

## Market Strategy

# Opportunities under Shanghai-HK Connect

## A chest of gem

- *We compiled a list of China-listed shares that we believe to be the biggest beneficiary under Shanghai-HK Connect Scheme*
- *We highlighted 6 large cap A-shares that are not listed in HK but have attractive valuation and dividend yield.*
- *With the limited choice in HK market, we selected 36 A-shares that belong to those highly-sought-after industries in HK*
- *We also picked 10 A-shares which are trading at a more than 10.0% discount to their respective H-shares. Our rationale is the price gap will narrow once the scheme has been kicked off*

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**A compilation of China-listed stocks benefitted from the connection:** As Shanghai-HK stock connect is around the corner, we compiled a list of China-listed shares that we believe will be the biggest beneficiary under the new scheme. Within the investable universe (568 A-shares in total) under the scheme, we prefer those not listed in HK but with larger market cap, attractive valuation and dividend yield, or players in the industries that are highly-sought-after in HK but with limited choice in HK market. We also prefer those A-shares that are trading at a considerable discount to their respective H-shares.

**Large Caps with attractive valuation and dividend yield:** Within the investable universe, we highlighted 6 A-shares that simultaneously satisfy the conditions of i) market cap not less than RMB10.0b; ii) prospective P/E less than 20.0x for 2014; and iii) dividend yield not less than 5.0% (See Figure 1).

**Players in the industries that are highly sought-after in HK but with limited choice in HK market:** Medicine (including Chinese medicine and Western medicine), healthcare, biotechnology, food and beverage, consumers, logistics are the hot industries in HK market. That said, the number of shares falling into these industries is relatively limited in HK market. Therefore, we believe certain players in China will be beneficiaries after the connect has been kicked off, as investors in HK will have a wider range of options to choose from the industries. We picked 36 shares that we believe are the potential beneficiaries (See Figure 2). It is worth nothing that, although defense industry is also a hot industry, in our view, A-shares in the industry generally have unattractive valuation, with the prospective P/E ranging from 40.0x to 230.0x. We therefore do not include defense stocks in our list.

**A-shares companies trading at considerable discount to H-shares:** Taking the closing price on Oct 8 as a reference, there are currently 25 dual-listed companies whose A-shares are trading at a discount to their respective H-shares. Among them, we picked 10 A-shares which are trading at a more than 10.0% discount to the H-shares (See Figure 3). Our selection is based on the idea that the price gap between the two market will narrow once the new scheme has been kicked off.

**Figure 1. Large cap A-shares that are not listed in HK but have attractive valuation and dividend yield\***

Industry	Stock code	Company	PE (FY12/14)	Market capital (RMB m)	Dividend yield
Utility	600863.SH	Inner Mongolia MengDian HuaNeng Thermal Power Corp Ltd.	11.0713	17,945.9	9.2%
Financial	600000.SH	Shanghai Pudong Development Bank	3.8990	181,871.3	6.4%
Automobile	600104.SH	SAIC Motor Corp Ltd.	7.1250	199,342.2	6.3%
Consumer	600177.SH	Youngor Group Co Ltd.	7.9332	18,436.3	5.7%
Transportation	601006.SH	Daqin Railway Co Ltd.	7.9308	115,663.6	5.3%
Property	600048.SH	Poly Real Estate Group Co Ltd.	4.5871	59,532.8	5.0%

Source: SBI China Capital, Wind

\*Data were extracted on Oct 8

**Figure 2. Players in the industries that are highly sought-after in HK but with limited choice in HK market\***

Industry	Stock code	Company	Market capital (RMB m)	PE (FY12/14)	ROA (%)
<b>Medicine</b>	600750.SH	Jiangzhong Pharmaceutical Co.,Ltd	5,550.0	26.9	4.8
	600479.SH	Zhuzhou Qianjin Pharmaceutical Co.,Ltd.	5,194.1	37.4	6.1
	600329.SH	Tianjin Zhongxin Pharmaceutical Group Corporation Limited	11,252.3	27.2	7.2
	600976.SH	Wuhan Jianmin Pharmaceutical Groups Co.,Ltd	4,433.2	36.9	7.4
	600518.SH	Kangmei Pharmaceutical Co.,Ltd	35,223.4	14.9	7.9
	600993.SH	Mayinglong Pharmaceutical Group Co.,Ltd	6,565.3	31.5	9.0
	600085.SH	Beijing Tongrentang Co.,Ltd	24,833.1	32.2	9.2
	600422.SH	Kunming Pharmaceutical Corp.	9,480.0	30.9	9.3
	600572.SH	hejiang CONBA Pharmaceutical Co.,Ltd.	13,722.7	27.6	9.9
	600594.SH	Guizhou Yibai Pharmaceutical Co.,Ltd	14,850.0	26.7	10.8
	600535.SH	Tasly Pharmaceutical Group Co., Ltd.	42,945.6	30.1	11.7
	600436.SH	Zhangzhou Pientzehuang Pharmaceutical Co.,Ltd	13,321.2	26.9	13.2
	600252.SH	Guangxi Wuzhou Zhongheng Group Co.,Ltd.	15,382.7	16.1	14.2
	600867.SH	Tonghua Dongbao Pharmaceutical Co.,Ltd.	14,390.5	54.3	7.6
600062.SH	China Resources Double-Crane Pharmaceutical Co.,Ltd.	10,867.9	14.7	13.0	
<b>Healthcare</b>	600511.SH	China National Medicines Corporation Ltd.	12,903.7	25.6	9.3
<b>Biotechnology</b>	600195.SH	China Animal Husbandry Industry Co.,Ltd.	6,631.8	25.9	5.1
	600161.SH	Beijing Tiantan Biological Products Corporation Limited	12,355.7	32.1	6.9
	600201.SH	Inner Mongolia Jinyu Group Co.,Ltd	10,024.9	28.7	17.3
<b>Food and Beverage</b>	600616.SH	Shanghai Jinfeng Wine Company Limited	4,585.3	36.1	4.8
	600809.SH	Shanxi Xinghuacun Fen Wine Factory Co.,Ltd	14,381.7	22.7	6.1
	600197.SH	Xinjiang Yilite Industry Co.,Ltd.	4,657.0	13.3	11.9
	600519.SH	Kweichow Moutai Co.,Ltd.	185,152.1	11.8	29.0
<b>Consumers</b>	600778.SH	Xinjiang Youhao(Group)Co.,Ltd	2,800.3	18.1	4.4
	600628.SH	China Life Insurance Company Limited	5,387.1	21.5	4.6
	600859.SH	Beijing Wangfujing Department Store (Group)Co.,Ltd.	8,727.8	12.0	5.4
	600824.SH	Shanghai Yimin Commercial Group Co.,Ltd.	5,595.1	30.2	6.4
	600785.SH	Yinchuan Xinhua Commercial (Group) Co.,Ltd.	3,012.2	11.4	6.5
	600626.SH	Shanghai Shenda Co.,Ltd.	6,953.3	31.2	4.9
	600060.SH	Hisense Electric Co.,Ltd.	15,204.6	10.4	7.2
	600739.SH	Liaoning Cheng Da Co.,Ltd.	23,189.9	26.2	4.9

<b>Logistics</b>	600270.SH	Sinotrans Air Transportation Development Co.,Ltd	14,469.6	22.0	8.7
	603128.SH	CTS International Logistics Corporation Limited	5,112.0	45.0	3.0
<b>TMT</b>	600718.SH	Neusoft Corporation	19,346.9	44.7	3.8
	600845.SH	Shanghai Baosight Software Co.,Ltd.	11,102.4	31.8	6.3
	600588.SH	Yonyou Software Co.,Ltd.	19,450.7	31.6	6.8

Source: SBI China Capital, Wind

\*Data were extracted on Oct 8

**Figure 3. A-shares trading at considerable discount to H-shares**

Industry	Stock code (HK)	Stock code (SH)	Company	PE (FY12/14)	Market capital (RMB m)	A-share Discount
Energy	02202.HK	000002.SZ	CHINA VANKE	6.93	107,968.7	17.0%
Financial	02318.HK	601318.SH	PING AN	10.63	352,949.2	12.6%
Financial	02601.HK	601601.SH	CPIC	17.16	186,395.8	12.4%
Consumer	00168.HK	600600.SH	TSINGTAO BREW	29.62	57,817.1	12.3%
Steel	00347.HK	000898.SZ	ANGANG STEEL	22.79	27,134.5	11.8%
Utilities	00902.HK	600011.SH	HUANENG POWER	7.93	91,042.3	11.3%
Utilities	01071.HK	600027.SH	HUADIAN POWER	7.04	36,977.0	11.1%
Financial	06030.HK	600030.SH	CITIC SEC	22.18	151,049.7	11.0%
Energy	01088.HK	601088.SH	CHINA SHENHUA	8.39	316,451.3	10.4%
Financial	02628.HK	601628.SH	CHINA LIFE	14.99	461,242.2	10.4%

Source: SBI China Capital, Wind

\*Data were extracted on Oct 8

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