Dividend forecasting

17 November 2021

Hong Kong dividend index points under China's regulatory reset

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Key Implications

- As waves of regulatory reform of mainland China swept through Hang Seng Index (HSI), market concerns are reflected in the downward trending index price since October, contrary to the upbeat dividend yield.
- The dividend index points (DIPs) of HSI are expected to increase from 708.5 in 2021 to 747.8 in 2022, representing a 5.6% year-on-year (y/y) growth.
- The Banking sector, which has seen regulatory overhaul in capital reserve and deposit rates to improve profitability and liquidity this year, is expected to continue to dominate the dividend payments in the market, contributing 43.7% of the total DIPs for 2022, followed by the Real Estate, Insurance, and Energy sectors.
- Despite concerns over the tightening regulations on China's technology giants (Alibaba, Meituan, and Tencent), the DIPs of Hang Seng Tech Index are expected to increase from 24.8 in 2021 to 26.7 in 2022, representing a 7.7% y/y growth, as the top dividend contributors (Lenovo, Haier Smart, and ASM Pacific Technology) are mostly immune from the regulatory changes.

Mainland China has witnessed waves of dramatic regulatory reform this year, along with the challenges from waves of delta variant, flood, and power supply shortages. The government reiterated the shift from "growth first" to balancing growth and sustainability. The cooling measures in property market and the leverage crackdown led to turmoil in the sector with rising default risks of heavily indebted players. The tutoring reform to discourage excessive academic competition has reshaped the foundation of the private tutoring industry. Aside from this, mainland China also stepped up its antitrust scrutiny on the technology sector, targeting some of the tech giants including Alibaba and Meituan. The move to rein in the gaming sector by slowing down new online game approvals and posing restrictions on the gaming time for kids also triggered fears of further tightening in the sector, with Tencent and NetEase likely to be impacted. We present the trend of DIPs of Hang Seng Index and Hang Seng Tech Index in the backdrop of frequent regulatory changes.

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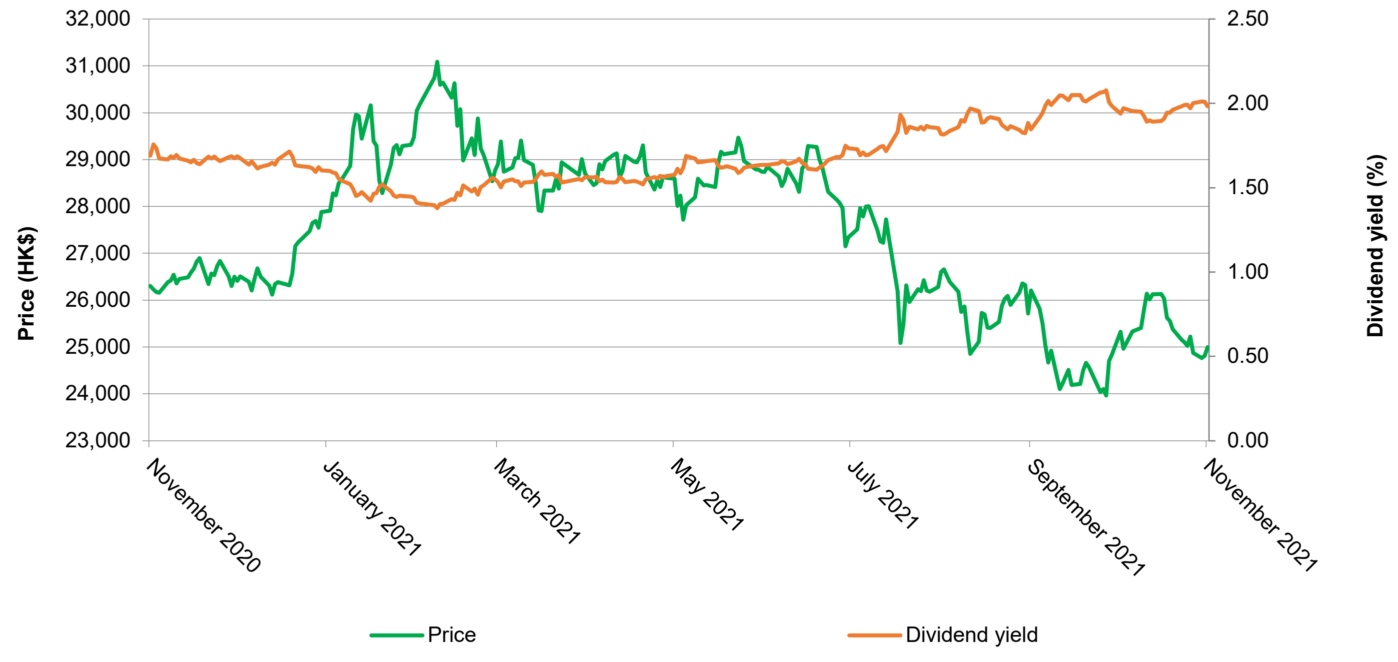
Hang Seng Index share price and dividend yield



Note:Dividend yield based on weighted average of each listed company's most recent 12-month dividends
Source: Factset

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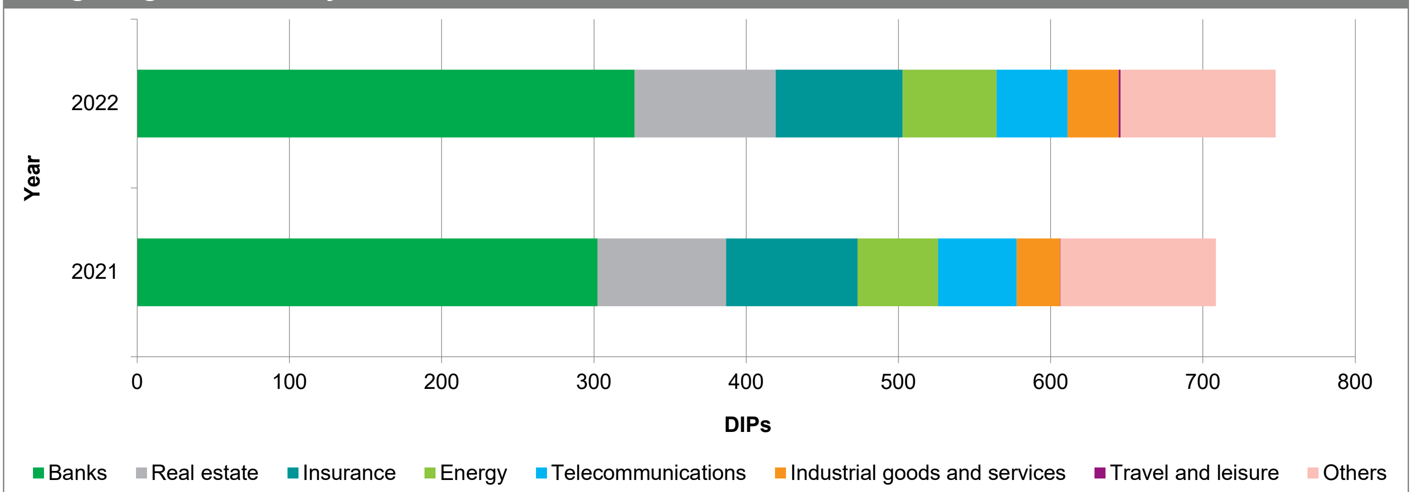
Hang Seng Index

Cross-timeline comparision

The DIPs of HSI are expected to increase from 708.5 in 2021 to 747.8 in 2022, representing a 5.6% y/y growth. The banking sector, which has seen regulatory overhaul in capital reserve and deposit rates to improve profitability and liquidity this year, is expected to continue to dominate the dividend payments in the market, contributing 43.7% of the total DIPs for 2022, followed by the real estate, insurance, and energy sectors.

Hang Seng Index DIPs by sector



Note: DIPs data as of 10 November 2021.
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Sector trend against regulatory changes

Banks

Following the outbreak of COVID-19, the mega banks in China saw a surge in bad loans and a shrink in interest rate margins amid the economic slowdown and the government's request to sacrifice profits to serve real economy. The mega banks managed to register single-digit profit growth thanks to the strong rebound in fourth quarter 2020. In 2021, the rate liberalization continued to progress steadily, with the loan prime rate flat at 3.85% for 18 months. The central bank cut the reserve requirement ratio to improve the liquidity structure of financial institutions in July 2021. Regulators rolled out a new scheme for deposit rate calculation in June 2021, allowing banks to set ceilings on deposits by adding basis points to the benchmark rate rather than multiplying the benchmark. The deposit rate overhaul is set to reduce the funding cost and improve the profitability of banks. The profit growth of the large banks in China are expected to accelerate modestly in 2021, with improved asset quality and stabilized interest rate margin. The mega banks have been maintaining consistent payout ratios of around 30% and we are expecting similar practice for the upcoming years.

HSBC initiated its interim dividend in 2020 and is expected to resume its quarterly dividend payment practice in 2021. The change in the dividend payment frequency has resulted a large jump in the DIPs contribution and is the main DIPs growth driver in the bank sector. China Construction Bank reported year-on-year net profit growth of 12.3% for the first nine months of fiscal year (FY) 2021. The net interest margin was 2.12%, down 0.07% from the same period last year. The non-performing loan ratio was 1.51%, a decrease of 0.05% compared with the end of last year. We are expecting the bank to raise its dividend payment in tandem with its earnings, in line with a 30% payout ratio.

Top 5 DIPs (banking sector)

Security name	ISIN	DIPs	Type	Amount (E)	Currency	Ex-date (E)
China Construction Bank	CNE1000002H1	89.9961989	Final	0.347	CNY	6 July 2022
HSBC Holdings	GB0005405286	59.8072376	Final	0.188	USD	10 March 2022
ICBC	CNE1000003G1	48.8659295	Final	0.2763	CNY	28 June 2022
Bank of China	CNE1000001Z5	39.2309873	Final	0.206	CNY	25 May 2022
HSBC Holdings	GB0005405286	19.0874163	Q1	0.06	USD	12 May 2022
HSBC Holdings	GB0005405286	19.0874163	Q2	0.06	USD	18 August 2022
HSBC Holdings	GB0005405286	19.0874163	Q3	0.06	USD	3 November 2022

Source: IHS Markit

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Real estate

Pledging the principle that "houses are for living in, not for speculation" and "stabilizing housing price, landing premium, and expectations," regulators in China have been rolling out a series of policies to keep a tight rein on the real estate sector, including the most well-known "three red lines" which is designed to assess the developer's finance situation against three criteria: liability-to-asset ratio, net gearing ratio and cash-to-short-term debt ratio. If the real estate developers fail to meet any of the "three red lines," regulators will place limits on the extent to which they can grow debt. The regulatory overhaul has prompted the real estate developers to focus on sustainable growth and reduce their leverage following years of rapid growth and excessive borrowing. The financial risk of the real estate sector in China comes under the spotlight following the financial distress of China Evergrande. The real estate giant is struggling to fulfill its debt obligations under the backdrop of regulatory reform aiming for de-risk and de-leverage, and its profit has been adversely impacted by the low gross profit margin and halted development projects. It is possible to see more defaults in the sector and investors are concerned over the potential spread of the financial risk to other sectors such as banking and insurance. Despite the tightened regulation, we notice that the mainland developers within Hang Seng index have been maintaining a relatively healthy balance sheet and liquidity condition, allowing them to grow dividends going forward.

China Overseas Land & Investment is set to be a noteworthy dividend points growth driver. It maintains a relatively healthy leverage and hasn't breached any of "three red lines". The revenue was up 27.7% y/y for the first nine months of FY 2021, with one of the lowest net gearing ratios of 35.6% in the industry. With low financing cost and prudent expense control, the company was able to maintain a favorable operating profit margin of 26%. We are expecting the company to increase its final dividend to HK$0.85 per share, in line with a 29% payout ratio. Country Garden Holdings is another contributor to the DIPs change. The revenue of the company grew by 27% y/y in first half FY 2021, primarily due to the increase of gross floor area delivered and the construction volume. The net gearing ratio was decreased from 55.6% as of 31 December 2020 to 49.7% as of 30 June 2021. As a top tier developer in mainland China, the company has kept a high cash collection ratio of more than 90% in recent years, which could support the business expansion. The company is expected to step up its final payment to HK$0.27 per share, in line with its recent payout level of 30%.

Top 5 DIPs (real estate sector)

Security name	ISIN	DIPs	Type	Amount (E)	Currency	Ex-date (E)
Sun Hung Kai Props Ord	HK0016000132	9.6324042	Final	3.75	HKD	8 November 2022
China Resources Land Ord	KYG2108Y1052	9.47733877	Final	1.232	CNY	20 June 2022
China Overseas Ord	HK0688002218	6.41388046	Final	0.85	HKD	24 June 2022
Link Real Estate Investment Trust	HK0823032773	6.36252298	Interim	1.5515	HKD	21 November 2022
Link Real Estate Investment Trust	HK0823032773	6.36211289	Final	1.5514	HKD	29 June 2022

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Energy

Energy transition has shot to a top priority for President Xi Jinping as the recent power cut choked up factories supply in energy intensive sectors such as steel, cement, aluminum, and chemicals. Stimulated by measures taken by over 20 of China's 31 provincial-level jurisdictions to meet Beijing's carbon emission targets, companies are considering adopting more gas in place of coal in power generation in the long-term. Therefore, major stated-owned oil and gas operators are expected to benefit on the rise of both gas consumption (16% y/y in the first nine months of 2021) and skyrocketing prices. Energy security is listed as another top priority as China has long been heavily relied on for imports, and most recently, national oil companies (NOCs) have secured with US exporters for long-term liquefied natural gas (LNG) supplies to support energy transition. To boost domestic fuel supply, therefore, the government has pushed those NOCs which are not solely profit-driven, to invest high CapEx in finding new reserves and raising drilling techniques. Significantly, Sinopec announced to increase its CapEx to 167.2 billion yuan this year, still short of the pre-pandemic levels surpass the reinvestments from global oil and gas giants, according to market expectation. Regarding oil, despite a strong policy push to electrify transport with an estimated 20% market share by 2025, the demand is expected to stay strong in the coming years as it is expected to still fuel the domestic transportation in many ways.

On a company level, PetroChina is a prominent example for which we expect dividends to register nearly a 30% growth with a 45% payout ratio as it was the company's first year to turn losses into profit in the post COVID-19 era. CNOOC is epxecting similar earnings recovery from the low base in the past year, despite a step

Top 5 DIPs (energy sector)

Security name	ISIN	DIPs	Type	Amount (E)	Currency	Ex-date (E)
CNOOC Ord	HK0883013259	15.4787131	Final	0.44	HKD	9 June 2022
Sinopec Corp Ord H	CNE1000002Q2	13.9450562	Final	0.24	CNY	8 June 2022
CNOOC Ord	HK0883013259	12.3126127	Interim	0.35	HKD	1 September 2022
Sinopec Corp Ord H	CNE1000002Q2	8.13461612	Interim	0.14	CNY	12 September 2022
PetroChina Ord H	CNE1000003W8	4.64321637	Final	0.0918	CNY	21 June 2022
PetroChina Ord H	CNE1000003W8	4.64321637	Interim	0.0918	CNY	12 September 2022

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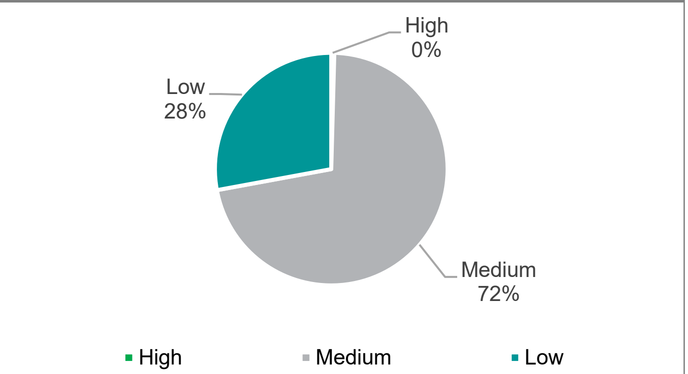
up in capex. We estimate the payout ratio to revert to around 50% and therefore dividends for FY 2021 to rise by over 60%. Sinopec, as discussed previously, has nearly five times growth in estimated earnings but a huge investment into research and development (R&D); we expect the company aims to keep a consistent dividend policy to maintain a payout ratio at around 50%.

HSI 2022 DIPs amount confidence breakdown



Source: IHS Markit

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Top DIP contributors with low amount of confidence

Security name	RIC	DIPs
HSBC Holdings	0005.HK	117.1
CNOOC	0883.HK	27.8
Sinopec Corp	0386.HK	22.1
Hong Kong Exchanges and Clearing	0388.HK	11.2
BOC Hong Kong	2388.HK	5.3

Note: RIC = Reuters Instrument Code

Source: IHS Markit

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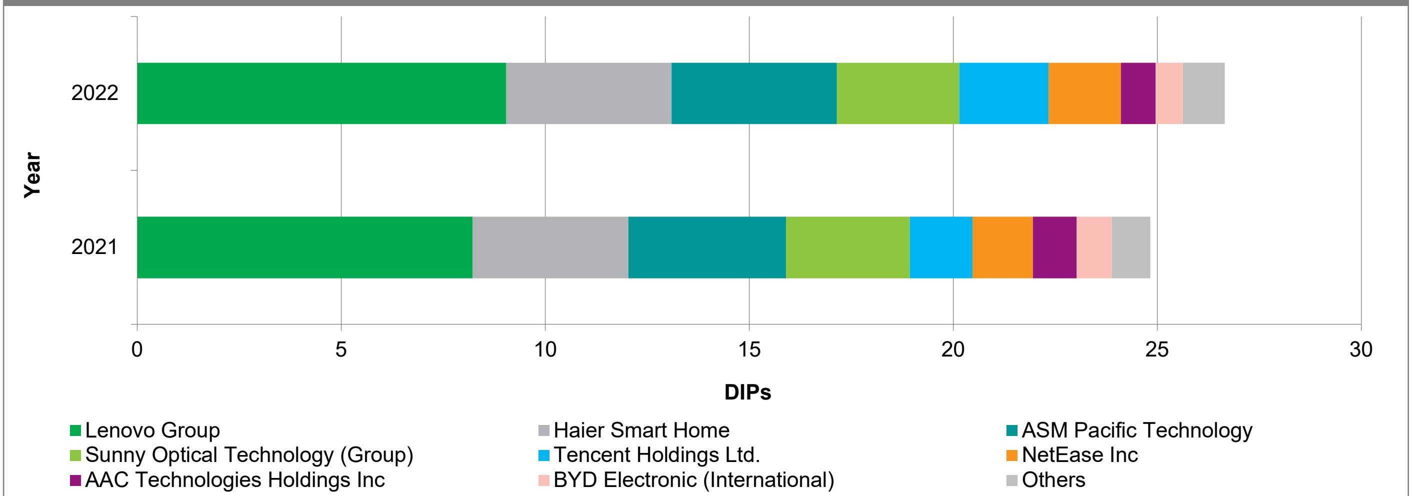
Hang Seng Tech

The DIPs of Hang Seng Tech index are expected to increase from 24.8 in 2021 to 26.7 in 2022, representing a 7.7% y/y growth. Lenovo Group, Haier Smart Home, and ASM Pacific Technology are the top DIP contributors, while AAC Technologies Holdings Inc, Haier Smart Home, and Tencent Holdings are the main DIPs growth drivers.

Chinese authorities rolled out a series of tighter rules and policies to regulate China's technology firms based on concerns around antitrust, cybersecurity, data protection, and youth health. These regulatory changes have drawn great attention from the world as the business outlook of some large Chinese technology firms could be hurt because of high exposure to regulatory risks. A few large Chinese technology giants, such as Alibaba, ByteDance, Tencent, Pinduoduo, Meituan, have been showing incredible business growth benefitting from the

Hang Seng Tech Index DIPs by company



Note: DIPs data as of 10 November 2021.

Source: IHS Markit

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considerable scale effects, the popularity of online games, or algorithms that serve up the content a customer is more likely to browse, and purchase based on viewing records. Although the tightening regulations add more uncertainty to the business structure and outlook of technology firms, we do not see significant impact on the dividend performance in Hang Seng Tech companies. Based on our latest data, among the aforementioned Chinese technology firms, only Tencent is ranking in the top dividend contributors in Hang Seng Tech index. Alibaba Group and Meituan are not dividend payers and there is no signal for a regular cash dividend to be initiated from them in the near term.

Without surprise, we notice an increase in DIPs expected for the year of 2022 for Hang Seng Tech Index, despite the regulation changes in the technology sector in China. This mainly attributes to the fact that top dividend contributors are mostly driven by the rising demand for consumer electronics, better product mix or sustainable dividend policy, but not regulatory changes. Lenovo, one of the leading companies in PC industry globally, with its IDG segment revenue boosting owing to work-from-home practices and online education worldwide, is expected to stabilize dividends with a payout ratio back to 40% in responding to the earnings surge. Haier Smart Home, with the company's various investment channels gradually taking effect and the privatization of Haier Appliances, is expected to enjoy improving profit margin over the coming years. We expect the dividends to edge up accordingly, with payout ratio hovering around 27–31%, in line with the pattern from FY 2012 to FY 2020. ASM Pacific Technology, with broadened customer base and strong demand from Automotive end market, has registered robust 70.1% y/y revenue growth and 480.6% y/y net profit growth during the first nine months of FY21. Dividend-wise, we see risks in deviating from the average payout ratio (40–50%) and expect the final payout to be around HK$2.2 per share for FY 2021 based on its soaring net profit delivered.

Top 5 DIPs (Hang Seng Tech)

Security name	ISIN	DIPs	Type	Amount (E)	Currency	Ex-date (E)
Lenovo Group Ord	HK0992009065	6.972278776	Final	0.279	HKD	26 July 2022
Haier Smart Home Co H	CNE1000048K8	4.046455204	Final	0.4	CNY	11 July 2022
Sunny Optical Technology Ord	KYG8586D1097	2.999326956	Final	1.1	CNY	30 May 2022
Asm Pacific Technology Ord	KYG0535Q1331	2.344453233	Final	2.2	HKD	13 May 2022
Tencent Holdings Ord Shs	KYG875721634	2.191779509	Final	2	HKD	20 May 2022

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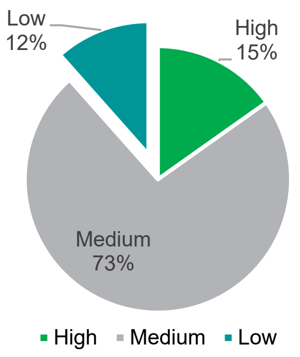
Hang Seng Tech Index 2022 DIPs amount confidence breakdown



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Top DIPs contributor with low amount confidence

Security name	RIC	DIPs
Asm Pacific Technology	0522.HK	1.7
Hua Hong Semiconductor	1347.HK	0.4
AAC Technologies Holdings	2018.HK	0.4
Kingsoft	3888.HK	0.3
Ming Yuan Cloud Group Holdings	0909.HK	0.2

Note: RIC = Reuters Instrument Code

Source: IHS Markit

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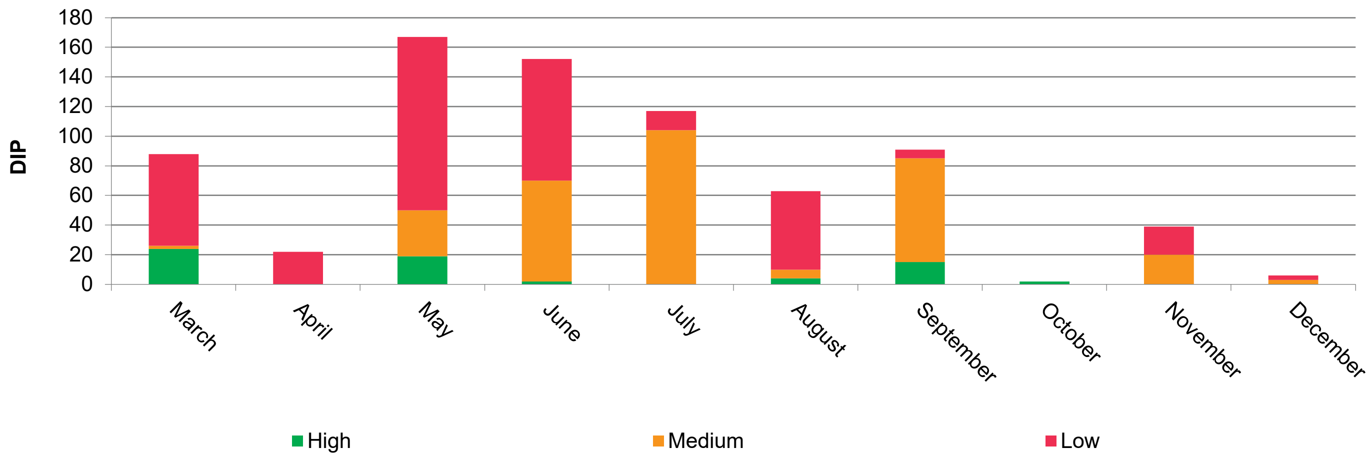
Appendix

HSI 2022 DIPs by ex-dates



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HSI 2022 dividends with low ex-date confidence rank

Security Name	ISIN	Type	Ex-date (E)
HSBC Holdings Ord	GB0005405286	Final	10 March 2022
Wharf Real Estate Investment Ord	KYG9593A1040	Second interim	24 March 2022
Ping An Ord H	CNE1000003X6	Final	20 April 2022
Anta Sports Products Ord	KYG040111059	Final	10 May 2022
Anta Sports Products Ord	KYG040111059	SPEC	11 May 2022
HSBC Holdings Ord	GB0005405286	Q1	12 May 2022
Budweiser Brewing Company Ord	KYG1674K1013	Final	18 May 2022
BOC Hong Kong Ord	HK2388011192	Final	20 May 2022
China Mobile Ord	HK0941009539	Final	23 May 2022
CSPC Pharmaceutical Group Ltd Ord	HK1093012172	Final	24 May 2022
AIA Ord	HK0000069689	Final	25 May 2022
Bank Of China Ord H	CNE1000001Z5	Final	25 May 2022
Sunny Optical Technology Ord	KYG8586D1097	Final	30 May 2022
Country Garden Services Holdings Company Ltd Ord	KYG2453A1085	Final	1 June 2022
Sands China Ord	KYG7800X1079	Final	2 June 2022
Country Garden Ord	KYG245241032	Final	3 June 2022
Sinopec Corp Ord H	CNE1000002Q2	Final	8 June 2022
Haidilao International Holding Ltd Ord	KYG4290A1013	Final	15 June 2022
China Overseas Ord	HK0688002218	Final	24 June 2022
Industrial Commerc Bk China Cl H Ord	CNE1000003G1	Final	28 June 2022
Link Real Estate Investment Trust	HK0823032773	Final	29 June 2022
China Life Ord H	CNE1000002L3	Final	06 July 2022
Xiaomi Corp Ord	KYG9830T1067	Final	06 July 2022
HSBC Holdings Ord	GB0005405286	Q2	18 August 2022
Hong Kong Exchanges and Clearing Ord	HK0388045442	Interim	23 August 2022
China Mobile Ord	HK0941009539	Interim	25 August 2022
China Unicom Ord	HK0000049939	Interim	2 September 2022
Techtronic Ord	HK0669013440	Interim	6 September 2022
Anta Sports Products Ord	KYG040111059	Interim	7 September 2022
HSBC Holdings Ord	GB0005405286	Q3	3 November 2022
Longfor Group Holdings Ltd Ord	KYG5635P1090	Interim	16 December 2022

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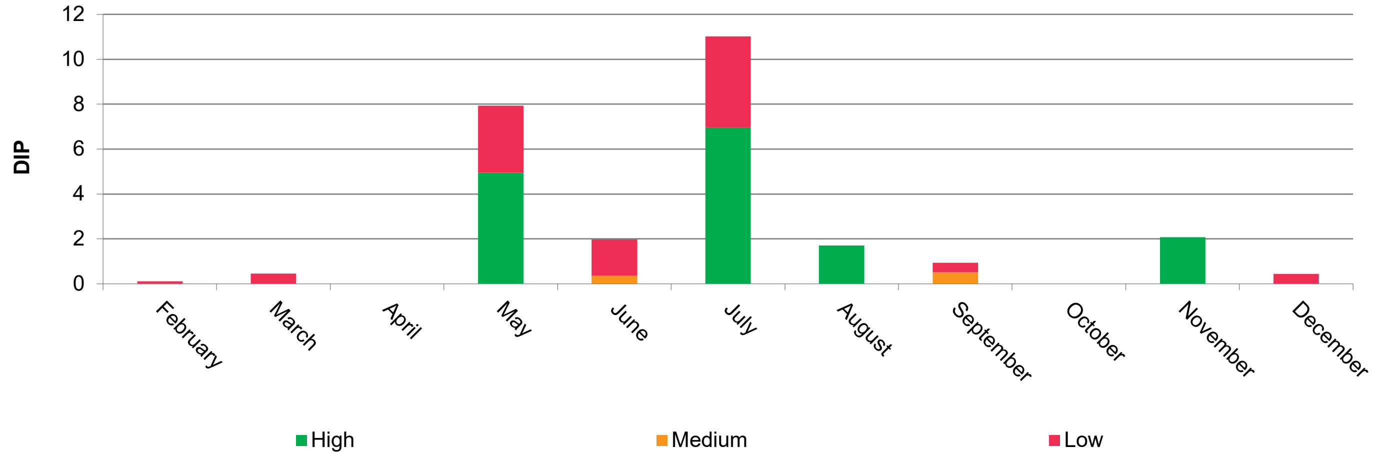
Hang Seng Tech Index 2022 DIPs by ex-dates



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Hang Seng Tech Index 2022 dividends with low ex-date confidence rank

Security Name	ISIN	Type	Ex-date (E)
Autohome Inc Ord	KYG066341028	Final	23 February 2022
Netease Inc Ord	KYG6427A1022	Q4	10 March 2022
Sunny Optical Technology Ord	KYG8586D1097	Final	30 May 2022
Kingsoft Ord	KYG5264Y1089	Final	31 May 2022
Netease Inc Ord	KYG6427A1022	Q1	1 June 2022
Tongcheng-Elong Holdings Ltd Ord	KYG8918W1069	Final	1 June 2022
BYD Electronic Ord	HK0285041858	Final	13 June 2022
Ming Yuan Cloud Group Holdings Ord Shs	KYG6142R1092	Final	15 June 2022
Xiaomi Corp Ord	KYG9830T1067	Final	6 July 2022
Haier Smart Home Co H	CNE1000048K8	Final	11 July 2022
Netease Inc Ord	KYG6427A1022	Q2	12 September 2022
Netease Inc Ord	KYG6427A1022	Q3	1 December 2022

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