



# China Macro Economy & Equity Market Outlook

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December 2022

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## Investment Case: Proya Cosmetics in changing consumption scene

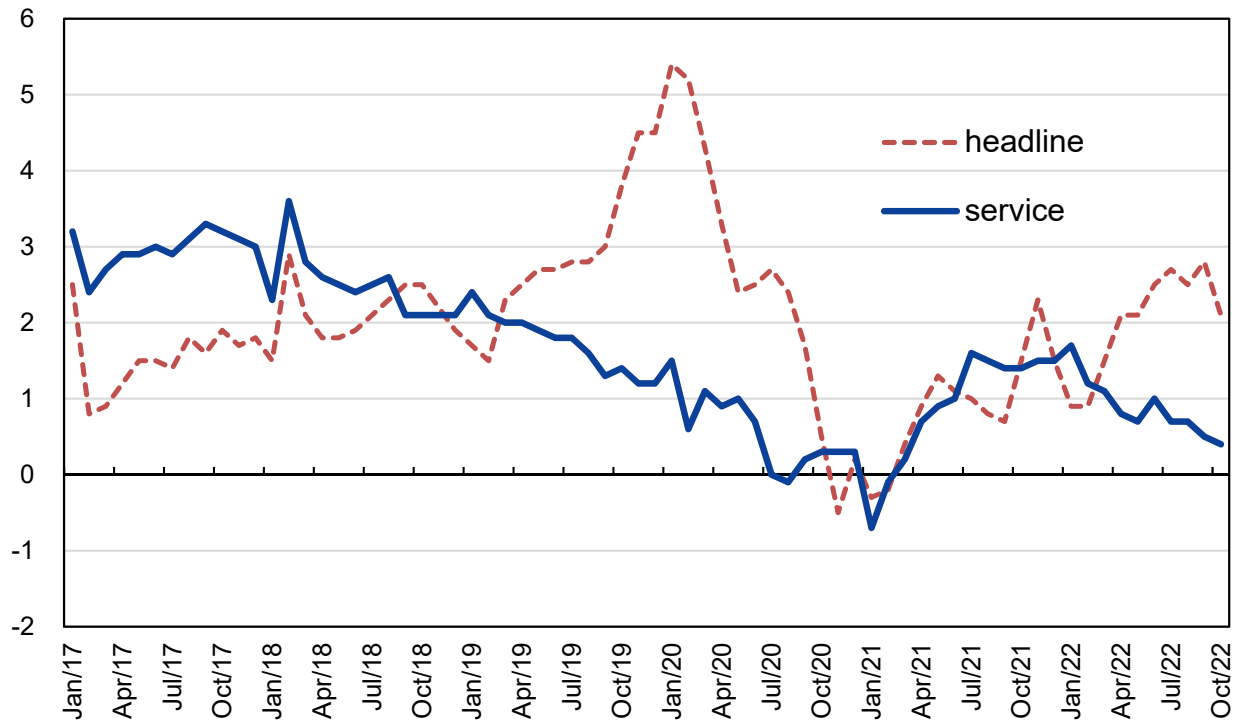
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# Quarter's Highlight: China in Disinflationary Phase

- Globally Inflationary Pressure mounts.
- Interestingly, China is in **disinflationary** phase.

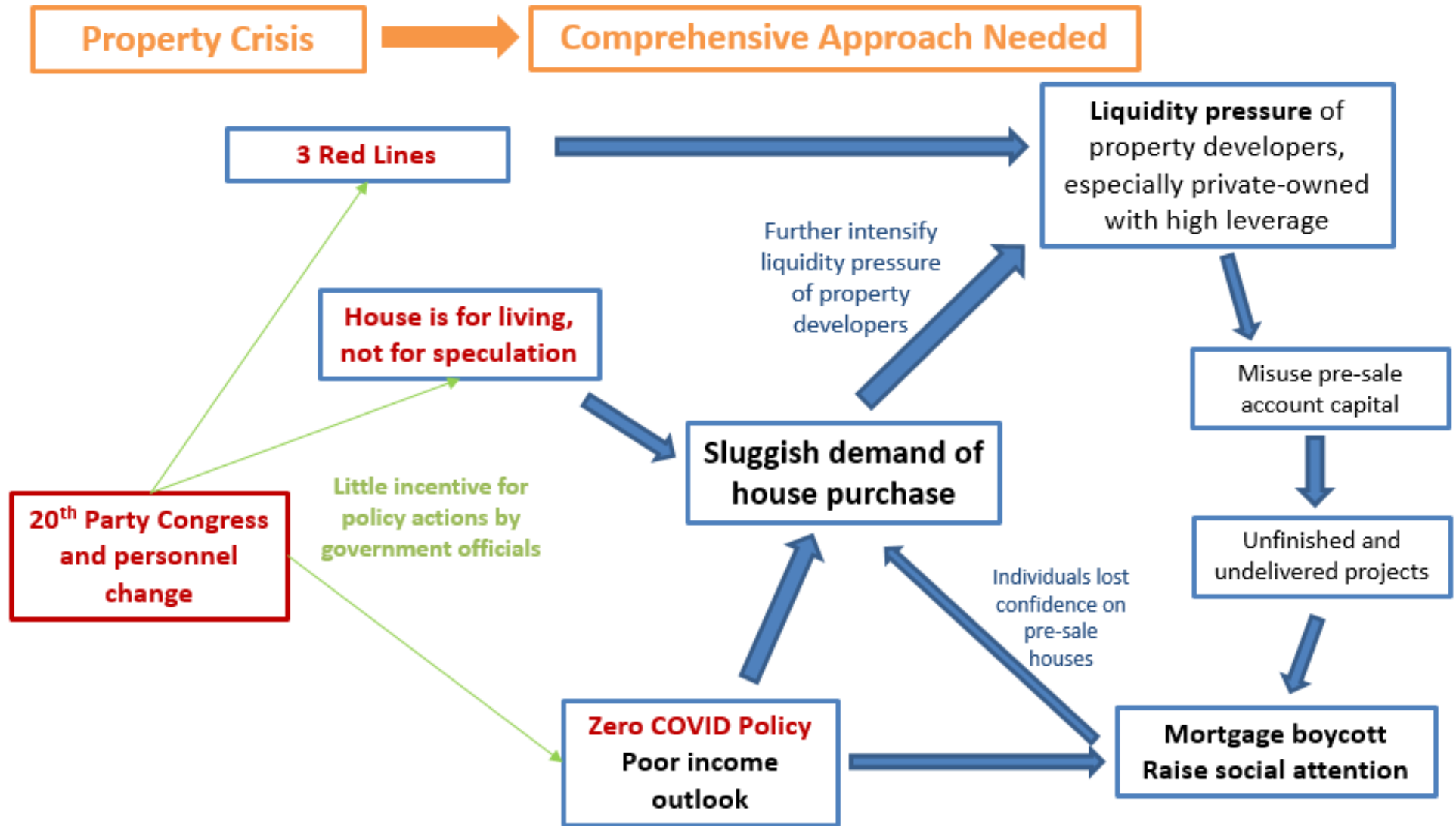
CHINA CPI (yoy % change)



Source: CEIC, SMDAM, data as of end of October 2022

Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.

# Quarter's Highlight: Property Market Cycle



Source: SMDAM Research  
As at 14<sup>th</sup> October 2022

# Outlook for China A-Share Equity Market (CSI300)

- (A) Weak domestic demand with strict COVID control and (B) Lackluster property market dampened CSI300.
- Near term upside is to be capped, but our base case assumes gradual recovery in 12 month timeframe.



Source: Bloomberg, SMDAM, data as at 25<sup>th</sup> November 2022

Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.

# 12 month forward EPS forecast for CSI300

- Chinese Corporate Earnings has remained under pressure YTD.
- Due partly to low base and gradual adjustment on COVID policy, higher growth is still estimated for next year.

## 12 Month Forward EPS for CSI300



Source: Bloomberg, SMDAM, data as at 25<sup>th</sup> November 2022

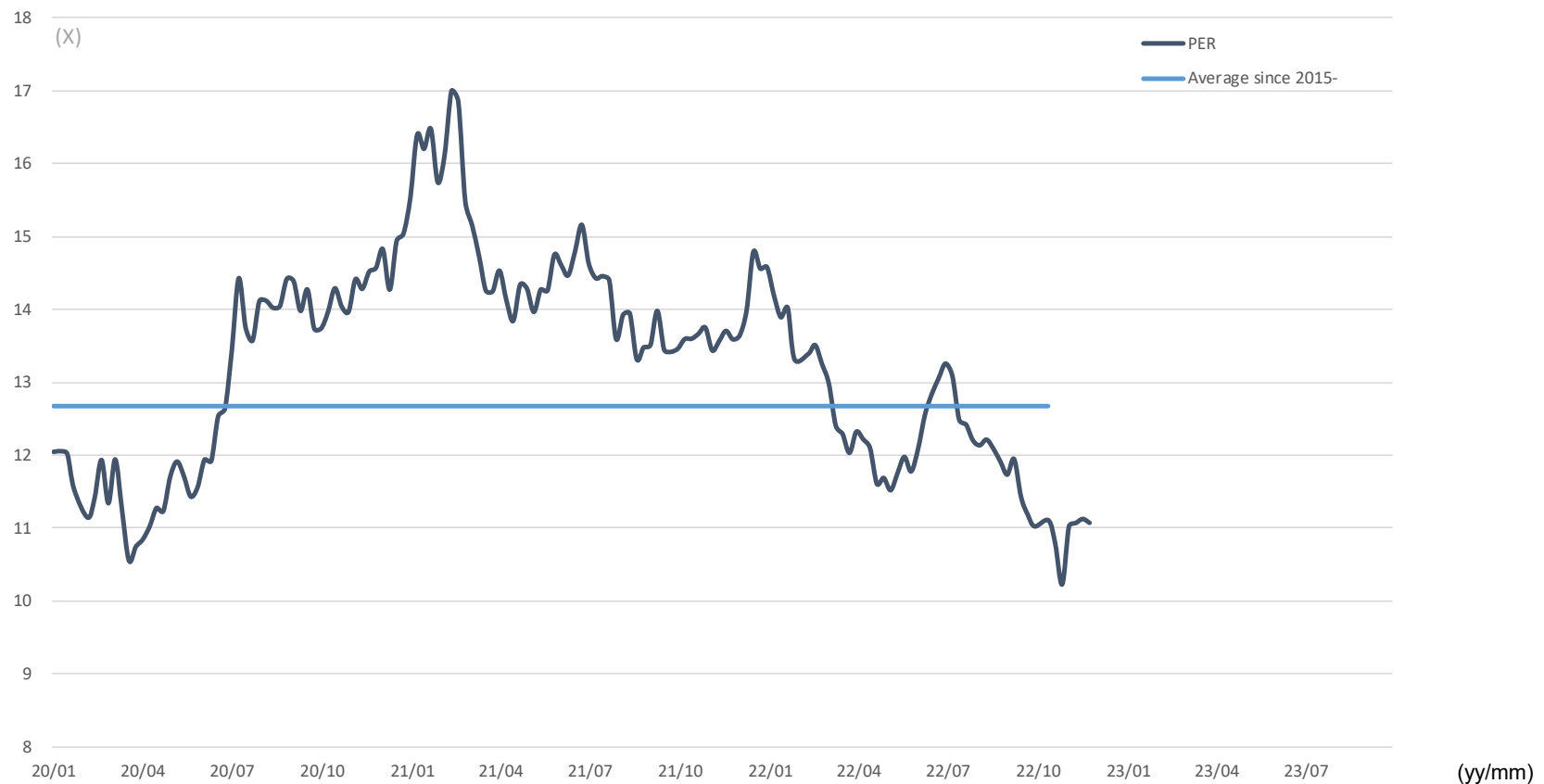
Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.

# Earnings multiples\* for CSI300

\* Price-to-earnings ratio based on 12 month forward EPS

- Valuation's full recovery toward historical average should await relaxation of COVID policy and property market recovery, but we consider today's discount has more or less priced in negative news and weak economic outlook.

## Price-to-earnings ratio for CSI300



Source: Bloomberg, SMDAM, data as at 25<sup>th</sup> November 2022

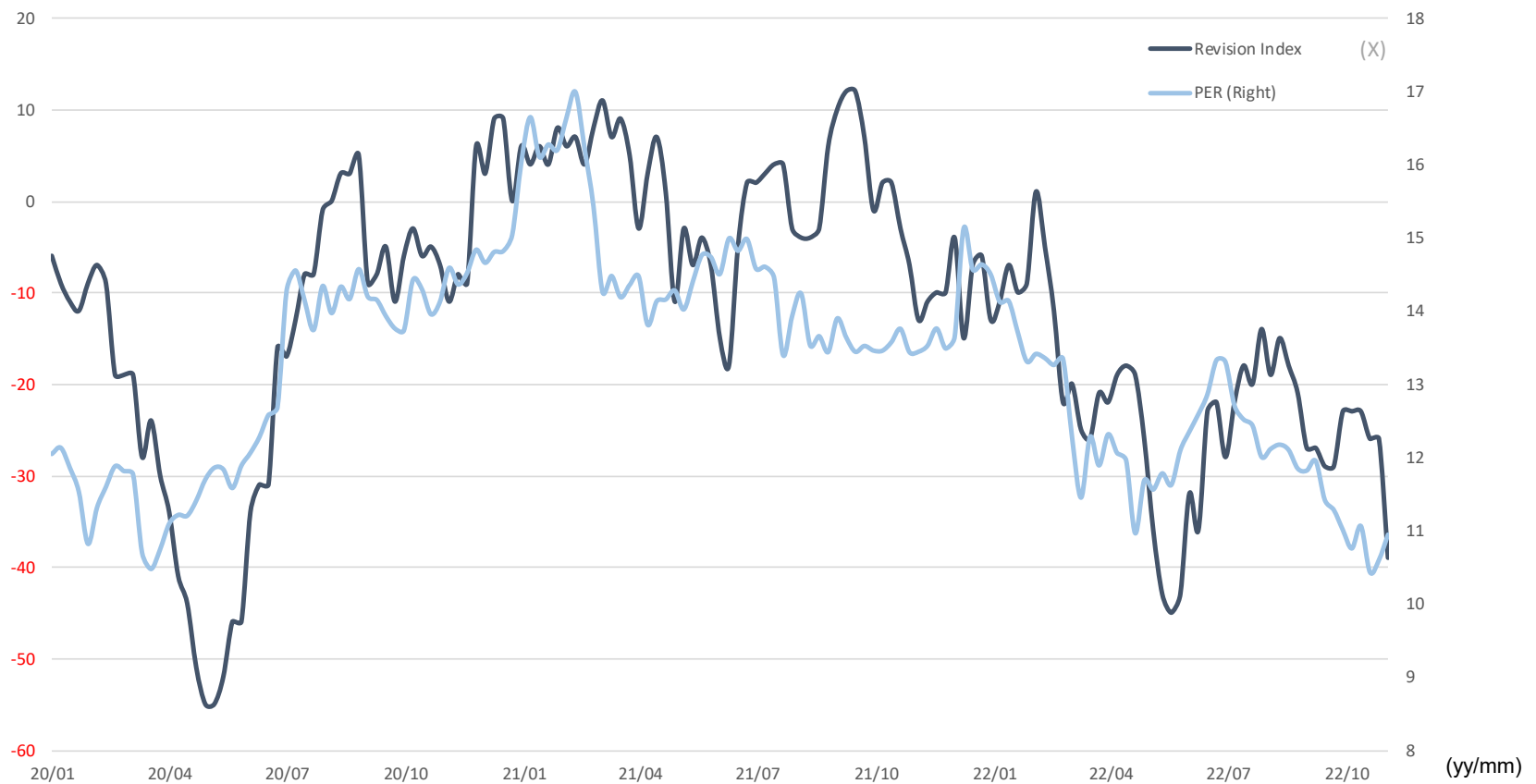
Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.

# Earnings revision index\* for CSI300

- Earnings Revision remains one of the important factors for valuation.
- Stabilization of Revision index should be the key for gradual recovery of multiples.

\* (Number of upward revisions – downward revisions) /  
Number of revisions with earnings forecast

## Earnings Revision Index for CSI300

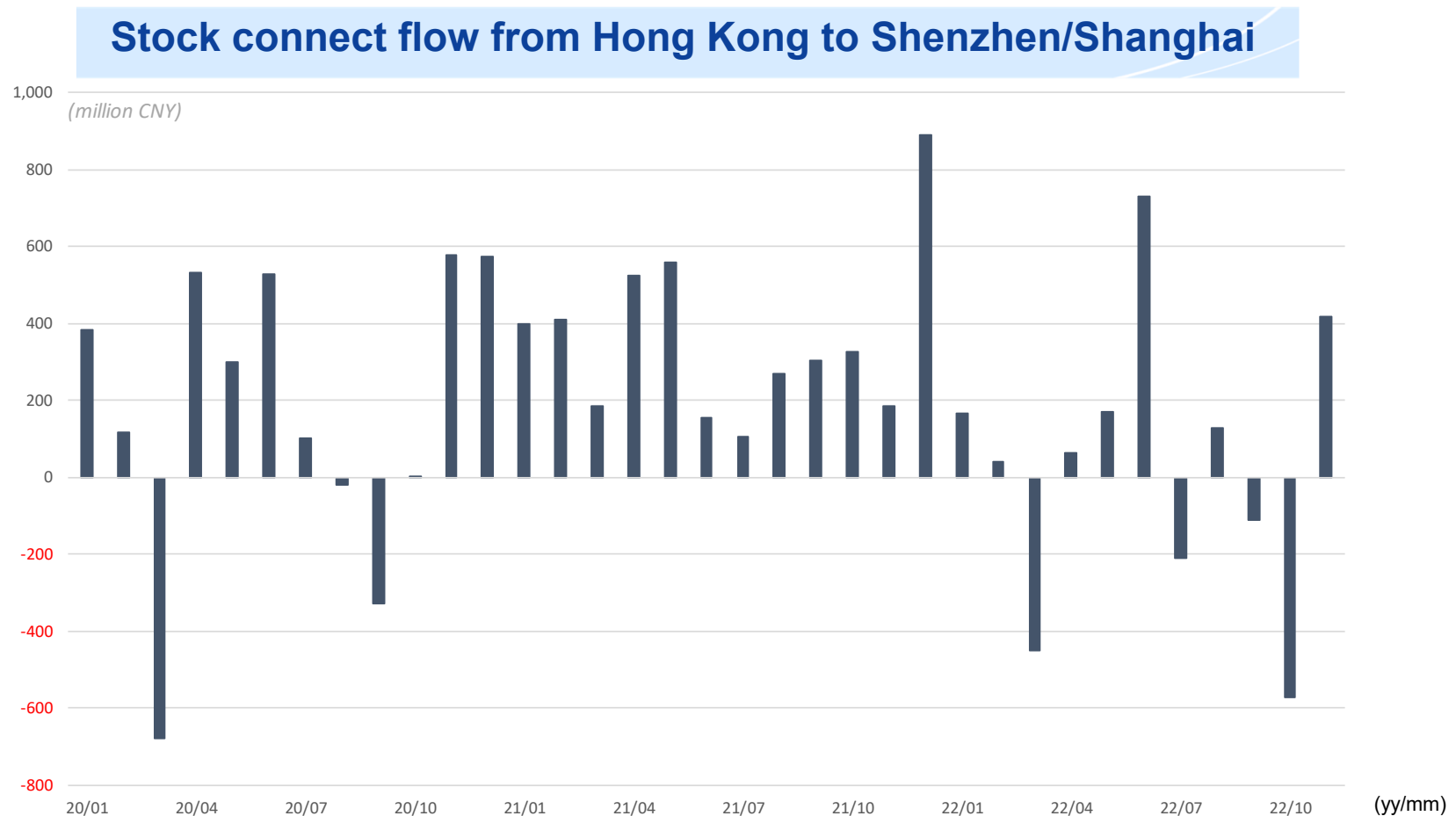


Source: FactSet, Refinitiv, Bloomberg, SMDAM, data as at 8<sup>th</sup> November 2022



# Supply and demand balance (Stock Connect Flow)

- Stock Connect flow in recent months saw outflow from Mainland China Market.
- Market sentiment has turned negative partly due to Hawkish U.S FRB's stance on top of concerns on Chinese economy.



Source: Bloomberg, SMDAM, data as at 18<sup>th</sup> November 2022

# Monitoring Point: COVID POLICY

- **Sporadic COVID containment policy** undermines consumer and business sentiment.

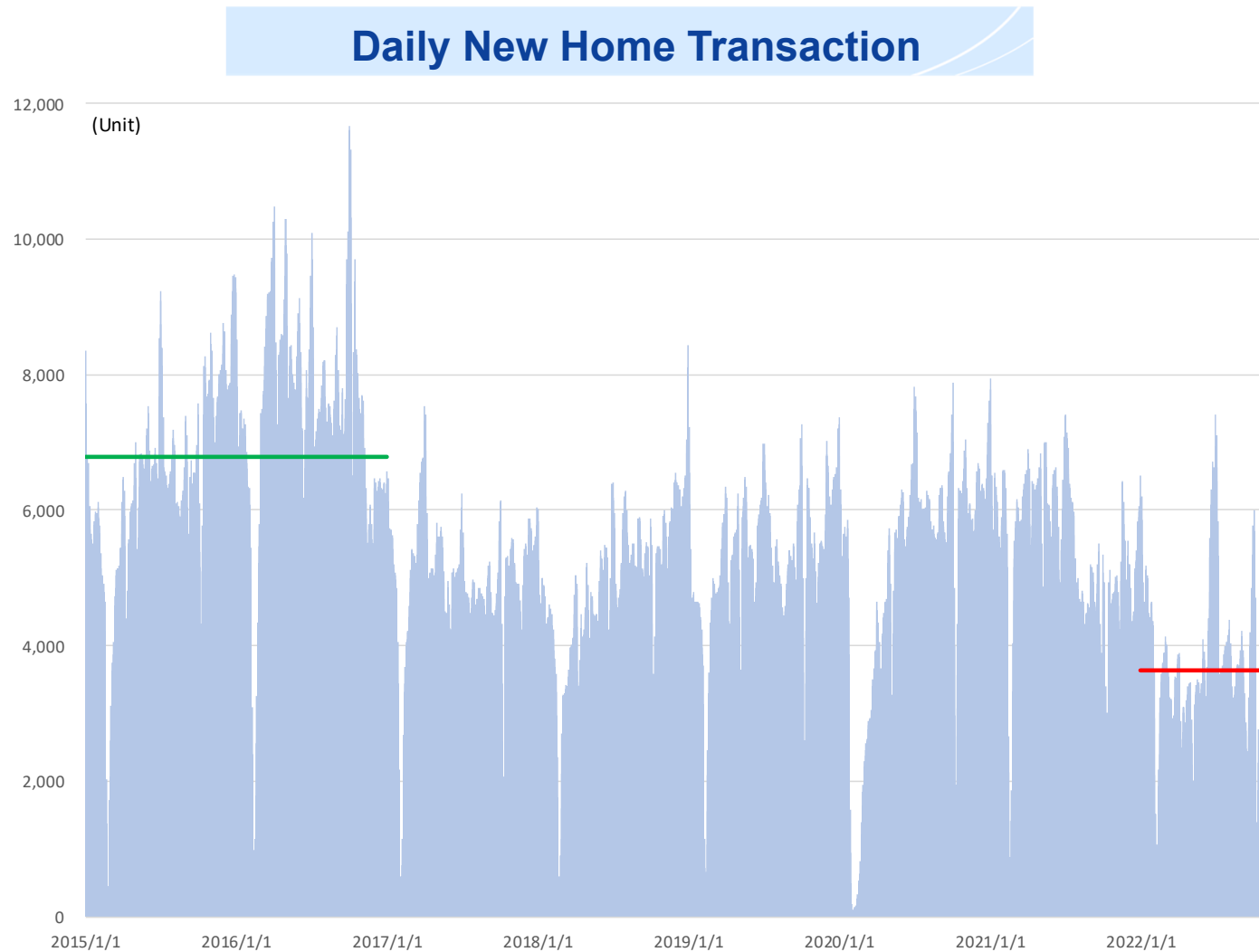
## China COVID situation since September

September	
Shenzhen	Huaqiangbei (Largest wholesale electronics market in the world) in Shenzhen closes for 4 days.
Chengdu	Chengdu Lockdown
	National Health Commission encouraged people not to leave their cities during National Day Holiday
Beijing	Announced control on the influx from other region into Beijing
Guiyang, Guizhou	City Lockdown
Tianjin	Lockdown in some specific area
October	
Hohhot, Inner Mongolia	City Lockdown
Sanya, Hainan	Mobility Control
Shanghai	Shanghai imposes new testing requirements for people arriving in the city
Beijing	Beijing imposes stricter testing requirements for new arrivals
Henan	Zhengzhou (12.7 million population). Foxconn factory producing iPhone under lockdown.
November	
Shanghai	Shanghai Disneyland suddenly closed
Liaoning	Airport of Dandong closed
Guangzhou	Guangzhou International Motor show was extended
Guangzhou	Lockdown in Haizhu (1.82 million population)
Beijing	Beijing Marathon was held
Chongqing	Yubei District (2.2 million population), Liangjiang New Area (2.7 million Population) put into lockdown
	New 20 Measures to ease situation announced by National Health Commission
	Peoples Daily emphasizes sticking to Dynamic Zero Covid
	Covid Confirmed cases touches 23K (17th November)

Source: Media reports, SMDAM, as at 18<sup>th</sup> November 2022

# Monitoring Point: Property Market

- **Once buyer's sentiment recovers**, investor sentiment toward Mainland Equity market should be boosted.

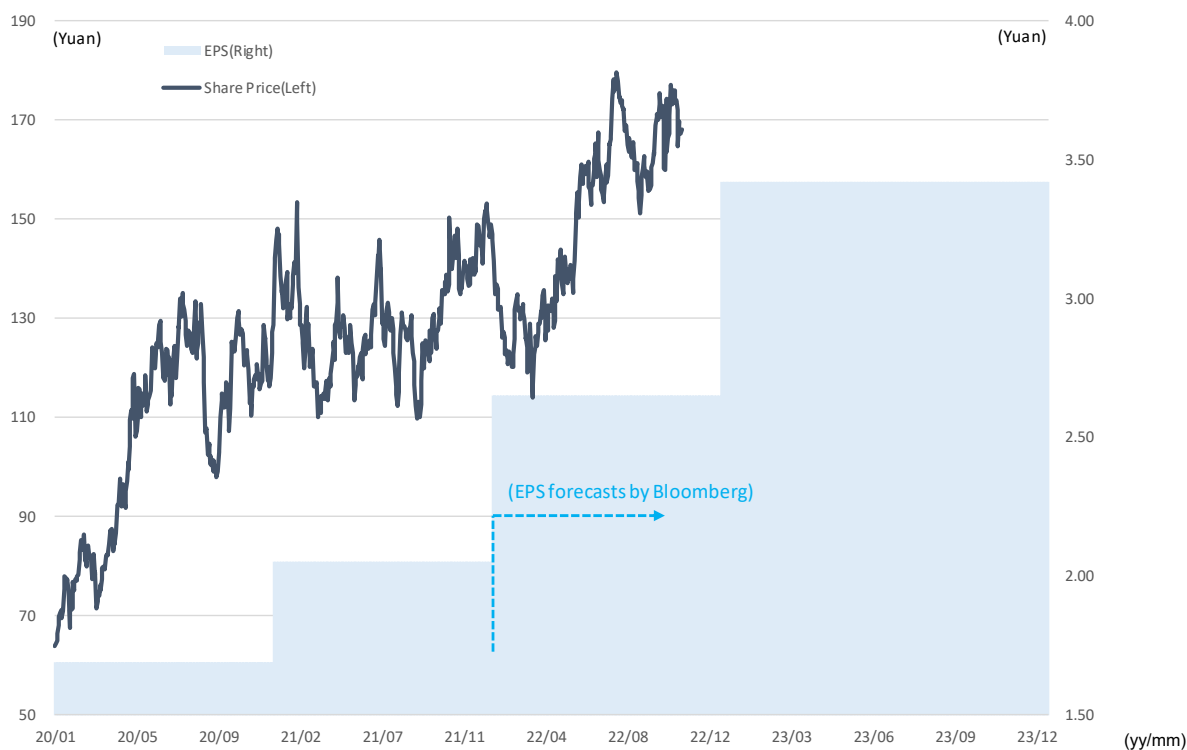


Source: Wind, SMDAM, data as at 12<sup>th</sup> November 2022

**Thematic Trend**

- Chinese Youth: **Digital Savvy**
- Spending Polarization: **Trend for saving on daily necessities / requirements**
- Proya Cosmetics: **Famous Domestic Cosmetic Brand** with strong Online Channel presence

**Stock price and EPS**



Source: Bloomberg, SMDAM, data as at 18<sup>th</sup> November 2022

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