China Equity Strategy

2Q26 earnings: Early innings - what are the companies saying?

Equity Strategy

China

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Financials and tech leading the results

While it is still early in the 2Q26 reporting season (around 1/3 of the universe by market cap has reported), companies that have reported so far have delivered 13% YoY growth in both revenue and earnings, broadly in line with expectations and a slight acceleration vs 1Q26 (on a like-for-like basis). Tech hardware continues to be strong, benefiting from robust AI-related demand and it would seem that domestic AI build-out would accelerate with the internet companies significantly increasing their capex during 2Q. Financials also delivered resilient earnings growth on the back of buoyant capital market activities and improving net interest margin for the banks. On the other hand, consumer trends remain broadly lackluster with pockets of strength in new product segment (e.g. new catering brands under YUMC) and high end (e.g. Samsonite and H-World results). Elsewhere the progress on anti-involution appears to be slowing with both autos and solar seeing significant earnings downgrades amidst intense domestic competition. Power equipment was one of the weaker areas in 2Q26 partly due to domestic delivery delays, although companies seemed constructive on a stronger recovery in 2H26.

Key sector takeaways from results and analyst commentary

Management commentary suggest that AI remains the strongest demand driver across the market. For example semi, PCB, data center companies all reported robust order momentum and margin expansion. Internet platforms are also stepping up domestic AI investments, with Tencent and Baidu prioritizing model development and infrastructure build-out. By contrast, consumer demand remains bifurcated, with premium brands and new product categories outperforming while mass market was affected by down-trading, declining subsidies and macro uncertainty. Elsewhere, earnings trends were generally more supportive in chemicals (price hike), banks (NIM improvement) and insurance (strong investment income). The solar sector remains under pressure with FY26 earnings forecast down c.80% YTD while power equipment results were held back by delivery delays despite healthy order backlogs. Meanwhile, auto companies saw robust export orders but offset by intense domestic competition.

Earnings revision trends

Overall earnings were revised up by 0.8% in the past month supported by earnings upgrades in tech and financials. This was partly offset by downgrades in auto, property and renewables (EPS broadly flat excluding financials). Although "going global" stocks saw flattish earnings revisions, we see upside potential given strong overseas demand for both AI infrastructure and broader industrial capex and potentially slower RMB appreciation in the 2H. Internet earnings should improve from here due to less drag from food delivery competition, partially offset by higher depreciation expenses from AI-related capex.

US reporting season suggests tech strength and AI broadening out

S&P 500 companies delivered another strong earnings season, with earnings beating consensus by 7.4% and growing 33% YoY (see here). The improving hyperscaler cloud backlogs reinforced sustainability of the AI investment cycle while there are also signs of AI spillover with a broader industrial recovery on the way, supported by rising operating cash flow, accelerating capex across a wider range of industrial subsectors (see Amit's note). Ex-tech, EPS was also revised up by c.2% in the past two months. Taken together, these trends continue to be supportive for the tech sector and for Chinese companies with higher overseas exposure, particularly towards industrial capex and global manufacturing demand.

Sector picks - adding banks to have a more diversified portfolio (Page 13)

We continue to prefer hardware tech given strong fundamentals and earnings growth. However, in light of the July pullback and heavy positioning (see crowding chart in Figure 19), we think investors may look to have a more diversified portfolio in the near term. We have thus added some banking stocks to our portfolio in light of their accelerating topline growth and the low government bond yield which makes banking stocks relatively more attractive. We have switched out power equipment names given limited diversification from tech hardware. Our revised model portfolio is shown in Figure 17.

Key charts

Figure 1: 1Q26 vs 2Q26 earnings result summary

1Q26 result summary

Sector	No. of companies reported	% weighting in MSCI China	Revenue growth	Earnings growth
Overall	**715**	**100%**	**3%**	**5%**
Financials	90	18%	-1%	4%
Non-financials	625	82%	4%	5%
SOE	219	26%	0%	4%
Non-SOE	495	74%	7%	7%
Upstream	173	9%	4%	24%
Downstream	438	36%	2%	-1%
Downstream (ex-property)	413	31%	13%	0%
Renewables	35	2%	23%	54%
Property	23	3%	-13%	39%
Tech	111	5%	17%	36%
Energy & materials	124	6%	3%	34%
Other Financials	37	2%	41%	17%
Healthcare	91	6%	7%	5%
Banks	28	9%	-1%	3%
Industrials	71	3%	-3%	-2%
Insurance	2	4%	-15%	-4%
Consumer	117	13%	4%	-6%
Internet	27	38%	6%	-9%
Defensive	25	3%	-2%	-13%
Auto	24	5%	3%	-30%

2Q26 result summary

Sector	No. of companies reported	% weighting in MSCI China	Revenue growth	Earnings growth
Overall	**297**	**100%**	**13%**	**13%**
Financials	25	18%	24%	53%
Non-financials	272	82%	11%	4%
SOE	68	26%	4%	9%
Non-SOE	228	74%	18%	16%
Upstream	71	9%	17%	46%
Downstream	183	36%	11%	5%
Downstream (ex-property)	144	34%	12%	4%
Other Financials	13	2%	72%	89%
Insurance	1	4%	26%	65%
Energy & materials	58	6%	15%	64%
Renewables	13	2%	39%	50%
Property	7	3%	-4%	49%
Auto	8	5%	71%	39%
Tech	54	5%	27%	32%
Industrials	13	3%	10%	15%
Healthcare	39	6%	8%	11%
Banks	4	9%	3%	8%
Consumer	58	13%	3%	-9%
Defensive	12	3%	-2%	-14%
Internet	17	38%	4%	-28%

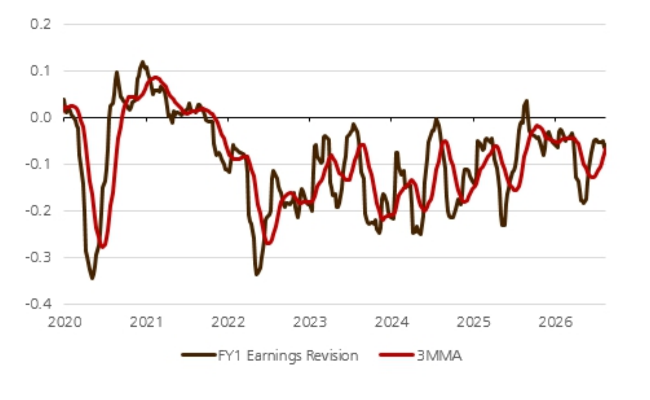
Source: FactSet, UBS

Figure 2: 1Q26 vs 2Q26 earnings growth for companies that have reported

Sector	Companies reported in 2Q26	1Q26	2Q26	Diff
Overall	**298**	**12%**	**13%**	**2%**
Property	7	-33%	49%	81%
Insurance	1	-7%	65%	72%
Other Financials	13	18%	89%	70%
Auto	8	-26%	39%	65%
Industrials	13	6%	15%	9%
Renewables	13	43%	50%	7%
Energy & materials	59	63%	63%	1%
Healthcare	39	11%	11%	0%
Defensive	12	-14%	-14%	0%
Banks	4	8%	8%	0%
Consumer	58	-1%	-9%	-8%
Tech	54	42%	32%	-10%
Internet	17	5%	-28%	-33%

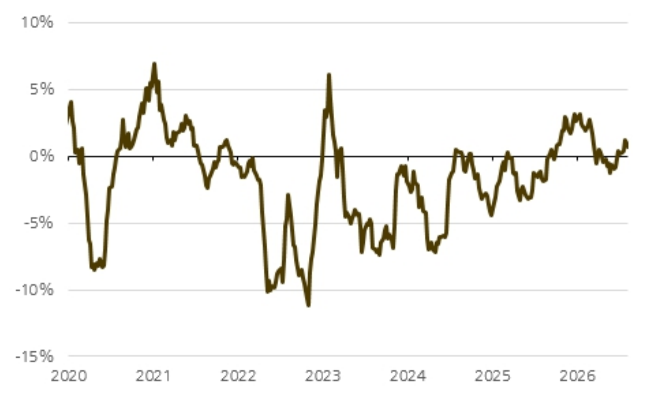
Source: FactSet, UBS, this is done on a like-for-like basis

Figure 3: FY1 earnings revision ratio (breadth)



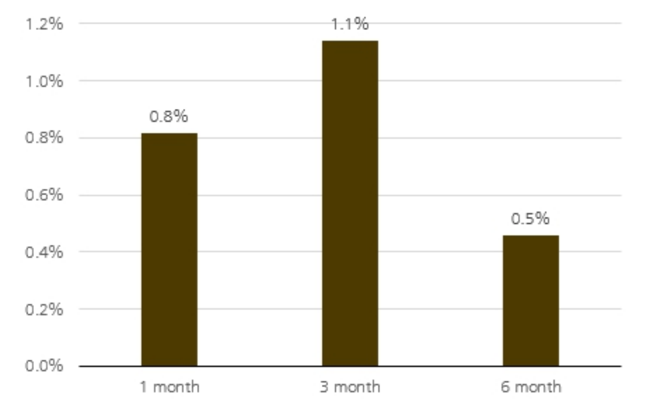
Source: FactSet, UBS. Note: No. of companies with upward revision minus no. of companies with downward revision/ total no. of revision.

Figure 4: 12-month forward earnings revisions in the past 3 months (magnitude)



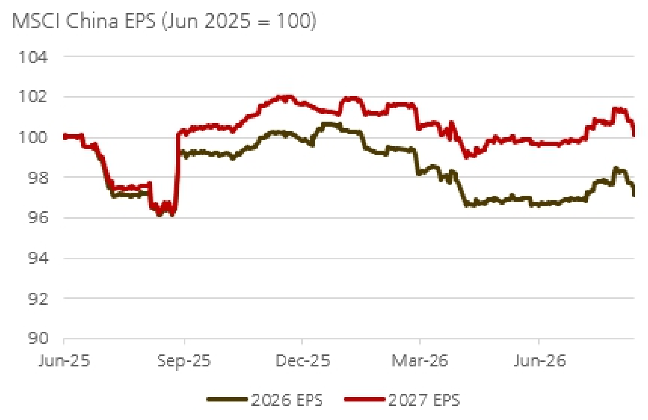
Source: FactSet, UBS

Figure 5: FY26 earnings estimate revisions



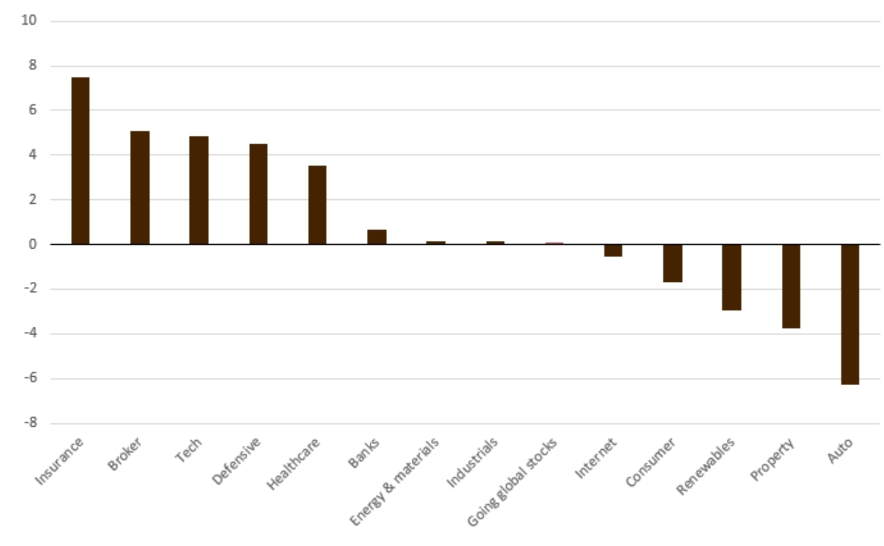
Source: FactSet, UBS

Figure 6: MSCI China EPS integer



Source: FactSet, UBS

Figure 7: FY26 earnings revision by sector in the past 1M

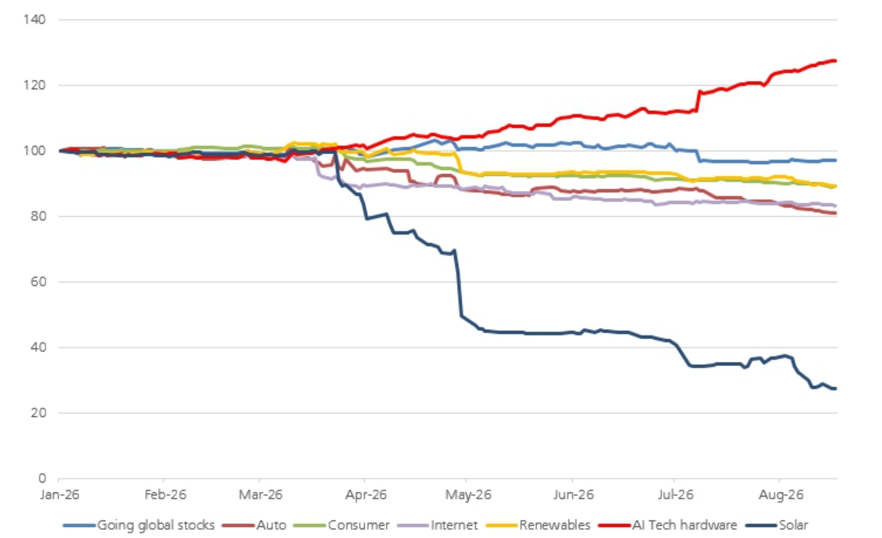


Source: FactSet, UBS

Figure 8: MSCI China FY26 EPS trend vs ex-financials and ex-tech

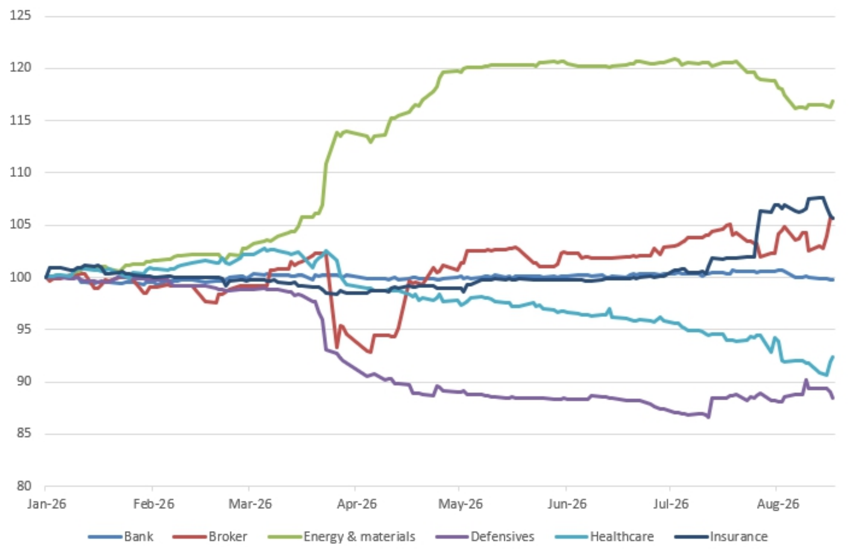
Source: FactSet, UBS

Figure 9: FY26 EPS integer by sector (Jan 2026 =100)



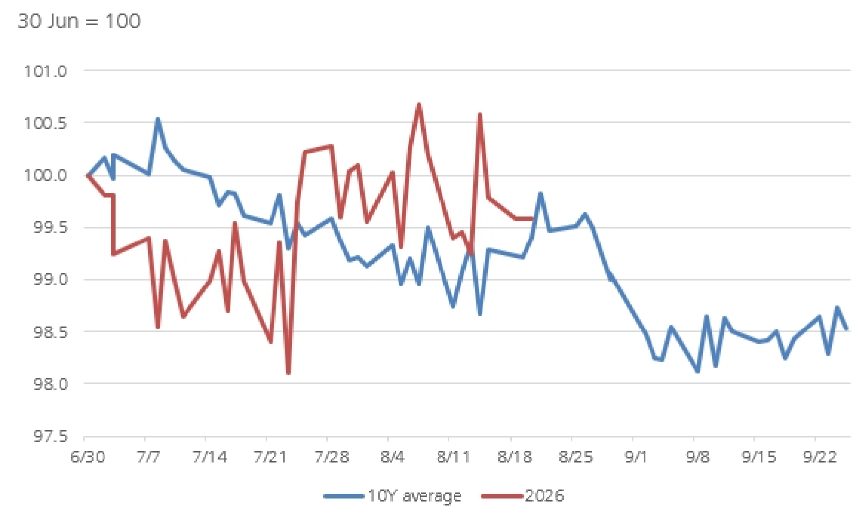
Source: FactSet, UBS

Figure 10: FY26 EPS integer by sector (Jan 2026 =100)



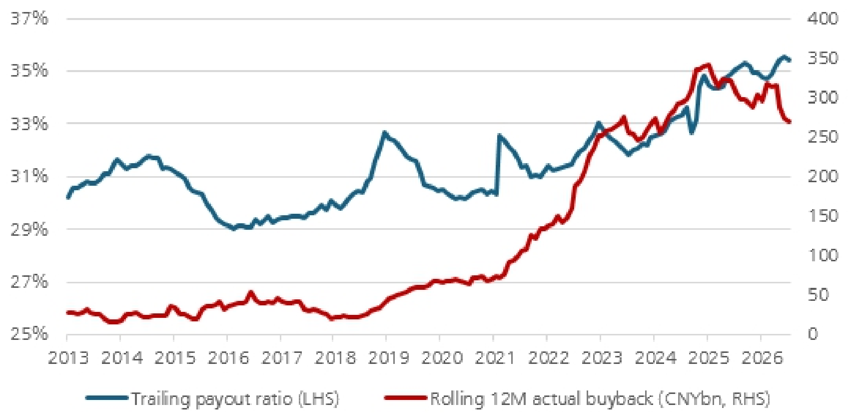
Source: FactSet, UBS

Figure 11: MSCI China consensus EPS integer during 2Q results season



Source: FactSet, UBS

Figure 12: Trailing payout ratio and rolling 12M buyback



Source: FactSet, Bloomberg, UBS

Key takeaways from 2Q26 results and UBS analysts commentary

Consumer - K-shaped recovery with new product segment and high end outperforming

- **CTG** - revenue was down 6% YoY in 2Q26 but gross margin improved mainly driven by mix optimization and promotion control. Consumer downtrading continues to weigh on fundamentals with consumption recovery trend largely dependent on government subsidy.
- **Moutai** - earnings declined YoY and missed expectations, likely due to unfavourable product mix and weak macro backdrop.
- **Shanghai Bairun** - the 10% revenue growth in alcoholic beverages was likely supported by both RTD wine and whiskey where the company continues to introduce flavor innovation.
- **YUM China** - management reiterated confidence in its growth outlook, driven by the rapid rollout of new brands such as KCOFFEE and KRPO.
- **Hisense** - management expects cost headwinds and domestic competition to persist into 2H26 but offset by better export trends in overseas market particularly Europe due to extreme weather.
- **Zhejiang Supor** -net profit was down 18% YoY in 2Q26 due to weaker export orders, rising material costs and marketing expenses. Management maintained its full year guidance despite multiple headwinds from cost inflation and intense competition.
- **H World** - RevPAR recovery for midscale/upper-midscale segment was slightly better than economy segments but overall China's hotel sector RevPAR will remain under pressure in 2H26. The company also announced a three-year shareholder return plan with an aggregated amount of USD2.5bn.
- **Anta** - Anta and Fila brand sales both grew LSD in 2Q26 despite unfavourable weather conditions. However, the company maintained a conservative outlook for industry growth in H2, citing uncertainty associated with El Niño.
- **Li Ning** - management maintained full year guidance which could be challenging to meet, given weak sales momentum in 1H26, discount pressure, and rising marketing expenses.
- **Topsports** - management maintained 2026 guidance of MSD revenue growth YoY and HSD% net margin for the group, though it saw challenges on revenue growth and may adjust the target in August if necessary.
- **Yue Yuen** - sportswear OEM revenue also saw LSD revenue decline and margin contraction, citing weak demand, tariff impact and rising input costs (labour and raw materials). Sales would likely to stay weak in 3Q.
- **Samsonite** -Chinese sales have accelerated in Q226, up 8.5% YoY (vs 7.9% in Q126), suggesting a modest consumption improvement in the higher income segment.

Internet - capex higher, competition easing

- **JD.com** - ASP hike might continue to weigh on topline growth; this could be offset by corresponding mix shift toward higher-end models, potentially more effective subsidy allocation to online channels, and JD's anticipated market share gain.
- **Tencent** - capex intensity increased further (+65% QoQ) and remained committed to AI investments; nevertheless AI monetization remains in early stage. Profitability would likely remain under pressure in the near term.
- **TME** - limited YoY growth in music membership services in Q2 despite the one-off impact from Ximalaya consolidation, suggesting lingering industry competition.
- **Baidu** - AI Cloud Infra growth moderated to 50% YoY from 79% in 1Q26 while compute demand from AI training and inference remained healthy. UBS analysts expect this segment to reaccelerate to 60%+ growth in 2H26. Baidu is committed to increasing AI investment to pursue better ERNIE model capabilities, yet this is likely to weigh on OP margins and cap the stock upside in the near term. In terms

of shareholder returns, the company has conducted a US$87mn share buyback in 2Q26.

- **Alibaba** - some margin improvement in e-com business as competition becomes more benign. Meanwhile Cloud business revenue growth accelerated further compared to the previous quarter. Management also expected cloud revenue growth to accelerate further over the next quarters while capex is expected to rise driven by rapidly growing demand for CPU.

Tech hardware - still strong

- **Shengyi** - solid Q226 earnings were primarily driven by meaningful GPM expansion from both the CCL and PCB. SYT expects the industry upcycle (CCL and PCB) to continue through 2026 while the company is also actively ramping up capacity.
- **Hua Hong Semi** - 2Q26 results on track but 3Q26 guidance disappointed on high bar, strong order demand at 1.5-2x of current capacity, but taking a disciplined approach in terms of capex expansion, e.g. optimising production lines.
- **SMIC** - guided a further margin expansion on the back of strong 2Q results, and management also expects continuous capacity addition in high-growth areas, particularly AI-related peripherals and core computing chips.
- **GDS** - management raised guidance for 2026 new orders to 1GW (500-800MW guided in 1Q26) with another 1GW reserved by customers.
- **VNET** - the company continues to see exceptionally strong AI-driven data center demand, supported by robust order momentum and accelerating overseas expansion.
- **Avary** - company expects strength from consumer electronics peak season with server/optical PCB shipments ramping further; AI-related sales should see more meaningful growth in 2027 with at least 13 factories in construction
- **ACMR** -management lifted whole-year revenue guidance to US$11.25-11.75bn due to stronger-than-expected demand. Also, the parent company's management indicated its preliminary orders have risen 100%+ YoY YTD, on strong demand in memory and logic fabs in China.
- **Innolight** - Q2 GPM came in at 46.4%, up 0.4 ppt QoQ and 4.9 ppts YoY, supported by higher mix of 800G and 1.6T products. UBS analysts remain constructive on the optical communication market outlook given constrained supply (shortages of upstream raw materials), increasing switch upgrade demand and more complex interconnect architecture.
- **Desay** - smartphone business was weaker than expected due to softness in consumer electronics demand amid memory cost inflation.
- **Xiaomi** - smartphone segment revenue down 7.5% YoY on price hike, reflecting lackluster customer demand and pricing power.

Software actually benefiting from AI

- **Kingdee** - subscription revenue and ARR grew at 20.4% and 18.3% YoY in 1H26, outpacing the overall topline growth. Company would focus on revenue quality rather than scale. As token costs likely decline in the future, management expects AI product to achieve more attractive margins over time.

Chemicals - benefiting from higher commodity prices

- **Zhejiang Satellite** - profit hit a record high given the spike in olefin prices. Near-term chemicals pricings supported by customer restocking and still-elevated oil prices. In the medium term, domestic new capacity additions slow and high-cost capacity gradually phases out both domestically and internationally which should ease pricing competition for the industry.
- **Baofeng Energy** - Q226 net profit reached an all-time high, driven by widened coal-to-olefin spread. The company expects coal-to-olefin spread to remain robust, given tightening approval for new olefin projects in China, the gradual exit of high-cost aging capacities overseas, and potential deceleration of industry capacity additions. As capex decreases and cash flow grows, the company said it may continue to increase shareholder returns.

Banks - bottom line outpacing topline growth on better cost controls

- **Ping An Bank** - NPAT accelerated to 3.7% YoY while revenue slipped by 0.9%, driven by lower OPEX. NIM rebounded modestly thanks to lower funding costs. NPL ratio was flattish vs the previous quarter.

Telecom - soft fundamentals but remains committed to shareholder returns

- **China Mobile** - demand-driven capex to support AI business growth, maintain stable dividend despite earnings decline.

Power equipment, 2Q weak but may pick up in 2H

- **Willfar** - 2Q was a miss on both topline and bottom line dragged by domestic delivery delays and higher expenses. Elevated inventory, order backlog and contract liabilities suggest deliveries were deferred rather than lost, positioning the company for a catch-up in 2H26.
- **Sieyuan Electric** - net profit growth came in below the July preliminary. Our positive thesis remains as global grid capex upcycle continues to drive company switchgear and windings growth. UBS views contract liabilities up 49% YoY as supporting 2H26 delivery visibility.

Renewables - confidence in BESS segment, while solar likely surpassed the worst of downcycle

- **CATL** - management reiterated confidence over future demand, thanks to rapid electrification across multiple markets. The company also announced A-share buyback program of Rmb20-40bn over the next 12 months.
- **Longi** - net loss narrowed in 2Q26 due to better product mix and effective cost reduction.
- **Tongwei** - 2Q26 net loss widening on polysilicon price decline and low utilization rate. Management expects the supply-demand rebalancing process to take time, but the worst should be already behind.
- **Flat Glass** - earnings turned from profit to loss in 2Q26, mainly due to lower solar glass price.

Auto - strong export though domestic competition remains intense

- **Geely** - product mix upgrade and better overseas export trends helped offset raw material cost inflation and intense domestic competition.
- **Xiaomi** - smart EV sales were up 17% YoY with ASP down -10% YoY due to a shift in product mix.

Insurance - ride on the 1H26 market rally

- **China Life Insurance** - although the positive profit alert was somewhat anticipated, the magnitude of NPAT uplift far exceeded buy-side expectations and BBG full-year consensus with NPAT soaring over 8x YoY in Q2. The strong set of results is mainly driven by significant investment income growth and improved insurance service results. However, VNB momentum cooled in Q2 and the trend would likely extend to Q3 due to tighter regulations on bancassurance.

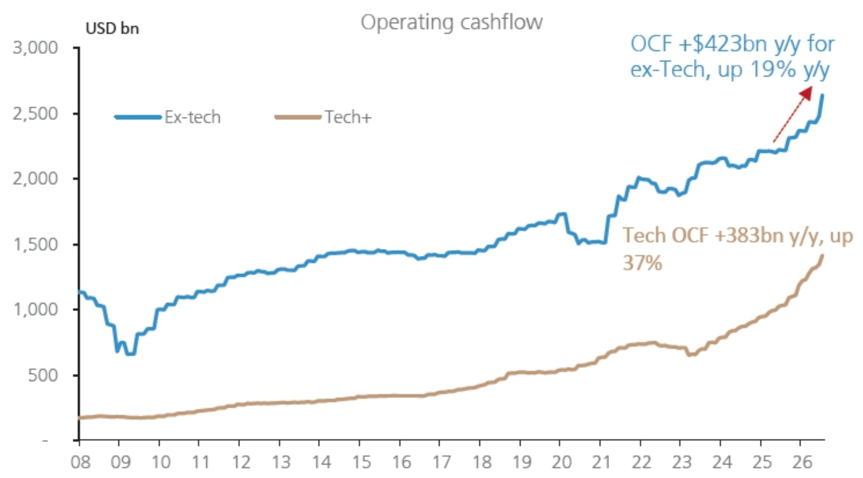
Key takeaways from US 2Q26 results season

2Q earnings pointed to a broader-based industrial recovery, with improving demand, rising capex spending, and stronger pricing power across most subsectors.

- Transportation markets remain healthy, airline demand is strong, freight activity continues to improve, and housing appears to be stabilizing.
- Government and defense spending are accelerating, while power, infrastructure, and data center investment remain important growth drivers.
- AI continues to support select areas such as electrical equipment, connectors, and logistics productivity, but investor interest is increasingly broadening beyond pure AI winners toward companies with improving fundamentals and cyclical exposure.
- The main exceptions remain autos, where China and Europe continue to pressure growth, and parts of chemicals and packaging, where inflation and commodity costs remain key risks.
- Overall, the quarter reinforced growing confidence in the industrial cycle, supported by stronger demand breadth, pricing discipline, and improving end-market conditions heading into 2027.

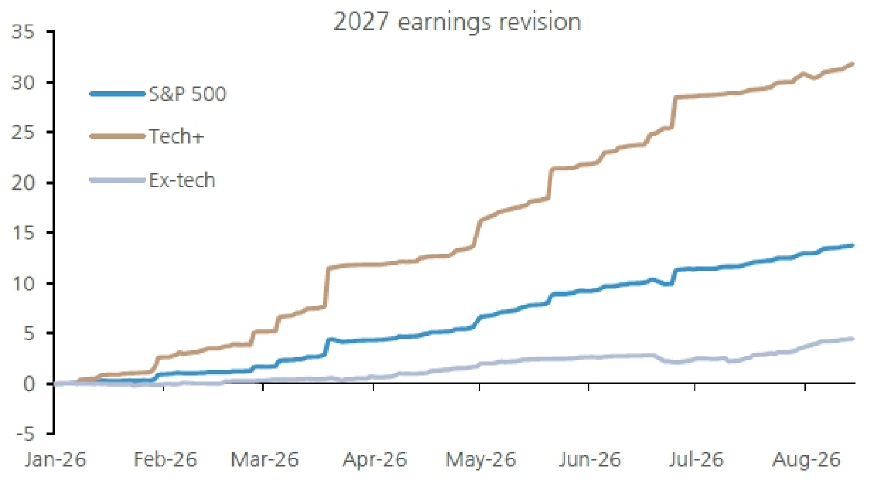
Extracts from US strategy team's take here and Industrials note here

Figure 13: Operating cash flow has surged for US Tech and ex-Tech



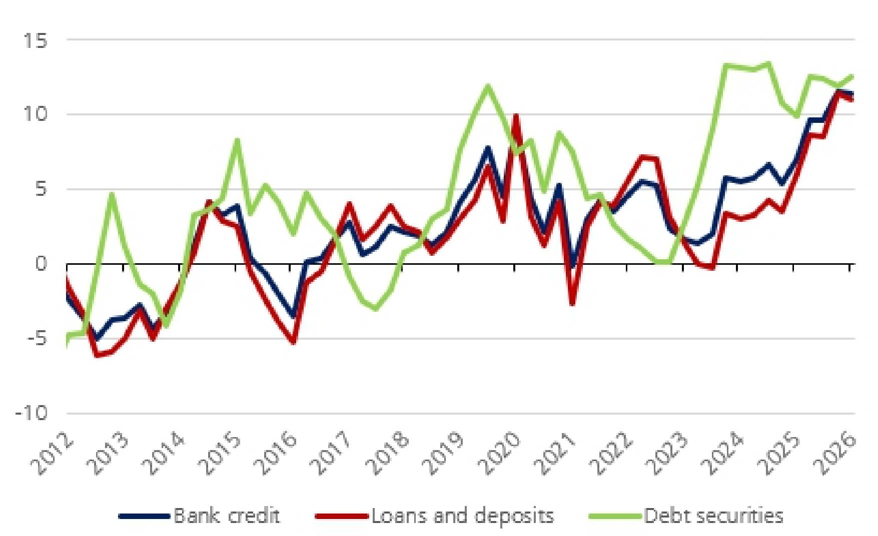
Source: FactSet, UBS. Note: Ex-Tech OCF uses LTM earnings for Financials instead of OCF.

Figure 14: S&P 500 2027 consensus EPS



Source: FactSet, UBS

Figure 15: Global credit YoY growth



Source: BIS, UBS. Note: Last data point as of 1Q26.

Sector preferences and changes to top pick

Figure 16: Changes to sector preferences

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

Source: UBS

Figure 17: 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	89.50	155.00	16.6	-53%	-18%	2%	-29%
3606.HK	Fuyao Glass	Nora Min	Buy	55.40	85.00	12.3	13%	7%	5%	-13%
2899.HK	Zijin Mining Group - H	Sharon Ding	Buy	38.46	57.80	10.5	64%	5%	3%	11%
002371.SZ	NAURA Technology Group	Jimmy Yu	Buy	707.90	800.00	75.7	23%	-10%	0%	56%
0700.HK	Tencent Holdings	Kenneth Fong	Buy	440.40	770.00	13.3	0%	-1%	1%	-23%
GDS.O	GDS	Sara Wang	Buy	32.85	52.00	24.4	79%	15%	0%	-6%
300750.SZ	Contemporary Amperex Technology	Paul Gong	Buy	387.89	600.00	17.0	42%	10%	3%	9%
600183.SS	Shengyi Technology	Jimmy Yu	Buy	126.30	192.00	39.4	130%	12%	2%	87%
BABA.N	Alibaba Group	Kenneth Fong	Buy	119.34	206.00	17.0	-26%	-8%	1%	-18%
3908.HK	China International Capital - H	Dennis Bai	Buy	20.62	31.40	6.4	39%	6%	2%	9%
600584.SS	JCET Group	Jimmy Yu	Buy	73.80	135.00	49.1	72%	24%	0%	114%
1211.HK	BYD Company Limited	Paul Gong	Buy	92.50	135.00	18.3	23%	0%	1%	-2%
002532.SZ	Tianshan Aluminum Group	Sharon Ding	Buy	12.70	18.10	7.1	72%	-7%	8%	-18%
0883.HK	China National Offshore Oil Corporation	Amily Guo	Buy	25.36	33.60	6.2	38%	3%	7%	21%
2259.HK	Zijin Gold International	Sharon Ding	Buy	159.50	203.00	18.1	89%	-7%	1%	11%
002850.SZ	Shenzhen Kedali Industry	Nora Min	Buy	183.81	268.00	20.5	40%	7%	2%	18%

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
600919.SS	Bank of Jiangsu	Helen Li, CFA	Buy	12.13	14.00	6.3	10%	-5%	5%	20%
0939.HK	China Construction Bank	May Yan	Buy	9.16	10.20	6.3	0%	-4%	5%	23%

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
603308.SS	Anhui Yingliu Electromechanical	Ken Liu	Buy	42.60	100.00	42.2	67%	14%	1%	6%
1072.HK	Dongfang Electric Corporation	Ken Liu	Buy	21.44	68.00	11.9	25%	19%	4%	-7%
2359.HK	WuXi AppTec	Chen Chen, PhD	Buy	196.70	237.40	24.0	14%	3%	1%	111%

Source: FactSet, UBS

Figure 18: US vs China 10Y treasury yield

Source: FactSet, UBS

Figure 19: Average crowding scores of China AI hardware names

Source: UBS Quant Research

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.