China Equity Strategy

What do 5000+ A-share companies tell you about A-share earnings?

Equity Strategy

China

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Q2 all-A-share profit up 29% YoY on 'faster revenue growth + better margins'

The 29.4% earnings growth for Q226 (Figure 10) was faster vs Q126's 9.3%, leading to a 19.5% earnings gain for all A-shares in H126, well above the full-year 2026 rate of 2.9%. Behind the significantly faster A-share earnings growth in H126, we identify two factors: 1) rapid revenue growth (all-A-share revenue growth was 5.1%/9.8%/7.6% YoY in Q126/Q226/H126, accelerating from the full-year 2025 pace of 1.2%), alongside 2) improved margins (in Q226 non-financials' GPM expanded 141bp YoY to 19.2%, a new high since Q221; meanwhile NPM widened 92bp to 6.1%, a new high since Q322). We forecast 15% all-A-share earnings growth for full-year 2026.

Technology/innovation-related sectors stood out in earnings

In Q226, the non-financial/financial sectors posted 26.9%/32.3% YoY growth in earnings. We note diverged earnings growth between boards/sectors (Figure 10). In Q2, the ChiNext board recorded 42% earnings growth and the Star Board 370% (105% if excluding CXMT) – much faster vs the Main board, underscoring innovation and new quality productive forces as a strong boost to tech companies' earnings. We believe the high growth for technology/innovation-related sectors was driven by the global tech upcycle, as well as an expanding list of high-quality companies going public on the A-share market that provide good investment opportunities. Among the sectors, AI-related ones posted notably faster earnings growth (+234% YoY for electronics and +46% for computers in particular). Driven by higher oil/non-ferrous prices, coupled with supply constraints, expanding demand from AI/new energy, and low-base effects, the non-ferrous/coal/oil & petrochemicals/chemicals sectors achieved earnings growth of 102%/67%/59%/58%, respectively. Within the financial space, banks logged a 3% YoY gain in earnings in Q226 amid a mild NIM recovery, while non-banks' earnings surged 135% reflecting much buoyant capital markets in the quarter.

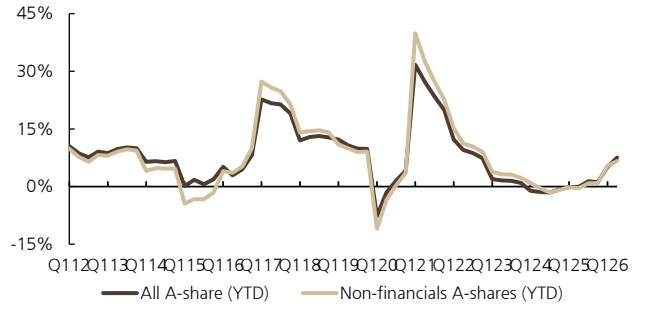
Equity strategy: A-share market likely to extend steady, slow-paced rally

In our recent note A fresh start after deleveraging - Drivers, headwinds, and crowdedness, we highlighted deleveraging in the A-share market is nearing the end. Driven by recovering earnings, incremental inflow into the market (eg, net inflow from ETFs/insurers/hedge funds) and the global tech narrative, A-shares could continue to stage a steady rally in the rest of this year. On the other hand, we identify two major factors that could hinder the ongoing A-share rebound, resulting in a slow-paced rally. One is that changes in US Treasury yields and oil prices could affect inflation expectations, US-dollar liquidity and global risk appetite, thereby influencing the valuations of interest-rate-sensitive tech stocks; the other is that mutual funds could potentially face redemptions by investors after they return to breakeven as the rebound continues, especially given that mutual funds are already significantly overweight tech sectors – this could also curb the A-share rebound. As for sector allocation, we suggest investors be overweight electronics, telecom, machinery, non-ferrous, chemicals, electrical equipment and non-bank financials.

This report has been prepared by UBS Securities Asia Limited. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES, INCLUDING INFORMATION ON THE QUANTITATIVE RESEARCH REVIEW PUBLISHED BY UBS, BEGIN ON PAGE 7.**

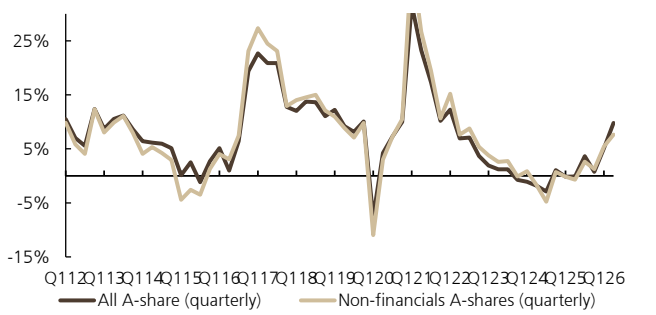
Data on revenue, earnings and margins for the overall market and by segment/industry are available upon request via email.

Figure 1: Revenue growth of all A-shares (YoY, YTD)



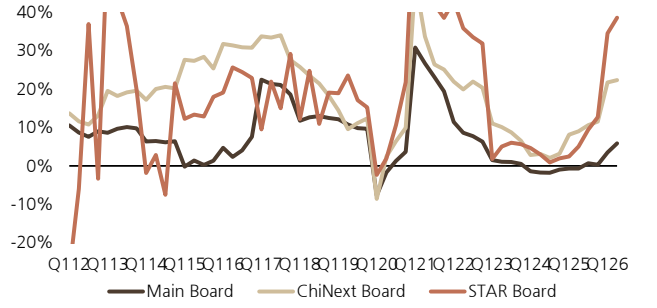
Source: Wind, UBS-S estimates

Figure 2: Revenue growth of all A-shares (YoY, quarterly)



Source: Wind, UBS-S estimates

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



Source: Wind, UBS-S estimates

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



Source: Wind, UBS-S estimates

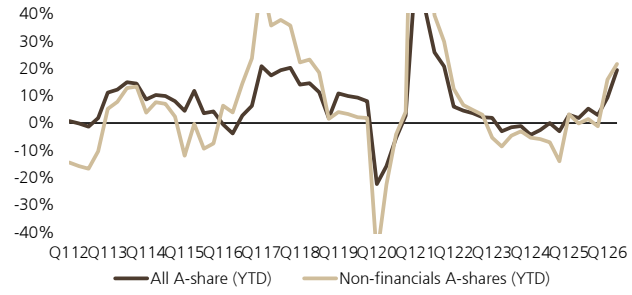
Figure 5: Summary of revenue growth across A-share industries

	2020	2021	2022	2023	2024	2025	Q1 2026	Q2 2026	H1 2026
All A-share	4.1%	19.9%	7.4%	1.0%	-0.7%	1.2%	5.1%	9.8%	7.6%
A-shr excl. financials	3.6%	22.6%	9.0%	2.3%	-0.9%	0.9%	5.4%	7.6%	6.6%
A-shr excl. financials, Sinopec & Petro China & CNOOC	7.9%	21.5%	7.3%	3.2%	-0.6%	1.7%	6.4%	7.2%	6.8%
A-shr excl. financials, oil&petrochemicals and chemicals	8.2%	20.9%	6.6%	3.4%	-0.7%	1.8%	6.6%	6.7%	6.7%
Financials	7.0%	6.7%	-1.9%	-7.4%	0.5%	3.2%	3.2%	24.3%	14.0%
Main Board	3.6%	19.4%	6.3%	0.5%	-1.0%	0.3%	3.5%	8.1%	5.9%
STAR Board	21.8%	38.6%	31.9%	5.6%	1.9%	12.7%	34.5%	41.9%	38.6%
STAR Board excl. CXMT	21.8%	38.6%	31.9%	5.6%	0.9%	10.3%	21.2%	20.1%	20.6%
ChiNext Board	9.9%	25.1%	20.3%	6.5%	3.2%	11.5%	21.7%	22.9%	22.3%
Electronics	19.3%	27.9%	6.3%	-0.9%	17.9%	20.8%	32.4%	42.6%	37.8%
Non-ferrous metals	19.4%	36.3%	14.6%	1.8%	6.1%	14.9%	37.0%	27.3%	31.8%
Non-bank financials	9.2%	5.0%	-5.4%	-13.0%	1.3%	6.1%	-4.7%	52.7%	25.3%
National Defence	14.3%	13.5%	7.5%	9.6%	-0.7%	37.8%	44.2%	-0.9%	23.8%
Electrical equipment	15.2%	35.6%	48.1%	8.3%	-8.1%	7.0%	21.5%	19.0%	20.1%
Coal	1.1%	31.9%	9.7%	-10.1%	-4.8%	-15.2%	1.0%	33.1%	16.7%
Chemicals	6.0%	32.7%	15.2%	-6.1%	2.6%	3.1%	9.9%	16.4%	13.2%
Environmental protection	13.9%	18.5%	-1.1%	1.9%	-0.6%	3.9%	12.6%	10.9%	11.7%
Computer	-1.5%	15.5%	1.4%	2.1%	4.9%	7.4%	4.3%	14.0%	9.5%
Machinery	13.5%	19.2%	-0.7%	2.6%	4.9%	5.2%	8.0%	10.2%	9.2%
Banks	5.5%	7.9%	0.7%	-3.5%	0.1%	1.4%	7.6%	7.2%	7.4%
Transportation	5.6%	30.9%	3.8%	-2.7%	-0.5%	1.3%	4.8%	8.4%	6.2%
Telecom	4.1%	11.7%	9.3%	5.6%	3.9%	3.5%	5.8%	5.8%	5.8%
Light manufacturing	6.9%	27.5%	2.1%	-2.1%	1.1%	-1.4%	5.1%	5.7%	5.4%
Petrochemicals	-23.0%	33.2%	24.2%	-2.4%	-2.8%	-6.0%	-2.9%	11.3%	4.0%
Beauty treatments	24.2%	2.6%	8.6%	-6.8%	2.6%	4.0%	5.3%	2.3%	3.7%
Social services	-32.8%	14.2%	-4.4%	63.9%	7.8%	4.8%	5.8%	1.8%	3.7%
Commercial trade	-6.5%	10.7%	-7.7%	-0.2%	-7.5%	-4.5%	6.6%	0.9%	3.4%
Auto	1.7%	9.7%	5.0%	15.9%	7.8%	7.3%	2.8%	3.6%	3.2%
Healthcare	7.6%	13.3%	9.8%	1.1%	-0.8%	-0.1%	2.0%	2.3%	2.2%
Media	-2.2%	8.9%	-6.3%	5.8%	0.3%	5.3%	3.4%	0.7%	2.0%
Home appliances	2.0%	16.1%	-0.4%	6.8%	5.5%	3.5%	-0.1%	0.0%	-0.1%
Food and beverage	8.4%	11.2%	7.6%	6.9%	1.9%	-7.4%	-3.1%	4.0%	-0.2%
Agriculture	21.4%	15.9%	13.2%	4.1%	-2.5%	1.9%	2.8%	-4.3%	-0.9%
Utilities	5.2%	24.1%	14.5%	3.4%	-0.4%	-2.1%	-1.8%	-1.0%	-1.4%
Steel	2.4%	40.6%	-6.3%	-4.4%	-9.5%	-6.7%	-5.3%		
Textile	-10.3%	20.4%	-2.1%	7.6%	-1.4%	1.0%	5.5%		
Building materials	10.6%	37.2%	-12.7%	-0.9%	-12.4%	-7.1%	-2.1%		
Construction	14.2%	16.0%	9.6%	7.8%	-4.0%	-6.0%	-6.1%		
Real estate	11.7%	12.2%	-8.5%	-1.2%	-21.0%	-19.8%	-23.9%		

Source: Wind, UBS-S estimates

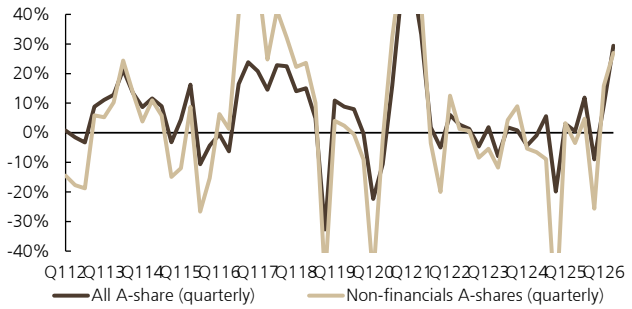
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Figure 6: Earnings growth of all A-shares (YoY, YTD)



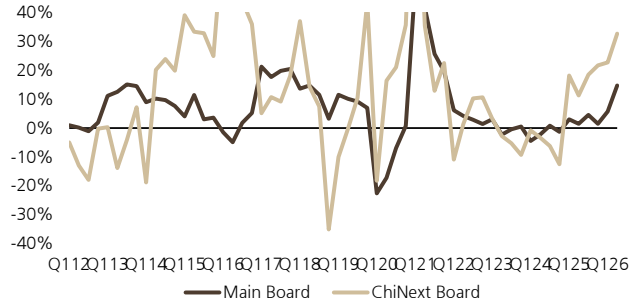
Source: Wind, UBS-S estimates

Figure 7: Earnings growth of all A-shares (YoY, quarterly)



Source: Wind, UBS-S estimates

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



Source: Wind, UBS-S estimates

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



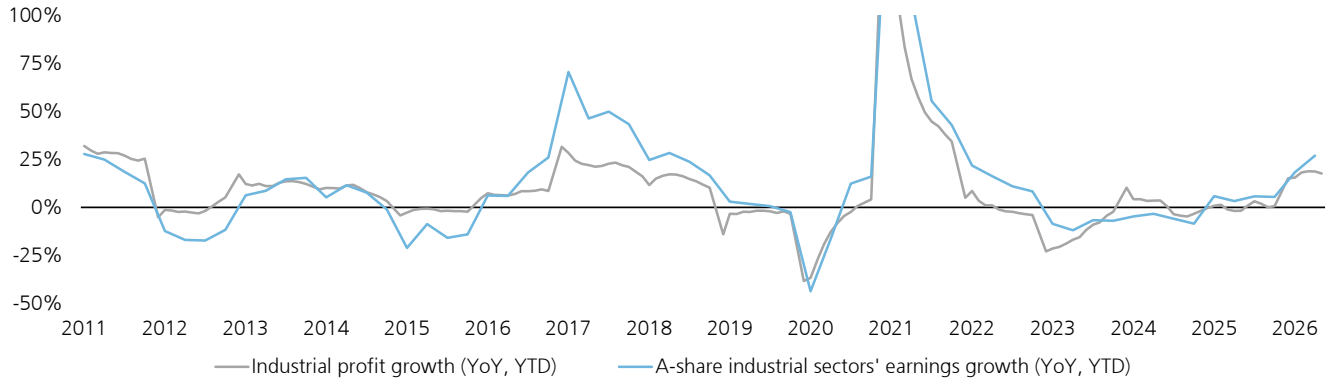
Source: Wind, UBS-S estimates

Figure 10: Summary of earnings growth across A-share industries

	2020	2021	2022	2023	2024	2025	Q1 2026	Q2 2026	H1 2026
All A-share	2.7%	20.8%	2.1%	-1.1%	-3.0%	2.9%	9.3%	29.4%	19.5%
A-shr excl. financials	4.1%	29.9%	3.0%	-3.0%	-14.1%	-1.2%	15.9%	26.9%	21.7%
A-shr excl. financials, Sinopec & Petro China & CNOOC	8.8%	23.7%	-1.3%	-2.9%	-16.2%	0.5%	17.0%	25.4%	21.5%
A-shr excl. financials, oil&petrochemicals and chemicals	5.0%	8.5%	-0.5%	7.8%	-15.5%	-2.5%	10.6%	14.4%	12.7%
Financials	1.3%	11.2%	1.1%	1.2%	10.3%	6.7%	2.1%	32.3%	17.0%
Main Board	0.8%	19.7%	1.4%	0.5%	-1.3%	1.5%	5.7%	23.7%	14.7%
STAR Board	87.1%	94.0%	12.7%	-48.8%	-33.6%	54.3%	657.0%	369.8%	437.6%
STAR Board excl. CXMT	87.1%	94.0%	12.7%	-39.1%	-38.5%	26.6%	195.6%	105.3%	129.8%
ChiNext Board	35.7%	22.5%	10.7%	-9.3%	-12.6%	21.7%	22.7%	41.8%	32.7%
Electronics	61.8%	80.4%	-27.5%	-37.0%	52.6%	40.4%	145.7%	234.3%	196.7%
Non-ferrous metals	239.4%	124.6%	59.2%	-24.1%	2.9%	55.4%	112.6%	101.7%	106.8%
Non-bank financials	3.7%	5.5%	-26.8%	-0.8%	61.4%	28.3%	-1.4%	134.8%	68.3%
Computer	-13.1%	4.7%	-38.9%	-11.2%	-51.9%	64.8%	116.7%	46.1%	57.2%
Commercial trade	-43.6%	-147.7%	-88.7%	-1182.9%	4.6%	-213.4%	49.7%	37.8%	50.9%
National Defence	76.6%	8.0%	-5.0%	1.2%	-35.2%	56.8%	83.3%	18.6%	49.2%
Chemicals	126.8%	123.3%	-3.7%	-44.6%	-8.2%	2.1%	16.0%	58.3%	38.3%
Electrical equipment	52.2%	42.3%	88.0%	-16.9%	-60.6%	40.1%	51.5%	25.5%	36.4%
Petrochemicals	-45.8%	170.2%	30.8%	-2.4%	0.5%	-11.8%	15.3%	58.7%	34.5%
Coal	-5.7%	80.6%	52.7%	-26.1%	-18.8%	-27.4%	-3.8%	66.5%	28.2%
Environmental protection	211.3%	-16.1%	-15.9%	2.3%	-11.8%	-2.0%	18.2%	16.3%	15.6%
Media	38.2%	118.2%	-64.0%	130.8%	-49.3%	46.4%	-1.0%	22.1%	10.4%
Healthcare	43.2%	56.8%	-4.8%	-21.2%	-10.0%	-2.3%	7.2%	12.1%	9.1%
Telecom	3.0%	11.3%	16.6%	5.1%	6.3%	7.9%	4.7%	6.7%	6.0%
Machinery	39.0%	5.9%	-7.2%	4.7%	-9.7%	13.2%	-4.4%	9.9%	3.5%
Banks	0.7%	12.6%	7.6%	1.5%	2.3%	1.4%	3.0%	2.9%	3.0%
Transportation	-98.2%	7057.3%	-44.2%	63.7%	11.3%	-12.9%	19.5%	-14.5%	2.5%
Beauty treatments	69.8%	-31.8%	-16.9%	47.1%	-16.4%	-2.6%	-11.9%	15.7%	2.1%
Textile	-21.9%	54.8%	-40.2%	56.4%	-39.3%	23.6%	-0.9%	-8.9%	-4.7%
Food and beverage	18.4%	9.7%	11.9%	17.3%	5.3%	-18.3%	3.2%	-18.8%	-4.9%
Home appliances	6.7%	9.4%	8.8%	14.3%	6.7%	-7.3%	-7.8%	-4.9%	-6.2%
Social services	-130.7%	-0.4%	-35.3%	-541.7%	9.9%	-1.5%	6.2%	-15.5%	-7.5%
Utilities	24.6%	-54.9%	60.5%	66.0%	4.9%	6.5%	-5.6%	-17.8%	-11.7%
Light manufacturing	3.4%	2.9%	-28.0%	14.3%	-27.9%	-33.3%	-19.4%	-10.8%	-14.9%
Real estate	-11.4%	-60.1%	-102.3%	566.3%	1431.1%	26.3%	-2.4%	-25.3%	-20.4%
Auto	23.2%	9.5%	5.6%	48.5%	12.7%	3.3%	-22.2%	-19.3%	-20.8%
Construction	5.7%	-2.2%	13.4%	7.8%	-15.3%	-25.1%	-15.3%	-35.3%	-25.4%
Steel	0.0%	90.7%	-73.2%	-13.3%	-133.2%	-268.0%	-78.5%	-17.2%	-42.2%
Building materials	11.5%	22.1%	-45.7%	-31.6%	-48.0%	-34.1%	-39.5%	-47.7%	-46.1%
Agriculture	37.4%	-141.0%	-155.6%	-106.3%	-4484.5%	-39.0%	-109.3%	-185.9%	-147.8%

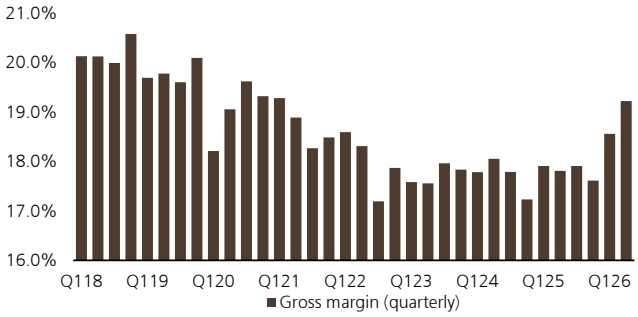
Source: Wind, UBS-S estimates

Figure 11: NBS industrial enterprise profit growth vs. A-share industrial sectors' earnings growth



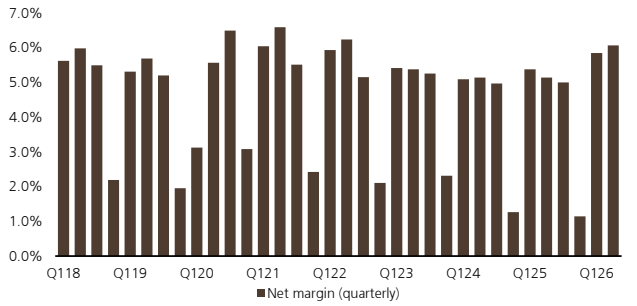
Source: Wind, National Bureau of Statistics, UBS-S estimates. Note: A-share industrial sectors include coal, light manufacturing, food & beverages, textiles, building materials, chemicals, healthcare, steel, non-ferrous metals, machinery, national defence, autos, electrical equipment, computers, telecom, electronics, home appliances, utilities, and oil & petrochemicals.

Figure 12: Gross margin of non-financial A-shares (quarterly)



Source: Wind, UBS-S estimates

Figure 13: Net margin of non-financial A-shares (quarterly)



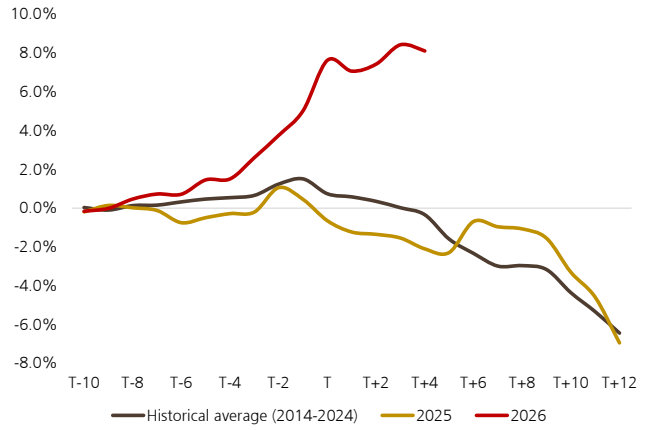
Source: Wind, UBS-S estimates

Figure 14: Q2 gross margins since 2020 for all level I non-financial sectors

	Q220	Q221	Q222	Q223	Q224	Q225	Q226
Real estate	27.4%	21.4%	19.2%	17.9%	13.5%	14.1%	14.4%
Computer	28.1%	27.6%	26.7%	27.9%	25.9%	23.3%	23.7%
Environmental protection	28.9%	25.7%	26.5%	26.7%	27.4%	26.4%	26.3%
Commercial trade	18.5%	13.8%	13.3%	14.2%	13.7%	14.2%	13.8%
Machinery	25.6%	22.7%	21.5%	23.7%	23.1%	23.5%	24.0%
Electrical equipment	21.5%	20.9%	20.7%	19.4%	17.1%	16.6%	16.7%
Construction	11.2%	10.9%	10.5%	10.6%	11.1%	10.8%	11.5%
Building materials	30.1%	28.1%	22.1%	21.0%	18.7%	21.8%	19.7%
Home appliances	24.3%	23.3%	23.6%	25.9%	25.9%	24.7%	24.0%
Textile	26.6%	26.3%	23.7%	25.2%	24.6%	21.8%	27.6%
Agriculture	18.2%	9.1%	6.9%	5.5%	10.8%	10.4%	4.9%
Electronics	18.2%	21.0%	16.3%	15.9%	16.2%	15.6%	22.6%
Conglomerates	16.9%	17.5%	16.0%	11.7%	13.7%	16.8%	20.1%
Utilities	27.7%	21.8%	19.2%	21.3%	23.4%	24.2%	22.2%
Healthcare	36.4%	36.4%	34.6%	33.2%	32.5%	32.5%	33.6%
Auto	14.4%	14.1%	13.9%	14.9%	16.1%	15.8%	16.4%
Petrochemicals	18.5%	19.0%	19.7%	18.3%	19.1%	18.6%	21.0%
Non-ferrous metals	8.2%	11.2%	13.1%	9.8%	12.4%	12.2%	17.7%
Telecom	26.9%	29.3%	29.6%	30.2%	31.4%	31.4%	29.9%
Transportation	6.4%	9.0%	7.6%	8.1%	8.9%	8.3%	7.6%
Media	31.1%	31.4%	32.1%	32.9%	31.8%	32.3%	34.0%
Chemicals	20.5%	24.6%	21.9%	16.1%	16.5%	16.4%	19.9%
Social services	27.2%	35.4%	24.8%	25.0%	26.2%	24.0%	24.3%
Light manufacturing	26.3%	24.4%	20.6%	21.8%	21.7%	21.8%	20.1%
National Defence	19.6%	21.5%	20.5%	19.4%	19.3%	18.1%	20.1%
Beauty treatments	47.3%	46.2%	44.7%	51.7%	54.0%	54.1%	54.0%
Food and beverage	44.2%	45.3%	44.9%	46.8%	50.2%	49.4%	46.5%
Coal	24.0%	27.0%	35.1%	29.7%	28.5%	26.4%	32.8%
Steel	11.4%	15.1%	8.6%	5.5%	5.8%	7.5%	7.2%

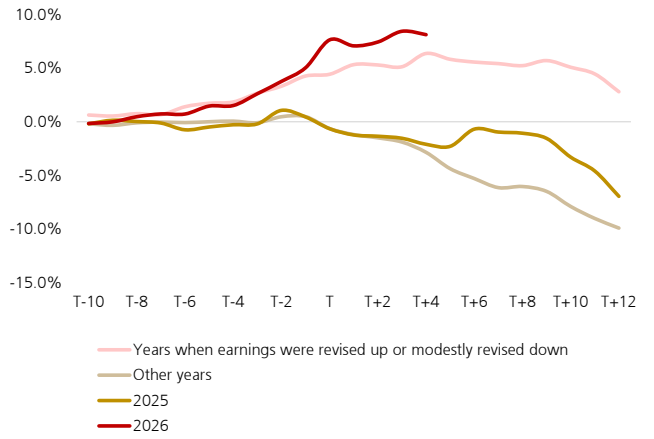
Source: Wind, UBS-S estimates

Figure 15: CSI 300 earnings growth forecast adjustment (2014–2026)



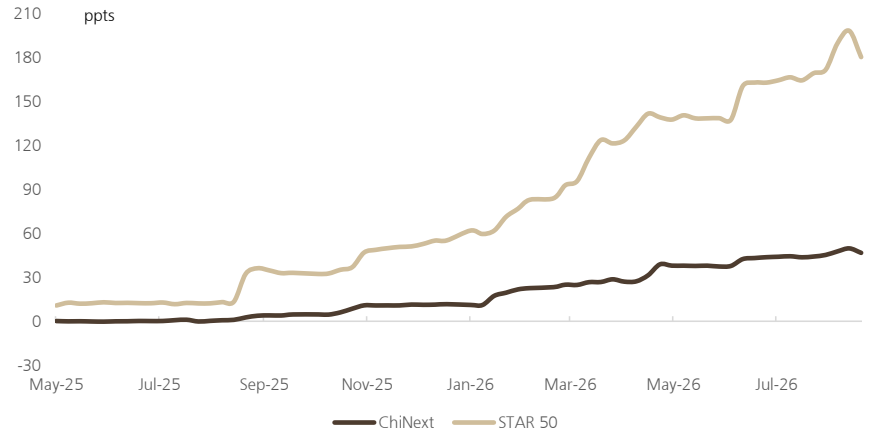
Source: Go-goal, UBS-S.Note: T refers to Go-goal consensus earnings growth for CSI 300 in April of the respective year. For example, T in 2026 refers to April 2026.

Figure 16: CSI 300 earnings growth forecast adjustment, classified by the eventual direction of earnings estimate revisions (2014–2026)



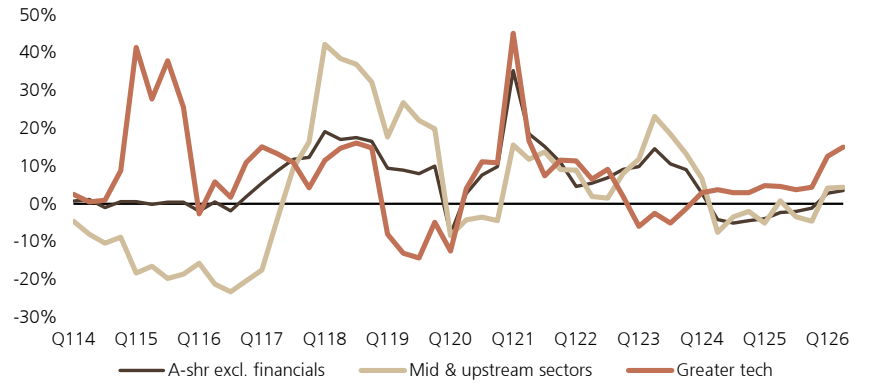
Source: Go-goal, UBS-S.Note: T refers to Go-goal consensus earnings growth for CSI 300 in April of the respective year. For example, T in 2023 refers to April 2023. Years when earnings forecasts were revised up or modestly revised down include 2017, 2019 and 2021.

Figure 17: Consensus 2026 earnings growth estimates of ChiNext and STAR 50 continue to be revised upward



Source: Go-goal, UBS-S

Figure 18: A-share capex growth by segments



Source: Wind, UBS-S estimates.Note: Mid & upstream manufacturing includes oil & petrochemicals, coal, non-ferrous metals and steel; Greater tech includes electronics, telecom, computers and national defence.

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.