

# 2017 results preview – en route to recovery

## Strong growth acceleration in sight

HK- and US-listed Chinese companies will grow their profit by 18-19% in 2017E (19/-0.2% in 1H17/2016), and non-financials' growth will moderate to around 41% in 2017E from 53% in 1H17, according to our estimates. Overall 2017E results will be in line with consensus, with most sectors seeing strong recovery compared to 2016, in our view. We expect the 2017 results to lay solid ground for growth quality improvement this year ([annual outlook](#), 4 December 2017), and see upside risks for our estimate of 14-15% growth in Chinese companies' 2018E profit, mainly due to more favorable inflation.

## Expect recovery across most sectors

Compared to the results in 2016, growth acceleration and recovery will be seen across most sectors, in our view, thanks to strong commodity prices, warmer demand, and low-base effect. Warnings by A-share companies also provide some proof: of the 1,600 plus 2017 result alerts released by A-share companies, 66% were positive, 9% were for flat or similar results, and 24% were negative. The transportation, retailing, healthcare equipment and services, semiconductor, energy, and real estate sectors will likely lead the recovery as over 75% of the companies in these sectors issued positive alerts. In contrast, over half of utilities companies expected deteriorated profitability.

## Overall in line, potential beat/miss in select sectors

We expect the overall profit growth of Chinese companies to be in line with Bloomberg consensus of 18.1%. Based on Huatai sector analysts' forecasts, profit growth of the auto and utilities sectors could be lower than current consensus forecasts, while that at banks and airlines could be higher than consensus expectations.

## Laying the foundation for quality improvement

Consensus forecasts of the China market's profit growth have risen from 14% to 16% in the past three months. We believe the focus of companies' earnings recovery will shift from a high growth rate in 2017 to improved growth quality this year, and feature better margins, lower net gearing, and better profitability in the financial sector ([annual outlook](#), 4 December 2017). Despite some concerns over ROE facing pressure in the process of deleveraging, we note that improved margins could make a more significant contribution to the continuous uptrend of ROE in 2018.

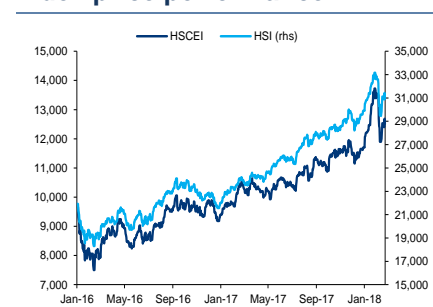
## Risks to our view

Upside risks to corporate earnings: 1) more favorable inflation; and 2) strong property investment. Downside risks: 1) rapidly rising interest rates could lift financing costs and undermine corporations' refinancing capabilities; 2) weaker-than-expected global economic recovery could temper exports, and 3) too stringent capacity reduction and environmental protection rules could hurt demand.

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## Index price performance



Source: Bloomberg

## Key charts

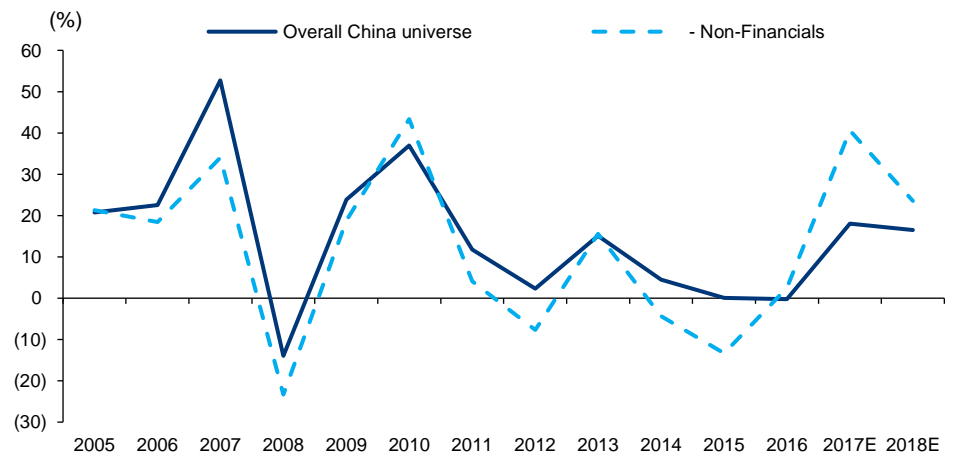
Fig.1. Net income growth in 2017E of HK- and US-listed Chinese companies (bottom-up method)

Sector	2014-16 net		Net income growth (yoy%)										
	Mkt cap weight (%)	income weight (%)						2017E		2018E		2018	
			1H15	2H15	1H16	2H16	1H17	Huatai	Bbg cons	Huatai	Bbg cons	Huatai	Bbg cons
<b>Energy</b>	3.6	6.0	(51)	(77)	(82)	80	538	185.7	181.3	38.9	32.8		
<b>Materials</b>	2.6	0.8	(6)	(274)	8	200	106	117.3	111.6	24.9	21.6		
<b>Industrials</b>	6.1	7.4	31	(37)	(20)	48	46	28.9	28.9	13.6	9.6		
- Capital Goods	4.0	5.5	(3)	(36)	(13)	54	36	19.0	21.4	8.4	9.2		
- Commercial & Professional Serv	0.4	0.2	42	32	32	30	21	19.0	18.5	28.9	31.3		
- Transportation	1.6	1.7	171	(42)	(41)	30	86	71.5	61.6	27.1	8.7		
<b>Consumer Discretionary</b>	8.7	2.9	(3)	(0)	13	61	19	21.7	33.5	34.9	31.3		
- Automobiles & Components	2.5	2.0	(5)	22	27	58	6	0.4	5.5	32.2	30.8		
- Consumer Durables & Apparel	1.6	0.7	22	2	11	21	1	15.5	15.2	16.8	16.9		
- Retailing	2.9	0.1	(11)	(188)	(91)	153	2,100	1,668.9	2,723.5	74.2	42.6		
<b>Consumer Staples</b>	2.0	0.5	(55)	15	123	(31)	27	32.1	41.9	16.2	20.0		
<b>Health Care</b>	2.9	1.1	28	7	5	25	17	20.8	20.6	12.5	12.1		
<b>Financials</b>	21.1	61.2	16	(0)	(4)	1	3	6.1	4.3	10.1	10.6		
- Banks	15.0	50.2	1.7	0.7	6.9	0.7	1.5	3.0	1.5	9.9	8.7		
- Diversified Financials	1.9	5.0	183	16	(44)	(8)	8	7.0	7.0	16.4	16.4		
- Insurance	4.2	6.0	76	(17)	(31)	19	9	32.6	26.6	7.9	20.1		
<b>Information Technology</b>	35.7	5.4	41	60	(20)	(15)	54	38.3	55.0	40.8	32.5		
- Software & Services	33.1	4.5	42	135	(25)	(22)	80	38.2	57.5	41.2	31.4		
- Technology Hardware & Equipment	1.5	0.7	57	(56)	(27)	(59)	7	109.6	109.2	50.4	52.3		
- Semiconductors & Semiconductor	1.0	0.3	(9)	(193)	94	195	(35)	(28.8)	(26.1)	4.6	5.0		
<b>Utilities</b>	1.7	2.4	25	3	(4)	(40)	(27)	(3.8)	(1.6)	37.6	34.4		
<b>Telecommunication Services</b>	6.6	5.7	(1)	1	(2)	(15)	5	7.8	7.8	11.0	11.0		
<b>Real Estate</b>	9.0	6.5	0	(7)	(16)	27	78	14.3	22.0	23.8	28.6		
<b>Overall China universe</b>	100.0	100.0	6	(11)	(10)	11	19	17.4	18.1	17.1	16.5		
- Ex Banks	85.0	49.8	10	(22)	(25)	22	42	32.6	35.6	23.1	22.6		
- Ex Banks & Energy	81.3	43.7	32	(10)	(18)	19	29	24.6	28.0	21.3	21.5		
<b>China non-Financials</b>	78.9	38.8	(8)	(25)	(20)	27	53	35.8	40.6	26.1	23.6		

Note: includes HK- and US-listed Chinese companies with total mkt cap greater than USD300mn; data as at 22 Feb 2018 close

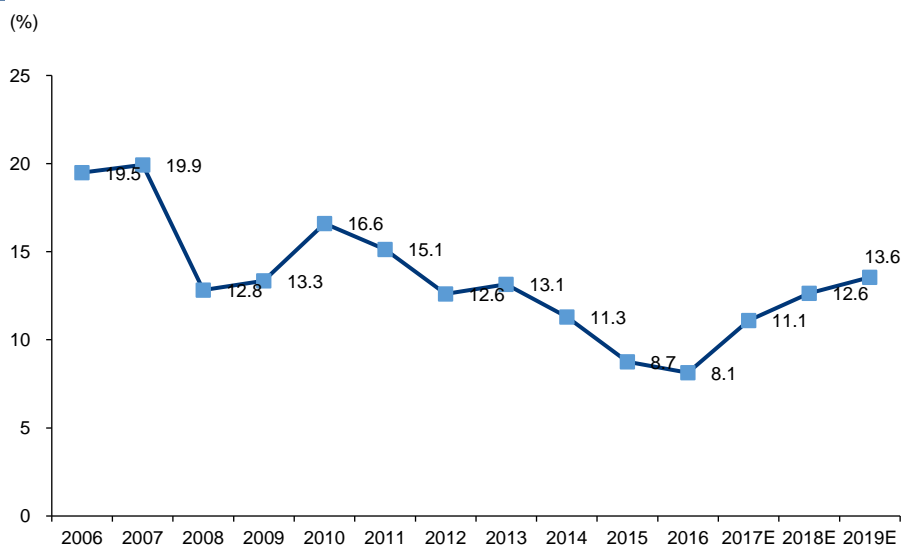
Source: Bloomberg, FactSet, Huatai HK Research

Fig.2. Net profit growth of HK- and US-listed Chinese companies



Source: Bloomberg, Huatai HK Research

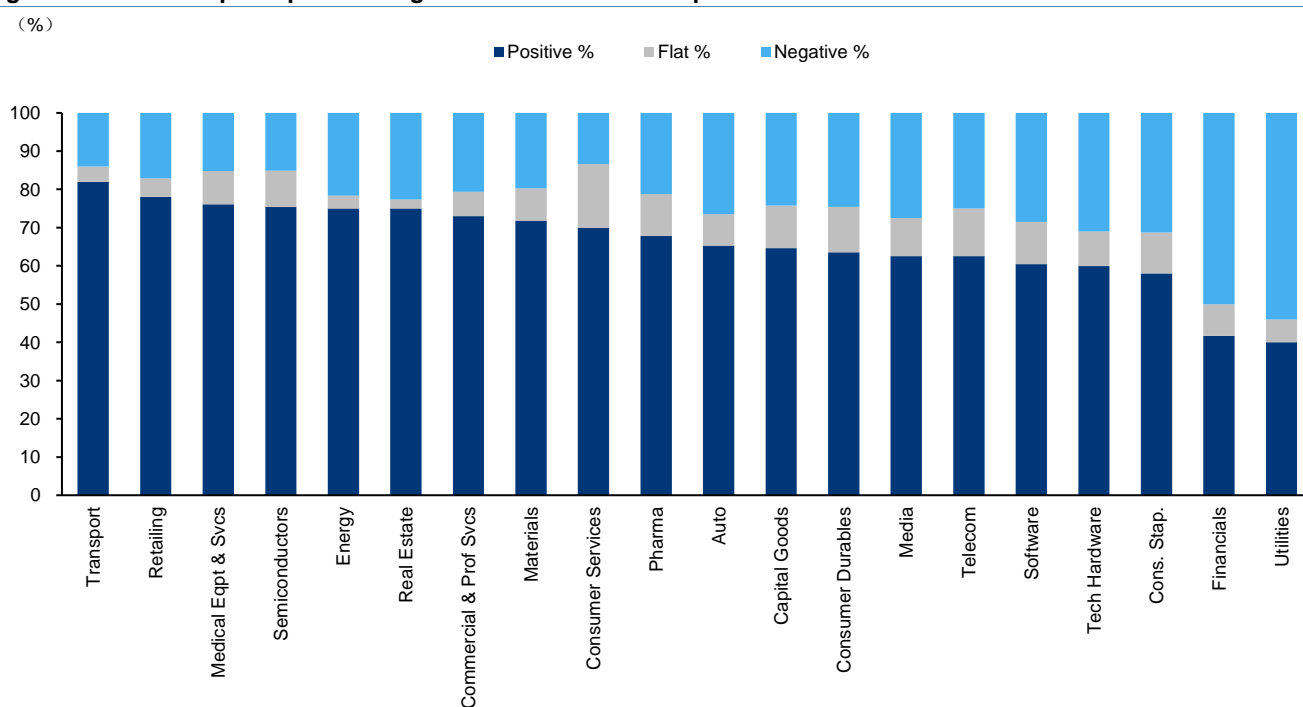
Fig.3. ROE of Chinese non-financials



Note: data as at 22 Feb 2018

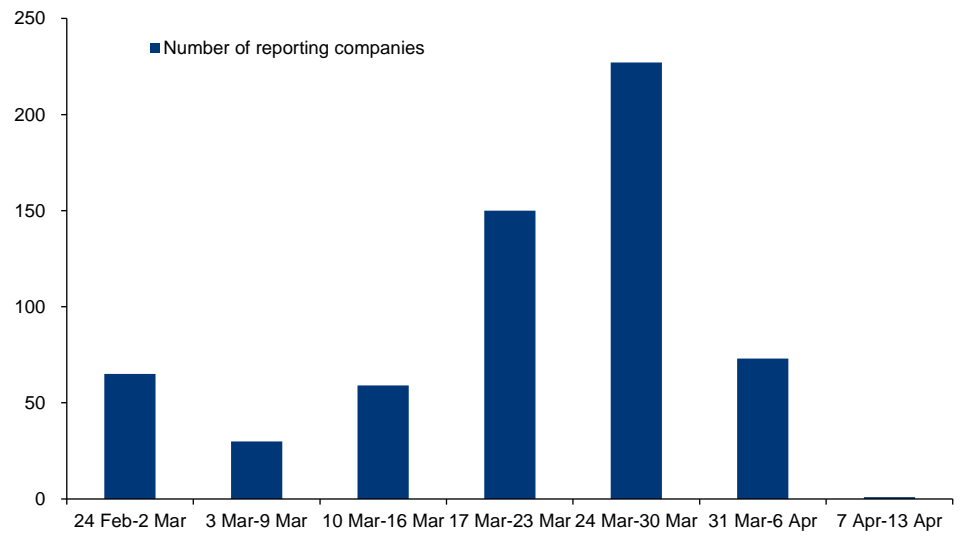
Source: Bloomberg, Huatai HK Research

Fig.4. Breakdown of profit pre-warnings of 1600+ A-share companies



Note: Positive includes "profit growth", "mild growth", and "turning to net profit"; flat includes "continued net profit or net loss"; negative includes "profit decline", "mild decline", and "turning to net loss".

Source: Wind, Huatai HK Research

**Fig.5. Reporting schedule of HK-listed stocks and US-listed Chinese companies**

Note: data as at 22 Feb 2018; includes companies with total market cap larger than USD500mn.

Source: Bloomberg, Huatai HK Research

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