UBS

China Equity Strategy

How crowded is the AI trade and other frequently asked investor questions

Equity Strategy

China

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Buoyant mood supported by earnings and improving fundamentals

In this note, we provide answers to five of the topical questions by investors in our recent conversations. In general sentiment is buoyant with investors largely putting behind the impact of Strait of Hormuz shutdown, anchored by solid earnings from hardware tech companies. AI hardware tech seems to be the consensus long among investors with PM's and generalists dedicating more time looking for alpha opportunities along the supply chain though some investors question the sustainability of the rally given crowded positions. The property market recovery also garnered significant level of interest from investors and while conviction level of a sustained recovery is not high, the positive development is supportive for overall market sentiment. Another topic of interest was whether the recent rise in PPI, driven by imported inflation, could weigh on corporate earnings this time around. In addition, investors showed interest in the potential re-rating of HSTECH though in general sentiment is poor around the internet sector.

How crowded is the AI trade and what could derail the rally?

Current investor positioning of AI hardware names is elevated but this has been the case most of this year as evidenced by: 1) onshore mutual fund positioning in telecom and electronics have been broadly stable in the last 3 quarters with a decline in electronics allocation offset by higher allocation towards telecoms (Figure 2); 2) the average crowding factor of a basket of popular AI names indicate that investor positioning has risen this year, although there has been a modest pullback from the high recorded in early May 2026 (Figure 3); 3) Turnover in the broader TMT sector is elevated at ~37% of total A-share turnover, compared with a historical peak of 43% in 2023. Looking at regional flows and positions, foreign investor outflows from Taiwan and Korea equities (both global AI proxies) this year suggest some broad profit taking in this space. Meanwhile, domestic token pricing has been rising and while valuation is high with semi's for example trading on 59x forward P/E (2.5 std. dev above historical average shown in Figure 41), earnings growth in the sector has also been accelerating (up 64% in 1Q26). It is difficult to specifically pinpoint the events that could derail the tech rally with some investors pointing to the rising US interest rates, IPO's of the large LLM companies and a slowdown in earnings growth as potential sign-posts that could trigger a re-assessment of positioning.

Would higher PPI lead to lower earnings?

Investors were concerned whether imported inflation would squeeze corporate margins given the recent surge in energy prices. We think a higher PPI may not hurt overall listed company earnings given the following observations: 1) higher PPI's historically have led to higher revenue and earnings growth in listed companies. This relationship also held up during the Russia–Ukraine war in 2022, when supply disruptions also drove a surge in energy and transport prices; 2) exporters' earnings historically have done well in periods of imported inflation as this gives companies an excuse to raise prices (Figure 23), 3) listed companies generally have better ability to pass on the higher costs to customers - historically utilities and food and beverage companies' earnings were shown to be the most impacted by higher energy prices but they make up a small portion of the overall index at c.10%, 4) energy shocks typically benefit the renewable sector which make up a large portion of the index, and 5) consumers were somewhat insulated given only a portion of the higher energy costs were passed down to retail prices.

What to do with HSTECH and the impact from IPO lock-up expiry?

Last month we held the tactical view (see here) that HSTECH could outperform near term given a myriad of catalysts coming up. Many of these catalysts have come through as we had hoped for including: 1) launch of the new LLM models from Deepseek and Tencent; 2) food delivery competition easing in the quarterly results, 3) US China leadership summit promoting strategic stability and leading to H200 chip ban lift, 4) EV demand to pick up as oil price stay higher for longer. While these development were positive, we now think it may take longer for HSTECH to outperform: our recent discussions with investors suggest that their attention remains focused around hardware tech, power equipment and other North Asian names which may have drawn liquidity away from HK internet names. We also note upcoming lock-up expiry coming up for the LLM companies in July - historically companies facing lock-up expiry typically underperform in the lead-up to the expiry date and should these LLM companies be included in HSTECH, this could also trigger some short term pressure for the index performance. We have included a schedule of lock-up expiry in the coming months in Figure 32.

Prefer A-share ChiNext, tech hardware and electrical equipment

We prefer A-share ChiNext given its greater exposure towards robust earnings momentum (+23% in 1Q26) and its higher exposure towards hardware tech and power equipment names. Our preferred sectors and model portfolio are shown in Figure 39 and 40 - we have removed the property underweight though retain our underweight in consumers.

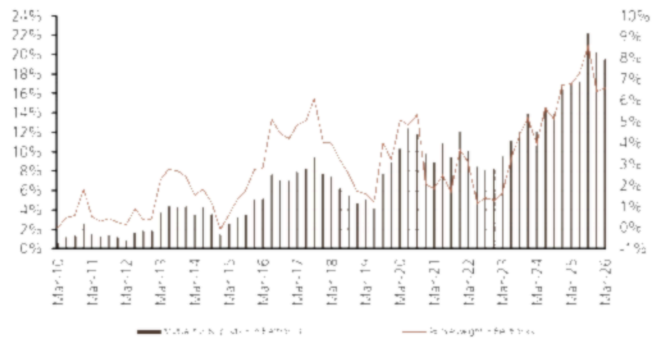
How crowded is the AI trade?

AI has remained the most widely discussed topic during our investor conversations. Most investors acknowledged that the AI narrative is well supported by strong fundamentals. The key concern is the degree of crowding in the AI trade and the potential downside risk should positioning unwind. Current indicators suggest that crowding in the AI theme is high but this has been the case for some time and broadly unchanged in recent periods:

- **Onshore mutual fund positioning:** Allocation to electronics declined from a peak of 22% in 3Q25 to 20% in 1Q26, with overweight (OW) relative to benchmark reduced by c.2ppt. In contrast, allocations to telecom (another AI-linked sector) rose to an all-time high of 11% as of 1Q26, representing 4ppt overweight versus benchmark. If we combine the aggregate positioning in electronics and telecom, positions are close to a historical high though broadly unchanged in the last 3 quarters (show in Figure 2).
- **Stock-level positioning:** Crowding scores for a sample basket of popular AI names (see list in Figure 7, list based on our previous report on China AI) indicate that investor positioning has increased materially in the last 12 months, although there has been a modest pullback from the highest recorded in early May 2026.
- **Market activity concentration:** Turnover in the broader TMT sector has trended higher since 2025 and remains elevated at ~37% of total A-share turnover, compared with a historical peak of 43% in 2023.

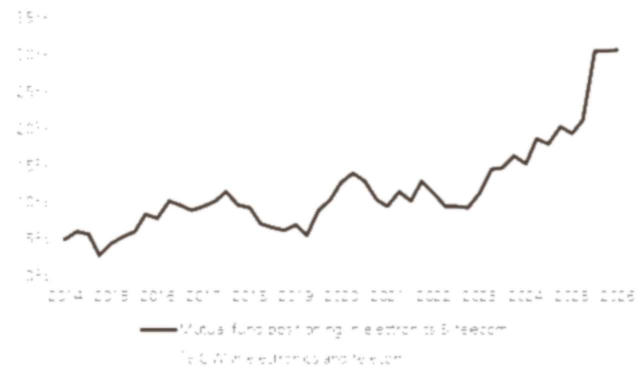
Foreign investor flows out of Taiwan and Korea equities (both are AI proxies) in recent months also suggest some profit taking by investors of these themes in recent periods. Our EM team's data suggest that investors' remain underweight in the North Asian markets.

Figure 1: Onshore mutual fund holdings in A share electronics



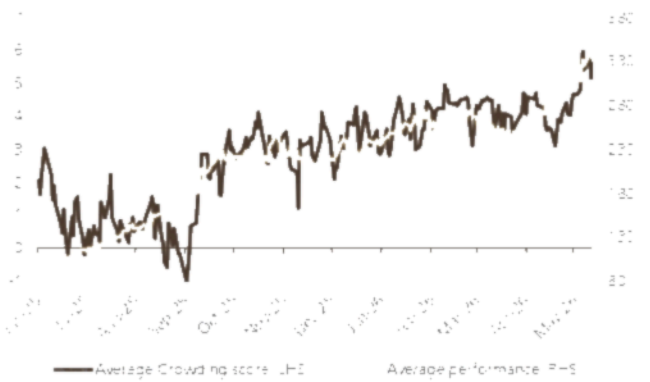
Source: Wind ,UBS

Figure 2: Onshore mutual fund holdings in A share telecom and electronics



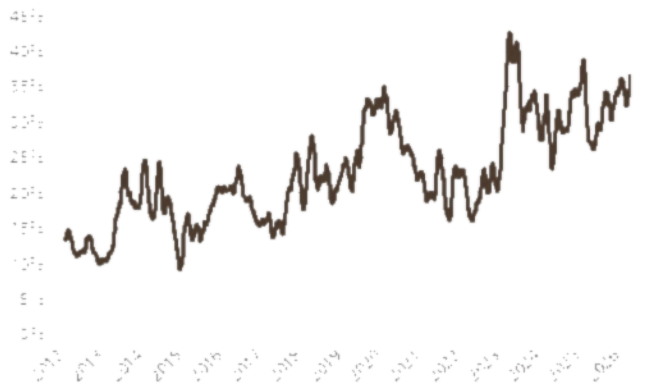
Source: Wind, UBS

Figure 3: Crowding scores vs performance of popular China AI names (ex-internet)



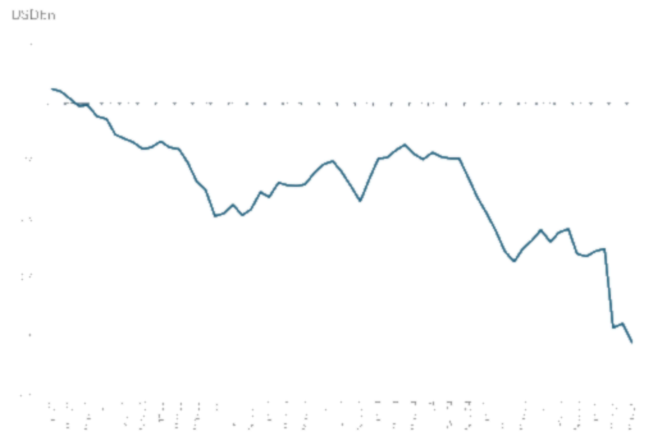
Source: UBS Quant Research, FactSet Note: Crowding scores and performance are equally weighted. Last data point up to 13 May 2026

Figure 4: TMT turnover as % of total A share turnover (30DMA)



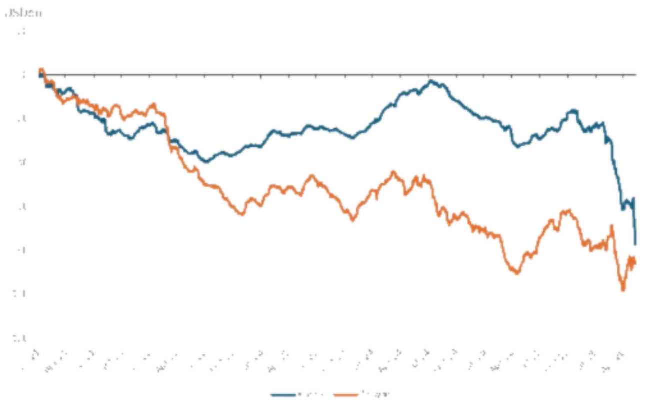
Source: Bloomberg, FactSet, UBS Note: IT and communication services are included

Figure 5: Cumulative foreign net inflows into EM equities (ex-China)



Source: Bloomberg, UBS Note: Last data point as of 15 May 2026

Figure 6: Cumulative foreign net inflows into Korea and Taiwan equities



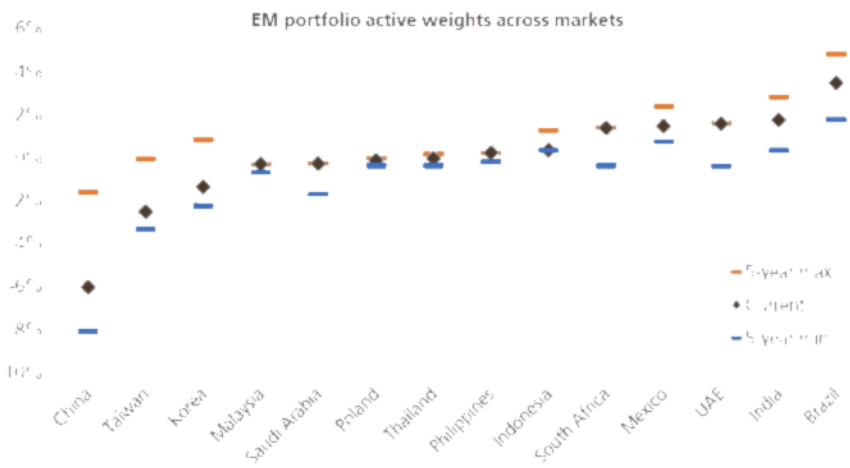
Source: Bloomberg, UBS Note: Last data point as of 15 May 2026

Figure 7: China AI names used in crowding score calculation

Ticker	Name	YTD return	Market cap (CNYbn)	30D ADTV (CNYbn)
688256-CN	Cambricon Technologies Corp. Ltd. Class A	34%	765	15.0
601138-CN	Foxconn Industrial Internet Co., Ltd. Class A	12%	1369	14.5
300308-CN	Zhongji Innolight Co., Ltd. Class A	71%	1164	23.6
300394-CN	Suzhou TFC Optical Communication Co., Ltd. Class A	90%	300	15.8
688041-CN	Hygon Information Technology Co., Ltd. Class A	35%	706	10.1
600183-CN	Shengyi Technology Co., Ltd. Class A	39%	240	4.4
600584-CN	JCET Group Co., Ltd. Class A	59%	104	4.9
002156-CN	TongFu Microelectronics Co., Ltd. Class A	54%	88	5.2
002371-CN	NAURA Technology Group Co Ltd Class A	30%	433	5.9
981-HK	Semiconductor Manufacturing International Corp. Class A	-4%	594	5.5
1347-HK	Hua Hong Semiconductor Ltd. Class A	56%	194	3.0
VNET-US	VNET Group, Inc. Sponsored ADR	24%	20	0.6
GDS-US	GDS Holdings Ltd.	20%	58	0.5
522-HK	ASMPT	29%	64	0.6

Source: FactSet, UBS Note: based on the report excluding internet and software names

Figure 8: EM funds' active holdings across major markets as of 1Q26



Source. Bloomberg, UBS

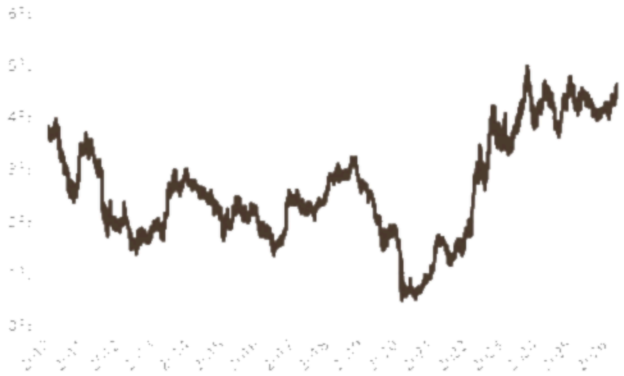
What could derail the AI tech trade in China?

There is no definitive answer to this question given the strong fundamentals and near term share price momentum. Investors are seemingly looking more into the US market for read-across for China tech - we note that the correlation between US and China AI tech names have picked up materially this year as shown in Figure 12 and as such we believe global spillover presents one of the biggest downside risks to the AI tech trade in China.

There are sign-posts that investors may look to as potential pit stops in re-assessing the AI trade, including:

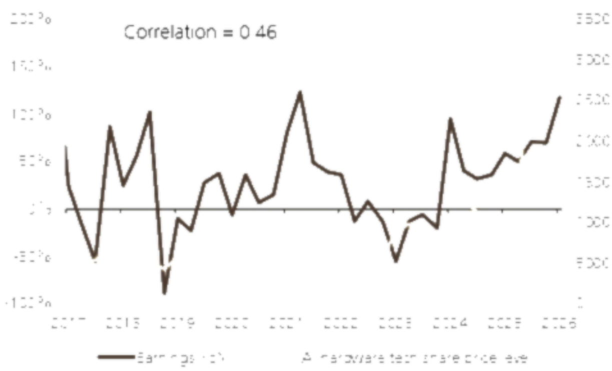
- Continued rise in US yields (primarily driven by higher energy prices) though arguably this is now somewhat reflected in the share price given the significant rise in the US 10 year interest rate in recent periods. We note that historically the correlation of Chinese hardware tech to US 10 year government bond yield has been limited;
- Deceleration in earnings growth, though so far earnings growth has been robust for the AI hardware tech space and accelerating as shown in Figure 10. This is also the case for US tech hardware names;
- Listing of the largest LLM providers in the US. Some investors may see this as a sign of peak growth of LLM monetization.

Figure 9: US 10Y treasury yield has been rising



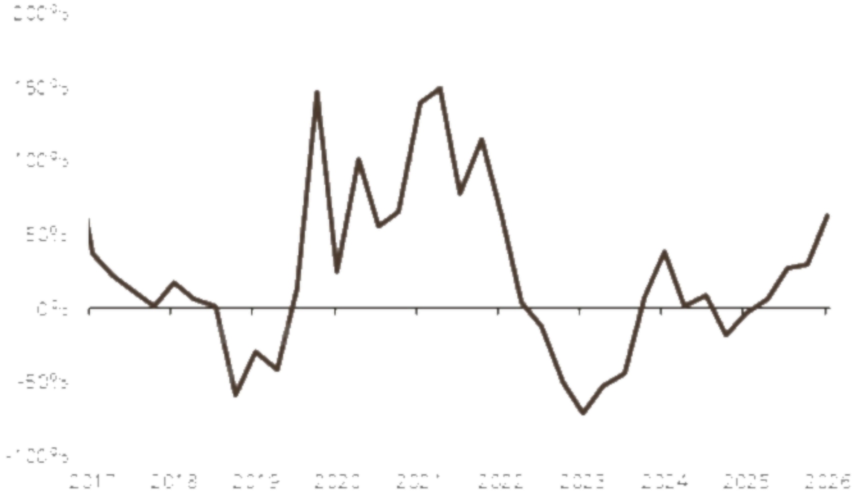
Source: FactSet, UBS

Figure 10: China AI tech hardware earnings YoY vs share price quarterly change



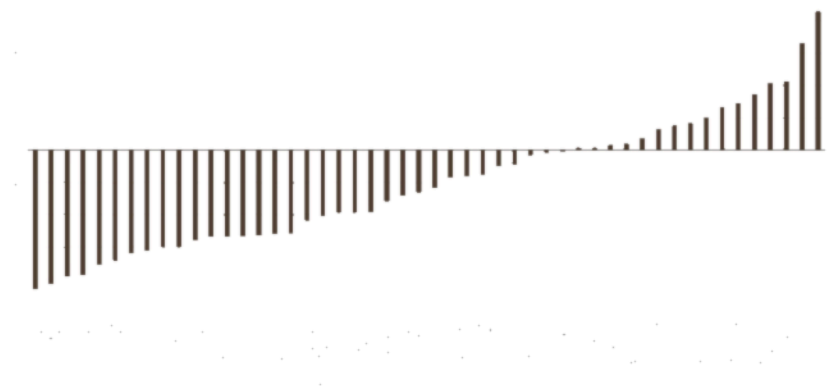
Source: FactSet, UBS Note: Based on the list in figure 7

Figure 11: China semi earnings growth accelerating YoY



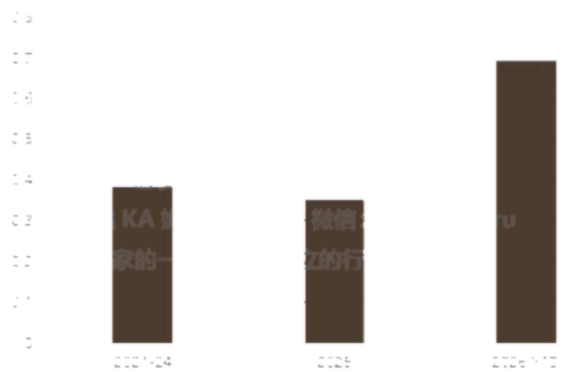
Source: FactSet, UBS

Figure 12: Sector correlation with US 10Y yield since 2017 (tech hardware close to zero)



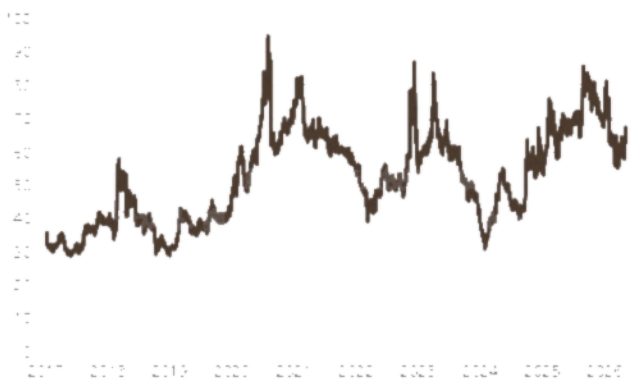
Source: FactSet, UBS Note: Based on daily price levels

Figure 13: Correlation of selected popular China AI hardware names and NYSE Semiconductor Index



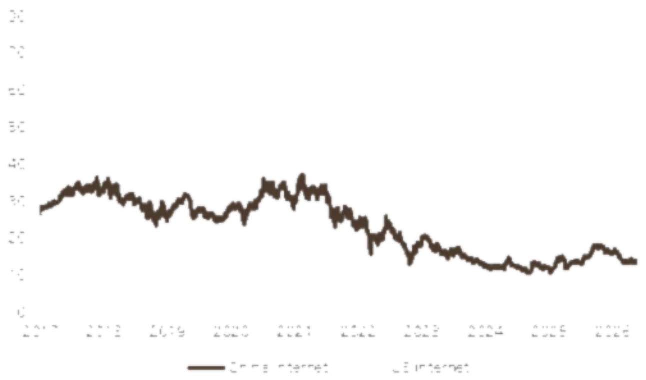
Source: FactSet, UBS Note: Based on equally weighted weekly performance

Figure 14: Software sector forward P/E



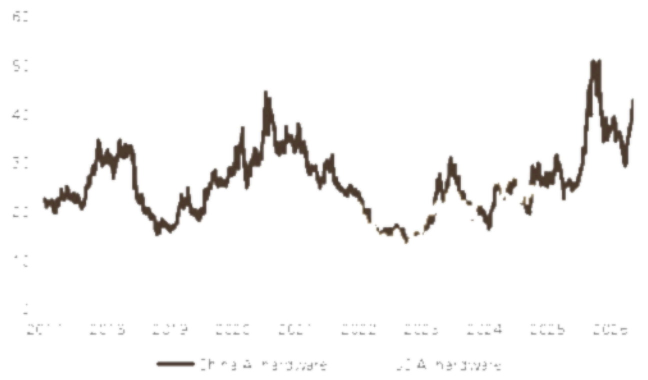
Source: FactSet, UBS

Figure 15: Forward P/E - China vs US internet



Source: FactSet, UBS

Figure 16: Forward P/E - China vs US AI tech hardware



Source: FactSet, UBS Note: based on the list in our earlier report

For investors concerned about crowding in tech, we think a proxy could be the power equipment space and energy storage names in China which provide some indirect exposure towards the global AIDC build-out and provide some fundamental protection against the risk of higher energy prices.

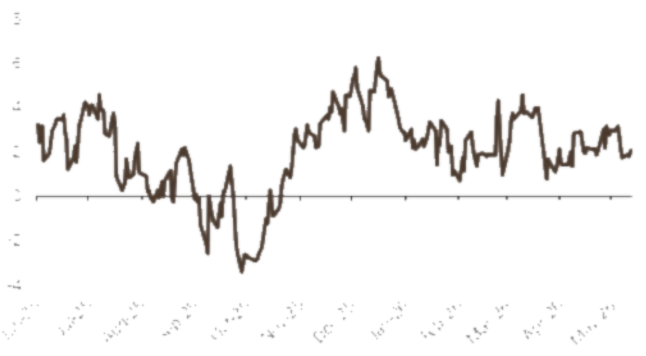
We show in the following charts that the Chinese power equipment names generally trade cheaper compared with their international peers (please see this report for details).

Figure 17: Top picks from analysts on energy independence

Ticker	Name	Subsector	Forward P/E	FY26 consensus earnings growth	Major catalysts	UBS rating
300750-CN	Contemporary Amperex Technology Co., Limited Class A	Battery	19.2	31%	Market share gain, rising EV exports, HDT electrification and energy storage expansion trends	Buy
[illegible]	[illegible]	Battery materials	[illegible]	[illegible]	[illegible]	Buy
300274-CN	Sungrow Power Supply Co., Ltd. Class A	BESS	17.8	15%	BESS GPM normalization from better pricing power and cost pass through, AIDC related BESS demand	Buy
[illegible]	[illegible]	BESS	[illegible]	[illegible]	[illegible]	Buy
1211-HK	BYD Company Limited Class H	EV	17.4	26%	Overseas expansion and rising external battery sales revenue	Buy
[illegible]	[illegible]	Power equipment	[illegible]	[illegible]	[illegible]	Buy
603308-CN	Anhui Yingliu Electromechanical Co., Ltd. Class A	Power equipment	73.0	78%	Margin uplift on higher overseas revenue mix. Strong revenue visibility on higher contract liability	Buy
[illegible]	[illegible]	Solar	[illegible]	[illegible]	[illegible]	Buy
002487-CN	Dajin Heavy Industry Co., Ltd. Class A	Wind power equipment	25.1	64%	Strong order intake driven by shortage of overseas monopile supply and robust overseas offshore wind demand	Buy

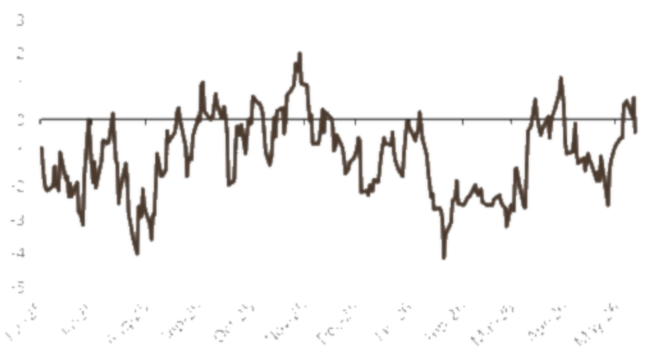
Source: FactSet, UBS

Figure 18: Average crowding score for China battery / BESS names



Source: UBS Quant Research Note: based on the stock list shown in this report (see here)

Figure 19: Average crowding score for China power equipment names

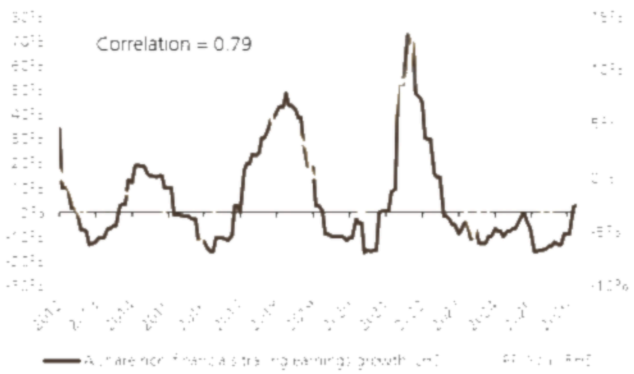


Source: UBS Quant Research Note: based on the stock list shown in this report (see here)

Would higher PPI lead to lower earnings?

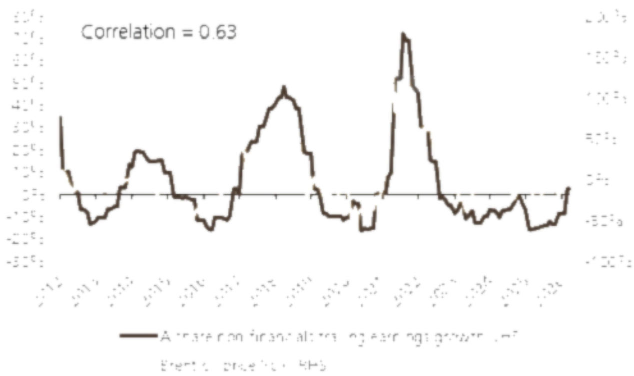
Investors are concerned as to whether imported inflation would squeeze corporate margins as the recent surge in energy and commodity prices are primarily supply-driven. We note that historically a higher PPI have led to faster listed companies' revenue and earnings growth in China, even during the 2022 Russia Ukraine conflict as shown in the following charts.

Figure 20: A share non-financials trailing earnings growth vs PPI YoY



Source: FactSet, UBS

Figure 21: A share non-financials trailing earnings growth vs Brent oil YoY

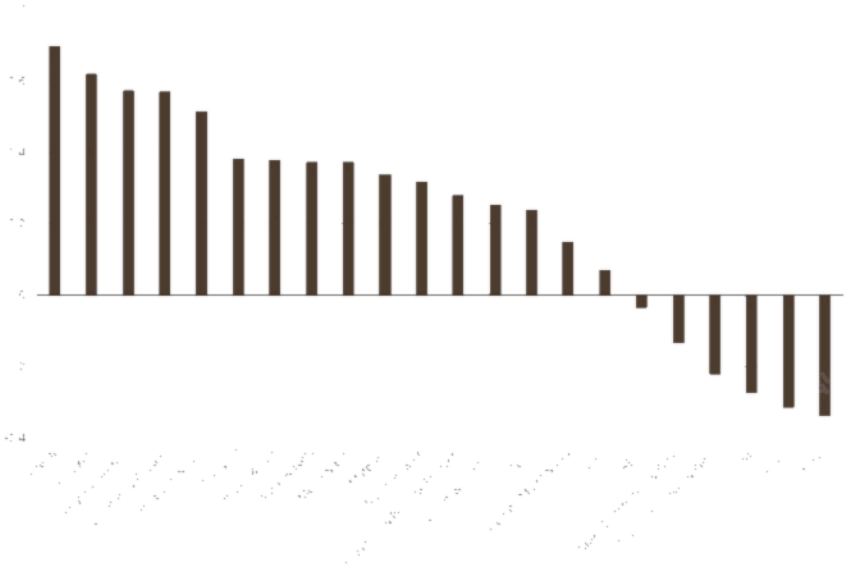


Source: FactSet, UBS

From a sector perspective, the following sectors historically have performed better when PPI rose:

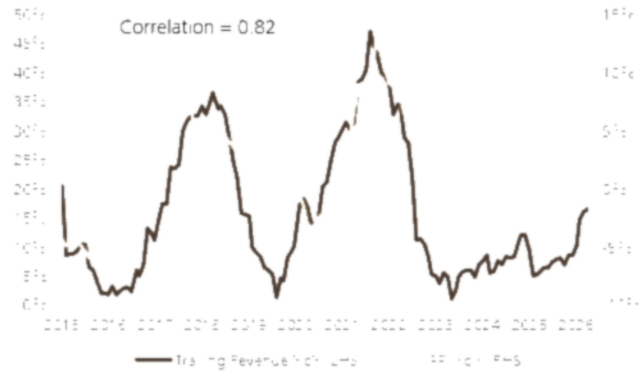
- Upstream sectors, including energy and capital goods, benefit the most as direct beneficiaries of higher commodity prices;
- Export oriented sectors tend to do well with higher PPI - one would imagine that as global commodity prices rise, all players raise prices and Chinese companies tend to benefit from the inflationary environment;
- Sectors with stronger pricing power, such as shipping companies and consumer durables, also tend to benefit from higher PPI;
- Midstream manufacturing sectors (e.g., chemicals, autos, and tech hardware) historically saw moderate gains, as they are able to partially pass through cost inflation.
- Semiconductors show little correlation with PPI given their distinct earnings cyclicality;
- Downstream sectors with weaker pricing power, such as food & beverage, consumer services, and utilities, were typically negatively impacted by rising input costs. That said, these sectors make up 10% of the CSI 300 index.

Figure 22: Correlation between sector trailing earnings growth and PPI YoY



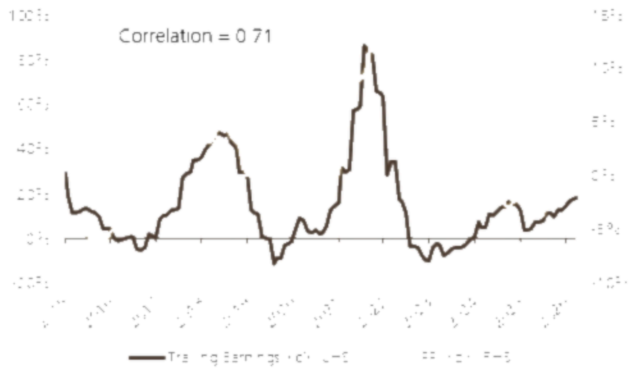
Source: CEIC, FactSet, UBS Note: Monthly data since 2011 is used

Figure 23: Exporters trailing revenue growth vs PPI YoY



Source: FactSet, UBS Note: Companies with >40% overseas revenue exposure are included (see here for a detailed list)

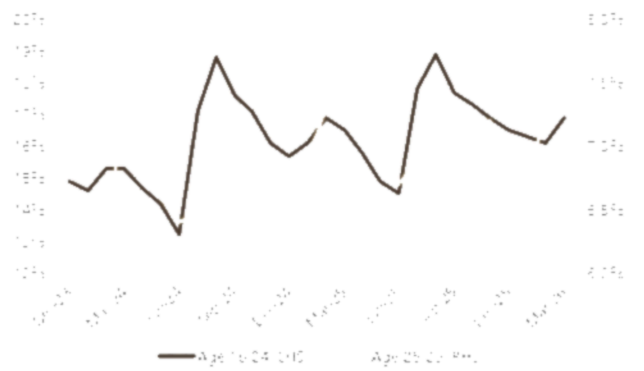
Figure 24: Exporters trailing earnings growth vs PPI YoY



Source: FactSet, UBS Note: Companies with >40% overseas revenue exposure are included

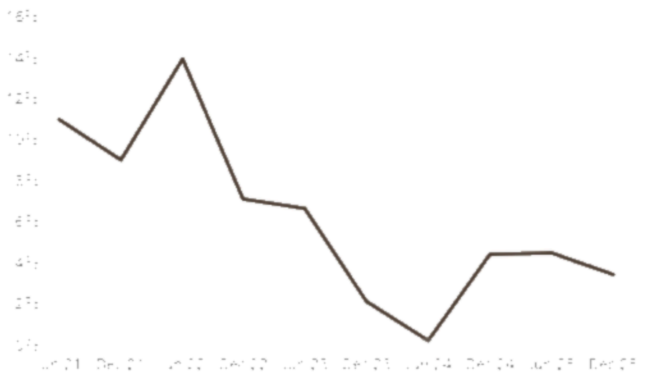
That being said, whether China can sustainably exit deflation remains uncertain. In our earlier analysis of Japan's reflation episode in 2022 (see here), we highlighted employment conditions and wage growth as key drivers in Japan's exit from deflation. With youth unemployment rate remaining elevated and wage growth moderating in 2H25 (based on A-share listed company data), overall labour market conditions appear to remain lukewarm which are likely to feed into a weak broad consumption environment near term.

Figure 25: China unemployment rate of selected age group



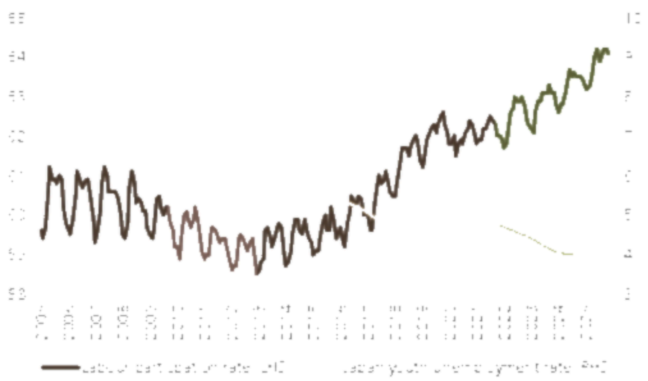
Source: NBS, UBS

Figure 26: A share companies average wage growth



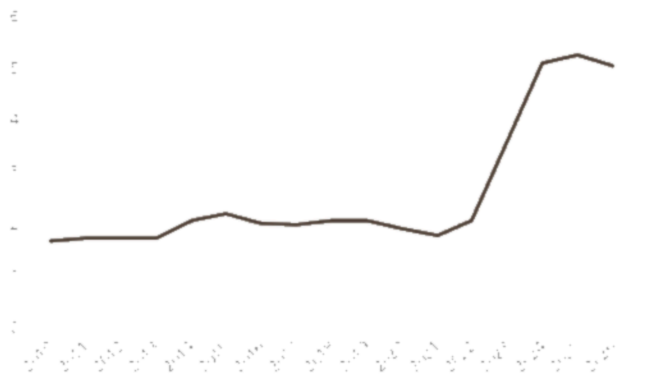
Source: Wind, UBS

Figure 27: Japan labour participation and youth unemployment rate



Source: Bloomberg, UBS Note: Reflationary periods during 2010-2012 and 2022-now are shaded in red and green

Figure 28: Japan Spring wage negotiation (Shuntou) monthly avg wage increase rate



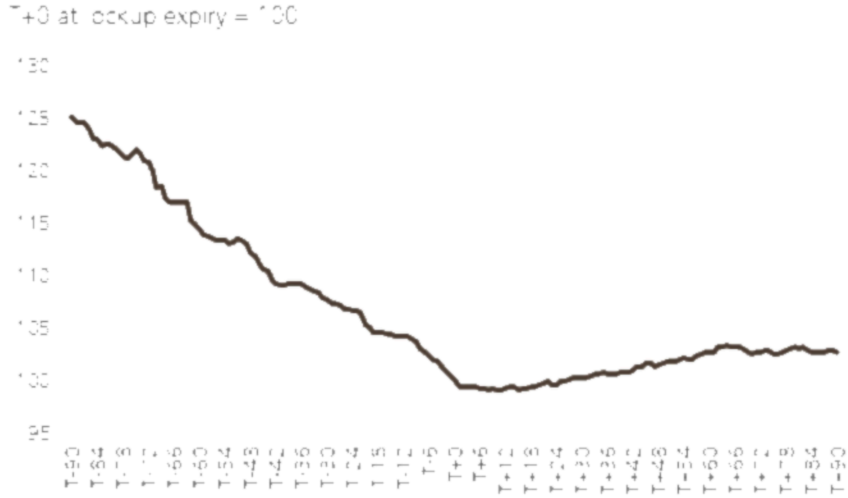
Source: Bloomberg, UBS

How much impact could we see coming from lock-up expiry?

The Hong Kong IPO market has remained active into 2026, with several large-cap listings such as Zhipu and MiniMax successfully coming to market earlier this year. Looking ahead, the value of shares subject to lock-up expiry is expected to rise over the next two months, reaching a peak of c.HK$200bn in July.

Historically we see a meaningful impact from lock-up expiries at an individual stock level: typically stocks underperform the broader market 3 months out from the lock-up expiry date by c.25% and then outperform post the expiry date. For the recent IPO's in the last 18 months, the effect is less significant with stocks expecting lock-up expiry having underperformed 6% (median) vs the HSI in the three months leading up to the lock-up expiry.

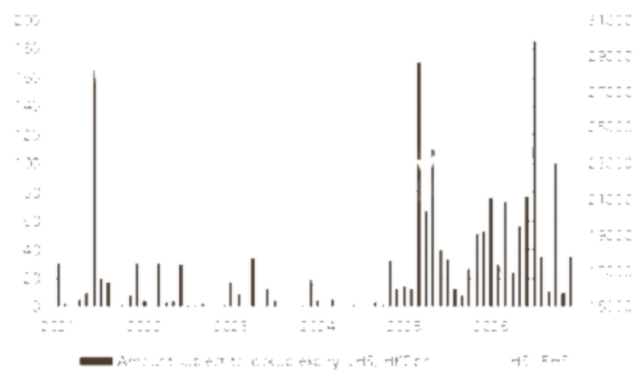
Figure 29: HK IPO share price performance relative to HSI around 1st lock up expiry date



Source: FactSet, Bloomberg, UBS Note: History since 2012, simple average is used

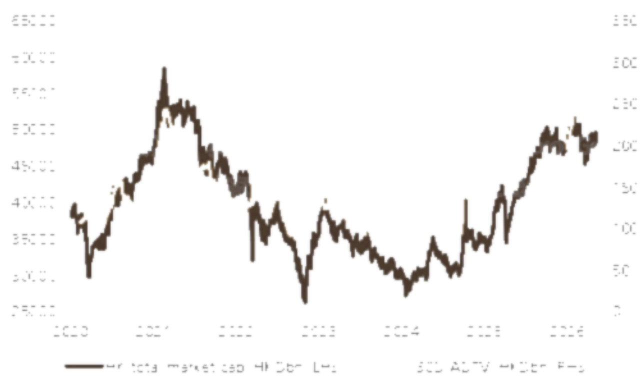
For the broader market, there is less of a correlation - the estimated HK$200bn of unlock in July represents only around 0.4% of total HK market cap, or roughly ¾ of average daily turnover and would therefor appear manageable.

Figure 30: Estimated monthly amount subject to IPO lock-up expiry



Source: Bloomberg, UBS

Figure 31: HK total market cap and average daily turnover



Source: CEIC, UBS

We provide a detailed schedule of upcoming lock-up expiries in the table below. Notable stocks expected to see lock-up expiry in the next few months include the LLM companies Zhipu, Minimax as well as JD Industrials.

Figure 32: Upcoming IPO lockup expiry schedule up to July

Ticker	Name	Lock up expiry date	Est. amount subject to lock-up expiry (HKDbn)	As % of current free float
2788-HK	Chuangxin Industries Holdings Ltd	5/23/2026	35.1	384%
2685-HK	QuantGroup	5/26/2026	2.4	220%
2693-HK	Anhui Jinyan Kaolin New Materials Co Ltd	6/2/2026	0.0	75%
2658-HK	Guangdong Tianyu Semiconductor Co Ltd	6/4/2026	0.1	6%
2408-HK	Guangzhou Xiao Noodles Catering Management Co Ltd	6/4/2026	0.1	27%
2676-HK	Suzhou Novosense Microelectronics Co Ltd	6/7/2026	1.9	46%
2659-HK	Shanghai Bao Pharmaceuticals Co Ltd	6/9/2026	0.2	43%
7618-HK	JINGDONG Industrials Inc	6/10/2026	38.7	969%
2655-HK	Guoxia Technology Co Ltd	6/15/2026	0.1	8%
3887-HK	HashKey Holdings Ltd	6/16/2026	10.1	381%
2546-HK	Xizang Zhihui Mining Co Ltd	6/18/2026	0.8	69%
2581-HK	BenQ BM Holding Cayman Corp	6/21/2026	0.8	788%
3378-HK	HanX Biopharmaceuticals Inc	6/22/2026	0.1	11%
2619-HK	XJ Electrics Hu Bei Co Ltd	6/24/2026	0.3	308%
3696-HK	Insilico Medicine Cayman TopCo	6/29/2026	23.3	101%
3317-HK	Shenzhen Xunce Technology Co Ltd	6/29/2026	1.8	5%
6600-HK	OneRobotics Shenzhen Co Ltd	6/29/2026	1.0	13%
2657-HK	Shanghai [illegible]ongxuan Biological Technology Co Ltd	6/29/2026	0.3	52%
2671-HK	USAS Building System Shanghai Co Ltd	6/29/2026	0.0	22%
2513-HK	Beijing Zhipu Huazhang Technology Co Ltd	7/7/2026	28.1	141%
9903-HK	Shanghai Tianshu Zhixin Semiconductor Co Ltd	7/7/2026	5.2	32%
100-HK	Minimax Group Inc	7/8/2026	119.1	144%
6938-HK	Suzhou Ribo Life Science Co Ltd	7/8/2026	0.8	17%
2675-HK	Edge Medical Robotics Co Ltd	7/8/2026	0.7	12%
2651-HK	Wuhan Dazhong Dental Medical Co Ltd	7/8/2026	0.5	226%
3636-HK	Yunnan Jinxun Resources Co Ltd	7/9/2026	0.2	43%
501-HK	OmniVision Integrated Circuits	7/11/2026	1.8	62%
3986-HK	GigaDevice Semiconductor Inc	7/12/2026	8.3	46%
8610-HK	BBSB International Ltd	7/12/2026	0.2	421%
1641-HK	Hongxing Coldchain Hunan Co Ltd	7/12/2026	0.0	18%
9611-HK	Longcheer Technology Shanghai Co Ltd	7/21/2026	0.4	29%
1768-HK	Busy Ming Group Co Ltd	7/27/2026	2.7	9%
2718-HK	Mininglamp Technology Group Ltd	7/30/2026	28.8	266%

Source: Bloomberg, UBS

What to do with HSTECH?

HSTECH is down c.10% YTD, significantly underperforming MSCI AC World by 20% which is trading close to its all time high. We believe the key factors are:

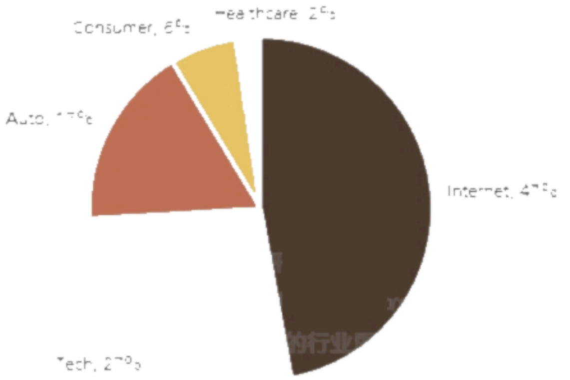
- **Unfavorable sector mix** with internet, auto and consumer making up c.70% of the index, where they are all facing different headwinds YTD, including anti-trust regulation (against Trip.com), ongoing industry competition and absence of consumption stimulus;
- **Investors have become more selective among AI names since 2026**, as the narrative has shifted from software (seen as an AI loser) to hardware (AI enabler). This has weighed on Chinese internet names amid rising concerns that they could be displaced by AI agents over the longer term, leading to a sell off alongside with the U.S. software stocks;
- **Weak inflows** as southbound flows slowing down coupled with elevated capital raising activities from IPO and secondary offerings;
- **Significant earnings downgrade (-37%)** in the past 12 months primarily driven by competition among food delivery platforms with the three companies (Meituan, JD, Alibaba) made up over 70% of the earnings cut;
- **Foreign investors selling out of EM equities** post the Iran conflict began which would have affected HK equities.

Last month we held the tactical view (see here) that HSTECH could perform well given a myriad of catalysts coming up in the next 2 months. Many of these catalysts have come through including:

- Launch of the new LLM models from Deepseek and Tencent;
- Food delivery competition easing in the quarterly results;
- US China leadership summit leading to a potential relaxation of export control on AI chips;
- EV demand to see some upside as oil price stay higher for longer.

With the market not heeding these positive developments, we now think it may take longer for HSTECH to outperform. Our recent discussions with investors suggest that their attention is focused around hardware tech, power equipment and other North Asian names which may have drawn liquidity away from HK internet names.

Figure 33: HSTECH sector weighting mix



Source: FactSet, UBS

Figure 34: HSTECH vs US Software

Source: FactSet, UBS

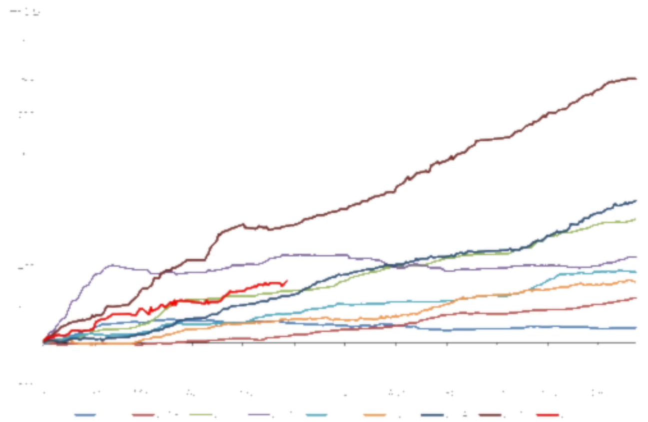
Figure 35: Recent HSTECH consensus earnings performance

Source: Bloomerbg

Figure 36: Foreign net inflows into EM equities (ex-China)

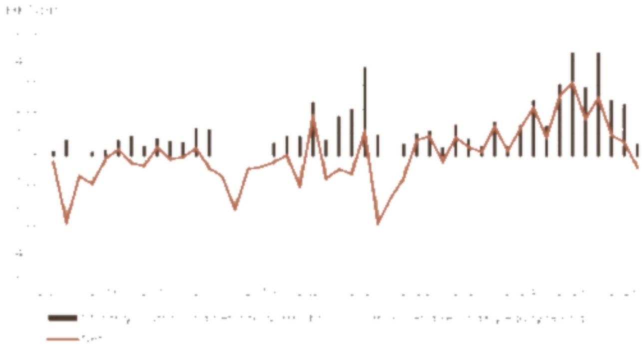
Source: Bloomberg, UBS

Figure 37: Southbound net inflows by year



Source: CEIC, UBS

Figure 38: Quarterly southbound flows vs capital raising



Source: Bloomberg, UBS Note: Last data point up to 15 May 2026

Changes to sector preferences and model portfolio

We turn neutral on property given the improvement in secondary transaction and reduction in secondary home listings.

Figure 39: Changes to sector preferences

Most preferred	Least preferred
Tech hardware	Construction
Internet	Auto OEM
"Going Abroad" stocks	Software
Non-ferrous metal	Consumer
Electrical equipment	~~Property~~

Source: UBS

Figure 40: Changes to model portfolio

Most preferred names

Stock Code	Company name	Lead analyst	UBS rating	Last close	Price target	FY26 P/E	UBSe FY26 EPS growth	UBSe vs consensus FY26 earnings	Forward div yield	YTD return
9888 HK	Baidu	Wei Xiong	Buy	134.00	175.00	16.6	-30%	-2%	0%	2%
3606 HK	Fuyao Glass	Nora Min	Buy	56.65	93.00	11.9	17%	4%	5%	-14%
2899 HK	Zijin Mining Group - H	Sharon Ding	Buy	32.72	57.00	9.0	63%	4%	3%	8%
0700 HK	Tencent Holdings	Kenneth Fong	Buy	455.20	780.00	12.3	9%	4%	1%	-23%
GDS US	GDS	Sara Wang	Buy	37.71	60.00	32.2	63%	164%	0%	8%
300750 SZ	Contemporary Amperex Technology	Paul Gong	Buy	414.75	600.00	18.2	41%	10%	3%	15%
1072 HK	Dongfang Electric Corporation	Ken Liu	Buy	36.52	68.00	19.2	25%	19%	2%	46%
0883 HK	China National Offshore Oil Corporation	Amily Guo	Buy	27.80	37.80	6.5	46%	8%	6%	31%
1211 HK	BYD Company Limited	Paul Gong	Buy	90.20	128.00	17.9	23%	-2%	1%	-5%
2359 HK	WuXi AppTec	Chen Chen, PhD	Buy	109.30	171.00	18.1	-5%	5%	2%	33%
002532 SZ	Tianshan Aluminum Group	Bei Wang	Buy	15.55	23.00	8.0	38%	-1%	7%	-2%
002714 SZ	Muyuan Foods	Nina Jiang	Buy	39.54	60.50	48.3	-71%	-41%	3%	-22%
YAZG SP	Yangzijiang Shipbuilding	Kun Liu	Buy	3.61	5.10	7.7	20%	9%	6%	15%
002648 SZ	Zhejiang Satellite Chemical	Amily Guo	Buy	25.57	36.80	10.2	59%	-7%	3%	45%
2259 HK	Zijin Gold International	Sharon Ding	Buy	139.10	283.00	14.8	101%	-14%	2%	-5%
002850 SZ	Shenzhen Kedali Industry	Nora Min	Buy	207.64	268.00	23.2	40%	4%	2%	32%

Addition

Stock Code	Company name	Lead analyst	UBS rating	Last close	Price target	FY26 P/E	UBSe FY26 EPS growth	UBSe vs consensus FY26 earnings	Forward div yield	YTD return
002487 SZ	Dajin Heavy Industry	Yishu Yan	Buy	77.03	100.00	26.4	73%	3%	1%	49%

Removal

Stock Code	Company name	Lead analyst	UBS rating	Last close	Price target	FY26 P/E	UBSe FY26 EPS growth	UBSe vs consensus FY26 earnings	Forward div yield	YTD return
9618 HK	JD.com - H	Kenneth Fong	Buy	127.80	137.00	9.0	5%	10%	3%	18%
603606 SS	Ningbo Orient Wires & Cables	Yishu Yan	Buy	58.60	78.00	21.7	47%	-1%	2%	-2%

Source: FactSet, UBS

Figure 41: Sector valuation

	Valuation					2026 YTD	
Sector	Current P/E or P/B*	5Y Average	Standard deviation	Forward PEG	FY26 consensus earnings growth	Return (%)	Forward Dividend yield
Construction	6.8	5.1	2.9	2.8	6%	1%	4.0%
Truck	15.3	10.9	2.7	0.8	21%	57%	4.3%
Wind power equipment	22.4	12.7	2.6	0.8	80%	27%	1.5%
Semiconductor	59.0	35.2	2.5	1.3	58%	37%	0.4%
Tech hardware	23.5	17.5	2.3	1.5	32%	18%	1.6%
Construction materials	17.1	10.9	2.2	1.9	87%	9%	6.4%
Aerospace & defense	49.4	35.1	2.1	N/A	10%	3%	0.7%
Power operator	16.3	13.8	2.1	3.5	0%	7%	3.2%
Telecom	12.9	9.9	1.7	N/A	-5%	0%	6.0%
Energy	10.5	8.0	1.6	10.8	27%	14%	5.1%
Transportation	13.6	11.4	1.4	1.7	62%	0%	4.1%
Data center*	2.2	1.5	1.1	3.9	144%	23%	0.8%
Banks*	0.6	0.5	1.0	1.7	4%	-3%	4.8%
Shipping	9.9	7.7	0.9	N/A	-1%	10%	5.0%
Software	68.2	58.3	0.9	16.6	78%	-7%	0.7%
Chemicals	15.8	13.6	0.9	N/A	95%	17%	2.3%
Property*	0.7	0.6	0.8	N/A	-74%	10%	3.0%
Machinery	18.1	16.5	0.7	0.9	22%	4%	2.5%
Gas utilities	9.8	9.1	0.5	11.7	6%	-7%	5.4%
Auto parts	17.8	17.5	0.1	1.1	15%	-7%	2.3%
Grid	23.2	22.9	0.1	3.6	14%	17%	2.5%
Consumer finance	4.9	4.7	0.1	N/A	-11%	-29%	10.8%
Solar supply chain	53.2	28.3	0.1	2.3	190%	3%	0.8%
Pharma	23.0	23.0	0.0	5.2	21%	-4%	1.5%
Hog*	2.4	2.4	0.0	3.7	-46%	-12%	2.4%
Basic materials	11.9	12.0	-0.1	0.6	65%	4%	3.5%
Auto retail	8.8	14.9	-0.1	N/A	159%	-32%	7.5%
EV Battery & materials	21.1	25.7	-0.2	0.7	50%	16%	2.0%
Education*	1.3	1.5	-0.2	4.5	14%	-8%	3.0%
Internet (E-commerce)	14.5	16.7	-0.3	4.0	11%	-13%	1.1%
Airline airport*	1.8	1.9	-0.4	1.4	53%	-22%	2.8%
Home appliance	11.0	11.8	-0.4	3.1	7%	-13%	5.7%
Auto	18.6	20.6	-0.6	1.9	109%	-3%	2.4%
Health care service	28.8	40.1	-0.6	3.0	86%	-1%	1.6%
Biotech, CRO	32.9	44.7	-0.6	3.6	52%	7%	1.3%
Furniture	11.4	14.2	-0.6	N/A	7%	-3%	5.4%
Express delivery*	1.6	2.2	-0.7	1.0	23%	11%	2.8%
Baijiu	18.6	24.5	-0.7	3.6	10%	-8%	4.3%
Medical device	20.7	25.4	-0.8	4.0	22%	-9%	2.7%
Personal product	16.9	21.4	-0.9	2.1	7%	-10%	3.5%
Pharma retail	16.5	27.5	-0.9	4.8	14%	-13%	4.2%
Food & beverage	16.3	19.7	-0.9	2.1	16%	-4%	4.2%
Restaurant	15.9	23.7	-0.9	2.6	13%	-1%	3.7%
Broker	12.1	14.6	-1.0	1.2	15%	-8%	2.8%
Beer	14.6	23.6	-1.0	1.0	23%	0%	4.2%
Sportswear	12.6	19.6	-1.0	1.5	5%	-6%	4.2%
Internet (Media & entertainment)	12.9	20.4	-1.1	1.7	7%	-25%	1.4%
Internet (Online game)	13.7	16.6	-1.1	6.8	26%	-10%	2.6%
Leisure	15.0	24.7	-1.1	12.1	-20%	-24%	2.9%
Insurance	7.5	9.0	-1.7	2.1	-1%	-8%	3.6%

Source: FactSet, UBS

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.