UBS

Global Research
5 November 2026

China Equity Strategy

Where are we post the tech sell-off?

Equity Strategy

China

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Taking stock on tech: valuations now more reasonable

China AI tech hardware forward P/E (x)



Global tech hardware forward P/E (x)



China AI tech hardware P/B (x)



Global tech hardware P/B (x)



Source: Bloomberg, Wind, FactSet, UBS

China AI sector investor positioning back to 2025 year end levels

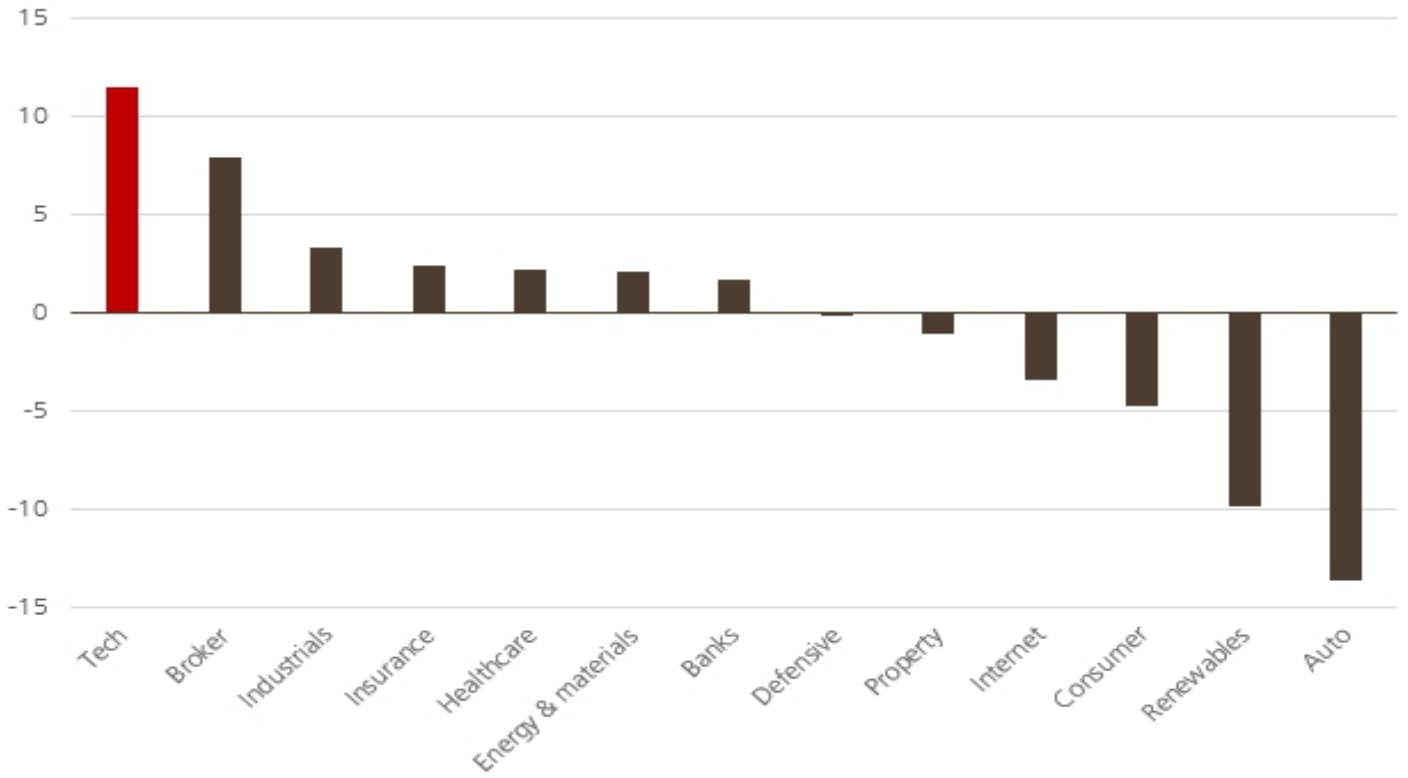
Average crowding scores of China AI hardware names



Source: Bloomberg, Wind, FactSet, UBS estimates

While earnings performances remain strong

Tech forward earnings changes last 3 months vs other sectors



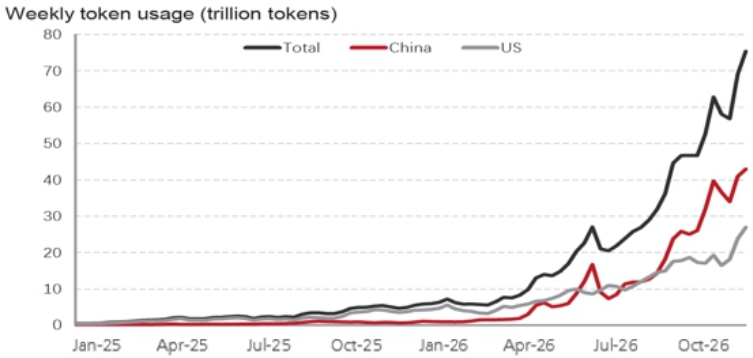
Source: FactSet, UBS

Global AI view remains positive

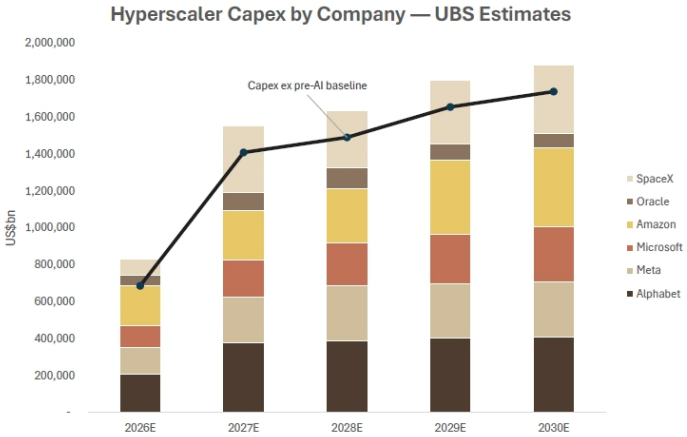
US software sector share price performance (IGV)



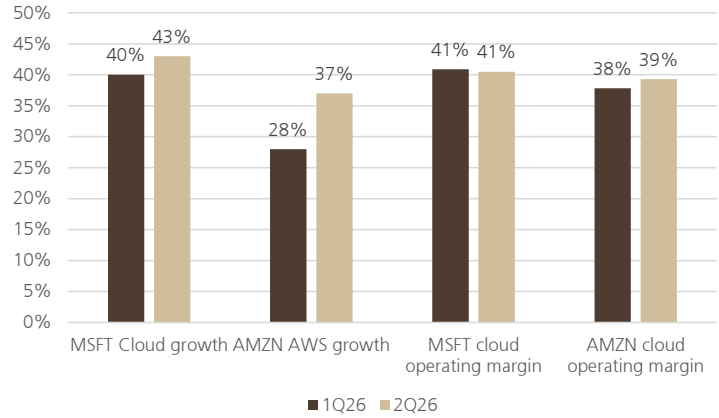
Token usage growth



Incremental capex vs pre-AI is around US$6.8trn



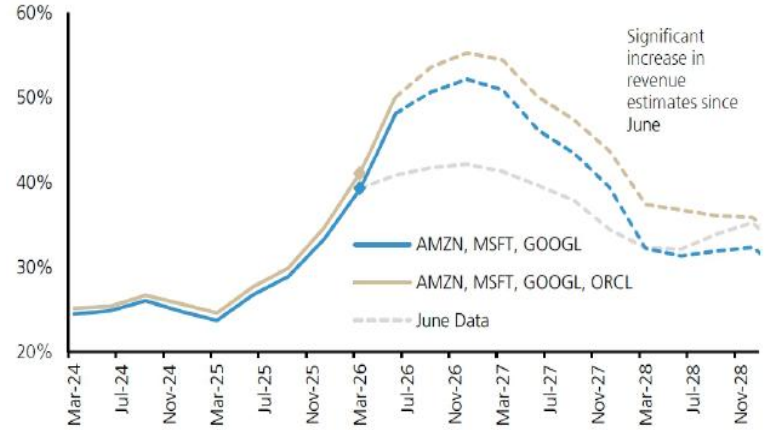
AMZN and MSFT 2Q cloud revenue growth and margin



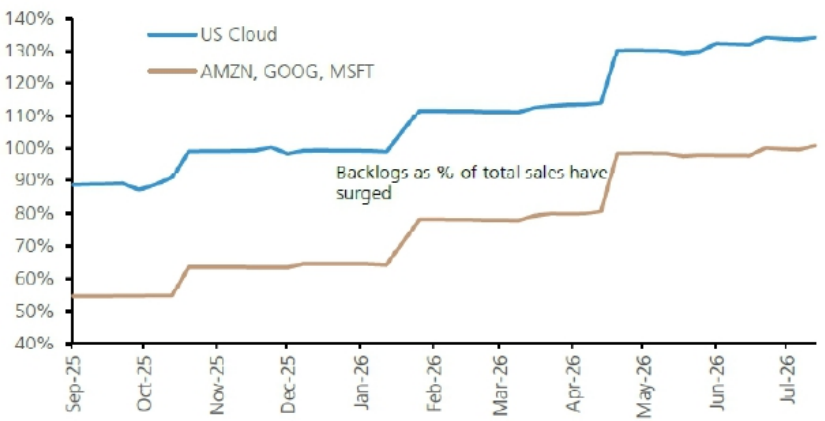
Source: Bloomberg, Wind, FactSet, UBS estimates

We remain positive on US equities and tech

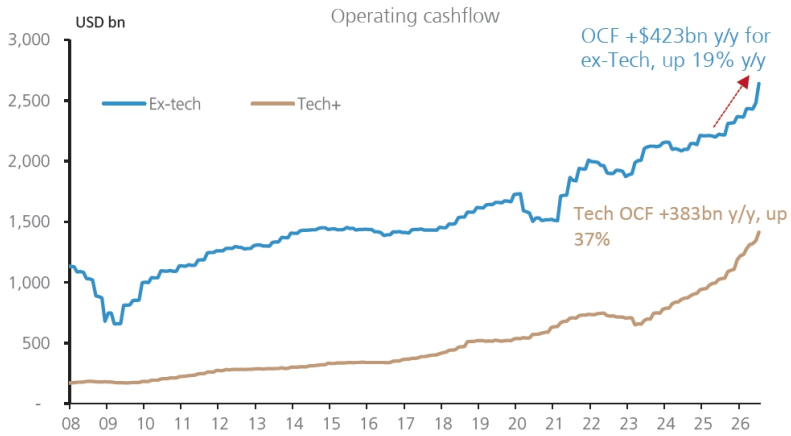
US hyperscaler cloud revenue growth consensus forecast



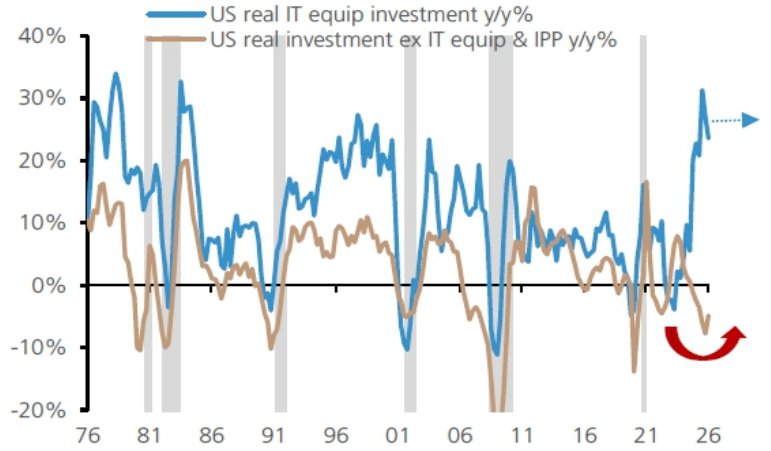
US Cloud backlog as % of total sales



US corporates and hyperscalers cash flows strong



As capex intentions start to improve



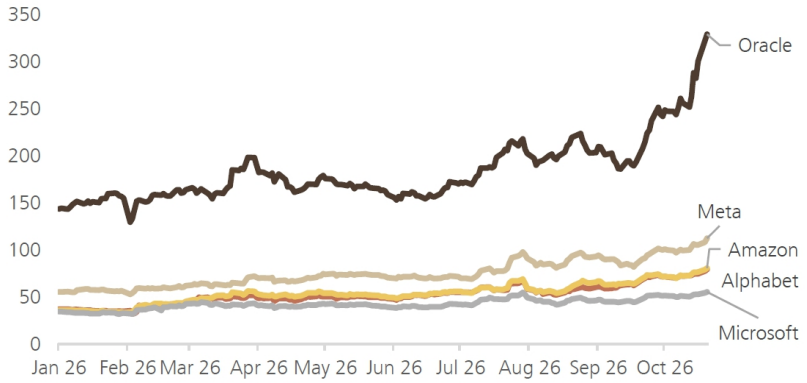
Source: Bloomberg, Wind, FactSet, UBS estimates

AI stress is still contained

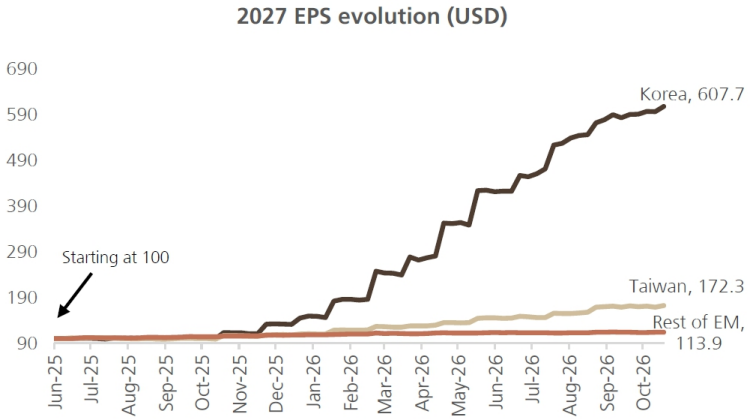
Neoclouds seeing the most stress

Company / Group	Spread Level (bps)	Spread Change (bps)		
	Current	MTD	QTD (Color coded)	YTD
Hyperscalers				
Oracle Corp	329	87	87	184
Meta Platforms Inc	112	13	13	57
Amazon.com Inc	81	9	9	44
Alphabet Inc	79	8	8	41
Microsoft Corp	55	4	4	20
Average	**131**	**24**	**24**	**69**
Average ex ORCL	**82**	**11**	**11**	**46**
Datacenter/Neocloud				
CoreWeave Inc	1121	273	273	351
Iron Mountain Inc	130	2	2	3
Average	**625**	**137**	**137**	**177**
Semiconductors/Compute				
Broadcom Inc	157	28	28	116
Advanced Micro Devices Inc	108	14	14	67
NVIDIA Corp	109	24	24	67
Intel Corp	91	5	5	21
Average	**116**	**18**	**18**	**68**

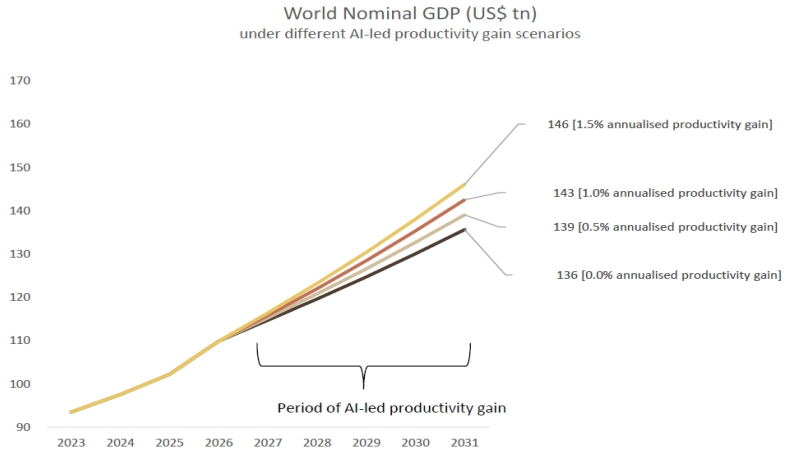
Hyperscalers CDS generally well behaved



Korea EPS holding up



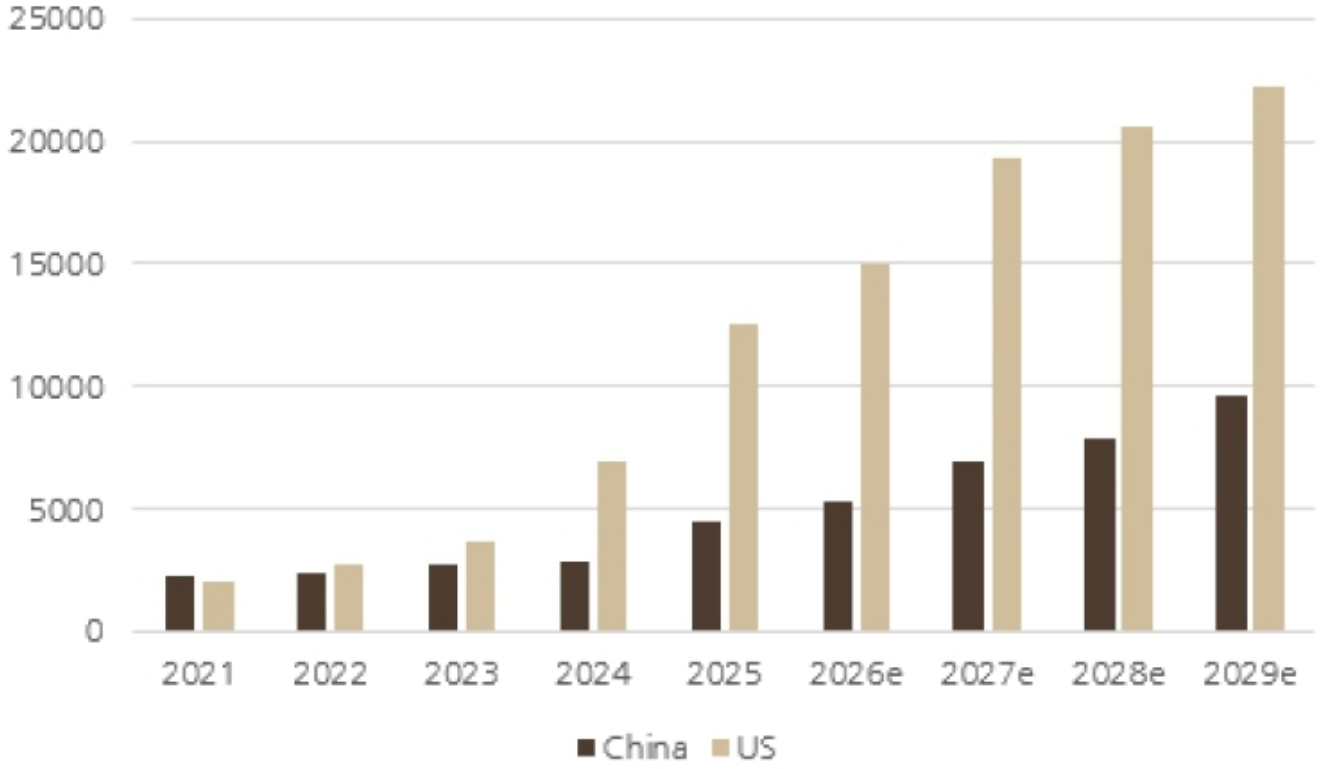
Productivity gains to fund the return on AI capex?



Source: Bloomberg, Wind, FactSet, UBS estimates

China the catch-up play on global AI

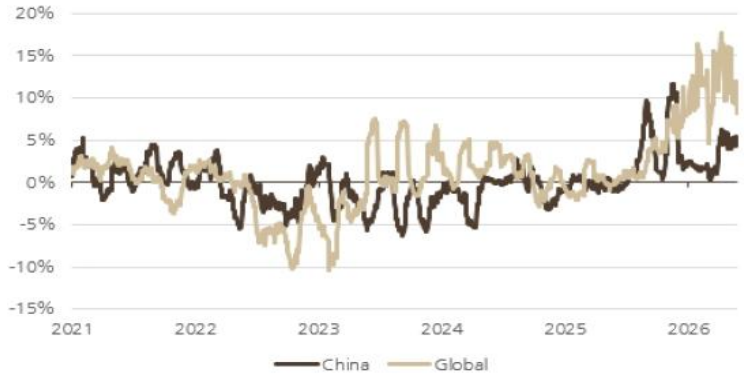
AIDC capacity buildout net addition in MW



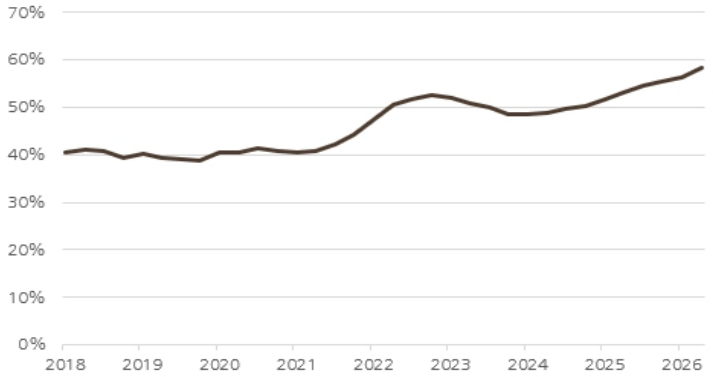
Source: MIIT, UBS estimates

Leading indicators remain robust

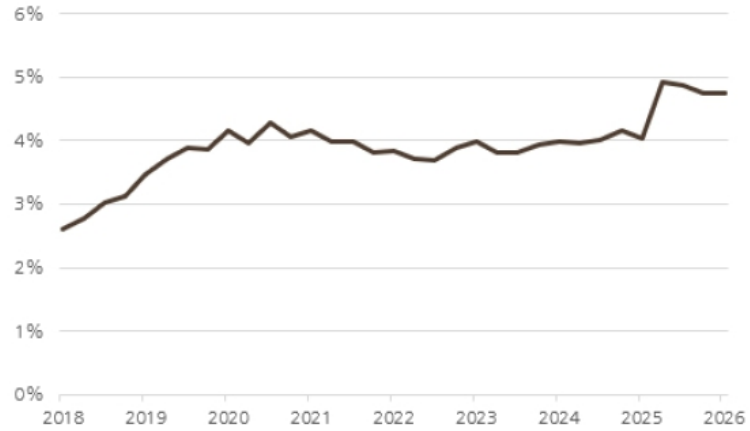
Forward EPS 1M revision for China and global AI tech hardware



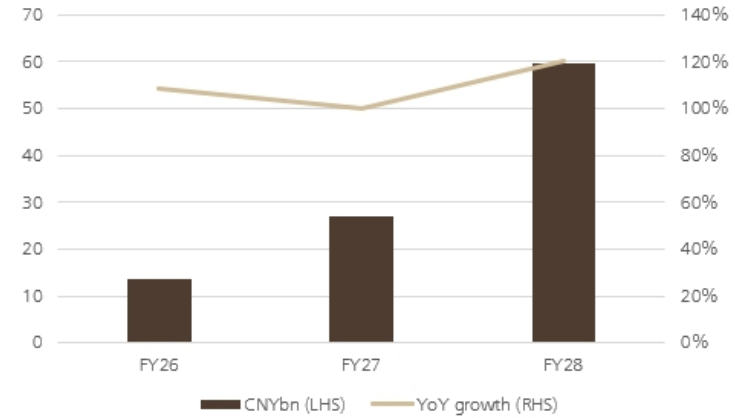
Chinese AI names inventory as % of revenue (4-quarter moving average)



Chinese AI names contract liability as % of revenue (4-quarter moving average)



Cambricon's revenue guidance



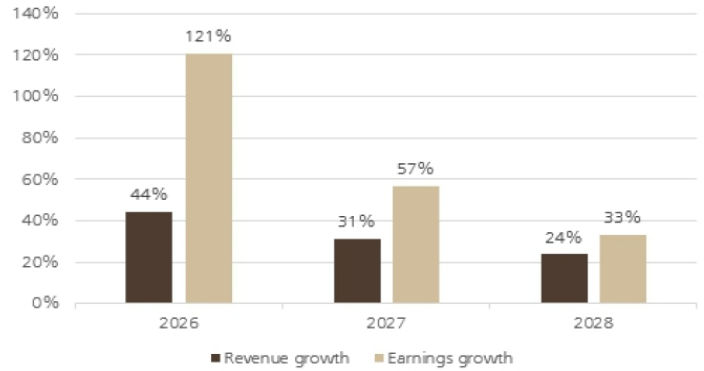
Source: Bloomberg, Wind, FactSet, Company data, UBS estimates

Share prices priced in major deterioration in EPS growth

China AI tech hardware share price YoY vs 12M forward earnings growth



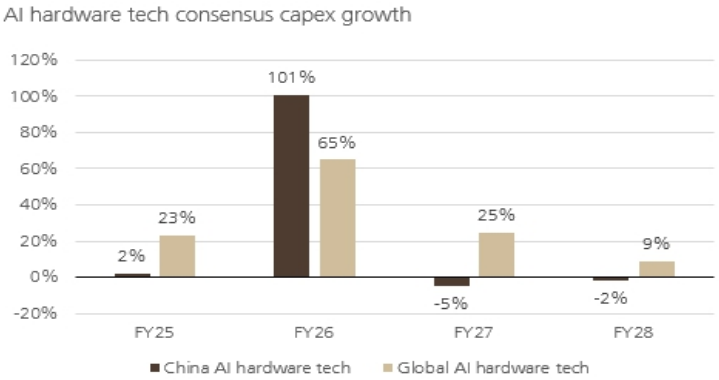
Consensus growth forecasts for China AI tech hardware



China AI hardware P/E vs forward EPS growth



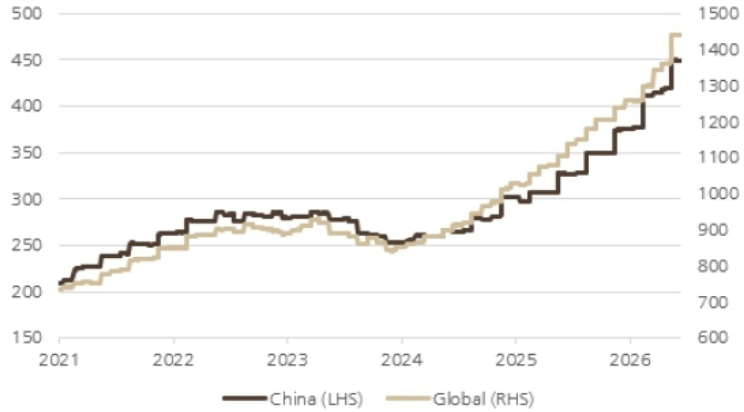
Consensus capex growth



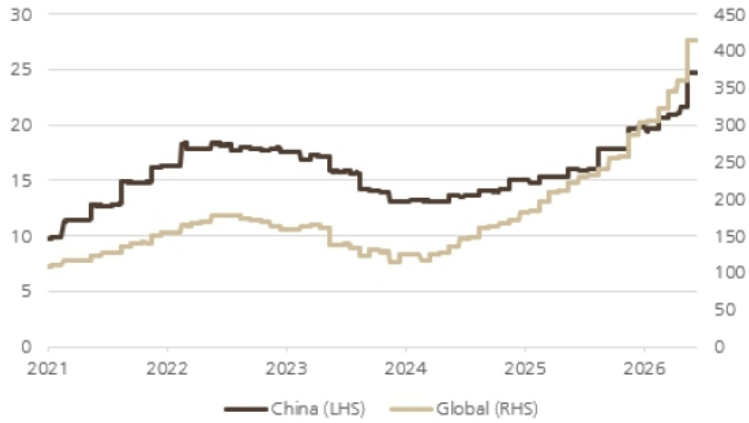
Source: Bloomberg, Wind, FactSet, UBS estimates

How do Chinese AI tech hardware's compare with global peers?

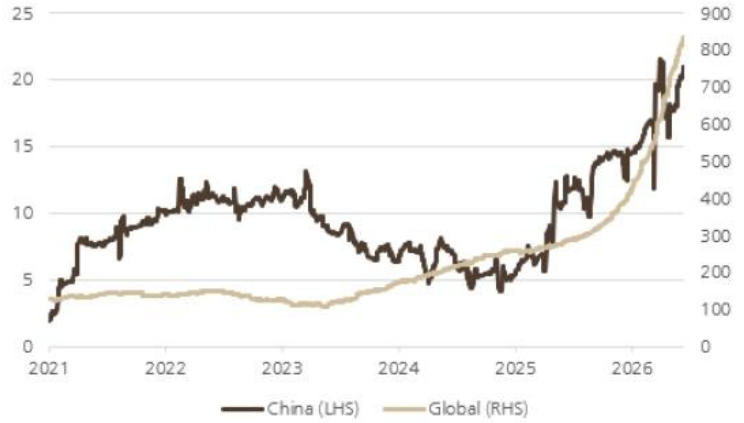
Trailing 12M revenue (USDbn)



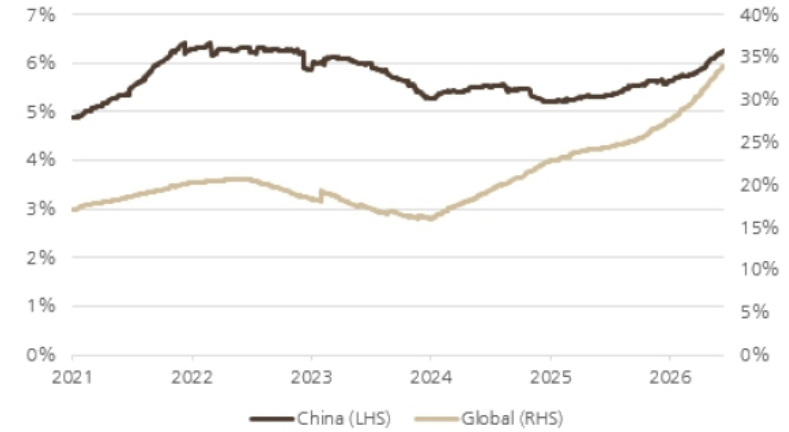
Trailing 12M earnings (USDbn)



Trailing 12M FCF (USDbn)



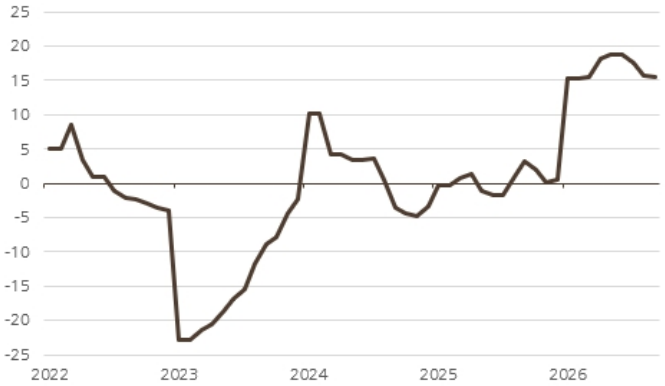
Trailing net margin



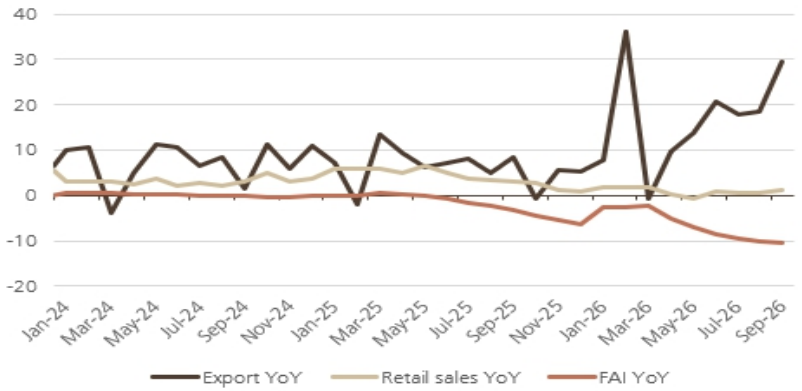
Source: Bloomberg, Wind, FactSet, UBS estimates

Macro: tech and export led growth

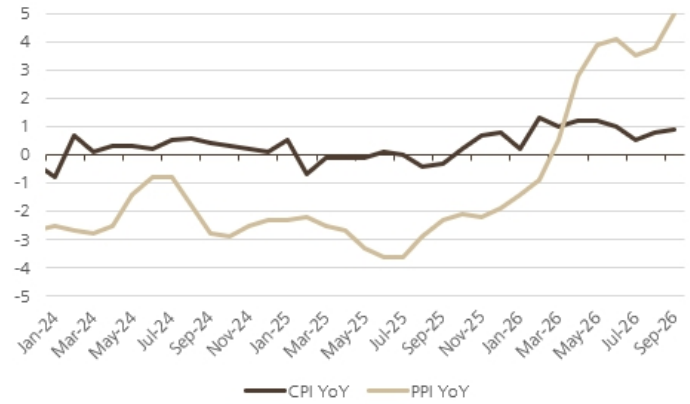
China industrial enterprise profit YoY



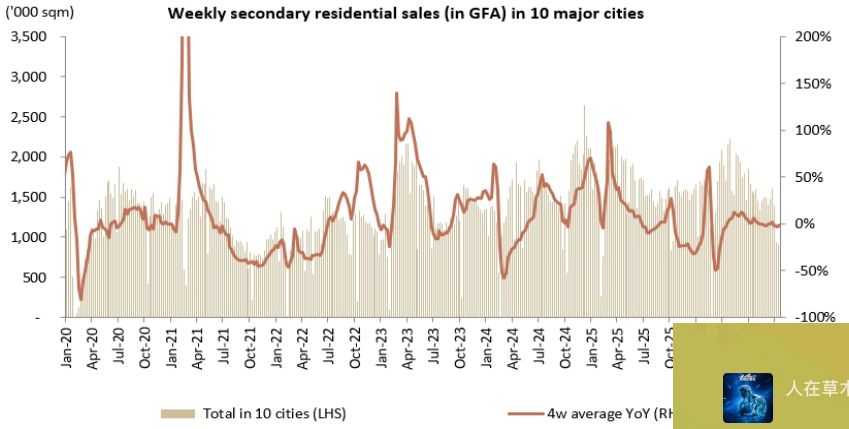
Export, retail sales and FAI YoY



China CPI vs PPI YoY



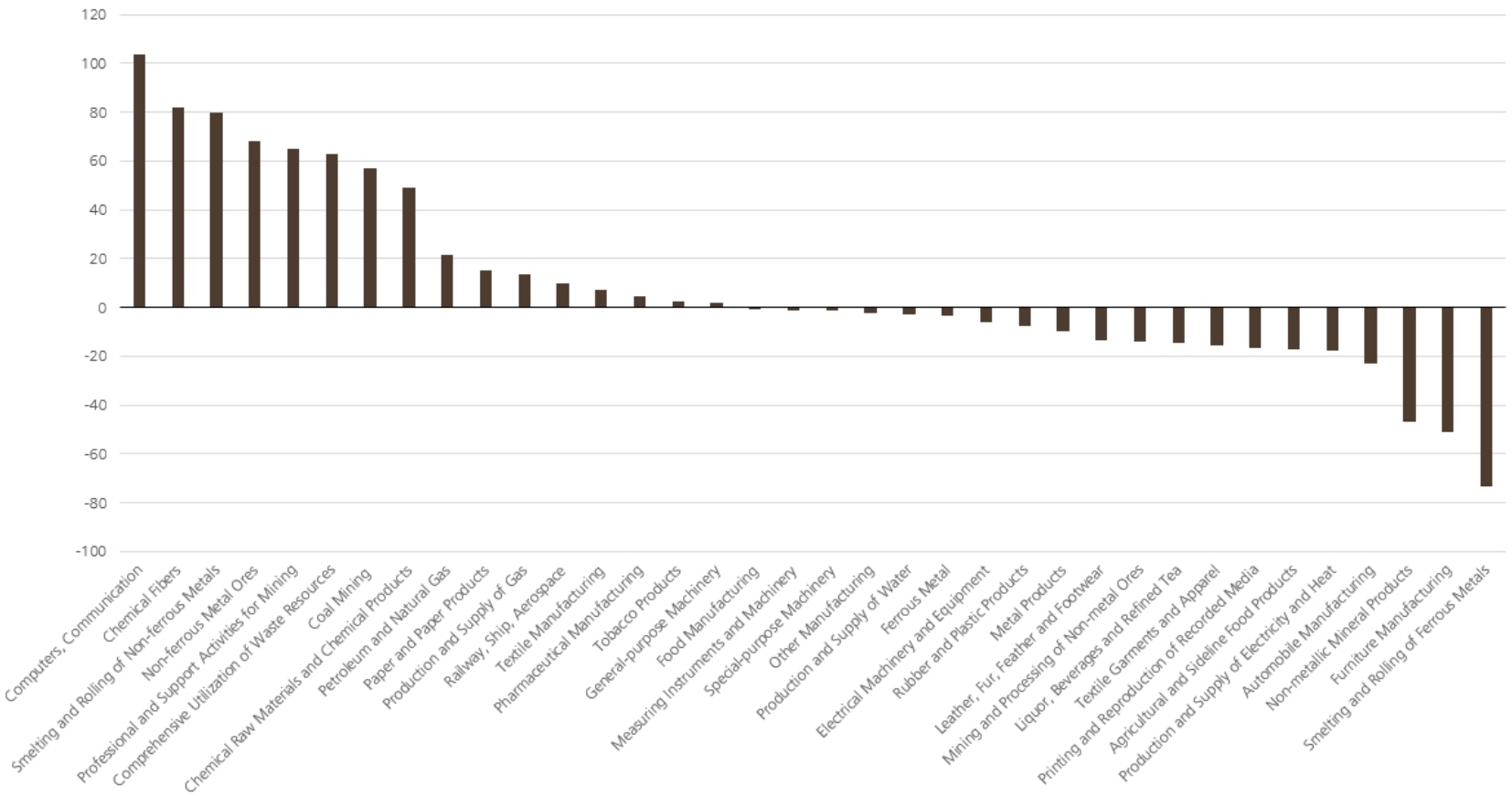
Secondary property sales YoY



Source: Bloomberg, Wind, FactSet, UBS estimates

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更多资料请加V

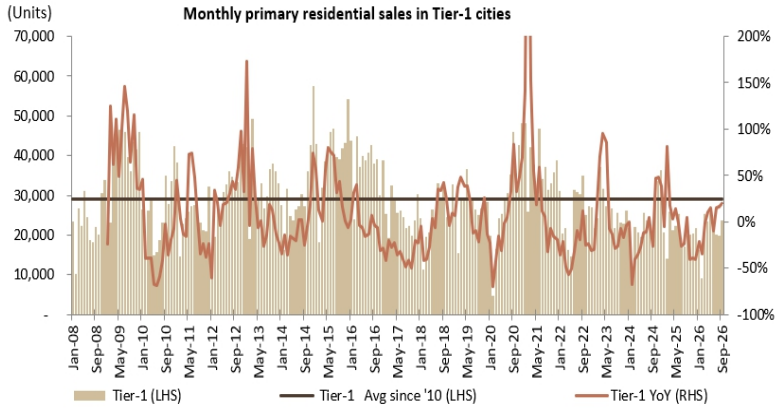
Sep 2026 YTD industrial profit growth by sector



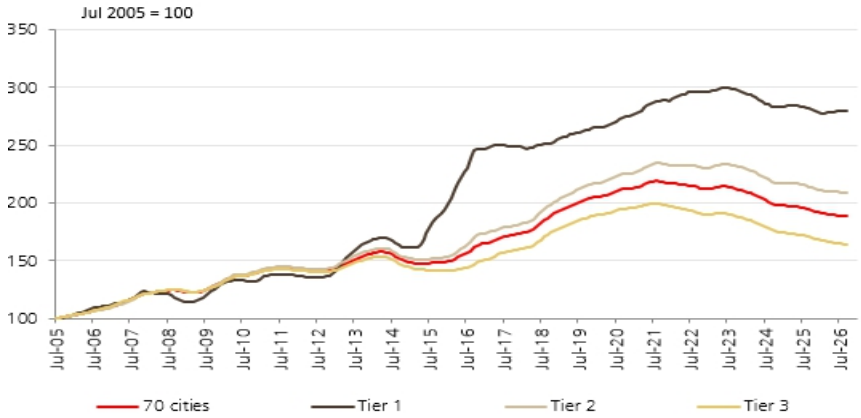
Source: NBS, UBS

Property market: Tier 1 cities recovering

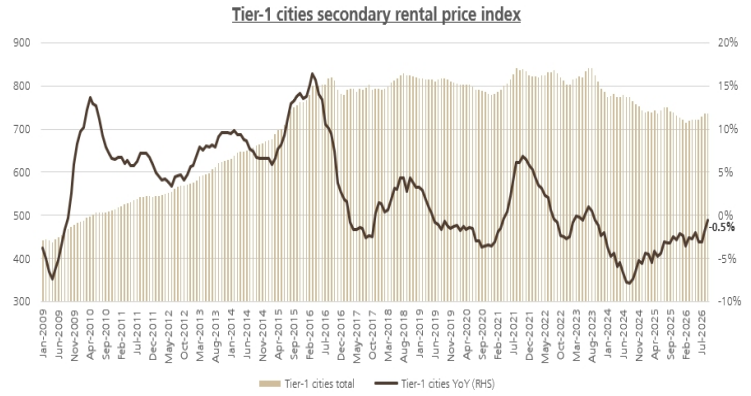
Primary market sales stabilizing



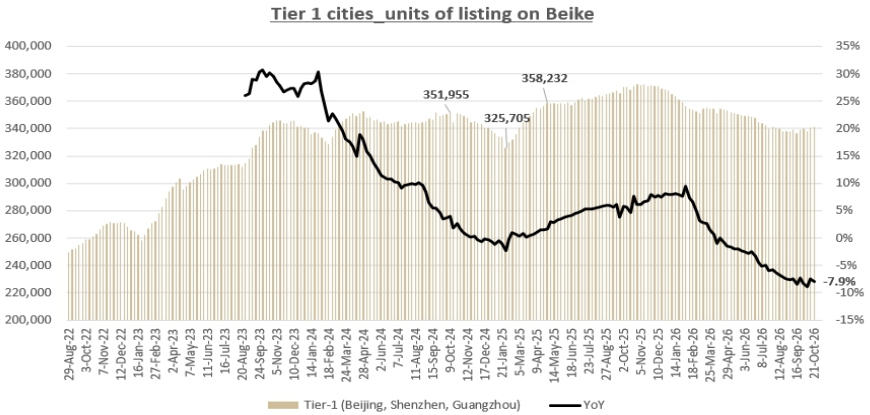
Secondary property market prices stabilizing in tier 1 cities



Rental declines have decelerated



While listings have come down



Source: Bloomberg, Wind, Centaline, UBS estimates, Beike

Would higher PPI lead to lower earnings?

A share non-financials trailing earnings growth vs PPI YoY



A share non-financials trailing earnings growth vs Brent oil YoY



Exporters trailing revenue growth vs PPI YoY

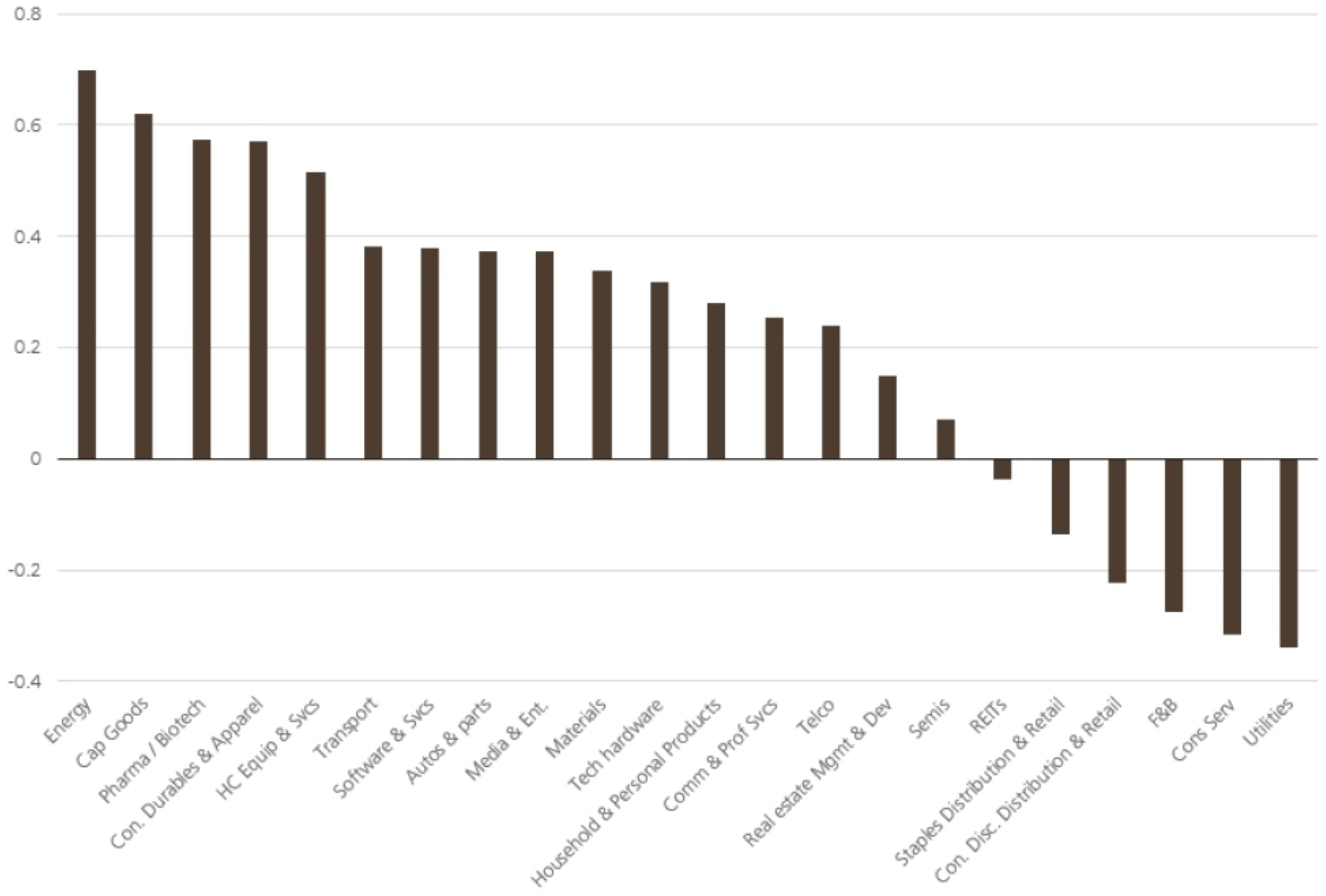


Exporters trailing earnings growth vs PPI YoY



Source: Bloomberg, Wind, FactSet, UBS estimates

Correlation between sector trailing earnings growth and PPI YoY



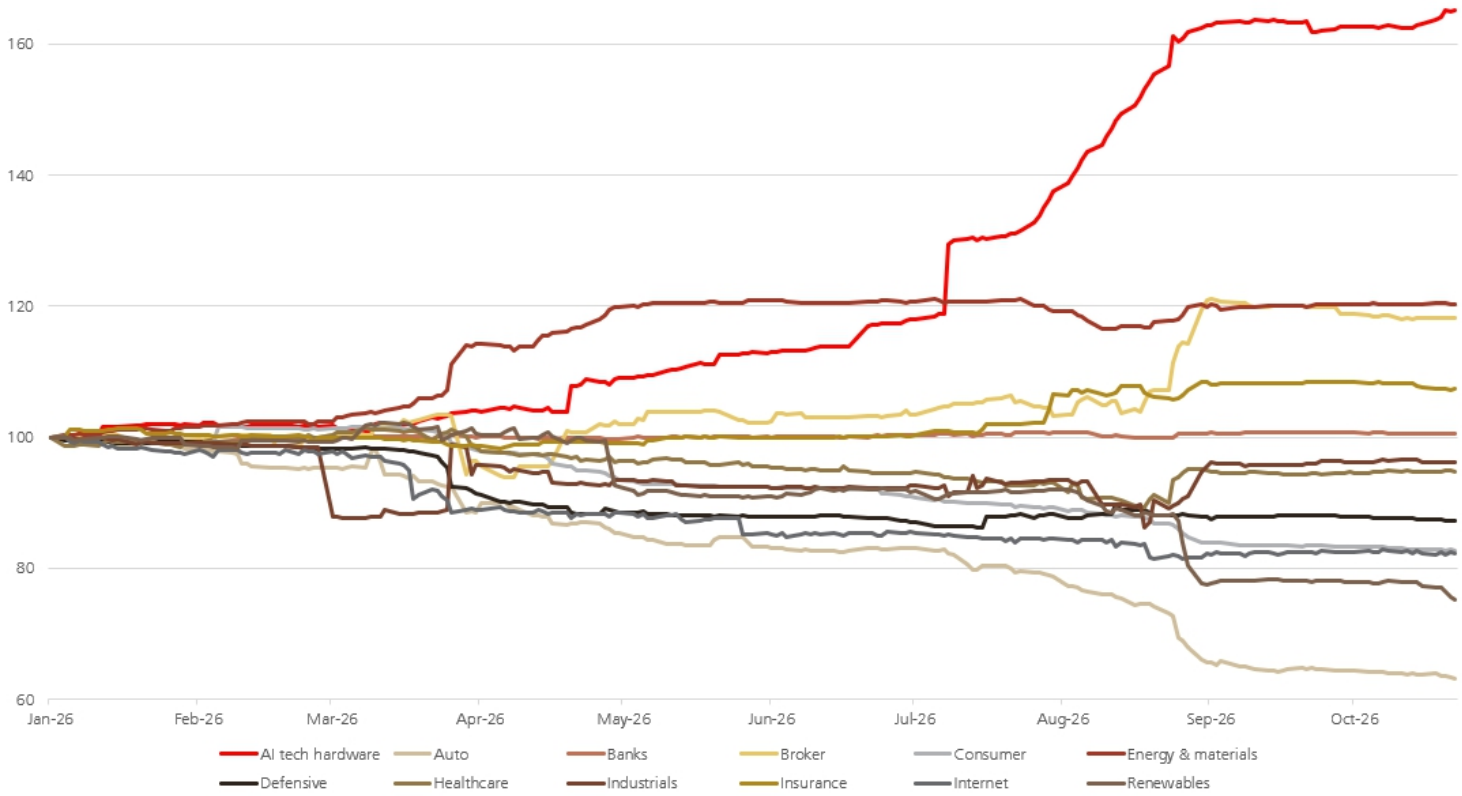
Source: Bloomberg, Wind, FactSet, UBS estimates

MSCI China 1H26 results

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: Bloomberg, Wind, FactSet, UBS

Sector earnings trend - FY26 EPS integer by sector (Jan 2026 =100)



Source: Bloomberg, Wind, FactSet, UBS estimates

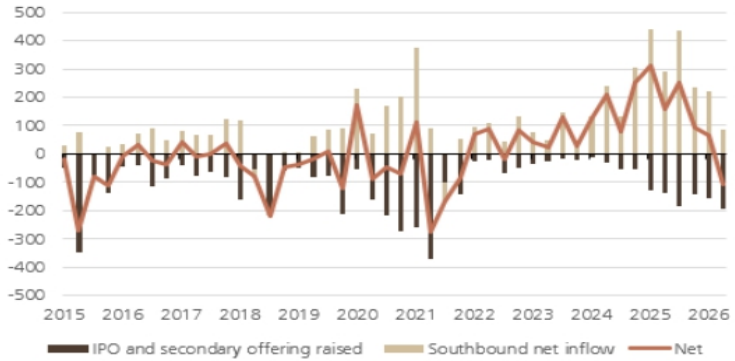
The national team is a counter-cyclical force



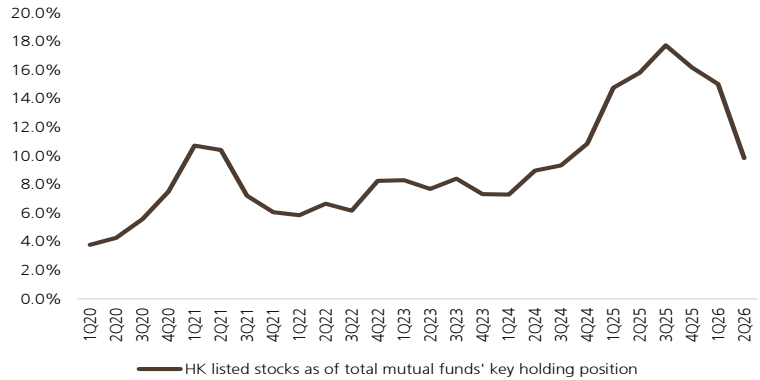
Source: Bloomberg, Wind, FactSet, UBS estimates

Prefer A over H –flows

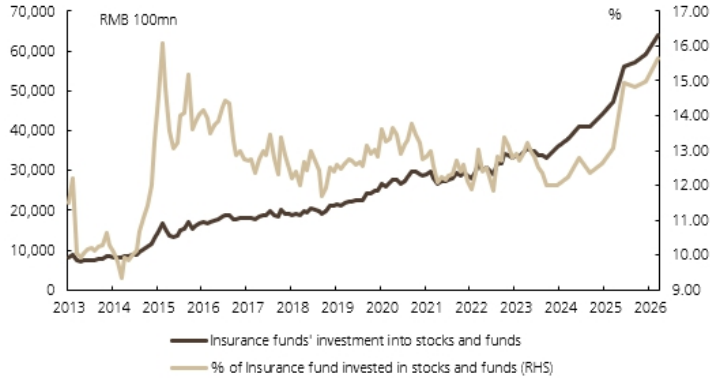
Southbound net inflows minus equity raising (quarterly)



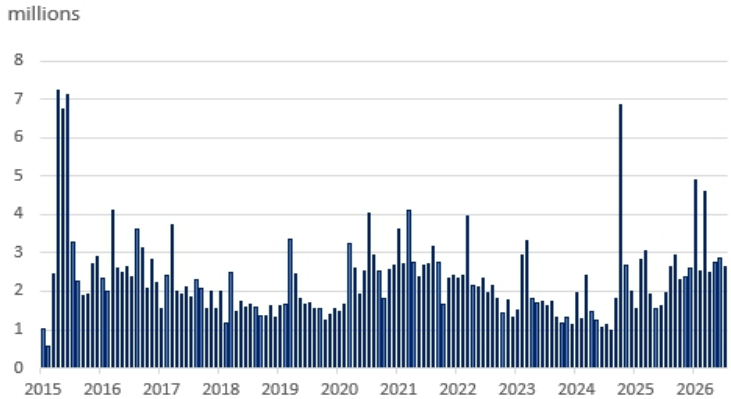
Onshore mutual fund holding of H-shares



Insurers' holding of stocks

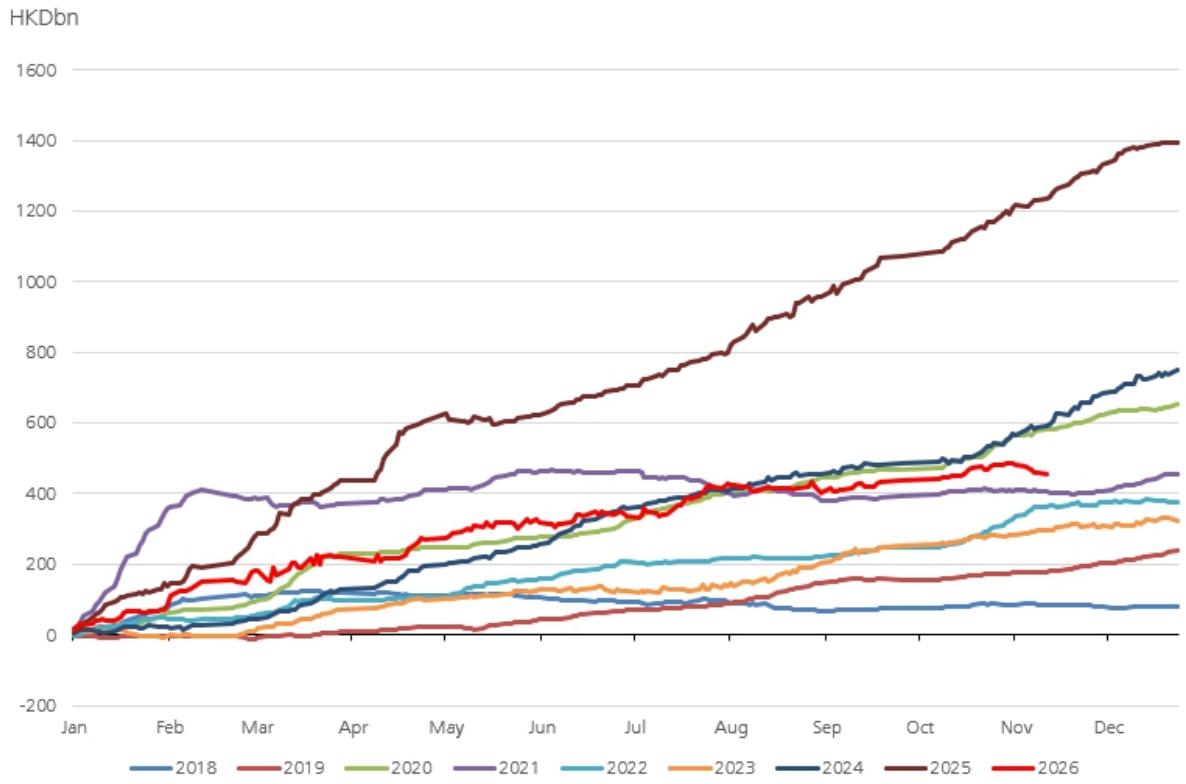


A-share new retail investor account openings at SSE



Source: Bloomberg, Wind, FactSet, UBS

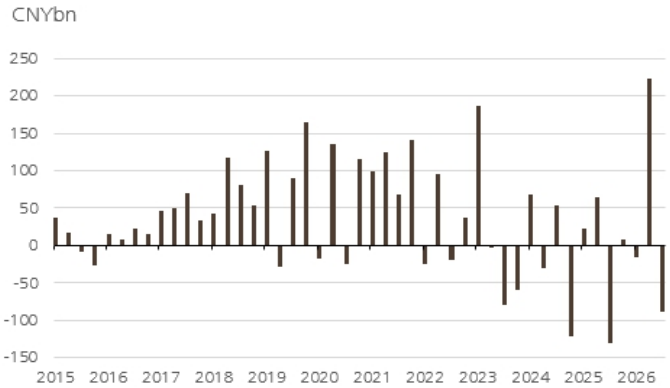
Southbound flows slowed down vs last year



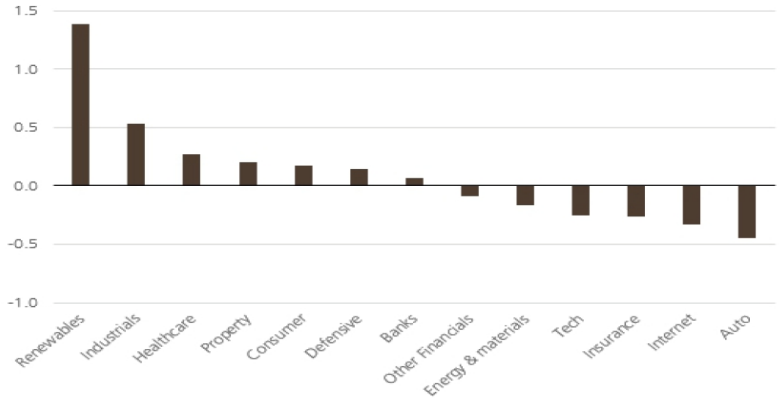
Source: CEIC, UBS

Record foreign funds inflows into A-share in 2Q but outflow in 3Q

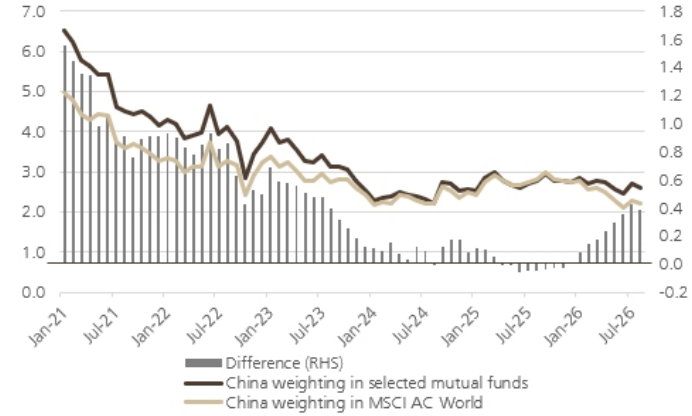
Quarterly northbound net inflows



Sector inflows by foreign funds into HK in 2Q



Monthly active investors' positioning



Top 40 global investor positioning in Chinese equity (% of portfolio)



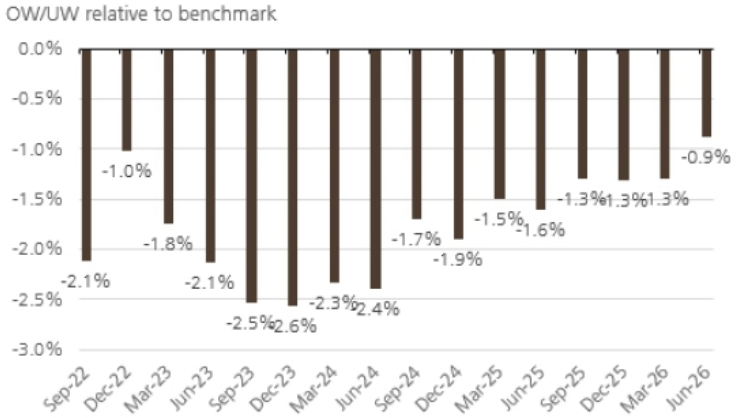
Source: Bloomberg, Wind, FactSet, UBS Note: Monthly data up to Aug

Investor positioning

Actively managed funds' Chinese equity holdings vs benchmarks - 30 June 2026

Region/market focus	Benchmark index	No. of funds	Total equity AUM (USDbn)	Weighting in Chinese equities (as % of equity portfolio)	Weighting in benchmark	Diff	Cash as % of total AUM
Asia	MSCI AC Asia ex Japan Index	31	29	27.2	24.1	3.1	0.5
	MSCI AC Asia Pacific ex Japan Index	10	3	24.5	21.0	3.5	1.8
	MSCI AC Asia Pacific ex Japan Small Cap Index	2	0	18.8	10.3	8.4	3.6
	MSCI AC Asia Pacific Index	6	10	17.9	15.2	2.7	0.1
	MSCI All Country Asia ex Japan Index	16	10	21.4	24.1	-2.7	1.4
	MSCI Asia Pacific Ex-Japan IMI Index	3	6	37.6	20.7	17.0	0.1
	MSCI Emerging Markets Asia Index	2	7	25.8	22.2	3.6	1.9
Asia Total		**70**	**65**	**25.7**	**22.0**	**3.6**	**0.7**
Global	FTSE All-World Index	5	13	3.8	3.1	0.8	6.8
	FTSE Global All Cap Index	3	112	2.8	3.0	-0.2	0.8
	MSCI ACWI Index - EUR	8	6	3.7	2.7	1.1	1.9
	MSCI ACWI Ex USA Growth Index	6	37	6.1	8.4	-2.3	1.9
	MSCI ACWI Large Cap Index net	1	26	1.6	2.5	-0.8	0.0
	MSCI AC World Net USD	4	5	4.2	2.7	1.5	1.5
	FTSE All-World ex US Index	2	96	7.5	8.0	-0.5	1.7
	FTSE Global All Cap ex US Index	1	663	7.3	8.0	-0.7	2.2
	MSCI ACWI Index	176	694	2.0	2.7	-0.7	0.4
	MSCI ACWI ex USA Index	59	251	3.8	7.3	-3.6	0.6
	MSCI World Index	202	371	1.4	0.5	0.9	1.1
	MSCI World Index - EUR	39	82	1.6	0.5	1.2	1.4
Global Total		**506**	**2358**	**3.9**	**4.6**	**-0.6**	**1.2**
EM	FTSE Emerging Index	3	11	24.6	26.2	-1.6	-0.2
	FTSE Emerging Markets All Cap China A Inclusion Index	1	168	23.5	25.9	-2.4	3.7
	MSCI Emerging Markets Index	222	502	16.6	18.6	-2.0	0.6
	MSCI Emerging Markets Index - EUR	10	16	16.6	18.6	-2.0	0.6
	MSCI Emerging Markets Index - GBP	8	8	19.1	18.6	0.5	0.7
EM Total		**244**	**705**	**18.4**	**20.5**	**-2.1**	**1.3**
Overall total		**820**	**3128**	**7.6**	**8.5**	**-0.9**	**1.2**

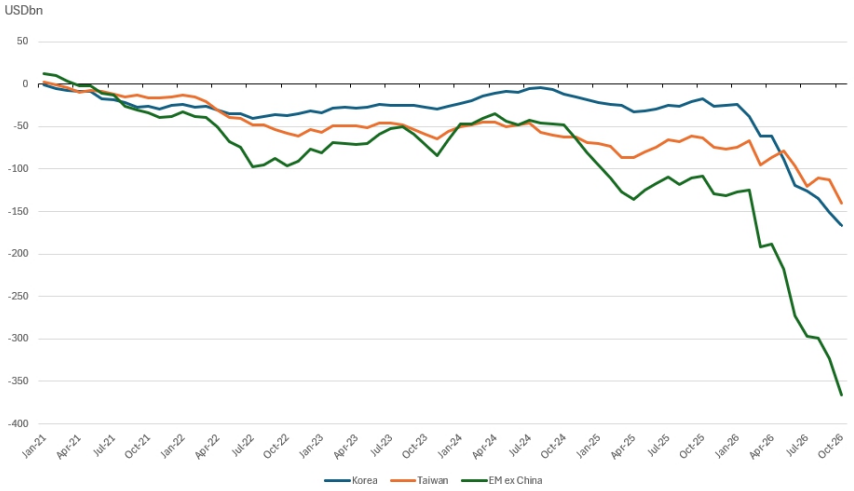
Actively managed funds' Chinese equity holdings vs benchmarks



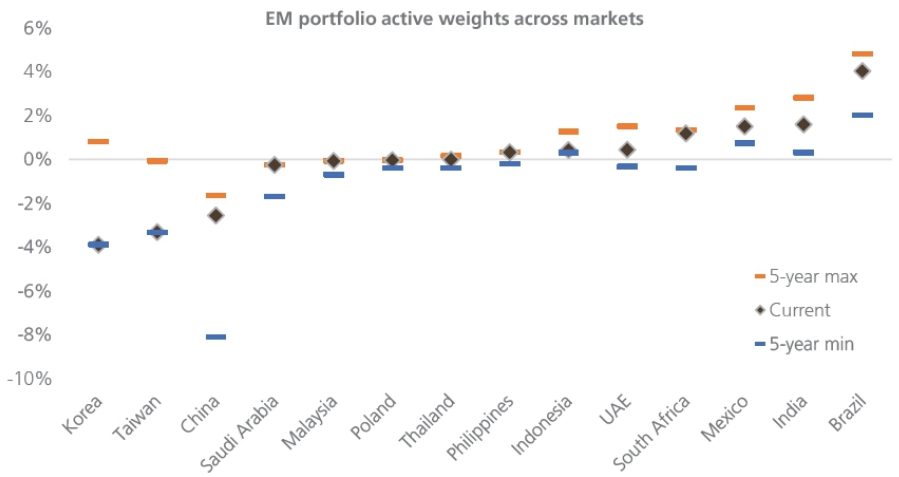
Source: Bloomberg, Wind, FactSet, UBS

EM flows and investor positioning

Cumulative foreign net inflows into EM equities (ex-China)



EM funds' active holdings across major markets



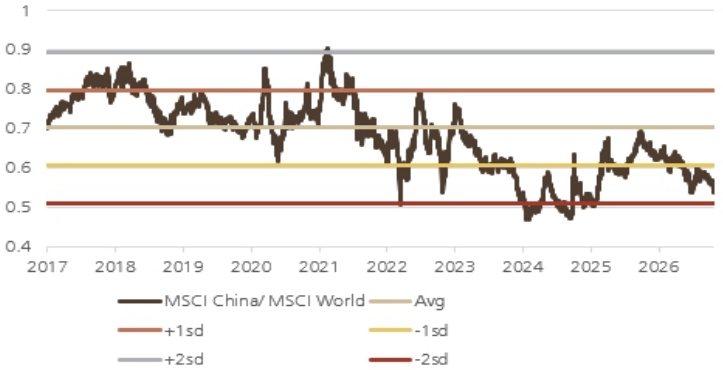
Source: Bloomberg, Wind, FactSet, UBS estimates

MSCI China valuations

MSCI China forward P/E (x)



MSCI China forward P/E relative to MSCI World



MSCI China trailing dividend yield (%)



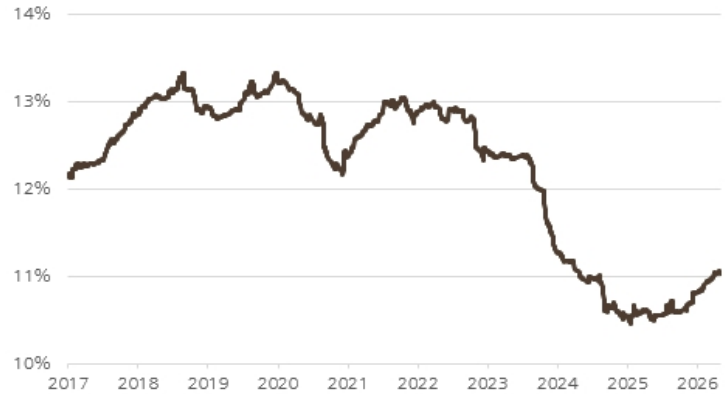
MSCI China forward P/E relative to MSCI EM



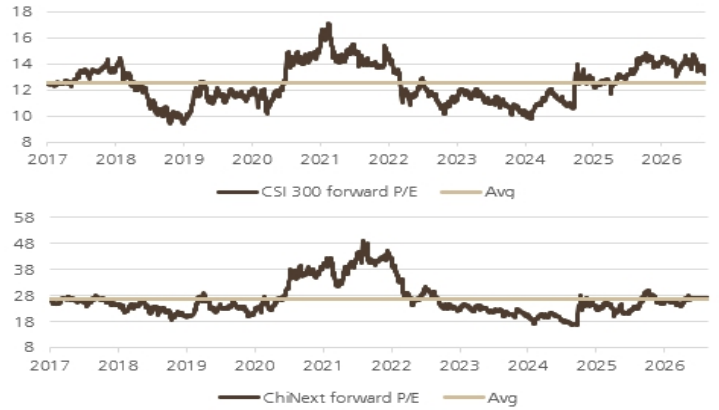
Source: Bloomberg, Wind, FactSet, UBS

A-share valuation

Trailing ROE trends



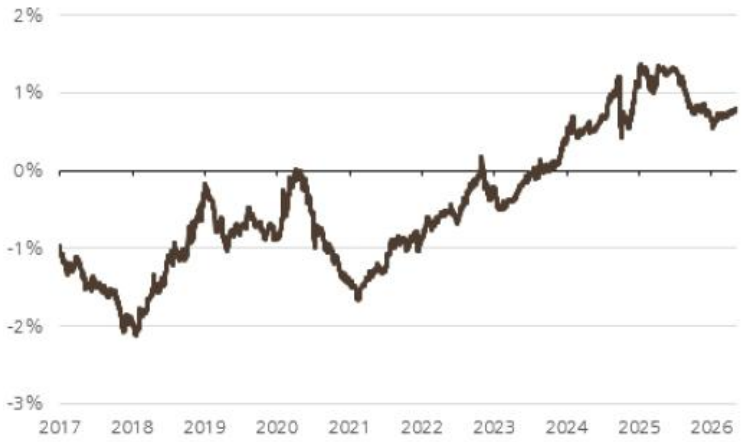
Valuation (Chinext, CSI300)



A-H premium



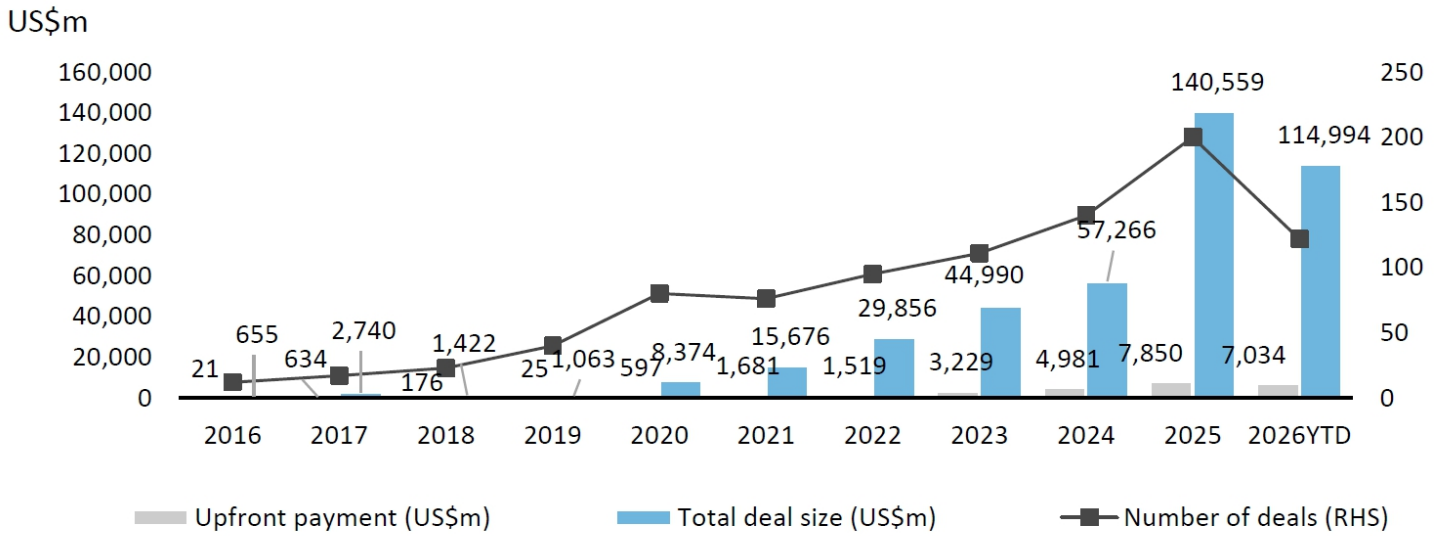
Dividend yield minus government bond yield



Source: Bloomberg, Wind, FactSet, UBS

Biotech – longer term alpha opportunities

Overview of outlicensing deal trend – YTD upfront/total deals at 90%/82% of 2025 levels



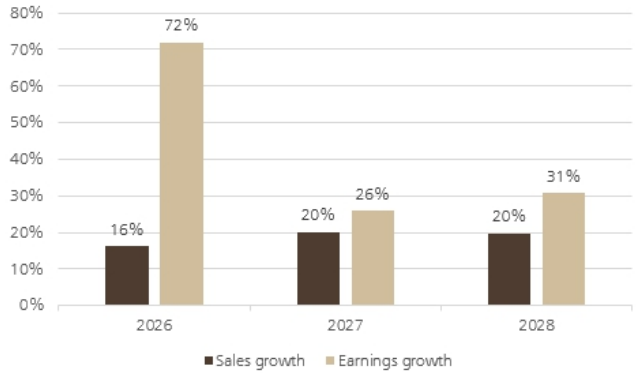
Source: FactSet, UBS

Biotech – longer term alpha opportunities

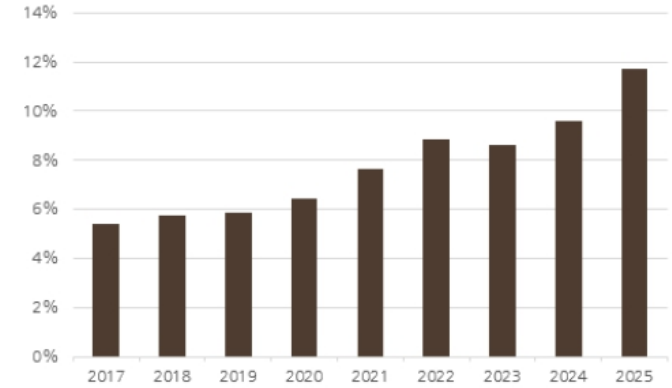
Biotech CRO forward P/E



Consensus growth forecast 2026-28



China healthcare overseas revenue exposure



Forward earnings growth trend



Source: FactSet, UBS

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.