Strategy - Market Reforms

Hang Seng Indexes revamp: Seize China's new economy dynamism

- **Hang Seng Index family will embrace WVRs and secondary listings. Alibaba, Meituan and Xiaomi set to join the blue chips from August.**
- **The financials-heavy indexes will be more representative for Chinese equities, with higher weight in consumer discretionary and IT.**
- **We list 38 ADRs that may qualify for secondary listing in Hong Kong. We estimate new economy stocks will account for 30-35% of HK total market cap in next 5-10 years (current: 26%).**

Changes to a 50-year old index family. Hong Kong's stock index compiler, the Hang Seng Indexes Company (HSIC) announced the result of the consultation on methodology of the Hang Seng Index (HSI) and Hang Seng China Enterprises Index (HSCEI): (1) Weighted voting rights (WVR) companies and secondary listed companies from the Greater China region will be added into the HSI and the HSCEI universes, subject to a 5% weighting cap in order to adopt a prudent approach to start with. (2) Remove additional eligibility criteria on Red-chips and P-chips for joining the HSCEI. (3) The number of constituent changes will be capped at three in the first review. (4) No additional limits will be placed on financial stocks.

On the right track. We expect Alibaba (9988.HK), Meituan Dianping (3690.HK) and Xiaomi (1810.HK) to join the blue chip constituents in HSI and HSCEI from the Aug 2020 index review. We think the revamp will help the index family raise representation of new economy stocks with higher EPS growth potential, enjoy a valuation premium (Ex. 1-2), with stronger liquidity flow, drive turnover higher, and increase diversity. The indexes should better reflect the increasing contribution of the new economy to China's GDP. No significant fund flow expected upon re-balancing.

More to come. In the past two years since the pre-new economy listing regime took effect in April 2018, new economy companies raised 50.8% of IPO funds in Hong Kong (Ex. 3-7). We believe the revamp will also help to attract more listings of companies in high-growth emerging and innovative industries in Hong Kong, reshaping the market with other structural reforms (e.g. H-share full circulation, companies with WVR structure to be included for southbound trading). (Also see *2020 China Macro and Equity Outlook*, Jan 6.) We estimate that HKEx may lift the percentage share of new economy stocks (based on market cap) to 30-35% in the next 5-10 years, up from 26% now. We list 38 Chinese ADRs that may qualify for a secondary listing in Hong Kong (Ex. 8 and 9).

Uncertainties. The proposed secondary listing companies with WVR structures are still not eligible for southbound trading under the Stock Connect Scheme, pending regulator approvals. Interest and liquidity from mainland investors may be affected.

We remain medium-term bullish on Chinese equities given their growth potential, favorable FX movement and global investors' asset allocation demand. We think the Hong Kong market will be supported by undemanding valuation and resilient southbound inflows to buffet headwinds on earnings growth amid the COVID-19 pandemic.

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Hang Seng Index family: To increase “new economy” representation

Renovating an old house

Created in 1969, the Hang Sang Index (HSI) was originally designed to represent the Hong Kong stock market by capturing the performance of the largest and most liquid companies within the market. Over the past 50 years, however, the overall makeup of the Hong Kong stock market has evolved and become significantly more layered and sophisticated in terms of geographic exposure and sector mix.

Publicly traded companies in Hong Kong have evolved to include entities that mirror changes in society, broadening to include companies in innovative sectors as well as industries heavily affected by tech developments, such as internet, healthcare and pharmaceuticals. The Hong Kong stock market has also become increasingly reflective of the Chinese economy, with a higher proportion of Chinese stocks that may attract more foreign investor interest. An index that represents the market well should also capture such changes.

In the past two years alone, Hong Kong Exchanges and Clearing (HKEx) has established new listing charters to accommodate companies in innovative or “new economy” sectors that might otherwise have been unable to list under the previous rules. These include pre-revenue biotech companies and companies with weighted voting rights (WVRs), as well as companies from the Greater China region seeking a secondary listing outside their primary market.

In 2018, the HKIC broadened the eligibility requirements for the Hang Seng Composite Index (HSCI) – a comprehensive market benchmark that covers about the top 95th percentile of the total market cap of companies listed on the Hong Kong Main Board – to include foreign companies, stapled securities and WVRs.

In 1Q20, the HKIC launched a consultation on the HSI methodology that determines eligibility thresholds. The consultation covers various topics related to inclusion in the HSI, such as the eligibility of a number of share types (e.g., WVRs and secondary listings) and the weighting of the finance sector in the index.

Results of the consultation

According to the result of the consultation on methodology of the HSI and the HSCEI:

- WVR companies and secondary listed companies from the Greater China region will be added into the HSI and the HSCEI universes. However, shares with WVR, as well as any Hong Kong shares held by a depositary as underlying for overseas depositary receipts/shares, will be considered as non-free float shares. The individual constituent weighting of these securities will be subject to a 5% weighting cap.
- No change to be applied to the positioning of the HSI as a representation of the Greater China companies listed in Hong Kong.
- No specific ratio or weighting limit will be set for Hong Kong versus mainland China constituents or financials stocks in the HSI.
- There will be no additional eligibility criteria (i.e. listing history, price volatility or financial performance) on Red-chips and P-chips (private-owned companies) for joining the HSCEI. However, the number of constituent changes will be capped at three in the first review after implementation.

- Market representativeness will continue to be the main consideration for HSI constituent changes.

The above changes will be implemented starting from the August 2020 index review.

More representative China indexes with better fundamentals

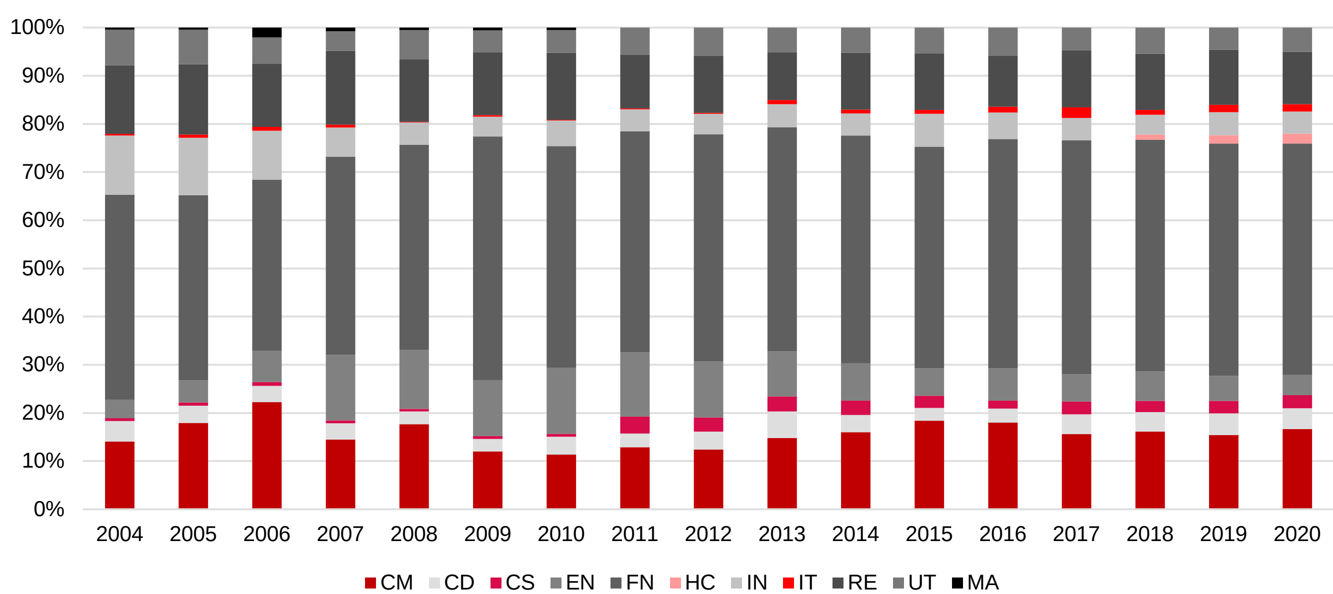
Currently, 48% of the total weighting of the HSI is in financial firms, according to Bloomberg, compared with about 15% on average for benchmarks in Europe, the US, Japan and mainland China. The HSI has had an annualized gain of 1.7% on average in the past decade, versus 5.2% for the MSCI All-Country World Index. In January, the HSI approached its lowest level relative to the MSCI measure since 2004.

We think the HSIC intends to broaden HSI's and HSCEI's representation and encompass investors' growing interest in Chinese equities by providing a more balanced sector mix and covering more share classes.

In its review released today, the HSIC concludes that no additional limits will be placed on financial stocks, since "the existing Financials weighting in the HSI is largely a reflection of Hong Kong market structure". However, WVRs and secondary-listed companies are mainly from "new economy" sectors and the skew in financials may be reduced naturally after adding WVRs and secondary-listed constituents. According to our calculation, after the reconstitution, the financials-heavy HSI will have a higher exposure in consumer discretionary and IT (over 30% in total expected after the revamp vs. current single digits for each sector before the revamp).

Compared with the HSI's existing constituents (as of May 18, 2020), we believe prospective new constituents – that meet the revised inclusion criteria – will be companies that deliver higher ROEs and enjoy more attractive levels in terms of P/E and P/B ratios than the current index average, with new names added and the less "qualified" dropping off based on the new measures. We expect some degree of upward revision to the valuation levels of the HSI and the HSCEI as a result.

Exhibit 1: Sector mix of Hang Seng Index: A more balanced representation expected after the revamp



Key: CD – consumer discretionary. CS – consumer staples. FN – financials. HC – healthcare. IN – industrials. IT – technology. MA – materials. EN – energy. CM – communication services. UT – utilities. RE- real estate. Source: Bloomberg, Hang Seng Indexes Company, CRSHK

Exhibit 2: HSI and HSCEI revamp: Potential joiners and leavers (based on revised inclusion criteria announced on May 18, 2020; effective in August 2020)

Name	Stock Code	Sector	Price (HKD)	Market Cap (HKD bn)	3M ADT (HKD bn)	2019-21E EPSg	2021E PE (x)	2021E PB (x)	2021E Div yld	2021E ROE
Hang Seng Index	N/A		23,934.77	7,846.0	43.9	0.2%	11.1	1.0	3.6	10.6
Potential New Joiners										
Alibaba	9988 HK	CD	203.00	4,356.7	4,464.0	24.9%	26.1	4.6	0.0	16.9
Xiaomi	1810 HK	IT	12.04	289.6	1,897.6	15.3%	17.9	2.5	0.0	15.0
Meituan Dianping	3690 HK	CD	121.90	710.3	2,735.3	176.6%	46.4	5.9	0.0	13.5
Average				1,785.6	3,032.3	72.3%	30.2	4.3	0.0	15.1
Potential Leavers										
AAC Technologies	2018 HK	IT	40.00	48.3	602.2	13.9%	14.7	1.9	2.3	13.9
Want Want China	151 HK	CS	5.43	67.4	104.9	7.3%	15.5	3.5	4.7	23.1
Swire Pacific Ltd	19 HK	RE	47.10	66.5	136.6	0.6%	8.6	0.3	6.6	3.1
Average				60.8	281.2	7.2%	12.9	1.9	4.5	13.3
HSCEI index	N/A		9,726.43	5,113.5	38.2	0.9%	8.4	1.0	4.0	10.7
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Average				1,785.6	3,032.3	72.3%	30.2	4.3	0.0	15.1
Potential Leavers										
China Taiping Insurance	966 HK	FN	12.30	44.2	168.6	1.3%	4.5	0.5	2.9	11.0
Sinopharm Group	1099 HK	HC	20.10	62.7	213.3	8.2%	7.3	1.0	3.9	13.1
China Conch	586 HK	IN	35.45	64.0	233.3	10.2%	7.1	1.3	2.7	19.0
Average				57.0	205.1	6.6%	6.3	0.9	3.2	14.4

Key: CD – consumer discretionary. CS – consumer staples. FN – financials. HC – healthcare. IN – industrials. IT – technology. RE- real estate.
Source: Bloomberg, Hang Seng Indexes Company, CRSHK estimates

Negligible flows from passive funds tracking HSI and HSCEI

Currently, the assets under management (AUM) of Hong Kong-listed ETF products tracking the HSI and HSCEI, as reported by HKEx, stand at USD12.7bn and USD1.7bn, respectively. We estimate passive fund flows of less than one day's turnover of the new constituents due to the rebalancing.

Exhibit 3: Hong Kong-listed Financial products tracking HSI and HSCEI (as of May 15, 2020)

		Tracking HSI	Tracking HSCEI
ETFs	No. of funds	17	14
	AuM (USD mn)	12,740	1,708
Futures	Open interest	137,207	375,933
Options	Open interest	318,276	2,719,589
Warrants	ADT (HK$ mn)	2,206.3	0.4
	% of total HK-listed	34.79%	0.01%
Callable bull/bear contracts	ADT (HK$ mn)	7,945	49
	% of total HK-listed	89.66%	0.55%

Source: Bloomberg, Hang Seng Indexes Company, CRSHK compiled

Listing rules reform in Hong Kong: second anniversary

A big step forward

Hong Kong Exchanges and Clearing (HKEx) announced its listing rules reform aimed at broadening its eligibility measures to enable and facilitate inclusion of tech and innovative firms two years ago. The new criteria, which allow pre-revenue issuers and issuers with weighted voting right (WVR) structures, and facilitates secondary listings, has been in effect since April 30, 2018.

The new Listing Regime introduced three new chapters in HKEx's *Listing Rules*:

- Chapter 8A: permits listings of "innovative" companies with weighted voting right (WVR) structures.
- Chapter 18A: permits listings of pre-revenue biotech issuers that may not meet all of the Main Board financial eligibility.
- Chapter 19C: establishes a new concessionary secondary listing route in Hong Kong for Greater China and international companies.

Good news for issuers with WVR structures or seeking a secondary listing…

Under the new chapters on listing rules, a qualifying issuer with a WVR structure or seeking a secondary listing should be an "innovative" company, with the following characteristics:

- **New technologies and innovation.**
- **New business model**, which serves to differentiate the company from existing players.
- **Research and development** a significant contributor of its expected value, and constituting a major activity and expense.
- **Intellectual property**: its success is demonstrated to be attributable to its unique features or intellectual property.
- **Intangible Assets**: it has outsized market capitalization / intangible asset value relative to tangible asset value.

Exhibit 4: HKEx has both qualitative and quantitative requirements for WVR structure and secondary listing companies

Type of Company	Listing Rules	Qualitative Requirements	Quantitative Requirements
Weighted Voting Right (WVR) Structure	Chapter 8A	(1) An innovative company. (2) A track record of high business growth. (3) Contribution and role of WVR holder: As the director of the company in an active executive role, WVR beneficiaries must be responsible for the growth of the business. (4) External validation: Received meaningful third-party investment from at least one sophisticated investor at least six months before scheduled listing.	(1)An expected market capitalization of at least HK$40bn at the time of listing; or (2) An expected market capitalization of at least HK$10bn at the time of listing and revenue of at least HK$1bn in the most recent financial year.
Secondary listing	Chapter 19C	(1) An innovative company. (2) Primary listing on a qualifying exchange (namely, NYSE, Nasdaq or Main Market of the LSE). (3) Good record regulatory compliance of at least 2 full financial years on a qualifying exchange.	(1) An expected market capitalization of at least HK$40bn at the time of listing; or (2) An expected market capitalization of at least HK$10bnat the time of listing and revenue of at least HK$1bn for the most recent audited financial year.

Source: HKEx, CRSHK

For secondary listings, Chapter 19C also differentiates between companies that had a primary listing on or before December 15, 2017 and those that listed after December 15, 2017 (the date the New Board Concept Paper Conclusions were published) in order to deter issuers from listing on a qualifying exchange and then seeking a secondary listing in Hong Kong in order to circumvent Hong Kong's primary listing requirements.

Companies with a center of gravity in Greater China and listed on a qualifying exchange on or before December 15, 2017 are considered Grandfathered Greater China Issuers, whereas those listed on a qualifying exchange after December 15, 2017 are considered Non-Grandfathered Greater China Issuers.

A Non-Grandfathered Greater China Issuer must amend its constitutional documents to meet the Key shareholder Protection Standards of Hong Kong, meet the Variable Interest Entity (VIE) Guidance, and conform to WVR safeguards and WVR structure with primary listing requirements.

Exhibit 5: Comparison of Greater China Issuers' listing requirements

	Grandfathered Greater China Issuer	Non-Grandfathered Greater China Issuer
Automatic waivers from full compliance with listing rules	Apply but will cease to apply if 55% of the total trading volume in the shares migrates to Hong Kong in the most recent fiscal year, in which case the companies would be treated as already having a dual-primary listing in Hong Kong.	
Key shareholder protection standards (KSPS)	No obligation to amend its constitutional documents to meet the KSPS but needs to comply with the listing rules.	Must amend its constitutional documents to meet the KSPS.
VIE structures	Can list with its existing VIE structure, but required to comply with the disclosure requirements specified in the listing decision and to provide the HKEx with a PRC legal opinion that their contractual arrangements comply with PRC laws, rules and regulations.	Must meet the HKEx's Variable Interest Entity (VIE) guidance.
WVR structures	No need to meet WVR safeguards (excluding the disclosure requirements) nor change WVR structure.	WVR safeguards and WVR structure must conform with primary listing requirements.

Source: HKEx, CRSHK

…as well as for pre-revenue biotech companies

According to HKEx, since the new listing regime took effect, HKEx has welcomed 28 healthcare and biotech listings on the Main Board in Hong Kong, raising HK$82.5bn. These include 16 pre-revenue biotech companies that have listed under Chapter 18A, raising a total of HK$39.7bn and accounting for 6.7% of IPO funds raised in Hong Kong in the past two years.

Currently, 146 healthcare companies are listed in the Hong Kong market, with a combined market cap of HK$1.85trn as of end-April 2020, up 72% from two years ago. And, according to public filings, there is still a strong pipeline: 11 healthcare and biotech companies have submitted IPO applications so far in 2020, including three pre-revenue biotech companies pursuing a Chapter 18A listing.

Exhibit 6: Listing requirements for pre-revenue biotech companies

Type of Company	Listing Rules	Qualitative Requirements	Quantitative Requirements
Pre-revenue Biotech Companies	Chapter 18A	(1) Developed at least one core product beyond the concept stage, which may include pharmaceutical (small molecule drugs), biologics, medical devices (including diagnostics), or other biotech products. (2) Engaged primarily in R&D of its core products. (3) Engaged in R&D of core products for a minimum of 12 months prior to listing. (4) In current line of business for at least 2 years under substantially the same management.	(1) An expected market capitalization of at least HK$1.5bn at the time of listing. (2) Working capital to cover at least 125% of the group's cost for at least 12 months post the listing.

Source: HKEx, CRSHK

A fruitful reform

The new listing regime has successfully broadened Hong Kong's issuer base and attracted listings of companies in high-growth emerging and innovative industries. "New economy" listings have been accelerated with the revision to the listing rules, given the definition of new economy companies, allowance of pre-revenue issuers, acceptance of issuers with WVR structures, and the facilitation of secondary listings.

Data from HKEx show that from 2007 to 2017 newly listed companies in new economy sectors accounted for only 3% of Hong Kong's total market cap, while those from pharmaceutical and biotech industries accounted for only 1%. In the past two years, however, since HKEx's new listing regime took effect in April 2018, new economy listings have continued to gain momentum in Hong Kong. Based on data from HKEx, we note the following:

- In July 2018, Xiaomi (1810 HK, BUY, TP: HKD12.66, CP: HKD11.96, Jason Sun) became the first company with a WVR structure to be listed under the new IPO rules, allowing for a two-tiered share structure with different voting rights.

  In November 2019, Alibaba (BABA US, BUY, TP: USD270.00, CP: USD203.68, Ella Ji) raised HK$101.2bn in a share offering in Hong Kong, for the first secondary listing of an innovative company in the city, as well as the year's biggest public offering globally and the biggest offering since 2010 in Hong Kong. Alibaba's 2014 IPO was held in the US due to regulatory limitations at the time that prevented an IPO in Hong Kong for a company with a WVR structure.

- A total of 84 new economy companies (including healthcare and biotech) have listed in Hong Kong since April 30, 2018, raising a total of HK$302.3bn and accounting for 50.8% of IPO funds raised in Hong Kong during the period.

- Funds raised via new economy IPOs rose to approximately 49% of total IPO fundraising in both 2018 and 2019 (from 2017: 34.6%; 2016: 15.2%).

- A total of 32 new economy companies were listed in Hong Kong in 2018, raising HK$142.5bn, followed by 47 such listings in 2019, raising HK$154.6bn.

- New economy companies listed since the new listing regime became valid now account for 17% of total market cap of Hong Kong-listed stocks.

- Average daily turnover (ADT) contribution from new economy companies listed since 2017 in the cash equities market rose to 15.4% in 2019 from 4.1% in 2017.

We expect even greater representation of new economy stocks in Hong Kong
With the help of the new listing regime, we believe that Hong Kong will a rising proportion of new economy stocks in the pipeline, together with some mega-IPOs.

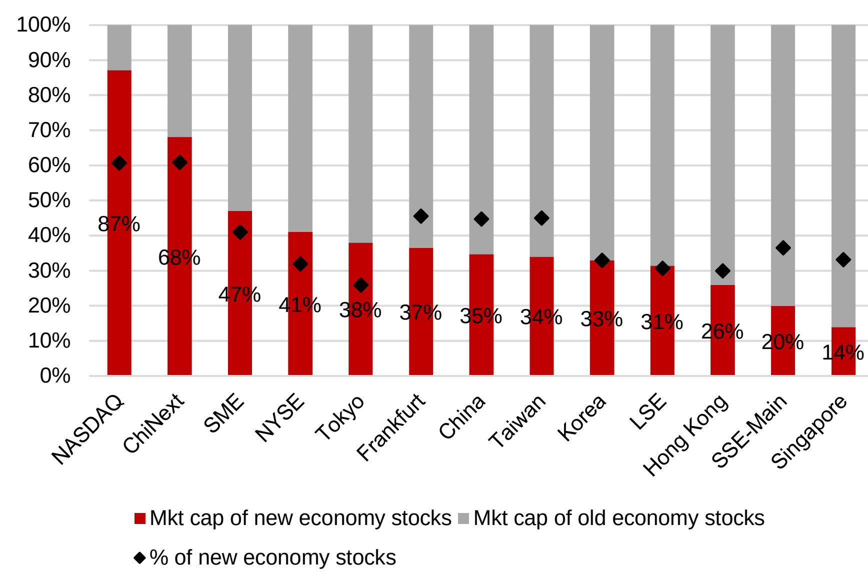
Hong Kong has a comparatively low proportion of new economy stocks, relative to most major exchanges. Considering the increasing contribution of the new economy to China's GDP (16.1% as of end-2018, up 0.3ppts YoY, as per National Bureau of Statistics data) and recently introduced conditions that make HKEx an attractive option for new economy listings, we believe the proportion of newly listed new economy stocks in Hong Kong will grow at a faster pace in the coming years, particularly given the greater percentage of new economy stocks in the IPO pipeline at present.

The trend is already visible: the portion of new economy stocks in the Hong Kong market based on market cap rose 3ppts to 26% in the past three years, according to our calculation, on data provided by HKEx, Bloomberg and Wind. Driven by the large pipeline of new economy listings, we estimate that HKEx may see a further rise in the percentage share of new economy stocks (based on market cap) to 30-35% in the next 5-10 years.

In our view, increased listings of new economy stocks may:

- Attract more liquidity flow into the market, especially from mainland China.
- Drive turnover in the Hong Kong market to an even higher level.
- Increase vibrancy and diversity of the Hong Kong market.

Exhibit 7: Hong Kong still has room for potential new economy listings



Note: As % of new economy stocks and old economy stocks in terms of proportion of market cap of all listed companies in the particular exchange.
Source: Bloomberg, Wind, CRSHK

Screening for Chinese ADRs that would qualify for a secondary listing in Hong Kong

We screened for stocks meeting all of the following criteria:

- Listed on the NYSE, Nasdaq or Main Market of the London Stock Exchange.
- Established for more than two years with good record of regulatory compliance in their listed market.
- Operating in new economy sectors: Sectors of IT, Communication Services, Healthcare, Consumer Discretionary, as well as the sub-sector of Commercial & professional services in the industrial sector.
- Market capitalization ≥HK$40bn; or market capitalization ≥HK$10bn and FY2019 revenue ≥HK$1bn.

In our view, these stocks may have a greater probability of seeking a secondary listing in Hong Kong, given they would qualify based on HKEX's current listing rules. We think those listed before December 15, 2017 may find it more convenient to file secondary listing applications, according to the HKEx's requirement, given that they are not obligated to amend constitutional documents to meet extra criteria, such as the key shareholder protection standards (KSPS). Our screen results are presented in the two tables below.

Exhibit 8: Chinese ADRs that would qualify for a secondary listing in Hong Kong under the revised rules (listed before December 15, 2017)

Ticker	Name (EN)	Name (CH)	Listing date before Dec 15, 2017	GICS Level III Sector	Price	Mkt cap (HKD bn)	2019A Revenue (HKD bn)	2021E PE
JD US	JD.com	京东	Y	Internet & Direct Marketing	50.9	578.9	654.5	28.5
NTES US	NetEase	网易	Y	Entertainment	374.4	374.8	67.2	19.4
BIDU US	Baidu	百度	Y	Interactive Media & Services	99.9	267.7	121.9	11.8
TAL US	TAL Education	好未来	Y	Diversified Consumer Services	54.0	247.7	25.6	37.8
ZTO US	ZTO Express	中通快递	Y	Air Freight & Logistics	33.3	202.5	25.1	26.1
EDU US	New Oriental Education	新东方	Y	Diversified Consumer Services	117.6	144.4	24.3	26.8
YUMC US	Yum China	百胜中国	Y	Hotels, Restaurants & Leisure	47.2	137.6	68.8	23.2
TCOM US	Trip.com	携程网	Y	Internet & Direct Marketing	24.0	110.3	40.5	19.8
VIPS US	Vipshop	唯品会	Y	Internet & Direct Marketing	16.9	87.8	105.5	11.6
HTHT US	Huazhu	华住酒店集团	Y	Hotels, Restaurants & Leisure	32.1	73.9	12.7	30
GDS US	GDS	万国数据	Y	IT Services	62.0	73.1	4.7	N/A
ATHM US	Autohome	汽车之家	Y	Interactive Media & Services	74.5	68.7	9.6	16.1
WB US	Weibo	微博	Y	Interactive Media & Services	35.1	61.5	13.8	13.1
MOMO US	Momo	陌陌	Y	Interactive Media & Services	20.7	33.5	19.3	7.8
YY US	JOYY	欢聚	Y	Interactive Media & Services	54.9	33.5	29.0	10.7
CBPO US	China Biologic Products	泰邦生物	Y	Biotechnology	106.9	31.9	3.9	20.6
JOBS US	51job	前程无忧	Y	Professional Services	59.8	31.0	4.5	20.6
HCM US	Hutchison China MediTech	和黄医药	Y	Pharmaceuticals	22.4	24.0	1.6	N/A
SINA US	Sina	新浪	Y	Interactive Media & Services	33.5	17.0	16.9	10.6
BEST US	BEST	百世集团	Y	Air Freight & Logistics	5.1	15.5	39.9	23.2
VNET US	21Vianet	世纪互联	Y	IT Services	17.0	14.9	4.3	114.3
BZUN US	Baozun	宝尊电商	Y	Internet & Direct Marketing	26.5	13.0	8.3	15.7
SOGO US	Sogou	搜狗	Y	Interactive Media & Services	3.5	10.6	9.2	10.5

Note: Price as the market close on May 15, 2020. 2021E P/E based on Bloomberg consensus estimates. Companies selected based on CRSHK assessment of HKEX's current listing rules. Source: Bloomberg, CRSHK analysis

Exhibit 9: Chinese ADRs that would qualify for a secondary listing in Hong Kong under the revised rules (listed after December 15, 2017)

Ticker	Name (EN)	Name (CH)	Listing date before Dec 15, 2017	GICS Level III Sector	Price	Mkt cap (HKD bn)	2019A Revenue (HKD bn)	2021E PE
PDD US	Pinduoduo	拼多多	N	Internet & Direct Marketing	61.3	569.1	34.2	89.7
TME US	Tencent Music	腾讯音乐	N	Entertainment	12.0	155.5	28.9	23.7
IQ US	iQIYI	爱奇艺	N	Entertainment	18.0	102.1	32.9	N/A
BILI US	Bilibili	哔哩哔哩	N	Entertainment	30.9	82.7	7.7	N/A
GSX US	GSX Techedu	跟谁学	N	Diversified Consumer Services	35.4	65.5	2.4	45.2
OCFT US	OneConnect Financial	金融壹账通	N	Software	15.1	43.2	2.6	N/A
KC US	Kingsoft Cloud	金山云	N	Software	23.1	36.8	4.4	N/A
HUYA US	HUYA	虎牙直播	N	Entertainment	17.1	29.1	9.5	17.3
NIO US	NIO	蔚来	N	Automobiles	3.4	29.1	8.9	N/A
DOYU US	Douyu	斗鱼	N	Entertainment	7.6	18.7	8.3	13.4
LX US	LexinFintech	乐信	N	Consumer Finance	8.2	11.6	12.0	3.6
DNK US	Phoenix Tree	蛋壳公寓	N	Hotels, Restaurants & Leisure	8.0	11.3	8.0	N/A
FUTU US	Futu Securities	富途证券	N	Capital markets	13.1	11.3	1.1	24.5
QFIN US	360 Finance	360 金融	N	Consumer Finance	9.3	10.6	10.5	2.7
GHG US	GreenTree	格林酒店	N	Hotels, Restaurants & Leisure	13.1	10.4	1.2	16.8

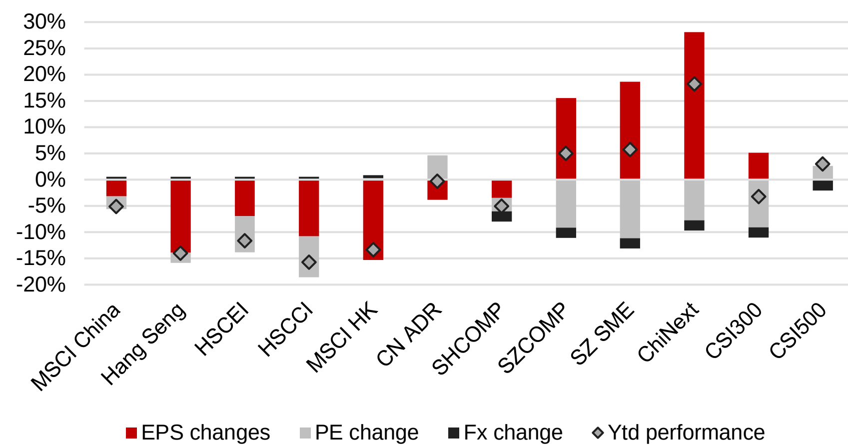
Note: Price as the market close on May 15, 2020. 2021E P/E based on Bloomberg consensus estimates. Companies selected based on CRSHK assessment of HKEX's current listing rules.

Source: Bloomberg, CRSHK analysis

Hong Kong market: We remain medium-term positive

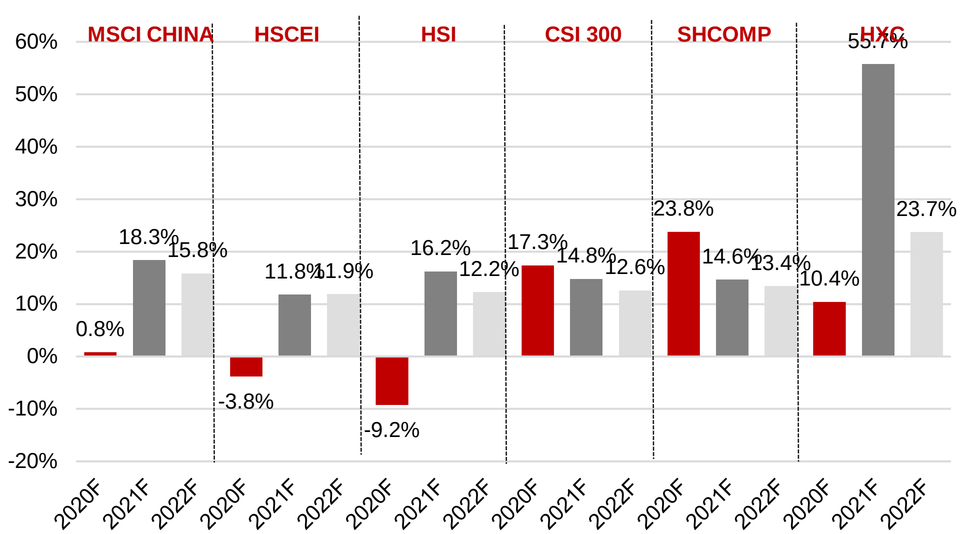
The Hong Kong market has underperformed A-shares and Chinese ADRs YTD, due to downward earnings revisions and de-rating of valuation levels. We remain medium-term bullish on Chinese equities given their growth potential, favorable FX movement and global investors' asset allocation demand. For the Hong Kong market, we think it will be supported by undemanding valuations and resilient southbound inflows via the Stock Connect scheme to buffet headwinds on earnings growth amid the COVID-19 pandemic.

Exhibit 10: Hong Kong market underperformed A-shares and Chinese ADRs YTD



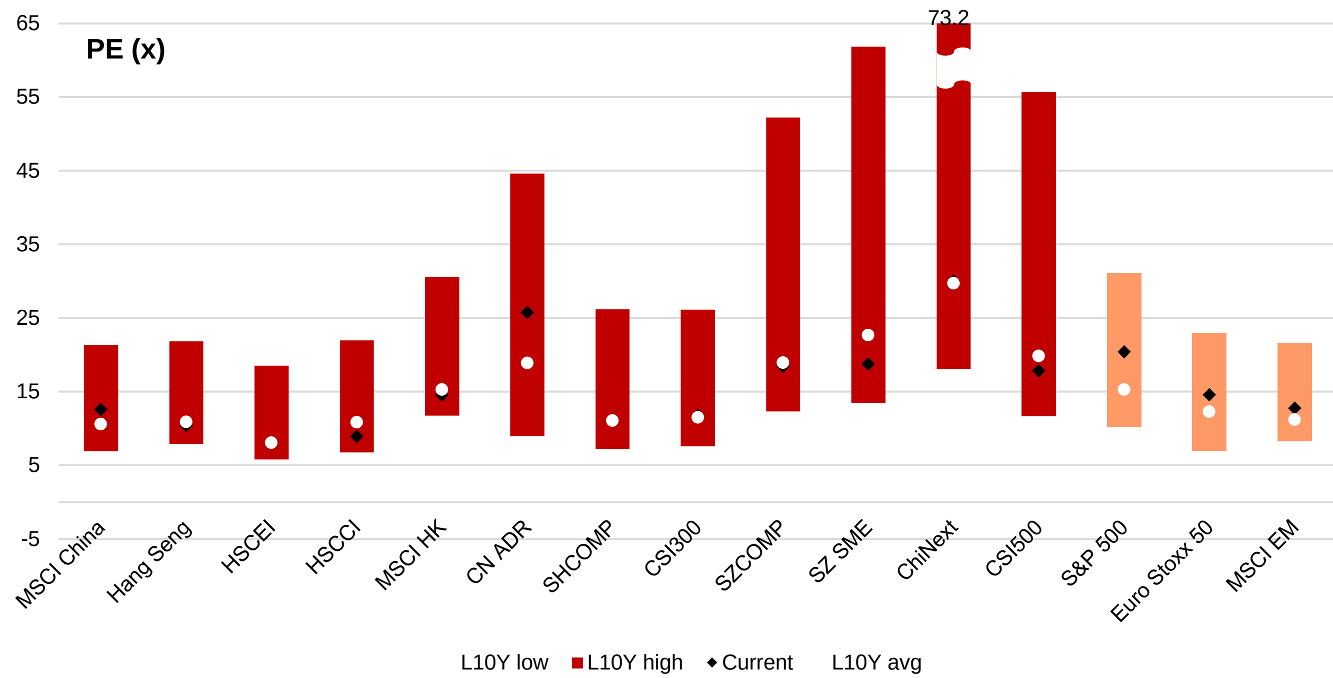
Source: Bloomberg consensus estimates, CRSHK

Exhibit 11: Consensus EPS growth forecasts for major indexes of Chinese equities: headwinds on Hong Kong market's earnings growth for this year



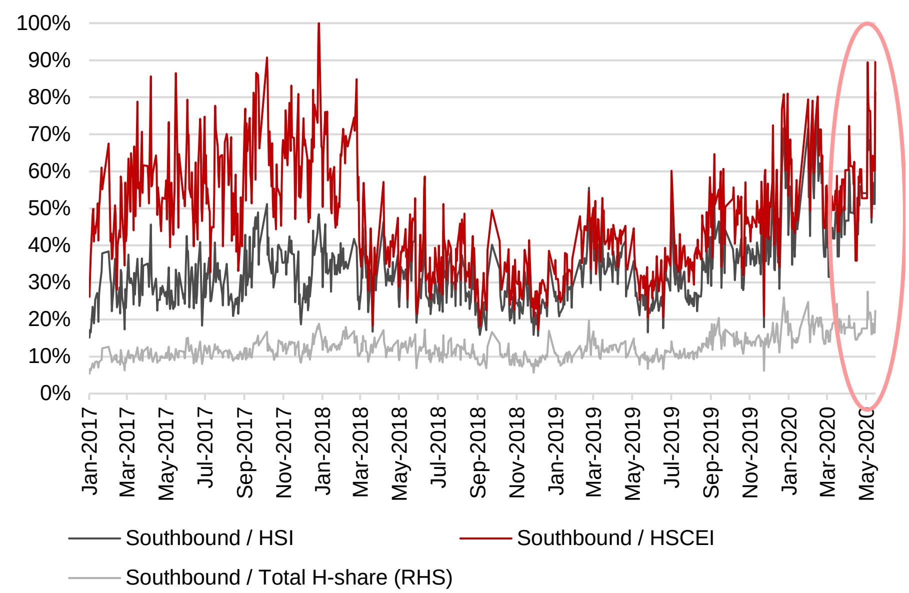
Source: Bloomberg consensus estimates, CRSHK

Exhibit 12: Valuation of major indexes of Chinese equities: Hong Kong market's valuation is still undemanding



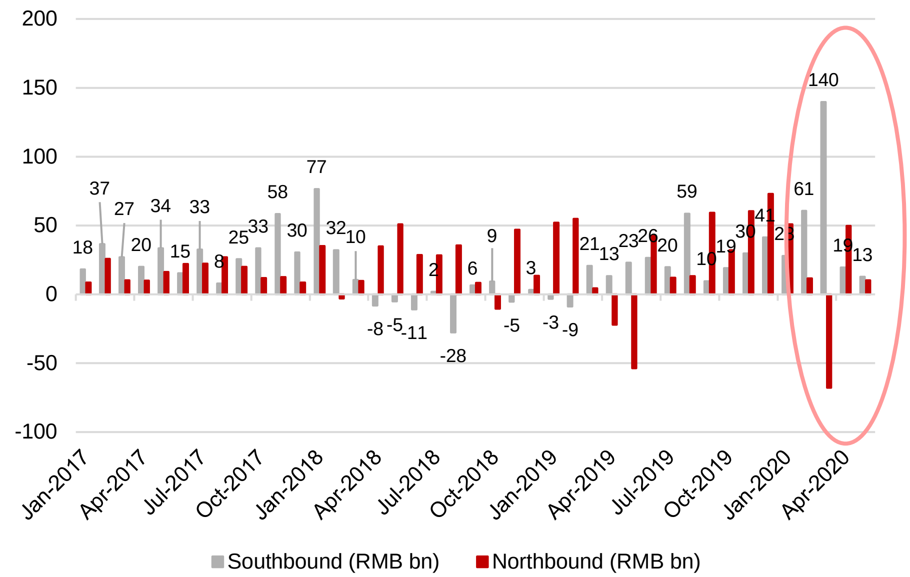
Source: Bloomberg, CRSHK

Exhibit 13: Percentage of southbound turnover of Hong Kong market rebounded recently…



Source: Bloomberg, CRSHK

Exhibit 14: …despite southbound inflow slowing after its record high in March



Source: Bloomberg, CRSHK

Appendix A

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