

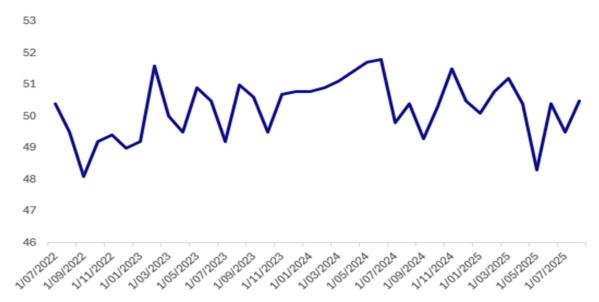




The Macro, Valuation, Sentiment and Technical Lens

Macro: The key late week was Loan Prime Rates, which as we expected was no change and Industrial Profits which jumped in August, reversing months of declines, signalling that the national campaigns to remove overcapacity and excessive competition are paying off. For the week ahead the Official PMIs (manufacturing and non) for September are released which are forecast to remain in a similar trend with manufacturing in modest contraction and services in modest expansion. The RatingDog PMIs are out also and are of more interest with expectations that services will remain strongly in expansion and manufacturing only just in expansion.

Fig 1: RatingDog China PMI Manufacturing



Source: Bloomberg Finance LP / MNI



All Signal, No Noise



<u>Valuations</u>: A lot of focus has been on the onshore equity rally. The P/Es now are elevated, even when compared to the post COVID period. At 17.6x for the CSI 300, forecasts are for a year end close at 16x and 2026 a further decline.

Fig 2: CSI 300 Price to Earnings

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Shanghai Shenzhen CSI 300 Index Compare Sec> Periodicity Annuals Cur FRC (CNY) • Wey State 2 Fundamentals 3 Custom 4 Shared									
11) Highlights	12) Valuation	13) Profitability	14 Leverage 8	Liquidity 19	Market Data				
I I II	10 1010011011	2021 Y	2022 Y	2023 Y	2024 Y	Current	2025 Y Est	2026 Y Est	
12 Months Endi	na	12/31/2021	12/30/2022	12/29/2023	12/31/2024	09/28/2025	12/31/2025	12/31/2026	
Valuation Metrics									
■ Price/Earn	nings	16.52	13.98	12.67	15.77	17.69	16.05	14.16	
Price/Earn	nings before	14.47	12.27	11.37	13.64	15.42	15.66	14.14	
	nings before	15.08	12.72	11.63	14.46	16.36			
Price/Boo	k Value	2.18	1.73	1.45	1.62	1.83	1.71	1.55	
■ EV/Sales		2.58	2.05	1.88	2.28	2.57			
■ EV/EBIT		20.31	17.25	17.28	20.43	22.16			
■ EV/EBITDA	4	20.27	15.58	14.83	16.15	18.03	16.77	15.07	
Dividend \	rield	1.64	2.43	2.79	2.71	2.42	2.46	2.71	
Fundament	tals								
Gross Mar	gin	18.82	17.66	18.60	18.81	19.38	20.19	21.07	
Operating	Margin	12.71	11.90	10.90	11.14	11.59	12.52	13.16	
■ Profit Mar	gin	10.02	9.63	9.06	8.95	9.33	9.71	10.28	
■ Return on	Assets	1.57	1.54	1.44	1.31	1.29	1.60	1.81	
■ Return on	Equity	12.82	12.22	11.06	10.13	10.20	10.74	10.98	

Source: Bloomberg Finance LP / MNI

Sentiment: The strength of the equity market has seen people rushing to open equity accounts. Signs of life in the Shanghai real estate market are encouraging but will need to see a more sustained recovery in multiple key cities. Margin trade account openings have grown, though in context the size of China's stock market also has nearly doubled in the past decade. The amount of leveraged purchases as a proportion of total market capitalization was 2.2% as month end, slightly above the 10-year average but far below 2015's peak of 4.6% (as reported by BBG).

Technicals: All major equity bourses remain elevated, above major moving averages. The bond market has for best part of this year seen the 10-Yr trading in a +18bps range, with no signs of a break out. Last week the 10-Yr traded above the 1.90% mark briefly, only to move lower within days.

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