廣發證券（香港）經紀有限公司
GF SECURITIES (HONG KONG) BROKERAGE LIMITED

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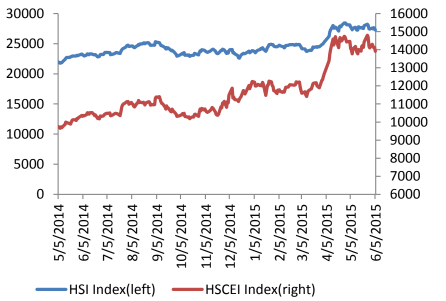
China Market Snapshot

Positive (maintained)

Alex Fan, CFA
SFC CE No. ADJ672
alexfan@gfgroup.com.hk
+852 3719 1047

GF Securities (Hong Kong) Brokerage Limited
29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Market performance



Source: Bloomberg

Banks starting to catch up

Divergence between Hong Kong and mainland markets The Hong Kong market continued to lag behind the mainland last week, with the HSI down 0.7% and HSCEI down 1.4%, compared with rises of 8.9%/9.3% in Shanghai/Shenzhen markets. Market sentiment was volatile as demonstrated by the intraday V-shape performance last Thursday, driven by news of local brokers starting to tighten margin financing for ChiNext board stocks. In addition, the possibility of a Greek debt default and rising euro and US bond yields also weighed on the Hong Kong market. In this weaker market, large cap stocks outperformed mid-to-small caps for the first time in months, as profit-taking pressure emerged while the lower valuations of large cap stocks started to become attractive, which is in line with what we have been arguing (Fig 2). Most sectors were largely weak while banks, railway machinery and coal were the few outperformers (Fig 3). In particular, banks were helped by news about the imminent announcement of mixed ownership and mixed business plans by the State Council this month.

Surge in capital raising in May a concern Funds raised through IPOs and secondary placements/rights issues amounted to HK$326.7bn in 5M15, up 84.8% YoY, annualized as 2.5% of total market cap, but still below the previous market peak levels of 7.7% in 1997, 9.6% in 2000 and 2.9% in 2007 (Fig 4). However, capital raised in May alone amounted to HK$184.9bn, more than the total amount in Jan-Apr, indicating an increasing supply of stock in a rapidly rising market. Together with the number of share placements announced last week, investors should monitor the trend closely given the negative correlation with market trend if history is of any reference.

Financials remain attractive Financial stocks are still attractive given easing monetary policy, in our view, with an RRR and interest rate cut still highly likely in short to medium term. Major securities companies reported their preliminary financial results last week. The 20 securities firms that have post their monthly financials reported a 393% YoY increase in net profit in 5M15, representing 1.24x 2014 full-year earnings, driven by brokerage fees, proprietary trading and margin financing. We believe the sector's underperformance over the past month is not justified and that a valuation of 16x 2015E P/E remains reasonable. Meanwhile, banks should benefit from government plans for mixed ownership and mixed business, as well as local government debt swaps, while re-rating potential remains high especially if sector rotation occurs in the mainland markets. Insurers see positive trends in premium growth, investment return and policy benefits in 2015. 1Q15 net profit growth exceeded 50% YoY for the sector with 13% and 23% YoY premium growth recorded in P&C and life respectively; full-year earnings are likely to rise 20-30% YoY. Meanwhile, potential consolidation in small-to-mid cap and ChiNext board stocks could help to divert some mainland China funds to the Hong Kong market, which should benefit small-to-mid cap and high growth stocks.

Banks starting to catch up Of the ten stocks on our watch list, BoCom (3328HK, NR) saw the best performance last week (up 5.7%) driven by hopes of a mixed ownership policy, while GTJA's A-share IPO is likely to boost earnings for GTJAI (1788HK, Buy). However, Shenzhen Investment (604 HK, Buy) may experience short-term weakness after its HK$2.8bn top-up placement for new land acquisitions, even though its fundamentals remain strong with contract sales up 84% YoY in 5M15 and ASP up 14% YoY.

Macro review

Most US economic data released last week revealed that the US economy is on track for a moderate recovery in 2Q after a disappointing slump in 1Q. The trade deficit narrowed sharply in Apr on a slight rise in exports, indicating that the negative effects of a strong currency are starting to fade. The non-farm employment report showed solid growth in private payrolls, and earnings growth that was stronger than expected. Vehicle sales surged to a nine-year high in May, a positive sign of a strong rebound in private consumption in 2Q. The ISM manufacturing index bounced higher from a two-year low, the first acceleration in six months. We expect the Fed to raise rates at its Sep FOMC meeting if the data continue to perform well. However, the pace of normalization is likely to be gradual, since inflation remains at a low level. We therefore expect the accommodative environment to continue for a prolonged period.

Inflation returned to Europe in May, with a 0.3% YoY rise in the CPI, the first rise in six months. Core CPI was remarkably strong, rising to 0.9% from 0.6% the previous month, which is the highest level in nine months. Both data came in above market expectation, which shows that the positive effect of the ECB's asset-buying program seems to be stronger than expected. Last week, the ECB held its MPC meeting at which it kept rates unchanged as expected. At the press conference, the ECB's president Mario Draghi said that inflation data strengthened the central bank's confidence that it had taken the right decisions on the size and design of QE and other monetary policy measures taken in the preceding months. The ECB also raised its inflation forecast for 2015 from 0% to 0.3%. However, we believe it is too early to become hawkish. One of the driving forces behind inflation is a weak currency, but this effect is likely to fade in the second half. Also, growth momentum is still subdued. We maintain our view that the euro area recovery still has a long way to go, and expect the ECB to continue its QE program until Sep 2016.

Negotiations between Greece and its creditors did not end last week. Troika made it clear that Greece needs to make harsh reforms in areas such as pensions, as well as civil service and labor market reform. However, the Greek government rejected the deal since the reforms would hurt the economy. Prime Minister Alexis Tsipras even declared that the new bailout plan proposed by creditors was 'absurd'. In addition, Greece suggested a deferral of a series of debt payments, totaling EUR1.6bn until the end of the month. This decision allows the country to negotiate a new debt deal with creditors, but raises further uncertainty about whether an agreement can be reached. We are cautiously optimistic that there will be a last-minute compromise deal as both sides do not want to pay the heavy price of a default.

In China, PMI data indicated that the Chinese economy has not yet stabilized in 2Q. Official manufacturing PMI edged up to 50.2, but was below expectations. HSBC manufacturing PMI rebounded slightly to 49.2, but has now contracted for three consecutive months. Given soft demand, we expect GDP growth in 2Q to remain under 7% YoY. In order to boost the economy, the PBoC has maintained an accommodative monetary policy. The central bank disclosed that it has provided Rmb262.8bn in loans via its Pledged Supplementary Lending (PSL) program in the last five months and lowered the cost of funds sharply to 3.1%, from 4.5% last year. This is a very clear signal that the PBoC wants to lower interest rates further. Going forward, we expect further RRR and interest rate cuts to support the economy. Indeed, we believe an RRR cut is imminent in the next few weeks.

Figure 1: Market performance (1-week)

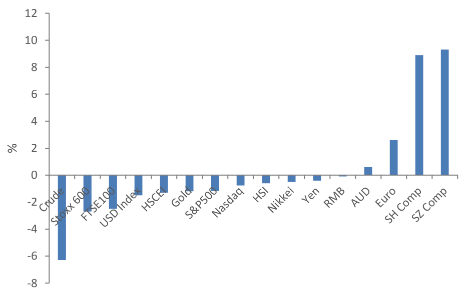
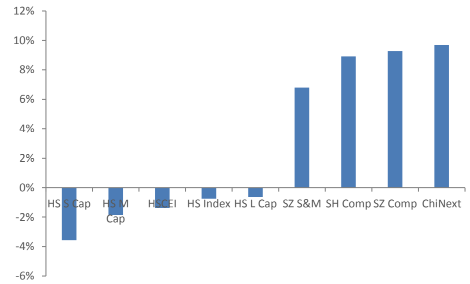


Figure 2: China indices performance (1-week)



Sources: Bloomberg, GF Securities (HK)

Figure 3: Sector performance (1-week)

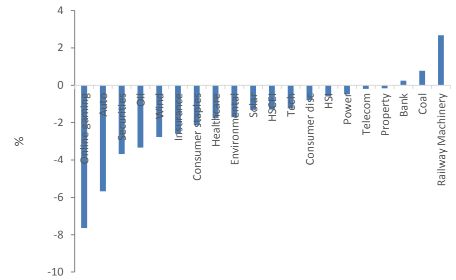
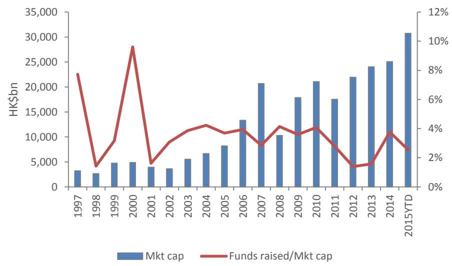


Figure 4: Market cap/capital raised



Sources: Bloomberg, GF Securities (HK)

Rating Definitions

Benchmark: Hong Kong Hang Seng Index
Time horizon: 12 months

Company ratings	
Buy	Stock expected to outperform benchmark by more than 15%
Accumulate	Stock expected to outperform benchmark by more than 5% but not more than 15%
Hold	Expected stock relative performance ranges between -5% and 5%
Underperform	Stock expected to underperform benchmark by more than 5%
Sector ratings	
Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

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29-30/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong
Tel: +852 3719 1111   Fax: +852 2907 6176   Website: http://www.gfgroup.com.hk