



RESEARCH PAPER

31 July 2023

HSSCSOE – SOEs Stepping Into Center Stage

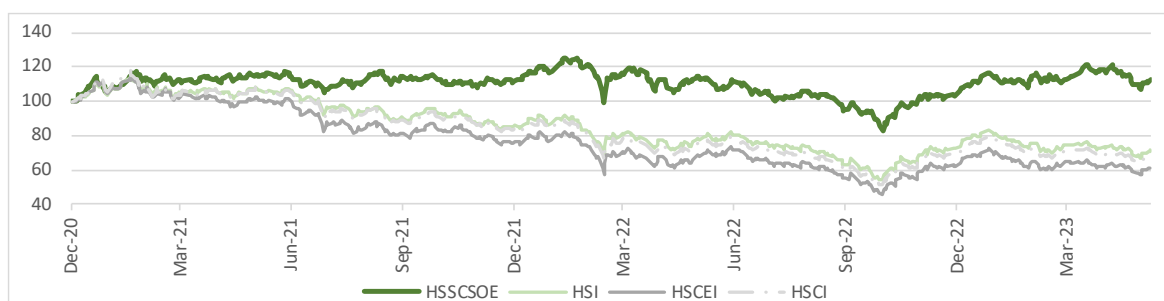
Reappraisal of valuation and improving payouts increase appeals of SOEs

We believe state-owned enterprises (SOEs) have shown more resilience against COVID-19 during the pandemic period (2020-22). With government officials voicing out support for a new methodology for valuing SOEs, we note share prices of corresponding companies have made notable progress YTD. As the government has been launching various policies to deepen reform of SOEs, the operating environment for SOEs is likely to improve as well.

To track the performance of central state-owned enterprises of The State-owned Assets Supervision and Administration Commission of the State Council of China (SASAC) listed in Hong Kong, Hang Seng Indexes Company Limited ('Hang Seng Indexes Company') recently launched the Hang Seng SCHK China Central State-owned Enterprises Index ('HSSCSOE'). It is worth noting that Financials industry has only 7% weighting in the index.

We note the earnings payout ratios of listed SOEs 20 years ago were generally low (10-20%). With improvement in earnings and an increase of shareholder friendliness, the earnings payout ratio has been rising steadily over the years. As the SOEs implement more shareholder friendly measures, the market sentiment towards their corresponding shares should improve as well.

Exhibit 1: HSSCSOE versus HSI, HSCEI and HSCI since Jan 2021



Source: Hang Seng Indexes Company.

Date: 7 July 2023



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Executive Summary

State-owned enterprises back onto center stage

While COVID-19 has made its presence felt among mainland private enterprises (impacting their operations and business), we believe state-owned enterprises have shown more resilience against COVID-19 during the pandemic period (2020-22). With government officials voicing out support for a new methodology for valuing SOEs, we note share prices of corresponding companies have made notable progress YTD. As the government has been launching various policies to deepen reform of SOEs, the operating environment for SOEs is likely to improve as well.

We believe SOEs have unique characteristics which position them for success: (1) dominant market share in their respective industries; (2) market capitalisation of the companies tends to be big in size; (3) material barriers to entry and exit in their industries; (4) history of the companies tends to be long; (5) staff number tends to be large as well.

HSSCSOE launched to track central state-owned enterprises (listed in Hong Kong)

To track the performance of central state-owned enterprises in China, Hang Seng Indexes Company recently launched the Hang Seng SCHK China Central State-owned Enterprises Index ('HSSCSOE'). All the constituent companies of the HSSCSOE are eligible for trading under the Stock Connect Scheme. The top 50 securities with the highest market value will be selected as constituents.

Not many Financials companies within the HSSCSOE due to their ownership structure

Upon initial launch of the HSSCSOE, among the 50 constituent members (ranked by weighting distribution), we note Energy (6 companies) accounts for 27.4% weighting. Next, Properties & Construction (13 companies) accounts for 16.7% weighting. The third ranked industry is Telecommunications (4 companies) accounts for 16.5% weighting. Consumer Staples (2 companies) accounts for 8.7% weighting and Utilities (7 companies) accounts for 8.5% weighting. These five industries altogether account for 77.7% of the HSSCSOE's market cap weighting.

Unlike the past, the SOEs have relatively high earnings payout ratio nowadays

We note the earnings payout ratios of the listed SOEs 20 years ago were generally low (10-20%). With improvement in earnings and an increase of shareholder friendliness, the earnings payout ratio has been rising steadily over the years. As the SOEs implement more shareholder friendly measures, the market sentiment towards their corresponding shares should improve as well.

SOEs represent 49% market capitalisation of Hong Kong's broad market (HSCI)

Out of over 500 constituent stocks under HSCI, 163 stocks are SOEs (Central SOE: 100 stocks), representing 31% of the total number. As of 30 June, the SOEs takes up 49% of total market capitalisation, but earned 68% of total revenue in FY2022. In terms of valuation, the SOEs is trading at 7.9x, being cheaper than the 26.8x of the non-SOEs. The Central and non-Central SOEs are similar in nature, the main difference would be their average sizes, and their direct vs indirect linkages with the Central Government.



Outperforms the HSCI by 45% (since 1 Jan 2021) and 11% (since 1 Jan 2023)

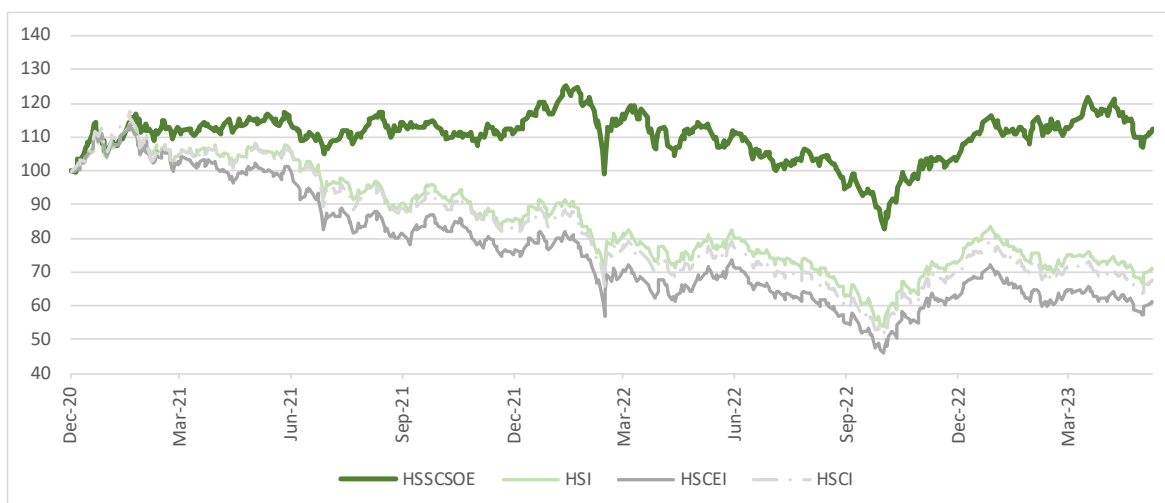
Since 1 Jan 2021 till 7 Jul 2023, the HSSCSOE delivers a total return of +12.2%. Over the same period, we note the HSI is -28.8%, HSCEI is -38.6% and HSCI is -32.5%. Effectively, the HSSCSOE has outperformed the HSI, HSCEI and HSCI by 41.0%, 50.9% and 44.7% respectively.

If we focus upon the period since 1 Jan 2023 till now (7 July 2023), the HSSCSOE delivers a total return of +8.1%. Over the same period, we note the HSI is -2.0%, HSCEI is -1.7% and HSCI is -2.5%. Effectively, the HSSCSOE has outperformed the HSI, HSCEI and HSCI by 10.1%, 9.8% and 10.6% respectively.

Differences between the HSSCSOE and the HSCSOE

As we compare the HSSCSOE and the Hang Seng China Central SOEs Index ('HSCSOE'), a few notable differences: (1) there are more companies from Materials and Financials within the HSCSOE (but only one Materials company and one Financials company within the HSSCSOE); (2) constituent list of the HSCSOE is being reviewed on quarterly basis while that of the HSSCSOE is being reviewed on half-yearly basis; (3) 8% capping on individual security within the HSCSOE and 10% capping on individual security within the HSSCSOE.

Exhibit 2: HSSCSOE versus HSI, HSCEI and HSCI since Jan 2021



Source: Hang Seng Indexes Company.

Date: 7 July 2023



What are State-owned Enterprises?

State-owned enterprises versus private enterprises

In China, before the introduction of private enterprises, most of the enterprises were state-owned enterprises. We note state-owned enterprises tend to engage in major industries such as: banks, infrastructure, oil and gas, telecommunications, utilities, which are quite often, deemed strategically important by the central government.

We note several unique characteristics of state-owned enterprises: (1) dominant market share in their respective industries; (2) market capitalisation of the companies tends to be big in size; (3) material barriers to entry and exit; (4) history of the companies tends to be long; (5) employee staff number tends to be large as well.

Dominant market share: Given the state-owned enterprises have a long history of operating in their respective industries and the central government has deemed those industries strategically important to the country, therefore it is not easy for new entrants to enter those industries and establish substantial market share.

Market capitalisation: We note the revenue of these state-owned enterprises could be around RMB100 billions per annum and the corresponding earnings could be around RMB10 billions per annum. As a result, quite often the market capitalisation of these state-owned enterprises (after listing) could be sizable.

History of company: At the very beginning, almost every enterprise was state-owned in China. As a result, state-owned enterprises have a long history of business operations in China. Given the long operating history of these enterprises, we believe they have garnered substantial brand recognition across the society.

Under the current regime, the state-owned enterprises are supervised by State-owned Assets Supervision and Administration Commission of the State Council ('SASAC').

Central state-owned enterprises

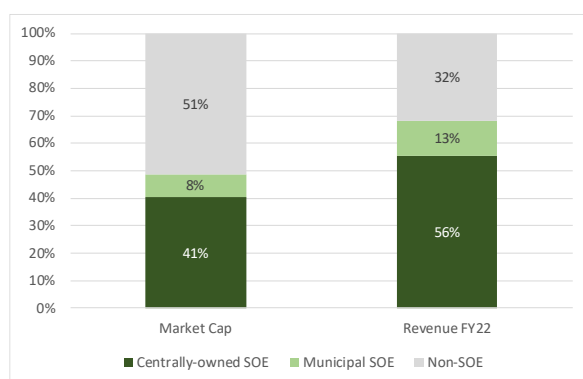
In this Research Paper, we would focus more on the Central State-owned Enterprises ('Central SOE'). Central SOEs refer to the wholly-owned or holding companies which are i) funded by the Central People's Government (the State Council) or its entrusted state-owned asset supervisory organisation, and ii) led by the leadership team controlled or managed by the Central Government, the entrusted Organisation Department of the CPC Central Committee, SASAC or other central ministries.



Central SOEs play an important role in the industries that are related to national security and economic development. They can be broadly classified into four natures: 1) Industrial Central SOEs, managed under SASAC, such as the Energy, Telecom, Power Grid, 2) Financial Central SOEs, managed under Ministry of Finance (MoF), such as the Banks and Insurance companies, 3) Cultural Central SOE managed under MoF, such as publication and media broadcast, and 4) other Central SOE managed under MoF, such as the Postal, Tobacco, etc.

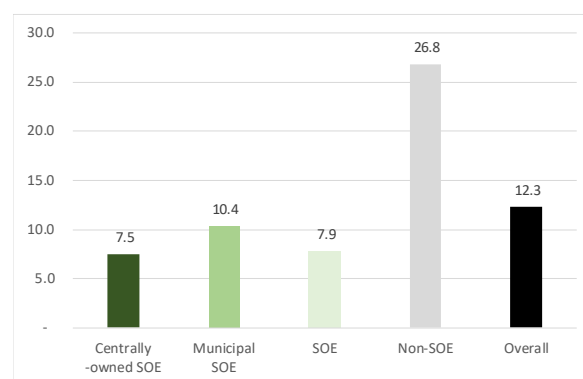
Out of over 500 constituent stocks under HSCI, 163 stocks are SOEs (Central SOE: 100 stocks), representing 31% of the total number. As of 30 June, the SOEs takes up 49% of total market capitalisation, but earned 68% of total revenue in FY2022 (Exhibit 3). In terms of valuation, the SOEs is trading at 7.9x, being cheaper than the 26.8x of the non-SOEs (Exhibit 4). The Central and non-Central SOEs are similar in nature, the main difference would be their average sizes, and their direct vs indirect linkages with the Central Government (Exhibit 5).

Exhibit 3: SOE MV and Revenue (% total)



Source: WIND; Data as of 30 June 2023

Exhibit 4: SOE and non-SOE P/E (x)



Source: WIND; Data as of 30 June 2023

Exhibit 5: SOE (Central vs Non-Central)

	Central SOE	Non-Central SOE
Ownership	Invested and controlled by the government organisation, under the Central Government via central SASAC or MoF	Invested and controlled by the government organisation, under the Municipal Government
Government linkage	Direct with Central Government	Indirect with Central Government
Strategic value	Higher	Lower
Examples	by central SASAC: Kunlun Energy (0135.HK) by MoF: Construction Bank of China (0939.HK)	by Tsingtao Government: Tsingtao Brewery (0168.HK)
HK Broad Market (HSCI):		
Number	100 stocks	63 stocks
Market Cap	HKD 20.2 trillions	HKD 4.1 trillions

Sources: Hang Seng Indexes Company, WIND; data as of 30 June 2023



Background of the SASAC

The SASAC is established in conformity with the Notice on the Institutional Establishment of the State Council (No. 11 [2008] of the State Council). It is an ad-hoc ministerial-level organisation directly subordinated to the State Council. The Party Committee of SASAC performs the responsibilities mandated by the Central Committee of the Chinese Communist Party.

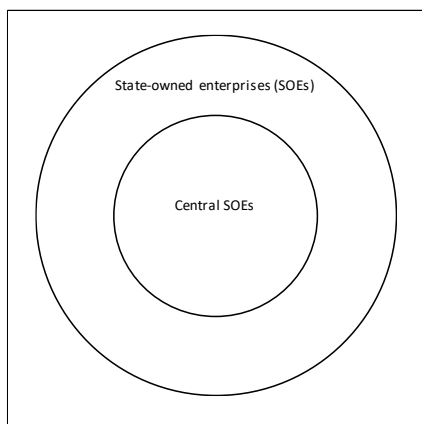
Major tasks of SASAC include: (1) supervises and manages the state-owned assets of enterprises (excludes financial companies) under the supervision of the Central Government, (2) supervising the preservation and increment of the value of the state-owned assets of the supervised enterprises, (3) guides and pushes forward the reform and restructuring of state-owned enterprises, (4) appoints and removes the top executives of the supervised enterprises, (5) organizing the supervised enterprises to turn the state-owned capital gains over to the state, (6) urging the supervised enterprises to carry out the guiding principles, (7) works out draft laws and regulations on the management of the state-owned assets, (8) undertakes other tasks assigned by the State Council.

Classification of state-owned enterprises

We note some of the state-owned enterprises are owned by central government. Examples of this group include: China Mobile, China Telecom, China Unicom, Petrochina, Sinopec.

We note central state-owned enterprises carry a much narrower definition than state-owned enterprises. All central state-owned enterprises are state-owned enterprises, but not all state-owned enterprises are central state-owned enterprises. To be classified as a central state-owned enterprise, the SOE's ultimate shareholder must be the central government. There are state-owned enterprises whose ultimate shareholders are provincial governments.

Exhibit 6: Relationship between State-owned Enterprises (SOEs) and Central SOEs



Source: Hang Seng Indexes Company.

Date: 7 July 2023



Index Launched to Track Central State-owned Enterprises

To track the performance of central state-owned enterprises in China, Hang Seng Indexes Company recently launched the Hang Seng SCHK China Central State-owned Enterprises Index ('HSSCSOE').

The objective of the Hang Seng SCHK China Central State-owned Enterprises Index is to reflect the performance of stocks listed in Hong Kong with Chinese central SOEs of the SASAC as the largest shareholder. All the constituent companies of the HSSCSOE are eligible for trading under the Stock Connect Scheme. The top 50 securities with the highest market value will be selected as constituents. The list of constituent companies will be reviewed on a half-yearly basis.

Upon initial launch of the HSSCSOE, within the top 10 companies (ranked by weighting distribution) of it, we note four constituents are from Energy industry, account for 25.3% of the index weighting, while two constituents are from Consumer Staples industry, account for 8.7% of the index weighting. Energy companies are sizable in terms of free-float market capitalisation. Given most of the major mainland banks are managed by Ministry of Finance, therefore, we note there is only one Financials constituent within the HSSCSOE.

We note the constituents of the HSSCSOE have an established history of being listed on the Stock Exchange of Hong Kong ('SEHK'). For example, if we look at the Top 10 constituent members within HSSCSOE from Energy industry, CNOOC was listed in February 2001, Sinopec Corporation was listed in October 2000, Petrochina was listed in April 2000 and China Shenhua was listed in June 2005.

Exhibit 7: Top 10 Companies within HSSCSOE (7 July 2023)

	Code	Company	Industry	Market Cap (HK\$bn)	Weighting (%)
1	0941.HK	CHINA MOBILE	Telecommunications	1,291.3	10.30%
2	0883.HK	CNOOC	Energy	516.2	9.44%
3	3968.HK	CM BANK	Financials	149.4	6.64%
4	0857.HK	PETROCHINA	Energy	113.7	5.94%
5	0386.HK	SINOPEC CORP	Energy	111.0	5.80%
6	1109.HK	CHINA RES LAND	Properties & Construction	226.1	5.31%
7	2319.HK	MENGNIU DAIRY	Consumer Staples	110.7	4.63%
8	0981.HK	SMIC	Information Technology	117.4	4.29%
9	1088.HK	CHINA SHENHUA	Energy	79.4	4.15%
10	0291.HK	CHINA RES BEER	Consumer Staples	154.7	4.04%
		Subtotal		2,870.0	60.54%

Source: Hang Seng Indexes Company.

Date: 7 July 2023

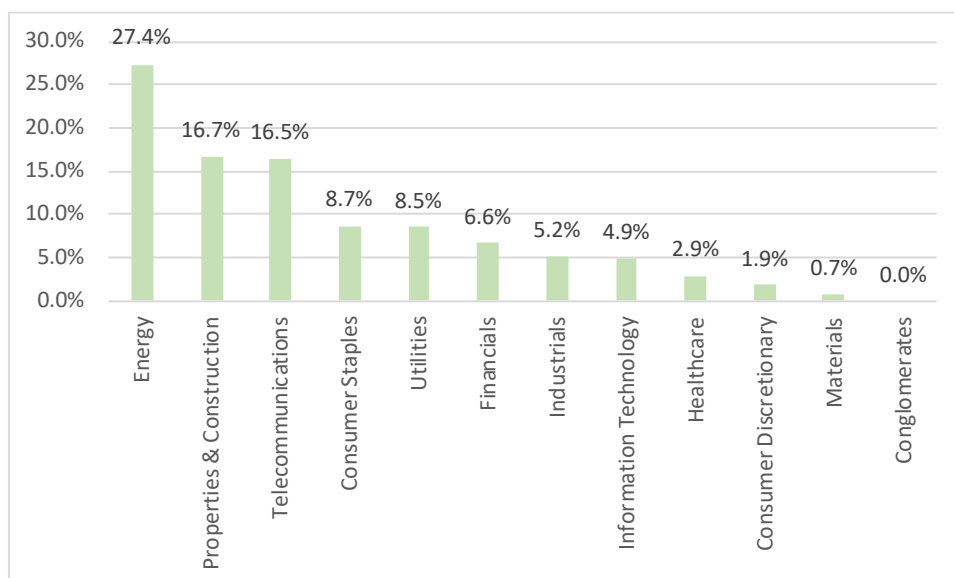


Deep Dive into Composition of the HSSCSOE Constituents

Weighting distribution by industry

To avoid the index being skewed by mega-sized stocks, the HSSCSOE is free-float market-capitalisation-weighted with a 10% capping on individual security. Within the index, Energy accounts for the highest weighting at 27.4%, followed by Properties & Construction at 16.7%, Telecommunications at 16.5%, Consumer Staples at 8.7% and Utilities at 8.5%. Conglomerates is the industry which accounts for the lowest weighting at 0.0%. Overall, we note the largest five industries combine for 77.7% of the HSSCSOE's market cap weighting.

Exhibit 8: Weighting Distribution within the HSSCSOE by Industry



Source: Hang Seng Indexes Company.

Date: 7 July 2023

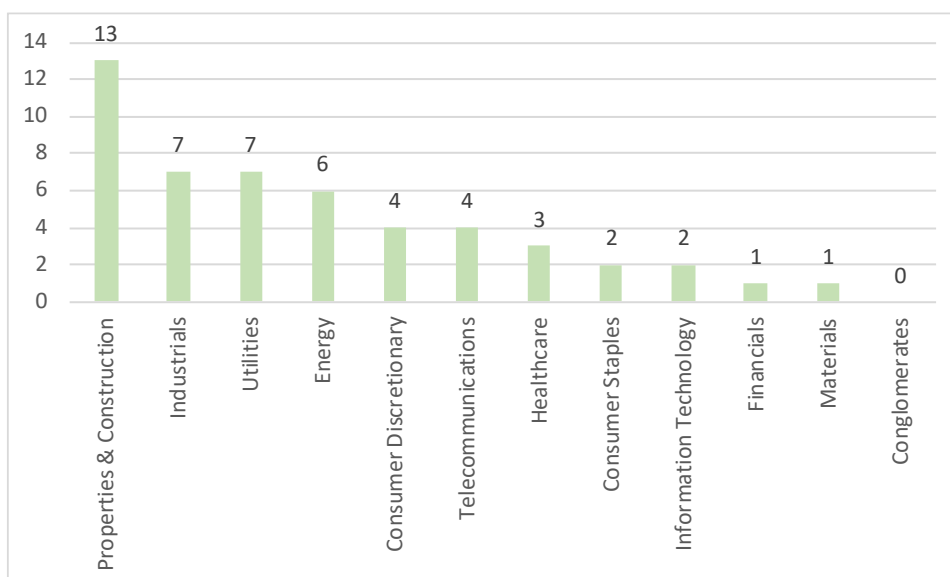


Number of companies by industry

In terms of distribution by industry, we note Properties & Construction has the highest representation at 13 companies, followed by Industrials and Utilities, each with 7 companies. Next, we note Energy has 6 companies, followed by Consumer Discretionary and Telecommunications, each with 4 companies. Conglomerates does not have any company representation within the HSSCSOE.

Given most of the mainland banks are managed by the Ministry of Finance, therefore, we note there is only 1 Financials company within the HSSCSOE.

Exhibit 9: Number of Companies within the HSSCSOE by Industry



Source: Hang Seng Indexes Company.

Date: 7 July 2023



Industry weightings comparison against other indexes

For the HSSCSOE, the top 3 industries with the highest industry weightings are Energy, Properties & Construction and Telecommunications. Those 3 industries account for 61% of the HSSCSOE. For the HSI, HSCEI and HSCI, they have the same top 3 industries with the highest industry weightings. Those industries are Consumer Discretionary, Financials and Information Technology. Given among the state-owned enterprises, Energy companies, Properties & Construction companies, Telecommunications companies generally have big market capitalisation. Therefore, their corresponding weighting distribution within HSSCSOE are big as well. Because most of the mainland banks are managed by the Ministry of Finance, therefore they do not meet the selection criteria for the HSSCSOE.

Meanwhile, within the HSI and the HSCEI, we note there are central state-own enterprises as well as private enterprises among the constituent members. As a result, the top 3 industries with the highest industry weightings are Financials, Information Technology, Consumer Discretionary.

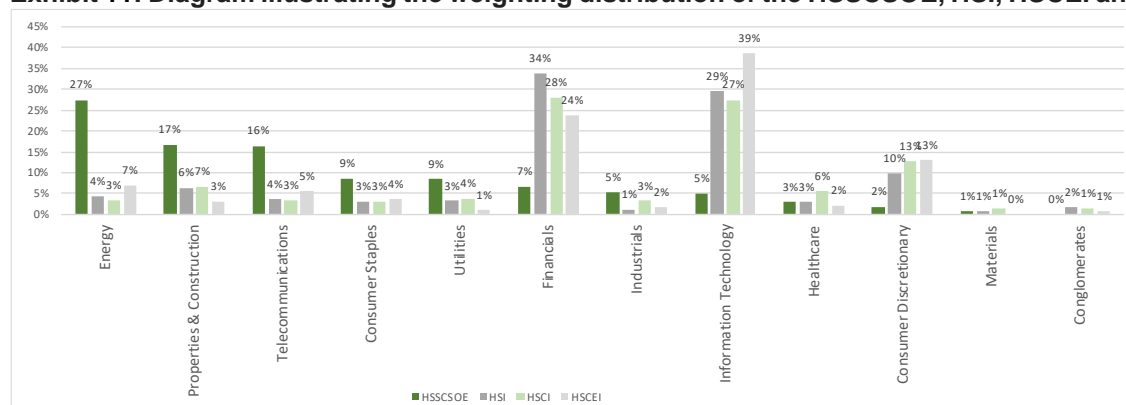
For the HSSCSOE, the top 3 industries account for 61% of the weighting distribution. For the HSI, HSCEI and HSCI, the top 3 industries account for 72.8%, 75.2% and 68.0% of the weighting distribution.

Exhibit 10: Industry weightings of the HSSCSOE, HSI, HSCEI and HSCI

Industry	HSSCSOE		HSI		HSCEI		HSCI	
	Weighting	Ranking	Weighting	Ranking	Weighting	Ranking	Weighting	Ranking
Energy	27.4%	1	4.2%	5	6.9%	4	3.4%	7
Properties & Construction	16.7%	2	6.4%	4	3.1%	7	6.7%	4
Telecommunications	16.5%	3	3.7%	6	5.5%	5	3.3%	8
Consumer Staples	8.7%	4	3.2%	8	3.6%	6	3.2%	10
Utilities	8.5%	5	3.3%	7	1.0%	10	3.8%	6
Financials	6.6%	6	33.6%	1	23.6%	2	28.0%	1
Industrials	5.2%	7	1.2%	11	1.8%	9	3.2%	9
Information Technology	4.9%	8	29.5%	2	38.6%	1	27.4%	2
Healthcare	2.9%	9	2.9%	9	2.2%	8	5.6%	5
Consumer Discretionary	1.9%	10	9.8%	3	13.0%	3	12.6%	3
Materials	0.7%	11	0.7%	12	0.0%	12	1.4%	12
Conglomerates	0.0%	12	1.6%	10	0.9%	11	1.5%	11

Source: Hang Seng Indexes Company; Date: 7 July 2023

Exhibit 11: Diagram illustrating the weighting distribution of the HSSCSOE, HSI, HSCEI and HSCI



Source: Hang Seng Indexes Company; Date: 7 July 2023



Share price performance of constituents within the HSSCSOE

In terms of share price performance YTD, we note share prices of constituents from Energy, Healthcare, Properties & Construction, Telecommunications and Utilities are generally up while share prices of constituents from Consumer Discretionary, Consumer Staples are generally down YTD.

We believe the following factors are responsible for the positive share prices performance of each respective sector.

Energy: While the Brent, which is the major global benchmark for crude oil price, fell almost 13% in the first half of 2023, state-owned oil and gas companies in mainland China bucked the trend and registered impressive gains in the period. The strong rally of mainland oil and gas SOEs was driven by better-than-expected first quarter results, high dividend yield and attractive valuations. Additionally, the upstream gas business has been boosted by the upward trend of natural gas price since 2021 and domestic gas pricing reform which increasing portion of a company's gas can be priced by market dynamics.

Properties & Construction: While the year-on-year growth of headline fixed asset investment (FAI) for the first 5 months of 2023 was just 4%, infrastructure investment remained elevated with a YoY growth of 7.5%. May infrastructure investment rose 8.6% YoY, following a 7.9% YoY growth in April. If the government is going to step up its efforts in boosting the infrastructure sector, the Properties & Construction industry should be the beneficiary.

Telecommunications: The 5G subscriber base continues to grow in China. The domestic telecom operators continue to experience stable operating revenue growth. In March, China Mobile, China Telecom and China Unicom reported 8.1%, 8.0% and 7.8% YoY growth for their respective operating service revenue in 2022, and moreover, EBITDA margin in the industry remains stable. Compared to the era of 2010-2020, we note the pace of new regulations (for telecom sector) being launched has slowed down.

Exhibit 12: Payout ratio (telecom industry) increases as operating environment improves

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue										
China Mobile	8.3%	3.4%	2.6%	6.0%	4.5%	-0.5%	1.2%	3.0%	10.4%	10.5%
China Telecom	13.6%	0.9%	2.2%	6.3%	3.9%	3.0%	-0.4%	4.7%	11.7%	9.5%
China Unicom	18.5%	-3.5%	-2.7%	-1.0%	0.2%	5.8%	-0.1%	4.6%	7.9%	8.3%
Net earnings										
China Mobile	-5.9%	-10.3%	-0.6%	0.2%	5.1%	3.1%	-9.5%	1.1%	7.7%	8.0%
China Telecom	17.4%	0.8%	13.5%	-10.2%	3.3%	13.9%	-3.3%	1.6%	24.5%	6.3%
China Unicom	46.7%	15.8%	-12.4%	-94.1%	192.5%	457.8%	11.1%	10.3%	15.0%	16.5%
Payout										
China Mobile	43.0%	43.0%	43.0%	46.0%	48.0%	49.0%	56.1%	52.6%	60.0%	67.0%
China Telecom	35.3%	34.8%	32.4%	41.8%	40.7%	41.9%	45.1%	40.5%	60.0%	65.0%
China Unicom	36.6%	39.7%	38.5%	0.0%	87.0%	40.2%	40.0%	40.2%	46.0%	50.1%

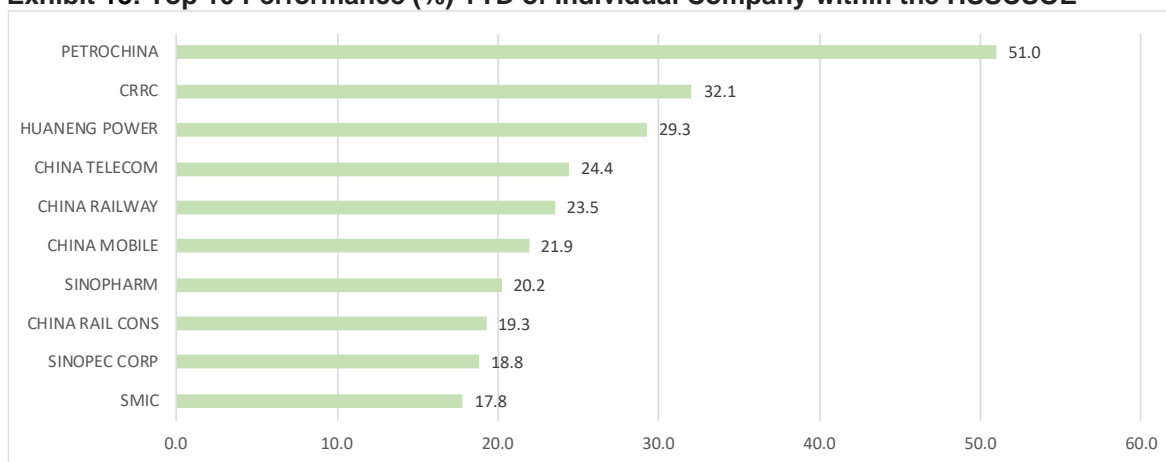
Source: Company data, Hang Seng Indexes Company; Date: 7 July 2023



Utilities: Mainland China's coal price (QHD 5,500/kcal) has come off significantly this year with a decline of more than 10% in the first 6 months of 2023, which is positive to margin expansion for coal-fired independent power producers (IPPs). In addition, the IPPs were also supported by strong thermal generation (+16% yoy in May) and energy transitions towards renewables.

Up to 7 July 2023, the top 5 performers within HSSCSOE are Petrochina (51.0%), CRRC (32.1%), Huaneng Power (29.3%), China Telecom (24.4%) and China Railway (23.5%).

Exhibit 13: Top 10 Performance (%) YTD of Individual Company within the HSSCSOE

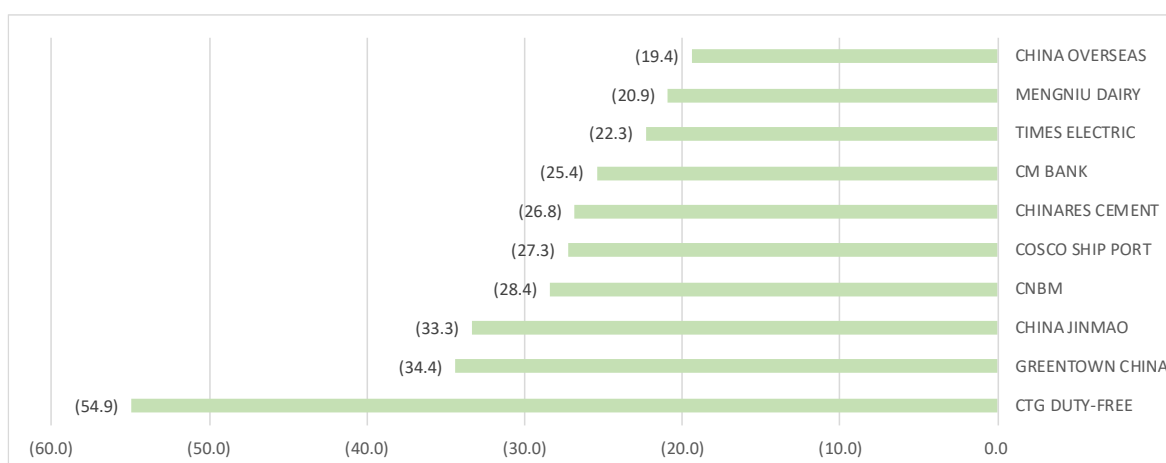


Source: Hang Seng Indexes Company.

Date: 7 July 2023

For the same period, the bottom 5 performers within HSSCSOE are CTG Duty-Free (-54.9%), Greentown China (-34.4%), China Jinmao (-33.3%), CNBM (-28.4%) and Cosco Ship Port (-27.3%).

Exhibit 14: Bottom 10 Performance (%) YTD of Individual Company within the HSSCSOE



Source: Hang Seng Indexes Company.

Date: 7 July 2023



Comparison of index performance and return volatility

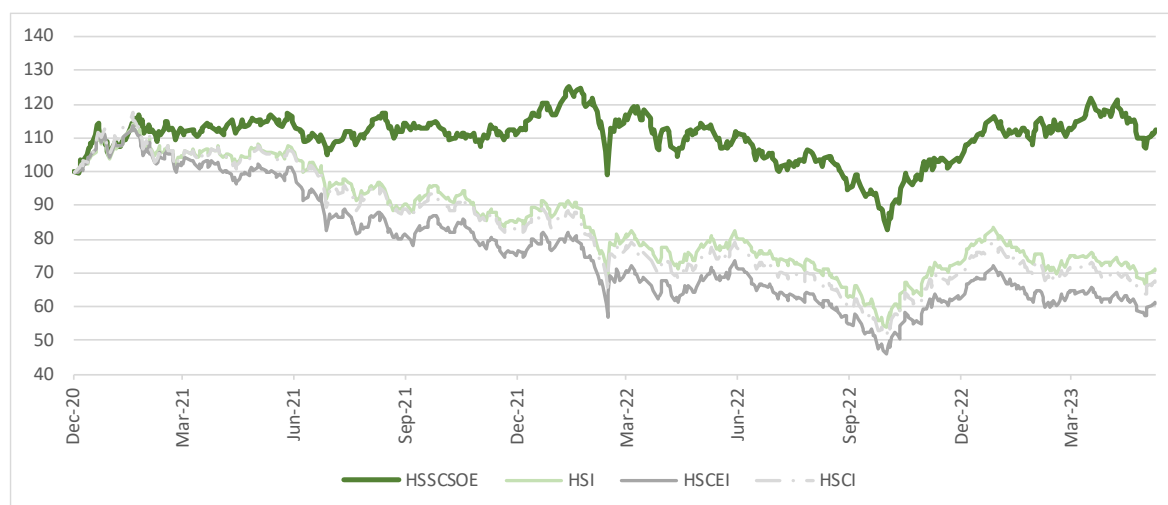
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If we focus upon the period since 1 Jan 2023 till now (7 July 2023), the HSSCSOE delivers a total return of +8.1%. Over the same period, we note the HSI is -2.0%, HSCEI is -1.7% and HSCI is -2.5%. Effectively, the HSSCSOE has outperformed the HSI, HSCEI and HSCI by 10.1%, 9.8% and 10.6% respectively.

In November of 2022, Yi Huiman, the Chairman of the China Securities Regulatory Commission (CSRC), called for a new methodology for valuing SOEs. Before the Two Sessions (National People's Congress Annual Meeting, Chinese People's Political Consultative Conference Annual Meeting) commenced in early March of this year, the SASAC launched an initiative to benchmark China's SOEs against world-class enterprises in terms of value creation, which included enhancing the core competitiveness of SOEs and expediting the process of becoming world-class enterprises.

The SASAC's initiative was followed by "deepening reform of state-owned capital and SOEs" being listed as one of the eight key focuses for 2023 in the Government Work Report and further commented to boost SOE's valuation during Two Sessions. With the emphasis placed by government officials and market focus upon such initiative, we note share prices of listed SOEs have reacted positively to all these news flow. Correspondingly, the HSSCSOE has been trending up.

Exhibit 15: Comparison of index performance



Source: Hang Seng Indexes Company.

Date: 7 July 2023



Exhibit 16: Comparison of index return and annualised volatility

	Index	2021	2022	2023 YTD	Overall 2021-23	Annualised 2021-23
Return (%)	HSSCSOE	11.6	-7.0	8.1	12.2	4.9
	HSI	-14.1	-15.5	-2.0	-28.8	-13.1
	HSCEI	-23.3	-18.6	-1.7	-38.6	-18.2
	HSCI	-15.6	-18.0	-2.5	-32.5	-14.9
Annualised Volatility (%)	HSSCSOE	18.4	26.1			22.2
	HSI	19.9	32.4			26.1
	HSCEI	22.6	37.7			30.1
	HSCI	21.6	32.5			26.7
Risk-adjusted Return (x)	HSSCSOE	0.63	-0.27			
	HSI	-0.71	-0.48			
	HSCEI	-1.03	-0.49			
	HSCI	-0.72	-0.55			

Source: Hang Seng Indexes Company; Date: 7 July 2023

In Exhibit 17, we note Internet companies (eg, Alibaba, Tencent) were delivering relatively fast revenue growth in 2019, 2020. Over the same period, telecom services companies (SOEs such as China Mobile, China Telecom) were delivering relatively flattish revenue growth. However, in 2021 and 2022, we note the revenue growth of Internet companies was slowing down. Meanwhile, the revenue growth of telecom services companies was accelerating from single-digit % to double-digit %.

For example, Tencent's FY19 revenue was up 20.7% YoY and Alibaba's FY19 revenue was up 50.6%. Meanwhile, China Mobile (ie, a state-owned enterprise)'s FY19 revenue was up only 1.2% YoY while China Telecom (another state-owned enterprise)'s FY19 revenue was down 0.4%. In 2022, as Internet companies were slowing down in terms of growth, we note state-owned enterprises were making a strong comeback in terms of revenue growth (ie, from single-digit % YoY revenue growth to double-digit % YoY revenue growth). As a result, share prices of corresponding companies reflected the improving financial results.

Exhibit 17: Comparison of revenue annual growth between Internet and telecom service providers

	2019	2020	2021	2022
Internet				
Alibaba	50.6%	35.3%	40.7%	18.9%
Tencent	20.7%	27.8%	16.2%	-1.0%
SOE				
China Mobile	1.2%	3.0%	10.4%	10.5%
China Telecom	-0.4%	4.7%	11.7%	9.5%

Source: Hang Seng Indexes Company; Date: 7 July 2023



HSSCSOE's Low Correlation with the HSI, HSCEI and HSCI

We compute the correlation between the HSSCSOE and HSCI. We note the correlation between the HSSCSOE and HSCI is lower than the correlation between (1) HSI and HSCI; and (2) HSCEI and HSCI.

The value of the correlation coefficient suggests there is mediocre but not exceptionally strong statistical relationship between the HSSCSOE and the HSCI. For investors who are looking for risk diversification opportunities, the HSSCSOE presents an optimal solution.

Exhibit 18: Return correlation among major HSIL indexes

	HSSCSOE	HSI	HSCEI	HSCI
HSSCSOE	1.00	0.84	0.84	0.86
HSI	0.84	1.00	0.98	0.99
HSCEI	0.84	0.98	1.00	0.99
HSCI	0.86	0.99	0.99	1.00

Source: Hang Seng Indexes Company.

Date: 7 July 2023



Appendix 1– The HSSCSOE Constituent Details

Exhibit 19: HSSCSOE – Constituents (based on 7 July 2023)

	Code	Company	Industry	Market Cap (HK\$bn)	3-mth ADT (HK\$m)	Weighting (%)	Acc. Weighting (%)
1	0941.HK	CHINA MOBILE	Telecommunications	1,291.3	1,126.4	10.30	10.30
2	0883.HK	CNOOC	Energy	516.2	1,005.6	9.44	19.74
3	3968.HK	CM BANK	Financials	149.4	636.9	6.64	26.38
4	0857.HK	PETROCHINA	Energy	113.7	668.1	5.94	32.32
5	0386.HK	SINOPEC CORP	Energy	111.0	545.9	5.80	38.12
6	1109.HK	CHINA RES LAND	Properties & Construction	226.1	335.7	5.31	43.43
7	2319.HK	MENGNIU DAIRY	Consumer Staples	110.7	290.0	4.63	48.06
8	0981.HK	SMIC	Information Technology	117.4	758.4	4.29	52.35
9	1088.HK	CHINA SHENHUA	Energy	79.4	555.4	4.15	56.50
10	0291.HK	CHINA RES BEER	Consumer Staples	154.7	412.8	4.04	60.54
11	0688.HK	CHINA OVERSEAS	Properties & Construction	181.7	309.5	3.32	63.86
12	0728.HK	CHINA TELECOM	Telecommunications	53.0	238.9	2.49	66.35
13	0788.HK	CHINA TOWER	Telecommunications	40.6	89.0	2.01	68.37
14	0836.HK	CHINA RES POWER	Utilities	83.7	242.0	1.75	70.12
15	1099.HK	SINOPHARM	Healthcare	32.0	148.5	1.67	71.79
16	0762.HK	CHINA UNICOM	Telecommunications	159.1	232.3	1.66	73.45
17	0916.HK	CHINA LONGYUAN	Utilities	26.0	161.8	1.36	74.81
18	1209.HK	CHINA RES MIXC	Properties & Construction	85.6	86.3	1.34	76.15
19	0135.HK	KUNLUN ENERGY	Utilities	51.3	138.9	1.34	77.49
20	1919.HK	COSCO SHIP HOLD	Industrials	26.2	242.8	1.30	78.79
21	1898.HK	CHINA COAL	Energy	23.7	97.4	1.24	80.03
22	1193.HK	CHINA RES GAS	Utilities	57.3	111.4	1.20	81.23
23	0390.HK	CHINA RAILWAY	Properties & Construction	21.4	118.4	1.12	82.35
24	0902.HK	HUANENG POWER	Utilities	22.4	179.7	1.05	83.40
25	1816.HK	CGN POWER	Utilities	21.1	56.9	1.05	84.45
26	3323.HK	CNBM	Properties & Construction	20.9	108.9	1.04	85.49
27	1766.HK	CRRC	Industrials	18.2	84.7	0.95	86.44
28	1800.HK	CHINA COMM CONS	Properties & Construction	18.9	62.8	0.94	87.38
29	3898.HK	TIMES ELECTRIC	Industrials	16.5	83.2	0.82	88.19
30	3311.HK	CHINA STATE CON	Properties & Construction	44.5	50.8	0.81	89.01
31	2883.HK	CHINA OILFIELD	Energy	15.6	63.8	0.81	89.82
32	0144.HK	CHINA MER PORT	Industrials	42.2	39.2	0.77	90.59
33	2380.HK	CHINA POWER	Utilities	36.2	101.4	0.76	91.35
34	2600.HK	CHALCO	Materials	13.8	85.0	0.72	92.07
35	0696.HK	TRAVELSKY TECH	Information Technology	12.4	37.5	0.65	92.72
36	0753.HK	AIR CHINA	Consumer Discretionary	27.1	84.7	0.64	93.36
37	0570.HK	TRAD CHI MED	Healthcare	17.0	58.4	0.62	93.98
38	3320.HK	CHINARES PHARMA	Healthcare	39.1	61.5	0.61	94.59
39	1186.HK	CHINA RAIL CONS	Properties & Construction	11.6	88.0	0.60	95.20
40	2669.HK	CHINA OVS PPT	Properties & Construction	26.2	35.4	0.55	95.74
41	1880.HK	CTG DUTY-FREE	Consumer Discretionary	12.1	159.9	0.54	96.28
42	0489.HK	DONGFENG GROUP	Industrials	10.2	50.1	0.51	96.79
43	0817.HK	CHINA JINMAO	Properties & Construction	14.9	44.4	0.51	97.30
44	2357.HK	AVICHINA	Industrials	23.5	39.7	0.49	97.79
45	1055.HK	CHINA SOUTH AIR	Consumer Discretionary	21.4	47.2	0.45	98.23
46	3900.HK	GREENTOWN CHINA	Properties & Construction	18.9	57.9	0.45	98.68
47	1313.HK	CHINARES CEMENT	Properties & Construction	21.2	19.3	0.39	99.07
48	1199.HK	COSCO SHIP PORT	Industrials	15.5	25.2	0.36	99.43
49	0081.HK	CH OVS G OCEANS	Properties & Construction	13.0	29.9	0.34	99.77
50	0670.HK	CHINA EAST AIR	Consumer Discretionary	14.7	18.8	0.23	100.00

Source: Hang Seng Indexes Company.

Date: 7 July 2023



Appendix 2 – HSSCSOE vs HSCSOE: difference in ownership structure

In April 2023, Hang Seng Indexes Company launched Hang Seng China Central SOEs Index ('HSCSOE'). There are some similarities and differences between the HSSCSOE and the HSCSOE. Each has 50 constituent members.

The objective of the HSCSOE is track the overall performance of stocks listed in Hong Kong with Chinese central state-owned enterprise (central SOE) as the largest shareholder. We note one difference is the HSCSOE tracking central SOEs while the HSSCSOE tracking central SOEs of SASAC as largest shareholder, which excludes those central SOEs managed by the MoF.

As we compare the HSCSOE and the HSSCSOE, a few notable differences: (1) there are more companies from Materials and Financials within the HSCSOE (only 1 Materials company and 1 Financials company within the HSSCSOE); (2) HSCSOE constituent list is being reviewed on quarterly basis while the HSSCSOE constituent list is being reviewed on half-yearly basis; (3) 8% capping on individual security within the HSCSOE and 10% capping on individual security within HSSCSOE.

Exhibit 20: Members of the HSCSOE but NOT members of the HSSCSOE (based on 7 July 2023)

	Code	Company	Industry	Market Cap (HK\$bn)
1	0267.HK	CITIC	Conglomerates	247.3
2	1610.HK	COFCO JOYCOME	Consumer Staples	8.7
3	0939.HK	CCB	Financials	1,050.6
4	0966.HK	CHINA TAIPING	Financials	28.5
5	1398.HK	ICBC	Financials	313.3
6	2328.HK	PICC P&C	Financials	58.4
7	2628.HK	CHINA LIFE	Financials	90.0
8	3908.HK	CICC	Financials	25.9
9	3988.HK	BANK OF CHINA	Financials	230.8
10	6030.HK	CITIC SEC	Financials	35.8
11	6881.HK	CGS	Financials	15.2
12	1515.HK	CR MEDICAL	Healthcare	8.0
13	0552.HK	CHINACOMSERVICE	Information Technology	8.4
14	3969.HK	CHINA CRSC	Information Technology	5.8
15	0297.HK	SINOFERT	Materials	6.5
16	0338.HK	SHANGHAI PEICHEM	Materials	4.2
17	2099.HK	CHINAGOLDINTL	Materials	11.2

Source: Hang Seng Indexes Company.

Note: The other 33 members of the HSCSOE (not listed in the above table) are also members of the HSSCSOE.

Date: 7 July 2023



Appendix 3 – China's SOE Operating Data

Below are the major operating data of China's SOE according to WIND.

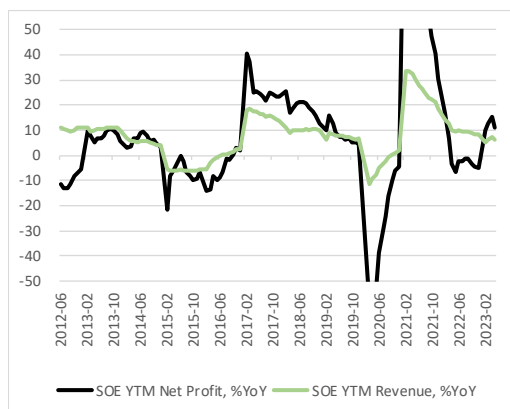
Net profit growth: For the first five months of 2023, we note the aggregate revenue of SOEs was RMB 32,911bn, up 6.2%YoY (Exhibit 21). Over the same period, we note the aggregate earnings of SOEs was RMB 1,784bn, up 10.9% YoY (Exhibit 21). Such financial figures suggest the China's SOEs are delivering healthy financial performance.

Debt-to-Asset ratio: As of Dec 2022, the aggregate debt-to-asset ratio of SOEs stabilised around 64.8% (Exhibit 22). With the debt ratio stabilizing around 65%, this is a sign that the China's SOEs have maintained their leverage at a reasonable level.

Total assets: In 2021, the aggregate total assets of SOEs reached RMB 273 trillion (Exhibit 23). The continuous growth of total assets suggests the SOEs has managed to stay on the trail of becoming "bigger, stronger and better".

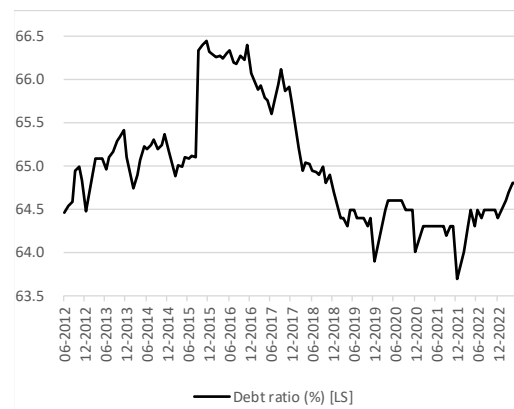
Return on Equity (ROE): The ROE in 2021 was 6% (Exhibit 24), according to the latest data released by the MoF. Based on uptick trend shown in Exhibit 24, the SOEs are getting more efficient in generating profits.

Exhibit 21: SOE YTM Net Profit and Revenue Growth



Source: WIND; Data as of 30 June 2023

Exhibit 22: SOE YTM Debt-to-Asset Ratio



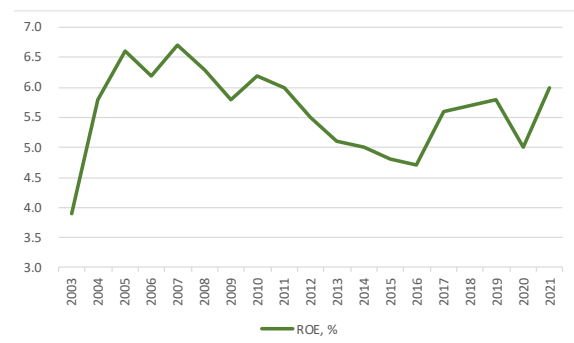
Source: WIND; Data as of 30 June 2023

Exhibit 23: SOE annual total assets



Source: WIND; Data as of 30 June 2023

Exhibit 24: SOE annual ROE



Source: WIND; Data as of 30 June 2023



Appendix 4 – SOE Thematic Indexes

Exhibit 25: List of SOE thematic indexes recently launched by Hang Seng Indexes Company

Index Name	Bloomberg Ticker	Launch Date (D-M-Y)	# of Constituents	Frequency of Review	Capping (indiv. stock)
1 Hang Seng China Central SOEs Index	HSCSOE	17/4/2023	50	Quarterly	8%
2 Hang Seng SCHK China Central State-owned Enterprises Index	HSSCSOE	22/5/2023	50	Half-yearly	10%
3 Hang Seng SCHK China Central SOEs High Dividend Yield Index	HSSCSOY	12/6/2023	40	Annually	10%
4 Hang Seng SCHK China Central SOEs ESG Leaders Index	HSSCSEL	10/7/2023	40	Quarterly	8%

Source: Hang Seng Indexes Company.

Date: 7 July 2023



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