China Strategy Tracker

AI narrative under scrutiny – time to rebalance

Equity Strategy
China

- Muted market turnover suggests better returns in defensive sectors and pressure on the AI-heavy info tech sector…
- …further catalysts and recovery in daily turnover to above RMB2trn needed for the AI trade to bounce back
- 10 stocks, four themes: AI, high-quality dividends, beneficiaries of the six networks, and biotech going global

Defensive sectors outperform. As A-share daily turnover trends lower to cRMB1.5trn, market risk appetite has diminished and defensive sectors have been outperforming the overall market. In our 4Q26 outlook (see *China Equity Strategy - 4Q26 outlook: Reality check*, 13 October 2026), we concluded defensive sectors like financials and healthcare show more resilience amid sluggish market turnover, whereas a sustained comeback in the AI-heavy info tech sector normally materialises when turnover is above RMB2.0trn. Recent market movements validate our view, and the slight beat in September economic data (retail sales up 1.1% y-o-y, and FAI y-o-y decline narrowed to 7.2%) also lent support to non-tech sectors such as consumers and financials. For the AI trade, we retain a positive long-term view. That said, a list of negatives (e.g., Anthropic's IPO valuation markdown, CPO paradigm switch, and Elice Group's IPO debut sell-off) weigh on short-term sentiment. Further catalysts and a recovery in market turnover are the key factors to watch.

Data highlights: 1) Since September, margin financing accounts have had net outflows of RMB178.6bn, of which the IT sector contributed RMB90.1bn. **2)** Weekly AI token usage on OpenRouter rose to 164trn in the week ending 16 October, up 20% vs September's average, with Chinese models accounting for 82% of the top nine large language models' (LLMs) token usage. **3)** Global semi sales grew 144% y-o-y in August, while Taiwan's outsourced semiconductor assembly and test (OSAT) sales were up 42% y-o-y in September, both accelerating from prior ones. **4)** DRAM and NAND flash wafer prices have increased 12% and 9% respectively since September. **5)** Secondary home prices in tier-1 cities rose 0.2% m-o-m in September, the seventh consecutive sequential increase and accelerating from the 0.1% m-o-m growth in August.

Tighter global liquidity: The latest US inflation numbers (CPI up 3.7% y-o-y in September) suggest more rate hikes may be needed to bring inflation back to the Fed's target range (see *US CPI (Sep): Small upside surprise*, Ryan Wang, 14 October 2026). While Federal Fund Futures (FFF) imply no rate hike in October, they point to three 25bp hikes by end-2027, which could keep global liquidity tight and hinder the rotation from DM to EM.

10 stocks, four investment themes based on our analysts' bottom-up analysis: 1) AI: **Naura Tech, Shengyi Tech,** and **Kingdee**; 2) high-quality dividends: **Midea, Bank of Chengdu** and **Guangdong Expressway**; 3) beneficiaries of the six networks: **Nari Tech** and **Sieyuan Electric**; and 4) biotech going global: **Wuxi Bio** and **Hansoh Pharma**.

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Index targets, sector allocations, stock ideas, and sector views

Exhibit 1. HSBC Qianhai end-2026e index targets

	SHCOMP	CSI 300	SZCOMP
Dividend yield (%)	3.0	2.8	2.2
Index level	3,716.3	4,170.6	11,802.5
EPS growth YR1 (2026e)	25.3%	16.3%	43.4%
EPS growth YR2 (2027e)	12.4%	18.3%	31.9%
Growth in stage 2	10.0%	11.0%	13.0%
Number of years of excess growth	10	10	10
Perpetual growth rate (%)	3.7	3.4	3.9
COE (%)	9.00	9.00	9.00
Payout ratio (%)	39.8	38.4	41.9
Fair value	4,109	4,924	14,878
Undervalued/overvalued vs fair value	-10%	-15%	-21%
HSBC Qianhai's end-2026e targets	**4,100**	**4,800**	**14,500**
Target implied forward PE (x)	14.7	15.5	23.2
Index upside	**10.3%**	**15.1%**	**22.9%**

Note: Index upside calculated based on index levels as of 16 October 2026.
Source: Bloomberg consensus estimates, HSBC Qianhai Securities estimates

Exhibit 2. Sector allocations

Sector	Benchmark weight	Sector weighting	Growth vs average (2027e)	3M earnings revision (2027e)	3M PE re-rating (2027e)	Investor sentiment	2026 y-t-d performance
Info Tech	22.5%	Overweight	Higher	Positive	Downward	Negative	+0.8%
Healthcare	6.0%	Overweight	Lower	Positive	Downward	Negative	-8.0%
Materials	11.8%	Neutral	Higher	Positive	Downward	Negative	-12.4%
Utilities	3.9%	Neutral	Lower	Negative	Upward	Negative	+3.3%
Comm Svs	2.4%	Neutral	Lower	Negative	Upward	Positive	-14.3%
Energy	5.6%	Neutral	Lower	Positive	Upward	Positive	+14.6%
Financials	17.4%	Neutral	Lower	Positive	Upward	Positive	-5.9%
Cons Stap	5.3%	Neutral	Higher	Negative	Upward	Positive	-12.3%
Industrials	17.8%	Underweight	Higher	Positive	Downward	Negative	-18.7%
Cons Disc	6.4%	Underweight	Higher	Negative	Upward	Negative	-20.8%
Real Estate	0.9%	Underweight	Lower	Negative	Upward	Positive	-14.4%

Note: Data updated to 16 October 2026.
Source: Wind. Wind consensus estimates, HSBC Qianhai Securities estimates

Exhibit 3. HSBC Qianhai Securities' key stock ideas

Theme	Ticker	Company	Industry	Rating	TP LC	Curr price LC	Upside	Mcap USDbn	3M ADT USDm	PE (x) 2027e	EPSg (%) 2027e	PB (x) 2027e	ROE (%) 2027e	DY (%) 2027e	Analyst*
	002371 CH	NAURA	Electronics	Buy	1031.90	593.63	74%	64.6	912.3	44.3	39.4	8.1	20.0	0.2	Cara Su
AI	600183 CH	SYTECH	Electronics	Buy	191.50	114.60	67%	41.6	1370.2	25.1	47.2	14.4	59.9	3.4	Cara Su
	268 HK	KINGDEE INT'L	Computer	Buy	16.00	8.37	91%	4.4	56.8	36.5	76.8	3.2	8.3	0.1	Yiran Liu
	000333 CH	MIDEA GROUP	Home App	Buy	97.00	84.60	15%	96.1	347.1	13.3	21.4	2.5	19.7	5.8	Li Quan
High dividend	601838 CH	BANK OF CHENGDU	Banks	Buy	24.40	19.09	28%	12.1	57.5	5.6	4.5	0.8	14.0	5.5	Angel Sun
	000429 CH	GD EXPRESSWAY	Transportation	Buy	15.50	13.66	13%	4.0	18.7	18.1	-0.6	2.4	13.3	3.9	William Sun
"Six	600406 CH	NARI-TECH	Elec Equip	Buy	36.20	22.73	59%	27.3	167.0	17.4	14.7	3.0	17.7	3.4	Corey Chan
networks"	002028 CH	SIEYUAN	Elec Equip	Buy	266.00	118.03	125%	13.8	251.3	16.3	38.8	3.9	26.3	1.1	Dun Wang
Biotech going	2269 HK	WUXI BIO	Healthcare	Buy	64.60	48.20	34%	25.3	215.8	21.6	18.8	3.3	14.0	0.0	Linda Shu
global	3692 HK	HANSOH PHARMA	Healthcare	Buy	49.50	31.74	56%	24.5	44.1	23.6	2.0	4.3	16.9	1.7	Linda Shu

Note: Priced as of 16 October 2026. *Employed by a non-US affiliate of HSBC Securities (USA) Inc. and not registered/qualified pursuant to FINRA regulations.
Source: Wind, Bloomberg, HSBC Qianhai Securities estimates

Exhibit 4. Key sector views

Sector	Key views	Links	Most liquid stocks over L1M
Info Tech (Overweight)	**Optical transceivers**: Potential FCC restrictions' near-term valuation pressure is likely to outweigh earnings impact; a blanket restriction would face significant practical constraints. **Software**: DeepSeek's latest model significantly improves agentic coding with unchanged pricing, implying further token deflation; intense competition increases LLM monetisation uncertainty; applications stand to benefit from lower token cost.	*China Technology - Optical transceivers: Assessing potential FCC policy implications*, Bingyi Zheng, 5 August 2026 *China Software - Deepseek v4.1 flash updated version underscores continued token deflation trend*, Yiran Liu, 19 October 2026	Innolight (300308 CH) Eoptolink (300502 CH) CXMT (688825 CH)
Healthcare (Overweight)	**Is**: 2H26-2027e outlook: stabilised China growth, accelerating global footprint. **CXOs**: We favour companies with strong growth momentum backed by new products. **AIDD**: We expect a more volatile 4Q26, while China's faster execution and asset-backed monetisation offers a differentiated investment opportunity.	*China Pharmaceutical - China business under pressure: global pipeline progress turns next narrative focus*, Linda Shu, 28 September 2026 *China CXOs - How to position in 2027: Conviction buy with strong growth momentum backed by new products*, Linda Shu, 21 September 2026 *China Healthcare - AIDD and AI4S update: Market volatility and China opportunity*, Linda Shu, 16 October 2026	Wuxi Apptec (603259 CH) HPGC (600664 CH) Hengrui Pharma (600276 CH)
Materials (Neutral)	**Chemicals**: We expect the refining value chain to lead sequential growth in 3Q, but record freight costs could weigh on 4Q earnings; if the Middle East conflict ends, we would prefer phosphate producers into 2027. **Copper**: Solid production, cost control and clearer shareholder returns to narrow valuation discount vs global peers.	*China Chemicals - 3Q26 preview: Refining to lead 3Q growth, freight pressure to rise in 4Q*, Yi Ru, 13 October 2026 *China Copper Sector - Price breakout and solid execution to drive valuation catch-up*, Stephen Wang, 15 September 2026	China Jushi (600176 CH) Zijin Mining (601899 CH) Sinocera (300285 CH)
Utilities (Neutral)	**Power utilities:** Power prices could rebound with the rally in coal prices and boost power utility earnings in 2027e.	*China Power Utilities - Turning a lot more bullish*, Daniel Yang, 9 October 2026	Yangtze Power (600900 CH) MD Electric (000993 CH) HD LN Energy (600396 CH)
Comm Svs (Neutral)	**Telcos**: We expect less intense mobile competition in 2H26 and one-offs could support a modest recovery in net profits. **Gaming**: Recent company visits suggest that gaming companies are constructive about overseas markets – particularly SLG and casual games – and that AI adoption is deepening in-game development. **Video**: AI model upgrades should help boost AI video content; AI will significantly reduce content costs and increase gross margins.	*China Telcos - Modest recovery in 2H26*, Piyush Choudhary, 23 September 2026 *China Gaming - Company visit takeaways*, Jing Han, 18 September 2026 *China Video Industry - Industry revolution on AI video breakthroughs*, Jing Han, 15 October 2026	Bluefocus (300058 CH) Mango (300413 CH) Kunlun (300418 CH)
Energy (Neutral)	**Oil & gas**: HSBC Global Investment Research raised Brent forecast to USD90/b for 2026 and USD85/b for 2027, on Hormuz disruptions being the new normal. **Coal**: Suspended production in Shanxi has lasted longer than expected; output contraction likely to linger into 3Q.	*Oil markets - Raising forecasts on disrupted Hormuz new normal*, Kim Fustier, 8 September 2026 *China coal - Stringent production inspections to linger through 3Q26*, Daniel Yang, 14 August 2026	Jereh Group (002353 CH) PetroChina (601857 CH) China Shenhua (601088 CH)
Financials (Neutral)	**Banks:** Capital injections plan announced on 6 September 2026 could help: 1) improve banks' asset growth; 2) accelerate earnings growth; and 3) increase banks' dividend payout ratio.	*China Banks - Capital injection: Second batch confirmed*, Gary Lam, 7 September 2026	Ping An Ins (601318 CH) Eastmoney (300059 CH) CMB (600036 CH)
Cons Stap (Neutral)	**Baijiu:** Sell-through was down by c10% during the Mid-autumn Festival and National Day holiday, which indicates that an industry recovery may need more time. Market consolidation continues. **Dairy**: Raw milk prices are rising, easing the industry price competition, which is positive for dairy product leaders. **Snacks**: We are positive on the snack retailer sector which could continue to see high growth.	*China Consumer - Golden week holiday: Largely in line*, Kathy Song, 8 October 2026 *China Consumer Tracker - September retail sales showed marginal improvement*, Kathy Song, 20 October 2026 *China's hog industry - Capacity reduction accelerated in August*, Yihui Sha, 17 September 2026	Moutai (600519 CH) Jinjian Cereals (600127 CH) LHG (600186 CH)
Industrials (Underweight)	**Hog industry:** We remain constructive on the hog price upcycle in 2027 and prefer players with leading cost advantages. **Power equipment**: The market size for solid-state transformers (SST), solid-state circuit breakers (SSCB) and battery backup units (BBU), will reach RMB84.9bn (240% 2027-30 CAGR), RMB14.9bn (211% 2027-30 CAGR) and RMB9.1bn (11% 2026-30 CAGR), respectively, in AIDCs by 2030. **Humanoid robots:** Based on the existing price quotes of key components, the BOM of a wheeled humanoid robot with grippers could be as low as cRMB100k/unit, which implies a payback period of just two years. **Battery equipment**: New orders for lithium battery equipment could reach 622-809GWh during 2026-28e.	*China Power Equipment - Better visibility for 800VDC benefits supply chain players*, Corey Chan, 29 September 2026 *China Industrials - Trip takeaways: Humanoid robot progress ahead of track*, Corey Chan, 11 September 2026 *China Battery Equipment - Is the boom over?*, Corey Chan, 5 August 2026	CATL (300750 CH) CSSC (600150 CH) DHI (002487 CH)
Cons Disc (Underweight)	**Auto**: HSBC Global Investment Research cut 2026e PV demand growth forecast to -20% (from -13%), and EVs to -10% (from -6%) due to weak domestic demand. **Home appliances:** The industry was under pressure in 2Q26, while overseas sales were resilient. We expect industry earnings growth to bottom out in 3Q26e.	*China EV Tracker - Demand recovery remains elusive*, Yuqian Ding, 20 October 2026 *China Home Appliances - 1H26 results preview: Earnings bottoming out*, Li Quan, 16 July 2026	JAC (600418 CH) Midea (000333 CH) BYD (002594 CH)
Real Estate (Underweight)	**Property:** Broad inventory will decline at an 11-13% CAGR in 2025-30e, and the supply squeeze coinciding with improved resale liquidity could support primary sell-through and pricing.	*China Real Estate - Back from holidays, back to fundamentals*, Michelle Kwok, 8 October 2026	VANKE (000002 CH) 5I5J (000560 CH) Poly Develps (600048 CH)

Source: Wind, HSBC Global Investment Research, HSBC Qianhai Securities estimates

Market focus

Exhibit 5. Key events to watch

Corporate earnings

Date	Event	Key data to watch	Consensus (USDbn)	Implications
21 Oct	Meta FY3Q26 earning	CY27 capex	202	Overseas compute value chain
28 Oct	Alphabet FY3Q26 earnings	CY27 capex	313	Overseas compute value chain
28 Oct	Microsoft FY1Q27 earnings	CY27 capex	206	Overseas compute value chain
29 Oct	Amazon FY3Q26 earnings	CY27 capex	285	Overseas compute value chain

Macro data release

Date	Event	Market expectations	Previous	Implications
29 Oct	FOMC Rate Decision	3.75%-4.00%	3.75%-4.00%	Rates, liquidity and valuation
06 Nov	US nonfarm payrolls for Oct	N.A	29,000	Rates, liquidity and valuation
10 Nov	US CPI for Oct	N.A	+0.6% m-o-m; +3.7% y-o-y	Rates, liquidity and valuation
10 Nov	US core CPI for Oct	N.A	+0.3% m-o-m; +2.6% y-o-y	Rates, liquidity and valuation

Source: Company data, BBG consensus estimates, HSBC Qianhai Securities

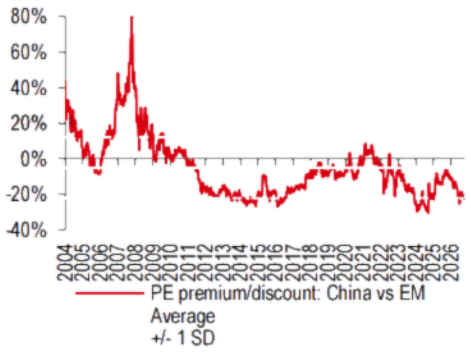
Exhibit 6. Valuation levels of broad-based indices and industries

Index	PE-TTM	Percentile	Median	Historical range	PB-LF	Percentile	Median	Historical range
All A-shares	20.0x	56.8	19.3x	[11.5, 58.2]	1.7x	30.3	1.9x	[1.3, 7.4]
SSE50	10.8x	47.9	10.9x	[6.9, 48.5]	1.2x	32.2	1.4x	[1.0, 7.2]
CSI100	11.4x	47.6	11.6x	[7.1, 50.1]	1.2x	21.2	1.4x	[1.0, 7.3]
CSI300	13.0x	46.3	13.2x	[8.0, 50.7]	1.4x	20.1	1.6x	[1.1, 7.5]
CSI500	29.2x	46.6	30.0x	[15.6, 92.8]	2.1x	37.5	2.3x	[1.4, 5.9]

Industry	PE-TTM	Percentile	Median	Historical range	PB-LF	Percentile	Median	Historical range
Basic Chem					2.0x	23.5	2.4x	[1.4, 6.8]
Steel					1.0x	20.5	1.2x	[0.7, 4.7]
NF Metals		8.1			2.6x	35.9	3.0x	[1.4, 13.7]
Blg Materials		73.7			1.4x	11.8	2.0x	[0.9, 6.7]
Construction					0.7x	1.6	1.5x	[0.6, 7.0]
Elec Equip	25.4x	13.4	37.6x	[13.6, 100.0]	2.4x	23.7	3.3x	[1.5, 9.8]
Machinery	37.0x	72.8	29.7x	[11.8, 136.1]	2.8x	56.7	2.6x	[1.4, 8.9]
Defense	55.5x	38.9	60.4x	[17.8, 245.8]	3.0x	38.2	3.3x	[1.2, 12.7]
Auto	23.8x	57.7	21.8x	[7.9, 70.0]	2.0x	32.4	2.3x	[1.1, 6.2]
Home App	14.6x	29.3	16.6x	[10.6, 89.5]	2.2x	23.0	2.7x	[1.0, 5.3]
Textile	24.2x	38.7	26.0x	[13.1, 98.3]	1.7x	18.1	1.9x	[1.1, 6.3]
Light Mfg	32.2x	54.2	30.9x	[14.0, 113.3]	1.7x	23.6	2.1x	[1.1, 6.4]
Retail	31.8x	53.6	30.2x	[13.1, 96.2]	1.6x	16.6	2.2x	[1.2, 8.6]
Agriculture	79.2x	87.7	42.5x	[15.0, 157.0]	2.4x	14.0	3.3x	[1.1, 8.1]
F&B	21.1x	15.8	30.5x	[16.5, 101.0]	3.4x	9.5	5.2x	[2.0, 12.7]
Social Svs	39.9x	30.5	47.0x	[17.4, 209.7]	2.4x	6.4	3.6x	[1.6, 10.5]
Healthcare	31.4x	26.6	36.7x	[20.3, 99.4]	2.5x	12.6	4.0x	[1.6, 8.4]
Utilities	21.6x	45.6	22.5x	[13.8, 74.4]	1.6x	19.2	1.9x	[1.3, 5.3]
Transportation	16.7x	38.4	18.2x	[10.0, 58.6]	1.2x	1.9	1.6x	[1.1, 6.6]
Real Estate					0.8x	9.6	1.8x	[0.5, 10.1]
Electronics	50.5x	55.5	47.7x	[20.3, 118.1]	5.2x	94.3	3.4x	[1.3, 9.0]
Computer	56.9x	59.2	52.9x	[18.6, 159.7]	3.3x	29.6	3.9x	[1.9, 15.8]
Media	34.6x	23.2	44.1x	[19.5, 141.8]	2.6x	25.2	3.2x	[1.6, 11.5]
Communications	41.5x	62.9	38.1x	[9.2, 96.3]	4.8x	94.8	2.5x	[0.7, 8.5]
Banks					0.5x	15.5	1.0x	[0.4, 8.1]
Non-bank Fin		0.0			1.0x	2.9	2.0x	[0.9, 14.3]
Conglomerates		53.8			2.5x	48.1	2.5x	[0.9, 7.9]
Coal					1.6x	51.8	1.5x	[0.8, 11.1]
Oil & Gas					1.4x	24.5	1.8x	[1.1, 8.1]
Env Prot	23.4x	28.4	30.0x	[14.7, 89.5]	1.5x	7.8	2.5x	[1.1, 8.3]
Beauty Care	28.2x	11.4	38.2x	[11.8, 164.1]	2.4x	14.1	3.7x	[0.8, 7.2]

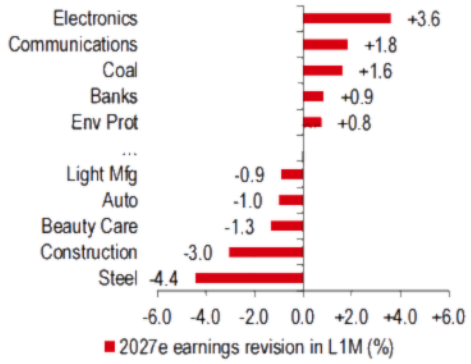
Note: Data updated to 16 October 2026. Grey font implies PE multiples of cyclical sectors, which may be less relevant. Historical range dates back to the start of 2005.
Source: Wind, HSBC Qianhai Securities

Exhibit 7. China's market is trading at a 21.8% discount vs EM (10.1x forward PE for FTSE China vs 13.0x forward PE for FTSE EM)



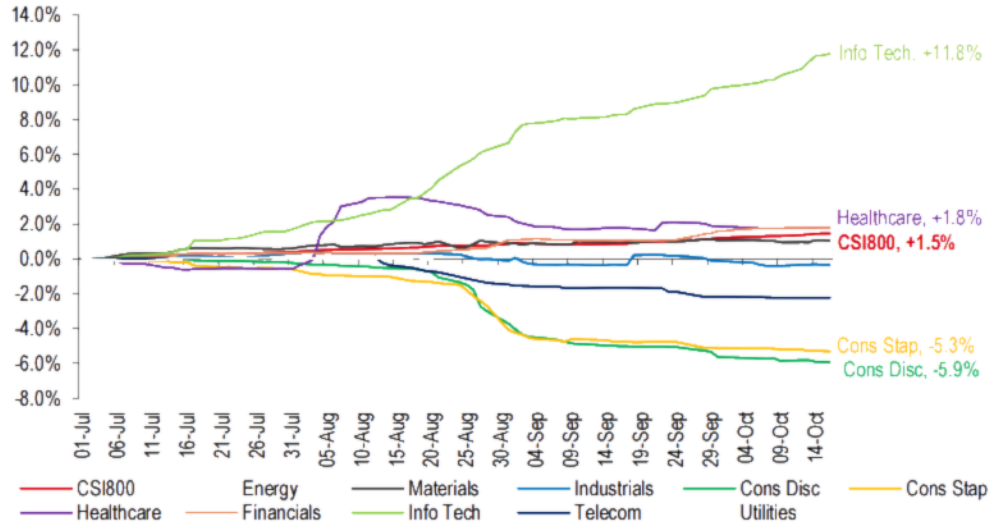
Note: Data updated to 16 October 2026.
Source: FTSE Russell, FactSet, HSBC Qianhai Securities

Exhibit 8. During L1M, electronics and communications saw the most upward earnings revisions; steel and construction were revised down the most



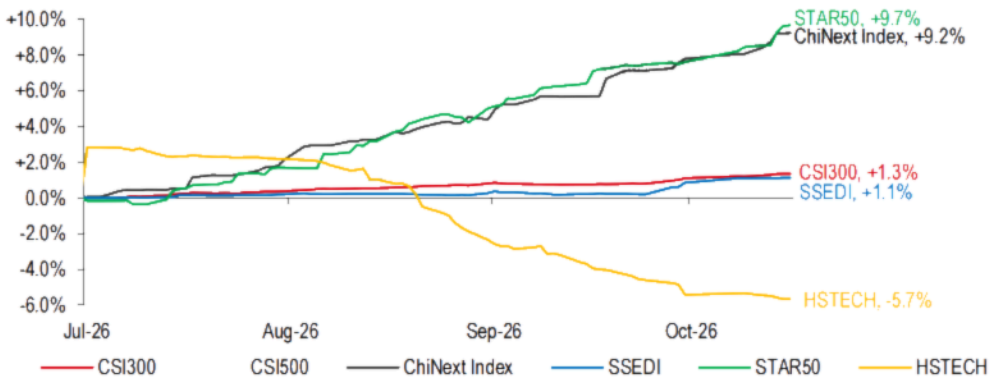
Note: Data updated to 16 October 2026.
Source: Wind, HSBC Qianhai Securities

Exhibit 9. Consensus 2027e earnings for IT and healthcare have seen upward revisions of 11.8% and 1.8%, respectively, since 2H26



Note: Data updated to 16 October 2026. The real estate sector, whose estimated 2027e net loss narrowed from -RMB6.7bn to -RMB4.7bn, is excluded from the chart.
Source: Wind consensus, HSBC Qianhai Securities

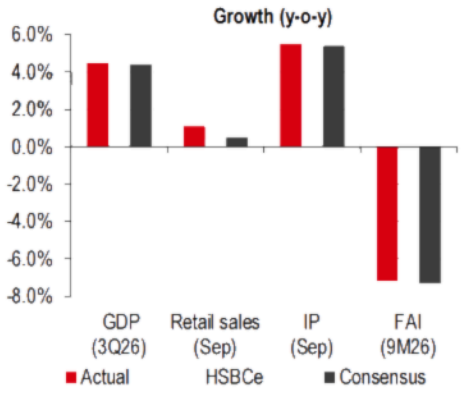
Exhibit 10. Consensus 2027e earnings for STAR50 have seen upward revisions of 9.7%, while HSTECH saw downward revisions of 5.7% since 2H26



Note: Data updated to 16 October 2026.
Source: Wind consensus, HSBC Qianhai Securities

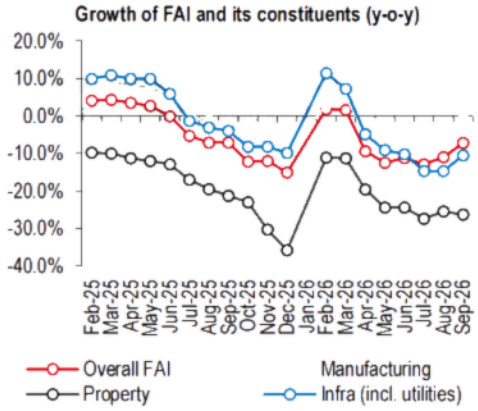
Macro focus

Exhibit 11. In September 2026, major economic indicators suggest moderate upside surprises…



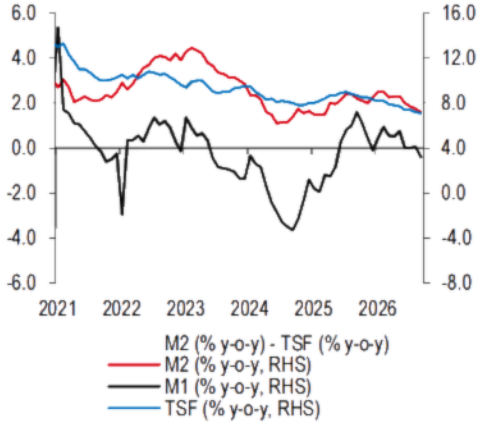
Note: IP is in real terms, while retail sales and FAI are in nominal terms.
Source: Bloomberg consensus, HSBC estimates, HSBC Qianhai Securities

Exhibit 12. …and within FAI, manufacturing and infra investment saw narrower y-o-y decline…



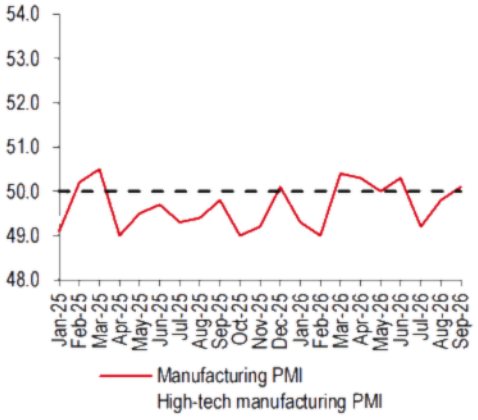
Source: Wind, HSBC Qianhai Securities

Exhibit 13. …the y-o-y growth of M1 (+3.2%), M2 (+7.1%), total social financing (+7.2%) all decelerated…



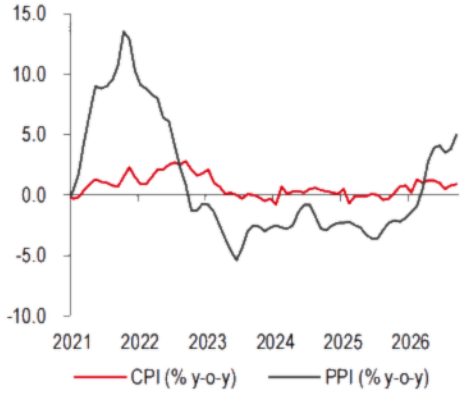
Source: Wind, HSBC Qianhai Securities

Exhibit 14. …PMI of manufacturing edged up to 50.1, while that of high-tech manufacturing edged down to 52.5…



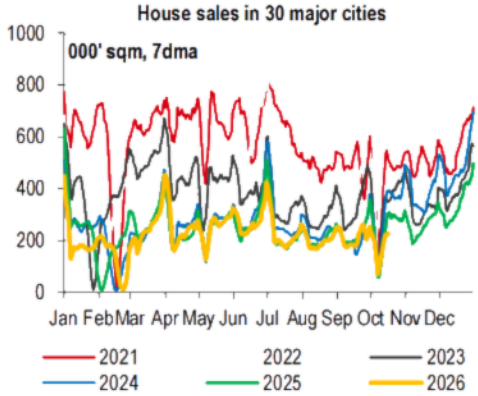
Source: Wind, HSBC Qianhai Securities

Exhibit 15. …CPI rose to 0.9% y-o-y and PPI picked up to 5.0% y-o-y, due to higher energy prices



Source: Wind, HSBC Qianhai Securities

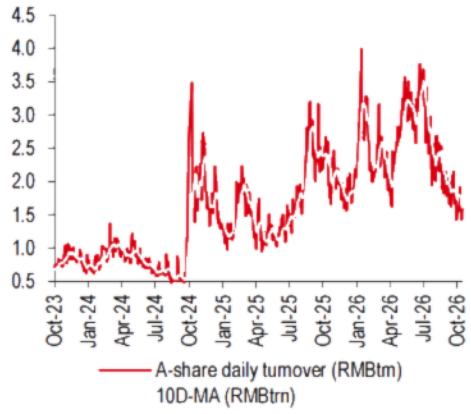
Exhibit 16. Residential house sales recovery slowed recently



Source: Wind, HSBC Qianhai Securities

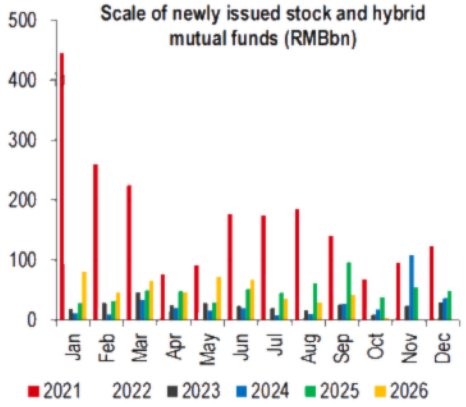
Liquidity focus

Exhibit 17. Market turnover dropped further in October 2026, with the 10-day moving average turnover cRMB1.6trn



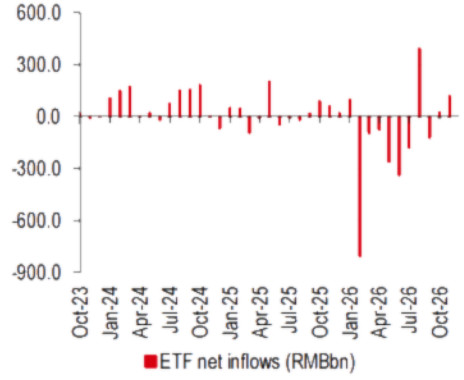
Source: Wind, HSBC Qianhai Securities

Exhibit 18. New mutual fund issuances recovered further, up 9% y-o-y, y-t-d



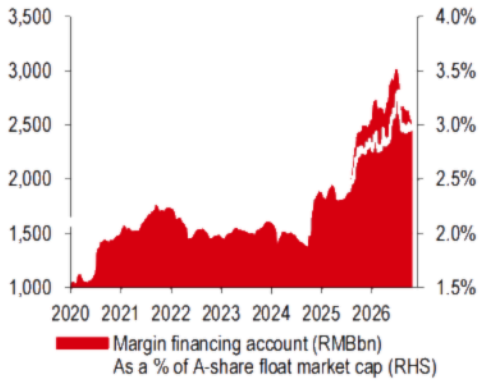
Note: Data updated to 16 October 2026.
Source: Wind, HSBC Qianhai Securities

Exhibit 19. ETFs have seen net inflows of RMB412.1bn since July 2026



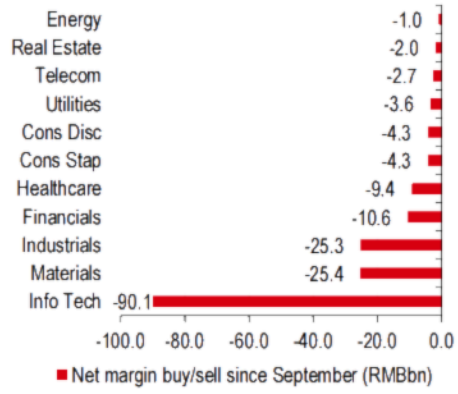
Note: Data updated to 16 October 2026.
Source: Wind, HSBC Qianhai Securities

Exhibit 20. The margin financing balance dropped to RMB2.4trn in October 2026



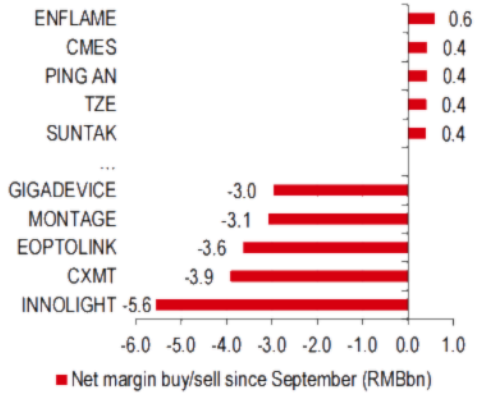
Source: Wind, HSBC Qianhai Securities

Exhibit 21. Since September 2026, IT had the highest net outflows through the margin financing account…



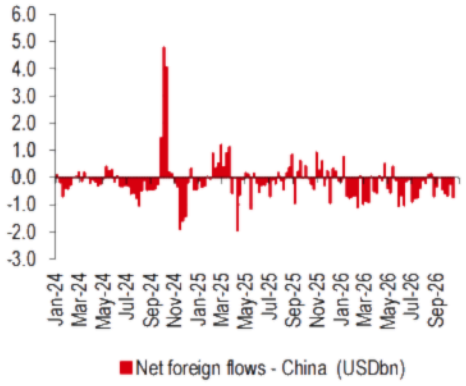
Note: Data updated to 16 October 2026.
Source: Wind, HSBC Qianhai Securities

Exhibit 22. …and at the stock level, margin financing mainly sold Innolight, CXMT and Eoptolink



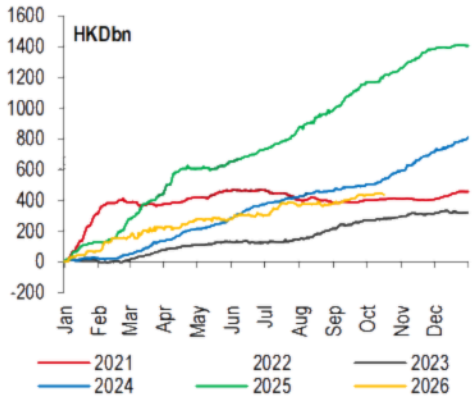
Note: Data updated to 16 October 2026.
Source: Wind, HSBC Qianhai Securities

Exhibit 23. Mainland China equities have seen outflows from foreign funds since mid-January 2026



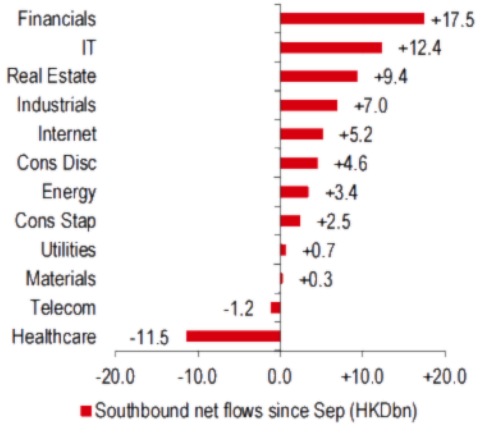
Note: Data based on a sample of funds and updated to 16 October 2026.
Source: Morningstar, HSBC Qianhai Securities

Exhibit 24. Southbound Stock Connect has seen net inflows of HKD435.2bn y-t-d



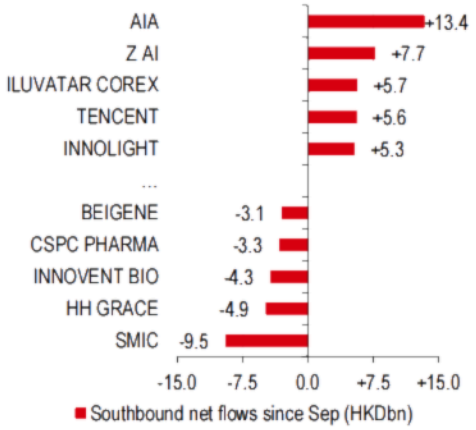
Note: Data updated to 16 October 2026.
Source: Wind, HSBC Qianhai Securities

Exhibit 25. Since September 2026, financials and IT saw the most inflows through the southbound channel…



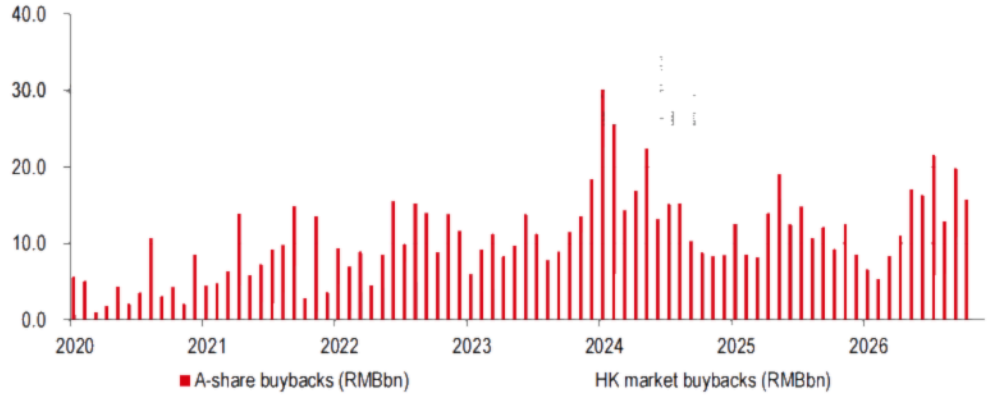
Note: Data updated to 16 October 2026.
Source: Wind, HSBC Qianhai Securities

Exhibit 26. …and at the stock level, southbound funds bought AIA and Z AI, and sold SMIC



Note: Data updated to 16 October 2026.
Source: Wind, HSBC Qianhai Securities

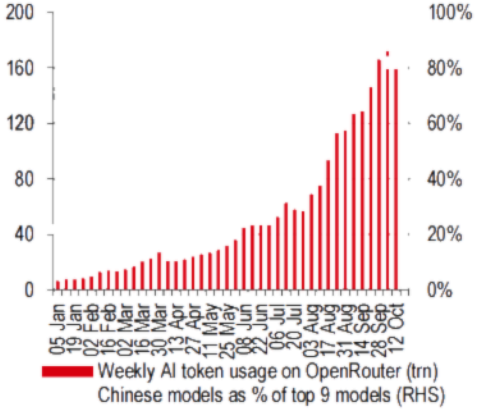
Exhibit 27. A-share buybacks reached RMB135.1bn y-t-d, up 11% y-o-y, while the Hong Kong market had share buybacks of RMB108.3bn, down 19% y-o-y



Note: Data updated to 16 October 2026.
Source: Wind, HSBC Qianhai Securities

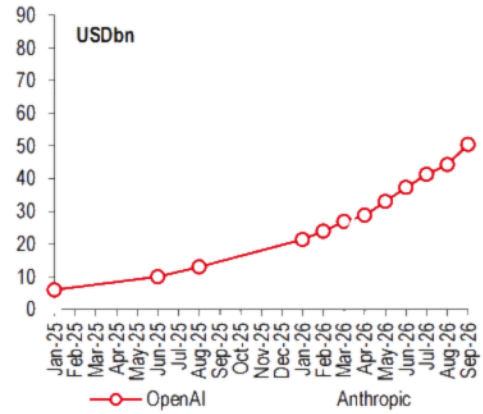
Sectors: Growth sectors

Exhibit 28. AI: Weekly token usage rose to 164trn; Chinese models accounted for 82% of top nine models' token usage



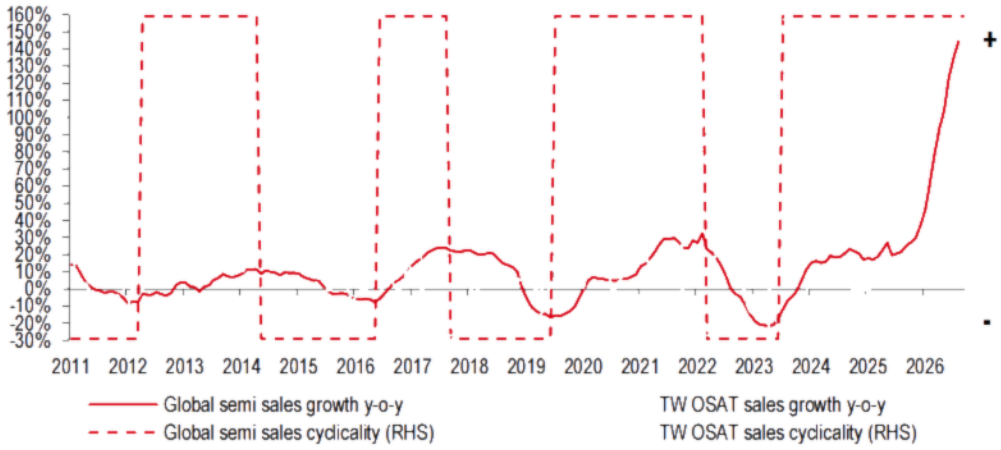
Note: Data updated as of the week ending 16 October 2026.
Source: OpenRouter, HSBC Qianhai Securities

Exhibit 29. AI: Anthropic's ARR reached USD76.8bn in September while OpenAI's ARR was USD50.4bn



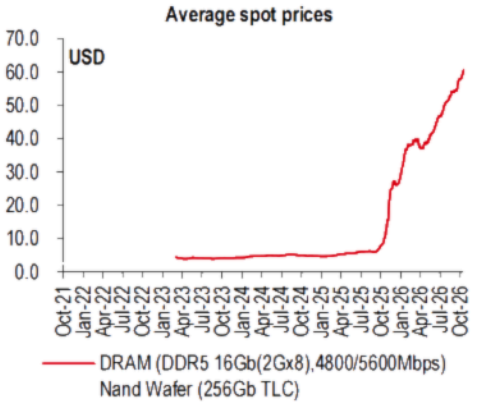
Source: Wind, TickerTrends, HSBC Qianhai Securities

Exhibit 30. Semiconductors: The strong growth momentum continues



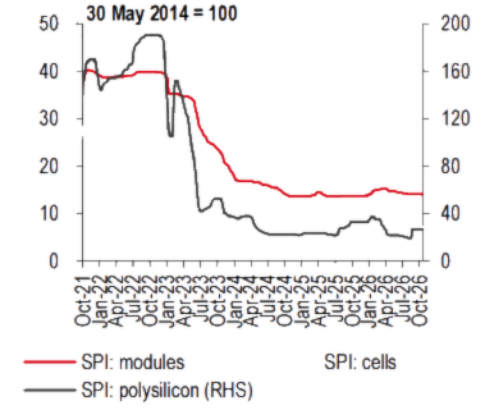
Source: Wind, HSBC Qianhai Securities

Exhibit 31. Memory: DRAM and NAND Flash wafer prices have increased 12% and 9% respectively since September



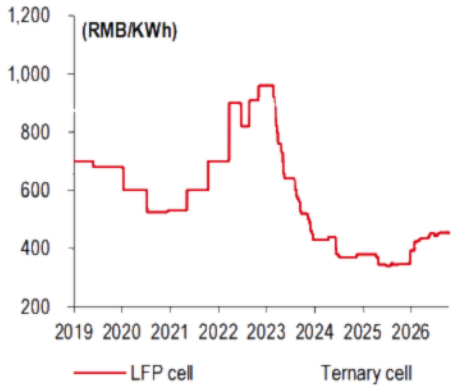
Source: Wind, HSBC Qianhai Securities

Exhibit 32. Solar: Cell prices have rebounded slightly



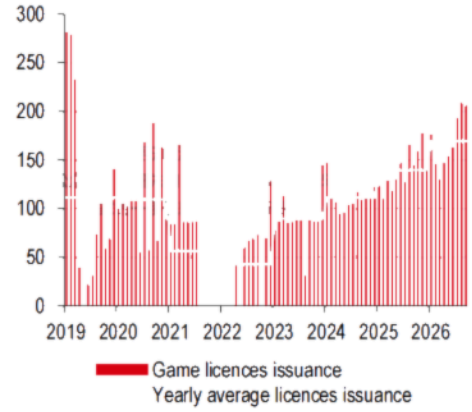
Source: Wind, HSBC Qianhai Securities

Exhibit 33. EV batteries: Prices have continued to rebound



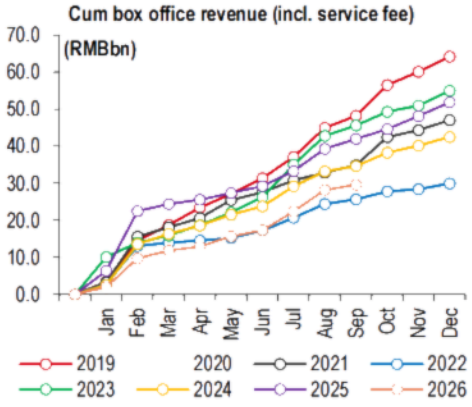
Note: LFP – Lithium iron phosphate. Ternary cell (NCM) – Nickel, Cobalt, and Manganese.
Source: Baiinfo, HSBC Qianhai Securities

Exhibit 34. Gaming: Domestic game licence issuance reached 206 in September 2026



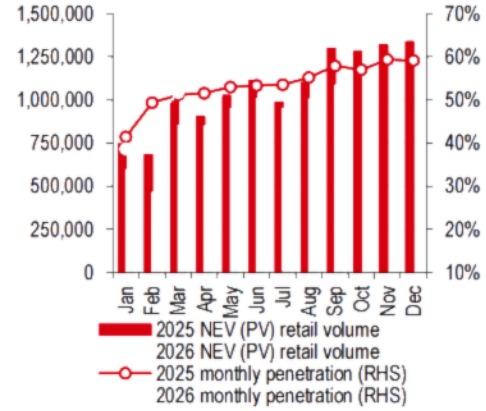
Source: NPPA, HSBC Qianhai Securities

Exhibit 35. Film: Box office revenue was RMB29.6bn in 9M26, down 29% y-o-y and 39% below the 9M19 level



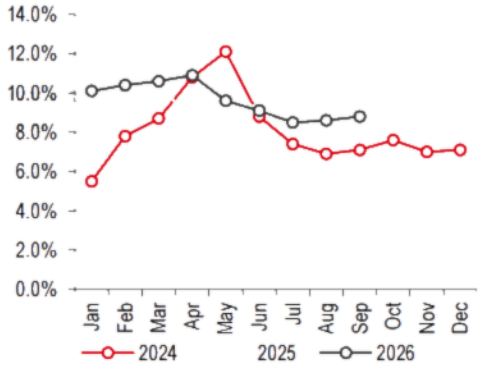
Source: Maoyan, HSBC Qianhai Securities

Exhibit 36. NEV: In September 2026, China NEV penetration went up 9ppt y-o-y to 67%, a record high



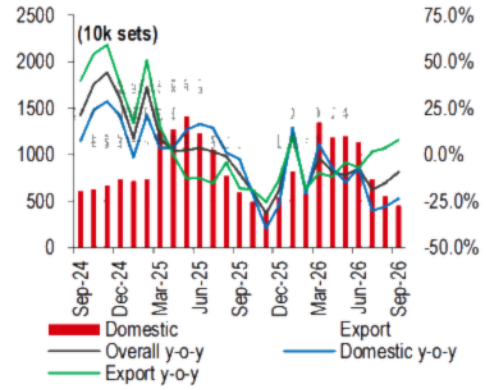
Source: CPCA, HSBC Qianhai Securities

Exhibit 37. NEV: The discount rate for NEVs increased slightly to 8.8% in September 2026



Source: CPCA, HSBC Qianhai Securities

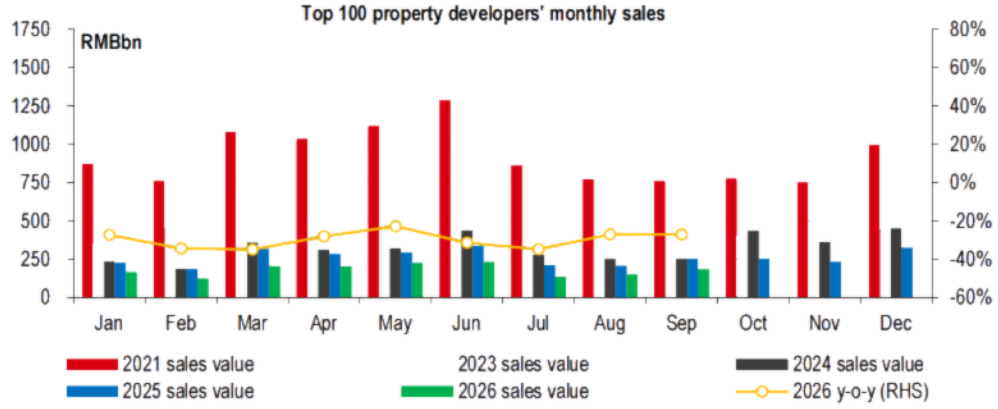
Exhibit 38. Home appliances: In September 2026, AC exports grew 8.0% y-o-y while domestic sales fell 24% y-o-y



Note: AC – Air conditioner.
Source: ChinaIOL, HSBC Qianhai Securities

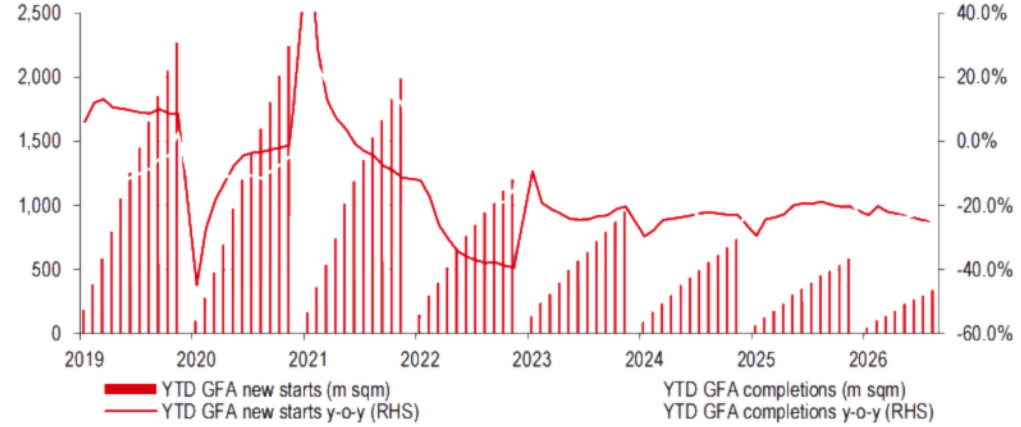
Sectors: Value sectors

Exhibit 39. Property: Monthly sales from the top 100 developer amounted to RMB184.4bn in September 2026, down 27.1% y-o-y



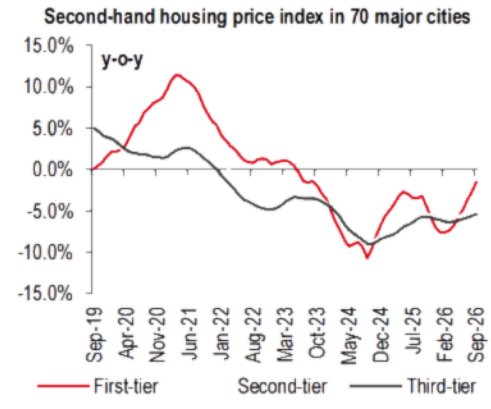
Source: CRIC, HSBC Qianhai Securities

Exhibit 40. Property: Both housing new starts and housing completions declined c25% y-o-y in September 2026



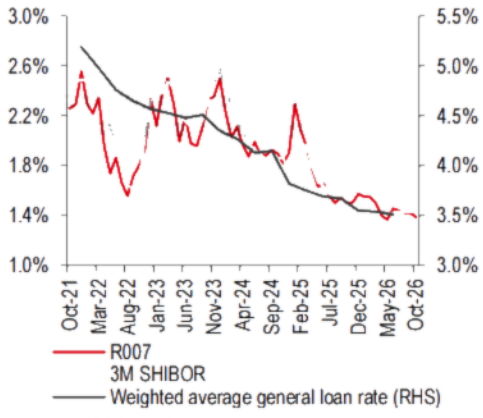
Source: Wind, HSBC Qianhai Securities

Exhibit 41. Property: More cities have seen secondary market home prices stabilise in September 2026



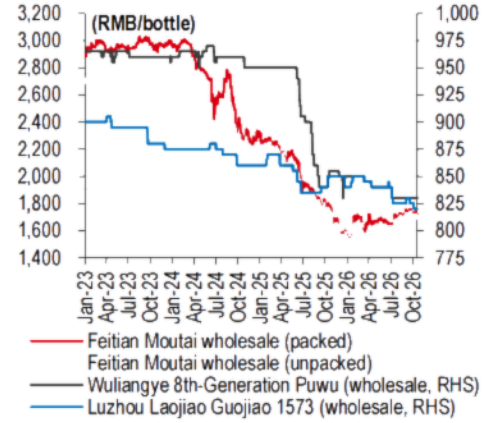
Source: Wind, HSBC Qianhai Securities

Exhibit 42. Banks: Moderately loose monetary policy is set to lower the average loan rate



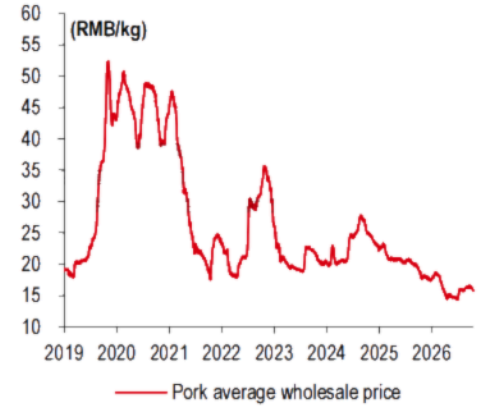
Source: Wind, HSBC Qianhai Securities

Exhibit 43. Baijiu: Moutai wholesale prices stabilised at cRMB1,700/bottle



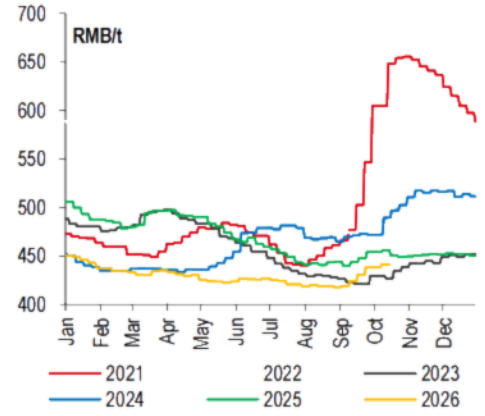
Source: Jinrijiujia, HSBC Qianhai Securities

Exhibit 44. Pork: Average wholesale price declined 3.9% since September



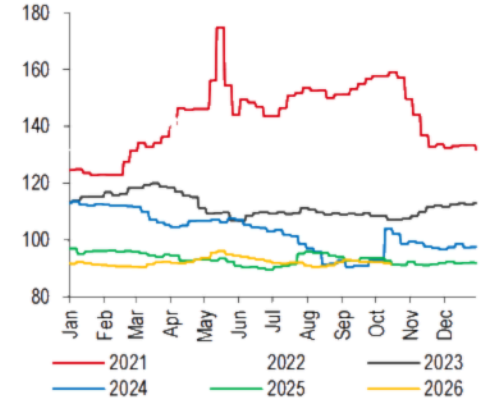
Source: Wind, HSBC Qianhai Securities

Exhibit 45. Cement: Countrywide average price rebounded in October 2026



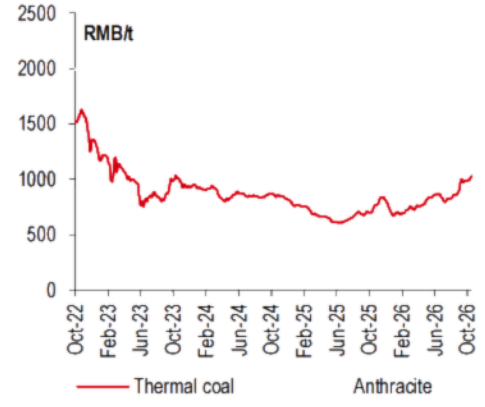
Source: Wind, HSBC Qianhai Securities

Exhibit 46. Steel: The price index was lukewarm in October 2026



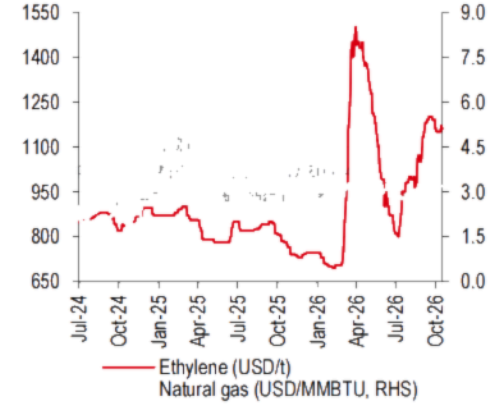
Source: Wind, HSBC Qianhai Securities

Exhibit 47. Coal: Prices remained high in October 2026



Source: Wind, HSBC Qianhai Securities

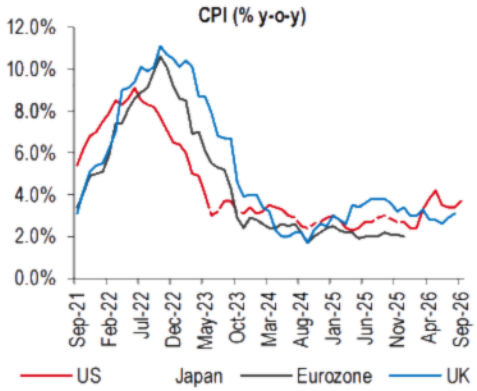
Exhibit 48. Chemicals: Ethylene price remained strong in October 2026



Source: Wind, HSBC Qianhai Securities

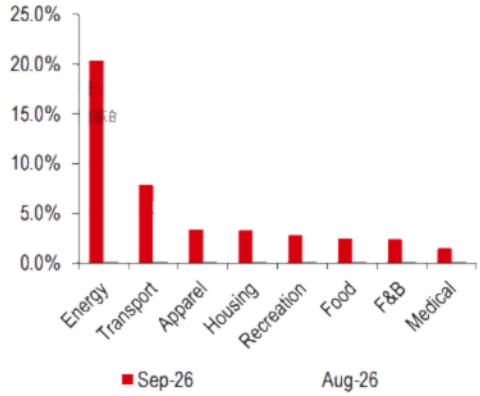
Global markets

Exhibit 49. CPI: Global inflation remained sticky in September 2026, but rising oil prices could lead to more uncertainty



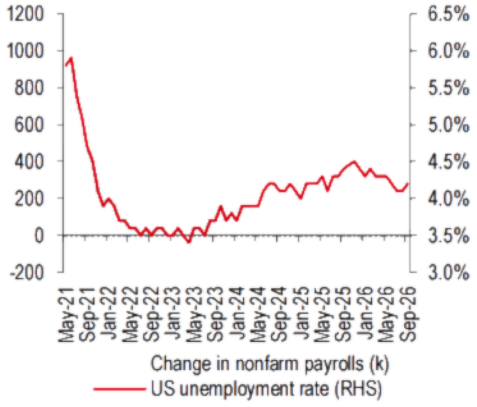
Source: Wind, HSBC Qianhai Securities

Exhibit 50. CPI: Rising oil price still an upside risk to US inflation



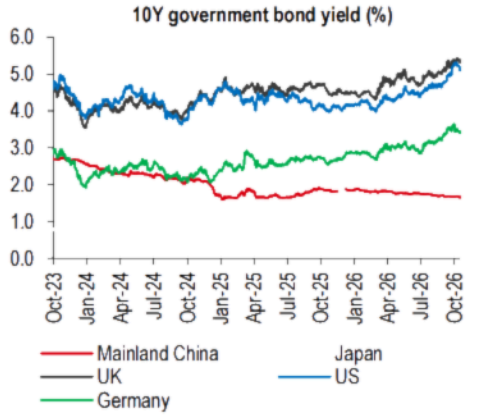
Source: Wind, HSBC Qianhai Securities

Exhibit 51. The US unemployment rate rose slightly, and payroll employment was below consensus



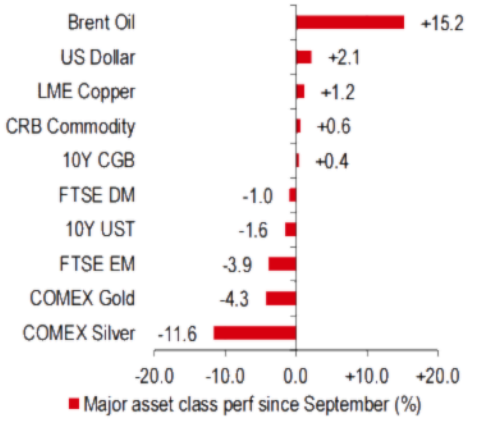
Source: Wind, HSBC Qianhai Securities

Exhibit 52. US Treasury yields rose further in October 2026



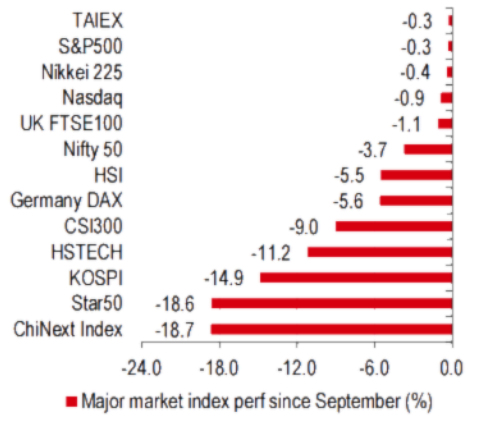
Source: Wind, HSBC Qianhai Securities

Exhibit 53. Oil has outperformed other asset classes since September 2026



Note: Performance refers to price return in USD, which does not include dividends.
Source: Wind, HSBC Qianhai Securities

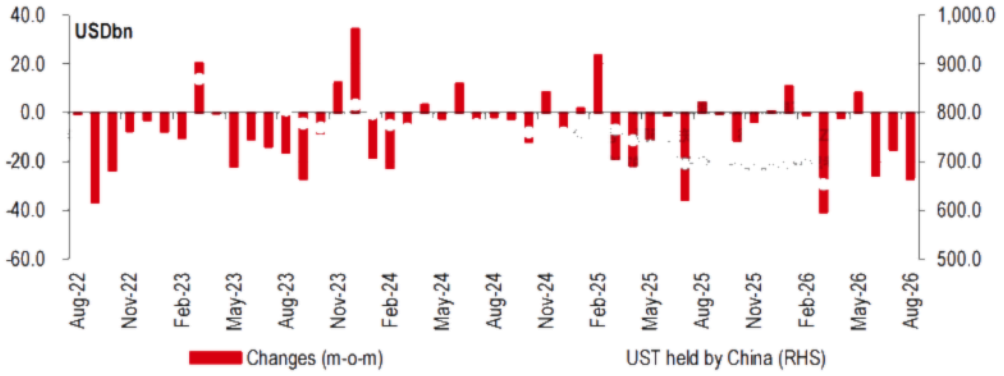
Exhibit 54. Taiwan, the US, and Japan stock markets have been more resilient since September 2026



Note: Performance refers to price return in USD, which does not include dividends.
Source: Wind, HSBC Qianhai Securities

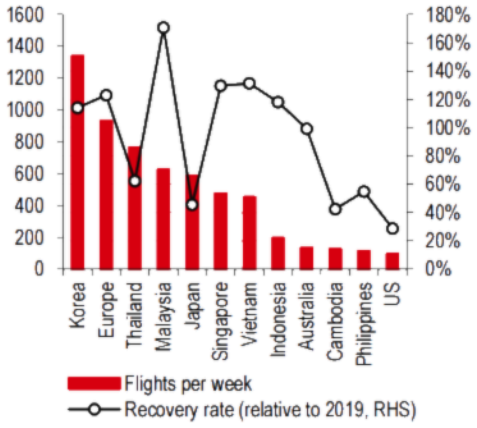
Sino-US links

Exhibit 55. In August 2026, mainland China's UST holdings decreased USD27.3bn m-o-m



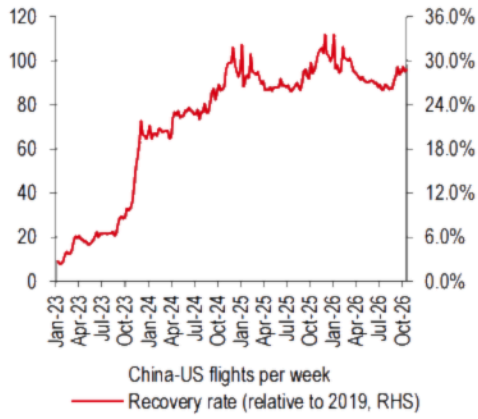
Source: Wind, HSBC Qianhai Securities

Exhibit 56. In October 2026, mainland China-US flights were only at 28.7% of the level in 2019



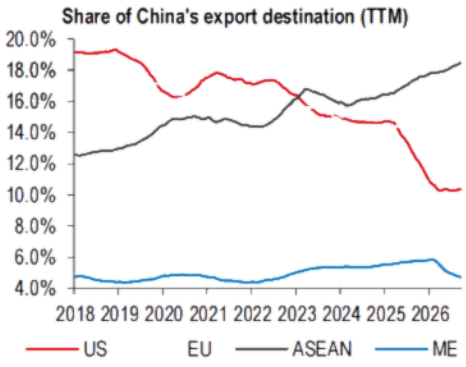
Note: Data updated to the week ending on 18 October 2026.
Source: DAST, HSBC Qianhai Securities

Exhibit 57. Mainland China-US flights are scheduled to recover in a phased manner



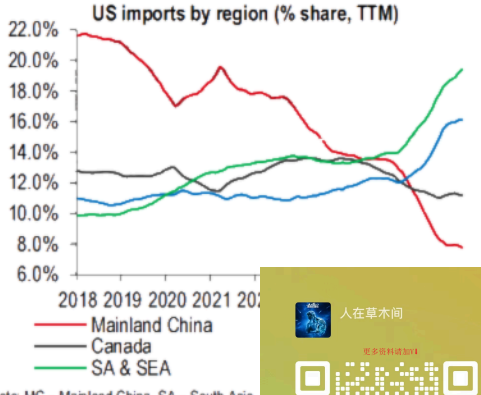
Source: DAST, Ministry of Foreign Affairs, HSBC Qianhai Securities

Exhibit 58. Share of mainland China's exports: US stabilised, while EU declined recently



Note: ME – Middle East.
Source: General Administration of Customs, HSBC Qianhai Securities

Exhibit 59. Share of US imports: Mainland China bottomed, while East Asia ex MC and SA & SEA increased



Note: MC – Mainland China. SA – South Asia.
Source: US Census Bureau, HSBC Qianhai Se



Valuation and risks

		Valuation	Risks
NAURA Tech 002371 CH **Buy**	Current price: RMB593.63 Target price: RMB1,031.90 Upside: 74%	**Investment rationale:** We believe NAURA Technology is well positioned to gain market share with its fast-growing product coverage and will benefit from localisation. **Valuation:** We value the stock using a PS multiple. We forecast a 2026-28 revenue CAGR of 27%, roughly in line with its global peers' average revenue CAGR of 26%. We value the stock at a 11.7x PS multiple (in line with its global peers' average). Against our 2027 revenue per share estimate of RMB88.2, we derive our TP of RMB1,031.90. Our TP implies c74% upside from current levels; accordingly, we have a Buy rating on the stock. **Cara Su* (S1700525070001)** | cara.z.h.su@hsbcqh.com.cn | +86 21 50662080	**Key downside risks** • Slowdown in domestic semi equipment capex. • Slower-than-expected progress in new equipment R&D. • Glass substrate design wins below expectation.
Shengyi Technology 600183 CH **Buy**	Current price: RMB114.60 Target price: RMB191.50 Upside: 67%	**Investment rationale**: We believe Shengyi Technology is a key beneficiary of continued AI infrastructure build-out, backed by strong capacity execution and supply chain management. **Valuation**: We use a target PE multiple to value the stock. We estimate a 2026-28 EPS CAGR of 41%, above the mid-cycle 2016-21 EPS CAGR of 19%. We use 2016-21 as our reference period since it is the previous PCB upcycle, as we believe Shengyi's near-term operation situation will be similar. Compared with the mid-cycle average PE multiple of 22x over 2016-21, we use a target PE of 47.8x. Based on our 12-month forward EPS estimate of RMB4.01, we derive our target price of RMB191.50. Our target price implies c67% upside from current levels; accordingly, we have a Buy rating on the stock. **Cara Su* (S1700525070001)** | cara.z.h.su@hsbcqh.com.cn | +86 21 50662080	**Key downside risks** • Slower-than-expected PCB business growth. • Inability to cope with material cost changes. • Intense competition in the industry.
Kingdee 268 HK **Buy**	Current price: HKD8.37 Target price: HKD16.00 Upside: 91%	**Investment rationale:** We believe Kingdee could benefit from the declining token pricing, which could drive a reduction in R&D expenses and margin expansion for AI software applications. **Valuation:** We use a target PS multiple to value the stock. Kingdee's adjusted historical average PS since 2018 is 6.6x (excluding PS multiples larger than the original historical average PS + 1 SD). Kingdee's revenue grew at a CAGR of 14% over 2018-25. We estimate Kingdee's revenue CAGR at 12% over 2025-28e. Hence, we apply a 2027e target PS of 5.6x (12/14*6.6) to value Kingdee. Based on our 2027e revenue of RMB8.7bn, RMB/HKD of 1.16, and 3,586 million shares, we arrive at our TP of HKD16.00, implying c91% upside to the current price; thus we have a Buy rating on the stock. **Yiran Liu* (S1700520040001)** | yiran1.liu@hsbcqh.com.cn | +86 10 5795 2349	**Key downside risks** • Weaker-than-expected macroeconomic data. • More intense competition. • Uncertainty in AI monetisation progress.
Nari Technology 600406 CH **Buy**	Current price: RMB22.73 Target price: RMB36.20 Upside: 59%	**Investment rationale:** We like Nari Technology as we are positive about the spending outlook for secondary equipment and ultra-high voltage (UHV) projects. **Valuation:** We use a DCF model to value the stock. Our key assumptions include (1) a COE of 9.2%, derived from a risk free rate of 4.25%, a market risk premium of 4.75%, and a beta of 1.05; (2) an after-tax cost of debt of 3%; (3) a debt-to-capital ratio of 2%; (4) operating cash flow to grow at a CAGR of 7% in 2023-37e; (5) capital expenditure: we expect capex of RMB1,800m in 2026e and RMB650-700m per annum in 2027-37e, reflecting steady maintenance capex; and (6) a terminal growth rate at 2.5%. Our TP implies 59% upside from current levels; thus we have a Buy rating on the stock. **Corey Chan* (1700518100001)** | corey.chan@hsbcqh.com.cn | +86 21 5066 2001	**Key downside risks** • Weaker-than-expected investment in power network communication devices. • Lower-than-expected investment in the national grid distribution network. • Significant order delays or cancellations. • Higher-than-expected receivable provisions. • Weaker-than-expected margin due to intense competition.
Sieyuan Electric 002028 CH **Buy**	Current price: RMB118.03 Target price: RMB266.00 Upside: 125%	**Investment rationale:** We expect Sieyuan Electric to benefit from the rising power-supply side demand in the development of new-type power grids and computing power networks. **Valuation:** We use a DCF model to value the stock. Our key assumptions include: 1) cost of equity (COE): We use a COE of 9.2%. This is derived from a risk-free rate of 4.25%, a market risk premium of 4.75%, and a beta of 1.05. 2) Cost of debt (COD): We assume a pre-tax cost of debt of 5.0% and an after-tax cost of debt of 4.3%. We use our 2026e debt-to-capital ratio of 0.6% as our long-term debt-to-capital ratio. 3) Operating cash flow: We assume an operating cash flow CAGR (before changes in the working capital) of 18.7% in 2025-38e.4) Capital expenditure: We estimate capex of RMB892m in 2026e, gradually increasing to RMB3,530m in 2038e. 5) Terminal growth rate of 2%: We assume the company will reach a steady growth period after 2038e. Our target price of RMB266.00 implies c125% upside; thus we have a Buy rating on the stock. **Dun Wang*, CFA, CPA (S1700519060002)** | dun.wang@hsbcqh.com.cn | +86 21 5066 2027	**Key downside risks** • Weaker-than-expected power distribution network investment. • Stronger-than-expected raw material cost inflation. • Weaker-than-expected UHV investment. • Weaker-than-expected renewable investment. • Uncertainty in conducting overseas business. • Smaller-than-expected supply shortages.

		Valuation	Risks
Midea Group 000333 CH/ 300 HK **Buy/Buy**	Current price: RMB84.60/ HKD93.95 Target price: RMB97.00/ HKD113.00 Upside: 15%/20%	**Investment rationale**: We like Midea for its attractive shareholder returns and it is a key beneficiary of the consumer goods trade-in program. **Valuation**: We use a DCF model to value the stock. Our key assumptions include a perpetual growth rate of 2% and a WACC of 8.3% (based on a risk-free rate of 4.25% and a market risk premium of 4.75%). Accordingly, we derive our A-share TP of RMB97.00. We apply a 0% H-A discount and, based on a RMB-HKD exchange rate of 1.17, we arrive at a H-share TP of HKD113. Our A/H share TPs imply c15%/c20% upside from the current A/H-share prices. We believe Midea is able to navigate external uncertainty, and therefore we have Buy/Buy ratings on Midea A/H-shares. **Li Quan* (S1700520030002)** | li.quan@hsbcqh.com.cn | +86 755 8898 3471	**Key downside risks** • Weaker-than-expected policy impact on boosting household appliance sales. • Rising raw material costs. • Adverse exchange rate fluctuations. • Trade friction and tariff barriers. • Competition. • Weaker-than-expected overseas market expansion.
BoCD 601838 CH **Buy**	Current price: RMB19.09 Target price: RMB24.40 Upside: 28%	**Investment rationale:** We like Bank of Chengdu as it has a high dividend yield and stable asset quality. **Valuation:** We use a Gordon growth model (GGM) with a trading discount (TD) to value the stock and derive a target price of RMB24.40. The key assumptions in the valuation model include: (1) a COE of 8.4%, based on a risk-free rate assumption of 4.25%, a market risk premium of 4.75%, and a beta coefficient of 0.86; (2) a terminal growth rate of 2%; (3) a five-year average ROE of 13.6% in 2026-30e; and (4) a trading discount of 40%. Our target price implies c28% upside from current levels. We have a Buy rating on the stock due to its relatively high dividend yield and attractive valuation among A-share banks. **Angel Sun* (S1700519080001)** | angel.y.sun@hsbcqh.com.cn | +86 21 5066 2015	**Key downside risks** • Greater-than-expected decline in asset prices of government-related business. • Asset deterioration in the government sector. • Higher NPL ratio of retail loans.
Guangdong Expressway 000429 CH **Buy**	Current price: RMB13.66 Target price: RMB15.50 Upside: 13%	**Investment rationale:** We like Guangdong Expressway for its leading ROE among domestic peers, an attractive yield profile and potential upside from toll-road reform. **Valuation:** We use a two-stage DCF model to value the stock, with a valuation base year of 2026, 2026-55 FCF estimates for stage I and a perpetual growth rate of 1% for stage II. We use a WACC of 5.0% (based on a risk-free rate of 4.25%, a market risk premium of 4.75%, a beta coefficient of 0.55 and a cost of debt of 3.0%). We derive a target price of RMB15.50, implying 13% upside from the current share price. We have a Buy rating on the stock due to its attractive yield profile. **William Sun*, CFA (S1700522110001)** | william.x.d.sun@hsbcqh.com.cn | +86 21 5066 2061	**Key downside risks** • Greater-than-expected diversion effect from new expressways. • Slower-than-expected progress in expansion projects. • Lower-than-expected tolls.
Wuxi Biologics 2269 HK **Buy**	Current price: HKD48.20 Target price: HKD64.60 Upside: 34%	**Investment rationale:** We favour WuXi Bio, as an industry leader in the CDMO space. **Valuation:** We use a DCF model to value the stock. Our key assumptions include a WACC of 9.0%, derived from a risk-free rate of 4.25%, a market risk premium of 4.25%, a beta of 1.42, and an after-tax cost of debt of 5.3%, and a terminal growth rate of 3.5%, and RMB-HKD forex assumption of 1.16. Our target price of HKD64.60 implies 34% upside from current level; we have a Buy rating on the stock as we are positive on the company's growth prospects and margin profile. **Linda Shu*, PhD (S1700522120001)** | linda.y.l.shu@hsbcqh.com.cn | +86 755 88983246	**Key downside risks** • Progress of potential US legislation to restrict US pharmaceutical companies to contract with WuXi Biologics. • A larger-than-expected impact from US tariffs. • A longer-than-expected period of high US interest rates that constrains the financing capability and project outsourcing demand of biotechnology companies. • Overbuilt capacity for WuXi Bio, with demand shrinking among US and European customers. • Regulatory tightening.
Hansoh 3692 HK **Buy**	Current price: HKD31.74 Target price: HKD49.50 Upside: 56%	**Investment rationale:** We like Hansoh for its rapid growth in domestic sales and continued BD revenue booking with multiple assets set to enter global phase III trials. **Valuation:** We use a DCF model to value the stock. Our key assumptions include a WACC of 8.0%, derived from a risk-free rate of 4.25%, an equity risk premium of 4.75%, a 10-year monthly beta to the HSI of 0.79, a terminal growth rate of 4.0% and an RMB-HKD exchange rate of 1.17. Our DCF-based target price of HKD49.50 implies c56% upside from the current share price; accordingly, we have a Buy rating on the stock. **Linda Shu*, PhD (S1700522120001)** | linda.y.l.shu@hsbcqh.com.cn | +86 755 88983246	**Key downside risks** • Slower-than-expected sales ramp-up of new drugs. • Slower-than-expected R&D progress in key pipeline assets. • Larger-than-expected anti-graft policy impact on innovative drugs' sales ramp-up. • Delays in business development progress.

Note: Priced as of 16 October 2026. *Employed by a non-US affiliate of HSBC Securities (USA) Inc. and not registered/qualified pursuant to FINRA regulations. All the analysts in this table are employed by HSBC Qianhai Securities.
Source: Wind, HSBC Qianhai Securities estimates