

Market Overview

Yesterday, Hong Kong stocks climbed to a five-week high, fuelled by gains in tech names while financial stocks advanced on cross-border wealth management potentials. The Hang Seng Index advanced 377pts to 25,787pts with a thin daily turnover of HKD120.5b. Technically, the index climbed and closed above its 50-day Moving Average (i.e. 25,400pts) since July 2021. The next resistance level will be the psychological level (26,000pts) and 100-day Moving Average (i.e. 26,700pts).

Sector News

China Auto

According to Think Car data, China's PV wholesale volume fell by 16% YoY to 1.77m units in Sept. The majority of brands saw continued impact from the chip supply shortage since June. Positive sign is there was a MoM recovery: GAC Motor (2238 HK) (excluding Aion) (+27% MoM), Geely Auto (175 HK) (+18% MoM), Changan Motor (+6% MoM) and Great Wall Motor (2333 HK) (+35% MoM); among JV brands, DF Honda (+63% MoM), GAC-Honda (+61% MoM), GAC-Toyota (+13% MoM) and SAIC-VW (+2% MoM). Luxury brands faced more challenges from the chip supply shortage, with Beijing-Benz, FAW Audi and BWM Brilliance recording sales volume declines.

China Coal

The BSPI came in at RMB848/t as of 13 Oct vs. RMB752/t on 29 Sept, while CCI5,500 spot coal price was flat at RMB947/t for the past week. The authorities have ordered coal mines to boost output. Of which, Shanxi has ordered 98 coal mines to raise annual output capacity by 55.3mt over the remainder of the year, while Inner Mongolia has issued a notice to notify 72 mines to operate at stipulated higher capacities (c.98.4mt) under the condition of safety production. The average coal inventory at QHD recovered, recording a 1.7% WoW growth to 4.12mt as of 18 Oct. Although the coal production is likely to have recovering, approaching the winter heating season, coal price hikes are likely to be seen and likely to continue till 4Q21E. Related stocks: China Coal (1898 HK), China Shenhua (1088 HK).

China Insurance

Market expects to see a less aggressive jumpstart campaigns from listed insurers in 4Q this year. It is because most listed insurers are still struggling with their 2021 business targets and are not able to spare too much effort to prepare for 2022. In 8M21, the China life insurance industry saw gross premiums edge down by 1% YoY, as per CBIRC. Besides, CBIRC has been asking insurers to avoid big volatilities in FYP across quarters and smooth out the seasonality. Market believes there will be a more balanced quarterly growth profile and product mix will help lead to stable VNB margins and healthier agency forces. From this, market believes while less aggressive jumpstart pre-sales will lead to lower premium volume in the near term, yet, it is likely to improve VNB margin and agency quality for 2022E. Related stocks: AIA (1299 HK), China Life (2628 HK).

China Express

According to data from the SPB, 3Q21 industry volume grew by 23% YoY, moderating from 29% in 2Q21. Volume growth has been hurt by COVID-19 resurgence and adverse weather conditions (flood and typhoon) in Jul and Aug, and further slowed into Sep due to power crunches impacting certain upstream manufacturing capabilities. Industry pricing has started to improve as regulators stepped in earlier this year to crack down on excessive low prices, starting in Zhejiang. The trend continued and accelerated into 3Q21 as more provinces tightened oversight on pricing, and operators started to pass on to merchants. For the quarter, the aggregate ASP of A-share listed operators saw YoY decline narrow to 1.7%, significantly improving from 6%/18% in 2Q/1Q21.

Company News

COLI (688 HK)

COLI achieved contracted property sales of RMB275.3b (+7% YoY) in 9M21. The company acquired 28 land parcels in 14 cities at an aggregated land premium of RMB54.3b, adding a total gross floor area of 4.55m sq.m.. Its 9M21 revenue was RMB151.1b (+27.7% YoY) and operating profit amounted to RMB39.4b (+1.5% YoY). At 30 Sept, COLI was in sound financial position, with bank balances and cash amounted to RMB116.1b with net gearing of 35.6%, which was among the lowest level in the industry.

Geely Auto (175 HK)

Geely announced that it will acquire a 10% stake of Zeekr from its parent company. The consideration will be in reference to the valuation of Zeekr in the pre-A Round Financing (c. RMB57b). Geely will pay the consideration (c.RMB5.7b) through share issue and cash with c.RMB1.9b. Post-acquisition, Geely will have a 58% stake of Zeekr. Zeekr has introduced 5 strategic investors through share issue for its previous pre-A round financing. Market believes Zeekr will likely further execute financings. Hence, in order to have a controlling stake of Zeekr, Geely may increase its stake in Zeekr in preparation for further stake dilution in future.

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