

Hot on the plate – China Connect

- ❖ **Sep 2019 Price Data Commentary: No need to worry about short-term CPI breaking the 3% mark**
Macroeconomic | In Sep, CPI rose 3% YoY, beating market expectations. It was mainly due to price increases caused by contracting pork supply, while non-food prices and core inflation remained weak. There is no need to worry about inflation hitting the expected policy target, while the average inflation for the whole year is expected to be c. 2.6%. Weak core inflation and non-food prices mean downward pressure on the economy brought by sluggish aggregate demand. There is a relatively high probability of macro policies maintaining the current proactive posture. More attention should be paid to enterprises' rising financing cost and profitability pressure due to increased PPI deflation. Monetary policy needs to keep marginal easing to offer support.
- ❖ **Banking Sector - Sep 2019 Financial Data Commentary: Reform policy advances, monetary policy pursues stability**
Banking | Oct is expected to continue the monetary policy orientation which has been in place since the end of Sep. At its press conference, the central bank may indicate that there is little room for MLF rate adjustment in the short term, while there is still possibility of LPR easing. The banking sector has been performing strongly recently. Its subsequent short-term performance will depend on the change of market style. But, a long-term perspective can also be used to cope with short-term fluctuations.
- ❖ **Steel Sector Trend Judgment for 4Q19: Scrap steel is the core element of price support, steel price is sluggish but with no big downside**
Steel | Policy disturbances such as capacity-reduction and environment-induced production capping are coming to an end. In the absence of external forces to drive supply, steel price will return to the demand-led direction. Both steel price and profit are also expected to be demand-led. Supply-side research thinking has undergone tremendous changes, with focus of attention shifting from incremental capacity before the supply-side reform and policy regulation during the 2016-2018 period to scrap steel since 2019. As steel price faces downward pressure in the medium and long term, we make no recommendation for ordinary steel enterprises for the time being. However, we call attention to the stainless steel pipe industry which is now in a boom cycle and to industry leader Zhejiang Jiuli Hi-tech Metals (002318).
- ❖ **Kweichow Moutai (600519) 3Q19 Results Commentary: No need to worry too much about short-term fluctuations, as core assets show prominent value**
Food & Beverages | Revenue/net profit rose 16%/23% YoY in the first three quarters of the year, with strong certainty of full-year earnings growth. Looking into the next two years, the Company has a solid basis for sales volume increase and potential for price increase. It is expected to maintain robust growth, with core assets showing prominent value. Investors may go long on the Company. Considering the valuation switch at the end of the year, we raise its target price for the next 6-12 months to Rmb1,400, corresponding to a 25x PE for 2021E under an assumed price increase.

Other recommendations

- ❖ **Sep 2019 Financial Data Commentary:** Social financing growth remains robust, financing demand improves
- ❖ **Sep 2019 Financial Data Commentary & Bond Market Analysis:** Credit social financing rebounds, but time is needed to see how credit demand goes
- ❖ **Media Sector Oct 2019 Internet Video Tracking Express Report:** How to track the variety show segment?
- ❖ **Beijing Sinnet Technology (300383) 3Q19 Earnings Preannouncement Commentary:** MoM growth rate improves, with earnings basically in line with expectations

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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%
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