

THE CHINESE  
TRAIN HAS  
ARRIVED.

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The Shanghai-Hong Kong Stock Connect

 **Maybank**  
Kim Eng

# The Chinese Through-Train is Here.

Rolling down the tracks on Nov 17, 2014

Shanghai-Hong Kong Stock Connect is a mutual market access platform. Investors from Hong Kong and overseas markets (incl. Singapore) can trade and settle shares listed on the **Shanghai Stock Exchange (SSE)** via the **Hong Kong Stock Exchange (HKEX)**. **The Northbound Train**.

Vice versa, investors in mainland China can also trade and settle shares listed on **HKEX** via **SSE** in their local market. **The Southbound Train**.

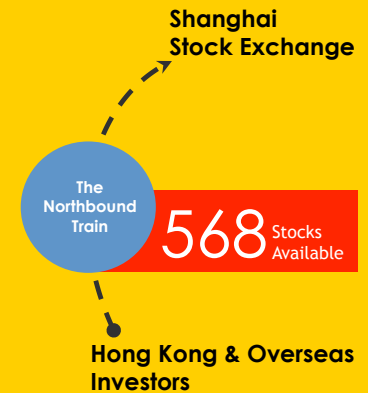
Hop aboard Maybank Kim Eng's **Yellow Train**. Let our financial professionals help you understand the investment landscape in these markets and uncover new opportunities to optimise your portfolio.

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## The Northbound Train

### Benefits to You

Through the mutual market access (MMA) platform, you can now widen your investible universe beyond HKEx with direct access to 568 listed securities on the Shanghai Stock Exchange (A-Shares).



### The Potential flows...

The through-train platform can catalyse fund flows for China and Hong Kong equity markets.

# What's Hot in this new destination?

## The A-Shares Market.

### What's New?

#### Burgeoning Sectors in SSE

Access the world's largest emerging market and capitalise on themes of rising RMB strength and progressive SOE reform. The A-shares market offers the reach and depth with fast growing sectors such as Finance (incl. Banks, Insurance, Stock Brokers), Consumer, Healthcare, and Environment, among others.



## Top-7 Trading Themes for both SSE and HKEx listed equities

- (1) **Northbound:** Arbitrage between A shares and H shares of the same stock with the anticipated narrowing of the valuation gap. Large cap A-shares: Ping An (601318 CH) 7% discount to H-shares, China Life (601628 CH) 9% discount, CITIC Securities (600030 CH) 8% discount, ICBC (601398 CH) 7% discount.
- (2) **Northbound:** Domestic brand names that are unavailable in H-shares: Baosteel (600019 CH).
- (3) **Southbound:** A-H gap narrowing, H-shares small cap: Chongqing Iron (1053 HK) 43% discount, CMOG (3993 HK) 44% discount.
- (4) **Southbound:** The successful implementation of MMA is likely to lift broad market sentiment for A-shares. Gain exposure through ETFs: CSOP A50 ETF (2822 HK), X IShares A50 ETF (2823 HK).
- (5) **Southbound:** Large-cap companies with international exposure that is unavailable in the A-shares market: AIA (1299 HK), HSBC (5 HK).
- (6) **Southbound:** Domestic brand names that are unavailable in the A-shares market: Tingyi (322 HK), Want Want (151 HK), Lenovo (992 HK), Tencent (700 HK), China Mobile (941 HK).
- (7) **Southbound:** HKEX (388 HK) and HK brokers - Guotai Junan (1788 HK), Haitong Int'l (665 HK) - as direct proxies to the anticipated rise in trade turnover.

# Top Ideas

## THE NORTHBOUND TRAIN

by **Maybank Kim Eng**

**Destination:** Shanghai Stock Exchange

	Current Price	Target Price	% Returns
<b>ICBC</b> (601398 CH)	<b>RMB 3.64</b>	<b>RMB 4.36</b>	<b>19.7 %</b>

### What does the Company do?

- Largest commercial bank in China with total asset size Rmb18,917b (US\$3,079b)
- Personal, commercial and investment banking
- Over 18,000 outlets

### What is the Investment Theme?

- Better-than-expected 1H14 & 3Q14 results.
- Strong loan growth +12.5% year/year in 9M14.
- Net interest margin widened 3basis points quarter/quarter to 2.65%.
- Non performing loan ratio held steady at 1.06% in 3Q14 vs 0.99% in 2Q14.

### Valuation

- FY14 PE 4.4x. PB 0.9x. Yield 7.2%
- Much cheaper than international peers
- Re-rating is possible

	Current Price	Consensus Target Price	% Returns
<b>Ping An</b> (601318 CH)	<b>RMB 42.86</b>	<b>RMB 62.57</b>	<b>45.9 %</b>

### What does the Company do?

- An integrated financial services conglomerate with three core businesses: insurance, banking, and investment

### What is the Investment Theme?

- Premium income posted double digit growth year to date.
- Strong New Business Value (NBV) growth potential on the back of healthcare insurance liberalization.

### Valuation

- Attractive valuation
- FY14 PE 9.3x
- FY14 P/EV 0.8x
- Cheap relative to peer average: FY14 PE 15.3x. FY14 P/EV 0.93x

# Top Ideas

**Destination:** Shanghai Stock Exchange

## THE NORTHBOUND TRAIN

by **Maybank Kim Eng**

### Baosteel Group (600019 CH)

Current Price	Consensus Target Price	% Returns
RMB 4.69	RMB 5.69	21.3 %

#### What does the Company do?

- Largest maker of premium steel products in China.
- Three major product lines: carbon steel, stainless steel and special steel.

#### What is the Investment Theme?

- Industry market leader.
- Industry showing signs of bottoming.
- Expect 21% year/year growth in net profit for FY14F.
- Strong candidate for SOE reform.

#### Valuation

- Undemanding valuation
- FY14 PE 11x
- PB 0.68x
- Yield 2.1%

### China State Construction Engineering Corp Ltd (601318 CH)

Current Price	Consensus Target Price	% Returns
RMB 4.04	RMB 5.08	25.7 %

#### What does the Company do?

- Engaged in housing and infrastructure construction, property development and investments.

#### What is the Investment Theme?

- Benefiting from state policy to export China's infrastructure capacity to overseas markets.
- Strong contract growth. In 8M14, new contracts for construction grew 10.5% year/year to Rmb897.3b.
- Expect 18% year/year net profit growth in FY14F.

#### Valuation

- Attractive valuation
- FY14 PE 5x
- PB 1x
- Yield 3.5%

# Top Ideas

**Destination:** Shanghai Stock Exchange

	Current Price	Consensus Target Price	% Returns
<b>Qingdao Haier</b> (600690 CH)	RMB 17.00	RMB 21.81	28.2 %

### What does the Company do?

- One of the largest white goods manufacturers in China
- Holds 58.7% of Haier Electronics (1169 HK): air-con + refrigerator + household appliance + ecommerce

### What is the Investment Theme?

- Alibaba invested HK\$2.82b in Haier Electronics in Dec 13.
- The main growth driver is the logistics division Goodaymart, which is a beneficiary of explosive e-commerce growth in China.

### Valuation

- Cheaper than Haier Electronics (at 17.7x PE)
- FY14 PE 9.9x
- PB 2.4x
- Yield 2.7%

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## Shanghai- Hong Kong Stock Connect Northbound Trading

### Stock Eligibility

All constituent stocks from SSE 180 Index

All constituent stocks from SSE 380 Index

all the SSE-listed A shares that are not included as constituent stocks of the relevant indices but which have corresponding H shares listed on SEHK

- Day Trading is not available for Northbound Trading.
- Taxation on Northbound Trading will follow A-Shares market trading taxation rules.

**±10%**  
On previous closing price  
Price Limit

**T+1**  
Settlement

### Trading Quota for Northbound Trades

Daily Quota **RMB 13.0** BN

Aggregate Max. Quota **RMB 300** BN

- Where aggregate quota balance exceeds RMB300 bn, Northbound buying will be suspended till balance is restored.

### Trading Settlement & Currency

- All investment transactions, Northbound or Southbound, will be in RMB.
- RMB conversions will be done in Hong Kong by China Securities Depository & Clearing Company (ChinaClear).

# Shanghai- Hong Kong Stock Connect Northbound Trading

## Trading Hours

Trading Hours for Northbound & Southbound trading will follow SSE & SEHK trading hours respectively. However, SEHK will accept Northbound orders from exchange participants 5 minutes before the Mainland market session opens.

SSE Trading Session	SSE Trading Hours	Timings for Input of Northbound Orders
Opening Call Auction	09:15 - 09:25	09:10 - 11:30
Continuous Auction (Morning)	09:30 - 11:30	09:10 - 11:30
Continuous Auction (Afternoon)	13:00 - 15:00	12:55 - 15:00

- 09:20 - 09:25 SSE will not accept order cancellation
- 09:10 - 09:15 ; 09:25 - 09:30 ; 12:55-13:00 Orders and order cancellation can be accepted by SEHK but will not be processed by SSE until SSE's market open
- Orders that are not executed during the opening call auction session will automatically enter the continuous auction session.

## Holiday Policies

Investors are only allowed to trade on days where both markets are open for trading and banking services are available in both markets on the corresponding settlement days.

## Fees & Taxes in Northbound Trades

Items	Rates	Charged by
Handling Fee	0.00696% <i>Of the consideration of a transaction per side</i>	SSE
Securities Management Fee	0.00200% <i>Of the consideration of a transaction per side</i>	CSRC
Transfer Fee	0.06000% <i>On face value per side</i>	ChinaClear
Stamp Duty	0.10000% <i>Of the consideration of the transaction on the seller</i>	SAT
Commissions & GST	<i>Refer to your trading representatives</i>	MKES

All the above fees and levies will be collected from CCASS Participants' designated bank accounts at day-end of T day.

The following fees and taxes are to be confirmed with the relevant regulators,

### 1. New CCASS Fee

- Charged by HKSCC
- New fee for providing depository & nominee services to CPs for SSE Securities, subject to approval by the Securities & Futures Commission of Hong Kong

### 2. Dividend Tax & Capital Gain Tax

- Charged by SAT, subject to further clarification



# The Yellow Train

**Operator:** Maybank Kim Eng

## Our **Regional** Presence.

Maybank is ASEAN's fourth largest banking group, a Global 100, and ranked the world's 17th strongest bank by Bloomberg.

Maybank Islamic is the third largest Islamic bank globally.

Maybank Kim Eng ("MKE") has ASEAN's largest brokerage footprint with over 150 branches and 1,800 sales force in the six largest ASEAN markets.

## Our Awards

Best Broker in Southeast Asia 2014

Best Broker in All ASEAN Countries 2014

Best International Operations & Technology 2014

Awarded by The Asset Triple A, The Asian Banker, Alpha Southeast Asia, FinanceAsia

**10** Countries

**181** <sup>(USD)</sup> billion Total Assets

**29** <sup>(USD)</sup> billion Market Capitalisation

**40,000** Employees Serving the Region

**2,000** Branches Across ASEAN

**20** million ASEAN Customers



# Board the Through-Train Today.

Talk to us.

We are here for you.

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