

Hot on the plate – China Connect

❖ **Mid-Year Main Broad-Based Market Index Sample Stocks Adjustment Forecast for 2019: Three non-banking stocks expected to be included in the SSE 50**

Quantitative Allocation | The China, Shanghai and Shenzhen stock exchanges are expected to make 2019's mid-year index sample stock adjustments on 17 Jun 2019. In accordance with the rules of index sample stock adjustment, we quantitatively forecast the adjustment lists. Based on the model estimation results, Tianfeng Securities (601162) and China Greatwall Securities (002939) are expected to be included in the CSI300, while People's Insurance Company (Group) of China Limited (601319), China Securities (601066) and Haitong Securities (600837) are expected to be selected for the SSE50. This round of adjustment will be characterized by a fairly big rise in the market cap of non-banking sectors and upgrades for more individual stocks.

❖ **Apr 2019 Economic Growth Data Commentary: The economy has twists and turns in the short term**

Macroeconomic | Apr economic growth data show China's real economy experienced twists again after stabilizing in the first quarter, with investment and consumption both trending weak on an MoM basis. Specifically, industrial added value increased 5.4% in Apr YoY, with the growth rate down 3.1 percentage points MoM; Jan-April manufacturing investment growth rate was only 2.5%, posting a significant decline; and social consumption growth rate slowed to 7.2% in Apr, the lowest since 2003. Looking forward, under both internal and external pressure, counter-cyclical adjustment is expected to ratchet up again after the "reprieve" in Apr. The real economy in May-Jun is expected to perform significantly better than in Apr.

❖ **Real Estate Sector Jan-Apr 2019 Operation Data Commentary: A micro interpretation of more-than-expected investment in development and outlook for future trends**

Real Estate | Enterprises did their best to reduce their planned floorspaces, cut down capital occupancy in the early stage of the development cycle, maintain a certain growth rate of business size, and weaken the risk of the peaking of the long cycle. All these factors combined to push up more-than-expected investment in real estate development. If credit is ample and sales are good, the planned floorspaces will continue to shrink and the investment will continue to beat expectations.

❖ **Red Star Macalline Group (601828) Update: Stat a new home retail journey on Alibaba's strategic investment**

Light Manufacturing | Red Star Holdings (HK) Limited, the Company's controlling shareholder, successfully issued exchangeable bonds on 14 May, totaling Rmb4359.4mn, all of which was subscribed by Alibaba Group Holding Ltd. (NYSE: BABA). At the same time, Alibaba acquired H shares of the Company in the Hong Kong market, which accounted for 3.7% of its total stock capital. If the bond exchange and H-share purchase were successfully completed, Alibaba will own a total stake of 13.7% in the Company and become its second largest shareholder. As competition for home customers intensifies, the Company has launched an IMP intelligent marketing system in cooperation with Tencent, upgrading traditional offline marketing to omni-channel precision marketing. Alibaba's shareholding will once again enhance the Company's online traffic attraction and customer acquisition capabilities, and further empower merchants.

Other recommendations

❖ **Airlines Mar 2019 Data Tracking Commentary:** Spring Airlines (601021) posts positive passenger load factor growth, and policy may prompt airlines to reduce cost

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Investment ratings are divided into stock rating and sector rating (unless stated otherwise). Rating standard is based on the relative performance with market in 6 to 12 months from the report issuance date, i.e. Performance of company stock price (or sector index) over the 6-to-12-month period from report issuance day is benchmarked against the change in market representative index in the same period. CSI 300 Index will be the benchmark index for A-share market; the NEEQ Component Index (stocks subject to negotiated transfer) or the NEEQ Market Making Index (stocks subject to market making) will be the benchmark index for the NNEQ board; MSCI-China Index will be the benchmark index for Hong Kong market; and NASDAQ Composite Index or Standard & Poor's 500 Index will be the benchmark indices for U.S. market.	BUY	Increase relative to market representative index over 20%
	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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