

Hot on the plate – China Connect

❖ **Policy Sandbox: Special bonds may ramp up, while infrastructure construction boost will stabilize expectations**

Policy Research | Both internal and external pressures are mounting at present. On Aug 30, the Commission on Stable Financial Development held a meeting, emphatically calling for "stepping up the counter-cyclical adjustment of macroeconomic policy" and for "the financial sector to continue to effectively support the issuance of local government special bonds." We anticipate that the government may boost infrastructure construction through more special bonds in order to stabilize expectations. Considering changes in the special bond/leverage ratio, we expect infrastructure investment to grow at an average speed of c. 5%-7% in 2019E.

❖ **SDIC Power Holdings (600886) Investment Value Analysis Report: Valuation is safe and expandable, as a new growth cycle is coming**

Public Utilities | The scale of its operating hydropower stations is huge, and these power stations are also scarce resources. The power station under construction at Yazhong will support growth. The Company's valuation has a safe margin and is expected to expand against a backdrop of declining expectations of return in society. Thermal power is bracing for an upward cycle, which will enrich the phased elasticity of the Company. Adopting the SOTP valuation method, we give it a target price of Rmb12.60.

❖ **China Merchants Shekou Industrial Zone Holdings (001979) Update: Business office development is expected to accelerate, as business capability is in the making**

Real Estate | According to the announcement of the Company, its holding subsidiary China Merchants Land has applied for the establishment of CMC REIT, a commercial real estate investment trust fund. The underlying assets to be injected into CMC REIT are the mature properties of the Company in Shekou, Shenzhen, namely Times Plaza, Science and Technology Building, Science and Technology Building II and Digital Building (all of which are office buildings, with a gross floorspace of 220,000 square meters), and Shekou Garden City Cyberport (a shopping mall, with a gross floor space of 50,000 square meters). These properties have an appraised value of Rmb6.52bn (as disclosed by CMC REIT at the stock exchange).

❖ **International Oil Price Thematic Report: Trade frictions put oil price under pressure, but the supply side offers clear support**

Oil & Petrochemical | In Aug, EIA, IEA and OPEC continued to downgrade global crude oil demand. The escalation of China-US trade frictions led to a sharp drop in oil prices at the beginning of the month, but the supply side still provided support, leading to a gradual stabilization and rebound in oil prices in middle and later Aug. On the supply side, Saudi oil output dropped to a five-year low, while OPEC continued to enforce a 100% production reduction implementation rate. Meanwhile, US shale oil output growth continued to slow down. On the demand side, Chinas refinery starts have rebounded, while U.S. refinery starts remain high. However, trade friction uncertainty may increase oil price fluctuations.

❖ **Social Services – Education Sector Posture Commentary: Excessive panicking is not warranted, and we uphold our existing judgement**

Social Services | For the time being, there is no new information about policies on private education. We do not think excessive panicking is warranted. Instead, we should wait for official policy documents to come out. As for the overall directions, developments are line with the previous information and our existing judgment: K9 will be on the tightening, K12 training will be regulated, while higher and vocational education is in agreement with the development direction of vocational education, thus benefitting from policies. We recommend corresponding allocations.

Other recommendations

- ❖ **Automobile Sector 1H19 Results Review and Outlook:** As business climate hits the bottom, wait for rebound
- ❖ **New Energy Vehicle Sector 1H19 Results Review:** Earnings are under pressure, look forward to high-quality development
- ❖ **Zhengzhou Yutong Bus (600066) Aug 2019 Sales Volume Commentary:** Sales volume slightly exceeds expectation, with a marginal fall in the impact of reduced subsidies
- ❖ **Public Utilities Sector 1H19 Results Review:** Thermal power shows strong counter-cyclic growth, hydropower utilization hours post visible increase
- ❖ **Comments on Media Coverage of Special Bonds in Construction and Cement Sectors:** Special bond quotas for next year may be issued award of time, with additional room for stabilizing infrastructure construction
- ❖ **Automobile Sector Monthly Heavy Truck Sales Volume Commentary:** Heavy truck sales grow slightly in Aug, while the impact of overmarked vehicle tonnage fades

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|--|--------------|---|-------------|
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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% | |
| Industry ratings | 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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