China Equity Strategy

Post 2Q26 earnings: barbell strategy preferred

Equity Strategy

China

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Improving bank fundamentals and weak consumption… barbell preferred

Given a relatively lackluster consumption growth in China, we prefer a barbell strategy, pairing structural growth beneficiaries including AI tech hardware and export leaders with banks as a high yield defensive play. Tech and exporters continue to offer faster earnings growth compared to the broader market, supported by robust AI demand, overseas capex upcycle and market share gains. On the other hand banks stand out as an attractive diversification option, supported by higher payout ratios, improving revenue trends and cheap valuation vs global peers. We revise down our year-end target for MSCI China to 78 (6% upside from last close), reflecting an unchanged 2026 earnings growth forecast at 10% and a more conservative valuation assumption to reflect lower liquidity, higher global interest rates and geopolitical uncertainty. In terms of market preference, we continue to prefer A-share over H-shares given its greater exposure towards hardware tech, potential support from Chinese state-owned funds and mandated long term fund inflows.

2Q26 results highlights - a narrow recovery led by non-bank financials, upstream and tech

Overall earnings growth improved to 18% up from 13% in 1Q26, mainly driven by energy & materials (+42%) and tech (+42%), as well as non-bank financials which may slow in the 2H as A-share trading volumes decline (summary in Figure 22). The recovery remains narrow with the earnings growth of the remaining sectors (ex-tech, upstream and financials) down 8% in 1H26. Consumption exposed sectors remained under pressure with consumer sector earnings contracting for the fifth consecutive quarter while autos also reported a 19% earnings decline despite robust export orders. For the internet sector, while competitive intensity in food delivery has started to ease, increased AI-related investment has weighed on profitability as meaningful monetization takes time to materialize. Meanwhile, we noted SG&A expenses increased across a number of sectors as companies stepped up spending on marketing amid intensifying domestic competition (Figure 32). Following the results, consensus earnings estimates were broadly unchanged, with most notable upgrades seen in non-bank financials, property and tech, offset by downgrades in renewables, auto and consumer.

Offshore trust tax rule changes may potentially prompt stake selling by major shareholders

In July 2026, Ministry of Finance introduced new individual income tax rules for offshore trusts (see here), requiring Chinese tax residents to pay a 20% tax both when assets are transferred into an offshore trust on the unrealised gains as well as on income generated during the life of the trust, including dividends and interest, regardless of whether such income is distributed. Taxpayers are granted a 90-day compliance window (i.e. 24 Oct 2026) from the announcement date to declare and settle outstanding liabilities. The new rules could create a near-term overhang for offshore-listed non-SOE companies where major shareholders utilize offshore trust structures, as affected shareholders may need to liquidate part of their holdings to meet their tax obligations. Our discussions with UBS analysts suggest that the overall market impact may be somewhat limited given: 1) SOE's are not affected, 2) some companies' founders have already paid such taxes, 3) no trust structure was put in place. However the uncertainty created by the tax rule could hamper market sentiment in the near term.

Barbell strategy with tech plus banks

Management commentary suggest that demand for AI compute remains robust which should benefit AI hardware names and the recent decline in crowding and valuations has increased the sector's attractiveness. That said recent HBM shortages (see here) and

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decline in trading volumes could hamper the sectors' near term performance. Our preferences in the tech space include memory, fab and semi-cap equipment. Outside of tech, our preferences include banks, non-ferrous metals and going abroad stocks as domestic consumption remains relatively lackluster.

Year end target change

We have revised our year-end target for MSCI China to 78 (6% upside from last close), reflecting an unchanged 2026 earnings growth forecast at 10%, as earnings growth remains weak outside of tech and financial (which looks set to slow down in 2H26 given less robust market performance). We also assume a more conservative valuation of 0.6 standard deviations below the historical average to account for a higher global interest rate environment and geopolitical uncertainty.

For HSI we see limited upside from here till year end given its higher sensitivity to US interest rates. From a flow perspective, elevated capital raising, lower southbound inflows and potential stake selling from major shareholders stemmed due to offshore trust tax rule pose headwinds for H share market.

Figure 1: Change to FY26 year end MSCI China and HSI target

		UBS FY26 index target		FY26 EPS growth forecasts		Trailing P/E		
	Last close	UBS-e	UBSe vs Last close	Consensus	UBS-e	UBSe P/E (Target Price/ FY26 EPS)	Avg since 2017	Std. dev. vs avg
MSCI China	73	**78**	6.3%	14%	**10%**	12.1	13.5	-0.6
Hang Seng Index	24,954	**25,000**	0.2%	11%	**8%**	11.0	11.6	-0.4

Source: UBS

Figure 2: Sector preferences

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

Source: UBS

Figure 3: 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	89.10	155.00	15.8	-53%	-3%	2%	-32%
3606.HK	Fuyao Glass	Nora Min	Buy	54.85	85.00	11.8	13%	8%	5%	-16%
2899.HK	Zijin Mining Group - H	Sharon Ding	Buy	34.82	57.80	9.7	60%	2%	3%	0%
002371.SZ	NAURA Technology Group	Jimmy Yu	Buy	634.00	905.00	67.6	23%	-9%	0%	38%
0700.HK	Tencent Holdings	Kenneth Fong	Buy	428.40	770.00	12.5	0%	-1%	1%	-28%
GDS.O	GDS	Sara Wang	Buy	30.82	52.00	22.9	79%	4%	0%	-12%
300750.SZ	Contemporary Amperex Technology	Paul Gong	Buy	330.51	600.00	14.5	42%	9%	4%	-8%
600183.SS	Shengyi Technology	Edward Liu	Buy	148.43	192.00	46.4	130%	11%	2%	109%
BABA.N	Alibaba Group	Kenneth Fong	Buy	109.30	206.00	15.6	-26%	-8%	1%	-25%
3908.HK	China International Capital - H	Dennis Bai	Buy	20.12	31.40	6.2	39%	-6%	3%	4%
600584.SS	JCET Group	Jimmy Yu	Buy	67.74	135.00	45.0	72%	19%	0%	84%
1211.HK	BYD Company Limited	Paul Gong	Buy	79.85	135.00	17.9	8%	-12%	1%	-16%
002532.SZ	Tianshan Aluminum Group	Sharon Ding	Buy	13.22	18.10	7.4	72%	-7%	8%	-14%
0883.HK	China National Offshore Oil Corporation	Amily Guo	Buy	24.38	33.60	5.9	39%	4%	7%	21%
2259.HK	Zijin Gold International	Sharon Ding	Buy	160.10	203.00	19.1	79%	-9%	2%	12%
002850.SZ	Shenzhen Kedali Industry	Nora Min	Buy	171.40	268.00	19.1	40%	7%	2%	10%
600919.SS	Bank of Jiangsu	Helen Li, CFA	Buy	12.57	14.00	6.5	10%	-5%	5%	26%
0939.HK	China Construction Bank	May Yan	Buy	9.75	10.20	6.6	0%	-5%	5%	30%

Source: FactSet, UBS

Key macro and sector trends

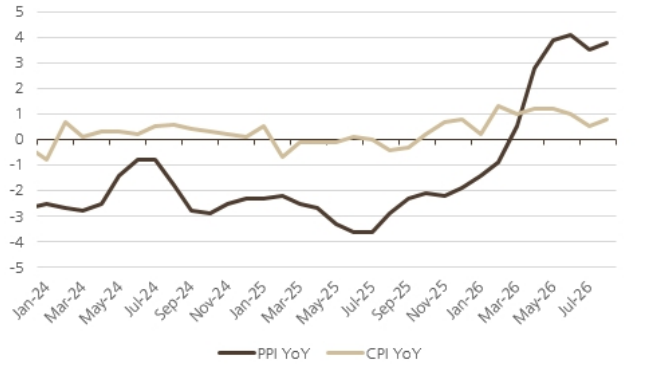
- From a macro perspective, domestic demand remains subdued with both FAI and retail sales showing continuous weakness, while exports have been the primary driver of growth YTD;
- The divergence between PPI and CPI suggests limited cost pass-through, reflecting ongoing difficulties for downstream industries in passing on higher costs amid subdued demand.

Figure 4: Export, retail sales and FAI YoY



Source: FactSet, UBS

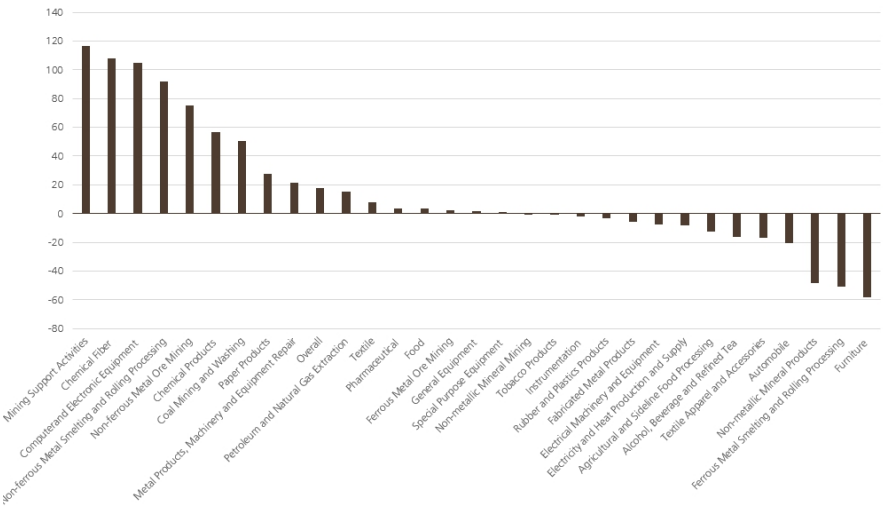
Figure 5: China CPI vs PPI YoY



Source: CEIC, UBS

- Growth across the manufacturing sector has been uneven, with upstream materials and technology industries delivering robust YoY profit growth, while most other sectors have remained subdued particularly the consumer-related segments such as autos.

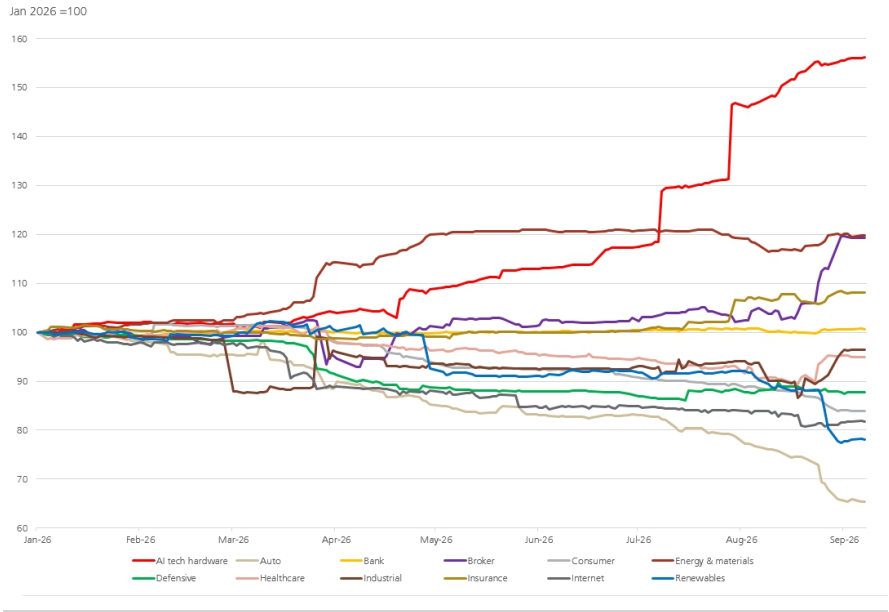
Figure 6: July 2026 YTD industrial profit YoY



Source: NBS, UBS

- From a listed company perspective, the pattern echoes the broader macro backdrop, with EPS trend outside of tech and financials remaining sluggish.

Figure 7: FY26 EPS trend by sector



Source: FactSet, UBS

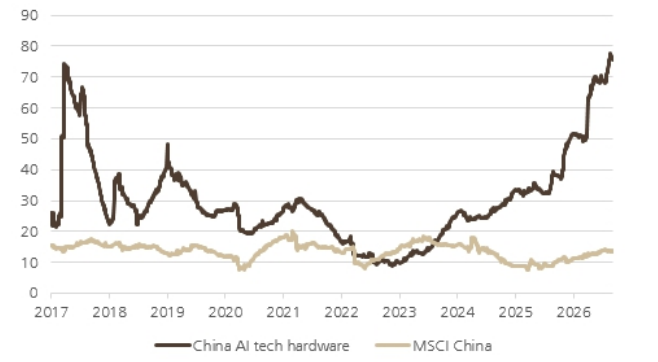
- Tech continues to stand out on fundamentals relative to the broader market, and valuations have normalized following July's sharp deleveraging. However given still-crowded positioning and the backdrop of higher global interest rates, investors may increasingly look to diversify into other sectors for protection in the near term.

Figure 8: China AI tech hardware forward P/E



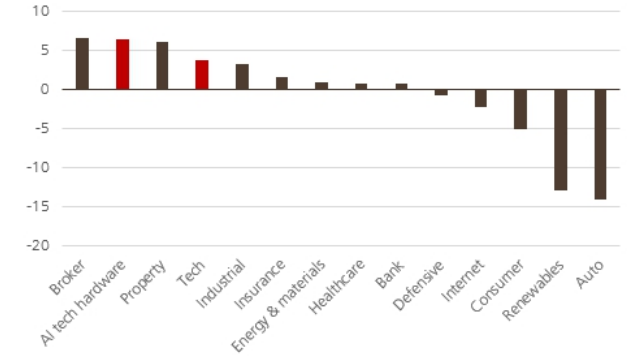
Source: FactSet, UBS

Figure 9: Forward earnings growth of China AI tech hardware vs MSCI China



Source: FactSet, UBS

Figure 10: FY26 earnings revision in the past 1 month



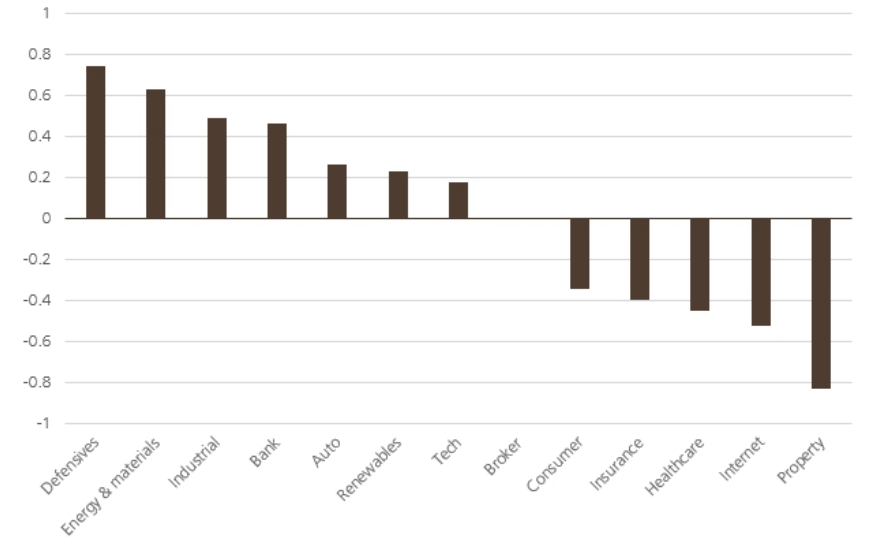
Source: FactSet, UBS

Figure 11: Average crowding scores of China AI hardware names



Source: UBS Quant Research

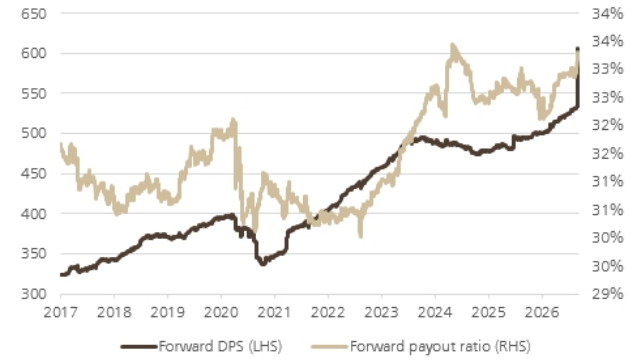
Figure 12: Correlation of sector performance and US 10Y yield



Source: FactSet, UBS

- Banks stand out as an attractive diversification option, supported by a compelling dividend yield relative to government bonds, payout ratio increase in 2Q26, improving revenue and earnings trends, and valuations that remain undemanding relative to global peers.

Figure 13: China banks forward DPS and payout ratio



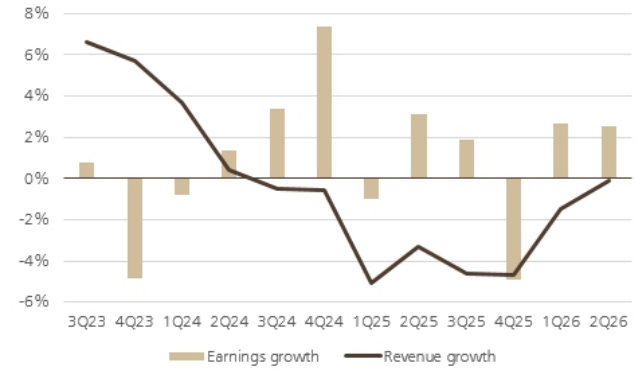
Source: FactSet, UBS

Figure 14: China banks forward div yield vs China 10Y yield



Source: FactSet, UBS

Figure 15: China banks quarterly revenue and earnings growth



Source: FactSet, UBS

Figure 16: China vs global banks P/B



Source: FactSet, UBS

- We also favor export-oriented companies under the "going global" theme, given their stronger profitability in overseas markets relative to domestically focused peers. The latest 2Q US result reason was better than expected, with 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 here). In addition, following the notable appreciation of the RMB over the past 12 months, we expect FX headwinds for these companies to moderate going forward.

Figure 17: Forward earnings growth - going global stocks vs MSCI China



Source: FactSet, UBS

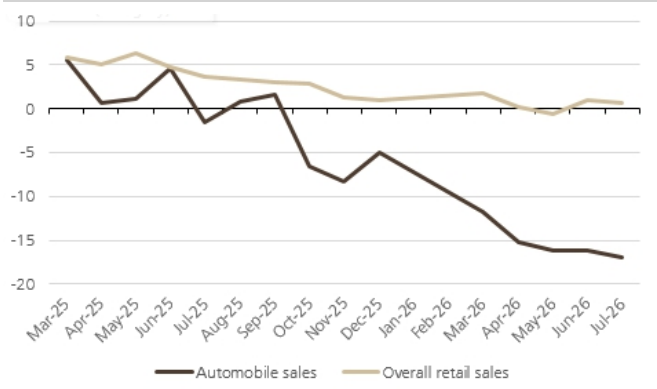
Figure 18: FX headwind may moderate for exporters in 2H



Source: FactSet, UBS, RMBUSD FX rate shown

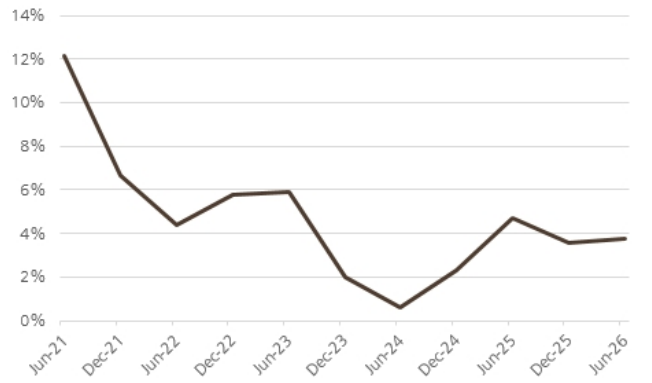
- Consumer demand remains weak, alongside a moderation in wage growth to 4% over the past two quarters. Policymakers appear to be prioritizing investment rather than consumption to stabilize growth in 2H26, suggesting limited scope for substantial consumption stimulus in the near term.

Figure 19: China overall and automobile retail sales YoY



Source: CEIC, UBS

Figure 20: A share companies average wage growth



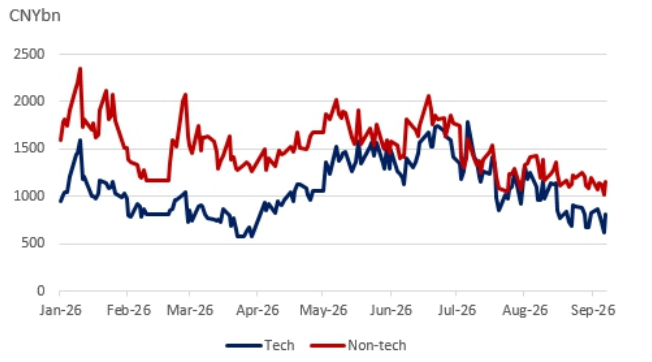
Source: Wind, UBS

Figure 21: Ex-tech, ex- financials, ex-upstream earnings growth trend



Source: FactSet, UBS

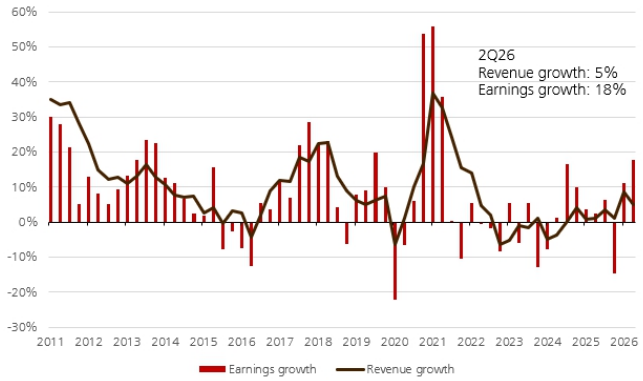
Figure 22: A share tech and non tech turnover



Source: FactSet, UBS

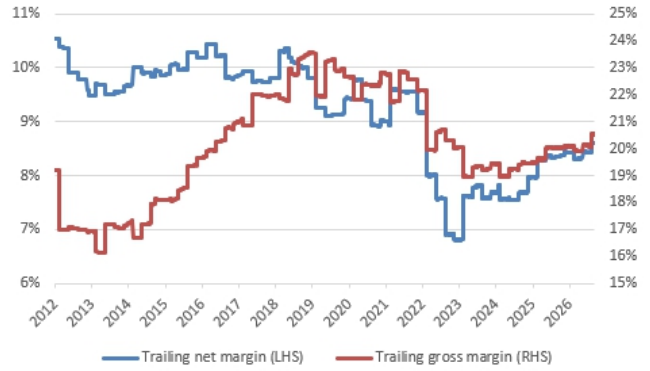
2Q26 result summary

Figure 23: MSCI China quarterly revenue & earnings YoY growth



Source: FactSet, UBS

Figure 24: MSCI China trailing net and gross margin



Source: FactSet, UBS

Figure 25: 2Q26 revenue and earnings growth by sector

Sector	No. of companies reported	% weighting in MSCI China	Revenue growth	Earnings growth
Overall	**847**	**100%**	**5%**	**18%**
Financials	138	18%	3%	31%
Non-financials	709	82%	6%	8%
SOE	268	26%	3%	17%
Non-SOE	578	74%	8%	19%
Upstream	190	9%	13%	36%
Downstream	537	36%	0%	4%
Downstream (ex-property)	508	-2%	2%	0%
Renewables	36	2%	24%	93%
Insurance	9	4%	15%	87%
Other Financials	42	2%	57%	57%
Energy & materials	136	6%	14%	42%
Tech	116	5%	23%	42%
Property	57	3%	-19%	29%
Healthcare	106	6%	3%	12%
Banks	30	9%	0%	3%
Consumer	135	13%	1%	-4%
Industrials	89	3%	-3%	-7%
Defensive	33	3%	-2%	-13%
Auto	29	5%	1%	-19%
Internet	29	38%	5%	-19%

Source: FactSet, UBS

Figure 26: 1H26 revenue and earnings growth forecast

Sector	No. of companies reported	% weighting in MSCI China	Revenue growth	Earnings growth
Overall	**847**	**100%**	**4%**	**16%**
Financials	138	18%	2%	26%
Non-financials	709	82%	5%	8%
SOE	268	26%	2%	15%
Non-SOE	578	74%	7%	16%
Upstream	190	9%	10%	29%
Downstream	537	36%	0%	3%
Renewables	36	2%	27%	90%
Insurance	9	4%	12%	84%
Tech	116	5%	19%	38%
Energy & materials	136	6%	9%	36%
Other Financials	42	2%	51%	36%
Property	57	3%	-18%	26%
Healthcare	106	6%	5%	14%
Banks	30	9%	-1%	3%
Consumer	135	13%	1%	-2%
Industrials	89	3%	-3%	-6%
Defensive	33	3%	-2%	-12%
Internet	29	38%	5%	-15%
Auto	29	5%	0%	-32%

Source: FactSet, UBS

Figure 27: Quarterly revenue growth

Sector	2023/3C	2023/4C	2024/1C	2024/2C	2024/3C	2024/4C	2025/1C	2025/2C	2025/3C	2025/4C	2026/1C	2026/2C
Overall	4%	3%	1%	-1%	0%	2%	1%	0%	2%	-1%	3%	5%
Financials	3%	3%	-3%	-5%	-2%	-1%	-2%	-1%	-1%	-6%	1%	3%
Non-financials	5%	3%	2%	1%	1%	4%	2%	1%	2%	1%	4%	6%
SOE	5%	3%	2%	-2%	-2%	1%	-2%	-2%	0%	-2%	2%	3%
Non-SOE	4%	3%	-1%	2%	3%	5%	5%	4%	4%	2%	5%	8%
Upstream	-2%	-7%	-2%	-4%	-4%	-1%	-3%	-5%	-1%	0%	6%	13%
Downstream	7%	7%	1%	-1%	-1%	2%	1%	1%	1%	-2%	1%	0%
Auto	15%	14%	1%	1%	-5%	7%	8%	9%	6%	0%	-1%	1%
Banks	7%	6%	4%	0%	-1%	-1%	-5%	-3%	-5%	-5%	-1%	0%
Consumer	4%	0%	-1%	6%	1%	7%	9%	4%	2%	0%	2%	1%
Defensive	3%	4%	3%	1%	5%	5%	0%	0%	-2%	-2%	-1%	-2%
Energy & materials	0%	-3%	0%	-3%	-4%	-3%	-4%	-5%	-1%	0%	5%	14%
Healthcare	2%	1%	1%	0%	17%	16%	0%	1%	5%	7%	5%	3%
Industrials	9%	7%	2%	-1%	-2%	2%	-2%	-3%	-1%	-3%	-1%	-3%
Insurance	1%	0%	2%	5%	13%	16%	10%	12%	17%	10%	9%	15%
Internet	12%	13%	13%	9%	9%	11%	11%	12%	10%	5%	6%	5%
Other Financials	-4%	-7%	-23%	-10%	0%	35%	39%	14%	43%	4%	45%	57%
Property	0%	3%	-16%	-22%	-17%	-17%	-15%	-14%	-18%	-24%	-17%	-19%
Renewables	4%	-8%	-17%	-17%	-18%	-13%	-1%	0%	13%	18%	27%	24%
Tech	0%	5%	14%	19%	19%	15%	17%	16%	15%	16%	16%	23%

Source: FactSet, UBS

Figure 28: Quarterly earnings growth

Sector	2023/3C	2023/4C	2024/1C	2024/2C	2024/3C	2024/4C	2025/1C	2025/2C	2025/3C	2025/4C	2026/1C	2026/2C
Overall	0%	-17%	1%	7%	19%	21%	4%	1%	16%	9%	13%	18%
Financials	-25%	-37%	-1%	1%	46%	49%	0%	5%	46%	57%	20%	31%
Non-financials	20%	-4%	3%	12%	5%	9%	7%	-2%	-6%	-19%	7%	8%
SOE	0%	-4%	-1%	1%	10%	13%	0%	0%	4%	-8%	13%	17%
Non-SOE	0%	-50%	8%	26%	50%	65%	14%	2%	47%	69%	11%	19%
Upstream	-17%	-25%	-10%	1%	-2%	4%	6%	-4%	-5%	-17%	24%	36%
Downstream	15%	12%	12%	7%	16%	-11%	-2%	-6%	54%	91%	1%	4%
Auto	-12%	-3%	-17%	38%	-12%	-21%	13%	-31%	-25%	5%	-44%	-19%
Banks	1%	-5%	-1%	1%	3%	7%	-1%	3%	2%	-5%	3%	3%
Consumer	23%	33%	16%	22%	17%	-4%	7%	-6%	-3%	-24%	-2%	-4%
Defensive	19%	28%	10%	9%	10%	1%	3%	1%	1%	-2%	-12%	-13%
Energy & materials	5%	0%	1%	10%	-7%	1%	0%	-5%	1%	-6%	31%	42%
Healthcare	5%	-34%	-13%	-10%	-1%	43%	19%	16%	18%	-5%	18%	12%
Industrials	42%	54%	9%	1%	-1%	11%	1%	-2%	-24%	-49%	-4%	-7%
Insurance	-48%	-69%	5%	16%	300%	451%	4%	17%	52%	47%	80%	87%
Internet	149%	-46%	31%	69%	49%	82%	21%	-8%	-33%	-37%	-9%	-19%
Other Financials	-18%	-14%	-32%	-24%	41%	73%	71%	54%	48%	16%	15%	57%
Property	-193%	-91%	30%	-15%	30%	-7%	-107%	-81%	162%	105%	12%	29%
Renewables	-39%	-70%	-73%	-66%	-59%	-98%	6%	6%	103%	6242%	87%	93%
Tech	33%	-6%	18%	11%	11%	3%	39%	38%	47%	25%	32%	42%

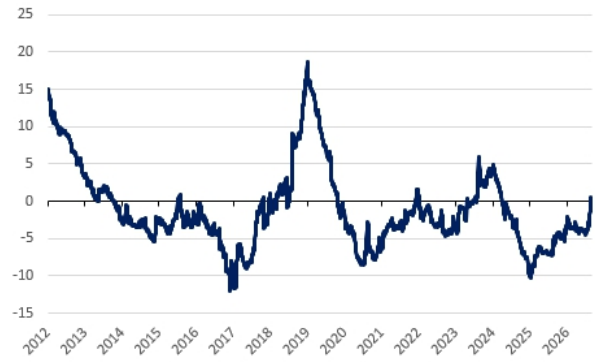
Source: FactSet, UBS

Figure 29: MSCI China trailing payout ratio and buyback



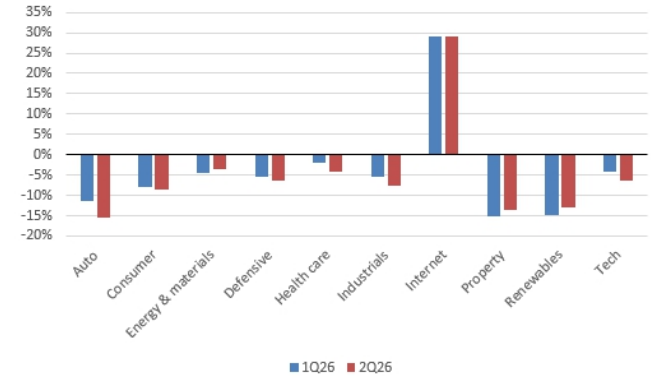
Source: FactSet, UBS

Figure 30: MSCI China trailing capex growth



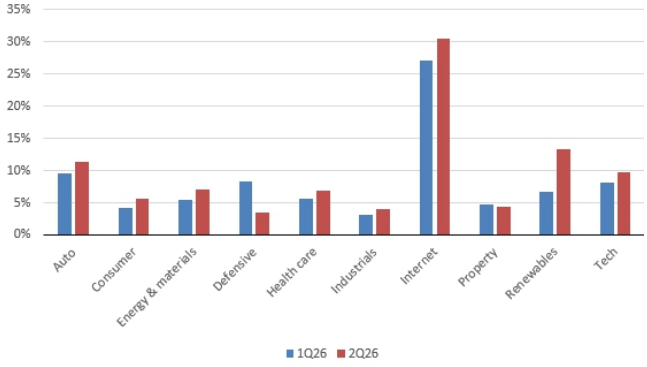
Source: FactSet, UBS

Figure 31: Trailing capex YoY growth by sector



Source: FactSet, UBS

Figure 32: Trailing SG&A expense YoY growth by sector



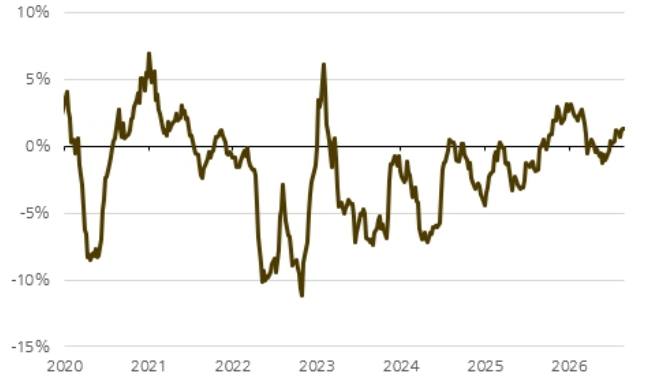
Source: FactSet, UBS

Figure 33: FY1 earnings revision ratio (breadth)



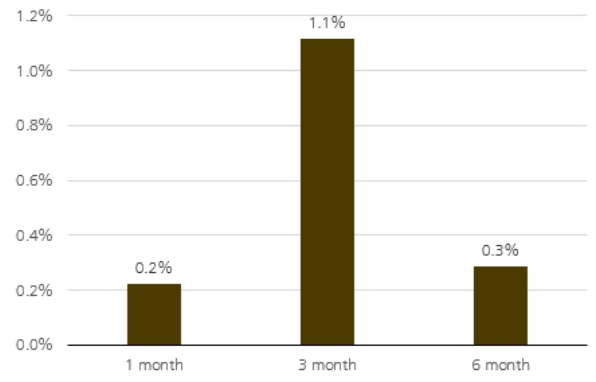
Source: FactSet, UBS. Note: No. of companies with upward revision minus no. of companies with downward revision/ total no. of revision.

Figure 34: 12-month forward earnings revisions in the past 3 months (magnitude)



Source: FactSet, UBS

Figure 35: FY26 earnings estimate revisions



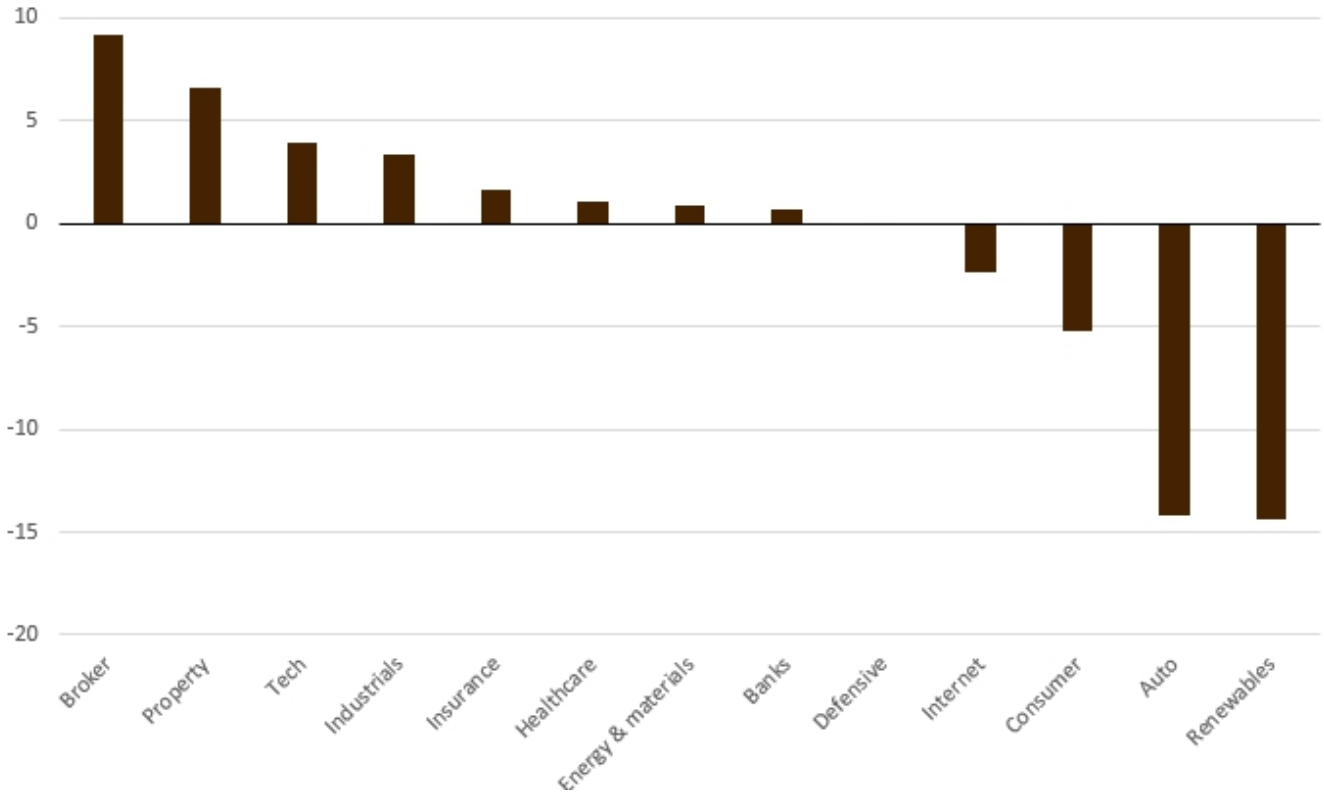
Source: FactSet, UBS

Figure 36: MSCI China EPS integer



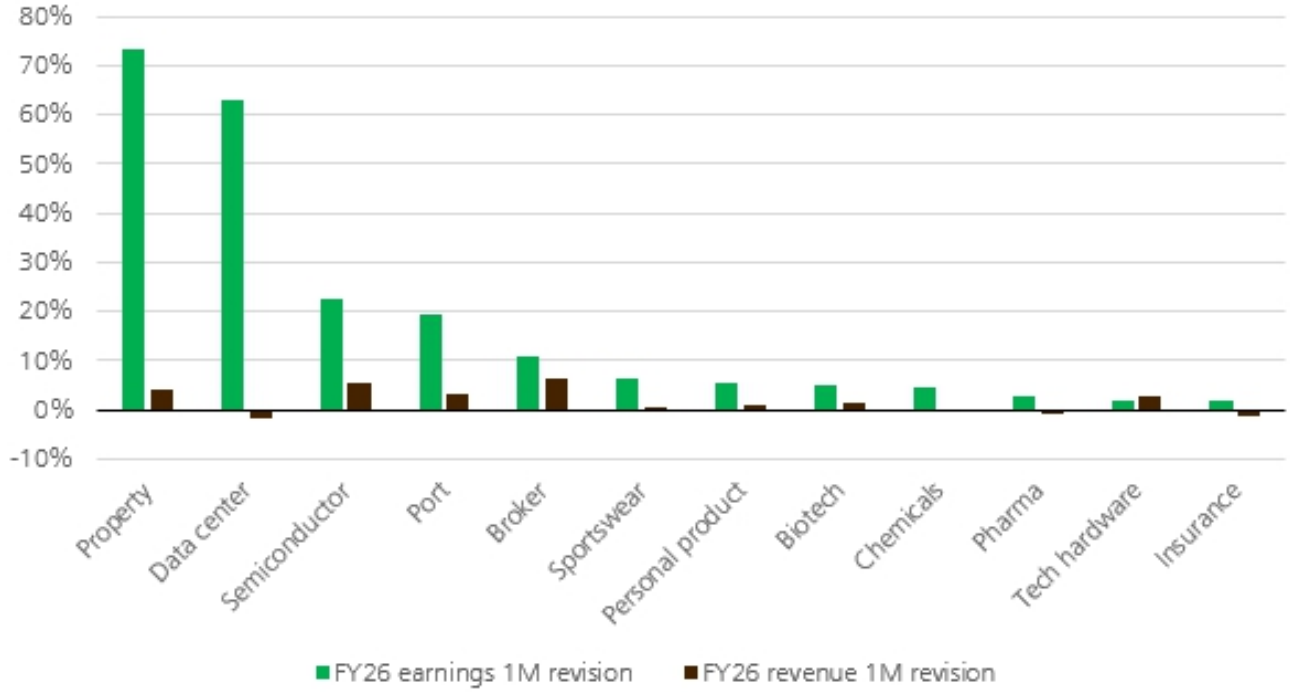
Source: FactSet, UBS

Figure 37: FY26 earnings revision by sector in the past 1M



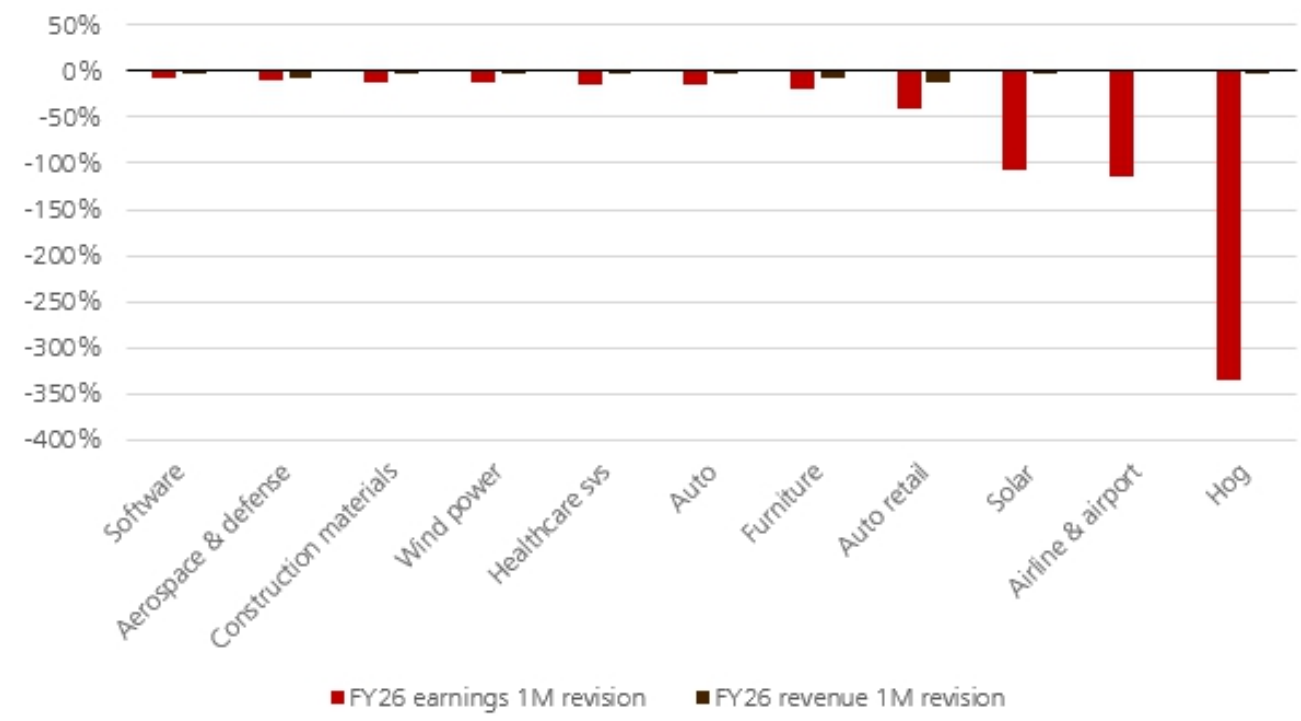
Source: FactSet, UBS

Figure 38: Sectors with most FY26 earnings estimates upgrades in the past month



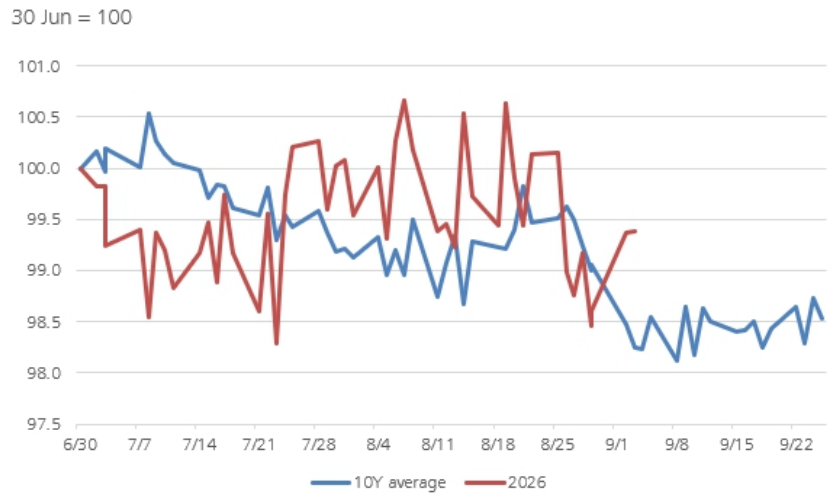
Source: FactSet, UBS

Figure 39: Sectors with most FY26 earnings estimates downgrades in the past month



Source: FactSet, UBS

Figure 40: MSCI China consensus EPS integer during 2Q results season



Source: FactSet, 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 the 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 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.
- **Nongfu Spring** - Management expressed confidence in double-digit growth in revenue and profit for FY26, highlighting manageable cost pressure going forward, induced by PET price volatility and reduced jasmine production due to flooding. However, we note the packaged drink water segment has turned

  competitor Tingyi has returned to high single digit growth in H126 due to proactive innovations. Nongfu's market share in the sugar-free tea segment has already reached 88%, per Zhejiang Beverage Industry Association, making the 30% revenue growth unlikely to sustain, in our view.
- **MIXUE** - The company initiated the 3-year strategy pivot towards store quality through product upgrades and enhanced consumer experience since the beginning of 2026, which implies persistent pressures on its profitability in the near term given incremental investments, in our view. Looking into H226, management noted sustained pressures on SSSG (same store sales growth) and profitability, due to high base and transitional expenses amid intensifying competition

- **CR Beverage** - Management noted that the beverage industry faced a challenging operating environment in H126, particularly across offline channels, while unfavorable weather conditions also weighed on demand. Despite near-term pressure, the company continues to see structural growth opportunities driven by the health and functionalization trends. Going forward, management will focus on maintaining pricing discipline and healthy inventory levels, while proactively developing new distribution channels and innovated products to support sustainable long-term growth.

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.
- **Meituan** - On competition, mgmt continues to see Meituan's steadily improving market share in order volume and GTV relative to BABA QTD. Meituan turned around at Rmb0.2/order for 2Q, better than expected on faster AOV recovery. Meituan was also proactive to lower subsidies temporarily as they see Douyin's aggressive discounting strategy as unsustainable.

Tech hardware - demand still strong driven by AI

- **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.
- **Montage Tech** - Montage achieved a record-high revenue in 2Q26, with +33% YoY (despite RMB appreciation and high-base in 2Q25). We continue to see Montage as the key beneficiary of Agentic AI and China's rising AI capex and localization. We expect its earnings to grow 56% CAGR in 2026-28E.
- **CXMT** - CXMT further optimized its products mix in 1H26. According to the company, its in-house developed LPDDR6 has been sampled to key customers for qualification, with mass production ramping up, suggesting product mix upgrade may be underway.
- **NAURA Tech** - Leading indicators and our industry checks show continued marginal improvement in downstream demand, reinforcing our confidence in the full-year revenue outlook.

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.
- **Meitu** - New AI-native products demonstrate strong monetisation potential. Picchi and MVLAND were the fastest-growing products launched YTD. Both products stemmed from Meitu's observation of its close to 300mn MAU base, and focus on user needs where output quality is critical and willingness to pay is high.
- **Kingsoft Office** - AI-native product Lingxi has seen encouraging user ramp, and management targets further acceleration over the next six months while broadening penetration beyond existing WPS users.

Chemicals - benefiting from higher commodity prices

- **Zhejiang Satellite** - profit hit a record high given the spike in olefin prices. Nearterm 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.
- **CCB** - H126 NIM expanded by 8bps HoH, mainly due to 15bps lower funding cost more than offsetting the asset yield decline of 4bps HoH. With announced interim DPS of Rmb0.201, the implied dividend payout ratio would be raised to 31.0%
- **ICBC** - Q226 NIM was 1.29%, flat QoQ and +2bps YoY. ICBC announced an interim DPS of Rmb0.1511, implying a dividend payout ratio of 31.8%, with +1.1ppt increase YoY as a major positive.

- **ABC** - H126 NIM expanded by 5bps to 1.28%, as an 8bps HoH drop in AIEA yield to 2.52% was more than offset by a 13bps HoH fall in funding cost to 1.33%. ABC will distribute interim DPS of Rmb0.1297, implying an increase in payout ratio by 1ppt YoY to 31.0%.

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.
- **China Telecom** - CT guides stable growth in revenue from principal revenue, EBITDA, and net profit. Full-year dividend payout ratio is guided to at similar level to H126 at 75%.

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.
- **Goldwind** - Shipment target was adjusted down to 35GW for 2026 from previous guidance of 40GW, based on the lower China demand forecast at 100-110GW, impacted by the lower return under market transaction. Overseas shipment target was 7GW in 2026, and order intake was 8GW. Mgmt expects the overseas shipment will continue to grow next year.

Renewables - confidence in BESS segment, while solar takes time to bottom out

- **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.
- **TCL Zhonghuan** - Mgmt remains cautious on near-term profitability for the solar industry, but expects supply-demand improvement from 2027-28.
- **Sungrow** - The company remains positive on AIDC BESS demand. However the company cited continued challenges from US shipment - mgmt expects to strategically shift more focus to residential storage and commercial & industrial (C&I) storage going forward, to offset the US shipment risk. EU demand outlook is more positive, driven by the larger peak-trough pricing spread, ambitious energy transition goal and subsidies. Mgmt expects European demand to double in 2026E, and aims for higher 2H26 shipment to Europe than 1H26.

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.
- **BYD** - The quarterly earnings implied almost Rmb10k net profit per car, suggesting the strong overseas contribution at 43% total volume has effectively offset the pressure from raw material cost inflation and domestic competition. Recovery outlook is probably strengthened. On the same day, BYD announced 10k flash charging stations being constructed, half of its 20k target by end-26. In the interim report, it also states it plans to deploy 6k flash charging stations overseas.

- **Li Auto** - Company guidance was mixed with implied 26Q3 ASP to decline c4.7% YoY or largely flat QoQ. Management reiterated its commitment to a gradual earnings recovery in 2H26, supported by a richer Livis mix, new BEV launches, and the upcoming i9 rollout.
- **XPeng** - The guidance translates to YoY delivery growth of -0.9% to +4.3% in 3Q26, which we view as soft especially factoring in stronger seasonality.

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.
- **Ping An Insurance** - Ping An reaffirmed its dividend policy, targeting DPS growth in line with group OPAT growth over the medium to long term. The insurer expresses confidence in value of new business (VNB) growth for 2026E and beyond. Ping An welcomes Circular 65 (i.e. enhanced bancassurance filing-execution consistency requirements), as a more disciplined bancassurance market should reinforce its competitive positioning and drive better profitability.

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.