China Equity Strategy

A-share Q126 earnings review: Earnings growth picked up notably, margins improved

Equity Strategy

China

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Overall A-share earnings +7.2% YoY in Q126, +11.8% YoY for ex-financials

Overall A-share earnings rose 7.2% YoY in Q126 (Figure 10), notably faster vs 3.8% for the full year of 2025. More importantly, earnings recovery this year has been mainly driven by non-financials, whose earnings grew by 11.8% YoY in Q126, up sharply from 0.8% YoY in 2025. Specifically, the greater tech sector continued robust earnings growth, driven by demand expansion amid the global AI and tech self-reliance themes. The steady progress and implementation of the 'anti-involution' campaign has driven a positive turn of PPI and earnings rebound for the upstream and midstream sectors. Besides, the financials earnings grew by 2.2% YoY in Q126, slower than 6.8% for the full year of 2025. Specifically, banks' earnings increased 3% YoY in Q126 (vs. +1.4% YoY in 2025); non-bank financials earnings fell 1% YoY, mainly due to insurers' profit declines amid the A-share market pullback in March. We lift all A-share earnings YoY growth estimate for full-year 2026 to 11% from 8% before.

Margins improved YoY; tech sectors capex growth accelerated

Margin wise, non-financial sectors' GPM and NPM both improved YoY in Q126, reversing the continued downtrend from 2020 and indicating recovery of aggregate demand and corporate profitability. Capex wise, non-financial capex increased 3.4% YoY in Q126 (Figure 14). The top 5 sectors with the fastest capex growth are transportation, non-ferrous metals, national defence, electronics and computer, with increases of 52%, 45%, 40%, 37% and 29%, respectively.

Which sectors and boards have had earnings uptrends?

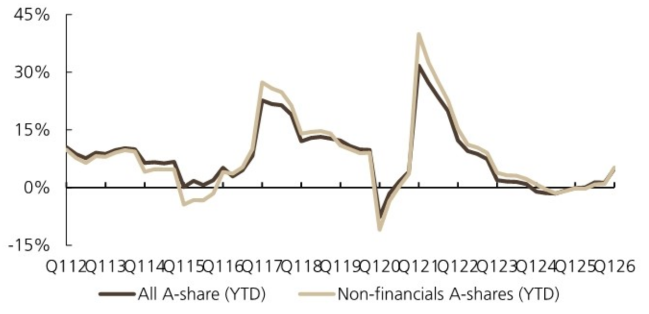
Earnings growth diverged notably among sectors in Q126 (Figure 10). Given rapid AI developments, relevant sectors all delivered strong YoY earnings growth in Q126, of which computer/electronics/electrical equipment sectors' earnings rose 124%/74%/53% YoY, respectively. Earnings growth was relatively weak for consumer sectors, with F&B/home appliances/auto sectors' earnings down 2%/8%/22% YoY, respectively. By boards, the ChiNext and STAR board notably outgrew the main board, with the former two's earnings up 23% and 205% YoY in Q126, indicating the sparks of innovation and new quality productive forces have boosted tech earnings.

Equity strategy: earnings recovery to drive A-share 'slow bull'; structurally bullish on growth

During market correction in late Mar, we pointed out that the A-share market "de-risking" may be nearing its end (note, 24 Mar). Since the US-Iran ceasefire announced on 8 Apr, the market risk appetite has recovered and global markets have rebounded (see "Four strategies for market re-risking", 8 Apr). Given A-share has already recovered to the levels in Feb, we think further upside momentum would be driven by earnings growth. Recently, both the positive turn in PPI and the 15.5% YoY increase in industrial profit in Q126 (Figure 11) pointed to recovery of A-share earnings growth. Meanwhile, the consensus estimates for the 2026 earnings YoY growth of CSI 300 have been revised upwards consistently, from 10.2% in late 2025 to 15.9% recently, indicating bottom-up earnings expectations improvement (see A-share earnings recovery – how is it progressing? and Figure 15 & Figure 16). Style wise, we prefer growth amid a 'slow bull' and cyclical amid the rebound in PPI and industrial profit; and remain bullish on small-cap due to abundant liquidity. Nevertheless, the relative performance of large-cap and small-caps should be balanced due to the potential ETF net inflows into industry leaders. Sector wise, we are overweight electronics, telecom, non-bank financials, national defence, non-ferrous metals, chemicals and electrical equipment.

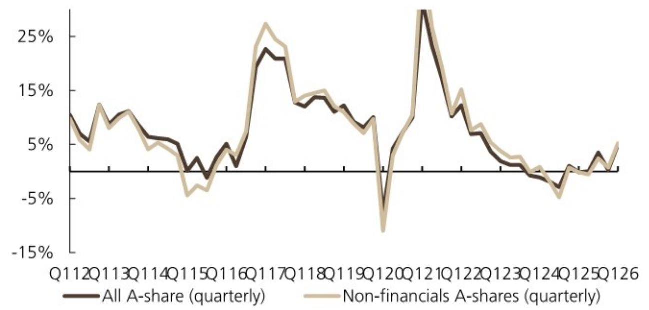
Detailed data on revenue, earnings, and profit margin for the overall market and specific sectors are available upon request via email.

Figure 1: A-share revenue growth (YoY, YTD)



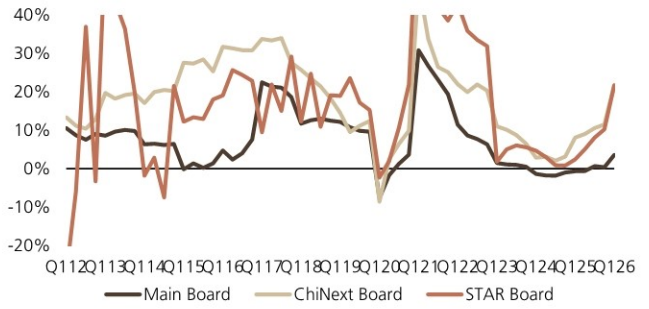
Source: Wind, UBS-S estimates

Figure 2: Overall A-share revenue growth (YoY, quarterly)



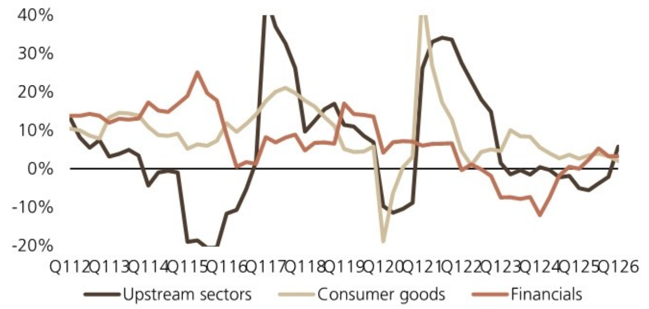
Source: Wind, UBS-S estimates

Figure 3: A-share revenue growth by board (YoY, YTD)



Source: Wind, UBS-S estimates

Figure 4: A-share revenue growth upstream/downstream (YoY, YTD)



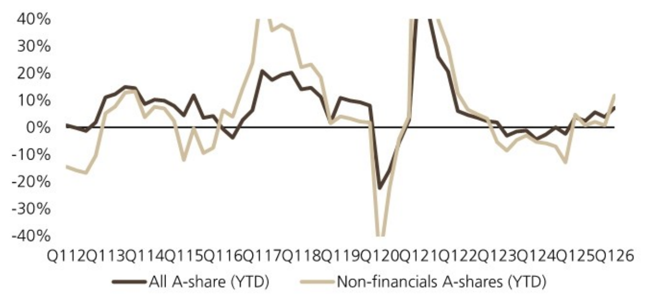
Source: Wind, UBS-S estimates

Figure 5: A-share revenue growth by sector

	2020	2021	2022	2023	2024	2025	Q4 2025	Q1 2026
All A-share	4.1%	19.9%	7.4%	0.9%	-0.7%	1.2%	0.3%	5.0%
A-shr excl. financials	3.5%	22.6%	9.0%	2.2%	-0.9%	0.9%	0.7%	5.2%
Financials	7.0%	6.6%	-1.9%	-7.4%	0.5%	3.3%	-3.1%	3.2%
Main Board	3.6%	19.4%	6.3%	0.5%	-1.0%	0.4%	-0.9%	3.6%
STAR Board	21.8%	38.6%	31.8%	5.6%	0.8%	10.2%	15.6%	21.7%
ChiNext Board	9.9%	25.1%	20.3%	6.5%	3.1%	11.5%	13.8%	21.7%
National Defence	14.5%	13.3%	7.6%	9.2%	-0.5%	37.7%	28.5%	44.1%
Non-ferrous metals	19.4%	36.4%	14.7%	1.7%	6.0%	14.9%	30.8%	37.0%
Electronics	19.1%	27.4%	6.7%	-1.3%	17.5%	20.1%	21.9%	28.2%
Electrical equipment	15.0%	35.8%	48.3%	8.2%	-8.3%	7.1%	10.2%	21.6%
Environmental protection	13.5%	18.5%	-1.0%	2.5%	-0.8%	5.5%	10.8%	13.5%
Chemicals	6.0%	32.6%	15.0%	-6.0%	2.8%	3.0%	4.2%	9.9%
Machinery	13.5%	19.2%	-0.4%	2.9%	5.1%	5.4%	3.0%	8.0%
Banks	5.5%	7.9%	0.7%	-3.5%	0.1%	1.4%	2.8%	7.6%
Commercial trade	-6.3%	9.0%	-7.3%	1.4%	-5.9%	-3.8%	-0.9%	6.6%
Social services	-32.7%	14.3%	-4.6%	64.4%	6.6%	4.7%	4.8%	5.9%
Telecom	4.1%	11.7%	9.4%	5.6%	4.0%	3.5%	4.2%	5.8%
Textile	-10.3%	20.4%	-2.1%	7.6%	-1.4%	1.0%	10.4%	5.5%
Beauty treatments	24.1%	2.6%	8.5%	-6.8%	2.6%	4.0%	0.3%	5.3%
Transportation	5.6%	30.9%	3.8%	-2.7%	-0.5%	1.3%	4.9%	4.8%
Light manufacturing	6.8%	27.5%	2.0%	-2.1%	1.0%	-1.4%	-2.2%	4.5%
Computer	-1.4%	15.5%	1.4%	2.2%	4.9%	7.5%	4.0%	4.5%
Media	-2.2%	8.9%	-6.3%	5.8%	0.3%	5.3%	3.9%	3.4%
Auto	1.4%	10.6%	4.2%	14.7%	7.0%	7.0%	3.3%	2.9%
Agriculture	21.4%	15.9%	13.1%	4.0%	-2.4%	2.0%	-6.6%	2.9%
Healthcare	7.5%	13.3%	9.9%	1.1%	-0.8%	-0.1%	4.0%	1.6%
Food and beverage	8.4%	11.2%	7.6%	6.9%	1.9%	-3.1%	-42.1%	1.6%
Coal	1.3%	33.9%	9.3%	-10.3%	-4.5%	-14.5%	-9.1%	0.8%
Home appliances	1.9%	16.1%	-0.4%	6.7%	5.5%	3.5%	-7.8%	-0.2%
Building materials	10.6%	37.2%	-12.7%	-0.9%	-12.4%	-7.1%	-12.9%	-2.1%
Utilities	5.7%	22.6%	15.8%	7.1%	-1.0%	-2.7%	-4.6%	-2.5%
Petrochemicals	-23.0%	33.2%	24.2%	-2.4%	-2.8%	-6.0%	-2.6%	-2.9%
Non-bank financials	9.2%	4.9%	-5.4%	-13.0%	1.3%	6.3%	-12.9%	-4.6%
Steel	2.4%	40.6%	-6.3%	-4.4%	-9.5%	-6.7%	-7.8%	-5.3%
Construction	14.1%	15.9%	9.4%	7.0%	-3.9%	-6.1%	-7.4%	-6.1%
Real estate	11.6%	12.2%	-8.5%	-1.1%	-21.1%	-18.3%	-29.6%	-23.7%

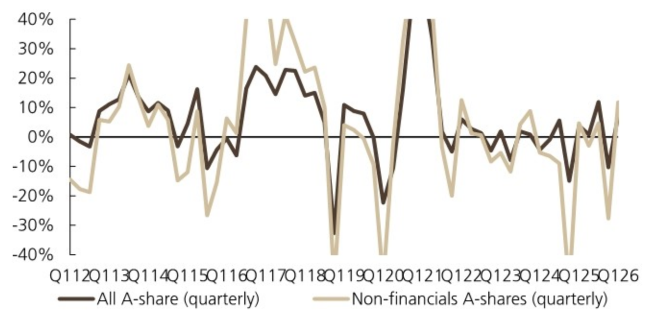
Source: Wind, UBS-S estimates

Figure 6: Overall A-share earnings growth (YoY, YTD)



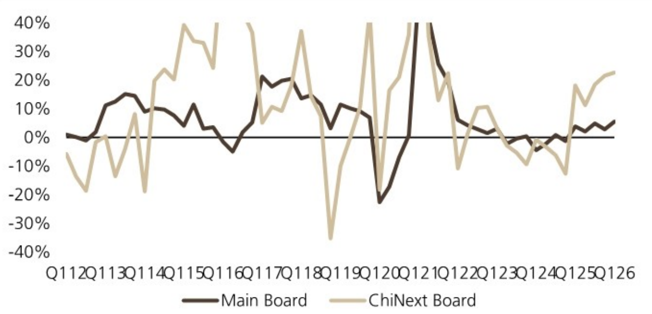
Source: Wind, UBS-S estimates

Figure 7: Overall A-share earnings growth (YoY, quarterly)



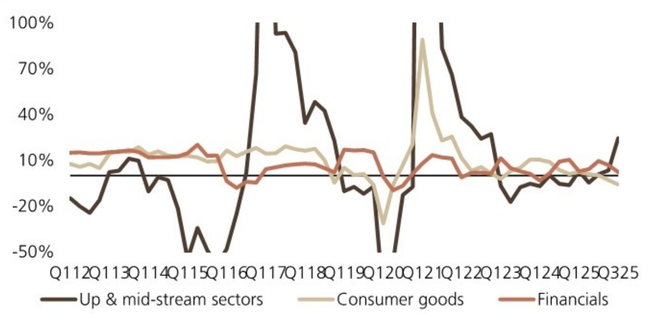
Source: Wind, UBS-S estimates

Figure 8: A-share earnings growth by board (YoY, YTD)



Source: Wind, UBS-S estimates

Figure 9: A-share earnings growth upstream/downstream (YoY, YTD)



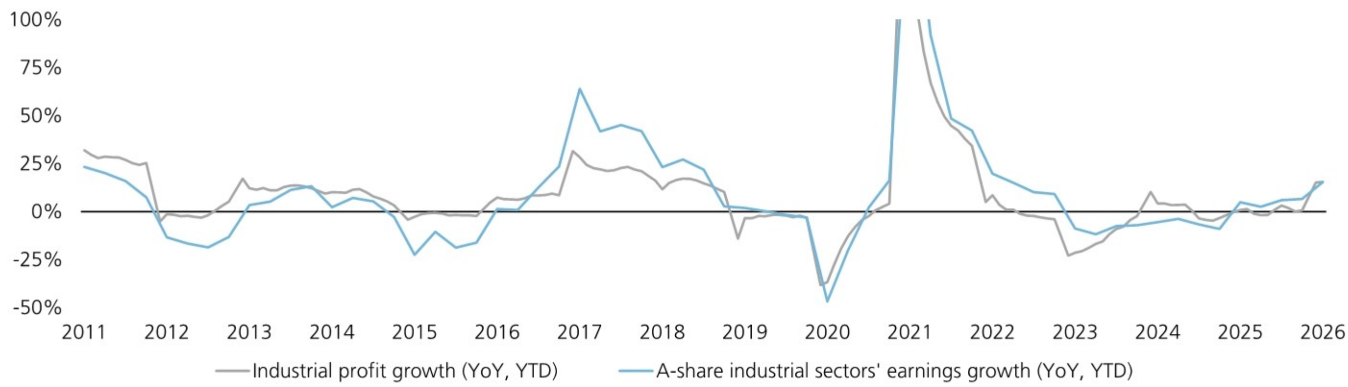
Source: Wind, UBS-S estimates

Figure 10: A-share earnings growth by sector

	2020	2021	2022	2023	2024	2025	Q4 2025	Q1 2026
All A-share	2.6%	20.7%	2.3%	-1.1%	-2.4%	3.9%	-10.3%	7.2%
A-shr excl. financials	4.0%	29.7%	3.3%	-3.0%	-12.9%	0.8%	-27.7%	11.8%
Financials	1.2%	11.2%	1.1%	1.2%	10.3%	6.8%	-3.6%	2.2%
Main Board	0.7%	19.5%	1.5%	0.4%	-1.3%	2.8%	-13.2%	5.5%
STAR Board	87.1%	94.0%	12.6%	-39.0%	-38.9%	26.3%	308.4%	204.7%
ChiNext Board	35.9%	22.5%	10.7%	-9.4%	-12.7%	21.6%	121.8%	22.7%
Computer	-11.7%	4.0%	-39.1%	-9.3%	-51.1%	67.6%	-1216.0%	124.5%
Non-ferrous metals	232.0%	126.4%	62.1%	-24.6%	2.2%	55.0%	102.5%	112.9%
National Defence	75.0%	8.6%	-5.4%	1.7%	-37.6%	55.3%	13.1%	86.7%
Electronics	58.7%	77.1%	-24.8%	-32.4%	36.6%	36.8%	41.2%	74.2%
Electrical equipment	55.2%	42.3%	88.2%	-17.4%	-60.5%	41.0%	-464.2%	53.5%
Commercial trade	-47.2%	-148.5%	-88.3%	-1177.7%	6.1%	-193.3%	390.5%	50.3%
Environmental protectio	207.5%	-16.0%	-16.0%	3.1%	-15.4%	1.3%	-94.5%	20.2%
Transportation	-98.2%	7057.3%	-44.2%	63.7%	11.3%	-13.2%	-88.6%	19.5%
Petrochemicals	-45.8%	170.2%	30.8%	-2.4%	0.5%	-11.7%	-14.5%	15.3%
Chemicals	128.5%	122.0%	-5.7%	-44.8%	-7.3%	4.8%	-24.1%	13.9%
Social services	-128.1%	-46.9%	8.5%	-639.5%	4.2%	-1.7%	-41.6%	6.4%
Telecom	3.5%	10.3%	17.5%	5.2%	6.3%	7.7%	2.7%	4.7%
Healthcare	43.4%	57.5%	-5.1%	-19.7%	-11.5%	1.5%	-23.2%	3.6%
Banks	0.7%	12.6%	7.6%	1.5%	2.3%	1.4%	1.3%	3.0%
Real estate	-11.6%	-60.0%	-101.5%	906.9%	1498.0%	9.3%	-24.7%	0.8%
Non-bank financials	3.6%	5.5%	-26.8%	-0.7%	61.1%	28.6%	-35.0%	-0.8%
Textile	-21.9%	54.8%	-40.2%	56.4%	-39.3%	21.0%	-228.2%	-0.9%
Media	38.2%	118.2%	-64.0%	130.8%	-49.3%	23.7%	78.1%	-1.0%
Food and beverage	18.4%	9.7%	11.9%	17.3%	5.3%	-10.7%	-136.7%	-2.2%
Coal	-1.7%	73.3%	52.3%	-25.5%	-19.0%	-26.3%	-16.5%	-3.1%
Machinery	40.7%	5.8%	-6.0%	1.3%	-7.8%	9.5%	16.7%	-5.2%
Utilities	22.6%	-54.0%	74.3%	65.6%	4.7%	4.8%	16.7%	-7.1%
Home appliances	6.7%	9.3%	8.9%	13.9%	7.1%	-7.1%	-65.7%	-8.1%
Beauty treatments	69.2%	-31.9%	-16.9%	46.7%	-16.5%	-2.8%	121.4%	-12.3%
Construction	4.7%	-3.3%	10.3%	10.0%	-15.7%	-23.0%	-67.4%	-15.2%
Light manufacturing	3.5%	2.8%	-28.4%	14.6%	-29.3%	-26.3%	55.0%	-20.7%
Auto	26.5%	10.5%	5.1%	47.7%	12.8%	1.7%	-3.4%	-22.3%
Building materials	11.5%	22.1%	-45.7%	-31.6%	-48.0%	-27.1%	-242.5%	-39.6%
Steel	0.0%	90.7%	-73.1%	-13.1%	-132.3%	-305.4%	-4.9%	-77.8%
Agriculture	34.5%	-139.8%	-163.5%	-115.5%	-1729.2%	-34.5%	-125.8%	-109.1%

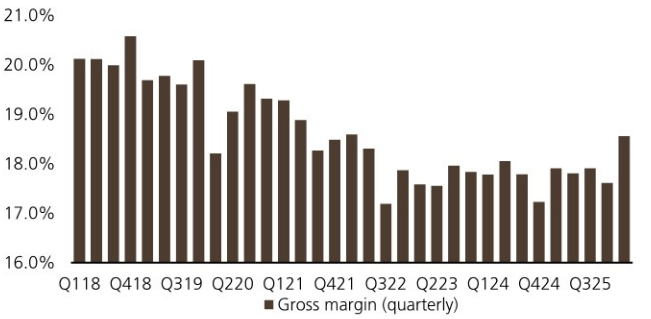
Source: Wind, UBS-S estimates

Figure 11: NBS industrial profit growth and A-share industrial-related sectors' earnings growth



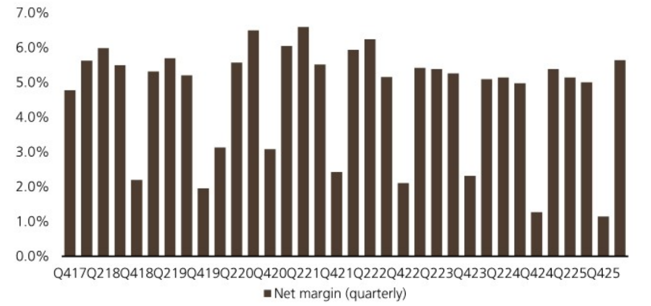
Source: Wind, NBS, UBS-S estimates. Note: A-share industrial related sectors including coal, light manufacturing, food & beverage, textile, building materials, chemicals, healthcare, steel, non-ferrous metals, machinery, national defense, auto, electrical equipment, computer, telecom, electronics, home appliances, utilities, oil and petrochemicals.

Figure 12: Quarterly GPM for non-financial A-shares



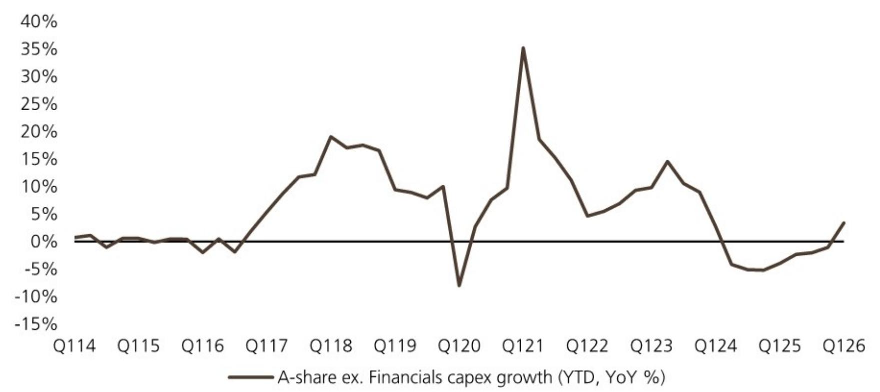
Source: Wind, UBS-S estimates

Figure 13: Quarterly NPM for non-financial A-shares



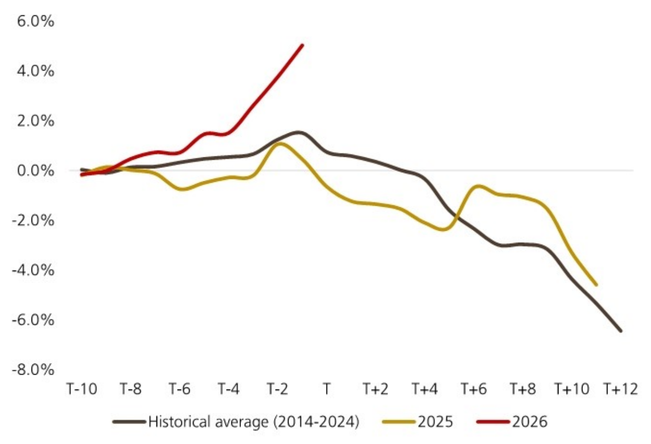
Source: Wind, UBS-S estimates

Figure 14: Non-financial A-share CAPEX growth



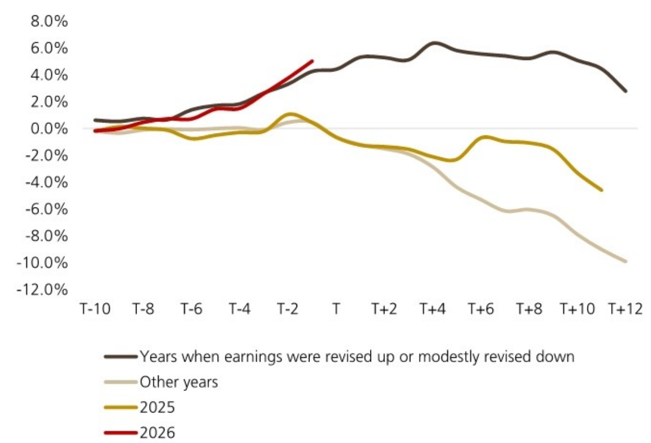
Source: Wind, UBS-S estimates

Figure 15: CSI 300 earnings growth revisions (2014-26F)



Source: Go-goal, UBS-S. Note: T refers to market earnings growth expectations for CSI 300 by Go-goal in April of each year – eg, T month in 2023 refers to April 2023.

Figure 16: CSI 300 earnings growth revisions, by trend in final revisions (2014-26F)



Source: Go-goal, UBS-S. Note: T refers to market earnings growth expectations for CSI 300 by Go-goal in April of each year – eg, T month in 2023 refers to April 2023; years when expectations were revised up or slightly down include 2017, 2019 and 2021.

Valuation Method and Risk Statement

For various stocks across the industries we cover in the Hong Kong and mainland China stock markets, we use a variety of valuation approaches, including DCF models, Gordon growth model analysis and relative valuation analysis using various multiples such as PE, EV/EBITDA and P/BV.

We think the risks facing China's equities include a hard landing for the property market, a capital exodus associated with currency depreciation and slow structural reform progress. In our view, any government policies that do not adequately address these risks could result in a shock to the market. For example, an excess of stimulus policies could pose a risk to the transition from an investment-driven to a consumption-driven economy and increase the debt of government and state-owned enterprises.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	54%	24%
Neutral	FSR is between -6% and 6% of the MRA.	40%	21%
Sell	FSR is > 6% below the MRA.	6%	21%

Source: UBS. Rating allocations are as of 31 March 2026.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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