



## Market Overview

Yesterday, Hong Kong stocks market slipped as Alibaba-SW (9988 HK) and JD-SW (9618 HK) led tech peers lower after a government report showed China's economy cooled further last quarter. Macau casino operators extended a rally following a regulatory boost, of which, Sands China (1928 HK) rebounded 14%, Galaxy Ent (27 HK) up 7%. The Hang Seng Index corrected 165pts to 24,218pts with a daily turnover of HKD105.3b.

## Sector News

### China Macro

A series of China economic data were released yesterday with 4Q21 GDP rose by 4% (higher than consensus forecast of 3.6%); Dec industrial production rose by 4.3% YoY (beat consensus forecast of 3.6%); 2021 YTD fixed asset investment rose by 4.9% YoY (higher than consensus forecast by 4.8%); Dec retail sales grew by 1.7% YoY (missed consensus forecast by 3.7%). China's zero-COVID policy seems to hit spending from Dec retail data. Market believed although China recorded better-than-expected GDP data, it doesn't change the big picture that China's economy is under multiple headwinds for now and a policy easing cycle is expected to underway.

### China Auto

According to Think Car data, China's Dec passenger vehicle (PV) wholesale volume grew by 2% YoY to 2.4m units. Full-year 2021 wholesale volume stood at 21.5m units (+7% YoY). The 7% YoY growth in 2021 was largely attributable to 1Q20's low base from the pandemic impact and the soaring growth of NEVs. The NEV penetration rate of PVs in December reached a historical high of 21%. By brand, there was significant MoM recovery: Geely (175 HK) (+17% MoM), Great Wall Motor (+2333 HK); among JV brands, Changan Ford (+22% MoM), GAC's (2238 HK) -Toyota (+16% MoM), GAC-Honda (+1% MoM), SAIC-VW (+1% MoM) and FAW VW (+27% MoM).

### China Airline

Three H-listed airline 2021 operating data recovered to c.50% of 2019 level on average. By companies, (1) Air China (753 HK) 2021 revenue passenger kilometers (RPK) dropped by 5% YoY with its revenue freight tonne kilometres (RFTK) rose by 21% YoY, achieving 45% and 90% of its 2019 levels, respectively; (2) China East Air (670 HK) 2021 RPK rose by 1% YoY with its revenue freight tonne kilometres (RFTK) rose by 53% YoY, achieving 49% and 114% of its 2019 levels, respectively; (3) China South Air (1055 HK) 2021 RPK declined by 1% YoY with its revenue freight tonne kilometres (RFTK) rose by 6% YoY, achieving 53% and 102% of its 2019 levels, respectively.

## Company News

### COSCO Shipping Ports (1199 HK)

With regards to port tariff hikes, its management had a positive view on China's ports. They stated that contracts are renewed every year and the company is currently negotiating with clients so that most of the renewal contracts are likely to be signed in 1H22E. Given the previous downcycle in the shipping industry and tariff cut in 2017, the China ports' tariffs have quite a bit of room to catch up to those of international ports, suggesting strong potential for a few years of tariff hikes, according to management. On the other hand, the operations of the Yantian port were adversely impacted by the pandemic outbreak during June-July 2021, but throughput was moved to other ports.

## Luk Fook (590 HK)

Luk Fook (LF) reported its 3QFY22 (Dec-21 quarter), same as Chow Tai Fook (1929 HK), same-store sales growth (SSSG) beat on both HK&Macau and China driven by better Dec sentiment. HK&Macau SSS recovery advanced QoQ to 67% of the level in the Dec-quarter 2018, outperforming 51% of CTF likely due to higher Macau exposure. China SSS for licensed shops came in at 20% above pre-COVID levels, catching up with the level of CTF at 24%. Into the Mar-quarter, its management is confident to achieve a positive SSSG YoY given the strong CNY pre-orderings. Despite low visibility on near term HK recovery, market believed there will be a solid growth for Luk Fook, supported by more aggressive ML China expansion at 500 net additions per year.

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