Equity Strategy - China

2025 & 1Q26 earnings: growth and ROE recovering, but downgrades linger

Equity Strategy

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Equity Strategy
China

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SOE – State-Owned Enterprise

POE – Privately-Owned Enterprise

**Growth in YoY terms unless otherwise specified*

2025 earnings back to growth, 2026E outlook weaker

A-share companies' earnings returned to growth in 2025 (+2.5% YoY vs. -1.8% in 2024) as revenue growth re-accelerated to +1.1% (vs +0.1% in 2024). Financials, materials and IT (esp. hardware) led the recovery, while non-financials' earnings contraction also narrowed sharply to -1.9% from -11.2% in 2024. However, looking ahead into 2026E, earnings downgrades continued YTD, with downgrade-to-upgrade ratio running at roughly 2:1 so far, based on consensus estimates for over 2,300 A-share companies. 45% of stocks (net 24%) saw earnings downgrades, led by insurance and real estate, while only energy and materials recorded net upward revisions. For 2Q26, we reiterate the barbell strategy, favoring value and yield (banks, energy), as well as sectors with high R.E.A.L. moats (eg semis, industrials, materials) (see note: 2Q26 strategy).

4Q25: softer revenue growth and margin pressure

A-share revenue growth slowed to +0.6% (from +1.9% in 4Q24) and aggregate earnings fell 13.2% YoY (vs -12.7% in 4Q24). Non-financials margins dropped to 0.9% (vs. 1.4% in 4Q24), dragged mainly by real estate, consumer staples and transportation sectors. Insurance earnings collapsed as equity weakness drove investment income down over 100% YoY. Banks remained the stabilizer, delivering +1.3% earnings growth, and accounted for 71% of the A-share companies' 4Q25 earnings (vs 61% in 4Q24).

1Q26: earnings rebound broadens, insurers remain a drag

Entering 1Q26, A-share earnings growth rebounded to +6.6% (vs +3.9% in 1Q25), with revenues up +4.8% YoY (vs -0.2% in 1Q25). Within non-financials, earnings growth rose to +10.8% (vs. +4.9% in 1Q25), with semis (incl solar stocks), materials and software posting the highest growth. Non-financials margins widened to 5.7% in 1Q26 (vs. 5.4% in 1Q25), helped by expansion in semis (incl solar), materials, and IT. Among financials, banks' earnings growth turned positive from -1.2% to 3.0%, while insurance lagged again (-17.0%, vs +1.4%), reflecting continued pressure from market volatility.

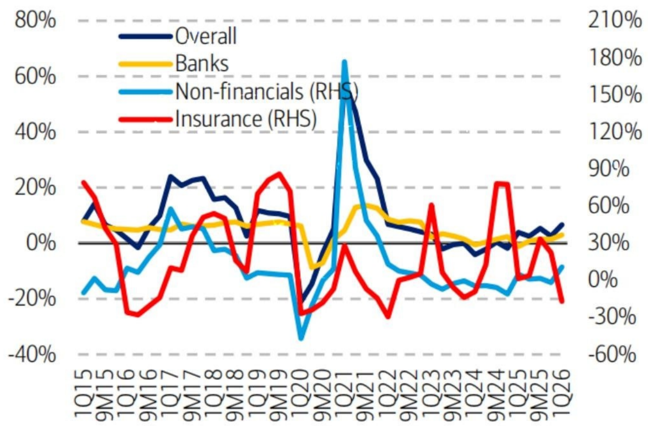
EPS upgrades at materials/energy, cut at discretionary/IT

Among A-shares, ROE of the IT (software, hardware, semis) and materials sectors improved in 2025 vs 2024, and in 1Q26 vs 4Q25 (TTM). By contrast, consumer staples and real estate had the most significant ROE decline in 2025 and 1Q26 (TTM). Energy sector's ROE decline narrowed in 1Q26, while the ROE deterioration widened in the consumer discretionary sectors in 1Q. For FY26 outlook, the MSCI China universe saw significant earnings upgrade in materials (+22% YTD), energy (+9% YTD) and healthcare (+5%) sectors, while MSCI China Discretionary sector saw 17% earnings cut YTD, with weakness across autos, eCommerce, and consumer services sectors. For the IT sectors, despite the ROE improvement in the past few quarters, consensus earnings were cut by 26% YTD, with particularly steep cuts to the software sector's earnings outlook.

2025 and 1Q26 earnings review

Exhibit 1: In 2025, overall A-share earnings returned to growth (+2.5%), helped by banks (+1.4%) and insurance (+22.4%) while non-financials narrowed growth decline (-1.9%)

A-shares YTD quarterly earnings growth YoY



Source: Wind

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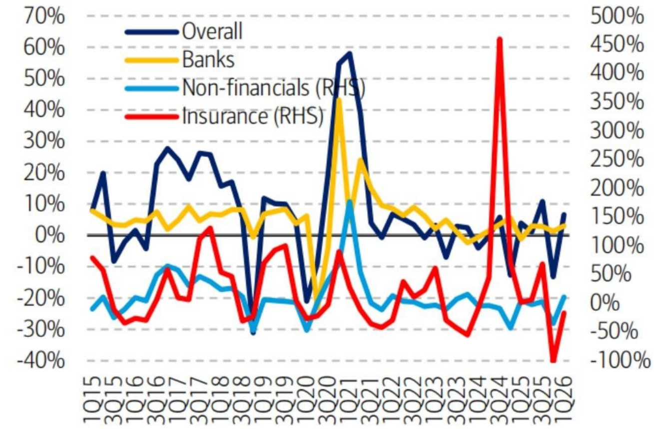
Exhibit 2: In 1Q26, overall A-share earnings growth expanded (+6.6%), driven by recovery in non-financials (+10.8%) and banks (+3.0%), while insurance lagged amid volatile 1Q equities

A-shares quarterly earnings growth YoY



Source: Wind

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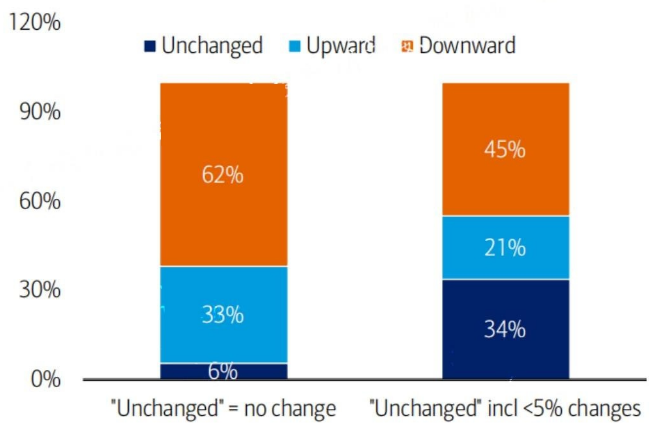
Exhibit 3: The downward-to-upward revision ratio on 2026E earnings was 2:1, excluding revisions under 5%

% of A-share stocks with 26E earnings downgrades and upgrades (YTD)



Source: Wind *Based on some 2300 A-share listcos with consensus estimates

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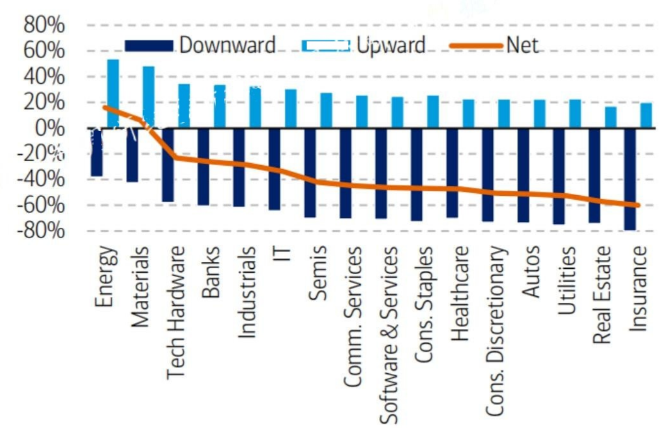
Exhibit 4: Only energy and materials saw net upward revision YTD in 26E earnings while insurance and real estate saw the most downgrades

Sector breakdown by % of companies with downward, upward and net revision in 26E earnings (YTD)



Source: Wind *Based on some 2300 A-share listcos with consensus estimates

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In 2025, overall A-share earnings returned to growth (+2.5%, vs. -1.8% in 2024). Non-financials narrowed growth decline (-1.9%, vs. -11.2%) while banks (+1.4%) and insurance (+22.4%) led again. In 4Q25 alone, overall earnings growth slid further (-13.2%, vs. -12.7% in 4Q24) on both seasonal and structural pressure (rising upstream costs). Non-financials saw continued earnings pressure (-35.2%, vs. -42.9%), banks remained steady (+1.3%, vs. +5.6%) while insurance slowed amid weak 4Q market (-102.4%, vs. +71.3%).

In 1Q26, overall A-share earnings growth expanded (+6.6%, vs. +3.9% in 1Q25). Non-financials led with accelerated growth (+10.8%, vs. +4.9%), banks turned positive (+3.0%, vs. -1.2%) while insurance lagged (-17.0%, vs. +1.4%) on lower investment income amid equity market volatility.

Exhibit 5: YTD, IT (-26%) and consumer discretionary (-17%) observed the most EPS downgrades while materials, energy and healthcare saw the most upgrades

MSCI China 2026 consensus EPS revision in Apr-26

	2026 EPS revision YoY	2026 EPS revision YTD
MSCI China	**-8.4%**	**-6.4%**
Communication Services	**-5.2%**	**-5.9%**
Media & Entertainment	-5.1%	-5.7%
Telecom	-11.1%	-14.6%
Consumer Discretionary	**-28.2%**	**-16.9%**
Automobiles	-30.1%	-15.5%
Consumer durables	-7.1%	-5.4%
Consumer Discretionary distribution & retail	-24.1%	-15.8%
Consumer services	-51.9%	-31.6%
Consumer Staples	**-14.2%**	**-9.2%**
Food, beverage & tobacco	-16.2%	-10.5%
Energy	**9.3%**	**8.9%**
Financials	**4.3%**	**-1.3%**
Banks	0.9%	-0.6%
Diversified financials	4.3%	-3.2%
Insurance	14.8%	-2.9%
Health Care	**-2.8%**	**4.6%**
Industrials	**-9.4%**	**-4.4%**
Capital goods	-13.9%	-6.4%
Transportation	1.1%	0.2%
Information Technology	**-29.5%**	**-25.8%**
Software & services	-306.1%	-751.5%
Technology hardware	-24.4%	-19.8%
Semi & semi equipment	-15.9%	-20.7%
Materials	**33.7%**	**21.8%**
Real Estate	**-17.1%**	**-9.2%**
Utilities	**-13.4%**	**-9.7%**

Source: MSCI, FactSet

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Exhibit 6: In Apr-26, MSCI China and CSI 300's earnings upgrade/downgrade ratios both slowed to 0.7x from 1.1x in Mar

MSCI China & CSI 300 monthly earnings upgrade-to-downgrade Ratio (12M fwd) in Apr-26

Source: MSCI, FactSet, IBES

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In Apr-26, MSCI China and CSI 300's earnings upgrade-to-downgrade ratios slowed to around 0.7x, down from 1.1x in Mar-26.

Sector wise, the MSCI China universe saw significant earnings upgrade in materials (+22% YTD), energy (+9% YTD) and healthcare (+5%) while IT (-26%) and consumer discretionary (-17%) observed the most EPS downgrades.

Sales, earnings and margins

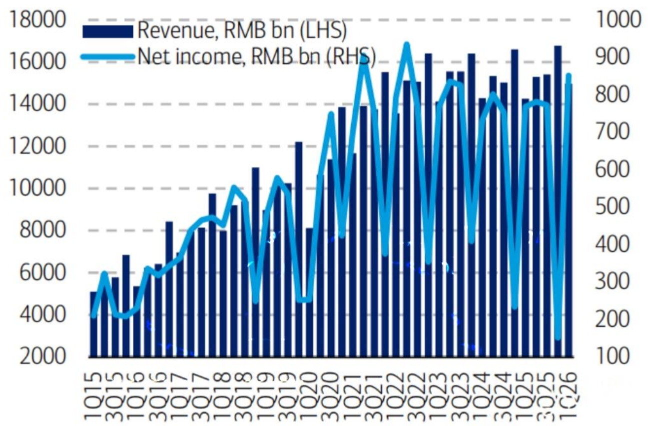
Non-financials: 2025 and 1Q26 highlights

For 4,470 A-share non-financials companies, 2025 topline growth turned positive (+0.8% in 2025, vs. -0.6% in 2024) while bottom line growth decline narrowed (-1.9%, vs. -11.2%). In 4Q25 alone, revenue growth remained steady (+1.1%, vs. +1.2% in 4Q24) while net income growth saw continued pressure (-35.2%, vs. -42.9%).

In 1Q26, non-financials revenue growth continued to recover (+5.0%, vs. -0.2% in 1Q25) while net profit growth accelerated (+10.8%, vs. +4.9%).

Exhibit 7: Non-financials saw steady topline YoY growth in 4Q25 and 1Q26

Non-financials sales and net incomes (quarterly) since 2014 in RMB bn



Source: Wind

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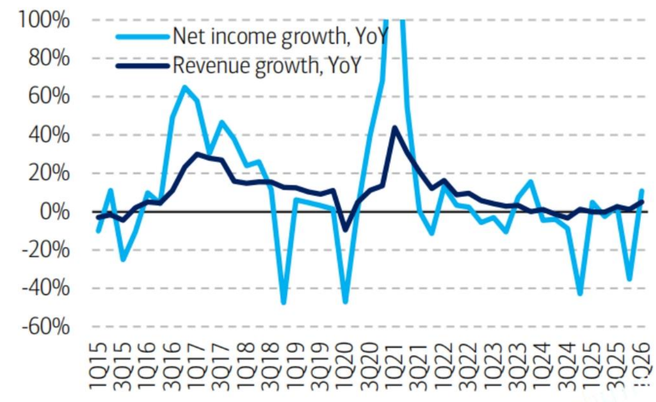
Exhibit 8: Non-financials earnings growth accelerated in 1Q26 (+10.8%, vs. +4.9% in 1Q25) after a weak 4Q25

Non-financial earnings growth YoY since 2014: revenue vs net income



Source: Wind

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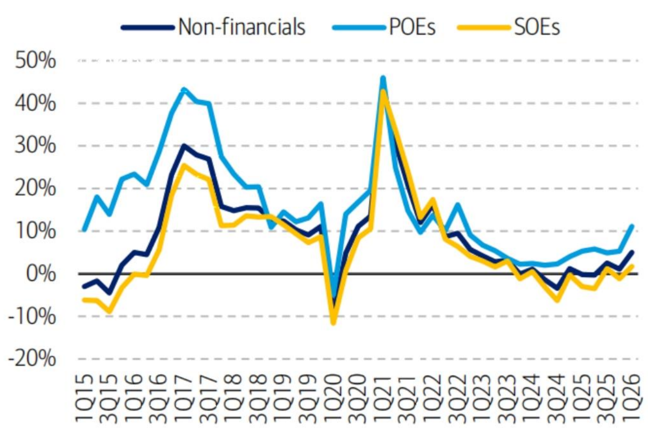
Exhibit 9: In 1Q26, revenue growth of POEs accelerated (+11.1%, vs. +5.3% in 1Q25) and continued to outpace that of SOEs (+1.7%)

Non-financials revenue growth YoY (%): SOEs vs POEs



Source: Wind

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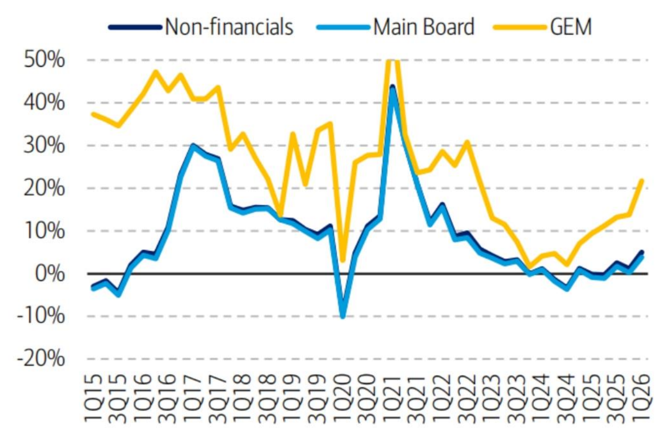
Exhibit 10: In 1Q26, GEM (+21.7%) continued to record much stronger revenue growth than the mainboard (+3.8%)

Non-financials revenue growth YoY (%): Main board vs GEM



Source: Wind

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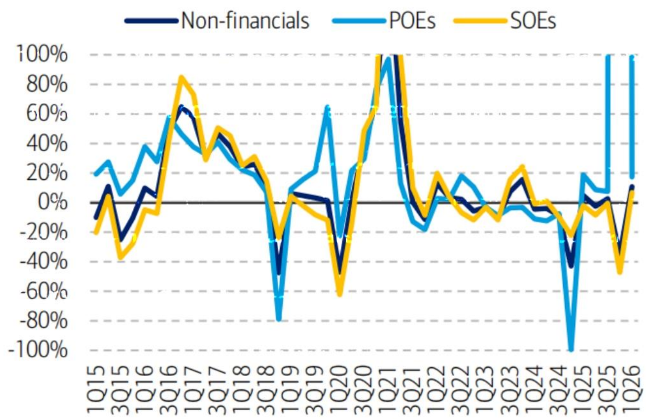
Exhibit 11: In 1Q26, POE earnings growth remained strong (+17.3%, vs. +18.8% in 1Q25) while SOEs turned positive (+6.8%, vs. -2.1%)
Non-financials net income growth YoY (%) since 2014: SOEs vs POEs



Source: Wind

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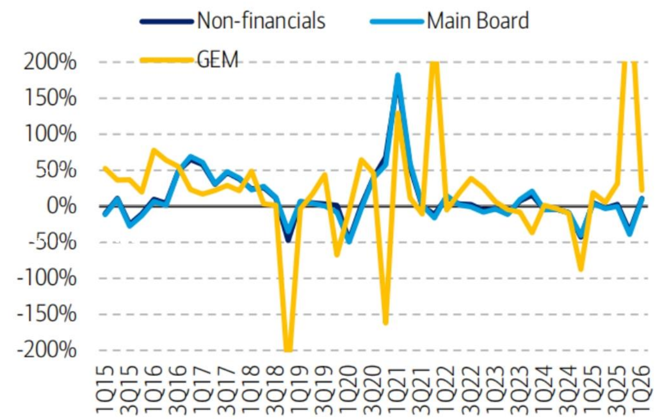
Exhibit 12: In 1Q26, earnings growth remained robust in both mainboard (+9.7%, vs. +3.7%) and GEM segment (+22.2%, vs. +18.9%)
Non-financials net income growth YoY (%) since 2014: Main board vs GEM



Source: Wind

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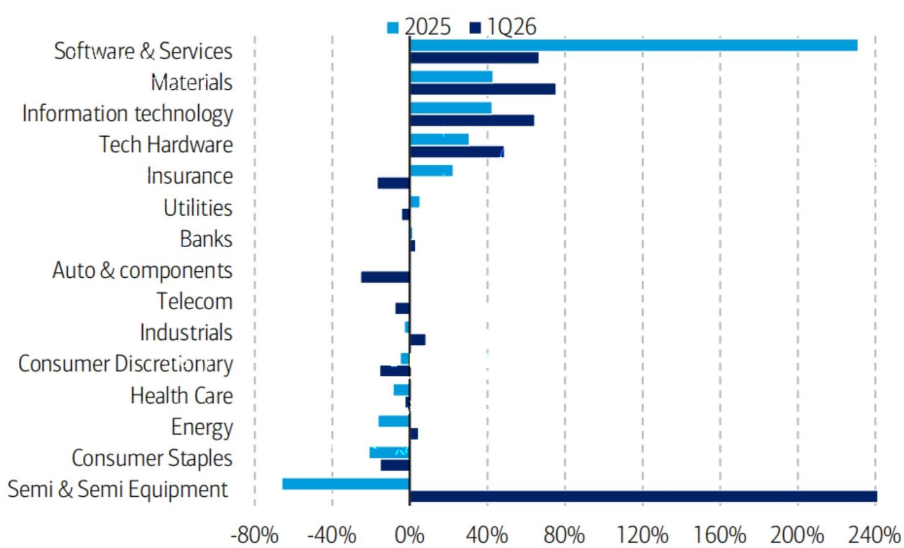
Sector-wise, in 2025, software, materials, and IT recorded the highest earnings growth while semis (incl solar stocks), consumer staples, and energy posted the largest decline.

In terms of YoY growth contribution, materials, IT (esp. hardware) and utilities contributed the most to 2025 non-financials earnings growth while energy, consumer staples and real estate dragged.

In 1Q26, semis (incl solar stocks), materials and software booked the highest earnings growth among major sectors while auto, insurance, and consumer (both discretionary and staples) were among sectors with the lowest earnings growth.

Exhibit 13: In 2025, software, materials, and IT recorded the highest earnings growth; meanwhile in 1Q26, semis (incl solar), materials and software recorded top earnings growth
2025 and 1Q26 earnings growth by sector, YoY (%)



Source: Wind

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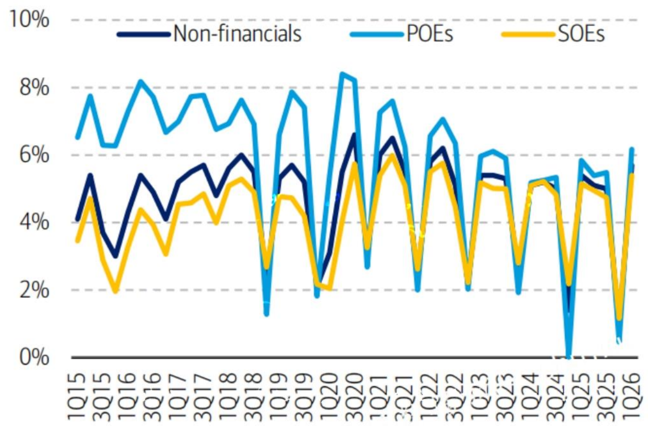
In 4Q25, non-financials' net profit margin continued to narrow on top of seasonal weakness (0.9%, vs. 1.4% in 4Q24). In YoY terms, software, utilities and materials recorded the highest margin expansion while real estate, consumer staples and transportation posted the highest margin pressure.

In 1Q26, non-financials' net profit margin improved (5.7%, vs. 5.4% in 1Q25). In YoY terms, semis (incl solar), materials, and IT recorded the highest margin expansion while consumer staples, autos, and real estate posted the highest margin pressure.

The percentage of companies with YoY net margin contraction edged down to 55% in 1Q26 from 56% in 4Q25.

Exhibit 14: Non-financial POEs' margin recovered to recent high after seasonal weakness

Non-financials' net profit margin: SOEs vs POEs



Source: WIND

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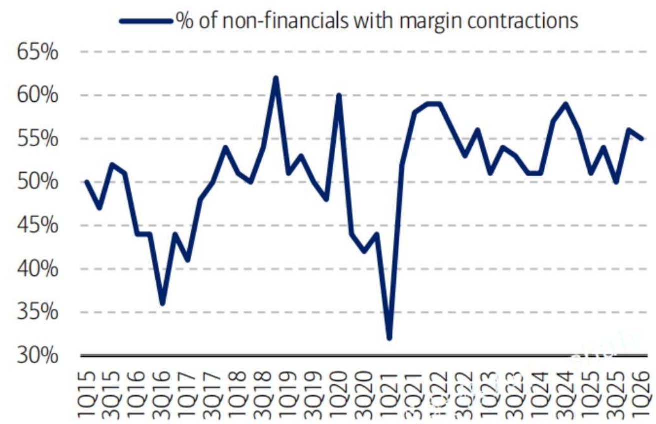
Exhibit 15: % of non-financials companies with margin contraction edged down to 55% in 1Q26 from 56% in 4Q25

% of non-financials with margin contractions since 2014



Source: WIND

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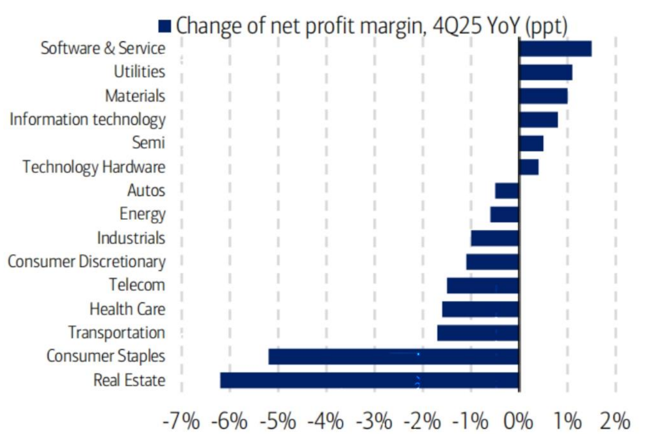
Exhibit 16: In 4Q25, YoY margin expansion was the highest among software, utilities and materials

YoY change of net profit margin by sector in 4Q25, ppt



Source: Wind

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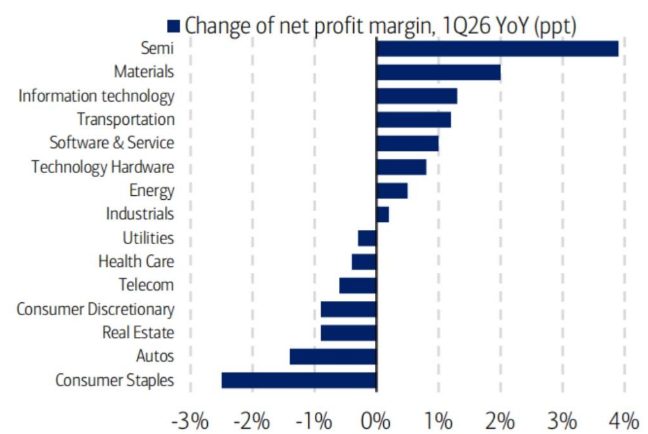
Exhibit 17: In 1Q26, YoY margin expansion was the highest among semis (incl solar), materials, and IT

QoQ change of net profit margin by sector in 1Q26, ppt



Source: Wind

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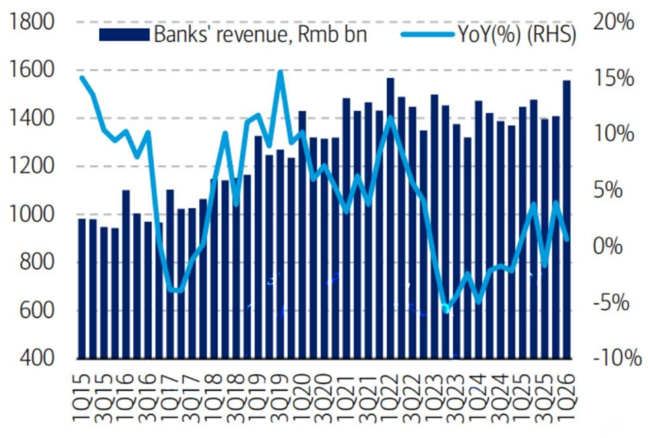
Bank sector: 2025 and 1Q26 highlights

For 42 A-share listed banks, 2025 revenue growth accelerated (+1.4% in 2025, vs. +0.1% in 2024) while net income growth remained steady (+1.4%, vs. +2.3%). In 4Q25 alone, revenue growth held up well (+2.8%, vs. +3.8%) while net income extended its growth trend (+1.3%, vs. +5.6%). See 2025 earnings recap: FY25: gradual improvement in earnings momentum.

In 1Q26, revenue growth posted a positive inflection (+7.6%, vs. -1.7% in 1Q25) while net income reversed the downtrend as well (+3.0%, vs. -1.2%). See 1Q26 recap.

Exhibit 18: Bank revenue growth held up well in 4Q25 and 1Q26

A-share listed banks' revenue and YoY growth since 2014



Source: Wind

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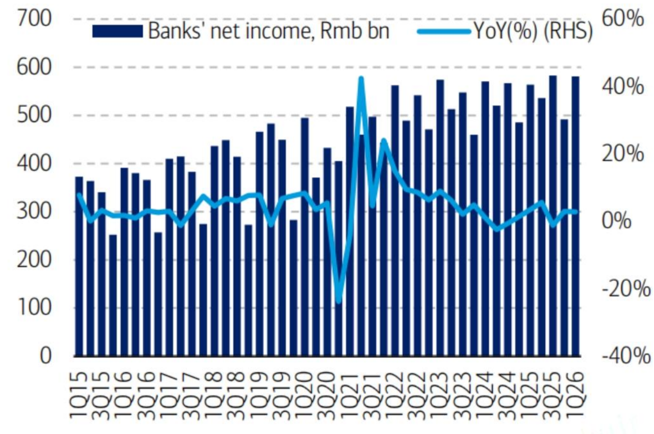
Exhibit 19: Bank earnings growth remained resilient in 4Q25-1Q26

A-share listed banks' net profits and YoY growth since 2014



Source: Wind

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NPL YoY growth edged down from +5.6% in 4Q25 to +5.5% in 1Q26 for the 42 A-share listed banks. Meanwhile, NPL ratio was stable at 1.22% in both 4Q25 and 1Q26 while NPL provision coverage ratio declined by 1.0ppt QoQ to 238.2% in 1Q26. Net interest margin (assets weighted average) inched up by 0.7bp QoQ to 1.41% in 1Q26.

Exhibit 20: NPL growth edged down from +5.6% in 4Q25 to +5.5% in 1Q26

Listed banks' NPL balance and YoY growth (%)

Source: WIND

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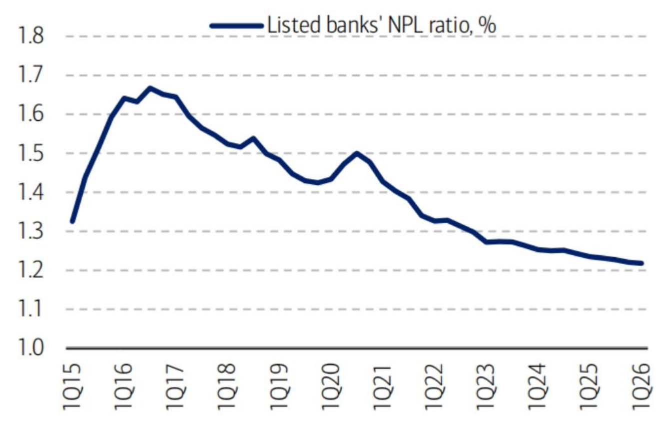
Exhibit 21: NPL ratio was stable at 1.22% in both 4Q25 and 1Q26

Listed banks' weighted average NPL ratio



Source: WIND

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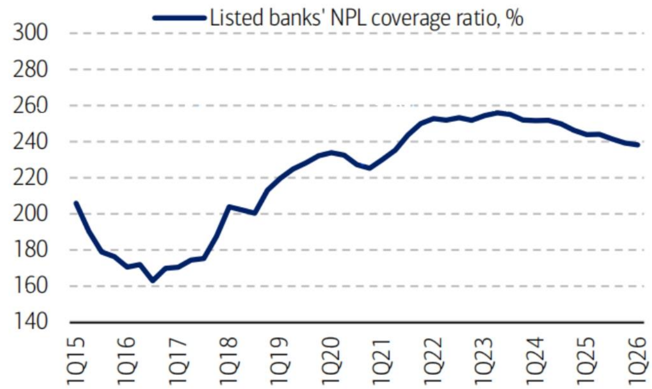
Exhibit 22: NPL coverage ratio declined by 1.0ppt QoQ to 238.2% in 1Q26

Weighted average NPL provision coverage ratio



Source: Wind

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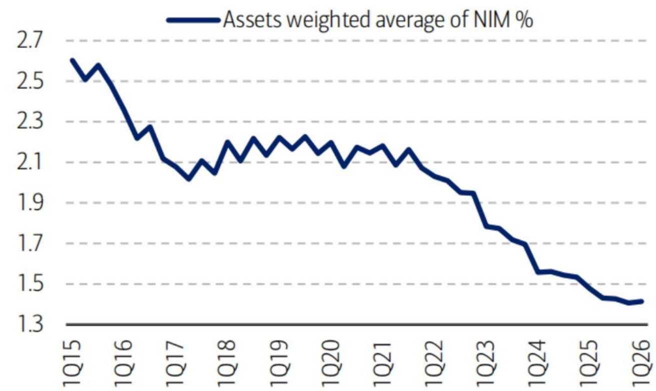
Exhibit 23: NIM inched up by 0.7bp QoQ to 1.41% in 1Q26

Listed banks' net interest margin (assets weighted average)



Source: Wind

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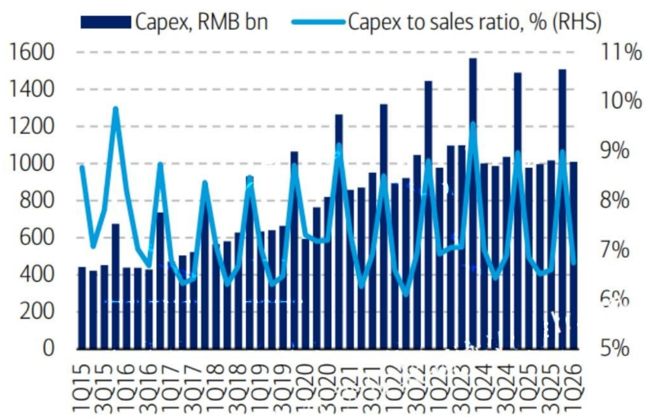
Capex

For non-financial A-share listcos, 2025 capex growth posted narrowed decline (-0.3% in 2025, vs. -4.8% in 2024). In 4Q25 alone, capex growth resumed expansion (+1.3%, vs. -5.0% in 4Q24). POEs (+10.8%) recorded higher capex growth than SOEs (-2.2%).

In 1Q26, capex growth returned to expansion as well (+3.3%, vs. -2.4% in 1Q25). Meanwhile, SOEs (+3.4%) recorded higher capex growth than POEs (+3.0%), both recovering from negative growth trajectory in 1Q25.

However, capex-to-sales ratio edged down to 7.3% in 2025 (vs. 7.4% in 2024), and continued to ease in 1Q26 (6.7%, vs. 6.9% in 1Q25), suggesting more capex will be needed to maintain earnings sustainability.

Exhibit 24: Capex growth begin to expand in past two quarters, but capex-to-sale ratio remained relatively low
Non-financials' capex and capex-to-sales since 2014



Source: WIND

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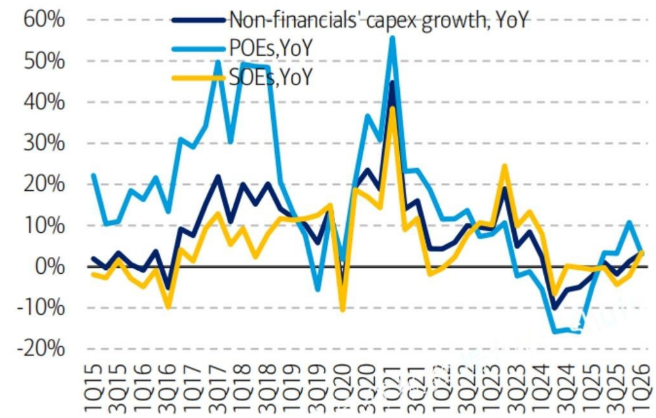
Exhibit 25: SOEs (+3.4%) recorded higher capex growth than POEs (+3.0%) in 1Q26, both recovering from negative trajectory
Non-financials' capex YoY growth since 2014: SOEs vs POEs



Source: WIND

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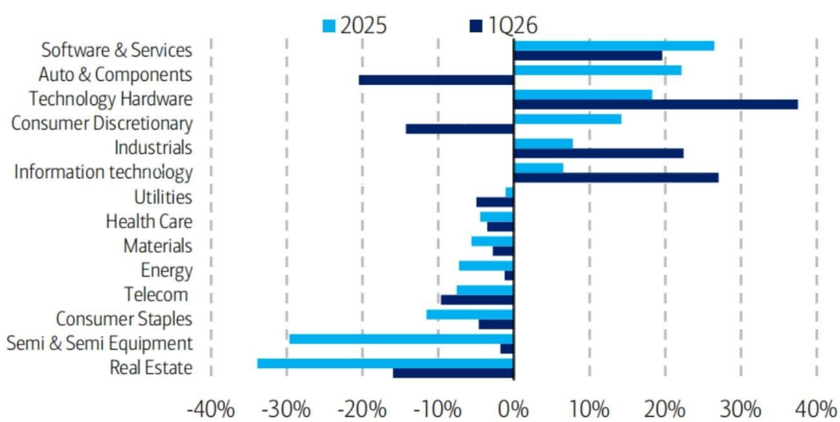
Sector-wise, in 2025, software, autos, and tech hardware recorded the highest capex growth among major sectors while real estate, semis (incl solar), consumer staples posted the most decline.

In 1Q26, tech hardware, IT, and industrials recorded the highest capex growth while autos, real estate and consumer discretionary posted the largest decline.

Exhibit 26: In 2025, software, autos, and tech hardware recorded the highest capex growth
2025 and 1Q26 capex growth by sector, YoY (%)



Source: Wind

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Leverage

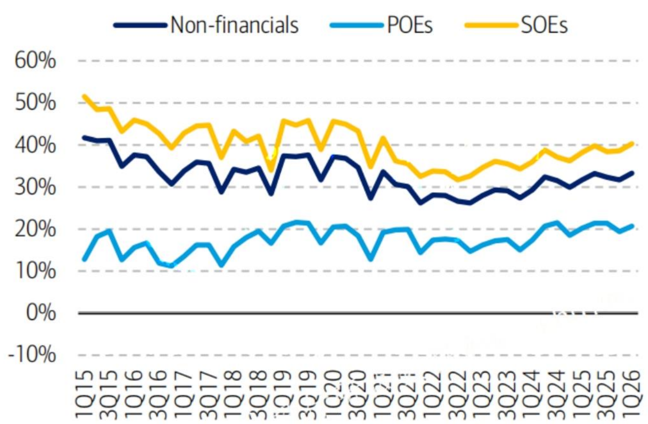
Non-financials' net debt-to-equity ratio eased to 31.7% in 4Q25, -0.6ppt QoQ amid seasonal shifts, before hitting 33.3% in 1Q26, a new high since 1Q21 yet lower than its historical average level since 2010 (34.1%).

POEs' leverage eased by 2ppt QoQ to 19.4% in 4Q25 and edged up to 20.7% in 1Q26, well above its historical average (14.2%). SOEs' leverage continued to climb in past two quarters (+0.2/+1.7ppt), hitting 40.3% in 1Q26, a new high since 1Q21 but lower than its historical average (41.7%).

Sector wise, in QoQ terms, leverage in software, autos, and tech hardware expanded the most in 1Q26 while that of utilities, transportation, and telecom declined the most.

Exhibit 27: Non-financials' leverage continued to expanded, POE leverage largely steady while SOE leverage hit new high

Non-financials' net debt-to-equity ratio since 2014: SOEs vs POEs



Source: WIND

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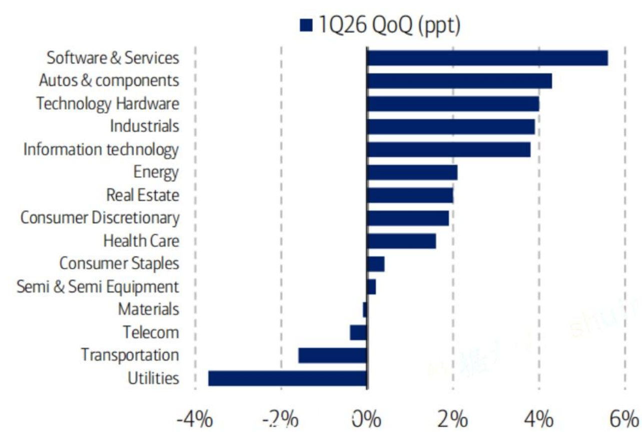
Exhibit 28: QoQ, leverage in software, autos, and tech hardware expanded the most in 1Q26

QoQ change of net debt-to-equity ratio by sector in 1Q26



Source: WIND

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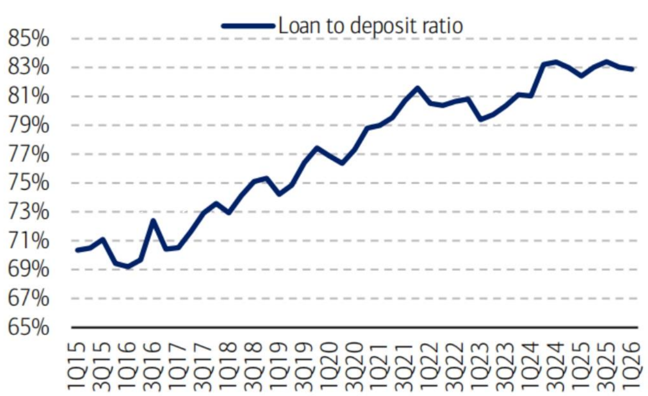
Among 42 A-share listed banks, loan-to-deposit ratio edged down in the past two quarters (-0.4/-0.1ppt), reaching 82.9% in 1Q26. Listed banks' leverage, as measured by total assets-to-equity ratio (x), showed accelerated expansion in the past two quarters (+0.1x/+0.3x) to 13.2x in 1Q26.

Exhibit 29: Banks' loan-to-deposit ratio declined in the past two quarters to 82.9% in 1Q26

Listed banks' loan-to-deposit ratio since 2014



Source: Wind

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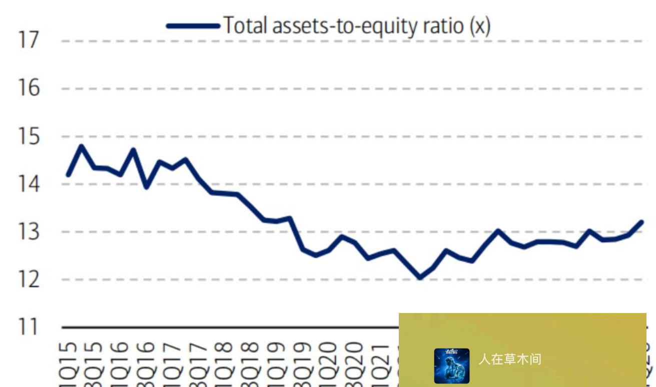
Exhibit 30: Banks' total assets to equity ratio showed accelerated expansion in the past two quarters and stood at 13.2x in 1Q26

Listed banks' total assets-to-equity ratio since 2014



Source: Wind

ROE

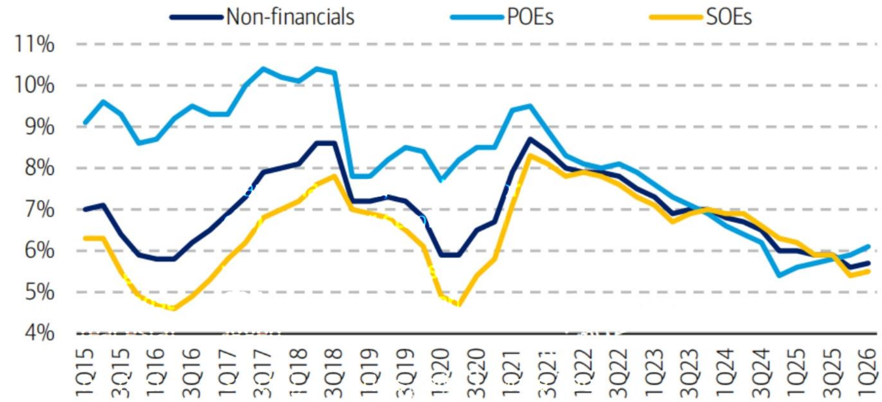
Non-financials ROE edged down to 5.6% in 2025 (vs. 6.0% in 2024), dragged by weaknesses in consumer staples, real estate, and energy while software, materials, and tech hardware led in ROE improvement.

In 1Q26, on a rolling four-quarter basis, non-financials ROE edged up to 5.7% in 1Q26 (TTM) from 5.6% in 4Q25 (TTM) after continued pressure in the past five years, helped by improvement in semis (incl solar), materials, and IT.

Notably, POEs' ROE surpassed that of SOEs in the past two quarters on a rolling basis, reaching 6.1% (+0.2ppt in 1Q) and 5.5% (+0.1ppt), respectively.

Exhibit 31: In 1Q26, non-financials ROE edged up to 5.7% from 5.6% in 4Q25 (TTM) after continued pressure in the past five years; POE outperformed SOE by 0.6ppt

ROE (TTM) in non-financials sectors



Source: Wind *ROE is based on trailing twelve-month net income

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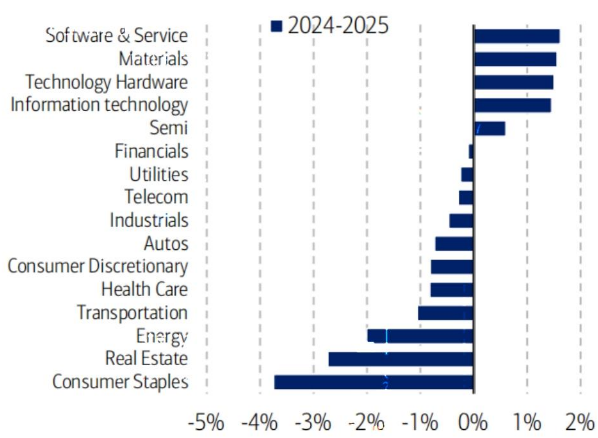
Exhibit 32: In 2025, software, materials, and tech hardware led in ROE improvement

Change in ROE (TTM)



Source: WIND

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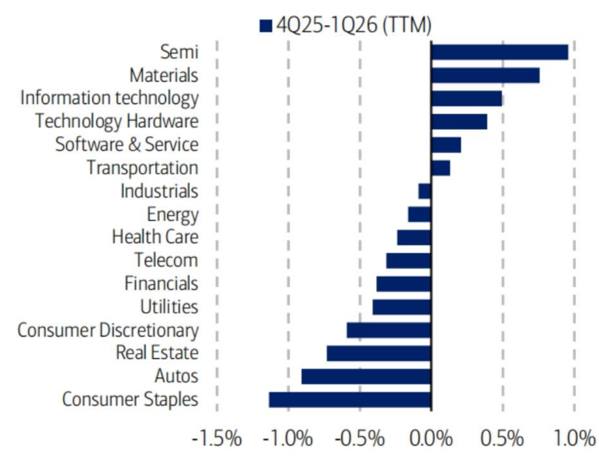
Exhibit 33: In 1Q26, semis (incl solar), materials, and IT saw the most ROE improvement

Change in ROE (TTM)



Source: WIND *ROE is based on trailing twelve-month net income

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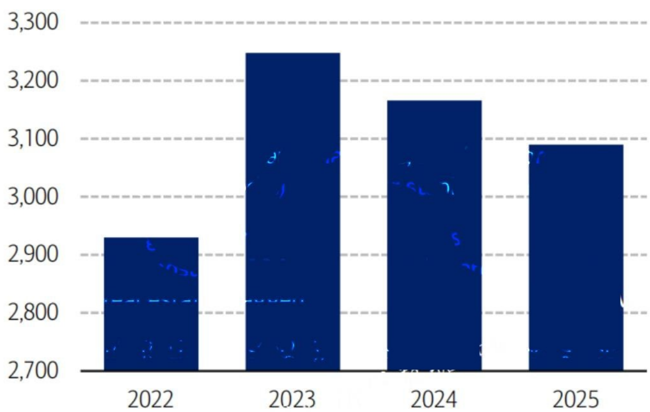
Dividends

In 2025, number of A-share listcos that have announced or proposed interim dividends continued to decline (-2.4% to 3,090 listcos, vs. -2.5% in 2024), while total dividends delivered steady gains (+3.4% to RMB2.4tn, vs. +5.3%). Non-financials' dividend payment posted growth at a measured pace (+2.4%, vs. +4.7%), banks remained stable (+2.1%, vs. +3.1%), while insurance maintained robust momentum (+12.8%, vs. +20.2%).

Banks, industrials and energy are the highest dividend paying sectors in terms of total dividend paid/proposed. In YoY terms, dividend payment in tech hardware, IT, and materials increased the most in 2025 while real estate, energy and autos dropped the most. In terms of dividend payout ratio, consumer staples, telecom and healthcare were the highest (>65%) while real estate, semis and insurance were at the lower end (<30%).

Exhibit 34: Number of dividend-paying listcos declined for the second year in a row

Number of companies announced/proposed to pay dividends



Source: Wind

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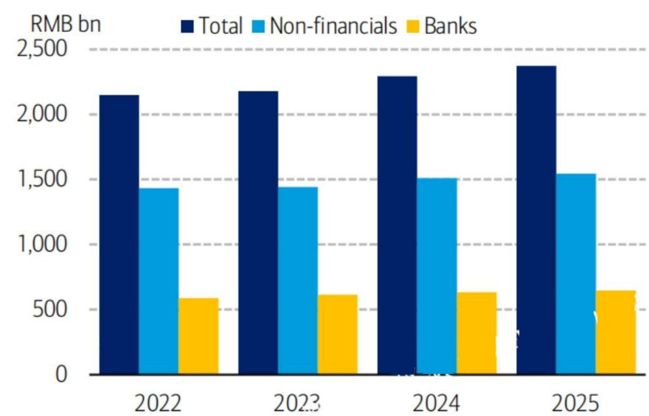
Exhibit 35: Total dividends delivered steady gains in 2025 (+3.4%, vs. +5.3%), banks and insurance stayed on track

Annual cash dividend in RMB bn



Source: Wind

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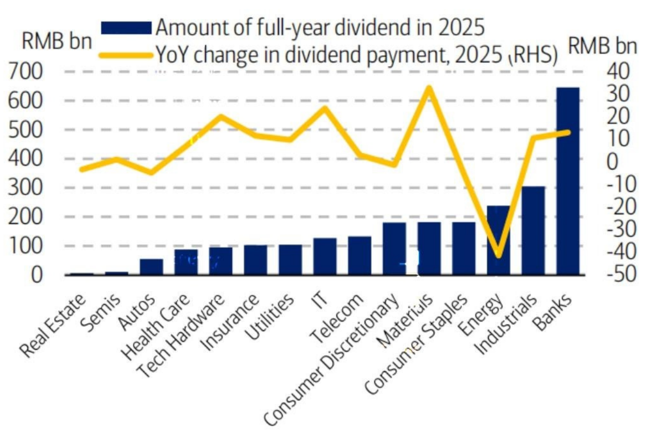
Exhibit 36: Banks, industrials and energy are the highest dividend paying sectors, while tech hardware, IT, and materials saw the most incremental gains

Total dividend payment in 2025 – by sector



Source: Wind

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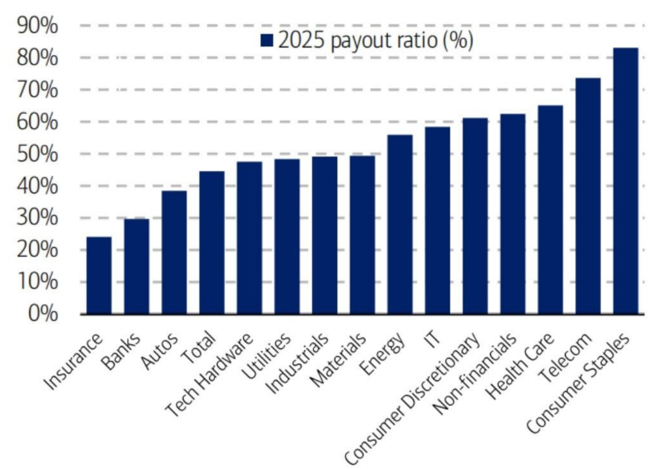
Exhibit 37: In 2025, consumer staples, telecom and healthcare posted the highest dividend payout ratio among major sectors

2025 dividend payout ratio – by sector



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