

## Hot on the plate – China Connect

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- ❖ **Overseas Strategy Thematic Report: The latest stock pool of Hong Kong stock connects is released, prompting adjustment to CITICS's sector classification for Hong Kong stocks**  
**Overseas Strategy** | With the conclusion of semi-annual adjustment of the Hang Seng Composite Index's constituent stocks, the latest list of the Hong Kong Stock Connect stock pool was also released on 11 Mar 2019. In the latest adjustment, a total 21 stocks were brought in, while 24 were taken out, with 480 stocks remaining in the adjusted stock pool. Based on price changes of individual stocks after the adjustment results were released by the Hang Seng Composite Index, we believe that inclusions in Hong Kong stock connects no longer pose a strong driving force for continuous market rises at present. In addition, we have updated CITICS' sector classification for Hong Kong stocks.
  
- ❖ **Tech Sector Report Series No.3: Estimation of impacts of VAT cuts on key TMT companies**  
**Technology** | As VAT cuts continue to deepen in 2019, among the TMT industries, manufacturing-dominated electronics and telecommunication sectors will enjoy relatively high earnings elasticity. However, the media sector will be less affected by the tax reductions because a 6% tax rate is generally implemented for it. As computers involve both hardware manufacturing and software development, different types of enterprises will be impacted quietly differently. Based on our static estimations on 93 key companies, we reach the following conclusions: 1) the tax reductions help further increase profits for enterprises with core competitiveness; 2) for enterprises with especially low profitability, the net profit elasticity brought by the tax cuts will bring high net profit elasticity; and 3) for those companies which have already received VAT rebates for self-developed software, the benefits of the current tax reductions will not be obvious.
  
- ❖ **Tech Company Valuation Report Series No.1: How to value tech companies?**  
**Technology** | As the expected Science and Technology Innovation Board approaches, companies listed on the board will abolish direct pricing-based issuance and go for market-oriented price inquiries. Investors in the secondary market are interested in the market-oriented valuation methods of tech companies, hoping to gain more experience from overseas mature markets. We have combed the historical valuation changes of representative tech companies in the U.S. stock market, and summarized the valuation methodologies for tech companies in different stages of development, which can be used as an issuance reference for companies in the Science and Technology Innovation Board.
  
- ❖ **A-Share Market Hot Spot Commentary 20190312: Will the foreign shareholding ceiling be raised?**  
**A-Share Strategy** | The removal of Han's Laser Technology Industry Group (002008) from the MSCI Index has triggered heated debate on the upper limit of foreign shareholding. We expect to see a limited effect of the removal in the short term after excluding the outflow of US\$286mn of passive funds due to potential targets overbought by foreign capital, which accounts for 0.38% of the average daily trading volume of A shares. However, as medium/long-term contradictions emerge, the regulatory authorities may well raise the ceiling on foreign ownership of A shares through QFII/RQFII.
  
- ❖ **Real Estate Brokerage Sector Thematic Report: Hot sales lead elasticity, leaders build barriers**  
**Real Estate** | Following a low period of two years, stock real estate brokerage companies have finally seen the light of recovering stock housing market in central cities. Meanwhile, leaders have also fairly high barriers.

## Other recommendations

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- ❖ **Express Delivery Sector Fed 2019 Data Tracking Commentary:** Parcel delivery volume in Jan-Fed rose 22% YoY, with off-peak season statistical impacts from the Spring Festival holiday season
- ❖ **Shanghai Jahwa United (600315) 2018 Annual Report Commentary:** Earnings meet expectation, focus on the revival of Herborist in 2019

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	OVERWEIGHT	Increase relative to market representative index between 5% and 20%
	HOLD	Increase relative to market representative index between -10% and 5%
	SELL	Decrease relative to market representative index over 10%
	OUTPERFORM	Increase relative to market representative index over 10%
	NEUTRAL	Increase relative to market representative index between -10% and 10%
	UNDERPERFORM	Decrease relative to market representative index over 10%

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