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China Equity Strategy

2Q26 Earnings Dissector: Innovation Accelerates, Old Economy Stalls

Equity Macro Research

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We see three key takeaways from China's 2Q26 equity earnings so far. 1) The 2Q26 earnings season reinforces our view that **China remains a split-screen economy with the innovation complex e.g. the AI ecosystem and healthcare (CXO and innovative drug) delivering robust earnings growth vs domestic demand softness, adding pressure to staples and property targeting mass market**. MXCN Healthcare/IT have seen 7.9%/7.5% FTM EPS increases QTD vs 2.6% at the index level. 2) Specifically, **among the growth names, there are signs of higher focus on visibility**, with for example increasing client queries on LLM players' earnings breakeven timeline (JPM forecasts 2028 for Z AI and 2030 for Minimax), and onshore investors inclined to go back to the domestic supply chain for market share gains and TAM of LLMs. 3) **On anti-involution, we see divergence in progress among industries**. There were early signs of industry leaders gaining from premiumization strategy and overseas expansion, e.g. Geely in NEV. However, solar in general appeared to still struggle, as evidenced by its high presence in the top 10 2026 EPS downward revision list (Figure 2).

With the takeaways above, we reiterate our view that the outperformance of the AI-theme on fundamentals should support a rebound in stocks for the remainder of 3Q26. We recommend domestic AI supply chain players notably Iluvatar CoreX (H), V-Test (A), JCET (A), AMEC (A), and NAURA (A) amidst the ongoing debate on LLMs' TAM. We expect LLM player Z AI and global supply chain names such as Zhongji Innolight (A) and Victory Giant (H) to catch up on improving risk-reward and another ARR growth surge. **By index, given the relative exposure to AI and physical AI, we prefer CSI300, STAR 50, and ChiNext over HSCEI and HSI** (Figure 1).

- **The 2Q26 China earnings season (c18% number of constituents reported as of 18 Aug for both MXCN and CSI-300) exposes a two-tier market with sharply divergent growth trajectories.** CSI-300 earnings are accelerating: actual 2Q EPS is up 32.0% YoY with 140bps margin expansion and beats by 54% of companies, and consensus forecast further acceleration to 34.1% growth in 2H26. Meanwhile, MXCN companies that have reported have seen 2Q EPS +4.0% and margin contracting 93bps, though consensus for the index sees improvement to +14.7% in 2H26. Within secular growth, IT and Healthcare are the dominant themes, but with critical intra-sector divergence: CSI-300 IT saw 2Q consensus EPS of +64.7% on semiconductor and AI-hardware strength, while MXCN IT EPS fell 18.4% in 2Q, dragged primarily by Xiaomi's 42.6% adjusted net profit decline on memory cost inflation and EV losses - a single-name distortion rather than a sector-wide setback.

- **China's upstream AI ecosystem recorded a strong 2Q:** Up/mid-stream semi equipment, foundry and chips reported strong growth, while downstream hyperscalers faced capex-driven net income and cash flow challenges. SMIC posted record revenue of US$3.01bn, +36% y-y / +20% q-q, well above its +14–16% q-q guidance, with gross margin expanding to 25.3% versus its 20–22% guide; Hua Hong similarly beat, with revenue of US$718mn, +27% y-y, and a gross margin of 16.5% versus the 14–16% management guidance. Among chip components, GigaDevice reported 1H revenue of Rmb11.57bn, +179% y-y, and net profit of Rmb6.86bn, +1092% y-y, driven by memory chip volume and price increases, with Q2 net profit of Rmb5.40bn, +269% q-q; Hygon stood out with

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1H revenue of Rmb9.1bn, +67% y-y, and net profit of Rmb1.8bn, +50% y-y, as Q2 net profit hit a record Rmb1.11bn, +61% q-q; Cambricon, however, missed despite headline 1H revenue of Rmb6.0bn, +108% y-y, and net profit of Rmb2.3bn, +123% y-y - Q2 revenue grew just 7.8% q-q, operating cash flow collapsed 66% to Rmb0.31bn with Q2 turning negative, inventory reached Rmb8.25bn, and the stock dropped 6.3% post-results (market data). Upstream, AMEC had guided to 1H revenue of Rmb6.69bn, +35% y-y, and net profit of Rmb2.7–2.9bn, +282–311% y-y, though adjusted net profit was only Rmb1.0–1.2bn, +86–123% y-y, as non-recurring gains flattered the headline. Downstream, Tencent closed the quarter with revenue of Rmb204.8bn, +11% y-y, and adjusted net profit of Rmb68.4bn, +9% y-y beating consensus, but capex of Rmb52.8bn pushed free cash flow to –Rmb13.8bn for the first time and triggered a 4.5% sell off; Baidu reported Q2 revenue of Rmb31.3bn, –4% y-y, missing consensus, with net profit of Rmb2.32bn, –68% y-y, though AI revenue reached Rmb12.5bn, 50% of core revenue, and AI cloud infrastructure revenue grew 50% to Rmb7.3bn, as AI monetization accelerated while legacy search and iQiyi dragged.

- **For pure-play LLM names, duration shortening has shifted the market's pricing focus from ARR expansion to the path to profitability breakeven**, capping near-term multiple expansion. With liquidity abundant but no longer extreme, investors seem hesitant to capitalize open-ended revenue narratives. Z AI MaaS ARR reached Rmb1.7bn, cUS$250mn, by March 2026, up 6.4x in four months (per management commentary), and MiniMax's ARR doubled from February to April with API revenue above 50% of the mix (per management commentary), yet the market now demands evidence that this top-line momentum is converting to operating leverage. JPM’s Olivia Xu forecasts breakeven for Z AI in 2028, and for Minimax in 2030, overall in line with the anecdotal client feedback on the estimated timeline for the broader industry (2028-29), leaving near-term re-rating dependent on margin inflection rather than ARR growth.

- **Healthcare delivered a robust 2Q26, with CXO confirming the industry-wide inflection and innovative drug names scaling rapidly into profitability**. In CXO, Wuxi AppTec posted 1H revenue of Rmb28.90bn (+38.9% y-y; continuing operations +48.0%) and adjusted net profit of Rmb10.57bn (+89.4% y-y), with Q2 standalone revenue growth accelerating to 47.7% y-y and adjusted net profit to 93.6% y-y; Genscript delivered 1H revenue of US$404mn (+27.3% y-y on a continuing basis) and adjusted net profit of US$62.5mn (+203.3% y-y), though GAAP net loss widened to US$129mn on share-based compensation. In innovative drugs, BeOne Medicines reported Q2 revenue of US$1.705bn (+30% y-y) and GAAP net profit of US$237mn (+151% y-y), with 1H A-share net profit reaching Rmb3.27bn (+627% y-y) and Zanubrutinib global sales at US$1.2bn in Q2 (+31% y-y), prompting full-year guidance to be raised to US$6.6–6.8bn. CSPC's innovative drug subsidiary CSPC Innovation posted 1H revenue of Rmb3.24bn (+208.7% y-y) and net profit of Rmb1.26bn (turning profitable from a loss). In generics and integrated pharma, CSPC Group guided 1H attributable profit to Rmb5.9–6.2bn (+131–143% y-y) a sharp rebound from Q1's –41.8% profit decline.

- **China's new economy incumbents delivered a deeply divergent 2Q26**, with globalization and export-oriented names powering ahead while domestic competition and cost pressures weighed on margins, suggesting anti-involution has been advancing but in a limited manner. In smartphones, Transsion stood out with 1H revenue of Rmb35.43bn (+21.9% y-y) and net profit of Rmb1.77bn

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(+46.2% y-y), driven by ASP increases in emerging markets, whereas Xiaomi posted Q2 revenue of Rmb108.9bn (–6.1% y-y) and adjusted net profit of Rmb6.22bn (–42.6% y-y), as memory cost inflation and EV losses of Rmb2.6bn offset 17% growth in its EV and innovation segment to Rmb24.9bn. In the NEV supply chain, CATL delivered 1H revenue of Rmb276.9bn (+54.8% y-y) and net profit of Rmb43.28bn (+42.0% y-y), with energy storage revenue surging 87.5% to Rmb53.3bn; Geely posted 1H revenue of Rmb173.6bn (+15% y-y) and core net profit of Rmb9.68bn (+46% y-y) on premiumization and overseas expansion, while Fuyao Glass saw 1H revenue edge up 2.4% to Rmb21.97bn but net profit fall 17.4% to Rmb3.97bn, hit by ~Rmb1.4bn in FX losses. Solar remained weak: Xinyi Solar posted 1H revenue of Rmb8.43bn (–22.9% y-y) and net profit of just Rmb39mn (–94.8% y-y) on glass price declines, while Trina Solar narrowed its 1H net loss to Rmb270mn from Rmb2.92bn a year earlier, though adjusted loss remained Rmb2.89bn.

- **Consumption and property remained under pressure in 2Q26**, **reinforcing the two-speed growth narrative and keeping policy stimulus expectations contingent on the export trajectory.** In consumption, Kweichow Moutai posted 1H revenue of Rmb92.28bn (+1.3% y-y) but net profit of Rmb44.52bn (–1.95% y-y), its first half-year profit decline in five years, as traditional channel sell-through softened despite i-Moutai direct sales surging 274%; the broader retail data confirmed weak domestic demand, with July retail sales growing just 0.6% y-y, down from 1.0% in June, and 7M26 cumulative growth at 1.2%. In property, Poly Developments posted 1H revenue of Rmb102.90bn (–12.0% y-y) and net profit of Rmb1.93bn (–39.0% y-y), as delivery volume and margin both declined, signaling that the sector's adjustment has yet to bottom. The July macro data underscored the divergence: industrial production grew 4.5% y-y with high-tech manufacturing up 13.8% and equipment manufacturing up 9.7%, and exports remained resilient at +23.9% y-y in USD terms, providing a meaningful GDP cushion. However, with consumption and property still weak, the key policy threshold is export growth. Anecdotally, onshore investors we spoke with noted that if export momentum decelerates from the current 20%+ pace to a mid-single-digit rate, the external demand cushion will fade and policymakers will likely feel greater urgency to deploy more aggressive fiscal stimulus e.g. consumption subsidies, property easing, and infrastructure acceleration.

- **We maintain our OW China equities in our EM/Asia allocations and maintain end-2026 base case targets for the MXCN index and CSI-300 at 100 and 5,200, respectively,** underpinned by 14% and 25% consensus year-over-year EPS growth projections. Liquidity remains abundant, though yet to return to the excessive levels that we observed in June. Initial 2Q26 results show that AI remains a tier-1 growth theme outperforming the broad China equity space on financials. We believe such outperformance can support a rebound of the AI ecosystem in 3Q26, though liquidity turbulence could make the path choppy. For investors looking for diversification, our top picks in the non-AI fields include Meituan, Bank of China-H, Bank of Ningbo, CICC-H, Innovent, BYD-H and CR Land. Chinese policy makers' initiatives to balance equity issuance and buybacks may also lend support to the higher shareholder return theme in 2H26.

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Figure 1: China equity indices' exposure to select themes

(Index weight %)	AI	Humanoid	Energy security	Innovative drug & CXO	NEV	Staples & real estate
STAR50	58	17	2	2	0	0
Chinext	37	24	25	1	24	2
CSI300	23	12	8	3	7	7
A500	23	11	9	3	8	6
SSE50	21	7	3	6	0	11
HSI	19 (Hyperscaler: 15)	6	0	9	3	6
HSCEI	19 (Hyperscaler: 16)	9	0	8	5	4
HSTECH	31 (Hyperscaler: 16)	23	0	0	14	2
MXCN	32 (Hyperscaler: 25)	7	1	10	5	4

Source: Wind (19 Aug 2026)

Figure 2: MXCN constituents recording top 10 2026 EPS upward/downward revision QTD

			2026 EPS (CNY)		
Security Name	**RIC Code**	**Sector**	**Latest**	**End 2Q26**	**Change**
Top 10 in upward revision					
JIANGSU ETERN A	600105.SH	Information Technology	0.6	0.1	426%
BIWIN STORAGE A	688525.SH	Information Technology	31.1	12.6	148%
SICHUAN KELUN BIOTECH H	6990.HK	Health Care	0.1	-0.8	107%
GDS HOLDINGS A	9698.HK	Information Technology	1.0	0.5	100%
CHONGQING ZHIFEI A	300122.SZ	Health Care	0.0	-0.1	83%
NIO(HK)	9866.HK	Consumer Discretionary	-0.3	-0.8	62%
JIANGSU EASTERN A	000301.SZ	Materials	0.7	0.4	60%
360 SECURITY A	601360.SH	Information Technology	0.0	0.0	45%
TAL EDUCATION GROUP ADR	TAL.N	Consumer Discretionary	8.7	6.0	45%
BEONE MEDICINES	6160.HK	Health Care	4.0	2.9	37%
Top 10 in downward revision					
TRINA SOLAR A	688599.SH	Information Technology	-0.1	0.0	-375%
MAXSCEND A	300782.SZ	Information Technology	-0.1	0.0	-323%
GUANGZHOU AUTO A	601238.SH	Consumer Discretionary	-0.6	-0.2	-141%
LEGEND BIOTECH CORP ADR	LEGN.O	Health Care	-0.1	0.3	-139%
LONGI GREEN ENER A	601012.SH	Information Technology	-0.2	-0.1	-126%
AKESO (CN)	9926.HK	Health Care	0.0	0.1	-125%
MEITUAN B	3690.HK	Consumer Discretionary	-0.3	-0.1	-108%
SERES GROUP CO A	601127.SH	Consumer Discretionary	0.4	4.2	-90%
XINYI SOLAR HLDGS	0968.HK	Information Technology	0.1	0.2	-60%
XPENG (HK)	9868.HK	Consumer Discretionary	-0.8	-0.6	-42%

Source: LSEG Workspace (19 Aug 2026)

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Figure 3: MXCN FTM EPS revision

		FTM EPS growth revision		FTM EPS integer revision	
	FTM EPS growth	Since end 2Q26	Since 20 Sep 2024	Since end 2Q26	Since 20 Sep 2024
Communication Services	7%	-1.2%	-8.1%	-0.4%	26.3%
Consumer Discretionary	38%	1.0%	18.9%	5.3%	-7.4%
Consumer Staples	15%	-0.9%	0.4%	0.9%	-1.7%
Energy	6%	-5.2%	4.5%	-1.0%	-1.0%
Financials	4%	0.9%	-1.0%	2.8%	19.6%
Health Care	17%	2.7%	-6.8%	7.9%	35.3%
Industrials	14%	-1.1%	7.1%	2.8%	-9.0%
IT	43%	2.9%	20.1%	7.5%	33.3%
Materials	23%	-10.6%	1.7%	-0.1%	88.3%
Utilities	3%	0.9%	-9.5%	0.0%	-14.0%
Real estate	15%	-1.8%	13.7%	0.1%	-26.9%
MXCN	**14%**	**-0.2%**	**2.9%**	**2.6%**	**9.0%**

Source: MSCI, LSEG Workspace (19 Aug 2026).

Figure 4: CSI-300 FTM EPS revision

		FTM EPS growth revision		FTM EPS integer revision	
	FTM EPS growth	Since end-2Q26	Since 20 Sep 2024	Since end-2Q26	Since 20 Sep 2024
Communication Services	9%	4.0%	17.1%	11.1%	0.6%
Consumer Discretionary	13%	6.7%	23.3%	15.2%	58.0%
Consumer Staples	19%	27.2%	29.3%	18.2%	10.7%
Energy	12%	8.1%	-11.5%	18.4%	-16.9%
Financials	6%	-0.2%	11.0%	7.6%	26.3%
Health Care	23%	14.4%	19.9%	34.1%	23.7%
Industrials	24%	6.7%	13.4%	29.5%	35.3%
IT	52%	-2.4%	47.7%	67.7%	228.4%
Materials	30%	-30.8%	-15.7%	42.1%	75.3%
Utilities	5%	5.0%	36.3%	4.2%	45.6%
Real Estate	64%	50.8%	-144.5%	71.7%	-159.2%
CSI300	**19%**	**4.6%**	**15.8%**	**23.6%**	**39.4%**

Source: Wind (19 Aug 2026)

Figure 5: MXCN 2Q26 earnings summary

	2Q26 Reporting Season						*% of Companies Beat/Miss*	
	So Far Reported...						*2Q26 EPS*	
	# of Cos Rep	Total Cos	% of Cos Rep	Sales per share y-y	EPS y-y	NPM y-y (bps)	Beating	Missing
MXCN	**100**	**576**	**17.4%**	**10.4%**	**4.0%**	**-93**	**48%**	**44%**
ex-Financials	**92**	**491**	**18.7%**	**9.3%**	**3.1%**	**-88**	**46%**	**46%**
ex-Energy	**99**	**557**	**17.8%**	**10.4%**	**4.0%**	**-93**	**48%**	**44%**
Cyclicals								
Consumer Discretionary	9	56	16.1%	9.2%	17.1%	24	13%	75%
Consumer Staples	6	29	20.7%	255.6%	-1.7%	-5,224	25%	75%
Industrials	8	80	10.0%	26.5%	35.8%	34	50%	50%
Materials	17	76	22.4%	33.6%	124.5%	-148	50%	50%
Real Estate	1	11	9.1%	17.4%	14.3%	N/A	100%	0%
Long Duration / Secular Growth								
Communication Services	6	20	30.0%	4.5%	4.9%	10	25%	50%
Health Care	8	45	17.8%	24.2%	52.0%	294	67%	33%
Information Technology	32	130	24.6%	5.4%	-59.2%	-367	55%	32%
Bond Proxy								
Energy	1	19	5.3%	-36.9%	-21.1%	283	N/A	N/A
Financials	8	85	9.4%	122.0%	20.3%	-2,487	80%	20%
Utilities	4	25	16.0%	-22%	-50%	-385	N/A	N/A

Source: Wind (18 Aug 2026), LSEG Workspace (18 Aug 2026)

Figure 6: CSI-300 2Q26 earnings summary

	2Q26 Reporting Season						*% of Companies Beat/Miss*	
	So Far Reported...						*2Q26 EPS*	
	# of Cos Rep	Total Cos	% of Cos Rep	Sales per share y-y	EPS y-y	NPM y-y (bps)	Beating	Missing
CSI-300	**54**	**300**	**18.0%**	**22.1%**	**32.0%**	**140**	**54%**	**43%**
ex-Financials	**45**	**247**	**18.2%**	**22.3%**	**36.0%**	**145**	**50%**	**47%**
ex-Energy	**53**	**290**	**18.3%**	**22.2%**	**32.4%**	**143**	**54%**	**43%**
Cyclicals								
Consumer Discretionary	3	16	18.8%	-2.1%	-9.7%	-110	33%	67%
Consumer Staples	4	16	25.0%	-6.5%	-5.0%	54	33%	67%
Industrials	4	58	6.9%	48.1%	22.4%	-270	25%	75%
Materials	4	34	11.8%	41.8%	125.2%	1,106	67%	33%
Real Estate	1	4	25.0%	-7.8%	14.3%	32	100%	0%
Long Duration / Secular Growth								
Communication Services	3	10	30.0%	0.5%	-22.4%	-189	0%	100%
Health Care	3	18	16.7%	36.1%	26.7%	-256	[illegible]	[illegible]
Information Technology	19	68	27.9%	44.3%	161.3%	724	[illegible]	[illegible]
Bond Proxy								
Energy	1	10	10.0%	3.4%	-21.1%	-436	[illegible]	[illegible]
Financials	9	53	17.0%	21.2%	25.4%	133	[illegible]	[illegible]
Utilities	3	13	23.1%	2%	-32%	-230	[illegible]	[illegible]

Source: Wind (18 Aug 2026), LSEG Workspace (18 Aug 2026)

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Figure 7: MXCN EPS sector breakdown by consensus

GICS Sector Name	1Q26	2Q26	2H26	2026
Index	-18.7%	6.1%	14.7%	9.3%
Communication Services	5.8%	1.8%	-0.2%	3.1%
Consumer Discretionary	-68.9%	-7.2%	81.7%	13.1%
Consumer Staples	-47.7%	-3.7%	64.1%	16.9%
Energy	12.5%	41.1%	36.4%	25.4%
Financials	-7.4%	8.9%	-9.2%	1.8%
Health Care	-12.8%	40.1%	106.3%	53.5%
Industrials	-4.2%	6.4%	12.1%	12.7%
Information Technology	0.9%	-18.4%	37.1%	17.4%
Materials	16.4%	73.6%	81.3%	71.7%
Real Estate	-85.6%	-9.5%	16.7%	6.5%
Utilities	-2.5%	5.2%	-29.9%	-12.1%

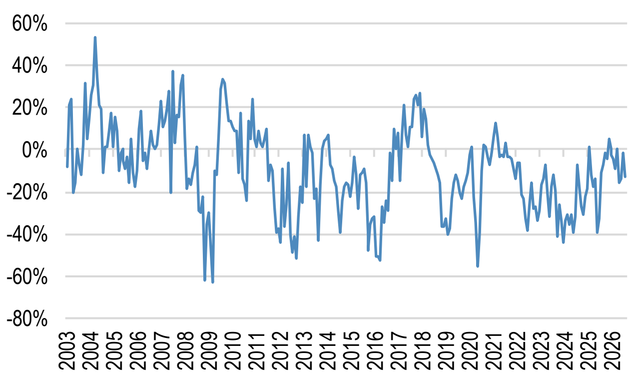
Source: MSCI, LSEG Workspace (19 Aug 2026). Note: only constituents with 2Q forecasts are included, and as such data can deviate from IBES whole year numbers

Figure 8: CSI-300 EPS sector breakdown by consensus

GICS Sector Name	1Q26	2Q26	2H26	2026
Index	6.0%	19.1%	34.1%	24.2%
Communication Services	10.3%	5.8%	73.5%	28.9%
Consumer Discretionary	-8.9%	-0.7%	29.2%	4.8%
Consumer Staples	-12.8%	-19.0%	16.9%	0.0%
Energy	17.8%	51.3%	38.2%	31.6%
Financials	-5.5%	12.8%	3.0%	5.6%
Health Care	5.2%	-2.8%	75.1%	35.4%
Industrials	10.2%	13.3%	15.8%	18.9%
Information Technology	67.1%	64.7%	97.7%	90.1%
Materials	85.1%	74.4%	56.3%	61.1%
Real Estate	-22.8%	58.6%	92.9%	83.9%
Utilities	6.3%	6.2%	-2.5%	3.8%

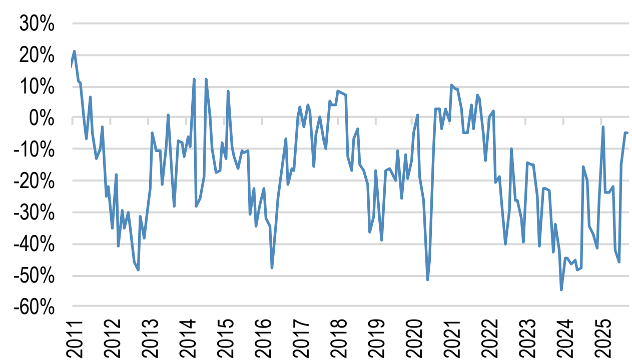
Source: Wind, LSEG Workspace (19 Aug 2026). Note: only constituents with 2Q forecasts are included, and as such data can deviate from IBES whole year numbers

Figure 9: MXCN EPS revision spread



Source: LSEG Workspace (19 Aug 2026).

Figure 10: CSI-300 EPS revision spread



Source: LSEG Workspace (19 Aug 2026).