

## Hot on the plate – China Connect

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### ❖ **A-Share Strategy Focus 20191013: Monthly rebound starts**

**Strategy** | China and the US have reached partial consensus in their trade negotiations, and the Fed has gone for more-than-expected easing, both indicating an improving external environment. Gradual policy implementation will stabilize expectations of domestic fundamentals, with going long still being the choice for most investors. A shares are expected to remain in the channel of the second round of rally, while internal and external factors together catalyze a monthly rebound and open up the last window for going long in the year, and the index is expected to hit an early high of the year. We suggest that investors should continue to strengthen allocation to low-valuation stocks which benefit from a stabilizing economy and pay attention to structural opportunities from earnings reports for the third quarter.

### ❖ **China-US Economic and Trade Negotiations Tracking: Phase one agreement is imminent, relieving pressure on both side**

**Macroeconomic** | Substantive progress was made in the thirteenth round of China-US economic and trade negotiations, with the tariff hikes originally set for Oct 15 now temporarily put on hold. A phase one agreement will soon be signed. Both sides have achieved certain results in almost all areas, including expanding the Chinese import of agricultural products. In the future, attention should focus on the signing of the phase one agreement and the timetables for phases two and three talks. A further marginal slowdown in trade frictions will not change the general trends of domestic economic fundamentals, macroeconomic policies and future deployment.

### ❖ **19th CPC Central Committee Fourth Plenary Session Forward Report Series No.3: Wave the commanding baton of reform: High-quality development indicator system building will be on the agenda**

**Policy** | The Aug 30 Politburo meeting decided to hold the Fourth Plenary Session of the Nineteenth CPC Central Committee in Oct. Its theme will include national governance capacity modernization, covering economic, political, social and cultural aspects. Among them, government governance is an important cornerstone of development. In the past, GDP assessment had been used as a starting point. The traditional GDP assessment system focuses more on the growth of quantity, which is more suitable for China's past economic development stages. But in the future, a more diversified assessment system will be needed to adapt to the goal of high-quality development. Besides economic growth, the five aspects of innovation, coordination, green, opening up and sharing are also expected to be included. The establishment of a new indicator system will be put on the agenda.

### ❖ **Construction and Cement Sector Thematic Report: With a prominent role of underpinning, infrastructure construction can still be stepped up**

**Construction** | Under both internal and external pressure, infrastructure construction is expected to continue to play an underpinning role. Investors should grasp the following rationales: 1) we recommend central enterprises that benefit more from the current financing environment; 2) we recommend to closely follow West China Cement (02233.HK), a leader in Northwest China with absolute market share advantages in Shaanxi province; Anhui Conch Cement (00914.HK), a comprehensive leader based in East China; as well as Tangshan Jidong Cement (000401) which has engaged in integration and efficiency improvement and benefits from the promotion of coordinated development between Beijing, Tianjin and Hebei, while calling attention to China Resources Cement Holdings (01313.HK) and Guangdong Tapai Group (002233), among others; and (3) we call attention to design companies with sustained earnings growth and low valuations.

❖ **Comments on Rules on the Determination of Standardized Creditors Right -Type Assets (Draft for Comment) in the Context of the Banking Sector: Adhere to the long-term perspective**

**Banking** | The core of the rules reflects that the regulatory authorities have not changed in adhering to the principles and direction of the new asset management regulations. Reducing systemic risks in the field of asset management and the financial system in the medium and long term is still the overall direction. In the short run, the scale of recognition of banks' non-standard wealth management assets under the new regulations may increase slightly (estimated at Rmb550bn-750bn), but the impact of transitional exemption arrangements and non-standard business transformation on banks' wealth management business and social financing will be relatively limited.

## Other recommendations

- ❖ **Public Funds 3Q19 Review and Outlook:** Funds raised increase 80% YoY, and level-by-level transformation model deserves attention
- ❖ **Thematic Report on the Flow Diversion Impact of Opening of Haoji Railway on Daqin Railway:** Diversion is controllable, and high dividend is more attractive
- ❖ **Banking Sector Investment Watch 20191013:** Several focal points in recent trading fundamentals
- ❖ **Shanghai M&G Stationery (603899.SH) Tracking Express:** Exquisite cultural innovation business is promising, and refined regional fine management may become a trend
- ❖ **Muyuan Foods (002714) 3Q19 Earnings Report Commentary:** Production capacity grows fast, and slaughter may pick up speed
- ❖ **Jinyu Bio-technology (600201) Update:** Partnership with KyoritsuSangyo opens a new chapter for pet business

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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%
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	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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