

Shenzhen-Hong Kong Stock Connect Series

Shenzhen-Hong Kong Stock Connect Overview

Hong Kong | Shenzhen-Hong Kong Stock Connect | Market report

Shenzhen-Hong Kong Stock Connect (SZ-HK Stock Connect) will be launched at the end of November. Although the actual launch date is not announced yet, Li Xiaojia, CEO of Hong Kong Exchanges and Clearing (HKEX), said it is preferred to launch SZ-HK Stock Connect on one of the Monday at the end of November. On October 13, 2016, HKEX and Shenzhen Stock Exchange (SZSE) held an investor roadshow in Hong Kong, signaling the start of the international investor roadshows for SZ-HK Stock Connect. Li Xiaojia, CEO of HKEX, announced along with Wang Hong, Vice Executive President of SZSE, that HKEX and SZSE will conduct a three week system test for the trading link between October 17, 2016 and November 9, 2016, and is set to finish in mid-November.

Brief Overview of SZ-HK Stock Connect

The daily quotas of Hong Kong Stock Connect and Shenzhen Stock Connect are CNY10.5Bn and CNY13Bn respectively. SZ-HK Stock Connect has no aggregate quota in its initial launch. SZ-HK Connect covers about 880 stocks, which include the constituent stocks of SZSE Component Index and SZSE Small-Midcap Innovation Index with market capitalization of more than CNY6Bn, and stocks listed on SZSE which the companies have issued both A and H shares. Hong Kong Stock Connect covers constituent stocks of Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index, constituent stocks with market capitalization of more than HKD5Bn of Hang Seng Composite SmallCap Index, and stocks listed on HKEX which the companies have issued both A and H shares.

Impact to Hong Kong Stocks

Hong Kong stocks is relatively undervalued in comparison with Shenzhen stocks, as evident by Shenzhen A shares have an average historical P/E ratio of 40x while Hong Kong stocks have an average historical P/E ratio of 11x. Chinese investors are expected to use the southbound channel to invest in Hong Kong stocks. However, we expect that only the MidCap and SmallCap stocks in Hong Kong will benefit from the SZ-HK Stock Connect, and the effect on major indices will be limited since they have been included in the Shanghai-Hong Kong Stock Connect already. For the first time, the stock connect expands to constituent stocks with HKD5Bn market capitalization of Hang Seng Composite SmallCap Index, whose valuation ratio implies the stocks are relatively undervalued in comparison with those listed on SZSE. Funds are expected to flow into the MidCap and SmallCap stocks in Hong Kong, and these stocks are expected to benefit from the stock connect programme. However, the primary participants of A Shares market are retail investors, who are highly sensitive to market rumours. Therefore, we expect the SmallCap and MidCap stocks in Hong Kong to be more volatile in the future.

The following stocks are the A+H shares. The final eligible stocks for SZ-HK Stock Connect will be announced by HKEX.

H Shares	A Shares
Northeast Electric Development (42.HK)	Northeast Electric Development (585.SZ)
Angang Steel (347.HK)	Angang Steel (898.SZ)
Shandong Molong Petroleum Machinery (568.HK)	Shandong Molong Petroleum Machinery (2490.SZ)
Shandong Xinhua Pharmaceutical (719.HK)	Shandong Xinhua Pharmaceutical (756.SZ)
ZTE Corp (763.HK)	ZTE Corp (63.SZ)
Dongjiang Environmental (895.HK)	Dongjiang Environmental (2672.SZ)
Hisense Kelon Electrical (921.HK)	Hisense Kelon Electrical (921.SZ)
Zhejiang Shibao (1057.HK)	Zhejiang Shibao (2703.SZ)
Zoomlion Heavy Industry (1157.HK)	Zoomlion Heavy Industry (157.SZ)
BYD (1211.HK)	BYD (2594.SZ)
Livzon Pharmaceutical (1513.HK)	Livzon Pharmaceutical (513.SZ)
GF Securities (1776.HK)	GF Securities (776.SZ)
Shandong Chenming Paper (1812.HK)	Shandong Chenming Paper (488.SZ)
China International Marine Containers (2039.HK)	China International Marine Containers (39.SZ)
China Vanke (2202.HK)	China Vanke (2.SZ)
Xinjiang Goldwind Science & Technology (2208.HK)	Xinjiang Goldwind Science & Technology (2202.SZ)
Weichai Power (2338.HK)	Weichai Power (338.SZ)

The following stocks are part of the constituent stocks of Hang Seng Composite SmallCap Index. The final eligible stocks for SZ-HK Stock Connect will be announced by HKEX.

Far East Consort. (35.HK)	Emperor Int'l (163.HK)	SMI Holdings (198.HK)	Citychamp Watch (256.HK)
Kingdee Int'l (268.HK)	Texwinca (321.HK)	PAX Global Tech. (327.HK)	Greenland HK (337.HK)
Chinasoft Int'l (354.HK)	FDG Kinetic (378.HK)	Bank of Jinzhou (416.HK)	Huayi Tencent Ent (419.HK)
GCL New Energy (451.HK)	Greatview Aseptic (468.HK)	Guangshen Rail (525.HK)	Fufeng Group (546.HK)
Digital Domain (547.HK)	Shenzhen Express (548.HK)	SH Industrial Urban (563.HK)	Beijing Jingeng (579.HK)
Sinotrans (598.HK)	China High Speed (658.HK)	Tongda Group (698.HK)	Giordano Int'l (709.HK)
CN Financial Int'l (721.HK)	FDG Elect Vehicles (729.HK)	CN Power NE (735.HK)	CK Life Sciences (775.HK)
NetDragon (777.HK)	IGG (799.HK)	Huadian Fuxin (816.HK)	Tianneng Power (819.HK)
Microport Sci (853.HK)	China Water (855.HK)	Chaowei Power (951.HK)	Chiho-Tiande (976.HK)
CM Land (978.HK)	Future Land (1030.HK)	Yuexiu Transport (1052.HK)	TCL Multimedia (1070.HK)
COSCO Shipping (1138.HK)	Hybrid Kinetic (1188.HK)	China Lilang (1234.HK)	Powerlong RE (1238.HK)
Lifetech Sci (1302.HK)	HKBN (1310.HK)	361 Degrees (1361.HK)	Xtep Int'l (1368.HK)
Canvest Envir. (1381.HK)	Fu Shou Yuan (1448.HK)	Livzon Pharma (1513.HK)	Phoenix Health (1515.HK)
Metallurgical Corp (1618.HK)	Yuzhou Prop (1628.HK)	CN Metal Res. (1636.HK)	Tong Ren Tang (1666.HK)
Fantasia Holdings (1777.HK)	Colour Life Ser. (1778.HK)	CGN New Energy (1811.HK)	Zhaojin Mining (1818.HK)
CN Aircraft Leasing (1848.HK)	CITIC Telecom (1883.HK)	CN Huiyuan Juice (1886.HK)	Bank of Chongqing (1963.HK)
China SCE Prop (1966.HK)	Tian Ge Interact. (1980.HK)	SSY Group (2005.HK)	BBMG Corp (2009.HK)
SH Fosun Pharma (2196.HK)	Xinjiang Goldwind (2208.HK)	Haichang Ocean P. (2255.HK)	HC Int'l (2280.HK)
Li Ning (2331.HK)	Coolpad Group (2369.HK)	Universal Med. (2666.HK)	CN Overseas Prop (2669.HK)
Texhong Textile (2678.HK)	CN Shipping Cont (2866.HK)	Lonking Holdings (3339.HK)	Tianjin Port (3382.HK)
Wasion Group (3393.HK)	Fuyao Glass (3606.HK)	Pou Sheng Int'l (3813.HK)	CN Dongxiang (3818.HK)
Harmony NE Auto(3836.HK)	CN Molybdenum (3993.HK)		

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2016 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG
Phillip Securities (HK) Ltd

Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B,
JI Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM
King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN
PhillipCapital Japan K.K.

Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd

No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE
King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005