

Strategy Report

First HSI review with new enhancements

The HSI Company will announce results of quarterly index review after market close on 21 May 2021 (Friday). This will be the first index review after the index enhancements announced on 1 Mar. We recap the key enhancements, and expect five new stocks to be added into the HSI in this review.

- **Roughly five new constituents in each quarter.** There will be five quarterly index reviews from now to Jun 2022, by when the number of HSI constituents is targeted to reach 80 (from currently 55). Assuming a steady pace of additions, there will be five new constituents (net) in each review.
- **Consumer, Healthcare and IT enjoy more inclusions.** According to the simulated portfolio by the HSI Company, Consumer, Healthcare and IT would enjoy the biggest increase in number of constituents when the total number of constituents reaches 80.
- **Newly-listed stocks become eligible more quickly.** Some large caps with a short listing history would have needed to wait for longer to be considered as potential HSI constituents under the old index methodology, but have now become eligible candidates.
- **Alibaba and Meituan's weighting raised to 8%.** After index enhancements, weighting cap of each stock will be unified at 8%, i.e. Tencent (700 HK) and AIA (1299 HK), the only two stocks capped at 10% now, will be cut to 8%. On the other hand, Alibaba (9988 HK) and Meituan (3690 HK), the two WVR stocks capped at 5%, will enjoy a lift in weighting to 8%.
- **Potential new HSI constituents in this review: JD Health (6618 HK), NetEase (9999 HK), Smoore (6969 HK), Nongfu Spring (9633 HK) and JD (9618 HK).**
- **Expect no removals from the HSI, and no change to Southbound stocks.**

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Market Data

Hang Seng Index	28,028
52-week High / Low	31,183/22,520
3-month avg. daily t/o	HK\$187.5bn

Source: Bloomberg

Indices Performance

	HSI	HSCEI	HSTECH
1-month	-3.3%	-5.6%	-8.2%
3-month	-7.4%	-12.6%	-27.4%
6-month	6.9%	-1.5%	-4.9%

Source: Bloomberg

12-month HSI Performance



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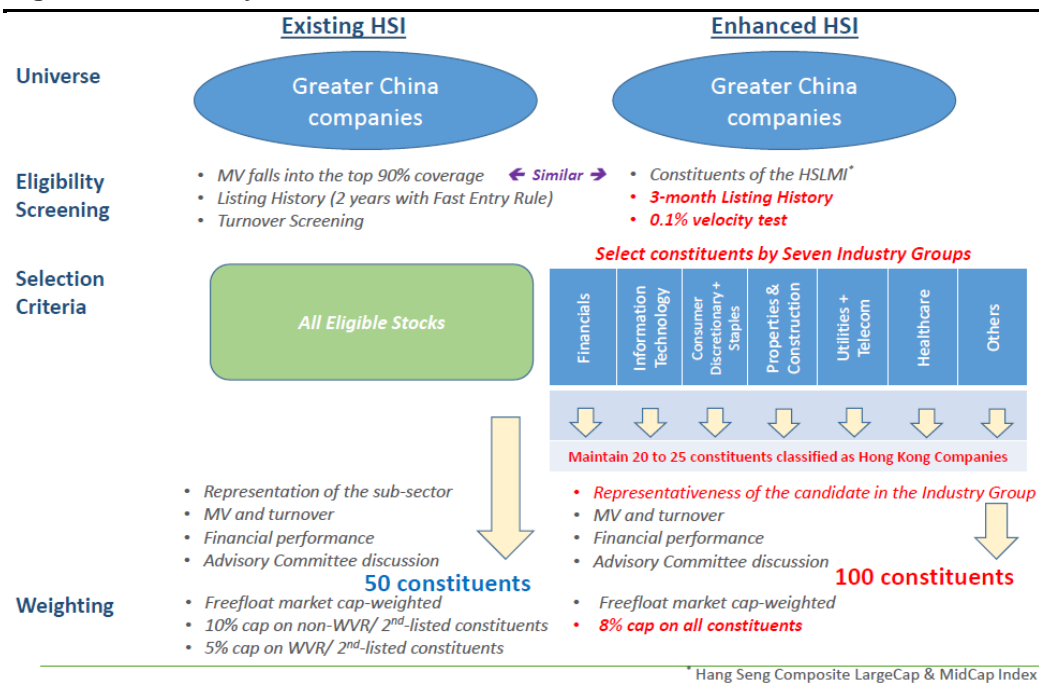
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New enhancements to be implemented in this review

Recall that on 1 Mar, the Hang Seng Indexes Company (HSI Company) announced the Consultation Results & Conclusions on the proposal to enhance the HSI. The enhancements will be implemented starting from the May 2021 Index Review and effective in the Jun 2021 Index Rebalancing. Key enhancements include:

1. Number of constituents is targeted to reach 80 by mid-2022, and ultimately fix at 100 (currently 55)
2. Select constituents by Seven Industry Groups
3. Listing History requirement shortened to three months
4. 8% weighting cap on every constituent, including WVR and secondary-listed ones
5. Maintain 20-25 constituents classified as Hong Kong Companies

Figure 1: Summary of the HSI enhancements



Source: HSI Company

Implications on upcoming reviews

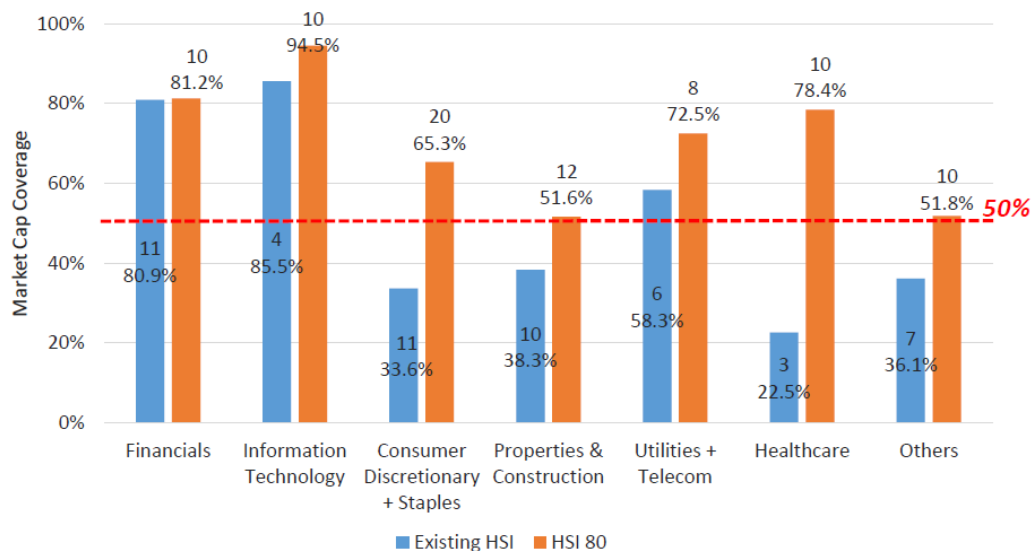
1. Expect five new constituents in each quarter

There would be five quarterly index reviews between now and Jun 2022, by when the number of HSI constituents is targeted to reach 80 (from currently 55). Assuming a steady pace of additions, **there will be five new constituents (net) in each review.**

2. Consumer, Healthcare and IT enjoy more inclusions

According to the simulated portfolio by the HSI Company, **Consumer, Healthcare and IT would enjoy the biggest increase in number of constituents** (8, 6 and 6 respectively), when the total number of constituents reaches 80.

Figure 2: Market cap coverage by industry group (simulated results)



*Hypothetical constituent number, Industry Group market cap coverage (for reference only)
(Data as of 11 Feb 2021)*

Source: HSI Company

3. Newly-listed stocks become eligible more quickly

Some large caps with a short listing history (minimum 3 months) can be included into the HSI much more quickly. Stocks which were listed in HK within the last 12 months, such as JD Health (6618 HK), NetEase (9999 HK), Smoore (6969 HK), Nongfu Spring (9633 HK) and JD (9618 HK), would have needed to wait for roughly 6-12 months more to be considered as potential HSI constituents under the old index methodology, but they have now become eligible candidates.

4. Alibaba and Meituan's weighting raised to 8%

Before the index enhancements, the weighting cap for individual constituent is 10%, while that of WVR and/or secondary-listed constituents is 5%. After enhancements, weighting cap will be unified at 8%, i.e. **Tencent (700 HK) and AIA (1299 HK), the only two stocks capped at 10% now, will be cut to 8%.** HSBC's (5 HK) weighting is now close to 8%, which will be capped at 8% even if its share price outperforms the HSI in future. On the other hand, **Alibaba (9988 HK) and Meituan (3690 HK), the two WVR stocks capped at 5%, will enjoy a lift in weighting to 8%.**

Potential new HSI constituents in this review

In this quarterly review we expect the HSI to include five new constituents, namely **JD Health (6618 HK)**, **NetEase (9999 HK)**, **Smooore (6969 HK)**, **Nongfu Spring (9633 HK)** and **JD (9618 HK)**. They rank among the top 11 non-HSI stocks in terms of market value, and are all from the industry groups which the HSI Company expects to add the greatest number of stocks.

Kuaishou (1024 HK) and Baidu (9888 HK), despite being among the top 3 in market value, do not satisfy the 3-month listing history requirement yet (this quarterly review's cut-off date is 31 Mar 2021), and will probably be included in the next quarterly review in Aug.

We expect no removals of constituents from the HSI in this review.

Figure 3: Top 20 non-HSI stocks by market value

Company	Ticker	Market Value* (HK\$ bn)	6-m avg. daily Turnover (HK\$ mn)
Kuaishou	1024 HK	982	N/A
JD Health	6618 HK	443	N/A
Baidu	9888 HK	378	N/A
NetEase	9999 HK	307	715
Smooore	6969 HK	291	1,411
Evergrande Vehicle	708 HK	248	411
Nongfu Spring	9633 HK	228	513
China Evergrande	3333 HK	222	214
Hansoh Pharma	3692 HK	215	156
China Merchants Bank	3968 HK	205	949
JD	9618 HK	205	2,035
New Oriental	9901 HK	191	109
Beigene	6160 HK	175	108
CR Beer	291 HK	172	644
China Feihe	6186 HK	160	556
Bilibili	9626 HK	144	N/A
China Gas	384 HK	139	356
SMIC	981 HK	132	2,428
BYD Company	1211 HK	126	2,735
ENN Energy	2688 HK	113	260

Source: Bloomberg, CMBIS

*Month-end average from Apr 2020-Mar 2021; for secondary-listed stocks, only showing HK-registered shares

No change to Southbound stocks

This quarterly review is NOT a half-yearly review on the Hang Seng Composite Index (HSCI), and thus no changes will be made to Southbound eligible stocks (inclusion in HSCI is a prerequisite to become Southbound eligible stocks except for A-H dual-listed stocks.)

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