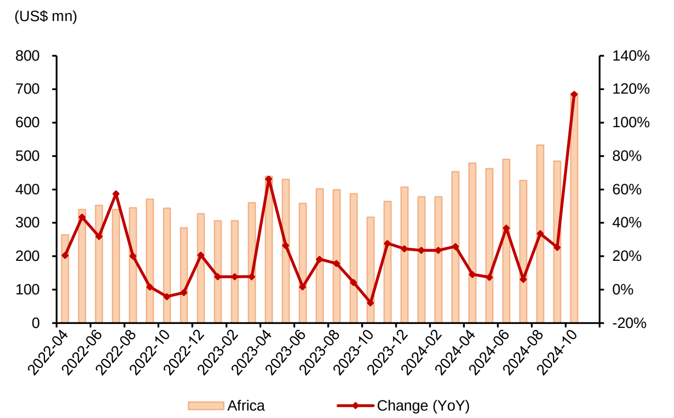
Figure 13: Chinese loans to Africa by industry (2000-2023)



Source: Boston University Global Development Policy Center, 2024, CMBIGM

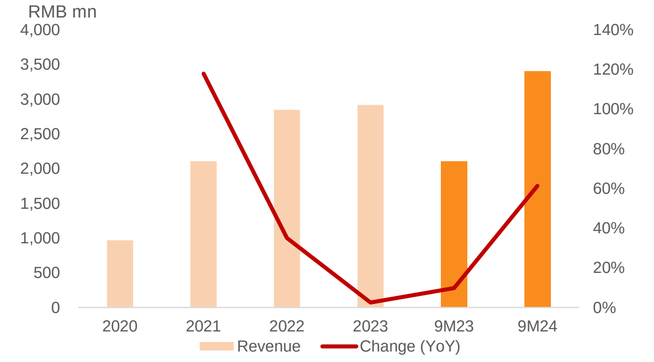
The 2024 FOCAC Action Plan has outlined the continued investments in African infrastructure, including logistics, mining, and energy industries. We expect Chinese contractors will benefit from more contract intakes, and thereby offering opportunities for Chinese construction machinery and HDT manufacturers which have been putting more focus on Africa.

Figure 14: China construction machinery export value to Africa



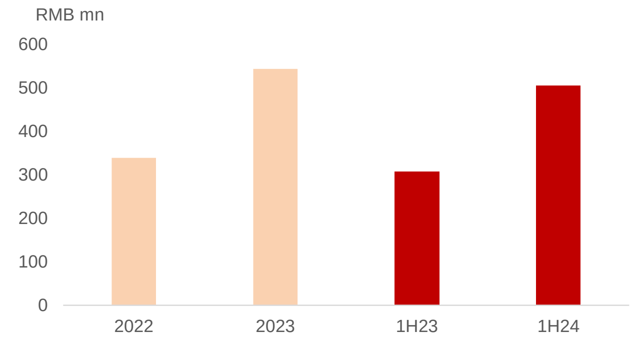
Source: Wind, CMBIGM

Figure 15: SANY Heavy's revenue from Africa



Source: Company data, CMBIGM

Figure 16: SANY International's revenue from Africa



Source: Company data, CMBIGM

Excavator: Expect 12% growth in domestic sales + exports in 2025E

China's domestic sales of excavators turned positive (in terms of YoY change) in Mar 2024, marking an important turning point of the domestic demand, driven largely by the recovery of small size models on the back of municipal projects which offset the weak property investment. In 11M24, sales in China grew 11% YoY to 91k units.

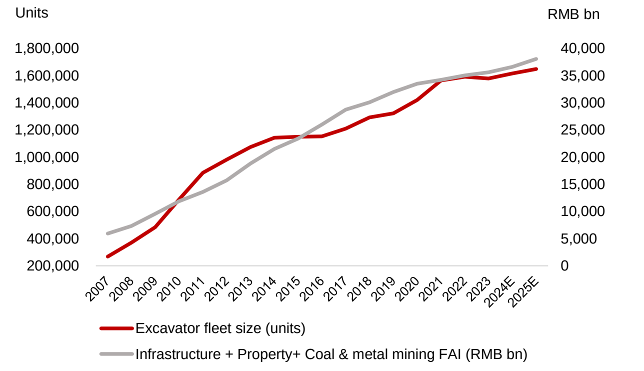
Exports of excavators from China turned positive (in terms of change YoY) since Aug 2024, following 14 consecutive months of decline. In 11M24, the rate of decline reduced to 6% YoY. Export volume of 90.5k units in 11M24 accounted for half of the total excavator output in China.

Our projection:

We forecast excavator sales volume (domestic sales + exports) to grow 12% YoY in 2025E, based on the following assumptions:

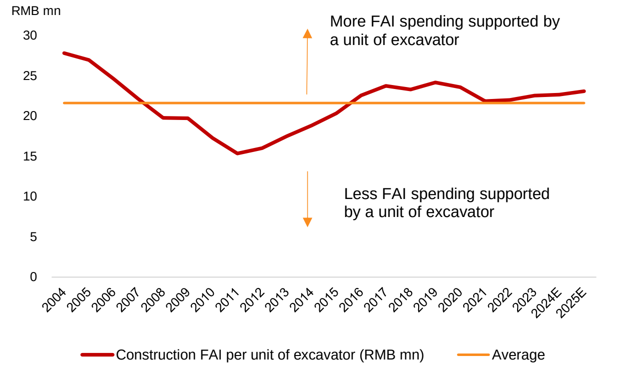
- **China market: To grow 10% YoY to 108k units in 2025E**. We expect the infrastructure spending growth will outpace the weakness of property investment. Our industry model suggests that the construction-related FAI (i.e. infrastructure + property + mining investment) per unit of operating excavator fell from the peak of ~RMB24mn in 2019 to RMB22mn in 2022, but gradually recovered to ~RMB22.6mn in 2024E (Note: higher amount means tighter supply of the machinery). We assume the per-unit FAI of operating excavators to increase slightly to RMB23mn in 2025. Given the potential beginning cycle of replacement demand and the recovery of medium-to-large size excavators, we forecast domestic sales of excavators to grow 10% YoY in 2025E.
- **Export: To grow 15% YoY to 115k units in 2025E**. We expect emerging economies such as the Middle East, Africa, Latin America, India and Indonesia, will continue to be the key markets for Chinese players. We notice the pick-up of utilization hours in both US and Indonesia in Oct (according to Komatsu), which is a good sign of potential new machine sales.

Figure 17: Excavator fleet size versus construction-related FAI



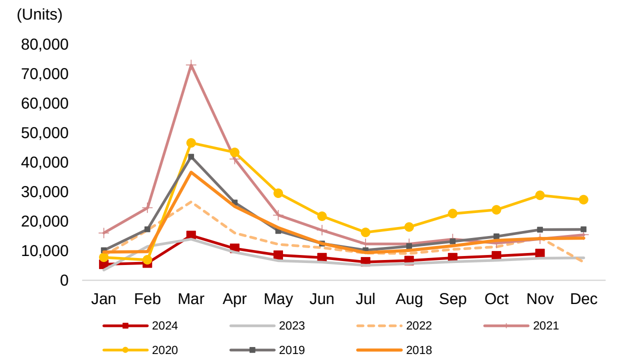
Source: China Construction Machinery Association (CCMA), Wind, CMBIGM estimates

Figure 18: Construction FAI per unit of excavator in operation



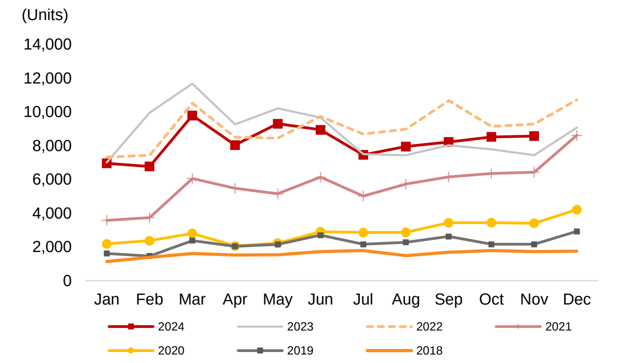
Source: CCMA, Wind, CMBIGM estimates
Note: Construction FAI = infrastructure + property + mining

Figure 19: Monthly excavator sales in China



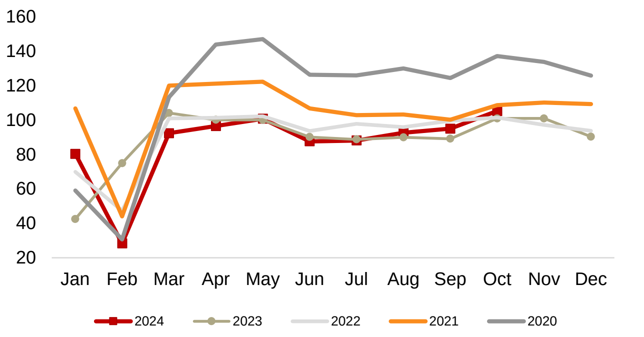
Source: CCMA, CMBIGM

Figure 20: Monthly excavator export volume



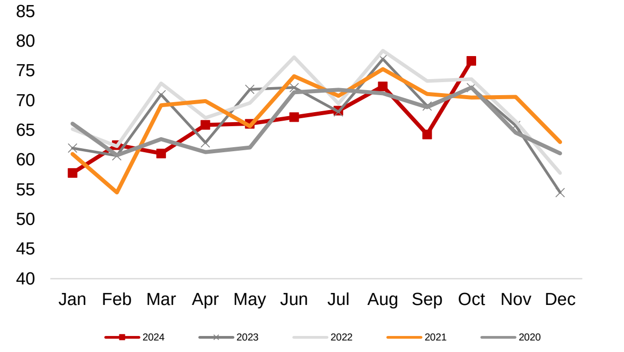
Source: CCMA, CMBIGM

Figure 21: Komatsu excavator monthly utilisation hours in China



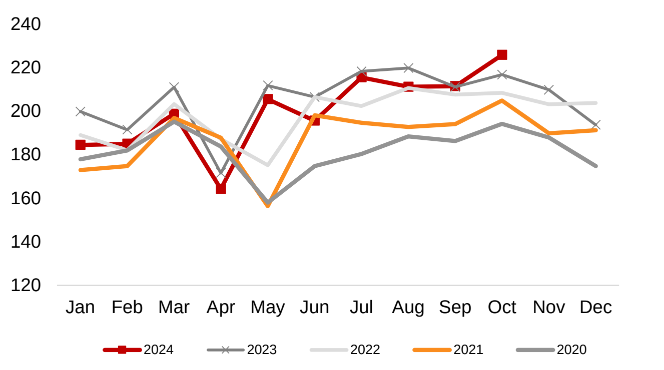
Source: Komatsu, CMBIGM

Figure 22: Komatsu excavator monthly utilisation hours in North America



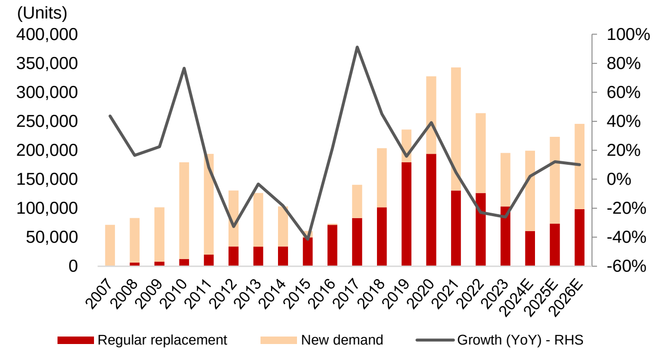
Source: Komatsu, CMBIGM

Figure 23: Komatsu excavator monthly utilisation hours in Indonesia



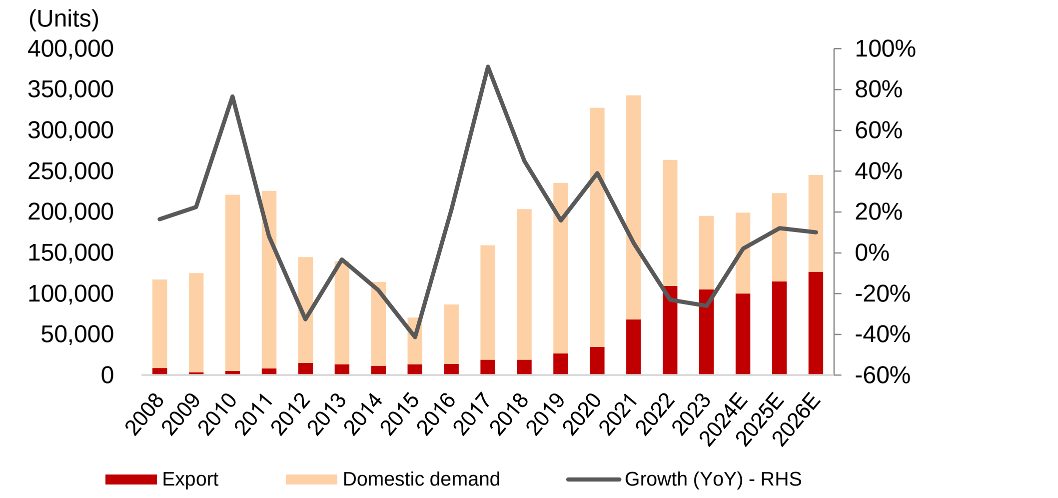
Source: Komatsu, CMBIGM

Figure 24: CMBI excavator sales projection



Source: CCMA, Wind, CMBIGM estimates

Figure 25: CMBI excavator sales projection (breakdown by region)



Source: CCMA, CMBIGM estimates

Truck crane and tower crane: Growth driven by exports

In China market, demand for both truck cranes and tower cranes have been weak, with sales in 10M24 declining 38% and 67% YoY. Tower cranes have been particularly weak among the major types of machinery due to the high exposure to property investment (almost 100%).

For exports, sales of truck cranes grew 20% YoY in 10M24, in particular the growth rate accelerated in 3Q24. Since Aug, the monthly export volume has already exceeded domestic sales.

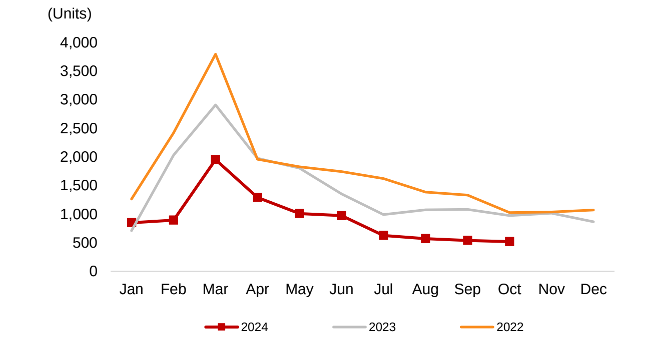
Exports of tower cranes dropped only 2% YoY in 10M24, much more resilient than the domestic sales. That said, exports only accounted for 25% of total sales.

Projection:

- **Truck crane:** We forecast total sales volume (China sales + exports) to grow 5% YoY in 2025E, driven by 10% export growth and stable domestic sales.

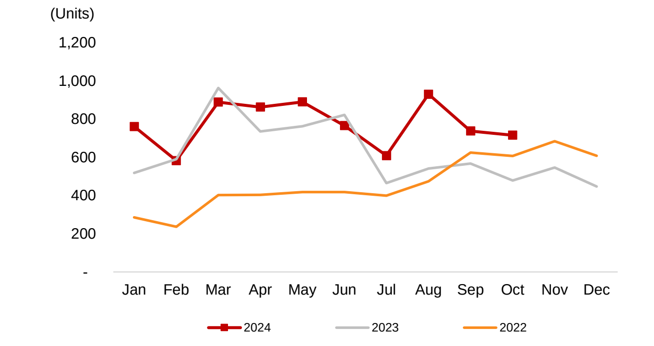
■ **Tower crane**: We expect only a stable sales volume (China sales + exports). We assume 5% growth overseas but this could be offset by weakness in China market, as we expect the area under construction in China will continue to be under pressure.

Figure 26: China truck crane domestic sales volume



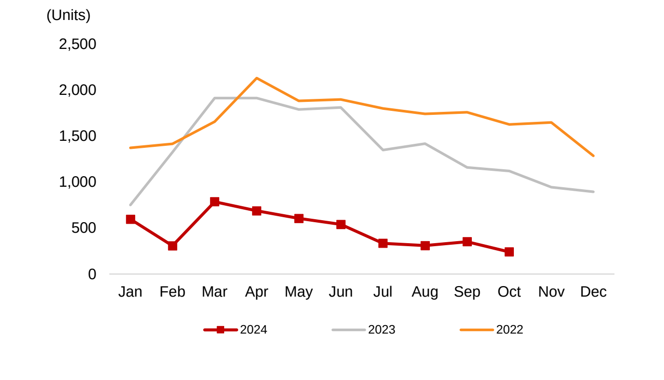
Source: CCMA, CMBIGM

Figure 27: Exports of truck cranes from China



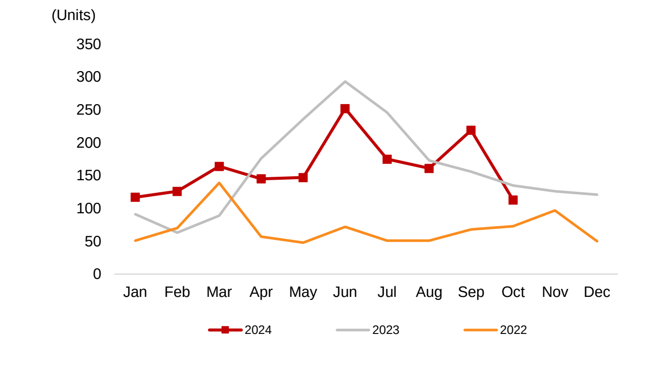
Source: CCMA, CMBIGM

Figure 28: China tower crane domestic sales volume



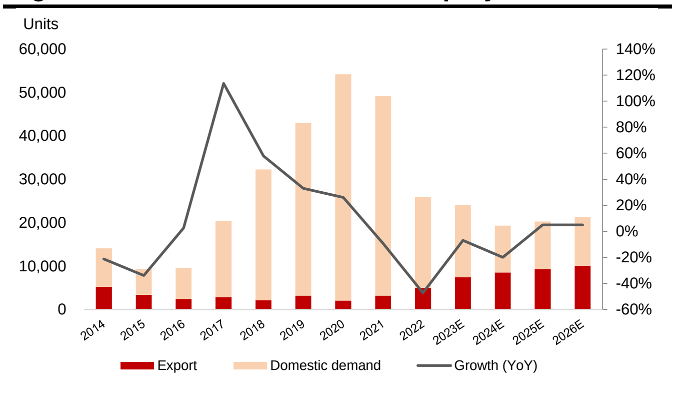
Source: CCMA, CMBIGM

Figure 29: Exports of tower cranes from China



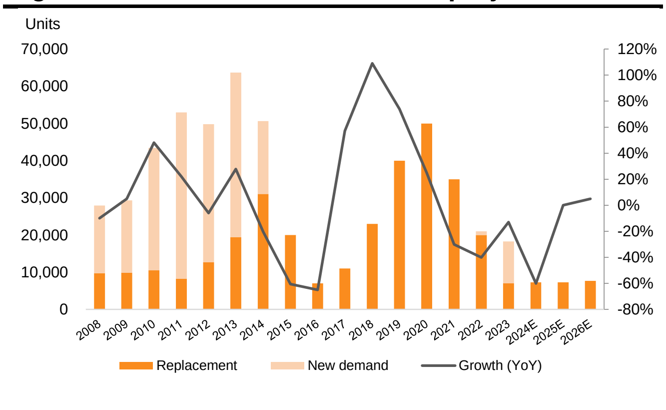
Source: CCMA, CMBIGM

Figure 30: CMBI truck crane sales projection



Source: CCMA, CMBIGM estimates

Figure 31: CMBI tower crane sales projection



Source: CCMA, CMBIGM estimates

Aerial Work Platform (AWP): Back-loaded demand overseas

China:

Sales of AWPs in China have been on a downtrend since mid-2023, with sales in 10M24 declining 34% YoY, according to CCMA. We expect the weakness of AWP to continue in 2025E as major AWP leasing companies such as **Horizon Construction (9930 HK, BUY)** and **Huatie (603300 CH, NR)** have maintained strict capex discipline due to abundant AWP supply in the market. We forecast AWP sales in China market to drop ~10% YoY to ~77k units in 2025E.

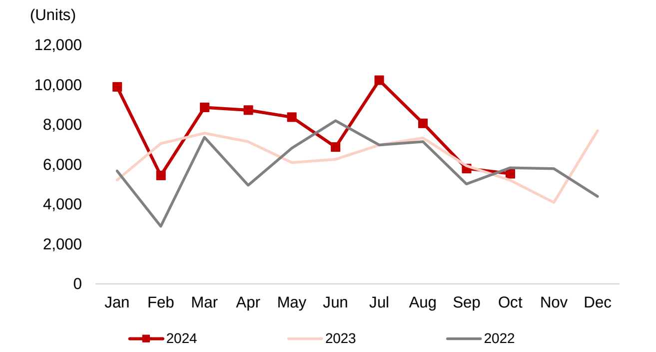
Overseas:

In contrast to the weak China demand, exports of AWP have been a lot more resilient. Exports from China grew 20% YoY in 10M24, according to CCMA. Looking ahead to 2025E, we expect AWP exports to grow 15% YoY.

In the US, AWP rental companies such as **United Rentals (URI, NR)** have managed to raise rental rates, with growth drivers coming from mega projects, such as data centres, semiconductor plants, and EV and battery manufacturing plants. For local projects (the smaller size ones), there has been some delays of decision making due to uncertainties of policy during Donald Trump's presidency. We expect a back-loaded AWP demand in 2025E.

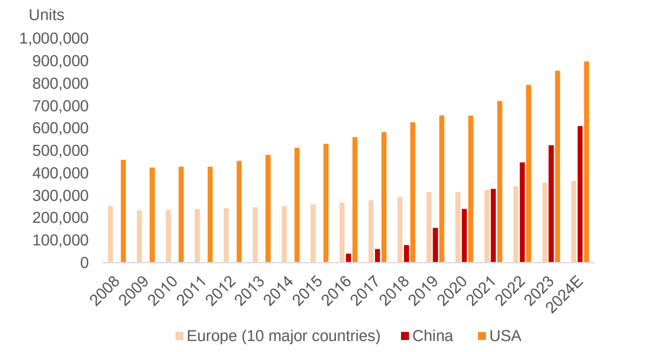
For the EU, we expect the overall demand will remain relatively sluggish due to macro weakness. That said, with the finalization of anti-dumping duties on Chinese AWP manufacturers in Nov, we think the overhang has been removed. Most importantly, Dingli, given the lowest AD duties rate (20.7%, much lower than peers), will likely enjoy a competitive advantage versus other Chinese manufacturers. For other Chinese players, such as Zoomlion, the AD decision will help speed up their localization of AWP production overseas to avoid the duties.

Figure 32: Exports of AWP from China



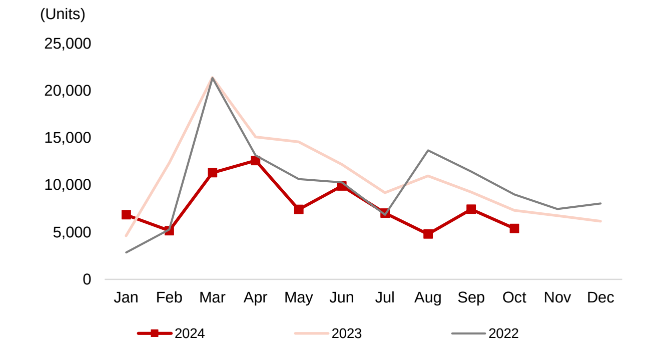
Source: CCMA, CMBIGM

Figure 33: AWP fleet size breakdown by region



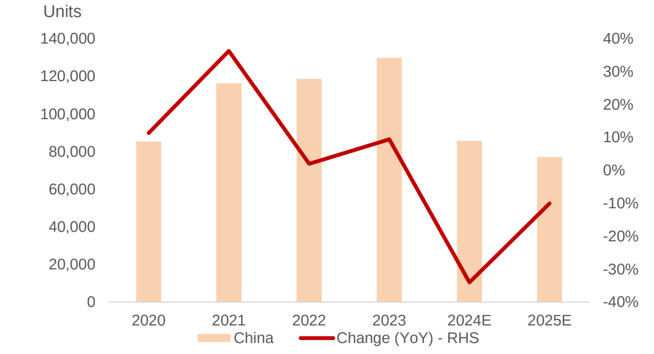
Source: The International Powered Access Federation (IPAF), CCMA, CMBIGM estimates

Figure 34: China AWP monthly sales



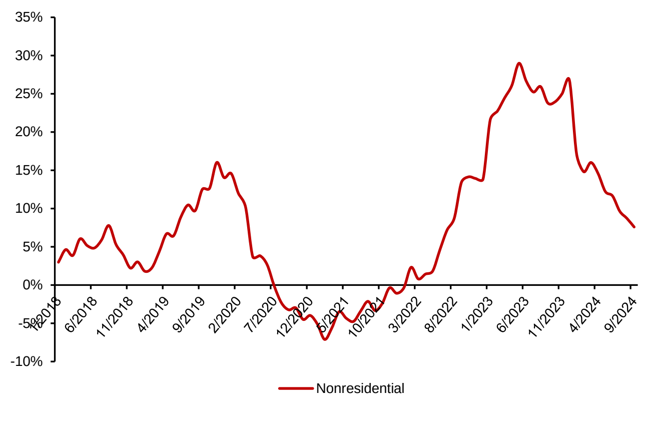
Source: CCMA, CMBIGM

Figure 35: CMBIGM China AWP sales projection



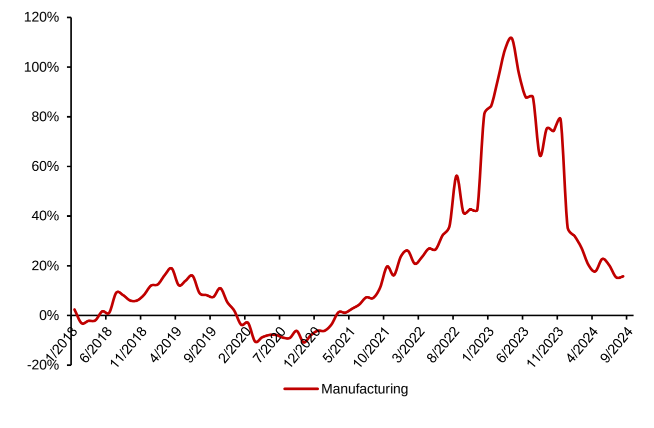
Source: CCMA, CMBIGM estimates

Figure 36: US non-residential spending growth



Source: Bloomberg, CMBIGM

Figure 37: US manufacturing spending growth



Source: Bloomberg, CMBIGM

Figure 2: Anti-dumping duties on Chinese AWP manufacturers in EU

Company	AD duties
Dingli	20.7%
Oshkosh JLG (Tianjin)	22.5%
Terex (Changzhou)	22.9%
Sinoboom	49.3%
Other cooperating companies	30.2%
All other companies	49.3%

Source: Company data, Access Briefing, CMBIGM

Heavy-duty truck (HDT) – expect improving demand in China on replacement policy

Our forecast:

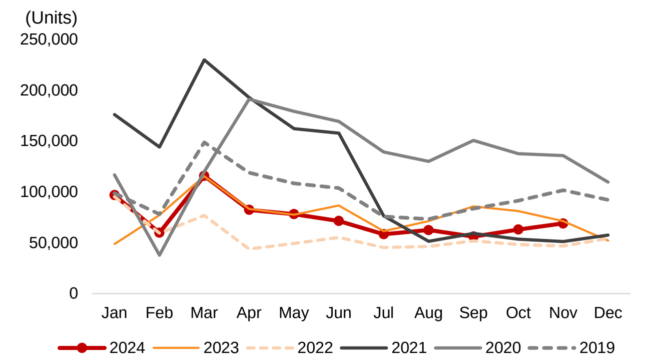
We expect 5% YoY decline in HDT sales (China sales + exports) in 2024E, followed by 10%/ 9% recovery to 954k / 1mn units in 2025E/26E.

China:

The equipment replacement policies launched in mid-2024 have yet to support the HDT sales. We believe it was due to (1) weak confidence of truck owners, and (2) limited fleet size of NES III HDTs (~200k units, ~2% of the total fleet size based on our estimates).

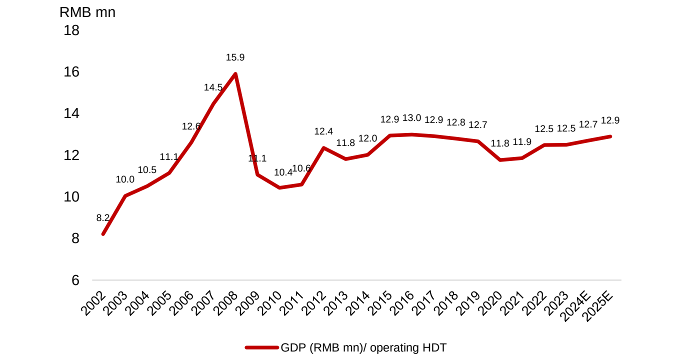
For 2025E, we think the potential extension of the equipment replacement policy to NES IV trucks will be the key to boosting demand, given the much larger fleet size (~30% of total fleet size of HDTs). We have already seen some provinces taking the initiatives to offer subsidies for the replacement of NES IV trucks in 2024, and we expect more provinces to follow in 2025.

Figure 38: China HDT monthly sales volume



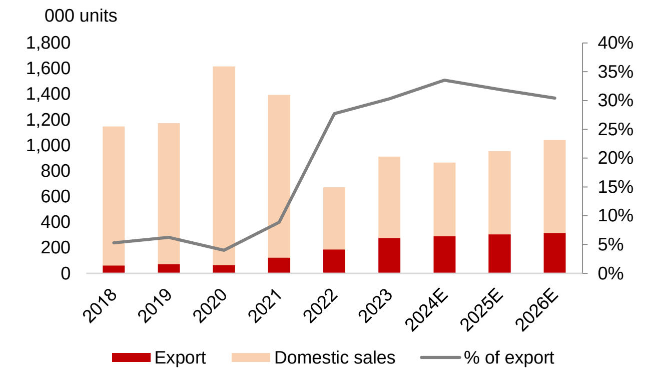
Source: Cvworld, Wind, CMBIGM
Note: Domestic sales + exports

Figure 39: China GDP per unit of operating HDT



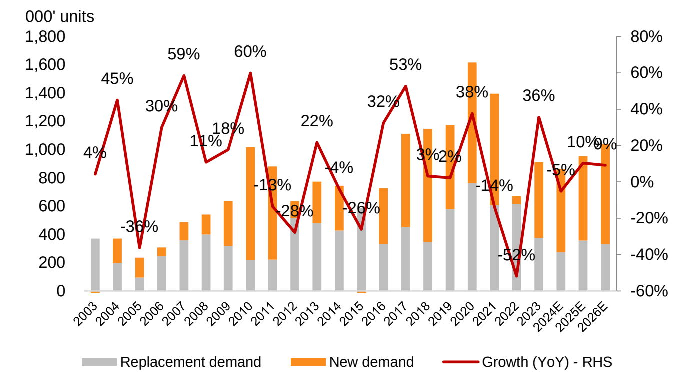
Source: Cvworld, Wind, CMBIGM estimates

Figure 40: Domestic sales and exports of HDTs



Source: Wind, CMBIGM estimates

Figure 41: CMBIGM HDT sales projection



Source: Cvworld, Wind, CMBIGM estimates
Note: China's domestic sales + exports

Figure 42: Subsidies to eliminate NES IV trucks

Province	City	Policy validity period	Vehicle type	Subsidies type	Subsidies provided (per unit of truck)
	Beijing	26/8/2024-10/12/2024	HDT	Scrapping	RMB45k
				Upgrading to NEV	RMB95k
				Scrapping China IV & Upgrading to China VI	RMB85k
			MDT	Scrapping	RMB25k
				Upgrading to NEV	RMB35k
			LDT / Mini truck	Scrapping	RMB15k
				Upgrading to NEV	RMB20k
			New energy refrigerated truck	Purchasing	RMB35k
Shanxi			HDT	Scrapping (one year ahead of schedule)	RMB12k
				Scrapping (two years ahead of schedule)	RMB35k
				Scrapping (four or more years ahead of schedule)	RMB45k
				Upgrading to China VI (two-axle)	RMB40k
				Upgrading to China VI (three-axle)	RMB55k
				Upgrading to China VI (four or more-axle)	RMB65k
				Upgrading to NEV (two-axle)	RMB70k
				Upgrading to NEV (three-axle)	RMB85k
				Upgrading to NEV (four or more-axle)	RMB95k
			MDT	Scrapping (one year ahead of schedule)	RMB10k
				Scrapping (two years ahead of schedule)	RMB18k
				Scrapping (four or more years ahead of schedule)	RMB25k
				Upgrading China VI	RMB25k
				Upgrading to NEV	RMB35k
			New energy refrigerated truck	Purchasing	RMB35k
Jiangsu		7/3/2024-31/12/2024	HDT	Scrapping (one year ahead of schedule)	RMB12k
				Scrapping (two years ahead of schedule)	RMB35k
				Scrapping (four or more years ahead of schedule)	RMB45k
				Upgrading to China VI (two-axle)	RMB40k
				Upgrading to China VI (three-axle)	RMB55k
				Upgrading to China VI (four or more-axle)	RMB65k
				Upgrading to NEV (two-axle)	RMB70k
				Upgrading to NEV (three-axle)	RMB85k
				Upgrading to NEV (four or more-axle)	RMB95k
			MDT	Scrapping (one year ahead of schedule)	RMB10k
				Scrapping (two years ahead of schedule)	RMB18k
				Scrapping (four or more years ahead of schedule)	RMB25k
				Upgrading China VI	RMB25k
				Upgrading to NEV	RMB35k
			New energy refrigerated truck	Purchasing	RMB35k
	Shanghai	15/8/2024-31/12/2028	HDT	Scrapping (purchase made in 2013 and earlier)	RMB22k
				Scrapping (purchase made in 2014 and earlier)	RMB32k
				Scrapping (purchase made in 2015 and earlier)	RMB41k
				Scrapping (purchase made in 2015 and after)	RMB50k
				Upgrading NEV (no less than 280kWh)	RMB630/kWh
				Upgrading NEV (less than 280kWh)	RMB600/kWh
			MDT	Scrapping (purchase made in 2013 and earlier)	RMB12k
				Scrapping (purchase made in 2014 and earlier)	RMB16k
				Scrapping (purchase made in 2015 and earlier)	RMB20k
				Scrapping (purchase made in 2015 and after)	RMB25k
				Upgrading NEV (no less than 70kWh)	RMB450/kWh
				Upgrading NEV (less than 70kWh)	RMB400/kWh
Zhejiang	Hangzhou	13/5/2023-30/6/2024	HDT	Scrapping (vehicle age less than 8 years)	RMB43.5k
				Scrapping (vehicle age between 8 and 9 years)	RMB36.5k
				Scrapping (vehicle age between 9 and 10 years)	RMB30k
			MDT	Scrapping (vehicle age less than 8 years)	RMB31k
				Scrapping (vehicle age between 8 and 9 years)	RMB25.5k
				Scrapping (vehicle age between 9 and 10 years)	RMB20.5k
			LDT	Scrapping (vehicle age less than 8 years)	RMB17.4k
				Scrapping (vehicle age between 8 and 9 years)	RMB15k
				Scrapping (vehicle age between 9 and 10 years)	RMB12.5k
	Ningbo	1/1/2024-12/31/2024	HDT	Scrapping (vehicle age less than 7 years)	RMB57k
				Scrapping (vehicle age between 7 and 8 years)	RMB50k
				Scrapping (vehicle age between 8 and 9 years)	RMB40k
				Scrapping (vehicle age between 9 and 10 years)	RMB33k
				Scrapping (vehicle age more than 10 years)	RMB28k
			MDT	Scrapping (vehicle age less than 7 years)	RMB22k
				Scrapping (vehicle age between 7 and 8 years)	RMB18k
				Scrapping (vehicle age between 8 and 9 years)	RMB16k
				Scrapping (vehicle age between 9 and 10 years)	RMB14k
				Scrapping (vehicle age more than 10 years)	RMB13k
Fujian	Longyan	31/7/2024-31/12/2024	HDT	Scrapping (one year ahead of schedule)	RMB12k
				Scrapping (two years ahead of schedule)	RMB35k
				Scrapping (four or more years ahead of schedule)	RMB45k
				Upgrading to China VI (two-axle)	RMB40k
				Upgrading to China VI (three-axle)	RMB55k
				Upgrading to China VI (four or more-axle)	RMB65k
				Upgrading to NEV (two-axle)	RMB70k
				Upgrading to NEV (three-axle)	RMB85k
				Upgrading to NEV (four or more-axle)	RMB95k
			MDT	Scrapping (one year ahead of schedule)	RMB10k
				Scrapping (two years ahead of schedule)	RMB18k
				Scrapping (four or more years ahead of schedule)	RMB25k
				Upgrading to China VI	RMB25k
				Upgrading to NEV	RMB35k
			New energy refrigerated truck	Purchasing	RMB35k

Source: Local governments' official website, CMBIGM

Natural gas HDTs – Uncertainties in 2025

Sales of natural gas HDT in 3Q24 reversed the growth trend in 1H24, due to the contraction of LNG/diesel spread from 0.64 in 1H24 to 0.71 in 3Q24 (the lower the figure, the higher the spread). In 9M24, gas HDT accounted for ~21% of total HDT sold.

That said, the latest price spread expanded to 0.65. For truck buyers, based on the latest price of LNG (~RMB6.8/kg) and diesel (~RMB4.5/litre), the payback period of a LNG truck is 2.6 years, shorter than a diesel truck's 3.2 years. Therefore, we expect demand for gas HDT will rebound in early 2025E.

However, we forecast gas HDTs will only account for 15%-20% of total HDT in 2025E, as we assume part of the market share will be captured by new energy HDTs in view of the sharp increase in sales in 2024.

Figure 43: Comparison of investment return between diesel and LNG trucks

Diesel		LNG	
Operating assumptions			
Transport service income (RMB / tonne km)	0.27	Transport service income (RMB / tonne km)	0.27
Capacity (tonne)	30	Capacity (tonne)	30
Operating days / month	20	Operating days / month	20
Daily tranportation distance (km)	500	Daily tranportation distance (km)	500
Diesel consumption (litre / 100 km)	30	Gas consumption (kg / 100 km)	30
Diesel price (RMB /litre)	**6.8**	**Gas price (RMB/kg)**	**4.5**
Urea expense (RMB / 100 km)	11.25	Urea expense (RMB / 100 km)	0
Maintenance expense (RMB / 100 km)	60	Maintenance expense (RMB / 100 km)	60
Toll fee per vehicle (RMB/km)	2.2	Toll fee per vehicle (RMB/km)	2.2
Monthly wage of a driver (RMB)	9,000	Monthly wage of a driver (RMB)	9,000
Tax rate (%)	25%	Tax rate (%)	25%
Capex			
Truck purchase price (RMB)	320,000	Truck purchase price (RMB)	400,000
Years of depreciation	5	Years of depreciation	5
VAT rate	17%	VAT rate	17%
VAT (RMB)	54,400	VAT (RMB)	68,000
Total purchase price (RMB)	**374,400**	**Total purchase price (RMB)**	**468,000**
Profitability	(RMB)		(RMB)
Revenue (annual)	931,500	Revenue (annual)	931,500
Expense:		Expense:	
Diesel	-246,240	Natural gas	-160,200
Urea	-13,500	Urea	0
Depreciation	-64,000	Depreciation	-80,000
Maintenance	-72,000	Maintenance	-72,000
Toll fee	-253,000	Toll fee	-253,000
Driver wage	-108,000	Driver wage	-108,000
Insurance and others	-20,000	Insurance and others	-20,000
Pre-tax profit	**154,760**	**Pre-tax profit**	**238,300**
Tax	-38,690	Tax	-59,575
Net profit	**116,070**	**Net profit**	**178,725**
Payback period (year)	**3.2**		**2.6**

Source: CMBIGM estimates

Figure 44: Sensitivity of payback period to diesel price

		Transport service income (RMB / tonne km)				
		0.243	0.2565	**0.27**	0.2835	0.297
	5.5	4.5	3.2	2.4	2.0	1.7
	6.2	5.8	3.8	2.8	2.2	1.8
Diesel price	**6.8**	8.1	4.6	**3.2**	2.5	2.0
(RMB/litre)	7.5	13.5	6.0	3.8	2.8	2.2
	8.2	40.4	8.5	4.7	3.3	2.5

Source: CMBIGM estimates
Note: For diesel trucks

Figure 45: Sensitivity of payback period to LNG price

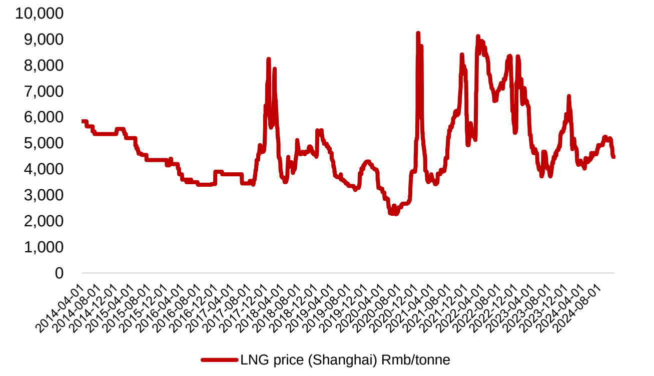
		Transport service income (RMB / tonne km)				
		0.243	0.2565	**0.27**	0.2835	0.297
	3.6	3.5	2.8	2.3	2.0	1.7
	4.0	3.9	3.0	2.5	2.1	1.8
LNG price	**4.5**	4.3	3.3	**2.6**	2.2	1.9
(RMB/kg)	4.9	4.8	3.6	2.8	2.3	2.0
	5.3	5.5	3.9	3.0	2.5	2.1

Source: CMBIGM estimates
Note: For LNG trucks

Figure 46: Diesel price in Shandong

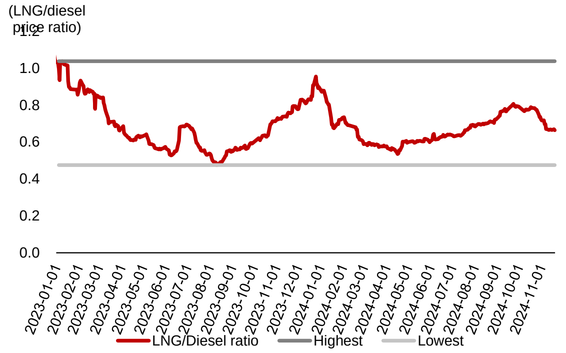
Source: Wind, CMBIGM

Figure 47: LNG price in Shanghai



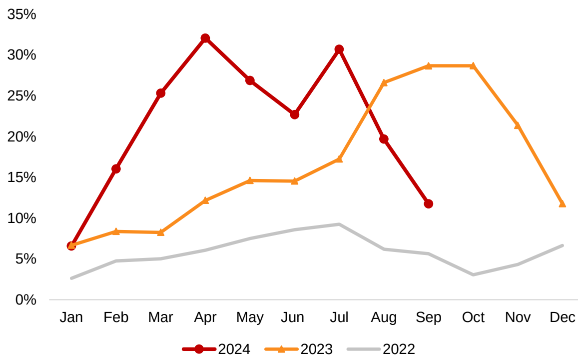
Source: Wind, CMBIGM

Figure 48: LNG/diesel price ratio



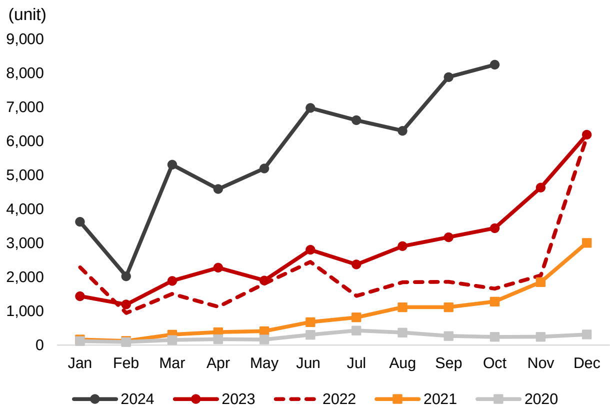
Source: Wind, Bloomberg, CMBIGM estimates

Figure 49: Natural gas HDTs as % of total HDTs sold



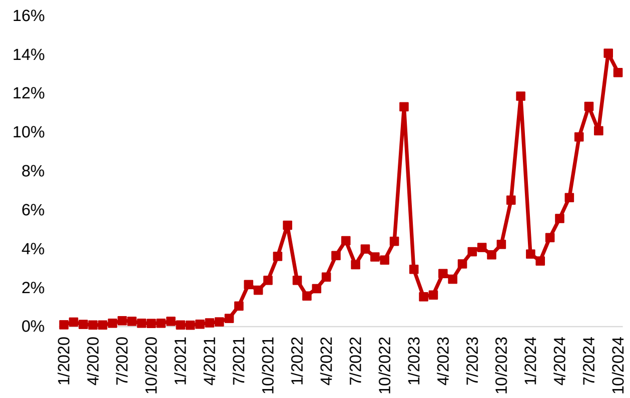
Source: Wind, Cvworld, CMBIGM

Figure 50: New energy HDT as % of total HDTs sold



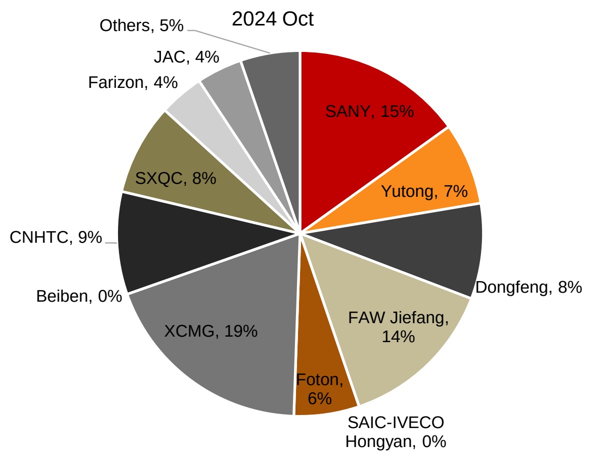
Source: Cvworld, CMBIGM

Figure 51: New energy HDT as % of total HDTs sold



Source: Wind, Cvworld, CMBIGM

Figure 52: Market share of new energy HDT in China (Oct 2024)



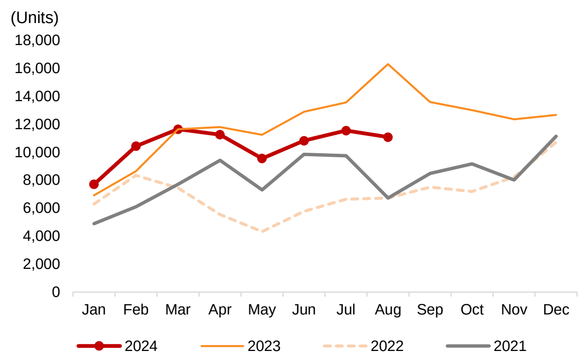
Source: Cvworld, CMBIGM

HDT sales in Russia peaked

We are cautious on export markets as Russia, the major market for Chinese trucks, will likely see further decline due to a high base and impact of high recycling tax (starting in Oct 2024). We believe Chinese brands' growth story in Russia has already come to an end.

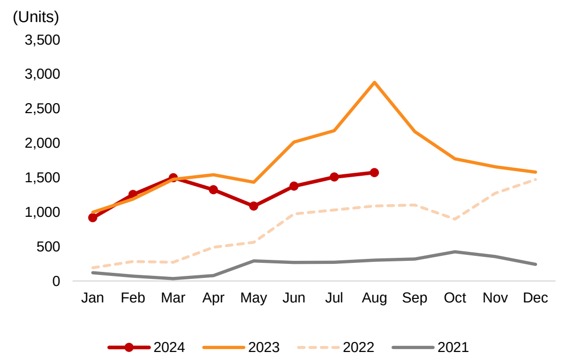
Russia is the largest export destination of Chinese HDTs. Based on our calculation, Chinese brands accounted for ~67% of the HDT market in Russia in Aug 2024, marking a record high. In order to protect the local manufacturers, the Russian authority has further increased the recycling tax on import trucks and heavy machinery since Oct 2024. We believe Chinese brands' market share in Russia has already peaked. Besides, according to ASM-Holding's data, total HDT sales volume in Russia has declined since Apr, with the rate of decline reaching 15%/32% YoY in Jul/Aug. We expect further decline of Russia HDT demand over the coming 12 months due to the high base effect.

Figure 53: Russia trucks monthly sales



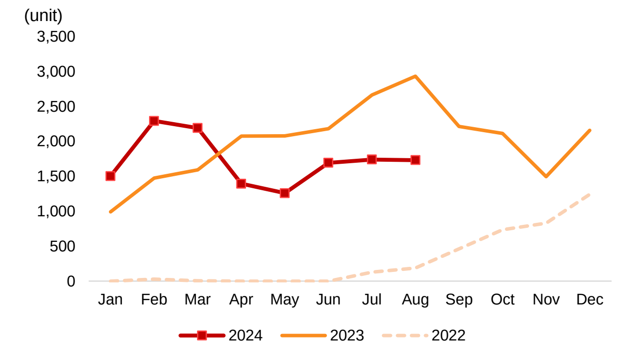
Source: ASM Holding, CMBIGM

Figure 54: Shaanxi Heavy brand sales in Russia



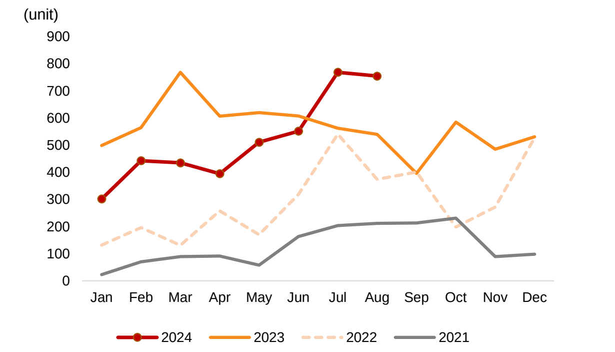
Source: ASM Holding, CMBIGM

Figure 55: Sinotruk's SITRAK brand sales in Russia



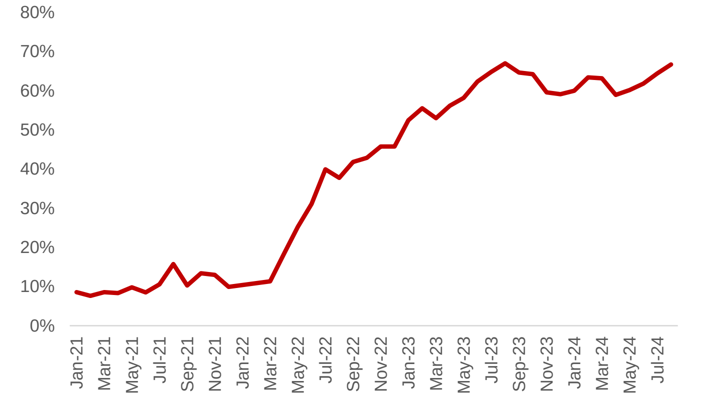
Source: ASM Holding, CMBIGM

Figure 56: Sinotruk's HOWO brand sales in Russia



Source: ASM Holding, CMBIGM

Figure 57: Chinese brands' market share in Russia HDT market



Source: ASM Holding, CMBIGM

Uranium

OUTPERFORM

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Beneficiary of structural growth of nuclear power

We examine the dynamics of uranium demand and supply by dividing our analysis into two phases. In the medium-term (2024E-29E), both the demand and supply are foreseeable, given the long lead times of the construction of both nuclear reactors and uranium mines. By employing a project-by-project approach, we forecast that the shortfall in uranium supply will continue until 2028E, due to the restart of nuclear plants and ongoing disruptions to uranium supply. From a longer-term perspective (2030E-40E), we believe that an elevated uranium price is a prerequisite to incentivize the opening of new uranium mines, so as to satisfy the nuclear demand driven by (1) artificial intelligence (AI), (2) global carbon reduction, (3) energy security, and (4) the potential of Small Modular Reactors (SMR). We believe **CGN Mining (1164 HK, BUY)** and **Cameco (CCJ US, Not Rated)** will be the key beneficiaries.

- **Global nuclear energy to return to a growth trajectory. According to International Atomic Energy Agency (IAEA) and World Nuclear Association (WNA) data, as at end-Sep 2024, there were 62 reactors under construction worldwide. Most of these reactors will commence operation by 2029E.** This, together with the potential restart of reactors in the US and Japan, leads us to project that the annual average installation in 2024E-29E will be ~11 GW, which is much higher than the average of only 2 GW in 1988-2023. We estimate the global capacity (year-end) to increase from 376 GW in 2024E to 432 GW in 2029E. By taking into consideration the projects under construction and planned projects, we conservatively estimate the world's nuclear capacity to reach 500 GW by 2040E, which will translate into 92,000 tU of uranium demand (vs 61,586 tU in 2024E).

- **Global deficit to last at least until 2028E, favourable to uranium price.** Our estimates suggest that the demand-supply deficit (excluding secondary supply) will reach 12,433 tU, 9,763 tU, 7,738 tU, 4,371 tU, and 1,228 tU in 2024E-28E, respectively. Despite the fact that deficit will continue to drop, the running out of secondary supply and ongoing disruptions to mine output will be potential drivers to widen the deficit in future.

- **CGN Mining (1164 HK, BUY) -** CGN Mining is well-positioned to capitalize on the long-term uranium price uptrend, through its two JVs that hold stakes in four low-cost uranium mines in Kazakhstan. We assume the average spot price of uranium in 2024E to be $85/lb (+30% YoY) and further increase by 8% annually through 2026E. We forecast CGN Mining's earnings to double by 2026E compared to 2023. We have A BUY rating with a target price of HK$2.36, based on 3x NPV (Chi report link).

- **Cameco (CCJ US, Not Rated) -** Amid the growing focus on energy security arising from geopolitics, Cameco is set to become the leading uranium and nuclear fuel company in the western world. It is the second-largest uranium producer (in terms of uranium sales in 2023). In addition to the core business of natural uranium production, Cameco has strategically expanded into the downstream segments of the nuclear fuel supply chain, including conversion, enrichment, and fabrication.

Medium-term uranium demand and supply outlook (2024-29E)

Medium-term demand

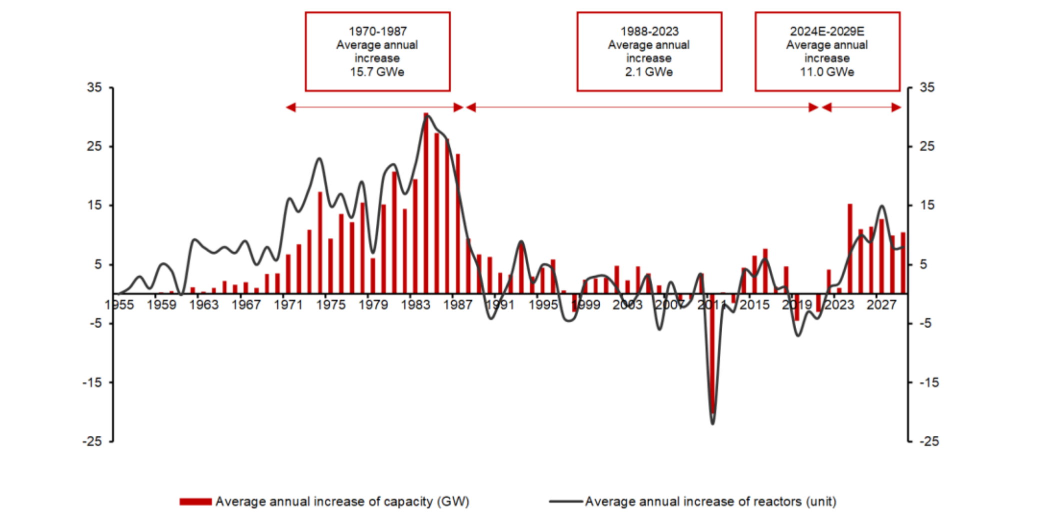
- **Primary demand**

The development of global nuclear energy had been adversely impacted by the Fukushima accidents since 2011, until the outbreak of the war in Ukraine that served as a wake-up call about energy security. We think the turning point has already emerged. With the completion of numerous nuclear construction projects, we estimate an average annual addition of 11 GW of global nuclear capacity in 2024E-29E.

Assuming an annual uranium consumption of 160 tU/GW, we estimate the consumption of uranium will increase from 60k tU in 2024E to 69k tU in 2029E. In addition, strategic uranium storage is critical for nuclear reactors. In accordance with the IAEA's recommendation, which advises that storage should be sufficient to cover 24 months of electrification, we estimate that the amount of uranium purchased for storage will account for 2.3%-5.7% of total uranium demand in 2024E-29E.

Including both the procurement for power generation and storage, we project that the total global uranium demand will increase from 61.6k tU in 2024E to 72.3k tU in 2029E.

Figure 1: Annual addition of global nuclear installed capacity (1955-2029E)



Source: IAEA, CMBIGM estimates

Figure 2: CMBI uranium demand forecast

Uranium demand:	Unit	2024E	2025E	2026E	2027E	2028E	2029E
Projections:							
Year-end nuclear reactor	Unit	420.0	430.0	439.0	454.0	462.0	470.0
Change in year-end nuclear reactor	Unit	7.0	10.0	9.0	15.0	8.0	8.0
Growth rate (yoy)	*%*	*2%*	*2%*	*2%*	*3%*	*2%*	*2%*
Annual increase of nuclear capacity:							
Year 2024	GW	4.5	8.9	8.9	8.9	8.9	8.9
Year 2025	GW		6.9	13.8	13.8	13.8	13.8
Year 2026	GW			4.1	8.3	8.3	8.3
Year 2027	GW				7.3	14.6	14.6
Year 2028	GW					5.4	10.8
Year 2029	GW						4.5
Total annual increase of nuclear capacity	GW	4.5	11.3	11.0	11.4	12.7	9.9
Year-end nuclear capacity	**GW**	**376.0**	**387.3**	**398.4**	**409.8**	**422.5**	**432.4**
Growth rate (yoy)	*%*	*1%*	*3%*	*3%*	*3%*	*3%*	*2%*
Assumption: uranium consumption rate	tU/GWe/Yr	160.0	160.0	160.0	160.0	160.0	160.0
Assumption: storage requirement	Year	2.0	2.0	2.0	2.0	2.0	2.0
Uranium demand: power generation	tU	60,159.8	61,973.6	63,736.6	65,566.9	67,599.5	69,191.0
Uranium demand: storage	tU	1,426.7	3,627.7	3,525.9	3,660.6	4,065.3	3,183.0
Uranium demand from nuclear reactors	**tU**	**61,586.5**	**65,601.3**	**67,262.5**	**69,227.5**	**71,664.8**	**72,374.1**
Secondary demand	tU	7,000.0	7,000.0	7,000.0	7,000.0	7,000.0	7,000.0
Total demand	**tU**	**68,586.5**	**72,601.3**	**74,262.5**	**76,227.5**	**78,664.8**	**79,374.1**
Growth rate (yoy)	*%*	*3%*	*6%*	*2%*	*3%*	*3%*	*1%*

Source: CMBIGM estimates

- **Secondary demand – to further boost the uranium demand**

Secondary demand includes storage demand of nuclear fuel producers and governments, as well as trading and investment demand from external participants.

Physical uranium investment companies or funds include SPUT, Yellow Cake, Zuri-Invest AG, and ANU Energy. Some of these funds adopt “buy and hold” strategy as their investment strategy, suggesting consistent demand growth.

Medium-term uranium supply

- **Primary supply**

We expect the uranium supply will continue to be constrained by (1) production constraints in Kazakhstan due to a shortage of sulphuric acid and increase in mineral extraction tax (MET) based on production volume, and (2) low visibility of output in Niger due to political instability.

By applying a project-by-project approach, we estimate that the global uranium production to increase from 56k tU in 2024E to 82.9k tU in 2029E.

Figure 3: CMBI estimate of uranium production by country

Uranium production (tU)	2024E	2025E	2026E	2027E	2028E	2029E
Kazakhstan	23,000.0	25,750.0	28,087.0	31,636.0	33,636.0	33,636.0
Canada	13,846.2	14,153.8	14,076.9	14,076.9	15,614.9	21,037.9
Namibia	5,613.0	7,247.0	7,247.0	8,593.2	8,759.2	8,759.2
Australia	4,713.7	5,184.9	5,184.9	5,184.9	5,184.9	5,184.9
Uzbekistan	3,300.0	3,300.0	3,300.0	3,300.0	3,300.0	3,300.0
Russia	2,508.0	2,508.0	2,508.0	2,508.0	4,308.0	4,308.0
Niger	101.0	101.0	1,203.8	1,203.8	1,203.8	1,203.8
Mainland China	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0
India	600.0	600.0	600.0	600.0	600.0	600.0
South Africa	200.0	200.0	200.0	200.0	200.0	200.0
Ukraine	100.0	100.0	100.0	100.0	100.0	100.0
United States	364.0	1,461.0	1,518.6	1,595.5	1,672.3	1,691.5
Pakistan	45.0	45.0	45.0	45.0	45.0	45.0
Brazil	43.0	43.0	43.0	43.0	43.0	43.0
Iran	20.0	20.0	20.0	20.0	20.0	20.0
Czechia	0.0	0.0	0.0	0.0	0.0	0.0
Romania	0.0	0.0	0.0	0.0	0.0	0.0
France	0.0	0.0	0.0	0.0	0.0	0.0
Germany	0.0	0.0	0.0	0.0	0.0	0.0
Malawi	0.0	425.0	850.0	850.0	850.0	850.0
Finland	0.0	0.0	200.0	200.0	200.0	200.0
Global Total	**56,153.9**	**62,838.7**	**66,884.3**	**71,856.2**	**77,437.1**	**82,879.3**
Growth rate (yoy)	*7%*	*12%*	*6%*	*7%*	*8%*	*7%*

Source: CMBIGM estimates

Medium-term demand & supply dynamics

Overall, we project that, over the 2024E-28E period, the supply-demand gap will be 12,433 tU, 9,763 tU, 7,738 tU, 4,371 tU, and 1,228 tU, respectively. While the tight imbalance appears to be easing somewhat, the supply-demand gap may widen in the future due to the continued depletion of secondary supply.

Figure 4: CMBI estimate of uranium supply deficit

	Unit	2024E	2025E	2026E	2027E	2028E
Uranium demand	tU	68,586.5	72,601.3	74,262.5	76,227.5	78,664.8
Uranium supply (excl. secondary supply)	tU	56,153.9	62,838.7	66,884.3	71,856.2	77,437.1
Demand-supply deficit	tU	12,432.6	9,762.6	7,378.2	4,371.3	1,227.7
Primary supply as % of total demand	*%*	*82%*	*87%*	*90%*	*94%*	*98%*

Source: CMBIGM estimates

Long-term perspective (2030-40E)

Long-term uranium demand

- **Nuclear power project pipeline serves as a key reference for long-term projection**

As of Sep 2024, there were 67 nuclear reactors under construction, 87 planned (expected to commence operations within the next 15 years), and 344 proposed, according to the WNA. Taking into account only the projects under construction and those planned, we estimate that by 2030, global nuclear capacity will reach 443 GW, equivalent to uranium demand of 82k tU. By 2040, nuclear capacity is projected to increase to 500 GW, translating to 90k tU of uranium demand. This projection represents the low-end scenario for future growth in nuclear energy.

- **Governments are increasingly pivoting to support nuclear energy**

5) Environmental policies promoting the transition to clean energy

Governments around the world have acknowledged the critical need for carbon reduction. Nations such as the US, Europe, Japan, the UK, Canada, and China have set ambitious carbon-neutral goals. In this context, nuclear energy has been increasingly viewed as a vital component in achieving these targets. To mitigate the rise in global temperatures due to carbon emissions, COP28 represents a milestone of nuclear energy development, with several countries committing to tripling global nuclear capacity by 2050. This would see global nuclear capacity reaching 1,100 GW, from 372 GW by end 2023.

6) Energy security has become a key priority

The outbreak of the Russia-Ukraine war served as a wake-up call for the western countries, In the face of mounting geopolitical tensions, many countries are pursuing more diverse energy strategies.

For instance, France and the UK have outlined specific nuclear development plans. Belgium has postponed the retirement timetable for its nuclear reactors. Sweden has lifted its restriction on the number of nuclear reactors on its territory. Italy has planned to lift its ban on nuclear energy. Even Russia has allocated ~$1bn for nuclear development. Japan, heavily reliant on energy imports, has gradually restarted its nuclear reactors after having suspended all of them following the Fukushima accident. Additionally, several regions, including the US and Japan, have extended the operating lives of their reactors.

- **AI-driven data centers create unprecedented demand for nuclear energy**

Driven by the rapid expansion of AI, electricity consumption by data centers has surged significantly. According to the IEA, data centers are projected to consume 1.5-3.0% of global electricity by 2026 (1.0-1.3% in 2022). Furthermore, IDC forecasts that the global electricity demand from data centers will grow at a CAGR of 19.5%. Due to the limitations of underdeveloped grid infrastructure in certain regions, many data centers are turning to nuclear energy providers, which can offer reliable, 24/7 electricity that is free from extreme weather events. For instance, in September 2024, Amazon acquired a data center that receives electricity directly from the Susquehanna nuclear power plant. That same month, Constellation Energy announced it would restart the Three Mile Island Unit 2 reactor to provide electricity services to Microsoft. Additionally, in October 2024, Google announced it would purchase electricity from Kairos Power, an SMR development company, while Amazon Web Services began SMR development in collaboration with Denison Energy.

■ **SMRs are key to increasing the saturation of nuclear energy**

Small Modular Reactors (SMRs) offer several advantages over traditional nuclear reactors: (1) SMRs utilize passive safety systems; (2) SMRs can be deployed in locations where conventional reactors may not be feasible; (3) SMRs have a broader range of use cases; and (4) SMRs are more cost-effective due to their small and modular design.

According to the Nuclear Energy Agency (NEA), in addition to the life-extension of existing nuclear reactors and the construction of Generation 3 reactors, the deployment of SMRs is a critical component in achieving the COP28 goal of tripling global nuclear capacity.

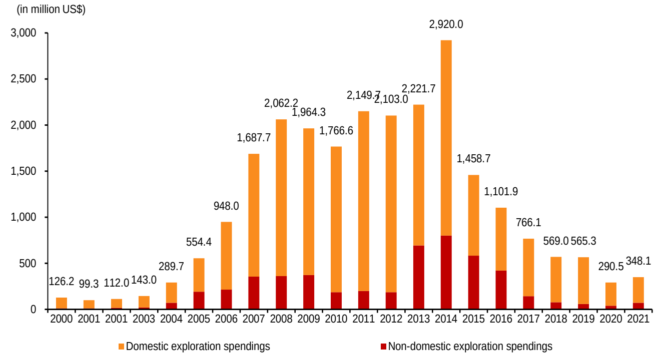
Long-term uranium supply

■ **Future supply may be constrained by recent underinvestment in exploration**

With uranium demand picking up rapidly in 2022, the supply side has been slow to react. We believe the lack of supply response may result in a persistent mismatch between supply and demand in the future.

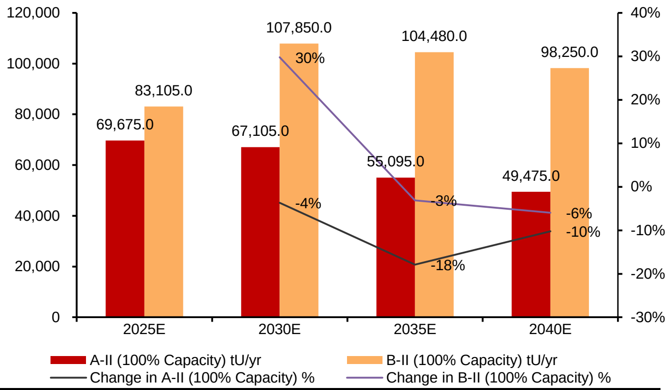
Taking into account the lifespan of existing mines and the development progress of potential projects, both the IAEA and NEA project a decline in the production capacity of both A-II mines (which include operable, promised-to-operate, and idled mines) and B-II mines (which also include planned and potential mines) over the 2025E-2040E period.

Figure 5: Recent underinvestment in exploration



Source: IAEA, NEA, CMBIGM estimates

Figure 6: Forecast of uranium production capacity



Source: IAEA, NEA, CMBIGM estimates

■ **Oversupply can be avoided**

The majority of uranium is traded through long-term contracts rather than in the spot market. This contract-based system allows uranium producers to adjust production schedules based on contract volumes. Furthermore, key producers, such as Cameco and Kazatomprom, adopt disciplined production and sales strategies, enabling them to control output levels. Given the highly concentrated nature of uranium production, oversupply can be avoided as long as major producers maintain a calm and self-restraint approach.

■ **Running out of secondary supply will exacerbate the demand-supply imbalance**

As discussed in the medium-term analysis, the demand-supply deficit depends on secondary supply which has remained at historically low levels due to the previous down cycle. According to WNA data, the average demand-supply deficit accounted for 23% of total demand between 2018 and 2022. By 2050, secondary supply is forecast to satisfy only 4%-11% of global uranium demand, according to WNA projections.

Long-term demand-supply dynamics

■ **Supply deficit to support an elevated uranium price**

The primary driver is on the demand side: (1) governments across the globe are reinforcing their commitments to carbon reduction and energy security, (2) data centers are entering a structural growth phase, and (3) the long-term potential of SMRs is more visible. These factors collectively represent a historical transition in energy markets. Meanwhile, the supply shortfall is likely to persist due to the highly concentrated nature of uranium production, with major producers adhering to disciplined production strategies, coupled with the ongoing depletion of secondary supply.

Figure 7: CMBI and WNA estimates of long-term uranium supply gap

	2030E	2040E	2030E	2040E
	Only factoring in projects under construction & planned		WNA reference scenario	
Reactor (unit)	470	543	474	656
Nuclear capacity (GW)	430	500	444	686
Corresponding uranium demand (tU)	79,143.0	91,920.0	83,840.0	130,000.0
	Supply gap		Supply gap	
A-II capacity: assuming 90% utilization rate (tU)	(18,748.0)	(47,392.0)	(23,446.0)	(85,473.0)
B-II capacity: assuming 90% utilization rate (tU)	17,922.0	(3,495.0)	13,225.0	(41,575.0)

Source: WNA, CMBIGM estimates

■ **Nuclear reactor plants exhibit inelastic demand for uranium**

We expect that rising uranium prices will not affect the demand from nuclear reactors, primarily because uranium is a critical input for reactor operation, while its procurement cost accounts for only a small portion—approximately 11%—of the reactors' total life-cycle costs, as estimated by the IEA. Another key factor is the high cost of the restart of nuclear power plants, which can reach billions of dollars. For instance, the estimated restart costs for Palisades (net capacity of 805 MW) and Three Mile Island-1 (net capacity of 819 MW) are ~US$2bn and US$1.6bn, respectively.

China Insurance

OUTPERFORM

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Accelerate on high-quality value growth

China insurance has entered into a new phase of high-quality transformation under the low interest rate environment. To guard against interest spread loss, regulators have cut the cap of pricing interest rate (PIR) for traditional life products by 100bps over recent two years, ushering a new cycle of the PIR downtrend, in our view. The National Financial Regulatory Administration (NFRA) guided that in future, the guaranteed interest rate of traditional life policies should be benchmarked to market interest rates, i.e. China 10-year government bond yield, to timely reflect the dynamic changes on market volatility to the insurers' liability costs.

With accelerated expansions on the new energy vehicles (NEV) penetration, we expect the market size of auto premiums to further open up, and the introduction of innovative non-auto policies could further diversify underwriting delivery amidst high-quality development.

On the investment front, the average net investment yield (NIY) of listed insurers slipped to 3.4% in 1H24, a sharp contrast to avg. 4.4%/3.8% in FY22/FY23 respectively. So far, China's 10-year government bond yield dropped to below 2.0% (Fig. X), weighing on the risks of spread loss and thus, the valuation of China insurance companies. In the long run, we like the top performers of improved asset/liability duration matching and more balanced asset allocations. **Recommend BUY on CPIC (2601 HK, BUY, TP at HK$35.5), Ping An (2318 HK, BUY, TP at HK$65.1) and China Life (2628 HK, BUY, TP at HK$20.0).**

Life Insurance: **NBV increase will continue to be boosted by margin enhancement.** In 2024, life NBV accelerated thanks to significantly improved NBV margin on the backdrop of stringent regulations upon channels' expense controls and the PIR cuts. We see this trend of margin increase to extend into 2025, given 1) the PIR cuts in Sep-Oct could lower the incremental costs of liability and expand the spreads of new policies; 2) regulators are required to keep the actual settlement rate of floating interest rate products, i.e. participating and universal life, for small and medium-to-large-sized insurers at a level not exceeding 3.3%/3.1%, which helped reduce the cost of existing liabilities; 3) the stringent regulation on bancassurance commissions is likely to extend to the agency channel in 2025, beneficial to the increase of expense margin; 4) increasing sales of participating policies; and 5) lengthened regular-paid policy structure on the back of enhanced agent productivity.

Despite the fading first-year premiums (FYP) momentum this year, we see the new policy premiums of listed insurance companies returned to positive growth in 3Q24, driven by the release of front-loaded demands prior to the PIR cut in Sep-Oct 24. We forecast the FYP growth during the 2025 jumpstart sales to return to a mid-to-high single-digit in 4Q24-1Q25.

P&C insurance: UW profits improved by trimmed expense rate and stabilized claims. P&C exhibited patterns of premium slowdown and surging claims in FY24. Overall, auto premium growth fell short of the year-start estimation and is expected to grow by 4%/6% YoY in FY24E/FY25E, respectively. In 3Q24, avg. ticket size of top P&C insurers' started to stabilize alongside the recovery of new car sales momentum under the support of recently announced "trade-in" policies by the MoF. In Oct, monthly auto premiums was up 18.6% YoY to RMB83.1bn across the industry, setting for the highest monthly growth within the year. NEV passenger car sales penetration steadily increased to 49.8% in Oct. Looking into 2025, we expect the auto expense rate to further narrow and claims ratio to stabilize by edging upon enhanced risk mitigation mgmt. and more accurate pricing models.

In 2024, non-auto insurance was affected by the pace of underwriting of the policy-related policies and amounting claims due to heightened catastrophic losses in 3Q24, which led to seasonal fluctuations on the underwriting profits (UW profit) and premium growth. Looking ahead, we expect the P&C industry will further deepen in the reforms of business upgrading, consolidation, risk defusing and disposals under the support of recently issued “action plan” to boost the high-quality development over the next five years by the NFRA on 6 Dec 2024. We remain positive on the non-auto individual business, i.e. accident and health insurance, in terms of both UW profits and premium growth to diversify non-auto underwriting structure.

Investment: SAA to increase high-yield stocks and TAA to seize trading convictions. The asset allocation of insurance funds can be divided into strategic asset allocation (SAA) and tactical asset allocation (TAA), which targets the long-term and short-term investments respectively. We expect the insurers’ SAA to continue increasing allocations to high-yield stocks, while the TAA to seize short- to mid-term trading opportunities. Under IFRS 9 & 17, we see the fair value chg. of financial assets significantly boosted the sensitivity of insurers’ net profits and net asset value to credit and equity market fluctuations. According to NFRA, life insurance companies increased fund allocation to stocks and equity funds by 17.2%/4.3% from year-start to RMB2.2tn/1.6tn in 1-3Q24, accounting for 13% of total funds, while P&C grew 14.9%/18.1% from year-start to RMB 151bn/212bn, making up for 17% of total funds.

We expect the high-dividend stocks under FVOCI to steadily increase as it will help insurers to gain solid dividend income and hedge against the volatility from fair value chg. to bottom-line. Bond investments ranked in the highest proportions of insurance funds, of which life/P&C insurers each proportioned to 49%/37%. For listed peers, bond investments took 50%-70% of total insurance funds. Given recent regulatory guidance on benchmarking the non-bank depositary rate to 7-day OMO rate (1.5%) by the NFRA, we expect the matured bank deposits could outflow to bond markets for the sake of downgrade bank deposit rate.

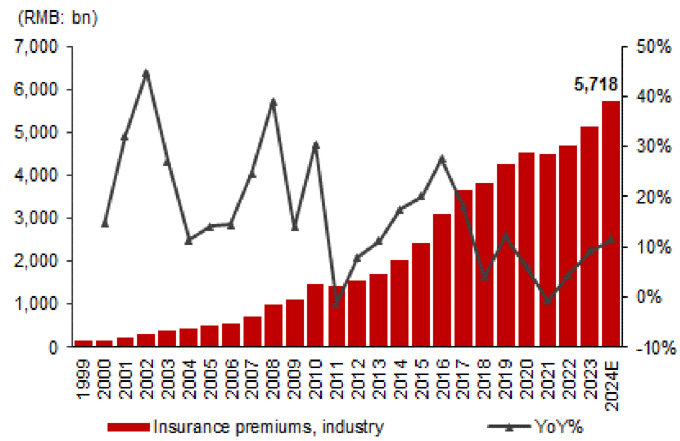
Solvency: CROSS-II to fully adopt; expect bond issuance to accelerate. The CROSS-II is set to be fully adopted by all types of insurance companies in 2025. Core solvency ratio of the industry landed at 135.1% in 3Q24, +6.9pct from year-start implying a steady trend of recovery across the year. Life and P&C core solvency ratios were 119.5%/ 203.9% respectively, +9.0/-2.3pct from year-start showing a diverging pathway. By 6 Dec 2024, a total of 13 insurance companies have issued 16 capital supplemental instruments that accounted for an aggregate of RMB109.6bn within the year, among which 11 were capital supplementary bonds (RMB 79.6bn) and 5 were perpetual bonds (RMB 30.0bn). Within a downward trending interest rate cycle, we believe such exogenous capital supplement, i.e. bond issuance, could gain more tractions to insurers as the cost of debt was 2.15%-2.90%, significantly lower than 3.60%-5.50% as three years before. We expect the scale of insurers’ bond issuance to possibly stay above RMB100bn in FY25, as a total of 19 bonds were issued in FY21, awaiting for first five-year redemption options to swap for a low interest rate.

Valuation and risks: The sector is trading at 0.2x-0.5x FY25E P/EV and 0.4x-0.9x FY25E P/B. We maintain sector rating at “OUTPERFORM” and like the top-runners of improved asset-liability duration match, with continued growth momentum driven by more effective UW structure. **Maintain BUY on CPIC (2601 HK, BUY, TP at HK$35.5), Ping An (2318 HK, BUY, TP at HK$65.1), PICC P&C (2328 HK, BUY, TP at HK$14.0) and AIA (1299 HK, BUY, HK$94.0).**

Downside risks: 1) prolonged low long-term interest rates; 2) capital market volatilities; 3) worse-than-expected new policy sales and margin improvement; 4) underperformed COR.

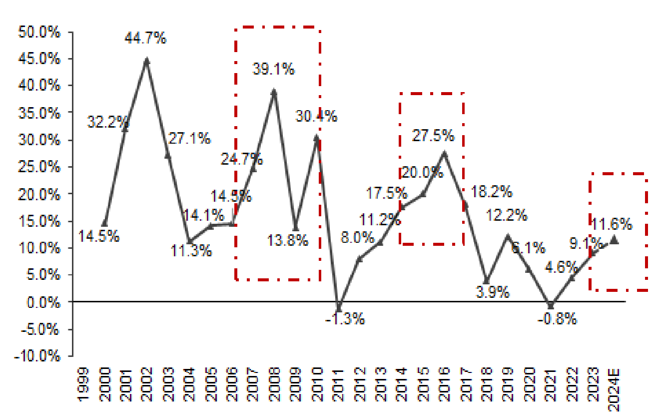
Focus Chart

Figure 1: China insurance premium income, industry



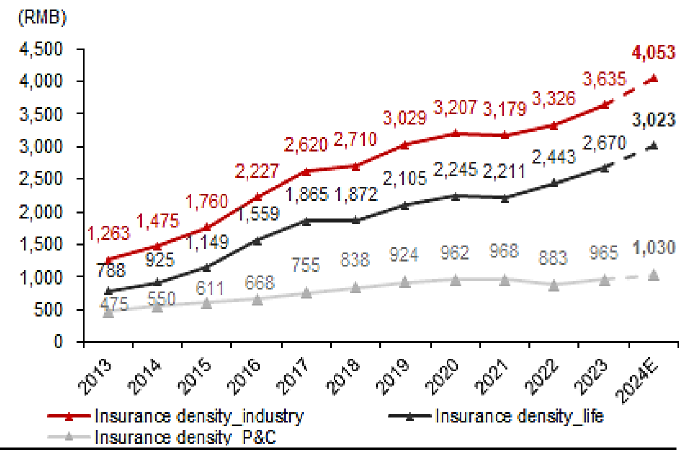
Source: The NFRA, CMBIGM estimates

Figure 2: China insurance premium income YoY growth



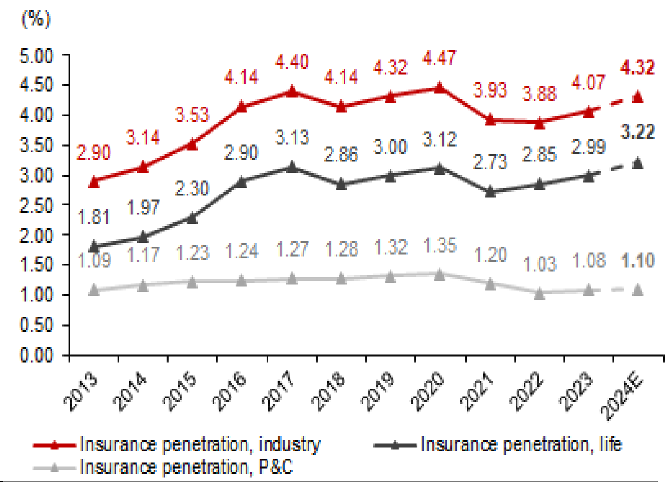
Source: The NFRA, CMBIGM estimates

Figure 3: China insurance density, premiums per capita



Source: The NFRA, CMBIGM estimates

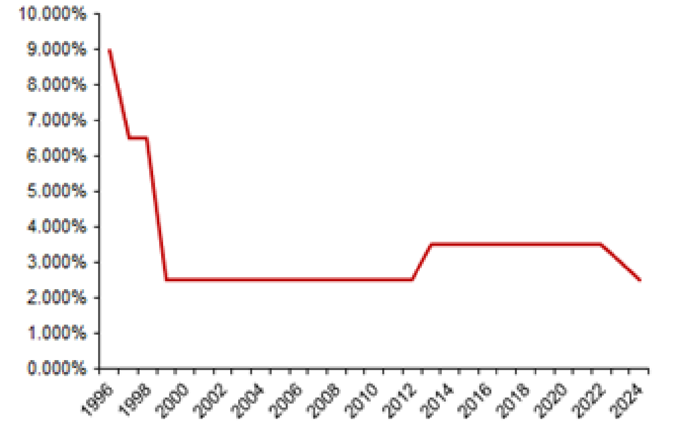
Figure 4: China insurance penetration rate (%)



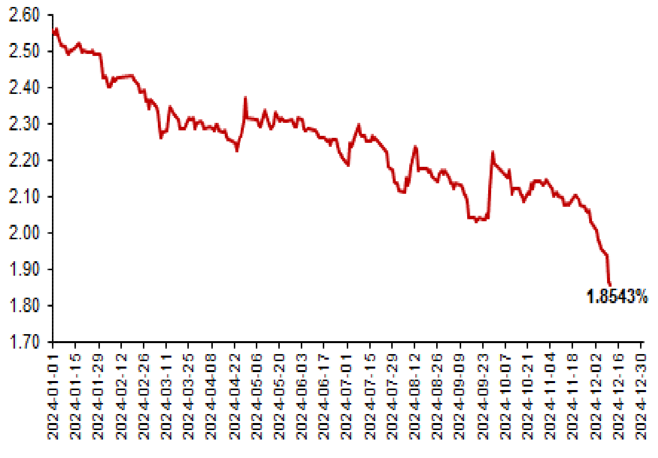
Source: The NFRA, CMBIGM estimates

Figure 5: Upper limit of the PIR of traditional life policies

Figure 6: CN 10-year government bond yield (%)

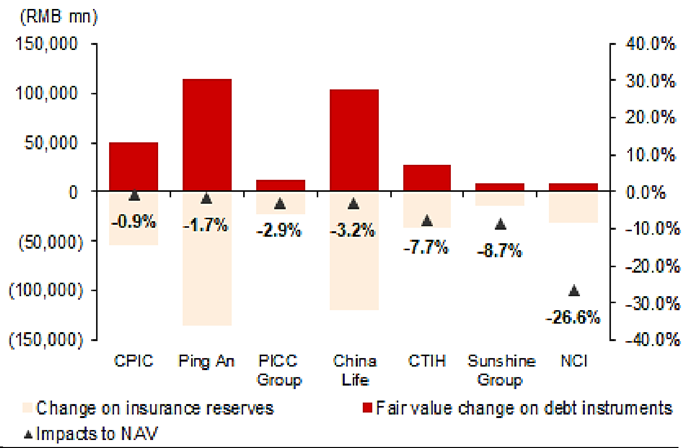


Source: The NFRA, Wind, CMBIGM



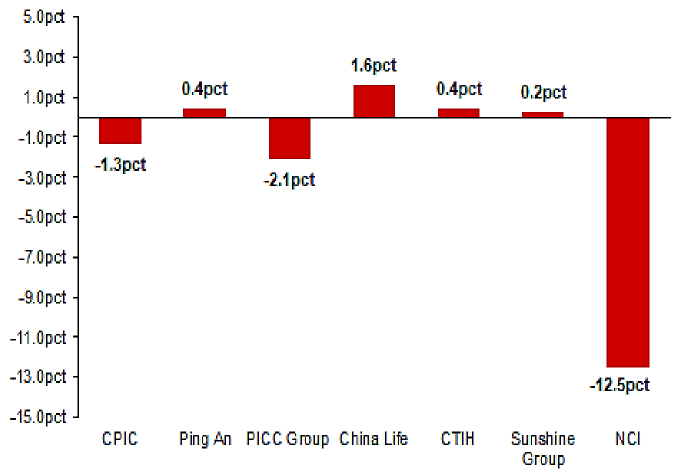
Source: The NFRA, Wind, CMBIGM

Figure 7: NAV sensitivity to interest rate movements (%)



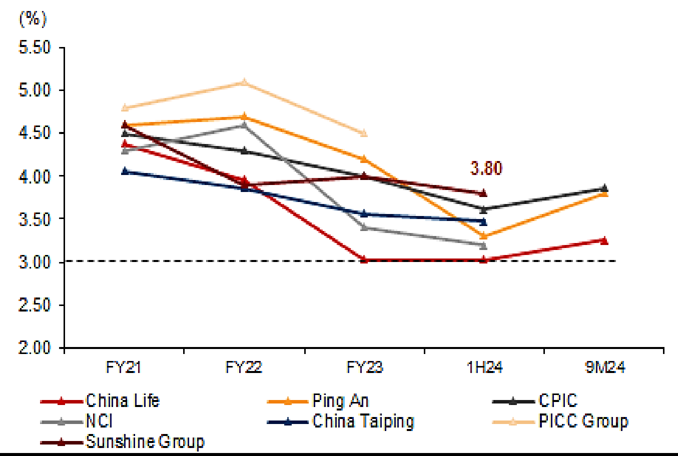
Source: Company data, CMBIGM

Figure 8: 1H24 NAV sensitivity chg. to interest rate



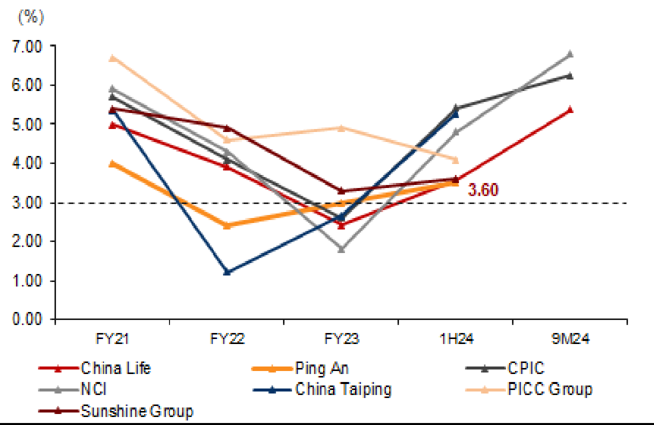
Source: Company data, CMBIGM

Figure 9: Net investment yield (NIY) of listed insurers



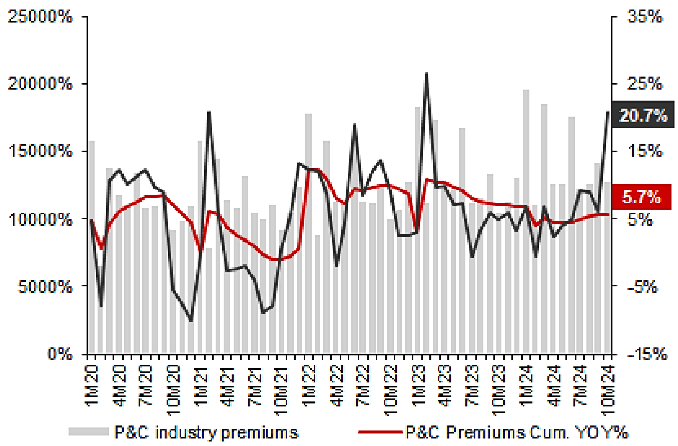
Source: Company data, CMBIGM

Figure 10: Total investment yield (TIY) of listed insurers



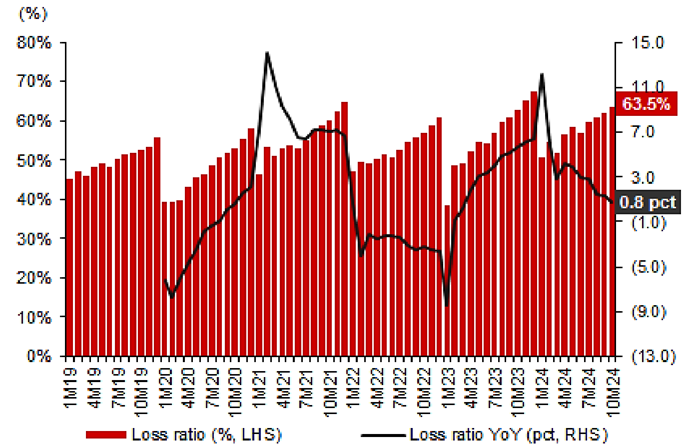
Source: Company data, CMBIGM

Figure 11: P&C insurance premium scale & YoY%



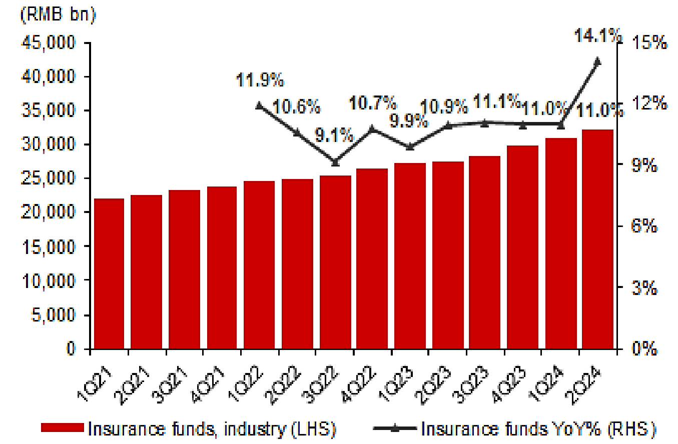
Source: The NFRA, CMBIGM

Figure 12: P&C loss ratio and YoY change (pct)



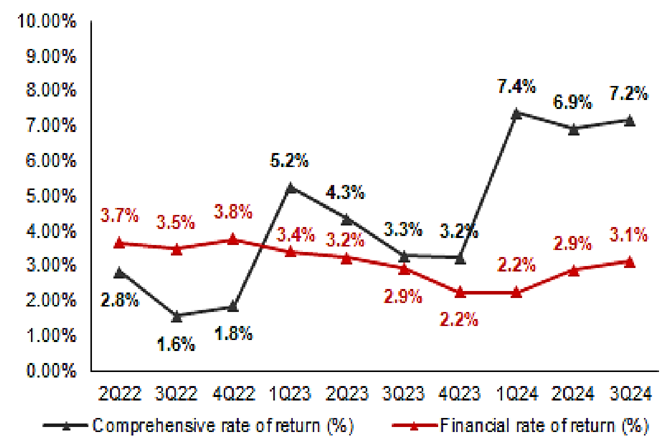
Source: The NFRA, CMBIGM

Figure 13: Scale of insurance funds and YoY%, industry



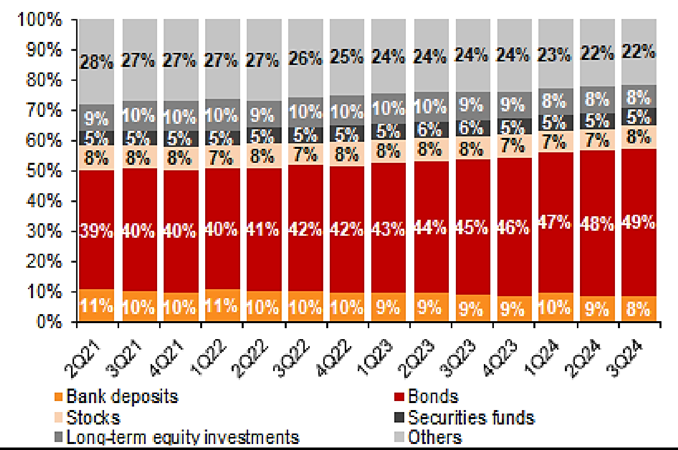
Source: The NFRA, CMBIGM

Figure 14: Financial/Comprehensive rate of return (%)



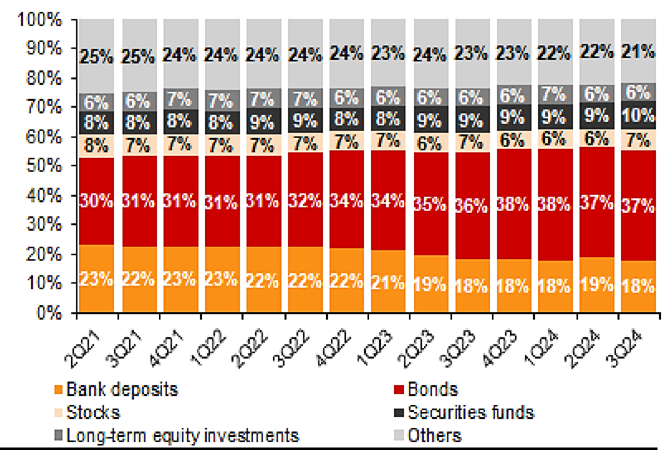
Source: The NFRA, CMBIGM

Figure 15: Life insurance asset allocation structure (%)



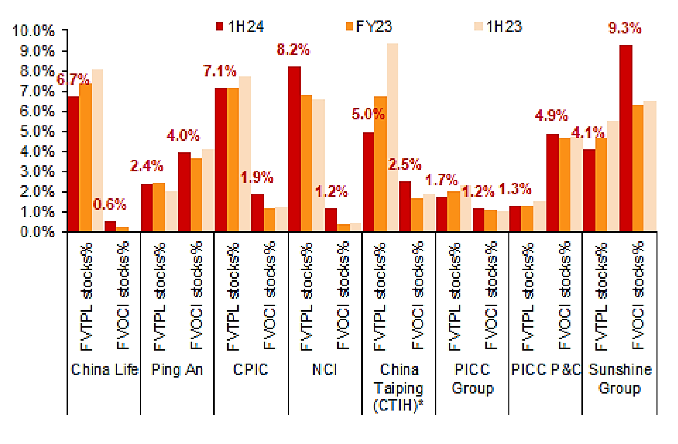
Source: The NFRA, CMBIGM

Figure 16: P&C insurance asset allocation structure (%)



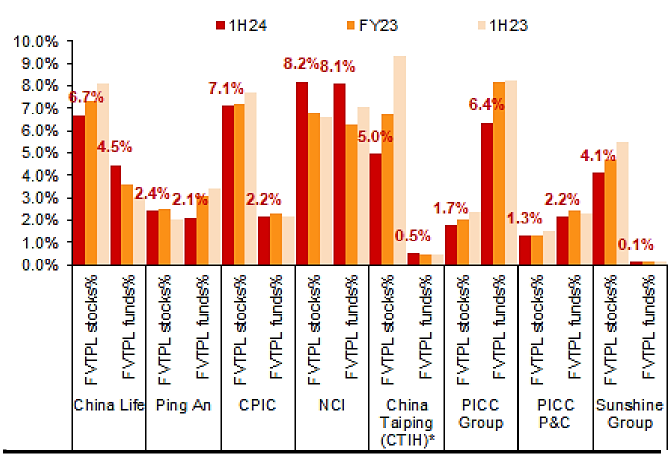
Source: The NFRA, CMBIGM

Figure 17: Stocks categorization in FVTPL and FVOCI (%)



Source: Company data, CMBIGM

Figure 18: FVTPL assets in stocks and equity funds (%)



Source: Company data, CMBIGM

2025 China Insurance Outlook

■ Accelerate on high-quality value growth

Over recent two years, Chinese regulators have downgraded the upper limit of the pricing interest rate of traditional life products for 100bps, and upon recent downgrade of PIR for all types of life insurance products in Sep-Oct 2024, we see that China insurance industry enters into a new phase of high-quality transformation. Currently, the upper limit of the pricing interest rate of traditional, participating and universal life products is 2.5%, 2.0% and 1.5% respectively, marking a new era of low pricing interest rate for life insurance companies.

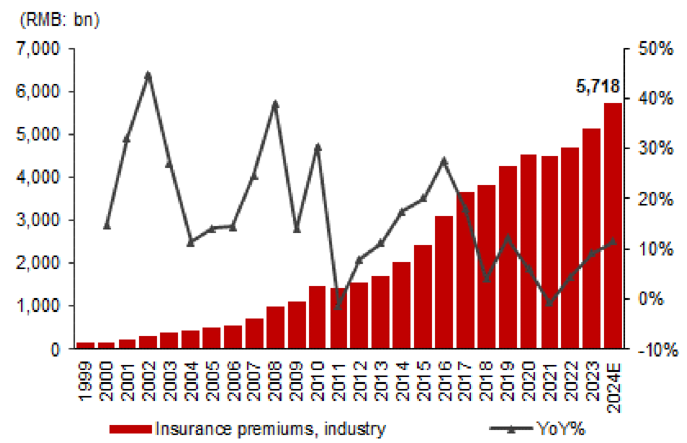
For life insurance companies, we expect NBV to increase by margin enhancement. Unlike 2023, life NBV was boosted by the dual effects of FYP increase and margin improvement. In 2024, we see life NBV accelerated on significantly improved NBV margin across all channels thanks to stringent regulations on the expense rate controls and the PIR cuts.

We see this trend of margin increase to extend into 2025, as 1) the Sep-Oct PIR cuts could lower the life insurers' incremental cost of liability and expand spreads on new policies; 2) regulators required insurers to keep the actual settlement rate of floating yield products, i.e. participating and universal life, for small and medium-to-large-sized insurers at a level not exceeding 3.3%/3.1%, which helped to reduce the cost of existing liabilities; 3) stringent regulation on bancassurance commissions is likely to extend to the agency channel in 2025, beneficial to the increase of expense margin; 4) increasing sales of participating policies; and 5) lengthened regular-paid policy structure on the back of enhanced agent productivity.

Despite the fading first-year premiums (FYP) momentum this year, we see new policy sales of listed life insurance companies returned to positive growth in 3Q24, driven by the release of front-loaded customer demands prior to the PIR cut in Sep-Oct 24. We forecast the FYP growth during the 2025 jumpstart sales to return to a mid-to-high single-digit in 4Q24-1Q25.

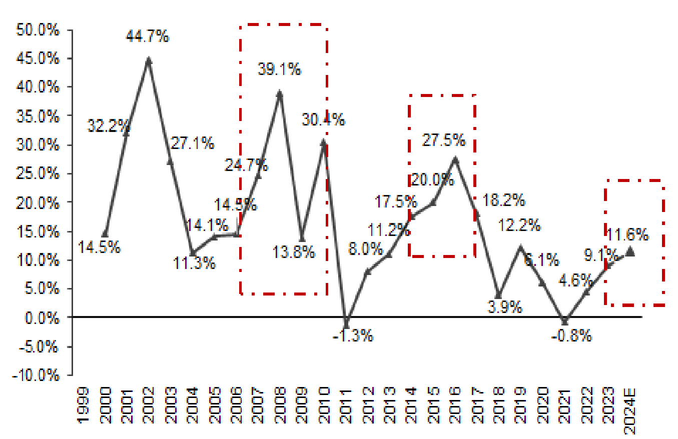
From a top-down perspective, we expect total premium income of the industry to reach a level above RMB 5.7tn in 2024, implying 11% YoY growth, higher than that of the nominal GDP growth target at 5.0%. China insurance density (meaning total premium income / total population) could be RMB4,053 per capita, implying 11.5% YoY growth (Figure. 19) and China insurance penetration rate (meaning total premium income / GDP) could land at 4.3% (assuming FY24E nominal GDP growth at 4.5%-5.0%, Fig. 20), +0.3pct YoY. Personal life likely remains to be the core driver of premium income growth and we see upside alongside increasing residential savings demands and structural economic growth potential in 2025.

Figure 19: China insurance premium income, industry



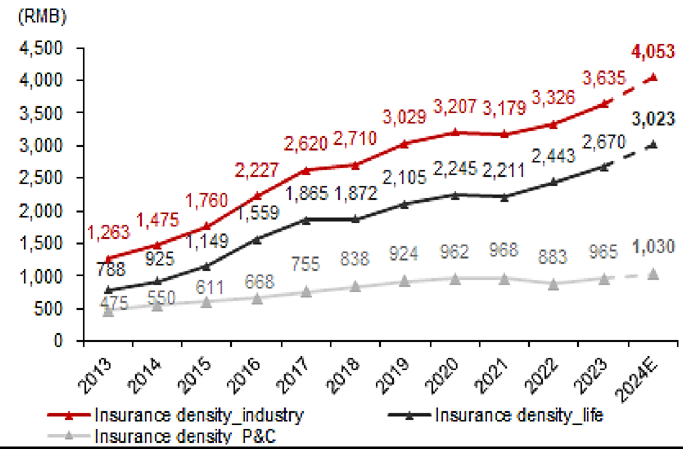
Source: The NFRA, CMBIGM estimates

Figure 20: China insurance premium income growth



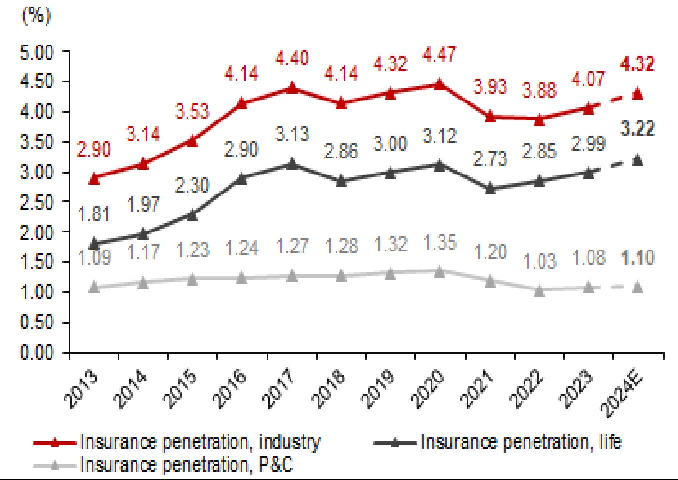
Source: The NFRA, CMBIGM estimates

Figure 21: China insurance density, premiums per capita



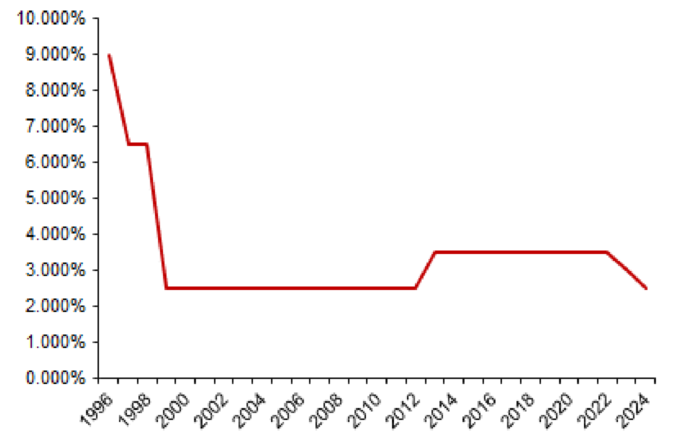
Source: The NFRA, CMBIGM estimates

Figure 22: China insurance penetration rate (%)



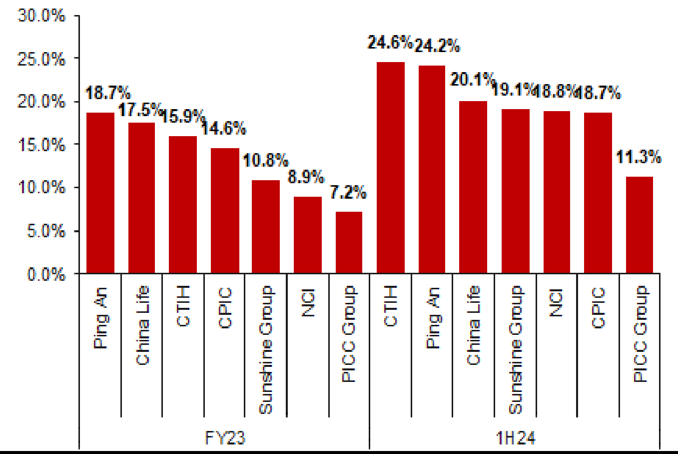
Source: The NFRA, CMBIGM estimates

Figure 23: Upper limit of the PIR of traditional life policies



Source: The NFRA, Wind, CMBIGM

Figure 24: NBV margin of CN listed insurers, FY23/1H24



Source: Company data, CMBIGM

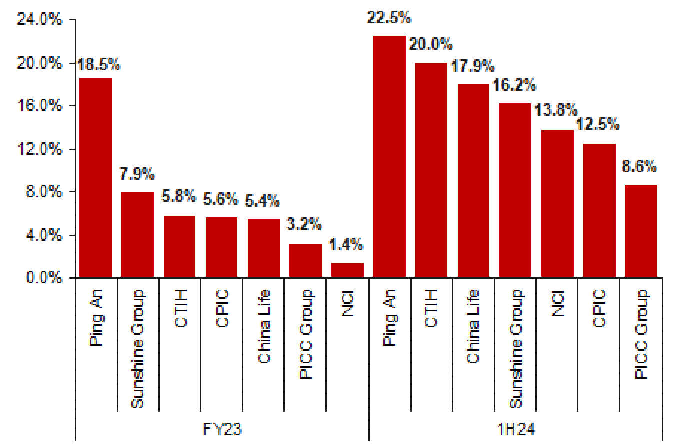
■ Impressive bancassurance NBV margin increase paves way for agency

Bancassurance NBV margin substantially increased to a double-digit level across the sector thanks to the stringent regulatory controls on the channel's commission expenses. By 1H24, Ping An had the highest banca NBV margin at 22.5% (FYP basis) among seven listed life insurers, +6.8pct on a like-for-like basis. In 1H24, the ranking of bancassurance NBVM is Ping An (22.5%) > Taiping (20.0%) > China Life (17.9%) > Sunshine (16.2%) > New China Life (13.8%) > China Pacific Insurance (12.5%) > People's Insurance Company of China (8.6%), which enhanced the banca NBV growth by Taiping (+304%) > People's Insurance Company of China (+250%) > New China Life (+97%) > China Life (+81%) > Sunshine (+31%) > China Pacific Insurance (+27%), respectively.

We expect the regulatory commission controls could extend to the agency channel in 2025, with three potential impacts: 1) agency NBV is likely to be further enhanced given reduced expense rates conducive to improving product margins; 2) agency FYP could decline, as the commission incentives for agents would be narrowed, and 3) total number of agents could scale down, as the policy will exert adverse impacts on the agents' salaries. Despite this, we expect the number core agency force to remain stable after years of agency reform.

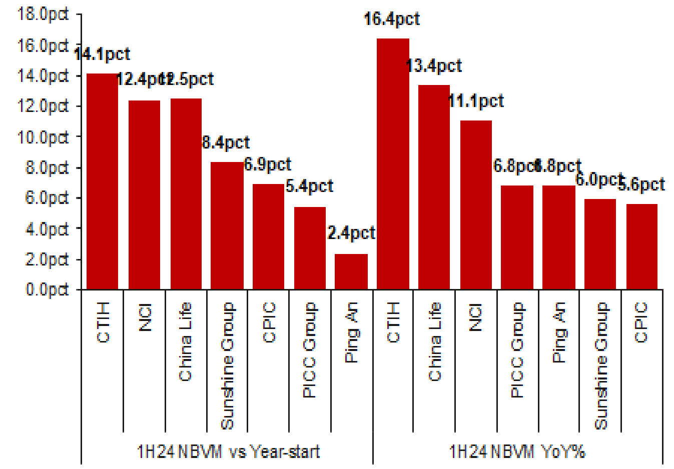
From a perspective of life products, we expect traditional life products, i.e. increasing sum-assured whole life insurance, annuities, and endowments, to serve as the flagship in the jumpstart sales of 2025, as agency sales capability for floating yield policies, e.g. participating and universal life could take more time to factor in the daily sales performance. Looking into 2025, we expect the par sales could rise steadily, and win a share of premium income by >50% over the next three to five years.

Figure 25: Bancassurance NBVM (FYP basis), FY23/1H24



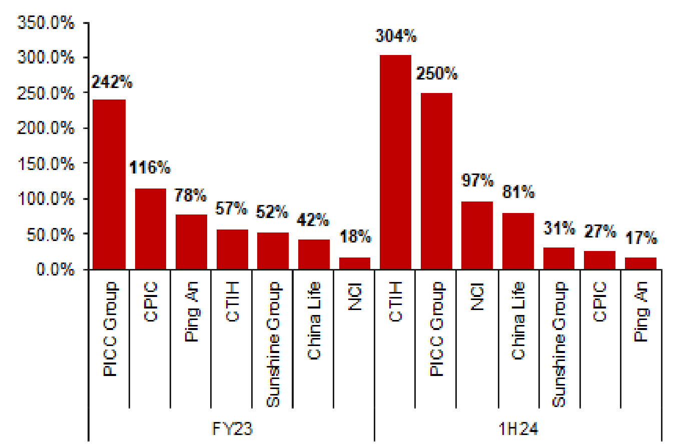
Source: Company data, CMBIGM

Figure 26: Bancassurance NBV margin increase (pct)



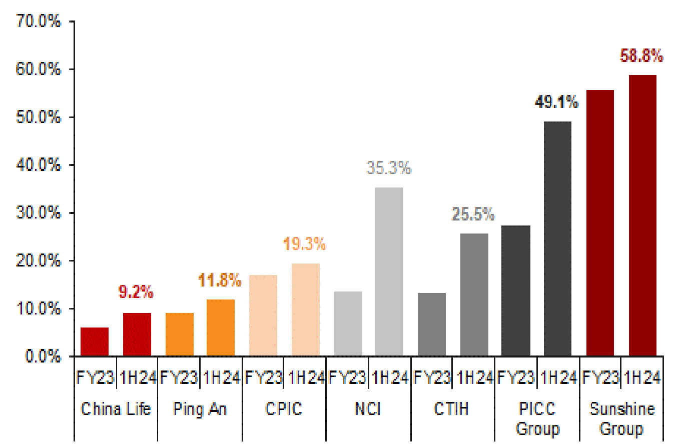
Source: Company data, CMBIGM

Figure 27: Bancassurance NBV YoY growth (%)



Source: Company data, CMBIGM

Figure 28: Banca NBV (FYP basis) in FY23/1H24



Source: Company data, CMBIGM

■ Proactive asset-liability duration match to minimize the spread loss

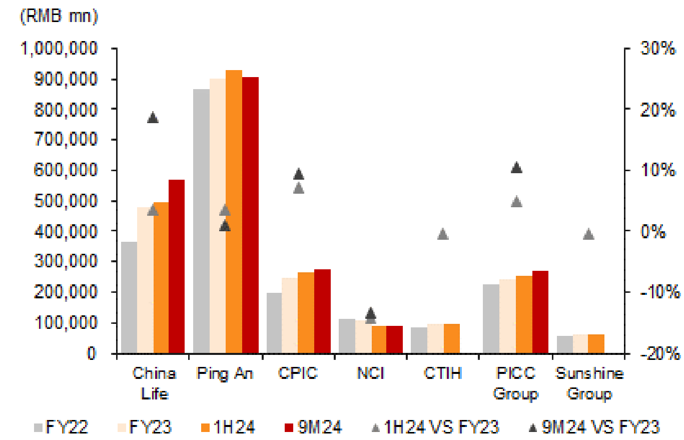
The profitability of life insurance companies can be divided into three parts: investment interest margin, operating variances on selling, general and administrative expenses, and operating variances on mortality and morbidity claims. Among which, investment interest margin is the core driver of profitability. With declining long-term interest rates, investment returns of life insurers have been significantly narrowed, weighing on market concerns over the interest spread loss across China life insurance companies. We regard the essence of the problem is the duration mismatch of the insurers' assets and liabilities which could result in reinvestment risks over the long run.

In 1H24, average net investment yields of listed insurers dropped to 3.4%, whereas the metric of 2022/2023 was recorded as 4.4%/3.8%, respectively. By 3Q24, the annualized net investment yields of China Life, Ping An and CPIC were 3.26%, 3.80% and 3.86%, down 44/40/15bps year-over-year. The NIY contraction adversely impacted on the insurers' investment interest margin and thus profitability weighing on the concerns over spread loss.

We reckon the interest rate risk exposure to both assets and liabilities side of the insurers' balance sheet and derive the result based on the impacts of fair value change to net asset value (NAV). By 1H24, the least-to-most ranking of fair value change to affect the insurers' net asset value is CPIC (-0.9%) > Ping An (-1.7%) > PICC Group (-2.9%) > China Life (-3.2%) > China Taiping (-7.7%) > Sunshine Group (-8.7%) > New China Life (-26.6%), which signaled for the status-quo of asset-liability duration match of the top listed life insurers.

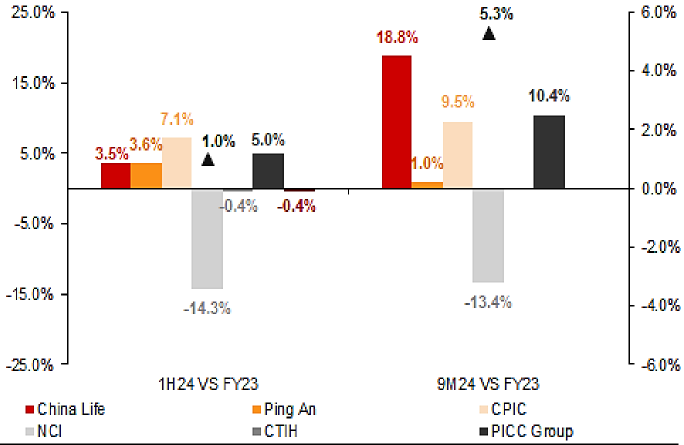
We are optimistic on top life insurance companies such as China Life, Ping An, and CPIC, as their asset-liability duration match ranked top among peers.

Figure 29: 9M24 NAV and NAV change vs FY23



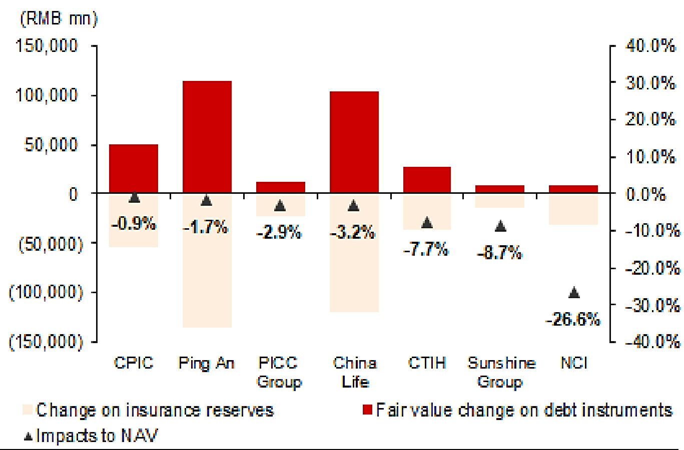
Source: Company data, CMBIGM

Figure 30: 9M24/1H24 NAV change vs FY23



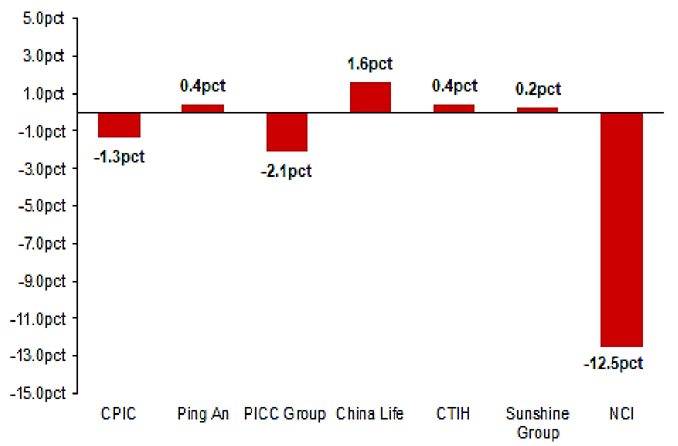
Source: Company data, CMBIGM

Figure 31: Impacts of fair value chg. to net asset value



Source: Company data, CMBIGM

Figure 32: 1H24 NAV sensitivity chg. to interest rate



Source: Company data, CMBIGM

Valuation

Figure.33: H-share listed insurers' valuation comparison

Company	Ticker	Rating	TP (LC)	Last Price (LC)	Upside (%)	Mkt Cap (LC bn)	P/EV(x)		P/B (x)		Div. Yield (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
HK/China												
Ping An	2318 HK	BUY	65.10	47.0	*38.5%*	997	0.54 x	0.51 x	0.80x	0.73x	6.1%	6.5%
China Life	2628 HK	BUY	20.00	15.4	*29.9%*	1,099	0.28 x	0.26 x	0.71x	0.68x	9.3%	5.4%
CPIC	2601 HK	BUY	35.50	25.2	*40.9%*	332	0.37 x	0.35 x	0.81x	0.75x	4.5%	4.6%
NCI	1336 HK	BUY	14.00	12.1	*16.1%*	266	n.a	n.a	0.99x	0.92x	5.2%	5.4%
CTIH	966 HK	BUY	22.00	12.8	*72.4%*	19	n.a	n.a	0.82x	0.78x	0.0%	0.0%
PICC Group	1339 HK	-	n.a	25.3	-	144	0.28 x	0.27 x	0.70x	0.66x	4.6%	5.0%
PICC P&C	2328 HK	-	n.a	12.3	-	45	0.15 x	0.14 x	0.47x	0.44x	3.3%	3.7%
ZhongAn	6060 HK	-	n.a	3.9	-	326	0.48 x	0.44 x	0.61x	0.56x	5.0%	5.5%
Sunshine	6963 HK	NR	n.a	2.9	n.a	4	0.28x	0.27x	0.49x	0.47x	6.5%	7.3%
						Average	**0.34x**	**0.32x**	**0.7x**	**0.7x**	**4.9%**	**4.8%**
Regionals												
AIA	1299 HK	BUY	94.0	58.2	61.7%	631	1.14 x	1.00 x	1.61 x	1.61 x	3.0%	3.4%
Prudential	2378 HK	BUY	125.0	65.9	89.7%	177	0.45 x	0.39 x	1.16 x	1.02 x	2.6%	2.8%
						Average	**0.80x**	**0.70x**	**1.38 x**	**1.31 x**	**2.8%**	**3.1%**

Source: Bloomberg, CMBIGM estimates | Note: stock price data quoted by market close on 11/12/2024.

Investment Thesis

China insurance sector is trading at 0.2-0.5x FY25E P/EV and 0.4-0.9x FY25E P/BV, with dividend yields at 4%-7%. In 4Q24, we think the sector's share price fluctuations were mainly a reflection of the game play on incremental policy stimuli, and expect to see the sector upside alongside the upcoming round of China beta momentum. Maintain sector OUTPERFORM, and recommend BUY on **CPIC (2601 HK, BUY, TP: HK$35.5), China Life (2628 HK, BUY, TP: HK$20.0), Ping An (2318 HK, BUY, TP: HK$65.1) and AIA Group (1299 HK, BUY, TP: HK$94.0).**

Downside risks: 1) prolonged low long-term interest rates; 2) capital market volatilities; 3) worse-than-expected new policy sales and margin improvement; 4) underperformed COR.

China Property

OUTPERFORM

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March towards healthier development

Living needs drove initial recovery with speculative demands gone

Nationwide property sales volume recorded 654mn sqm in 10M24, down 17% YoY, with a steeper decline than that in 10M23. High-frequency data indicates that new home sales volume in 30 cities rose 16% MoM in November, supported by the "9/24 policy package." In the secondary market, YTD sales volumes turned positive YoY as of November 30, with a 15% MoM increase in the month. New home prices showed a wider YoY decline in 11M24 compared to 11M23, while secondary home prices in some cities began to stabilize on MoM basis. Policy measures have successfully unleashed pent-up, need-driven demand for home purchases, significantly reducing investment-driven demand. This demand-led recovery is expected to better align with the industry's long-term sustainable development.

Supply shrinking with the ratio of LGFV land purchases declining

In 10M24, residential land supply dropped 33% YoY, with the transaction rate falling to 71%, down 8 ppt. Residential land transfer fees as a share of total fees fell to 73%, down 7 ppt. The accommodation value declined by 13% YoY, marking its first negative YoY change since 2021. This decline reflects weakened buyer sentiment, reduced developer confidence, and decreased LGFV land acquisitions. In 2023, LGFV-backed purchases supported higher land prices, but liquidity pressures in 2024 have sharply curtailed LGFV activity, leading to a gradual normalization of land prices.

Outlook: Upswing at the end of 2024, followed by volume contraction in 2025

We expect that new home sales in 2024 and 2025 to decrease by 20% and 11%, respectively, reaching RMB7.4tn and RMB7.0tn. Sales of existing homes are expected to reach RMB7.1tn and RMB7.5tn, respectively, and are poised to become the leading segment in the real estate market. Our forecast is primarily based on: 1) Policy: Existing policies will continue to have residual effects, but the likelihood of major new policies (e.g., lifting purchase restrictions in tier-1 cities) in the short term is low. Challenges in implementing unsold home buying mean significant inventory reduction is might sustain into 2025. 2) Supply Side: Reduced land supply and lower developer activity will limit future high-quality property availability. Increased subsidized housing may also divert demand. 3) Demand: Concerns over new home delivery will continue on driving purchase activities to secondary market. For detailed assumptions and scenario analysis, please refer to Figure 41.

Investment Thesis

In 2024, outperforming real estate stocks were mainly those experiencing "distressed recoveries" or "earnings rebounds" players (see Figure 47), while property management stocks excelled due to "strong expansion capabilities" or "parent company turnarounds" (see Figure 48). Despite early signs of sales recovery, inventory levels remain at historical highs, and key policies require more time to be implemented. Therefore, we do not yet see clear evidence of the sector bottoming out. For stocks, we recommend the following: 1) Comprehensive developers with strong commercial operations, like CR Land (1109 HK), and Longfor (960 HK). With ongoing reductions in development activities, their retail operations are better positioned to withstand risks and benefit first from the economic recovery. Retail assets also tend to secure additional financing more easily in the current financial environment. 2) Beneficiaries of the existing housing market, including brokerages such as KE Holdings (BEKE US), which, as the market leader, will benefit in the long term from increased turnover in the secondary housing market, as well as PM companies for their sustainable business model, such as CR MixC (1209 HK), Greentown Service (2869 HK), Poly Services (6049 HK), Binjiang Services (3316 HK), Onewo (2602 HK). 3) Developers that have consistently acquired high-quality sellable resources, such as those conducting land purchase at a low intensity and featuring high-quality land selection. 4) Developers that have achieved significant progress in credit profile restoration, which will likely be short-term opportunities.

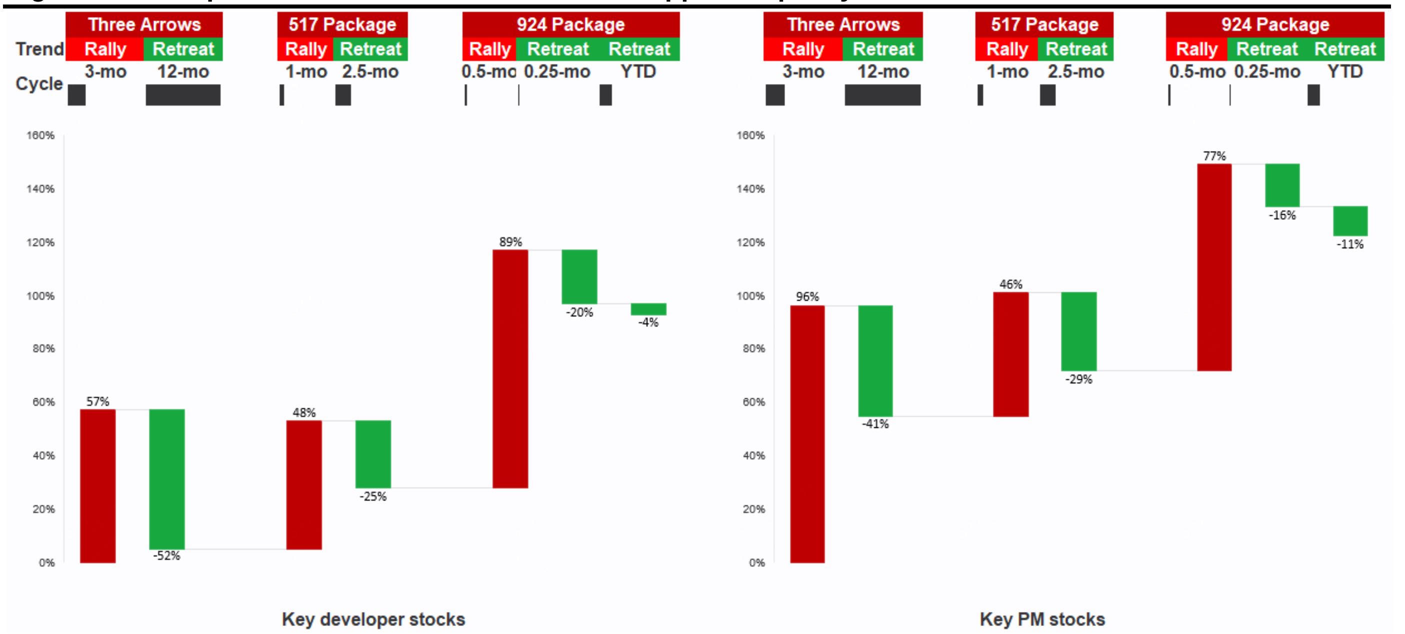
Key charts

Figure 1: Property sales growth forecast

Property sales value (RMB tn)	2022	2023	2024E	2025E	2026E
Primary market	**10.96**	**10.30**	**8.26**	**7.37**	**7.13**
YoY	*-33%*	*-6%*	*-20%*	*-11%*	*-3%*
Secondary market	**5.50**	**7.10**	**7.14**	**7.51**	**7.81**
YoY	*-21%*	*29%*	*1%*	*5%*	*4%*
Combined	**16.46**	**17.40**	**15.40**	**14.88**	**14.94**
YoY	*-29%*	*6%*	*-11%*	*-3%*	*0%*
Property sales volume ('00 mn sqm)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Primary market	**10.33**	**9.48**	**8.02**	**7.42**	**7.26**
YoY	*-34%*	*-8%*	*-15%*	*-7%*	*-2%*
Secondary market	**3.84**	**5.59**	**6.62**	**7.33**	**7.78**
YoY	*-21%*	*46%*	*18%*	*11%*	*6%*
Combined	**14.17**	**15.07**	**14.64**	**14.75**	**15.03**
YoY	*-29%*	*6%*	*-3%*	*1%*	*2%*
Property price (RMB/sqm)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Primary market	**10,610**	**10,864**	**10,298**	**9,924**	**9,826**
YoY	*2%*	*2%*	*-5%*	*-4%*	*-1%*
Secondary market	**14,328**	**12,698**	**10,794**	**10,254**	**10,049**
YoY	*n.a.*	*-11%*	*-15%*	*-5%*	*-2%*
Combined	**11,617**	**11,545**	**10,522**	**10,088**	**9,941**
YoY	*n.a.*	*-1%*	*-9%*	*-4%*	*-1%*

Source: NBS, BEKE, CMBIGM estimate

Figure 2: Stock performance after three waves of supportive policy releases



Source: Wind, CMBIGM (as of December 4, 2024)

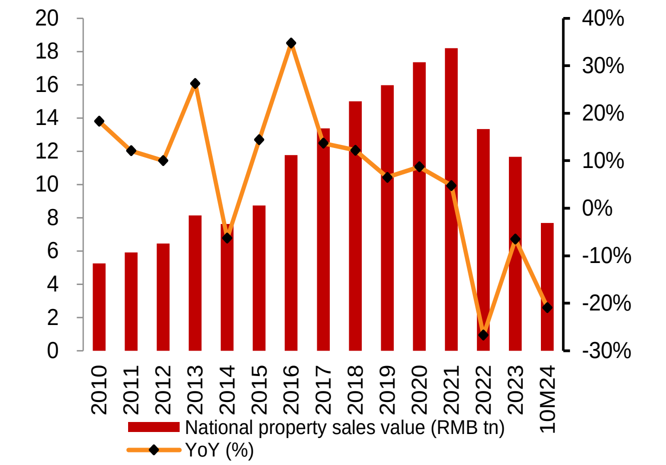
Sales: New Home Market Contracting as Existing Home Sales Surge

New home market

■ **Total sales continue to shrink**

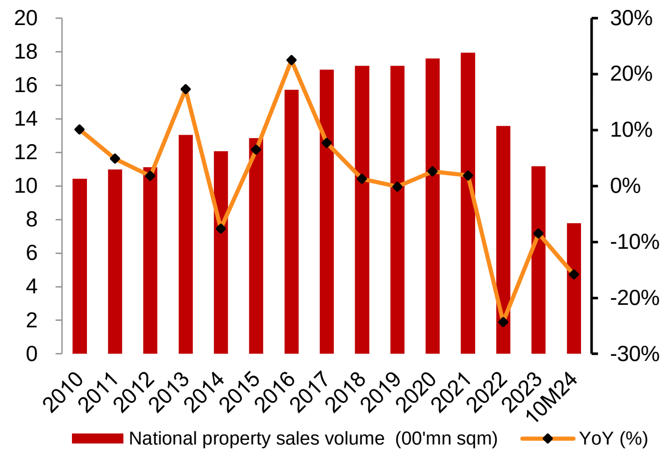
According to NBS data, 10M24 housing transaction value totaled RMB6.75 tn, down 22.0% YoY and transactions recorded 654mn sqm, down by 17.7% YoY, with the contraction significantly widening compared to 2023. The contraction was more pronounced compared to 2023, driven by the economic downturn and weak income growth expectations. Demand-side policy stimulus intensified throughout the year. The "517 policy package" provided a short-term boost to June sales, while the "924 policy package" exceeded market expectations, sustaining strong sales performance even after the September peak. In October, monthly sales value reached RMB724.6bn, a 7.3% MoM decline but a 0.8% YoY increase. Sales volume in October was 65.8mn sqm, down 17.5% MoM but nearly stable YoY with just a 0.5% decrease.

Figure 3: National property sales value



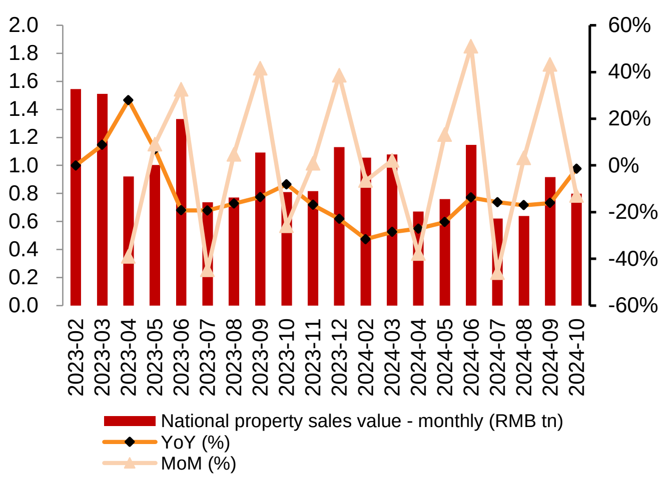
Source: NBS, CMBIGM

Figure 4: National property sales volume



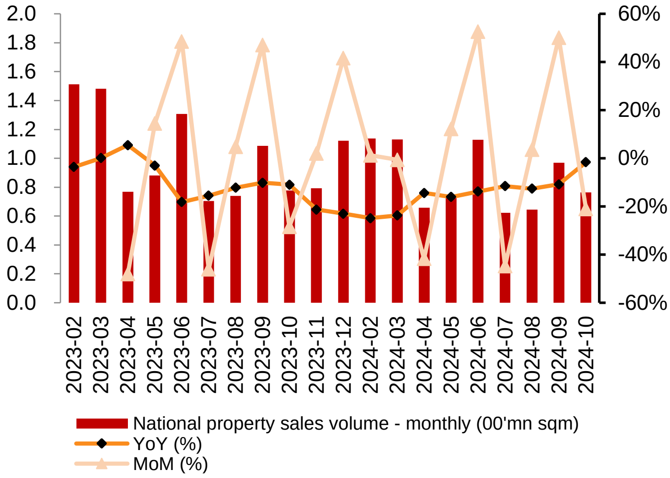
Source: NBS, CMBIGM

Figure 5: National property sales value - monthly



Source: NBS, CMBIGM

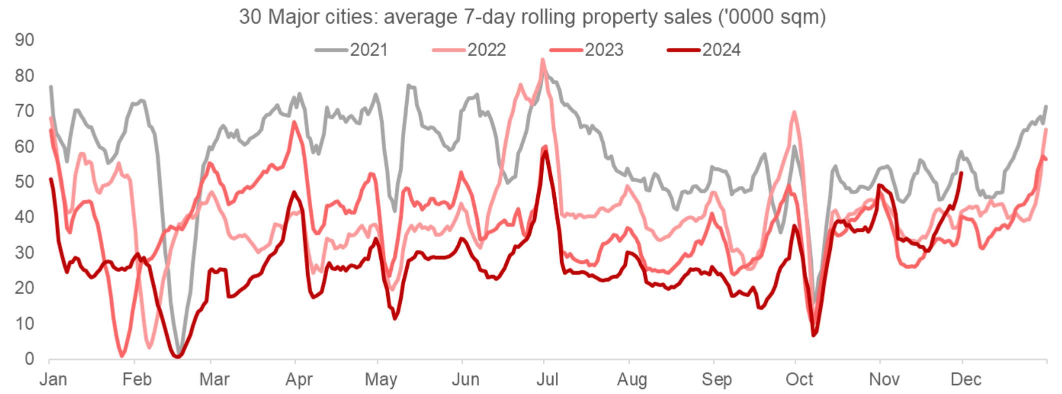
Figure 6: National property sales volume - monthly



Source: NBS, CMBIGM

Our high-frequency data tracker (contract registration data) shows that new home sales remained strong in November. As of November 30, 2024, sales for new homes in 30 major cities grew by 20% YoY and 16% MoM by area. However, YTD sales were still down approximately 27%.

Figure 7: New home sales in 30 major cities – Daily (As of December 30, 2024)



YoY 同比 - new home	vs 2023	vs 2022	vs 2021	vs 2020	vs 2019
Jan - Feb	-39%	-47%	-60%	-20%	-49%
Mar	-47%	-23%	-58%	-23%	-49%
Apr	-39%	-20%	-62%	-46%	-54%
May	-38%	-23%	-57%	-52%	-52%
Jun	-19%	-45%	-49%	-50%	-45%
Jul	-16%	-39%	-59%	-60%	-56%
Aug	-24%	-42%	-52%	-63%	-56%
Sep	-32%	-48%	-54%	-67%	-62%
Oct	-4%	-6%	-23%	-41%	-38%
Nov MTD	**20%**	1%	-24%	-38%	-33%
QTD	**8%**	-2%	-23%	-39%	-35%
YTD	**-27%**	-32%	-52%	-48%	-49%

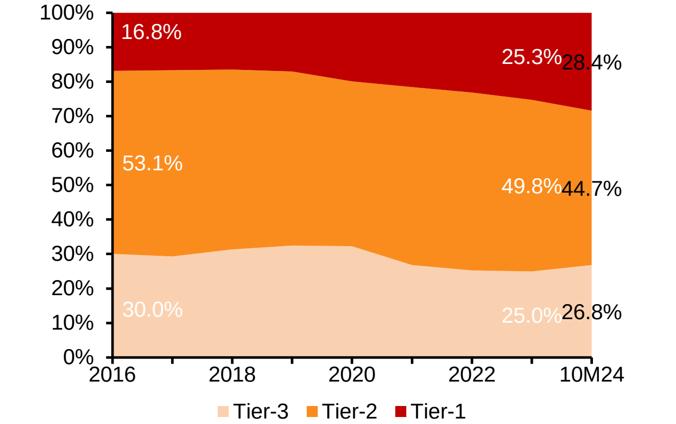
MoM 月环比	
Feb	-50%
Mar	118%
Apr	-11%
May	5%
Jun	24%
Jul	-21%
Aug	-10%
Sep	-4%
Oct	46%
Nov MTD	**16%**
WoW 周环比	
2024 Nov 30	**33%**

Source: Wind, CMBIGM

- **Dumbbell pattern sales distribution: Increased concentration in tier-1 and tier-3 cities**

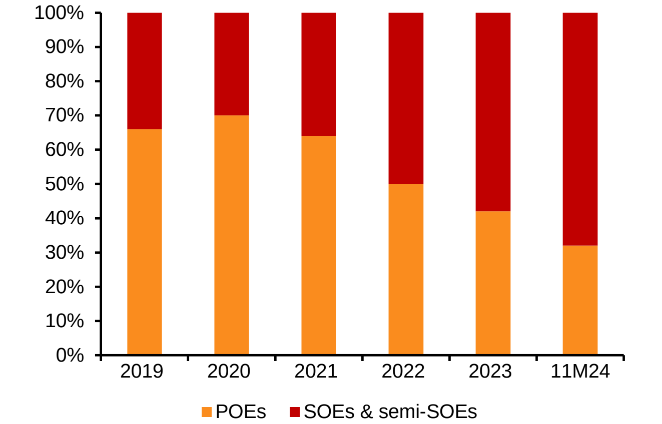
As China's population peaks and urbanization slows, higher-tier cities continue to attract net population inflows due to their industrial advantages and economic resilience, supporting stronger housing price expectations. Among 30 major cities, the share of new home sales in tier-1 cities increased from 16.8% in 2016 to 25.3% in 2023, further rising to 28.4% in 10M24. Conversely, the share for tier-2 cities declined steadily over this period. Notably, tier-3 cities reversed their downward trend in 2024, with their share increasing from 25% in 2023 to 26.8% by October 2024. This shift has created a "dumbbell-shaped" sales structure, concentrating activity in tier-1 and tier-3 cities while reducing the prominence of tier-2 cities. We attribute this trend to unemployed individuals returning to their hometowns for work, a pattern likely to persist into 2025.

Figure 8: Housing units sold in different city tiers



Source: Wind, CMBIGM

Figure 9: Top 50 developers breakdown by type



Source: Wind, CMBIGM

- **Persistent decline in POEs participation**

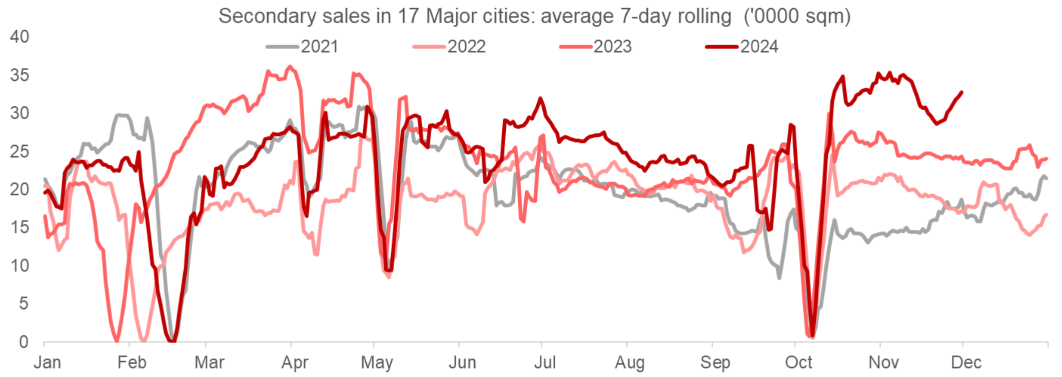
During the upcycle, privately-owned enterprises (POEs) expanded aggressively, while SOEs remained conservative. Since China's real estate crisis in August 2021, SOEs have enjoyed significant credit advantages, facing less liquidity pressure and retaining land acquisition capabilities. In contrast, private firms have slowed or halted land acquisitions, leading to a sharp decline in sellable resources and sales velocity, exacerbated by concerns over unfinished projects. Consequently, SOEs and private firms have diverged in sales performance, with private firms increasingly exiting the market. According to CRIES, the number of POEs in the top 50 list fell from 33 in 2019 to 16 by November 2024, reducing their share from 66% to 32% (Figure 9).

Secondary market

- **Existing home market maintains strong momentum**

The secondary housing market in 2024 has been building on the momentum from 2023, consistently outperforming the new home market. According to our high-frequency tracker, as of November 30, 2024, YTD transaction volume across 16 cities increased by 3% YoY despite a high base last year. In November alone, monthly transaction volume rose 15% MoM and 27% YoY. This strong performance can be attributed to the following factors: 1) Increased supply: weak long-term market confidence has driven more homeowners to sell early, significantly increasing supply. 2) Price competitiveness: Higher listing volumes have intensified competitive pressure, naturally driving down secondary home prices (Figure 11), making them increasingly cost-effective compared to new homes. 3) Unfinished project risk: The financial crises of POE developers have heightened "unfinished project concerns" among buyers. At the same time, SOEs have faced sales and cash flow pressures, leading to cost-cutting measures that have raised dissatisfaction upon new home deliveries. These factors have diverted more demand from the new home market to the secondary market. 4) Prioritizing established utility: In response to economic downturns and reduced consumer spending, end-user buyers are shifting focus from investment to residential utility. Secondary homes, with their well-developed supporting infrastructure, offer practical advantages that many new developments may lack. 5) Policy support and transaction efficiency: Many local policy packages feature measures to boost the secondary housing market. Transactions for secondary homes are more convenient and efficient, leading to a faster response to inclusive policies.

Figure 10: Secondary home sales in 16 cities – daily (As of December 30, 2024)

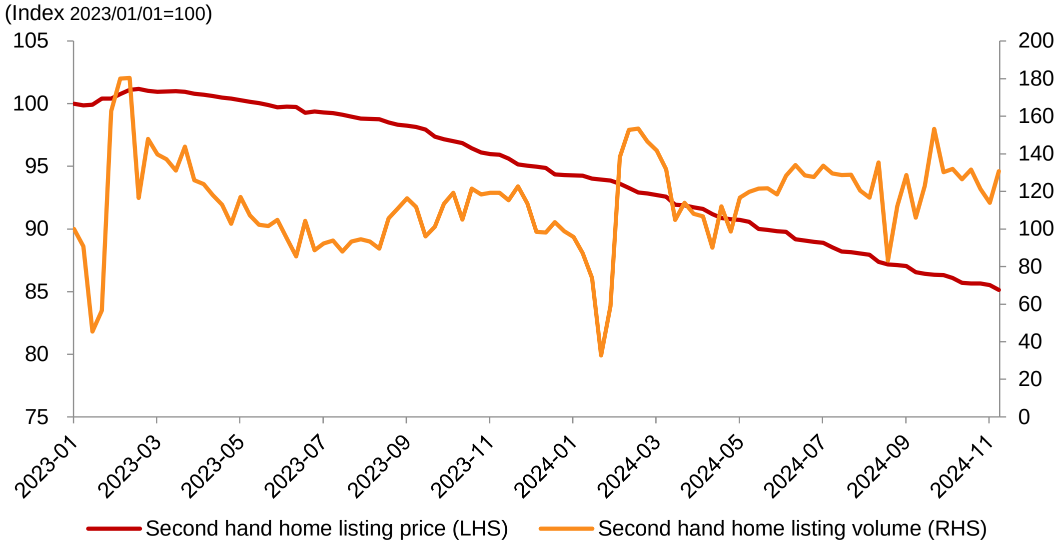


YoY 同比 - Second hand	vs 2023	vs 2022	vs 2021	vs 2020	vs 2019
Jan - Feb	-3%	26%	-11%	67%	12%
Mar	-31%	24%	-10%	53%	0%
Apr	-8%	36%	-3%	20%	-7%
May	-5%	43%	12%	9%	-8%
Jun	10%	17%	18%	-4%	7%
Jul	37%	26%	29%	-2%	6%
Aug	9%	11%	25%	-7%	-3%
Sep	4%	18%	50%	-13%	-2%
Oct	21%	60%	147%	50%	44%
Nov MTD	**27%**	61%	93%	39%	48%
QTD	**24%**	61%	115%	44%	46%
YTD	**3%**	31%	22%	18%	8%

MoM 月环比	
Feb	-52%
Mar	114%
Apr	8%
May	-3%
Jun	6%
Jul	8%
Aug	-14%
Sep	-7%
Oct	23%
Nov MTD	**15%**
WoW 周环比	
2024 Nov 30	**13%**

Source: Wind, CMBIGM

Figure 11: Second-hand home listing volume/price Index (As of December 30, 2024)



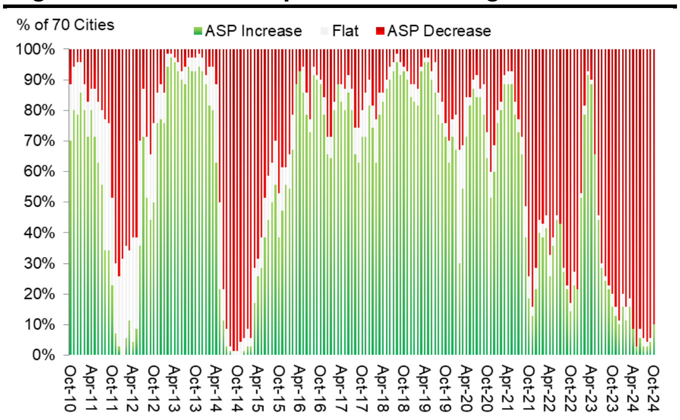
Source: Wind, CMBIGM

Housing Price

■ **Historical YTD decline in new home prices**

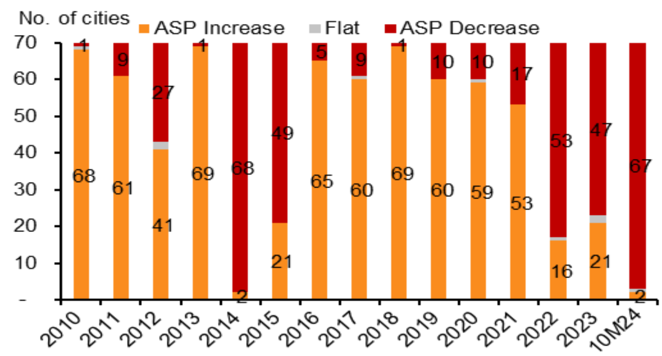
According to National Bureau of Statistics, in November 2024, among 70 major cities, prices of new homes declined in 63 cities, with the number of cities experiencing price declines exceeding 55 throughout the year. From January to October 2024, 67 cities booked new home price decreases and 2 booked increases (vs. decreases in 53 cities, increases in 16 cities in 10M23). When considering different tiers, new home prices in 70 cities cumulatively declined by 5.6%, significantly larger than the -1% decline in 2023, marking the largest drop in history. Tier-3 cities were the main drag, with a cumulative decline of 5.9%, while tier-1 and tier-2 cities recorded annual declines of -4.0% and -5.4%, respectively. As shown in Figure 15, since 3Q21, price trends for new homes in high- and low-tier cities have gradually diverged. Tier-2 and tier-3 cities dragged overall prices in 70 cities into a downward trajectory, while tier-1 cities exhibited a volatile upward trend until June 2023, after which they succumbed to downward pressure and began declining.

Figure 12: New home price MoM change in 70 cities



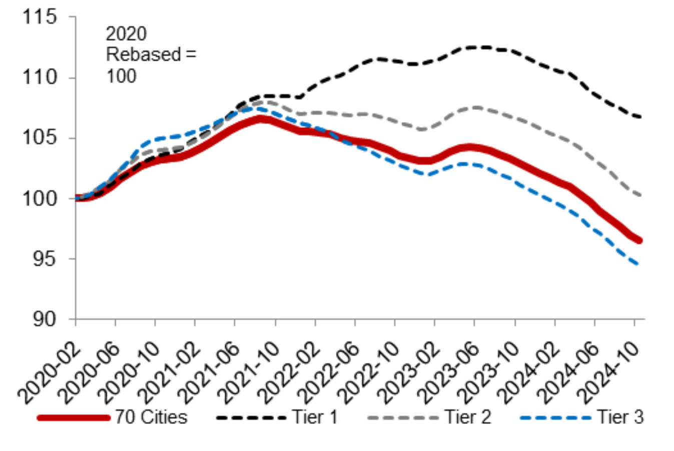
Source: NBS, CMBIGM

Figure 13: New home price annual change in 70 cities



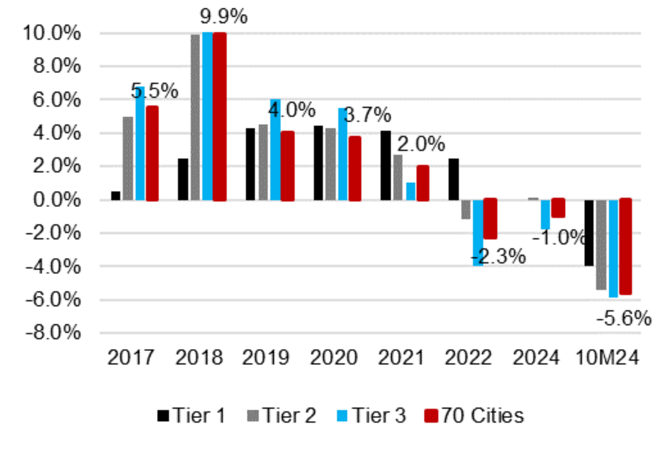
Source: NBS, CMBIGM

Figure 14: New home price in 70 cities - monthly



Source: NBS, CMBIGM

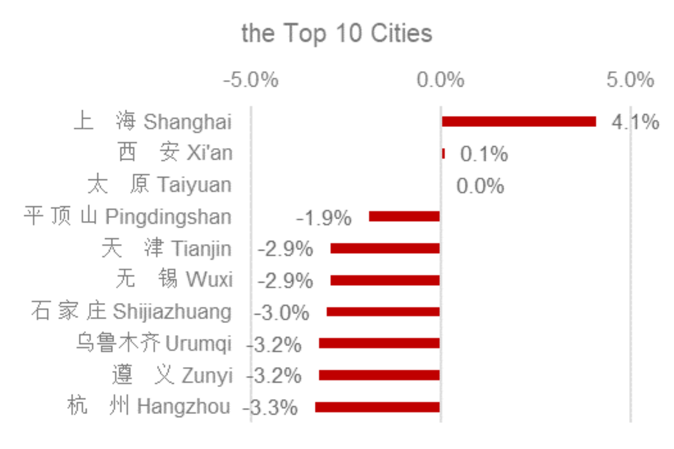
Figure 15: New home price in 70 cities - annual



Source: NBS, CMBIGM

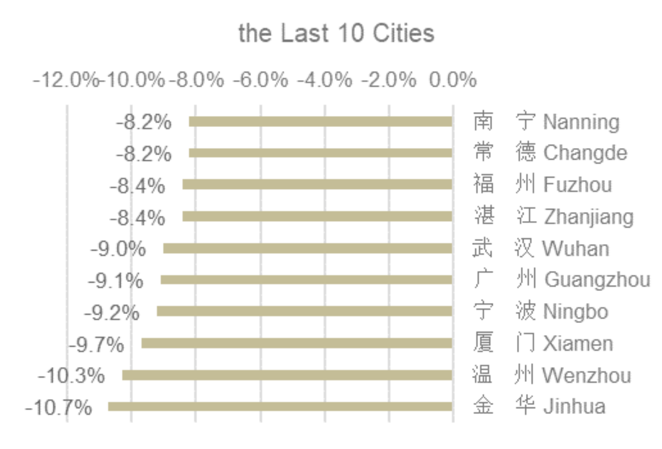
In terms of city performance, from January to October 2024, the top 10 cities with the highest cumulative increases in prices are shown in the charts below. Among them, only Shanghai and Xi'an recorded positive growth, while Taiyuan remained flat. All other cities showed negative growth. Among the bottom 10 cities, price declines ranged between 8-11%, with three cities located in the Yangtze River Delta, three in the Guangxi-Guangdong region, and two in Fujian Province.

Figure 16: New home price changes (Jan-Oct 2024)



Source: NBS, CMBIGM

Figure 17: New home price changes (Jan-Oct 2024)

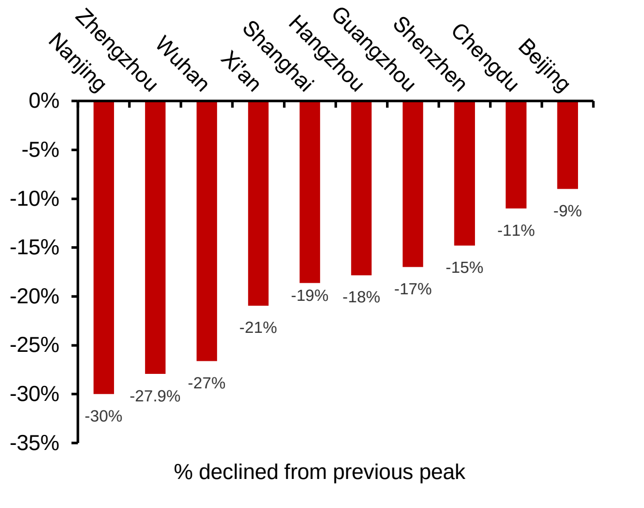


Source: NBS, CMBIGM

- **Existing homes: Continued price cuts in exchange for volume**

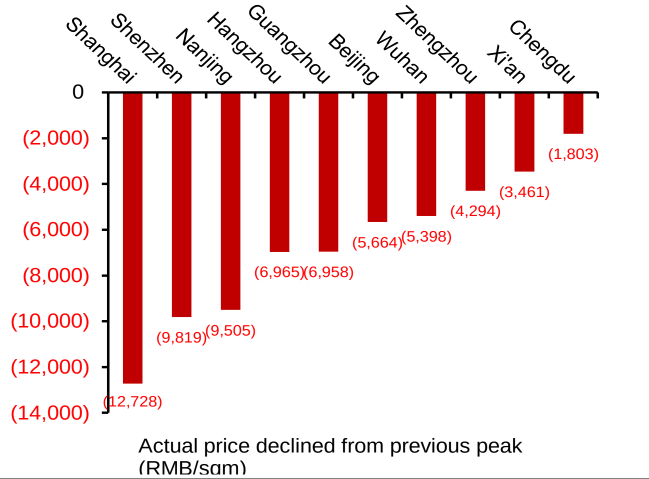
Reviewing data from Fang.com, we note that secondary home transaction prices have been in a downward trend for over three years since August 2021, without a signal of recovery. As of November 2024, among the 10 key cities we have tracked, second-hand home transaction prices had, on average, fallen an average of 19% from the peak in August 2021. Cities experiencing the steepest declines include Nanjing (-30%), Zhengzhou (-28%), and Wuhan (-27%). Among tier-1 cities, Shanghai, Guangzhou, Shenzhen, and Beijing saw declines of 19%, 17%, 15%, and 9%, respectively. In terms of actual transaction prices per sqm, Shanghai, Shenzhen, and Nanjing had seen decreases of approximately RMB12,700, RMB9,800, and RMB9,500, respectively.

Figure 18: Second-hand home transaction price (Oct 2023 vs. Aug 2021) - % decline from previous peak



Source: Fang.com, CMBIGM

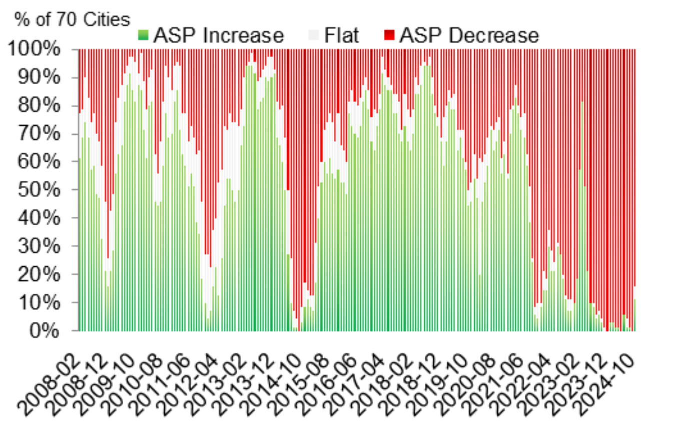
Figure 19: Second-hand home transaction price (Oct 2023 vs. Aug 2021) – Actual price decline from previous peak (RMB/sqm)



Source: Fang.com, CMBIGM

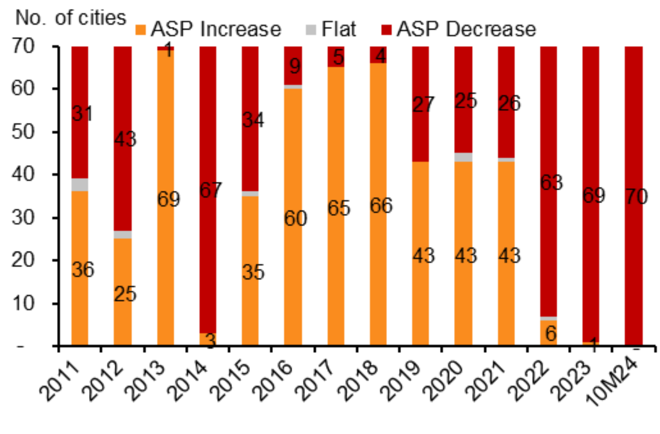
In terms of YTD performance, the overall decline in second-home prices across the country has been more pronounced compared to the decline in new home prices. According to data from NBS, from January to October 2024, all 70 cities booked secondary home price decreases (similar to 10M23). Overall, as of October 2024, the average price of existing homes in 70 major cities had declined by 7.7% year-to-date, a significant expansion from the full-year drop of 4.2% in 2023. Specifically, tier-1, tier-2, and tier-3 cities experienced cumulative declines of 7.4%, 7.6%, and 7.7%, respectively, all markedly wider than their respective full-year declines in 2023.

Figure 20: Second-hand home price MoM change in 70 cities



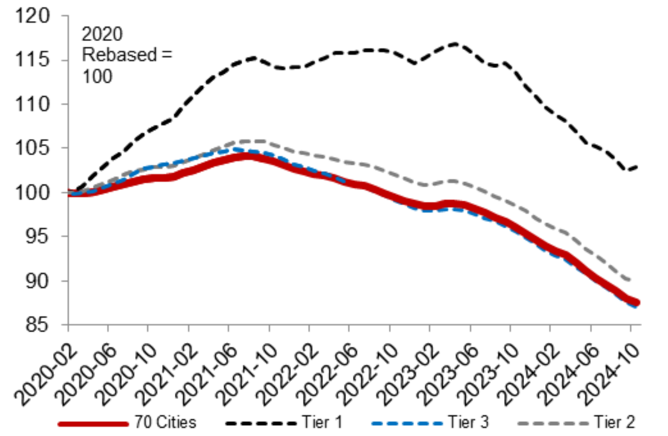
Source: NBS, CMBIGM

Figure 21: Second-hand home price annual change in 70 cities



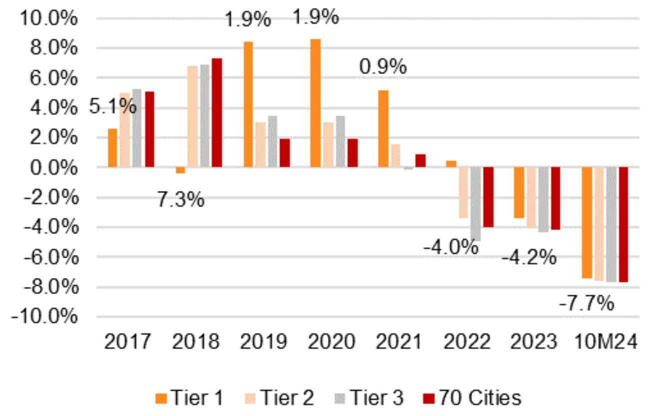
Source: NBS, CMBIGM

Figure 22: Second-hand home price in 70 cities - monthly



Source: NBS, CMBIGM

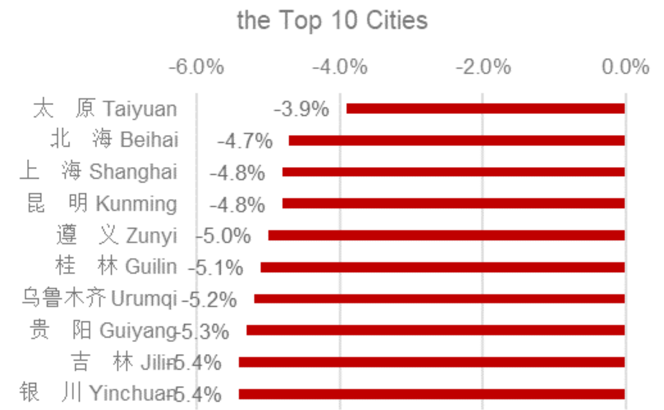
Figure 23: Second-hand home price in 70 cities - annual



Source: NBS, CMBIGM

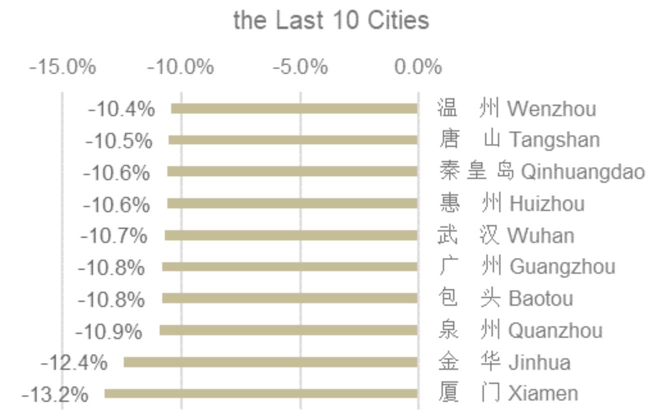
Based on city performance in 10M24, the following figure illustrates the top 10 cities with the best cumulative performance in secondary home prices. Among them, Taiyuan performed the best among the 70 cities, with only a 3.9% decline. Among cities with the largest price declines, two cities each were from Fujian, Zhejiang, Guangdong, and Hebei provinces.

Figure 24: Second-hand home price change (Jan-Oct 2024)



Source: NBS, CMBIGM

Figure 25: Second-hand home price change (Jan-Oct 2024)



Source: NBS, CMBIGM

- **MoM ASP declines halted in several cities**

Monthly data shows that the "924 policy package" significantly boosted transaction volume, leading to a halt in month-over-month price declines in some cities. In October 2024, eight of the 70 major cities experienced stable existing home prices, the most since May 2023. Notable cities include Beijing, Hangzhou, Shenzhen, Chongqing, Chengdu, Shanghai, and Wuhan, etc.

Figure 26: Secondary residential price MoM changes by city tier– October 2024

Tier 1	Tier 2	Tier 3	70 Cities						
一线	二线	三线	70城						
0.40%	-0.40%	-0.60%	-0.50%						
Beijing	Tianjin	Shijiazhuang	Taiyuan	Hohhot	Shenyang	Dalian	Changchun	Harbin	Shanghai
北 京	天 津	石家庄	太 原	呼和浩特	沈 阳	大 连	长 春	哈尔滨	上 海
1.00%	-0.30%	-0.60%	-0.70%	-1.20%	0.00%	-1.00%	-0.50%	-0.70%	0.20%
Nanjing	Hangzhou	Ningbo	Hefei	Fuzhou	Xiamen	Nanchang	Jinan	Qingdao	Zhengzhou
南 京	杭 州	宁 波	合 肥	福 州	厦 门	南 昌	济 南	青 岛	郑 州
-0.40%	0.80%	-0.20%	-0.70%	0.00%	0.10%	-0.30%	-0.80%	-0.50%	-0.80%
Wuhan	Changsha	Guangzhou	Shenzhen	Nanning	Haikou	Chongqing	Chengdu	Guiyang	Kunming
武 汉	长 沙	广 州	深 圳	南 宁	海 口	重 庆	成 都	贵 阳	昆 明
0.10%	-0.50%	-0.40%	0.70%	-1.00%	-0.40%	0.50%	0.40%	-0.50%	-1.00%
Xi'an	Lanzhou	Xining	Yinchuan	Urumqi	Tangshan	Qinhuangdao	Baotou	Dandong	Jinzhou
西 安	兰 州	西 宁	银 川	乌鲁木齐	唐 山	秦皇岛	包 头	丹 东	锦 州
-0.90%	-1.40%	-0.40%	-0.20%	-0.50%	-1.10%	-1.20%	-1.30%	-1.50%	-1.00%
Jilin	Mudanjiang	Wuxi	Yangzhou	Xuzhou	Wenzhou	Jinhua	Bengbu	Anqing	Quanzhou
吉 林	牡丹江	无 锡	扬 州	徐 州	温 州	金 华	蚌 埠	安 庆	泉 州
-0.70%	-0.40%	0.00%	-0.30%	-0.50%	-0.50%	-0.60%	-0.20%	-0.30%	-1.20%
Jiujiang	Ganzhou	Yantai	Jining	Luoyang	Pingdingshan	Yichang	Xiangfan	Yueyang	Changde
九 江	赣 州	烟 台	济 宁	洛 阳	平顶山	宜 昌	襄 阳	岳 阳	常 德
-0.60%	-0.30%	-0.30%	-0.10%	-0.60%	-0.30%	-1.30%	-1.00%	-0.80%	-0.50%
Huizhou	Zhanjiang	Shaoguan	Guilin	Beihai	Sanya	Luzhou	Nanchong	Zunyi	Dali
惠 州	湛 江	韶 关	桂 林	北 海	三 亚	泸 州	南 充	遵 义	大 理
-0.60%	-0.40%	-0.40%	-0.40%	-0.20%	-0.80%	-1.00%	-0.20%	-0.50%	-0.70%

Source: NBS, CMBIGM

Supply: Accelerated shrinkage in land supply and steep decline in land purchase by key developers

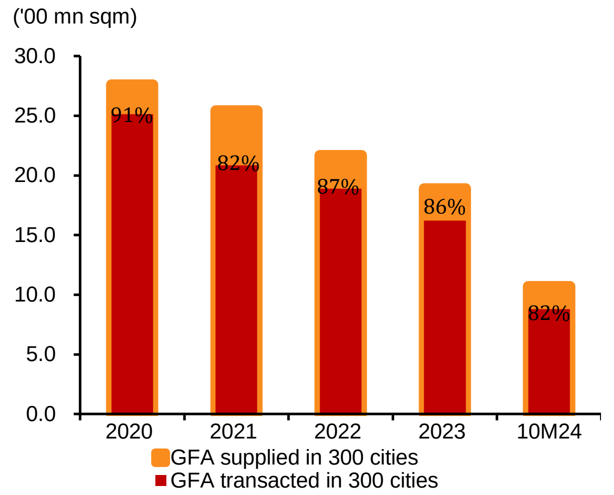
Concurrent decline in residential land supply volume and prices, with share of residential continuing to shrink

■ Land supply shrinks, residential land transaction rate drops

In 10M24, 300 cities supplied a total of 1.07bn sqm of various types of land, marking a 20% YoY decline (vs. -12.9% in 2023), accounting for only 57% of the total in full-year 2023. GFA transacted amounted to 880mn sqm, marking a 16% decline (vs. -14.3% in 2023), accounting for only 54% of the previous year's total. The transaction rate fell from 86% in 2023 to 82% in 10M24.

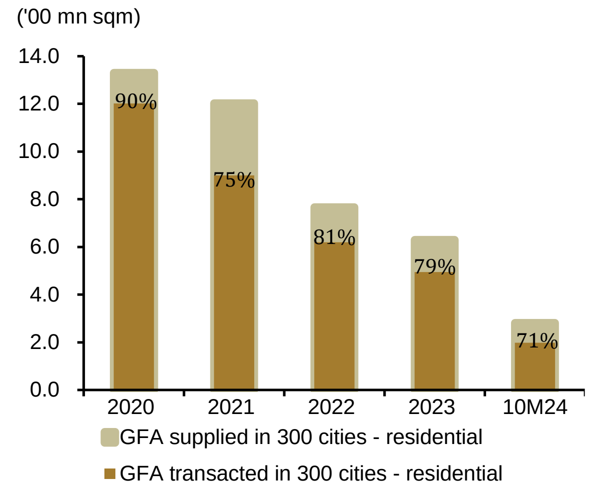
Residential land supply in 10M24 amounted to 280mn sqm, down 33% YoY (vs. a 2023 full-year decline of -18% YoY), representing only 45% of last year's total. GFA transacted totaled 200mn sqm, a YoY decline of 31% (compared to -20% in 2023), representing only 41% of last year's total, resulting in the transaction rate falling from 79% in 2023 to 71% in 10M24, significantly lower than the 78% transaction rate for commercial and office land. Amid weak sales sentiment, developer confidence continues to deteriorate.

Figure 27: Total land supply/transaction



Source: NBS, CMBIGM

Figure 28: Residential land supply/transaction



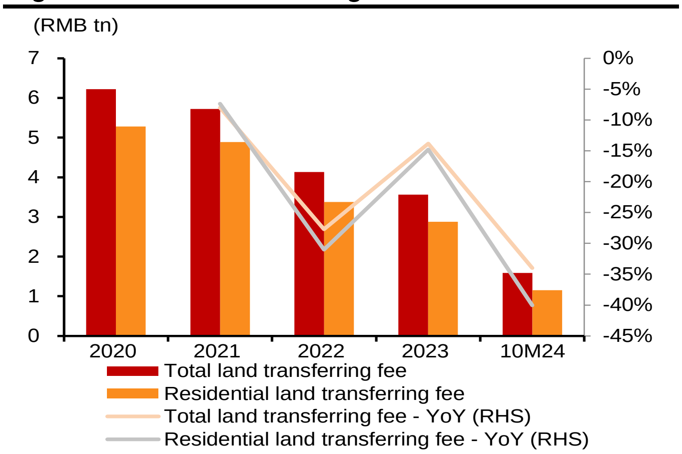
Source: NBS, CMBIGM

■ Lower proportion of residential land in total land supply, accommodation value YoY change turned negative, reflecting weak sentiment

The proportion of residential land in total land of various types supplied for development dropped significantly from 33% throughout 2023 to 26% in 10M24. Similarly, within the area of land sold, the share allocated to residential use decreased from 31% over the entire year of 2023 to 23% in 10M24. Regarding land transaction value, the total value from selling various types of land reached RMB1.6tn in 10M24, with a YoY decline expanding from -14% in 2023 to -34%. Specifically, revenue from residential land sales amounted to RMB1.16tn, experiencing a more pronounced YoY drop from -15% in 2023 to -40%. The proportion of residential land sale revenue also markedly decreased from 80.7% in 2023 to 72.9% in 10M24.

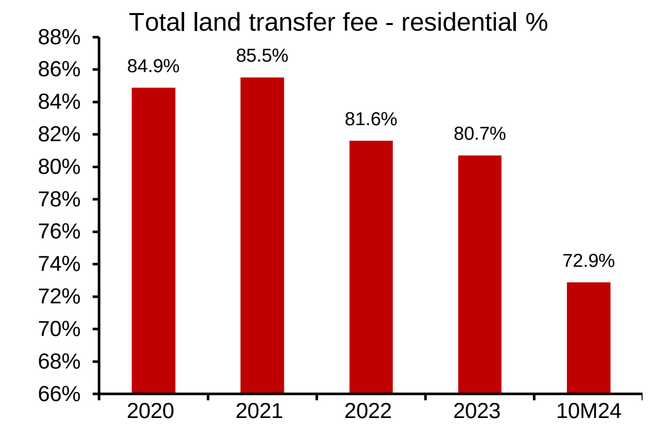
The overall greater decline in land sale proceeds compared to the decline in transacted construction area reflects a significant drop in the accommodation value. For 10M24, the accommodation value for various types of land transactions decreased by 16% YoY to RMB1,792 per sqm, while the accommodation value for residential land decreased by 13% to RMB5,832 per sqm, marking the first decline since 2021. This is primarily due to: 1) Low sentiment towards home purchases and pressure on sales velocity, with developers still facing multiple financial pressures and weakening confidence in the future, leading to increasingly cautious investment attitudes; 2) Participation from LGFV companies in various regions during 2023 to some extent pushed up land prices, but the sales market did not recover, and LGFVs lack the capability to remain active in the land market, so this impact gradually diminished in 2024.

Figure 29: Land transferring fee



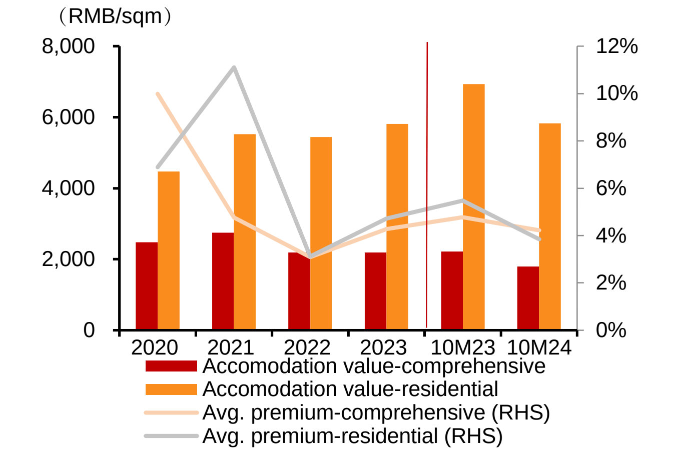
Source: NBS, CMBIGM

Figure 30: Land transferring fee – residential %



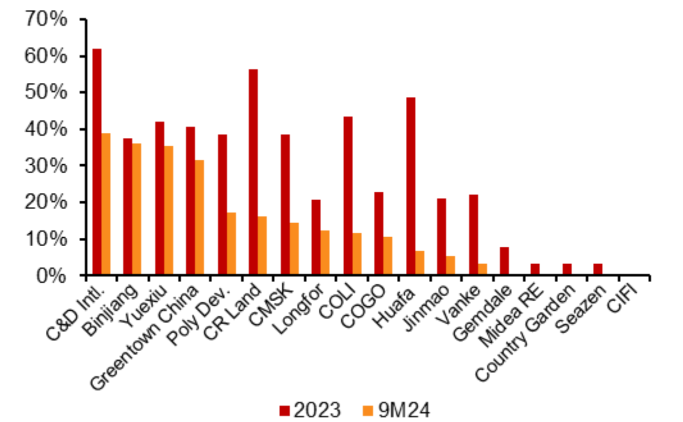
Source: NBS, CMBIGM

Figure 31: Accommodation value for residential land



Source: NBS, CMBIGM

Figure 32: Land to sales ratio in 9M24



Source: NBS, company data, CMBIGM

Sharp reduction in land acquisition activities for key developers

For the 18 key developers we focus on, land acquisition activities in 9M24 was significantly reduced compared to the full year of 2023. The average land to sales ratio for key developers dropped from 28% in 2023 to 13% in the 9M24. Among key developers, companies like Binjiang, Yuexiu, and Greentown saw the smallest declines. The sharp reduction in land acquisition activities implies a reduction in high-quality sellable resources for 2025.

Policy: Enhanced easing measures introduced, sustainability of growth remains uncertain

In 2024, amidst a comprehensive downturn in property sales and investment financing, real estate-related policies were frequently introduced. A critical turning point occurred during the April Politburo meeting, which proposed integrated research on measures to digest existing properties and optimize new housing supply, marking the first time since 2016 that inventory reduction was addressed at this level of meetings. Following this, the central bank proceeded with easing policies, proposing to reduce the minimum down payment ratio for first-time and second home buyers by 5 percentage points to 15%/25%, lower the personal housing provident fund loan interest rate by 0.25 percentage points, and remove the national-level lower limit on commercial mortgage rates for first-time and second home buyers.

The series of policy measures introduced on May 17 significantly boosted primary and secondary home sales in June, but as sales entered a seasonal low in July and August, the effect did not persist. After two months of sluggish sales, various departments again issued a series of policies in September and October, including the central bank's adjustment of existing mortgage rates, the MOHURD’s announcement of additional urban village renovation and dilapidated housing renovation units, and expansion of the whitelist scale.

In November, the Ministry of Finance also introduced significant easing policies—reducing deed tax, lowering developers' land appreciation tax, and expanding the scope of value-added tax incentives. These measures effectively boosted primary and secondary home sales at the end of Q3 and the beginning of Q4, with a noticeable prolongation of the sustainability of the boosting effects. We believe that, against the backdrop of a slow economic recovery, residents' income expectations remain weak, and home purchase confidence is still low, compounded by the difficulty in implementing some policies, leading to a need for further improvement in market trust in policy effectiveness. The sustainability of policy stimulation effects remains to be observed.

Figure 33: Key policies and events of 2024

Date	Type	Entities	Policy/Event
2024-01	Financing side	PBOC	The central bank and other relevant departments proposed to relax the issuance conditions for commercial property loans.
2024-01	Demand side	MOHURD	In January 2024, the Ministry of Housing and Urban-Rural Development proposed to empower cities with the autonomy in real estate regulation.
2024-01	Financing side	CBIRC	In January 2024, the National Administration of Financial Regulation proposed to accelerate the screening of the "whitelist" for real estate projects.
2024-02	Demand side	PBOC	In February 2024, the central bank cut the 5-year Loan Prime Rate (LPR) by 25 basis points
2024-04	Supply side	State Council	In April 2024, the meeting of the Political Bureau of the CPC Central Committee proposed to conduct comprehensive research on policies and measures for digesting the existing housing inventory and optimizing the incremental housing supply, and once again put forward the concept of "destocking".
2024-05	Supply side	PBOC	In May 2024, the central bank proposed to set up 300 billion yuan of refinancing for affordable housing, which would be used to acquire the completed but unsold commercial housing.
2024-05	Demand side	PBOC	In May 2024, the central bank proposed to lower the down payment ratio and the interest rate of the housing provident fund loan, and abolish the lower limit of the housing loan interest rate: 1, Abolish the lower limit of the commercial personal housing loan interest rate policy for the first and second sets of housing at the national level. 2, Reduce the minimum down payment ratio for commercial personal loans for the first and second sets of housing to 15% and 25% respectively (previously 20% and 30%). 3, Cut the interest rate of the personal housing provident fund loan by 0.25 percentage points.
2024-05	Demand side	Local government	In May 2024, Beijing announced that it would cut the interest rate of the personal housing provident fund loan by 0.25 percentage points starting from May 18
2024-05	Demand side	Local government	In May 2024, Guangzhou adjusted the down payment ratio for the first set of housing to no less than 15% and abolished the lower limit of the interest rate; and adjusted the down payment ratio for the second set of housing to no less than 25% and abolished the lower limit of the interest rate.
2024-05	Demand side	Local government	In May 2024, Shenzhen adjusted the minimum down payment ratio for the first set of housing from 30% to 20%, and the lower limit of the commercial loan interest rate from LPR - 10 to LPR - 45; adjusted the minimum down payment ratio for the second set of housing from 40% to 30%, and the lower limit of the commercial loan interest rate from LPR + 30 basis points to LPR - 5 basis points.
2024-05	Demand side	Local government	In May 2024, cities such as Hangzhou and Xi'an completely abolished the home purchase restriction.
2024-07	Demand side	PBOC	In July 2024, the central bank cut the 1-year and 5-year LPR by 10 basis points.
2024-07	Demand side	Local government	In July 2024, some cities adjusted the quota of the provident fund loan, the interest rate of the provident fund loan, and the rules for the withdrawal of the provident fund.
2024-09	Supply side	PBOC	1, Adjust the interest rate of the existing housing loans to be close to that of the newly issued housing loans, with an expected average decline of 0.5 percentage points. 2, Reduce the minimum down payment ratio for second-home mortgages at the national level from 25% to 15%, and unify the down payment ratios for the first and second sets of housing. 3, Increase the support ratio of the 3000-billion-yuan refinancing for affordable housing by the central bank from 60% to 100%
2024-10	Demand side	MOHURD	On October 17, 2024, the Ministry of Housing and Urban-Rural Development proposed to cut the interest rate of the housing provident fund loan by 0.25 percentage points and reduce the tax and fee burden for housing replacement.
2024-10	Demand side	MOHURD	The Ministry of Housing and Urban-Rural Development announced at a press conference that 1 million new sets of housing would be added for the renovation of urban villages and dilapidated houses, with monetized resettlement adopted. (Surveys show that there is a demand for renovating 170,000 sets of housing in urban villages and 50,000 sets of dilapidated houses in 35 large and medium-sized cities.)
2024-10	Financing side	MOHURD	The Ministry of Housing and Urban-Rural Development announced at a press conference that the credit scale of the "whitelist" would be increased to 4 trillion yuan by the end of the year. Efforts would be made to include all eligible real estate projects (it is convenient to manage when all housing projects are included in the "whitelist").
2024-10	Demand side	PBOC	In October 2024, the central bank cut the 5-year LPR by 25 basis points.
2024-11	Demand side	MoF	On November 13, 2024, the Ministry of Finance announced that the threshold for deed tax preferential treatment would be raised from 90 square meters to 140 square meters, with Beijing, Shanghai, Guangzhou and Shenzhen included in the scope. In the future, nationwide, regardless of whether it is the first or second set of housing, as long as the area does not exceed 140 square meters, the deed tax will be uniformly paid at a tax rate of 1%.
2024-11	Supply side	MoF	The Ministry of Finance announced that the lower limit of the pre-collection rate of the land value-added tax for developers would be lowered, which will be implemented starting from December 1, 2024.
2024-11	Demand side	MoF	The Ministry of Finance announced the national unified value-added tax standard, and the sale of housing purchased for more than two years will be exempt from value-added tax.
2024-11	Demand side	Local government	First-tier cities have abolished the standards for ordinary residences and non-ordinary residences.

Source: CRIES, CMBIGM

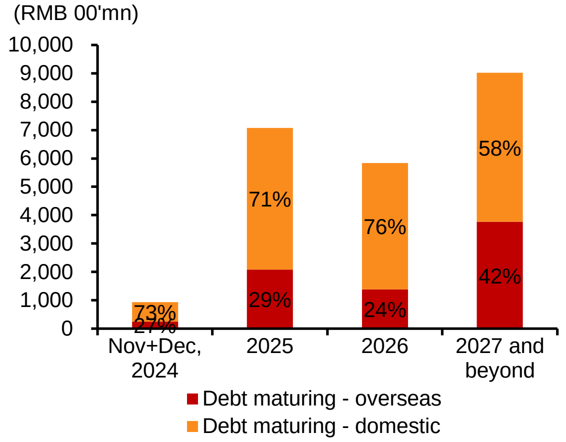
Financing: Debt repayment pressure continues; awaiting further policy support

■ **Overseas debt to contract, repayment pressures for POEs to delay**

Developers continue to face significant debt repayment pressures. According to data from the CRIES, a sample of 153 developers faces approximately RMB250bn in debt maturing in Nov-Dec 2024, with overseas debt accounting for 27% and domestic credit bonds making up 73%. Compared to 2024, the total maturity scale in 2025 remains substantial at RMB7tn annually, but there is a notable reduction in 2026 to about RMB580bn. The proportion of overseas debt decreases from around one-third in 2023 to 29% in 2025 and further to 24% in 2026, primarily due to increased credit risks in the sector, making it more challenging for developers to issue overseas debt.

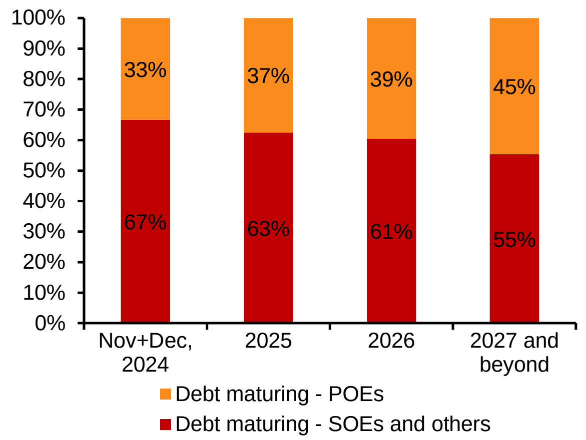
From an enterprise nature perspective, the share of maturing debt belonging to SOEs and mixed-ownership developers increases from about 50% in 2024 to 63% in 2025, while that of POEs drops to 37%, mainly because POEs face greater financing difficulties compared to SOEs. POEs' share is expected to return to around 45% in 2026 and beyond, primarily due to large-scale debt extensions by POEs.

Figure 34: Sampled developers' debt maturing



Source: CRIES, CMBIGM

Figure 35: Sampled developers' debt maturing

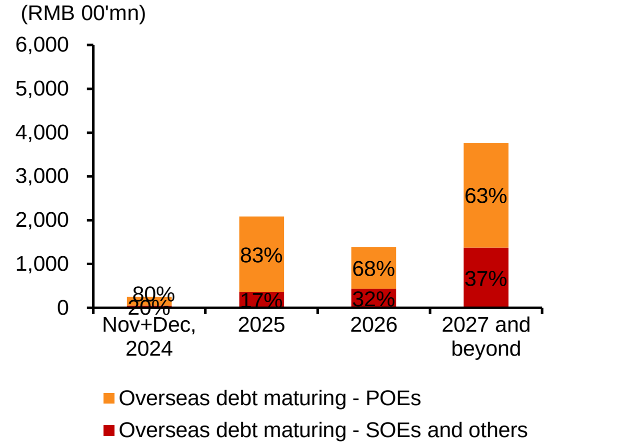


Source: CRIES, CMBIGM

■ **Shrinking overseas debt; POEs to face overseas/domestic debt pressure in 2025/2026**

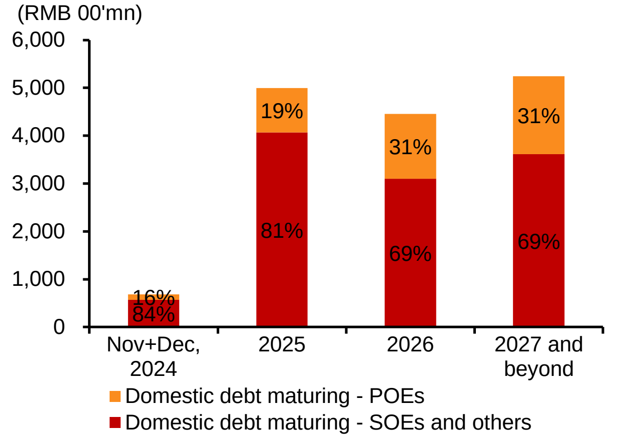
In terms of the composition of maturing overseas debt, 80% originates from POEs, with this ratio standing at 83% and 68% in 2025 and 2026, respectively. The decrease in 2026 is mainly attributed to the stable scale of overseas debt maturing for SOEs and a sharp 45% decline in the overseas debt scale for POEs. For domestic credit bonds maturing within the year, SOEs and mixed-ownership developers account for 84%, decreasing to 81% and 69% in 2025 and 2026, respectively. The higher proportion is partly due to severe recent credit deterioration among POEs, resulting in considerable difficulty in refinancing domestically. Overall, POEs face primary pressure from overseas debt in 2025, which then shifts to domestic debt in 2026, while SOEs and mixed-ownership developers primarily face pressure from domestic debt.

Figure 36: Overseas debt maturing



Source: CRIES, CMBIGM

Figure 37: Domestic debt maturing

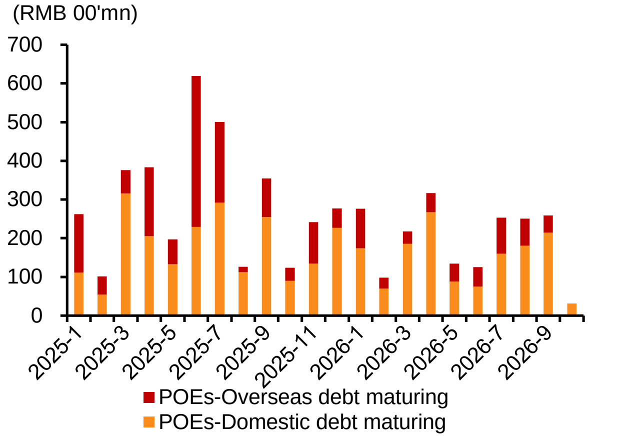


Source: CRIES, CMBIGM

POEs facing another debt peak in 2Q25

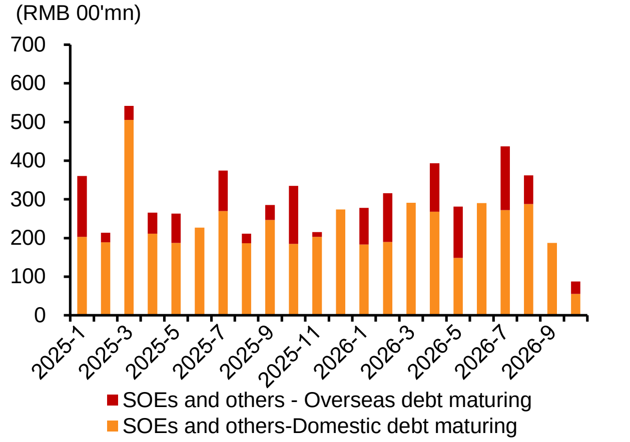
According to data provided by the CRIES, POEs will still face significant debt repayment pressure in 2025, especially concerning overseas debt, with higher debt maturities concentrated in March-April and June-July. In contrast, SOEs and mixed-ownership developers have relatively even distributions, except for higher debt repayments in January and March. Recent active financing efforts by SOEs are aimed at preparing for debt maturities in the first quarter of next year. If sales recovery in the second and third quarters of 2025 significantly lag behind expectations and further financing support is not available, we anticipate that POEs may face more instances of debt extensions or defaults.

Figure 38: POEs debt maturing - monthly



Source: CRIES, CMBIGM

Figure 39: SOEs/semi-SOEs debt maturing - monthly



Source: CRIES, CMBIGM

Outlook

New home sales: Upswing at the end of 2024, followed by continued volume contraction in 2025

■ **Year-end recovery in 2024**

As previously mentioned, the "924 policy package" had a greater-than-expected impact on boosting new home sales, with sustained effects. While it did not drive investment demand, it effectively released previously suppressed purpose-of-living-driven demand, aligned with the industry's long-term development goals. Meanwhile, the turnover rate in the secondary housing market significantly increased, releasing some upgrader demand. Under the sustained effect of policies and seasonal factors (i.e., the year-end seasonal surge is typically driven by concentrated property launches by developers and online registration), December is expected to maintain the upturn trend seen in November and may even achieve a monthly YoY positive growth in sales. In summary, we expect that residential property sales volume in 2024 will decrease by approximately 15% to 802mn sqm. Regarding ASP, the YTD decline has been around 5%, and we expect this trend to continue for the full year. Therefore, we predict that property sales in 2024 will drop by about 20% to RMB8.26tn.

Figure 40: Property sales growth forecast

Property sales value (RMB tn)	2022	2023	2024E	2025E	2026E
Primary market	**10.96**	**10.30**	**8.26**	**7.37**	**7.13**
YoY	*-33%*	*-6%*	*-20%*	*-11%*	*-3%*
Secondary market	**5.50**	**7.10**	**7.14**	**7.51**	**7.81**
YoY	*-21%*	*29%*	*1%*	*5%*	*4%*
Combined	**16.46**	**17.40**	**15.40**	**14.88**	**14.94**
YoY	*-29%*	*6%*	*-11%*	*-3%*	*0%*
Property sales volume ('00 mn sqm)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Primary market	**10.33**	**9.48**	**8.02**	**7.42**	**7.26**
YoY	*-34%*	*-8%*	*-15%*	*-7%*	*-2%*
Secondary market	**3.84**	**5.59**	**6.62**	**7.33**	**7.78**
YoY	*-21%*	*46%*	*18%*	*11%*	*6%*
Combined	**14.17**	**15.07**	**14.64**	**14.75**	**15.03**
YoY	*-29%*	*6%*	*-3%*	*1%*	*2%*
Property price (RMB/sqm)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Primary market	**10,610**	**10,864**	**10,298**	**9,924**	**9,826**
YoY	*2%*	*2%*	*-5%*	*-4%*	*-1%*
Secondary market	**14,328**	**12,698**	**10,794**	**10,254**	**10,049**
YoY	*n.a.*	*-11%*	*-15%*	*-5%*	*-2%*
Combined	**11,617**	**11,545**	**10,522**	**10,088**	**9,941**
YoY	*n.a.*	*-1%*	*-9%*	*-4%*	*-1%*

Source: NBS, BEKE, CMBIGM estimates

■ New home sales to further shrink in 2025

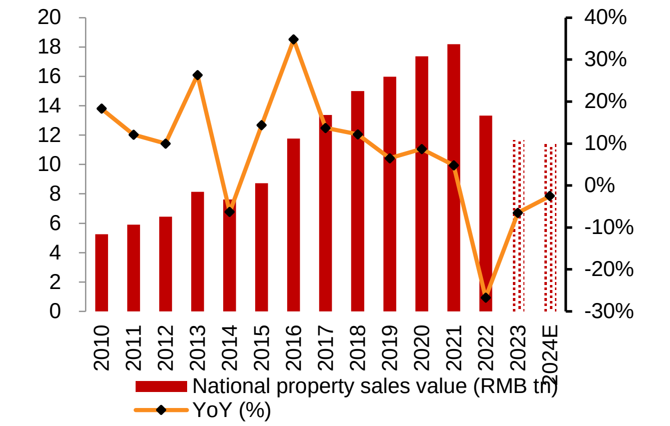
For 2025, we anticipate: 1) The effects of existing easing policies may persist until after the Spring Festival. 2) With supportive policies being implemented, the likelihood of further significant real estate easing measures (such as lifting purchase restrictions in first-tier cities) in the short term is low. 3) CMBI's macro team forecasts two reductions in the statutory reserve requirement ratio totaling 0.5 ppt, one policy rate cut, and two deposit rate cuts next year, with 1-year and 5-year LPRs down by 10bps and 20bps, respectively. However, this may have a marginally weaker impact on housing demand compared to 2024. 4) As noted in the "Financing" section, developers will face liquidity pressures similar to 2024 due to slow sales velocity. Private enterprises, especially, may continue to experience debt extensions or defaults without financing improvements, dampening new home buying sentiment and shifting demand to the secondary market. 5) Residential land transactions in 2024 are expected to decrease by about 30%, leading to a shortage of high-quality saleable resources in 2025. 6) The conversion of inventory into social housing by government/SOEs will likely have a negligible impact on 2025 sales. 7) Allocation-type social housing initiatives in key cities like Shenzhen may absorb some new home demand, with an estimated combined negative impact on sales value within 0.5%. Based on these factors, we forecast that in 2025, new home sales area will decrease by 7% YoY to 740 mn sqm, with sales value dropping by 11% YoY to RMB7.4tn, corresponding to a 4% YoY drop in unit price. This represents our neutral forecast. Optimistic and pessimistic scenarios are detailed in Figure 41.

Figure 41: Forecast for 2025 Property sales by scenario

RMB tn	Positive	Neutral	Negative
Primary market	**7.78**	**7.37**	**6.96**
YoY	*-6%*	*-11%*	*-16%*
Secondary market	**7.86**	**7.51**	**7.14**
YoY	*10%*	*5%*	*0%*
Combined	**15.63**	**14.88**	**14.11**
YoY	*1%*	*-3%*	*-8%*
Forecast	**Positive**	**Neutral**	**Negative**
Issued demand-side policies	The effect lasts until the end of the first quarter.	The effect lasts until after the Spring Festival.	The effect fades away before the Spring Festival.
Demand-side policies	Tier-1 cities follow up with loosening of restrictions.	No further heavy-handed loosening policies will be issued.	No further heavy-handed loosening policies will be issued.
Monetary policies	The stimulating effect of interest rate cuts and reserve requirement ratio cuts on demand is more significant than in 2024.	The stimulating effect of interest rate cuts and reserve requirement ratio cuts on demand is slightly better than in 2024.	The stimulating effect of interest rate cuts and reserve requirement ratio cuts on demand is not significant.
The demand diversion of increasing supply of affordable housing	The impact on annual sales is negligible.	The impact on annual sales is within 0.5%.	The impact on annual sales is above 0.5%.
Purchase unsold new home inventory support by re-lending facilities	There is certain progress of implementation, contributing 5% to sales in 2025.	It still takes time to implement and the impact on sales is negligible.	It still takes time to implement and the impact on sales is negligible.
Demand transfer to secondary market given the concerns on quality and on-time delivery	The part of demand transfer is small and can be ignored.	The proportion of demand transfer is more than that in 2024	The proportion of demand transfer is more than that in 2024, above 5% of total sales value
Decline in developers land acquisition intensity	The impact on the annual sales of new houses is within 5%.	The impact on the annual sales of new houses reaches 10%.	The impact on the annual sales of new houses exceeds 15%.

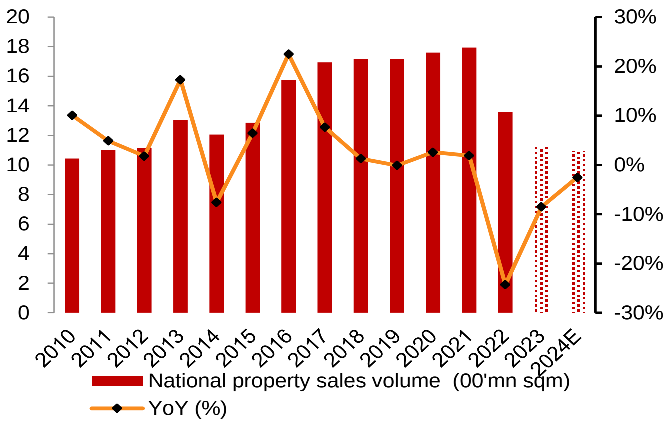
Source: NBS, BEKE, CMBIGM

Figure 42: National property sales value estimation



Source: NBS, CMBIGM estimates

Figure 43: National property sales volume estimation

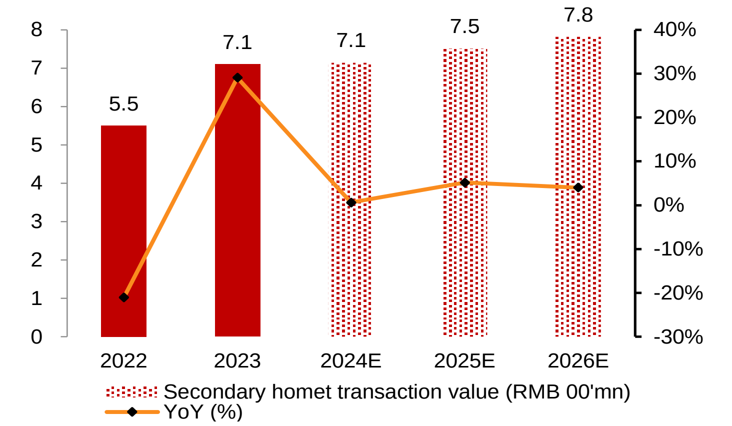


Source: NBS, CMBIGM estimates

Secondary home sales: Poised to surpass new home sales by 2025

Based on the robust performance of secondary home sales YTD, we estimate that full-year sales in 2024 will be almost flat compared to 2023, with a slight increase of 1% to RMB7.1tn, with a 15% YOY decline in ASP and a 11% increase in volume. For 2025, we expect: 1) Ongoing policy effects will boost secondary home turnover, supporting transactions. 2) Concerns over new home quality and unfinished projects may shift demand to secondary homes. 3) Rising listings offer buyers more choices, naturally increasing turnover and supporting volumes. We forecast secondary home turnover to rise by 0.1 ppt in 2025 and 0.05 ppt in 2026, boosting market size by 5% and 4% to RMB7.5tn and RMB7.8tn, respectively. Secondary home prices are expected to fall by 5% and 4%, with sales area increasing by 11% and 6%. Compared to our estimated new home market size of RMB7.37tn in 2025, the secondary home market will surpass it for the first time, becoming the dominant market.

Figure 44: Secondary home market transaction value



Source: BEKE, CMBIGM estimates

Property Investment

Figure 45: Estimation of key indicators in property market

	2025E	YoY	2024E	YoY	2023	YoY	Details
Property GFA sold (mn sqm)	885	-7%	956	-14%	1,117	-9%	Land supply continues to decrease, leading to a slight drop in new home prices.
Property sales (RMB bn)	8,389	-11%	9,408	-19%	11,662	-7%	
New starts (mn sqm)	646	-12%	734	-23%	954	-20%	With sales continuing to decrease
GFA completion (mn sqm)	735	-8%	799	-20%	998	17%	Debt resolution improve along side "w hite list" expansion
Property investment (RMB bn)	901	-9.3%	994	-10.4%	1,109	-10%	New starts, completions, and land purchases are declining, but at a slow er pace.

Source: NBS, CMBIGM estimates

■ New starts GFA

As of 10M24, new starts by area decreased 23% YoY. Despite an initial sales recovery, ongoing debt pressures and limited financial support continue to challenge developers' liquidity. However, with fewer LGFV land acquisitions in 2024 compared to 2023, the proportion of developable plots has increased. We estimate new starts by area will decrease by 23% in 2024 and 12% in 2025.

■ GFA completion

In 10M24, the completed GFA declined by 24% YoY. Considering that November typically achieves twice the completion of the average of normal months and December accomplishes 5-6 times the average monthly completion, and factoring in the “whitelist” campaign, we estimate full-year completions to decline by c. 20% in 2024. Looking ahead to 2025, the expansion of the whitelist may provide some support for completions, while debt resolution measures could have a positive impact on project finishes. We estimate that the completed area in 2025 will decrease by 8% YoY.

■ Property investment

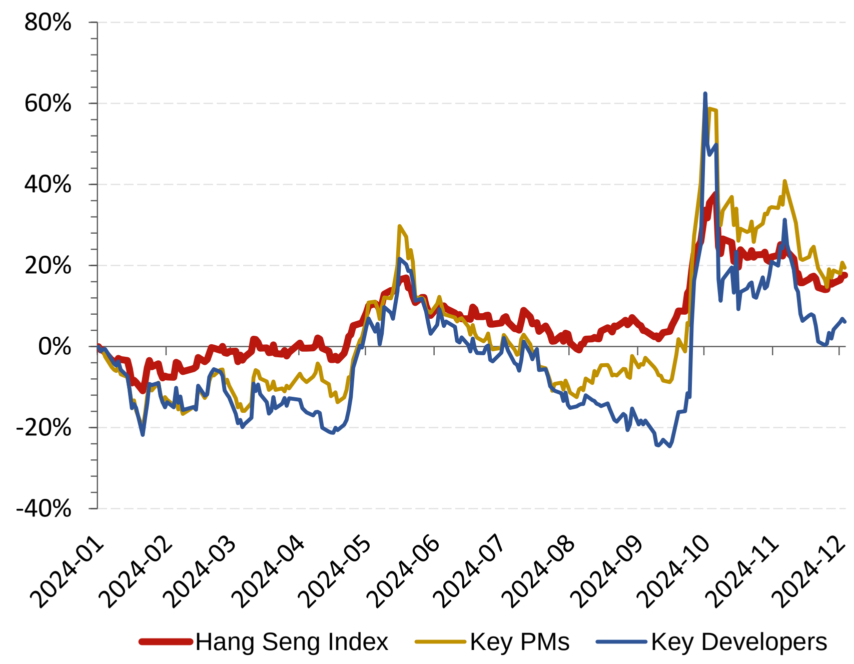
In 10M24, property investment growth stood at -10.3% YoY. We expect the full-year decline to remain at this level. For 2025, based on its components: we expect the decline in new construction area to narrow, and the proportion of investment tied to new construction, which is closely aligned with its growth trajectory, will gradually decrease. Supported by the expansion of the "whitelist" and the positive effects of debt resolution measures, the decline in completed area is also expected to moderate.

In contrast, land purchases are expected to experience sharper declines in both volume and price, likely outpacing the declines in new construction and completions. Hence, we assume that the proportion of land acquisition costs in total property investment will continue to shrink. Factoring in these changes in proportions and their respective growth rates, we estimate that property investment growth will be at -10% and -9% in 2024 and 2025, respectively.

Sector Performance

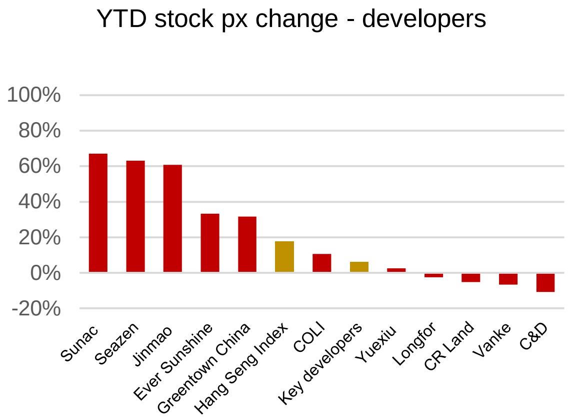
YTD, the average increase in stock prices for the 14 key developers we track is 6.1%, while the average increase for 11 key property management companies is 19.5%. Only the property management sector has outperformed the Hang Seng Index (+17.6%) by approximately 2 ppt. Regarding developers, strong performers include those with "distress reversal" themes or "sufficient risk release, with performance bottoming out and rebounding." Regarding PM stocks, strong performers include those with "outstanding third-party expansion capabilities" and "parent company risk mitigation."

Figure 46: Property stocks vs. Hang Seng Index



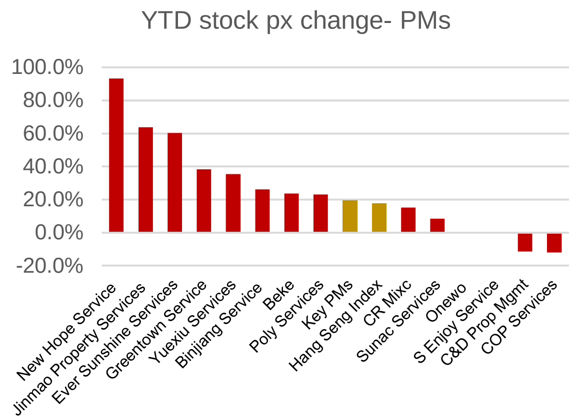
Source: Wind, CMBIGM

Figure 47: Stock performance of key developer stocks



Source: Wind, CMBIGM

Figure 48: Stock performance of key PM stocks



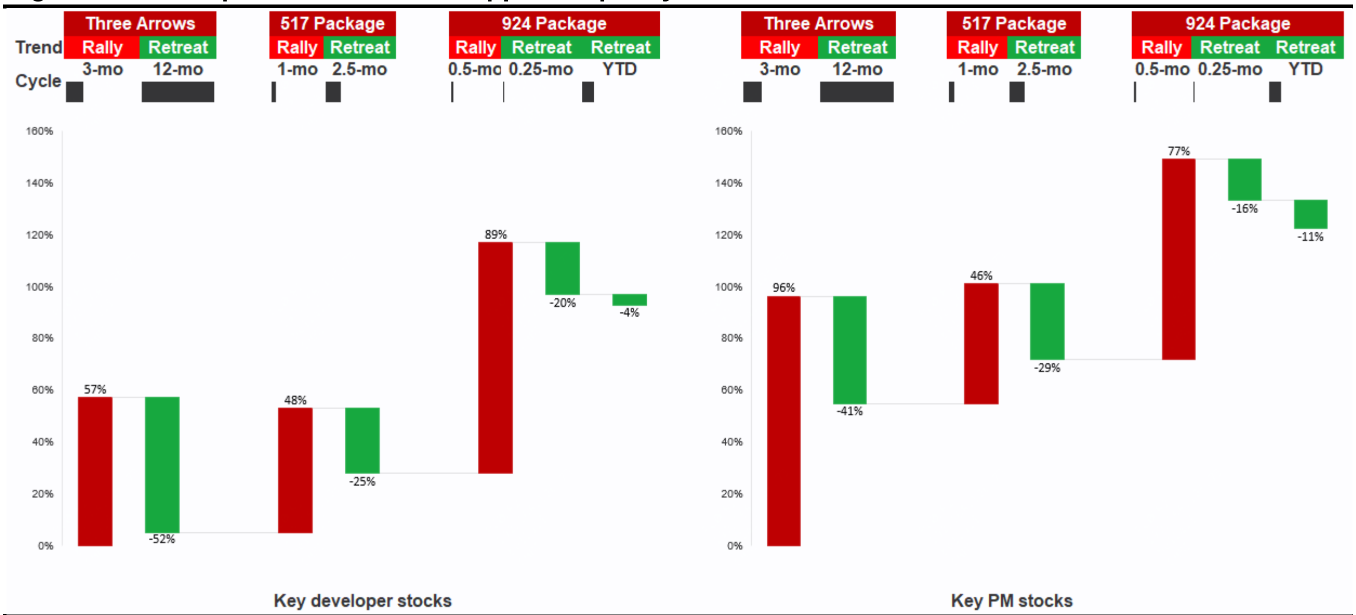
Source: Wind, CMBIGM

Within this year, we've observed two policy-driven valuation recovery windows. Since late 2022, there have been three such windows: the Three Arrows policy (October 2022), the 517 Policy Package (May 2024), and the 924 Policy Package (September 2024). As shown in Figure 49, we can observe the following trends:

1) The duration of stock price increases has shortened—from 3 months for the Three Arrows to 1 month for 517, and just half a month for 924. Similarly, the correction periods have rapidly shortened from one year for the Three Arrows to 2.5 months for 517, and about one week for 924. While policy strength plays a role, these trends primarily reflect growing market confidence in the industry's long-term healthy development, acknowledging that high-growth patterns from previous cycles are unlikely to return.

2) Although these fluctuations were largely driven by sentiment and liquidity, sector valuations have still improved. Each window's corrections did not fully offset gains, as consensus holds that while deep-seated policy effects take time to materialize, each policy package accelerates the industry's bottoming-out process.

Figure 49: Stock performance after supportive policy releases



Source: Wind, CMBIGM (as of December 4, 2024)

Investment Thesis

Despite ongoing demand-side policy support, its marginal effect on fundamentals is diminishing. Challenges remain in implementing large-scale policies like land acquisition, and supply-side contraction continues to weigh on new home sales, making it unclear when industry fundamentals will bottom out. For stocks, we recommend 1) Comprehensive developers with strong commercial operations, like CR Land (1109 HK), and Longfor (960 HK). With ongoing reductions in development activities, their retail operations are better positioned to withstand risks and benefit first from economic recovery. Retail assets also tend to secure additional financing more easily in the current financial environment. 2) Beneficiaries of the existing housing market, including brokerages such as KE Holdings (BEKE US), which, as the market leader, will benefit in the long term from increased turnover in the secondary housing market, and PM companies for their sustainable business model, we like CR MixC (1209 HK), Greentown Service (2869 HK), Poly Services (6049 HK), Binjiang Services (3316 HK), Onewo (2602 HK), etc. 3) Developers that have consistently acquired high-quality sellable resources, such as those conducting land purchase at a low intensity and featuring high-quality land selection. 4) Developers that have achieved significant progress in credit profile restoration, which will likely be short-term opportunities.

Risks

A sharper-than-expected macroeconomic downturn; the duration of policy effectiveness continuing to decrease.

Valuation

Figure 50: Valuation comps - developers

Company	Ticker	Last Price	Mkt Cap	P/E (x)			P/B (x)			Net Profit Growth (%)			Payout ratio	Dividend Yield	
		(LC)	(HK$ mn)	24E	25E	26E	24E	25E	26E	24E	25E	26E	23A	23A	24E
CR Land	1109.HK	23.40	21,439	5.3 x	5.2 x	4.8 x	0.5 x	0.5 x	0.5 x	(8.0)	3.3	7.1	33%	6.8%	6.3%
COLI	0688.HK	13.54	19,040	5.6 x	5.3 x	5.0 x	0.3 x	0.3 x	0.3 x	(4.2)	4.7	6.0	31%	5.9%	5.6%
Poly Developments	600048.SH	10.15	16,911	10.5 x	9.9 x	9.2 x	0.6 x	0.6 x	0.5 x	(4.1)	6.2	7.8	41%	4.0%	3.6%
CMSK	001979.SZ	11.37	14,339	17.3 x	15.8 x	13.7 x	0.9 x	0.9 x	0.8 x	(5.6)	9.1	15.6	49%	2.8%	2.5%
China Jinmao	0817.HK	1.12	1,943	7.6 x	7.3 x	6.3 x	0.3 x	0.3 x	0.3 x	ve to +v	5.0	15.9	NA	NA	NA
Vanke-H	2202.HK	6.37	13,554	NA	NA	NA	0.3 x	0.3 x	0.3 x	-ve	NA	NA	NA	NA	NA
Longfor	0960.HK	10.84	9,593	6.1 x	5.9 x	5.6 x	0.4 x	0.4 x	0.4 x	(11.4)	2.2	6.6	26%	5.6%	4.7%
C&D International	1908.HK	12.82	3,323	5.0 x	4.5 x	4.1 x	0.7 x	0.6 x	0.5 x	(4.8)	9.5	10.2	45%	10.1%	8.7%
Binjiang Group	002244.SZ	9.30	4,027	10.6 x	9.2 x	8.4 x	1.0 x	1.0 x	0.9 x	8.4	14.9	9.5	11%	1.0%	1.6%
Yuexiu	0123.HK	5.60	2,896	6.6 x	6.1 x	5.5 x	0.4 x	0.3 x	0.3 x	(0.3)	8.0	11.2	40%	6.8%	7.4%
Huafa	600325.SH	6.66	2,551	10.9 x	10.0 x	9.2 x	0.8 x	0.8 x	0.7 x	NA	NA	NA	NA	0.0%	4.2%
Greentown China	3900.HK	9.39	3,057	5.6 x	5.3 x	6.2 x	0.6 x	0.5 x	0.5 x	26.2	4.5	(13.9)	35%	5.0%	5.1%
Midea RE	3990.HK	2.89	533	5.6 x	4.4 x	3.5 x	0.2 x	0.2 x	0.1 x	(25.5)	26.9	27.6	NA	NA	NA
COGO	0081.HK	1.81	828	3.2 x	3.3 x	3.0 x	0.2 x	0.2 x	0.2 x	(20.4)	(2.5)	11.1	22%	9%	5%
Seazen	601155.SH	13.34	4,188	26.6 x	23.3 x	19.9 x	0.5 x	0.5 x	0.5 x	53.5	14.1	16.8	NA	0%	0%
Average				**7.8 x**	**7.3 x**	**6.6 x**	**0.5 x**	**0.5 x**	**0.5 x**	**(1.8)**	**5.1**	**7.1**	**27%**	**4.1%**	**3.8%**

Source: Company data, Wind, CMBIGM estimates (as of December 12, 2024)

Figure 51: Valuation comps – PMs

Company	Ticker	Last Price	Mkt Cap	P/E (x)			Net Profit Growth (%)			Payout ratio	Dividend Yield	
		(LC)	(USD mn)	24E	25E	26E	24E	25E	26E	23A	23A	24E
CR MixC	1209.HK	29.50	8,651	17.2 x	14.6 x	12.5 x	23.6	17.8	16.5	83%	4.0%	3.7%
Onewo	2602.HK	21.35	3,213	12.7 x	11.1 x	9.9 x	(6.6)	13.8	12.6	66%	5.6%	6.2%
Country Garden Services	6098.HK	5.66	2,431	11.0 x	8.9 x	8.4 x	NA	24.5	5.7	NA	5.7%	5.4%
Poly Services	6049.HK	32.95	2,342	10.8 x	9.7 x	8.7 x	12.9	11.9	11.3	40%	3.3%	3.5%
COPH	2669.HK	5.33	2,249	10.3 x	8.9 x	7.7 x	17.3	15.3	14.9	31%	2.6%	3.2%
China Merchant PO	001914.SZ	10.83	1,596	14.1 x	12.7 x	11.2 x	10.4	11.7	12.6	24%	1.6%	2.4%
Greentown Services	2869.HK	3.79	1,540	15.1 x	12.8 x	11.1 x	21.4	18.0	15.2	72%	4.0%	4.1%
Greentown Management	9979.HK	3.06	790	5.2 x	4.6 x	4.1 x	11.3	13.4	12.1	100%	17.9%	15.0%
Sunac Services	1516.HK	1.82	715	NA	6.8 x	5.5 x	NA	NA	23.3	NA	21.5%	8.1%
Binjiang Services	3316.HK	18.52	658	8.2 x	7.0 x	6.1 x	17.0	17.5	15.5	70%	7.4%	8.5%
Yuexiu Services	6626.HK	3.27	636	8.1 x	7.0 x	6.0 x	15.6	16.9	15.3	50%	5.4%	6.1%
C&D PM	2156.HK	2.63	476	6.8 x	5.6 x	4.7 x	7.3	22.1	17.7	67%	9.9%	NA
Ever Sunshine	1995.HK	1.99	442	6.3 x	5.6 x	4.7 x	16.6	11.9	NA	50%	6.9%	10.3%
Jinmao Services	0816.HK	2.58	300	5.4 x	4.9 x	4.6 x	18.6	10.0	7.3	42%	6.6%	NA
Powerlong Commercial	9909.HK	2.41	199	3.6 x	3.5 x	0.0 x	(12.6)	4.0	NA	19%	6.2%	8.1%
Excellence CM	6989.HK	1.26	198	4.4 x	3.9 x	3.6 x	7.0	11.7	9.1	69%	15.1%	NA
New Hope Services	3658.HK	1.99	208	6.4 x	5.7 x	5.1 x	9.5	11.9	11.7	59%	8.7%	NA
Average				**12.5 x**	**10.4 x**	**9.1 x**	**12.4**	**15.0**	**12.8**	**56%**	**5.4%**	**4.6%**
BEKE-W	2423.HK	50.90	23,713	28.7 x	23.2 x	19.7 x	0.9	23.6	18.1	74%	2.7%	1.3%
平均				**28.7 x**	**23.2 x**	**19.7 x**	**0.9**	**23.6**	**18.1**	**73.9%**	**2.7%**	**1.3%**

Source: Company data, Wind, CMBIGM estimates (as of December 12, 2024)

Top Picks

- **China Semiconductors – Innolight (300308 CH), Naura Technology (002371 CH)**
- **China Technology – Xiaomi (1810 HK), BYDE (285 HK), FIT Hon Teng (6088 HK)**
- **China Internet – Tencent (700 HK), Alibaba (BABA US), NetEase (NTES US)**
- **Software & IT Services – Salesforce (CRM US), Palo Alto Networks (PANW US)**
- **China Consumer Staples – Nongfu Spring (9633 HK)**
- **China Consumer Discretionary – Luckin Coffee (LKNCY US), Yum China (9987 HK)**
- **China Automobiles – Geely Automobile (175 HK), Xpeng Inc. (XPEV US), Tuhu Car (9690 HK)**
- **China Healthcare – WuXi AppTech (603259 CH)**
- **China Capital Goods/Uranium – Zoomlion (1157 HK), CGN Mining (1164 HK)**
- **China Insurance – CPIC (2601 HK), Ping An (2318 HK), PICC P&C (2328 HK)**
- **China Property – Greentown Service (2869 HK)**

Innolight (300308 CH)

Intact growth prospects; Maintain BUY

Innolight is our top pick in domestic AI space. The company has seen stellar revenue growth of 146% YoY in 9M24, while GPM remained steady at 33%-34% during the same period. We remain confident in Innolight's growth trajectory as hyperscalers continue to make hefty investments in AI infrastructure. We forecast the company's sales to grow 126%/41% in 2024/25E, fueled by continuously robust demand for 800G and ramp-up of 1.6T products. **Maintain BUY with TP at RMB186.**

- **AI demand intact**, as overseas demand remains visibly strong from its overseas customers' (hyperscalers) capital expenditure. The aggregated capex of the Big Three hyperscalers (Microsoft, Google and Amazon) and Meta increased 49% YoY to US$156bn in 9M24. Bloomberg consensus forecasts the aggregate capex of MSFT/GOOG/AMZN/META to grow another 18% to US$248bn in 2025E. In addition, there is incremental demand from smaller cloud companies, consumer internet players, enterprise, sovereign and industry customers (i.e., automotive, and healthcare), which is expected to create extra multi-billion-dollar vertical markets. We maintain our view that AI's long-term growth trajectory stays intact and believe there is still great potentials as the sector navigates multiple hype cycles (e.g., launches of new AI GPU/CPU, applications, successful monetization strategies, etc.).
- **We view Innolight as one of the major domestic beneficiaries in the ongoing AI infrastructure race.** Innolight has completed the verification work of 1.6T optical transceivers and will begin shipments in December 2024. The company highlighted that 3Q performance was negatively impacted by unfavourable USD/RMB exchange rate fluctuations. Excluding this impact (~RMB100mn), the company still posted double-digit sequential growth (following 31%/23% QoQ growth in 1Q/2Q24). Additionally, supply chain challenges related to key components constrained shipment growth, with mgmt. noting that order growth outpaced shipment growth, contributing to the slower-than-expected sequential revenue increase**.**
- **Maintain BUY, with TP at RMB186, corresponding to 26.9x 2025E P/E.** The stock is currently trading at 18.0x 2025E P/E. Potential risks include 1) China-US trade tensions, 2) rising raw material costs, and 3) weaker-than-expected ramp-up speed.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,642	10,718	24,269	34,149	41,026
YoY growth (%)	25.3	11.2	126.4	40.7	20.1
Gross margin (%)	29.3	33.0	33.3	32.3	31.4
Net profit (RMB mn)	1,224.0	2,173.5	5,276.3	7,624.6	9,252.7
YoY growth (%)	39.6	77.6	142.8	44.5	21.4
EPS (Reported) (RMB)	1.10	2.00	4.81	6.95	8.43
P/S (x)	10.4	9.4	4.1	2.9	2.4
P/E (x)	113.7	62.6	26.0	18.0	14.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB186.00**
Up/Downside	**48.7%**
Current Price	**RMB125.10**

China Semiconductors

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Stock Data

Mkt Cap (RMB mn)	100,430.3
Avg 3 mths t/o (RMB mn)	5,299.4
52w High/Low (RMB)	185.83/70.57
Total Issued Shares (mn)	802.8

Source: FactSet

Shareholding Structure

Shandong Zhongji Investment Holdings Co.	11.3%
Wang Weixiu	6.2%

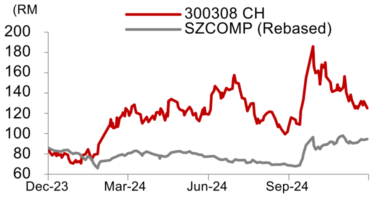
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-12.0%	-10.4%
3-mth	22.6%	-10.8%
6-mth	4.7%	-14.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**7,695**	**9,642**	**10,718**	**24,269**	**34,149**	**41,026**
Cost of goods sold	(5,727)	(6,816)	(7,182)	(16,183)	(23,133)	(28,124)
Gross profit	**1,968**	**2,826**	**3,536**	**8,087**	**11,016**	**12,901**
Operating expenses	**(1,005)**	**(1,499)**	**(1,042)**	**(1,843)**	**(1,933)**	**(1,910)**
Selling expense	(21)	(63)	(51)	(45)	(33)	(30)
SG&A expense	(507)	(598)	(558)	(853)	(1,036)	(1,150)
R&D expense	(541)	(767)	(739)	(988)	(817)	(732)
Others	64	(71)	306	44	(46)	2
Operating profit	**963**	**1,327**	**2,494**	**6,244**	**9,083**	**10,991**
Other income	1	28	2	5	7	9
Other expense	(4)	(4)	(4)	(2)	(2)	(3)
Pre-tax profit	**960**	**1,352**	**2,492**	**6,247**	**9,087**	**10,996**
Income tax	(73)	(118)	(285)	(776)	(1,181)	(1,408)
After tax profit	**886**	**1,234**	**2,208**	**5,471**	**7,906**	**9,589**
Minority interest	10	10	34	195	282	336
Net profit	**877**	**1,224**	**2,174**	**5,276**	**7,625**	**9,253**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**10,022**	**9,587**	**11,319**	**18,355**	**25,870**	**34,899**
Cash & equivalents	3,515	2,831	3,317	6,329	10,110	16,292
Account receivables	1,997	1,509	2,581	3,802	4,993	5,798
Inventories	3,799	3,888	4,295	6,701	8,890	10,527
Prepayment	72	64	59	140	197	237
Other current assets	638	1,295	1,067	1,384	1,680	2,045
Non-current assets	**6,543**	**6,970**	**8,687**	**10,109**	**11,840**	**13,616**
PP&E	3,152	3,217	3,948	4,657	5,582	6,526
Right-of-use assets	21	11	27	318	681	1,068
Deferred income tax	46	48	82	117	154	199
Intangibles	382	322	401	476	547	603
Goodwill	1,980	1,949	1,939	1,929	1,920	1,910
Other non-current assets	962	1,422	2,291	2,612	2,956	3,311
Total assets	**16,565**	**16,557**	**20,007**	**28,464**	**37,710**	**48,515**
Current liabilities	**3,166**	**3,264**	**4,360**	**6,802**	**8,755**	**10,925**
Short-term borrowings	794	385	62	194	314	502
Account payables	1,205	1,136	1,857	3,463	4,522	5,649
Tax payable	68	93	213	303	401	516
Other current liabilities	932	1,349	2,039	2,548	3,125	3,757
Contract liabilities	1	22	3	28	40	48
Accrued expenses	166	279	187	266	353	454
Non-current liabilities	**1,796**	**1,224**	**872**	**1,347**	**1,603**	**1,902**
Long-term borrowings	1,262	696	319	561	561	561
Bond payables	0	0	0	0	0	0
Deferred income	277	264	216	307	407	524
Other non-current liabilities	258	264	337	480	635	817
Total liabilities	**4,962**	**4,488**	**5,232**	**8,150**	**10,358**	**12,827**
Share capital	800	801	803	803	803	803
Retained earnings	2,861	3,893	5,870	10,696	17,323	25,166
Other reserves	7,828	7,251	7,589	8,107	8,236	8,394
Total shareholders equity	**11,489**	**11,945**	**14,261**	**19,606**	**26,362**	**34,363**
Minority interest	114	124	513	708	990	1,326
Total equity and liabilities	**16,565**	**16,557**	**20,007**	**28,464**	**37,710**	**48,515**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**960**	**1,352**	**2,492**	**6,247**	**9,087**	**10,996**
Depreciation & amortization	436	493	525	550	719	922
Tax paid	(73)	(118)	(285)	(776)	(1,181)	(1,408)
Change in working capital	(587)	291	(830)	(1,733)	(1,846)	(860)
Others	77	432	(6)	(130)	(122)	(95)
Net cash from operations	**813**	**2,449**	**1,897**	**4,158**	**6,658**	**9,556**
Investing						
Capital expenditure	(840)	(792)	(1,704)	(1,736)	(1,982)	(2,198)
Acquisition of subsidiaries/ investments	(1,529)	(5,967)	(3,971)	0	0	0
Net proceeds from disposal of short-term investments	1,109	5,167	4,435	0	0	0
Others	42	40	65	(139)	(93)	(71)
Net cash from investing	**(1,219)**	**(1,553)**	**(1,176)**	**(1,874)**	**(2,075)**	**(2,269)**
Financing						
Dividend paid	(168)	(233)	(207)	(411)	(929)	(1,319)
Net borrowings	(259)	(699)	(884)	419	120	188
Proceeds from share issues	2,665	33	(109)	433	0	0
Others	26	(742)	884	259	22	22
Net cash from financing	**2,264**	**(1,641)**	**(316)**	**700**	**(787)**	**(1,110)**
Net change in cash						
Cash at the beginning of the year	1,648	3,489	2,809	3,234	6,241	10,024
Exchange difference	(17)	64	20	0	0	0
Others	1,859	(745)	405	3,008	3,783	6,181
Cash at the end of the year	**3,489**	**2,809**	**3,234**	**6,241**	**10,024**	**16,206**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	9.2%	25.3%	11.2%	126.4%	40.7%	20.1%
Gross profit	9.8%	43.6%	25.1%	128.7%	36.2%	17.1%
Operating profit	(2.7%)	37.9%	87.9%	150.4%	45.5%	21.0%
Net profit	1.3%	39.6%	77.6%	142.8%	44.5%	21.4%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	25.6%	29.3%	33.0%	33.3%	32.3%	31.4%
Operating margin	12.5%	13.8%	23.3%	25.7%	26.6%	26.8%
Return on equity (ROE)	9.1%	10.4%	16.6%	31.2%	33.2%	30.5%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	3.2	2.9	2.6	2.7	3.0	3.2

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	144.7	113.7	62.6	26.0	18.0	14.8
P/E (diluted)	144.7	113.7	63.5	26.0	18.0	14.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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Naura Technology (002371 CH)

Key beneficiary of semi localization trend; Maintain BUY

Naura is our top pick under the China semi supply chain localization theme. We believe China supply chain localization is a long-term and sustainable trend, driven by increased export controls imposed by the US government to contain China's domestic semi tech advancement. Naura is the largest SME (semiconductor manufacturing equipment) supplier in China with the broadest product offering. We favour the company on 1) the continuous semi localization trend, 2) strong government policy support, and 3) expanding product offerings and market share gains. Maintain BUY, with TP at RMB426.0.

- **Recent US sanctions to have little impact on Naura.** The introduction of new restrictions recently is unlikely to have a material impact on the company's operations, according to our analysis. We believe the company has prepared non-US options for key material supplies. We project Naura's revenue to grow 26%/24% in 2024/25E, given memory producer CXMT has not been added to the list and their capex plan may continue.
- **China's SME market was dominated by overseas suppliers in 2023.** Per WSTS, China SME market size was est. to be US$37bn in 2023, with top five global SME players (ASML, Applied Materials, Lam Research, KLA, and Tokyo Electron) accounting for 73% of total market, leaving ample room for domestic players to catch up in the future. We estimate the localization rate was <20% in 2023. We believe Naura is well-positioned to ride on the semi localization trend in China.
- **Naura's 9M24 sales increased by 39.5% YoY.** Domestic semi equipment sales went up by 47% YoY in 9M24, driven by the localization trend. We expect the company to release its bookings for 2025E early next year, which should remain a key focus for investors as it serves as a reliable indicator of the company's growth next year. Maintain BUY, with TP at RMB426.0, corresponding to 30x 2025E P/E. Potential risks include: 1) worsening China-US trade relations, 2) heightened geopolitical tensions, 3) slower-than-expected R&D.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	14,688	22,079	30,856	39,030	48,443
YoY growth (%)	51.7	50.3	39.7	26.5	24.1
Gross margin (%)	43.8	41.1	43.7	44.3	45.3
Net profit (RMB mn)	2,352.7	3,899.1	5,806.1	7,546.5	9,872.6
YoY growth (%)	118.4	65.7	48.9	30.0	30.8
EPS (Reported) (RMB)	4.46	7.36	10.93	14.21	18.59
P/S (x)	14.6	9.7	7.0	5.5	4.4
P/E (x)	90.9	55.1	37.1	28.5	21.8
ROE (%)	12.8	17.7	21.3	22.5	23.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB426.00**
Up/Downside	**5.0%**
Current Price	**RMB405.59**

China Semiconductors

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Stock Data

Mkt Cap (RMB mn)	215,070.7
Avg 3 mths t/o (RMB mn)	3,588.6
52w High/Low (RMB)	486.69/221.06
Total Issued Shares (mn)	530.3

Source: FactSet

Shareholding Structure

Beijing Sevenstar Huadian Technology Gro	33.6%
Beijing Electronics Holding	9.4%

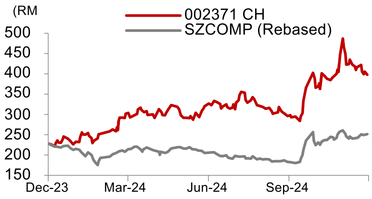
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-9.4%	-7.8%
3-mth	37.0%	-0.4%
6-mth	27.4%	4.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**9,683**	**14,688**	**22,079**	**30,856**	**39,030**	**48,443**
Cost of goods sold	(5,867)	(8,250)	(13,005)	(17,381)	(21,734)	(26,487)
Gross profit	**3,817**	**6,438**	**9,075**	**13,475**	**17,296**	**21,956**
Operating expenses	**(2,580)**	**(3,571)**	**(4,627)**	**(6,674)**	**(8,453)**	**(10,383)**
Selling expense	(84)	(135)	(167)	(203)	(237)	(270)
SG&A expense	(1,705)	(2,224)	(2,836)	(3,532)	(4,312)	(5,158)
R&D expense	(1,297)	(1,845)	(2,475)	(3,703)	(4,606)	(5,619)
Others	507	633	852	763	701	664
Operating profit	**1,236**	**2,867**	**4,448**	**6,801**	**8,843**	**11,573**
Other income	18	14	22	20	22	24
Other expense	(2)	(27)	(4)	0	0	0
Pre-tax profit	**1,253**	**2,854**	**4,466**	**6,821**	**8,865**	**11,597**
Income tax	(59)	(313)	(433)	(1,023)	(1,330)	(1,740)
After tax profit	**1,193**	**2,541**	**4,033**	**5,797**	**7,535**	**9,858**
Minority interest	116	188	134	(9)	(11)	(15)
Net profit	**1,077**	**2,353**	**3,899**	**5,806**	**7,547**	**9,873**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**22,323**	**31,117**	**38,226**	**44,723**	**50,314**	**59,110**
Cash & equivalents	9,068	10,435	12,451	10,866	11,125	12,852
Account receivables	1,899	2,995	3,767	6,377	7,524	8,933
Inventories	8,035	13,041	16,992	23,009	25,818	31,509
Prepayment	658	1,551	1,480	1,446	1,439	1,543
Other current assets	2,663	3,096	3,535	3,025	4,409	4,272
Non-current assets	**8,732**	**11,434**	**15,399**	**19,153**	**22,927**	**26,921**
PP&E	2,423	2,484	3,352	5,735	6,755	7,870
Right-of-use assets	68	147	215	266	306	326
Deferred income tax	473	363	450	493	566	665
Intangibles	2,063	2,003	2,547	5,536	8,037	10,208
Goodwill	17	18	27	27	27	27
Other non-current assets	3,689	6,419	8,808	7,095	7,235	7,825
Total assets	**31,054**	**42,551**	**53,625**	**63,876**	**73,241**	**86,030**
Current liabilities	**11,268**	**15,770**	**19,083**	**24,041**	**26,119**	**29,133**
Short-term borrowings	0	227	23	23	49	81
Account payables	3,499	5,592	6,117	11,026	12,553	15,022
Tax payable	110	130	209	107	122	144
Other current liabilities	2,096	1,841	3,418	3,075	3,430	4,296
Contract liabilities	5,046	7,198	8,317	8,962	8,991	8,448
Accrued expenses	517	782	999	848	972	1,142
Non-current liabilities	**2,588**	**6,797**	**9,717**	**9,327**	**9,696**	**10,415**
Long-term borrowings	0	3,740	5,835	5,297	5,103	5,053
Bond payables	0	0	0	0	0	0
Deferred income	0	2	4	4	4	4
Other non-current liabilities	2,587	3,055	3,877	4,026	4,589	5,358
Total liabilities	**13,856**	**22,567**	**28,800**	**33,368**	**35,814**	**39,548**
Share capital	526	529	530	531	531	531
Retained earnings	2,924	5,159	8,776	14,168	21,098	30,169
Other reserves	13,448	14,058	15,061	15,360	15,360	15,360
Total shareholders equity	**16,898**	**19,746**	**24,367**	**30,059**	**36,989**	**46,060**
Minority interest	301	238	458	449	438	423
Total equity and liabilities	**31,054**	**42,551**	**53,625**	**63,876**	**73,241**	**86,030**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**1,253**	**2,854**	**4,466**	**6,821**	**8,865**	**11,597**
Depreciation & amortization	460	552	730	946	1,594	2,197
Tax paid	(59)	(313)	(433)	(1,023)	(1,330)	(1,740)
Change in working capital	(3,133)	(4,424)	(3,409)	(3,613)	(3,316)	(3,592)
Others	703	603	1,012	(2,325)	(2,798)	(3,510)
Net cash from operations	**(777)**	**(728)**	**2,365**	**805**	**3,014**	**4,953**
Investing						
Capital expenditure	(447)	(1,409)	(1,980)	(1,792)	(2,160)	(2,761)
Acquisition of subsidiaries/ investments	0	(15)	(81)	0	0	0
Net proceeds from disposal of short-term investments	0	0	3	0	0	0
Others	0	1	0	221	341	504
Net cash from investing	**(447)**	**(1,423)**	**(2,058)**	**(1,571)**	**(1,819)**	**(2,258)**
Financing						
Dividend paid	(114)	(241)	(388)	(589)	(781)	(963)
Net borrowings	(602)	3,453	1,888	(523)	(168)	(17)
Proceeds from share issues	8,497	157	212	299	0	0
Others	(101)	(24)	(66)	1	0	0
Net cash from financing	**7,680**	**3,345**	**1,647**	**(812)**	**(949)**	**(980)**
Net change in cash						
Cash at the beginning of the year	2,578	9,031	10,261	12,229	10,665	10,923
Exchange difference	(4)	37	14	11	12	12
Others	6,457	1,194	1,954	(1,575)	247	1,715
Cash at the end of the year	**9,031**	**10,261**	**12,229**	**10,665**	**10,923**	**12,651**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	59.9%	51.7%	50.3%	39.7%	26.5%	24.1%
Gross profit	71.8%	68.7%	40.9%	48.5%	28.4%	26.9%
Operating profit	84.8%	131.9%	55.1%	52.9%	30.0%	30.9%
Net profit	100.7%	118.4%	65.7%	48.9%	30.0%	30.8%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	39.4%	43.8%	41.1%	43.7%	44.3%	45.3%
Operating margin	12.8%	19.5%	20.1%	22.0%	22.7%	23.9%
Return on equity (ROE)	9.1%	12.8%	17.7%	21.3%	22.5%	23.8%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.0	2.0	2.0	1.9	1.9	2.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	188.8	90.9	55.1	37.1	28.5	21.8
P/E (diluted)	188.9	91.2	55.3	37.1	28.5	21.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Xiaomi (1810 HK)

Solid execution of “Human×Car×Home” strategy; Reiterate BUY

Xiaomi delivered another beat with 3Q24 revenue/adj. net profit growth of 31%/ 4% YoY, thanks to better EV/core business margins and investment related gains. Xiaomi’s EV GPM came in strong at 17.1% (vs. 2Q24 15.7%), above expectations. Mgmt. guided EV GPM to improve QoQ in 4Q24E and lifted annual delivery target to 130k units (vs. previous 100k). Looking ahead, we remain positive on Xiaomi’s solid execution of “Human x Car x Home” strategy, backed by smartphone global share gains, AIoT growth in expanding SKUs (tablets/wearables/home appliance) and improving mix, and EV shipment momentum into FY25-26E. Reiterate BUY with SOTP-based TP of HK$32.7, implying 24.3x FY25E P/E. Upcoming catalysts include SUV model launch, smartphone/AIoT share gains, and EV order/delivery/profitability updates.

- **3Q24 beat on stronger smartphone and AIoT/Internet/EV margins.** Xiaomi’s 3Q24 global smartphone shipment grew 3.2% YoY and ASP improved 10.6% YoY due to market share gains and higher sales of premium models. By segment, smartphone/AIoT/internet revenue grew 14%/26%/9% YoY, boosted by stronger smartphone/large home appliance/wearables and global user base expansion. Smartphone GPM came in at 11.7% (vs. 2Q/1Q24 12.1%/14.8%), largely in-line due to higher BOM cost, while AIoT GPM elevated to 20.8% (+2.9ppts YoY/+1.1ppts QoQ) thanks to higher mix of higher-margin home appliance and wearable products. 3Q24 EV GPM was impressive at 17.1% (vs. 2Q24 15.7%), with further upside in 4Q24E.

- **FY25E outlook: EV & core business momentum to continue, new retail strategy to accelerate.** Xiaomi EV reached 20k monthly delivery in October, and mgmt. lifted annual EV delivery target to 130k units (vs. previous 100k) backed by higher efficiency and faster production output. Xiaomi’s new retail strategy execution was beyond mgmt. expectations, and new store opening target was lifted to 15k/20k stores by end of FY24/25E. Looking ahead, mgmt. is confident that new retail channel expansion will further boost AIoT home appliance and EV sales, especially in lower-tier cities. Overall, we expect Xiaomi’s adj. net profit to grow 28%/25% in FY24/25E.

- **Accelerated growth in core business and EV; Reiterate BUY.** We believe Xiaomi’s “Human x Car x Home” ecosystem is poised to bear fruit from global market share gains and AI upgrade cycle in FY25/26E, and we expect further upside in EV business backed by new model launch and production capacity improvements. Reiterate BUY with SOTP-based TP of HK$ 32.7.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	280,044	270,970	354,314	423,870	466,371
YoY growth (%)	(14.7)	(3.2)	30.8	19.6	10.0
Adjusted net profit (RMB mn)	8,518.0	19,272.8	24,667.0	30,735.9	36,107.2
YoY growth (%)	(61.4)	126.3	28.0	24.6	17.5
EPS (Adjusted) (RMB)	0.34	0.77	0.99	1.24	1.46
Consensus EPS (RMB)	N/A	N/A	0.88	1.03	1.20
P/E (x)	84.1	37.3	29.0	23.3	19.8
P/B (x)	5.0	4.4	3.9	3.4	3.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	1.8	11.3	11.3	13.1	13.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$32.70**
Up/Downside	**6.2%**
Current Price	**HK$30.80**

China Technology

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Stock Data

Mkt Cap (HK$ mn)	626,533.6
Avg 3 mths t/o (HK$ mn)	4,631.2
52w High/Low (HK$)	31.60/12.12
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

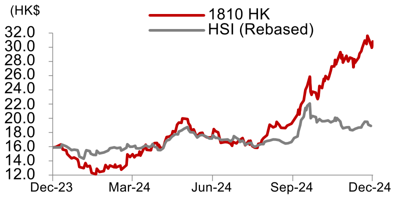
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.9%	5.4%
3-mth	57.8%	40.3%
6-mth	77.2%	64.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**328,309**	**280,044**	**270,970**	**354,314**	**423,870**	**466,371**
Cost of goods sold	(270,048)	(232,467)	(213,494)	(279,970)	(332,898)	(364,151)
Gross profit	**58,261**	**47,577**	**57,476**	**74,344**	**90,972**	**102,219**
Selling expense	(20,981)	(21,323)	(19,227)	(24,966)	(29,247)	(32,180)
Admin expense	(4,739)	(5,114)	(5,127)	(5,874)	(6,994)	(7,695)
R&D expense	(13,167)	(16,028)	(19,098)	(23,433)	(28,399)	(29,381)
Other income	827	1,136	740	1,073	1,073	1,073
Gain/loss on financial assets at FVTPL	8,132	(1,662)	3,501	(904)	(904)	(904)
Investment gain/loss	275	(400)	46	364	364	364
EBIT	**26,029**	**2,816**	**20,009**	**20,933**	**27,864**	**34,496**
Net Interest income/(expense)	**(1,612)**	**1,117**	**2,002**	**4,006**	**4,006**	**4,006**
Foreign exchange gain/loss	(2,580)	(1,369)	1,697	330	1,000	1,000
Others	0	0	0	0	0	0
Pre-tax profit	**24,417**	**3,934**	**22,011**	**24,939**	**31,870**	**38,502**
Income tax	(5,134)	(1,431)	(4,537)	(5,193)	(6,055)	(7,315)
Minority interest	(56)	29	(1)	(54)	(70)	(85)
Net profit	**19,283**	**2,503**	**17,474**	**19,746**	**25,815**	**31,186**
Adjusted net profit	**22,039**	**8,518**	**19,273**	**24,667**	**30,736**	**36,107**
Net dividends	0	0	0	0	0	0

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**185,851**	**160,415**	**199,053**	**234,713**	**261,291**	**296,507**
Cash & equivalents	23,512	27,607	33,631	22,577	65,391	66,230
Account receivables	23,095	19,625	21,924	33,053	28,879	37,303
Inventories	52,398	50,438	44,423	80,008	67,946	93,899
Prepayment	19,852	18,578	20,079	20,079	20,079	20,079
ST bank deposits	31,041	29,875	52,798	52,798	52,798	52,798
Financial assets at FVTPL	30,910	9,846	20,194	20,194	20,194	20,194
Other current assets	5,045	4,446	6,005	6,005	6,005	6,005
Non-current assets	**107,040**	**113,092**	**125,195**	**130,263**	**135,964**	**141,678**
PP&E	6,965	9,138	13,721	18,790	24,490	30,204
Deferred income tax	1,662	2,278	2,161	2,161	2,161	2,161
Investment in JVs & assos	10,231	7,932	6,922	6,922	6,922	6,922
Intangibles	5,579	4,630	8,629	8,629	8,629	8,629
Financial assets at FVTPL	50,114	55,980	60,200	60,200	60,200	60,200
Other non-current assets	32,490	33,134	33,562	33,562	33,562	33,562
Total assets	**292,892**	**273,507**	**324,247**	**364,976**	**397,255**	**438,184**
Current liabilities	**115,727**	**89,628**	**115,588**	**136,571**	**143,034**	**152,777**
Short-term borrowings	5,527	2,151	6,183	6,183	6,183	6,183
Account payables	74,643	53,094	62,099	83,081	89,545	99,288
Tax payable	2,335	1,384	1,838	1,838	1,838	1,838
Other current liabilities	33,222	32,999	45,467	45,467	45,467	45,467
Non-current liabilities	**39,732**	**39,957**	**44,398**	**44,398**	**44,398**	**44,398**
Long-term borrowings	20,720	21,493	21,674	21,674	21,674	21,674
Deferred income	1,203	983	1,494	1,494	1,494	1,494
Other non-current liabilities	17,809	17,480	21,230	21,230	21,230	21,230
Total liabilities	**155,459**	**129,584**	**159,986**	**180,969**	**187,432**	**197,175**
Share capital	407	406	407	407	407	407
Other reserves	137,212	143,658	163,995	183,795	209,680	240,951
Total shareholders equity	**137,432**	**143,923**	**164,262**	**184,008**	**209,823**	**241,009**
Minority interest	220	265	266	213	142	58
Total equity and liabilities	**292,892**	**273,507**	**324,247**	**364,976**	**397,255**	**438,184**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**24,417**	**3,934**	**22,011**	**24,939**	**31,870**	**38,502**
Depreciation & amortization	3,062	3,707	(1,383)	2,018	2,777	3,613
Tax paid	(2,442)	(3,420)	(4,083)	(5,193)	(6,055)	(7,315)
Change in working capital	(15,725)	(21,255)	25,862	(25,732)	22,699	(24,633)
Others	474	12,644	(1,107)	0	0	0
Net cash from operations	**9,785**	**(4,390)**	**41,300**	**(3,968)**	**51,291**	**10,167**
Investing						
Capital expenditure	(7,169)	(5,800)	(3,200)	(7,086)	(8,477)	(9,327)
Acquisition of subsidiaries/ investments	(1,086)	(25)	0	0	0	0
Net proceeds from disposal of short-term investments	166,947	23,136	0	0	0	0
Others	(203,699)	(1,763)	(31,969)	0	0	0
Net cash from investing	**(45,008)**	**15,549**	**(35,169)**	**(7,086)**	**(8,477)**	**(9,327)**
Financing						
Net borrowings	9,227	(2,791)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(7,007)	(2,386)	0	0	0	0
Others	2,278	(2,677)	(505)	0	0	0
Net cash from financing	**4,499**	**(7,855)**	**(505)**	**0**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	55,580	24,339	27,607	33,631	22,577	65,391
Exchange difference	791	398	0	0	0	0
Cash at the end of the year	**24,339**	**27,607**	**33,631**	**22,577**	**65,391**	**66,230**
GROWTH	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Revenue	33.5%	(14.7%)	(3.2%)	30.8%	19.6%	10.0%
Gross profit	58.5%	(18.3%)	20.8%	29.3%	22.4%	12.4%
EBIT	8.3%	(89.2%)	610.4%	4.6%	33.1%	23.8%
Net profit	(5.1%)	(87.0%)	598.3%	13.0%	30.7%	20.8%
Adj. net profit	69.5%	(61.4%)	126.3%	28.0%	24.6%	17.5%
PROFITABILITY	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Gross profit margin	17.7%	17.0%	21.2%	21.0%	21.5%	21.9%
Adj. net profit margin	6.7%	3.0%	7.1%	7.0%	7.3%	7.7%
Return on equity (ROE)	14.8%	1.8%	11.3%	11.3%	13.1%	13.8%
GEARING/LIQUIDITY/ACTIVITIES	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Net debt to equity (x)	1.0	0.7	0.8	0.9	0.6	na
Current ratio (x)	1.6	1.8	1.7	1.7	1.8	1.9
Receivable turnover days	15.6	19.4	16.1	12.0	12.0	12.0
Inventory turnover days	63.6	80.7	81.1	45.4	45.4	45.4
Payable turnover days	99.2	100.3	98.5	94.6	94.6	94.6
VALUATION	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
P/E	37.2	84.1	37.3	29.0	23.3	19.8
P/E (diluted)	32.7	84.1	37.3	29.0	23.3	19.8
P/B	5.2	5.0	4.4	3.9	3.4	ns
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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招商银行全资附属机构 A Wholly Owned Subsidiary Of China Merchants Bank

BYDE (285 HK)

2025 Outlook: Apple, NEV products and AI server as major growth drivers

We hosted BYDE mgmt. at our 4Q outlook NDR events. Mgmt. highlighted their positive outlook across all segments in 4Q24/2025: 1) Apple/Android: iPad share gains, Jabil's enhanced automation and high-end Android demand; 2) NEV: rising penetration and installation of high-end ADAS and suspension products to drive growth; 3) AI server: positive on ODM products' ramp-up and GB200 component product roadmap with Nvidia. Trading at 11.9x FY25E P/E, we believe the stock is attractive. Our SOTP-based TP is HK$44.41, implying 15.0x FY25E P/E. Maintain BUY and BYDE is our sector top pick.

- **Smartphones: iPad share gains, Jabil profitability and high-end Android demand.** For Apple biz, mgmt. remains positive on iPad/metal share gains and Jabil profitability in 4Q24/2025 thanks to automation, rising UTR, capacity ramp-up and better yield. For Android biz, mgmt. believes high-end demand growth is an ongoing industry trend and BYDE will benefit from Samsung/Xiaomi/Honor new model launches and order wins.
- **Automotive: revenue to reach RMB30bn in FY25E.** Mgmt. highlighted below during our meetings: 1) thermal management and high-end ADAS products to deliver strong growth in 2024; 2) smart cockpit growth driven by Parentco orders; 3) suspension products to enter mass production by end-2024 and boost sales growth in FY25E; 4) high-end ADAS penetration and shipment growth in FY25E. Overall, mgmt. guided automotive revenue of RMB30bn in 2025 and RMB50-60bn in the long term, driven by rising penetration of ADAS, suspension, and new products ramp-up.
- **AI server: ODM server shipment on track; guided RMB1bn/3-5bn sales in FY24/25E.** Mgmt. reiterated that AI server ODM shipment to domestic CSP customers is well on track. For GB200 server components, mgmt. stated that they are working closely with Nvidia for product qualifications, including coldplate, high-speed connectors, power board and CDU, and expect delivery to kick off in 2025. Overall, mgmt. guided AI server sales to reach RMB1bn in FY24E and RMB3-5bn in FY25E, and guided server component GPM is likely to be at ~10% similar to industry peers.
- **Maintain BUY.** We remain positive on the iPhone AI cycle, stable Android flagship demand, high-end NEV products and AI server momentum in 2025. Trading at 11.9x FY25E P/E, we believe the stock is attractive. Our SOTP-based TP is HK$44.41, implying 15.0x FY25E P/E. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	107,186	129,957	171,961	196,265	215,397
YoY growth (%)	20.4	21.2	32.3	14.1	9.7
Net profit (RMB mn)	1,857.6	4,041.4	4,428.1	6,070.2	7,567.4
YoY growth (%)	(19.6)	117.6	9.6	37.1	24.7
EPS (Reported) (RMB)	0.82	1.79	1.97	2.69	3.36
Consensus EPS (RMB)	0.00	1.79	2.02	2.67	3.15
P/E (x)	45.3	20.8	19.0	13.9	11.1
P/B (x)	3.3	2.9	4.6	3.7	3.0
Yield (%)	0.4	1.4	1.6	2.2	2.7
ROE (%)	7.5	14.7	18.6	29.7	30.0
Net gearing (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$44.41**
Up/Downside	**11.4%**
Current Price	**HK$39.85**

China Technology

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Stock Data

Mkt Cap (HK$ mn)	89,790.2
Avg 3 mths t/o (HK$ mn)	643.0
52w High/Low (HK$)	42.95/23.60
Total Issued Shares (mn)	2253.2

Source: FactSet

Shareholding Structure

Golden Link Worldwide Ltd	65.8%
Gold Dragonfly Ltd	5.0%

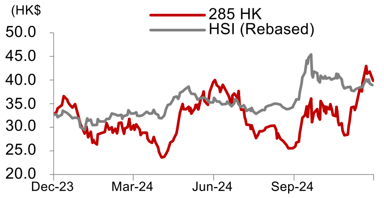
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	40.3%	38.4%
3-mth	54.5%	38.5%
6-mth	0.8%	-8.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1) 3Q24 in-line; Eyes on Jabil/NEV/AI server ramp-up – 1 Nov 2024 (link)

2) Positive on multiple growth drivers ahead despite near-term drags from Jabil integration – 30 Aug 2024 (link)

3) 1H24E preview: Expect solid growth on iPad/ iPhone cycle, Android recovery and NEV orders – 29 Jul 2024 (link)

4) CMBI Corp Day takeaways: iPad/iPhone cycle, NEV, AI servers and robotics – 2 Jul 2024 (link)

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**89,057**	**107,186**	**129,957**	**171,961**	**196,265**	**215,397**
Cost of goods sold	(83,028)	(100,836)	(119,523)	(159,019)	(179,976)	(196,392)
Gross profit	**6,029**	**6,350**	**10,434**	**12,942**	**16,289**	**19,005**
Selling expense	(275)	(535)	(720)	(1,930)	(2,257)	(2,477)
Admin expense	(1,041)	(1,235)	(1,288)	(1,627)	(1,865)	(2,046)
R&D expense	(3,308)	(3,969)	(4,722)	(5,181)	(6,084)	(6,677)
Operating profit	**1,405**	**611**	**3,705**	**4,204**	**6,083**	**7,804**
Other income/expense	1,104	1,386	1,165	1,202	1,202	1,202
Pre-tax profit	**2,465**	**1,939**	**4,681**	**4,943**	**6,977**	**8,698**
Income tax	(155)	(81)	(640)	(515)	(907)	(1,131)
Minority interest	0	0	0	0	0	0
Net profit	**2,310**	**1,858**	**4,041**	**4,428**	**6,070**	**7,567**
Adjusted net profit	**2,310**	**1,858**	**4,041**	**4,428**	**6,070**	**7,567**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**27,630**	**40,488**	**54,607**	**45,111**	**62,935**	**51,917**
Cash & equivalents	2,825	6,244	10,537	10,000	8,765	8,876
Account receivables	9,240	10,471	23,011	11,381	27,872	15,207
Inventories	10,567	17,046	18,541	21,213	23,781	25,317
ST bank deposits	0	0	0	0	0	0
Other current assets	4,998	6,727	2,517	2,517	2,517	2,517
Non-current assets	**12,314**	**15,006**	**29,647**	**41,242**	**44,717**	**48,325**
PP&E	11,182	12,941	19,709	18,859	22,682	26,651
Deferred income tax	201	481	620	620	620	620
Other non-current assets	931	1,583	9,318	21,763	21,415	21,054
Total assets	**41,175**	**56,994**	**87,219**	**90,477**	**112,124**	**105,075**
Current liabilities	**16,220**	**30,143**	**54,751**	**59,201**	**76,599**	**64,252**
Short-term borrowings	0	0	0	0	0	0
Account payables	11,724	22,002	29,939	18,990	36,387	24,041
Tax payable	184	363	607	607	607	607
Other current liabilities	4,312	7,777	24,204	39,604	39,604	39,604
Non-current liabilities	**928**	**1,216**	**3,138**	**3,138**	**3,138**	**3,138**
Deferred income	150	231	290	290	290	290
Other non-current liabilities	404	395	1,206	1,206	1,206	1,206
Total liabilities	**17,148**	**31,359**	**57,888**	**62,339**	**79,737**	**67,390**
Share capital	4,052	4,052	4,052	4,052	4,052	4,052
Other reserves	19,975	21,583	25,278	14,279	18,528	23,826
Total shareholders equity	**24,027**	**25,635**	**29,330**	**18,331**	**22,580**	**27,878**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**41,175**	**56,994**	**87,219**	**80,670**	**102,317**	**95,268**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**2,465**	**1,939**	**4,681**	**4,943**	**6,977**	**8,698**
Depreciation & amortization	1,717	1,987	2,315	2,748	3,243	3,786
Change in working capital	(2,228)	2,568	(6,098)	(1,991)	(1,661)	(1,218)
Others	(187)	(124)	(346)	(51)	(599)	(823)
Net cash from operations	**1,768**	**6,370**	**552**	**5,649**	**7,960**	**10,443**
Investing						
Capital expenditure	(3,206)	(3,859)	(4,678)	(6,191)	(7,066)	(7,754)
Others	0	0	0	(13,605)	0	0
Net cash from investing	**(3,206)**	**(3,859)**	**(4,678)**	**(19,795)**	**(7,066)**	**(7,754)**
Financing						
Dividend paid	(232)	(372)	(1,212)	(1,328)	(1,821)	(2,270)
Others	(43)	(59)	(189)	14,937	(308)	(308)
Net cash from financing	**(275)**	**(430)**	**(1,401)**	**13,608**	**(2,129)**	**(2,578)**
Net change in cash						
Cash at the beginning of the year	3,466	2,825	6,244	10,537	10,000	8,765
Exchange difference	1,072	1,337	9,821	0	0	0
Cash at the end of the year	**2,825**	**6,244**	**10,537**	**10,000**	**8,765**	**8,876**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	21.8%	20.4%	21.2%	32.3%	14.1%	9.7%
Gross profit	(37.4%)	5.3%	64.3%	24.0%	25.9%	16.7%
Operating profit	(75.8%)	(56.5%)	506.5%	13.5%	44.7%	28.3%
Net profit	(57.5%)	(19.6%)	117.6%	9.6%	37.1%	24.7%
Adj. net profit	(57.5%)	(19.6%)	117.6%	9.6%	37.1%	24.7%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	6.8%	5.9%	8.0%	7.5%	8.3%	8.8%
Operating margin	1.6%	0.6%	2.9%	2.4%	3.1%	3.6%
Adj. net profit margin	2.6%	1.7%	3.1%	2.6%	3.1%	3.5%
Return on equity (ROE)	10.0%	7.5%	14.7%	18.6%	29.7%	30.0%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio (x)	1.7	1.3	1.0	0.8	0.8	0.8
Receivable turnover days	48.4	33.6	33.5	36.5	36.5	36.5
Inventory turnover days	38.4	50.0	50.0	45.6	45.6	45.6
Payable turnover days	43.7	61.0	60.8	56.2	56.2	56.2

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	36.4	45.3	20.8	19.0	13.9	11.1
P/B	3.5	3.3	2.9	4.6	3.7	3.0
Div yield (%)	0.3	0.4	1.4	1.6	2.2	2.7
EV	24,027.1	25,635.1	29,330.4	18,330.8	22,580.3	27,877.8
EV/Sales	0.3	0.2	0.2	0.1	0.1	0.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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FIT Hon Teng (6088 HK)

FY24E guidance maintained, positive outlook for FY25/26E; Reiterate BUY

We hosted a series of NDR events with FIT's mgmt., and we believe FIT is on track to deliver its FY24E guidance of high single-digit revenue growth, GPM 20%+, and OPM target of 4.5%. During 4Q24, FIT's AI server/networking related product (compute tray connectivity/power busbar/CDU connectors) shipment momentum picked up meaningfully backed by GB200 ramp, along with shipment breakthrough of optical modules (400G/800G). And the consolidation of the Auto-Kabel Group deal has been progressing smoothly to boost FIT's topline growth in FY25/26E. Overall, we maintain our positive view on FIT's multiple growth drivers in FY24/25E with its firm FY25-27E 3-year growth guidance. Maintain BUY with same TP of HK$ 4.38. Upcoming catalysts include Auto-Kabel deal completion, GB200/GB300 supply chain updates and GPU socket applications.

- **4Q24 AI server related products shipment picked up.** During the call, mgmt. restated that no alternation in the AI server related product revenue contribution guidance for FY24E (7-9% of FY24E revenue, US$ 500-1000 per compute tray) along with contribution from power busbar and liquid cooling UQD products. 400G/800G optical modules have also delivered to clients with 1.6T module expected in 1H25E. The backplane cables/connectors are currently sampling with results expecting in the coming months. And the potential deployments of GPU socket solutions by Nvidia for its next-gen GB300 AI server products provide a further upside for FIT's AI server related networking business.

- **Growth momentum extended to FY25/26E: AI server products and auto business as key growth drivers.** Mgmt. announced a solid set of FY25-27E 3-year guidance during 3Q24 earnings call, suggesting their strong confidence in product roadmap and execution of "3+3" strategy. For AI server related products, backplane cable/connectors, switch tray connectivity products and GPU socket solution deployments provide further business upside. For EV mobility, integration with Auto-Kabel is about to close and contribute meaningful revenue in FY25E. For AirPods, first production line in India is on track to start mass production in early FY25E, and second line will begin construction in 1H25E.

- **Solid outlook in FY24-26E; Maintain BUY with TP of HK$4.38.** The stock now trades at 9.3x/7.1x FY25/26E P/E, which is attractive compared to 67%/31% EPS growth. Reiterate BUY with same TP of HK$ 4.38.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US$ mn)	4,531	4,196	4,555	5,896	7,131
YoY growth (%)	0.9	(7.4)	8.6	29.4	20.9
Net profit (US$ mn)	170.1	129.6	184.2	308.1	403.2
YoY growth (%)	24.5	(23.8)	42.2	67.2	30.9
EPS (Reported) (US$ cents)	2.42	1.82	2.59	4.34	5.67
Consensus EPS (US$)	N/A	N/A	2.60	3.94	4.76
P/E (x)	16.7	22.3	15.6	9.3	7.1
P/B (x)	1.2	1.1	1.1	1.0	0.9
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	7.2	5.4	7.3	11.1	12.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$4.38**
Up/Downside	**39.2%**
Current Price	**HK$3.15**

China Technology

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Stock Data

Mkt Cap (HK$ mn)	22,891.1
Avg 3 mths t/o (HK$ mn)	131.3
52w High/Low (HK$)	3.73/0.90
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

Foxconn Far East Ltd	71.1%
Lu Sung-Ching	5.5%

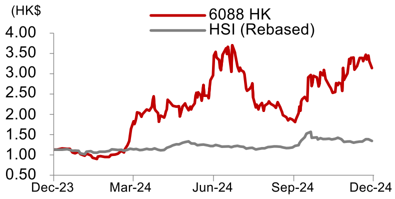
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.7%	3.1%
3-mth	70.3%	51.4%
6-mth	-8.7%	-15.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Revenue	**4,490**	**4,531**	**4,196**	**4,555**	**5,896**	**7,131**
Cost of goods sold	(3,817)	(3,763)	(3,388)	(3,613)	(4,651)	(5,603)
Gross profit	**673**	**768**	**807**	**942**	**1,245**	**1,528**
Selling expense	(105)	(93)	(105)	(128)	(147)	(178)
Admin expense	(161)	(130)	(191)	(210)	(259)	(307)
R&D expense	(301)	(296)	(308)	(353)	(430)	(513)
Others	70	58	61	69	71	71
Operating profit	**177**	**307**	**263**	**321**	**479**	**601**
Share of (losses)/profits of associates/JV	(8)	(46)	(50)	(38)	(38)	(38)
Interest expense	(2)	(14)	(33)	(33)	(30)	(26)
Pre-tax profit	**167**	**248**	**179**	**250**	**411**	**538**
Income tax	(31)	(78)	(50)	(65)	(103)	(134)
Minority interest	(1)	1	1	0	1	1
Net profit	**137**	**170**	**130**	**184**	**308**	**403**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Current assets	**3,034**	**2,764**	**3,112**	**2,794**	**3,793**	**4,266**
Cash & equivalents	769	914	1,316	886	1,184	1,416
Account receivables	1,033	720	807	851	1,295	1,300
Inventories	982	967	802	870	1,127	1,363
ST bank deposits	98	66	4	4	4	4
Non-current assets	**1,973**	**1,783**	**1,982**	**2,498**	**2,426**	**2,317**
PP&E	823	753	900	1,416	1,344	1,235
Deferred income tax	133	131	126	126	126	126
Investment in JVs & assos	172	123	73	73	73	73
Intangibles	634	601	700	700	700	700
Other non-current assets	211	175	182	182	182	182
Total assets	**5,007**	**4,547**	**5,094**	**5,291**	**6,219**	**6,583**
Current liabilities	**1,937**	**1,539**	**2,563**	**2,577**	**3,196**	**3,157**
Short-term borrowings	690	453	1,383	1,383	1,383	1,383
Account payables	1,138	971	1,095	1,108	1,727	1,688
Tax payable	94	98	70	70	70	70
Other current liabilities	15	18	17	17	17	17
Non-current liabilities	**674**	**661**	**93**	**93**	**93**	**93**
Long-term borrowings	576	575	0	0	0	0
Obligations under finance leases	46	43	41	41	41	41
Other non-current liabilities	52	43	52	52	52	52
Total liabilities	**2,611**	**2,200**	**2,656**	**2,670**	**3,289**	**3,250**
Share capital	139	142	142	142	142	142
Other reserves	2,348	2,295	2,384	2,569	2,877	3,280
Total shareholders equity	**2,396**	**2,347**	**2,437**	**2,622**	**2,930**	**3,333**
Minority interest	1	2	3	3	3	3
Total equity and liabilities	**5,007**	**4,547**	**5,094**	**5,291**	**6,219**	**6,583**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**167**	**248**	**179**	**250**	**411**	**538**
Depreciation & amortization	251	232	220	434	472	509
Tax paid	(91)	(79)	(75)	(65)	(103)	(134)
Change in working capital	(257)	93	146	(99)	(82)	(280)
Others	15	63	103	0	0	0
Net cash from operations	**85**	**556**	**574**	**519**	**698**	**632**
Investing						
Capital expenditure	(216)	(113)	(243)	(950)	(400)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(4)	47	(167)	0	0	0
Net cash from investing	**(220)**	**(66)**	**(410)**	**(950)**	**(400)**	**(400)**
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(1)	(2)	(1)	0	0	0
Others	121	(268)	250	0	0	0
Net cash from financing	**120**	**(270)**	**249**	**0**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	766	769	914	1,316	886	1,184
Exchange difference	19	(75)	(10)	0	0	0
Cash at the end of the year	**769**	**914**	**1,316**	**886**	**1,184**	**1,416**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	4.1%	0.9%	(7.4%)	8.6%	29.4%	20.9%
Gross profit	16.1%	14.1%	5.1%	16.7%	32.2%	22.7%
Operating profit	41.2%	74.0%	(14.4%)	22.0%	49.2%	25.6%
Net profit	219.3%	24.5%	(23.8%)	42.2%	67.2%	30.9%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.0%	16.9%	19.2%	20.7%	21.1%	21.4%
Operating margin	3.9%	6.8%	6.3%	7.0%	8.1%	8.4%
Return on equity (ROE)	6.0%	7.2%	5.4%	7.3%	11.1%	12.9%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	na	na	0.0	0.0	0.0	na
Current ratio (x)	1.6	1.8	1.2	1.1	1.2	1.4
Receivable turnover days	84.0	58.0	70.2	68.2	80.2	66.6
Inventory turnover days	93.9	93.8	86.4	87.9	88.4	88.8
Payable turnover days	108.8	94.2	117.9	111.9	135.6	110.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	19.9	16.7	22.3	15.6	9.3	7.1
P/B	1.1	1.2	1.1	1.1	1.0	0.9
Div yield (%)	110.5	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

10 Dec 2024

CMB International Global Markets | Equity Research | Company Update

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招商银行全资附属机构 A Wholly Owned Subsidiary Of China Merchants Bank

Tencent (700 HK)

Strong competitive edges drive steady earnings growth

Supported by Tencent's strong competitive edges in consumer internet vertical, we expect Tencent to maintain steady revenue and earnings growth in 2025E, and its solid cash flow generation capability will support decent shareholder return. Looking into 2025E, we expect: 1) games revenue to maintain healthy growth, mainly fuelled by the full-year contribution of DnF Mobile and overseas games revenue growth; 2) marketing revenue to maintain faster-than-sector growth, driven by incremental contribution of new ad formats and enhanced ad ROI thanks to AI; 3) FBS revenue growth to be largely in line with the pace of macro and consumption recovery. We expect Tencent's FY25E total revenue/non-IFRS operating profit to grow by 8%/10% YoY, and the company's current valuation translates into 14x FY25E non-IFRS PE (12x PE if excl. strategic investments). In view of Tencent's solid competitive edges, high earnings growth certainty and decent shareholder return, Tencent remains as one of our sector top picks. Our SOTP-derived target price is HK$525.0. Maintain BUY.

- **Expect healthy business growth.** We forecast Tencent's FY25 total revenue to grow by 8% YoY. By segment: 1) we expect games revenue to increase by 8% YoY, driven by full-year contribution of DnF Mobile and overseas games revenue growth; 2) we forecast marketing revenue to grow by 17% YoY, with Weixin ad property like Video Account/Mini Programs/Search as key growth drivers and AI improving ad ROI; 3) we forecast FBS revenue to grow by 7% YoY, mainly underpinned by the growth in e-commerce tech services fee and AI computing services, while the recovery of fintech services will depend on the recovery of consumption sentiment. On the margin front, we expect non-IFRS OPM to improve by 1ppt YoY in FY25, with slowdown in margin expansion pace, mainly due to the high-base effect, resumed headcount growth and investments in new businesses like AI and e-commerce.
- **Eyes on new business opportunities.** Looking into FY25, key catalysts will include: 1) improvement of Weixin e-commerce ecosystem to drive growth of e-commerce GMV, generating incremental ad and e-commerce tech service fee revenue; 2) the launch of highly-anticipated titles including *Goddess of Victory: New Hope* and *Squad Busters;* 3) consumption recovery supporting better-than-expected FBS revenue growth; 4) enhancing shareholder return.
- **Solid competitive edges with earnings resilience.** Our SOTP-derived target price is HK$525.0, consisting of HK$202.9/30.4/102.6/84.5/22.6 for games/SNS/marketing/FBS/cloud and HK$13.3/68.8 for net cash/strategic investment. Excluding strategic investments, the company's current valuation translates into 12x FY25E non-IFRS PE. In view of Tencent's solid competitive edges, earnings resilience and decent shareholder return, Tencent remains as one of our sector top picks.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	554,552	609,015	655,999	708,019	757,848
YoY growth (%)	(1.0)	9.8	7.7	7.9	7.0
Gross margin (%)	43.1	48.1	53.2	53.7	54.3
Adjusted net profit (RMB mn)	115,649.0	157,688.0	224,393.7	241,928.8	257,732.6
EPS (Adjusted) (RMB)	12.13	16.66	23.17	24.98	26.61
Consensus EPS (RMB)	12.13	16.66	22.41	24.73	27.39
P/S (x)	6.4	5.9	5.4	5.0	4.7
P/E (x)	57.9	33.9	20.9	18.3	18.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$525.00**
Up/Downside	**27.7%**
Current Price	**HK$411.20**

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Stock Data

Mkt Cap (HK$ mn)	3,816,552.8
Avg 3 mths t/o (HK$ mn)	9,929.1
52w High/Low (HK$)	478.40/262.20
Total Issued Shares (mn)	9281.5

Source: FactSet

Shareholding Structure

MIH TC	25.6%
Advance Data Services Limited	8.4%

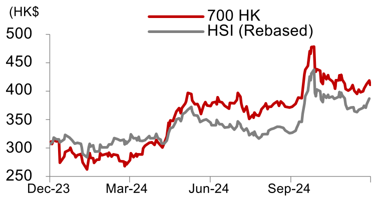
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.3%	-0.3%
3-mth	11.6%	-5.3%
6-mth	9.7%	-0.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**560,118**	**554,552**	**609,015**	**655,999**	**708,019**	**757,848**
Cost of goods sold	(314,174)	(315,806)	(315,906)	(307,218)	(327,821)	(346,678)
Gross profit	**245,944**	**238,746**	**293,109**	**348,781**	**380,198**	**411,170**
Operating expenses	**19,026**	**(127,919)**	**(133,035)**	**(138,908)**	**(147,793)**	**(156,972)**
Selling expense	(40,594)	(29,229)	(34,211)	(35,752)	(38,233)	(40,924)
Admin expense	(89,847)	(106,696)	(103,525)	(110,208)	(116,823)	(123,529)
Others	149,467	8,006	4,701	7,052	7,263	7,481
Operating profit	**264,970**	**110,827**	**160,074**	**209,872**	**232,405**	**254,198**
Share of (losses)/profits of associates/JV	(16,444)	(16,129)	5,800	21,942	21,942	5,486
Interest income	6,650	8,592	13,808	15,933	15,904	3,996
Interest expense	(7,114)	(9,352)	(12,268)	(12,770)	(2,866)	(3,156)
Pre-tax profit	**241,412**	**85,346**	**153,606**	**219,044**	**251,481**	**256,527**
Income tax	(20,252)	(21,516)	(43,276)	(45,214)	(52,233)	(59,032)
After tax profit	**221,160**	**63,830**	**110,330**	**173,830**	**199,248**	**197,495**
Minority interest	(2,988)	(466)	(2,832)	(3,027)	(3,238)	(3,442)
Net profit	**218,172**	**63,364**	**107,498**	**170,803**	**196,010**	**194,053**
Adjusted net profit	**123,788**	**115,649**	**157,688**	**224,394**	**241,929**	**257,733**
Gross dividends	12,704	20,256	28,485	44,219	47,309	50,285

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**484,812**	**565,989**	**518,446**	**554,189**	**637,523**	**815,570**
Cash & equivalents	167,966	156,739	172,320	182,522	220,708	355,547
Account receivables	49,331	45,467	46,606	48,100	50,357	52,284
Inventories	1,063	2,333	456	900	951	998
Prepayment	65,390	76,685	88,411	86,249	90,296	97,206
ST bank deposits	83,813	104,776	185,983	213,880	245,321	280,662
Financial assets at FVTPL	10,573	27,963	14,903	15,648	16,431	17,252
Other current assets	106,676	152,026	9,767	6,889	13,460	11,620
Non-current assets	**1,127,552**	**1,012,142**	**1,058,800**	**1,118,131**	**1,195,803**	**1,255,358**
PP&E	61,914	53,978	53,232	73,106	91,901	107,052
Deferred income tax	26,068	29,882	29,017	24,813	33,286	28,901
Investment in JVs & assos	323,188	252,715	261,665	273,109	284,919	297,084
Intangibles	171,376	161,802	177,727	205,942	236,893	265,187
Financial assets at FVTPL	192,184	206,085	211,145	211,145	211,145	211,145
Other non-current assets	352,822	307,680	326,014	330,017	337,659	345,988
Total assets	**1,612,364**	**1,578,131**	**1,577,246**	**1,672,320**	**1,833,326**	**2,070,928**
Current liabilities	**403,098**	**434,204**	**352,157**	**345,907**	**367,376**	**391,563**
Short-term borrowings	19,003	22,026	55,698	53,891	57,217	60,210
Account payables	109,470	92,381	100,948	93,066	98,314	107,441
Tax payable	12,506	13,488	17,664	16,835	17,604	18,245
Other current liabilities	256,673	299,955	171,693	175,961	188,086	199,513
Lease liabilities	5,446	6,354	6,154	6,154	6,154	6,154
Non-current liabilities	**332,573**	**361,067**	**351,408**	**370,841**	**382,467**	**395,222**
Long-term borrowings	136,936	163,668	155,819	156,074	156,150	156,173
Bond payables	145,590	148,669	137,101	139,672	140,981	141,642
Deferred income	4,526	3,503	3,435	12,289	13,113	13,867
Other non-current liabilities	45,521	45,227	55,053	62,807	72,223	83,539
Total liabilities	**735,671**	**795,271**	**703,565**	**716,748**	**749,843**	**786,784**
Retained earnings	669,911	705,981	813,911	984,775	1,169,448	1,366,666
Other reserves	136,388	15,410	(5,320)	(97,320)	(157,320)	(157,320)
Total shareholders equity	**806,299**	**721,391**	**808,591**	**887,455**	**1,012,128**	**1,209,346**
Minority interest	70,394	61,469	65,090	68,117	71,355	74,797
Total equity and liabilities	**1,612,364**	**1,578,131**	**1,577,246**	**1,672,320**	**1,833,326**	**2,070,928**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**241,412**	**85,346**	**153,606**	**219,044**	**251,481**	**256,527**
Depreciation & amortization	56,818	60,230	55,298	58,620	63,120	74,949
Tax paid	(20,252)	(21,516)	(43,276)	(45,214)	(52,233)	(59,032)
Change in working capital	(2,844)	(28,405)	16,661	(3,390)	11,018	11,670
Others	(99,948)	50,437	39,673	15,933	5,818	21,486
Net cash from operations	**175,186**	**146,091**	**221,962**	**244,994**	**279,204**	**305,600**
Investing						
Capital expenditure	(34,931)	(33,892)	(36,477)	(38,505)	(40,727)	(42,722)
Acquisition of subsidiaries/ investments	(117,642)	59,711	(105,332)	(37,007)	(66,718)	(50,433)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(25,976)	(130,690)	16,648	(68,203)	(72,140)	(75,672)
Net cash from investing	**(178,549)**	**(104,871)**	**(125,161)**	**(143,716)**	**(179,585)**	**(168,827)**
Financing						
Net borrowings	45,239	31,982	30,834	7,943	14,898	15,633
Proceeds from share issues	0	0	0	0	0	0
Others	(23,619)	(91,935)	(113,407)	(99,019)	(76,331)	(17,567)
Net cash from financing	**21,620**	**(59,953)**	**(82,573)**	**(91,076)**	**(61,434)**	**(1,933)**
Net change in cash						
Cash at the beginning of the year	152,798	167,966	156,739	172,320	182,522	220,708
Exchange difference	(3,089)	7,506	1,353	0	0	0
Cash at the end of the year	**167,966**	**156,739**	**172,320**	**182,522**	**220,708**	**355,547**
GROWTH	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Revenue	16.2%	(1.0%)	9.8%	7.7%	7.9%	7.0%
Gross profit	11.0%	(2.9%)	22.8%	19.0%	9.0%	8.1%
Operating profit	49.5%	(58.2%)	44.4%	31.1%	10.7%	9.4%
Net profit	42.7%	(71.0%)	69.7%	58.9%	14.8%	(1.0%)
Adj. net profit	0.9%	(6.6%)	36.4%	42.3%	7.8%	6.5%
PROFITABILITY	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Gross profit margin	43.9%	43.1%	48.1%	53.2%	53.7%	54.3%
Operating margin	47.3%	20.0%	26.3%	32.0%	32.8%	33.5%
Adj. net profit margin	22.1%	20.9%	25.9%	34.2%	34.2%	34.0%
Return on equity (ROE)	28.9%	8.3%	14.1%	20.1%	20.6%	17.5%
GEARING/LIQUIDITY/ACTIVITIES	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Net debt to equity (x)	0.2	0.2	0.2	0.2	0.1	0.0
Current ratio (x)	1.2	1.3	1.5	1.6	1.7	2.1
Receivable turnover days	32.1	29.9	27.9	26.8	26.0	25.2
VALUATION	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
P/E	16.8	57.9	33.9	20.9	18.3	18.3
P/E (diluted)	17.1	58.8	34.5	21.2	18.5	18.6
P/B	4.5	5.1	4.5	4.0	3.5	2.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

招银国际
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Alibaba (BABA US)

Solid execution towards preset development goals

From a full-year perspective, Alibaba remains one of the top picks in our coverage universe, mainly because: 1) Alibaba's shareholder return package (3% annual reduction in outstanding shares guidance plus dividends) appears appealing against the 9x FY26E PE valuation, since the impact from weak macro environment has been priced in and consumption is unlikely to further deteriorate; 2) starting from 4Q24, Taobao & Tmall (T&T) Group's charge of incremental technology service fees will exert a positive quarterly impact, and the increase in adoption of Quanzhantui is set to drive incremental monetization; and 3) the potential rollout of incremental consumption stimulus policies and further updates on fintech regulations may trigger a valuation rerating. We are positive that Alibaba is on track to meet its preset development goals, including aligning CMR and GMV growth in 2HFY25, achieving double-digit YoY growth in cloud business revenue, and improving AIDC's unit economic throughout FY25E. Non-core businesses are expected to achieve breakeven within 1-2 years. Under the base case, with support from incremental technology service fee charge and incremental monetization driven by Quanzhantui, we forecast Alibaba to report 8%/14% growth for revenue/adjusted EBITA YoY (versus FY25E's 5%/6%) in FY26E. Our SOTP-based target price is US$132.2, translating into 13x FY26E PE. Maintain BUY.

- **T&T Group is on the right track to drive improvement in monetization rate.** The incremental technology service fee charges in 2QFY25 impacted some of the GMV generation from expense-sensitive merchants on the T&T platform (with a single-digit impact) that have limited potential on long-term CMR. Driven by investments in enhancing value-for-quality product supply and with an aim to strengthen user experience, Alibaba is on the right track to drive GMV growth back in line with the industry average. We regard the support from 46mn 88VIP members, which grew by double digits YoY, as a key pillar for GMV market share recovery and monetization improvement in the medium to long term. The number of 88VIP members who placed orders during Double 11 increased by over 50% YoY. We believe enhanced core user engagement should in turn drive better merchant engagement and generate more ads spending on the Alibaba platform over time. Under the base case, driven by the incremental technology service fee charges and the increase in adoption of Quanzhantui, we expect T&T Group's FY26 revenue to rebound to 4% YoY growth (FY25E: 2%).

- **Loss reduction of non-core business to cushion the impact of core business investments.** Despite continuous investments in core business T&T Group, AIDC, and Cainiao, Alibaba is substantially driving non-core businesses to cut losses and supports profits. Combined losses of the Local Services Group (LSG), Digital Media and Entertainment Group, and all others narrowed YoY to RMB2.2bn in 2QFY25 (2QFY24: RMB4.2bn loss). We expect losses from these three business groups to narrow to RMB10.0bn/RMB5.9bn in FY25E/FY26E, steadily advancing towards the break-even point.

- **Updates on incremental consumption promotion policies and fintech regulatory progress may offer catalysts.** Currently, the home appliance trade-in program has already added some impetus to consumption. On 18 November, the Finance Minister stated that the variety and scale of consumer goods trade-in will be expanded in 2025, suggesting the potential rollout of

BUY (Maintain)

Target Price	**US$132.20**
Up/Downside	**43.2%**
Current Price	**US$92.32**

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Stock Data

Mkt Cap (US$ mn)	222,975.9
Avg 3 mths t/o (US$ mn)	999.0
52w High/Low (US$)	117.52/68.05
Total Issued Shares (mn)	2415.3

Source: FactSet

Shareholding Structure

SoftBank	12.0%

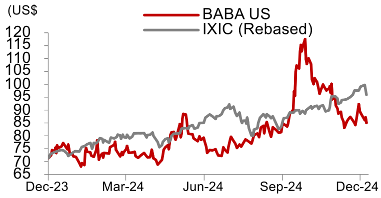
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.0%	-4.8%
3-mth	10.2%	-5.6%
6-mth	16.4%	0.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

incremental consumption promotion policies. Moreover, on 11 November, PBOC's "Information Publicity Table for Licenses of Institutions Engaged in the Operation of Personal Credit Reporting Business" showed that Qiantang Credit Reporting Co., Ltd. (with Ant Group holding 35% of the shares) got its credit reporting license approved, which in our view indicates further regulatory recognition of Ant Group's business rectification. We think further progress on these developments may bring incremental catalysts to Alibaba's valuation.

- **Robust shareholder returns underpin the valuation.** In FY24, Alibaba's total shareholder returns amounted to US$16.5bn (US$12.5bn from share repurchases and US$4.0bn from dividends), accounting for 8% of its current market value. Alibaba plans to reduce its outstanding shares by 3% annually before March 2027, and maintain a steady increase in the absolute level of dividends. We believe the company's solid shareholder return level will provide support to its valuation.

Earnings Summary

(YE 31 Mar)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	868,687	941,168	991,911	1,073,912	1,146,515
YoY growth (%)	1.8	8.3	5.4	8.3	6.8
Net profit (RMB mn)	72,509.0	79,741.0	130,698.2	145,966.1	157,320.2
Adjusted net profit (RMB mn)	143,991.0	158,359.0	152,928.1	171,203.0	183,690.0
YoY growth (%)	0.3	10.0	(3.4)	12.0	7.3
EPS (Adjusted) (RMB)	54.91	62.77	62.49	72.13	78.97
Consensus EPS (RMB)	na	na	62.32	69.78	75.90
P/E (x)	24.3	21.3	12.6	10.9	9.9
ROE (%)	7.4	8.0	11.2	10.3	9.9

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Revenue	**853,062**	**868,687**	**941,168**	**991,911**	**1,073,912**	**1,146,515**
Cost of goods sold	(539,450)	(549,695)	(586,323)	(609,033)	(659,382)	(703,960)
Gross profit	**313,612**	**318,992**	**354,845**	**382,878**	**414,530**	**442,555**
Operating expenses	**(243,974)**	**(218,641)**	**(241,495)**	**(235,224)**	**(241,093)**	**(250,514)**
SG&A expense	(151,721)	(145,679)	(157,126)	(173,584)	(175,585)	(182,869)
R&D expense	(55,465)	(56,744)	(52,256)	(55,547)	(57,991)	(59,619)
Others	(36,788)	(16,218)	(32,113)	(6,092)	(7,517)	(8,026)
Operating profit	**69,638**	**100,351**	**113,350**	**147,654**	**173,437**	**192,041**
Interest income	(15,702)	(11,071)	(9,964)	17,160	4,296	4,357
Interest expense	(4,909)	(5,918)	(7,947)	(9,522)	(10,310)	(10,433)
Other income/expense	10,523	5,823	6,157	0	5,907	5,733
Pre-tax profit	**59,550**	**89,185**	**101,596**	**155,292**	**173,329**	**191,697**
Income tax	(26,815)	(15,549)	(22,529)	(31,058)	(34,666)	(42,173)
Others	14,344	(8,063)	(7,735)	4,960	5,370	5,733
After tax profit	**47,079**	**65,573**	**71,332**	**129,193**	**144,033**	**155,256**
Minority interest	15,170	7,210	8,677	1,785	1,933	2,064
Others	(290)	(274)	(268)	(280)	0	0
Net profit	**61,959**	**72,509**	**79,741**	**130,698**	**145,966**	**157,320**
Adjusted net profit	**143,515**	**143,991**	**158,359**	**152,928**	**171,203**	**183,690**

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Current assets	**638,535**	**697,966**	**752,864**	**921,896**	**1,049,523**	**1,186,387**
Cash & equivalents	189,898	193,086	248,125	410,914	527,233	654,353
Restricted cash	37,455	36,424	38,299	38,299	38,299	38,299
Prepayment	145,995	137,072	143,536	149,779	161,087	170,831
Financial assets at FVTPL	265,187	331,384	322,904	322,904	322,904	322,904
Non-current assets	**1,057,018**	**1,055,078**	**1,011,965**	**1,163,067**	**1,237,849**	**1,313,679**
PP&E	171,806	176,031	185,161	296,503	343,755	393,055
Investment in JVs & assos	219,642	207,380	203,131	203,842	204,962	206,446
Intangibles	59,231	46,913	26,950	122,587	146,224	169,352
Goodwill	269,581	268,091	259,679	259,679	259,679	259,679
Financial assets at FVTPL	223,611	245,737	220,942	220,942	220,942	220,942
Other non-current assets	113,147	110,926	116,102	59,515	62,287	64,205
Total assets	**1,695,553**	**1,753,044**	**1,764,829**	**2,084,963**	**2,287,372**	**2,500,066**
Current liabilities	**383,784**	**385,351**	**421,507**	**401,287**	**434,305**	**466,636**
Short-term borrowings	8,841	7,466	12,749	13,243	14,338	15,307
Tax payable	21,753	12,543	9,068	26,400	28,426	33,317
Other current liabilities	81,730	89,392	101,807	88,869	96,216	102,720
Accrued expenses	271,460	275,950	297,883	272,776	295,326	315,292
Non-current liabilities	**229,576**	**244,772**	**230,723**	**233,331**	**240,969**	**247,732**
Long-term borrowings	38,244	52,023	55,686	54,849	54,849	54,849
Deferred income	3,490	3,560	4,069	4,227	4,576	4,885
Other non-current liabilities	187,842	189,189	170,968	174,256	181,544	187,998
Total liabilities	**613,360**	**630,123**	**652,230**	**634,617**	**675,274**	**714,368**
Share capital	1	1	1	1	1	1
Capital surplus	410,506	416,880	397,999	524,875	542,594	560,939
Retained earnings	563,557	599,028	597,897	810,015	955,981	1,113,301
Other reserves	(15,930)	(16,394)	1,375	2,511	2,511	2,511
Total shareholders equity	**958,134**	**999,515**	**997,272**	**1,337,402**	**1,501,088**	**1,676,752**
Minority interest	124,059	123,406	115,327	112,944	111,011	108,947
Total equity and liabilities	**1,695,553**	**1,753,044**	**1,764,829**	**2,084,963**	**2,287,372**	**2,500,066**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	**59,550**	**89,185**	**101,596**	**155,292**	**173,329**	**191,697**
Depreciation & amortization	48,065	46,938	44,504	6,943	7,517	8,026
Tax paid	(26,815)	(15,549)	(22,529)	(31,058)	(34,666)	(42,173)
Change in working capital	(18,150)	13,482	(13,749)	48,094	22,745	24,040
Others	80,109	65,696	72,771	18,097	20,456	20,767
Net cash from operations	**142,759**	**199,752**	**182,593**	**197,367**	**189,381**	**202,356**
Investing						
Capital expenditure	(53,309)	(34,330)	(32,087)	(45,628)	(47,252)	(49,300)
Acquisition of subsidiaries/ investments	(15)	(22)	(842)	(31,154)	(31,154)	(31,154)
Net proceeds from disposal of short-term investments	(106,984)	(61,086)	71,426	0	0	0
Others	(38,284)	(40,068)	(60,321)	4,249	4,249	4,249
Net cash from investing	**(198,592)**	**(135,506)**	**(21,824)**	**(72,533)**	**(74,157)**	**(76,205)**
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	109	11	843	0	0	0
Share repurchases	(61,225)	(74,746)	(88,745)	0	0	0
Others	(3,333)	9,116	(20,342)	(344)	1,095	969
Net cash from financing	**(64,449)**	**(65,619)**	**(108,244)**	**(344)**	**1,095**	**969**
Net change in cash						
Cash at the beginning of the year	356,469	227,353	229,510	286,424	410,914	527,233
Exchange difference	(8,834)	3,530	4,389	0	0	0
Cash at the end of the year	**227,353**	**229,510**	**286,424**	**410,914**	**527,233**	**654,353**

GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Revenue	18.9%	1.8%	8.3%	5.4%	8.3%	6.8%
Gross profit	5.9%	1.7%	11.2%	7.9%	8.3%	6.8%
Operating profit	(22.3%)	44.1%	13.0%	30.3%	17.5%	10.7%
Net profit	(58.8%)	17.0%	10.0%	63.9%	11.7%	7.8%
Adj. net profit	(19.8%)	0.3%	10.0%	(3.4%)	12.0%	7.3%

PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Gross profit margin	36.8%	36.7%	37.7%	38.6%	38.6%	38.6%
Operating margin	8.2%	11.6%	12.0%	14.9%	16.2%	16.8%
Adj. net profit margin	16.8%	16.6%	16.8%	15.4%	15.9%	16.0%
Return on equity (ROE)	6.5%	7.4%	8.0%	11.2%	10.3%	9.9%

GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Current ratio (x)	1.7	1.8	1.8	2.3	2.4	2.5

VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
P/E	29.1	24.2	21.2	12.5	10.9	9.9
P/E (diluted)	29.4	24.4	21.4	12.4	10.7	9.8
P/B	1.9	1.8	1.7	1.2	1.0	0.9
P/CFPS	20.4	10.7	11.3	10.7	11.0	10.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

10 Dec 2024

CMB International Global Markets | Equity Research | Company Update

NetEase (NTES US)

New game product cycle supports business and valuation recovery

We are upbeat that NetEase's fundamental and valuation will recover in 2025, driven by the strong product cycle. The soft 3Q24 results (total revenue: -4% YoY) and depressed valuation (12x FY25E PE, vs 2-year average PE of 15x) have reflected the short-term impact of business adjustment and conservative views of investors. Looking forward, the launch of *Where Winds Meet* and *Marvel Rivals* in Dec 24 will be the key catalyst for NetEase's valuation recovery and revenue growth in FY25E. Due to the launch of new games, return of Blizzard games and low-base effect, we expect NetEase's games revenue growth to accelerate in FY25E, which in turn will also support the valuation recovery. We forecast FY25 total revenue/operating profit to grow by 7/13% YoY. Our SOTP-derived target price is US$125.5. Maintain BUY.

- **Expect FY25E games revenue growth to reaccelerate.** We expect NetEase's FY25E games and other VAS revenue to grow by 7% YoY (FY24E: +2% YoY), accelerating thanks to the incremental contribution form new titles like *Where Winds Meet*, *Marvel Rivals* and *FragPunk*, the return of Blizzard games, and full-year contribution of *Naraka: Bladepoint* mobile. 2025 will also be a crucial year for NetEase to expand its games genres. The company has several highly-anticipated titles of different genres (like shooting and anime) to be launched or tested in 2025. The successful game genre expansion may further unleash the long-term growth potential of its games business. On the earnings front, we expect NetEase's OPM to further improve in FY25 (+1.6 ppts YoY), driven by enhanced operating efficiency and shut down of low-ROI projects.
- **Eye on the launch of several new games.** Looking ahead, key catalysts include: 1) the launch of several new game titles including *Where Winds Meet* (Dec 24), *Marvel Rivals* (Dec 24), *FragPunk* (1H25) and *Destiny: Rising;* 2) Open-world ACG games, *Project Mugen*, launched first-round offline test in Jan 2025; 3) The company continues to enhance shareholder return, spending US$543mn to repurchase 6.3mn ADS in 3Q24 (up 98% QoQ, c.1% of market cap).
- **Business and valuation recovery on new product cycle.** Driven by the new product cycle, we expect improved business fundamental, enhanced shareholder return and valuation recovery. NetEase's current valuation translates into 12x FY25E PE, which represents 25% upside potential versus its 2-year average PE of 15x. Our SOTP-derived target price is US$125.5, consisting of US$118.4/0.7/3.2/1.5 for games/Youdao/NetEase Cloud Music/Innovative business and US$1.7 for net cash. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	96,496	103,468	106,020	113,155	119,557
Gross margin (%)	54.7	60.9	62.9	63.3	63.4
Adjusted net profit (RMB mn)	22,808.4	32,608.3	32,527.9	35,318.7	37,537.9
YoY growth (%)	15.4	43.0	(0.2)	8.6	6.3
EPS (Adjusted) (RMB)	34.95	50.69	50.15	54.45	57.87
Consensus EPS (RMB)	34.95	50.69	49.90	53.31	60.73
P/S (x)	4.9	4.6	4.5	4.2	4.0
P/E (x)	24.3	16.1	16.3	14.9	14.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$125.50**
Up/Downside	**24.3%**
Current Price	**US$100.96**

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Stock Data

Mkt Cap (US$ mn)	64,971.8
Avg 3 mths t/o (US$ mn)	74.8
52w High/Low (US$)	113.14/76.28
Total Issued Shares (mn)	643.5

Source: FactSet

Shareholding Structure

William Lei Ding	44.2%
Invesco	2.2%

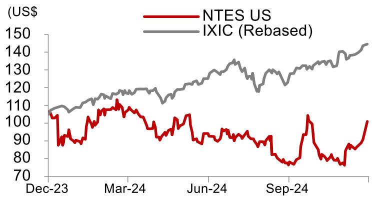
Source: Company data

Share Performance

	Absolute	Relative
1-mth	31.5%	28.5%
3-mth	32.1%	14.0%
6-mth	7.2%	-6.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**87,606**	**96,496**	**103,468**	**106,020**	**113,155**	**119,557**
Cost of goods sold	(40,635)	(43,730)	(40,405)	(39,296)	(41,550)	(43,705)
Gross profit	**46,971**	**52,766**	**63,063**	**66,724**	**71,605**	**75,853**
Operating expenses	**(30,554)**	**(33,138)**	**(35,354)**	**(37,637)**	**(38,699)**	**(39,573)**
Selling expense	(12,214)	(13,403)	(13,969)	(15,479)	(16,068)	(16,499)
Admin expense	(4,264)	(4,696)	(4,900)	(4,559)	(4,526)	(4,543)
R&D expense	(14,076)	(15,039)	(16,485)	(17,599)	(18,105)	(18,531)
Operating profit	**16,417**	**19,629**	**27,709**	**29,087**	**32,906**	**36,279**
Investment gain/loss	2,948	54	1,307	1,045	836	418
Other gains/(losses)	710	847	1,054	0	0	0
Interest income	1,520	2,150	4,120	5,002	4,638	4,123
Foreign exchange gain/loss	(490)	1,571	(133)	0	0	0
Pre-tax profit	**21,104**	**24,250**	**34,057**	**35,135**	**38,380**	**40,821**
Income tax	(4,128)	(5,032)	(4,700)	(5,622)	(6,908)	(7,348)
After tax profit	**16,976**	**19,218**	**29,357**	**29,513**	**31,471**	**33,473**
Minority interest	(119)	494	59	(590)	315	335
Net profit	**16,857**	**19,713**	**29,417**	**28,923**	**31,786**	**33,808**
Adjusted net profit	**19,762**	**22,808**	**32,608**	**32,528**	**35,319**	**37,538**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**113,120**	**131,603**	**142,693**	**162,808**	**183,669**	**203,839**
Cash & equivalents	14,498	24,889	21,429	31,065	39,837	46,903
Restricted cash	2,877	2,699	2,777	2,916	3,062	3,215
Account receivables	5,508	5,003	6,422	6,449	6,746	6,985
Inventories	965	994	695	676	715	752
Prepayment	6,236	5,448	6,077	6,102	6,382	6,609
ST bank deposits	70,755	84,948	100,856	110,942	122,036	134,239
Other current assets	12,282	7,623	4,436	4,658	4,891	5,135
Non-current assets	**40,524**	**41,158**	**43,232**	**47,740**	**53,103**	**59,420**
PP&E	5,434	6,342	8,075	10,281	13,090	16,666
Other non-current assets	35,090	34,815	35,157	37,458	40,013	42,754
Total assets	**153,644**	**172,761**	**185,925**	**210,548**	**236,771**	**263,259**
Current liabilities	**50,501**	**56,829**	**53,842**	**57,796**	**61,736**	**64,560**
Short-term borrowings	19,352	23,876	19,240	23,313	25,113	25,955
Account payables	985	1,507	881	857	906	953
Tax payable	4,537	2,813	2,572	2,635	2,812	2,971
Other current liabilities	16,266	17,252	18,219	18,416	19,608	20,694
Accrued expenses	9,361	11,381	12,930	12,576	13,297	13,986
Non-current liabilities	**3,719**	**7,059**	**3,998**	**4,009**	**4,262**	**4,495**
Other non-current liabilities	3,719	7,059	3,998	4,009	4,262	4,495
Total liabilities	**54,220**	**63,888**	**57,841**	**61,805**	**65,998**	**69,054**
Total shareholders equity	**95,328**	**104,731**	**124,286**	**144,355**	**166,700**	**190,465**
Minority interest	4,096	4,142	3,798	4,389	4,074	3,739
Total equity and liabilities	**153,644**	**172,761**	**185,925**	**210,548**	**236,771**	**263,259**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**21,104**	**24,250**	**34,057**	**35,135**	**38,380**	**40,821**
Depreciation & amortization	3,276	2,858	3,055	4,038	5,141	6,545
Tax paid	(4,128)	(5,032)	(4,700)	(5,622)	(6,908)	(7,348)
Change in working capital	3,188	3,497	376	(152)	1,525	1,479
Others	1,487	2,135	2,543	0	0	0
Net cash from operations	**24,927**	**27,709**	**35,331**	**33,399**	**38,137**	**41,497**
Investing						
Capital expenditure	(3,038)	(2,602)	(4,266)	(6,198)	(7,904)	(10,076)
Net cash from investing	**(7,078)**	**(7,370)**	**(17,043)**	**(18,843)**	**(21,577)**	**(25,078)**
Financing						
Dividend paid	(4,240)	(6,724)	(8,014)	(8,854)	(9,441)	(10,042)
Net borrowings	3,992	5,119	(8,305)	4,073	1,800	842
Proceeds from share issues	(2,297)	(274)	0	0	0	0
Others	(10,040)	(8,359)	(5,148)	0	0	0
Net cash from financing	**(12,586)**	**(10,238)**	**(21,467)**	**(4,781)**	**(7,642)**	**(9,199)**
Net change in cash						
Cash at the beginning of the year	12,169	17,376	27,588	24,207	33,981	42,899
Exchange difference	(55)	110	(202)	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	**17,376**	**27,588**	**24,207**	**33,981**	**42,899**	**50,118**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	18.9%	10.1%	7.2%	2.5%	6.7%	5.7%
Gross profit	20.5%	12.3%	19.5%	5.8%	7.3%	5.9%
Operating profit	12.9%	19.6%	41.2%	5.0%	13.1%	10.3%
Net profit	39.7%	16.9%	49.2%	(1.7%)	9.9%	6.4%
Adj. net profit	34.4%	15.4%	43.0%	(0.2%)	8.6%	6.3%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	53.6%	54.7%	60.9%	62.9%	63.3%	63.4%
Operating margin	18.7%	20.3%	26.8%	27.4%	29.1%	30.3%
Adj. net profit margin	22.6%	23.6%	31.5%	30.7%	31.2%	31.4%
Return on equity (ROE)	19.0%	19.7%	25.7%	21.5%	20.4%	18.9%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Current ratio (x)	2.2	2.3	2.7	2.8	3.0	3.2
Receivable turnover days	22.9	18.9	22.7	22.2	21.8	21.3
Payable turnover days	8.8	12.6	8.0	8.0	8.0	8.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	29.0	24.3	16.1	16.3	14.9	14.0
P/E (diluted)	29.3	24.6	16.2	16.5	15.0	14.1
P/B	5.1	4.6	3.8	3.3	2.8	2.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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Salesforce (CRM US)

Agentforce as the key catalyst

Salesforce revenue was up by 8% YoY to US$9.44bn, and non-GAAP net income grew by 12% YoY to US$2.32bn in 3QFY25. cRPO was up by 10% YoY on constant currency in 3QFY25 and beat guidance (+9% YoY), thanks to the early renewal, solid booking performance and strong momentum of Agentforce. For 4QFY25E, the company guide total revenue to grow by 7-9% YoY to US$9.90-10.10bn, in line with consensus estimate of US$10.05bn. The company also slightly raised FY25E non-GAAP OPM guidance to 32.9% (previous: 32.8%). Leveraging Agentforce and Einstein, Salesforce is now one of the largest suppliers of enterprise AI in the world, with c.2tn Einstein transactions per week. We expect Salesforce will continue to benefit from the development of AI applications. Our target price is US$410.0 based on 24x FY25E EV/EBITDA. Maintain BUY.

- **cRPO momentum continues.** cRPO grew by 10% YoY on constant currency in 3QFY25 and was ahead of previous guidance (+9% YoY), mainly driven by early renewal favourability and strong momentum of AI-related deals. The number of newly-signed AI deals was more than tripled YoY to 2,000 in 3QFY25, including over 200 Agentforce deals, which were just launched in Oct. The strong momentum of multi-cloud adoption also continues, with the top 25 deals averaging over 5 clouds each. By segment, sales/service/platform & other/marketing & commerce/integration & analytics cloud revenue grew by 11/10/8/8/5% YoY in 3QFY25.
- **Agentforce to unleash AI monetization opportunities.** Agentforce, Salesforce AI agent platform, saw strong demand after its launch in Oct, with over 200 Agentforce deals closed in 3QFY25. While most of the AI deals are still in the Service Cloud space, Salesforce plans to launch Agentforce 2.0 in Dec, which should cover a wider spectrum of use cases and further unleash monetization opportunities. Enterprise AI transformation also boosts demand for Salesforce's Data Cloud, which is the foundation to implement AI. Data Cloud is included in one-third of all the deals over US$1mn and 8 of the top 10 deals in 3QFY25.
- **Enhancing margin on efficiency improvement and expense control.** Non-GAAP operating margin improved by 1.9ppts YoY to 33.1% in 3QFY25, and management guides FY25E operating margin to rise by 2.4ppts YoY to 32.9%, driven by the enhanced efficiency and disciplined expense control, partially offsetting by the investment in growth opportunities like Agentforce and Data Cloud. Salesforce also leveraged its own AI capabilities like Agentforce to improve its operating efficiency, which we expect to support its long-term margin expansion.

Earnings Summary

(YE 31 Jan)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US$ mn)	31,352	34,857	37,938	41,049	44,169
Adjusted net profit (US$ mn)	5,224.0	8,087.0	9,743.8	11,037.1	12,299.0
YoY growth (%)	12.1	54.8	20.5	13.3	11.4
EPS (Adjusted) (US$)	5.27	8.30	10.16	11.50	12.82
Consensus EPS (US$)	5.27	8.30	10.10	11.16	12.74
P/E (x)	1,676.7	82.8	54.0	46.1	40.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$410.00**
Up/Downside	**16.6%**
Current Price	**US$351.57**

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Stock Data

Mkt Cap (US$ mn)	337,331.4
Avg 3 mths t/o (US$ mn)	1,213.4
52w High/Low (US$)	367.87/218.01
Total Issued Shares (mn)	959.5

Source: FactSet

Shareholding Structure

The Vanguard Group	8.6%
BlackRock	7.5%

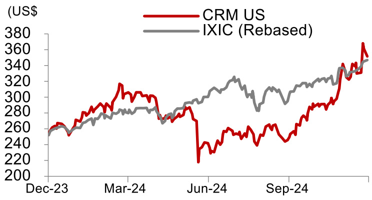
Source: Company data

Share Performance

	Absolute	Relative
1-mth	9.2%	6.7%
3-mth	42.8%	23.2%
6-mth	45.4%	26.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan (US$ mn)						
Revenue	**26,492**	**31,352**	**34,857**	**37,938**	**41,049**	**44,169**
Cost of goods sold	(7,026)	(8,360)	(8,541)	(8,728)	(9,028)	(9,574)
Gross profit	**19,466**	**22,992**	**26,316**	**29,210**	**32,021**	**34,595**
Operating expenses	**(18,918)**	**(21,962)**	**(21,305)**	**(21,701)**	**(23,124)**	**(24,249)**
Selling expense	(11,855)	(13,526)	(12,877)	(13,203)	(14,142)	(14,761)
Admin expense	(2,598)	(3,381)	(3,522)	(3,035)	(3,235)	(3,428)
R&D expense	(4,465)	(5,055)	(4,906)	(5,463)	(5,747)	(6,060)
Operating profit	**548**	**1,030**	**5,011**	**7,510**	**8,897**	**10,346**
Other expense	(227)	(131)	216	379	328	265
Other gains/(losses)	1,211	(239)	(277)	(76)	(82)	(88)
Pre-tax profit	**1,532**	**660**	**4,950**	**7,813**	**9,144**	**10,523**
Income tax	(88)	(452)	(814)	(1,563)	(1,829)	(2,105)
After tax profit	**1,444**	**208**	**4,136**	**6,250**	**7,315**	**8,418**
Net profit	**1,444**	**208**	**4,136**	**6,250**	**7,315**	**8,418**
Adjusted net profit	**4,659**	**5,224**	**8,087**	**9,744**	**11,037**	**12,299**

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan (US$ mn)						
Current assets	**22,850**	**26,395**	**29,074**	**35,806**	**41,517**	**49,318**
Cash & equivalents	5,464	7,016	8,472	14,108	19,390	26,832
Account receivables	9,739	10,755	11,414	12,423	12,770	13,053
Prepayment	1,120	1,356	1,561	1,648	1,730	1,805
Financial assets at FVTPL	5,073	5,492	5,722	5,722	5,722	5,722
Other current assets	1,454	1,776	1,905	1,905	1,905	1,905
Non-current assets	**72,359**	**72,454**	**70,749**	**69,421**	**68,756**	**68,768**
PP&E	2,815	3,702	3,689	3,764	3,804	4,168
Deferred income tax	2,623	2,800	3,433	3,433	3,433	3,433
Investment in JVs & assos	4,784	4,672	4,848	4,848	4,848	4,848
Intangibles	8,978	7,125	5,278	3,874	3,171	2,818
Goodwill	47,937	48,568	48,620	48,620	48,620	48,620
Other non-current assets	5,222	5,587	4,881	4,881	4,881	4,881
Total assets	**95,209**	**98,849**	**99,823**	**105,227**	**110,273**	**118,085**
Current liabilities	**21,788**	**25,891**	**26,631**	**27,347**	**26,463**	**27,073**
Account payables	5,356	6,486	6,111	5,495	4,832	4,355
Other current liabilities	4	1,182	999	999	999	999
Lease liabilities	800	847	518	518	518	518
Contract liabilities	15,628	17,376	19,003	20,335	20,114	21,201
Non-current liabilities	**15,290**	**14,599**	**13,546**	**13,546**	**13,546**	**13,546**
Long-term borrowings	10,592	9,419	8,427	8,427	8,427	8,427
Other non-current liabilities	4,698	5,180	5,119	5,119	5,119	5,119
Total liabilities	**37,078**	**40,490**	**40,177**	**40,893**	**40,009**	**40,619**
Share capital	1	1	1	1	1	1
Capital surplus	50,919	55,047	59,841	58,278	56,894	55,677
Retained earnings	7,377	7,585	11,721	17,971	25,286	33,705
Other reserves	(166)	(4,274)	(11,917)	(11,917)	(11,917)	(11,917)
Total shareholders equity	**58,131**	**58,359**	**59,646**	**64,333**	**70,264**	**77,466**
Total equity and liabilities	**95,209**	**98,849**	**99,823**	**105,227**	**110,273**	**118,085**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jan (US$ mn)						
Operating						
Profit before taxation	**1,532**	**660**	**4,950**	**7,813**	**9,144**	**10,523**
Depreciation & amortization	3,298	3,786	3,959	3,504	2,918	2,321
Tax paid	(88)	(452)	(814)	(1,563)	(1,829)	(2,105)
Change in working capital	(2,869)	(1,830)	(2,573)	(380)	(1,313)	251
Others	4,127	4,947	4,712	3,187	3,366	3,534
Net cash from operations	**6,000**	**7,111**	**10,234**	**12,562**	**12,287**	**14,524**
Investing						
Capital expenditure	(717)	(798)	(736)	(948)	(1,026)	(1,104)
Acquisition of subsidiaries/ investments	(14,876)	(439)	(82)	0	0	0
Net proceeds from disposal of short-term investments	(1,495)	(3,006)	(2,250)	0	0	0
Others	2,552	2,254	1,741	(1,228)	(1,228)	(1,228)
Net cash from investing	**(14,536)**	**(1,989)**	**(1,327)**	**(2,176)**	**(2,254)**	**(2,332)**
Financing						
Net borrowings	6,705	(4)	(1,182)	0	0	0
Share repurchases	0	(4,000)	(7,620)	(4,750)	(4,750)	(4,750)
Others	1,133	442	1,325	0	0	0
Net cash from financing	**7,838**	**(3,562)**	**(7,477)**	**(4,750)**	**(4,750)**	**(4,750)**
Net change in cash						
Cash at the beginning of the year	6,195	5,464	7,016	8,472	14,108	19,390
Exchange difference	(33)	(8)	26	0	0	0
Cash at the end of the year	**5,464**	**7,016**	**8,472**	**14,108**	**19,390**	**26,832**
GROWTH	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Jan						
Revenue	24.7%	18.3%	11.2%	8.8%	8.2%	7.6%
Gross profit	23.1%	18.1%	14.5%	11.0%	9.6%	8.0%
Operating profit	20.4%	88.0%	386.5%	49.9%	18.5%	16.3%
Net profit	(64.5%)	(85.6%)	1,888.5%	51.1%	17.0%	15.1%
Adj. net profit	1.7%	12.1%	54.8%	20.5%	13.3%	11.4%
PROFITABILITY	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Jan						
Gross profit margin	73.5%	73.3%	75.5%	77.0%	78.0%	78.3%
Operating margin	2.1%	3.3%	14.4%	19.8%	21.7%	23.4%
Adj. net profit margin	17.6%	16.7%	23.2%	25.7%	26.9%	27.8%
Return on equity (ROE)	2.9%	0.4%	7.0%	10.1%	10.9%	11.4%
GEARING/LIQUIDITY/ACTIVITIES	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Jan						
Current ratio (x)	1.0	1.0	1.1	1.3	1.6	1.8
Receivable turnover days	134.2	125.2	119.5	119.5	113.5	107.9
Payable turnover days	(278.2)	(283.2)	(261.2)	(229.8)	(195.3)	(166.0)
VALUATION	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Jan						
P/E	232.5	1,676.7	82.8	54.0	46.1	40.1
P/E (diluted)	237.1	1,685.2	83.6	54.6	46.6	40.5
P/B	5.8	6.0	5.7	5.2	4.8	4.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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Palo Alto Networks (PANW US)

Platformization strategy making solid progress

PANW is well-positioned to benefit from the ever-growing demand for cybersecurity, and its broad and continuously enhanced product portfolio is on track to help reduce customers' total cost of ownership (TCO) by improving operational efficiency and eliminating the need for siloed point products, in our view. The accelerated platformization strategy is delivering early-stage results, in our view, and should help drive PANW's long-term market share gains. Our target price of US$464.4 is based on 16.0x 2025E EV/sales. Reiterate BUY.

- **NGS products continued to deliver solid growth.** In terms of key operating metrics: 1) the number of active SASE customers saw 20% YoY growth, and over 40% of the new SASE customers were new to PANW in 1QFY25. Also, the number of SASE US$1mn+ deals was up 40% YoY; 2) Cortex crossed US$1.0bn in ARR with strength driven by XSIAM. Currently, 40 XSIAM customers have an ARR profile of over US$1mn, up 180% YoY. We forecast NGS ARR to grow 35% YoY to US$4.7bn in 2QFY25, driven by continued penetration of SASE and XSIAM products.
- **Platformization strategy is resonating well among customers.** As of end-1QFY25, PANW achieved 1,100 (4QFY24: >1,000) total platformizations with >70 QoQ net adds (4QFY24: >90) among its top 5k customers. Management highlighted a 6% increase in the NGS ARR per platformized customer in 1QFY25 compared with FY24. We remain constructive that accelerated platformization should help drive PANW's market share gains as well as margin expansion in the long term, as it can help optimize the cost of sales.
- **Poised to benefit from booming Gen-AI related opportunities.** PANW could potentially benefit from the rapid development of Gen-AI opportunities in two aspects, in our view: 1) with AI, the attacks are coming at an even faster pace, and the demand for PANW's products and services could increase; and 2) with the empowerment from Gen-AI, better user experience and improvement in operating efficiency could potentially lead to a price hike for PANW's products and services.
- **Robust financial performance provides support for valuation.** On a FY24-27E revenue CAGR of 15%, we are forecasting a non-GAAP net profit CAGR of 17%. We forecast PANW to achieve revenue growth of 14% YoY in FY25E, and to ink FCF margin of 37%. This implies a continuous adherence of "Rule of 50", and provides support for PANW's valuation.

Earnings Summary

(YE 31 Jul)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US$ mn)	6,893	8,028	9,149	10,641	12,274
YoY growth (%)	25.3	16.5	14.0	16.3	15.3
Net profit (US$ mn)	439.7	2,577.6	1,436.2	1,786.2	2,321.6
Adjusted net profit (US$ mn)	1,440.0	1,948.1	2,261.3	2,652.6	3,142.0
YoY growth (%)	79.4	35.3	16.1	17.3	18.5
EPS (Adjusted) (US$)	4.43	5.67	6.45	7.48	8.76
Consensus EPS (US$)	na	na	6.28	7.23	8.60

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$464.40**
Up/Downside	**19.2%**
Current Price	**US$389.76**

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Stock Data

Mkt Cap (US$ mn)	136,715.4
Avg 3 mths t/o (US$ mn)	549.0
52w High/Low (US$)	405.90/261.97
Total Issued Shares (mn)	350.8

Source: FactSet

Shareholding Structure

Vanguard Group Inc	30.8%
Blackrock Inc.	25.8%

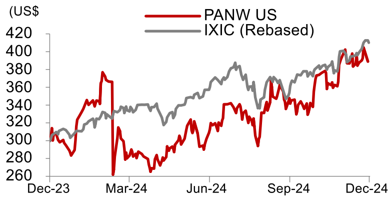
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-2.1%	-4.3%
3-mth	14.0%	0.5%
6-mth	24.5%	9.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US$ mn)						
Revenue	**5,502**	**6,893**	**8,028**	**9,149**	**10,641**	**12,274**
Cost of goods sold	(1,719)	(1,910)	(2,059)	(2,334)	(2,610)	(2,976)
Gross profit	**3,783**	**4,983**	**5,968**	**6,815**	**8,031**	**9,297**
Operating expenses	**(3,972)**	**(4,596)**	**(5,284)**	**(5,645)**	**(6,324)**	**(7,045)**
Selling expense	(2,149)	(2,544)	(2,795)	(3,127)	(3,517)	(3,962)
Admin expense	(405)	(448)	(681)	(521)	(583)	(619)
R&D expense	(1,418)	(1,604)	(1,809)	(1,997)	(2,223)	(2,464)
Operating profit	**(189)**	**387**	**684**	**1,170**	**1,708**	**2,252**
Other income	9	206	313	342	322	392
Interest expense	(27)	(27)	(8)	(4)	(4)	(3)
Pre-tax profit	**(207)**	**566**	**988**	**1,508**	**2,026**	**2,642**
Income tax	(60)	(127)	1,589	(72)	(240)	(320)
Others	0	0	0	0	0	0
Net profit	**(267)**	**440**	**2,578**	**1,436**	**1,786**	**2,322**
Adjusted net profit	**803**	**1,440**	**1,948**	**2,261**	**2,653**	**3,142**

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US$ mn)						
Current assets	**6,415**	**6,048**	**6,850**	**10,188**	**15,234**	**22,052**
Cash & equivalents	2,119	1,135	1,535	4,228	8,367	14,107
Account receivables	2,143	2,463	2,619	2,974	3,590	4,331
Other current assets	2,154	2,450	2,696	2,985	3,277	3,613
Non-current assets	**5,839**	**8,453**	**13,141**	**14,958**	**15,871**	**15,918**
PP&E	358	355	361	405	479	598
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	1,052	3,048	4,173	4,120	4,120	4,120
Intangibles	385	315	375	688	525	362
Goodwill	2,748	2,927	3,350	4,051	4,051	4,051
Other non-current assets	1,297	1,809	4,882	5,695	6,697	6,788
Total assets	**12,254**	**14,501**	**19,991**	**25,146**	**31,105**	**37,970**
Current liabilities	**8,306**	**7,738**	**7,683**	**9,117**	**10,740**	**12,307**
Account payables	128	132	116	132	145	168
Other current liabilities	7,318	6,666	6,505	7,593	8,988	10,814
Accrued expenses	860	939	1,061	1,393	1,606	1,325
Non-current liabilities	**3,737**	**5,015**	**7,139**	**8,141**	**9,482**	**11,236**
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	3,737	5,015	7,139	8,141	9,482	11,236
Total liabilities	**12,044**	**12,753**	**14,821**	**17,258**	**20,222**	**23,543**
Retained earnings	(1,667)	(1,227)	1,350	3,623	5,410	7,731
Other reserves	1,877	2,976	3,820	4,265	5,474	6,696
Total shareholders equity	**210**	**1,748**	**5,170**	**7,888**	**10,884**	**14,427**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**12,254**	**14,501**	**19,991**	**25,146**	**31,105**	**37,970**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US$ mn)						
Operating						
Profit before taxation	**(207)**	**566**	**988**	**1,508**	**2,026**	**2,642**
Depreciation & amortization	283	282	283	318	312	302
Tax paid	(60)	(127)	1,589	(72)	(240)	(320)
Change in working capital	521	563	910	699	(589)	2,153
Others	1,448	1,492	(513)	1,158	2,853	1,222
Net cash from operations	**1,985**	**2,778**	**3,258**	**3,612**	**4,362**	**5,998**
Investing						
Capital expenditure	(193)	(146)	(157)	(201)	(223)	(258)
Others	(741)	(1,888)	(1,353)	(500)	0	0
Net cash from investing	**(933)**	**(2,034)**	**(1,510)**	**(700)**	**(223)**	**(258)**
Financing						
Share repurchases	(892)	(273)	(567)	0	0	0
Others	86	(1,454)	(776)	(220)	0	0
Net cash from financing	**(807)**	**(1,726)**	**(1,343)**	**(220)**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	1,874	2,119	1,135	1,535	4,228	8,367
Exchange difference	0	0	0	0	0	0
Others	(0)	(1)	(5)	2	0	0
Cash at the end of the year	**2,119**	**1,135**	**1,535**	**4,228**	**8,367**	**14,107**

GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul						
Revenue	29.3%	25.3%	16.5%	14.0%	16.3%	15.3%
Gross profit	26.9%	31.7%	19.8%	14.2%	17.8%	15.8%
Operating profit	na	na	76.6%	71.1%	46.0%	31.9%
Net profit	na	na	486.2%	(44.3%)	24.4%	30.0%
Adj. net profit	30.8%	79.4%	35.3%	16.1%	17.3%	18.5%

PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul						
Gross profit margin	68.8%	72.3%	74.3%	74.5%	75.5%	75.7%
Operating margin	(3.4%)	5.6%	8.5%	12.8%	16.0%	18.4%
Adj. net profit margin	14.6%	20.9%	24.3%	24.7%	24.9%	25.6%
Return on equity (ROE)	(54.8%)	44.9%	74.5%	22.0%	19.0%	18.3%

GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul						
Current ratio (x)	0.8	0.8	0.9	1.1	1.4	1.8
Receivable turnover days	140.2	128.7	117.4	117.0	121.5	127.0
Payable turnover days	31.7	28.7	23.2	22.9	22.3	22.3

VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul						
P/E	ns	288.0	52.0	95.2	77.4	60.2
P/E (diluted)	ns	288.0	52.0	95.2	77.4	60.2
P/B	196.9	72.4	25.9	17.3	12.7	9.7
P/CFPS	23.1	48.1	43.2	40.1	33.4	24.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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Nongfu Spring (9633 HK)

Higher revenue contribution from tea beverage may ease margin pressure

Nongfu's 1H24 revenue missed company's guidance due to market share loss in packaged water. We expect low single-digit revenue growth for the segment given low consumer sentiment. Tea beverage replaced packaged water and became the top profit driver (OP contribution of 46% vs. 34% in water segment). We think it is challenging for the company to meet the double-digit growth target for 2024E revenue given unfavourable environment in 2H. While high frequency data shows tea beverage performed better than water, a higher revenue contribution may ease margin pressure in FY25E in our view. Maintain BUY with TP of HK$ 50.38, reflecting 40x 2024E P/E.

- Green bottle strategy protected market share. 1H24 revenue grew 8.4% YoY, below company guidance, due to an 18% YoY decline in packaged water revenue, dragged by market share loss since Feb due to brand damage from online rumours. We project low single-digit growth in full-year revenue for packaged water segment, reflecting a partial offset from the growth in medium to large sized water against the decline in small-sized water. OPM of packaged water declined by 4.2 ppts YoY due to promotional activities for green bottle, which dragged the overall OPM down by 1 ppt in 1H. The green bottle strategy remains the key to maintain market share in our view.
- **Rising contribution from tea beverage may ease margin pressure.** Tea beverage revenue grew 59% YoY in 1H24 on a high base, driven by increased penetration and higher per capita consumption, raising its revenue share to a record 38%, nearing packaged water's contribution. The company expects sustained growth in tea beverages through deeper penetration in lower-tier markets. With tea beverages having an OP margin 10 ppts higher than packaged water, we estimate their operating profit contribution to be at 46%, surpassing packaged water's 34% to become the key profit driver in 1H24. High frequency data shows that tea beverage performed far better than water in 2H, which will ease the margin pressure to a certain extent in FY25E in our view.
- **Challenging 2H24 but more positive in 2025**. Considering the lack of improvement signal in the consumer sentiment in 2H24, we think it is challenging for the company to achieve double-digit revenue growth in 2024E. A higher revenue contribution from tea beverage is a positive sign in our view. We maintain BUY with TP of HK$50.38, reflecting 40x 2024E. **Risks:** food safety issues, intensifying competition, raw material price hike.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	33,239	42,667	47,853	55,402	63,554
YoY growth (%)	11.9	28.4	12.2	15.8	14.7
Net profit (RMB mn)	8,495.3	12,079.5	12,534.3	14,357.0	16,361.4
YoY growth (%)	18.6	42.2	3.8	14.5	14.0
EPS (Reported) (RMB)	0.76	1.07	1.11	1.28	1.46
Consensus EPS (RMB)	na	na	1.12	1.26	1.48
P/E (x)	45.0	31.7	30.5	26.7	23.4
P/B (x)	15.9	13.4	11.7	10.0	8.6
Yield (%)	2.0	2.2	2.3	2.6	3.0
ROE (%)	37.9	45.9	40.9	40.5	39.5
Net gearing (%)	(53.1)	(73.5)	(73.1)	(73.5)	(75.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$50.38**
Up/Downside	**38.2%**
Current Price	**HK$36.45**

China Consumer Staples

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Stock Data

Mkt Cap (HK$ mn)	183,514.8
Avg 3 mths t/o (HK$ mn)	561.1
52w High/Low (HK$)	47.95/24.35
Total Issued Shares (mn)	5034.7

Source: FactSet

Shareholding Structure

Zhong Shanshan	38.3%
Yangshengtang Co.	25.9%

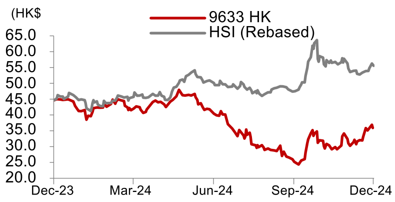
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.5%	14.0%
3-mth	44.6%	22.8%
6-mth	-9.8%	-18.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**29,696**	**33,239**	**42,667**	**47,853**	**55,402**	**63,554**
Cost of goods sold	(12,040)	(14,144)	(17,260)	(20,243)	(23,569)	(27,159)
Gross profit	**17,656**	**19,095**	**25,407**	**27,610**	**31,833**	**36,394**
Operating expenses	**(8,984)**	**(9,656)**	**(11,446)**	**(12,709)**	**(14,714)**	**(16,879)**
Selling expense	(7,233)	(7,821)	(9,284)	(10,412)	(12,055)	(13,829)
Admin expense	(1,751)	(1,835)	(2,162)	(2,297)	(2,659)	(3,051)
Operating profit	**9,077**	**10,503**	**14,797**	**15,387**	**17,605**	**20,001**
Other income	543	1,086	850	500	500	500
Other expense	(139)	(22)	(14)	(14)	(14)	(14)
EBITDA	**11,050**	**11,926**	**16,592**	**18,094**	**20,703**	**23,491**
Depreciation	(2,370)	(2,478)	(2,620)	(3,180)	(3,570)	(3,960)
Other amortisation	(8)	(9)	(11)	(13)	(15)	(16)
EBIT	**8,672**	**9,440**	**13,960**	**14,901**	**17,119**	**19,515**
Net Interest income/(expense)	**278**	**547**	**892**	**892**	**1,041**	**1,248**
Pre-tax profit	**9,354**	**11,050**	**15,688**	**16,279**	**18,646**	**21,249**
Income tax	(2,192)	(2,555)	(3,609)	(3,745)	(4,289)	(4,888)
Minority interest	0	0	0	0	0	0
Net profit	**7,162**	**8,495**	**12,079**	**12,534**	**14,357**	**16,361**
Core net profit	**7,281**	**8,743**	**12,079**	**12,534**	**14,357**	**16,361**
Gross dividends	5,061	7,648	8,435	8,752	10,025	11,425

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**17,836**	**18,361**	**28,461**	**31,405**	**36,488**	**42,620**
Cash & equivalents	14,784	15,211	24,125	27,014	31,266	36,710
Account receivables	476	479	547	247	302	348
Inventories	1,809	2,108	3,092	3,447	4,222	4,865
Prepayment	558	560	695	695	695	695
Other current assets	208	3	3	3	3	3
Non-current assets	**15,060**	**20,893**	**20,676**	**22,035**	**23,000**	**23,572**
PP&E	12,800	15,398	17,180	18,456	19,358	19,885
Right-of-use assets	724	853	947	1,018	1,074	1,115
Deferred income tax	293	433	921	921	921	921
Intangibles	65	58	74	86	94	98
Other non-current assets	1,178	4,151	1,554	1,554	1,554	1,554
Total assets	**32,896**	**39,255**	**49,137**	**53,440**	**59,488**	**66,193**
Current liabilities	**11,589**	**14,601**	**19,877**	**20,080**	**20,523**	**20,892**
Short-term borrowings	2,500	2,425	3,121	3,121	3,121	3,121
Account payables	1,153	1,425	1,770	1,973	2,417	2,785
Tax payable	1,050	1,500	2,054	2,054	2,054	2,054
Other current liabilities	4,488	6,506	9,289	9,289	9,289	9,289
Lease liabilities	47	69	58	58	58	58
Contract liabilities	2,351	2,677	3,585	3,585	3,585	3,585
Non-current liabilities	**566**	**569**	**690**	**690**	**690**	**690**
Long-term borrowings	0	0	0	0	0	0
Obligations under finance leases	43	31	31	31	31	31
Other non-current liabilities	522	538	658	658	658	658
Total liabilities	**12,154**	**15,171**	**20,566**	**20,770**	**21,213**	**21,581**
Share capital	1,125	1,125	1,125	1,125	1,125	1,125
Capital surplus	0	0	0	0	0	0
Retained earnings	19,617	22,959	27,446	31,546	37,150	43,486
Other reserves	0	0	0	0	0	0
Total shareholders equity	**20,742**	**24,084**	**28,571**	**32,670**	**38,275**	**44,611**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**32,896**	**39,255**	**49,137**	**53,440**	**59,488**	**66,193**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**9,354**	**11,050**	**15,688**	**16,279**	**18,646**	**21,249**
Depreciation & amortization	(2,378)	(2,487)	(2,631)	(3,193)	(3,584)	(3,976)
Change in working capital	1,795	2,335	2,839	149	(387)	(321)
Others	2,629	1,143	1,409	2,641	2,880	3,064
Net cash from operations	**11,400**	**12,042**	**17,305**	**15,876**	**17,555**	**20,016**
Investing						
Capital expenditure	(2,462)	(4,193)	(4,714)	(4,552)	(4,550)	(4,548)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	12	80	27	0	0	0
Others	(2,865)	(5,313)	(9,596)	0	0	0
Net cash from investing	**(5,316)**	**(9,426)**	**(14,284)**	**(4,552)**	**(4,550)**	**(4,548)**
Financing						
Dividend paid	(1,912)	(5,059)	(7,646)	(8,435)	(8,752)	(10,025)
Net borrowings	18	(157)	615	0	0	0
Share repurchases	0	0	0	0	0	0
Others	21	16	120	0	0	0
Net cash from financing	**(1,893)**	**(5,370)**	**(7,022)**	**(8,435)**	**(8,752)**	**(10,025)**
Net change in cash						
Cash at the beginning of the year	6,056	10,188	7,821	3,876	6,764	11,017
Exchange difference	(59)	388	56	0	0	0
Cash at the end of the year	**10,188**	**7,821**	**3,876**	**6,764**	**11,017**	**16,460**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	29.8%	11.9%	28.4%	12.2%	15.8%	14.7%
Gross profit	30.7%	8.2%	33.1%	8.7%	15.3%	14.3%
Operating profit	31.2%	15.7%	40.9%	4.0%	14.4%	13.6%
EBITDA	28.5%	7.9%	39.1%	9.1%	14.4%	13.5%
EBIT	30.0%	8.8%	47.9%	6.7%	14.9%	14.0%
Net profit	35.7%	18.6%	42.2%	3.8%	14.5%	14.0%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	59.5%	57.4%	59.5%	57.7%	57.5%	57.3%
Operating margin	30.6%	31.6%	34.7%	32.2%	31.8%	31.5%
EBITDA margin	37.2%	35.9%	38.9%	37.8%	37.4%	37.0%
Return on equity (ROE)	39.5%	37.9%	45.9%	40.9%	40.5%	39.5%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.5)	(0.7)	(0.7)	(0.7)	(0.8)
Current ratio (x)	1.5	1.3	1.4	1.6	1.8	2.0
Receivable turnover days	5.9	5.3	4.7	4.7	4.7	4.7
Inventory turnover days	54.8	54.4	65.4	65.4	65.4	65.4
Payable turnover days	35.0	36.8	37.4	37.4	37.4	37.4

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	53.4	45.0	31.7	30.5	26.7	23.4
P/E (diluted)	53.4	45.1	31.7	30.5	26.7	23.4
P/B	18.5	15.9	13.4	11.7	10.0	8.6
Div yield (%)	1.3	2.0	2.2	2.3	2.6	3.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

13 Dec 2024

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Luckin Coffee (LKNCY US)

Unbeatable costs, branding and R&D power

- **Luckin Coffee is the largest and fastest-growing coffee brand in China.** Founded in Jun 2017, Luckin Coffee mainly sells mid-priced (around RMB 10-20 per cup) coffee drinks. The company also emphasizes digital engagement, convenience, and competitive pricing. By 2023, it already had 16,248 stores (10,628 self-operated stores and 5,620 partnership stores) and generated annual sales of RMB 24.9bn (plus a net profit of RMB 2.85bn), accounting for a remarkable market share of 21.7% in the chained cafe segment in China. As at 3Q24, it has become the largest coffee brand in China, in terms of sales (RMB 10.2bn) and number of stores (21,343).
- **The real competitive moat is the massive economies of scale.** We think competitive edge of Luckin Coffee lies in its economies of scale, enabling cost efficiency across procurement, production, and logistics. It offers better value-for-money compared to Starbucks and Cotti, with premium-quality beans and award-winning formulas. Continuous investments in supply chain improvements, like the Kunshan roasting facility, may further reduce per-cup costs (from RMB 5.3 to RMB 4.8) and boost margins.
- **Luckin Coffee offers high value for money and strong brand power.** Luckin Coffee stands out for its affordability (average price of RMB 16 per cup) and product quality (customer rating on Dianping.com was 4.13, better than average of 4.09, Cotti's 4.06 and Starbucks's 3.96). It also enjoys strong brand recognition, surpassing competitors like Starbucks and Cotti in popularity on platforms such as Baidu Index, Xiaohongshu, and Douyin.
- **Benefitting from strong R&D capabilities, it continues to launch hit products and we see ample room for expansion.** Luckin Coffee consistently delivers hit products thanks to its strong R&D capabilities and frequent new launches, e.g. the Jasmine Light Milk Tea, which saw strong sales in its first week of launch. It is also expanding its offerings to cater to diverse customer groups, by rolling out more beverage-based coffee products, entry into the tea drinks market, plus store expansion overseas (first in Singapore, then likely Malaysia and the US), despite losses in short run.
- **We forecast a 29%/ 23% sales/ net profit CAGR during FY23-26E.** We think the major growth drivers are: 1) rapid store expansion, 2) cost reduction through raw material sourcing and supply chain investment, 3) stabilization in sales per store/ SSSG and the operating leverage (increases in ASP and purchasing frequency per customer), and 4) economies of scale (e.g. headquarters and other admin costs are relatively fixed).
- **We have a BUY rating on Luckin with TP of US$ 33.80,** based on 20x FY25E P/E, at a 9% discount to Greater China catering peers' average of 22.0x (or a 15% premium over peers' median of 17.3x). We do think this premium can be reasonably justified by: 1) ample room for growth, 2) its massive business size, 3) its exceptional leadership in costs, brand equity and level of digitalization, 4) its relatively addictive, functional and staple product nature, and 5) its faster-than-peers sales and net profit CAGR, despite its relatively short history. The stock is currently trading at 14x FY25E P/E, which is fairly attractive, given its 29%/ 23% sales/ net profit CAGR.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	13,293	24,903	35,528	45,075	52,846
YoY growth (%)	66.9	87.3	42.7	26.9	17.2
EBITDA (RMB mn)	1,548.1	3,630.2	4,617.2	6,183.2	7,700.4
Net profit (RMB mn)	488.2	2,847.9	2,974.1	3,947.5	4,997.5
EPS (Reported) (RMB)	0.19	1.12	1.16	1.54	1.93
YoY growth (%)	(39.6)	479.6	3.4	32.1	26.0
P/E (x)	112.4	19.4	18.8	14.2	11.3
EV/EBITDA (x)	33.8	14.9	12.0	9.0	7.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	8.3	34.9	26.6	26.9	26.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$33.80**
Up/Downside	**41.8%**
Current Price	**US$23.83**

China Consumer Discretionary

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Stock Data

Mkt Cap (US$ mn)	7,619.3
Avg 3 mths t/o (US$ mn)	55.5
52w High/Low (US$)	28.53/18.01
Total Issued Shares (mn)	2557.9

Source: FactSet

Shareholding Structure

Centurium Capital	32.4%
Joy Capital	4.7%

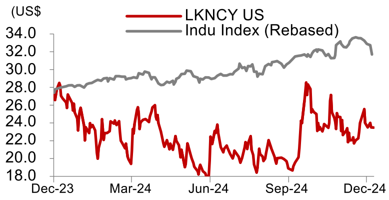
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-1.9%	-1.8%
3-mth	26.8%	19.5%
6-mth	8.1%	-4.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**7,965**	**13,293**	**24,903**	**35,528**	**45,075**	**52,846**
Cost of goods sold	(3,199)	(5,179)	(10,892)	(14,922)	(18,481)	(21,508)
Gross profit	**4,767**	**8,114**	**14,011**	**20,606**	**26,594**	**31,338**
Operating expenses	**(5,306)**	**(6,958)**	**(10,985)**	**(17,060)**	**(21,971)**	**(25,525)**
Selling expense	(1,622)	(2,335)	(3,902)	(5,832)	(7,419)	(8,546)
Admin expense	(1,270)	(1,460)	(1,830)	(2,764)	(3,290)	(3,669)
Staff costs	(1,147)	(1,586)	(3,036)	(5,288)	(7,017)	(8,302)
Other rental related expenses	(678)	(900)	(1,482)	(2,252)	(2,892)	(3,421)
Others	(589)	(676)	(736)	(924)	(1,352)	(1,585)
Operating profit	**(414)**	**1,279**	**3,217**	**3,739**	**4,874**	**6,185**
Other income	22	38	83	92	120	149
Other gains/(losses)	1,059	(114)	(27)	71	180	211
EBITDA	**(74)**	**1,548**	**3,630**	**4,617**	**6,183**	**7,700**
EBIT	**543**	**1,080**	**3,082**	**3,709**	**4,924**	**6,173**
Interest income	102	85	109	100	131	223
Pre-tax profit	**623**	**1,127**	**3,107**	**3,718**	**4,934**	**6,247**
Income tax	64	(639)	(259)	(744)	(987)	(1,249)
After tax profit	**686**	**488**	**2,848**	**2,974**	**3,947**	**4,997**
Minority interest	(0)	(0)	0	0	0	0
Net profit	**686**	**488**	**2,848**	**2,974**	**3,947**	**4,997**
Adjusted net profit	**686**	**488**	**2,848**	**2,974**	**3,947**	**4,997**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**8,383**	**6,037**	**7,600**	**8,134**	**11,622**	**16,531**
Cash & equivalents	6,536	3,542	2,992	2,757	5,019	8,912
Restricted cash	0	0	100	100	100	100
Account receivables	210	211	295	361	458	536
Inventories	593	1,206	2,204	2,248	2,785	3,241
Prepayment	1,044	1,078	1,545	2,204	2,796	3,278
Other current assets	0	0	464	464	464	464
Non-current assets	**3,929**	**4,443**	**10,692**	**14,063**	**15,658**	**16,677**
PP&E	1,805	1,867	4,169	7,539	9,135	10,154
Right-of-use assets	1,238	2,004	5,187	5,187	5,187	5,187
Deferred income tax	703	208	350	350	350	350
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	183	363	986	986	986	986
Total assets	**12,312**	**10,480**	**18,292**	**22,197**	**27,280**	**33,208**
Current liabilities	**6,592**	**2,829**	**5,463**	**6,393**	**7,529**	**8,460**
Short-term borrowings	0	0	0	0	0	0
Account payables	1,616	1,817	3,372	4,302	5,438	6,369
Tax payable	0	0	0	0	0	0
Other current liabilities	4,378	131	240	240	240	240
Lease liabilities	598	881	1,851	1,851	1,851	1,851
Non-current liabilities	**575**	**1,024**	**3,115**	**3,115**	**3,115**	**3,115**
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	575	1,024	3,115	3,115	3,115	3,115
Total liabilities	**7,167**	**3,853**	**8,578**	**9,508**	**10,644**	**11,575**
Share capital	16,553	17,615	17,855	17,855	17,855	17,855
Retained earnings	(11,409)	(11,024)	(8,309)	(5,335)	(1,387)	3,610
Other reserves	3	36	168	168	168	168
Total shareholders equity	**5,146**	**6,627**	**9,714**	**12,689**	**16,636**	**21,634**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**12,312**	**10,480**	**18,292**	**22,197**	**27,280**	**33,208**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**623**	**1,127**	**3,107**	**3,718**	**4,934**	**6,247**
Depreciation & amortization	(696)	421	523	900	1,249	1,454
Tax paid	(64)	494	(142)	(744)	(987)	(1,249)
Change in working capital	0	0	0	161	(89)	(87)
Others	261	(2,023)	(588)	171	311	434
Net cash from operations	**123**	**20**	**2,900**	**4,206**	**5,418**	**6,799**
Investing						
Capital expenditure	(173)	(782)	(2,750)	(4,441)	(3,155)	(2,907)
Acquisition of subsidiaries/ investments	250	0	(100)	0	0	0
Net proceeds from disposal of short-term investments	1	3	2	0	0	0
Others	(78)	(19)	(599)	0	0	0
Net cash from investing	**0**	**(798)**	**(3,447)**	**(4,441)**	**(3,155)**	**(2,907)**
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	1,515	63	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	0	(2,340)	0	0	0	0
Net cash from financing	**1,515**	**(2,276)**	**0**	**0**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	4,916	6,536	3,542	2,992	2,757	5,019
Exchange difference	(22)	77	7	0	0	0
Others	1,642	(3,071)	(558)	(235)	2,263	3,892
Cash at the end of the year	**6,536**	**3,542**	**2,992**	**2,757**	**5,019**	**8,912**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	97.5%	66.9%	87.3%	42.7%	26.9%	17.2%
Gross profit	133.9%	70.2%	72.7%	47.1%	29.1%	17.8%
Operating profit	na	na	151.5%	16.2%	30.4%	26.9%
EBITDA	na	na	134.5%	27.2%	33.9%	24.5%
EBIT	na	99.0%	185.4%	20.4%	32.7%	25.4%
Net profit	na	(28.9%)	483.3%	4.4%	32.7%	26.6%
Adj. net profit	na	(28.9%)	483.3%	4.4%	32.7%	26.6%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	59.8%	61.0%	56.3%	58.0%	59.0%	59.3%
Operating margin	(5.2%)	9.6%	12.9%	10.5%	10.8%	11.7%
EBITDA margin	(0.9%)	11.6%	14.6%	13.0%	13.7%	14.6%
Adj. net profit margin	8.6%	3.7%	11.4%	8.4%	8.8%	9.5%
Return on equity (ROE)	17.6%	8.3%	34.9%	26.6%	26.9%	26.1%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.6	0.0	0.0	0.0	0.0	0.0
Current ratio (x)	1.3	2.1	1.4	1.3	1.5	2.0
Receivable turnover days	5.8	5.8	3.7	3.7	3.7	3.7
Inventory turnover days	49.6	63.4	57.1	55.0	55.0	55.0
Payable turnover days	28.7	25.9	21.0	16.0	16.0	16.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	67.9	112.4	19.4	18.8	14.2	11.3
P/E (diluted)	67.9	112.4	19.4	18.8	14.2	11.3
P/B	10.1	8.3	5.7	4.4	3.4	2.6
P/CFPS	377.5	2,769.9	19.0	13.3	10.4	8.3
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV	45,467.0	52,303.8	54,006.4	55,553.9	55,831.7	56,110.9
EV/Sales	5.7	3.9	2.2	1.6	1.2	1.1
EV/EBIT	83.8	48.4	17.5	15.0	11.3	9.1
EV/EBITDA	(617.2)	33.8	14.9	12.0	9.0	7.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

招银国际
CMB INTERNATIONAL
招商银行全资附属机构
A Wholly Owned Subsidiary Of China Merchants Bank

Yum China (9987 HK)

A strong beat once again and we are optimistic

- **Yum China reported robust 3Q24 results, with beats in sales, profit and shareholder return plans**. Sales increased by 5% YoY to US$ 3.1bn, 1%/3% above BBG/ CMBI est., thanks to the slightly better-than-expected KFC SSSG. Net profit surged by 22% YoY to US$ 297mn, beating BBG/ CMBI est. by 14%, mainly due to: 1) beat in GP margin, 2) excellent efficiency gains and cost control through Project Red Eye and Project Fresh Eye (target to improve efficiency, by simplifying the operation process, from the manager's point of view). Management has raised its capital return to shareholders by 50%, from US$ 3bn in FY24E-26E to US$ 4.5bn. Therefore, compared to previous plan of US$ 750mn per year in FY25E and FY26E, the numbers were effectively upsized by US$ 750mn each year, which are equivalent to around 4% of the current market cap, a massive positive surprise.
- **For 4Q24E, according to management, even though SSSG did turn positive during the National Day golden week in 2024, consumer sentiment and spending have resumed cautious post holidays.** However, we tend to be slightly more optimistic and forecast positive SSSG of 2% and improved margin in 4Q24E, due to: 1) a widening base of target customers (e.g. rolling out more entry price or value for money products to capture more price-conscious consumers and selling more meals with lower ticket size to capture demand from solo diners), 2) increasing its presence in various food delivery platforms and expanding delivery coverage, 3) breakthrough in business and store formats, such as the K-coffee store, which already can add single-digit sales growth on the current SSS (already have 500 stores in 3Q24 and store opening target has now been raised to 600 by FY24E) as well as the WOW store, where the sales growth was significant (vs before revamp), driven by exceptional transaction growth despite lower ticket averages (already have 150 stores in 3Q24 and store opening target has also been lifted to 200 by FY24E). Additionally, thanks to various cost savings and efficiency gain initiatives, we think the restaurant level OP margin will continue to improve YoY.
- **Stores opening and capex plan remain unchanged.** Yum China has opened 438 new stores in 3Q24, representing a rise of 12.5% YoY. The Company is still targeting to open 1500 to 1700 net new stores in FY24E. The capex target of US$ 700-850mn will also remain unchanged. More importantly, the Company has accelerated the franchisee store expansion, where mix of new stores opened by franchisee has reached 27%/ 7% for KFC/ Pizza hut, already ahead of the 15% - 20% target announced previously in the FY23 Investor Day. The future target mentioned, will go up to about 40%-50%/ 20%-30% respectively. We believe this move will boost the Company's ROIC, as the profitability could be comparable but less capex will be needed.
- **Maintain BUY with TP at HK$ 451.11,** based on 22x FY25E P/E. The stock is now trading at 18x FY25E P/E, still not demanding vs 5-year average of 25x.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US$ mn)	9,569	10,978	11,193	12,082	12,977
YoY growth (%)	(2.9)	14.7	2.0	7.9	7.4
Operating profit (US$ mn)	629.0	1,106.0	1,157.4	1,288.3	1,386.6
Net profit (US$ mn)	442.0	827.0	897.8	983.7	1,071.5
EPS (Reported) (US$)	1.04	1.97	2.18	2.65	3.20
P/E (x)	48.0	25.4	23.0	18.9	15.6
P/B (x)	2.8	3.0	2.5	2.0	1.6
Yield (%)	1.0	1.1	1.2	1.5	1.8
ROE (%)	5.9	11.6	12.0	11.9	11.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$451.11**
Up/Downside	**16.1%**
Current Price	**HK$388.60**

China Consumer Discretionary

Walter WOO
(852) 3761 8776
walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	150,388.2
Avg 3 mths t/o (HK$ mn)	251.6
52w High/Low (HK$)	400.00/228.40
Total Issued Shares (mn)	387.0

Source: FactSet

Shareholding Structure

JPMorgan Chase & Co.	10.5%
Invesco Advisers, Inc.	8.0%

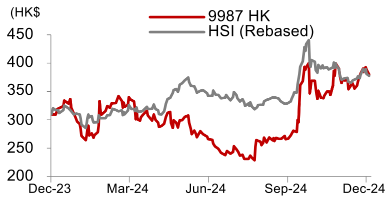
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.8%	4.0%
3-mth	45.8%	26.8%
6-mth	45.5%	32.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Revenue	**9,853**	**9,569**	**10,978**	**11,193**	**12,082**	**12,977**
Cost of goods sold	(2,812)	(2,836)	(3,224)	(3,359)	(3,575)	(3,838)
Gross profit	**7,041**	**6,733**	**7,754**	**7,834**	**8,507**	**9,139**
Operating expenses	**(6,298)**	**(6,010)**	**(6,648)**	**(6,677)**	**(7,219)**	**(7,752)**
Selling expense	0	0	0	0	0	0
Admin expense	(663)	(704)	(779)	(728)	(797)	(856)
Staff costs	(2,258)	(2,389)	(2,725)	(2,781)	(2,983)	(3,228)
Other rental related expenses	(959)	(884)	(935)	(932)	(979)	(1,027)
Others	(1,902)	(1,431)	(1,756)	(1,615)	(1,793)	(1,925)
Operating profit	**1,386**	**629**	**1,106**	**1,157**	**1,288**	**1,387**
Other income	643	(94)	0	0	0	0
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	**1,902**	**1,231**	**1,559**	**1,779**	**1,954**	**2,102**
Depreciation	(505)	(582)	(423)	(561)	(622)	(699)
Other amortisation	(11)	(20)	(30)	(61)	(44)	(17)
Interest income	60	84	169	120	149	179
Interest expense	0	0	0	0	0	0
Net Interest income/(expense)	**60**	**84**	**169**	**120**	**149**	**179**
Other income/expense	(54)	(26)	(49)	34	(12)	(13)
Pre-tax profit	**1,392**	**687**	**1,226**	**1,311**	**1,426**	**1,553**
Income tax	(369)	(209)	(325)	(347)	(371)	(404)
After tax profit	**1,023**	**478**	**901**	**963**	**1,055**	**1,149**
Minority interest	(33)	(36)	(74)	(66)	(71)	(78)
Net profit	**990**	**442**	**827**	**898**	**984**	**1,072**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Current assets	**4,716**	**3,940**	**3,431**	**4,239**	**4,998**	**5,858**
Cash & equivalents	1,136	1,130	1,128	1,916	2,614	3,407
Restricted cash	2,860	2,022	1,472	1,472	1,472	1,472
Account receivables	67	64	68	67	73	78
Inventories	432	417	424	438	466	501
Prepayment	221	307	339	346	373	401
Other current assets	0	0	0	0	0	0
Non-current assets	**8,507**	**7,886**	**8,600**	**8,539**	**8,684**	**8,812**
PP&E	2,251	2,118	2,310	2,477	2,640	2,785
Right-of-use assets	2,612	2,219	2,217	2,217	2,217	2,217
Investment in JVs & assos	292	266	332	332	332	332
Intangibles	272	159	150	89	46	29
Goodwill	2,142	1,988	1,932	1,765	1,791	1,791
Other non-current assets	938	1,136	1,659	1,659	1,659	1,659
Total assets	**13,223**	**11,826**	**12,031**	**12,778**	**13,683**	**14,670**
Current liabilities	**2,383**	**2,166**	**2,422**	**2,435**	**2,533**	**2,642**
Short-term borrowings	0	0	0	0	0	0
Account payables	830	727	786	788	839	901
Tax payable	51	68	90	90	90	90
Other current liabilities	1,502	1,371	1,546	1,557	1,604	1,651
Non-current liabilities	**2,918**	**2,500**	**2,490**	**2,490**	**2,490**	**2,490**
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	2,918	2,500	2,490	2,490	2,490	2,490
Total liabilities	**5,301**	**4,666**	**4,912**	**4,925**	**5,023**	**5,132**
Share capital	4,967	4,291	4,095	4,095	4,095	4,095
Retained earnings	2,892	2,191	2,310	2,731	3,444	4,221
Other reserves	63	678	714	1,027	1,121	1,223
Total shareholders equity	**7,922**	**7,160**	**7,119**	**7,852**	**8,660**	**9,539**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**13,223**	**11,826**	**12,031**	**12,778**	**13,683**	**14,670**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**1,392**	**687**	**1,226**	**1,311**	**1,426**	**1,553**
Depreciation & amortization	516	602	453	621	666	716
Tax paid	160	(20)	(10)	(347)	(371)	(404)
Change in working capital	53	0	49	(7)	36	41
Others	(990)	144	(245)	167	(26)	0
Net cash from operations	**1,131**	**1,413**	**1,473**	**1,745**	**1,731**	**1,906**
Investing						
Capital expenditure	(689)	(679)	(710)	(728)	(785)	(844)
Acquisition of subsidiaries/ investments	(115)	(23)	(20)	0	0	0
Others	(51)	180	(13)	0	0	0
Net cash from investing	**(855)**	**(522)**	**(743)**	**(728)**	**(785)**	**(844)**
Financing						
Dividend paid	(203)	(202)	(216)	(230)	(247)	(271)
Net borrowings	0	2	164	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(75)	(466)	(613)	0	0	0
Others	(35)	(178)	(51)	0	0	0
Net cash from financing	**(313)**	**(844)**	**(716)**	**(230)**	**(247)**	**(271)**
Net change in cash						
Cash at the beginning of the year	1,158	1,136	1,130	1,128	1,916	2,614
Exchange difference	15	(53)	(16)	0	0	0
Others	(37)	47	14	788	699	792
Cash at the end of the year	**1,136**	**1,130**	**1,128**	**1,916**	**2,614**	**3,407**
GROWTH	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Revenue	19.2%	(2.9%)	14.7%	2.0%	7.9%	7.4%
Gross profit	18.9%	(4.4%)	15.2%	1.0%	8.6%	7.4%
Operating profit	44.2%	(54.6%)	75.8%	4.6%	11.3%	7.6%
EBITDA	34.8%	(35.3%)	26.6%	14.1%	9.8%	7.6%
Net profit	26.3%	(55.4%)	87.1%	8.6%	9.6%	8.9%
PROFITABILITY	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Gross profit margin	71.5%	70.4%	70.6%	70.0%	70.4%	70.4%
Operating margin	14.1%	6.6%	10.1%	10.3%	10.7%	10.7%
EBITDA margin	19.3%	12.9%	14.2%	15.9%	16.2%	16.2%
Return on equity (ROE)	13.8%	5.9%	11.6%	12.0%	11.9%	11.8%
GEARING/LIQUIDITY/ACTIVITIES	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Current ratio (x)	2.0	1.8	1.4	1.7	2.0	2.2
Receivable turnover days	3.1	2.5	2.2	2.2	2.2	2.2
Inventory turnover days	53.9	54.6	47.6	47.6	47.6	47.6
Payable turnover days	99.8	100.2	85.6	85.6	85.6	85.6
VALUATION	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
P/E	21.9	48.0	25.4	23.0	18.9	15.6
P/E (diluted)	21.9	48.0	25.4	23.0	18.9	15.6
P/B	2.8	2.8	3.0	2.5	2.0	1.6
P/CFPS	19.2	15.0	14.2	11.8	10.7	8.8
Div yield (%)	0.9	1.0	1.1	1.2	1.5	1.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

9 Dec 2024

CMB International Global Markets | Equity Research | Company Update

Geely Automobile (175 HK)

Will 2025 be a replica of 2016 for Geely?

Our top pick for traditional automakers. As our top pick for 2024, Geely's share price has outperformed other HK-listed peers YTD. Geely is likely to have found the key to NEV sales volume and profit driver after the launches of recent models. We believe its success could extend into 2025, especially with improving margins for its NEVs.

- **New GEA platform with EM-i hybrid technology to boost NEV sales.** By simplifying its CMA platform into the GEA platform and upgrading its hybrid architecture to the Leishen EM-i (P1+P3 with a reducer), we estimate Geely's NEV bill of materials (BOM) cost to reduce by RMB5,000-7,000 per vehicle. The pricing of the recent launched models, including the *Galaxy E5* EV, *Starwish* EV and *Starship 7* PHEV, has underscored its cost reduction efforts, which has also led to great sales volume. We project Geely's total NEV sales volume to rise 50% YoY to 1.31mn units in FY25E, accounting for 55% of our projected Geely's total sales volume of 2.38mn units (+10% YoY).
- **Brand integration to refocus.** Zeekr is to hold 51% of Lynk & Co's equity interest and leads the brand's development after the reorganization in 1Q25E. We believe such changes will help differentiate both brands' positioning, mitigate sales cannibalization and cut redundant investments. Both Zeekr and Lynk & Co plan to launch two brand-new models in 2025, including Zeekr's first extended-range electric vehicle (EREV) model. That, along with the sales network combination between Geometry and Galaxy, reminds us of the brand combination of Emgrand, Gleagle and Englon in 2014, after which Geely's sales volume rose 22%, 50% and 62% YoY in FY15-17, respectively.
- **Earnings forecast/Key risks.** Excluding the one-off gain of RMB7.5bn from establishing the Horse JV, we estimate Geely's core net profit to rise 36% YoY from RMB9.1bn in FY24E to RMB12.5bn in FY25E. Recent share purchases by Mr. Shufu Li and management also reflect their confidence in Geely's outlook. We reiterate BUY with TP of HK$19.00, based on sum-of-the-parts valuation, including HK$4.00 for the Zeekr portion based on 0.7x Zeekr's core FY25 P/S and HK$15.00 for Geely's all other businesses based on 12x FY25E P/E. Key risks to our rating and target price include lower sales volume and GPM, especially for NEVs, than we expect and a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	147,965	179,204	240,904	276,930	299,715
YoY growth (%)	45.6	21.1	34.4	15.0	8.2
Net profit (RMB mn)	5,260.4	5,308.4	16,602.9	12,459.3	13,551.1
YoY growth (%)	8.5	0.9	212.8	(25.0)	8.8
EPS (Reported) (RMB)	0.52	0.53	1.65	1.23	1.32
P/E (x)	26.2	26.1	8.4	11.2	10.4
P/B (x)	1.8	1.7	1.5	1.4	1.3
Yield (%)	1.4	1.5	2.4	3.2	3.5
ROE (%)	7.3	6.8	19.3	12.9	12.7
Net gearing (%)	(33.2)	(38.8)	(46.4)	(54.8)	(58.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$19.00**
Up/Downside	**28.9%**
Current Price	**HK$14.74**

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Stock Data

Mkt Cap (HK$ mn)	148,453.3
Avg 3 mths t/o (HK$ mn)	1,225.6
52w High/Low (HK$)	15.04/7.34
Total Issued Shares (mn)	10071.5

Source: FactSet

Shareholding Structure

Mr. Li Shufu	41.4%
Others	58.6%

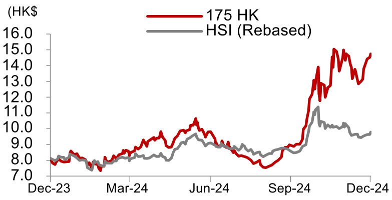
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.4%	4.8%
3-mth	65.2%	45.1%
6-mth	50.3%	39.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**101,611**	**147,965**	**179,204**	**240,904**	**276,930**	**299,715**
Cost of goods sold	(84,199)	(127,069)	(151,789)	(203,580)	(233,854)	(253,505)
Gross profit	**17,412**	**20,896**	**27,415**	**37,323**	**43,076**	**46,211**
Operating expenses	**(13,020)**	**(17,506)**	**(22,962)**	**(27,150)**	**(30,160)**	**(32,035)**
Selling expense	(6,323)	(8,228)	(11,832)	(13,041)	(14,692)	(15,267)
Admin expense	(8,036)	(10,435)	(12,497)	(15,242)	(17,218)	(18,692)
Others	1,339	1,157	1,367	1,133	1,750	1,924
Operating profit	**4,393**	**3,389**	**4,453**	**10,173**	**12,915**	**14,176**
Other expense	(1,213)	(1,489)	(646)	(1,662)	(606)	(415)
Other gains/(losses)	0	1,750	0	7,470	0	0
Share of (losses)/profits of associates/JV	1,205	651	599	925	1,829	2,178
EBITDA	**11,823**	**13,551**	**13,570**	**26,199**	**24,995**	**28,478**
Depreciation	6,893	8,318	8,203	8,190	9,485	10,888
EBIT	**4,930**	**5,233**	**5,367**	**18,009**	**15,509**	**17,590**
Interest income	545	931	961	1,103	1,371	1,651
Interest expense	(265)	(551)	(417)	(364)	(406)	(400)
Net Interest income/(expense)	**280**	**380**	**544**	**739**	**965**	**1,251**
Foreign exchange gain/loss	125	(79)	(126)	(400)	0	0
Pre-tax profit	**4,665**	**4,682**	**4,950**	**17,645**	**15,103**	**17,190**
Income tax	(312)	(32)	(15)	(925)	(1,593)	(1,801)
After tax profit	**4,353**	**4,650**	**4,935**	**16,720**	**13,511**	**15,389**
Minority interest	494	611	373	(117)	(1,051)	(1,837)
Net profit	**4,847**	**5,260**	**5,308**	**16,603**	**12,459**	**13,551**
Gross dividends	1,788	1,916	2,033	3,288	4,485	4,878

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**65,296**	**79,064**	**113,635**	**123,214**	**147,082**	**163,212**
Cash & equivalents	28,014	33,341	35,746	47,233	60,560	69,627
Restricted cash	4	387	943	943	943	943
Account receivables	31,549	34,392	42,711	57,025	65,553	70,946
Inventories	5,522	10,822	15,422	17,848	19,862	21,531
Prepayment	0	0	0	0	0	0
Other current assets	207	121	18,813	164	164	164
Non-current assets	**69,046**	**78,762**	**78,963**	**106,029**	**114,544**	**122,119**
PP&E	30,859	32,201	27,351	26,901	25,750	24,345
Right-of-use assets	3,436	3,402	3,600	3,551	3,512	3,475
Deferred income tax	2,435	4,573	6,342	6,342	6,342	6,342
Investment in JVs & assos	10,205	14,235	15,703	35,317	37,470	39,905
Intangibles	20,901	22,548	23,920	31,391	38,586	44,944
Goodwill	58	61	34	34	34	34
Financial assets at FVTPL	352	0	0	0	0	0
Other non-current assets	801	1,742	2,013	2,494	2,849	3,074
Total assets	**134,341**	**157,826**	**192,598**	**229,243**	**261,626**	**285,331**
Current liabilities	**60,351**	**68,953**	**96,824**	**117,860**	**138,265**	**149,754**
Short-term borrowings	1,907	0	0	0	0	0
Account payables	57,393	65,481	87,398	116,320	136,725	148,213
Tax payable	853	773	774	774	774	774
Other current liabilities	0	2,143	7,898	13	13	13
Lease liabilities	198	557	754	754	754	754
Non-current liabilities	**3,770**	**12,677**	**10,622**	**11,898**	**12,529**	**12,885**
Long-term borrowings	0	2,758	2,840	2,340	2,340	2,340
Bond payables	1,901	6,000	2,600	3,500	3,500	3,500
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	1,869	3,919	5,182	6,058	6,689	7,044
Total liabilities	**64,120**	**81,631**	**107,446**	**129,758**	**150,795**	**162,639**
Share capital	183	184	184	185	187	188
Other reserves	68,423	74,947	80,325	91,070	101,394	111,446
Total shareholders equity	**68,606**	**75,130**	**80,509**	**91,255**	**101,581**	**111,634**
Minority interest	1,615	1,065	4,643	8,230	9,251	11,058
Total equity and liabilities	**134,341**	**157,826**	**192,598**	**229,243**	**261,626**	**285,331**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**4,665**	**4,682**	**4,950**	**17,645**	**15,103**	**17,190**
Depreciation & amortization	6,893	8,318	8,203	8,190	9,485	10,888
Tax paid	(1,197)	(2,082)	(2,307)	(925)	(1,593)	(1,801)
Change in working capital	5,161	5,672	11,238	12,577	10,139	4,557
Others	(174)	(571)	259	(7,273)	(1,975)	(2,788)
Net cash from operations	**15,348**	**16,018**	**22,342**	**30,214**	**31,160**	**28,045**
Investing						
Capital expenditure	(6,100)	(10,337)	(15,322)	(15,176)	(15,650)	(16,058)
Acquisition of subsidiaries/ investments	(2,609)	(2,831)	(1,570)	(1,000)	(1,000)	(1,000)
Net proceeds from disposal of short-term investments	(323)	0	0	0	0	0
Others	1,873	1,037	748	1,767	2,167	2,514
Net cash from investing	**(7,159)**	**(12,130)**	**(16,145)**	**(14,408)**	**(14,483)**	**(14,544)**
Financing						
Dividend paid	(1,611)	(1,788)	(1,916)	(2,033)	(3,288)	(4,485)
Net borrowings	0	4,603	(6,306)	(500)	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	2,527	(1,490)	5,458	(1,785)	(62)	50
Net cash from financing	**916**	**1,325**	**(2,764)**	**(4,319)**	**(3,350)**	**(4,435)**
Net change in cash						
Cash at the beginning of the year	18,977	28,014	33,341	35,746	47,233	60,560
Exchange difference	(68)	114	(1,029)	0	0	0
Cash at the end of the year	**28,014**	**33,341**	**35,746**	**47,233**	**60,560**	**69,627**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	10.3%	45.6%	21.1%	34.4%	15.0%	8.2%
Gross profit	18.2%	20.0%	31.2%	36.1%	15.4%	7.3%
Operating profit	(11.6%)	(22.8%)	31.4%	128.5%	27.0%	9.8%
EBITDA	(2.3%)	14.6%	0.1%	93.1%	(4.6%)	13.9%
EBIT	(25.4%)	6.1%	2.6%	235.6%	(13.9%)	13.4%
Net profit	(12.4%)	8.5%	0.9%	212.8%	(25.0%)	8.8%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	17.1%	14.1%	15.3%	15.5%	15.6%	15.4%
Operating margin	4.3%	2.3%	2.5%	4.2%	4.7%	4.7%
EBITDA margin	11.6%	9.2%	7.6%	10.9%	9.0%	9.5%
Return on equity (ROE)	7.3%	7.3%	6.8%	19.3%	12.9%	12.7%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.3)	(0.4)	(0.5)	(0.5)	(0.6)
Current ratio (x)	1.1	1.1	1.2	1.0	1.1	1.1
Receivable turnover days	116.5	88.7	91.1	90.0	90.0	90.0
Inventory turnover days	24.0	31.2	37.2	32.0	31.0	31.0
Payable turnover days	253.7	193.2	217.3	215.0	220.0	220.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	27.9	26.2	26.1	8.4	11.2	10.4
P/E (diluted)	28.0	26.5	26.2	8.4	11.3	10.5
P/B	2.0	1.8	1.7	1.5	1.4	1.3
P/CFPS	8.8	8.6	6.2	4.6	4.5	5.0
Div yield (%)	1.3	1.4	1.5	2.4	3.2	3.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

9 Dec 2024

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Xpeng Inc. (XPEV US)

Early signs of breakeven as sales are set to surge

Our top pick among NEV start-ups. We believe the *Mona M03* marks the beginning of Xpeng's strong model cycle. The recently launched *P7+* has utilized Xpeng's latest technologies to cut costs, which will be widely used for four new models and facelifts of existing models in 2025. We expect Xpeng's net loss to narrow significantly in FY25E and turn to positive territory in FY26E. We believe the new model launches in 2025 could be positive catalysts for Xpeng's share price.

- **Sales volume to more than double YoY in FY25E**. We are of the view that the *Mona M03* and *P7+* has helped Xpeng better understand key elements of a successful model, including product design, marketing and pricing, not just focusing on autonomous driving technology. The initial success of these two models would also help Xpeng better understand its target customers' needs and increase the chance of success for its four brand-new models (including its first extended-range electric vehicle (EREV)) in 2025. Its sales volume in Oct-Nov 2024 has also demonstrated its improving supply chain management. We project Xpeng's sales volume to rise 110% and 26% YoY to 390,000 units and 490,000 units in FY25-26E, respectively.

- **We see early signs of net profit breakeven.** We estimate the gross margin of the *P7+* and new models in 2025 to exceed 10%, driving Xpeng's overall gross margin to 15.1% in FY25E. We expect the combined ratios of SG&A and R&D expenses (as % of revenue) to fall from 32.6% in FY24E to 21% in FY25E. Therefore, we project Xpeng's net loss to narrow to RMB2.2bn in FY25E and turn profitable in FY26E with a gross margin of 15.3%.

- **Valuation/Key risks.** We maintain our BUY rating and a target price of US$16.00, based on 1.5x FY25E P/E, higher than its peers. We are of the view that such valuation multiple is justified due to its faster sales volume growth and possible breakeven in FY26E on our estimates. Key risks to our rating and target price include lower sales volume and/or GPM than we expect and a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	26,855	30,676	40,377	71,790	88,440
YoY growth (%)	28.0	14.2	31.6	77.8	23.2
Gross margin (%)	11.5	1.5	14.2	15.2	15.3
Operating profit (RMB mn)	(8,705.5)	(10,889.4)	(6,920.7)	(3,403.3)	(1,510.9)
Net profit (RMB mn)	(9,139.0)	(10,375.8)	(5,999.9)	(2,166.8)	106.5
EPS (Reported) (RMB cents)	(533.65)	(595.99)	(317.20)	(113.66)	5.54
P/S (x)	3.2	2.8	2.1	1.2	1.0
P/B (x)	2.1	2.2	2.8	3.0	3.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$16.00**
Up/Downside	**28.0%**
Current Price	**US$12.50**

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Stock Data

Mkt Cap (US$ mn)	11,869.9
Avg 3 mths t/o (US$ mn)	104.2
52w High/Low (US$)	16.00/6.63
Total Issued Shares (mn)	1899.2

Source: FactSet

Shareholding Structure

Mr. He Xiaopeng	18.6%
Volkswagen AG	5.0%

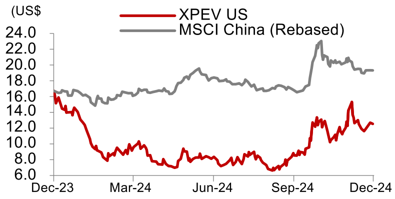
Source: NYSE

Share Performance

	Absolute	Relative
1-mth	1.6%	7.3%
3-mth	46.4%	27.1%
6-mth	49.5%	42.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**20,988**	**26,855**	**30,676**	**40,377**	**71,790**	**88,440**
Cost of goods sold	(18,366)	(23,767)	(30,225)	(34,648)	(60,848)	(74,936)
Gross profit	**2,623**	**3,088**	**451**	**5,729**	**10,942**	**13,504**
Operating expenses	**(9,202)**	**(11,794)**	**(11,341)**	**(12,650)**	**(14,345)**	**(15,015)**
SG&A expense	(5,305)	(6,688)	(6,559)	(6,750)	(8,045)	(8,715)
R&D expense	(4,114)	(5,215)	(5,277)	(6,400)	(7,000)	(7,300)
Others	218	109	495	500	700	1,000
Operating profit	**(6,579)**	**(8,706)**	**(10,889)**	**(6,921)**	**(3,403)**	**(1,511)**
Gain/loss on financial assets at FVTPL	671	84	(635)	(290)	(170)	0
Other gains/(losses)	384	(1,424)	139	100	150	150
EBITDA	**(3,944)**	**(7,571)**	**(7,963)**	**(2,878)**	**1,215**	**3,748**
Depreciation	573	915	1,646	2,028	2,311	2,584
Depreciation of ROU assets	229	379	182	258	273	283
Other amortisation	36	116	279	514	531	552
EBIT	**(4,782)**	**(8,982)**	**(10,070)**	**(5,678)**	**(1,900)**	**330**
Interest income	743	1,059	1,260	1,412	1,474	1,591
Interest expense	(55)	(132)	(269)	(322)	(267)	(204)
Pre-tax profit	**(4,837)**	**(9,114)**	**(10,339)**	**(6,000)**	**(2,167)**	**125**
Income tax	(26)	(25)	(37)	0	0	(19)
After tax profit	**(4,863)**	**(9,139)**	**(10,376)**	**(6,000)**	**(2,167)**	**107**
Others	0	0	0	0	0	0
Net profit	**(4,863)**	**(9,139)**	**(10,376)**	**(6,000)**	**(2,167)**	**107**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**48,831**	**43,527**	**54,522**	**50,213**	**69,459**	**84,320**
Cash & equivalents	11,025	14,608	21,127	14,982	23,923	28,903
Restricted cash	610	106	3,175	3,000	2,000	2,000
Account receivables	2,673	3,873	2,716	3,319	5,901	7,269
Inventories	2,662	4,521	5,526	5,221	8,335	10,265
ST bank deposits	25,858	15,349	16,812	18,000	20,000	25,000
Financial assets at FVTPL	2,834	1,262	781	591	601	611
Other current assets	3,169	3,808	4,384	5,100	8,700	10,272
Non-current assets	**16,821**	**27,964**	**29,641**	**32,089**	**31,909**	**29,985**
PP&E	5,425	10,607	10,954	10,854	10,493	9,854
Right-of-use assets	1,561	1,955	1,456	1,398	1,225	1,042
Investment in JVs & assos	1,549	2,295	2,085	1,805	1,655	1,755
Intangibles	879	1,043	4,949	4,599	4,285	3,954
Other non-current assets	7,407	12,064	10,197	13,433	14,251	13,380
Total assets	**65,651**	**71,491**	**84,163**	**82,302**	**101,368**	**114,305**
Current liabilities	**18,013**	**24,115**	**36,112**	**38,284**	**58,244**	**69,901**
Short-term borrowings	0	2,419	3,889	4,260	0	0
Account payables	12,362	14,223	22,210	25,630	45,011	55,432
Tax payable	23	28	6	40	50	50
Other current liabilities	5,254	6,954	9,640	8,017	12,890	14,162
Lease liabilities	373	491	366	337	293	257
Non-current liabilities	**5,492**	**10,465**	**11,722**	**13,279**	**14,243**	**15,106**
Long-term borrowings	1,675	4,613	5,651	6,651	6,151	5,851
Deferred income	479	694	669	1,005	1,406	1,899
Other non-current liabilities	3,338	5,158	5,403	5,623	6,686	7,356
Total liabilities	**23,505**	**34,580**	**47,834**	**51,563**	**72,487**	**85,007**
Share capital	0	0	0	0	0	0
Capital surplus	59,987	60,697	70,258	70,658	70,958	71,258
Retained earnings	(17,840)	(23,787)	(33,930)	(39,920)	(42,076)	(41,960)
Other reserves	0	0	0	0	0	0
Total shareholders equity	**42,147**	**36,911**	**36,329**	**30,739**	**28,882**	**29,298**
Total equity and liabilities	**65,651**	**71,491**	**84,163**	**82,302**	**101,368**	**114,305**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(4,837)**	**(9,114)**	**(10,339)**	**(6,000)**	**(2,167)**	**125**
Depreciation & amortization	838	1,411	2,107	2,800	3,115	3,419
Change in working capital	3,584	(2,709)	7,352	103	11,921	6,270
Others	(679)	2,181	1,836	(189)	(423)	(751)
Net cash from operations	**(1,095)**	**(8,232)**	**956**	**(3,287)**	**12,446**	**9,063**
Investing						
Capital expenditure	(4,318)	(4,680)	(2,312)	(2,250)	(2,500)	(2,500)
Acquisition of subsidiaries/ investments	(1,033)	(619)	(699)	0	0	0
Net proceeds from disposal of short-term investments	(27,762)	9,736	2,837	(3,185)	1,000	(2,000)
Others	37	408	805	1,412	1,474	1,591
Net cash from investing	**(33,076)**	**4,846**	**631**	**(4,022)**	**(26)**	**(2,909)**
Financing						
Net borrowings	(143)	6,119	3,110	1,007	(4,260)	(1,000)
Proceeds from share issues	13,110	(2)	5,020	0	0	0
Others	1,660	(113)	(114)	(18)	(219)	(173)
Net cash from financing	**14,627**	**6,004**	**8,015**	**989**	**(4,479)**	**(1,173)**
Net change in cash						
Cash at the beginning of the year	31,542	11,635	14,714	24,302	17,982	25,923
Exchange difference	(363)	462	(15)	0	0	0
Cash at the end of the year	**11,635**	**14,714**	**24,302**	**17,982**	**25,923**	**30,903**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	259.1%	28.0%	14.2%	31.6%	77.8%	23.2%
Gross profit	886.0%	17.8%	(85.4%)	1,169.9%	91.0%	23.4%
EBITDA	na	na	na	na	na	208.5%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	12.5%	11.5%	1.5%	14.2%	15.2%	15.3%
Operating margin	(31.3%)	(32.4%)	(35.5%)	(17.1%)	(4.7%)	(1.7%)
EBITDA margin	(18.8%)	(28.2%)	(26.0%)	(7.1%)	1.7%	4.2%
Return on equity (ROE)	(12.7%)	(23.1%)	(28.3%)	(17.9%)	(7.3%)	0.4%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.7	1.8	1.5	1.3	1.2	1.2
Receivable turnover days	46.5	52.6	32.3	30.0	30.0	30.0
Inventory turnover days	52.9	69.4	66.7	55.0	50.0	50.0
Payable turnover days	245.7	218.4	268.2	270.0	270.0	270.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	818.2
P/E (diluted)	ns	ns	ns	ns	ns	818.2
P/B	1.8	2.1	2.2	2.8	3.0	3.0
P/CFPS	ns	ns	82.6	ns	6.9	9.6
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

9 Dec 2024

CMB International Global Markets | Equity Research | Company Update

Tuhu Car (9690 HK)

Better positioned than auto dealers

Our top pick for auto services. We believe Tuhu is well-positioned to benefit from China's increasing average vehicle age and more rational spending on after-sales services for cars. We expect Tuhu's network expansion to more than offset the potential single-store sales challenges, and a higher contribution from exclusive and private-label products to lift the company's profitability. We believe Tuhu is a good defensive play amid macro uncertainties.

- **Standardized services + strong store management have built barriers to entry.** We are of the view that Tuhu has achieved precise positioning between traditional 4S stores and mom-and-pop shops, through its superb capabilities to manage millions of SKUs and standardize products and services in its stores. Such capabilities, along with its locations and online ordering approach to increase consumers' stickiness, especially for young drivers in China, have set high barriers to entry, in our view.
- **To benefit from consumption downgrade.** Compared with branded products, Tuhu's exclusive and private-label products provide higher value for money for consumers, which also generate higher gross margins and likely higher gross profits for Tuhu. That could also in turn increase consumers' stickiness.
- **Network expansion to offset single-store pressure.** Store expansion is key to Tuhu's top-line growth in the short to medium term. Management indicated the number of new applications for franchise stores rose 22% YoY in 1H24 and we expect the number to be higher in 2H24E. We project Tuhu's number of workshop stores to increase from about 6,300 in 1H24 to about 7,000 by the end of 2024 and approximately 7,900 by the end of 2025. Such growth should more than offset the greater same-store sales growth challenges faced now than before. Therefore, we project Tuhu's revenue to rise 10% and 15% YoY to about RMB14.9bn and RMB17.1bn in FY24-25E, respectively.
- **Earnings forecast and valuation.** We also expect gross margin to widen to 26.0% and 26.8% in FY24-25, respectively, and therefore, its adjusted net profit to rise 64% and 46% YoY to about RMB790mn and RMB1.15bn in FY24-25E, respectively. We maintain our BUY rating and TP of HK$26.00, based on 17x adj. FY25E P/E. There is still a discount against the valuation multiples (20-30x) of its US peers O'Reilly (ORLY US, NR) and AutoZone (AZO US, NR). Key risks include slower network expansion, lower revenue and/or margins than we expect, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	11,547	13,601	14,936	17,127	18,494
YoY growth (%)	(1.5)	17.8	9.8	14.7	8.0
Net profit (RMB mn)	(2,136.2)	6,702.9	634.2	1,028.6	1,245.1
YoY growth (%)	na	na	(90.5)	62.2	21.0
Adjusted net profit (RMB mn)	(551.9)	481.3	790.3	1,151.9	1,356.7
EPS (Reported) (RMB)	(14.82)	20.80	0.78	1.25	1.50
P/E (x)	ns	0.9	25.1	15.6	13.0
P/E (Adjusted) (x)	ns	13.1	20.2	13.9	11.9
P/B (x)	ns	1.4	3.2	2.6	2.1
ROE (%)	na	na	13.4	18.4	18.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$26.00**
Up/Downside	**24.4%**
Current Price	**HK$20.90**

China Auto

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Stock Data

Mkt Cap (HK$ mn)	16,968.7
Avg 3 mths t/o (HK$ mn)	55.4
52w High/Low (HK$)	32.80/10.46
Total Issued Shares (mn)	811.9

Source: FactSet

Shareholding Structure

Tencent Holdings	19.6%
Mr. Chen Min	10.1%

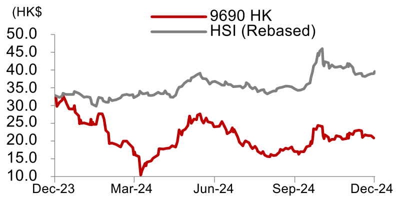
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.5%	3.9%
3-mth	22.7%	7.7%
6-mth	-12.0%	-18.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**11,724**	**11,547**	**13,601**	**14,936**	**17,127**	**18,494**
Cost of goods sold	(9,854)	(9,277)	(10,242)	(11,047)	(12,531)	(13,443)
Gross profit	**1,870**	**2,270**	**3,359**	**3,889**	**4,596**	**5,051**
Operating expenses	**(3,184)**	**(3,034)**	**(3,198)**	**(3,383)**	**(3,678)**	**(3,893)**
Selling expense	(1,681)	(1,542)	(1,715)	(1,859)	(2,073)	(2,223)
Admin expense	(351)	(399)	(420)	(426)	(443)	(466)
R&D expense	(620)	(621)	(580)	(591)	(614)	(627)
Other rental related expenses	(654)	(627)	(600)	(621)	(658)	(689)
Others	122	156	117	113	110	112
Operating profit	**(1,314)**	**(764)**	**162**	**506**	**918**	**1,157**
Other gains/(losses)	(4,441)	(1,339)	6,465	0	0	0
Share of (losses)/profits of associates/JV	(53)	(34)	(11)	(10)	(7)	(6)
EBITDA	**(5,440)**	**(1,716)**	**7,106**	**1,090**	**1,607**	**1,985**
Depreciation	121	157	160	215	272	323
Depreciation of ROU assets	182	203	196	210	230	254
Other amortisation	2	4	5	5	6	6
EBIT	**(5,744)**	**(2,080)**	**6,744**	**659**	**1,099**	**1,402**
Interest income	64	57	129	163	188	251
Interest expense	(66)	(28)	(19)	(18)	(19)	(21)
Pre-tax profit	**(5,810)**	**(2,108)**	**6,725**	**641**	**1,081**	**1,381**
Income tax	(35)	(31)	(25)	(10)	(54)	(138)
After tax profit	**(5,845)**	**(2,138)**	**6,701**	**632**	**1,027**	**1,243**
Minority interest	4	2	2	3	2	2
Net profit	**(5,841)**	**(2,136)**	**6,703**	**634**	**1,029**	**1,245**
Adjusted net profit	**(1,264)**	**(552)**	**481**	**790**	**1,152**	**1,357**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**7,746**	**6,906**	**8,271**	**9,241**	**11,401**	**13,004**
Cash & equivalents	1,472	2,686	2,715	2,270	3,707	5,162
Restricted cash	2,480	1,507	1,455	1,330	1,482	1,440
Account receivables	203	174	218	246	282	304
Inventories	1,714	1,543	1,800	1,816	2,060	2,210
Financial assets at FVTPL	1,338	540	1,587	3,089	3,354	3,381
Other current assets	539	456	496	491	516	507
Non-current assets	**2,086**	**2,108**	**3,493**	**3,522**	**3,680**	**4,021**
PP&E	539	671	899	1,023	1,090	1,106
Right-of-use assets	518	468	467	413	390	394
Investment in JVs & assos	194	279	363	353	346	340
Intangibles	63	70	58	56	54	53
Goodwill	16	16	20	20	20	20
Financial assets at FVTPL	201	227	191	176	168	160
Other non-current assets	555	378	1,495	1,481	1,612	1,949
Total assets	**9,832**	**9,014**	**11,765**	**12,763**	**15,081**	**17,026**
Current liabilities	**5,743**	**5,572**	**6,602**	**6,912**	**7,924**	**8,345**
Short-term borrowings	264	0	1	8	0	0
Account payables	3,240	3,119	3,887	4,086	4,806	4,972
Tax payable	68	97	120	121	164	289
Other current liabilities	1,464	1,566	1,720	1,816	1,991	2,062
Lease liabilities	148	137	132	114	123	150
Contract liabilities	559	653	743	767	840	871
Non-current liabilities	**19,454**	**22,398**	**704**	**843**	**977**	**1,114**
Long-term borrowings	0	0	8	50	100	150
Other non-current liabilities	19,454	22,398	697	793	877	964
Total liabilities	**25,197**	**27,971**	**7,306**	**7,755**	**8,901**	**9,459**
Share capital	0	0	0	0	0	0
Other reserves	(15,367)	(18,957)	4,460	5,012	6,186	7,574
Total shareholders equity	**(15,367)**	**(18,957)**	**4,460**	**5,012**	**6,186**	**7,575**
Minority interest	2	0	(2)	(4)	(6)	(8)
Total equity and liabilities	**(15,364)**	**(18,957)**	**4,458**	**5,008**	**6,180**	**7,566**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(5,810)**	**(2,108)**	**6,725**	**641**	**1,081**	**1,381**
Depreciation & amortization	305	364	362	431	508	583
Tax paid	(2)	(1)	(5)	(8)	(10)	(12)
Change in working capital	771	(197)	269	393	446	51
Others	4,638	1,630	(6,330)	57	(3)	(75)
Net cash from operations	**(99)**	**(313)**	**1,021**	**1,514**	**2,021**	**1,928**
Investing						
Capital expenditure	(347)	(401)	(362)	(343)	(344)	(345)
Acquisition of subsidiaries/ investments	(32)	(136)	(69)	0	0	0
Net proceeds from disposal of short-term investments	(518)	1,346	(2,108)	(1,436)	(265)	(228)
Others	(21)	(328)	167	168	188	251
Net cash from investing	**(918)**	**481**	**(2,372)**	**(1,611)**	**(421)**	**(322)**
Financing						
Net borrowings	(1,749)	(264)	(1)	49	43	50
Proceeds from share issues	0	0	1,168	0	0	0
Share repurchases	0	0	0	(191)	0	0
Others	3,157	1,200	182	(207)	(205)	(201)
Net cash from financing	**1,408**	**936**	**1,350**	**(349)**	**(162)**	**(151)**
Net change in cash						
Cash at the beginning of the year	1,165	1,472	2,686	2,715	2,270	3,707
Exchange difference	(84)	109	30	0	0	0
Cash at the end of the year	**1,472**	**2,686**	**2,715**	**2,270**	**3,707**	**5,162**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	33.9%	(1.5%)	17.8%	9.8%	14.7%	8.0%
Gross profit	73.2%	21.4%	48.0%	15.8%	18.2%	9.9%
Operating profit	na	na	na	213.1%	81.5%	26.1%
EBITDA	na	na	na	(84.7%)	47.5%	23.5%
EBIT	na	na	na	(90.2%)	66.8%	27.6%
Net profit	na	na	na	(90.5%)	62.2%	21.0%
Adj. net profit	na	na	na	64.2%	45.7%	17.8%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	16.0%	19.7%	24.7%	26.0%	26.8%	27.3%
Operating margin	(11.2%)	(6.6%)	1.2%	3.4%	5.4%	6.3%
EBITDA margin	(46.4%)	(14.9%)	52.2%	7.3%	9.4%	10.7%
Adj. net profit margin	(10.8%)	(4.8%)	3.5%	5.3%	6.7%	7.3%
Return on equity (ROE)	na	na	na	13.4%	18.4%	18.1%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	na	na	(0.9)	(0.7)	(0.9)	(0.9)
Current ratio (x)	1.3	1.2	1.3	1.3	1.4	1.6
Receivable turnover days	6.3	5.5	5.9	6.0	6.0	6.0
Inventory turnover days	63.5	60.7	64.1	60.0	60.0	60.0
Payable turnover days	120.0	122.7	138.5	135.0	140.0	135.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	0.9	25.1	15.6	13.0
P/E (diluted)	ns	ns	32.7	20.9	14.2	12.2
P/B	ns	ns	1.4	3.2	2.6	2.1
P/CFPS	ns	ns	6.2	10.5	7.9	8.4
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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WuXi AppTec (603259 CH)

Biosecure Act highly unlikely to be passed; positive on valuation re-rating

On December 7, the US Senate and House Committees on Armed Services released the final negotiated text of National Defense Authorization Act (NDAA) for fiscal year 2025 (FY25). Biosecure Act (S.3558/H.R.8333) was not included in the amendments to the FY25 NDAA, indicating that its legislative via inclusion in the NDAA has failed. Biosecure Act can still pursue standalone legislation, but given only two weeks left for the US 118th Congress, we believe the probability of successful standalone legislation is extremely low. In the long-term, we maintain a positive outlook on WuXi AppTec's ability to retain a strong presence within the global pharmaceutical R&D industry. Additionally, we anticipate rapid growth in the Company's orders, particularly its TIDES business, due to the recovery in global healthcare funding, which will drive earnings improvement. (see our in-depth report on WuXi AppTec).

- **FY25 NDAA not including Biosecure Act, signaling a high likelihood of legislative failure for this act.** On December 7, the final version of the NDAA was published without the inclusion of Biosecure Act. We believe this reflects challenges faced by the Act in the US Congress. Senator Rand Paul, the ranking member of the Senate Committee on Homeland Security, was the sole vote against Biosecure Act in a meeting held by the committee in March. Rand Paul will serve as the chairman of the Senate Homeland Security Committee next year. Regarding the standalone legislative path for Biosecure Act, the House voted to pass the Act (H.R.8333) on September 9, but it still awaits a floor voting in Senate and the President's signature to complete the legislative process. With only two weeks left in this session of Congress, we consider the success probability for standalone legislation to be very low.
- **Expect WuXi AppTec to maintain its leading position in global chemical CDMO sector over the medium to long term.** We have reviewed 30 companies engaged in API and chemical CDMO services located in Europe, the US, and India, and found that these companies significantly lag behind WuXi AppTec in terms of revenue and capacity investment. With much smaller R&D teams than WuXi AppTec's, Indian peers mostly offer bulk and specialty APIs with limited involvement in innovative drug R&D. While Europe has an established pharmaceutical industrial chain with numerous renowned chemical CDMO players, those companies tend to focus more on formulation rather API. Moreover, their production capacities are mainly located in Central and Western Europe, resulting in higher labor costs than WuXi AppTec.
- **Optimistic on the recovery in global healthcare funding.** Due to the rebound in global healthcare funding and the resilience of MNCs' R&D investments, WuXi AppTec's orders saw an increase in 2024. As of 3Q24, the company's backlog increased by 35% YoY, with TIDES orders growing by 196% YoY. We expect that, with the US rate cuts, global healthcare funding will continue to recover, further supporting the company's orders.
- **Maintain BUY.** Factoring in reduced geopolitical risks and positive trend of demand, we have a TP of RMB78.51 for WuXi AppTec. We forecast revenue to grow by -3.6%/ +11.4%/ +13.6% YoY and adjusted non-IFRS net income to grow by -3.9%/ +11.9%/ +15.5% YoY in 2024E/ 25E/ 26E, respectively.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	39,355	40,341	38,906	43,332	49,225
YoY growth (%)	71.8	2.5	(3.6)	11.4	13.6
Adjusted net profit (RMB mn)	9,399	10,854	10,427	11,668	13,474
YoY growth (%)	83.2	15.5	(3.9)	11.9	15.5
EPS (Adjusted) (RMB)	3.21	3.70	3.61	4.04	4.67
Consensus EPS (RMB)	na	na	3.32	3.70	4.12
P/E (Adjusted) (x)	18.4	15.9	16.3	14.6	12.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB78.51**
(Previous TP	RMB78.51)
Up/Downside	**33.1%**
Current Price	**RMB58.98**

China Healthcare

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Stock Data

Mkt Cap (RMB mn)	170,333.8
Avg 3 mths t/o (RMB mn)	3,760.4
52w High/Low (RMB)	76.71/36.87
Total Issued Shares (mn)	2888.0

Source: FactSet

Shareholding Structure

Ge Li and concerted parties	20.5%
HK investors	18.2%

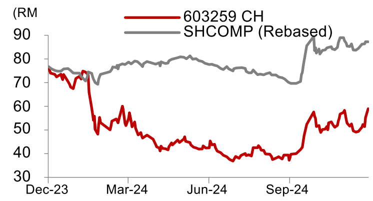
Source: Company report

Share Performance

	Absolute	Relative
1-mth	5.1%	6.6%
3-mth	49.7%	20.4%
6-mth	39.1%	24.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

CMB INTERNATIONAL

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**22,902**	**39,355**	**40,341**	**38,906**	**43,332**	**49,225**
Cost of goods sold	(14,592)	(24,677)	(23,729)	(22,960)	(25,369)	(28,525)
Gross profit	**8,310**	**14,678**	**16,612**	**15,946**	**17,963**	**20,700**
Operating expenses	**(3,898)**	**(5,372)**	**(5,318)**	**(5,256)**	**(5,605)**	**(6,368)**
Selling expense	(699)	(732)	(701)	(807)	(812)	(922)
Admin expense	(2,203)	(2,826)	(2,879)	(2,714)	(2,936)	(3,335)
R&D expense	(942)	(1,614)	(1,441)	(1,414)	(1,532)	(1,740)
Others	(54)	(200)	(297)	(321)	(326)	(370)
Operating profit	**4,412**	**9,306**	**11,294**	**10,691**	**12,358**	**14,332**
Gain/loss on financial assets at FVTPL	(93)	770	(38)	(199)	100	200
Investment gain/loss	1,356	188	234	45	100	200
Net Interest income/(expense)	**(84)**	**248**	**338**	**784**	**451**	**515**
Other income/expense	425	106	4	283	300	300
Pre-tax profit	**6,016**	**10,618**	**11,832**	**11,604**	**13,308**	**15,547**
Income tax	(880)	(1,716)	(2,132)	(1,752)	(1,996)	(2,332)
After tax profit	**5,136**	**8,903**	**9,700**	**9,852**	**11,312**	**13,215**
Minority interest	(39)	(89)	(94)	(94)	(108)	(127)
Net profit	**5,097**	**8,814**	**9,607**	**9,757**	**11,204**	**13,089**
Adjusted net profit	**5,131**	**9,399**	**10,854**	**10,427**	**11,668**	**13,474**
Gross dividends	1,529	2,644	2,882	2,927	3,361	3,927

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**21,986**	**23,997**	**30,422**	**34,848**	**38,838**	**46,441**
Cash & equivalents	8,239	7,986	13,764	18,352	21,559	27,420
Account receivables	4,668	6,047	7,922	7,462	7,717	8,766
Inventories	5,905	5,669	4,736	5,034	5,562	6,254
Prepayment	303	291	244	244	244	244
Financial assets at FVTPL	527	2	11	11	11	11
Other current assets	2,344	4,003	3,746	3,746	3,746	3,746
Non-current assets	**33,142**	**40,693**	**43,247**	**45,663**	**49,123**	**51,462**
PP&E	8,554	14,171	17,190	19,359	23,230	25,779
Deferred income tax	390	492	367	367	367	367
Investment in JVs & assos	678	1,203	2,216	2,216	2,216	2,216
Intangibles	1,600	1,785	1,864	1,706	1,548	1,390
Goodwill	1,926	1,822	1,821	1,821	1,821	1,821
Financial assets at FVTPL	8,714	8,954	8,626	9,483	9,683	10,083
Other non-current assets	11,280	12,265	11,164	10,712	10,259	9,807
Total assets	**55,127**	**64,690**	**73,669**	**80,511**	**87,961**	**97,903**
Current liabilities	**12,985**	**14,499**	**14,756**	**18,674**	**18,172**	**18,826**
Short-term borrowings	2,261	3,874	3,667	7,667	6,667	6,667
Account payables	1,931	1,659	1,645	1,563	2,061	2,715
Tax payable	536	882	1,374	1,374	1,374	1,374
Other current liabilities	8,256	8,084	8,070	8,070	8,070	8,070
Non-current liabilities	**3,385**	**3,264**	**3,396**	**3,396**	**3,396**	**3,396**
Long-term borrowings	0	279	687	687	687	687
Bond payables	607	502	0	0	0	0
Obligations under finance leases	1,019	984	1,099	1,099	1,099	1,099
Other non-current liabilities	1,759	1,499	1,610	1,610	1,610	1,610
Total liabilities	**16,370**	**17,764**	**18,152**	**22,069**	**21,568**	**22,222**
Share capital	2,956	2,961	2,969	2,969	2,969	2,969
Capital surplus	25,732	26,512	28,401	35,231	43,074	52,236
Other reserves	9,804	17,118	23,753	19,753	19,753	19,753
Total shareholders equity	**38,492**	**46,590**	**55,122**	**57,953**	**65,795**	**74,957**
Minority interest	266	337	395	489	598	724
Total equity and liabilities	**55,127**	**64,690**	**73,669**	**80,511**	**87,961**	**97,903**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**6,016**	**10,618**	**11,832**	**11,604**	**13,308**	**15,547**
Depreciation & amortization	1,363	1,718	2,288	2,214	2,516	2,837
Tax paid	(880)	(1,716)	(2,132)	(1,752)	(1,996)	(2,332)
Change in working capital	(1,151)	(298)	(105)	80	(284)	(1,088)
Others	(759)	294	1,504	(414)	(426)	(691)
Net cash from operations	**4,589**	**10,616**	**13,387**	**11,731**	**13,117**	**14,273**
Investing						
Capital expenditure	(6,936)	(9,966)	(5,517)	(4,000)	(6,000)	(5,000)
Acquisition of subsidiaries/ investments	(858)	(161)	(22)	0	0	0
Net proceeds from disposal of short-term investments	2,766	82	(2,321)	(1,000)	0	0
Others	189	355	299	0	0	0
Net cash from investing	**(4,839)**	**(9,690)**	**(7,561)**	**(5,000)**	**(6,000)**	**(5,000)**
Financing						
Dividend paid	(916)	(1,598)	(2,756)	(2,143)	(2,911)	(3,411)
Net borrowings	1,071	1,668	178	4,000	(1,000)	0
Proceeds from share issues	104	150	247	0	0	0
Others	(1,983)	(1,497)	(1,610)	(4,000)	0	0
Net cash from financing	**(1,724)**	**(1,278)**	**(3,941)**	**(2,143)**	**(3,911)**	**(3,411)**
Net change in cash						
Cash at the beginning of the year	10,228	8,175	7,984	13,764	18,352	21,559
Exchange difference	(79)	161	132	0	0	0
Cash at the end of the year	**8,175**	**7,984**	**10,001**	**18,352**	**21,559**	**27,420**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.5%	71.8%	2.5%	(3.6%)	11.4%	13.6%
Gross profit	32.3%	76.6%	13.2%	(4.0%)	12.6%	15.2%
Operating profit	41.1%	110.9%	21.4%	(5.3%)	15.6%	16.0%
Net profit	72.2%	72.9%	9.0%	1.6%	14.8%	16.8%
Adj. net profit	41.1%	83.2%	15.5%	(3.9%)	11.9%	15.5%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	36.3%	37.3%	41.2%	41.0%	41.5%	42.1%
Operating margin	19.3%	23.6%	28.0%	27.5%	28.5%	29.1%
Adj. net profit margin	22.4%	23.9%	26.9%	26.8%	26.9%	27.4%
Return on equity (ROE)	14.4%	20.7%	18.9%	17.3%	18.1%	18.6%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.7	1.7	2.1	1.9	2.1	2.5
Receivable turnover days	66.4	49.7	63.2	70.0	65.0	65.0
Inventory turnover days	107.4	85.6	80.0	80.0	80.0	80.0
Payable turnover days	107.8	75.5	75.6	75.6	75.6	75.6

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (adjusted)	33.5	18.4	15.9	16.3	14.6	12.6
P/B	4.4	3.7	3.1	2.9	2.6	2.3
P/CFPS	37.5	16.3	12.9	14.5	13.0	11.9
Div yield (%)	0.9	1.5	1.7	1.7	2.0	2.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Zoomlion (1157 HK)

A key beneficiary of emerging market growth

We continue to like Zoomlion's global expansion strategy. On the product side, the offering of a full range of machinery through an effective direct sales model enables Zoomlion to penetrate different key markets overseas. On regions, the priorities on emerging economies such as the Middle East, Middle Asia and Southeast Asia over Europe and North America make it subject to less geopolitical and tariff-related risks. While overseas revenue growth in 3Q24 slowed to 20% from 44% in 1H24, Zoomlion expects growth to accelerate to 40-50% in 4Q24E. Our TP for Zoomlion H is HK$6.8, based on 2024E target P/E multiple of 13x. The start of share buyback since early Dec will serve as near-term catalyst. Maintain **BUY**.

- **Overseas growth remains exciting.** Overseas revenue accounted for 57% of total revenue in 3Q24 (vs only <10% three years earlier). Zoomlion sees Southeast Asia, the Middle East and Russia as the **tier-one markets**, as these regions are similar to China in the way that products are subject to less modification. **Tier-two markets** include South America, India and Africa, where growth reached 70%+ YoY in 9M24. **Tier-three markets** include Europe and North America (+2x YoY in 9M24 on low base). These developed markets have higher requirements on brand, products and after-sales services.

- **13 factories outside China.** Zoomlion's construction of factories in Turkey, Mexico and India has been gradually completed. Zoomlion currently has 13 factories overseas, with a potential annual output value of RMB10bn.

- **Limited risk of tariffs given that the US accounts for only <1% of total sales at present.** The annual designed output value of Zoomlion's Mexico AWP plant is ~RMB1bn (~2% of Zoomlion total sales assuming full utilisation). Products from the Mexico plant will be supplied to both North and South America. We expect Zoomlion to shift the sales to other regions in case of any unreasonably high tariffs imposed by the US.

- **Major risk factors:** (1) Weaker-than-expected property investment in China; (2) a slowdown of overseas demand; (3) increase in freight rates.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	41,631	47,075	52,384	61,449	70,524
YoY growth (%)	(38.0)	13.1	11.3	17.3	14.8
Adjusted net profit (RMB mn)	2,347.0	3,550.0	3,946.3	4,488.1	5,131.7
EPS (Reported) (RMB)	0.28	0.43	0.48	0.54	0.62
YoY growth (%)	(63.3)	54.9	11.2	13.7	14.3
Consensus EPS (RMB)	na	na	0.53	0.67	0.80
P/E (x)	18.5	11.9	10.7	9.4	8.2
P/B (x)	0.8	0.8	0.8	0.8	0.7
Yield (%)	6.1	6.2	6.2	7.1	8.1
ROE (%)	4.4	6.9	7.5	8.3	9.2
Net gearing (%)	7.3	12.2	19.5	22.1	23.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$6.80**
Up/Downside	**24.1%**
Current Price	**HK$5.48**

China Capital Goods

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Stock Data

Mkt Cap (HK$ mn)	47,555.4
Avg 3 mths t/o (HK$ mn)	93.8
52w High/Low (HK$)	6.35/3.68
Total Issued Shares (mn)	8678.0

Source: FactSet

Shareholding Structure

SASAC of Hunan Province	14.5%
Management team	7.9%

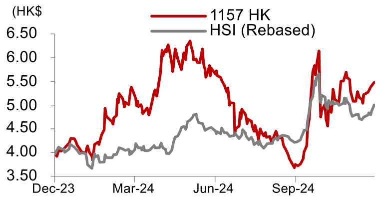
Source: HKEx, SSE

Share Performance

	Absolute	Relative
1-mth	-1.8%	-0.3%
3-mth	48.9%	25.4%
6-mth	-5.2%	-14.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

1. Capital Goods - 2025 Outlook: Emerging markets the key growth driver; China market to be stabilized – 9 Dec 2024 (link)
2. Capital Goods – 3Q24 earnings review: SANY Heavy beat; Zoomlion missed; Weichai in-line – 31 Oct 2024 (link)
3. Zoomlion (1157 HK / 000157 CH, BUY) – 1H24 earnings below expectations; Growth of emerging markets on track – 2 Sep 2024 (H: link) (A: link)
4. Capital Goods sector - RMB300bn capital to finance equipment replacement – 26 Jul 2024 (link)

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**67,131**	**41,631**	**47,075**	**52,384**	**61,449**	**70,524**
Cost of goods sold	(51,280)	(32,543)	(34,109)	(37,644)	(44,084)	(50,441)
Gross profit	**15,851**	**9,088**	**12,966**	**14,741**	**17,365**	**20,083**
Selling expense	(3,473)	(2,635)	(3,557)	(4,138)	(4,793)	(5,501)
Admin expense	(2,729)	(2,846)	(3,068)	(3,667)	(4,056)	(4,514)
R&D expense	(3,865)	(2,507)	(3,441)	(3,667)	(4,240)	(4,796)
Other income	1,413	982	935	1,239	1,039	939
Other gains/(losses)	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	154	130	153	137	165	171
EBITDA	**8,096**	**3,116**	**5,135**	**5,940**	**6,799**	**7,730**
Depreciation	899	1,034	1,300	1,433	1,485	1,518
EBIT	**7,197**	**2,082**	**3,835**	**4,507**	**5,315**	**6,212**
Interest income	970	989	914	873	707	634
Interest expense	(964)	(689)	(630)	(670)	(673)	(676)
Net Interest income/(expense)	**6**	**300**	**284**	**203**	**34**	**(42)**
Pre-tax profit	**7,357**	**2,512**	**4,272**	**4,847**	**5,514**	**6,340**
Income tax	(938)	(86)	(457)	(557)	(662)	(793)
Minority interest	(116)	(79)	(265)	(343)	(364)	(416)
Net profit	**6,419**	**2,426**	**3,815**	**4,289**	**4,852**	**5,548**
Adjusted net profit	**6,303**	**2,347**	**3,550**	**3,946**	**4,488**	**5,132**
Gross dividends	2,777	2,694	2,777	2,762	3,142	3,592

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**72,714**	**73,602**	**78,006**	**75,155**	**86,411**	**88,183**
Cash & equivalents	13,190	13,791	13,606	9,326	7,552	6,333
Account receivables	32,108	33,962	32,033	36,856	38,903	46,113
Inventories	13,501	14,203	22,504	18,749	28,355	24,160
ST bank deposits	1,775	1,708	2,265	2,265	2,265	2,265
Financial assets at FVTPL	6,408	4,011	1,767	1,767	1,767	1,767
Other current assets	5,732	5,927	5,831	6,191	7,569	7,545
Non-current assets	**49,268**	**49,915**	**52,819**	**59,795**	**62,509**	**65,569**
PP&E	9,740	13,903	17,364	20,249	20,589	20,399
Deferred income tax	1,148	1,907	2,303	2,303	2,303	2,303
Investment in JVs & assos	4,190	4,476	4,497	4,634	4,799	4,970
Intangibles	1,850	1,926	1,988	1,820	1,645	1,367
Goodwill	1,908	2,562	2,641	2,641	2,641	2,641
Financial assets at FVTPL	2,418	2,263	2,669	2,669	2,669	2,669
Other non-current assets	28,014	22,878	21,357	25,479	27,863	31,220
Total assets	**121,982**	**123,517**	**130,825**	**134,949**	**148,920**	**153,752**
Current liabilities	**49,675**	**48,393**	**49,996**	**52,608**	**64,489**	**66,915**
Short-term borrowings	11,011	11,018	7,377	7,477	7,577	7,677
Account payables	36,600	35,259	40,513	43,025	54,806	57,132
Tax payable	97	107	154	154	154	154
Other current liabilities	1,967	2,009	1,952	1,952	1,952	1,952
Non-current liabilities	**14,047**	**18,185**	**21,698**	**21,698**	**21,698**	**21,698**
Long-term borrowings	7,894	10,962	14,922	14,922	14,922	14,922
Other non-current liabilities	6,153	7,223	6,776	6,776	6,776	6,776
Total liabilities	**63,722**	**66,578**	**71,694**	**74,306**	**86,187**	**88,613**
Total shareholders equity	**56,831**	**54,705**	**56,371**	**57,540**	**59,266**	**61,256**
Minority interest	1,429	2,234	2,760	3,103	3,467	3,883
Total equity and liabilities	**121,982**	**123,517**	**130,825**	**134,949**	**148,920**	**153,752**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**7,357**	**2,512**	**4,272**	**4,847**	**5,514**	**6,340**
Depreciation & amortization	899	1,034	1,300	1,433	1,485	1,518
Tax paid	(1,361)	(436)	(457)	(557)	(662)	(793)
Change in working capital	(4,602)	(2,015)	(2,837)	(3,088)	(3,684)	(4,071)
Others	12,421	3,929	6,266	7,059	8,375	9,686
Net cash from operations	**2,189**	**1,951**	**2,292**	**2,295**	**2,454**	**2,866**
Investing						
Capital expenditure	(1,401)	(1,027)	(803)	(4,000)	(1,500)	(1,000)
Acquisition of subsidiaries/ investments	0	(191)	0	0	0	0
Others	4	2,259	946	773	607	634
Net cash from investing	**(1,397)**	**1,041**	**143**	**(3,227)**	**(893)**	**(366)**
Financing						
Dividend paid	(3,041)	(2,777)	(2,694)	(2,777)	(2,762)	(3,142)
Net borrowings	76	2,751	319	100	100	100
Proceeds from share issues	6,088	(1,556)	(1,085)	0	0	0
Others	(703)	(912)	816	(670)	(673)	(676)
Net cash from financing	**2,420**	**(2,494)**	**(2,644)**	**(3,347)**	**(3,336)**	**(3,718)**
Net change in cash						
Cash at the beginning of the year	10,086	13,190	13,791	13,606	9,326	7,552
Exchange difference	(108)	103	24	0	0	0
Cash at the end of the year	**13,190**	**13,791**	**13,606**	**9,326**	**7,552**	**6,333**

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

10 Dec 2024

CMB International Global Markets | Equity Research | Company Update

CGN Mining (1164 HK)

Low-cost uranium mines the key competitive edge

We anticipate that the global uranium demand will be driven by the structural growth of nuclear power over the next decade. This, coupled with the unstable uranium mine output, will likely keep uranium price elevated over the coming years. CGN Mining is well-positioned to capitalize on the long-term uranium price uptrend, through its two JVs that hold stakes in four low-cost uranium mines in Kazakhstan. We assume the average spot price of uranium in 2024E to be $85/lb (+30% YoY) and further increase by 8% annually through 2026E. We forecast CGN Mining's earnings to double by 2026E compared to 2023. We have a **BUY** rating with a target price of HK$2.36, based on 3x NPV**.**

- **Low-cost uranium mines in Kazakhstan.** CGN Mining holds 49% interest in four Kazakhstan mines. The production costs of uranium ranged from US$17/lb to US$27/lb in 2023, among the lowest globally. Looking forward, Kazakhstan will raise the mineral extraction tax (MET), with rate in 2025 set at 9%, up from 6% in 2024. The rate in 2026 will be divided into production basis (the higher the output, the higher the tax rate) and price basis. Semizbay and Zhalpak mines' MET rate will likely be 4%, given that the annual output is expected to be <500t. Irkol and Central mines will be 6%/9%. Still, we think the overall tax burden is manageable due to the limited scale of output. On the other hand, given the tight supply of sulphuric acid, we estimate the production cost to increase by 12%/9% in 2025E/26E.
- **We forecast earnings to double by 2026E, compared to 2023.** We estimate CGN Mining's earnings in 2024E to drop 11% YoY to HK$440mn, primarily due to a 2.8x YoY increase in income tax expenses in 1H24 (to HK$210mn). This was due to a one-off dividend withholding tax payment (accrued for years) as mandated by recent changes of Kazakhstan's tax policies. We forecast earnings to surge 52%/63% YoY in 2025E/26E. Our sensitivity analysis indicates that every 1% increase in uranium spot price would translate into a 0.7% increase in CGN Mining's earnings in 2025E.
- **Target price of HK$2.36.** We apply NPV methodology to value CGN Mining. Based on the life of the mines or relevant licenses, future cash flow (mainly from JVs dividends) is discounted to the present value. Our target multiple of NPV (3x) is to reflect the potential conversion from resource to reserve amid the uptrend of uranium price. Our long-term assumptions include: (1) uranium price increasing 1.5% p.a. from US$101 during 2027–31, (2) a stabilized price (at US$107) thereafter, and (3) production costs rising 1% p.a. during 2027-2042 to reflect inflation.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK$ mn)	3,649	7,363	10,992	11,852	13,084
YoY growth (%)	(5.5)	101.8	49.3	7.8	10.4
Adjusted net profit (HK$ mn)	514.9	497.1	443.4	675.4	1,099.6
YoY growth (%)	188.5	(3.5)	(10.8)	52.3	62.8
EPS (Adjusted) (HK$ cents)	7.18	6.54	5.83	8.89	14.47
Consensus EPS (HK$ cents)	na	na	7.46	11.38	15.33
P/E (x)	23.3	25.5	28.6	18.8	11.5
P/B (x)	3.8	3.3	2.9	2.6	2.1
Yield (%)	0.0	0.0	0.5	0.8	1.3
ROE (%)	18.7	13.8	10.8	14.6	20.2
Net gearing (%)	68.8	18.8	22.5	7.1	(2.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$2.36**
Up/Downside	**41.5%**
Current Price	**HK$1.67**

China Materials

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Stock Data

Mkt Cap (HK$ mn)	12,693.1
Avg 3 mths t/o (HK$ mn)	132.8
52w High/Low (HK$)	3.03/1.32
Total Issued Shares (mn)	7600.7

Source: FactSet

Shareholding Structure

China General Nuclear Power Corporation	56.9%
China Chengtong Holding Group	10.0%

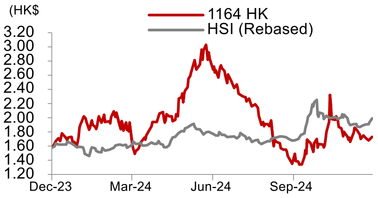
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.2%	-5.8%
3-mth	23.7%	4.2%
6-mth	-41.2%	-47.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:
原材料-天然铀受惠于全球核电未来十年的结构上升周期- 2024 年 11 月 19 日 (链接)

中广核矿业(1164 HK) - 低成本铀矿具优势 – 2024 年 11 月 19 日 (链接)

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK$ mn)						
Revenue	**3,860**	**3,649**	**7,363**	**10,992**	**11,852**	**13,084**
Cost of goods sold	(3,771)	(3,501)	(7,231)	(11,097)	(12,004)	(12,848)
Gross profit	**88**	**148**	**132**	**(105)**	**(151)**	**235**
Selling expense	(14)	(13)	(19)	(11)	(12)	(13)
Admin expense	(42)	(49)	(52)	(55)	(59)	(65)
Others	(1)	(3)	(6)	(11)	(7)	(8)
Other income	8	16	12	20	18	20
Share of (losses)/profits of associates/JV	205	523	606	948	1,031	1,114
EBITDA	**41**	**101**	**69**	**(161)**	**(212)**	**169**
Depreciation	2	2	2	1	0	0
EBIT	**40**	**100**	**67**	**(162)**	**(212)**	**169**
Interest income	2	6	18	28	35	53
Interest expense	(50)	(62)	(131)	(87)	(87)	(86)
Net Interest income/(expense)	**(48)**	**(56)**	**(114)**	**(60)**	**(52)**	**(34)**
Pre-tax profit	**197**	**567**	**559**	**727**	**768**	**1,250**
Income tax	(18)	(52)	(62)	(283)	(92)	(150)
Minority interest	0	0	0	0	0	0
Net profit	**178**	**515**	**497**	**443**	**675**	**1,100**
Adjusted net profit	**178**	**515**	**497**	**443**	**675**	**1,100**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK$ mn)						
Current assets	**1,933**	**2,447**	**2,214**	**3,644**	**3,142**	**4,991**
Cash & equivalents	81	52	1,017	823	1,496	2,033
Account receivables	99	343	462	562	607	612
Inventories	1,743	2,048	697	2,221	1,002	2,307
Other current assets	9	2	38	38	38	38
Non-current assets	**4,416**	**4,419**	**4,536**	**4,702**	**4,882**	**5,078**
PP&E	1	1	1	1	1	0
Right-of-use assets	4	2	1	0	0	0
Investment in JVs & assos	4,353	4,369	4,495	4,661	4,842	5,038
Other non-current assets	58	46	39	39	39	39
Total assets	**6,350**	**6,866**	**6,750**	**8,346**	**8,024**	**10,069**
Current liabilities	**3,754**	**2,064**	**1,391**	**2,543**	**1,613**	**2,659**
Short-term borrowings	0	958	349	399	449	499
Account payables	1,103	1,044	999	2,102	1,121	2,117
Tax payable	9	11	12	12	12	12
Other current liabilities	2,640	50	30	30	30	30
Lease liabilities	1	2	1	1	1	1
Non-current liabilities	**440**	**1,454**	**1,479**	**1,479**	**1,479**	**1,479**
Long-term borrowings	388	0	0	0	0	0
Other non-current liabilities	52	1,454	1,479	1,479	1,479	1,479
Total liabilities	**4,194**	**3,518**	**2,870**	**4,022**	**3,092**	**4,138**
Total shareholders equity	**2,155**	**3,348**	**3,880**	**4,324**	**4,932**	**5,931**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**6,350**	**6,866**	**6,750**	**8,346**	**8,024**	**10,069**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK$ mn)						
Operating						
Profit before taxation	**197**	**567**	**559**	**727**	**768**	**1,250**
Depreciation & amortization	2	2	2	1	0	0
Tax paid	(19)	(15)	(35)	(283)	(92)	(150)
Change in working capital	233	24	989	(534)	188	(323)
Others	(155)	(465)	(476)	(878)	(972)	(1,073)
Net cash from operations	**258**	**113**	**1,040**	**(967)**	**(109)**	**(296)**
Investing						
Capital expenditure	(0)	(1)	(0)	0	0	0
Acquisition of subsidiaries/ investments	(3,374)	0	0	0	0	0
Others	38	419	499	810	885	971
Net cash from investing	**(3,337)**	**419**	**499**	**810**	**885**	**971**
Financing						
Dividend paid	(33)	0	0	0	(67)	(101)
Net borrowings	(667)	570	(609)	50	50	50
Proceeds from share issues	0	776	0	0	0	0
Others	2,681	(1,896)	27	(87)	(87)	(86)
Net cash from financing	**1,981**	**(550)**	**(582)**	**(37)**	**(103)**	**(138)**
Net change in cash						
Cash at the beginning of the year	0	81	52	1,017	823	1,496
Exchange difference	1,179	(11)	8	0	0	0
Cash at the end of the year	**81**	**52**	**1,017**	**823**	**1,496**	**2,033**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	34.8%	(5.5%)	101.8%	49.3%	7.8%	10.4%
Gross profit	(56.5%)	67.7%	(10.9%)	na	na	na
EBITDA	(73.5%)	145.1%	(32.1%)	na	na	na
EBIT	(74.7%)	151.8%	(32.7%)	na	na	na
Net profit	15.0%	188.5%	(3.5%)	(10.8%)	52.3%	62.8%
Adj. net profit	15.0%	188.5%	(3.5%)	(10.8%)	52.3%	62.8%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	2.3%	4.1%	1.8%	(1.0%)	(1.3%)	1.8%
EBITDA margin	1.1%	2.8%	0.9%	(1.5%)	(1.8%)	1.3%
Adj. net profit margin	4.6%	14.1%	6.8%	4.0%	5.7%	8.4%
Return on equity (ROE)	16.6%	18.7%	13.8%	10.8%	14.6%	20.2%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.1	0.7	0.2	0.2	0.1	(0.0)
Current ratio (x)	0.5	1.2	1.6	1.4	1.9	1.9
Receivable turnover days	4.7	22.1	20.0	17.0	18.0	17.0
Payable turnover days	53.4	111.9	51.6	51.0	49.0	46.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	61.8	23.3	25.5	28.6	18.8	11.5
P/B	5.1	3.8	3.3	2.9	2.6	2.1
Div yield (%)	0.0	0.0	0.0	0.5	0.8	1.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

12 Dec 2024

CMB International Global Markets | Equity Research | Company Update

CPIC (2601 HK)

Expect Group OPAT growth to turn around

We expect the insurer's full-year NBV to land at RMB15.0bn in FY24E, implying a YoY increase of 36.8%. This exceptional full-year NBV increase on top of a high base could be driven by 1) continued margin expansions in bancassurance, which we expect the channel's NBV margin to rise by a double-digit ppt to 14% on a like-for-like basis in 2H24 (vs 1H24: 12.5%); and 2) the par sales well captured in momentum, which doubled in both NBV and FYRP terms in 3Q24, per mgmt. We believe a rebalanced mix on the floating interest rate products, i.e. participating and universal life, could narrow the rigid liability costs of the insurer and enhance the actuarial profitability. Despite a margin increase, we expect first-year premiums (FYP) to slip, given the consumption of front-loaded customer demands in 3Q24. P&C CoR stabilized at 98.7% in 3Q, with heightened catastrophic losses adversely affecting the lines of commercial property, engineering and agriculture insurance. We remain positive on the insurer's NBV margin increase and proactive mgmt. on its asset allocation strategy to ease the bottom-line volatility in face of interest rate risk exposure. We expect to see a turnaround in Group OPAT and rise by 1.2% YoY in FY24, thanks to the stabilized Life OPAT contribution. **Maintain BUY, with a SOTP-based TP at HK$35.5, implying FY24E 0.5x P/Group EV and 1.1x P/BV.**

- **Expect robust FY24E NBV growth.** 3Q NBV surged 75.3% YoY to RMB5.2bn, driven by margin expansions (+6.2pct) and rebounded regular-paid new sales (+15.2%). We estimate the NBV margin could rise to 22% in 2H24 (vs 2H23: 13%), enhanced by 8.8pct year-over-year. We attribute the margin expansions to 1) elevated par sales that are entitled to the absorption effect on interest rate volatility and 2) strengthened regular-paid new sales, evidenced by the FYRP increases in agency (3Q24: +37%) and bancassurance (9M24: +23.2%). Total FYRP surged 1.38x YoY to RMB18.5bn in 3Q24, leading to the rebound of FYP by 15% YoY (vs 2Q24: -29%). We expect full-year NBV to sustain solid growth by +37% YoY (*CMBI est*), thanks to improved UW and rebalanced product mix.

- **Better-than-peers NIY indicating asset allocation strengths.** Net investment yield (NIY) was at 3.9% in 9M24 (*annualized*), outpacing major peers incl. China Life (3.3%) and Ping An (3.8%). Given a prospect of increasing high-yield stocks under FVOCI, we expect the insurer to benefit from a stable investment income against fair value changes to net profit. The insurer held c.2.0% of total investment assets to FVOCI stocks, lower than that of FVTPL stocks (7.1%) and equity funds (2.2%). Looking ahead, we expect the allocation of OCI stocks will progressively increase, and contribute to a solid dividend income for CPIC.

- **Valuation:** The stock is trading at 0.4x FY24E P/ EV and 0.9x FY24E P/BV, above the 3-year historical avg. We remain positive on the insurer's NBV margin increase on top of an improved underwriting channel and product mix. **Maintain BUY, with TP of HK$35.5, implying 0.5x FY24E P/EV and 1.1x FY24E P/BV.**

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	38,222	27,911	43,585	38,479	41,615
EPS (Reported)(RMB)	2.56	2.83	4.45	3.93	4.25
Consensus EPS (RMB)	n.a	n.a	4.55	3.97	4.32
P/B (x)	1.0	0.9	0.8	0.8	0.7
P/Embedded value (x)	0.4	0.4	0.4	0.4	0.3
Dividend yield (%)	4.3	4.3	4.5	4.6	4.8
ROE (%)	12.6	12.2	16.2	13.0	12.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$35.50**
Up/Downside	**40.9%**
Current Price	**HK$25.20**

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Stock Data

Mkt Cap (HK$ mn)	242,432.6
Avg 3 mths t/o (HK$ mn)	494.0
52w High/Low (HK$)	33.15/12.92
Total Issued Shares (mn)	9620.3

Source: FactSet

Shareholding Structure

Shanghai International Group	7.2%
Schroders PLC	7.0%

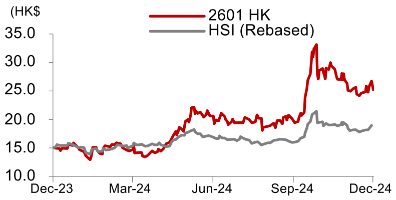
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.4%	-3.1%
3-mth	26.9%	7.7%
6-mth	22.3%	10.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Related reports:

1. CPIC (2601 HK) - 3Q NBV growth accelerated; expect par sales to outgrow (link)

2. CPIC (2601 HK) - Steam ahead with doubled 2Q net profit and strong NBV uptrend; revise up TP, Sep 5, 2024 (link)

3. CPIC (2601 HK) - VNB growth accelerated; NP turned positive YoY, May 6, 2024 (link)

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		**249,745**	**266,167**	**279,616**	**298,338**	**318,898**
Insurance service expenses		**(213,988)**	**(231,023)**	**(241,112)**	**(256,709)**	**(273,423)**
Net expenses from reinsurance contracts held		(2,818)	(1,439)	(1,154)	(1,437)	(1,550)
Insurance service results		**32,939**	**33,705**	**37,350**	**40,192**	**43,925**
Net finance (expenses)/income from insurance contracts		(58,074)	(46,741)	(99,447)	(72,114)	(79,427)
Net finance (expenses)/income from reinsurance contracts		1,108	1,174	1,036	0	0
Interest income		0	58,262	57,688	59,967	63,150
Net investment income		77,048	(4,273)	63,724	26,615	31,673
Other gains/(losses) from changes in fair value		24	23	1	0	0
Net investment results		**20,106**	**8,445**	**23,001**	**14,468**	**15,395**
Other income		3,984	4,129	4,073	4,183	4,375
Other expenses		(16,032)	(14,051)	(16,606)	(14,460)	(15,629)
Foreign exchange gains/losses		1,085	159	26	0	0
Other results		**(10,963)**	**(9,763)**	**(12,507)**	**(10,277)**	**(11,254)**
Profit before tax		**42,483**	**32,001**	**47,162**	**43,954**	**47,633**
Income taxes		(4,261)	(4,090)	(3,577)	(5,476)	(6,018)
Net profit		**38,222**	**27,911**	**43,585**	**38,479**	**41,615**
Net profit attributable to shareholders		37,381	27,257	42,800	37,809	40,856

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	211,375	219,097	172,606	184,119	203,184	228,511
Investments in associates and joint ventures	26,984	25,829	23,184	23,990	26,474	29,774
Property	19,218	19,756	21,384	21,169	20,955	20,744
Investment property	7,514	11,202	10,667	10,767	11,882	13,363
Insurance contract assets	245	305	335	0	0	0
Reinsurance contract assets	31,983	33,205	39,754	42,913	49,406	56,987
Financial investments:	**1,479,035**	**1,672,821**	**2,009,336**	**2,192,963**	**2,420,031**	**2,721,698**
At amortized cost:	0	0	82,334	69,988	77,234	86,862
At fair value through other comprehensive income:	1,466,682	1,646,261	1,345,400	1,519,947	1,677,328	1,886,414
At fair value through profit or loss:	12,353	26,560	581,602	603,029	665,469	748,422
Other assets	26,674	34,849	32,433	85,436	201,959	392,843
Cash and cash equivalents	45,977	54,272	34,263	66,936	73,867	83,074
Total assets	**1,849,005**	**2,071,336**	**2,343,962**	**2,628,293**	**3,007,757**	**3,546,994**
LIABILITIES						
Customer deposits and payables to brokerage customers	3,695	4,639	5,861	7,585	9,599	12,041
Insurance contract liabilities	1,486,435	1,664,848	1,872,620	2,117,820	2,438,241	2,812,376
Obligations under repurchase agreements	73,441	119,665	115,819	98,766	100,751	102,776
Bonds payable	9,995	9,999	10,285	10,102	10,102	10,102
Other liabilities	75,932	69,704	71,673	87,146	118,124	243,806
Total liabilities	**1,650,242**	**1,869,664**	**2,076,258**	**2,321,419**	**2,676,817**	**3,181,101**
EQUITIES						
Share capital	9,620	9,620	9,620	9,620	9,620	9,620
Reserves	114,932	94,269	118,518	115,311	108,834	111,402
Retained profits	69,046	92,588	121,448	154,280	181,988	211,246
Total shareholders' equity	**193,598**	**196,477**	**249,586**	**279,211**	**300,442**	**332,268**
Non-controlling interests	5,165	5,195	18,118	27,663	30,499	33,625
Total equity	**198,763**	**201,672**	**267,704**	**306,874**	**330,941**	**365,893**
Total liabilities & equity	**1,849,005**	**2,071,336**	**2,343,962**	**2,628,293**	**3,007,757**	**3,546,994**

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	1.00	1.02	1.02	1.05	1.08	1.12
EPS (Reported)	2.79	2.56	2.83	4.45	3.93	4.25
Consensus EPS	n.a	n.a	n.a	4.55	3.97	4.32
Group embedded value/share (HK$)	51.80	54.01	55.04	63.56	66.06	68.20
VNB/share (HK$)	1.39	0.96	1.14	1.56	1.68	1.81
No. of shares basic	9,620	9,620	9,620	9,620	9,620	9,620
PROFITABILITY	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Return on equity (ROE)	13.1%	12.6%	12.2%	16.2%	13.0%	12.9%
Return on asset (ROA)	1.5%	1.3%	1.2%	1.7%	1.3%	1.2%
Return on life embedded Value	10.6%	6.0%	3.7%	15.9%	5.4%	4.8%
Combined ratio	99.0%	97.0%	97.7%	97.5%	97.4%	97.3%
VALUATION	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
P/Embedded value (x)	0.5	0.4	0.4	0.4	0.4	0.3
P/B	1.0	1.0	0.9	0.8	0.8	0.7
Dividend yield (%)	4.3	4.3	4.3	4.5	4.6	4.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

13 Dec 2024

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Ping An (2318 HK)

Continued margin expansion to lead NBV growth

Ping An recorded doubled Group net profit and L&H NBV in 3Q24. Group OPAT attributable to shareholders grew 5.5% YoY to RMB113.8bn, translating into a 22.1% YoY uptick in 3Q24 on track for a steady trend of recovery (1Q24/2Q24: -3.0%/+1.9% YoY). L&H and P&C accelerated the attributable OPAT growth to 8%/455% YoY in 3Q24, driven by more promising investment results and improved underwriting structure. L&H NBV rose 34.1% YoY to RMB35.2bn in 9M24, with 3Q NBV more than doubled, thanks to excessive margin expansions. 3Q NBV margin recorded at 25.4%, +7.3pct YoY. We expect Ping An's NBV to lift by 23%/12% in FY24/FY25E, and continue riding on the trend of margin expansions. With rebounded investment income on top of a low base in 4Q23, we believe the better-than-expected 2H24 earnings is attainable. P&C CoR improved by 1.5pct to 97.8% in 9M24, given contraction of scale in lines, i.e. guarantee insurance. We expect FY24E/FY25E CoR to be 98.3%/ 97.2%. **Maintain BUY, with SOTP-based TP of HK$65.1, implying 0.75x FY24E P/EV and 1.1x FY24E P/BV.**

- **Expect margin expansion to lead NBV growth in FY25E.** Ping An L&H NBV grew 34.1% YoY in 9M24, implying a more-than-doubled uplift of 110.2% YoY in 3Q. All channels contributed to the NBV acceleration. Agency NBV was up 31.6% YoY to RMB28.6bn in 9M24, composing >80% of total NBV, which we estimate it almost doubled (+95% YoY) in 3Q24. NBV in bancassurance surged 68.5% YoY, thanks to continued margin expansions as the product mix has been shifting focus on participating policies since Sep. NBV from community finance jumped 300% YoY thanks to an increased 13-month persistency ratio (+6.6pct). We think margin expansion will continue to lead Ping An's NBV growth in FY25E, given that 1) the PIR cut opened up space for continued contractions on rigid liability costs of new policies sold; 2) improved product mix shifting focus to par sales; and 3) stringent regulatory claims control likely to further extend to the agency channel. We expect L&H NBV to rise by 23%/12% YoY in FY24E/FY25E. Agency force stabilized in 3Q24 to 362k, +4.3% from year start /+6.5% QoQ, in line with our prior projection on the stabilization of top life insurers' agency scale.
- **P&C highlight on OPAT growth and improved CoR.** Ping An P&C's OPAT surged 4.55x YoY to RMB4.0bn in 3Q24, thanks to better underwriting profit and investment results. P&C CoR fell 1.5pct to 97.8% in 9M24, given improved risk screening and contracted scale of guarantee insurance. UW profit in 9M24 rose 2.28x YoY to RMB5.4bn on top of a low base last year. Auto CoR deteriorated 0.8pct to 98.2%, due to higher cost of debt from a lower RDR under the IFRS17, and elevated NAT CAT claims in 3Q24. Looking ahead, we expect auto expense ratio to further narrow, and non-auto CoR to improve under better UW structure. **We project the CoR to land at 98.3%/97.2% in FY24E/FY25E, respectively.**
- **Valuation and risks.** The stock is trading at 0.55x FY24E P/EV and 0.82x FY24E P/B, +0.6/+0.2SD above 3-yr historical avg. The Group insurance fund achieved 5.0% comprehensive investment yield (CIY) in 9M24, +1.2pct YoY, indicating a positive investment experience variance that could add up for EV. **Maintain BUY with TP of HK$65.1, implying 0.75x P/EV and FY24E 1.1x P/B.**

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	134,817	109,274	159,710	161,138	166,893
EPS (Reported)(RMB)	8.78	4.84	7.44	7.57	7.90
Consensus EPS (RMB)	n.a	n.a	7.63	7.64	8.25
P/B (x)	0.9	0.9	0.8	0.7	0.7
P/Embedded value (x)	0.6	0.6	0.5	0.5	0.5
Dividend yield (%)	5.4	5.6	5.9	6.4	7.0
ROE (%)	18.2	9.7	13.9	12.9	12.4

Source: Company data, Bloomberg, CMBIGM estimates | Note: stock price data quoted by market close on 12/12/2024.

BUY (Maintain)

Target Price	**HK$65.10**
Up/Downside	**36.3%**
Current Price	**HK$47.75**

China Insurance

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Stock Data

Mkt Cap (HK$ mn)	864,628.7
Avg 3 mths t/o (HK$ mn)	3,653.1
52w High/Low (HK$)	59.70/29.80
Total Issued Shares (mn)	18107.4

Source: FactSet

Shareholding Structure

Charoen Pokphand Group	13.0%
UBS Group AG	9.7%

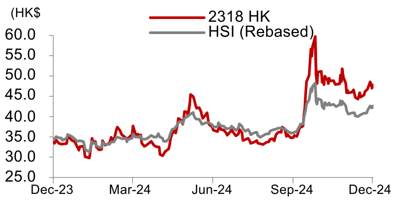
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.0%	1.2%
3-mth	37.0%	15.8%
6-mth	30.3%	14.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Related reports:

1. Ping An (2318 HK) - Robust 3Q doubled in NBV and earnings growth, Oct 23, 2024 (link)

2. Ping An (2318 HK) - 2Q NBV stabilized against a high base; expect to see Group OPAT turnaround, Aug. 27, 2024 (link)

3. Ping An (2318 HK) - Expect $3.5bn CB dilutive effect to be short-term, Jul. 17, 2024 (link)

4. Ping An (2318 HK) - 1Q24 NBV beat; Life OPAT y/y turned positive, Apr.15, 2024 (link)

5. Ping An (2318 HK) - Resilient DPS despite OPAT decline; EV assumptions change cut VNB more than expected, Mar 27, 2024 (link)

6. Ping An (2318 HK) – 1H23 NBV beat consensus; interim dividend up 1.1% YoY reinforcing a long-run growth story, Sep 4, 2023 (link)

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		**525,981**	**536,440**	**556,227**	**606,998**	**671,384**
Insurance service expenses		**(422,221)**	**(440,178)**	**(456,718)**	**(502,598)**	**(561,652)**
Net expenses from reinsurance contracts held		(4,314)	(3,731)	(4,025)	(4,637)	(5,364)
Insurance service results		**99,368**	**92,301**	**95,138**	**99,555**	**104,129**
Net finance (expenses)/income from insurance contracts		(99,933)	(123,959)	(125,323)	(124,609)	(134,821)
Net finance (expenses)/income from reinsurance contracts		564	542	477	0	0
Interest income		115,933	118,503	181,334	165,063	172,800
Net investment income		(2,311)	33,324	52,094	59,697	64,691
Other gains/(losses) from changes in fair value		(17,752)	(16,238)	(9,884)	(11,291)	(13,117)
Net investment results		**(3,499)**	**12,172**	**98,698**	**88,861**	**89,552**
Net interest income from banking operations		131,096	118,947	108,871	118,295	119,650
Net interest income/(expenses) from non-banking operations		(22,698)	(24,346)	(21,477)	(20,591)	(22,221)
Loan loss provisions		(64,168)	(62,833)	(61,376)	(65,122)	(65,359)
Other fee and commission income/(expenses)		(9,928)	(8,773)	(7,328)	(7,503)	(7,575)
Other income		60,652	68,804	63,271	74,274	87,290
Other expenses		(107,779)	(123,515)	(126,506)	(140,283)	(154,656)
Foreign exchange gains/losses		3,144	120	(1,049)	(1,082)	(1,082)
Other results		**36,301**	**14,210**	**(4,259)**	**(3,742)**	**(8,419)**
Profit before tax		**142,335**	**120,117**	**187,701**	**183,304**	**184,297**
Income taxes		(7,518)	(10,843)	(27,991)	(22,165)	(17,405)
Net profit		**134,817**	**109,274**	**159,710**	**161,138**	**166,893**
Net profit attributable to shareholders		111,008	85,665	131,498	133,763	139,617

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions		774,841	804,077	835,505	879,798	934,920
Balances with central bank and statutory deposits		295,559	285,879	352,943	435,739	537,959
Intangible assets		99,411	99,078	96,245	93,492	90,818
Investments in associates and joint ventures		280,793	258,877	252,124	257,192	262,362
Property		53,657	50,401	49,576	48,765	47,967
Investment property		114,763	121,406	124,957	133,806	144,564
Reinsurance contract assets		20,615	22,215	24,972	27,350	30,061
Loans and advances to customers		3,242,258	3,320,110	3,483,314	3,742,786	4,005,093
Fixed maturity investments		4,729,856	4,976,779	5,529,375	5,937,422	6,432,584
Equity investments		1,073,763	1,130,853	1,147,029	1,228,260	1,327,012
Derivative financial assets		29,278	44,978	52,331	54,445	56,645
Deferred tax assets		89,321	101,337	97,316	93,454	89,746
Other assets		205,825	367,427	704,379	673,559	500,937
Total assets		**11,009,940**	**11,583,417**	**12,750,066**	**13,606,068**	**14,460,668**
LIABILITIES						
Due to banks and other financial institutes		923,088	963,718	1,139,718	1,199,145	1,259,103
Customer deposits and payables to brokerage customers		3,431,999	3,534,539	3,745,312	3,970,031	4,130,420
Insurance contract liabilities		3,671,177	4,159,801	4,834,925	5,295,246	5,820,176
Obligations under repurchase agreements		271,737	241,803	268,871	298,969	332,436
Derivative financial instruments		39,738	44,531	44,996	45,900	46,822
Deferred tax liabilities		14,217	14,148	14,361	14,577	14,796
Current tax liabilities		16,076	7,117	4,482	2,823	1,778
Other liabilities		1,455,807	1,388,743	1,369,238	1,350,007	1,331,046
Total liabilities		**9,823,944**	**10,354,453**	**11,421,903**	**12,176,698**	**12,936,577**
EQUITIES						
Share capital		18,280	18,210	18,107	18,107	18,107
Reserves		268,724	263,752	267,745	275,338	274,609
Retained profits		593,183	622,050	709,737	795,554	883,026
Total shareholders' equity		**869,191**	**899,011**	**990,589**	**1,083,998**	**1,170,741**
Non-controlling interests		316,805	329,953	337,575	345,372	353,350
Total equity		**1,185,996**	**1,228,964**	**1,328,163**	**1,429,370**	**1,524,091**
Total liabilities & equity		**11,009,940**	**11,583,417**	**12,750,066**	**13,606,068**	**14,460,668**

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	2.36	2.40	2.48	2.64	2.85	3.13
EPS (Reported)	5.77	8.78	4.84	7.44	7.57	7.90
Consensus EPS	n.a	n.a	n.a	7.63	7.64	8.25
Group embedded value/share (HK$)	76.34	77.89	76.34	81.27	84.88	88.73
VNB/share (HK$)	2.07	1.58	1.71	2.07	2.33	2.61
No. of shares basic	18,280	18,280	18,210	18,107	18,107	18,107
PROFITABILITY	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Return on equity (ROE)		18.2%	9.7%	13.9%	12.9%	12.4%
Combined ratio (%)		100.3%	100.7%	98.3%	97.2%	96.7%
VALUATION	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
P/Embedded value (x)	0.6	0.6	0.6	0.5	0.5	0.5
P/B	1.0	0.9	0.9	0.8	0.7	0.7
Dividend yield (%)	5.3	5.4	5.6	5.9	6.4	7.0
Dividend payout (%)	40.9	27.3	51.4	35.5	37.6	39.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.| Note: stock price data is quoted by market close on 12/12/2024.

PICC P&C (2328 HK)

CoR guidance could be met

3Q earnings were largely in line, with NPAT and UW combined ratio (CoR) overall resilient. Despite heightened catastrophic impacts on non-auto losses exceeding the market expectation in 3Q24, we think the peak of non-auto CoR has arrived and its adverse effect being factored into the underperformed stock price in 4Q24. Auto premiums have gained momentum since Sep 24, thanks to the incremental new car sales under the recently announced "trade-in" policy by the MoF. Looking into 4Q, we expect auto premiums to progressively recover and contribute to full-year growth by 4%, under our estimates. For non-auto segment, we expect the jump of claims ratio could ease in 4Q24, given that 1) last quarter was in general not a peak season for natural catastrophes, and thus generated direct economic losses, and 2) the insurer's proactive risk mitigation mgmt. through a more balanced product mix. **We project the insurer's CoR to be 97.7%/97.4% in FY24E/FY25E. Maintain BUY with TP of HK$14.0, implying 1.09x FY24E P/BV.**

- **The peak of non-auto claims has passed.** Auto/non-auto CoR was reported at 96.8%/95.0% (*IFRS basis*) and 96.8%/100.5% (*CAS basis*), -0.6pct/+1.9pct YoY. Non-auto CoR exacerbated from the level of 1H24 (97.8%), on a CAS basis, surpassing market expectations due to heightened NAT CAT claims. 3Q24 CoR was 98.2%, +0.3pct YoY dragged by a worsened non-auto claims ratio. Despite a miss on expectation, we think the jump of claims could ease in 4Q24, given that 1) last quarter was historically not a peak season for natural catastrophes in general, and thus generating direct economic losses, and 2) proactive risk mitigation mgmt. through a rebalanced product mix. **We believe the guided auto and non-auto CoR targets of <97%/<100% could be met by year-end, and maintain our CoR forecasts of each segment at 96.6%/99.4% in FY24E.**
- **Intact dividend growth.** The insurer used to peg dividends to net income, and maintained >40% payout for over five years. Given the surge of 3Q bottom-line, we expect the insurer would focus more on the absolute value growth of DPS, rather than to rigidly stabilize on the payout in FY24E. We project FY24/FY25E dividend yields to be 5.2%/5.4%, and remain intact despite net income volatilities.
- **Valuation/risks.** The stock is now trading at 1.0x FY24E P/BV, +1.5STD above 3-yr historical avg. We think improved UW profitability and the defensive nature of the insurer provide value over a long-term perspective. Maintain BUY, with TP of HK$14.0, based on 1.09x FY24E P/BV. Downside risks: deteriorated CoR; weaker-than-expected new vehicle sales; and increased market volatility.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	29,109	24,566	31,993	33,553	35,530
EPS (Reported)(RMB)	1.31	1.11	1.44	1.51	1.60
Consensus EPS (RMB)	n.a	n.a	1.44	1.48	1.61
Combined ratio (%)	96.6	97.8	97.7	97.4	97.2
P/B (x)	1.1	1.1	1.0	0.9	0.9
Dividend yield (%)	4.3	4.4	5.2	5.4	5.7
ROE (%)	13.5	10.8	13.1	12.7	12.6

Source: Company data, Bloomberg, CMBIGM estimates | Note: stock price is quoted by market close on 12/12/2024.

BUY (Maintain)

Target Price	**HK$14.00**
Up/Downside	**17.1%**
Current Price	**HK$11.96**

China Insurance

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Stock Data

Mkt Cap (HK$ mn)	266,014.3
Avg 3 mths t/o (HK$ mn)	384.6
52w High/Low (HK$)	14.04/8.69
Total Issued Shares (mn)	22242.0

Source: FactSet

Shareholding Structure

Citigroup Inc.	10.9%
GIC Private Ltd.	6.0%

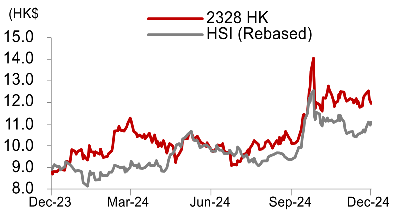
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.4%	-5.1%
3-mth	18.4%	0.1%
6-mth	22.3%	7.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Deloitte

Related reports:

1. PICC P&C (2328 HK) - 3Q CoR miss dragged by non-auto claims, Oct 31, 2024 (link)

2.PICC P&C (2328 HK) - CoR sequentially improved turning to positive 2Q net profit growth; first interim dividend in place, Aug 30, 2024 (link)

3. PICC P&C (2328 HK) - 1Q24 catastrophe-induced claims fully released; FY24 CoR guidance sustained; exp. >40% payout, May7, 2024 (link)

4. PICC P&C (2328 HK) - Non-auto CoR better than expected; sustain 40%+ payout in next two years, Apr 2, 2024 (link)

5. PICC P&C (2328 HK) - Expect FY23E CoR guidance met; underwriting of NEVs and individual A&H to drive new growth Feb 5, 2024 (link)

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		**424,355**	**457,203**	**477,243**	**493,659**	**510,564**
Insurance service expenses		**(395,965)**	**(431,991)**	**(451,963)**	**(466,674)**	**(481,792)**
Net expenses from reinsurance contracts held		(5,993)	(6,142)	(5,297)	(5,428)	(5,563)
Insurance service results		**22,397**	**19,070**	**19,983**	**21,556**	**23,209**
Net finance (expenses)/income from insurance contracts		(9,333)	(10,127)	(10,018)	(10,130)	(10,239)
Net finance (expenses)/income from reinsurance contracts		1,301	1,246	1,201	1,261	1,324
Interest income		20,180	11,710	11,869	12,585	13,192
Net investment income		(3,706)	4,077	10,239	9,943	9,827
Credit impairment losses		(500)	(423)	265	0	0
Net investment results		**7,942**	**6,483**	**13,557**	**13,659**	**14,104**
Other income		1,064	195	160	168	181
Other expenses		(1,818)	(2,203)	(2,631)	(2,762)	(2,817)
Foreign exchange gains/losses		759	111	(127)	(130)	(129)
Other results		**(1,000)**	**(3,048)**	**(3,834)**	**(3,997)**	**(4,056)**
Profit before tax		**34,021**	**28,035**	**35,070**	**36,743**	**38,882**
Income taxes		(4,912)	(3,469)	(3,077)	(3,191)	(3,353)
Net profit		**29,109**	**24,566**	**31,993**	**33,553**	**35,530**
Net profit attributable to shareholders		29,164	24,585	32,058	33,621	35,599

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Investments in associates and joint ventures	55,731	58,085	62,601	68,101	72,196	76,041
Property	29,669	30,332	29,527	31,003	32,554	34,181
Investment property	5,851	7,440	7,576	7,692	8,077	8,508
Insurance contract assets	442	611	2,885	3,029	3,181	3,340
Reinsurance contract assets	31,600	36,827	38,891	40,836	42,877	45,021
Financial investments:	**375,293**	**405,001**	**450,381**	**471,301**	**500,379**	**528,456**
At amortized cost:	0	113,790	126,192	137,870	146,376	154,590
At fair value through other comprehensive income:	0	154,285	180,142	210,370	223,349	235,882
At fair value through profit or loss:	0	140,730	144,047	123,061	130,653	137,984
Loans and advances to customers	73,574	73,657	57,785	73,913	72,808	75,559
Deferred tax assets	4,749	12,083	10,139	10,646	11,178	11,737
Other assets	24,986	27,176	27,312	28,678	30,111	31,617
Cash and cash equivalents	17,414	21,250	16,526	20,041	19,741	20,487
Total assets	**619,309**	**672,462**	**703,623**	**755,239**	**793,103**	**834,946**
LIABILITIES						
Insurance contract liabilities	317,513	351,254	371,829	407,765	418,925	431,464
Investment contract liabilities	1,748	1,741	1,736	1,823	1,914	2,010
Obligations under repurchase agreements	37,985	41,690	40,037	40,838	41,654	42,488
Current tax liabilities	856	3,446	8	8	9	9
Bonds payable	8,058	8,097	8,365	8,783	9,222	9,684
Lease liabilities	1,786	1,484	1,316	1,382	1,451	1,523
Other liabilities	39,789	43,145	46,007	39,338	47,697	56,989
Liabilities in disposal group held for sale	407,735	450,857	469,319	499,962	520,900	544,198
EQUITIES						
Share capital	22,242	22,242	22,242	22,242	22,242	22,242
Reserves	186,570	196,471	209,178	230,239	246,980	265,323
Retained profits	64,966	79,782	78,496	83,513	94,173	106,141
Total shareholders' equity	**208,812**	**218,713**	**231,420**	**252,481**	**269,222**	**287,565**
Non-controlling interests	2,762	2,892	2,884	2,796	2,981	3,184
Total equity	**211,574**	**221,605**	**234,304**	**255,277**	**272,204**	**290,749**
Total liabilities & equity	**619,309**	**672,462**	**703,623**	**755,239**	**793,103**	**834,946**

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	0.41	0.48	0.49	0.58	0.60	0.64
EPS (Reported)	1.01	1.31	1.11	1.44	1.51	1.60
Consensus EPS	n.a	n.a	n.a	1.44	1.48	1.61
No. of shares basic	22,242	22,242	22,242	22,242	22,242	22,242
No. of shares diluted	22,242	22,242	22,242	22,242	22,242	22,242
PROFITABILITY	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
Return on equity (ROE)		13.5%	10.8%	13.1%	12.7%	12.6%
Combined ratio (%)		96.6%	97.8%	97.7%	97.4%	97.2%
Loss ratio		69.4%	70.6%	71.1%	71.1%	71.0%
Expense ratio		27.2%	27.2%	26.5%	26.4%	26.2%
VALUATION	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
YE 31 Dec						
P/B (x)	1.2	1.1	1.1	1.0	0.9	0.9
Dividend yield (%)	3.6	4.3	4.4	5.2	5.4	5.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: stock price data is quoted by market close on 12/12/2024.

9 Dec 2024

CMB International Global Markets | Equity Research | Company Update

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Greentown Service (2869 HK)

Improved efficiency with solid parentco support to mitigate competition pressure

Greentown Service's revenue/core operating profit went up 11/26%YoY in 1H24, in-line with/beat the market expectation buoyed by a stable parent company, robust third-party expansion, and a diversified VAS business. Core OPM expanded 1.2ppt to 9.8% thanks to +0.6ppt GP margin hike and a 0.6ppt decrease in SG&A ratio attribute to efficient cost control. Amid intensified competition in third-party expansion, the company delivered steady conversion from parentco projects to mitigate headwinds. Despite a challenging industry environment, the company still anticipates core OP growth >20% & cash growth >15% in 2024E. We like the company for its high independence, stable parentco, diversified VAS business and recovering cash flow. Maintain BUY with TP of HK$ 6.13, represents 25x 2024E P/E to reflect better outlook than peers'**.**

- **1H24 revenue in-line, earnings beat.** Greentown Service delivered 10.6%/25.8% YoY growth in revenue/core OP in 1H24 (core OP= GP-SG&A), with rev. in line and core operating profit beating market expectation. This performance was driven by **1)** steady growth of 14.6% YoY in Basic PM revenue; **2)** positive growth in VAS to both owners and non-owners against the negative trends among peers, attributed to its robust parentco and diversified VAS business; **3)** efficient cost management leading to a 0.6ppt improvement in GPM and 0.6ppt cut in SG&A ratio, which combined enhanced core OPM by 1.2ppt. The company lifted the guidance from >15% to >20% for full-year core OP growth. And the share incentive plan requires 60% growth over the next 3 years.
- **Parentco GFA conversion mitigates third party competition pressure.** The net increase in managed GFA from Greentown Real Estate surged 227% YoY compared to -42% from third parties, leading to Greentown RE's contribution in managed GFA rising to 18.2% in 1H24 from 14.8%/15.7% in 1H23/FY23.
- **Expect 15% cash growth in FY24E.** Broad cash balance reached RMB4.3bn, down -12% YoY, due to 1) accounts receivable increasing 24% from end-2023 to RMB6.3bn, impacted by economic headwinds affecting owners' payment capabilities and property fee collections concentrating at year-end, and 2) active share buybacks consuming funds. The company expects AR growth to decelerate in 2H24 and will continue with proactive share repurchases, anticipating a 15% YoY increase in cash on hand by the end of 2024.
- **Valuation:** Given Greentown Service's high independence, stable parentco, and diversified VAS business, we maintain BUY rating with TP of HK$ 6.13 on 25x 2024E P/E. **Risks:** AR impairment, intensified competition.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	14,856	17,393	19,364	21,838	24,464
YoY growth (%)	18.2	17.1	11.3	12.8	12.0
Net profit (RMB mn)	547.5	605.4	724.6	867.7	1,018.9
EPS (Reported) (RMB)	0.17	0.19	0.23	0.27	0.32
YoY growth (%)	(35.4)	11.7	19.7	19.7	17.4
Consensus EPS (RMB)	na	na	0.24	0.29	0.32
P/E (x)	20.7	18.6	15.5	12.9	11.0
P/B (x)	1.9	1.8	1.8	1.7	1.7
Yield (%)	2.5	3.9	4.5	5.4	6.3
ROE (%)	7.7	8.3	9.7	11.4	12.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$6.13**
Up/Downside	**63.5%**
Current Price	**HK$3.75**

China Property Management

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Stock Data

Mkt Cap (HK$ mn)	12,121.5
Avg 3 mths t/o (HK$ mn)	18.3
52w High/Low (HK$)	5.52/2.40
Total Issued Shares (mn)	3232.4

Source: FactSet

Shareholding Structure

Orchid Garden Investment	31.9%
Lilac International Investment	13.3%

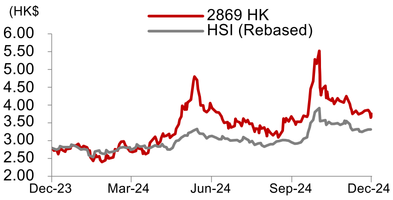
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.4%	-6.4%
3-mth	1.9%	-10.5%
6-mth	-4.3%	-11.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**12,566**	**14,856**	**17,393**	**19,364**	**21,838**	**24,464**
Cost of goods sold	(10,236)	(12,454)	(14,480)	(16,039)	(18,120)	(20,326)
Gross profit	**2,331**	**2,402**	**2,913**	**3,325**	**3,718**	**4,139**
Operating expenses	**(1,251)**	**(1,421)**	**(1,617)**	**(1,758)**	**(1,928)**	**(2,099)**
Selling expense	(201)	(266)	(343)	(378)	(415)	(453)
Admin expense	(1,050)	(1,155)	(1,275)	(1,381)	(1,513)	(1,646)
Operating profit	**91**	**(90)**	**(304)**	**(393)**	**(379)**	**(373)**
Other income	98	157	112	30	30	30
Other expense	(38)	(74)	(168)	(155)	(175)	(196)
Other gains/(losses)	11	(201)	(393)	(289)	(254)	(227)
Share of (losses)/profits of associates/JV	21	29	145	20	20	20
Net Interest income/(expense)	**26**	**(37)**	**(2)**	**(5)**	**(12)**	**(24)**
Others	(5)	10	(18)	0	0	0
Pre-tax profit	**1,191**	**864**	**972**	**1,168**	**1,399**	**1,643**
Income tax	(301)	(233)	(256)	(311)	(372)	(437)
After tax profit	**890**	**631**	**716**	**857**	**1,026**	**1,205**
Minority interest	(44)	(84)	(111)	(133)	(159)	(186)
Net profit	**846**	**548**	**605**	**725**	**868**	**1,019**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**9,278**	**10,841**	**12,112**	**12,744**	**13,799**	**14,932**
Cash & equivalents	4,307	4,183	4,531	4,731	4,972	5,241
Restricted cash	283	365	491	491	491	491
Account receivables	3,055	4,610	5,045	5,616	6,334	7,096
Inventories	434	570	674	746	843	946
ST bank deposits	21	0	0	0	0	0
Financial assets at FVTPL	1,179	882	1,158	1,158	1,158	1,158
Other current assets	0	230	212	0	0	0
Non-current assets	**5,097**	**6,013**	**5,970**	**6,053**	**6,170**	**6,325**
PP&E	773	917	1,039	2,365	2,427	2,530
Right-of-use assets	872	938	935	0	0	0
Deferred income tax	237	356	519	519	519	519
Investment in JVs & assos	722	688	847	867	887	907
Intangibles	430	529	592	630	664	696
Goodwill	451	658	661	661	661	661
Financial assets at FVTPL	877	1,039	475	475	475	475
Other non-current assets	734	889	901	536	536	536
Total assets	**14,375**	**16,854**	**18,082**	**18,797**	**19,969**	**21,257**
Current liabilities	**5,789**	**7,387**	**8,558**	**9,082**	**9,782**	**10,524**
Short-term borrowings	5	124	267	267	267	267
Account payables	3,706	4,734	4,872	5,396	6,096	6,838
Tax payable	512	685	902	902	902	902
Other current liabilities	37	58	133	133	133	133
Lease liabilities	185	258	288	288	288	288
Contract liabilities	1,343	1,529	2,096	2,096	2,096	2,096
Non-current liabilities	**1,216**	**1,590**	**1,299**	**1,299**	**1,299**	**1,299**
Long-term borrowings	147	187	23	23	23	23
Other non-current liabilities	1,068	1,403	1,276	1,276	1,276	1,276
Total liabilities	**7,004**	**8,978**	**9,856**	**10,381**	**11,081**	**11,823**
Share capital	0	0	0	0	0	0
Other reserves	7,019	7,121	7,406	7,463	7,777	8,136
Total shareholders equity	**7,019**	**7,121**	**7,406**	**7,463**	**7,777**	**8,136**
Minority interest	351	755	820	952	1,111	1,297
Total equity and liabilities	**14,375**	**16,854**	**18,082**	**18,797**	**19,969**	**21,257**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**1,191**	**864**	**972**	**1,168**	**1,399**	**1,643**
Depreciation & amortization	378	433	485	490	506	518
Tax paid	(242)	(202)	(205)	(311)	(372)	(437)
Change in working capital	(347)	(664)	(400)	(120)	(114)	(122)
Others	38	264	585	(15)	(8)	4
Net cash from operations	**1,019**	**695**	**1,436**	**1,213**	**1,410**	**1,605**
Investing						
Capital expenditure	(409)	(454)	(503)	(553)	(603)	(653)
Acquisition of subsidiaries/ investments	(232)	(32)	(43)	0	0	0
Net proceeds from disposal of short-term investments	(480)	193	112	0	0	0
Others	819	152	56	69	63	51
Net cash from investing	**(302)**	**(141)**	**(378)**	**(483)**	**(540)**	**(602)**
Financing						
Dividend paid	(542)	(543)	(285)	(507)	(607)	(713)
Net borrowings	5	159	(31)	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	(78)	(131)	0	0	0
Others	(242)	(259)	(271)	(22)	(22)	(22)
Net cash from financing	**(779)**	**(720)**	**(717)**	**(529)**	**(629)**	**(735)**
Net change in cash						
Cash at the beginning of the year	4,437	4,307	4,183	4,531	4,731	4,972
Exchange difference	(69)	43	6	0	0	0
Cash at the end of the year	**4,307**	**4,183**	**4,531**	**4,731**	**4,972**	**5,241**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	24.3%	18.2%	17.1%	11.3%	12.8%	12.0%
Gross profit	21.2%	3.1%	21.3%	14.1%	11.8%	11.3%
Operating profit	(25.5%)	na	na	na	na	na
Net profit	19.1%	(35.3%)	10.6%	19.7%	19.7%	17.4%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	18.5%	16.2%	16.8%	17.2%	17.0%	16.9%
Operating margin	0.7%	(0.6%)	(1.7%)	(2.0%)	(1.7%)	(1.5%)
Return on equity (ROE)	12.2%	7.7%	8.3%	9.7%	11.4%	12.8%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.6	1.5	1.4	1.4	1.4	1.4
Receivable turnover days	88.7	113.3	105.9	105.9	105.9	105.9
Inventory turnover days	15.5	16.7	17.0	17.0	17.0	17.0
Payable turnover days	132.2	138.7	122.8	122.8	122.8	122.8

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	13.4	20.7	18.6	15.5	12.9	11.0
P/B	1.8	1.9	1.8	1.8	1.7	1.7
Div yield (%)	4.7	2.5	3.9	4.5	5.4	6.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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