

Major Market Indicators

	5 Feb	2 Feb	1 Feb
Mkt. Turn.(mn)	94,700	103,200	94,900
Stock Advances	530	582	826
Stock Declines	1,062	990	698
HSI	15,510	15,534	15,566
Change	24	-33	+81

HSI Technical Indicators

10-days MA	15,559
50-days MA	15,587
250-days MA	15,653
14-days RSI	45.40
Primary resistance	15,800
Primary support	15,400

HSCEI Technical Indicators

10-days MA	5,237
50-days MA	5,241
250-days MA	5,257
14-days RSI	47.72
Primary resistance	5,600
Primary support	5,200

Stock Pick

Tencent (700)

Target: \$400

Stop loss: \$258

China's National Press and Publication Administration, on February 2, released information on the approval of imported online games for 2024, with a total of 32 games approved. The overall number and pace of game license issuance has increased, alleviate the market's earlier concerns about regulatory tightening.

China Telecom (728)

Target: \$5

Stop loss: \$3.6

The State Council previously announced that it will further study the inclusion of market value management in the performance assessment of the persons in charge of central SOEs. China Telecom, as well as other SOEs, responded in affirmation. By incorporating market value management into the KPI of state-owned enterprise management, it may promote Chinese telecommunications stocks to continue to increase their dividend payout ratios in the future. We see this as a catalyst for China Telecom.

China Mobile (941):

Target: \$74

Stop loss: \$61

With a continuously rising share of revenue contribution from digital transformation, the revenue structure of China Mobile has become more balanced and robust, and the momentum of sustainable growth has been enhanced. Having a moderate growth in capital expenditure, its net profit margin is expected to rise steadily.

Market Overview

Although the OECD's interim report delivered a relatively optimistic forecast for U.S. inflation, the latest services PMI showed that the U.S. economy is very strong. The ISM announced that the services PMI in January was 53.4, significantly higher than the 50.5 last month and exceeding market consensus of 52. The index's sub-items recorded increases, with the more important new orders, backlog of orders and employment all recording above 50, reflecting respondents' optimism about the outlook. It is worth noting that price pressure rose sharply to 64.0, from 57.4 last month, far exceeding the expected 56.5, reflecting that service inflation is significantly strong.

Hong Kong Stock Connect saw a net inflow of HK\$3.90bn on Monday, of which Tracker Fund (2800) had the largest inflow, reaching HK\$3.37bn; followed by HSCEI ETF (2828). Tencent Holdings (0700) recorded the largest net outflow of HK\$216mn, followed by Meituan (3690).

Daily Focus

Tencent (700): Previous negative factors have been partially eliminated

- The negative factors that dragged Tencent's share price have been partially eliminated. The consultation period for the "Measures for the Administration of Online Games (Draft for Solicitation of Opinions)" ended on Jan22. Senior game industry insiders believes that the Measures would take into account the views and suggestions of the industry, and will retain more flexibility and room for maneuver. In addition, China's National Press and Publication Administration, on February 2, released information on the approval of imported online games for 2024, with a total of 32 games approved. The overall number and pace of game license issuance has increased, alleviate the market's earlier concerns about regulatory tightening. To recap, the fundamental of Tencent in recent quarter result is actually solid.
- Tencent recorded quarterly revenue of RMB154.63bn in 3Q24, increased by 10% yoy, slightly lower than market expectations of RMB154.8bn; operating profit of RMB48.48bn, a 6% decrease from 3Q22, but an increase of 20% from 2Q23, beating the market forecast of RMB43.4bn. Adjusted net profit was RMB44.92bn, increased by 39% yoy, beating the market expectations of RMB39.98bn.
- Revenues from VAS increased by 4% yoy to RMB75.7bn. Domestic Games revenues grew by 5% to RMB32.7bn, driven by the recent launches of Lost Ark and VALORANT, as well as increased revenues from evergreen titles such as Honour of Kings and DnF. International Games revenues increased by 14% to RMB13.3bn, or up 7% excluding the impact of currency movements. The revenue recovery of PUBG Mobile, alongside contributions from Goddess of Victory: NIKKE, VALORANT, and Triple Match 3D explains the growth of International Games revenues.
- Revenues from Online Advertising were RMB25.7bn for 3Q23, up 20% yoy, propelled by robust advertising demand for Video Accounts, mobile ad network, and Weixin Search, with notable growth in the local services and FMCG categories. Tencent explains that the growth of advertising business relies on its AI technology, which significantly improves the recommendation efficiency of the advertising system and provides advertisers with creative generation capabilities.
- Revenues from FinTech and Business Services increased by 16% yoy to RMB52bn for 3Q23. FinTech Services maintained double-digit yoy growth, driven by increased commercial payment activities and higher revenues from wealth management services. Business Services achieved a qoq growth, benefitting from its cloud services restructuring undertaken in prior periods, as well as higher eCommerce technology service fees within Video Accounts.
- The gross profit margins of all segments have improved. The GPM of value-added services, Online Advertising, FinTech and Business Services were 55.5%, 52.3% and 40.9% respectively. The expansion of the GPM as a Group is due to the structural mix shift toward higher-margin revenue streams, including Mini Games platform service fees, as well as newer services such as Video Accounts advertising and eCommerce technology service fees.
- Tencent achieved notable margin expansion, favored by the relatively new services such as Video Accounts and Mini Games which contributed high margin revenue streams. Meanwhile, the AI development of the Company is creating new growth opportunities and enriching its ecosystem.

Tencent (700): Info	
Closed price	279.6
FY24 P/E (X)	13.85
FY24 Dividend yield (%)	0.89
52 week high	397.6
52 week low	260.2
14 RSI	47.06

Analyst: Cynthia Tam

Shanghai/Shenzhen-Hong Kong Stock Connect Statistics

	SH Connect	SZ Connect	Combined Southbound
Balance (RMB bn)	49.90	51.92	78.80
Balance as % of Quota Amount	96.0	99.9	93.8

Top 10 Most Actively Traded Stocks(SH-HK Connect Southbound)

Stock Name	Stock code	Buy Trades (HKD)	Sell Trades (HKD)	Turnover (HKD)
TENCENT	700	416,500,000	596,445,720	1,012,945,720
TRACKER FUND	2800	993,862,160	2,545,540	996,407,700
MEITUAN-W	3690	371,649,705	433,972,324	805,622,029
HSCEI ETF	2828	504,132,508	398,548	504,531,056
WUXI BIO	2269	258,387,530	204,150,810	462,538,340
WUXI APPTec	2359	152,495,645	220,612,200	373,107,845
CHINA MOBILE	941	139,928,500	203,480,217	343,408,717
CNOOC	883	226,383,040	102,753,920	329,136,960
SMIC	981	123,310,620	162,543,350	285,853,970
CHINA TELECOM	728	195,707,740	45,312,200	241,019,940

Sources: HKEx

Top 10 Most Actively Traded Stocks(SZ-HK Connect Southbound)

Stock Name	Stock code	Buy Trades (HKD)	Sell Trades (HKD)	Turnover (HKD)
TRACKER FUND	2800	2,422,919,450	47,829,530	2,470,748,980
TENCENT	700	460,850,840	497,259,331	958,110,171
CHINA MOBILE	941	298,027,650	190,920,875	488,948,525
WUXI BIO	2269	215,573,900	151,666,520	367,240,420
CCB	939	145,045,050	157,103,140	302,148,190
CNOOC	883	146,443,680	151,173,751	297,617,431
MEITUAN-W	3690	96,579,950	188,878,281	285,458,231
SMIC	981	125,759,250	116,457,920	242,217,170
XIAOMI-W	1810	47,583,548	190,198,344	237,781,892
WUXI APPTec	2359	68,444,090	134,507,292	202,951,382

Sources: HKEx

Other Statistics

Ten Most Actively Traded Stocks

Stock Name	Code	Change	Closed Price	Turnover(Billion)
TRACKER FUND	2800	-0.19%	15.63	88.49
TENCENT	700	0.07%	279.60	56.94
MEITUAN-W	3690	2.85%	65.05	28.91
HSCEI ETF	2828	-0.11%	52.76	27.33
BABA-SW	9988	-0.07%	70.65	27.23
WUXI BIO	2269	3.10%	17.30	22.03
AIA	1299	0.84%	60.25	15.61
CSOP HS TECH	3033	-0.27%	2.98	15.23
BYD COMPANY	1211	-0.64%	171.70	14.58
CCB	939	0.00%	4.61	14.51

Ten Short Sell Stocks

Stock Name	Code	Short Sell Amount	Turnover	Short Sell Ratio
TRACKER FUND	02800.HK	2.60B	7.61B	34.14%
TENCENT	00700.HK	1.31B	8.74B	14.94%
HSCEI ETF	02828.HK	1.17B	3.20B	36.76%
CSOP HS TECH	03033.HK	616.05M	1.05B	58.60%
BABA-SW	09988.HK	508.73M	2.47B	20.64%
MEITUAN-W	03690.HK	452.58M	2.29B	19.75%
XI2CSOPHSTECH	07552.HK	407.80M	853.66M	47.77%
BYD COMPANY	01211.HK	341.86M	1.81B	18.93%
WUXI BIO	02269.HK	317.28M	4.36B	7.28%
KUAISHOU-W	01024.HK	296.48M	821.18M	36.10%

Source: AA Stocks

Economic Calendars

Date	Country	Event	Survey	Prior
Mon	US	Jan. ISM Servies Index	52.1	50.5
		Caterpillar (CAT), McDonald (MCD) Results		
Tue	China	Jan. Caixin Servies PMI	53.0	52.9
	US	Spotify (SPOT) Result		
Wed	US	Dec. Trade Balance	-\$62.3b	-\$63.2b
		PayPal (PYPL), Uber (UBER), Walt Disney (DIS) Results		
	Hong Kong	Yum China Holdings (9987), Alibaba (9988) Results		
Thu	US	Initial Jobless Claims (Till Feb 3)		224k
		Continuing Jobless Claims (Till Jan 27)		1,898k
	China	Kellogg (K) Result		
		Jan. PPI (YoY)	-2.6%	-2.7%
Fri	US	Jan. CPI (YoY)	-0.5%	-0.3%
		PepsiCo (PEP) Result		
	Hong Kong	HK Stock Connect Closed		
		Half Day Market (Lunar New Year's Eve)		

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