China/HK Market Strategy

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FY24 Result Preview: HK rally's first checkpoint

- **FY24 results season marks the first checkpoint for HK market's rally**
- **BYD, Trip.com among stocks that may deliver positive earnings/guidance surprises**
- **Raise HSI target to 25,000, indicating ~11% upside, thanks to China's AI breakthrough, more supportive policy tone on private economy and potential foreign inflow**
- **Look for opportunities to buy AI beneficiaries, add non-bank financials and tactically trade policy beneficiaries in consumption and property**

First checkpoint. With Hang Seng Index's valuation back to the peak of last October's policy-driven rebound, investors' debate on the rally's sustainability has intensified, since it is more driven by valuation expansion. We believe fundamental improvements, including stronger economic data and stabilising corporate earnings, will be crucial for a broader and longer-lasting rally. The unfolding FY24 results season serves as the first test.

Potential surprises. For tech hardware, our sector analyst expects 4Q results to highlight a peak season recovery in consumer electronics, spurred by strong sales of Chinese brands like Xiaomi and Vivo, and solid demand across the supply chain. While some players have issued positive profit alerts, we expect others to post improved but in-line results. During the results briefing, we will closely watch 1) global smartphone shipment guidance in 2025 vs our estimate of ~5% growth, 2) whether Xiaomi gives a timeline for its NEV business to turn profitable.

For internet companies, our team expects 4Q earnings to be largely in line, as the impact of previous significant efficiency gains fades. While DeepSeek will be the key focus, we do not expect an immediate positive impact on earnings. However, we will closely watch: 1) management's guidance on cloud revenue growth, 2) potential capex increases from FY24's level, and 3) a possible upsizing of the FY25 share buyback plan.

Our sector analysts see potential for positive earnings surprises from stocks including Trip.com and BYD. Please refer table on page 2 for earnings preview for all sectors and detailed comments.

Broader picture not that rosy. To gauge the overall earnings trend of Chinese corporates, we analysed A-share preliminary results. Among 2,786 A-share companies that have released preliminary numbers as of 17 Feb, about 66% expect earnings to decline y/y or swing to losses, up from 53% during the interim results season. At the sector level, 93% of real estate companies reported negative earnings alerts, followed by media and commercial & professional services sectors, with 87% and 83% of companies anticipating lower earnings or a swing to losses, respectively. On the bright side, 80%/59%/56%/50% of companies in the insurance, diversified financials, utilities and auto & parts sectors expect to see a profit turnaround or higher bottom line earnings. The overall FY24 consensus earnings dipped 1.5% for CSI 300 and was largely flat for HSI YTD.

Increase index target We wrote in our note on Feb 14 that the HSI would test 11x valuation, or ~23,000, following President Xi's meeting with private entrepreneurs. With such resistance level being breached, we increase Hang Seng Index FY25 target to 25,000, lifting PE assumption to 11.8x (+0.5SD above 5Y mean), as 1) China's AI breakthrough brings re-rating room for China's tech stocks in long term, 2) meetings with private entrepreneurs signal stronger policy support, 3) HK stocks still have room to attract more foreign inflows from previous crowded markets. Positive earnings surprises and strong guidance from tech stocks will enhance the rally, and Alibaba's result just ticked the first box. Consistent domestic policy support, easing geopolitical tension, and more intensified political tension in the US may further attract flows into HK and strengthen the gain.

How to position. On the China AI trade, if our high-conviction AI beneficiaries like Xiaomi, BYDE pull back due to guidance not beating heightened expectations, we recommend buying dips. Outside the tech sector, we suggest 1) adding lagging non-bank financial stocks in the insurance (AIA, Ping An) and brokerage sectors (FUTU, TIGR, CICC), as they are supported by solid earnings prospects and better market trading activities, and 2) to consider short-term tactical trading opportunities in consumption (i.e. Haidilao, Anta and Li Ning) and property (i.e. Yuexiu, C&D), as expectations for policy stimulus may emerge ahead of the Two Sessions. See valuation table for these stocks on page 9.

FY24 sector earnings preview

Sector	FY24 earnings preview
Apparel and footwear	Resilient, with expectation of high single to low double-digit growth in domestic players' top line, due to key focus on expanding average selling price (ASP) range in fast-growing categories such as running and outdoor wear.
Aviation	CX is expected to experience a strong 2H24 as continued capacity reinstatement, lower unit costs, and easing jet fuel prices help offset softer passenger yields. Conversely, profit warnings issued by the three Chinese airlines suggest that they once again fell short of expectations, reporting steeper-than-anticipated net losses in 4QFY24.
China automobile	We expect auto companies to post a h/h improvement in their 2H24 results, primarily driven by increased sales volume due to government stimulus and a stabilisation in price discounting.
China banks	Expect China banks' FY24 results to be largely in line with expectations. Some joint-stock banks have already reported low single-digit y/y growth in earnings in their FY24 preliminary results. We expect a similar trend for state-owned enterprise (SOE) banks. Net interest income (NII) remains under pressure, while non-NII growth is expected to be supported by the strong performance in the bond market.
China brokers	Results are expected to be generally strong, driven by the surge in average daily trading (ADT) in HK/China in 4Q24. Meanwhile, US-stock focused brokers benefitted from the post-election market rally, although this was partially offset by lower investment income due to a pullback in onshore equity/bond prices.
China data centre	We expect FY24 results to be in line with expectations. Given near-term impact from DeepSeek is anticipated to be limited, there is little room for an upward adjustment of the FY25 EBITDA guidance (approximately 18% growth, per market consensus).
China insurers	We forecast a net profit rebound for insurers in FY24, driven by the re-rating of A-shares following the policy pivot in September 2024, which should support dividend per share (DPS) growth. We expect robust momentum in 4Q value of new business (VNB) growth, supported by resilient premium sales in 4Q24 and a low base effect, translating into y/y growth in the high teens to thirties for the full year. A potential industry-wide revision of economic assumptions – including a 50bps reduction in both long-term investment return and risk discount rates – could create one-off downside pressure on EV and VNB under this scenario.
China property	Developers we track are expected to record another year of earnings decline in FY24F (down >15% y/y on average). This is due to: 1) a drop in revenue bookings, reflecting a contracting physical market; 2) margin pressure from lower ASPs; and 3) additional provisions for inventory impairments. We foresee further earnings cuts to consensus forecasts (our latest forecasts are 5%-30% below market) to account for weaker saleable resources due to more conservative landbanking in 2024 (likely cautious guidance on launch and presales outlook) and softer presales margins dragged by continued ASP declines.
China property management	While property managers' earnings are expected to be more resilient than their developer counterparts, they still face operational challenges in both property management (intensifying competition for new projects; pressured outlook on collections) and value-added services (continued property downturn and subdued spending sentiment). OCF is mostly intact, though more challenging vs. FY23. Dividend policies are expected to stay generous, with several indicating potentially higher payouts and special distributions. We believe property managers may opt to moderate their previous growth guidance in March, with the market likely to revise down current growth expectations.
China telecom carriers	We expect stable low single-digit growth in service revenue and rapid revenue growth in carriers' new businesses (e.g., cloud and data centres). We anticipate mid-to-high single-digit earnings growth in FY24, in line with expectations.

Source: DBS HK

FY24 sector earnings preview (con't)

Sector	FY24 earnings preview
Consumer – discretionary retail	2H24 y/y global tourism growth has moderated versus 1H24's momentum due to a higher base effect and slower consumer sentiment in selected regions, such as China. Nevertheless, 4Q24 regained some ground with the sustained growth in visitor arrival numbers during peak travel seasons. Affordable raw material costs also allow for sustainable gross margins on travel-related products, including luggage and travel bags. Global luxury brands, particularly those focusing on quiet luxury and trendsetting designs, are well positioned to benefit from strong tourism that is fuelling visitor spending on personal luxury products.
Food and beverages	Beverage & instant foods likely to see stabilising trends, but juices and RTD tea could experience mid-to-high single-digit sales growth in 2H24. In 4Q24, nationwide brewery companies' sales volumes declined in the range of a low single digit to teens. ASP performance was also mixed – CR Beer outpaced peers, with low single-digit growth, while Bud APAC saw a decline. For the dairy sector, price competition and weak consumer demand led to softer sales for downstream processors, likely resulting in a low to mid-single-digit decline in revenue for 2H24. In the pork sector, although hog prices declined q/q (up 14% y/y) in 4Q24, producers still achieved a y/y earnings turnaround, supported by higher y/y hog prices and lower production costs.
Gas utilities	We expect decent results in China's gas sector for FY24, with growth in core profit ranging from 8% to 26% due to contributions from non-gas operations. Meanwhile, weak gas consumption among industrial users in Oct and Nov and lacklustre demand from residential users due to warm weather led to slower gas volume growth in 2H. Our estimates indicate that gas distributors will report low single-digit growth in gas sales volume for 2024, compared with management targets of high single digits. With revenue from new gas connections expected to drop by 10%-30%, the major earnings growth driver for gas operations should be the dollar margin hike of Rmb0.02-0.03/cm, for which we also see upside risk.
HK banks	Expect HK banks' FY24 results to be in line, as the rate cut cycle kicked off in 4Q24. However, FY25 NII outlook might be lifted, given that the interest rate is expected to remain high for longer. We expect 4Q24 growth to be driven by non-NII, while asset quality of HK commercial real estate (CRE) remains a key point to watch.
HK developers	Development earnings are expected to contract due to thinner profit margins resulting from high land costs on one hand and lower selling prices for projects booked on the other. We have not ruled out the possibility of developers making provisions for loss-making projects or slow-moving inventory in Hong Kong & China.
HK landlords & REITs	Office rental reversion should stay negative while retail turnover rents should shrink due to lower tenant sales.
Internet	We expect 4Q24 earnings to be largely in line with expectations, as the impact of previous significant efficiency gains diminishes. Furthermore, we do not expect DeepSeek's launch to have an immediate positive impact on earnings, but we will closely watch 1) mgmt guidance over cloud revenue growth, 2) whether capex will increase from FY24 level, and 3) possible upsize in FY25 share buyback plan
Macau gaming	Gaming concessionaires, such as Galaxy, with bigger market shares in the high-margin mass gaming segment should experience supportive 2H24 earnings performance. Although, Sands China was temporarily affected by major renovation projects at The Londoner and The Venetian, and experienced an 8.6% y/y decline in 4Q24 adjusted EBITDA. SJM was also impacted by the refurbishment of its Grand Lisboa property.
Oil and gas	We expect oil majors to report lower h/h earnings in 2H24 due to weaker oil prices, averaging ~USD74/bbl in 2H24 vs. USD83/bbl in 1H24, as well as generally higher accruals in 4Q24.

Source: DBS HK

FY24 sector earnings preview (con't)

Sector	FY24 earnings preview
Pharmaceutical and healthcare	Pharmaceuticals: With the Public Medical Insurance Fund (PMIF) surplus improving since Sep 2024 and the National Healthcare Security Administration (NHSA) prioritising the prevention of a PMIF deficit, credit losses of receivables for pharmaceuticals are expected to fall. Medical device: Consumables companies are poised for steady growth as volume-based procurements become less stringent. However, companies with significant contribution from the US remain vulnerable to the impact of tariffs. CDMOs: Concerns surrounding the Biosecure Act may lead to a shift in deals outside of China.
Power	Coal-fired independent power producers (IPPs) are expected to report robust earnings growth of >30%, on the back of margin recovery in the thermal power segment. Despite the expansion of renewable capacity, growth in electricity sold is expected to be <10% due to weak wind resources. Coupled with the downtrend in electricity tariffs, single-digit growth in profit from renewable units or renewable IPPs is expected.
Restaurants and catering	Same-store sales decline narrowed in 4Q24, driven by an easing base effect, and mild boost from domestic stimulus.
Tech hardware	4Q results should reflect the recovery in the peak season for consumer electronics, spurred by strong sales of Chinese brands like Xiaomi and Vivo, as well as solid demand across the supply chain. While some players have already released positive profit alerts, we expect others to deliver improved but in-line results. During the result briefing, we will closely watch 1) global smartphone shipment guidance in 2025 vs our estimate of around 5%, 2) whether Xiaomi gives a timeline for its NEV business to turn profitable.

Source: DBS HK

DBS-covered stocks that may beat consensus

Stock	Ticker	Reason
BYD	1211 HK	Strong volume growth due to government stimulus measures
Geely	175 HK	
GWM	2333 HK	
FUTU	FUTU US	Strong US/HK/CN ADT, no onshore investment exposure
TIGR	TIGR US	
MTRC	66 HK	Stronger-than-expected development profit resulting from increased project completion
Sinopharm	1099 HK	Improvement in PMIF surplus
Trip.com	9961 HK	Market seems to be underestimating the margin uplift from the domestic business, driven by AI-led cost savings and a stable hotel ADR trend
Wharf REIC	4 HK	Could potentially beat estimates if debt reduction surpasses expectations, leading to lower finance costs

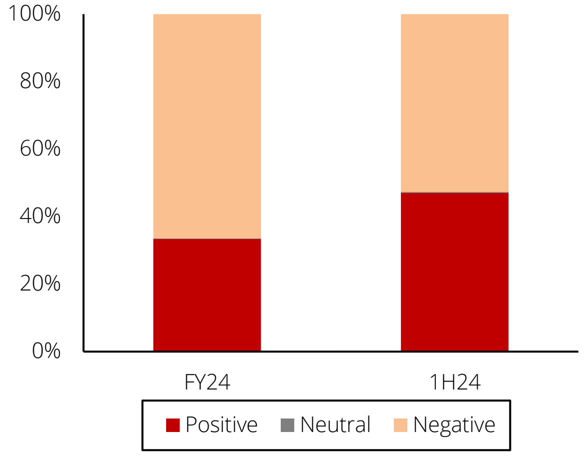
Source: DBS HK

DBS-covered stocks that might miss consensus

Stock	Ticker	Reason
Air China	753 HK	Faces ongoing pricing challenges amid stiff competition and macroeconomic uncertainties. We highlighted previously that consensus estimates seem overly optimistic for the Chinese carriers, and we expect negative earnings revisions to weigh on their share prices
China Eastern Airlines	670 HK	
China Southern Airlines	1055 HK	
Mindray	300760 CH	High US business exposure
Sinocare	300298 CH	
China Resources Gas	836 HK	Experienced weak gas volume growth in 4Q, but the negative effect should be partially offset by potential upside in dollar margin
Sinopec	386 HK	Challenging downstream operating environment as oversupply persists
Ping An Bank	000001 CH	Remains in business transition phase and has yet to see a positive financial impact from its strategic transformation
WuxiBio	2269 HK	Facing Biosecure Act-related headwinds

Source: DBS HK

A share FY24 preliminary results suggest weaker corporate earnings picture vs 1H24

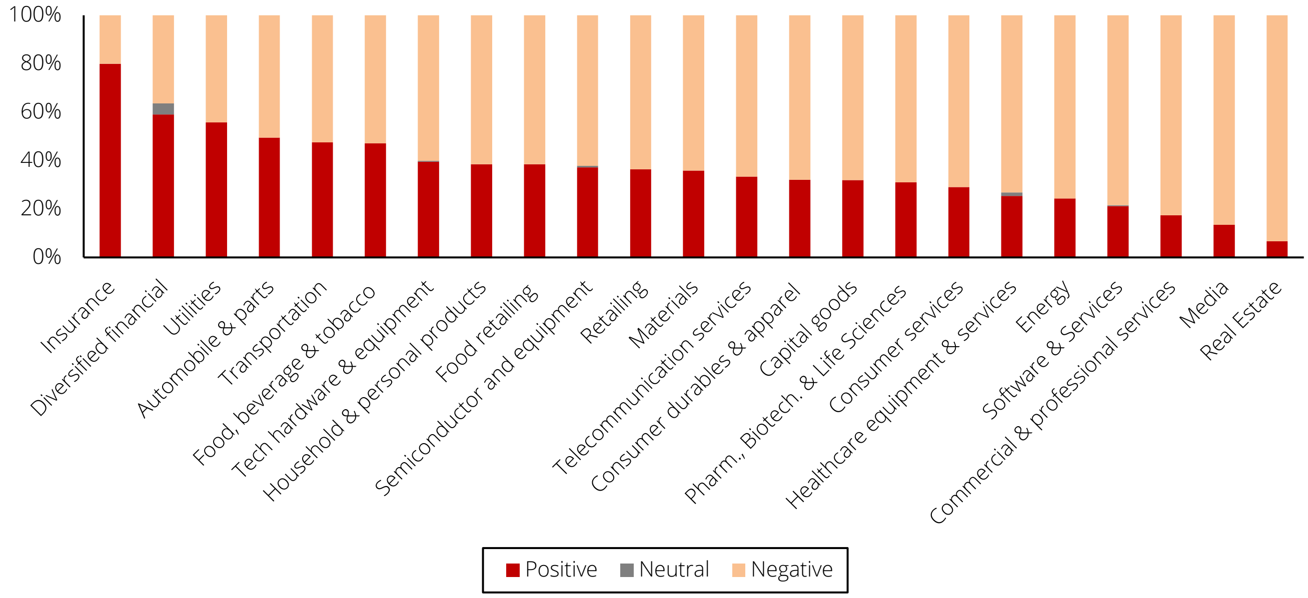


Source: WIND, DBS HK
Notes: Data based on 2,786 A-share companies that have issued profit alert for FY24 and 1,914 companies for 1H24 as of 17 Feb.
Negative = Earnings swinging to losses/ profit decline y/y
Positive = Earnings turnaround/ profit increase y/y

HSI FY24/25 consensus EPS

Source: Bloomberg, DBS HK

A share FY24 preliminary earnings alerts breakdown by sector



Source: WIND, DBS HK
Notes: Data based on 2,786 A-share companies that have issued profit alert for FY24 as of 17 Feb.
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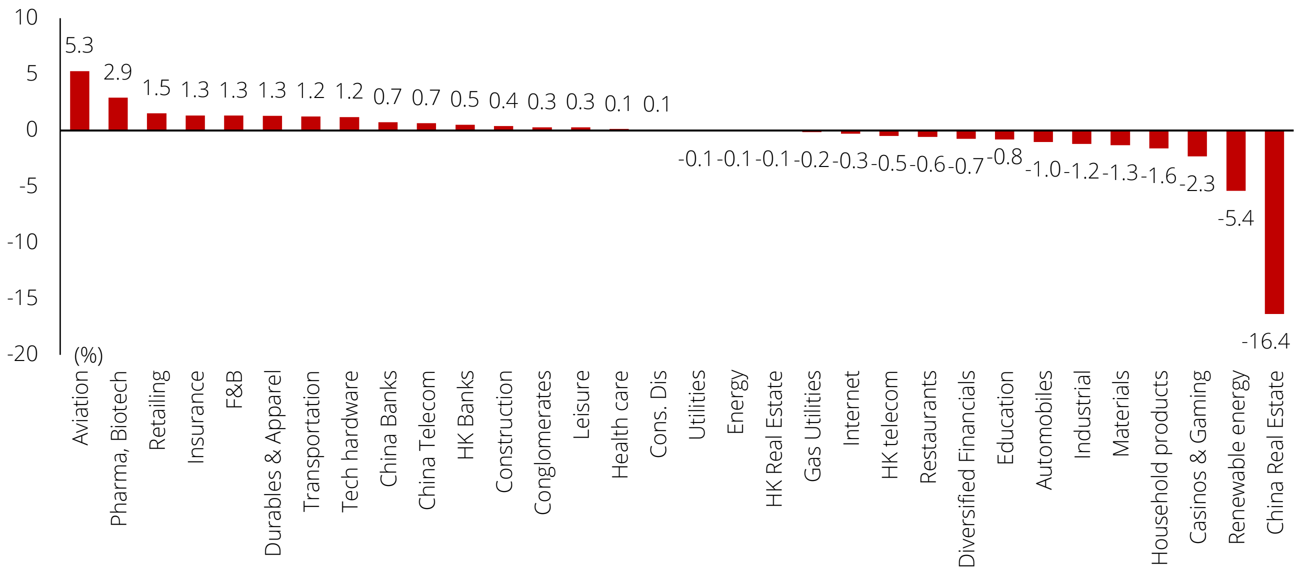
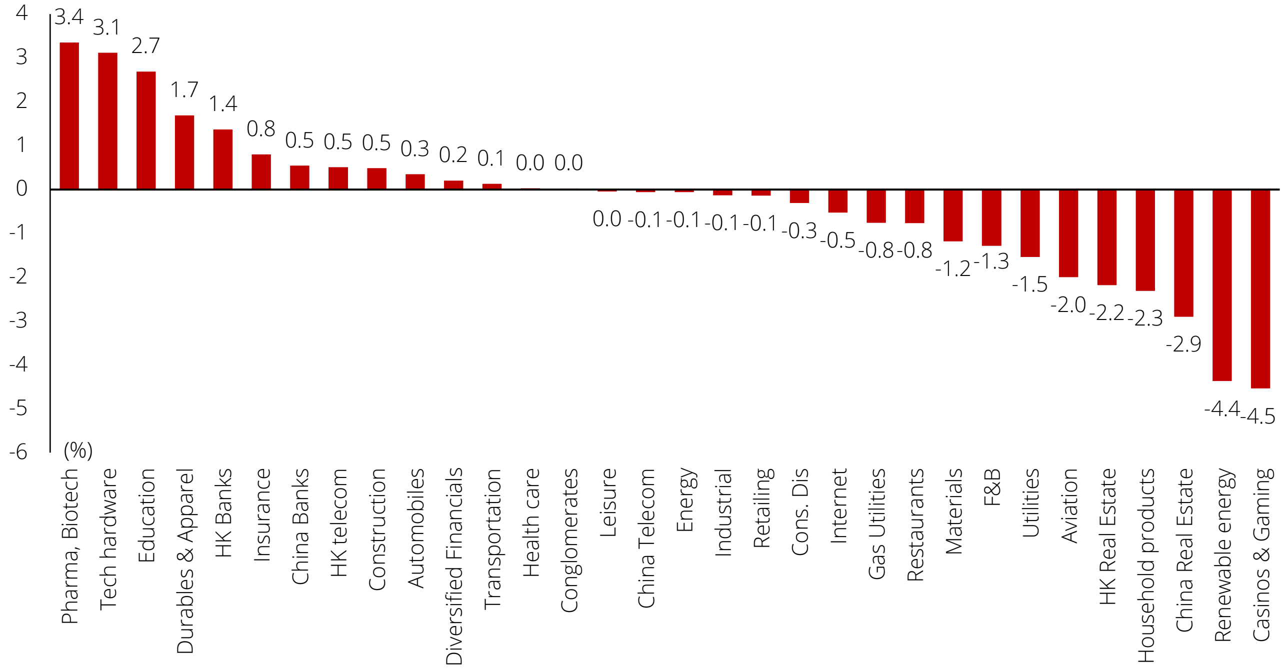
HSCI stocks 30D FY24 earnings revision



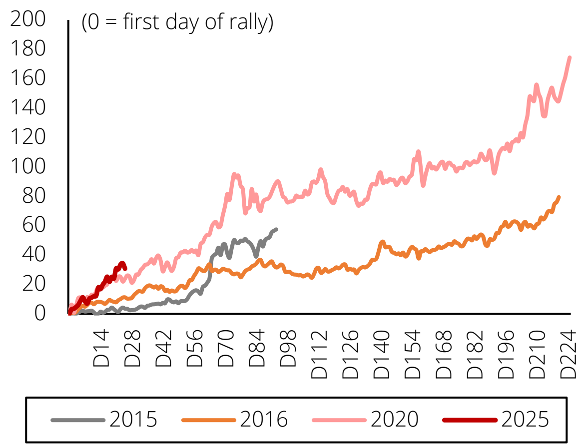
Source: LSEG, DBS HK

HSCI stocks 30D FY25 earnings revision



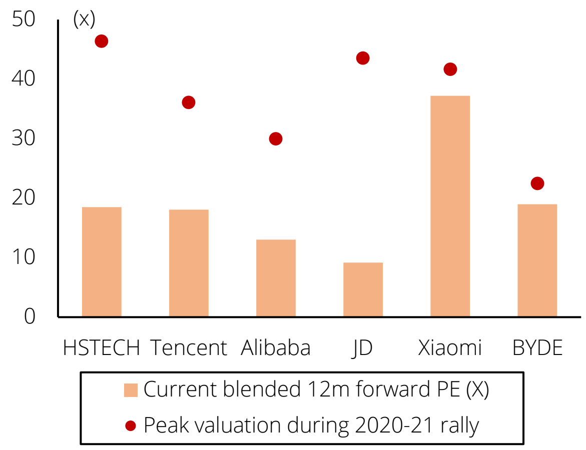
Source: LSEG, DBS HK

HSTECH performance in 2025, 2020, 2016 and 2015



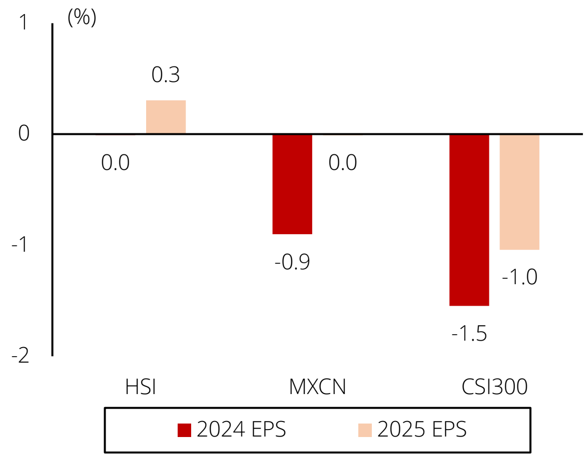
Source: Bloomberg, DBS HK
Note: Data before Jul 2020 is backfilled by Hang Seng Indexes Company
Starting date for each rally:
2015: 1 Jan | 2016: 20 Dec | 2020: 19 Mar | 2025: 13 Jan

HSTECH and tech stock current valuation vs. peak valuation during 2020-21 rally



Source: Bloomberg, DBS HK

HSI/MXCN/CSI 300 YTD earnings revision



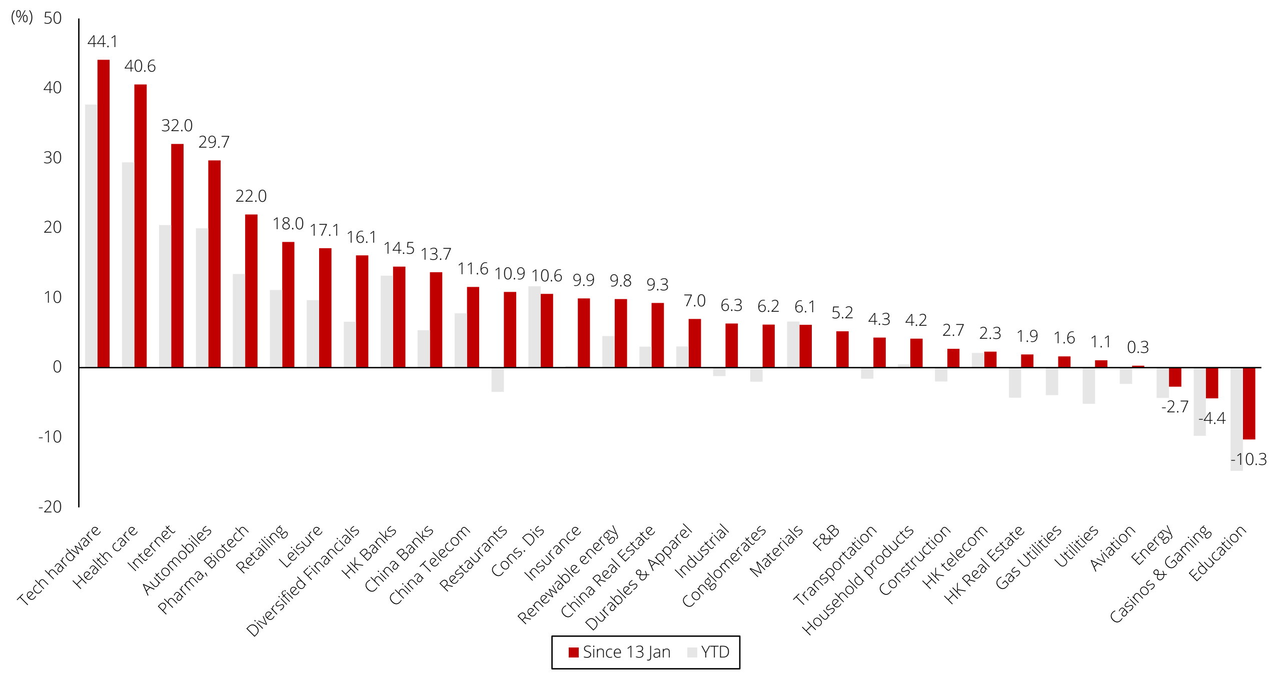
Source: Bloomberg, DBS HK

Key earnings date to watch

Company	Ticker	Earnings release date
Trip.com	9961 HK	2/25/2025
ASMPT	522 HK	2/26/2025
MTR Corp Ltd	66 HK	3/6/2025
JD.com	9618 HK	3/6/2025
Xiaomi	1810 HK	3/18/2025
Ping An Insurance	2318 HK	3/19/2025
ANTA Sports	2020 HK	3/19/2025
Tencent	700 HK	3/19/2025
Geely	175 HK	3/20/2025
Shenzhou	2313 HK	3/25/2025

Source: Bloomberg, DBS HK

HSCI stock by sector performance YTD and since market trough on 13 Jan



Source: LSEG, DBS HK

Stock picks valuation

Company Name	Code	Closing price (local ccy)	Tgt Price (local ccy)	Potential Return (%)	Mkt Cap (USD m)	PE 24F (x)	PE 25F (x)	EPS 24F (HKD)	EPS 25F (HKD)	ROE 24F (%)	PBV 24F (x)	Yield 24F (%)	Net Gearing 23 (%)	EPS CAGR 23-25 (%)
Xiaomi Corp	1810 HK	49.15	52.00	5.8	158,708	57.6	35.0	0.9	1.4	11.3	6.2	0.0	Cash	36.5
BYD Electronics	285 HK	56.25	65.00	16.6	16,300	24.9	15.2	2.3	3.7	15.3	3.6	1.2	Cash	38.7
AIA	1299 HK	55.05	100.00	84.6	75,993	13.6	12.3	4.1	4.5	13.7	1.8	3.1	Cash	31.9
Ping An Insurance	2318 HK	45.60	72.00	63.6	119,119	5.0	4.8	9.1	9.6	15.9	0.8	6.2	Cash	35.6
FUTU Holdings	FUTU US	120.59	150.00	24.4	16,993	24.9	18.5	37.7	53.6	19.4	4.4	0.0	Cash	31.5
Up Fintech Holding	TIGR US	8.30	12.20	47.0	1,551	25.8	16.8	0.3	0.5	9.7	2.4	0.0	Cash	53.3
CICC Ltd	3908 HK	13.78	25.00	82.8	17,083	9.4	6.5	1.5	2.1	7.2	0.7	1.7	Cash	31.5
Haidilao International	6862 HK	15.70	18.00	19.8	11,255	17.3	15.7	0.9	1.0	42.2	7.7	2.3	Cash	5.8
ANTA Sports	2020 HK	82.75	108.00	32.5	29,875	16.5	15.4	5.0	5.4	22.1	3.6	2.8	Cash	16.6
Li Ning	2331 HK	16.42	21.90	37.0	5,458	12.5	11.3	1.3	1.5	12.2	1.5	3.6	Cash	5.0
Yuexiu Property	123 HK	4.88	6.38	39.0	2,526	6.3	5.7	0.8	0.9	4.8	0.3	6.3	Cash	-7.5
C&D International	1908 HK	14.06	n.a.	n.a.	3,647	6.0	5.9	2.4	2.5	14.3	1.0	8.1	31.9	-0.8

Source: Bloomberg, LSEG, DBS HK

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**Share price appreciation + dividends*

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